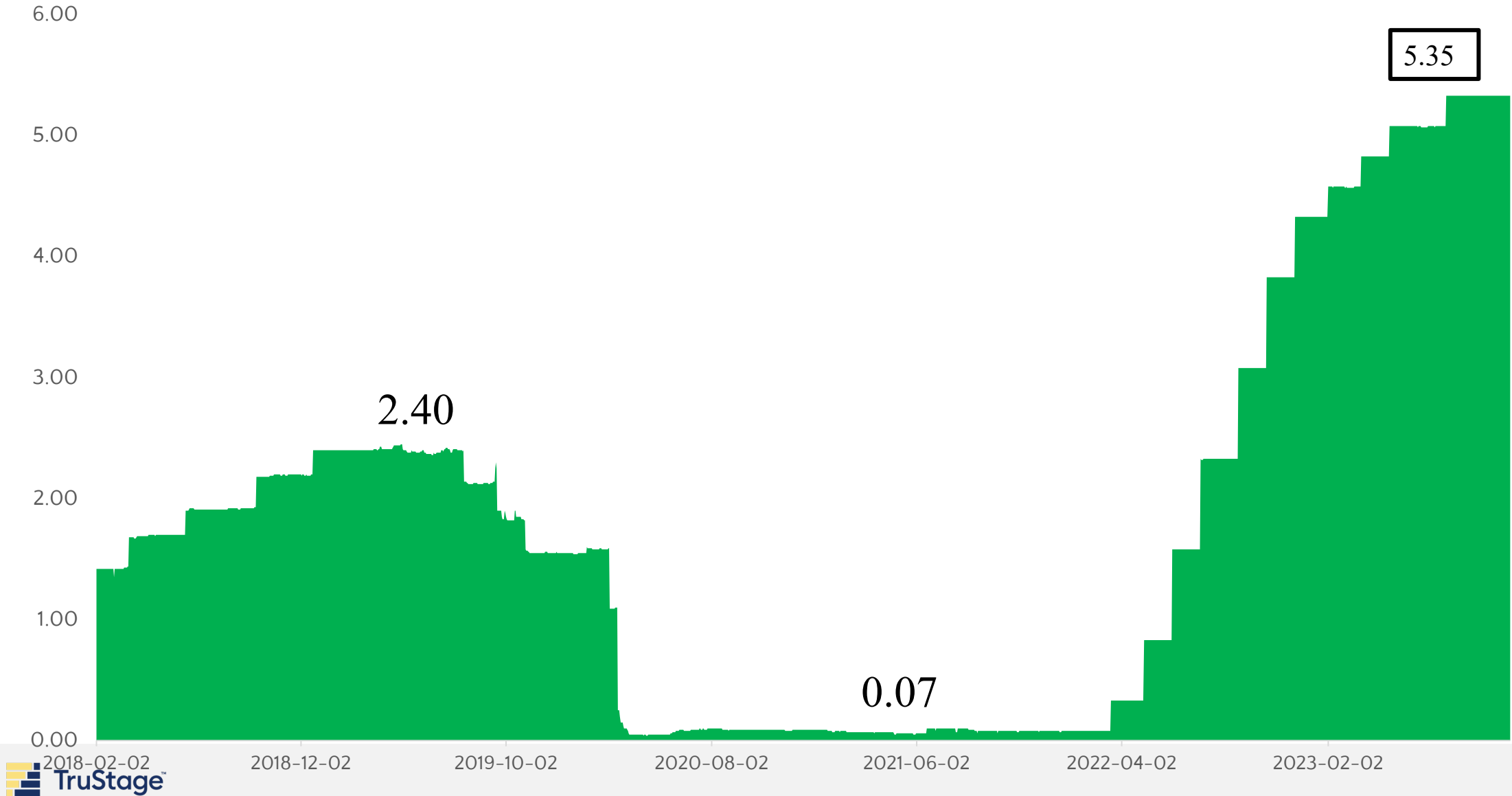


# Economic and Credit Union Update

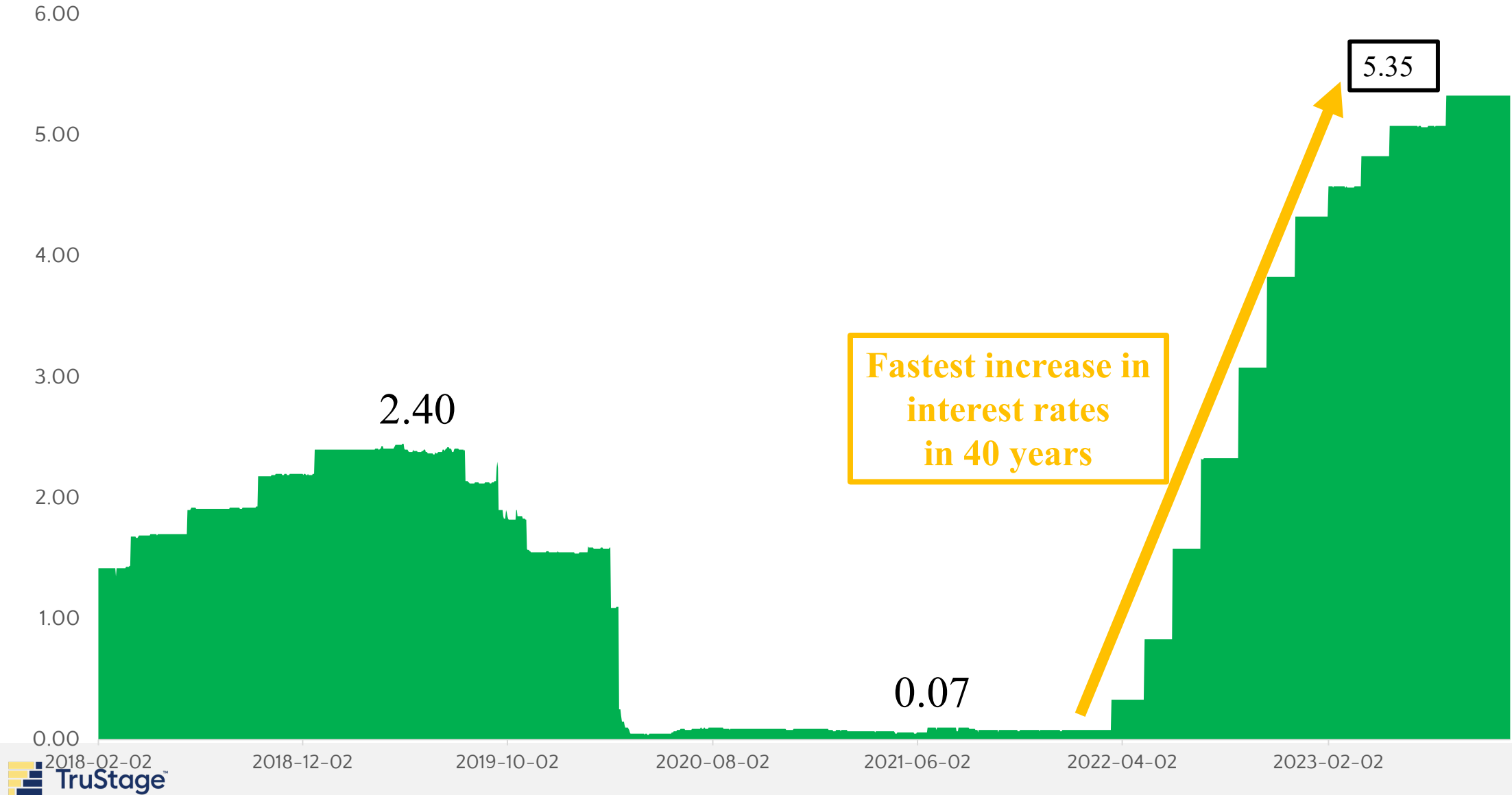
**May 2024**

If you have any questions or  
comments, please contact:  
**Steven Rick, Chief Economist**  
TruStage - Economics  
800.356.2644, Ext. 665.5454  
[Steve.rick@TruStage.com](mailto:Steve.rick@TruStage.com)

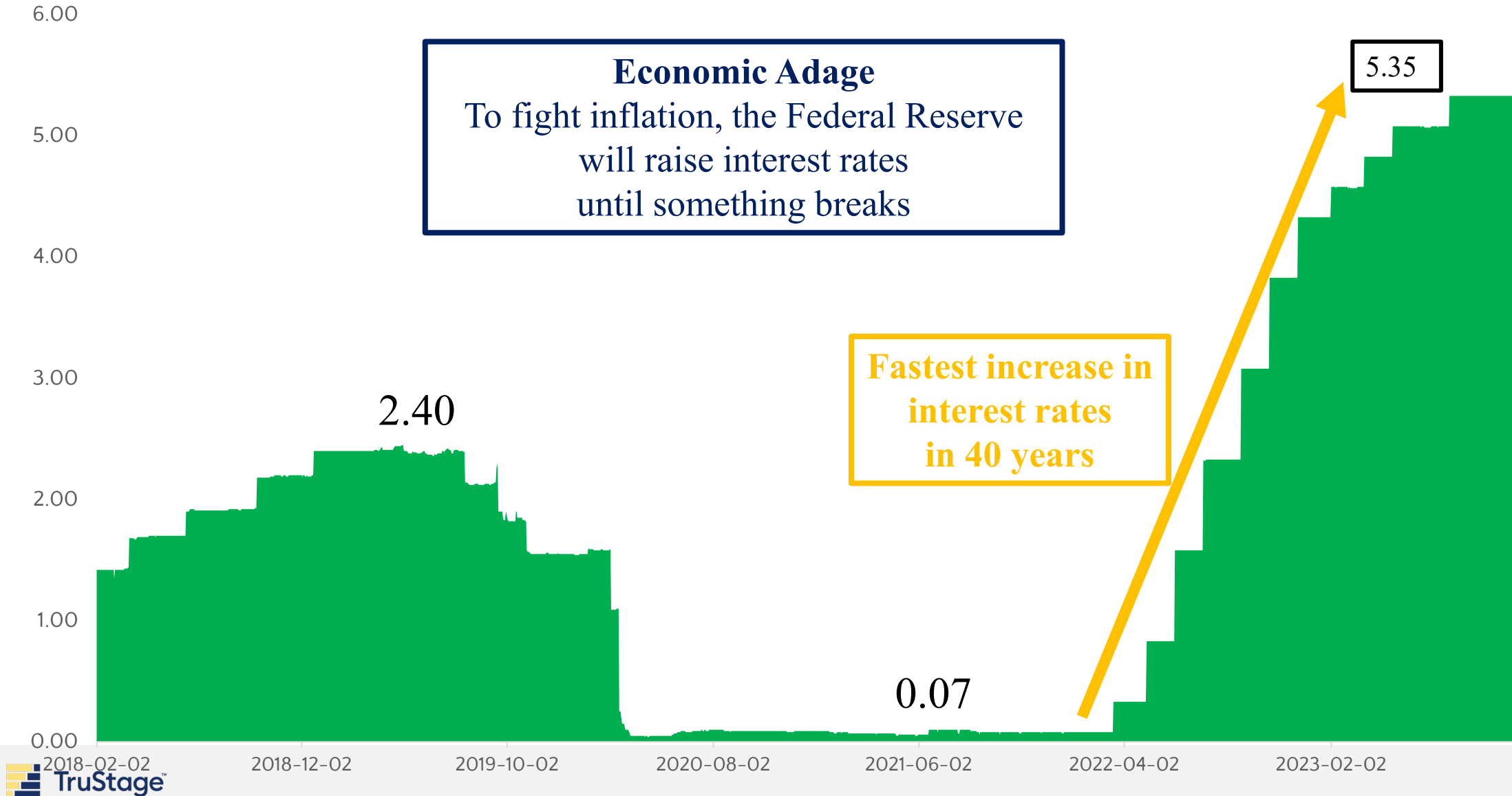
# Federal Funds Rate, 2018 - 2023



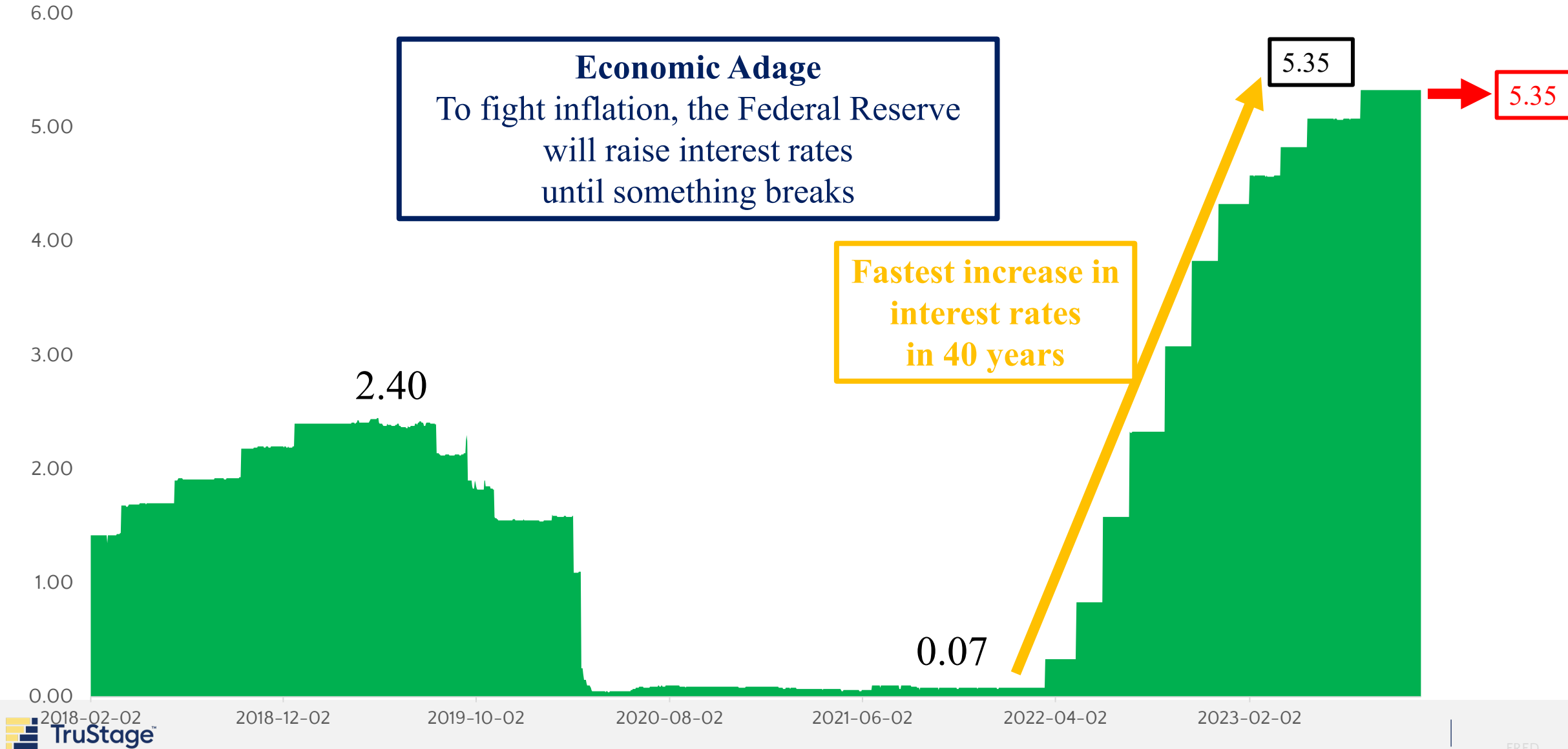
# Federal Funds Rate, 2018 - 2023



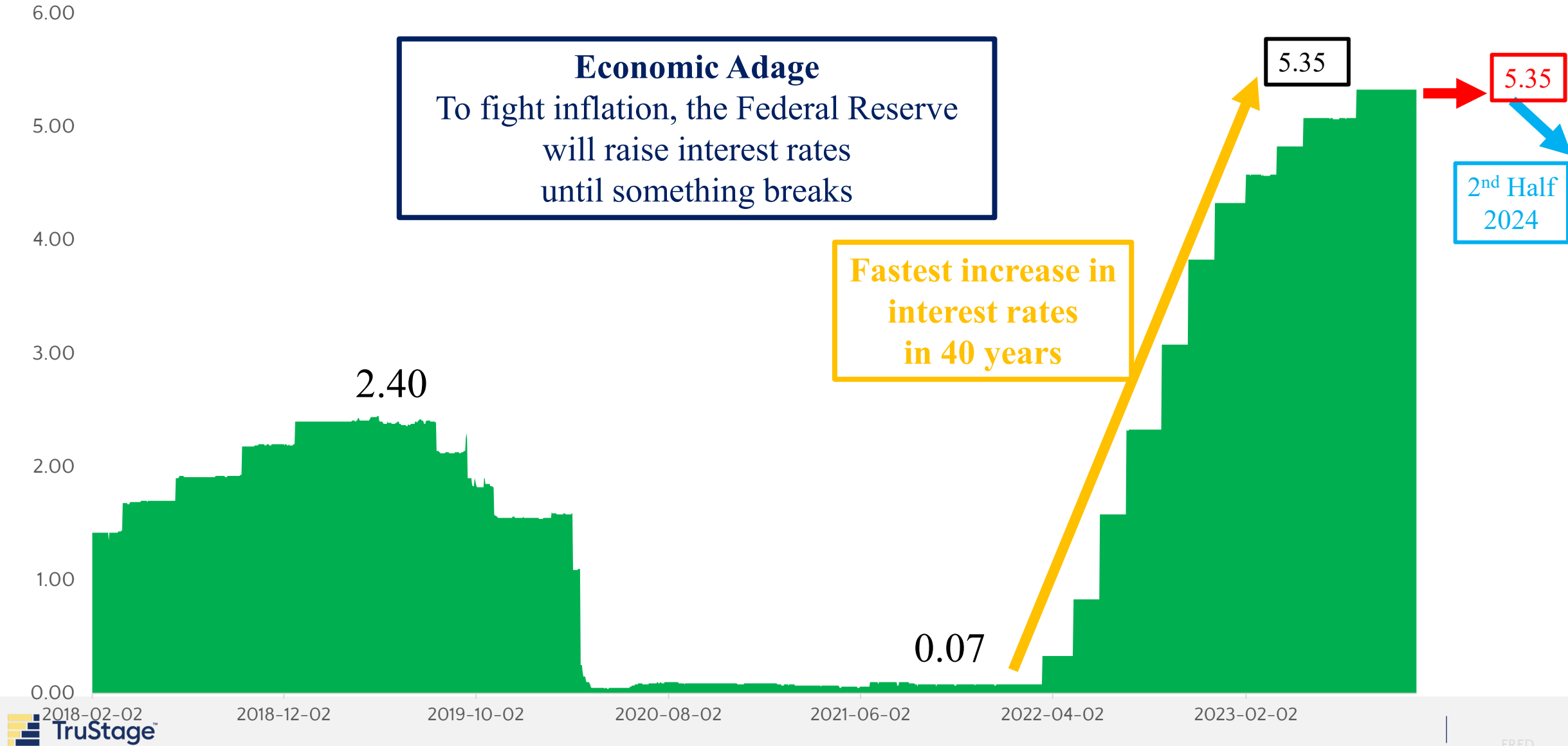
# Federal Funds Rate, 2018 - 2023



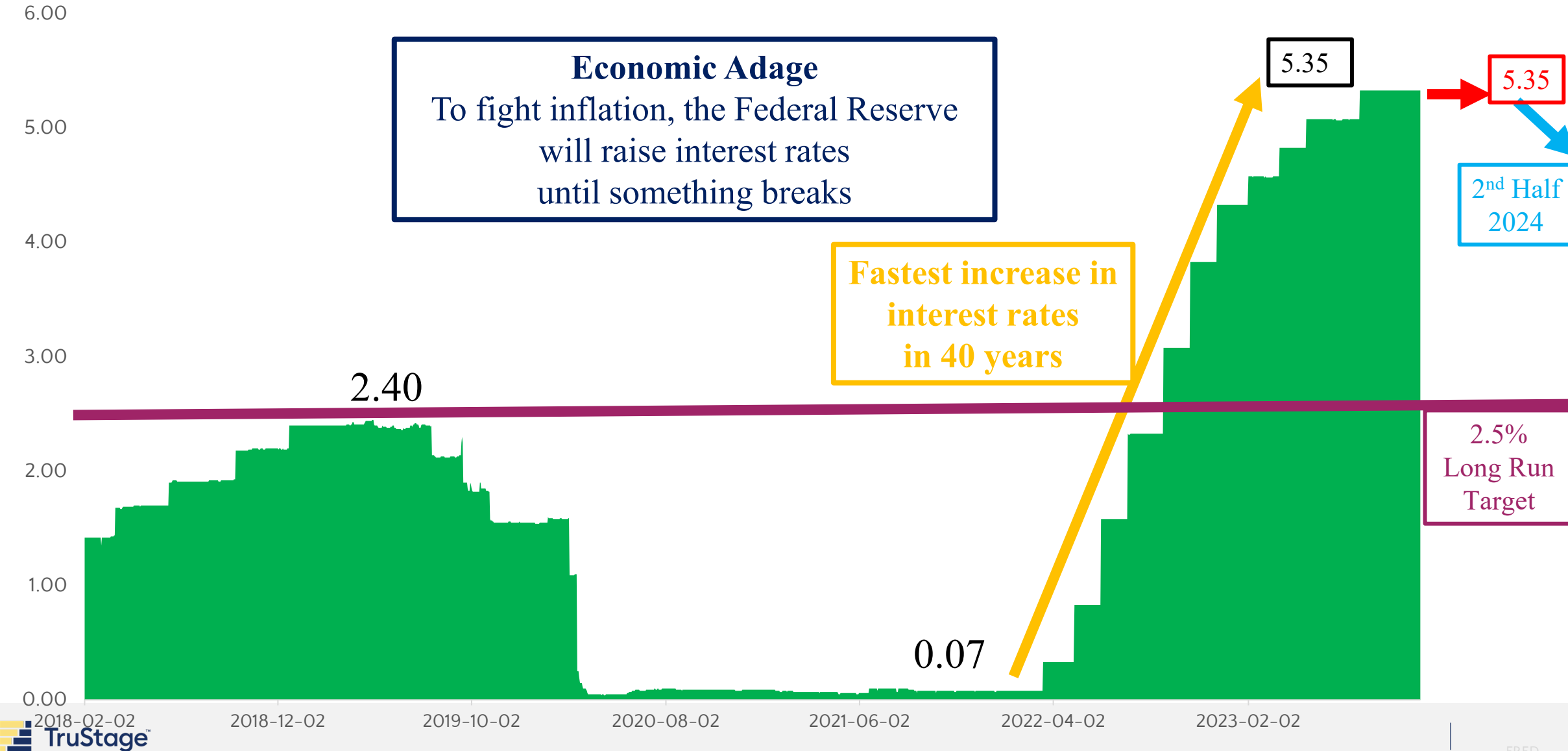
# Federal Funds Rate, 2018 - 2023



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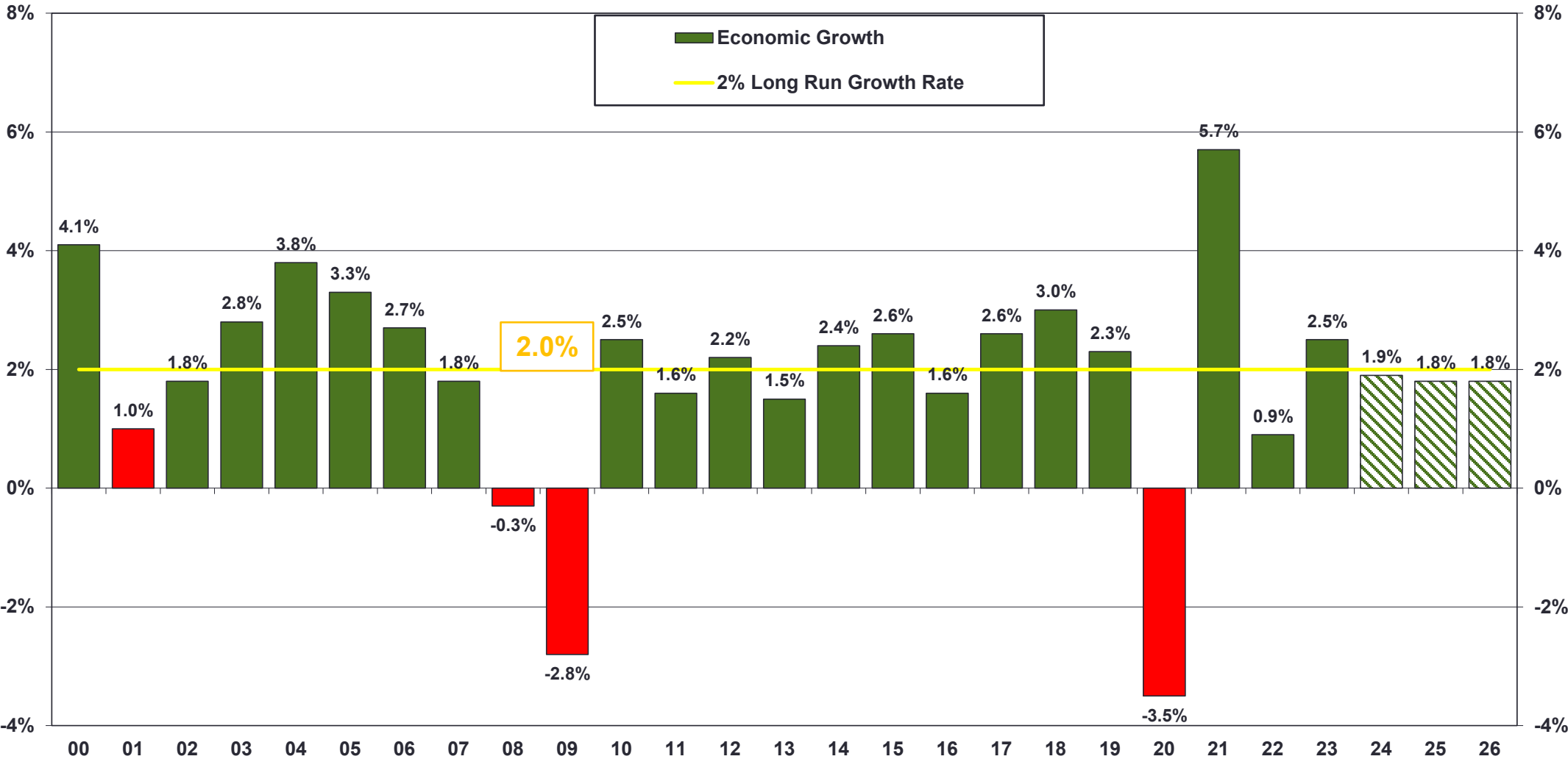


# Federal Funds Rate, 2018 - 2023



# Slower Economic Growth for Next 2 Years

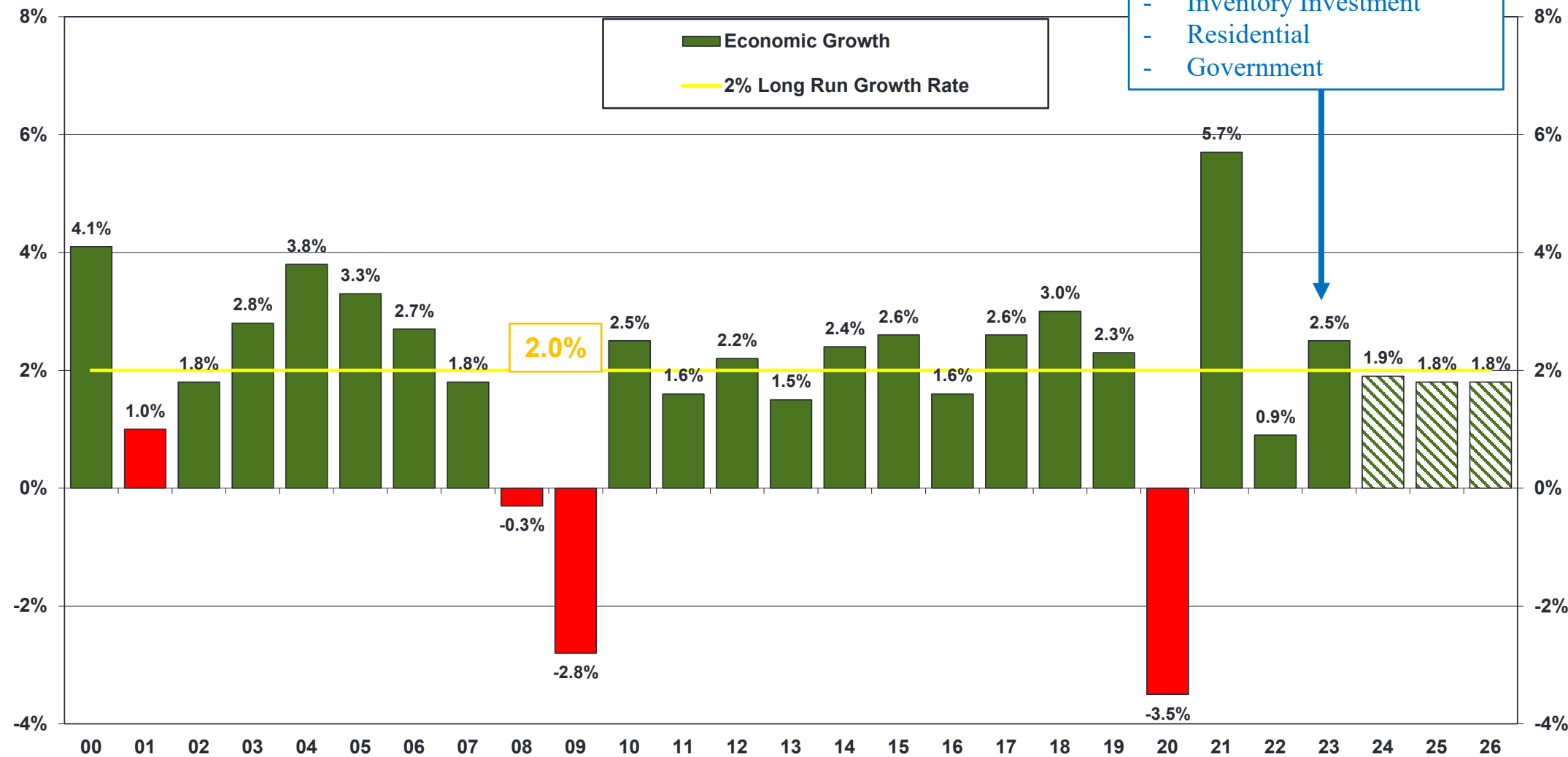
## U.S. Economic Growth Rate





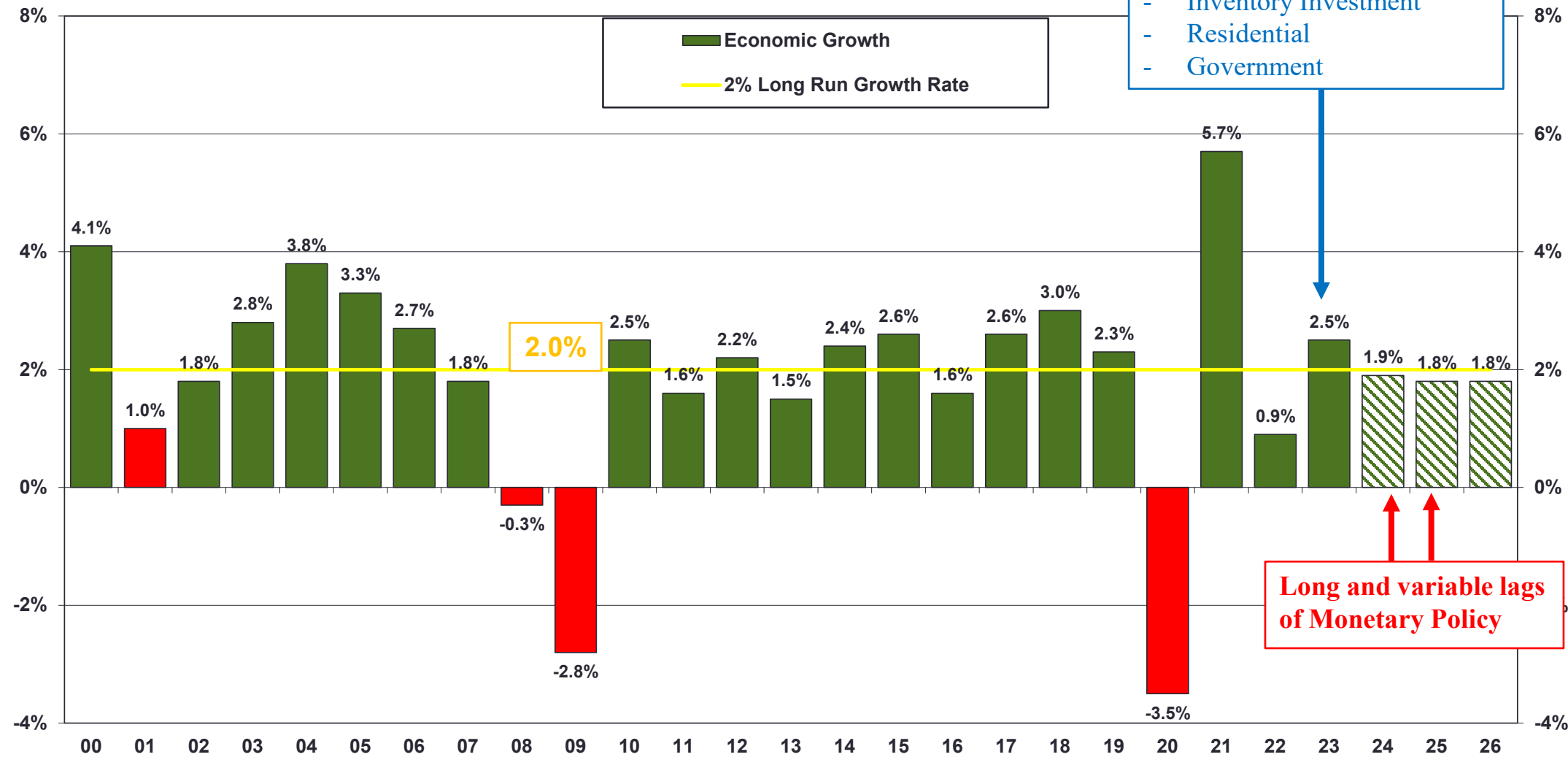
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## U.S. Economic Growth Rate

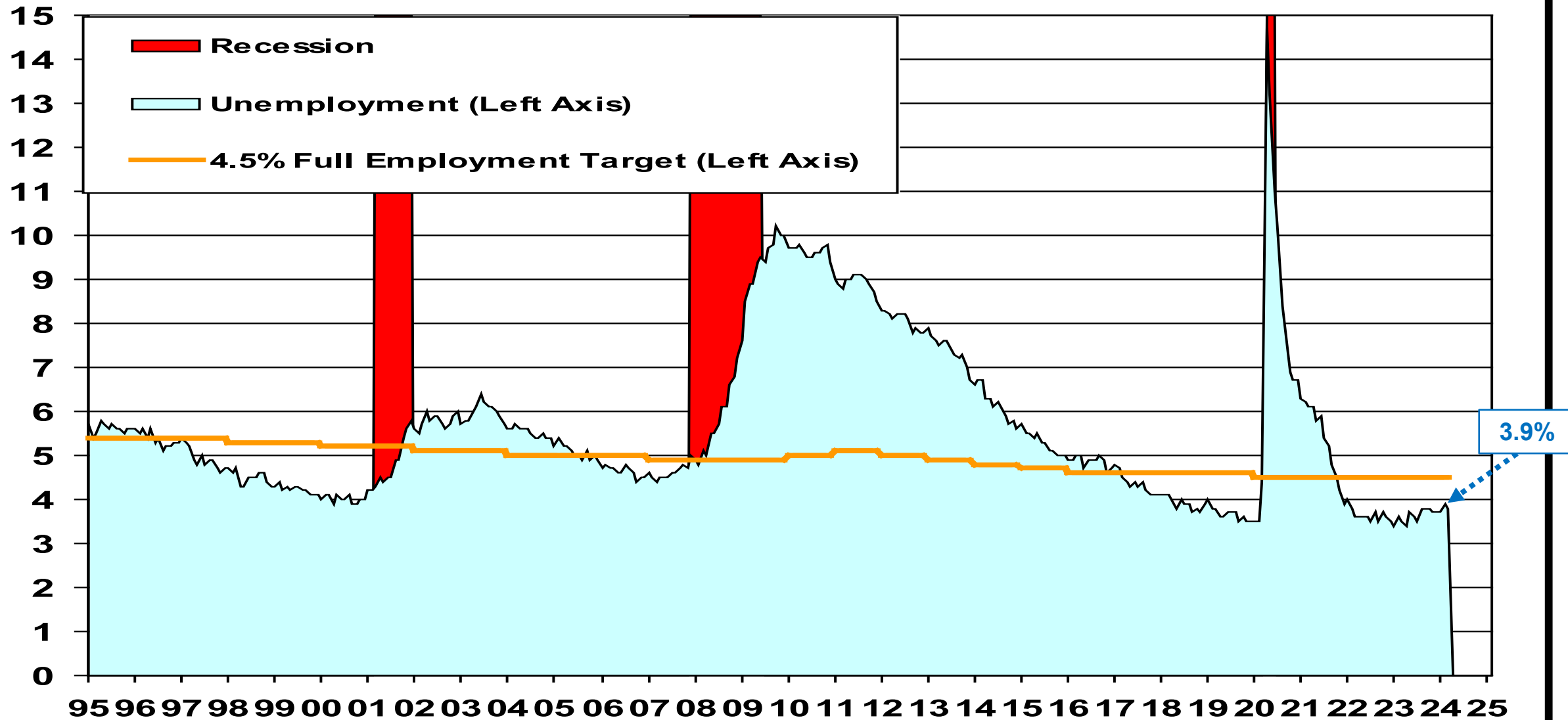


# Slower Economic Growth for Next 2 Years

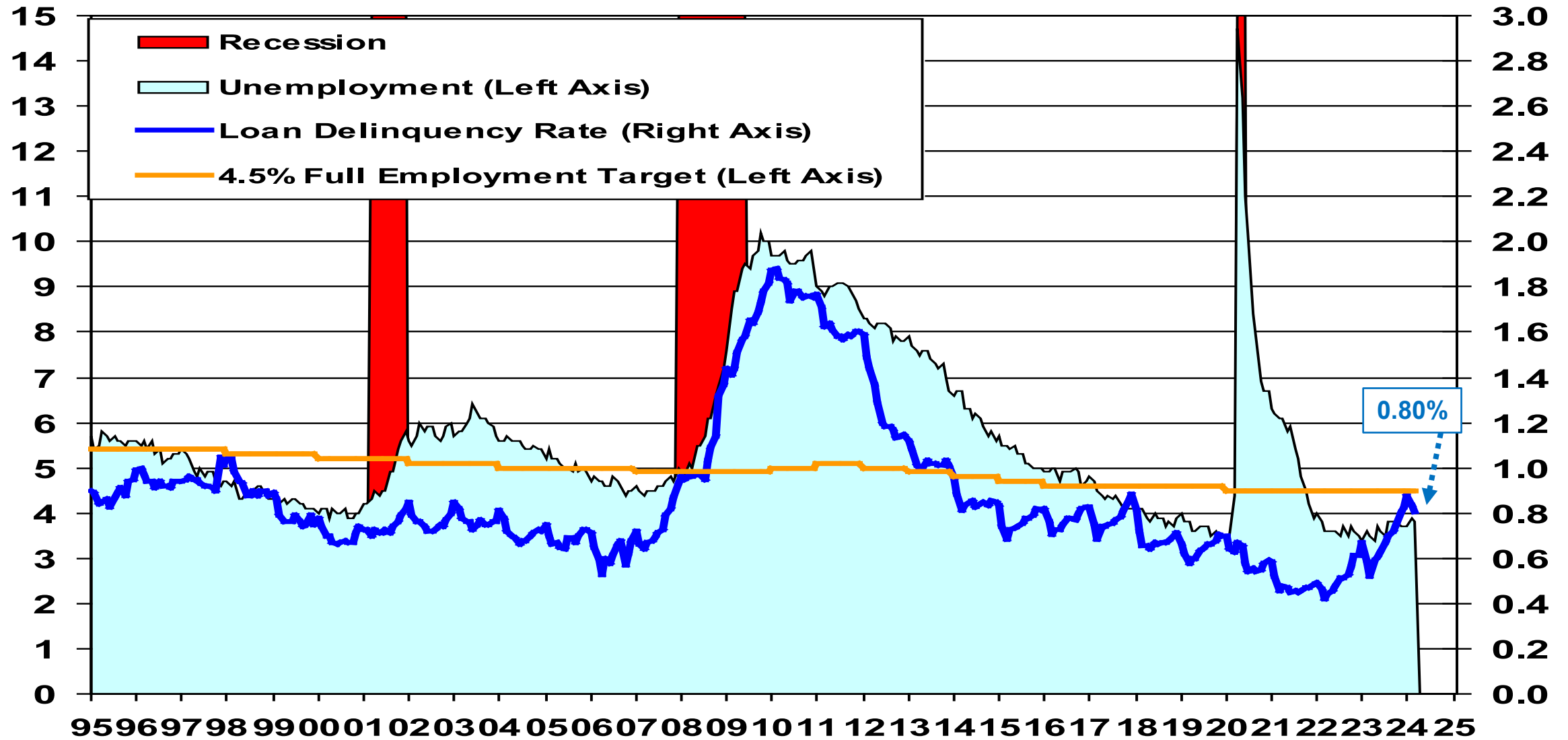
## U.S. Economic Growth Rate



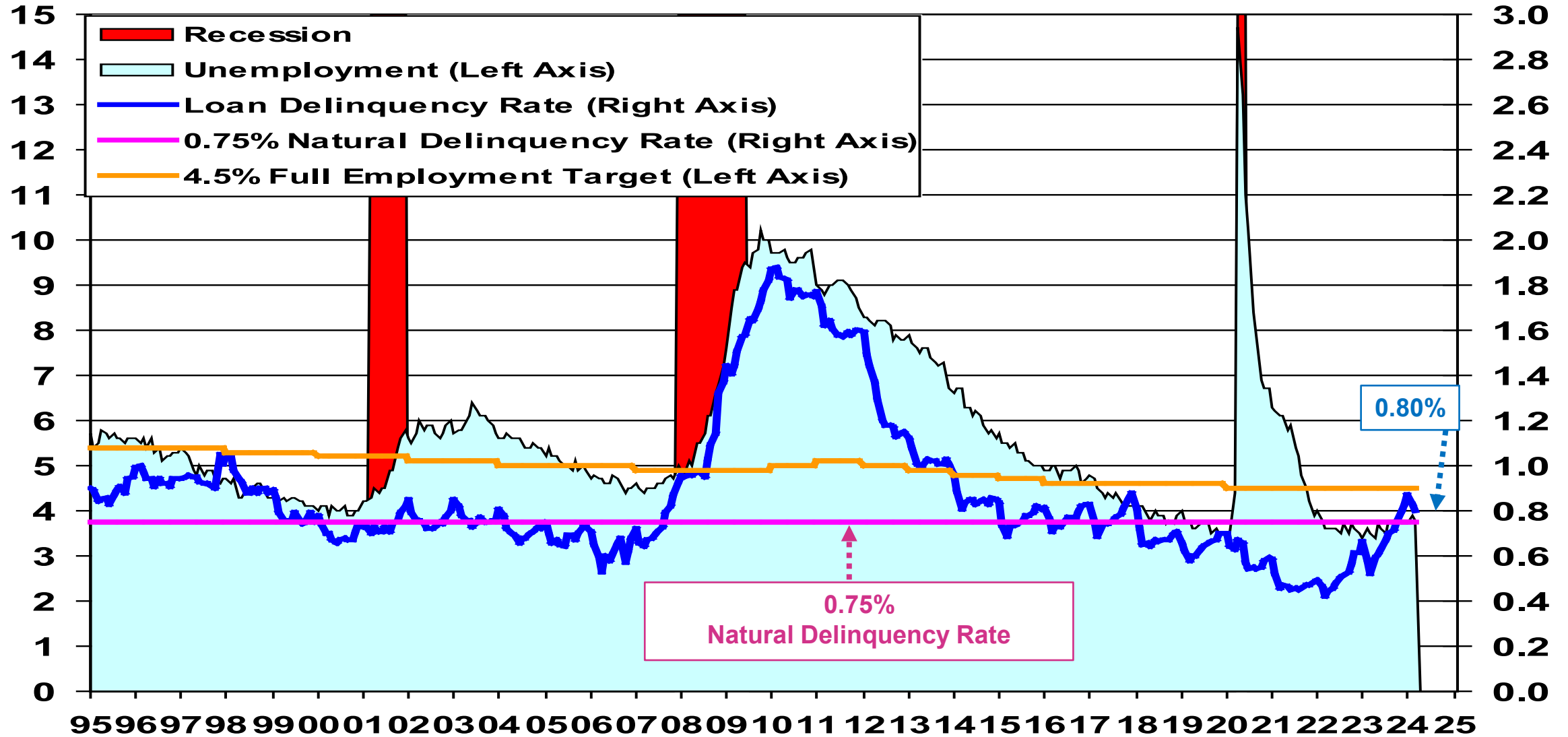
# CU Delinquency Rate Versus Unemployment Rate



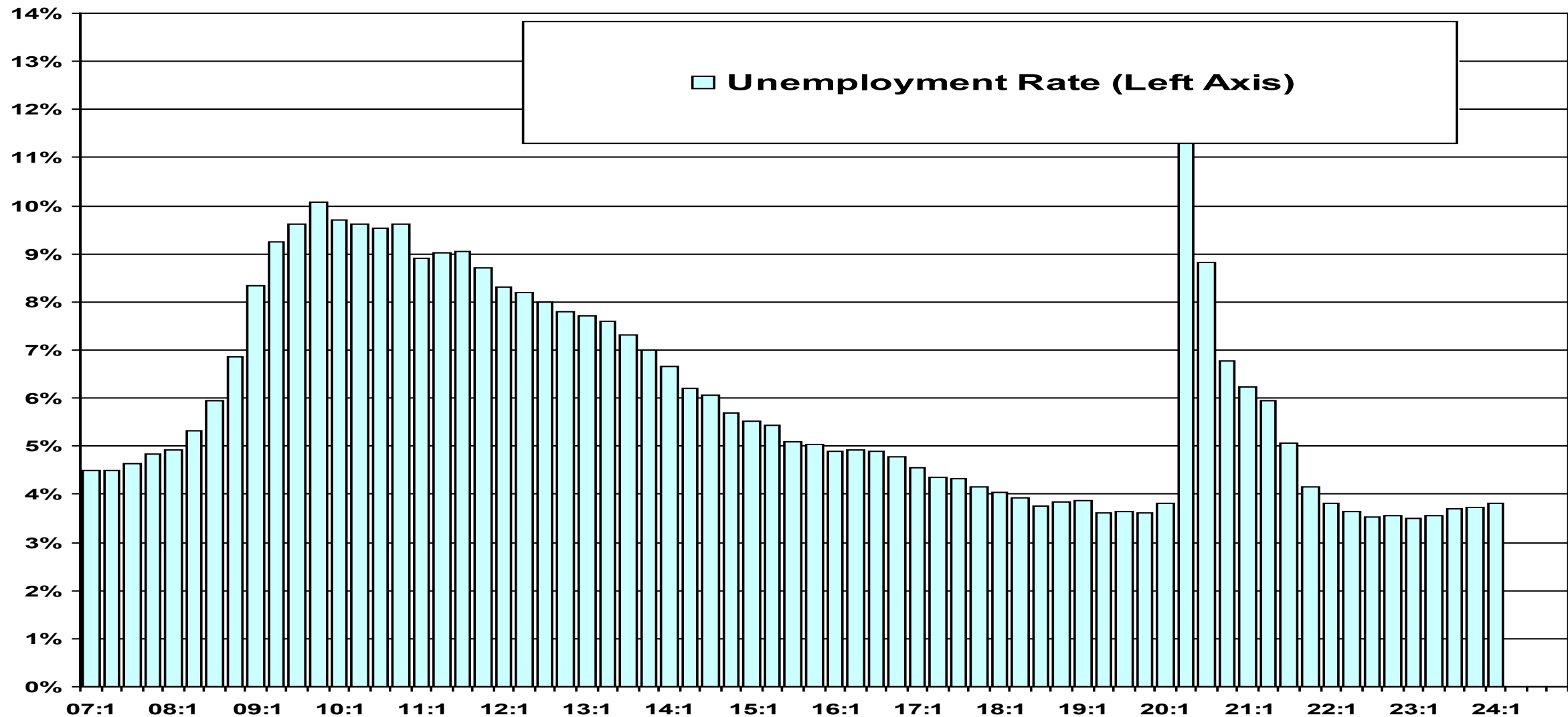
# CU Delinquency Rate Versus Unemployment Rate



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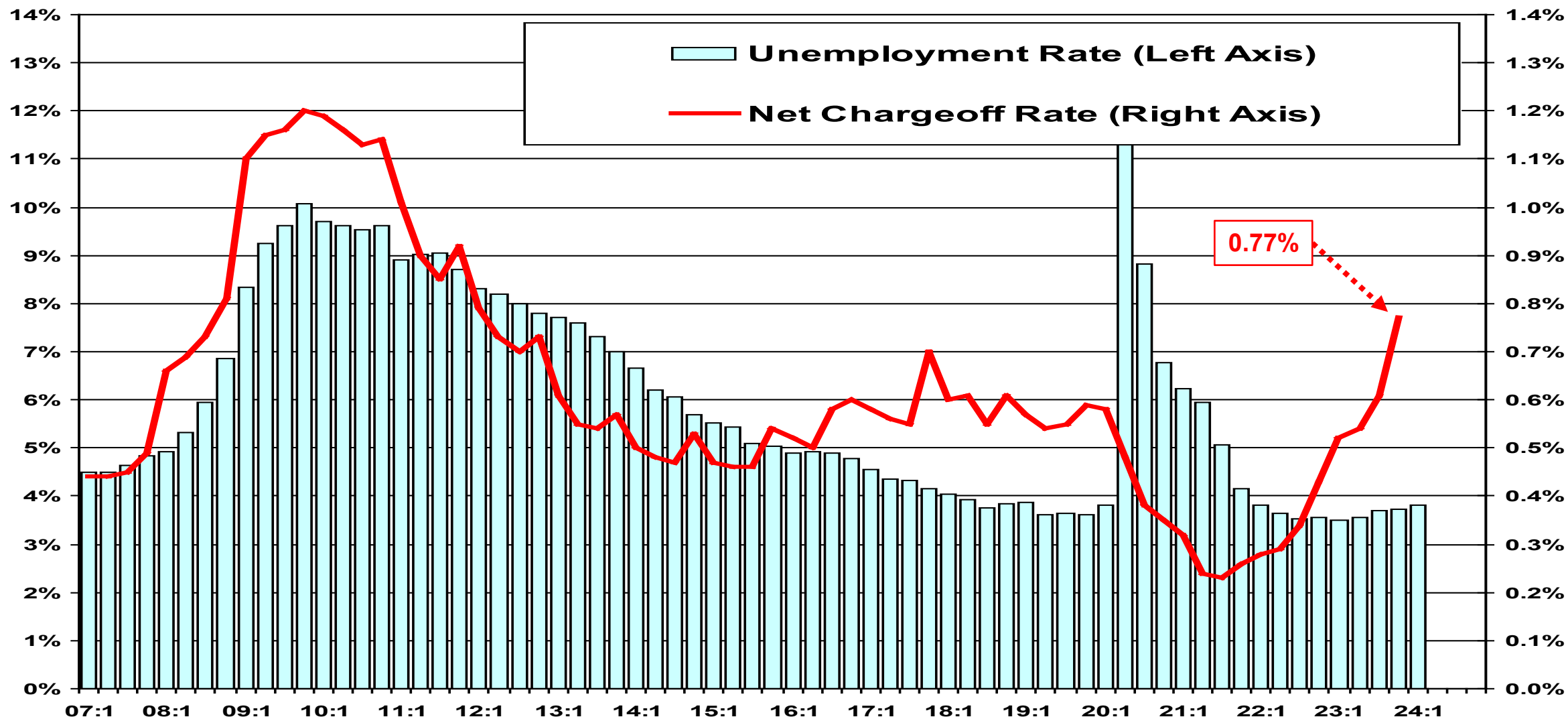


# CU Net Chargeoff Rate Versus Unemployment Rate



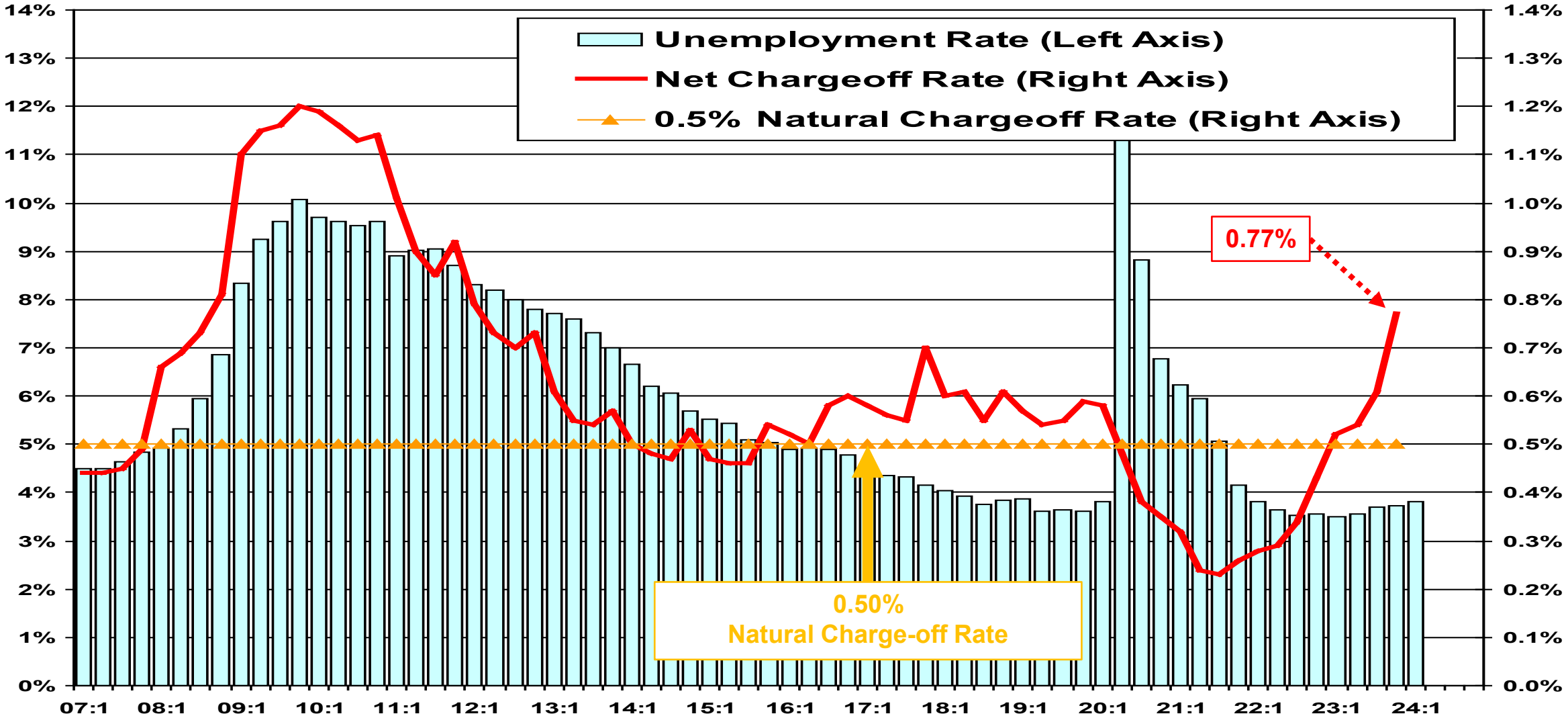
Source: Department of Labor, NCUA, CUNA

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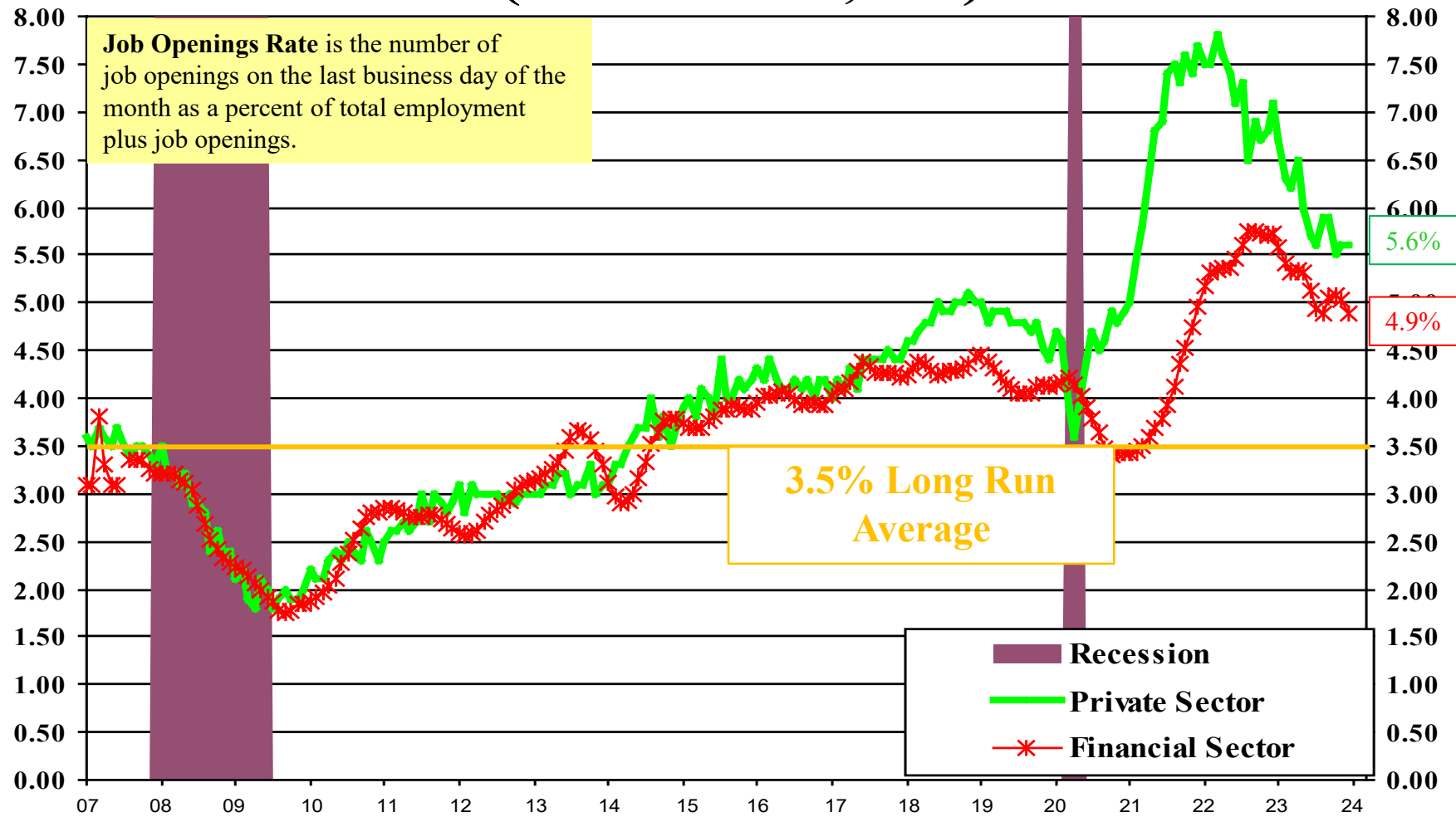
Source: Department of Labor, NCUA, CUNA

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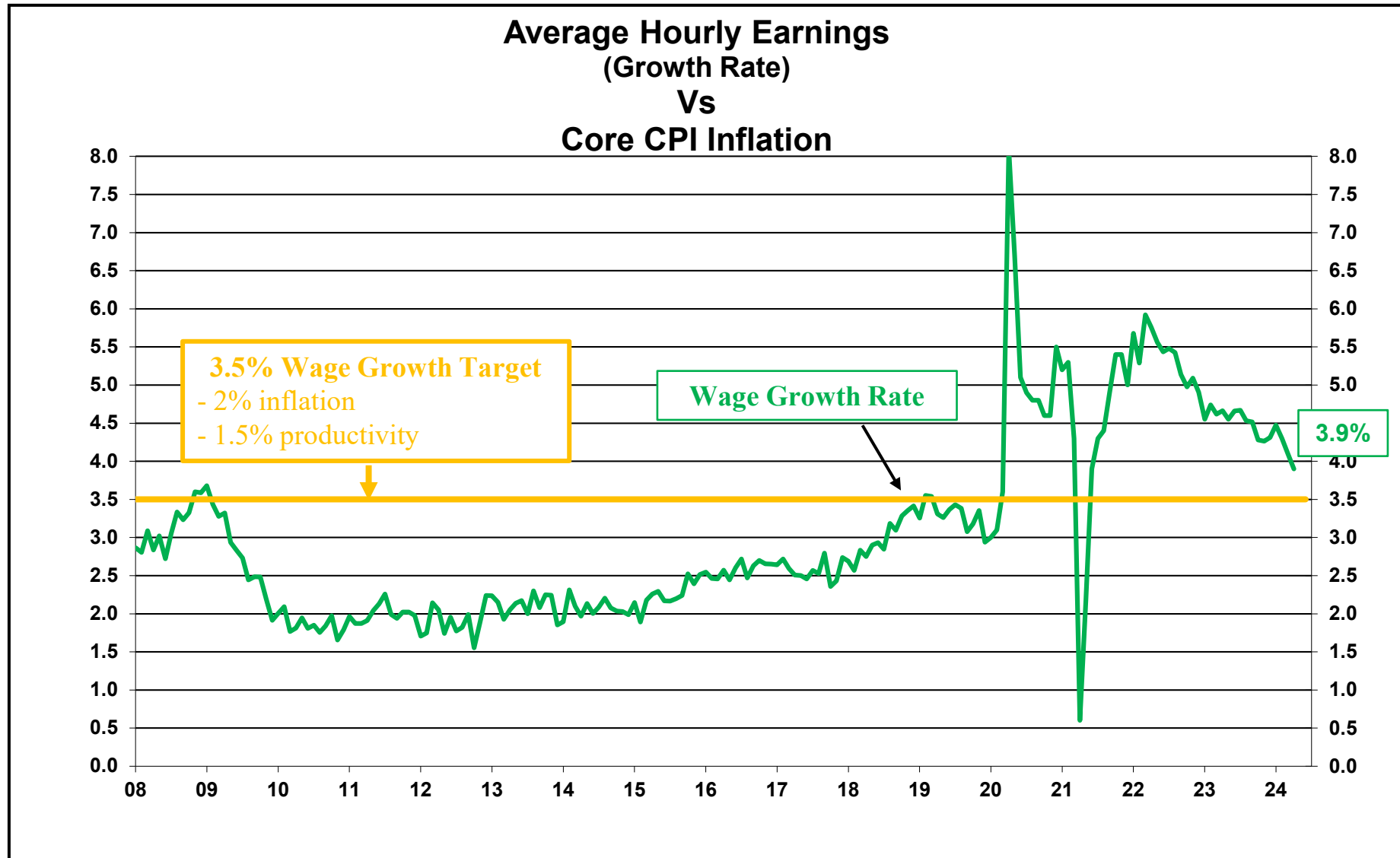




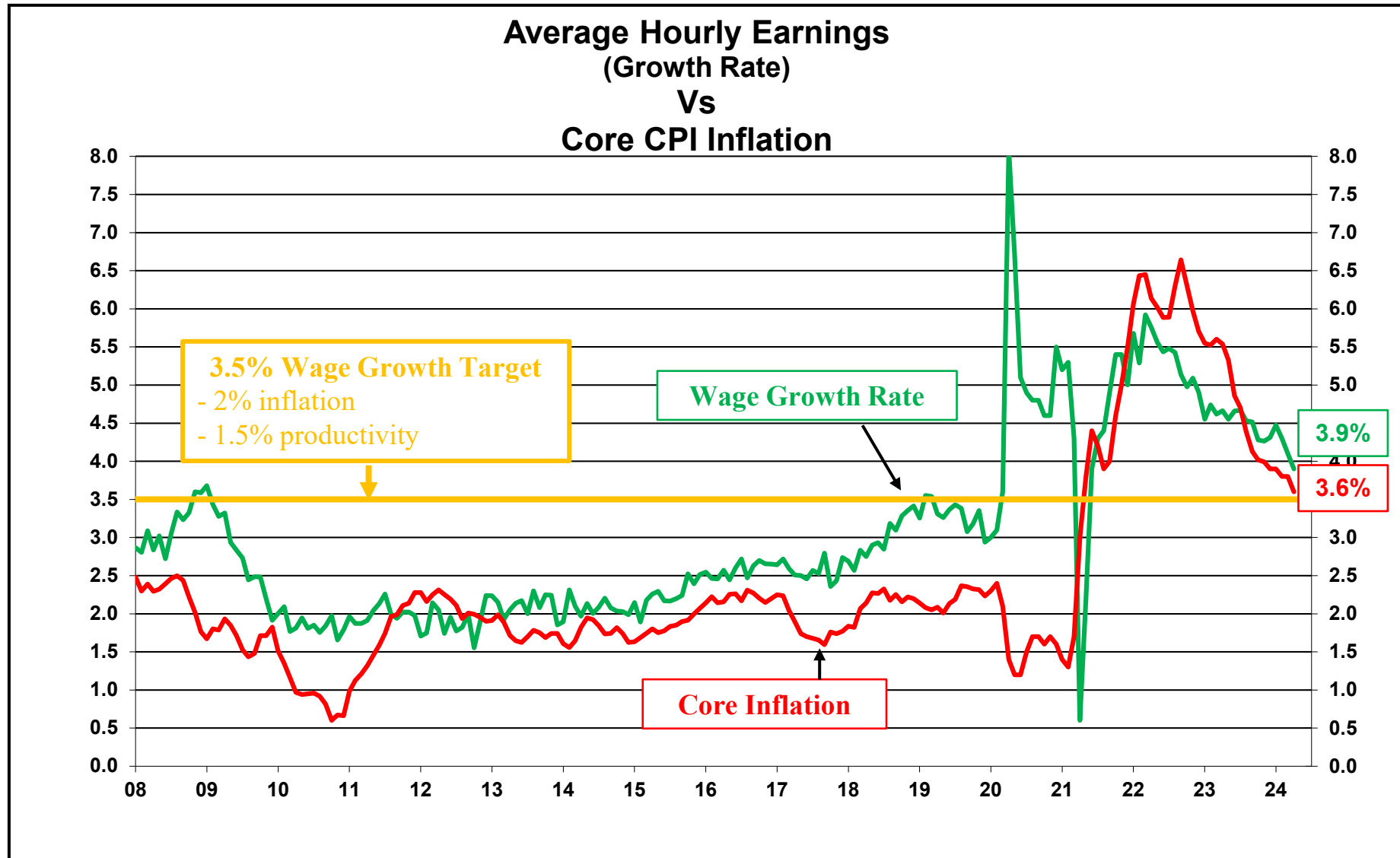
# Job Openings Rate (Thousands, SA)



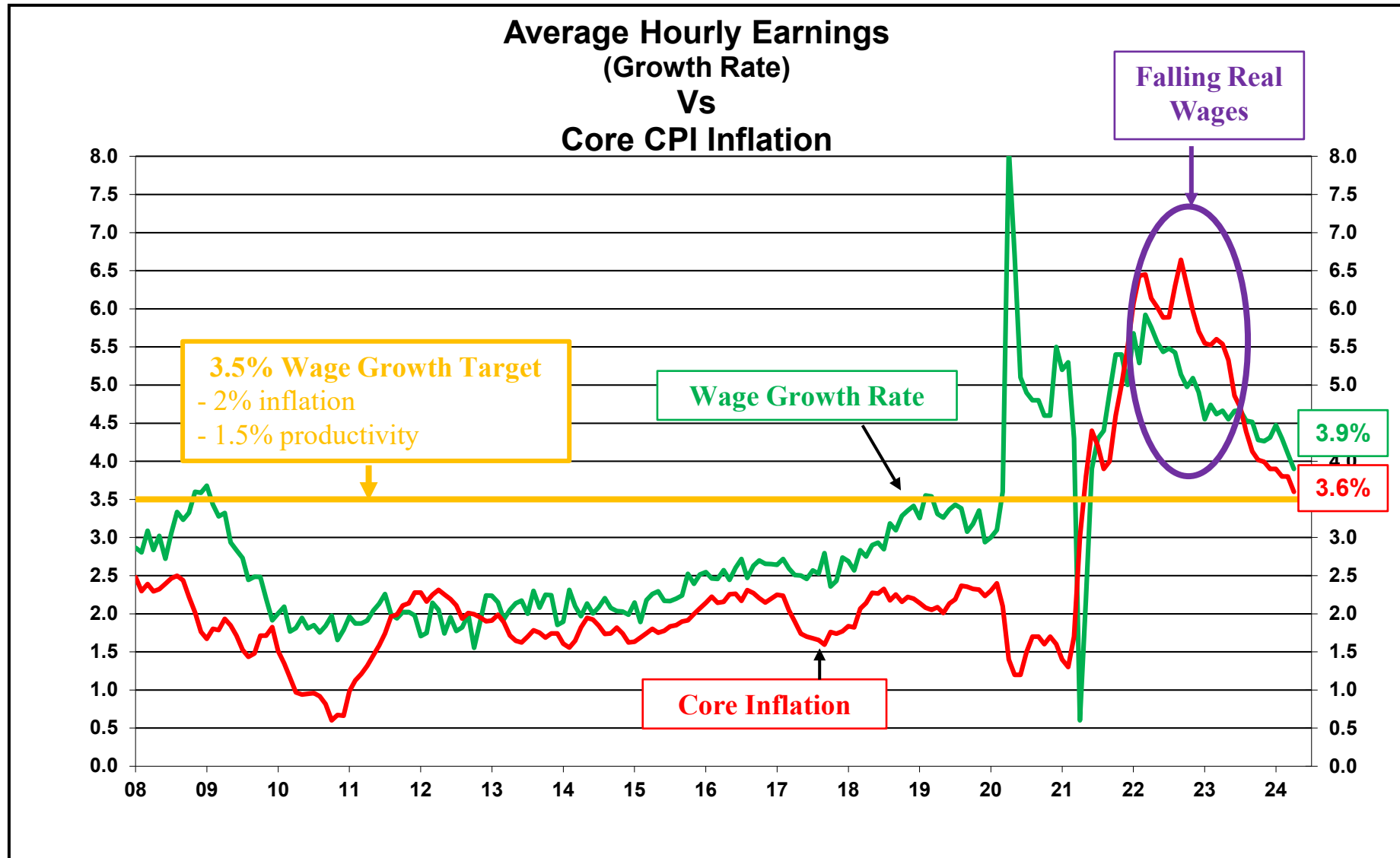
# Wage Growth Slowing as Core Inflation Falls



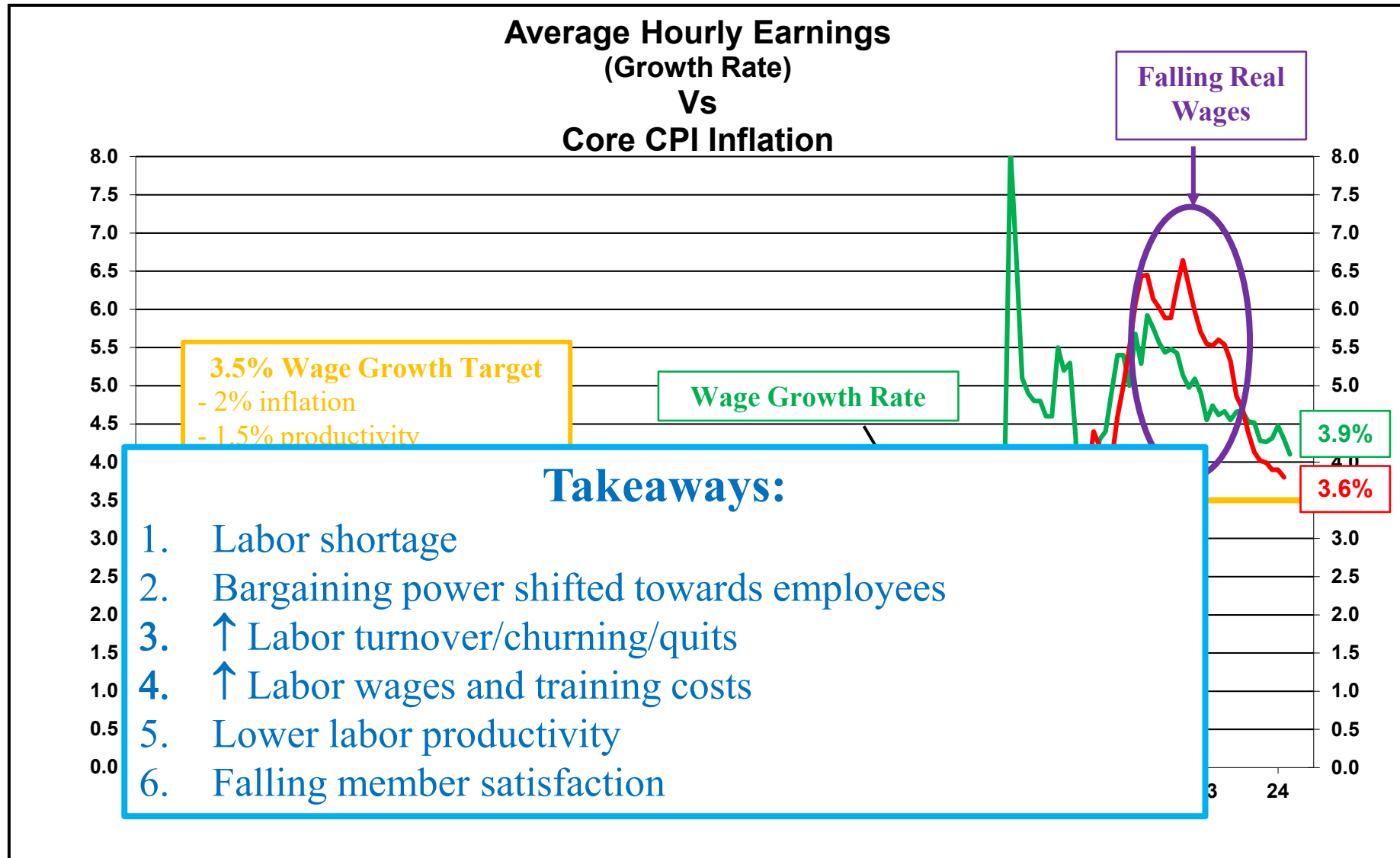
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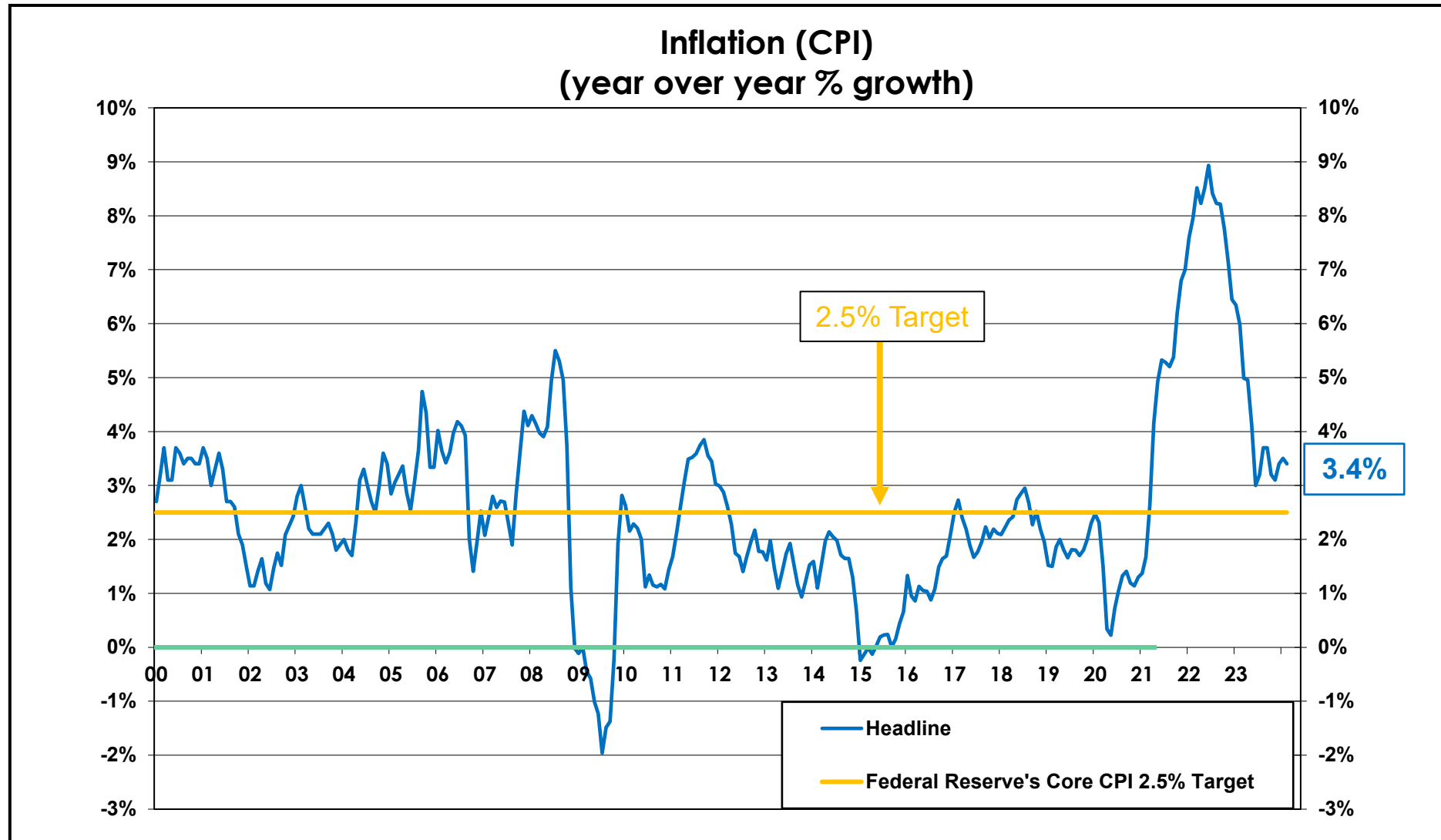
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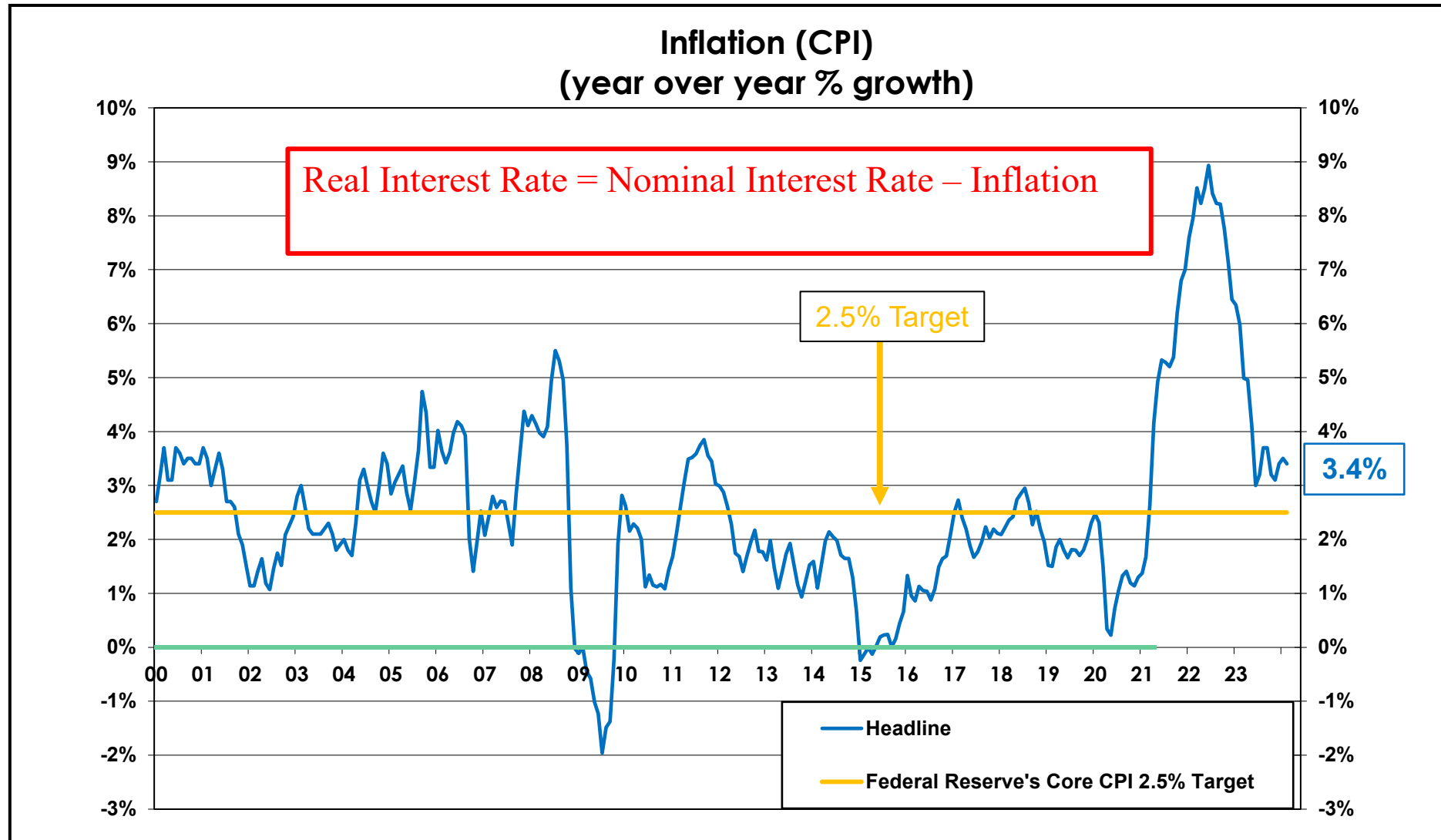
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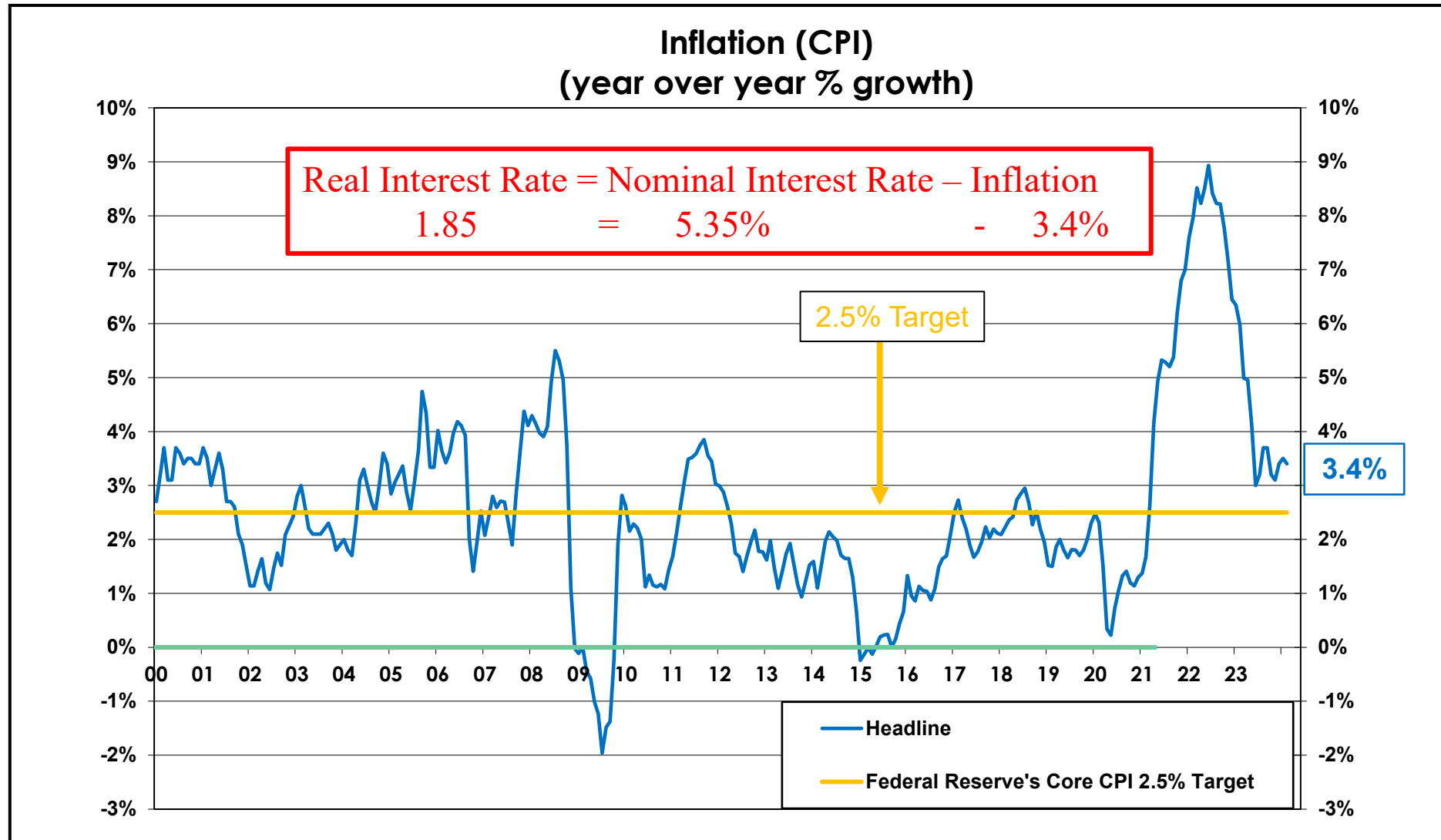
# High Inflation for the Next Year



# High Inflation for the Next Year

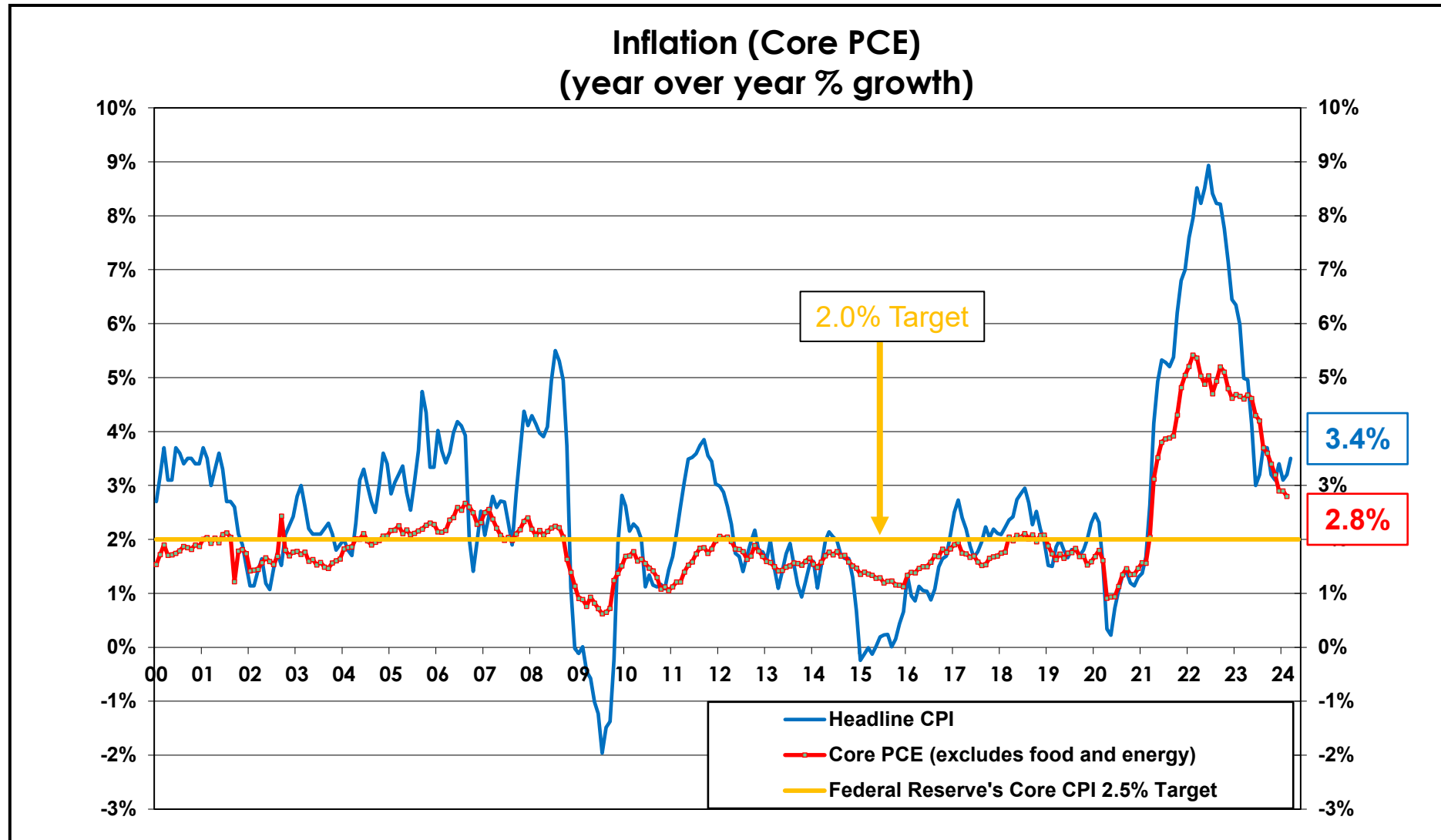


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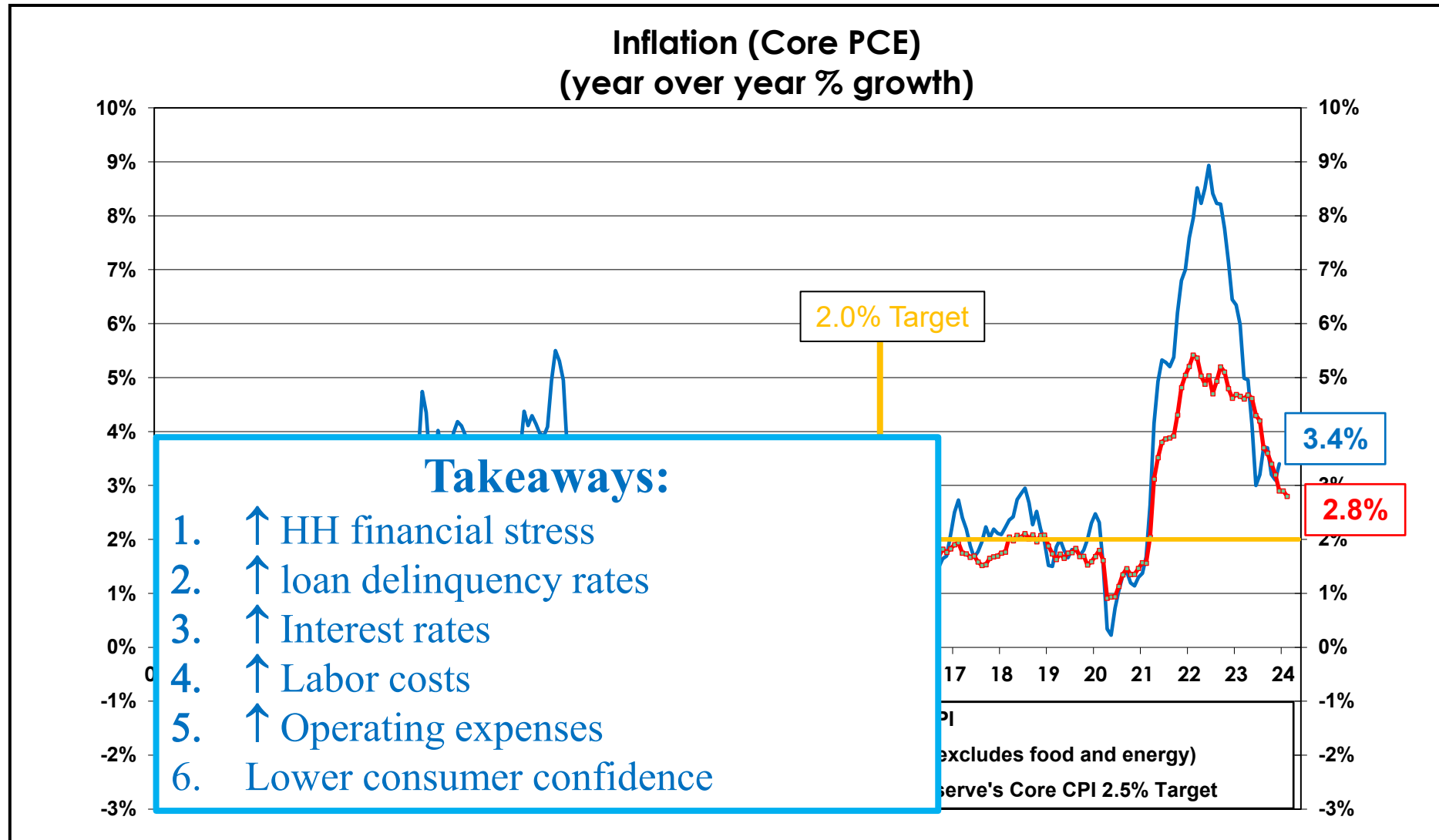




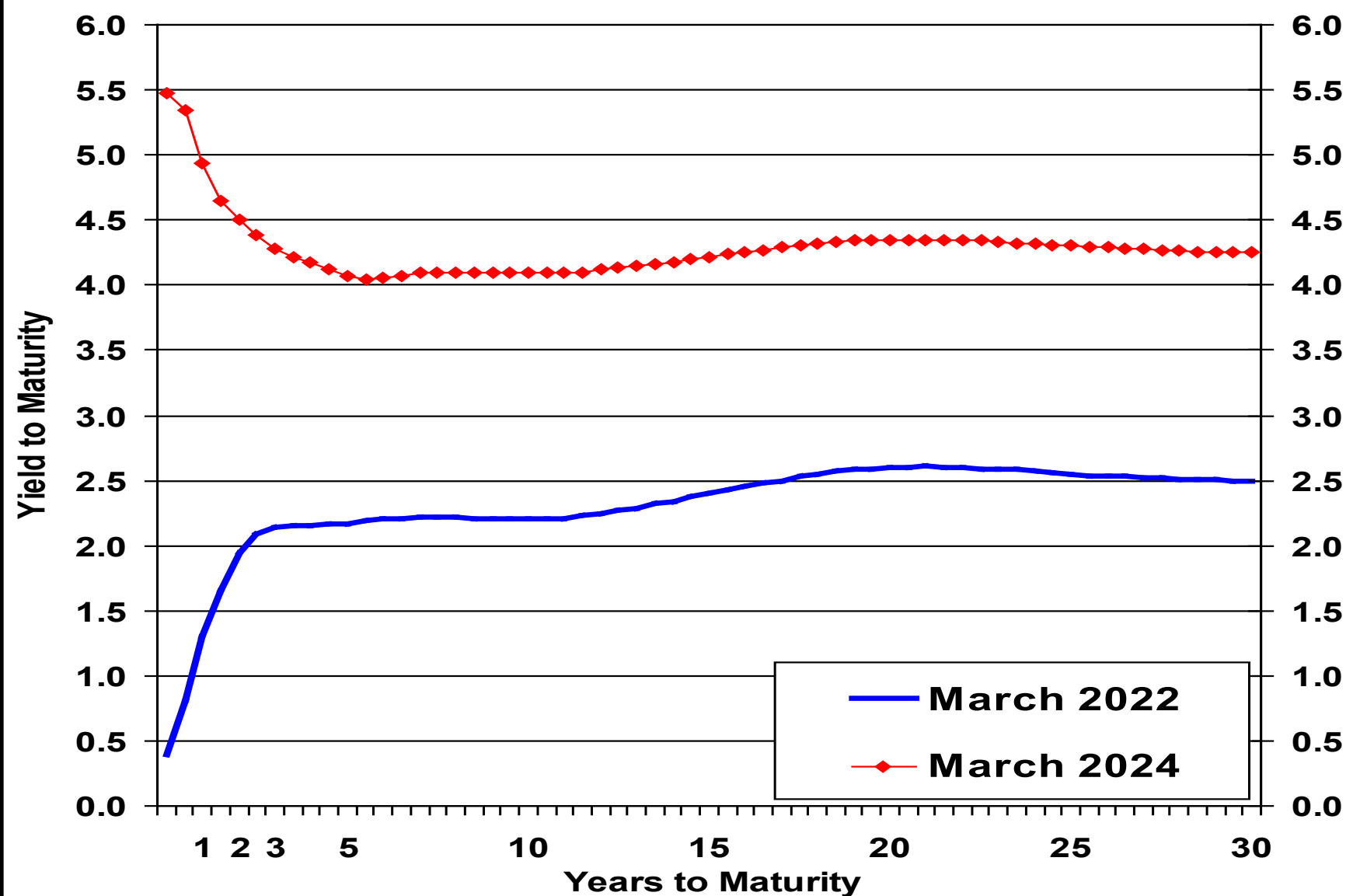
# High Inflation for the Next Year



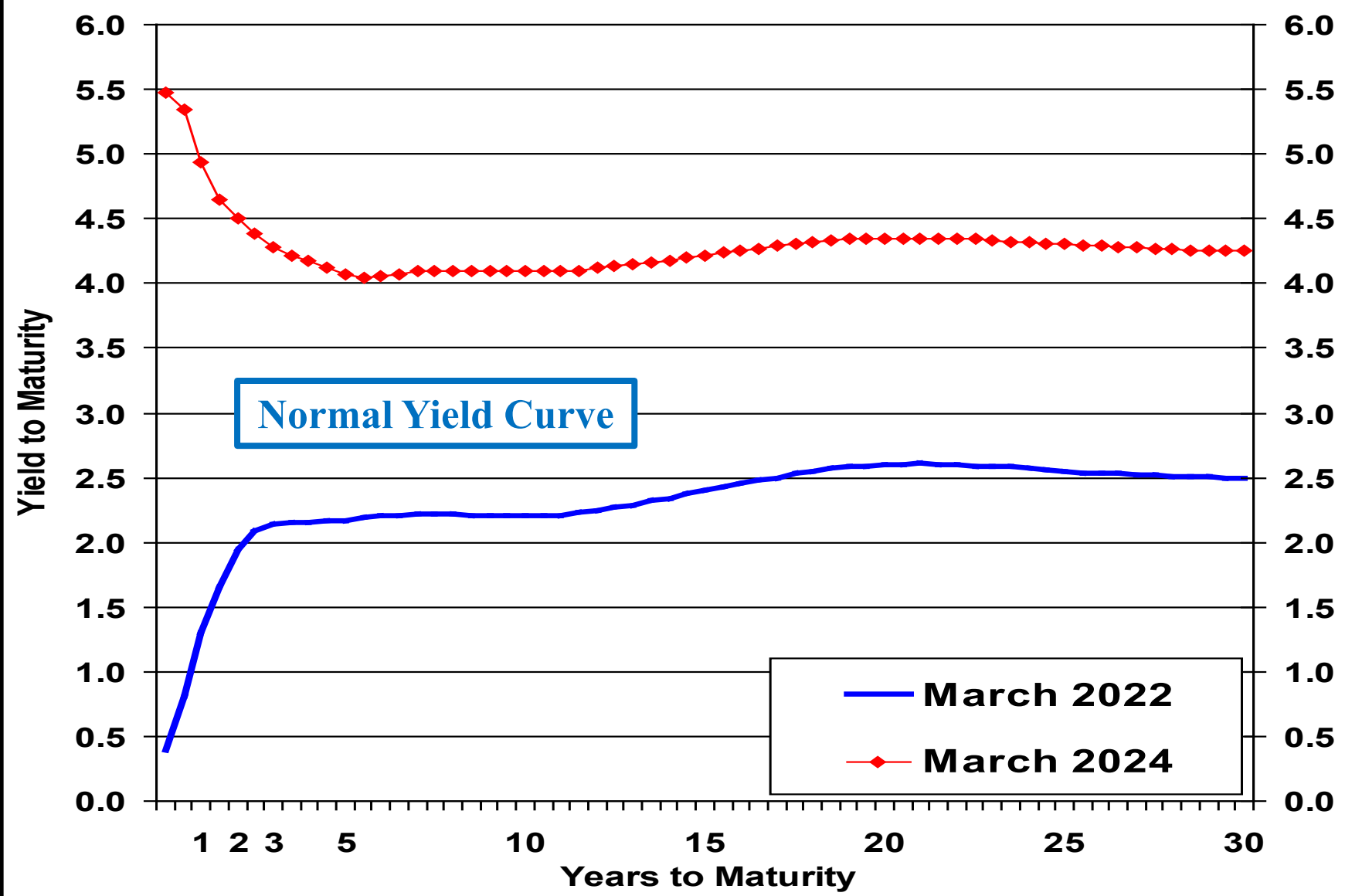
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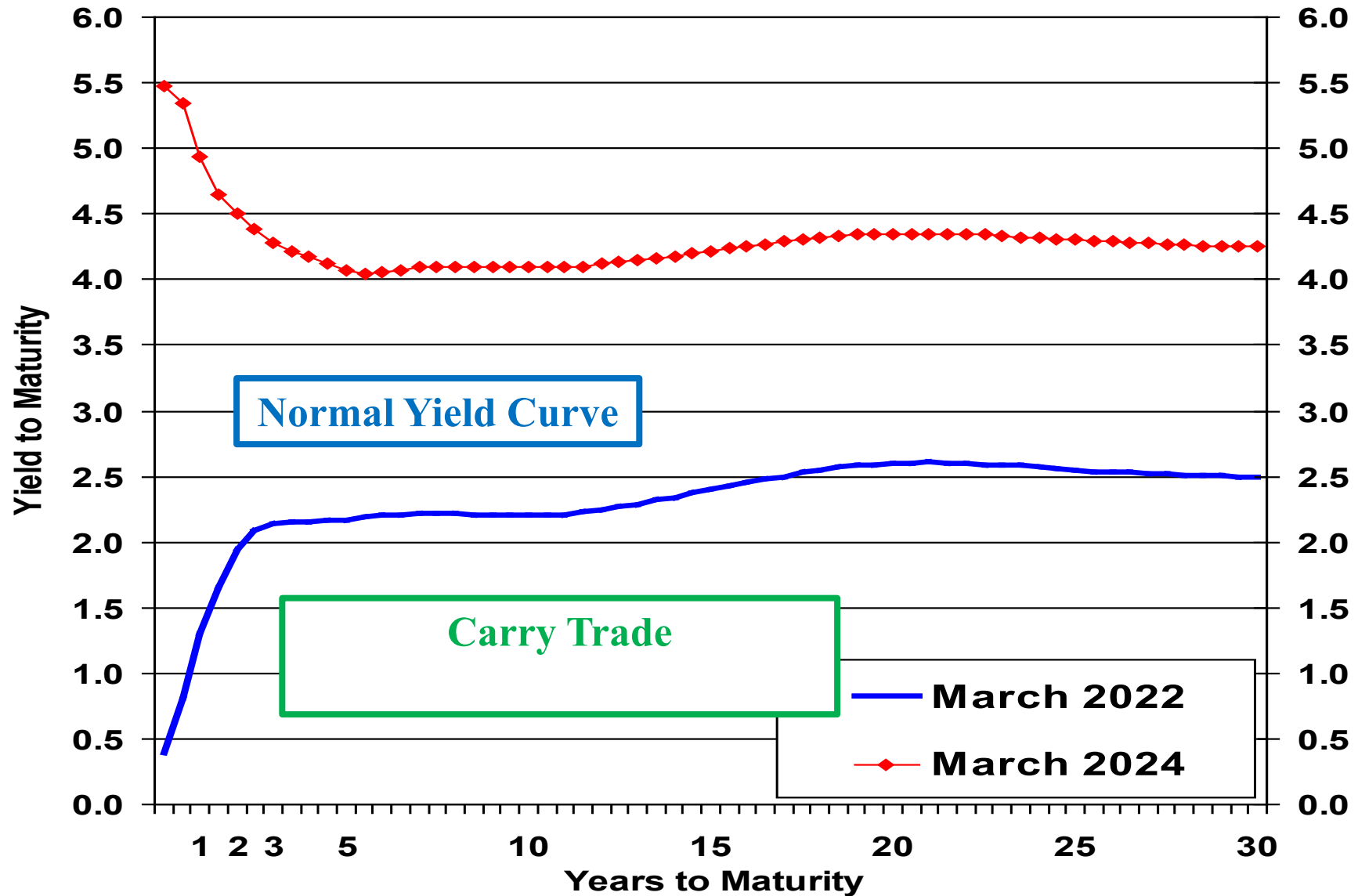
# Treasury Yield Curves



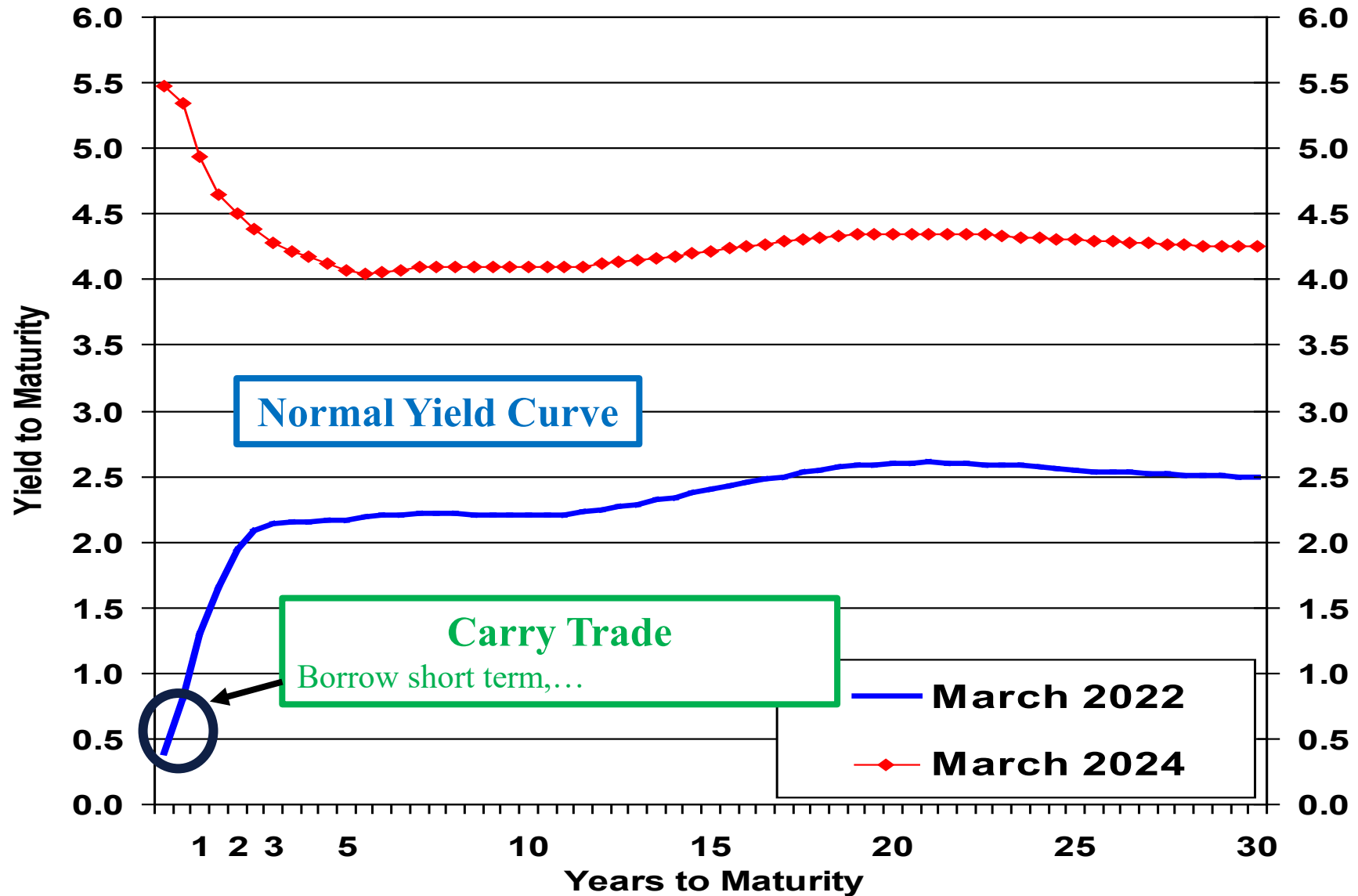
# Treasury Yield Curves



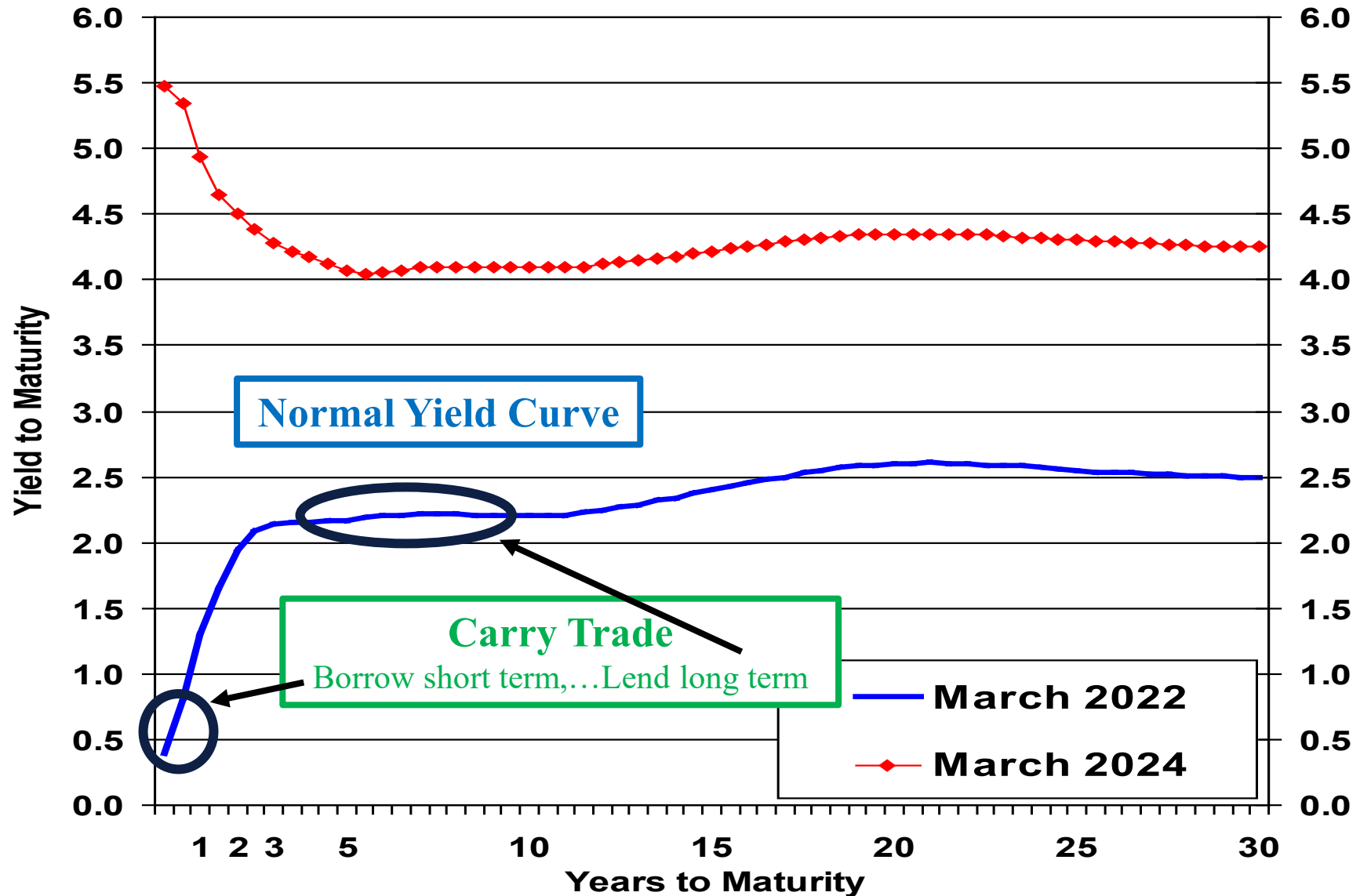
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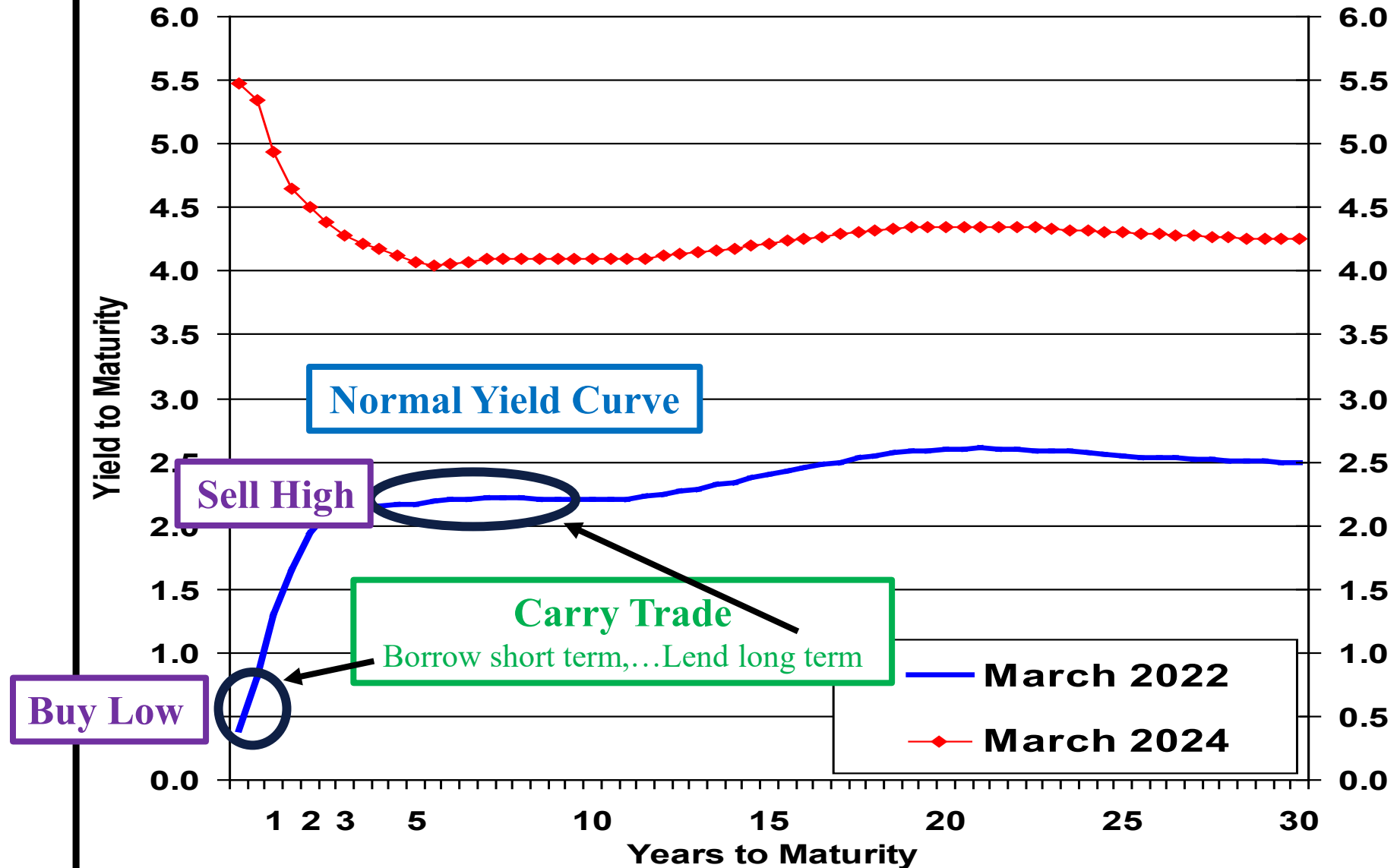
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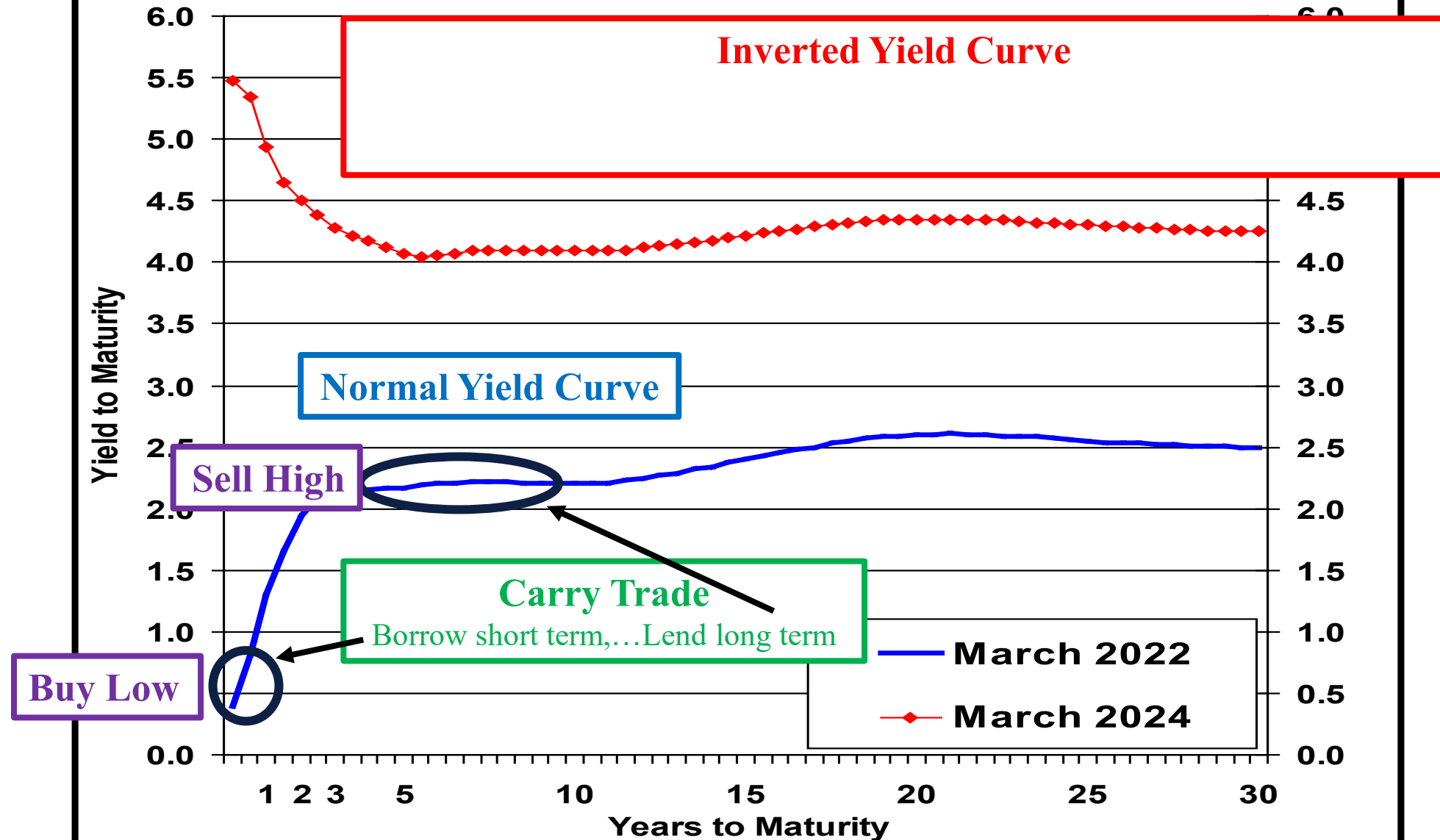


# Treasury Yield Curves

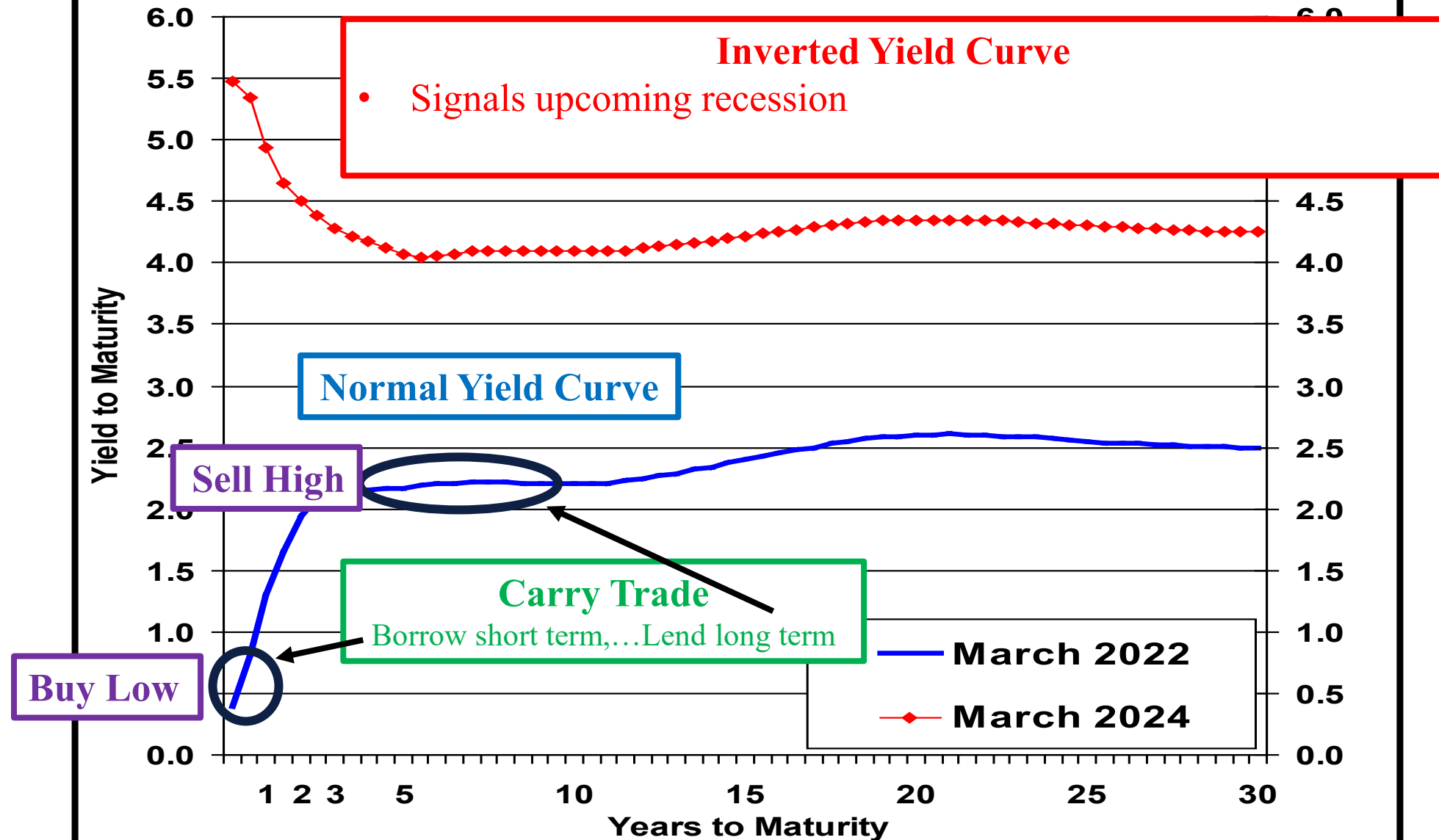




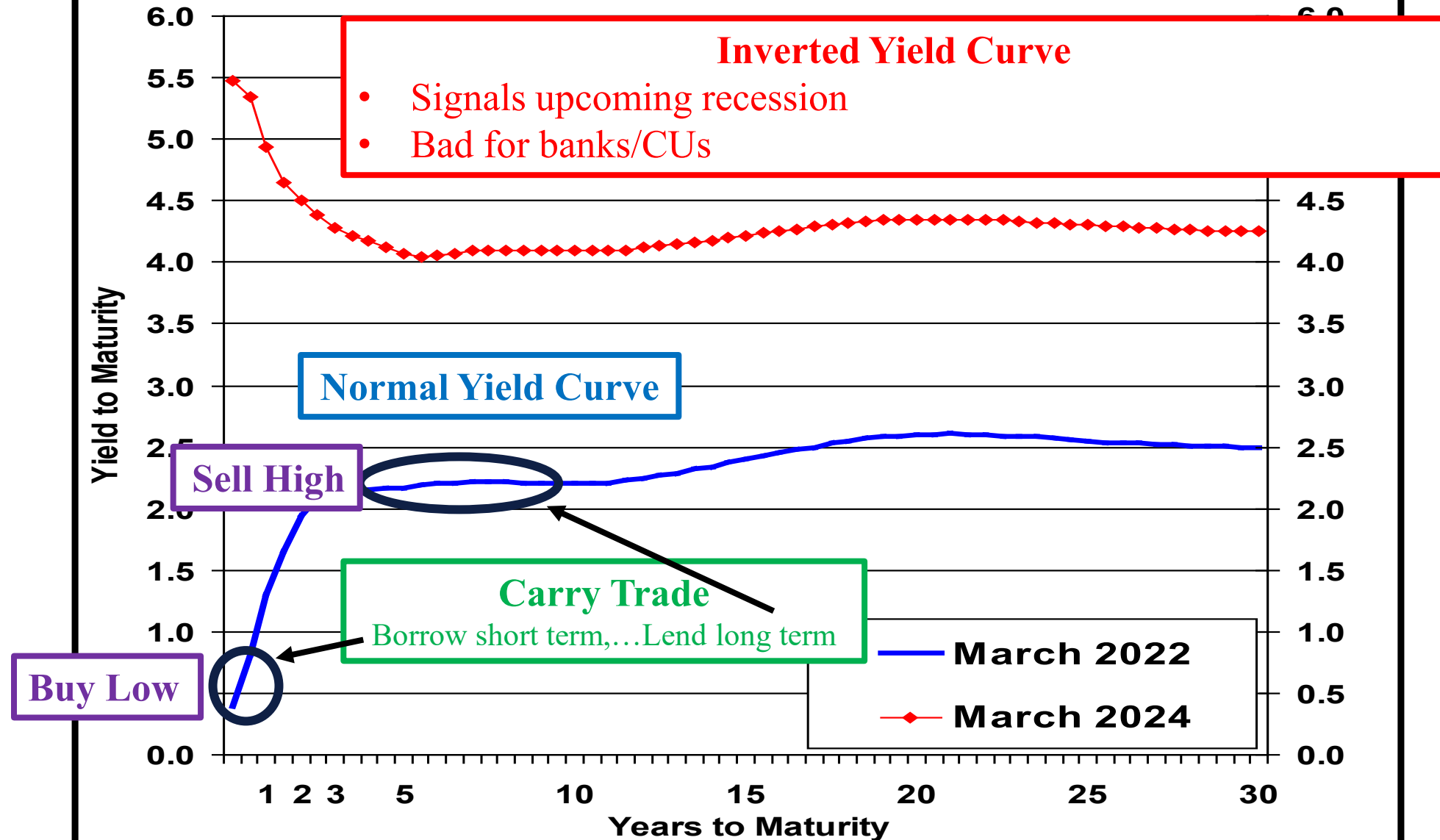
# Treasury Yield Curves



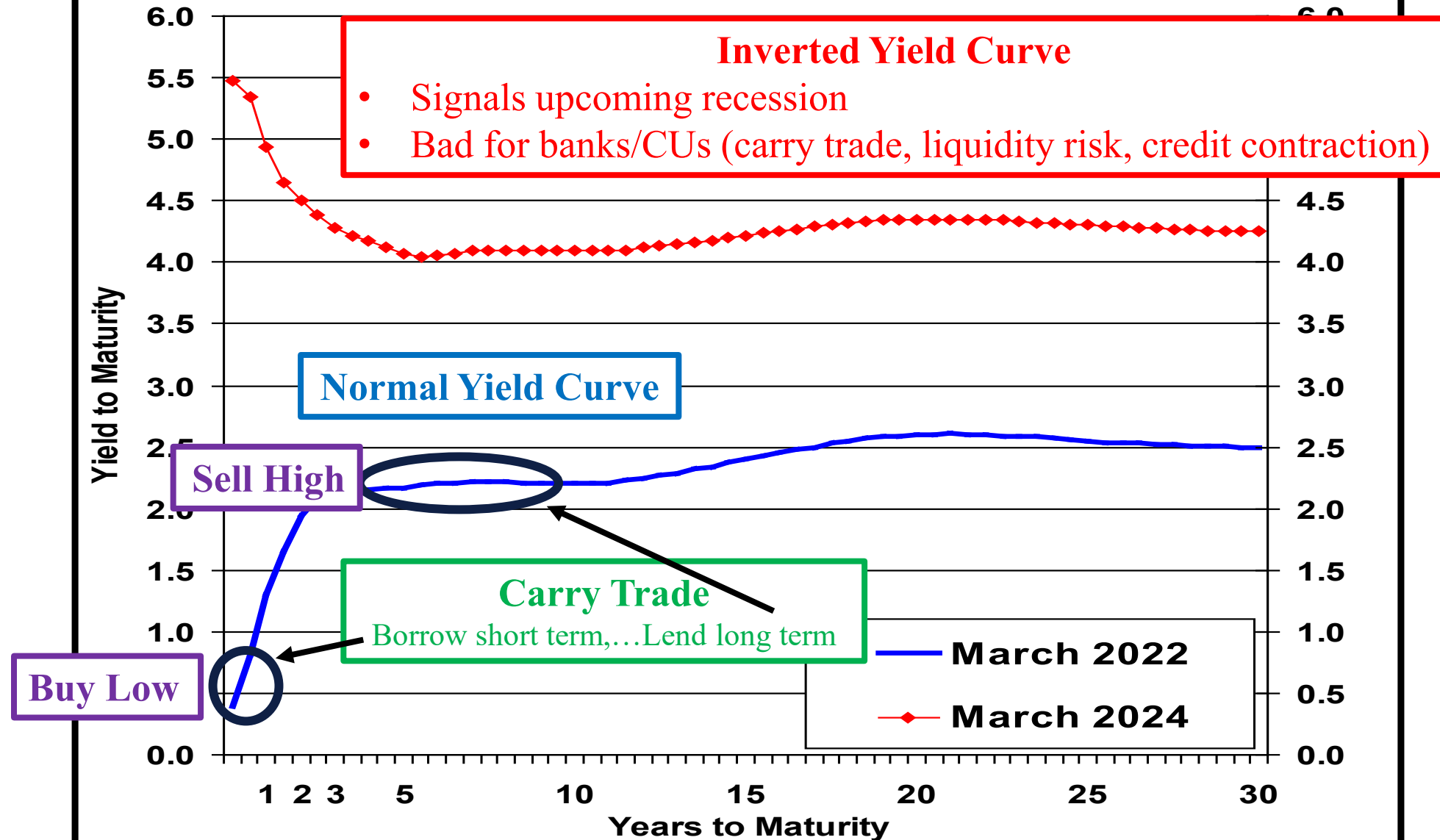
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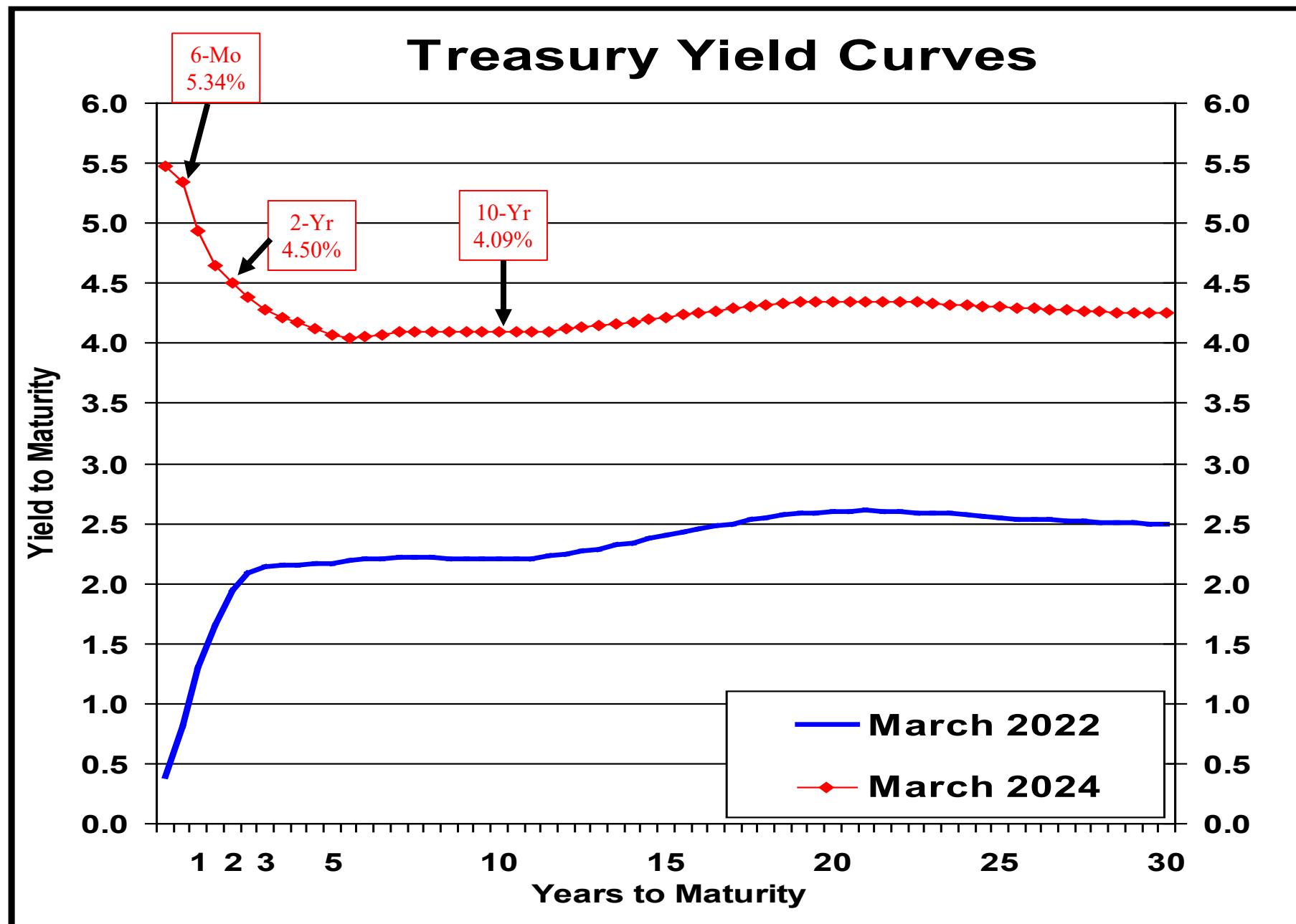


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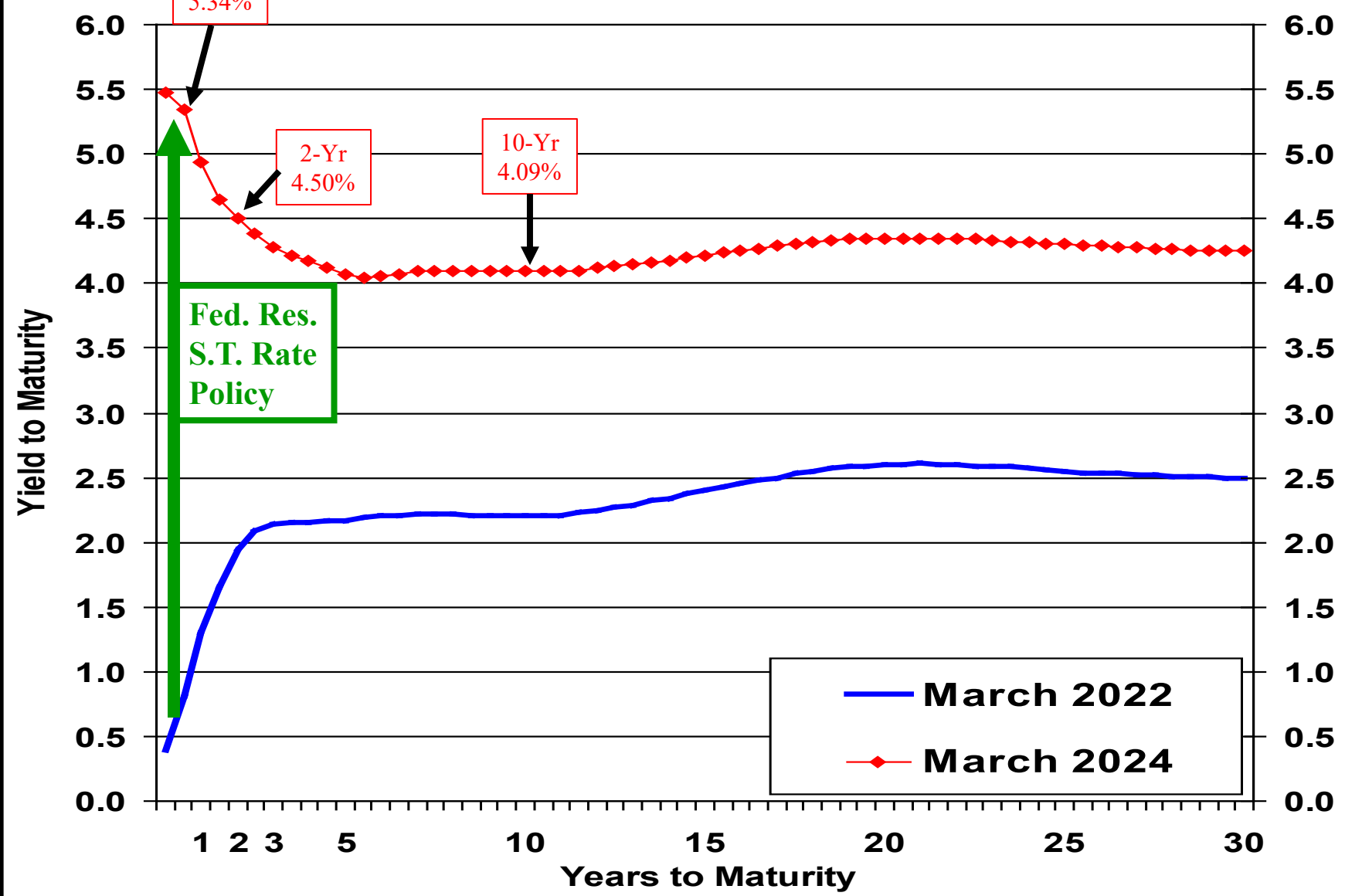


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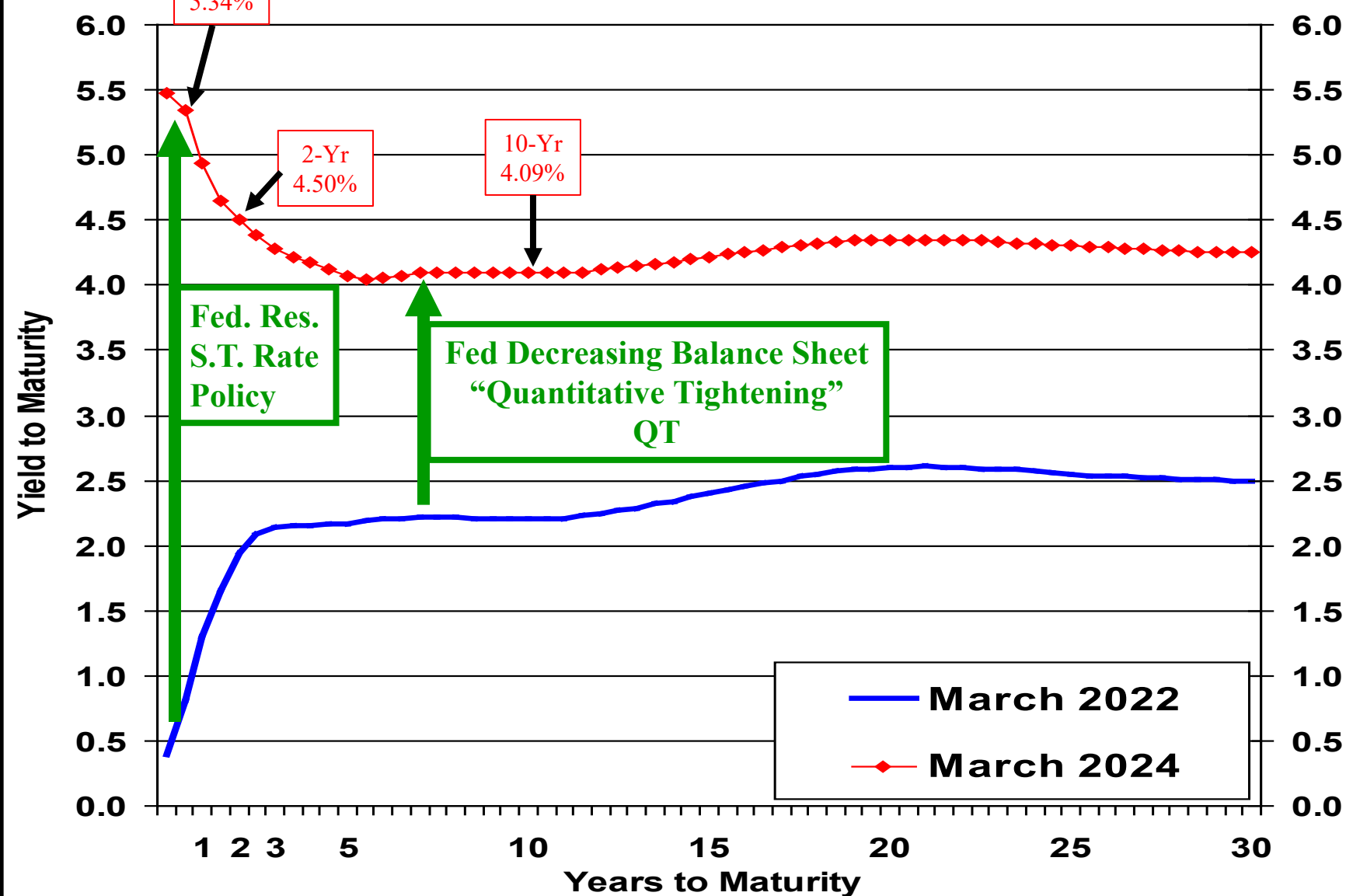




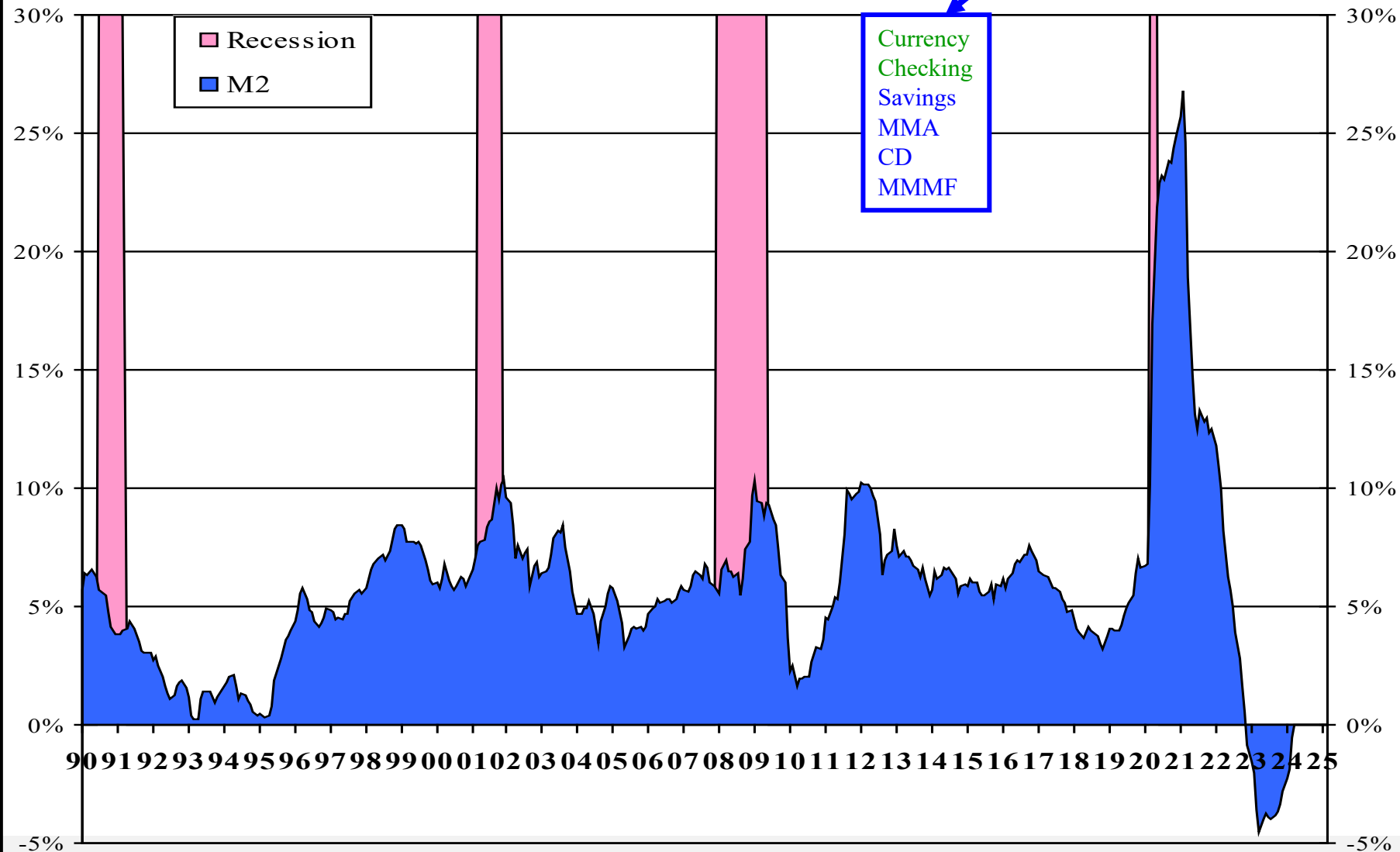
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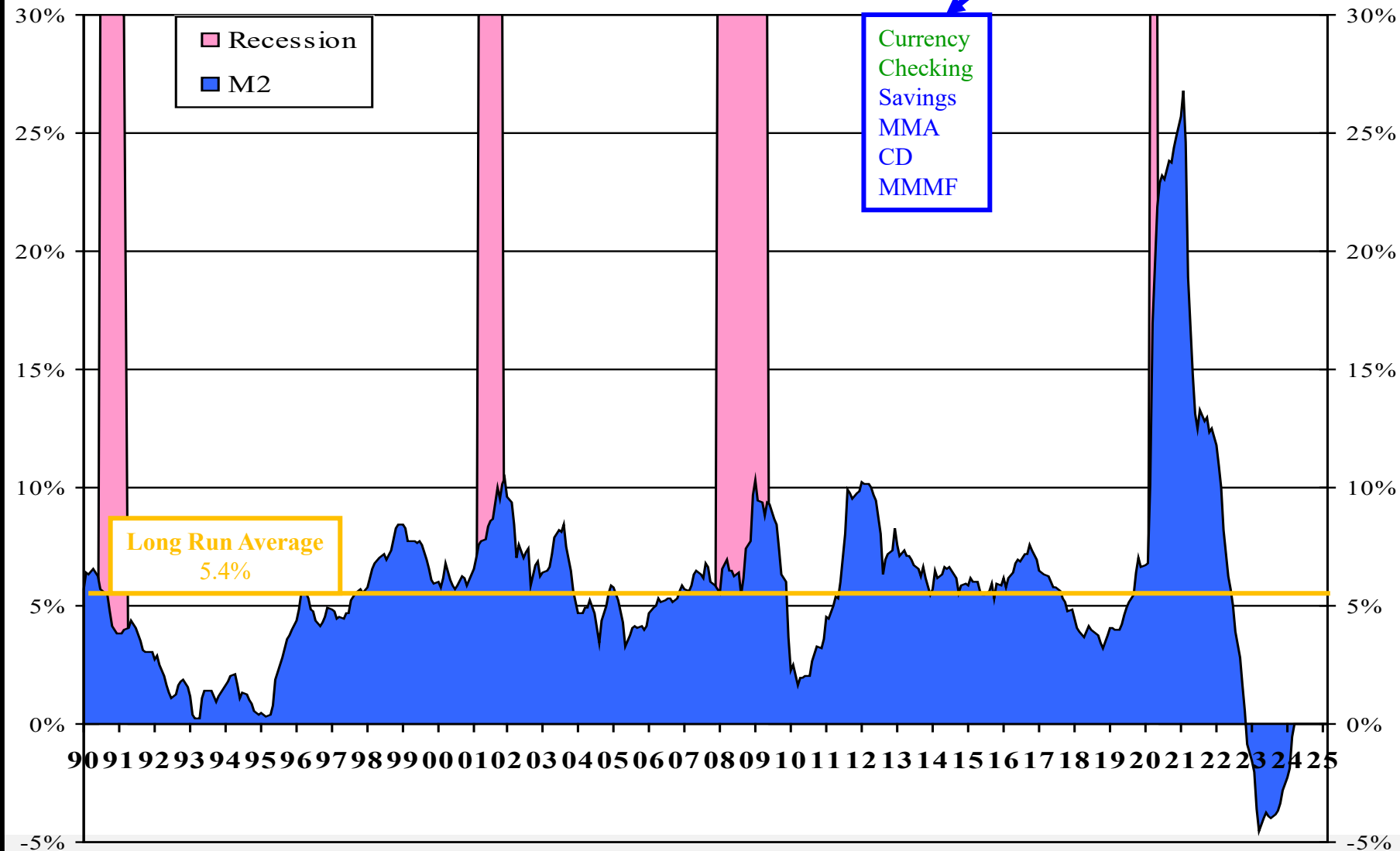


# Money Supply Growth, M2

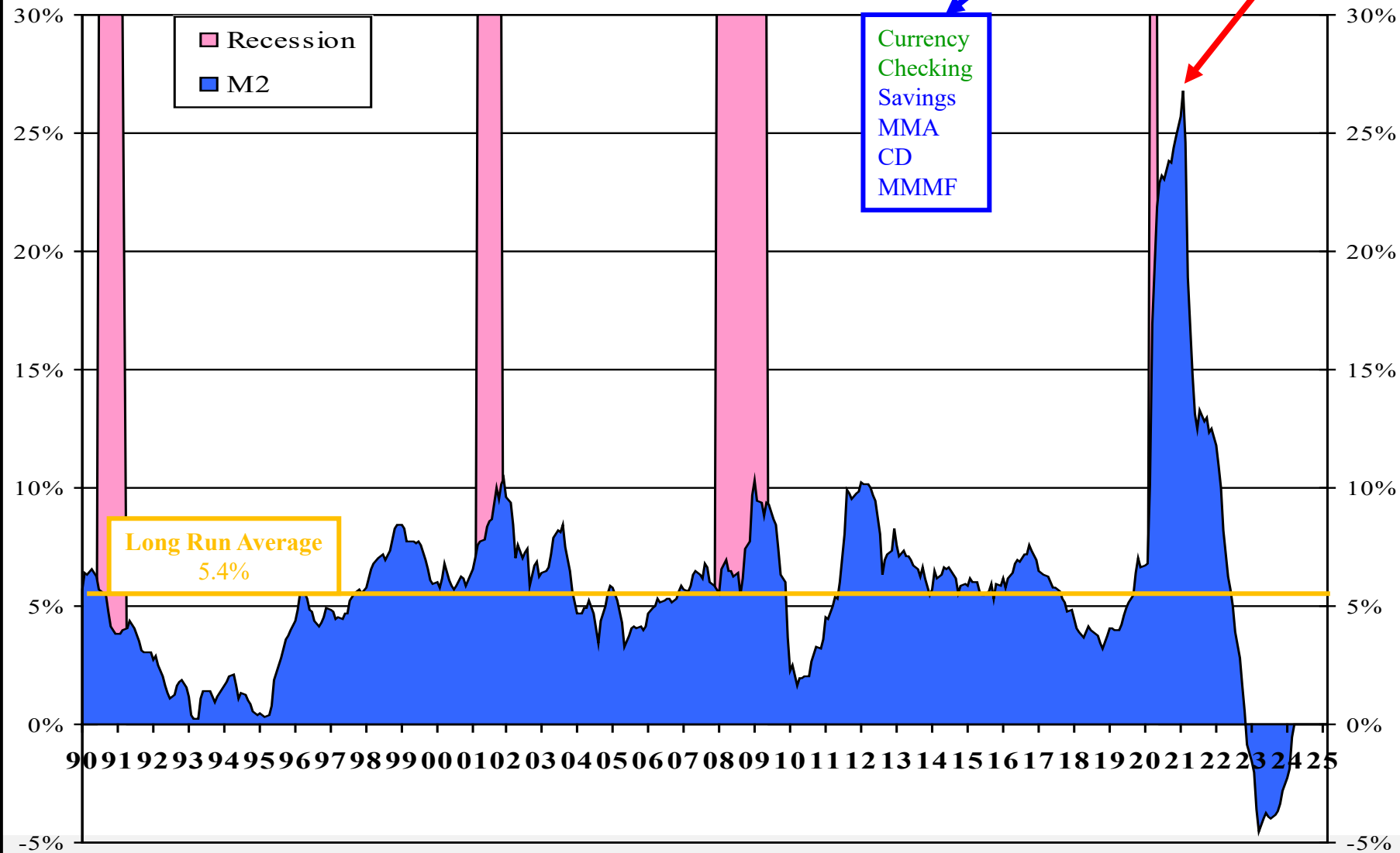




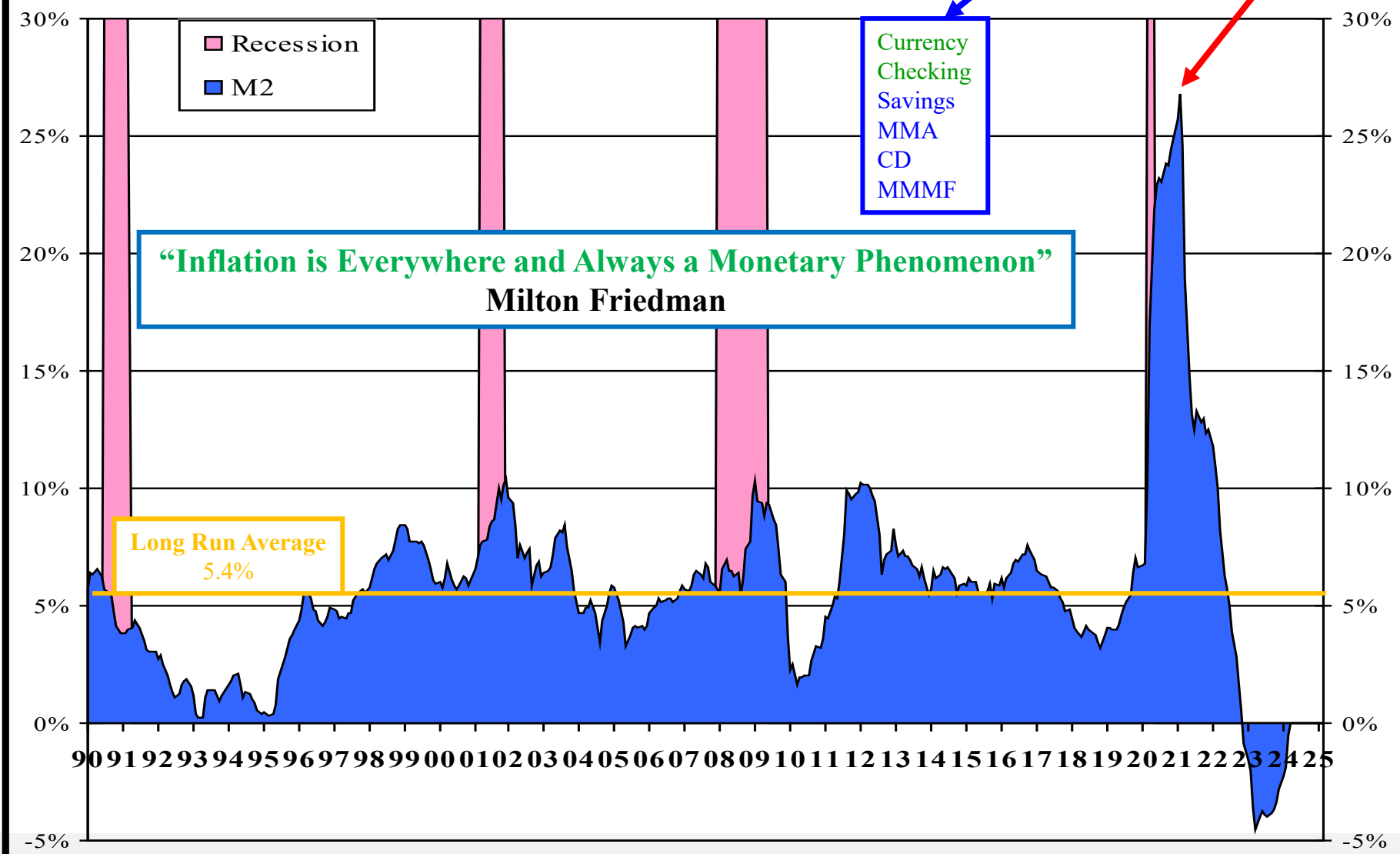
# Money Supply Growth, M2



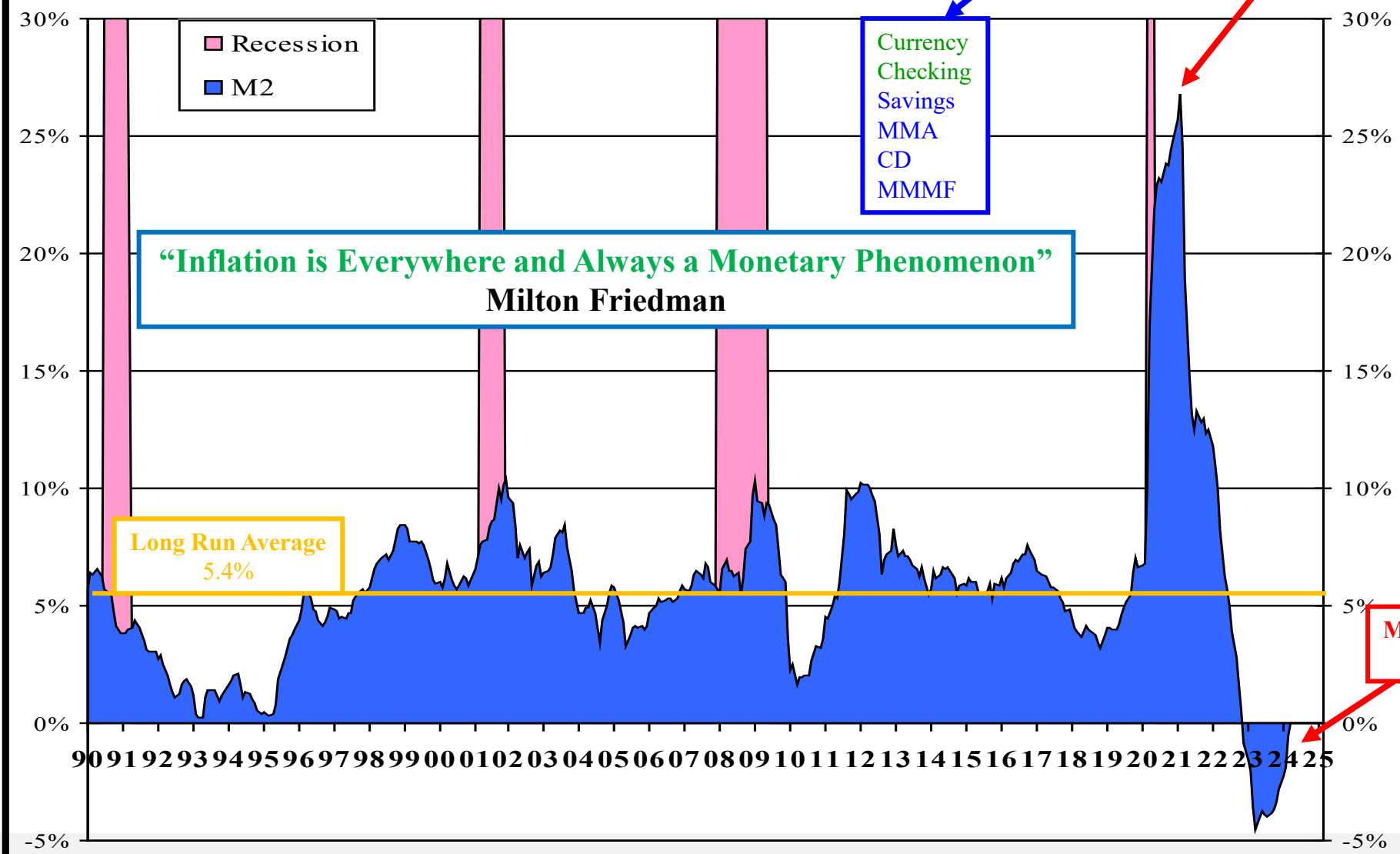
# Money Supply Growth, M2



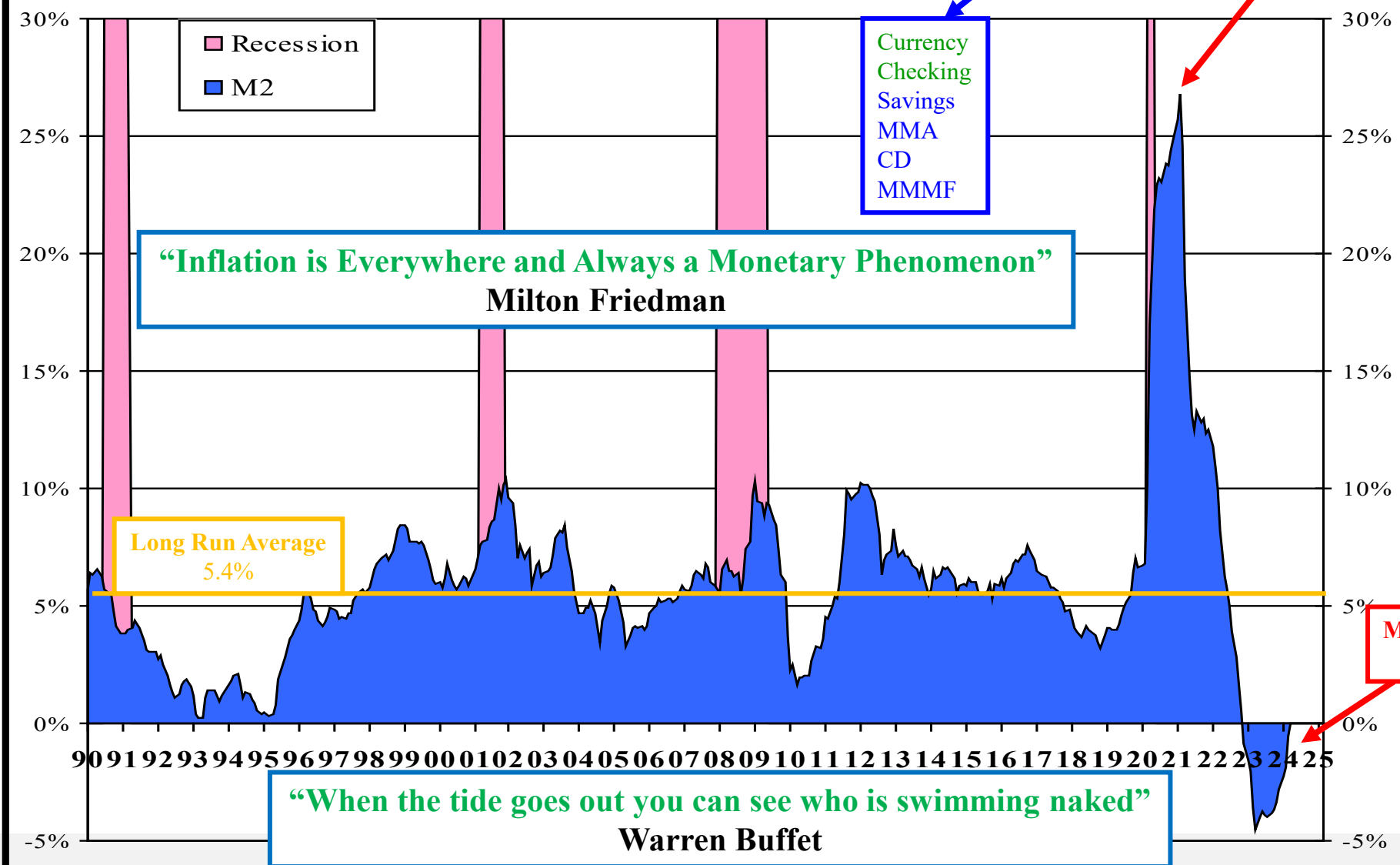
# Money Supply Growth, M2



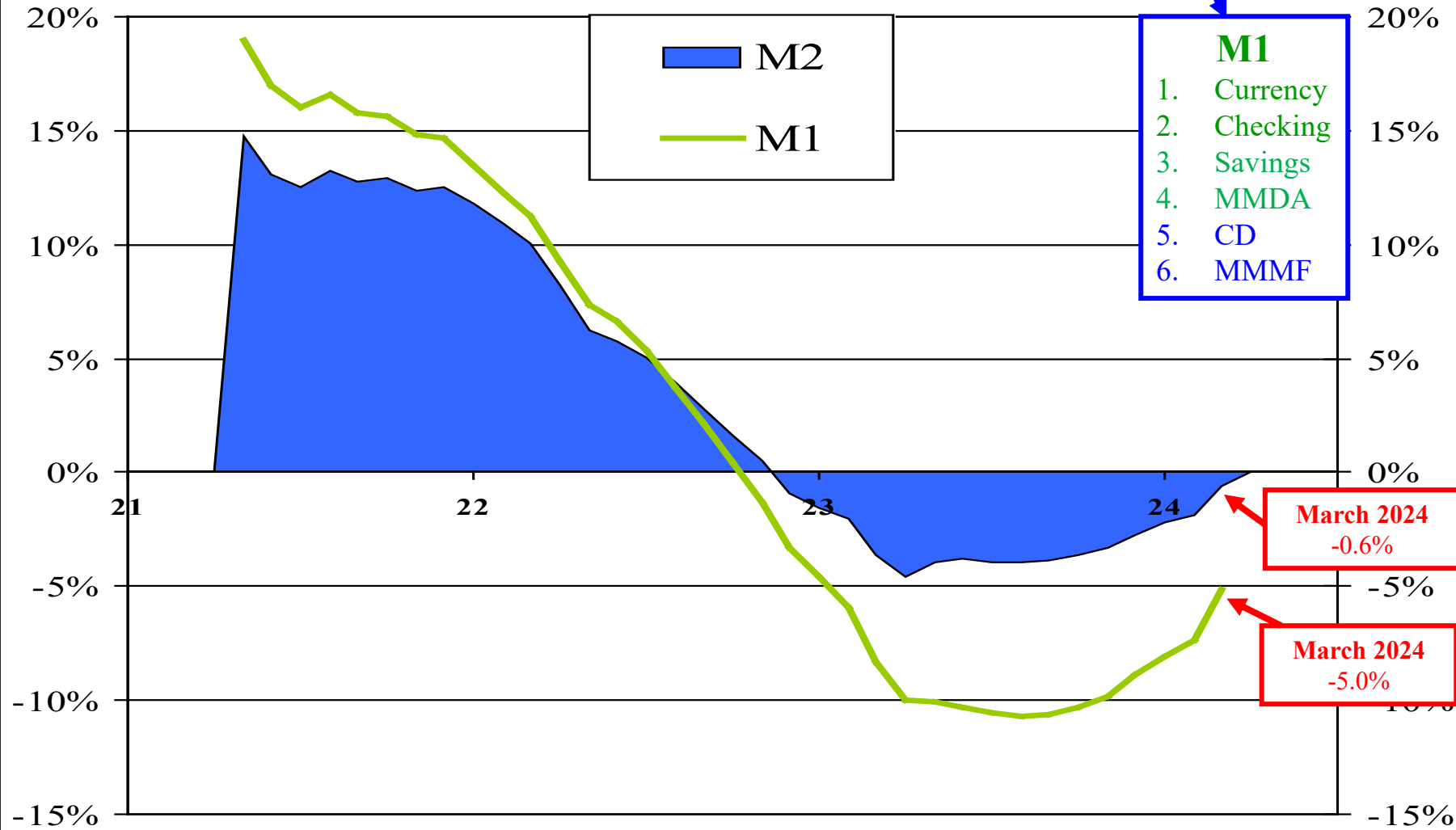
# Money Supply Growth, M2

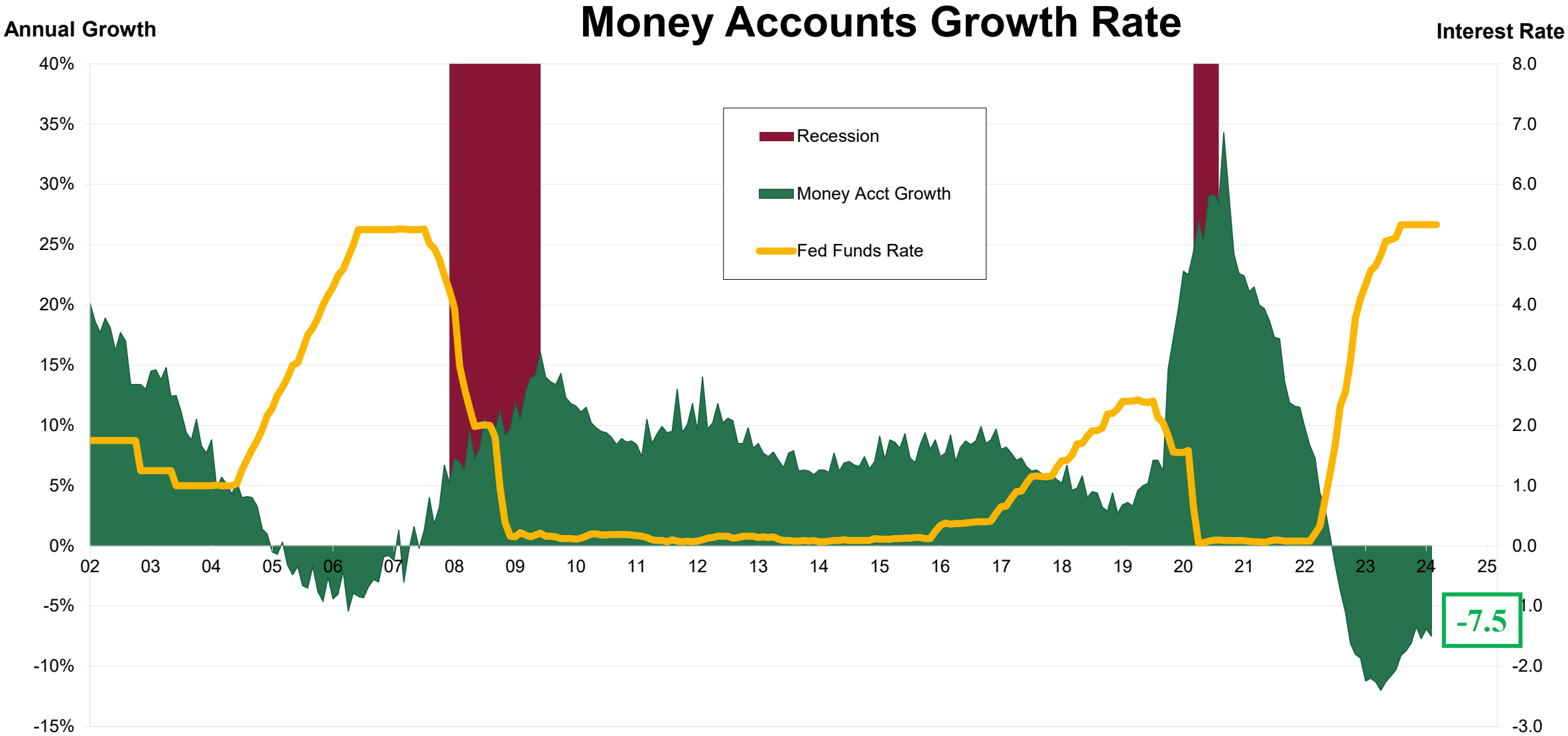


# Money Supply Growth, M2

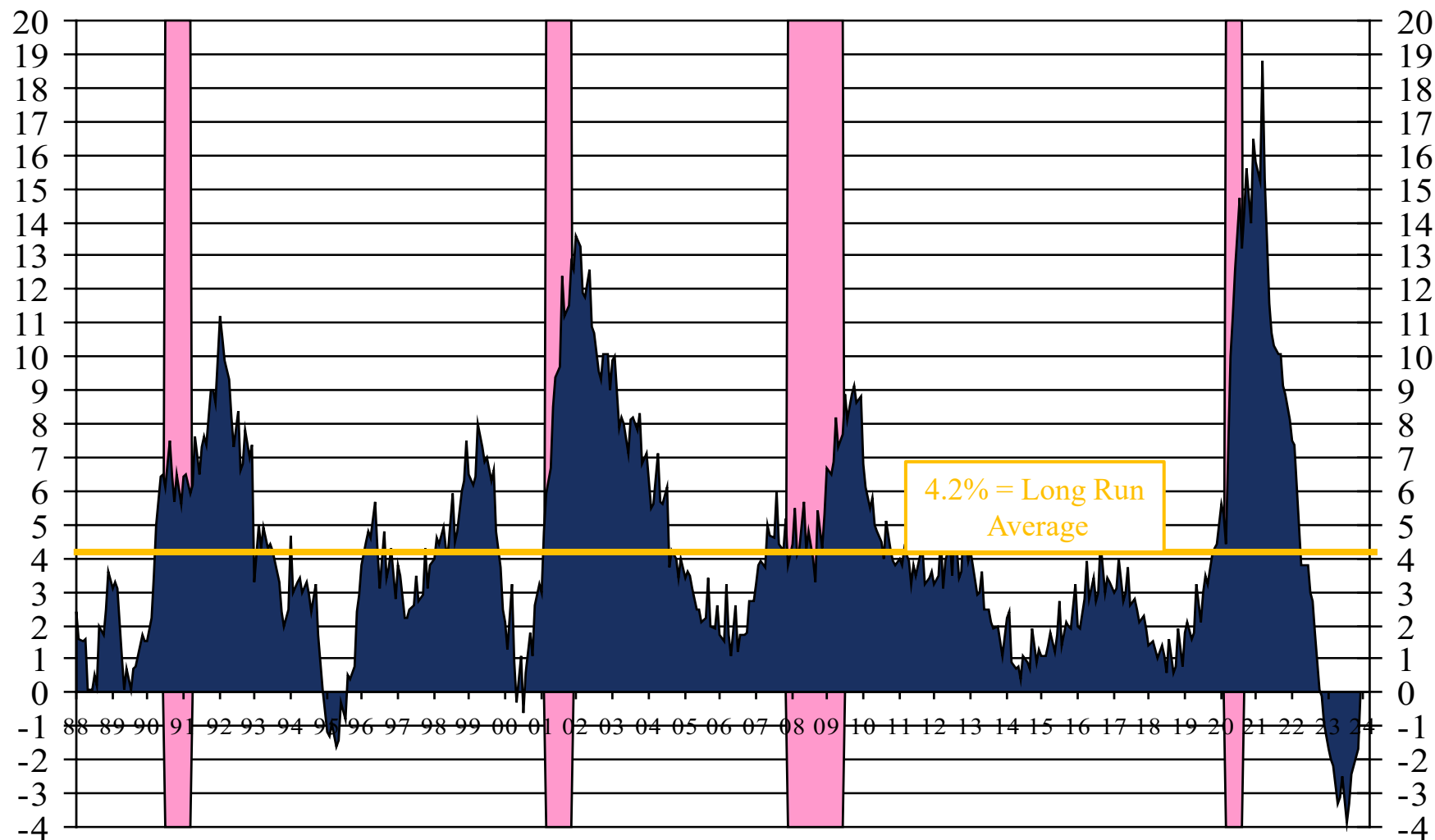


# Money Supply Growth, M1&M2 (% change year ago)



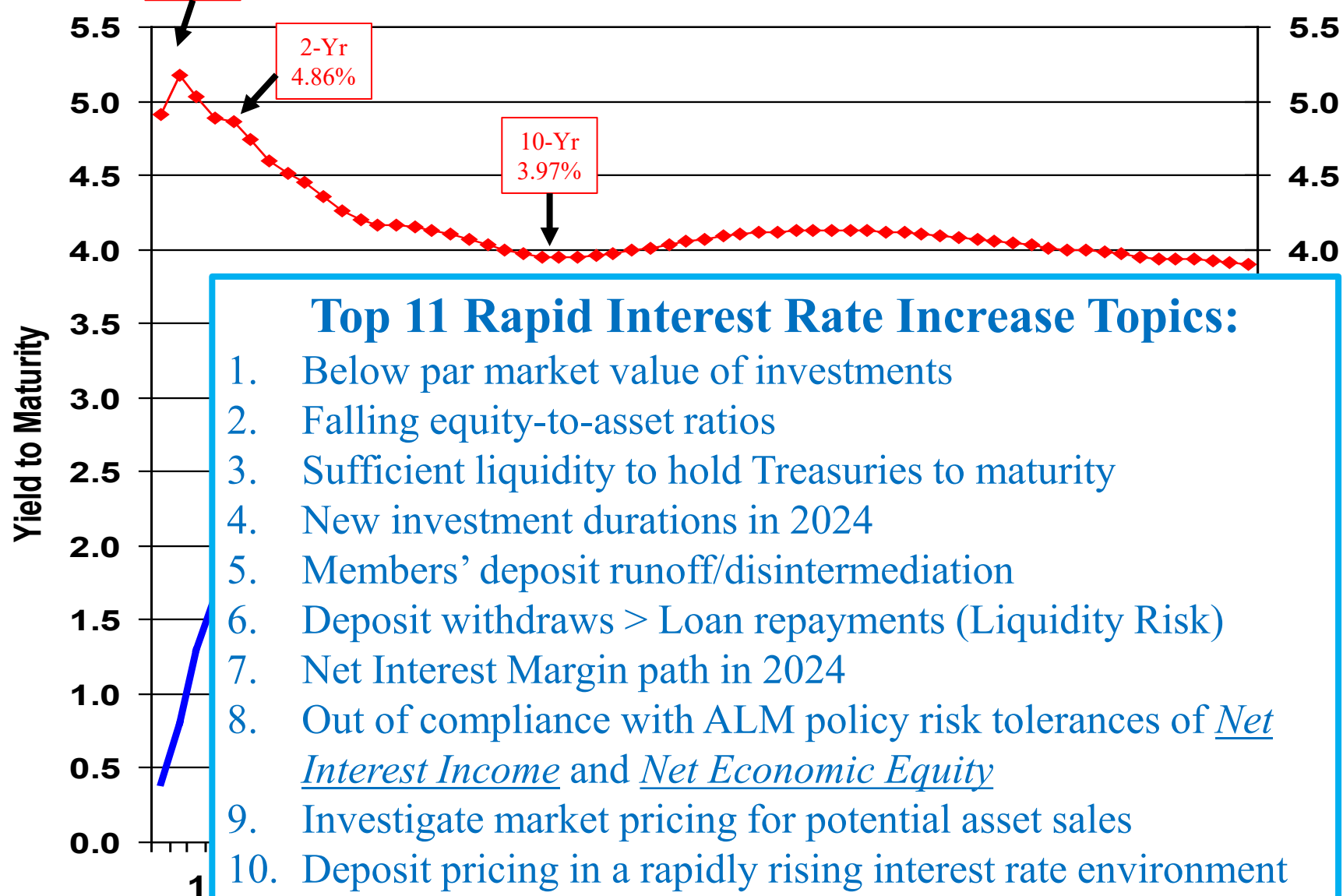


# Savings per Member Growth Rate





# Treasury Yield Curves



## Top 11 Rapid Interest Rate Increase Topics:

1. Below par market value of investments
2. Falling equity-to-asset ratios
3. Sufficient liquidity to hold Treasuries to maturity
4. New investment durations in 2024
5. Members' deposit runoff/disintermediation
6. Deposit withdraws > Loan repayments (Liquidity Risk)
7. Net Interest Margin path in 2024
8. Out of compliance with ALM policy risk tolerances of Net Interest Income and Net Economic Equity
9. Investigate market pricing for potential asset sales
10. Deposit pricing in a rapidly rising interest rate environment
11. Rely on wholesale borrowings to maintain sufficient liquidity

## Credit Union Balance Sheet

The image consists of a solid white rectangular area enclosed within a thick, uniform black border. The border is composed of four straight segments meeting at right angles, forming a complete frame around the central white space. There are no markings, text, or illustrations within the white area.

# Credit Union Balance Sheet

**Assets**

# Credit Union Balance Sheet

## Assets

**Liabilities + Capital**

# Credit Union Balance Sheet

**Assets**

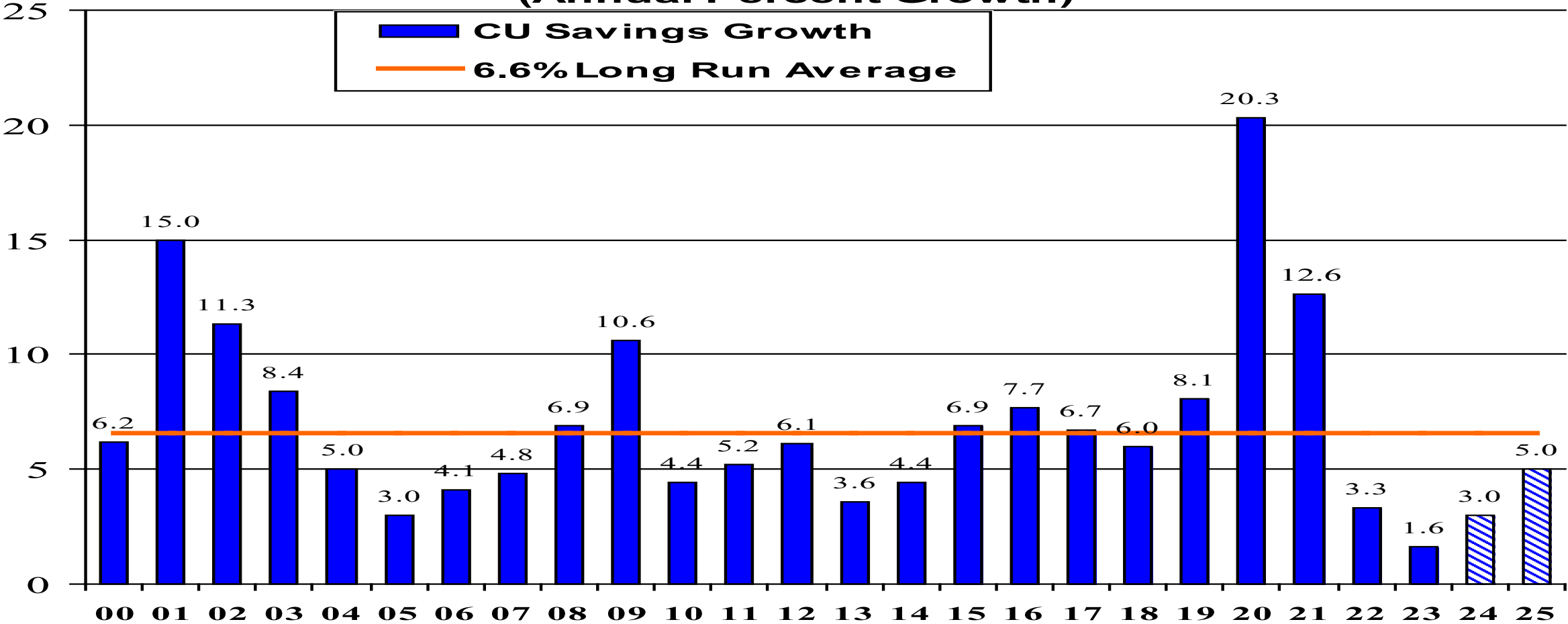
**Liabilities + Capital**

## Deposits

- Checking Accounts
- Savings
- Money Market Deposits
- Certificates of Deposits

# Slowing Credit Union Savings Growth

## Credit Union Savings Growth (Annual Percent Growth)



# Credit Union Balance Sheet

**Assets**

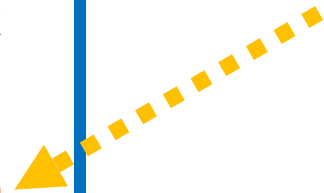
**Liabilities + Capital**

## Deposits

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- Certificates of Deposits

## Borrowings

- Federal Home Loan Bank
- Corporate Line of Credit
- Fed Funds Purchased
- Bank Term Funding Program



# Credit Union Balance Sheet

**Assets**

**Liabilities + Capital**

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## Borrowings

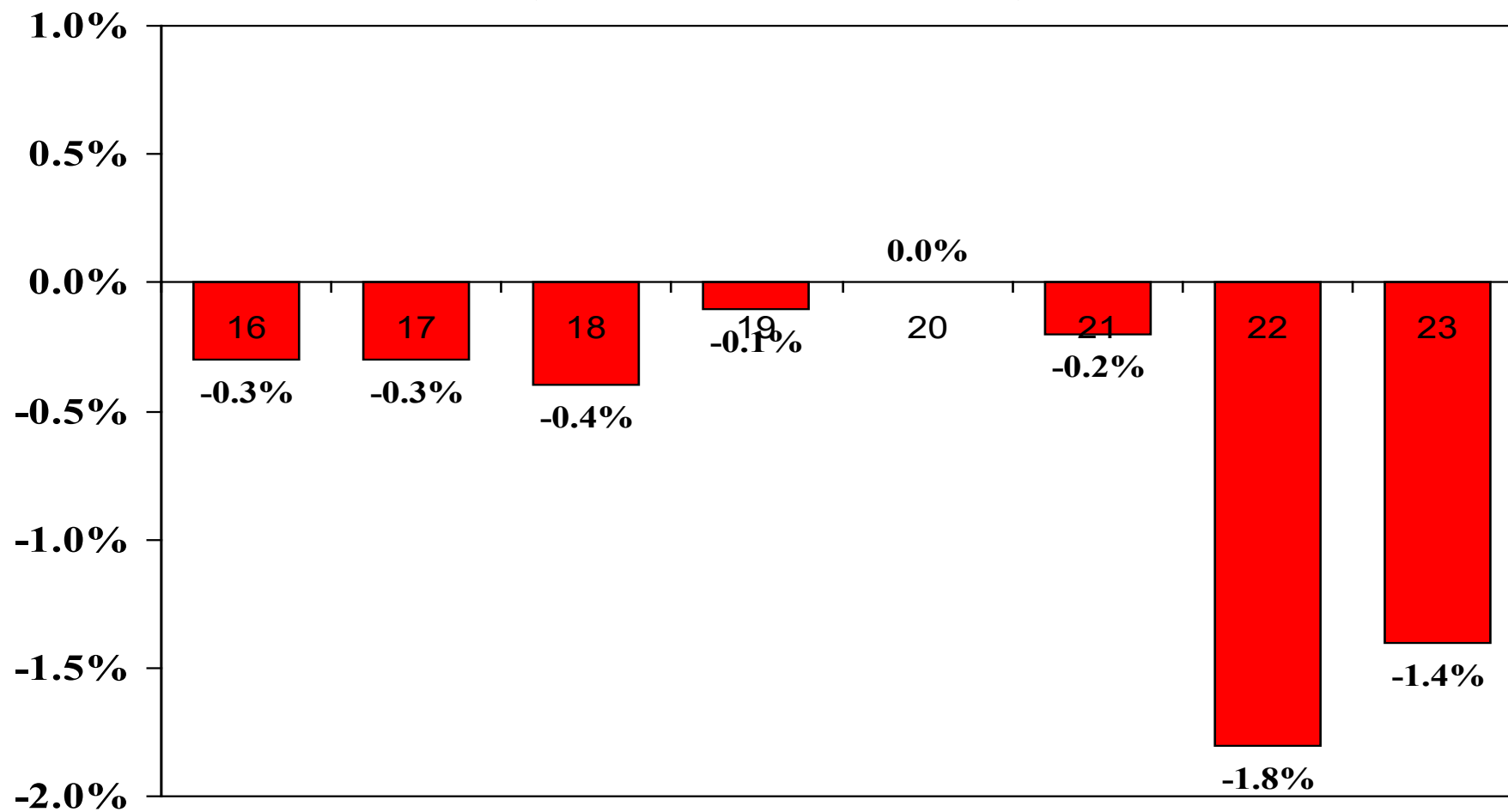
- Federal Home Loan Bank
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## Equity (Net Capital)

1. Undivided Earnings
2. Regular Reserves
3. Gains (losses) on Available For Sale (AFS) Securities



## Accumulated Unrealized Losses on AFS Securities (Percent of Assets)



# Credit Union Balance Sheet

## Assets

## Liabilities + Capital

### Cash (Reserves)

### Deposits

- Checking Accounts
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# Credit Union Balance Sheet

## Assets

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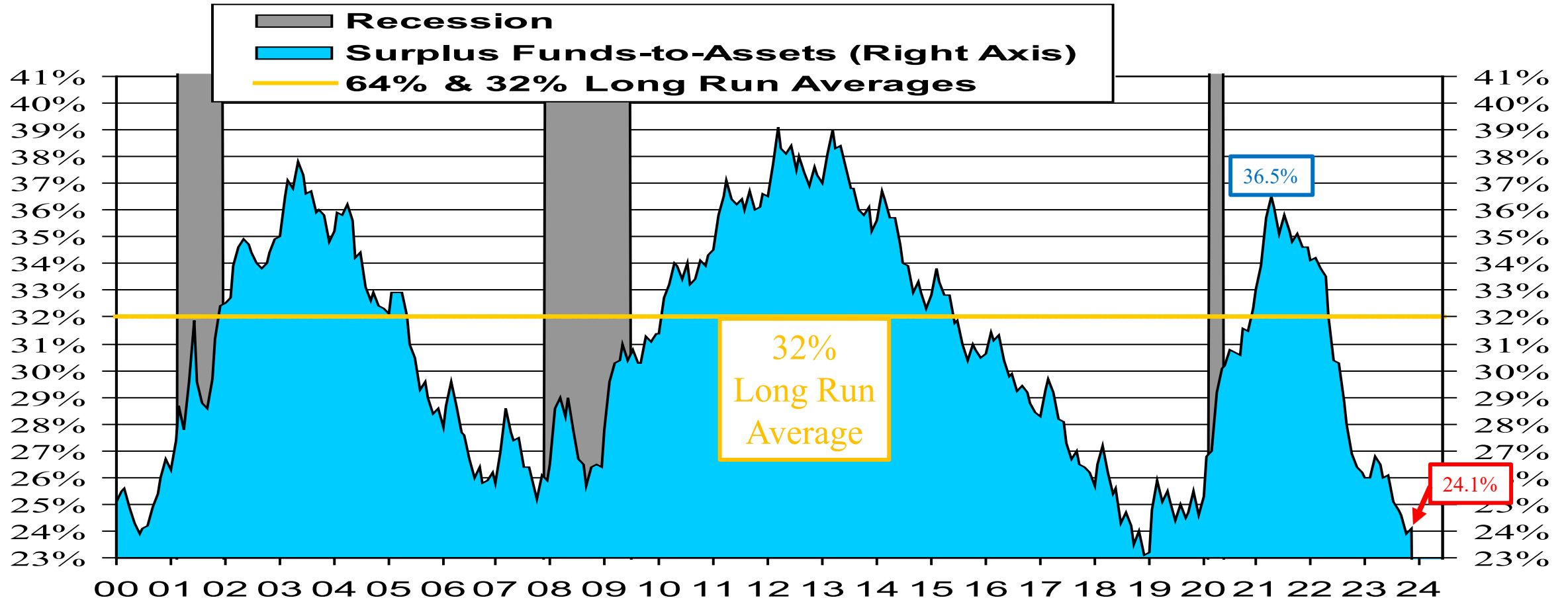
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# Investments Are Falling and Yields Are Rising

## CU Surplus Funds (Cash + Investments)



# Credit Union Balance Sheet

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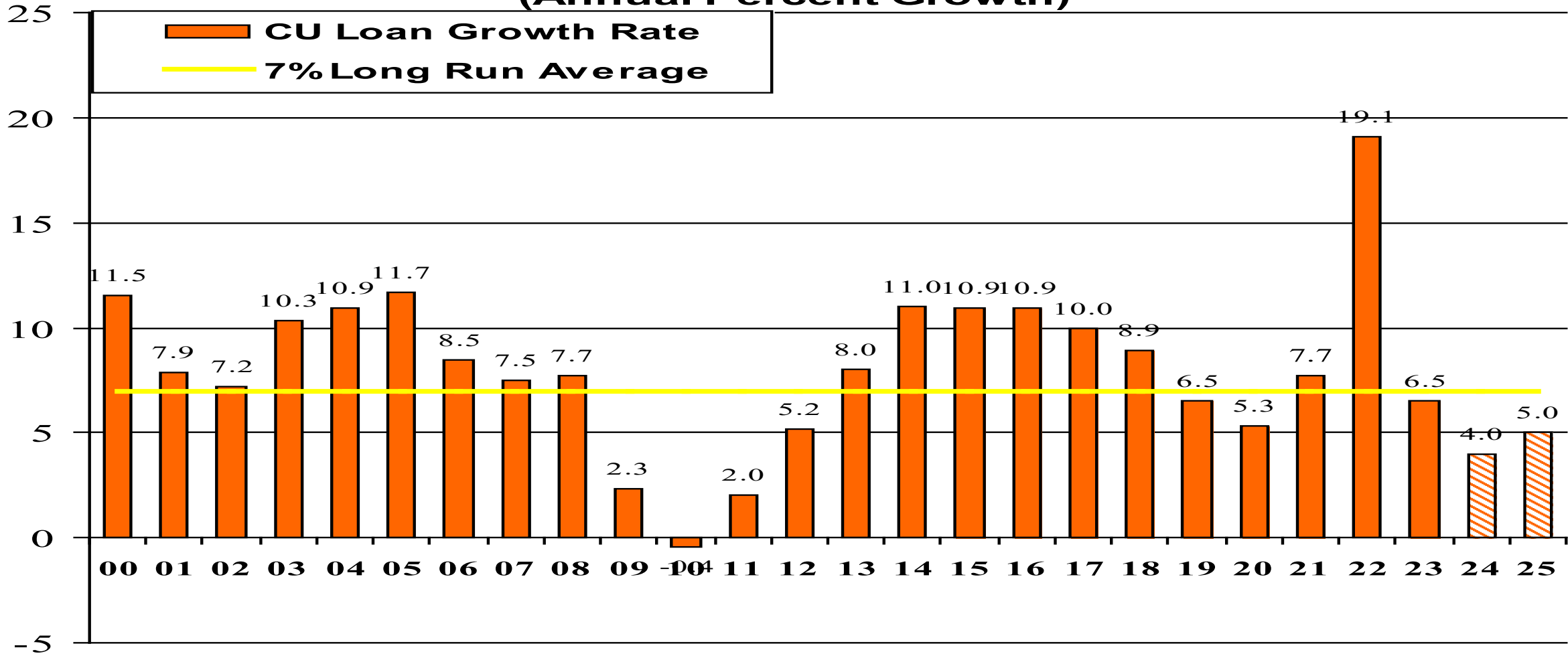
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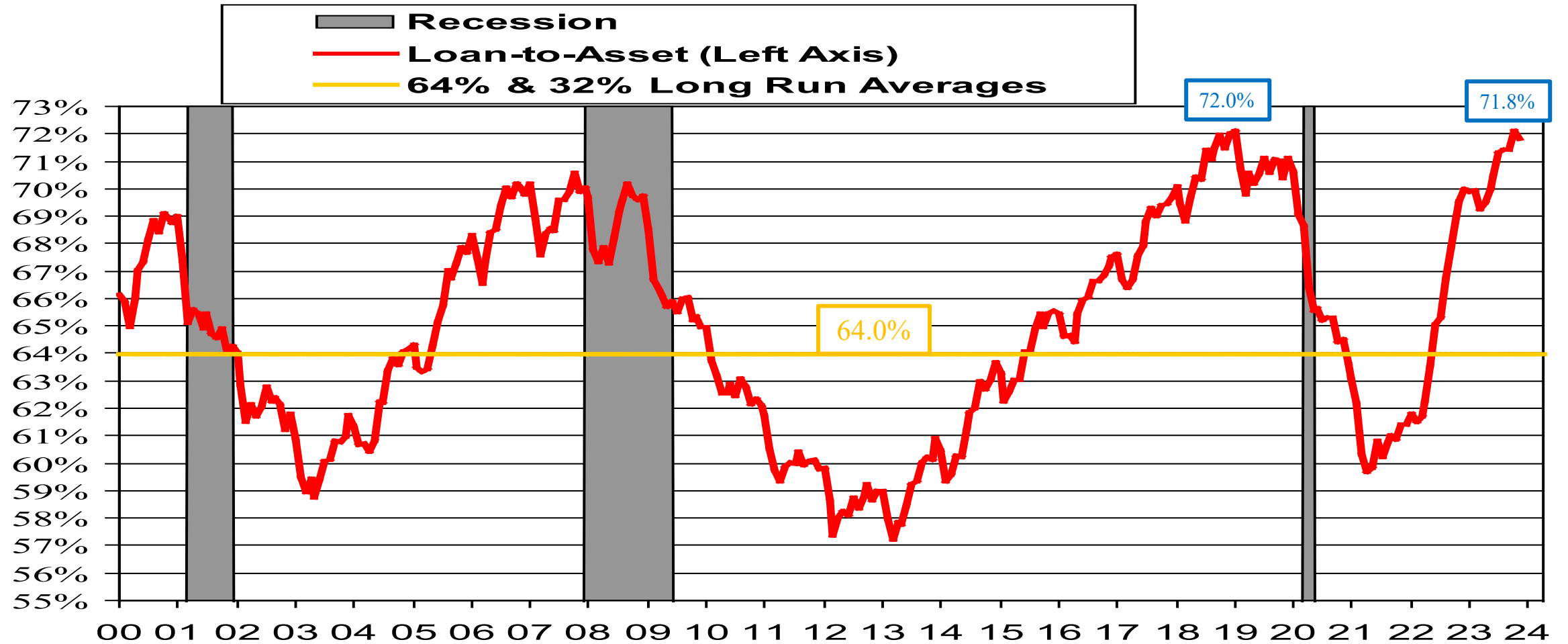
1. Undivided Earnings
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# Slowing Credit Union Loan Growth

## Credit Union Loan Growth (Annual Percent Growth)



# CU Loan to Asset Ratio





# Credit Union Balance Sheet

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Allowance for Loan Loss

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“Non progredi est regredi”

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To not go forward is to go backward

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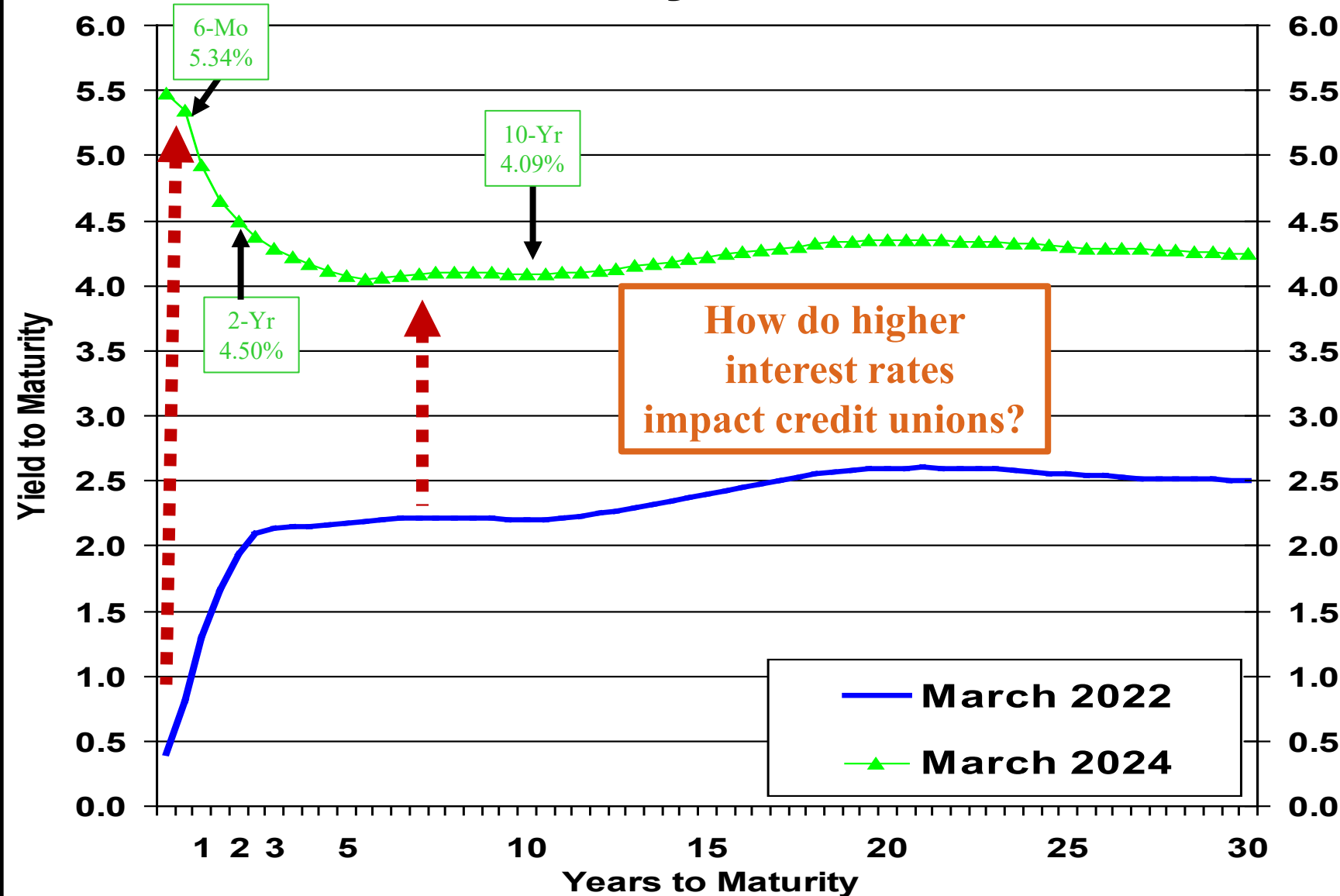
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“Non progredi est regredi”

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If you're not growing, you're dying

# Treasury Yield Curves



# Credit Union Balance Sheet

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How do higher  
interest rates  
impact credit unions?



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3. Gains (losses) on Available For Sale (AFS) Securities

↑ interest rates => ↓ Bond Prices

1. Below par market value of investments

# Credit Union Balance Sheet

## Assets

## Liabilities + Capital

### Cash (Reserves)

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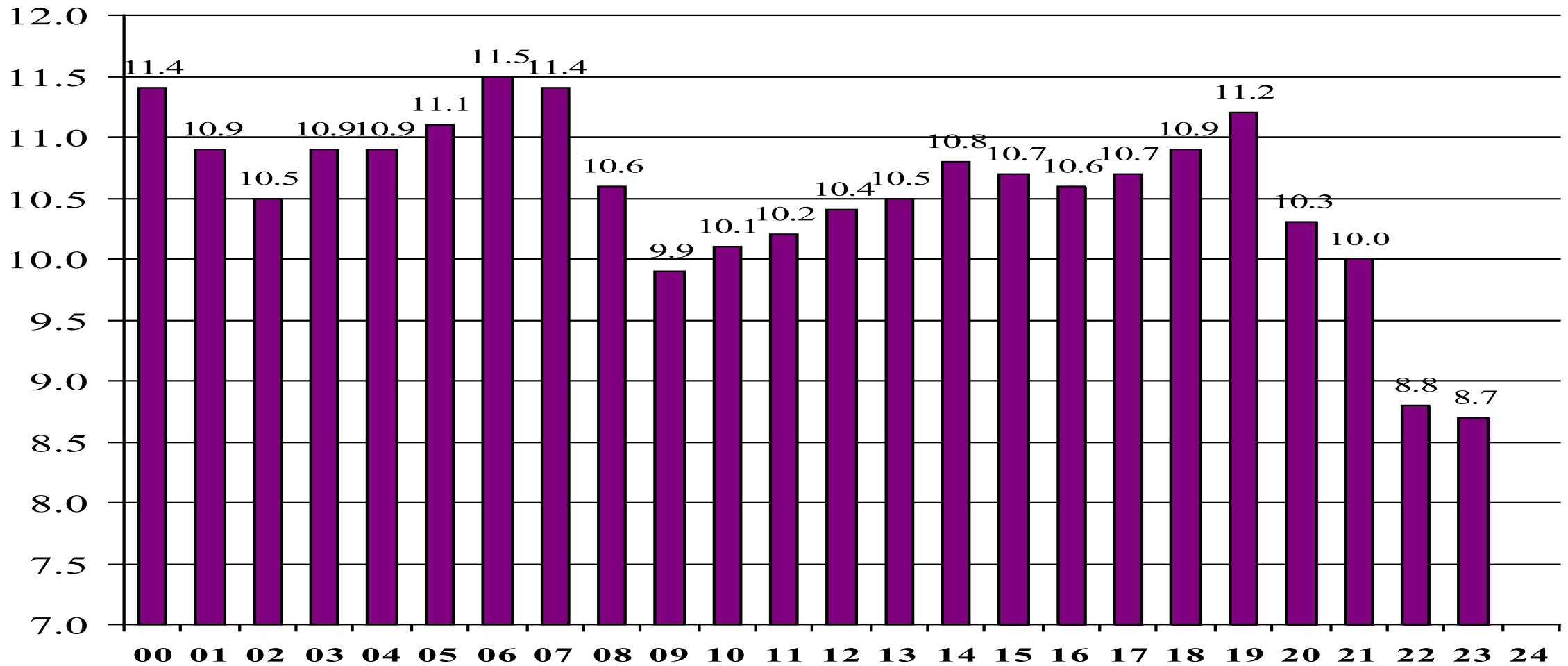
### Allowance for Loan Loss

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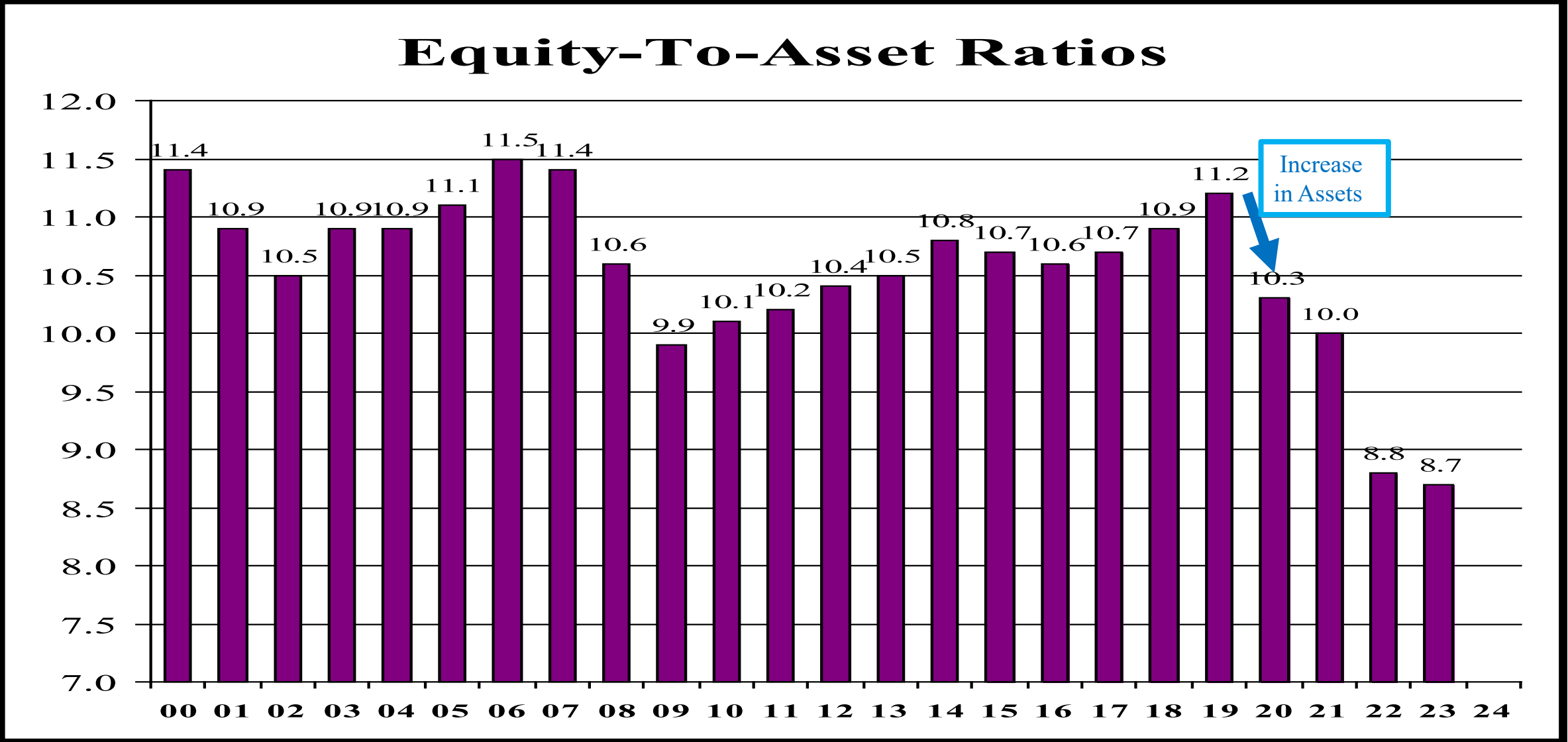
2. Falling equity-to-asset ratios

# Falling Equity Ratios

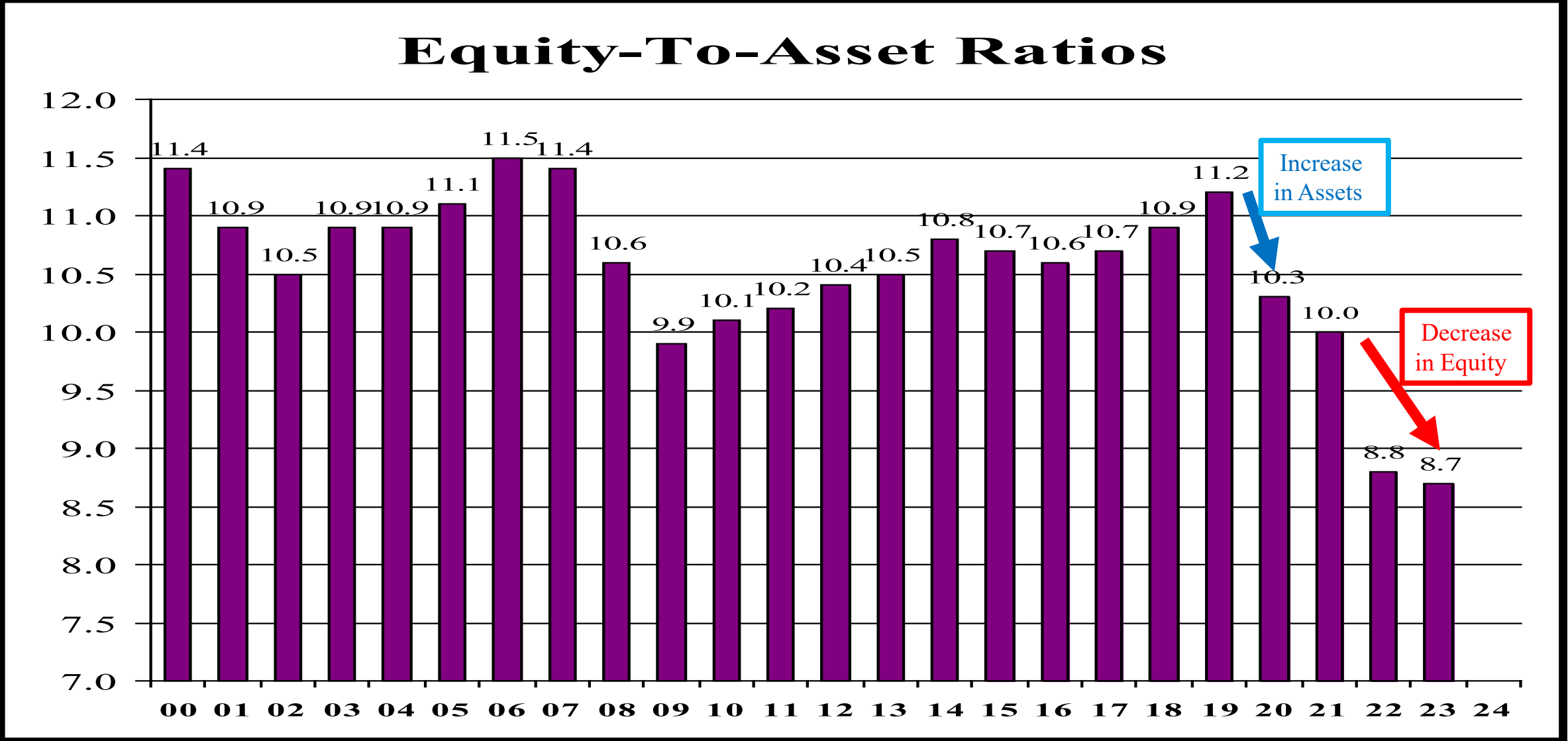
## Equity-To-Asset Ratios



# Falling Equity Ratios



# Falling Equity Ratios



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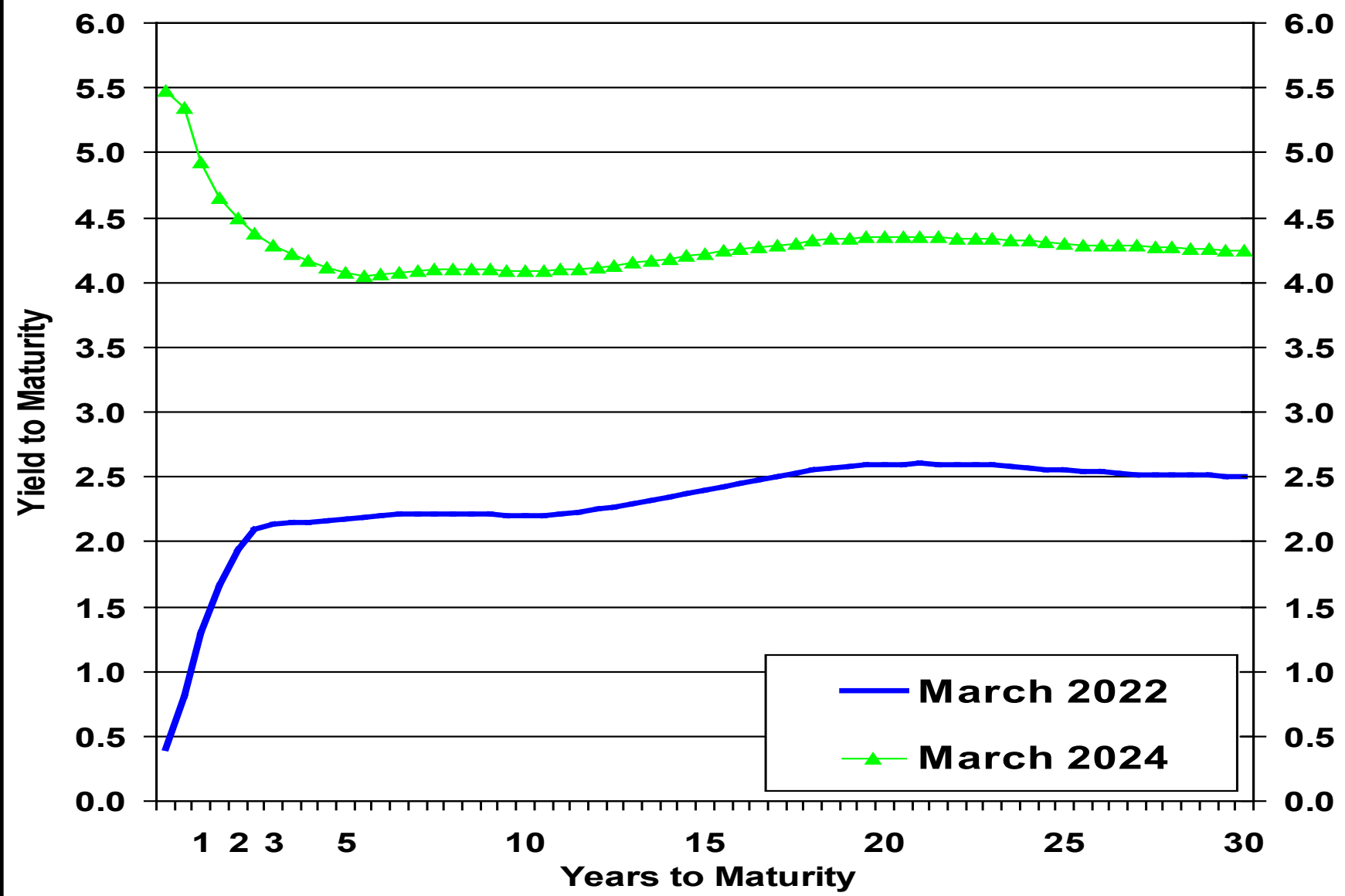
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1. Below par market value of investments

4. New investment maturities in 2024

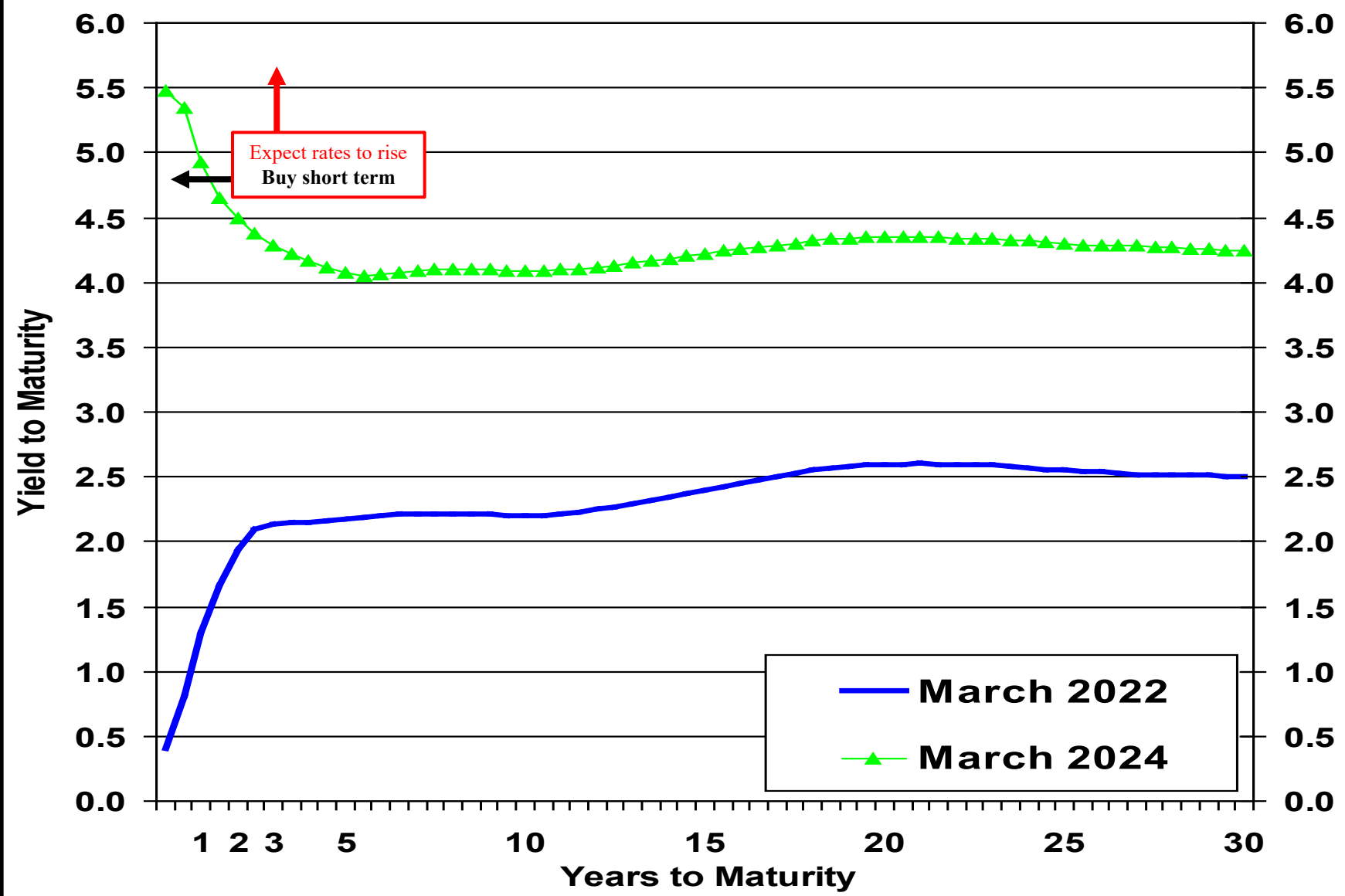
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# Treasury Yield Curves

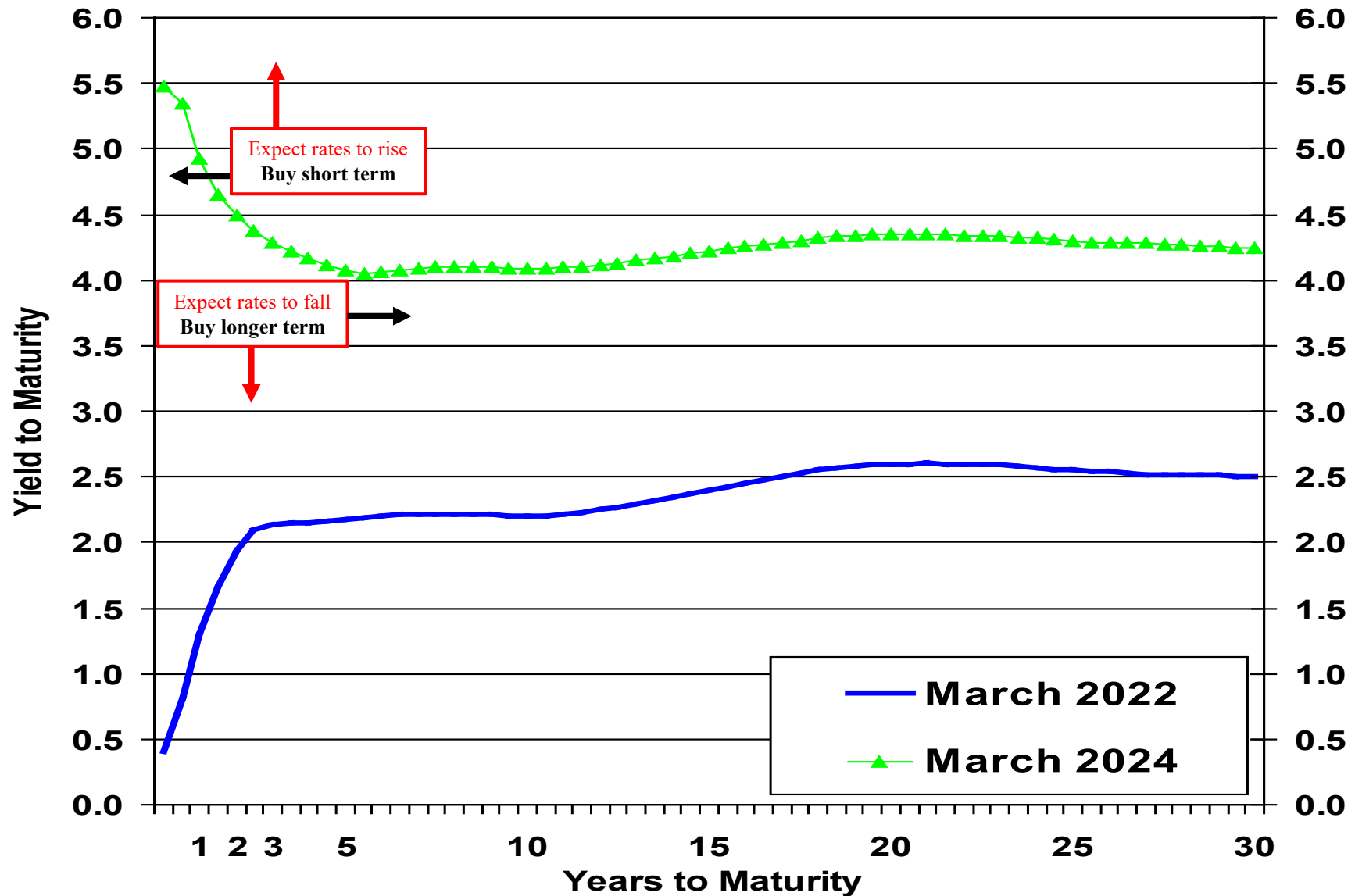




# Treasury Yield Curves



# Treasury Yield Curves



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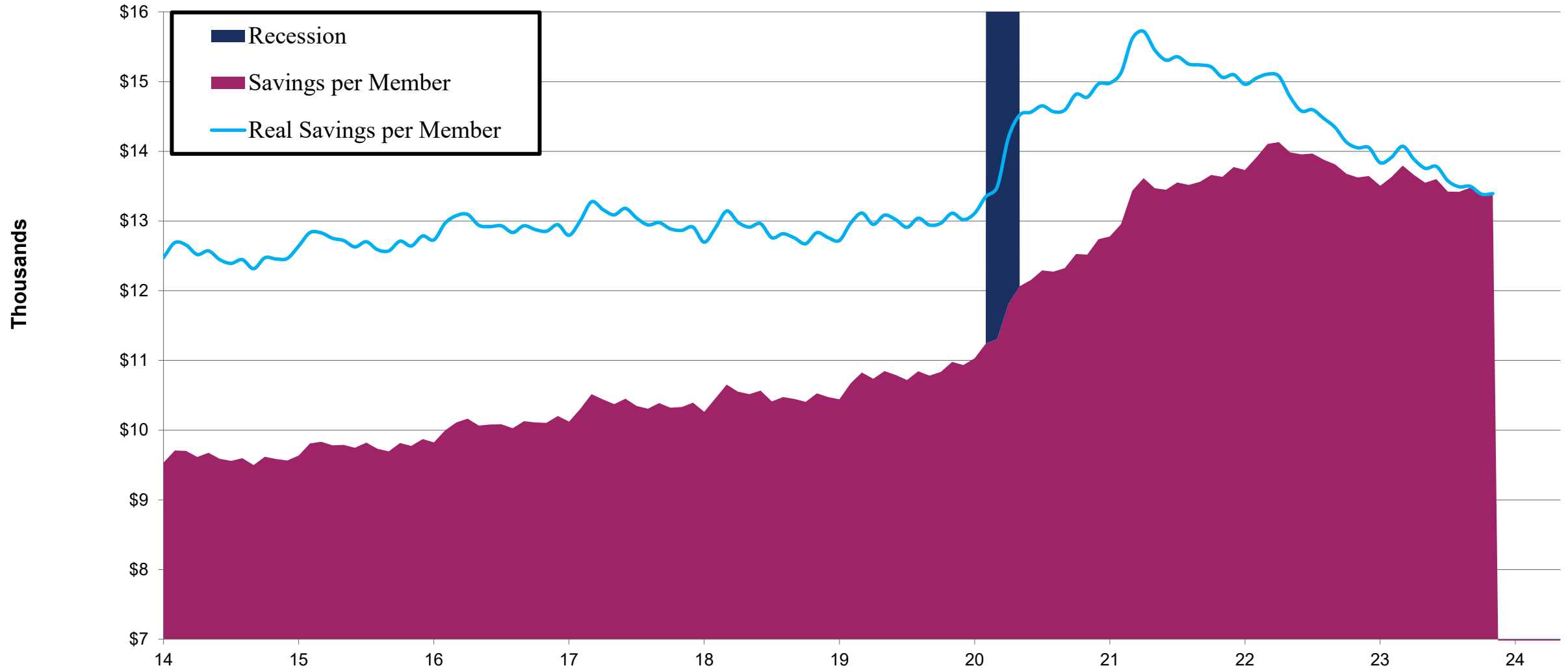
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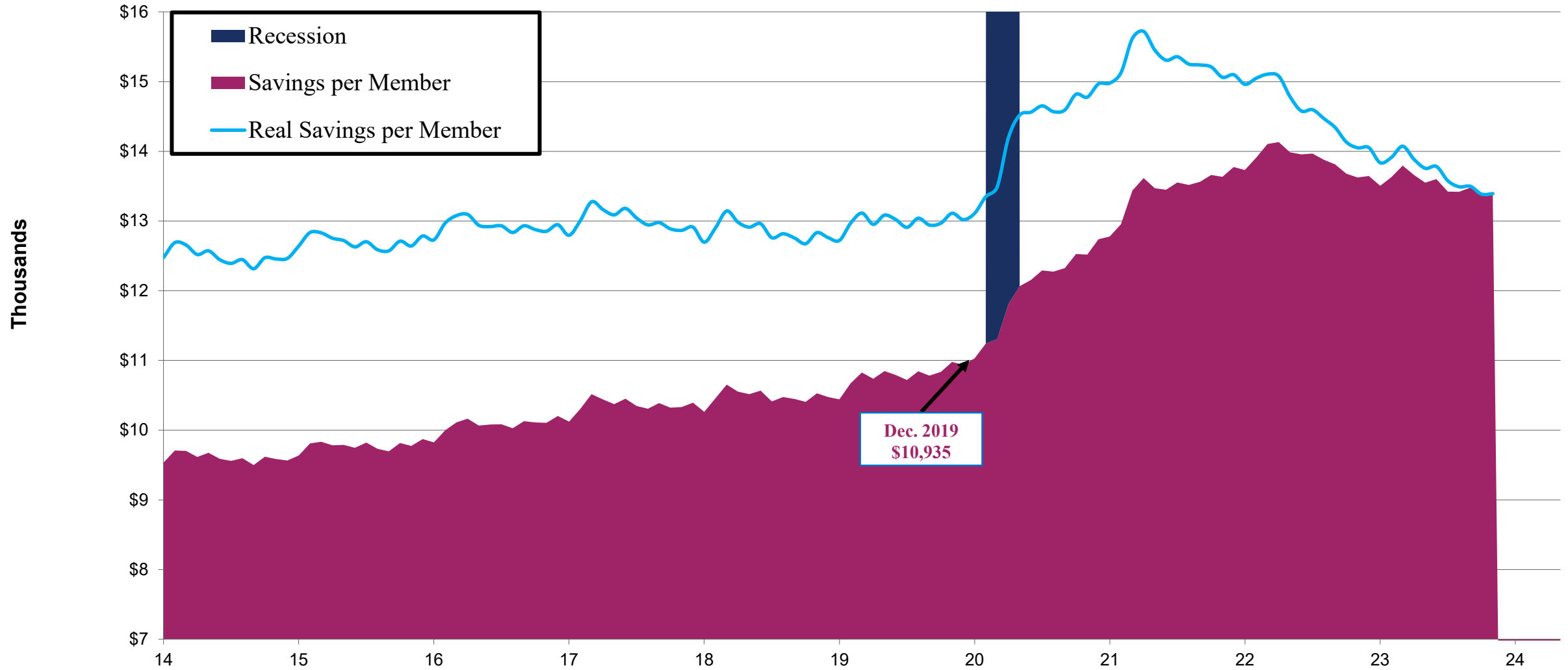
5. Members' deposit runoff/disintermediation

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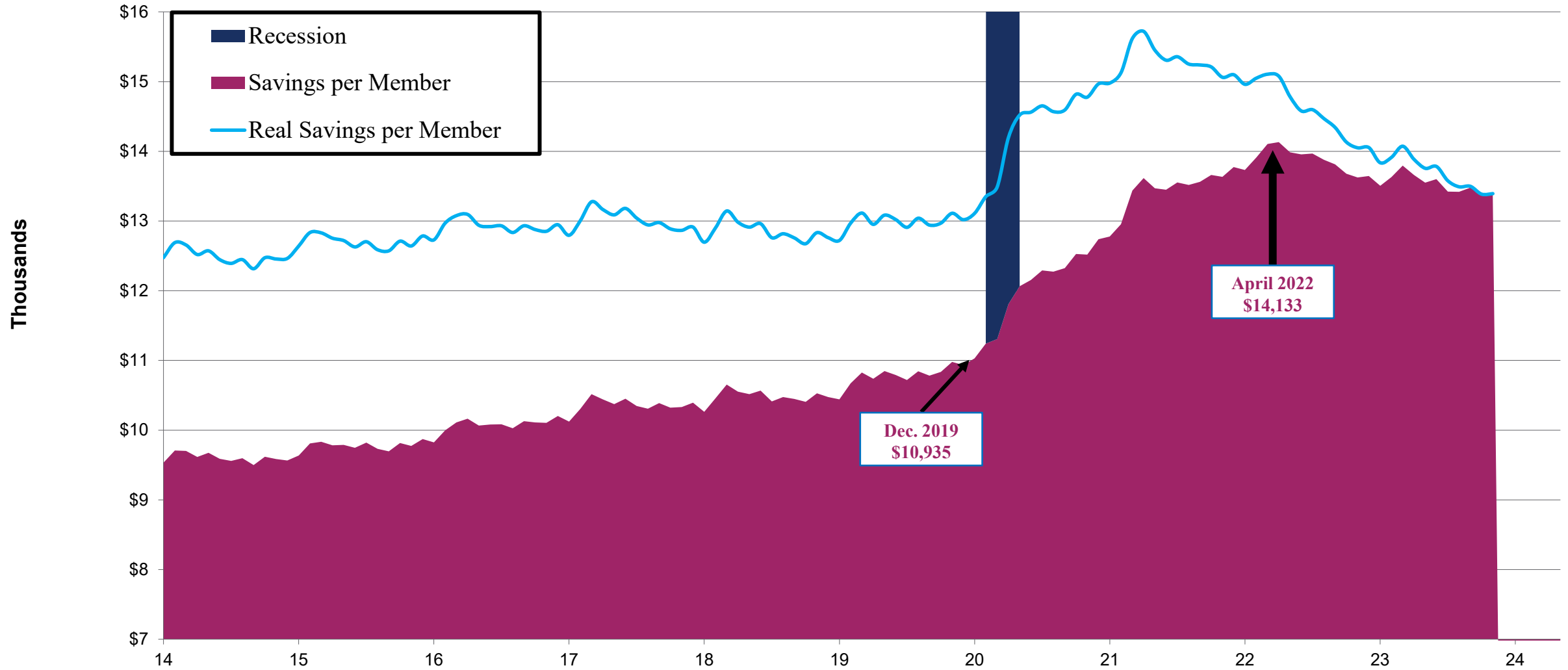
# Credit Union Savings per Member



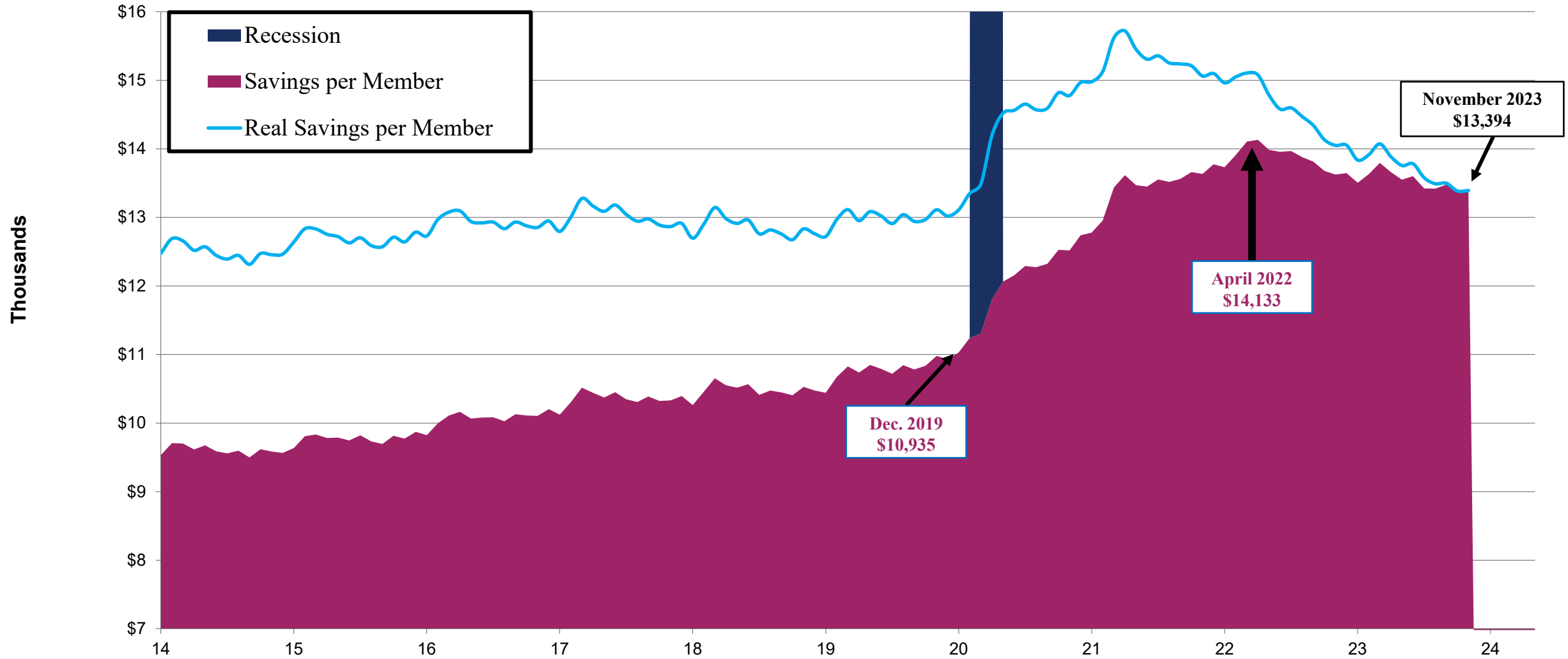
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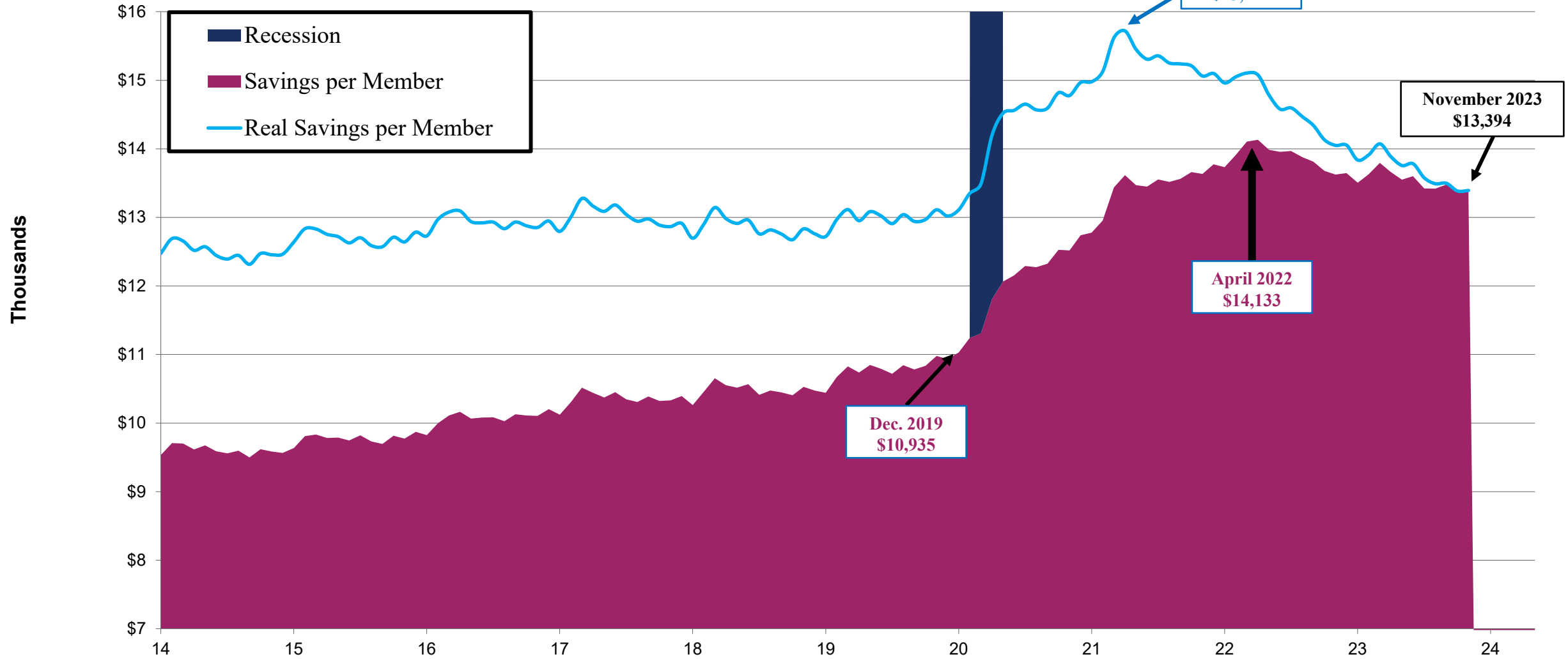
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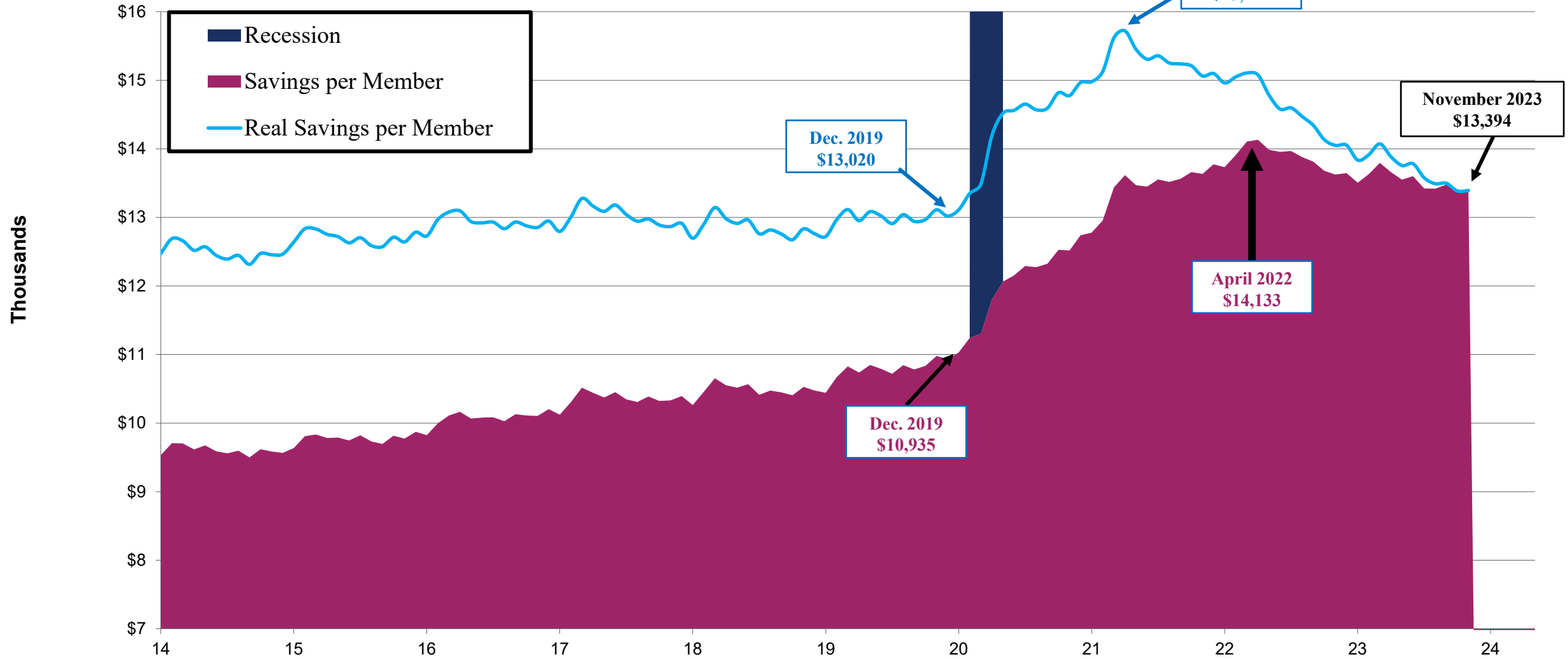


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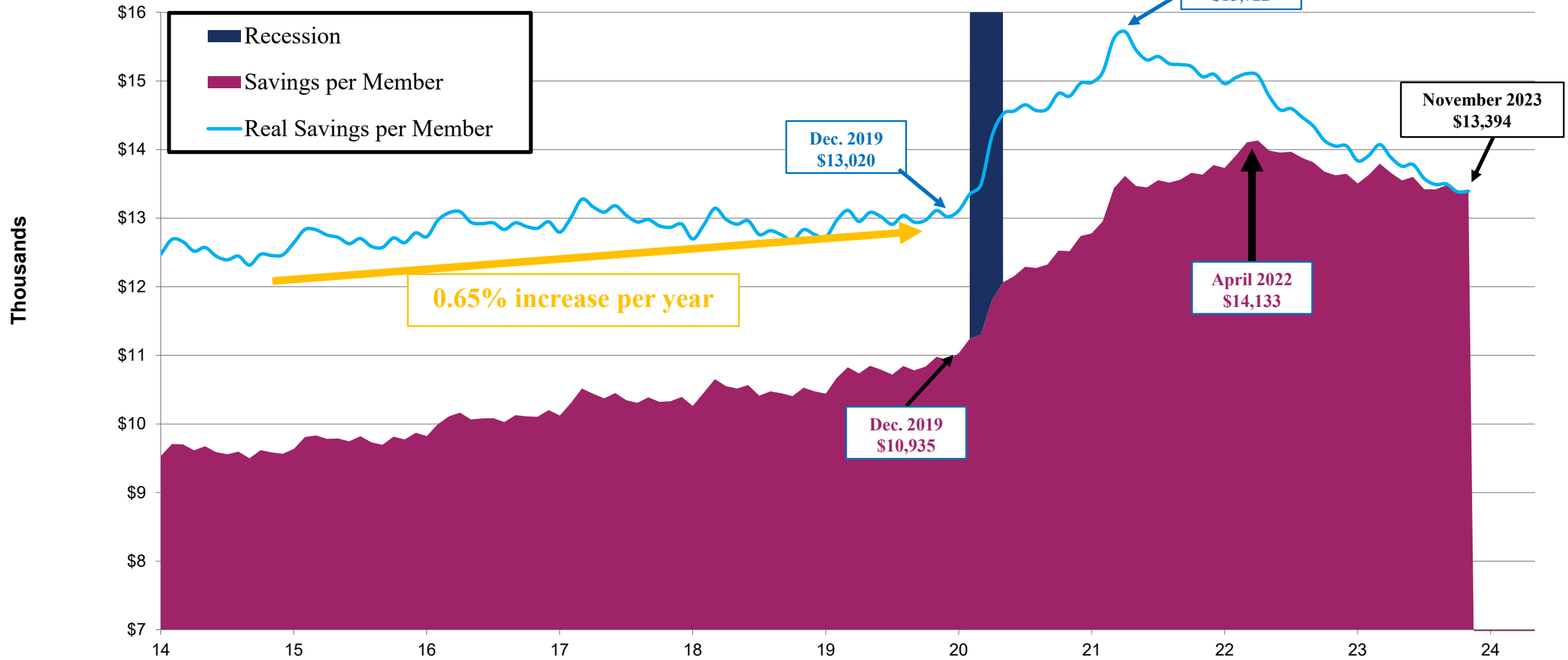




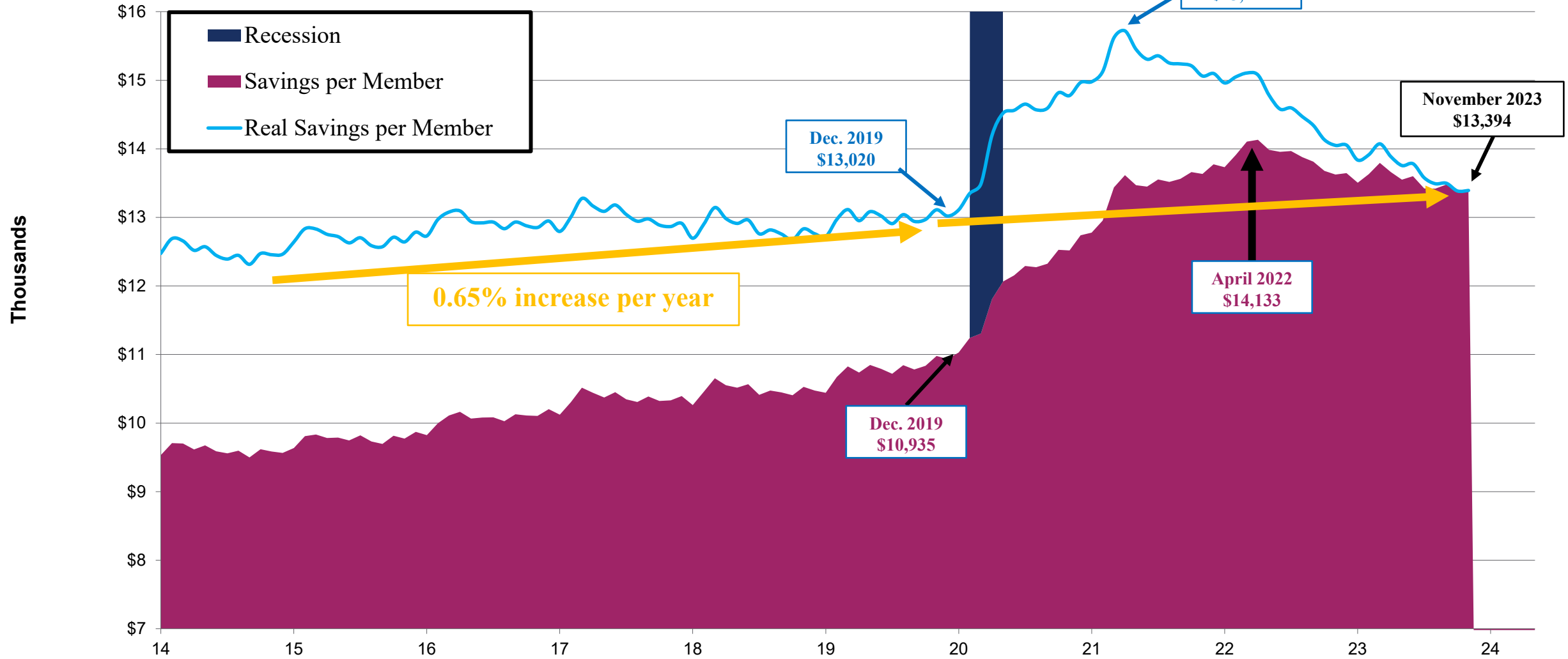
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**Short Run vs Long Run**

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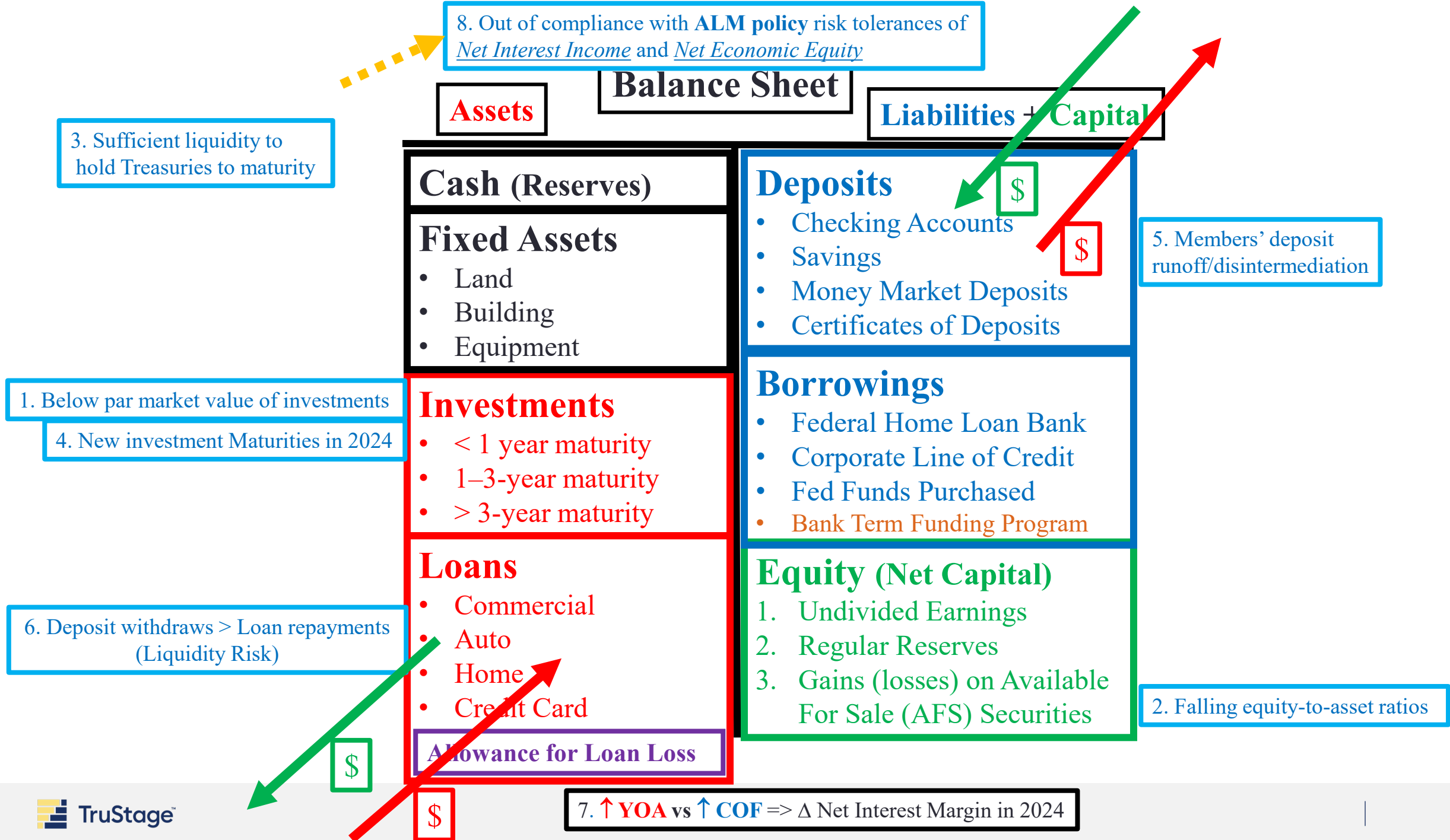
**Time**  
(the 4<sup>th</sup> dimension)  
**Short Run vs Long Run**

How long it takes for financial instrument interest rates to reprice to current market rates

2. Falling equity-to-asset ratios

7.  $\uparrow$  YOA vs  $\uparrow$  COF  $\Rightarrow \Delta$  Net Interest Margin in 2024





8. Out of compliance with ALM policy risk tolerances of *Net Interest Income* and *Net Economic Equity*

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9. Investigate market pricing for potential asset sales

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10. Deposit pricing in a rapidly rising interest rate environment

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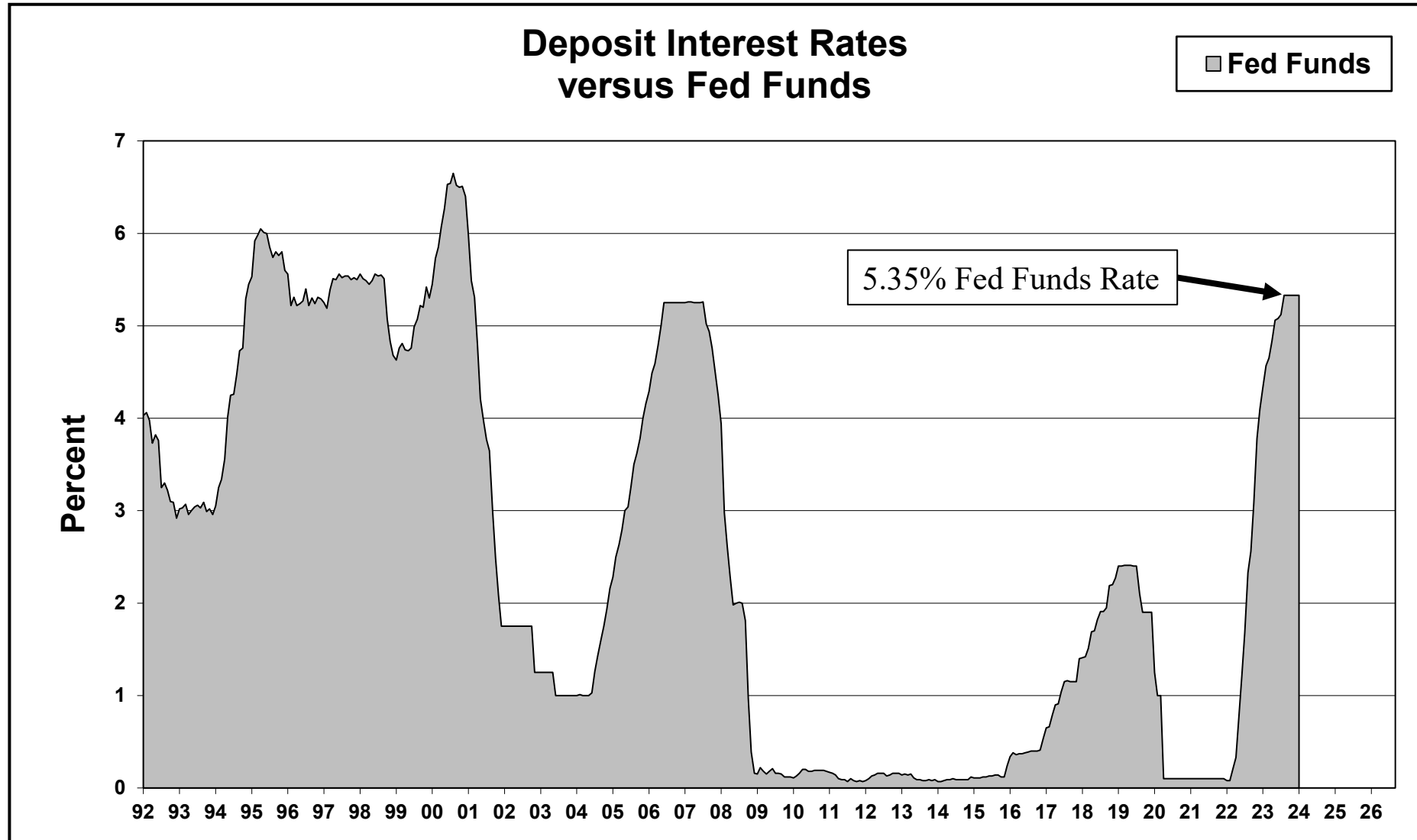
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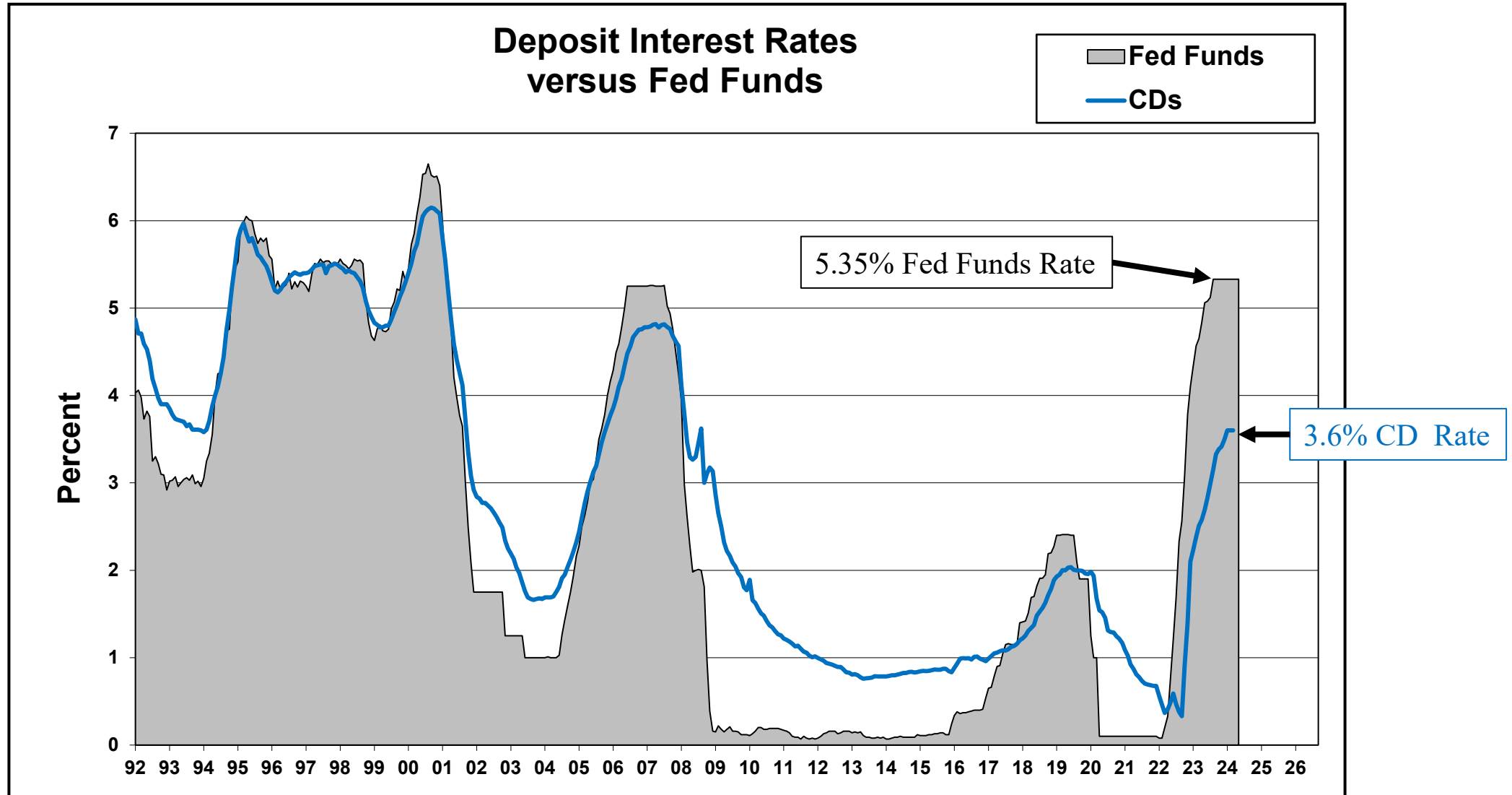
2. Falling equity-to-asset ratios

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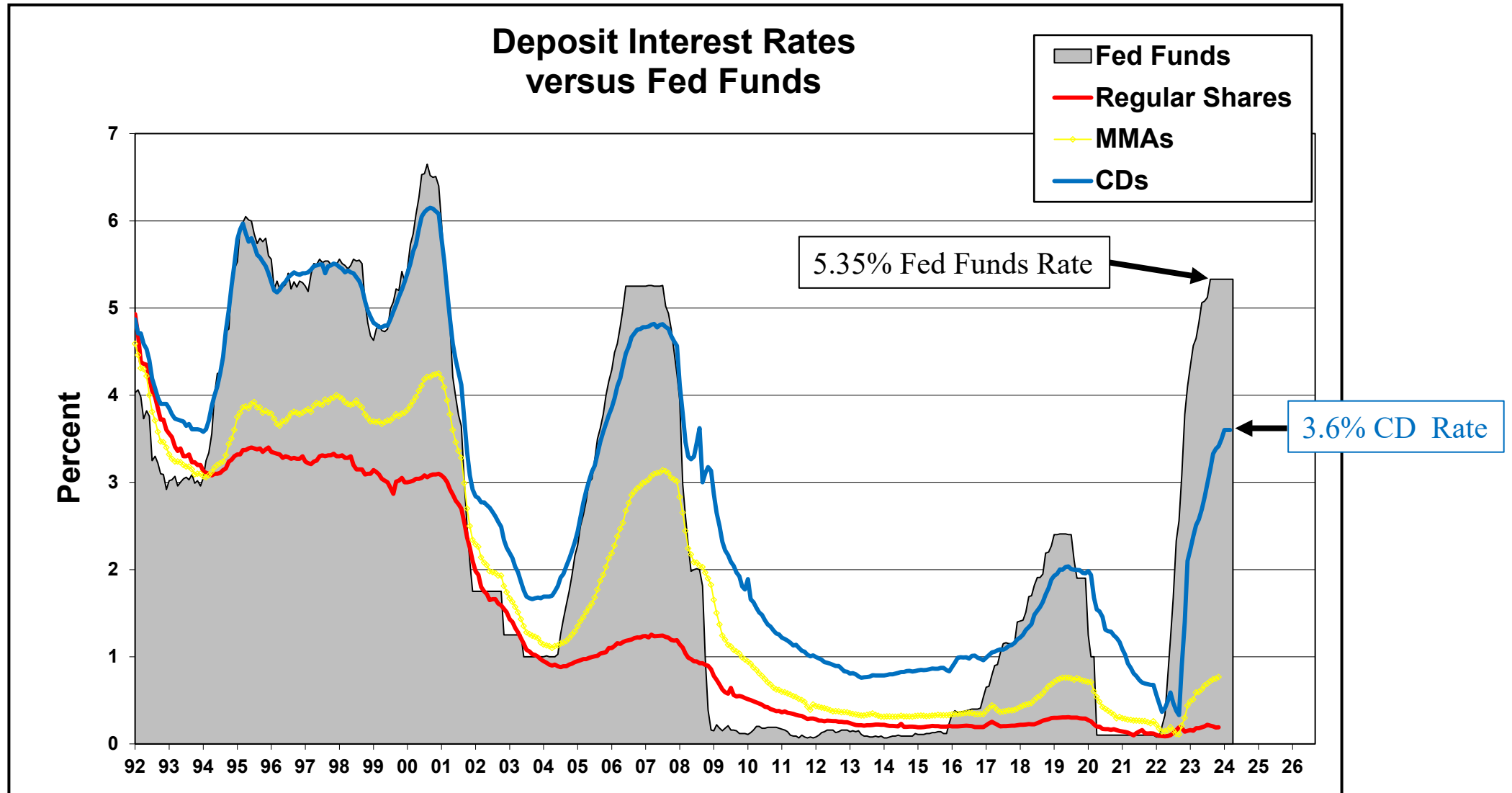
# Rising Fed Funds Interest Rate and Deposit Pricing



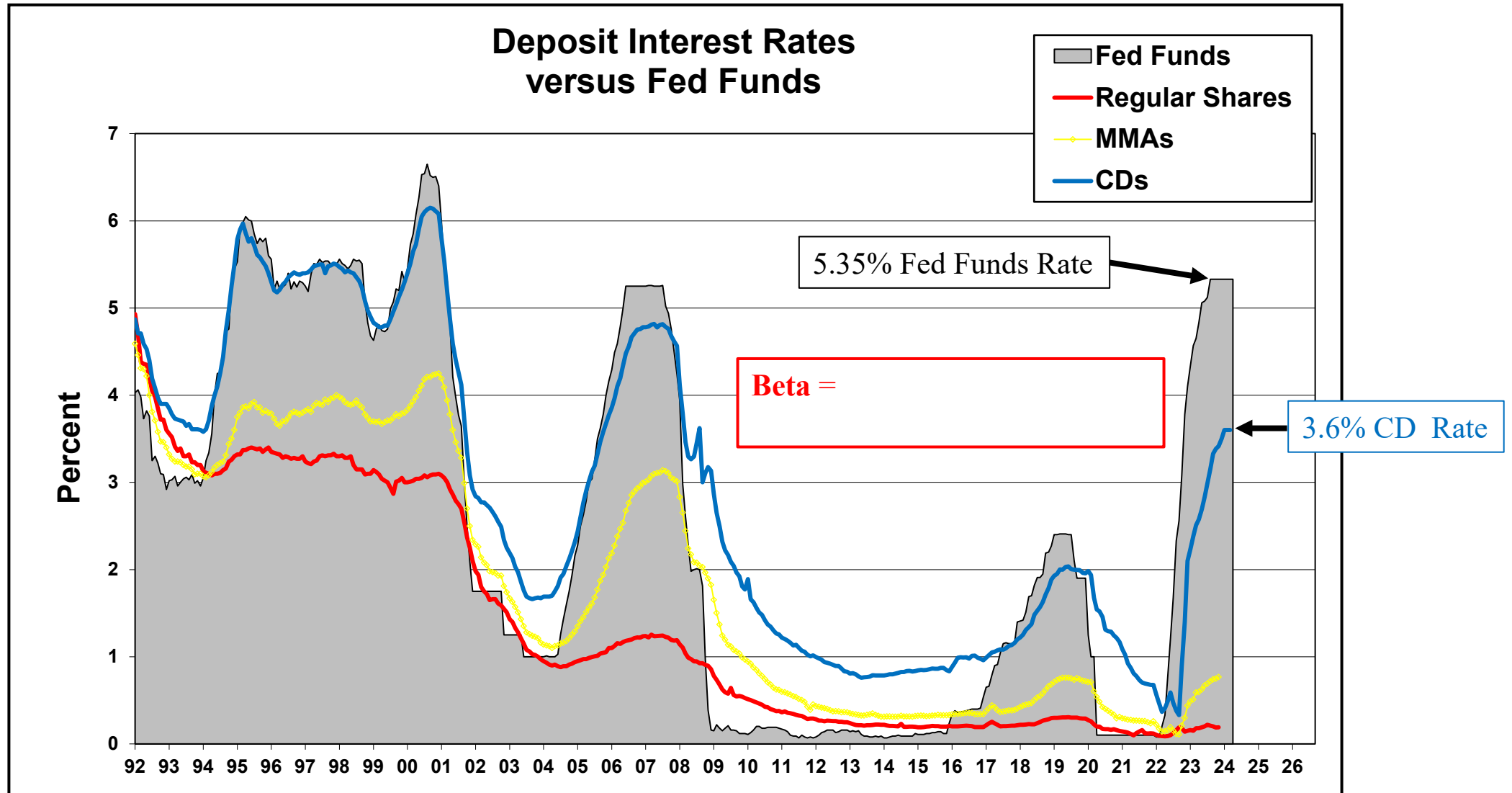
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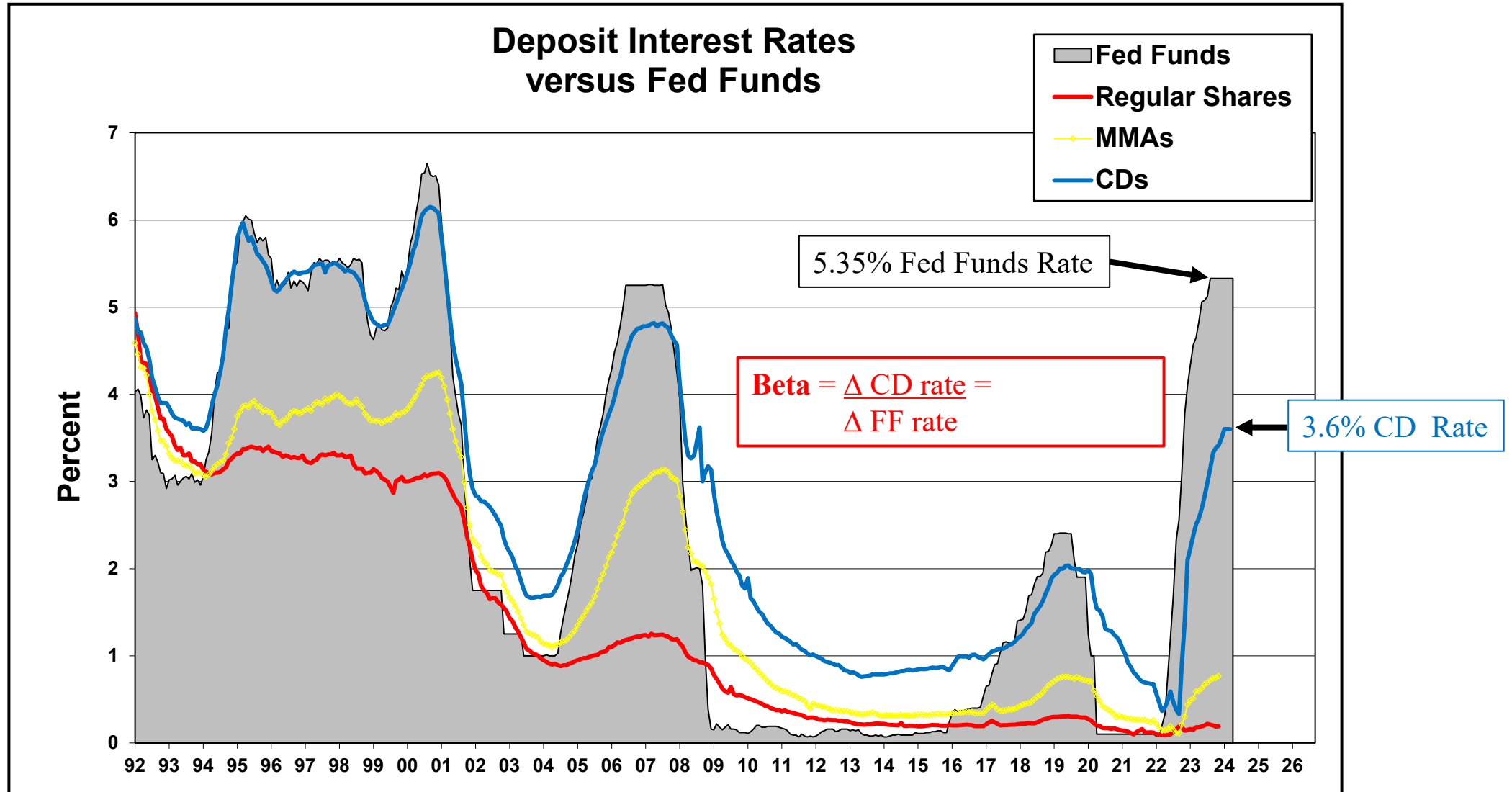
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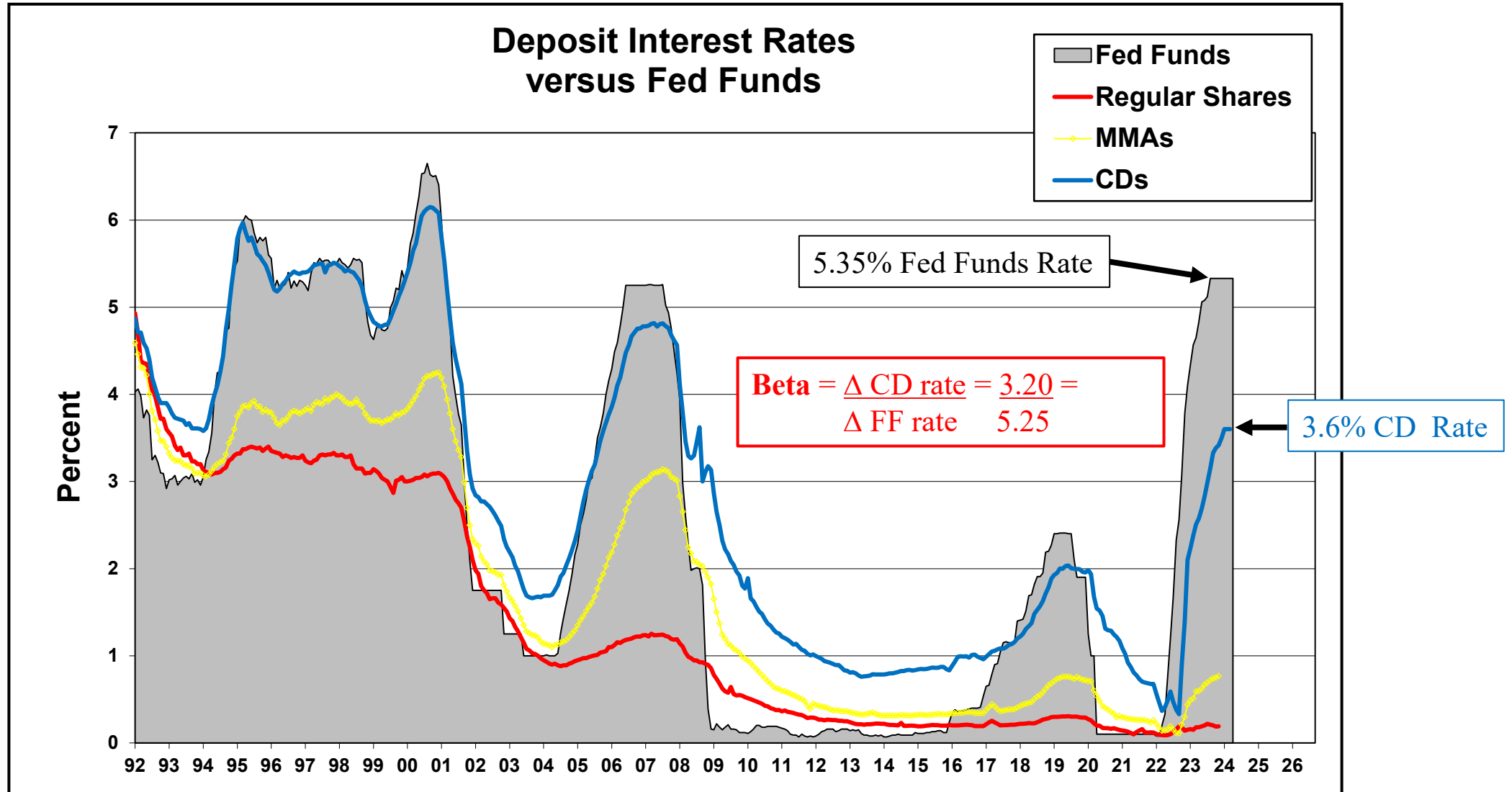


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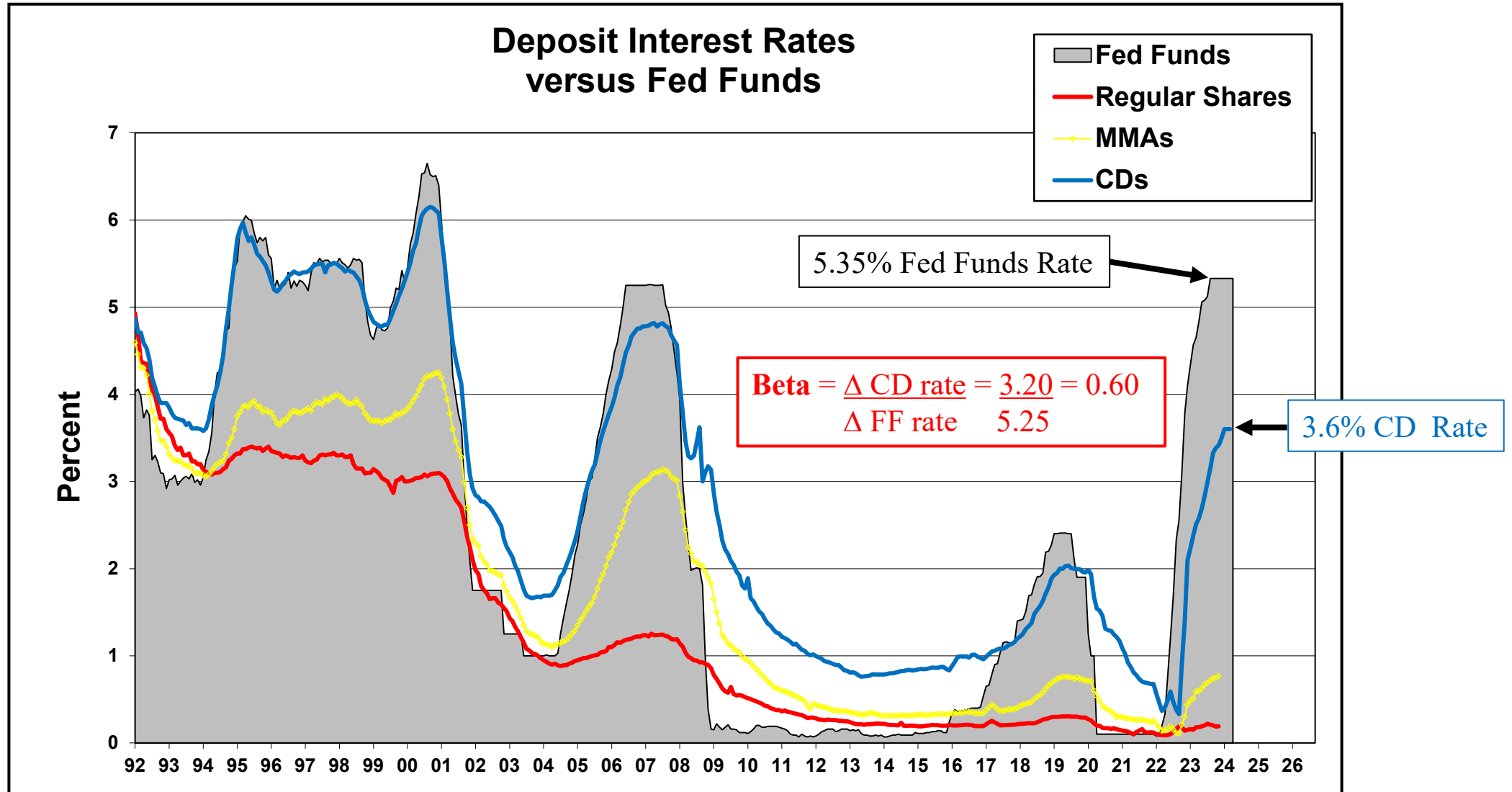




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11. Rely on wholesale borrowings to maintain sufficient liquidity

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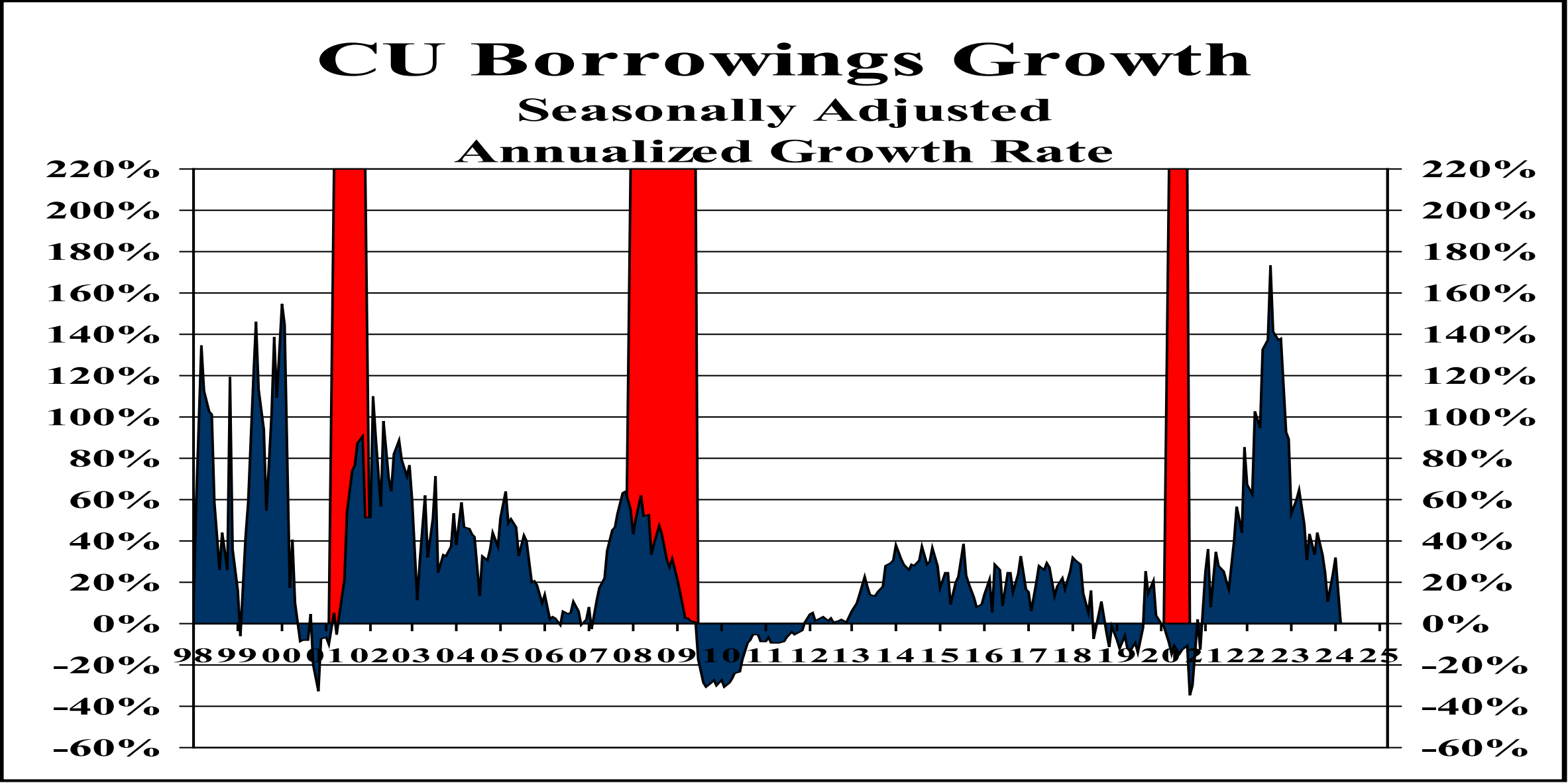
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# Resurgent Borrowings



# Limerick of the Day

There once was a credit union that had quite a scare

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For their liquidity seemed quite rare

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# Limerick of the Day

There once was a credit union that had quite a scare  
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And more cash in their bones  
They managed to keep their head above the despair.

# Economic Update Summary For 2024

1. Trend economic growth for the next year

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5. Credit union loan growth slowing in 2024
6. Mortgage originations rising 10% as interest rates fall 1 percentage point

# Economic Forecast

April 2024

	Past results		Actual/ <b>Forecasts</b>					
	Previous 10 Yr. Avg	2023	2024 Q1	2024 Q2	2024 Q3	2024Q4	2024	<b>2025</b>
<b>Growth rates:</b>								
Economic Growth (% chg GDP)*	2.3%	2.5%	2.3%	1.8%	1.6%	1.8%	2.6%	1.8%
Inflation (CPI, 12 mth % chg)	2.8%	3.3%	3.5%	3.4%	3.2%	3.0%	3.0%	2.5%
Unemployment Rate (BLS)	4.5%	3.7%	3.8%	3.9%	4.0%	4.0%	4.0%	4.3%
Federal Funds Rate (effective)	1.45%	5.33%	5.33%	5.33%	5.10%	4.90%	4.90%	4.20%
10-Year Treasury Rate	2.41%	3.88%	4.20%	4.20%	4.10%	4.10%	4.10%	4.00%
10-Year-Fed Funds Spread	0.96%	-1.45%	-1.13%	-1.13%	-1.00%	-0.80%	-0.80%	-0.20%

\*Percent change, annualized rate for quarterly and average for annual . All other numbers are end-of-period values.



# Credit Union Forecast

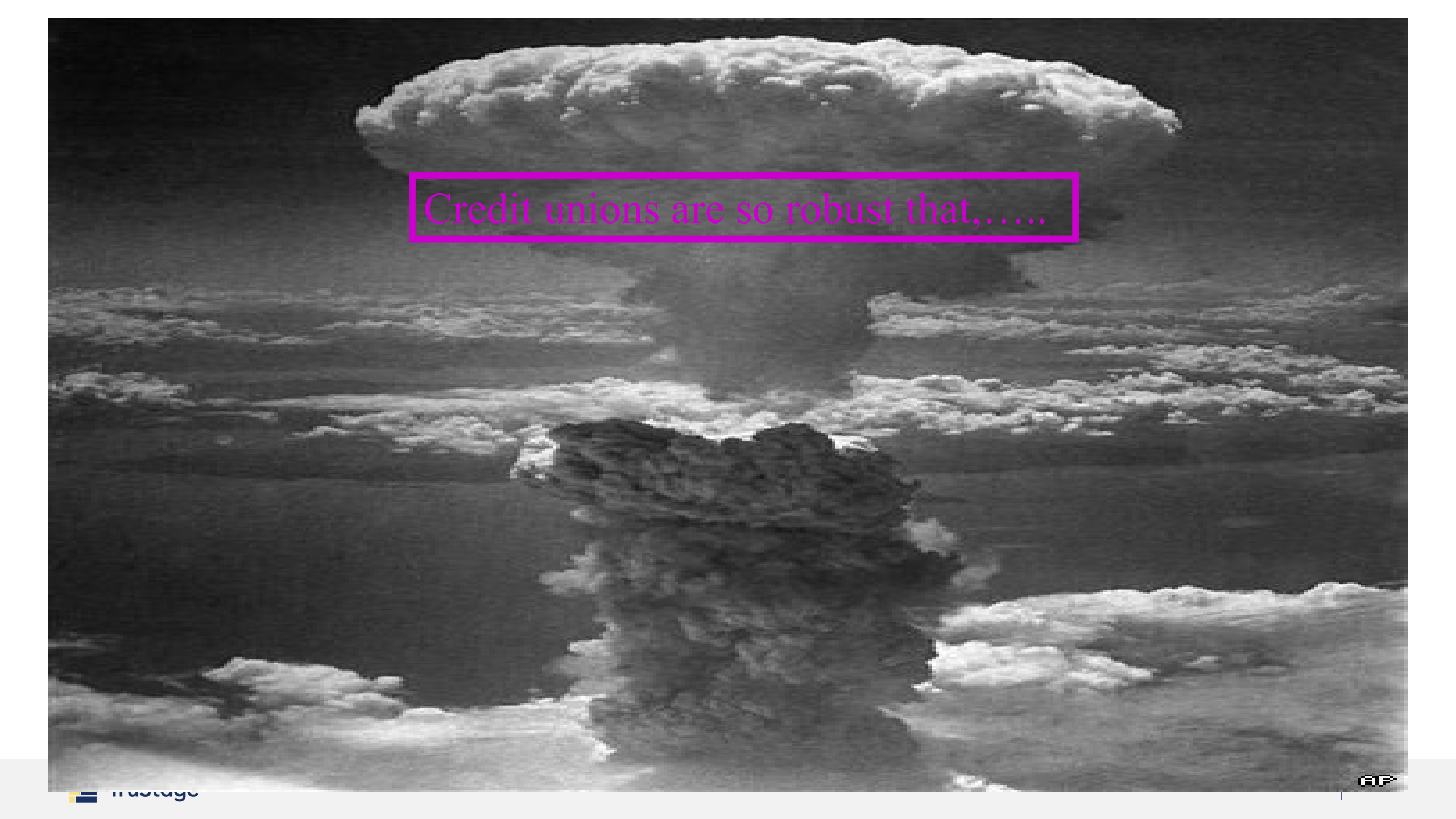
April 2024

	Past Results		Actual/forecasts				Annual forecasts	
	10 Yr Average	2023	2023 Q1	2023 Q2	2023 Q4	2023 Q4	2023	2024
<b>Growth rates:</b>								
Savings growth	7.6%	1.6%	2.5%	-0.4%	-0.1%	0.5%	3.0%	5.0%
Loan growth	9.5%	6.2%	0.5%	1.0%	1.5%	1.0%	4.0%	5.0%
Asset growth	7.9%	4.0%	2.5%	0.5%	1.0%	1.0%	5.0%	5.5%
Membership growth	3.7%	2.9%	0.7%	0.7%	0.8%	0.3%	2.5%	2.8%
<b>Liquidity:</b>								
Loan-to-share ratio**	79.7%	85.1%	80.9%	84.8%	86.0%	86.4%	86.4%	86.0%
<b>Asset quality:</b>								
Delinquency rate**	0.72%	0.83%	0.80%	0.85%	0.87%	0.90%	0.90%	0.90%
Net charge-off rate*	0.49%	0.61%	0.60%	0.63%	0.65%	0.67%	0.65%	0.65%
<b>Earnings:</b>								
Return on average assets (ROA)*	0.83%	0.68%	0.46%	0.46%	0.57%	0.56%	0.50%	0.70%
<b>Capital adequacy:</b>								
Net worth ratio**	10.9%	10.7%	10.6%	10.6%	10.7%	10.7%	10.7%	10.8%

\*Quarterly data, annualized. \*\*End of period ratio. Net worth forecast does not account for CECL Provision

# Questions?

Credit unions are so robust that,.....

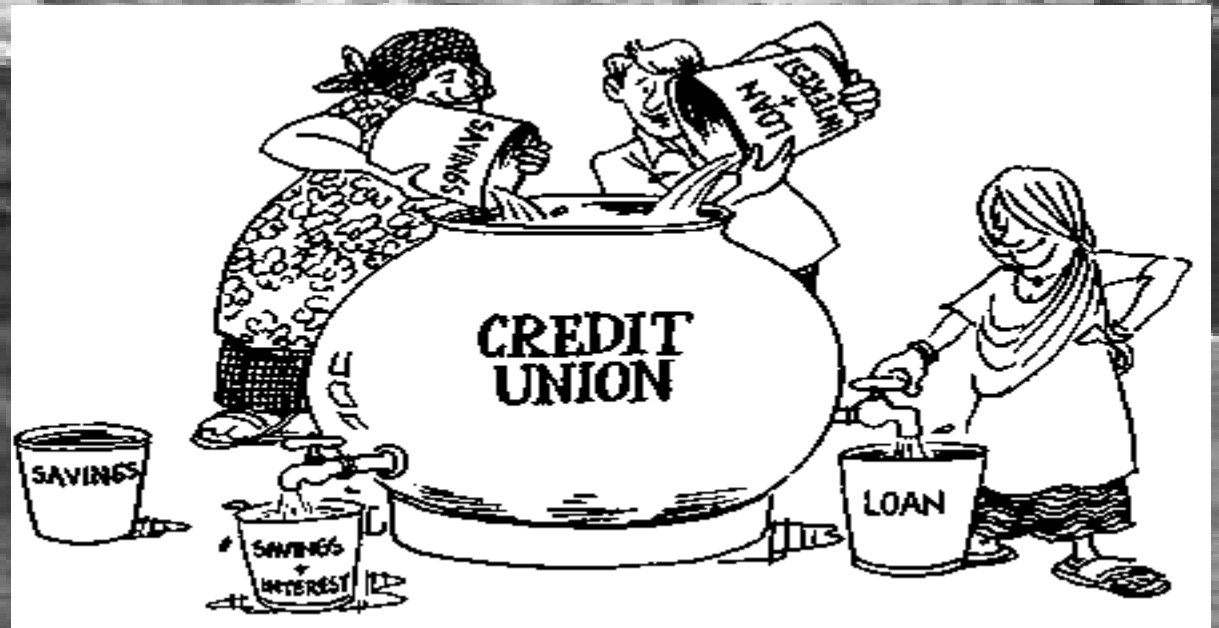
A black and white photograph of a nuclear explosion's mushroom cloud. The cloud has a large, billowing, white top that spreads out like a mushroom cap, with a dark, dense column of smoke and debris rising from the base. The background is a dark, cloudy sky.

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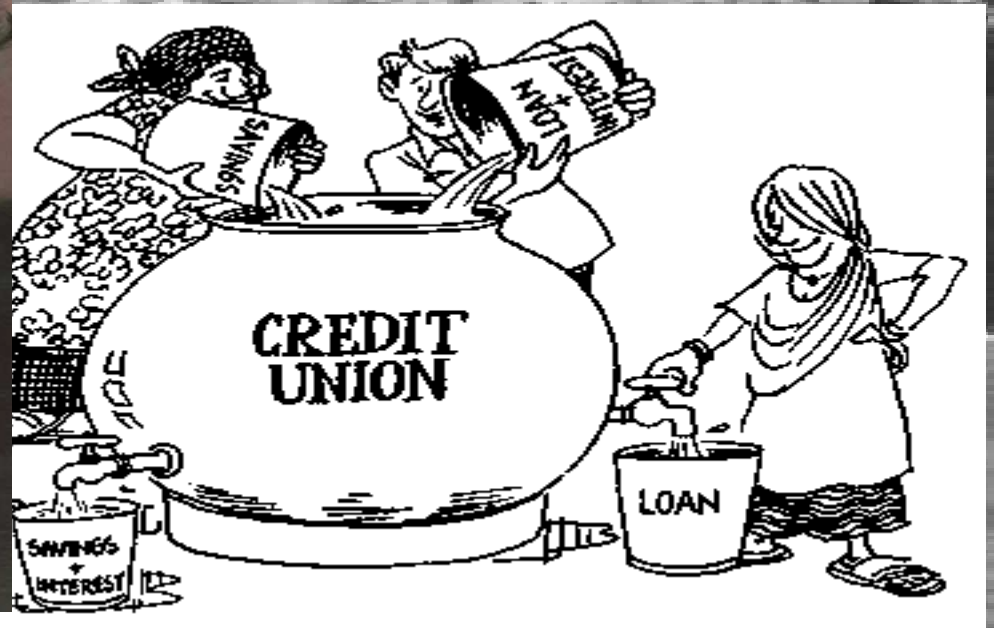
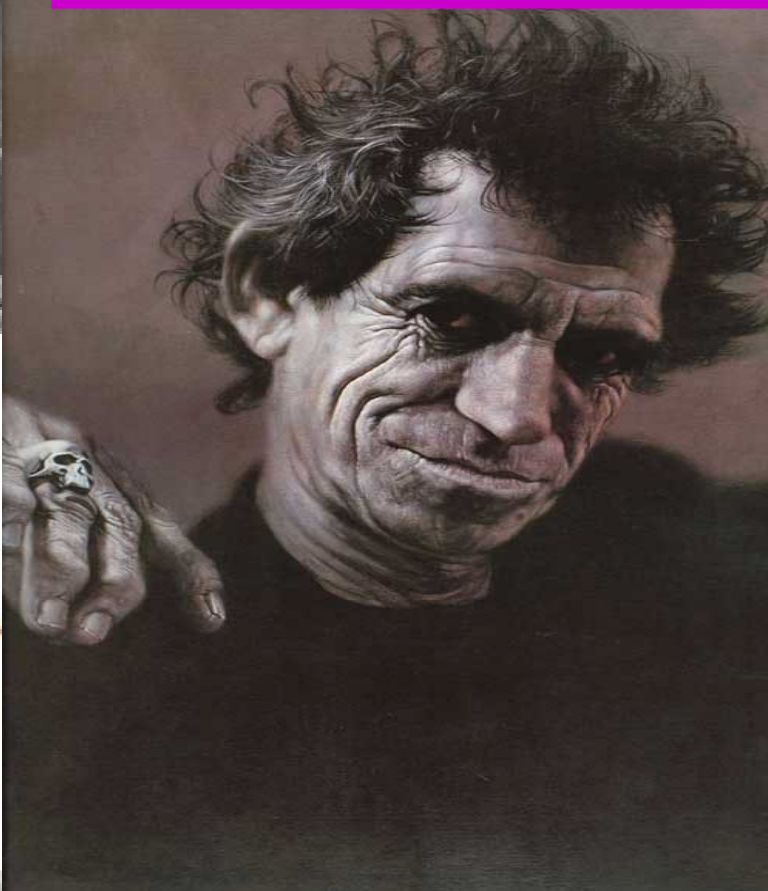
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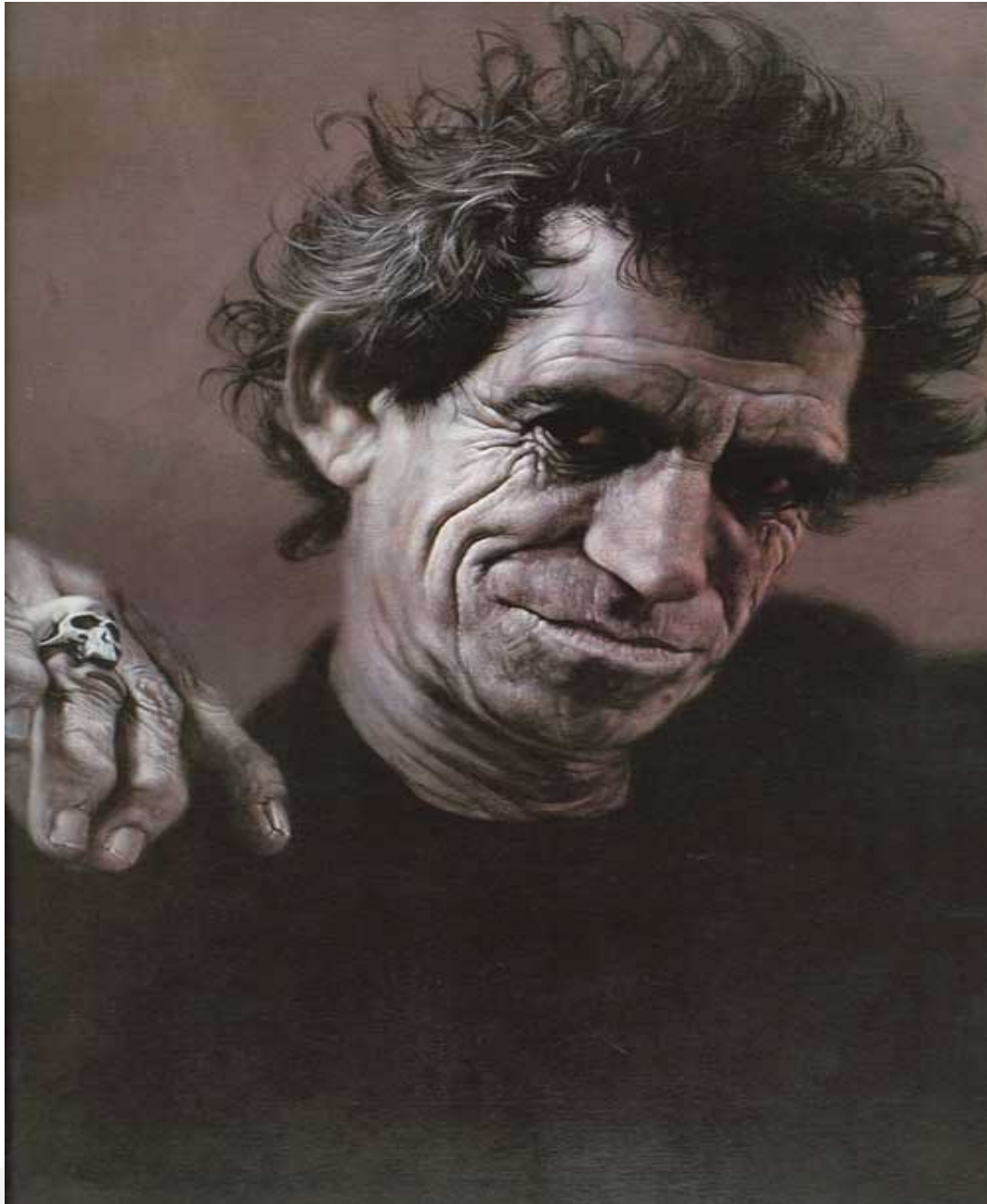


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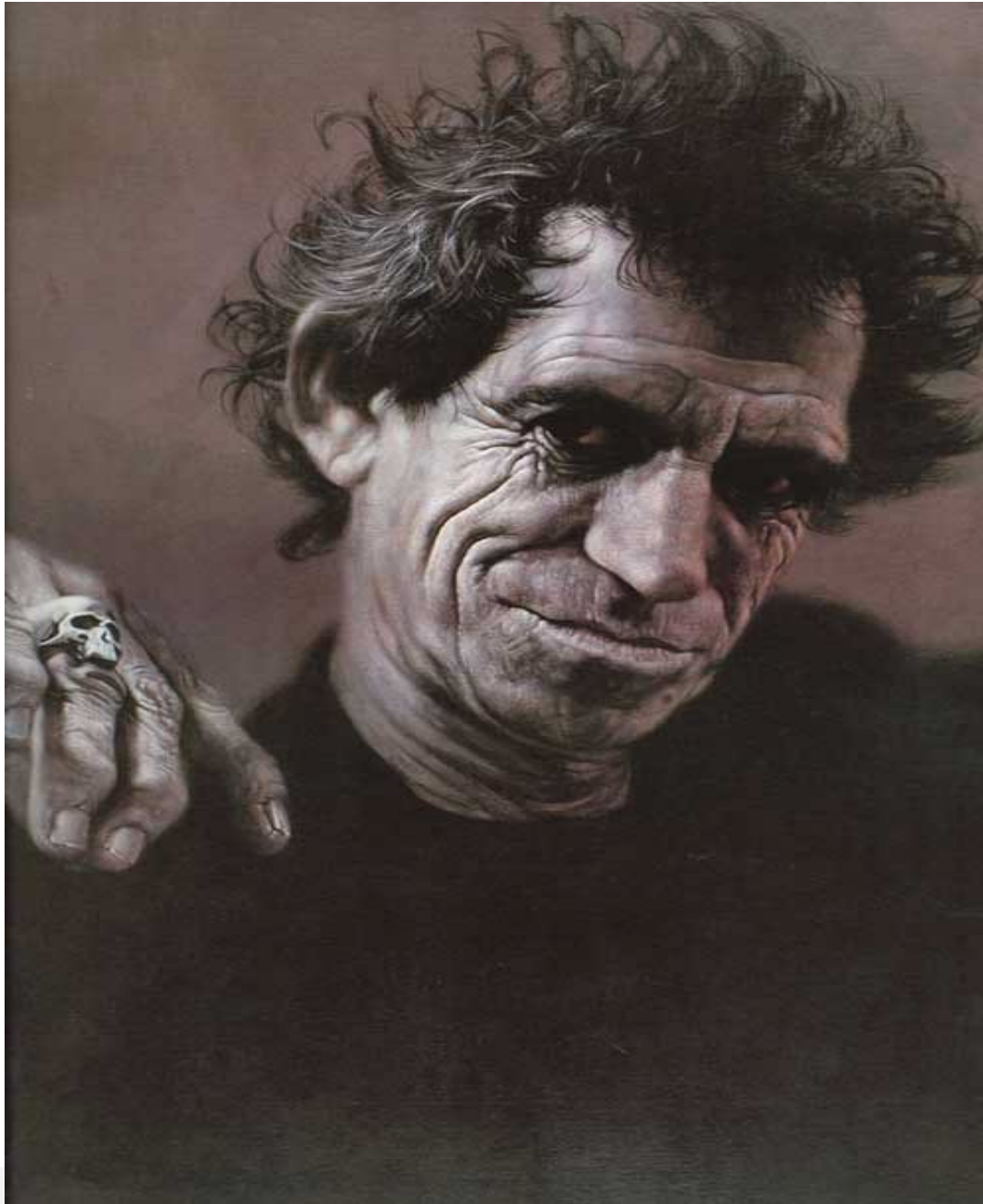


Credit unions are so robust that,.....





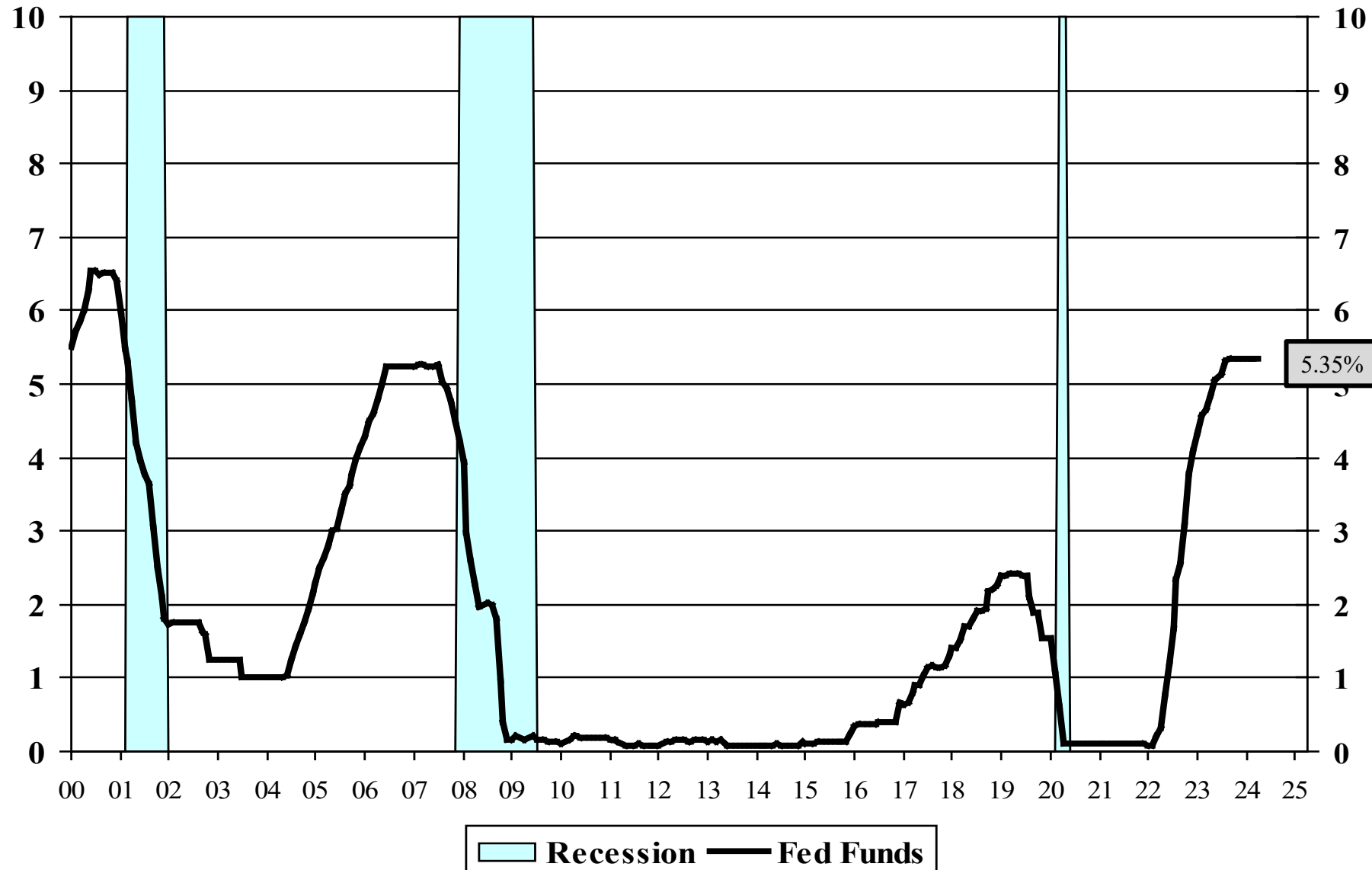




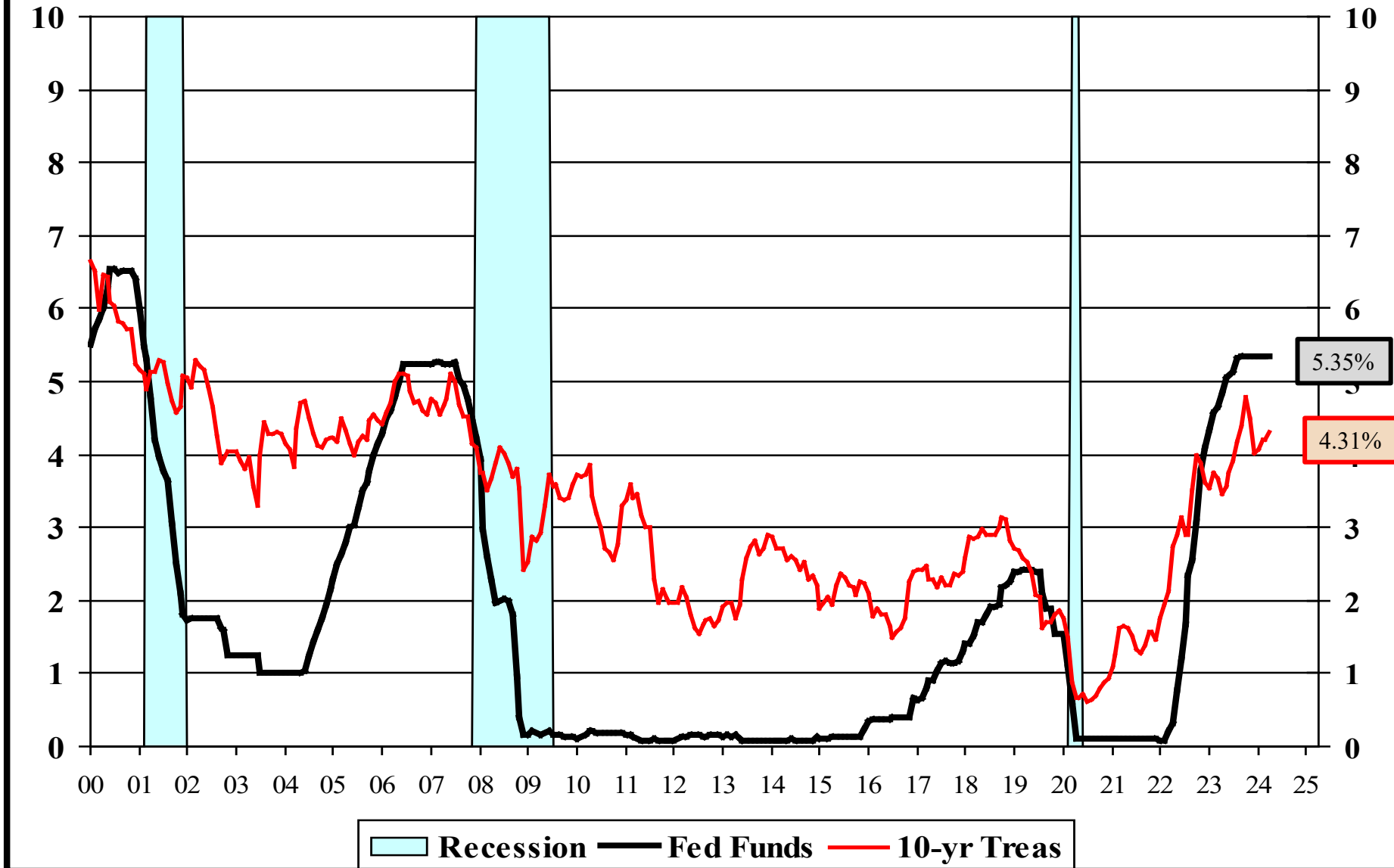
**Carpe Diem**  
**“Seize the day”**

# Questions?

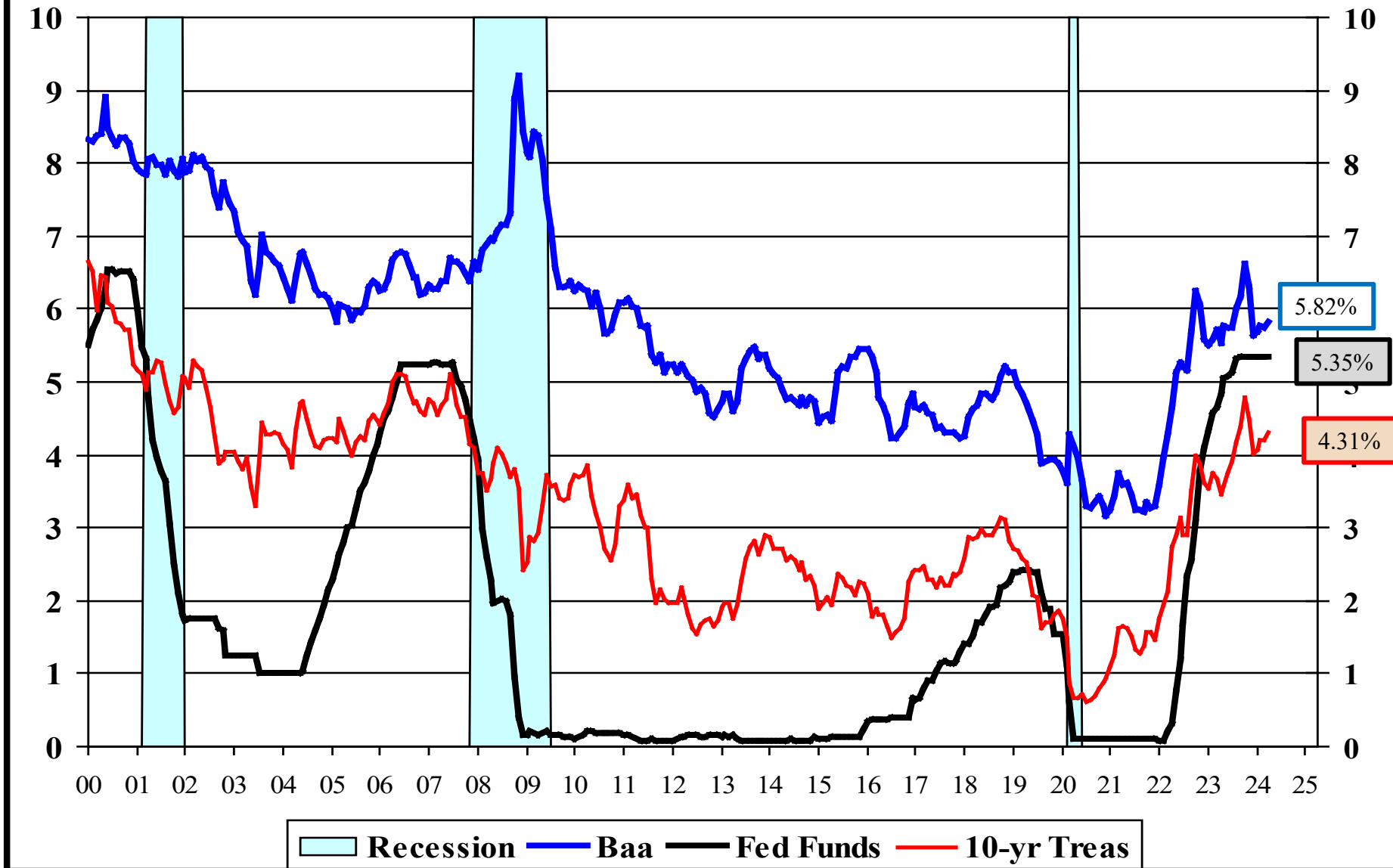
# Interest Rates and Recessions



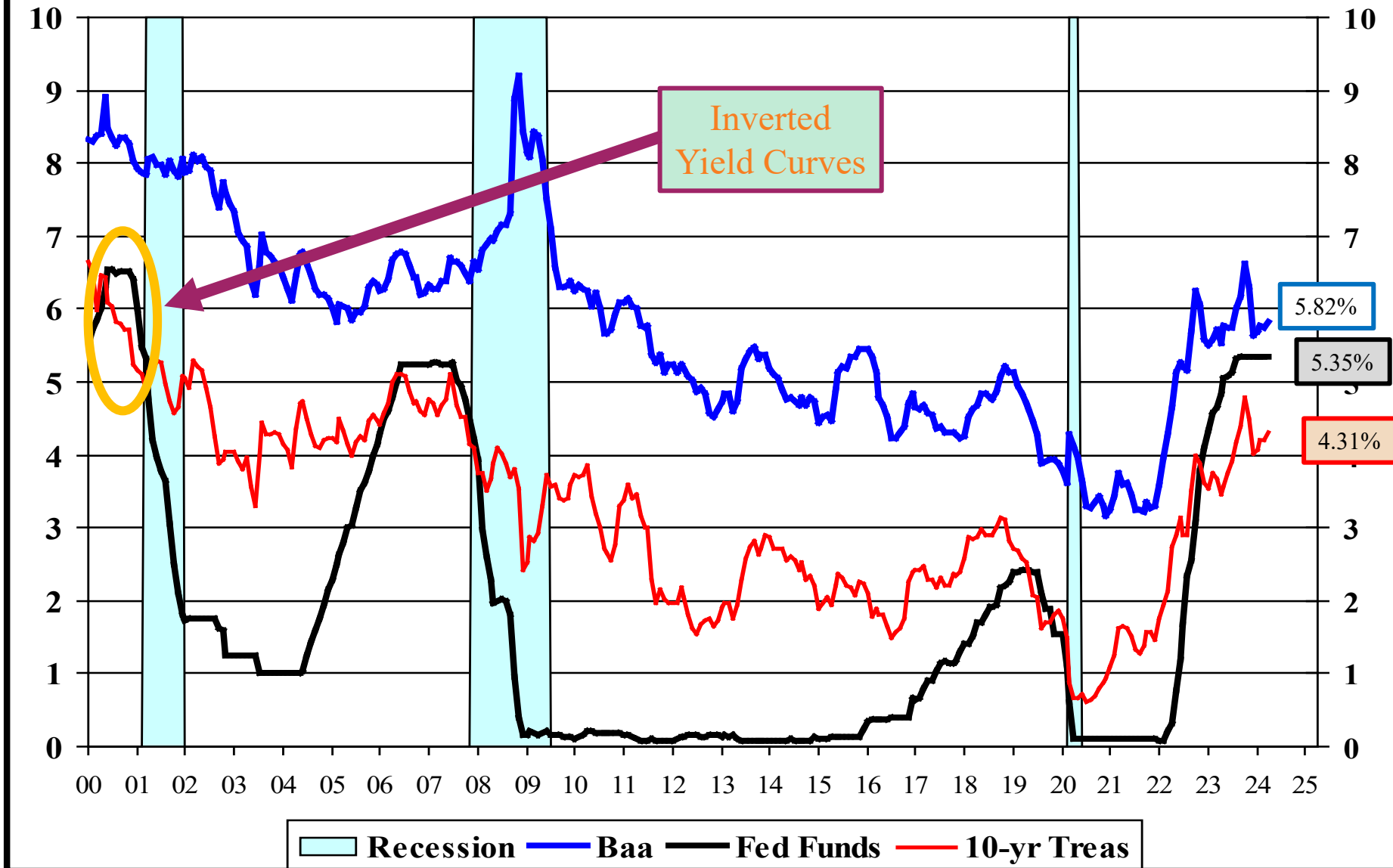
# Interest Rates and Recessions



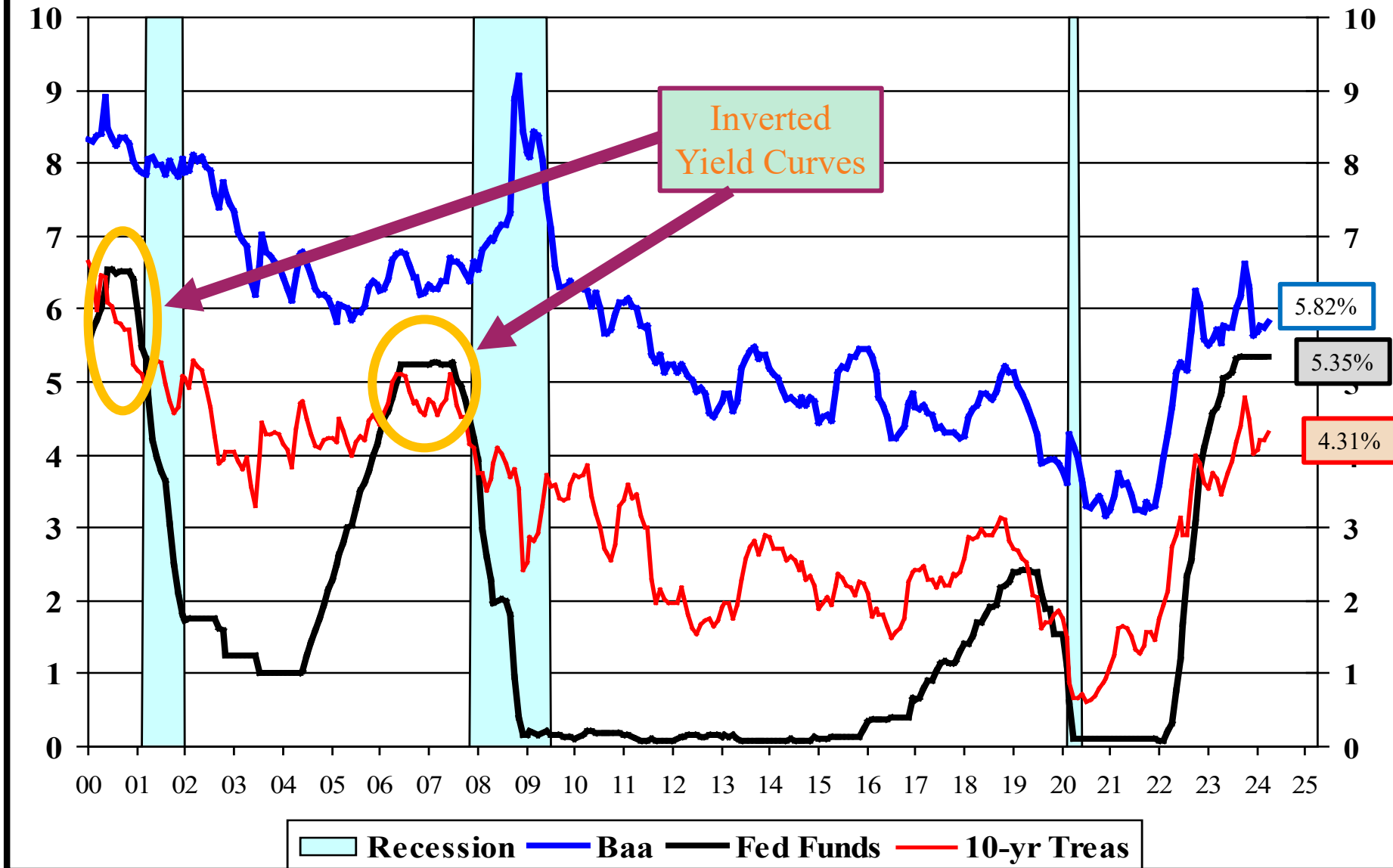
# Interest Rates and Recessions



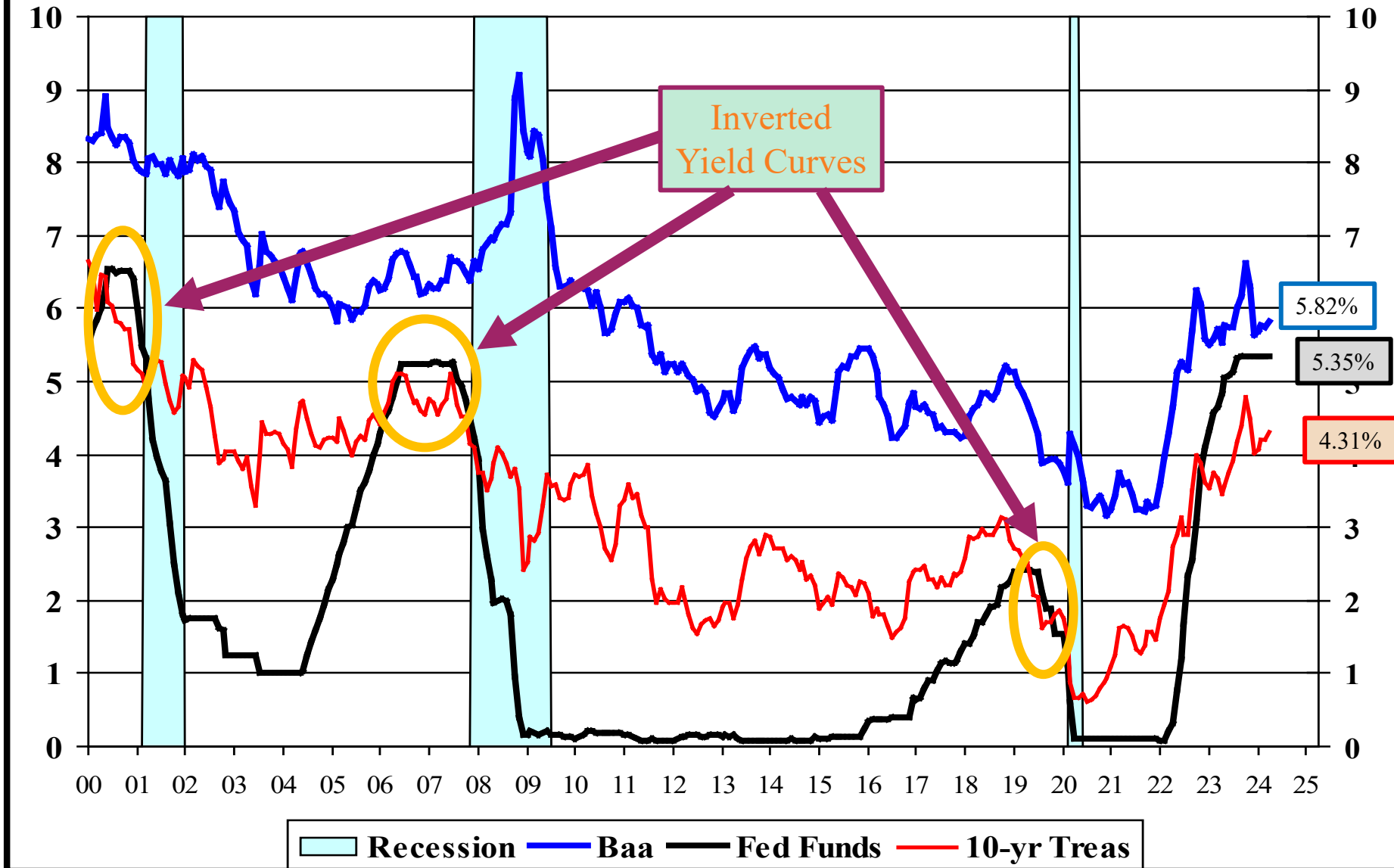
# Interest Rates and Recessions



# Interest Rates and Recessions

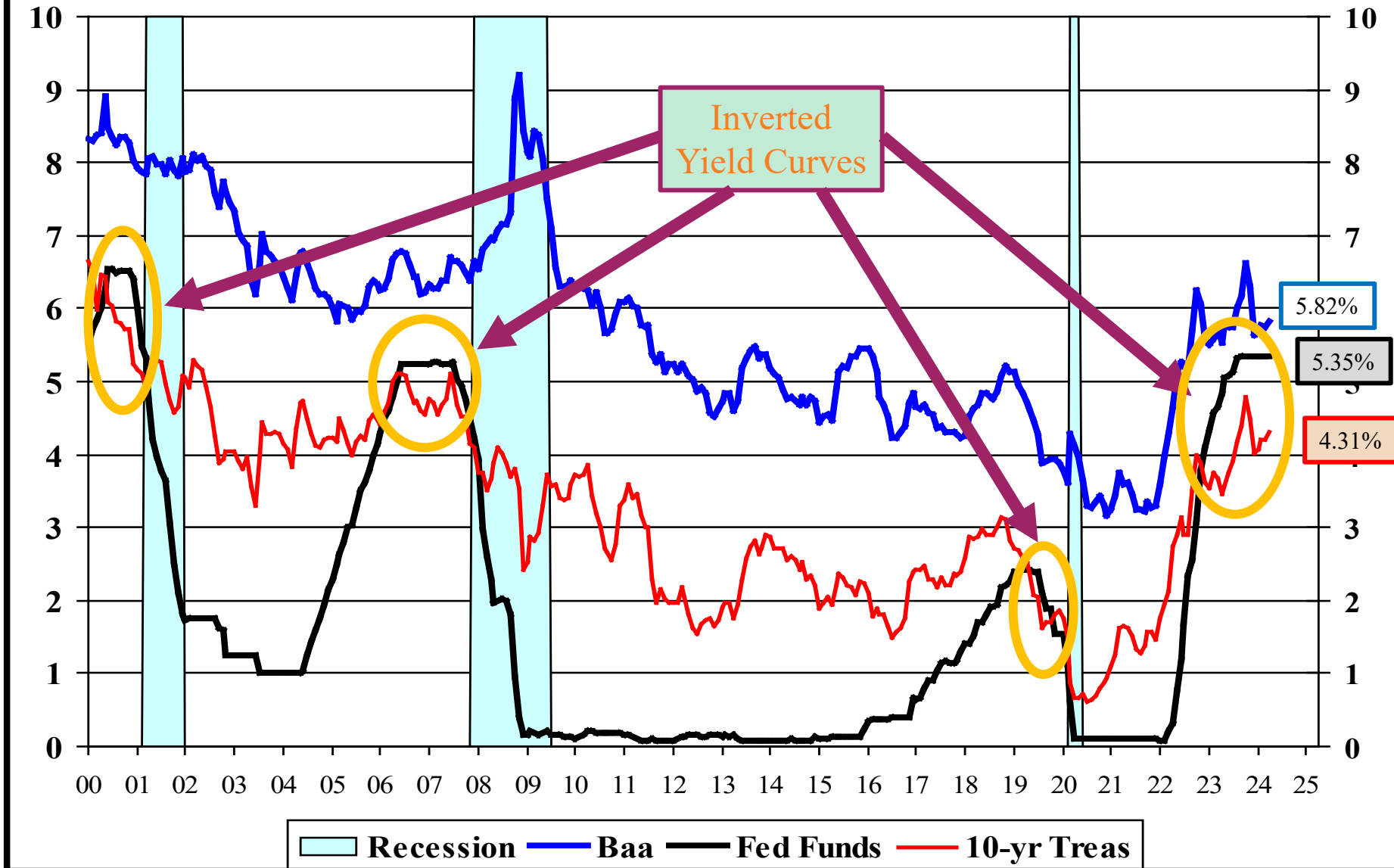


# Interest Rates and Recessions





# Interest Rates and Recessions



# Interest Rates and Recessions

