

# Credit Union Trends Report

Executive Summary August 2024

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TruStage's Chief Economist, Steven Rick, shares trends of lending volume and credit quality. Additional highlights this month include:

## Economy

- Longer term interest rates are already falling, boosting the housing market and other interest rate sensitive sectors of the economy.
- At the end of August, the 10-year Treasury interest rate was 3.87% down from 4.70% as recently as April 25<sup>th</sup>.
- This 83-basis point drop in the 10-Year Treasury yield has already impacted 30-year fixed-rate mortgage interest rates which have declined by 87 basis points since April to 6.35% by late August.
- This will boost existing home sales and new housing construction for the 2<sup>nd</sup> half of 2024.

## Lending

- During the last 12 months, credit union loan balances increased only 3.9%, which is below the 7% long-run annual loan growth rate. And loan growth has slowed even further recently.
- Nearly one in four financial institutions tightened lending standards for credit cards in the second quarter of 2024, according to the Senior Loan Officer Opinion Survey.
- Credit union new-auto loan balances fell 0.2% in June, a big drop compared to the 0.5% gain reported in June 2023. Higher interest rates and increased competitive pressure from captive finance companies has reduced new-auto lending at credit unions.
- Falling interest rates in the 4<sup>th</sup> quarter of 2024 should boost consumer demand and sales during the next few years.
- We are forecasting below-trend credit union loan growth for this year and 2025 (3% in 2024 and 5% in 2025) due to high loan interest rates on new loans, strong competition from finance companies, higher debt servicing costs on existing adjustable-rate loans, the resumption of student loan payments, and the exhaustion of stimulus/pandemic related "excess savings" that could have been used for loan downpayments.

## Members/Assets

- Deposit growth remains below trend due to high inflation forcing some members to withdraw savings to purchase necessities and funds leaving credit unions for alternate savings products paying higher interest rates.
- During the last 12 months, share draft balances declined 2.8%, regular shares balances fell 7.2% and money market account balances fell 6.5%. Meanwhile, certificate of deposit balances rose a remarkable 34.5%.
- With the Federal Reserve expected to lower short-term interest rates by 100 basis points this year, expect this shift in the mix of deposits to slow.
- Total credit union memberships have surpassed 142.3 million and are expected to reach over 144 million by the 4<sup>th</sup> quarter of 2024.
- Expect credit union memberships to grow 1.5% in 2024 and 1.8% in 2025.

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