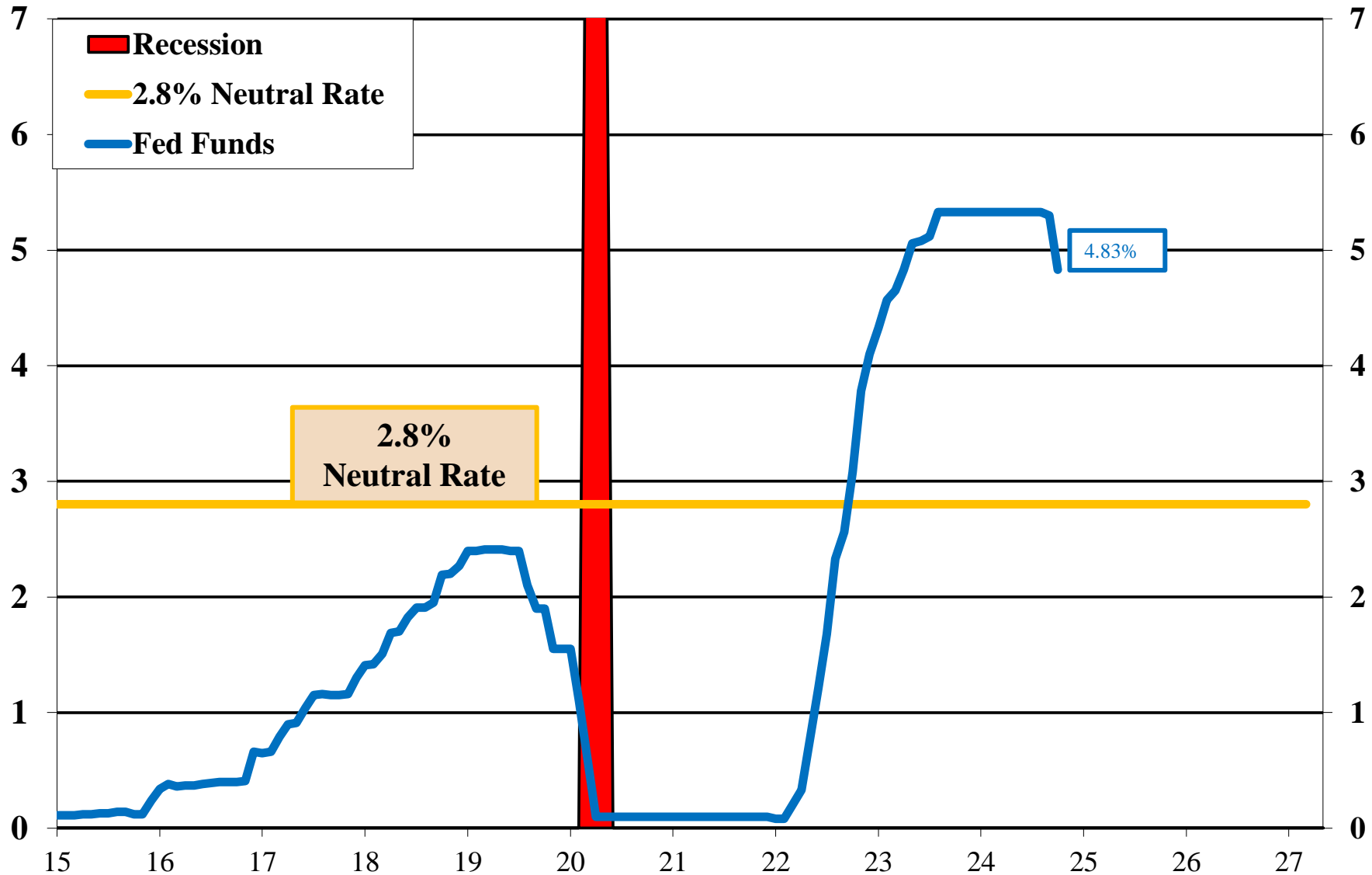


# Economic & Credit Union Update

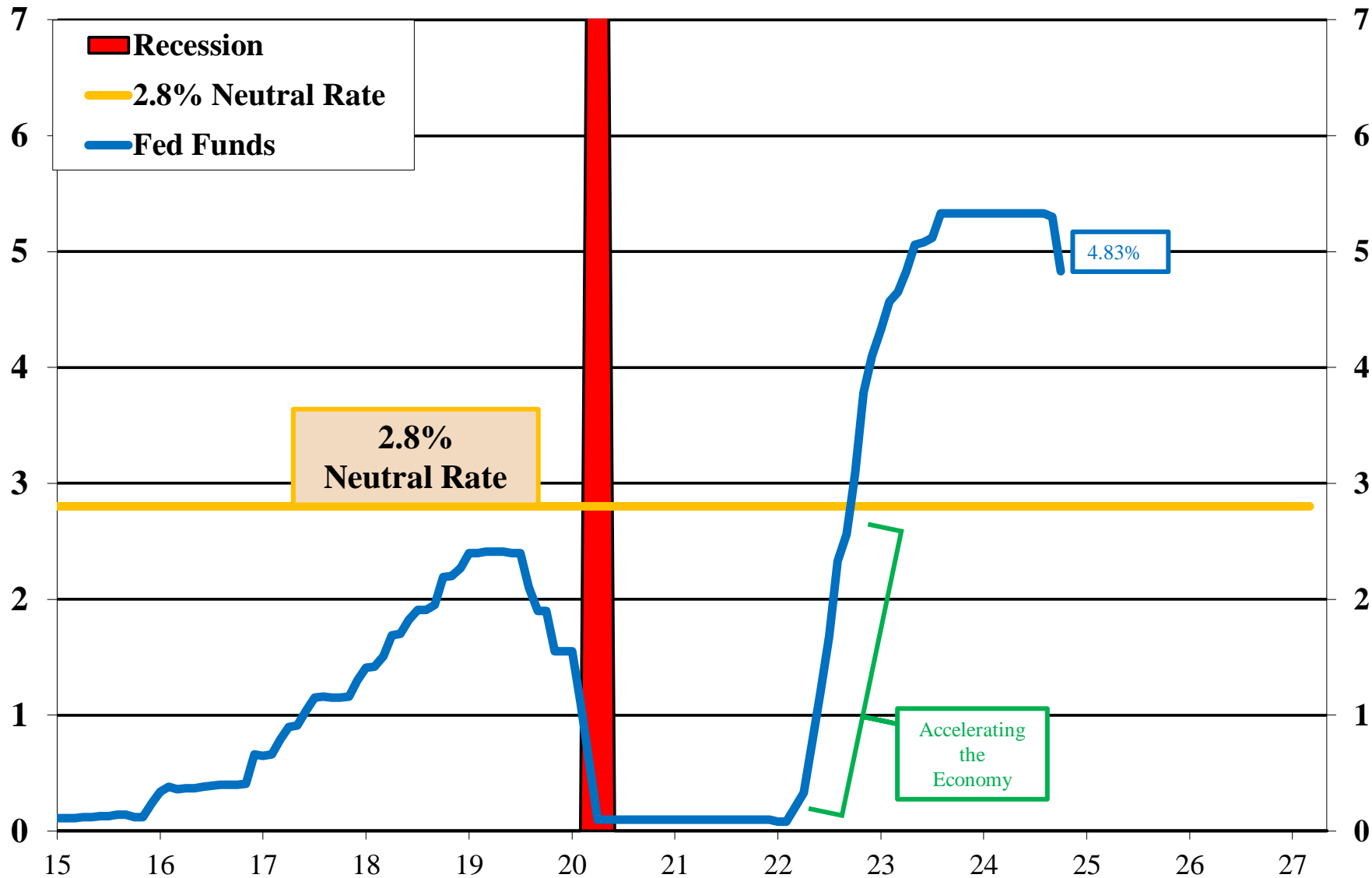
If you have any questions or  
comments, please contact:  
**Steven Rick, Chief Economist**  
Trustage - Economics  
800.356.2644, Ext. 665.5454  
[Steve.rick@TruStage.com](mailto:Steve.rick@TruStage.com)

**October 2024**

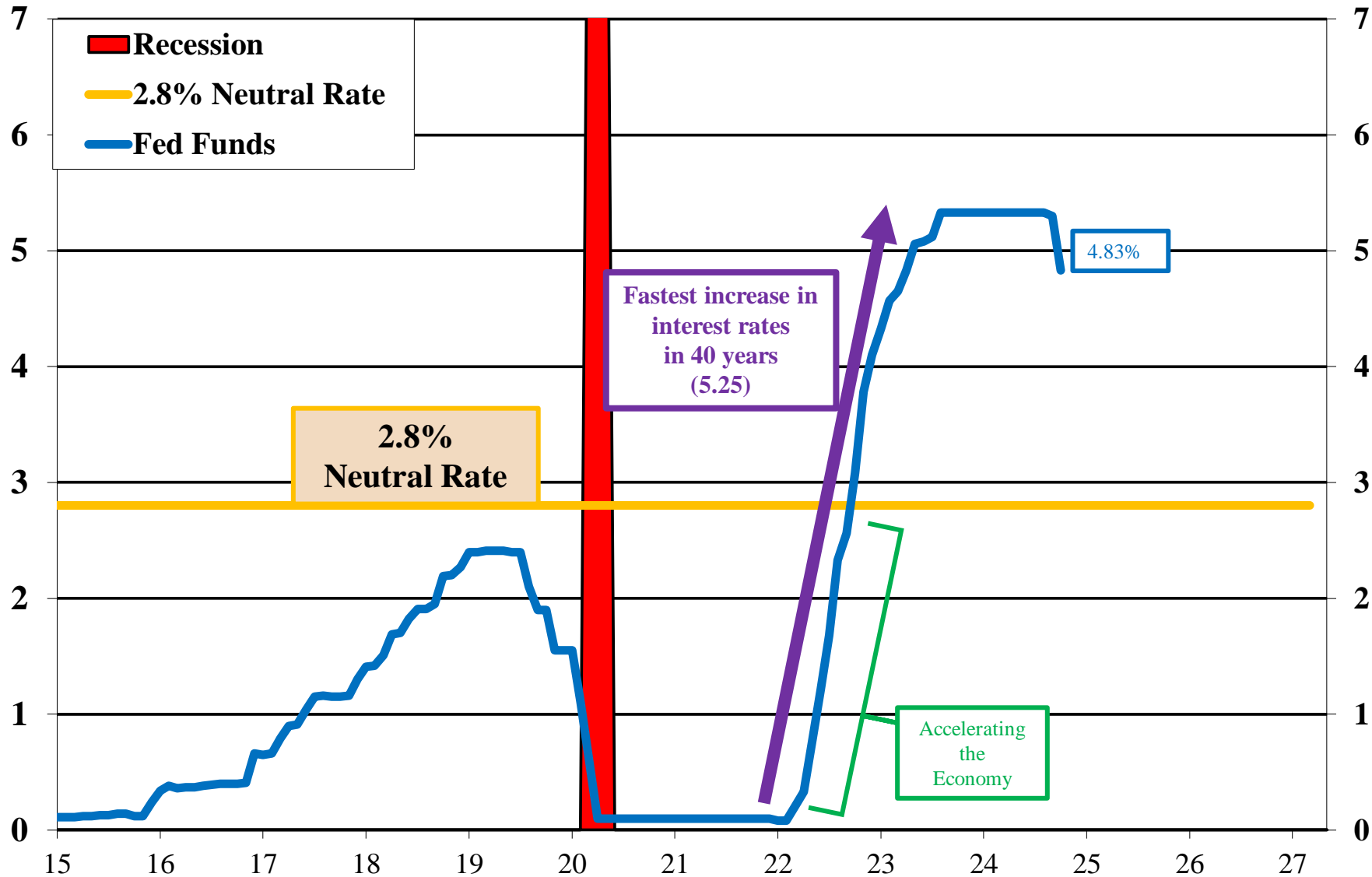
# Fed Funds Interest Rate



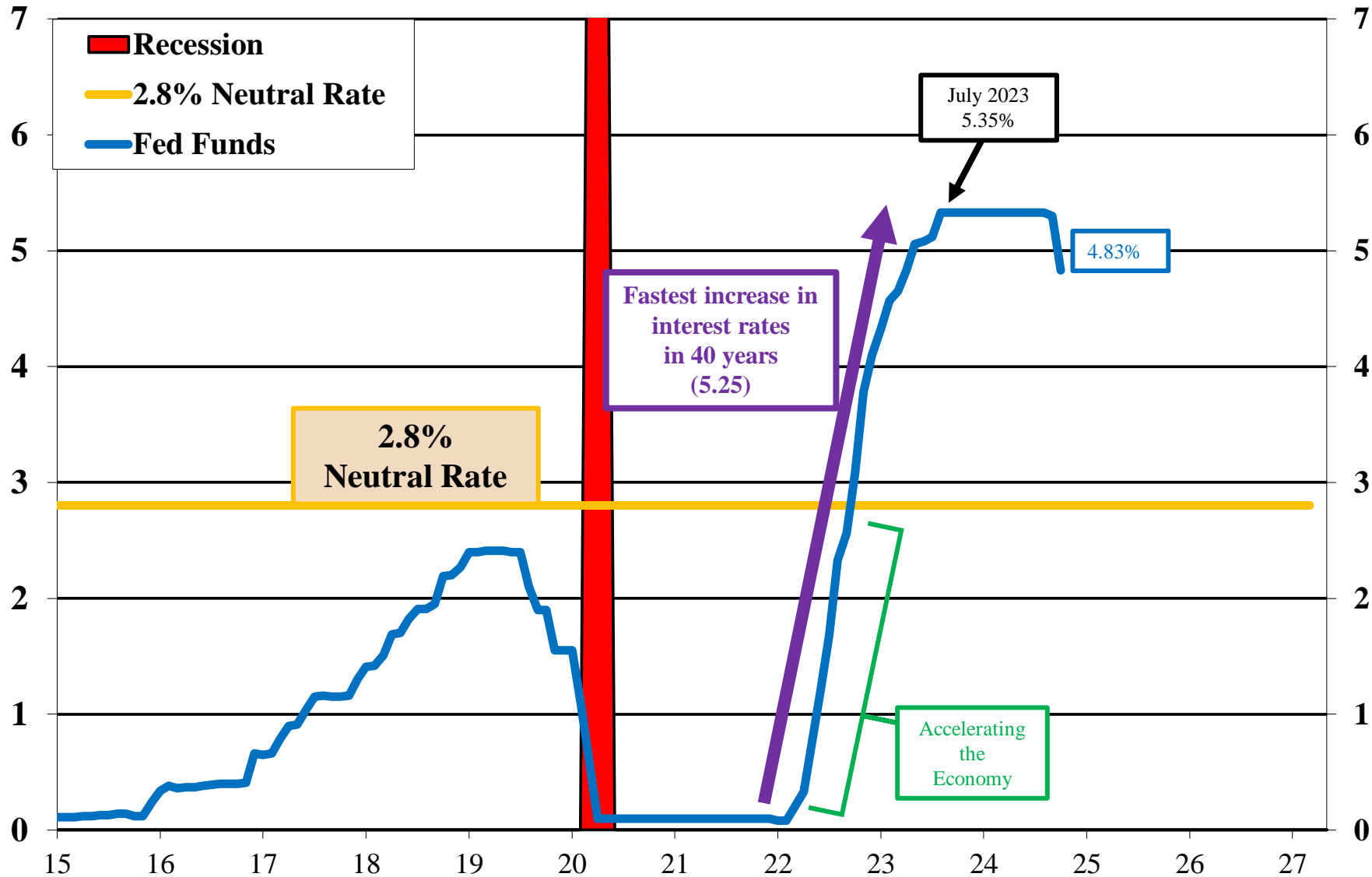
# Fed Funds Interest Rate



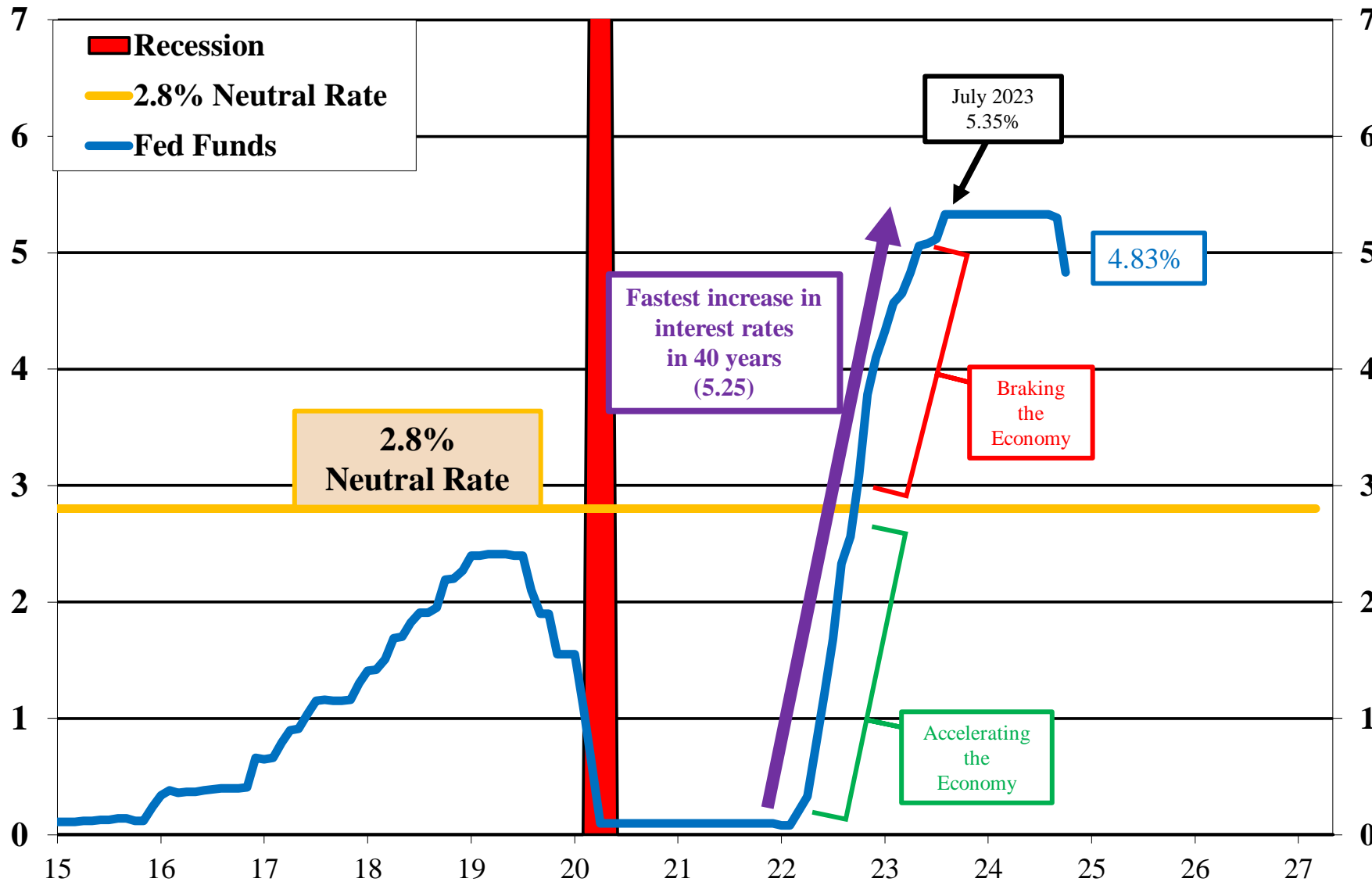
# Fed Funds Interest Rate



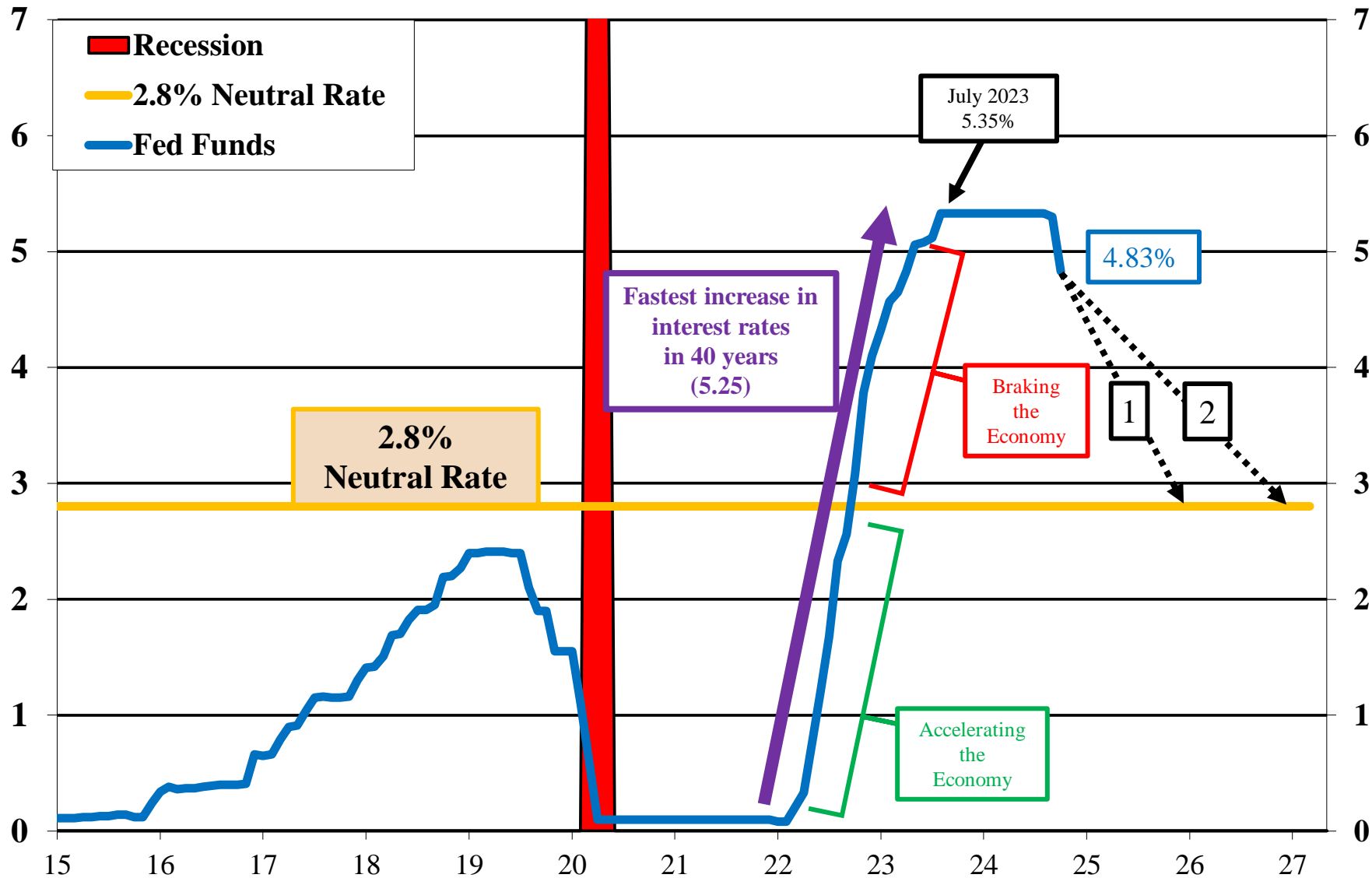
# Fed Funds Interest Rate



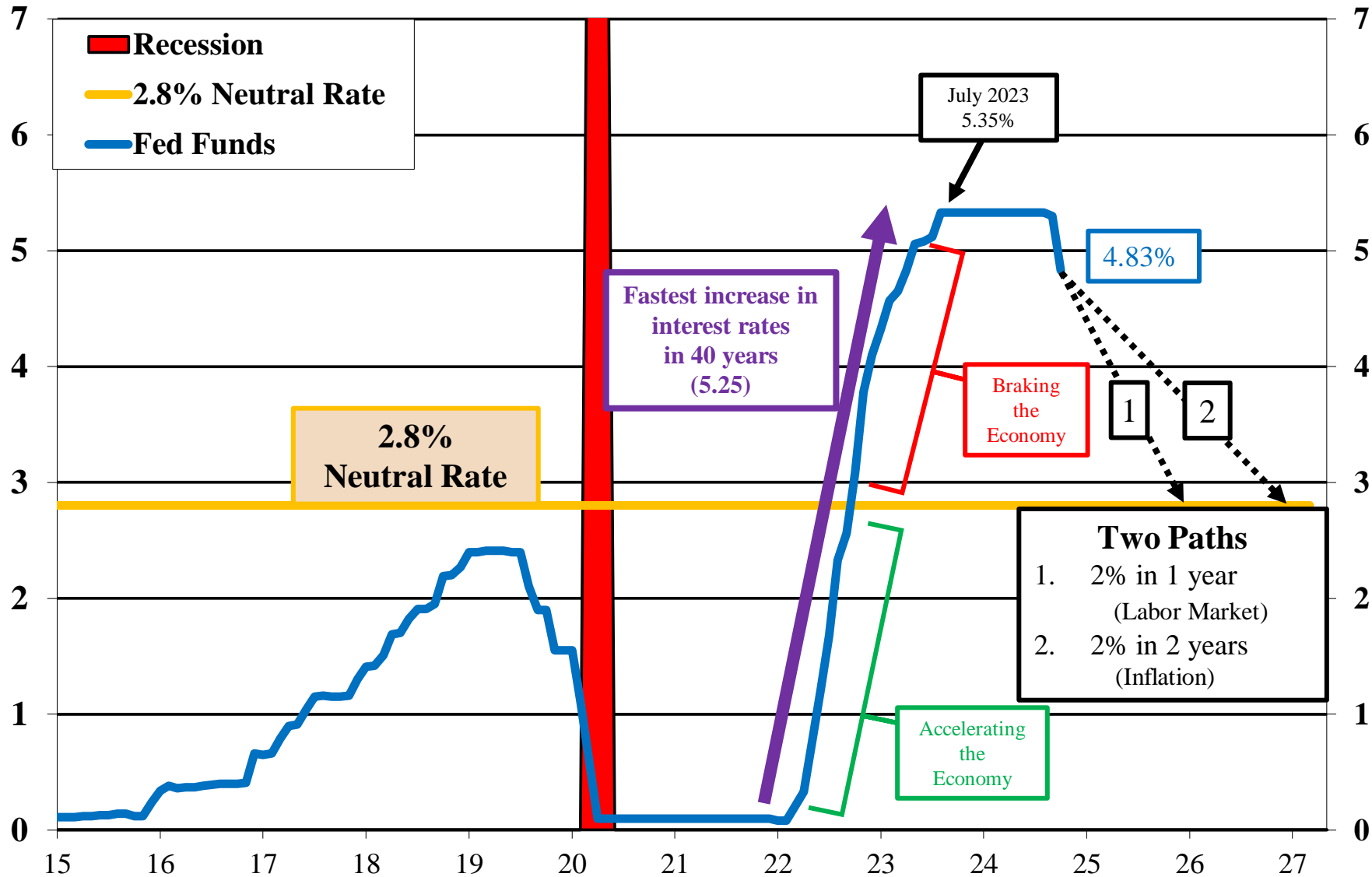
# Fed Funds Interest Rate



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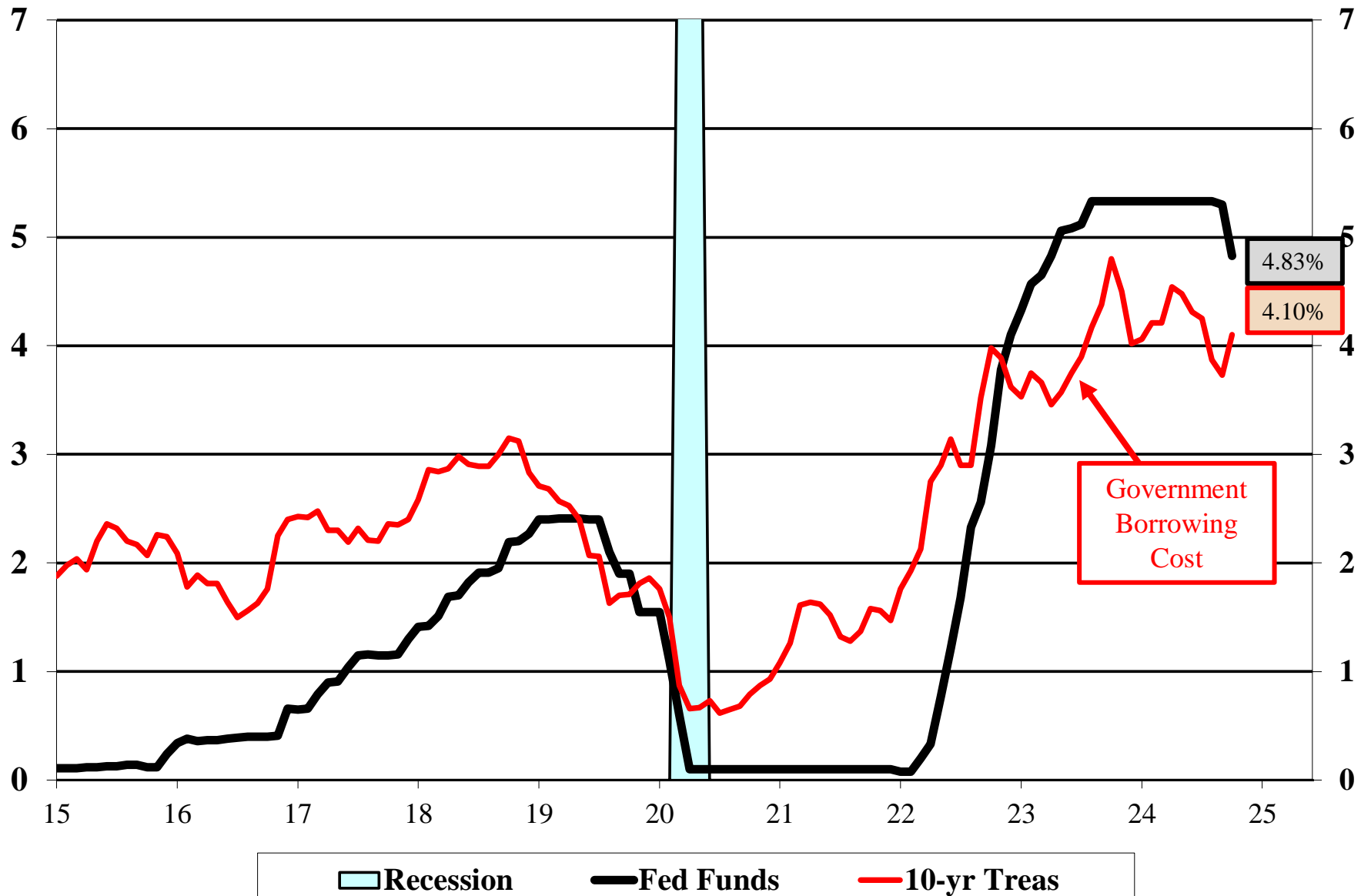


# Fed Funds Interest Rate

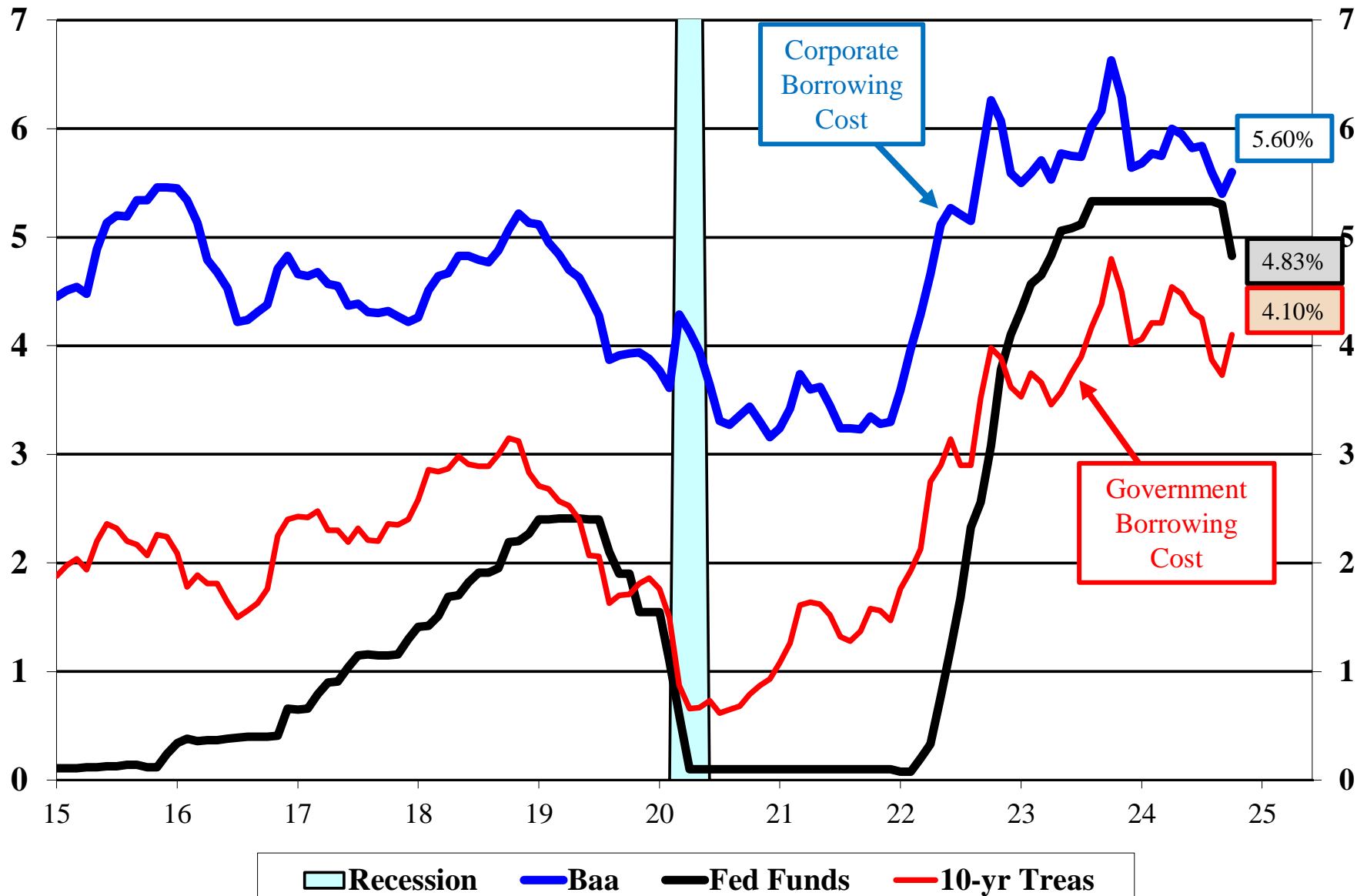




# Interest Rates and Recessions

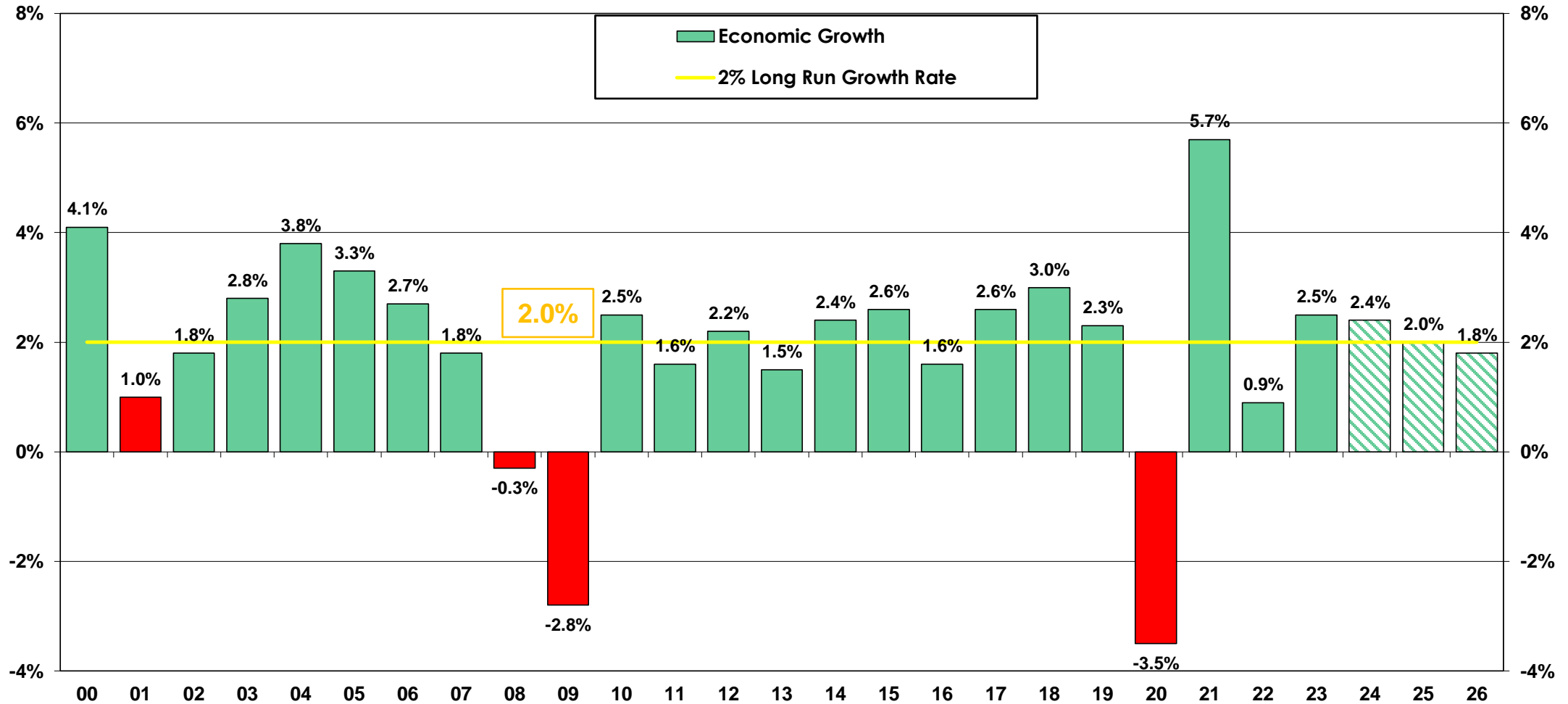


# Interest Rates and Recessions



# Below Trend Economic Growth for Next 2 Years

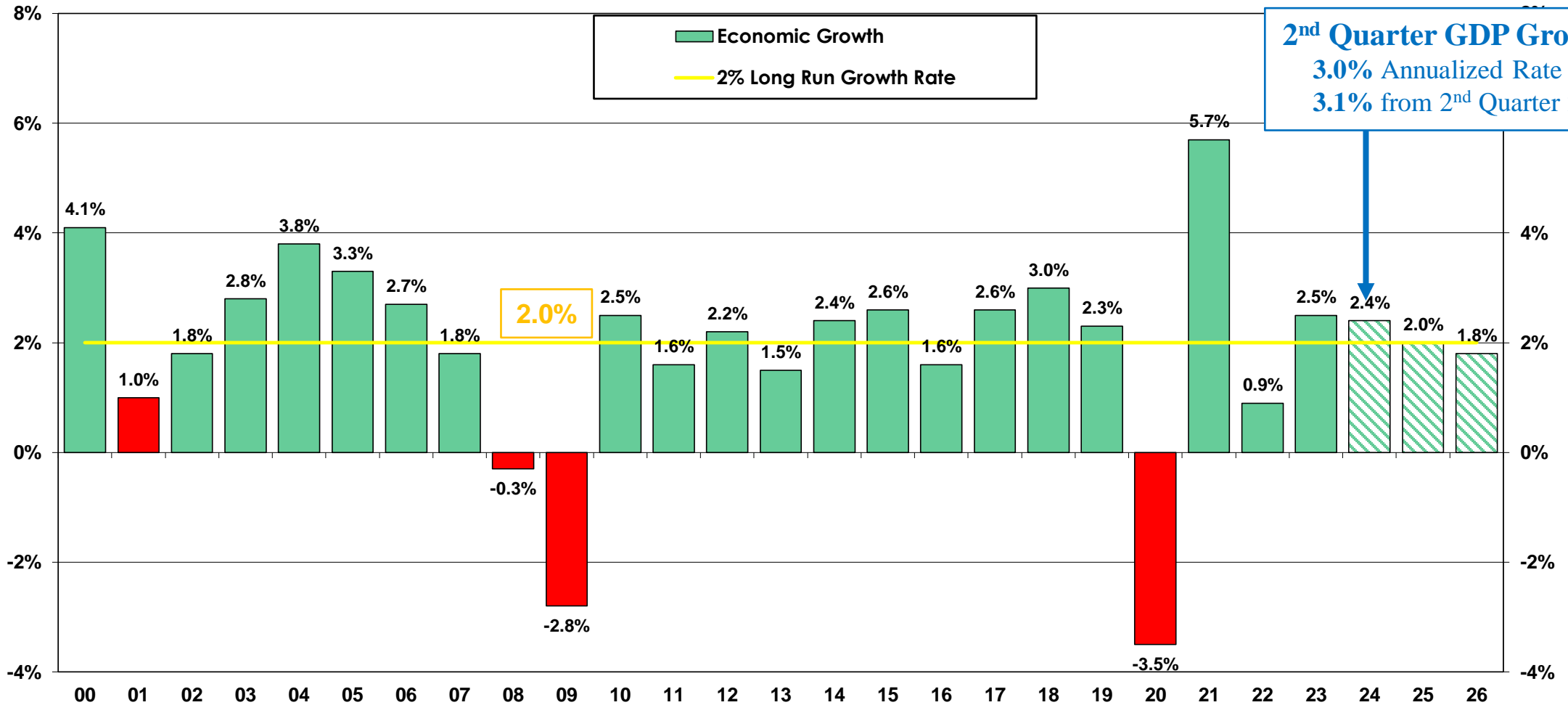
## U.S. Economic Growth Rate



Source: Department of Commerce

# Below Trend Economic Growth for Next 2 Years

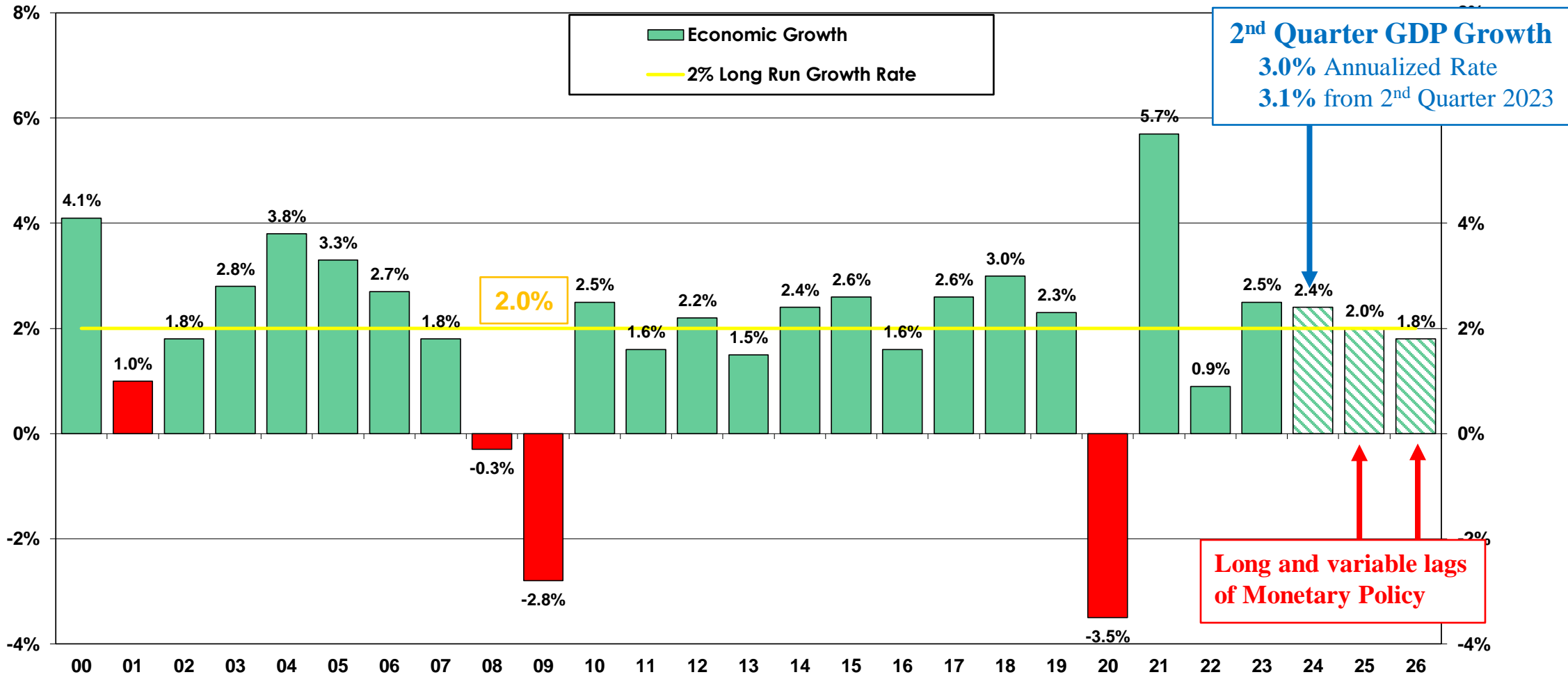
## U.S. Economic Growth Rate



Source: Department of Commerce

# Below Trend Economic Growth for Next 2 Years

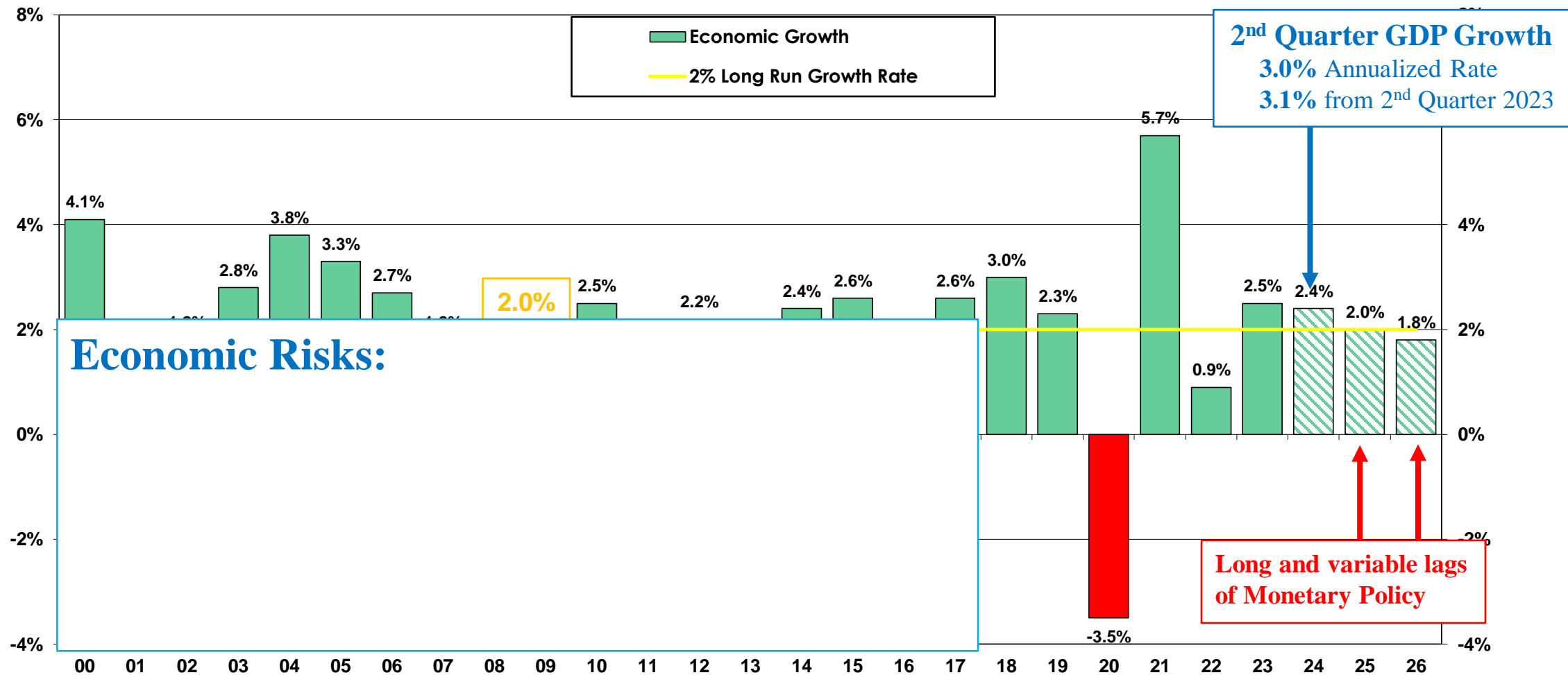
## U.S. Economic Growth Rate



Source: Department of Commerce

# Slower Economic Growth for Next 2 Years

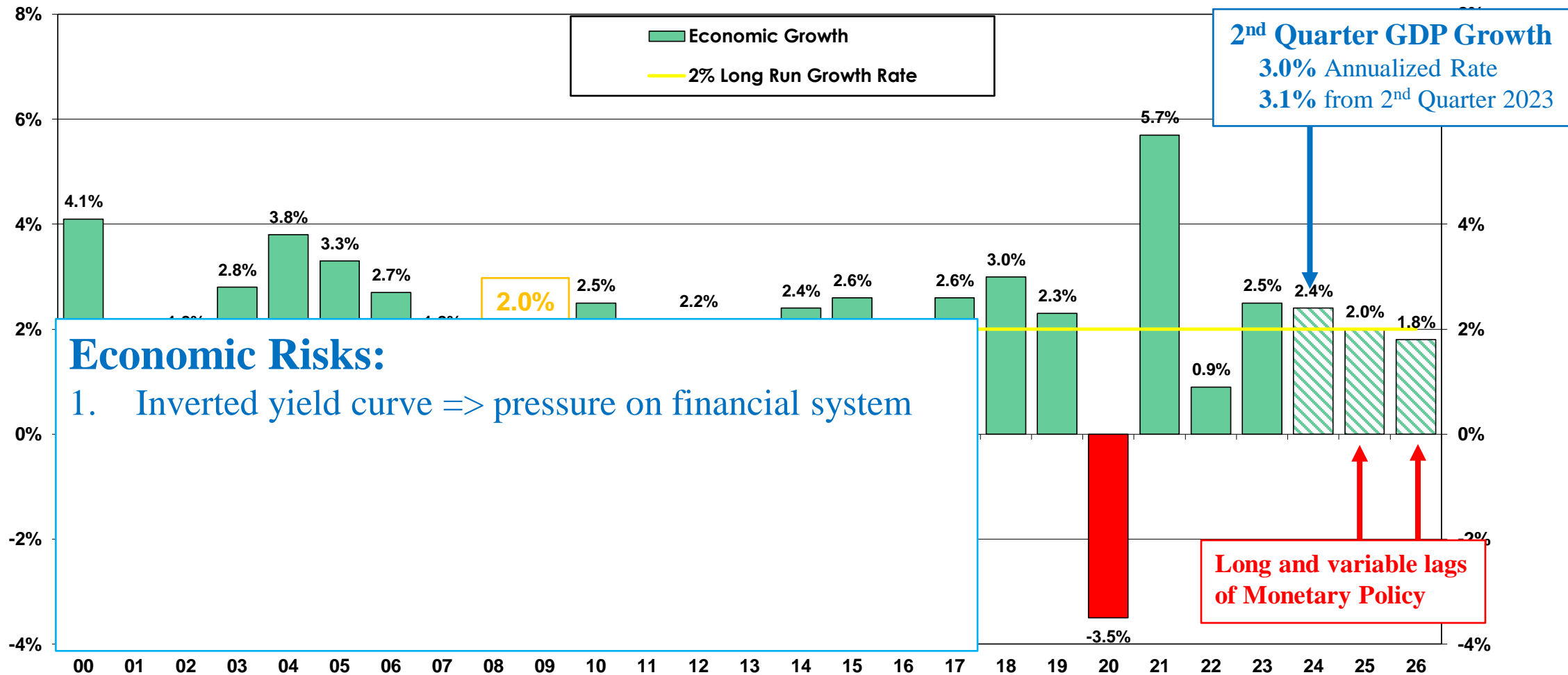
## U.S. Economic Growth Rate



Source: Department of Commerce

# Slower Economic Growth for Next 2 Years

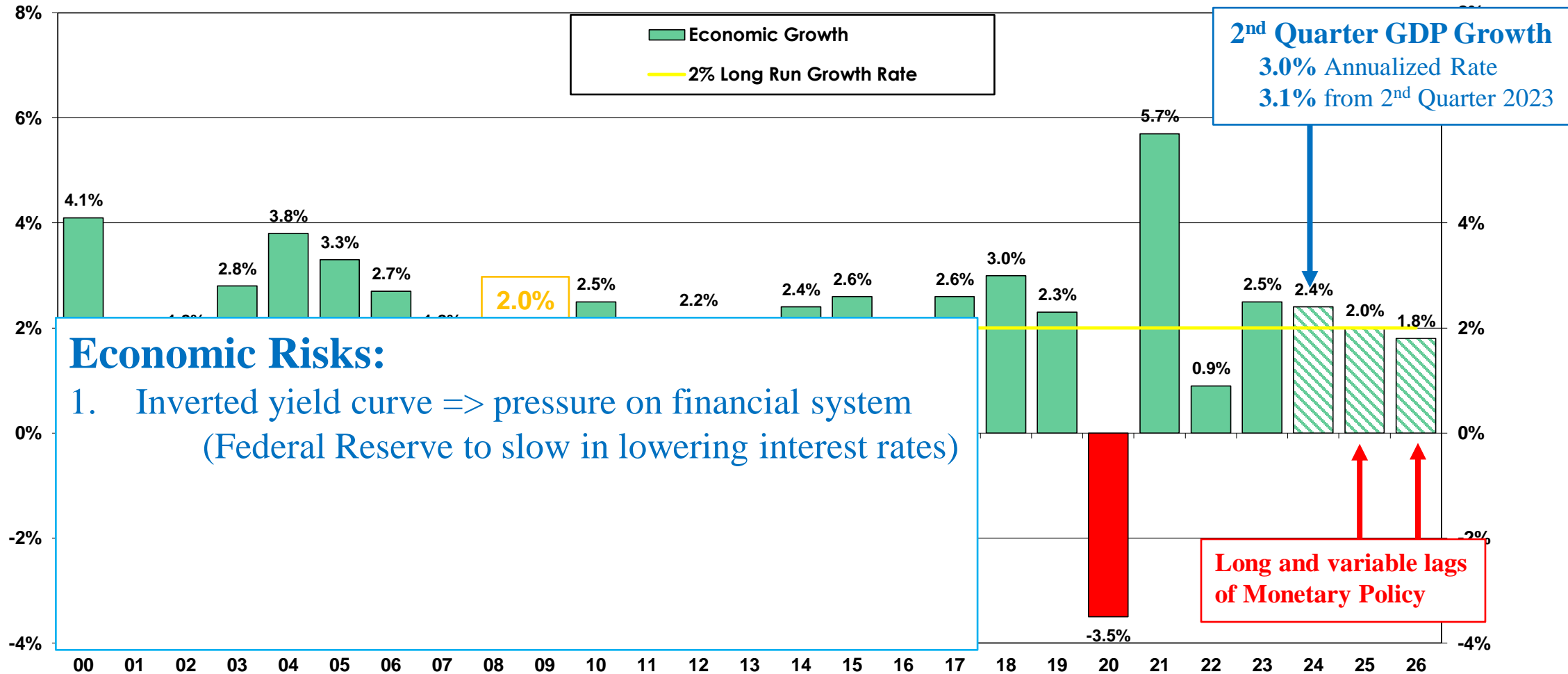
## U.S. Economic Growth Rate



Source: Department of Commerce

# Slower Economic Growth for Next 2 Years

## U.S. Economic Growth Rate

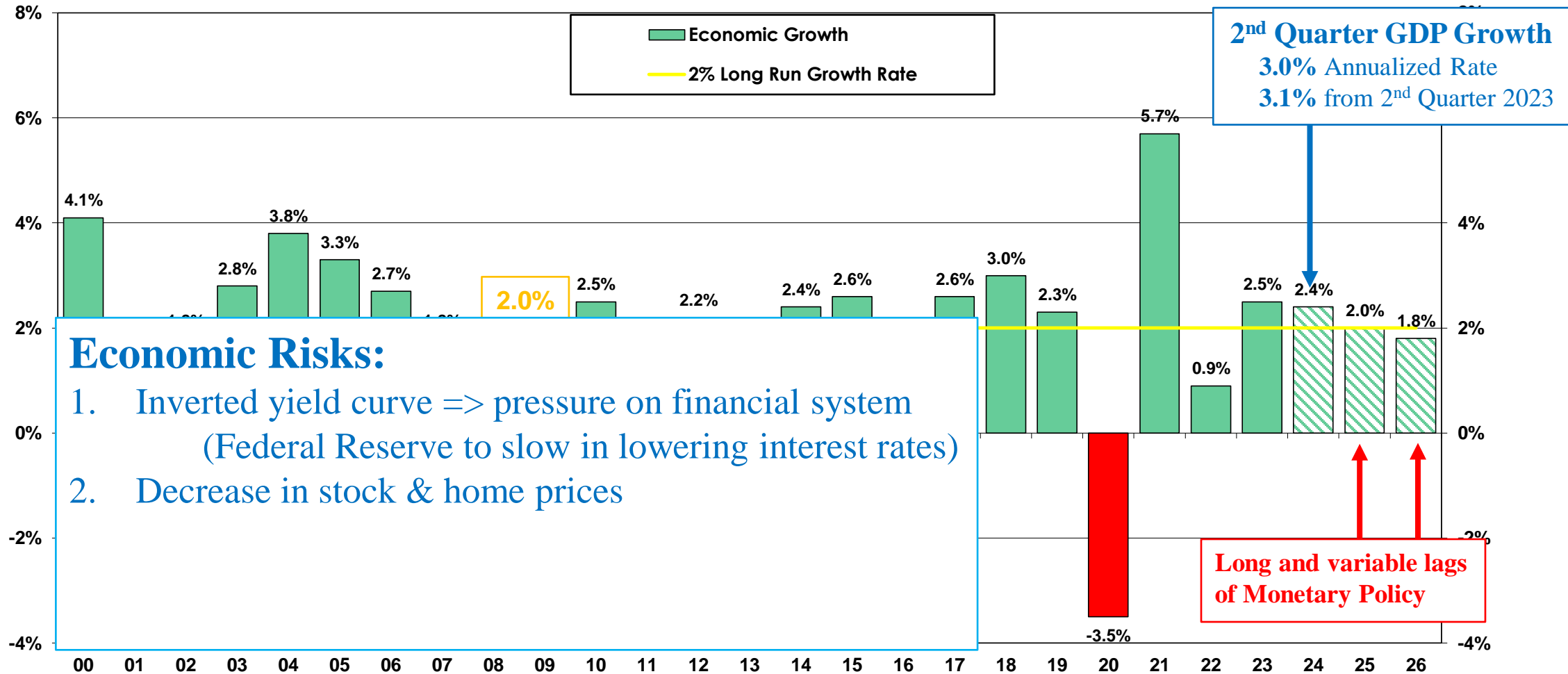


Source: Department of Commerce



# Slower Economic Growth for Next 2 Years

## U.S. Economic Growth Rate



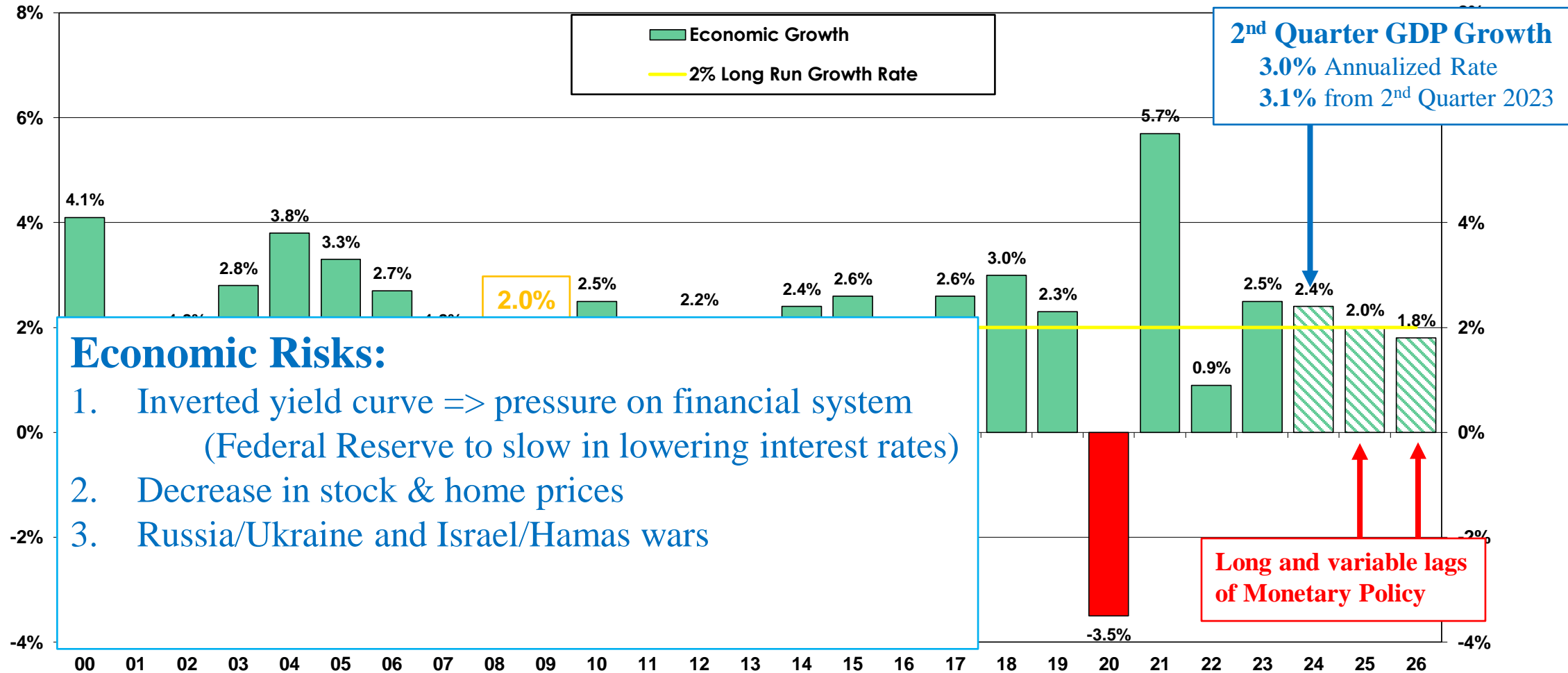
### Economic Risks:

1. Inverted yield curve => pressure on financial system  
(Federal Reserve to slow in lowering interest rates)
2. Decrease in stock & home prices

Source: Department of Commerce

# Slower Economic Growth for Next 2 Years

## U.S. Economic Growth Rate



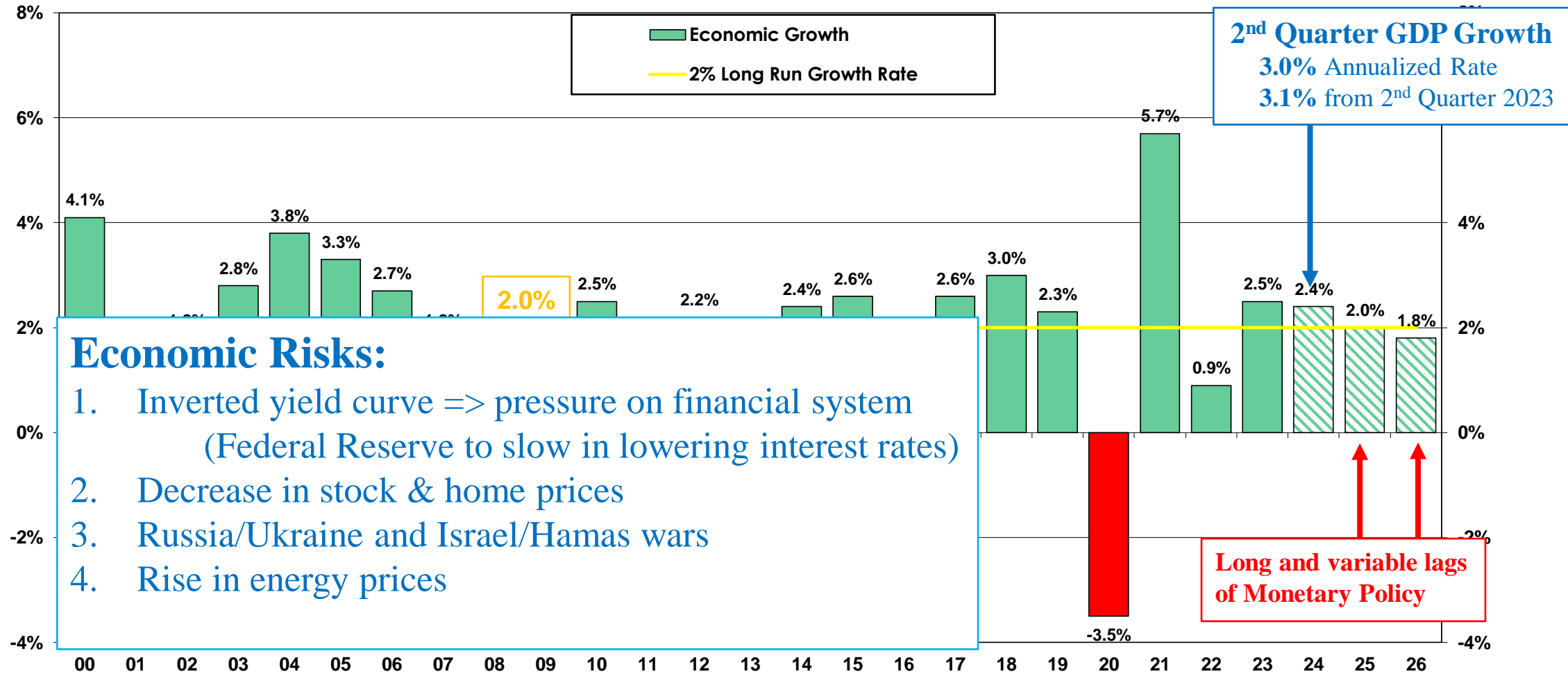
### Economic Risks:

1. Inverted yield curve => pressure on financial system  
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2. Decrease in stock & home prices
3. Russia/Ukraine and Israel/Hamas wars

Source: Department of Commerce

# Slower Economic Growth for Next 2 Years

## U.S. Economic Growth Rate



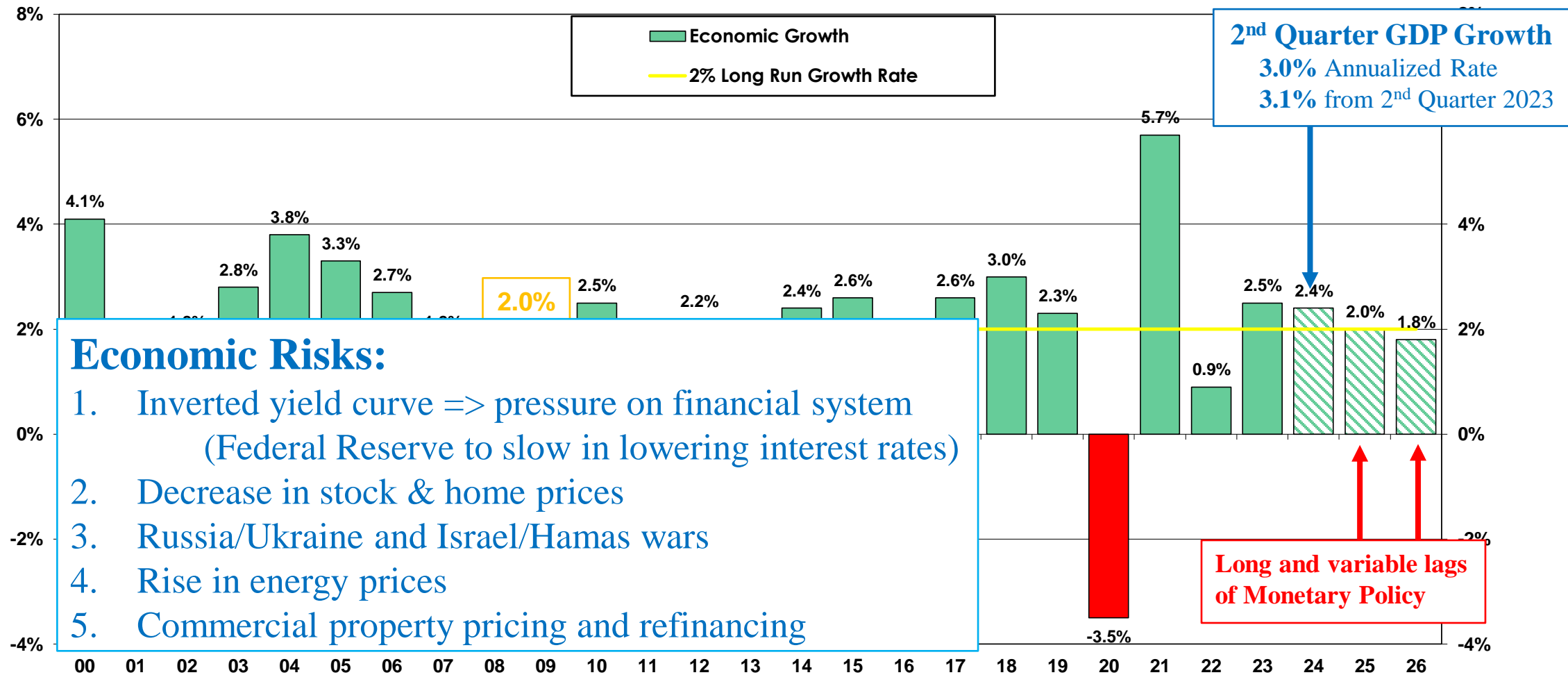
### Economic Risks:

1. Inverted yield curve => pressure on financial system  
(Federal Reserve to slow in lowering interest rates)
2. Decrease in stock & home prices
3. Russia/Ukraine and Israel/Hamas wars
4. Rise in energy prices

Source: Department of Commerce

# Slower Economic Growth for Next 2 Years

## U.S. Economic Growth Rate

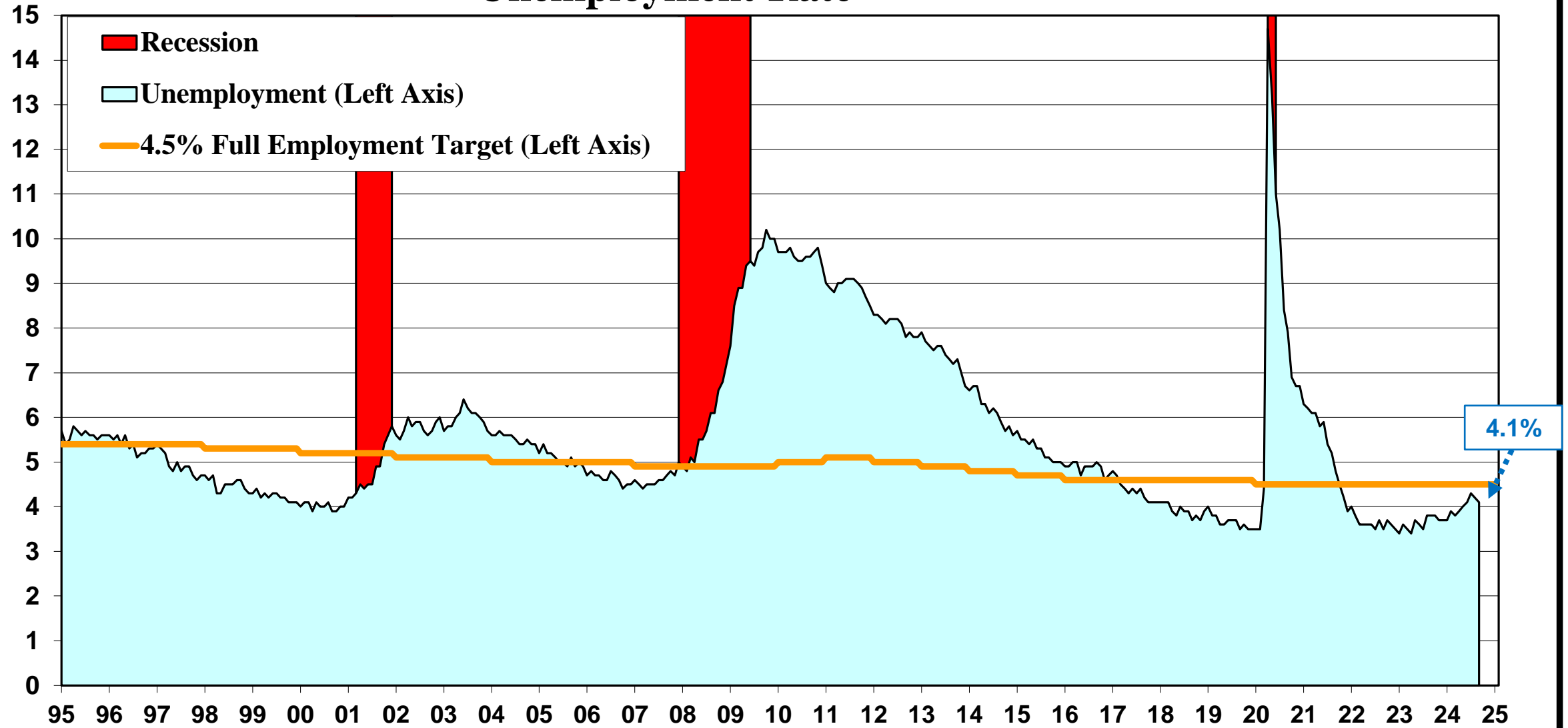


### Economic Risks:

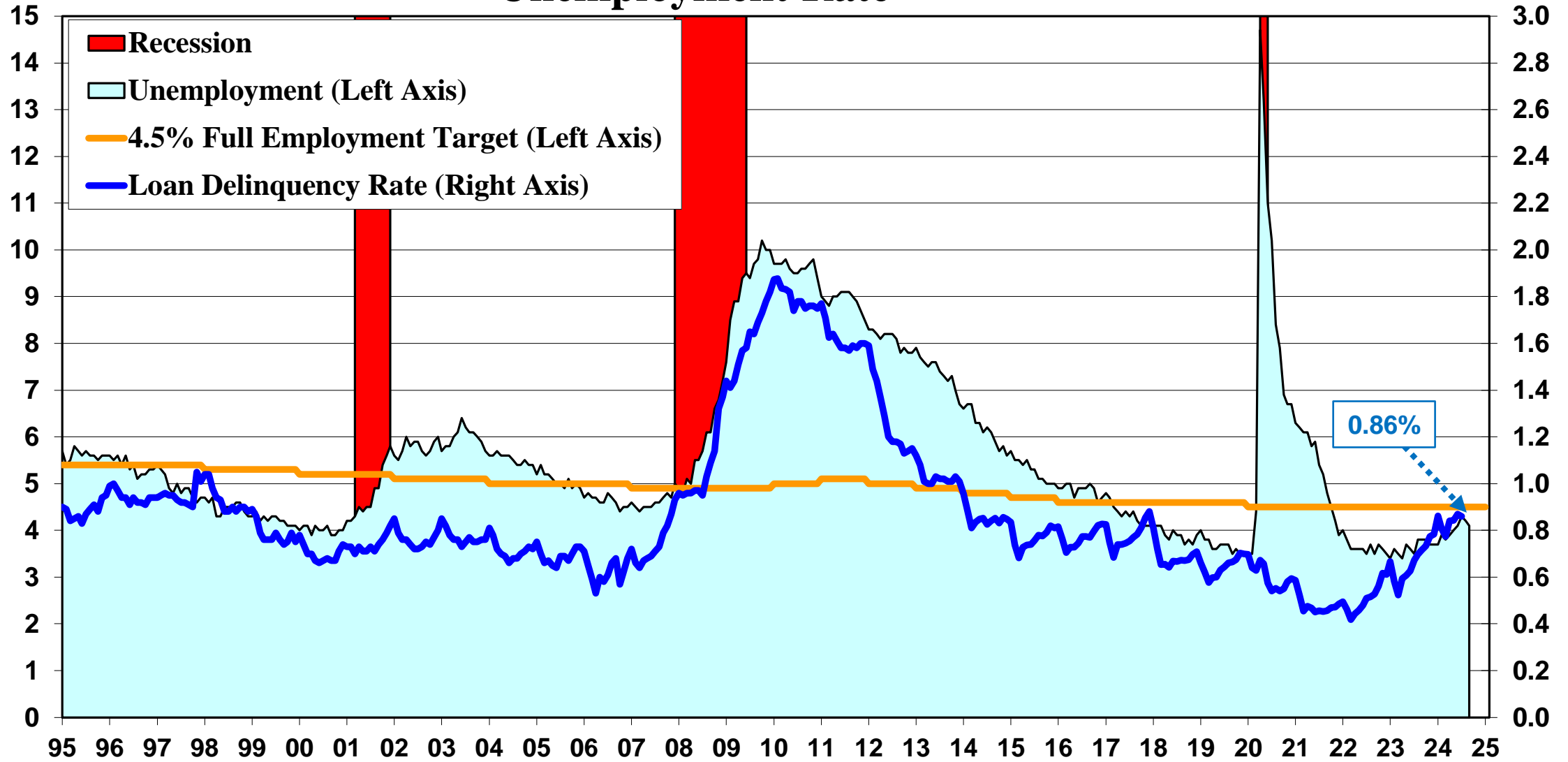
1. Inverted yield curve => pressure on financial system  
(Federal Reserve to slow in lowering interest rates)
2. Decrease in stock & home prices
3. Russia/Ukraine and Israel/Hamas wars
4. Rise in energy prices
5. Commercial property pricing and refinancing

Source: Department of Commerce

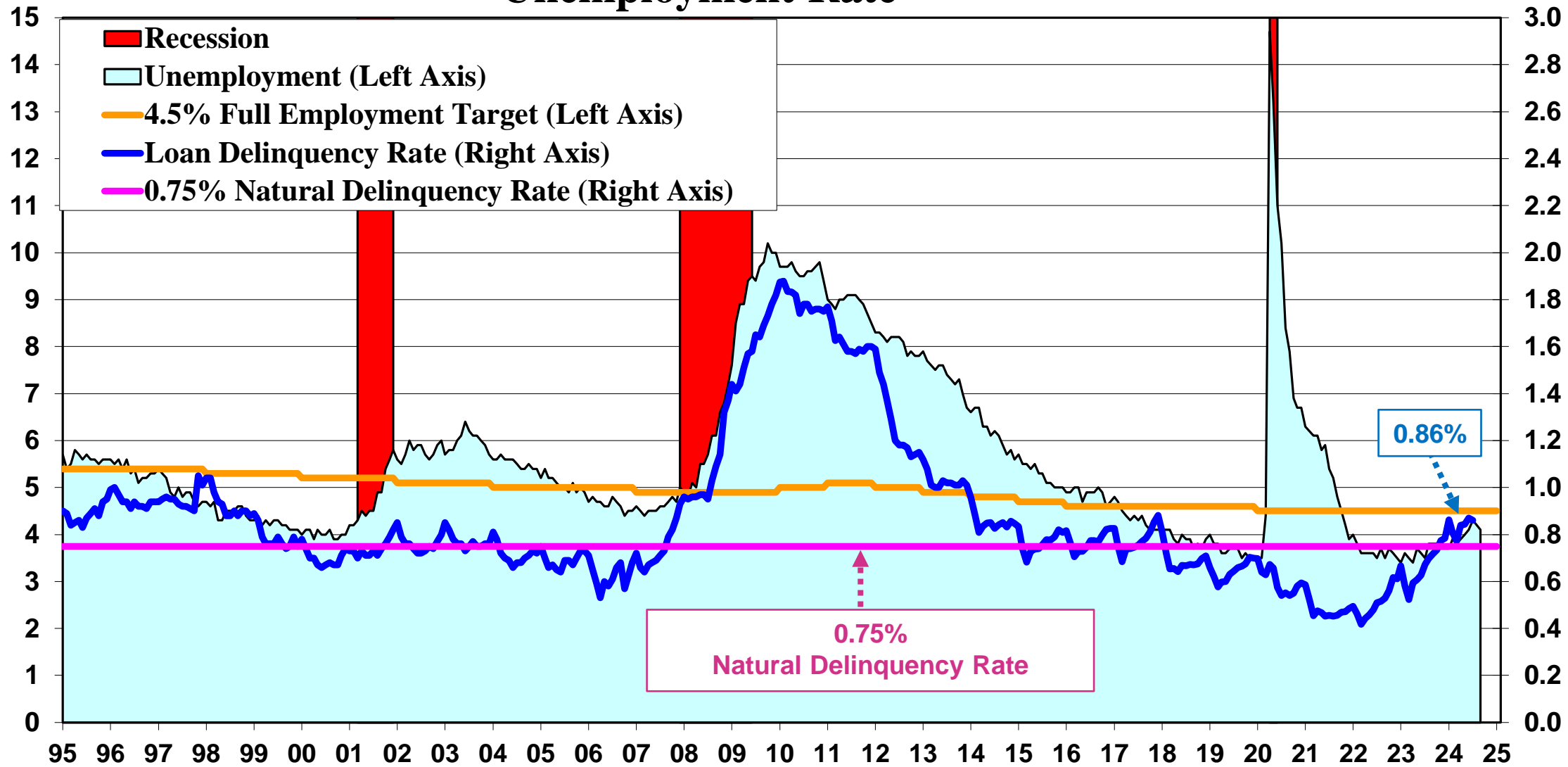
# CU Delinquency Rate Versus Unemployment Rate



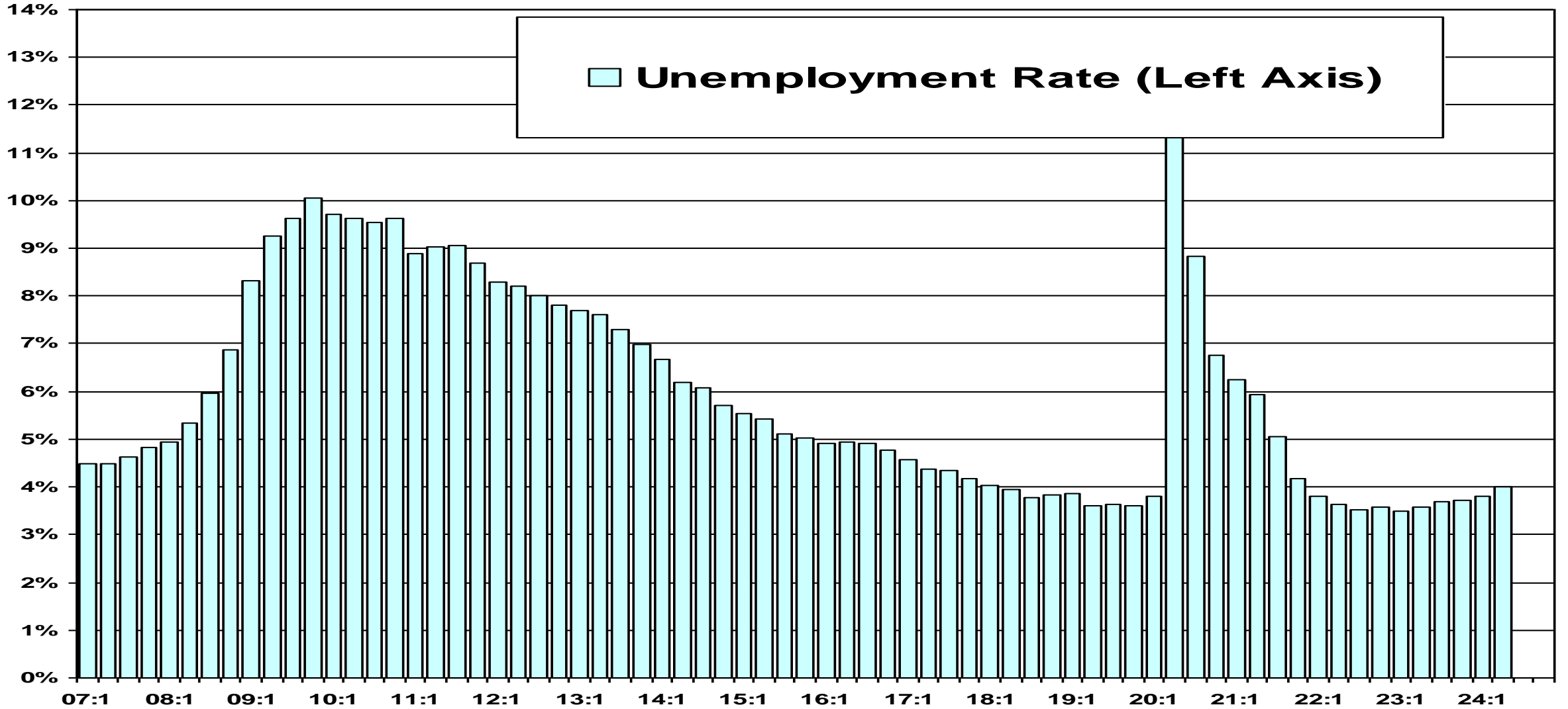
# CU Delinquency Rate Versus Unemployment Rate



# CU Delinquency Rate Versus Unemployment Rate



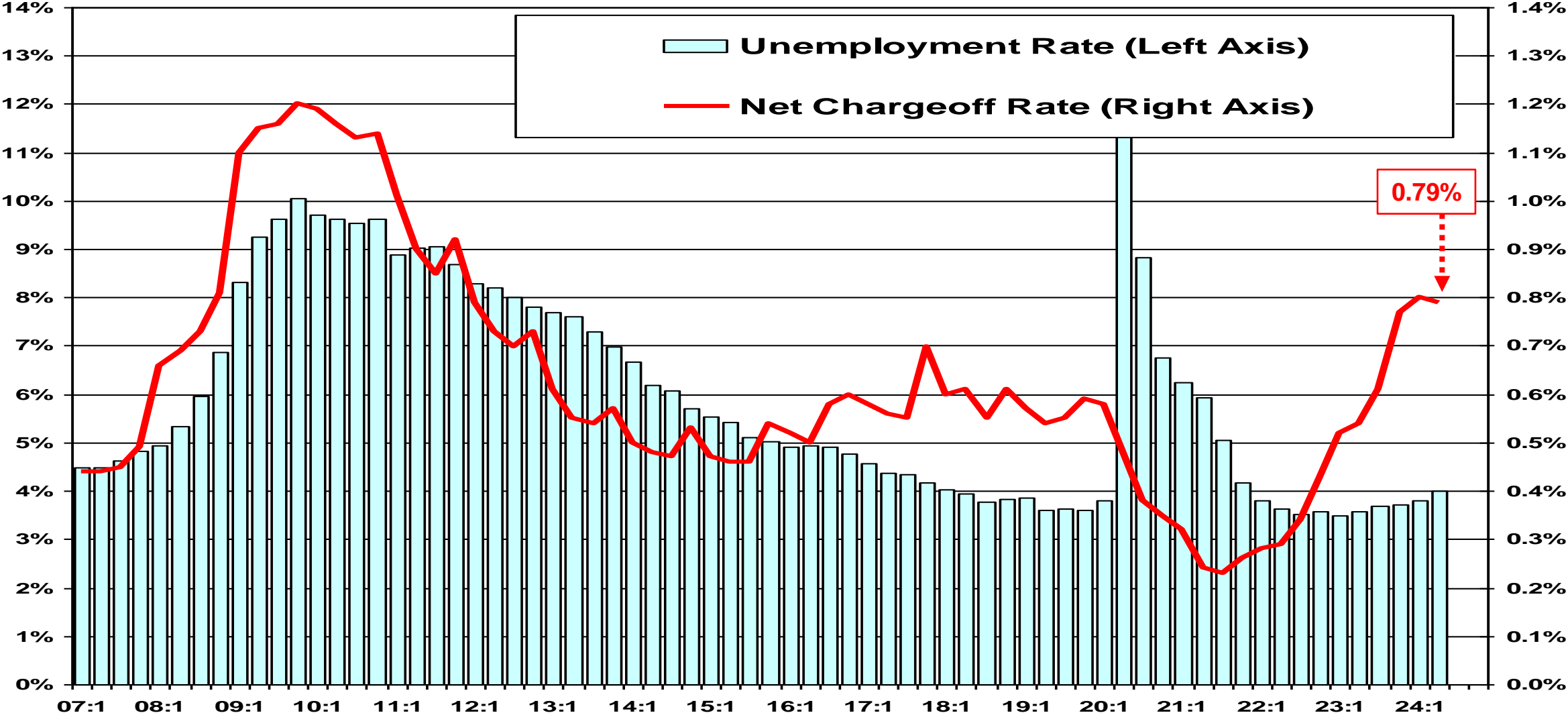
# CU Net Chargeoff Rate Versus Unemployment Rate



Source: Department of Labor, NCUA, CUNA

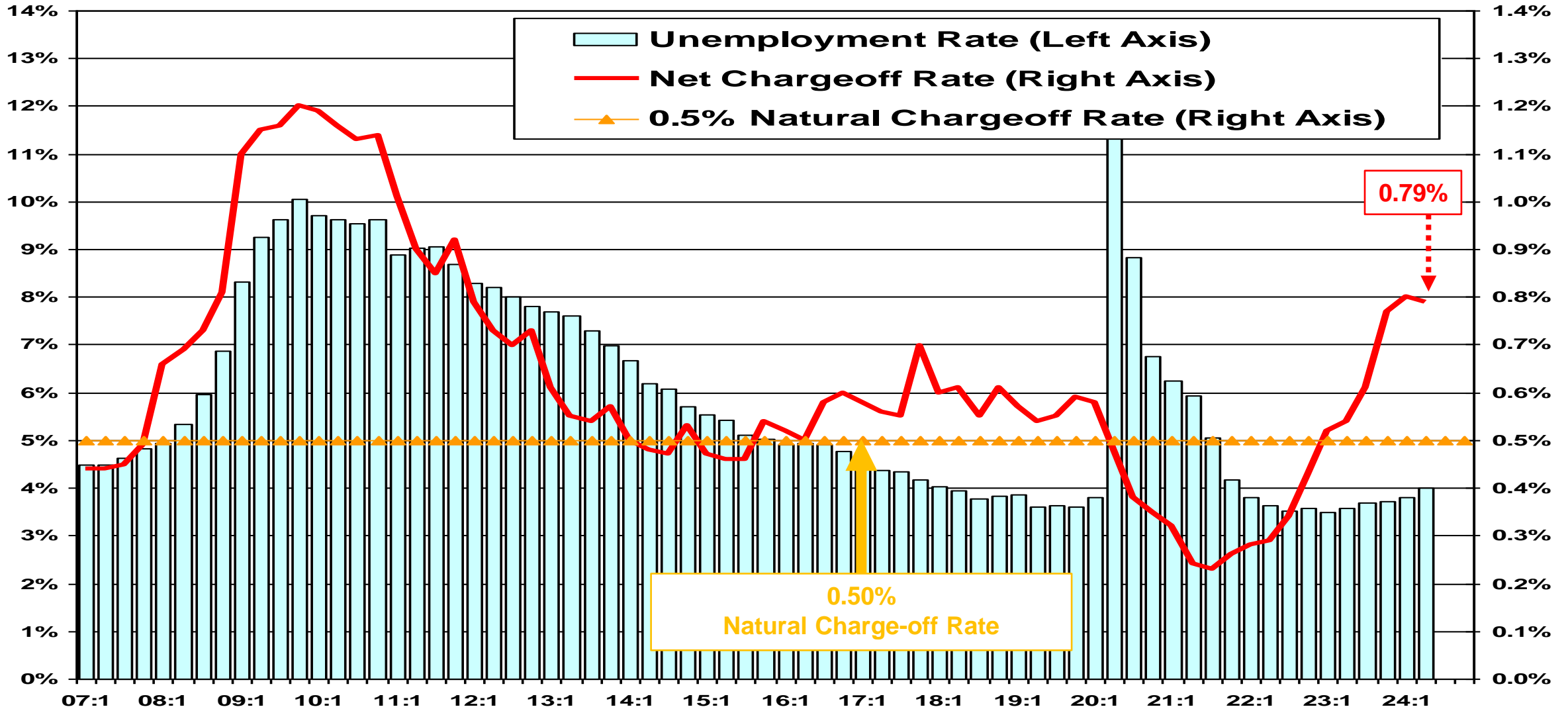


# CU Net Chargeoff Rate Versus Unemployment Rate



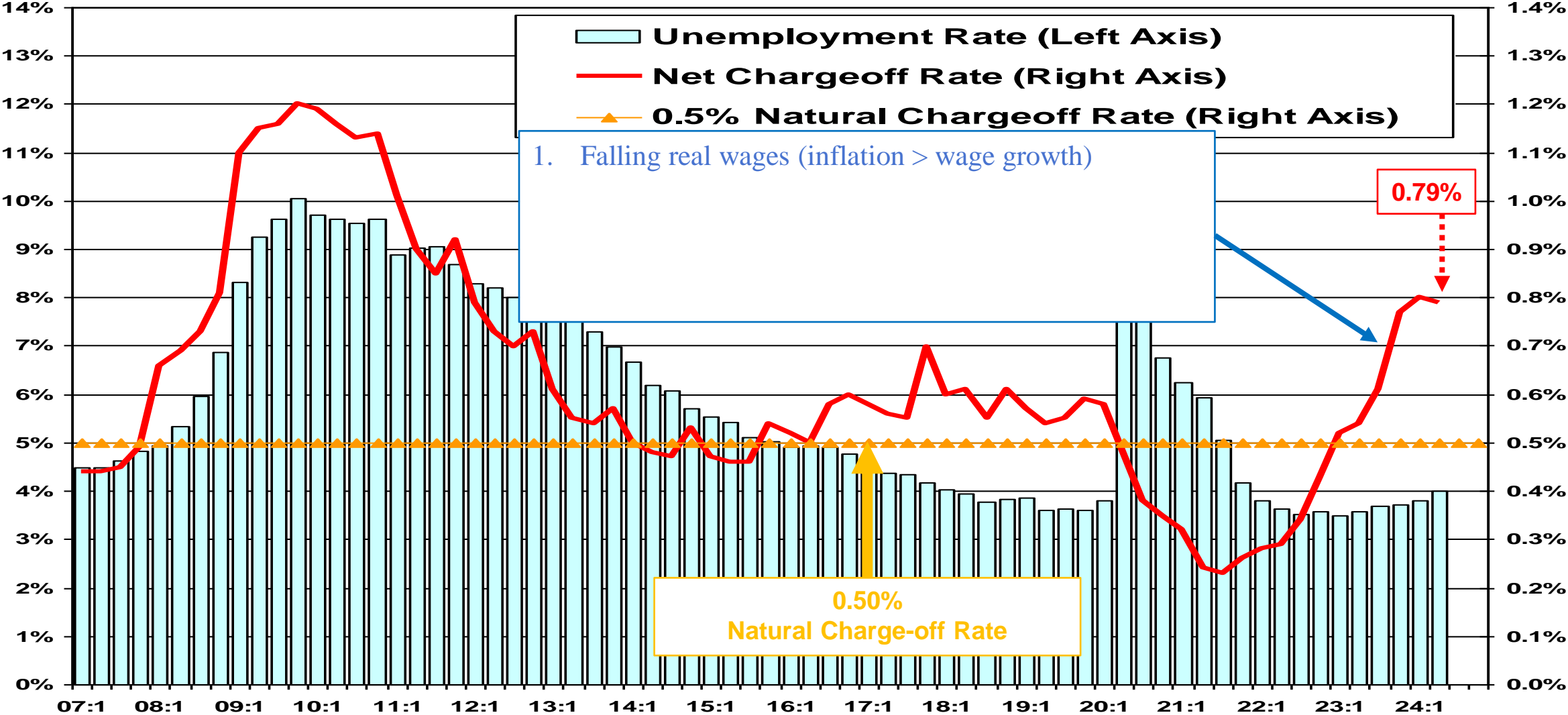
Source: Department of Labor, NCUA, CUNA

# CU Net Chargeoff Rate Versus Unemployment Rate



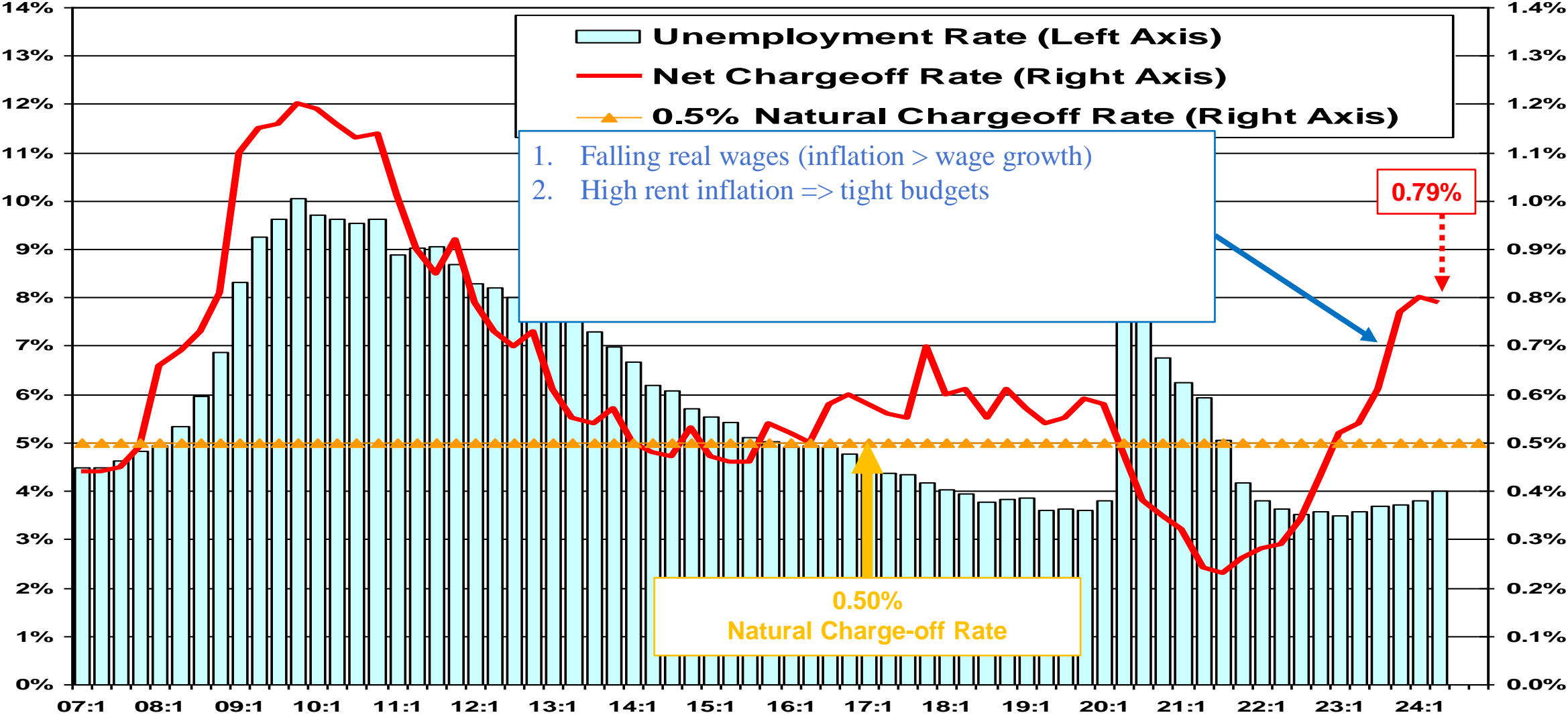
Source: Department of Labor, NCUA, CUNA

# CU Net Chargeoff Rate Versus Unemployment Rate



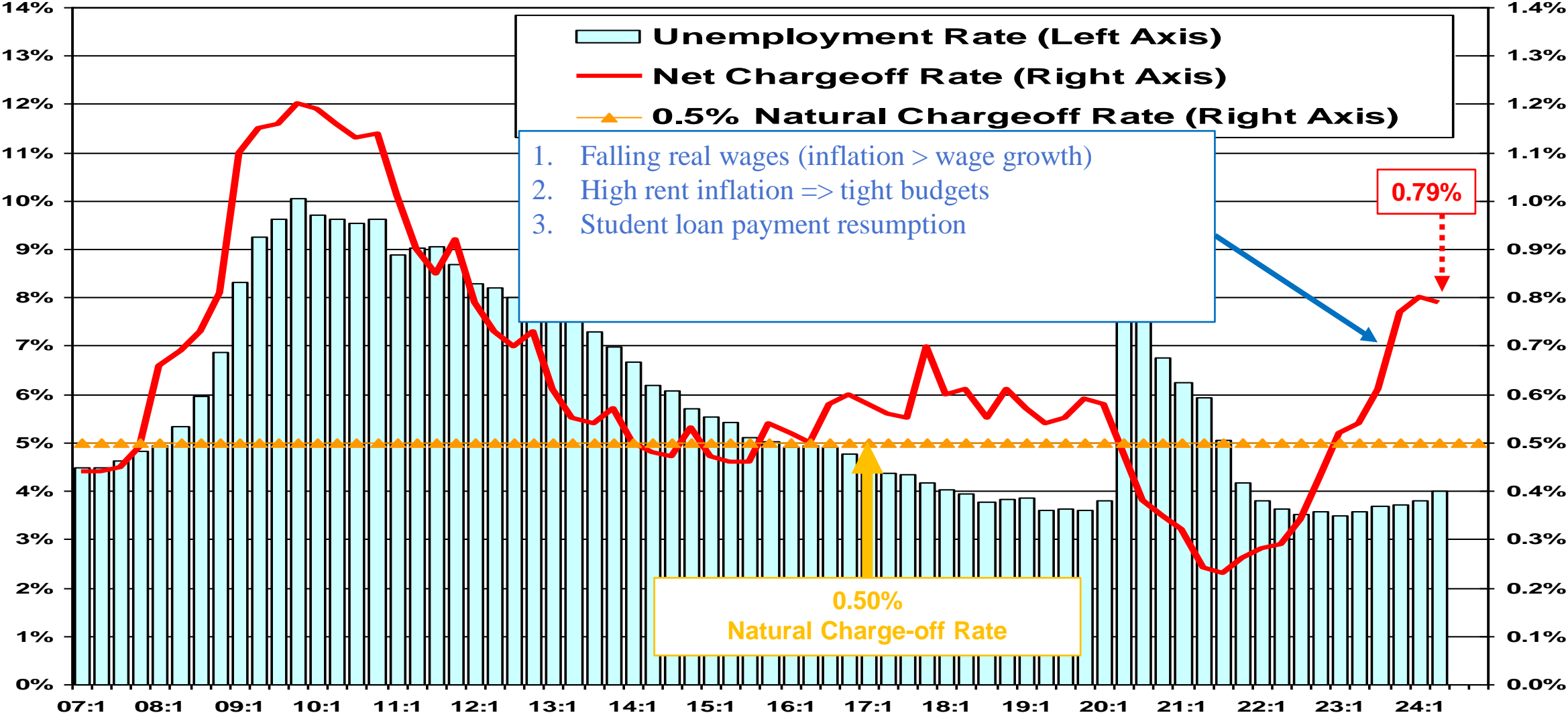
Source: Department of Labor, NCUA, CUNA

# CU Net Chargeoff Rate Versus Unemployment Rate



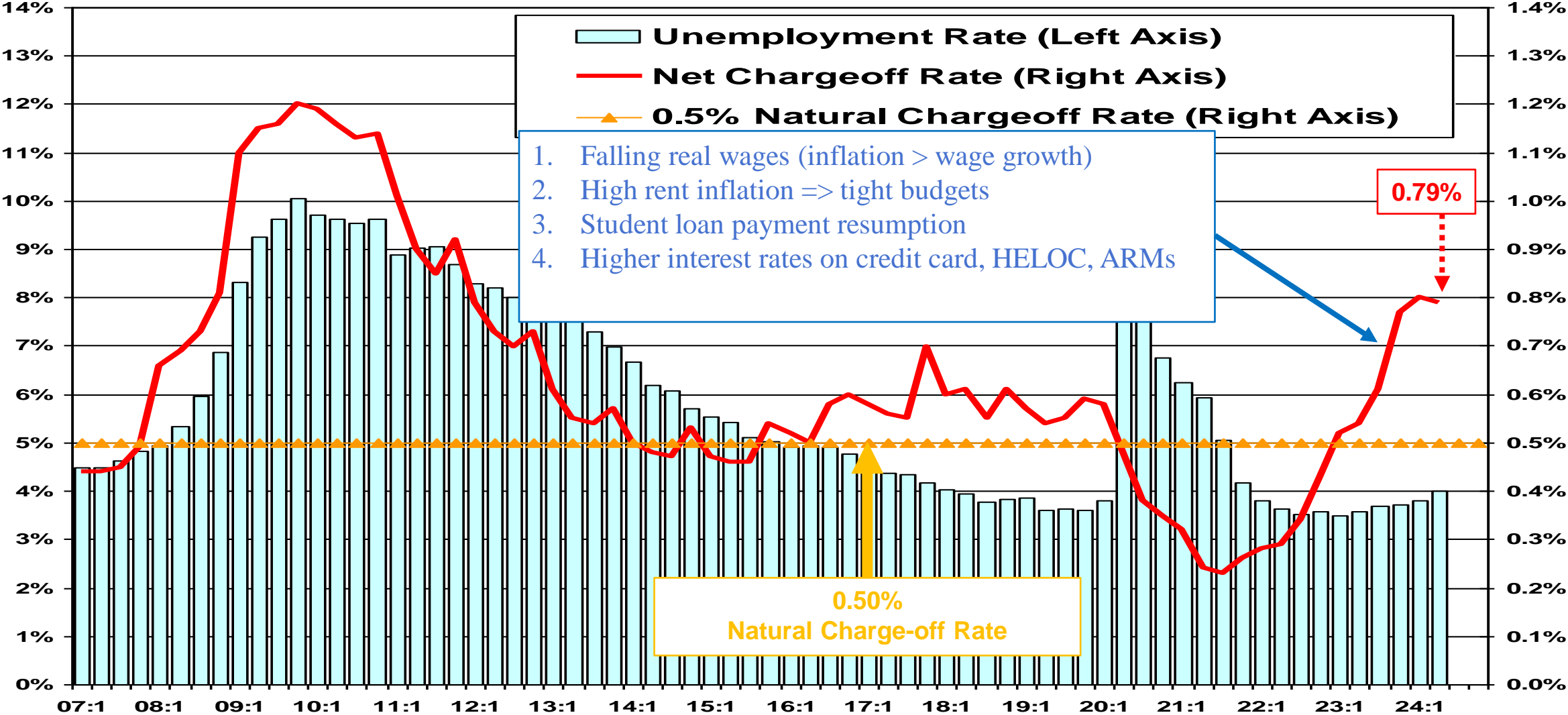
Source: Department of Labor, NCUA, CUNA

# CU Net Chargeoff Rate Versus Unemployment Rate



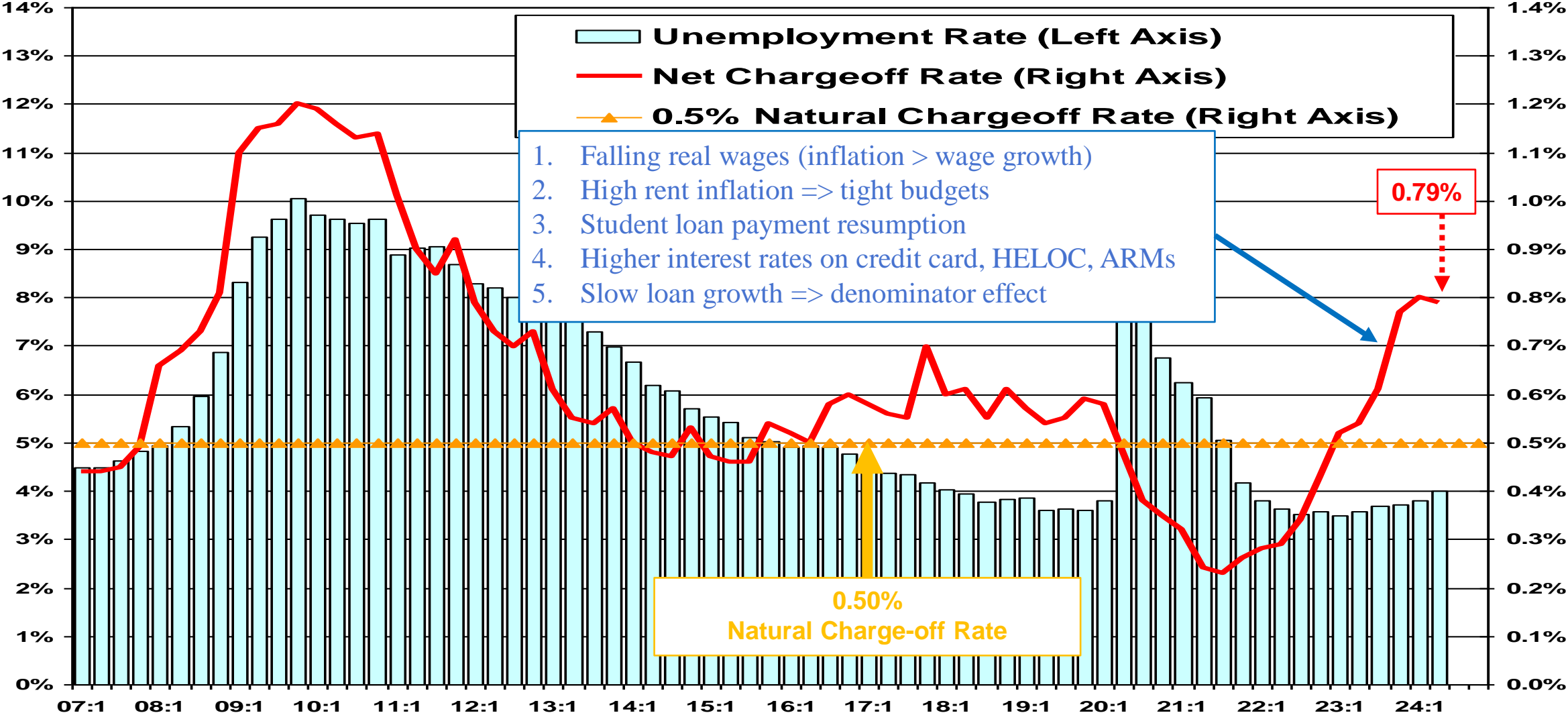
Source: Department of Labor, NCUA, CUNA

# CU Net Chargeoff Rate Versus Unemployment Rate



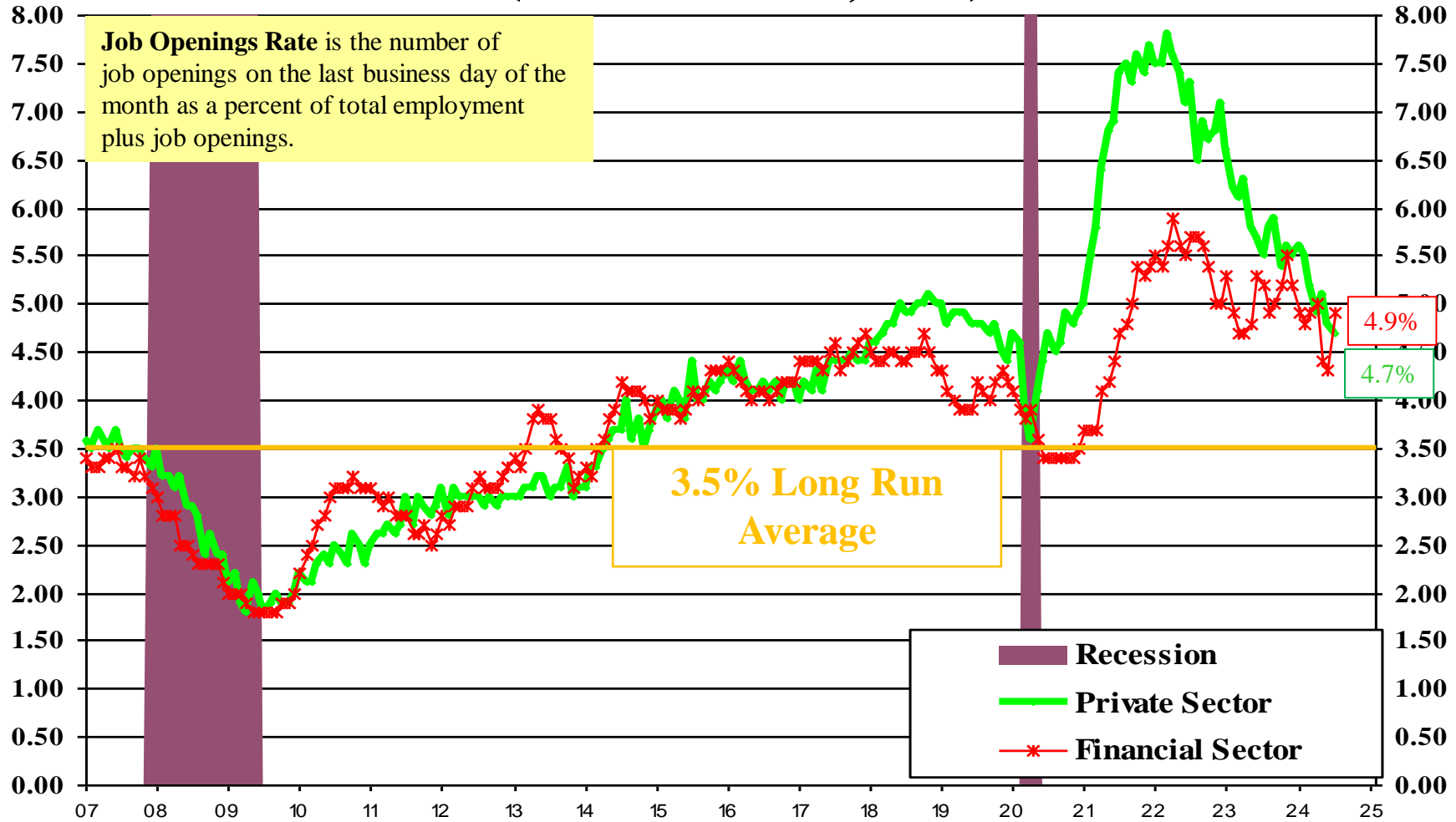
Source: Department of Labor, NCUA, CUNA

# CU Net Chargeoff Rate Versus Unemployment Rate



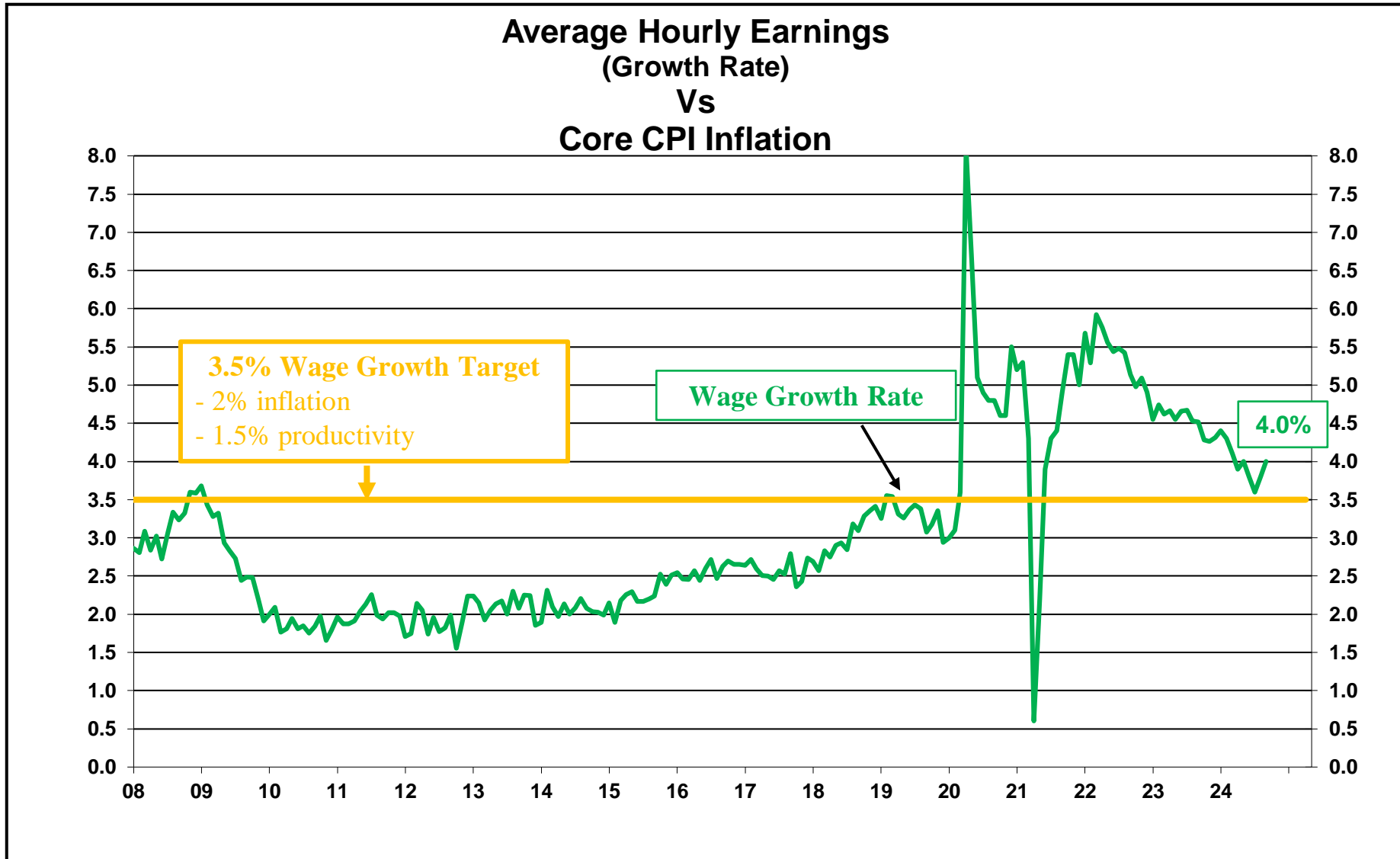
Source: Department of Labor, NCUA, CUNA

# Job Openings Rate (Thousands, SA)

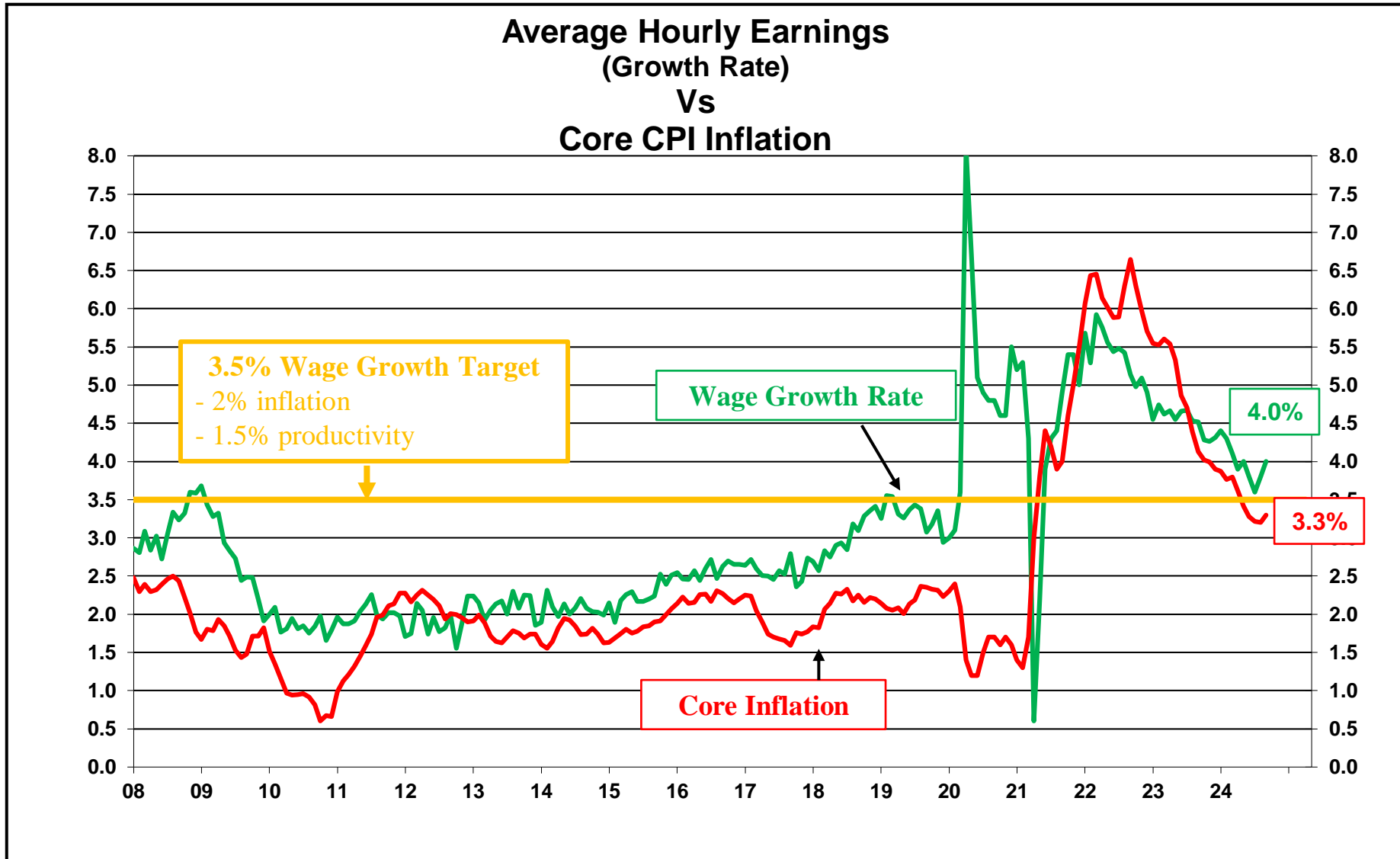




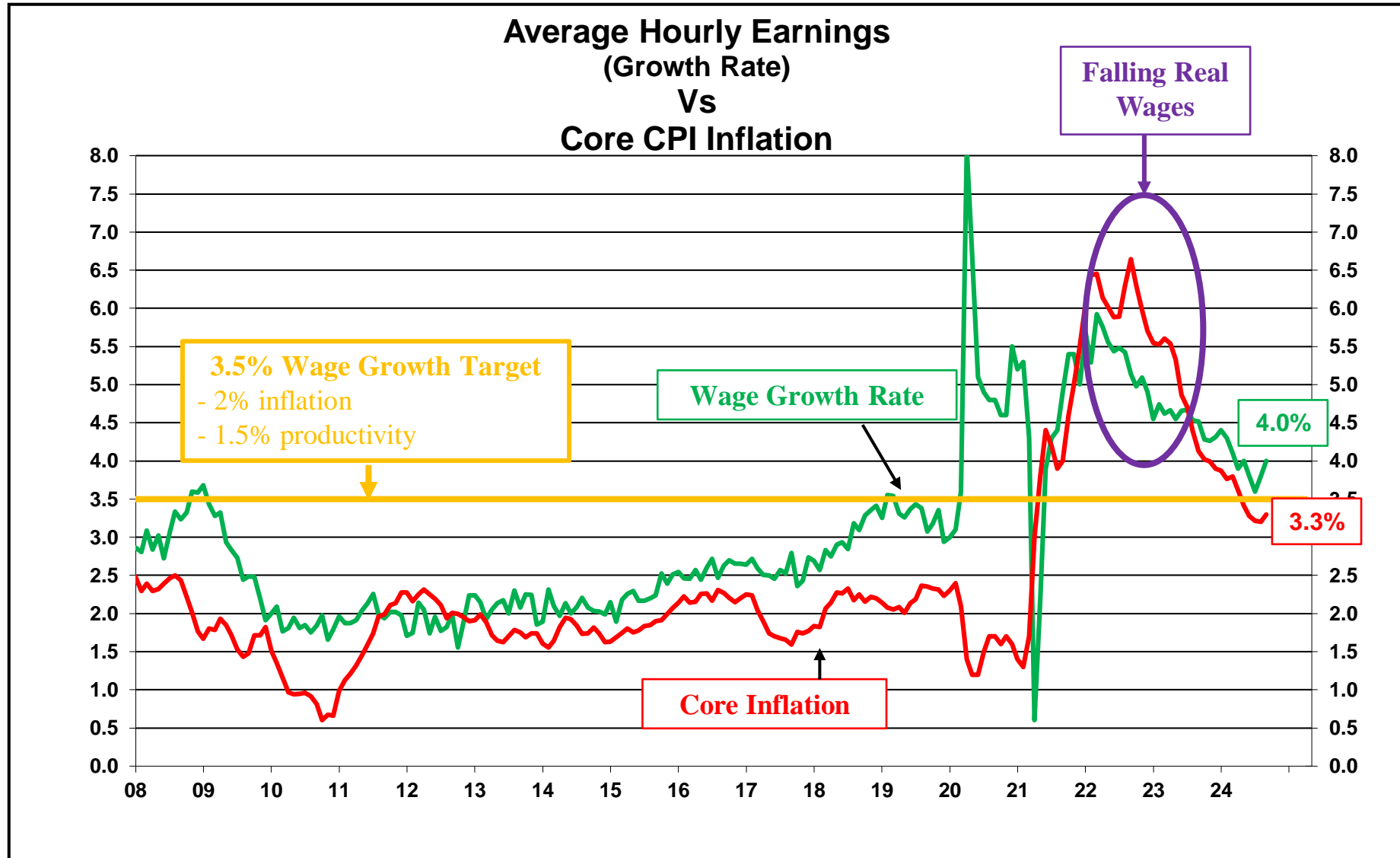
# Wage Growth Slowing as Core Inflation Falls



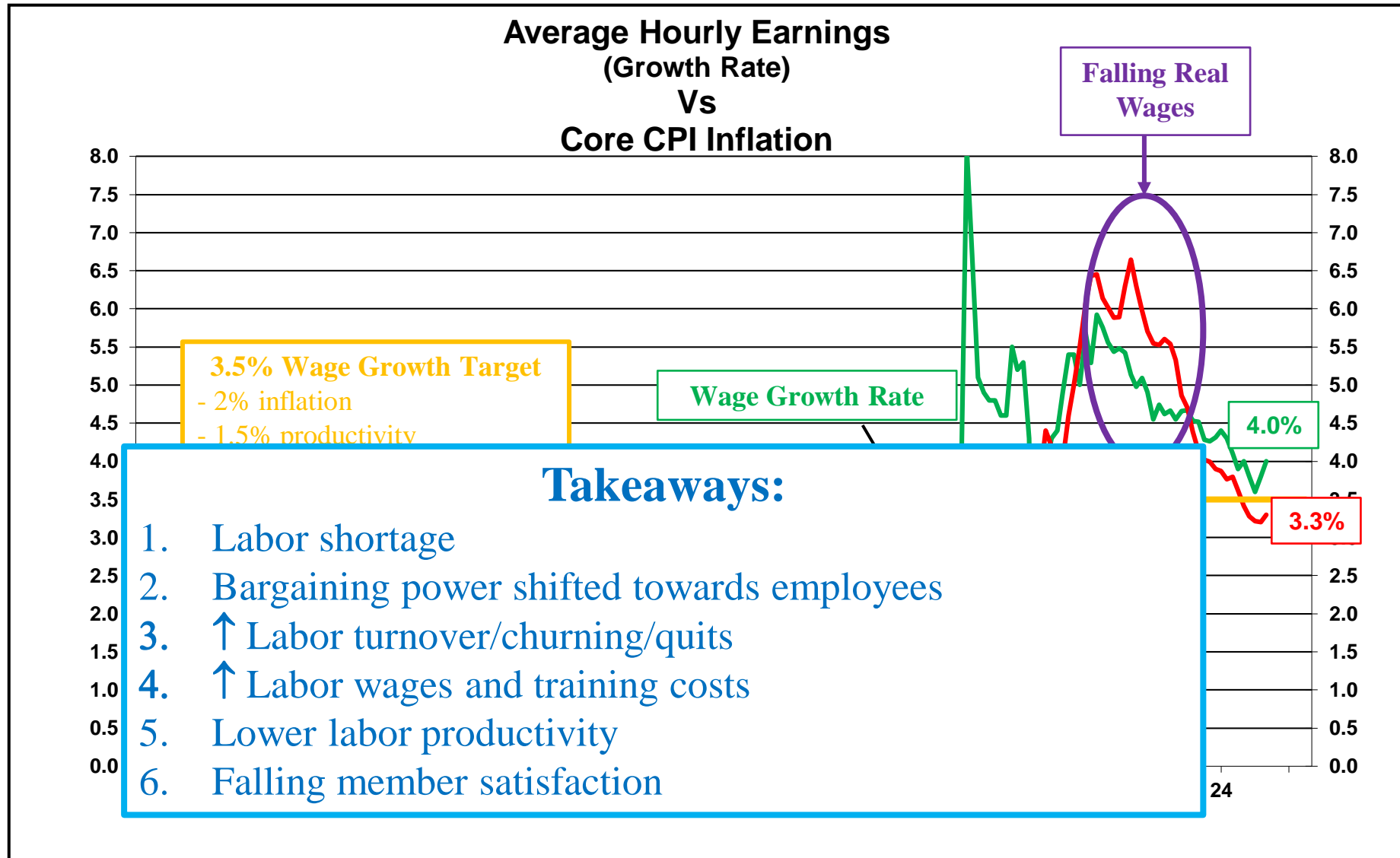
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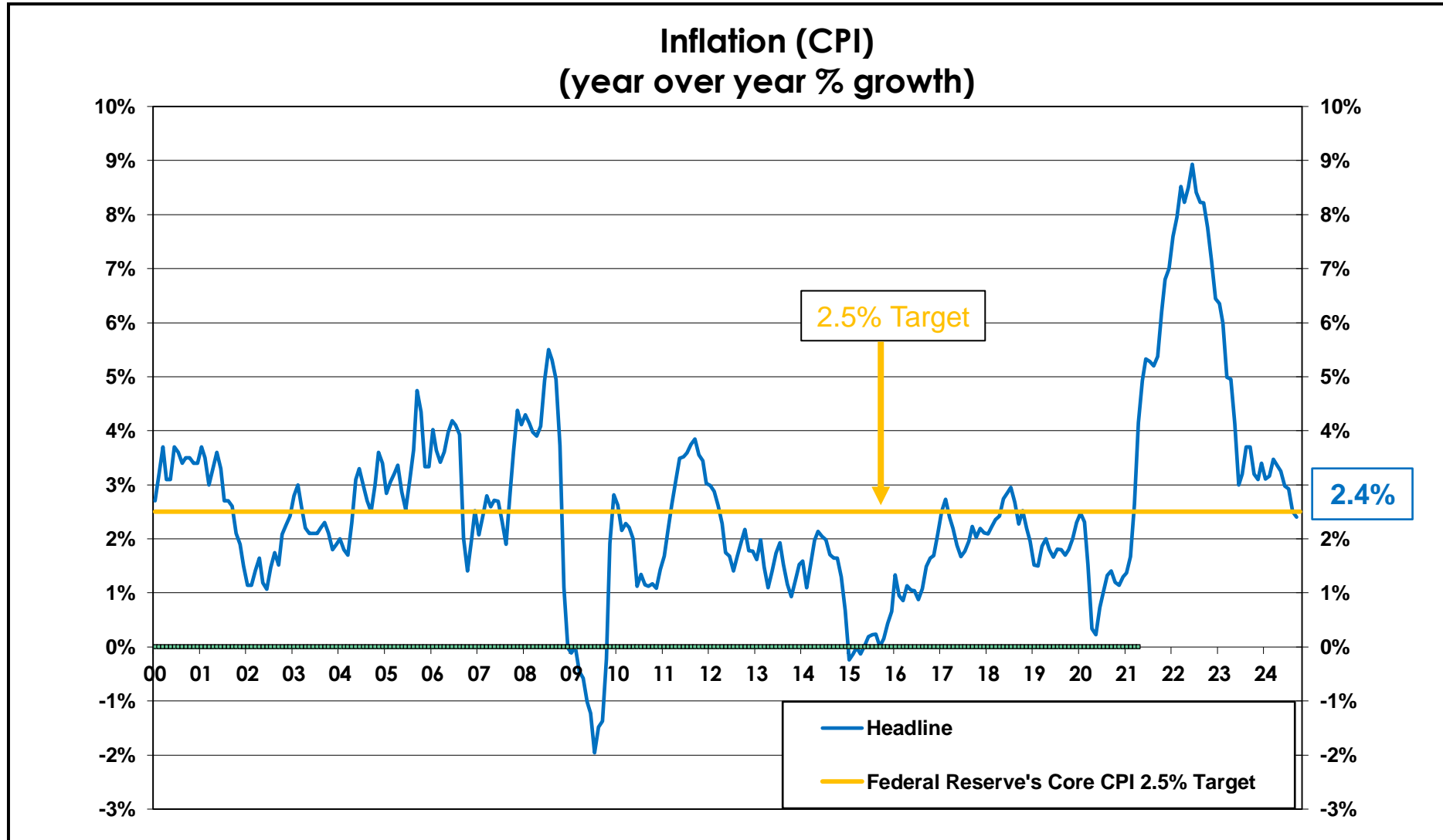
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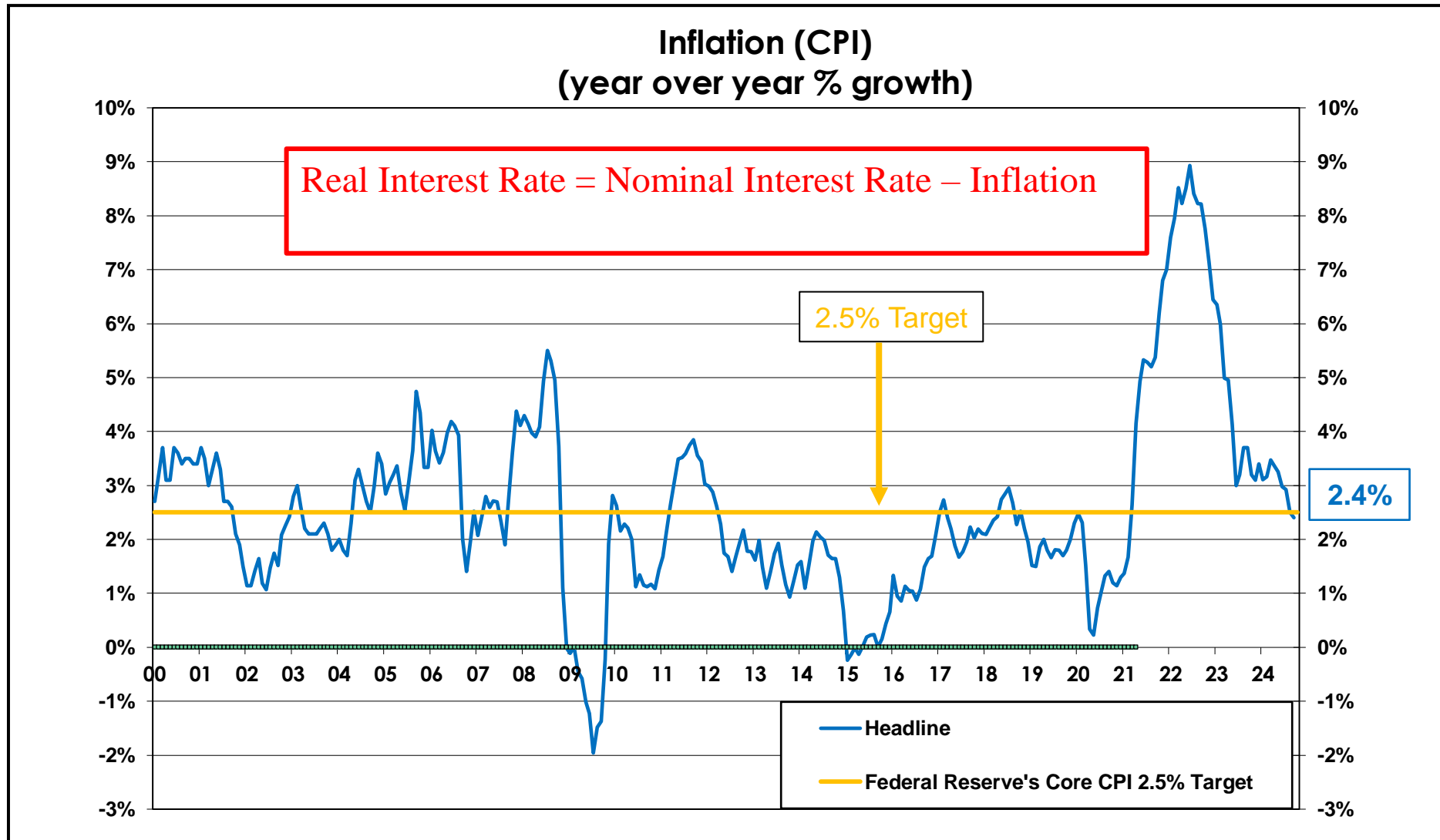
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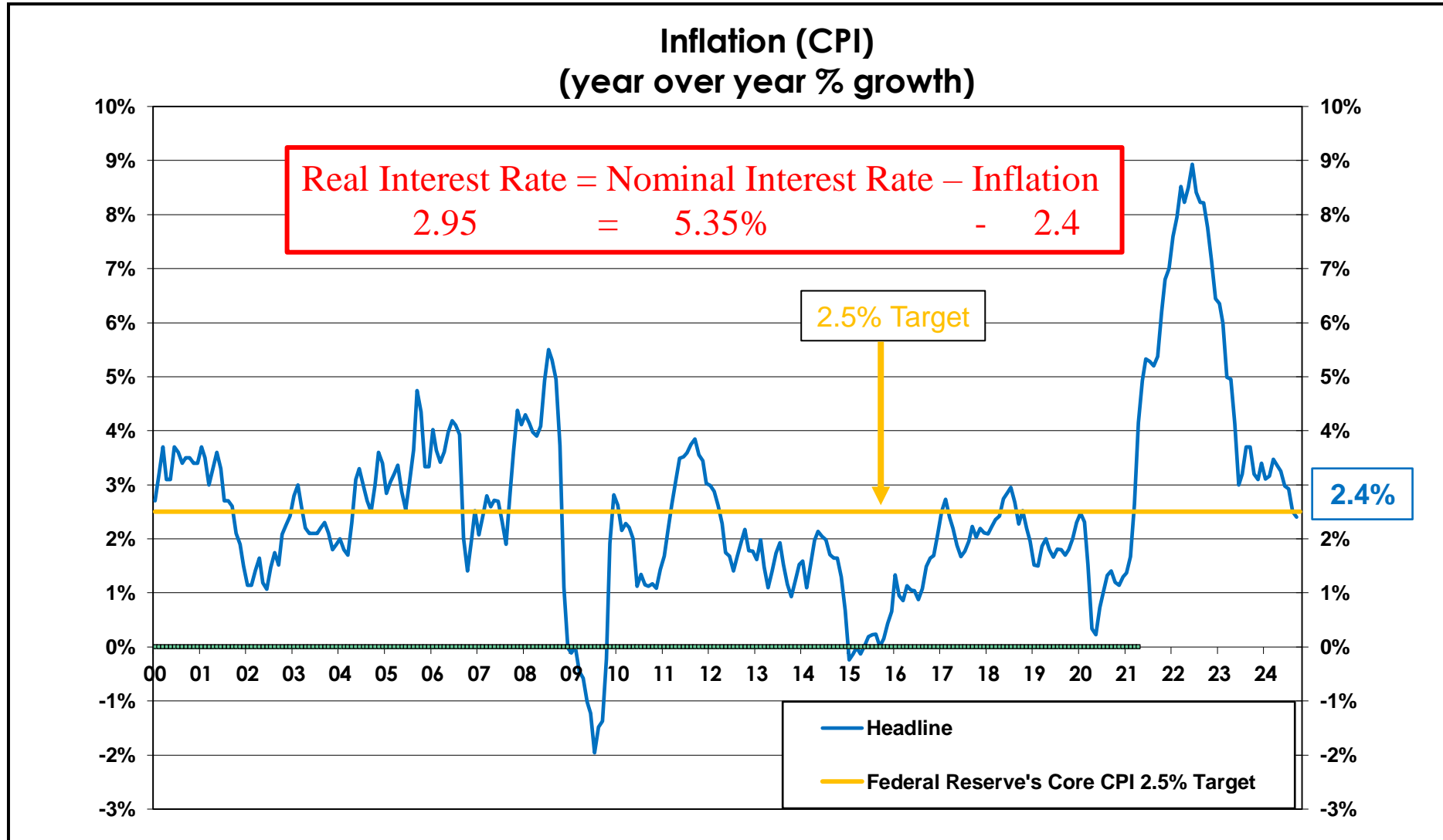
# Inflation Approaching 2% Target



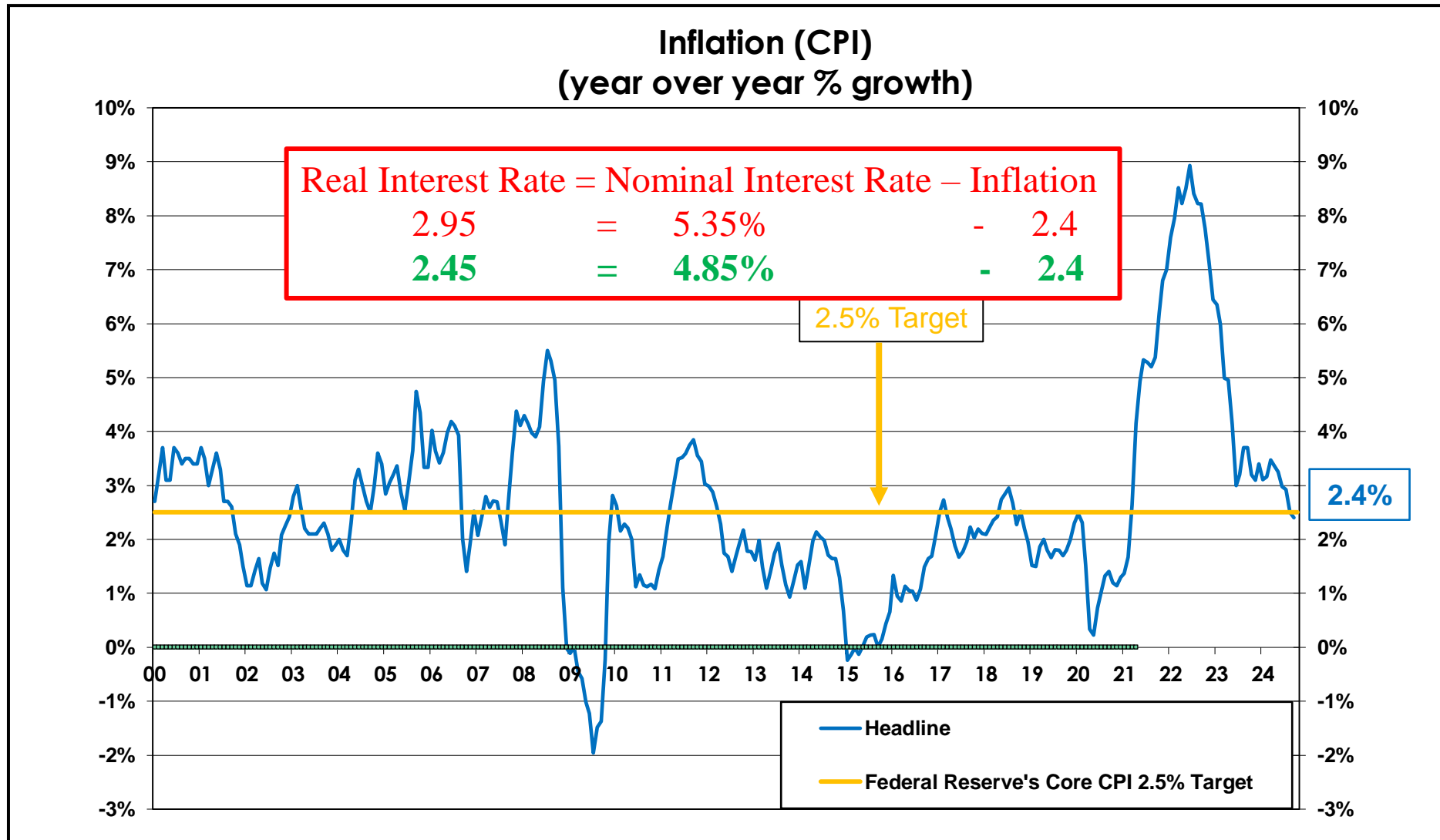
# Inflation Approaching 2% Target



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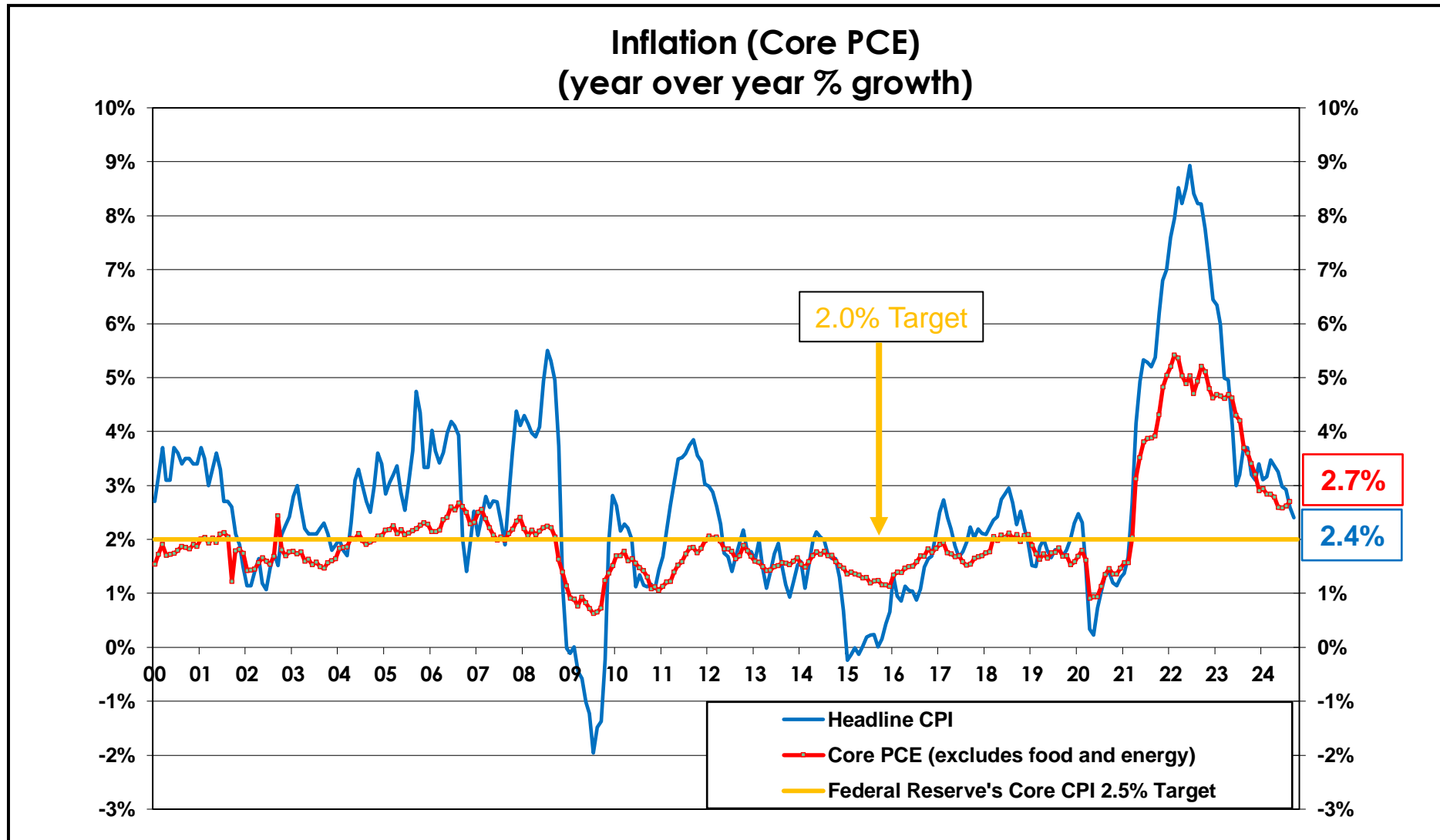


# Inflation Approaching 2% Target

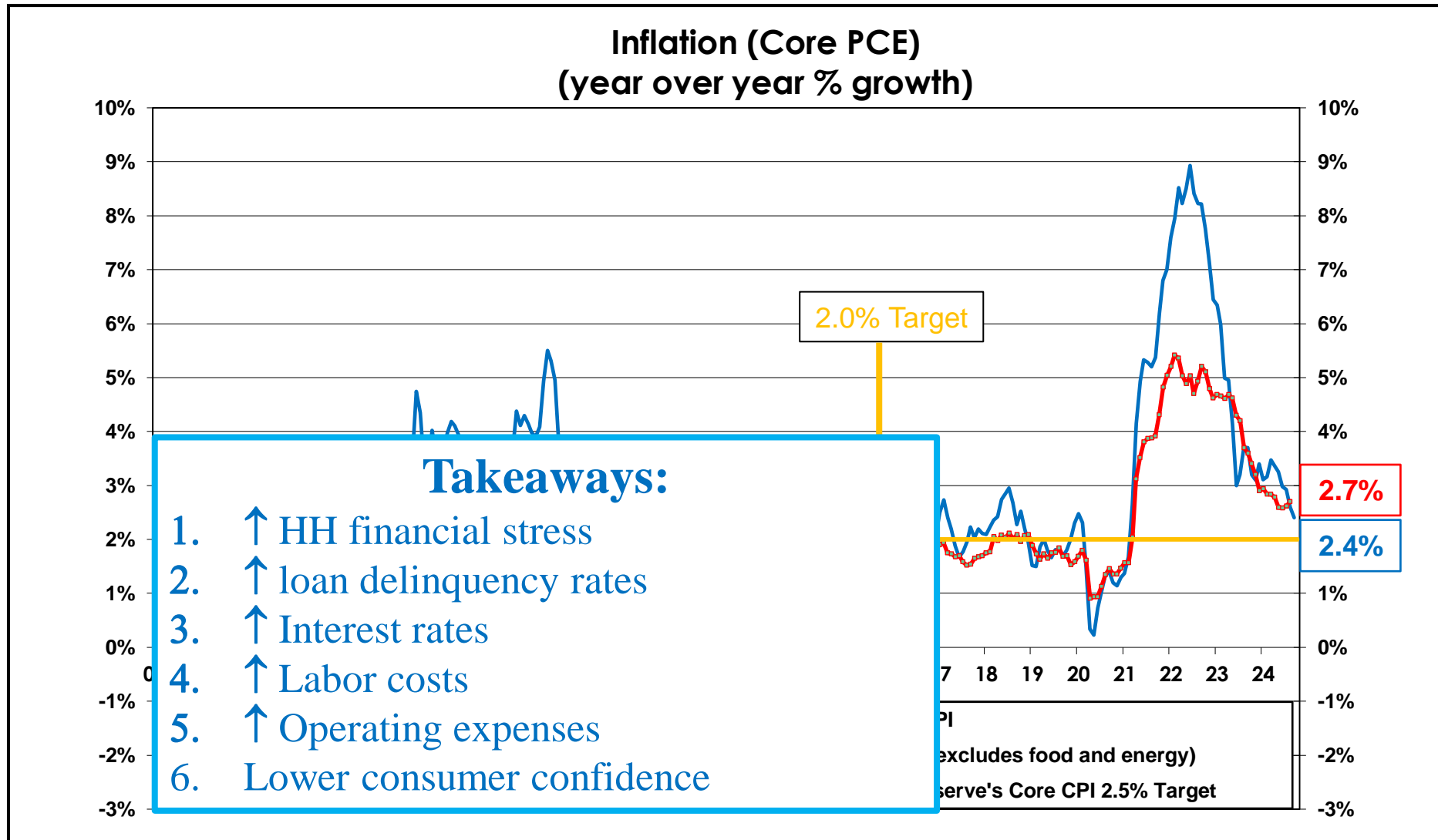




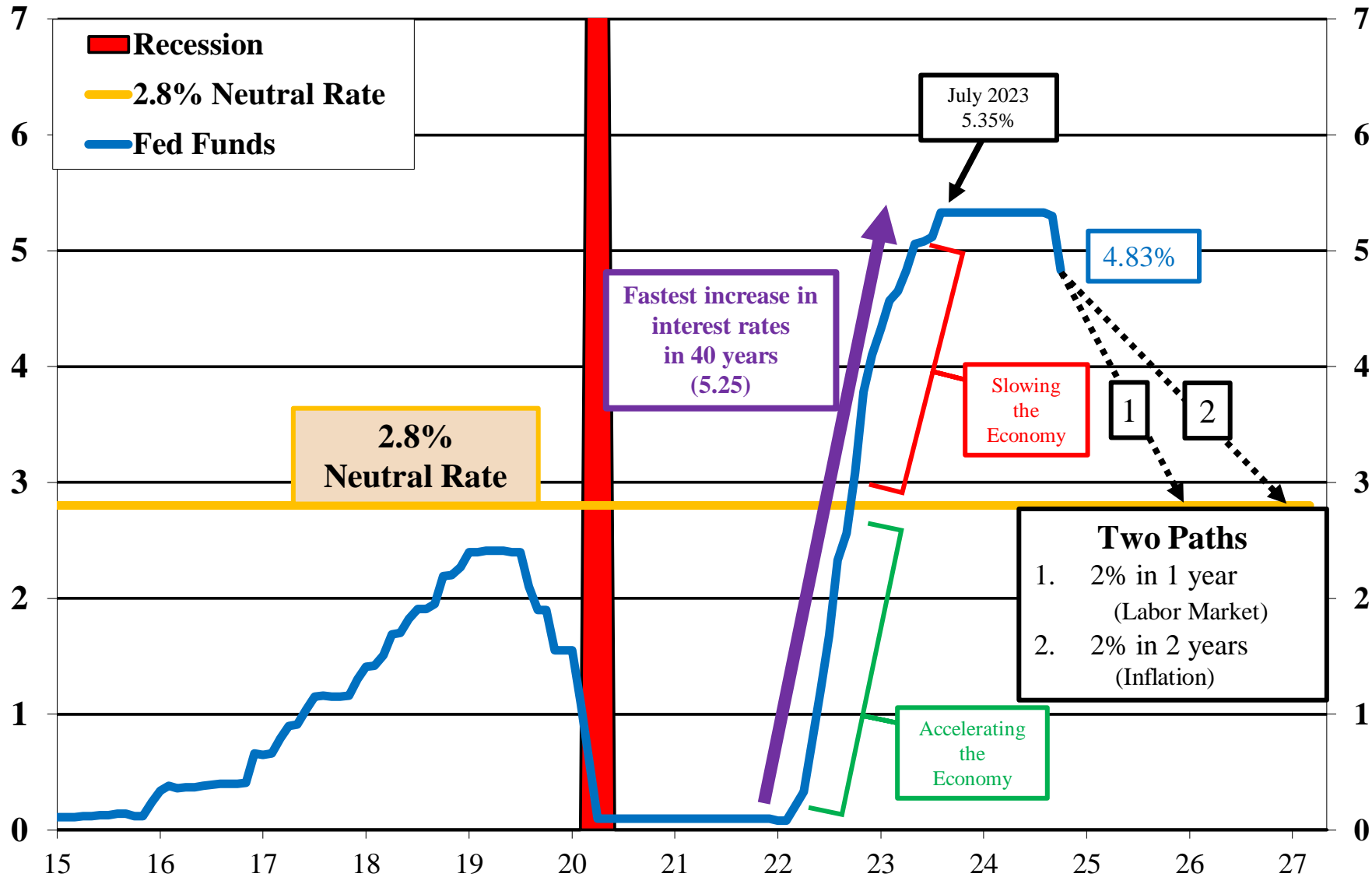
# Inflation Approaching 2% Target



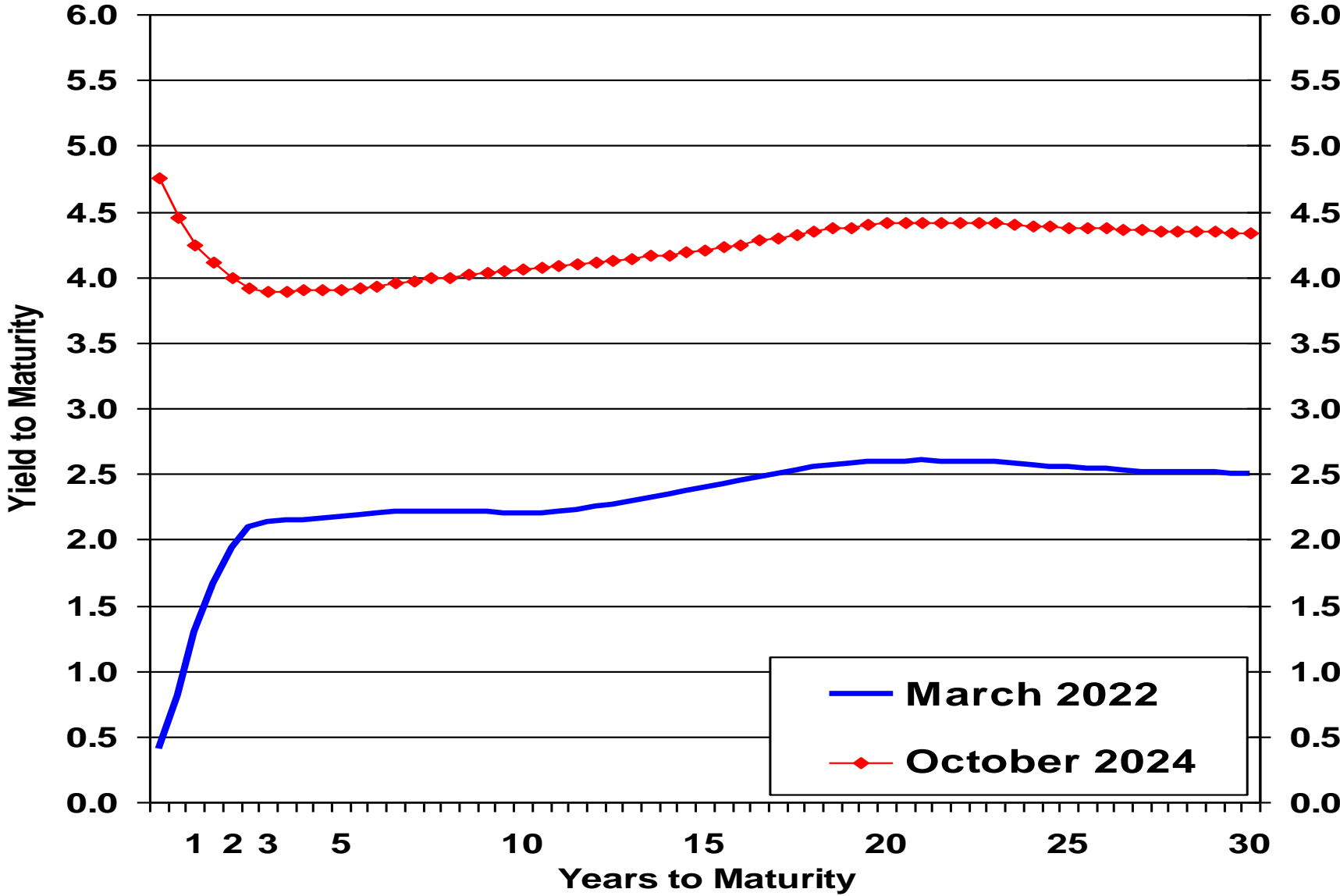
# Inflation Approaching 2% Target



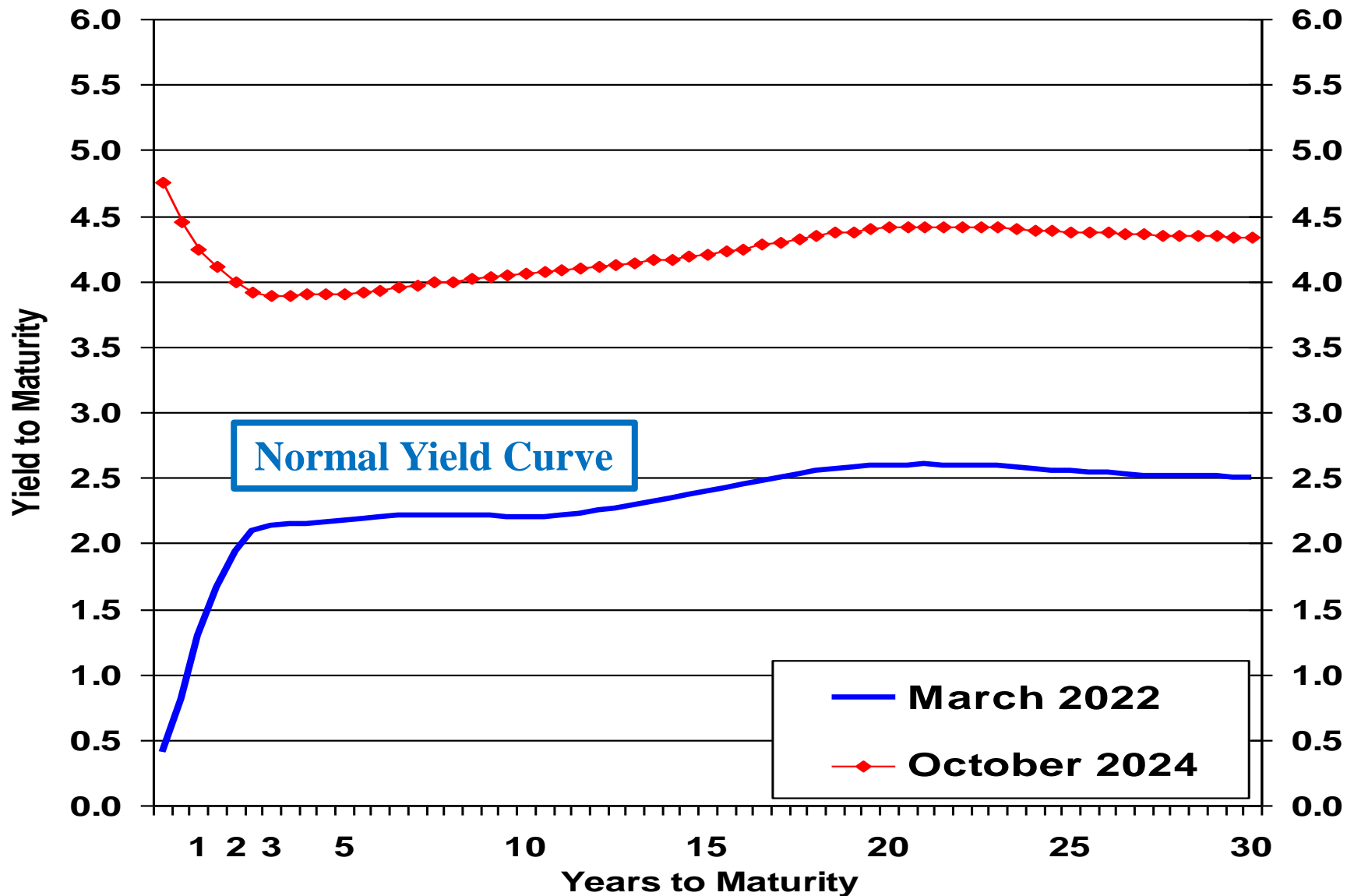
# Fed Funds Interest Rate



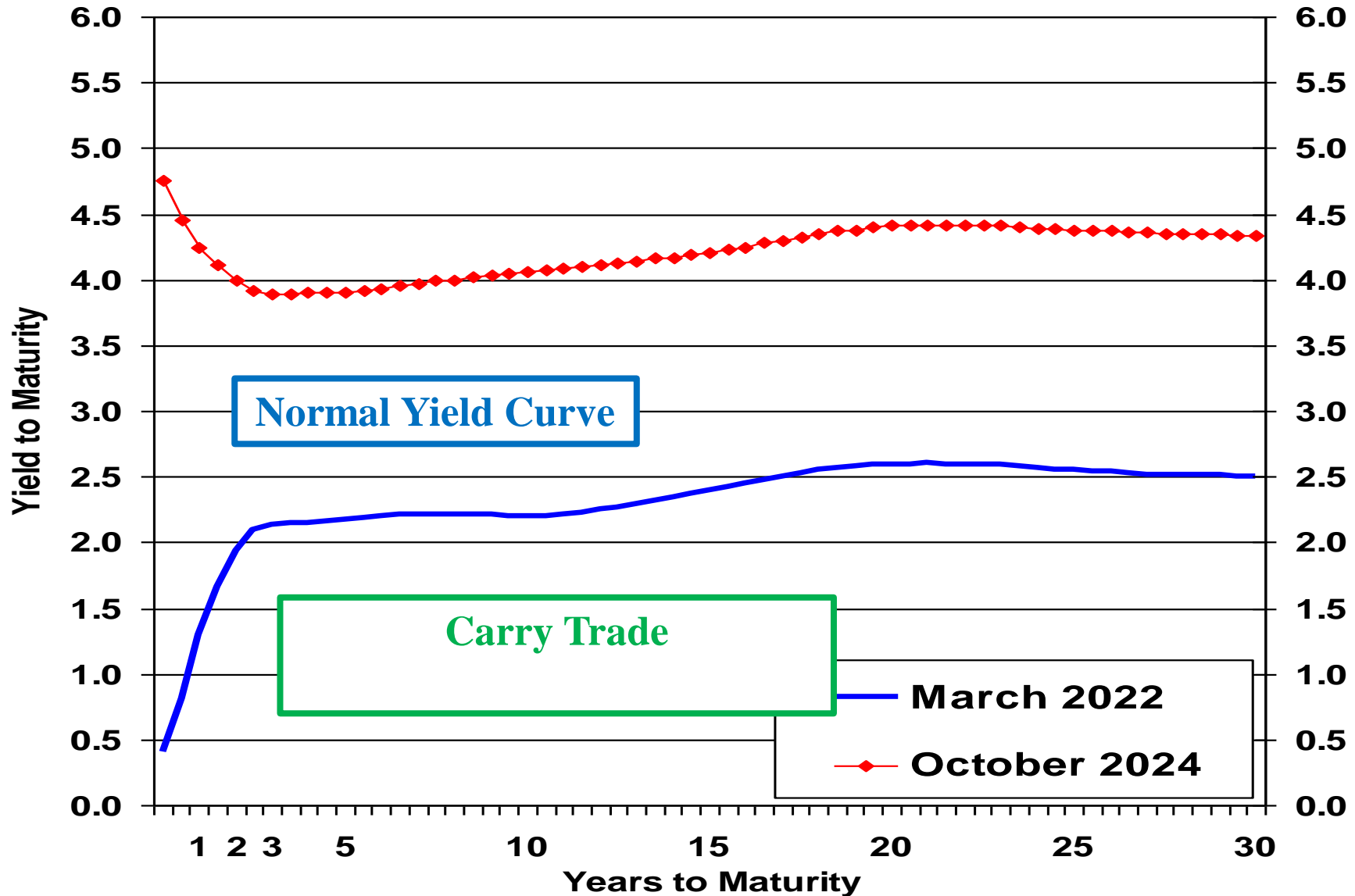
# Treasury Yield Curves



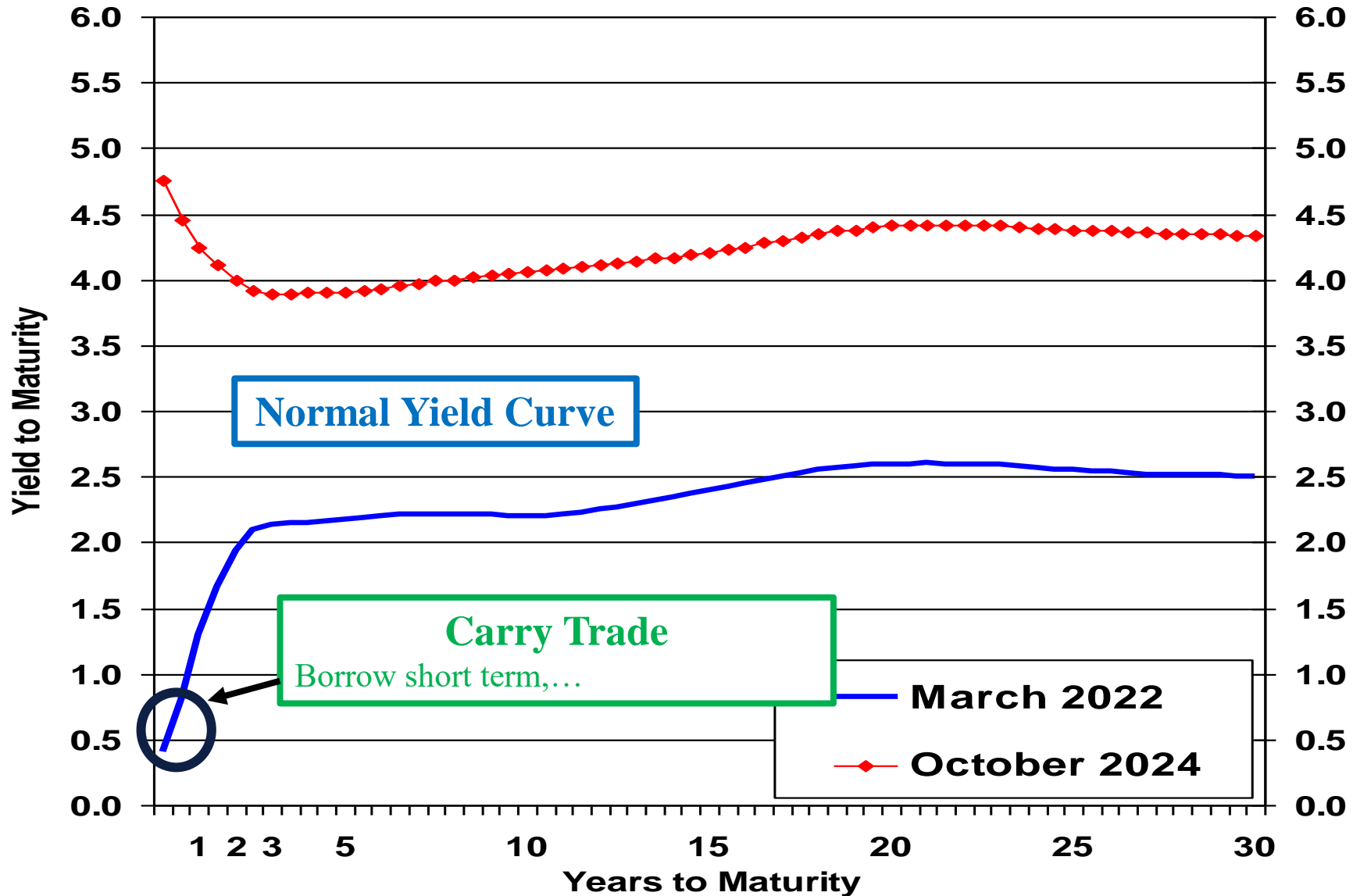
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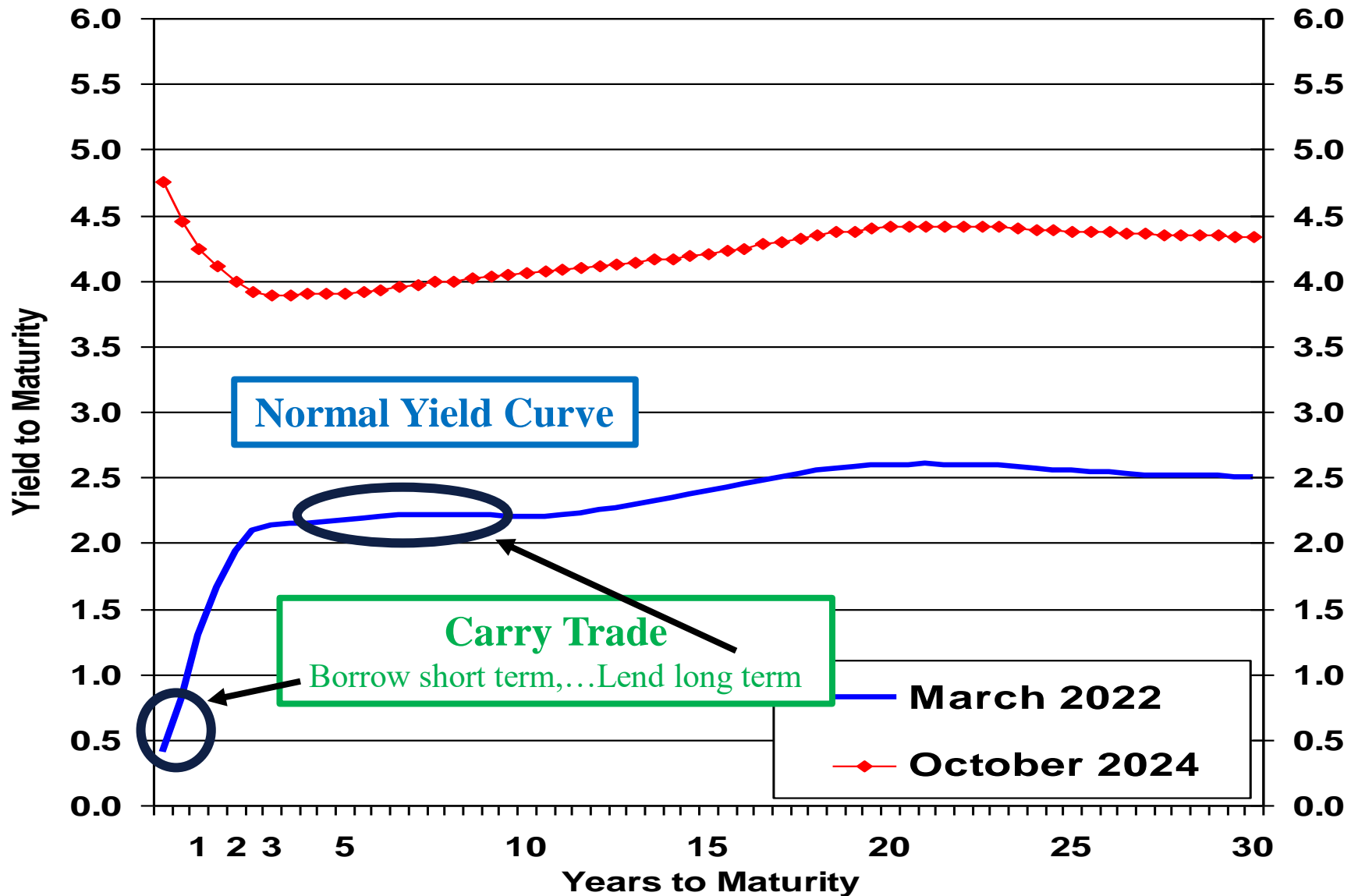
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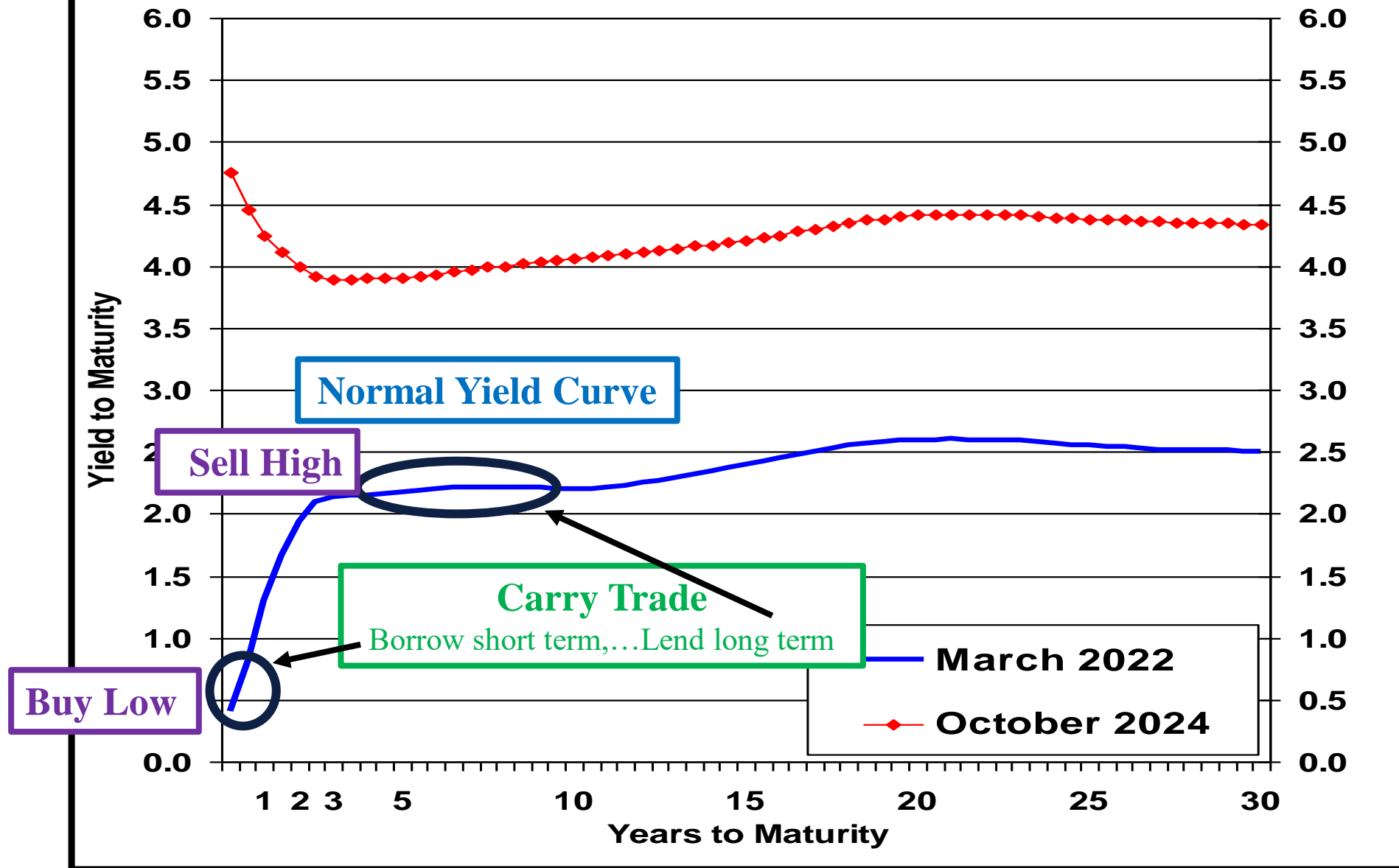


# Treasury Yield Curves

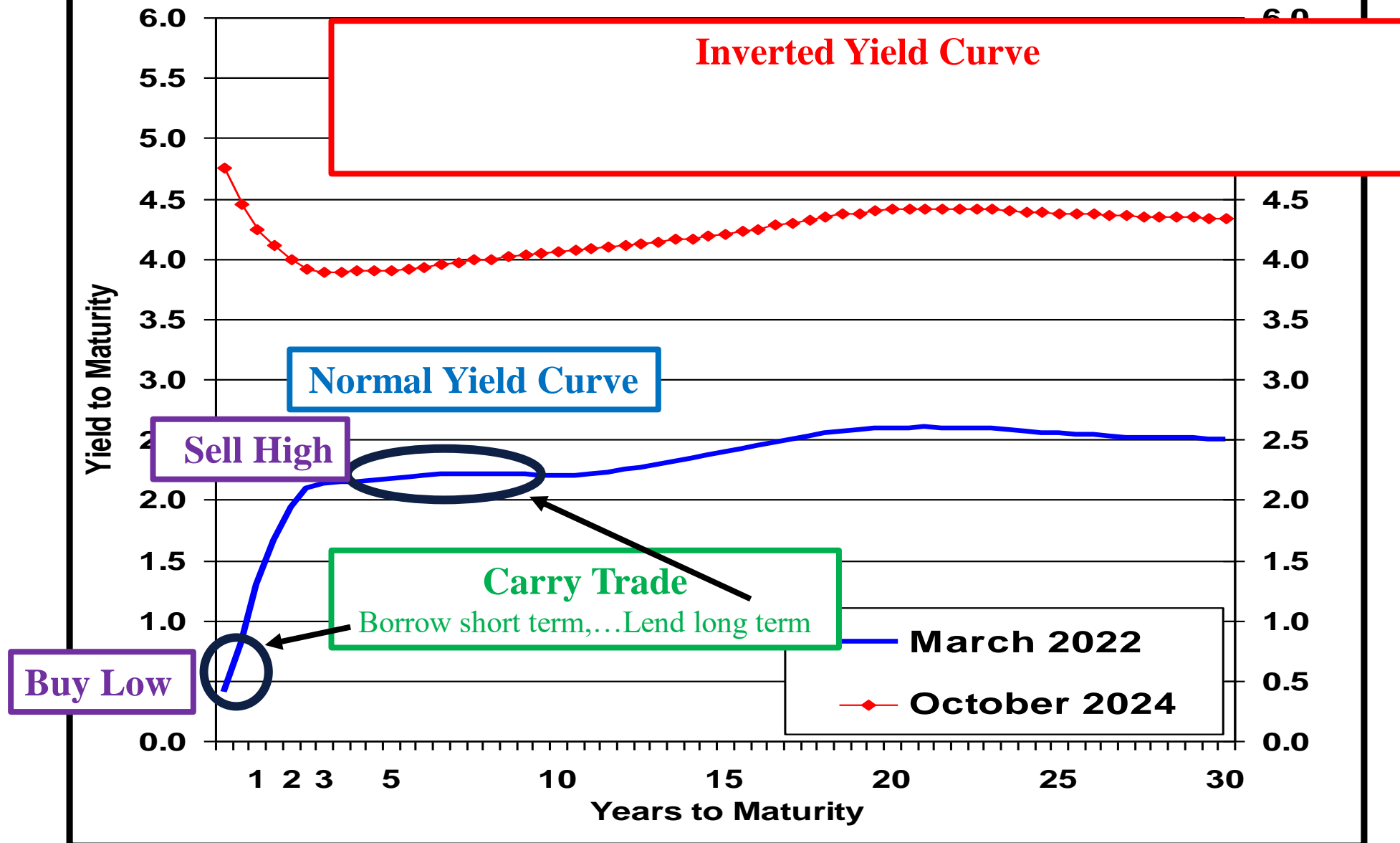




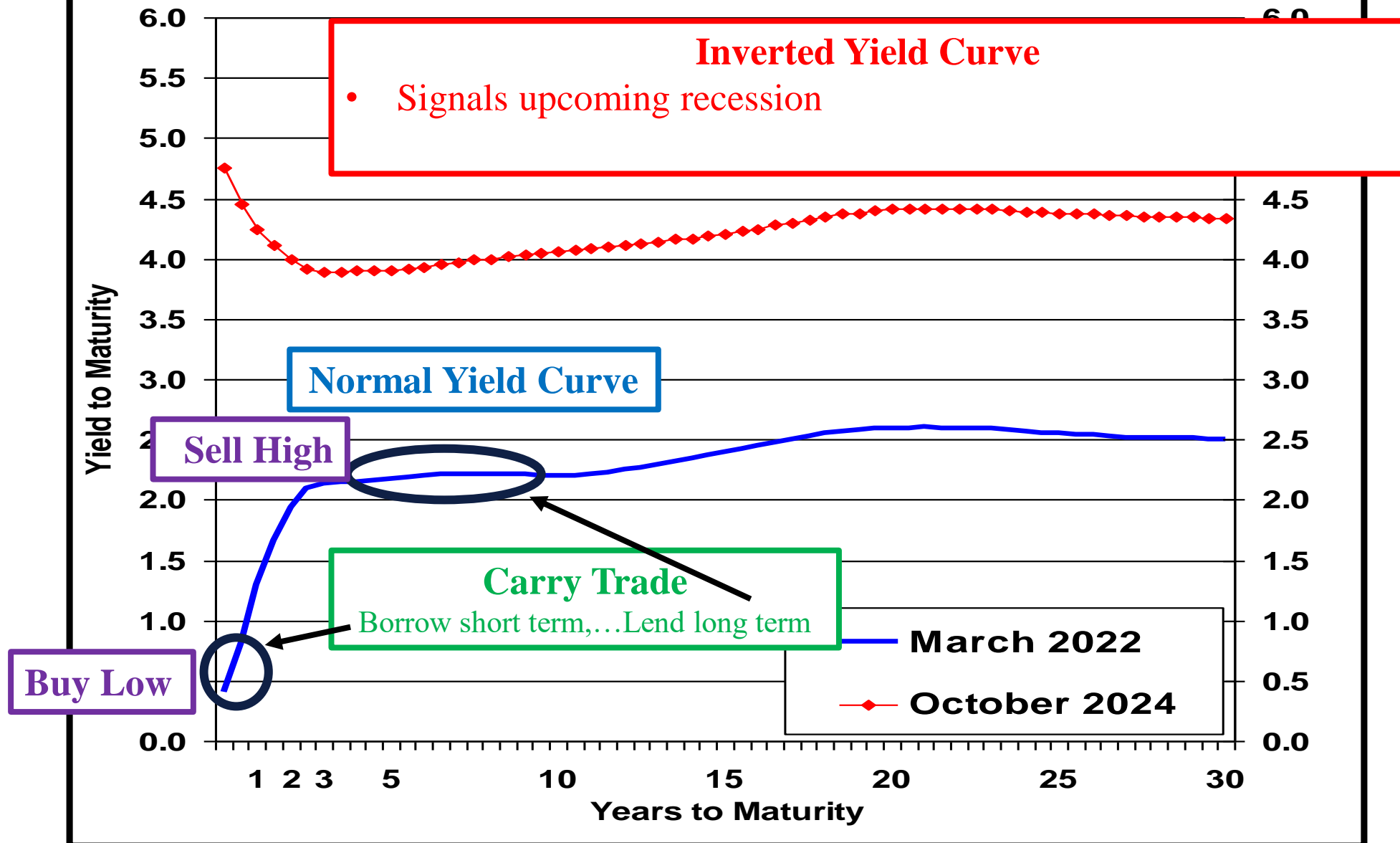
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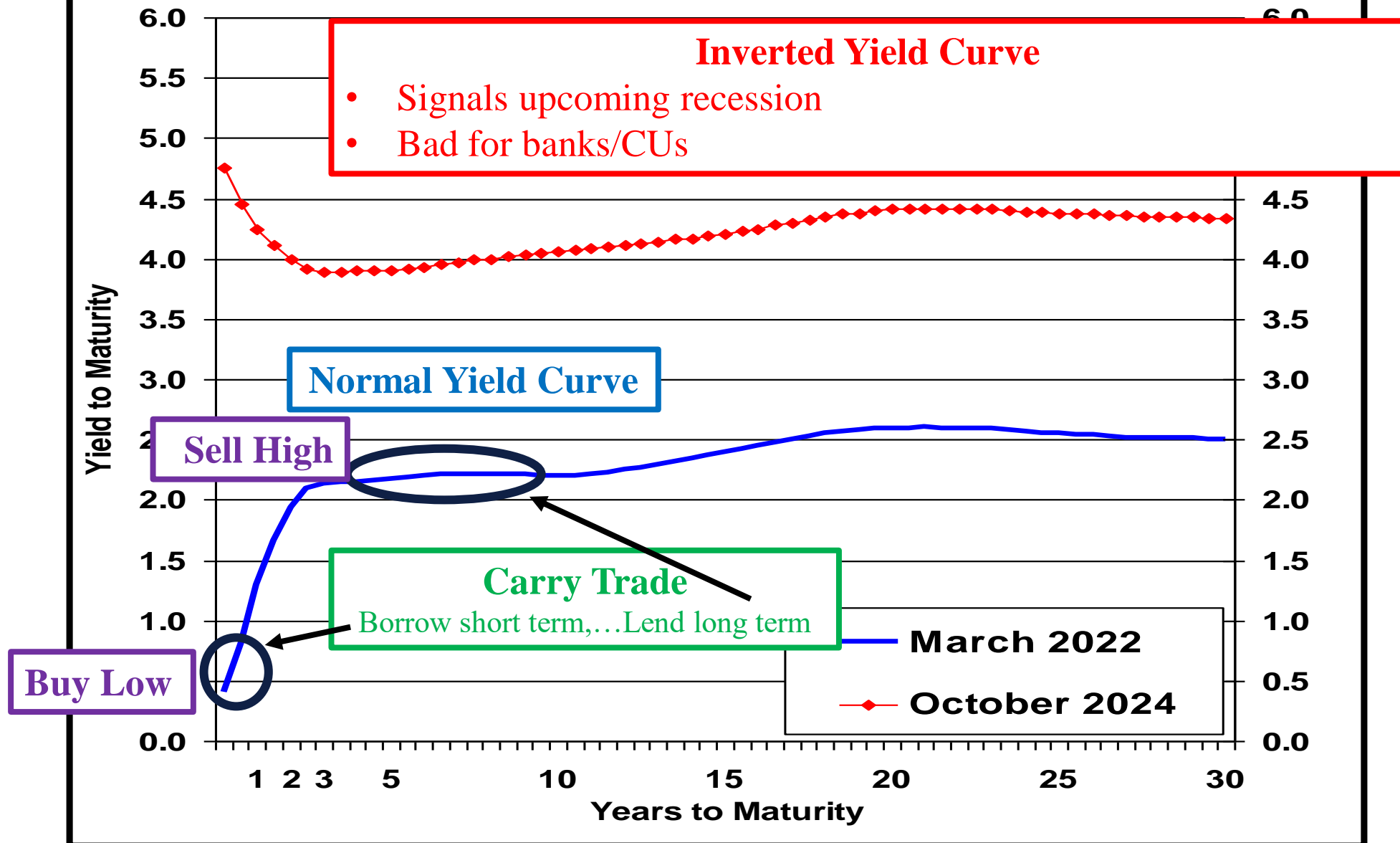
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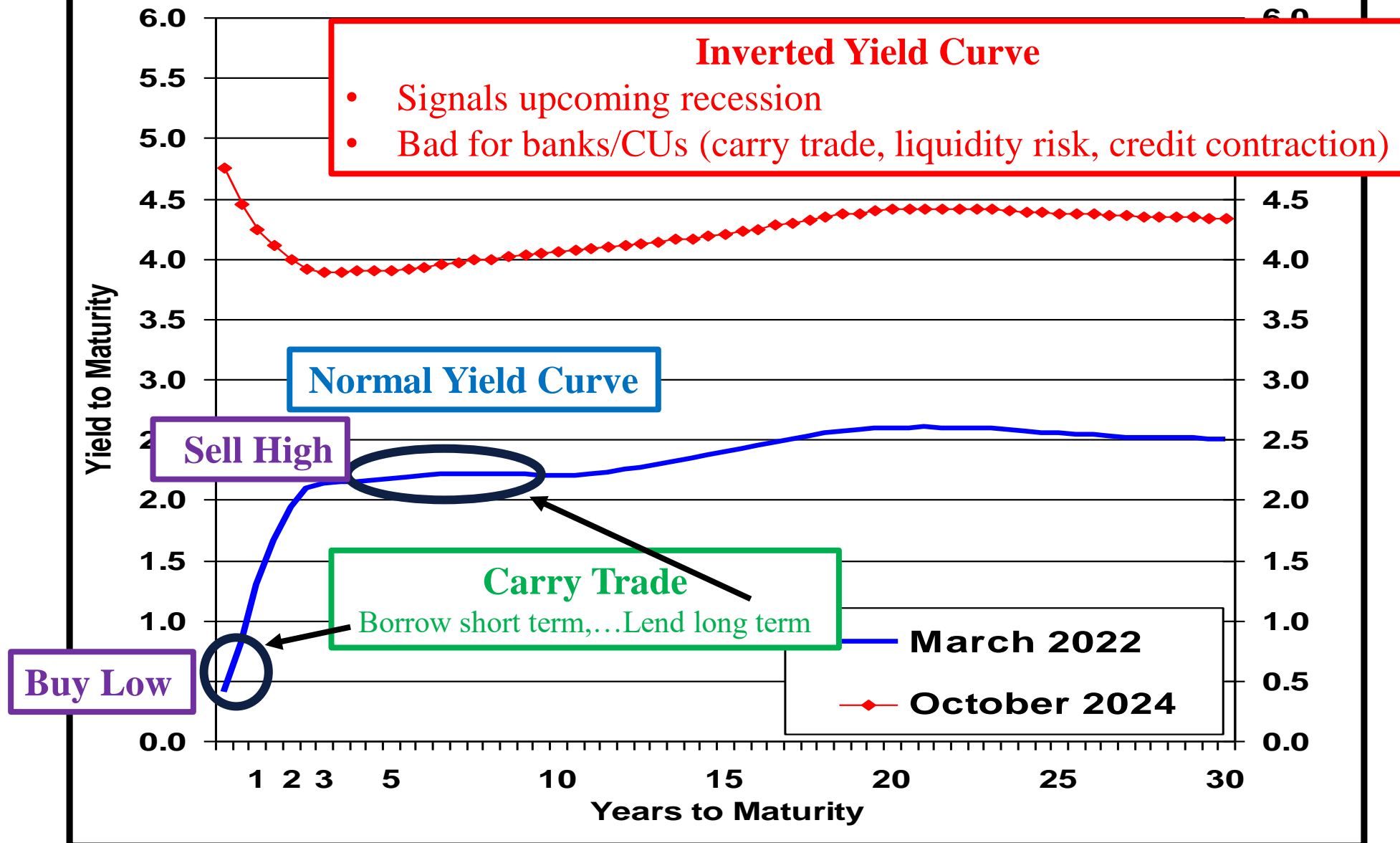
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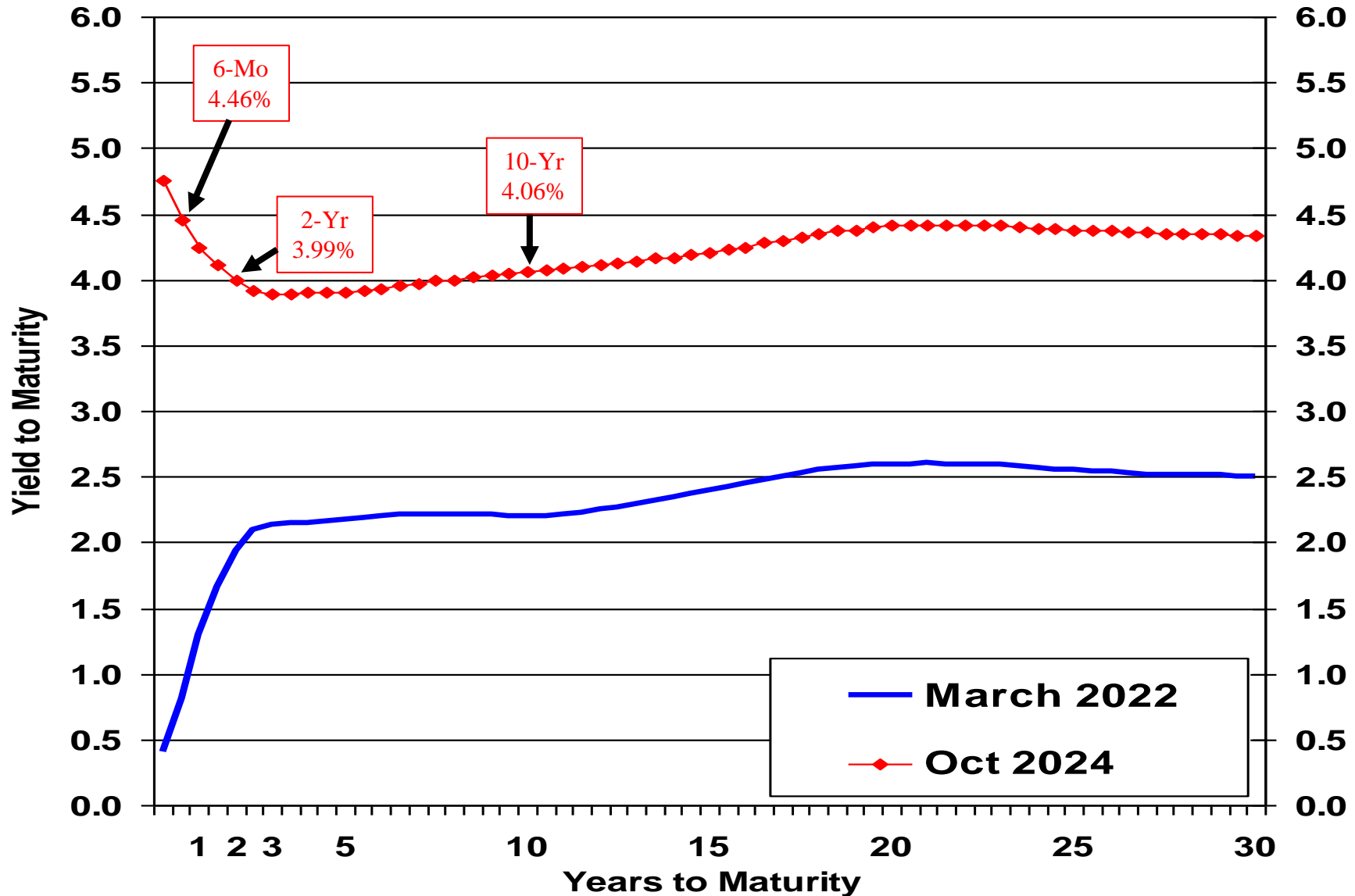
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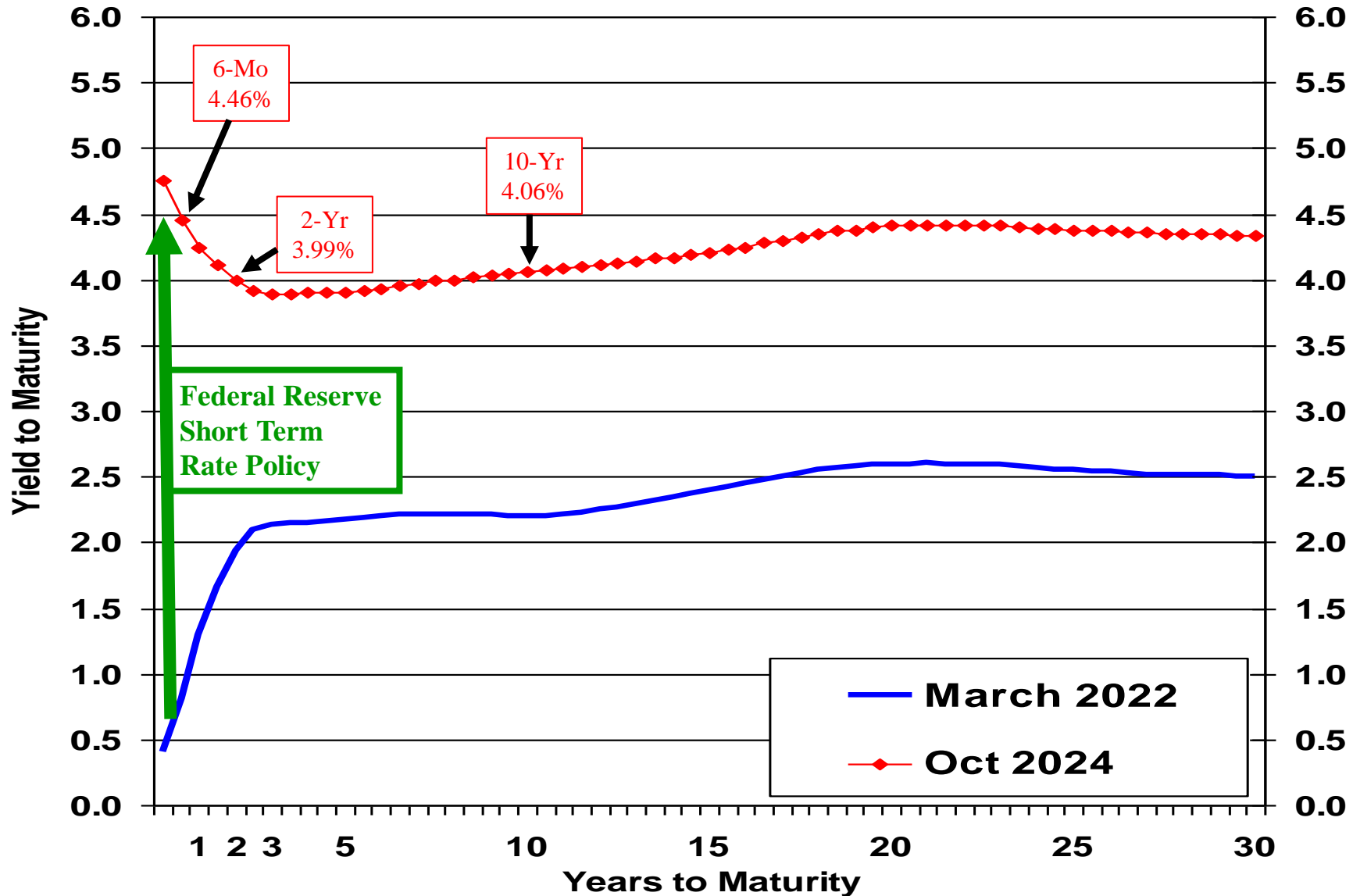
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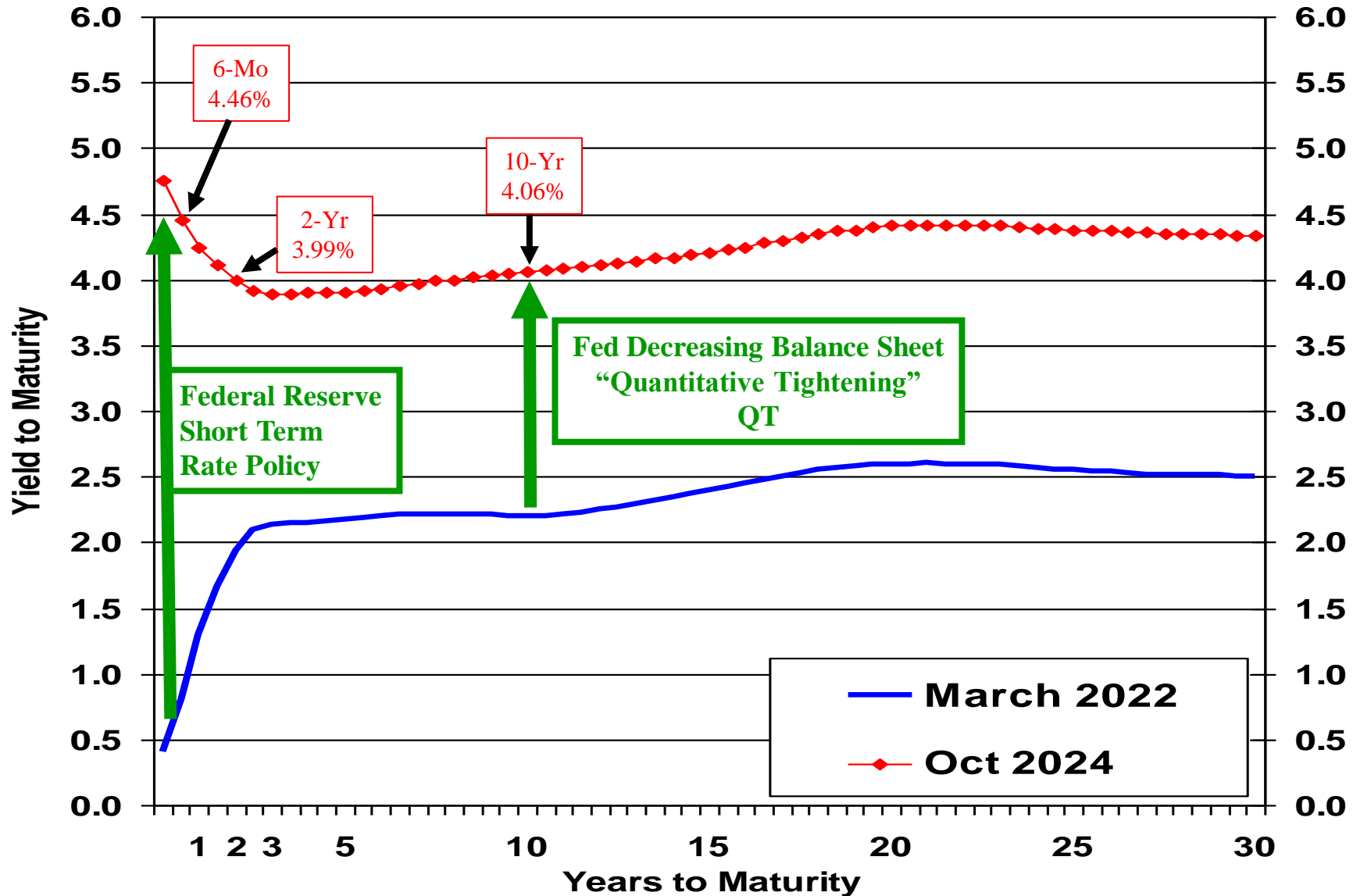
# Treasury Yield Curves



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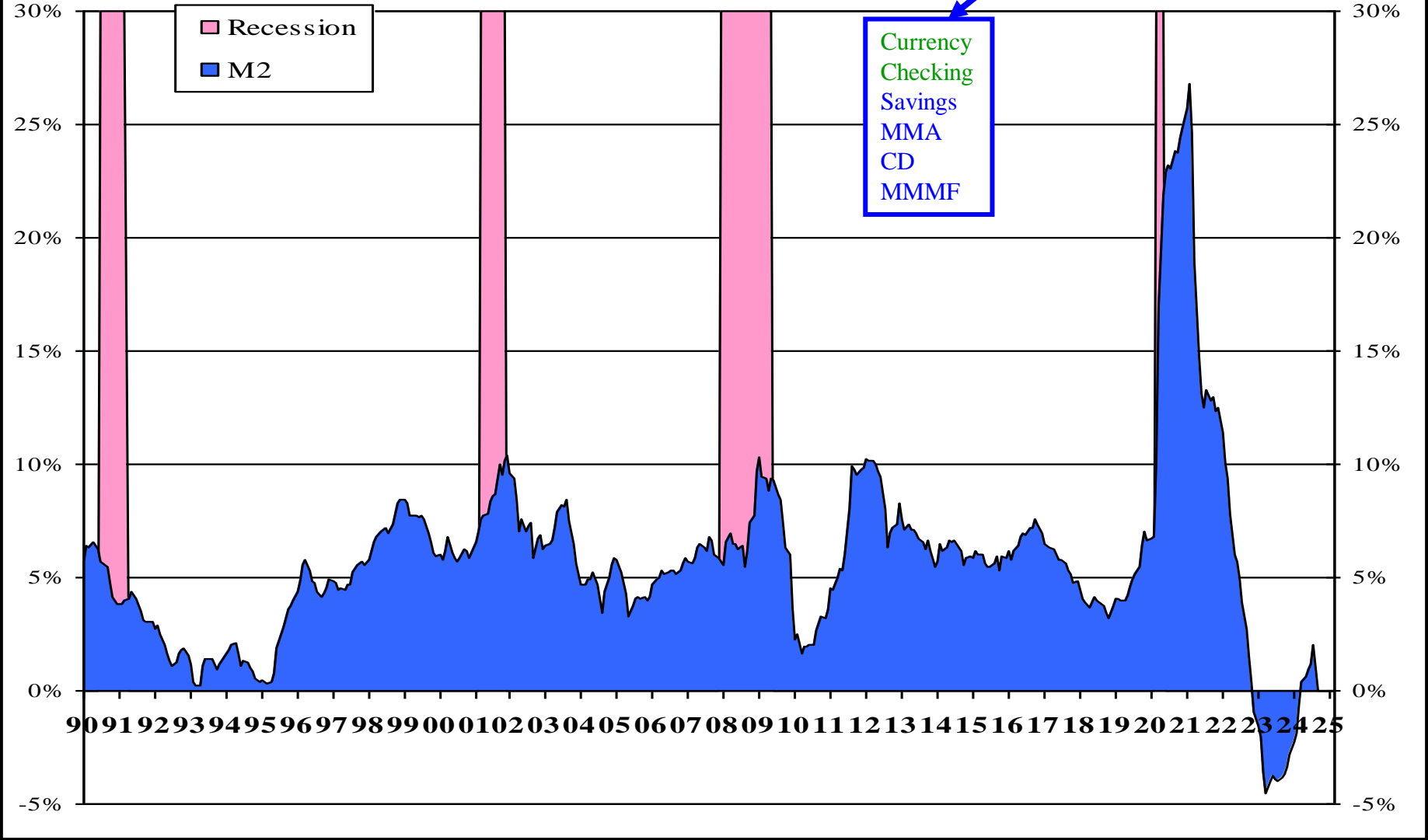


# Treasury Yield Curves

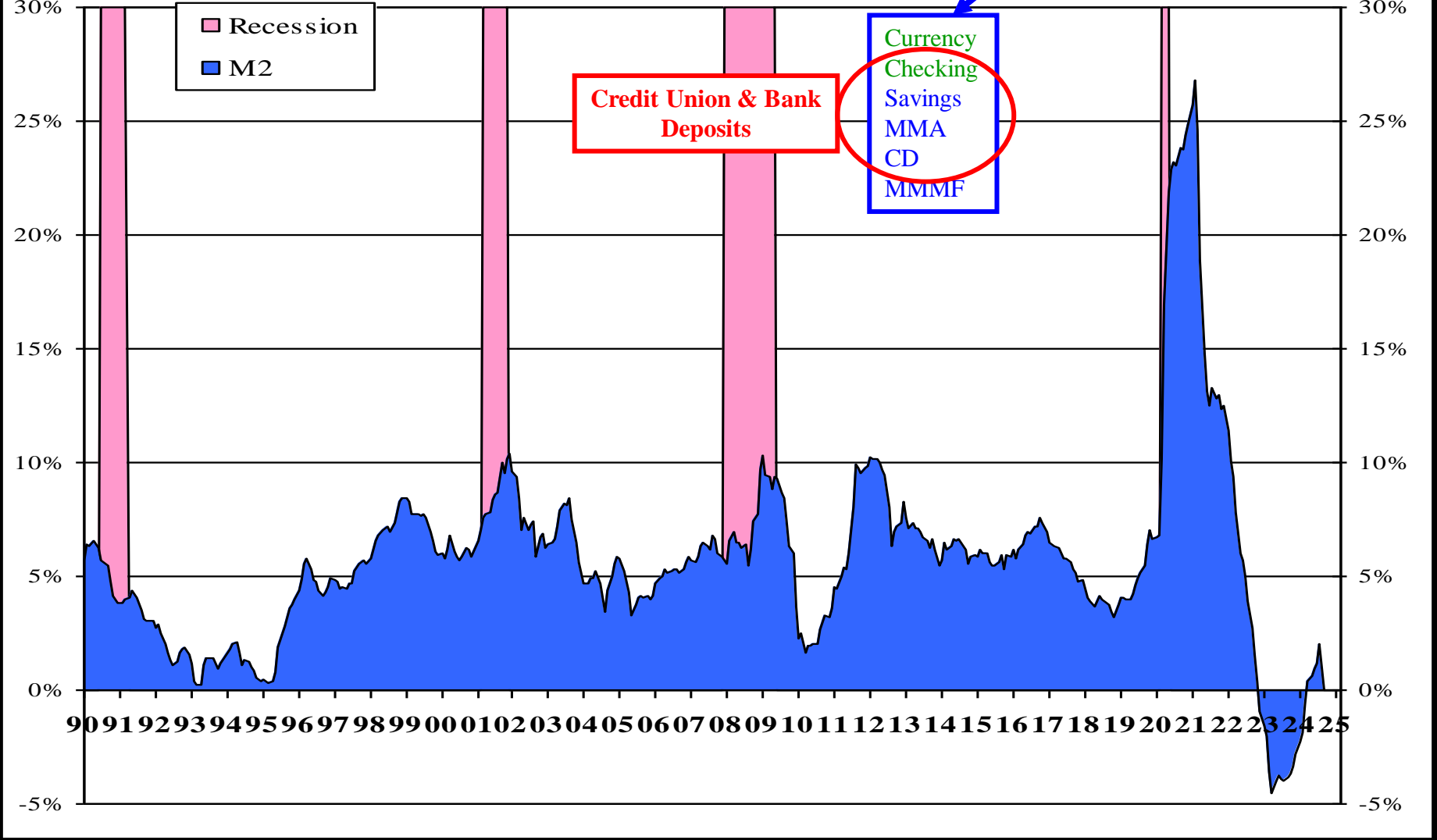




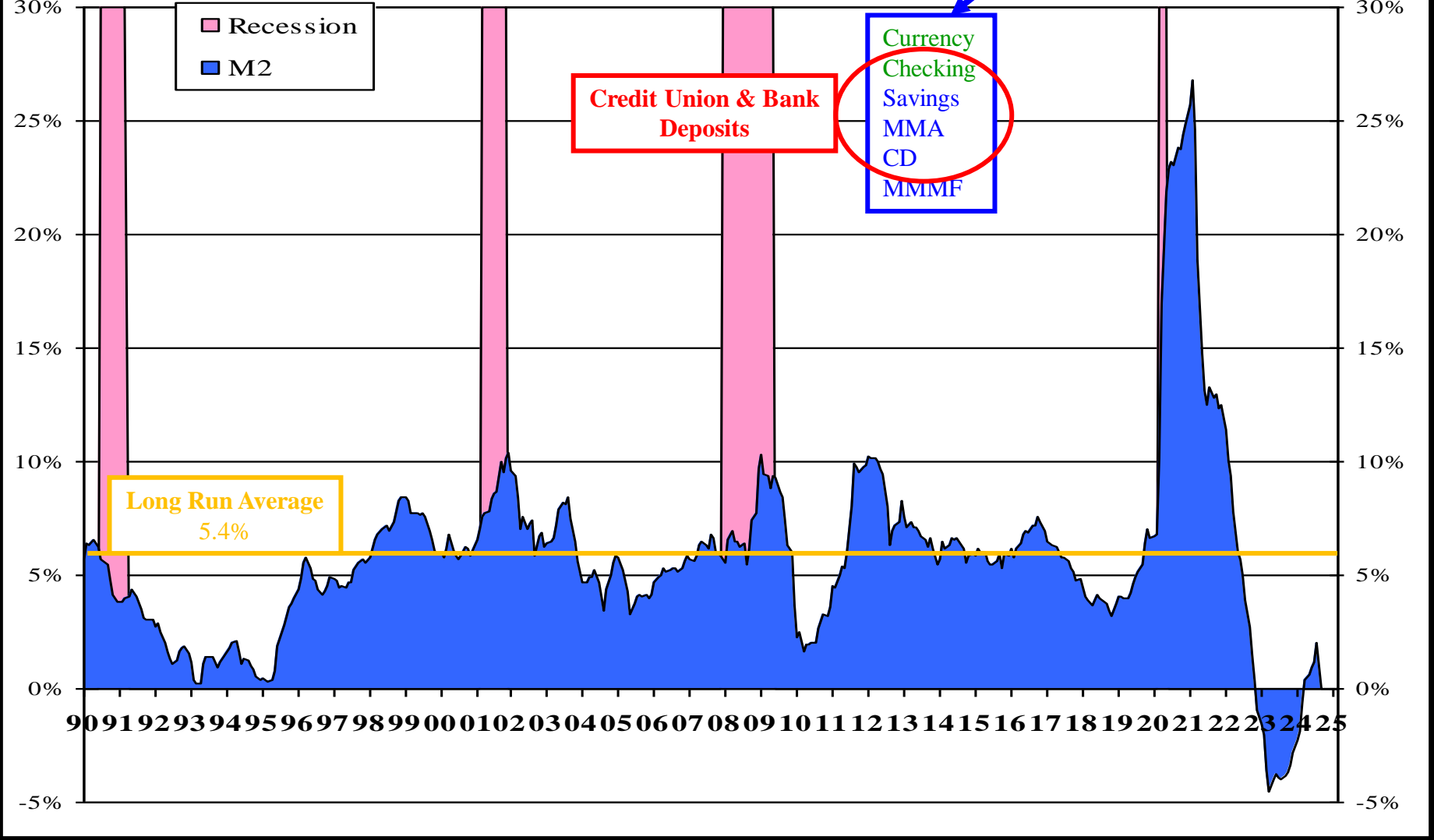
# Money Supply Growth, M2



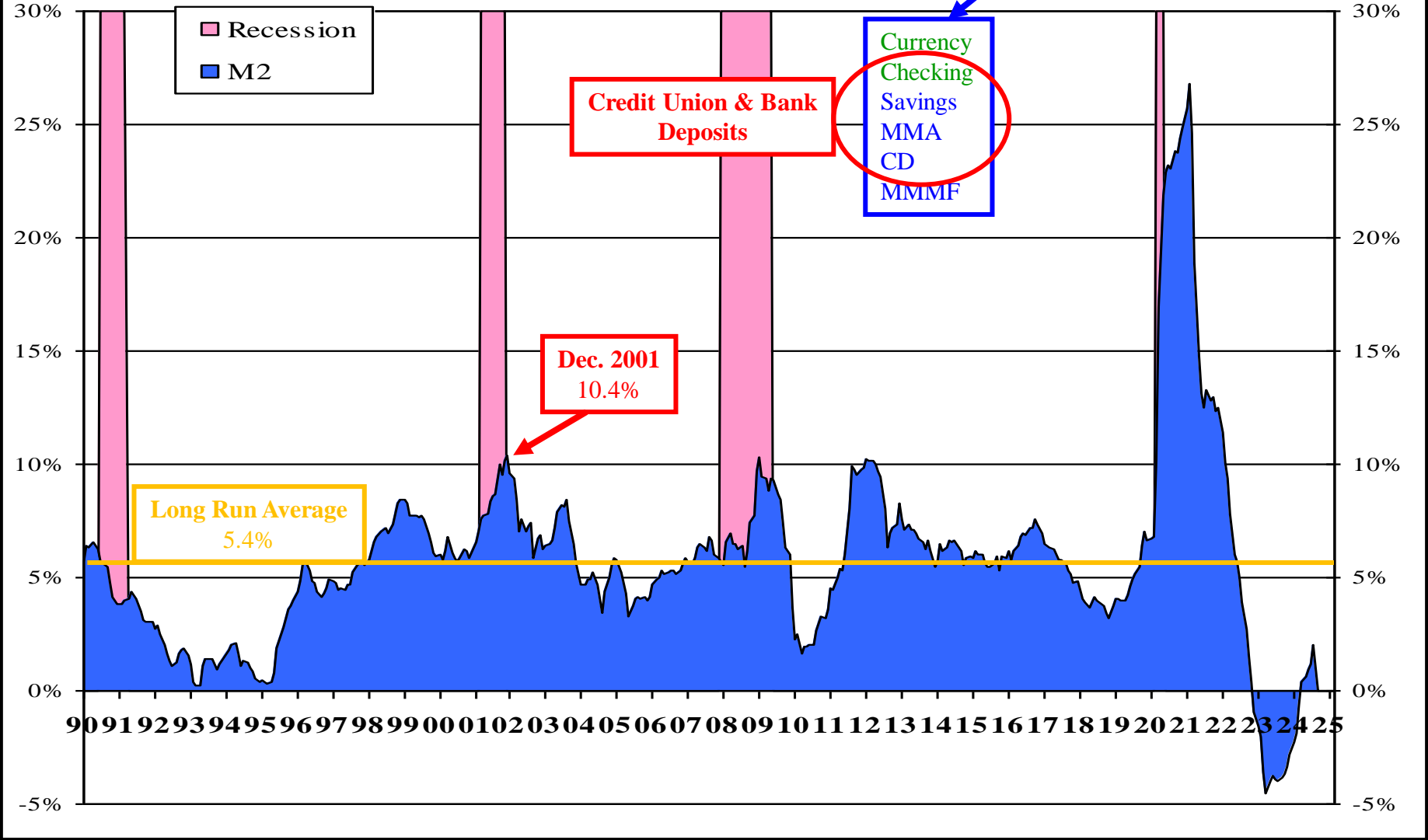
# Money Supply Growth, M2



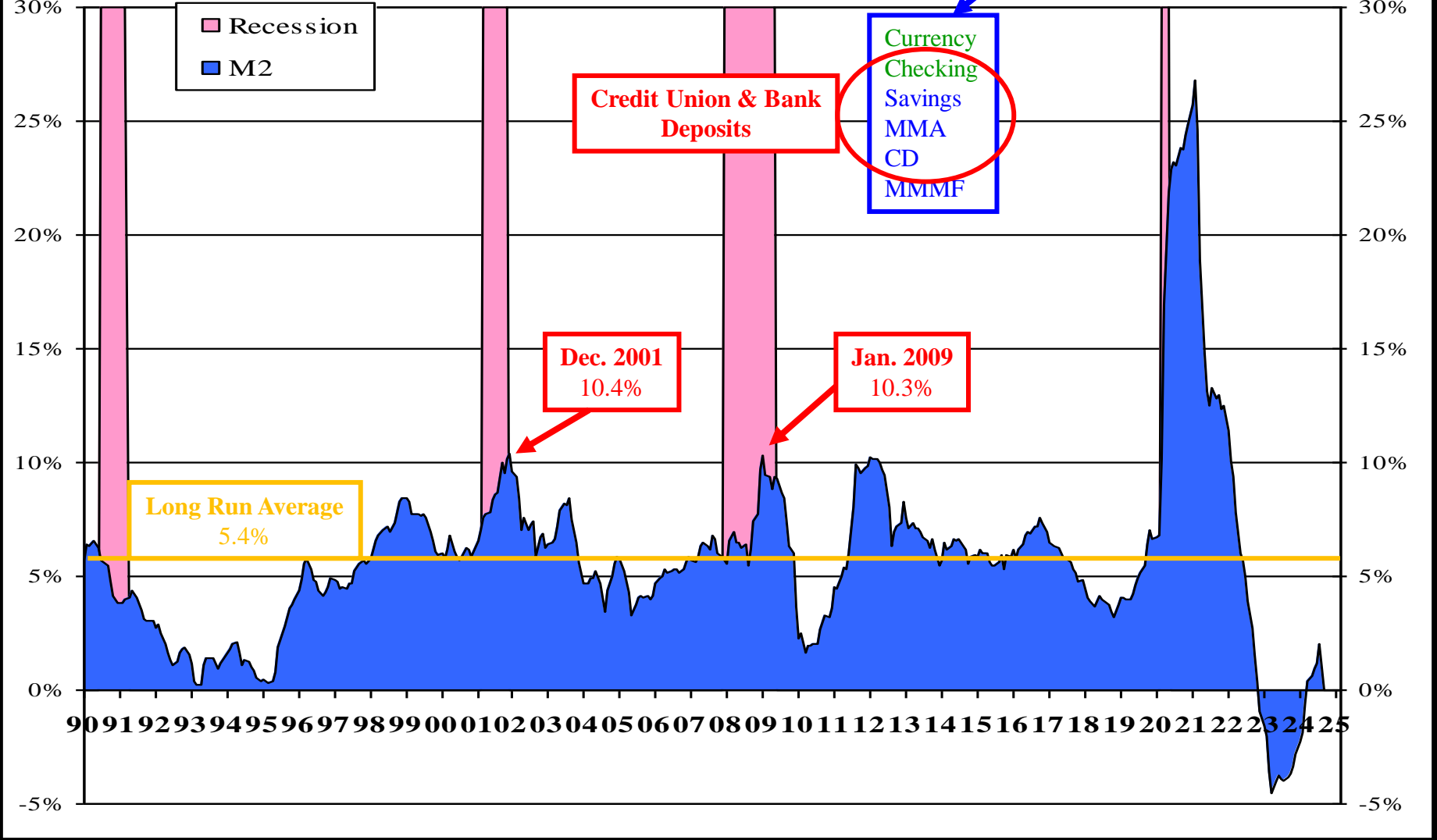
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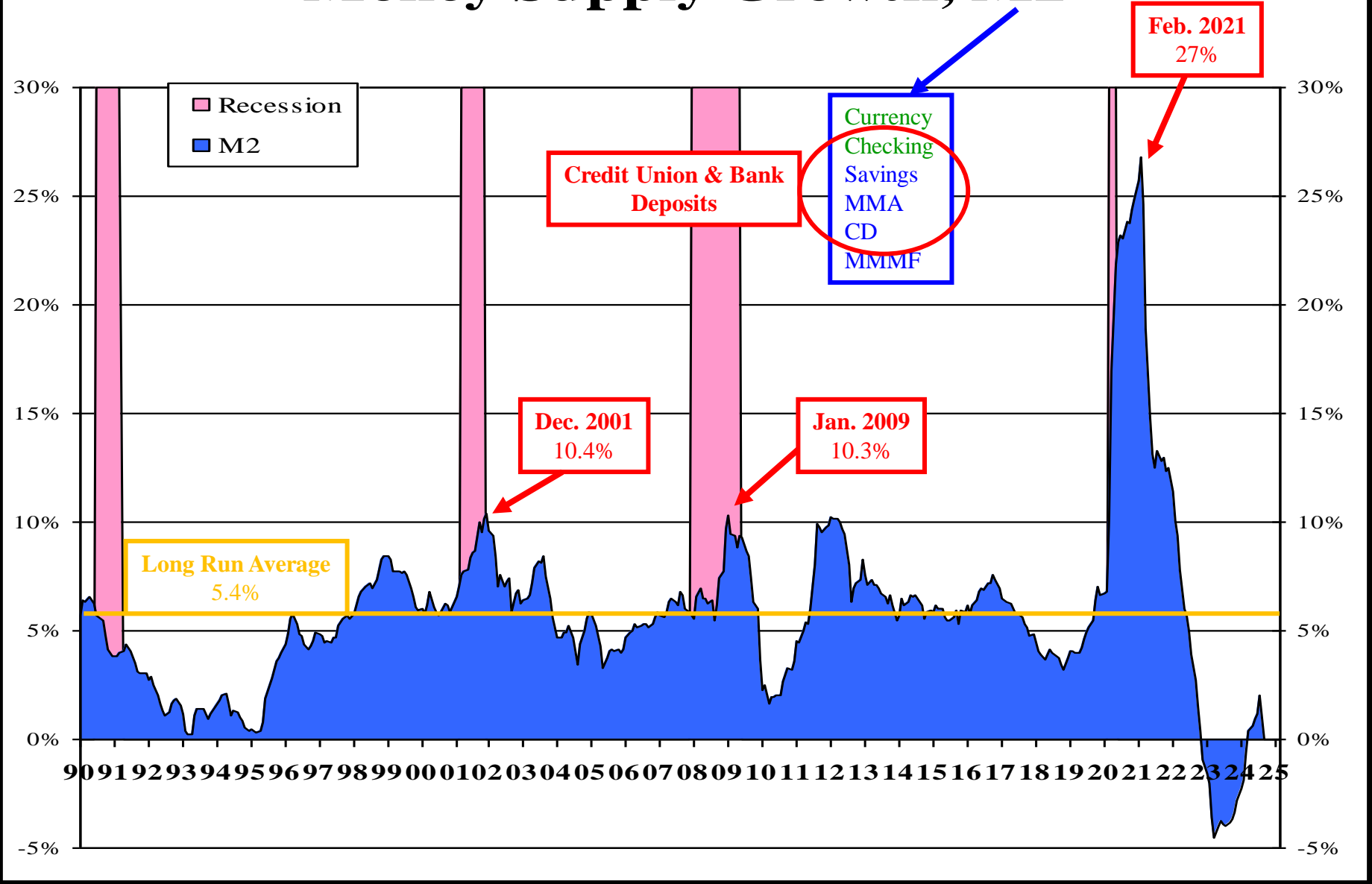
# Money Supply Growth, M2



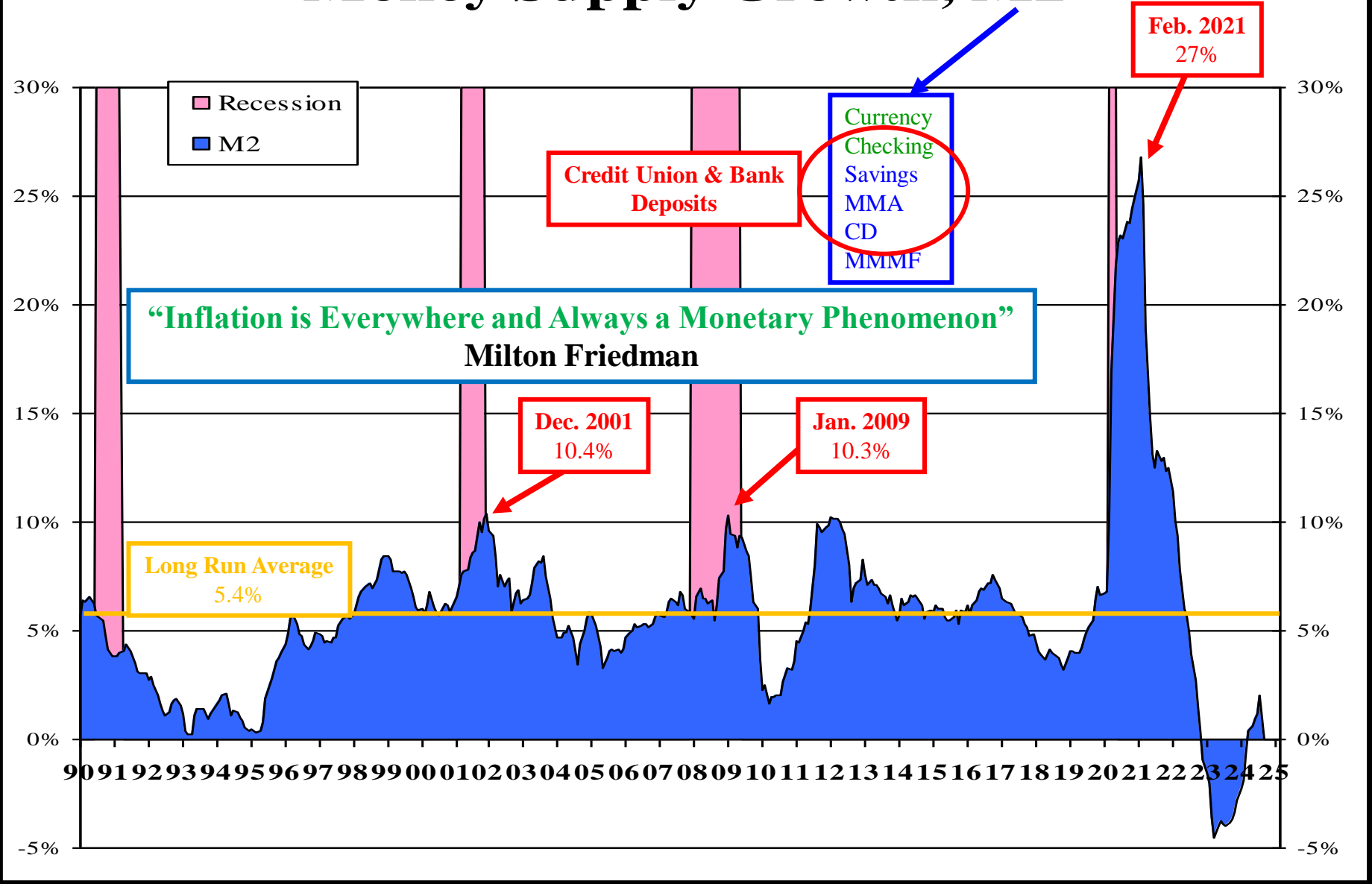
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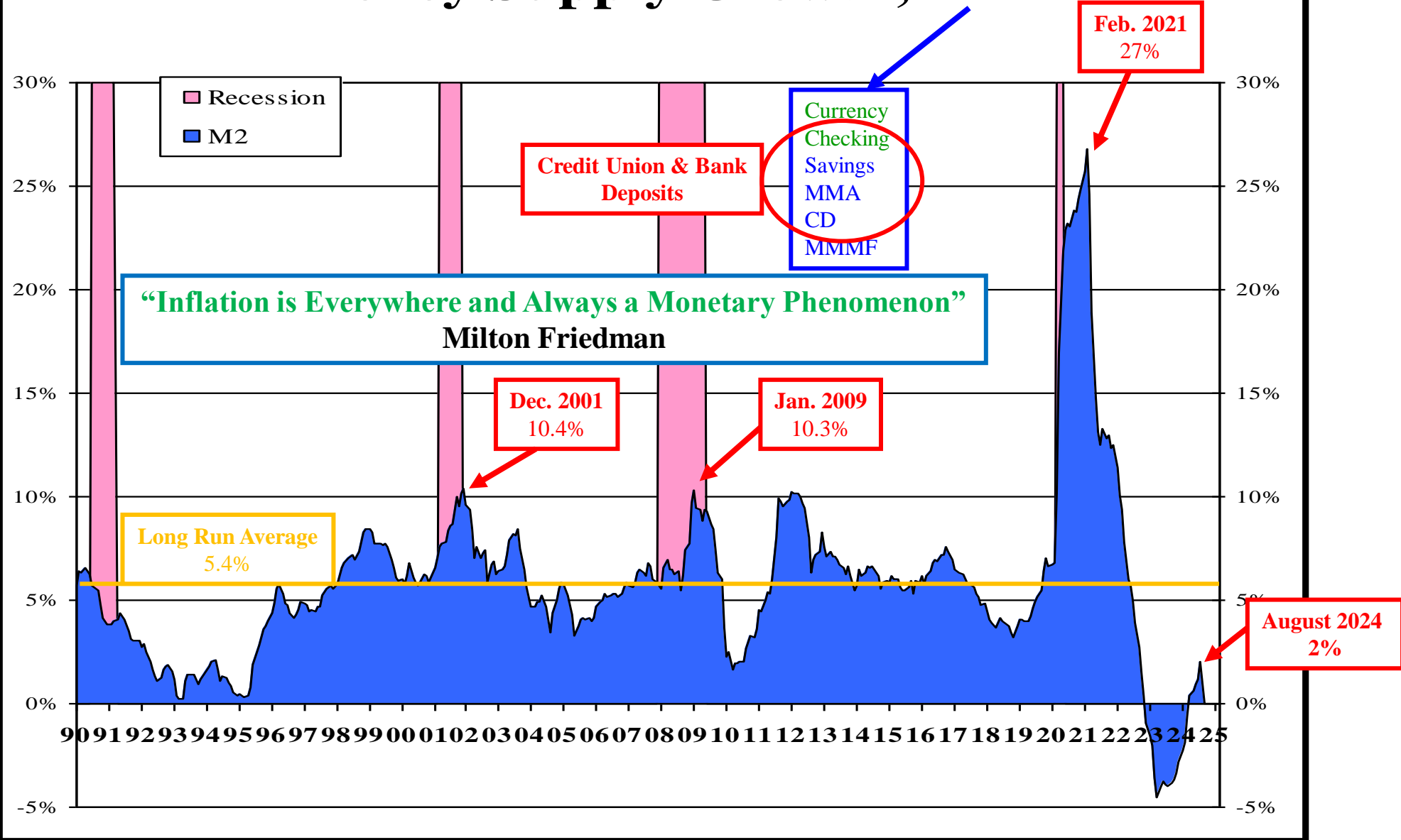
# Money Supply Growth, M2



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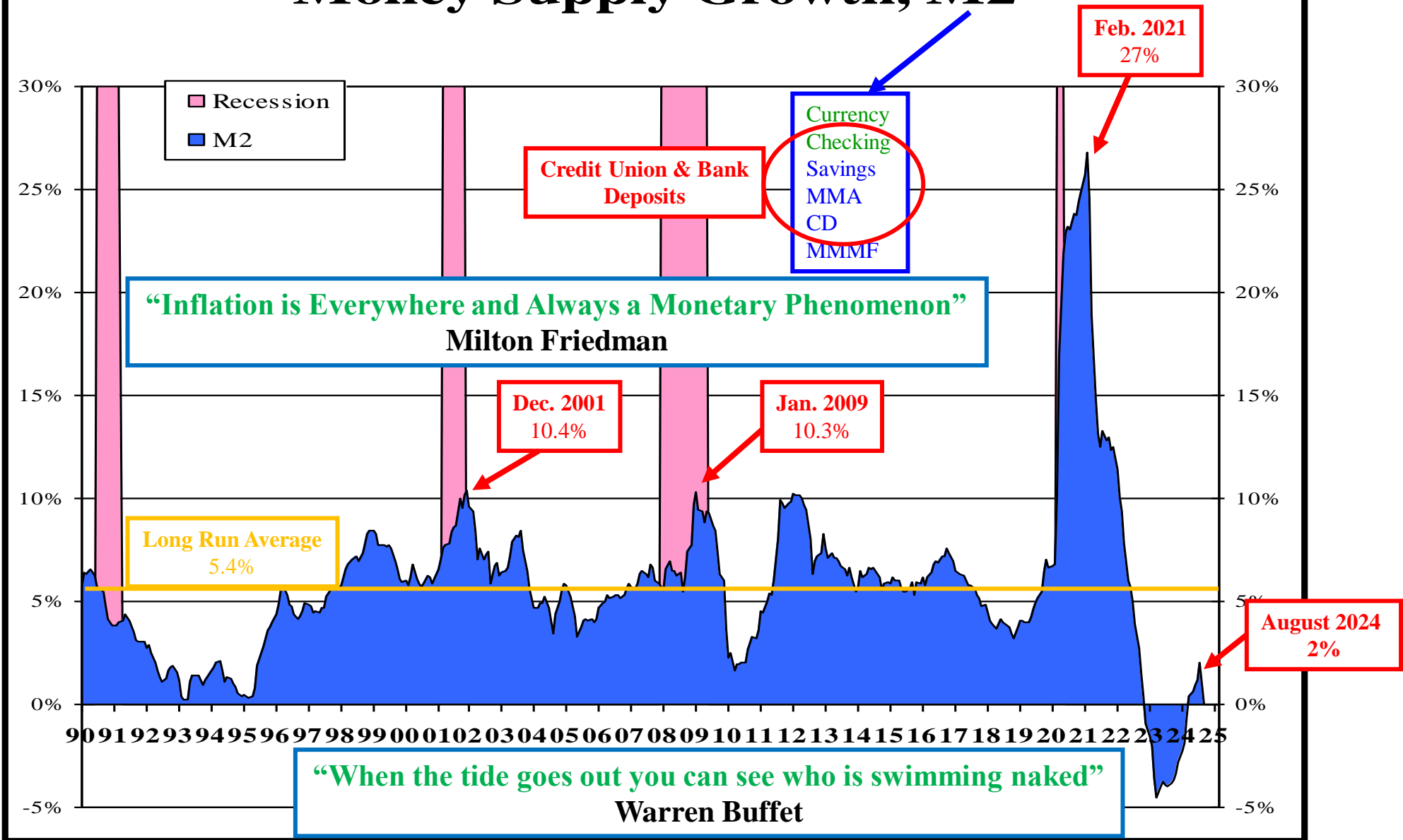


# Money Supply Growth, M2





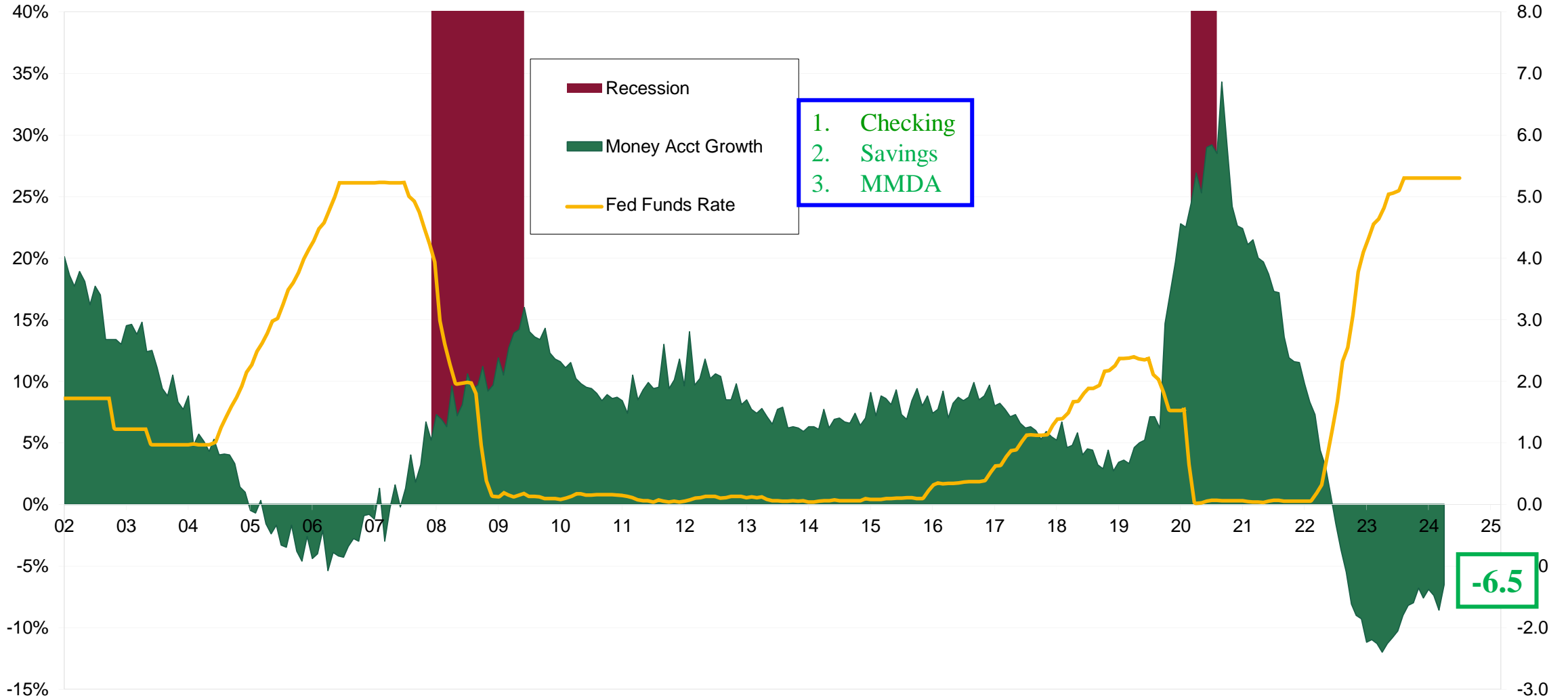
# Money Supply Growth, M2



# Money Accounts Growth Rate

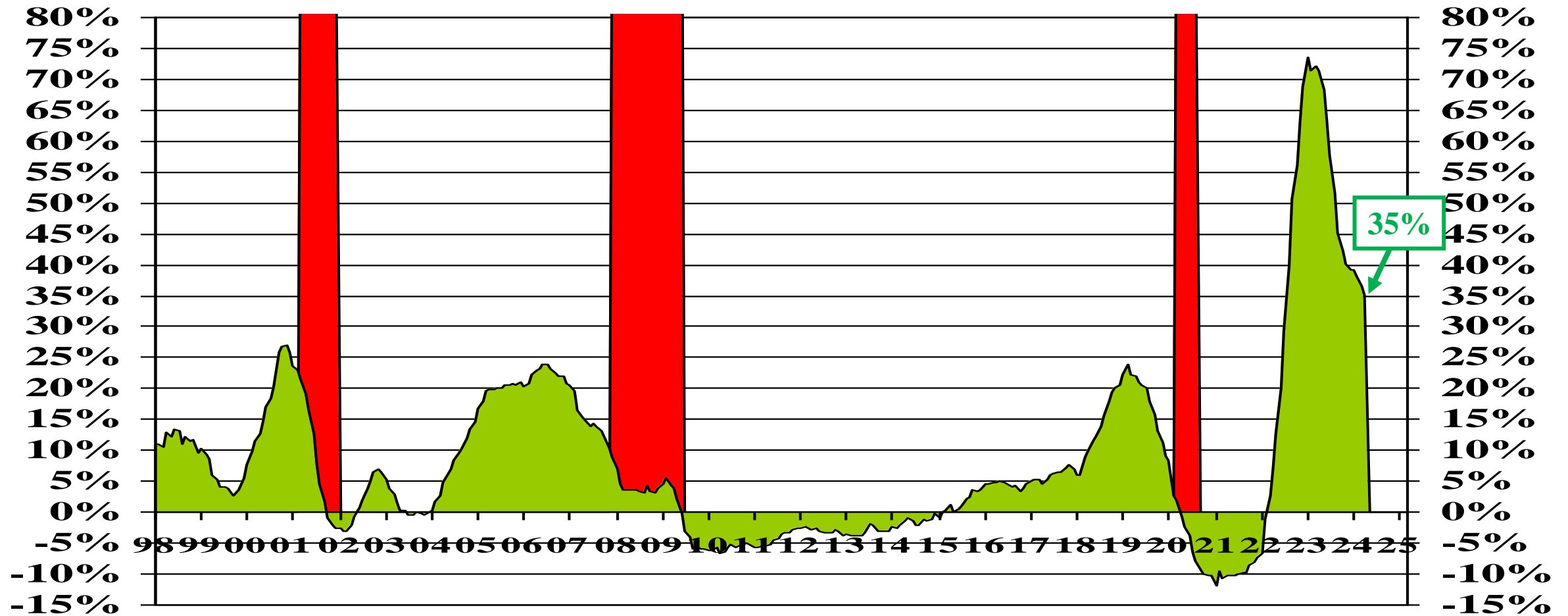
Annual Growth

Interest Rate



# CU Share Certificate Growth

## Seasonally Adjusted Annualized Growth Rate



# Credit Union Balance Sheet

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# Credit Union Balance Sheet

**Assets**

# Credit Union Balance Sheet

**Assets**

**Liabilities + Capital**

# Credit Union Balance Sheet

**Assets**

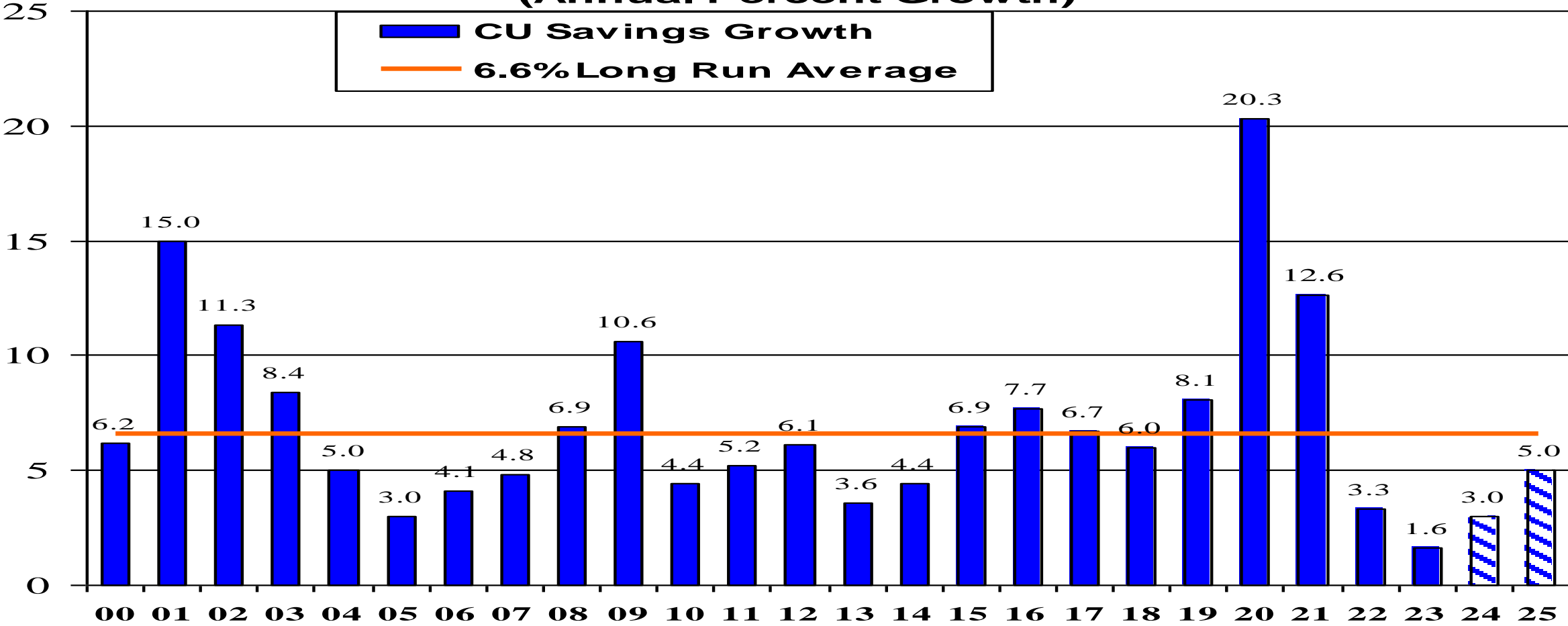
**Liabilities + Capital**

## 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

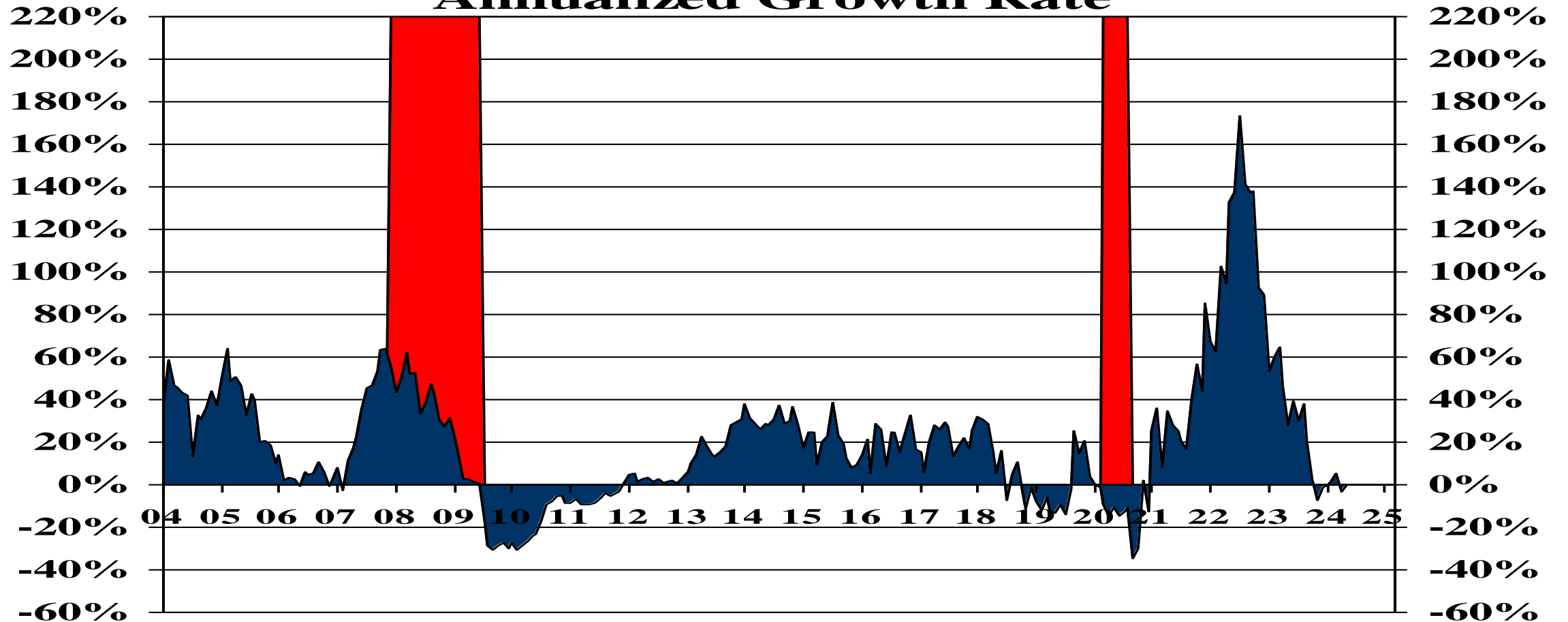
- Checking Accounts
- Savings
- Money Market Deposits
- Certificates of Deposits

## Borrowings

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

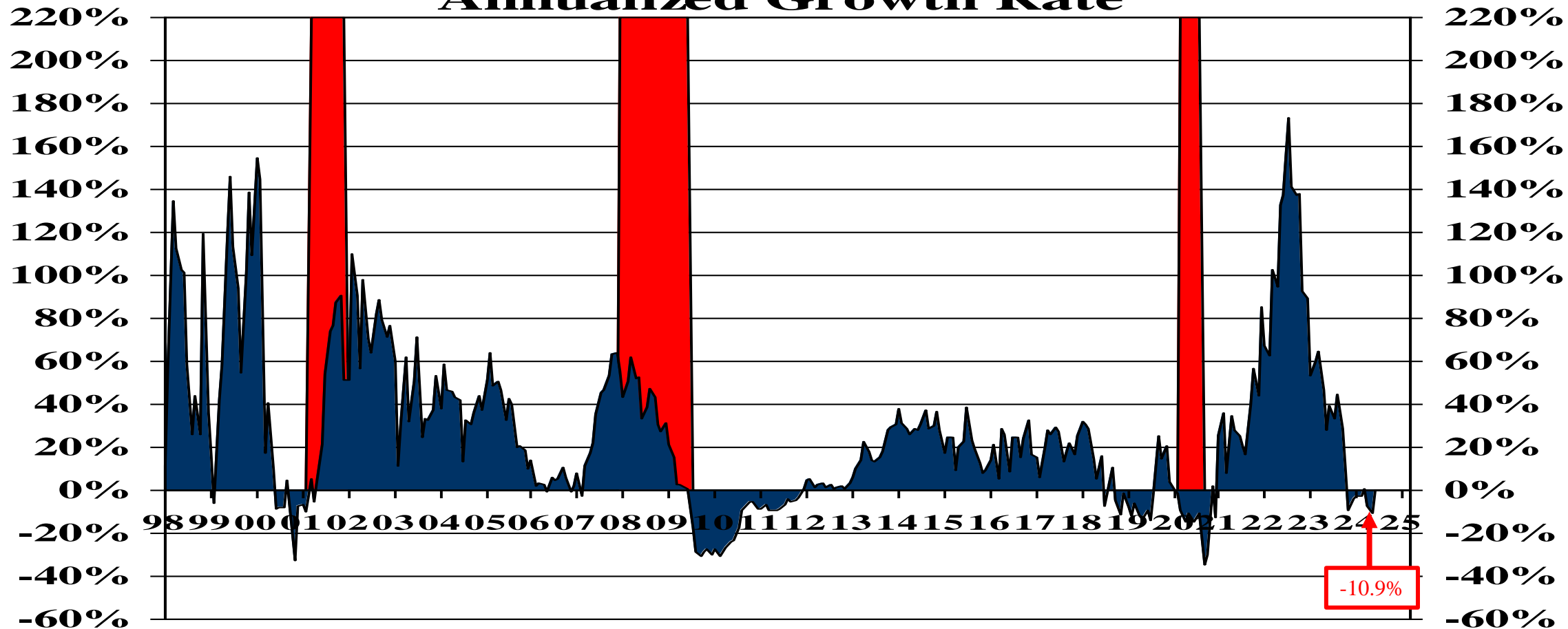
# Slowdown in Borrowings

## CU Borrowings Growth Seasonally Adjusted Annualized Growth Rate



# CU Borrowings Growth

## Seasonally Adjusted Annualized Growth Rate



# Limerick of the Day

There once was a credit union that had quite a scare

# Limerick of the Day

There once was a credit union that had quite a scare  
For their liquidity seemed quite rare

# Limerick of the Day

There once was a credit union that had quite a scare  
For their liquidity seemed quite rare  
But with some quick loans

# Limerick of the Day

There once was a credit union that had quite a scare  
For their liquidity seemed quite rare  
But with some quick loans  
And more cash in their bones

# Limerick of the Day

There once was a credit union that had quite a scare  
For their liquidity seemed quite rare  
But with some quick loans  
And more cash in their bones  
They managed to keep their head above the despair.



# Credit Union Balance Sheet

**Assets**

**Liabilities + Capital**

## Deposits

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

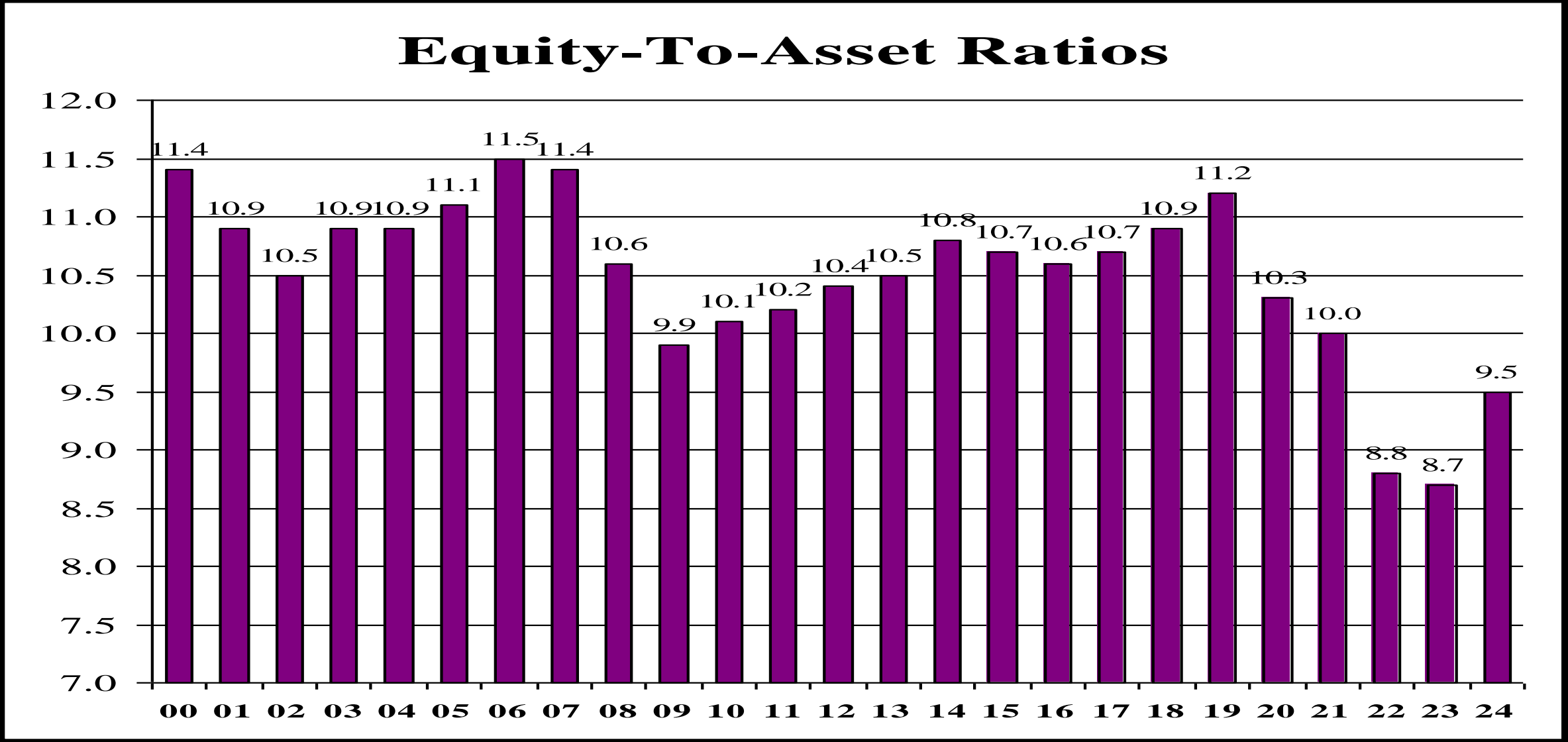
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- Federal Home Loan Bank
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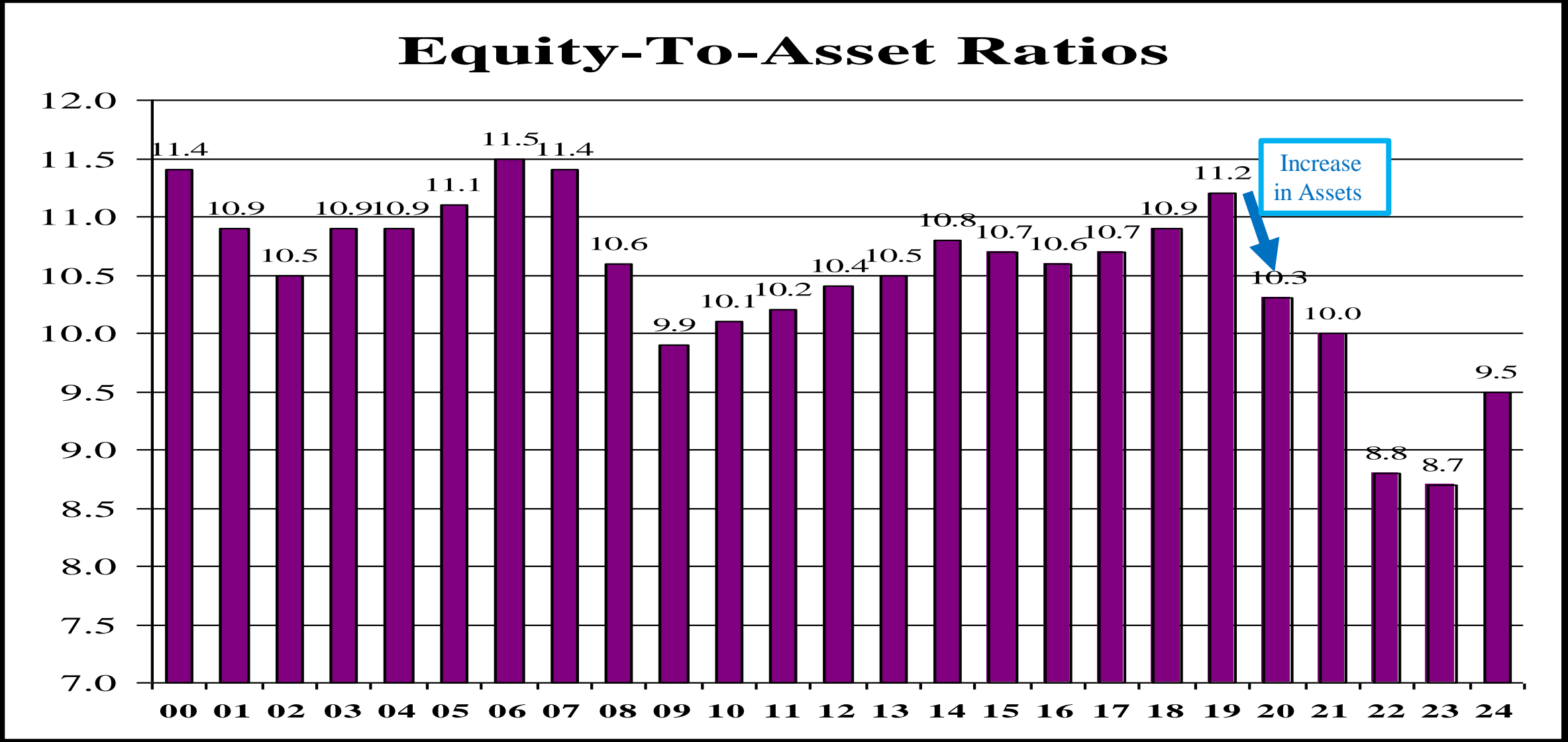
## Equity (Net Capital)

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

# Falling Equity Ratios

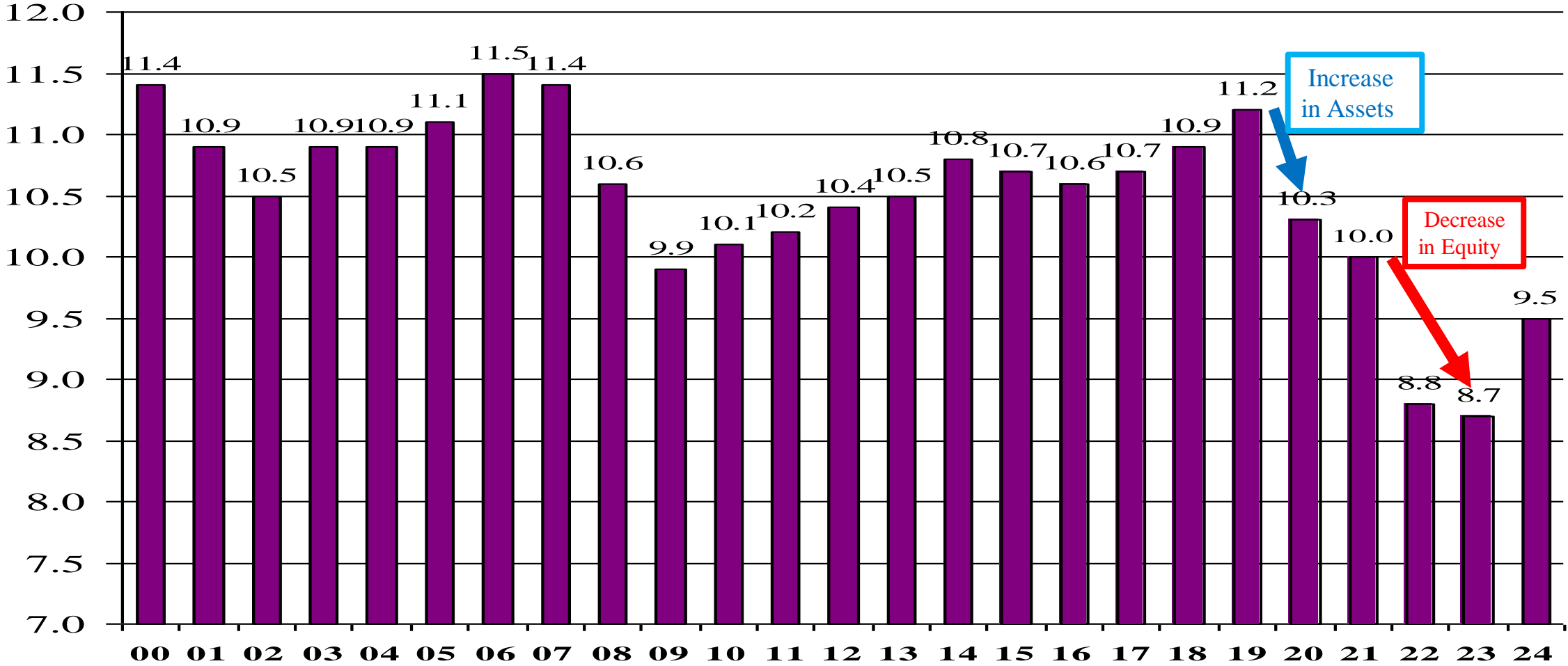


# Falling Equity Ratios



# Falling Equity Ratios

## Equity-To-Asset Ratios



# Credit Union Balance Sheet

## Assets

## Liabilities + Capital

### Cash (Reserves)

### Deposits

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

### Borrowings

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

### Equity (Net Capital)

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

# Credit Union Balance Sheet

## Assets

## Liabilities + Capital

### Cash (Reserves)

### Fixed Assets

- Land
- Building
- Equipment

### Deposits

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

### Borrowings

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

### Equity (Net Capital)

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

# Credit Union Balance Sheet

## Assets

## Liabilities + Capital

### Cash (Reserves)

### Fixed Assets

- Land
- Building
- Equipment

### Investments

- < 1 year maturity
- 1–3-year maturity
- > 3-year maturity

### Deposits

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

### Borrowings

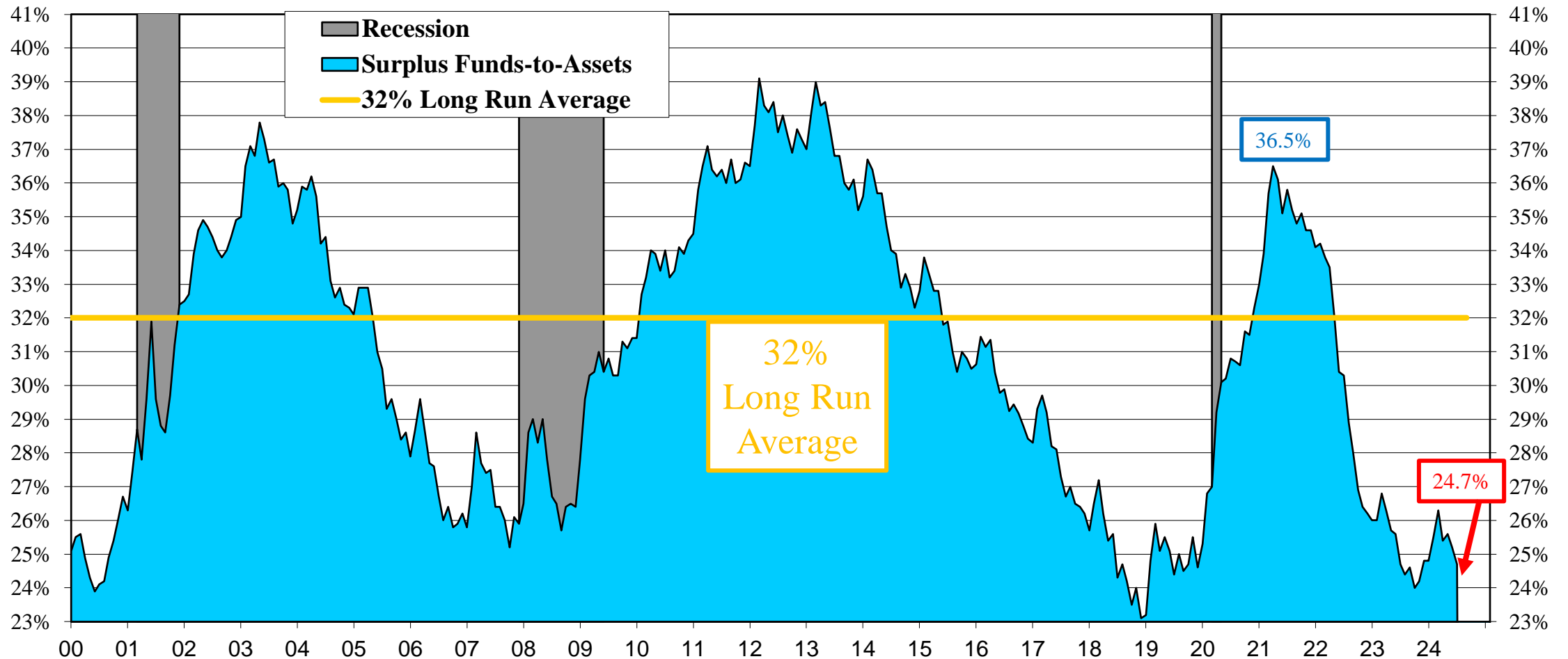
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# Investments Are Falling and Yields Are Rising

## CU Surplus Funds (Cash + Investments)





# Credit Union Balance Sheet

## Assets

## Liabilities + Capital

### Cash (Reserves)

### Fixed Assets

- Land
- Building
- Equipment

### Investments

- < 1 year maturity
- 1–3-year maturity
- > 3-year maturity

### Loans

- Commercial
- Auto
- Home
- Credit Card

### Deposits

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- Certificates of Deposits

### Borrowings

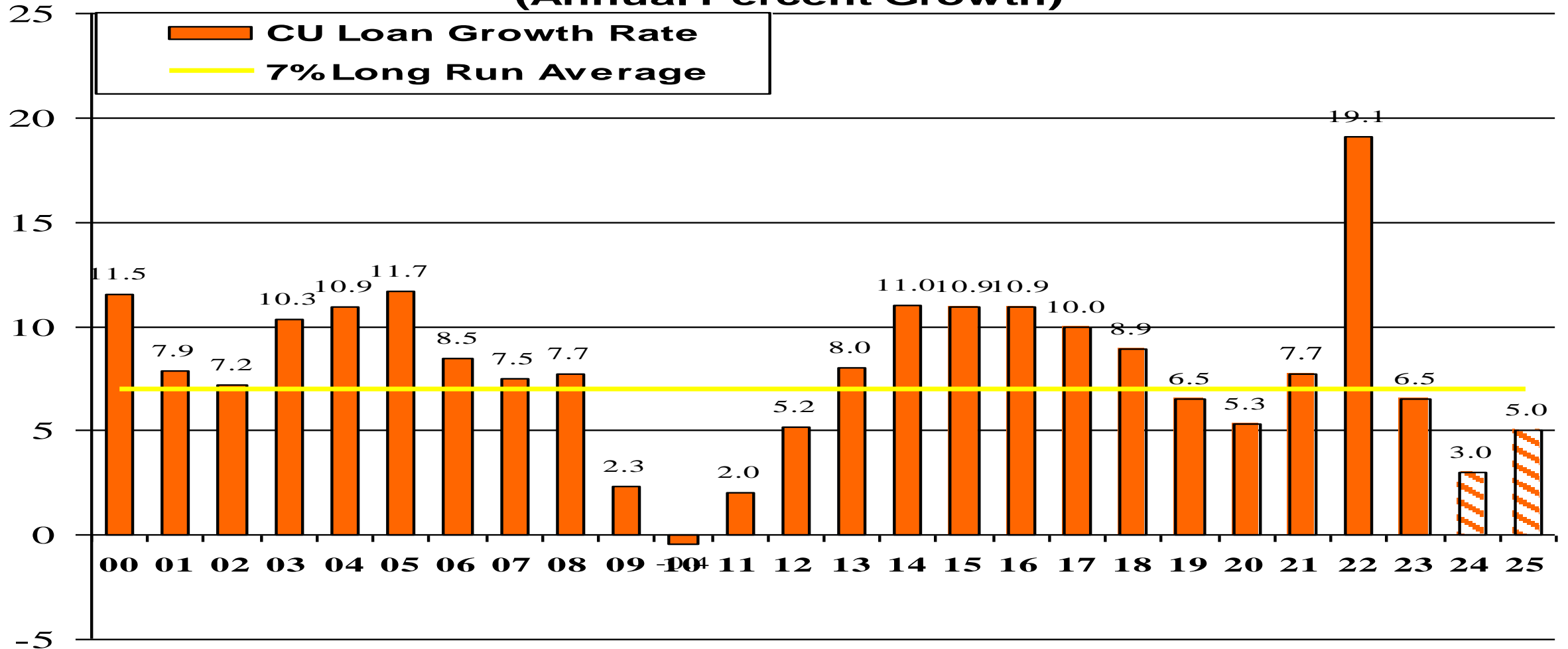
- Federal Home Loan Bank
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### Equity (Net Capital)

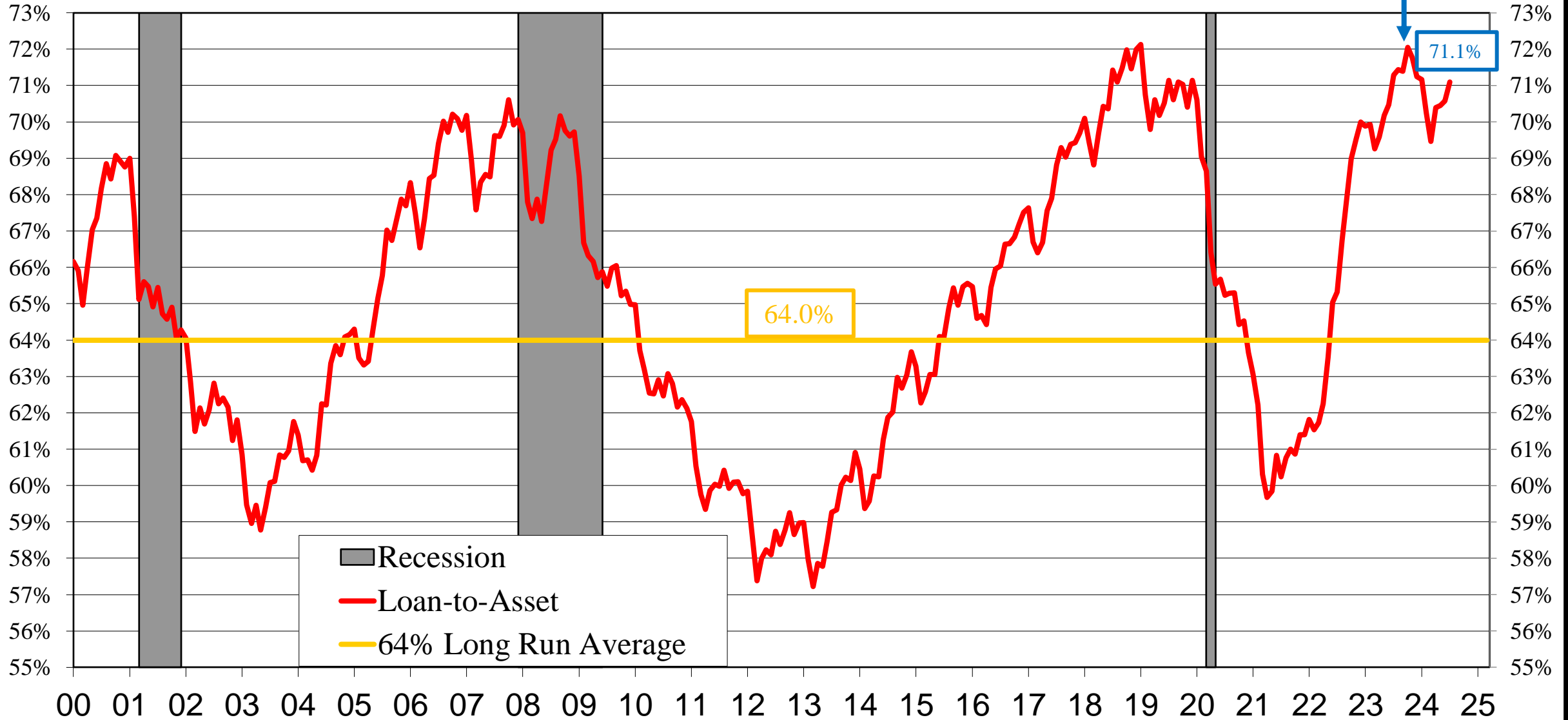
1. Undivided Earnings
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# Slowing Credit Union Loan Growth

## Credit Union Loan Growth (Annual Percent Growth)

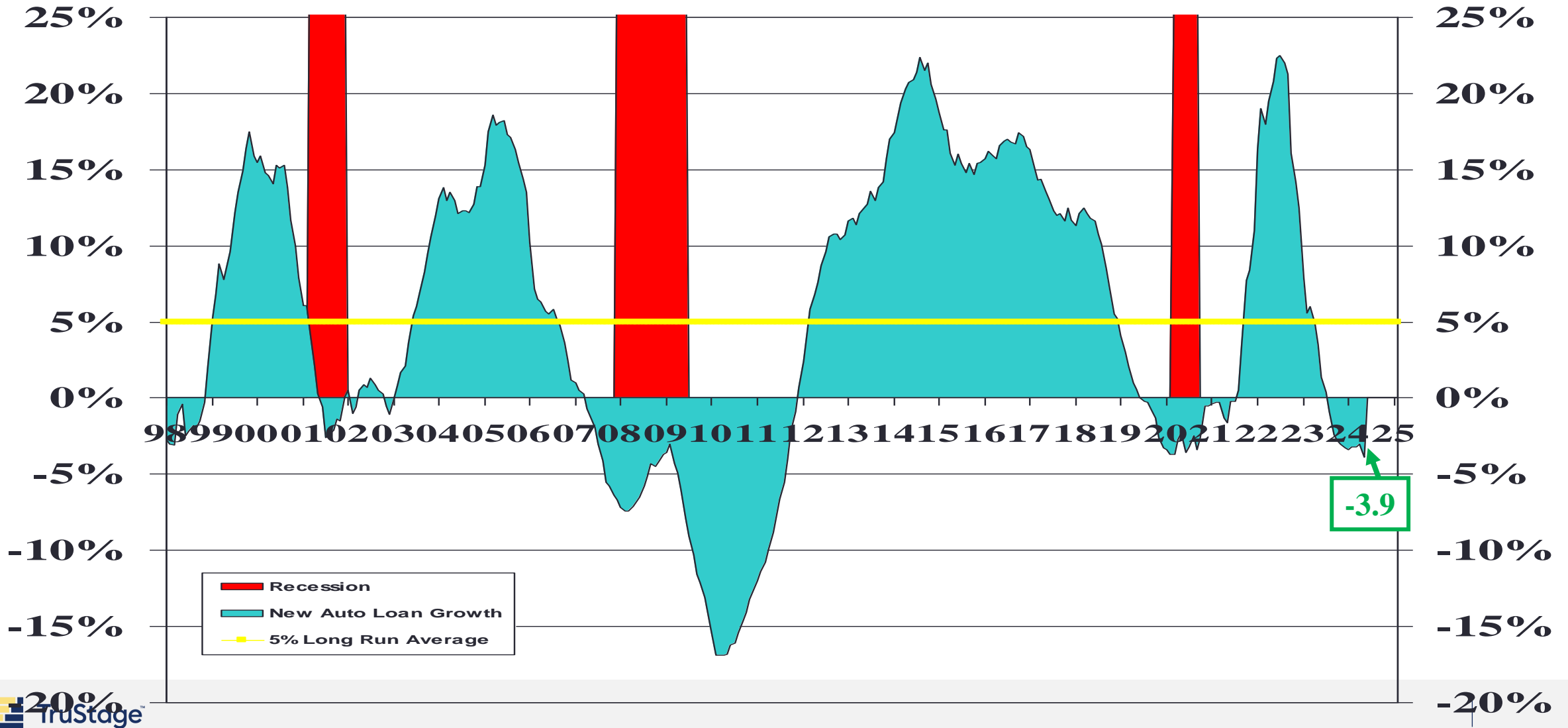


# CU Loan to Asset Ratio

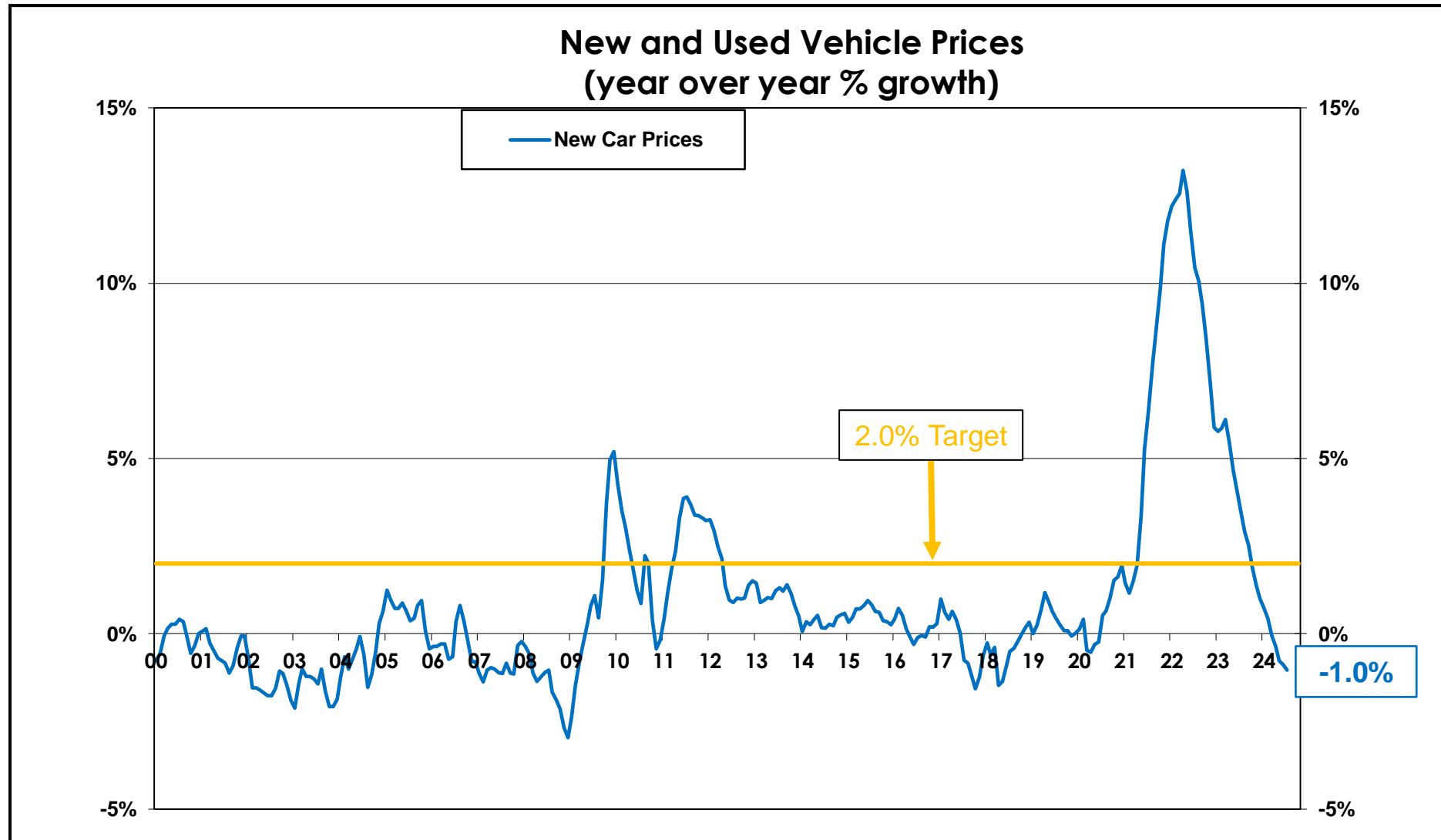


# CU New Auto Growth

## Seasonally Adjusted Annualized Growth Rate

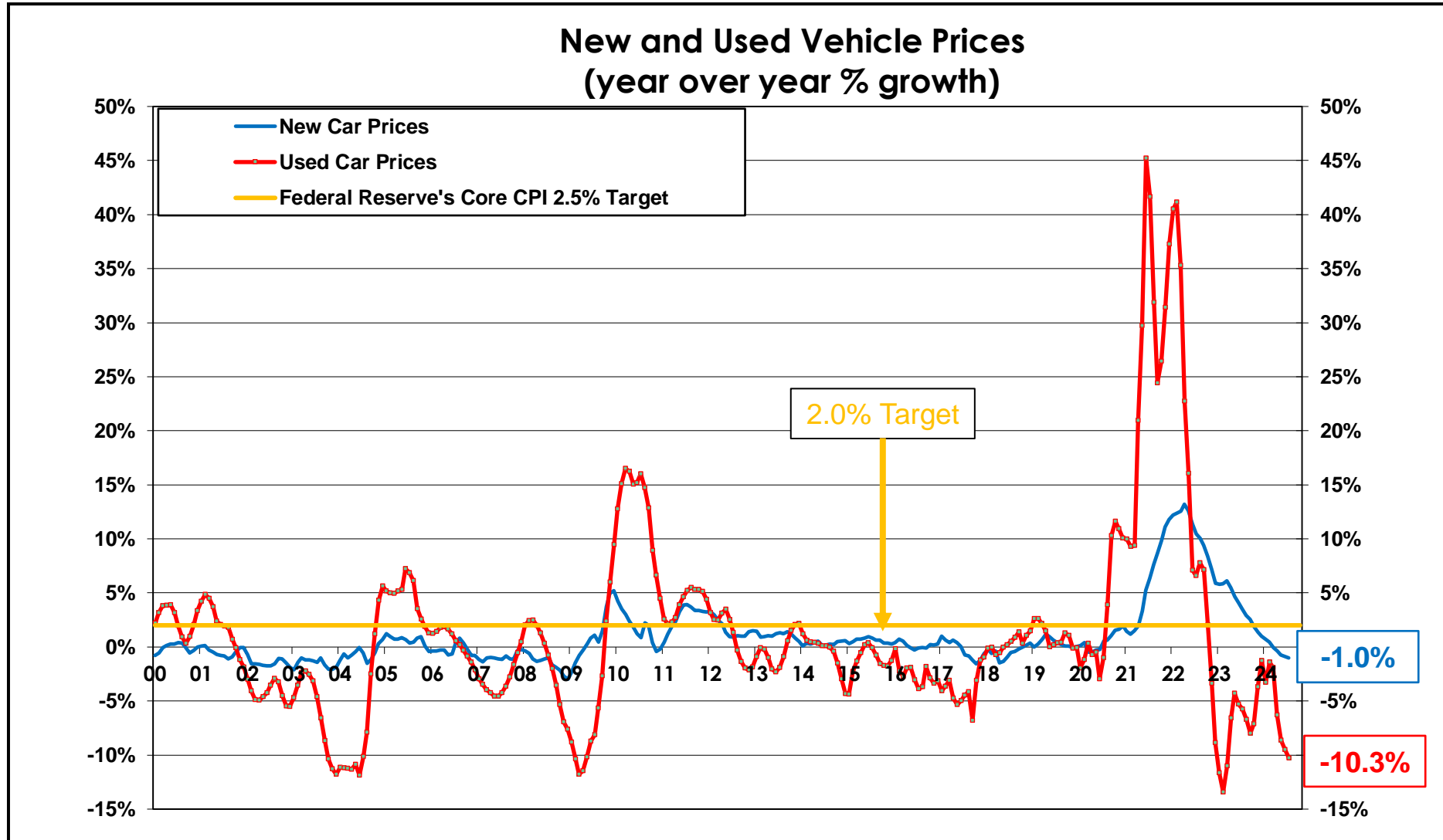


# Vehicle Prices are Falling



Source: Bureau of Labor Statistics

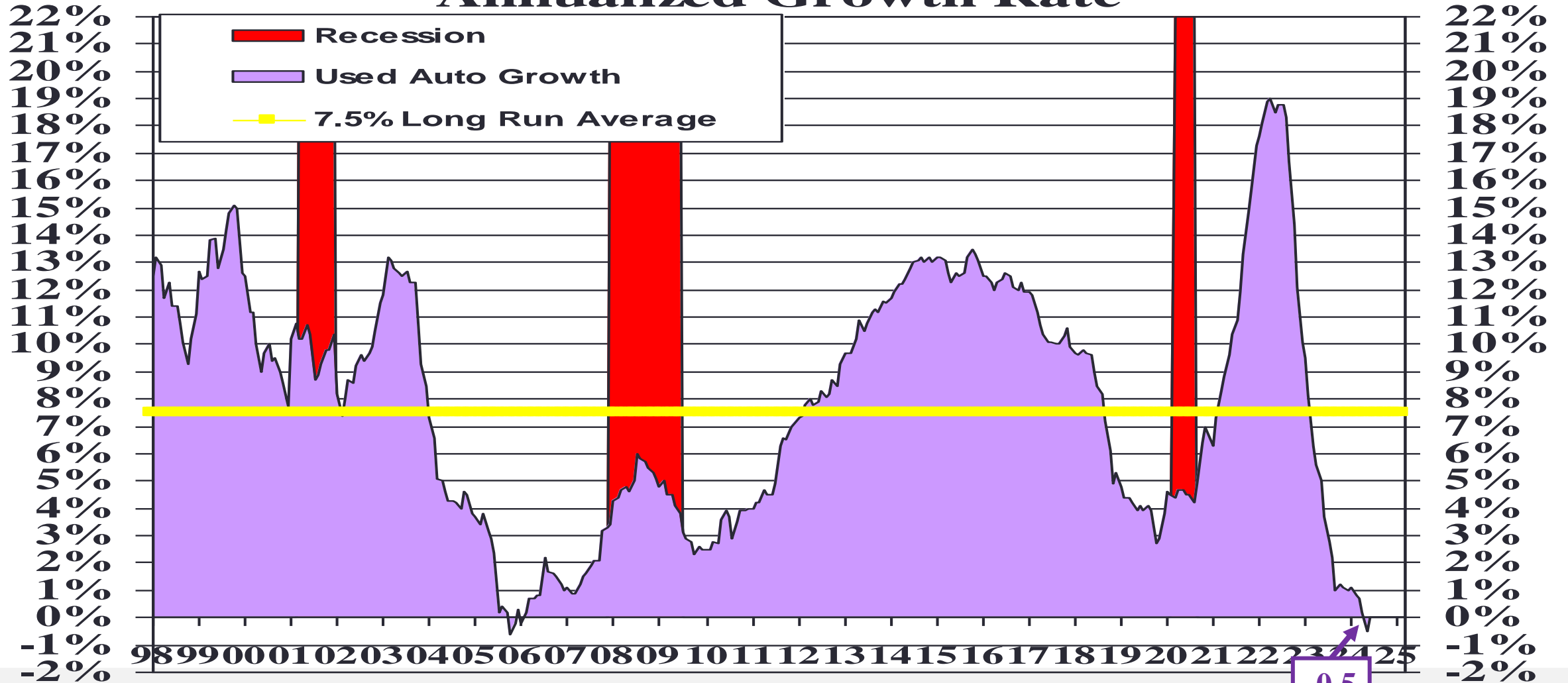
# Vehicle Prices are Falling



Source: Bureau of Labor Statistics

# CU Used Loan Growth

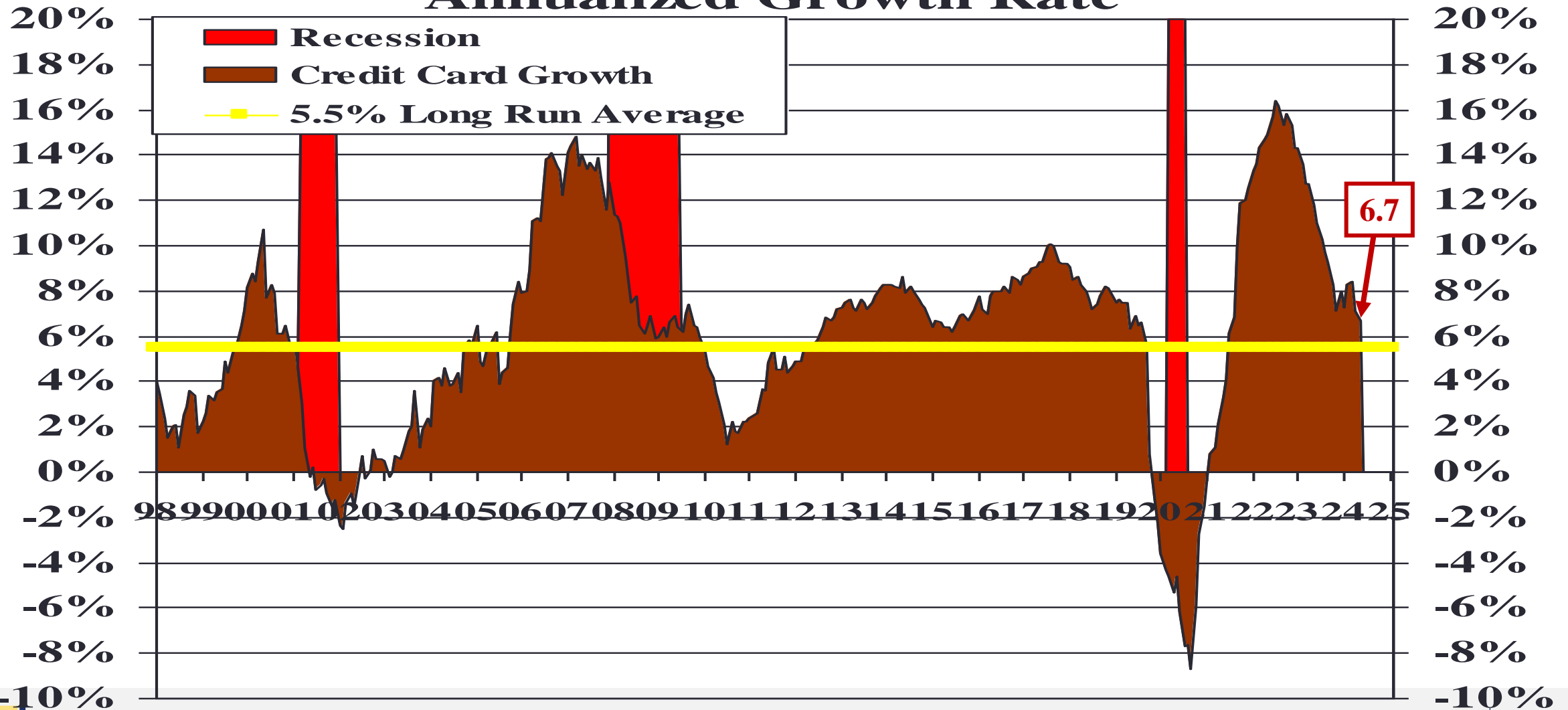
## Seasonally Adjusted Annualized Growth Rate



-0.5

# CU Credit Card Growth

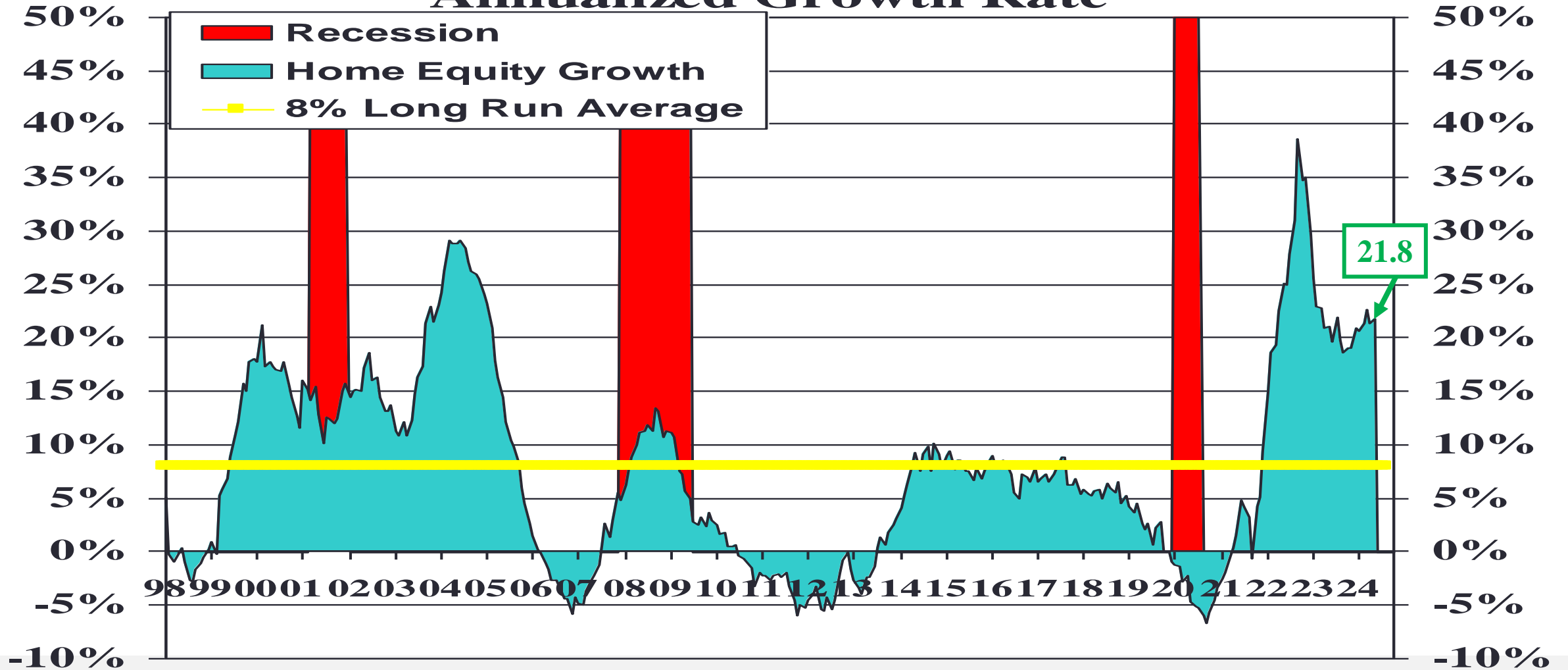
## Seasonally Adjusted Annualized Growth Rate





# CU Home Equity Growth

## Seasonally Adjusted Annualized Growth Rate



# Credit Union Balance Sheet

## Assets

## Liabilities + Capital

### Cash (Reserves)

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Allowance for Loan Loss

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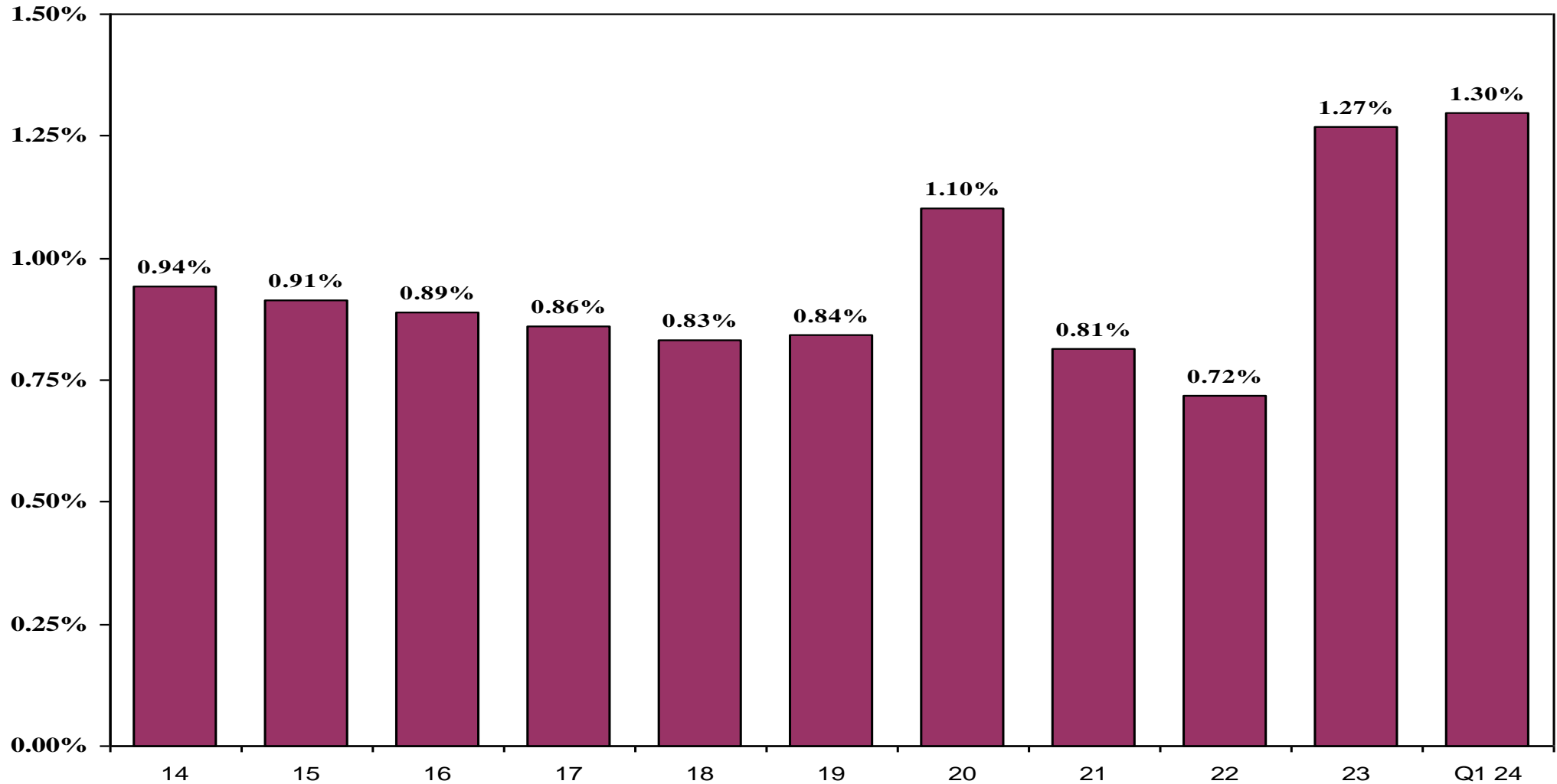
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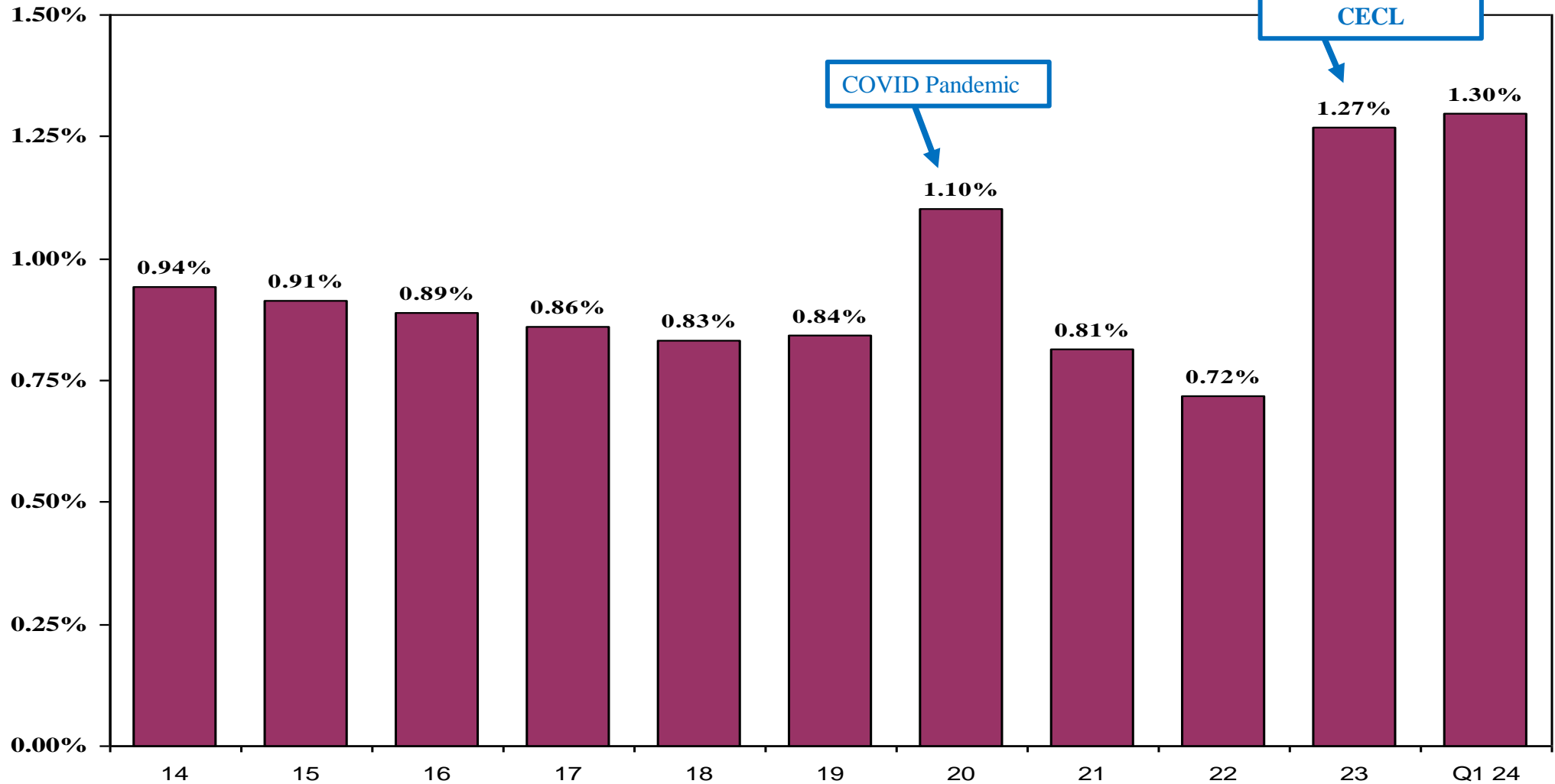
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# Allowance for Loan Losses (Percent of loans)



# Allowance for Loan Losses (Percent of loans)



# Credit Union Balance Sheet

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“Non progredi est regredi”

# Credit Union Balance Sheet

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“Non progredi est regredi”

To not go forward is to go backward



# Credit Union Balance Sheet

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“Non progredi est regredi”

To not go forward is to go backward

If you're not growing, you're dying

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

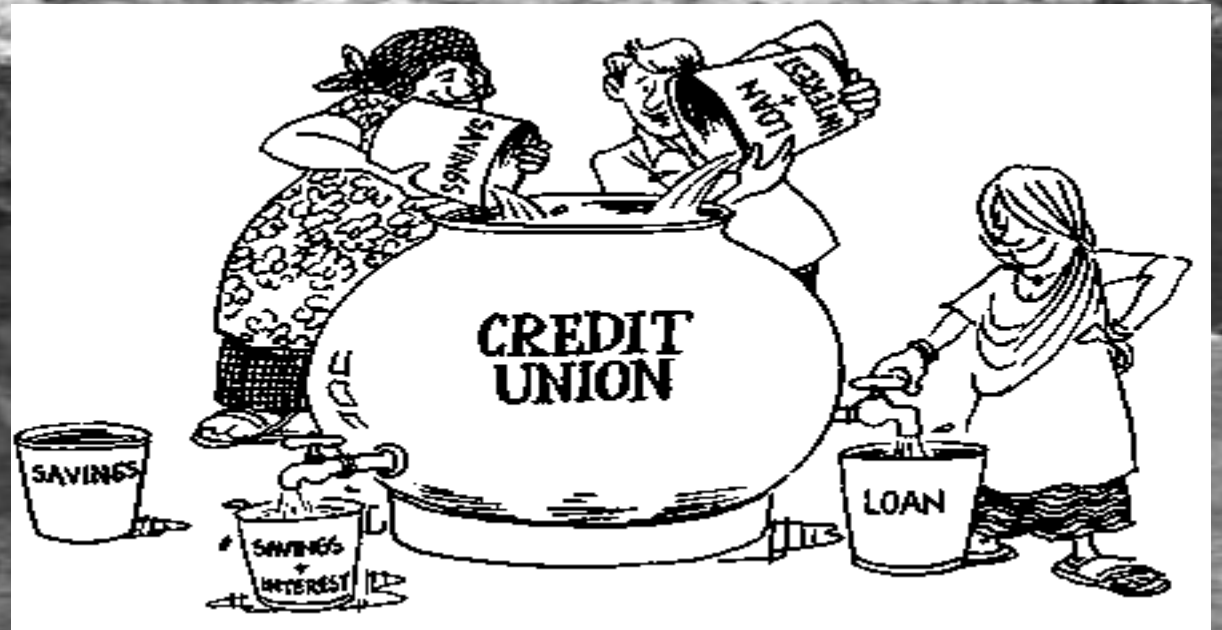
A black and white photograph of a nuclear mushroom cloud, likely from the Nagasaki atomic bombing. The cloud is massive and billowing, with a dark, dense column rising from the ground and a large, white, cloud-like top. The background is dark, making the cloud stand out. A pink rectangular box is overlaid on the image, containing the text "Credit unions are so robust that,.....".

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

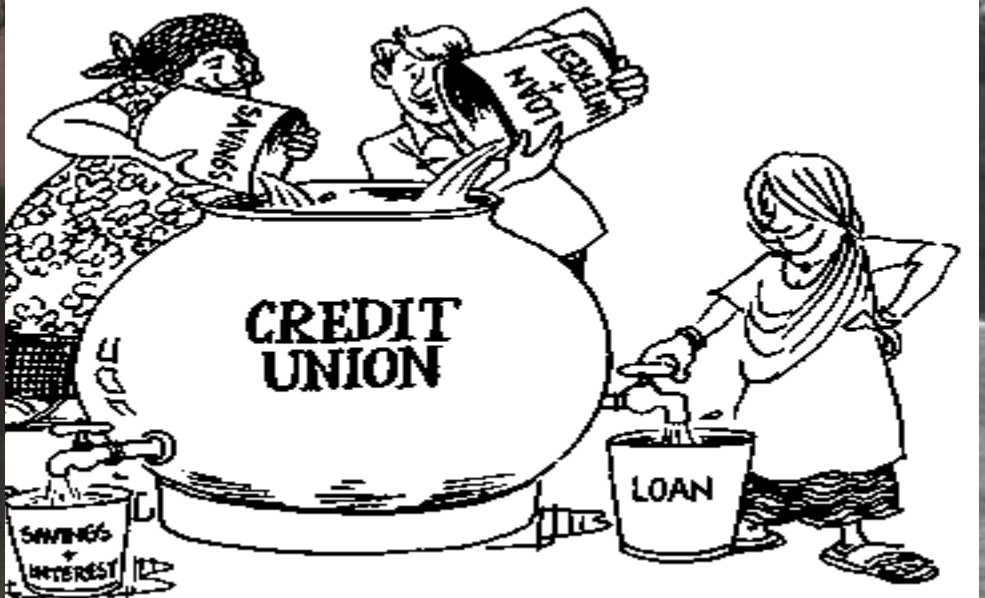
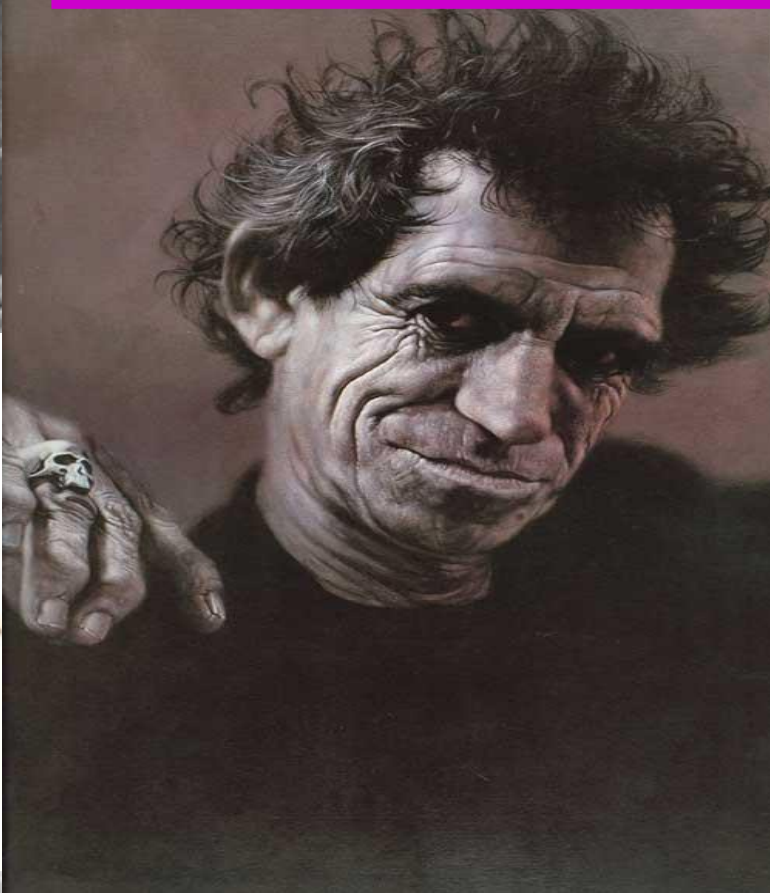
Credit unions are so robust that,.....

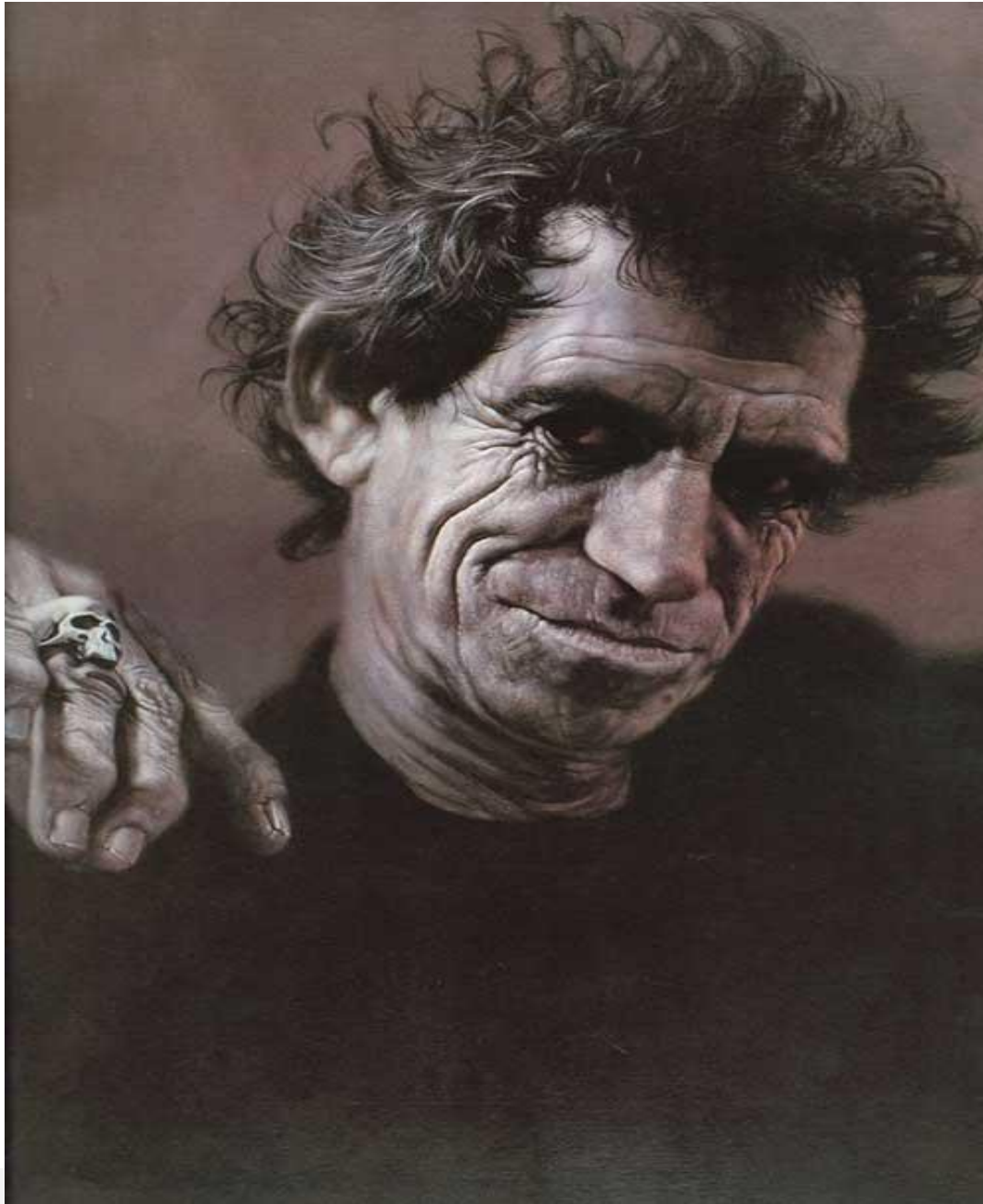


Credit unions are so robust that,.....



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





**Carpe Diem**  
**“Seize the day”**

# Questions?



# Forecast Overview

October 2024

The Federal Reserve's bid to normalize interest rates is underway, and the America's Credit Unions forecast group anticipates a broader normalizing of conditions, both for the broader economy and for credit unions. Although there are important downside risks to the forecast, including the possibility that the recent rise in unemployment will continue and geopolitical risks, economic data has generally surprised to the upside and a strong September jobs report is reassuring.

Our fourth-quarter baseline economic forecast reflects the following minor changes:

- We raised our expectation for GDP growth in 2024, measured on a q4-to-q4 basis, from 1.9% to 2.4%. Our outlook for 2025 increased slightly from 1.8% to 2%.
- We revised down our year-end 2024 baseline unemployment rate forecast from 4.3% to 4.2%, holding the year-end 2025 figure at 4.5%.
- We lowered our outlook for over-the-year headline inflation, from 2.8% in 2024 and 2.5% in 2025 in our prior forecast to 2.5% and 2.3%, respectively, in the current forecast.
- Our outlook calls for two additional quarter-point cuts by year end, which will reduce the fed funds rate to 4.3%. We continue to expect 4 cuts in 2025, but that now reduces the fed funds rate to 3.3% by December 2025.

Our credit union forecast also changed modestly:

- We revised down our outlook for 2024 share growth by one percentage point to 4% due to a miss to the downside in the second quarter. But with rates dropping, we held our forecast for 2025 at 6%.
- With the fed funds rate expected to drop to 3.3% by the end of next year, we revised our 2025 loan growth forecast up by one percentage point to 6%, and our 2025 membership growth forecast from 1.8% to 2.2%.
- We see credit unions prioritizing loan performance next year. As a result, we revised down our delinquency ratio forecast for next year from 0.90% to 0.85%. We made a similar-sized adjustment to our outlook for net charge-offs, lowering it to 0.70% in 2025.
- A more comfortable rate environment alongside a better outlook for loan performance should lead to improved earnings, and we increased our ROA forecast by 10 basis points in 2024 (to 0.70%) and in 2025 (to 0.80%).

# Economic Forecast

October 2024

Our baseline economic forecast calls for the continuation of the economic expansion, albeit at a moderating pace, through the 2025 forecast window. We do see important risks which, if realized, could precipitate a recession. Those risks include the possibility that recent weakness in the labor market could continue or even accelerate and geopolitical uncertainty, especially with respect to unrest on the Middle East. We also view the outcome of the November elections as potentially being highly impactful. But given the uncertainty of the results as well as the policy initiatives that could proceed from those results, we do not consider the potential impact of the wide range of possibilities in our forecast. With the fed funds rate still elevated and inflation subsiding, the FOMC is equipped to address any serious growth scare by hastening the pace of rate cuts. We place the odds of a recession through year-end 2025 at **25 percent**.

Real GDP continues to surprise to the upside, highlighted by a 3% annualized growth rate in the second quarter. However, much of that growth occurred in inventories and may be given back in future quarters. More generally, we believe nominal GDP is returning to its pre-COVID pattern of 4% to 4.5% annual growth. With inflation stabilizing near the Fed's 2% target, that suggests a sustainable level of real GDP growth around 2% to 2.5%.

Year-over-year inflation as measured by CPI has fallen to just 2.4%, while the Federal Reserve's preferred index (PCE) is running at 2.2%. That latter figure is just slightly above the FOMC's target of 2%. Despite the FOMC's 50-basis point interest rate cut in September, rates remain in restrictive territory, acting to slow the economy. This should permit the further easing of those excess price pressures that remain.

Labor markets remain an area of concern. On the bright side, the unemployment rate fell for the second straight month in September, and data suggests that layoffs remain relatively rare. However, hiring is also extremely low while two reliable gauges of labor market tightness—the rate of voluntary quits and job openings per unemployed worker—are falling and now sit below their pre-COVID levels. The forecast group viewed this low-hiring/low-firing dynamic as part of a necessary process in transitioning from the overheated conditions of 2022 to a more normal labor market. But the rise in unemployment nevertheless carries the potential to damage business and consumer confidence, which would threaten the economic expansion.

With the risks to the FOMC's dual mandate shifting from excessive inflation to excessive unemployment, the Committee opted for an outsized 50-basis point rate cut in September. The forecast group believes that two more 25-basis point rate cuts are forthcoming in 2024, followed by four cuts in 2025. We see this as a process whereby the FOMC will gradually return the fed funds rate to a neutral setting.

Long-term rates have been volatile, particularly when the labor market appears to weaken. But we note that the 10-year Treasury rate is currently near its 3-year average of 3.8%, and we expect it to remain just above that level through 2025. While we expect the Fed to announce more rate cuts in 2025, markets do as well, and so this may not necessarily impact longer-term rates. The growth in federal deficit spending and the accompanying surge in Treasury issuance places some upward pressure on rates.

# Economic Forecast

October 2024

	Past results		Actual/forecasts				Annual forecasts	
	Previous 10 Yr. Avg	2023	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2024	2025
<b>Growth rates:</b>								
Economic Growth (% chg GDP)*	2.5%	2.9%	1.6%	3.0%	2.4%	2.1%	2.4%	2.0%
Inflation (CPI, 12 mth % chg)	2.8%	3.3%	3.5%	3.0%	2.4%	2.5%	2.5%	2.3%
Unemployment Rate (BLS)	4.5%	3.7%	3.8%	4.1%	4.1%	4.2%	4.2%	4.5%
Federal Funds Rate (effective)	1.45%	5.33%	5.33%	5.33%	4.83%	4.33%	4.33%	3.33%
10-Year Treasury Rate	2.41%	3.88%	4.20%	4.36%	3.81%	4.00%	4.00%	4.00%
10-Year-Fed Funds Spread	0.96%	-1.45%	-1.13%	-0.97%	-1.02%	-0.33%	-0.33%	0.67%

\*Percent change, annualized rate for quarterly and Q4-to-Q4 change for annual. All other numbers are end-of-period values.

# Credit Union Forecast

October 2024

Our credit union outlook anticipates the return of more normal conditions in 2025, tracking with the overall economy. Certain challenges remain, chief among them weak growth and poor loan performance. This will result in uneven performances throughout the industry as credit unions with ample liquidity and stable delinquencies capitalize on the loan demand that should follow from a solid economy and declining interest rates. However, other credit unions will be focused on shoring up liquidity or reining in loan losses in 2025. But the forecast group is optimistic that even where these challenges persist, they should subside over the course of next year.

Credit union liquidity remains relatively tight, as evidenced by a loan-to-share ratio that we project to end this year just slightly lower than the year prior. Lending froze in 2024 as high rates sapped loan demand, but also because many credit unions struggled to grow deposits. In September, the Bureau of Economic Analysis made a significant upward revision to its estimates for personal income and consumption. These adjustments raised the personal saving rate from 3.6 percent of disposable income over the prior 12 months to over 5 percent, against a 5-year pre-COVID average of 6.2 percent. The revision supports the view that the primary cause of slow deposit growth at credit unions and banks is not deficient household savings but rather where households are choosing to save. With the FOMC's interest rate normalization process underway, we expect that households will begin redirecting a larger share of savings toward credit union and bank non-maturity deposits in 2025. We forecast 6% share growth in 2025, which is close to the 10-year average for credit unions.

Loan delinquencies continued to rise in the second quarter and are drawing increased supervisory scrutiny. Given credit unions' history of prudent lending and the attention they are paying to the issue, we expect loan performance to stabilize and begin improving in 2025. We suspect that much of the recent rise in delinquencies is the residue of the strong loan growth from 2022 and early 2023, and that it will simply take some time to clear through the pipeline. However, we note that delinquencies tend to track with the unemployment rate, and we expect the latter to continue to drift upward next year.

For those credit unions with the wherewithal to resume lending in 2025, we expect conditions to be much improved. We acknowledge some uncertainty around the timing of loan demand. As we noted in our economic outlook, we do not expect a major decline in long-term rates next year. It could take some time for households to accept that despite reductions in the Federal Reserve's policy rate, longer-term borrowing rates may not return to COVID era lows or even pre-COVID levels any time in the near future.

Finally, we modified our earnings outlook, raising our projected ROA by 10 basis points each in 2024 and 2025. Those adjustments are due to several factors. First, second quarter earnings came in stronger than expected, which led us to raise our forecast for the current year. For 2025, the higher ROA projection stems from a slightly better outlook for loan growth and charge-offs than in our prior forecast. If it all comes together in the way we anticipate, by the end of next year credit unions should see conditions that are far more typical to those of the pre-COVID years than to the rollercoaster of the past four years.

# Credit Union Forecast

October 2024

	Past Results		Actual/forecasts				Annual forecasts	
	10 Yr Average	2023	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2024	2025
<b>Growth rates:</b>								
Savings growth	7.6%	1.6%	3.0%	-0.3%	0.0%	1.3%	4.0%	6.0%
Loan growth	9.5%	6.2%	0.0%	1.0%	1.2%	0.8%	3.0%	6.0%
Asset growth	7.9%	4.0%	2.3%	-0.4%	0.3%	1.3%	3.5%	5.5%
Membership growth	3.7%	2.9%	1.0%	0.6%	0.2%	-0.3%	1.5%	2.2%
<b>Liquidity:</b>								
Loan-to-share ratio**	79.7%	85.1%	82.7%	83.9%	85.0%	84.6%	84.6%	84.6%
<b>Asset quality:</b>								
Delinquency rate**	0.72%	0.83%	0.77%	0.84%	0.88%	0.90%	0.90%	0.85%
Net charge-off rate*	0.49%	0.61%	0.80%	0.78%	0.71%	0.73%	0.75%	0.70%
<b>Earnings:</b>								
Return on average assets (ROA)*	0.83%	0.68%	0.66%	0.71%	0.73%	0.68%	0.70%	0.80%
<b>Capital adequacy:</b>								
Net worth ratio**	10.9%	10.7%	10.6%	10.8%	11.0%	11.0%	11.0%	11.2%

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

# Economic Update Summary For 2025

1. Below trend economic growth in 2025, (1.8%)
2. Falling inflation rate during the next 2 years
3. Unemployment rate rising to natural rate of 4.5% in 2025
4. Short-term interest rates above long-term interest rates into 2025
5. Credit union loan growth below trend in 2025, (5%)
6. Mortgage originations rising 15% as interest rates fall 1 percentage point