

Economic & Credit Union Update

If you have any questions or
comments, please contact:
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January 2025

Trump's Economic Policies

Economic Impact

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1. 10-20% Universal Tariffs

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1. **10-20% Universal Tariffs**

Economic Impact

Higher Inflation / Lower GDP / Lower Deficits

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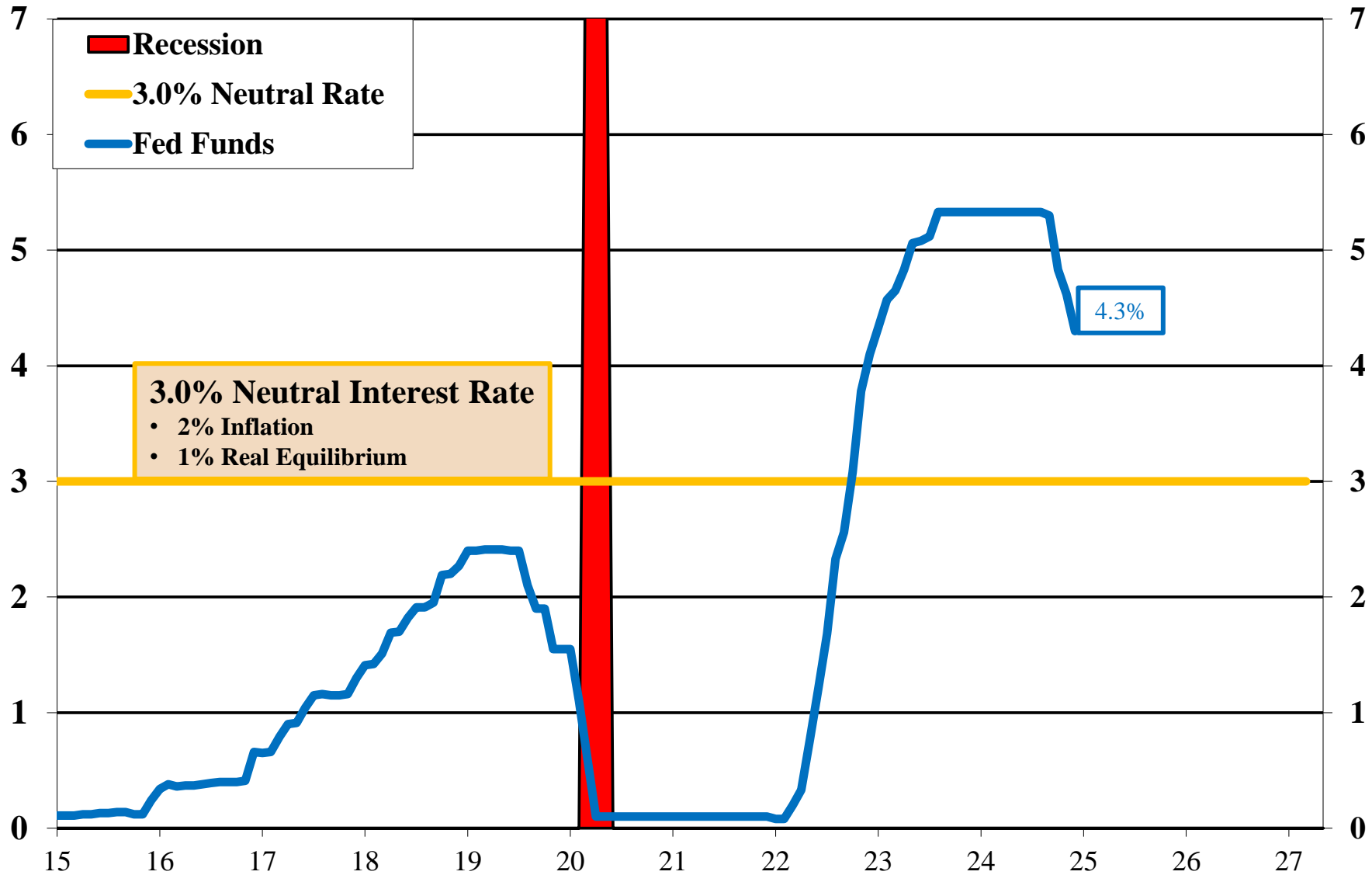
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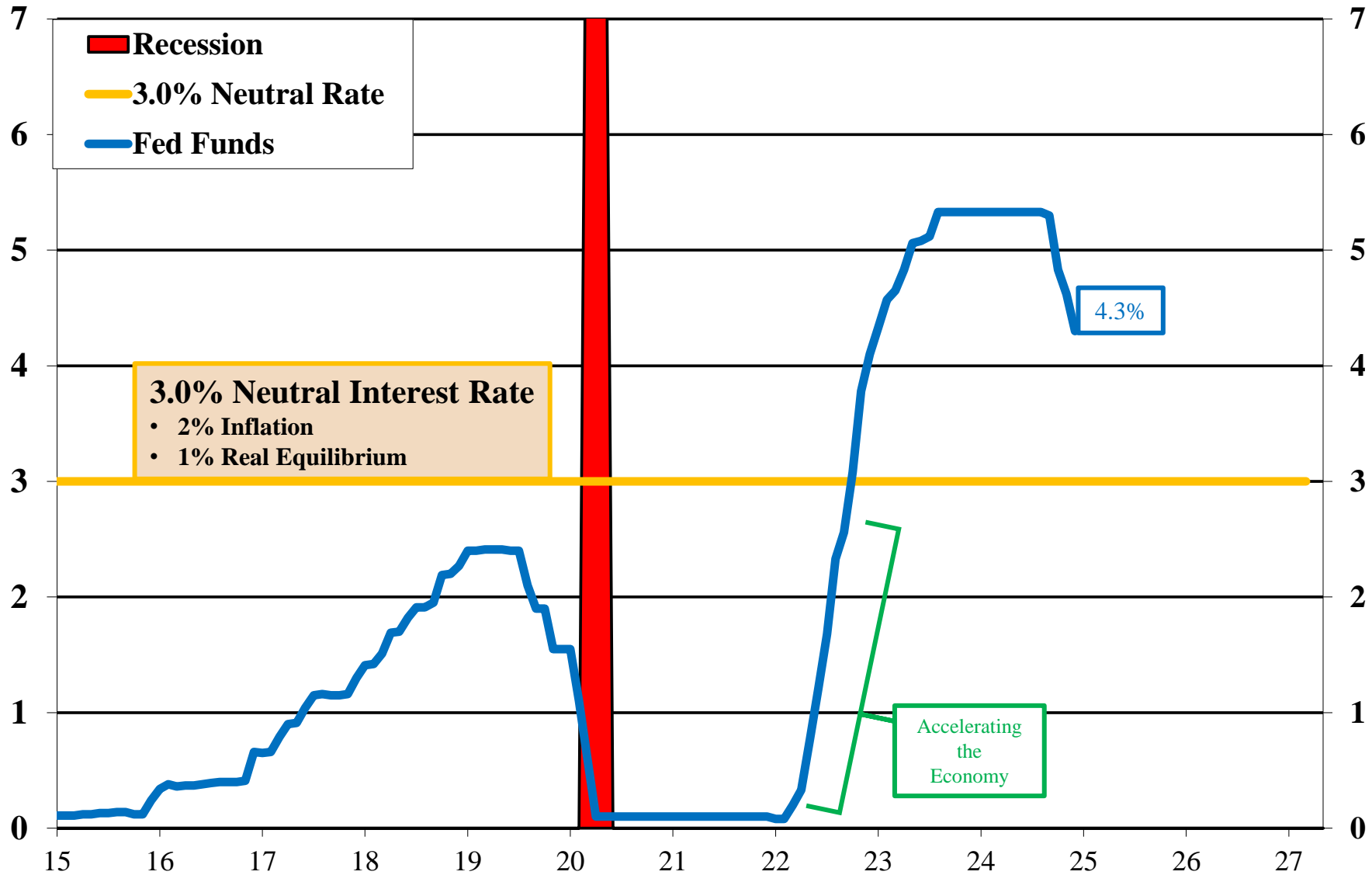
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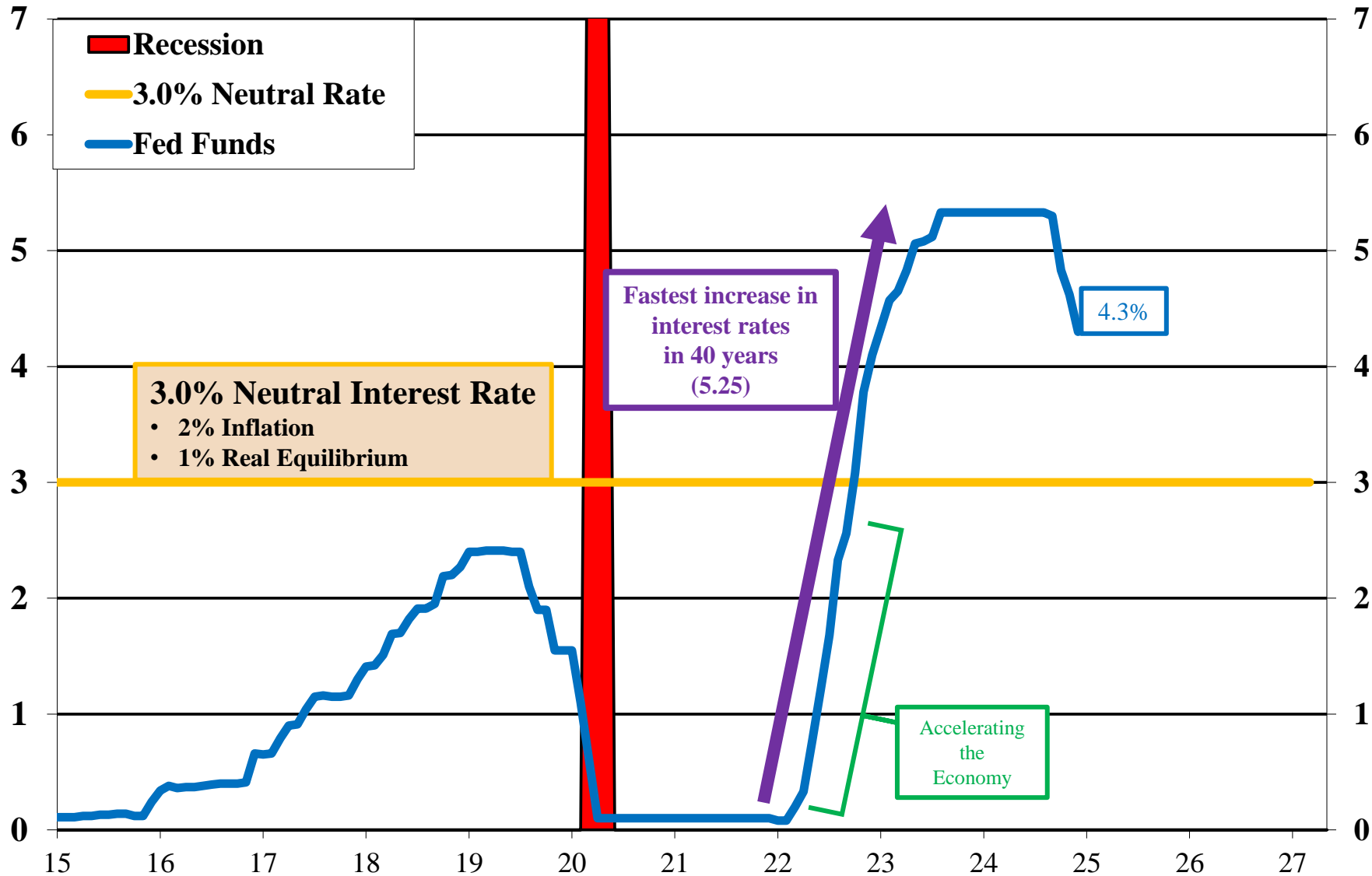
Fed Funds Interest Rate



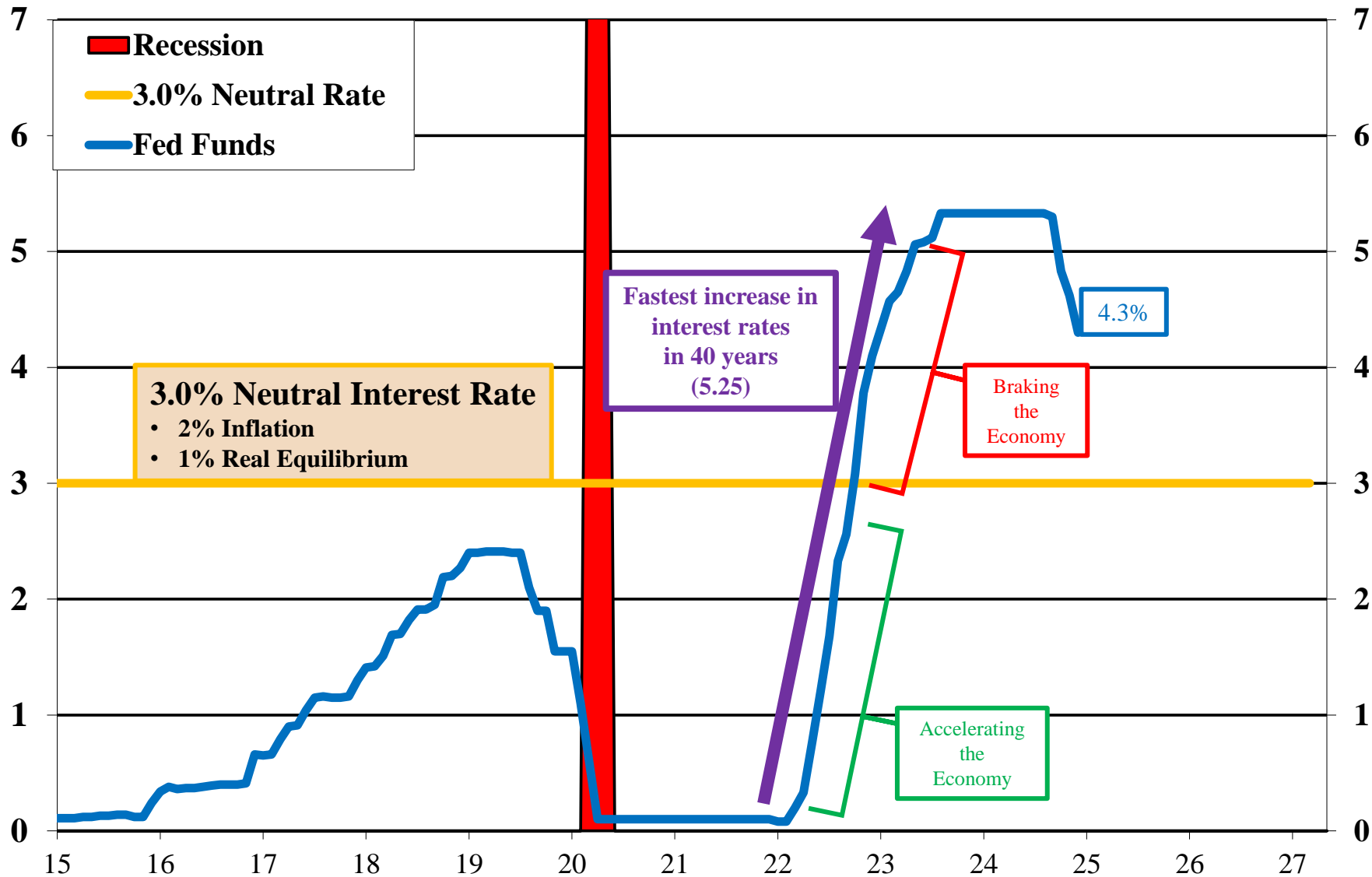
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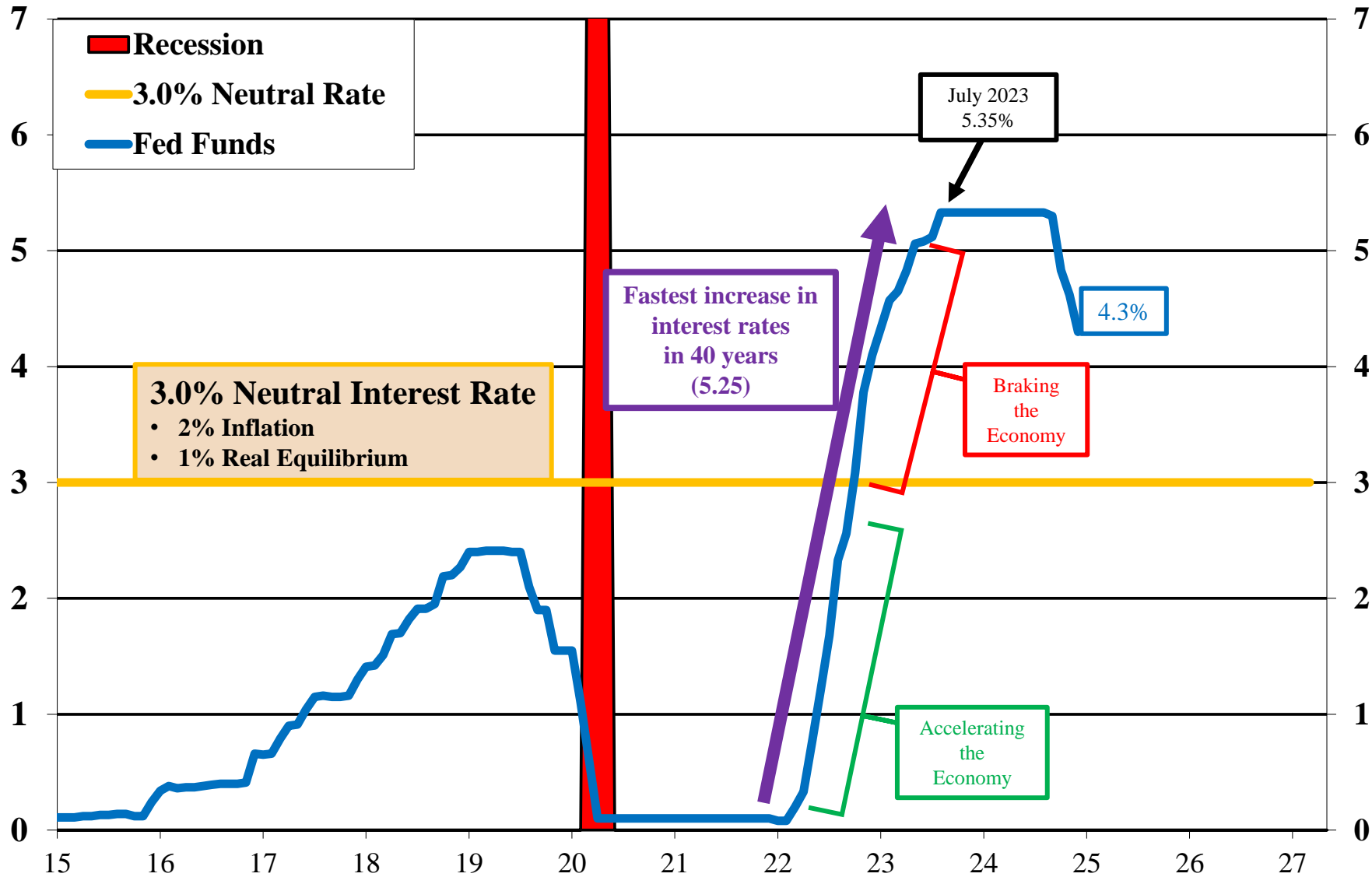
Fed Funds Interest Rate



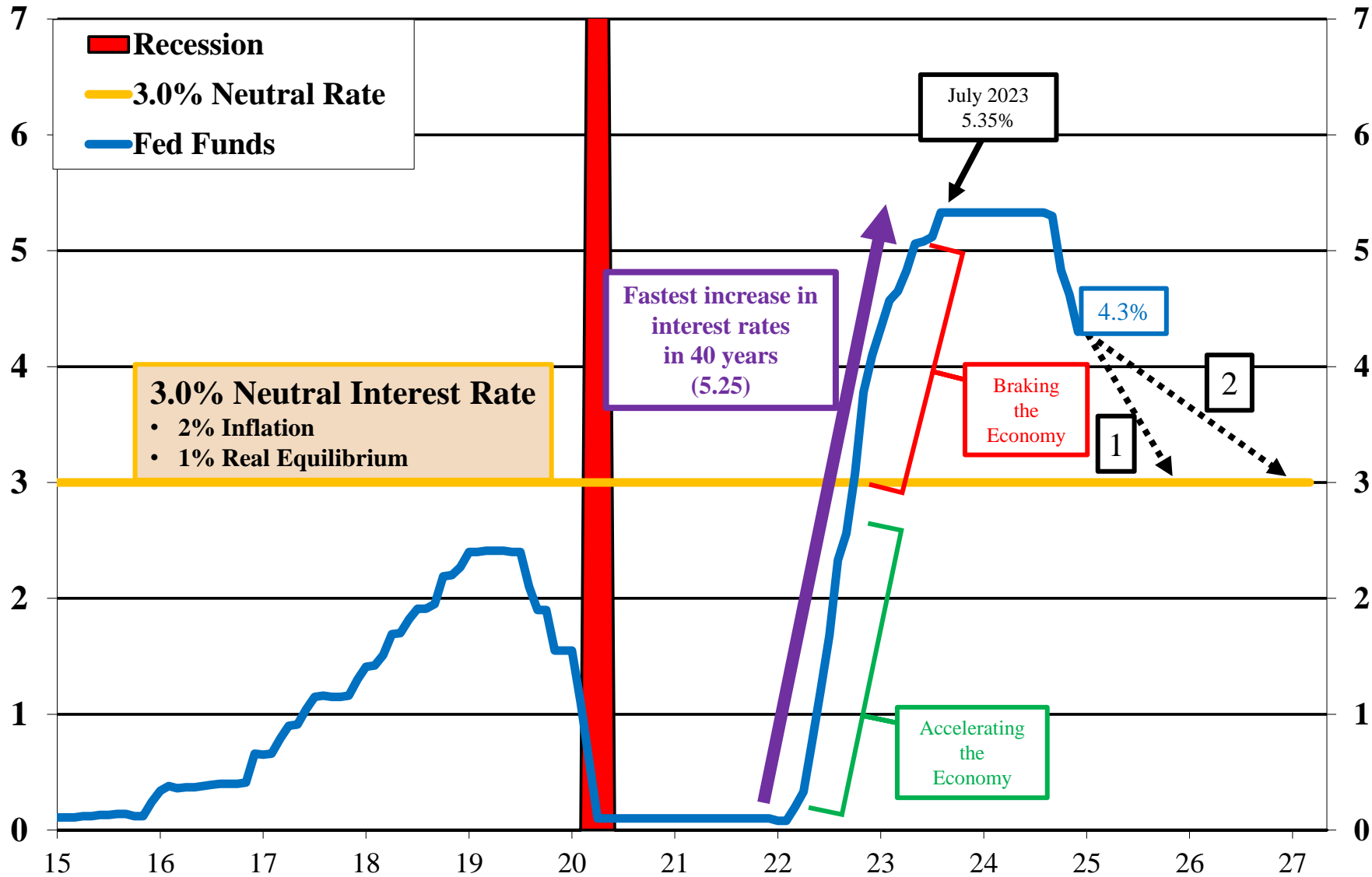
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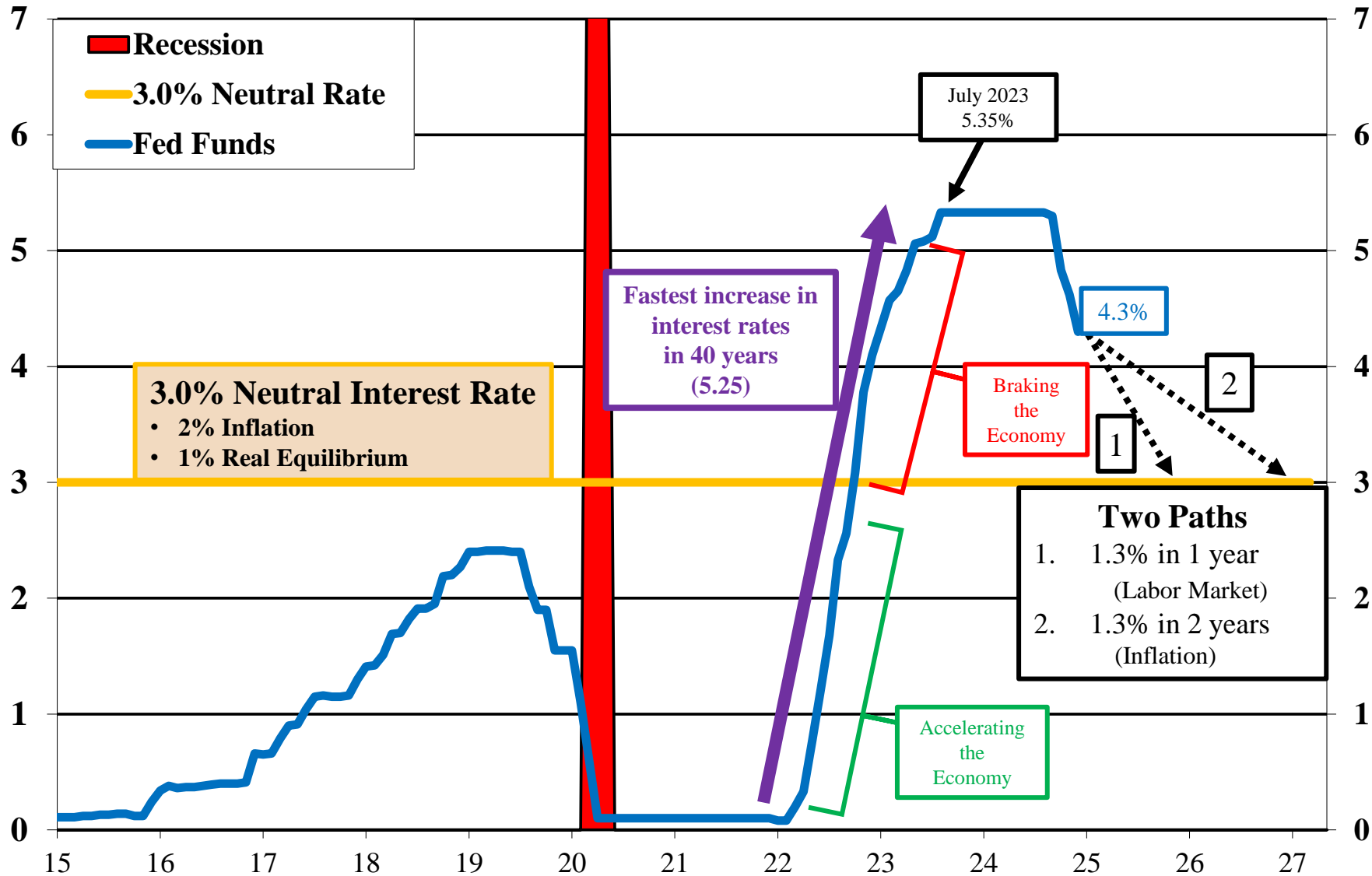
Fed Funds Interest Rate



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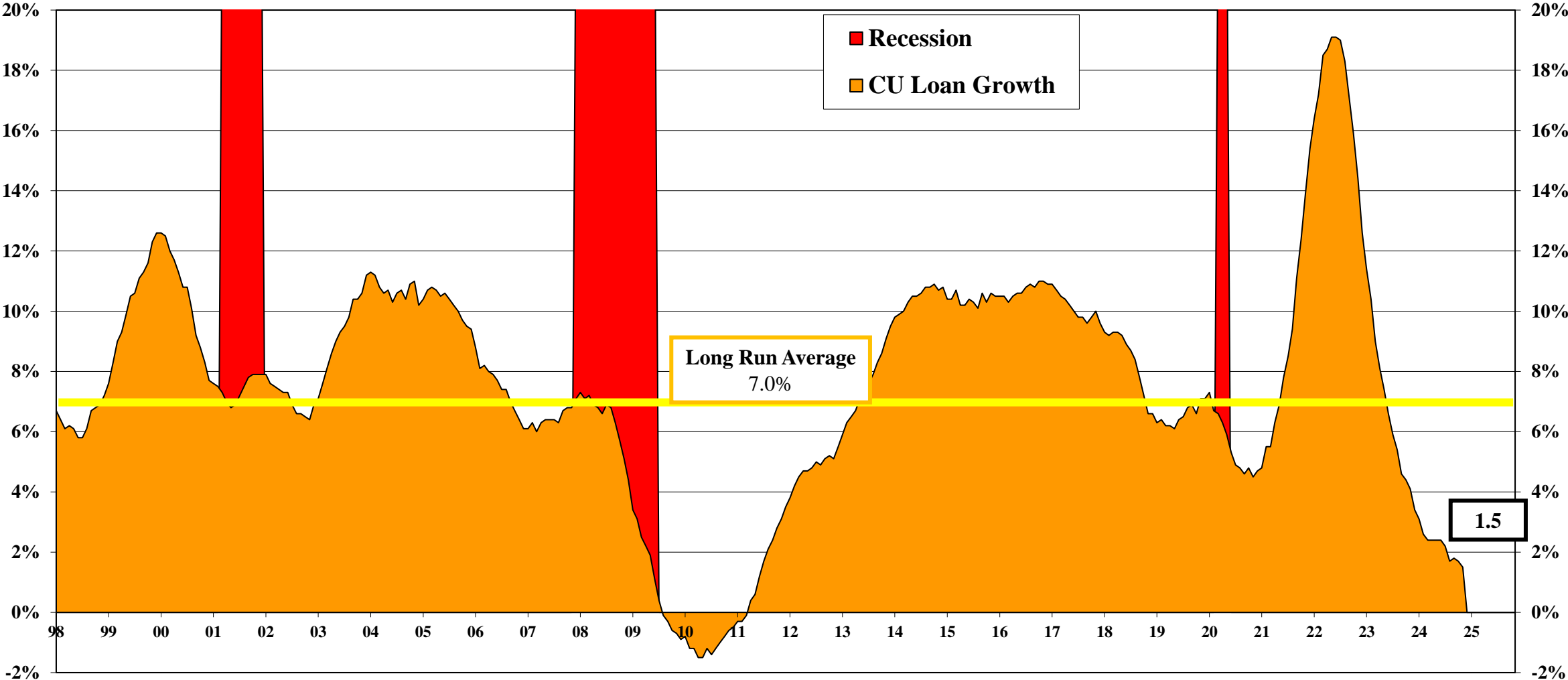


Fed Funds Interest Rate



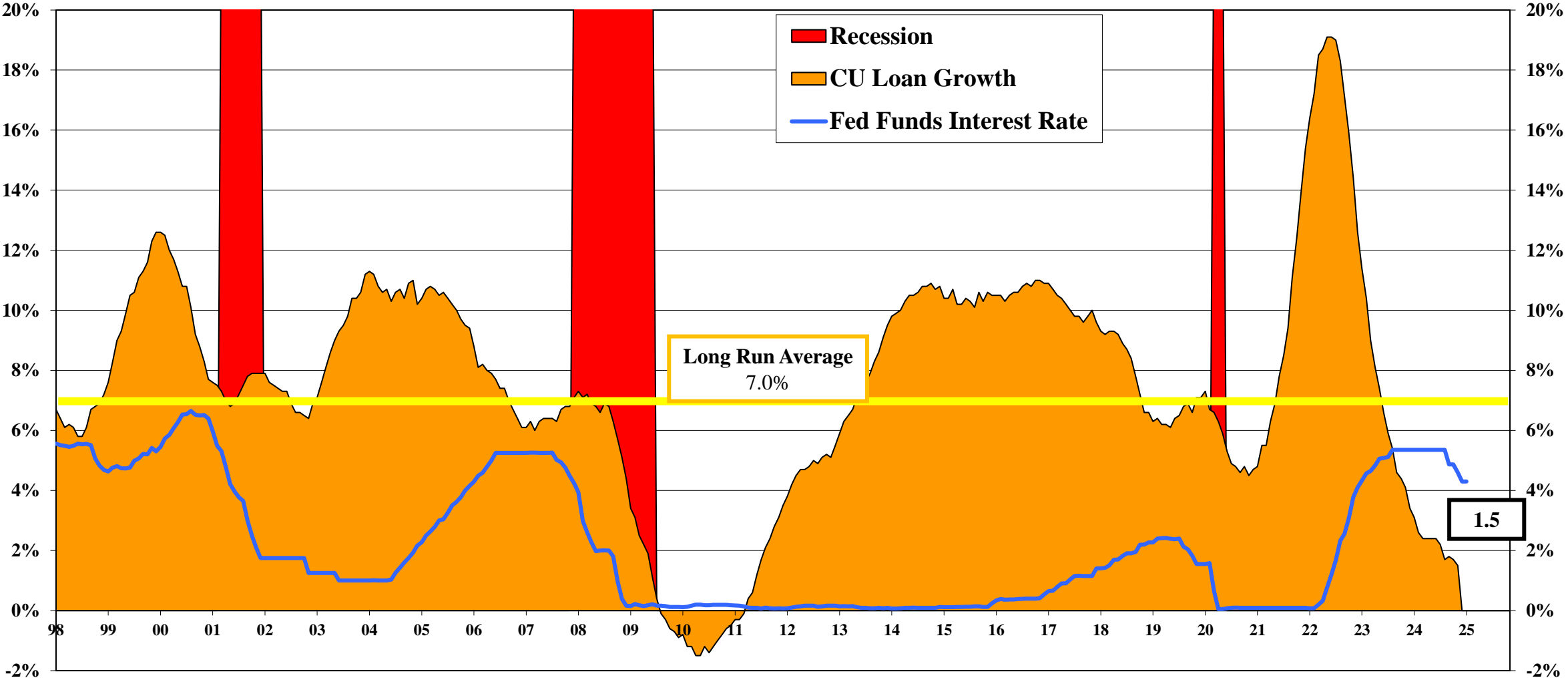
Weak Credit Union Loan Growth

CU Loan Growth



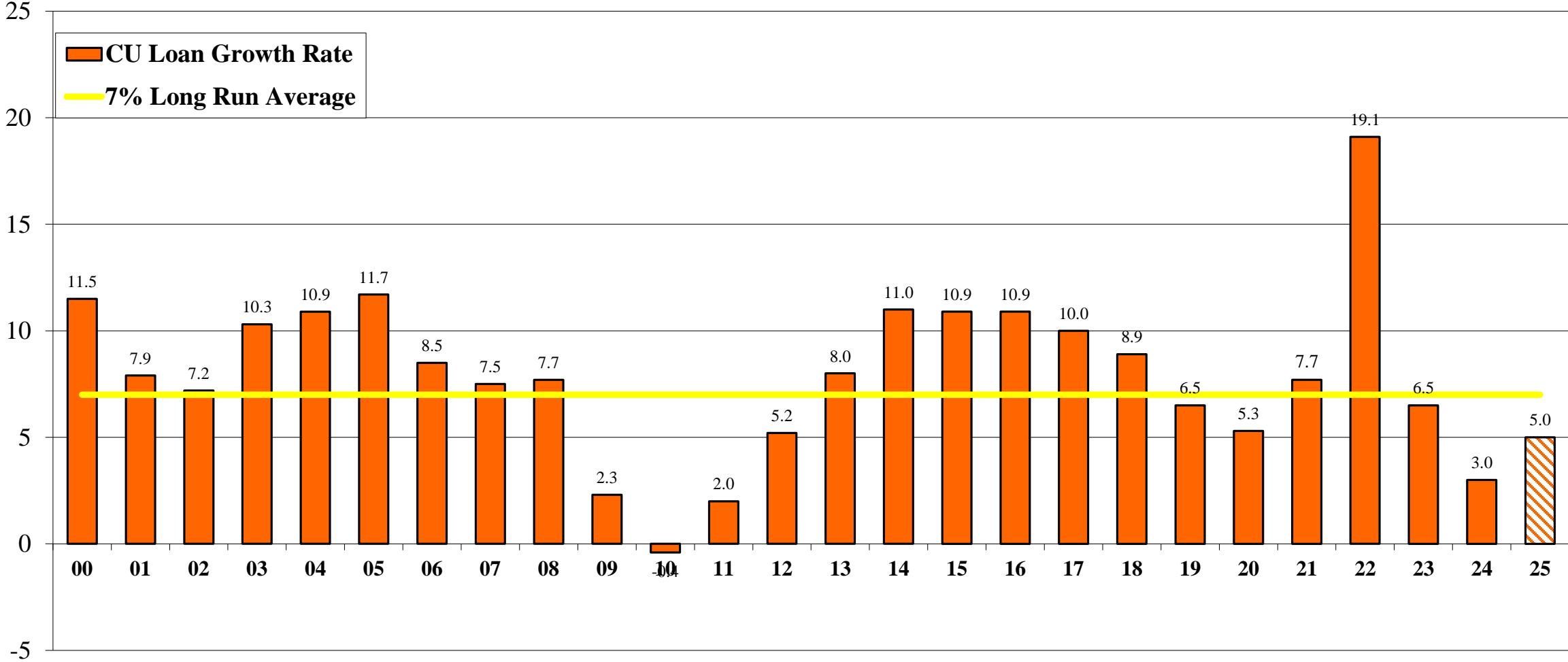
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CU Loan Growth Vs. Fed Funds Interest Rate

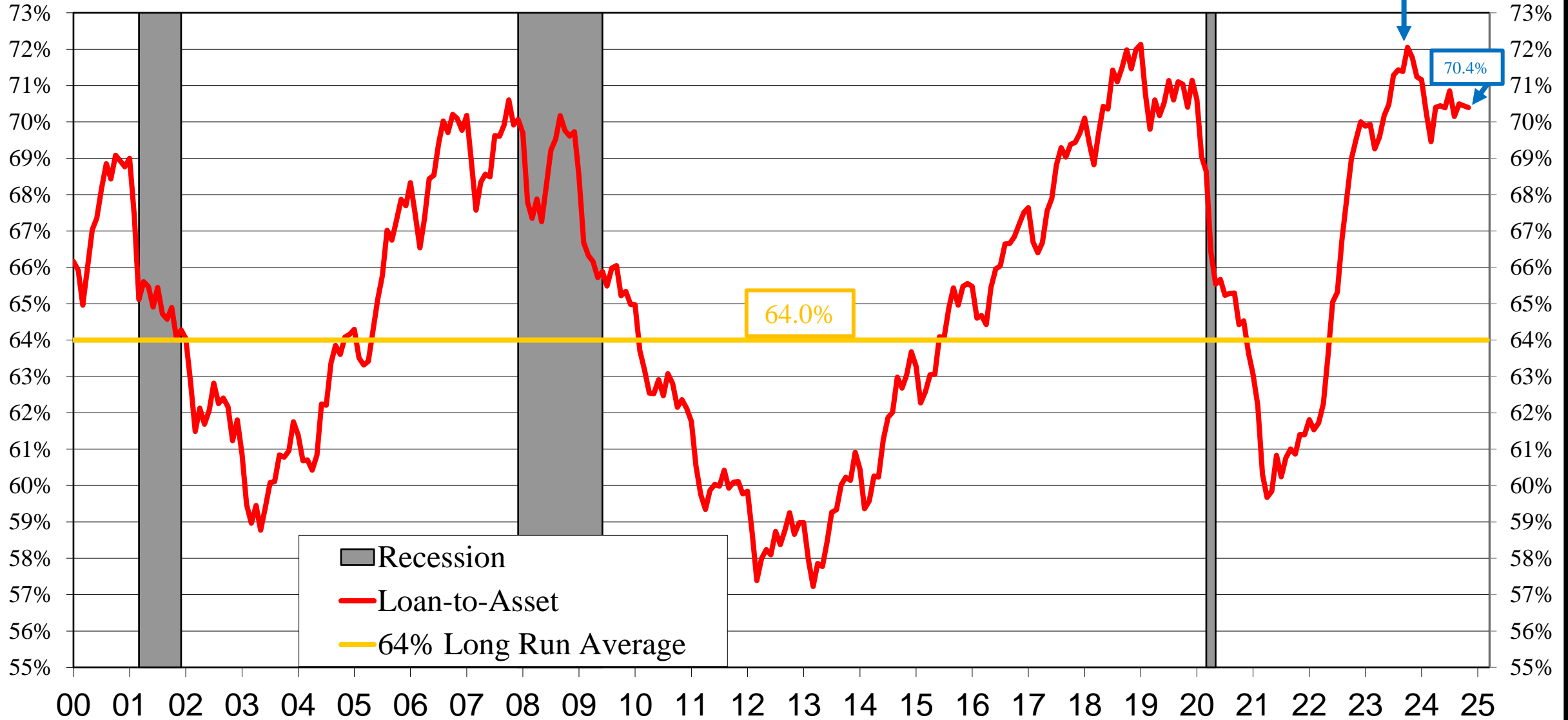


Slow Credit Union Loan Growth

Credit Union Loan Growth (Annual Percent Growth)

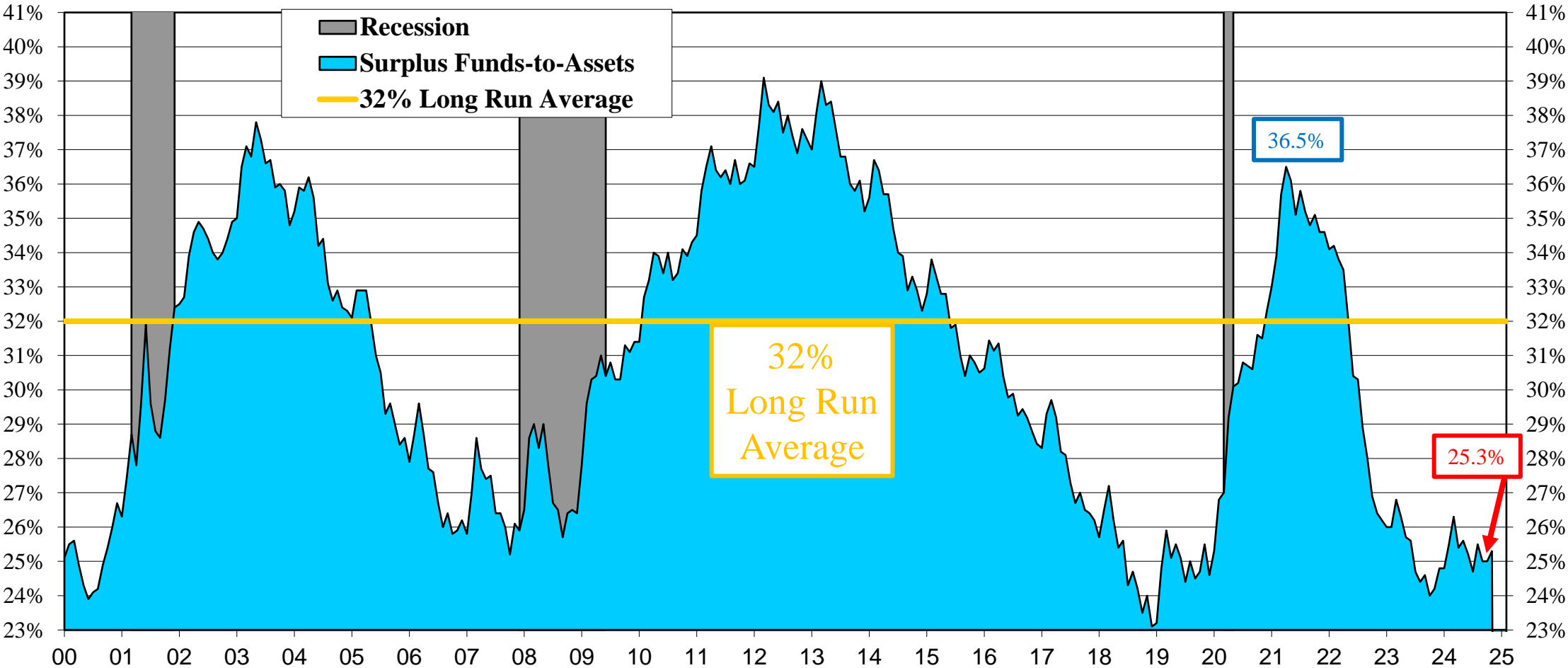


CU Loan to Asset Ratio



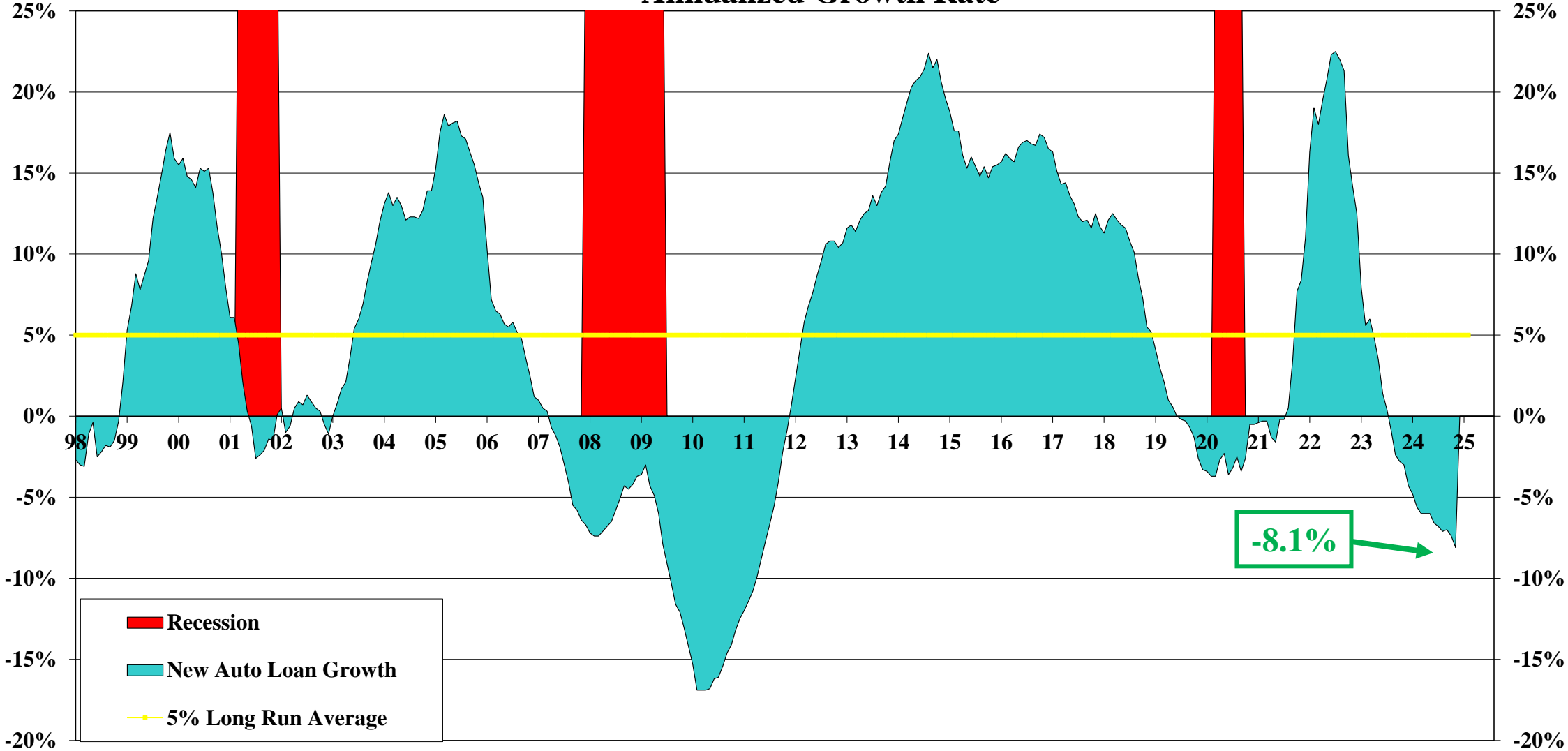
Investments Are Falling and Yields Are Rising

CU Surplus Funds (Cash + Investments)



CU New Auto Growth

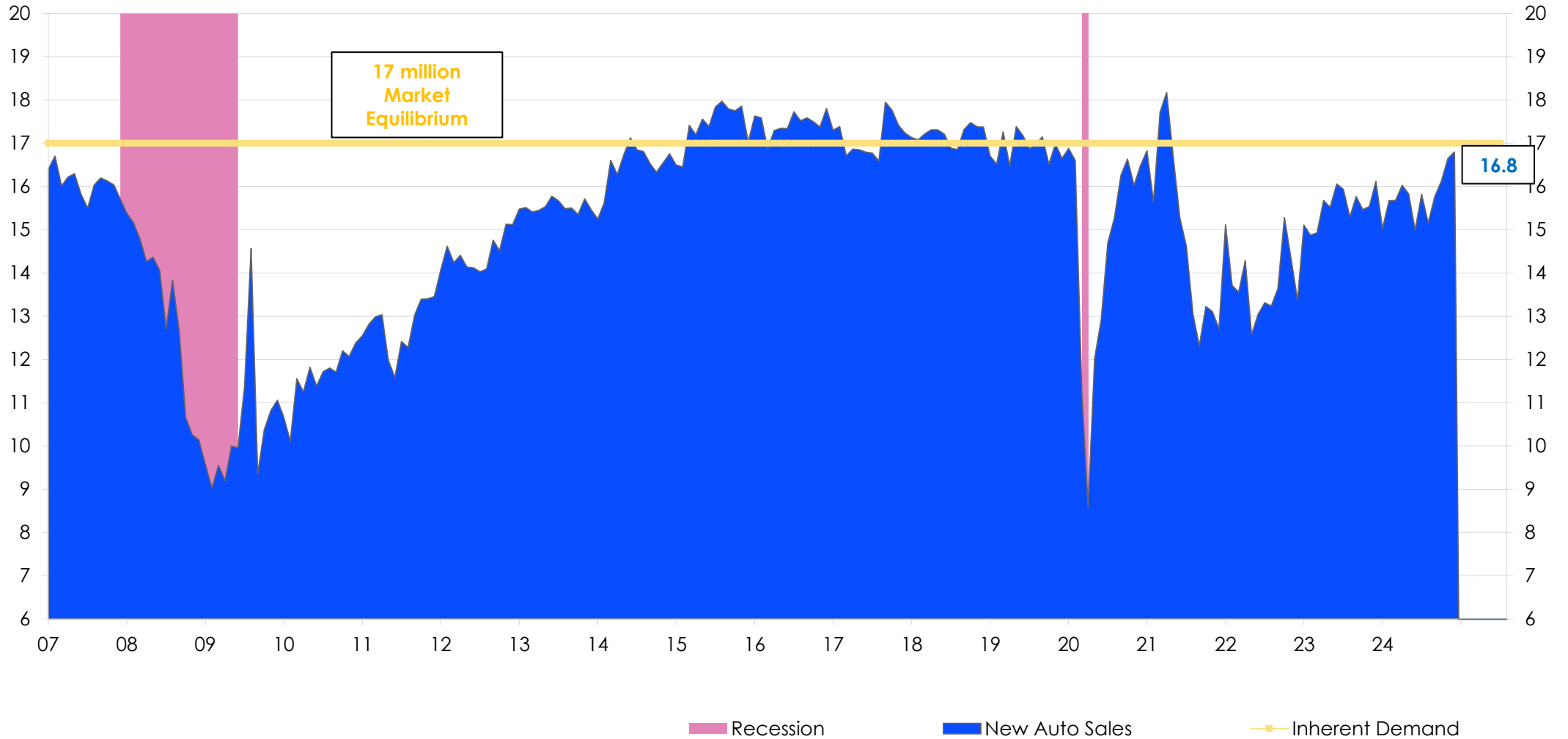
Seasonally Adjusted Annualized Growth Rate



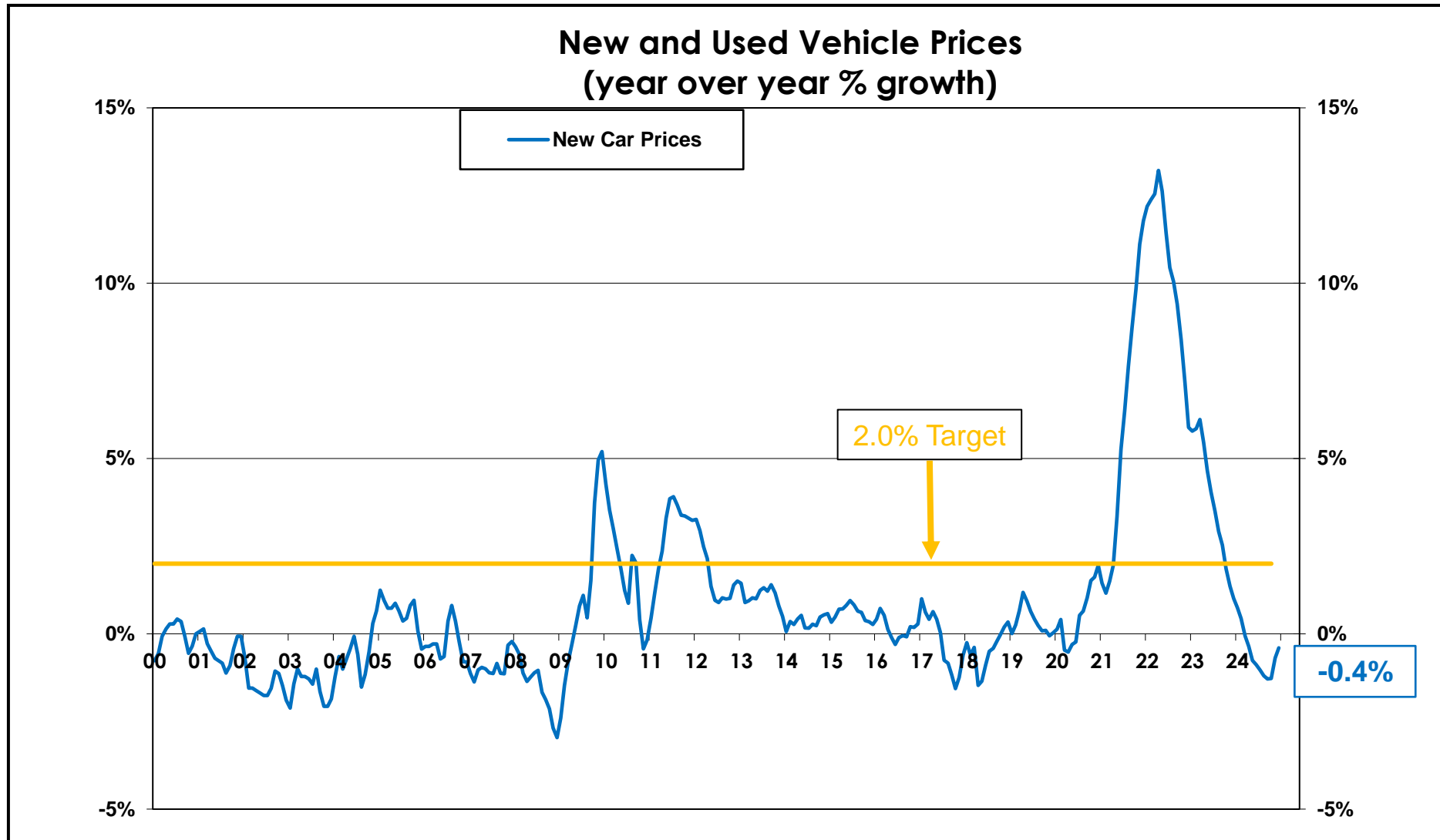
U.S. Vehicles Sales

Seasonally-Adjusted Annual Rate

Millions of Units

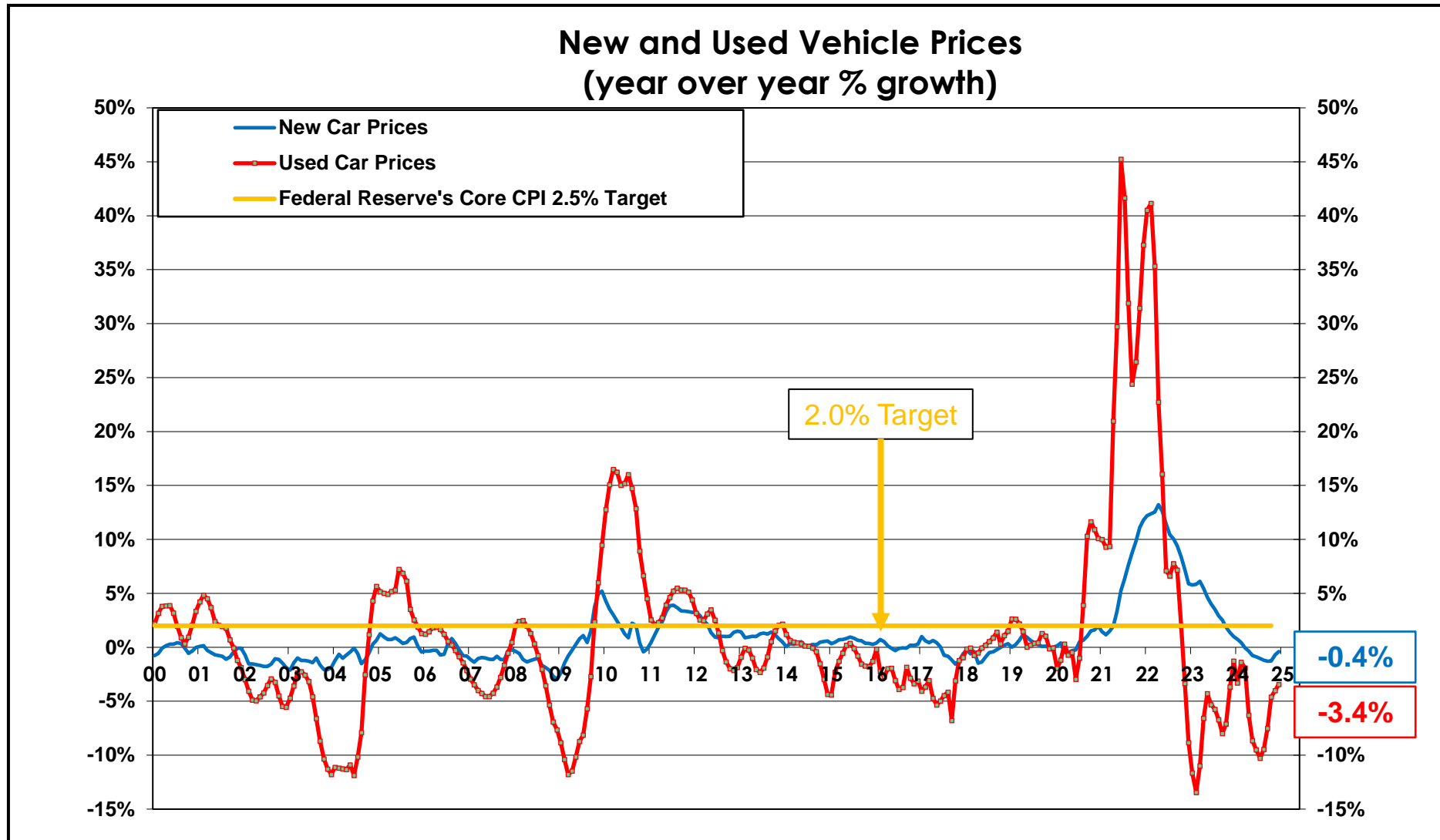


Vehicle Prices are Falling



Source: Bureau of Labor Statistics

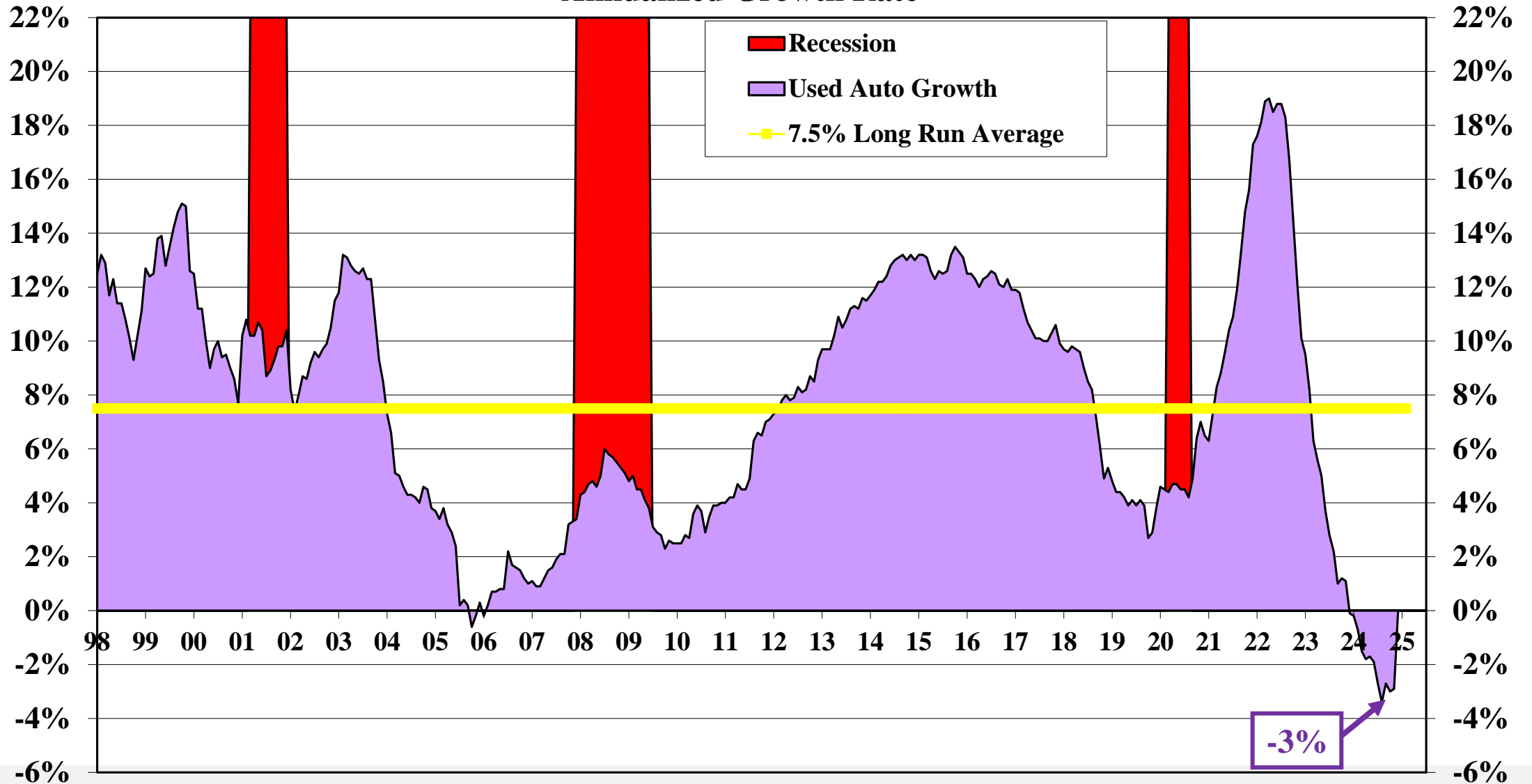
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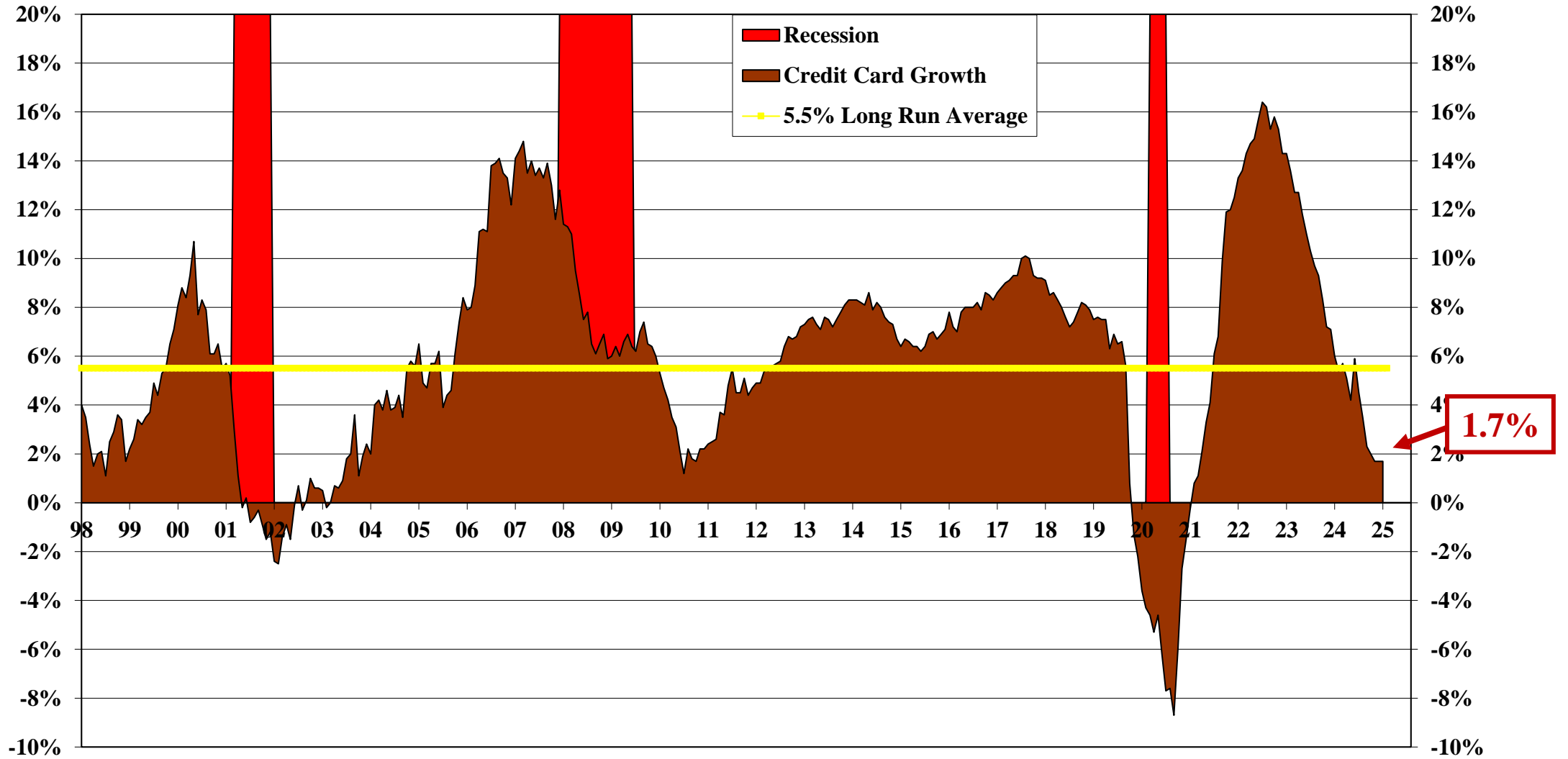
CU Used Loan Growth

Seasonally Adjusted Annualized Growth Rate



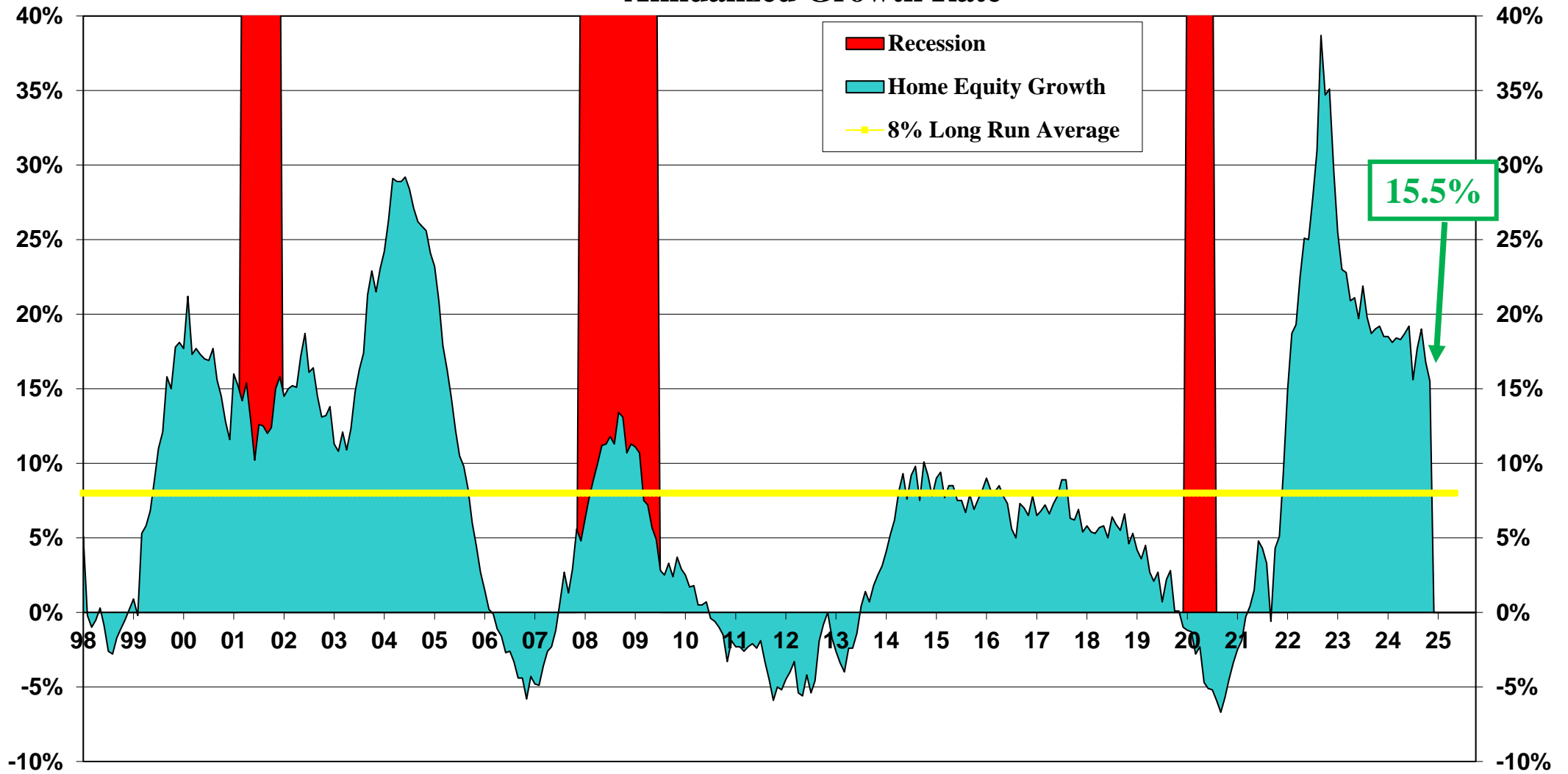
CU Credit Card Growth

Seasonally Adjusted Annualized Growth Rate



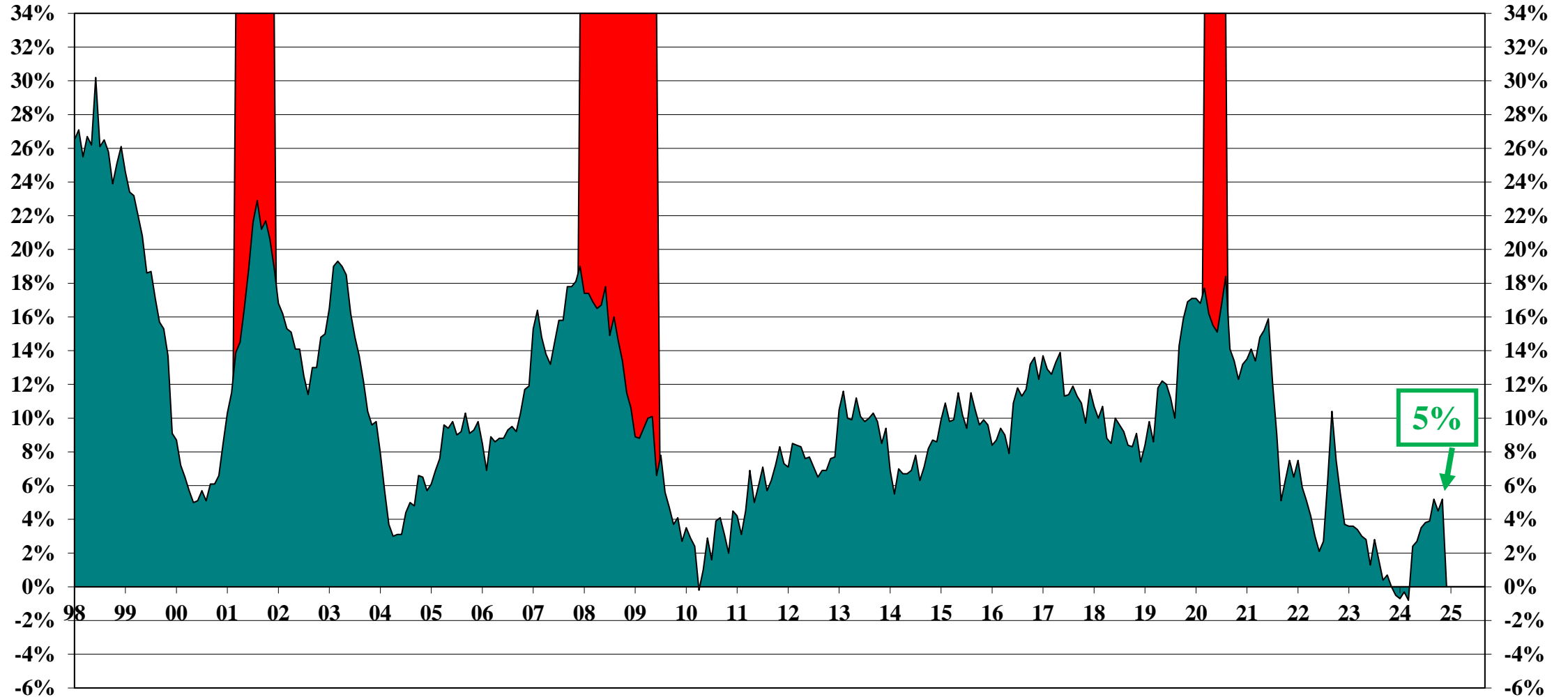
CU Home Equity Growth

Seasonally Adjusted Annualized Growth Rate



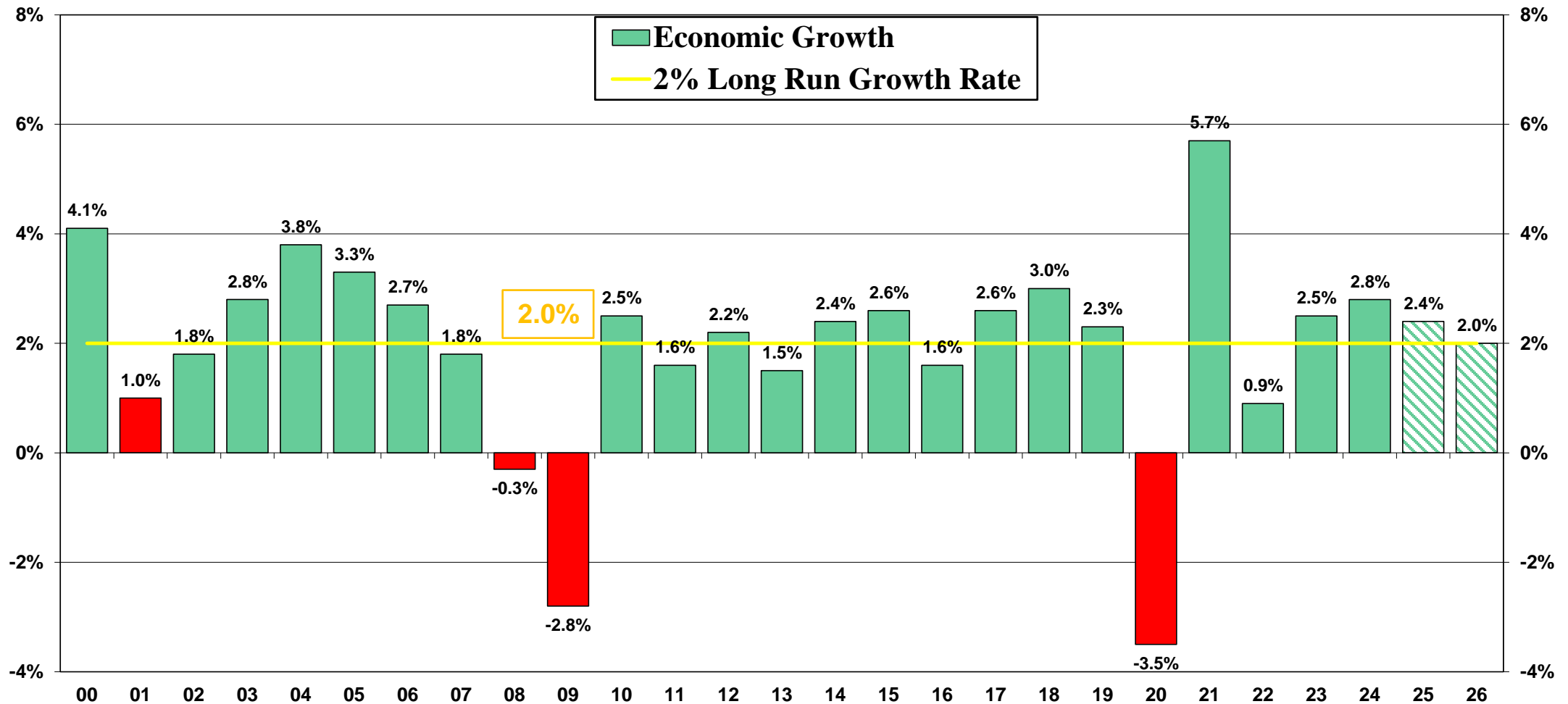
CU Fixed-Rate First Mortgage Growth

Seasonally Adjusted
Annualized Growth Rate



Economic Growth Above Natural Growth Rate

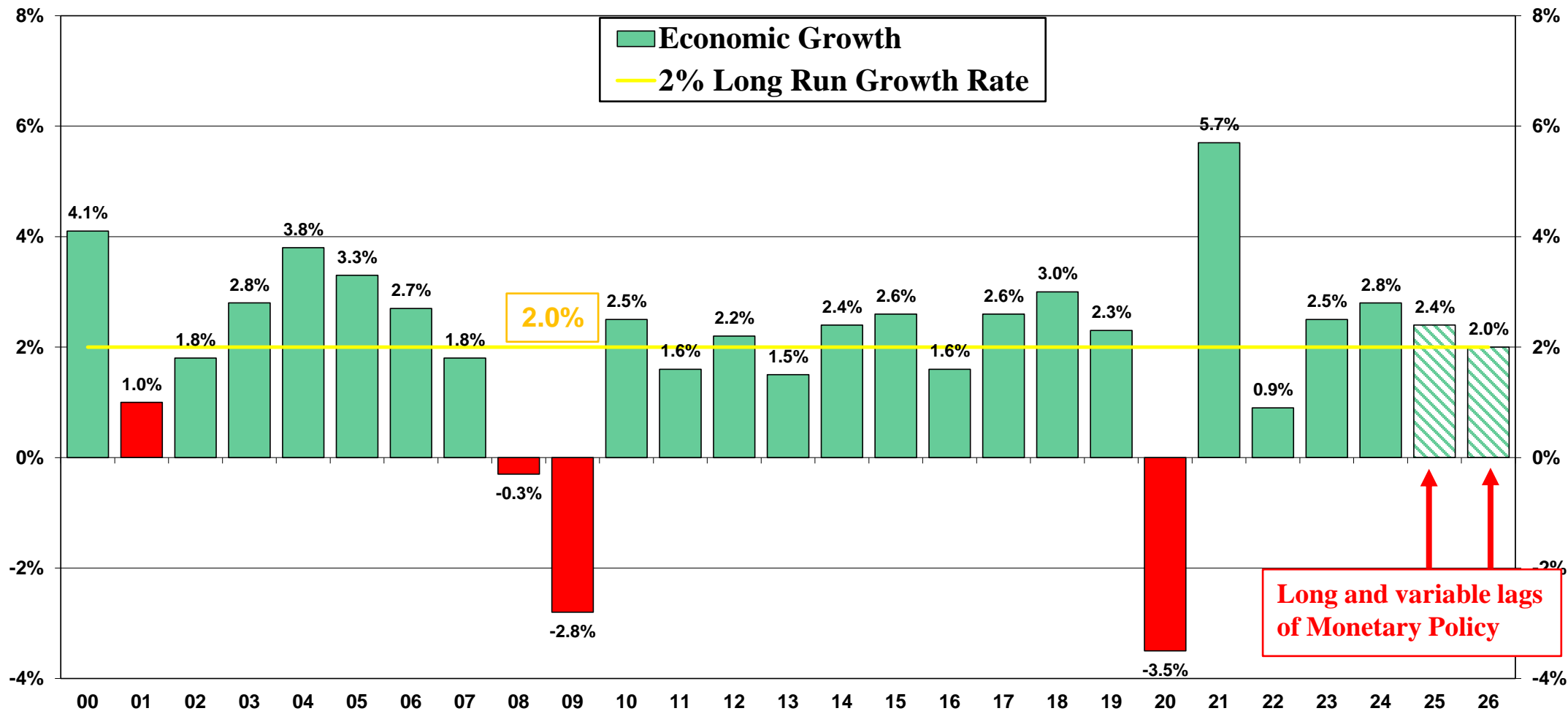
U.S. Economic Growth Rate



Source: Department of Commerce

Economic Growth Above Natural Growth Rate

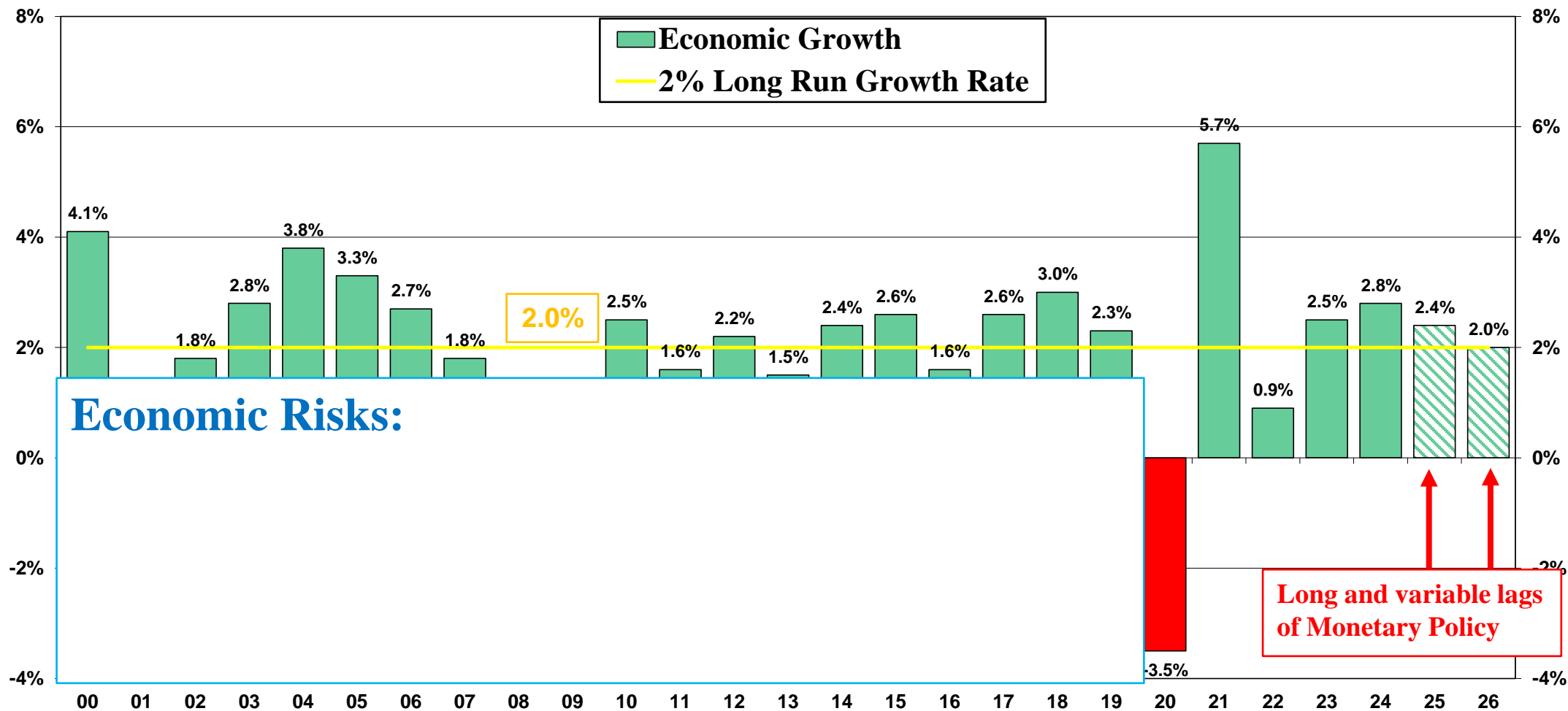
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Source: Department of Commerce

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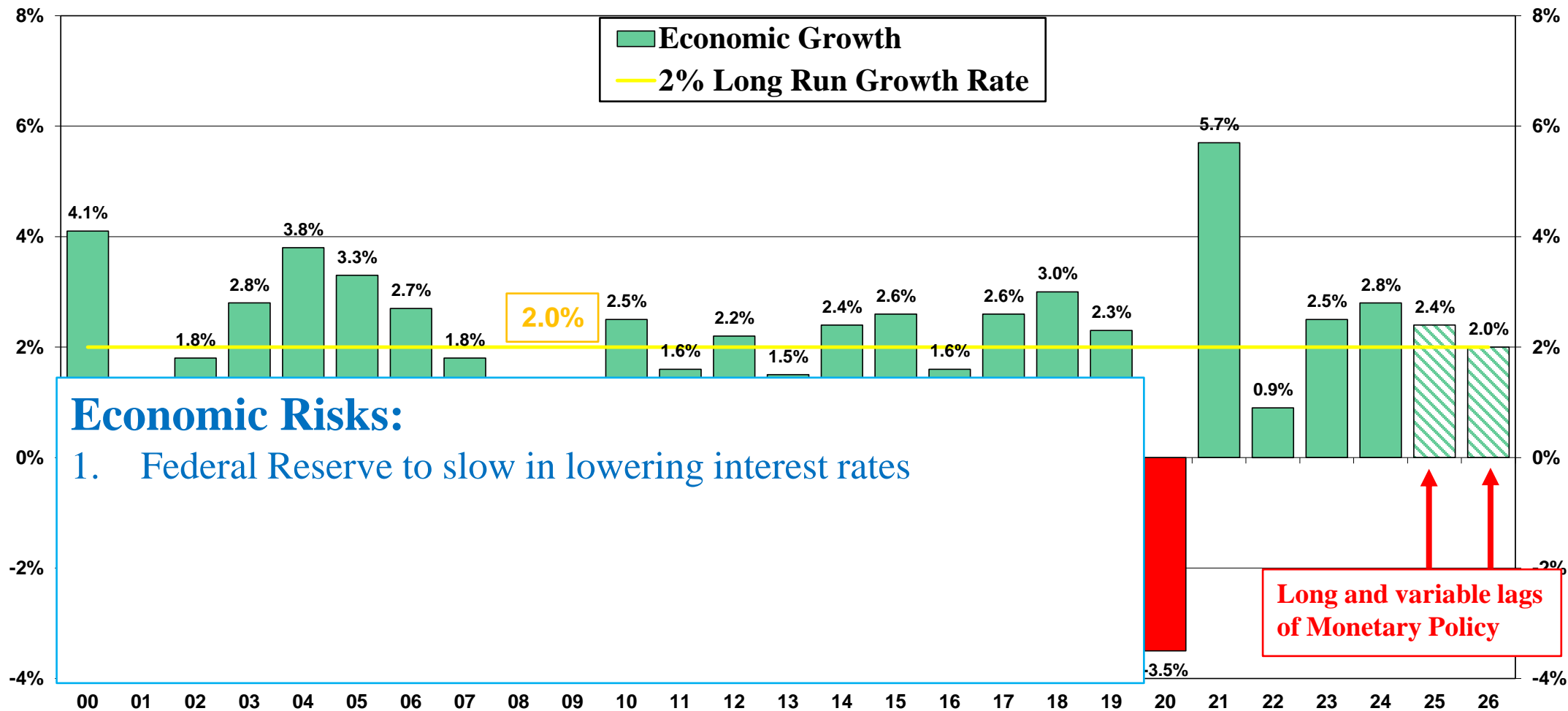
U.S. Economic Growth Rate



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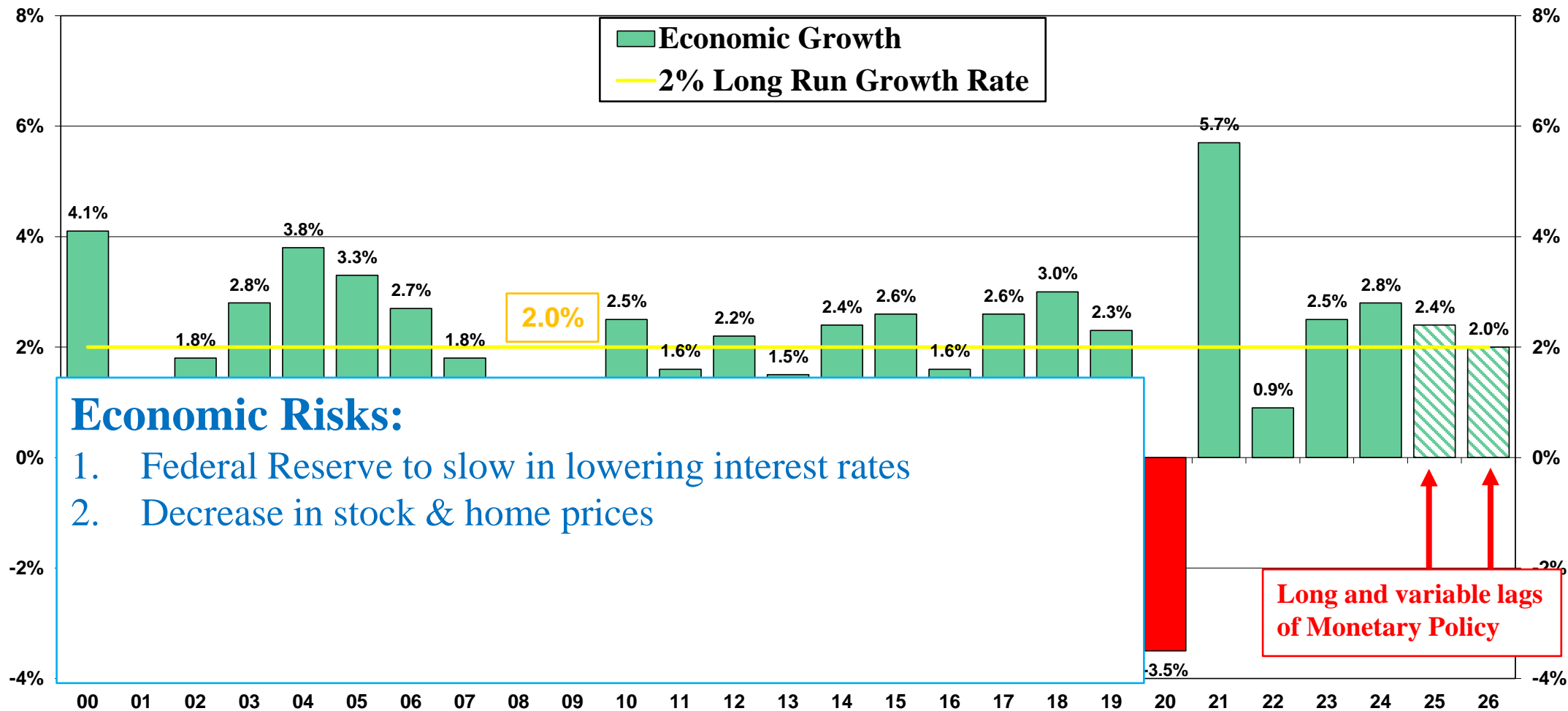
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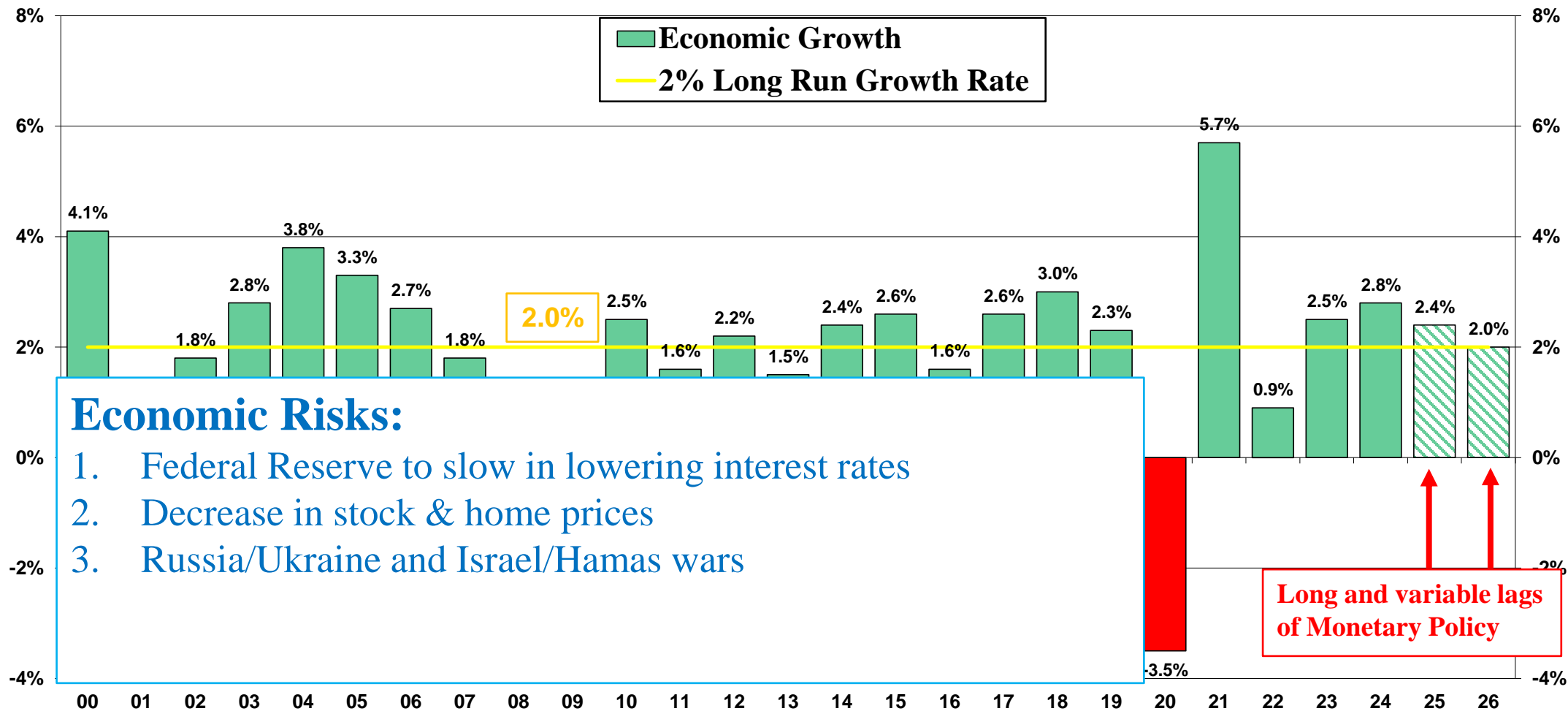
Economic Risks:

1. Federal Reserve to slow in lowering interest rates
2. Decrease in stock & home prices

Source: Department of Commerce

Economic Growth Above Natural Growth Rate

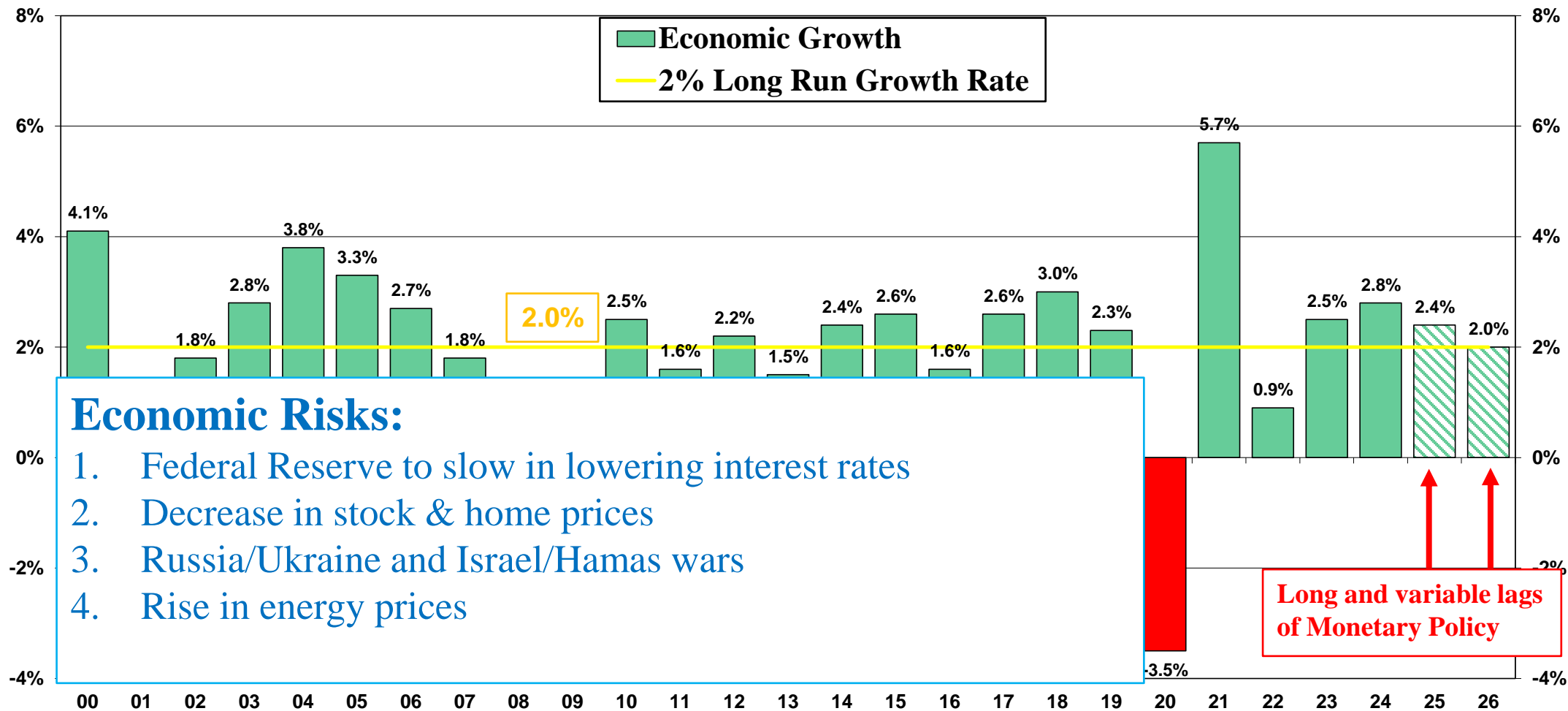
U.S. Economic Growth Rate



Source: Department of Commerce

Economic Growth Above Natural Growth Rate

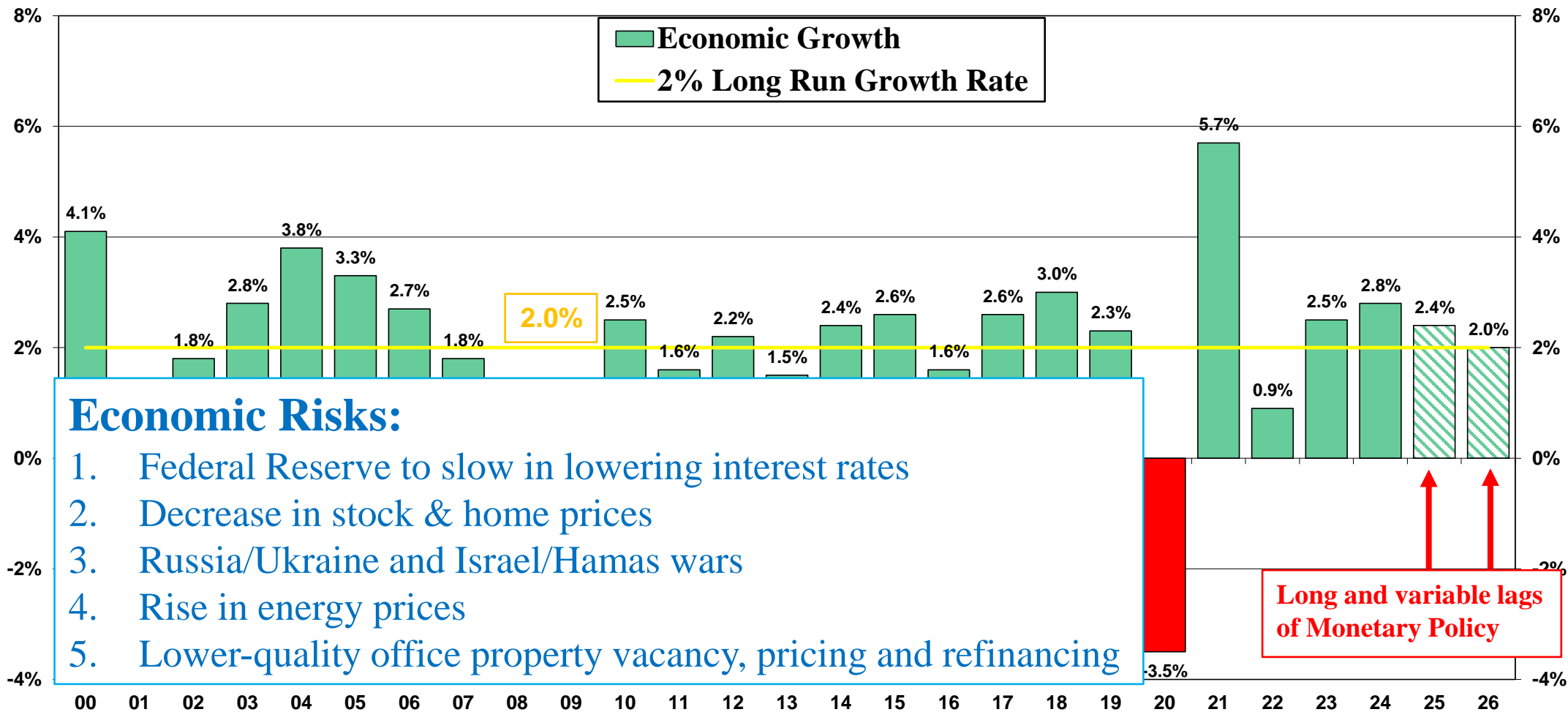
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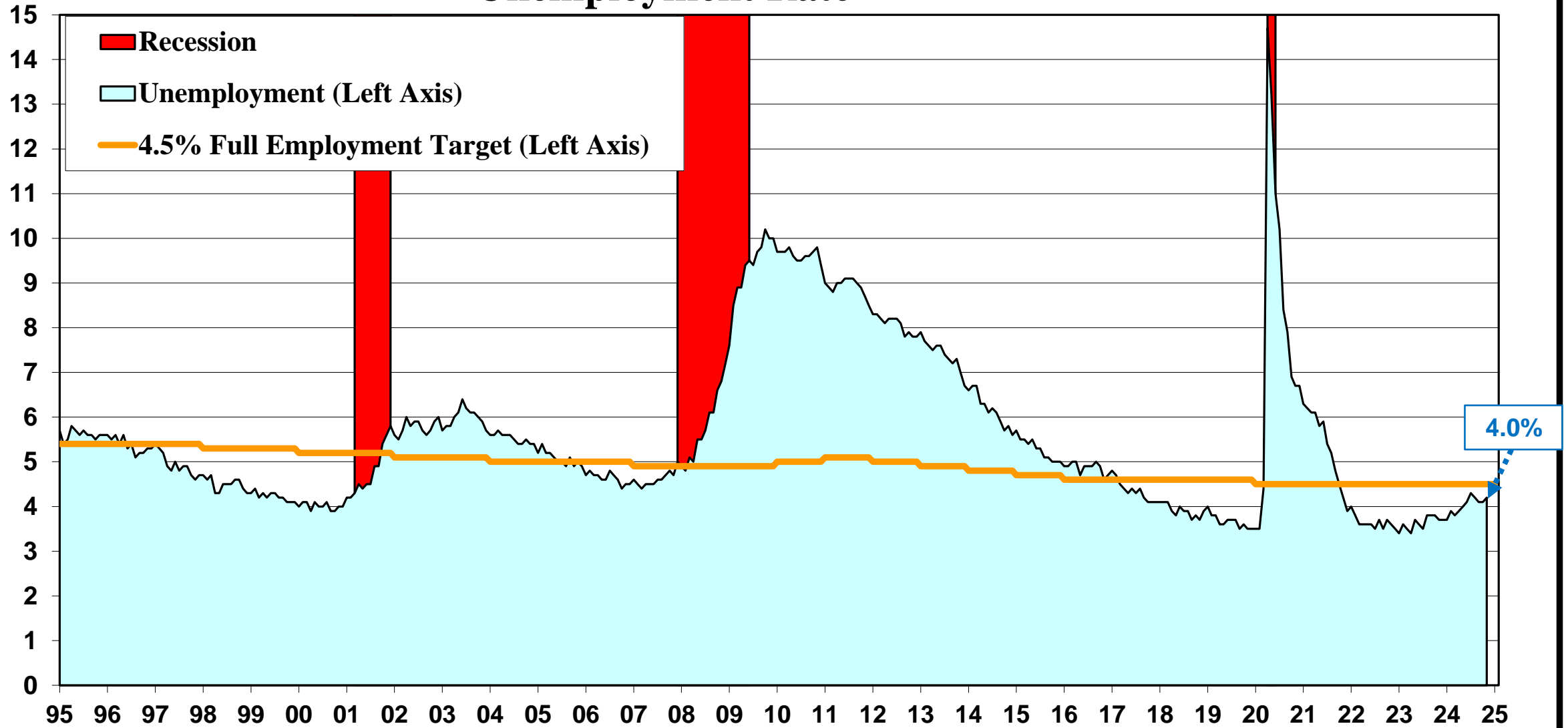
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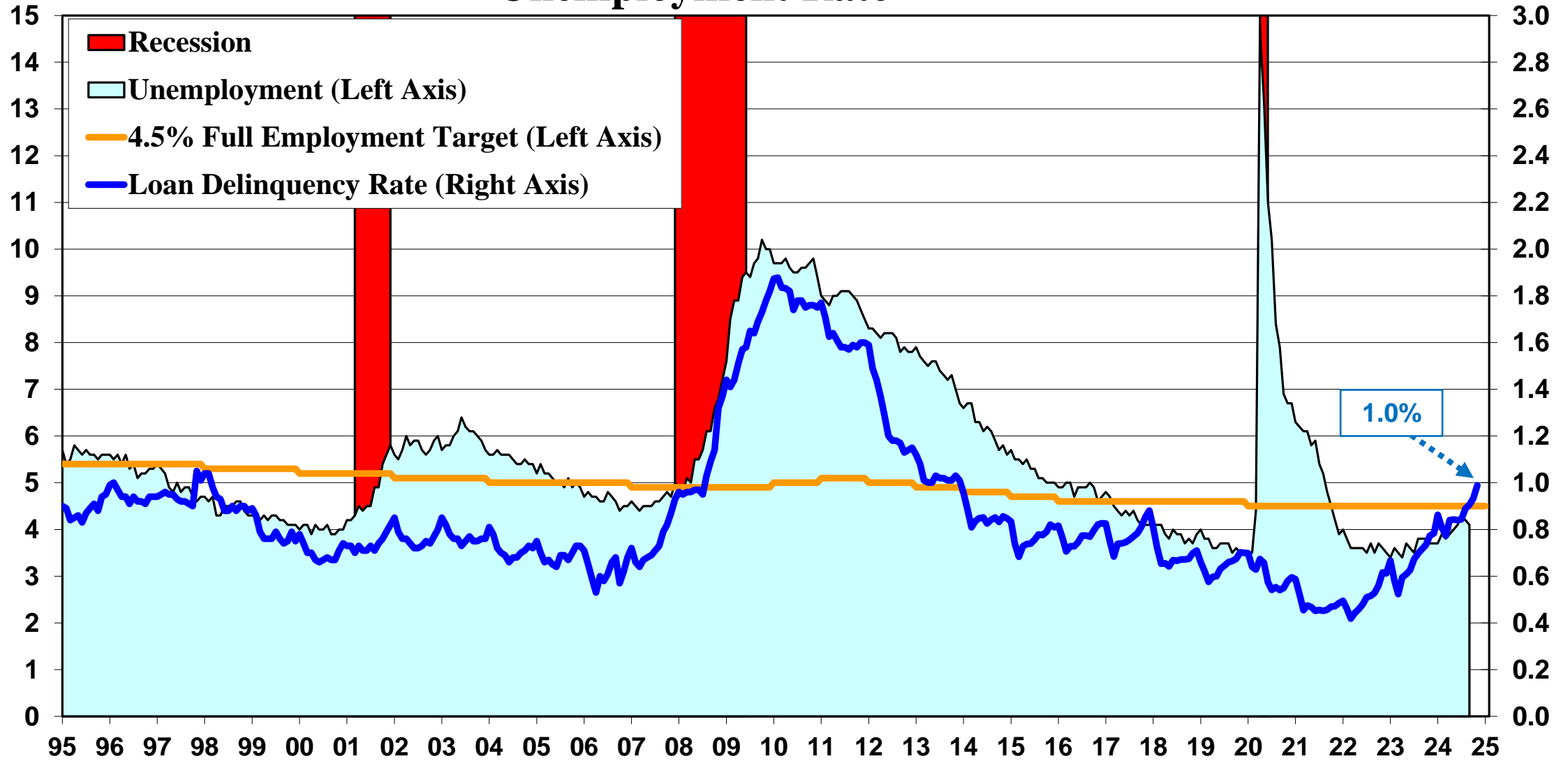


Source: Department of Commerce

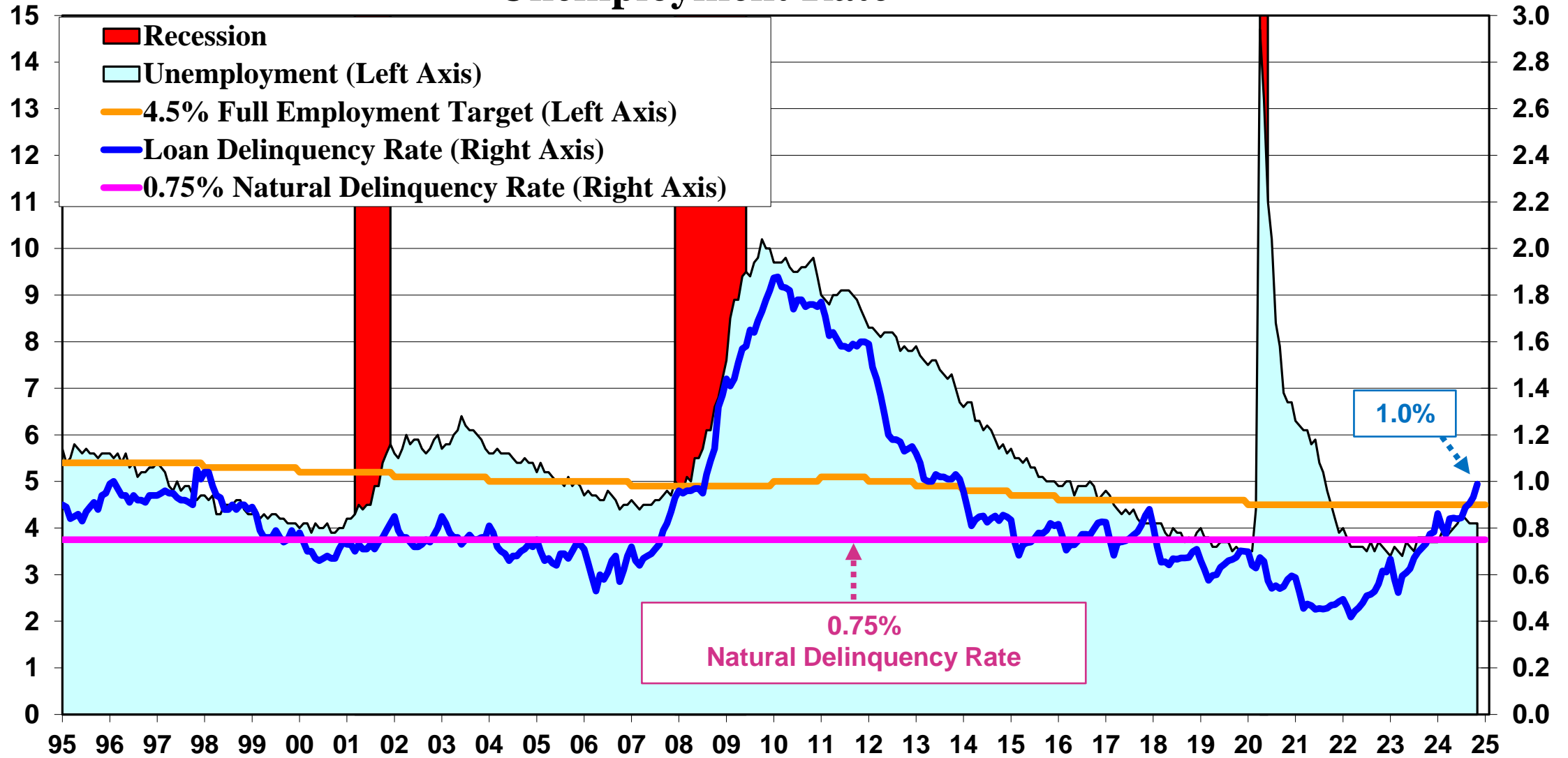
CU Delinquency Rate Versus Unemployment Rate



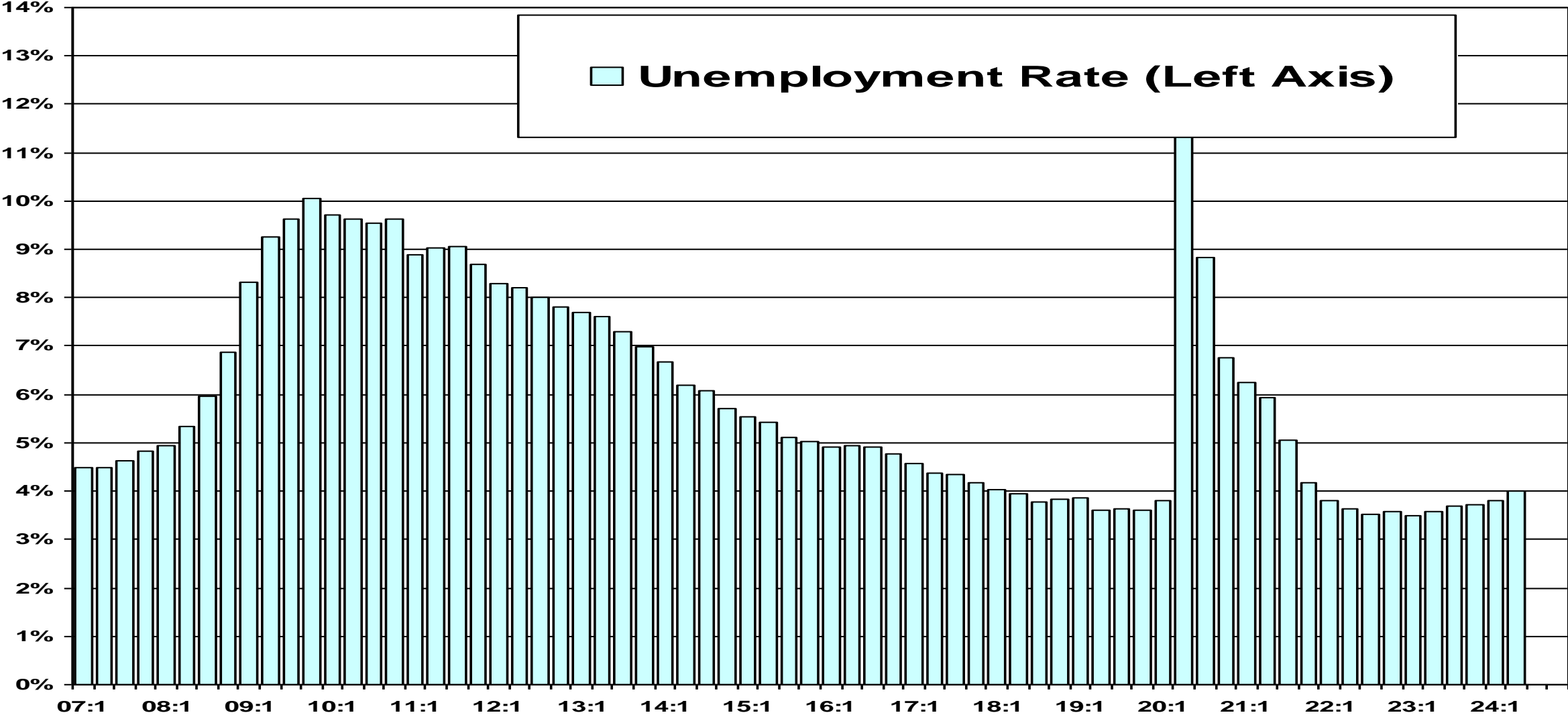
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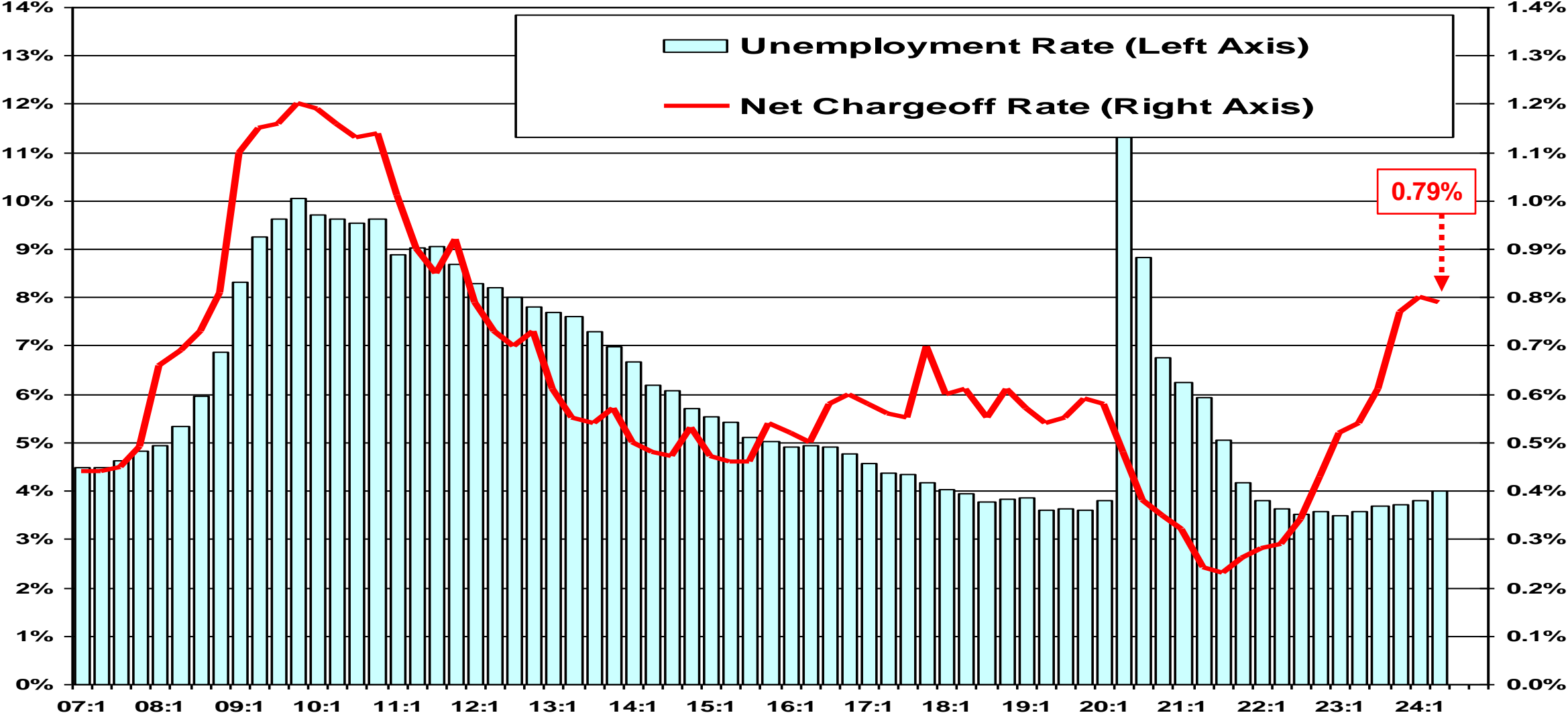


CU Net Chargeoff Rate Versus Unemployment Rate



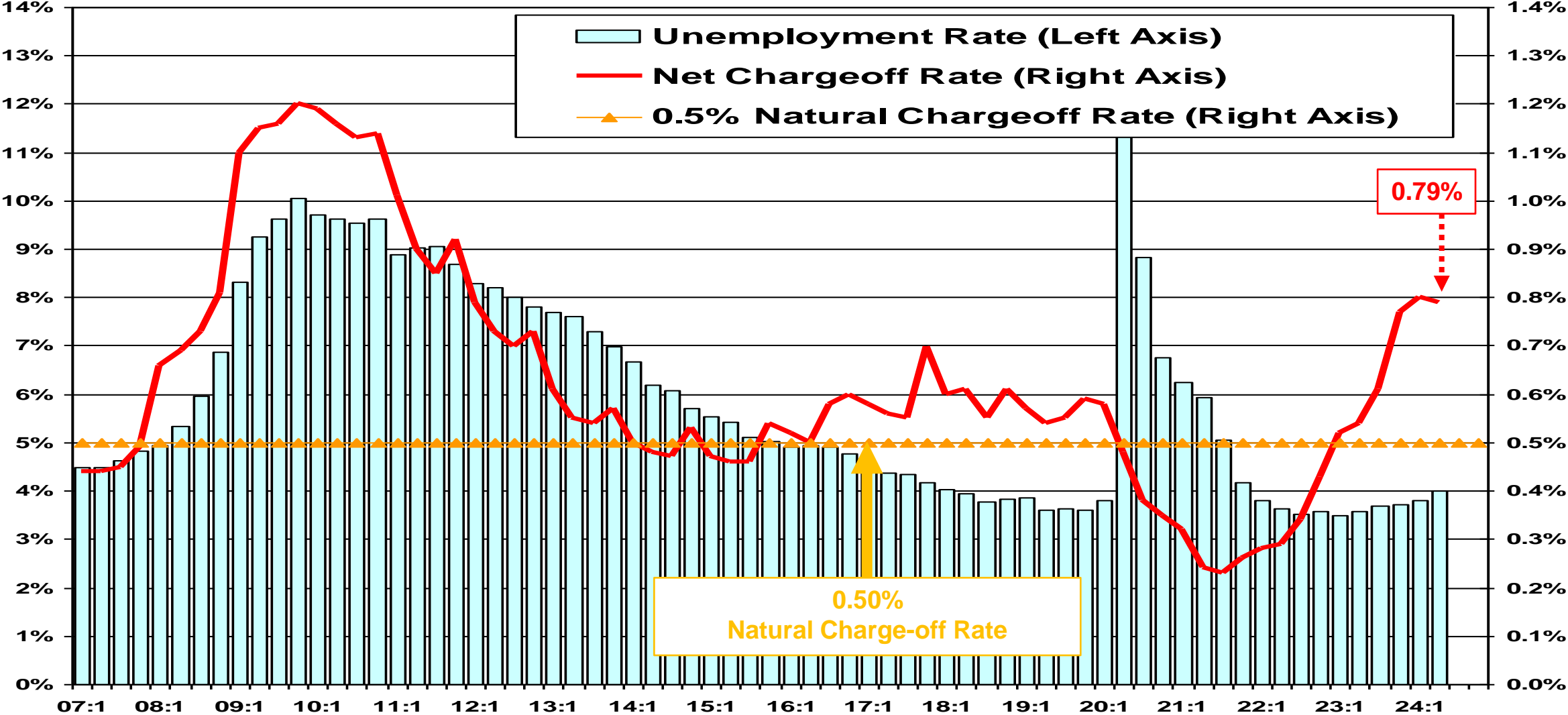
Source: Department of Labor, NCUA, CUNA

CU Net Chargeoff Rate Versus Unemployment Rate



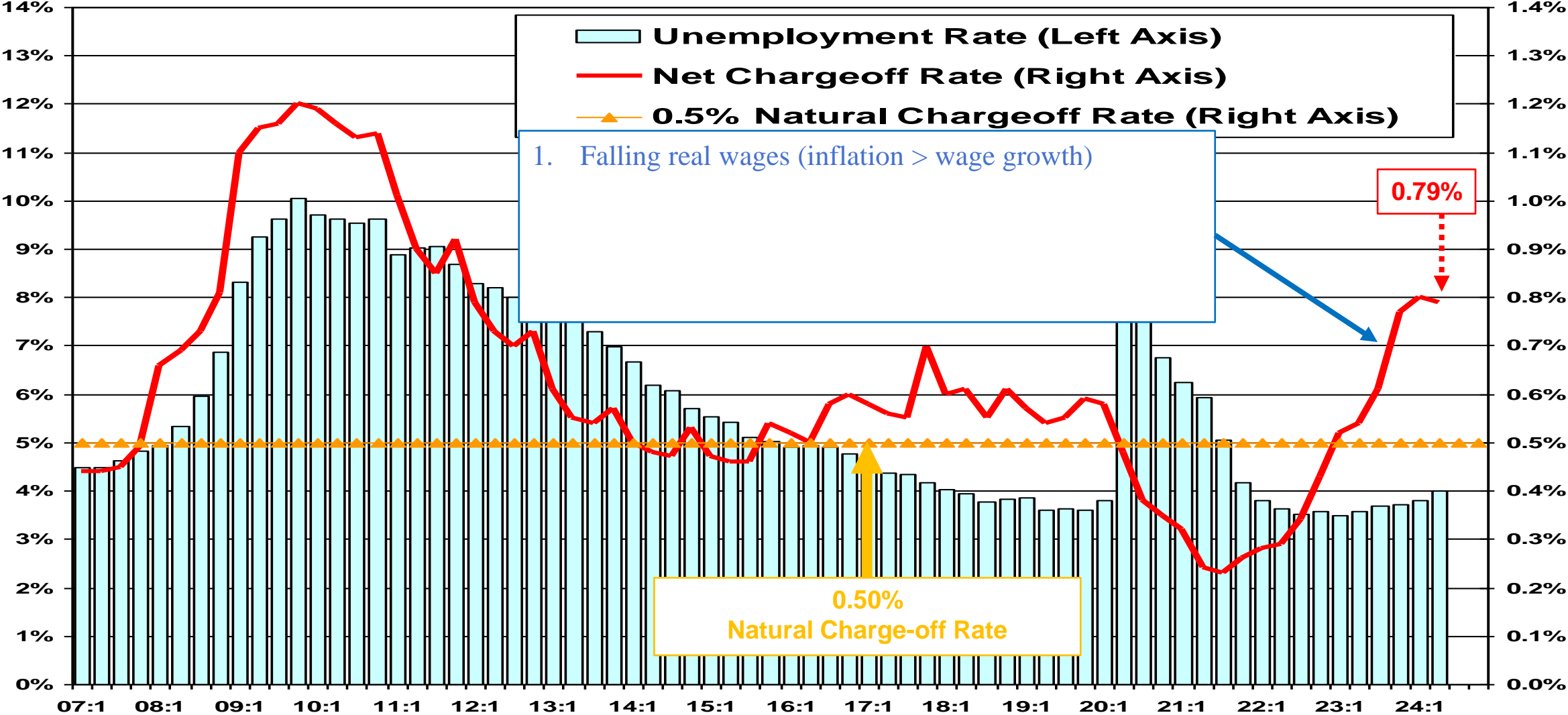
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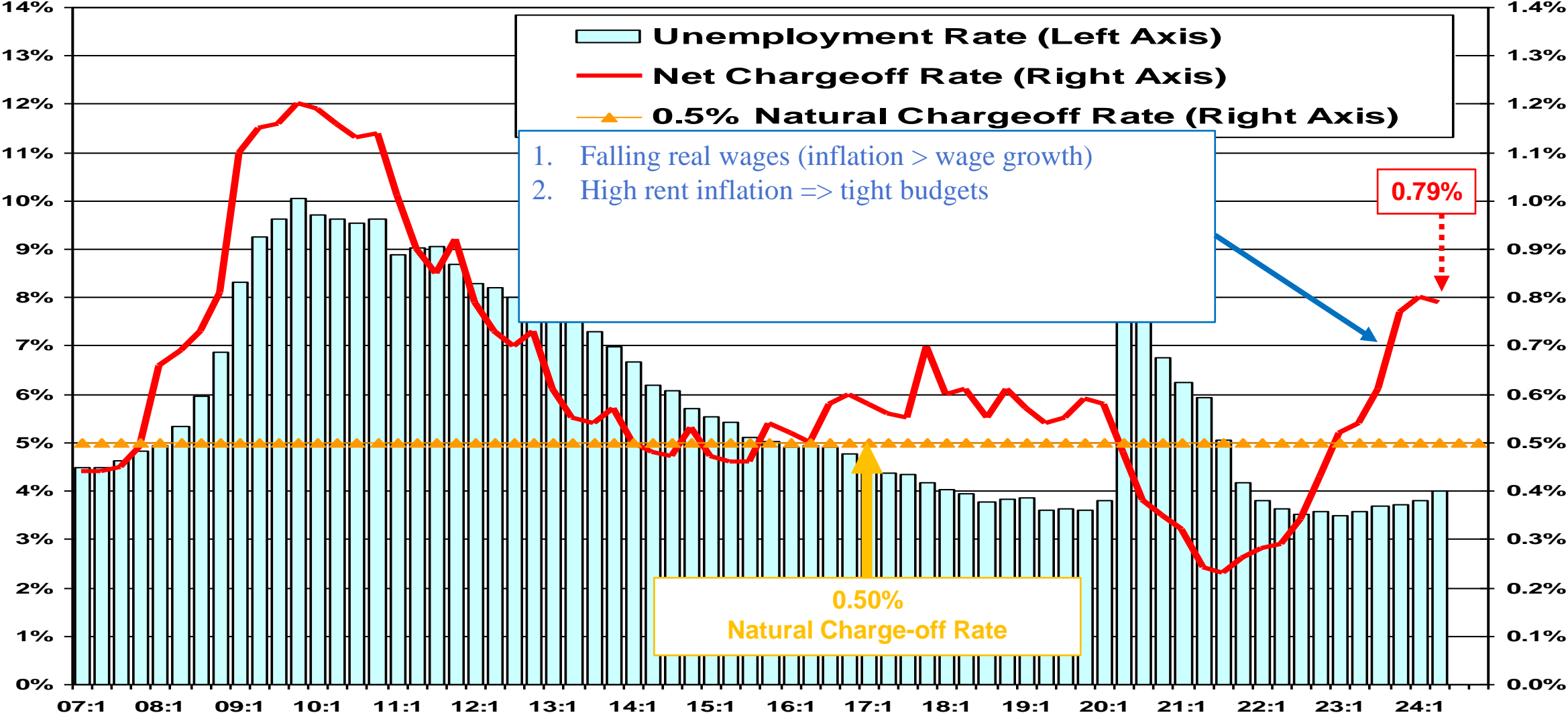
Source: Department of Labor, NCUA, CUNA

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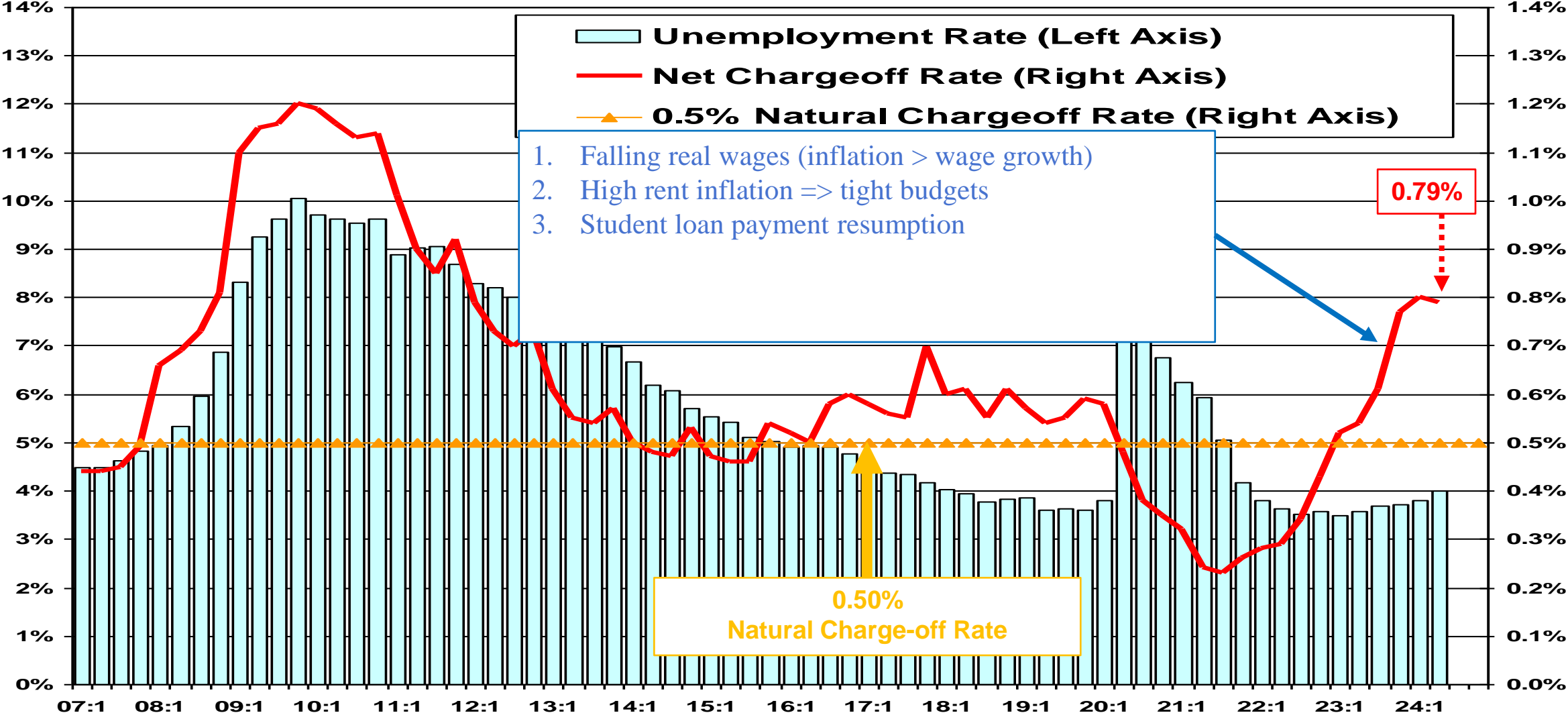
Source: Department of Labor, NCUA, CUNA

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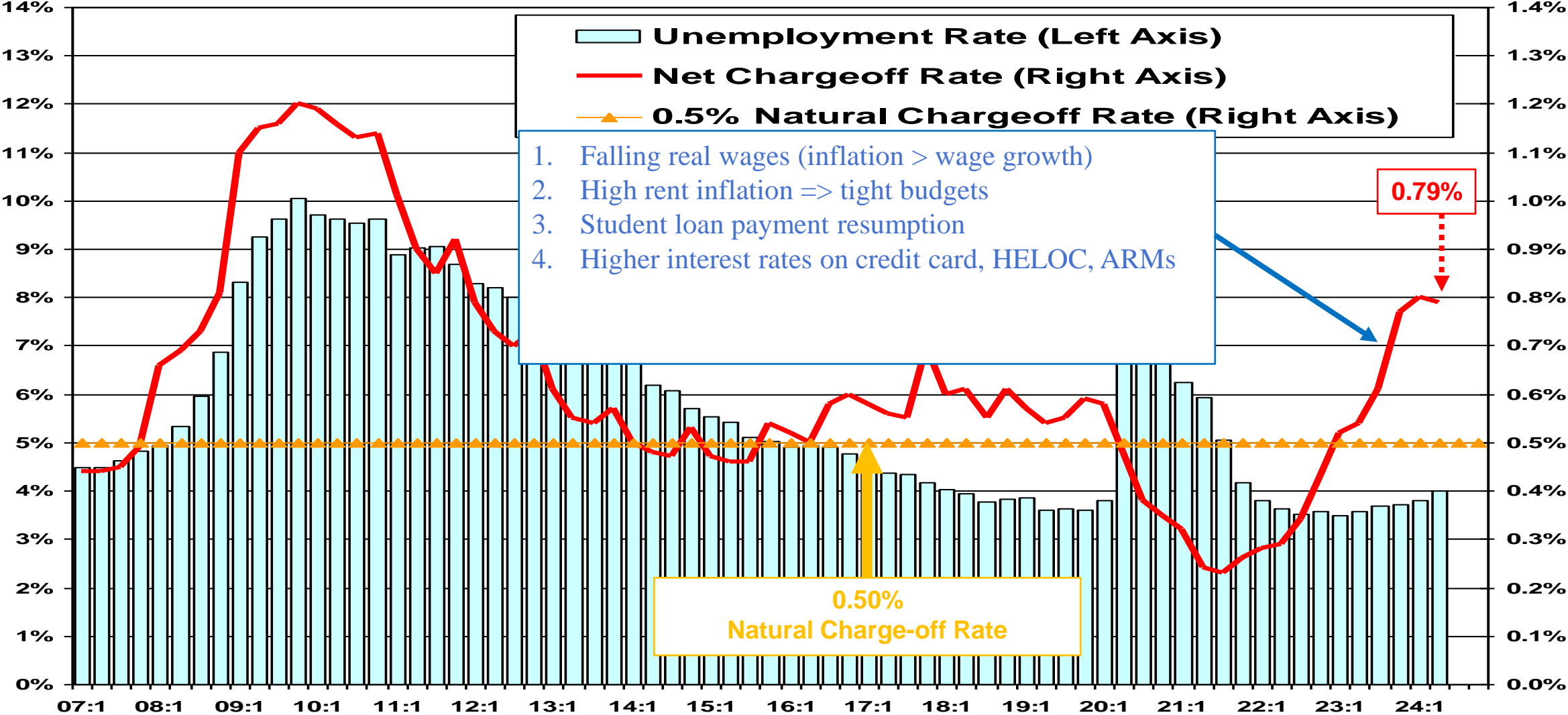
Source: Department of Labor, NCUA, CUNA

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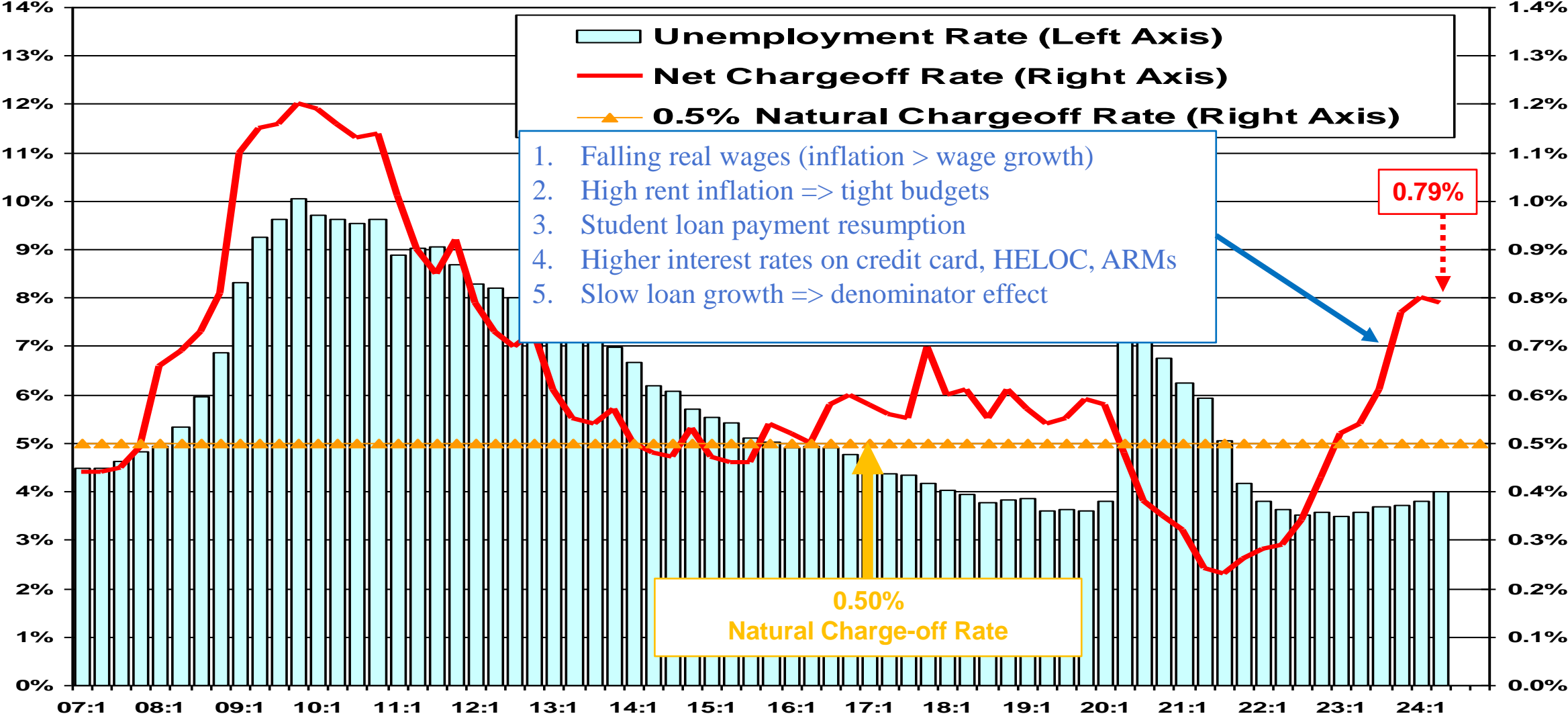
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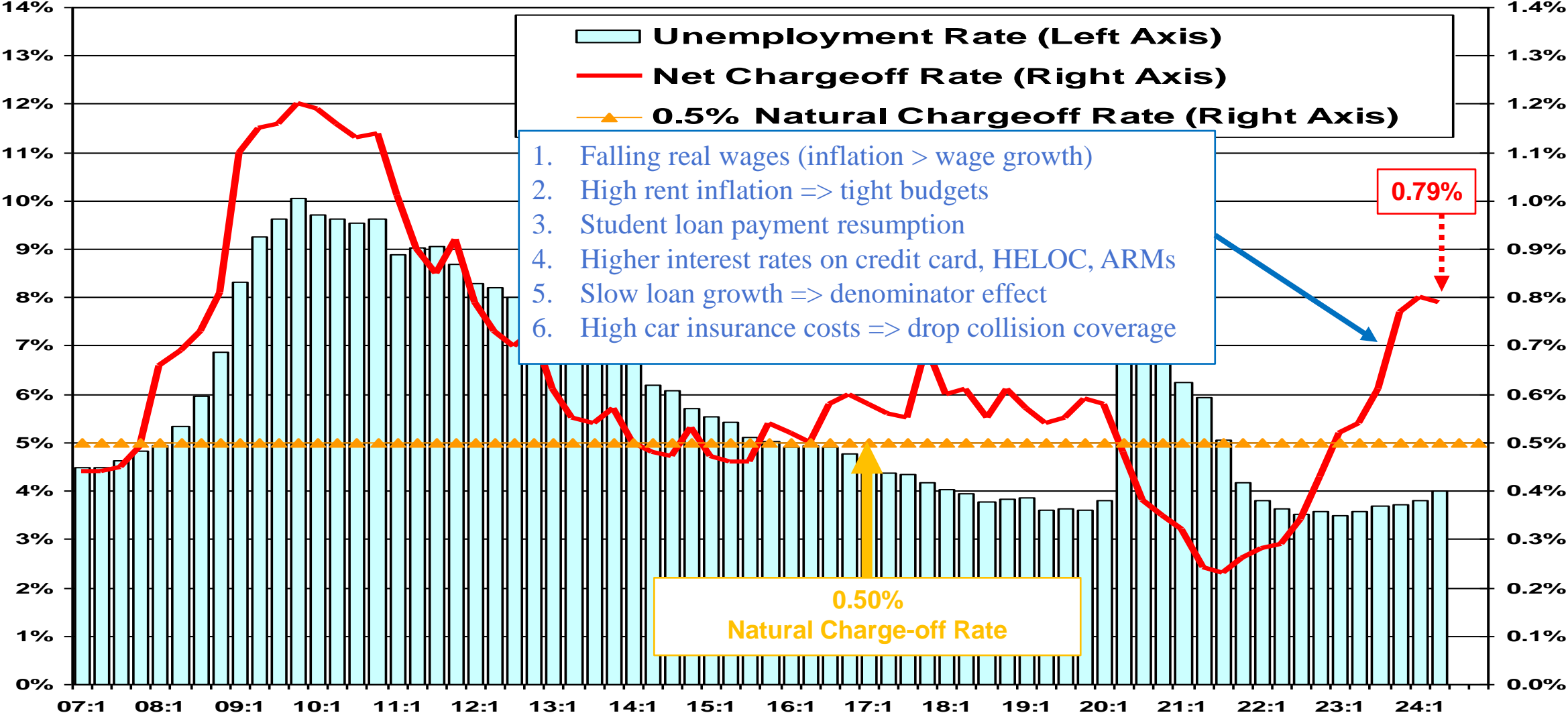
Source: Department of Labor, NCUA, CUNA

CU Net Chargeoff Rate Versus Unemployment Rate



Source: Department of Labor, NCUA, CUNA

CU Net Chargeoff Rate Versus Unemployment Rate



■ Unemployment Rate (Left Axis)
— Net Chargeoff Rate (Right Axis)
▲ 0.5% Natural Chargeoff Rate (Right Axis)

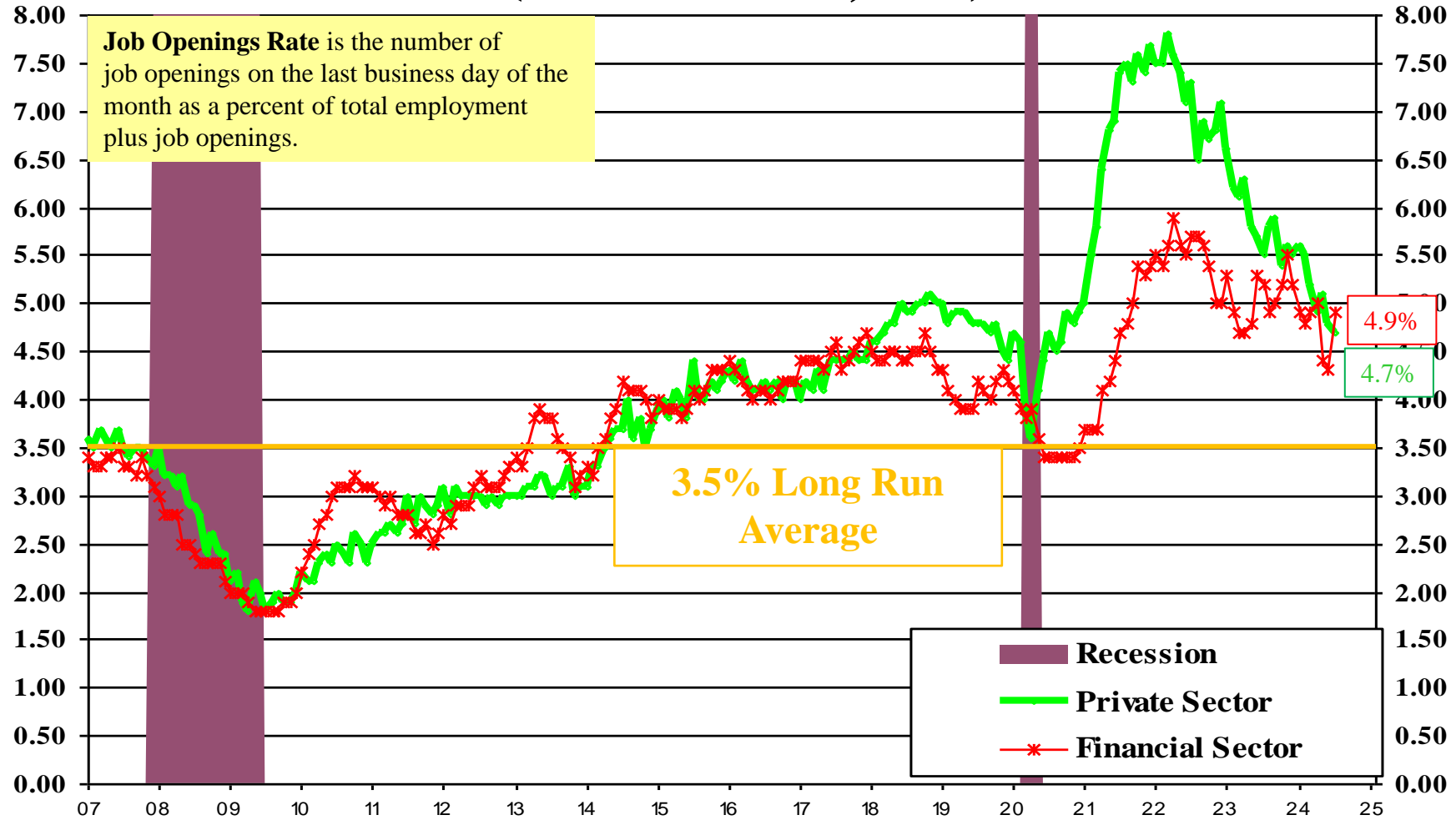
1. Falling real wages (inflation > wage growth)
2. High rent inflation => tight budgets
3. Student loan payment resumption
4. Higher interest rates on credit card, HELOC, ARMs
5. Slow loan growth => denominator effect
6. High car insurance costs => drop collision coverage

▲
0.50%
Natural Charge-off Rate

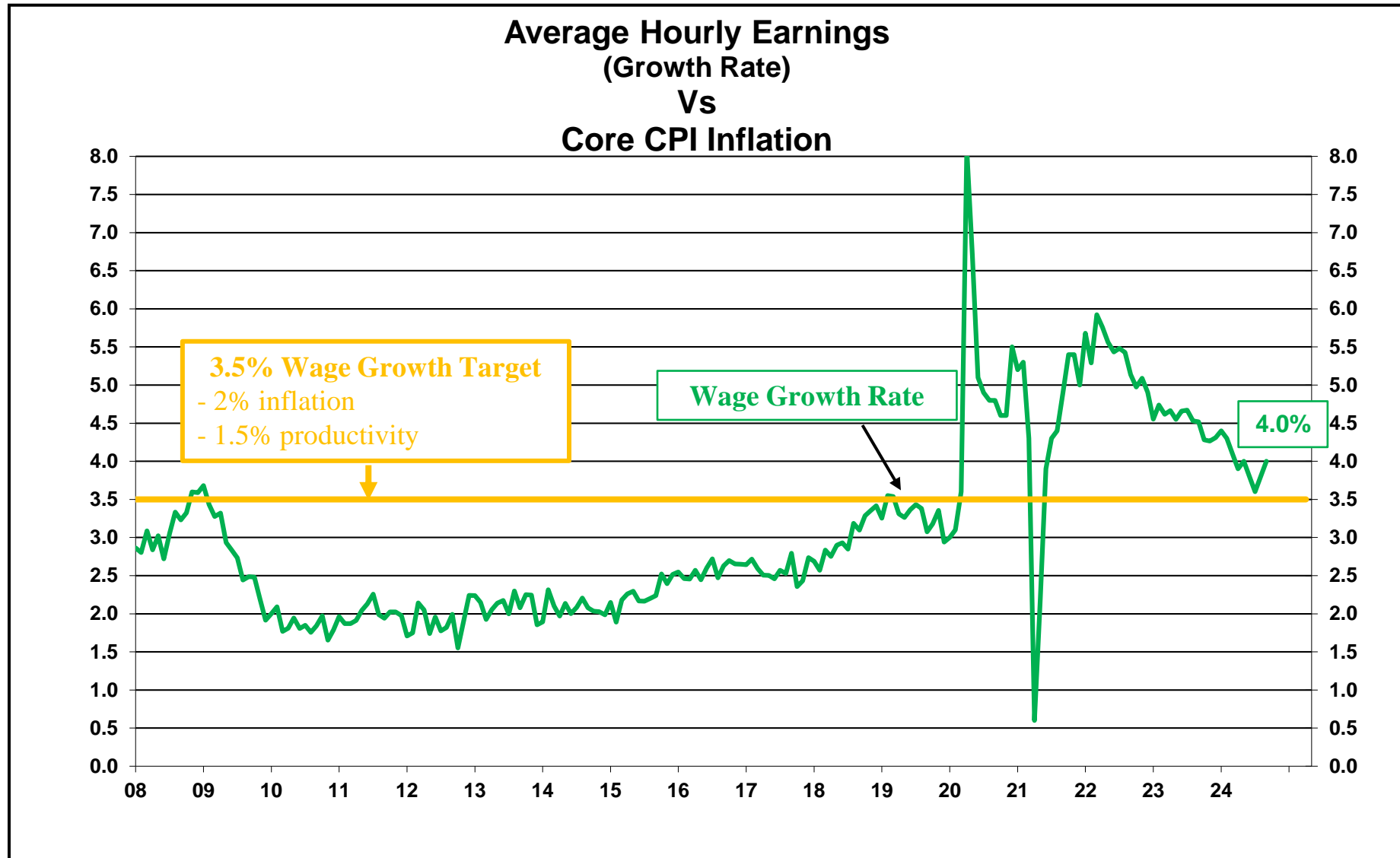
0.79%

Source: Department of Labor, NCUA, CUNA

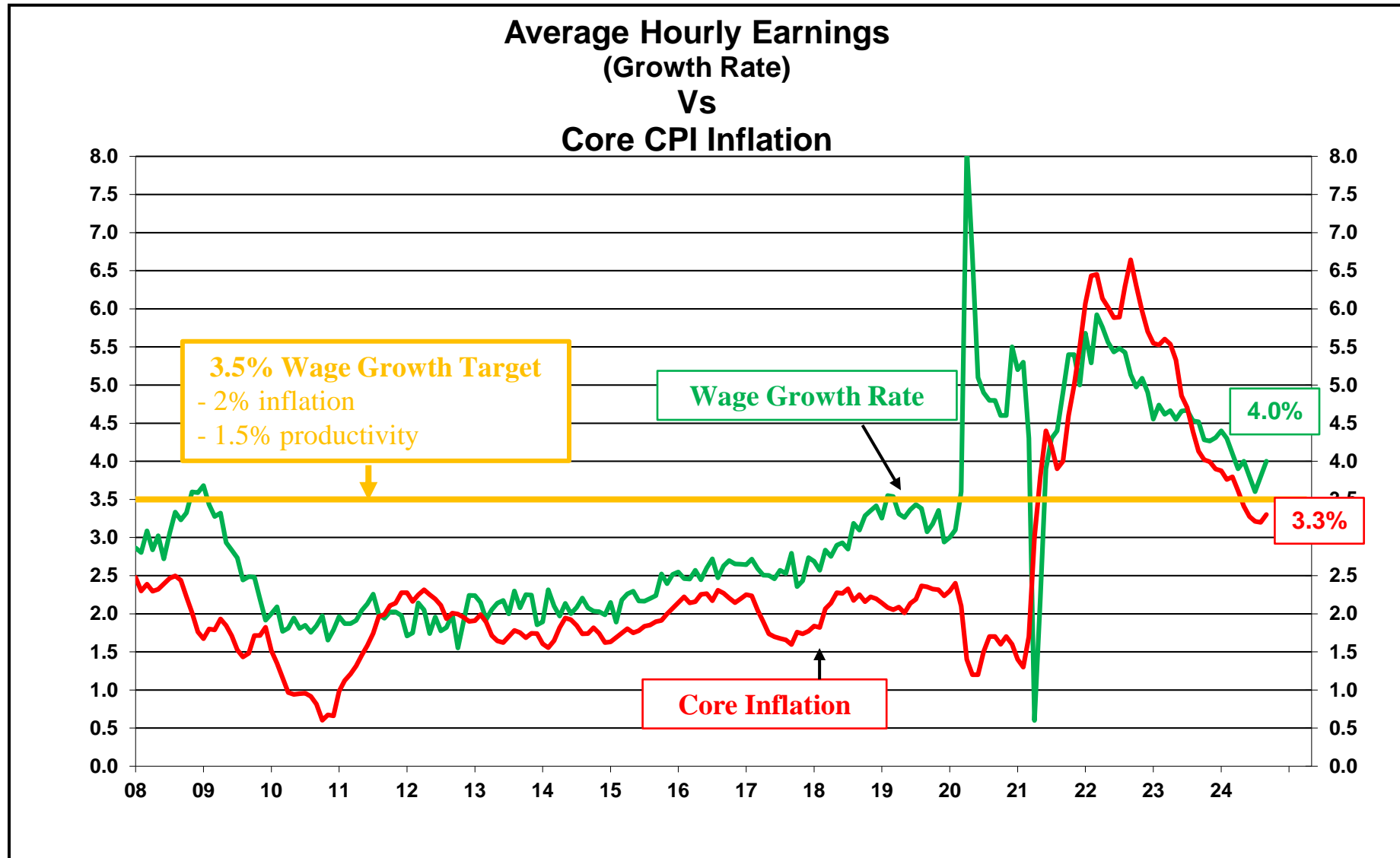
Job Openings Rate (Thousands, SA)



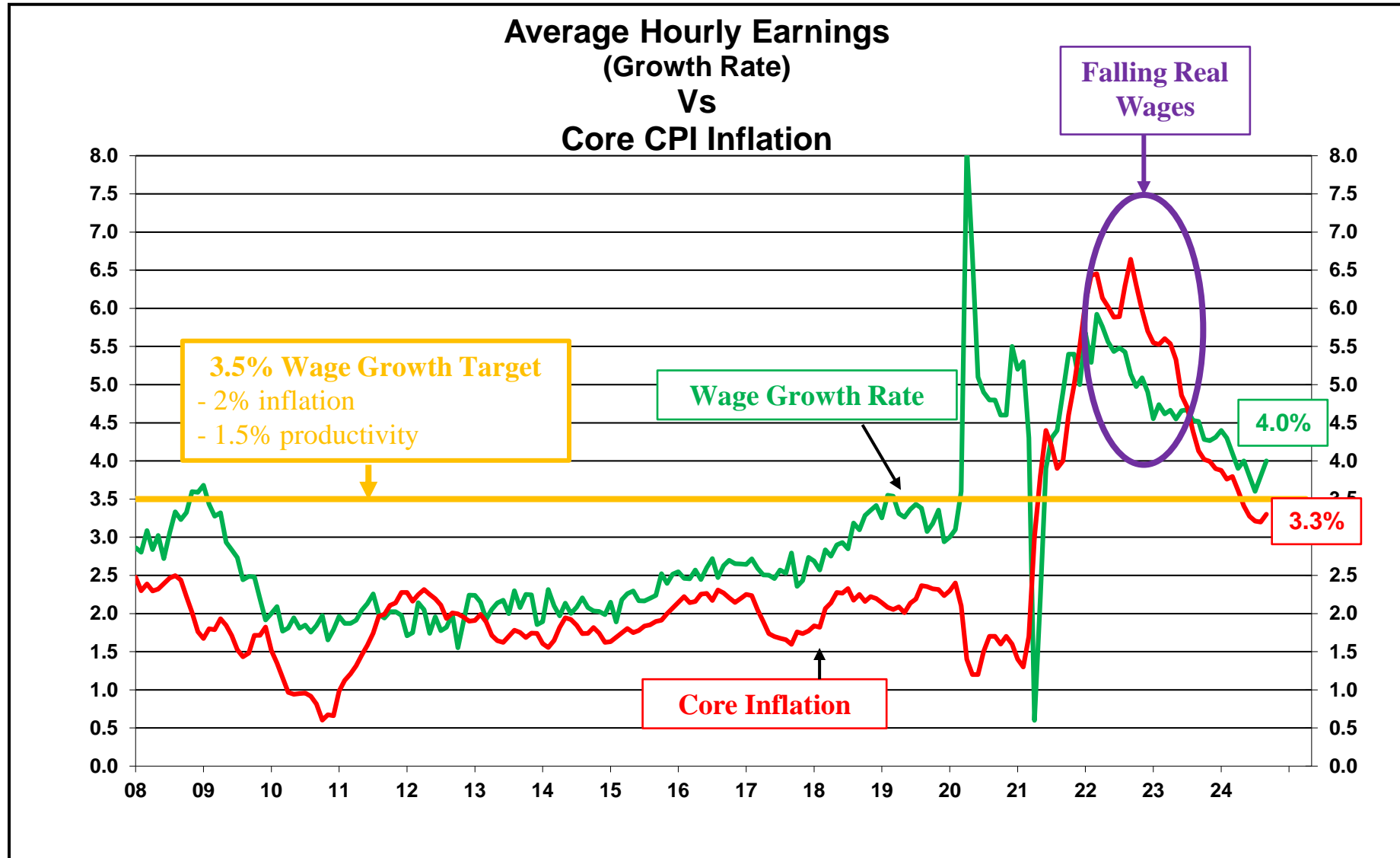
Wage Growth Slowing as Core Inflation Falls



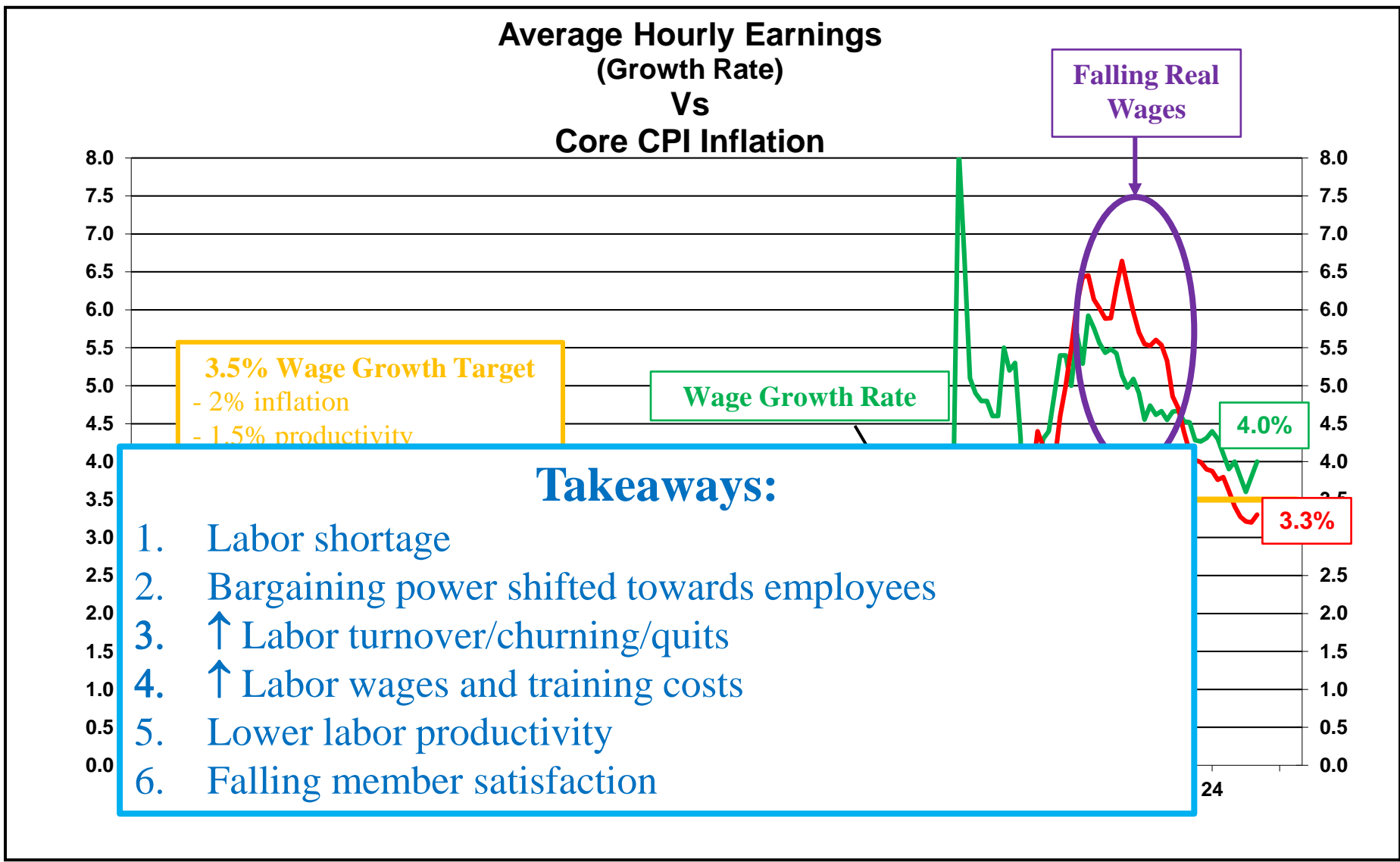
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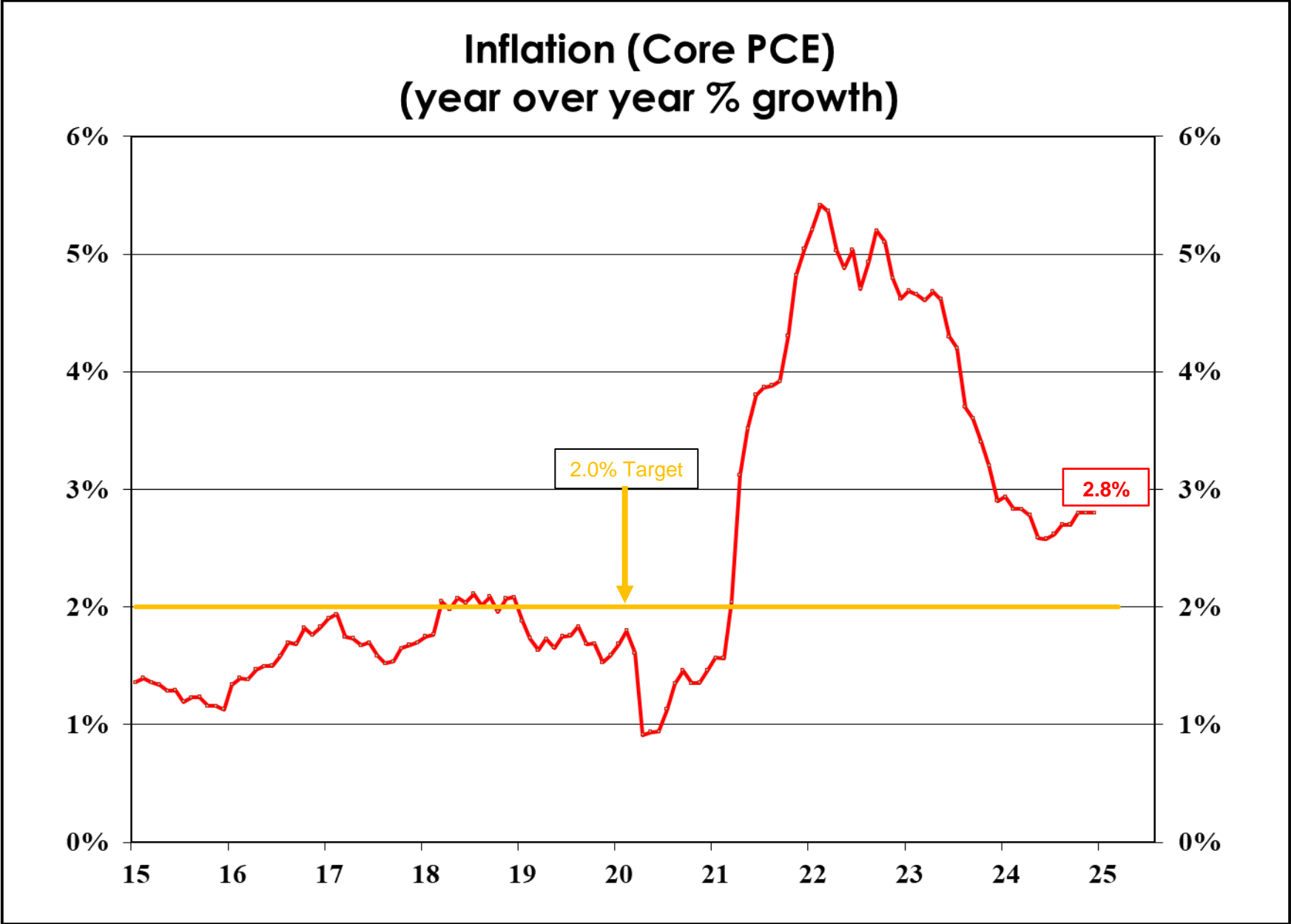
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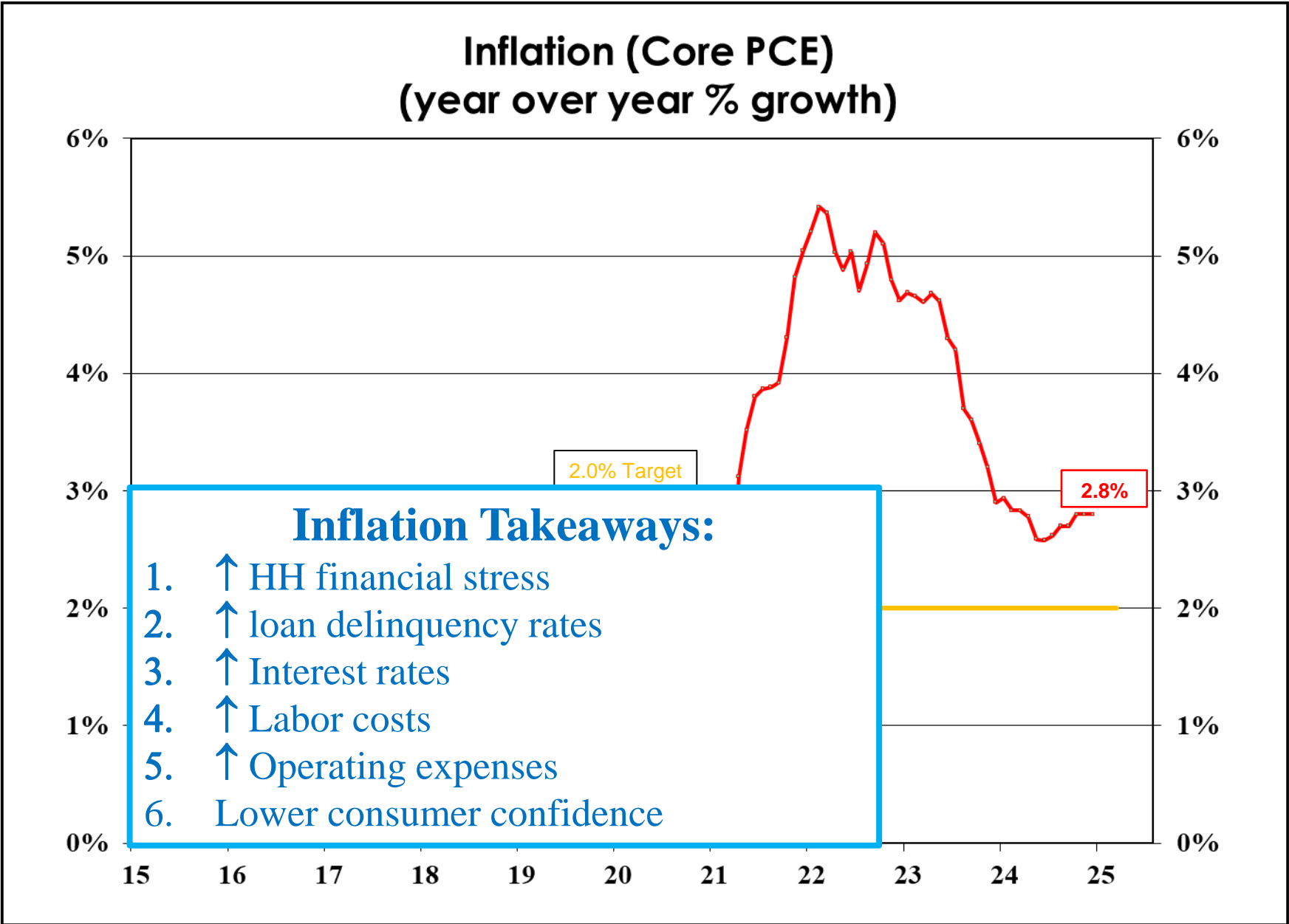
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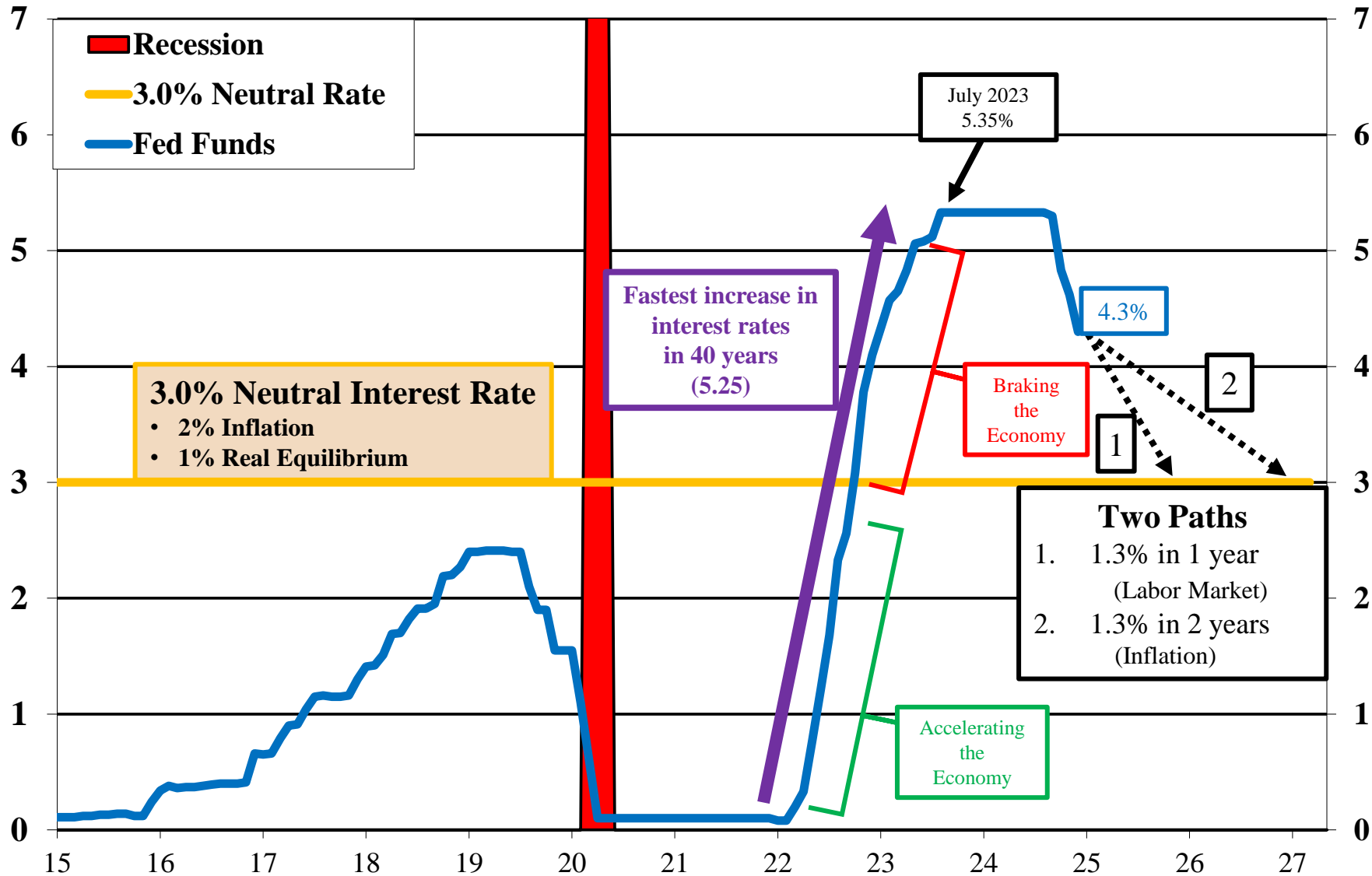
Inflation Above 2% Target



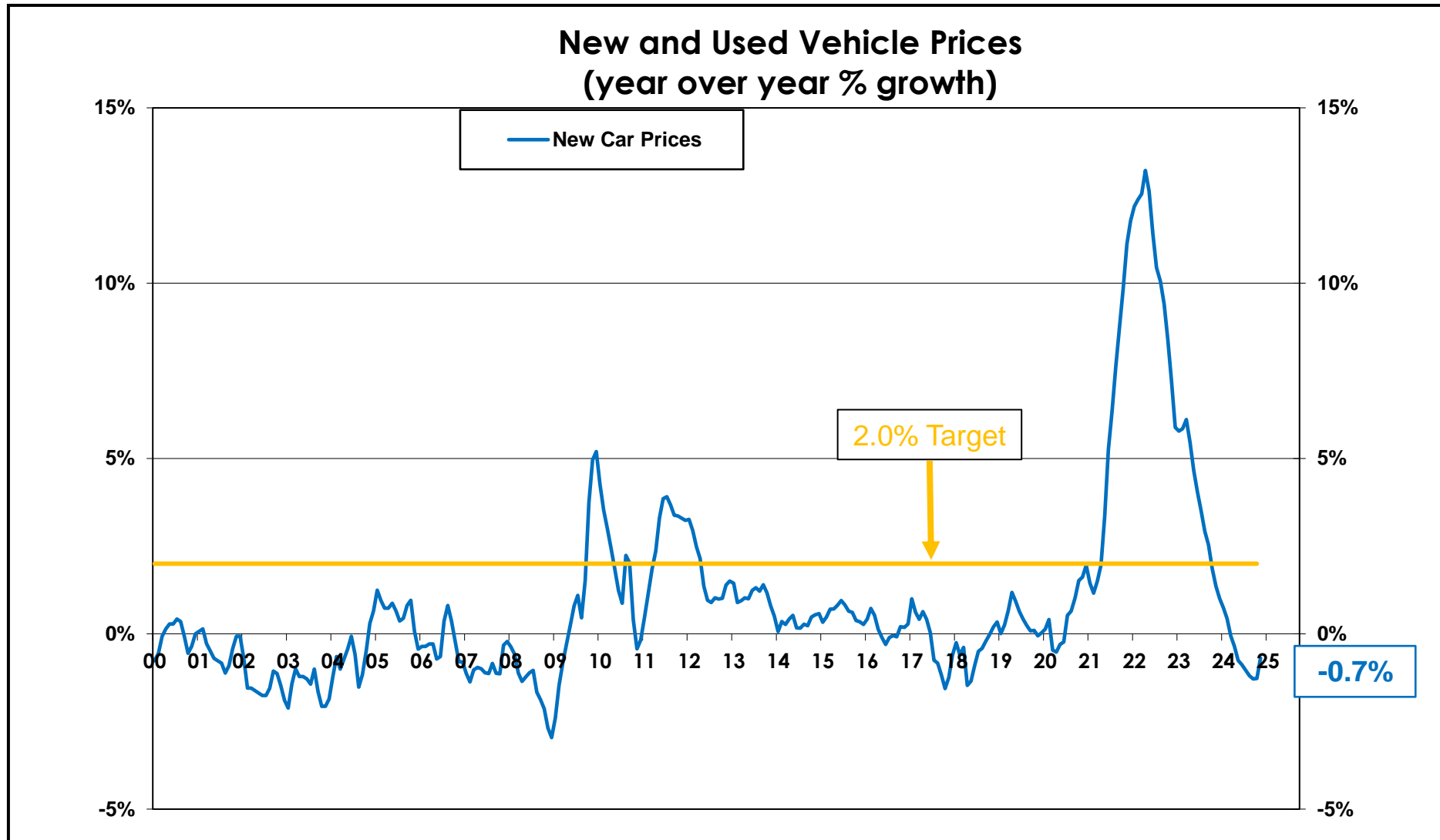
Inflation Above 2% Target



Fed Funds Interest Rate

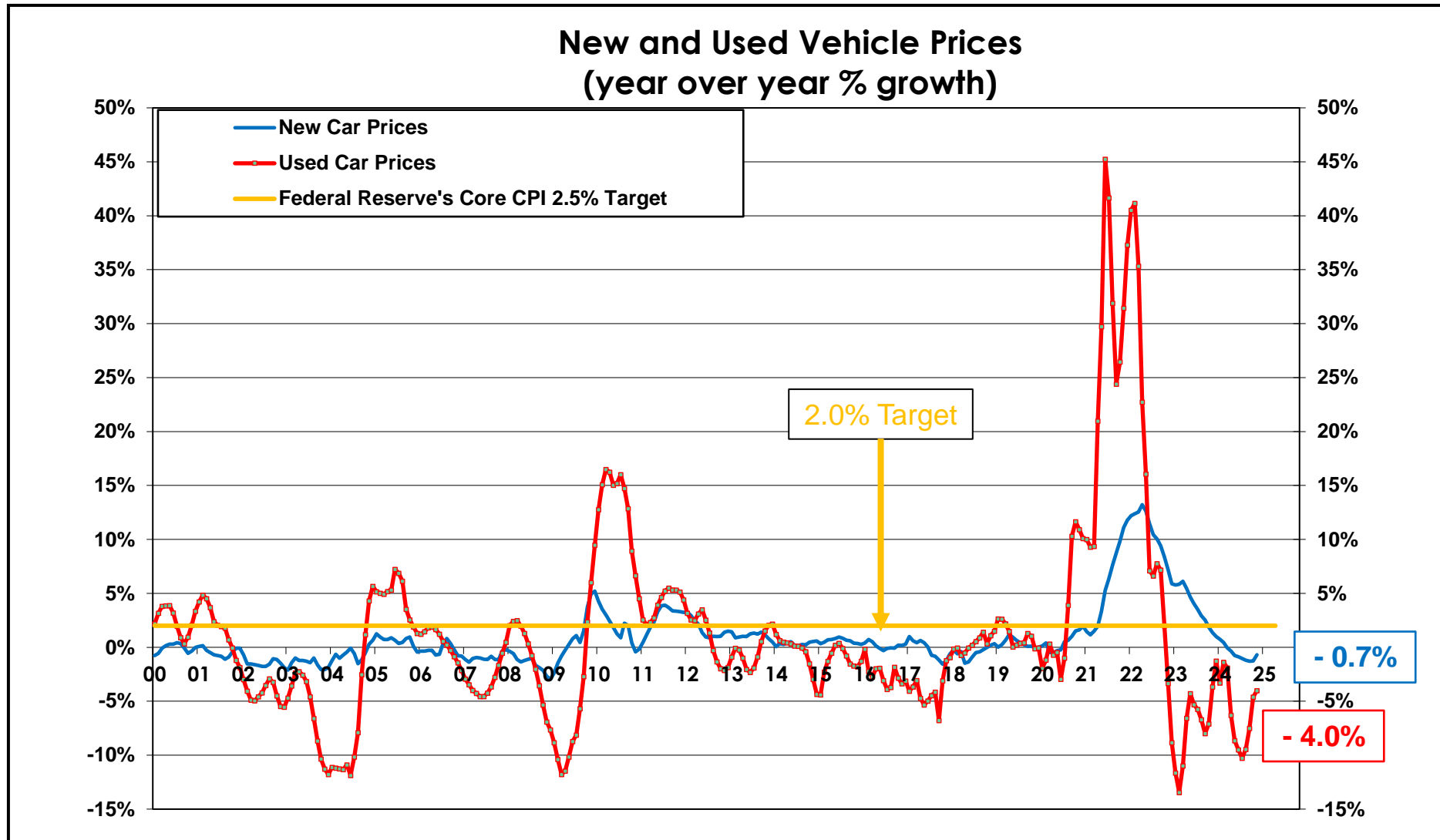


Vehicle Prices are Falling



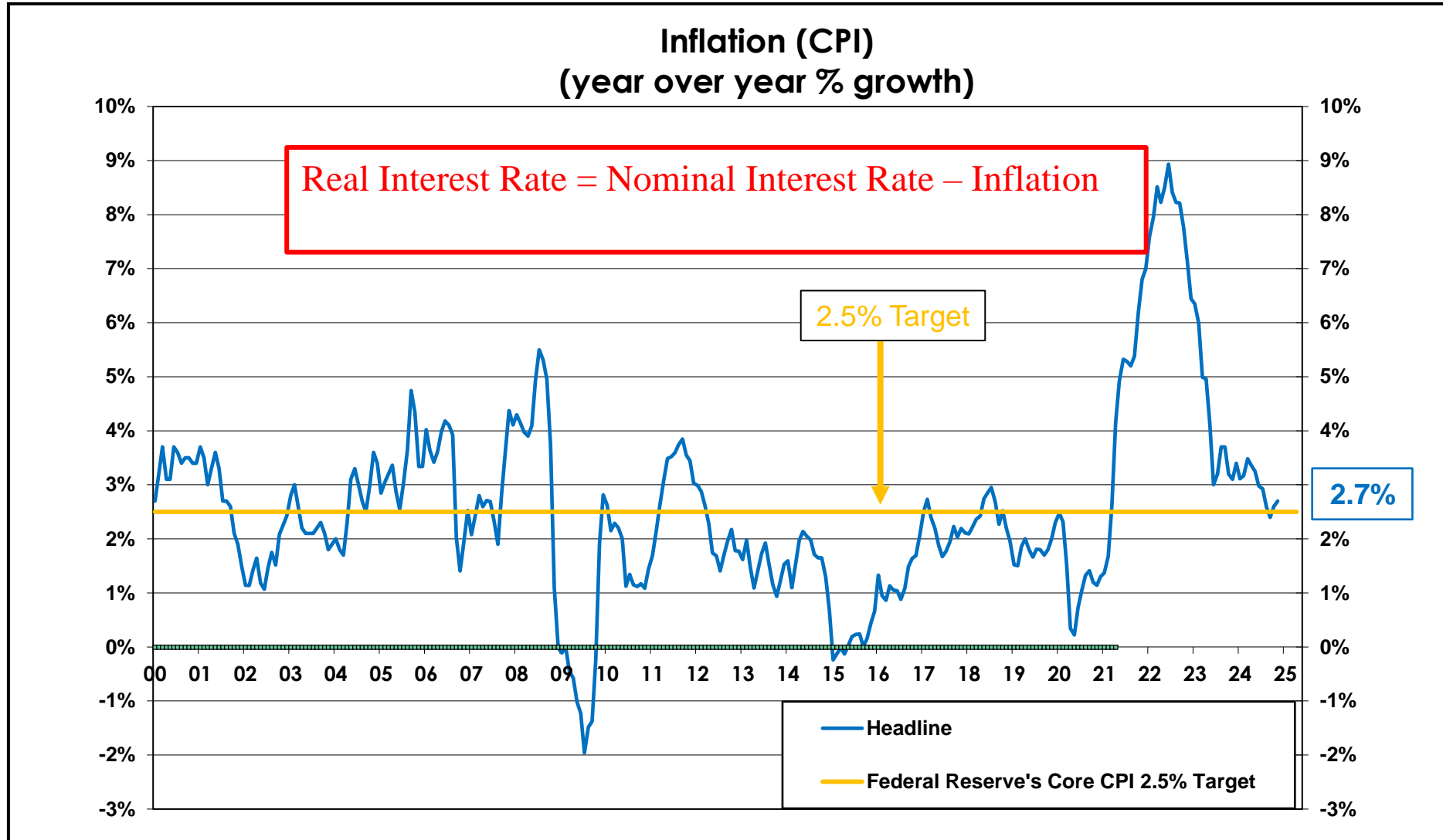
Source: Bureau of Labor Statistics

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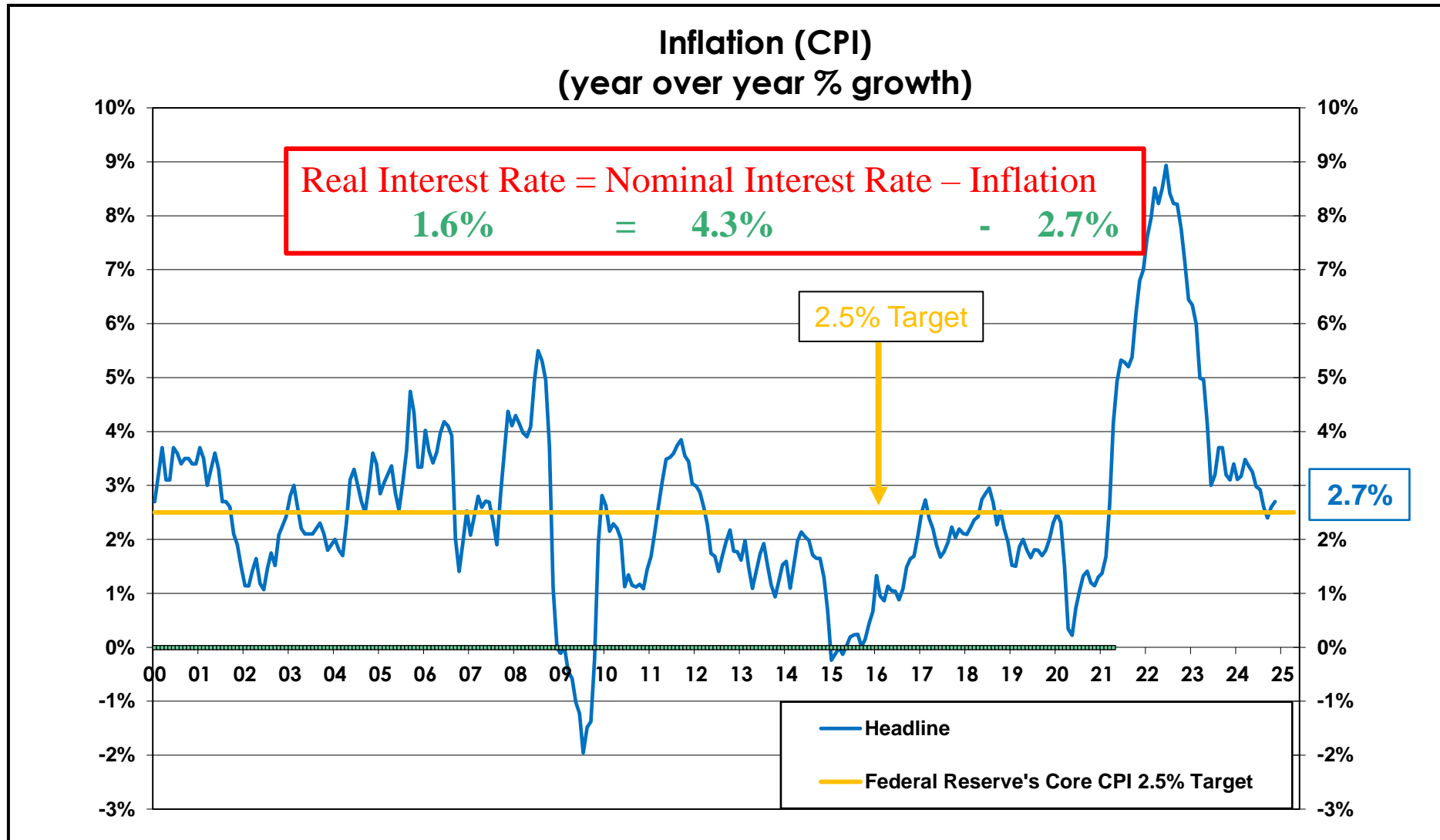


Source: Bureau of Labor Statistics

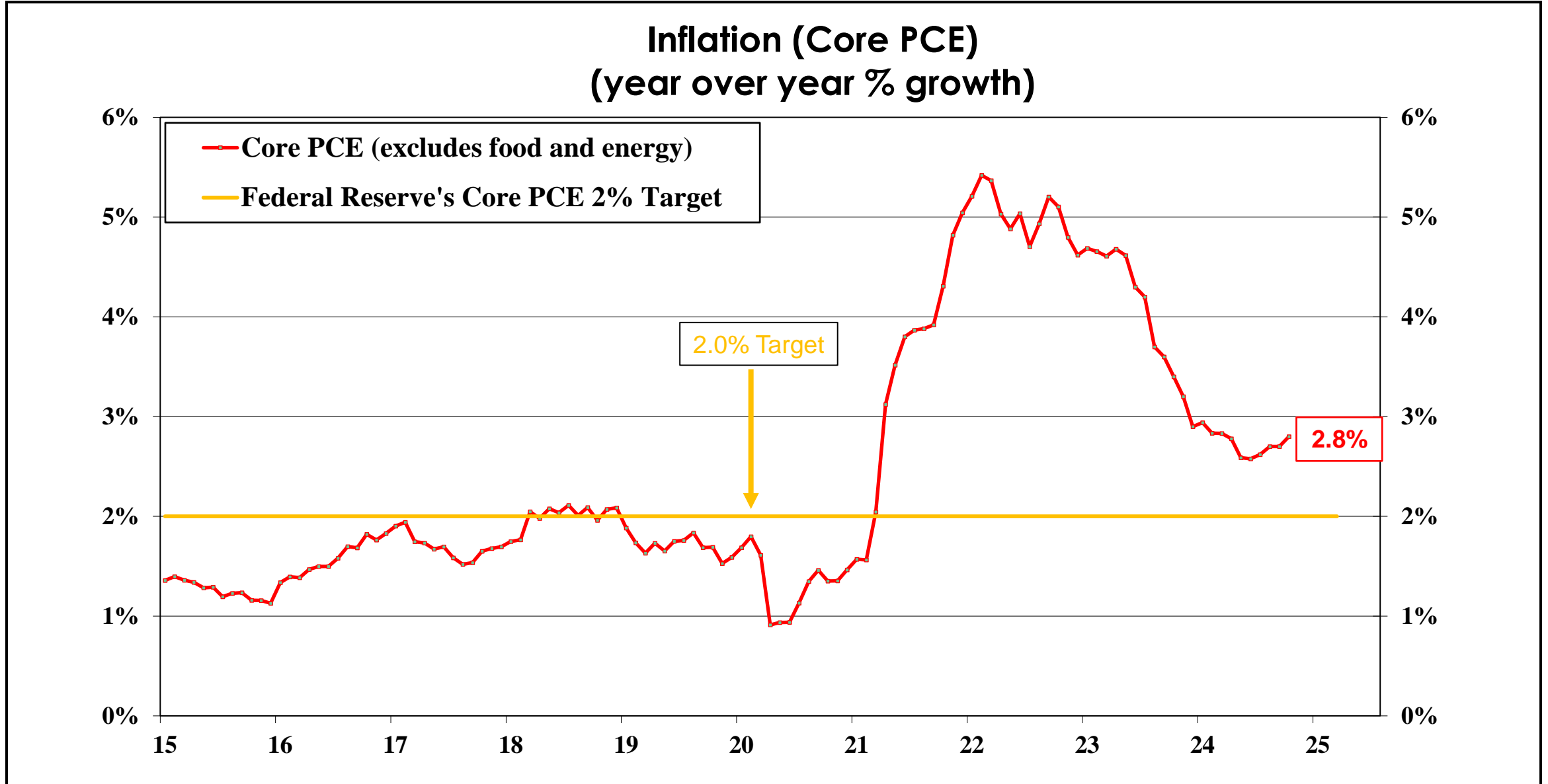
Inflation Approaching 2% Target



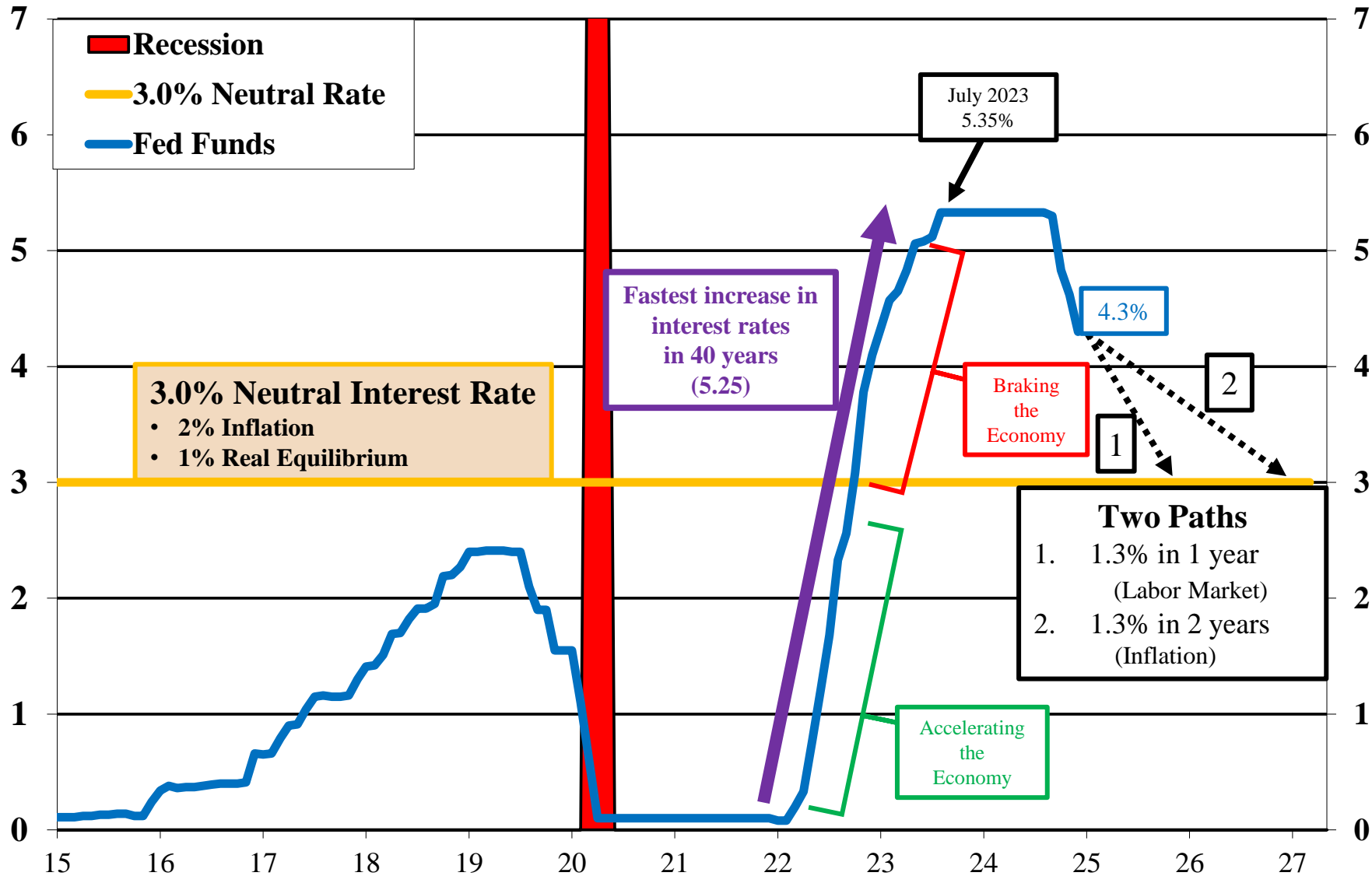
Inflation Approaching 2% Target



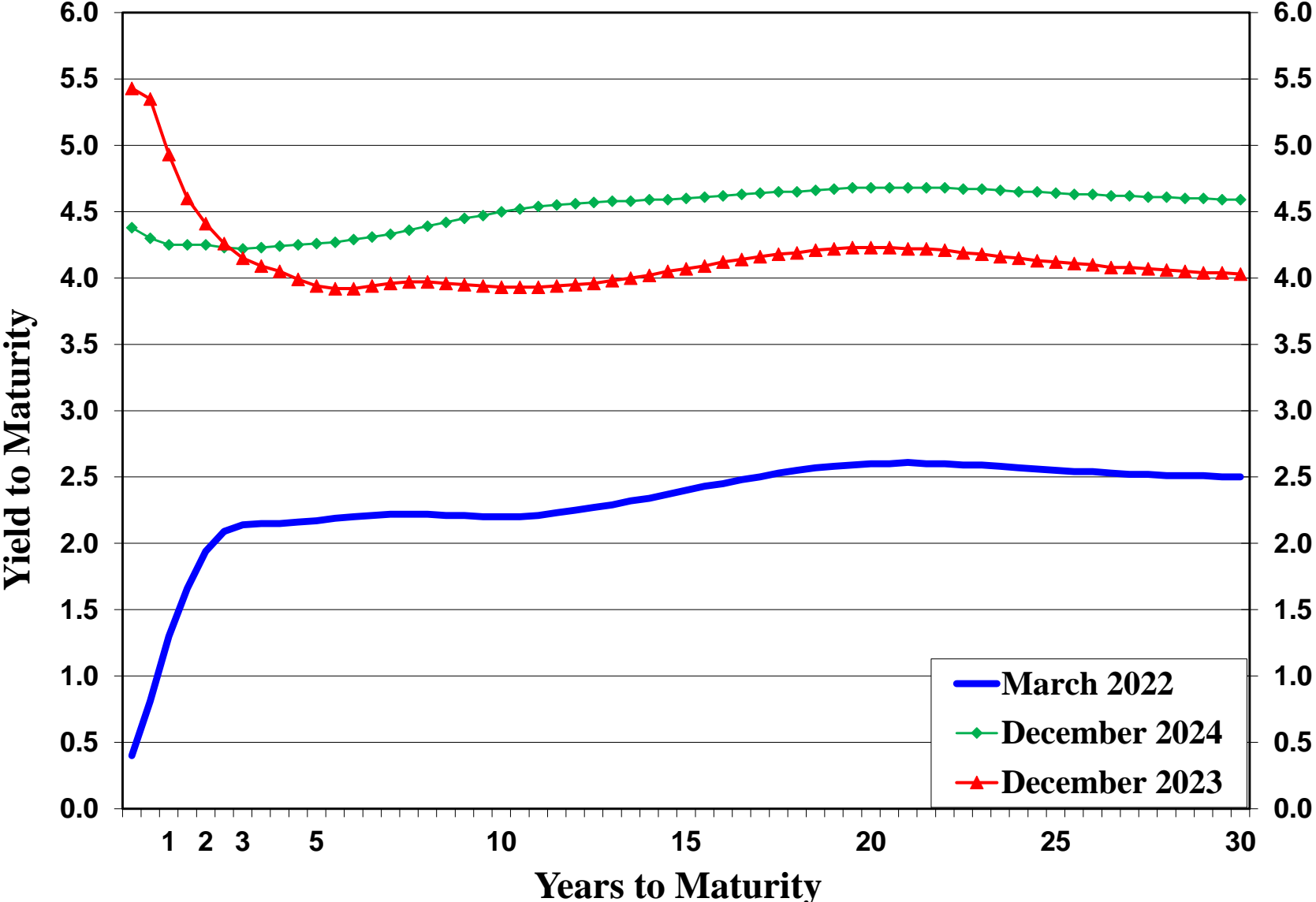
Inflation Above 2% Target



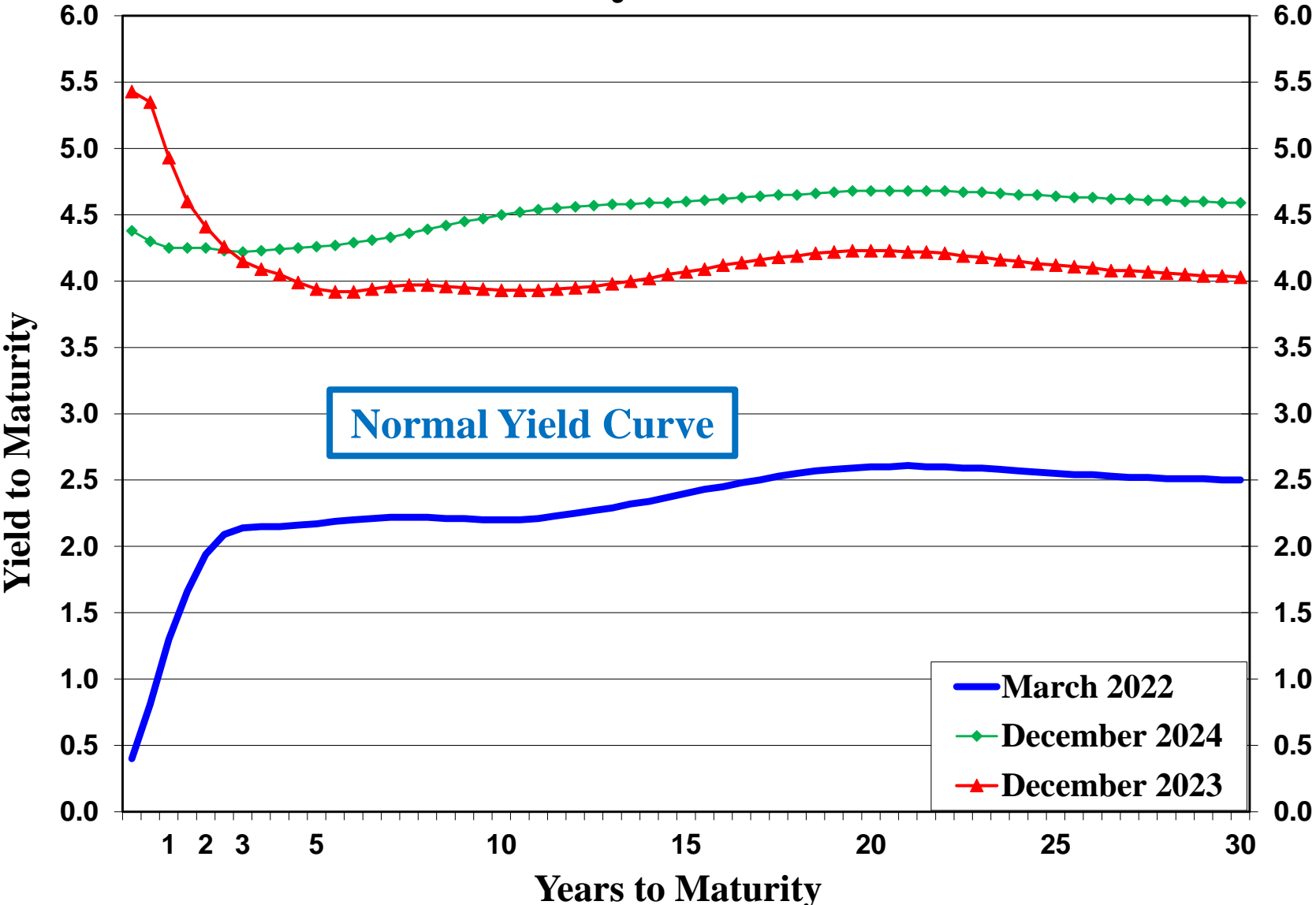
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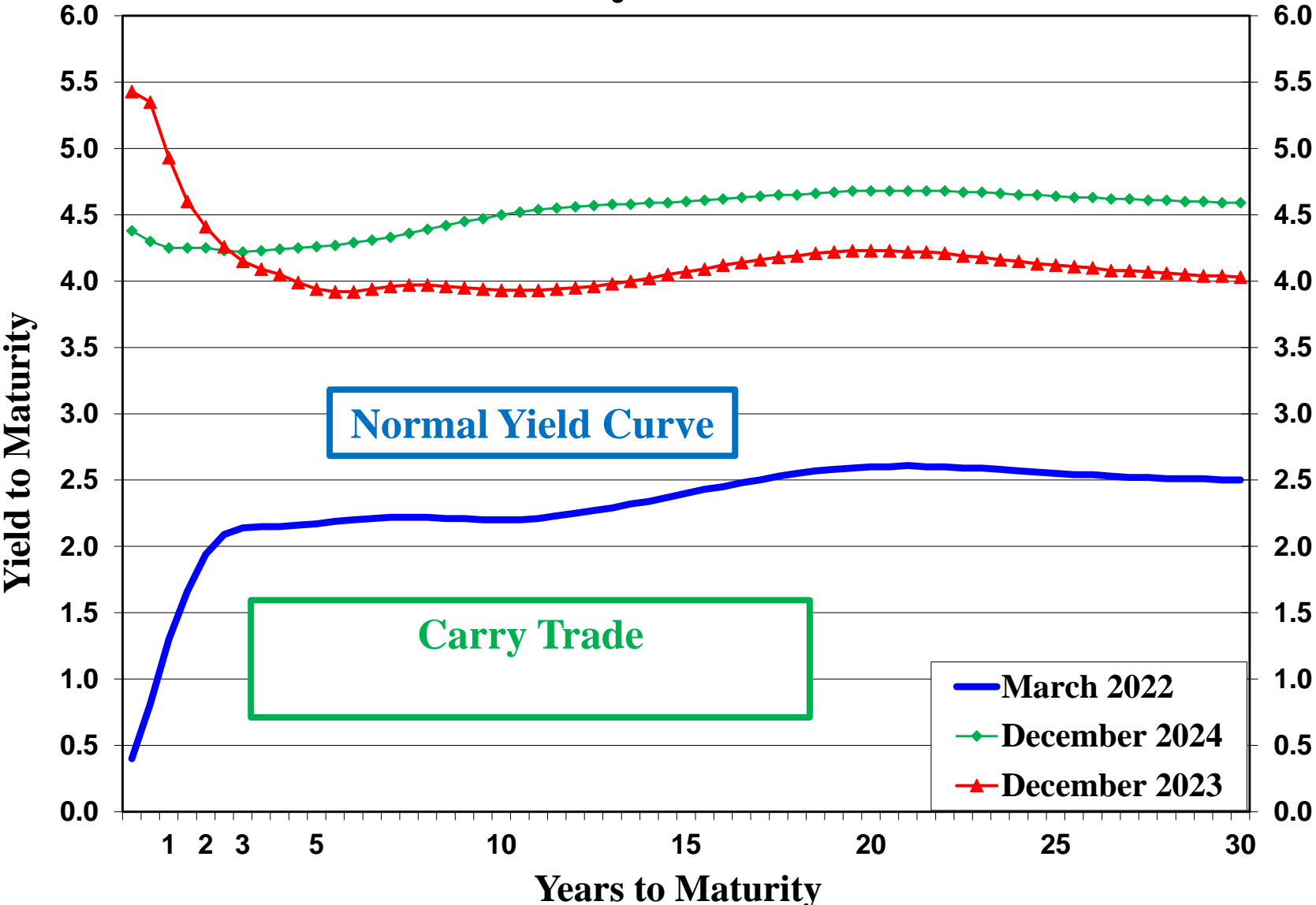
Treasury Yield Curves



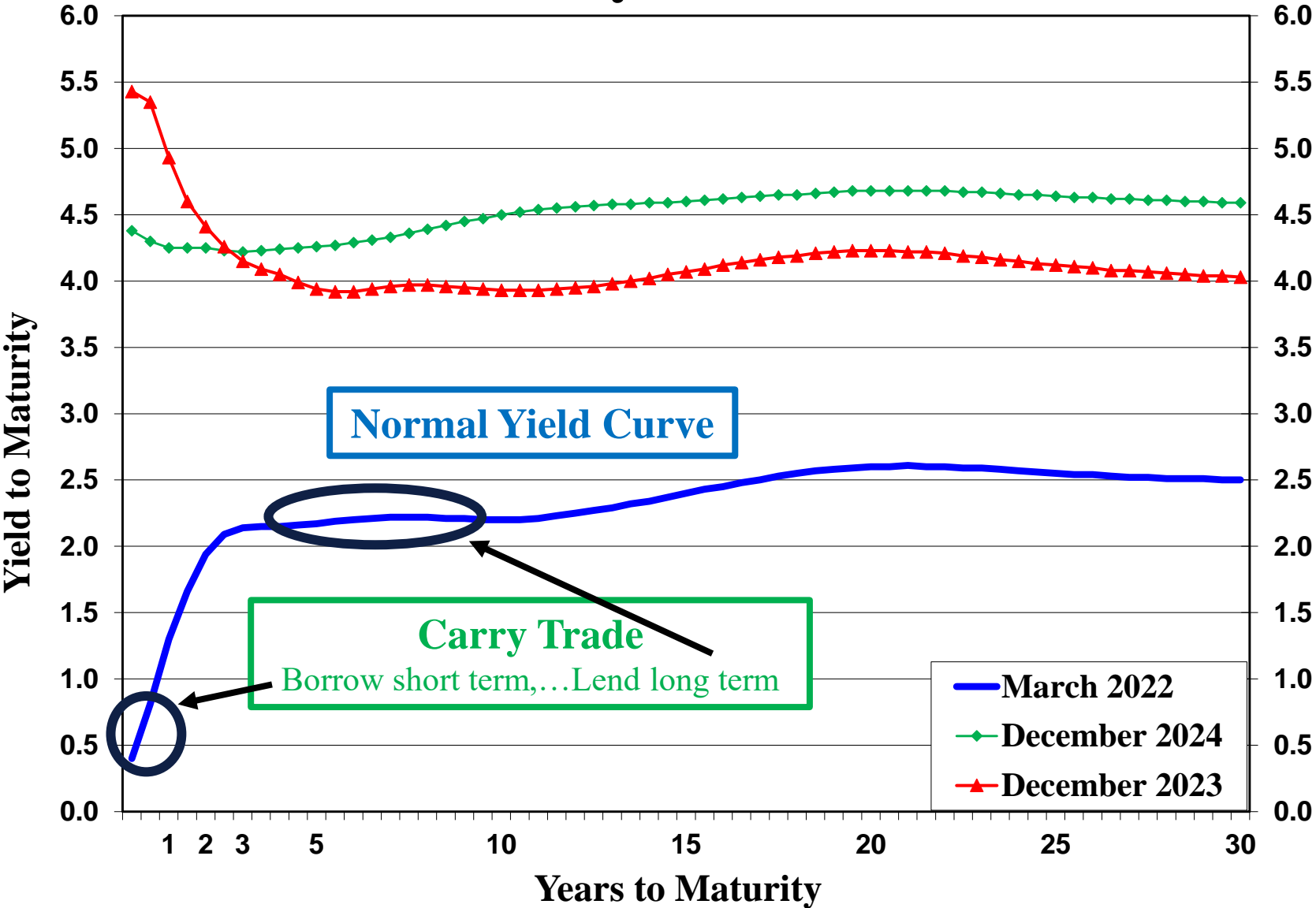
Treasury Yield Curves



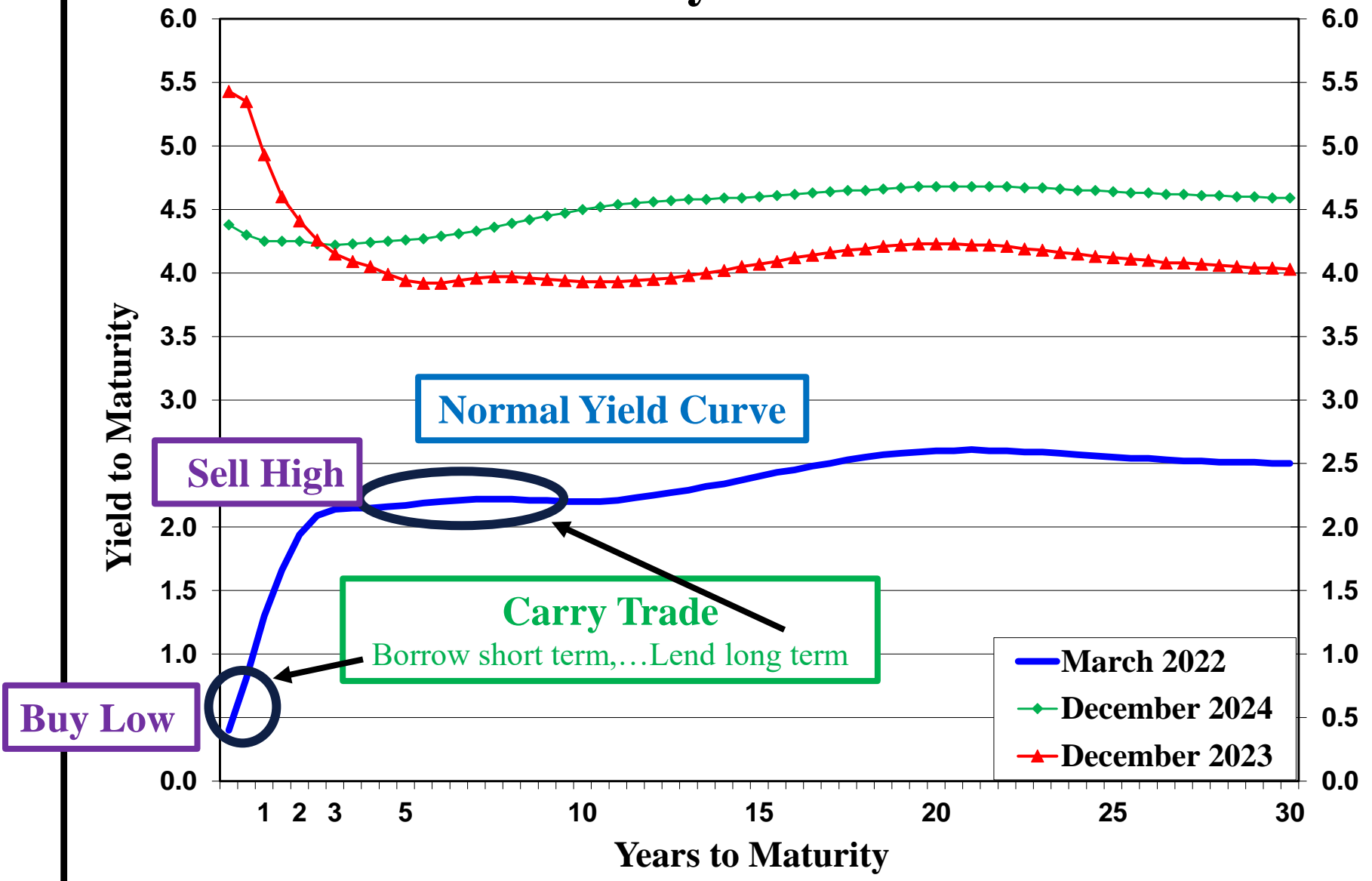
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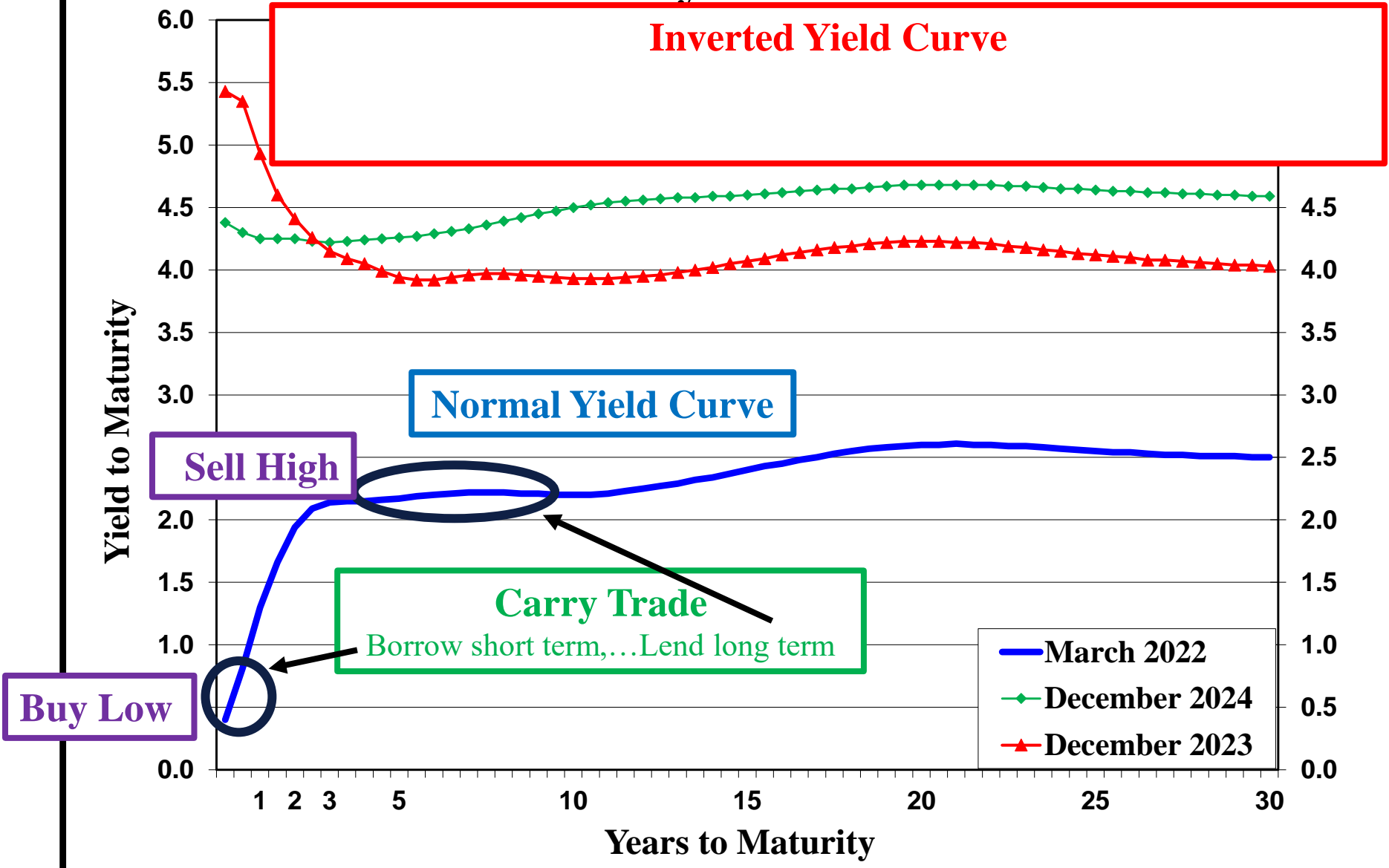
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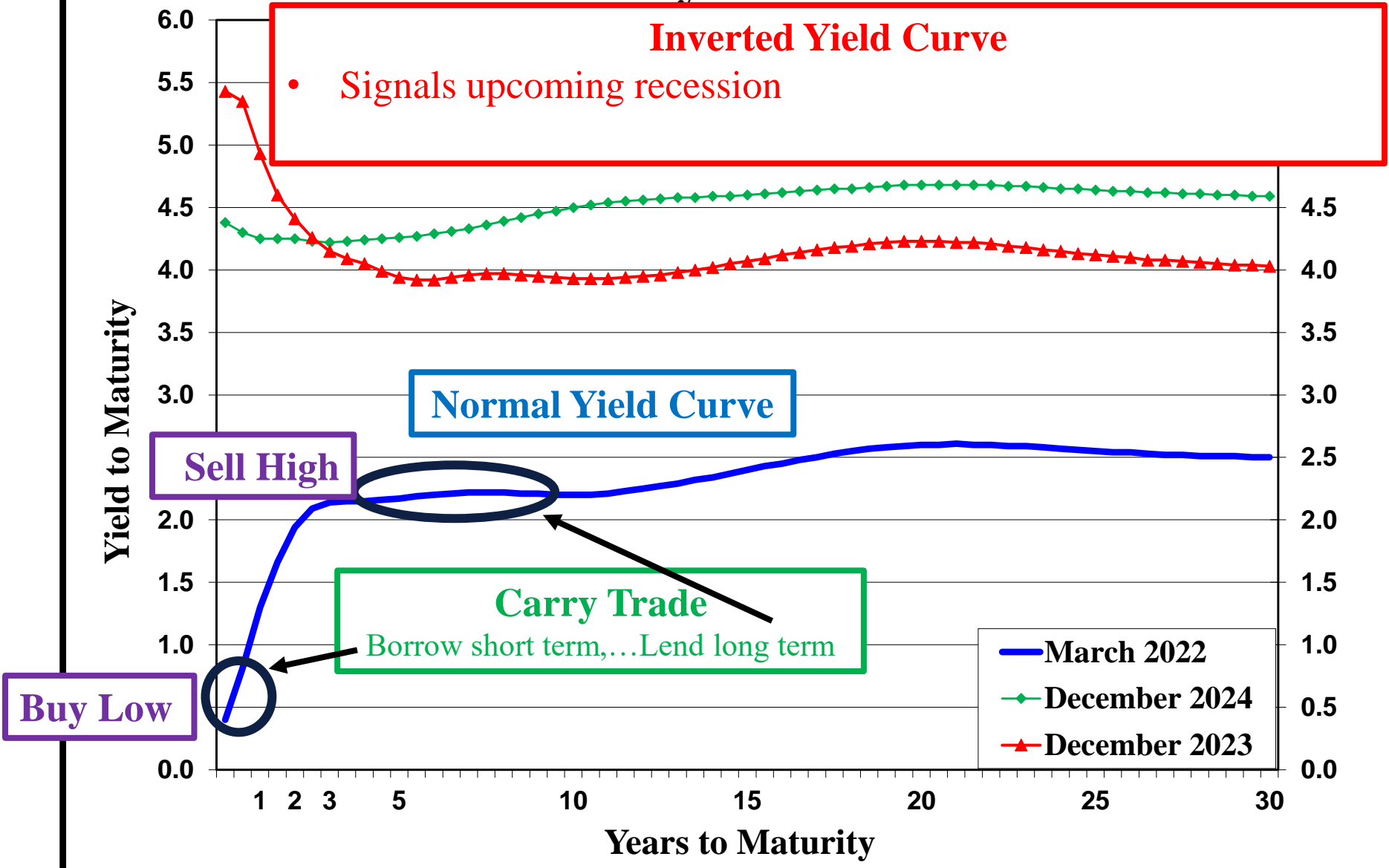
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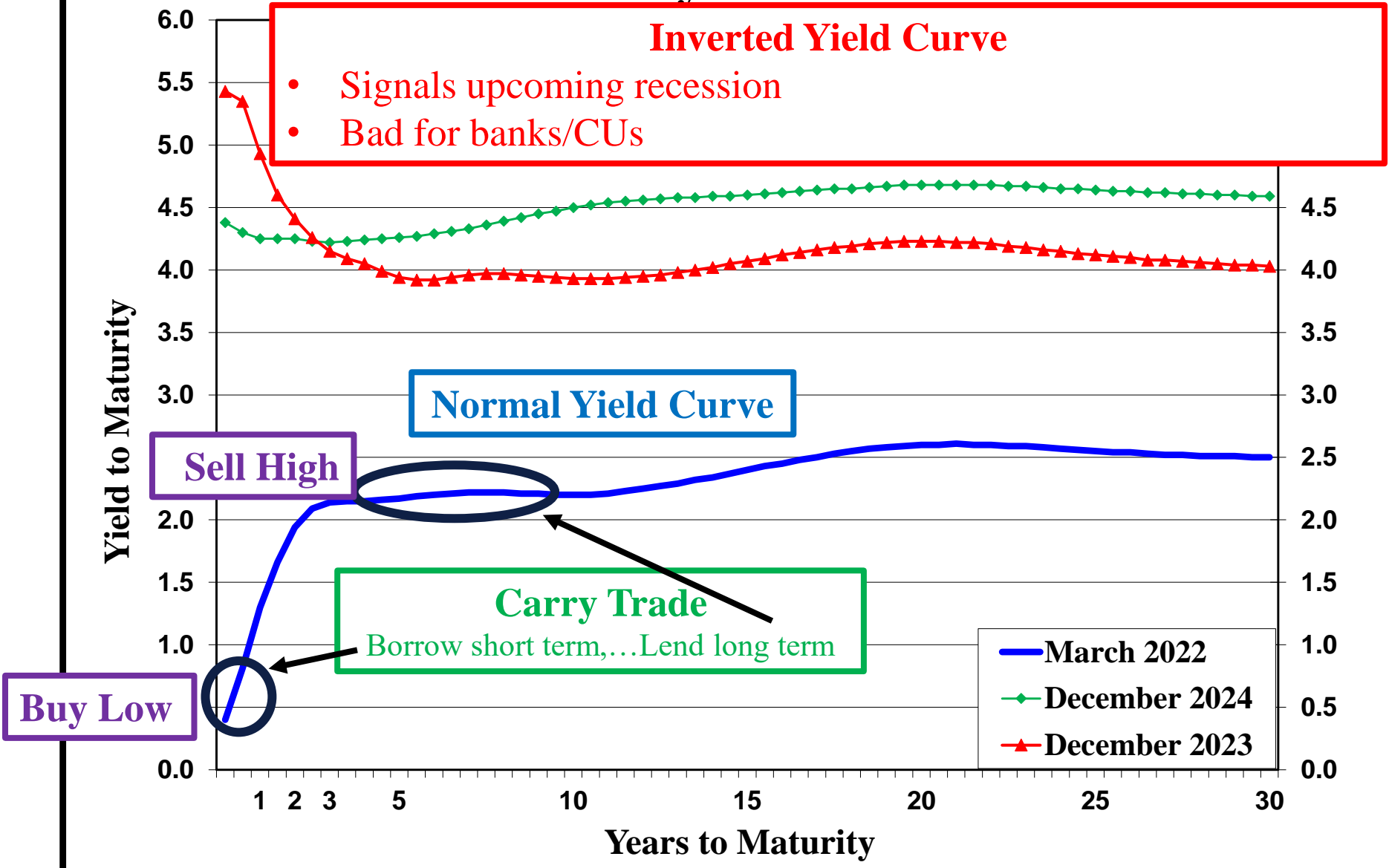
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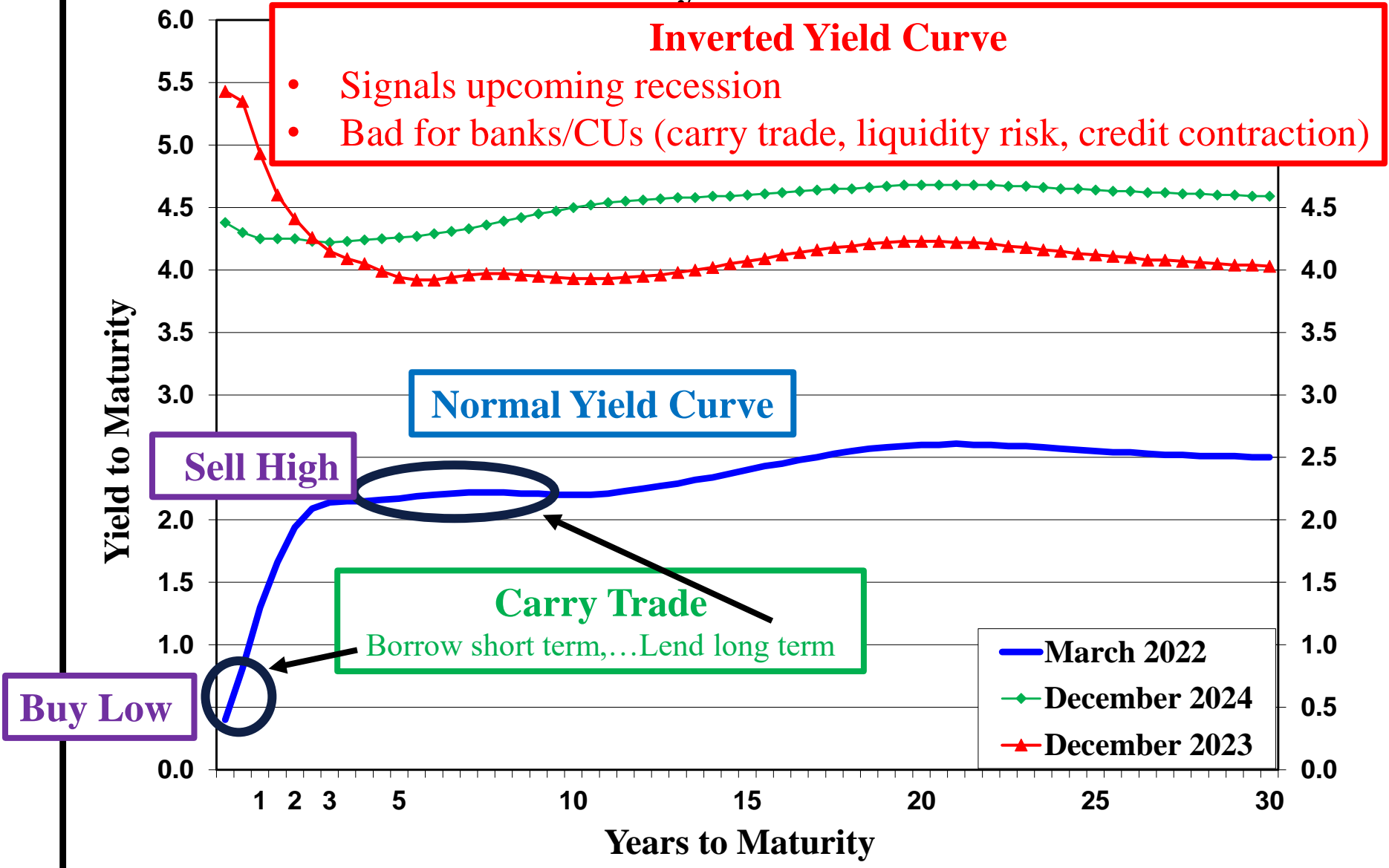
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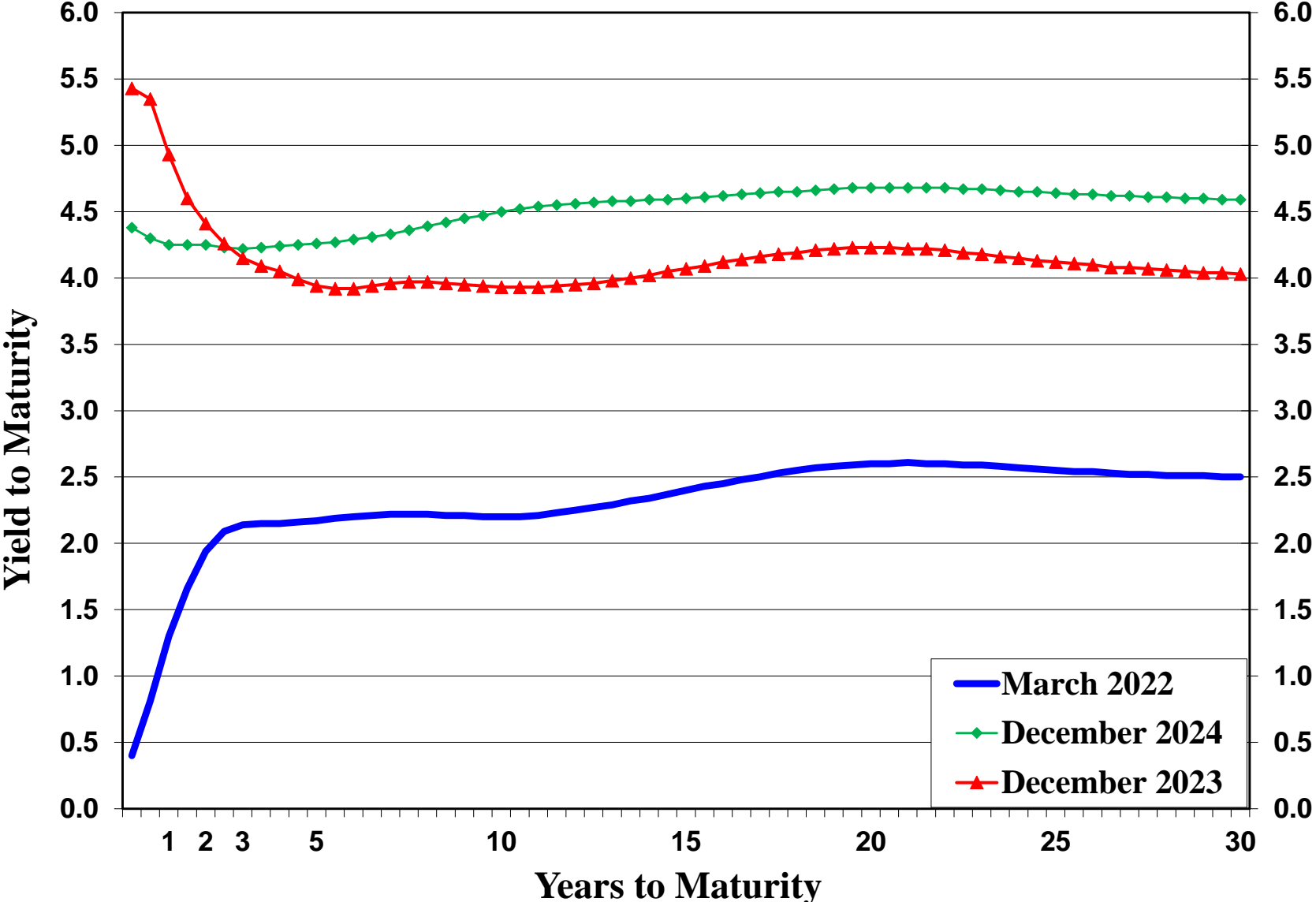
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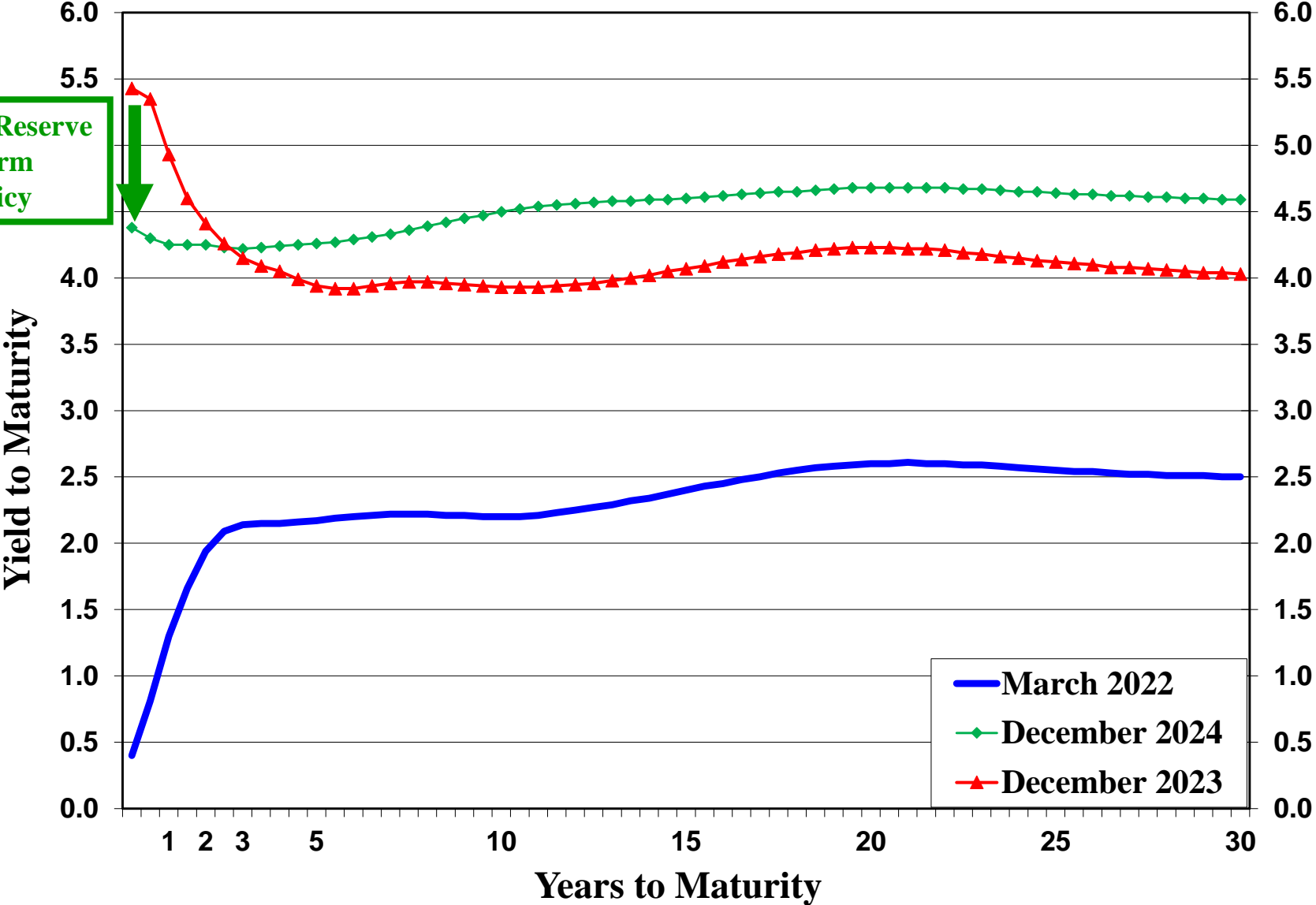


Treasury Yield Curves



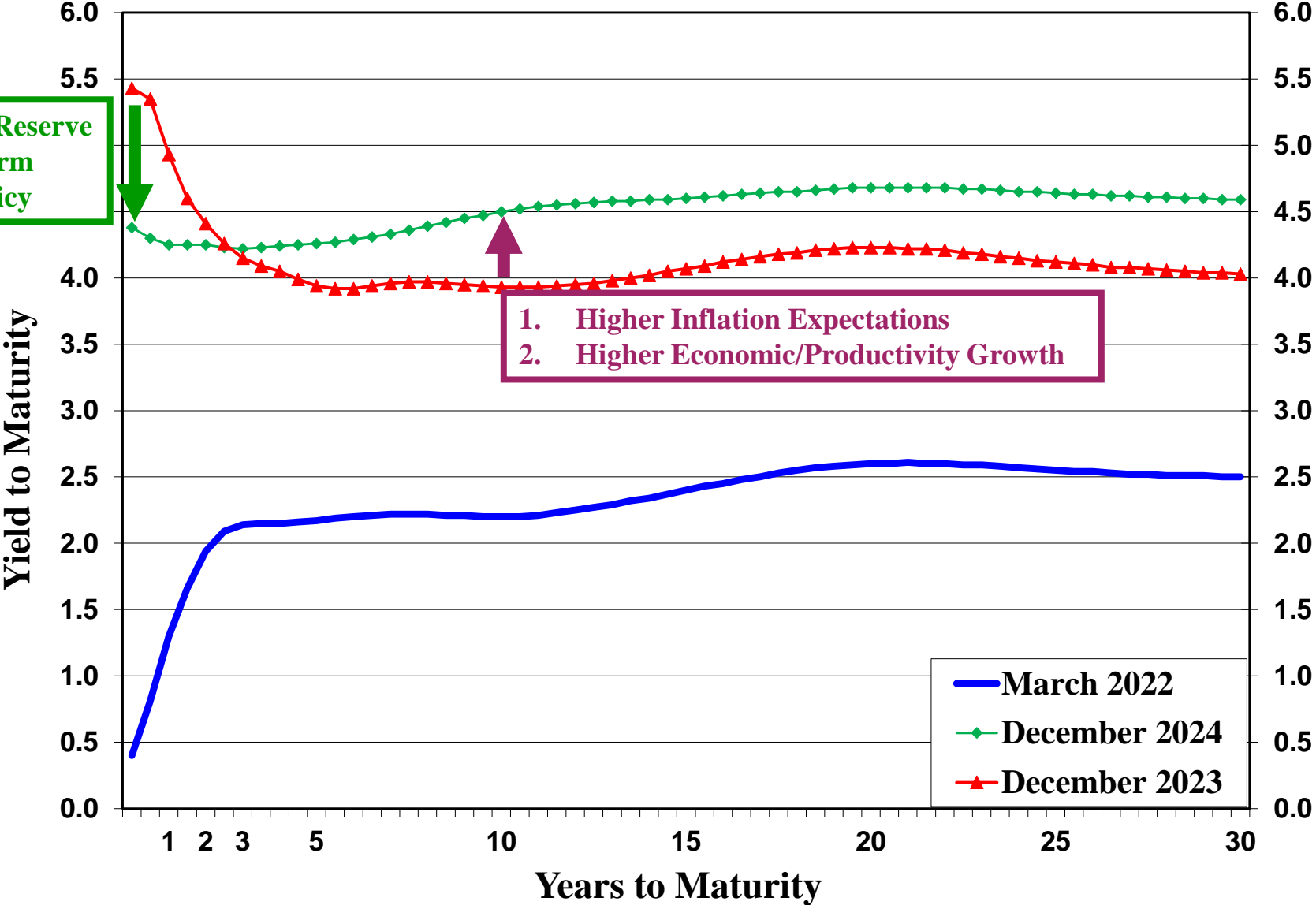
Treasury Yield Curves

Federal Reserve
Short Term
Rate Policy



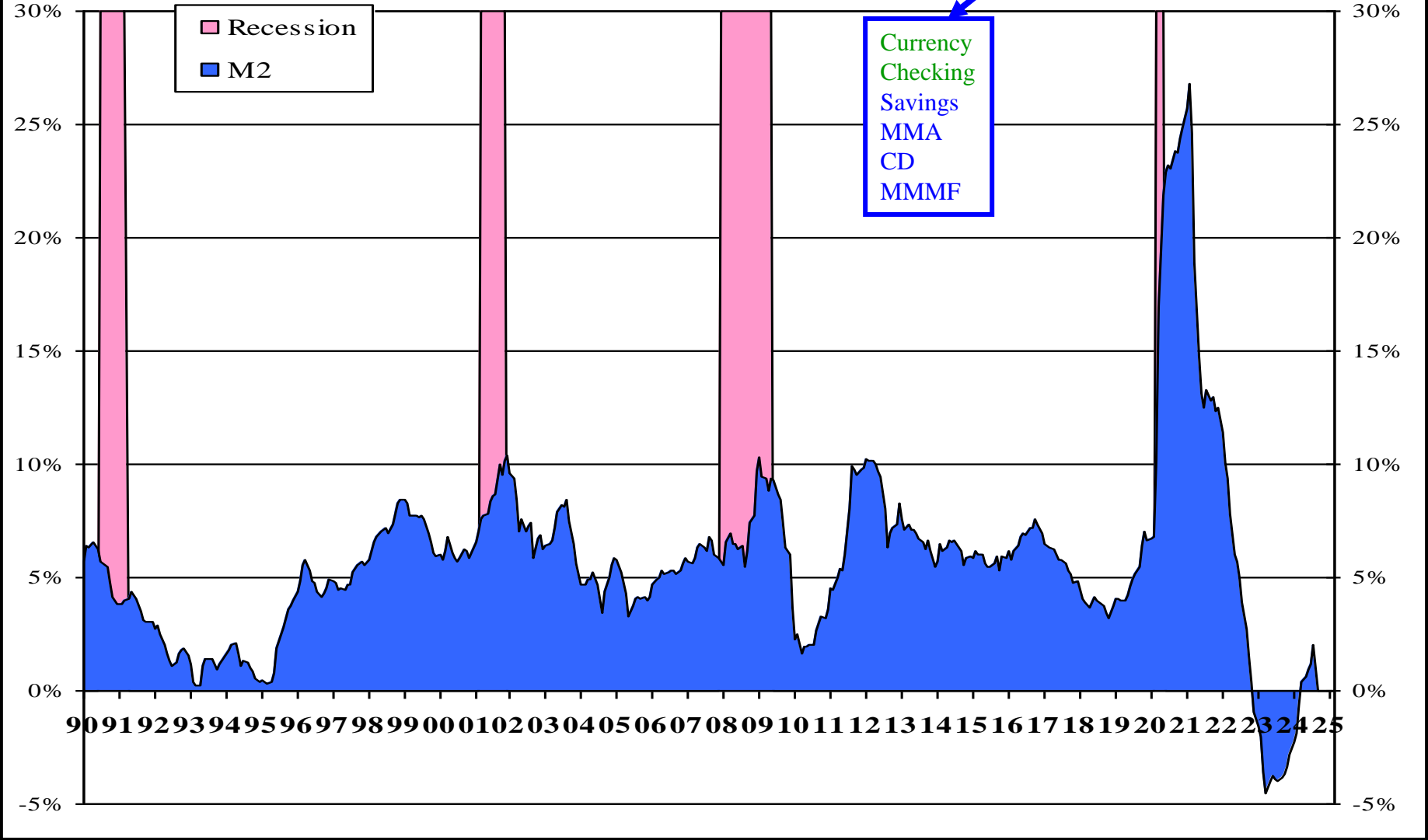
Treasury Yield Curves

Federal Reserve Short Term Rate Policy

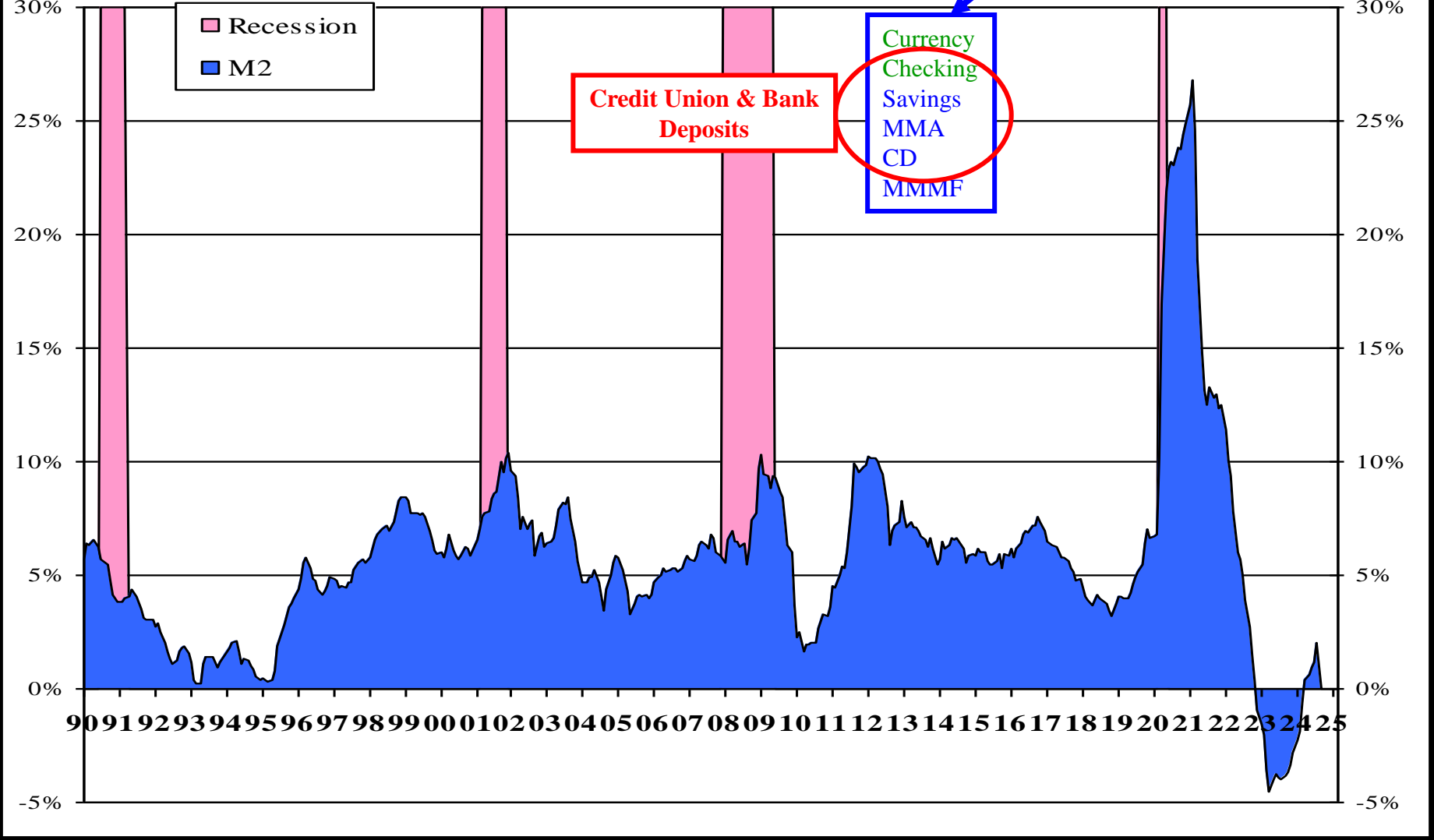


- 1. Higher Inflation Expectations
- 2. Higher Economic/Productivity Growth

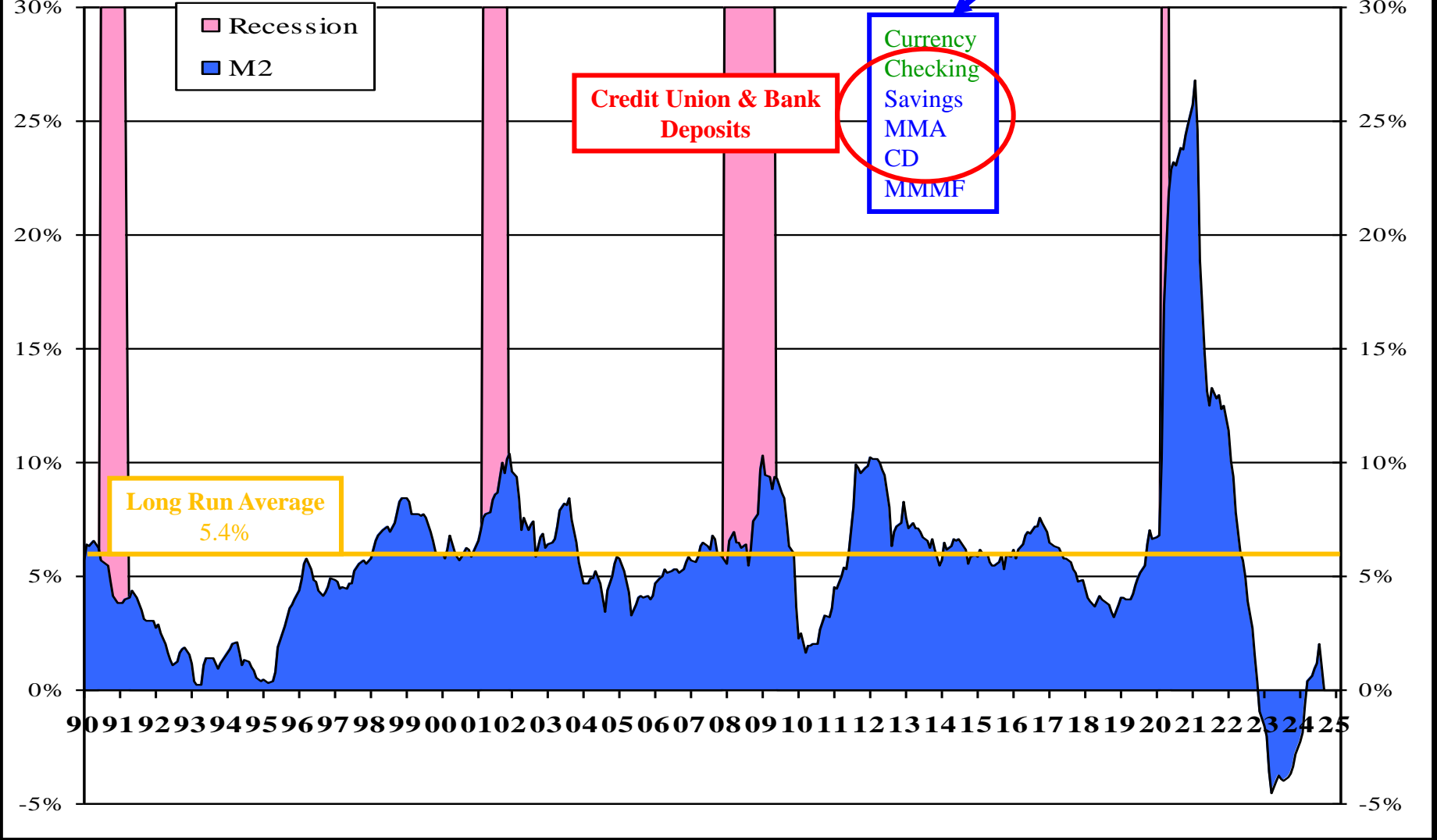
Money Supply Growth, M2



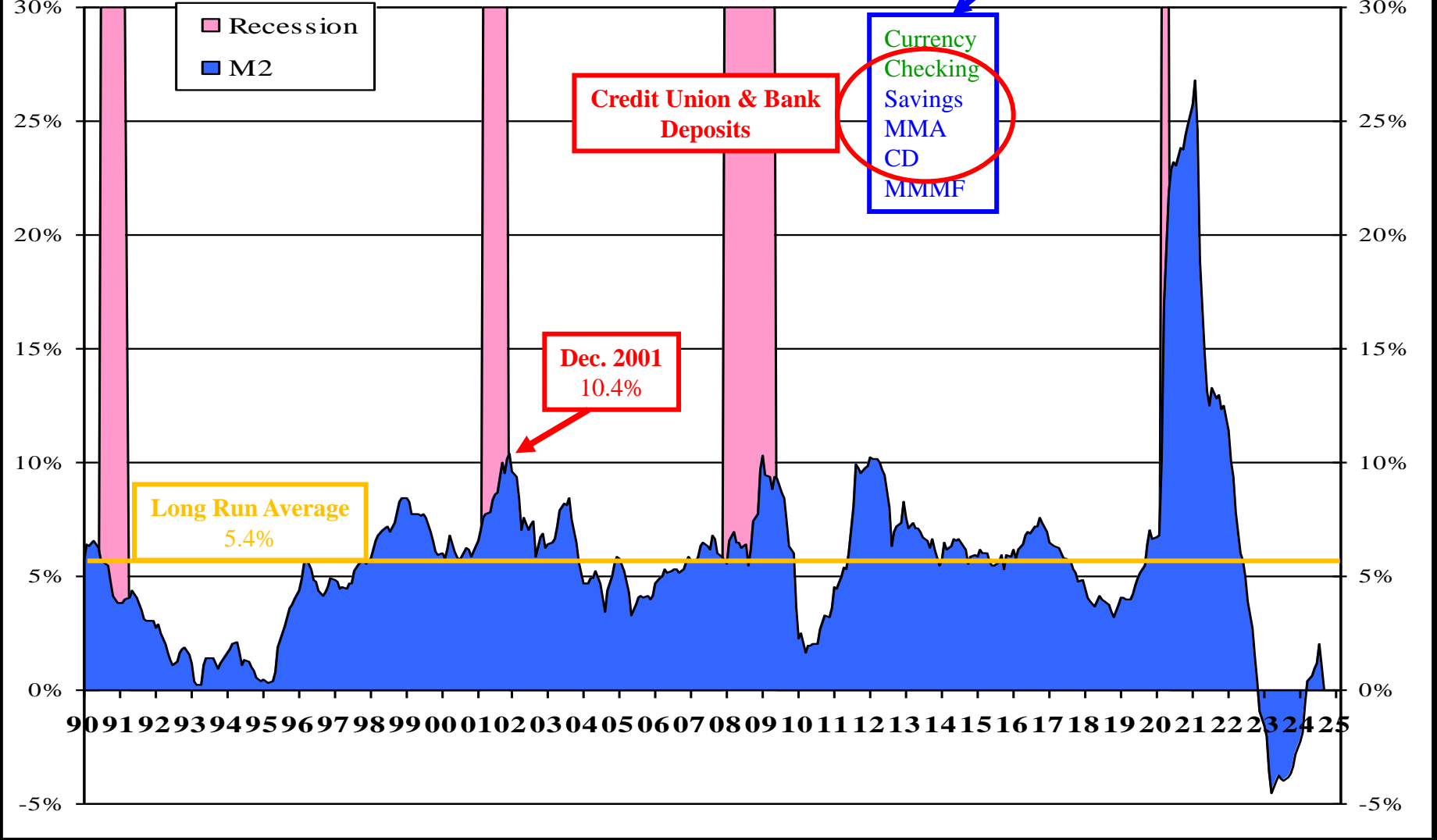
Money Supply Growth, M2



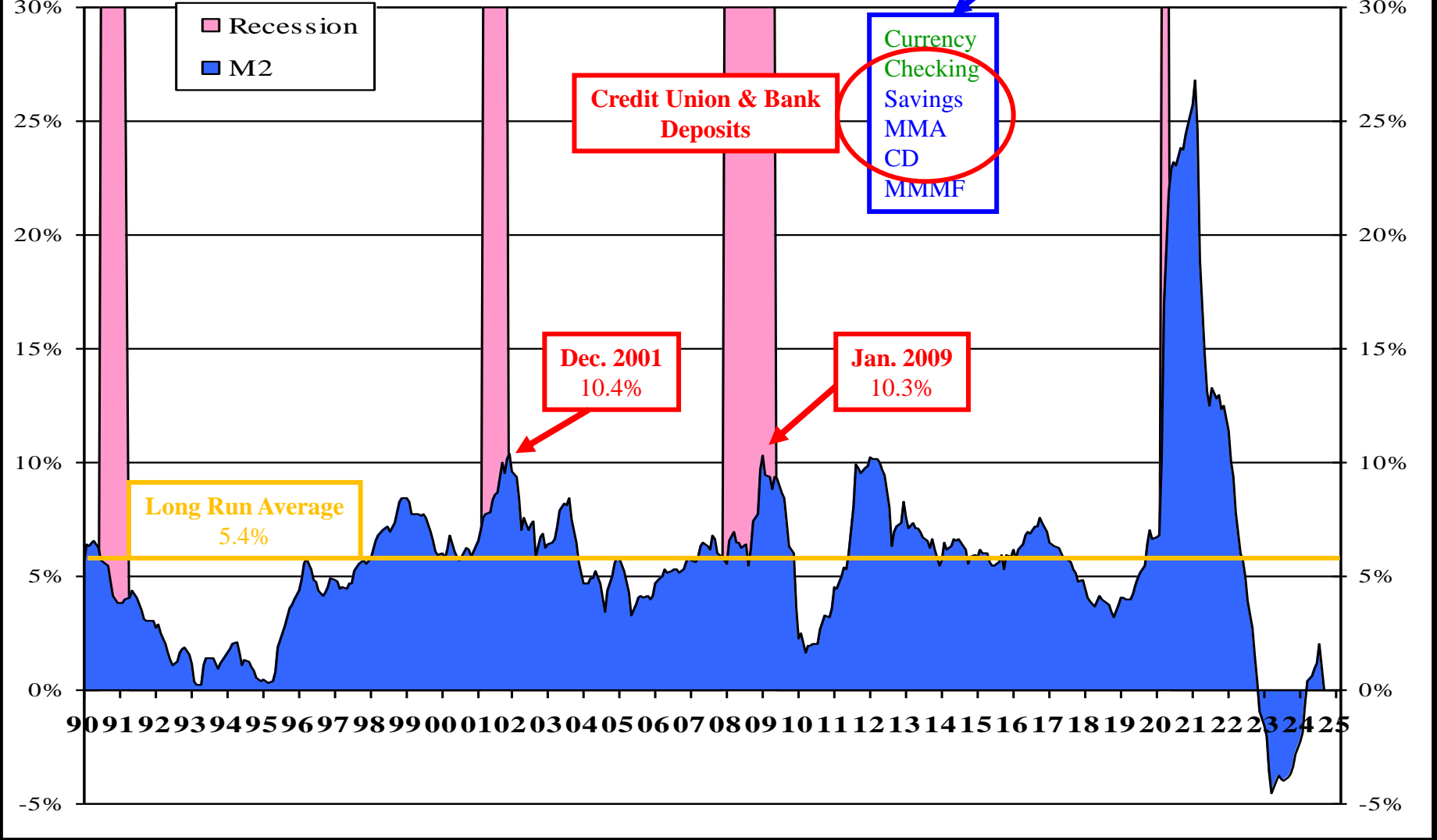
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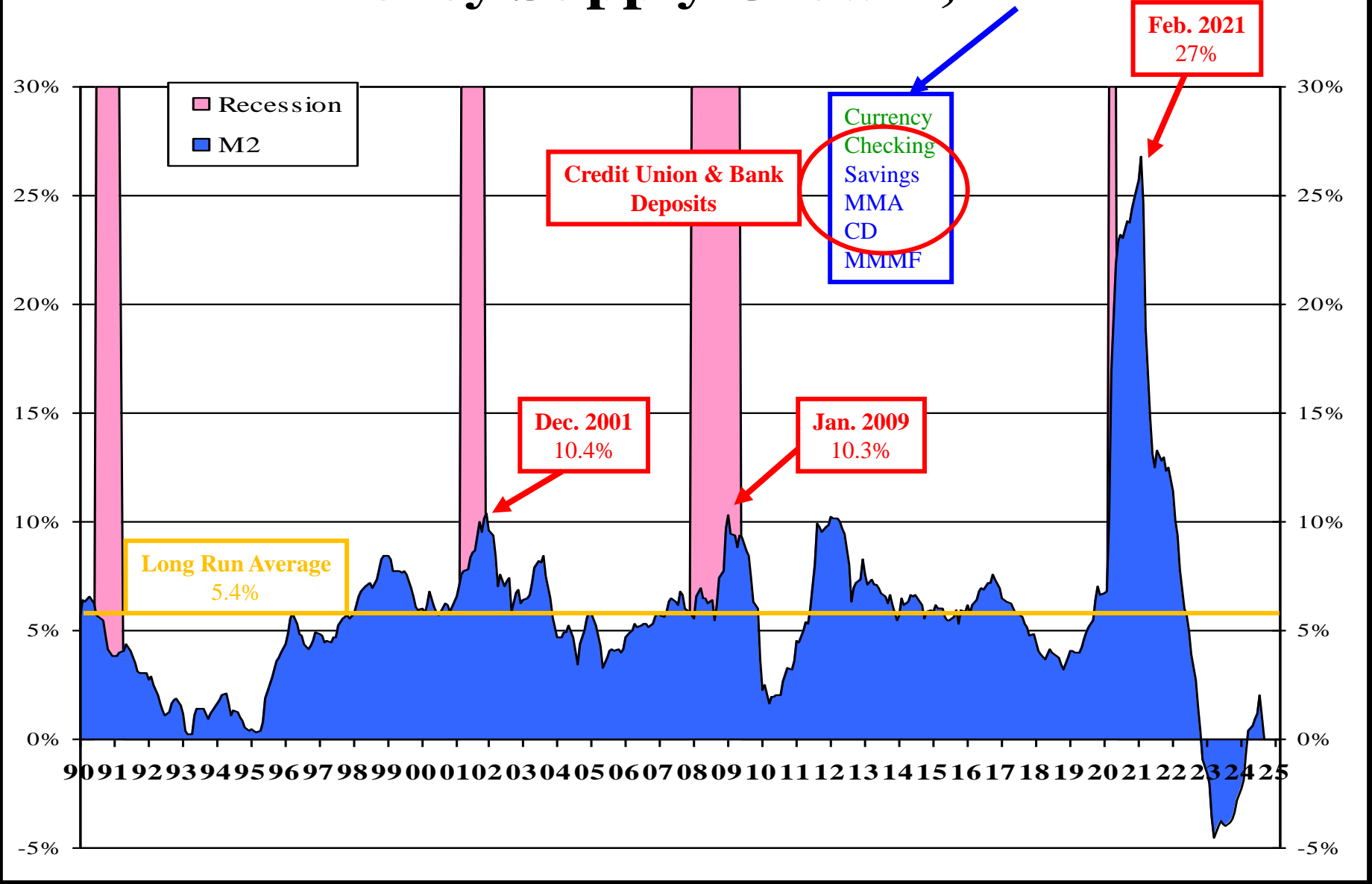
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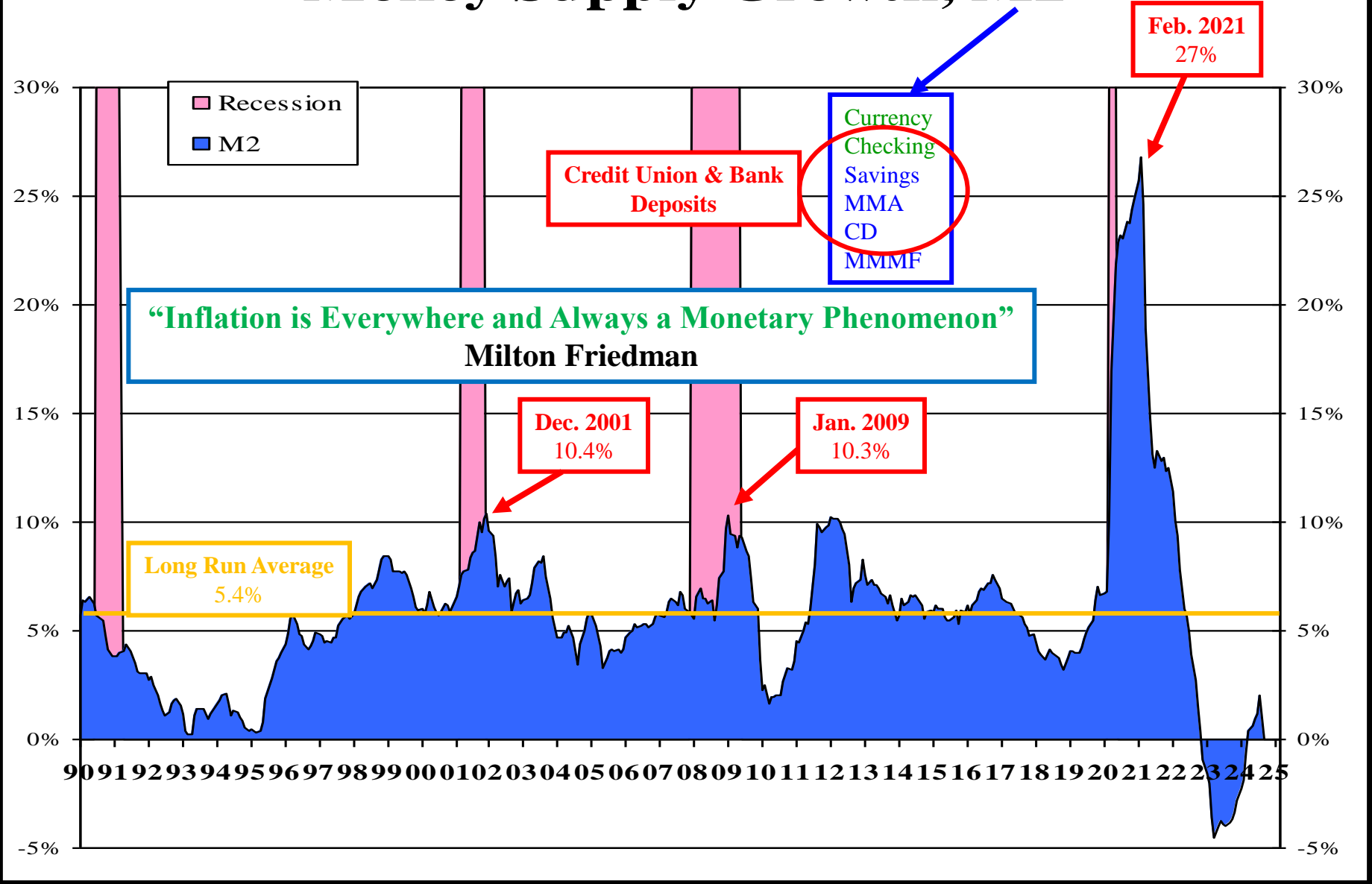
Money Supply Growth, M2



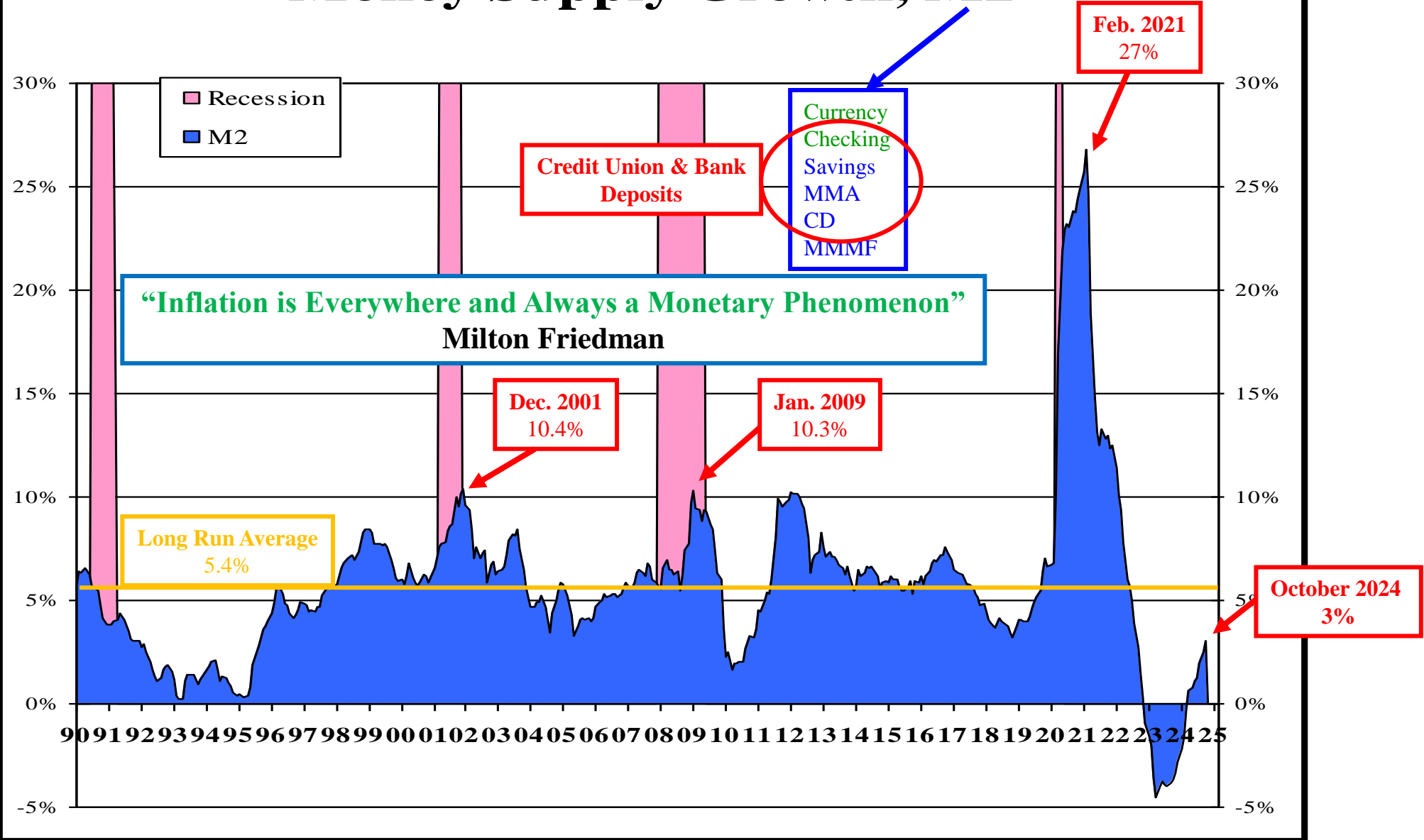
Money Supply Growth, M2



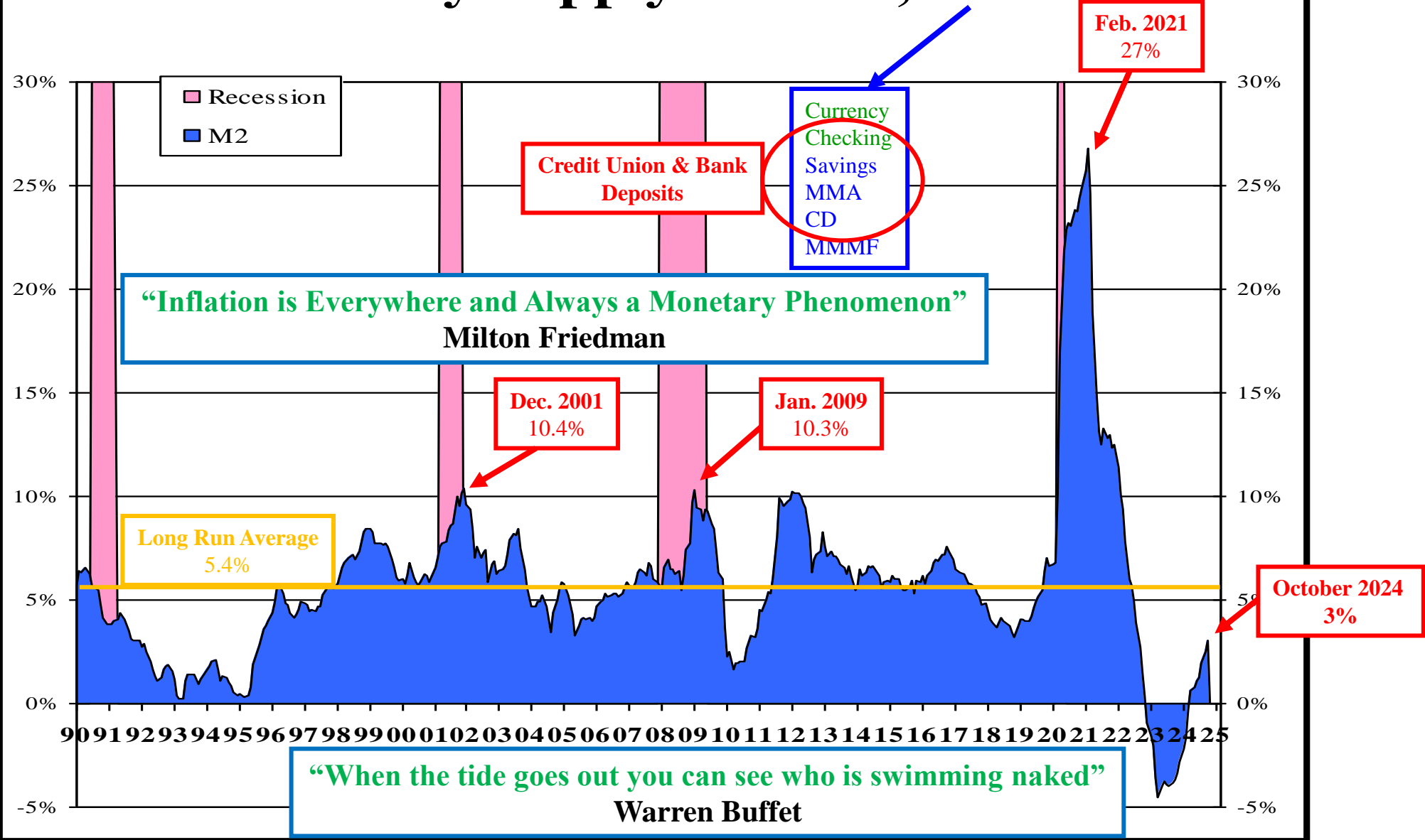
Money Supply Growth, M2



Money Supply Growth, M2



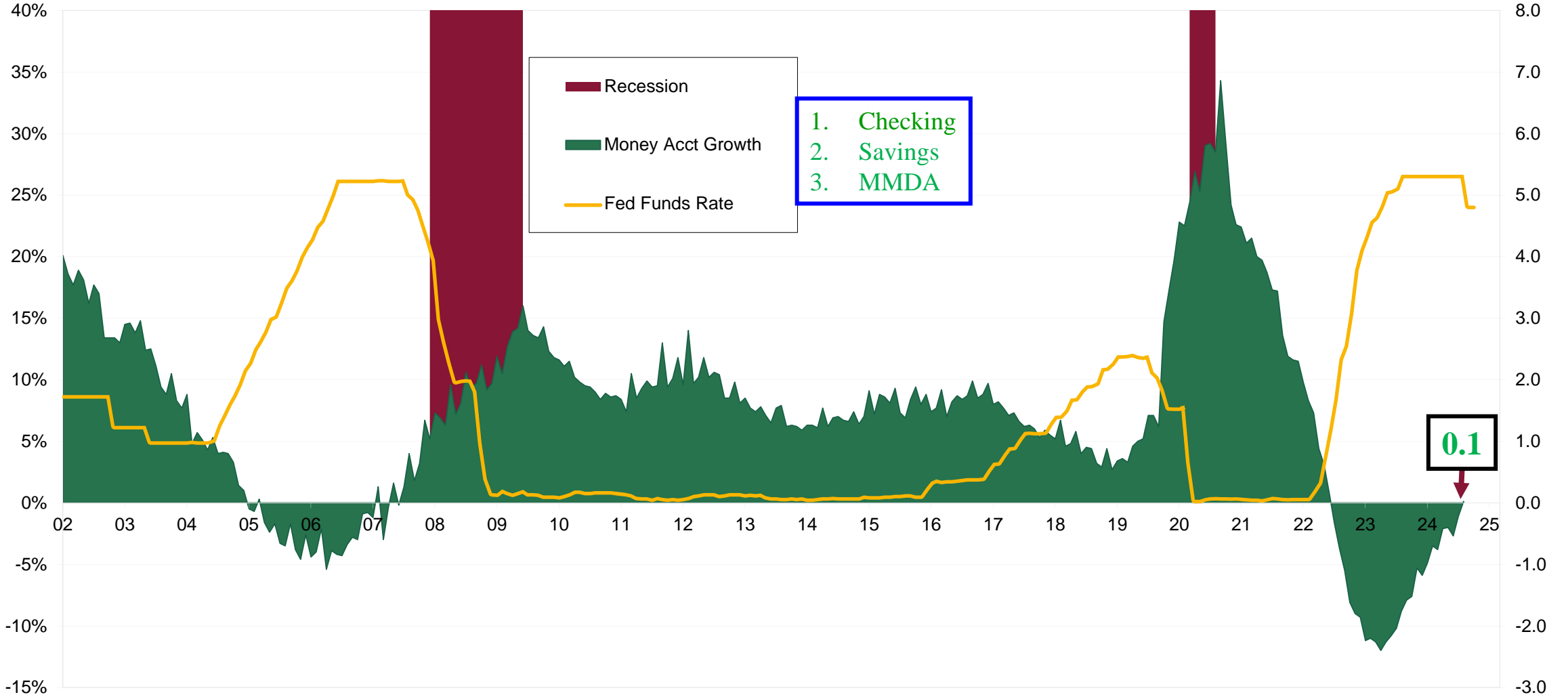
Money Supply Growth, M2



Money Accounts Growth Rate

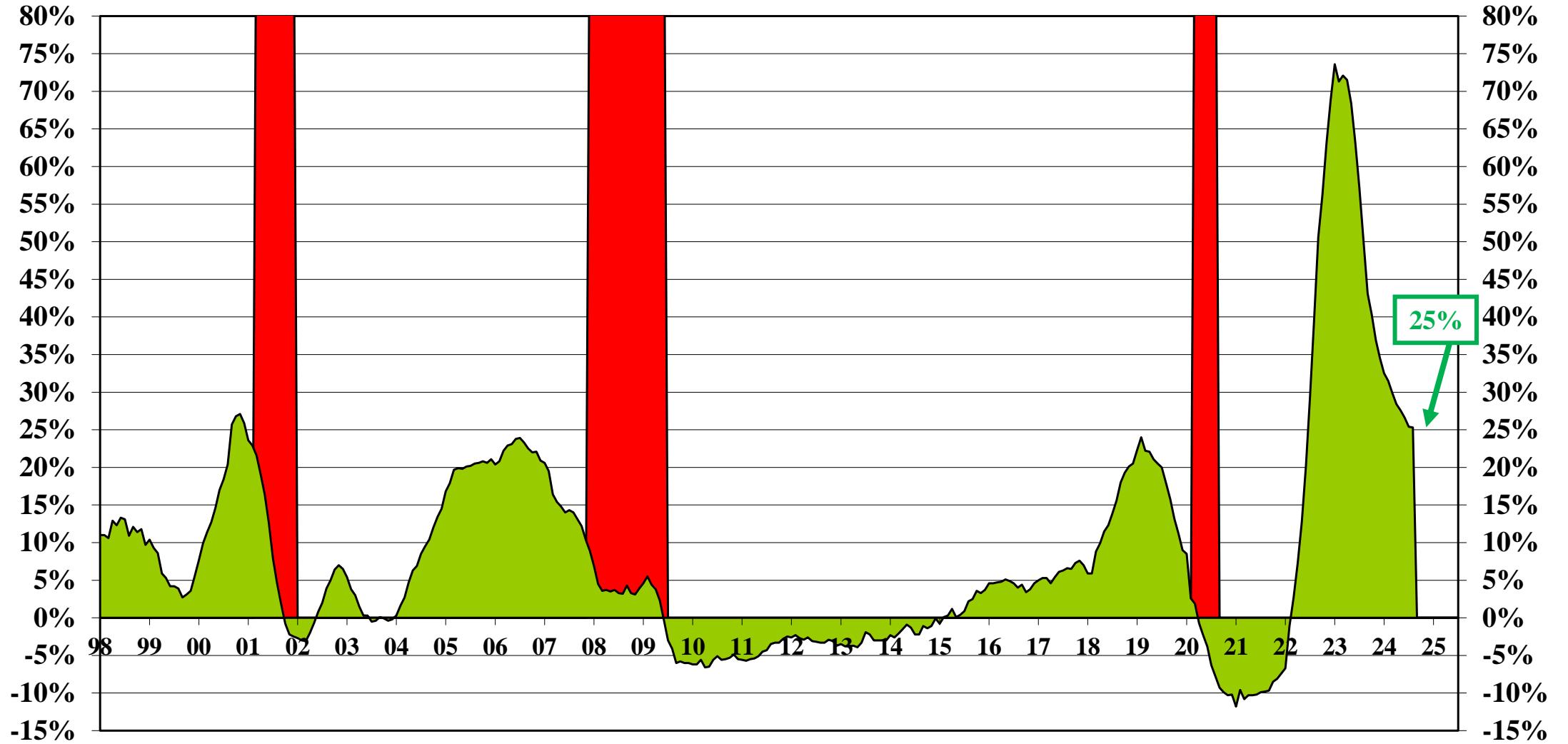
Annual Growth

Interest Rate



CU Share Certificate Growth

Seasonally Adjusted
Annualized Growth Rate



**Credit Union
Balance Sheet**

Credit Union Balance Sheet

Assets

**Credit Union
Balance Sheet**

Assets

Liabilities + Capital

Credit Union Balance Sheet

Assets

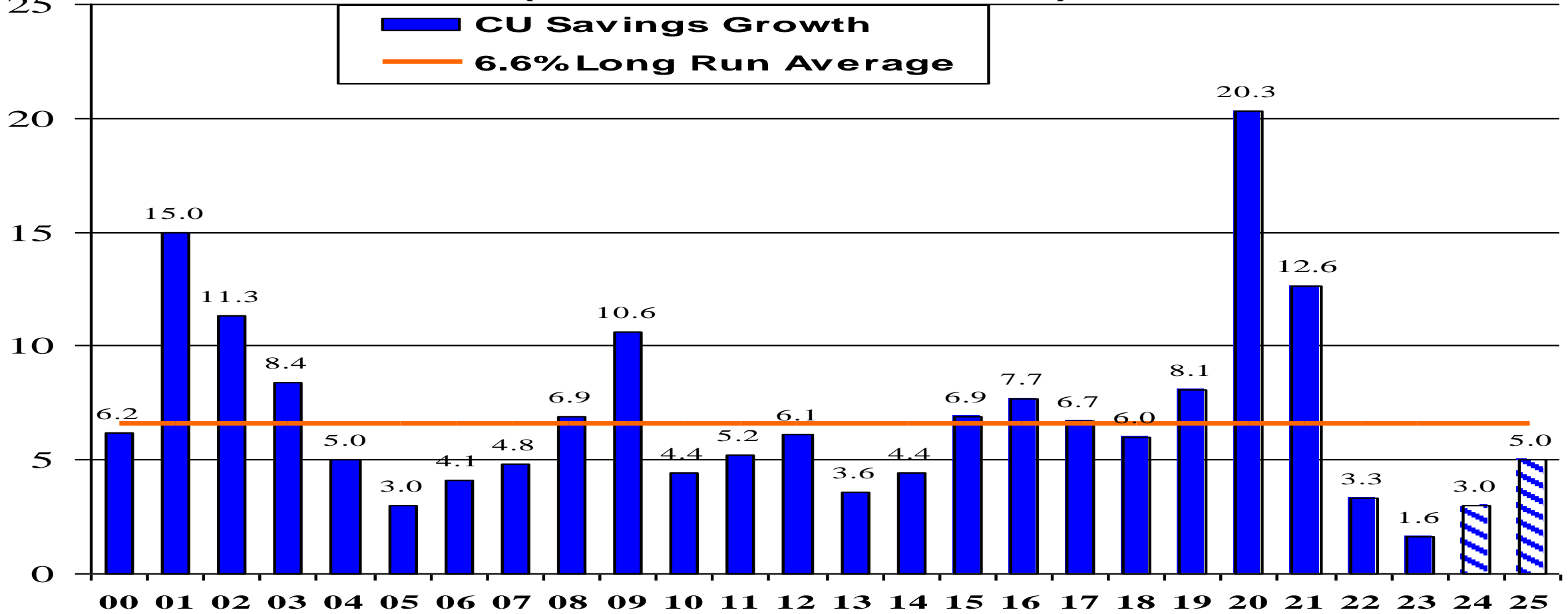
Liabilities + Capital

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

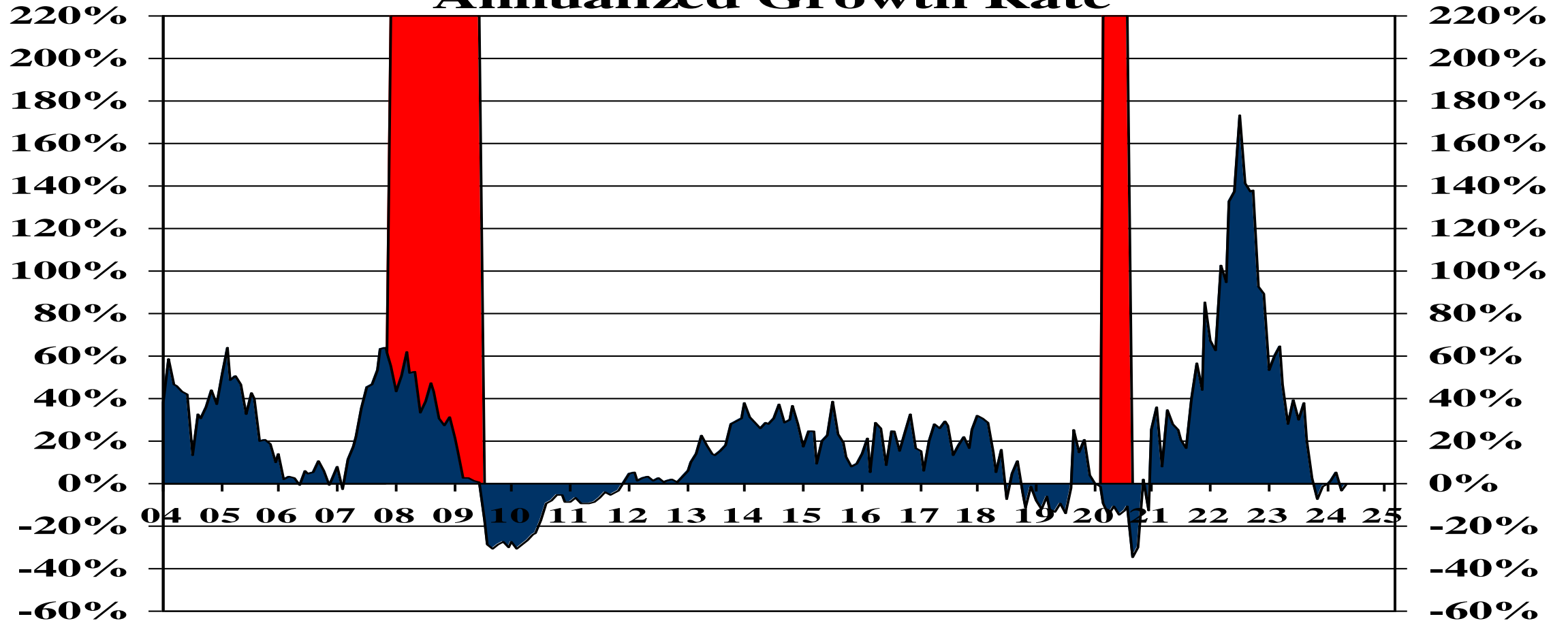
- Checking Accounts
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- Certificates of Deposits

Borrowings

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

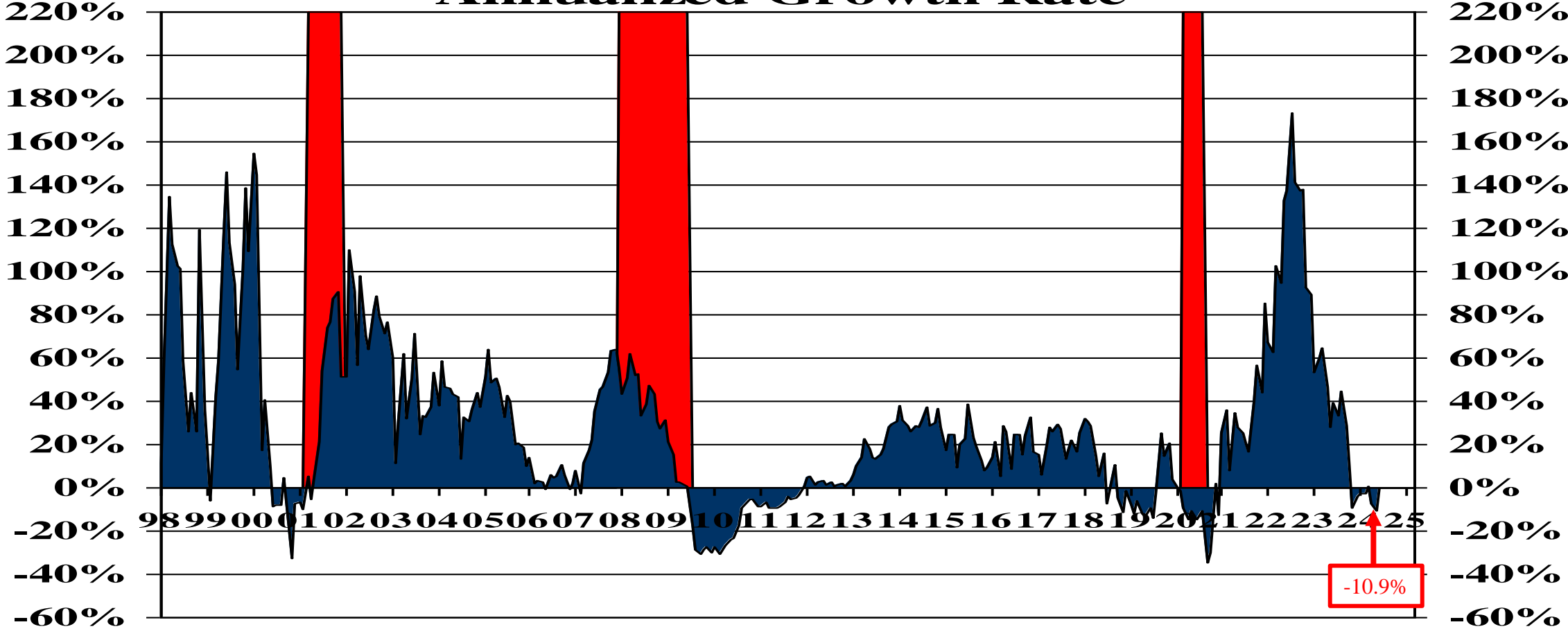
Slowdown in Borrowings

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

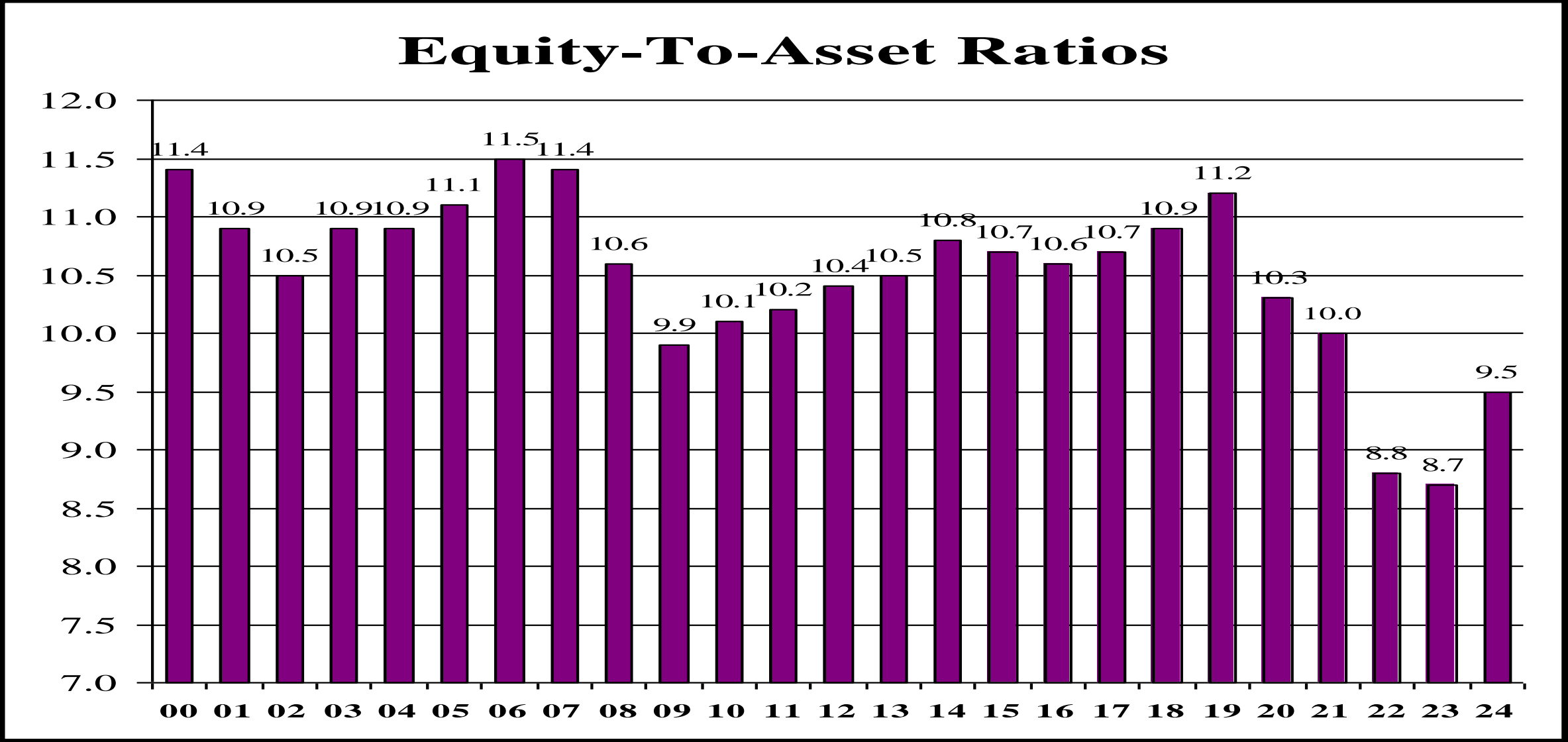
Borrowings

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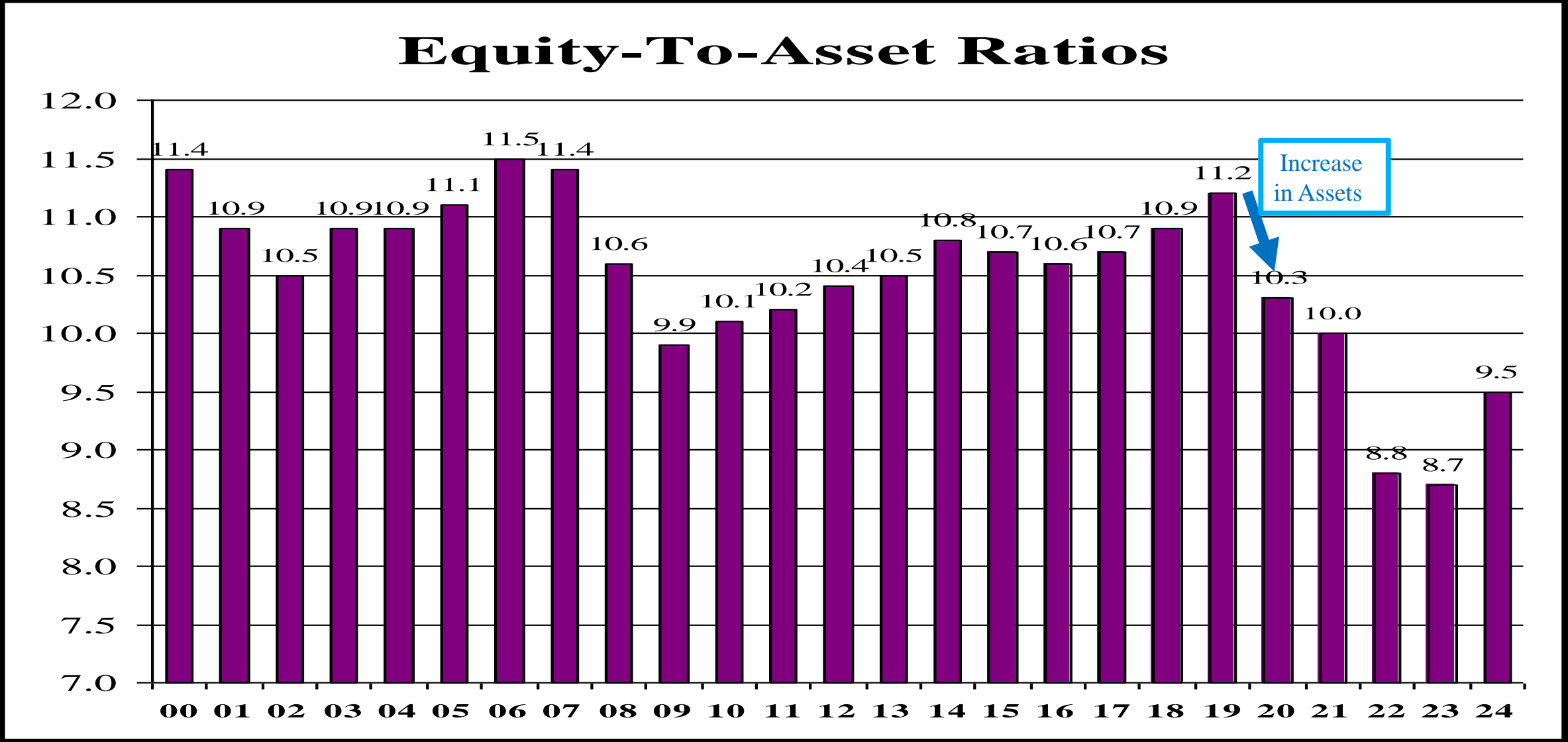
Equity (Net Capital)

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

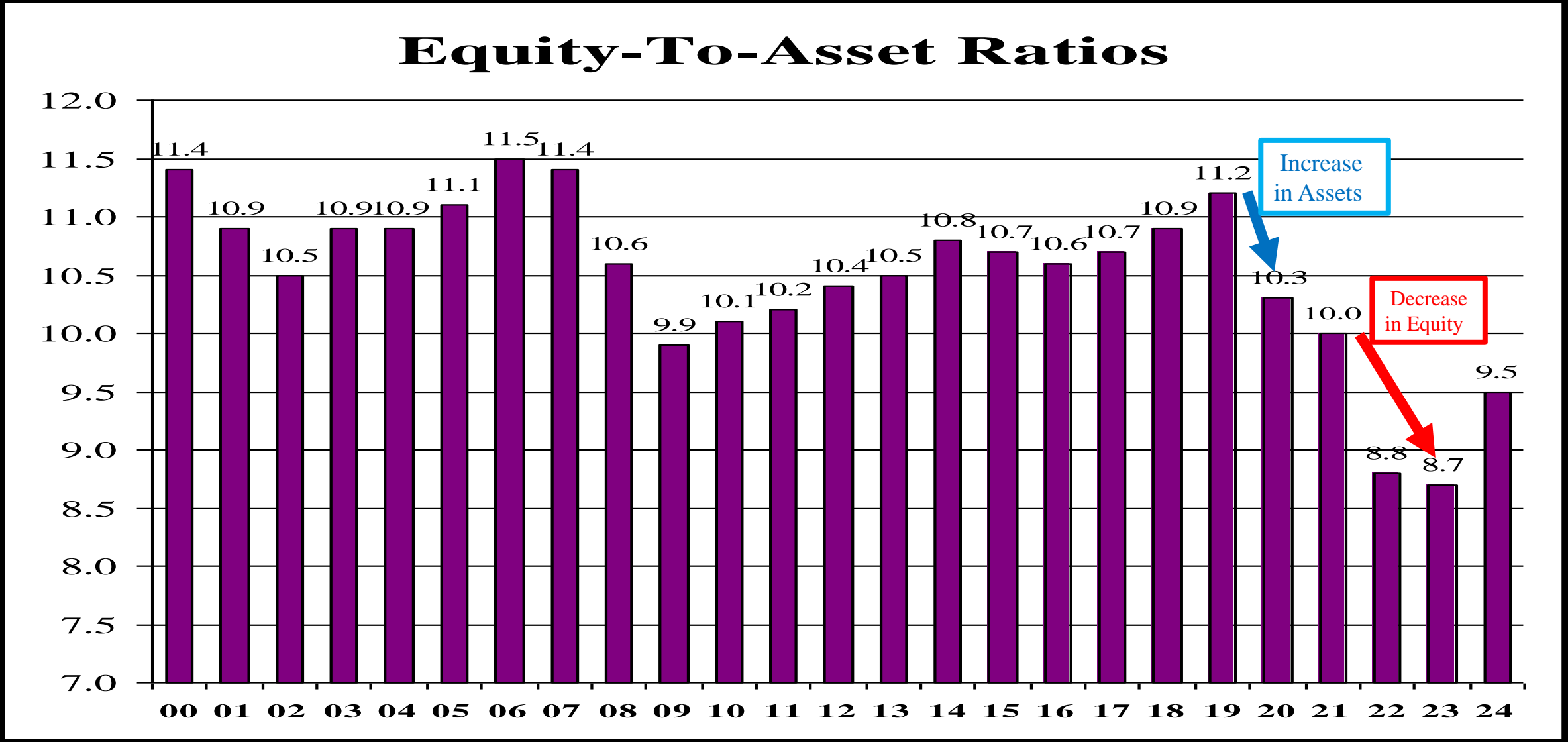
Falling Equity Ratios



Falling Equity Ratios



Falling Equity Ratios



Credit Union Balance Sheet

Assets

Liabilities + Capital

Cash (Reserves)

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- Credit Card

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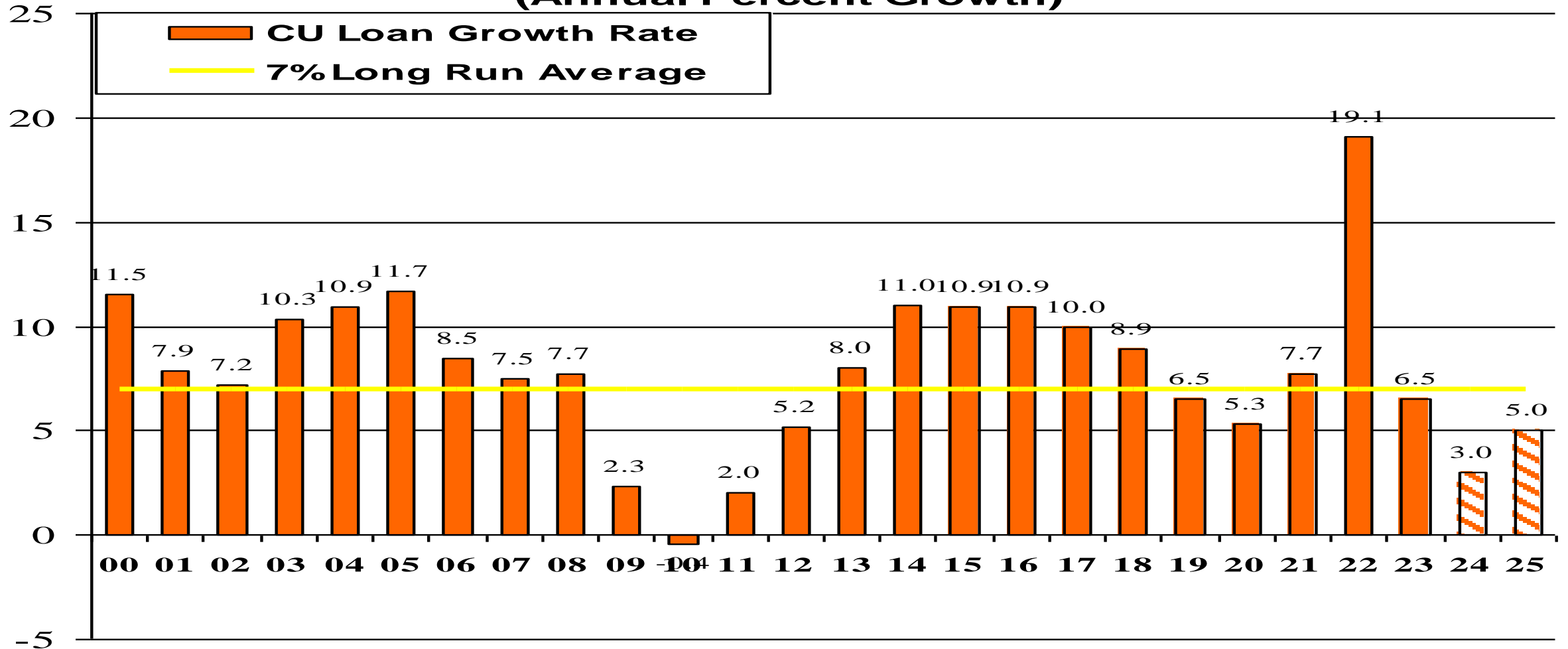
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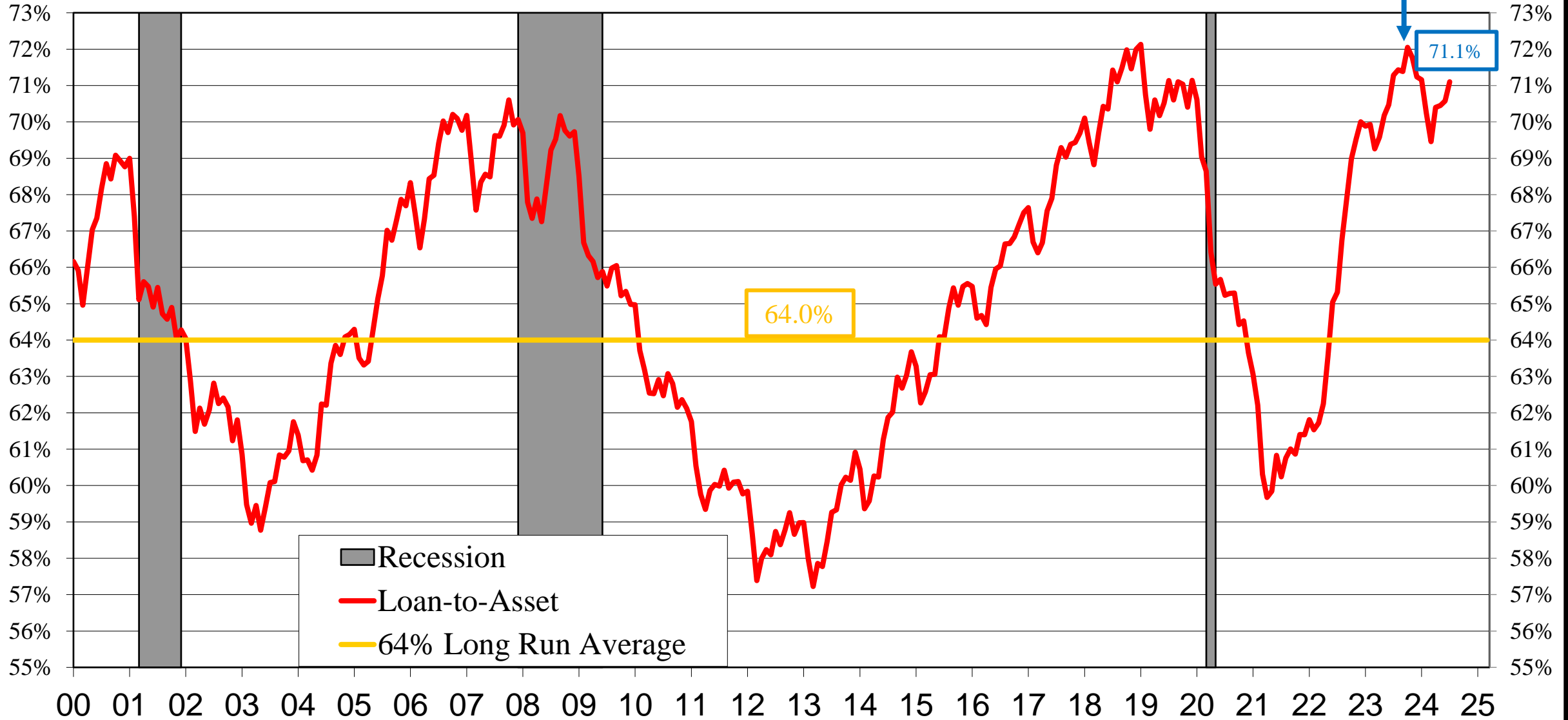
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Slowing Credit Union Loan Growth

Credit Union Loan Growth (Annual Percent Growth)

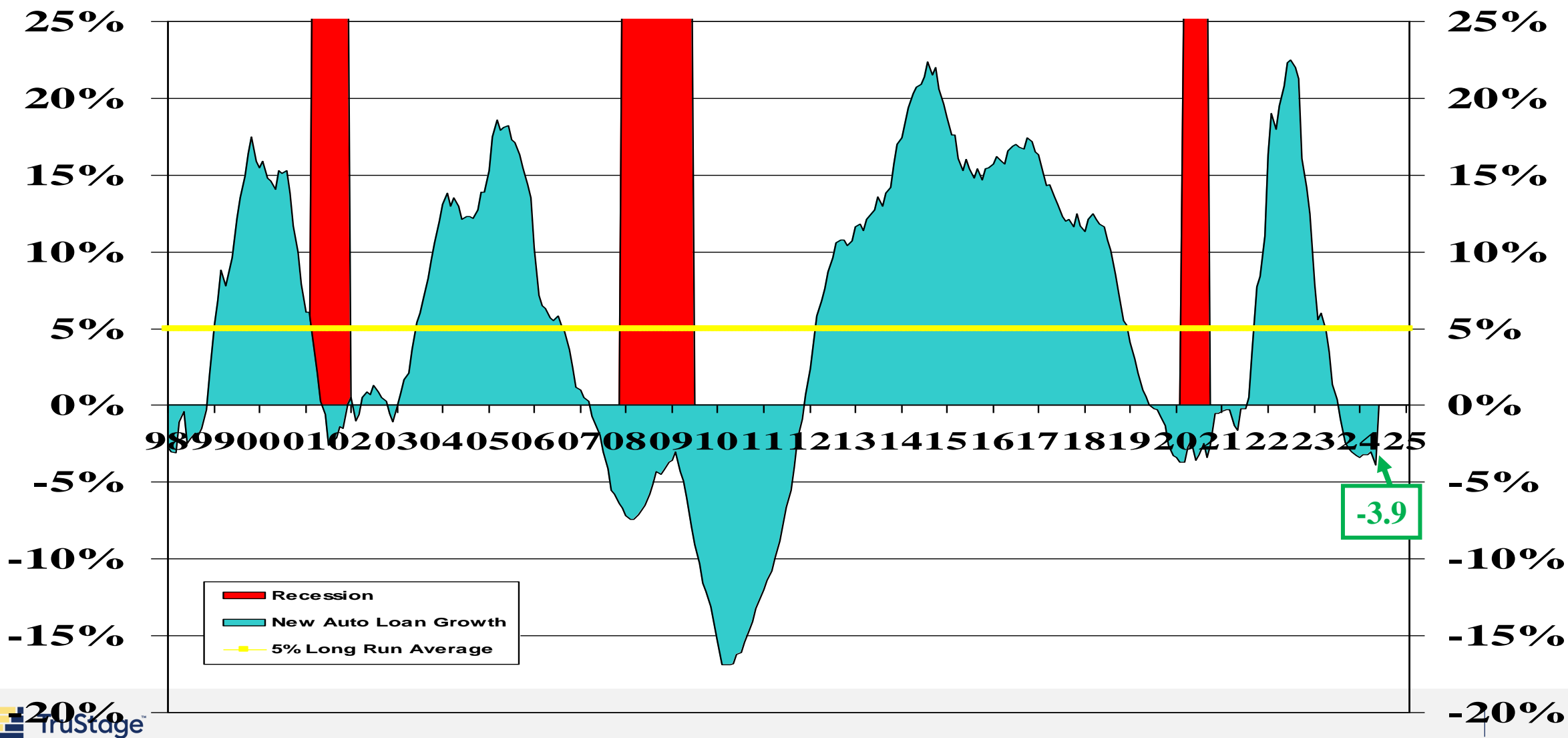


CU Loan to Asset Ratio

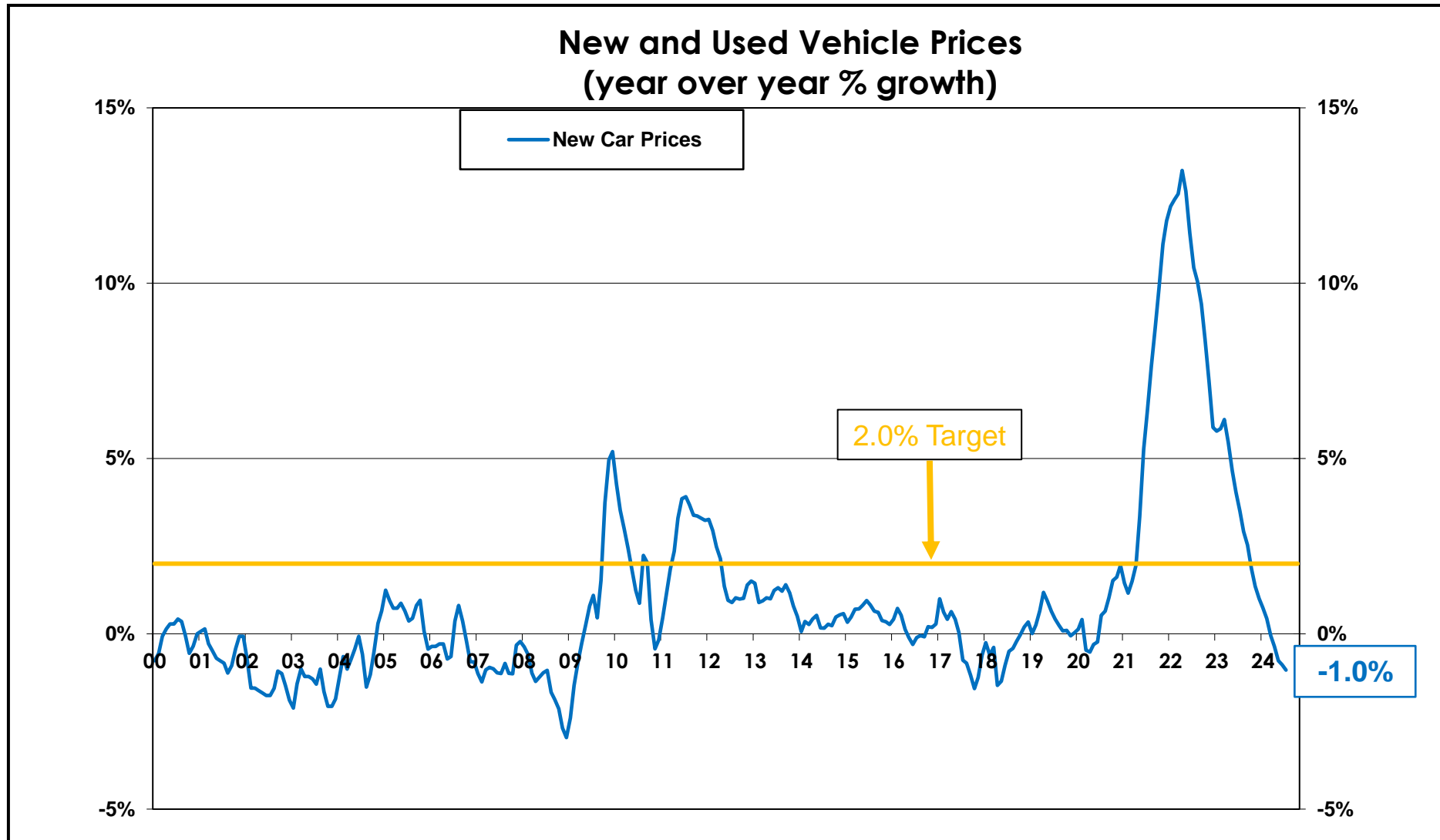


CU New Auto Growth

Seasonally Adjusted Annualized Growth Rate

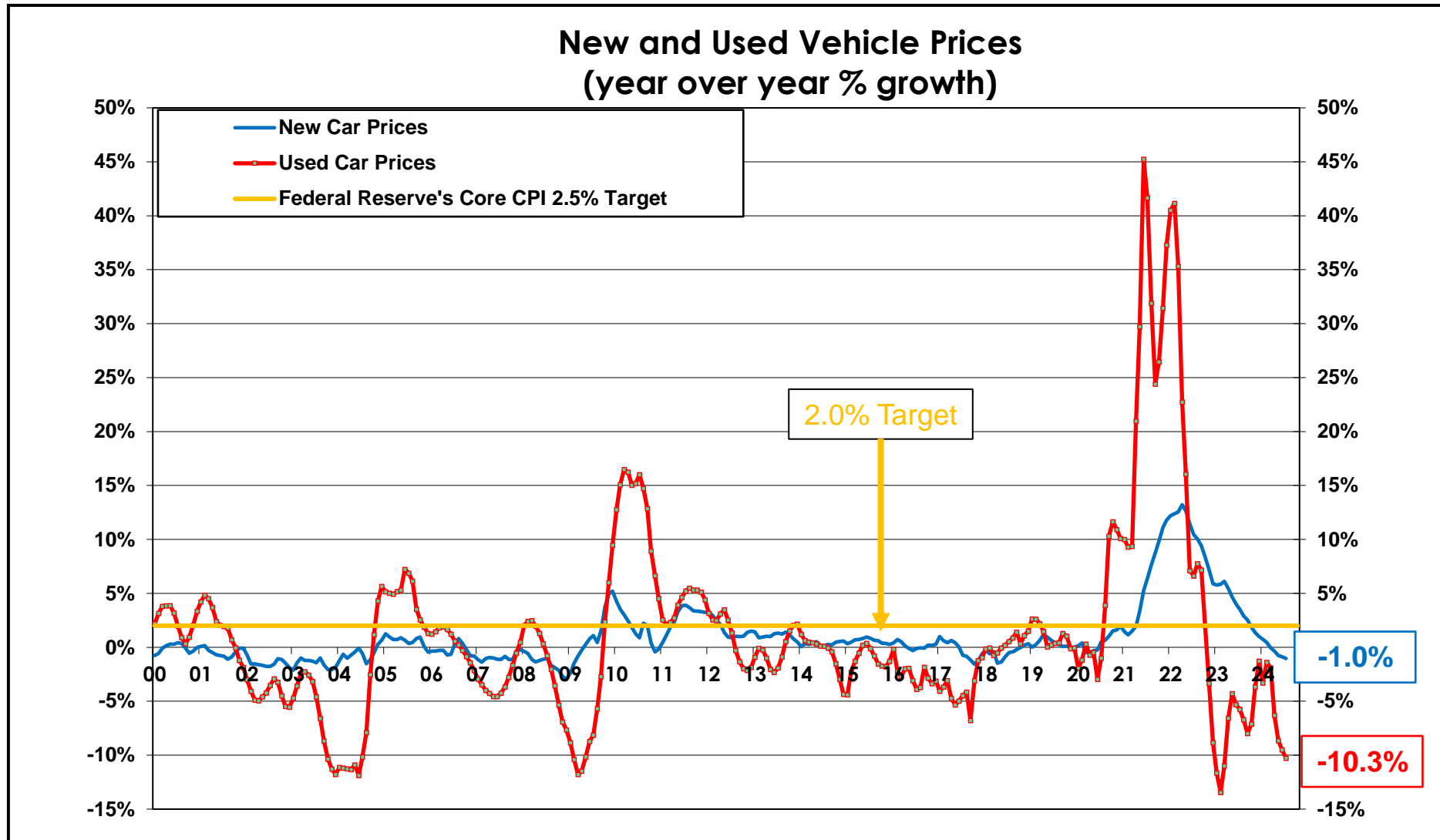


Vehicle Prices are Falling



Source: Bureau of Labor Statistics

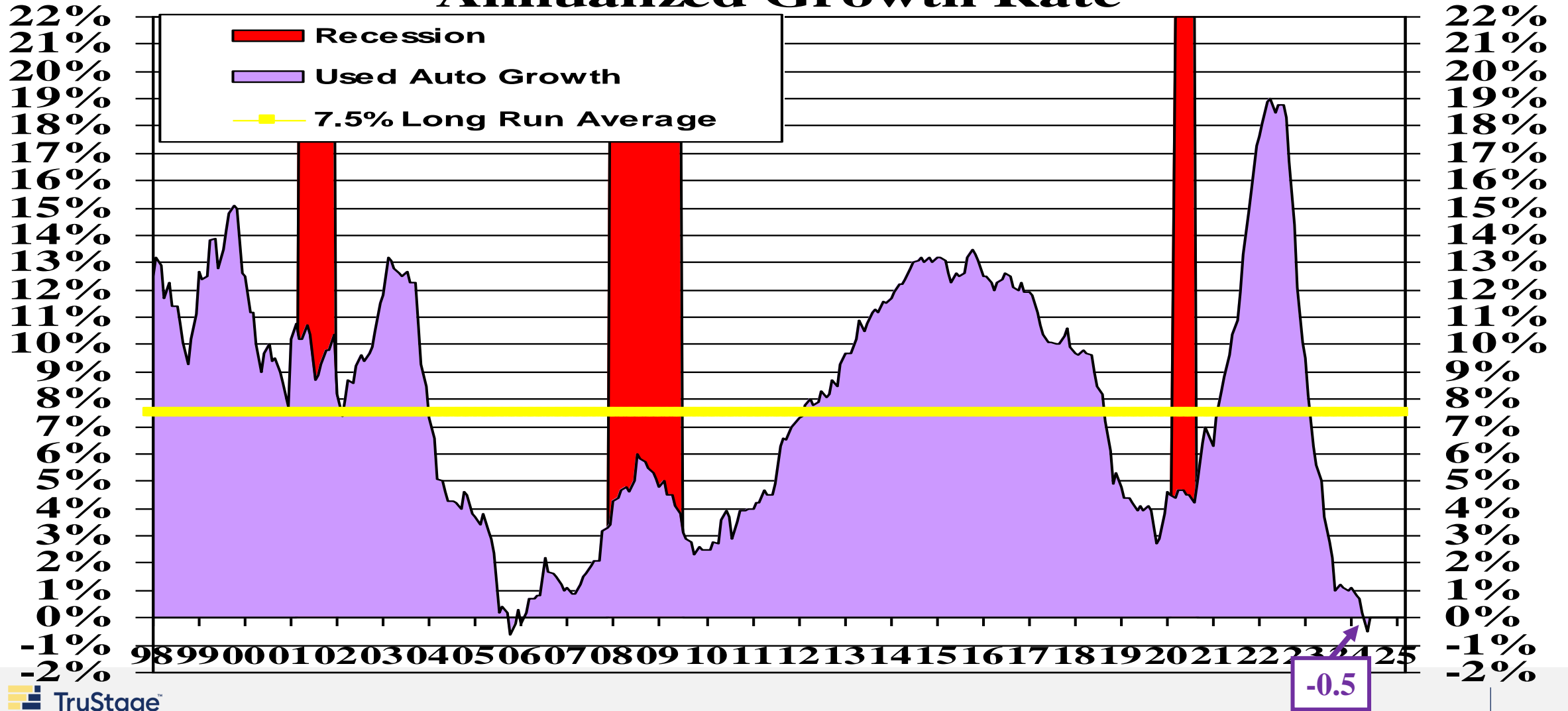
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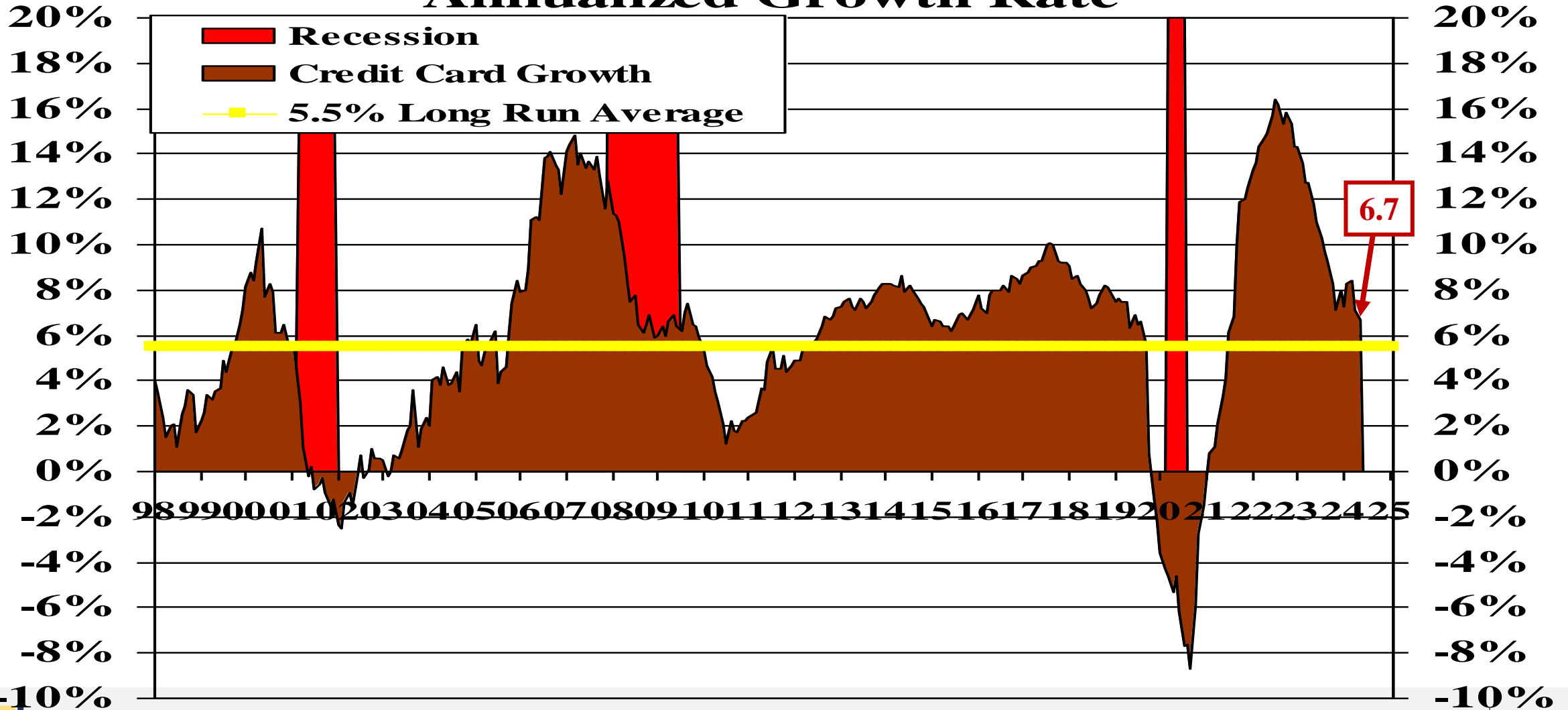
CU Used Loan Growth

Seasonally Adjusted Annualized Growth Rate



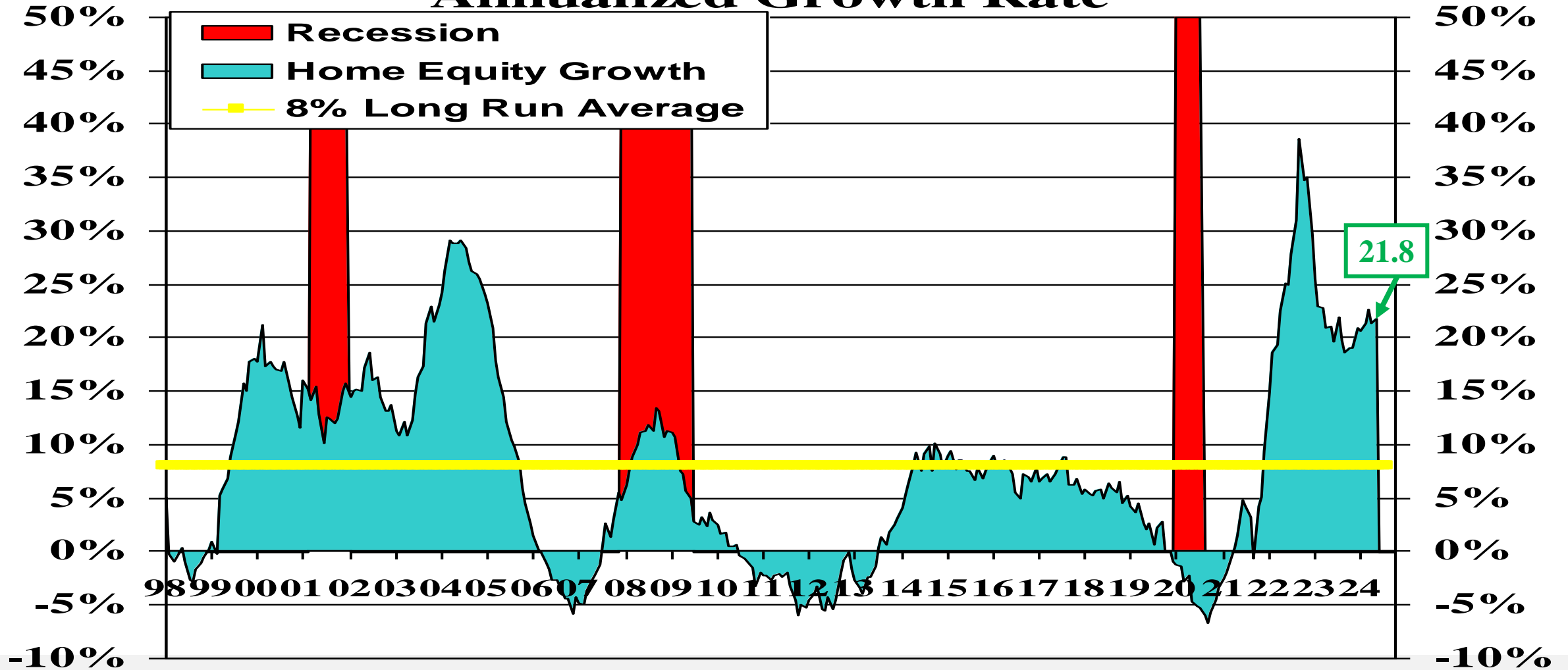
CU Credit Card Growth

Seasonally Adjusted Annualized Growth Rate



CU Home Equity Growth

Seasonally Adjusted Annualized Growth Rate



Credit Union Balance Sheet

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Liabilities + Capital

Cash (Reserves)

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Allowance for Loan Loss

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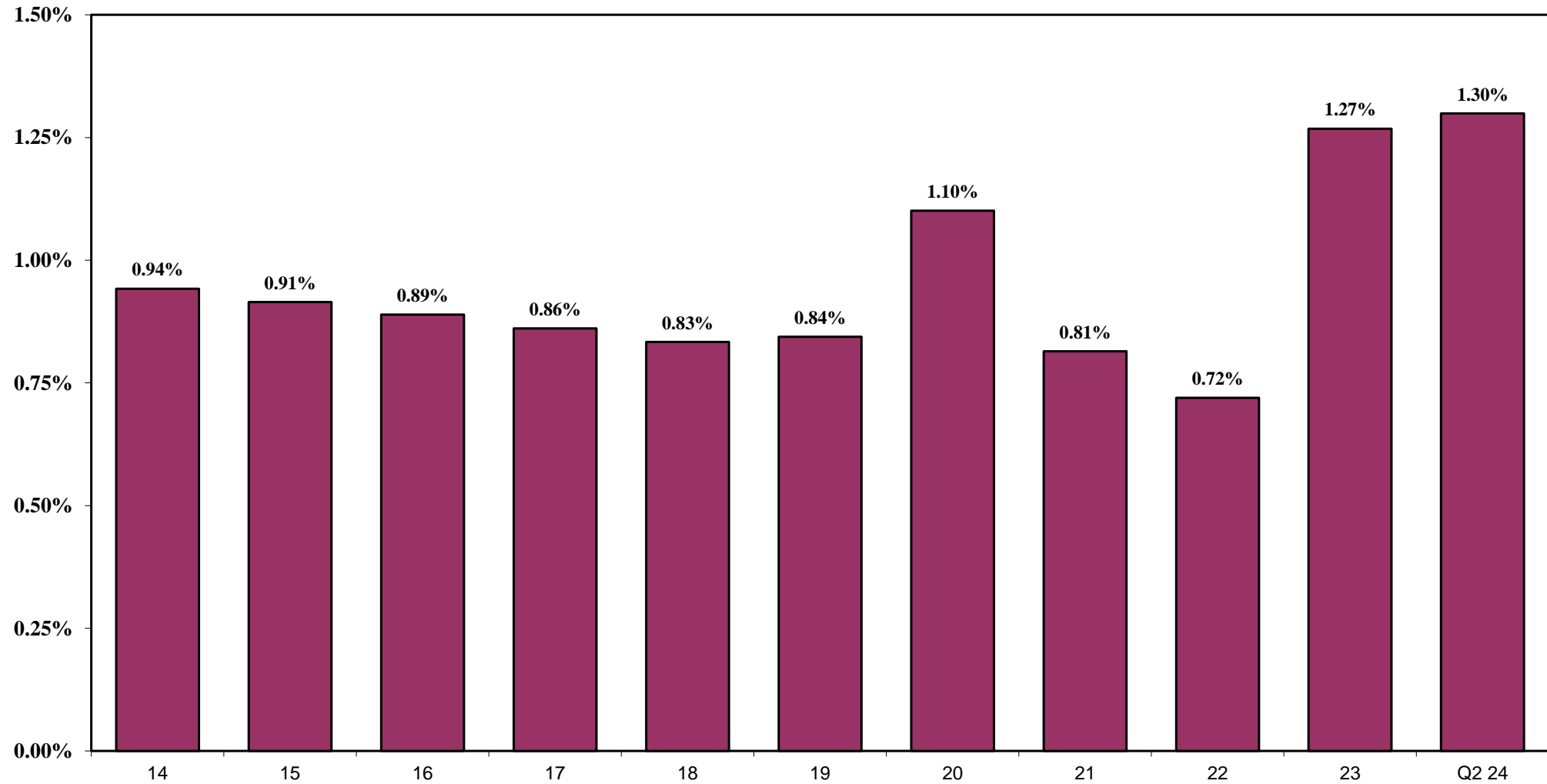
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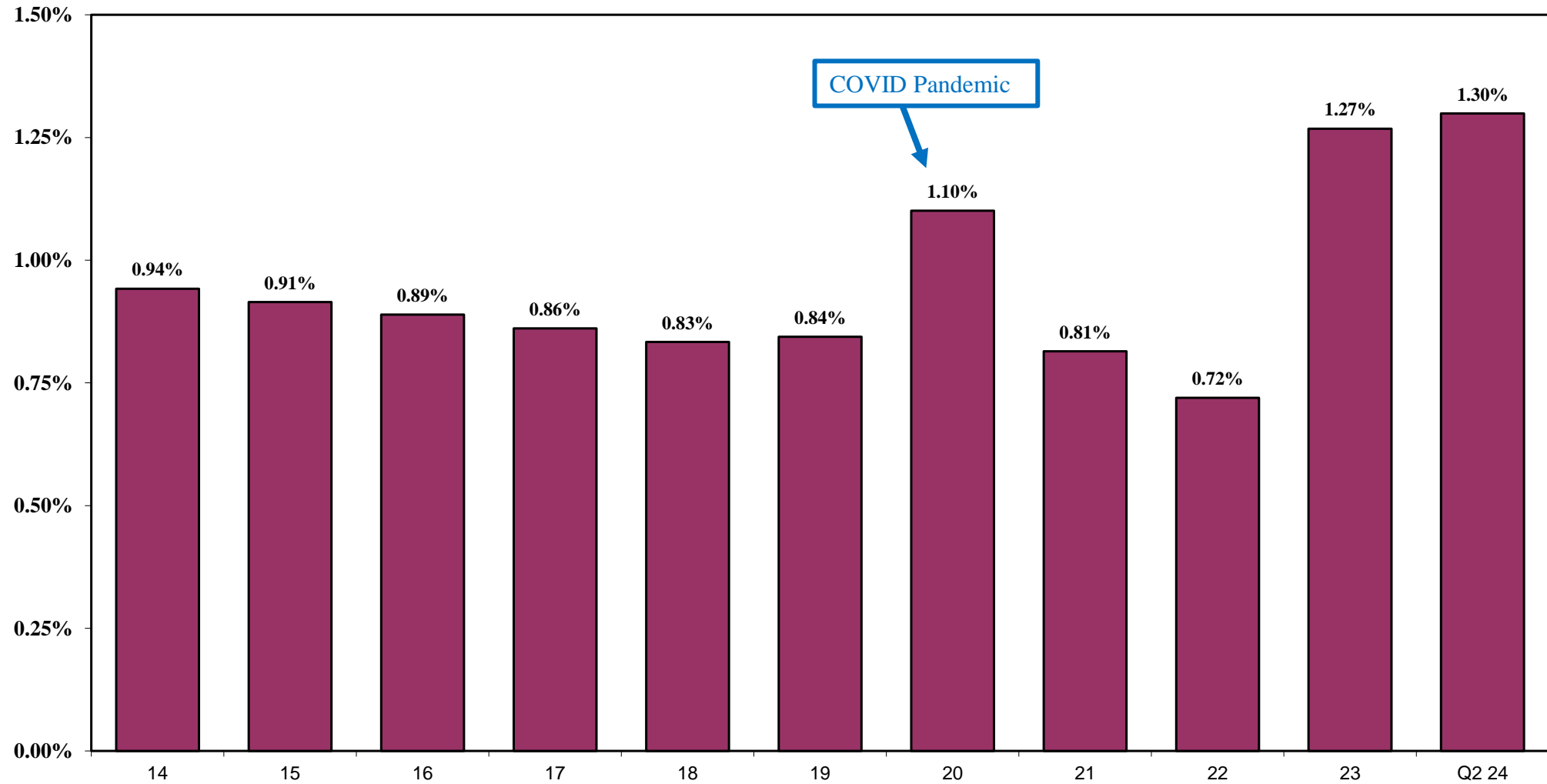
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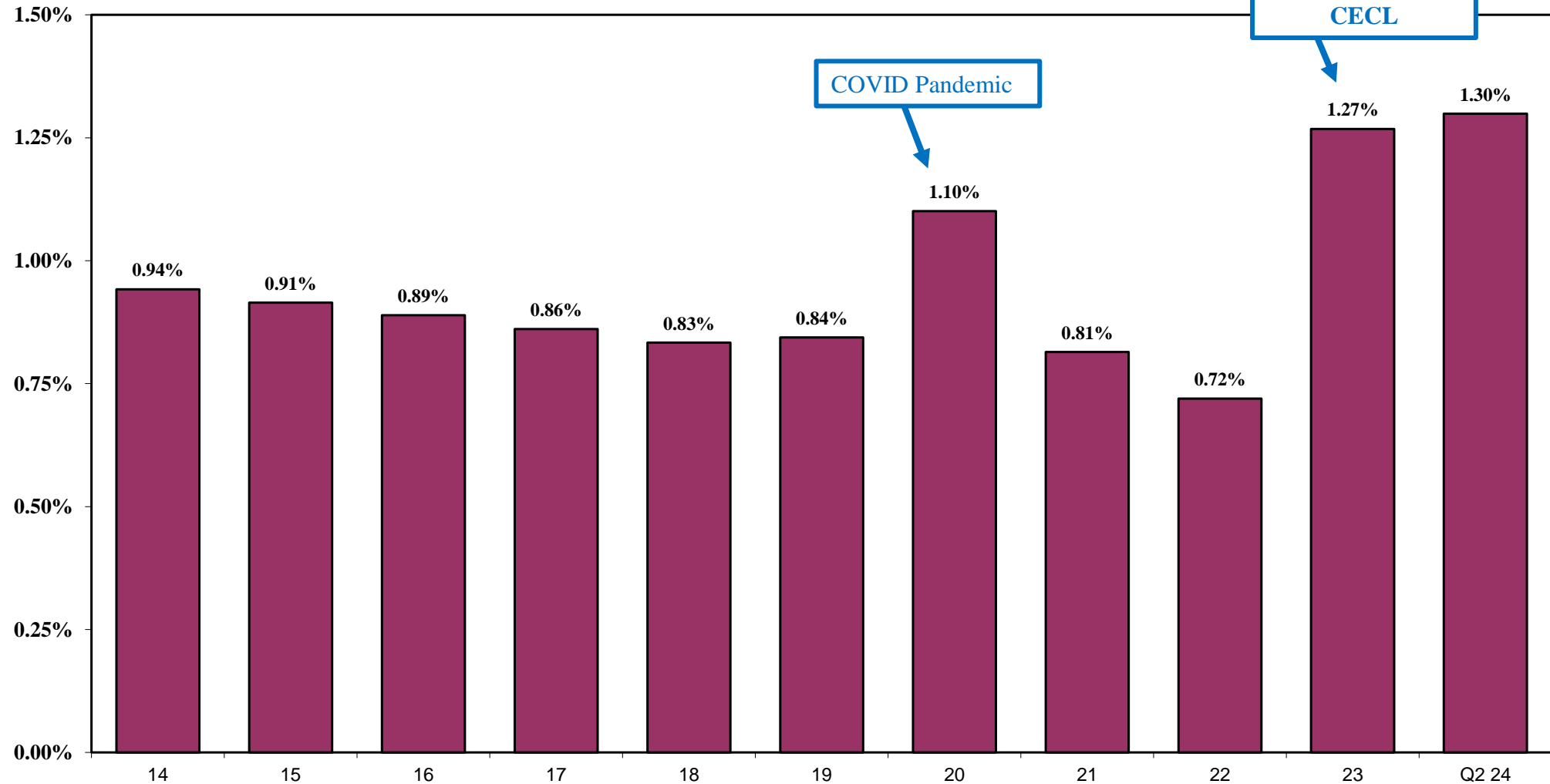
Allowance for Loan Losses (Percent of loans)



Allowance for Loan Losses (Percent of loans)



Allowance for Loan Losses (Percent of loans)



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“Non progredi est regredi”

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“Non progredi est regredi”

To not go forward is to go backward

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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,.....

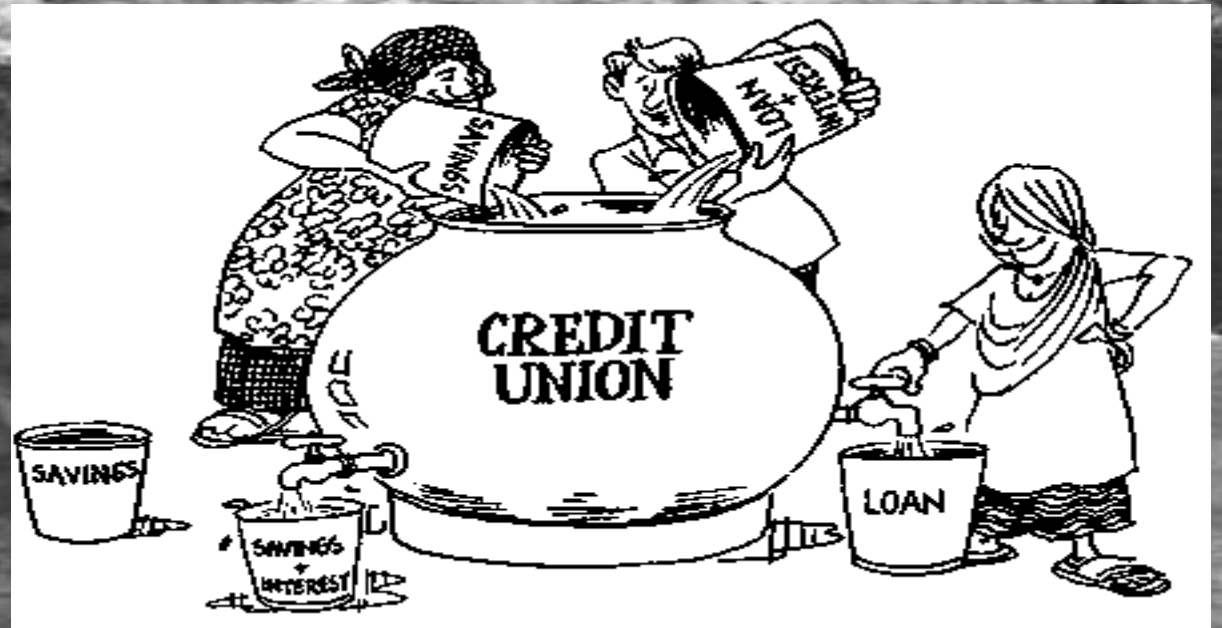
A black and white photograph of a nuclear mushroom cloud, likely from the Nagasaki atomic bombing. The cloud is massive and billowing, with a dark, dense base and a lighter, more diffuse top. A pink rectangular text box is overlaid on the upper part of the cloud.

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

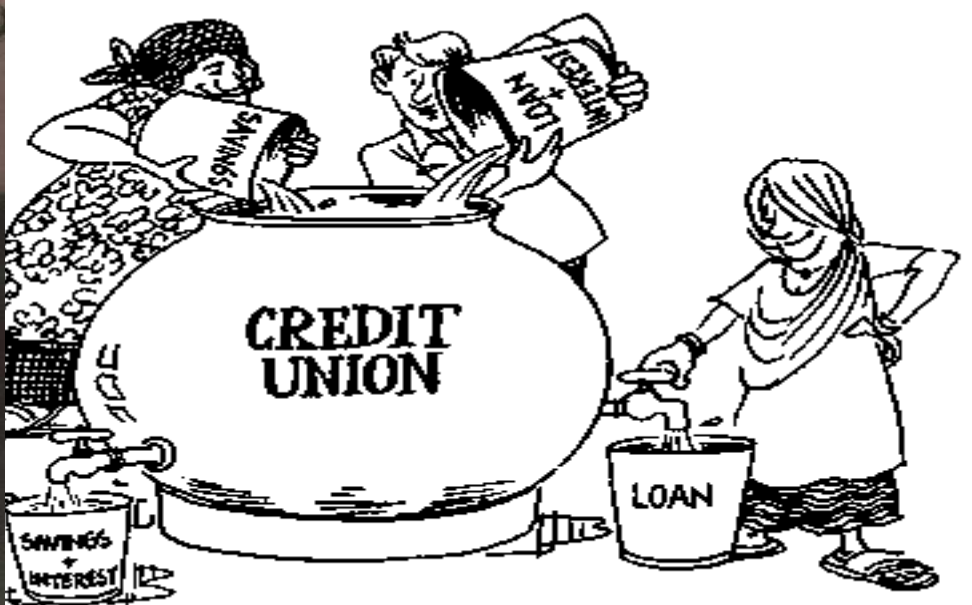
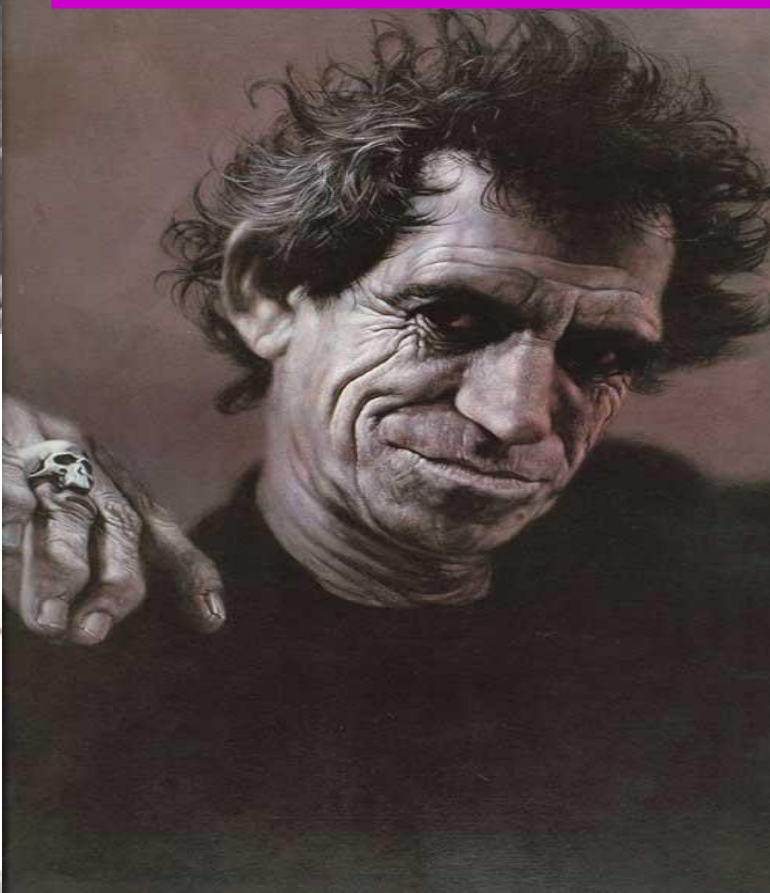
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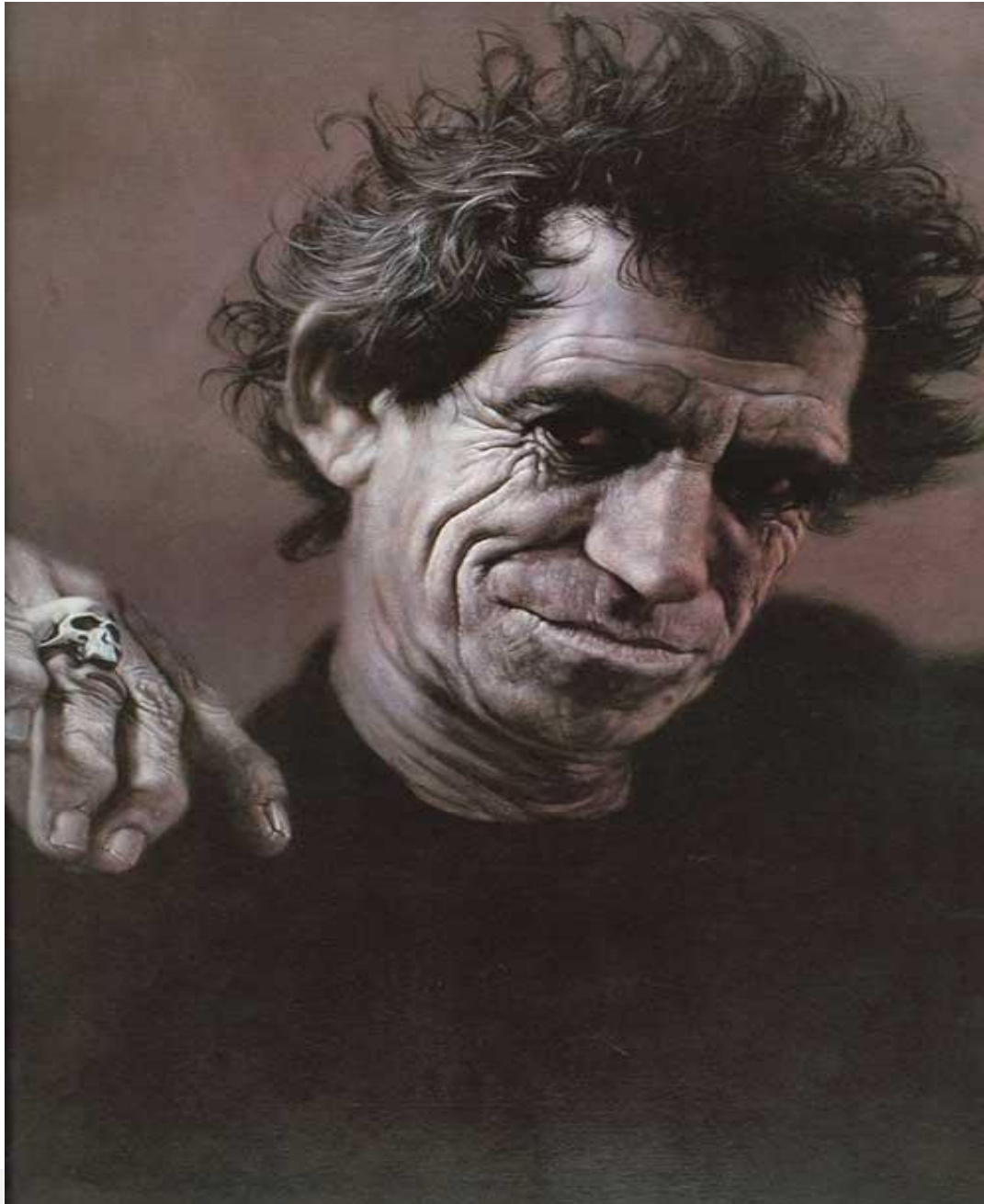


Credit unions are so robust that,.....



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





Carpe Diem
“Seize the day”

Questions?



Economic Forecast

January 2025

The economy enters 2025 on solid footing. Real GDP growth surprised to the upside in the third quarter and is expected to post another strong figure in the fourth quarter. The forecast group was concerned about rising unemployment three months ago, but the labor market has since stabilized. Nevertheless, President Trump takes office after making some bold economic proposals on the campaign trail which, should they come to pass, could have important consequences for labor supply, inflation, and deficit spending. Policy uncertainty was foremost in the minds of the members of the forecast group as they placed a probability of recession in 2025 at **20 percent**. Other sources of uncertainty discussed by the group included geopolitical risks and the possibility that the FOMC could make a monetary policy error.

In January the Congressional Budget Office estimated 2.3 percent potential real GDP growth for the economy in 2025, which aligns with the level of growth our forecast group anticipates. An economy growing in line with its potential should deliver low unemployment without elevated price pressures. While that makes for a nice story, reality is always more complicated than theory. Furthermore, the forecast group believes the risks to our baseline growth outlook are weighted to the downside.

Over the 12 months ending last July, the unemployment rate rose from 3.5 percent to 4.2 percent. However, by December the unemployment rate had fallen slightly to end the year at 4.1 percent. There are still pockets of concern: job-to-job movement of workers is low and falling, the employment-to-population ratio for prime-age workers declined over the fourth quarter, and the median duration of unemployment has been ticking upward. But the balance of evidence suggests that risks to the labor market have receded in recent months.



Economic Forecast

January 2025

On the other hand, the latest news on inflation has been less encouraging. Following a sustained drop, the year-over-year change in core CPI trended sideways over the second half of 2024. But with GDP growth expected to slow modestly and some additional disinflation in the shelter index, our forecast group expects headline CPI inflation to fall to 2.6 percent by year end. The FOMC targets a different inflation index (PCE), which tends to run 0.3 to 0.4 percentage points below CPI. If our outlook comes to pass, it would likely mean that inflation closes the year very close to the FOMC's 2-percent inflation target.

Sturdier inflation readings over the second half of 2024 led to a rethink of the path for future FOMC interest rate cuts. Our forecast group now expects a single 0.25 percent rate cut this year versus the four quarter-point cuts we had penciled in just three months ago. Should the forecast group's downside risk concerns be realized with a significant growth scare or even a recession, the FOMC would have scope to address it with stimulative rate cuts.

Finally, the forecast group expects long-term Treasury rates to end 2025 at 4.5 percent. While easing inflation would ordinarily provide room for nominal rates to drop, persistent government deficits will keep rates elevated. The forecast group discussed some of the uncertain net effects on business investment of, on the one hand, an administration committed to deregulation and the ongoing AI boom, and high borrowing costs on the other. One thing we are more confident in is that the yield curve will remain relatively flat through 2025.



Economic Forecast

January 2025

	Past results		Actual/Forecasts				Actual/Forecasts	
	Previous 10 Yr. Avg	2023	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2024	2025
Growth rates:								
Economic Growth (% chg GDP)*	2.5%	3.2%	1.6%	3.0%	3.1%	2.6%	2.6%	2.3%
Inflation (CPI, 12 mth % chg)	2.9%	3.3%	3.5%	3.0%	2.4%	2.9%	2.9%	2.6%
Unemployment Rate (BLS)	4.6%	3.8%	3.8%	4.1%	4.1%	4.1%	4.1%	4.1%
Federal Funds Rate (effective)	1.82%	5.33%	5.33%	5.33%	4.83%	4.33%	4.33%	4.08%
10-Year Treasury Rate	2.49%	3.88%	4.20%	4.36%	3.81%	4.58%	4.58%	4.50%
10-Year-Fed Funds Spread	0.67%	-1.45%	-1.13%	-0.97%	-1.02%	0.33%	0.25%	0.42%

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



Credit Union Forecast

January 2025

Our outlook for credit unions in 2025 is positive but more mixed than for the broader economy. Among the key challenges credit unions have been grappling with since the pandemic, liquidity and credit quality are poised to improve this year. However, high interest rates will prevent a more robust improvement in share growth and will also suppress loan demand. Credit unions spent much of 2024 fighting for deposits in a highly competitive environment. While that has led to sharply higher cost of funds, share growth has improved. The forecast group expects year-over-year growth to reach 6.5 percent in 2025, close to the long-run average. But with interest rates remaining high, much of that growth will continue to come from share certificates.

Loan growth will improve as well, but more slowly than share growth, as higher interest rates are likely to weigh on loan demand. One reason for a somewhat better outlook for loan growth in 2025 than last year is that liquidity constraints are slowly easing. We expect the loan-to-share ratio to drop to 82 percent by the end of 2025, compared to a pre-COVID level of 84.4 percent.

The sustained pressure on delinquency and charge-off ratios is beginning to ease. As long as the labor market holds up, we expect modest improvement in 2025. Credit unions are historically prudent lenders and are highly attentive to credit quality metrics.

Partly as a result of our expectation of higher interest rates and slower loan growth in 2025, we lowered our outlook for credit union earnings. Nevertheless, at 75 basis points, our forecast for ROA provides enough fuel for credit unions to grow net worth faster than assets. Our forecast calls for the credit union net worth ratio to reach 11.2 percent by year end, in line with the pre-COVID level.



Credit Union Forecast

January 2025

	Past Results		Actual/forecasts				Annual forecasts	
	10 Yr Average	2023	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2024	2025
Growth rates:								
Savings growth	7.6%	1.6%	3.0%	-0.3%	0.5%	2.2%	5.5%	6.5%
Loan growth	9.5%	6.2%	0.0%	1.0%	0.9%	1.0%	2.9%	5.0%
Asset growth	7.9%	4.0%	2.3%	-0.4%	0.6%	1.0%	3.5%	6.0%
Membership growth	3.7%	2.9%	1.0%	0.6%	0.9%	0.2%	2.7%	3.0%
Liquidity:								
Loan-to-share ratio**	79.7%	85.1%	82.7%	83.9%	84.2%	83.2%	83.2%	82.0%
Asset quality:								
Delinquency rate**	0.72%	0.83%	0.77%	0.84%	0.91%	0.95%	0.95%	0.90%
Net charge-off rate*	0.49%	0.61%	0.80%	0.78%	0.76%	0.80%	0.79%	0.75%
Earnings:								
Return on average assets (ROA)*	0.83%	0.68%	0.66%	0.71%	0.70%	0.70%	0.69%	0.75%
Capital adequacy:								
Net worth ratio**	10.9%	10.7%	10.6%	10.8%	10.9%	11.0%	11.0%	11.1%

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

Economic Update Summary For 2025

1. Trend economic growth in 2025, (2.0%)
2. Inflation rate approaching 2% target
3. Unemployment rate rising to natural rate of 4.5%
4. Yield curve normalizing as short-term interest rates fall faster than long term

