



Economic Overview

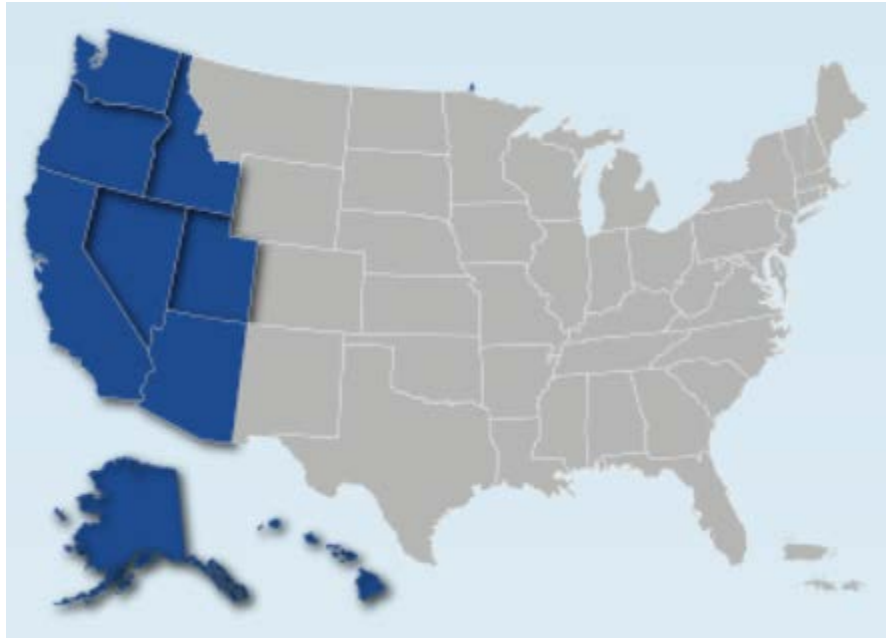
California State Examiner School

May 30, 2017

Credit Union Performance Trends

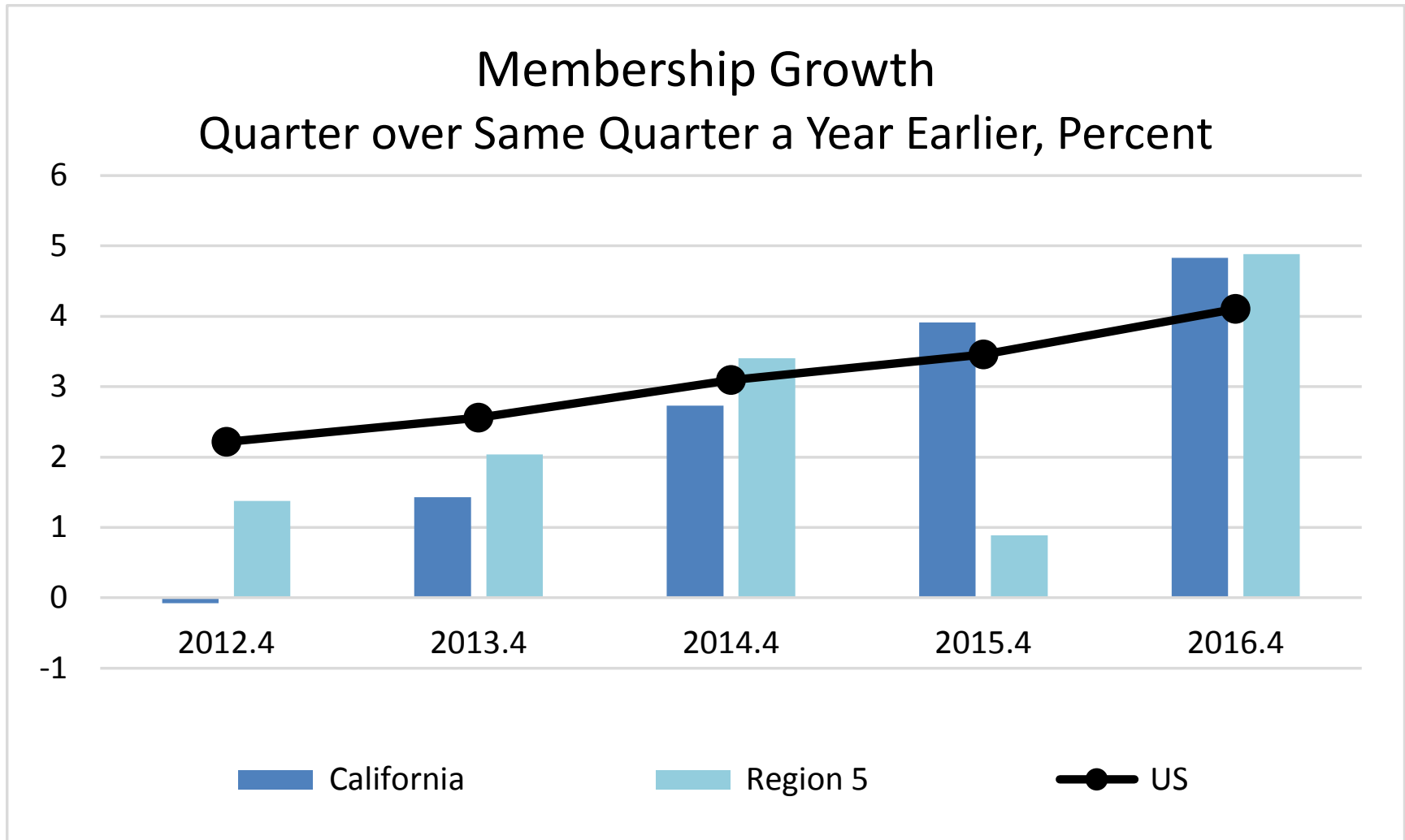
Recent Data

About Credit Union Performance in California, NCUA Region 5, and the Nation

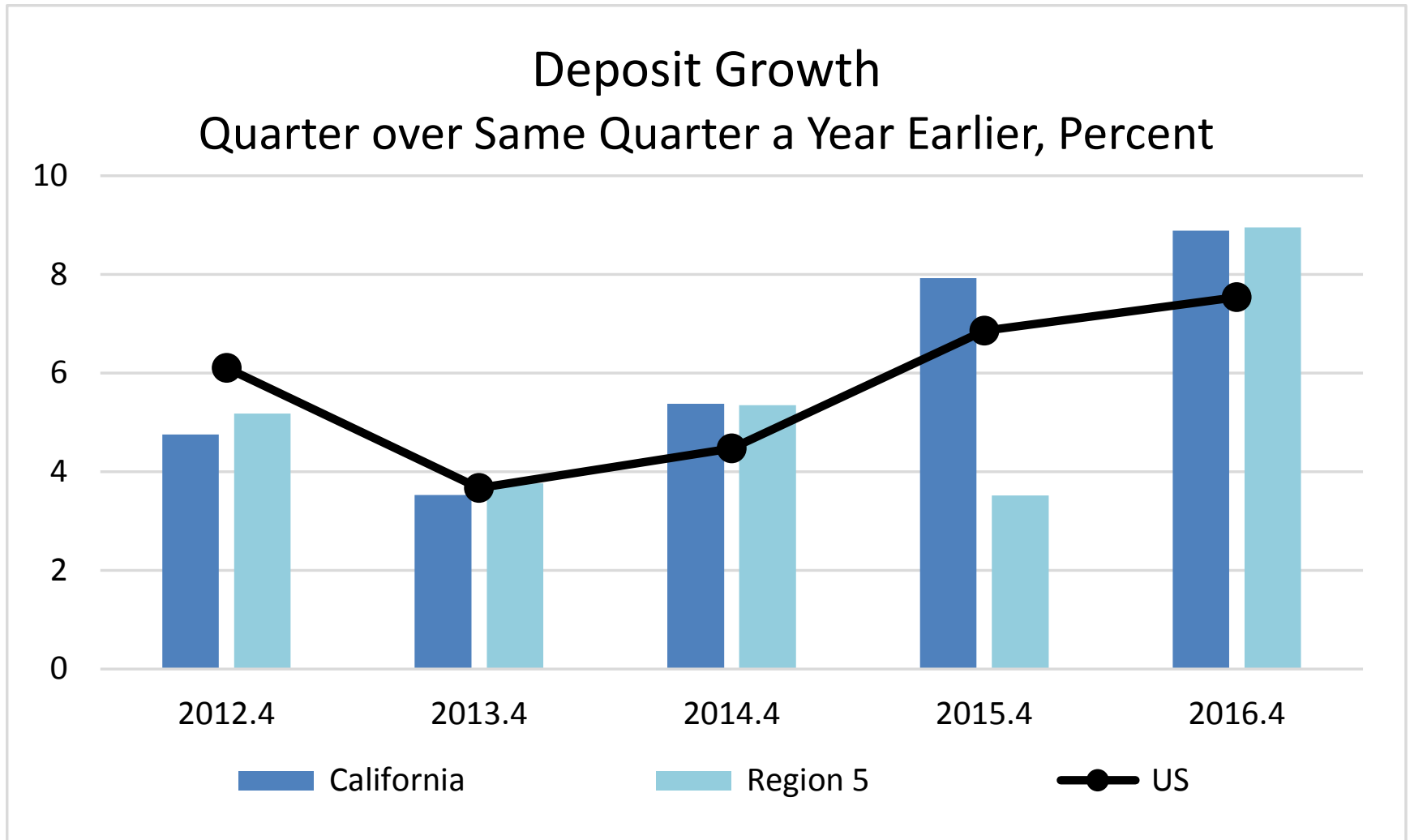


NCUA Region 5 is responsible for all federally insured credit unions in Alaska, Arizona, California, Guam, Hawaii, Idaho, Nevada, Oregon, Utah, and Washington, except for credit unions with assets in excess of \$10 billion.

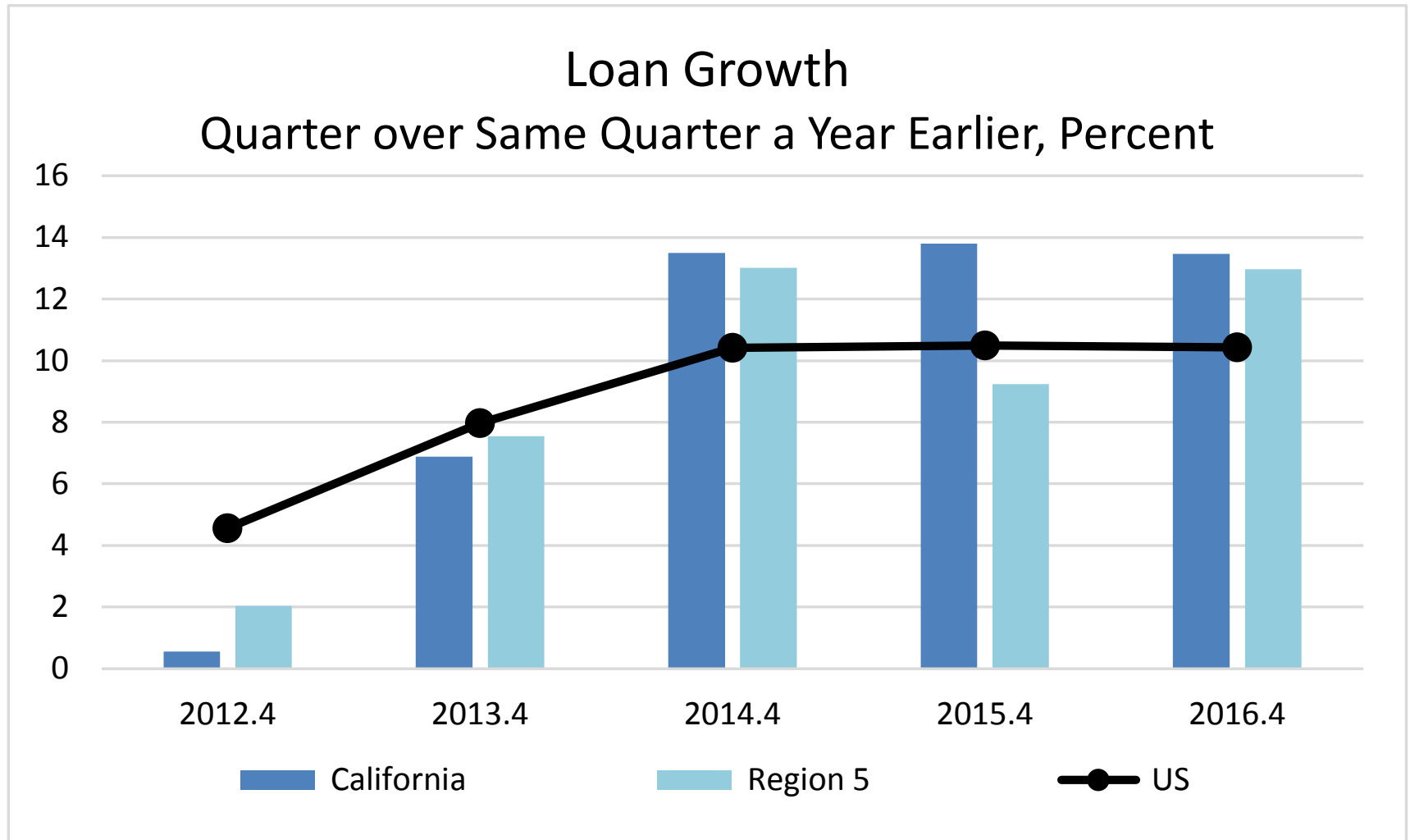
Credit Union Performance: Q4 Version



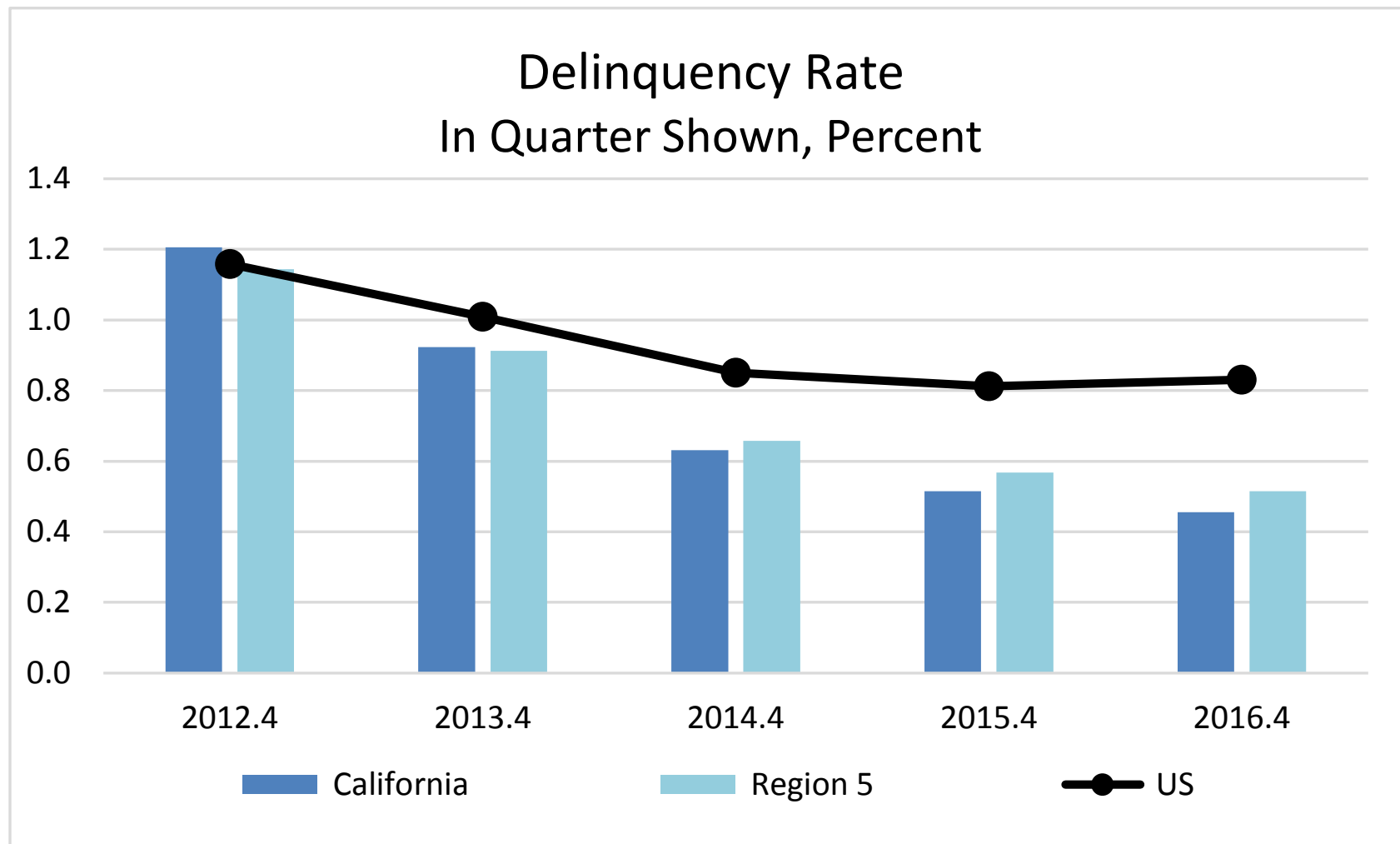
Credit Union Performance: Q4 Version



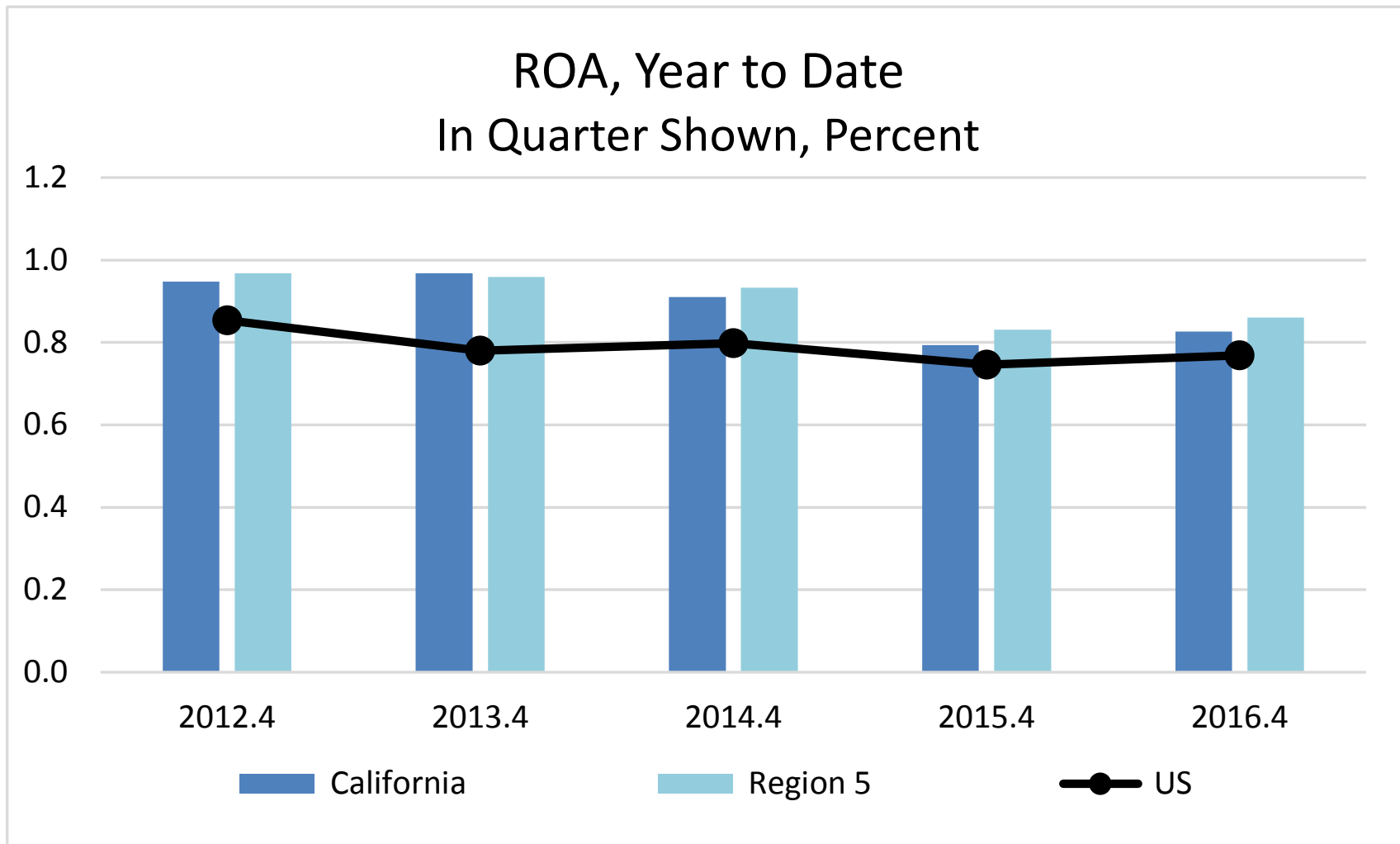
Credit Union Performance: Q4 Version



Credit Union Performance: Q4 Version



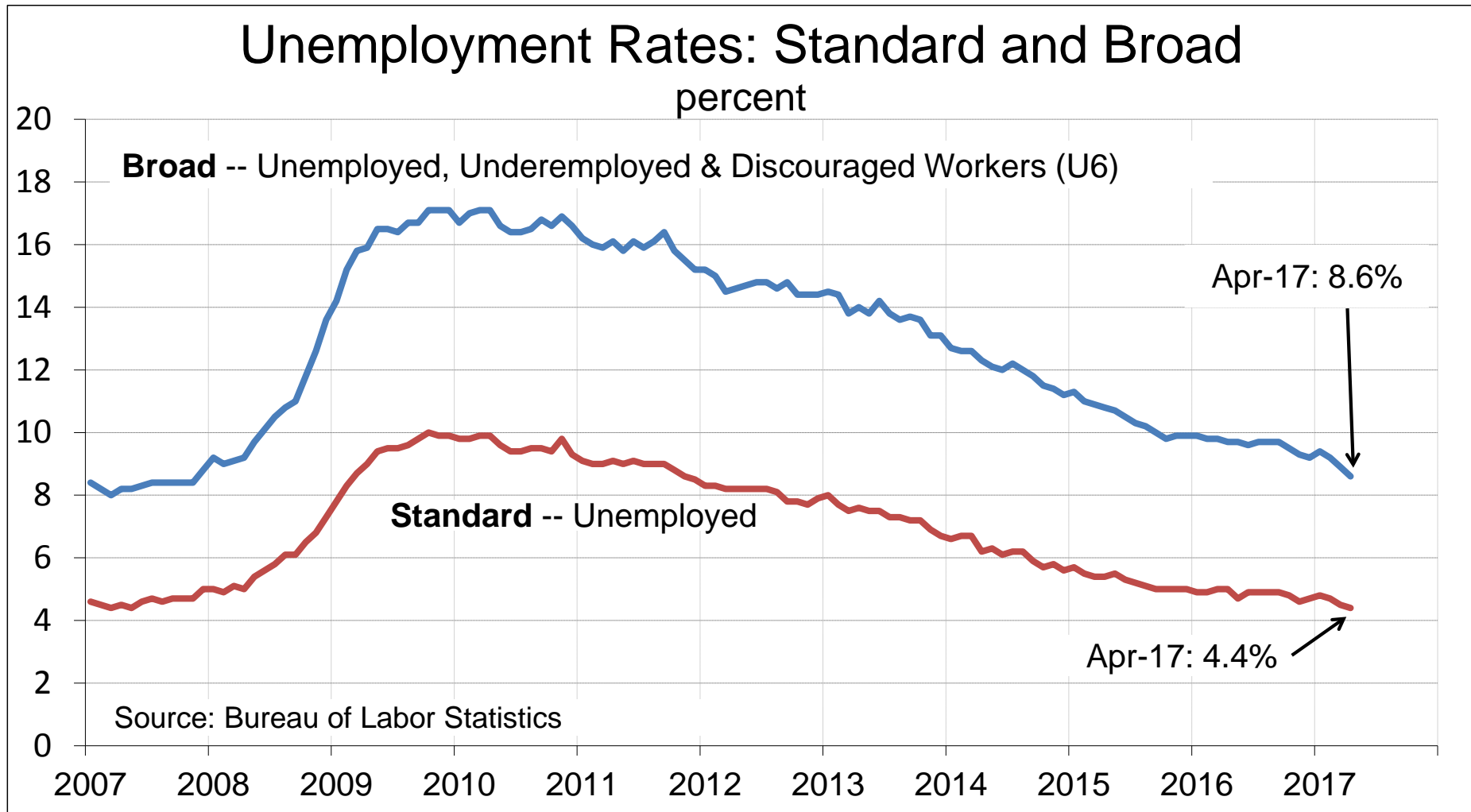
Credit Union Performance: Q4 Version



Key General Economy Trends

**Review the Recent Data
About Jobs and Consumers**

Standard & Broad Rates Both Trending Down



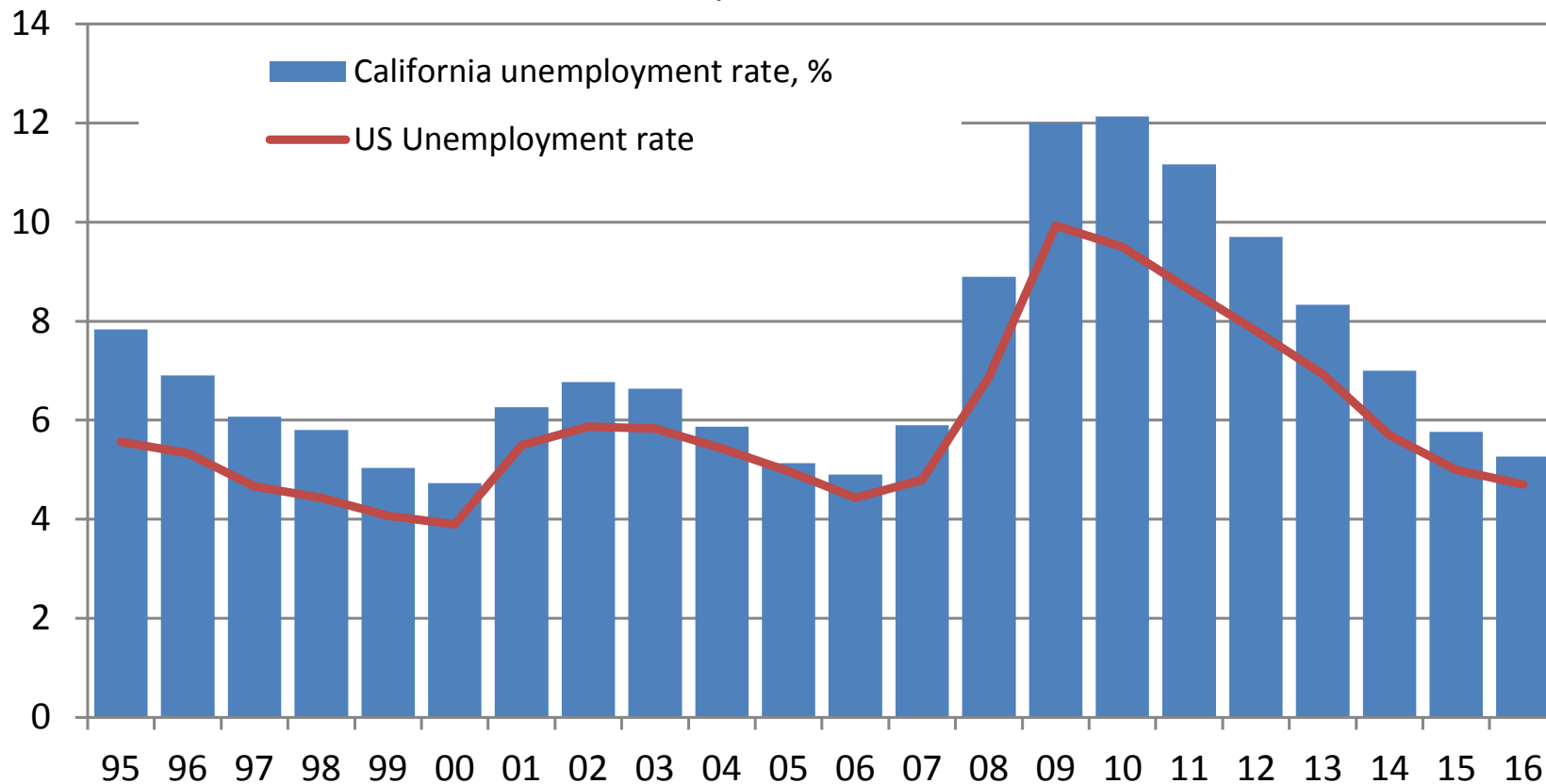
Broadest Measure of Labor Market Slack Coming Down but Still Slightly Elevated

Unemployment Rates: Broad less Standard percentage points



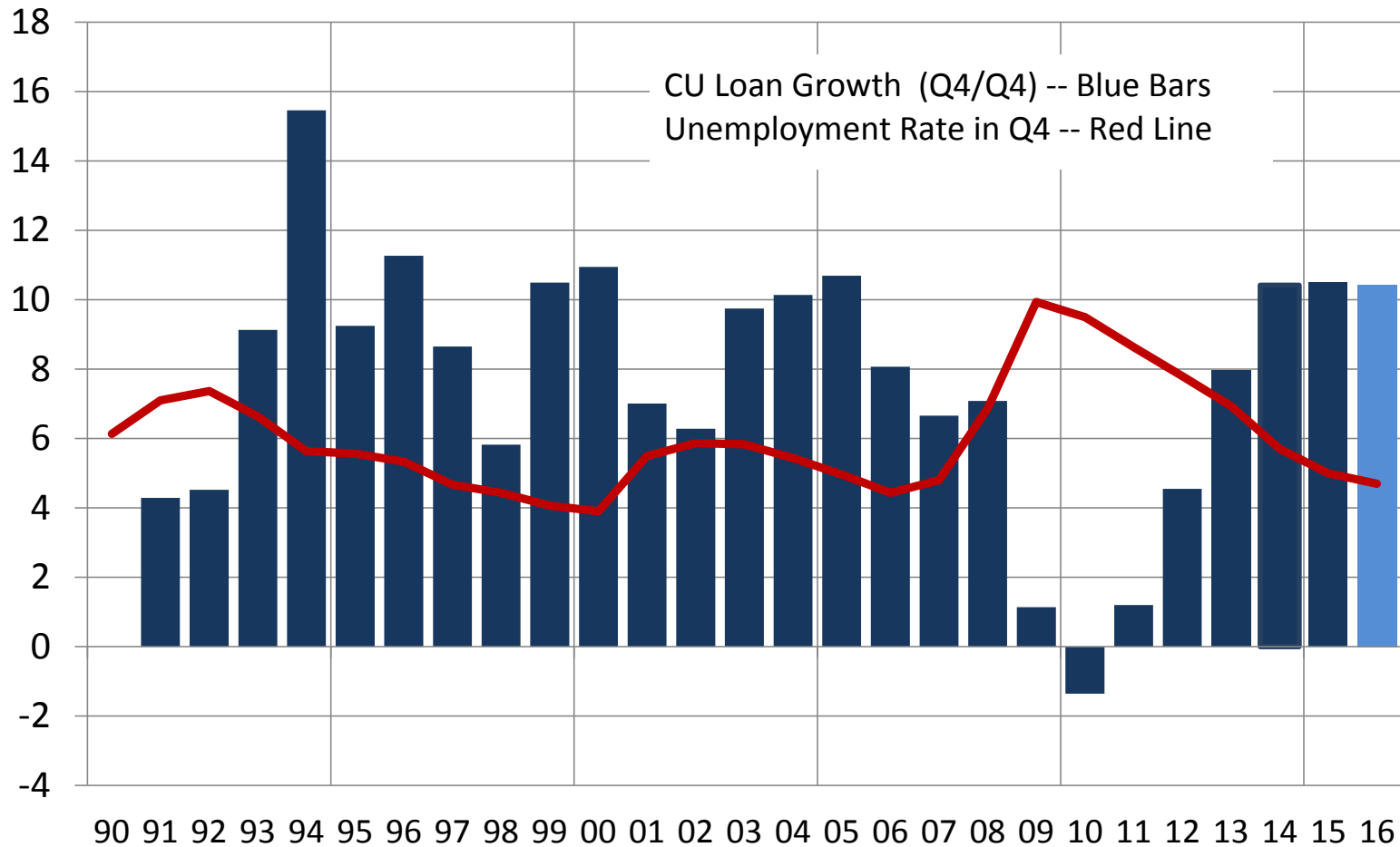
California and U.S. Unemployment Rates

U.S. and State Unemployment Rate in Q4
percent

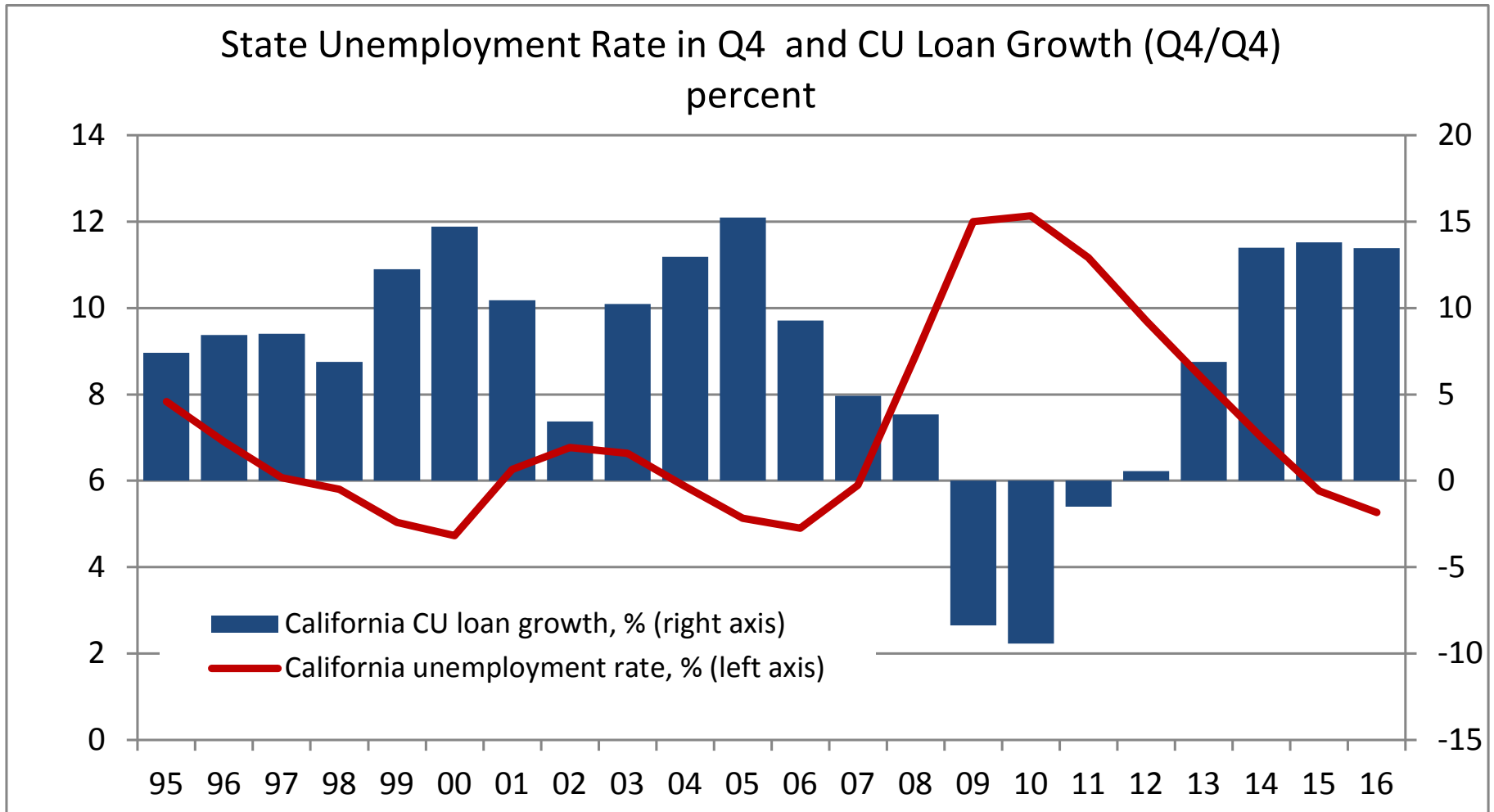


Unemployment Rate and Credit Union Loan Growth

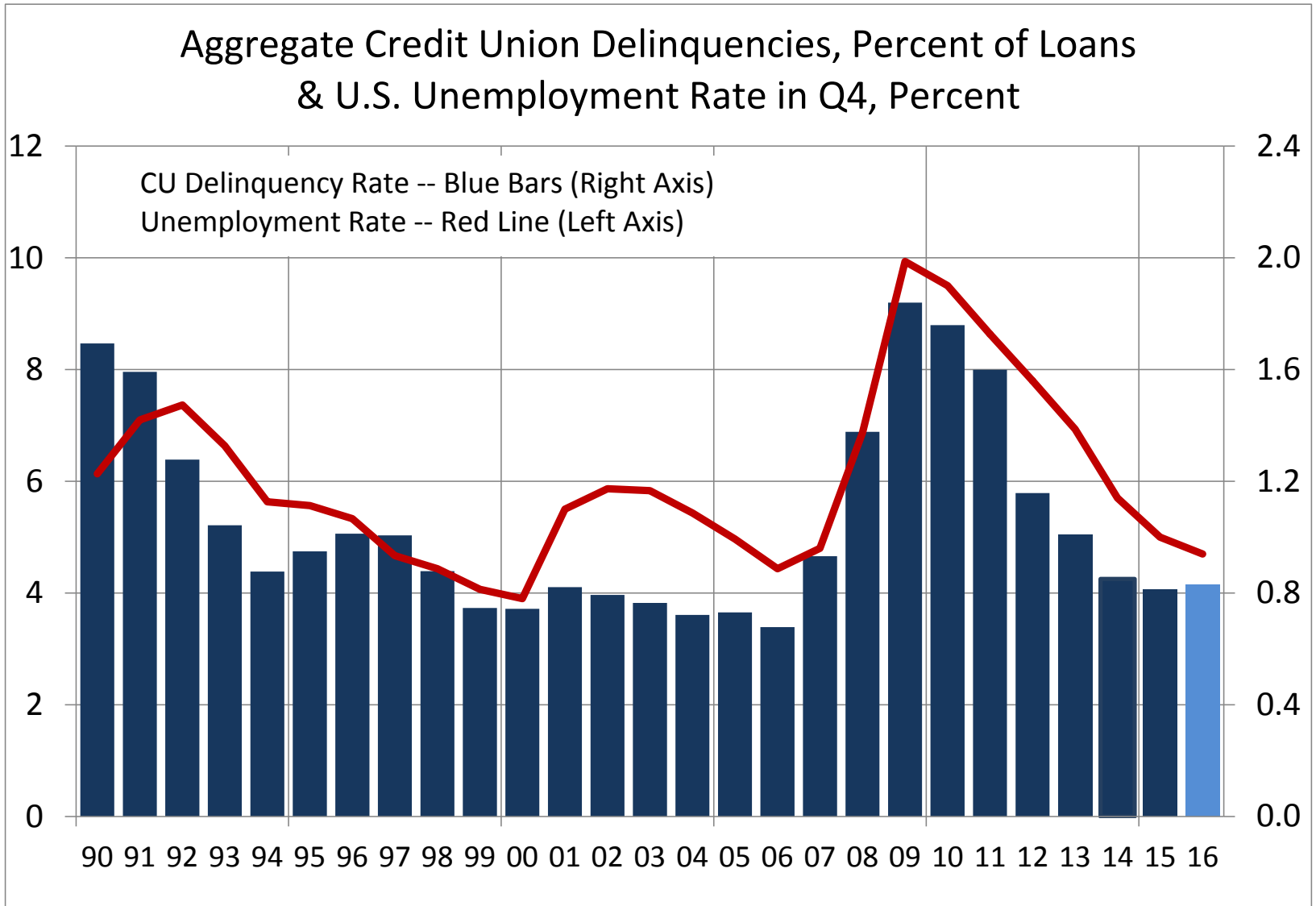
Aggregate Credit Union Loan Growth & U.S. Unemployment Rate percent



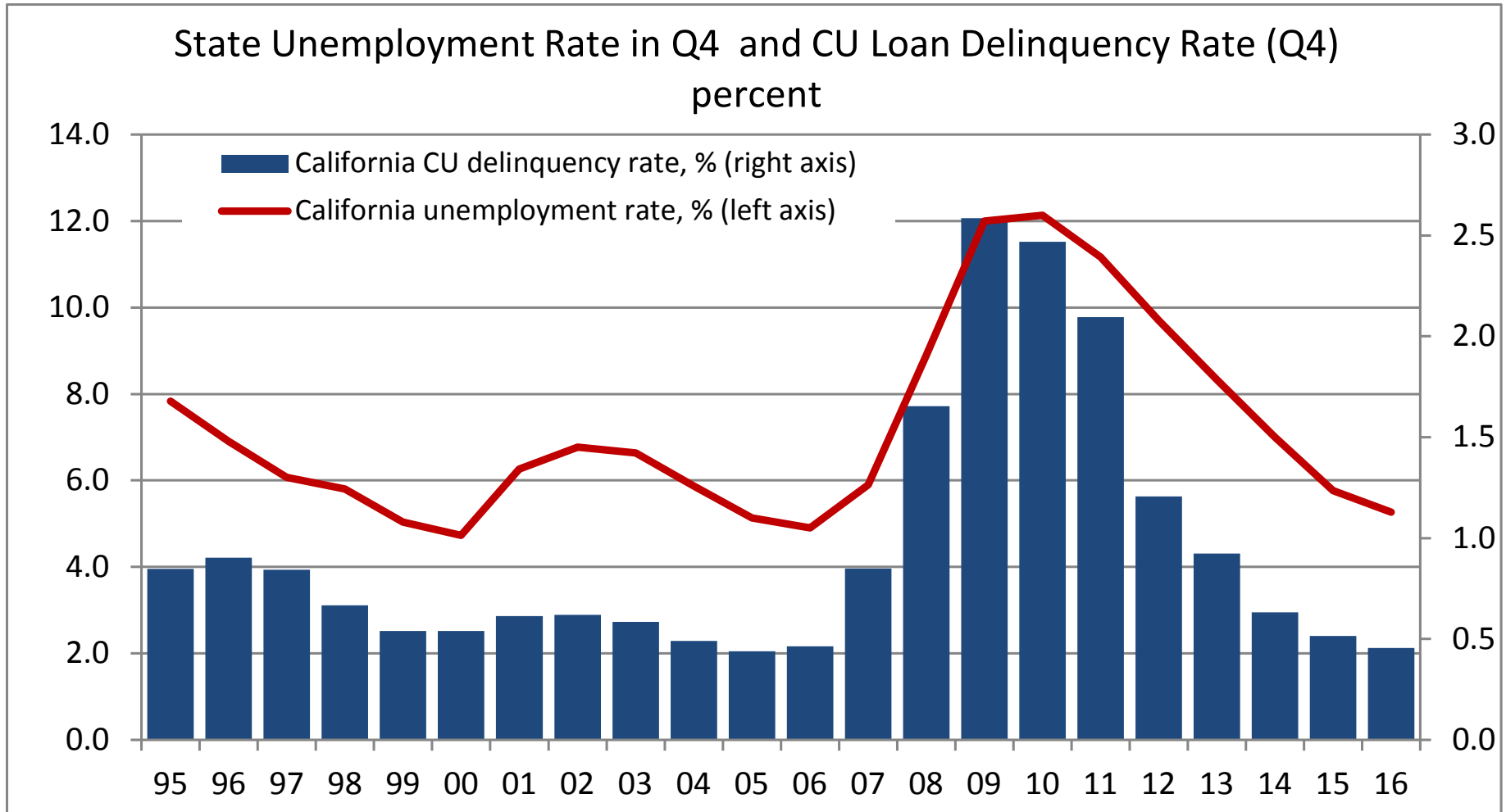
Unemployment Rate and Credit Union Loan Growth



Unemployment Rate and Credit Union Loan Delinquency Rate

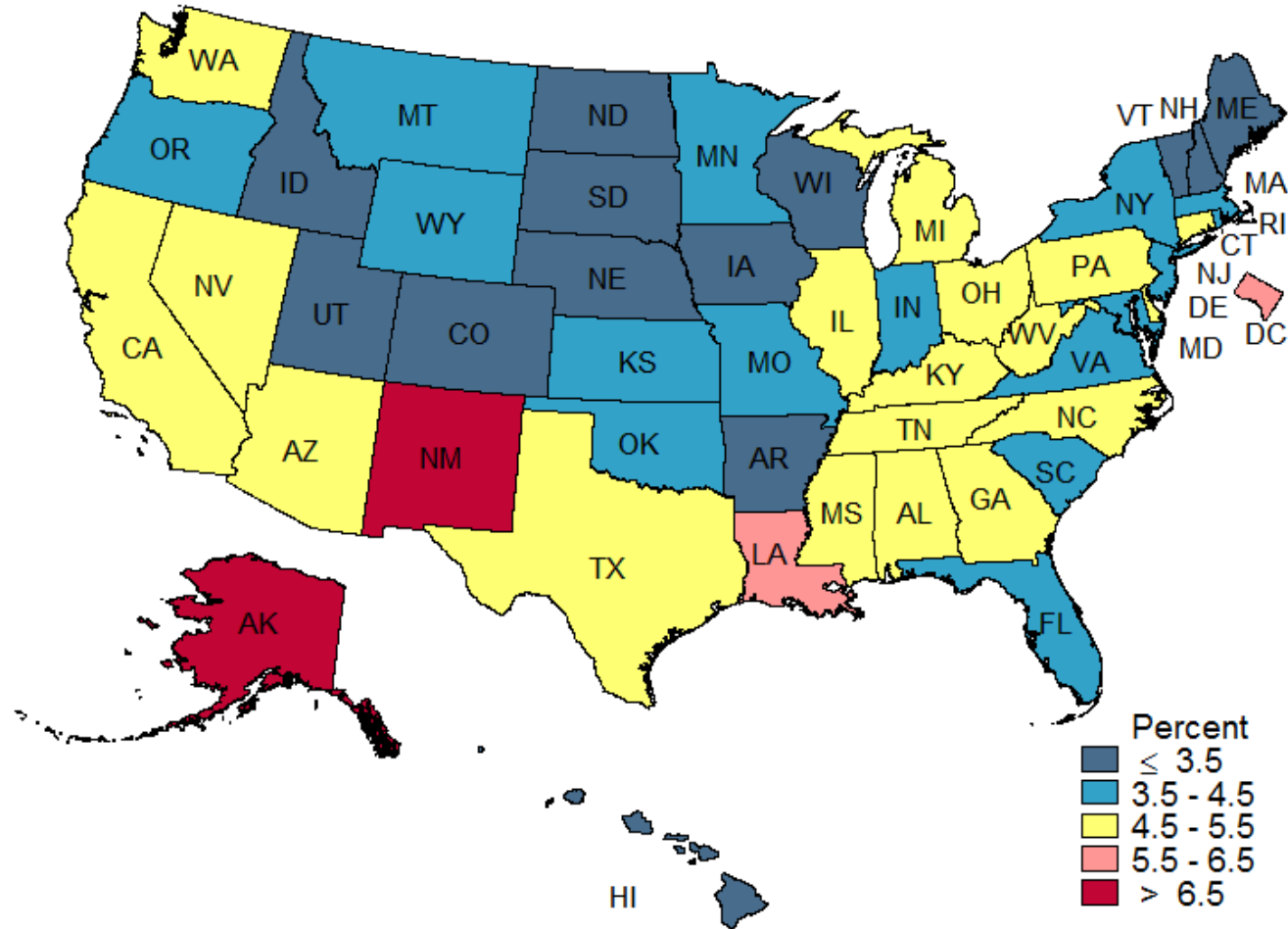


Unemployment Rate and Credit Union Loan Delinquency Rate



Where Are Unemployment Rates High?

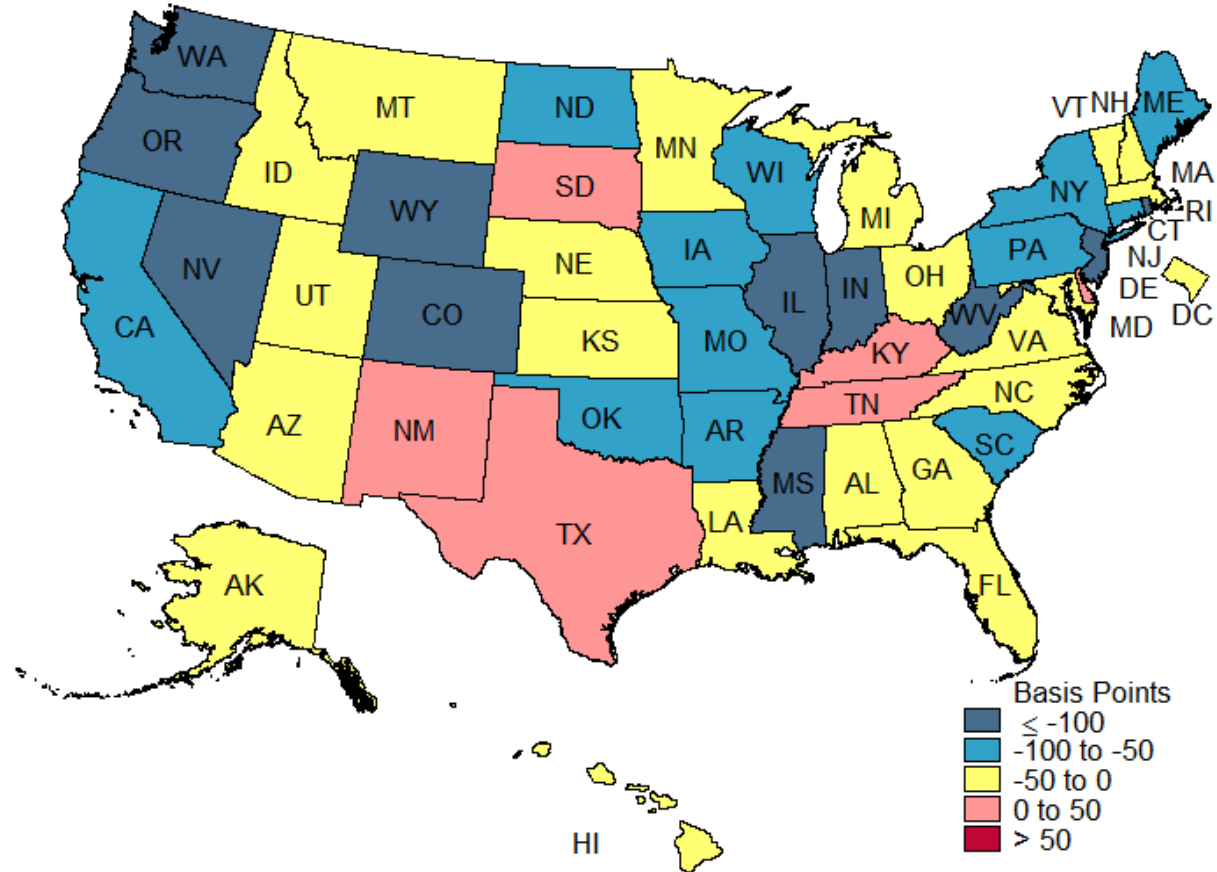
State Unemployment Rates, April 2017



US: 4.4% CA: 4.8%

Where is Labor Market “Risk” Rising?

Change in State Unemployment Rate
12 Months Ending in April 2017

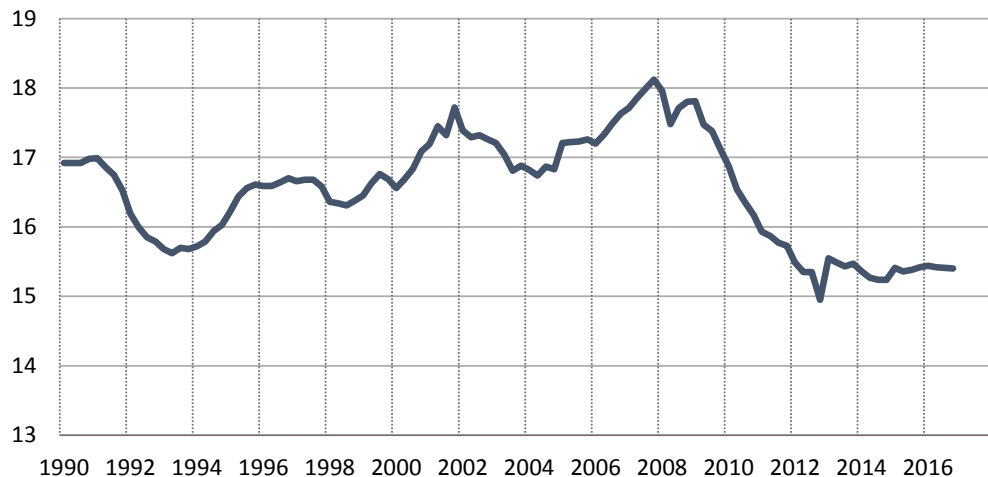


US: -60 Basis Points

CA: -70 Basis Points

Consumer Sector Indicators OK

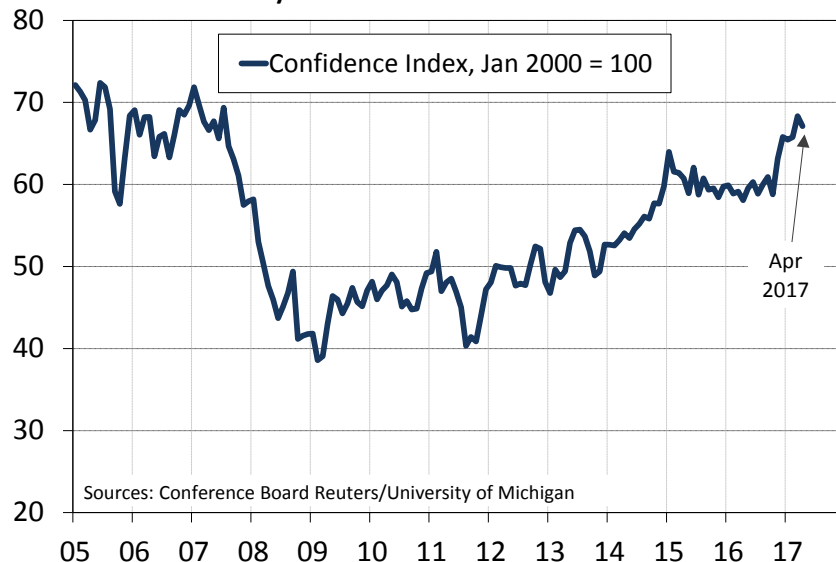
Consumer Financial Obligations Ratio
percent of after-tax income



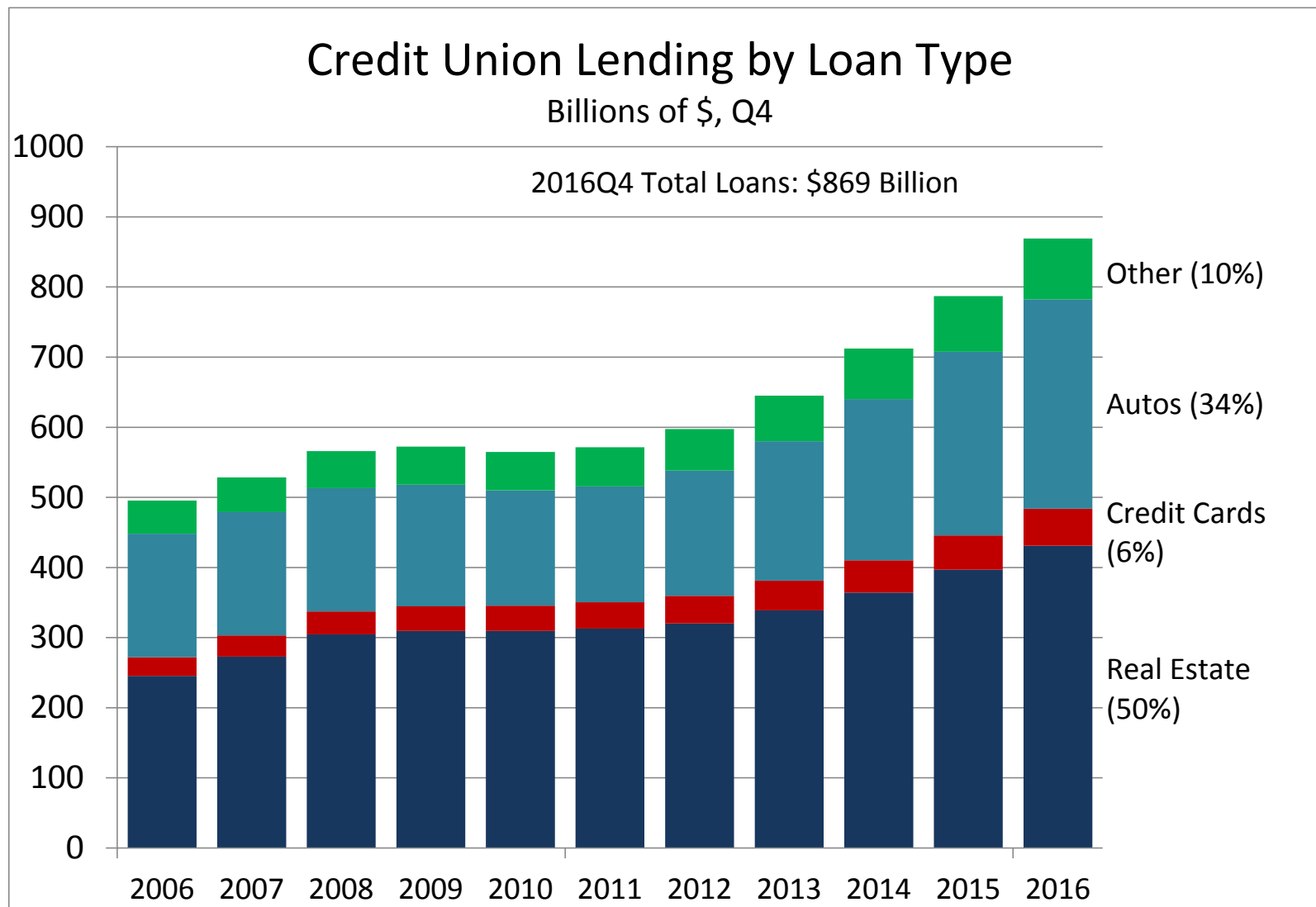
- Consumer confidence was roughly flat during 2015-16; jumped after election.
- Highest levels in a decade, well above recession lows.
- Still not back to pre-recession levels.

- Financial obligations as a share of disposable income have dropped sharply; remain relatively low
- Includes debt and rent/lease payments
- Low interest rates help

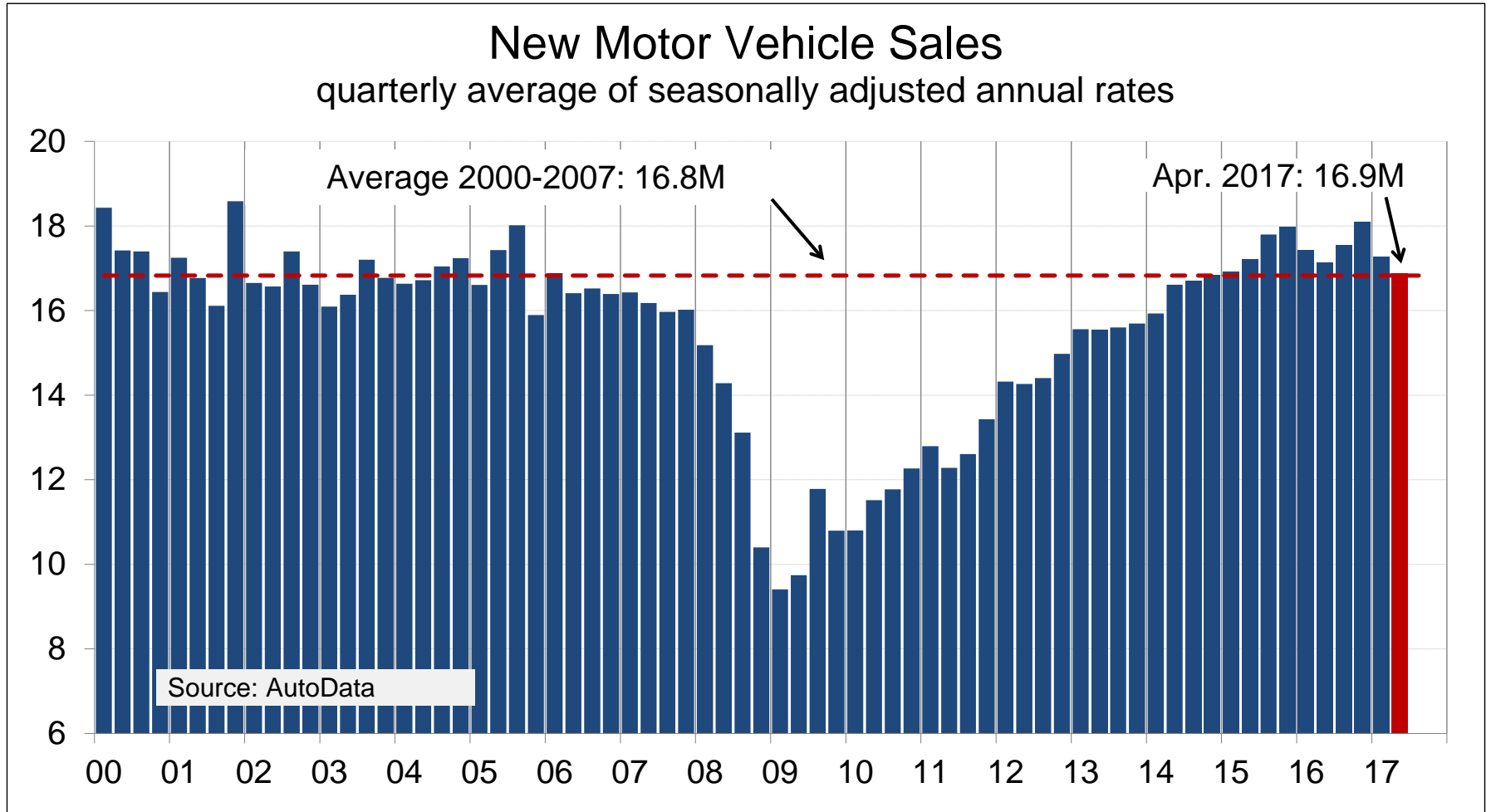
Summary Consumer Confidence Index



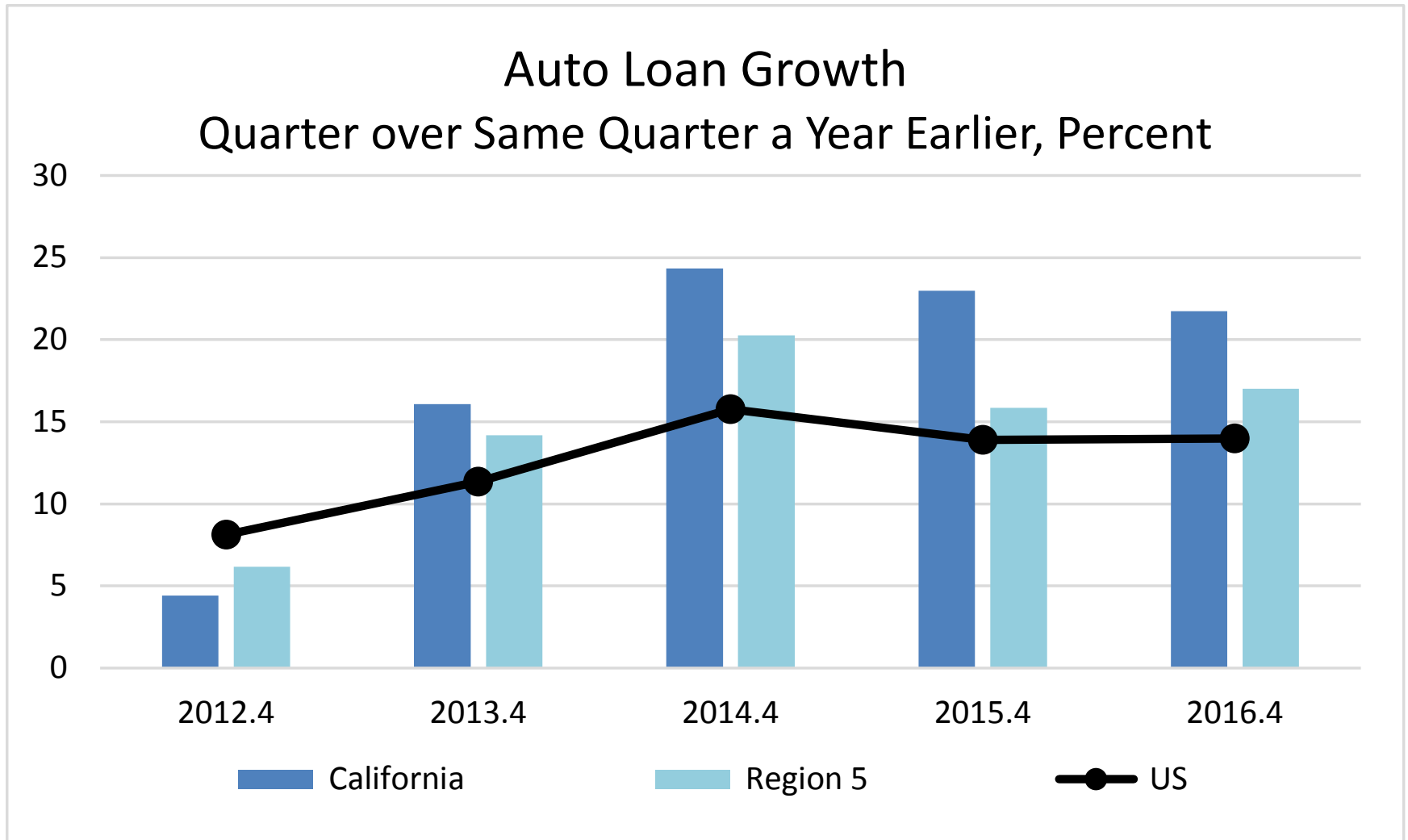
Credit Union Loan Portfolio: Autos and Homes



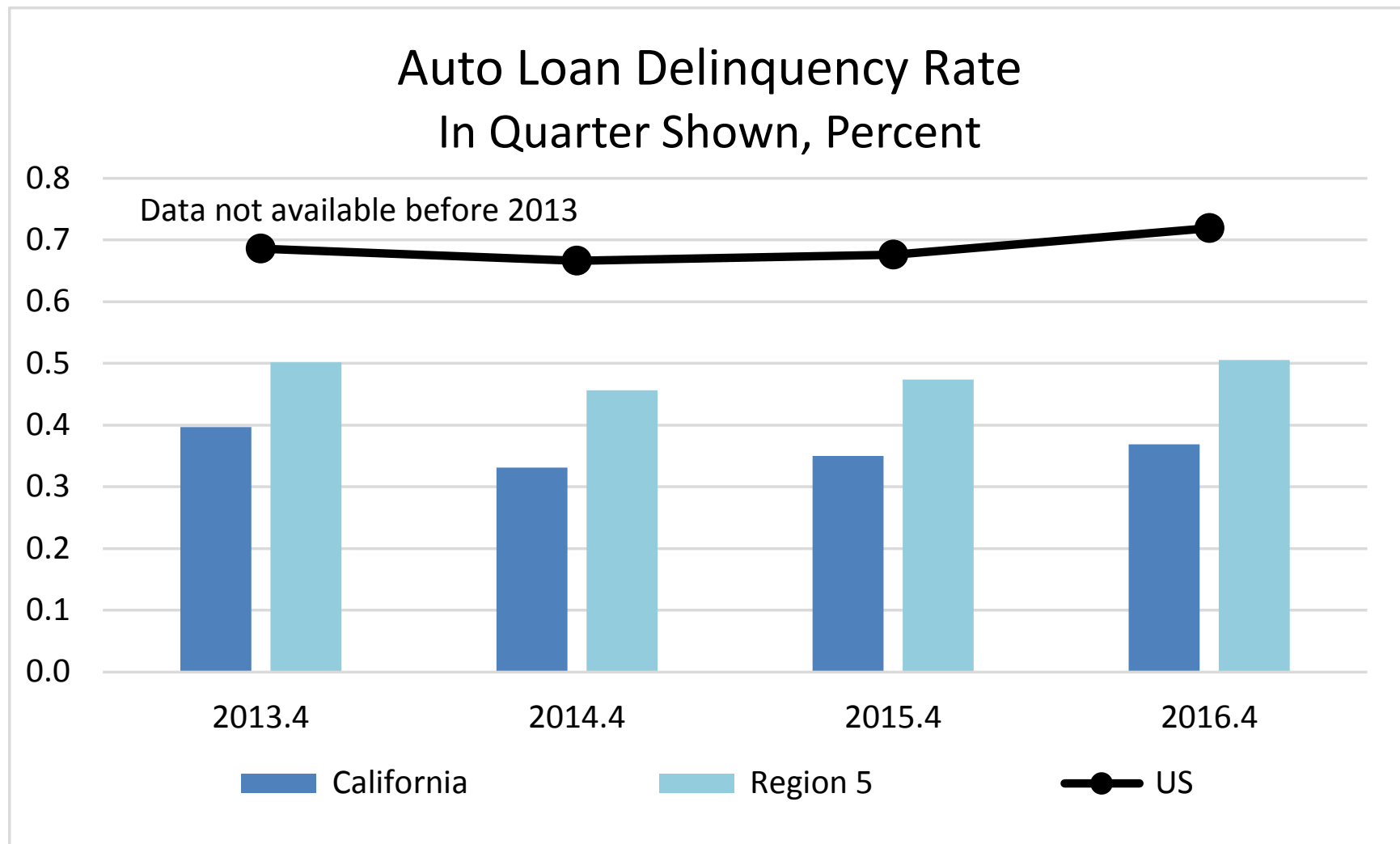
National New Motor Vehicle Sales Are Slowing



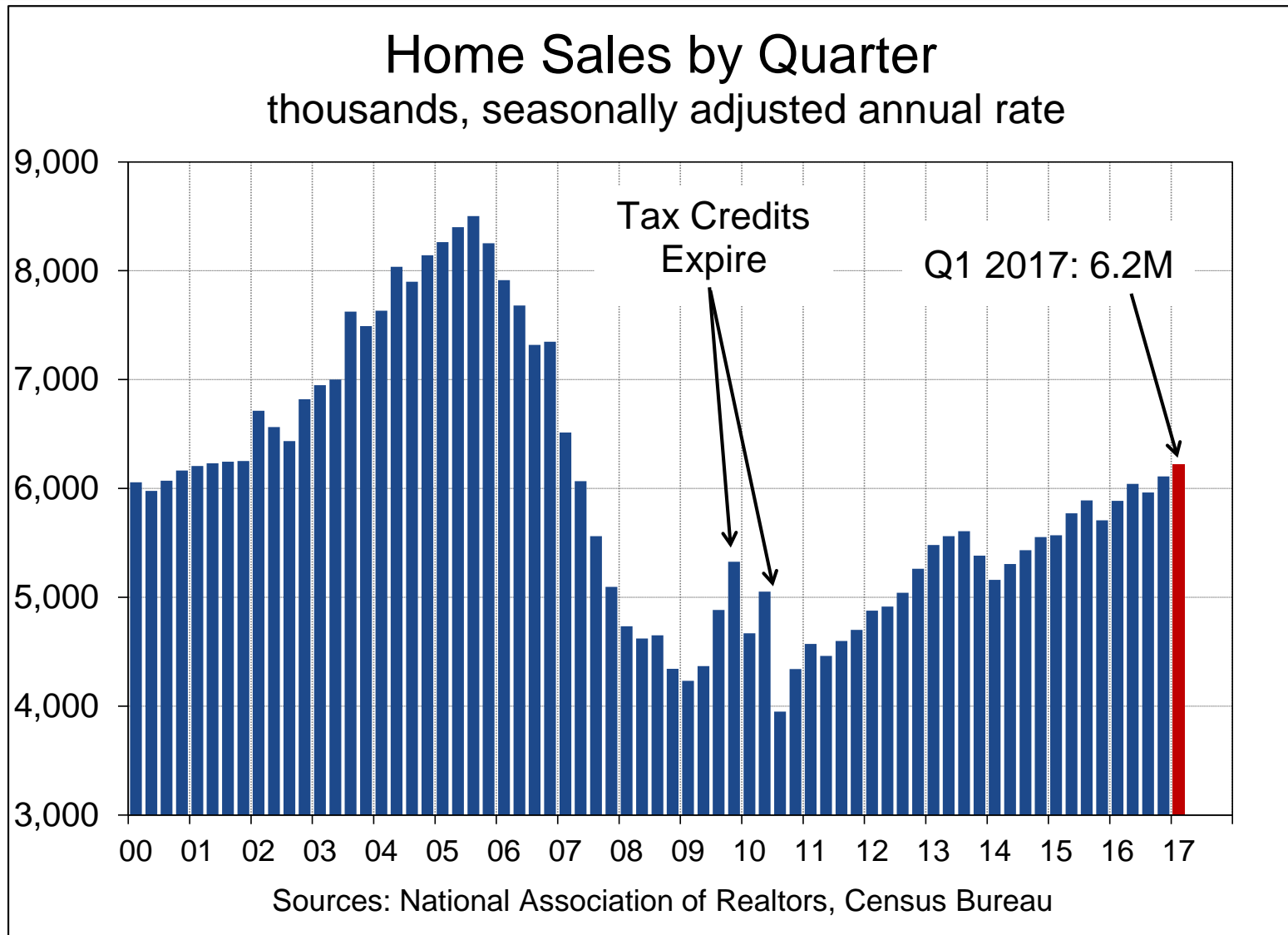
Credit Union Performance: Q4 Version



Credit Union Performance: Q4 Version

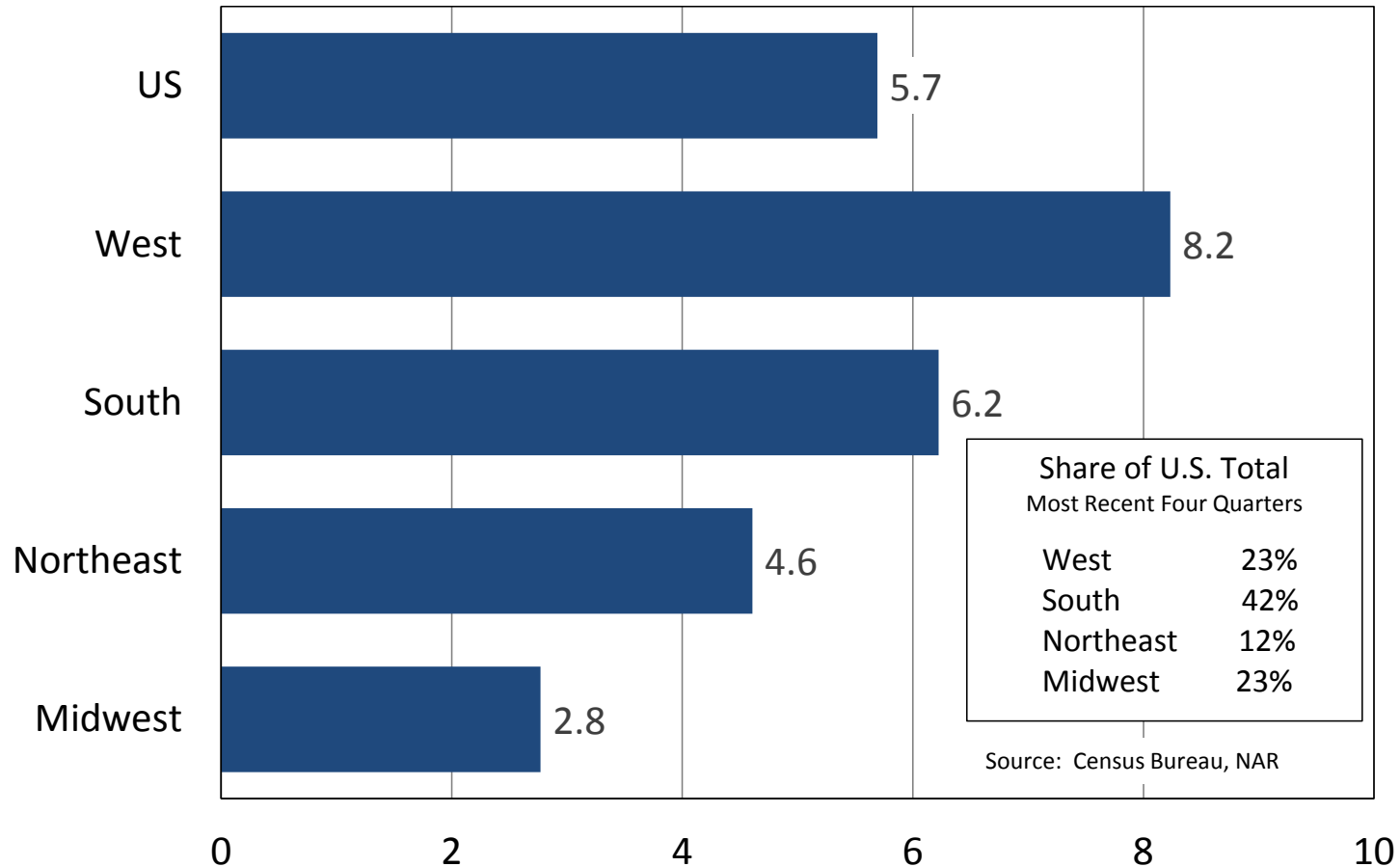


Home Sales Heading Higher



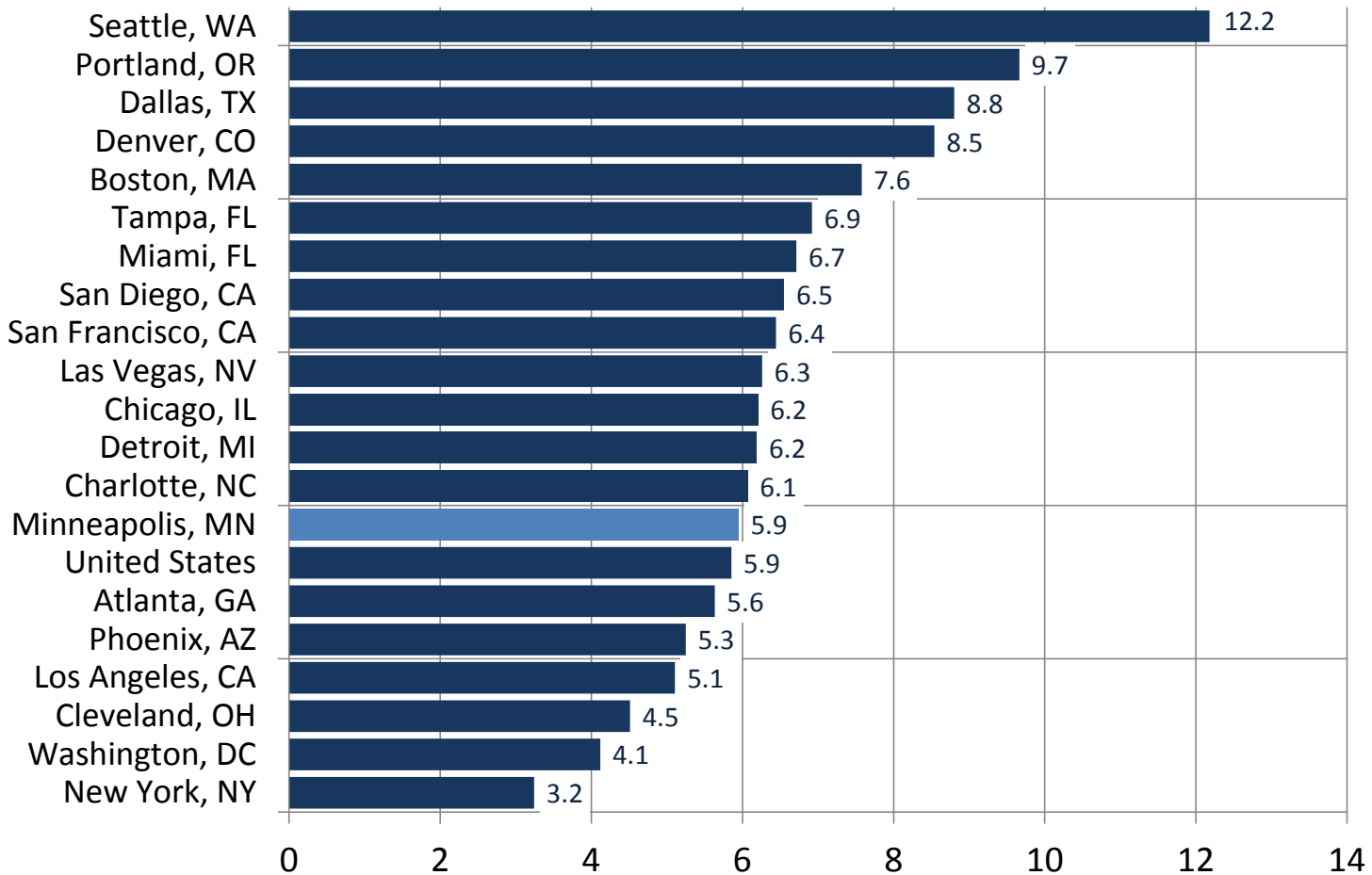
Home Sales Heading Higher?

Four Quarter Growth in Home Sales: 2017Q1
percent

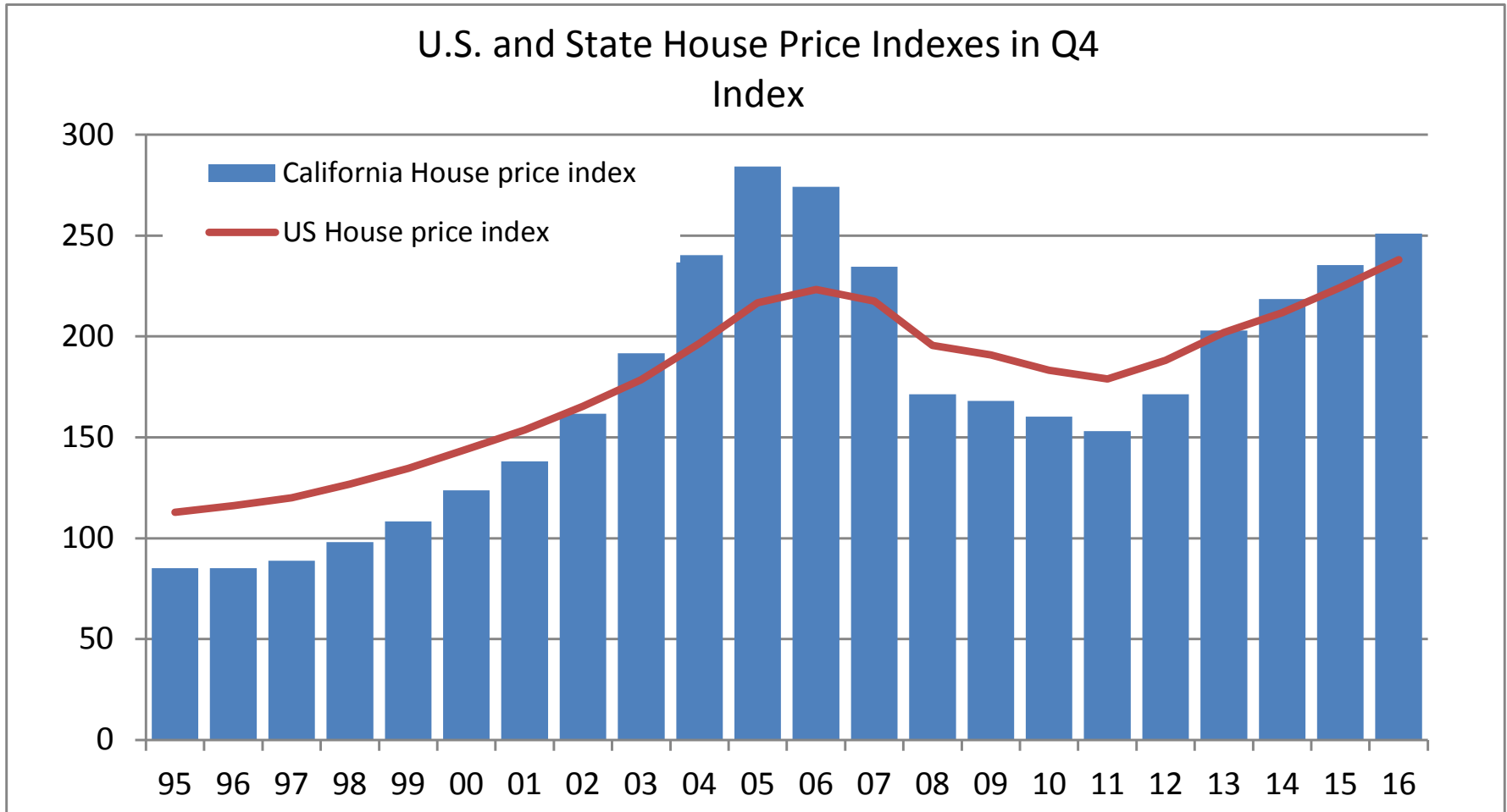


Home Prices Continue to Rise

Percent Change in Case-Shiller Home Price Indexes
12 months ending February 2017

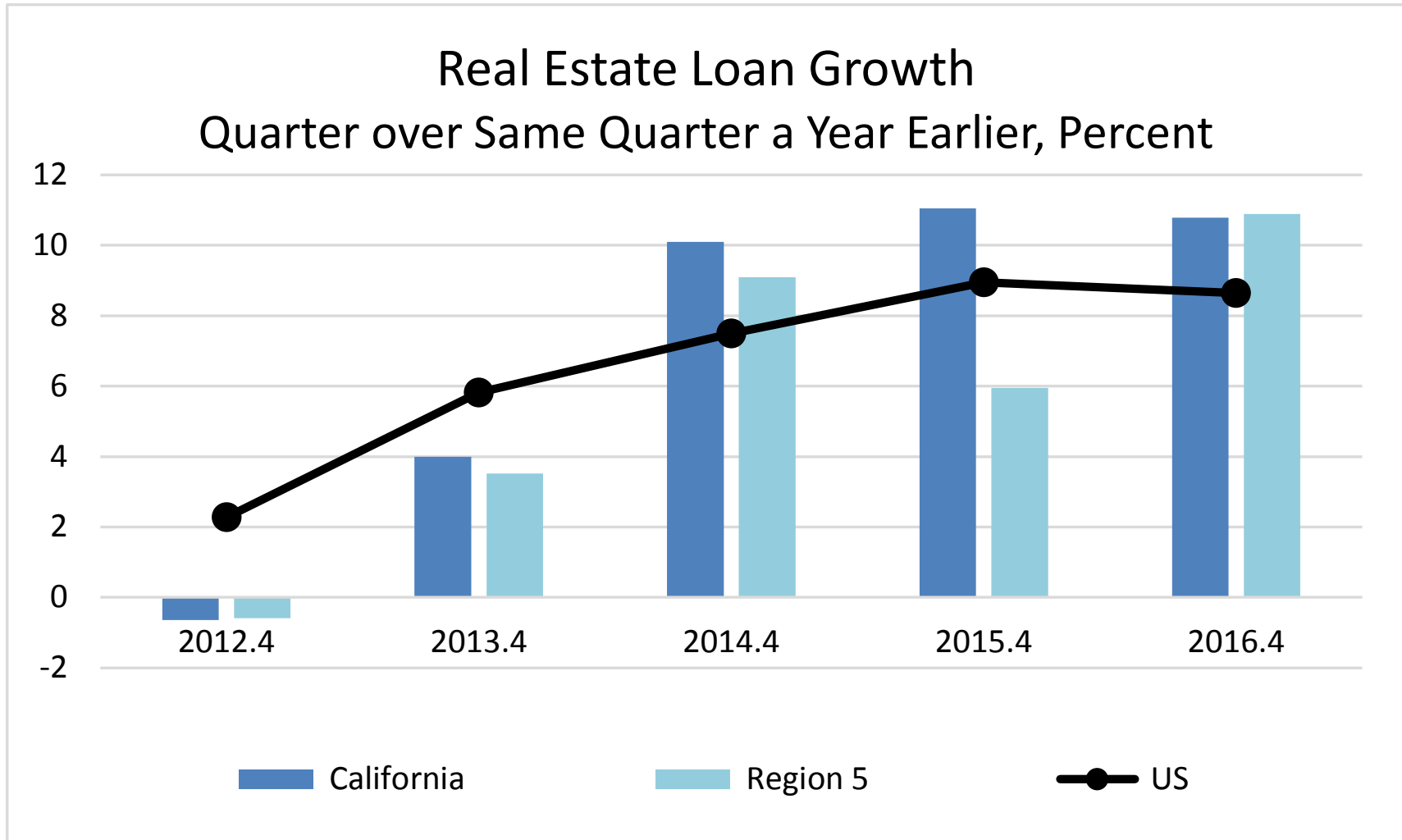


Home Prices Continue to Rise

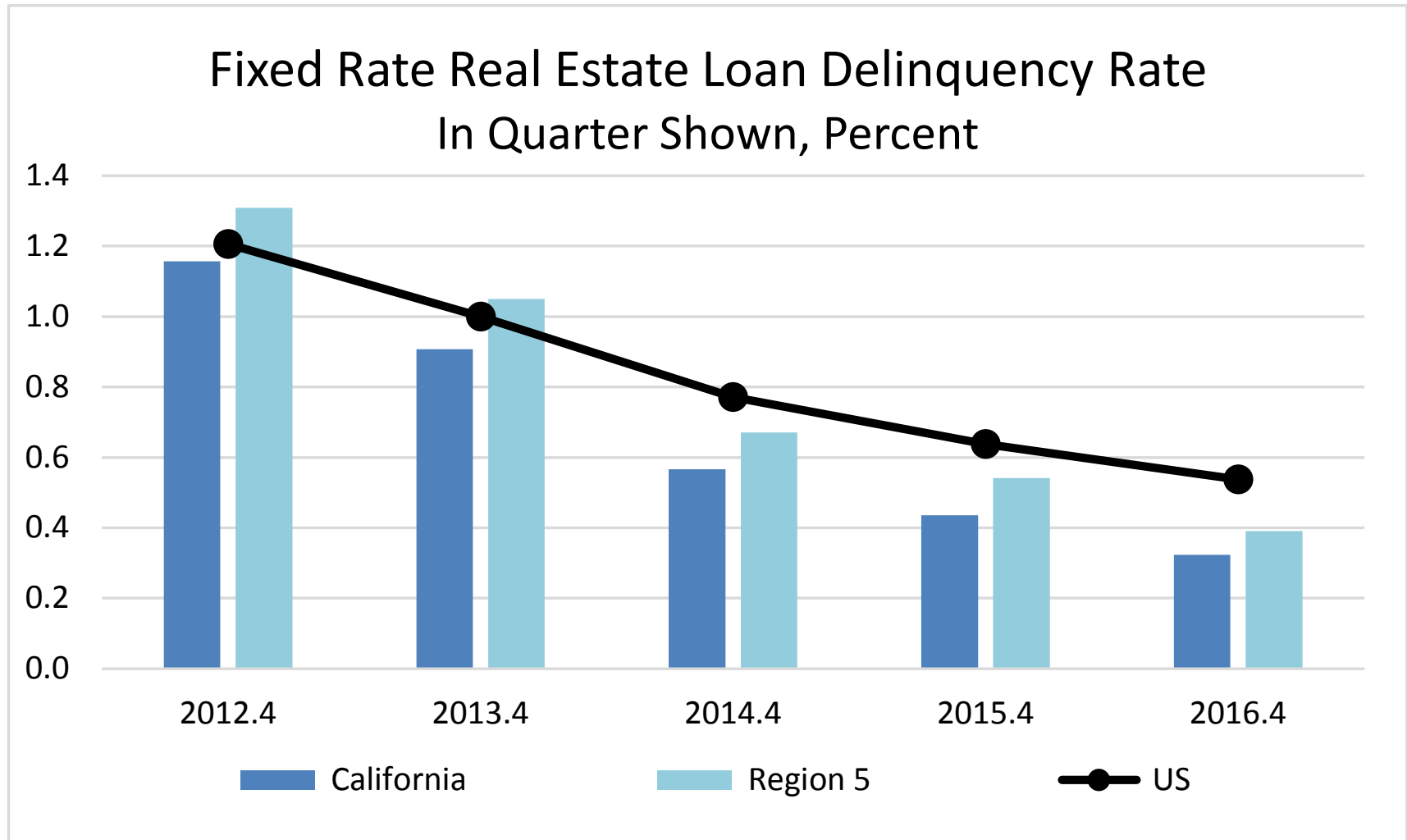


Source: FHFA. Purchase only Price Index (1991Q1 = 100)

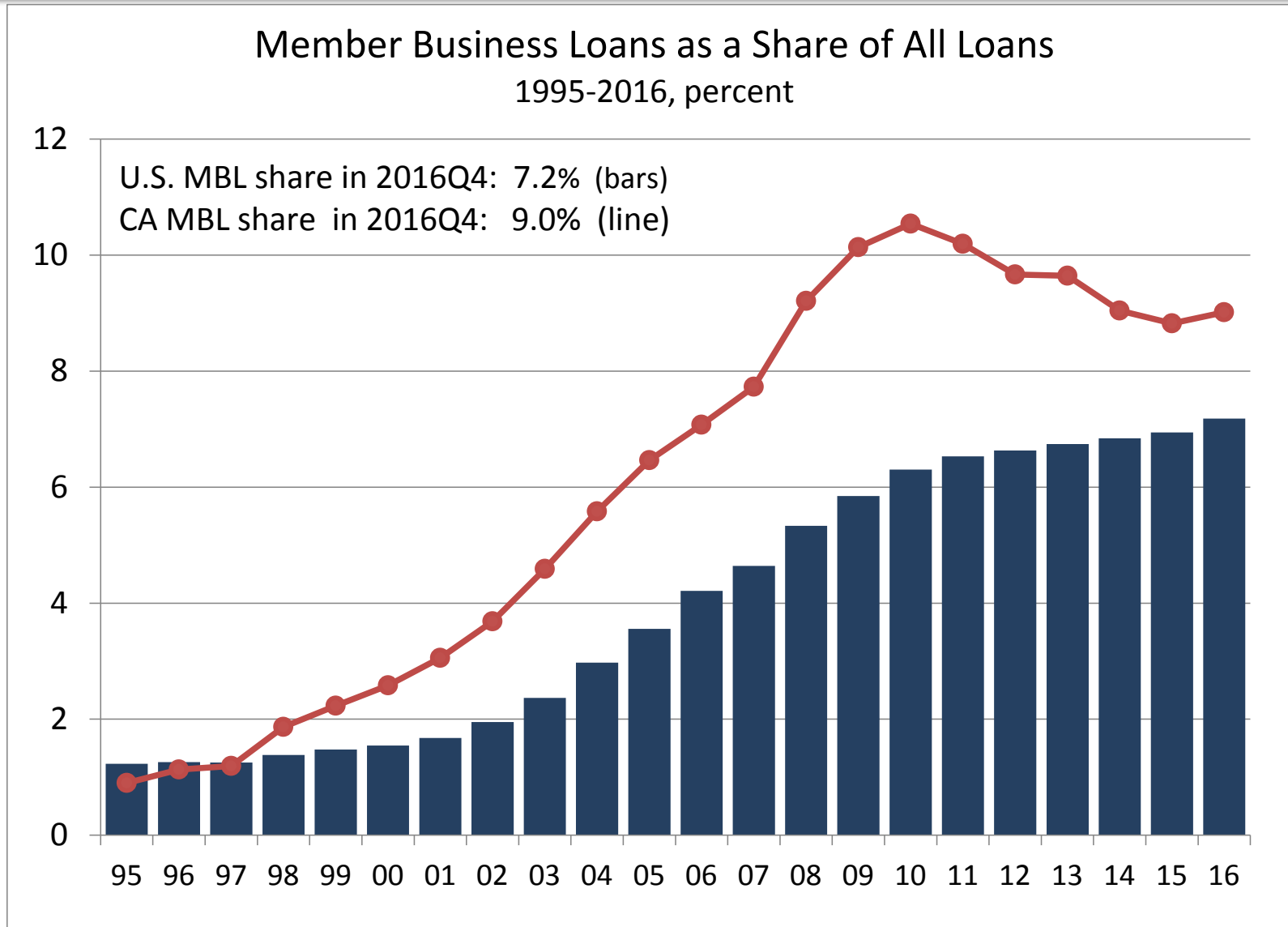
Credit Union Performance: Q4 Version



Credit Union Performance: Q4 Version

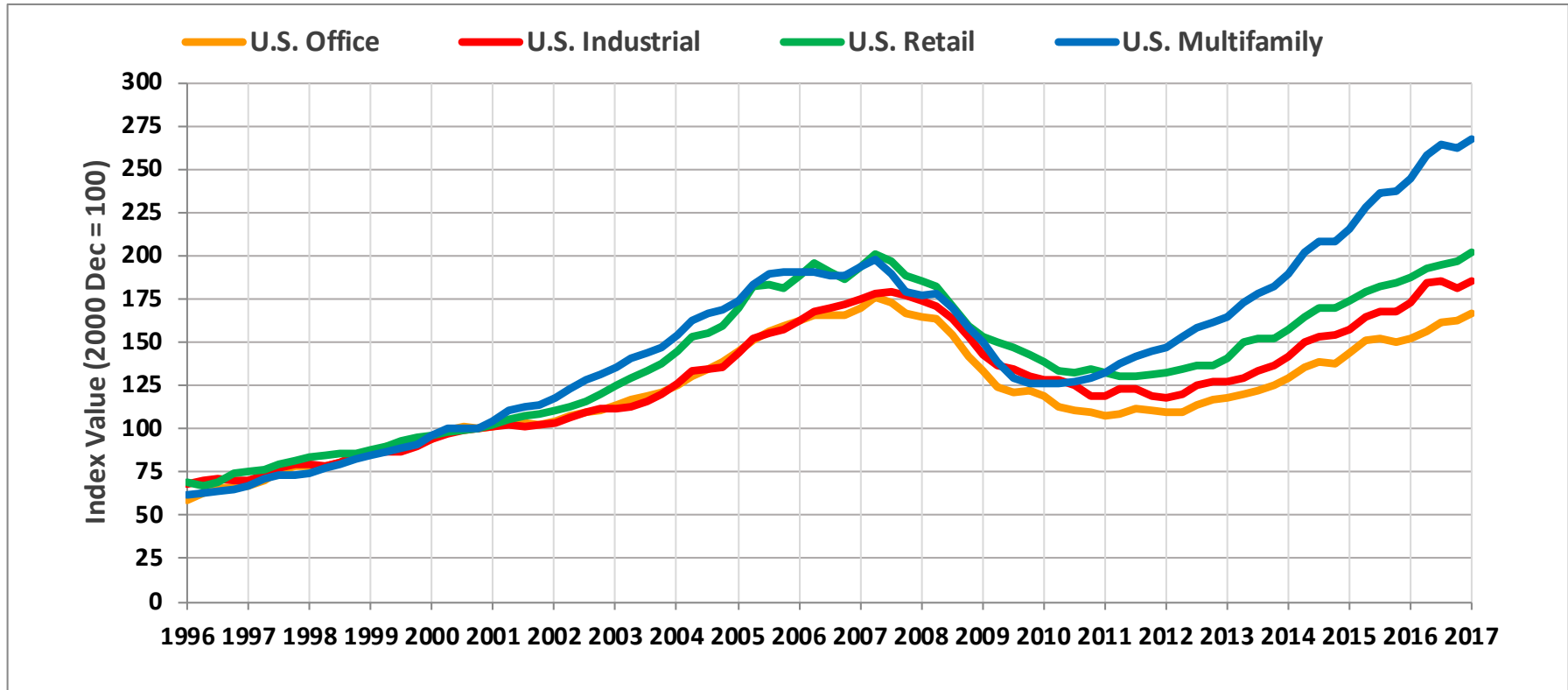


Credit Union Performance: Q4 Version



Valuations Generally Rising with Multifamily Leading Other Sectors

U.S. Primary Property Type Quarterly Indices - Equal Weighted, Data through March of 2017

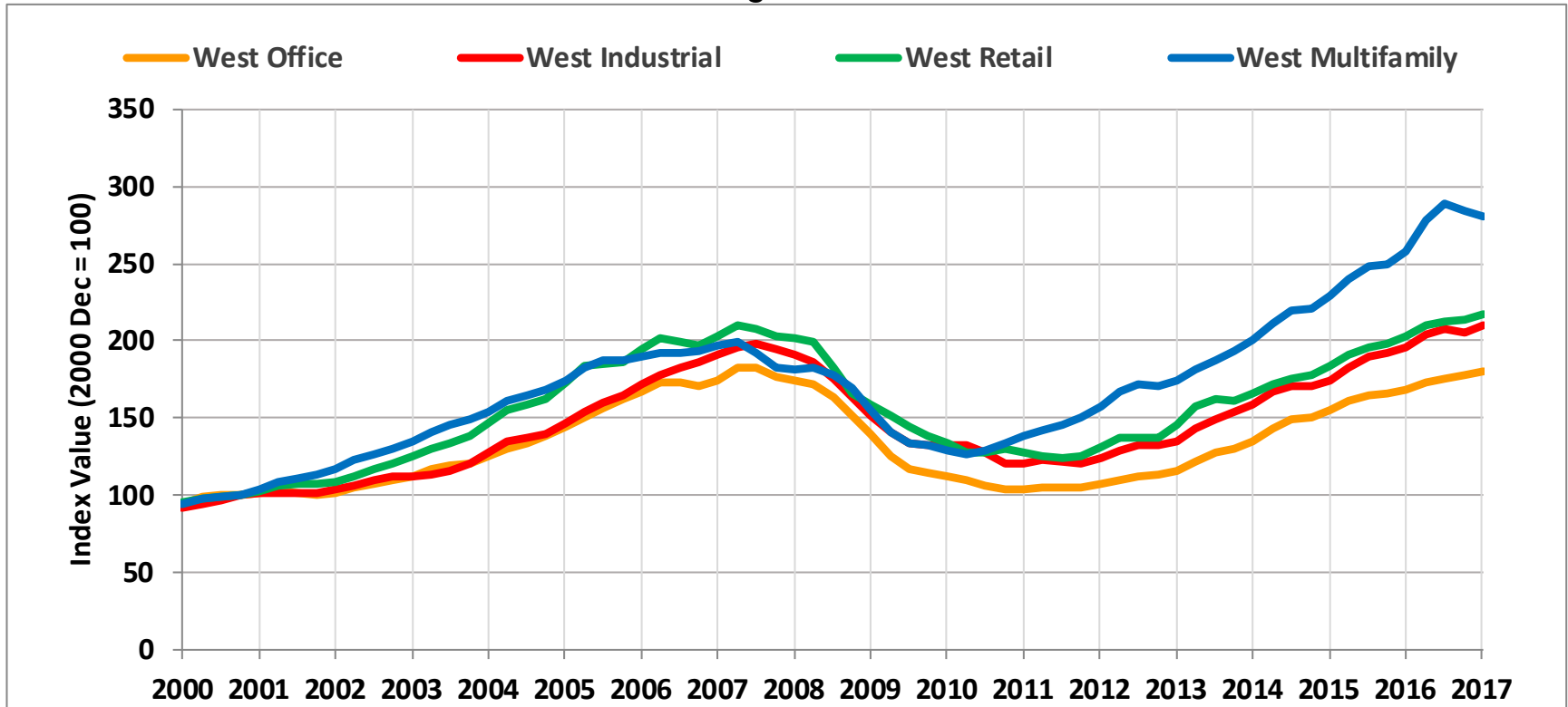


Source: CoStar CCRSI Release, April 2017

Valuations Generally Rising in the West

U.S. West Property Type Quarterly Indices - Equal Weighted

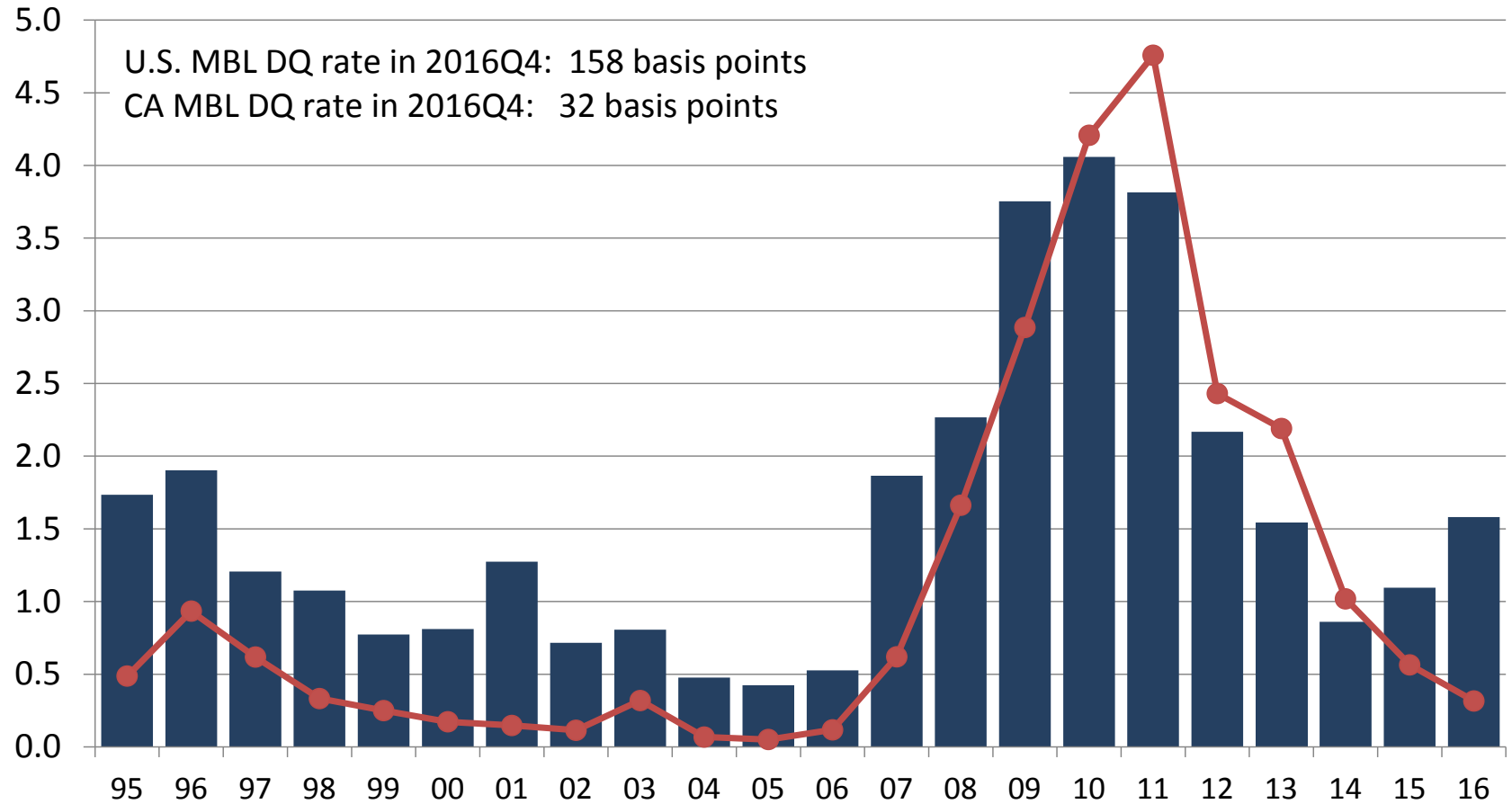
Data through March of 2017



Source: CoStar CCRSI Release, April 2017

Credit Union Performance: Q4 Version

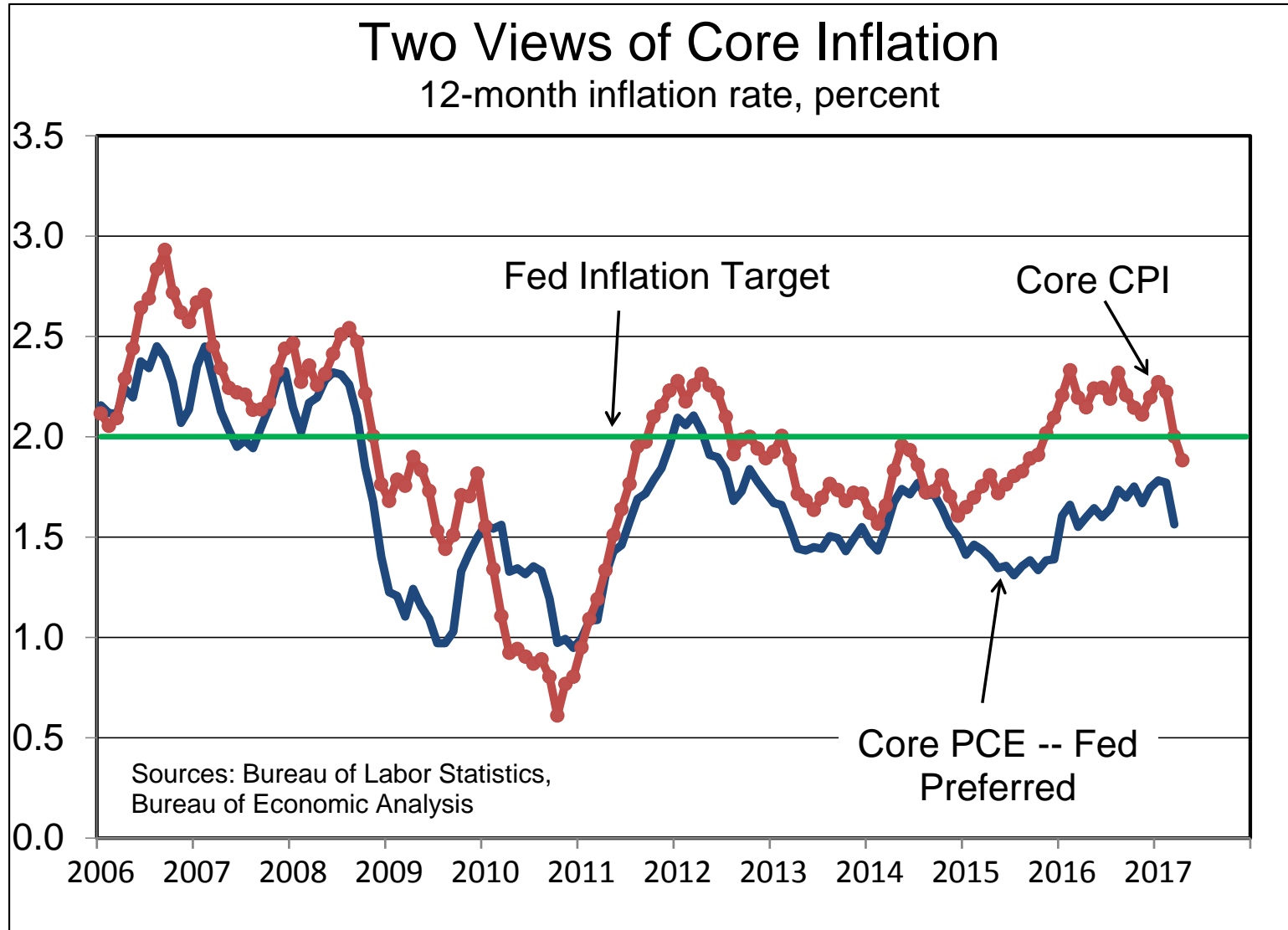
Member Business Loan Delinquency Rate
1995-2016, percent



Monetary Policy Indicators

Jobs, Inflation, and Interest Rates

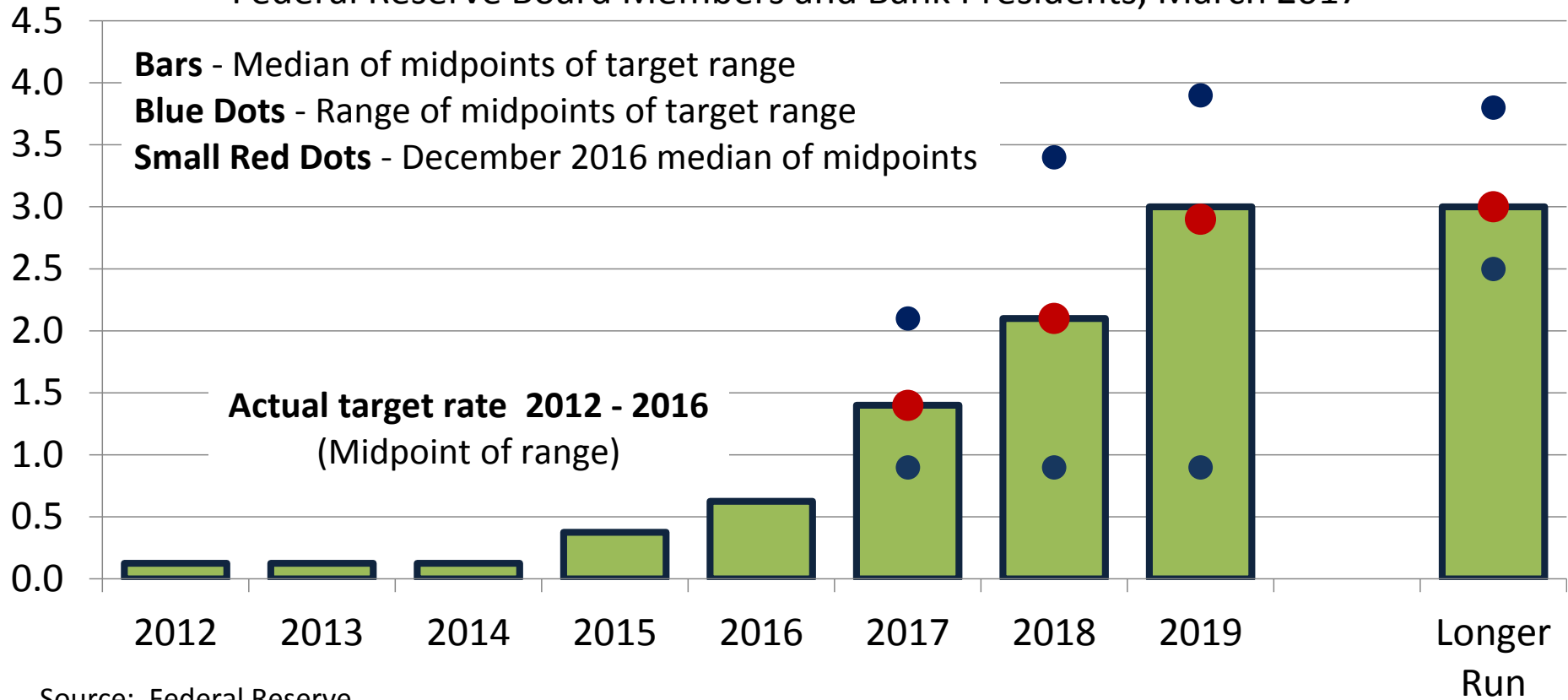
Inflation Heading Higher?



Fed Dot Chart: Interest Rates Headed Higher?

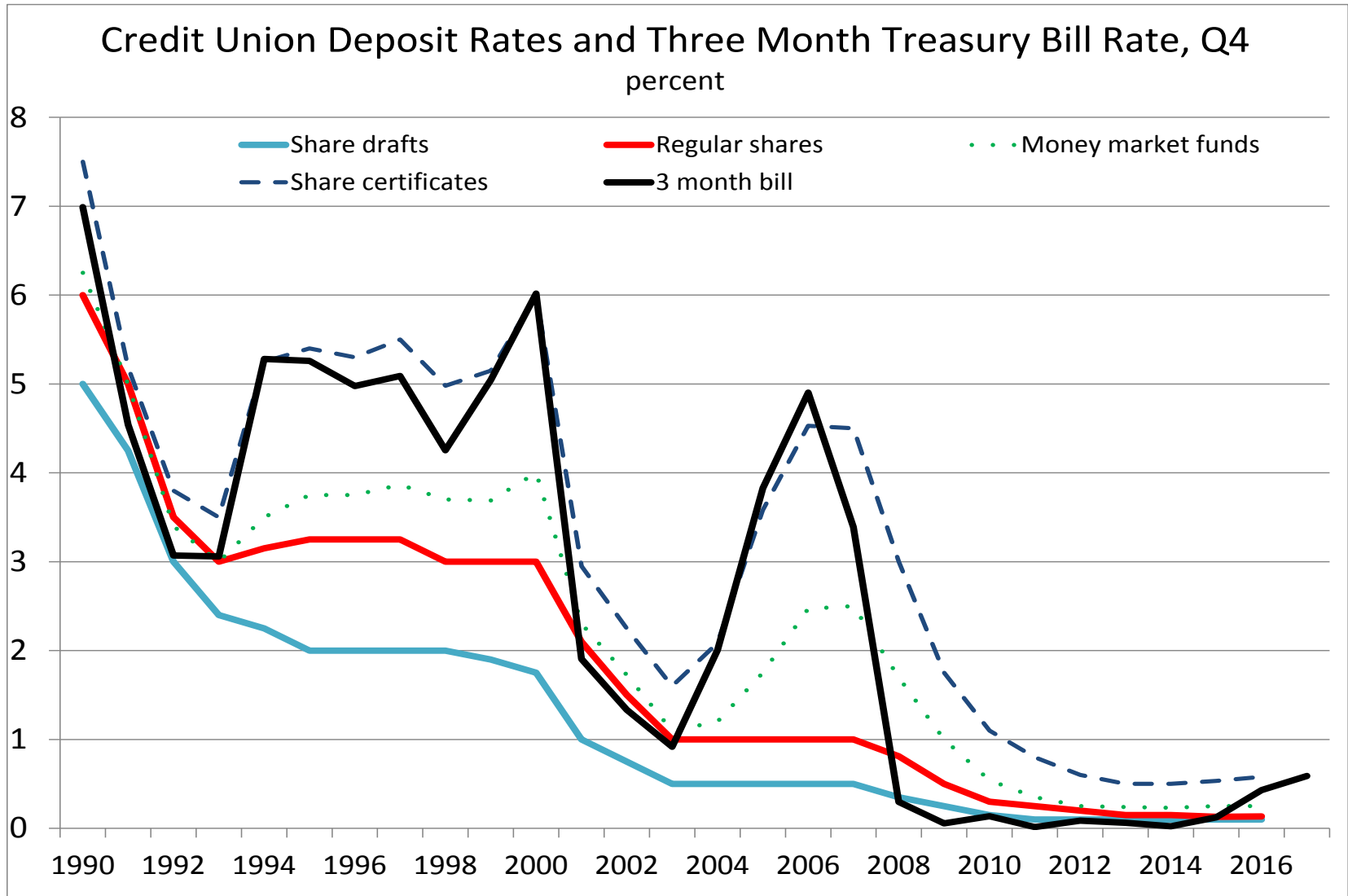
Midpoint of Target Range of Federal Funds Rate at end of year, %

Federal Reserve Board Members and Bank Presidents, March 2017



Source: Federal Reserve

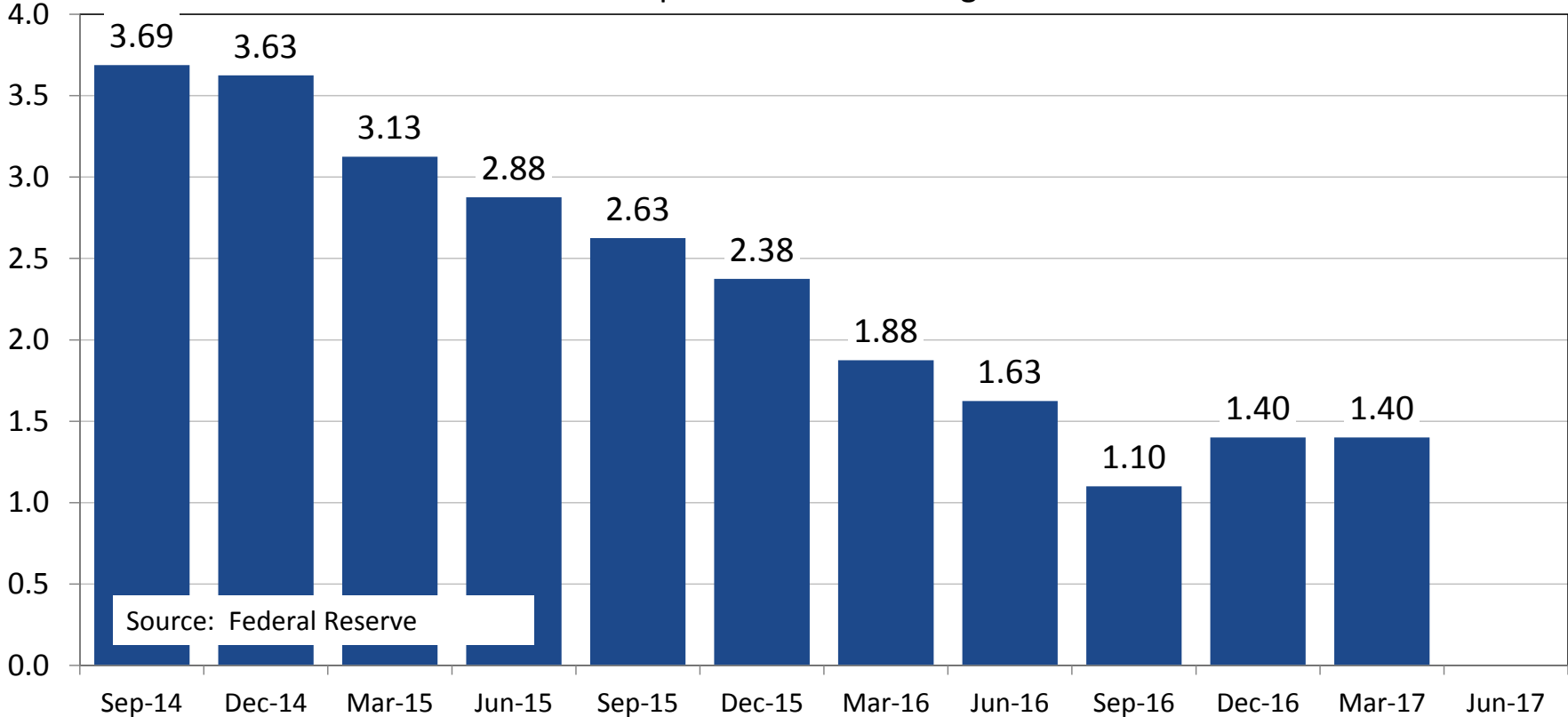
Credit Union Deposit Rates



Fed Dot Chart: Interest Rates Headed Higher?

Median of Appropriate Fed Funds Target for 2017Q4

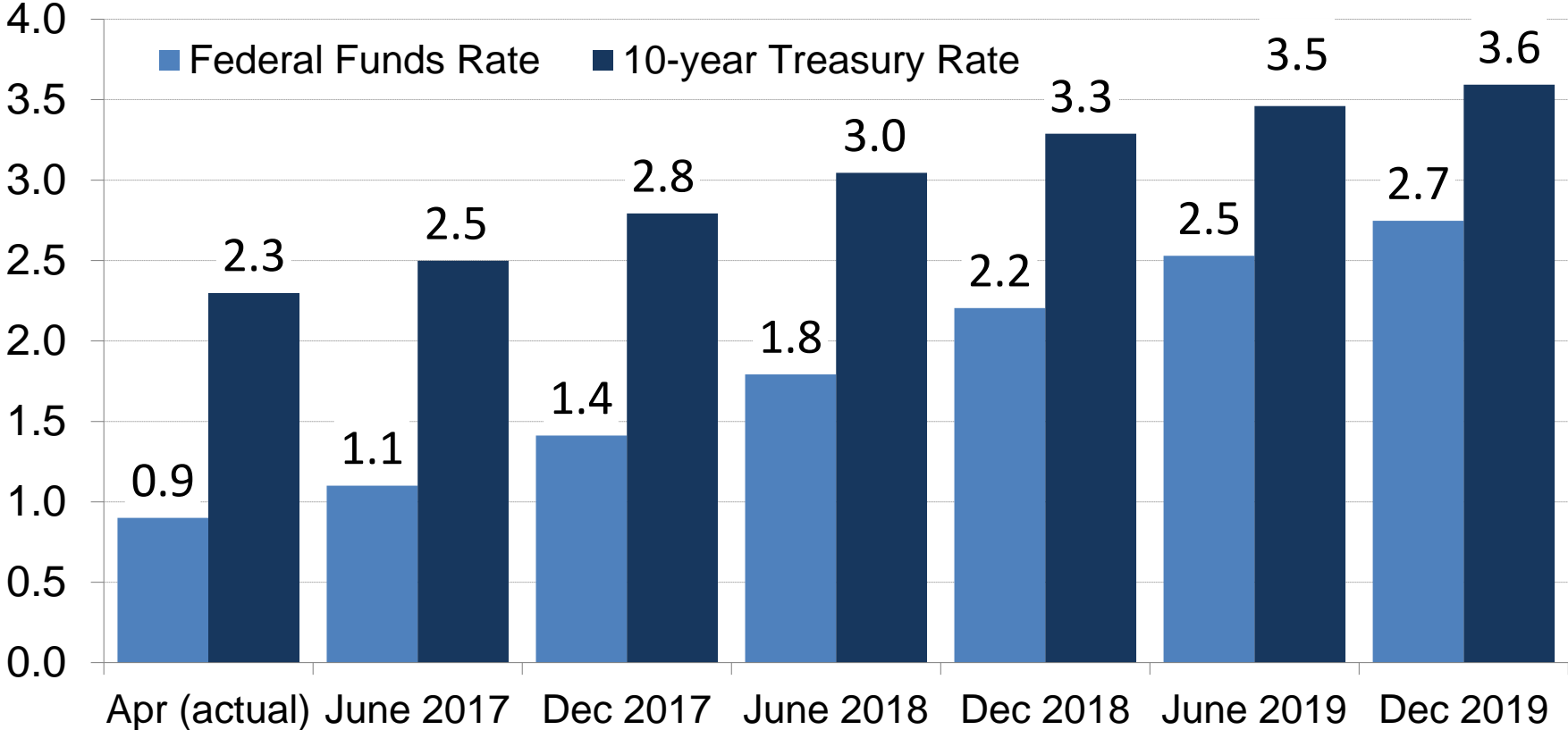
Forecasts from September 2014 through March 2017



Private Forecaster Outlook: Term Spread

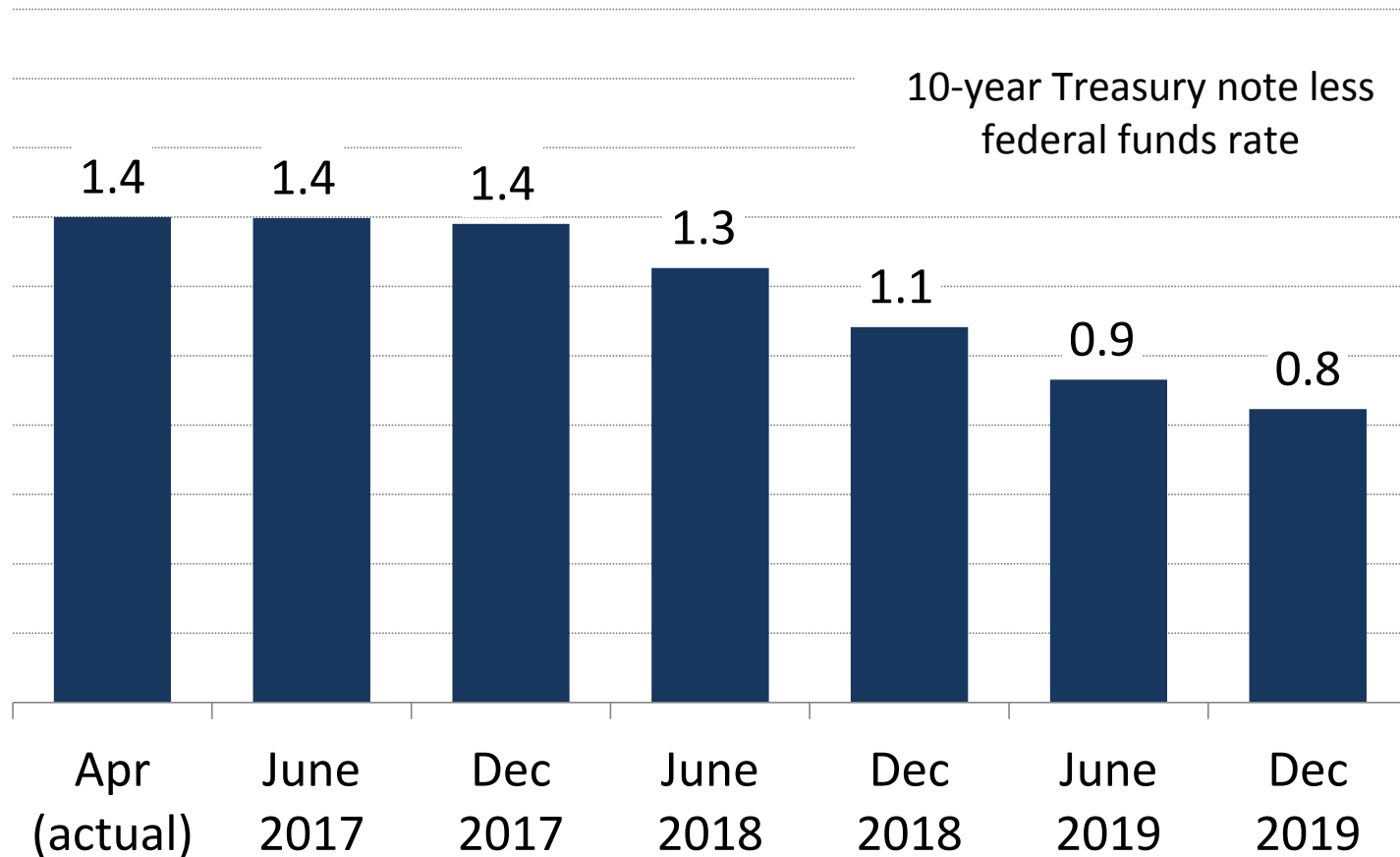
Interest Rate Forecasts from May WSJ Survey

average of forecasts, percent

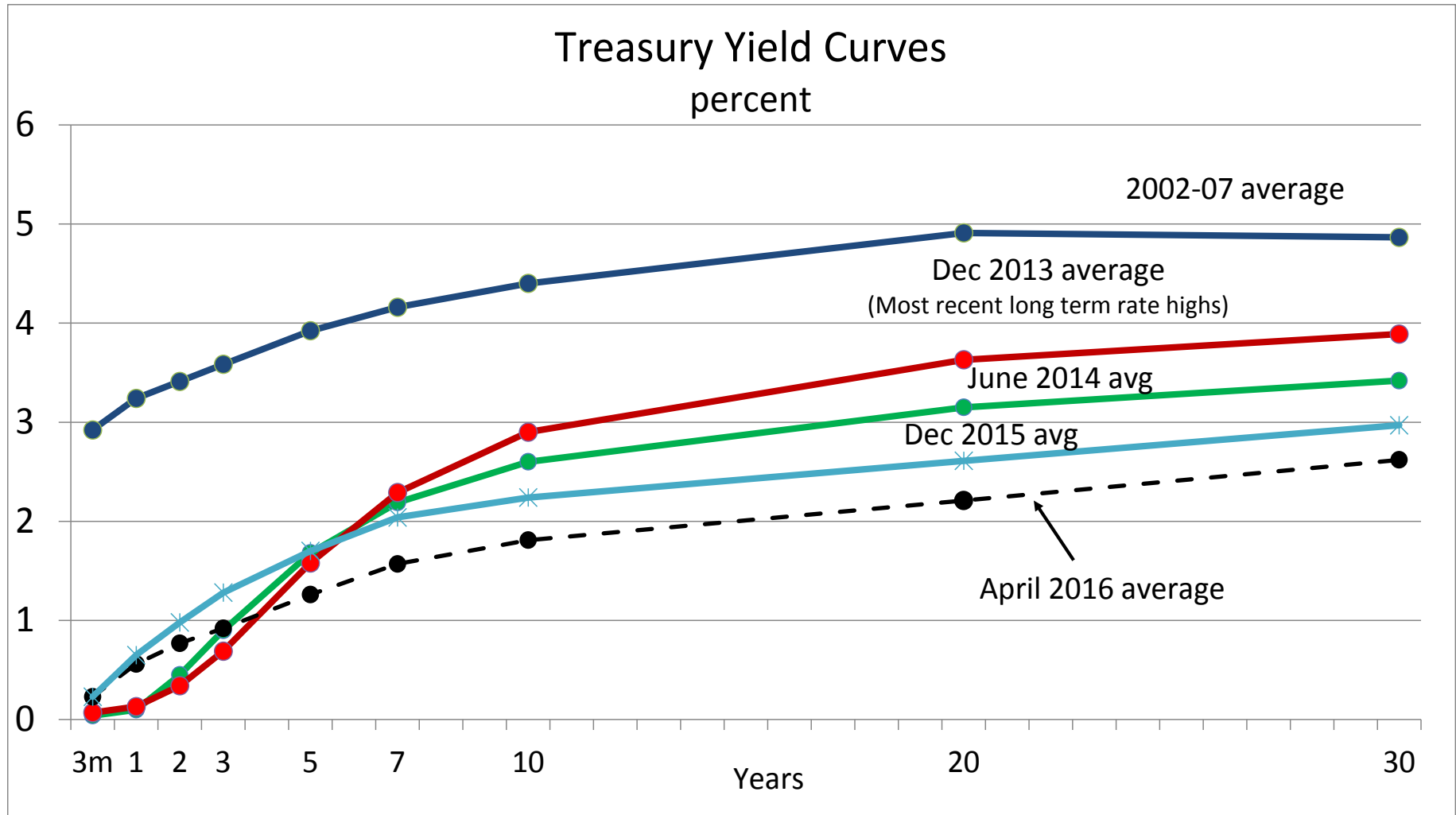


Private Forecaster Outlook: Term Spread

Implied Term Spread Forecast: May *WSJ* Survey
percentage points



Yield Curve is Flattening; Longer End of Short Maturity is Heading Higher



Consensus Forecast

Consensus forecast for the next year or so is not very exciting.

- Economy grows 2-2.5% at annual rate (long-term history is more than 3%, but some slowdown from demographics was likely anyway).
- Unemployment steadies at just over 4.5% -- full employment.
- Consumer price inflation averages around 2% (oil prices remain a wildcard).
- Interest rates move slowly higher – Federal Reserve/private forecaster path.
- Sectoral/regional developments may influence credit unions more than national trends.

Risk Scenarios

Two Scenarios with Significant Probabilities.

A. U.S. Downturn: Foreign Growth Slowdown – No Replay of Great Recession, tight fiscal policy, trade war

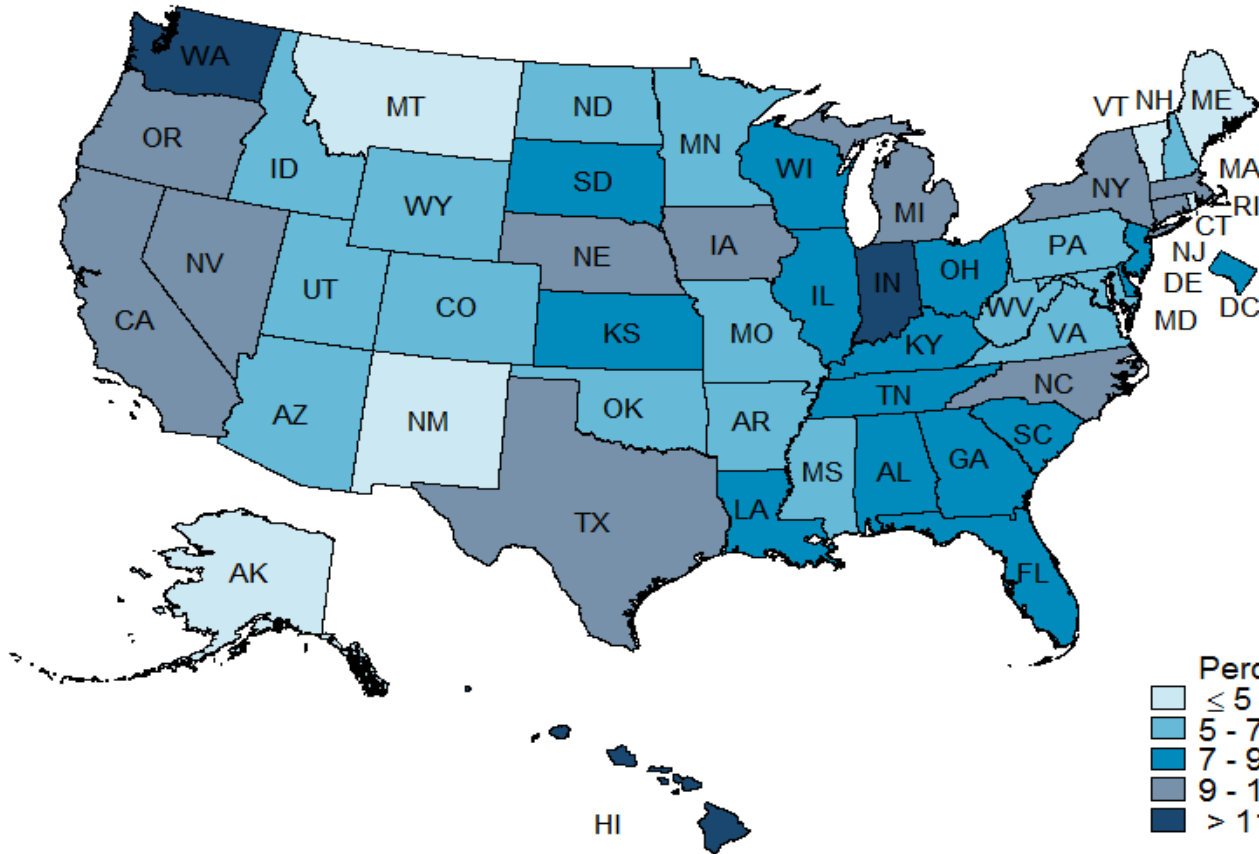
- National unemployment rate rises to 7% or so (not 10%)
- Inflation stays down
- House prices edge down or are flat.
- Interest rates stay low. Fed may reduce funds rate.

B. U.S. Economy Picks Up More than Expected: Tax cuts, infrastructure spending, foreign growth recovery

- Unemployment declines more sharply than in the consensus.
- Inflation moves higher along with oil prices.
- House prices continue to rise.
- Fed raises funds rate 3 or 4 times. Long rates rise, but not by as much as short.

Exposure to Export Outlook: Export-Supported Jobs by State

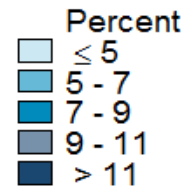
Export-supported Jobs, Share of Total Employment, 2015



US: 8.3%, Source: BLS and Brookings

Merchandise Exports, 2016

	Total	Exports to China	% of total
	\$billions	\$billions	exports
Alaska	5.1	1.5	28.7
Arizona	21.2	1.0	4.8
California	173.9	16.1	9.2
Hawaii	1.4	0.2	15.3
Idaho	5.1	0.5	9.4
Nevada	7.7	0.6	7.6
Oregon	20.9	4.3	20.4
Utah	12.2	0.9	7.3
Washington	90.6	20.7	22.9
Region V	338.2	45.7	13.5
United States	1,458.9	115.8	7.9



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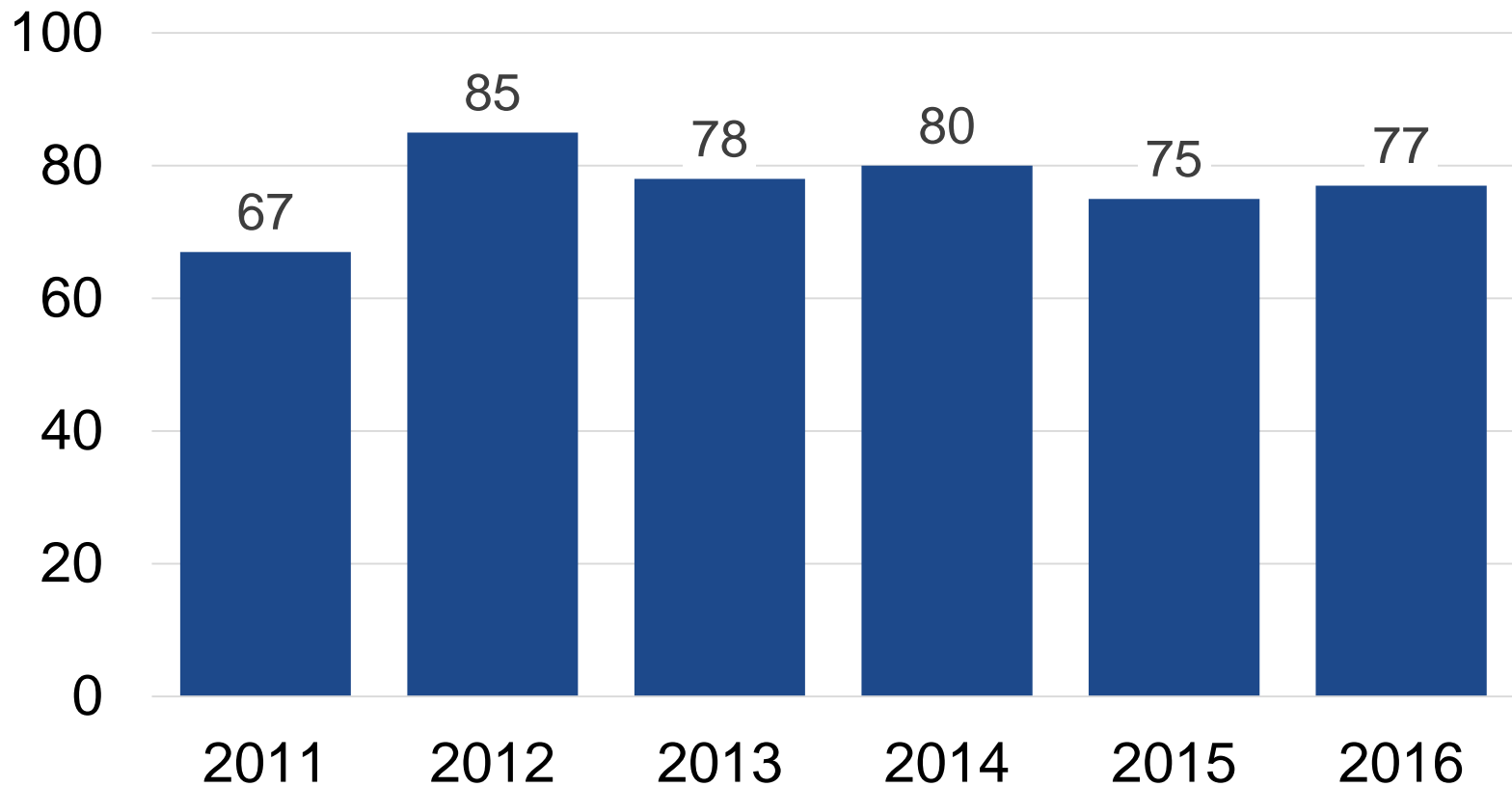


Background

Recent National Credit Union Indicators

Credit Union Performance Indicators

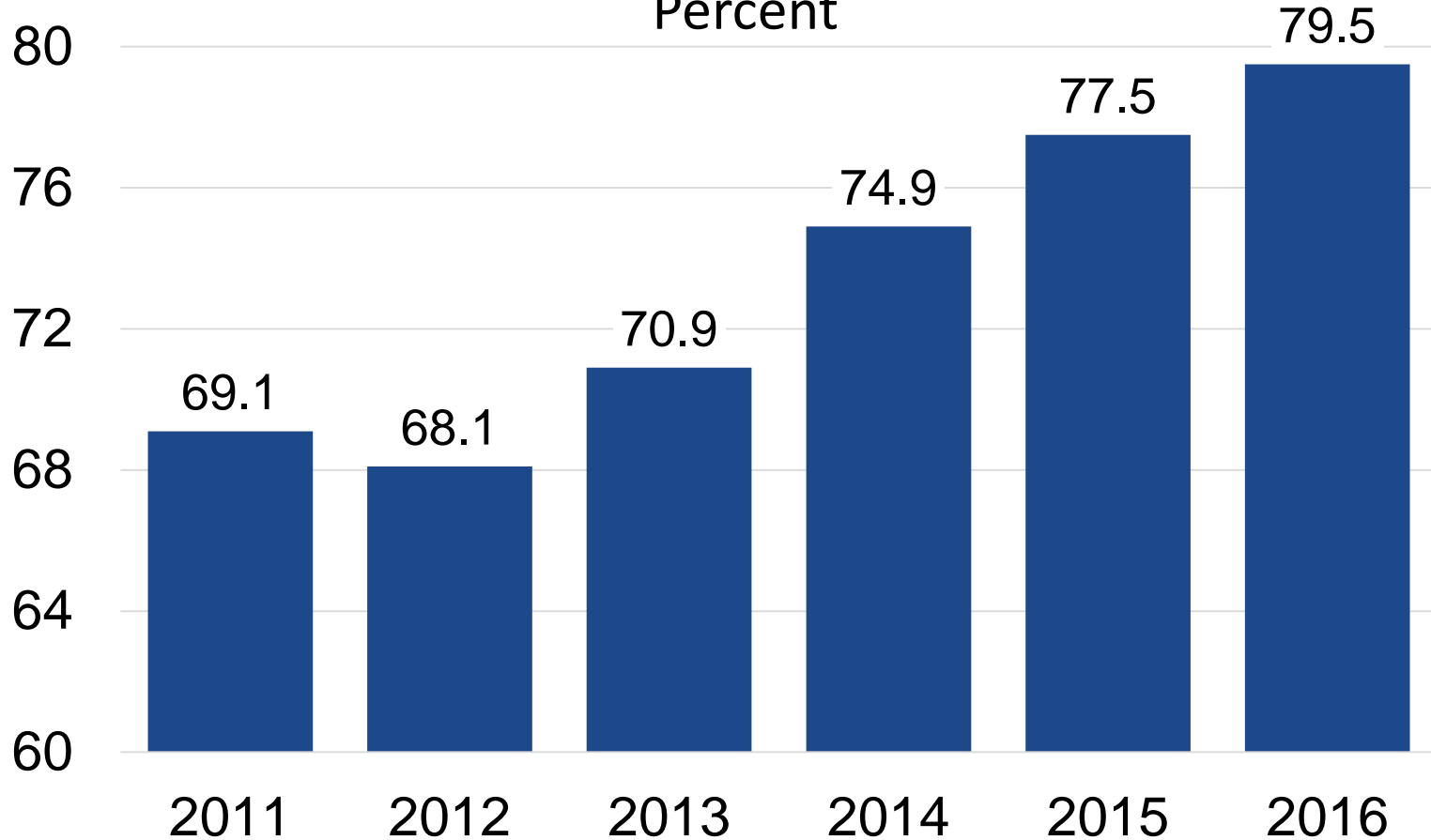
Credit Union ROAA in Q4, 2011-2016
in Basis points



Source: NCUA Call Reports

Credit Union Performance Indicators

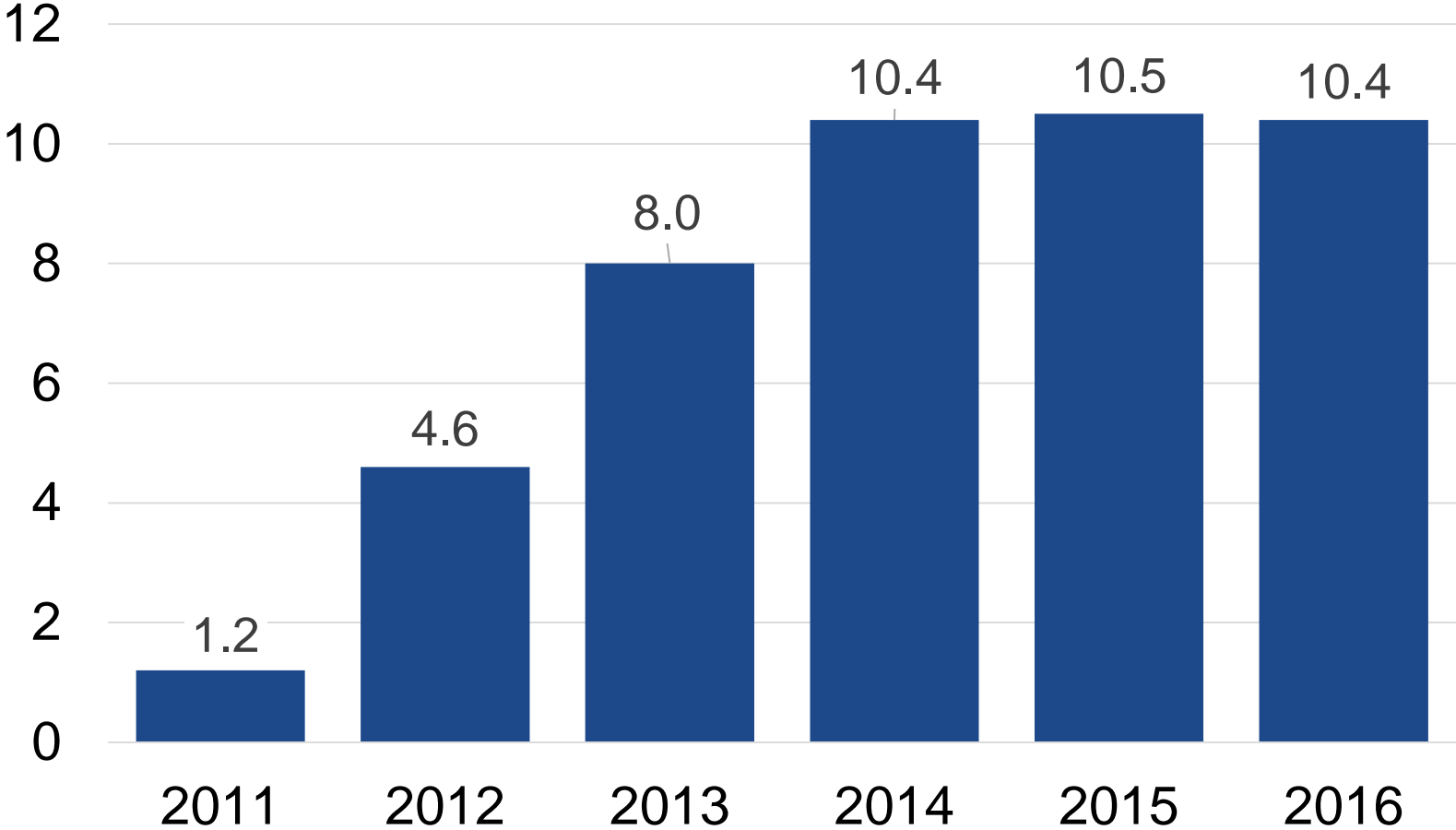
Loan to Share Ratio in Q4, 2011-2016,
Percent



Source: NCUA Call Reports

Credit Union Performance Indicators

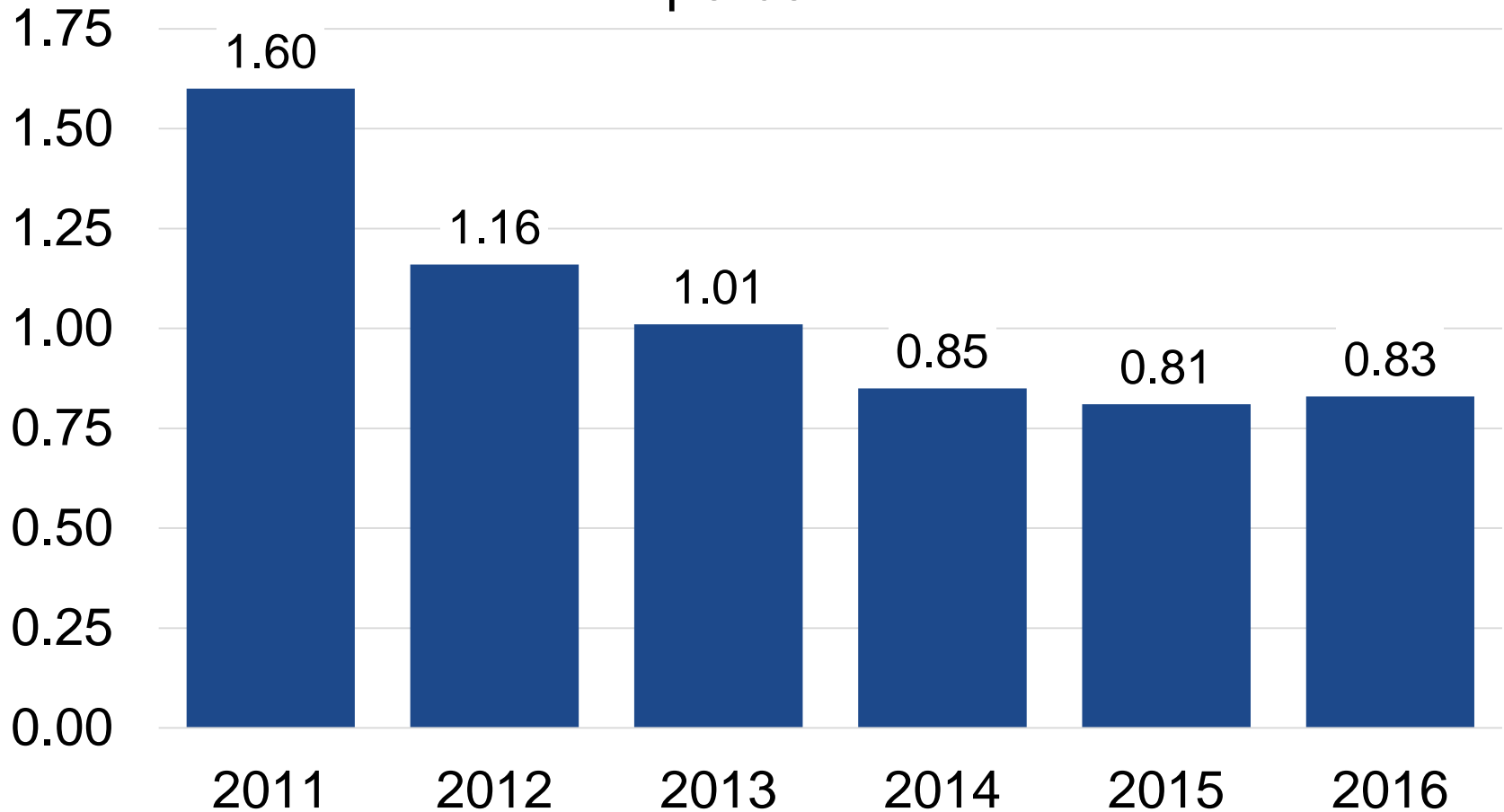
Four-quarter CU Loan Growth Ending in Q4, 2011-2016
Percent



Source: NCUA Call Reports

Credit Union Performance Indicators

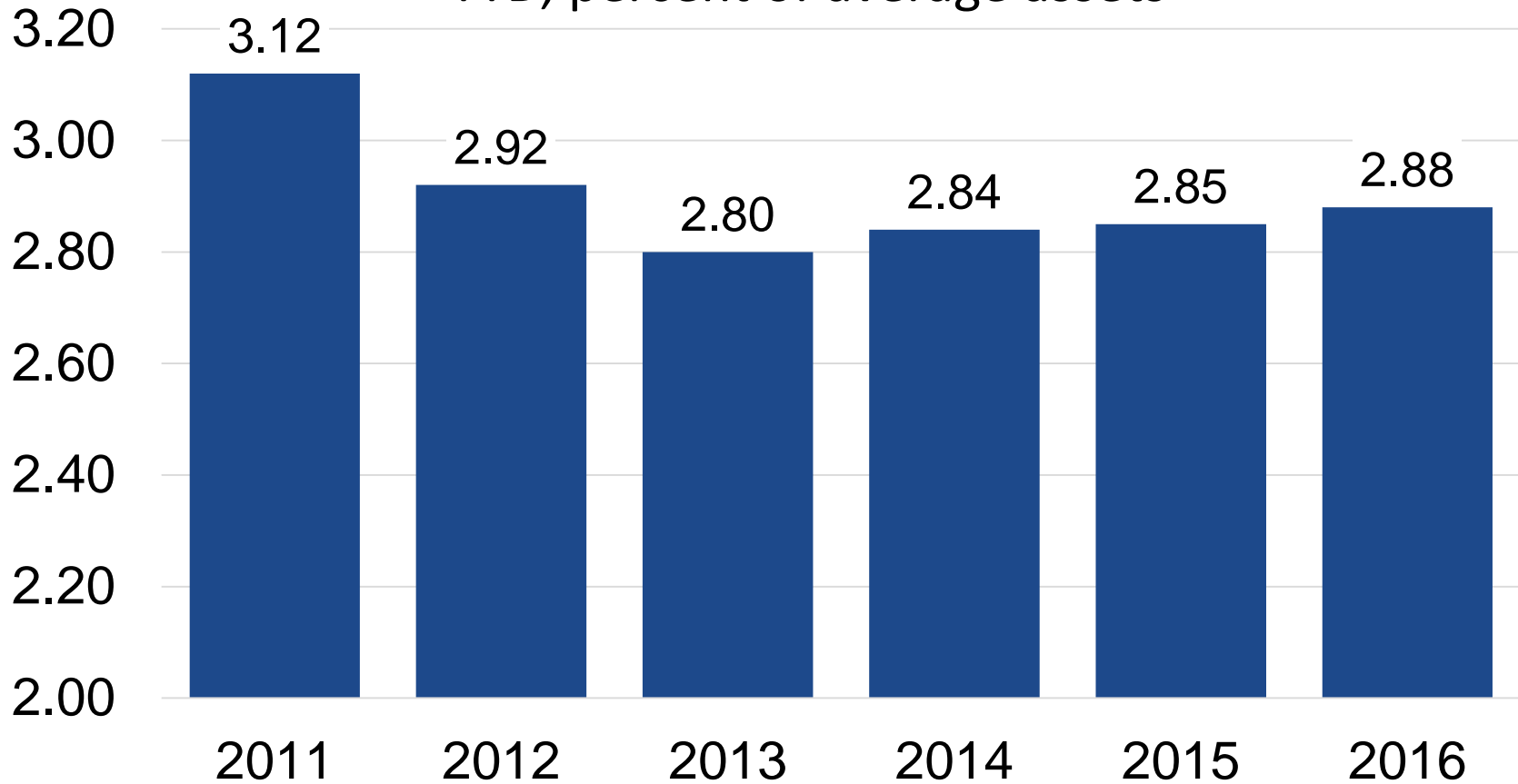
Credit Union Loan Delinquency Rate in Q4 percent



Source: NCUA Call Reports

Credit Union Performance Indicators

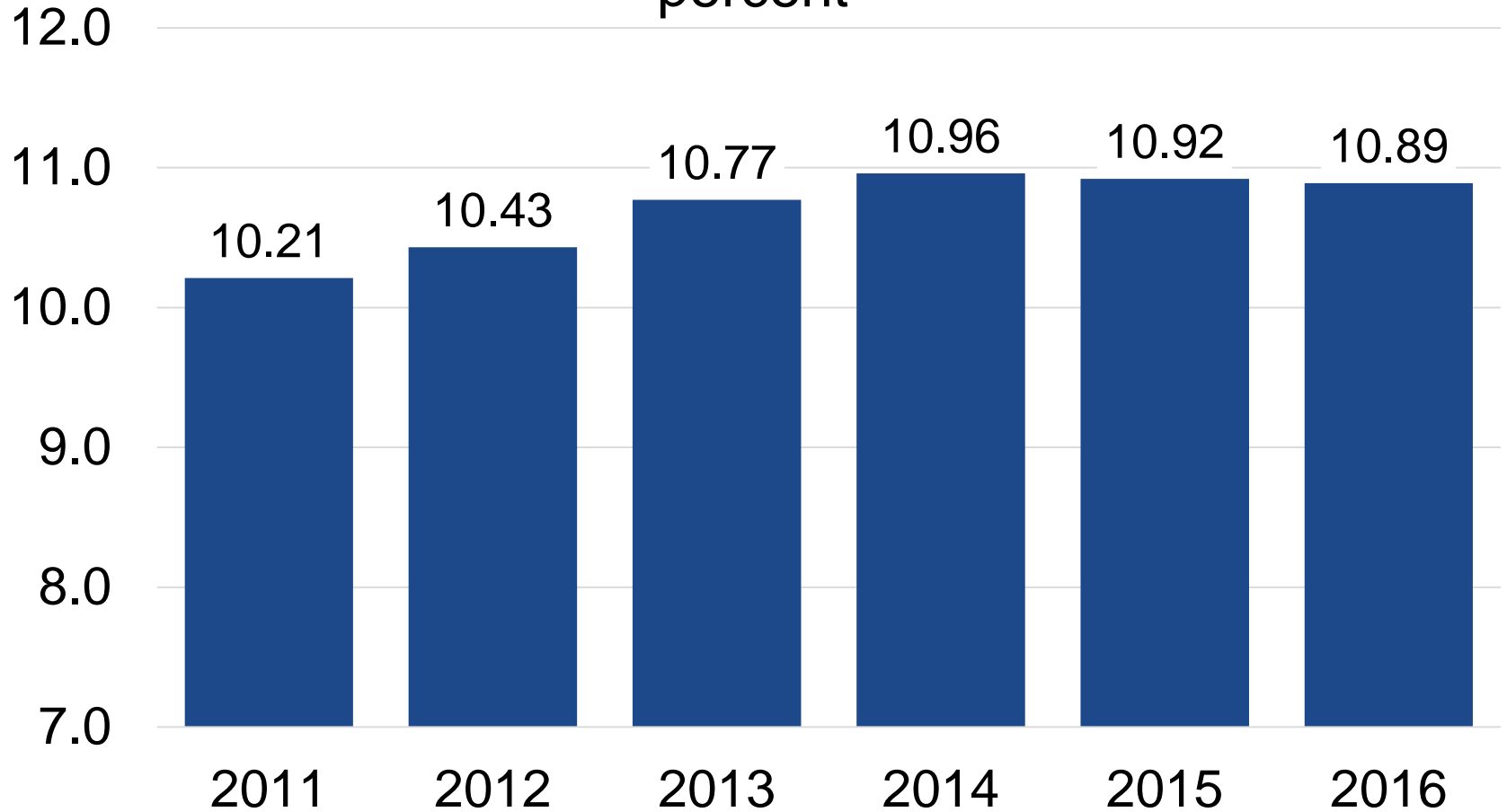
Credit Union Net Interest Margin in Q4, 2011-2016
YTD, percent of average assets



Source: NCUA Call Reports

Credit Union Performance Indicators

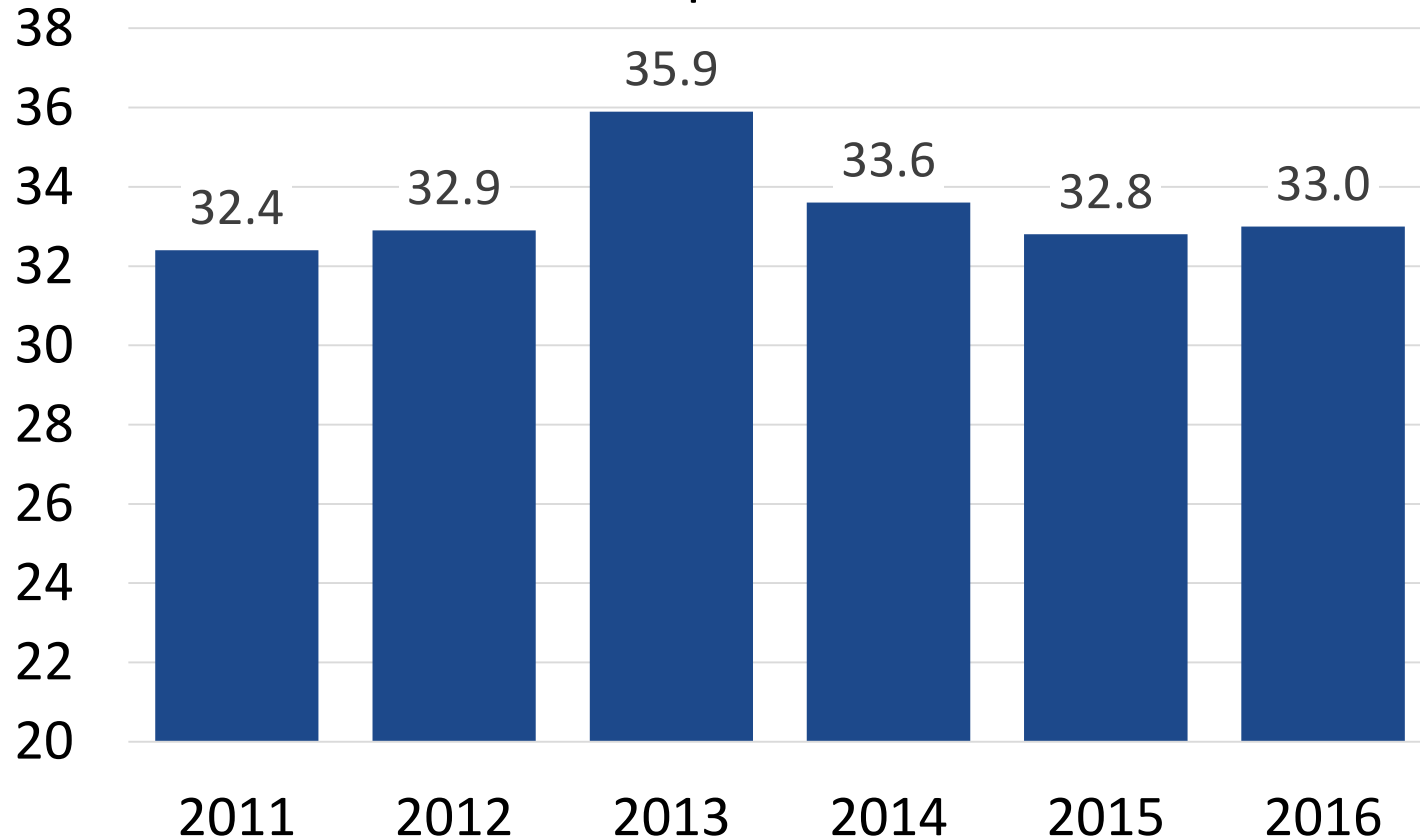
Credit Union Net Worth Ratio in Q4, 2011-2016
percent



Source: NCUA Call Reports

Credit Union Performance Indicators

Credit Union Net Long-Term Asset Share in Q4, 2010-2015
percent



Source: NCUA Call Reports