ECONOMIC & CU MONITOR
NAFCU
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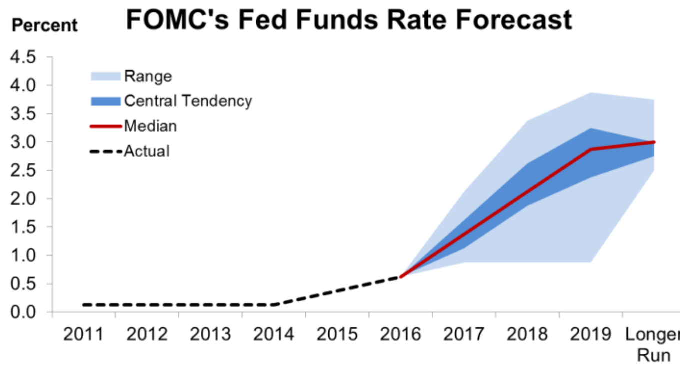
NAFCU's Monthly Report on Economic and Financial Conditions Affecting Federal Credit Unions

Industry & Economic Briefing

By Curt Long, Chief Economist / Director of Research

Industry Conditions: Figures as of September show the credit union industry continues to add members at a record pace. Share growth remains on an upward trajectory, and topped 8 percent versus a year ago. Loan growth has slowed slightly but still exceeds 10 percent. Vehicle loan growth remains strong, while credit card and HELOC loan growth has improved over the past 6 months. Delinquencies have risen slightly this year but are still down versus a year ago. Asset performance is on par with pre-crisis levels.



Note: Central tendency removes the three highest and three lowest forecasts
Source: Federal Reserve

Special Topic: 2017 Economic Outlook

With the approach of a new year, credit unions find themselves operating in similar economic conditions to a year ago. GDP continues to register at roughly 2 percent, auto sales remain strong, and the housing market has shown flashes of promise. Meanwhile, conditions abroad remain tenuous. A year ago slowdowns in China appeared to be the greatest area of concern, while today Europe looks to be more of a near-term threat, as 2017 will see Britain seeking to work through its exit from the EU, and several continental elections could be impacted by the recent wave of populism. But the greatest source of domestic uncertainty by far is President-elect Trump's economic agenda, and its potential to boost short-term growth.

Interest Rates

Earlier this month the Federal Reserve initiated just the second increase to the federal funds rate target since 2006. The process of normalizing interest rates has proceeded more slowly than most anticipated, including the Federal Reserve. A year ago, the FOMC predicted four rate hikes in 2016, but was continually frustrated by events abroad such as Chinese stock market turbulence and Brexit, continued low levels of business investment due in part to plunging oil prices, and the absence of wage growth and inflation despite low unemployment. In its most recent round of forecasts, the committee indicated that it expects three quarter-point rate hikes next year (see chart).

It appears likely that fiscal and monetary policy will be intertwined in 2017. Despite the mountain of monetary stimulus the Fed has provided through via quantitative easing, the Fed has been unable to achieve its inflation target due to falling oil prices and a strong dollar. But a fiscal stimulus package combined with protectionist trade policies has the potential to boost inflation back toward the Fed's 2 percent target. If inflation does improve, it would provide the Fed with the necessary ammunition to raise rates more quickly. That in turn could slow the economy and potentially threaten President-elect Trump's growth targets.

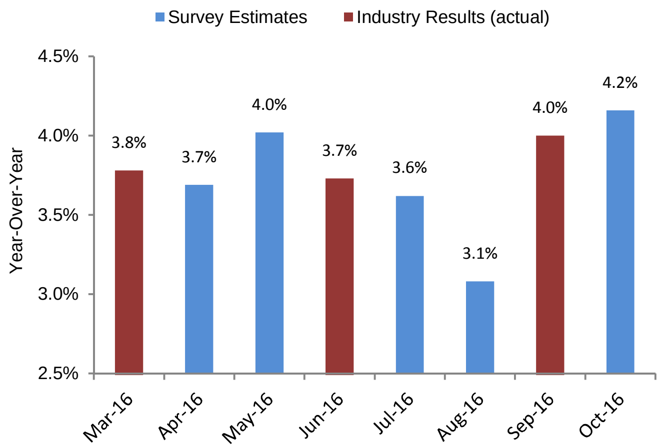
Lending & Spending

Growth in the housing market has been frustratingly slow recently, mirroring that of the overall economy. That trajectory – at least where purchase loans are concerned – is unlikely to change in 2017, while refinance activity will fade. Affordability concerns have centered on price growth lately, but interest rates will likely be more influential next year. If inflationary pressures take root, mortgage rates may continue to rise. A positive development of late has been the entry of younger buyers. Household formation is increasing and demographics suggest that further improvement is likely. First-time homebuyers accounted for 35 percent of sales in 2016, according to the National Association of Realtors, which is up from 32 percent in 2015.

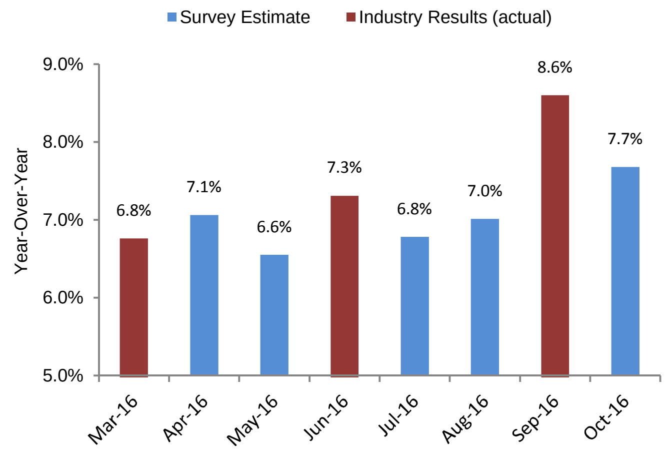
Auto sales have plateaued as the overhang of pent-up demand from the recession has been exhausted. Sales in 2016 are on pace to finish near 2015's record pace, and stability rather than growth is expected in the near term. Rising interest rates and an increasing share of leases are the chief headwinds. Growth in vehicle lending among credit unions is a result of their increasing market share, rather than a reflection of overall growth in auto sales.

Consumers continue to project confidence. With the stock market surging, households are well-positioned to drive the economy in 2017. Debt levels remain low overall, although non-mortgage debt has been rising. But wage growth appears poised to improve next year, and an increase in disposable income is likely to support consumer spending growth.

Member Growth

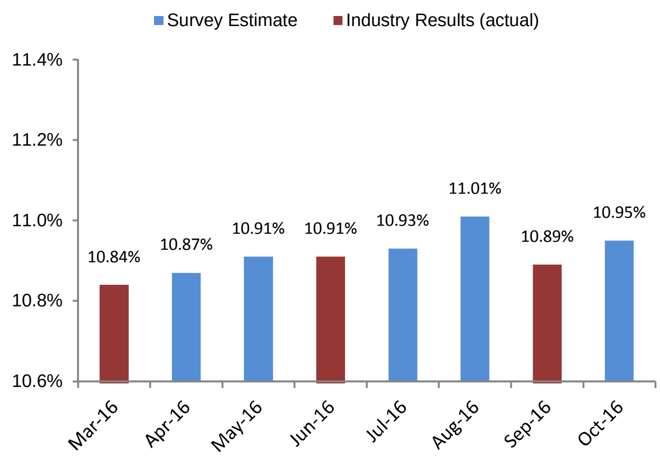


Share Growth

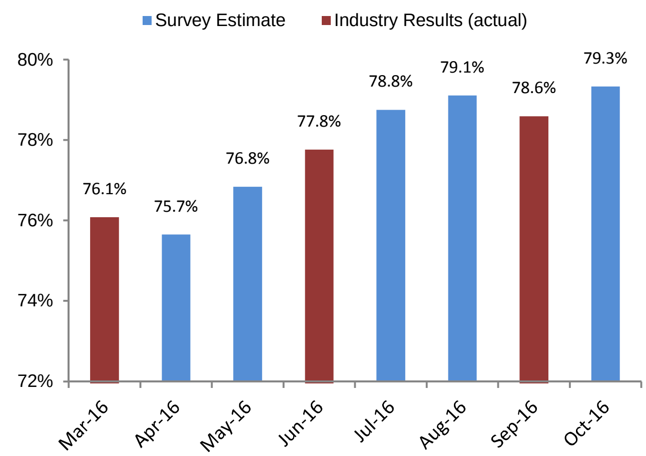


Based on NAFCU *Economic & CU Monitor* survey responses, estimated year-over-year credit union member growth increased in October to 4.2 percent. Share growth moderated somewhat but remained strong at 7.7 percent.

Net Worth Ratio

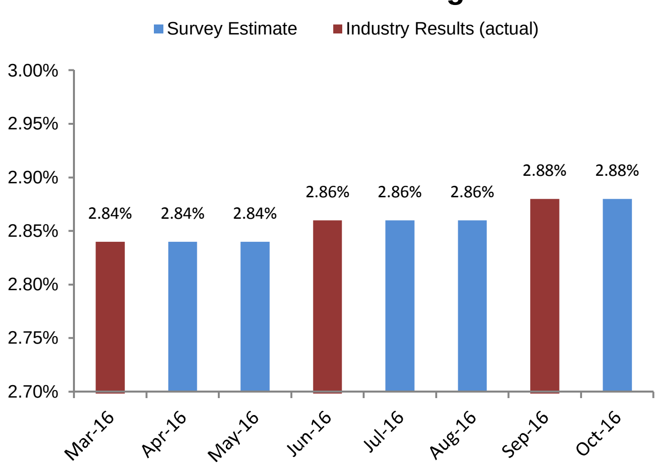


Loan-to-Share Ratio

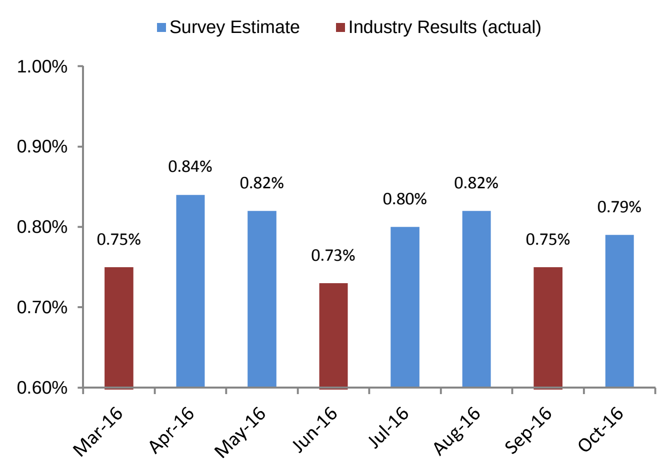


The estimated net worth ratio rose by six basis points to 10.95 percent in October. Meanwhile, the loan-to-share ratio increased from 78.6 percent in September to 79.3 percent in October.

Net Interest Margin



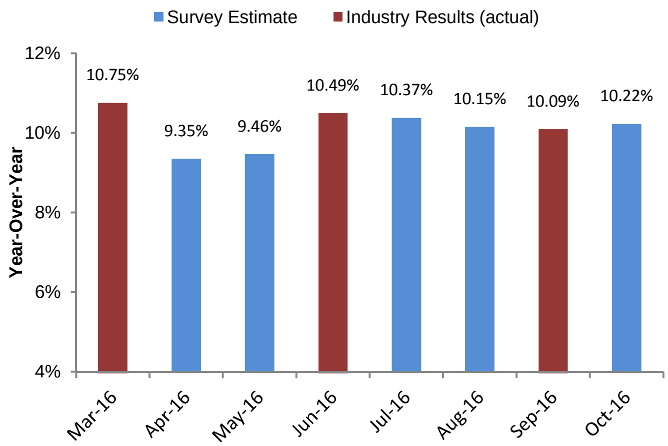
Return on Average Assets (ROA)



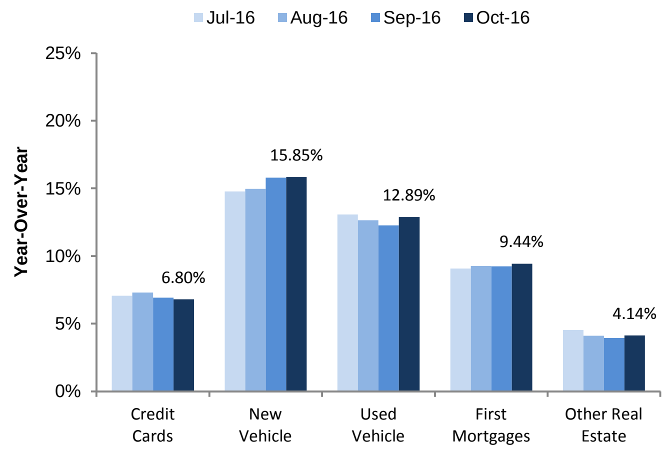
The industry net interest marginwas unchanged at 2.88 percent in October. Return on average assets (ROA) increased to 0.79 percent. In recent years, ROA has slipped as reductions in operating expenses have been more than offset by declining loan yield and fee income.

 Sources: NAFCU member survey and NCUA Call Report

Loan Growth

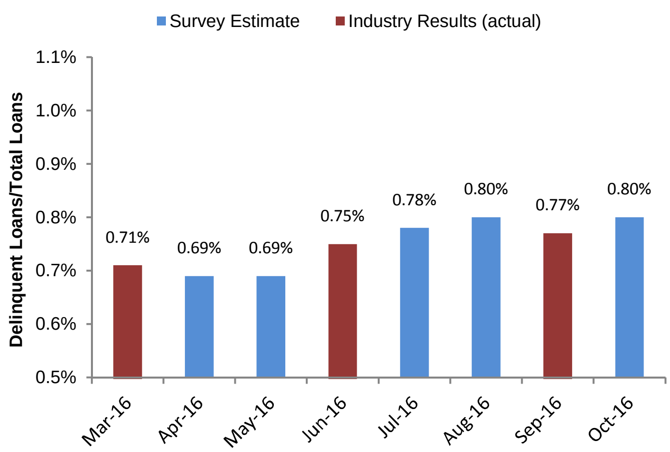


Loan Growth by Type

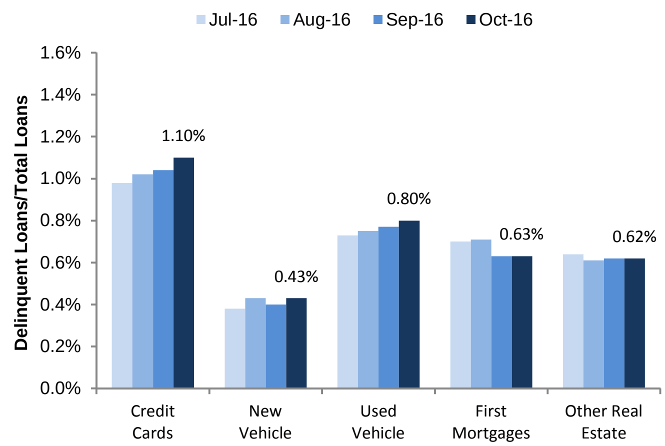


Estimated year-over-year loan growth accelerated to 10.2 percent in October based on survey responses. Within the loan segments, used vehicle, first mortgage, and other real estate loan growth each increased, while credit card loan growth slowed.

Delinquency Ratio



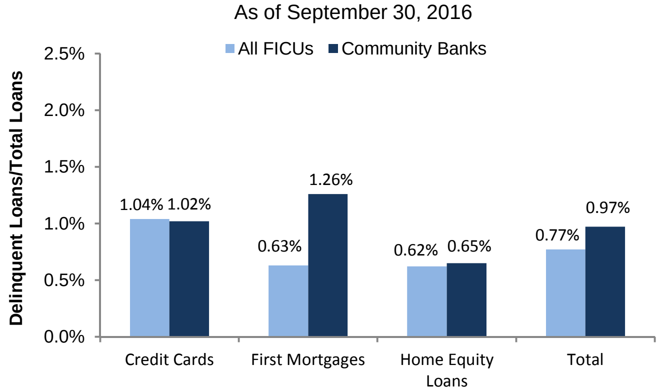
Delinquency Ratio by Type



Credit union delinquency ratios increased by an estimated three basis points in October. During the month, delinquencies were unchanged for real estate loans but grew for credit card, new vehicle, and used vehicle loans.

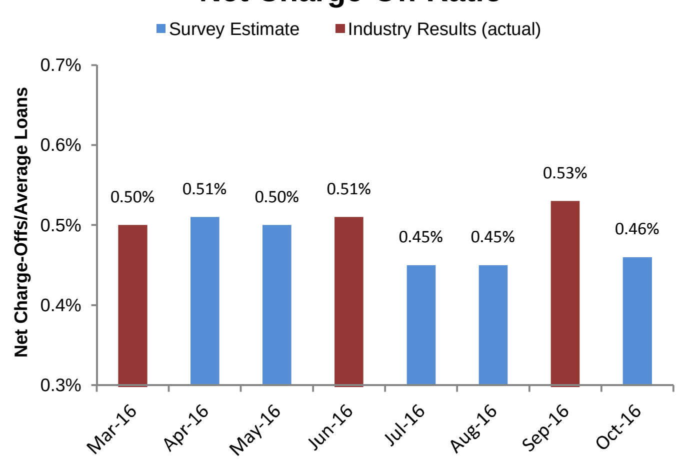
Delinquency Ratio*

As of September 30, 2016



*Bank delinquencies are 90+ days past due; credit union delinquencies are 60+ days past due

Net Charge-Off Ratio

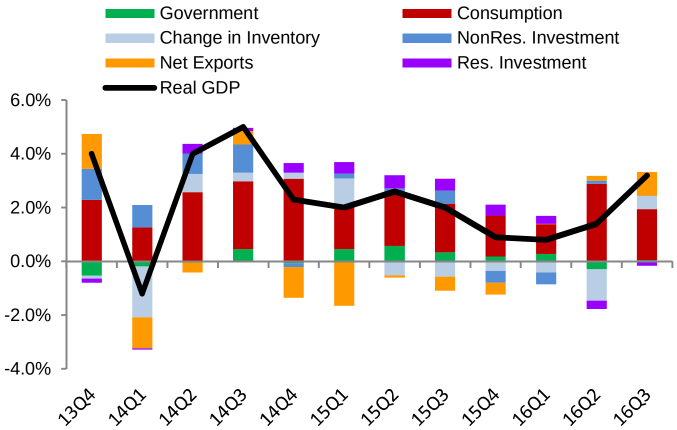


Overall credit union delinquencies remain well below those of community banks. Meanwhile, credit union charge-offs have returned to pre-crisis levels. In September the estimated net charge-off fell to 0.46 percent.

Sources: NAFCU member survey and NCUA Call Report

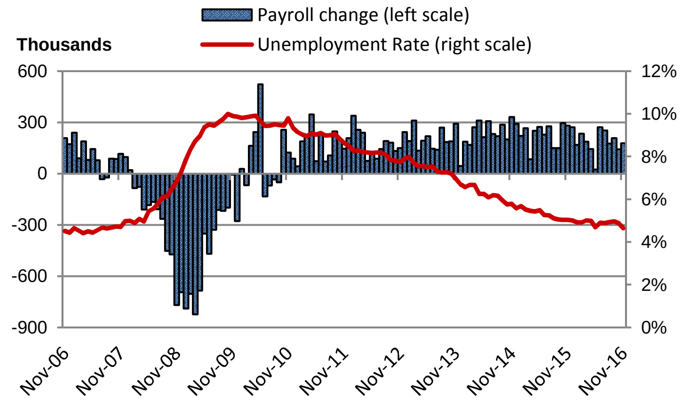
Contributions to real GDP growth

quarterly, annualized % change



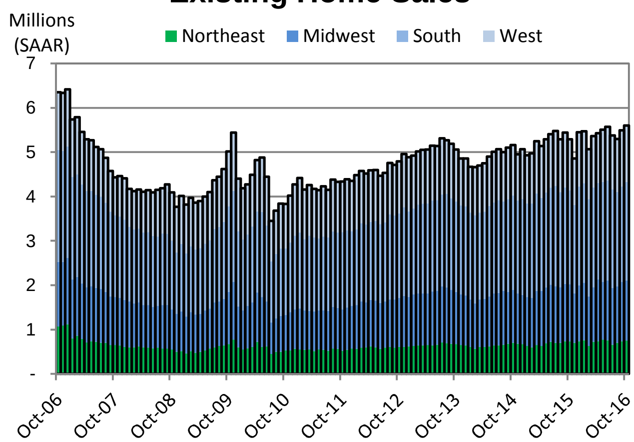
Monthly Payroll Gains and Unemployment Rate

seasonally adjusted



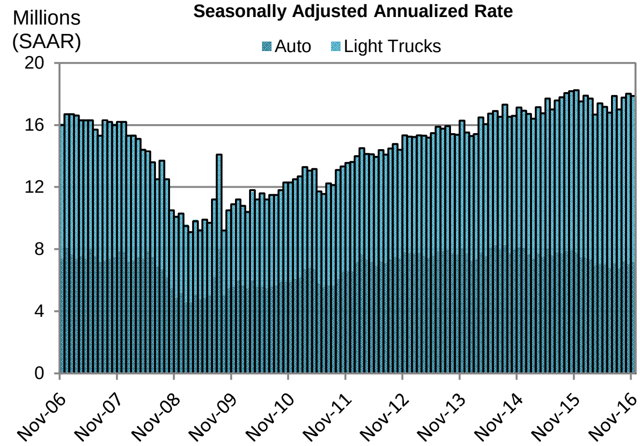
The second estimate for third quarter GDP growth showed an increase of 3.2 percent. The upward revision resulted mainly from a stronger reading of consumer spending. Employment was solid in November with 178,000 jobs added. Unemployment rate dropped to 4.6 percent as 226,000 workers exited the labor force. However, both labor force participation and wage growth declined.

Existing Home Sales



Vehicle Sales

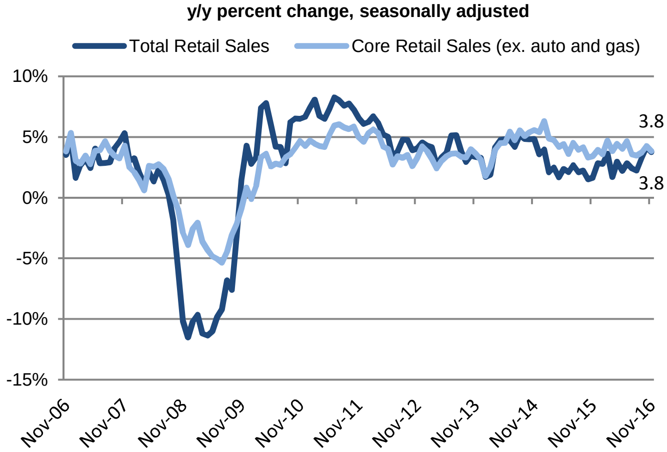
Seasonally Adjusted Annualized Rate



Existing home sales rose to its highest level in nearly a decade in October, while new home sales decreased to a four-month-low. Mortgage rates spiked after the election, which might cause a temporary slowdown in the higher-priced end of the market. Auto sales declined year-over-year for the fourth consecutive month in November as pent-up demand from the recession diminishes.

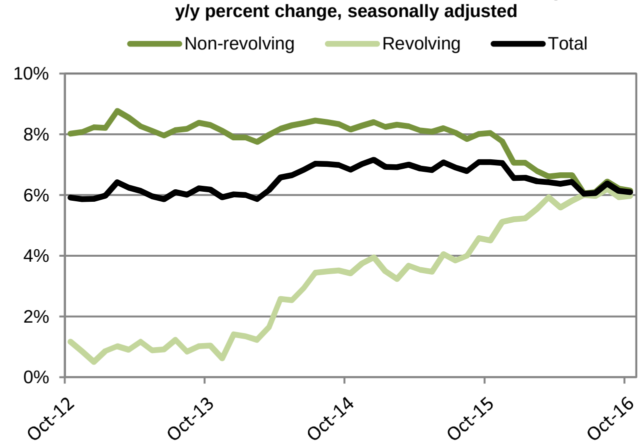
Retail Sales

y/y percent change, seasonally adjusted



Consumer Credit Outstanding

y/y percent change, seasonally adjusted



Retail sales growth slowed in November after two months of strong gains. However, consumer confidence has surged since the election. Consumer credit rose 5.2 percent in October as revolving credit grew 2.9 percent and non-revolving credit rose 6.0 percent. Looking ahead, consumers might hesitate to take on more debt as long-term interest rates climbed after the election.

NAFCU Economic & CU Monitor: Regional Outlook

December 2016

NAFCU's Regional Outlook is the index value of survey respondents' average expectations. The index ranges from negative 100 to positive 100, with no change = 0. A positive score indicates that growth in the category is expected to be stronger in the next 12 months, while a negative score reflects expectations of weaker growth.

	TOTAL			NORTHEAST			MID-ATLANTIC			SOUTHEAST			MIDWEST			WEST		
Growth	Sep	Oct	Nov	Sep	Oct	Nov	Sep	Oct	Nov	Sep	Oct	Nov	Sep	Oct	Nov	Sep	Oct	Nov
Members	25	20	24	38	13	40	33	14	0	50	33	33	-33	33	0	0	25	50
Shares	25	4	6	14	0	25	50	0	0	50	33	33	33	33	-25	-50	-20	0
Assets	32	21	25	14	0	25	50	29	67	50	33	33	33	67	-25	0	0	50
Performance																		
Net Worth Ratio	42	29	38	57	43	50	50	29	67	0	0	0	0	0	25	100	50	50
ROA	11	21	19	29	29	25	0	14	33	0	0	0	0	0	25	0	50	0
Loan-to-Share	42	38	31	0	0	25	83	57	33	0	0	-33	67	67	75	100	75	50
Net Interest Margin	16	8	13	57	43	75	-33	-29	-33	0	0	-33	33	33	25	0	0	0
Loan Balances																		
1st Mortgage	10	23	-18	29	13	0	-17	14	-67	50	33	67	0	33	-50	0	40	-33
Refi Share (%)	-8	-6	-15	-20	-40	0	0	0	-50	0	0	0	0	0	-33	0	25	0
Other Real Estate	30	50	35	0	50	25	67	71	100	50	33	33	0	-33	0	50	80	33
New Vehicle	5	4	12	-14	-13	-25	17	0	33	0	0	33	0	0	0	50	40	33
Used Vehicle	15	23	0	29	25	0	17	14	0	0	0	-33	0	33	0	0	40	33
Credit Card	32	35	29	50	25	50	50	57	33	0	0	33	0	33	0	0	40	33
Business Loan	35	8	7	29	13	0	50	29	33	50	0	0	0	-50	0	0	0	0
Total	30	27	6	29	13	-25	50	29	0	50	33	67	0	33	-25	0	40	33
Delinquencies*																		
1st Mortgage	-16	-17	-13	-29	-25	0	17	17	33	-50	-33	-33	-33	-33	-50	0	-25	0
Other Real Estate	-11	-8	-6	-29	-13	-25	0	17	0	0	0	0	0	0	25	0	-50	-50
New Vehicle	6	17	0	-17	0	-25	17	50	33	0	0	0	33	33	25	0	0	-50
Used Vehicle	11	13	6	14	25	25	17	33	33	0	0	0	0	0	0	0	-25	-50
Credit Card	17	21	25	17	25	25	17	33	33	0	0	33	33	33	25	0	0	0
Business Loan	0	-5	-7	0	0	0	0	0	0	0	0	0	0	0	0	N/A	-33	-50
Total	5	8	19	0	14	50	17	0	0	0	0	33	0	33	25	0	0	-50
Net Charge-Offs*	21	0	-19	29	29	0	17	0	-33	0	0	0	33	0	-25	0	-50	-50

** for delinquencies and charge-offs, a negative figure indicates improvement*

NAFCU survey respondents' outlook for growth over the next 12 months remained positive in November. All five regions anticipate that member growth will either remain at current levels or accelerate further. Share growth expectations, which moderated in October, were little changed overall in November. ROA is expected to improve overall in November, and in the Mid-Atlantic, Northeast and Midwest regions. Meanwhile, the Mid-Atlantic region maintained its pessimism with respect to net interest margins, and was joined by the Southeast region in November. The outlook on loan growth faded in November but remained positive. The effect of higher mortgage rates was evident, with the Mid-Atlantic, Midwest, and West regions indicating significant pessimism for first mortgage loan growth going into 2017. Respondents indicated more optimism with respect to HELOCs and credit card loans. Delinquencies are expected to rise over the next year, as improvements in real estate delinquencies are more than offset by a worsening of auto and credit card delinquencies.

NAFCU Economic & CU Monitor: Forecast

December 2016

NAFCU Forecast	2013	2014	2015	2015	2016	2016	2016	2016	2017
GDP and components		annual		Q4	Q1	Q2	Q3	estimate	estimate
Real GDP (annual or quarterly % chg)	1.7	2.4	2.6	0.9	0.8	1.4	3.2	1.7	2.0
Personal Consumption Expenditures	1.5	2.9	3.2	2.3	1.6	4.3	2.8	2.8	2.3
Residential Investment	11.9	3.5	11.7	11.5	7.8	-7.7	-4.4	2.0	3.5
Nonresidential Investment	3.5	6.0	2.1	-3.3	-3.4	1.0	0.1	-0.2	3.0
Government Spending & Investment	-2.9	-0.9	1.8	1.0	1.6	-1.7	0.2	0.4	0.5
Private inventories (chained $b)	$78.7	$57.7	$84.0	$56.9	$40.7	-$9.5	$7.6	$15.0	$40.0
Net Exports (chained $b)	-$405	-$426	-$540	-$567	-$566	-$559	-$521	-$550	-$615
Other data	2013	2014	2015	Aug	Sep	Oct	Nov	estimate	estimate
Growth in Avg. Hourly Wages	2.1	2.0	2.3	2.5	2.7	2.8	2.5	2.6	3.0
Unemployment Rate (ann. avg., %)	7.4	6.2	5.3	4.9	5.0	4.9	4.6	4.9	4.8
Vehicle Sales (millions, SAAR)	15.6	16.5	17.5	17.0	17.8	18.0	17.9	17.4	17.5
Retail Sales Growth (y/y)	3.7	3.9	2.2	2.2	3.3	4.2	3.8	2.9	3.5
Consumer Credit Growth (y/y)	6.0	7.0	7.0	6.4	6.1	6.1	N/A	6.5	6.0
Consumer Price Index (y/y)	1.5	1.6	0.1	1.1	1.5	1.6	1.7	1.3	2.1
Core Consumer Price Index (y/y)	1.8	1.7	1.8	2.3	2.2	2.2	2.1	2.2	2.2
Housing data	2013	2014	2015	Jul	Aug	Sep	Oct	estimate	estimate
Housing Starts (thousands, SAAR)	925	1,003	1,112	1218	1164	1054	1323	1170	1280
New Home Sales (thousands, SAAR)	429	437	501	622	567	574	563	570	650
Existing Home Sales (millions, SAAR)	5.09	4.94	5.25	5.38	5.30	5.49	5.60	5.4	5.6
				Q4	Q1	Q2	Q3		
Median New Home Price (thou, NSA)	269	283	294	305	305	313	301	310	320
Median Existing Home Price (thou, NSA)	197	208	222	221	216	239	239	230	240
Mortgage Originations (billions)	1,845	1,261	1,630	417	350	510	561	1,900	1,550
Refinance Share (% of originations)	60	43	46	47	47	46	47	47	31
Interest rates (annual/monthly avg.)	2013	2014	2015	Aug	Sep	Oct	Nov	estimate	estimate
Federal Funds Rate (%)	0.11	0.09	0.13	0.40	0.40	0.40	0.41	0.4	0.9
1-Year Treasury	0.13	0.12	0.32	0.57	0.59	0.66	0.74	0.6	1.2
10-Year Treasury	2.4	2.5	2.1	1.6	1.6	1.8	2.1	1.8	2.5
30 Year Mortgage	4.0	4.2	3.9	3.4	3.5	3.5	3.8	3.7	4.2
Credit union trends									
Federally insured credit unions	2013	2014	2015	Q4	Q1	Q2	Q3	estimate	estimate
Member Growth (y/y)	2.6	3.1	3.5	3.5	3.8	3.7	4.0	4.1	3.7
Loan Growth (y/y)	7.9	10.4	10.5	10.5	10.8	10.5	10.1	10.0	9.0
Share Growth (y/y)	3.7	4.5	6.9	6.9	6.8	7.3	8.6	8.0	7.0
Loan/Share Ratio	70.9	74.9	77.5	77.5	76.1	77.8	78.6	78.9	80.4
ROA before stabilization	0.84	0.80	0.75	0.75	0.75	0.73	0.75	0.75	0.70
Net Worth Ratio	10.77	10.97	10.92	10.92	10.84	10.91	10.89	10.8	10.8
Delinquency Ratio	1.01	0.85	0.81	0.81	0.71	0.75	0.77	0.80	0.85
Net Charge-Off Ratio	0.57	0.49	0.48	0.48	0.50	0.51	0.53	0.55	0.55

**NAFCU estimates are end of year, compiled from Federal Reserve, Fannie Mae, Freddie Mac, Mortgage Bankers Assoc., and Moody's Analytics. Quarterly figures are Q/Q percent change at annual rates. Monthly figures are Y/Y percent change SAAR, except member survey (M/M)*