Economic & Credit Union Outlook

CA/NV League CEO Weekly Meeting  July 16th, 2020

*Samira Salem, Ph.D., Senior Policy Analyst
Credit Union National Association
ssalem@cuna.coop*
Daily Change in Number of U.S. Confirmed COVID-19 Cases
Data through July 13th 2020 // Johns Hopkins University

https://coronavirus.jhu.edu/map.html
U.S. Economic Growth
Change in Real Gross Domestic Product // Source: BEA

2007: 2.0%
2008: -2.8%
2009: 0.2%
2010: 2.6%
2011: 1.6%
2012: 1.5%
2013: 2.6%
2014: 2.9%
2015: 1.9%
2016: 2.0%
2017: 2.8%
2018: 2.5%
2019: 2.3%
2020: -5.3%
2021: 4.0%
Unemployment in U.S., CA, and NV
Percent // Source: Bureau of Labor Statistics via Fred

US Unemployment: 3.5%
CA Unemployment: 3.9%
NV Unemployment: 3.7%

2020Q4 Unemployment
US: 3.5%
CA: 3.9%
NV: 3.7%
Unemployment by race and ethnicity amid COVID-19

Source: Bureau of Labor Statistics

<table>
<thead>
<tr>
<th></th>
<th>Feb-20</th>
<th>Mar-20</th>
<th>Apr-20</th>
<th>May-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Black/African American</td>
<td>5.8%</td>
<td>6.7%</td>
<td>16.7%</td>
<td>16.8%</td>
</tr>
<tr>
<td>Hispanic/Latinx</td>
<td>4.4%</td>
<td>4.1%</td>
<td>18.9%</td>
<td>17.6%</td>
</tr>
<tr>
<td>Asian</td>
<td>2.5%</td>
<td>4.0%</td>
<td>14.3%</td>
<td>14.8%</td>
</tr>
<tr>
<td>White</td>
<td>3.1%</td>
<td>4.0%</td>
<td>14.2%</td>
<td>12.4%</td>
</tr>
</tbody>
</table>
30-yr mortgage rates at historic low!

2.98% on July 16, 2020
Policy Changes?

• Fed on sidelines (no negative interest rates)

• Phase 4 - a narrow bucket of:
  • Unemployment benefits (not as rich ~$300?)
  • More focused/smaller stimulus checks
  • State/local funding

• Blue wave? Democrat tsunami?
  • No assumed effect in 2020
  • Only modest effects in 2021 – focus on maintaining forward momentum: if Dems win expect partial roll-back of corporate tax cuts/redistributions via shifts in personal tax rates
## Economic forecast

**July 8, 2020**

<table>
<thead>
<tr>
<th></th>
<th>Actual results</th>
<th>Quarterly results/forecasts</th>
<th>Annual forecasts</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Growth rates:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic Growth (% chg GDP)*</td>
<td>2.43%</td>
<td>2.33%</td>
<td>-5.0%</td>
</tr>
<tr>
<td>Inflation (% chg CPI)*</td>
<td>1.55%</td>
<td>1.81%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Unemployment Rate (BLS)</td>
<td>4.70%</td>
<td>3.50%</td>
<td>4.4%</td>
</tr>
<tr>
<td>Unemployment Rate (Adjusted***)</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Federal Funds Rate (effective)</td>
<td>1.18%</td>
<td>1.55%</td>
<td>0.08%</td>
</tr>
<tr>
<td>10-Year Treasury Rate</td>
<td>2.35%</td>
<td>1.92%</td>
<td>0.70%</td>
</tr>
<tr>
<td>10-Year-Fed Funds Spread</td>
<td>1.17%</td>
<td>0.37%</td>
<td>0.62%</td>
</tr>
</tbody>
</table>

*Percent change, annual rate. All other numbers are end-of-period values.

***Estimated unemployment rate reported by BLS if workers absent for work due to “other reasons” (e.g., COVID-19 related business closures) were classified as unemployed.
Credit union environment & outlook
Loan and savings growth

Percent // Source: NCUA, CUNA
Credit Union First Mortgage 12-Month Growth
Source: CUNA Monthly Credit Union Estimates
Credit Union ROA
Net Income as a % of Avg Assets // Source: NCUA & CUNA
The Result: Consumers NOTICE & VALUE what we do!
CU Membership vs. Population Growth
// Source: NCUA, CUNA, Census Bureau
CUNA underwrote a Morning Consult phone survey made up of a representative sample of 2,200 U.S. adults in January 2020 wherein we explored this topic in detail. Consumers were two times more likely to “agree strongly” that credit unions “act in consumer’s best interests and are good corporate citizens” than to answer similarly about banks. Moreover, they were roughly 55% more likely to “agree strongly” that credit unions “treat customers fairly and abide by laws regulations” than to answer similarly about banks.

**Bank and Credit Union Reputation**
Percent who “Agree Strongly” with statements about banks and credit unions

- Provides great customer service, financial value & consumer-friendly products and services
  - Banks: 21%
  - Credit Unions: 35%
- Treats customers fairly and abides by laws regulations
  - Banks: 22%
  - Credit Unions: 34%
- Acts in consumer’s best interests and is a good corporate citizen
  - Banks: 15%
  - Credit Unions: 32%
Value and Trust

- In the wake of the Great Recession consumers were trading down – and clearly focused on value and price. Shoppers became more promotion-conscious and, in one study, researchers noted a ten-percentage point climb (from 26% pre-recession to 36% post-recession) in the mix of products sold on discount. (McKinsey)
- The movement’s structural difference creates unique and powerful operational incentives that helped credit unions deliver $14 billion in direct financial benefits to members in 2019 alone. Keeping this front-and-center and focusing on the financial benefits your credit union delivers could be a difference-maker going forward.
- Of course, not all credit unions can (or want to) compete on price. And with market interest rates lower-for-longer net interest margin pressures will be more obvious and will almost certainly reduce the ability to maintain big financial benefits. Perhaps significantly.
- In that regard, McKinsey notes that many consumers claimed they couldn’t afford to make “mistakes” with less-well-known brands and reflected a high degree of interest in staying with tried-and-true, trusted brands.
- The credit union “brand” is one of the most trusted brands on the planet. For example, the most recent comparative data in the Chicago Booth/Kellogg Financial Trust Index shows credit unions with an index reading of 60 and banks collectively with a trust index reading of only 40.

Credit Unions

Credit unions are among the highest-rated services we’ve ever evaluated, with 96 percent of our members highly satisfied vs. 80 percent for the three biggest national banks. That satisfaction is driven by good customer service, not surprising when you consider that credit unions are owned and managed by their members. Credit union members usually have access to free checking, higher interest rates on certificates of deposit, and significantly lower rates for credit card and auto loans.


## Credit union forecast

**July 8, 2020**

<table>
<thead>
<tr>
<th></th>
<th>Actual results</th>
<th>Quarterly results/forecasts</th>
<th>Annual forecasts</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Growth rates:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings growth</td>
<td>6.8%</td>
<td>8.1%</td>
<td>4.3%</td>
</tr>
<tr>
<td>Loan growth</td>
<td>9.3%</td>
<td>6.5%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Asset growth</td>
<td>6.9%</td>
<td>7.7%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Membership growth</td>
<td>3.9%</td>
<td>3.6%</td>
<td>0.8%</td>
</tr>
<tr>
<td><strong>Liquidity:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan-to-share ratio**</td>
<td>82.1%</td>
<td>84.4%</td>
<td>81.1%</td>
</tr>
<tr>
<td><strong>Asset quality:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delinquency rate**</td>
<td>0.77%</td>
<td>0.70%</td>
<td>0.63%</td>
</tr>
<tr>
<td>Net charge-off rate*</td>
<td>0.55%</td>
<td>0.56%</td>
<td>0.58%</td>
</tr>
<tr>
<td><strong>Earnings:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on average assets (ROA)*</td>
<td>0.83%</td>
<td>0.93%</td>
<td>0.53%</td>
</tr>
<tr>
<td><strong>Capital adequacy:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net worth ratio**</td>
<td>11.1%</td>
<td>11.4%</td>
<td>11.0%</td>
</tr>
</tbody>
</table>

*Quarterly data, annualized. **End of period ratio.

Note: Data for the first quarter of 2020 is from CUNA’s [Monthly Credit Union Estimates](https://www.cuna.org) survey data given that NCUA data was not yet available.
Thank you.

Samira Salem, Sr. Policy Analyst
ssalem@cuna.coop