CATALYST Strategic Solutions

# Market Overview AND DATA REPORT

APRIL 2016

| KEY ECONOMIC INDICATORS | Latest Report | Current Report | Previous Report | 2015 |
|---|---|---|---|---|
| **ECONOMIC GROWTH** | | | | |
| GDP (QoQ) | Q4 | 1.4% | 1.0% | 2.0% |
| **EMPLOYMENT** | | | | |
| Non-farm Payrolls (000s) | Mar | 215 | 245 | 2,650 |
| Private Payrolls (000s) | Mar | 195 | 236 | 2,551 |
| Unemployment Rate | Mar | 5.0% | 4.9% | 5.0% |
| Underemployment Rate | Mar | 9.8% | 9.7% | 9.9% |
| **INFLATION** | | | | |
| Wholesale (YoY) | Feb | 0.0% | -0.2% | -1.0% |
| Consumer (YoY) | Feb | 1.0% | 1.4% | 0.5% |
| Core Consumer (YoY) | Feb | 2.3% | 2.2% | 2.0% |
| **INCOME & SPENDING** | | | | |
| Chg in Consumer Credit ($B) | Feb | 17.2 | 14.8 | 21.4 |
| Personal Income | Feb | 0.2% | 0.5% | 4.4% |
| Personal Spending | Feb | 0.1% | 0.5% | 3.4% |
| **AUTO & HOUSING** | | | | |
| Total Auto Sales (Mil Units) | Mar | 16.5 | 17.4 | 17.4 |
| New & Existing Home Sales (M) | Feb | 5.59 | 5.97 | 5.99 |
| S&P/Case Shiller HPI (YoY) | Jan | 5.43% | 5.34% | 5.43% |

*Sources:*

*US Labor Dept; US Commerce Dept; National Association of Realtors; Bloomberg*

| KEY MARKET INDICATORS | Mth End | Last Mth | 12 Mth Ago |
|---|---|---|---|
| | Mar-16 | Feb-16 | Mar-15 |
| **MONEY MARKETS** | | | |
| Effective Fed Funds | 0.37% | 0.29% | 0.12% |
| Prime Rate | 3.50% | 3.50% | 3.25% |
| 3 month LIBOR | 0.63% | 0.63% | 0.27% |
| 2 year UST | 0.72% | 0.78% | 0.56% |
| 10 year UST | 1.77% | 1.74% | 1.92% |
| **NATIONAL MORTGAGE RATES** | | | |
| CU 15 year Mtg | 3.21% | 3.21% | 3.28% |
| CU 30 year Mtg | 3.80% | 3.78% | 3.88% |
| **EQUITY MARKETS** | | | |
| Dow Jones Industrial Average | 17,685.1 | 16,516.5 | 17,776.1 |
| NASDAQ Composite | 4,869.8 | 4,558.0 | 4,900.9 |
| S&P 500 | 2,059.7 | 1,932.2 | 2,067.9 |
| **OTHER COMMODITIES** | | | |
| CRB Index | 170.5 | 163.2 | 211.9 |
| Crude Oil | 38.1 | 35.6 | 57.3 |

*Source: Bloomberg; RateWatch*

## KEY ECONOMIC AND MARKET INDICATORS

Employers added 215,000 jobs during March. The unemployment rate climbed to 5.0 percent as a greater number of people entered the labor force in March. Manufacturing posted the biggest loss of jobs since 2009. The labor participation rate rose to 63 percent, the best reading in two years. The measure of people working below their capabilities rose to 9.8 percent. Average hourly earnings increased 0.3 percent.

Prices at both the consumer and wholesale levels fell in February by 0.2 percent. However, the concern lies with the core inflation indices. When you remove the effect of volatile food and energy costs, annualized core consumer prices increased the most since 2012. The higher dollar and falling oil prices are keeping a lid on inflation at the producer level for now.

Retail sales declined 0.1 percent in February following a decline of 0.4 percent in January. Sales in January previously were reported as increasing 0.2 percent. The change in tempo follows three months of positive sales activity. Eight of the 13 major categories posted setbacks in sales.

Fourth quarter GDP was revised higher for the second time. The economy grew 1.4 percent, double the initial estimate. Personal spending was stronger, adding 1.6 percent to growth. Exports declined less than estimated. Concern is over a 7.8 percent decline in corporate earnings. This decline seems to be preventing companies from expanding, which has been a soft spot in economic growth.

The Federal Reserve kept the benchmark short-term lending rate unchanged at the March Federal Open Market Committee (FOMC) meeting. Committee members believe the U.S. economy is expanding at a moderate pace with some gradual improvement in the level of inflation. However, continued global economic weakness and recent volatility in the financial markets pose potential risks to our growth. Given the uncertainty toward future economic stability, the Federal Reserve revised their interest rate forecast from four rate hikes to just two this year. They expect the fed funds rate to reach 0.875 percent by the end of the year. Despite some suggestions that the Fed may act sooner than later, Federal Reserve Chair Janet Yellen firmly stated that the best policy now is to proceed cautiously with "greater gradualism." In her opinion, economic conditions are less favorable now than in December.

Mortgage rates were basically unchanged in March. The average 15-year mortgage rate stayed at 3.21 percent. The average rate for a 30-year mortgage was 3.80 percent, two basis points higher than a month ago. Compared to a year ago, average mortgage rates are seven to eight basis points lower. The spread between mortgage rates and Treasury rates was unchanged.

The three key U.S. equity indices ended the month positive for the first time this year, finishing the month with gains in excess of 6.5 percent. Improvement in the economy and a rebound in commodity prices led to the turnaround. The year-to-date returns for the indices are: Dow Jones Industrial Average: +1.5 percent, NASDAQ Composite: -2.7 percent and S&P 500 Index: +0.8 percent. Oil closed the quarter down 4.1 percent year-to-date.

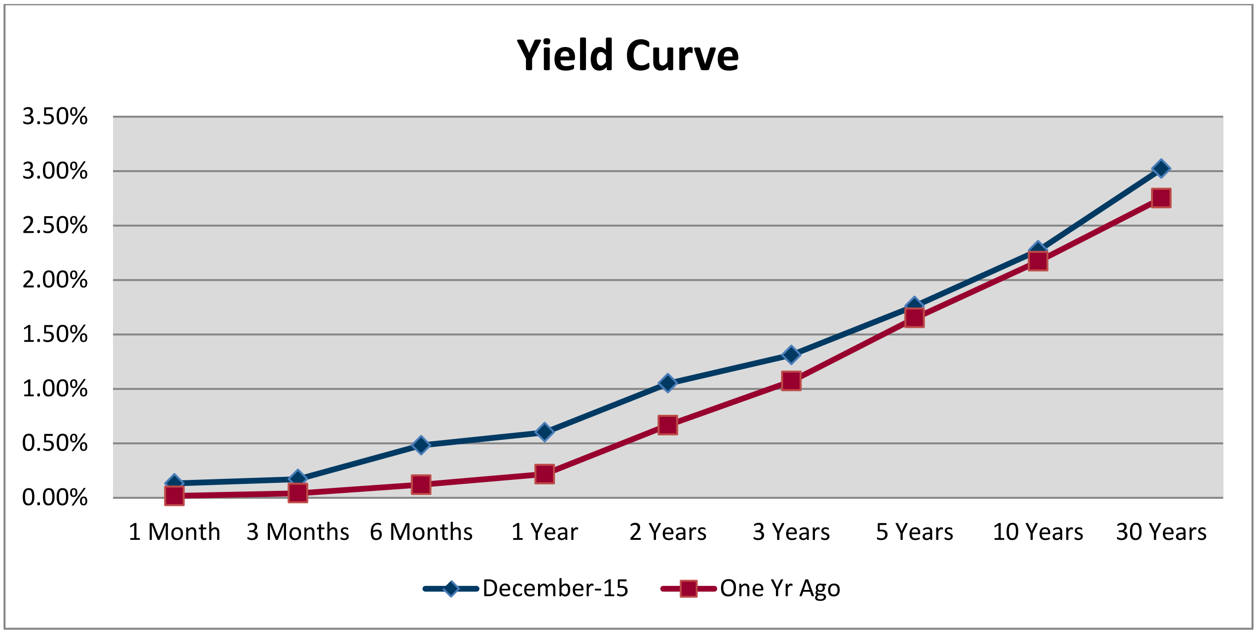
## For Credit Unions:

- The consumer spending spigot continues to sputter. With incomes rising 0.2 percent in February, consumers remain cautious about over-extending themselves. Spending on goods and services rose 0.1 percent for the third consecutive month. The original estimate of a 0.5 percent increase in February was revised to just a 0.1 percent gain. The savings rate increased to 5.4 percent.

- Home sales were weak in February. Sales of existing homes plummeted 7.1 percent. The number of homes for sale has declined on a year-over-year basis for the past nine months. New home sales rose 2.0 percent, a rebound from a 7.0 percent decline a month before. However, the gain came from a 39 percent surge in the Midwest, with declines in the other three regions. On a brighter note, pending home sales were up 3.5 percent, with three of the four regions increasing. Housing starts on single family homes surged to the highest pace since November 2017. Home prices rose 2.5 percent from a year ago.

- Auto sales rose 3.0 percent in March. The selling pace of 16.6 million cars was the slowest pace since June 2015. Light truck and SUV sales increased 10 percent from a year ago. Sales of import automobiles were 0.6 percent higher, compared to March 2015. Auto dealers are optimistic low interest rates and low gas prices will continue to drive sales toward 2015's record pace of $17.5 million.

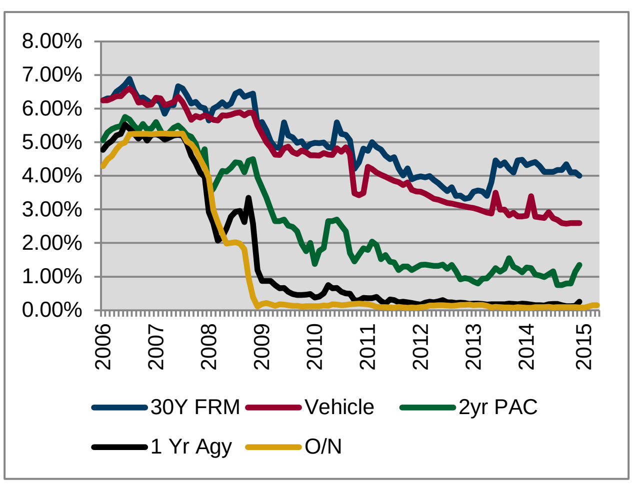
- Credit union loan growth is off to a great start this year. Loan growth is up almost 0.9 percent for the first two months of the year. Historically, loan growth is usually flat to negative at the start of each year. Savings, on the other hand, are weaker this year compared to last year. January and February savings rose 1.8 percent versus 3.0 percent for the same time period in 2015.




The yield curve, measured between the two- and 10-year Treasury notes, widened nine basis points in March to 105 basis points. The two-year note yield fell six basis points, while the 10-year note yield rose three basis points. Compared to a year ago, the yield curve is 31 basis points flatter.

Both the two and 10-year Treasury notes finished March at their low yields for the month. Yields at both ends of the curve moved in a wide range of more than 20 basis points throughout the month. The swings in yield occurred as the market continually changed its outlook regarding the Federal Reserve's forecast for interest rate moves.

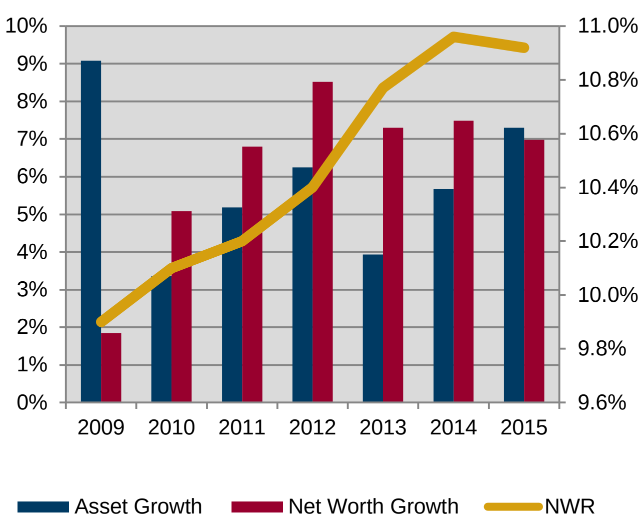
## Relative Value of Assets and Funding:

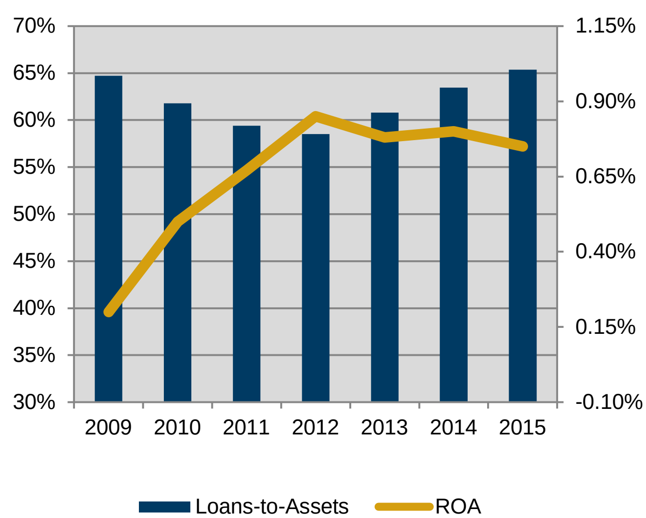



- The spread between core loan rates and investment yields continues to narrow this year. Value remains in core loan assets, but keep asset quality in mind.
- With the Fed changing its forecast for interest rate moves this year, rates will remain low. Market conditions are calling for one increase later this year.
- Credit unions should continue to borrow at historically low rates to fund growing loan demand. The spread between borrowing and lending will narrow over time.

| KEY CREDIT UNION DATA | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| **GROWTH RATES** | | | | | | |
| Total Assets | 3.36% | 5.18% | 6.25% | 3.93% | 5.66% | 7.33% |
| Total Loans | -1.35% | 1.20% | 4.55% | 7.97% | 10.42% | 10.49% |
| Total Shares | 4.48% | 5.21% | 6.10% | 3.67% | 4.47% | 6.86% |
| Net Worth | 5.08% | 6.81% | 8.52% | 7.36% | 7.49% | 6.98% |
| **CAPITAL ADEQUACY** | | | | | | |
| Net Worth Ratio | 10.06% | 10.21% | 10.43% | 10.77% | 10.96% | 10.92% |
| Equity Capital Ratio | 9.96% | 10.19% | 10.42% | 10.47% | 10.78% | 10.66% |
| Capital Ratio | 11.00% | 11.10% | 11.20% | 11.10% | 11.40% | 11.27% |
| **BALANCE SHEET COMPOSITION** | | | | | | |
| Cash & ST Inv to Total Assets | 16.10% | 17.30% | 17.49% | 14.87% | 13.64% | 13.49% |
| Loans-to-Total Assets | 61.76% | 59.42% | 58.48% | 60.75% | 63.48% | 65.35% |
| Vehicle-to-Total Loans | 29.11% | 28.88% | 29.87% | 30.80% | 32.29% | 33.30% |
| Real Estate-to-Total Loans | 54.83% | 54.78% | 53.58% | 52.51% | 51.12% | 50.41% |
| | | | | | | |
| Delinquency Rate | 1.76% | 1.60% | 1.16% | 1.01% | 0.85% | 0.81% |
| Net Charge-off Rate | 1.13% | 0.91% | 0.73% | 0.57% | 0.50% | 0.48% |
| "Misery" Index | 2.89% | 2.51% | 1.89% | 1.58% | 1.35% | 1.30% |
| **EARNINGS** | | | | | | |
| Gross Asset Yield | 5.24% | 4.62% | 4.01% | 3.65% | 3.66% | 3.71% |
| Cost of Funds | 1.21% | 0.93% | 0.73% | 0.59% | 0.54% | 0.52% |
| Gross Interest Margin | 4.03% | 3.69% | 3.28% | 3.06% | 3.12% | 3.20% |
| | | | | | | |
| Less: Provision Expense | 0.78% | 0.50% | 0.36% | 0.26% | 0.28% | 0.34% |
| Net Interest Margin | 3.25% | 3.19% | 2.92% | 2.80% | 2.84% | 2.85% |
| | | | | | | |
| Net Operating Expense | 2.51% | 2.52% | 2.44% | 2.45% | 2.45% | 2.47% |
| Net Income (Return on Assets) | 0.50% | 0.67% | 0.85% | 0.78% | 0.80% | 0.75% |
| | | | | | | |
| Return on Equity | 5.0% | 6.4% | 8.0% | 7.3% | 7.2% | 6.8% |

*Source: NCUA (December 2015)*



| NCUA PEER DATA | <$10M | $10-50M | $50-100M | $100-500M | $500M+ | Total |
|---|---|---|---|---|---|---|
| **NETWORK** | | | | | | |
| Average Asset Size (000s) | $4,070 | $24,809 | $71,512 | $220,186 | $1,803,562 | $200,023 |
| Pct of Number of Credit Unions | 17% | 33% | 12% | 17% | 8% | 100% |
| Pct of Industry Assets | 0% | 4% | 4% | 19% | 72% | 100% |
| **GROWTH RATES** | | | | | | |
| Total Assets | -9.1% | -4.7% | -1.2% | -0.3% | 11.1% | 7.33% |
| Total Loans | -9.4% | -4.4% | -0.1% | 2.0% | 14.3% | 10.49% |
| Total Shares | -9.2% | -4.6% | -1.2% | -0.3% | 10.6% | 6.86% |
| Net Worth | -8.2% | -4.5% | -1.1% | -0.2% | 10.8% | 6.98% |
| **CAPITAL ADEQUACY** | | | | | | |
| Net Worth Ratio | 15.7% | 12.3% | 11.5% | 10.9% | 10.8% | 10.92% |
| Equity Capital Ratio | 15.7% | 12.2% | 11.3% | 10.7% | 10.5% | 10.66% |
| Capital Ratio | 16.5% | 12.7% | 11.7% | 11.2% | 11.1% | 11.27% |
| **BALANCE SHEET COMPOSITION** | | | | | | |
| Cash & Investments-to-Total Assets | 50.9% | 46.7% | 40.5% | 31.9% | 28.5% | 30.5% |
| Loans-to-Total Assets | 47.9% | 50.0% | 55.2% | 63.0% | 67.6% | 65.35% |
| Vehicle-to-Total Loans | 56.7% | 43.2% | 38.7% | 35.6% | 31.9% | 33.30% |
| Real Estate-to-Total Loans | 8.9% | 34.0% | 41.1% | 47.1% | 52.6% | 50.41% |
| Delinquency Rate | 2.30% | 1.24% | 1.06% | 0.93% | 0.75% | 0.81% |
| Net Charge-off Rate | 0.56% | 0.45% | 0.46% | 0.44% | 0.50% | 0.48% |
| "Misery" Index | 2.86% | 1.69% | 1.52% | 1.37% | 1.24% | 1.30% |
| Non-term Shares-to-Total Shares | 84.8% | 77.8% | 74.8% | 73.3% | 71.4% | 72.3% |
| Net Long-term Assets-to-Total Assets | 9.2% | 21.4% | 27.0% | 32.5% | 34.0% | 32.7% |
| **EARNINGS** | | | | | | |
| Gross Asset Yield | 3.79% | 3.39% | 3.56% | 3.61% | 3.77% | 3.7% |
| Cost of Funds | 0.39% | 0.28% | 0.31% | 0.38% | 0.59% | 0.52% |
| Gross Interest Margin | 3.41% | 3.11% | 3.25% | 3.23% | 3.18% | 3.2% |
| Less: Provision Expense | 0.28% | 0.21% | 0.26% | 0.28% | 0.38% | 0.34% |
| Net Interest Margin | 3.13% | 2.90% | 3.00% | 2.95% | 2.81% | 2.9% |
| Net Operating Expense | 3.17% | 2.72% | 2.79% | 2.73% | 2.36% | 2.47% |
| Net Income (Return on Assets) | -0.06% | 0.28% | 0.40% | 0.55% | 0.87% | 0.75% |
| Return on Equity | -0.2% | 2.3% | 3.6% | 5.1% | 7.8% | 6.8% |
| **COST EFFICIENCIES** | | | | | | |
| Avg Loan Balance | $5,871 | $8,652 | $9,576 | $12,285 | $14,915 | $13,706 |
| Avg Share Per Member | $3,724 | $6,667 | $7,718 | $8,737 | $10,921 | $9,890 |
| Avg Compensation per FTE | $35,561 | $54,027 | $56,994 | $62,386 | $74,491 | $68,840 |
| Comp & Benefits-to-Total Assets | 1.80% | 1.68% | 1.74% | 1.79% | 1.43% | 1.53% |
| Pct of Total Operating Expense | 52% | 48% | 48% | 50% | 51% | 51% |
| Office Occ & Ops-to-Total Assets | 0.94% | 0.95% | 0.93% | 0.94% | 0.70% | 0.77% |
| Pct of Total Operating Expense | 27% | 27% | 26% | 26% | 25% | 26% |

*Source: NCUA (December 2015)*

## Economic Calendar

## APRIL 2016

| Monday | Tuesday | Wednesday | Thursday | Friday |
|---|---|---|---|---|
| | | | | |
| | | | | **1**<br>Non-farm Payrolls<br>Unemployment Rate<br>Motor Vehicle Sales<br>ISM Manufacturing<br>Construction Spending |
| **4**<br>Consumer Credit<br>Factory Orders | **5**<br>Trade Balance<br>JOLTS Report | **6**<br>FOMC March Minutes | **7**<br>Jobless Claims<br>Consumer Credit | **8**<br>Wholesale Inventories |
| **11** | **12** | **13**<br>PPI<br>Retail Sales<br>Beige Book<br>Business Inventories | **14**<br>Jobless Claims<br>CPI | **15**<br>Empire Manufacturing<br>Industrial Production<br>Capacity Utilization |
| **18** | **19**<br>Housing Starts<br>Building Permits | **20**<br>Existing Home Sales | **21**<br>Jobless Claims<br>Leading Indicators | **22** |
| **25**<br>New Home Sales | **26**<br>Durable Goods Orders<br>S&P/Case Shiller HPI<br>Consumer Confidence | **27**<br>Pending Home Sales<br>FOMC Meeting | **28**<br>Jobless Claims<br>GDP 1Q16 | **29**<br>Personal Income<br>Personal Spending |



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