Market Overview AND DATA REPORT

AUGUST 2017

KEY ECONOMIC INDICATORS	Latest Report	Current Report	Previous Report	2016
ECONOMIC GROWTH				
GDP (QoQ)	Q2	2.6%	1.4%	2.0%
EMPLOYMENT				
Non-farm Payrolls (000s)	Jul	209	231	2,242
Private Payrolls (000s)	Jul	205	194	2,054
Unemployment Rate	Jul	4.3%	4.4%	4.7%
Underemployment Rate	Jul	8.6%	8.6%	9.2%
INFLATION				
Wholesale (YoY)	Jun	2.0%	2.4%	1.6%
Consumer (YoY)	Jun	1.6%	1.9%	2.1%
Core Consumer (YoY)	Jun	1.7%	1.7%	2.1%
INCOME & SPENDING				
Chg in Consumer Credit ($B)	Jun	12.4	18.3	6.4%
Personal Income	Jun	0.0%	0.3%	3.5%
Personal Spending	Jun	0.1%	0.2%	2.7%
AUTO & HOUSING				
Total Auto Sales (Mil Units)	Jul	16.7	16.6	18.3
New & Existing Home Sales (M)	May	6.13	5.23	6.03
S&P/Case Shiller HPI (YoY)	May	5.58%	5.65%	5.61%

Sources:

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

KEY MARKET INDICATORS	Mth End	Last Mth	12 Mth Ago
	Jul-17	Jun-17	Jul-16
MONEY MARKETS			
Effective Fed Funds	1.07%	1.06%	0.30%
Prime Rate	4.25%	4.25%	3.50%
3 month LIBOR	1.31%	1.30%	0.76%
2 year UST	1.35%	1.38%	0.66%
10 year UST	2.29%	2.30%	1.45%
NATIONAL MORTGAGE RATES			
CU 15 year Mtg	3.43%	3.38%	3.02%
CU 30 year Mtg	4.06%	4.02%	3.55%
EQUITY MARKETS			
Dow Jones Industrial Average	21,891.1	21,349.6	18,432.2
NASDAQ Composite	6,348.1	6,140.4	5,162.1
S&P 500	2,470.3	2,423.4	2,173.6
OTHER COMMODITIES			
CRB Index	182.6	174.8	181.0
Crude Oil	50.2	46.3	47.3

Source: Bloomberg; RateWatch

KEY ECONOMIC AND MARKET INDICATORS

Job growth was strong in July, bringing the three-month average to195,000 jobs. Service producing industries continue to gain the most jobs. The drop in the unemployment rate occurred as more than 300,000 people entered the job force with almost no loss of jobs. Wage growth remained steady at 2.5 percent year-over-year. Overall, the labor market is off to a good start for the third quarter.

Both consumer and wholesale prices declined from a year ago in June. Aside from a small increase in the cost of services, prices remain muted in most categories. Economists are beginning to doubt two percent inflation can be achieved in the current economic cycle. Stiffer competition from Internet shopping and a shift in the labor demographics are reducing normal price movement.

Retail sales declined for the second month in a row in June. Sales were down 0.2 percent and were broad based, with more than half the categories posting declines. The small gain of 0.1 percent in auto sales was expected. Internet shopping was up 0.4 percent, half the rise in May.

The economy regained its strength in the second quarter. Consumer spending and business investment were the largest contributors to the 2.6 percent growth. The rebound in business spending indicates growing optimism for continued global and domestic demand. Housing continues to be weak, falling 6.8 percent in the second quarter versus a gain of 11 percent in the first quarter. The economy grew 1.9 percent in the first half of 2017.

July became a month about the central banks. The month began with Federal Reserve Chair Yellen's testimony before the Congress and Senate. Yellen's comments were interpreted as more dovish than the comments heard in June. Yellen does not believe the FOMC has too much further to go to reach a neutral stance with monetary policy. Similar comments by ECB President Mario Draghi suggested the central banks may be taking a step back regarding a change in monetary policy. After hinting at possibly ending monetary stimulus programs, the Fed and ECB appear to be comfortable with the current level of stimulus. Aside from the central bank activity, the delay of the health care bill took steam out of the stock market and forced longer-term Treasury yields lower. The late-month FOMC meeting suggested the balance sheet reduction program could begin "relatively soon."

Mortgage rates increased slightly in July, giving back what was lost the previous month. The average 15-year mortgage rate offered by credit unions increased five basis points to 3.43 percent. The average rate for a 30-year mortgage increased four basis points to 4.06 percent. Auto loan rates increased three basis points. The average four-year auto loan rate is 2.76 percent.

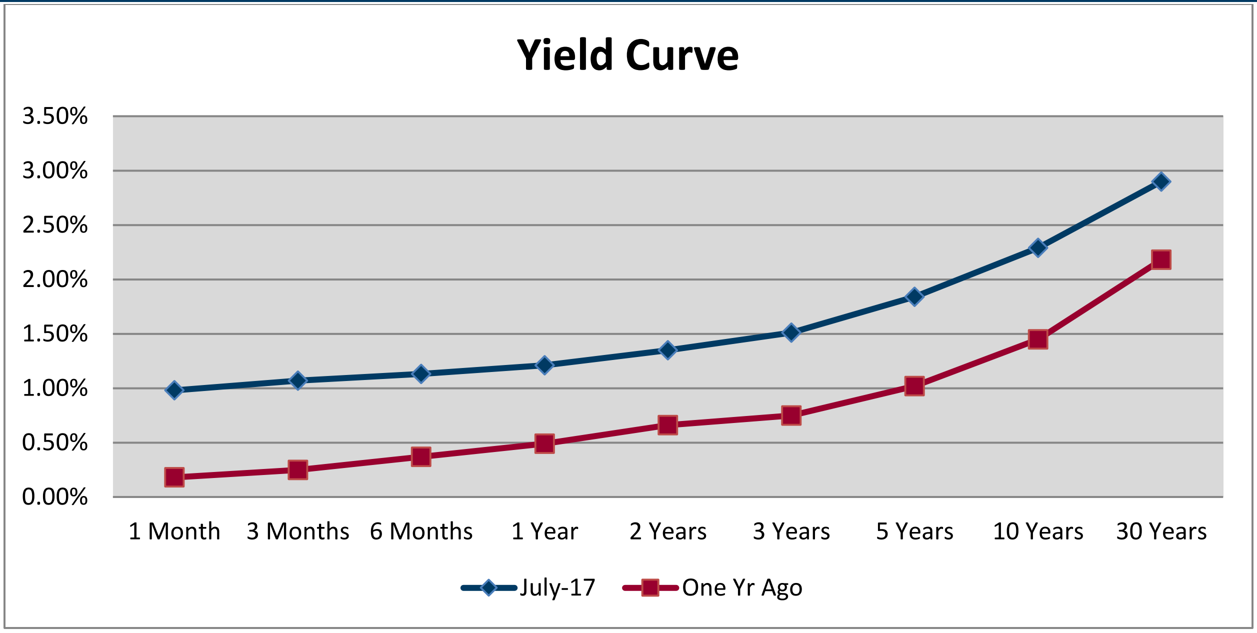
Stocks remained on their upward path in July due to another quarter of strong corporate earnings. Almost three-fourths of the companies in the S&P 500 Index that reported second quarter earnings by the end of the month beat expectations. The strength was spread across industries, as companies continued to benefit from the weaker dollar, strong consumer spending and cost-cutting efforts. The three major U.S. indices finished July in the black and posted the strongest performance since February. The Dow was up 2.5 percent, the S&P 500 up 1.9 percent and the Nasdaq closed up 2.5 percent. Year-to-date returns hit double digits for the group: Dow up 10.8 percent, S&P 500 up 10.3 percent and the Nasdaq up 17.9 percent.

For Credit Unions:

- Home sales were less robust in the second quarter than in the first three months of the year. The total number of new and existing homes sold declined by 3.3 percent between March and June. Sales of new homes are faring better in recent months, as builders are constructing more moderately priced homes to satisfy demand. The median price of a new home fell 3.4 percent from a year ago, compared to a 6.5 percent increase for existing homes. Construction of new homes jumped to a four-month high in June. Despite the heightened pace of activity, homebuilders remain cautious about future activity. Rising lumber prices are adding to existing constraints from a lack of buildable land and skilled workers.

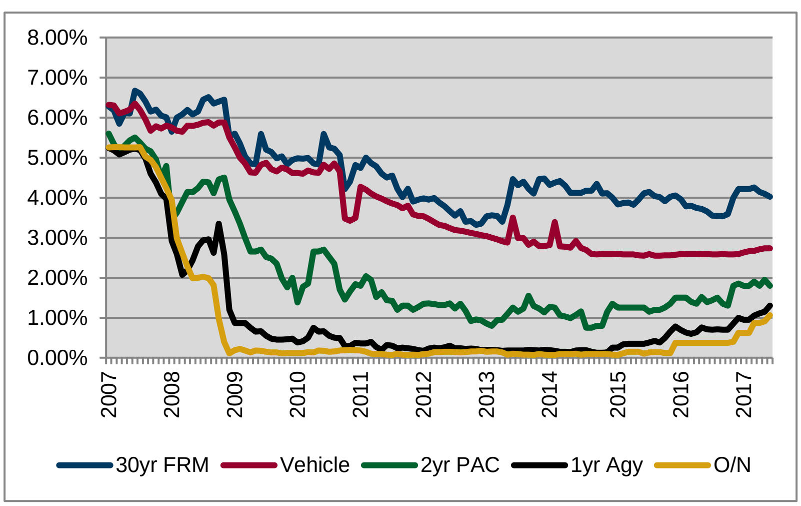
- Auto sales are down six percent from July 2016, despite a slight increase in activity in July of this year. Sales in July rose to a seasonally adjusted annual rate of 16.7 million, compared to 16.6 million in June. The decline in July sales is being attributed to a pullback in fleet sales by some of the major U.S. auto dealers. Automakers are also seeing a shift in demand away from light trucks and SUVs. The shift is creating a build-up of inventory on dealers' lots. It took an average of 76 days to "turn," or sell, a new vehicle. This is the highest days-to-turn since July 2009.

- Consumers are being more cautious about taking on certain types of debt. Student loan and auto debt continue to surge, while most revolving debt remains under control. Both credit card and mortgage debt levels have fallen since the peak in 2009. However, some credit card issuers are starting to see an increase in missed payments. The average net charge-off increased to 3.29 percent in the second quarter.



Treasury yields quietly moved lower throughout July. The month began with investors anticipating central banks leaning toward higher interest rates. After a series of central bank speeches and reports of inflation levels moving lower, the bond market gave up the chase for higher yields. Treasury yields traded in a tight range for most of the month, ending one to three basis points lower across the curve. The two-year note closed at 1.35 percent, three basis points below June's close. The 10-year note finished at 2.29 percent, one basis point lower than June. The yield curve closed at 92 basis points. The average slope of the curve for 2017 is 107 basis points.

Relative Value of Assets and Funding:

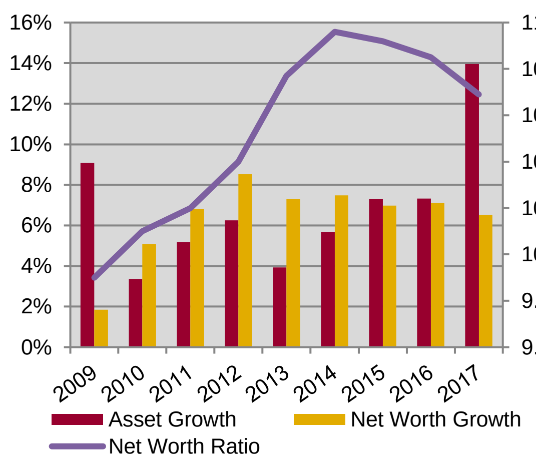


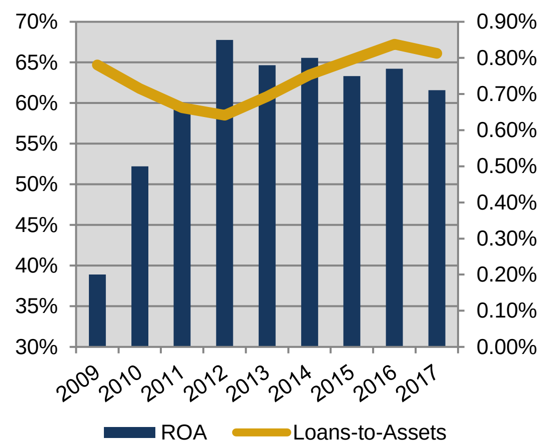
- The spread between loan and investment rates remains historically narrow. Credit unions should pay attention to credit quality and delinquency rates to maintain a balance of value in their balance sheet.
- Despite two rate moves this year, low deposit rates are providing a boost to net interest margins.
- Credit unions should continue investing excess cash instead of waiting until rates move higher. Staying invested will add more to ROA in the long term.

NCUA – March 2017

KEY CREDIT UNION DATA	2012	2013	2014	2015	2016	2017
GROWTH RATES						
Total Assets	6.25%	3.93%	5.66%	7.33%	7.33%	13.96%
Total Loans	4.55%	7.97%	10.42%	10.49%	10.43%	7.12%
Total Shares	6.10%	3.67%	4.47%	6.86%	7.54%	16.62%
Net Worth	8.52%	7.36%	7.48%	6.92%	7.05%	6.52%
CAPITAL ADEQUACY						
Net Worth Ratio	10.43%	10.77%	10.96%	10.92%	10.89%	10.69%
Equity Capital Ratio	10.42%	10.47%	10.78%	10.66%	10.58%	10.42%
Capital Ratio	11.20%	11.10%	11.40%	11.27%	11.18%	11.01%
BALANCE SHEET COMPOSITION						
Cash & ST Inv to Total Assets	17.49%	14.87%	13.65%	13.47%	13.41%	14.83%
Loans-to-Total Assets	58.48%	60.75%	63.48%	65.35%	67.24%	66.13%
Vehicle-to-Total Loans	29.87%	30.80%	32.29%	33.29%	34.37%	34.69%
Real Estate-to-Total Loans	53.58%	52.51%	51.13%	50.41%	49.60%	49.62%
Delinquency Rate	1.16%	1.01%	0.85%	0.81%	0.83%	0.69%
Net Charge-off Rate	0.73%	0.57%	0.50%	0.48%	0.55%	0.58%
"Misery" Index	1.89%	1.58%	1.35%	1.30%	1.38%	1.27%
EARNINGS						
Gross Asset Yield	4.01%	3.65%	3.66%	3.72%	3.82%	3.84%
Cost of Funds	0.73%	0.59%	0.54%	0.52%	0.53%	0.52%
Gross Interest Margin	3.28%	3.06%	3.12%	3.20%	3.29%	3.32%
Less: Provision Expense	0.36%	0.26%	0.28%	0.35%	0.41%	0.43%
Net Interest Margin	2.92%	2.80%	2.84%	2.85%	2.88%	2.89%
Net Operating Expense	2.44%	2.45%	2.45%	2.47%	2.46%	2.44%
Net Income (Return on Assets)	0.85%	0.78%	0.80%	0.75%	0.77%	0.71%
Return on Equity	8.0%	7.3%	7.2%	6.8%	7.0%	1.7%

Source: NCUA (March 2017)





NCUA PEER DATA	<$2M	$2-10M	$10-50M	$50-100M	$100-500M	$500M+	Total
NETWORK							
Average Asset Size (000s)	$890	$5,619	$24,829	$71,296	$222,983	$1,931,609	$233,157
Pct of Number of Credit Unions	9%	19%	32%	13%	18%	9%	100%
Pct of Industry Assets	0%	0%	3%	4%	18%	75%	100%
GROWTH RATES							
Total Assets	-17.8%	-9.5%	-3.7%	4.7%	1.9%	18.4%	13.96%
Total Loans	-33.4%	-22.6%	-15.9%	-8.9%	-8.0%	12.2%	7.12%
Total Shares	-16.7%	-8.4%	-2.2%	6.5%	4.4%	21.4%	16.62%
Net Worth	-19.6%	-14.7%	-11.2%	-5.0%	-7.4%	11.8%	6.52%
CAPITAL ADEQUACY							
Net Worth Ratio	17.8%	14.8%	12.1%	11.2%	10.7%	10.6%	10.69%
Equity Capital Ratio	17.7%	14.7%	12.0%	11.0%	10.4%	10.3%	10.42%
Capital Ratio	18.9%	15.3%	12.4%	11.5%	10.9%	10.9%	11.01%
BALANCE SHEET COMPOSITION							
Cash & ST Investments-to-Total Assets	41.2%	30.9%	25.6%	21.4%	16.4%	13.5%	14.8%
Loans-to-Total Assets	45.6%	47.5%	48.8%	54.2%	62.6%	68.5%	66.13%
Vehicle-to-Total Loans	57.8%	59.1%	45.2%	40.0%	37.7%	33.4%	34.69%
Real Estate-to-Total Loans	1.8%	10.1%	32.6%	40.3%	45.5%	51.6%	49.62%
Delinquency Rate	3.17%	1.62%	1.05%	0.92%	0.76%	0.65%	0.69%
Net Charge-off Rate	0.85%	0.61%	0.46%	0.49%	0.52%	0.60%	0.58%
"Misery" Index	4.02%	2.23%	1.50%	1.41%	1.28%	1.25%	1.27%
Non-term Shares-to-Total Shares	90.5%	84.3%	79.6%	77.5%	75.3%	72.7%	73.7%
Net Long-term Assets-to-Total Assets	4.8%	9.8%	19.7%	25.6%	31.4%	34.7%	33.1%
EARNINGS							
Gross Asset Yield	4.10%	3.84%	3.40%	3.54%	3.68%	3.91%	3.8%
Cost of Funds	0.37%	0.30%	0.27%	0.30%	0.37%	0.58%	0.52%
Gross Interest Margin	3.73%	3.54%	3.12%	3.24%	3.32%	3.33%	3.3%
Less: Provision Expense	0.38%	0.31%	0.20%	0.25%	0.33%	0.47%	0.43%
Net Interest Margin	3.34%	3.23%	2.92%	2.99%	2.99%	2.86%	2.9%
Net Operating Expense	3.61%	3.10%	2.77%	2.81%	2.78%	2.32%	2.44%
Net Income (Return on Assets)	0.08%	0.05%	0.27%	0.39%	0.47%	0.81%	0.71%
Return on Equity	0.1%	0.1%	0.6%	0.9%	1.1%	1.9%	1.7%
COST EFFICIENCIES							
Avg Loan Balance	$4,340	$6,696	$8,853	$10,006	$12,563	$15,722	$14,497
Avg Share Per Member	$2,316	$4,670	$7,123	$8,139	$9,212	$11,492	$10,536
Avg Compensation per FTE	$18,373	$44,494	$56,028	$59,524	$65,765	$80,382	$74,278
Comp & Benefits-to-Total Assets	0.47%	0.48%	0.41%	0.43%	0.45%	0.37%	0.39%
Pct of Total Operating Expense	47%	53%	48%	49%	51%	53%	52%
Office Occ & Ops-to-Total Assets	0.31%	0.24%	0.23%	0.22%	0.23%	0.17%	0.19%
Pct of Total Operating Expense	31%	27%	27%	25%	26%	25%	25%

Source: NCUA (March 2017)

Economic Calendar

AUGUST 2017

Monday	Tuesday	Wednesday	Thursday	Friday
	1 Auto Sales ISM Manufacturing Construction Spending Personal Income (JUNE) Personal Spending (JUNE)	**2** ADP Employment (JULY)	**3** Jobless Claims ISM Services Factory Orders	**4** Non-Farm Payrolls Unemployment Rate Trade Balance
7 Consumer Credit	**8** JOLTS	**9** Wholesale Inventories	**10** Jobless Claims PPI	**11** CPI
14	**15** Retail Sales Business Inventories Empire Manufacturing	**16** Housing Starts Building Permits FOMC Minutes	**17** Jobless Claims Leading Index Industrial Production Capacity Utilization	**18**
21	**22**	**23** New Home Sales	**24** Jobless Claims Existing Home Sales	**25** Durable Goods Orders
28 Wholesale Inventories	**29** Consumer Confidence S&P CoreLogic Price Index	**30** GDP 2Q17 ADP Employment (AUG) Personal Consumption	**31** Jobless Claims Pending Home Sales Personal Income (JULY) Personal Spending (JULY)	

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