CATALYST Strategic Solutions

Market Overview AND DATA REPORT

DECEMBER 2016

KEY ECONOMIC INDICATORS	Latest Report	Current Report	Previous Report	2015
ECONOMIC GROWTH				
GDP (QoQ)	Q3	3.2%	2.9%	2.0%
EMPLOYMENT				
Non-farm Payrolls (000s)	Nov	178	142	2,650
Private Payrolls (000s)	Nov	156	135	2,551
Unemployment Rate	Nov	4.6%	4.9%	5.0%
Underemployment Rate	Nov	9.3%	9.5%	9.9%
INFLATION				
Wholesale (YoY)	Oct	0.8%	0.7%	-1.0%
Consumer (YoY)	Oct	1.6%	1.5%	0.5%
Core Consumer (YoY)	Oct	2.1%	2.2%	2.0%
INCOME & SPENDING				
Chg in Consumer Credit ($B)	Oct	16.0	21.8	21.4
Personal Income	Oct	0.6%	0.4%	4.4%
Personal Spending	Oct	0.3%	0.7%	3.4%
AUTO & HOUSING				
Total Auto Sales (Mil Units)	Nov	17.8	17.9	17.4
New & Existing Home Sales (M)	Oct	6.16	6.06	5.99
S&P/Case Shiller HPI (YoY)	Sep	5.46%	5.15%	5.43%

Sources:

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

KEY MARKET INDICATORS	Mth End	Last Mth	12 Mth Ago
	Nov-16	Oct-16	Oct-16
MONEY MARKETS			
Effective Fed Funds	0.31%	0.31%	0.12%
Prime Rate	3.50%	3.50%	3.25%
3 month LIBOR	0.93%	0.88%	0.42%
2 year UST	1.12%	0.84%	0.93%
10 year UST	2.38%	1.83%	2.21%
NATIONAL MORTGAGE RATES			
CU 15 year Mtg	3.34%	3.04%	3.28%
CU 30 year Mtg	4.00%	3.59%	3.91%
EQUITY MARKETS			
Dow Jones Industrial Average	19,123.6	18,142.4	17,719.9
NASDAQ Composite	5,323.7	5,189.1	5,108.7
S&P 500	2,198.8	2,126.2	2,080.4
OTHER COMMODITIES			
CRB Index	189.3	186.3	182.5
Crude Oil	49.4	46.9	48.8

Source: Bloomberg; RateWatch

KEY ECONOMIC AND MARKET INDICATORS

The unemployment rate fell to the lowest level in over nine years as more people left the job market than entered. 178,000 jobs were added in November, bringing the year-to-date total to just under two million jobs. Hourly earnings declined for the first time since December 2014.

Wholesale and consumer prices moved in opposite directions in October. Wholesale prices were unchanged, while consumer prices rose for the third consecutive month. Despite the difference in the overall direction of prices, the underlying factors remain the same: energy and gasoline prices continue to rise, while food prices declined.

Retail sales increased 0.8 percent in October and were revised upward to 1.0 percent in September. This was the strongest back-to-back gains in over two years. Eleven of the 13 categories posted increases. Auto sales rose 1.1 percent, and internet sales were up 1.5 percent.

The economy expanded 3.2 percent, faster than the initial estimate of 2.9 percent. This was the best quarterly growth in two years. Consumer spending was revised higher to 2.8 percent, while business investment declined 4.8 percent from -2.7 percent. Exports increased due to a surge in soybean exports.

If you felt dizzy in November, you were not alone. November started where October left off – markets in disarray due to the election uncertainty and projections that central banks were on the verge of ending monetary stimulus programs. Stock indices declined for more than seven days in a row, and bond yields were falling. Then BOOM – the U.S. presidential election happened. The slide in stock prices and bond yields screeched to a halt and reversed course to what seemed like an endless ride up. Stock indices reached record high prices, and bond yields soared to levels not seen in over a year, or in some cases not since 2005. The financial markets went from being afraid about the end of global stimulus to embracing the potential of a stronger economy and better corporate earnings. With a November rate hike eliminated, the markets set the stage for a 100 percent chance for a move in December.

Mortgage rates followed the lead of Treasury yields and ratcheted higher. The average 15-year mortgage rate offered by credit unions increased 30 basis points to 3.34 percent. The average rate for a 30-year mortgage was 4.00 percent, up 41 basis points from the prior month. This was the first time since December 2015 that the 30-year rate reached 4.00 percent. Mortgage rates are three basis points lower than this time last year. The spread between mortgage and Treasury rates declined an average of 20 basis points due to a larger Treasury yield move.

The key U.S. equity indices exploded in November. The key U.S. equity indices exploded in November, making new highs almost daily. The Dow Jones and S&P 500 Indices turned positive for the first time in three months. Shares of banks, industrial firms, transportation companies and even health care were just some of the major categories benefitting from the Trump effect. The Dow finished the month up 5.4 percent, the NASDAQ Composite up 2.6 percent and the S&P 500 was up 3.4 percent. The year-to-date returns for the indices remained positive: Dow Jones Industrial Average: +9.8 percent, NASDAQ Composite: +6.3 percent, and S&P 500 Index: +7.5 percent.

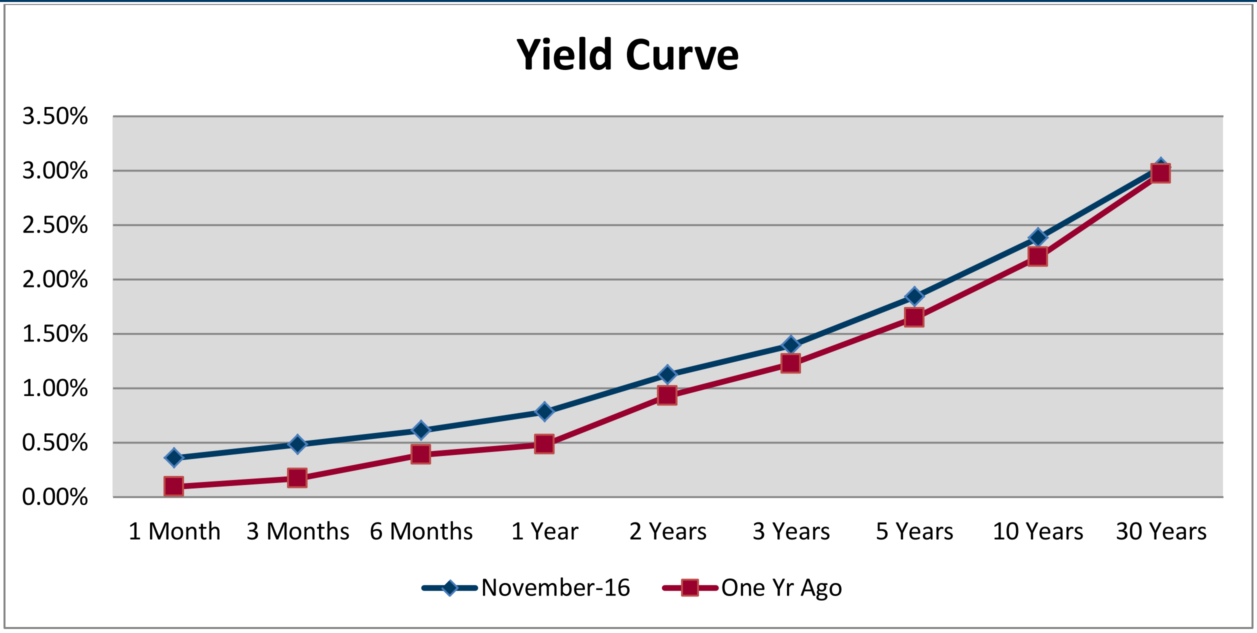
For Credit Unions:

- Incomes rose more than spending in October, bringing the savings rate to 6.0 percent. Personal incomes increased 0.6 percent, the largest monthly gain since April. Disposable income, or the money remaining after taxes, rose 0.4 percent from a year ago. This was the largest increase this year. The level of spending rose 0.3 percent, a step back from the previous month's 0.7 percent. The strength in the labor market and increase in overall wages should provide a boost in consumer spending during the critical holiday shopping season.

- The housing market continued some of its advances in October. Existing home sales rose 2.0 percent with increases made in all four regions. Inventory continued to decline, falling 4.3 percent from a year ago. The percentage of first-time home buyers fell to 33 percent from 34 percent. Sales of new homes were down 1.9 percent. The West was the only area with an increase in sales, jumping 8.8 percent. The average home price increased 5.5 percent from a year ago. The national home price index was 0.1 percent higher than the July 2006 peak in September. The recent jump in interest rates is expected to curtail housing activity in the near term.

- In surveys taken both before and after the election, consumer confidence surged to the highest level since 2007. The confidence index measured by the New York-based Conference Board rose to 107.1 from 100.8. Respondents are feeling more optimistic about job opportunities, business conditions and faster economic growth. Expectations for the next six months climbed to the highest pace in over a year.

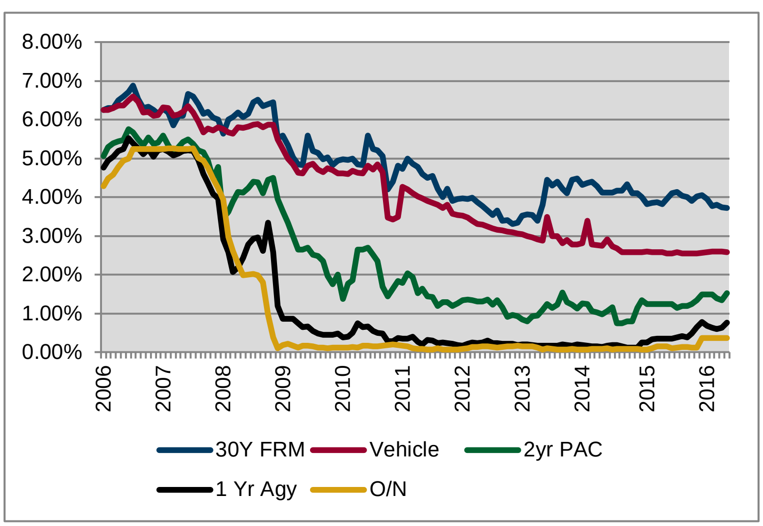
- Credit union membership is growing despite the number of credit unions shrinking. CUNA estimates there were 6,063 credit unions in operation at the end of the third quarter, a decline of 266 from a year before. At the same time, membership increased by 3.4 million members in the first nine months of the year. During the same period in 2015, 2.9 million members joined credit unions.



In the words of baseball great Babe Ruth, it is déjà vu all over again. After months of flattening, the yield curve is back to where it was a year ago. The dramatic move in the Treasury market during November shifted the curve from 99 basis points to 126 basis points, just two basis points shy of November 2015. The short end of the curve was driven by an almost certainty of an upcoming interest rate increase by the Federal Reserve, while the long end was led by visions of rising inflation and a growing economy.

November was dramatic for bond yields, to say the least. Yields on the two- and 10-year Treasury notes posted the largest one month gains since 2009. The two-year note closed 28 basis points higher and touched a high mark of 1.13 percent, a yield not reached since 2010. The yield on the 10-year Treasury note increased 55 basis points, closing at 2.38 percent, the highest yield since July 2015.

Relative Value of Assets and Funding:

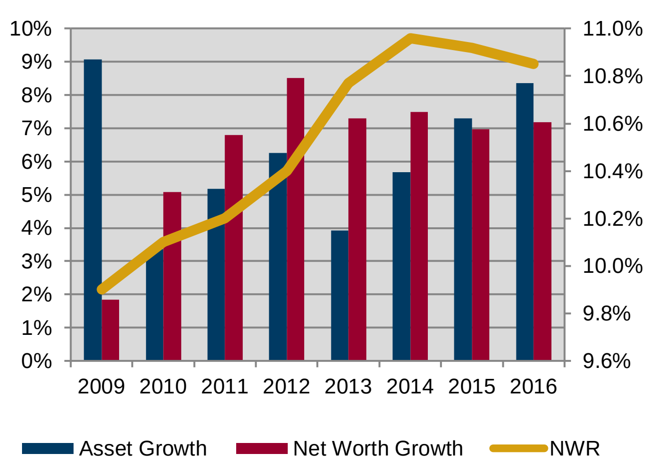


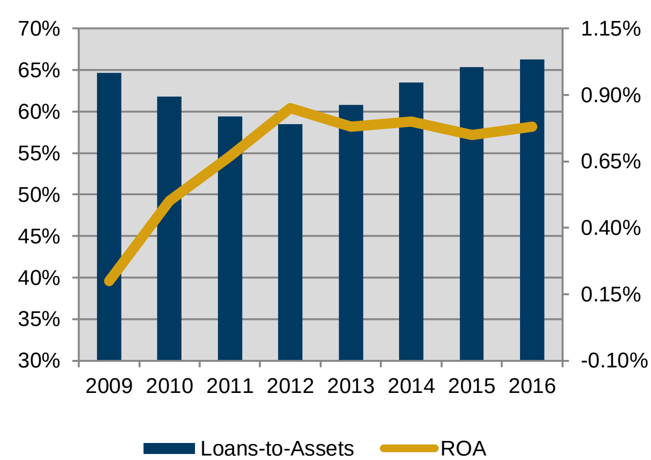
- Expect to see an increase in auto loan default rates as interest rates move higher. Subprime auto loans defaulted at the highest rate in six years in the third quarter.
- Interest rates are expected to move higher throughout 2017, with two to three rate moves from the Federal Reserve.
- Borrowing rates remain attractive despite the increase in rates. The spread between borrowing and lending should remain narrow until consumers adjust to higher interest rates.

NCUA – September 2016

KEY CREDIT UNION DATA	2011	2012	2013	2014	2015	2016
GROWTH RATES						
Total Assets	5.18%	6.25%	3.93%	5.66%	7.33%	8.08%
Total Loans	1.20%	4.55%	7.97%	10.42%	10.49%	10.18%
Total Shares	5.21%	6.10%	3.67%	4.47%	6.86%	8.12%
Net Worth	6.81%	8.52%	7.36%	7.49%	6.98%	7.18%
CAPITAL ADEQUACY						
Net Worth Ratio	10.21%	10.43%	10.77%	10.96%	10.92%	10.85%
Equity Capital Ratio	10.19%	10.42%	10.47%	10.78%	10.66%	10.75%
Capital Ratio	11.10%	11.20%	11.10%	11.40%	11.27%	11.34%
BALANCE SHEET COMPOSITION						
Cash & ST Inv to Total Assets	17.30%	17.49%	14.87%	13.64%	13.49%	14.44%
Loans-to-Total Assets	59.42%	58.48%	60.75%	63.48%	65.35%	66.32%
Vehicle-to-Total Loans	28.88%	29.87%	30.80%	32.29%	33.30%	34.27%
Real Estate-to-Total Loans	54.78%	53.58%	52.51%	51.12%	50.41%	49.70%
Delinquency Rate	1.60%	1.16%	1.01%	0.85%	0.81%	0.77%
Net Charge-off Rate	0.91%	0.73%	0.57%	0.50%	0.48%	0.53%
"Misery" Index	2.51%	1.89%	1.58%	1.35%	1.30%	1.30%
EARNINGS						
Gross Asset Yield	4.62%	4.01%	3.65%	3.66%	3.71%	3.78%
Cost of Funds	0.93%	0.73%	0.59%	0.54%	0.52%	0.52%
Gross Interest Margin	3.69%	3.28%	3.06%	3.12%	3.20%	3.26%
Less: Provision Expense	0.50%	0.36%	0.26%	0.28%	0.34%	0.38%
Net Interest Margin	3.19%	2.92%	2.80%	2.84%	2.85%	2.88%
Net Operating Expense	2.52%	2.44%	2.45%	2.45%	2.47%	2.47%
Net Income (Return on Assets)	0.67%	0.85%	0.78%	0.80%	0.75%	0.78%

Source: NCUA (Sept. 2016)





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NCUA PEER DATA	<$10M	$10-50M	$50-100M	$100-500M	$500M+	Total
NETWORK						
Average Asset Size (000s)	$4,123	$24,764	$71,174	$222,027	$1,884,403	$218,565
Pct of Number of Credit Unions	17%	32%	12%	18%	9%	100%
Pct of Industry Assets	0%	4%	4%	18%	73%	100%
GROWTH RATES						
Total Assets	-8.1%	-5.6%	-1.4%	2.9%	10.9%	8.08%
Total Loans	-9.3%	-5.7%	-1.0%	3.9%	13.0%	10.18%
Total Shares	-8.0%	-5.6%	-1.5%	2.9%	11.1%	8.12%
Net Worth	-8.0%	-6.0%	-1.4%	2.8%	9.9%	7.18%
CAPITAL ADEQUACY						
Net Worth Ratio	15.7%	12.3%	11.5%	10.9%	10.7%	10.85%
Equity Capital Ratio	15.7%	12.2%	11.3%	10.8%	10.6%	10.75%
Capital Ratio	16.5%	12.7%	11.8%	11.3%	11.2%	11.34%
BALANCE SHEET COMPOSITION						
Cash & Investments-to-Total Assets	50.9%	46.8%	40.2%	31.4%	27.3%	29.4%
Loans-to-Total Assets	47.9%	49.9%	55.4%	63.5%	68.6%	66.32%
Vehicle-to-Total Loans	57.9%	44.3%	39.7%	36.9%	32.9%	34.27%
Real Estate-to-Total Loans	8.0%	33.1%	40.2%	45.9%	51.8%	49.70%
Delinquency Rate	2.15%	1.17%	1.03%	0.85%	0.72%	0.77%
Net Charge-off Rate	0.60%	0.44%	0.49%	0.47%	0.55%	0.53%
"Misery" Index	2.75%	1.61%	1.51%	1.32%	1.28%	1.30%
Non-term Shares-to-Total Shares	85.6%	78.6%	75.9%	74.1%	71.7%	72.6%
Net Long-term Assets-to-Total Assets	8.7%	20.0%	25.6%	31.0%	33.4%	32.0%
EARNINGS						
Gross Asset Yield	3.81%	3.39%	3.57%	3.72%	3.83%	3.8%
Cost of Funds	0.30%	0.29%	0.30%	0.37%	0.58%	0.52%
Gross Interest Margin	3.51%	3.11%	3.27%	3.35%	3.25%	3.3%
Less: Provision Expense	0.27%	0.22%	0.26%	0.33%	0.41%	0.38%
Net Interest Margin	3.24%	2.88%	3.01%	3.02%	2.84%	2.9%
Net Operating Expense	3.15%	2.71%	2.79%	2.78%	2.36%	2.47%
Net Income (Return on Assets)	0.12%	0.28%	0.41%	0.55%	0.90%	0.78%
COST EFFICIENCIES						
Avg Loan Balance	$5,925	$8,827	$9,826	$12,415	$15,341	$14,127
Avg Share Per Member	$3,829	$6,873	$7,864	$8,925	$11,118	$10,147
Avg Compensation per FTE	$35,605	$54,434	$57,893	$63,667	$76,782	$70,990
Comp & Benefits-to-Total Assets	1.44%	1.24%	1.30%	1.34%	1.08%	1.15%
Pct of Total Operating Expense	52%	48%	48%	50%	51%	51%
Office Occ & Ops-to-Total Assets	0.79%	0.70%	0.69%	0.70%	0.52%	0.57%
Pct of Total Operating Expense	28%	27%	25%	26%	25%	25%

Source: NCUA (Sept. 2016)

Economic Calendar

DECEMBER 2016

Monday	Tuesday	Wednesday	Thursday	Friday
			1 Jobless Claims Construction Spending ISM Manufacturing Auto Sales	**2** Non-Farm Payrolls Unemployment Rate
5 Consumer Credit ISM Services	**6** Trade Balance Factory Orders	**7** JOLTS Consumer Credit	**8** Jobless Claims	**9** Wholesale Inventories
12	**13**	**14** PPI Retail Sales **FOMC rate decision** Business Inventories Industrial Production Capacity Utilization	**15** Jobless Claims CPI	**16** Housing Starts Building Permits
19	**20**	**21** New Home Sales Existing Home Sales Durable Goods Orders FOMC November minutes	**22** Jobless Claims GDP 3Q16 revised Personal Income Personal Spending Durable Goods Orders Leading Economic Index	**23** New Home Sales
26 	**27** S&P/Case-Shiller HPI Consumer Confidence	**28** Trade Balance Pending Home Sales Wholesale Inventories	**29** Jobless Claims	**30**