CATALYST Strategic Solutions

Market Overview AND DATA REPORT

DECEMBER 2017

KEY ECONOMIC INDICATORS	Latest Report	Current Report	Previous Report	2016
ECONOMIC GROWTH				
GDP (QoQ)	Q3	3.3%	3.0%	2.0%
EMPLOYMENT				
Non-farm Payrolls (000s)	Nov	228	244	2,242
Private Payrolls (000s)	Nov	221	247	2,054
Unemployment Rate	Nov	4.1%	4.1%	4.7%
Underemployment Rate	Nov	8.0%	7.9%	9.2%
INFLATION				
Wholesale (YoY)	Oct	2.8%	2.6%	1.6%
Consumer (YoY)	Oct	2.0%	2.2%	2.1%
Core Consumer (YoY)	Oct	1.8%	1.7%	2.1%
INCOME & SPENDING				
Chg in Consumer Credit ($B)	Oct	20.5	19.2	6.4%
Personal Income	Oct	0.4%	0.4%	3.5%
Personal Spending	Oct	0.3%	0.9%	2.7%
AUTO & HOUSING				
Total Auto Sales (Mil Units)	Nov	17.4	18.0	18.3
New & Existing Home Sales (M)	Oct	6.17	6.02	6.03
S&P/Case Shiller HPI (YoY)	Sep	6.15%	5.95%	5.61%

Sources:

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

KEY MARKET INDICATORS	Mth End	Last Mth	12 Mth Ago
	Nov-17	Oct-17	Nov-16
MONEY MARKETS			
Effective Fed Funds	1.07%	1.07%	0.31%
Prime Rate	4.25%	4.25%	3.50%
3 month LIBOR	1.48%	1.38%	0.93%
2 year UST	1.78%	1.60%	1.12%
10 year UST	2.41%	2.38%	2.38%
NATIONAL MORTGAGE RATES			
CU 15 year Mtg	3.47%	3.44%	3.34%
CU 30 year Mtg	4.03%	4.02%	4.00%
EQUITY MARKETS			
Dow Jones Industrial Average	24,272.4	23,377.2	19,123.6
NASDAQ Composite	6,873.9	6,727.7	5,323.7
S&P 500	2,647.6	2,575.3	2,198.8
OTHER COMMODITIES			
CRB Index	189.2	187.6	189.3
Crude Oil	57.4	54.4	53.3

Source: Bloomberg; RateWatch

KEY ECONOMIC AND MARKET INDICATORS

The U.S. added 228,000 jobs in November. Manufacturing and construction jobs rebounded after several weak months. Wages improved from October, but were weaker than analysts expected. Average earnings increased 2.5 percent from a year ago. This time last year, annual wage growth was 2.7 percent.

Inflation appears to be normalizing closer to the Federal Reserve's targets. Both consumer and wholesale prices rose across the board in October, even as storm-related spikes subsided. Core consumer prices year-over-year increased for the first time in five months. Core PCE, a key rate for the Federal Reserve, inched up 0.1 percent.

Retail sales remained strong in October, signaling steady demand from consumers prior to heading into the holiday shopping season. Ten of the 13 categories posted month-over-month increases. The one positive decline for consumers was a 1.2 percent drop at gasoline stores due to lower gas prices.

Third quarter GDP was revised to 3.3 percent from the original estimate of 3.0 percent. Business equipment spending jumped almost two points to 10.4 percent, the best pace in three years. Consumer spending was revised lower, but it remains the main driver of economic growth. Year-to-date growth is 2.5 percent, the best in two years.

For the most part, November was a month of waiting. The financial markets put all their energy into waiting for the signing of a clean tax reform bill. The votes did not come by month end, but the anticipation alone prompted sudden moves in stock prices and bond yields. By the end of the month – and I mean the *very* end of the month – an upcoming vote seemed so likely that yields jumped, stocks surged and bitcoin became a household word. In other news, Federal Reserve Governor Jerome Powell passed his confirmation hearing with flying colors and is expected to take over as Chair of the Federal Reserve in February. He has been called “Yellen 2.0” for his similar views with Chair Janet Yellen on monetary policy. Yellen announced she will step down from the Board of Governors. Her term as governor was scheduled to end in 2024.

Mortgage rates inched higher in November, following the lead of longer-term Treasury yields. The average 15-year mortgage rate offered by credit unions increased three basis points to 3.47 percent. The average rate for a 30-year mortgage increased one basis point to 4.03 percent. The spread over Treasury yields narrowed by an average of three basis points, as Treasury yields increased more than mortgage rates. The rate for a 15-year mortgage is 13 basis points higher than a year ago.

Another month, another threshold reached. For the third time in four months, the Dow broke through another 1,000-point threshold. Stocks rallied hard the last day of the month, with the Dow posting its best one-day gain this year and breaking the 24,000 mark. The surge was felt across the board, with all 11 sectors of the S&P 500 increasing. The end-of-month rally was fueled by optimism that the tax reform bill was close to becoming a reality. For the month, the Dow was up 3.8 percent, the S&P 500 was up 2.8 percent and the NASDAQ closed up 3.2 percent. Year-to-date returns hit double digits for the group: Dow, up 22.8 percent, S&P 500, up 18.2 percent and the NASDAQ, up 27.7 percent.

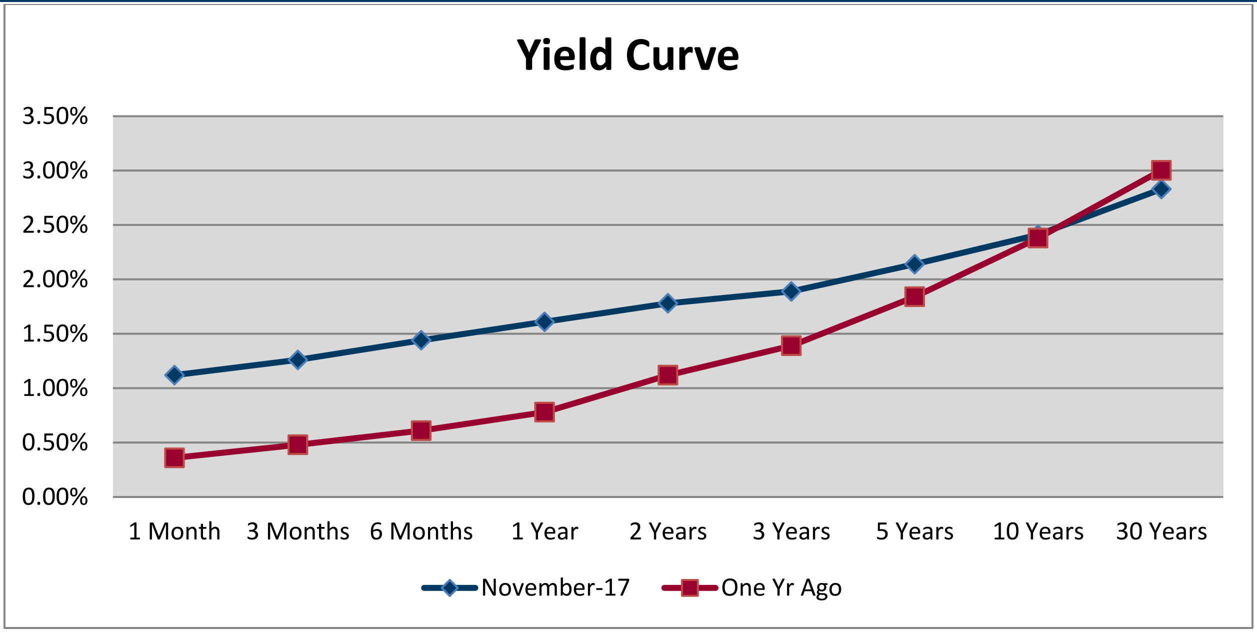
For Credit Unions:

- Housing sales rose in all categories in October, despite higher prices and shrinking supply. Sales of existing homes increased the most in four months, selling in an average of 34 days, down from 41 days a year ago. The number of existing homes on the market is at the lowest level since 1999. New home sales sold at the fastest pace in 10 years. The supply of new homes is the smallest since July 2016. Of the new homes sold, almost a quarter of a million have not broken ground yet, mainly due to a lack of available workers. Home prices were up 6.2 percent as of September, the most in over three years. Of the 20 largest metropolitan cities, eight are posting prices above pre-recession highs.

- Auto sales topped 17 million SAAR for the third month in a row. Fleet sales and paring of 2017 inventories on dealers’ lots were the main drivers of the above-trend sales. Sales for the first 11 months of the year are 1.6 percent below the same period for 2016. If sales remain strong in December, 2017 volume could end above 17 million for the third year.

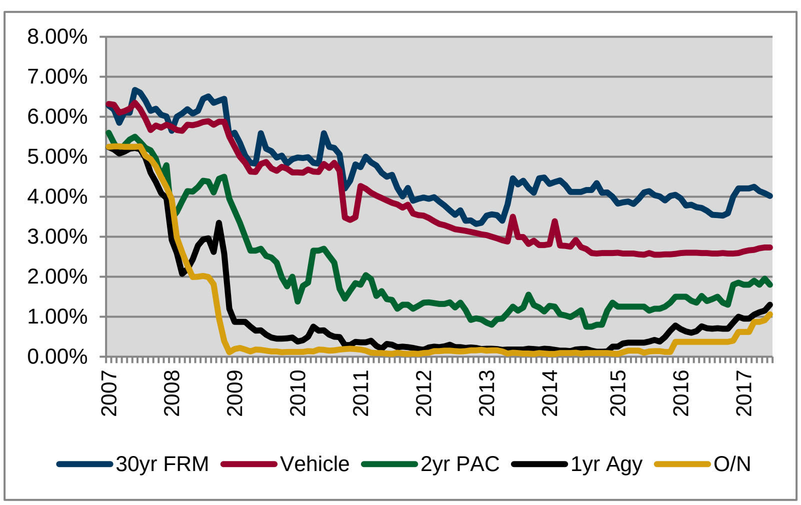
- Credit unions continue to strengthen in all areas, compared to a year ago. Data through September shows membership increased four percent from third quarter 2016, with a gain of 4.3 million members. Shares rose 6.8 percent, and lending increased 10.6 percent in the same period. Total loan-to-share ratio increased 2.8 percent to 81.4 percent.

- Household debt increased 0.7 percent to $12.9 trillion in the third quarter. This was the 13th quarterly increase. Overall debt has grown 16 percent since 2013. The across-the-board increase reflects improving consumer confidence. Mortgage debt makes up two-thirds of household debt. The delinquency rate remains low at 4.9 percent of all debt.



Flatter was the mantra for the month when it came to bonds. Shorter-term yields steadily moved higher as the chance for an interest rate move in December came closer to reality. At the same time, longer-dated bonds basically treaded water as little progress was made with tax reform. Concerns about a growing deficit and news that the Treasury will begin issuing more short-term debt than longer-dated bonds were other factors that kept long-term yields steady. The 10-year Treasury note yield fluctuated just nine basis points, the smallest range in decades. By the end of the month, the yield curve was 63 basis points, 15 basis points tighter than October and the narrowest in 10 years. The two-year Treasury note closed November 18 basis points higher at 1.78 percent, and the 10-year Treasury note was three basis points higher at 2.41 percent.

Relative Value of Assets and Funding:

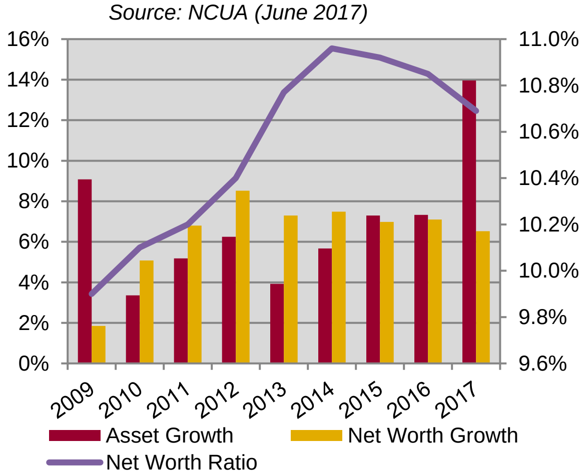


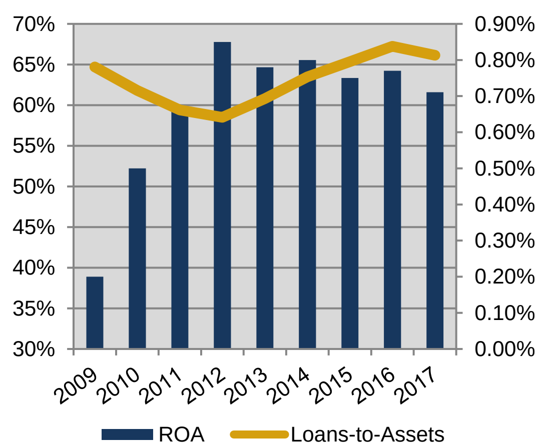
- The difference between loan and investment was relatively unchanged at the narrow end of historic levels.
- Share deposit rates are three basis points higher from a year ago. Term deposit rates are an average of 17 basis points higher.
- The next FOMC meeting is scheduled for December 12- 13. There is a 96 percent probability for a 25 basis point rate increase.

NCUA – June 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%	9.01%
Total Loans	4.55%	7.97%	10.42%	10.49%	10.43%	10.11%
Total Shares	6.10%	3.67%	4.47%	6.86%	7.54%	9.70%
Net Worth	8.52%	7.36%	7.48%	6.92%	7.05%	7.20%
CAPITAL ADEQUACY						
Net Worth Ratio	10.43%	10.77%	10.96%	10.92%	10.89%	10.80%
Equity Capital Ratio	10.42%	10.47%	10.78%	10.66%	10.58%	10.56%
Capital Ratio	11.20%	11.10%	11.40%	11.27%	11.18%	11.17%
BALANCE SHEET COMPOSITION						
Cash & ST Inv to Total Assets	17.49%	14.87%	13.65%	13.47%	13.41%	13.48%
Loans-to-Total Assets	58.48%	60.75%	63.48%	65.35%	67.24%	67.60%
Vehicle-to-Total Loans	29.87%	30.80%	32.29%	33.29%	34.37%	34.85%
Real Estate-to-Total Loans	53.58%	52.51%	51.13%	50.41%	49.60%	49.40%
Delinquency Rate	1.16%	1.01%	0.85%	0.81%	0.83%	0.75%
Net Charge-off Rate	0.73%	0.57%	0.50%	0.48%	0.55%	0.57%
"Misery" Index	1.89%	1.58%	1.35%	1.30%	1.38%	1.32%
EARNINGS						
Gross Asset Yield	4.01%	3.65%	3.66%	3.72%	3.82%	3.90%
Cost of Funds	0.73%	0.59%	0.54%	0.52%	0.53%	0.53%
Gross Interest Margin	3.28%	3.06%	3.12%	3.20%	3.29%	3.36%
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%	2.93%
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%	0.77%
Return on Equity	8.0%	7.3%	7.2%	6.8%	7.0%	3.6%

Source: NCUA (June 2017)





NCUA PEER DATA	<$2M	$2-10M	$10-50M	$50-100M	$100-500M	$500M+	Total
NETWORK							
Average Asset Size (000s)	$902	$5,622	$24,871	$71,343	$223,907	$1,947,345	$237,132
Pct of Number of Credit Unions	9%	19%	32%	13%	18%	9%	100%
Pct of Industry Assets	0%	0%	3%	4%	17%	75%	100%
GROWTH RATES							
Total Assets	-6.7%	-8.5%	-3.1%	2.8%	9.0%	12.1%	9.01%
Total Loans	-12.0%	-12.6%	-5.6%	1.0%	10.1%	13.5%	10.11%
Total Shares	-6.5%	-8.4%	-2.6%	3.3%	9.7%	13.1%	9.70%
Net Worth	-7.2%	-8.8%	-5.9%	-1.3%	7.2%	10.8%	7.20%
CAPITAL ADEQUACY							
Net Worth Ratio	17.8%	14.9%	12.2%	11.3%	10.8%	10.7%	10.80%
Equity Capital Ratio	17.7%	14.9%	12.0%	11.1%	10.6%	10.4%	10.56%
Capital Ratio	19.0%	15.5%	12.5%	11.6%	11.2%	11.1%	11.17%
BALANCE SHEET COMPOSITION							
Cash & ST Investments-to-Total Assets	40.0%	30.2%	24.6%	20.2%	13.5%	12.2%	13.5%
Loans-to-Total Assets	46.3%	48.1%	49.7%	55.6%	64.0%	70.0%	67.60%
Vehicle-to-Total Loans	57.1%	59.0%	45.7%	40.8%	34.9%	33.5%	34.85%
Real Estate-to-Total Loans	1.5%	9.7%	32.0%	39.6%	49.4%	51.4%	49.40%
Delinquency Rate	3.25%	1.68%	1.12%	1.00%	0.75%	0.71%	0.75%
Net Charge-off Rate	0.78%	0.58%	0.49%	0.53%	0.57%	0.58%	0.57%
"Misery" Index	4.02%	2.26%	1.61%	1.53%	1.32%	1.29%	1.32%
Non-term Shares-to-Total Shares	90.5%	84.2%	79.8%	77.5%	73.5%	72.6%	73.5%
Net Long-term Assets-to-Total Assets	5.0%	9.8%	20.2%	25.9%	33.4%	34.9%	33.4%
EARNINGS							
Gross Asset Yield	4.21%	3.79%	3.46%	3.65%	3.90%	3.96%	3.9%
Cost of Funds	0.29%	0.33%	0.29%	0.30%	0.53%	0.60%	0.53%
Gross Interest Margin	3.92%	3.46%	3.17%	3.35%	3.36%	3.37%	3.4%
Less: Provision Expense	0.46%	0.28%	0.24%	0.31%	0.43%	0.47%	0.43%
Net Interest Margin	3.46%	3.18%	2.93%	3.04%	2.93%	2.90%	2.9%
Net Operating Expense	3.65%	3.05%	2.74%	2.82%	2.44%	2.33%	2.44%
Net Income (Return on Assets)	-0.21%	0.05%	0.27%	0.31%	0.77%	0.88%	0.77%
Return on Equity	-0.6%	0.2%	1.1%	1.4%	0.4%	4.1%	3.6%
COST EFFICIENCIES							
Avg Loan Balance	$4,318	$6,779	$8,859	$10,033	$14,613	$15,820	$14,613
Avg Share Per Member	$2,316	$4,681	$7,110	$8,077	$10,481	$11,408	$10,481
Avg Compensation per FTE	$18,359	$44,168	$55,849	$58,754	$73,383	$79,146	$73,383
Comp & Benefits-to-Total Assets	0.95%	0.96%	0.82%	0.86%	0.90%	0.73%	0.77%
Pct of Total Operating Expense	47%	53%	48%	48%	51%	52%	52%
Office Occ & Ops-to-Total Assets	0.63%	0.48%	0.46%	0.45%	2.16%	0.35%	0.37%
Pct of Total Operating Expense	31%	27%	27%	25%	25%	25%	25%

Source: NCUA (June 2017)

Economic Calendar

DECEMBER 2017

Monday	Tuesday	Wednesday	Thursday	Friday
				1 Auto Sales ISM Manufacturing Construction Spending
4 Factory Orders Durable Goods (Final Oct)	**5** ISM Services Trade Balance	**6** ADP Employment	**7** Jobless Claims Consumer Credit	**8** Non-Farm Payrolls Unemployment Rate Consumer Sentiment
11 JOLTS	**12** PPI	**13** CPI FOMC Rate Decision	**14** Retail Sales Business Inventories	**15** Empire Manufacturing Industrial Production Capacity Utilization
18	**19** Housing Starts Building Permits	**20** Existing Home Sales 	**21** Jobless Claims GDP 3Q17 Leading Indicators	**22** Personal Income Personal Spending New Home Sales Durable Goods (Pre Nov)
25 	**26** S&P CoreLogic Price Index 	**27** Pending Home Sales Consumer Confidence	**28** Jobless Claims	**29**