CATALYST Strategic Solutions

Market Overview AND DATA REPORT

JANUARY 2018

KEY ECONOMIC INDICATORS	Latest Report	Current Report	Previous Report	2016
ECONOMIC GROWTH				
GDP (QoQ)	Q3	3.2%	3.3%	2.0%
EMPLOYMENT				
Non-farm Payrolls (000s)	Dec	148	239	2,055
Private Payrolls (000s)	Dec	146	239	2,013
Unemployment Rate	Dec	4.1%	4.1%	4.1%
Avg Hourly Earnings (Y/Y)	Dec	2.5%	2.4%	2.5%
INFLATION				
Wholesale (Y/Y)	Nov	3.1%	2.8%	1.6%
Consumer (Y/Y)	Nov	2.2%	2.0%	2.1%
PCE Core (Y/Y)	Nov	1.5%	1.4%	2.1%
INCOME & SPENDING				
Retail Sales	Nov	0.8	0.5	6.4%
Personal Income	Nov	0.3%	0.4%	3.5%
Personal Spending	Nov	0.6%	0.2%	2.7%
AUTO & HOUSING				
Total Auto Sales (MM)	Dec	17.8	17.4	17.8
New/Existing Home Sales (MM)	Nov	6.54	6.12	6.03
S&P/Case Shiller HPI (Y/Y)	Oct	6.17%	6.05%	5.61%

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

KEY MARKET INDICATORS	Mth End	Last Mth	12 Mth Ago
	Dec-17	Nov-17	Dec-16
MONEY MARKETS			
Effective Fed Funds	1.33%	1.07%	0.55%
Prime Rate	4.50%	4.25%	3.75%
3 month LIBOR	1.84%	1.48%	1.00%
2 year UST	1.88%	1.78%	1.19%
10 year UST	2.41%	2.41%	2.44%
NATIONAL MORTGAGE RATES			
CU 15 year Mtg	3.56%	3.47%	3.53%
CU 30 year Mtg	4.06%	4.03%	4.21%
EQUITY MARKETS			
Dow Jones Industrial Average	24,719.2	24,272.4	19,762.6
NASDAQ Composite	6,903.4	6,873.9	5,383.1
S&P 500	2,673.6	2,647.6	2,238.8
OTHER COMMODITIES			
CRB Index	193.9	189.2	192.5
Crude Oil	60.4	57.4	56.9

Source: Bloomberg; RateWatch

KEY ECONOMIC AND MARKET INDICATORS

The U.S added 148,000 jobs in December, bringing the annual job gain to 2.06 million. While the smallest annual total since 2011, the monthly average of 171,000 jobs is adequate to keep the unemployment rate low. Hiring in construction, health care and manufacturing was the strongest.

Inflation picked up in November, mainly due to a jump in energy prices. Wholesale and consumer core inflation increased at a slower pace from the previous month. Core consumer inflation remains low, as companies refrain from passing higher costs to consumers. Apparel costs fell the most in 19 years, and shelter costs rose the least amount in months.

Retail sales posted a strong start to the holiday season in November. Sales surged 0.8 percent for the second strongest month this year. Year-over-year, sales rose 5.8 percent, the best November since 2011. Brick and mortar sales fared better than last year, as stores had less inventory to discount. Internet sales were up 2.5 percent for the month.

The final tally for third quarter GDP came in lower at 3.2 percent. Consumer spending was slower than initially estimated, rising 2.2 percent. Business investment remained at 4.7 percent, and residential investment was stronger than estimated. Estimates for fourth quarter GDP range from 2.4 to 3.9 percent.

The financial markets waited, hoped and finally received what they had been promised – three interest rate increases in 2017. The Federal Reserve increased the federal funds rate by 25 basis points, bringing the new range to 1.25 to 1.50 percent. The committee acknowledged that while inflation remains below the publicized target of two percent, they are optimistic their objective will be reached in a couple of years. The prospect of greater fiscal stimulus from the tax reform bill prompted the Fed to increase its forecast for economic growth in 2018, raising the bar to 2.5 percent. And speaking of tax reform, the biggest change to the U.S. tax code since 1986 was officially signed into law before Christmas – also as promised. The bond market finally woke up to the news by pushing yields higher, while stocks took a step back after having already priced in the government action. By month end, the financial markets were setting up for yet another prosperous year.

Mortgage rates increased in December, even as long-term Treasury yields remained unchanged. The average 15-year mortgage rate offered by credit unions increased nine basis points to 3.56 percent. The average rate for a 30-year mortgage increased three basis points to 4.06 percent. The spread over Treasury yields widened by 1.5 basis points. The rate for a 15-year mortgage is three basis points higher than a year ago. The 30-year rate is 15 basis points lower than a year ago.

The stock market finished 2017 with a host of records. The three major indices had the best performance in four years. The S&P and NASDAQ indices closed higher 11 out of 12 months this year. The Dow was positive nine out of 12 months. The Dow posted a record number of closing high levels in one year. Despite much head scratching at the unstoppable climb, stocks continued to surge throughout the year, as corporate earnings improved, optimism grew about tax reform and economies around the globe became stronger. For the month, the Dow was up 1.8 percent, the S&P 500 was up 0.98 percent and the NASDAQ closed up 0.43 percent. Year-to-date returns hit double digits for the group: the Dow up 25 percent, S&P 500 up 19.4 percent and the NASDAQ up 28.4 percent.

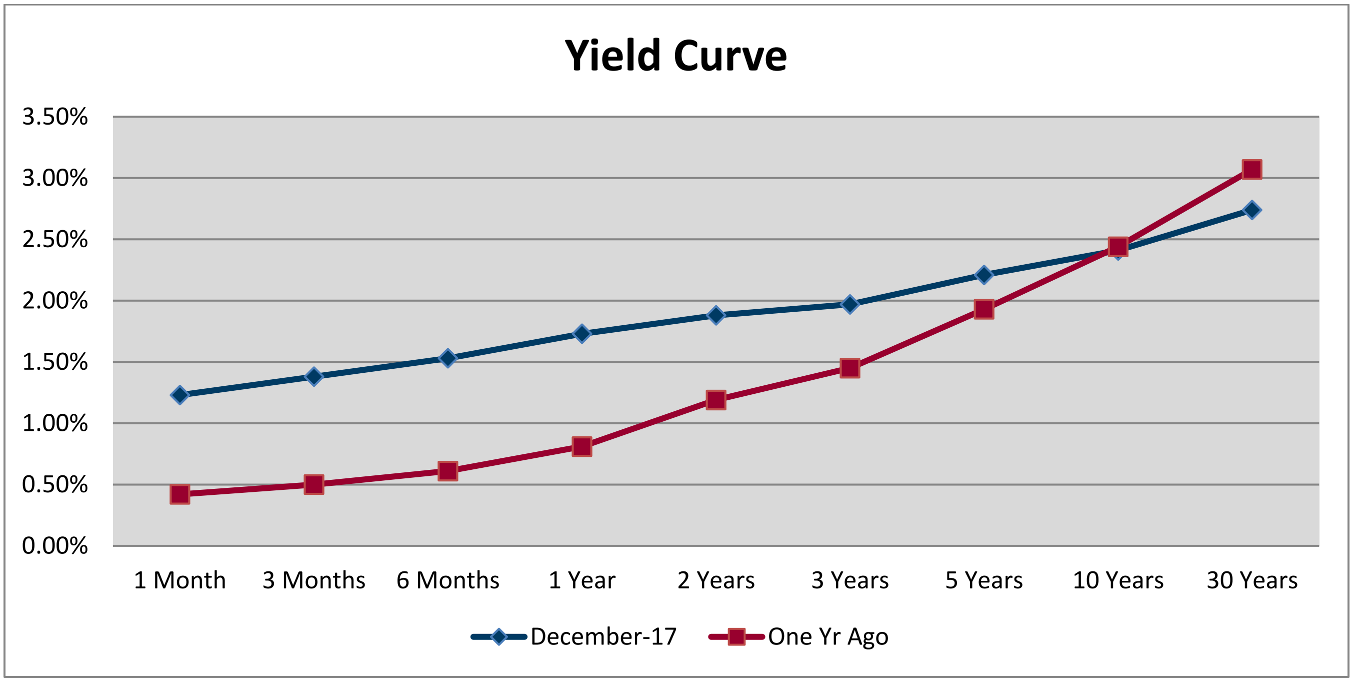
For Credit Unions:

- November was a stellar month for the housing industry. Sales of both new and existing homes surged to levels not seen in over seven years. The impending tax changes for real estate may have pushed people to commit to buying before the year ended. Home prices continue to increase, making it more difficult for first-time home buyers to enter the market. With prices up 6.4 percent in October, first-time home buyers made up only 29 percent of sales, compared to the historic average of 40 percent.

- Auto sales were down 1.8 percent in 2017, as December annualized sales volume totaled 17.8 million. On the plus side, 2017 was the third year in a row with sales above 17 million. Fleet sales and dealer incentives continued as the key drivers of auto sales. Truck and SUV sales increased 5.7 percent, while car sales fell 14.4 percent. Of the top six automakers, only Ford and General Motors posted gains from last year.

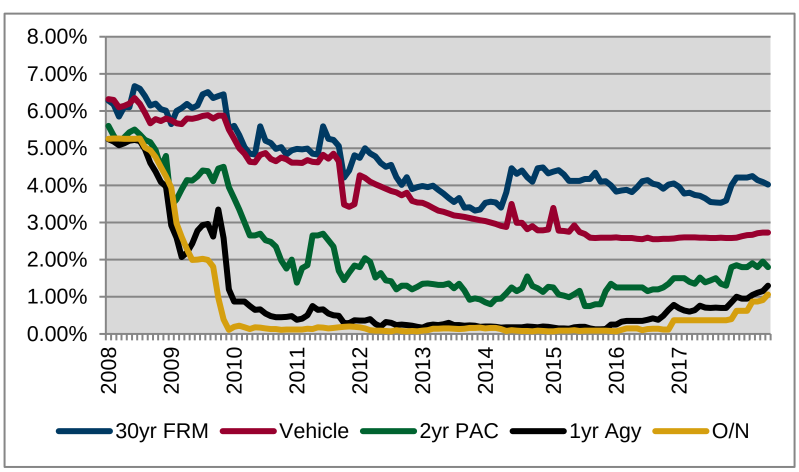
- Consumer confidence fell slightly in December, after reaching the highest level in 17 years. People were more optimistic about incomes rising in the next six months, but less confident that jobs will be available. When questioned about future buying plans, more people were expecting to buy a new home and appliances, with fewer planning to buy a new car.

- Personal consumption rose 0.6 percent in November, while incomes increased 0.3 percent. The savings rate fell to 2.9 percent, the lowest level in 10 years. Consumer credit card debt jumped 11 percent in the third quarter, to its highest level since 2008. Consumers are feeling more secure in their financial situation, although there is concern that debt levels are increasing too much. Credit card delinquency rose 16 percent in the third quarter.



Flat and boring continued to be the direction of the bond market in December. The Federal Reserve's rate increase mid-month sparked a rise in the two-year Treasury note, as expected, but left the 10-year note alone. The long end of the curve remains constrained by a lack of inflation. The two-year Treasury note closed the month at 1.88 percent, 10 basis points higher from November and 69 basis points higher from a year ago. The 10-year note ended December at 2.41 percent, the same yield as in November and three basis points less than 2016. Most notably, the 10-year yield traded in a 59 basis point range during 2017, the narrowest range in the past decade. The curve ended the year at 53 basis points, compared to 125 basis points in December 2016.

Relative Value of Assets and Funding:

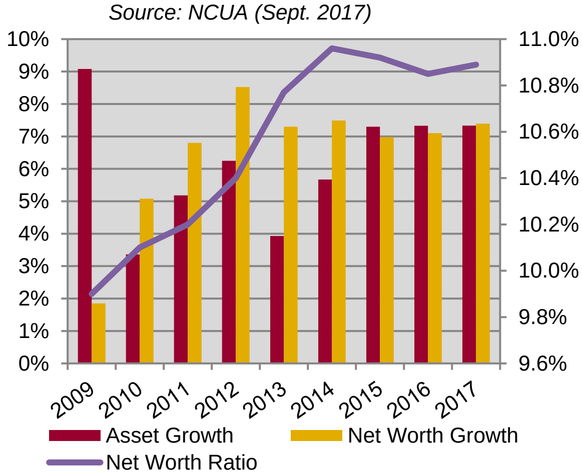


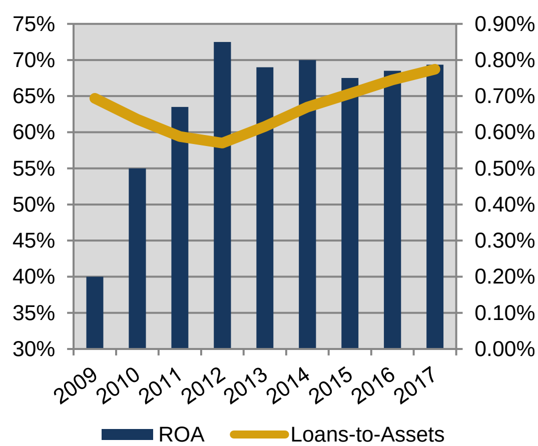
- The spread between loan and investment rates narrowed, as financial institutions remain reluctant to increase loan rates.
- Share deposit rates are one basis point higher from November, and term deposit rates are an average of 2.5 basis points higher.
- The FOMC expects to increase the fed funds rate three times in 2018 and twice in 2019. The long-term goal for the fed funds rate is 2.80 percent.

NCUA – September 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%	7.33%
Total Loans	4.55%	7.97%	10.42%	10.49%	10.43%	10.41%
Total Shares	6.10%	3.67%	4.47%	6.86%	7.54%	7.09%
Net Worth	8.52%	7.36%	7.48%	6.92%	7.05%	7.39%
CAPITAL ADEQUACY						
Net Worth Ratio	10.43%	10.77%	10.96%	10.92%	10.89%	10.89%
Equity Capital Ratio	10.42%	10.47%	10.78%	10.66%	10.58%	10.67%
Capital Ratio	11.20%	11.10%	11.40%	11.27%	11.18%	11.30%
BALANCE SHEET COMPOSITION						
Cash & ST Inv to Total Assets	17.49%	14.87%	13.65%	13.47%	13.41%	12.94%
Loans-to-Total Assets	58.48%	60.75%	63.48%	65.35%	67.24%	68.72%
Vehicle-to-Total Loans	29.87%	30.80%	32.29%	33.29%	34.37%	34.82%
Real Estate-to-Total Loans	53.58%	52.51%	51.13%	50.41%	49.60%	41.90%
Delinquency Rate	1.16%	1.01%	0.85%	0.81%	0.83%	0.79%
Net Charge-off Rate	0.73%	0.57%	0.50%	0.48%	0.55%	0.56%
"Misery" Index	1.89%	1.58%	1.35%	1.30%	1.38%	1.35%
EARNINGS						
Gross Asset Yield	4.01%	3.65%	3.66%	3.72%	3.82%	3.98%
Cost of Funds	0.73%	0.59%	0.54%	0.52%	0.53%	0.55%
Gross Interest Margin	3.28%	3.06%	3.12%	3.20%	3.29%	3.44%
Less: Provision Expense	0.36%	0.26%	0.28%	0.35%	0.41%	0.47%
Net Interest Margin	2.92%	2.80%	2.84%	2.85%	2.88%	2.97%
Net Operating Expense	2.44%	2.45%	2.45%	2.47%	2.46%	2.45%
Net Income (Return on Assets)	0.85%	0.78%	0.80%	0.75%	0.77%	0.79%
Return on Equity	8.0%	7.3%	7.2%	6.8%	7.0%	5.4%

Source: NCUA (Sept. 2017)



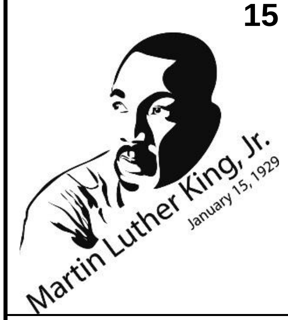


NCUA PEER DATA	<$2M	$2-10M	$10-50M	$50-100M	$100-500M	$500M+	Total
NETWORK							
Average Asset Size (000s)	$897	$5,604	$24,863	$71,551	$222,988	$1,946,696	$241,683
Pct of Number of Credit Unions	9%	19%	32%	13%	18%	9%	100%
Pct of Industry Assets	0%	0%	3%	4%	17%	76%	100%
GROWTH RATES							
Total Assets	-9.3%	-6.9%	-3.1%	0.8%	-2.8%	10.8%	7.33%
Total Loans	-10.4%	-7.2%	-1.5%	2.1%	-0.7%	13.8%	10.41%
Total Shares	-9.3%	-7.1%	-3.1%	0.7%	-3.0%	10.6%	7.09%
Net Worth	-8.9%	-6.1%	-3.3%	0.0%	-2.9%	11.1%	7.39%
CAPITAL ADEQUACY							
Net Worth Ratio	17.9%	15.0%	12.3%	11.4%	10.9%	10.8%	10.89%
Equity Capital Ratio	17.8%	15.0%	12.2%	11.3%	10.7%	10.5%	10.67%
Capital Ratio	19.1%	15.6%	12.7%	11.7%	11.2%	11.2%	11.30%
BALANCE SHEET COMPOSITION							
Cash & ST Investments-to-Total Assets	38.9%	29.9%	23.7%	19.4%	14.5%	11.7%	12.9%
Loans-to-Total Assets	47.2%	49.0%	50.9%	56.6%	65.2%	71.0%	68.72%
Vehicle-to-Total Loans	57.7%	59.1%	45.8%	41.1%	38.1%	33.5%	34.82%
Real Estate-to-Total Loans	1.0%	6.4%	26.6%	33.6%	37.3%	43.8%	41.90%
Delinquency Rate	3.55%	1.66%	1.14%	1.03%	0.86%	0.75%	0.79%
Net Charge-off Rate	0.73%	0.59%	0.50%	0.54%	0.51%	0.57%	0.56%
"Misery" Index	4.28%	2.26%	1.63%	1.57%	1.37%	1.32%	1.35%
Non-term Shares-to-Total Shares	90.5%	84.4%	79.7%	77.4%	75.1%	72.3%	73.3%
Net Long-term Assets-to-Total Assets	4.9%	9.9%	20.4%	25.9%	31.7%	35.0%	33.5%
EARNINGS							
Gross Asset Yield	4.17%	3.84%	3.53%	3.72%	3.79%	4.06%	4.0%
Cost of Funds	0.32%	0.32%	0.28%	0.31%	0.37%	0.61%	0.55%
Gross Interest Margin	3.85%	3.52%	3.25%	3.41%	3.42%	3.45%	3.4%
Less: Provision Expense	0.46%	0.30%	0.26%	0.33%	0.39%	0.50%	0.47%
Net Interest Margin	3.39%	3.22%	2.99%	3.08%	3.03%	2.95%	3.0%
Net Operating Expense	3.58%	3.02%	2.76%	2.82%	2.73%	2.35%	2.45%
Net Income (Return on Assets)	-0.19%	0.11%	0.31%	0.36%	0.52%	0.90%	0.79%
Return on Equity	-0.8%	0.6%	1.9%	2.4%	3.7%	6.1%	5.4%
COST EFFICIENCIES							
Avg Loan Balance	$4,699	$6,863	$8,897	$10,035	$12,853	$15,879	$14,710
Avg Share Per Member	$2,258	$4,649	$7,052	$8,053	$9,119	$11,300	$10,412
Avg Compensation per FTE	$18,993	$43,626	$56,152	$58,656	$65,020	$78,537	$73,041
Comp & Benefits-to-Total Assets	1.45%	1.44%	1.25%	1.29%	1.34%	1.09%	1.15%
Pct of Total Operating Expense	48%	53%	48%	48%	50%	52%	51%
Office Occ & Ops-to-Total Assets	0.96%	0.73%	0.70%	0.68%	0.70%	0.52%	0.56%
Pct of Total Operating Expense	32%	27%	27%	25%	26%	25%	25%

Source: NCUA (Sept. 2017)

Economic Calendar

JANUARY 2018

Monday	Tuesday	Wednesday	Thursday	Friday
1 	**2**	**3** Auto Sales ISM Manufacturing Construction Spending FOMC Dec. Minutes	**4** Jobless Claims ADP Employment	**5** Non-Farm Payrolls Unemployment Rate Trade Balance Factory Orders ISM Services Durable Goods (Final Nov)
8 Consumer Credit	**9** JOLTS	**10** Wholesale Inventories	**11** Jobless Claims PPI	**12** CPI Retail Sales Business Inventories
15 	**16** Empire Manufacturing	**17** Industrial Production Capacity Utilization FRB Beige Book	**18** Jobless Claims Housing Starts Building Permits	**19**
22	**23**	**24** Existing Home Sales	**25** Jobless Claims New Home Sales	**26** GDP 4Q17 Durable Goods (Pre Dec)
29 Personal Income Personal Spending	**30** S&P CoreLogic Price Index	**31** ADP Employment Pending Home Sales FOMC press release		