Market Overview AND DATA REPORT

JULY 2017

KEY ECONOMIC INDICATORS	Latest Report	Current Report	Previous Report	2016
ECONOMIC GROWTH				
GDP (QoQ)	Q1	1.4%	1.2%	2.0%
EMPLOYMENT				
Non-farm Payrolls (000s)	Jun	222	152	2,242
Private Payrolls (000s)	Jun	187	159	2,054
Unemployment Rate	Jun	4.4%	4.3%	4.7%
Underemployment Rate	Jun	8.6%	8.4%	9.2%
INFLATION				
Wholesale (YoY)	May	2.4%	2.5%	1.6%
Consumer (YoY)	May	1.9%	2.2%	2.1%
Core Consumer (YoY)	May	1.7%	1.9%	2.1%
INCOME & SPENDING				
Chg in Consumer Credit ($B)	May	18.4	12.9	6.4%
Personal Income	May	0.4%	0.4%	3.5%
Personal Spending	May	0.1%	0.4%	2.7%
AUTO & HOUSING				
Total Auto Sales (Mil Units)	Jun	16.4	16.6	18.3
New & Existing Home Sales (M)	May	6.23	6.15	6.03
S&P/Case Shiller HPI (YoY)	Apr	5.50%	5.75%	5.61%

Sources:

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

KEY MARKET INDICATORS	Mth End	Last Mth	12 Mth Ago
	Jun-17	May-17	Jun-16
MONEY MARKETS			
Effective Fed Funds	1.06%	0.83%	0.29%
Prime Rate	4.25%	4.00%	3.50%
3 month LIBOR	1.30%	1.21%	0.69%
2 year UST	1.38%	1.28%	0.88%
10 year UST	2.30%	2.20%	1.85%
NATIONAL MORTGAGE RATES			
CU 15 year Mtg	3.38%	3.43%	3.17%
CU 30 year Mtg	4.02%	4.09%	3.74%
EQUITY MARKETS			
Dow Jones Industrial Average	21,349.6	21,008.7	17,787.2
NASDAQ Composite	6,140.4	6,198.5	4,948.1
S&P 500	2,423.4	2,411.8	2,097.0
OTHER COMMODITIES			
CRB Index	174.8	179.8	186.2
Crude Oil	46.3	48.3	51.6

Source: Bloomberg; RateWatch

KEY ECONOMIC AND MARKET INDICATORS

Monthly job gains topped 200,000 for the fourth time this year. The government added 35,000, the largest gain since July 2015 and mostly all at the state level. Healthcare and construction jobs made significant gains. Increases in wages continue to be weak, rising just 0.2 percent in June.

The most recent inflation reports suggest inflation may have reached its peak this year. After topping 2.3 percent in January, core consumer inflation fell to 1.7 percent year-over-year in May. Falling energy prices are contributing to the decline in inflation, but most core prices are lower across the board. Despite low unemployment, there is little sign of wage inflation. Wholesale prices stagnated in May as the price of goods fell 0.5 percent.

Retail sales reversed course in May, falling 0.3 percent after a strong rebound the prior month. Sales minus gasoline and auto were unchanged. Only five of the 13 major categories posted gains. Internet sales topped the list of winners, with electronic store sales falling the most, down 2.8 percent, the largest decline in seven years.

The economy grew 1.4 percent in the first quarter, more than double the original estimate of 0.6 percent. Consumer spending and exports were better than initially calculated. Spending was revised from 0.6 percent to 1.4 percent. Exports grew 7.0 percent versus 5.8 percent. Economists are still expecting second quarter GDP to come in around three percent.

The theme for June was the Federal Reserve's third rate increase in six months. The Fed raised the federal funds rate 25 basis points to a target range of 1.00 to 1.25 percent. Despite recent signs of weakening consumer spending and waning inflation, Federal Reserve Chair Janet Yellen stated in her press conference, "the economy is doing very well…is showing resilience." In addition to the expected rate increase, the Fed laid out plans for a balance sheet normalization program. While no time frame was announced, Yellen indicated the plan could be set in motion "relatively soon" if the economy performs in line with their forecasts. By the end of the month, three additional major central banks began to hint at the need to end stimulus programs and move toward normalizing interest rates. The Federal Open Market Committee continues to expect another rate move this year and three moves in 2018.

Mortgage rates finished June at the lowest levels since November 2015. The average 15-year mortgage rate offered by credit unions fell five basis points to 3.38 percent. The average rate for a 30-year mortgages decreased seven basis points to 4.02 percent. Auto loan rates remained the same as in May, despite short-term Treasury yields moving higher. The average four-year auto loan rate is 2.73 percent.

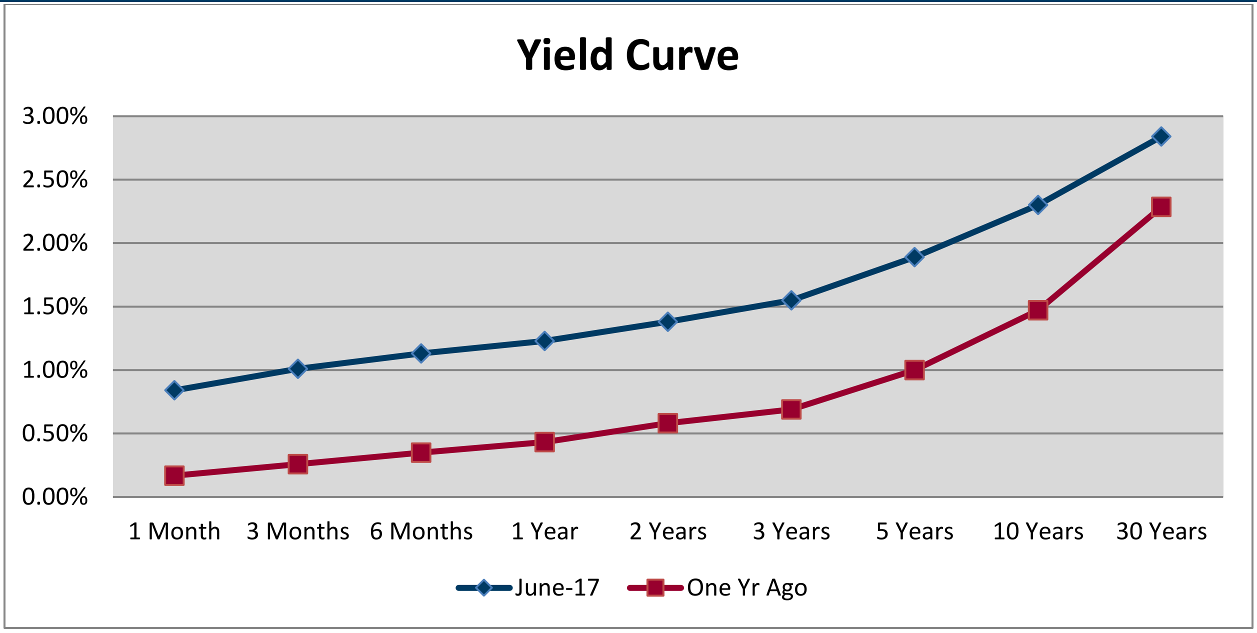
The stock market was volatile during June. The three key U.S. indices reached new highs during the month, despite having many down days. The falling price of oil, a delay in the healthcare reform bill and concerns over the appropriate Fed action gave stock investors a lot to think about and question. Sector rotation was active as investors moved from tech stocks to banks and energy stocks. The Nasdaq closed negative for the first time this year, down 0.9 percent. The Dow finished up 1.6 percent and the S&P 500 was higher by 0.5 percent. The three indices remain positive for the year: Nasdaq up 14.1 percent, Dow up eight percent and the S&P 500 up 8.2 percent.

For Credit Unions:

- The housing market continues to struggle. The increasingly low level of inventory is pushing prices higher and making it difficult for first time home buyers to enter the market. Home builders are citing "critically low supply" as a deterrent to overall activity. Construction on new homes fell for the fourth time this year, while permits for new construction were down almost five percent. There was a welcome pick-up in sales of existing homes in May, even as prices rose 5.8 percent from a year ago to an all-time high. The inventory of homes for sale is down 8.4 percent from May 2016. The average length of time homes are on the market is down to 27 days.

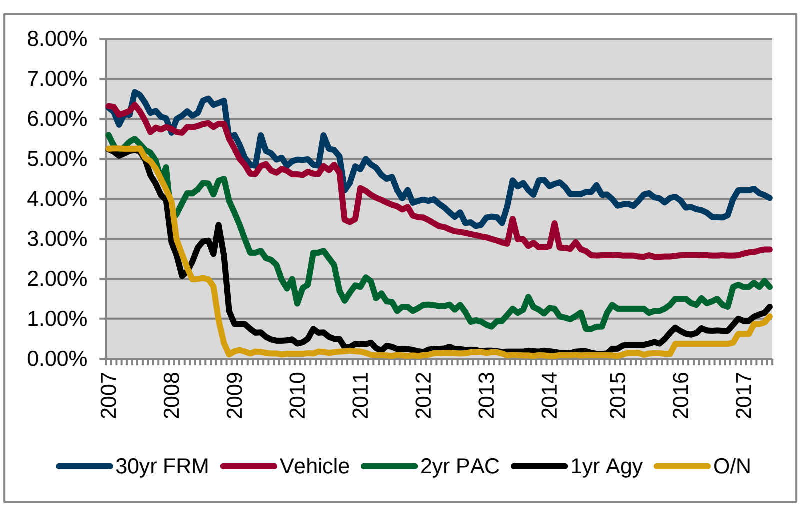
- Auto sales fell for the third month in a row to the lowest sales volume since February 2015. Annualized sales totaled 16.4 million in June, far below the 18.2 million peak in December 2016. Overall sales are down 2.7 percent year to date. The disappointing results are putting more pressure on dealers to sell cars at a time when incentives are already high. Auto assembly plants have decreased staff by two percent this year and are concerned more drops may be needed. Industry analysts continue to blame high rates, tighter credit conditions and uncertainty about the economy as factors for declining sales.

- Loan balances at credit unions rose 0.9 percent at the beginning of the second quarter. The growth was led by a 26.5 percent seasonally adjusted annualized growth rate in April, or a 1.9 percent increase from the month before. The monthly increase was almost double the one percent growth rate in April 2016. Mortgage loan balances fell 0.7 percent in April. Total credit union loan balances were up 10.8 percent in the first quarter of 2017, pushing the loan-to-asset ratio to 66.7 percent from 66.4 percent a year ago.



If you felt a little dizzy in June, you were not alone. June was a whipsaw month. Bond yields spent most of the month in low yield territory. Despite a rate move by the Fed mid-month, the 10-year Treasury note yield touched 2.13 percent, the lowest yield since November 2016. The yield curve narrowed to 80 basis points, the flattest in 10 months. The bond market become increasingly concerned about falling inflation and felt the Federal Reserve may have acted too quickly in raising rates. After foreign central banks began talking about the need to raise rates, bond yields did an about face. By the end of the month, the two-year Treasury note traded in a 10 basis point range to close at 1.39 percent, 11 basis points above May's close. The 10-year Treasury note finished June at 2.30 percent after an 18 basis point swing. Most of the move to higher yields came within the last week of the month. The curve closed the month at 91 basis points.

Relative Value of Assets and Funding:

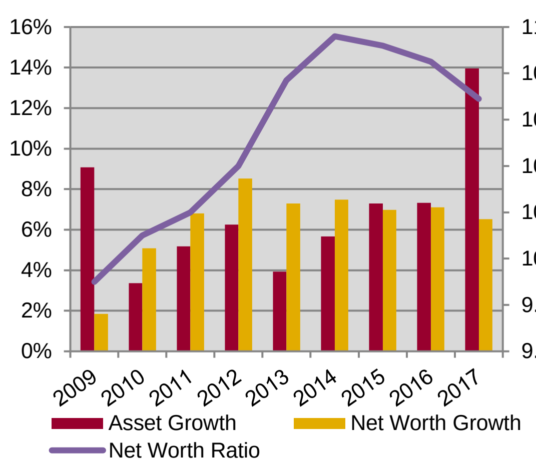


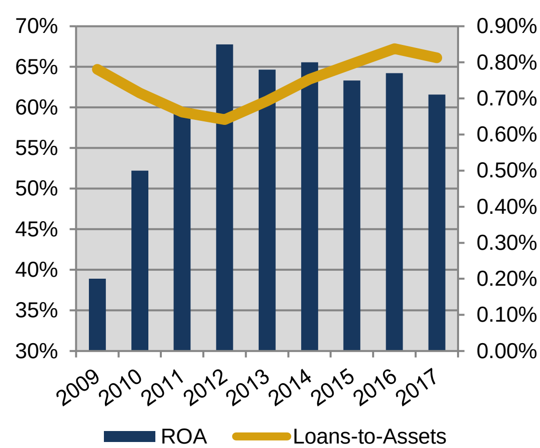
- The spread between loan and investment rates remains historically narrow. Credit unions should pay attention to credit quality and delinquency rates to maintain a balance of value in their balance sheet.
- Despite two rate moves this year, low deposit rates are providing a boost to net interest margins.
- 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

JULY 2017

Monday	Tuesday	Wednesday	Thursday	Friday
3 Auto Sales ISM Manufacturing Construction Spending	**4**  	**5** Factory Orders FOMC June Minutes	**6** Jobless Claims ADP Employment Trade Balance ISM Services	**7** Non-Farm Payrolls Unemployment Rate
10 Consumer Credit	**11** JOLTS Wholesale Inventories	**12** Fed Beige Book	**13** Jobless Claims PPI	**14** CPI Retail Sales Business Inventories Industrial Production Capacity Utilization
17 Empire Manufacturing	**18**	**19** Housing Starts Building Permits	**20** Jobless Claims Leading Index	**21**
24 Existing Home Sales	**25** Consumer Confidence S&P CoreLogic Price Index	**26** New Home Sales FOMC Rate Decision	**27** Jobless Claims Durable Goods Orders Wholesale Inventories	**28** GDP 2Q17 Personal Consumption
31 Pending Home Sales				