CATALYST Strategic Solutions

Market Overview AND DATA REPORT

JUNE 2017

KEY ECONOMIC INDICATORS	Latest Report	Current Report	Previous Report	2016
ECONOMIC GROWTH				
GDP (QoQ)	Q1	1.2%	0.7%	2.0%
EMPLOYMENT				
Non-farm Payrolls (000s)	May	138	174	2,242
Private Payrolls (000s)	May	147	173	2,054
Unemployment Rate	May	4.3%	4.4%	4.7%
Underemployment Rate	May	8.4%	8.6%	9.2%
INFLATION				
Wholesale (YoY)	Apr	2.5%	2.3%	1.6%
Consumer (YoY)	Apr	2.2%	2.4%	2.1%
Core Consumer (YoY)	Apr	1.9%	2.0%	2.1%
INCOME & SPENDING				
Chg in Consumer Credit ($B)	Apr	8.2	19.5	6.4%
Personal Income	Apr	0.4%	0.2%	3.5%
Personal Spending	Apr	0.4%	0.3%	2.7%
AUTO & HOUSING				
Total Auto Sales (Mil Units)	May	16.6	16.8	18.3
New & Existing Home Sales (M)	Apr	6.14	6.34	6.03
S&P/Case Shiller HPI (YoY)	Mar	5.75%	5.69%	5.61%

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

KEY MARKET INDICATORS	Mth End	Last Mth	12 Mth Ago
	May-17	Apr-17	May-16
MONEY MARKETS			
Effective Fed Funds	0.83%	0.83%	0.29%
Prime Rate	3.75%	3.75%	3.50%
3 month LIBOR	1.21%	1.17%	0.69%
2 year UST	1.28%	1.26%	0.88%
10 year UST	2.20%	2.28%	1.85%
NATIONAL MORTGAGE RATES			
CU 15 year Mtg	3.43%	3.47%	3.17%
CU 30 year Mtg	4.09%	4.14%	3.74%
EQUITY MARKETS			
Dow Jones Industrial Average	21,008.7	20,940.5	17,787.2
NASDAQ Composite	6,198.5	6,047.6	4,948.1
S&P 500	2,411.8	2,384.2	2,097.0
OTHER COMMODITIES			
CRB Index	179.8	184.9	186.2
Crude Oil	48.3	50.6	51.6

Source: Bloomberg; RateWatch

KEY ECONOMIC AND MARKET INDICATORS

Employers added fewer jobs than analysts expected in May. The three-month average monthly job growth fell to121,000, declining monthly since February. The weakness in hiring is being attributed to a lack of skilled workers and a reluctance to expand until there are clearer signs of economic growth.

Producer and consumer prices are balancing out the inflation picture. In April, producer prices increased the most on an annual basis since 2012. Consumer prices, on the other hand, fell two-tenths of a percent from a year ago. Core service prices continue to increase more than goods prices. An overall gauge of inflation, PCE deflator year-over-year, declined for the second month in a row.

Retail sales rebounded in April at the highest pace since January. Sales were strong in nine of the 13 major categories. Internet sales increased the most and continue to replace brick and mortar sales, forcing many big box stores to close. Total personal spending increased 0.4 percent in April and was revised higher for March.

The economy grew faster in the first quarter than initially forecast and broke the one percent mark. Consumer spending rose 0.6 percent, double the original estimate. There was a surge in business investment, which may be revised lower next month. Auto sales subtracted half a percent from GDP.

May presented the financial markets with several challenges, each of which could have created a different outcome than the benign one we had. The possibility of another Brexit, but with France this time, N. Korea missile testing and the sudden firing of the FBI Director came and went with little long-lasting disruption. The economic data as a whole presented hope of a more robust second quarter. While housing activity was weak, consumer spending picked up and inflation moderated. The FOMC did not increase interest rates at the May meeting as expected, but they did begin to formulate a plan for reducing the balance sheet. Stocks and bonds both perceived the Fed's intentions as a vote of confidence on the economy and a signal they are serious about normalizing interest rates.

Mortgage and auto loan rates are following the trend of Treasury yields. Keeping in line with the 10-year Treasury note yield, mortgage rates declined for the second month in a row in May. The average 15-year mortgage rate offered by credit unions fell four basis points to 3.43 percent. The average rate for a 30-year mortgage decreased five basis points to 4.14 percent. Auto loan rates, which tend to follow shorter-term Treasury yields, inched higher in May. On average, auto loan rates rose three basis points.

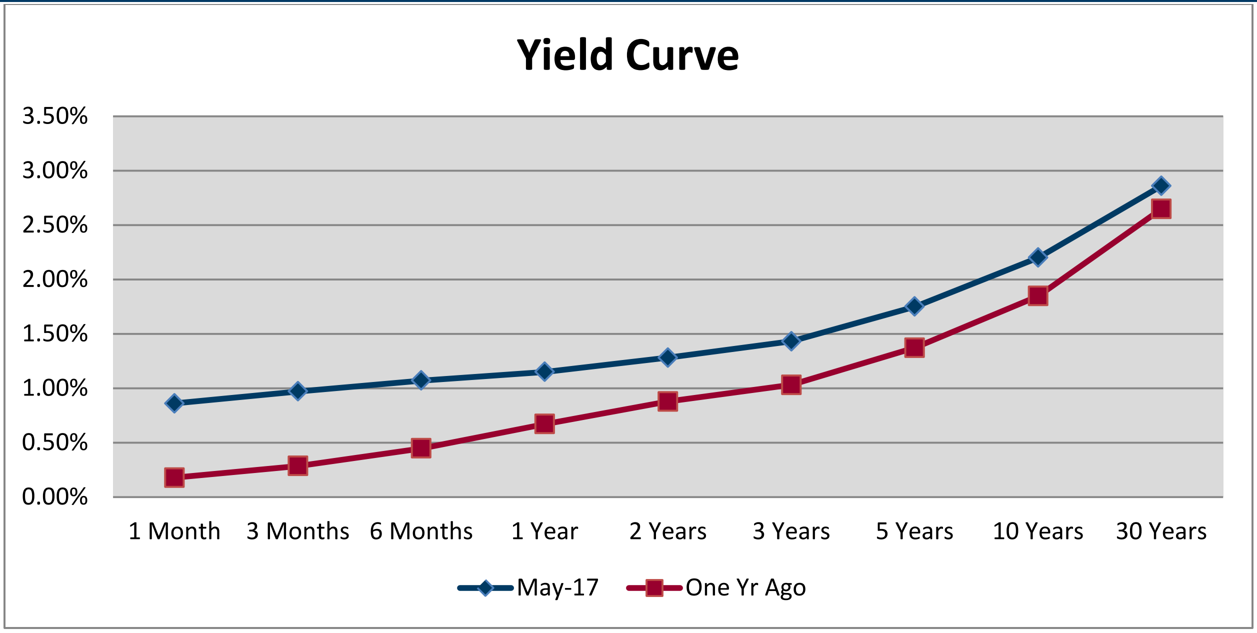
The three key U.S. equity indices finished May with a gain for the second month in a row, despite posting the largest one-day losses this year. Investors expressed anxiety after the surprise firing of FBI Director James Comey. The anxiousness was short-lived, and stocks resumed their advance. Technology stocks performed the best in May, bringing the NASDAQ up 2.5 percent for the month. The Dow finished up 0.33 percent, and the S&P 500 gained 1.16 percent. Year-to-date, the NASDAQ is up 15.1 percent, the Dow is up 6.3 percent and the S&P 500 is ahead by 7.7 percent.

For Credit Unions:

- Lack of inventory and rising prices continue to constrain the housing market. All key sectors of housing activity – sales of new, existing and pending homes and housing construction – declined in April. The number of previously owned homes available for sale fell nine percent from a year ago for the 23rd month in a row, while prices rose six percent. This sector makes up 90 percent of the housing market and without adequate inventory, there is little chance to meet the demand of potential buyers. Construction activity during April provided a glimmer of hope. While overall activity was down 2.6 percent, the majority came from a 9.6 percent decline in multi-family housing. Activity on new single-family housing rose 0.4 percent for the month and 8.9 percent from a year ago. The increase in single-family homes should help alleviate some of the shortage and bring prices down. Builder optimism continues about the housing industry in 2017.

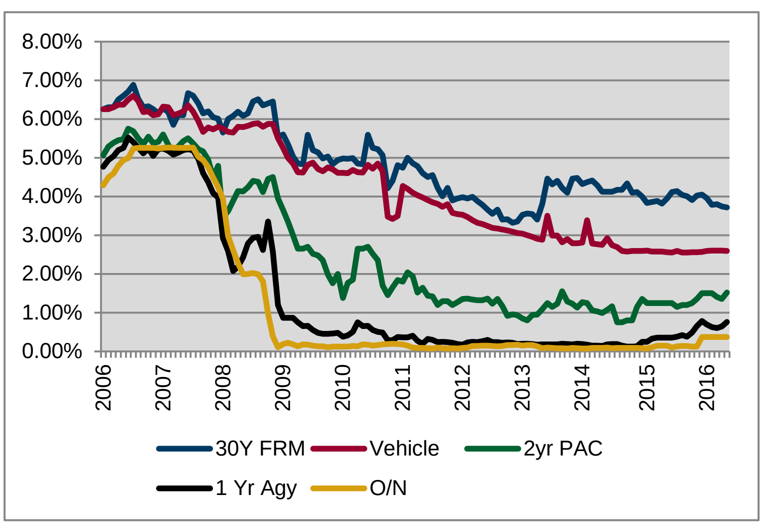
- Auto sales remained below 17 million annualized sales for the third month in a row in May. Sales totaled 16.6 million, the fourth decline in five months. Even with the average age of cars on the road at 11.5 years, industry analysts are concerned pent-up demand for new cars has been satisfied. The shift from cars to trucks and SUVs continues as gas prices remain at very low levels. Cars made up 38 percent of sales in May, compared to 50 percent five years ago. Rebates and low-interest financing are expected to continue to increase as dealers try to move inventory off their lots.

- Credit unions added 1.5 million members in the first quarter of 2017, the fastest pace in over 20 years. Membership is up 4.5 percent for the year ending in March. Loan balances increased 0.9 percent in March, compared to 1.1 percent in March 2016. Auto loans rose 1.5 percent, and mortgage loans were up 2.3 percent in March. A surge of refinancing applications in January and February contributed to the high volume in March.



The yield curve continued to flatten in May, this time reaching the narrowest level since October 2016. The spread between the two-year and 10-year Treasury notes was 92 basis points at month end. The market is suffering from a disconnect between proposed Federal Reserve action and concerns over falling inflation. The short end of the curve is moving higher the closer we get to the June 14 FOMC meeting. The long end of the curve is noting weaker inflation levels and growing concern about a stalling economy. The two-year note moved in a 13-basis point range, dipping as low as 1.25 percent, before closing the month at 1.28 percent. This was two basis points higher than the prior month. The 10-year Treasury note had a more difficult time finding stable ground, as it moved in a 21-basis point range, from a low of 2.20 percent to 2.41 percent. By month-end, the 10-year note was eight basis points lower than the prior month, closing at 2.20 percent.

Relative Value of Assets and Funding:

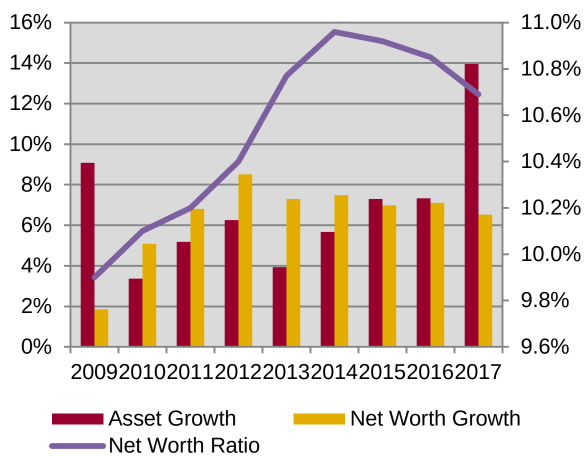


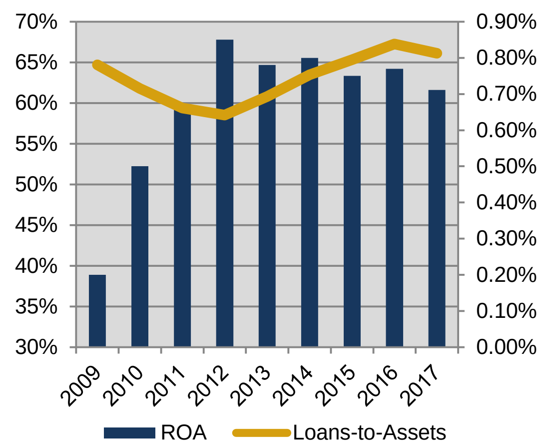
- The spread between loan and investment rates remains narrow. Credit unions should continue to focus on credit quality and delinquency rates to maintain the proper balance of value in their balance sheet.
- Federal Reserve members remain focused on raising interest rates this year, with possibly two more moves this year.
- 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

JUNE 2017

Monday	Tuesday	Wednesday	Thursday	Friday
			1 Auto Sales Jobless Claims ISM Manufacturing Construction Spending ADP Employment	**2** Non-Farm Payrolls Unemployment Rate Trade Balance
5 Factory Orders ISM Services	**6** JOLTS	**7** Consumer Credit	**8** Jobless Claims	**9** Wholesale Inventories
12	**13** PPI	**14** CPI Retail Sales Business Inventories FOMC rate decision 	**15** Jobless Claims Industrial Production Capacity Utilization	**16** Housing Starts Building Permits
19	**20**	**21** Existing Home Sales	**22** Leading Index	**23** New Home Sales
26 Durable Goods Orders	**27** Consumer Confidence S&P CoreLogic Price Index	**28** Trade Balance Pending Home Sales Wholesale Inventories	**29** Jobless Claims GDP 1Q17 revision	**30** Personal Income Personal Spending