

KEY ECONOMIC AND MARKET INDICATORS

KEY ECONOMIC INDICATORS	Latest Report	Current Report	Previous Report	2016
ECONOMIC GROWTH				
GDP (QoQ)	Q4	1.9%	3.5%	1.9%
EMPLOYMENT				
Non-farm Payrolls (000s)	Feb	235	238	2,242
Private Payrolls (000s)	Feb	227	221	2,054
Unemployment Rate	Feb	4.7%	4.8%	4.7%
Underemployment Rate	Feb	9.2%	9.4%	9.2%
INFLATION				
Wholesale (YoY)	Jan	1.6%	1.6%	1.6%
Consumer (YoY)	Jan	2.5%	2.1%	2.1%
Core Consumer (YoY)	Jan	2.3%	2.2%	2.1%
INCOME & SPENDING				
Chg in Consumer Credit (\$B)	Jan	8.8	14.8	6.4%
Personal Income	Jan	0.4%	0.3%	3.5%
Personal Spending	Jan	0.2%	0.5%	2.7%
AUTO & HOUSING				
Total Auto Sales (Mil Units)	Feb	17.5	17.5	18.3
New & Existing Home Sales (M)	Jan	6.25	6.05	6.03
S&P/Case Shiller HPI (YoY)	Dec	5.85%	5.61%	5.61%

The February job report presented a snapshot of a continually improving labor market. The job additions were solid across the board, especially in the construction and manufacturing sectors. About 348,000 people re-entered the labor force, bringing the labor participation rate higher and the underemployment rate close to pre-recession lows.

For the second month in a row, the key inflation indices inched higher. Rising gasoline costs accounted for more than half the increase in both wholesale and consumer price indices. Higher raw material prices are adding to rising global inflation. Wholesale goods prices increased the most since May 2015. The steady increase in inflation levels should provide the Federal Reserve with enough justification to raise interest rates.

Durable goods orders rose 1.8 percent in January, a misleading indicator for business investment. The bulk of the orders came from spikes in aircraft contracts. There was a 70 percent jump for passenger planes and a 60 percent gain for military aircraft and goods. Orders minus aircraft and autos rose just 0.2 percent.

A second look at fourth quarter 2016 GDP yielded the same result – 1.9 percent growth – but the components changed. Consumer spending was increased to 3.0 percent, while business spending was revised lower by 1.2 percent. Net exports subtracted 1.7 percent from overall growth.

Sources:

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

KEY MARKET INDICATORS	Mth End	Last Mth	12 Mth Ago
	Feb-17	Jan-17	Feb-16
MONEY MARKETS			
Effective Fed Funds	0.57%	0.56%	0.37%
Prime Rate	3.75%	3.75%	3.50%
3 month LIBOR	1.06%	1.03%	0.63%
2 year UST	1.26%	1.20%	0.77%
10 year UST	2.39%	2.45%	1.74%
NATIONAL MORTGAGE RATES			
CU 15 year Mtg	3.51%	3.54%	3.21%
CU 30 year Mtg	4.21%	4.21%	3.78%
EQUITY MARKETS			
Dow Jones Industrial Average	20,812.2	19,864.1	16,516.5
NASDAQ Composite	5,825.4	5,614.8	4,558.0
S&P 500	2,363.6	2,278.9	1,895.6
OTHER COMMODITIES			
CRB Index	190.6	192.0	158.9
Crude Oil	54.0	52.8	39.6

Source: Bloomberg; RateWatch

The financial markets spent most of February deciphering verbiage from the Federal Reserve, whether in the form of press releases, meeting minutes or public comments. After the first FOMC meeting of the year resulted in no changes to the level of interest rates, the market began to give up hope for a more aggressive Federal Reserve in 2017. The stock market continued to climb on strong earnings and optimism coming out of Washington. Even with hawkish comments from various Federal Reserve officials promoting a rate increase, it took a long time to convince the futures market a rate move is possible in March. In fact, the markets were only placing a 50 percent chance for an increase to the benchmark lending rate by the last day of February. Once the calendar turned to March, the odds increased to 80 percent. The FOMC meeting is scheduled for March 15.

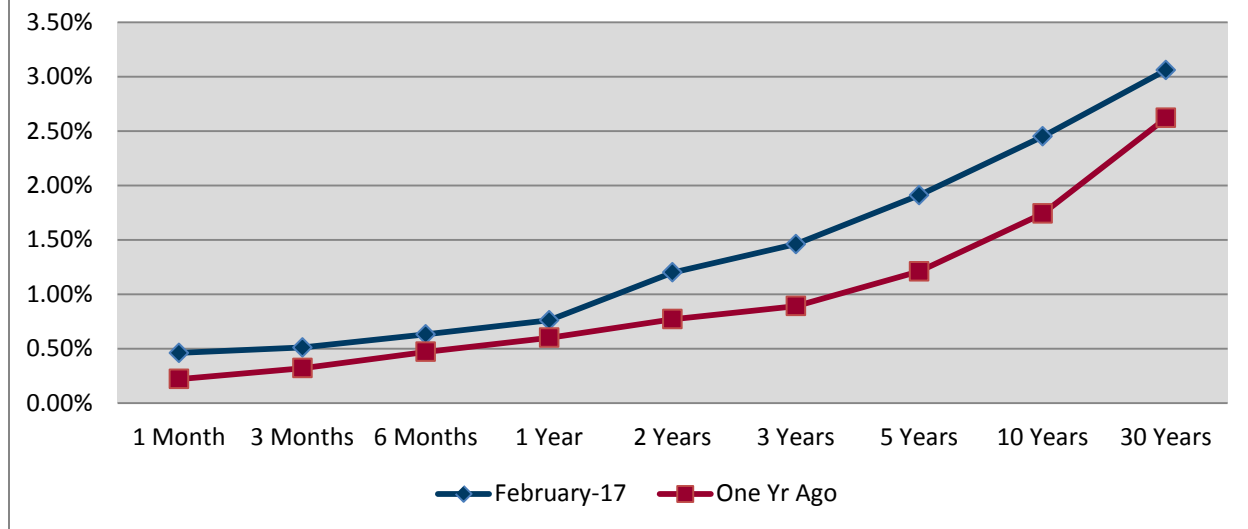
Mortgage rates stalled again in February. The average 15-year mortgage rate offered by credit unions decreased three basis point to 3.51 percent. The average rate for a 30-year mortgage remained at 4.21 percent, unchanged from December. The spread between the 30-year mortgage and Treasury rates increased six basis points to 182, due to the decline in the 10-year Treasury rate. Mortgage applications were up 2.4 percent during the month.

The key U.S. equity indices continued their climb in February to new high levels. The Dow Jones Industrial Average broke a 30-year record by moving higher for 12 consecutive days. The S&P 500 and Nasdaq Composite each closed higher for seven days in a row. The non-stop advances were fueled by the promise of lower corporate taxes and general confidence for the economy going forward. The month-to-date returns for the indices were all in the black: Dow Jones Industrial Average: +4.8 percent, NASDAQ Composite: +3.7 percent, and S&P 500 Index: +3.0 percent. The price of oil closed the month at 54.01, up 1.1 percent for the month.

For Credit Unions:

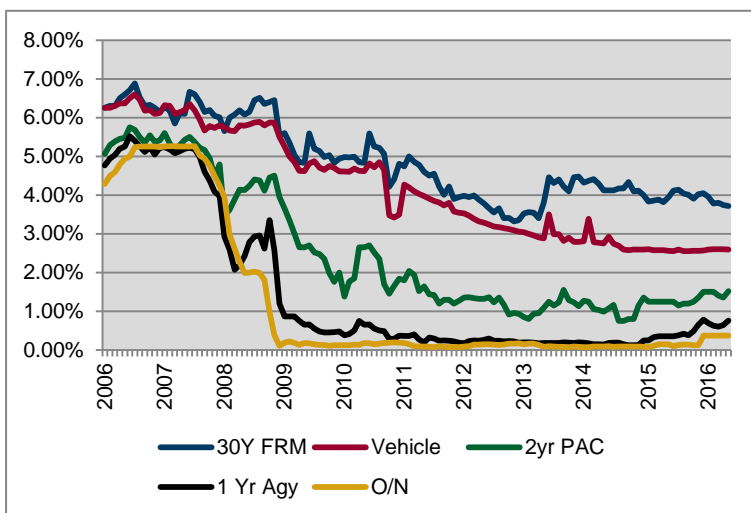
- Consumer spending, while still a driving force of economic growth, slowed in January. Overall spending rose 0.2 percent, less than half the increase in December. Rising prices and the level of inflation may be taking a toll on consumers' spending activity. When you adjust spending for inflation, overall purchases declined 0.3 percent. Personal incomes increased 0.4 percent in January. One area of concern to watch out for is increasing debt levels. Household debt rose the most in 10 years during 2016 and is close to an all-time peak. Student loan debt totaled \$1.4 trillion at the end of the year, topping credit card debt by \$400 billion.
- Total home sales in January were the strongest since December 2006. New and existing sales totaled 6.25 million annual rate. Demand for homes continues to top supply, however. The supply of existing homes for sale fell 7.1 percent from the prior year, the 20th consecutive year-over-year decline in inventory. Prices continue to rise, making it more difficult for first-time buyers to enter the market. The national home price index rose 5.85 percent in January, the largest monthly gain since mid-2014. The bright spot in the housing industry is the increase in building permits. Overall permits jumped 4.6 percent in January to the highest pace since November 2015. The south continues to lead the country in building permits.
- Credit union assets increased 7.3 percent in 2016, matching the increase in 2015. Total loans advanced by 10.43 percent, just shy of the 10.49 percent growth rate in 2015. All categories of loans increased from the year before, with auto loans topping the list at 14 percent growth. Delinquencies inched higher to 83 basis points from 81 basis points.

Yield Curve



The Treasury market bounced between speculation about the next interest rate move and the outlook for inflation. By the end of the month, the yield curve flattened 12 basis points to 113 basis points. Yields at the short end of the curve finally took the hint of a rate increase and began to adjust accordingly. The two-year note closed the month six basis points higher at 1.26 percent. On the other end of the curve, the 10-year finished six basis points lower at 2.39 percent. The 10-year note reached the lowest yield of the year during the month after an 18 basis point swing.

Relative Value of Assets and Funding:

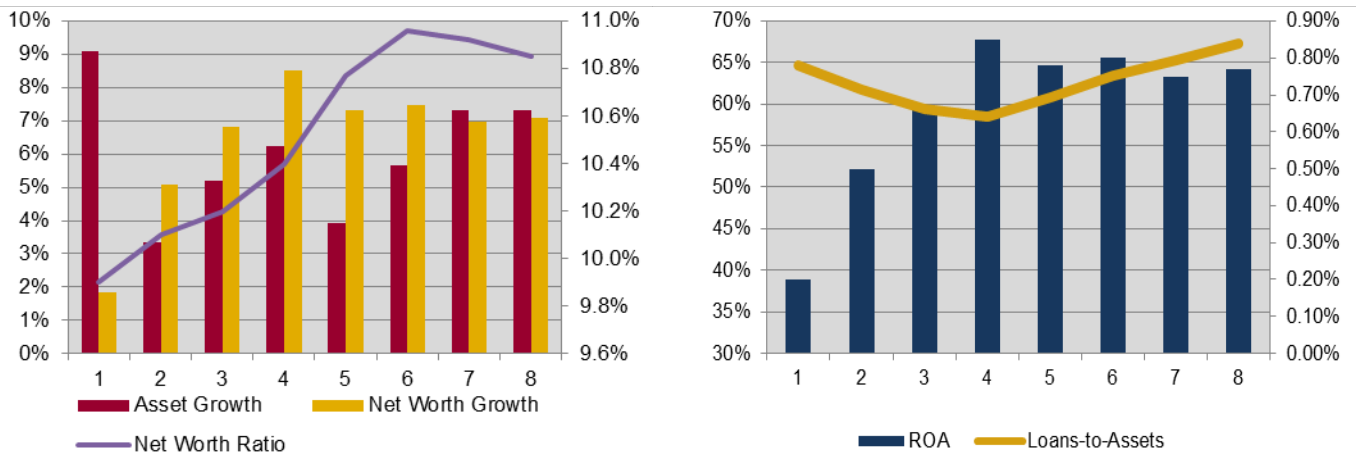


- The spread between loan and investment rates is beginning to narrow. Credit unions should stay focused on credit quality and delinquency rates to maintain the proper balance of value in their balance sheet.
- Interest rates are expected to move higher throughout 2017, with two to three rate moves from the Federal Reserve.
- Credit unions should be able to delay increasing deposit rates until additional Federal Reserve rate moves are completed.

NCUA – December 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%	7.33%
Total Loans	1.20%	4.55%	7.97%	10.42%	10.49%	10.43%
Total Shares	5.21%	6.10%	3.67%	4.47%	6.86%	7.54%
Net Worth	6.81%	8.52%	7.36%	7.48%	6.92%	7.06%
CAPITAL ADEQUACY						
Net Worth Ratio	10.21%	10.43%	10.77%	10.96%	10.92%	10.89%
Equity Capital Ratio	10.19%	10.42%	10.47%	10.78%	10.66%	10.58%
Capital Ratio	11.10%	11.20%	11.10%	11.40%	11.27%	11.19%
BALANCE SHEET COMPOSITION						
Cash & ST Inv to Total Assets	17.30%	17.49%	14.87%	13.65%	13.47%	13.41%
Loans-to-Total Assets	59.42%	58.48%	60.75%	63.48%	65.35%	67.24%
Vehicle-to-Total Loans	28.88%	29.87%	30.80%	32.29%	33.29%	34.37%
Real Estate-to-Total Loans	54.78%	53.58%	52.51%	51.13%	50.41%	49.60%
Delinquency Rate	1.60%	1.16%	1.01%	0.85%	0.81%	0.83%
Net Charge-off Rate	0.91%	0.73%	0.57%	0.50%	0.48%	0.55%
"Misery" Index	2.51%	1.89%	1.58%	1.35%	1.30%	1.38%
EARNINGS						
Gross Asset Yield	4.62%	4.01%	3.65%	3.66%	3.72%	3.82%
Cost of Funds	0.93%	0.73%	0.59%	0.54%	0.52%	0.53%
Gross Interest Margin	3.69%	3.28%	3.06%	3.12%	3.20%	3.29%
Less: Provision Expense	0.50%	0.36%	0.26%	0.28%	0.35%	0.41%
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%	2.46%
Net Income (Return on Assets)	0.67%	0.85%	0.78%	0.80%	0.75%	0.77%
Return on Equity	6.4%	8.0%	7.3%	7.2%	6.8%	7.0%

Source: NCUA (December 2016)



NCUA PEER DATA	<\$2M	\$2-10M	\$10-50M	\$50-100M	\$100-500M	\$500M+	Total
NETWORK							
Average Asset Size (000s)	\$896	\$5,600	\$24,748	\$71,151	\$222,552	\$1,905,558	\$223,429
Pct of Number of Credit Unions	9%	20%	32%	13%	18%	9%	100%
Pct of Industry Assets	0%	0%	4%	4%	18%	74%	100%
GROWTH RATES							
Total Assets	-9.3%	-7.1%	-5.7%	-0.6%	2.1%	10.1%	7.33%
Total Loans	-9.7%	-6.3%	-5.1%	0.9%	3.9%	13.3%	10.43%
Total Shares	-9.3%	-7.2%	-5.7%	-0.6%	2.1%	10.5%	7.54%
Net Worth	-8.4%	-6.5%	-5.7%	-0.2%	2.0%	9.8%	7.06%
CAPITAL ADEQUACY							
Net Worth Ratio	17.8%	15.0%	12.3%	11.5%	10.9%	10.8%	10.89%
Equity Capital Ratio	17.8%	14.9%	12.2%	11.3%	10.6%	10.4%	10.58%
Capital Ratio	19.0%	15.5%	12.7%	11.8%	11.2%	11.1%	11.19%
BALANCE SHEET COMPOSITION							
Cash & ST Investments-to-Total Assets	39.4%	29.3%	23.9%	19.3%	14.8%	12.1%	13.4%
Loans-to-Total Assets	47.6%	49.1%	50.3%	56.1%	64.2%	69.5%	67.24%
Vehicle-to-Total Loans	56.7%	58.1%	44.5%	39.8%	37.1%	33.0%	34.37%
Real Estate-to-Total Loans	1.9%	10.5%	32.9%	40.0%	45.7%	51.7%	49.60%
Delinquency Rate	3.23%	1.89%	1.22%	1.09%	0.91%	0.78%	0.83%
Net Charge-off Rate	0.62%	0.65%	0.50%	0.52%	0.49%	0.57%	0.55%
"Misery" Index	3.85%	2.54%	1.72%	1.61%	1.40%	1.35%	1.38%
Non-term Shares-to-Total Shares	90.3%	83.9%	78.8%	76.2%	74.4%	72.0%	72.9%
Net Long-term Assets-to-Total Assets	4.9%	9.9%	20.0%	25.7%	31.4%	34.5%	33.0%
EARNINGS							
Gross Asset Yield	3.98%	3.82%	3.43%	3.64%	3.75%	3.86%	3.8%
Cost of Funds	0.39%	0.30%	0.28%	0.31%	0.38%	0.59%	0.53%
Gross Interest Margin	3.60%	3.52%	3.15%	3.33%	3.37%	3.27%	3.3%
Less: Provision Expense	0.30%	0.32%	0.26%	0.30%	0.36%	0.43%	0.41%
Net Interest Margin	3.29%	3.20%	2.89%	3.03%	3.01%	2.84%	2.9%
Net Operating Expense	3.39%	3.02%	2.69%	2.80%	2.77%	2.35%	2.46%
Net Income (Return on Assets)	-0.05%	0.05%	0.25%	0.38%	0.52%	0.89%	0.77%
Return on Equity	-0.3%	0.4%	2.1%	3.4%	4.8%	8.1%	7.0%
COST EFFICIENCIES							
Avg Loan Balance	\$4,230	\$6,582	\$8,766	\$9,778	\$12,418	\$15,504	\$14,246
Avg Share Per Member	\$2,257	\$4,553	\$6,884	\$7,889	\$8,952	\$11,203	\$10,225
Avg Compensation per FTE	\$18,513	\$43,931	\$55,062	\$58,278	\$63,836	\$76,488	\$70,977
Comp & Benefits-to-Total Assets	2.00%	1.95%	1.67%	1.74%	1.79%	1.44%	1.52%
Pct of Total Operating Expense	49%	53%	48%	48%	50%	51%	51%
Office Occ & Ops-to-Total Assets	1.28%	0.98%	0.94%	0.92%	0.94%	0.70%	0.76%
Pct of Total Operating Expense	31%	27%	27%	25%	26%	25%	25%

Source: NCUA (December 2016)

Economic Calendar

MARCH 2017

Monday	Tuesday	Wednesday	Thursday	Friday
		1 Auto Sales Personal Income (Jan) Personal Spending (Jan) ISM Manufacturing Construction Spending Beige Book	2 Jobless Claims ISM Services	3
6 Factory Orders	7 Trade Balance Consumer Credit	8 ADP Employment Wholesale Inventories	9 Jobless Claims Import Prices	10 Non-Farm Payrolls Unemployment Rate
13	14 PPI	15 CPI Retail Sales Business Inventories FOMC rate decision	16 Jobless Claims JOLTS Housing Starts Building Permits	17 Leading Index Industrial Production Capacity Utilization 
20	21	22 Existing Home Sales	23 Jobless Claims New Home Sales	24 Durable Goods Orders
27	28 Trade Balance S&P/Case-Shiller HPI Wholesale Inventories	29 Pending Home Sales	30 Jobless Claims GDP 1Q17	31 Personal Spending (Feb) Personal Income (Feb)