CATALYST Strategic Solutions

Market Overview AND DATA REPORT

MAY 2018

KEY ECONOMIC INDICATORS	Latest Report	Current Report	Previous Report	2017
ECONOMIC GROWTH				
GDP	Q1	2.3%	2.9%	2.3%
EMPLOYMENT				
Non-farm Payrolls (000s)	Mar	164	135	2,173
Private Payrolls (000s)	Mar	168	135	2,155
Unemployment Rate	Mar	3.9%	4.1%	4.1%
Avg Hourly Earnings (Y/Y)	Mar	2.6%	2.6%	2.7%
INFLATION				
Wholesale (Y/Y)	Mar	3.0%	2.8%	2.6%
Consumer (Y/Y)	Mar	2.4%	2.2%	2.1%
PCE Core (Y/Y)	Mar	1.9%	1.6%	1.5%
INCOME & SPENDING				
Retail Sales	Mar	0.6%	-0.1%	5.6%
Personal Income	Mar	0.3%	0.3%	3.1%
Personal Spending	Feb	0.4%	0.0%	4.5%
AUTO & HOUSING				
Total Auto Sales (MM)	Mar	17.15	17.40	17.10
New/Existing Home Sales (MM)	Mar	6.29	6.21	6.19
S&P/Case Shiller HPI (Y/Y)	Feb	6.34%	6.11%	6.27%

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

KEY MARKET INDICATORS	Mth End	Last Mth	12 Mth Ago
	Apr-18	Mar-18	Apr-17
MONEY MARKETS			
Effective Fed Funds	1.69%	1.68%	0.83%
Prime Rate	4.75%	4.75%	4.00%
3 month LIBOR	2.36%	2.31%	1.17%
2 year UST	2.49%	2.27%	1.26%
10 year UST	2.95%	2.74%	2.28%
NATIONAL MORTGAGE RATES			
CU 15 year Mtg	4.07%	4.03%	3.47%
CU 30 year Mtg	4.59%	4.50%	4.14%
EQUITY MARKETS			
Dow Jones Industrial Average	24,163.2	24,103.1	20,940.5
NASDAQ Composite	7,066.3	7,063.4	6,047.6
S&P 500	2,648.6	2,640.8	2,384.2
OTHER COMMODITIES			
CRB Index	202.0	195.4	181.7
Crude Oil	68.6	64.9	50.6

Source: Bloomberg; RateWatch

KEY ECONOMIC AND MARKET INDICATORS

The unemployment rate fell to 3.9 percent, the lowest level in over 17 years. The rate fell, as 246,000 left the labor force. An average of 208,000 jobs were added over the past three months, more than needed to keep the job force stable. With wage growth at 2.6 percent, several economists believe the labor market still has room to expand.

Wholesale costs increased more than expected in March, suggesting price pressures are building at the producer level and could be passed on to the consumer soon. Year-over-year consumer prices had the biggest jump in a year, as some lower-cost items fell off the annual calculation. Lower gasoline prices kept the monthly increase lower than expected.

Retail sales rebounded in March after a three-month hiatus. Eight of the 13 major categories posted gains. Auto sales increased two percent, followed by an increase in sales at personal care stores of 1.4 percent. Late tax returns and higher utility bills are blamed for the weakness in sales earlier in the quarter.

The economy expanded at a 2.3 percent pace in the first quarter. Almost all areas of the economy suffered some slowdown following a robust fourth quarter. Consumer spending increased 1.1 percent, the worst pace in almost five years. Business investment slowed to 4.7 percent from double-digit growth in the previous quarter.

The financial markets were battered on all sides during April. The month began with issues over Amazon and its relationship with the U.S. Postal Service. This created anxiety not only in the tech sector, but also across much of the stock market. Then Facebook, another tech giant, went under the microscope. The rest of the month was spent debating the implication of the flattening yield curve, as well as the impact a trade war would have on the economy. On one side of the debate was whether the flattening yield curve was forecasting a recession; on the other side were worries about how proposed tariffs could potentially slow global growth. Even as data continued to flow in suggesting the U.S. economy was rebounding from a slow start to the first quarter, White House tweets and differing opinions from various Washington spokespeople kept investors alert and confused. There was even a debate over whether the U.S. was engaged in “discussions” or “conversations” with China. In the end, stock indices made little progress either way, and bond yields moved evenly across the curve.

The recent jumps in mortgage rates subsided in April, despite Treasury rates continuing to move higher. The average 15-year mortgage rate offered by credit unions remained above four percent for the second month in a row, closing the month at 4.07 percent. This was an increase of four basis points. The average rate for a 30-year mortgage rose to 4.59 percent. The spread over Treasury yields widened by an average of 18 basis points. The rate for a 15-year mortgage is 60 basis points higher than a year ago. The 30-year rate is 45 basis points higher than a year ago.

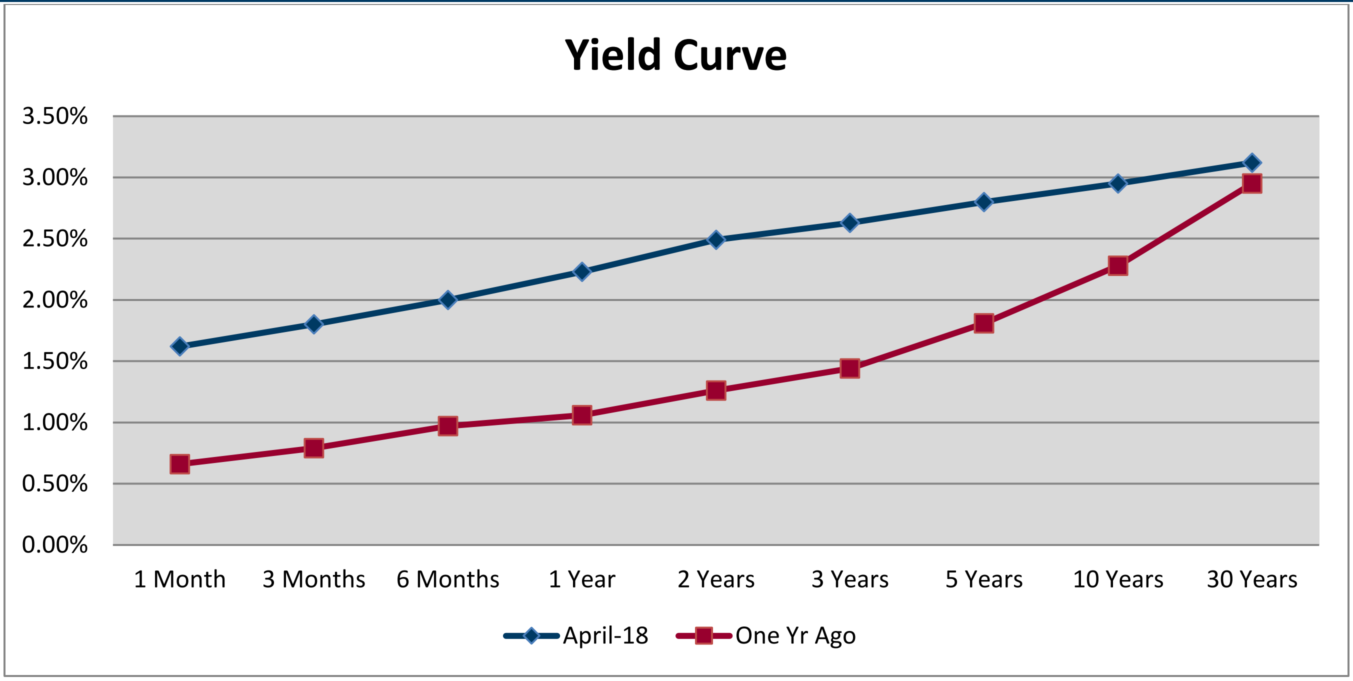
Triple-digit moves are becoming the norm in the stock market. Out of 21 trading days, the Dow moved more than 100 points up or down on 15 days. After years of no volatility, stocks are getting hit on all sides by threats of proposed trade tariffs, higher bond yields and strong quarterly earnings that no longer garner a positive response. For most of April, stock investors tried to make sense of the impact of a trade war and higher borrowing rates on future earnings. The three key indices just barely eked out the first gain in three months. The Dow was up 0.25 percent, the S&P 500 gained 0.27 percent and the NASDAQ scraped by with a gain of 0.04 percent. The NASDAQ was the only key index to maintain a positive year-to-date return. Year-to-date returns were: Dow -2.3 percent, S&P -1.0 percent and NASDAQ +2.4 percent.

For Credit Unions:

- Housing staged a successful comeback in March. Sales of both new and existing homes rose to a four-month high, as buyers were grabbing up homes at a rapid pace. The lack of inventory is forcing buyers to put in bids quickly for fear of not finding another home. Existing homes sold in an average of 30 days, compared to 34 days a year ago. Prices of homes in the top 20 metropolitan cities surged 6.8 percent in February, the most in almost four years. Purchases of condominiums and co-ops outpaced sales of single-family homes.

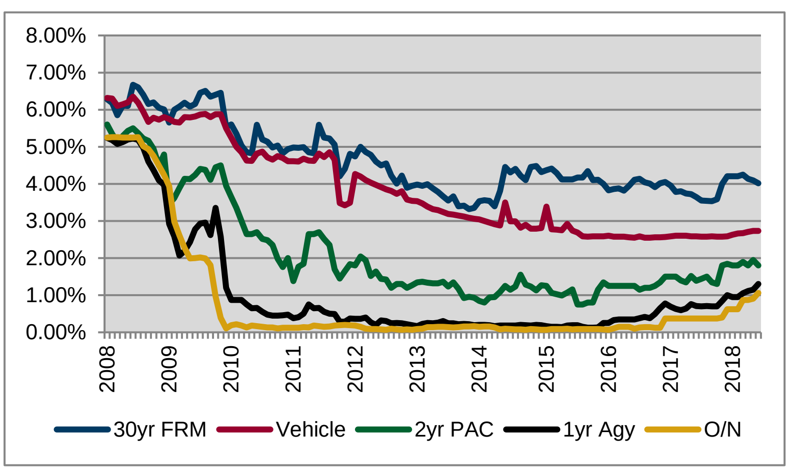
- The consumer is apparently skeptical about economists’ opinions of a healthy economy, judging by their share accounts. Consumers historically keep higher balances when times are bad, fearing loss of job or a lack of salary increases. A recent study by Moebs Services found that consumers have kept an average of $2,263 in share accounts since 1991. In 2007, when the economy was booming, balances fell to $1,000. The average account today has $3,700 – more than enough cushion to protect against the next recession.

- Manufacturing remains healthy despite a slight pullback reflected in recent data. The Institute for Supply Management survey on manufacturing dipped from a 14-year high for the second month in a row. The reading of 57.3 percent is two points higher than a year ago. New orders and production components remain strong. The one trouble spot could be pricing, which jumped to the highest level since 2011. Concern over trade tariffs is prematurely boosting prices.



The bond market was playing a game of "how flat can you go" in April. The yield curve spent most of the month under 50 basis points. The curve closed at 43 basis points mid-month, the tightest spread since 2007. The short end of the curve led the flattening, buoyed by various Federal Reserve presidents talking up the chance for more rate increases this year, while dismissing the possibility of a recession. The long end of the curve tried its best to get above the psychological level of three percent, managing to close above it only twice before month end. The two-year note increased 22 basis points to close the month at 2.49 percent. The 10-year yield closed at 2.95 percent, 20 basis points higher. The yield curve narrowed to 46 basis points, one basis point tighter from a month ago and 56 basis points wider from a year ago.

Relative Value of Assets and Funding:

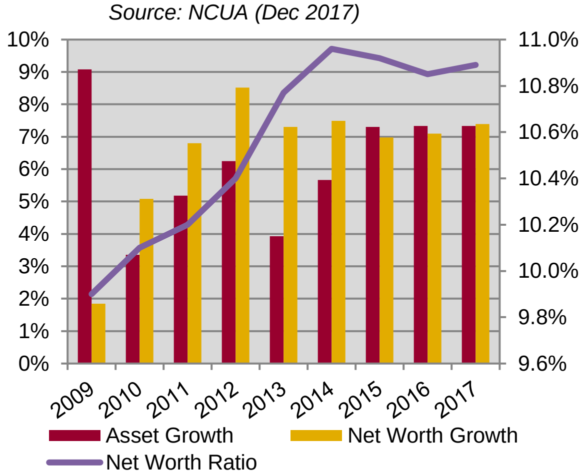


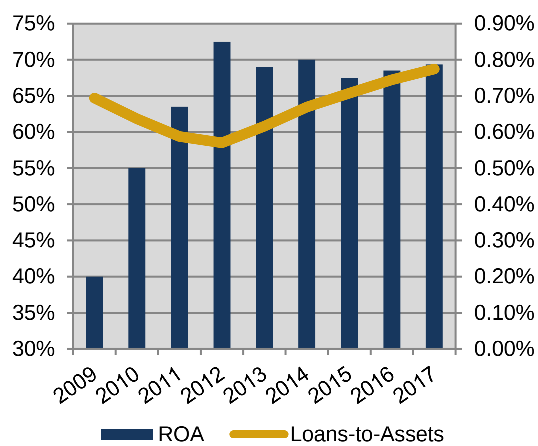
- The spread between loan and investment rates remained constant, as auto loan rates moved higher and investment spreads tightened.
- Overnight and term deposit rates increased an average of five basis points. Rates increased the most in the Southwest.
- Auto rates increased an average of six basis points, and mortgage rates rose four basis points. Auto rates jumped 13 basis points in the West.

NCUA – December 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%	6.69%
Total Loans	4.55%	7.97%	10.42%	10.49%	10.43%	10.15%
Total Shares	6.10%	3.67%	4.47%	6.86%	7.54%	6.12%
Net Worth	8.52%	7.36%	7.48%	6.92%	7.05%	7.34%
CAPITAL ADEQUACY						
Net Worth Ratio	10.43%	10.77%	10.96%	10.92%	10.89%	10.96%
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%	11.31%
BALANCE SHEET COMPOSITION						
Cash & ST Inv to Total Assets	17.49%	14.87%	13.65%	13.47%	13.41%	12.43%
Loans-to-Total Assets	58.48%	60.75%	63.48%	65.35%	67.24%	69.42%
Vehicle-to-Total Loans	29.87%	30.80%	32.29%	33.29%	34.37%	34.74%
Real Estate-to-Total Loans	53.58%	52.51%	51.13%	50.41%	49.60%	41.98%
Delinquency Rate	1.16%	1.01%	0.85%	0.81%	0.83%	0.81%
Net Charge-off Rate	0.73%	0.57%	0.50%	0.48%	0.55%	0.60%
"Misery" Index	1.89%	1.58%	1.35%	1.30%	1.38%	1.41%
EARNINGS						
Gross Asset Yield	4.01%	3.65%	3.66%	3.72%	3.82%	4.03%
Cost of Funds	0.73%	0.59%	0.54%	0.52%	0.53%	0.57%
Gross Interest Margin	3.28%	3.06%	3.12%	3.20%	3.29%	3.47%
Less: Provision Expense	0.36%	0.26%	0.28%	0.35%	0.41%	0.48%
Net Interest Margin	2.92%	2.80%	2.84%	2.85%	2.88%	2.99%
Net Operating Expense	2.44%	2.45%	2.45%	2.47%	2.46%	2.46%
Net Income (Return on Assets)	0.85%	0.78%	0.80%	0.75%	0.77%	0.78%
Return on Equity	8.0%	7.3%	7.2%	6.8%	7.0%	7.1%

Source: NCUA (Dec 2017)





NCUA PEER DATA	<$2M	$2-10M	$10-50M	$50-100M	$100-500M	$500M+	Total
NETWORK							
Average Asset Size (000s)	$908	$5,641	$24,936	$71,407	$223,511	$1,974,230	$247,423
Pct of Number of Credit Unions	9%	19%	32%	13%	18%	10%	100%
Pct of Industry Assets	0%	0%	3%	4%	17%	76%	100%
GROWTH RATES							
Total Assets	-6.6%	-6.8%	-3.4%	-1.7%	-1.9%	9.8%	6.69%
Total Loans	-6.0%	-5.5%	-0.9%	-0.1%	1.0%	13.1%	10.15%
Total Shares	-7.0%	-7.2%	-3.6%	-1.9%	-2.2%	9.3%	6.12%
Net Worth	-5.1%	-5.0%	-2.8%	-0.7%	-0.9%	10.5%	7.34%
CAPITAL ADEQUACY							
Net Worth Ratio	18.1%	15.2%	12.4%	11.6%	11.0%	10.8%	10.96%
Equity Capital Ratio	18.1%	15.2%	12.3%	11.4%	10.7%	10.5%	10.67%
Capital Ratio	19.3%	15.8%	12.8%	11.9%	11.4%	11.2%	11.31%
BALANCE SHEET COMPOSITION							
Cash & ST Investments-to-Total Assets	38.1%	29.3%	23.4%	19.0%	14.0%	11.2%	12.4%
Loans-to-Total Assets	47.9%	49.8%	51.6%	57.0%	66.0%	71.6%	69.42%
Vehicle-to-Total Loans	56.2%	59.0%	45.6%	41.2%	38.1%	33.4%	34.74%
Real Estate-to-Total Loans	1.2%	6.3%	27.0%	33.4%	37.2%	43.9%	41.98%
Delinquency Rate	3.26%	1.69%	1.17%	1.03%	0.93%	0.76%	0.81%
Net Charge-off Rate	0.91%	0.62%	0.51%	0.50%	0.60%	0.60%	0.60%
"Misery" Index	4.18%	2.31%	1.68%	1.53%	1.53%	1.37%	1.41%
Non-term Shares-to-Total Shares	90.5%	84.3%	80.0%	77.6%	75.1%	72.3%	73.3%
Net Long-term Assets-to-Total Assets	4.6%	9.9%	20.3%	25.8%	31.8%	35.4%	33.8%
EARNINGS							
Gross Asset Yield	4.30%	3.89%	3.57%	3.66%	3.89%	4.11%	4.0%
Cost of Funds	0.43%	0.34%	0.29%	0.31%	0.39%	0.63%	0.57%
Gross Interest Margin	3.87%	3.56%	3.28%	3.35%	3.51%	3.47%	3.5%
Less: Provision Expense	0.49%	0.32%	0.27%	0.30%	0.46%	0.50%	0.48%
Net Interest Margin	3.38%	3.24%	3.01%	3.05%	3.05%	2.97%	3.0%
Net Operating Expense	3.61%	3.03%	2.76%	2.77%	2.75%	2.36%	2.46%
Net Income (Return on Assets)	-0.31%	0.09%	0.31%	0.44%	0.47%	0.89%	0.78%
Return on Equity	-1.8%	0.6%	2.5%	3.9%	4.4%	8.1%	7.1%
COST EFFICIENCIES							
Avg Loan Balance	$4,534	$6,867	$8,908	$10,002	$12,875	$15,991	$14,807
Avg Share Per Member	$2,215	$4,658	$7,047	$8,084	$9,110	$11,285	$10,415
Avg Compensation per FTE	$20,402	$32,900	$56,504	$59,176	$65,274	$78,383	$72,893
Comp & Benefits-to-Total Assets	2.06%	1.95%	1.68%	1.72%	1.80%	1.45%	1.53%
Pct of Total Operating Expense	49%	53%	48%	48%	50%	52%	51%
Office Occ & Ops-to-Total Assets	1.33%	0.98%	0.94%	0.90%	0.94%	0.69%	0.75%
Pct of Total Operating Expense	32%	27%	27%	25%	26%	25%	25%

Source: NCUA (Dec 2017)

Economic Calendar

MAY 2018

Monday	Tuesday	Wednesday	Thursday	Friday
	1 Auto Sales ISM Manufacturing Construction Spending	**2** ADP Employment FOMC Meeting	**3** Jobless Claims Trade Balance ISM Services Factory Orders Durable Goods (Mar)	**4** Non-Farm Payrolls Unemployment Rate
7 Consumer Credit	**8** JOLTS	**9** PPI Wholesale Inventories	**10** Jobless Claims CPI	**11** U. of Mich. Sentiment (P)
14	**15** Retail Sales Empire Manufacturing Business Inventories	**16** Housing Starts Building Permits Industrial Production Capacity Utilization	**17** Jobless Claims Leading Economic Index	**18**
21	**22**	**23** New Home Sales FOMC May Minutes	**24** Jobless Claims Existing Home Sales	**25** Durable Goods (Apr) U. of Mich. Sentiment (F)
28 	**29** Consumer Confidence S&P CoreLogic Price Index	**30** ADP Employment GDP 1Q18 (Prelim) Advanced Trade Balance Fed Beige Book	**31** Personal Income Personal Spending Pending Home Sales	