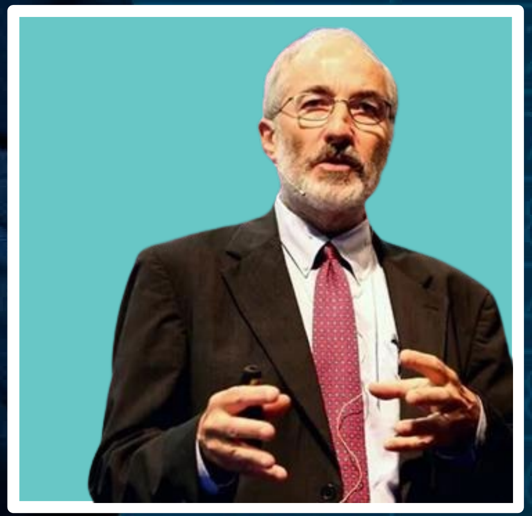
Year-End Financial & Economic Outlook for Credit Unions

PRESENTED BY

AMERICAN SHARE INSURANCE

EXCESS SHARE INSURANCE

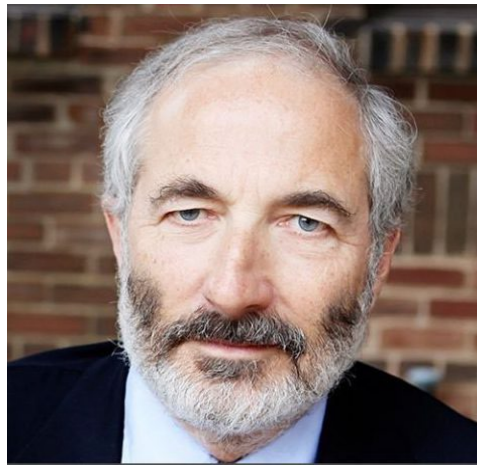


FEATURING:

Bill Hampel

Speaker & Economic Consultant
Specializing in credit unions

HOUSEKEEPING



Bill Hampel
SPEAKER & ECONOMIC CONSULTANT
mdbhampel@gmail.com
www.BillHampel.com

David Kettlehake
VP, MARKETING & SALES
dkettlehake@americanshare.com
www.AmericanShare.com

ASI

PRIMARY SHARE INSURANCE

GREATER COVERAGE

Coverage of up to $250,000 for each and every account of an individual member

NOT A REGULATOR

We focus on safety and soundness, leaving the oversight of state laws to state regulators

BUSINESS PARTNER

One size does not fit all, allowing you to run your credit union in a way that best serves your members

CHEERS TO 50 YEARS
OF PROTECTING CREDIT UNIONS

ESi EXCESS SHARE INSURANCE

ATTRACT

new deposits and new members

PROTECT

existing member deposits

RETAIN

members with larger deposits

DISCUSSION OUTLINE

Economic update

- Recession probability
- Inflation
- Interest Rates

Credit union financial implications

- Liquidity
- Credit quality
- Earnings

US ECONOMY &
POTENTIAL RECESSION

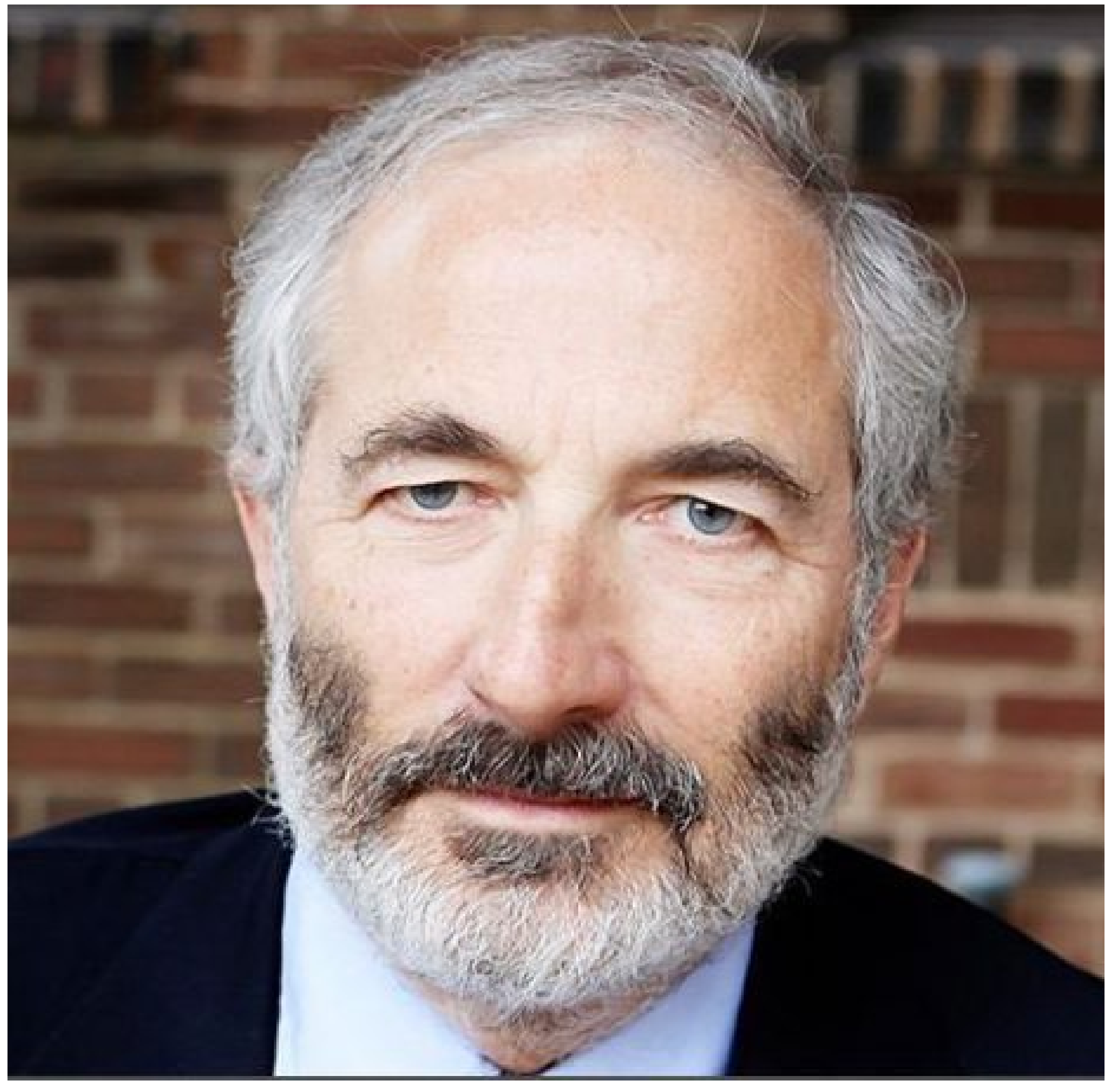
The most widely forecast recession in modern history . . .

“The US economy is <u>not</u> in a recession now, but a **relatively mild** recession is likely in 2023.”

- ***Me*** in August, 2022

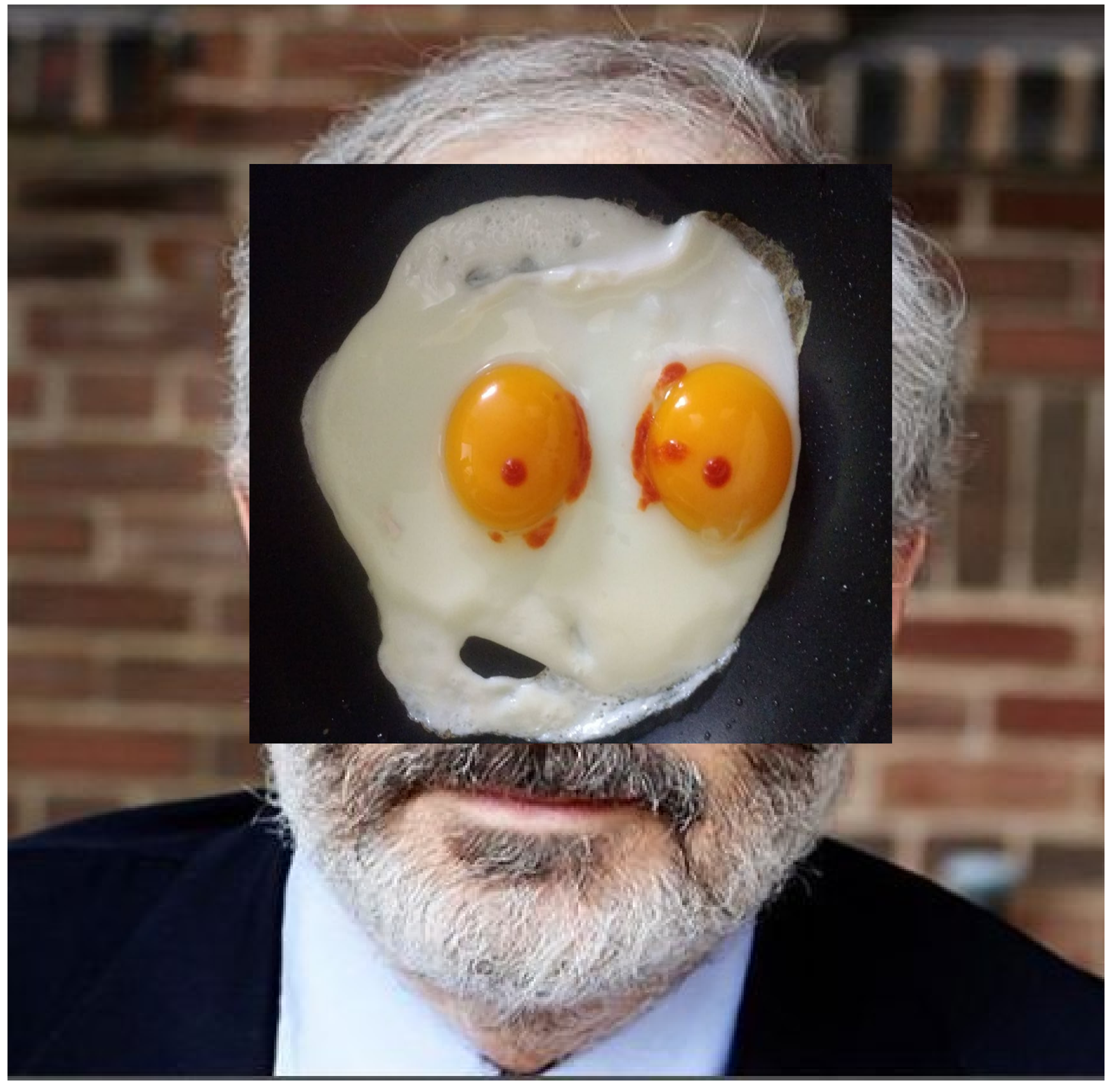
Why we expected a recession:

- The inverted yield curve
- History that bringing down inflation would do serious damage to aggregate demand



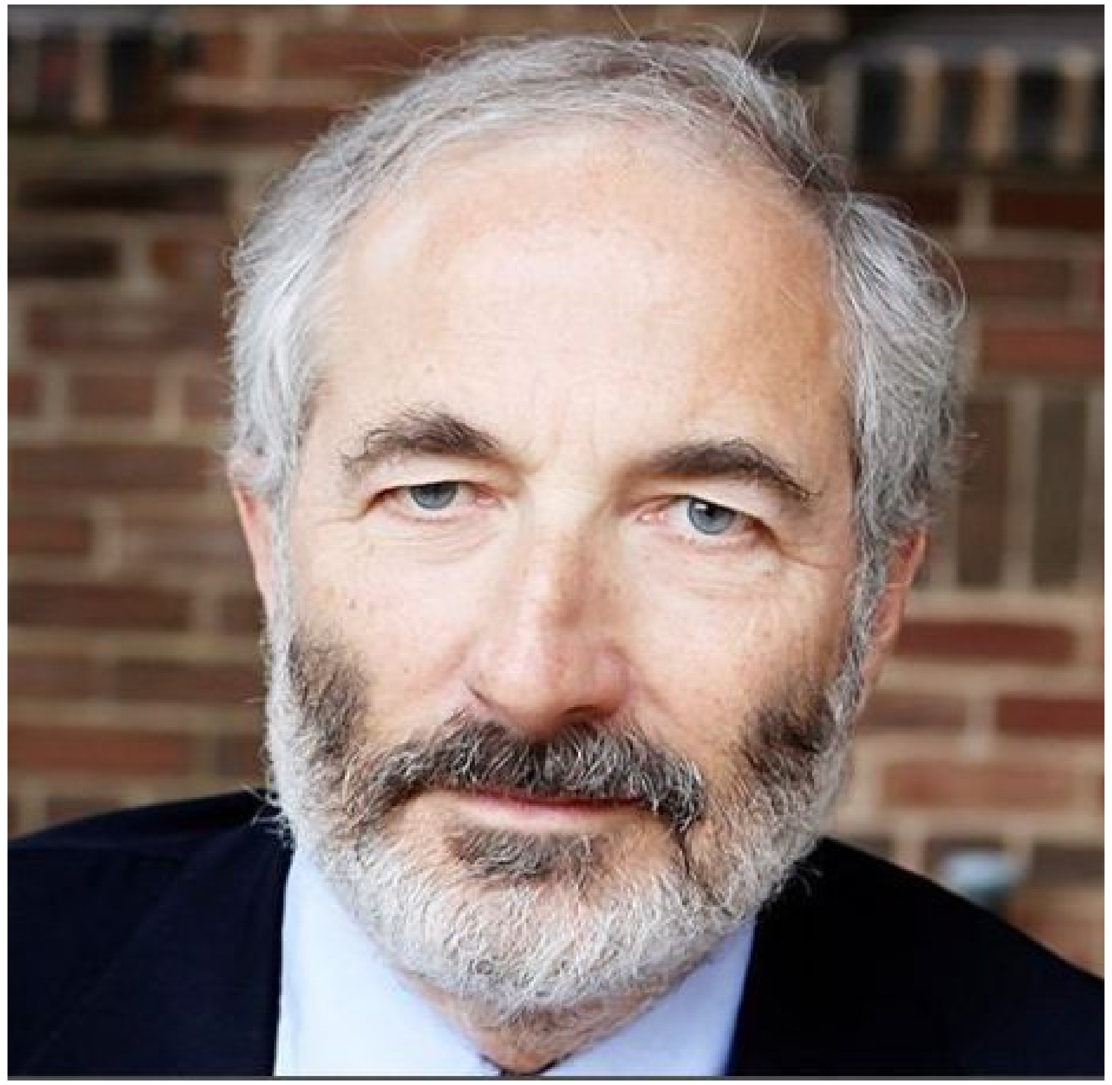
US ECONOMY &
POTENTIAL RECESSION

. . . hasn't happened

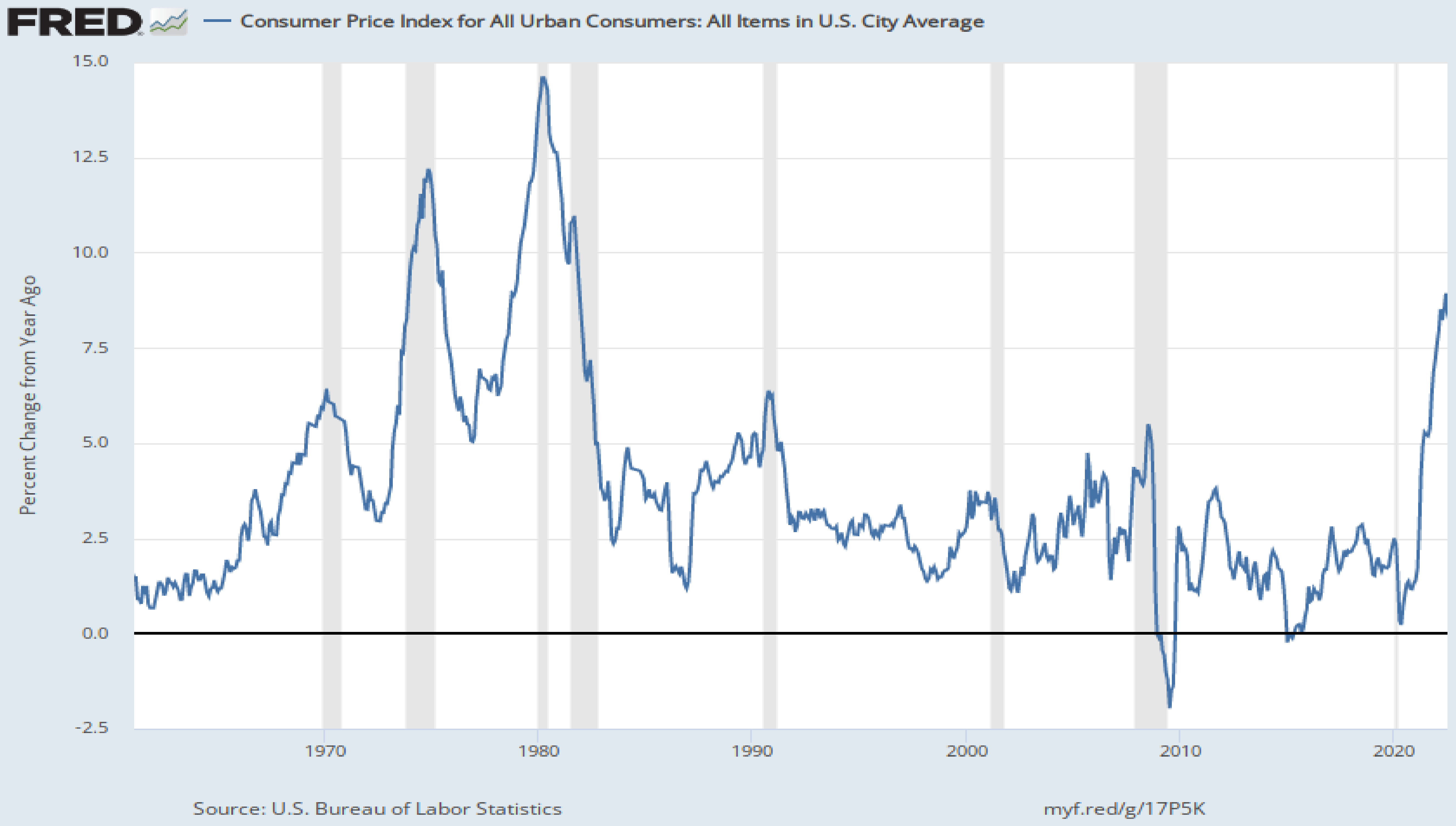


US ECONOMY &
POTENTIAL RECESSION

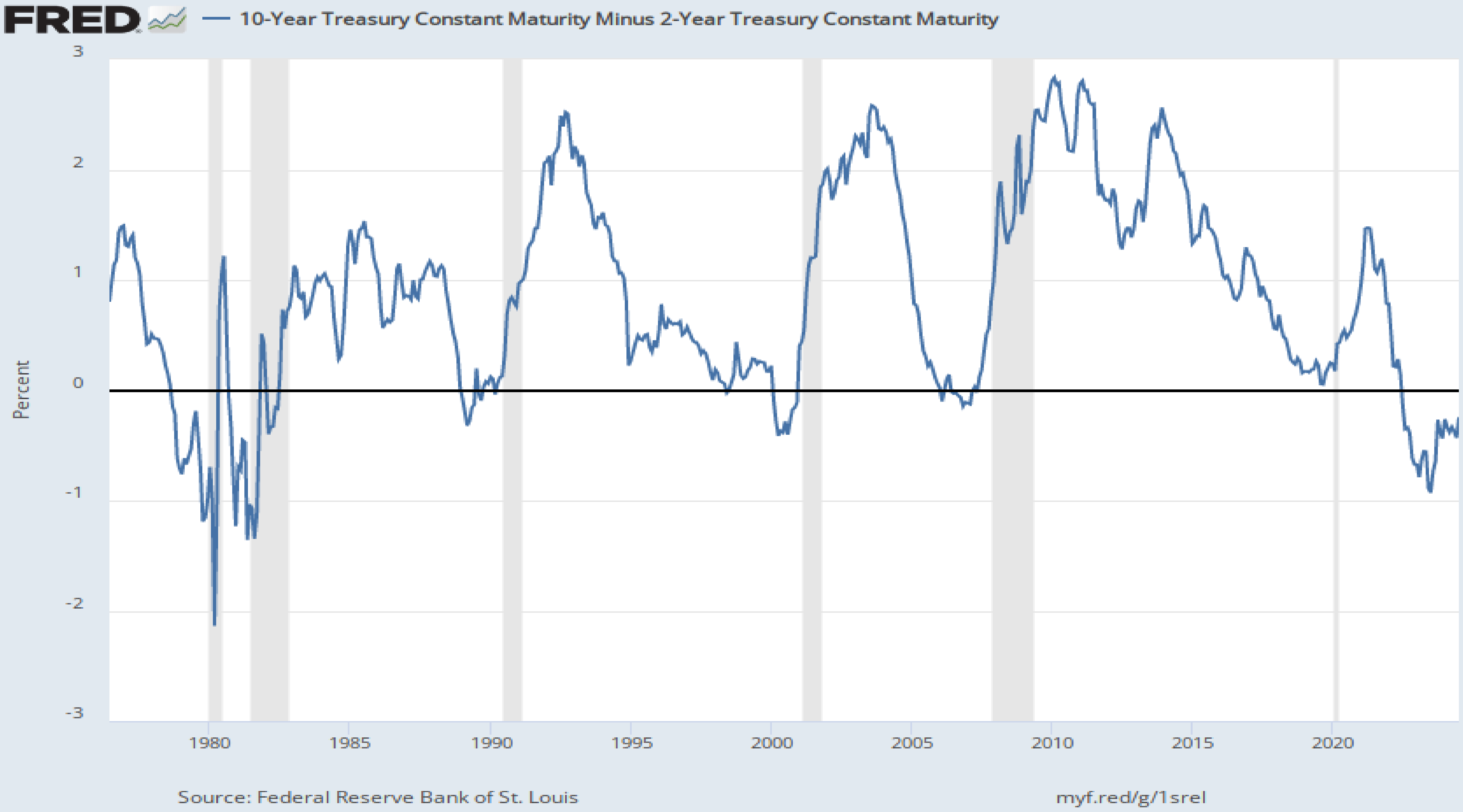
. . . YET!!



CPI, Trailing twelve - months, 1961 to July 2022



Ten-year – Two-Year Treasury Spread, 1976 to July 2024



Why ~~economists~~ the yield curve got it wrong & what it means for the near-term outlook

- **Many “rules of thumb” have not worked in the aftermath to COVID**
- **Households had accumulated substantial excess savings**
  - Result of strong household income during COVID
    - Most kept their jobs, worked from home
    - Government support payments for others
- Limited ability to spend because of pandemic shutdowns
- Grew to an estimated $2.5 trillion
- Now largely depleted, except for high-income households
- Much less of a buffer against recession

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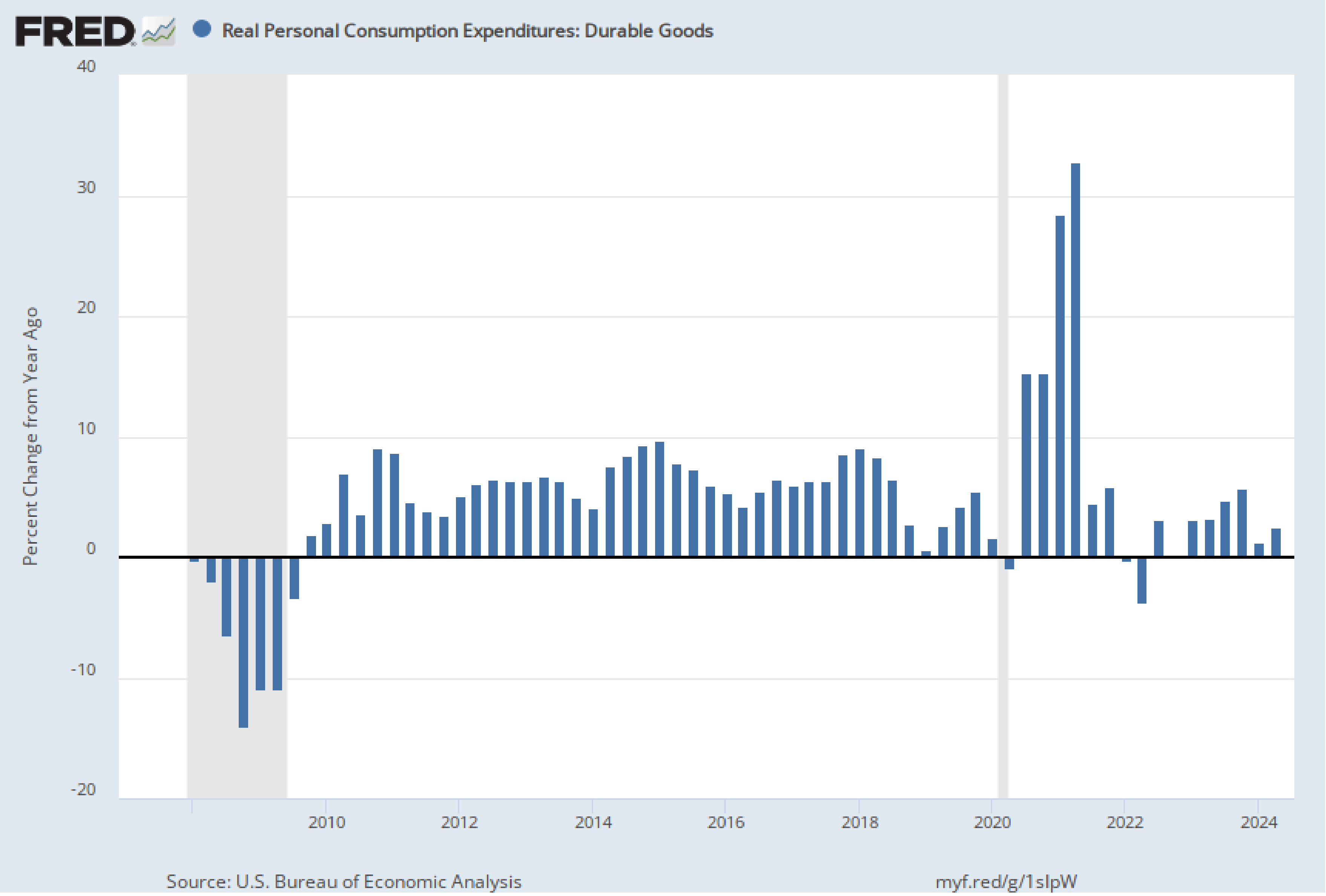
Consumers not very
"Spent Up"

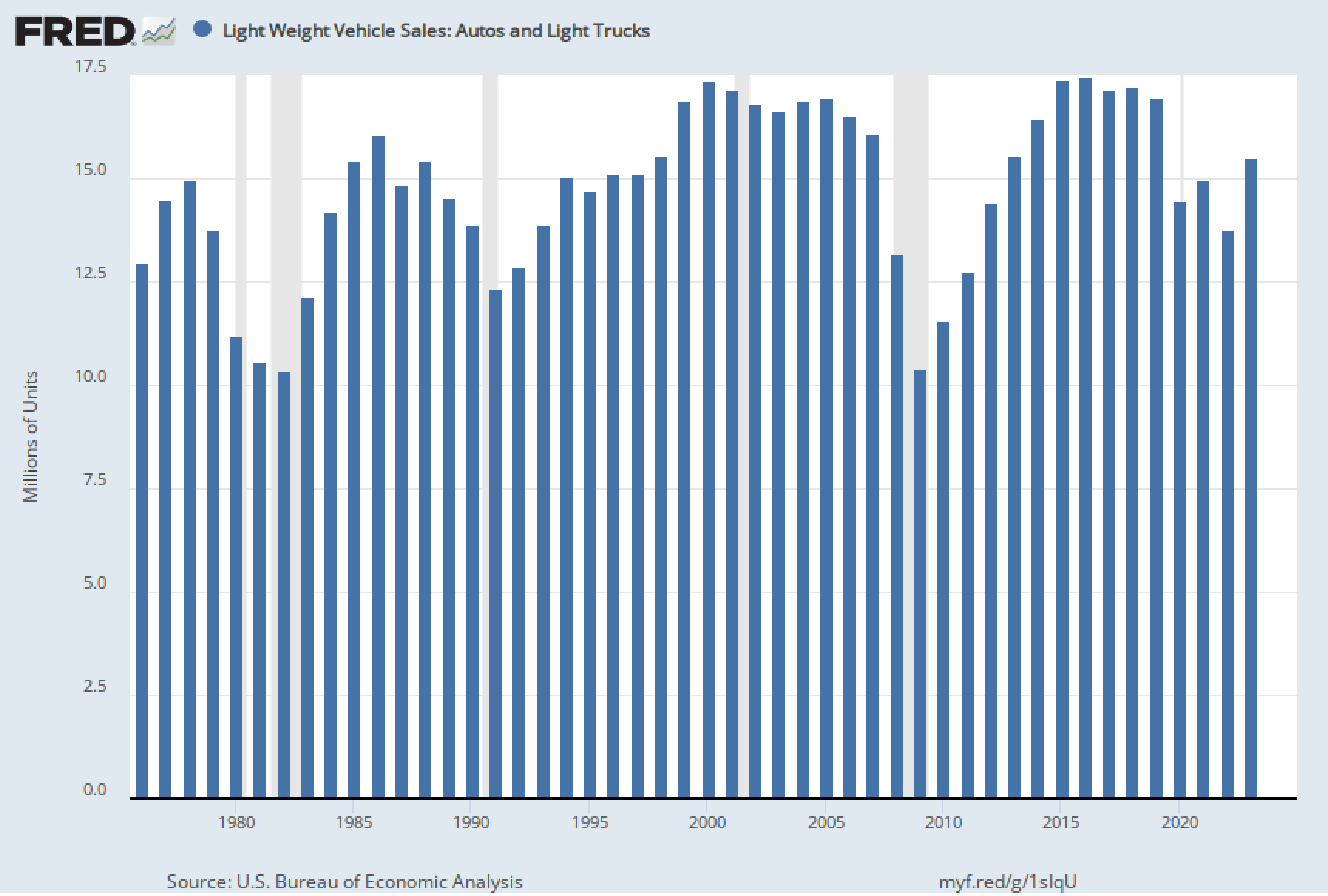
Real Consumer Durable Spending|

% Change, Quarterly Since 2008



Light Vehicle Sales |

Millions of Units, Annual Since 1975



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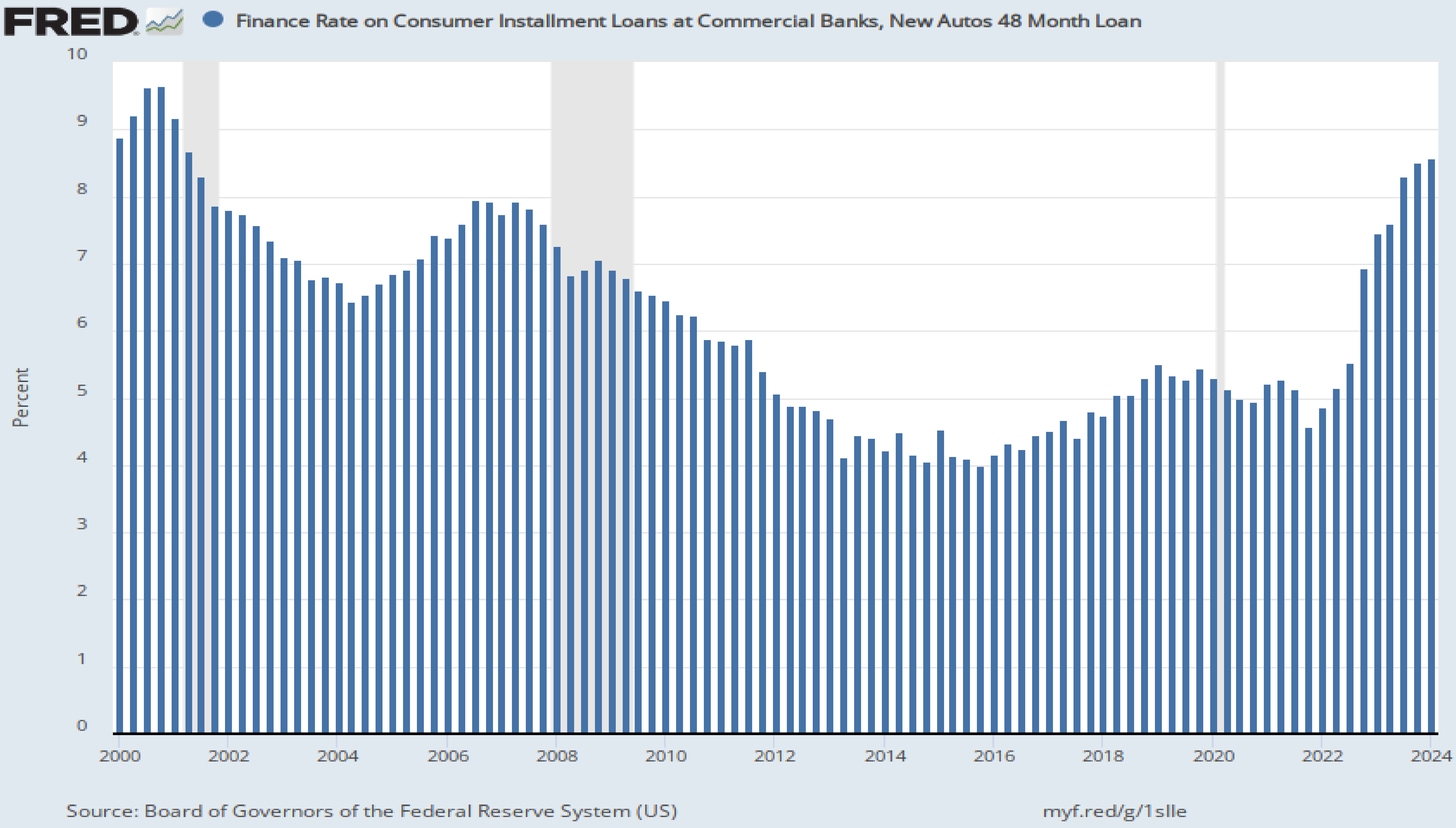
- Households still had "pent-up" demand vs. being "spent up"
- **The mortgage rate lock meant consumers were shielded from rate increases**
  - Other rate increases are having growing impact:
    - Consumer loans
    - Commercial lending roll overs
- Expected Fed reductions will likely leave consumer and mortgage rates above previous lows

APRs on Auto Loans at Banks, Quarterly Average Since 2020



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- **Inflation came down faster than expected, without destroying aggregate demand**

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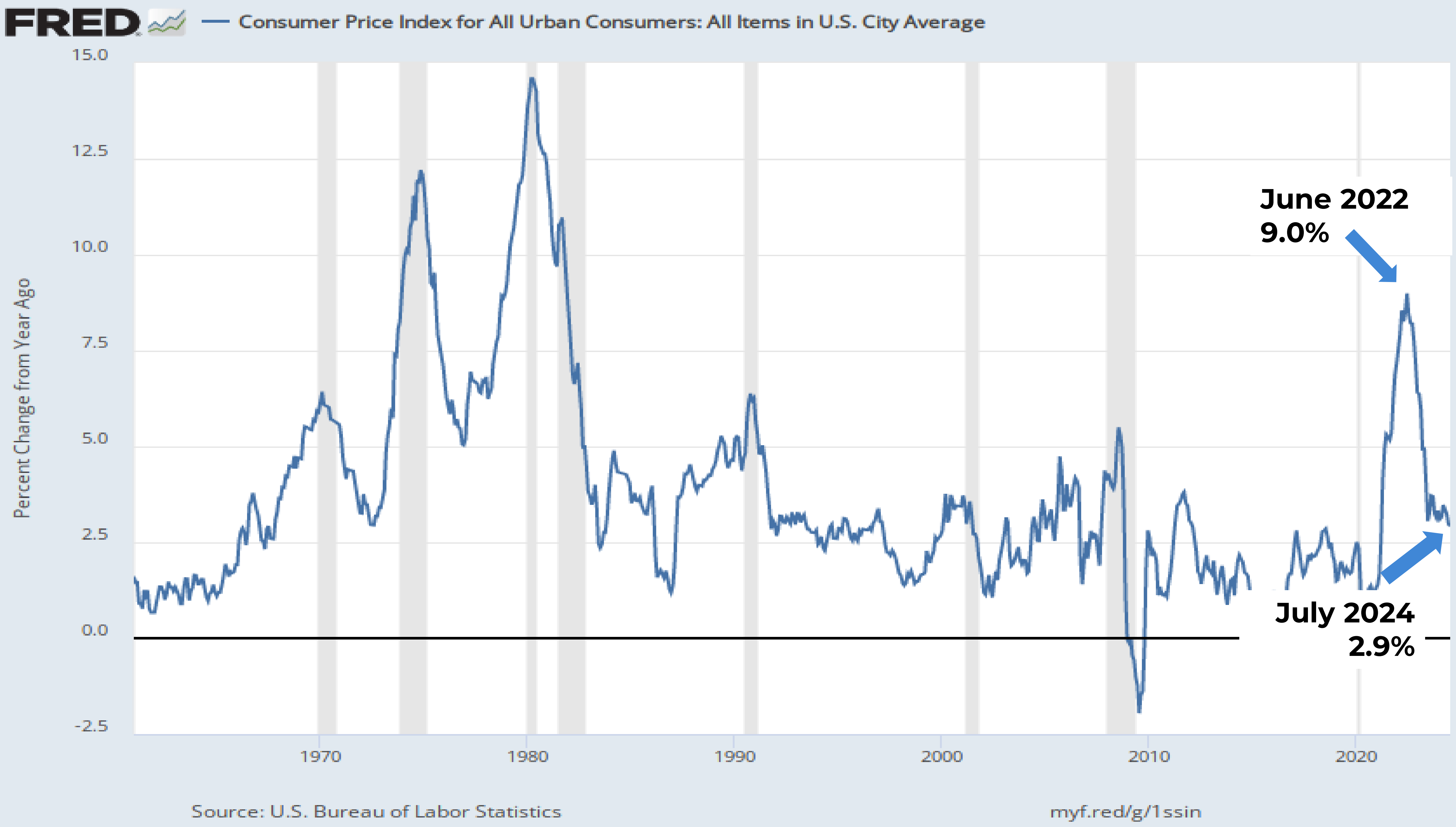
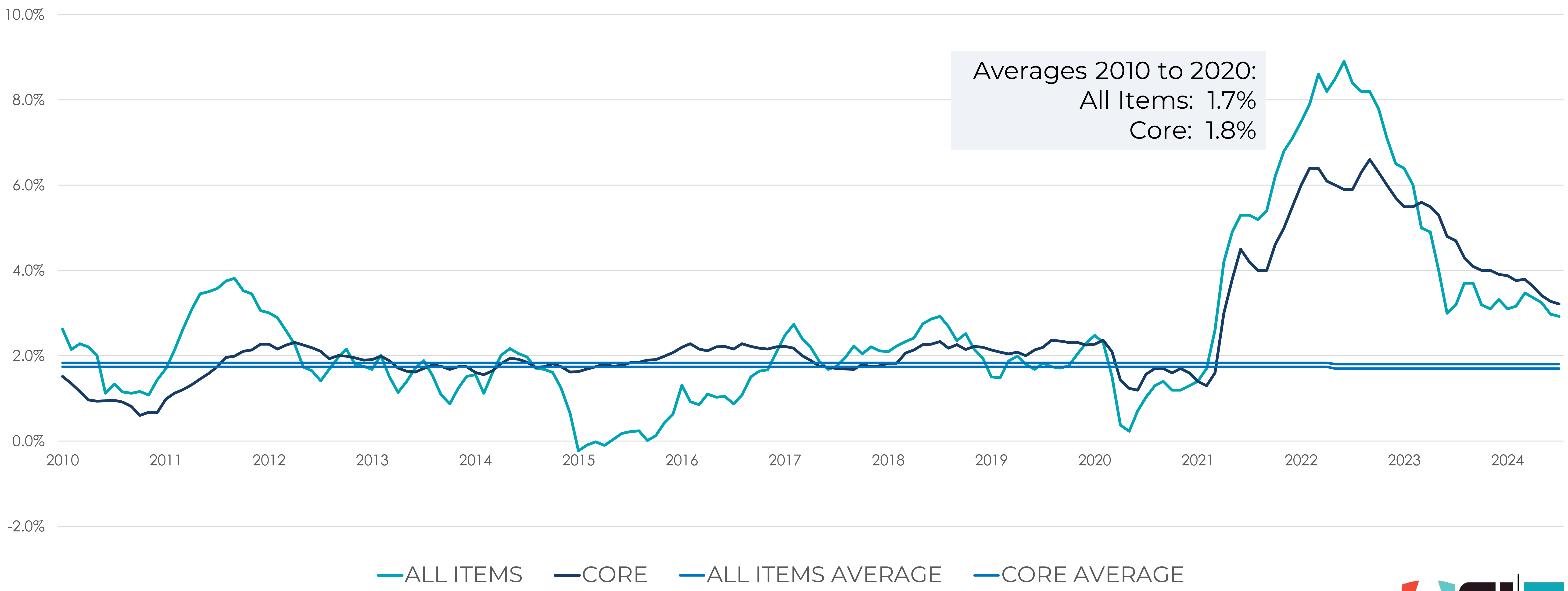


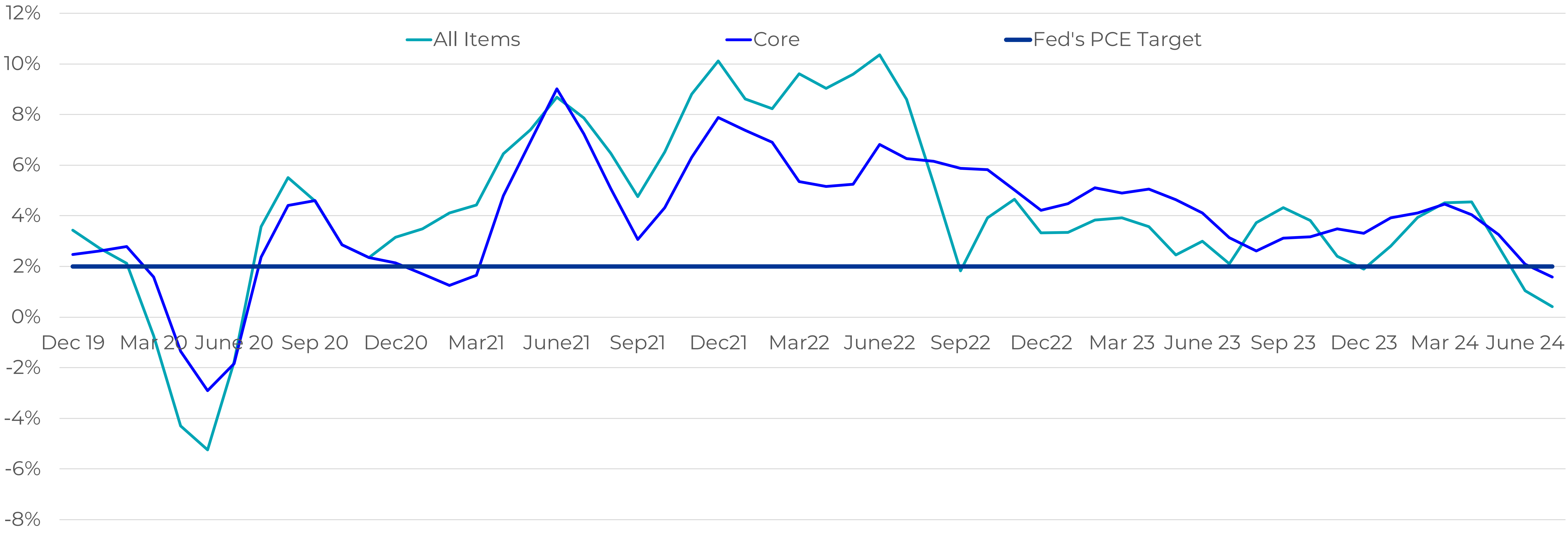
Consumer Price Index Since 2010

Twelve-Month Percent Changes, Monthly, Latest: July 2024



Recent PCI Inflation

Three-month moving averages : 12/20 to 7/24



Understanding the recent inflation experience

- Inflation fell significantly and fairly quickly without a sharp economic slowdown
- If not quite “transitory” it was at least “temporary”
- The rise in inflation had three causes:
  - COVID supply chain interruptions
  - Two large stimulus programs during the pandemic (aggregate demand)
  - The war in Ukraine
- Looking ahead, inflation expectations are anchored.
  - 5 year expectation: 2%
  - 10 year expectation: 2.1%

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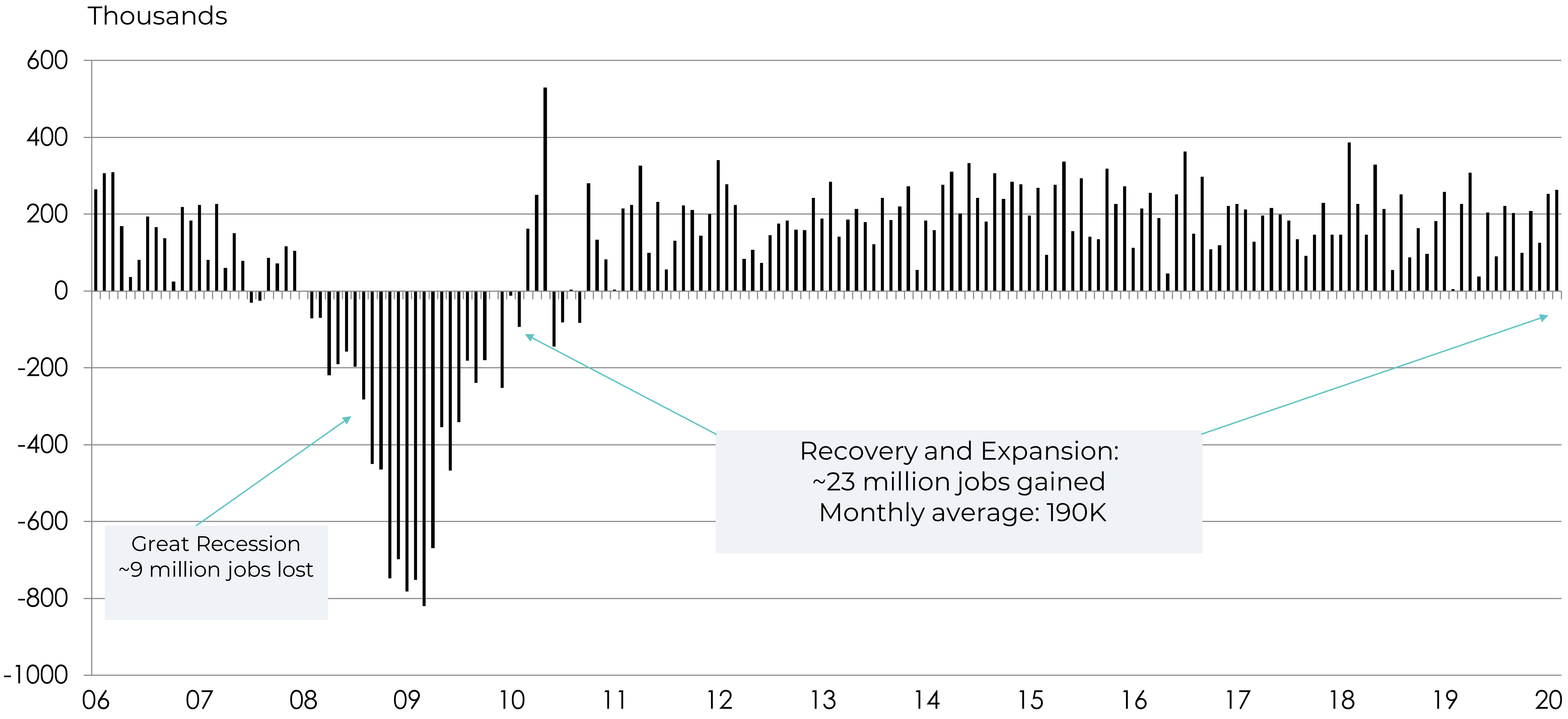
- **The job market has remained remarkably resilient**

Non-Farm Payrolls

Monthly Changes, 2006 to February 2020



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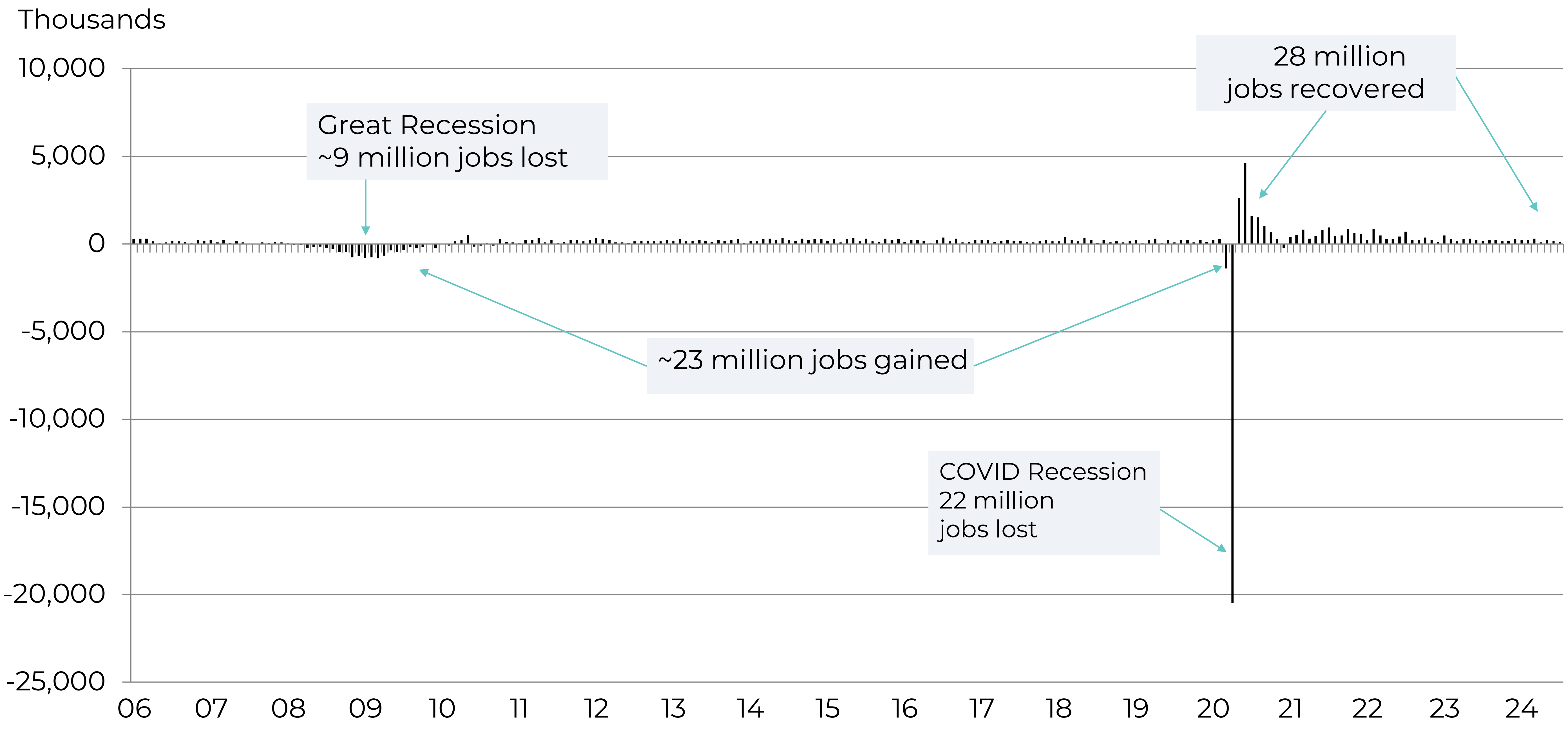
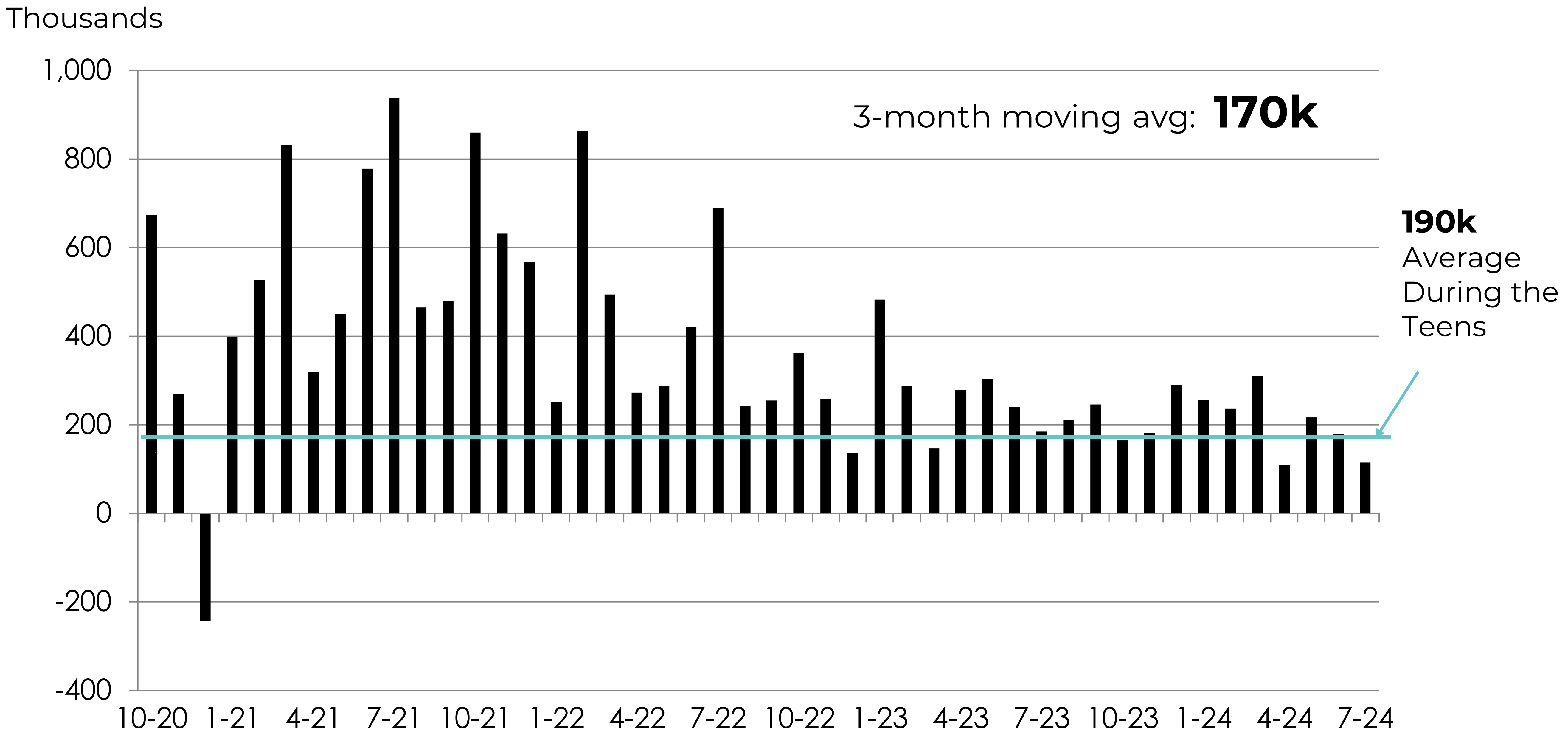
Monthly Changes SA, through July 2024



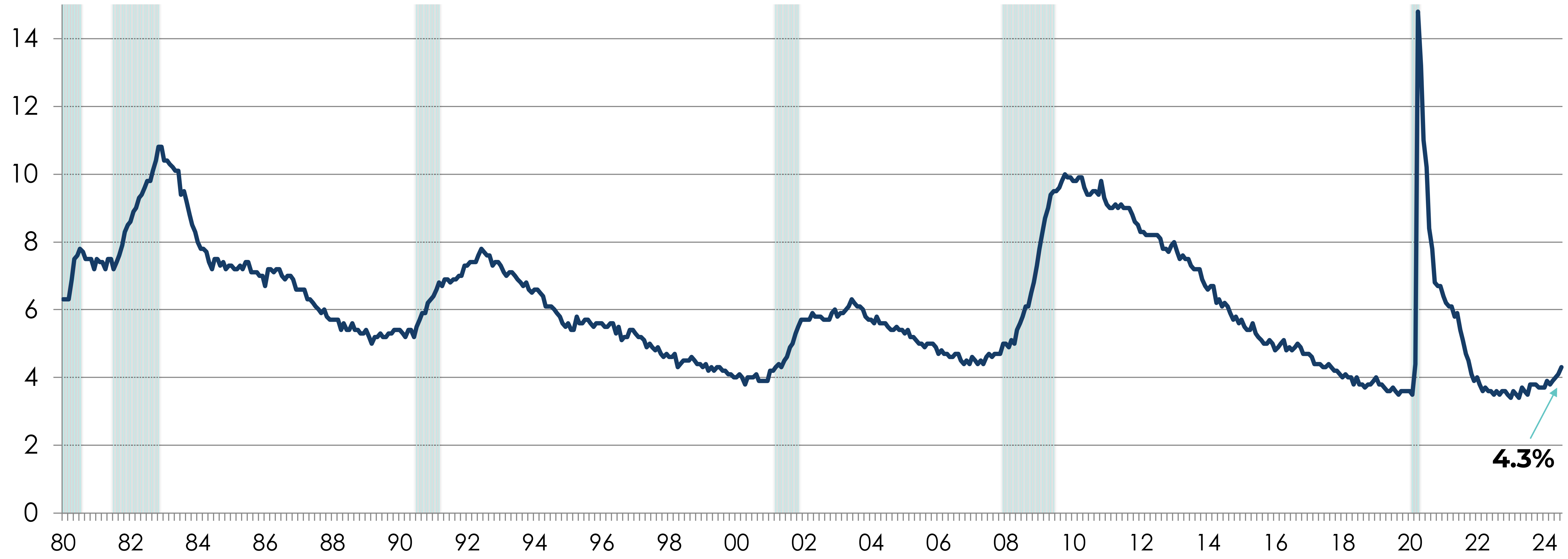
Monthly Non-Farm Payrolls

Post COVID, Through July 2024

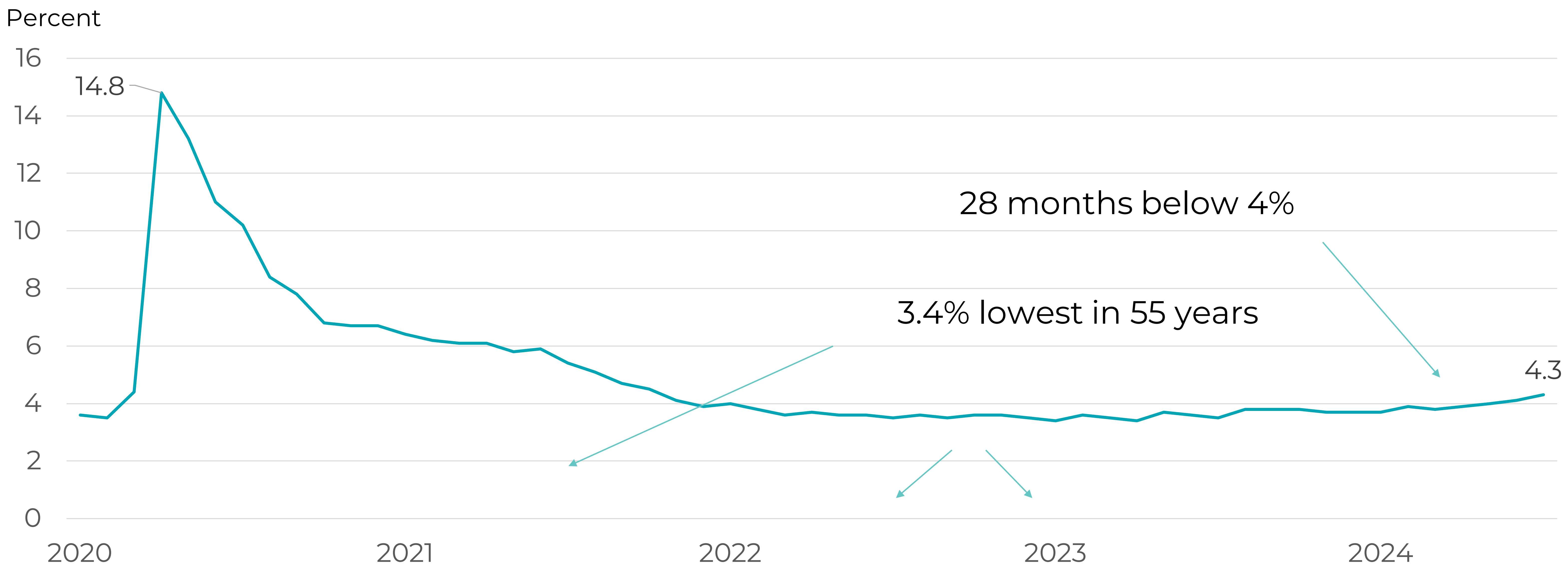


Unemployment Rate and Recessions Since 1980

Percent of the Labor Force, Latest: February 2022

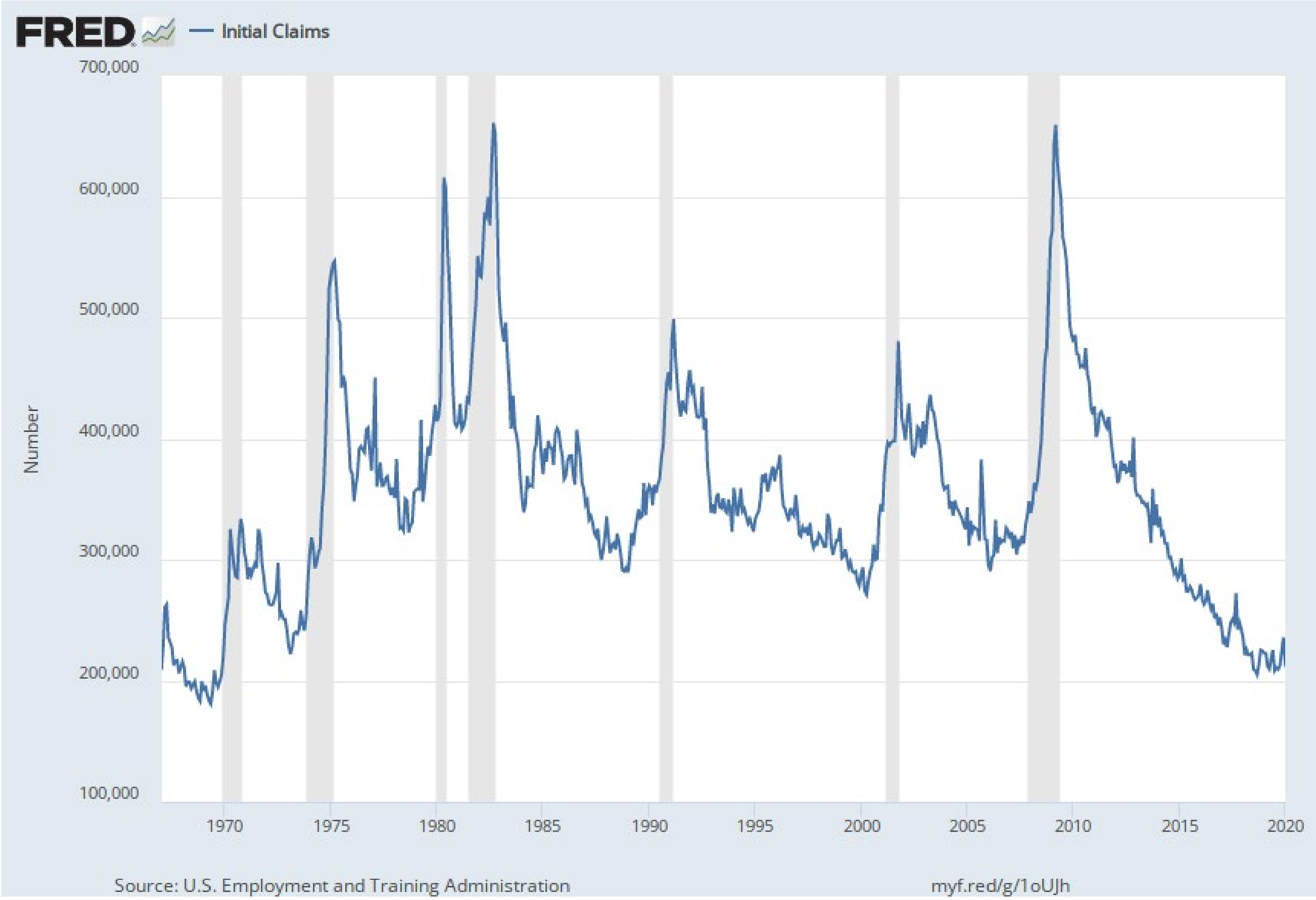


Unemployment Rate Since COVID

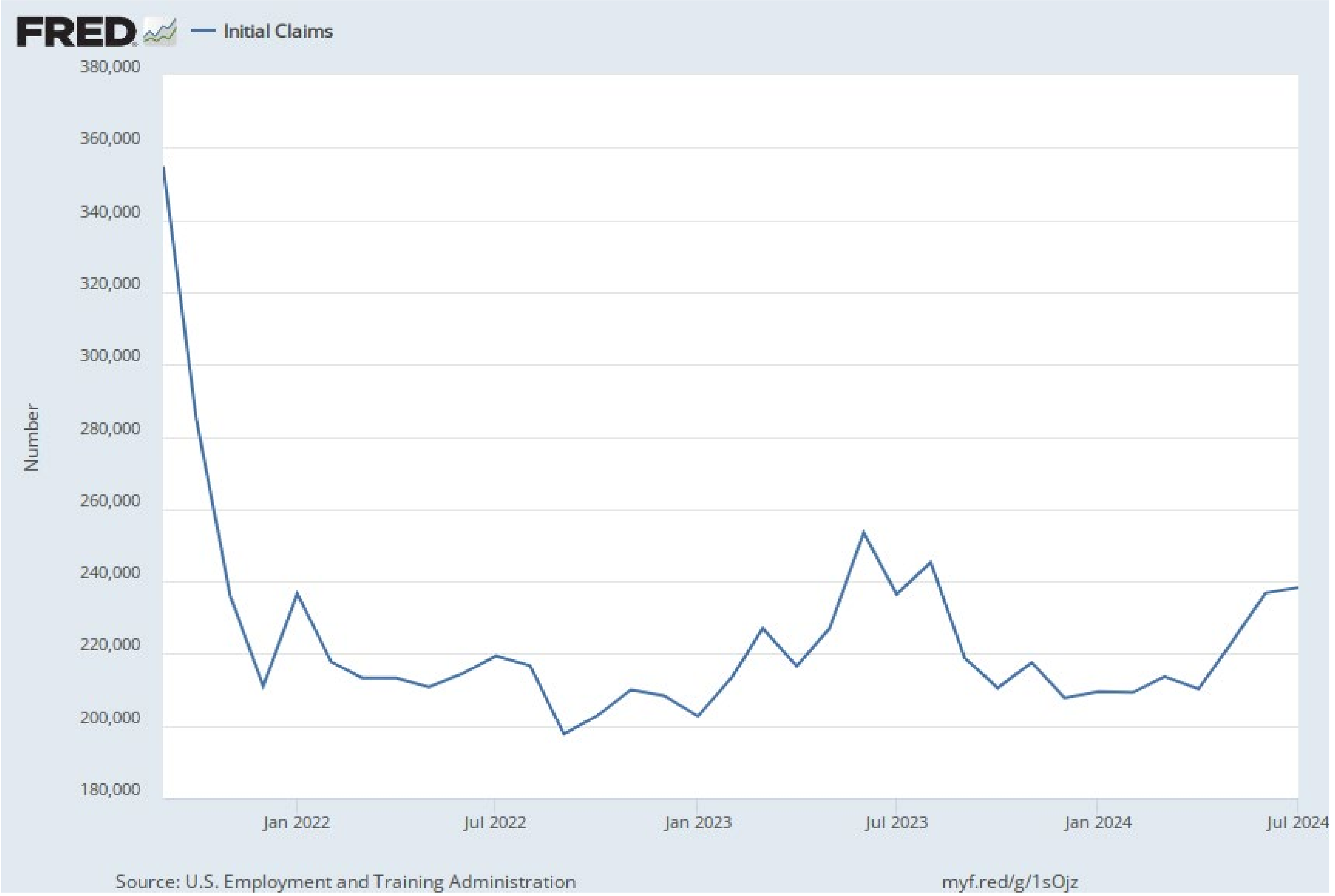


Initial Claims for Unemployment Insurance (LAYOFFS)

1967 to January 2020

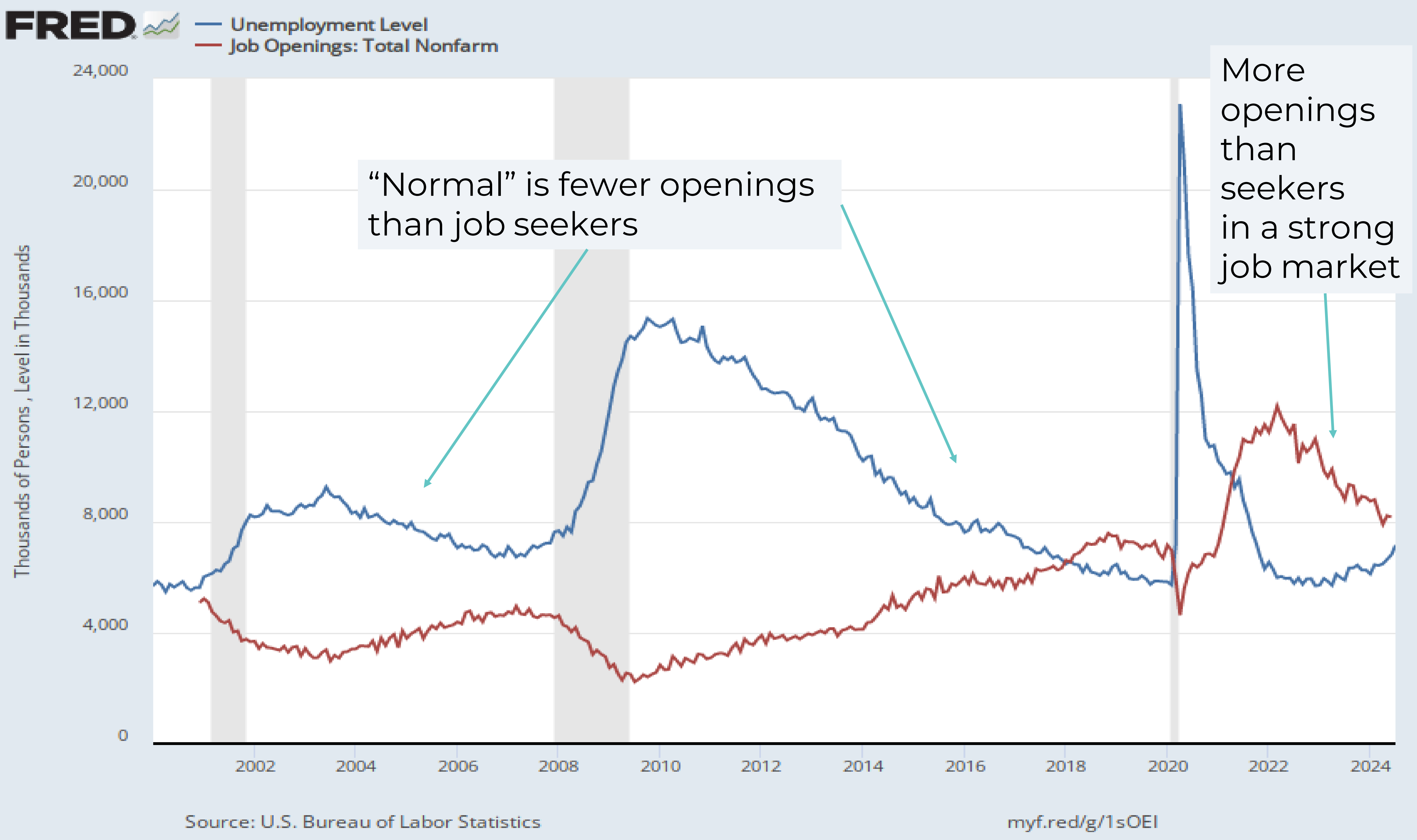


September 21 to July 2024



Job Quit Rate: Falling but Still High

Job Openings vs. Number of Unemployed (Job Seekers)



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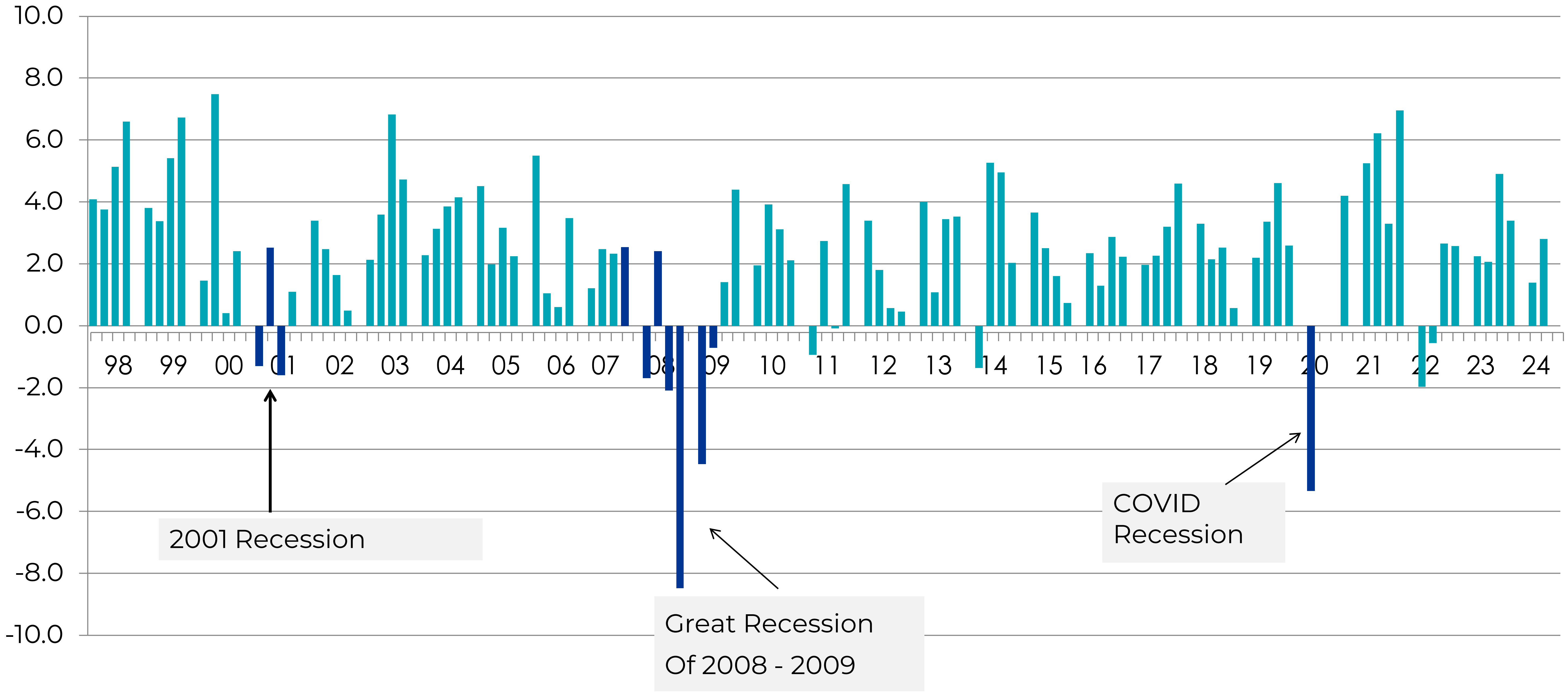
- The mortgage rate lock meant consumers were shielded from rate increases
- Inflation came down faster than expected, without destroying aggregate demand
- **The job market has remained remarkably resilient**
  - Most indicators still strong, but weakening

Gross Domestic Product – to Q2, 2024

Excluding the second and third quarters of 2020



Economic Summary

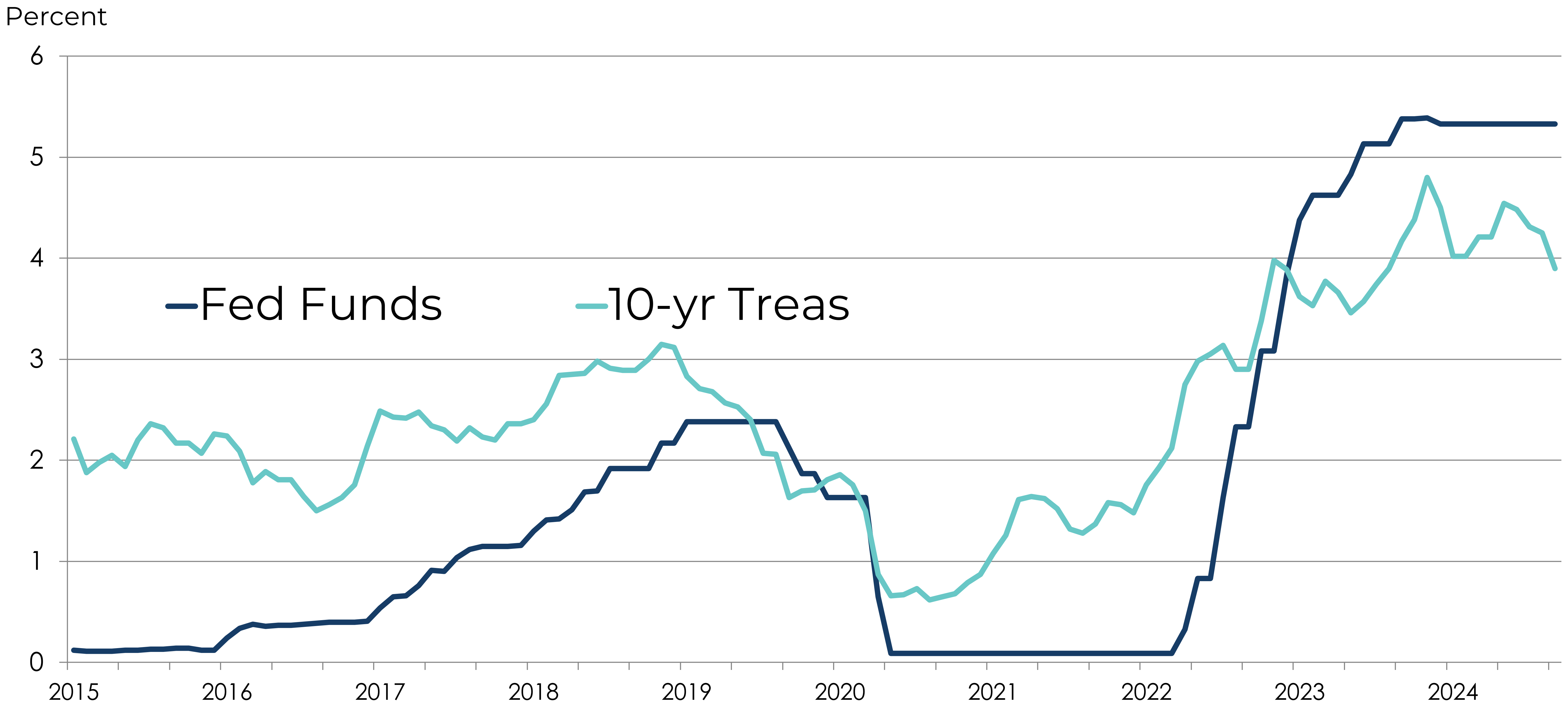
- Has the Federal Reserve defied the odds and pulled off a soft landing?
  - Slowing the economy enough to tame inflation without causing a recession.
- Or, is the economy on the cusp of a recession?
- Each view can find support in the recent data.
- Each outcome is consistent with the inverted yield curve of the past few years:
  - An inverted yield curve means investors expect interest rates to fall.
  - Either a recession or a soft landing would see rates falling.
- So, what does the Fed do?

Interest Rates

Monthly Averages 1988 to August 2024

Interest Rates

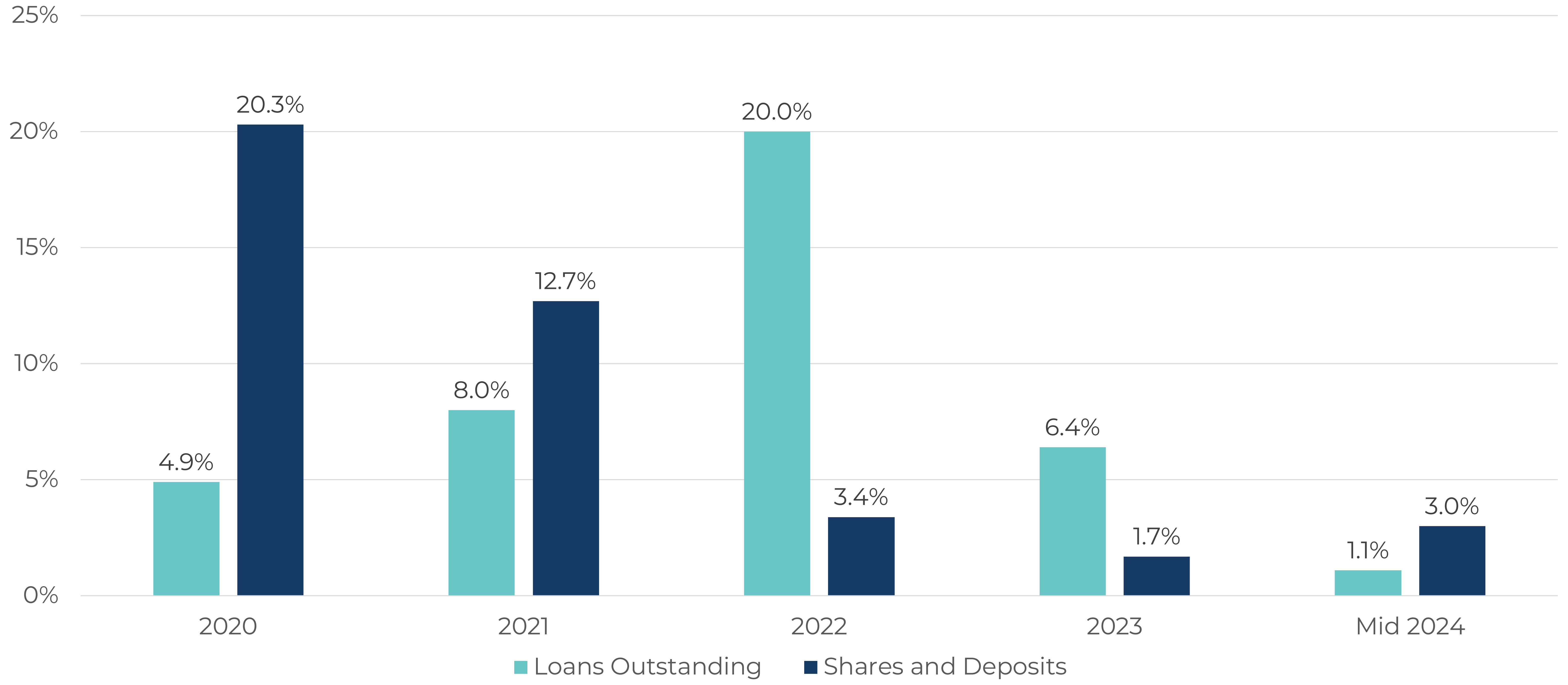
More Recent Focus



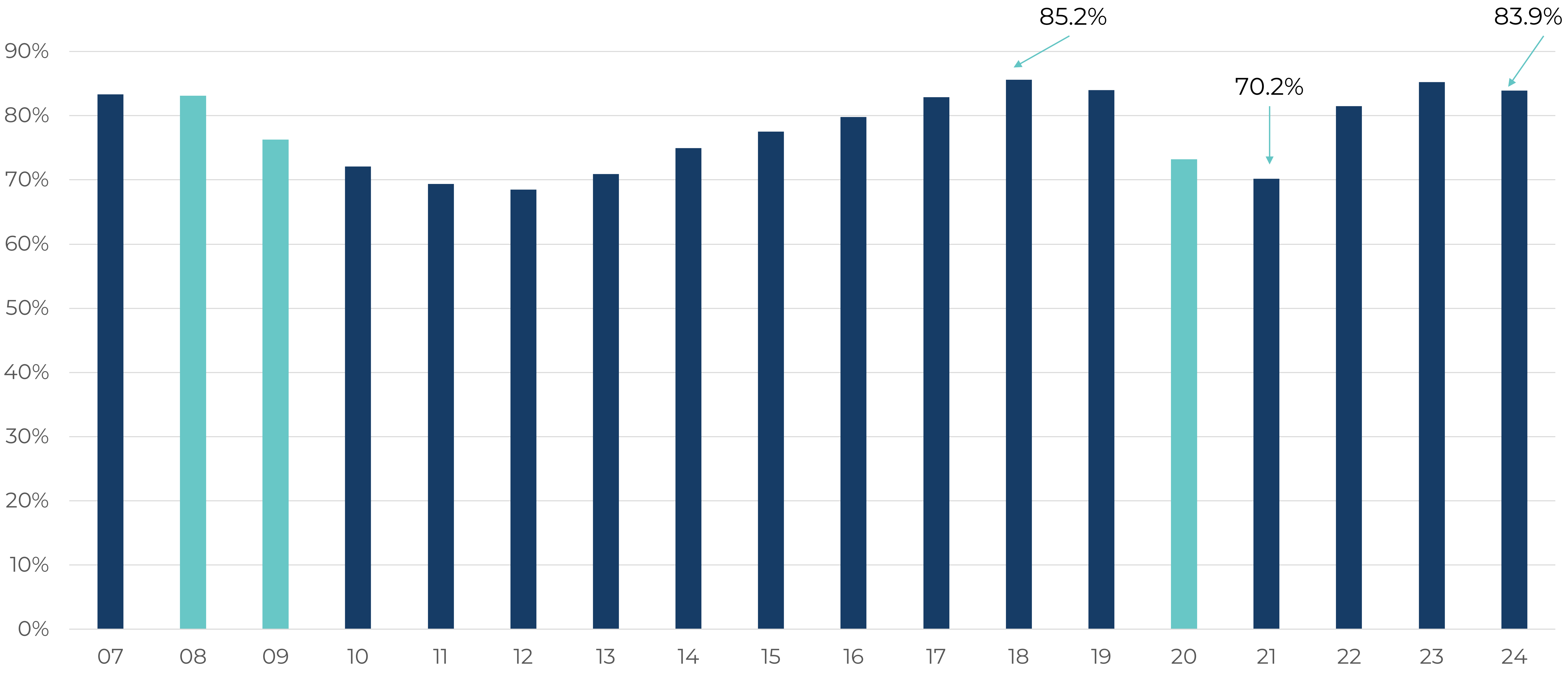
Fed Funds Rate Projections

- Federal Open Market Committee Dot Plot (expectations, not plans):
  - Three 25 bp cuts in 2024
  - A total of 2.25% in cuts by end of 2026
  - Would mean an terminal target range of 3% to 3.25%
- Fed Funds futures market (Chicago Merc)
  - Rate down by 75 bp or 100 bp by December
- Are these cuts:
  - Soon enough to preserve a soft landing, or
  - Too little, too late, making a recession very likely?
- The weaker the economic data unfolds, the faster and larger the rate cuts, and vice versa.

Credit Union Loan & Savings Growth

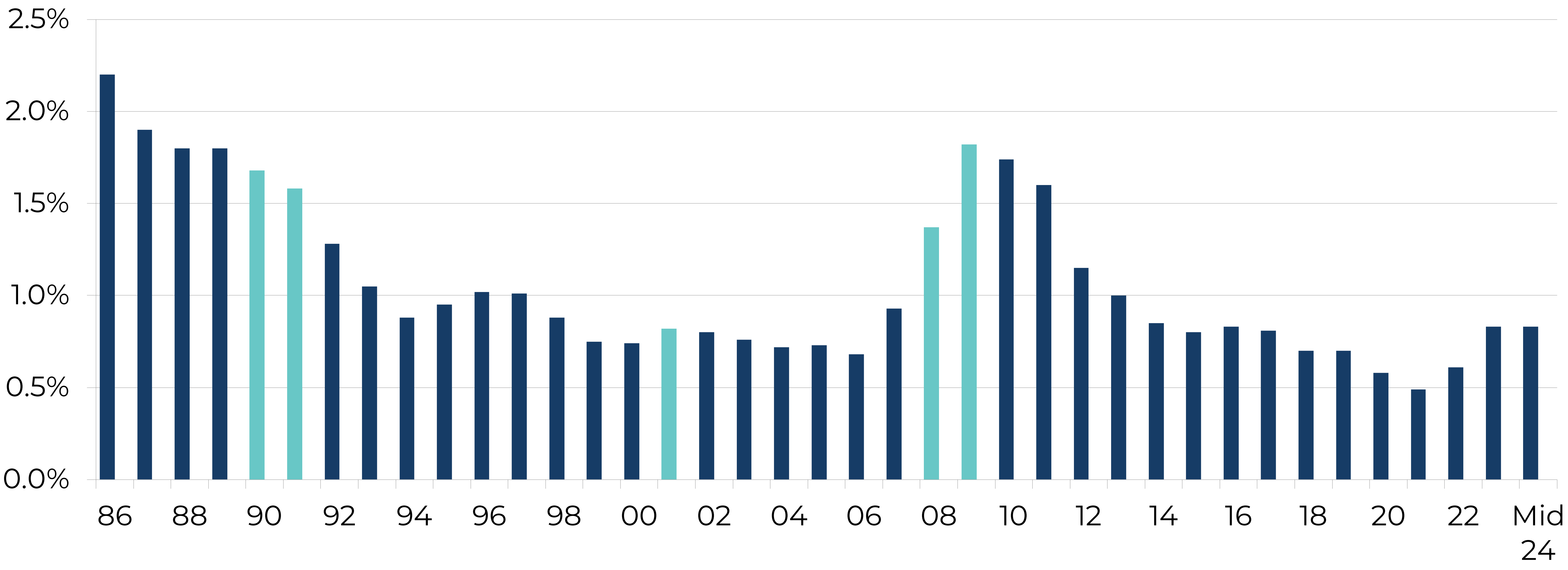


Loan to Savings Ratio

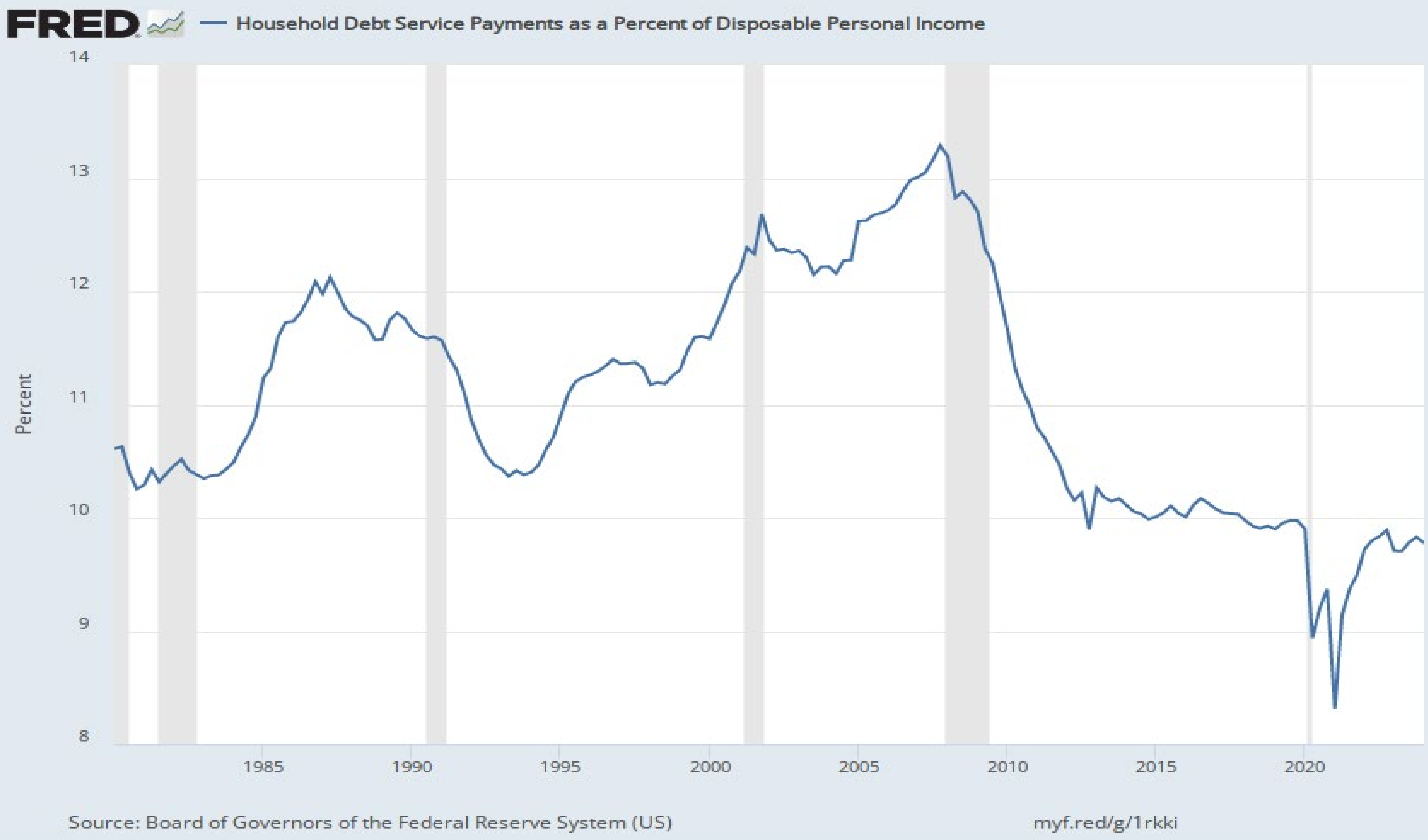


Credit Union Delinquency

Dollars Delinquent as Percent of Total Loans Outstanding

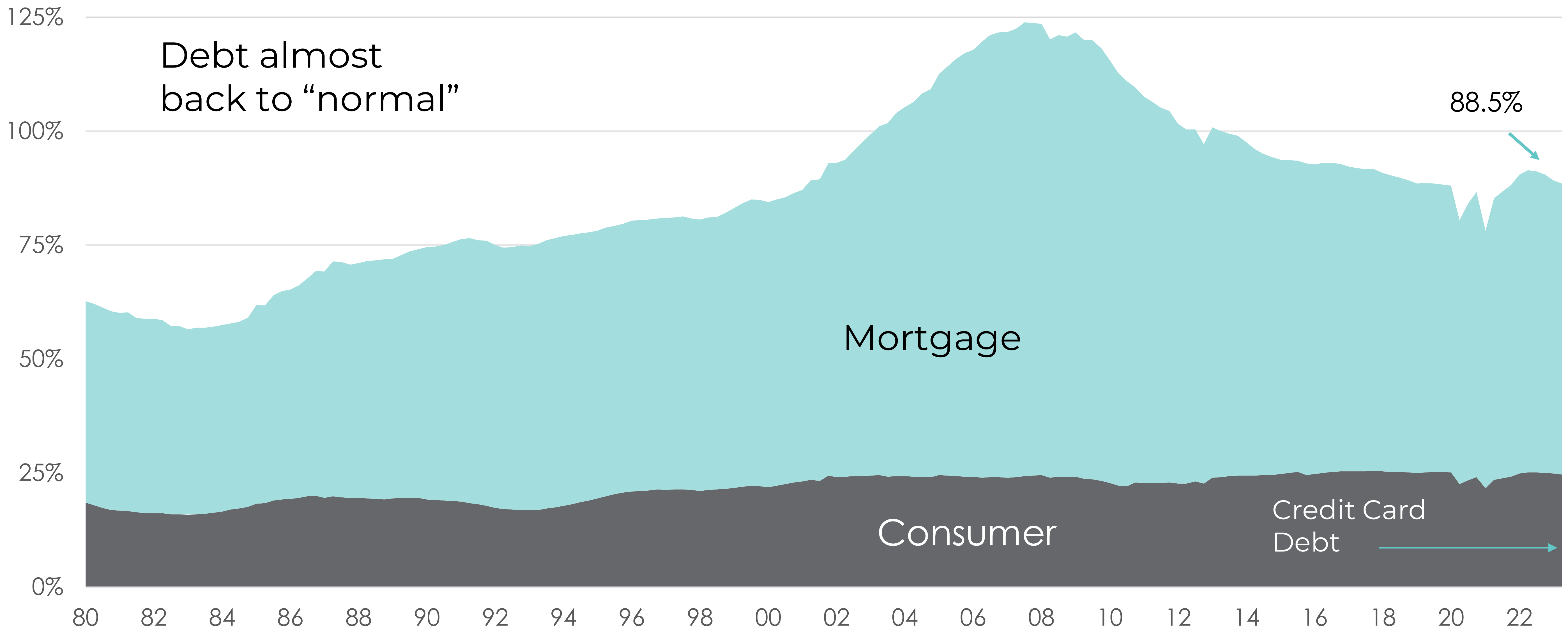


Household Debt Payments to Disposable Income



Household Debt as Percent of

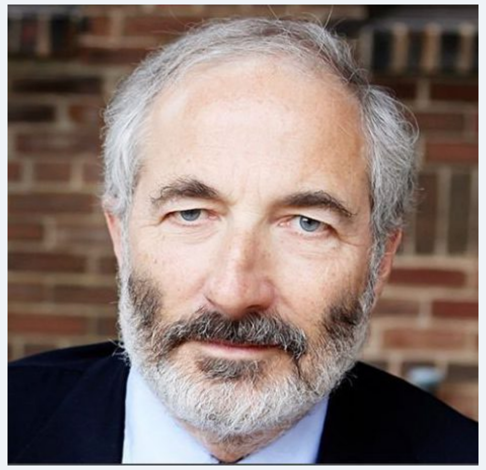
Disposable Personal Income



Credit Union Earnings

Earnings - Basis Pts.	Q1 2024	2023	2022	2021	2020	2019
Yield on total assets	484	444	338	302	353	404
Dividend/interest cost of assets	184	142	52	43	70	89
Net interest margin	300	302	287	259	283	315
Fee & other income	116	112	112	136	139	140
Operating expense	295	295	286	283	302	319
Loss Provisions	55	51	25	6	50	43
Net Income (ROA)	66	68	88	107	70	93

QUESTIONS?



Bill Hampel
mdbhampel@gmail.com
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dkettlehake@americanshare.com

+800-521-6342

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www.ExcessShare.com

@AmeicanShareInsurance
@ExcessShareInsurance