CATALYST Strategic Solutions

Market Overview AND DATA REPORT

OCTOBER 2017

KEY ECONOMIC INDICATORS	Latest Report	Current Report	Previous Report	2016
ECONOMIC GROWTH				
GDP (QoQ)	Q2	3.1%	3.0%	2.0%
EMPLOYMENT				
Non-farm Payrolls (000s)	Sep	-33	169	2,242
Private Payrolls (000s)	Sep	-40	164	2,054
Unemployment Rate	Sep	4.2%	4.4%	4.7%
Underemployment Rate	Sep	8.3%	8.6%	9.2%
INFLATION				
Wholesale (YoY)	Aug	2.4%	1.9%	1.6%
Consumer (YoY)	Aug	1.9%	1.7%	2.1%
Core Consumer (YoY)	Aug	1.7%	1.7%	2.1%
INCOME & SPENDING				
Chg in Consumer Credit ($B)	Aug	13.1	17.7	6.4%
Personal Income	Aug	0.2%	0.3%	3.5%
Personal Spending	Aug	0.1%	0.3%	2.7%
AUTO & HOUSING				
Total Auto Sales (Mil Units)	Sep	18.5	16.0	18.3
New & Existing Home Sales (M)	Aug	5.91	6.02	6.03
S&P/Case Shiller HPI (YoY)	Jul	5.94%	5.82%	5.61%

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

KEY MARKET INDICATORS	Mth End	Last Mth	12 Mth Ago
	Sep-17	Aug-17	Sep-16
MONEY MARKETS			
Effective Fed Funds	1.06%	1.07%	0.25%
Prime Rate	4.25%	4.25%	3.50%
3 month LIBOR	1.33%	1.32%	0.85%
2 year UST	1.48%	1.33%	0.76%
10 year UST	2.33%	2.12%	1.59%
NATIONAL MORTGAGE RATES			
CU 15 year Mtg	3.35%	3.39%	3.01%
CU 30 year Mtg	3.94%	3.99%	3.53%
EQUITY MARKETS			
Dow Jones Industrial Average	22,405.1	21,948.1	18,308.2
NASDAQ Composite	6,495.9	6,428.7	5,312.0
S&P 500	2,519.4	2,471.7	2,151.1
OTHER COMMODITIES			
CRB Index	183.1	180.9	186.3
Crude Oil	51.7	47.2	52.4

Source: Bloomberg; RateWatch

KEY ECONOMIC AND MARKET INDICATORS

The loss of 33,000 jobs in September is being attributed primarily to Hurricanes Harvey and Irma. The storms created a large displacement of workers in many industries, which is expected to normalize in coming months. Restaurants had the biggest loss with a decline of 105,000 jobs. Wages surged by 0.5 percent, for a 2.9 percent rise from a year ago. The unemployment rate fell to 4.2 percent, the lowest since 2001.

A surge in gasoline prices in August boosted both the consumer and wholesale price indices by the most in several months. Year-over-year core CPI held steady for the fourth month in a row, suggesting inflation may have found a bottom. Economists continue to puzzle over why inflation has not moved higher, given the strong labor market. Recovery efforts for Hurricanes Harvey and Irma are expected to impact the short term.

Lower-than- expected sales in August erased the anticipated rebound in third quarter retail sales. In addition, sales for June and July were revised lower. Auto sales were hit the hardest in August, but many other categories also posted negative activity. Analysts expect some sectors to rebound in September as rebuilding begins in Texas and Florida.

Second quarter GDP increased at a 3.1 percent pace, slightly better than the initial estimate. The improvement came from an increase in inventory investment. Consumer spending remained at 3.3 percent, the best pace in year.

After a tumultuous August, investors were looking forward to a calmer September. That did not happen. The markets were hit from all sides – natural disasters, rising tensions between the U.S. and North Korea, hawkish statements from the Federal Reserve and continued disagreements in Washington. Hurricane Irma wreaked havoc in the Caribbean and much of the lower southeast, creating displaced consumers, gas shortages and higher prices. The leaders of the U.S. and North Korea continued a battle of words that stepped a little too close to threats of war. The health care reform bill was revisited, but fell apart again, while some progress was made in the area of tax reform. Fed watchers were rewarded with the long-awaited green light for winding down the $4 trillion balance sheet, to begin in October. The added surprise from the Fed's meeting was a high probability of another interest rate increase in 2017 and possibly three moves in 2018. The Fed lowered the long-term outlook for the fed funds rate by 25 basis points to 2.75 percent.

Mortgage rates declined for the second month in September. The average 15-year mortgage rate offered by credit unions decreased four basis points to 3.35 percent. The average rate for a 30-year mortgage declined five basis points to 3.94 percent. The spread over Treasury yields narrowed as long-term Treasury yields increased. Mortgage rates are about 38 basis points higher than a year ago.

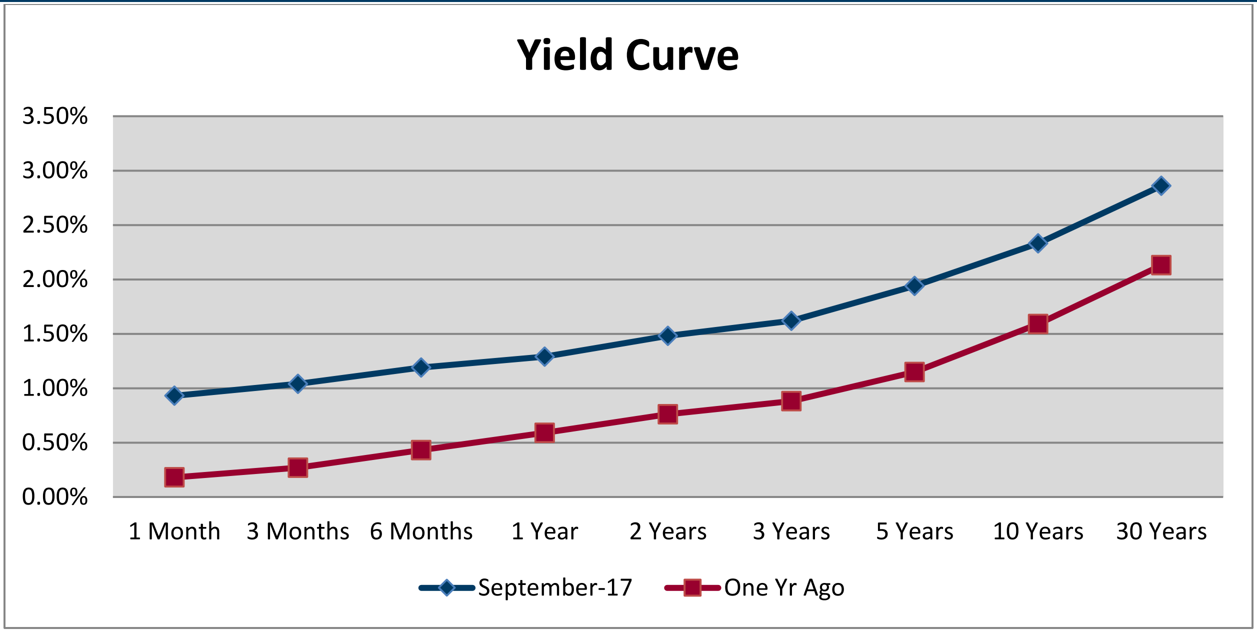
The stock market continued to break records in September. Ending September at a record high price, the S&P 500 was the best performing index for the month. Both the Dow and S&P indices posted their eighth consecutive quarterly advance. Energy, technology and financial sectors drove the stock market. For the month, the Dow was up 2.3 percent, the S&P 500 was up 2.5 percent and the NASDAQ closed up 2.0 percent. Year-to-date returns hit double digits for the group: Dow up 13.4 percent, S&P 500 up 12.5 percent and the NASDAQ up 20.7 percent.

For Credit Unions:

- The housing market remains stalled. The four key housing metrics – new home sales, existing home sales, housing starts and pending home sales – declined in August. The reasons are the same, rising prices and lack of supply, creating a mismatch for potential buyers. The average home price rose 5.9 percent from a year ago in July, the largest increase in over two years. The number of existing homes for sale, which accounts for 90 percent of the housing market, declined 6.5 percent from a year ago. Home builders expect to see a surge of activity later this year and early next year as demand increases due to Hurricanes Harvey and Irma.

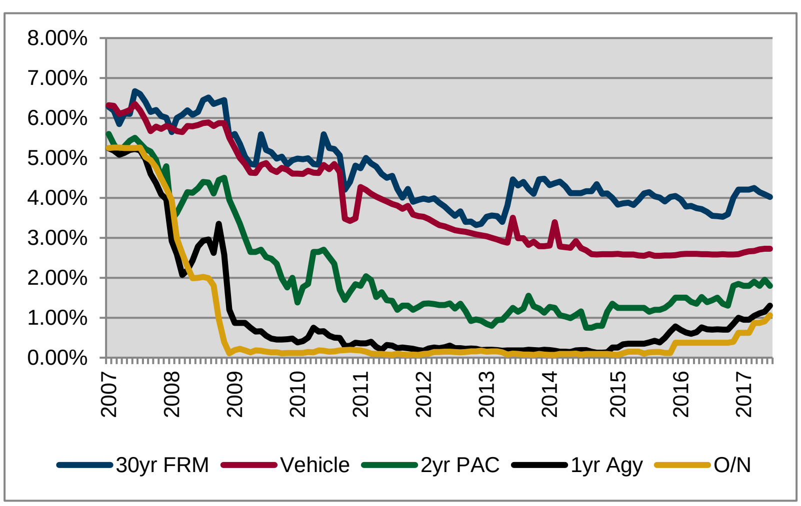
- September auto sales surged to 18.5 million SAAR, an unexpected boost of 15 percent. Consumers rushed to replace vehicles damaged by the hurricanes in August and September. Demand for pick-up trucks, SUVs and crossovers led the earlier-than-expected buying activity. Almost all automakers reported substantial increases in sales. Used cars reported the largest price boost in two months. The demand for autos is expected to continue into October. Auto loan rates increased three basis points. The average four-year auto loan rate is 2.80 percent.

- Consumer credit rose less than expected in August, increasing by $13.1 billion. On an annualized basis, consumer credit is 4.2 percent higher than a year ago. Non-revolving debt, including student and car loans, increased $7.3 billion, while credit card debt was up $5.7 billion. Borrowings at credit unions were up 0.2 percent, compared to a gain of one percent at other financial institutions. Credit union percentage of all borrowings remains at 11 percent.



The bond market spent most of September in a flight to safety mode. Uncertainties surrounding North Korea, short-term disruptions in the economy due to the hurricanes and inaction in Washington drove money out of stocks into Treasuries. The 10-year Treasury yield fell to 2.04 percent, the lowest level since the day after the presidential election in November. Yields began to turn around after the FOMC meeting mid-month and gained speed as a tax reform plan began to take shape. The 10-year Treasury note experienced the widest intra-month swing this year, moving 30 basis points. The two-year Treasury note closed at 1.48 percent, up 15 basis points from August. The 10-year Treasury finished at 2.33 percent, 21 basis points higher. The yield curve steepened to 85 basis points, six basis points wider.

Relative Value of Assets and Funding:

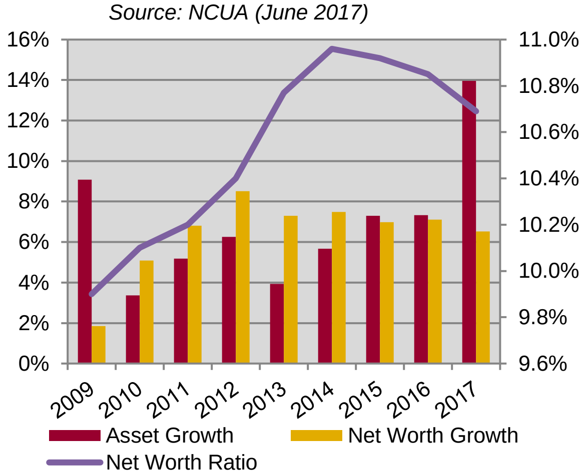


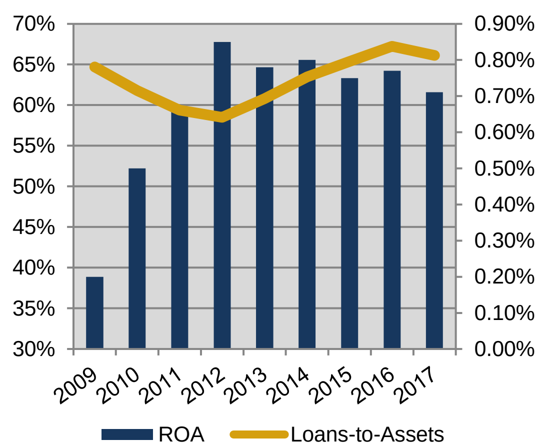
- Loan rates are increasing slower than investment yields at this time. Credit unions should continue to monitor the difference between the yields on investments and loans to assess fair value.
- Share deposit rates are up two basis points in the past 12 months, despite benchmark funds rates increasing 50 basis points.
- The fed funds futures market predicts a 73 percent chance of an interest rate increase in December.

NCUA – June 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%	9.01%
Total Loans	4.55%	7.97%	10.42%	10.49%	10.43%	10.11%
Total Shares	6.10%	3.67%	4.47%	6.86%	7.54%	9.70%
Net Worth	8.52%	7.36%	7.48%	6.92%	7.05%	7.20%
CAPITAL ADEQUACY						
Net Worth Ratio	10.43%	10.77%	10.96%	10.92%	10.89%	10.80%
Equity Capital Ratio	10.42%	10.47%	10.78%	10.66%	10.58%	10.56%
Capital Ratio	11.20%	11.10%	11.40%	11.27%	11.18%	11.17%
BALANCE SHEET COMPOSITION						
Cash & ST Inv to Total Assets	17.49%	14.87%	13.65%	13.47%	13.41%	13.48%
Loans-to-Total Assets	58.48%	60.75%	63.48%	65.35%	67.24%	67.60%
Vehicle-to-Total Loans	29.87%	30.80%	32.29%	33.29%	34.37%	34.85%
Real Estate-to-Total Loans	53.58%	52.51%	51.13%	50.41%	49.60%	49.40%
Delinquency Rate	1.16%	1.01%	0.85%	0.81%	0.83%	0.75%
Net Charge-off Rate	0.73%	0.57%	0.50%	0.48%	0.55%	0.57%
"Misery" Index	1.89%	1.58%	1.35%	1.30%	1.38%	1.32%
EARNINGS						
Gross Asset Yield	4.01%	3.65%	3.66%	3.72%	3.82%	3.90%
Cost of Funds	0.73%	0.59%	0.54%	0.52%	0.53%	0.53%
Gross Interest Margin	3.28%	3.06%	3.12%	3.20%	3.29%	3.36%
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%	2.93%
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%	0.77%
Return on Equity	8.0%	7.3%	7.2%	6.8%	7.0%	3.6%

Source: NCUA (June 2017)



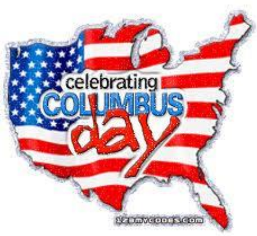


NCUA PEER DATA	<$2M	$2-10M	$10-50M	$50-100M	$100-500M	$500M+	Total
NETWORK							
Average Asset Size (000s)	$902	$5,622	$24,871	$71,343	$223,907	$1,947,345	$237,132
Pct of Number of Credit Unions	9%	19%	32%	13%	18%	9%	100%
Pct of Industry Assets	0%	0%	3%	4%	17%	75%	100%
GROWTH RATES							
Total Assets	-6.7%	-8.5%	-3.1%	2.8%	9.0%	12.1%	9.01%
Total Loans	-12.0%	-12.6%	-5.6%	1.0%	10.1%	13.5%	10.11%
Total Shares	-6.5%	-8.4%	-2.6%	3.3%	9.7%	13.1%	9.70%
Net Worth	-7.2%	-8.8%	-5.9%	-1.3%	7.2%	10.8%	7.20%
CAPITAL ADEQUACY							
Net Worth Ratio	17.8%	14.9%	12.2%	11.3%	10.8%	10.7%	10.80%
Equity Capital Ratio	17.7%	14.9%	12.0%	11.1%	10.6%	10.4%	10.56%
Capital Ratio	19.0%	15.5%	12.5%	11.6%	11.2%	11.1%	11.17%
BALANCE SHEET COMPOSITION							
Cash & ST Investments-to-Total Assets	40.0%	30.2%	24.6%	20.2%	13.5%	12.2%	13.5%
Loans-to-Total Assets	46.3%	48.1%	49.7%	55.6%	64.0%	70.0%	67.60%
Vehicle-to-Total Loans	57.1%	59.0%	45.7%	40.8%	34.9%	33.5%	34.85%
Real Estate-to-Total Loans	1.5%	9.7%	32.0%	39.6%	49.4%	51.4%	49.40%
Delinquency Rate	3.25%	1.68%	1.12%	1.00%	0.75%	0.71%	0.75%
Net Charge-off Rate	0.78%	0.58%	0.49%	0.53%	0.57%	0.58%	0.57%
"Misery" Index	4.02%	2.26%	1.61%	1.53%	1.32%	1.29%	1.32%
Non-term Shares-to-Total Shares	90.5%	84.2%	79.8%	77.5%	73.5%	72.6%	73.5%
Net Long-term Assets-to-Total Assets	5.0%	9.8%	20.2%	25.9%	33.4%	34.9%	33.4%
EARNINGS							
Gross Asset Yield	4.21%	3.79%	3.46%	3.65%	3.90%	3.96%	3.9%
Cost of Funds	0.29%	0.33%	0.29%	0.30%	0.53%	0.60%	0.53%
Gross Interest Margin	3.92%	3.46%	3.17%	3.35%	3.36%	3.37%	3.4%
Less: Provision Expense	0.46%	0.28%	0.24%	0.31%	0.43%	0.47%	0.43%
Net Interest Margin	3.46%	3.18%	2.93%	3.04%	2.93%	2.90%	2.9%
Net Operating Expense	3.65%	3.05%	2.74%	2.82%	2.44%	2.33%	2.44%
Net Income (Return on Assets)	-0.21%	0.05%	0.27%	0.31%	0.77%	0.88%	0.77%
Return on Equity	-0.6%	0.2%	1.1%	1.4%	0.4%	4.1%	3.6%
COST EFFICIENCIES							
Avg Loan Balance	$4,318	$6,779	$8,859	$10,033	$14,613	$15,820	$14,613
Avg Share Per Member	$2,316	$4,681	$7,110	$8,077	$10,481	$11,408	$10,481
Avg Compensation per FTE	$18,359	$44,168	$55,849	$58,754	$73,383	$79,146	$73,383
Comp & Benefits-to-Total Assets	0.95%	0.96%	0.82%	0.86%	0.90%	0.73%	0.77%
Pct of Total Operating Expense	47%	53%	48%	48%	51%	52%	52%
Office Occ & Ops-to-Total Assets	0.63%	0.48%	0.46%	0.45%	2.16%	0.35%	0.37%
Pct of Total Operating Expense	31%	27%	27%	25%	25%	25%	25%

Source: NCUA (June 2017)

Economic Calendar

OCTOBER 2017

Monday	Tuesday	Wednesday	Thursday	Friday
2 ISM Manufacturing Construction Spending	**3** Auto Sales	**4** ADP Employment ISM Services	**5** Jobless Claims Factory Orders	**6** Non-Farm Payrolls Unemployment Rate Wholesale Trade Consumer Credit
9 	**10**	**11** FOMC Sept Minutes JOLTS	**12** Jobless Claims PPI	**13** CPI Retail Sales Business Inventories Consumer Sentiment
16	**17** Industrial Production Capacity Utilization	**18** Housing Starts Building Permits	**19** Jobless Claims Leading Indicators	**20** Existing Home Sales
23	**24**	**25** Durable Goods Orders New Home Sales	**26** Jobless Claims Pending Home Sales	**27** GDP, Final 2Q17
30 Personal Income Personal Spending	**31** Consumer Confidence S&P CoreLogic Price Index FOMC meeting begins