

The Post(?) - COVID Economy and Credit Unions

November 4, 2021

1

Bill Hampel

mdbhampel@gmail.com

www.billhampel.com

Brought to you by





LEADERSHIP
CONVENTION

SYDNEY SAESARS PALACE, LAS VEGAS

DISCOVER.
EXPERIENCE.
GROW.

Save the Date!

19 - 22 July 2022,
CALL (866) 620-5937

[Book now](#)

BAR
RESCUE

Keynote Speaker
Jon Taffer

Master Storyteller
Matthew Luhn

Comedian
**Louie
Anderson**

Go to: www.CULeaders.com

Join us as we re-engage and bring together the movement's
most innovative leaders for the #1 leadership event — all in
Las Vegas! This year's 45th CU Leadership Convention will be

Bigger, BOLDER & Better than ever!



THE #1 EVENT FOR CU LEADERS IS RETURNING TO VEGAS ... LIVE & IN-PERSON!

LEADERSHIP
CONVENTION

7/19/22 CAESARS PALACE, LAS VEGAS

DISCOVER.
EXPERIENCE.
GROW.

Welcome back! As we get set to return to Las Vegas for our **45th CU Leadership Convention, July 19-22, 2022 at Caesars Palace**, we are extending our special "Reserve Your Seat Discount" offer to all credit unions.

Look forward to:

- 50+ speakers sharing practical guidance
- 1,000+ top CU leaders discussing best practices
- 50+ exhibitors showcasing the newest solutions
- Everyone in one place where we can once again meet and talk face-to-face

Save your seat(s) by Nov 19, 2021 & SAVE up to \$400 per person. Your CU's discount rate is automatically locked-in with your reservation. This is the **BIGGEST** discount offered. There is no obligation. No commitment. No payment now!

SAVE YOUR SEAT. NO PAYMENT NOW!

DEADLINE
NOVEMBER 19



CULeaders.com



866-620-5937

**BAR
RESCUE**



Keynote Speaker
Jon Taffer



Master Storyteller
Matthew Luhn



Comedian
Louie Anderson

Agenda

- × Comparing the COVID Recession to the Great Recession
- × The economic outlook through 2022
- × Credit union impacts

Comparing the COVID Recession of 2020 to the Great Recession of 2008 - 2009

- × The COVID Recession was much steeper, but also much shorter than the Great Recession.
- × Most households have been harmed much less this time, unless they have members employed in affected sectors: consumer facing services.

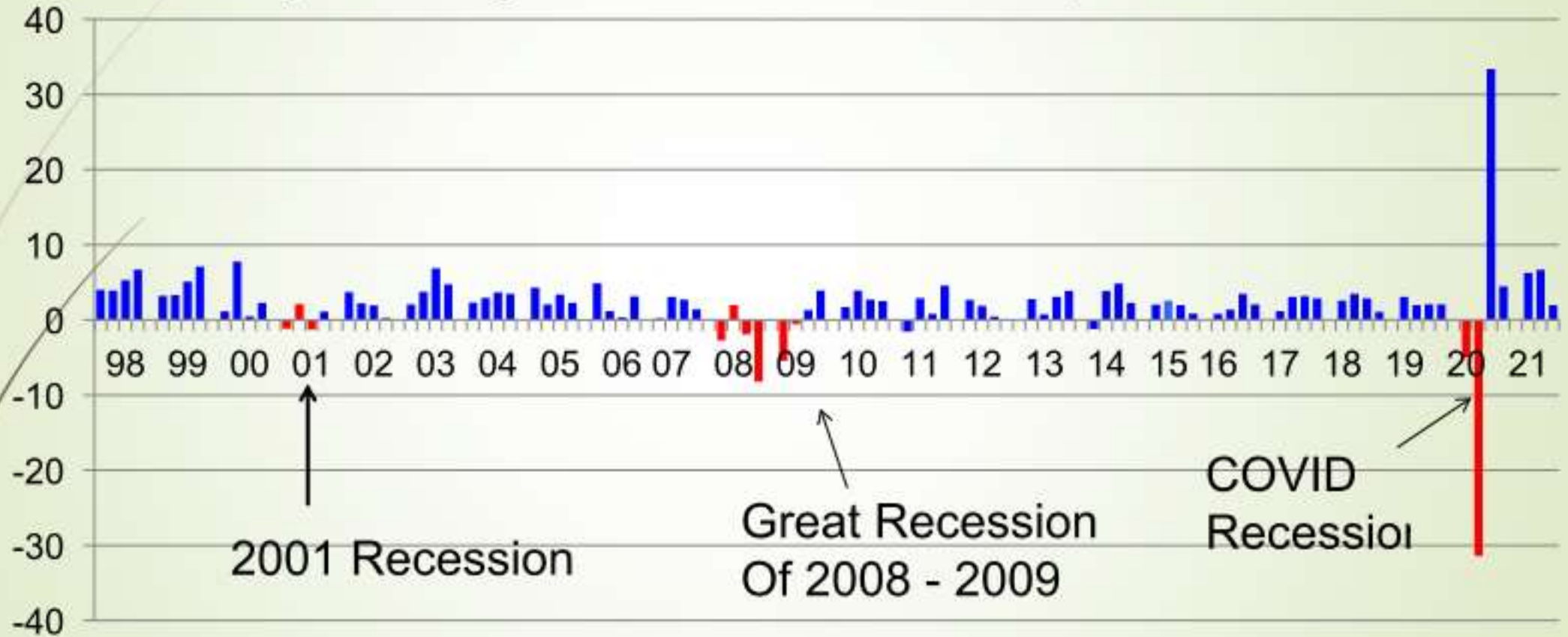
It Really IS Different This Time

- × February 2020: End of **longest US economic expansion on record: 128 months.**
- × 2020 Q2: **Worst quarterly GDP decline on record** (-8%, not annualized). Previous record: -2.5%.
- × April: **Worst one month job loss** (21 million) and **unemployment rate increase** (from 4.4% to 14.7%) on **record.**
- × BUT . . .
- × The COVID Recession was the **shortest on record, 2 months.**
- × Great Recession: 18 months, post-war average: 10.3 mths
- × The worst of the unemployment was short-lived.
- × Macroeconomy has recovered, but labor market still has a way to go.

The chart displays the monthly percentage change in US GDP from 1998 to 2019. The y-axis represents the percentage change, ranging from -10% to 10%. The x-axis shows years from '98 to '19. Blue bars indicate positive growth, while red bars indicate negative growth. Two recession periods are highlighted: the 2001 Recession (labeled '2001 Recession' with an arrow pointing to the red bars around 2001) and the Great Recession of 2008-2009 (labeled 'Great Recession Of 2008 - 2009' with an arrow pointing to the deep red bars around 2008-2009).

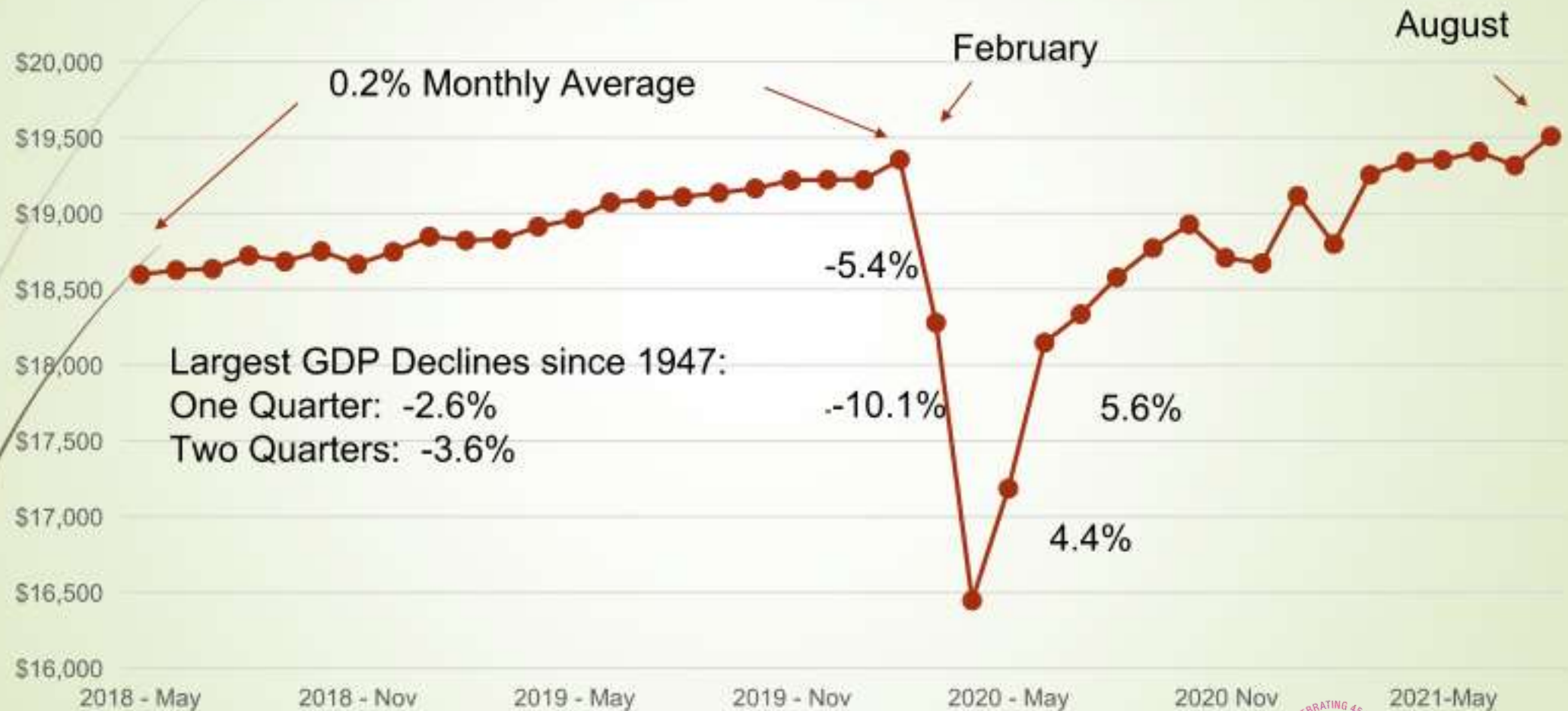
Gross Domestic Product, to 2021 III

Quarterly Changes at Annual Rates, Real



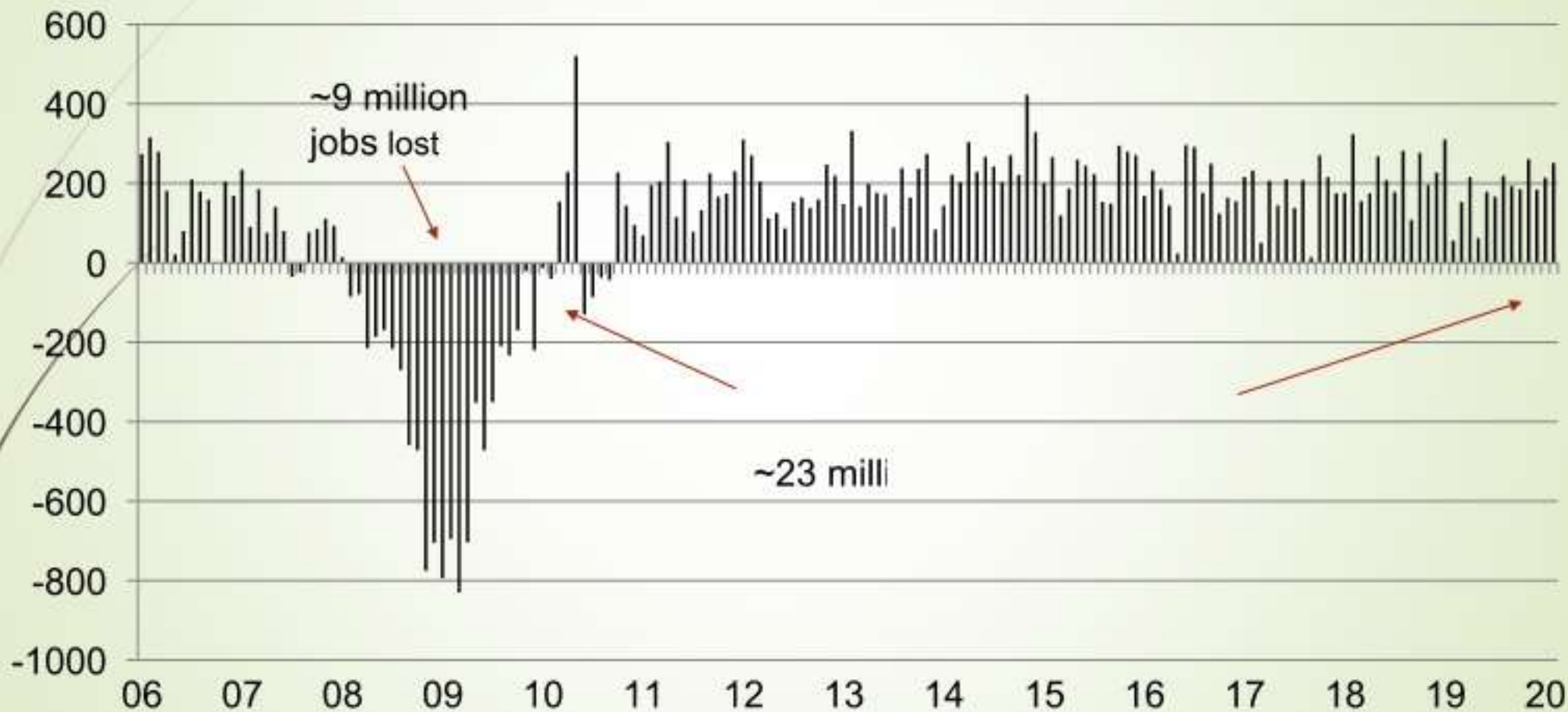
Monthly GDP Estimates by IHS Markit

Annual Rates, \$ billions



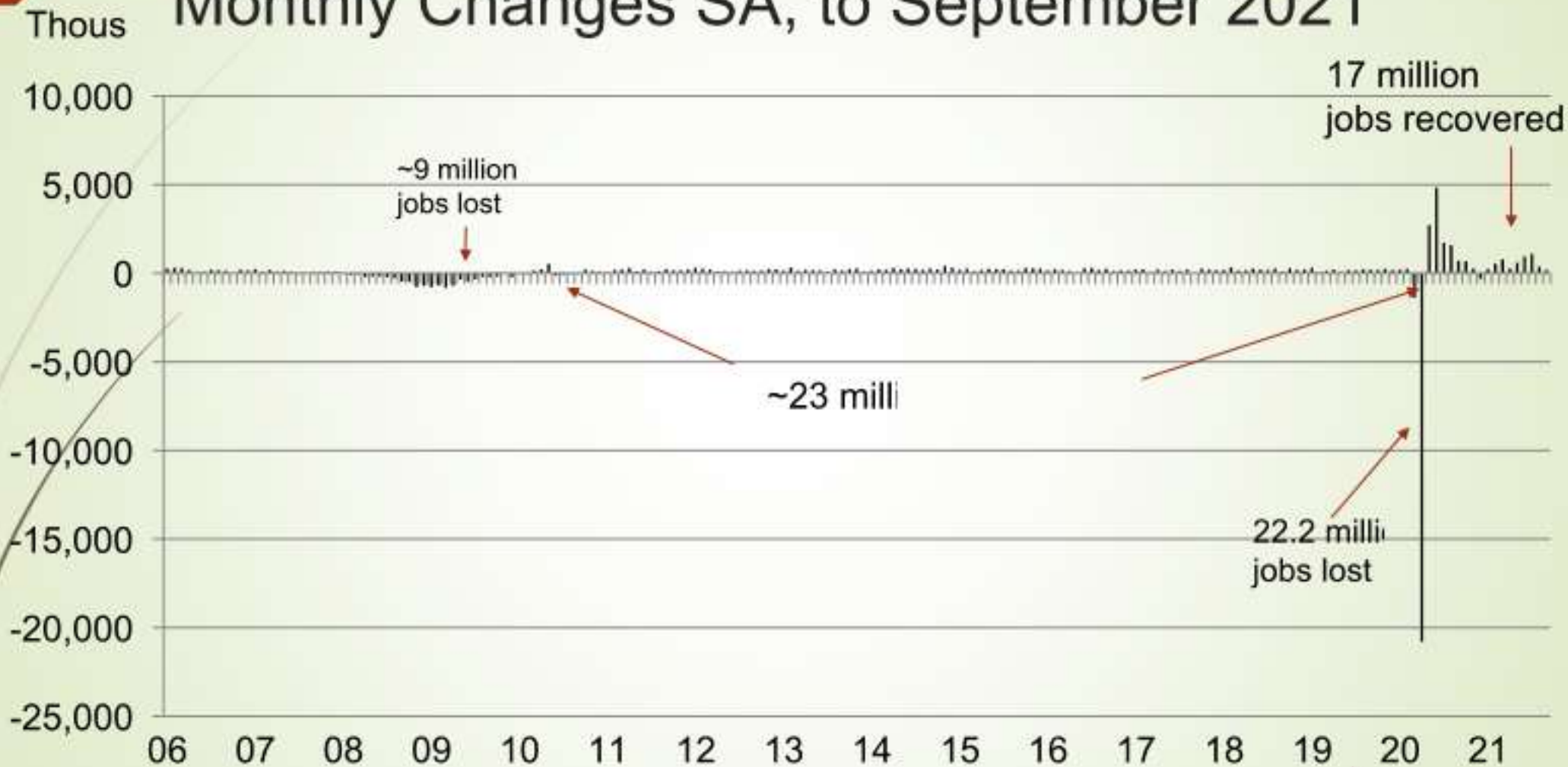
Non-Farm Payrolls

Monthly Changes SA, to February 2020



Non-Farm Payrolls

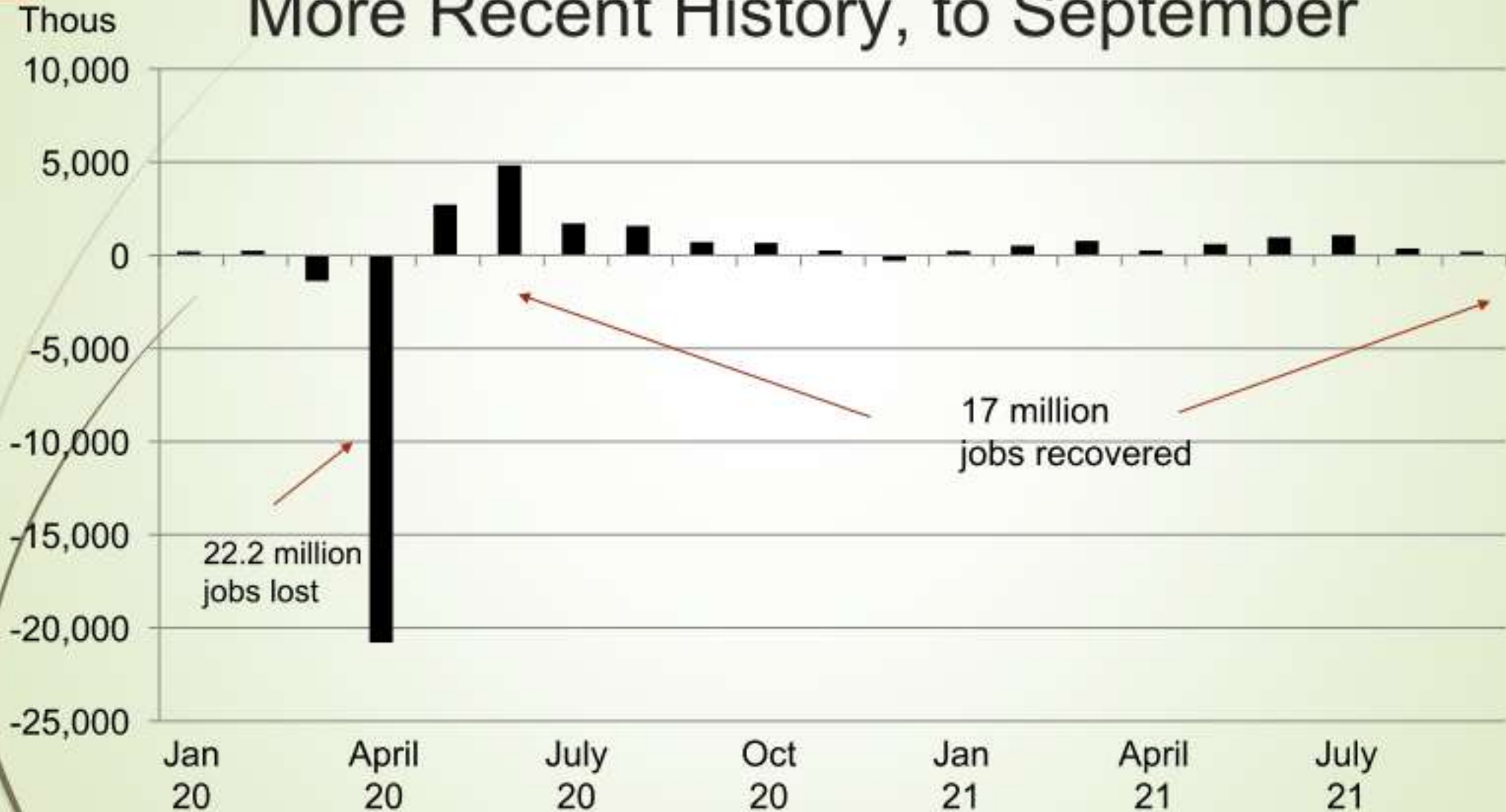
Monthly Changes SA, to September 2021



13

Non-Farm Payrolls

More Recent History, to September



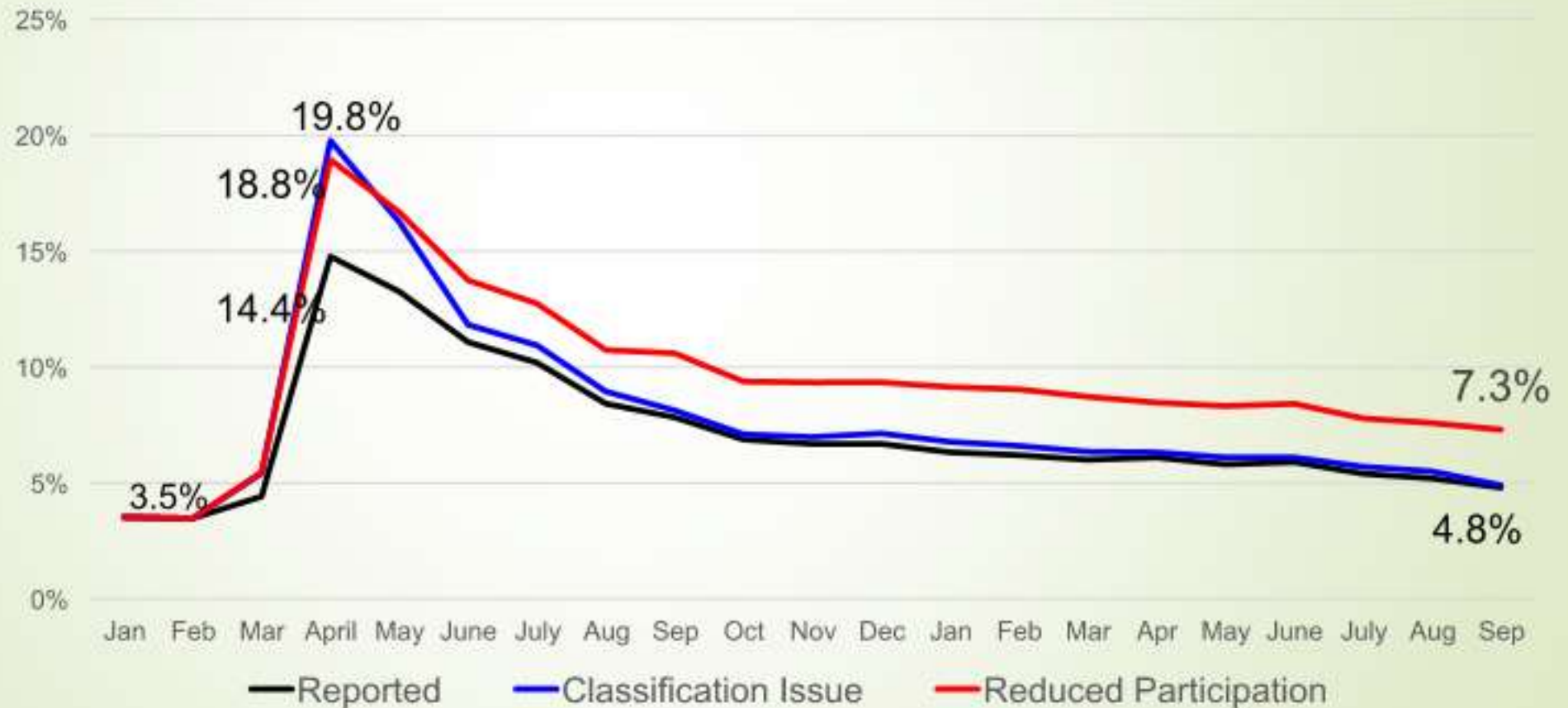
Unemployment Rate and Recessions

Percent of the Labor Force, Latest: August 2021



Unemployment Measurement During COVID

Impact of Data Collection & Labor Force Participation



Puzzle: Stronger Recovery in GDP than Jobs

- × GDP now above pre-recession peak, but labor market still down by 5 million jobs
- × Unemployment high while jobs openings plentiful
 - × Elevated unemployment compensation (now ended)
 - × Virtual schooling and shortage of daycare
 - × Employees concern about COVID-19
 - × Greater household savings, higher unemployment compensation, and stimulus payments allow longer “search” for better jobs
- × Long-term benefit of labor shortage: greater productivity (labor saving tech), higher wages

Impact of COVID-19 Going Forward

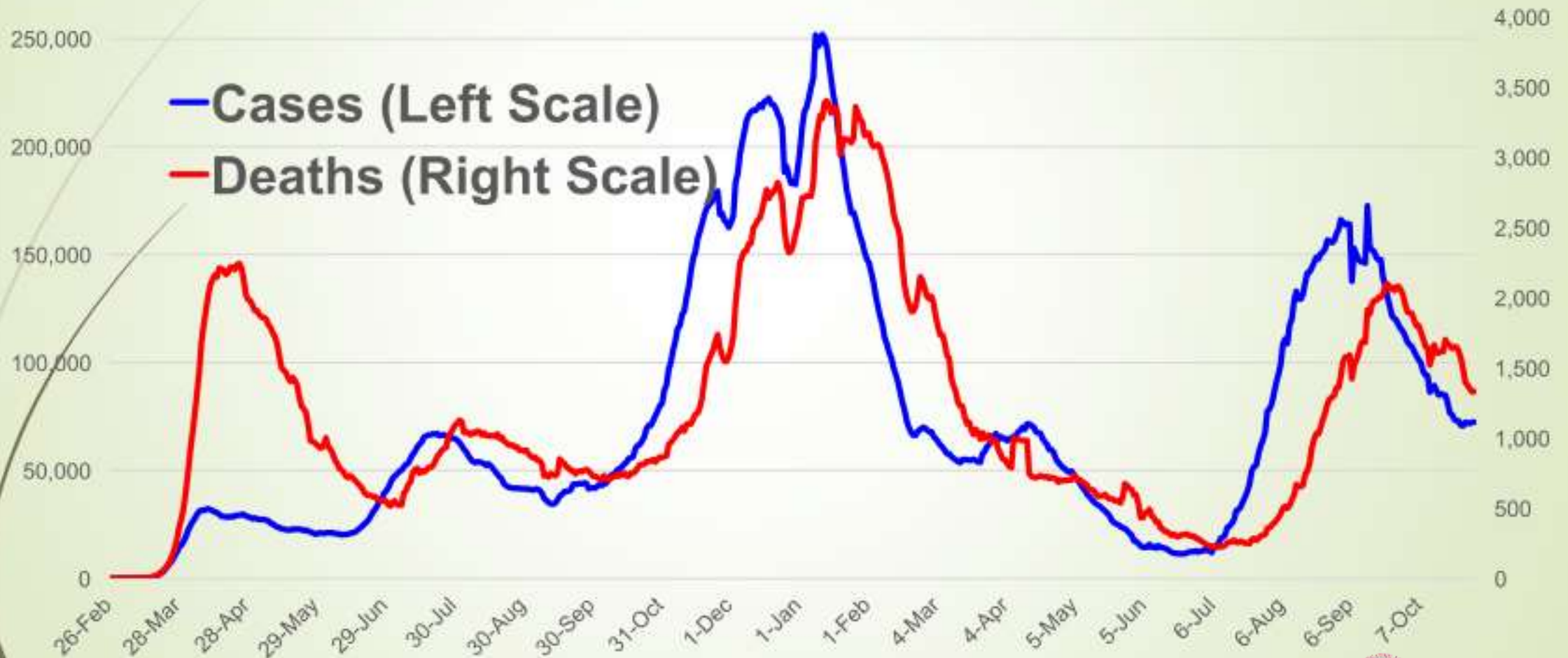
17

- × Community (herd) immunity:
 - × Was considered ~70%, with Delta now ~85%
- × Immunity can come from prior infection or vaccination
 - × Currently approaching a total of 70%
- × A race between vaccine take-up, Delta and other variants
- × Vaccine supply no longer an issue in the US
- × Question of how long immunity lasts: both types
- × If another surge in infections, reduced economic activity will be voluntary rather than mandated.

Daily Confirmed COVID-19 Cases and Deaths, US

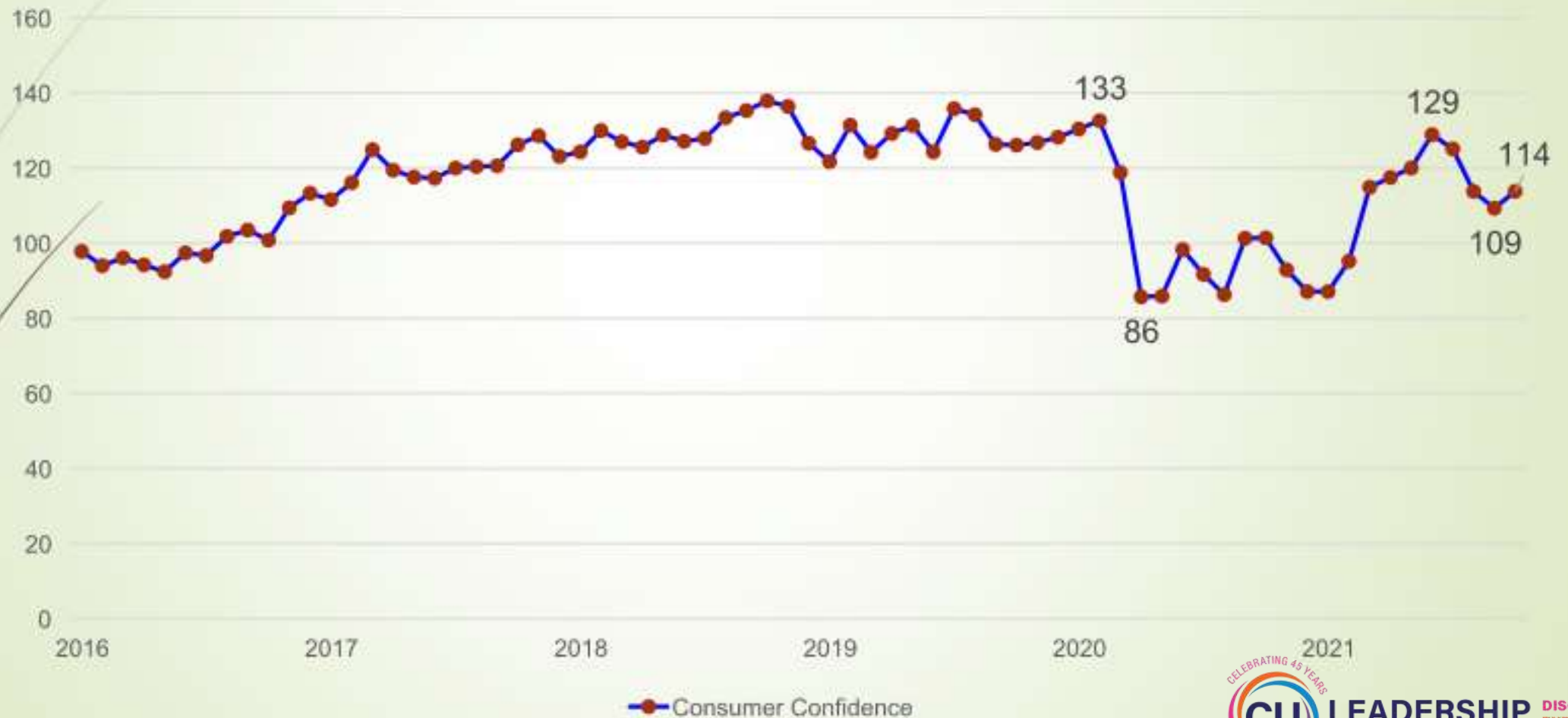
To 10/31, Seven Day Moving Averages

- US Totals to 10/31: Cases, 46 million; Deaths, 745 thousand



Consumer Confidence Since 2016

Conference Board, Latest: October 2021



Fiscal Policy

20

- × Stimulus Package of February: \$1.9 trillion
 - × \$1,400 per person stimulus payments
 - × Extra \$300 per week unemployment compensation, to September
 - × Aid to state and local governments, etc
 - × Short term deficit increase, but likely lowered future national debt
 - × Effects fading

Other Federal Economic Programs

- × Infrastructure bill has passed the Senate: \$1 trillion over 10 years
 - × Mostly "paid for" (taxes and reallocations), especially in first few years.
- × Democratic policy agenda bill: was \$3.5 trillion, now \$1.75 tr
 - × Will be largely "paid for", ultimate size will depend on appetite for tax increases and therefore substantially reduced
- × Underlying twin problems of Social Security and Medicare with Baby Boomers retiring

Federal Reserve Monetary Policy

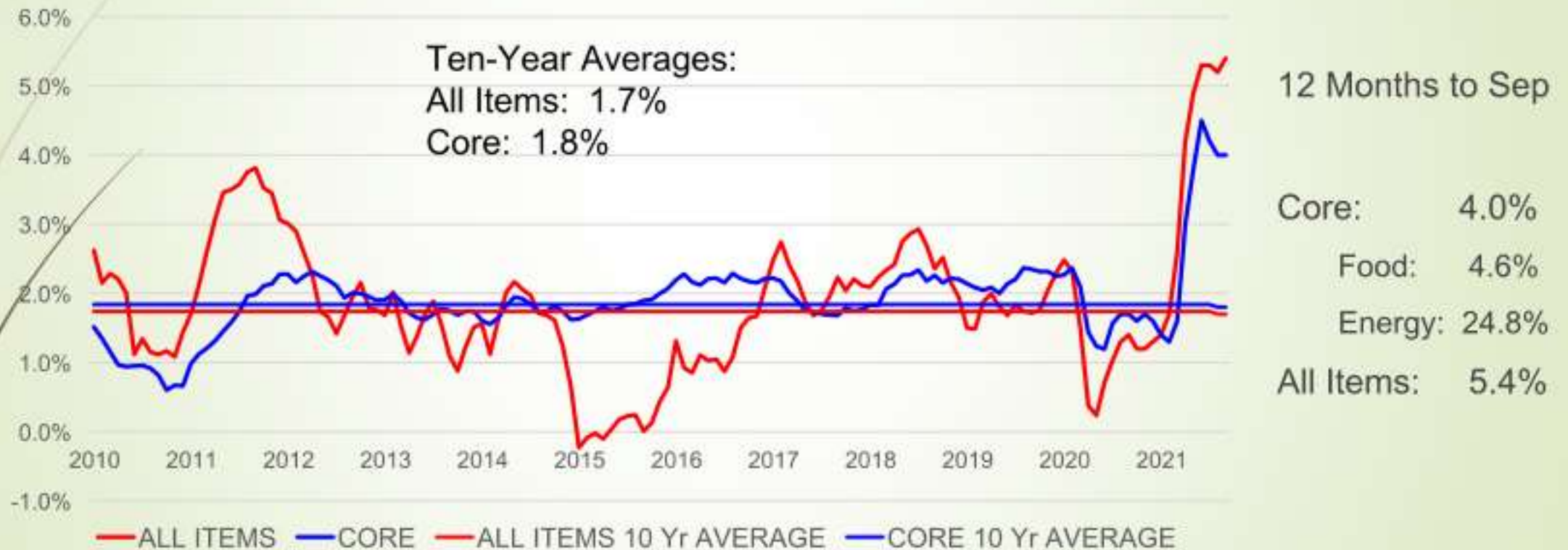
- ✗ Lowered Fed Funds rate to 0 to 25 bp, advised intention to keep it there.
- ✗ "Quantitative easing", buying Treasury and Agency bonds, keeping long rates low, tapering beginning now
- ✗ Average Inflation Targeting: 2%, PCE Deflator, not CPI

IMPLICATIONS:

- ✗ Fed Funds(short-term) rate near zero at least until second half of 2022
- ✗ 10-Year Treasury below inflation rate for a while but should rise as quantitate easing ends over the course of next year

Consumer Price Index Since 2010

Twelve-Month Moving Averages, Monthly to September



Rising Inflation: Temporary or Long Lasting?

24

× Temporary Factors:

- × It's harder to rapidly restore an economy than to halt it in its tracks, demand can respond faster than supply, some of which has been destroyed
- × Supply chain bottlenecks
- × Hugely stimulative fiscal policy winding down
- × Vehicle prices significant in consumer price index, are slowing, and will reverse

× Long-term threat

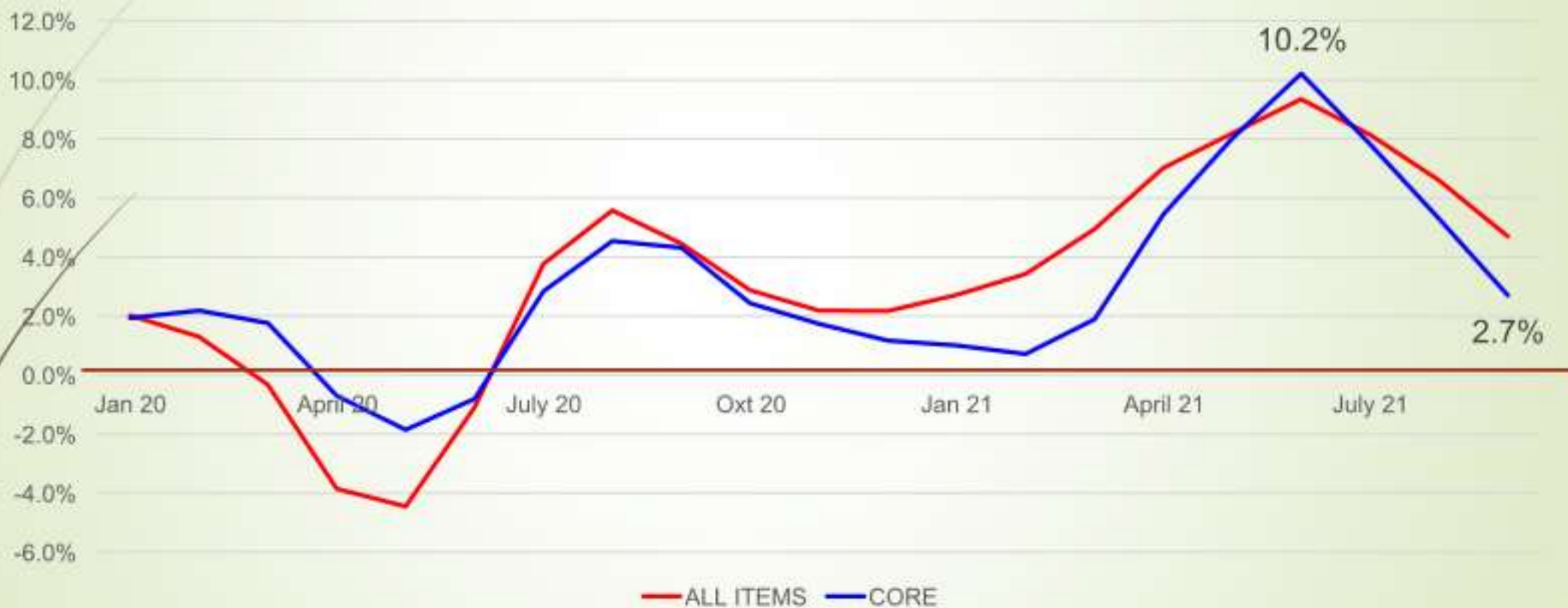
- × Inflation expectations become entrenched
- × Loose monetary policy overshoots

× Possible intermediate problem

- × The reversal of the temporary factors takes more than just a few quarters.

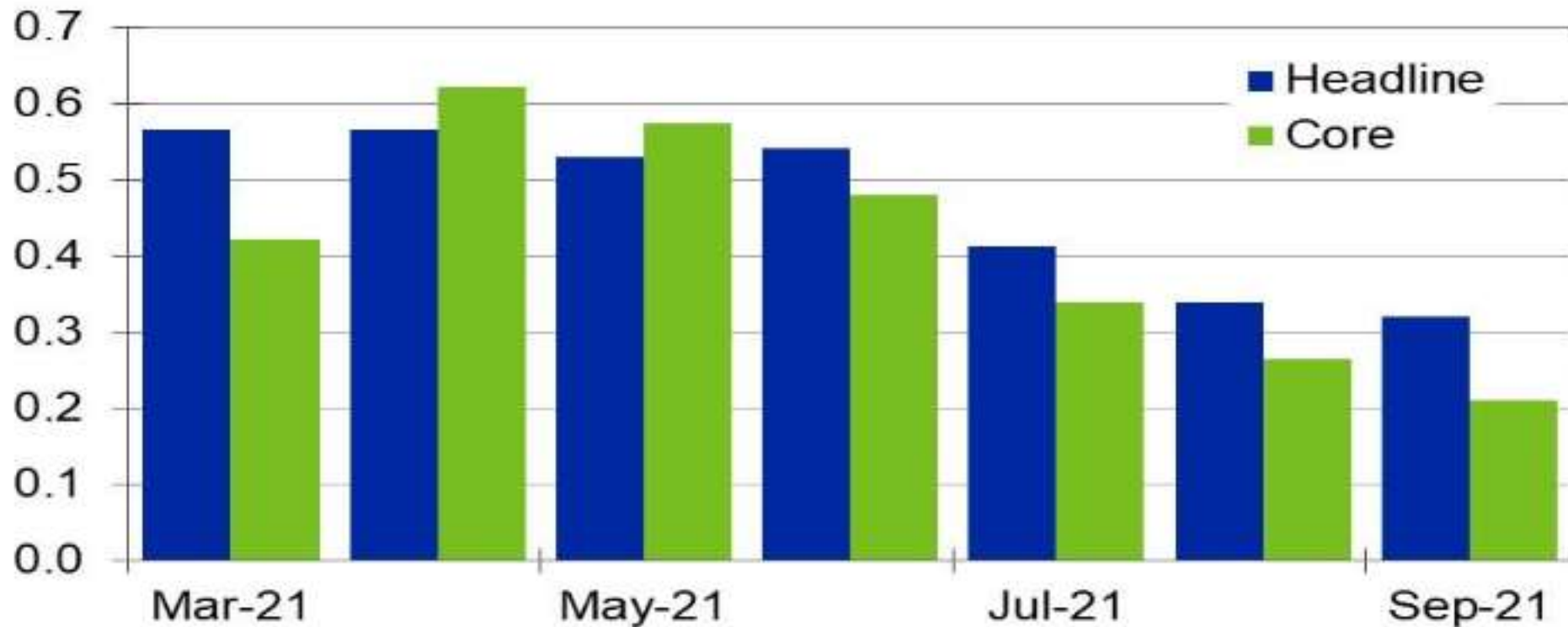
Consumer Price Index Since 2020

Three-Month Moving Averages, Monthly to August



Inflation Stiff but Tapering Gradually

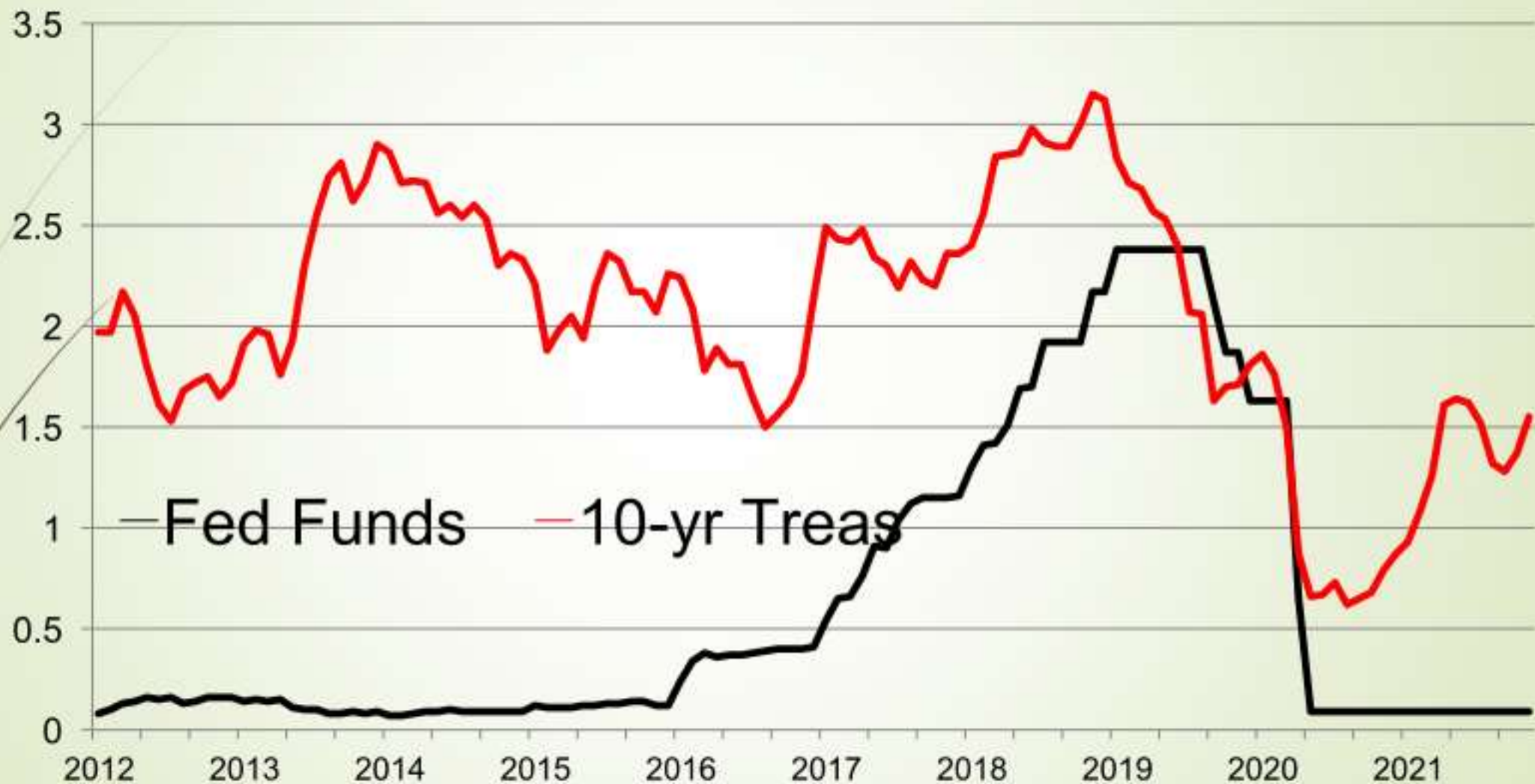
PCE deflator, %



Sources: BEA, Moody's Analytics

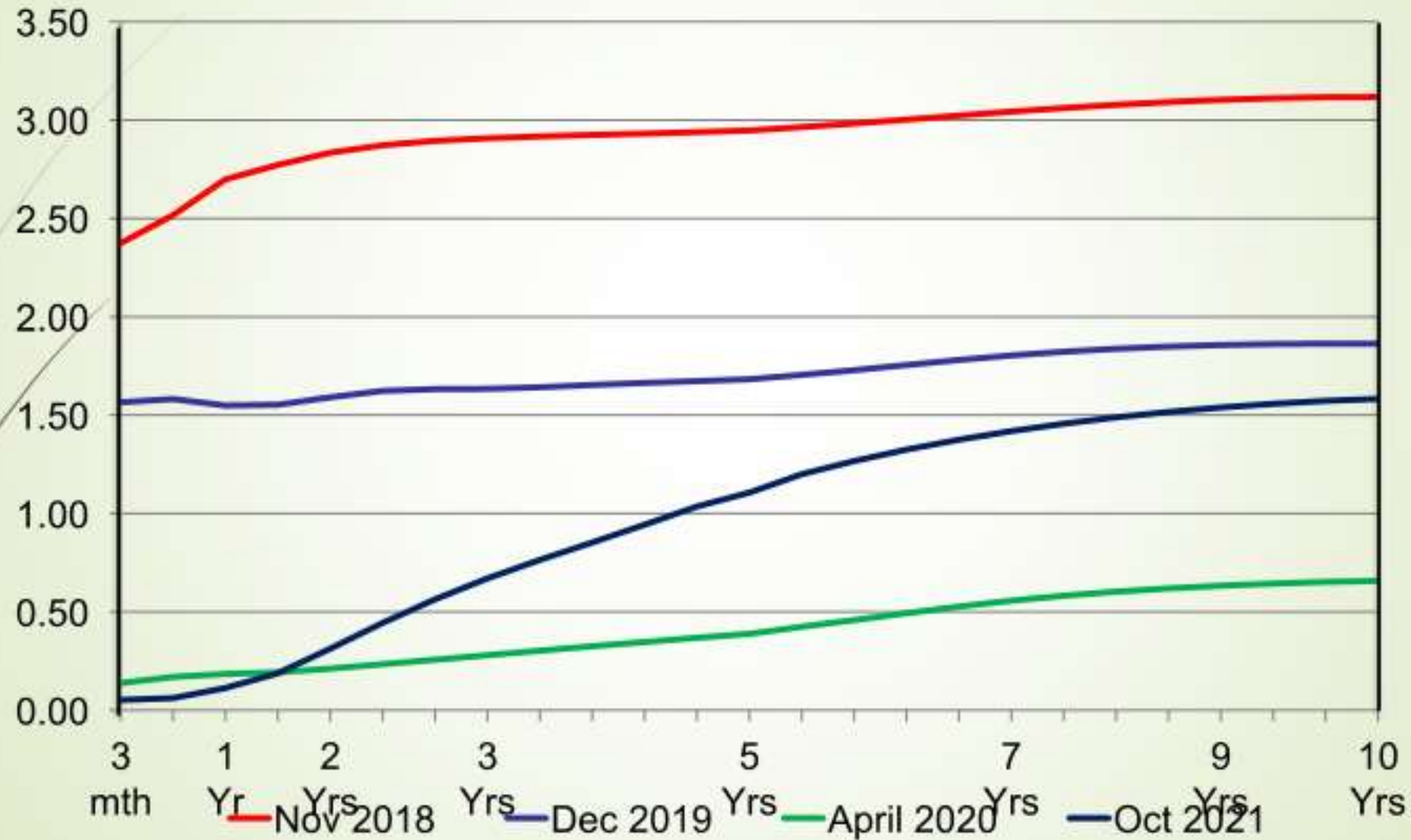
Interest Rates

27



Tracking Treasury Yield Curves

28



CUNA's economic forecast

Sep 17, 2021

	Actual results		Quarterly results/forecasts				Annual forecasts	
	5 Yr Avg	2020	2021:1	2021:2	2021:3	2021:4	2021	2022
Growth rates:								
Economic Growth (% chg GDP)*	1.10%	-3.50%	6.3%	6.6%	4.5%	6.0%	6.0%	4.5%
Inflation (% chg CPI)*	1.90%	1.30%	4.9%	9.3%	5.0%	2.5%	5.5%	2.5%
Unemployment Rate (BLS)	4.60%	6.70%	6.0%	5.9%	5.2%	4.8%	4.8%	4.0%
Federal Funds Rate (effective)	1.18%	0.09%	0.07%	0.08%	0.10%	0.10%	0.09%	0.10%
10-Year Treasury Rate	2.08%	0.93%	1.73%	1.45%	1.4%	1.5%	1.5%	2.0%
10-Year-Fed Funds Spread	0.90%	0.84%	1.66%	1.37%	1.3%	1.4%	1.41%	1.9%

*Percent change, annual rate. All other numbers are end-of-period values.

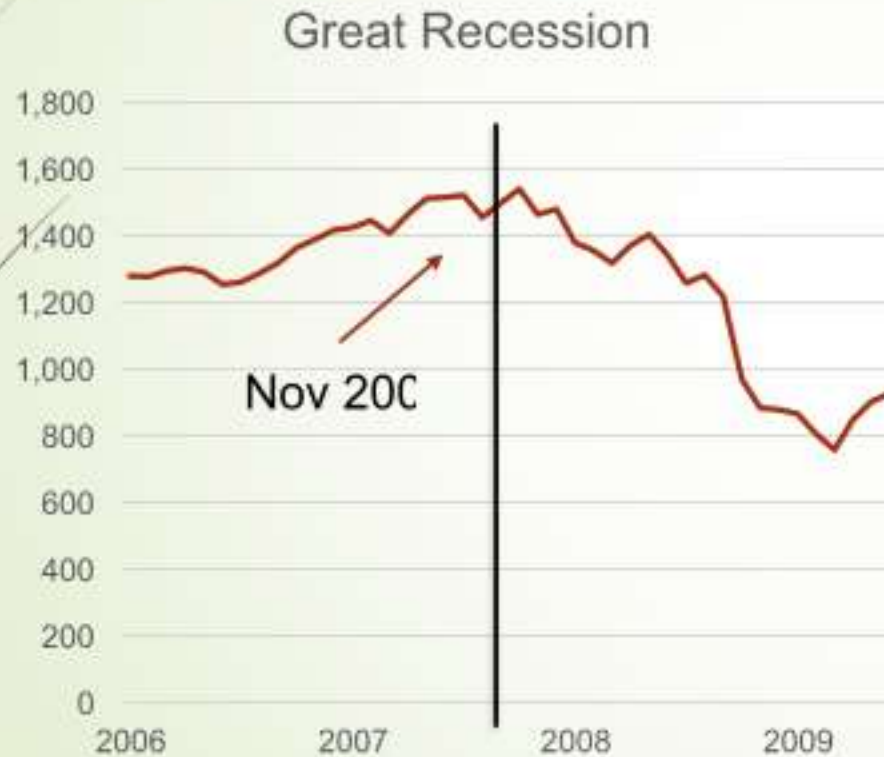
Credit Union Impacts

LESS HARM TO HOUSEHOLDS THAN GREAT RECESSION

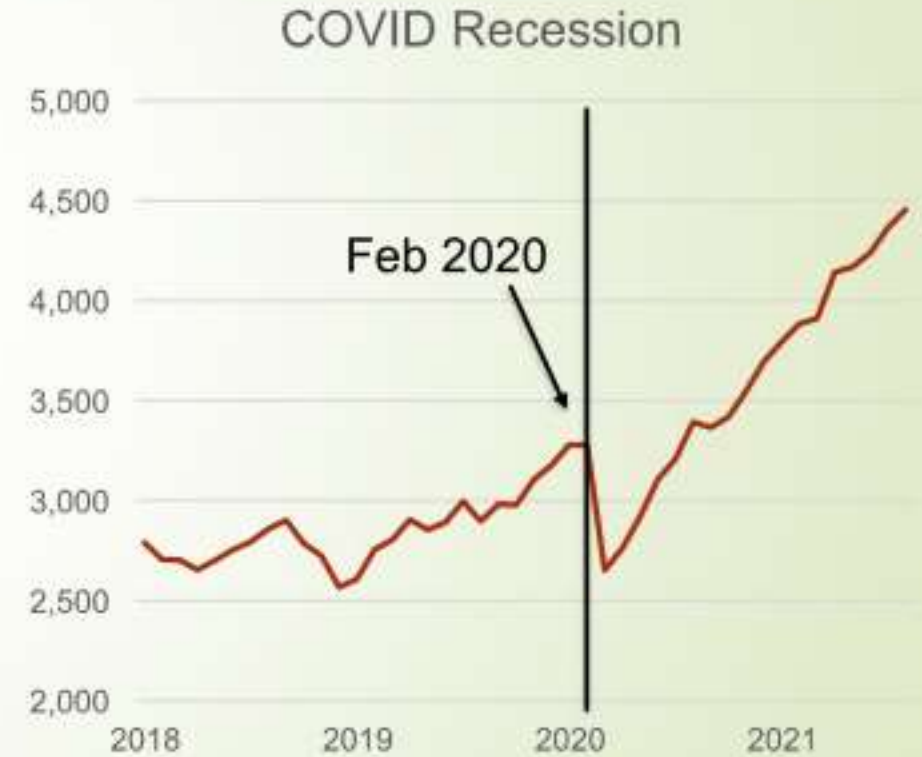
- × Unemployment and job losses of shorter duration, although consumer facing sectors hit harder
- × Expanded unemployment compensation buffered the worst effects of unemployment
- × “Forced” saving strengthened household balance sheets
- × Household sector’s major asset (housing) hasn’t fallen in value by 30% to 40%, just the opposite!
- × Stock market has also done well
- × A “K” shaped recovery

32

The Stock Market During During Two Recessions S&P 500, Monthly Averages



Down 37% after 18 months



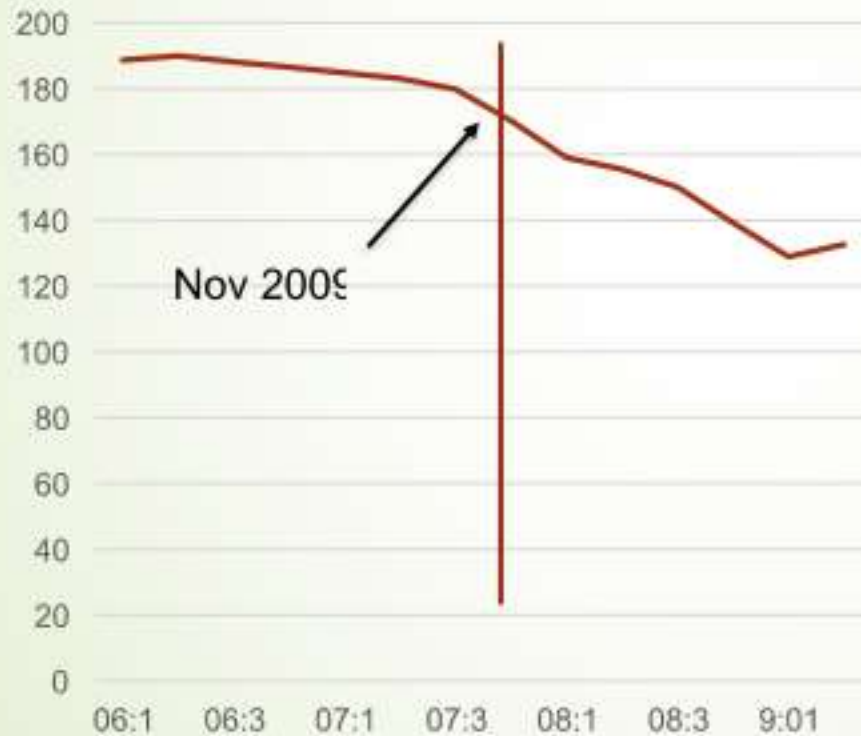
Up 36% since Feb 20 (18 months)

33

Home Prices During Two Recessions

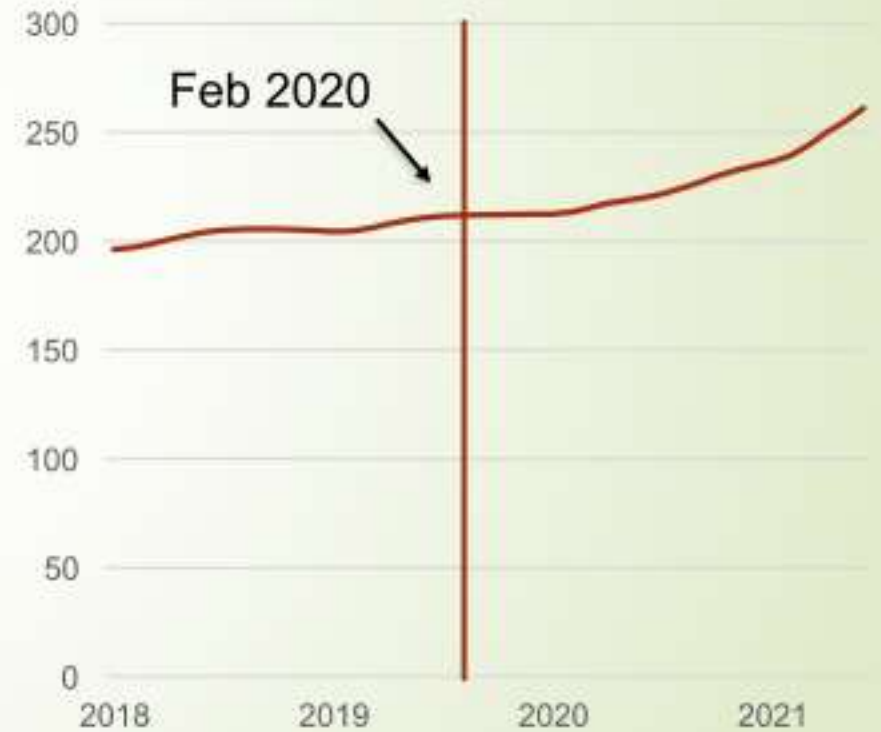
Case Shiller National Index

Great Recession



Down 22% in six quarters since 2008 IV

COVID Recession



Up 22% in since Feb 2020 (17 months)

CREDIT UNION IMPACTS THROUGH

2022

- × Liquidity: deposit growth remains strong relative to loan growth in 2021, reversing in 2022
- × Slight rise in delinquency and loan losses, from very low levels
- × Below normal earnings
 - × Depressed net interest margin
 - × Moderate non-interest income (overdraft , interchange)
 - × Loan loss provision boost is ending
 - × First mortgage origination revenue winding down
- × Stabilizing net worth ratios

CUNA's credit union forecast

Sep 17, 2021

	Actual results		Quarterly results/forecasts				Annual forecasts	
	5 Yr Avg	2020	2021:1	2021:2	2021:3	2021:4	2021	2022
Growth rates:								
Savings growth	9.6%	20.3%	6.8%	1.4%	1.7%	1.7%	12.0%	6.0%
Loan growth	8.4%	5.3%	0.3%	2.5%	1.6%	1.5%	6.0%	9.0%
Asset growth	9.1%	17.7%	5.7%	1.5%	2.0%	2.0%	11.5%	5.5%
Membership growth	3.7%	3.2%	1.2%	1.3%	0.6%	0.3%	3.4%	4.0%
Liquidity:								
Loan-to-share ratio**	80.4%	73.9%	68.70%	69.50%	70.0%	69.96%	70.0%	71.9%
Asset quality:								
Delinquency rate**	0.74%	0.59%	0.45%	0.46%	0.60%	0.65%	0.65%	0.60%
Net charge-off rate*	0.53%	0.44%	0.31%	0.24%	0.3%	0.4%	0.31%	0.50%
Earnings:								
Return on average assets (ROA)*	0.79%	0.70%	1.04%	1.16%	0.80%	0.80%	0.95%	0.70%
Capital adequacy:								
Net worth ratio**	10.9%	10.3%	10.0%	10.2%	10.0%	10.0%	10.0%	10.2%

*Quarterly data, annualized. **End of period ratio.

Note: Data for 2021 Q2 are estimates based on CUNA's Monthly Credit Union Estimates



LEADERSHIP
CONVENTION

DISCOVER.
EXPERIENCE.
GROW.

7/19/22 CAESARS PALACE, LAS VEGAS

Credit Union Earnings Analysis

All US Credit Unions

	2019	2020	2021 II
Interest Yield in Assets	4.04%	3.53%	3.03%
Interest Cost of Assets	0.89%	0.70%	0.46%
Gross Spread (NII)	3.15%	2.83%	2.57%
Operating Expenses	3.19%	3.02%	2.79%
Non-Interest Income	1.40%	1.39%	1.40%
Provisions	0.43%	0.50%	0.07%
Net Income (ROA)	0.93%	0.70%	1.11%

QUESTIONS?



LEADERSHIP
CONVENTION

WYNN EX CAESARS PALACE, LAS VEGAS

DISCOVER.
EXPERIENCE.
GROW.

Save the Date!

19 - 22 July 2022,
CALL (866) 620-5937

[Book now](#)

BAR
RESCUE

Keynote Speaker
Jon Taffer

Master Storyteller
Matthew Luhn

Comedian
**Louie
Anderson**

Go to: www.CULeaders.com

Join us as we re-engage and bring together the movement's most innovative leaders for the #1 leadership event – all in Las Vegas! This year's 45th CU Leadership Convention will be

Bigger, BOLDER & Better than ever!



THE #1 EVENT FOR CU LEADERS IS RETURNING TO VEGAS ... LIVE & IN-PERSON!

LEADERSHIP
CONVENTION

7/19/22 CAESARS PALACE, LAS VEGAS

DISCOVER.
EXPERIENCE.
GROW.

Welcome back! As we get set to return to Las Vegas for our **45th CU Leadership Convention, July 19-22, 2022 at Caesars Palace**, we are extending our special "Reserve Your Seat Discount" offer to all credit unions.

Look forward to:

- 50+ speakers sharing practical guidance
- 1,000+ top CU leaders discussing best practices
- 50+ exhibitors showcasing the newest solutions
- Everyone in one place where we can once again meet and talk face-to-face

Save your seat(s) by Nov 19, 2021 & SAVE up to \$400 per person. Your CU's discount rate is automatically locked-in with your reservation. This is the **BIGGEST** discount offered. There is no obligation. No commitment. No payment now!

SAVE YOUR SEAT. NO PAYMENT NOW!

DEADLINE
NOVEMBER 19



CULeaders.com



866-620-5937

**BAR
RESCUE**



Keynote Speaker
Jon Taffer



Master Storyteller
Matthew Luhn



Comedian
Louie Anderson