Macroeconomic Indicators In 2Q24

Six data points showcase what's happening in the U.S. economy that could direct credit union decision-making for the rest of the year.

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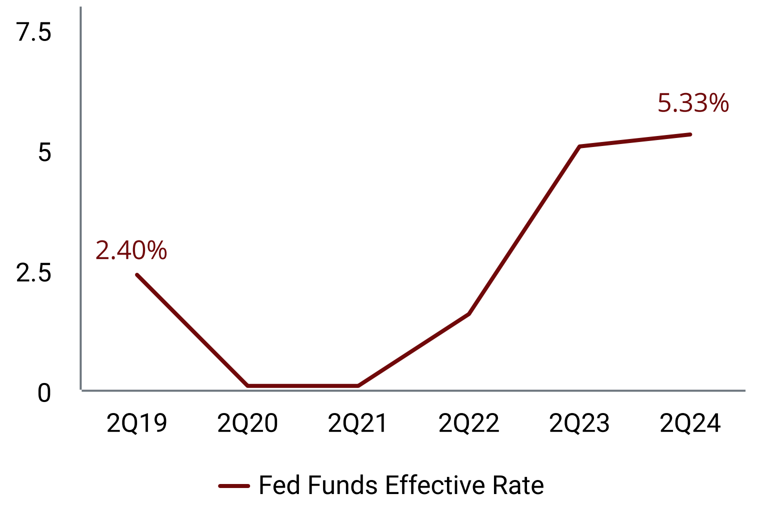
Federal Funds Rate

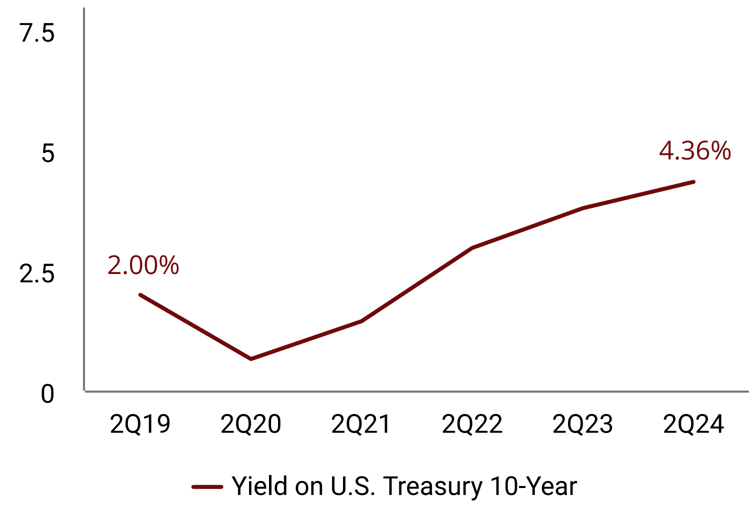
The Federal Reserve's decision to move its benchmark interest rate — or not — has an outsized effect on the macroeconomy. The chair of the Federal Reserve, Jerome Powell, has stated the time has come, all but sealing the deal on a rate cut in September.

What does a cut to interest rates mean for credit unions and consumers? Rates for loans will decline as markets reprice, and originations could rise in turn.



10-Year Yield

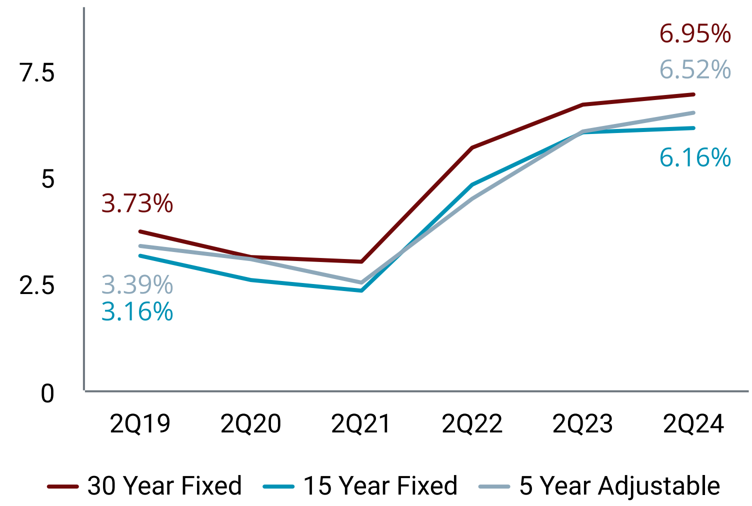
The Federal Reserve's interest rate policy has implications for credit union capital, notably in the investment portfolio. The 10-year Treasury yield climbed to 4.36% in the second quarter. As the Treasury yield increases, the value of the current investment portfolio shrinks, resulting in unrealized losses. A portion of these losses fade as investments mature, but most investments are still priced much lower than their original value. If the Federal Reserve begins lowering interest rates, the 10-year yield could trend downward, alleviating a portion of unrealized losses.



Mortgage Rates

The 30-year fixed-rate mortgage rose to 6.95% in the second quarter, resulting in fewer originations. Despite the rise in interest rates, housing prices in many metro areas are not dropping.

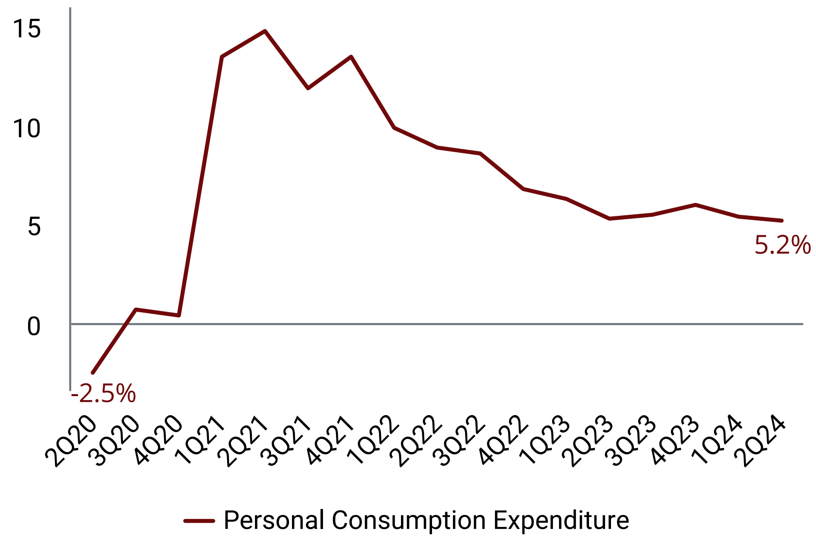
According to the Federal Reserve Bank of Atlanta's National Home Ownership Affordability Index, the index dipped to 68 in May 2024, a sign of further unaffordability. With lower rates potentially on the horizon, credit unions should expect a potential rebound in originations.



Consumer Spending

Although consumer spending is down from its pandemic high, Americans are still spending money. According to the Bureau of Economic Analysis, 68% of this expenditure is on services, whereas 32% is on goods. All told, Americans spent $19.4 trillion through the first six months of the year.

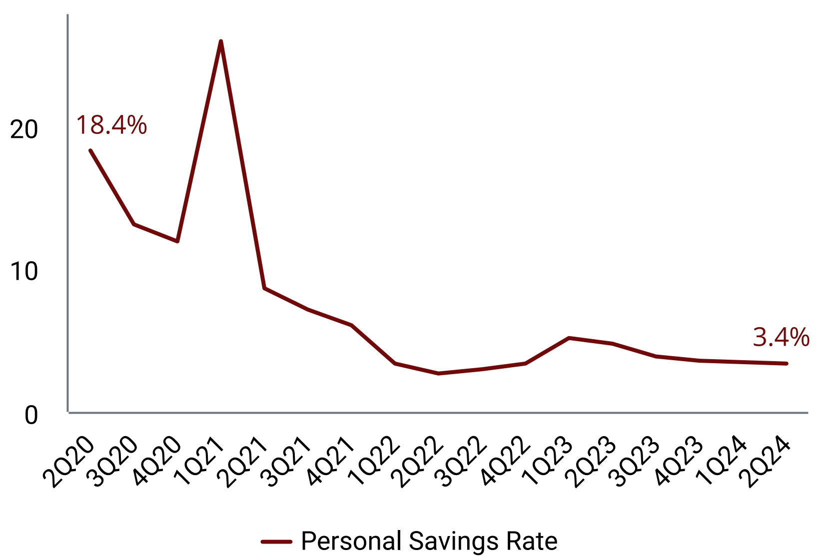
The University of Michigan Consumer Sentiment index fell to 68.2 in the second quarter, down from 79.0 at the beginning of the year, a sign that consumer spending does not necessarily equate to optimism but rather inflation could be making a mark.



Personal Savings Rate

Similar to consumer spending, Americans have spent a greater percentage of their income in the post-COVID-19 economy than they did previously. The U.S. Personal Savings Rate has gradually ticked down all year and closed out the second quarter at 3.1%.

For credit unions, this means fewer funds left over for deposits. Whether a member is cash-strapped because they are trying to make ends meet or trying to fund a more expensive lifestyle, credit unions must brace for fewer shares coming in than years prior.



Total Non-farm Payrolls

Total non-farm payrolls increased 1.7% year-over-year, the lowest growth rate since the COVID-19 pandemic. Meanwhile, unemployment rose to 4.1% from 3.6% one year ago. In total, there are 158.7 million jobs currently filled in the United States.

Credit union trends mirror those of the nation's. Hiring fell from a peak of 5.1% in the third quarter of 2022 to just 0.75% in the second quarter of 2024. For credit unions, who hire their own employees as well as serve as trusted financial institutions for many others, this is a critical trend to watch.