

CUEG
CREDIT UNION ECONOMICS GROUP

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NEWS RELEASE

Credit Union Economics Group (CUEG)

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**CREDIT UNION ECONOMISTS PREDICT REDUCED ECONOMIC AND
LENDING GROWTH IN 2007**

DAVE COLBY

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MADISON, WI – Citing less favorable employment conditions and a slowdown in housing and new vehicle sales, the Credit Union Economics Group (CUEG) is calling for a broad-based economic slowdown for 2007.

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CUEG members forecast year-end numbers each quarter, and the 2007 growth outlook has dropped in each of the past three forecasts.

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Dave Colby, CUNA Mutual Group's chief economist, said housing and new vehicle sales will lead the slowdown. "We see consumers working off excesses of the past few years and engaging in some degree of personal balance sheet repair in the coming months."

KENDRICK SMITH

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While the CUEG forecast shows a downturn in employment over the next year, this originates from a very strong position. Inflation, while above the Federal Reserve's target range, is forecast to dip in 2007 with less pressure from oil prices and tight labor market conditions.

JEFFRY TAYLOR

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CUEG economists see interest rates coming down next year, with 50 basis points in cuts to the key Federal Reserve funds target rate in 2007. Rates on longer duration investments are expected to recede fractionally, thus adding some steepness to the yield curve.

TUN WAI

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"In just the last two months though, based on what we see from our WesCorp members, it appears that liquidity is returning to the system. We are seeing a modest build up in member balances and our member borrowings are declining," said Bob Burrell, executive vice president/CIO of Western Corporate FCU (WesCorp), San Dimas, CA.

Share growth is forecast to improve to around five percent, but remain low by historical standards. Tun Wai, NAFCU's chief economist and director of research,

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noted that loan growth will exceed share growth for five consecutive years by the end of 2007, but the gap is closing.

“We are seeing a shift in the composition of loans and savings, which is normal in this environment,” said Wai. “The current pause by the Federal Open Market Committee (FOMC) should allow credit unions time to address long-term funding issues while remaining competitive on the lending side.”

Loan growth has slowed significantly in 2006, and CUEG forecasters see annual gains slowing to less than seven percent in 2007. Kendrick Smith, vice president/CIO at Eastern Financial Florida Credit Union, Miramar, FL, noted many credit unions have already seen first mortgage origination volumes drop dramatically, along with vehicle lending.

“Loan growth results may be biased on the high side due to a change in mortgage retention strategies, not new loan activity,” said Smith. “We have also noted in the Southeast, many auto dealers find their sales are down significantly from last year. Many members are so credit challenged that even credit unions’ sub-prime financing sources are turning a significant number of them away.”

The Credit Union Economics Group (CUEG) is a working group of credit union officials located throughout the U.S. who have dedicated themselves to the current and future financial well being of these not-for-profit cooperatives. CUEG's objective is to provide credit unions with consensus macroeconomic forecasts and industry trend analyses that will be helpful in their planning and operations. This independent, non-profit group also provides a credit union perspective on regional economic trends by exchanging information with the NCUA, the Federal Reserve Board and the various Federal Reserve District Banks.

CUEG prepares a regional economic and descriptive credit union trends report bi-annually as well as a consensus macroeconomic and industry-trend forecast, available at www.cueg.org.

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