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NEWS RELEASE

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July 30, 2004

CU ECONOMISTS FORECAST CONTINUED ECONOMIC EXPANSION
Experts Say Policy-Based Economic Recovery Shifting to One of Self-Sustaining Growth

Credit unions can expect continued economic expansion in 2004 and 2005, according to the July 2004 Consensus Forecast, produced by the Credit Union Economics Group (CUEG).

Compiled by some of the credit union movement's leading economic observers, the CUEG report forecasts overall GDP growth of 4.4 percent in 2004, and 3.9 percent in 2005. This represents a slight improvement over the group's previous forecasts.

"The U.S. economy is transitioning from a policy-based recovery (fiscal and monetary policy) to one of self-sustaining growth with an improved business outlook replacing some government spending stimulus," said Tun Wai, chief economist and director of research for NAFCU.

While CUEG economists expect moderate job creation, their forecast shows a slowly declining unemployment rate. Given the recent trend in strong employment reports and higher consumer price index (CPI) inflation driven by energy costs, they expect interest rates to climb over the next two years.

"We expect the Fed Funds rate forecast to end the year between 1.75 percent and 2 percent, moving fractionally above 3 percent by 2005," added Dave Colby, CUNA Mutual Group chief economist. "Mortgage interest rates will climb to 6.7 percent by year-end and move up above 7 percent in 2005."

CUEG economists held their 2004 annual total credit union loan growth rate at 9.8 percent, expecting a larger contribution from home equity and new vehicle loans to offset reduced first mortgage loan gains. Dampening the loan growth figure will be increased first mortgage loan sales as more credit unions choose to avoid additional interest rate risk.

The group remains optimistic about light-vehicle sales and expects roughly a 16.7 million-unit pace in both 2004 and 2005. This should bode well for credit union new

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vehicle loans, although CUEG economists expect stiff discounted financing competition from manufacturers as inventories remain bloated.

On other segments of the economy, CUEG's July Consensus Forecast indicated:

- **Inflation** should creep up slightly to 2.7 percent by year-end, due mainly to high energy prices, but still remain in check.
- **A lowered outlook for annual share growth** to 7.3 percent in 2004 and 2005 based on the assumption of improved equity market performance and members directing more of their savings into mutual funds.
- **Mortgage originations** are expected to cool somewhat from last year's record levels, but remain strong as home buyers take advantage of what are still considered historically low rates.

CUEG is a geographically dispersed group of some of the nation's leading credit union economic observers who aim to provide credit unions with a strategic view of the economy, and consumer financial services. Bi-annually, CUEG prepares a regional economic and descriptive credit union trends report, as well as a consensus macroeconomic and industry-trend forecast. Both are available on the CUEG Web site www.cueg.org. These reports are provided to give credit unions an independent view of the economic environment to be used as a backdrop for credit unions' strategic planning.

CUEG members include:

- Bruce Beaudette, president/CEO, Sunmark FCU, Schenectady, NY
- Bob Burrell, Exec. V.P./CIO, Western Corporate FCU (WesCorp), San Dimas, CA
- Dave Colby, Assistant V.P./chief economist, CUNA Mutual Group, Madison, WI
- Dave Dickens, Sr. V.P, asset/liability management, U.S. Central CU, Lenexa, KS
- Bruce Fox, Sr. V.P., senior investment officer, Southwest Corporate FCU, Dallas, TX
- Scott Mainwaring, president/CEO, Vystar Financial Group, Jacksonville, FL
- Brian McVeigh, Sr. V.P./CFO, State Employees CU, Lansing, MI
- Jeff Taylor, senior economist, NAFCU, Arlington, VA
- Tun Wai, director/research and chief economist, NAFCU, Arlington, VA

The Credit Union Economics Group (CUEG) is a working group of credit union officials 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.

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