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## **NEWS RELEASE**

**Credit Union Economics Group (CUEG)**

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**Editor's note:** Photo attached

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### **Key Economists Stress the Need for More Aggressive Pricing Strategies in Light of the Rising Cost of Funds**

(LAS VEGAS, NEVADA)—Three distinguished members of the Credit Union Economics Group (CUEG) today assessed the lending, liquidity and economic trends expected to influence credit union balance sheets for the remainder of 2005 and the first half of 2006. Addressing an audience of more than 400 attendees at WesCorp's *Credit Union Outlook 2006* at The Venetian Resort in Las Vegas, the group forecasted a growth rate of 3.4 percent for the remainder of 2005, CPI at 3.3 percent, a fed funds rate of 4 percent, and loan and share growth of 9.6 percent and 5.4 percent respectively.

Organized in April of 2003, CUEG provides consensus macroeconomic forecasts and industry trend analyses aimed at helping credit unions with their planning and operations. Representing CUEG at today's session were Jeffrey Taylor, senior economist with the National Association of Federal Credit Unions; Bob Burrell, executive vice president and chief investment officer at WesCorp; and, Scott Mainwaring, president/CEO of VyStar Financial Group, LLC.

In his macroeconomic overview, Taylor reported that while Hurricane Katrina's impact on the U.S. economy is meaningful, its effects are manageable. "Markets have so far said that, yes, things are bad in the short term but we're not panicking," he said. Taylor sees the hurricane causing slower growth and higher inflation during the third and fourth quarters of 2005, and faster growth and higher inflation over the first half of 2006. He expects that its economic impact will have largely faded by the end of 2006.

Turning to liquidity in the credit union system, Burrell called everyone's attention to the rising cost of funds. "The cost of funds bottomed out a couple of quarters back and is going up and will continue to go up," he said. "One of the risks I see for 2006 is that we will have to be a little bit more aggressive on the pricing side of deposits."

Overall, while Burrell believes liquidity will be a concern for some credit unions, he does not see it to be as serious as many may think for the credit union industry. "Look what happened in the last four years, we have grown or have picked up \$87 billion in

excess liquidity,” he pointed out. “So we’re in a much stronger liquidity shape today than we were four or five years ago.”

In capping off the discussion, Mainwaring said, “The last couple of years we’ve seen three to four to five percent more loan growth than deposit growth and at this point it looks like that will continue for the rest of 2005.” He went on to say that low rates are helping with this trend and with the ten-year treasury at four and one quarter, expect low rates to continue for the rest of this year and into 2006.



CUEG Members discuss Katrina and cost of funds at WesCorp’s *Credit Union Outlook 2006*. Pictured (from left) are CUEG members Scott Mainwaring, Bob Burrell and Jeff Taylor and moderator Dwight Johnson.

He also highlighted auto sales, saying that they have been coming back in recent months, with the second quarter showing especially strong numbers. Mainwaring believes companies are focusing less on the financing end of it and more on the pricing, such as employee pricing. “This should help us continue to get a pretty good share of the auto lending market because we won’t have to compete so much with those low-rate financing deals,” he said.

In the home equity area, Mainwaring reported that even though rates have increased, rates are still very low historically. He also spoke about the many alternatives in the home equity area such as the popular interest-only option. “We’re also seeing many consumers using home equity loans to consolidate other debt and buy cars,” he said. “We expect this trend to continue the rest of the year and into 2006 as well.”

Dwight Johnston, V.P. Market and Economic Research at WesCorp, moderated Tuesday’s CUEG panel discussion.

The Credit Union Economics Group (CUEG) is a working group of geographically dispersed 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.

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](http://www.cueg.org).

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