

**CUEG**  
**CREDIT UNION ECONOMICS GROUP**

**NEWS RELEASE**

**Credit Union Economics Group (CUEG)**

**www.cueg.org**

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**CUEG MORE PESSIMISTIC IN ECONOMIC OUTLOOK**  
***Unemployment Woes Expected Well into 2010***

WASHINGTON – A group of the credit union industry’s leading economic observers are more pessimistic in their second quarter forecast on the economy compared to their assessment at the end of the first quarter.

The Credit Union Economics Group, which announced its second quarter forecast at NAFCU’s Annual Conference in National Harbor, Md., expects deeper contraction in economic growth in 2009 and less of a recovery in 2010.

“Though our forecasts for inflation and interest rates are fairly benign, we do have concerns about rate spikes due to the crowding-out effect of global fiscal stimulus with borrowed money,” said Dave Colby, CUNA Mutual Group chief economist. “Interest rate spikes would trigger rapid declines in consumer spending and sharply increase the risk of a double-dip recession.”

CUEG’s outlook for unemployment was also more negative with the unemployment rate expected to exceed 10 percent later this year and a good share of 2010.

“Rising unemployment is continuing to have a dampening impact on consumer demand and consumer lending,” said Eli Vazquez, SVP/chief financial officer, American Airlines FCU. “Low interest rates, however, have presented credit union members with a great opportunity, which is reflected in increased mortgage lending and refinancing activity at many credit unions.

While CUEG’s inflation outlook was basically unchanged between quarters, interest rates on longer-term instruments were up 40 to 45 basis points. Overall, CUEG economists see the recession hitting a trough by year-end, but a rapid recovery isn’t anticipated.

During a CUEG panel discussion at NAFCU’s annual conference, Tun Wai, NAFCU’s chief economist, told attendees to expect more accommodative actions by the Federal Reserve in the near term, and borrowers’ ability to

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repay may not improve for some time. “Credit unions should consider this time as an opportunity to deepen relationships with their members because long-term relationships are built on loans made to borrowers when they need it the most,” Wai said.

Joining Wai in presenting at NAFCU’s conference was John Kutchey, deputy director, NCUA Office of Examination and Insurance. Kutchey told attendees it will be crucial for credit unions to exercise balance-sheet flexibility, given the uncertain times.

“With economic uncertainty in the coming years, the ability to quickly adjust their share and loan mix is key to profitability and stable net worth.” Kutchey said this will be particularly important as the economic policies enacted to stabilize the nation’s financial system are adjusted in future periods.

“It is unclear what impact those adjustments will have on interest rates and economic performance, so given the uncertainty this presents, flexible balance sheets are an important part of each credit union’s strategic planning.”

The Credit Union Economics Group is a working group of credit union officials located throughout the country who are dedicated to the current and future financial well being of the credit union movement. 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 national and 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 quarterly consensus macroeconomic and industry-trend forecast, available at [www.cueg.org](http://www.cueg.org).

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CUTLINE: Pictured below (from left) are John Kutchey, NCUA, and Tun Wai, CUEG member, during the CUEG panel discussion at NAFCU’s 42<sup>nd</sup> Annual Conference.

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