

Economic and Banking Condition Update



Mutuals Savings Association Advisory Committee

April 4, 2023

Supervision Risk & Analysis



Key Takeaways

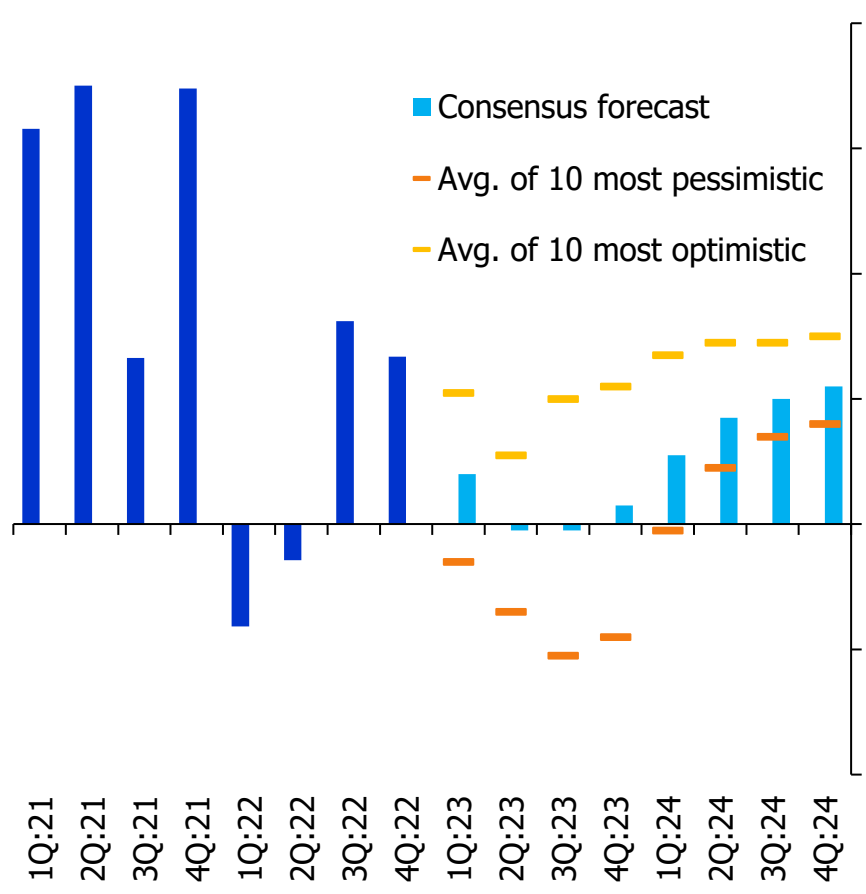
- Leading (statistical) indicators suggest recession, but it's not here yet
 - Inflation has cooled, but remains well above Fed's target
 - Markets reacted quickly to financial market volatility, but forecasts don't yet align to the FOMC message of "higher for longer"
- After a period of faster, more wide-spread home price growth than in the previous housing boom, housing prices now moderating
 - Declines have been particularly pronounced in areas where the price growth was fastest
 - While individual markets may vary considerably, at the national level only modest declines expected, without erasing all the gains of the past couple of years
- Mutual bank loan growth accelerated and NIM improved over the last year
 - Compared to its peers, the impact of rate hikes on investments more muted for mutuals
 - So far, deposit betas resemble the 2015 cycle which is below other community banks

Agenda

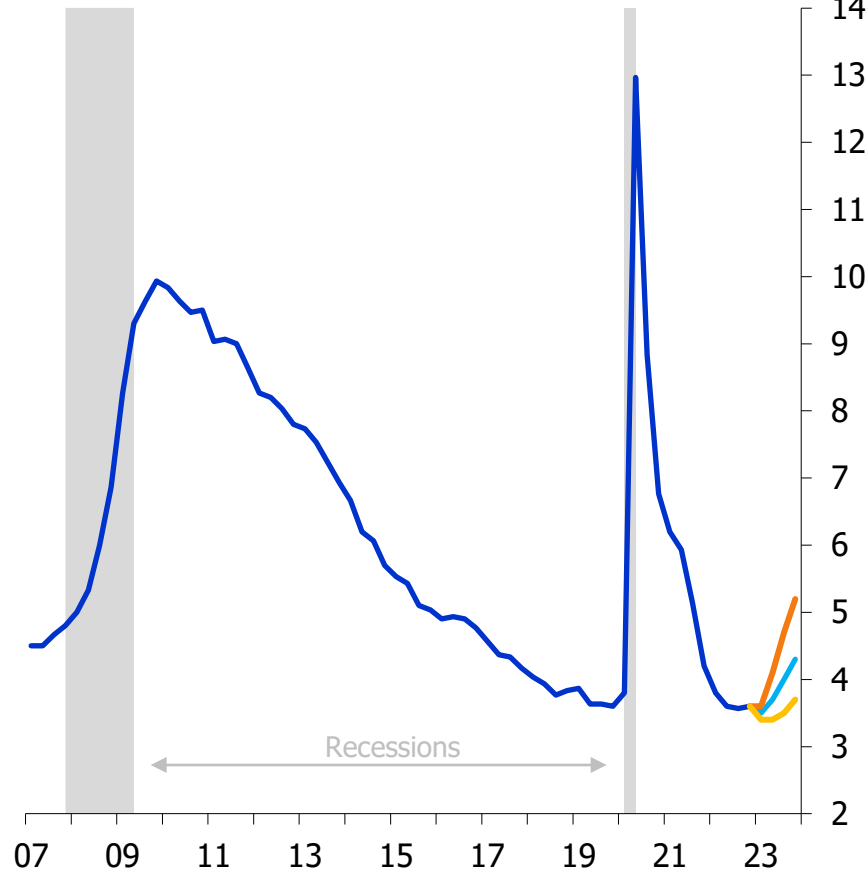
- U.S. economic conditions
- Real estate
- Mutual bank condition

Most forecasters calling for a weak economy in 2023; unemployment expected to increase mildly to 4.3%

Real GDP, % change from prior quarter at annual rate



Quarterly average unemployment rate, %

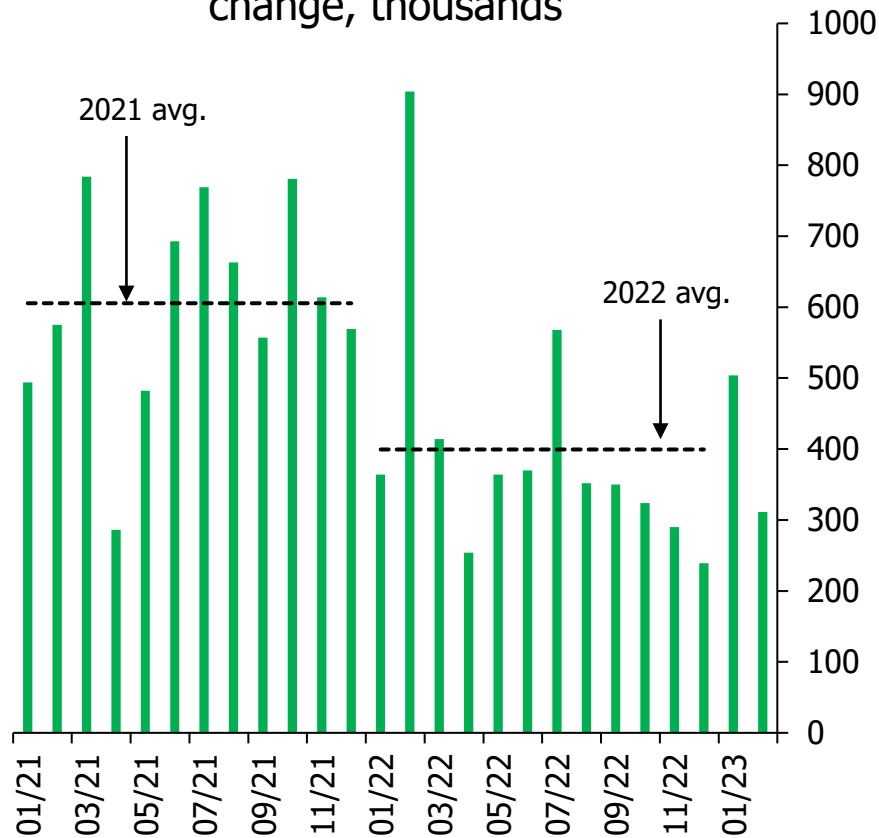


Sources: BEA (4Q:2022), BLS (4Q:2022); Blue Chip Economic Indicators (March 2023)

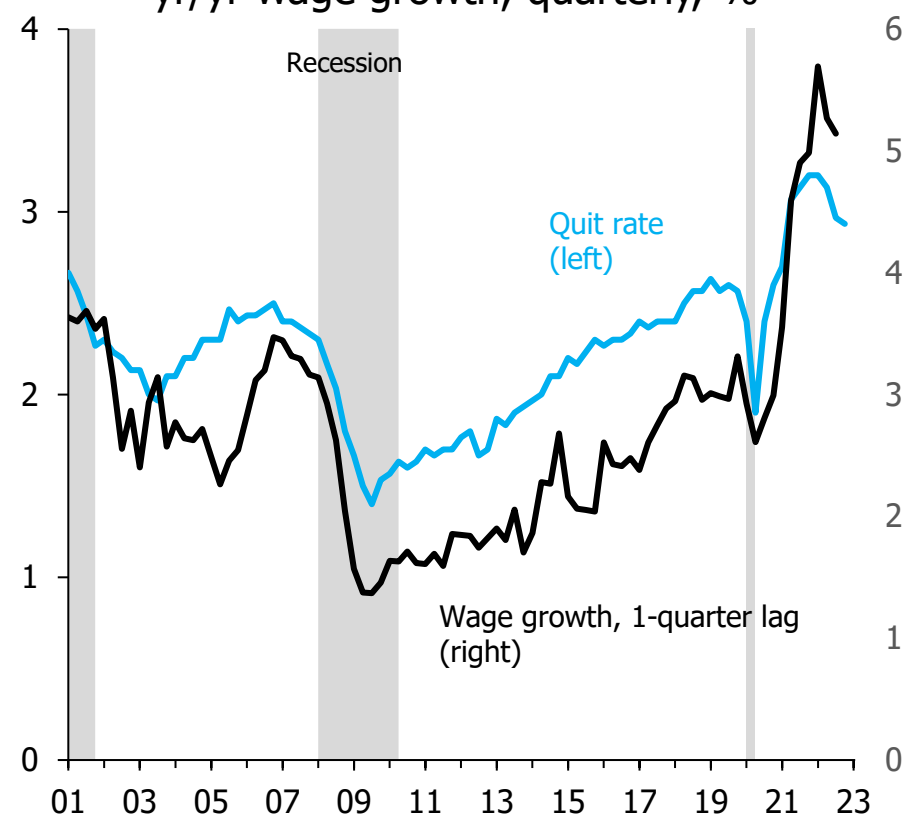
Labor market still strong, but quits rate is easing, which should slow wage growth

Slower wage growth will help reduce inflationary pressure

Total nonfarm employment, monthly change, thousands



Private sector quit rate and yr/yr wage growth, quarterly, %

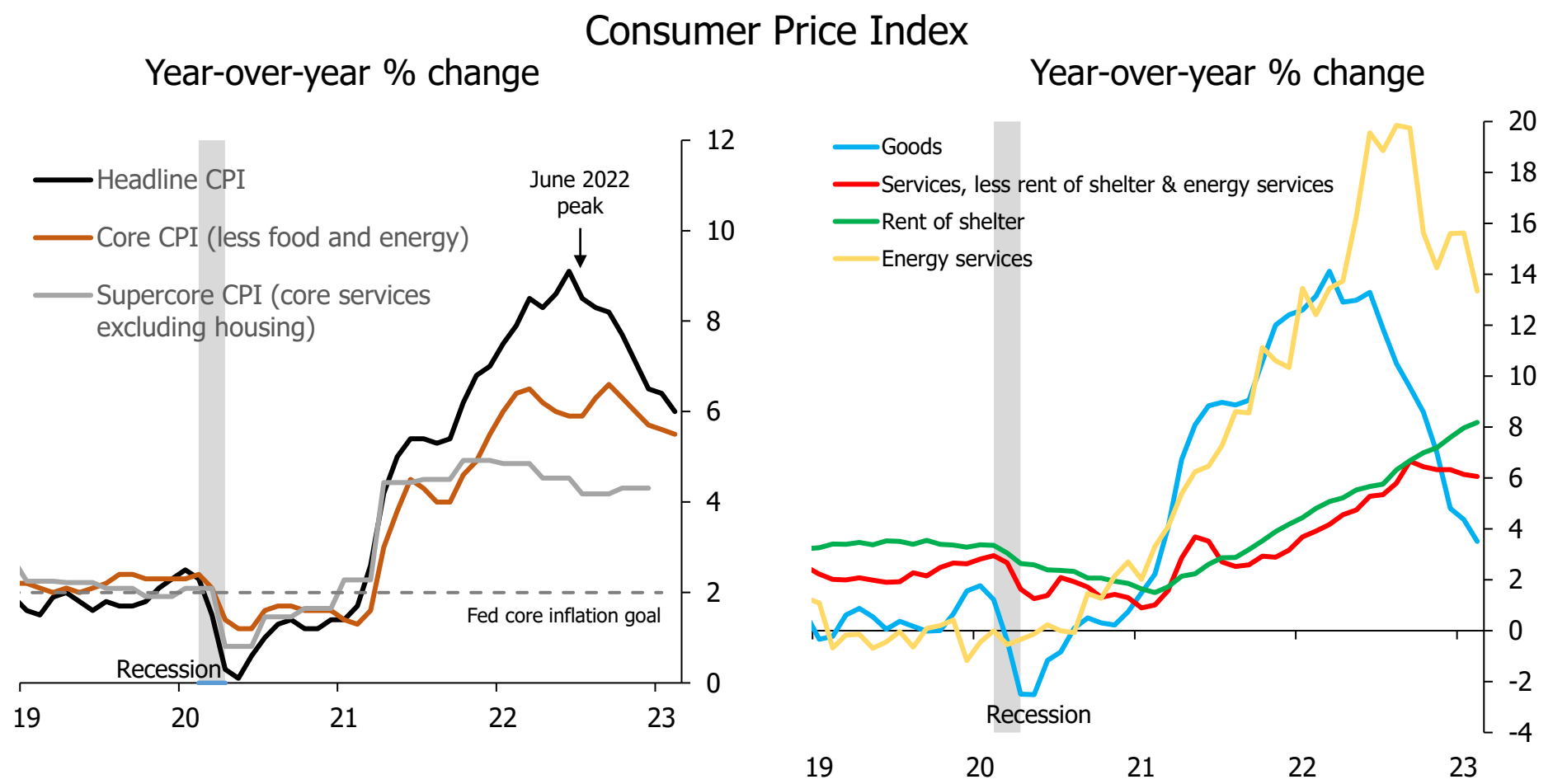


Source: BLS (Employment Cost Index and JOLTS survey data through 4Q:2022)

Note: quit rate is the number of voluntary quits as a percent of total employed

Inflation has cooled since its June 2022 peak, led by a decline in goods' prices over the last 6 months

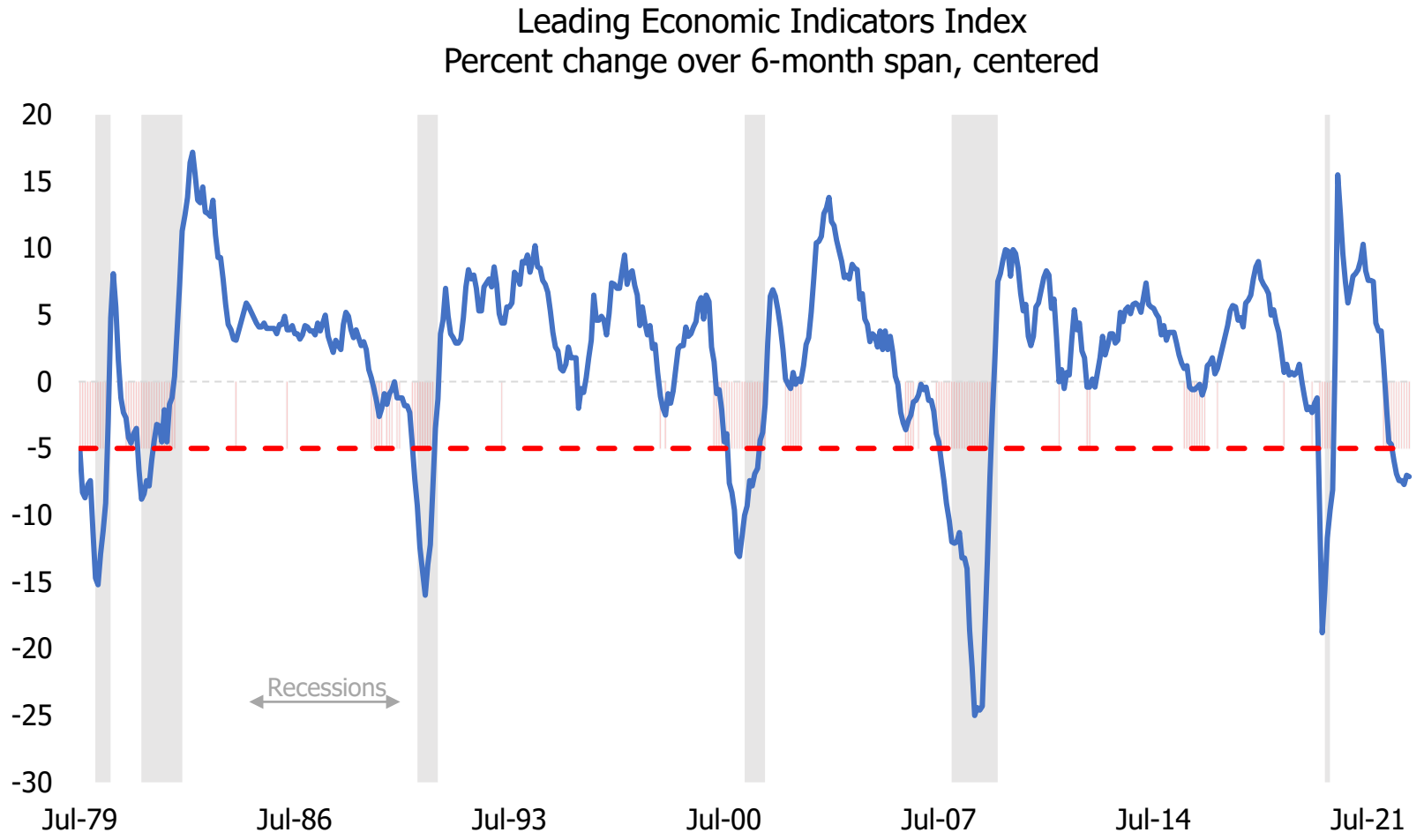
But... "supercore" measure remains well above Fed's target



Source: BLS/Haver (data through February 2023)

Haver Analytics has calculated a core CPI measure that more closely aligns with the PCE series for core services excluding housing (supercore) which has been cited by Fed Chair Powell as a key inflation series to follow.

Leading (statistical) indicators suggest recession, but it's not here yet

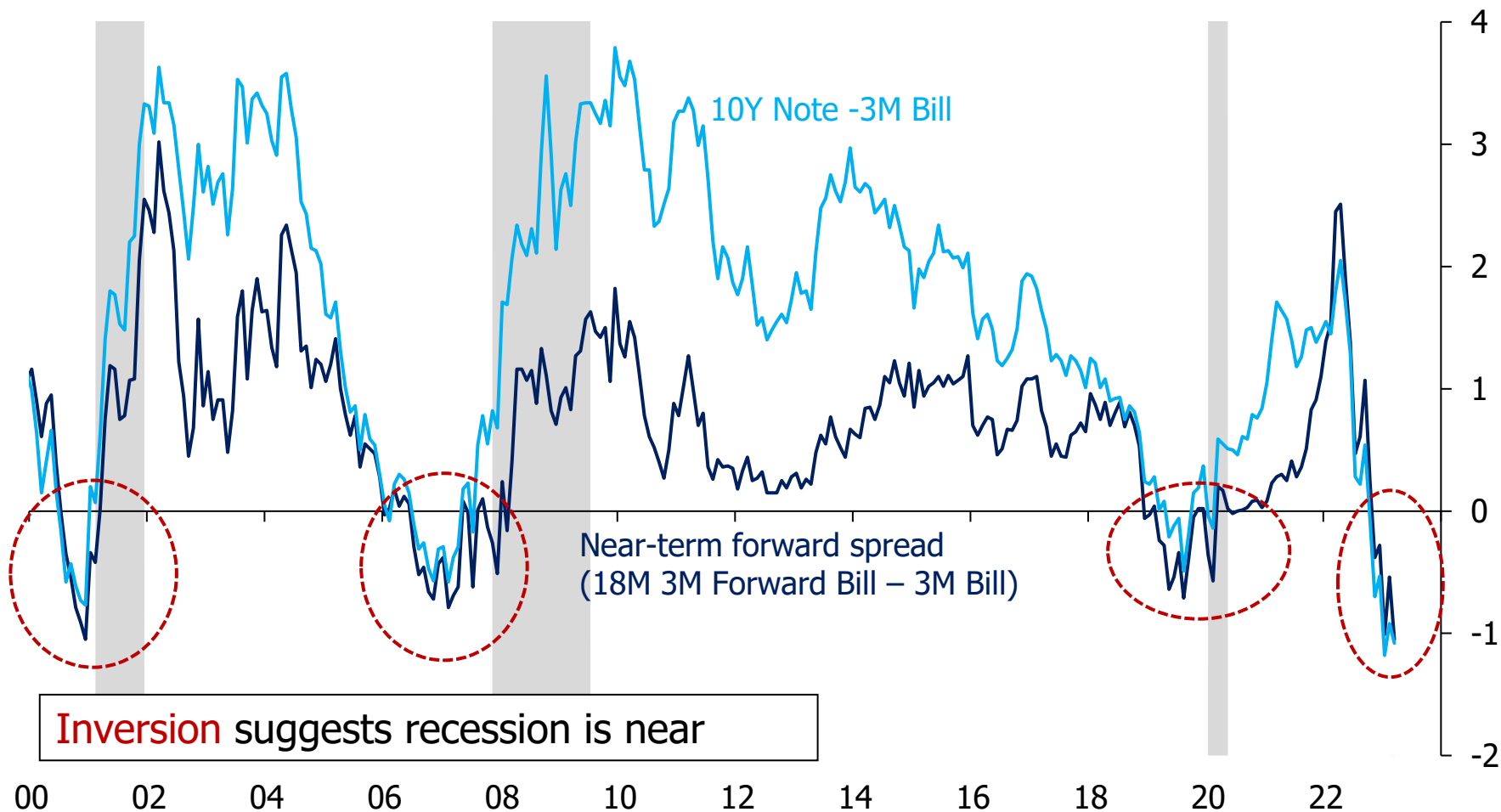


Sources: The Conference Board/Haver
(sentiment data through February 2023)

Note: The percent change and diffusion index are over a 6-month span and centered. Diffusion index measures proportion of components that are rising. (Data through February 2023)

Treasury yield curve inversion suggests increasing likelihood of recession in 2023

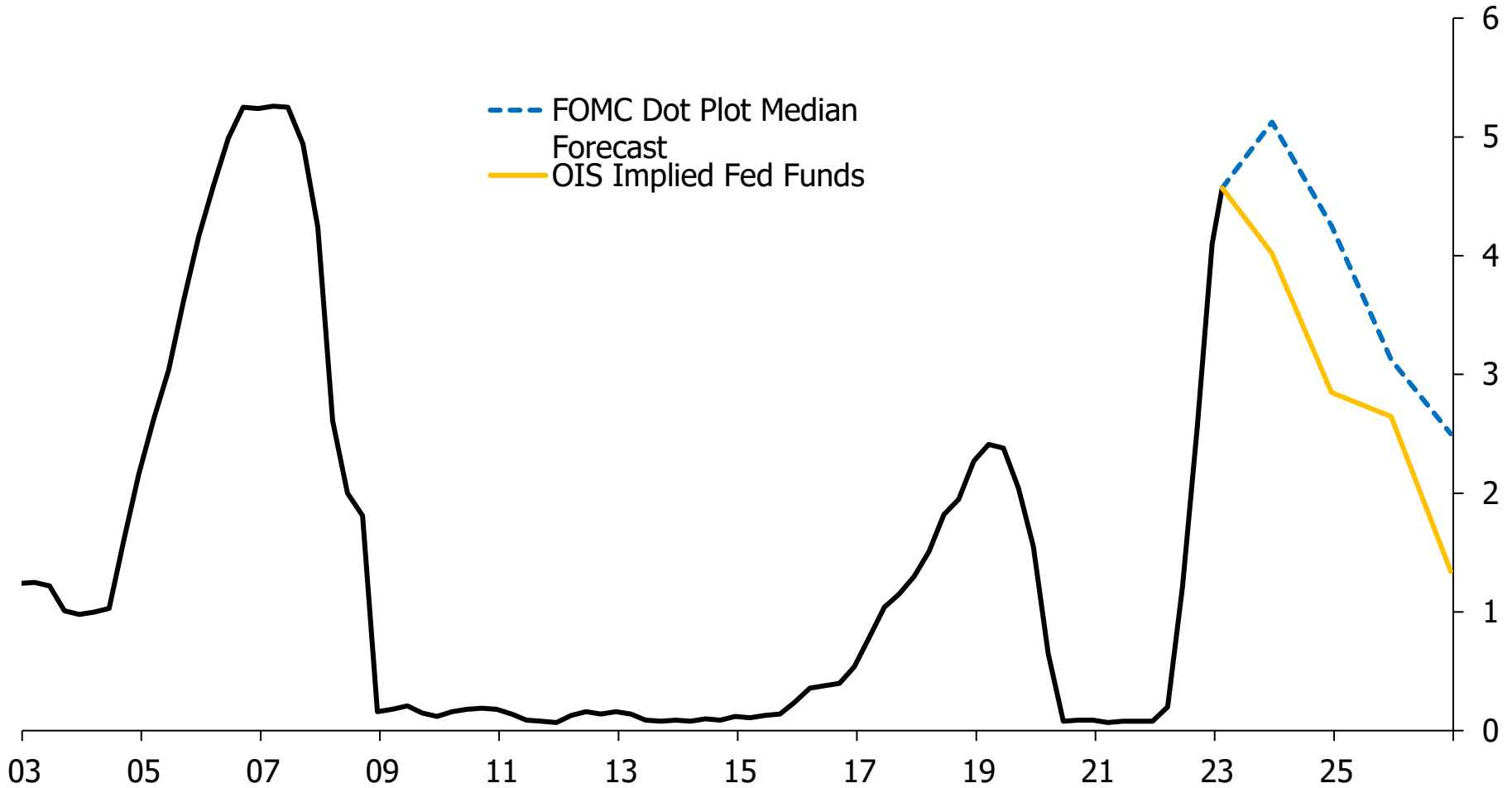
Treasury Term Spreads, Percent



Source: Federal Reserve Board; Haver Analytics (Monthly Data EOP as of March 17, 2023).

Markets pricing more aggressive rate cuts than dot plot forecasts

Effective Federal Funds Rate (Quarterly), Percent



Source: Federal Reserve Board; Bloomberg

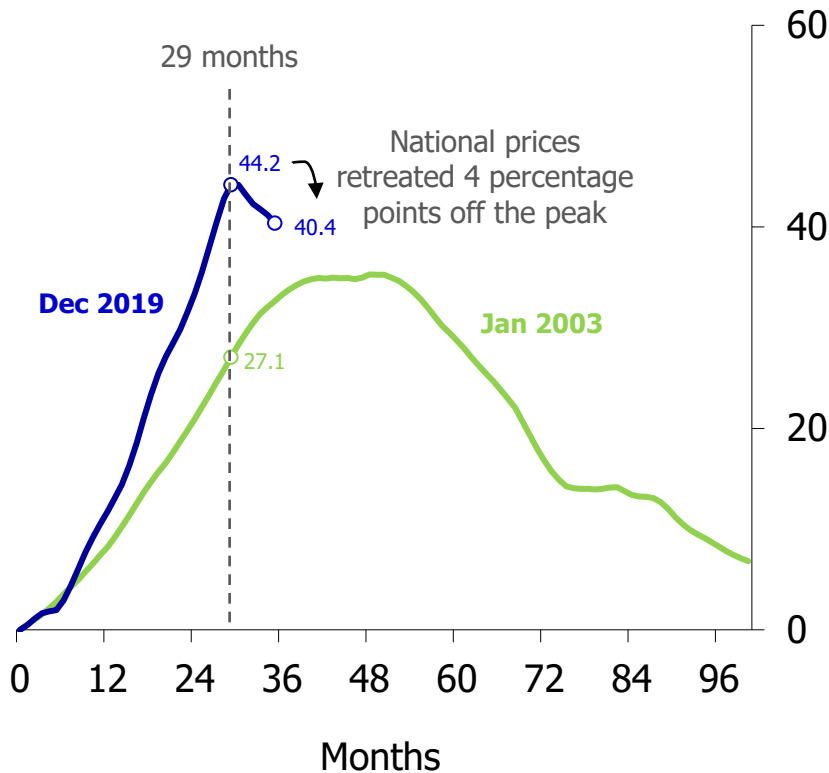
Note: Overnight index swap rate as of March 23, 2023. FOMC Dot Plot projection as of March 22, 2023.

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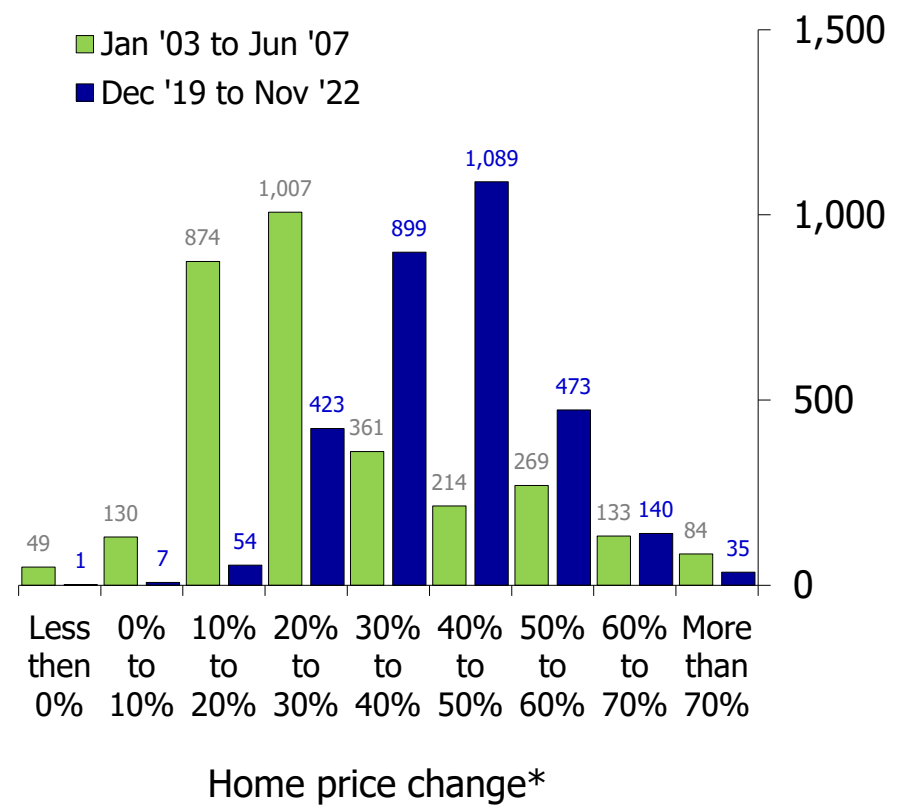
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Home price growth this cycle was faster, larger, and more widely dispersed than mid-2000s

Single-family home price changes, 2003 vs 2020, %



Single-family home price change, 2003 vs 2020, number of counties



Source: Black Knight (data through Nov 2022); and EBC calculations

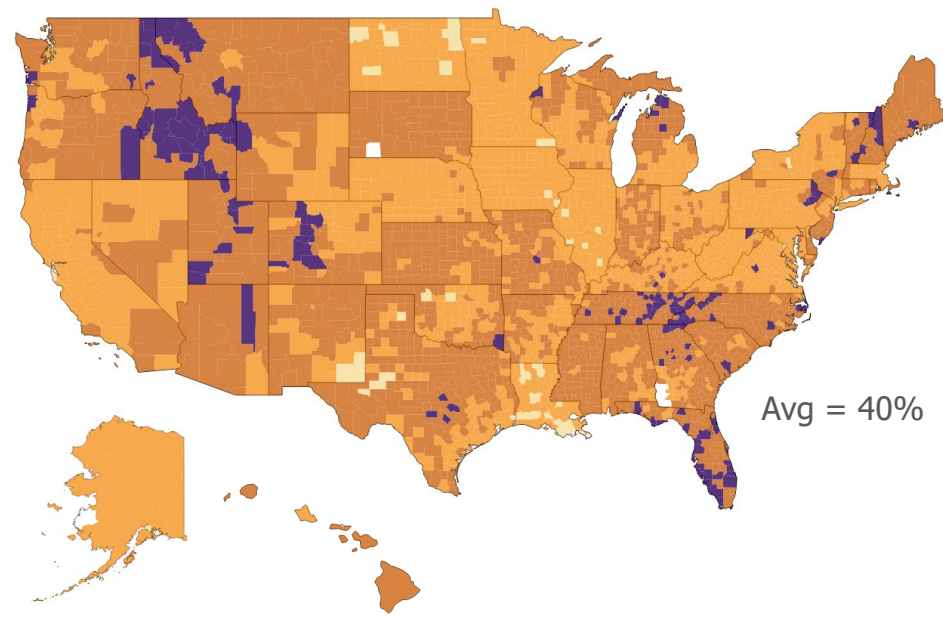
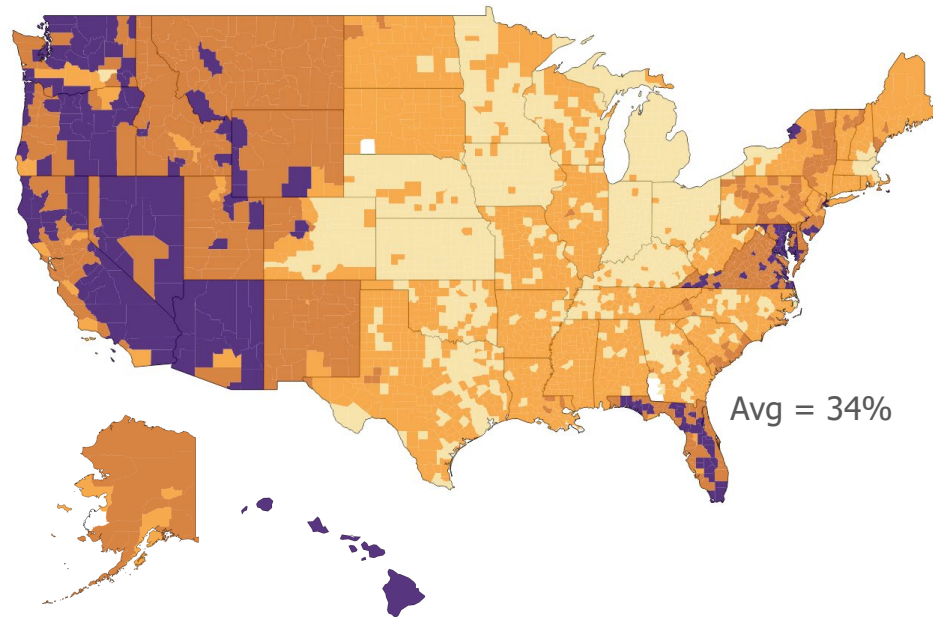
*Home price change measured from Jan 2003 to June 2007 and Dec 2019 to Nov 2022

Largest home price growth this cycle occurred in less populous counties and Florida

Single-family home price change, Jan 2003 to June 2007

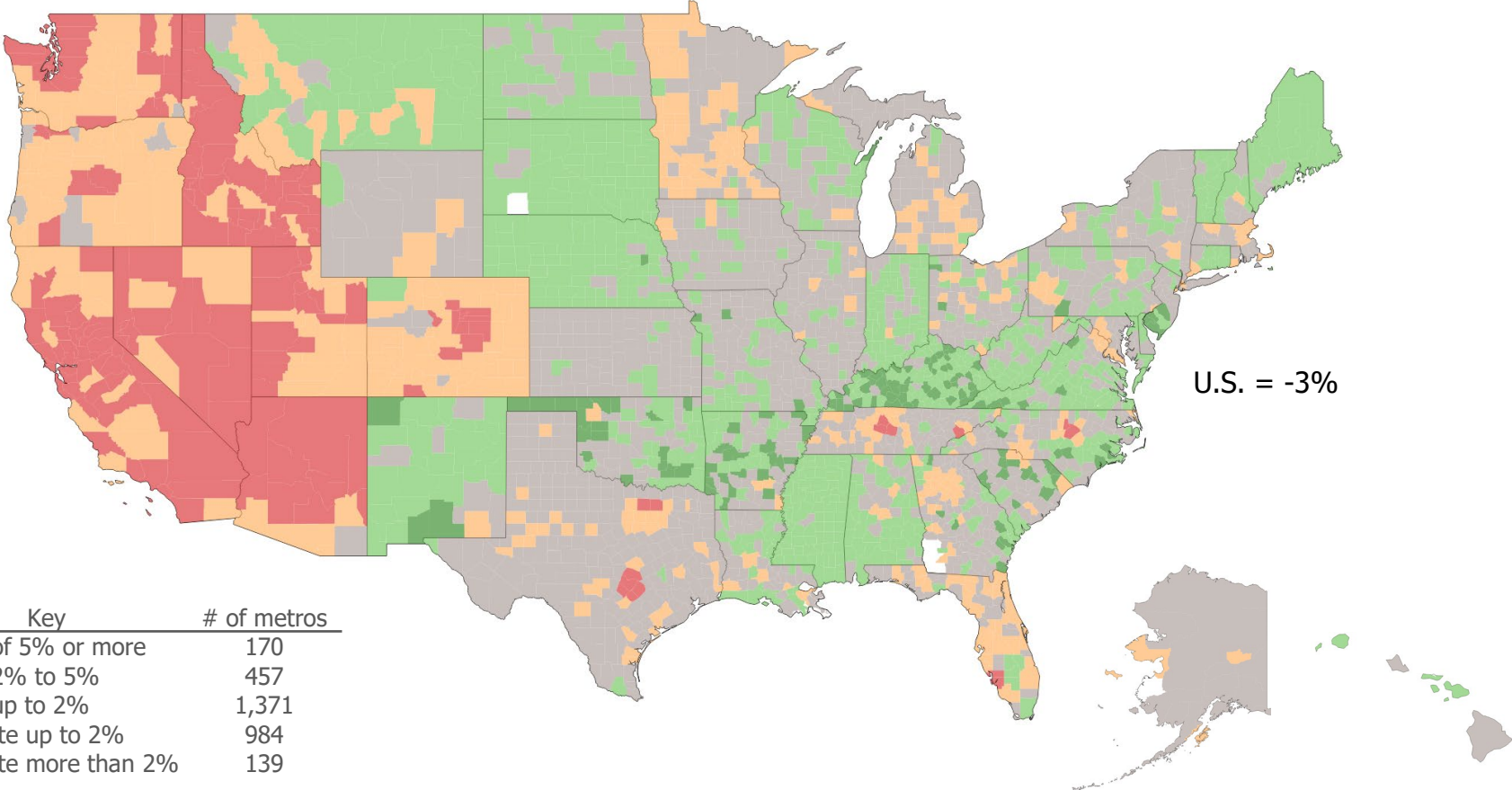
Single-family home price change, Dec 2019 to Nov 2022

Less than 20% growth 20% to 40% growth 40% to 60% growth More than 60% growth



Western metros reporting moderate home price declines from prior peak

Single-family home price index change from Jun '22 to Jan '23



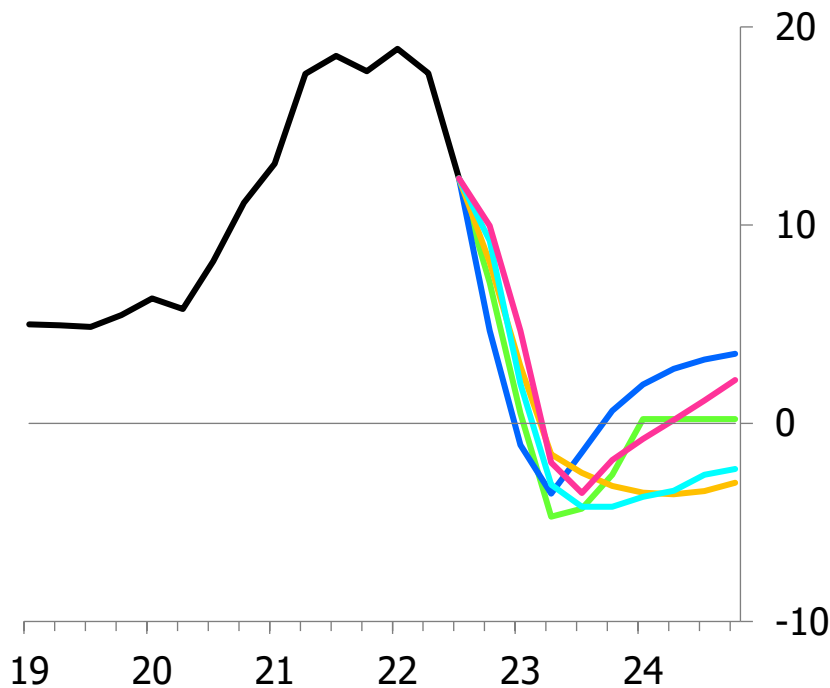
Source: Black Knight
(data through
January 2023)

Economists expect national home prices to moderate over next two years

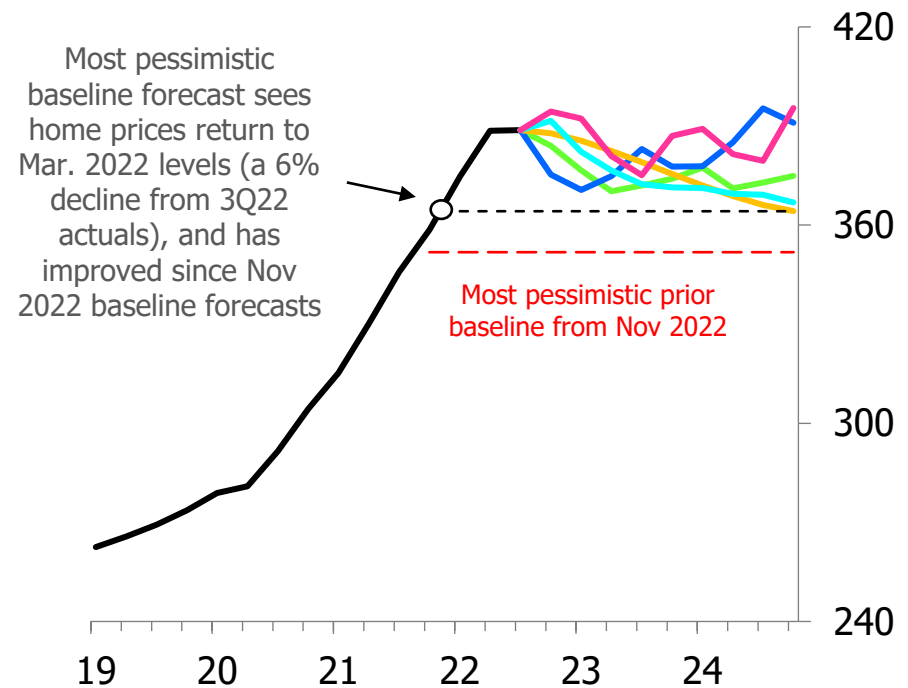
Single-family home price forecast

■ Economy.com
 ■ Fannie Mae
 ■ Goldman Sachs
 ■ Oxford Economics
 ■ Black Knight

YoY percent change, %



Home price index, 1991Q1=100

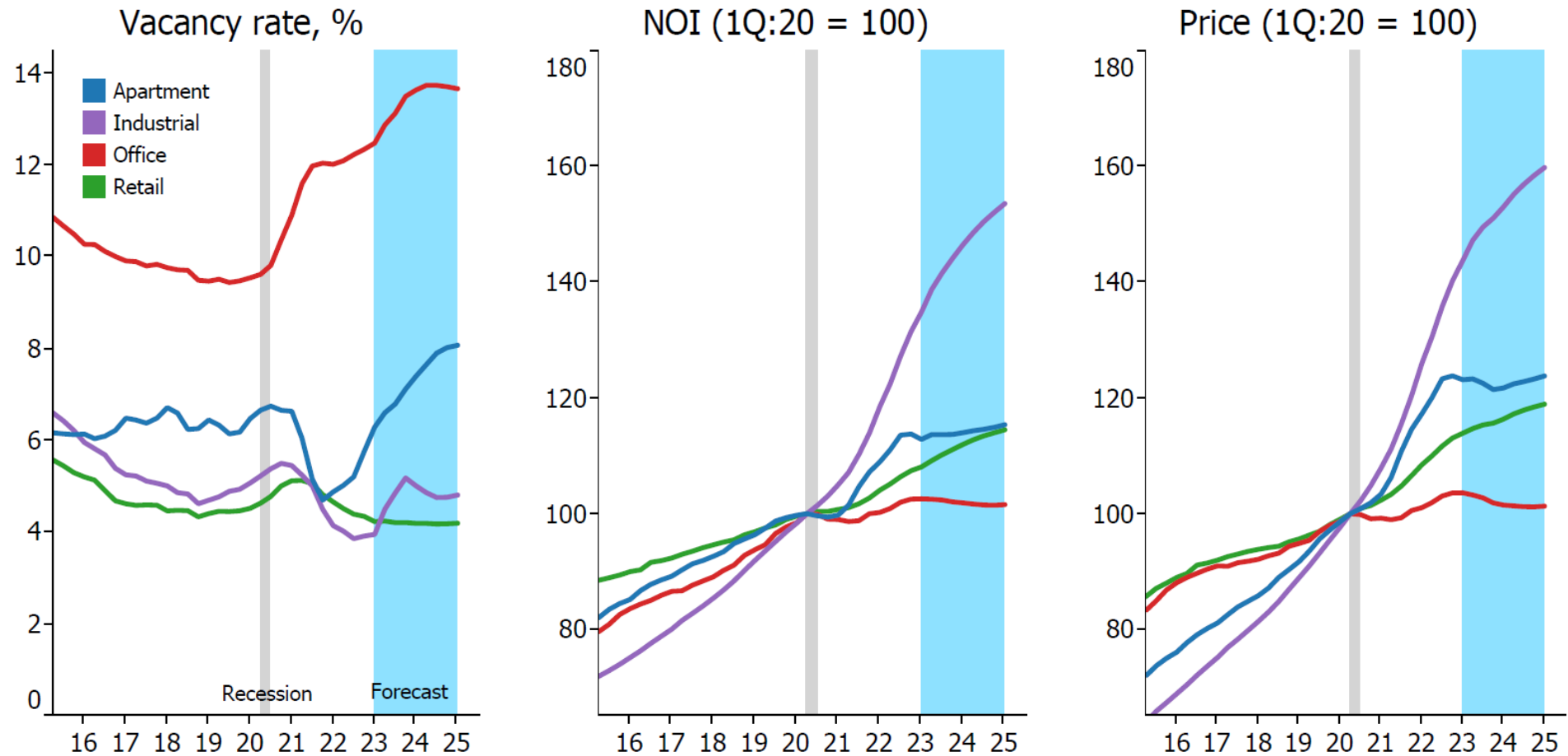


Sources: FHFA (data through 3Q:22); Black Knight (Dec. 2022 forecast); Moody's Economy.com (Feb. 2023 baseline); Goldman Sachs (Feb. 19, 2023 forecast); Fannie Mae (Feb. 2023 forecast); Oxford Economics (Jan. 2023 baseline)

Note: Historical HPI is based on FHFA single-family purchase-only index.

Deterioration in office and multifamily property performance forecast to continue in 2023

National CRE market fundamentals

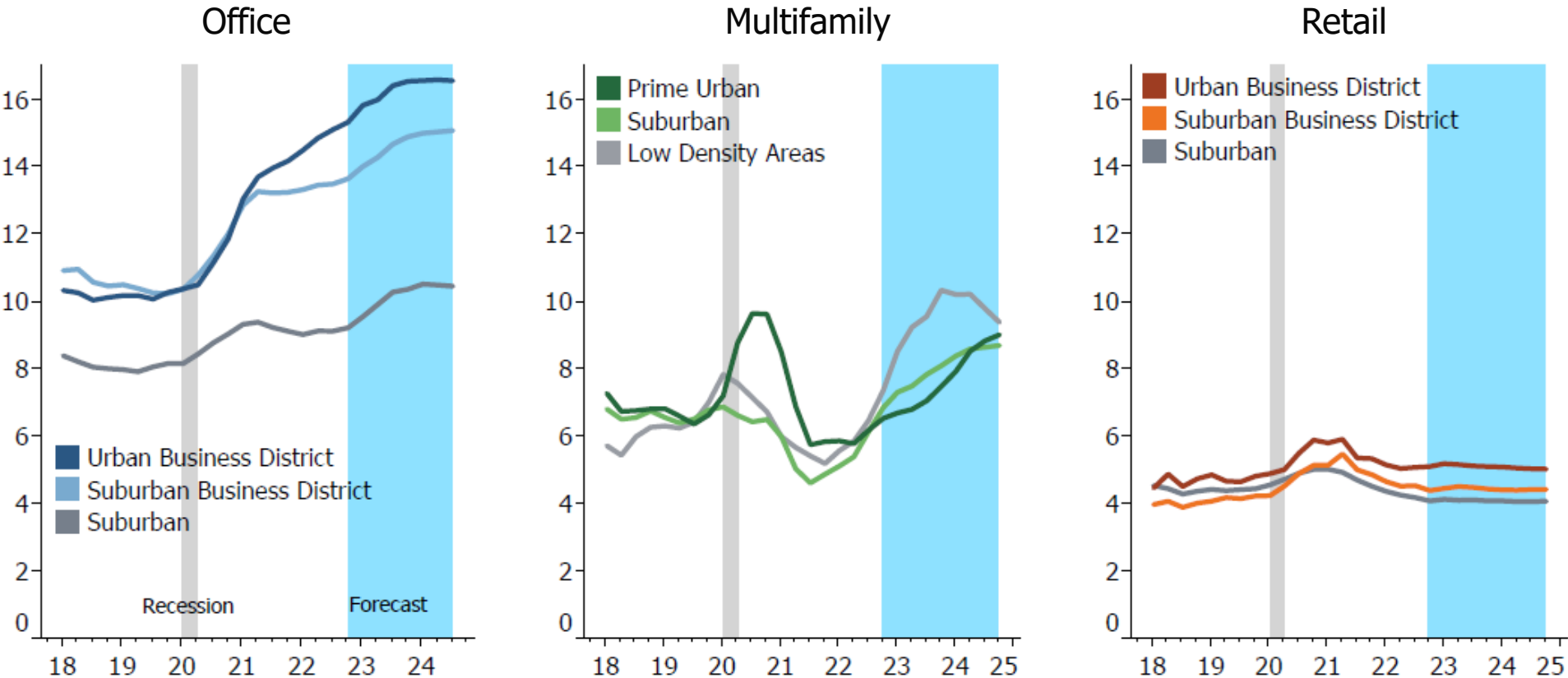


Source: CoStar Portfolio Strategy (historical data through 4Q:2022, baseline forecast updated January 2023)

Note: CoStar's baseline forecast expects a mild recession in 2023.

Office and retail vacancy rates in urban locations remain higher than those in suburban areas

National vacancy rates in urban vs suburban locations, %

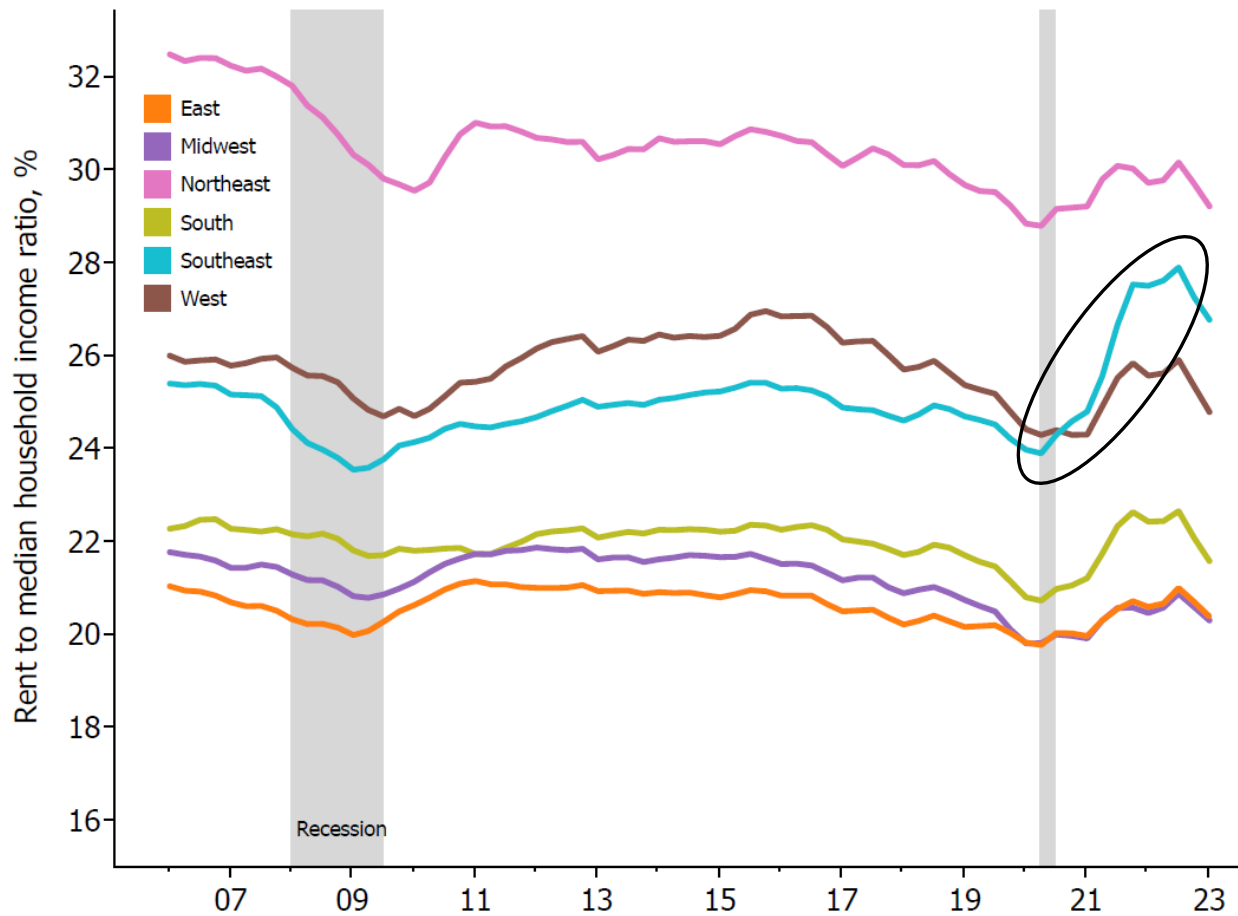


Source: CoStar Portfolio Strategy (historical data through 4Q:2022, baseline forecast updated January 2023)

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Apartment rental affordability deteriorated sharply in Southeast metros post-COVID

NE remains most expensive, but SE has narrowed the gap

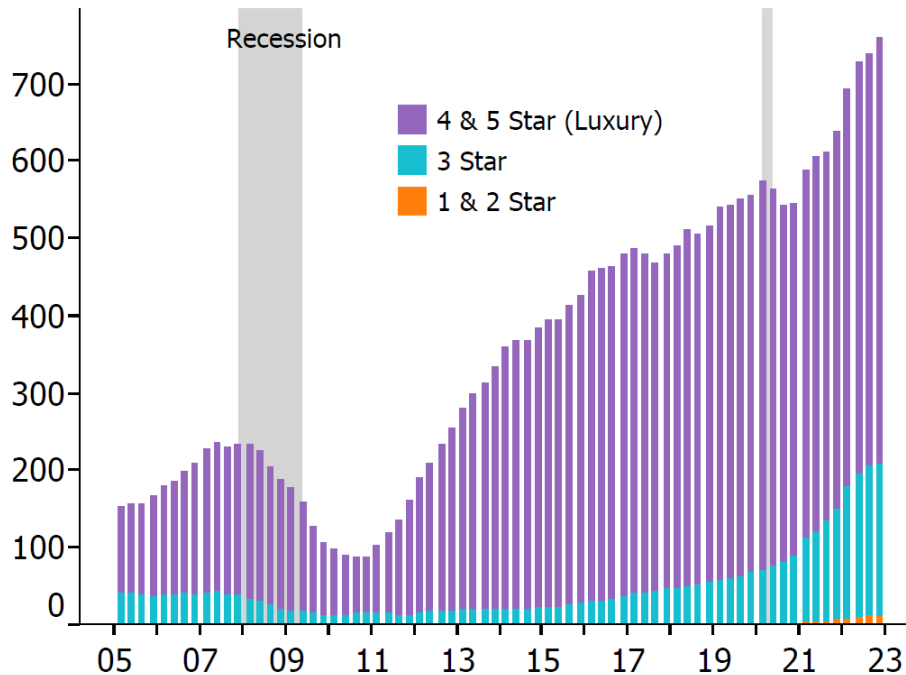


Source: CoStar Portfolio Strategy (data through 4Q:2022)

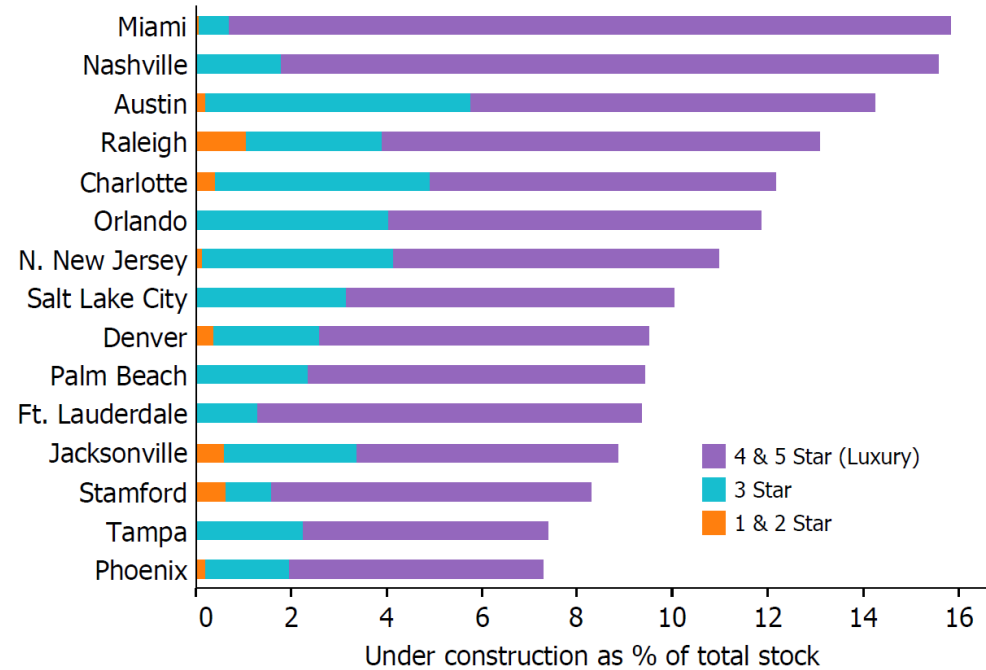
Historically high apartment construction pipeline will keep new supply flowing into the market

Southeast metros will have largest relative expansion of supply

Multifamily units under construction, 1,000s of units



Multifamily share of total stock that is under construction, %



Source: CoStar Portfolio Strategy (historical data through 4Q:2022)

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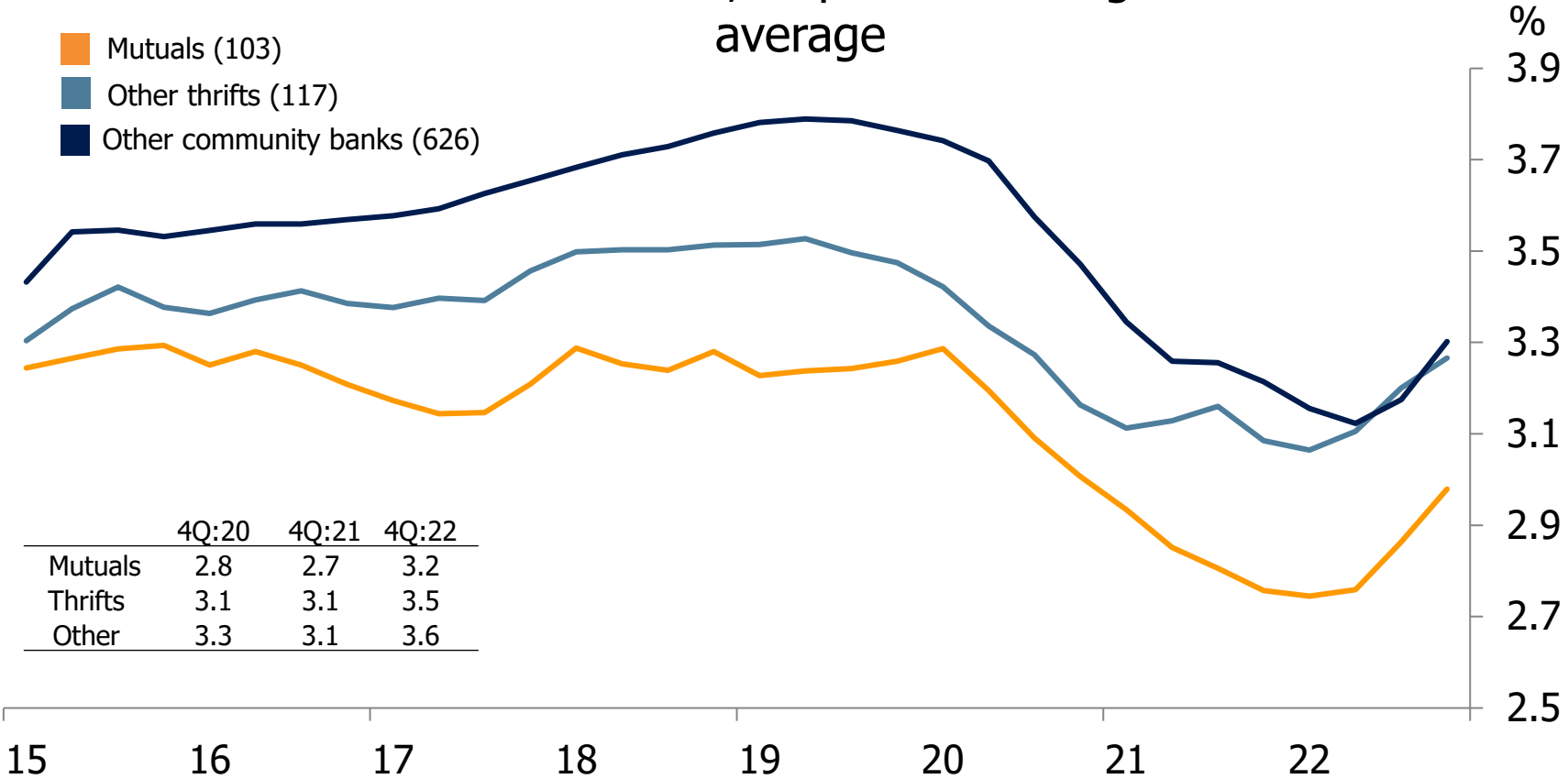
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NIM responding quickly to rising rates for all types of community institutions

FDIC-insured federal banking system, assets <\$5 billion

Median NIM, 4-quarter moving average

- Mutuels (103)
- Other thrifts (117)
- Other community banks (626)



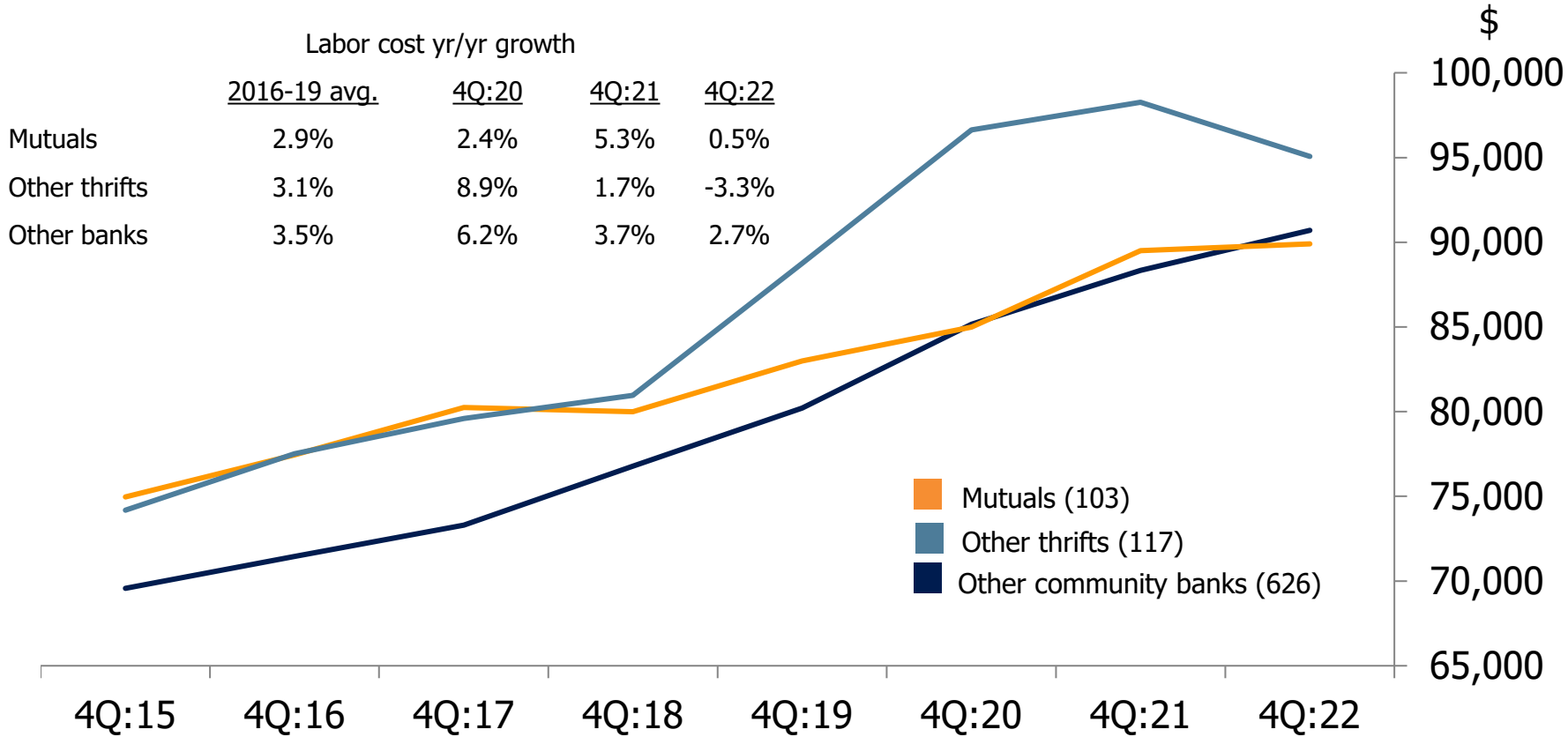
Source: Call Reports from OCC Integrated Banking Information System

Data are quarterly, merger adjusted for institutions in continuous operation from 1Q:15 to 4Q:22, and exclude specialists.

Salary expense now growing below pre-pandemic rate after elevated growth in the last two years

FDIC-insured federal banking system, assets <\$5 billion

Median annual salary and employee benefits per employee



Source: Call Reports from OCC Integrated Banking Information System

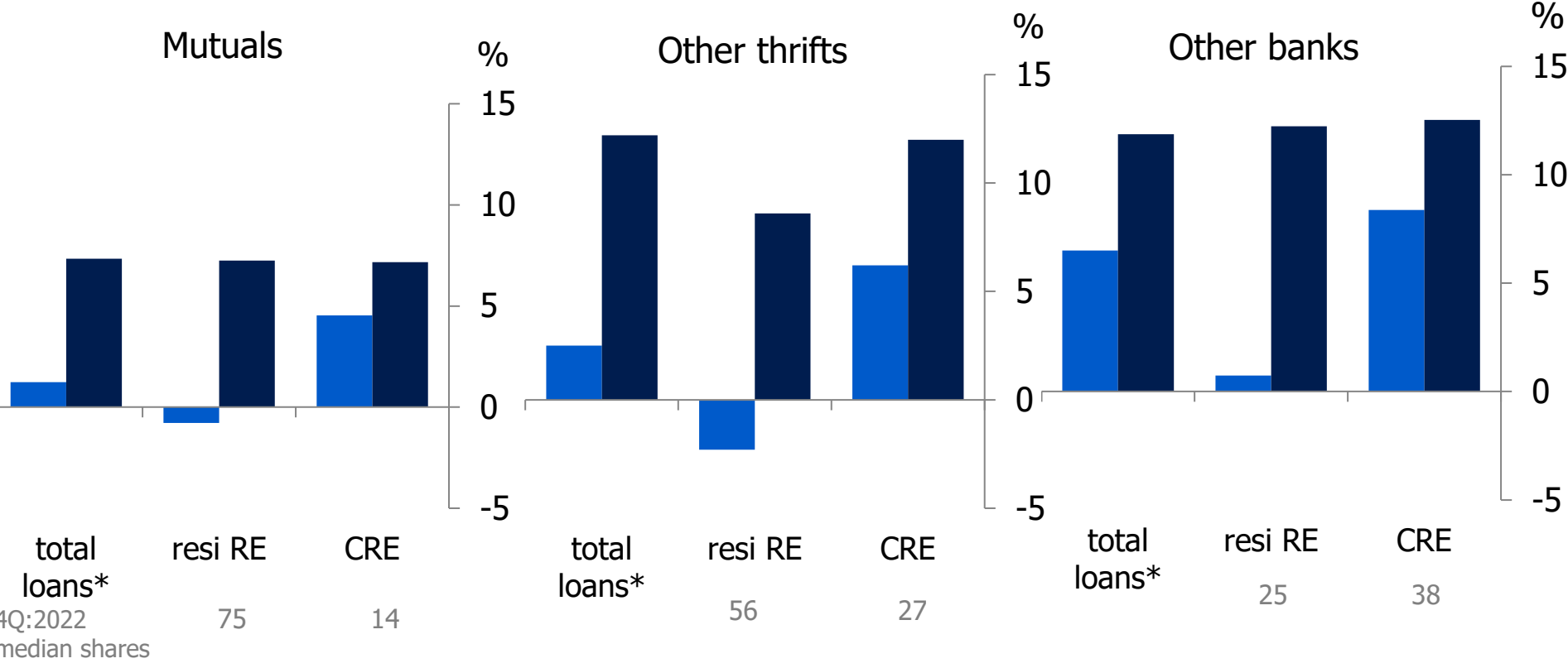
Data are shown for 4Q of each year. Data are merger adjusted for institutions in continuous operation from 1Q:15 to 4Q:22 and exclude specialists.

Loan growth accelerated significantly over the past year

FDIC-insured federal banking system, assets < \$5 billion

Median yr/yr loan growth, %

- 4Q:2021
- 4Q:2022



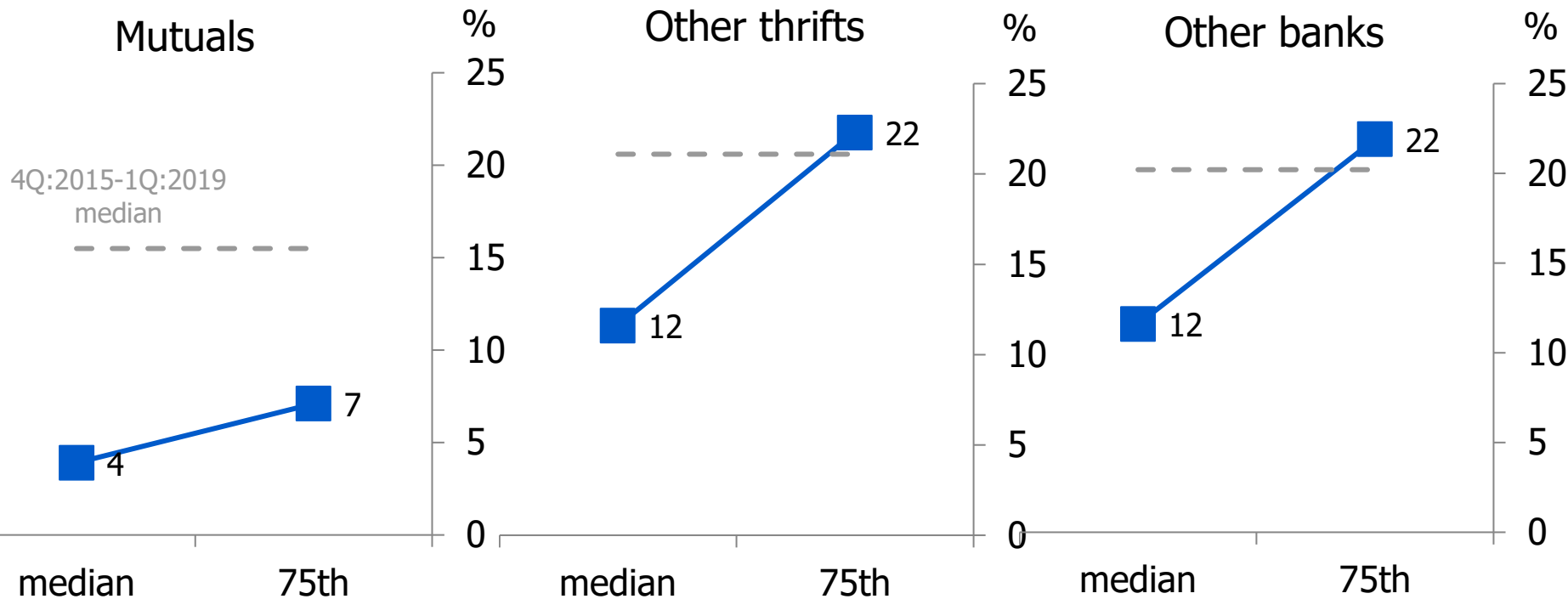
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Data are merger adjusted for institutions in continuous operation between 1Q:15 and 4Q:22. Data exclude specialists. *Data exclude PPP loans

Deposit betas below levels from last cycle, so far for the typical community banks

FDIC-insured federal banking system, assets < \$5 billion

Deposit betas*, 4Q:2021-4Q:2022



Source: Call Reports from OCC Integrated Banking Information System

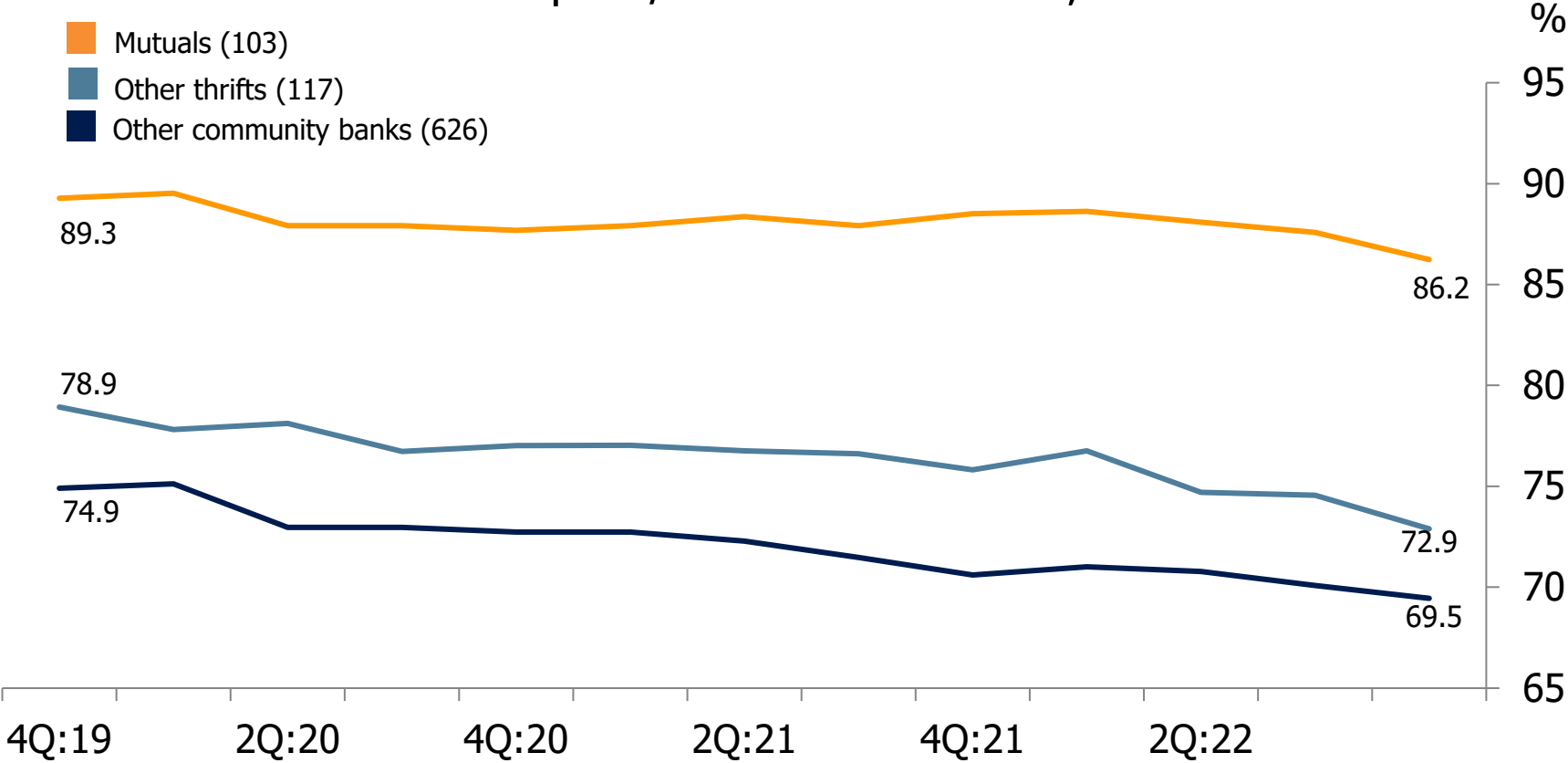
Data are quarterly and merger adjusted for institutions in continuous operation from 1Q:15 to 4Q:22.
* Beta = change in interest-bearing deposit expense/change in fed funds rate

Effective federal funds increase = 3.57%

Mutuals have maintained their higher share of insured deposits compared to their peers

FDIC-insured federal banking system, assets <\$5 billion

Insured deposit/Total liabilities ratio, median



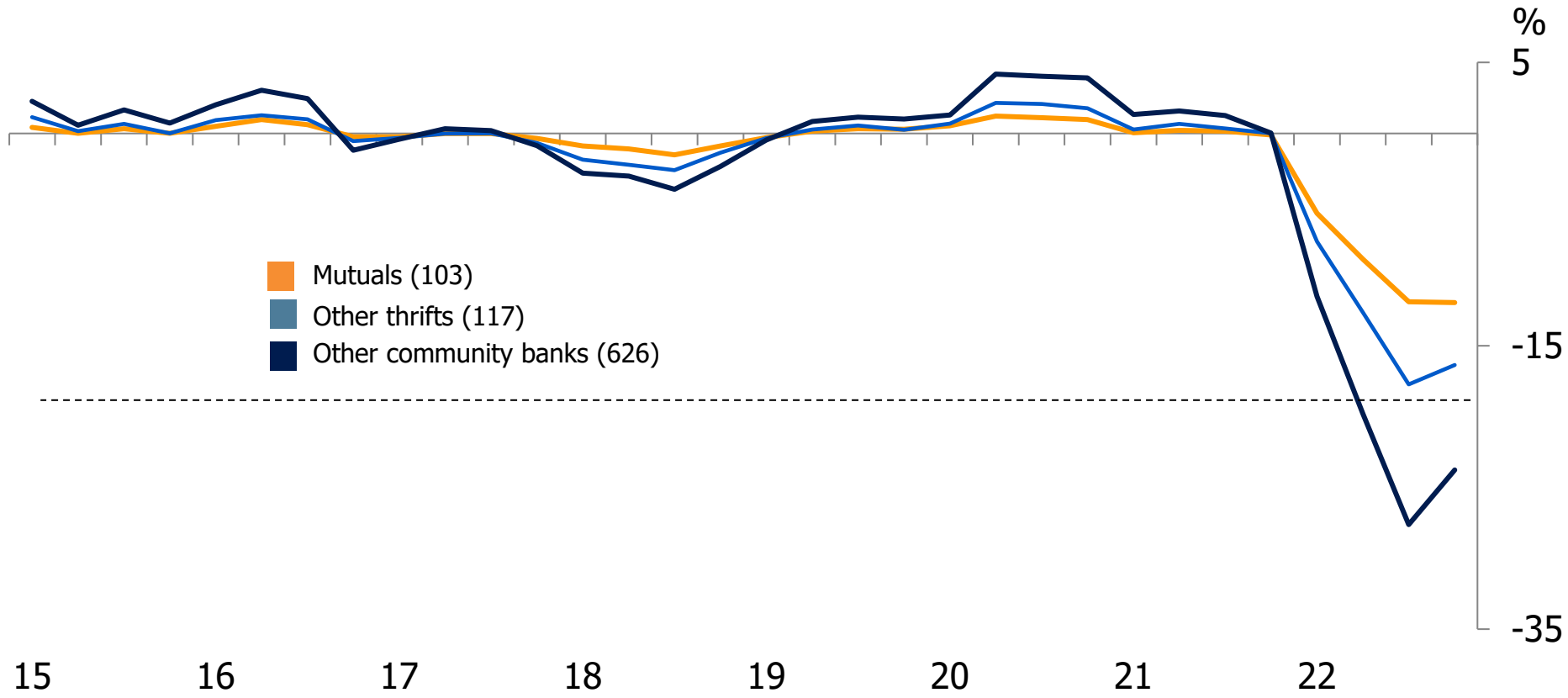
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Data are merger adjusted for institutions in continuous operation from 1Q:15 to 4Q:22 and exclude specialists and indexed to 4Q:2019

After reaching a plateau in Q3, there was some relief in investment valuations at the end of 2022

FDIC-insured federal banking system, assets < \$5 billion

AFS + HTM portfolio change, % of Tier 1 Capital



Source: Call Reports from OCC Integrated Banking Information System

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