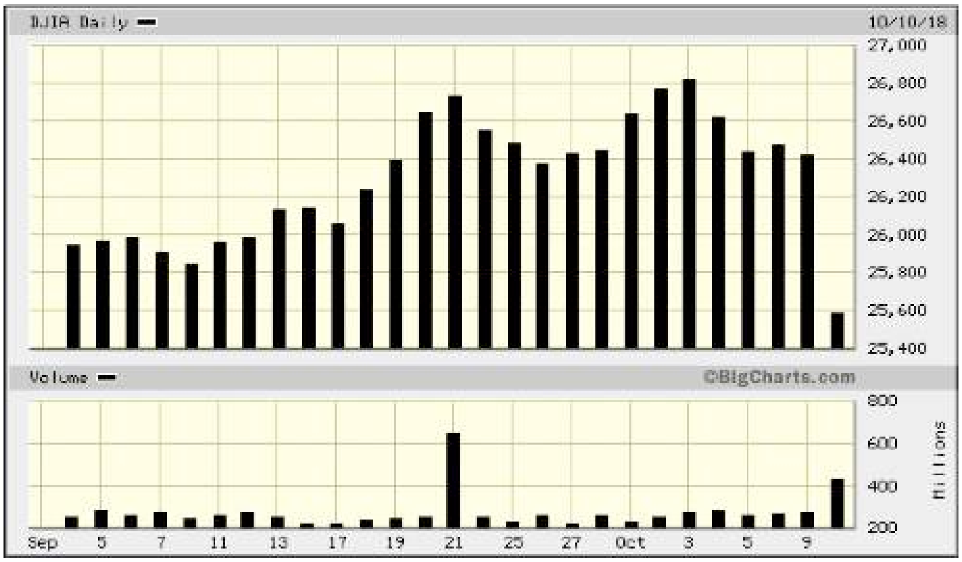
1st Nor Cal®
1ST NORTHERN CALIFORNIA CREDIT UNION

QUARTERLY UPDATE
SEPTEMBER 2018

ECONOMIC UPDATE

At their meeting at the end of September, the Federal Open Market Committee (FOMC) did raise rates again and also signaled that they will continue to raise rates as long as the economic indicators are telling them to. The economy has been strong, the unemployment rate is at the lowest that it has been in 49 years, and there are even some signs of wage inflation beginning. The FOMC is just prudently employing one of its "tools" to ensure that the economy does not become overheated and the repercussions (e.g., out of control inflation) of an overheated economy are not in the country's best interests.

However, the stock market is not pleased with the FOMCs actions as it focuses on corporate profitability. Rising interest rates will lead to higher borrowing costs for corporations, and stock investors are worried that the "gravy train" is over. By mid-October, the stock market's lack of enthusiasm for the FOMC's actions was clearly evident as the Dow Jones Industrial Average (DOW) tumbled. Wall Street's reaction to the rising interest rates is evidenced by the DOW chart. The stock market dramatically fell on October 10th, and now the big question is whether this drop is a temporary "correction" and over-reaction to the rising interest rates or if the decline is the beginning of a downward trend. Most economists are currently feeling that it is a temporary overreaction but that the growth of the economy will begin to slow in 2019 and even more so in 2020.

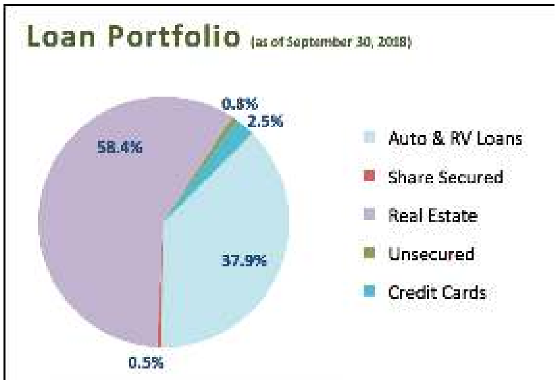


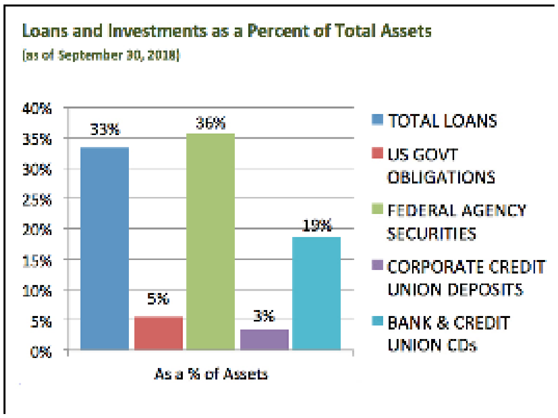
On the state level and local level, the economy continues to be strong in most areas though it shouldn't be ignored that California also ranks high in most poverty rate measures. While California is a very rich state, the high cost of living means that many residents are just barely able to afford to pay for food and shelter. The most significant reason for the high cost of living is the prices of housing which most economists agree is a result of restrictive regulatory practices and so many current homeowners fighting new housing development in their communities.

Continued on next page >>

Key Figures (as of September 30, 2018)

Assets	$709,191,310
Deposits	$628,722,698
Loans	$236,051,500
Capital Ratio	10.67%
Branch Locations	5
Surcharge-Free ATMs	30,000
1st Nor Cal ATMs	10
Members	29,273
Employees	68





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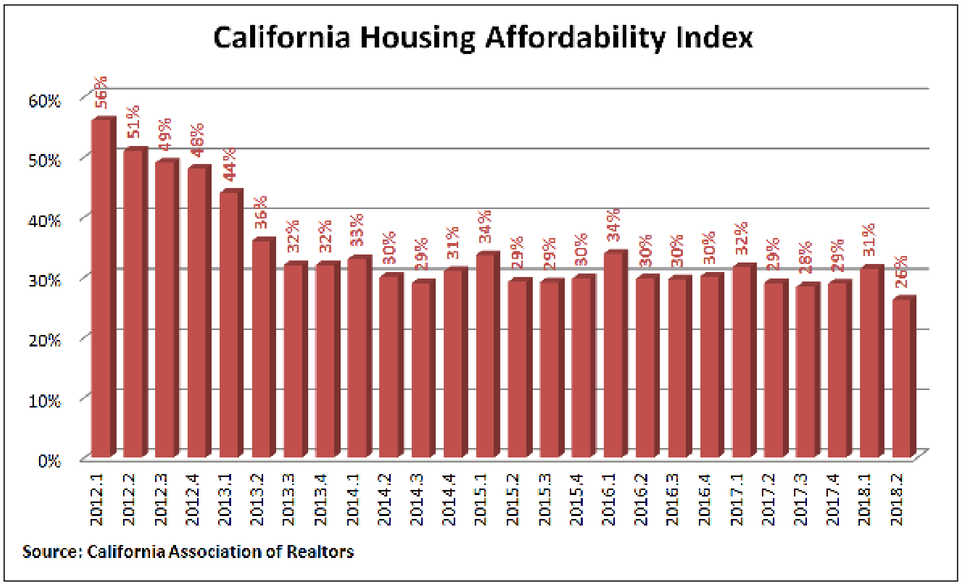
The following chart from data compiled by the California Association of Realtors is a good example of the lack of housing affordability in the state. The chart tracks the percentage of people who have the ability to afford mortgage payments.



Compounding the rising cost of living has been the escalating cost of gasoline. In "normal" years, consumers could expect to see gasoline prices decline after the summer vacation period as demand for gasoline fell. This year, the demand for gasoline has fallen as is normal but the price of oil has continued to rise due to uncertainty in the oil market of how hard the impacts will be on Iranian oil production when the United States sanctions hit that country in November. At this point in time, no other oil producers have indicated that they will produce more oil in order to offset the drop in Iranian oil production and so the oil market is assuming that the oil supply will tighten and are bidding-up the price of oil in anticipation of high demand for a dwindling supply of oil.

Statement of Condition

as of: September 30, 2018

Loans (net)	$234,768,326
Investments & Cash	448,853,236
Fixed Assets (net)	2,455,640
Other Assets	23,114,108
Total Assets	**$709,191,310**
Member Shares	$628,722,698
Liabilities	4,785,410
Member Capital	75,683,202
Total Liabilities & Equity	**$709,191,310**

Income Statement

Year To Date as of: September 30, 2018

Loan Interest Income	$5,690,906
Investment Interest Income	5,041,872
Non-Interest Income	1,855,919
Total Income	**$12,588,697**
Operating Expense	$8,186,742
Dividends Paid To Members	1,728,907
Provision for Loan Losses	166,000
Total Expense	**$10,081,649**
Non-Operating Income (Expense)	1,728,908
Net Income	**$2,507,048**

The good news is that there are signs that wages are beginning to rise. Rising wages could, of course, lead to higher prices for food and other necessities, but the stagnation of wages has been a major concern during the growth of the economy over the last several years. More and more consumers have had to either stop adding funds to savings or have had to actually draw from savings in order to pay basic living costs. Some reasonable growth in wages is long overdue.

Your Credit Union encourages all members to sign onto www.1stnorcalcu.org and take a look at all of the available services and products that your Credit Union offers. Members have access to their accounts via home-banking or mobile phone or the old traditional way of visiting one of the offices. 1st Nor Cal offers lower loan rates, higher interest on deposits, and much lower fees as well as superior service.