

Banking Watch

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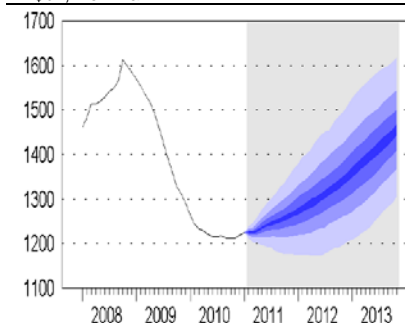
Bank Credit and Deposits: Monthly Situation Report

- Commercial banks divest \$25bn in consumer loans, triggering sharper YoY declines as firms charge-off effects of FASB changes
- Commercial and industrial lending increases MoM by \$4.8bn, less than previous month; positive YoY growth expected mid-2011
- Transactions deposits surprise to the upside, but increase cannot counterbalance slower savings and negative large time deposit growth

Commercial and Industrial (C&I)

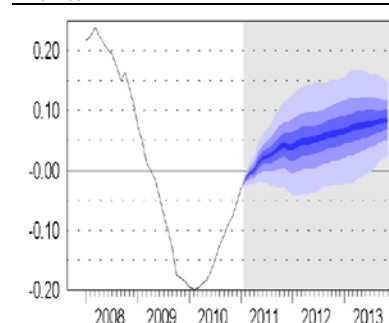
C&I increased by \$4.8bn over the previous month, almost half the pace of the \$8.8bn increase in December. C&I lending is getting closer to breaking out of negative YoY declines and we anticipate positive YoY growth in May. Risks are to the upside stemming from better-than-expected economic growth, confidence and investment. Nonetheless, we currently expect YoY C&I growth in 2011 to average around one-fifth of its historical average rate of 7.8% YoY, which puts the current situation in perspective. It is still encouraging, however, that we are approaching positive territory.

Chart 1
Commercial & Industrial
In \$bn, Nominal



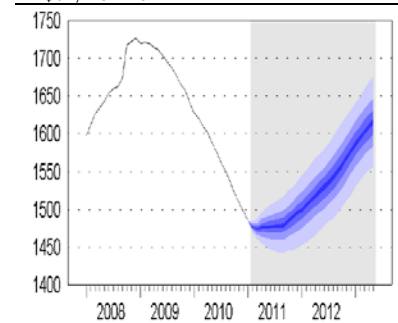
Source: BBVA Research

Chart 2
Commercial and Industrial
YoY %



Source: BBVA Research

Chart 3
Commercial Real Estate
In \$bn, Nominal

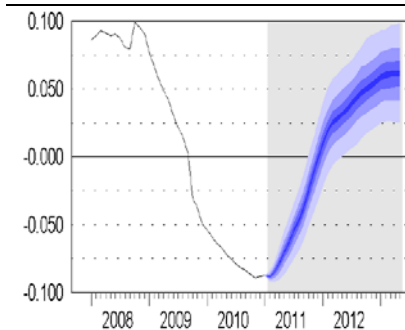


Source: BBVA Research

Commercial Real Estate (CRE)

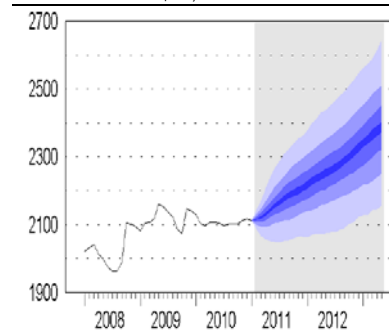
Although the deviations of CRE from the predicted forecasts are not large, the added sum of these errors are resulting in CRE staying along its bottom YoY growth for slightly longer than expected. This development so far does not alter our longer-term perspective of a return in 2012. Commercial real estate vacancies and returns on investment are not unfolding significantly from our expectations. Additions to service sector payrolls are still slow, negating demand for increased utilization of office and retail structures. Nonresidential structures investment remains low.

Chart 4
Commercial Real Estate YoY %



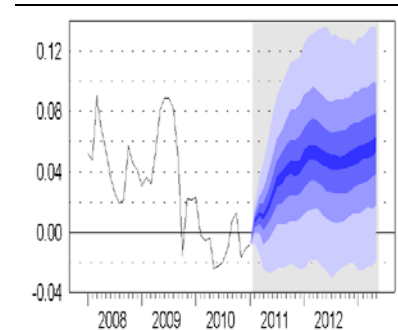
Source: BBVA Research

Chart 5
Residential In \$bn, Nominal



Source: BBVA Research

Chart 6
Residential YoY %

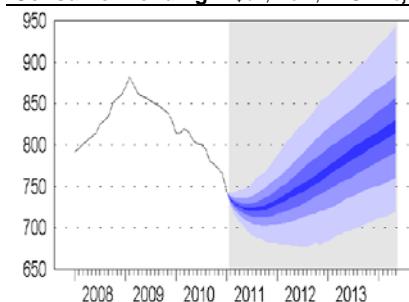


Source: BBVA Research

Residential

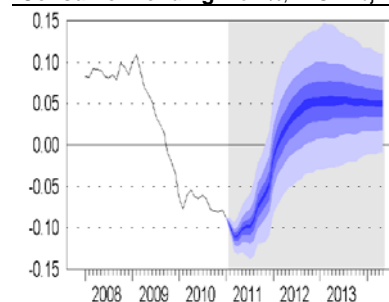
The recent Senior Loan Officer Survey offered a perspective on the supply side, indicating tightening of terms for residential loans. Trend home prices – depending on the index used – are declining. We maintain that eventually demographic factors will kick in to spur greater residential lending. A countervailing issue is the outlook for mortgage rates and the Federal Reserve's exit strategy. Naturally, the Fed will want to avoid sharp rises in mortgage rates, but this depends on the exit strategy.

Chart 7
Consumer Lending In \$bn, Nom, FASB Adj.



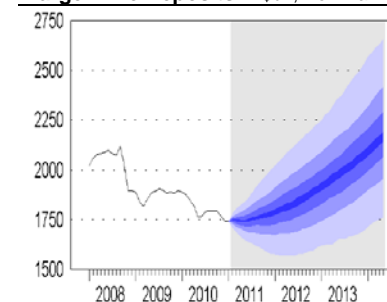
Source: BBVA Research

Chart 8
Consumer Lending YoY %, FASB Adj.



Source: BBVA Research

Chart 9
Large Time Deposits In \$bn, Nominal

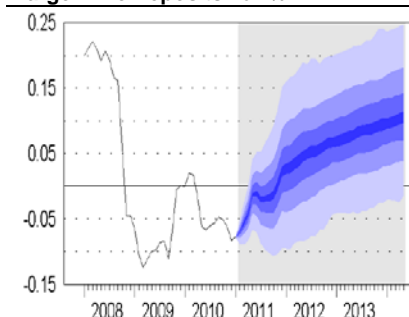


Source: BBVA Research

Consumer credit

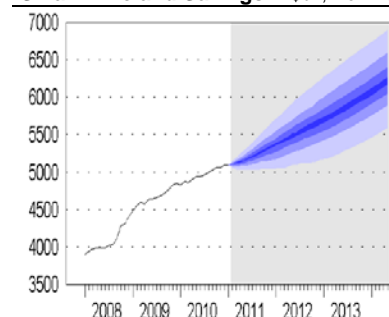
Commercial banks divested \$25bn in consumer credit to nonbanks in January. Combined with the seasonal adjustment this resulted in a \$47.5bn reduction in consumer credit. On a non-seasonally-adjusted basis, credit declined \$32bn MoM and \$58bn since April. After adjusting the series for the divestment (we already adjust it for FASB changes in March), our forecast suggests sharper continued YoY declines in consumer credit. Much of this represents commercial banks charging-off the effects of the accounting changes from March.

Chart 10
Large Time Deposits YoY %



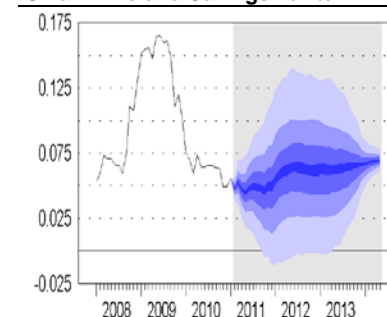
Source: BBVA Research

Chart 11
Small Time and Savings In \$bn, Nominal



Source: BBVA Research

Chart 12
Small Time and Savings YoY %

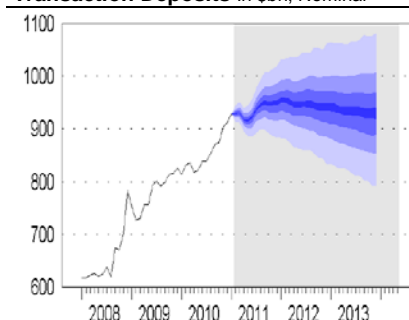


Source: BBVA Research

Deposits

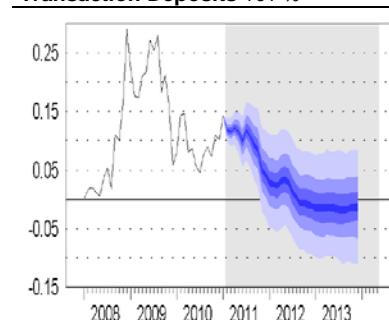
Transaction deposits feature as the main credit category surprising to the upside, though with greater consumer confidence and higher velocity of money we expect an eventual reversal of this trend. Small time and savings deposits grew at a YoY rate slightly below its trend. Large time deposits' growth entails risks to the downside given the likely result of interest rates remaining low for all of 2011. Large time deposits will continue to witness YoY declines. Overall deposit growth will trend upward from its currently-low rate over the course of the year.

Chart 13
Transaction Deposits In \$bn, Nominal



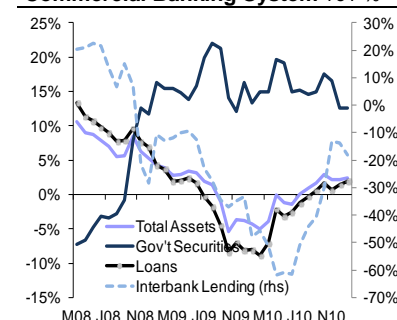
Source: BBVA Research

Chart 14
Transaction Deposits YoY %



Source: BBVA Research

Chart 15
Commercial Banking System YoY %



Source: Federal Reserve

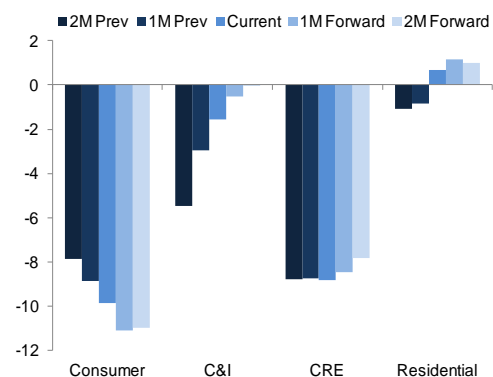
Table 1

Banking System Update YoY % Change

	Consumer	C&I	CRE	Residential	Small Time / Savings	Large Time	Transactions
Deviation	-2.2	0.3	-0.4	0.3	-0.5	0.3	1.0
2M Prev	-8.1	-7.7	-9.0	-1.7	4.9	-6.2	11.0
1M Prev	-7.9	-5.5	-8.8	-1.1	4.9	-8.2	10.2
Actual	-8.8	-3.0	-8.8	-0.6	5.5	-7.8	14.1
Predicted	-6.6	-3.2	-8.3	-0.8	6.0	-8.2	13.1
Next Month	-9.8	-1.6	-8.8	0.7	4.8	-7.0	11.9
2M Forward	-11.1	-0.5	-8.5	1.1	5.2	-5.7	11.5
3M Forward	-11.0	0.0	-7.8	1.0	4.7	-4.3	12.2

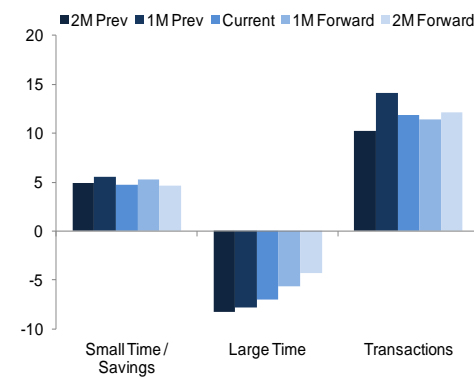
Source: BBVA Research

Chart 16

Credit Growth Snapshot YoY %

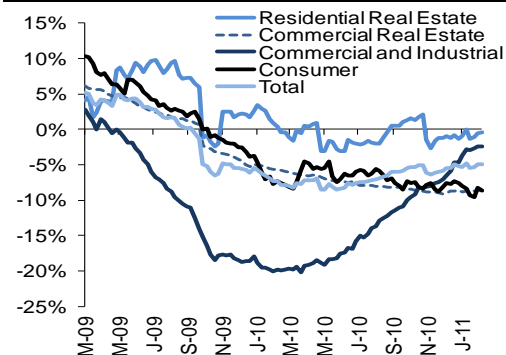
Source: BBVA Research

Chart 17

Deposit Growth Snapshot YoY %

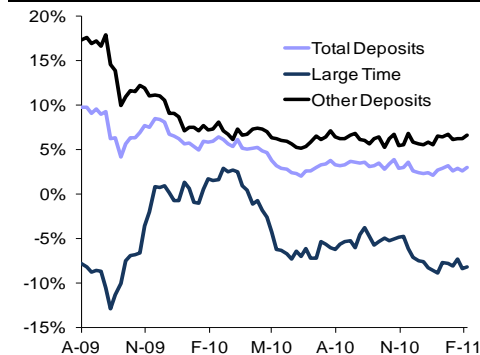
Source: BBVA Research

Chart 18

Commercial Bank Loans YoY %, Consumer Adj.

Source: Federal Reserve

Chart 19

Commercial Bank Deposits YoY %

Source: Federal Reserve

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