

Banking Watch

US

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Economic Analysis

U.S.

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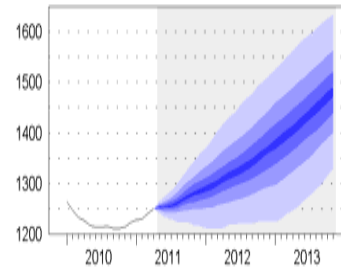
Bank Credit and Deposits: Monthly Situation Report

- Large time deposit balances boost total deposit growth closer to more normal growth rates and is representative of greater cash and working capital management by firms. Transactions deposits likely to cool off in the longer run.
- Residential loans remain in the doldrums, while commercial and industrial simmer. Both break-adjusted and unadjusted measures of consumer credit increased MoM, although it will persist in negative YoY territory for several months.

Commercial and Industrial (C&I)

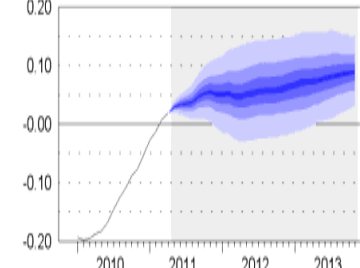
Our C&I forecasts are so far consistent with the data and revolve around a meager hiring and business activity environment. One quirk in this story is the recent weekly data from the Federal Reserve which points to a sharp increase MoM in C&I outstanding. Naturally, the weekly data is noisy and subject to frequent data revisions. If the data holds its present course, it could indicate more hiring and activity in 2011Q3, but so far we remain centered on our present forecast of modest C&I credit growth.

Chart 1
Commercial & Industrial, \$bn



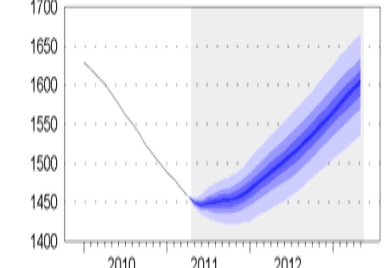
Source: BBVA Research

Chart 2
Commercial & industrial, YoY%



Source: BBVA Research

Chart 3
Commercial Real Estate, \$bn

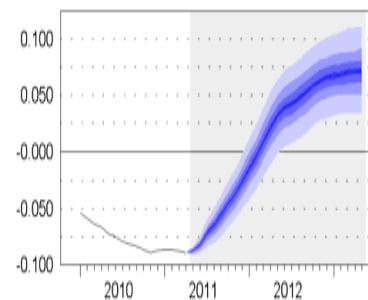


Source: BBVA Research

Commercial Real Estate (CRE)

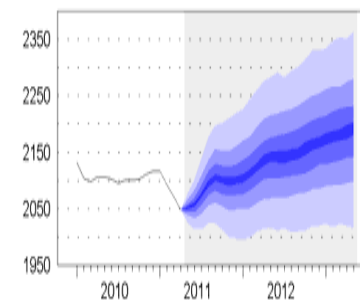
One way of looking at the extended bottom formed by YoY CRE growth is that it confirms we are at a turning point in the cycle. Another way of looking at this extended bottom is that the length of time spent at the trough is suggestive of a very long correction back to positive YoY territory. We remain in the camp of a faster recovery than implied by a simple trend extrapolation. In particular, the recent Senior Loan Officer Survey demonstrated more willingness at banks to entertain CRE lending. The process will still be considerably long.

Chart 4
Commercial Real Estate, YoY%



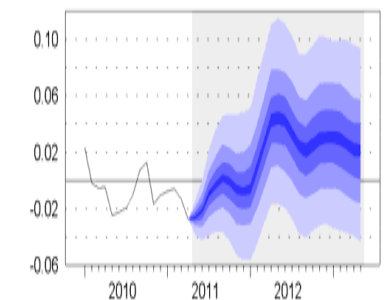
Source: BBVA Research

Chart 5
Residential, \$bn



Source: BBVA Research

Chart 6
Residential, YoY%



Source: BBVA Research

Residential

Residential lending outstanding at commercial banks, calculated as the sum of closed-end loans plus revolving home equity lines of credit, currently rests at the lowest point since 2008. Demand indicators from the recent Senior Loan Officer Survey revealed palatable weakness and standards remain tight. On a real basis home prices continue to correct from the crisis and the financial system continues to grind through foreclosures. All of this combines for a struggling residential lending forecast.

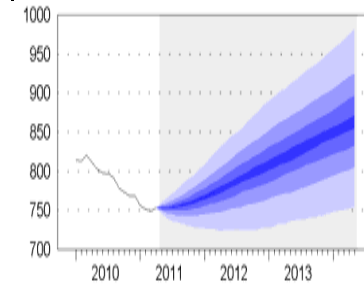
Consumer Credit

Consumer credit, both on a break-adjusted and unadjusted basis, increased MoM in April. Greater stability in the financial markets has allowed for more clarity on asset-backed securities issuance, although overall securitization activity remains downgraded as compared to the pre-2008 era. More time is needed for consumers' balance sheets to grow into a renewed level of consumption as the savings rate stands at around 5.5%.

Deposits

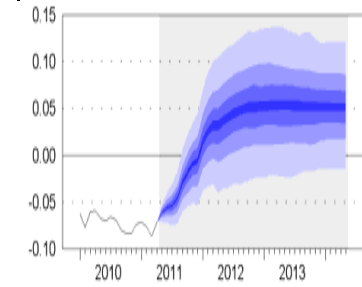
Transactions deposits continue to represent an outlier bucking decades of financial innovation, but the recent growth is a by-product of reduced credit usage and increased cash balances which we expect to eventually subside. Large time deposits increased rapidly over the past few months and will return to positive YoY growth in the coming months. Higher interest rates on time deposits will eventually support growth in large time deposits.

Chart 7
Consumer Lending, \$bn, break-adjusted



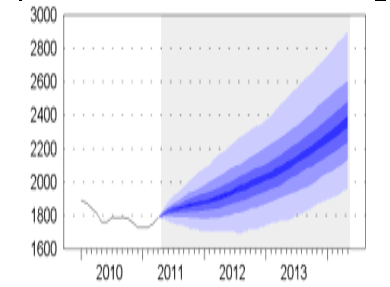
Source: BBVA Research

Chart 8
Consumer Lending, YoY%, break-adj.



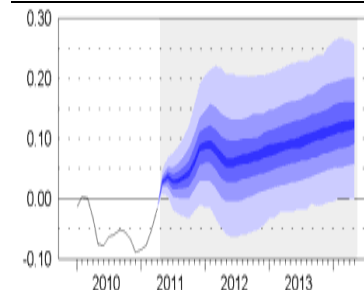
Source: BBVA Research

Chart 9
Large Time Deposits, \$bn



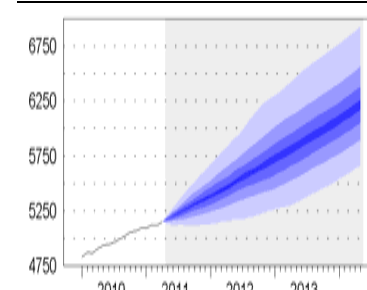
Source: BBVA Research

Chart 10
Large Time Deposits, YoY%



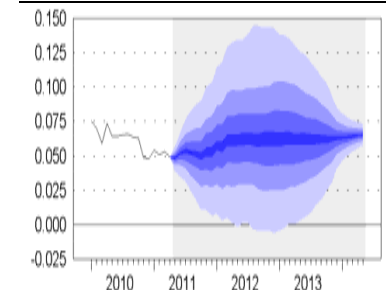
Source: BBVA Research

Chart 11
Small Time and Savings, \$bn



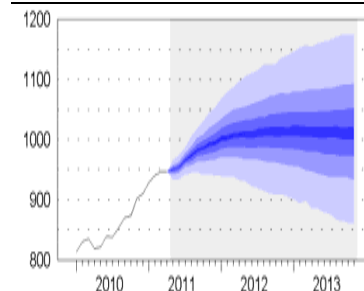
Source: BBVA Research

Chart 12
Small Time and Savings, YoY%



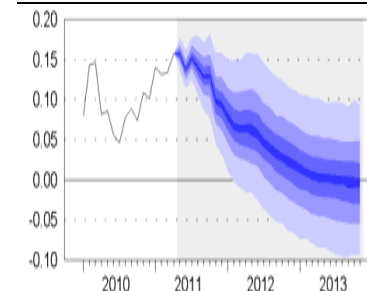
Source: BBVA Research

Chart 13
Transactions Deposits, \$bn



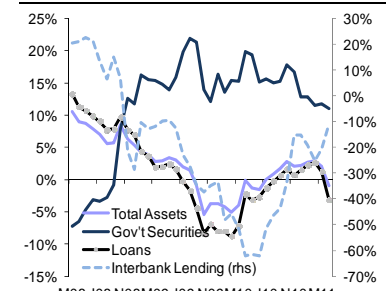
Source: BBVA Research

Chart 14
Transactions Deposits, YoY%



Source: BBVA Research

Chart 15
Commercial Banking System, YoY%



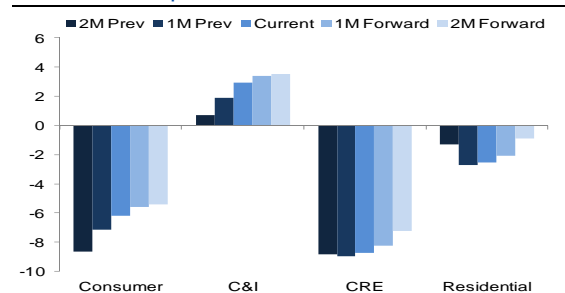
Source: Federal Reserve

Table 1
Banking System Update

	Consumer	C&I	CRE	Residential	Small Time / Savings	Large Time	Transactions
Deviation	0.7	0.1	-0.3	0.8	0.5	0.9	0.9
2M Prev	-7.6	-1.3	-8.7	-0.6	5.1	-7.7	13.2
1M Prev	-8.7	0.7	-8.8	-1.3	5.3	-5.0	13.4
Actual	-7.2	1.9	-9.0	-1.9	4.9	-1.7	15.8
Predicted	-7.9	1.8	-8.7	-2.7	4.4	-2.6	14.9
Next Month	-6.2	3.0	-8.8	-2.5	4.8	2.8	15.7
2M Forward	-5.6	3.4	-8.2	-2.1	5.2	3.6	13.7
3M Forward	-5.4	3.5	-7.2	-0.9	5.4	2.8	15.2

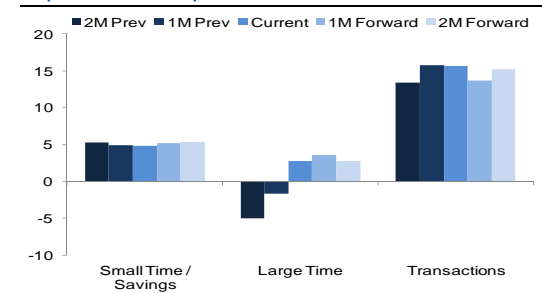
Source: BBVA Research

Chart 16
Credit Growth Snapshot, YoY%



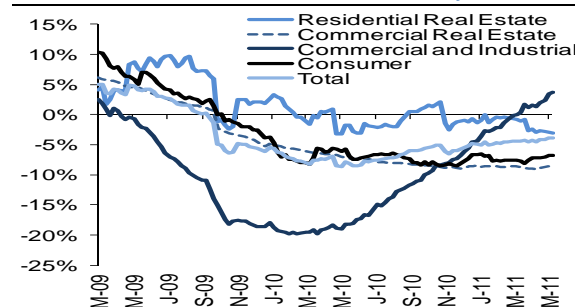
Source: BBVA Research

Chart 17
Deposit Growth Snapshot, YoY%



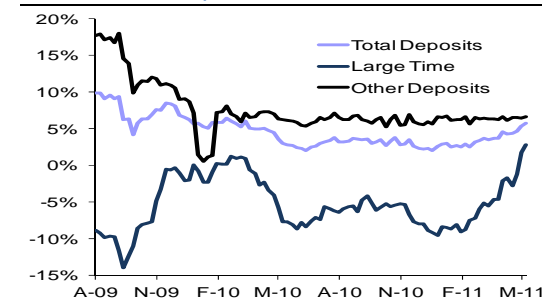
Source: BBVA Research

Chart 18
Commercial Bank Loans, YoY%, Consumer break-adjusted



Source: Federal Reserve

Chart 19
Commercial Bank Deposits, YoY%



Source: Federal Reserve

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