

# Banking Watch

US

24 June 2011  
Economic Analysis

US

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## Bank Credit and Deposits: Monthly Situation Report

- Commercial and industrial lending grew strongly MoM by \$13.5bn, triggering a slight upgrade of our forecast that suggests an average 6.2% YoY growth rate for 2011H2. Given our baseline forecast of moderate growth in 2012, we expect a C&I slowdown in mid-2012.
- Transactions deposits surprise radically to the upside and have increased \$100bn since October. Given its present course, we foresee \$1tr in nominal transactions deposits by year-end, underscoring the high liquidity in the financial system.

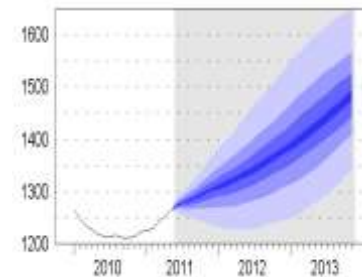
### Commercial and Industrial (C&I)

Although some reports indicate that the C&I segment is heating up in terms of competition, we do not regard aggregate C&I growth as approaching a bubble, given that C&I is still some \$400bn down from its peak in 2008. Nonetheless, C&I is growing strongly and we expect this to continue for the rest of the year. Fundamentally, we believe that C&I lending will be constrained by a moderate growth environment in the medium- to long-term. Strong C&I growth is a positive indicator to balance generally-weak indicators as of late.

### Commercial Real Estate (CRE)

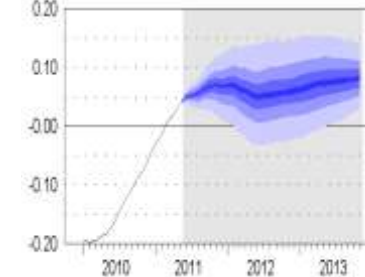
Lending in the CRE segment appears to be pulling away from its bottom in terms of YoY growth rates. Overall, CRE remains on track for a recovery in 2012, in-line with our expectations for the fundamental factors in the CRE market such as prices, inventories, returns and investment in structures. Sluggish service sector employment is counterbalancing strong willingness to extend CRE loans as characterized by the Senior Loan Officer Survey. Liquidity pressures have been ameliorated by low 10-year interest rates' impact on capitalization rates.

Chart 1  
Commercial & Industrial, \$bn



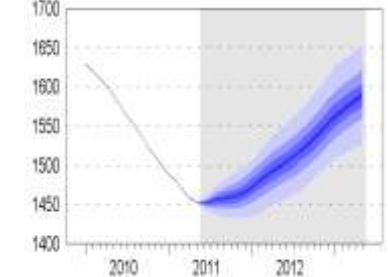
Source: BBVA Research

Chart 2  
Commercial & industrial, YoY%



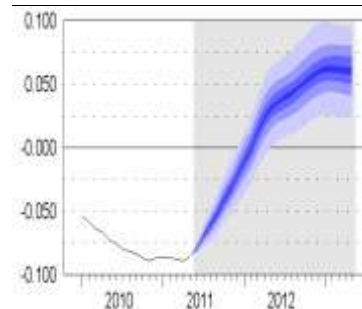
Source: BBVA Research

Chart 3  
Commercial Real Estate, \$bn



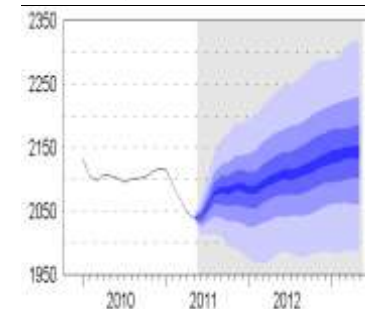
Source: BBVA Research

Chart 4  
Commercial Real Estate, YoY%



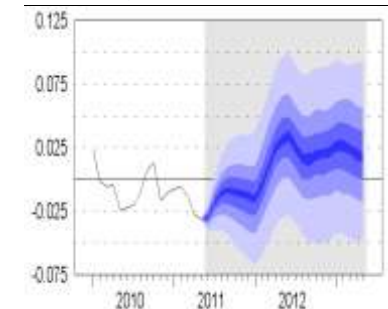
Source: BBVA Research

Chart 5  
Residential, \$bn



Source: BBVA Research

Chart 6  
Residential, YoY%



Source: BBVA Research

**Residential**

The residential market persists as the punching-bag of economic indicators as of late, most of which are recurrently ugly. Demand remains weak and loan standards are tight. A further impact on loan standards will **arise from the outcome of regulators' standard for qualified residential mortgages**. Overall, we foresee sub-zero YoY rates for total residential loans outstanding for the rest of the year. We also regard risks as to the downside of our present forecast.

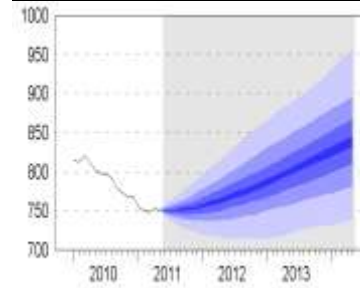
**Consumer Credit**

Consumer loans appear to be solidifying a bottom and will soon show more notable MoM increases throughout the rest of the year. Although credit card usage remains a question **given consumers' newfound thrift**, auto loans are currently moving strongly, according to indications from the Federal Reserve. Only in the past quarter has the FDIC begun to **assemble regulated depositories' statistics on automobile loans** as distinguished from other consumer loans, which will aid future analysis.

**Deposits**

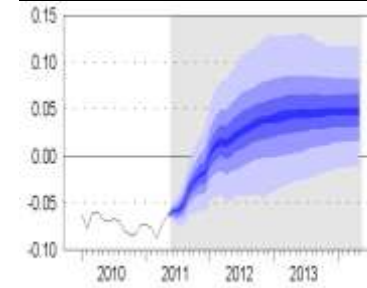
As mentioned in the headline, transactions deposits continue to blow through the expectations of our model. Transactions deposits reached \$607bn at the end of 2007 and now stand at \$972bn. Given the estimates of our model, this category only needs to generate \$28bn more in deposits to reach the trillion mark. For total deposits overall, we are safely extricated from the abnormally-low deposit growth rates of the past 12 months. The future evolution will depend on Fed action, growth and the attractiveness of financial markets.

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



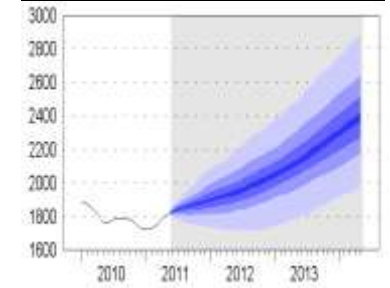
Source: BBVA Research

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



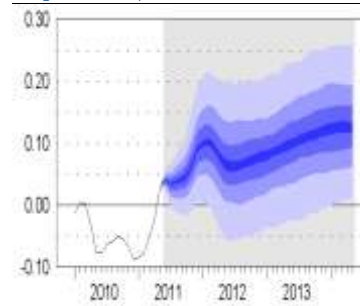
Source: BBVA Research

Chart 9  
Large Time Deposits, \$bn



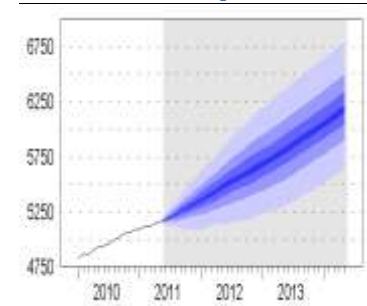
Source: BBVA Research

Chart 10  
Large Time Deposits, YoY%



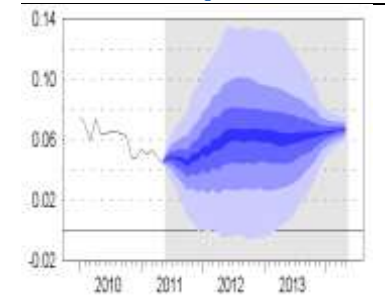
Source: BBVA Research

Chart 11  
Small Time and Savings, \$bn



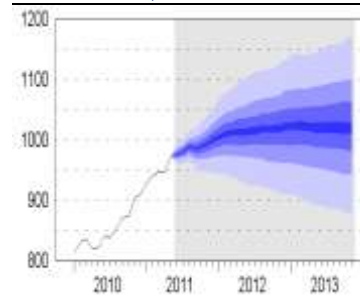
Source: BBVA Research

Chart 12  
Small Time and Savings, YoY%



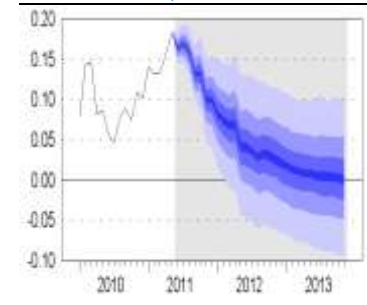
Source: BBVA Research

Chart 13  
Transactions Deposits, \$bn



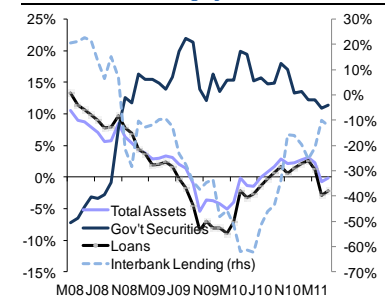
Source: BBVA Research

Chart 14  
Transactions Deposits, YoY%



Source: BBVA Research

Chart 15  
Commercial Banking System, YoY%



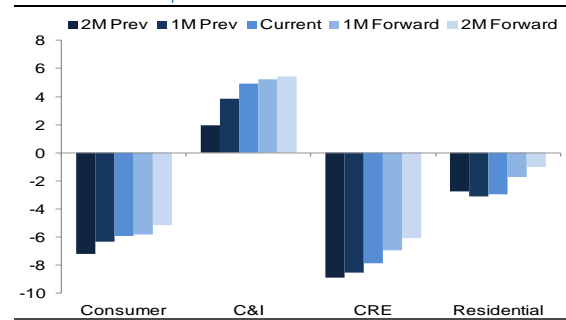
Source: Federal Reserve

Table 1  
Banking System Update

	Consumer	C&I	CRE	Residential	Small Time / Savings	Large Time	Transactions
Deviation	-0.2	0.9	0.2	0.6	-0.3	0.2	2.7
2M Prev	-8.7	0.7	-8.8	-1.3	5.3	-5.0	13.4
1M Prev	-7.2	2.0	-8.9	-2.8	4.9	-1.7	15.8
Actual	-6.4	3.9	-8.5	-2.5	4.5	3.0	18.4
Predicted	-6.2	3.0	-8.8	-3.1	4.8	2.8	15.7
Next Month	-5.9	4.9	-7.9	-3.0	4.8	4.0	16.3
2M Forward	-5.8	5.2	-7.0	-1.8	4.9	3.3	17.0
3M Forward	-5.2	5.4	-6.1	-1.0	4.7	3.6	16.0

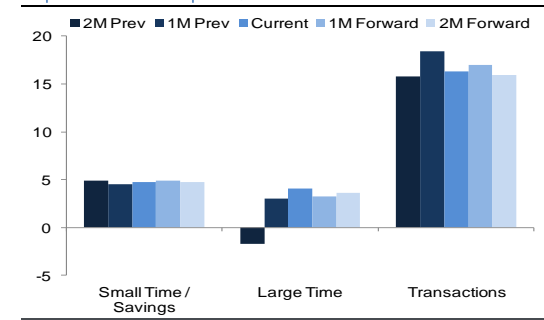
Source: BBVA Research

Chart 16  
Credit Growth Snapshot, YoY%



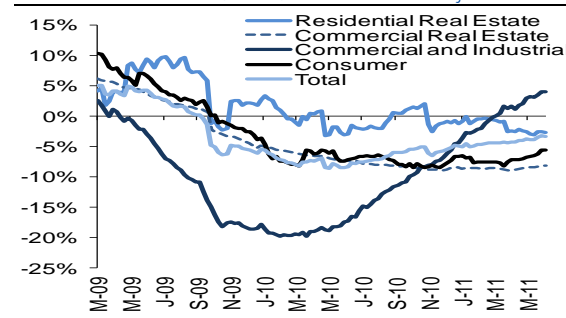
Source: BBVA Research

Chart 17  
Deposit Growth Snapshot, YoY%



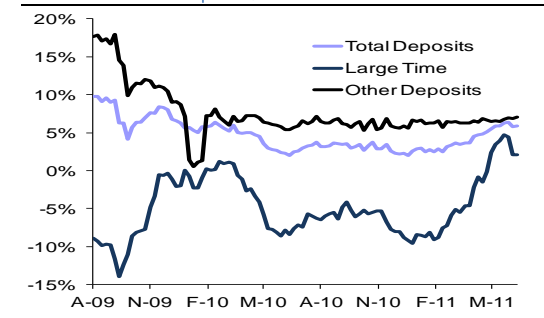
Source: BBVA Research

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



Source: Federal Reserve

Chart 19  
Commercial Bank Deposits, YoY%



Source: Federal Reserve