

Banking Watch

US

26 August 2011
Economic Analysis

US

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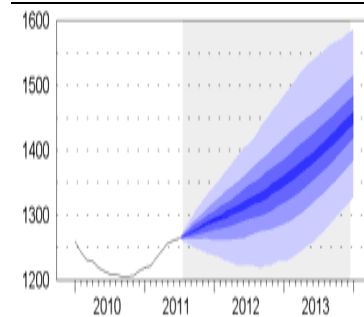
Bank Credit and Deposits: Monthly Situation Report

- Transactions deposits crack the \$1tr barrier earlier than expected. Large time and small time and savings deposits are unusually volatile. The flood of deposits into the banking system has sparked regulatory concerns. Extremely low yields are a contributing factor.
- Evolving loan growth is aligned with our projections. Total loan growth expanded MoM, supported by growth in consumer and commercial and industrial lending. Prospects for faster loan growth depend on stronger economic activity and faster real estate healing.

Commercial and Industrial (C&I)

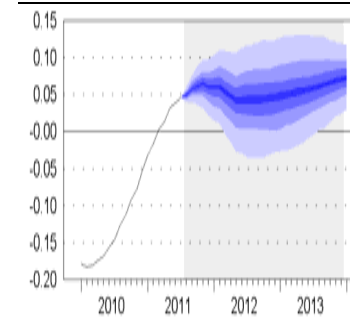
C&I lending expanded MoM by \$4.4bn, representing a 4.6% YoY increase. The pace of growth in C&I will continue to be determined by economic activity, which we currently expect to be sluggish over the medium term. Additionally, we expect a slight C&I slowdown in 2012H1 that is largely the result of a lag effect from slower growth. Competition between banks will intensify during this period and it would not be surprising if loan standards loosen further as more banks chase after fewer loans. This slowdown will also mirror a slowing of corporate bonds.

Chart 1
Commercial & Industrial, \$bn



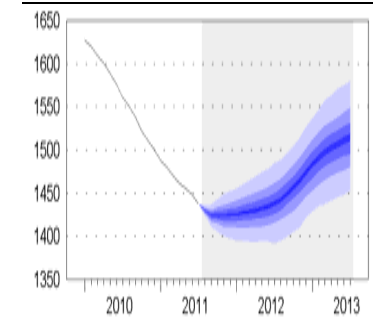
Source: BBVA Research

Chart 2
Commercial & industrial, YoY%



Source: BBVA Research

Chart 3
Commercial Real Estate, \$bn

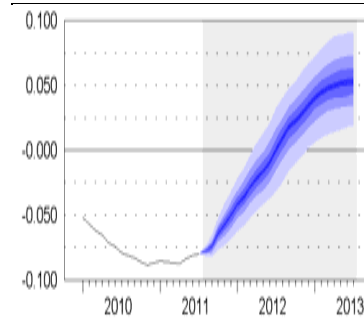


Source: BBVA Research

Commercial Real Estate (CRE)

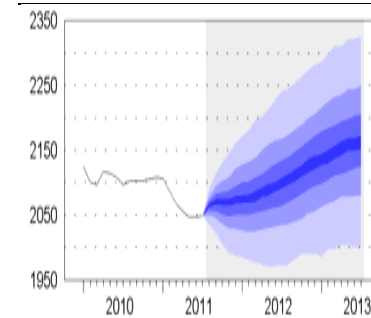
The rate of deleveraging in CRE has been steady for several months, which represents an evolution more dire than we were expecting. At the present time, YoY growth rates appear destined for a return to positive YoY growth in the middle of 2012, as we expected for some time. However, the central tendency of this forecast has shifted progressively later in 2012, so it appears our forecast is becoming biased for later. On the positive side, CRE delinquencies reported by the Federal Reserve staged a moderate improvement QoQ in 2011Q2.

Chart 4
Commercial Real Estate, YoY%



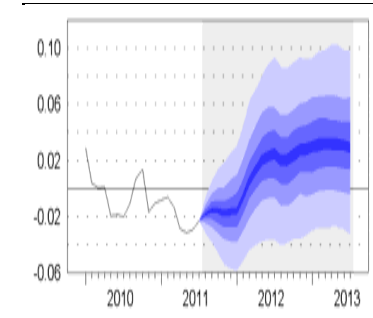
Source: BBVA Research

Chart 5
Residential, \$bn



Source: BBVA Research

Chart 6
Residential, YoY%



Source: BBVA Research

Residential

Existing home sales and new housing starts data continues to resemble a structural break that will last for several quarters. Our analysis of the real estate market emphasizes that, in mid-2011, the "shadow housing inventory" amounted to a total of 3.5 mn units and that this excess supply could have an accumulated negative impact of 1.4 points on GDP growth between 2011 and 2014. Nonetheless, extremely low mortgage rates may turn renters into buyers with enough household balance sheet repair.

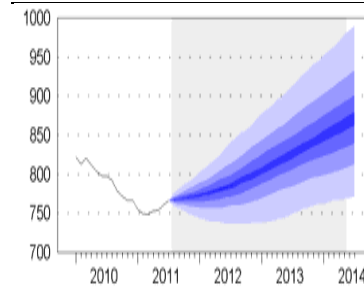
Consumer Credit

Consumer credit in July increased commensurate with our predictions by \$5.5bn MoM. On a FASB-adjusted basis, consumer credit has increased for the third month in a row and appears on track for positive YoY growth by the end of the year. This is an important development for economic growth as normal levels of consumer credit will support personal consumption expenditures. In this new environment of thrift, it will be difficult for consumer credit to attain more than of 6% YoY longer out in the horizon.

Deposits

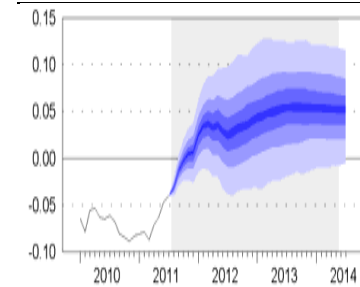
We postulated earlier in June that transactions deposits would crack the \$1tr barrier. This happened far earlier than we expected. One possibility is that with high levels of exit from equity mutual fund accounts a large amount of cash is flowing into brokerage sweep accounts. At the same time extremely low interest rates are making large time deposit returns very unattractive. Overall, wide swings in deposit balances are occurring and deposits are flooding into the banking system at a high rate.

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



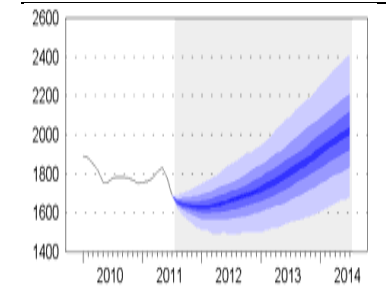
Source: BBVA Research

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



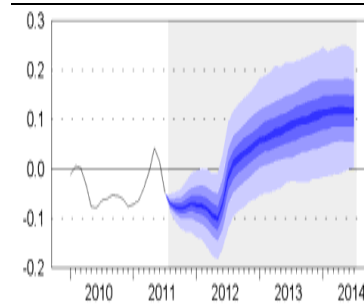
Source: BBVA Research

Chart 9
Large Time Deposits, \$bn



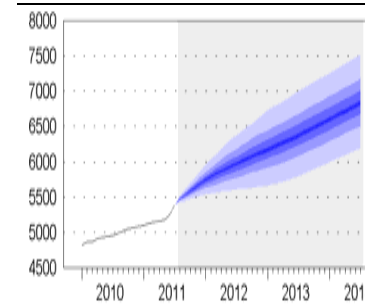
Source: BBVA Research

Chart 10
Large Time Deposits, YoY%



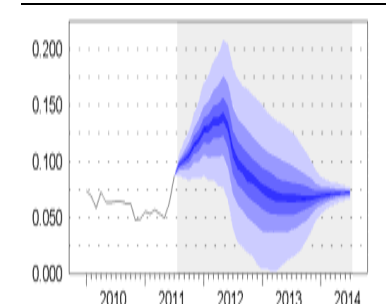
Source: BBVA Research

Chart 11
Small Time and Savings, \$bn



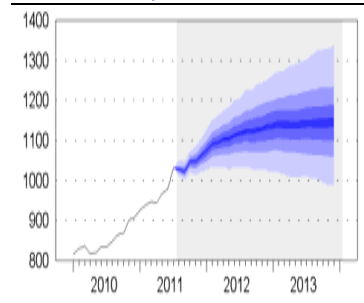
Source: BBVA Research

Chart 12
Small Time and Savings, YoY%



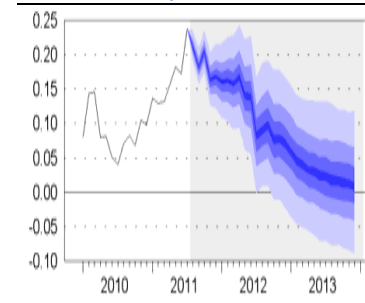
Source: BBVA Research

Chart 13
Transactions Deposits, \$bn



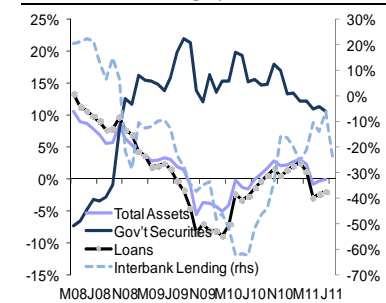
Source: BBVA Research

Chart 14
Transactions Deposits, YoY%



Source: BBVA Research

Chart 15
Commercial Banking System, YoY%



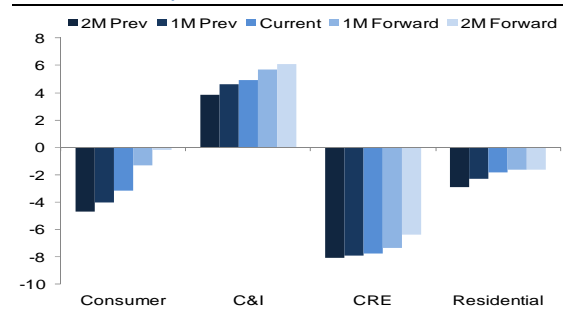
Source: Federal Reserve

Table 1
Banking System Update

	Consumer	C&I	CRE	Residential	Small Time / Savings	Large Time	Transactions
Deviation	0.1	-0.1	-0.4	0.5	1.6	-4.4	5.9
2M Prev	-6.3	3.1	-8.4	-3.2	5.0	4.3	18.3
1M Prev	-4.7	3.9	-8.1	-2.9	6.3	1.5	17.2
Actual	-4.0	4.6	-8.0	-1.8	8.7	-5.0	23.7
Predicted	-4.1	4.6	-7.5	-2.3	7.1	-0.6	17.8
Next Month	-3.1	4.9	-7.8	-1.9	9.7	-7.0	21.2
2M Forward	-1.3	5.7	-7.4	-1.6	10.1	-7.7	18.3
3M Forward	-0.2	6.1	-6.4	-1.6	10.6	-8.0	20.4

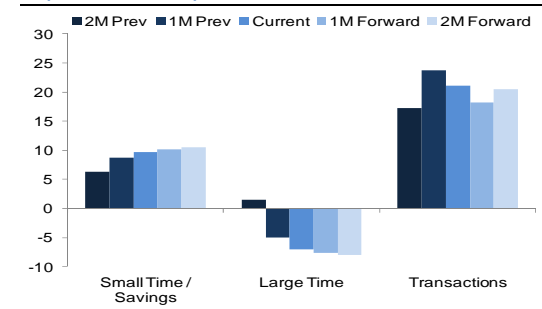
Source: BBVA Research

Chart 16
Credit Growth Snapshot, YoY%



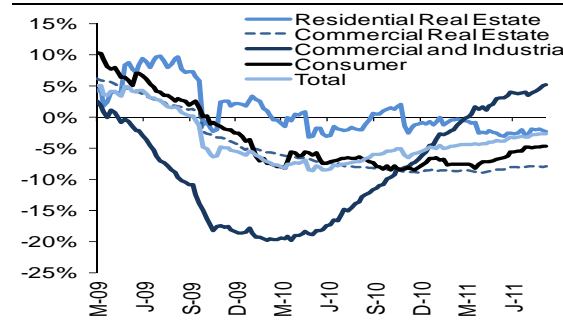
Source: BBVA Research

Chart 17
Deposit Growth Snapshot, YoY%



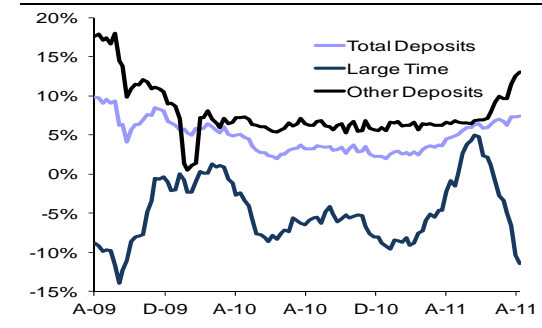
Source: BBVA Research

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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