

Banking Watch

US

26 September 2011
Economic Analysis

US

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Bank Credit and Deposits: Monthly Situation Report

- Large time deposits at foreign-related institutions drop by \$250bn since May, while transactions deposits at all commercial banks grow MoM by \$95bn, representing a 190% annual rate. Savings account balances are growing at elevated rates.
- C&I loans grow unexpectedly strongly by \$21.8bn MoM, while consumer credit stays muted MoM. We expect a slowdown in C&I lending in 2012H2 if weak economic conditions persist. Consumer credit will be limited in the near-term by heightened thrift and unemployment.

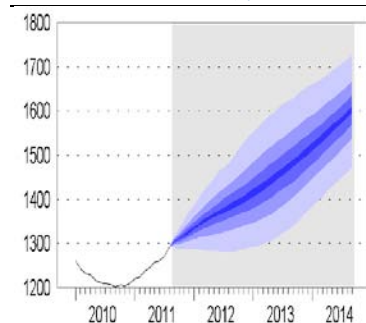
Commercial and Industrial (C&I)

Banks' C&I loans grew MoM by \$21.8bn, an astonishing 22.6% annual rate. This is likely an anomaly, although it does slightly revise upwards our YoY growth rates for the rest of the year. However, the main pattern persists of a slowdown in 2012H2 given weak economic conditions. The increase this month for C&I lending is beyond our upper band, underscoring the severe break from the forecast. Another possibility is that this result may become erased by later revisions to the data, which was the case back in November when a similarly-huge increase in C&I lending occurred.

Commercial Real Estate (CRE)

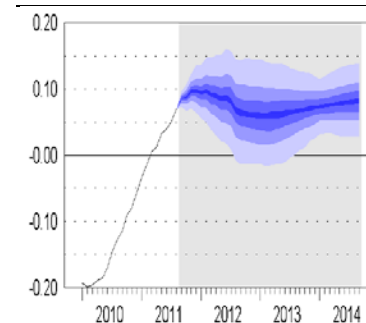
CRE lending continues its sluggish crawl away from its trough established earlier in the year. Risks to this forecast arise from weaker-than-expected economic growth and renewed confidence shocks from European sovereign debt issues. Both of these risk conditions would slow the reduction of excess inventory in commercial real estate. These conditions would similarly skew the expected future profitability of CRE projects. All of the above would stretch out CRE deleveraging.

Chart 1
Commercial & Industrial, \$bn



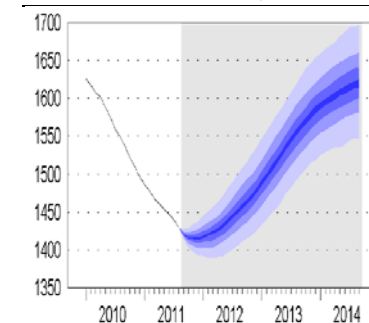
Source: BBVA Research

Chart 2
Commercial & Industrial, YoY%



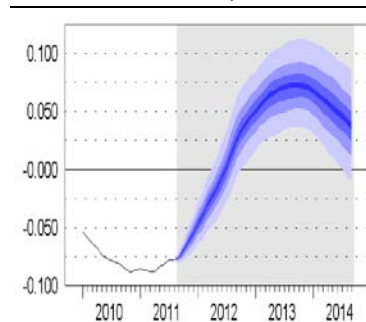
Source: BBVA Research

Chart 3
Commercial Real Estate, \$bn



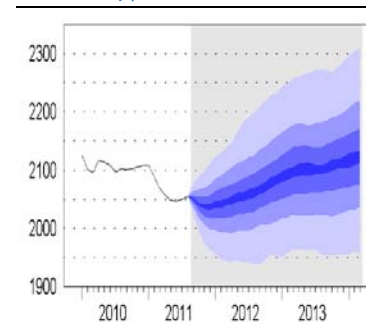
Source: BBVA Research

Chart 4
Commercial Real Estate, YoY%



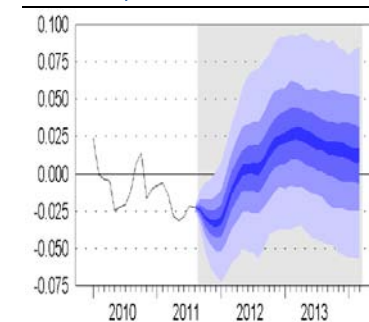
Source: BBVA Research

Chart 5
Residential, \$bn



Source: BBVA Research

Chart 6
Residential, YoY%



Source: BBVA Research

Residential

Weakness in new home sales continues to plague residential investment. Recent actions by the Federal Reserve appear aimed at reigniting residential investment. In particular, the Federal Reserve's recent decision to lower long term rates via lengthening the average maturity of its system open market account portfolio and also reinvest proceeds from maturity securities into agency securities will only aid the housing market on the margins. Weak demand and tight lending standards persist in blocking greater growth.

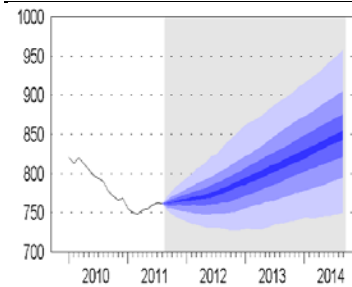
Consumer Credit

Loans to consumers took a pause over the past month, indicating virtually no MoM change, consistent with our forecast of an only \$1bn increase MoM. We continue to expect recovery in consumer lending, but a recovery that is very slow in nature due to increased consumer thrift, continuing high unemployment and an uncertain economic outlook. Adjusted for accounting changes, consumer credit still appears on track for returning to positive YoY growth in 2012.

Deposits

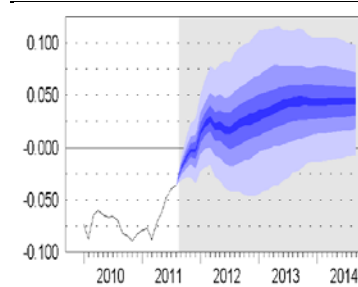
Since May, large time deposits at foreign-related institutions have declined around \$250bn and are wholly responsible for the wide swings in this deposit category. In contrast, domestic commercial banks are wholly responsible for rampant growth in transactions accounts, which blew the lid off the forecasts by increasing at a 32.9% YoY rate, or a 190% annual rate, which is more than during Sept 2001, but less than during Dec 2008. Transactions deposits increased MoM in August by \$95.9bn.

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



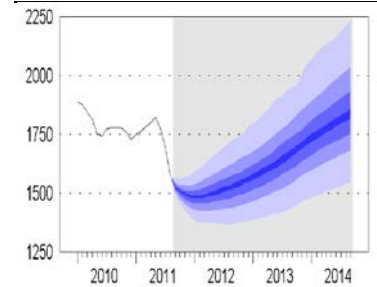
Source: BBVA Research

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



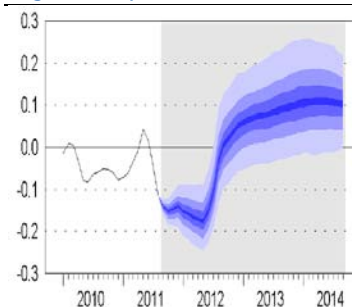
Source: BBVA Research

Chart 9
Large Time Deposits, \$bn



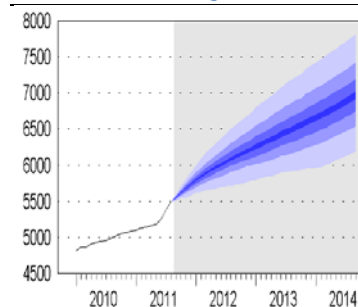
Source: BBVA Research

Chart 10
Large Time Deposits, YoY%



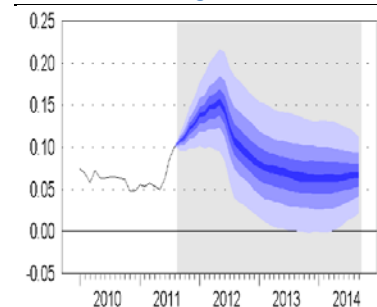
Source: BBVA Research

Chart 11
Small Time and Savings, \$bn



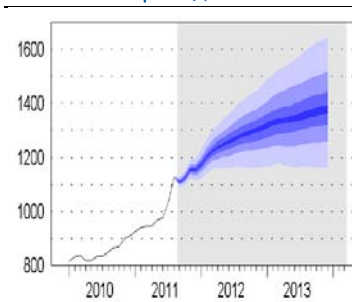
Source: BBVA Research

Chart 12
Small Time and Savings, YoY%



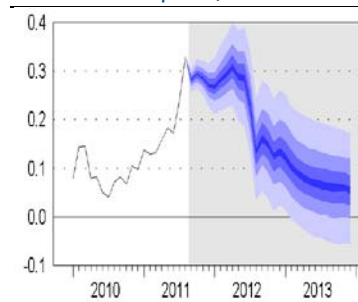
Source: BBVA Research

Chart 13
Transactions Deposits, \$bn



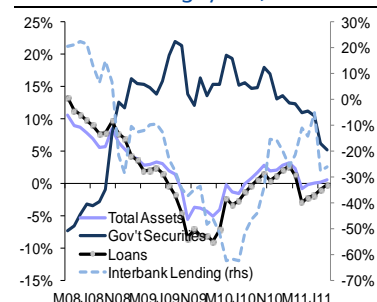
Source: BBVA Research

Chart 14
Transactions Deposits, YoY%



Source: BBVA Research

Chart 15
Commercial Banking System, YoY%



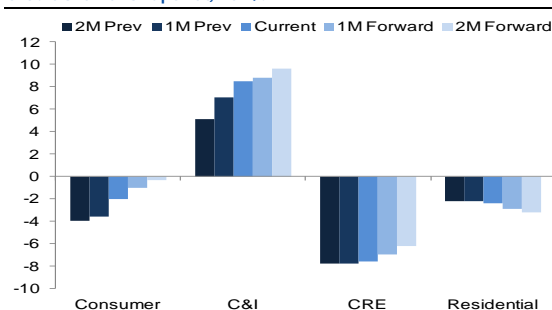
Source: Federal Reserve

Table 1
Banking System Update

	Consumer	C&I	CRE	Residential	Small Time / Savings	Large Time	Transactions
Deviation	-0.5	2.1	0.0	0.4	0.5	-4.5	11.7
2M Prev	-4.8	4.1	-8.1	-2.9	6.3	1.7	17.2
1M Prev	-3.9	5.1	-7.8	-2.2	8.7	-4.6	23.8
Actual	-3.6	7.0	-7.8	-1.9	10.1	-11.5	32.9
Predicted	-3.1	4.9	-7.8	-2.2	9.7	-7.0	21.2
Next Month	-2.0	8.5	-7.6	-2.4	10.7	-14.2	28.1
2M Forward	-1.0	8.8	-7.0	-2.9	11.3	-15.3	29.5
3M Forward	-0.3	9.6	-6.2	-3.2	12.3	-14.9	28.6

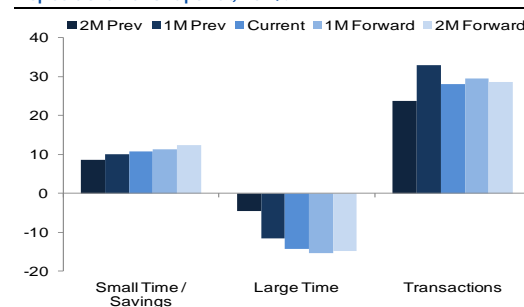
Source: BBVA Research

Chart 16
Credit Growth Snapshot, YoY%



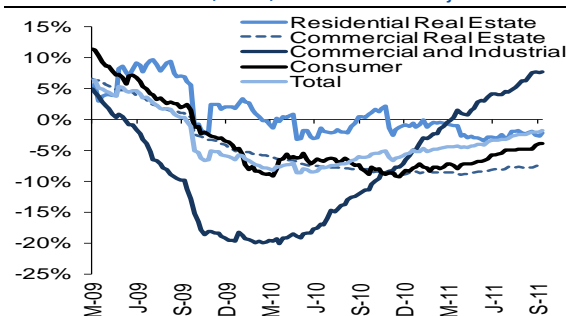
Source: BBVA Research

Chart 17
Deposit Growth Snapshot, YoY%



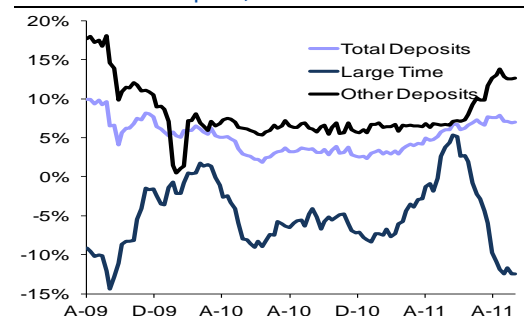
Source: BBVA Research

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



Source: Federal Reserve

Chart 19
Commercial Bank Deposits, YoY%



Source: Federal Reserve