

Banking Watch

US

28 November 2011
Economic Analysis

US

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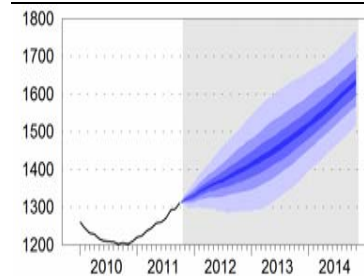
Bank Credit and Deposits: Monthly Situation Report

- Within the next four months the banking system's loans will return to positive YoY growth for the first time since the financial crisis. Unexpectedly large weakness in residential lending remains the major risk factor.
- Deposits surprisingly stalled in October, but this is a pause relative to the rampant increases of the past few months. We continue to expect declines in time deposits and growth in demand, checking, savings and money market deposits.

Commercial and Industrial (C&I)

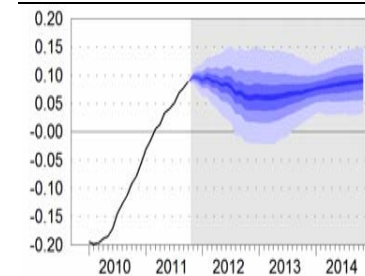
Lending to businesses by commercial banks increased robustly by \$16.2bn MoM in October. With C&I loans growing at an elevated pace of 8.8%, we believe the future upside is limited due to sluggish economic conditions. Loan growth rates have accelerated rapidly since March and we expect a slowdown. The most recent senior loan officer survey indicated a drop in demand for C&I loans, a data point consistent with our view.

Chart 1
Commercial & Industrial, \$bn



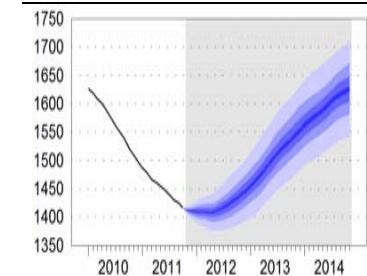
Source: BBVA Research

Chart 2
Commercial & industrial, YoY%



Source: BBVA Research

Chart 3
Commercial Real Estate, \$bn

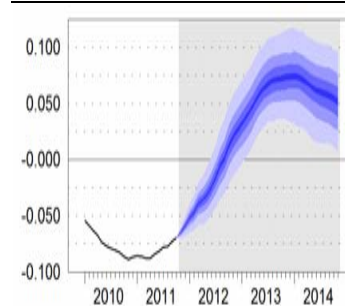


Source: BBVA Research

Commercial Real Estate (CRE)

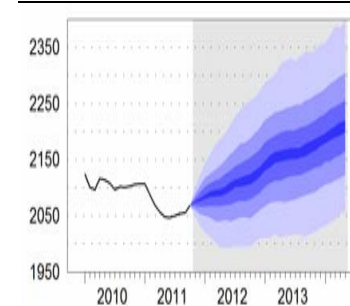
Commercial banks' CRE loans dropped by \$9.3bn MoM, a larger-than-expected amount. Continued declines of such magnitude will put into doubt our forecast for a recovery to positive YoY growth in 2012H2. Credit conditions in CRE remain tight and demand indicators have not shifted to the favor of increased lending. However, we do see stabilizing trends in fundamental factors such as prices, delinquencies and charge-offs on CRE loans.

Chart 4
Commercial Real Estate, YoY%



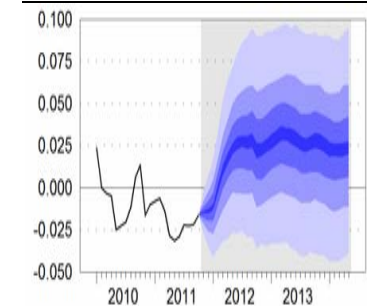
Source: BBVA Research

Chart 5
Residential, \$bn



Source: BBVA Research

Chart 6
Residential, YoY%

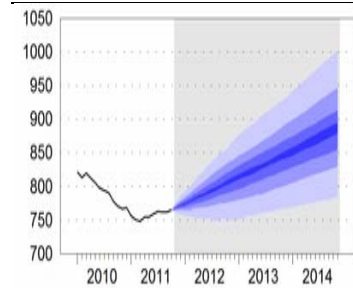


Source: BBVA Research

Residential

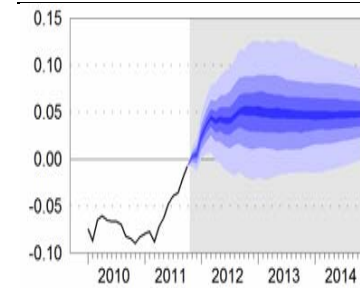
The amount of outstanding residential loans at commercial banks perked up in October by increasing \$14.2bn MoM. Closed-end residential loans increased by \$18.4bn MoM, while home equity lines of credit (HELOCs) declined by \$4.2bn MoM. As the Federal Reserve noted in its last minutes, the housing sector features as a persistent factor in slowing the pace of recovery in the US. The traditional link between lower interest rates and increased lending has become attenuated since the crisis.

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



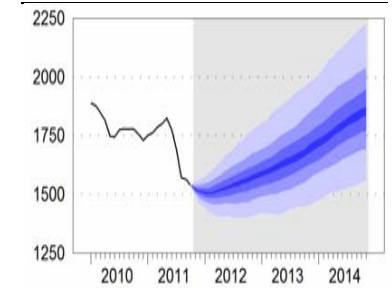
Source: BBVA Research

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



Source: BBVA Research

Chart 9
Large Time Deposits, \$bn

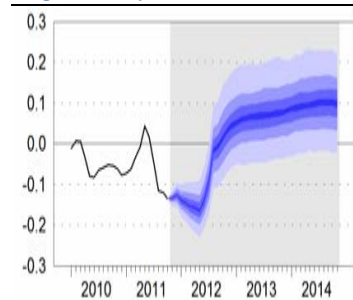


Source: BBVA Research

Consumer Credit

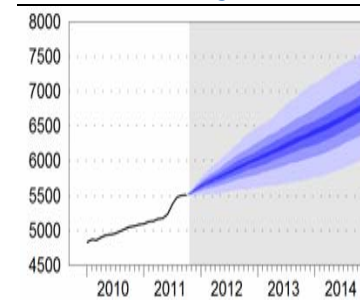
As expected, consumer credit is now growing MoM and we expect a further \$7bn increase for the rest of the year. This is not a remarkable pace of growth. Consumer credit is currently within its seasonal high period commensurate with the holidays. Retail sales strength, however, may not result in higher consumer credit if consumers are turning to accrued savings to finance their holiday expenditures. Nonetheless, on a FASB-adjusted basis, consumer credit is no longer a drag on the economy.

Chart 10
Large Time Deposits, YoY%



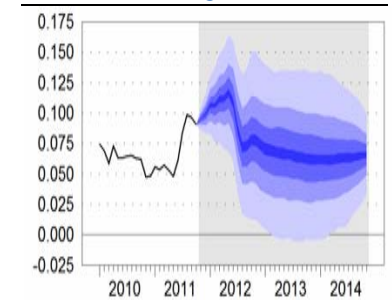
Source: BBVA Research

Chart 11
Small Time and Savings, \$bn



Source: BBVA Research

Chart 12
Small Time and Savings, YoY%

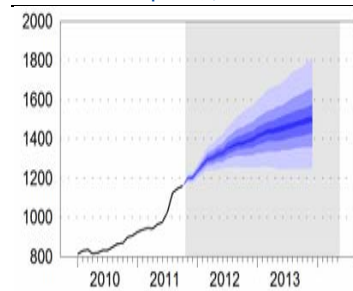


Source: BBVA Research

Deposits

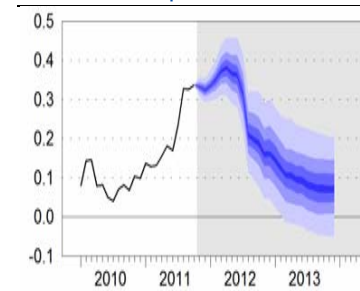
Large time deposits fell by \$26.7bn MoM, which is a significant amount but small compared to August's decline of \$121.8bn MoM. Growth in savings and transactions deposits moderated MoM, but these two categories are still driving overall deposit growth. Small and large time deposits of a variety of maturity or repricing frequency are declining, although some time deposits with three years or greater in maturity are showing some growth.

Chart 13
Transactions Deposits, \$bn



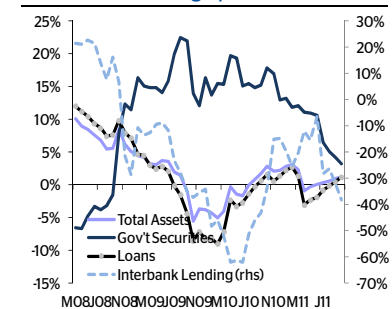
Source: BBVA Research

Chart 14
Transactions Deposits, YoY%



Source: BBVA Research

Chart 15
Commercial Banking System, YoY%



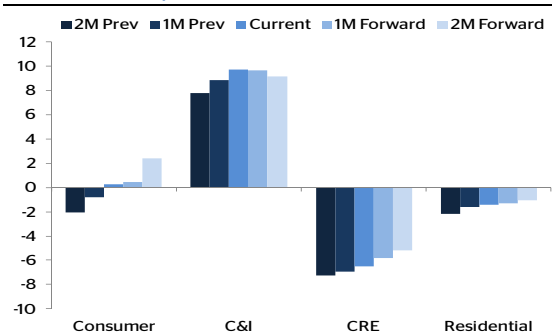
Source: Federal Reserve

Table 1
Banking System Update

	Consumer	C&I	CRE	Residential	Small Time / Savings	Large Time	Transactions
Deviation	0.3	1.0	-0.4	-0.7	-0.8	-1.4	1.4
2M Prev	-3.6	6.9	-7.7	-2.2	9.9	-11.6	32.8
1M Prev	-2.1	7.7	-7.3	-2.2	9.6	-11.9	32.6
Actual	-0.8	8.8	-6.9	-2.3	9.0	-13.5	33.7
Predicted	-1.1	7.9	-6.5	-1.6	9.8	-12.1	32.3
Next Month	0.2	9.7	-6.5	-1.4	9.5	-13.4	33.2
2M Forward	0.5	9.7	-5.8	-1.3	9.9	-12.6	32.3
3M Forward	2.4	9.2	-5.2	-1.1	10.6	-14.0	33.4

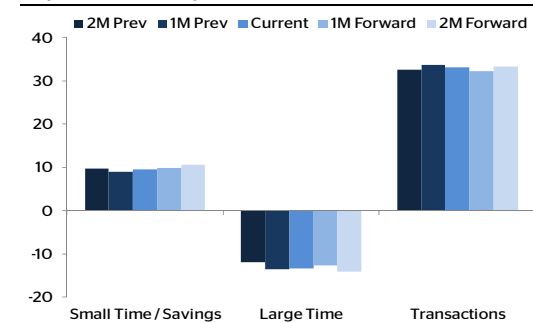
Source: BBVA Research

Chart 16
Credit Growth Snapshot, YoY%



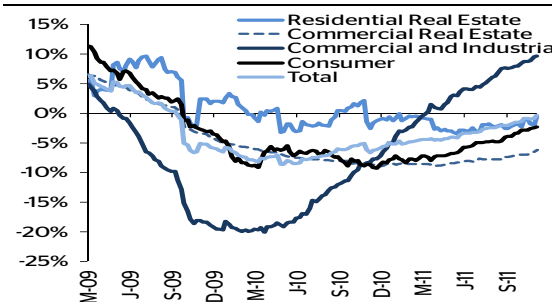
Source: BBVA Research

Chart 17
Deposit Growth Snapshot, YoY%



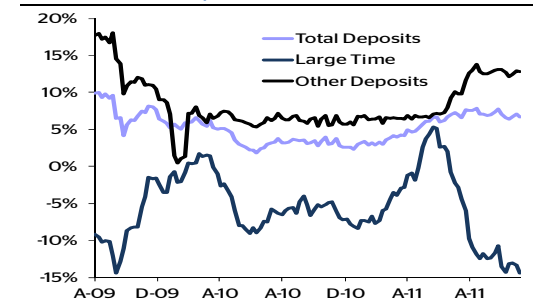
Source: BBVA Research

Chart 18
Commercial Bank Loans, YoY%



Source: Federal Reserve; Note: Consumer break-adjusted for FASB

Chart 19
Commercial Bank Deposits, YoY%



Source: Federal Reserve