

Banking Watch

US

3 January 2012
Economic Analysis

US

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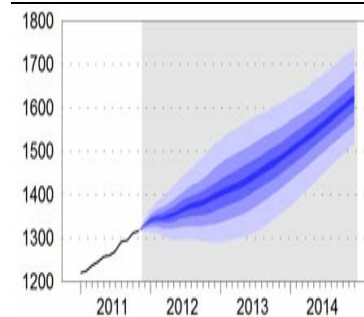
Bank Credit and Deposits: Monthly Situation Report

- Consumer credit is on the verge of positive YoY growth as expected, while outstanding residential loans will continue to underperform.
- Commercial real estate's long climb back towards positive YoY growth is still on track for mid-2012.
- Small time and domestic large time deposits unexpectedly increased MoM in November, but large time deposits at foreign banks continue to drag on deposit growth. As a result, total deposits grew only moderately at a 6.4% YoY rate.

Commercial and Industrial (C&I)

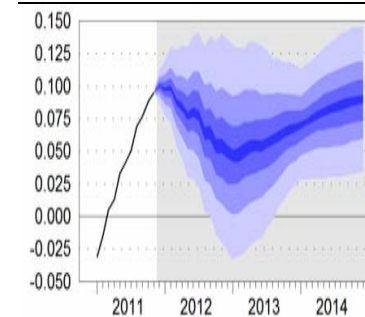
C&I loans at all commercial banks increased MoM by \$6.4bn, down from the previous month's increase of \$16.4bn. Overall C&I loans are growing above what our models are suggesting as an equilibrium level. Given morose economic conditions in the future we expect a slowdown in C&I lending. Federal Reserve minutes suggested slowing accumulation of unfilled orders imply that increases in outlays for business equipment will be muted in subsequent months. This comment by the Fed confirms our expectations for C&I loan growth in the near future.

Chart 1
Commercial & Industrial, \$bn



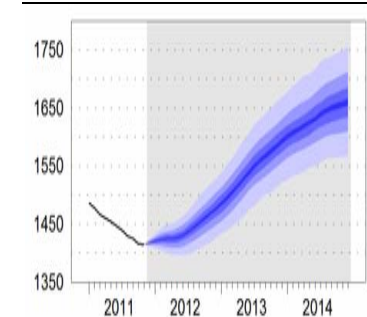
Source: BBVA Research

Chart 2
Commercial & industrial, YoY%



Source: BBVA Research

Chart 3
Commercial Real Estate, \$bn

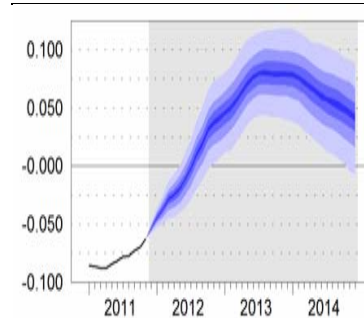


Source: BBVA Research

Commercial Real Estate (CRE)

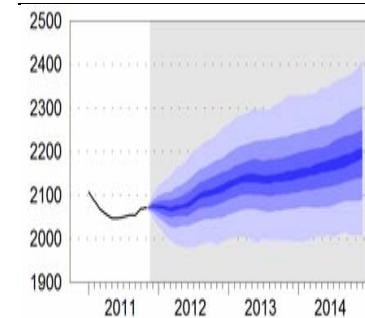
For many months, the YoY growth rate of CRE skipped along its trough and now appears to be breaking out and finally returning to positive YoY growth in 2012H2. The level of outstanding CRE loans remained largely unchanged for the past two months. As such, the reason for the recovery in YoY rates is mostly due to the fact that we have put enough distance between the present time and the crisis, rather than measurable increases in outstanding loans. CRE prices, however, have demonstrated some stabilizing trends.

Chart 4
Commercial Real Estate, YoY%



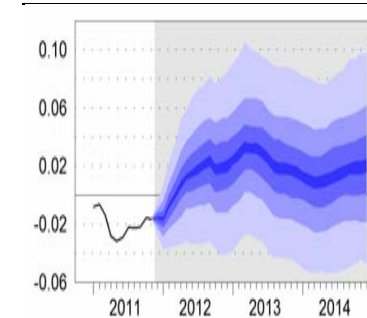
Source: BBVA Research

Chart 5
Residential, \$bn



Source: BBVA Research

Chart 6
Residential, YoY%



Source: BBVA Research

Residential

The question of “pent-up” housing demand recently appeared in a number of commentator’s views of the housing market. From the banking system perspective, the level of delinquencies remains high. This mountain of delinquency still holds up improvements in loan standards. It also detracts from demand in terms of foreclosures’ effect on home prices. As such, we continue to expect morbid loan growth in residential lending over the next several months despite extremely low mortgage rates.

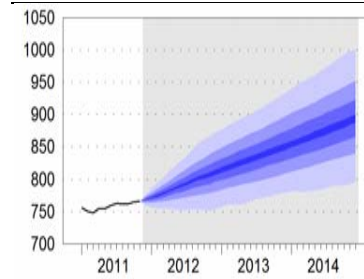
Consumer Credit

Consumer credit has improved rapidly in terms of YoY rates over the past year and appears to be quickly converging to what our model suggests as trend growth of around 5% YoY. Recent Federal Reserve minutes commentary suggested FOMC members are dubious of recent gains in consumption expenditures. At the very least, we can expect consumer credit to no longer feature as a drag on consumption in 2012. Key to any outperformance will be the health of the asset-backed securities market.

Deposits

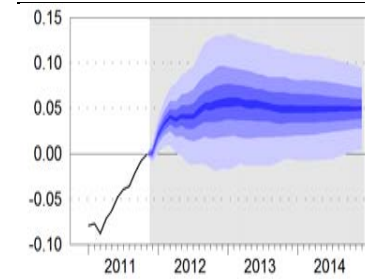
This month we are starting six experimental forecasts for loan categories, disaggregated from the previous three deposit categories. The significant trend of hemorrhaging large time deposits at foreign-owned banks in the US will continue for several months. One note of potential risk to the forecasts is an unanticipated pick-up in small time deposits and domestic large time deposits relative to our chosen forecast. Demand deposits are growing at extremely high YoY rates, but we expect a downturn.

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



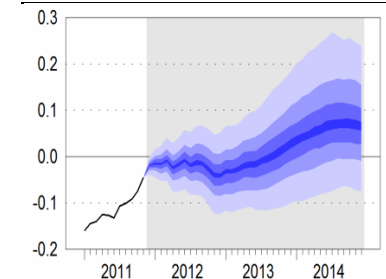
Source: BBVA Research

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



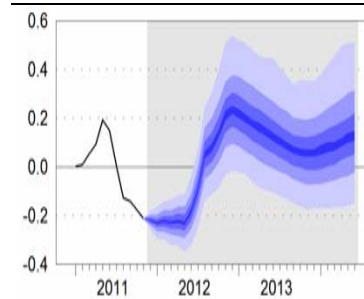
Source: BBVA Research

Chart 9
Domestic Large Time Deposits, YoY%



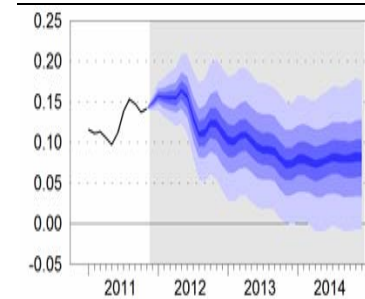
Source: BBVA Research

Chart 10
Foreign Large Time Deposits, YoY%



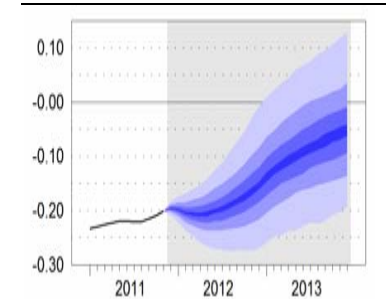
Source: BBVA Research

Chart 11
Savings Deposits, YoY%



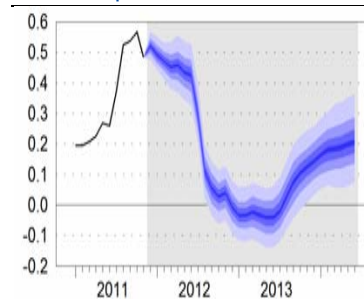
Source: BBVA Research

Chart 12
Small Time Deposits, YoY%



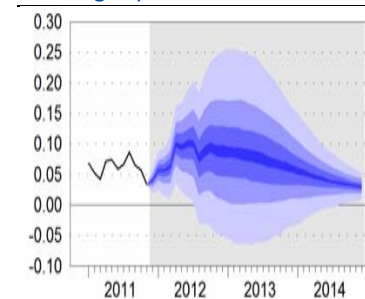
Source: BBVA Research

Chart 13
Demand Deposits, YoY%



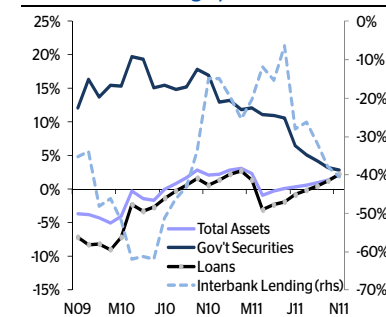
Source: BBVA Research

Chart 14
Checking Deposits, YoY%



Source: BBVA Research

Chart 15
Commercial Banking System, YoY%



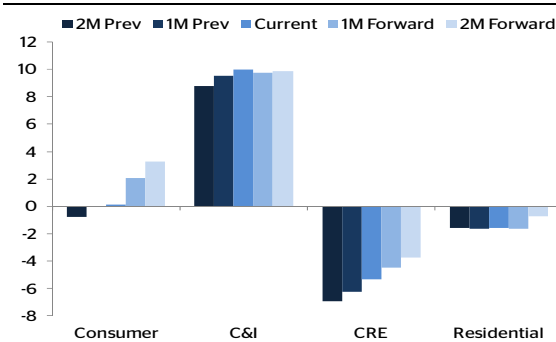
Source: Federal Reserve

Table 1
Banking System Update

	Consumer	C&I	CRE	Residential	Small Time / Savings	Large Time	Transactions
Deviation	-0.3	-0.2	0.2	0.2	0.1	-0.6	-5.0
2M Prev	-2.1	7.7	-7.3	-2.2	9.6	-11.9	32.6
1M Prev	-0.8	8.8	-7.0	-1.6	9.0	-13.3	33.7
Actual	-0.1	9.5	-6.2	-1.4	9.6	-14.0	28.2
Predicted	0.2	9.7	-6.5	-1.6	9.5	-13.4	33.2
Next Month	0.1	10.0	-5.3	-1.6	10.4	-13.4	30.6
2M Forward	2.1	9.8	-4.5	-1.6	11.2	-14.1	30.4
3M Forward	3.3	9.9	-3.7	-0.7	11.1	-13.8	29.1

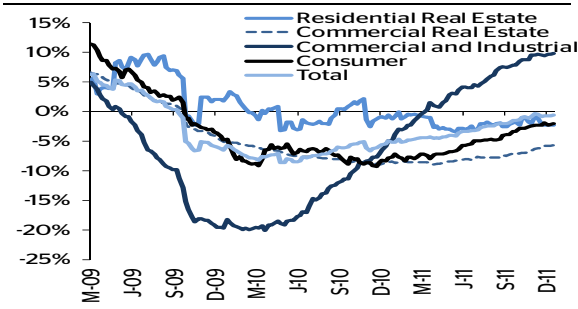
Source: BBVA Research

Chart 16
Credit Growth Snapshot, YoY%



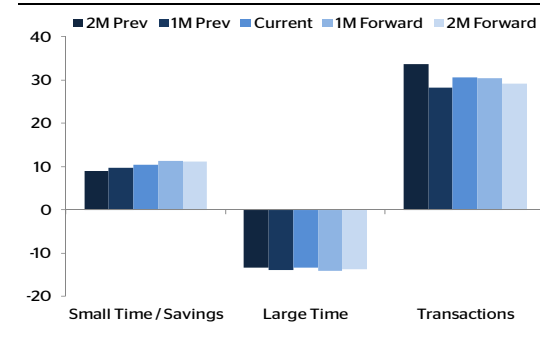
Source: BBVA Research

Chart 18
Commercial Bank Loans, YoY%



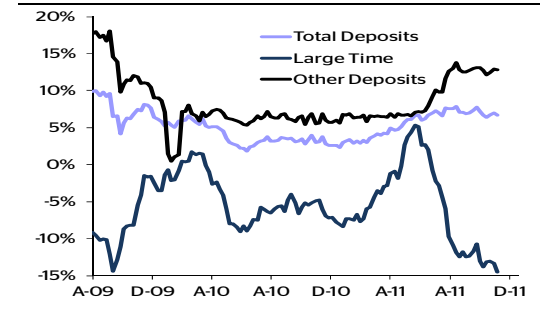
Source: Federal Reserve; Note: Consumer break-adjusted for FASB

Chart 17
Deposit Growth Snapshot, YoY%



Source: BBVA Research

Chart 19
Commercial Bank Deposits, YoY%



Source: Federal Reserve

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