

Banking Watch

US

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Economic Analysis

US
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Bank Credit and Deposits: Monthly Situation Report

- Total credit has crossed into positive YoY growth territory for the first time since August 2009, with increasing strength coming from C&I lending. Consumer credit is rebounding at a healthy pace, while CRE and residential loans continue to decline on a YoY basis.
- Small and large time deposits remain weak, and we expect negative YoY growth trends to continue at least through 1H12. Demand deposits largely offset this weakness, with additional pull from slightly accelerated YoY growth in savings and checking.

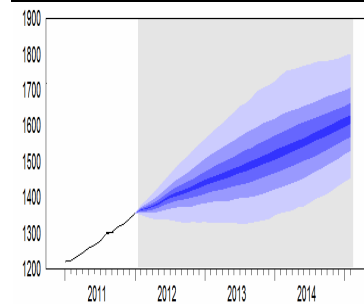
Commercial and Industrial (C&I)

Despite our expectations for a slowing pace of growth, C&I lending continues to accelerate. The data may be reflective of a recent spike in the demand for capital goods, suggesting that the business outlook is improving. According to the Fed's Senior Loan Officer Survey (SLOS) for 1Q12, decreased competition from European banks has increased C&I-related business for domestic banks. However, the recovery remains uncertain and it is unlikely that this pace can continue throughout all of 2012. We maintain our view that YoY growth is approaching its peak.

Commercial Real Estate (CRE)

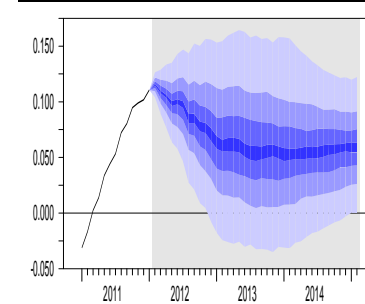
CRE lending is arriving largely in line with our forecasts, and we expect YoY declines to continue through 1H12. Low yields are paving the way for opportunistic investment opportunities and should increase demand for CRE loans. Results from the latest SLOS suggest that credit standards are expected to ease as the year progresses. Although construction employment remains weak, gradual improvements in the labor market highlight modest expansion for the CRE sector.

Chart 1
Commercial & Industrial, \$bn



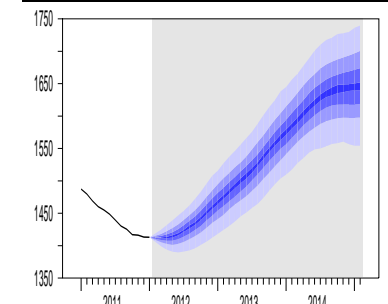
Source: BBVA Research

Chart 2
Commercial & Industrial, YoY%



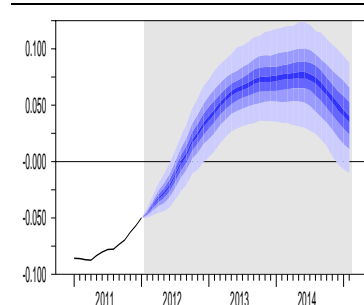
Source: BBVA Research

Chart 3
Commercial Real Estate, \$bn



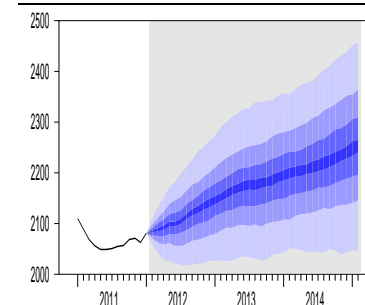
Source: BBVA Research

Chart 4
Commercial Real Estate, YoY%



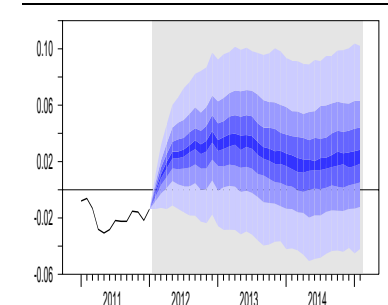
Source: BBVA Research

Chart 5
Residential, \$bn



Source: BBVA Research

Chart 6
Residential, YoY%



Source: BBVA Research

Residential

On a YoY basis, residential loan growth declined less than expected and is gradually approaching positive territory. Our models suggest that residential lending may recover sooner than CRE, though we do expect a flatter growth trajectory. Existing home sales have been the bright spot in the housing market, helping to boost activity from extreme lows. However, declining prices and weak demand for new homes highlight serious concerns for the economic recovery.

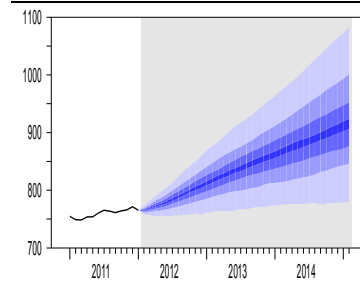
Consumer Credit

Consumer credit increased significantly on a MoM basis throughout 4Q11, although recent data suggest a slight decline in January 2012. This may be a consequence of seasonal adjustments, so the slowdown in consumer lending is not yet alarming. YoY growth is lower than previously predicted, though trends remain relatively healthy. Although rising gas prices may deter consumers from auto purchases in the short term, we continue to expect steady demand for other consumer loans.

Deposits

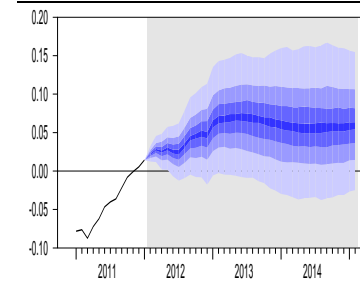
Total deposits data are in line with our expectations, accelerating on a YoY basis in large part due to strong demand deposit growth. Savings deposits are also high but should level off to historical trends once consumers are more confident in the economic recovery. On the downside, small time deposits continue to decline and are likely to follow a similar trend for the next few years. Foreign large time deposits are also declining YoY but should recover more quickly as the global economy gains momentum.

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



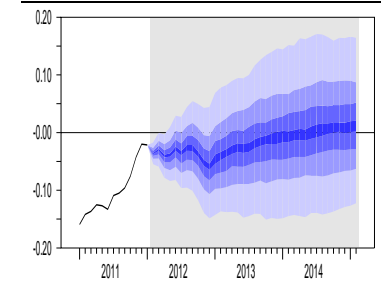
Source: BBVA Research

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



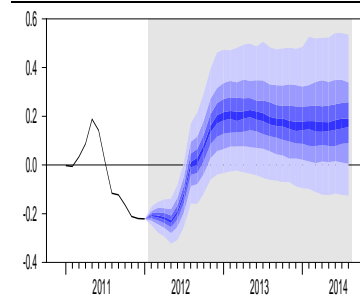
Source: BBVA Research

Chart 9
Domestic Large Time Deposits, YoY%



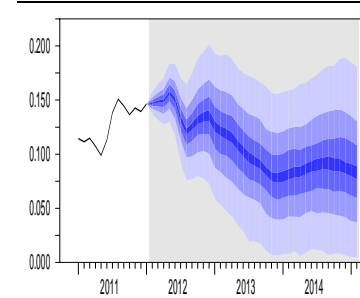
Source: BBVA Research

Chart 10
Foreign Large Time Deposits, YoY%



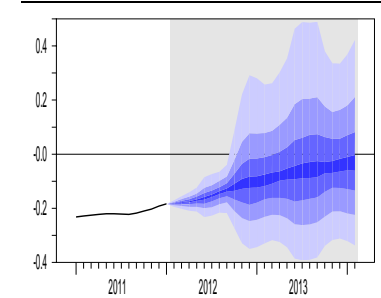
Source: BBVA Research

Chart 11
Savings Deposits, YoY%



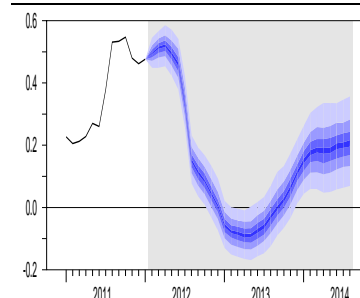
Source: BBVA Research

Chart 12
Small Time Deposits, YoY%



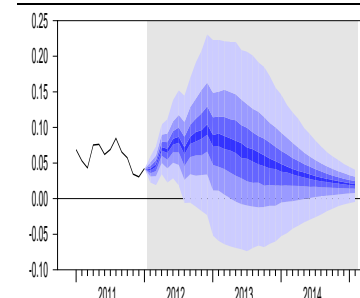
Source: BBVA Research

Chart 13
Demand Deposits, YoY%



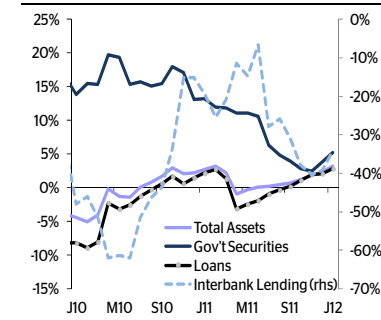
Source: BBVA Research

Chart 14
Checking Deposits, YoY%



Source: BBVA Research

Chart 15
Commercial Banking System, YoY%



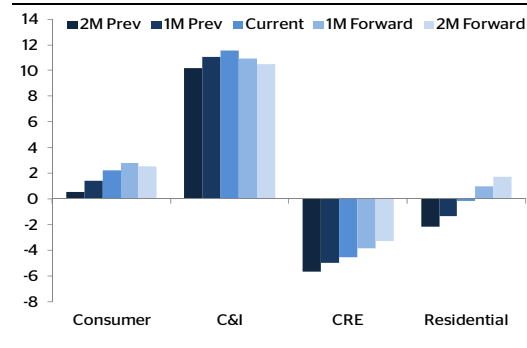
Source: Federal Reserve

Table 1
Banking System Update

| | Consumer | C&I | CRE | Residential | Savings | Small Time | Domestic Large Time | Foreign Large Time | Demand | Checking |
|------------|----------|------|------|-------------|---------|------------|---------------------|--------------------|--------|----------|
| Deviation | -1.4 | 0.5 | 0.0 | -0.8 | 0.0 | -0.1 | -1.2 | -0.6 | 3.2 | -1.4 |
| 2M Prev | -0.1 | 9.9 | -6.3 | -1.6 | 14.3 | -20.3 | -4.2 | -21.1 | 48.0 | 3.5 |
| 1M Prev | 0.5 | 10.2 | -5.7 | -2.2 | 13.9 | -19.2 | -2.0 | -22.0 | 46.2 | 3.1 |
| Actual | 1.4 | 11.1 | -5.0 | -2.2 | 14.7 | -18.4 | -2.1 | -22.1 | 47.6 | 2.8 |
| Predicted | 2.9 | 10.6 | -5.0 | -1.4 | 14.6 | -18.3 | -1.0 | -21.5 | 44.5 | 4.2 |
| Next Month | 2.2 | 11.6 | -4.6 | -0.2 | 14.7 | -18.2 | -3.6 | -20.9 | 49.5 | 4.1 |
| 2M Forward | 2.8 | 10.9 | -3.9 | 0.9 | 14.9 | -17.8 | -3.0 | -21.2 | 51.1 | 4.6 |
| 3M Forward | 2.6 | 10.5 | -3.3 | 1.7 | 14.9 | -17.5 | -4.1 | -21.7 | 51.9 | 6.9 |

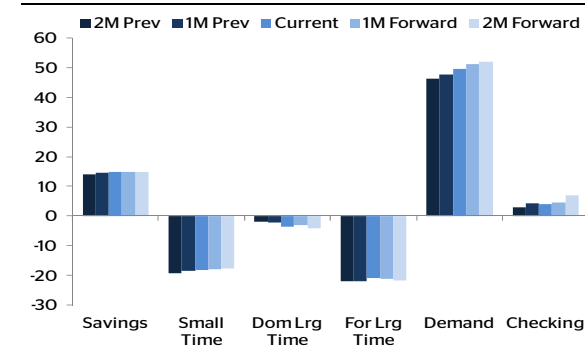
Source: BBVA Research

Chart 16
Credit Growth Snapshot, YoY%



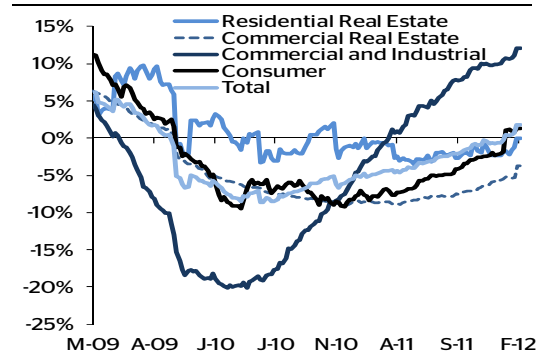
Source: BBVA Research

Chart 17
Deposit Growth Snapshot, YoY%



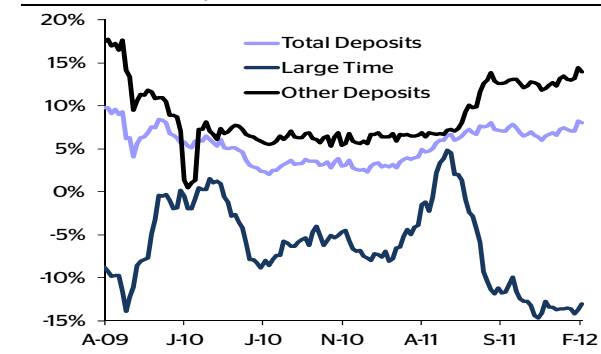
Source: BBVA Research

Chart 18
Commercial Bank Loans, YoY%



Source: Federal Reserve; Note: Consumer break-adjusted

Chart 19
Commercial Bank Deposits, YoY%



Source: Federal Reserve