

Banking Watch

US

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Economic Analysis

US

Kim Fraser
kim.fraser@bbvacompass.com

Jeffrey Owen Herzog
jeff.hertzog@bbvacompass.com

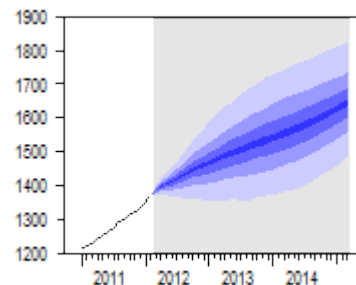
Bank Credit and Deposits: Monthly Situation Report

- CRE lending increased for the first time since February 2009, while mortgage growth hit positive YoY territory after more than a year. C&I credit will continue to increase at a steady pace in the near term, and the recent pause in consumer credit growth should be short-lived.
- Demand deposits declined for the first time since July 2010, alongside continued weakness in foreign large time deposits. Savings and checking growth are both following expected trends, accelerating slightly on a YoY basis at least through 1H12.

Commercial & Industrial (C&I)

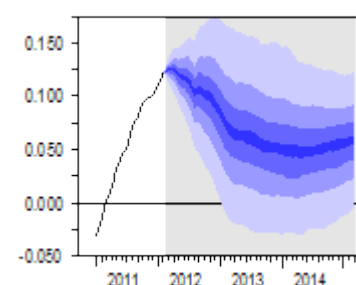
C&I lending continues to drive total credit, jumping \$18.1bn in February, the largest MoM increase in six months. Recent FDIC data indicate that C&I loans to small businesses are on the rise for the first time in nearly two years, a trend which suggests underlying improvement in the economic outlook. Given the stronger-than-expected activity thus far in 1Q12, we expect that C&I lending will increase but at a decelerating pace, leveling off near the pre-recession peak of \$1,600bn.

Chart 1
Commercial & Industrial, \$bn



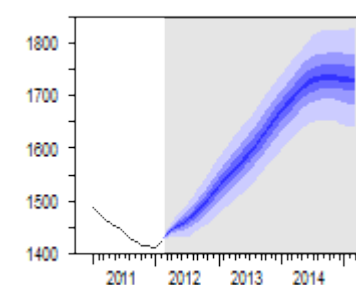
Source: BBVA Research

Chart 2
Commercial & Industrial, YoY%



Source: BBVA Research

Chart 3
Commercial Real Estate, \$bn

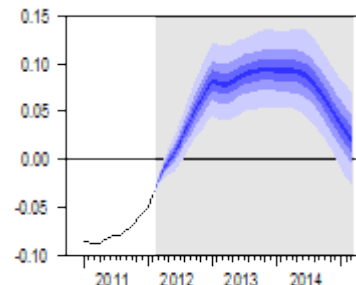


Source: BBVA Research

Commercial Real Estate (CRE)

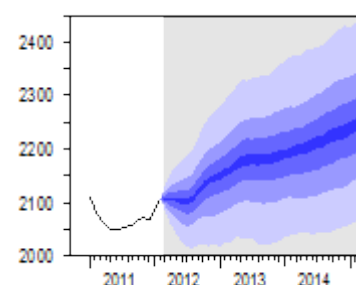
The real estate sector has weighed on credit conditions throughout the recovery, yet CRE loans increased significantly for the first time since February 2009. This boost most likely reflects a surge in opportunistic investment rather than an increase in fundamental demand, and growth continues to decline on a YoY basis. While it is not yet clear whether recent data is indicative of an upward trend, conditions do appear to have rebounded from recovery lows.

Chart 4
Commercial Real Estate, YoY%



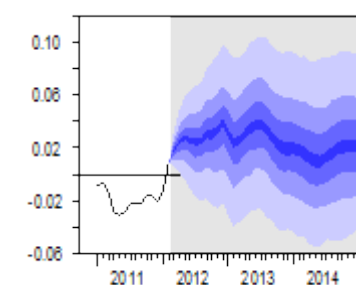
Source: BBVA Research

Chart 5
Residential, \$bn



Source: BBVA Research

Chart 6
Residential, YoY%

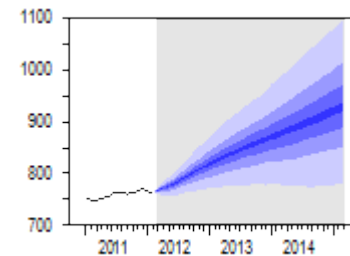


Source: BBVA Research

Residential

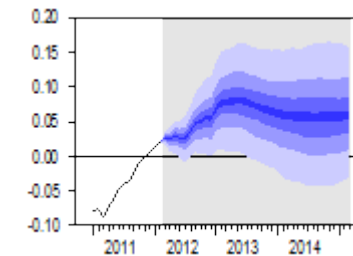
As with CRE, mortgage lending also increased substantially in February for the second consecutive month, finally crossing into positive YoY territory. Housing activity has been improving gradually, mostly due to a rebound in existing home sales. Affordability is at an all-time high, attracting homebuyers and boosting mortgage demand. Still, residential data have yet to break away from post-crisis lows, and we expect to see only modest improvements in credit conditions throughout 2012.

Chart 7
Consumer Lending, \$bn, break-adj.



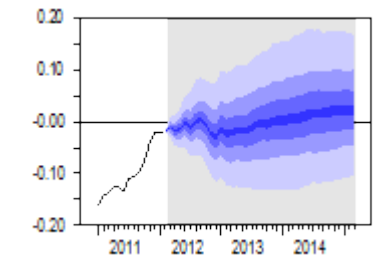
Source: BBVA Research

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



Source: BBVA Research

Chart 9
Domestic Large Time Deposits, YoY%

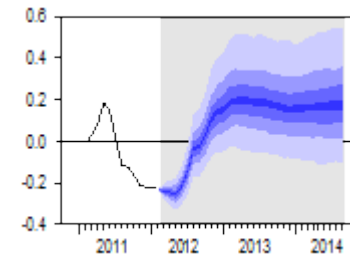


Source: BBVA Research

Consumer Credit

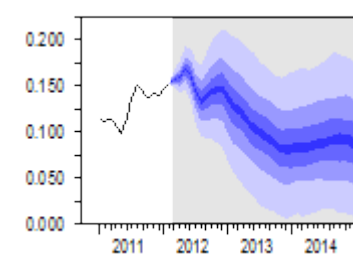
Historically, break-adjusted consumer credit peaked three years ago, toward the end of the recession. Since then, levels declined steadily and just recently reverted back to an upward trend. G19 consumer credit data from the Federal Reserve have surprised to the upside, though mostly due to the dominant government component. Excluding government, the data series are similar and have changed very little over the past few months.

Chart 10
Foreign Large Time Deposits, YoY%



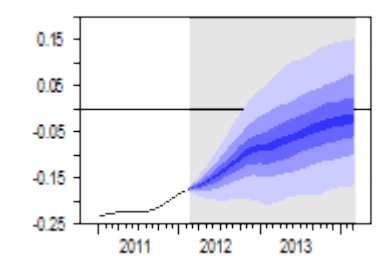
Source: BBVA Research

Chart 11
Savings Deposits, YoY%



Source: BBVA Research

Chart 12
Small Time Deposits, YoY%

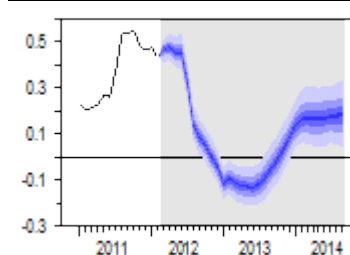


Source: BBVA Research

Deposits

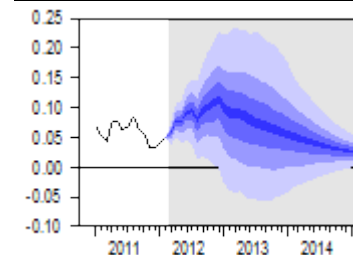
A decline in demand deposits dragged down the total in February. However, levels have not quite recovered from the spike in mid-2011 when financial uncertainties caused investors to shift away from risky assets to satisfy a need for cash as the economic outlook deteriorated. With a strengthening recovery, we expect demand deposits to fall by the end of 2012. In other deposits, we continue to see weakness in large time deposits despite a slight increase on the domestic side.

Chart 13
Demand Deposits, YoY%



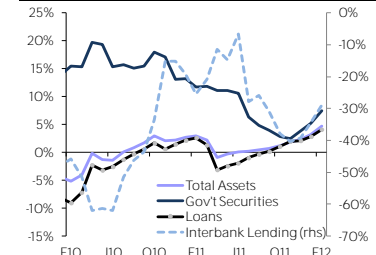
Source: BBVA Research

Chart 14
Checking Deposits, YoY%



Source: BBVA Research

Chart 15
Commercial Banking System, YoY%

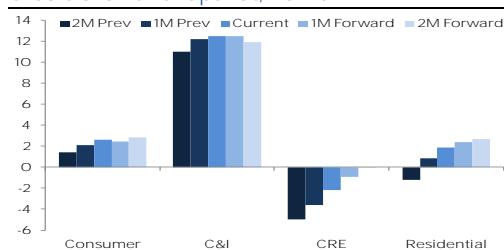


Source: Federal Reserve

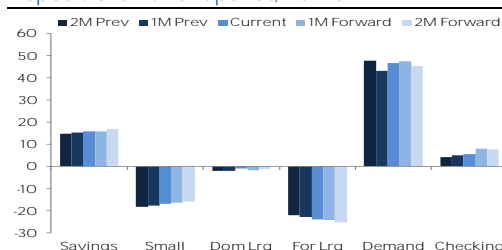
Table 1
Banking System Update

	Consumer	C&I	CRE	Residential	Savings	Small Time	Domestic Large Time	Foreign Large Time	Demand	Checking
Deviation	-0.1	0.6	0.9	-1.1	0.6	0.6	1.6	-2.0	-6.4	-0.9
2M Prev	0.5	10.1	-5.7	-2.0	13.9	-19.2	-2.1	-21.8	46.2	3.1
1M Prev	1.4	11.0	-5.0	-1.2	14.6	-18.4	-2.1	-22.1	47.7	4.2
Actual	2.1	12.2	-3.6	-0.2	15.3	-17.6	-2.0	-22.9	43.1	4.1
Predicted	2.2	11.6	-4.6	0.9	14.7	-18.2	-3.6	-20.9	49.5	5.0
Next Month	2.6	12.5	-2.2	1.9	15.7	-17.0	-1.0	-24.1	46.6	5.6
2M Forward	2.4	12.5	-0.9	2.4	15.9	-16.5	-1.8	-24.4	47.5	7.9
3M Forward	2.8	11.9	-0.1	2.7	16.8	-15.8	-1.3	-25.4	45.4	7.7

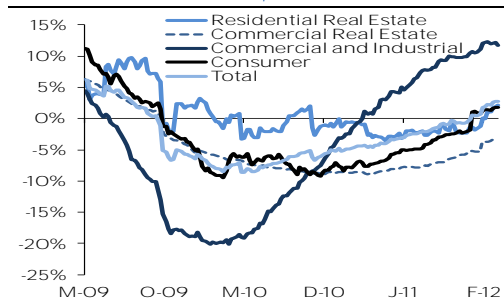
Source: BBVA Research

 Chart 16
Credit Growth Snapshot, YoY%


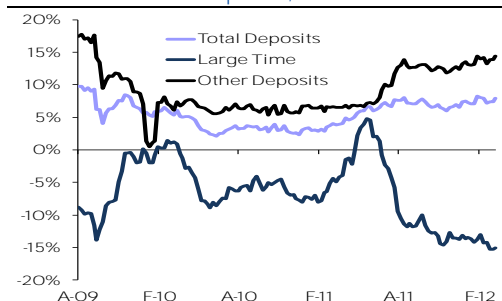
Source: BBVA Research

 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

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