BBVA Research

US

Banking Watch

March 22, 2011

Bank Credit and Deposits: Monthly Situation Report

- Consumer credit data revised anew; Federal Reserve revisits March 2010 FASB adjustments upward by $12bn
- Low housing activity, tight standards, slow-to-clear foreclosures continue to weigh on residential credit growth
- Commercial and industrial lending will likely be the first credit category to return to positive YoY growth

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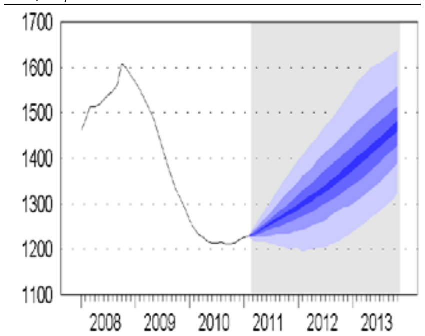
Commercial and Industrial (C&I)

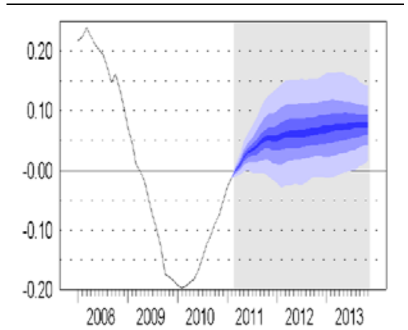
C&I increased by $4.8bn over the previous month, almost half the pace of the $8.8bn increase in December. C&I lending is very close to positive YoY growth, similar to our expectations. Upside risks remain and stem from better-than-expected economic growth, confidence and investment, but overall we expect C&I to grow at around one-fifth of its historical rate. Our current forecasts suggest an increase of around $50bn in C&I loans outstanding between now and the end of the year. C&I lending grew MoM by $2.25bn, less than in the previous two months. We expect a slightly faster pace over the next few months.

Chart 1
Commercial & Industrial
In $bn, Nominal



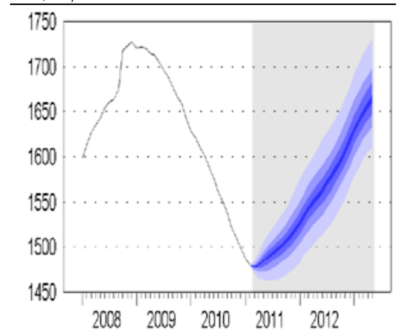
Source: BBVA Research

Chart 2
Commercial and Industrial
YoY %



Source: BBVA Research

Chart 3
Commercial Real Estate
In $bn, Nominal

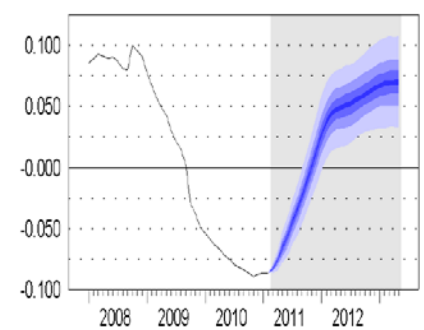


Source: BBVA Research

Commercial Real Estate (CRE)

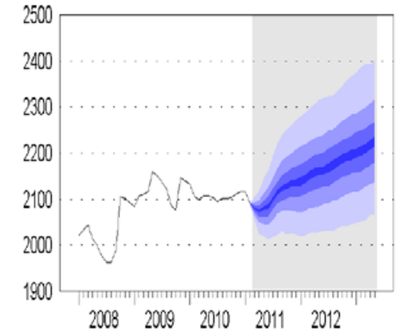
CRE continues to unfold as expected, but with slightly more staying power at its present bottom, although this does not impact our longer-term forecasts. Our present forecast incorporates a slightly upgraded, but overall pessimistic expectation of CRE returns on investment. We generally expect CRE returnsto exhibit a structural break compared to its history. Additions to service sector payrolls are still slow, negating demand for increased utilization of office and retail structures. Nonresidential structures investment remains low. It does appear that the strongest YoY declines are behind us.

Chart 4
Commercial Real Estate YoY %



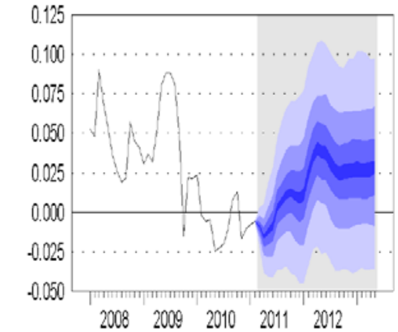
Source: BBVA Research

Chart 5
Residential In $bn, Nominal



Source: BBVA Research

Chart 6
Residential YoY %

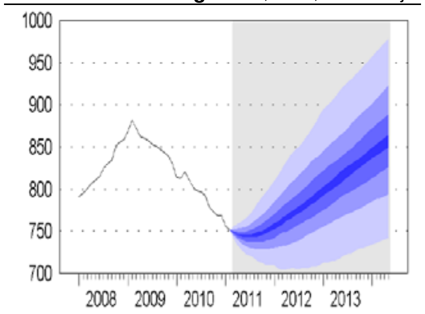


Source: BBVA Research

Residential

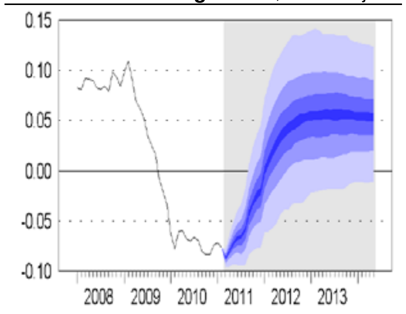
Our medium-term residential forecast has changed significantly. Credit standards remain tight. Asset quality is still challenged. Housing activity indicators remain disappointingly low. Fundamental demographic factors cannot drive mortgage growth until the stock of foreclosures is burned off from bank balance sheets. As a result, we have changed home price indices used by the model and significantly downgraded our residential mortgage forecast. Residential credit has been uncomfortably flat.

Chart 7
Consumer Lending In $bn, Nom, FASB Adj.



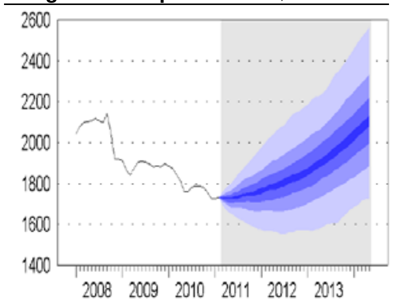
Source: BBVA Research

Chart 8
Consumer Lending YoY %, FASB Adj.



Source: BBVA Research

Chart 9
Large Time Deposits In $bn, Nominal

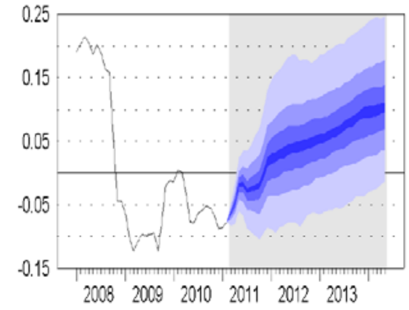


Source: BBVA Research

Consumer credit

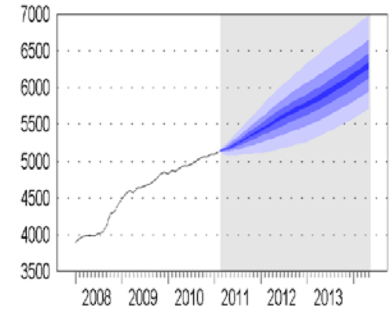
The Federal Reserve again revised its estimate of FASB changes to banks' consumer loans outstanding implemented in March 2010. The effects increased outstanding consumer credit by $12bn, which when applied to the data converts the current figure to $738bn, close to our forecast of $734bn. Nonetheless, without the data adjustment our forecast is off by a notable margin. We have revisited the break-adjustment of the data and will keep monitoring these changes going forward. Data issues have caused difficulties in assessing consumer credit for months.

Chart 10
Large Time Deposits YoY %



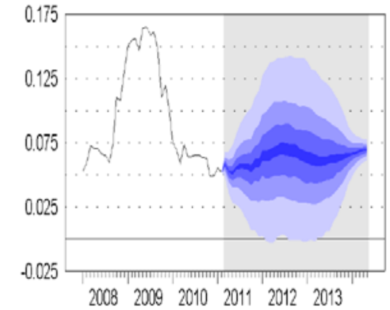
Source: BBVA Research

Chart 11
Small Time and Savings In $bn, Nominal



Source: BBVA Research

Chart 12
Small Time and Savings YoY %

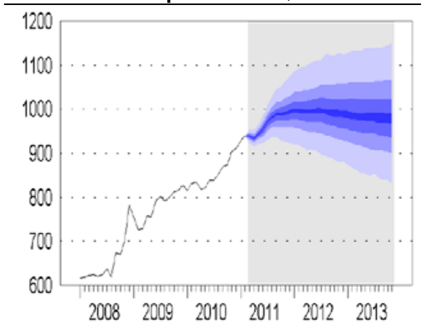


Source: BBVA Research

Deposits

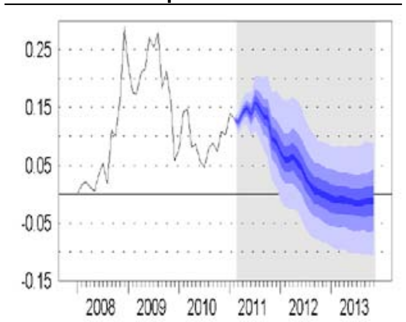
Deposits arrived overall commensurate with our forecasts, although transactions deposits continue to behave somewhat frothy. As more data arrives for March this will probably be attenuated given dislocations in the financial markets. Total YoY deposit growth is trending slightly upward, although it remains below average. Slow growth in small time and savings deposits and negative YoY declines in large time deposits are the primary drivers of this slow deposit growth.

Chart 13
Transaction Deposits In $bn, Nominal



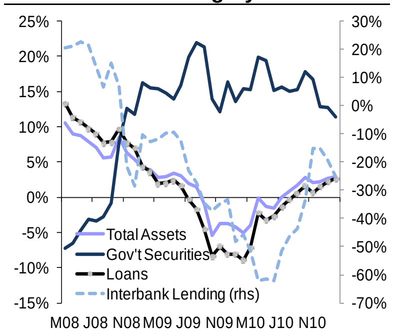
Source: BBVA Research

Chart 14
Transaction Deposits YoY %



Source: BBVA Research

Chart 15
Commercial Banking System YoY %



Source: Federal Reserve

Table 1

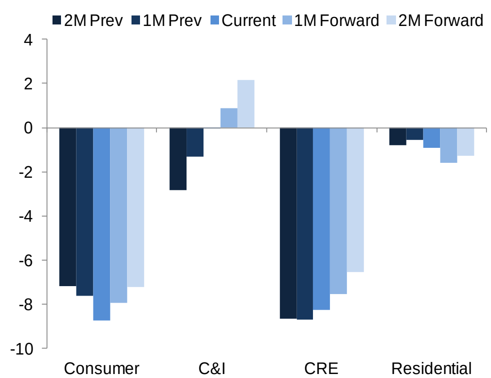
Banking System Update YoY % Change

	Consumer	C&I	CRE	Residential	Small Time / Savings	Large Time	Transactions
Deviation	2.2	0.2	0.1	1.2	0.5	-0.7	1.2
2M Prev	-7.4	-5.2	-8.7	-1.1	4.9	-8.8	10.2
1M Prev	-7.2	-2.8	-8.6	-0.8	5.5	-8.5	14.1
Actual	-7.6	-1.3	-8.7	0.7	5.2	-7.7	13.1
Predicted	-9.8	-1.6	-8.8	-0.6	4.8	-7.0	11.9
Next Month	-8.7	0.0	-8.3	-0.9	5.9	-6.4	12.4
2M Forward	-8.0	0.9	-7.5	-1.6	5.3	-4.9	14.1
3M Forward	-7.2	2.1	-6.5	-1.3	5.1	-2.0	14.9

Source: BBVA Research

Chart 16

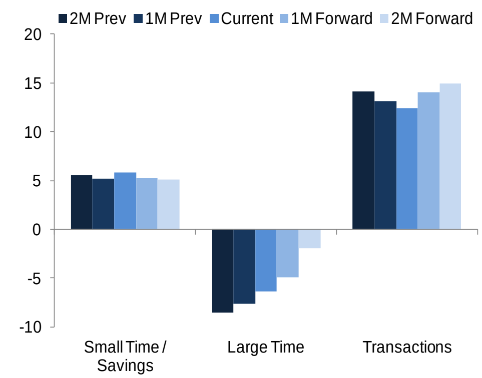
Credit Growth Snapshot YoY %



Source: BBVA Research

Chart 17

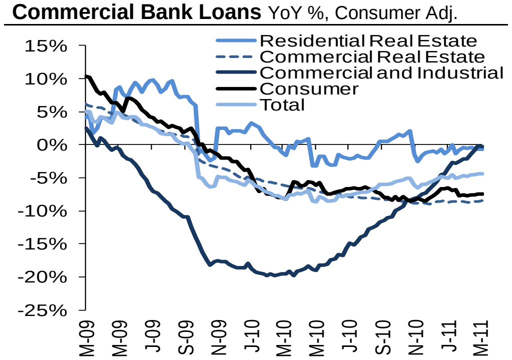
Deposit Growth Snapshot YoY %



Source: BBVA Research

Chart 18

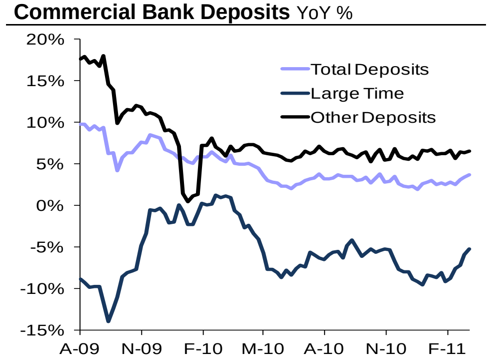
Commercial Bank Loans YoY %, Consumer Adj.



Source: Federal Reserve

Chart 19

Commercial Bank Deposits YoY %



Source: Federal Reserve

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