

Banking Watch

US

25 July 2011
Economic Analysis

US

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Bank Credit and Deposits: Monthly Situation Report

- Total loans increased MoM for the first time in 13 months. Excluding a FASB-related increase, total loans increased MoM for the first time in two years. We expect loans to be increasingly less of a drag on economic growth with a return to positive YoY loan growth in 2012Q1.
- Deposit categories are acting erratically, either as a result of the end of Regulation Q or consumers' uncertainty about the future. Small time and large time deposits both diverged strongly in opposing directions, while transactions deposits remains on track to hit \$1tr in 2012.

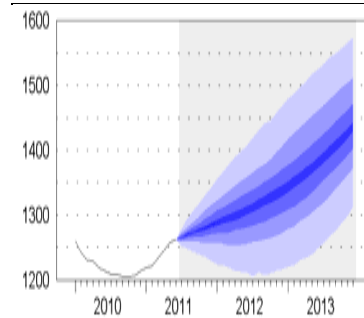
Commercial and Industrial (C&I)

Support from loan growth will critically depend on consumer and C&I offering a positive contribution, CRE continuing its present path, and residential not falling apart and merely standing still. C&I credit slowed in June to expand by only 3.4bn MoM, slower than its strong May result. We expect a strengthening over the next several months, but a weaker 2012H2 for C&I commensurate with our expectations for growth and the austerity effect stemming from government cutbacks. Given C&I's more tepid growth, this should temper discussion of C&I growing out of control given current lending stances.

Commercial Real Estate (CRE)

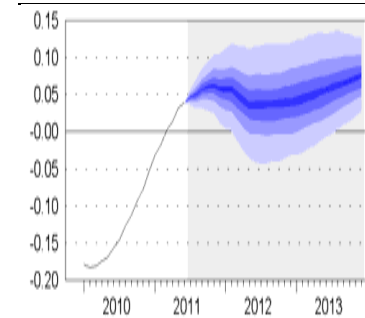
Although not a factor within the next two years, we have revised down our expectations for returns on commercial real estate investments in 2013-2014. The increase in CRE witnessed in our forecasts is a result of what might be termed a relief rally as the market normalizes after an extremely long shakeout period. We continue to expect a return of the CRE market in 2012. Although still declining, the slow rise from bottom YoY rates is a sign of increasing resolution in the CRE financing system.

Chart 1
Commercial & Industrial, \$bn



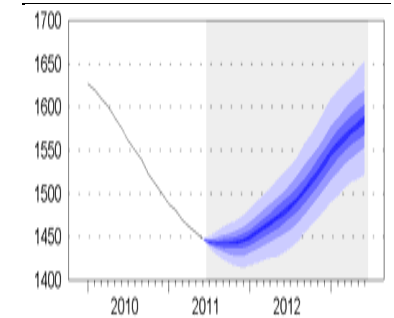
Source: BBVA Research

Chart 2
Commercial & industrial, YoY%



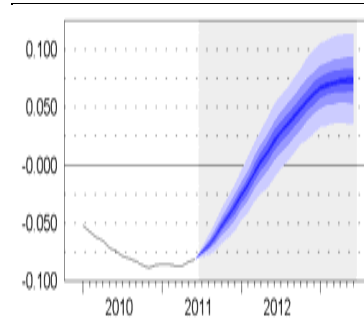
Source: BBVA Research

Chart 3
Commercial Real Estate, \$bn



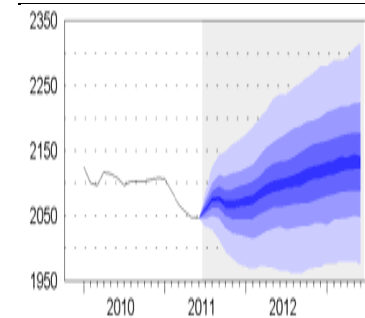
Source: BBVA Research

Chart 4
Commercial Real Estate, YoY%



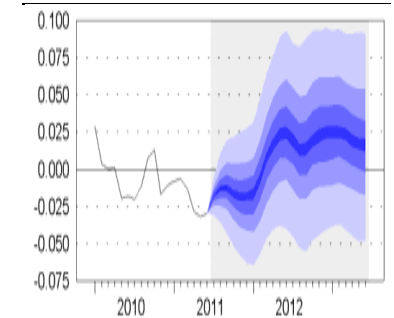
Source: BBVA Research

Chart 5
Residential, \$bn



Source: BBVA Research

Chart 6
Residential, YoY%



Source: BBVA Research

Residential

We do not expect much from residential loan growth over the next year. In order to support total loan growth, residential will have to refrain from declining appreciably. If CRE declines as forecast, consumer and C&I increase as forecast, and residential remains stable, then total loans may increase MoM by around \$4bn. This will be significant as back-to-back MoM increases will be confirmation of the trend reported in this brief. For residential, existing home sales remain weak and loan standards remain tight.

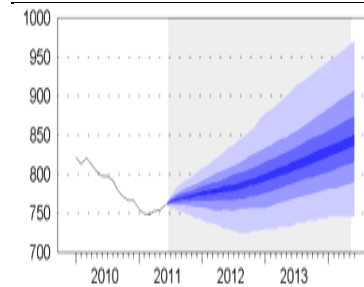
Consumer Credit

Consumer credit surprised strongly to the upside and increased MoM by roughly \$7bn. We expect continued MoM increases, but not as rapid as June's result. Given our present forecast path, we expect positive YoY growth for consumer credit in 2012Q1. Consumer credit will represent an important element in overall loan growth alongside C&I. Now that we are beyond one year past FASB-related changes to consumer credit accounting, we are getting a more clear idea of the trend in this category's loan growth over time.

Deposits

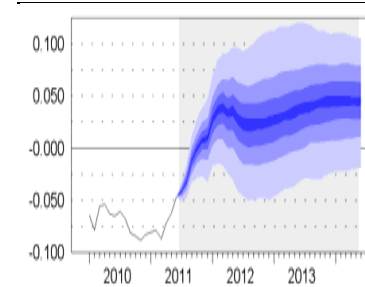
Deposits in June were volatile and we hesitate to make drastic changes to our outlook until we get a better idea of data revisions and the extent that these movements are or are not one-off currents. Transactions deposits printed in-line with our forecast and remain on track for rapid YoY growth. While small time deposits increased sharply, large time deposits reversed sharply. These trends may or may not reflect regulatory changes to business checking, or increased precautionary movements arising from uncertainty.

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



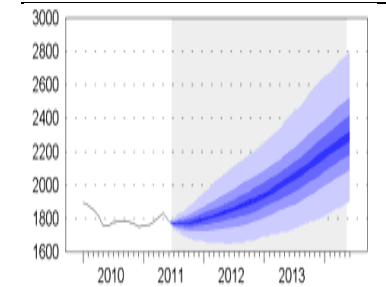
Source: BBVA Research

Chart 8
Consumer Lending, YoY, break-adj.



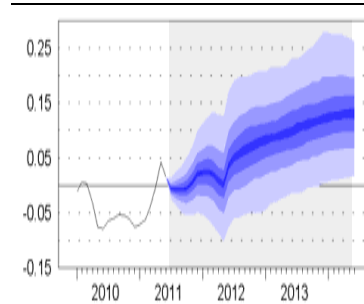
Source: BBVA Research

Chart 9
Large Time Deposits, \$bn



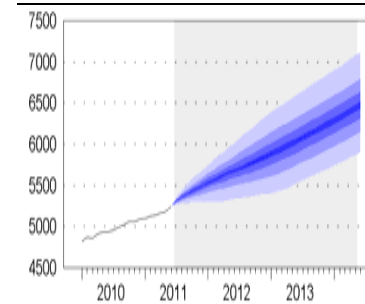
Source: BBVA Research

Chart 10
Large Time Deposits, YoY



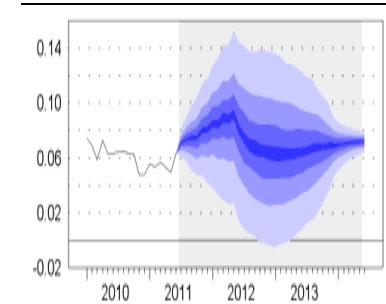
Source: BBVA Research

Chart 11
Small Time and Savings, \$bn



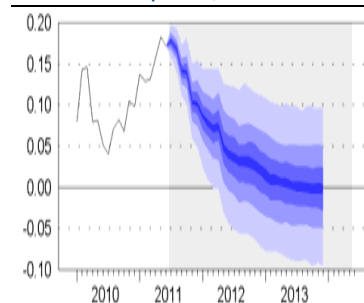
Source: BBVA Research

Chart 12
Small Time and Savings, YoY



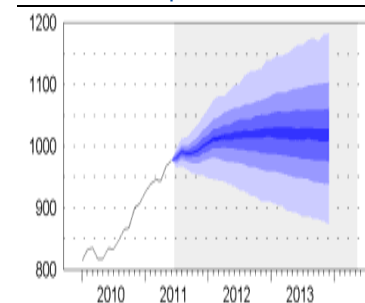
Source: BBVA Research

Chart 13
Transactions Deposits, \$bn



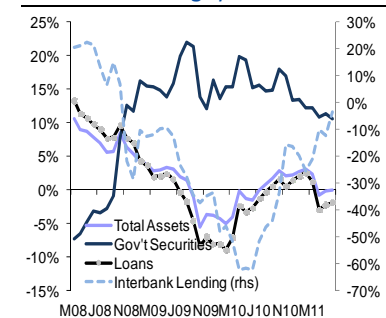
Source: BBVA Research

Chart 14
Transactions Deposits, YoY



Source: BBVA Research

Chart 15
Commercial Banking System, YoY



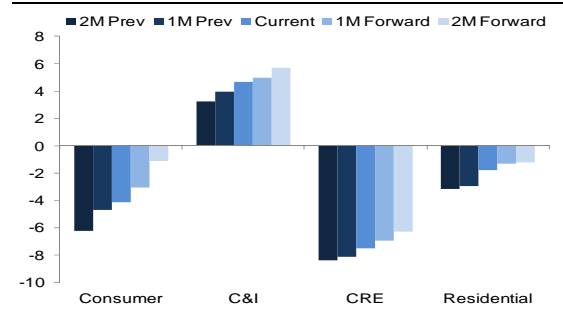
Source: Federal Reserve

Table 1
Banking System Update

	Consumer	C&I	CRE	Residential	Small Time / Savings	Large Time	Transactions
Deviation	1.2	-1.0	-0.2	0.0	1.6	-2.6	0.9
2M Prev	-7.2	1.4	-8.7	-2.9	5.4	-0.4	15.6
1M Prev	-6.3	3.2	-8.4	-3.2	5.0	4.3	18.3
Actual	-4.7	3.9	-8.1	-3.0	6.3	1.5	17.2
Predicted	-5.9	4.9	-7.9	-3.0	4.8	4.0	16.3
Next Month	-4.1	4.6	-7.5	-1.8	7.1	-0.6	17.8
2M Forward	-3.1	5.0	-7.0	-1.3	7.4	-0.7	16.8
3M Forward	-1.1	5.7	-6.3	-1.2	7.5	-0.7	14.2

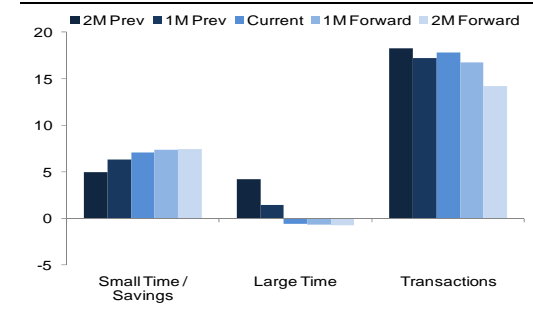
Source: BBVA Research

Chart 16
Credit Growth Snapshot, YoY%



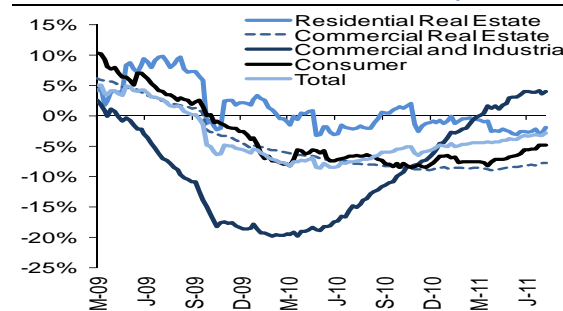
Source: BBVA Research

Chart 17
Deposit Growth Snapshot, YoY%



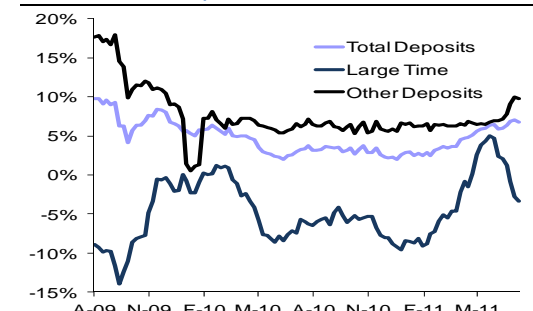
Source: BBVA Research

Chart 18
Commercial Bank Loans, YoY%, Consumer break-adjusted



Source: Federal Reserve

Chart 19
Commercial Bank Deposits, YoY%



Source: Federal Reserve

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