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DATA DISPATCH

Banks set to report earnings after loans shrink again in Q4'20

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Market Intelligence

Loans across U.S. banks continued to decline in the fourth quarter of 2020 as weak economic activity and high levels of borrower cash sapped credit demand.

Shrinking loan portfolios and a soft outlook for loan growth are compressing net interest margins, but continued strength in deposit growth has enabled banks to bulk up securities portfolios and add to earning assets. The net result for many banks is that quarterly net interest income — the principal source of revenue for the industry — could be bottoming out, but it could take several periods to recover pre-pandemic levels.

Seasonally adjusted loans at commercial banks fell 1.1% from Sept. 30, 2020, to $10.384 trillion at Dec. 30, 2020, according to weekly data from the Federal Reserve, roughly in line with the decline in the third quarter. Commercial and industrial loans fell 4.6%, or $125.14 billion, to $2.607 trillion, as banks including Comerica Inc., Fifth Third Bancorp, KeyCorp, Synovus Financial Corp. and Zions Bancorp. NA said in December 2020 that credit line utilization had dug into a deep trough.

Estimated loans and deposits at US commercial banks
For the week ended Dec. 30, 2020

	As of Dec. 30, 2020 ($B)	Change (%) From previous week	YOY
Commercial & industrial loans	2,606.99	-0.1	10.9
Real estate loans	4,667.77	0.0	0.9
Residential real estate loans	2,246.66	0.0	-2.1
Commercial real estate loans	2,421.11	0.0	3.9
Consumer loans	1,522.20	-0.2	-4.4
Credit card and other revolving	746.89	-0.7	-11.6
Automobile	466.44	0.3	3.4
Total loans and leases	**10,383.80**	**0.1**	**3.5**
Deposits	**16,128.65**	**0.3**	**21.9**

Data compiled Jan. 11, 2021.
Analysis based on the H.8 report released by the Federal Reserve on Jan. 8, 2021, for the week ended Dec. 30, 2020, and is seasonally adjusted. The data is estimated by benchmarking weekly data provided by a sample of banks to quarter-end reports of condition (call reports).
Year-over-year numbers are compiled using data for the week ended Jan. 1, 2020.
The components listed are not representative of the banking industry's entire loan portfolio.
Source: Federal Reserve

Line usage "remained [at] an all-time low," Bank of America Corp. Chairman, President and CEO Brian Moynihan said, but at least it had not fallen further, "which is a good start." KeyCorp Chairman, President and CEO Christopher Gorman said utilization will pick up "when people start restocking inventories," but he was not optimistic that would happen at the beginning of 2021.

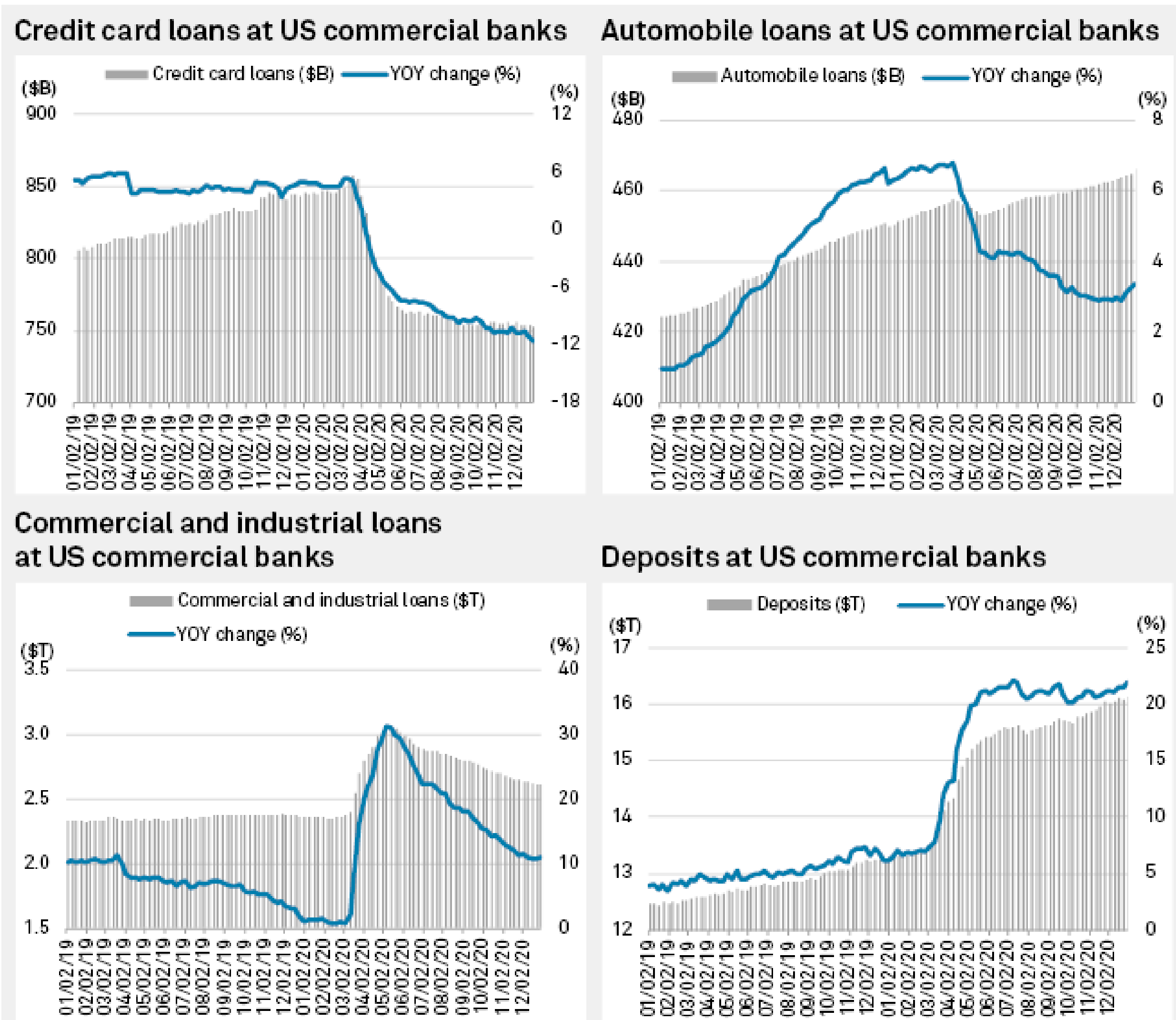
As a general framework, loan growth might resume "when the vaccine reaches 70% of the population," Moody's Senior Vice President David Fanger proposed.

"Yes, there's a recovery under way, but we're still looking at GDP levels that are below the level of pre-pandemic," he said in an interview. "Businesses are not doing a lot of investing right now because there's still a fair amount of uncertainty."

C&I portfolios are also leaking Paycheck Protection Program loans as the $525.01 billion granted under the first two rounds of the federal small-business rescue program are forgiven. However, new loans under a third round created by December's $900 billion COVID-19 relief legislation are likely to partially offset the outflows in the coming months.

According to the Small Business Administration, payments of $38.43 billion had been made in response to $83.21 billion of forgiveness applications as of Nov. 22, 2020. The new relief package provides about $284 billion for additional PPP loans, both for first-time and second-time borrowers.

Consumer lending volume continued to move sideways after a steep decline in the first half of 2020, increasing 0.1% from Sept. 30 to $1.522 trillion at Dec. 30. Credit card loans continued to contract, declining 1.3% to $746.89 billion. In December, JPMorgan Chase & Co. CEO Jamie Dimon said his bank had reversed much of the tightening in consumer loan underwriting it implemented because of the pandemic as unemployment has improved. But card issuers have said consumers remain cautious, and borrowing has continued to be restrained by "forced thrift" as COVID-19 blocks spending on things such as travel and dining.



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Source: Federal Reserve

Deposit growth accelerated from the third quarter, with balances increasing 2.8% from Sept. 30 to $16.129 trillion at Dec. 30. The Fed has continued to pump money into the economy by buying about $120 billion of bonds each month.

Retail deposits experienced a big lift last spring because of federal relief payments directly to households and are due for another boost from roughly $150 billion total of $600 payments to individuals under the December relief package.

Although not yet reflected in the most recent Federal Reserve data, the money is being distributed rapidly. Treasury Department data shows that more than $100 billion had left the government's account for the payments just eight days after the relief legislation was enacted Dec. 27, 2020. Democrats, who are set to control the Senate after President-elect Joe Biden takes office Jan. 20, have promised to prioritize an additional $1,400 in direct payments to individuals.

With deposits swelling balance sheets, banks increased securities holdings 6.3% from Sept. 30 to $4.716 trillion on Dec. 30, a bit faster than the growth rate in the first three quarters of 2020.

But banks, nervous about locking themselves into low-yielding bonds, added to their cash levels even faster. Cash and short-term loans banks make through the repurchase and fed funds markets increased 11.1% from Sept. 30 to $4.18 trillion on Dec. 30.

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