

ABA Expert Webinar:

Economic Outlook and State of the Banking Industry

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PART 1: ECONOMIC OUTLOOK

Economic Outlook

1. Robust Economic Recovery

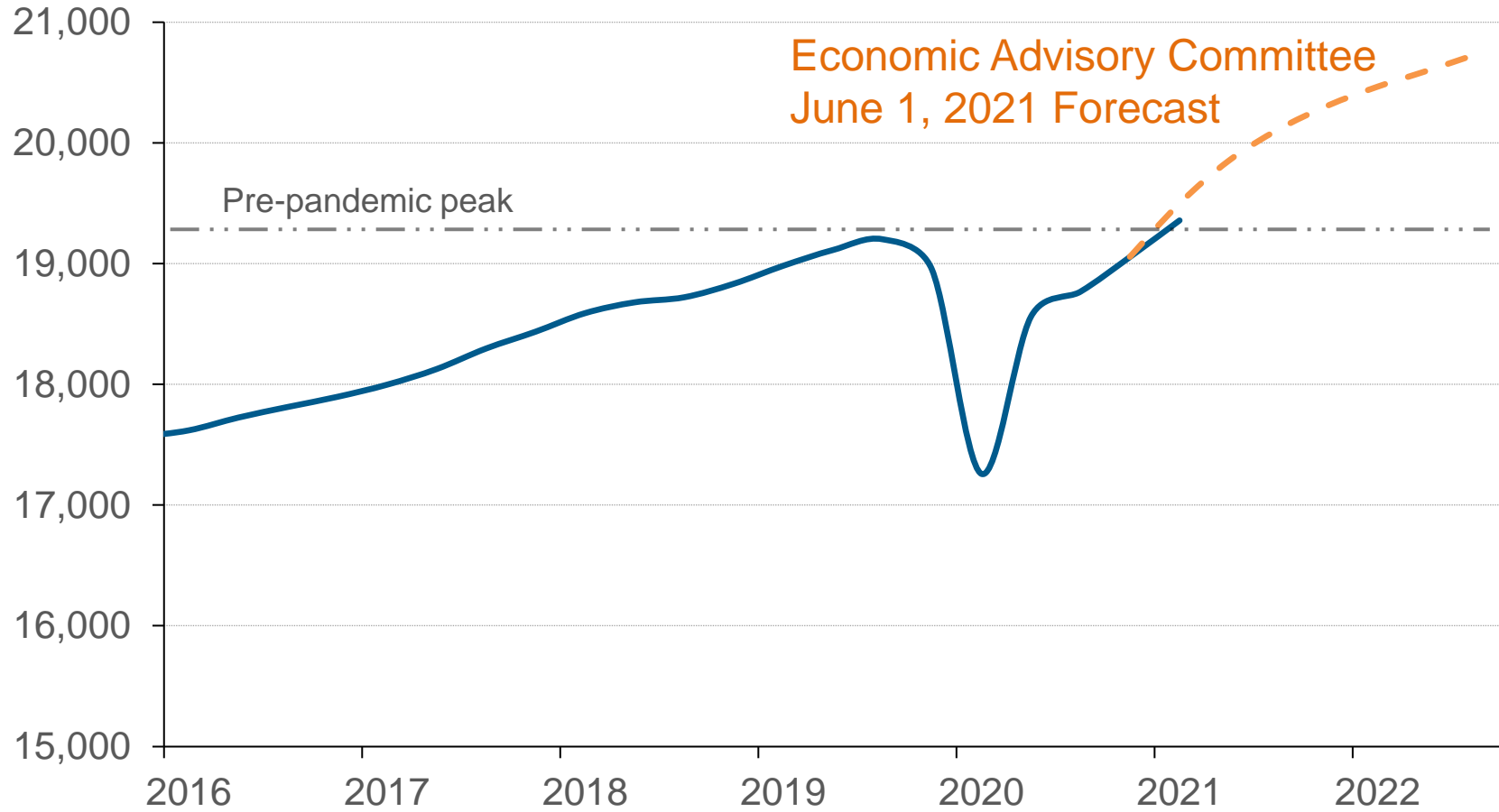
2. Consumers Key to Recovery

3. Business Confidence

4. Inflationary Pressures, Other Risks

1. Robust Economic Recovery

GDP, billions of chained 2012 dollars



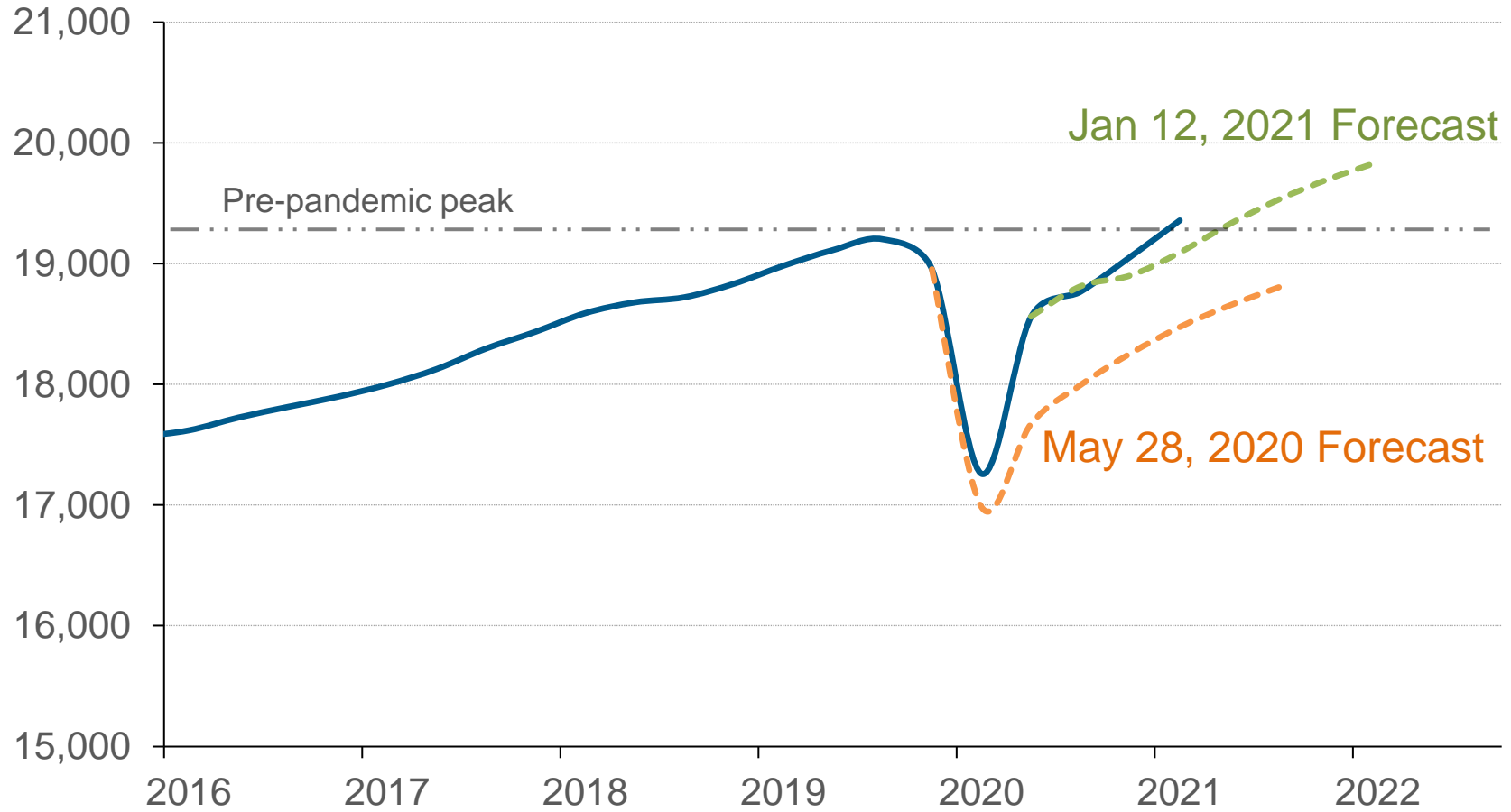
Source: U.S. Bureau of Economic Analysis, ABA Economic Advisory Committee



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GDP Passes 2019 Peak

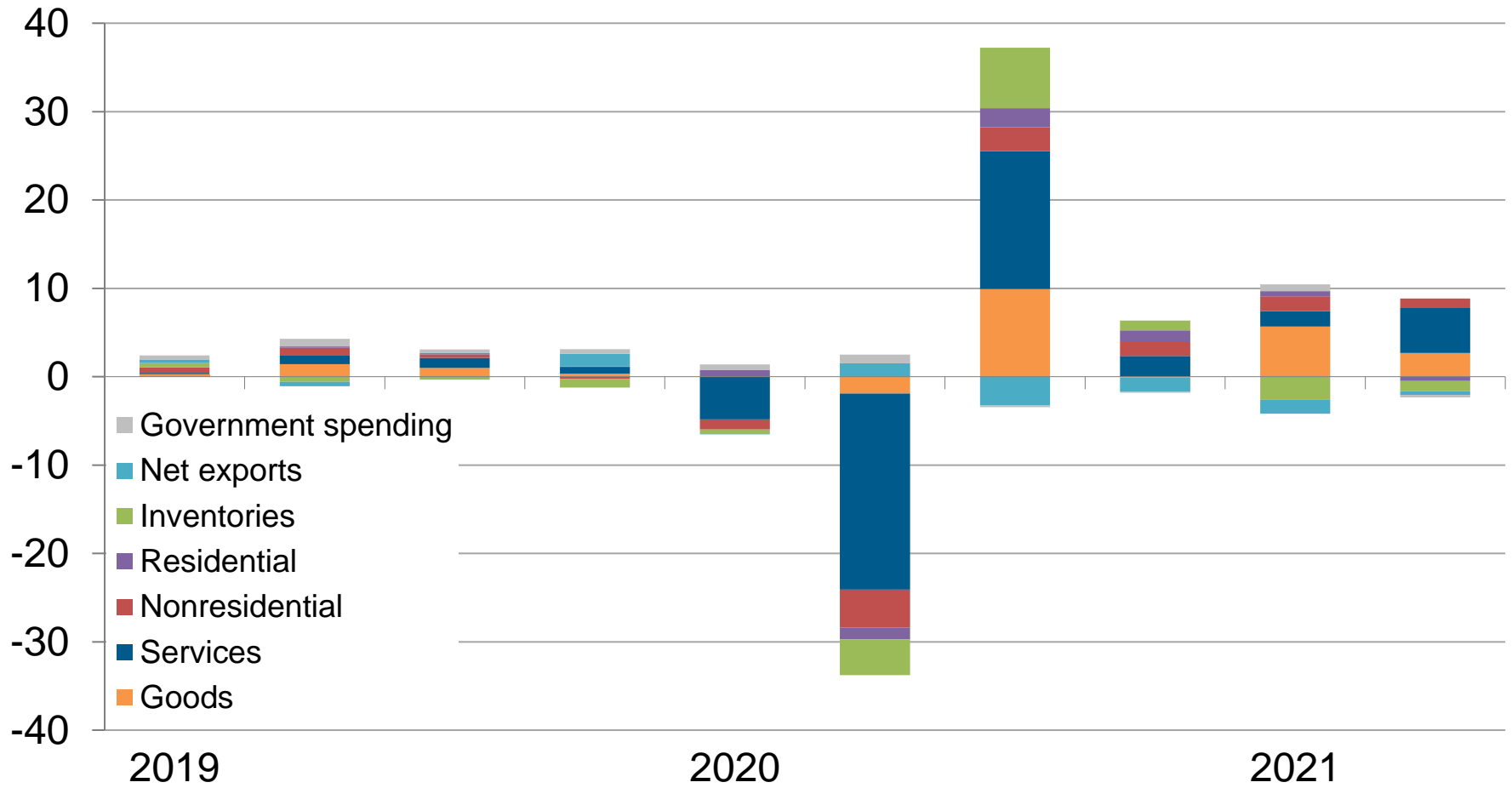
Billions of chained 2012 dollars



Source: U.S. Bureau of Economic Analysis, ABA Economic Advisory Committee

Quarterly GDP Growth, by Sector

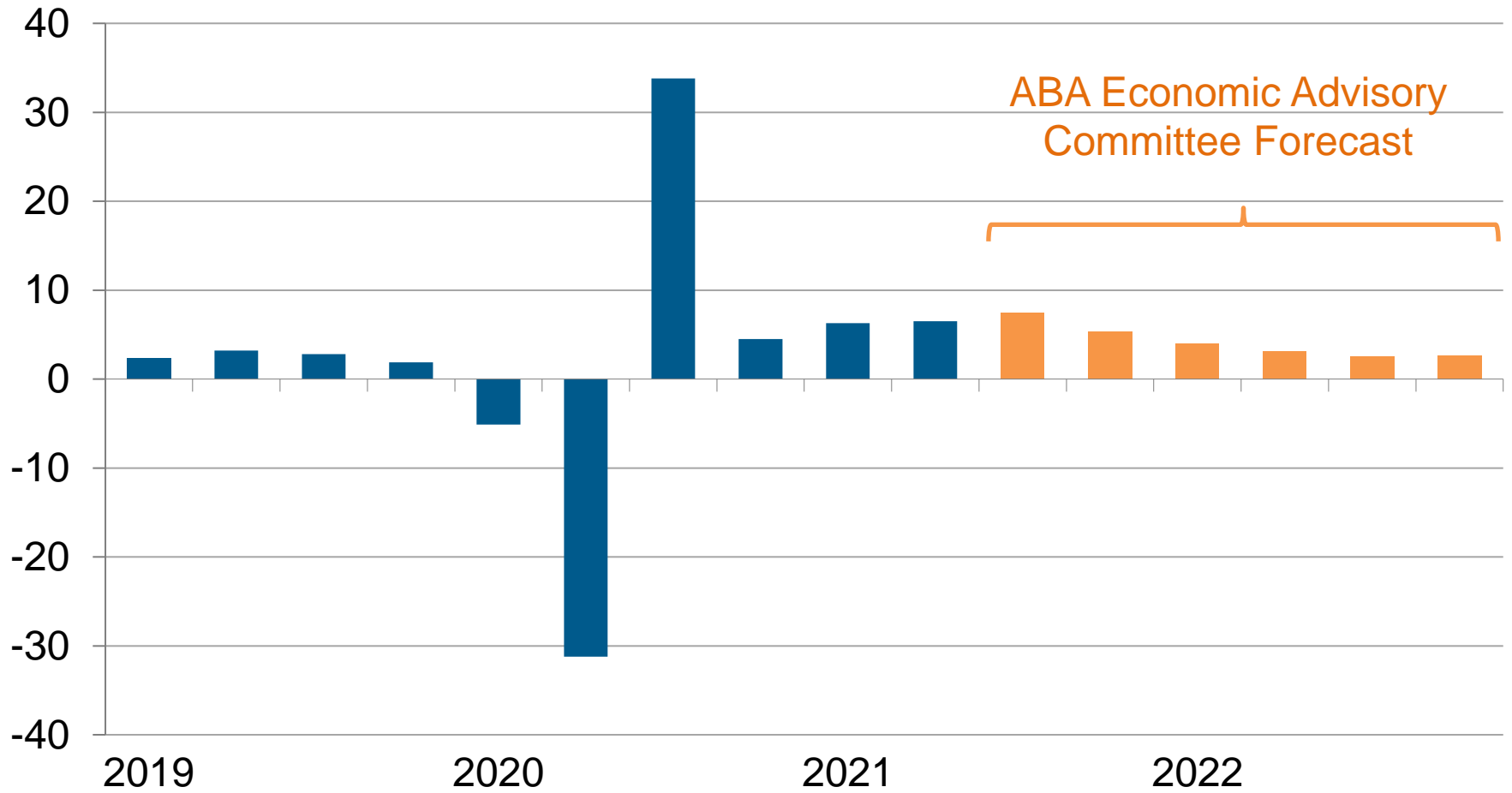
Contribution to Percent Change in Real Gross Domestic Product



Source: U.S. Bureau of Economic Analysis

Quarterly GDP Growth

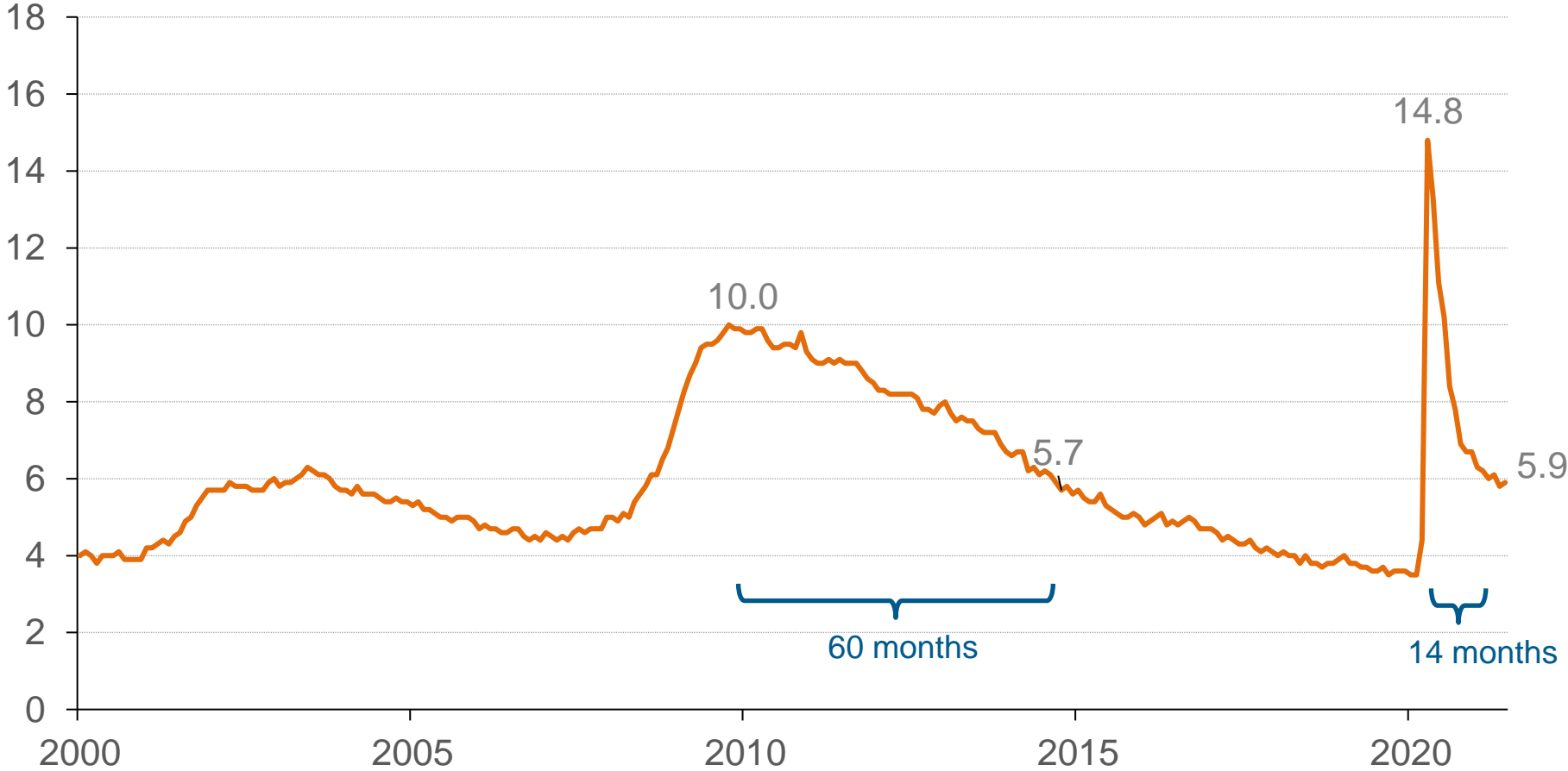
Percent change from preceding period, seasonally adjusted annual rates



Source: U.S. Bureau of Economic Analysis, ABA Economic Advisory Committee

June Unemployment Rate of 5.9%

Percent

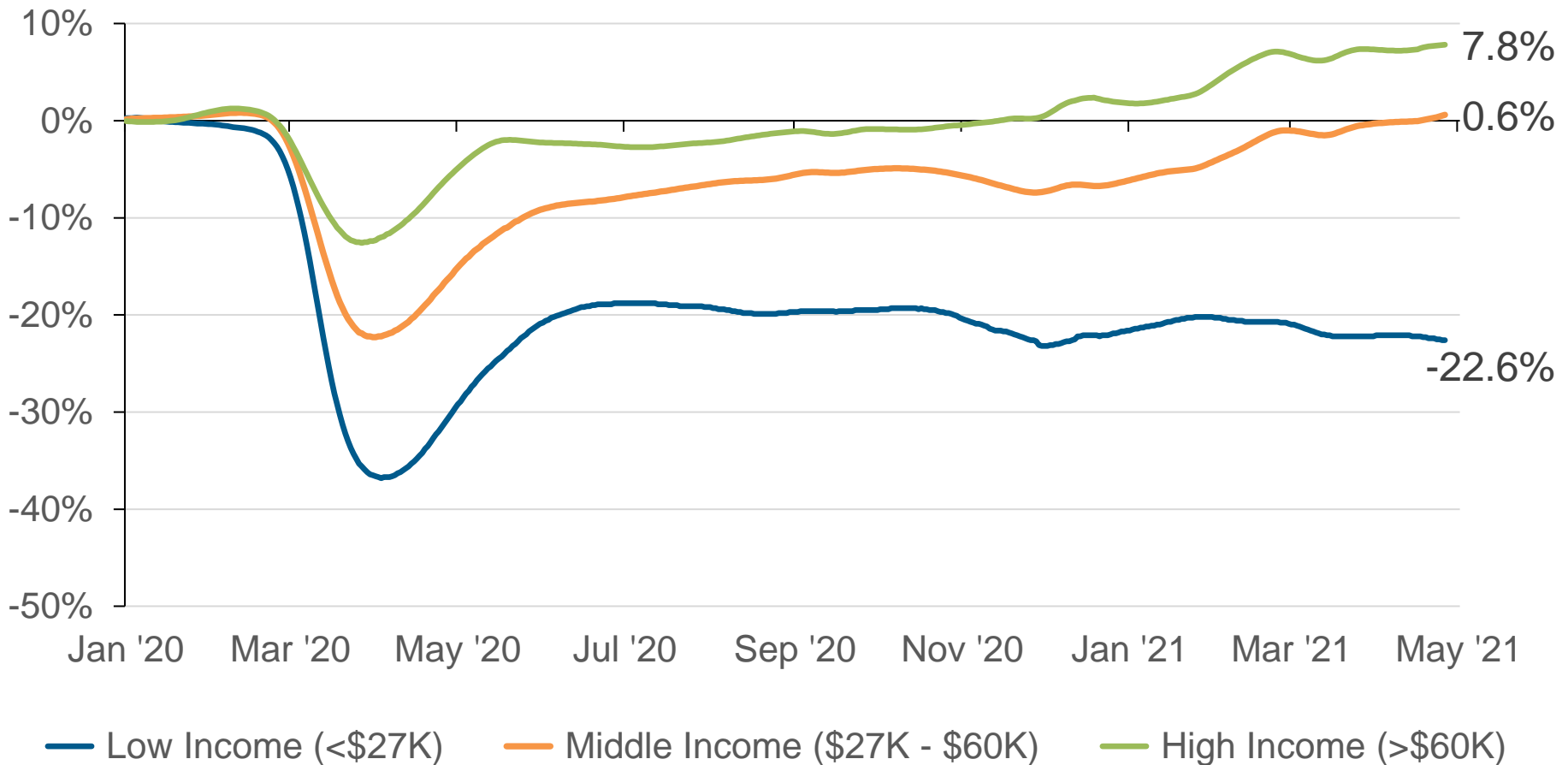


Source: U.S. Bureau of Labor Statistics



Low Wage Workers Remain Most Affected

Percent change in job employment, by income level



Source: Opportunity Insights

Employment Recovery by Sector

Industry	Total lost jobs in March - April 2020	March and April lost jobs as a share of Feb 2020 employment	Total gained jobs - May 2020 thru June 2021	Jobs recovered by June 2021 (% of job loss in March - April 2020)
Leisure and hospitality	8,224	-49%	6,043	73%
Motor vehicles and parts*	360	-36%	247	69%
Other services	1,410	-24%	1,113	79%
Retail trade	2,375	-15%	2,071	87%
Construction	1,113	-15%	875	79%
Education and health services	2,843	-12%	1,815	64%
Professional and business services	2,387	-11%	1,754	73%
Manufacturing	1,385	-11%	904	65%
Transportation and warehousing	575	-10%	481	84%
Mining and logging	68	-10%	8	12%
Information	281	-10%	103	37%
Wholesale trade	409	-7%	217	53%
Government	1,009	-4%	14	1%
Financial activities	279	-3%	204	73%
Utilities	4	-1%	(4)	-100%
Total	22,361	-15%	15,598	70%

Note: Percentage is share of industry employment. Job losses in thousands.

** Motor vehicles and parts is a subsector of the manufacturing industry and has been excluded from the calculation of the totals in the table. Next update on May 7.

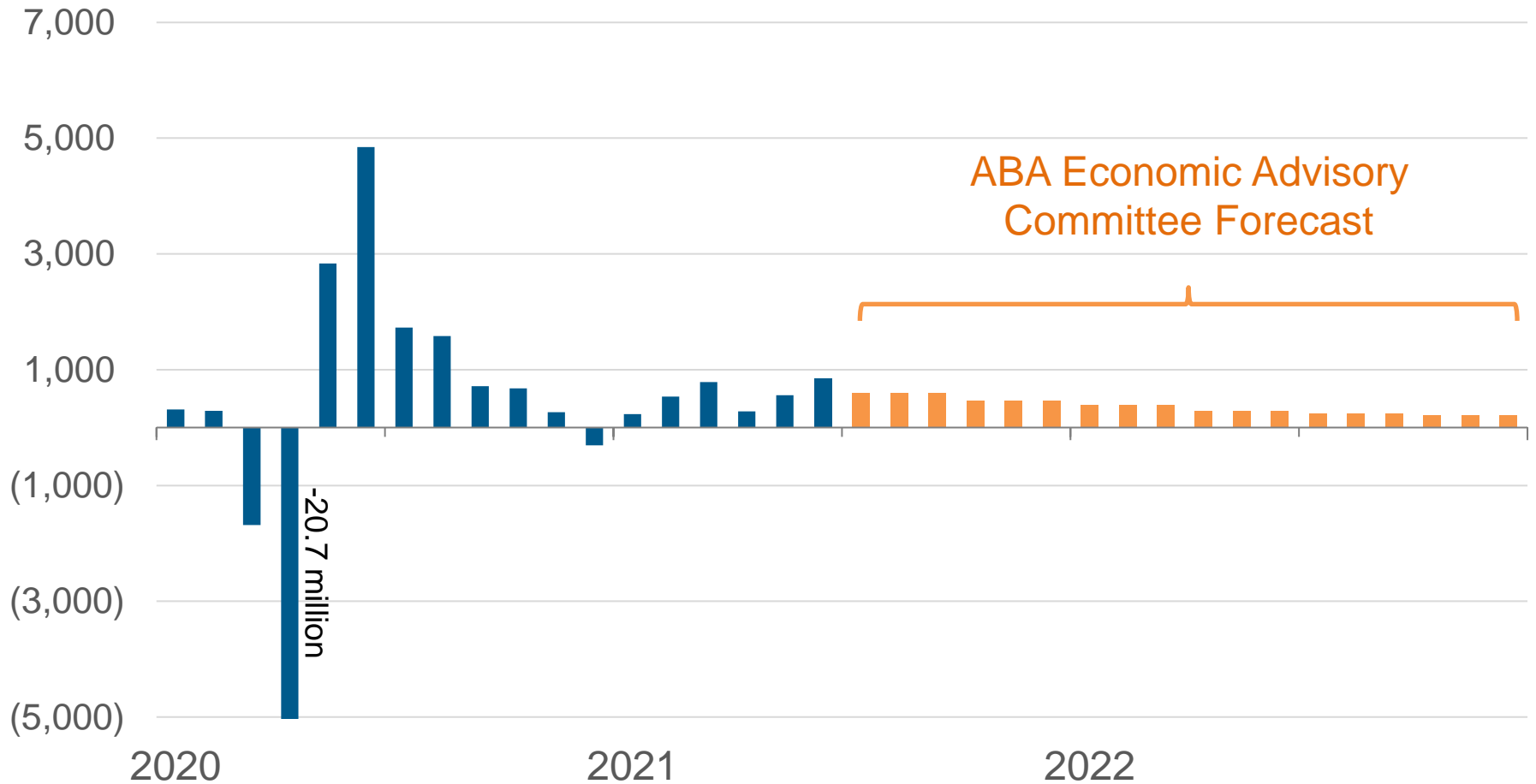
Source: US Bureau of Labor Statistics, EY analysis.



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Nonfarm Payrolls Forecast

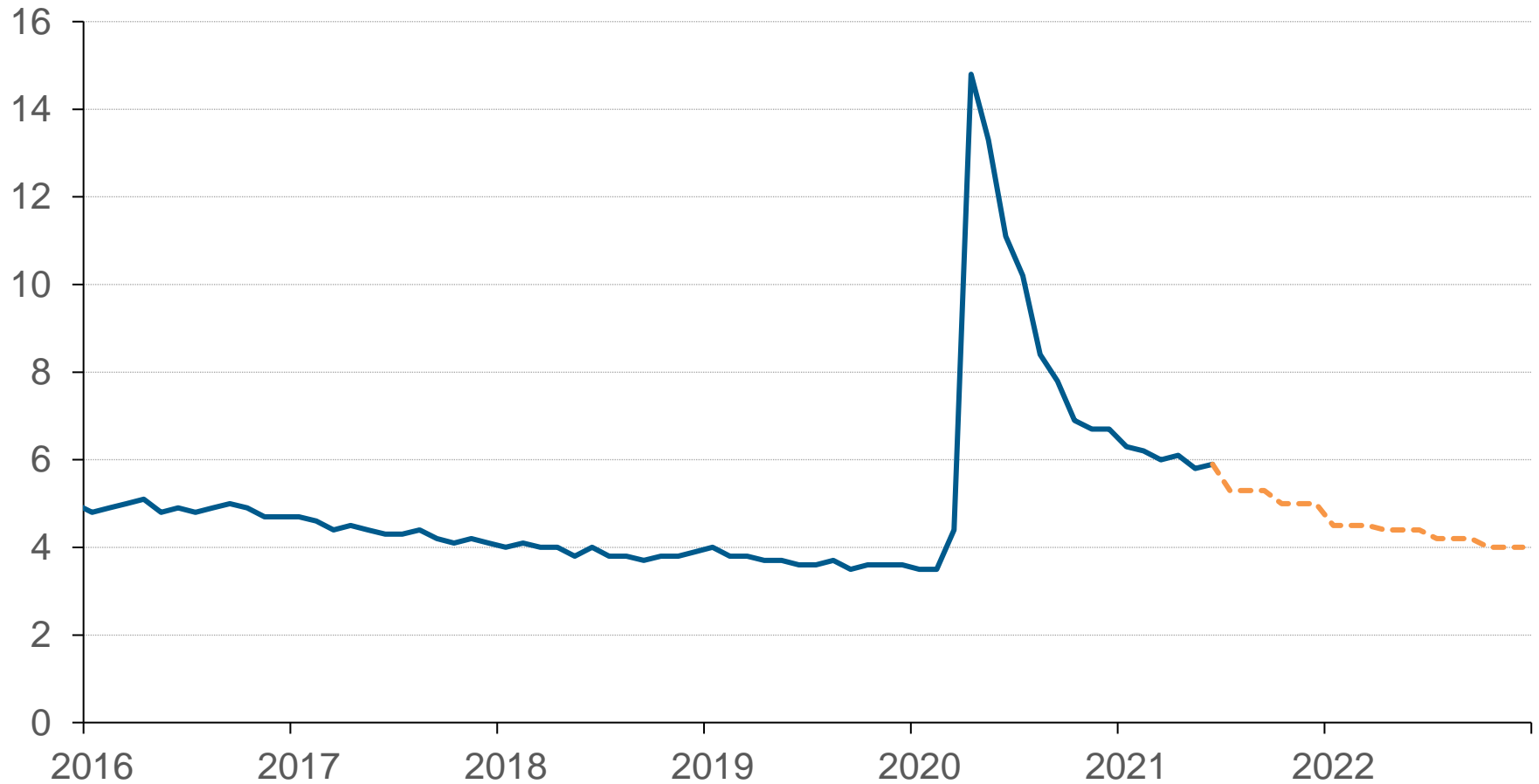
Thousands



Source: U.S. Bureau of Labor Statistics

EAC Projects Full Employment by Q4 2022

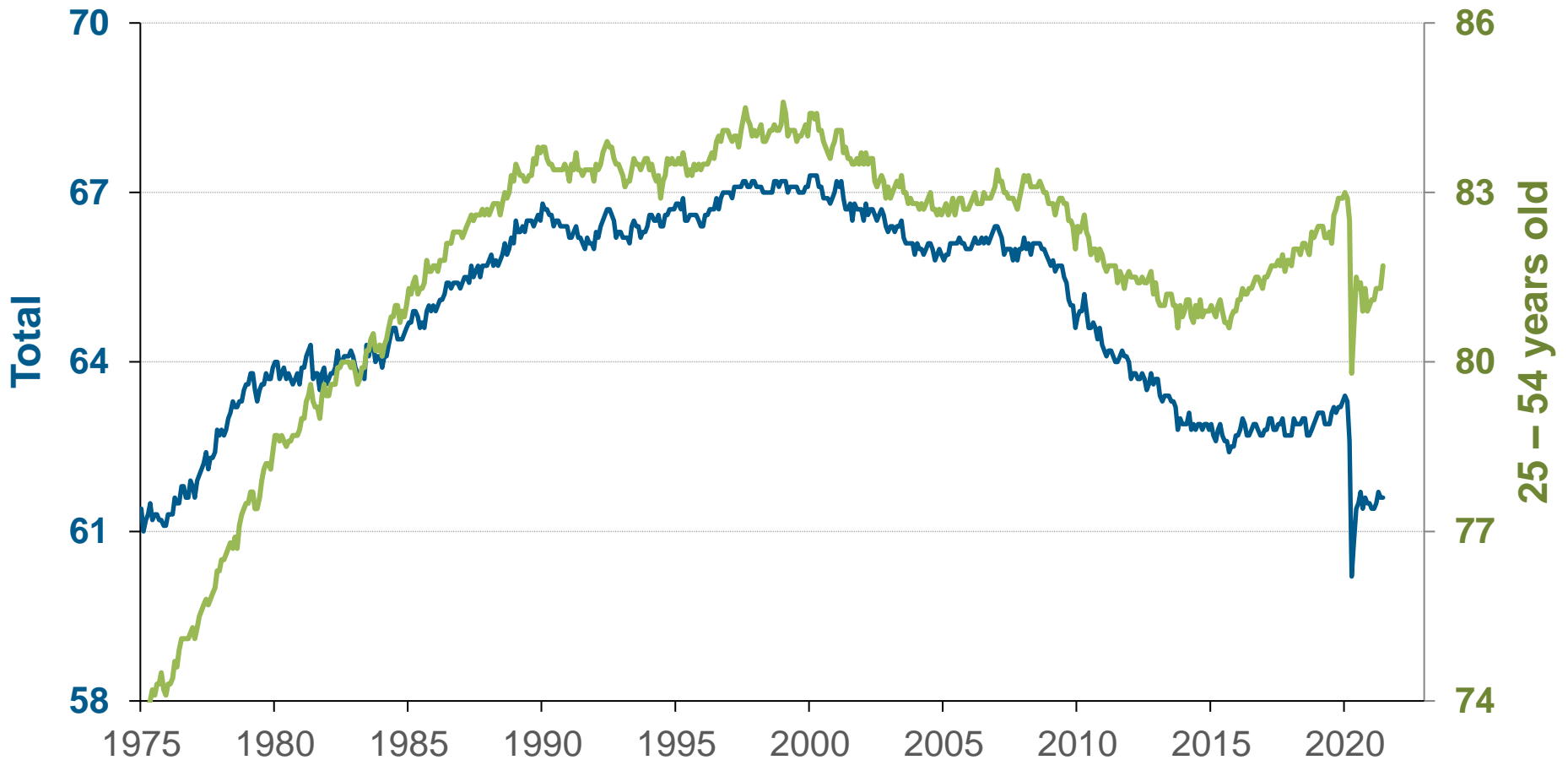
Percent



Source: U.S. Bureau of Labor Statistics

Labor Market Scarring

Labor force participation rate (%)



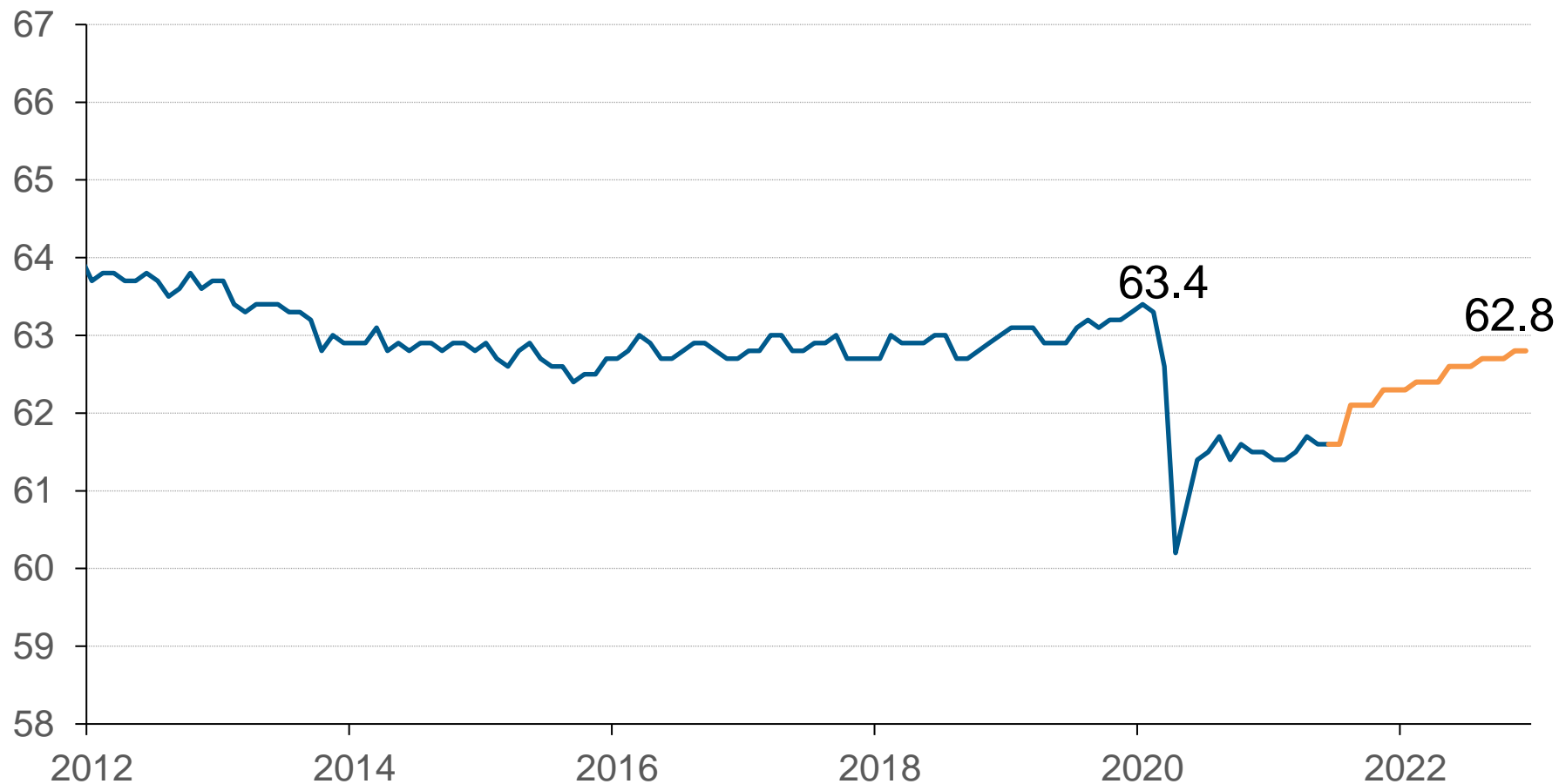
Source: U.S. Bureau of Labor Statistics



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Labor Market Scarring

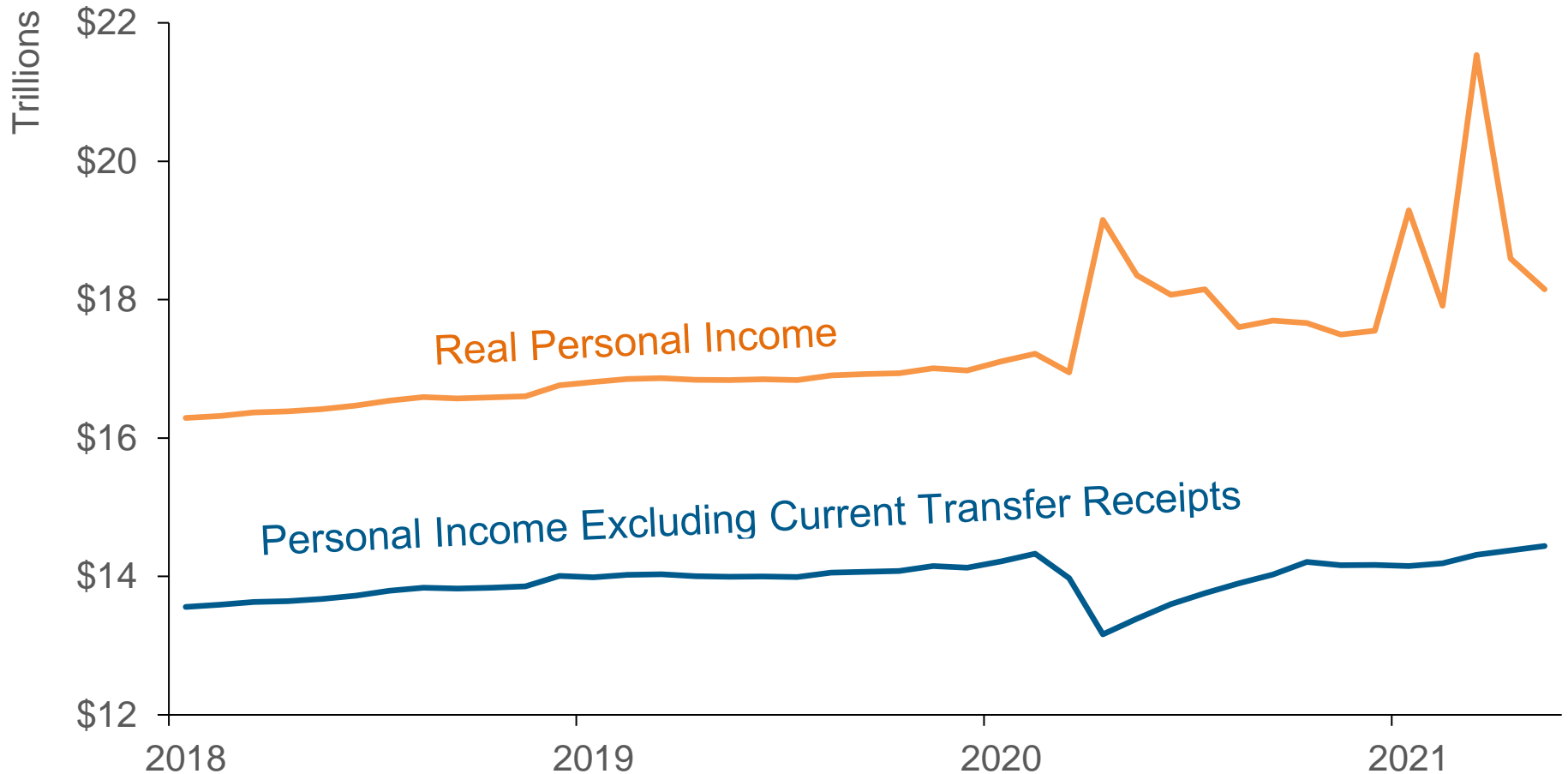
Labor force participation rate (%)



Source: U.S. Bureau of Labor Statistics

2. Consumers Key to Recovery

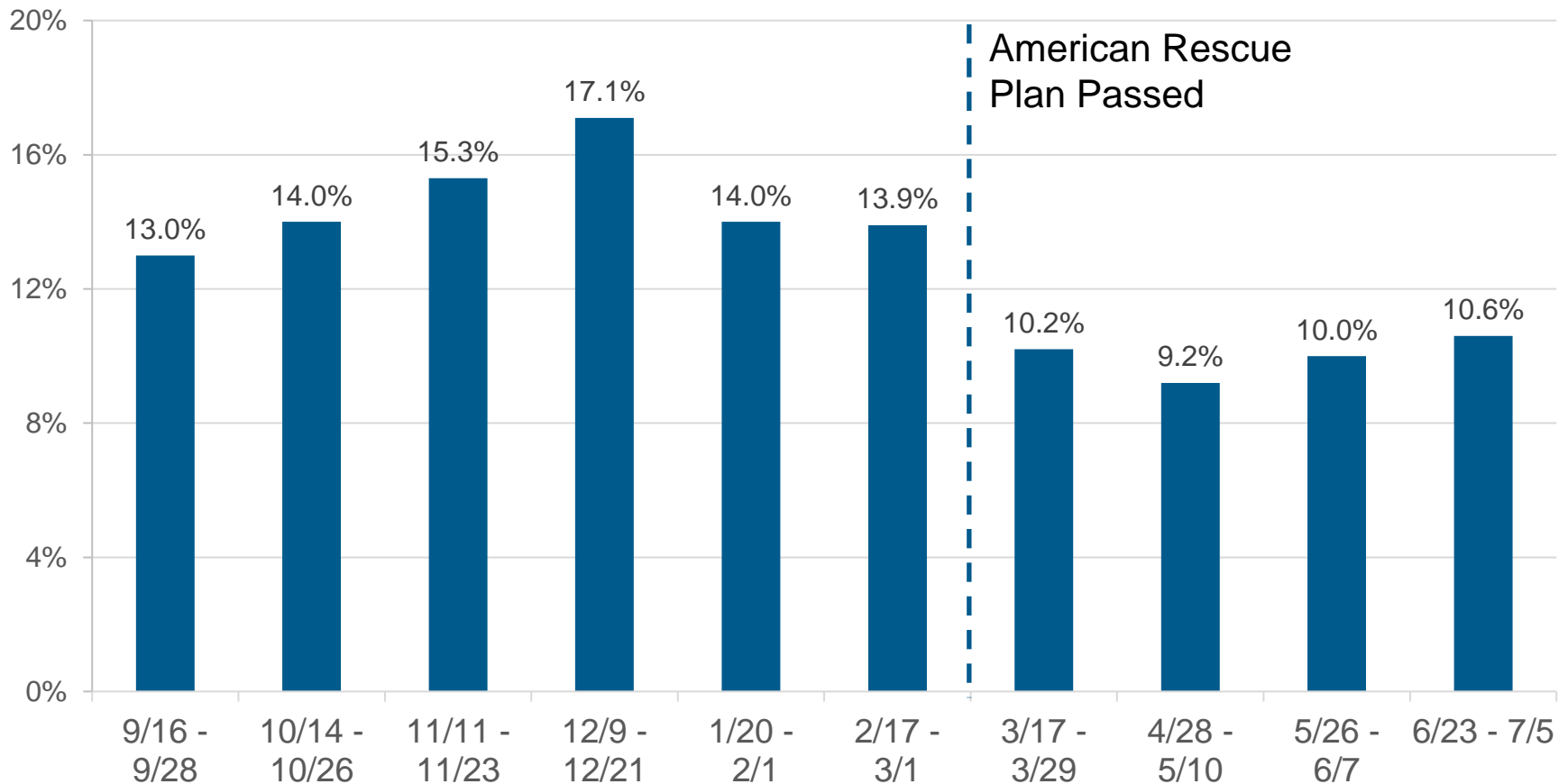
Government Payments Replaced Lost Income



Source: U.S. Bureau of Economic Analysis

Consumer Stress Declines

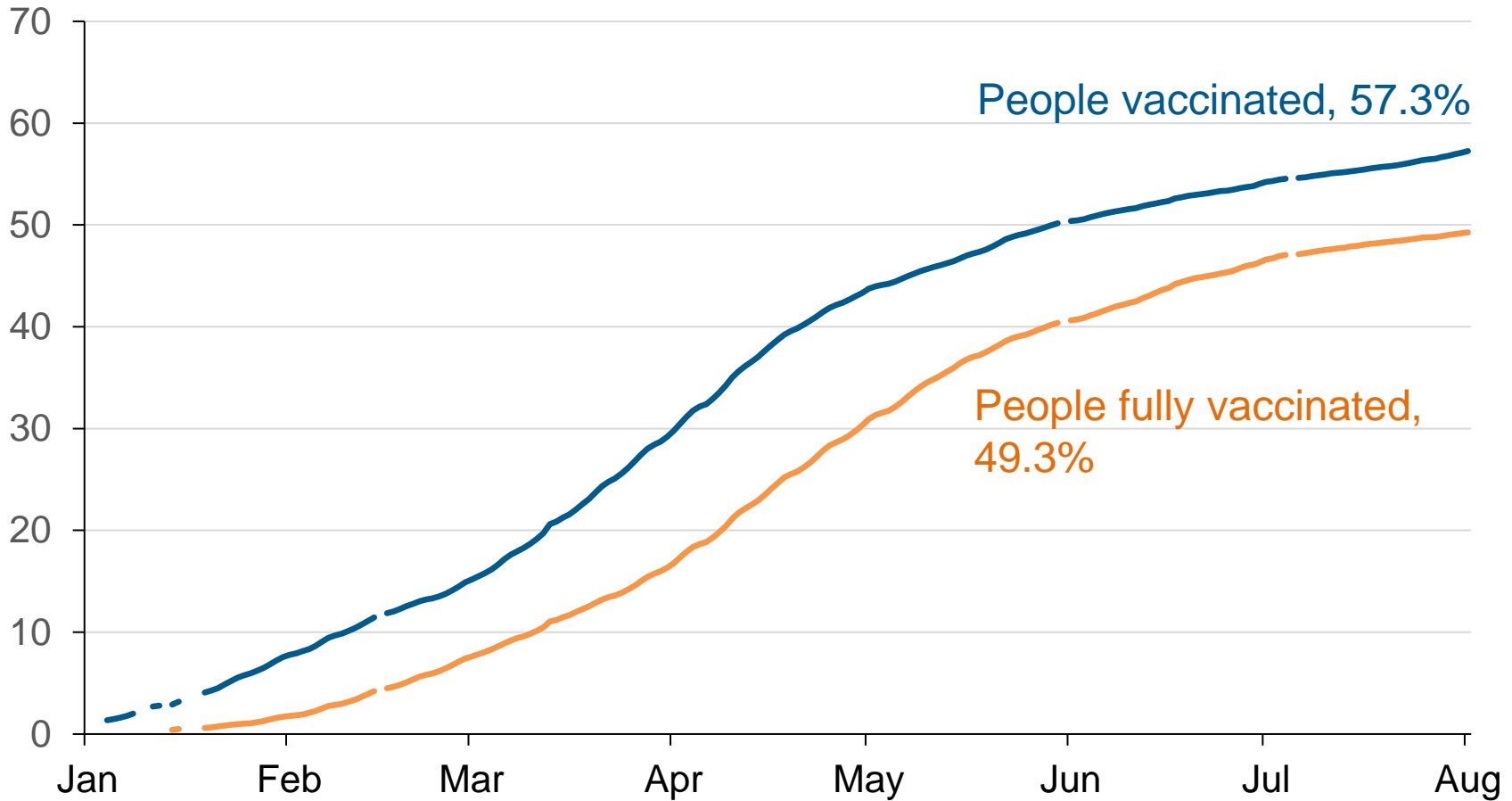
% of households saying "very difficult" paying usual expenses



Source: Census Household Pulse Survey

347 Million Vaccines Administered

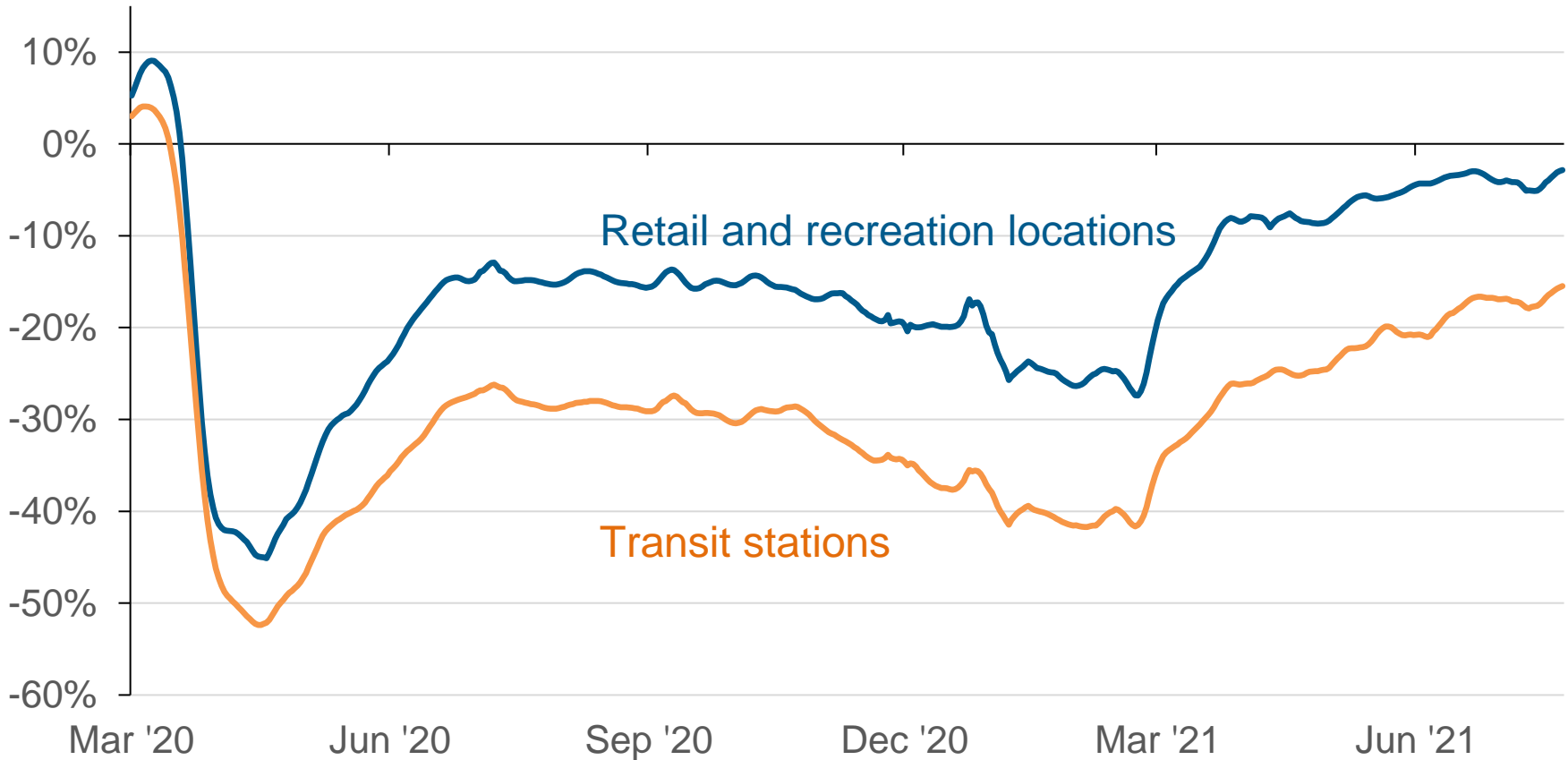
Cumulative Vaccines Administered, per 100 people



Source: Our World in Data

More People Venturing Outside

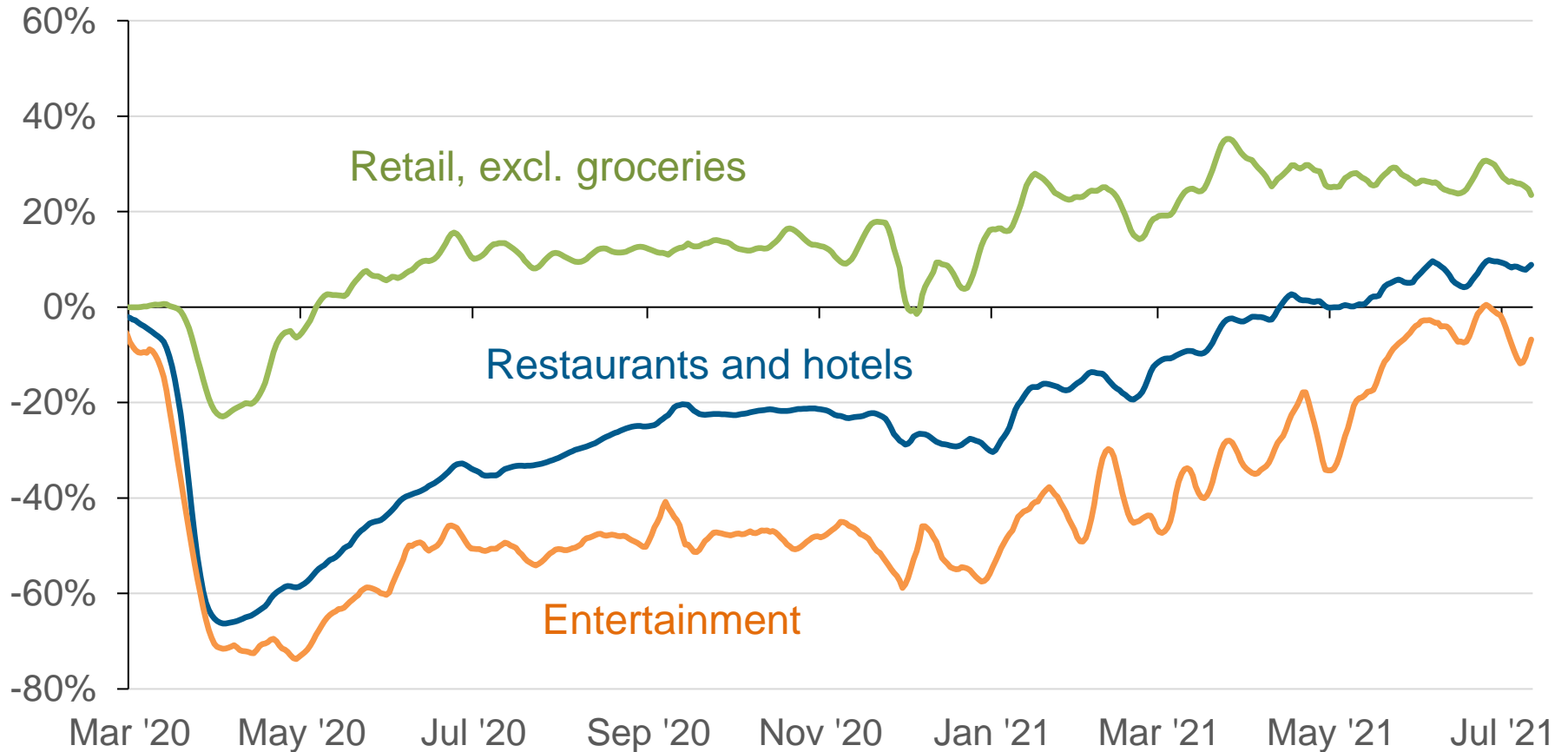
Change in average time spent outside home, indexed to Jan 3 - Feb 6, 2020, and seasonally adjusted (7-day moving average)



Source: Google COVID-19 Community Mobility Reports

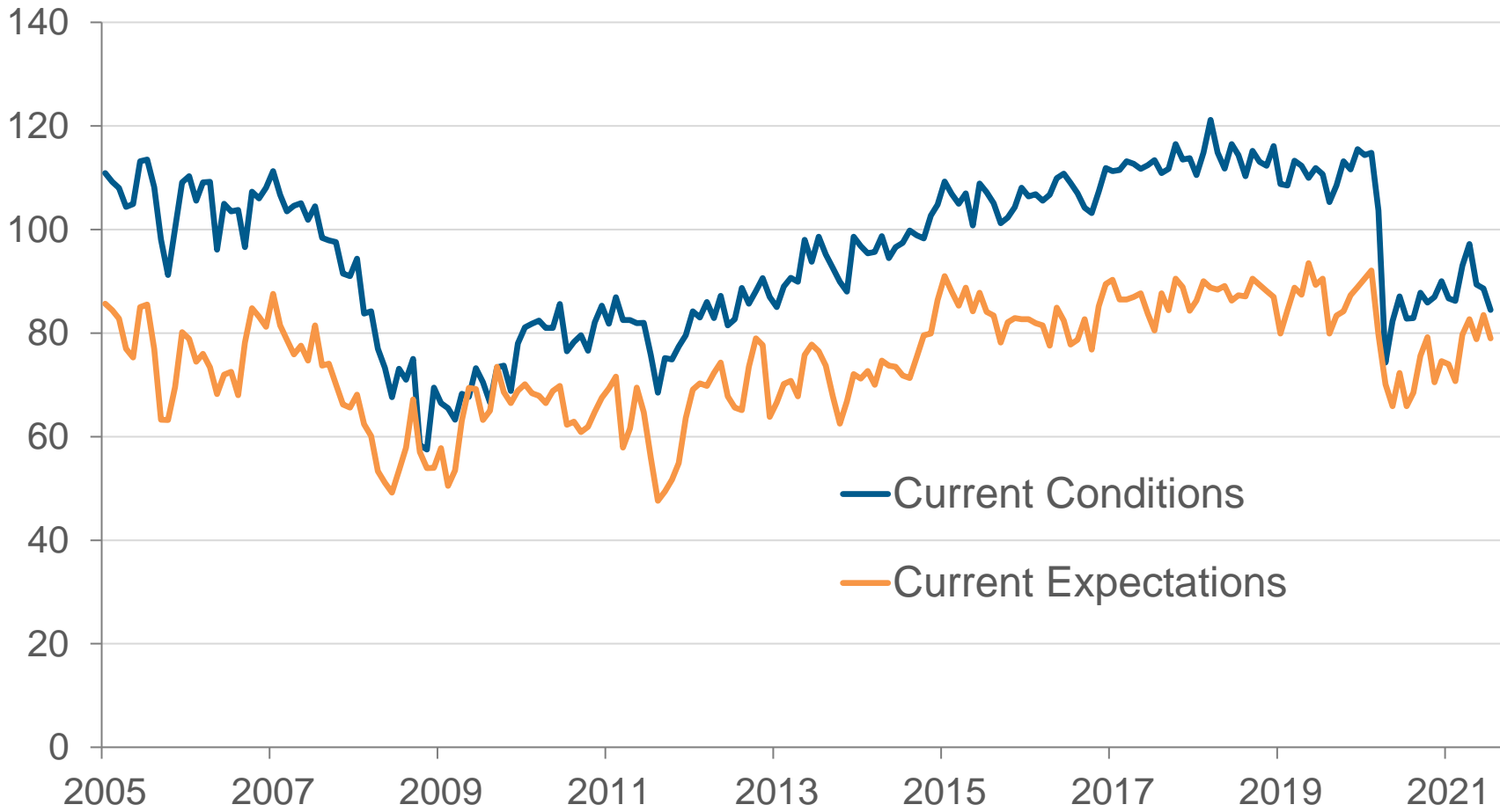
Consumer Spending Continues to Recover

Change in average consumer spending, indexed to Jan 4-31, 2020, and seasonally adjusted (7-day moving average)



Source: Affinity Solutions

Inflation Concerns Temper Consumer Confidence

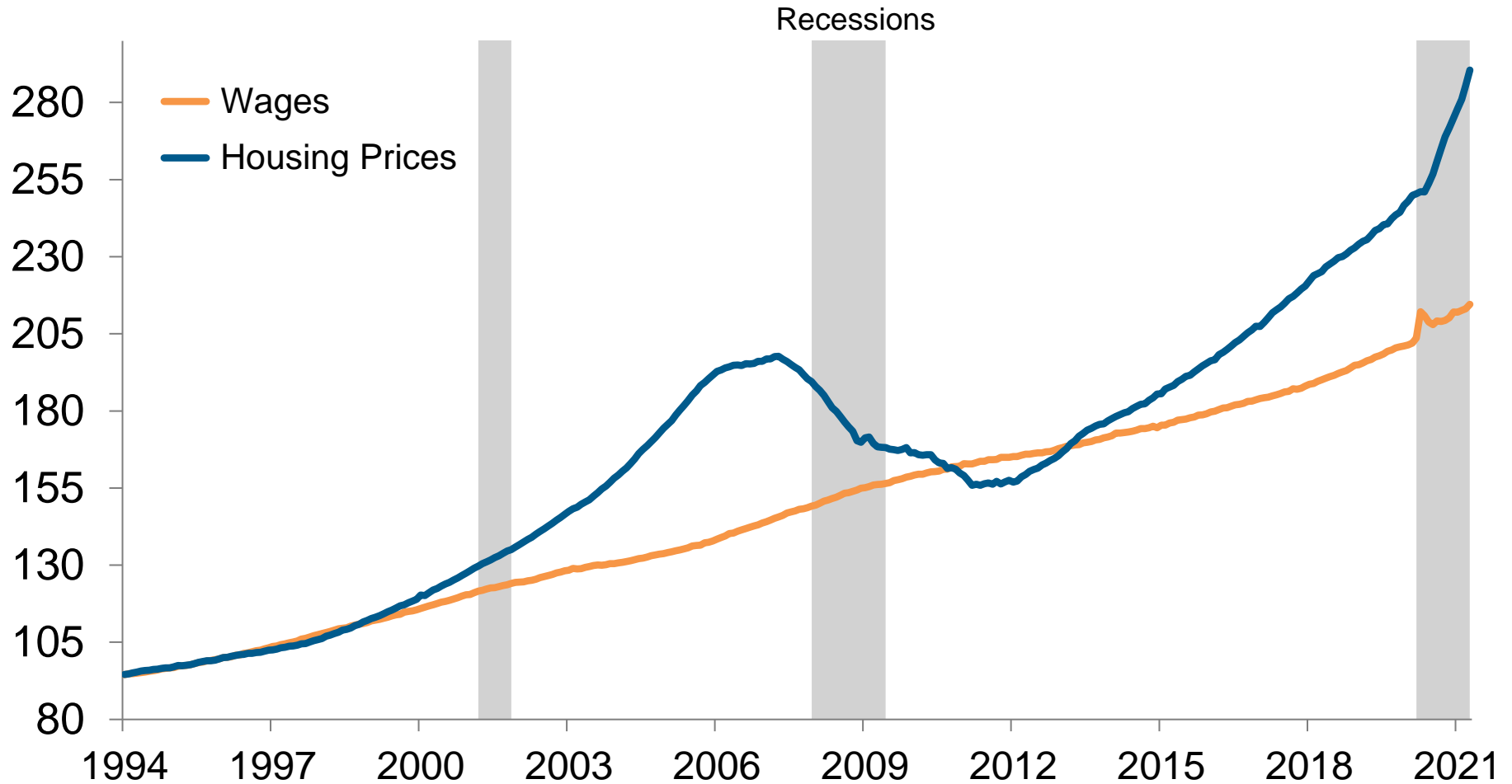


Source: University of Michigan Consumer Sentiment



Home Prices Outpace Wage Growth

Index, January 1996 = 100

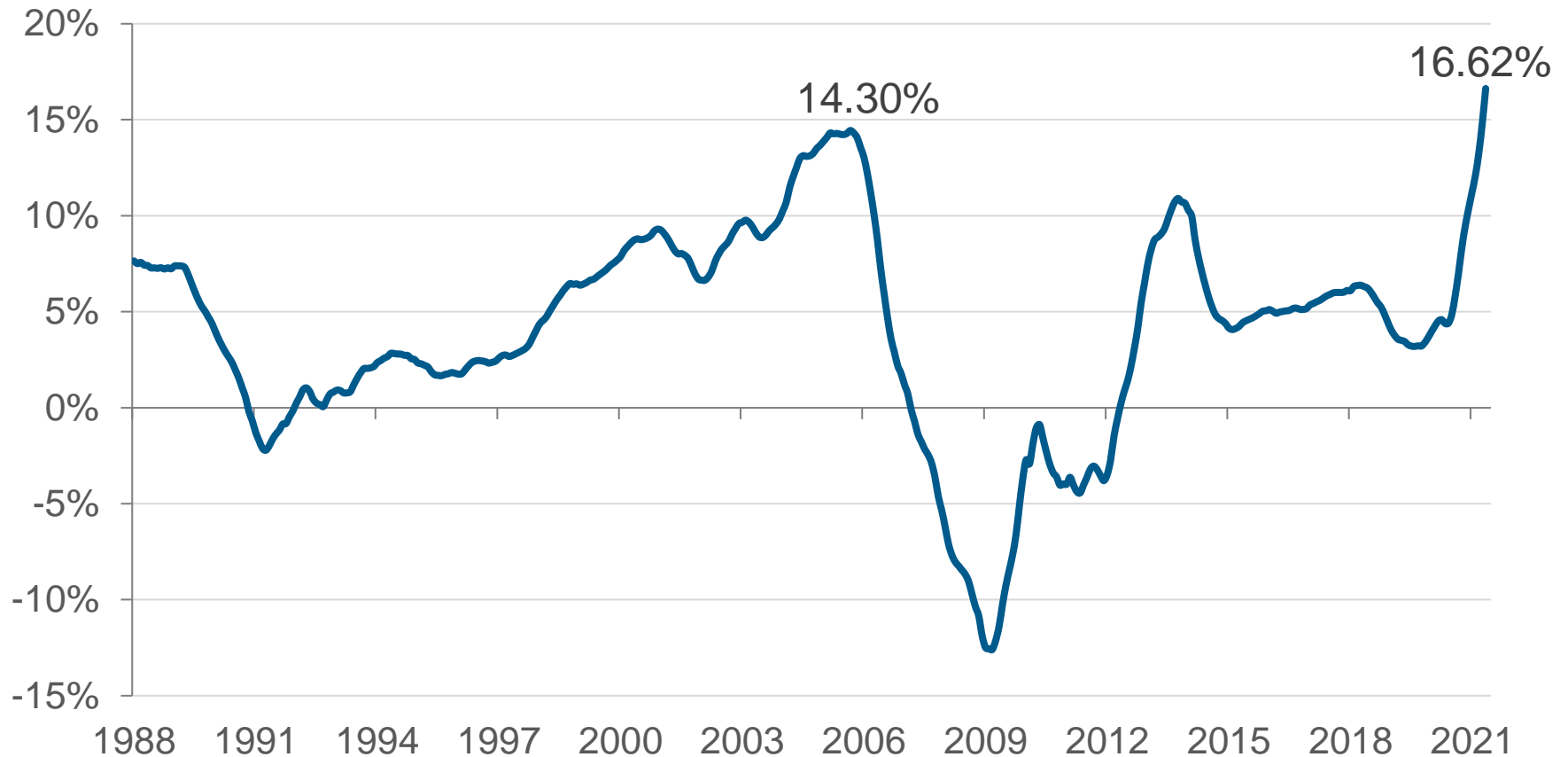


Source: BLS, Avg hourly earnings of production and nonsupervisory employees;
FHFA, Purchase Only House Price Index for the U.S.



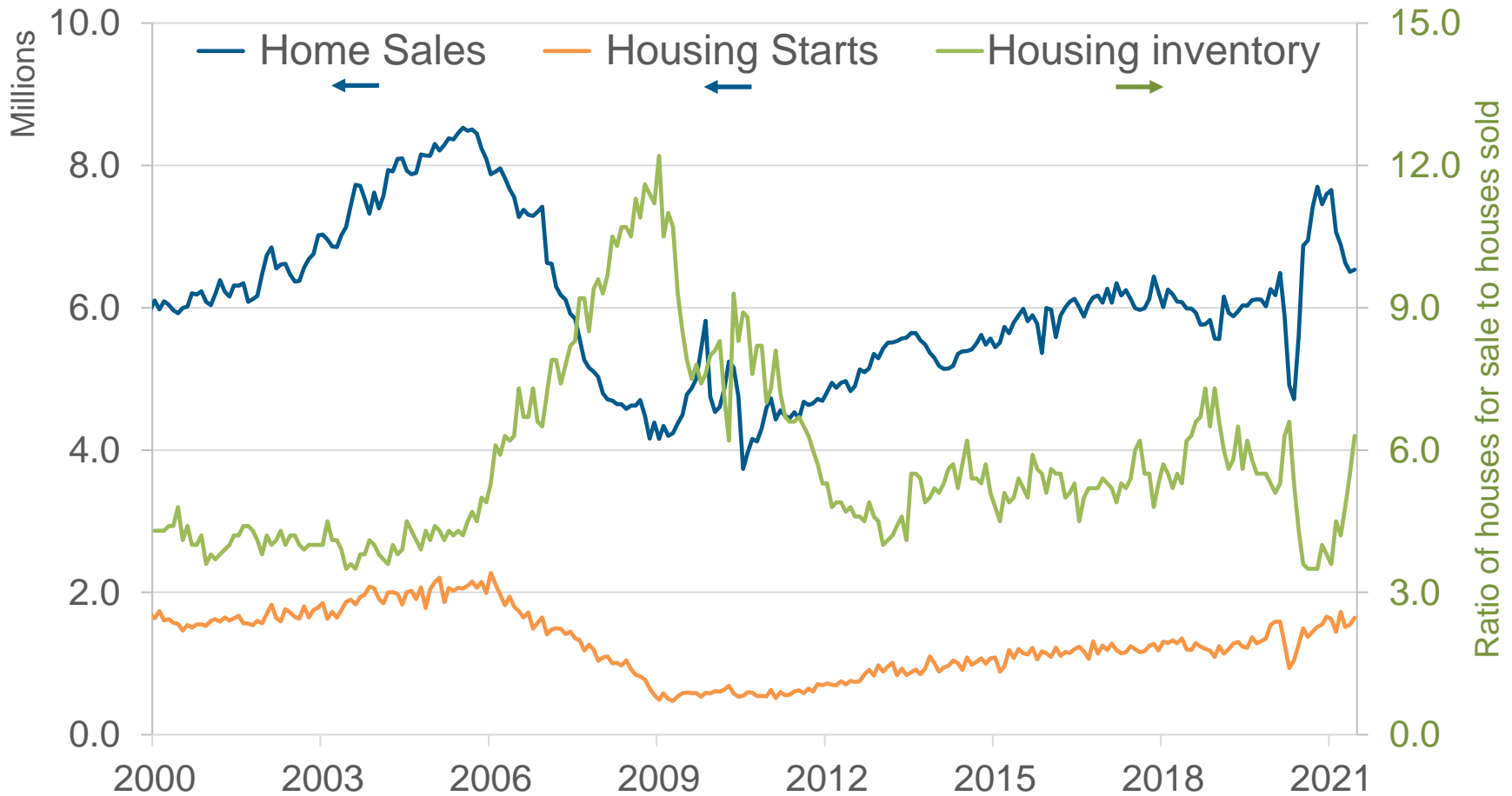
Home Price Pressures Expected to Persist

Monthly year-over-year % change



Source: S&P Case-Shiller U.S. National Home Price Index, seasonally adjusted

Housing Demand Outstrips Supply



Source: Department of Housing and Urban Development; Census Bureau; National Association of Realtors



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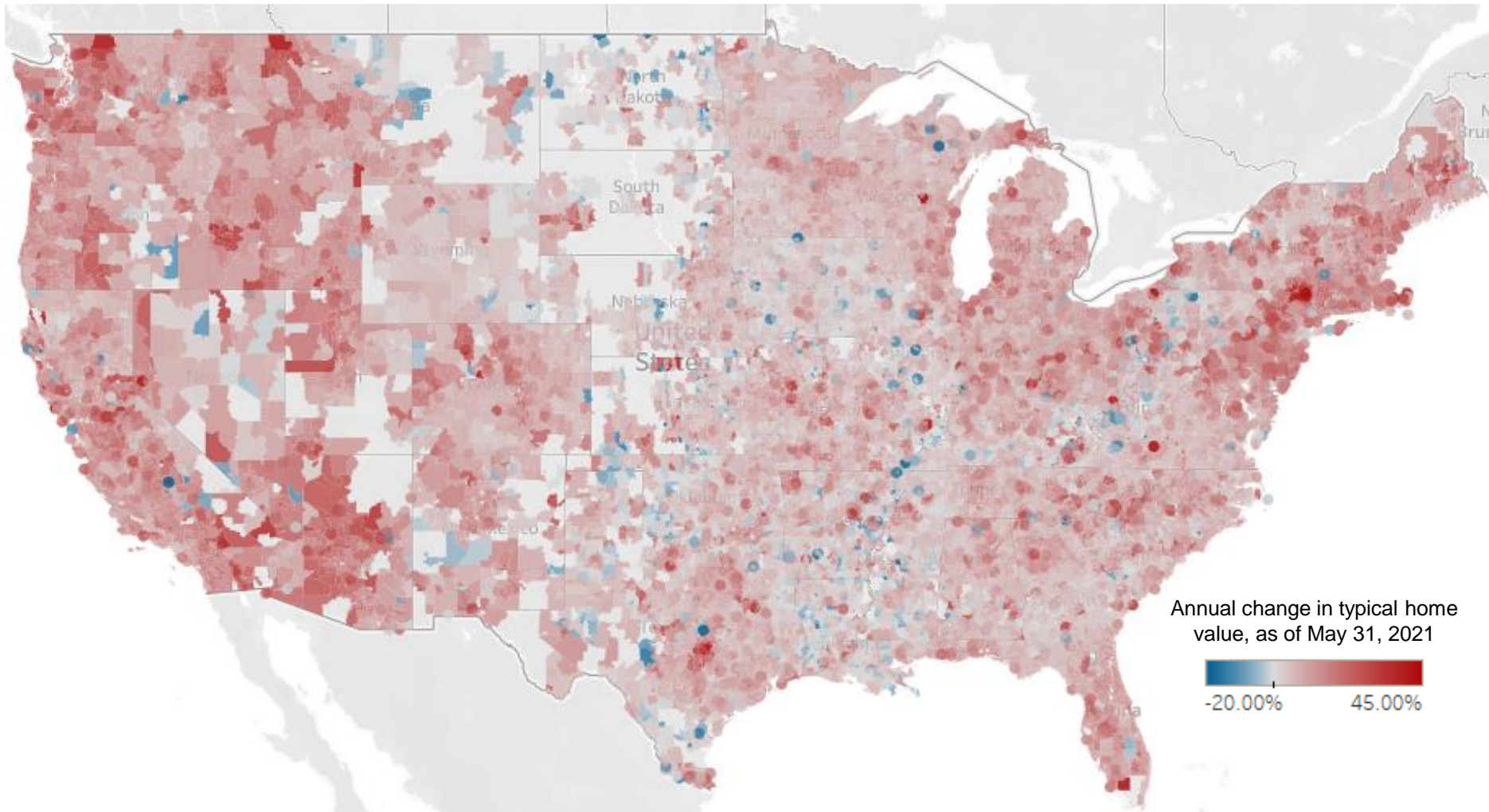
Lumber Prices Soared in the Spring

Producer Price Index: Softwood Lumber



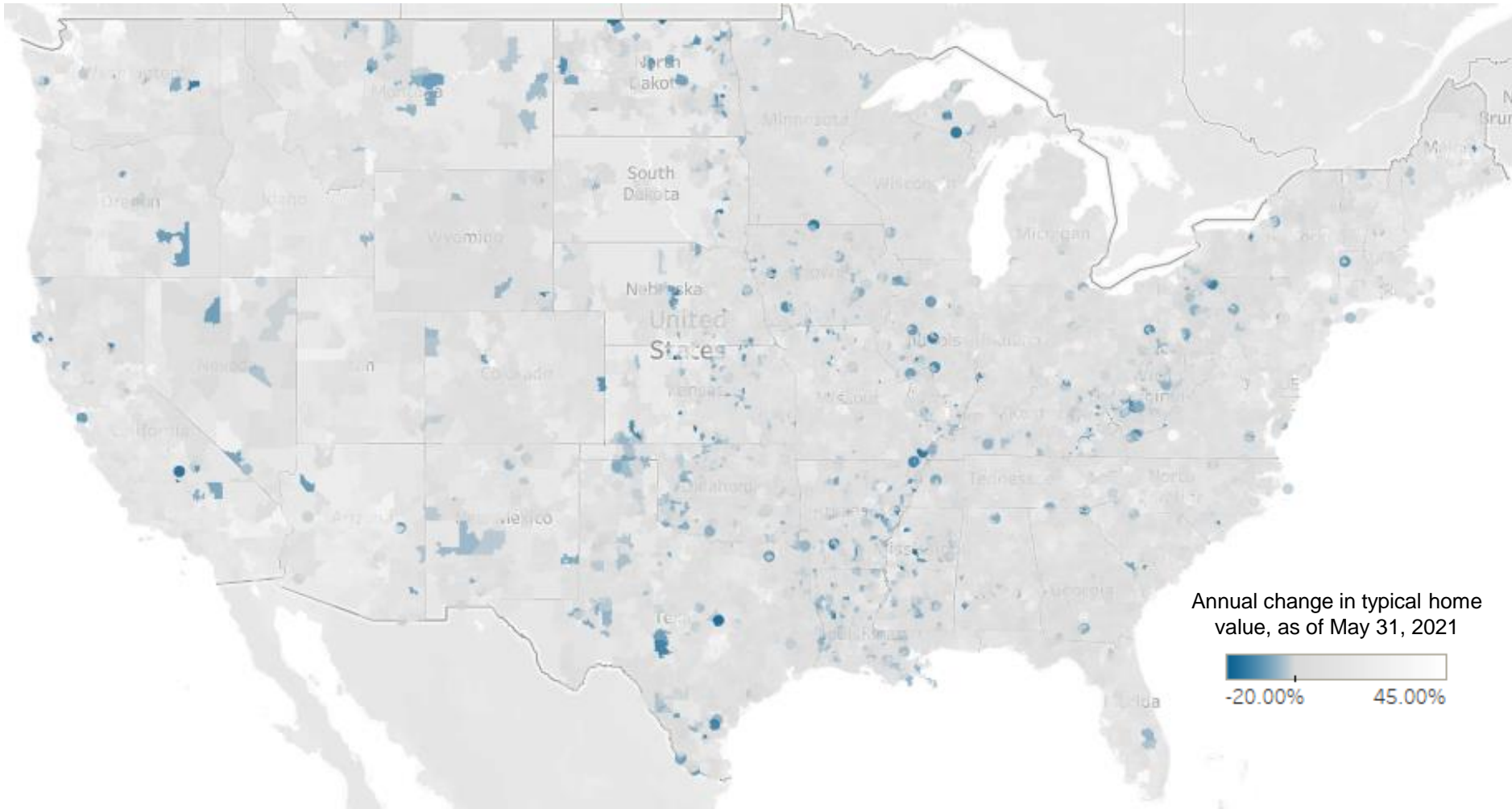
Source: U.S. Bureau of Labor Statistics

Red Hot Housing Market Across the U.S.



Source: Zillow Home Value Index

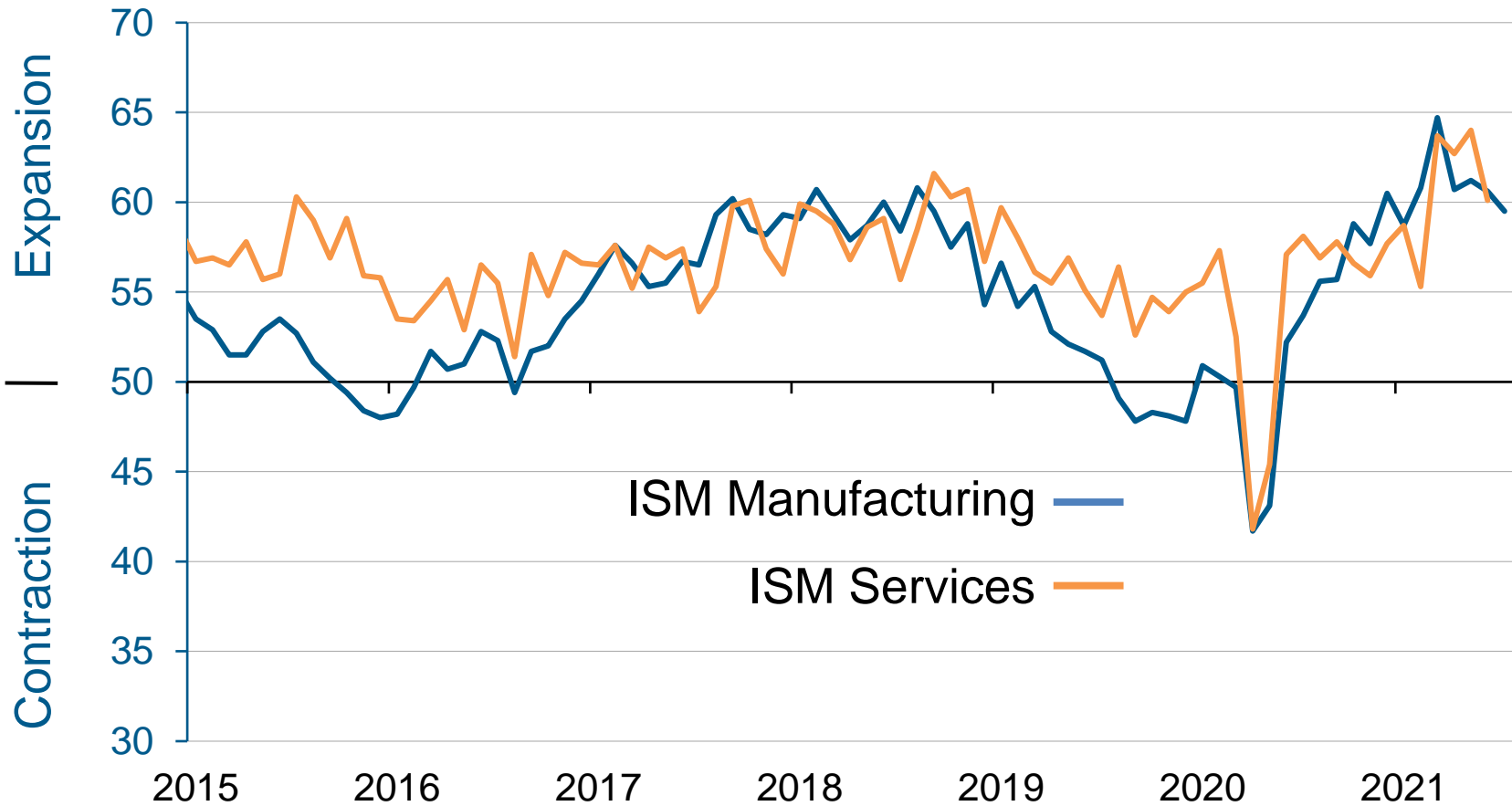
Areas with Annual Decline in Home Value



Source: Zillow Home Value Index

3. Business Confidence

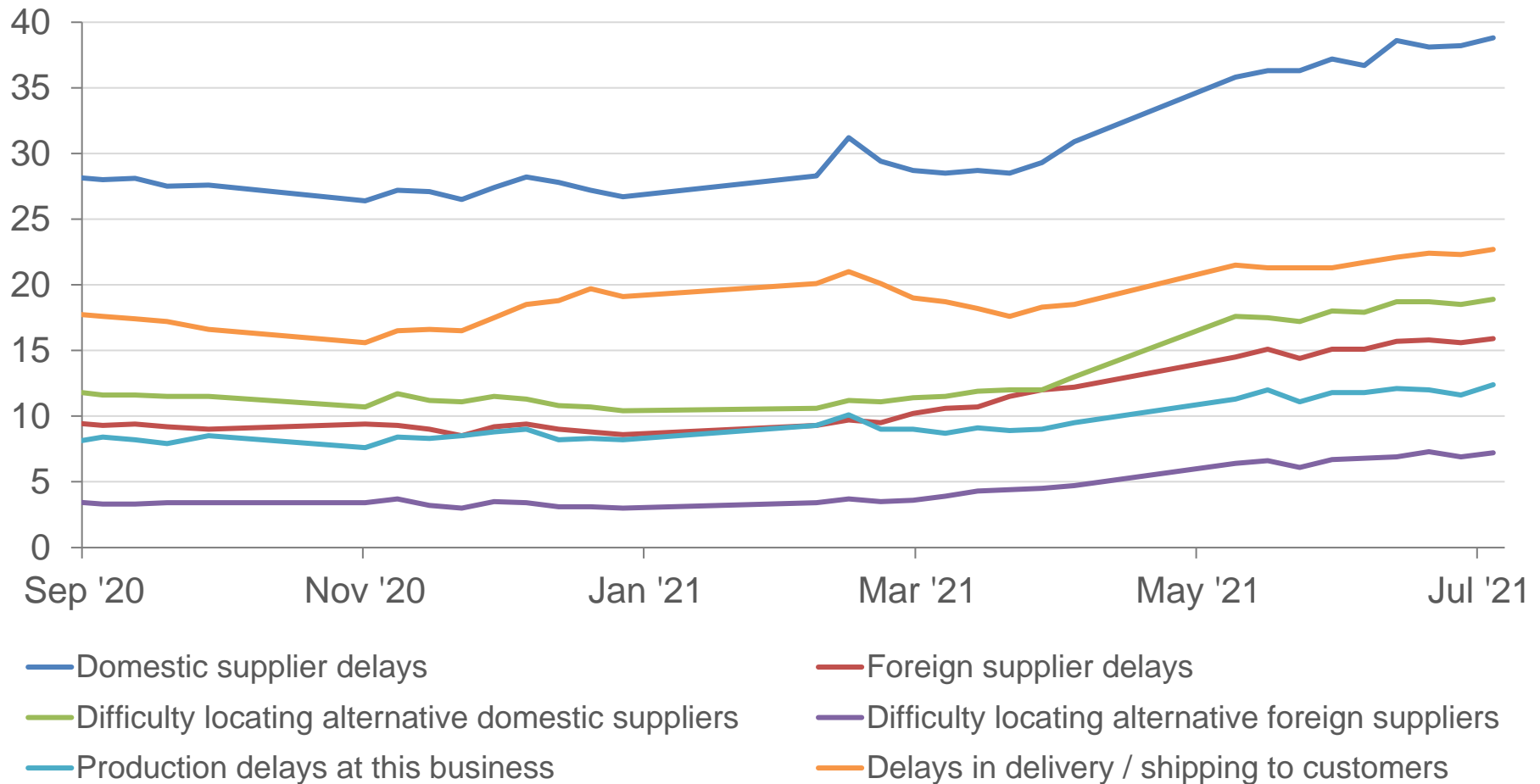
Manufacturing, Services Remain Strong



Sources: Federal Reserve, Institute for Supply Mgmt.

Small Business Challenges

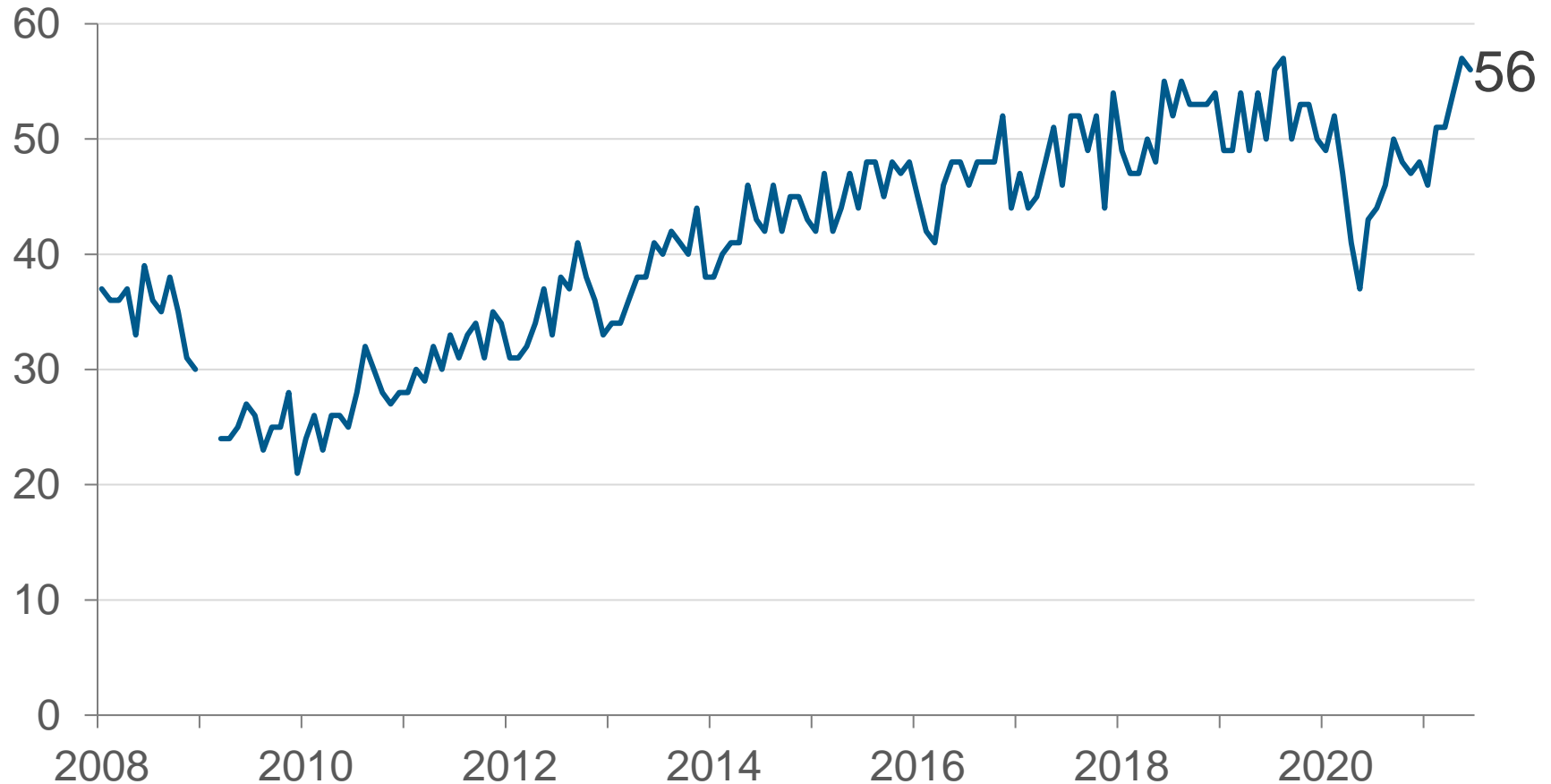
Percent that reported experiencing the following challenges in the last week



Source: Census Small Business Pulse Survey

Small Businesses Struggle to Find Skilled Labor

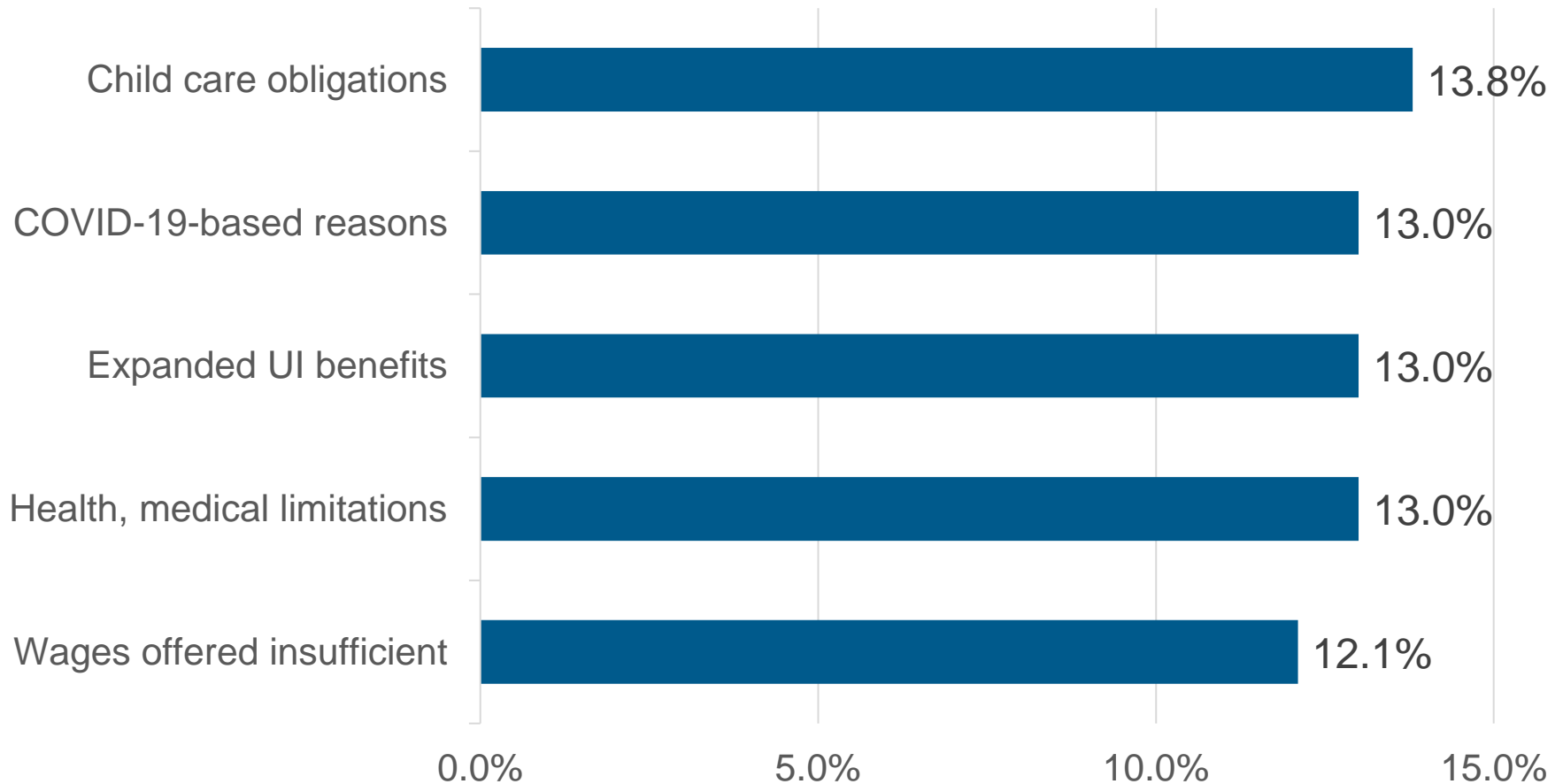
Percent of business reporting few or no qualified applicants



Source: NFIB Small Business Economic Trends

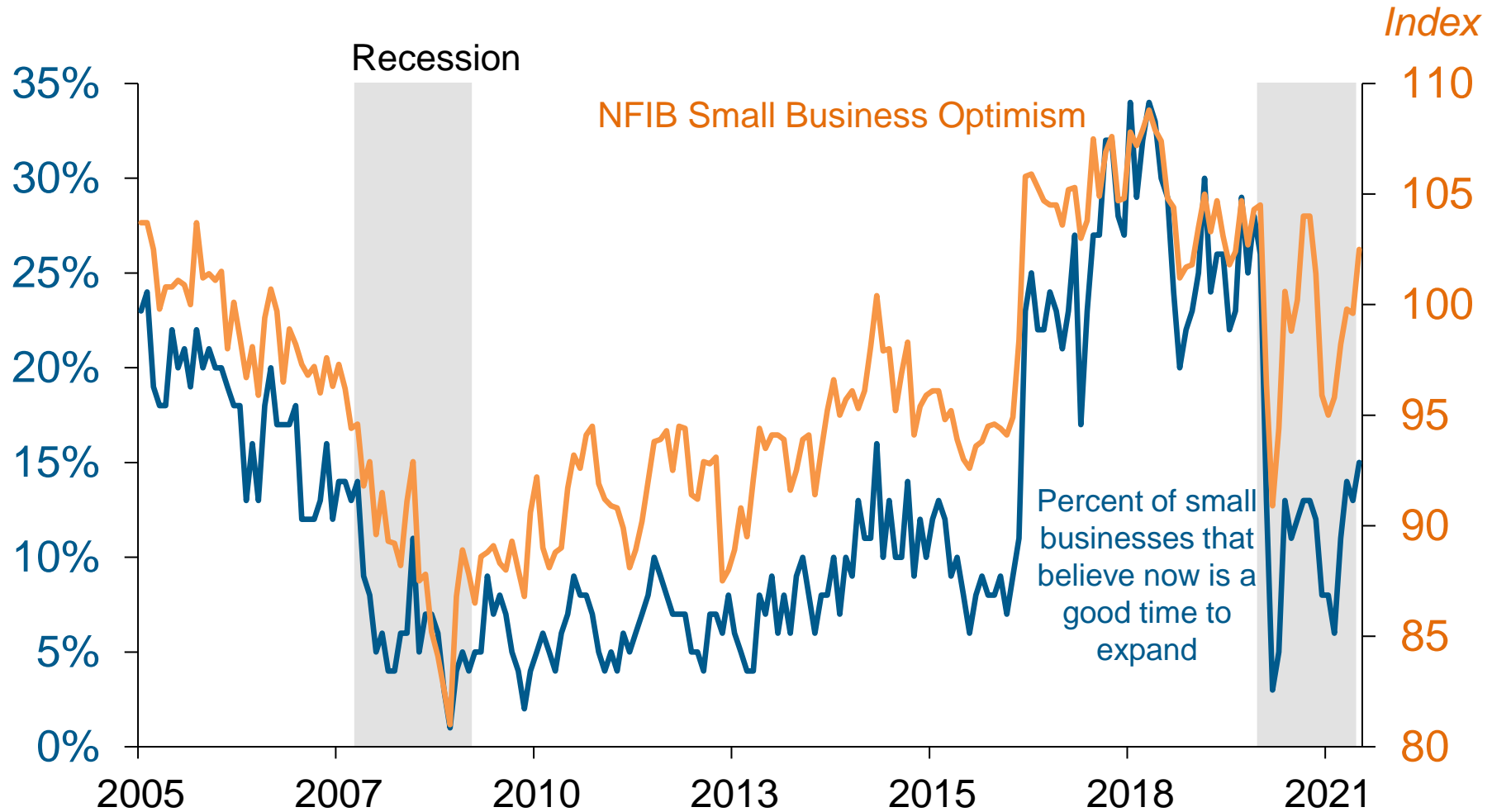
Top 5 Reasons For Turning Down Job Offer

Survey of 463 U.S. adults currently receiving unemployment insurance: June 22-25, 2021



Source: Morning Consult

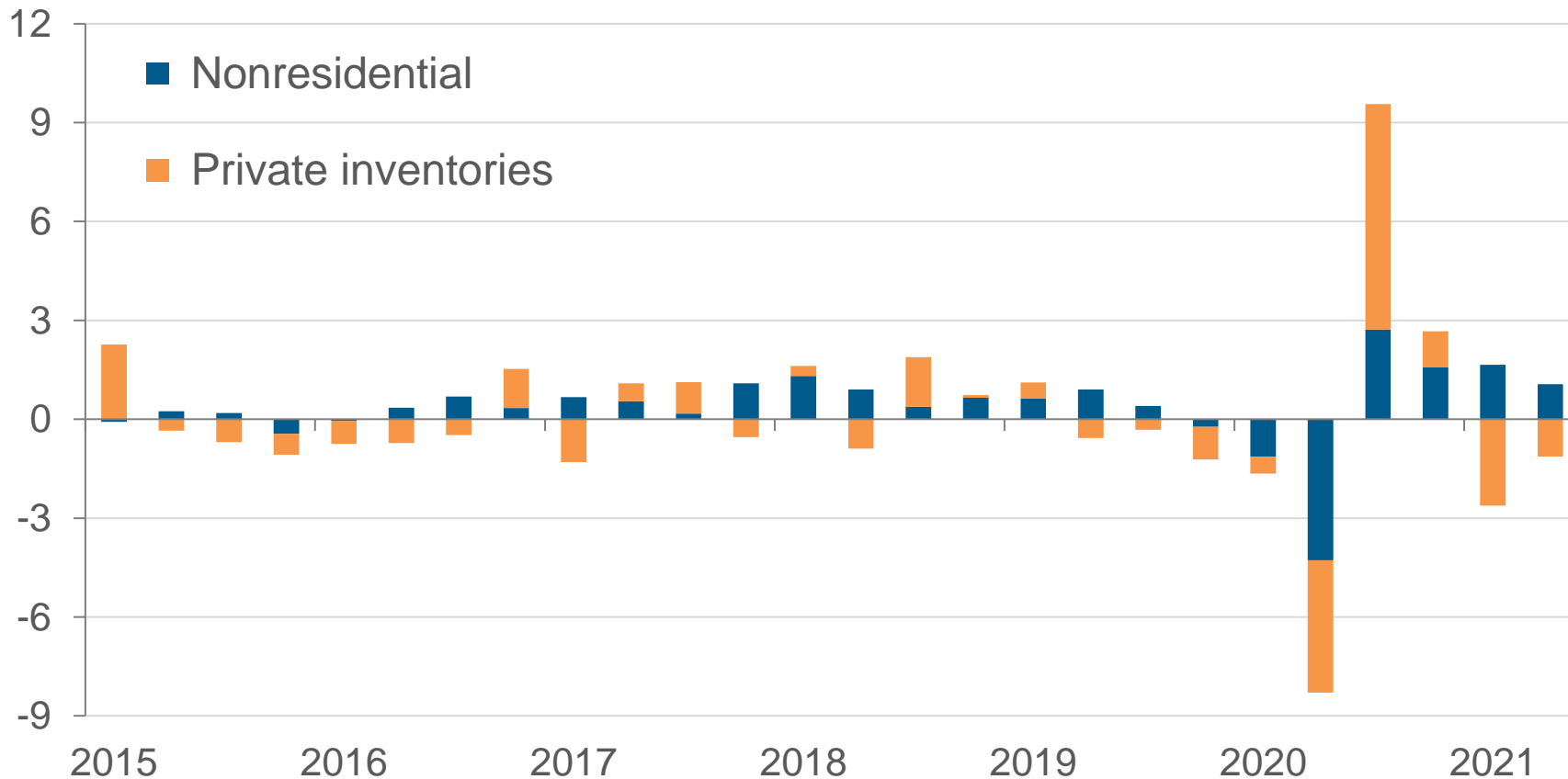
Small Business Optimism Index



Source: NFIB Small Business Economic Trends

Business Investment

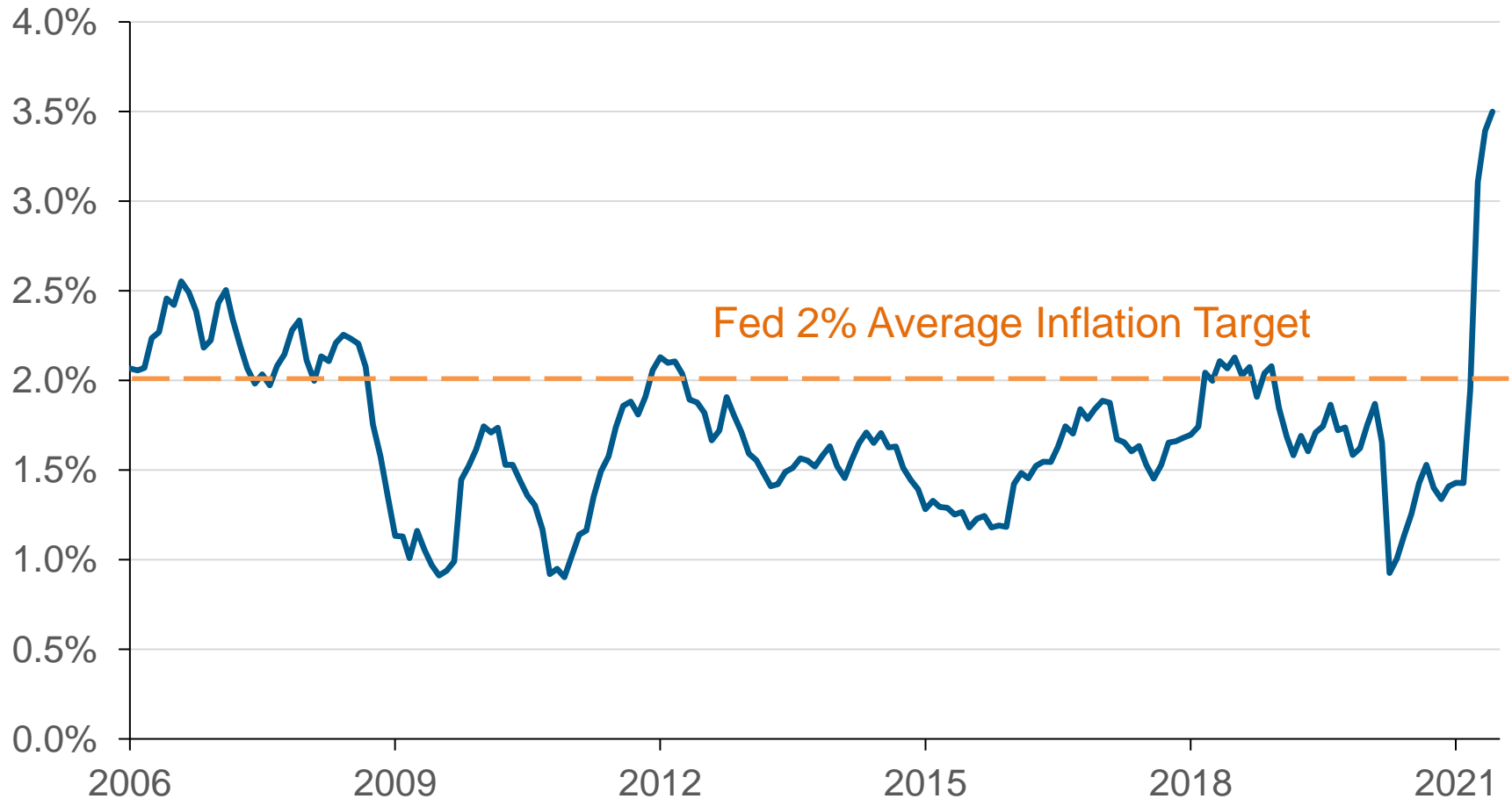
Contributions to percent change in Real GDP, annual rate



Source: U.S. Bureau of Economic Analysis

4. Inflationary Pressures, Other Risks

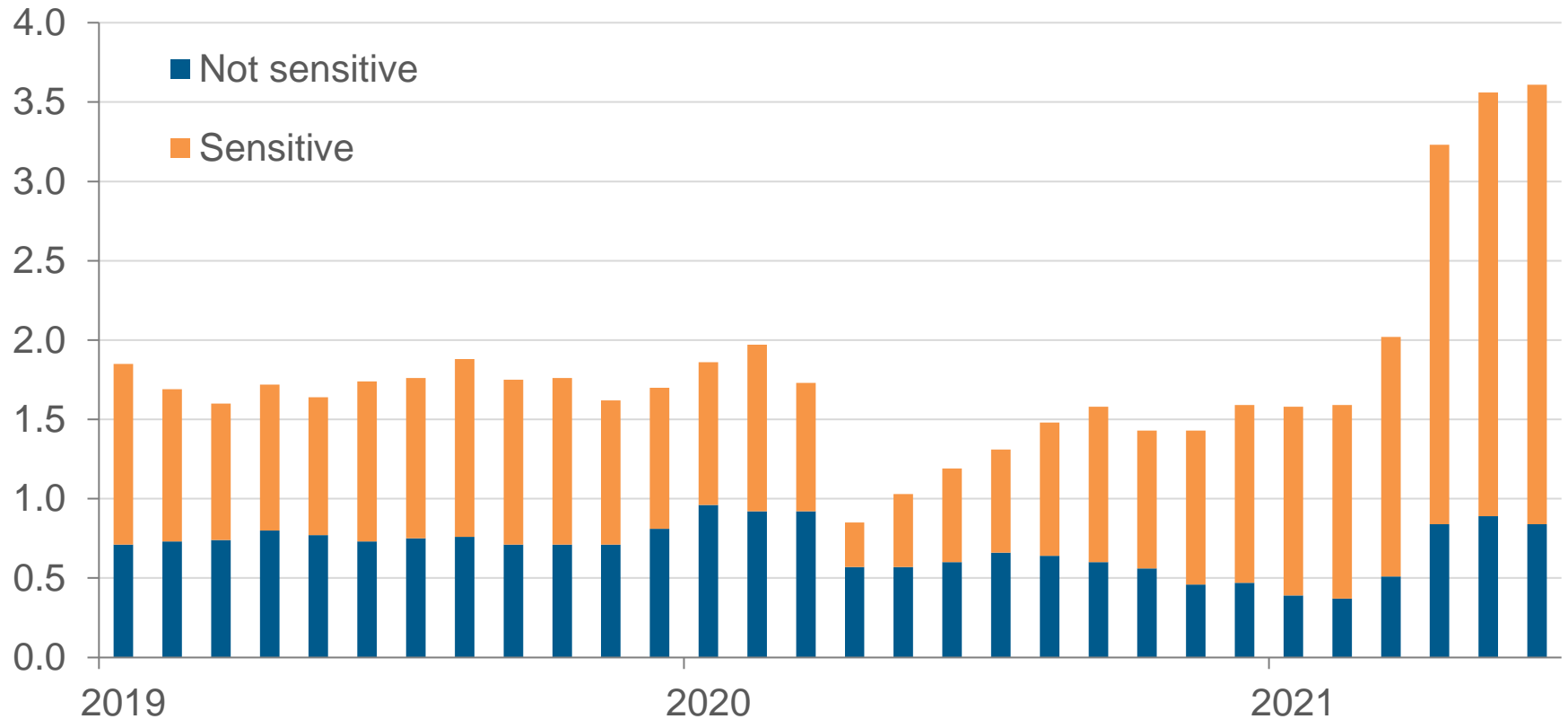
Core PCE, monthly percent change from one year ago



Source: U.S. Bureau of Economic Analysis

COVID Sensitive Components of Core PCE

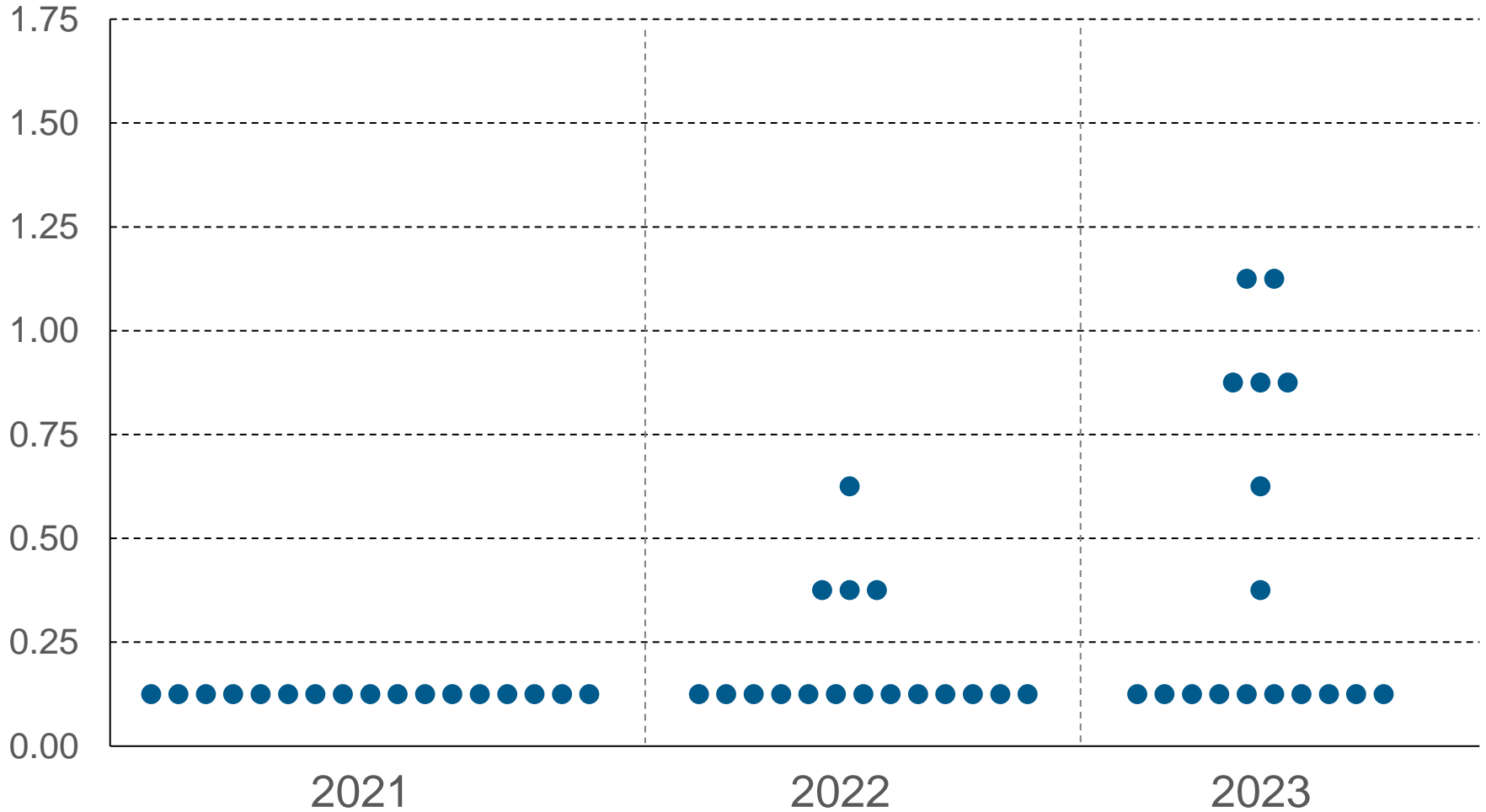
Contributions to core PCE inflation, divided between those sensitive and insensitive to economic effects of COVID-19



Source: Federal Reserve Bank of San Francisco

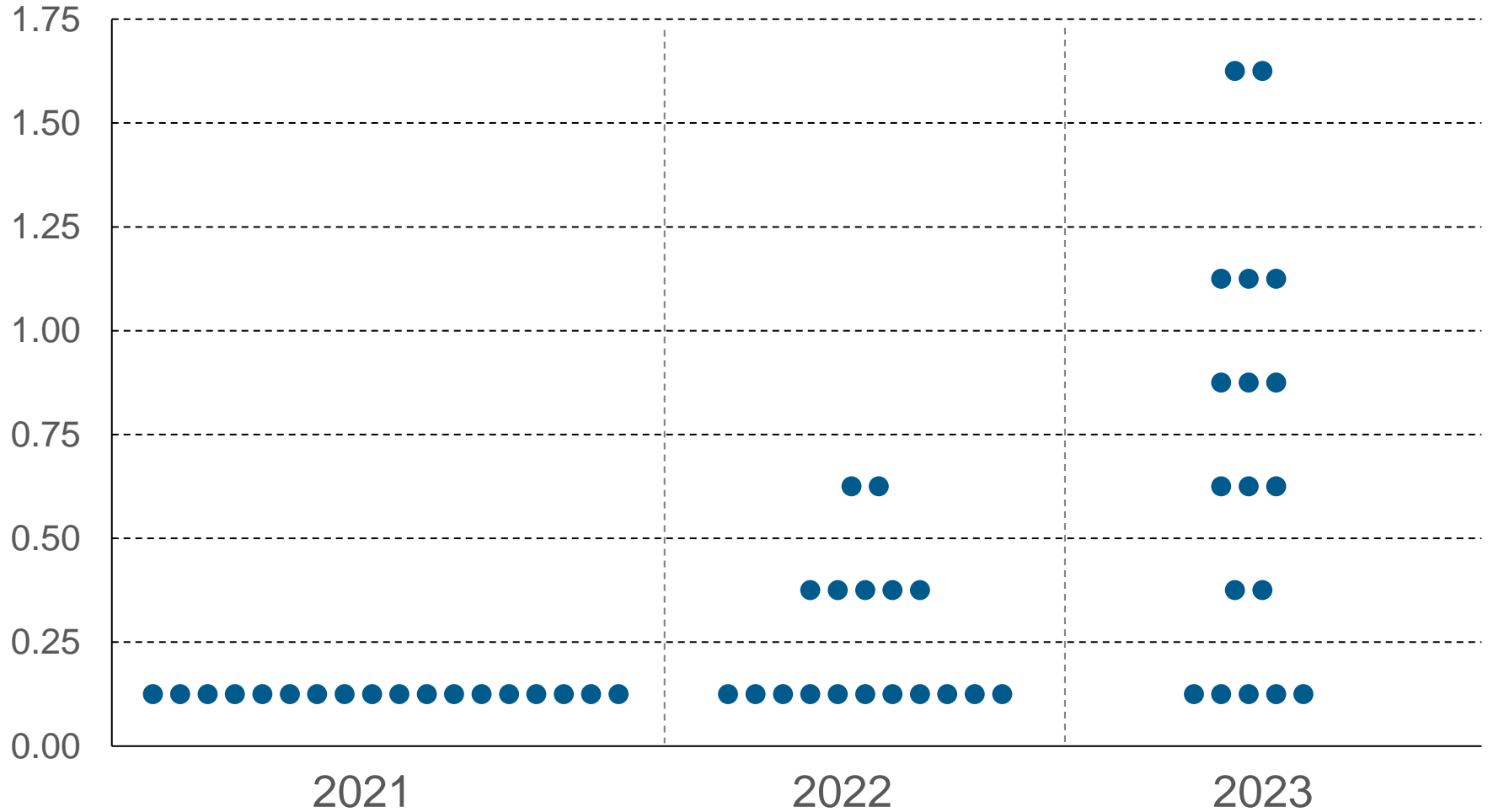
March 2021 Fed Funds Rate Target Ceiling

Percent

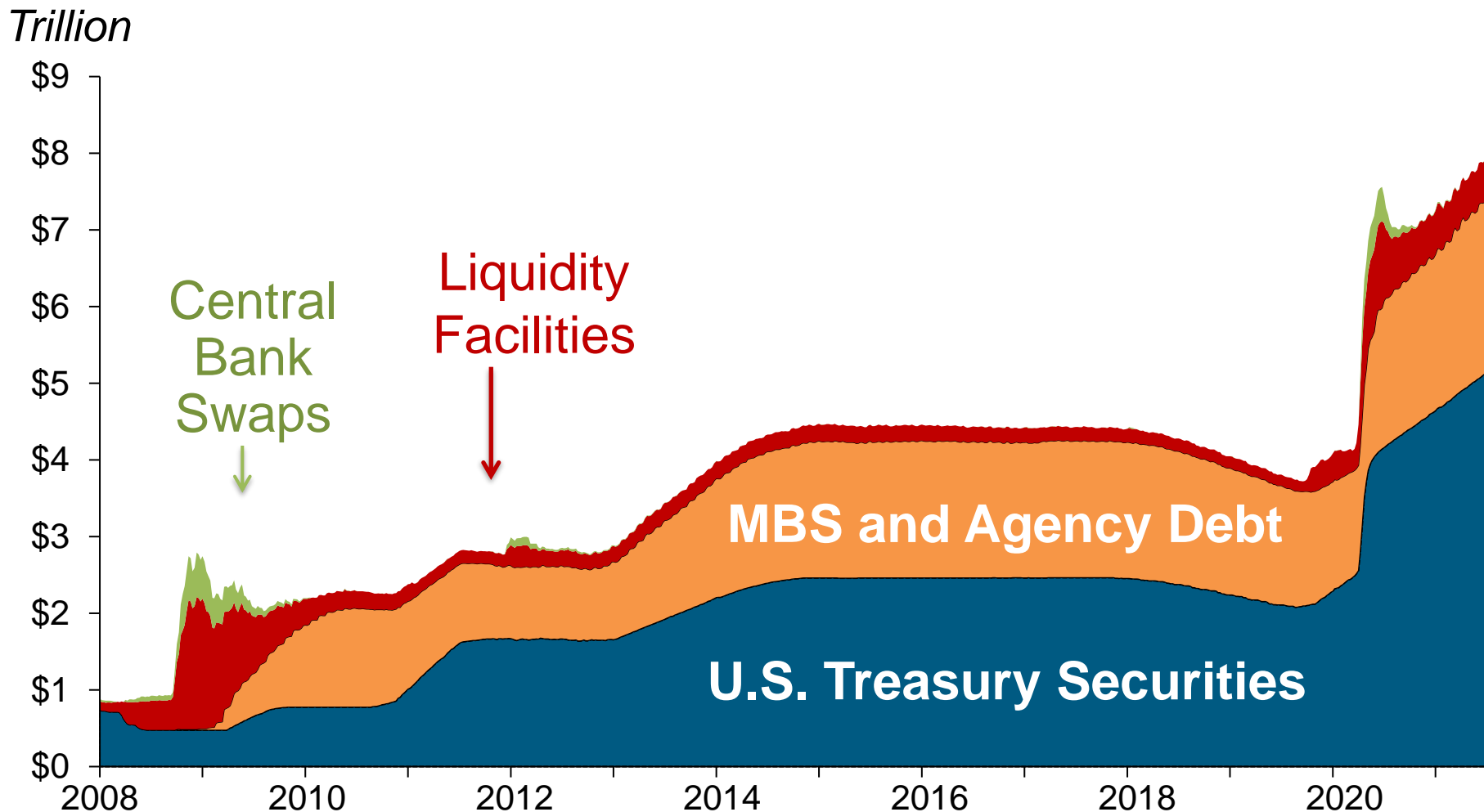


June 2021 Fed Funds Rate Target Ceiling

Percent



Fed Deploys Lending and Liquidity Facilities, Balance Sheet Balloons



Source: Federal Reserve

Risks to Economic Outlook

➤ Upside Risks

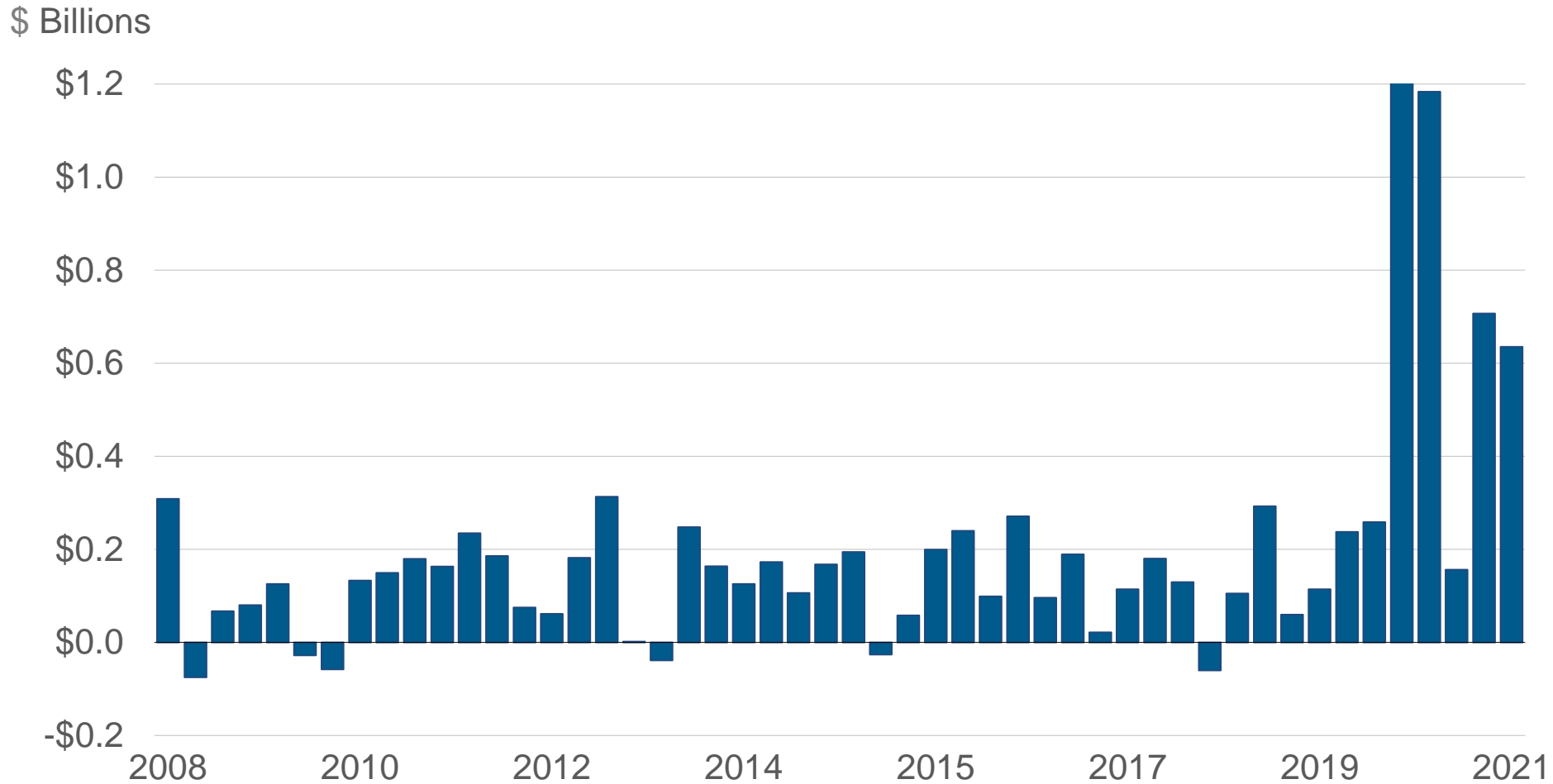
- Herd immunity sooner than expected
- Consumer spending from savings and pent-up demand
- Global economic recovery

➤ Downside Risks

- Inflation
- Lingering supply chain constraints
- COVID-19 variants cause third wave lockdowns
- Labor supply constraints

PART 2: CONDITION OF THE BANKING INDUSTRY

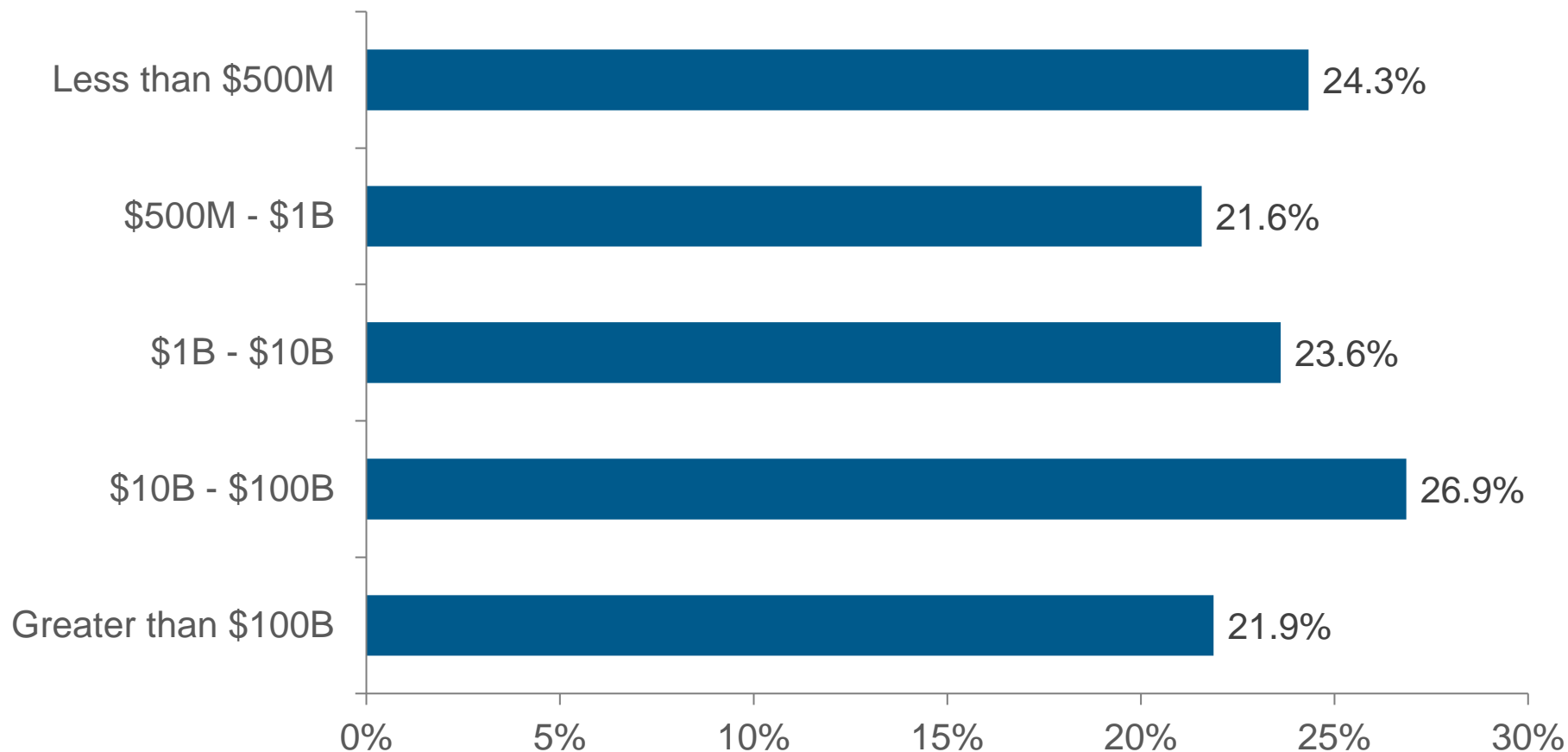
Quarterly Change in Deposits



Source: FDIC

Deposits Flowed into Banks of All Sizes

2020 Deposit Growth by Bank Size, * YoY % change



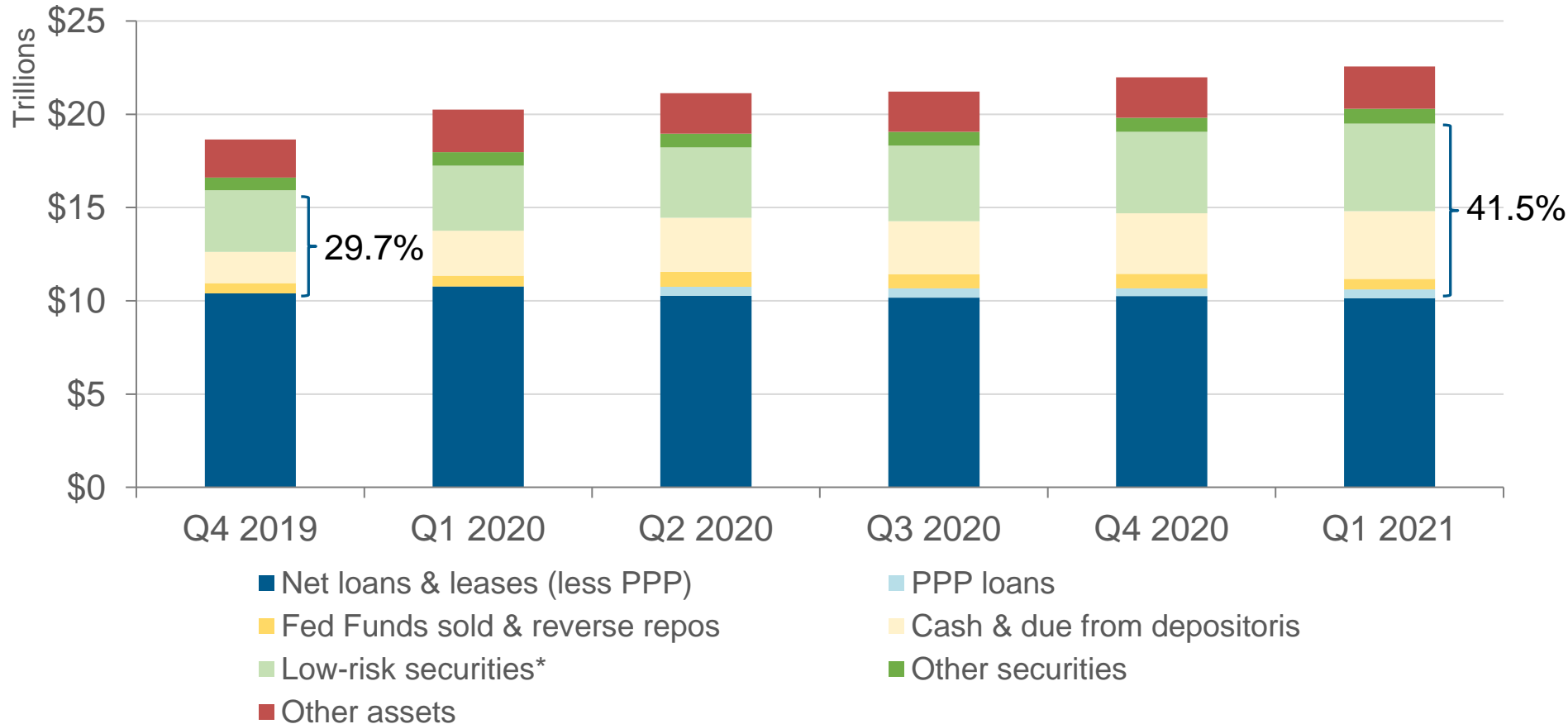
Source: FDIC, S&P Global

* - Banks categorized based on assets as of year-end 2019



Bank Balance Sheet Growth Largely Deployed in Low-Risk Assets

Bank Balance Sheet: Asset Growth



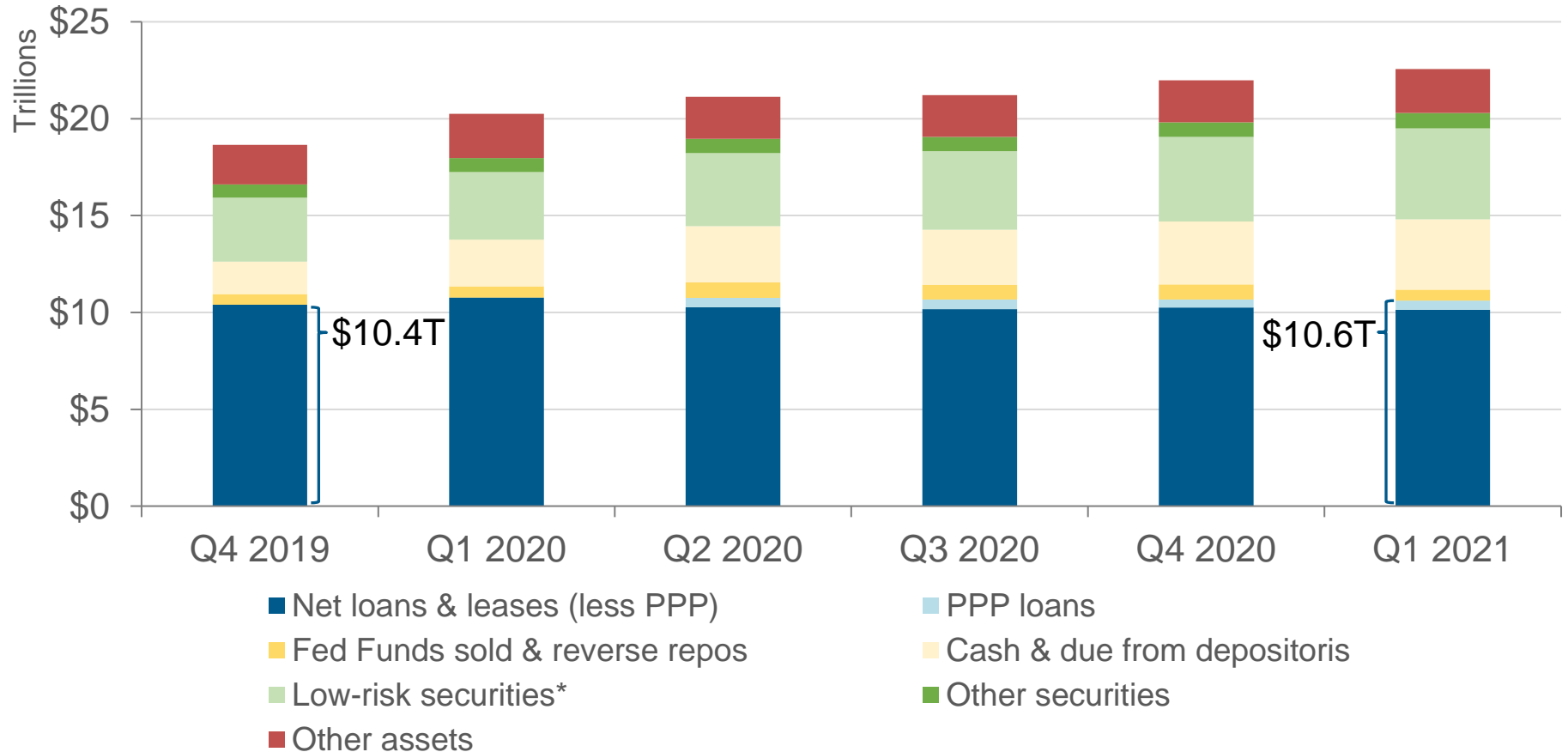
Source: FDIC, S&P Global

* - Low risk securities includes US Treasuries, US government agency and sponsored agency obligations including MBS, and securities issued by states and subdivisions



Bank Balance Sheet Growth Largely Deployed in Low-Risk Assets

Bank Balance Sheet: Asset Growth

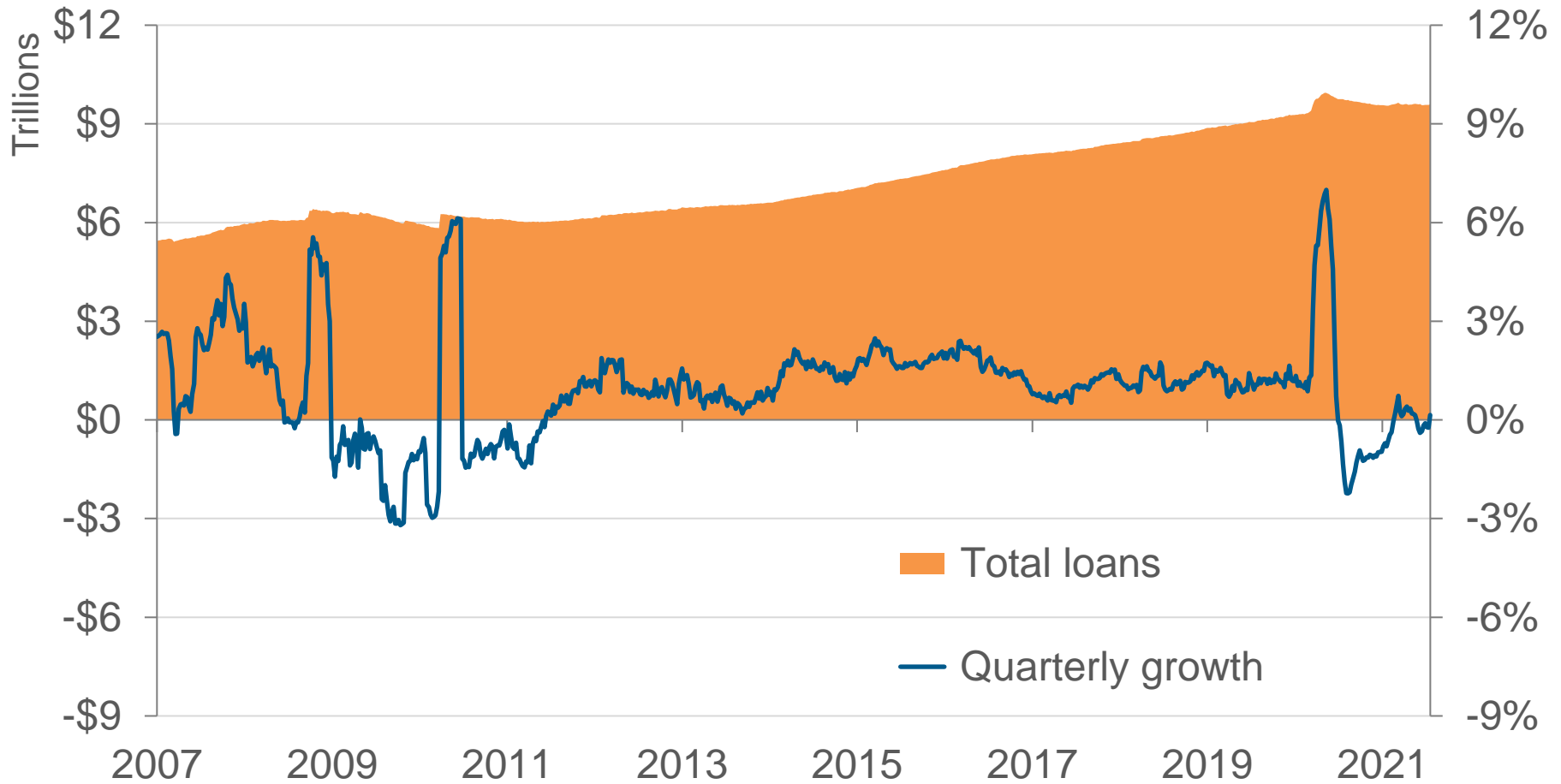


Source: FDIC, S&P Global

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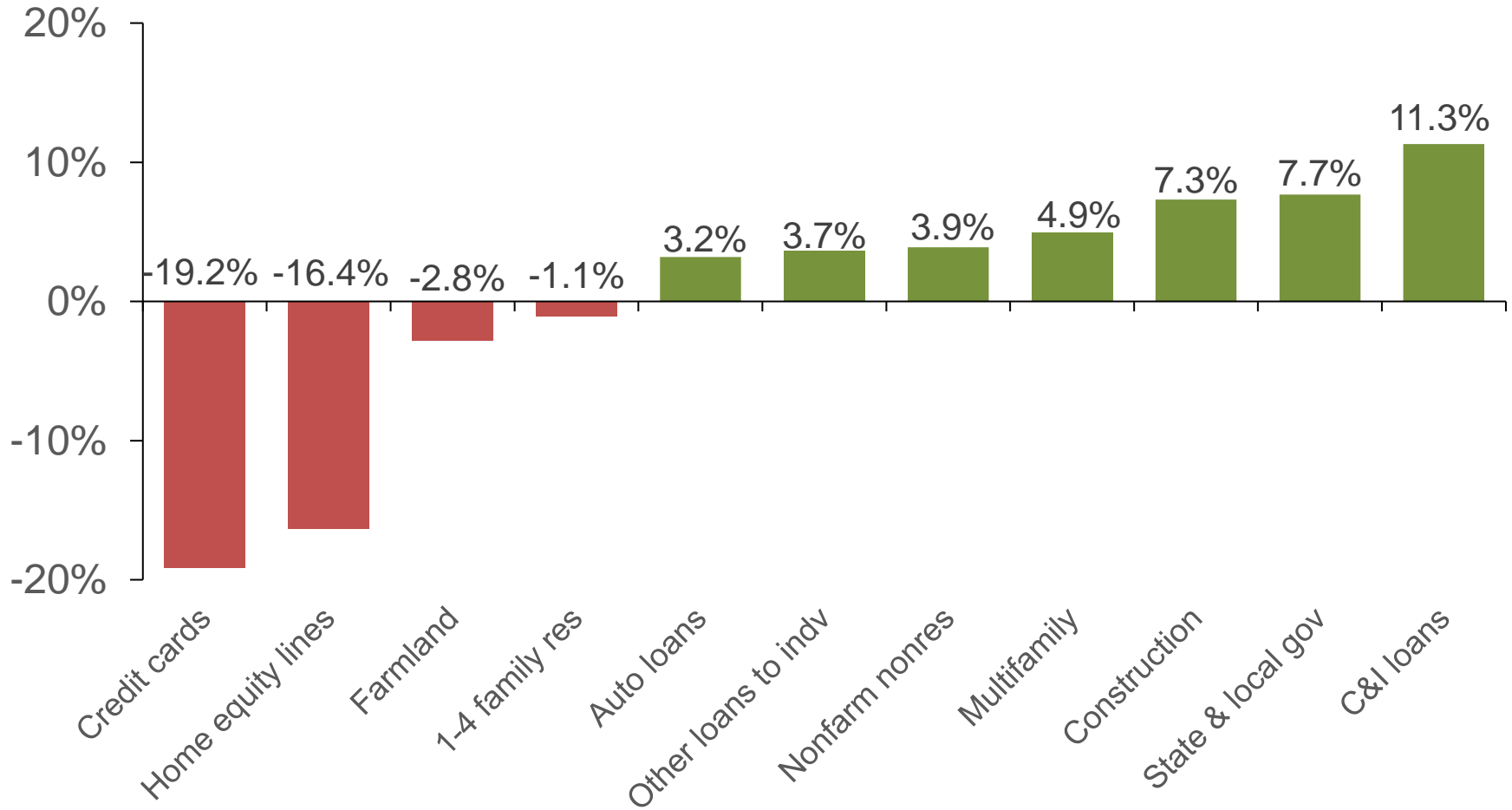
Quarterly Loan Growth



Source: Federal Reserve H8 Loans and Leases all commercial banks

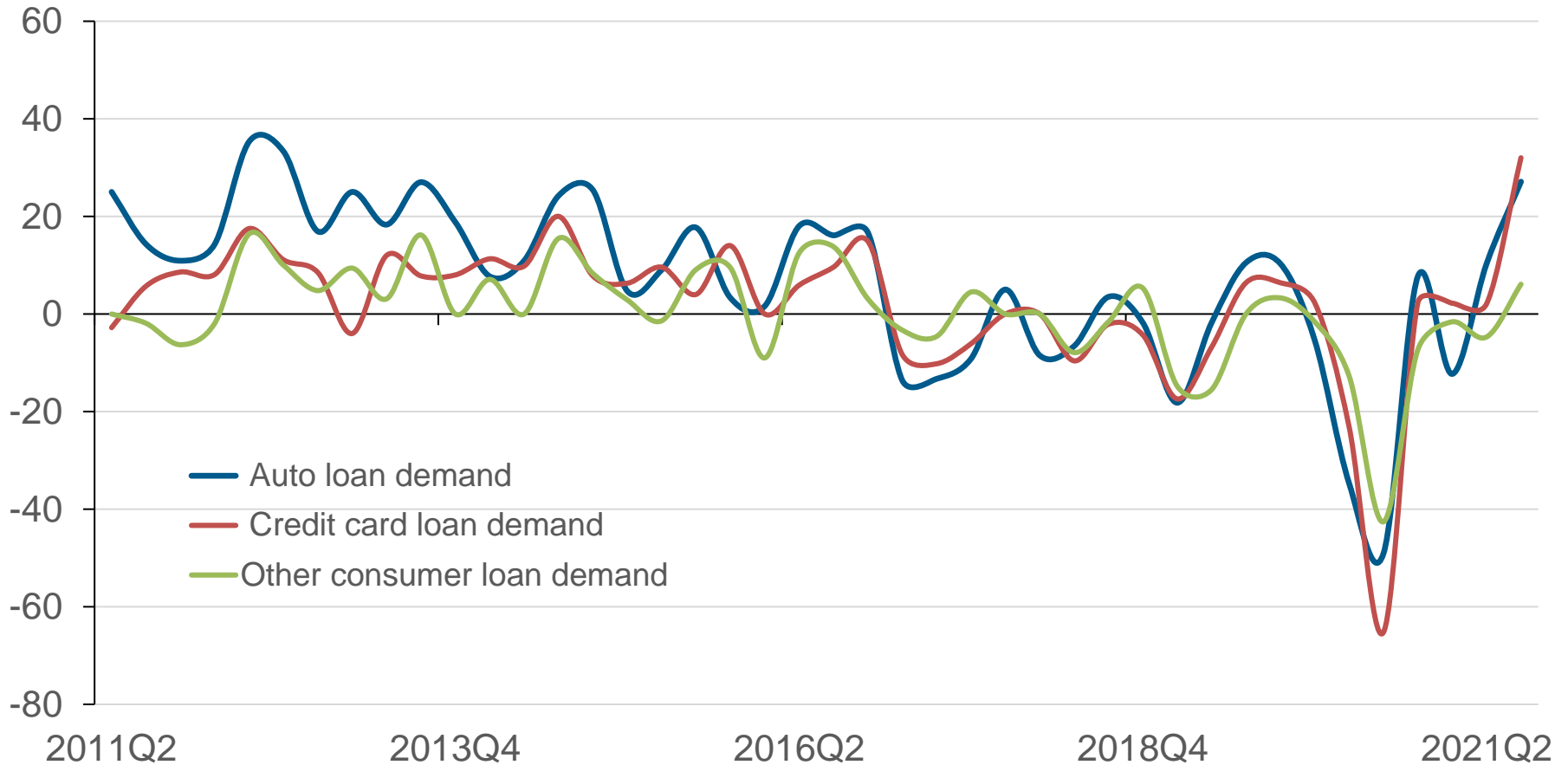
Personal Loans Drag Bank Balance Sheets

Percent change in loan volume 2019Q4 – 2021 Q1



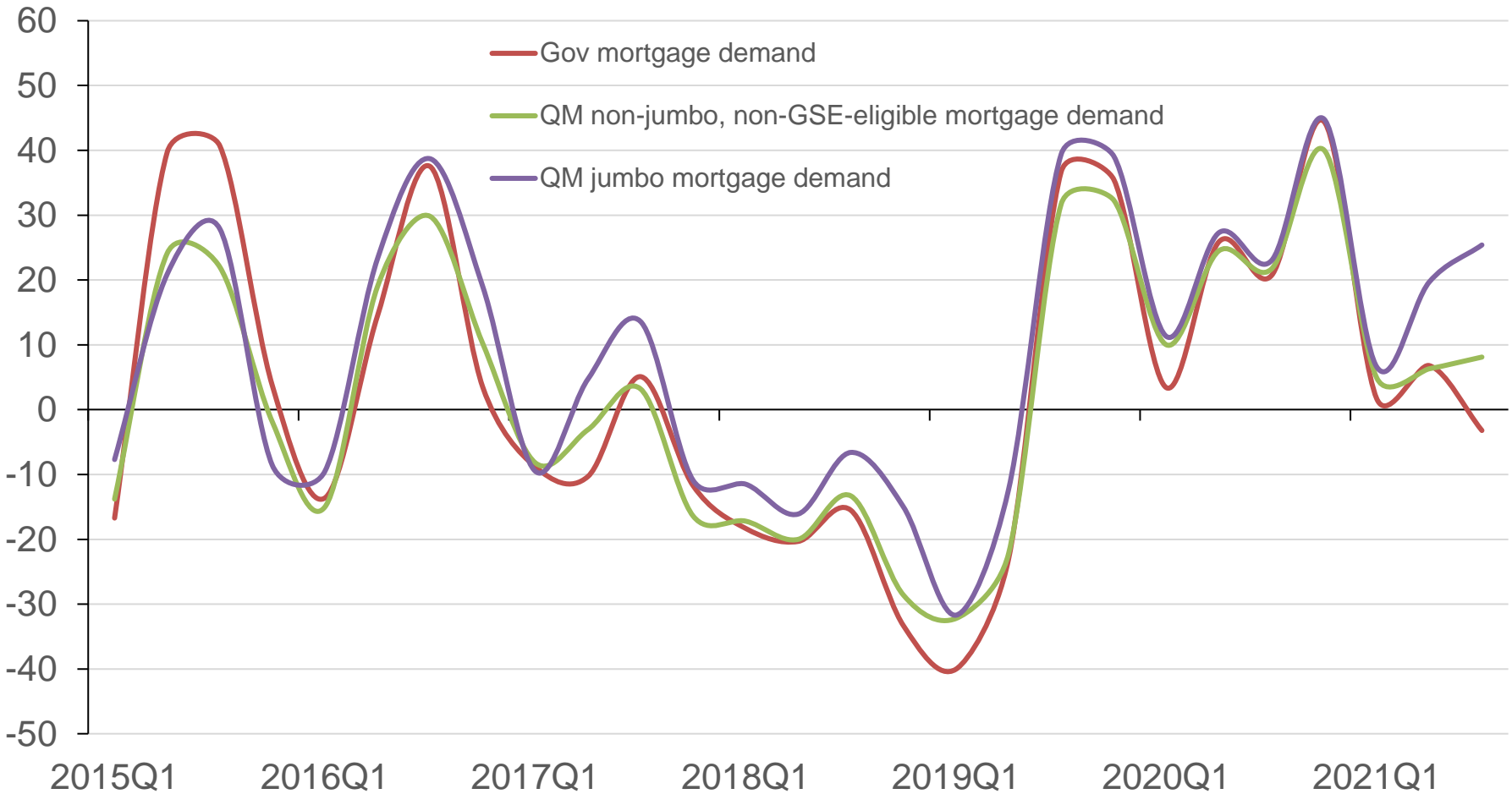
Source: FDIC

Consumer Loan Demand Strengthens



Source: Federal Reserve Senior Loan Officer Survey

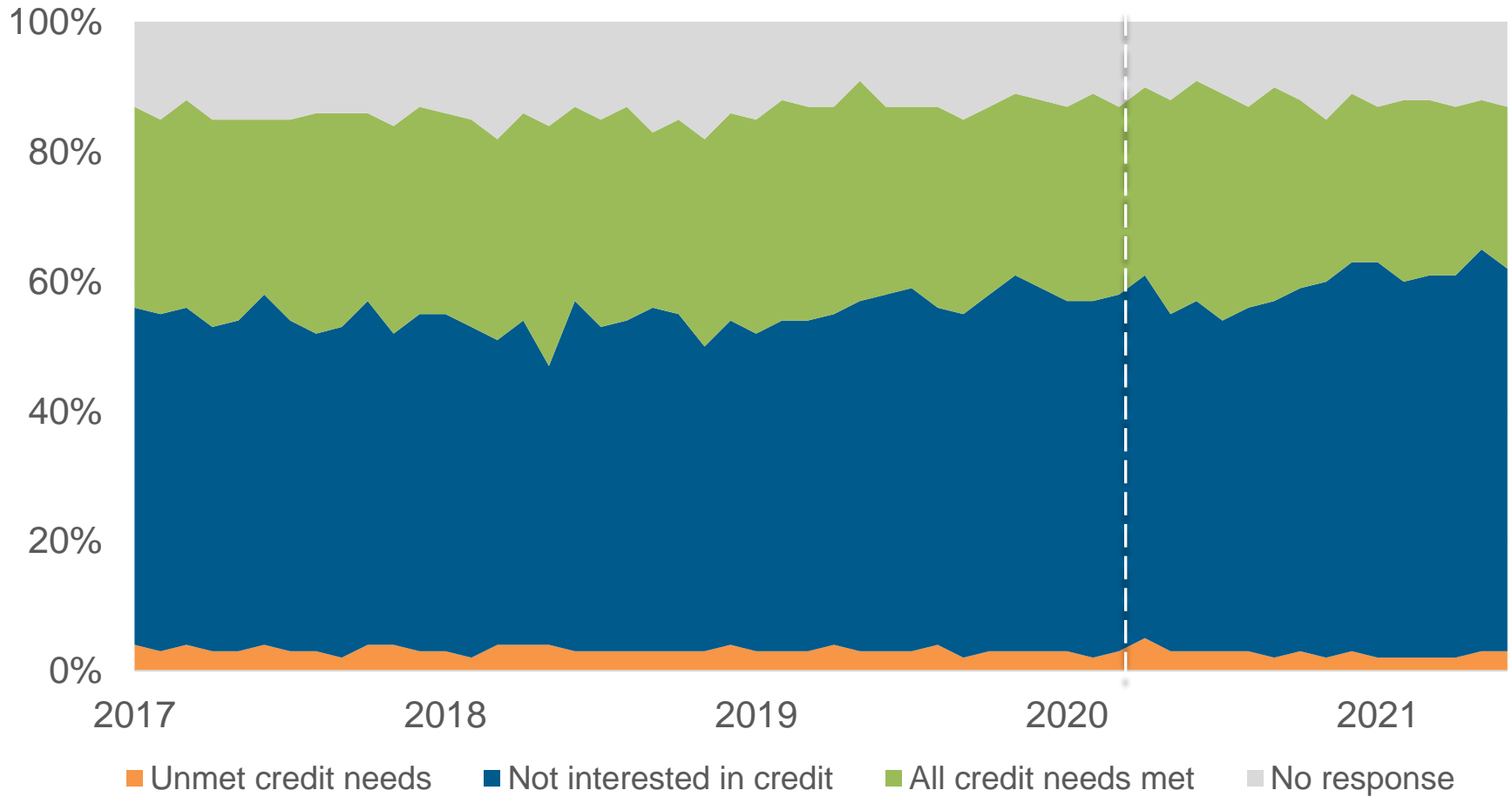
Mortgage Loan Demand Strong in Q3



Source: Federal Reserve Senior Loan Officer Survey

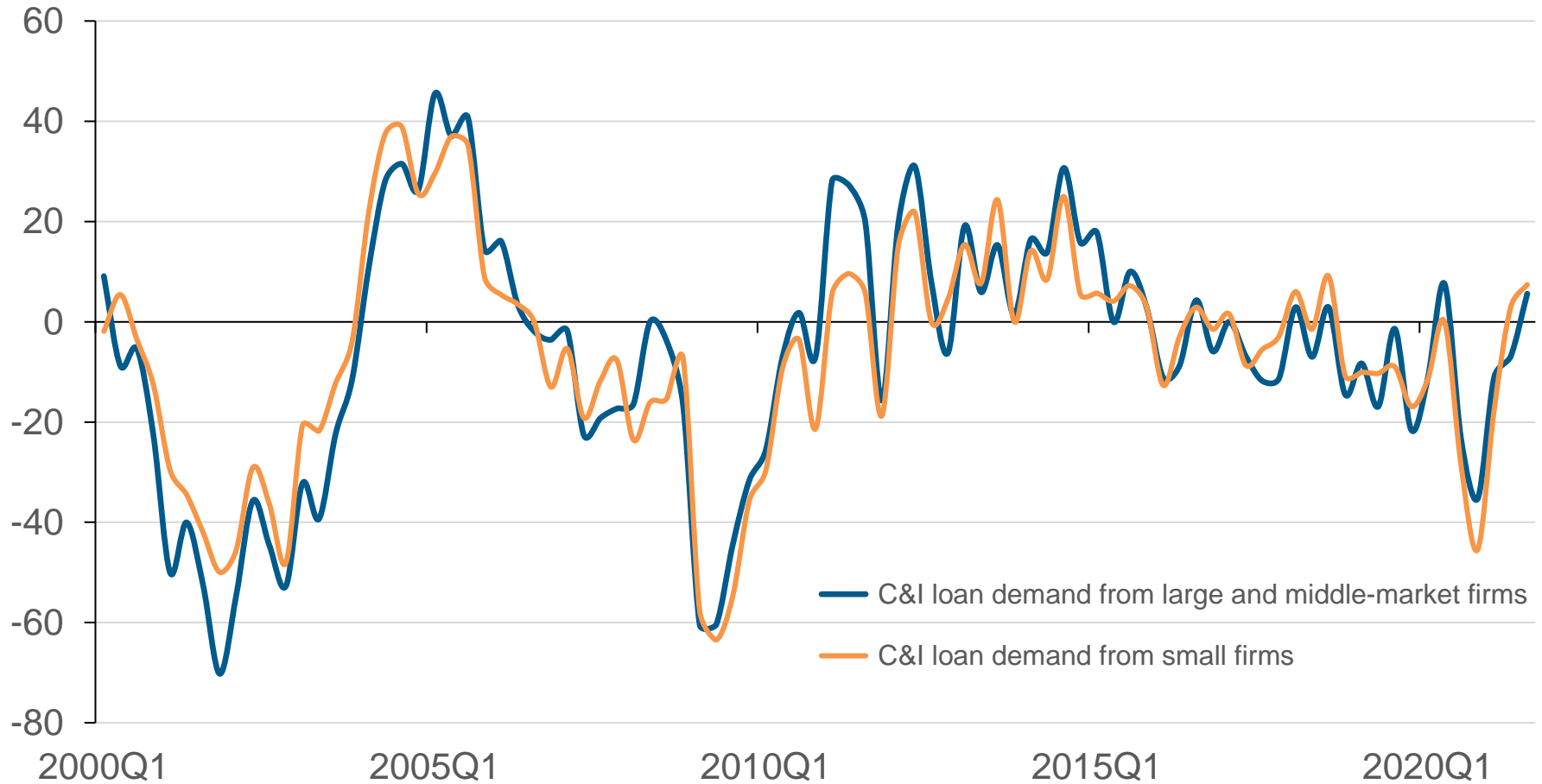
Small Businesses Loan Demand

Borrowing Needs Satisfaction, last three months



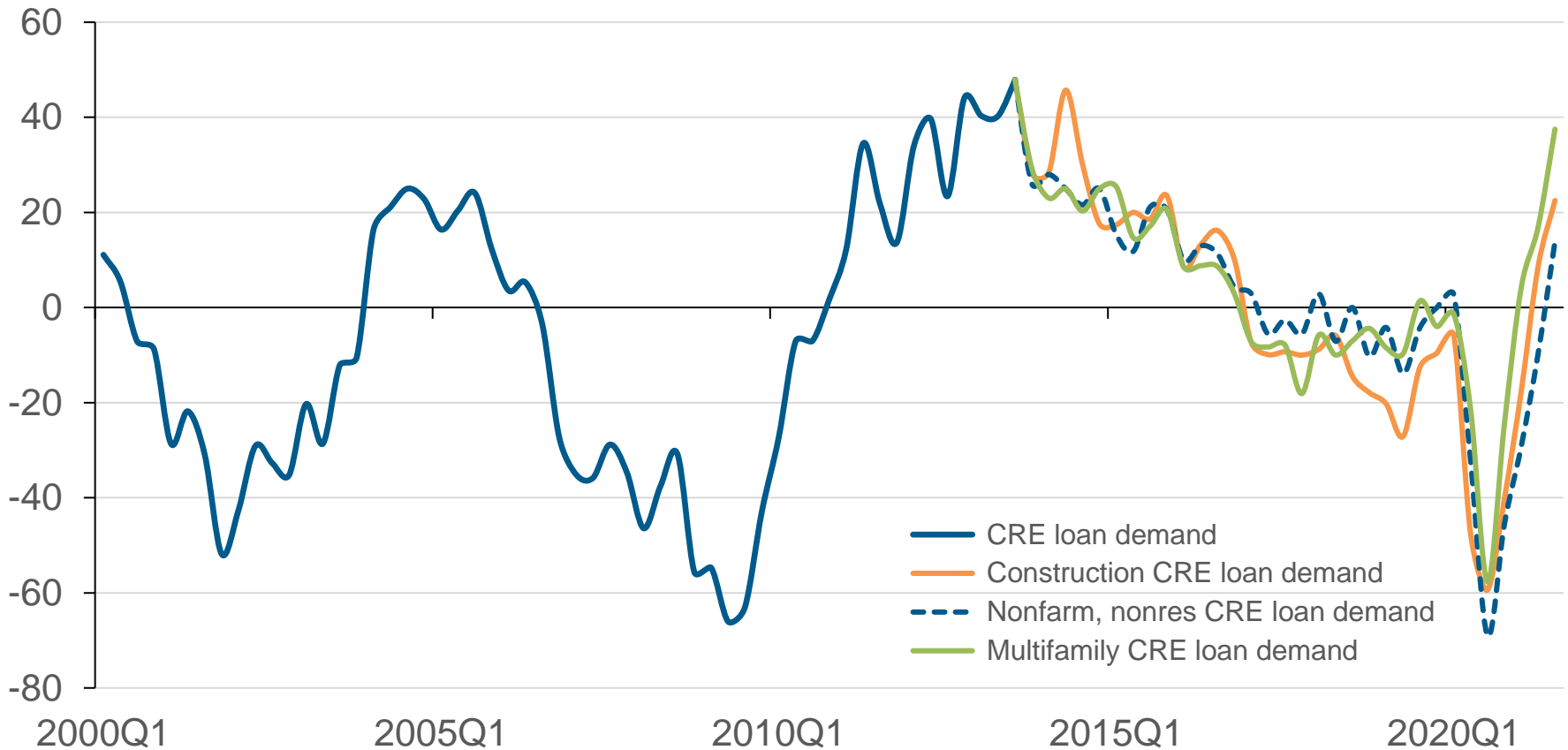
Source: NFIB Small Business Economic Trends

Small Business Loan Demand Edges Up



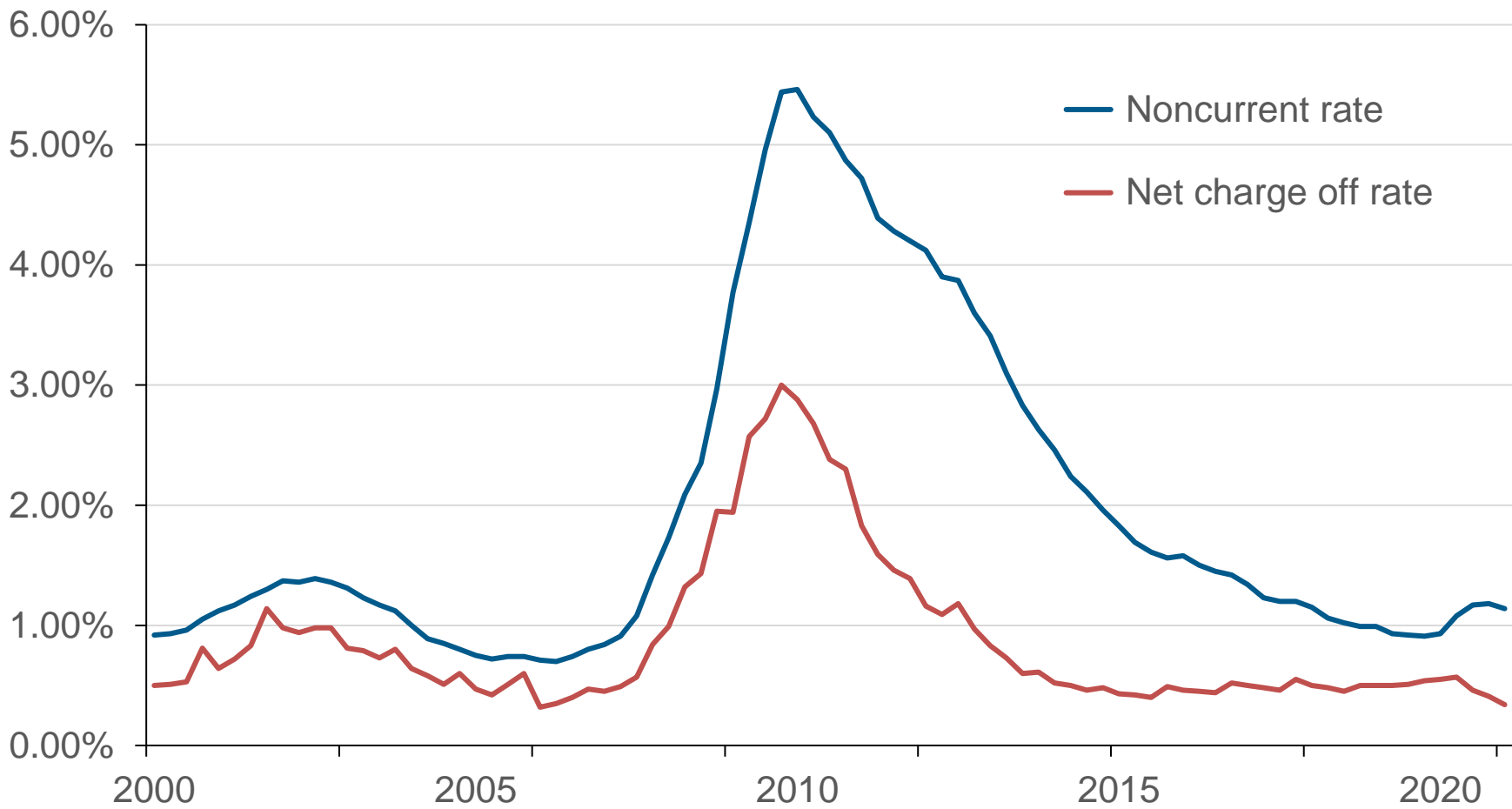
Source: Federal Reserve Senior Loan Officer Survey

CRE Loan Demand Recovery



Source: Federal Reserve Senior Loan Officer Survey

Noncurrent Loan Rate and Quarterly Net Charge-Off Rate



Source: FDIC

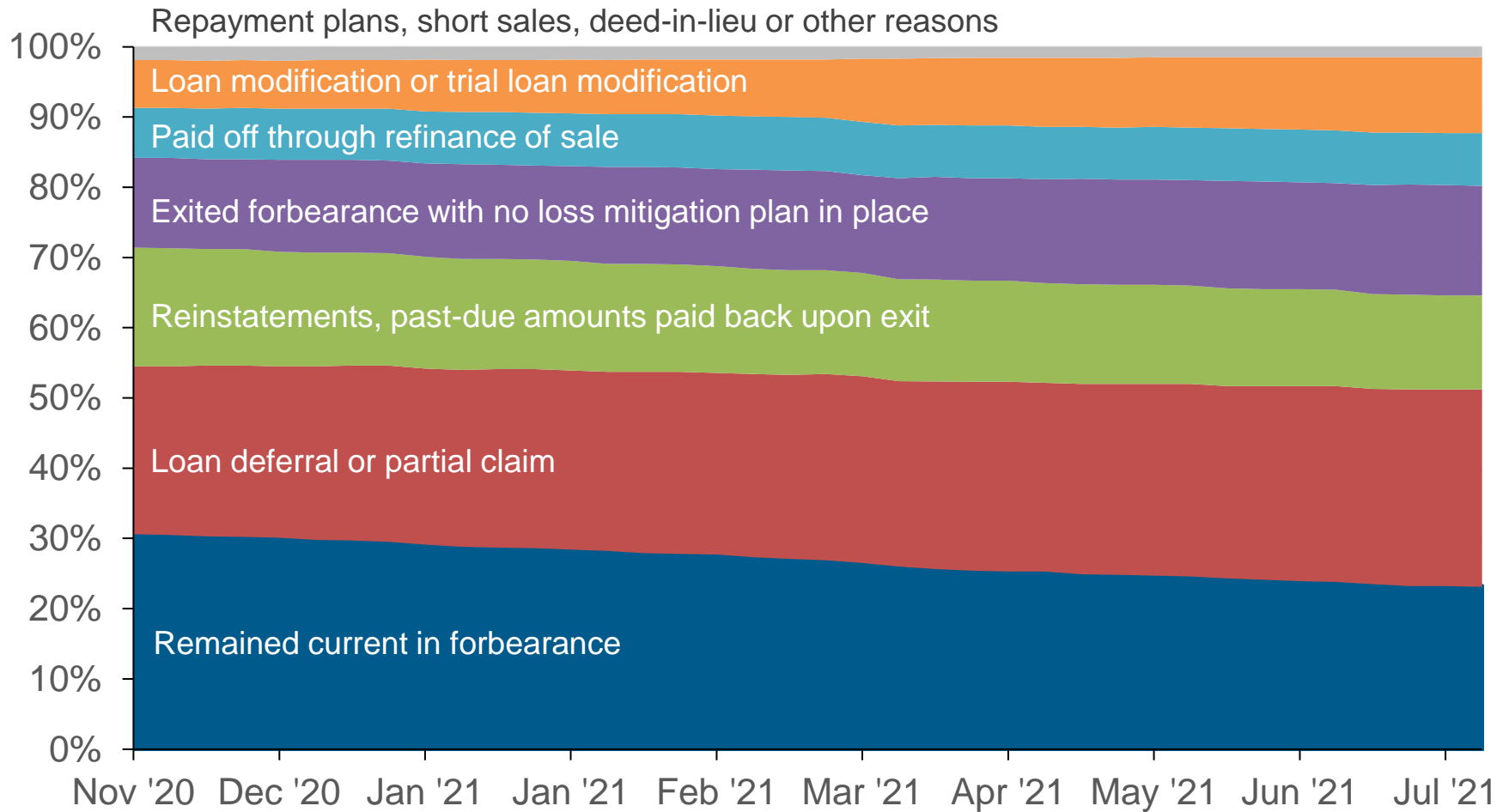


Share of Mortgage Loans in Forbearance



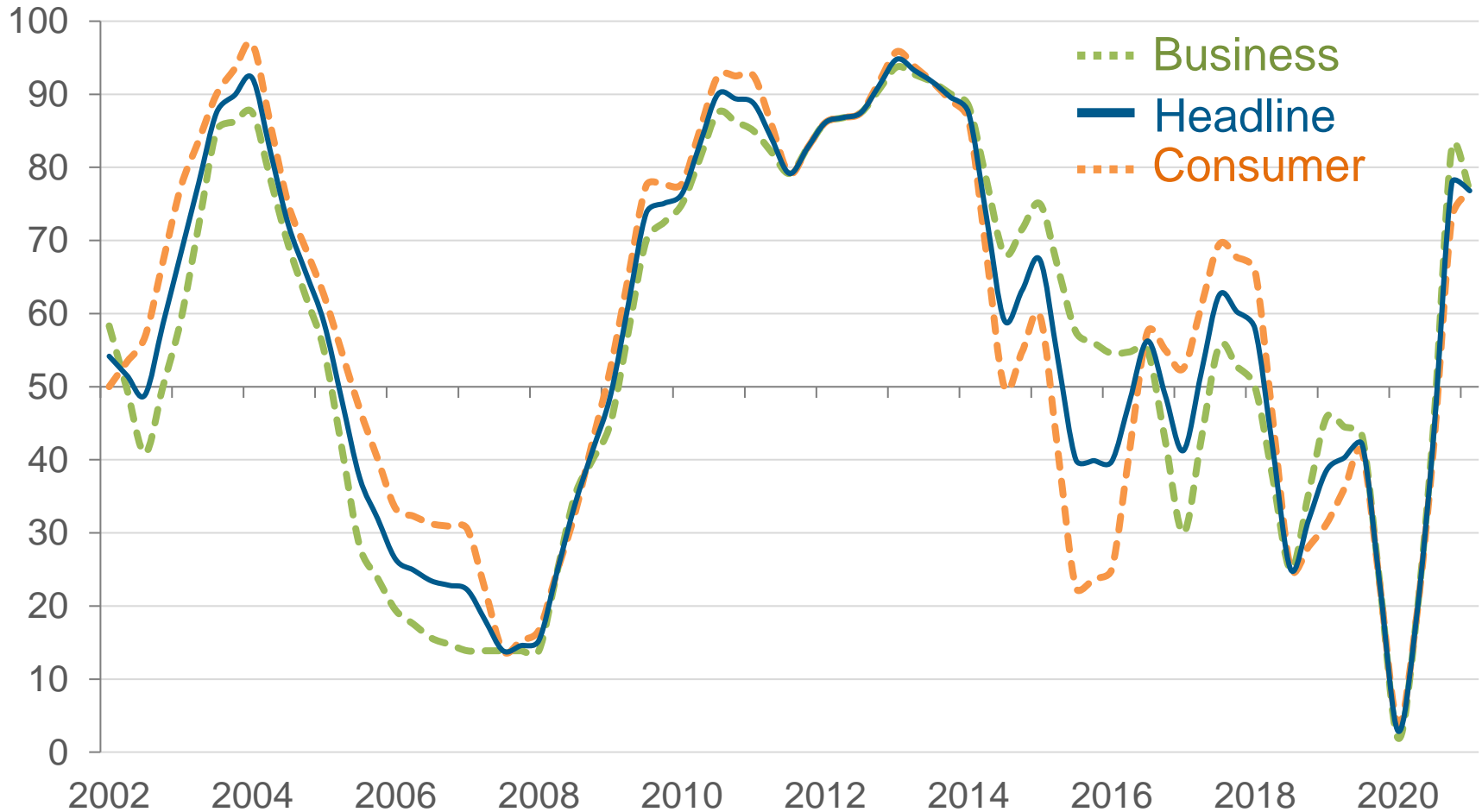
Source: Mortgage Bankers Associations

Forbearance Exits As of July 25, 2021



Source: Mortgage Bankers Associations

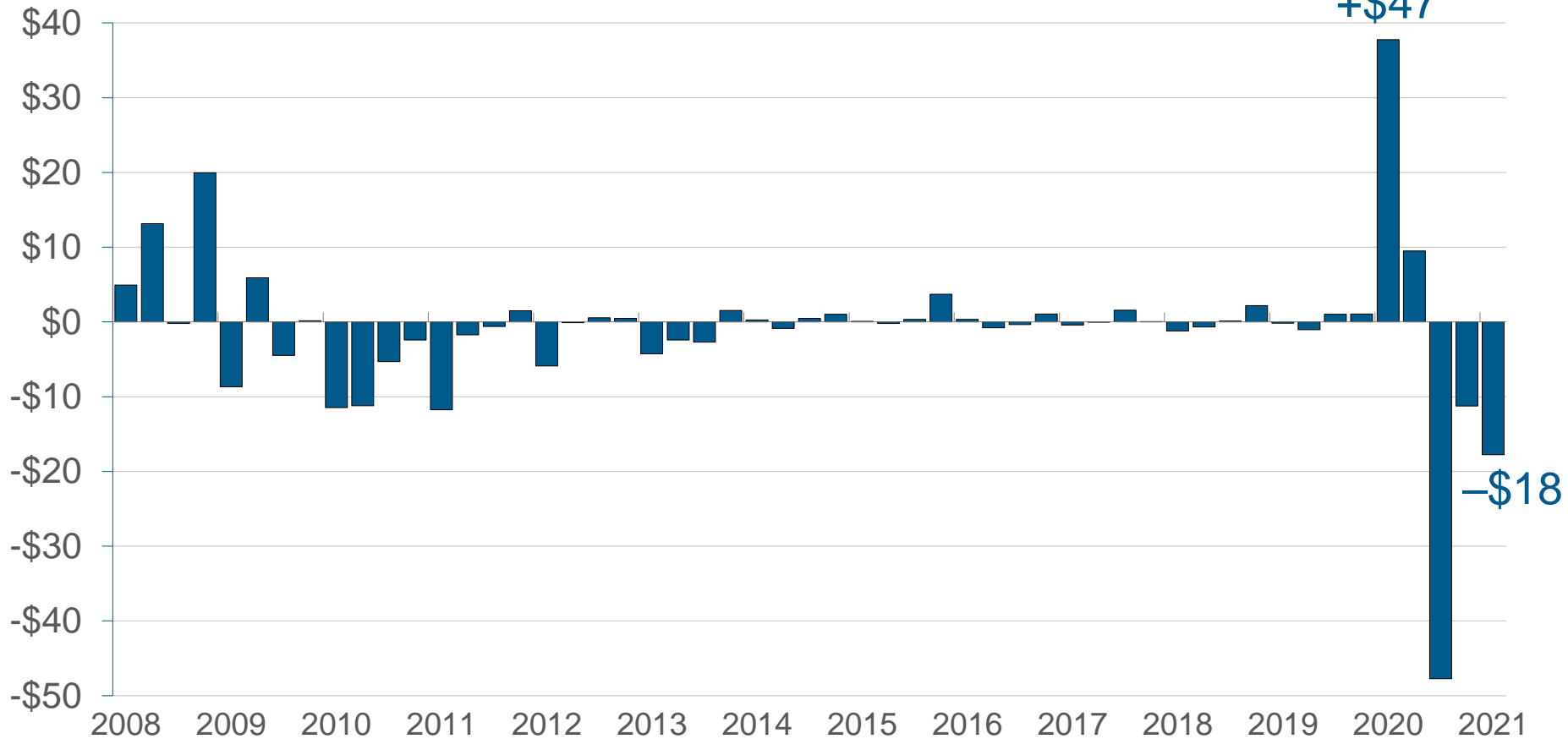
ABA Credit Conditions Index



Source: ABA survey of bank economists

Loan-Loss Provisions

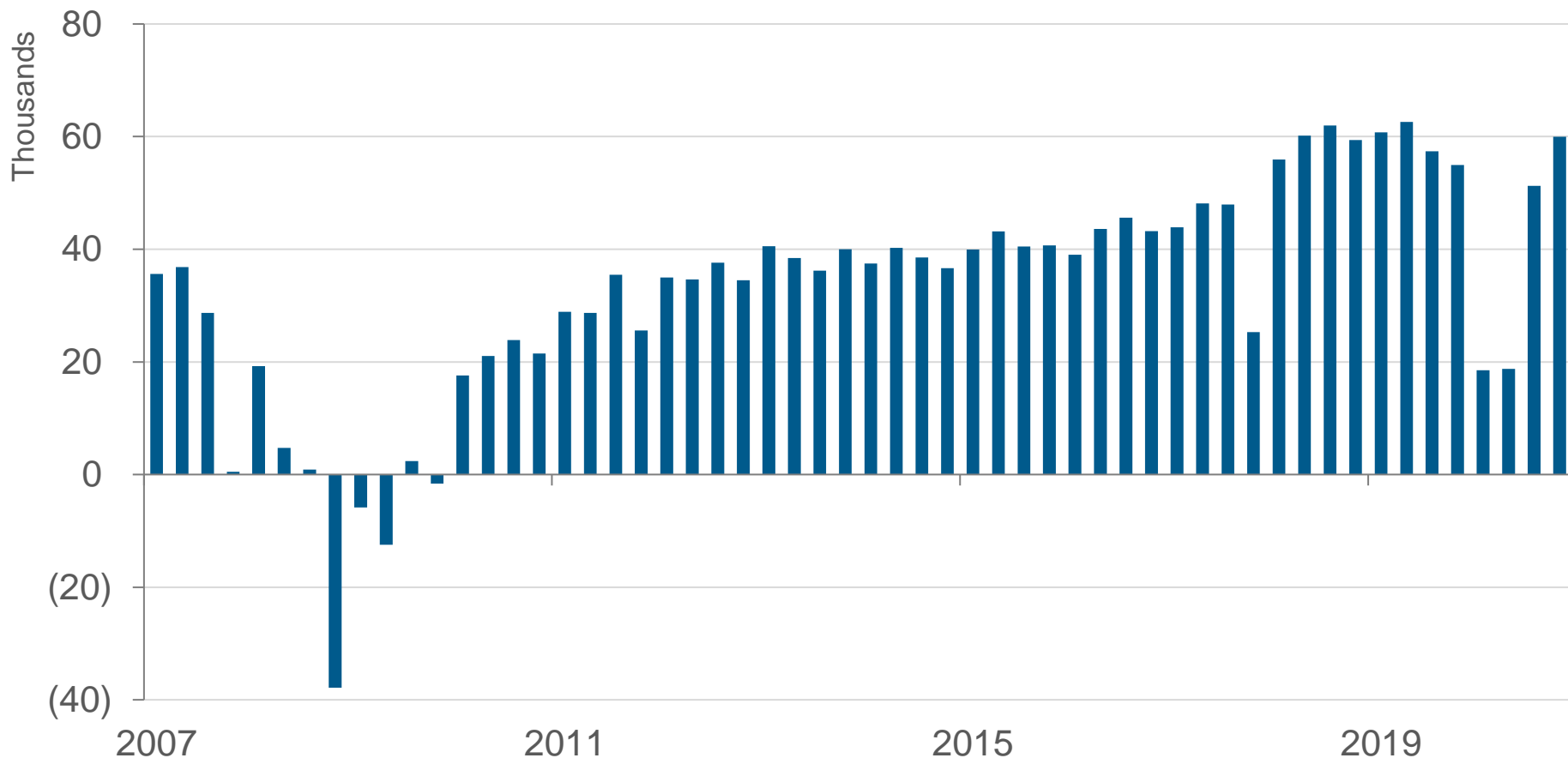
Quarterly Change, \$ Billions



Source: FDIC

Quarterly Net Income Bounced Back in Second Half of 2020

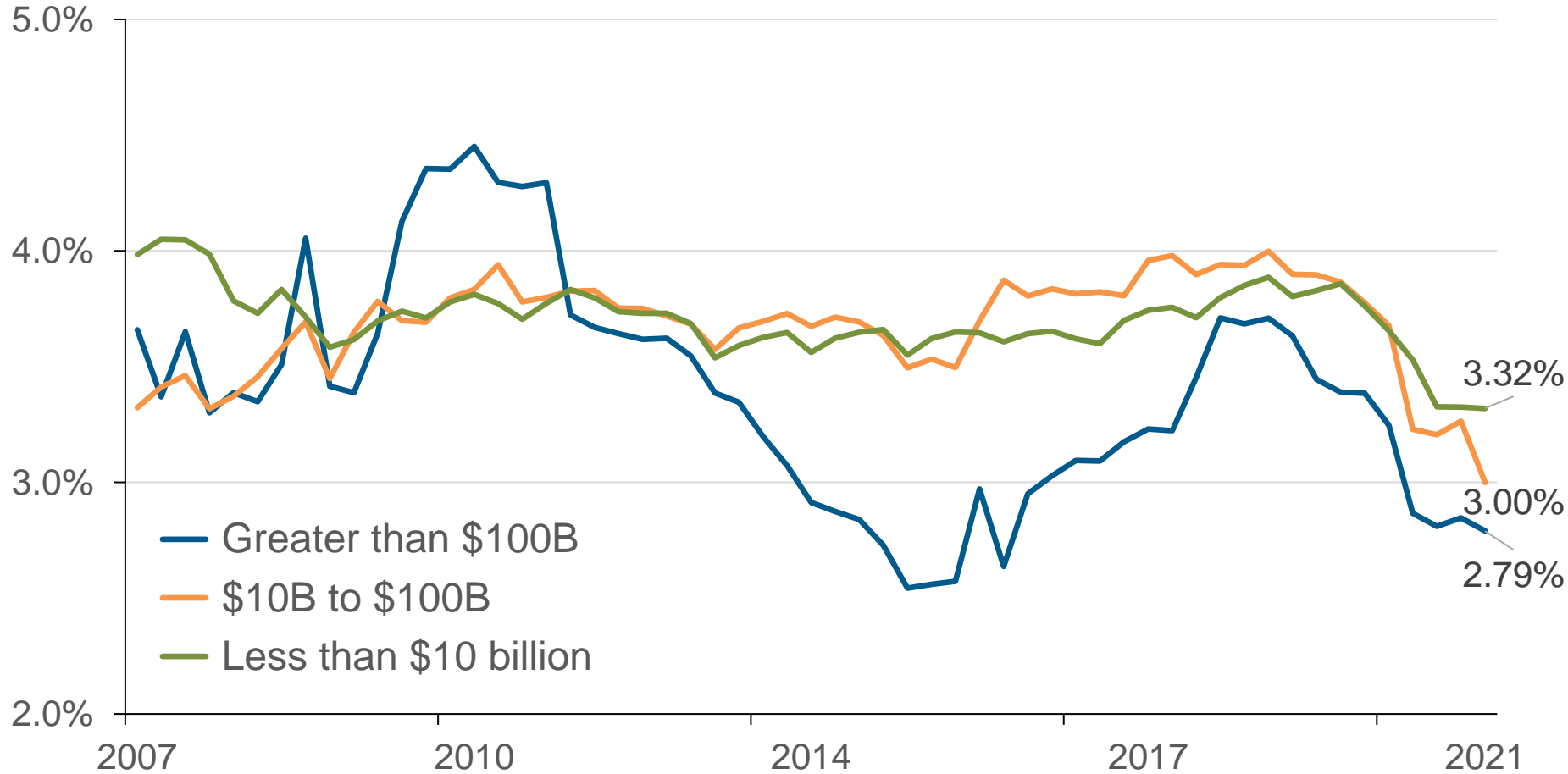
Net income attributable to bank



Source: FDIC

Net Interest Margin Compression

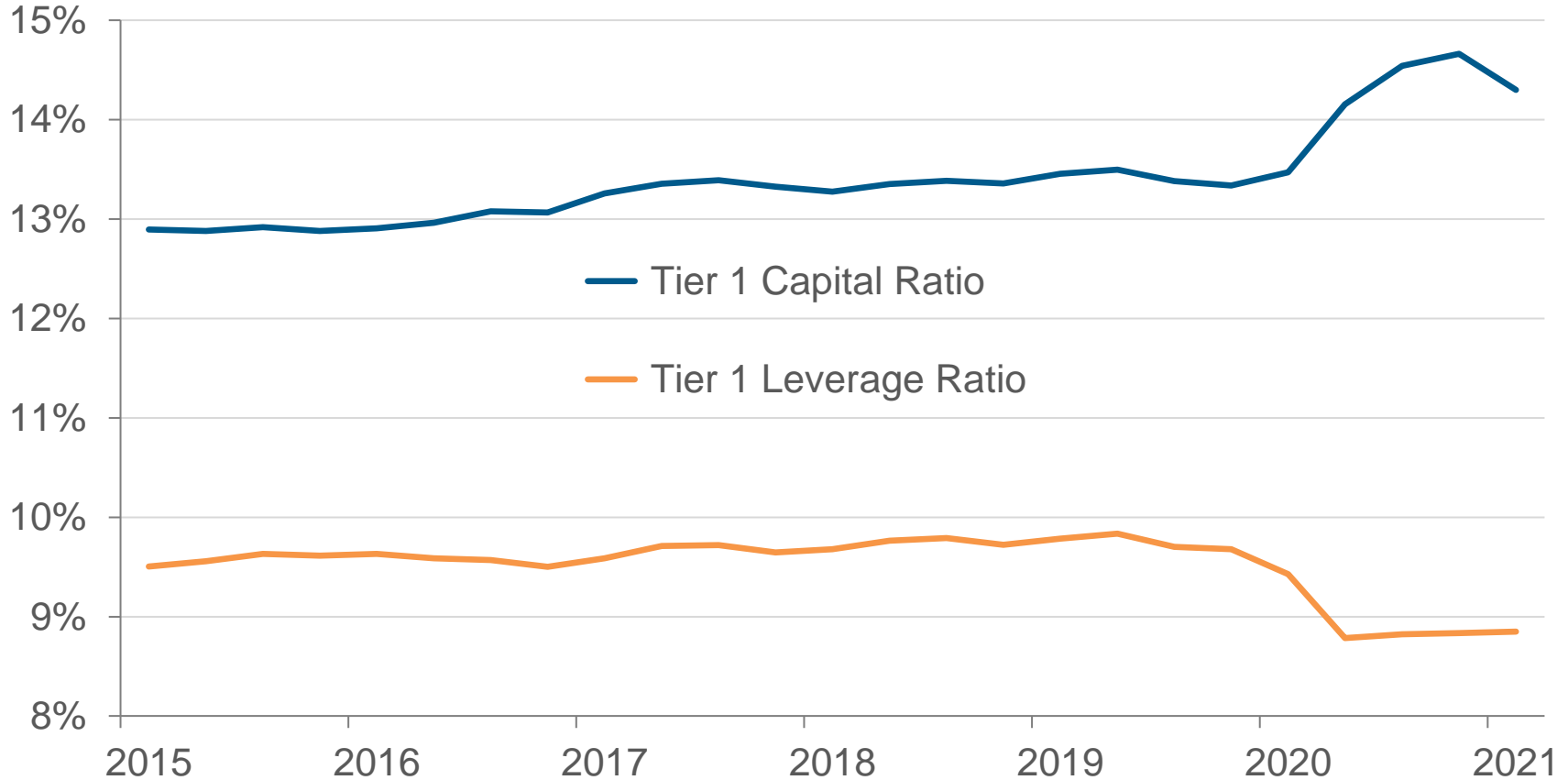
Average Net Interest Margin, by asset class



Source: S&P Global

Risk Based Capital Ratios Remain Strong

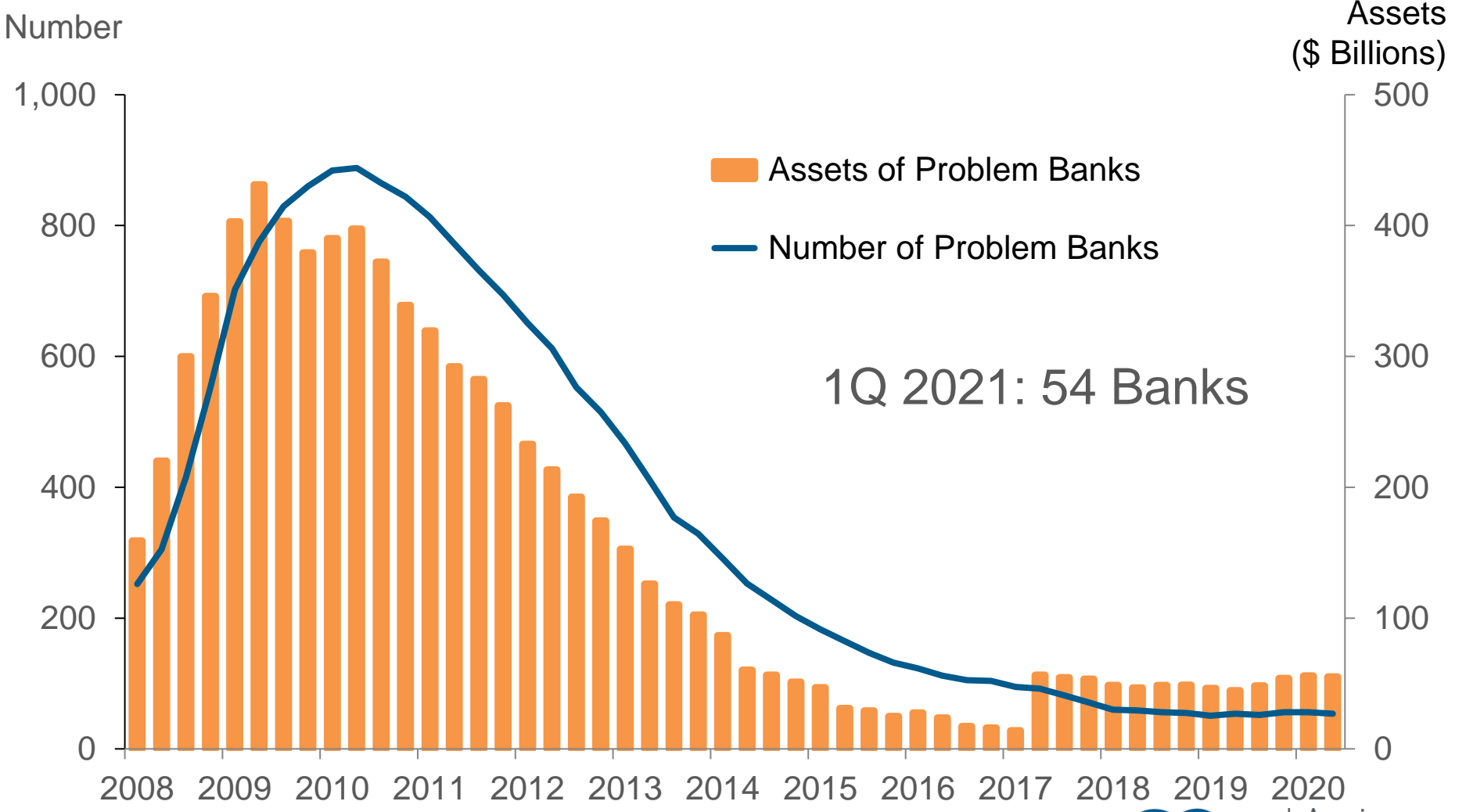
Aggregate Tier 1 Capital Ratio vs Tier 1 Leverage Ratio



Source: FDIC, S&P Global (excludes OCC Trusts)

Note: total tier 1 capital divided by total risk-weighted assets and total assets for leverage ratio, respectively

Number and Assets of Banks on the "Problem Bank List"



Source: FDIC



State of the Banking Industry, as of Q1 2021

- Quarterly net income ↑ 29% from Q4 2020
- Loans ↓ 0.4% Q/Q, 1.2% Y/Y
- NIM at a new record low ↓ ↓ ↓
- Reserves ↑ \$47B Q1-Q2 → ↓ \$77B Q3-Q1
- Deposits ↑ 27% since 2019
- Assets ↑ 3.1% Q/Q, 11.4% Y/Y
- Banks remain resilient – Only 4,978 left
 - Risk-based capital ↑ but leverage still down
 - No more Problem Banks than in 2018

QUESTIONS?



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