

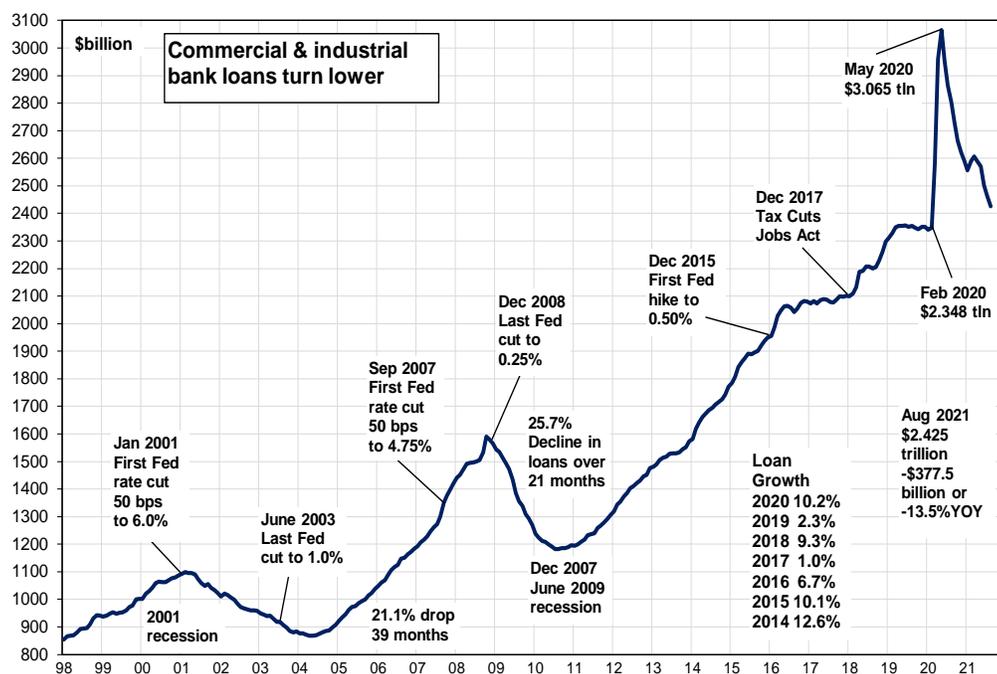
# Financial Markets This Week

17 SEPTEMBER 2021

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## COMMERCIAL & INDUSTRIAL BANK LOANS CONTINUE FALLING

The numbers don't all add up and bank loans have lost any cyclical leading, lagging, coincident economic indicator properties for the broader economy. A decline in commercial & industrial bank loans is usually an indicator of lackluster economic growth where companies' investment spending and needs for working capital are not all that strong during and



immediately following recessions. Commercial & industrial bank loans fell 21.1% in the 2001 recession and Iraq War slowdown in 2003. Commercial & industrial bank loans declined 25.7% in the Great Recession. Commercial and industrial loans jumped \$717 billion or 30.5% from \$2.348 trillion in February 2020 before the pandemic to \$3.065 trillion in May 2020, the magnitude of the increase was something the economy had never experienced before looking back over two decades. Large corporations accessed their bank credit lines in the financial panic and the CARES Act (signed into law March 27, 2020) PPP loans also played a big role. Most PPP loans are commercial and industrial bank loans. Commercial & industrial bank loans are falling sharply again, but it doesn't herald a slowdown in business investment spending or in the GDP economy.

FDIC Banks and S&Ls			
	2021	2010	2000
Number	4,951	7,830	10,102
Employees	2.059	2.034	1.904
Deposits	18.730	9.141	4.689
C&I loans	2,336	1,165	1,062
Credit cards	792.0	692.1	234.5

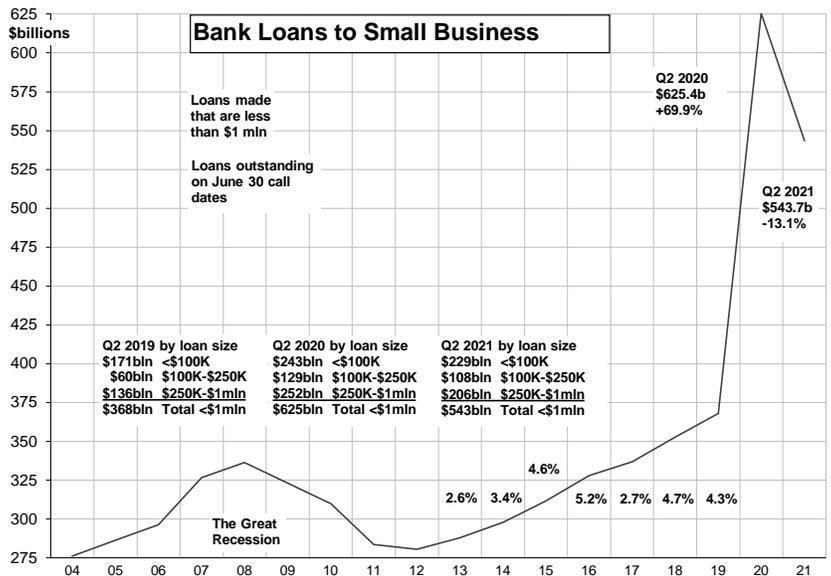
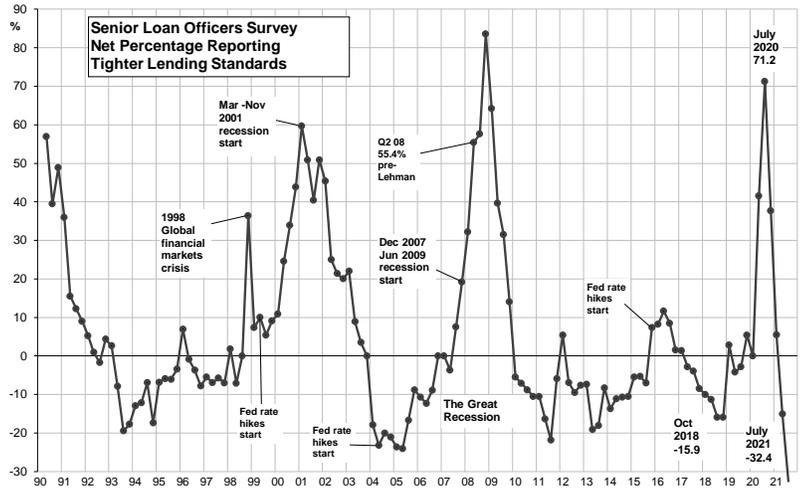
4,951 banks in June 2021, 2.059 million employees, \$18.730 trillion in deposits, \$2.336 trillion C&I loans, \$792 billion credit card loans to individuals

The Fed's Senior Loan Officer Opinion Survey on Bank Lending Practices shows the easiest money conditions exist, providing credit from banks to companies, in history or at least since Q2 1990 in this graph below. A year ago in July 2020 during the pandemic, the net percentage reporting tighter lending

standards was 71.2 and now a year later in the latest July 2021 survey the net percentage is negative 32.4 which is off the chart. At large banks the percentage easing lending standards somewhat was 45.7% which is understandable with C&I loan demand plummeting and business is less profitable with banks reporting narrowing spreads of loan rates over the cost of funds.

Bank loans to small business in second quarter 2021 FDIC data came back down to \$543.7 billion from the PPP loan related 69.9% jump last year. Outstanding loans of less than \$100,000 are down, but the number of loans made in this category of small loans is up to 24.9 million in Q2 2021 from 24.0 million in Q2 2020 and 21.2 million in Q4 2019 before the pandemic.

To conclude, there is some loan growth at banks despite the fall in commercial & industrial loans, but the increase comes almost entirely in credit cards and auto loans. Corporations don't need additional loans at the moment. For now it is no longer true that bank loans are the lifeblood of the economy or if it is, the economy no longer needs credit to move forward. The recovery from the shortest recession in history continues: shortest due to the pandemic temporarily sending companies and their workers, and consumers to the sidelines for a couple of months before slowly reengaging. It won't last forever, but at the moment companies have sufficient funds to support their businesses. The Fed survey was actually split between large banks seeing an increase in C&I loans and some saying there was a decline. For those who saw weaker C&I loan growth, the top reason cited was because customer internally generated funds had increased. Large corporate customers have the money and don't need loans which isn't good for future bank profitability. The FDIC [Quarterly Banking Profile](#) for Q2 2021 released September 8 said net income was over \$70 billion for banks in the last two quarters which was fueled by a drop in the provision expense. Before the pandemic, quarterly income in 2019 ranged from 54.9 to 62.6 billion dollars. Meanwhile, the net interest margin contracted further to a new record low. Don't feel too bad because at 2.5% it still brings in \$138.5 billion down from the Q3 2019 peak of \$180.8 billion when the Fed was lifting rates. Babyboom Seniors with money in the bank get zero dollars in interest income. Stay tuned. Let's see if the Fed is any closer to starting to raise interest rates at the September 21-22 meeting.



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