

Economic Outlook & Industry Performance



Joint Mutual Forum

June 28, 2023

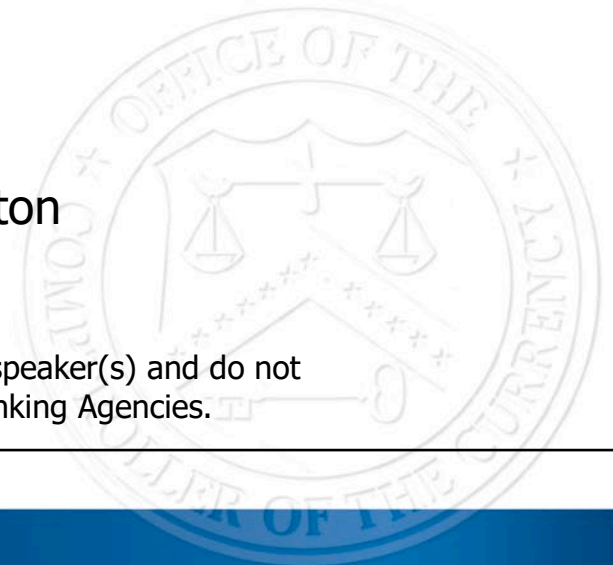
Presenters:

Robert DiChiara, FDIC

Daniel Grantham, OCC

Jeffrey Thompson, FRB Boston

Disclaimer: The views expressed here are those of the speaker(s) and do not necessarily represent the views of the Federal Banking Agencies.

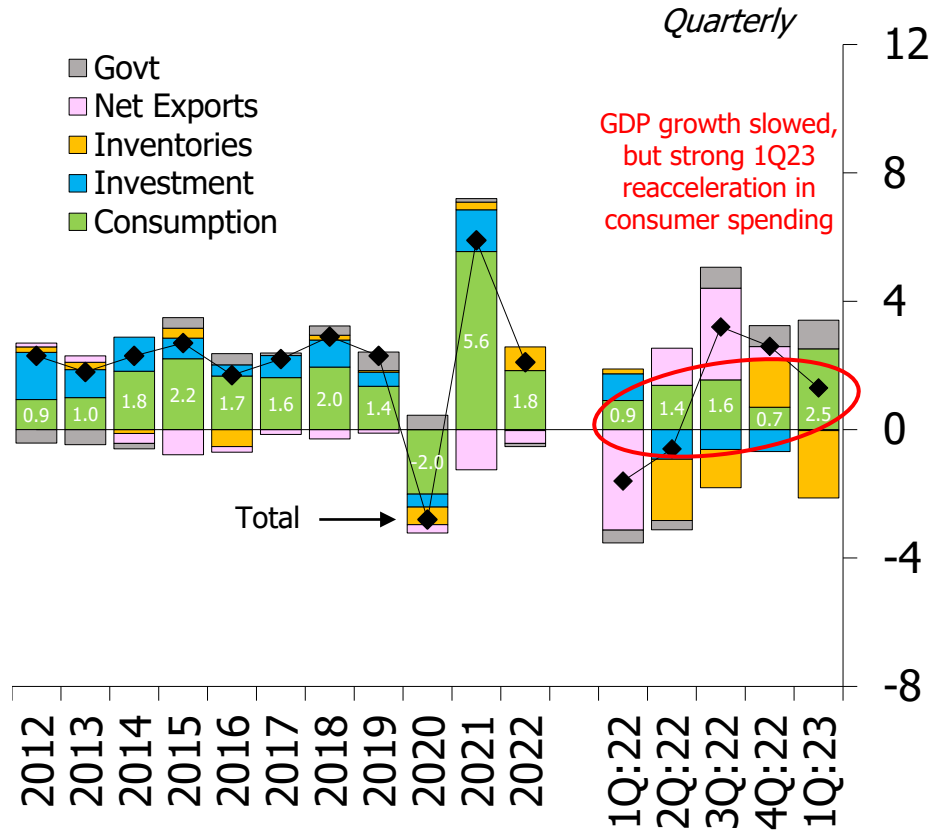


Agenda

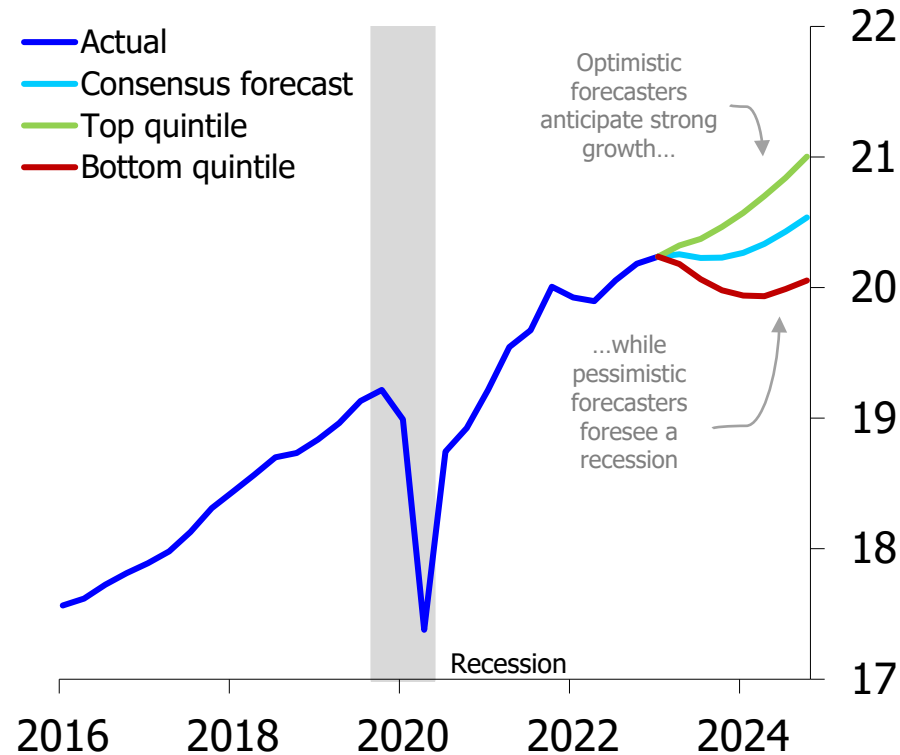
- National economic update (Grantham, OCC)
- Regional economic update (Thompson, FRB Boston)
- Industry performance (DiChiara, FDIC)

1Q23 GDP slowed by inventory liquidation; strong reacceleration in 1Q consumer spending

Contribution to real GDP growth rate, by component, %



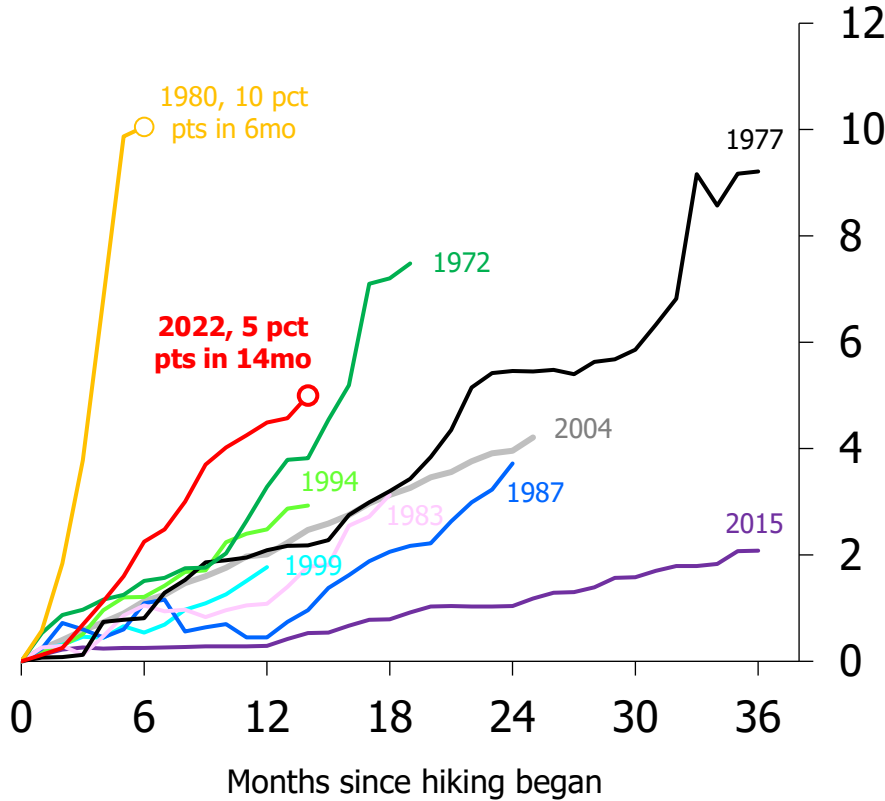
Real GDP, SAAR, in trillions of 2012 \$'s



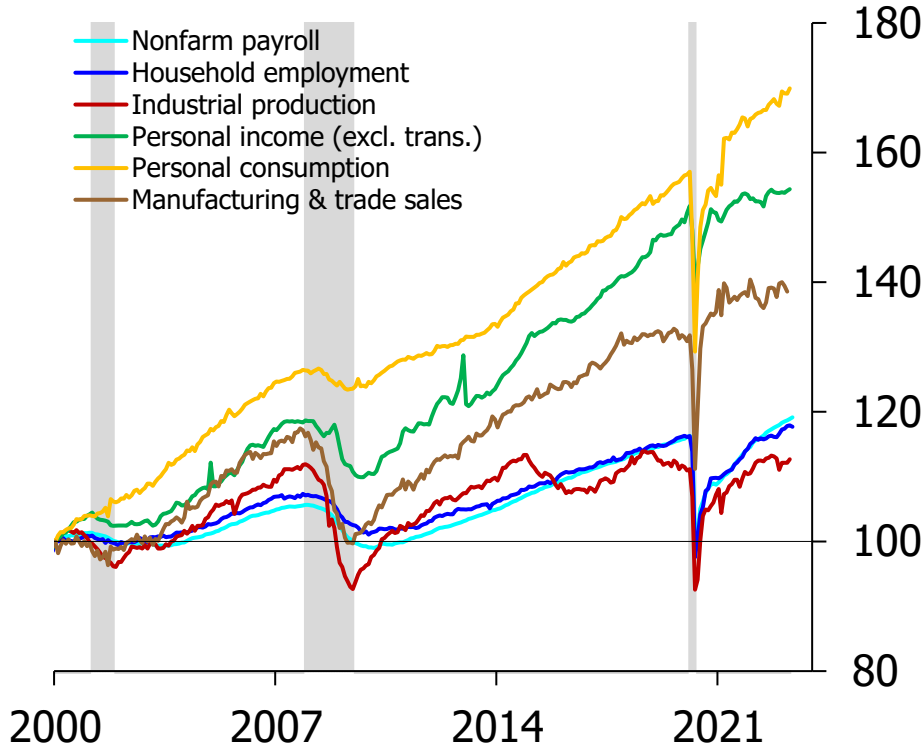
Source: BEA (1Q:2023 second estimate); Blue Chip Economic Indicators (March 2023).

Fed rate rise of 500 bps has not yet affected the six indicators of a U.S. recession

Cumulative change in Fed Funds rate during tightening cycles, %



Monthly indicators used to determine recessions, Jan 2000 = 100

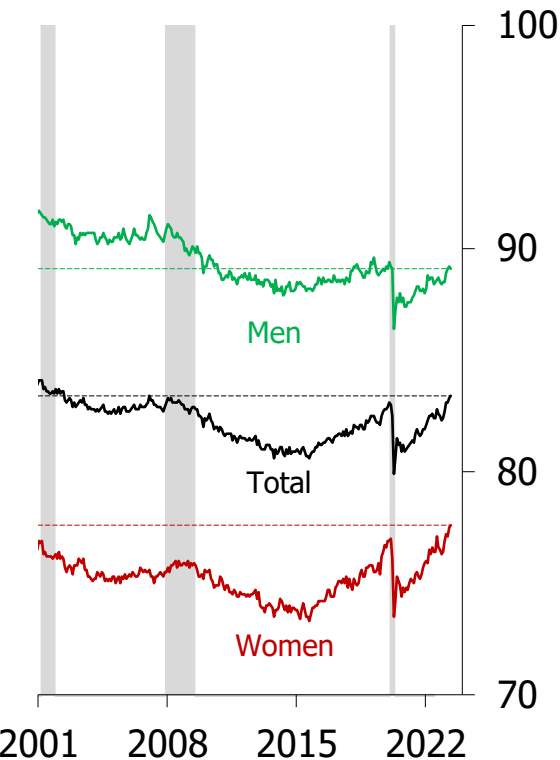


Sources: Federal Reserve Board (May 2023); BEA (April 2023); BLS (May 2023)

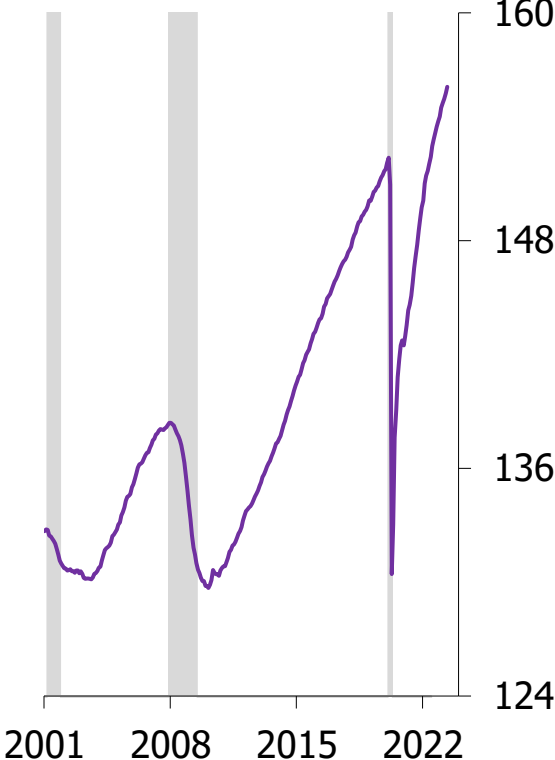
The National Bureau of Economic Research, or NBER, is a private, non-profit, non-partisan organization dedicated to conducting economic research and designated as the official U.S. recession arbiter. According to NBER, a recession is a significant decline in economic activity that is spread across the economy and lasts more than a few months. The six-monthly indicators generally used by the NBER are presented above.

Labor market remains hot, but job openings and quits rate show signs of cooling

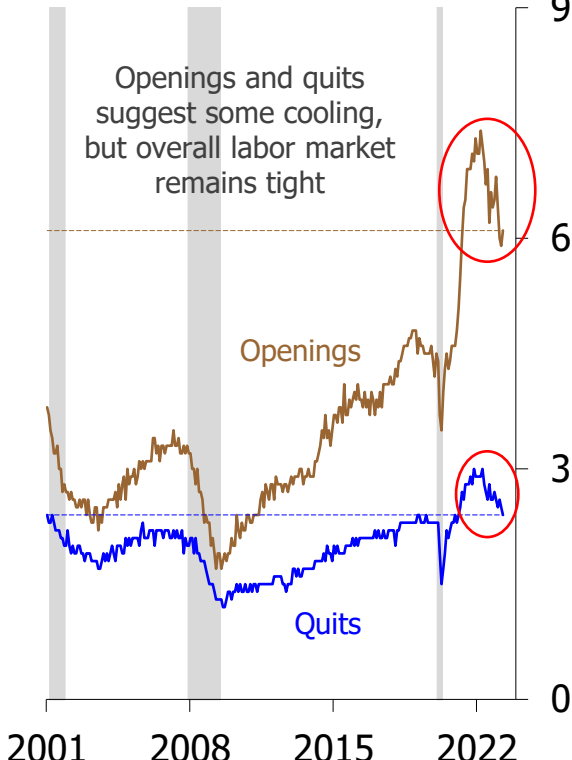
Labor force participation rate of 25–54-year-olds, %



Total nonfarm payrolls, in millions



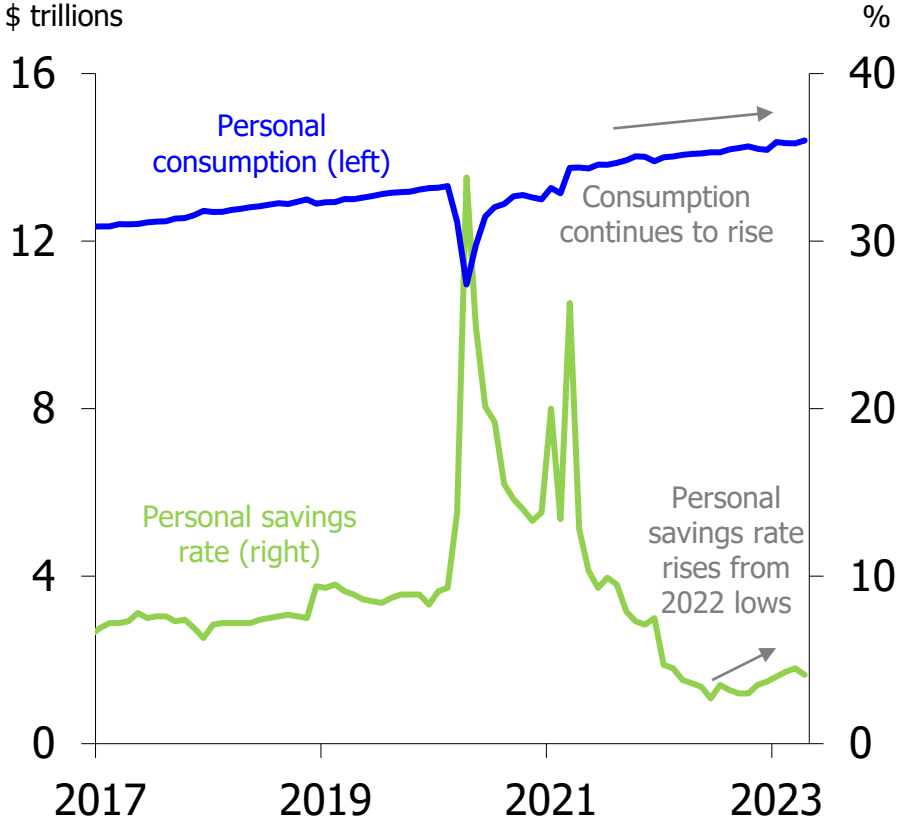
Job openings and quits rate, %



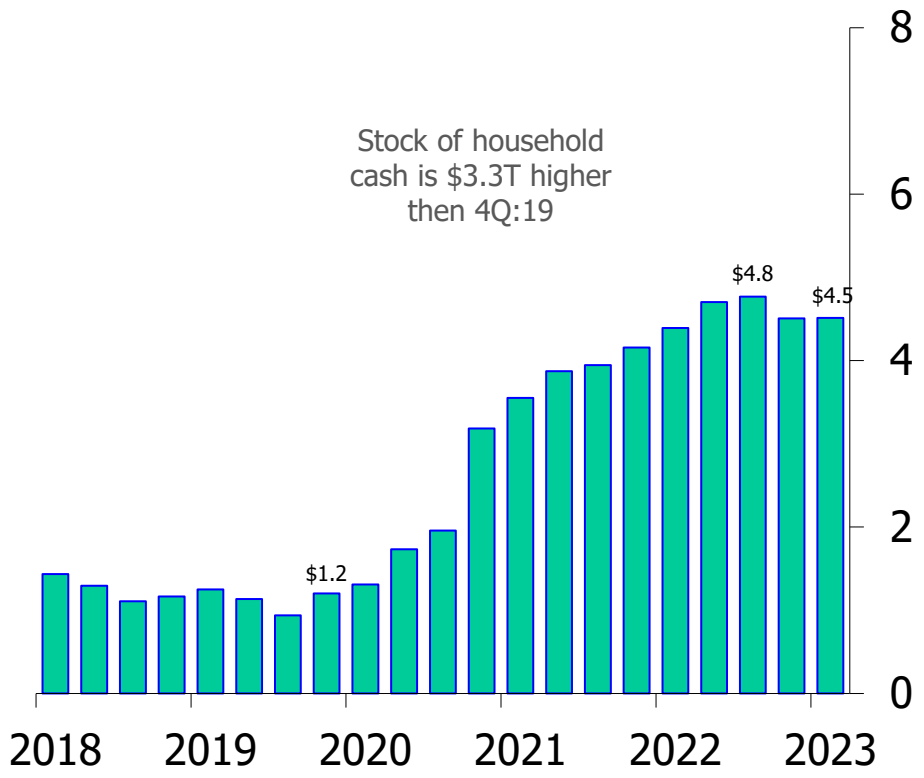
Sources: Bureau of Labor Statistics (data through May 2023); JOLTS (April 2023)

Consumer spending rose in April; savings rate is 1 percentage point above lows in 2022

Real personal consumption spending and personal savings rate



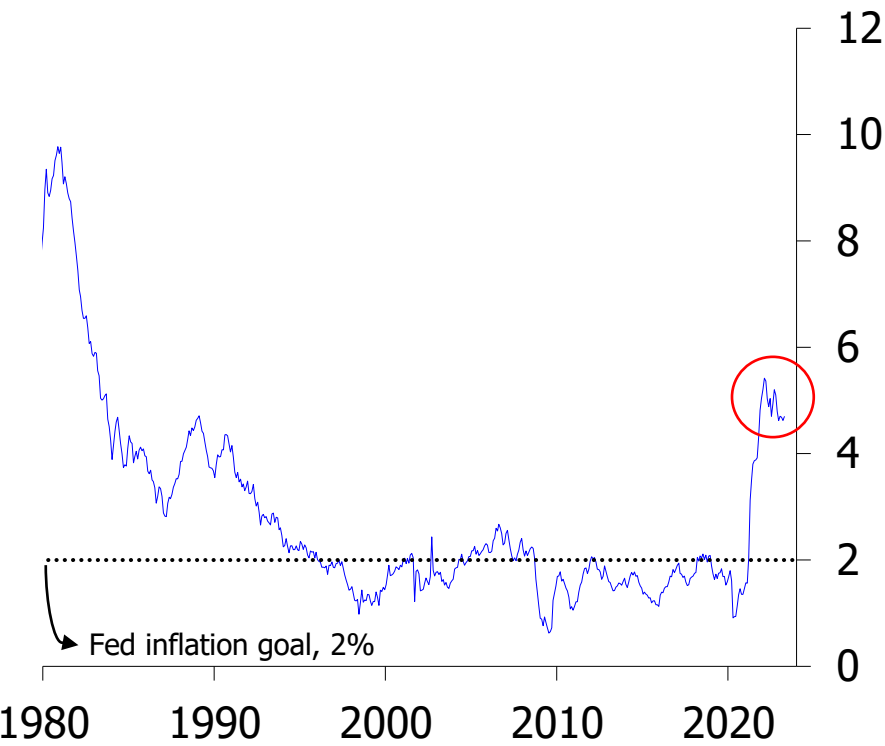
Household checking account and currency holdings, \$ trillions



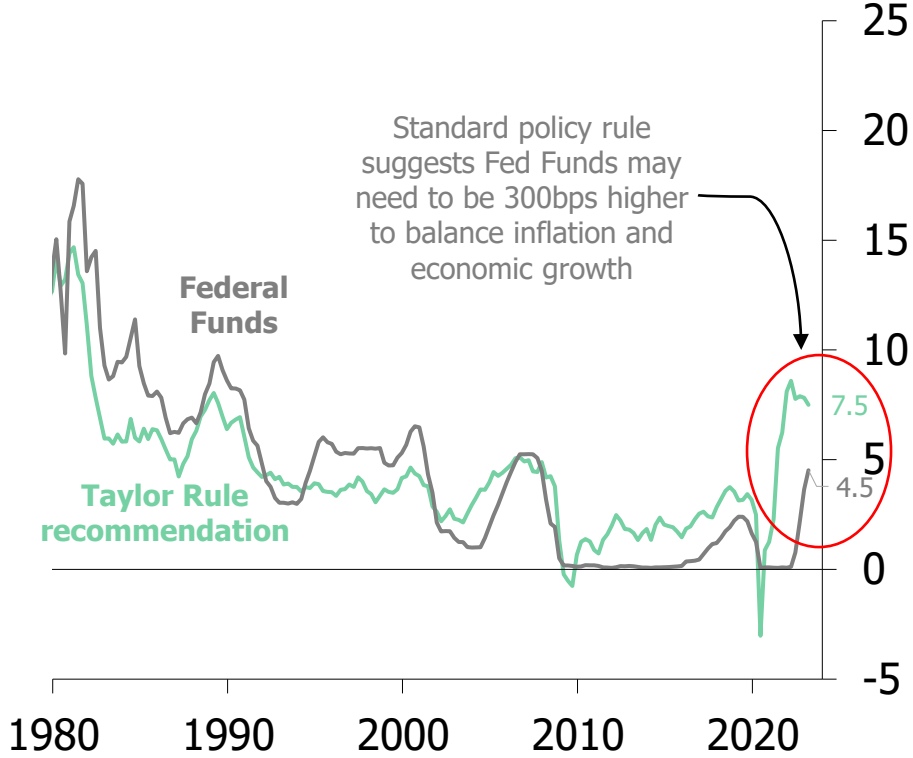
Sources: BEA (data through April 2023); Federal Reserve Board (1Q 2023)

Fed's preferred inflation gauge is still 2x target; standard policy rule implies further rises needed

Core personal consumption expenditure price index, yoy pct chg, %



Effective Federal Funds rate and Taylor Rule policy recommendation %



Sources: Bureau of Economic Analysis (data through April 2023); Federal Reserve Board; Bloomberg; HAVER (1Q23); Taylor Rule based on the equal weight, core PCE, and $r^* = 2$.

Note: The Taylor rule is a standard policy recommendation for what the Fed Funds rate should be to maximize full employment and price stability

U.S. households are in a strong financial position; cracks beginning to emerge

Positives

- Household leverage, debt servicing costs, and delinquency rates are low
- Majority of consumer debt is fixed rate
- Incomes are growing
- Abundant job openings
- Households across all income bands are maintaining material cash balances
- Consumers continue spending

Negatives

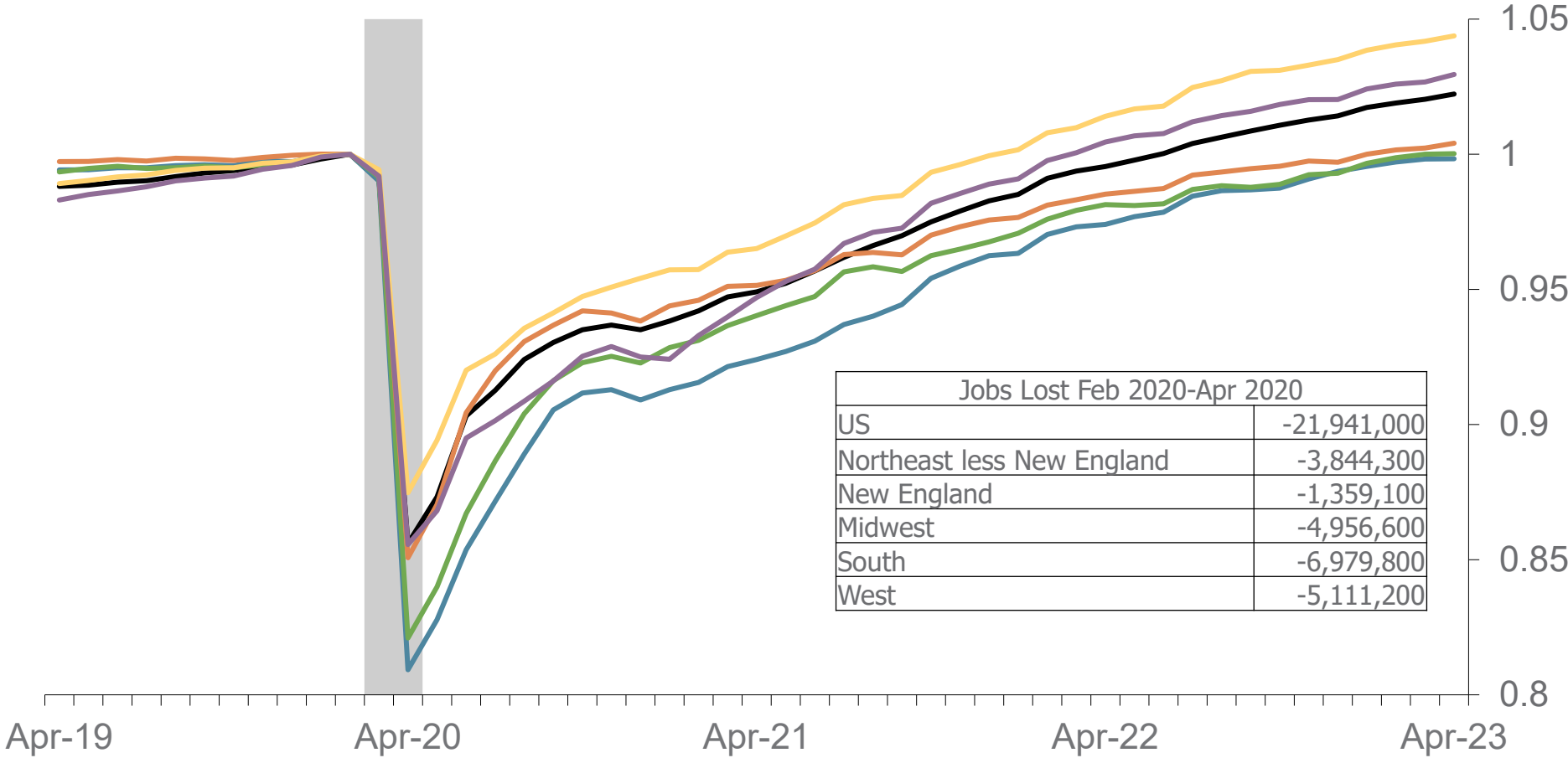
- Tighter lending standards
- Persistently high inflation rate
- Resumption of student loan repayments
- Recent deterioration in early-stage delinquencies

Agenda

- U.S. economic update (Grantham, OCC)
- Regional economic update (Thompson, FRB Boston)
- Mutual performance (DiChiara, FDIC)

Total nonfarm employment, indexed to Feb 2020

Recession
 US
 Northeast less New England
 New England
 Midwest
 South
 West

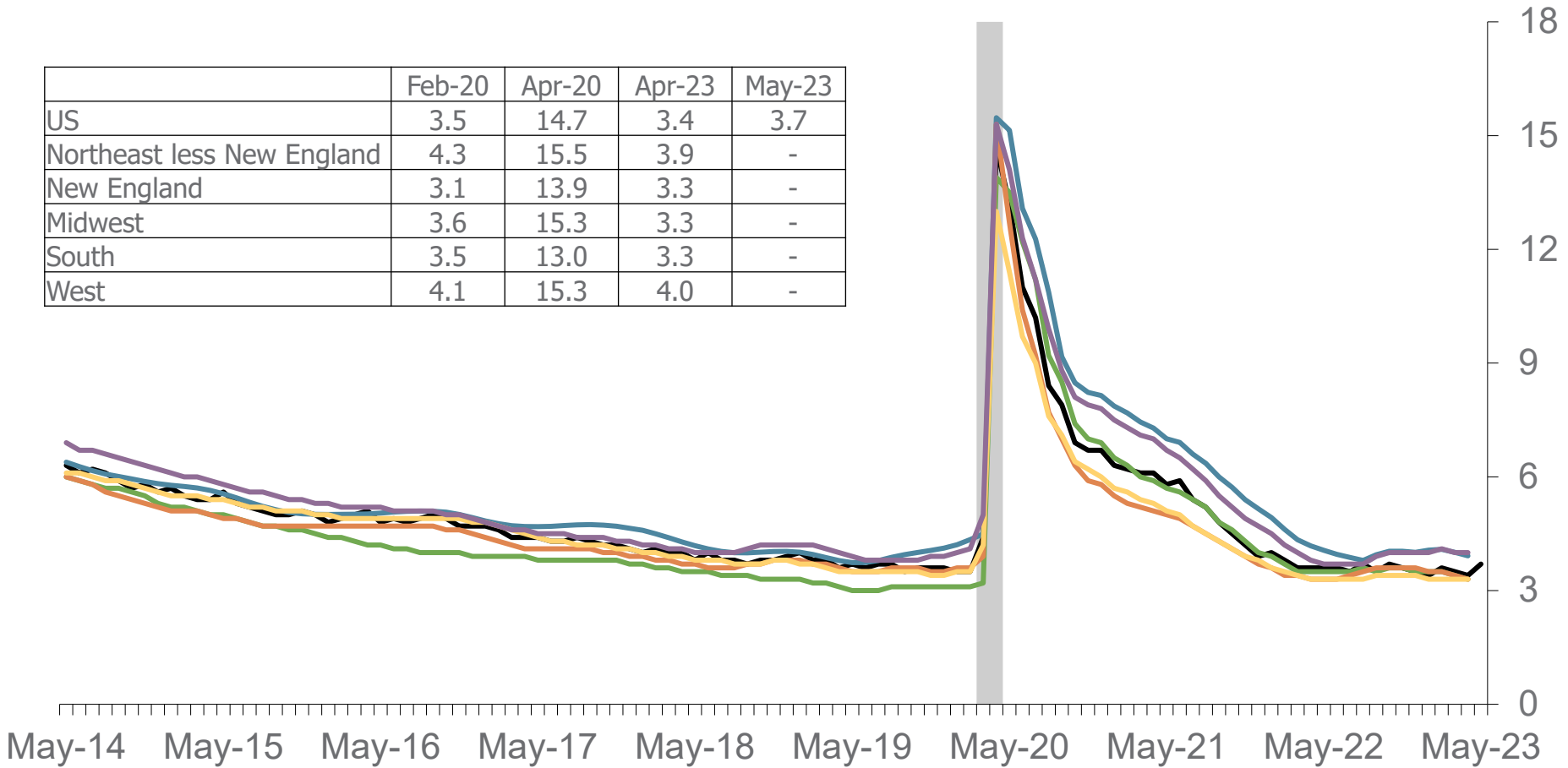


Sources: BLS, Haver Analytics, NBER.

Unemployment rates, seasonally adjusted, %

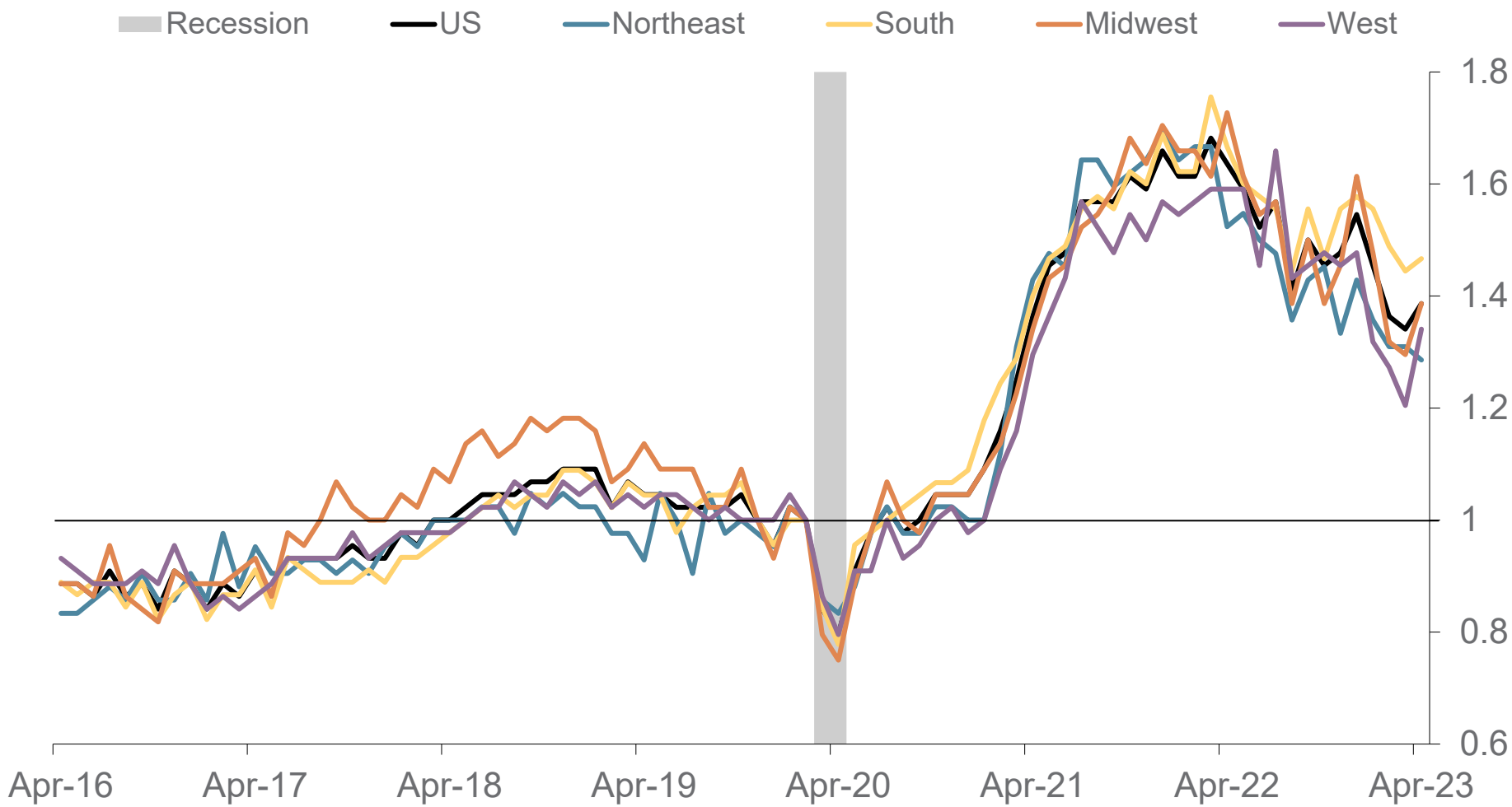
■ Recession
 — US
 — Northeast less New England
 — New England
 — Midwest
 — South
 — West

	Feb-20	Apr-20	Apr-23	May-23
US	3.5	14.7	3.4	3.7
Northeast less New England	4.3	15.5	3.9	-
New England	3.1	13.9	3.3	-
Midwest	3.6	15.3	3.3	-
South	3.5	13.0	3.3	-
West	4.1	15.3	4.0	-



Sources: Bureau of Labor Statistics, NBER, Haver Analytics.

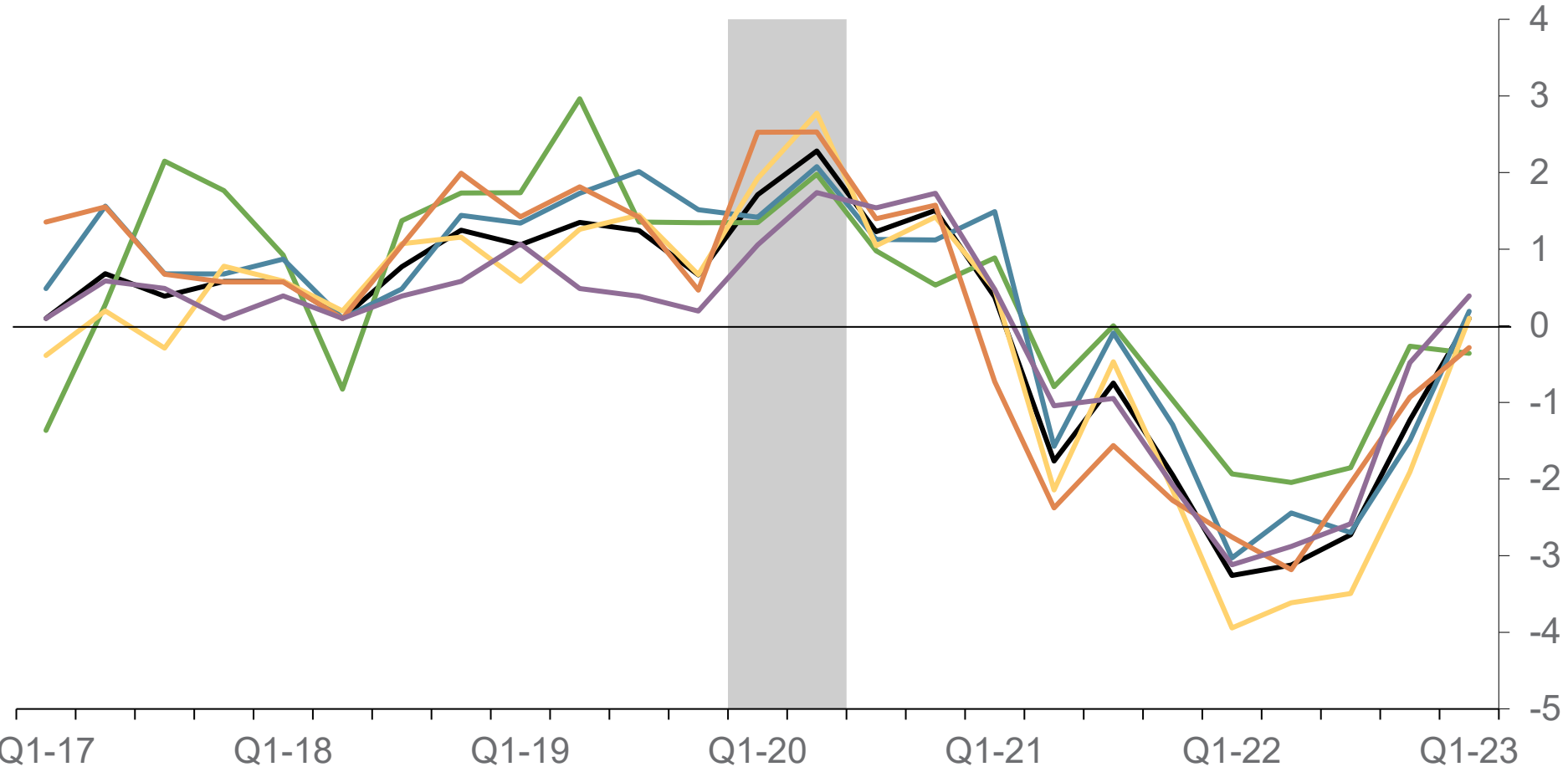
JOLTS: Job openings, SA, indexed to Feb 2020



Sources: JOLTS, Bureau of Labor Statistics, NBER, Haver Analytics.

Real wages and salaries, YoY percent change, %

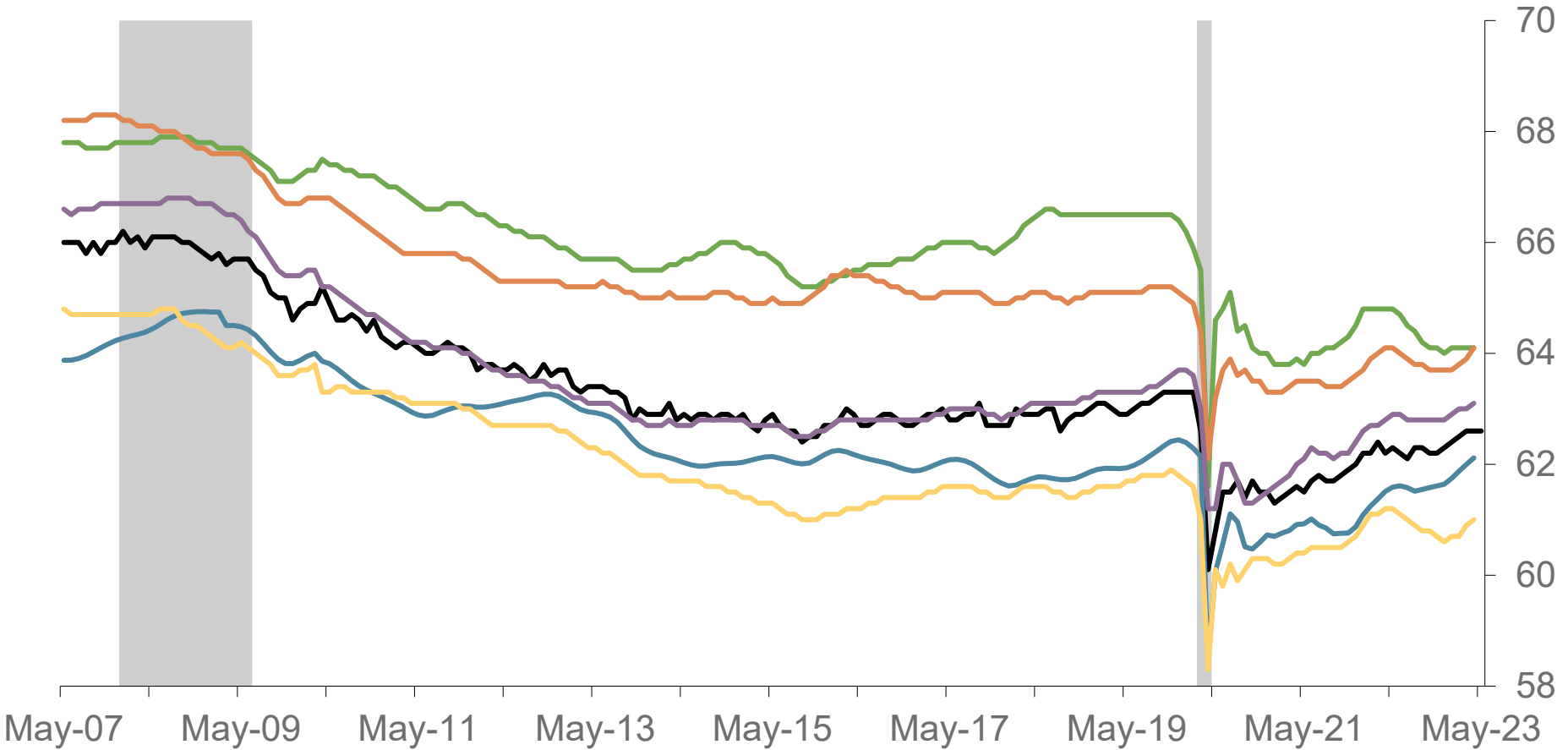
■ Recession — US — New England — Northeast less New England — South — Midwest — West



Sources: Bureau of Labor Statistics, NBER, Haver Analytics.

Labor force participation rate, SA, %

■ Recession — US — Northeast less New England — New England — Midwest — South — West



Sources: Bureau of Labor Statistics, NBER, Haver Analytics.

Home sales and inventory, indexed to Avg of 2017-2019

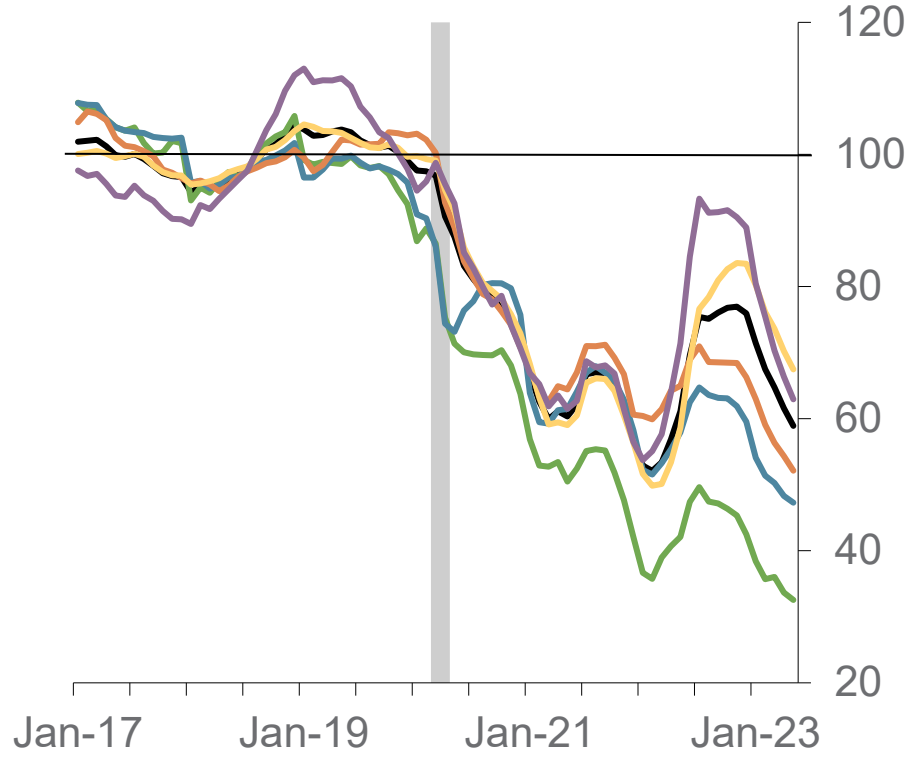
Total Existing Home Sales

- Recession
- United States
- Northeast
- Midwest
- South
- West



All Residential Inventory

- Recession
- United States
- New England
- Midwest
- West
- Northeast less New England
- South

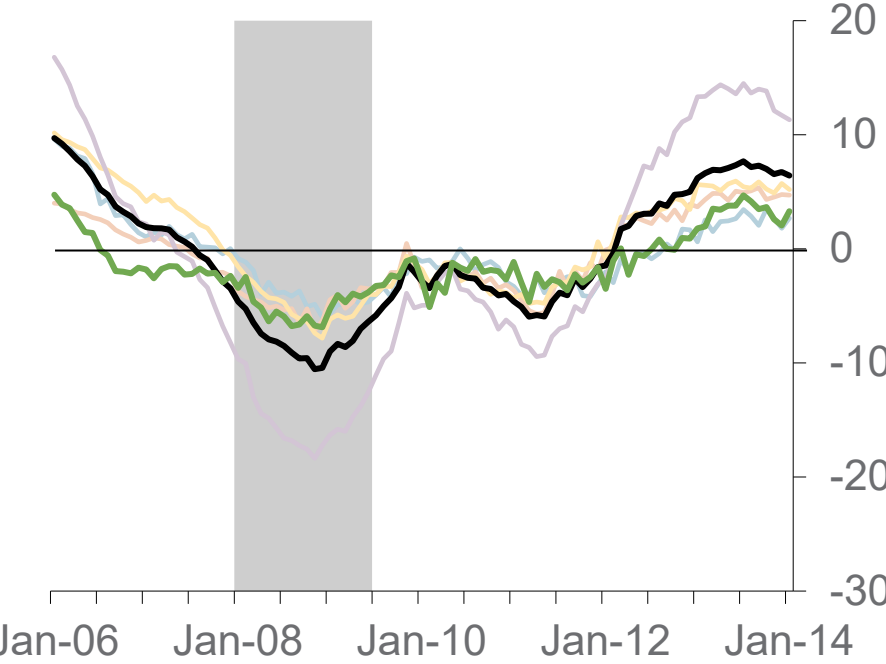


Sources: Lefthand figure: SAAR. Righthand figure: NSA. Midwest region is missing North Dakota. West region is missing Wyoming. Redfin, National Association of Realtors, Haver Analytics, NBER.

Repeat-sales home price index, YoY percent change, %

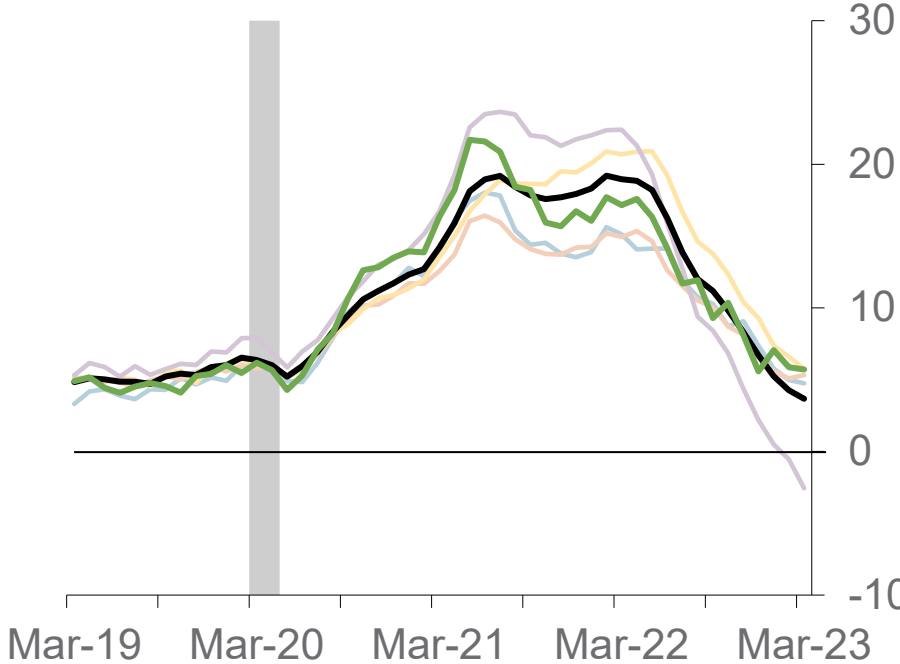
2008 Financial Crisis

- Recession
- Northeast less New England
- Midwest
- South
- West
- United States
- New England



COVID-19 Pandemic

- Recession
- Northeast less New England
- Midwest
- South
- West
- United States
- New England



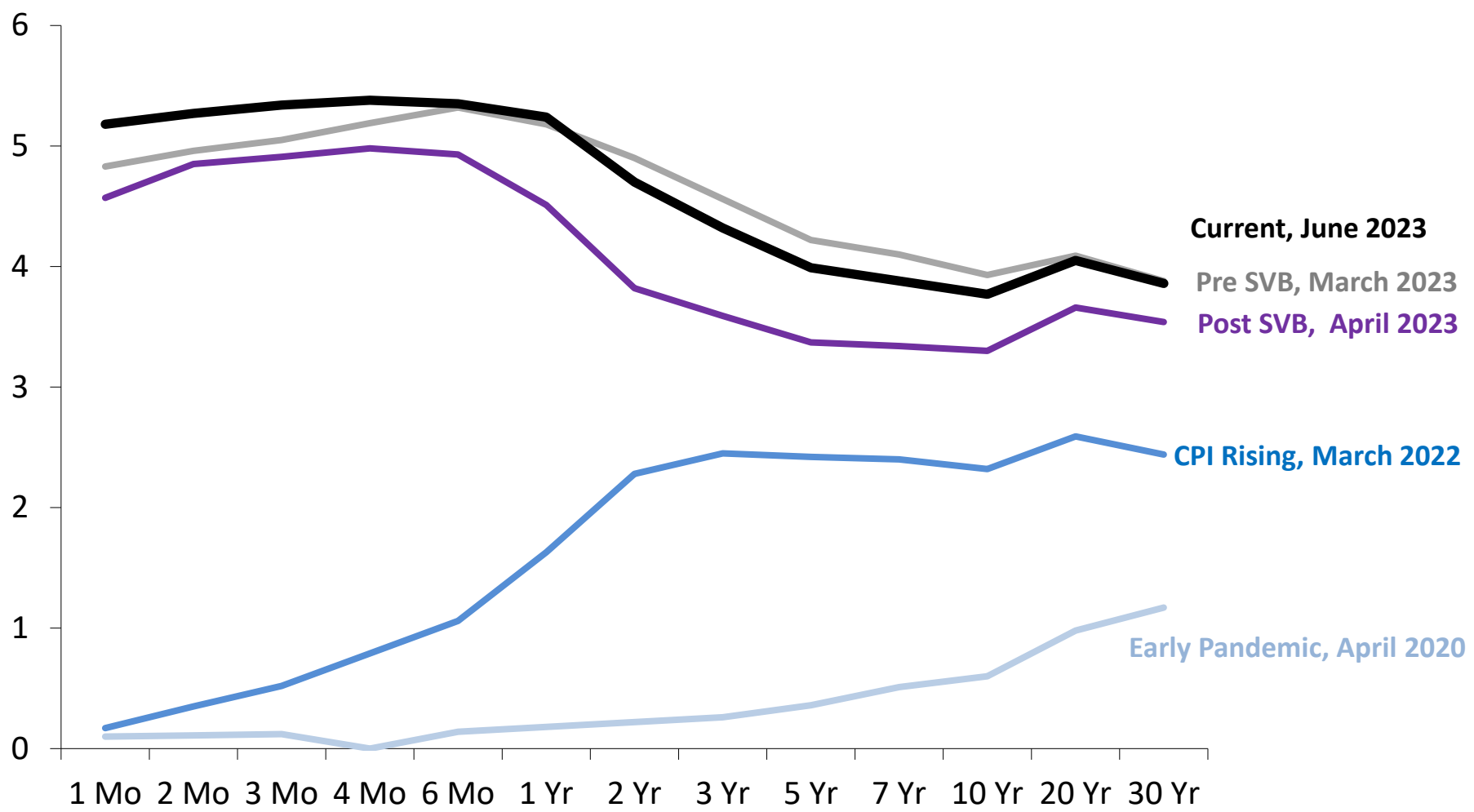
Source: FHFA, NBER, Haver Analytics.

Note: Not seasonally adjusted. Census region level HPIs are the average of the Census division level HPIs.

Agenda

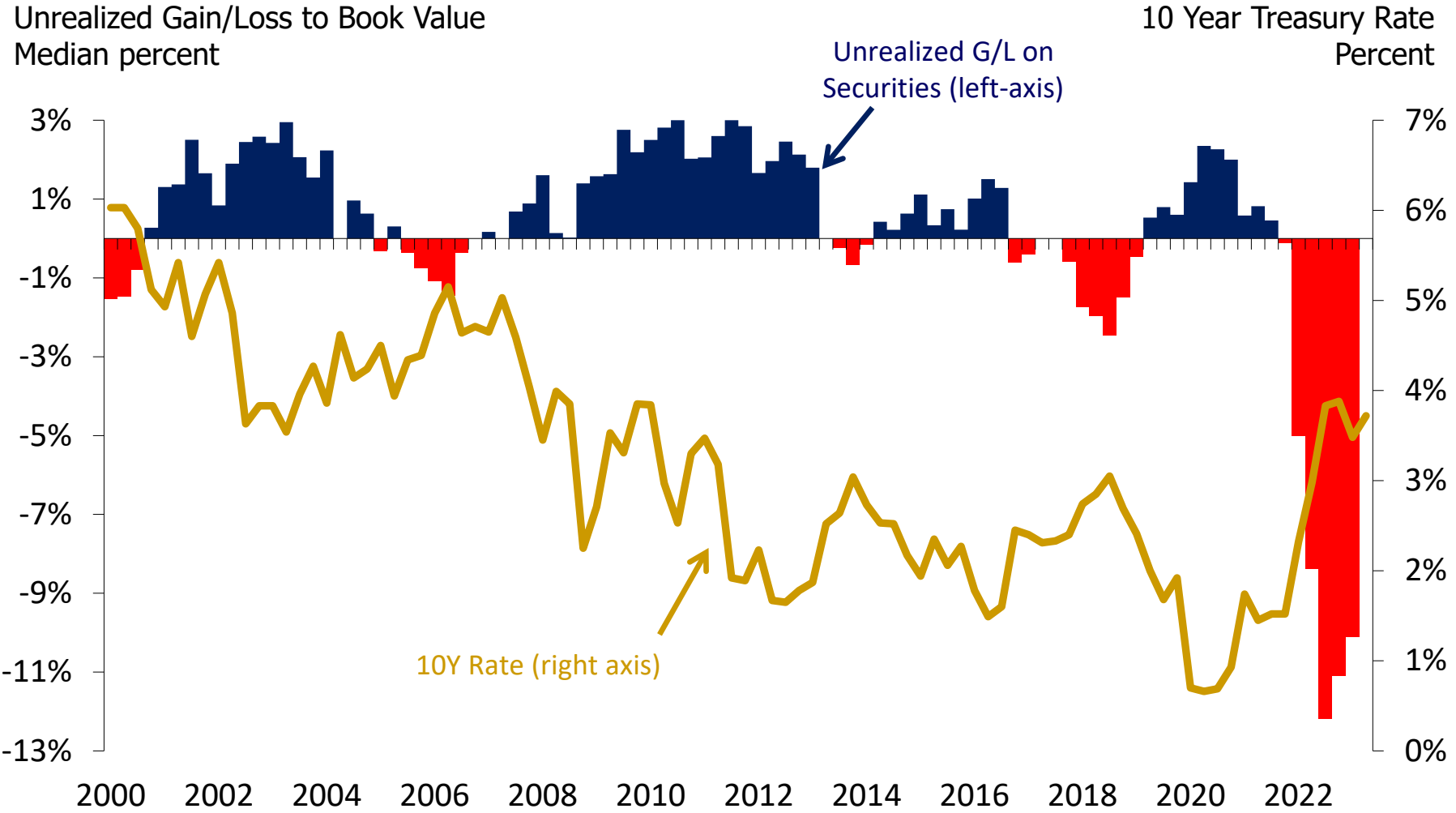
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Daily Treasury yield curve rates, %



Sources: U.S. Department of the Treasury - Daily Treasury Yield Curve Rates.

Unrealized losses in securities portfolios

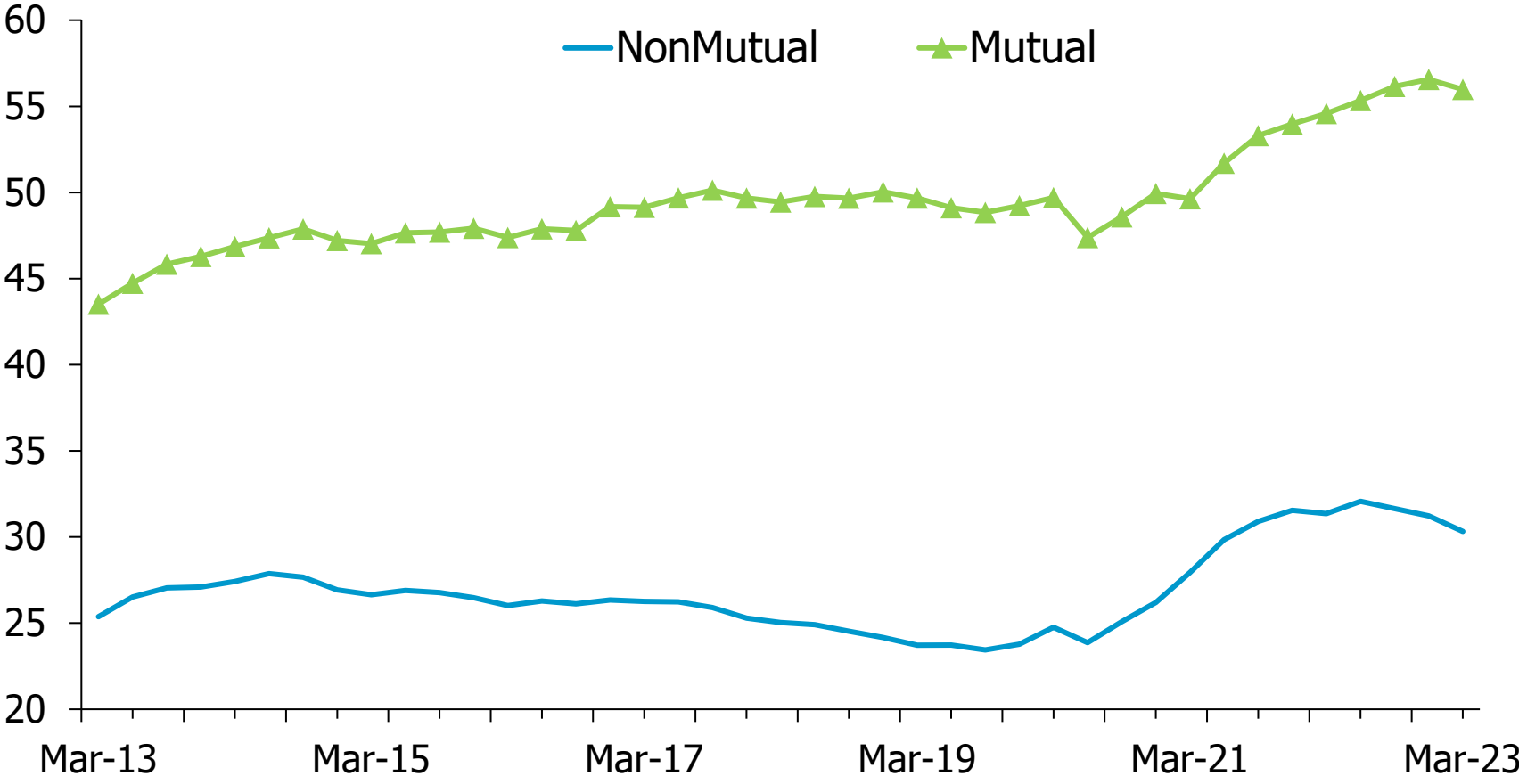


Sources: FDIC; Federal Reserve Economic Data.

Note: Unrealized gains/losses to book value are quarterly figures through first quarter 2023 for mutual banks with assets less than \$30 billion; treasury rate is constant maturity end of quarter figures through and including June 15, 2023.

Long-term asset mix among mutuals

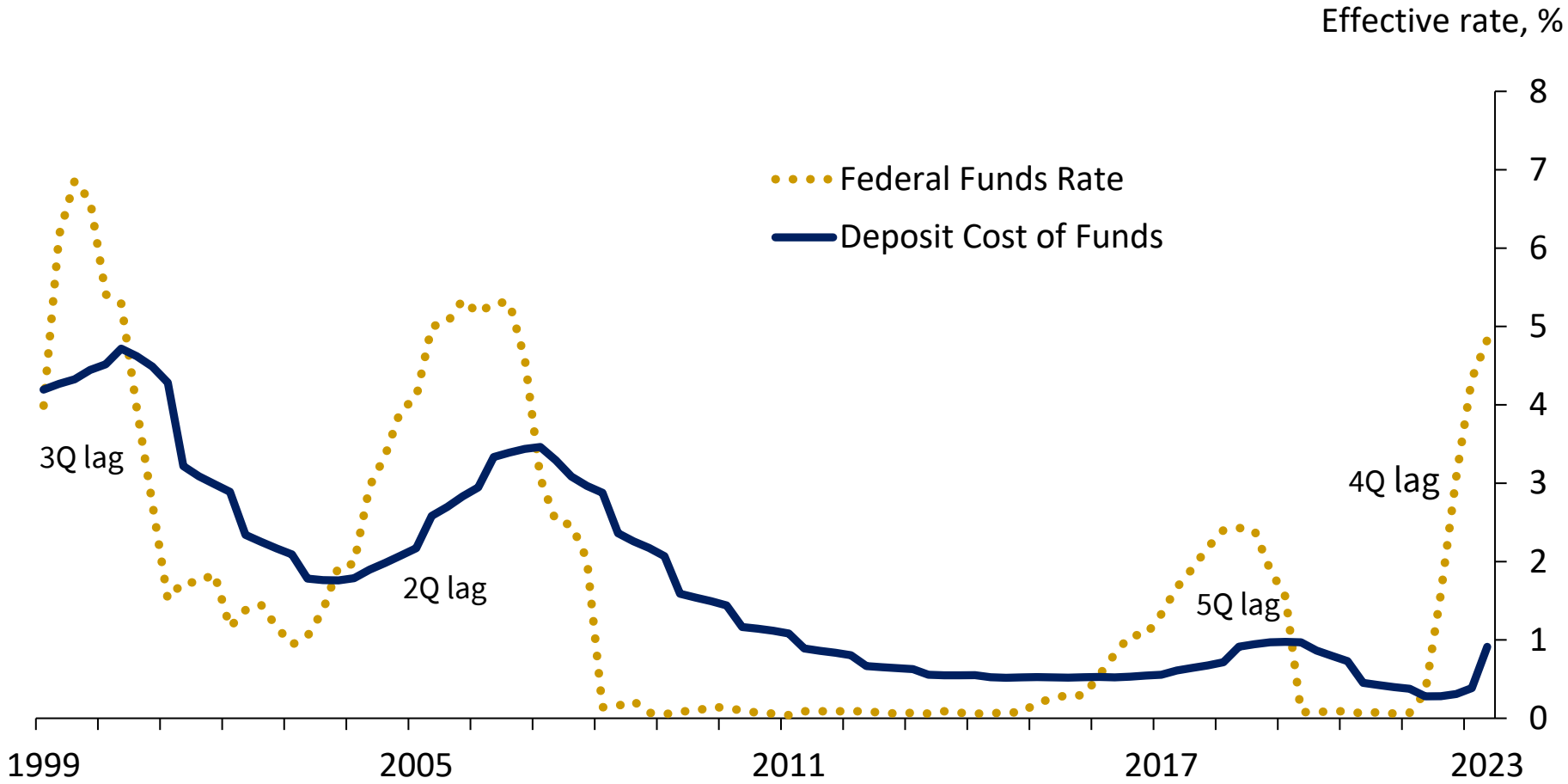
Long-Term Assets to Total Assets
Median Percent



Source: FDIC.

Note: Data are quarterly figures through March 31, 2023. Long-term assets are those maturing/repricing in 5 or more years.

Deposit costs have been slow to move this cycle...

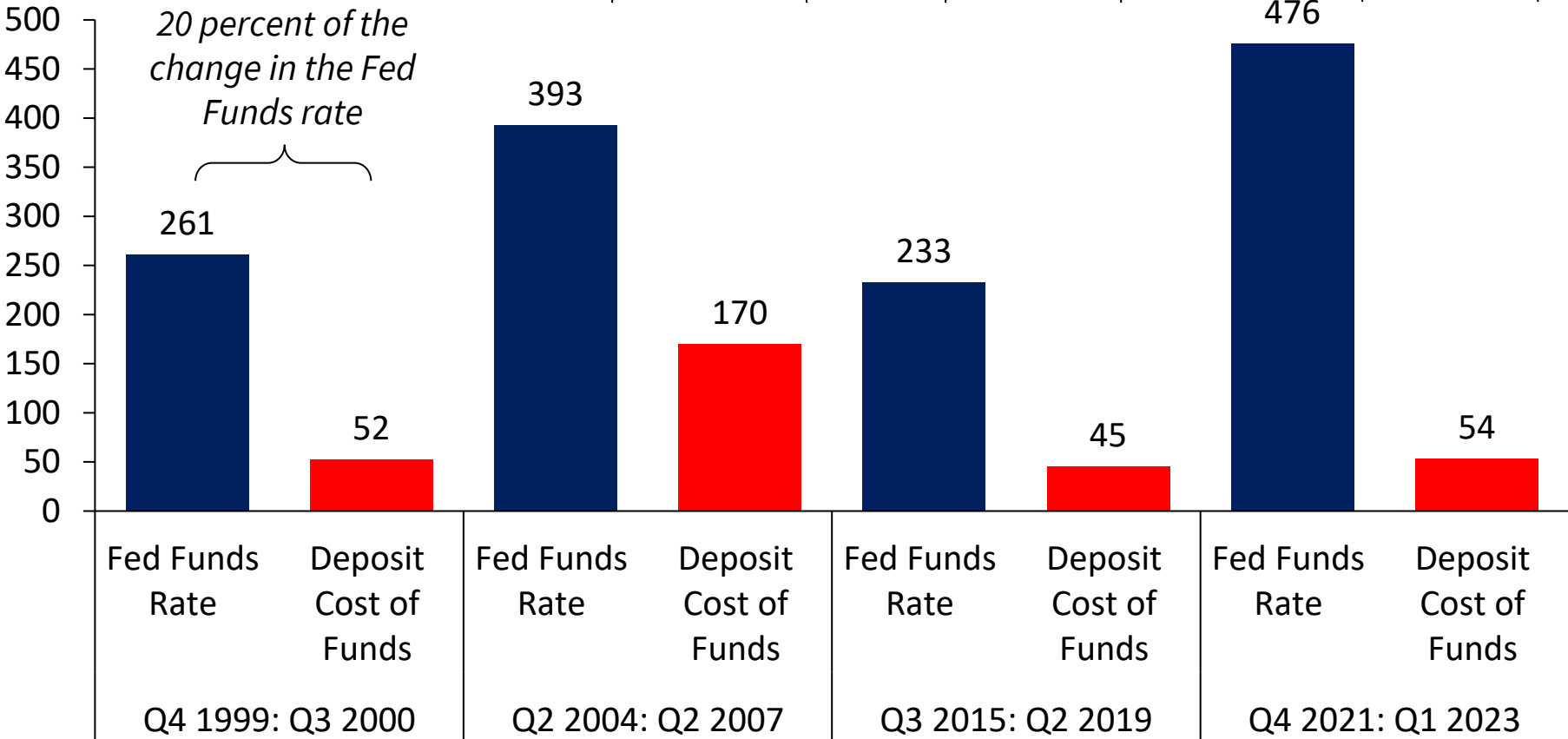


Sources: FDIC; Federal Reserve Economic Data.

Note: Mutual banks with assets less than \$30 billion in assets. Cost of funds effective rate determined using median ratio of annualized deposit expense divided by averaged deposit volume. Lag from start of rise in reference rate to material start of rise in cost of funds. Federal Funds rate is quarterly end of period effective rate.

...and the increase has been modest compared to prior cycles

Change in basis points



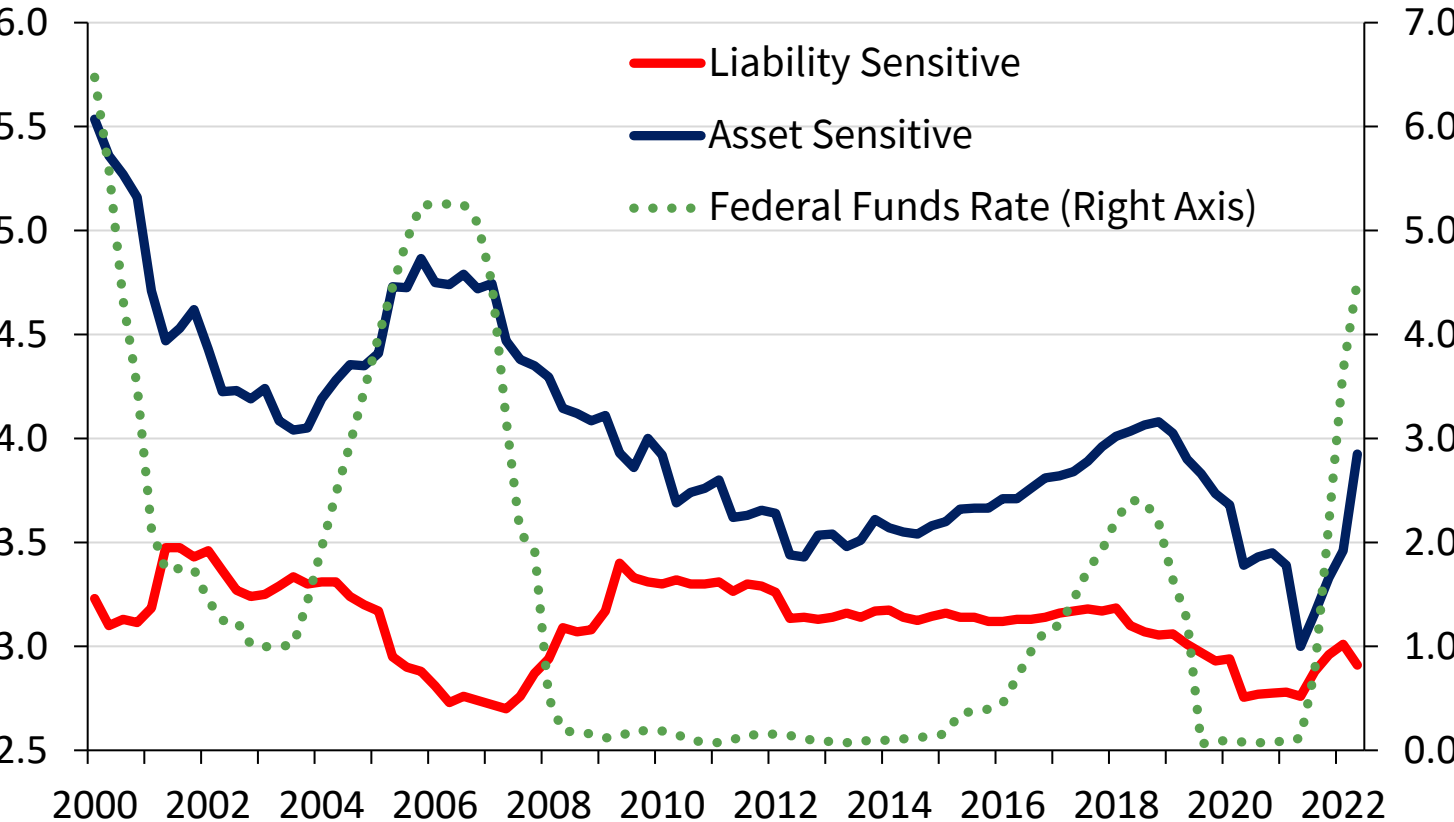
Sources: FDIC; Federal Reserve Economic Data.

Note: Mutual banks with assets less than \$30 billion. Change in basis points for Deposit Cost of Funds is an effective median and lagged two periods after the end of period to capture full affects. Cost of funds effective rate determined using median ratio of annualized deposit expense divided by average deposit volume. Fed Funds rate is end of period effective rate.

NIMs are under pressure for liability sensitive mutual banks

Net Interest Margin
Median percent

Federal Funds Rate
Quarterly average percent



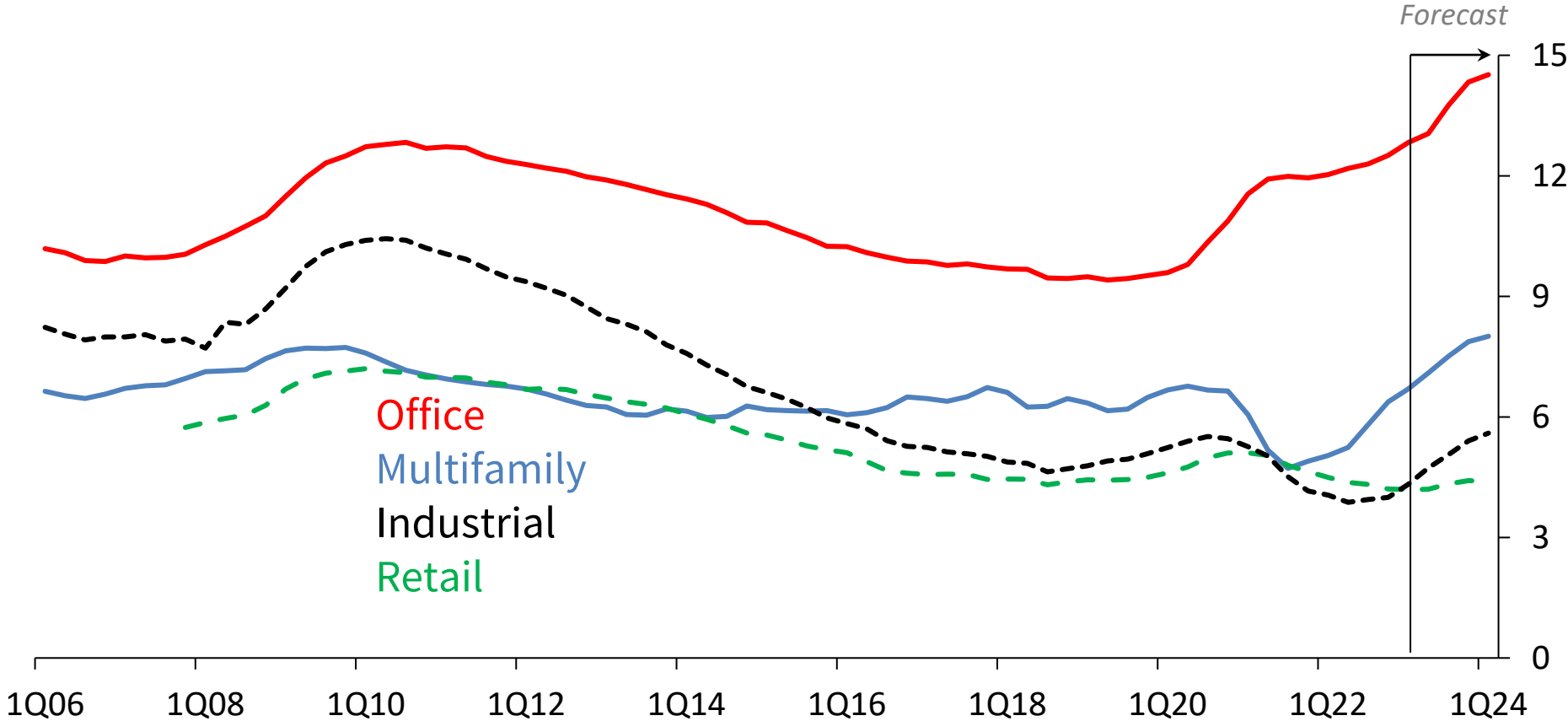
<u>Q1 2004: Q2 2007</u>
425 bps
-53 bps
+71 bps
<u>Q4 2015: Q2 2019</u>
231 bps
-9 bps
+47 bps
<u>Q1 2022: Q1 2023</u>
353 bps
+15 bps
+93 bps

Sources: FDIC; Federal Reserve Economic Data.

Note: Liability Sensitive: Mutual banks under \$30 billion, Long-term assets >50% of total assets; transaction accounts combined with borrowings and CDs maturing or repricing ≥3 years are <40% of total liabilities. Asset Sensitive: All banks under \$30 billion, Long-term assets <40% of total assets; transaction accounts combined with borrowings and CDs maturing or repricing ≥3 years are >50% of total liabilities. Data are year-to-date annualized figures provided quarterly through first quarter 2023 for NIMs and first quarter 2023 for the Federal Funds Rate.

U.S. Commercial Real Estate: vacancy is rising except in retail

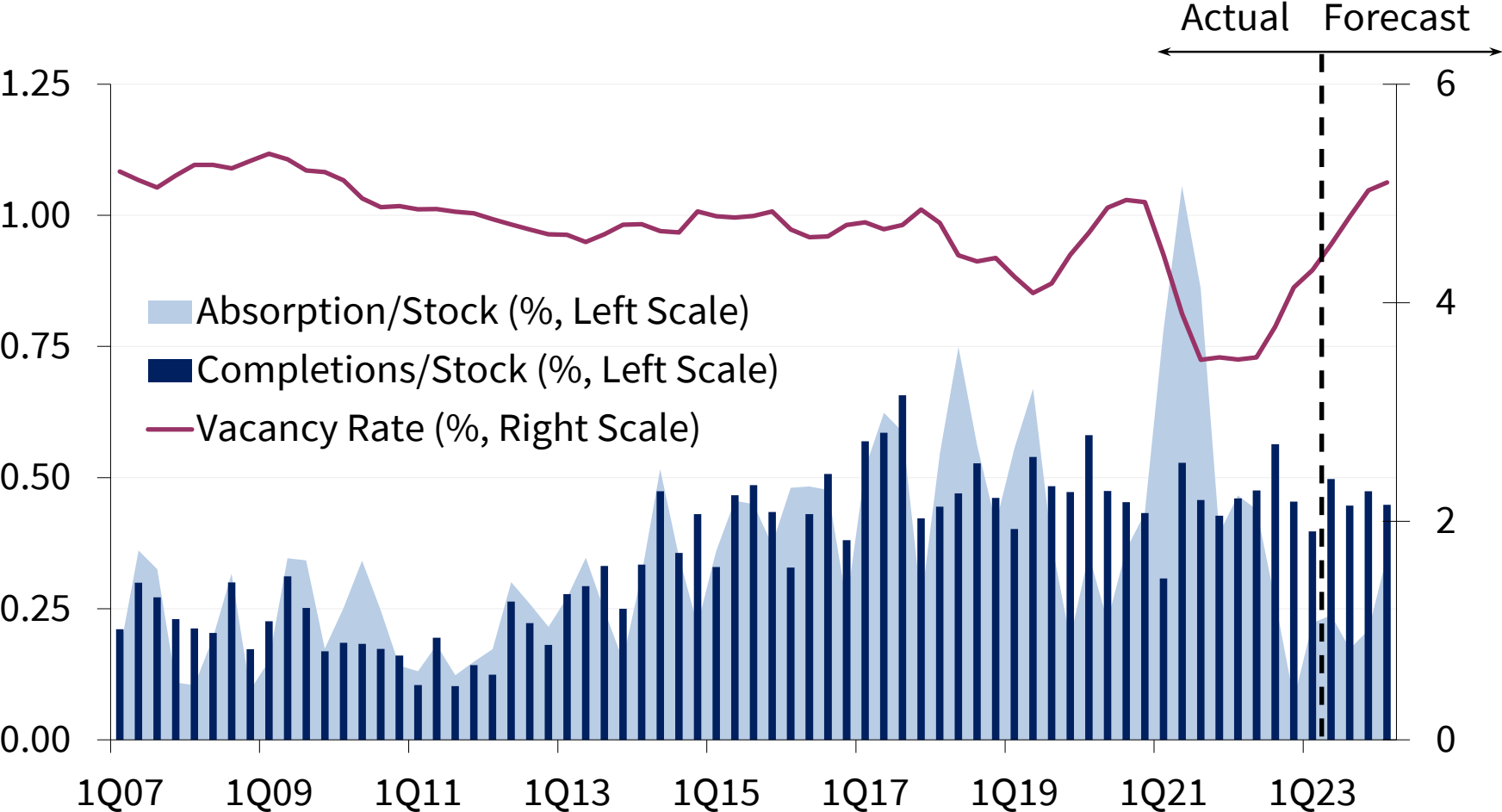
Commercial Real Estate vacancy rates, %



Sources: CoStar.

Note: Actual data through first quarter 2023. Forecast ends at first quarter 2024. Retail series begins fourth quarter 2007.

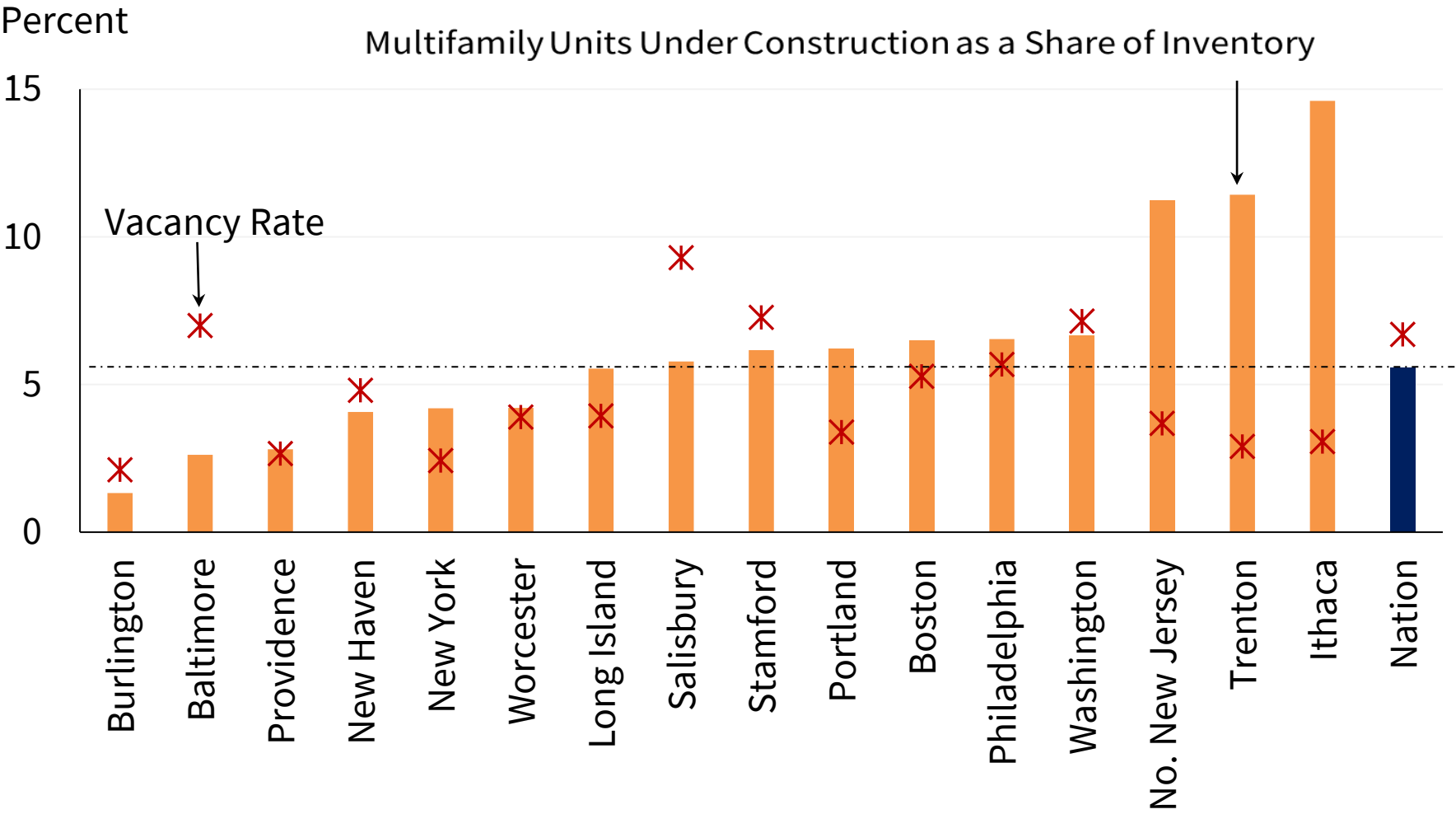
Multifamily construction continues in the face of softening demand



Sources: CoStar.

Note: Data are weighted average of the Northeast's 59 markets as of first quarter 2023.

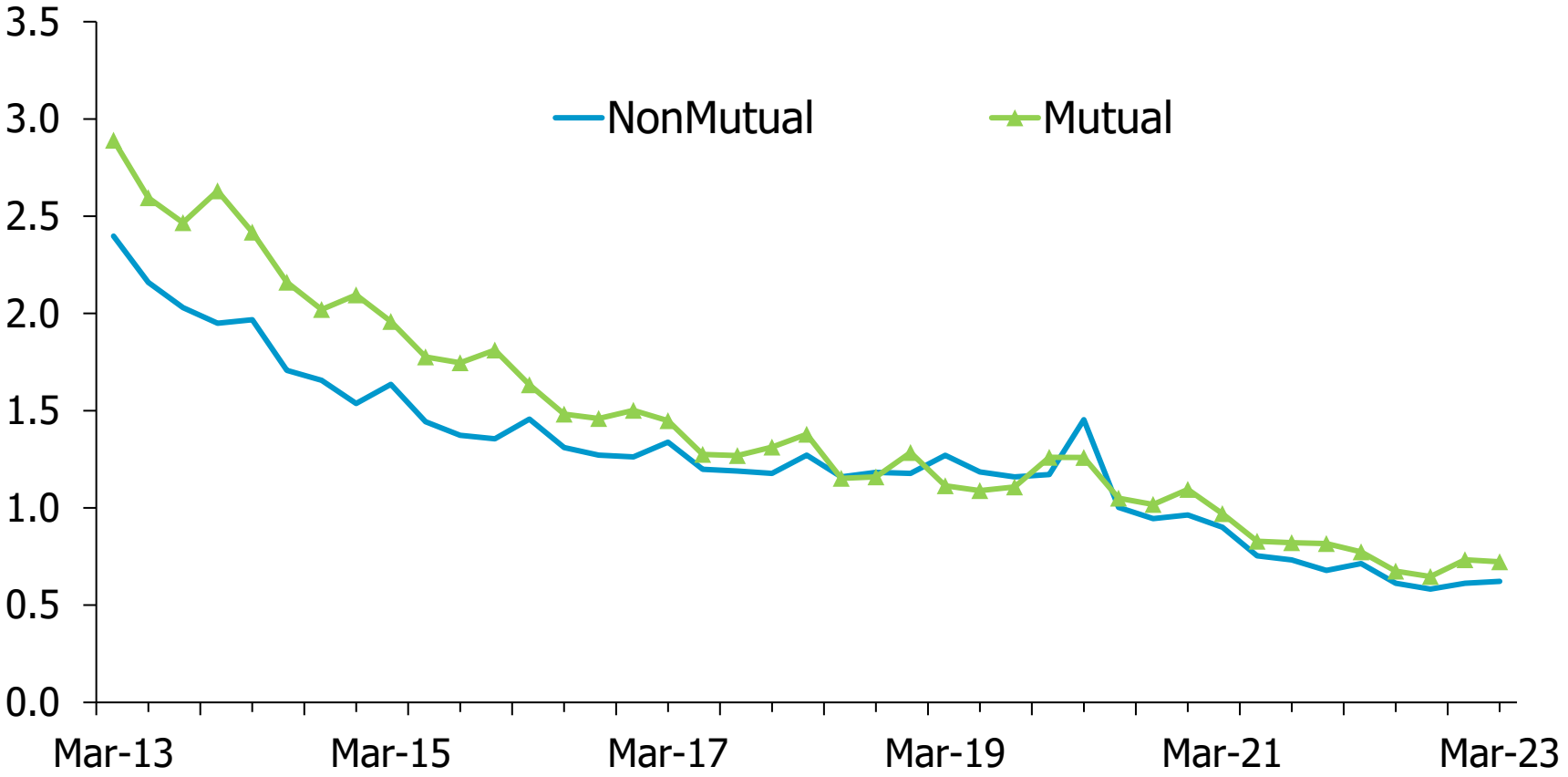
Multifamily construction is brisk in some markets



Sources: CoStar.

Loan delinquency rates have been favorable

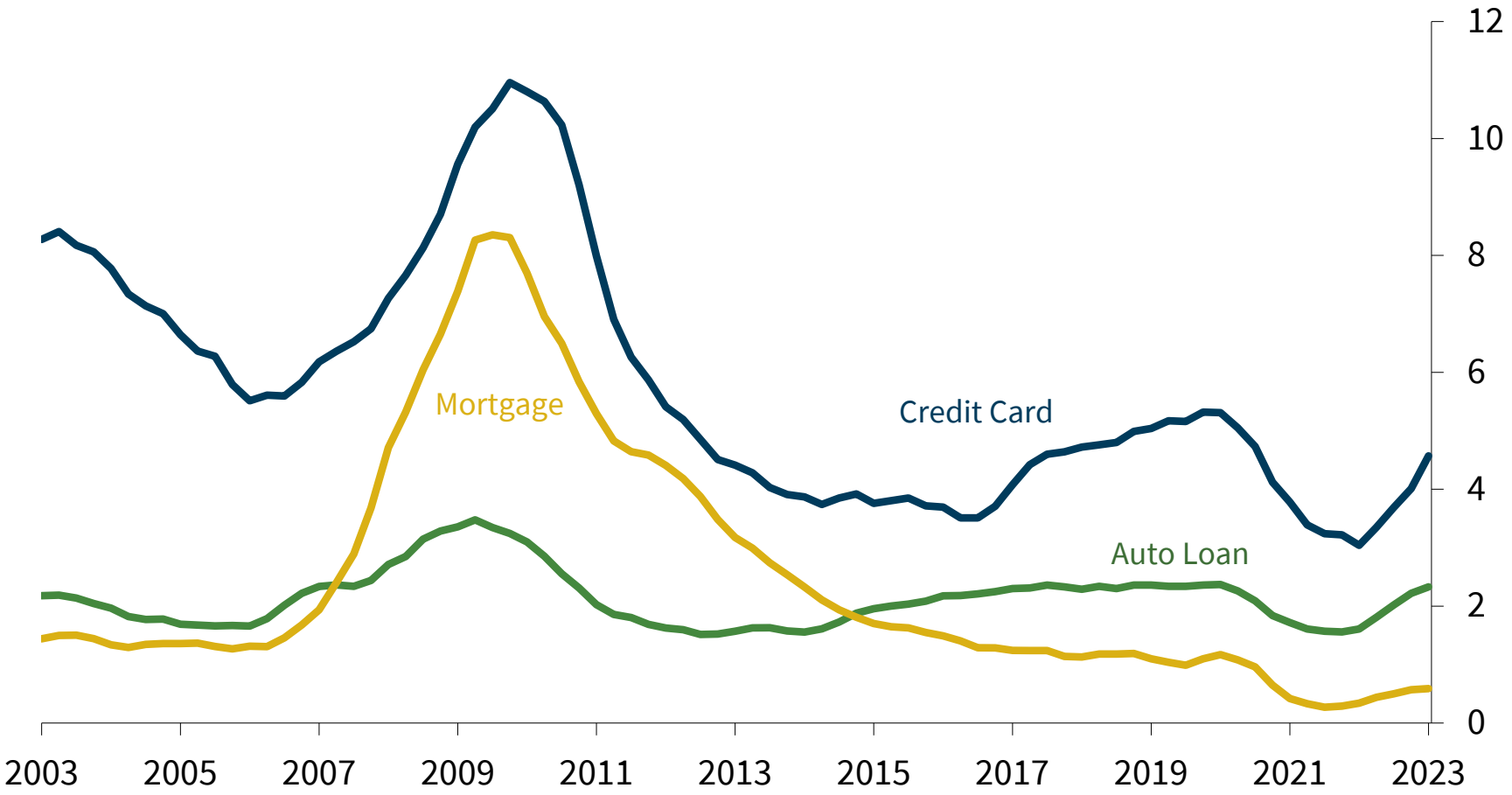
Past-Due and Nonaccrual Loans to Total Loans
Median Percent



Source: FDIC.

Consumer installment debt is starting to weaken

Transition into serious delinquency (90+ Days) by loan type, percent of balance, %



Sources: New York Fed Consumer Credit Panel/Equifax.

Note: The transition rate is the new (seriously) delinquent balance, expressed as a percent of the previous quarter's balance that was not (seriously) delinquent. Quarterly data are four quarter moving sum.

Questions?