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Findings from the 2023 FDIC and NCUA Deposit Reports

As the year winds down, we leave you with findings from the 2023 FDIC and NCUA deposit reports. All data referenced below are as of June 30 of the specific year.

Deposit change turns negative as consumers and businesses spend down COVID surpluses

For the first time this century, year-over-year deposit growth turned negative. The 2020 and 2021 deposit reporting years showed record levels of annual deposit gains, fueled by a raft of factors emanating from the COVID crisis.

Consumer checking accounts swelled from the receipt of governmental stimulus payments, and from reduced spending due to a reticence to travel, dine out or shop in retail stores during the height of the pandemic. Business checking balances soared as well, from an influx of Paycheck Protection Program grants, Employee Retention Tax Credits, and the drawing down of credit lines in anticipation of unknown troubles during the early days of the pandemic. In aggregate, these factors yielded 13% retail and small business deposit growth in the 2020 reporting year, and 10% growth in the following year.

> *As the pandemic waned, economic activity revived in 2021 and 2022, and consumers and businesses returned to normal shopping and travel patterns*

But as the pandemic waned, economic activity revived in 2021 and 2022, and consumers and businesses returned to normal shopping and travel patterns – utilizing those anomalously swollen checking account balances to do so. As a result, deposit growth fell to 3.8% in the 2022 reporting year. And then this year, as those balance cushions were further spent down, aggregate deposits in the U.S. declined by 3.0% among retail and small business segments and by 4.4% overall (including large corporate and municipal segments).

As detailed in our prior issue of Bancology *(https://bancography.com/ology/Bancology1023.pdf)*, total U.S. deposits still remain about $2 trillion above pre-pandemic trendlines – i.e., the level where deposits would be if the pandemic hadn't intervened and the 2000 to 2019 trendline persisted through today. Accordingly, it remains likely that the 2024 deposit report will show another decline, after which we expect deposit growth patterns to return to historic norms.

Bank deposits declined, but credit unions deposits remained steady

The deposit decline affected only the bank side of the industry; though keep in mind, banks hold 80% of the industry's retail and small business deposits and 90% of total deposits. But in the 2023 reporting year, the overall 3.0% decline in retail and small business deposits reflected a decline of 3.8% in banks, and an increase of 0.3% in credit unions.

That credit unions eked out gains even in the face of a declining deposit base nationwide may reflect a greater need for deposits, and thus a willingness to pay up for deposits. Credit unions' loan portfolios skew more toward automobile and mortgage lending, both of which remained robust in 2023; versus commercial banks, which rely more on commercial and industrial lending, where demand eased in the pandemic and post-pandemic periods. That is, the superior performance of credit unions in deposit gains (or attrition avoidance) may have reflected the necessity of finding deposits to fund loans, even as banks were content to let excess liquidity dissipate.

(continued on page 2)

22
2001-2023
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22
2001-2023
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Branch consolidation continues, but at a declining pace

The 2021 and 2022 reporting years saw the greatest level of branch consolidation in the industry's history, as U.S. banks and credit unions shed a net 6,000 branches over those two years, with the decline roughly even across those two years. The 2023 reporting year showed continued erosion in branch counts, with the nation's branch inventory declining by 1,350 units. There are now 95,000 deposit-taking branches nationwide (excluding non-deposit-reporting branches such as freestanding drive-ins, trust offices, etc.) and 97,000 total outlets – a level about 16% below the peak nationwide branch count of 2010.

Thus, even as the absolute tally of branches continues to decline, the rate of decline is slowing. The industry shed half as many branches in 2023 as in 2022 or 2021. This reflects that many of the easier decisions – e.g., the duplicate branches in the same block that arose due to merger, the smallest-market rural branches, even the low-balance performers for uncertain reasons – have already been adopted, leaving fewer obvious opportunities to compress branch networks without impacting balance retention and new-account generation.

Yet a net decline does not indicate a dearth of new branch activity. Rather, bankers continue to judiciously add branches in key markets. The net decline of 2023 impounded the closure of about 2,300 branches, offset by the opening of nearly 1,000 branches. Interestingly, the count of opens in 2023 was roughly the same as in 2022 and 2021.

Almost all the difference in the nation's net branch counts this year versus the prior two years reflects a reduced pace of closures, versus any change in the pace of branch openings.

The households-per-branch ratio continues to increase

With the U.S. household base continuing to show modest growth and branch counts continuing to decline, the ratio of households per branch continues to move upward. The U.S. now supports one branch for every 1,320 households, versus a ratio of one branch for every 1,020 households in the peak branch year of 2010. But since then, the numerator of household count has continued to increase, even as the denominator of branch count has decreased, yielding the significant change in branch concentration ratios.

Performance by geography varies widely

Taking a longer-term view of deposit growth in America's largest metro areas reveals broad divergence from nationwide means. A four-year compound annual growth rate smooths over many of the single-year anomalies that could give a distorted picture of the deposit environment. By that measure, four-year deposit CAGRs in major metros range from more than 8% in high-growth markets, such as Myrtle Beach, Fayetteville (AR), Boise, McAllen (TX), and Fort Myers (FL), to less than 2% in more stable markets, such as San Jose, San Francisco, Honolulu and New York City.

We'll share more detail on MSA-level deposit statistics in Bancography's 2024 Outlook, which we'll publish in the first quarter of 2024. Until then, thanks to all for continuing to read Bancography's publications. We wish everyone happy and healthy holidays and a great start to 2024!

Announcing the Newest Release of Bancography Plan

We recently updated *Bancography Plan* with the full 2023 branch and deposit statistics (as referenced in the previous article), 2023 demographics and several new features.

- We redesigned *Bancography Plan's* main menu screen, categorizing the functions to facilitate ease of use and quick access to those features you need the most.
- Credit unions now have the ability to add their deposit history at the branch level.
- Institution-level data is now also available for credit unions – including total assets, ROA, ROE, and efficiency ratio, along with decile ranks indicating performance relative to peer institutions.
- On the Market Share Reports, we added compound annual growth rate (CAGR) and four-year branch change columns, with negative four-year deposit change and negative branch growth indicated in red text.

Visit *https://bancography.com/branch-planning/bancography-plan/* to learn more about *Bancography Plan*, request sample reports and schedule a live demonstration.