GLOBAL MARKETS ANALYSIS
Monetary and Capital Markets

US Bank Earnings Pressured by Falling Loan Demand and Net Interest Income

PREPARED BY: SILVIA LOYDA RAMIREZ, GONZALO FERNANDEZ DIONIS, YIRAN LI, AND FRANCESCO DE ROSSI

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A LARGE SHARE OF REGIONAL BANKS MISSED EARNINGS PER SHARE EXPECTATIONS, WHILE US GLOBAL SYSTEMICALLY IMPORTANT BANKS (GSIBS) CONTINUED TO BEAT EXPECTATIONS[1]

In the first quarter of 2024, high interest rates continued to boost interest income of US banks. However, a combination of soft loan demand and rising funding costs—particularly from a larger share of interest-bearing deposits—have led to lower net interest income for most banks. Additionally, losses in the commercial real estate portfolio (CRE) have disproportionately affected the profitability of regional and super-regional banks (Figure 1, Panel 1).[2] On the other hand, banks that have reported earnings above consensus estimates have benefited from higher noninterest revenue from capital markets and trading activity, stronger fee income, and lower operating expenses.

EQUITY PRICES HAVE REBOUNDED SINCE THE BANK TURMOIL IN THE FIRST QUARTER OF 2023

Bank equity prices have rebounded strongly since March 2023, remaining higher overall than a year ago, with some exceptions. At the start of the earnings season, conservative guidance from JP Morgan Chase (JPM) sparked concerns among investors about potential pressure on net interest income across all banks. Following JPM's earnings release, its equity price dropped by 6.5%, the largest drop since June 2020. However, investor sentiment improved as the earnings season progressed on the back of positive earnings revisions to management guidance for 2024. The US Bank index was up 4% and US Regional Bank index (+3.5%), strongly outperforming the S&P 500 by close to 6pp since the start of earnings season (-2.2%). Despite the improvement, regional banks continued to underperform the US Bank Index in 2024 (Figure 1, Panel 2 to Panel 4).

BANKS' PROFITABILITY HAS IMPROVED, BOLSTERED BY STRONGER NON-INTEREST INCOME AND LOWER OPERATING EXPENSES

Bank profitability has surprised to the upside, particularly for the GSIBs, driven by several factors. Firstly, noninterest income from capital markets activity such as investment banking and trading rebounded strongly. Additionally, lower operating expenses played a significant role, attributed to cost control measures and reduced FDIC special assessment fees this quarter. Furthermore, provision expenses decreased because banks added less to their loan loss reserves, given that macroeconomic conditions did not deteriorate as expected.[3] Super-regional banks experienced similar trends but to a lesser extent than GSIBs. Meanwhile, regional banks also relied on noninterest income from fees and services, as well as operating cost management, to support profitability.

CHANGES IN THE DEPOSIT MIX INCREASED FUNDING COSTS, WEIGHING ON PROFITABILITY

Net interest income across banks has declined due to shifts in the deposit mix, as the volume of interest-bearing deposits continued to rise, driving funding costs higher (Figure 4). While deposit growth remained modest across banks, with an increase of about 1% to 2% in the quarter, banks have reported higher balances of interest-bearing deposits compared to a year ago. Regional banks have experienced higher deposit costs and greater increases in interest-bearing deposits than large banks (Table 1), leading to a more pronounced decline on net interest income (Figure 2 and Figure 3). In the first quarter, deposit betas, which measures how deposit costs respond to changes in interest rates, were higher for regional banks (ranging from 37% to 62%) compared to large banks (38% to 52%). This difference suggests that regional banks are likely to face higher interest expenses. The declining net interest income trend is expected to continue in 2024, as interest income guidance provided by banks was lower than the 2023 baseline.

LOAN GROWTH WAS MUTED AS DEMAND SOFTENED IN MOST COMMERCIAL AND CONSUMER MARKETS

In the first quarter, banks have reported modest or muted loan growth due to optimization strategies to generate growth in some segments of the loan book, loan portfolio run-off, and soft loan demand. Despite the general softening in loan demand, a few banks still managed to achieve a small growth. This growth was primarily in Commercial and Industrial (C&I) lending to middle market, specific CRE sub portfolios (owner occupied and 1–4 family residential), and credit cards.

This Monitor was prepared by Gonzalo Fernandez Dionis, Francesco de Rossi, Yiran Li, and Silvia L. Ramirez.

STRESS IN CRE OFFICE MARKET CONTINUED TO DRIVE CREDIT LOSSES, BUT OVERALL CREDIT RISK APPEARS CONTAINED

Nonperforming loan (NPL) rates have risen across various bank groups, mainly driven by CRE office exposures. Yet, they have remained low overall (Table 2). The trends in loan loss provision expenses varied among banks. Some banks have reported decreases, attributing this to limited loan growth and a more favorable economic outlook. In contrast, particularly regional banks, have reported increases due to higher loan growth and a larger share of CRE loans in their portfolios compared to other banks (Table 3). Overall, NPL coverage ratios appeared adequate.

CAPITAL RATIOS INCREASED IN THE QUARTER

Banks have seen improvements in their Common Equity Tier 1 (CET1) capital ratios, which have remained above minimum regulatory requirements (Figure 4). Despite this positive trend, CET1 ratios have declined for a few banks, primarily due to share repurchases conducted during the quarter. In response to the possibility of higher regulatory capital requirements, a few super regional banks have opted to pause their share repurchases.

[1] Based on banks reporting earnings from April 12 to April 22, 2024. GSIBs include Bank of America (BAC), Bank of New York Mellon (BNYM), Citigroup, (C), Goldman Sachs (GS), JPMorgan Chase (JPM), Morgan Stanley (MS), State Street (STT) and Wells Fargo (WFC); super regionals include Citizens Financial (CFG), Fifth Third (FITB), Huntington Bancshares (HBAN), KeyCorp (Key), M&T Banks (MTB), PNC (PNC), Regions Financial (RF), Schwab (SCHW), Truist (TFC), and USBancorp (USB); and regional banks include Bank OZK (OZK), Comerica (CMA), First Horizon Corporation (FHN), FNB (FNB), Fulton Financial (FULT), Synovus (SNB), Western Alliance (WAL), and Zions Bancorporation (Zions).

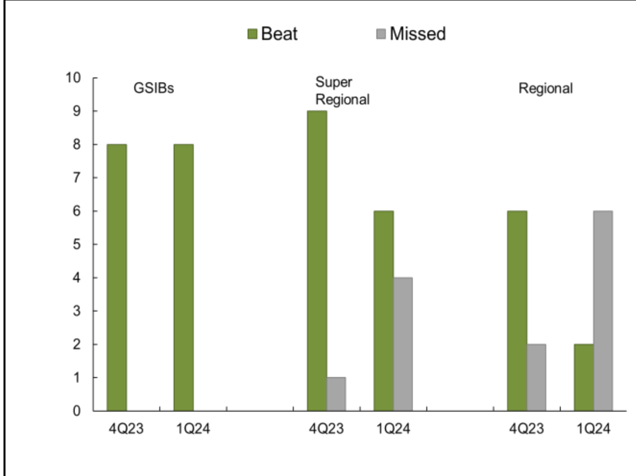
[2] GSIBs are global systemically important banks, super-regional banks include banks with more than $100 billion in total assets with a regional footprint and regional banks are banks with assets between $10 billion and $100 billion.

[3] One GSIB, JPM, released reserves due to improvements in the outlook for home prices. Custodian GSIB banks reported strong growth in fees and commission income due to valuation effects, prompting these banks to remain cautious in their 2024 profit guidance. See Table 4 for more information about GSIBs.

Figure 1. Market Performance

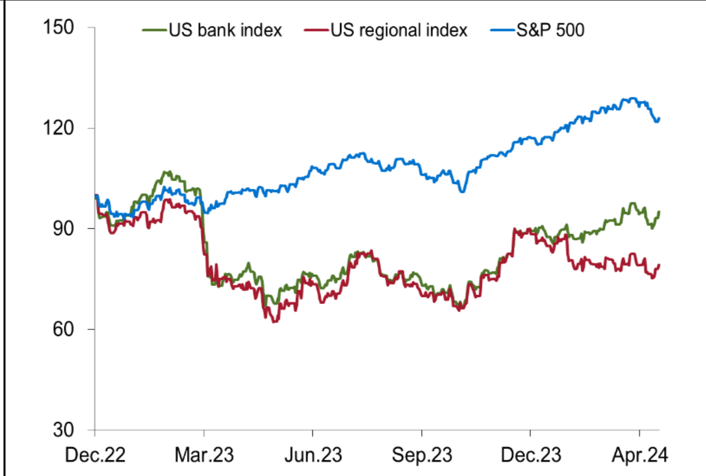
More regional banks missed average consensus expectations for EPS

Adjusted Earnings per Share vs. Consensus Estimates
Number of institutions



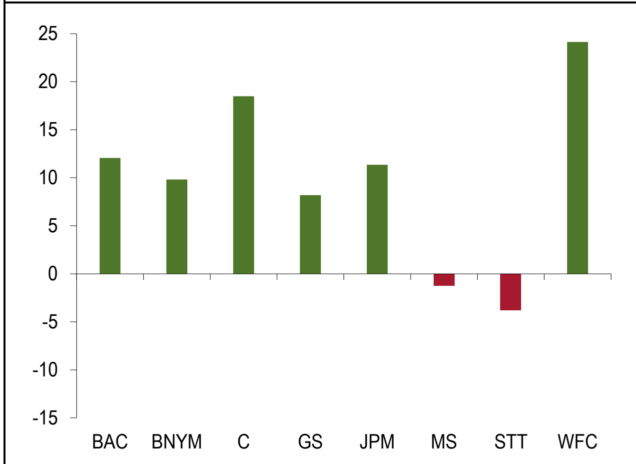
US Regional Bank index continues to underperform the broad US Bank index

US Bank Index vs. US Regional Bank Index
Prices, Index on December 31, 2022=100



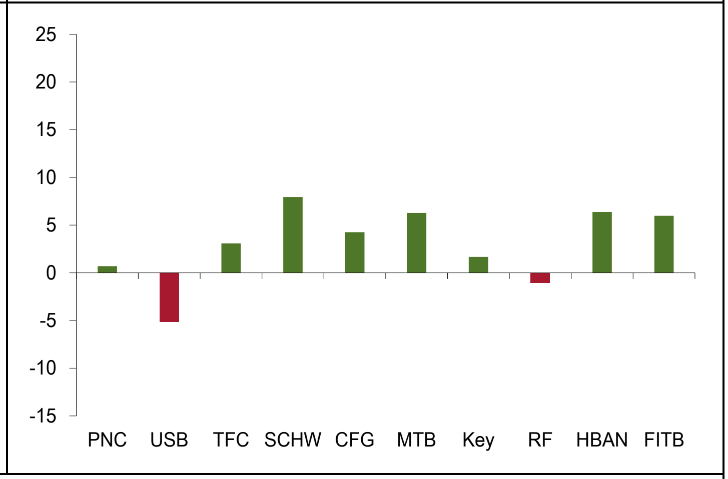
US GSIBs

Year-to-date change in stock price
Percent



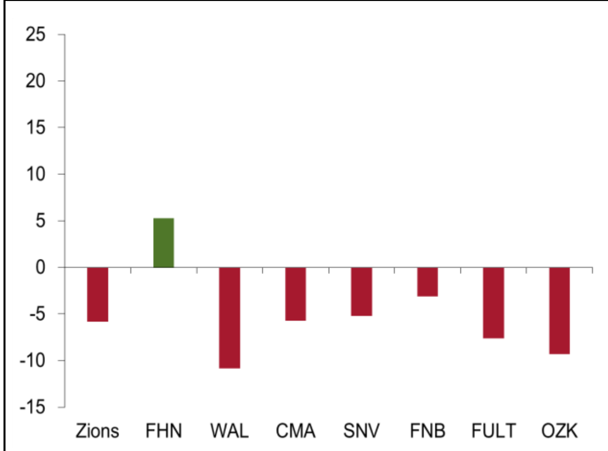
Super-regional banks

Year-to-date change in stock price
Percent



Regional banks

Year-to-date change in stock price
Percent



Source(s): Bloomberg LP and Staff IMF estimates.

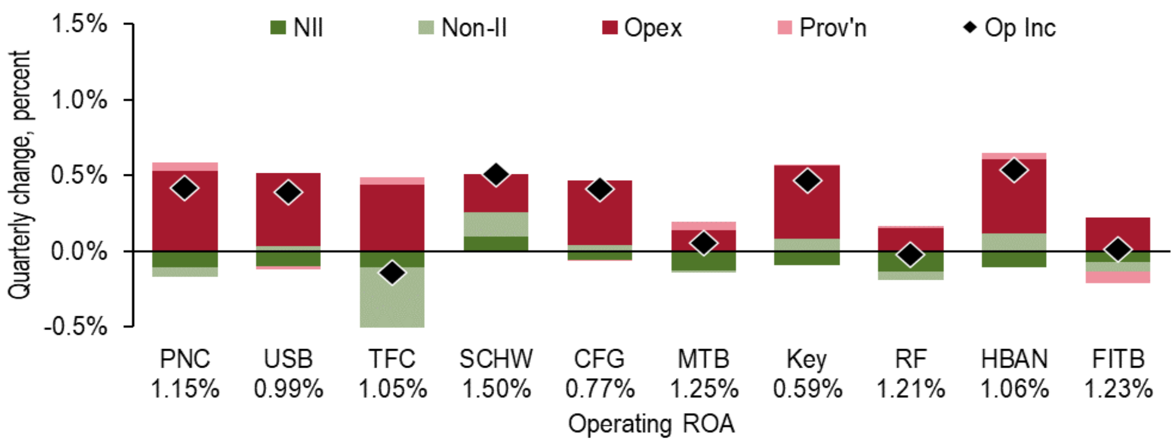
Figure 2. US banks' profitability benefited from higher noninterest revenues and lower operating expenses, offsetting the decline in net interest income

Decomposition of Quarterly Change in Operating ROA, 2024:Q1 vs. 2023:Q4 and Operating ROA

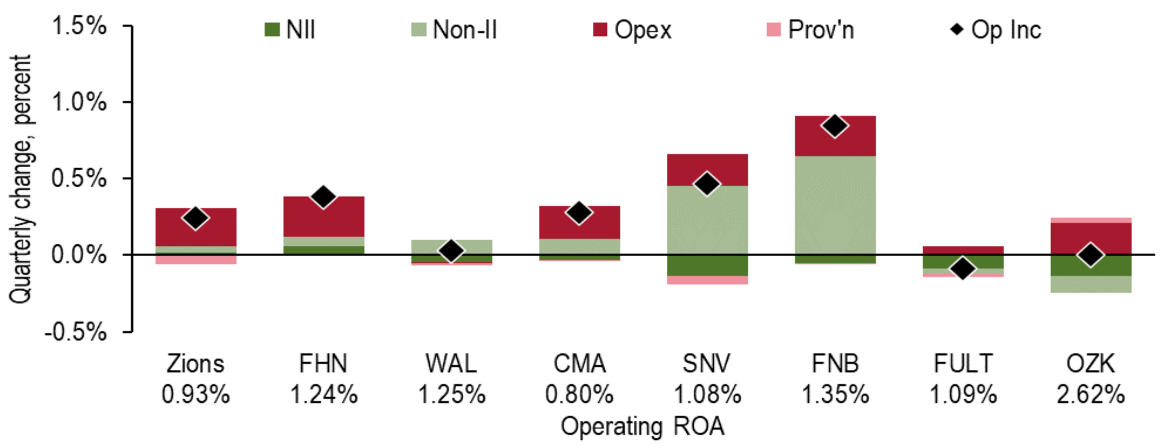
Percent

Higher trading and investment banking revenues boosted profitability for GSIBs

Lower expenses resulting from cost control strategies drove higher quarterly profits for Super regional banks



Higher noninterest income from fees and other sources combined with cost controls also contributed to quarterly profits for regional banks



Note: NII = Net interest income; Non-II = Non-interest income; Opex = Operating expense; Prov'n = Provision for loan losses; Op Inc = Operating income before taxes and extraordinary items. Adjusted TFC due to sizable quarterly change in operating expenses resulting from a non-cash goodwill impairment charge.

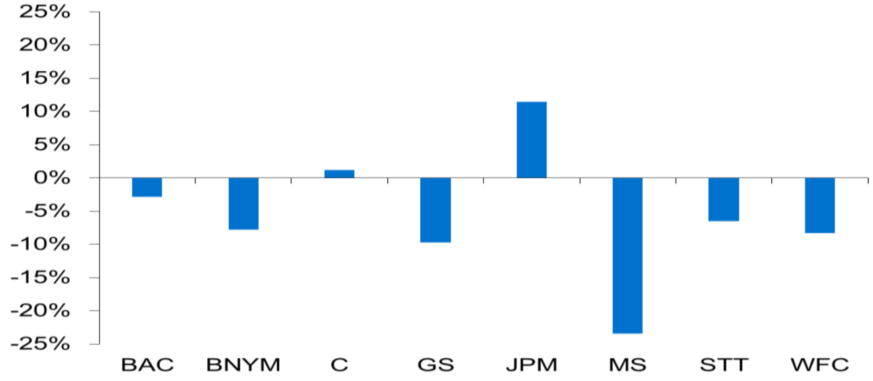
Source(s): Bloomberg LP, individual earning releases and IMF staff estimates.

Figure 3. Net interest income declined across banks as funding costs rose in the quarter

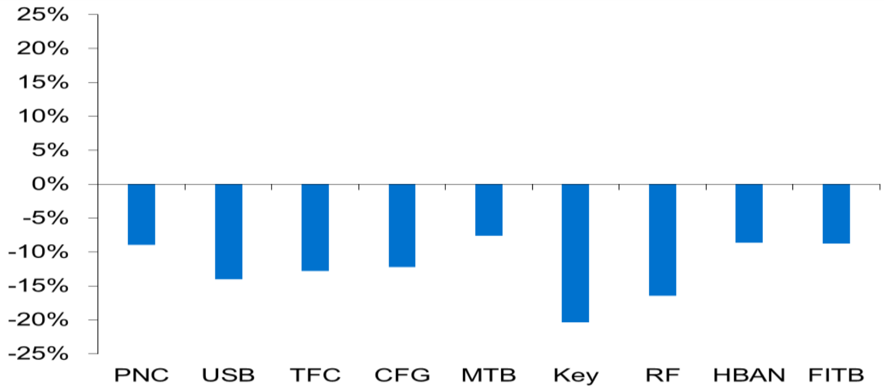
Yearly Change in Net Interest Income 2024:Q1 vs. 2023:Q1

Percent

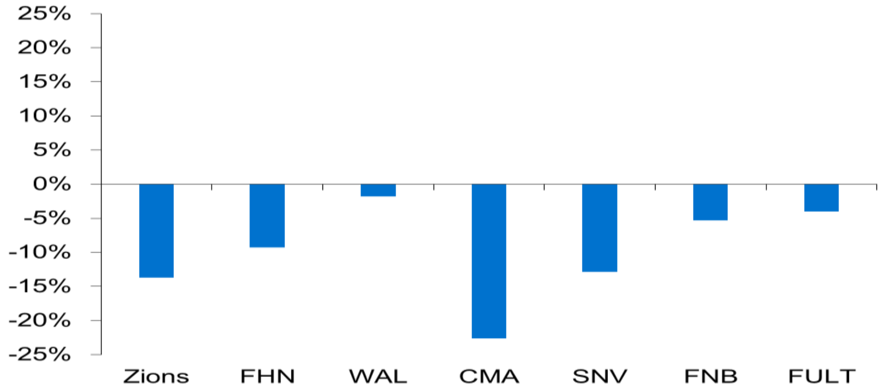
GSIBs



Super regional banks



Regional banks



Source(s): Bloomberg LP, individual earning releases and IMF staff estimates.

Table 1. The deposit mix has changed for super-regional banks and regionals amid an increase in interest-bearing deposits in the quarter

Quarterly and Yearly Change in Interest-bearing Deposits to Total Deposits 2024:Q1 vs. 2023Q4; and 2024Q1 vs. 2023:Q1

In millions of U.S. dollars and percent

Bank	Total deposits	Interest-bearing deposits		
		Total	Quarterly change	Yearly change
GSIBs				
BAC	1,946,496	1,405,012	0.86%	8.17%
C	1,307,163	1,106,692	0.03%	0.93%
JPM	2,428,409	1,746,649	-0.41%	0.79%
STT	251,884	214,517	-0.11%	7.13%
WFC	1,383,147	1,026,985	1.06%	9.06%
Super-regionals				
PNC	425,624	327,563	1.31%	5.45%
USB	528,063	436,843	0.35%	9.80%
TFC	394,265	283,364	0.10%	5.36%
CFG	176,428	139,835	0.23%	6.73%
MTB	167,196	116,618	-0.09%	11.94%
Key	144,231	114,593	0.71%	7.19%
RF	128,982	87,158	1.09%	10.14%
HBAN	153,225	123,486	1.34%	7.92%
FITB	169,587	127,738	1.16%	8.32%
Regionals				
Zions	74,237	49,100	1.77%	19.72%
FHN	65,740	32,144	0.87%	19.58%
WAL	62,228	43,829	-4.51%	7.70%
CMA	63,578	37,745	1.86%	21.82%
SNV	50,580	38,538	1.12%	7.79%
FNB	34,735	24,753	1.01%	6.43%
FULT	21,742	16,655	1.70%	9.50%
OZK	29,406	25,360	1.39%	7.58%

Source(s): Bloomberg LP, individual earning releases and IMF staff estimates.

Table 2. Nonperforming Loan Ratio

Nonperforming loans remained low and credit risks appeared contained

Nonperforming Loan Ratio 2024:Q1 vs. 2023:Q1

In percent of total loans, yearly change in basis points

Bank	Nonperforming Loans 1Q24	1Q23	Yearly change (bps)
GSIBs			
BAC	0.56	0.38	0.18
C	0.41	0.40	0.01
JPM	0.86	0.73	0.13
WFC	0.88	0.63	0.25
Super-regionals			
PNC	0.74	0.62	0.12
USB	0.48	0.30	0.18
TFC	0.45	0.36	0.09
CFG	1.02	0.64	0.38
MTB	1.71	1.92	(0.21)
Key	0.60	0.35	0.25
RF	0.94	0.56	0.38
HBAN*	0.60	0.48	0.12
FITB	0.61	0.48	0.13
Regionals			
Zions	0.44	0.29	0.15
FHN	0.82	0.72	0.10
WAL**	0.53	0.17	0.36
CMA*	0.43	0.40	0.03
SNV	0.81	0.40	0.41
FNB**	0.33	0.38	(0.05)
OZK	0.20	0.15	0.05

Note: *Corresponds to nonperforming asset ratio; and ** corresponds to nonperforming loans plus other real state owned (OREO) ratio.
Source(s): Individual earning releases and IMF staff estimates.

Table 3. Commercial Real Estate Exposures

CRE exposures, particularly office, represented a larger share of total loans for Super regional and regional banks compared to GSIBs.

CRE exposure and CRE-office exposure to total loans in the first quarter of 2024*

In billions of U.S. dollars and percentage

Bank Name	CRE	CRE-Office	CRE % of Total Loans	CRE-Office % Total Loans
JPM	207.8	16.4	16%	1%
BAC	72.8	17.9	7%	2%
C	66	8	10%	1%
WFC	150.6	28.5	16%	3%
GSIB subtotal	497.2	70.8	12%	14%
RF	20.5	1.5	21%	2%
HBAN	12.3	1.8	10%	1%
FITB	17.1	2.3	24%	3%
USB	53	6.9	14%	2%
PNC	35.6	7.8	11%	2%
TFC	29.5	4.7	10%	2%
CFG	28.9	5.7	20%	4%
Key	17.5	0.2	16%	0%
MTB	32.7	4.6	24%	3%
Super-regionals subtotal	247.1	35.5	15%	14%
WAL	9.6	2.5	18%	5%
Zions	13.6	1.9	23%	3%
FHN	14.4	1.4	23%	2%
CMA	9.7	0.8	19%	2%
SNV	12.2	1.9	28%	4%
FNB	12.4	1.9	38%	6%
Regionals subtotal	71.9	10.4	24%	14%

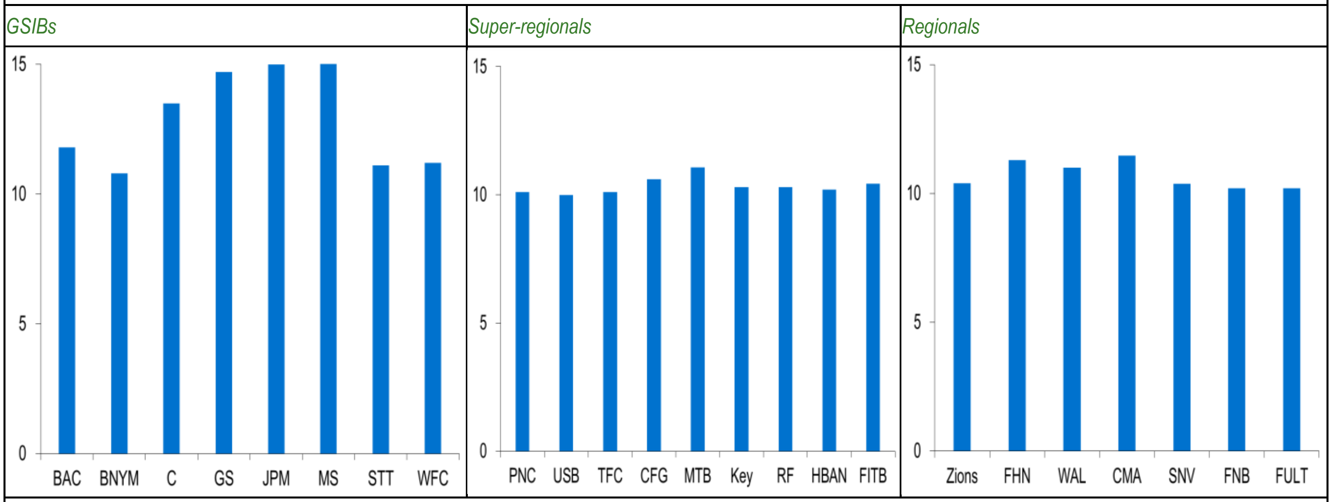
Note: Data for other banks based on 2024Q1 earning reports and 2023 10-K report for GSIBs.
Source(s): Individual earning releases and IMF staff estimates.

Figure 4. Common Equity Tier 1 Capital Ratio

Capital ratios remained above regulatory requirements in the quarter

CET1 Ratio

Percent



Note: Based on data availability.
Source(s): Bloomberg LP and individual earning releases.

Table 4. Additional information for US GSIBs

BAC	4/16 Revenues beat consensus expectations by 1.5% on the bank of both strong investment banking and net interest income. IB fees were 20% market forecasts while equity trading was 9.5% above estimates and FICC trading was in line with expectations. Net interest income was $14.2billion (1.7% vs. consensus) on the back of what management described as "strong organic growth." Deposits grew by 1% y/y while Loans remained flat y/y broadly in line with market expectations (flat also q/q). Net charge-offs increased $306 million to $1.5 billion due primarily to outlook for CRE and credit cards.
BNYM	4/15 Net income beat consensus expectations by 6%, reaching $953 million in Q1 2024 against $911million in Q1 2023 (+5%y/y). Net revenues were above consensus expectations by 2.9%, at $4.5 billion (+3%y/y), supported by the growth (+5%y/y) of fees as securities services (+8%y/y) and investment management (+2%y/y) fees were pushed by higher asset valuations. Assets under custody grew by 5% to $48.8 trillion, somehow below expectations, and assets under management increased by 6% to $2 trillion, reflecting higher market values. CET1 ratio of 10.8% was lower than at year-end 2023 (11.5%), due to higher risk-weighted assets and the capital reduction (by $1.3bn) that followed shares buy-back and distribution of dividends in Q1 2024.
C	4/12 Beat consensus estimates for adjusted EPS, total revenue and net income as services and investment banking revenue rebounded. Net income of $3.4 billion improved q/q fueled by higher revenue from services and investment banking. However, net income declined from a year ago (-27%), primarily driven by higher expenses from repositioning and restructuring, higher cost of credit and lower total revenues. C expects benefits from restructuring to result in $2-$2.5 billion of annualized savings over the medium term. Guidance for 2024 includes $80-$81 billion in full year revenues (unchanged from previous quarter) and 6%-7% loan growth.
GS	4/15 Beat analyst estimates on strong investment banking and capital markets activity. Global banking activity has strong across the board. As investment banking fees, FICC, and Equity trading activity post mid teen beats in revenues vs. consensus. Year on year net income comparison shows that strong revenue growth more than offset increase in expense, leading to net income margins growth of 2pp compared to a year ago.
JPM	4/12 Weak net interest income and higher expenses cloud the rest. Posted net revenues 2% above consensus expectations mostly driven by stronger than expected results in investment banking. Despite this, lower net interest income (-0.5% vs. consensus, -4.0% q/q) on the back of deposit margin compression and lower deposit balance, concerned investors, driving the negative stock reaction. Reported a surprise $72 million net reserve release driven by the improvement in the outlook for home prices while analysts had predicted a $556 million build. JPM reiterated its commitment to guidance of net interest income for 2024 of $90 billion (but decreased the contribution from markets NII) while increasing expected expense guidance to $90 billion (from $89 billion).
MS	4/16 Morgan Stanley rises 2.7% in premarket trading after reporting wealth management net revenue for the first quarter that beat the average analyst estimate. Its equities trading revenue was also ahead of consensus. Net income of $3.4 billion, up from the previous quarter and a year ago, driven by strong wealth management, investment banking and trading revenue.
STT	4/12 High market levels support income from investment services but profits slowed down. Operating income was 2.5% above (consensus) expectations, at $3.1 billion (+1%y/y), due to net fees and commissions. Assets under management grew by 2% above expectations to $4.3 trillion (+5% q/q) driven by higher market levels and net inflows from ETFs ($190 billion) and asset managers and alternatives client segments in North America ($179 billion) and EMEA ($109 billion). Assets under custody also grew (17%y/y/) by 2.3% above expectations to $43.9 trillion. Net income was $463 million, 2% below expectation and lower (-16%) than in Q1 2023.
WFC	4/12 Beat consensus estimates for adjusted EPS, total revenues, and net income. Net income of $4.6 billion, increased 34% sequentially driven by higher revenues from investment banking and trading, higher fees from wealth management due to higher market valuations, lower provision expenses and lower noninterest expenses, and remained 7% lower than a year ago due to higher deposit costs, lower loan balances, and higher noninterest expenses related to technology and the FDIC special assessment ($284 million). Full year net interest income for 2024 is expected to be 7%-9% lower than full year 2023, unchanged from previous guidance. WFC reported $30 billion in office CRE, accounting for 20% of the CRE book. Nonperforming loans totaled $8.2 billion, of which CRE accounts for 47%, mostly office CRE.