RESEARCH & ANALYSIS

Over half of bankers expect deposit growth, deposit rates to jump – S&P survey

Thursday, April 13, 2023 8:35 AM CT

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Market Intelligence

Most bankers expect their institutions will be able to hold on to deposits over the next 12 months, but expectations for the cost of those deposits is rising, according to S&P Global Market Intelligence's first-quarter 2023 US Bank Outlook Survey.

The Take

* Slightly over half of bankers surveyed expect deposits will increase at their institution over the next 12 months.

* Meanwhile, 47% of respondents expect their institution's average rate on a one-year certificate of deposit will exceed 3.5% at the end of 2023.

* Almost two-third of bankers expect loans to grow over the next year, but smaller banks and credit unions are less optimistic.

Majority of bankers expect deposits to grow, but March bank failures appear to make an impact

Between March 1 and March 30, S&P Global Market Intelligence surveyed US banking executives and found that 53.1% of bankers predict deposits will increase at their institution over the next 12 months, while another 15.9% believe deposits will remain flat.

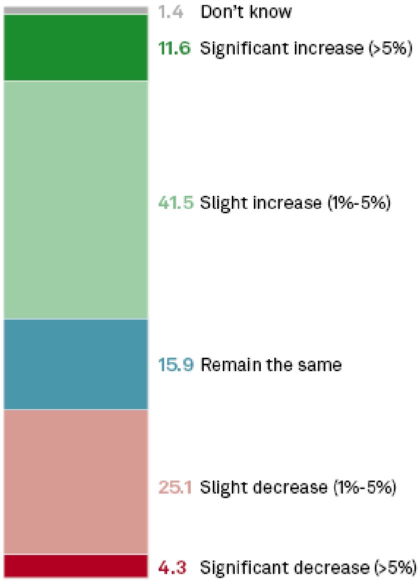
Survey participants were a bit more optimistic than in our last survey conducted in the fourth quarter of 2022 when 51.1% of respondents expected deposit growth over the next 12 months and 12.1% expected deposits would remain the same.

Interestingly, among the 94 participants that answered the survey question before Silicon Valley Bank failed on March 10, 59.6% of respondents predicted deposits would increase at their firm over the next 12 months, while only 23.4% predicted deposits would decline. For the 113 participants that answered the survey between March 10 and March 30, less than half at 47.8% predicted deposits would increase over the next 12 months, and 34.5% predicted they would fall.

Deposits had been trickling out of the banking system over the last year as the Federal Reserve raised rates off near-zero levels, dropping 2.2% between February 2022 and February 2023, according to seasonally adjusted average monthly data for US commercial banks in the Federal Reserve's latest H.8 report. However, between March 1, 2023, and March 29, 2023, deposits dropped 2.7% in just four weeks.

Over the next 12 months, how do you expect your organization's total deposits to change, if at all?

Share of respondents (%)



Data compiled April 5, 2023.
The online survey of 207 US financial institutions was conducted March 1, 2023, to March 30, 2023.
Source: S&P Global Market Intelligence.

Deposit cost expectations increase

Deposit costs are expected to increase across the banking sector in 2023 as bankers try to slow deposit outflows from customers seeking higher rates outside the banking system, like in money market mutual funds.

In our latest survey, respondents predicted that the median rate on interest-bearing transaction accounts would be 0.75% at the end of 2023, while the median rate on savings accounts, including money market deposit accounts, would be 1.75%.

Meanwhile, over 47% of respondents expect their institution will be paying at least 3.50% at the end of 2023 on a 1-year certificate of deposit, which is significantly higher than the current institution-level average annual percentage yield of 1.98% for a $10,000 balance among US banks, thrifts and credit unions, according to S&P Global Market Intelligence data for the week ended April 7, 2023.

Over three-fourths of respondents, 76.1%, believe their institution will be paying over 2.50% on 1-year CDs at the end of the year, up from 47.5% in our previous survey, which was conducted between November and December 2022.

As of April 7, roughly 19% of the 6,607 banks, thrifts and credit unions where S&P Global has 1-year CD rate data were already offering annual percentage yields of 3.50% or more.

At the end of 2023, what do you expect your organization's average deposit rate will be for each of the following products?

		Share of respondents (%)									
	Total respondents	< 0.50%	0.50%-0.99%	1.00%-1.49%	1.50%-1.99%	2.00%-2.49%	2.50%-2.99%	3.00%-3.49%	3.50%+	Do not offer	Median rate (%)
Interest-bearing transaction accounts	158	28.5	25.3	13.9	8.9	5.1	5.7	6.3	1.3	5.1	0.75
Savings accounts, including MMDAs	158	10.1	18.4	20.3	12.0	11.4	8.2	8.9	9.5	1.3	1.75
1-year certificate of deposit	159	1.3	3.1	3.8	6.3	6.9	8.8	20.1	47.2	2.5	NM

Data compiled April 5, 2023.
MMDAs = money market deposit accounts; NM = not meaningful.
Respondents were not required to answer every question.
Medians calculated excluding respondents that chose "Do not offer" for the respective product. A median was not calculated for the 1-year certificate of deposit due to the large proportion of respondents choosing the highest percentage range offered in the survey.
Source: S&P Global Market Intelligence.

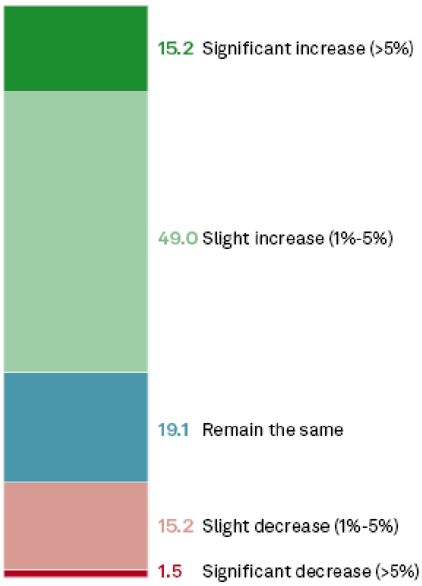
Majority still expect loans to grow

Roughly 64% of respondents expect total loans to increase at their institution over the next 12 months, down slightly from 69% in our last survey. However, credit unions and the smallest banks were less optimistic.

Among the 34 survey participants at banks with less than $250 million in assets, exactly half of respondents expect loans to grow at their institution over the next 12 months, while another 29% expect loans to remain flat and 21% expect loans to decline. Among the 44 credit union participants, almost 57% expect loans to increase over the next year, but 32% expect loans to contract.

Over the next 12 months, do you expect the total value of loans at your organization to increase, decrease or remain the same?

Share of respondents (%)



Data compiled April 5, 2023.
The online survey of 207 US financial institutions was conducted March 1, 2023, to March 30, 2023.
Respondents were not required to answer every question. This question received 204 responses.
Source: S&P Global Market Intelligence.

Credit quality expectations little changed overall

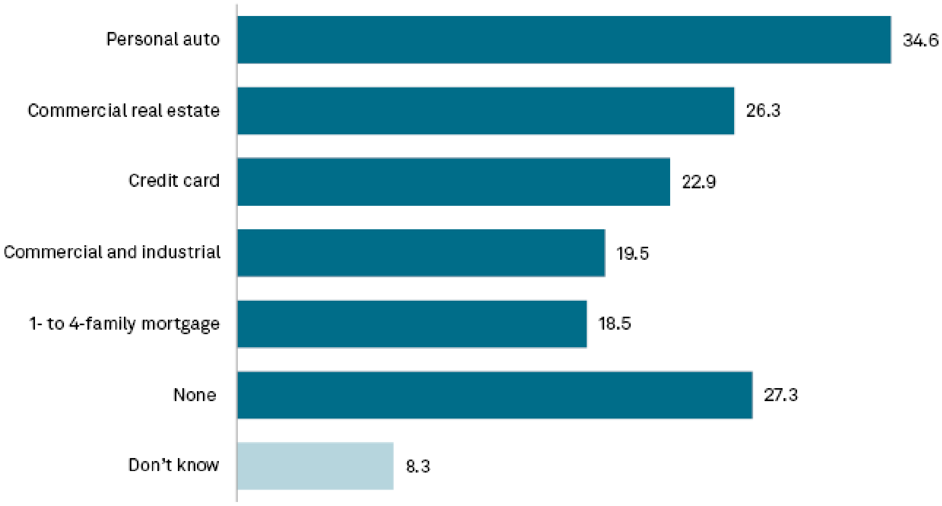
Slightly more than one-third of respondents, 34.6%, expect personal auto loan credit quality to deteriorate over the next 12 months, slightly higher than the 33.3% that thought so in our last survey.

Meanwhile, 26.3% of survey participants expect to see a deterioration in commercial real estate loans over the next 12 months, down from 31.2% in the fourth-quarter 2022 survey. However, some inside the industry are concerned that commercial real estate could be in for a rough patch as borrowers grapple with high interest rates and offices remain less than fully occupied as employees continue to work from home in higher numbers than before the pandemic.

Interestingly, credit union respondents were significantly more pessimistic on two of the loan categories. Among credit union participants, 59.1% expect personal auto loan credit quality to deteriorate over the next 12 months and 54.5% expect credit card credit quality to slide.

Over the next 12 months, which of the following loan types do you expect to have lower credit quality at your organization?

Share of respondents, (%)



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Respondents were not required to answer every question. This question received 205 responses.
Source: S&P Global Market Intelligence.

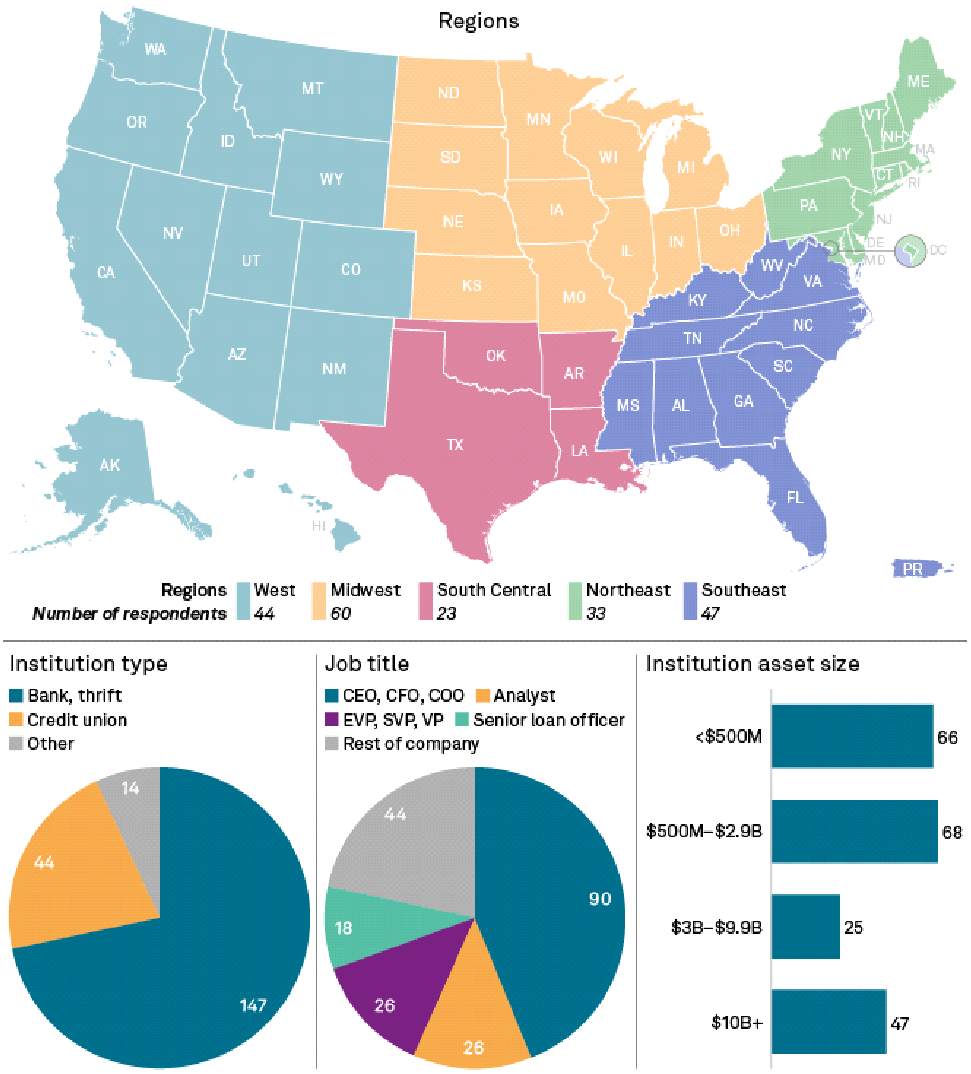
About this analysis

S&P Global Market Intelligence surveyed 207 US financial institution clients on various topics including expected loan and deposit growth, projected interest rates and financial technology use. Of the 207 participants, 147 worked for commercial banks or thrifts, 44 for credit unions, 14 for other US institutions and two were unspecified.

The online survey was conducted between March 1, 2023, and March 30, 2023.

If you would like to participate in future US banking surveys, please contact david.hayes@spglobal.com.

March 2023 US Bank Outlook Survey respondents



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Respondents were not required to answer every question.
One respondent answered "Don't know" for asset size.
Design credit: Cat VanVliet.
Source: S&P Global Market Intelligence.

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