



Economics Group

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Commercial Bank Lending Driven by C&I Loan Growth

In a much more conservative lending environment following the depths of the Great Recession, commercial and industrial lending and commercial real estate lending are the bright spots driving overall loan growth.

Commercial Bank Lending Starting to Ramp Up

Despite a rough first quarter for GDP growth, lending at commercial banks is beginning to point to a pickup in economic growth. Total loan growth grew 5.0 percent year over year in June, approaching post-recession highs of 5.4 percent, which occurred in May 2012. Commercial and industrial (C&I) lending at commercial banks was up 10.4 percent in June as businesses still feel relatively positive on the U.S. economy despite the rough start to 2014 (top chart). Also driving growth in overall loans and leases in bank credit are commercial real estate loans. After reaching its trough in November 2010, commercial real estate lending has been on a steep upward trend and is up 7.1 percent year over year in June. This comes as residential real estate lending has hardly been able to return to growth following the Great Recession amid much tighter lending standards. While lending standards remain tight, they are beginning to gradually loosen making credit available to a slowly growing number of borrowers. However, the housing market has experienced a rough 2014 thus far, as shown by recent housing starts and building permits data, so residential real estate lending likely still faces challenges ahead with an environment of still-rising prices and volatile sales and starts activity.

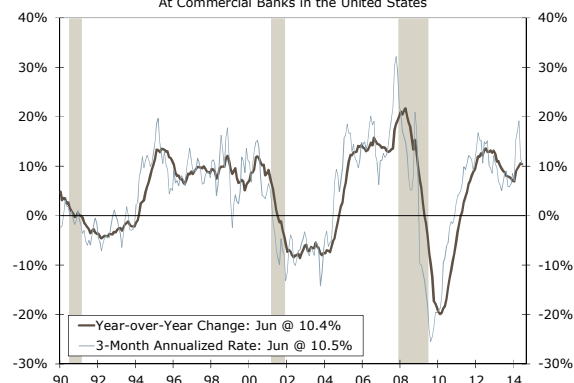
Loan-to-Deposit Ratio Remains Depressed

Despite the upward trend in overall loans and, more notably, C&I loans, the loan to deposit ratio remains at levels last seen decades ago (middle chart). The low level follows a peak reached in 2010 when the loan-to-deposit ratio exceeded one, meaning there were more loans outstanding than deposits, as banks were able to put more of their capital to work. Following the recession and global financial crisis, tighter regulation has resulted in banks having to keep more cash on hand. While the overall loan-to-deposit ratio stands at historically low levels, the improvement in business lending is clearer when looking at the loan-to-deposit ratio for C&I lending which has been experiencing a steady, but modest, upward trend for the past several years.

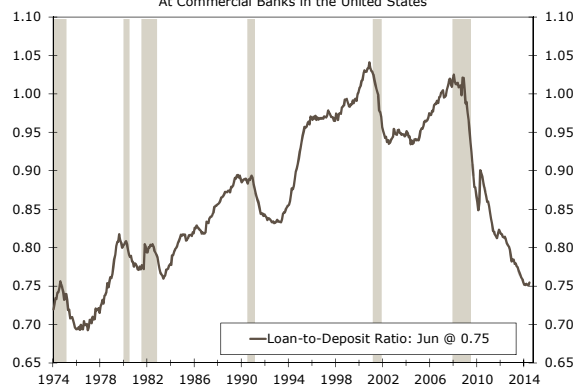
C&I Lending Shows Resilience

Total bank lending at large commercial banks is coming down as a percent of overall commercial bank lending (bottom graph). Looking at the components of lending, both real estate and consumer lending are falling as a percent of total, while C&I lending is trending modestly higher. While the falling share of real estate and consumer lending is a bit discouraging, as these sectors represent a large driving force of our economy, the resilience of business lending is encouraging for growth in business fixed investment going forward. We look for business fixed investment to rise at a 3.8 percent annual rate in 2014 and then pick up nicely to 5.7 percent in 2015.

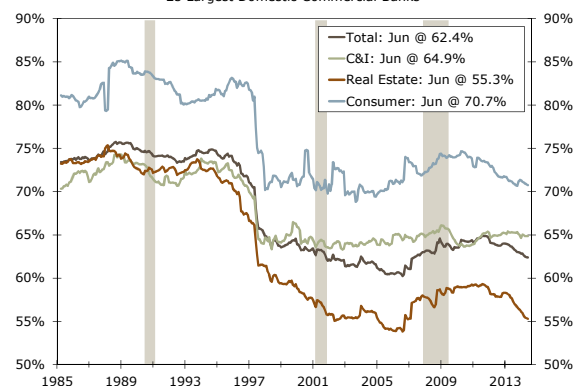
Commercial and Industrial Loans
At Commercial Banks in the United States



Loan-to-Deposit Ratio
At Commercial Banks in the United States



Large Bank Share of Overall Lending
25 Largest Domestic Commercial Banks



Source: Federal Reserve Board and Wells Fargo Securities, LLC

Wells Fargo Securities, LLC Economics Group

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