The Carfang Group

U.S. Bank Deposits Fall $420 Billion in First Quarter Adding to $460 Billion Decline in 2022

Quarterly Deposit Bulletin – June 2023

June 13 - Domestic deposits at U.S. banks fell by $420 billion or 2.4% to $17.3 trillion during the turbulent first quarter of 2023. Deposits are now down $1.08 trillion or 6% from a record $18.4 trillion one year ago.

- This is the largest decline in the fifty year time series published by the FDIC.
- The decline is the result of a $540 billion *increase* in insured deposits along with a $1.62 trillion decrease in uninsured deposits.
- Deposit losses mirrored the decline in M2 money supply over that same period, the first annual decline in M2 since 1933.
- This dramatic reversal follows 12% growth in 2021 and 23% growth in 2020 when the Fed flooded the banking system with deposits in response to the pandemic. Banks were awash in liquidity as deposits grew much faster than GDP.
- Steepest losses were in uninsured deposits and noninterest-bearing deposits.

Recent Federal Reserve policies, including rate increases and quantitative tightening, are likely to cause deposits and money supply to further decelerate while above-target inflation will cause *nominal* GDP to grow. Combined, they remove liquidity from the banking system.

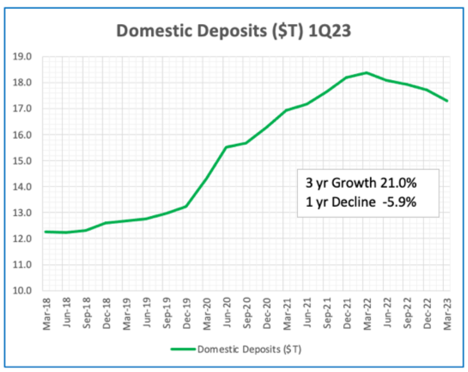
These deposit declines continue to exert stress on banks with high insured deposit levels or high levels of non-interest bearing deposits as we saw in March. Non-interest bearing deposits and uninsured deposits are showing a high propensity to move as rates rise or bank risk rises. Uninsured deposits fell by $830 billion in the first quarter but are still at $6.8 trillion.

Deposits now stand at 65% of GDP, down from 74% a year ago as deposits declined ,and GDP rose. Should they revert to their historical level of 60% of GDP as the Fed trims its balance sheet, deposit levels would fall by an additional one trillion dollars.

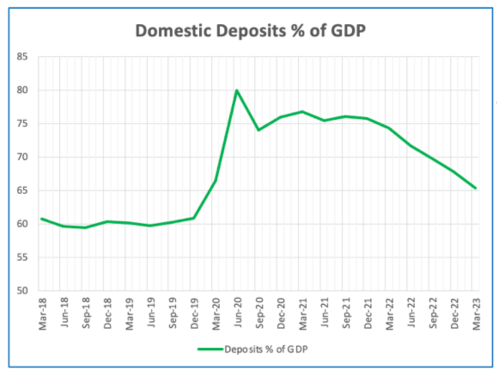
The Carfang Group is pleased to present our Quarterly Deposit Bulletin. Each quarter, we bring you the most up-to-date insights in the USD deposit market. Using our proprietary methodology, we analyze banking, funds flow, deposits, money market and corporate cash data, as it is released by the Fed, the FDIC and others.

Domestic deposits at U.S. banks fell $460 billion or 2.4% to $17.3 trillion in 1Q 2023.

- 2.4% decline for the quarter and 6% decline over the past year marks an historic reversal from the 11.7% growth in 2021 and the 23% growth in 2020. There are no other twelve month declines in the FDIC's 50 year data series.
- Although banks in the U.S. added a phenomenal $5.16 trillion in deposits since the onset of the pandemic through the peak in March 2022, we're now seeing a beginning of the retracing with outflows of $1.08 trillion in the last year.
- After years of holding steady at 60% of U.S GDP, deposits grew rapidly during the pandemic to 76% of GDP and now stand at 65% of GDP, still well above trendline.
- Deposit declines closely tracked the 7% annual decline in of M2 money supply, the twelve-month decline since 1933.



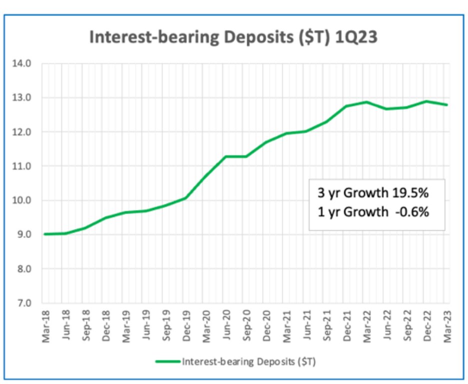
Source: FDIC, The Carfang Group



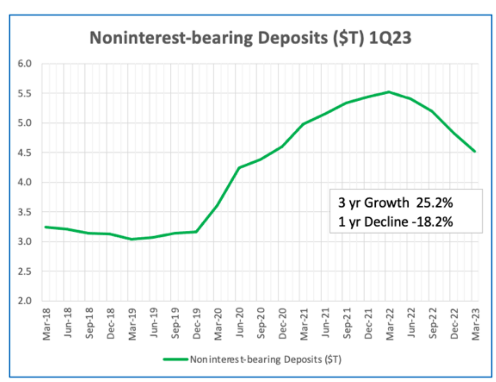
Source: FDIC, The Carfang Group

Noninterest-bearing deposits fell by 18.2% while interest bearing deposits declined 1.0% over the past twelve months.

- With rates rising, many depositors appeared to begin moving their deposits in search of higher yield, accounting for nearly $1 of every $5 NIB seeking a new home.
- Across all U.S. banks, IB deposits accounted for 74% of total domestic deposits at quarter end. The pre-pandemic high was 76% share, so this is still close to the peak.



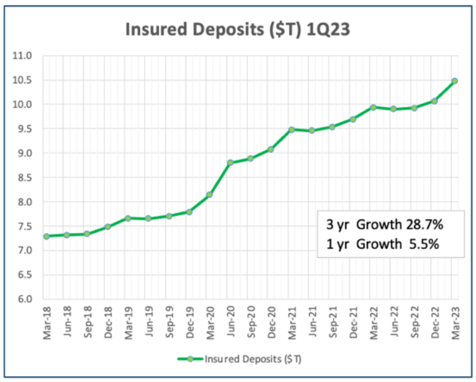
Source: FDIC, The Carfang Group



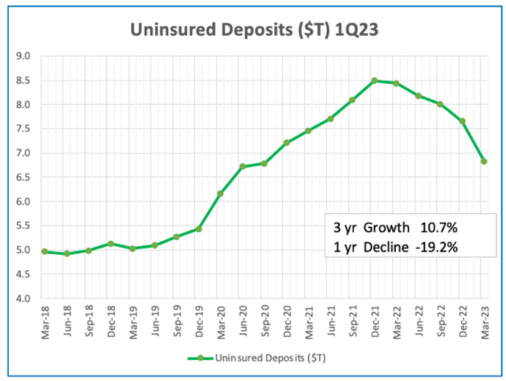
Source: FDIC, The Carfang Group

Insured deposits grew by 5.5% or $540 billion over the past twelve months. **Uninsured deposits** fell 19.2% or $1.62 trillion in the twelve months ending March 2023.

- As the Fed tightens, a massive flight to quality appears to be underway. Flows of this magnitude are unprecedented.
- This flight to quality is likely to have picked up steam given the banking stress in the first quarter. For just the quarter, uninsured deposits fell by $830 billion.



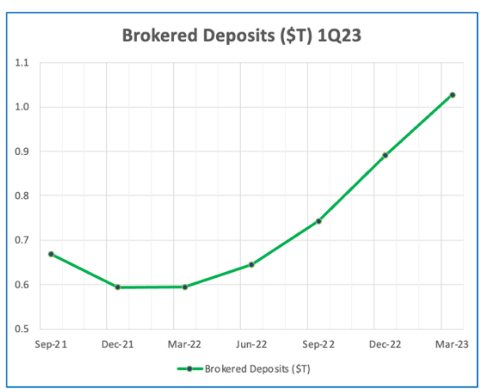
Source: FDIC, The Carfang Group



Source: FDIC, The Carfang Group

Brokered deposits have been surging. In the past year, these have increased by $433 billion or 72%.

- Brokered deposits rose from $594 billion to $1.027, a 72% increase.
- The FDIC redefined brokered deposits in mid-2021, and they have grown dramatically and steadily since that time.



Source: FDIC, The Carfang Group

A Note on Uninsured Deposits. Total domestic deposits in the U.S. banking system are $17.3T. The first $250,000 in a deposit account are insured by FDIC. The excess is not. Uninsured deposits peaked at $8.5 trillion at year end 2021. These “non-sticky” deposits led to a run on many banks in March 2023 as depositors moved to de-risk. The run put so much pressure on the banking system that regulators have altered their deposit insurance rules.

However, we believe that understanding a bank’s deposit mix is essential in understanding risk. Of course, context is required, since mix can be a function of the business mix and in some cases, not a measure of risk. To that end, we provide the following table of banks with the largest uninsured deposits.

Largest US Banks - Uninsured Deposits
Ranked by Uninsured Domestic Deposits ($B)
Mar. 31, 2023

Rank	Bank	Domestic Deposits	IB Dep	NIB Dep	Brokered Deposits	Insured Deposits	UnInsured Deposits	UnInsured Deposits %
1	JPMorgan Chase Bank, NA	2,044	1,376	668	69	990	1,054	52%
2	Bank of America, NA	1,903	1,221	682	13	1,196	707	37%
3	Citibank, NA	756	630	125	74	219	537	71%
4	Wells Fargo Bank, NA	1,388	916	472	61	877	511	37%
5	U.S. Bank NA	450	356	93	27	222	227	51%
6	PNC Bank, NA	446	319	128	9	258	188	42%
7	The Bank of New York Mellon	187	118	68	1	12	174	93%
8	Truist Bank	417	288	129	24	246	171	41%
9	State Street Bank and Trust C	160	115	45	11	15	145	91%
10	Goldman Sachs Bank USA	325	325	0	67	185	140	43%
11	TD Bank, NA	312	246	66	2	206	105	34%
12	BMO Harris Bank NA	208	151	57	13	105	103	49%
13	Capital One, NA	372	340	31	20	274	97	26%
14	HSBC Bank USA, NA	133	95	38	18	40	93	70%
15	Manufacturers And Traders T	162	101	61	8	91	70	43%
16	Fifth Third Bank, NA	168	118	50	7	98	70	41%
17	First-Citizens Bank & Trust Co	140	85	55	2	71	69	49%
18	KeyBank NA	147	110	38	8	81	66	45%
19	Citizens Bank, NA	175	129	45	7	110	65	37%
20	First Republic Bank	104	84	20	7	55	50	48%
21	The Huntington National Ban	149	108	40	5	101	48	32%
22	Morgan Stanley Bank, NA	179	169	11	33	132	47	26%
23	City National Bank	75	45	30	6	29	46	61%
24	Morgan Stanley Private Bank,	177	171	6	30	132	45	25%
25	Regions Bank	131	79	52	1	87	44	34%
	Subtotal Top 25	10,706	7,696	3,011	522	5,833	4,873	46%
	All US Banks > $10B	14,312	10,549	3,736	853	8,340	5,972	42%
	All US Banks	17,354	12,788	4,515	1,027	10,480	6,873	40%

Source: FDIC, The Carfang Group

Conclusion

The torrid deposit growth during the pandemic has abruptly reversed. The Fed's multi-trillion dollar bond buying spree ended in early 2022 and the Fed began to taper late in the year. However, deposits remain well above historical norms.

This massive shift in monetary policy from Quantitative Easing to Quantitative Tightening is causing massive flows. It appears that deposits are seeking safety. This is evidenced by the $1.62 trillion outflow of uninsured deposits. With the effects of the March banking crisis still lingering, we fully expect this trend to continue.

About The Carfang Group
We advise our clients on the strategic and regulatory issues surrounding Treasury Management, Payments, Liquidity and Transaction Banking. We oversee the deepest and broadest LinkedIn groups on key Treasury, Banking, Liquidity, Payments and Regulatory topics via our Idea Exchange and Career Network. Visit www.thecarfanggroup.com. Contact Tony Carfang at tony@thecarfanggroup.com.