The Carfang Group

Safened

U.S. Deposit Growth Slows in 2021
Mirrors GDP and Money Supply

Quarterly Deposit Bulletin – March 2022

Domestic deposits at U.S. banks grew by 11.7% at a record $18.2 trillion during 2021. Deposit growth mirrored the nominal GDP growth and M2 money supply over that same period. This is a sharp slowdown following the 23% growth of 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.

Current growth rates for nominal GDP, M2 and domestic deposits remain well above recent pre-pandemic averages. Recent changes in Fed policy are likely to cause deposits and money supply to further decelerate while inflation will cause nominal GDP to grow.

Annual Growth Rates

	2015-19	2020	2021
Nominal GDP	4.03%	-1.28%	11.93%
M2 Money Supply	5.58%	25.86%	11.34%
Domestic Deposits	4.98%	23.22%	11.66%

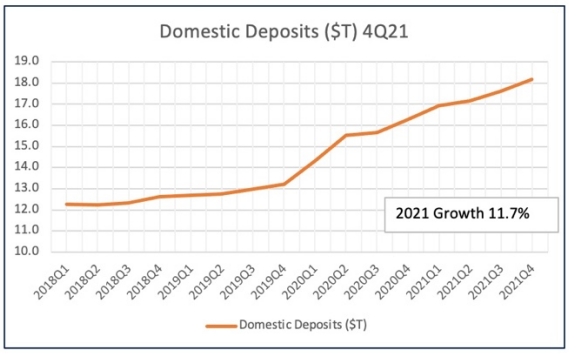
Deposits now stand at 76% of GDP. Should they revert to their historical level of 60% of GDP as the Fed ends its QE, deposit levels would fall by $2.8 trillion.

It's too early to declare that the deposit market is tightening but contingency planning is in order. Interviews with senior bankers reflect concern with Fed taper, interest rates and inflation. That, combined with new FDIC guidance favoring technology sourced deposits, alters the playing field for 2022 considerably.

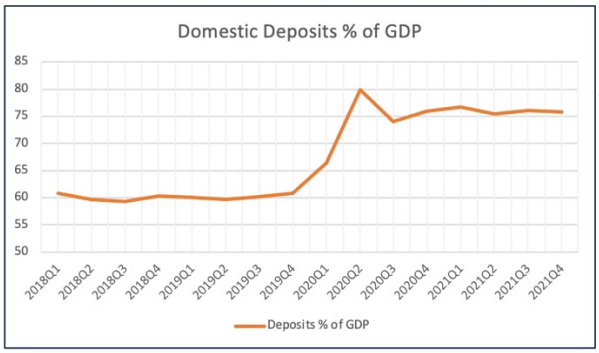
Safened and The Carfang Group are pleased to present our Quarterly Deposit Bulletin. Each quarter, we bring you the most up-to-date insights in the USD deposit market. Using our proprietary methodology, we analyze banking, funds flow, brokered deposits, money market and corporate cash data as it is released by the Fed, the FDIC and others. To learn more about these findings, join our Quarterly Liquidity Briefing webinar on April 21 by clicking HERE.

Domestic deposits at U.S. banks grew 11.7% to a record $18.2 trillion in 2021.

- 11.7% growth is a marked slowdown from the 23% growth in 2020 but well above the long term trendline. Banks in the U.S. have added an historic $4.97 trillion in deposits since the onset of the pandemic.
- After years of holding steady at 60% of U.S GDP, deposits grew rapidly during the pandemic and now stand at 75.8% of GDP, also well above trendline.
- Deposit growth closely tracked growth of M2 money supply which was 11.9%.



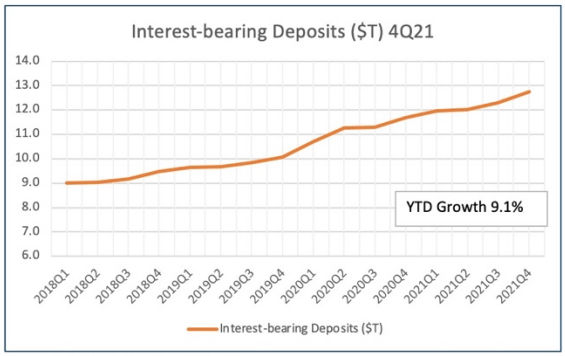
Source: FDIC, The Carfang Group, Safened



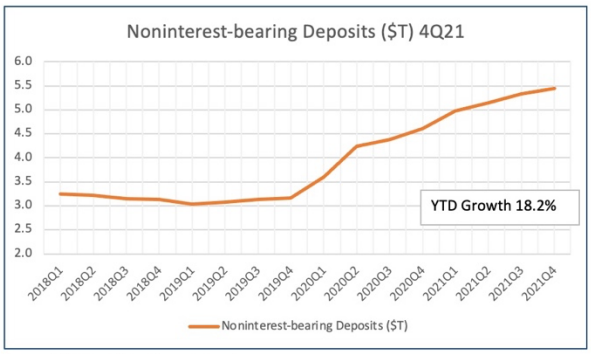
Source: FDIC, The Carfang Group, Safened

Noninterest-bearing deposit growth continues to outstrip interest bearing deposits by a wide margin.

- Non-interest-bearing deposits (NIB) grew by 18.2% in 2021, whereas Interest bearing (IB) deposits grew by only 9.1%. However, IB growth outpaced NIB growth in the fourth quarter 3.6% to 2.0%.
- With rates so low, many depositors appeared content leaving their cash in noninterest-bearing accounts. That could change markedly as the Fed begins an extended rate increase cycle.
- These gains follow 46% and 16% increases respectively in 2020.
- Across all U.S. banks, IB deposits accounted for 70% of total domestic deposits in Q4. The pre-pandemic share was 76% so this is a significant shift.



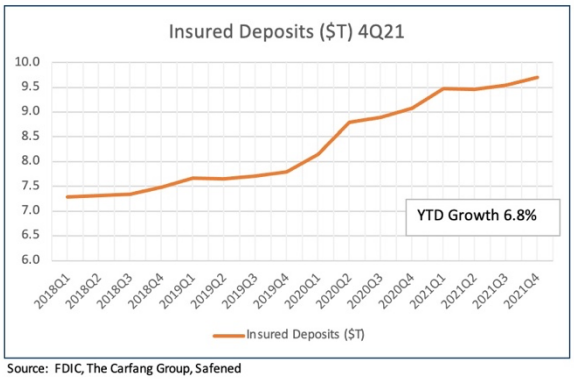
Source: FDIC, The Carfang Group, Safened



Source: FDIC, The Carfang Group, Safened

Uninsured deposit growth (17.8%) YTD exceeded **insured deposit** growth (6.8%).

- This is a sharp slowdown from 2020 during which uninsured deposits grew by 33% while insured deposits were up at 17%, roughly half that rate.
- Separation continued in the fourth quarter as uninsured deposits grew by 4.9% vs. 1.6% for insured deposits.



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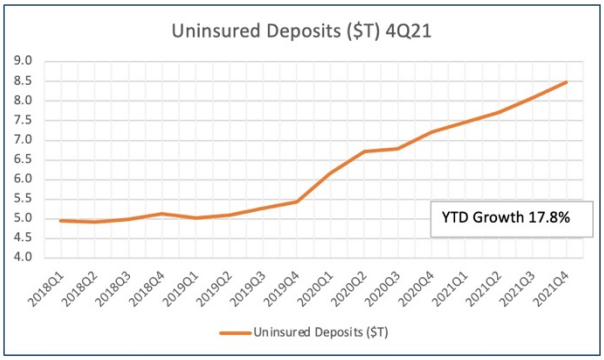
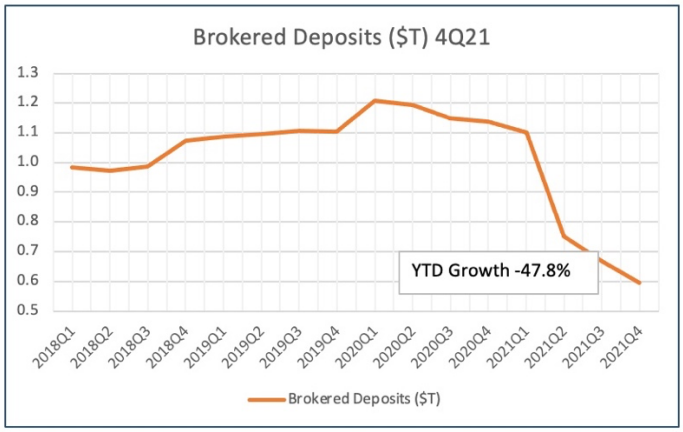


Source: FDIC, The Carfang Group, Safened

Brokered deposits are in a state of flux, down 47.8% in 2021 following new classification guidance from the FDIC. As shown in the graph below, the major reclassifications took place in the second quarter, but the trend continued through year-end.

- Brokered deposits fell from $1.14 trillion at year-end to $0.59 trillion at year end. They represent a 3.3% of total domestic deposits.



Source: FDIC, The Carfang Group, Safened

III. Conclusion

The torrid 23% deposit growth of 2020 has slowed markedly in 2021. At 11.7%, growth was almost identical to gains in nominal U.S. GDP and in M2 money supply. While that is not yet enough to declare that the market for deposits is tightening, it does indicate alignment with other macro indicators. However, it remains well above historical norms.

Thus, uncertainty continues to play out in 2022. Many questions are key to a successful deposit management strategy. Will liquidity still be king, or will depositors begin to seek more yield? How will the Fed taper impact interest rates and the shape of the yield curve? Will the FDIC brokered deposit guidance continue to lead to major reclassifications and will technology sourced deposits continue to grow in importance?

These are questions we want to help you get right as you chart your course in this most challenging environment. **Sign up HERE for our April 21 Quarterly Liquidity Briefing.** This program is designed especially for bankers, money market professionals, corporate treasurers, institutional investors, family offices and wealth managers. Participants will hear from leading market experts and learn about current deposit and corporate cash trends and applicable regulations. The speakers will further discuss current topics in financial markets, such as inflation and rising rates. They will also give their liquidity outlook for the remainder of 2022.

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.

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Global Liquidity Platform, an investment alternative for USD liquidity.
Safened US Inc. is a member of FINRA and Fintech broker-dealer that has developed an innovative and efficient B2B deposit platform. This unique platform seamlessly connects high quality global Partner Banks with Corporate Clients, providing banks with additional alternative wholesale funding tools and Corporate Clients with a convenient, diversified deposit product. US Banks can source balance sheet friendly, non-brokered deposits through our platform. Visit www.safened.com. Contact Graeme Henderson at g.henderson@safened.com.