The
Carfang
Group

U.S. Bank Deposits Fall $460 Billion in 2022
First Annual Decline in over Fifty Years

Quarterly Deposit Bulletin – March 2023

March 23 - Domestic deposits at U.S. banks fell by $460 billion or 2.5% to $17.7 trillion at year end 2022 from a record $18.2 trillion in 2021. This is the only annual decline in the fifty year time series published by the FDIC. Deposit growth 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.

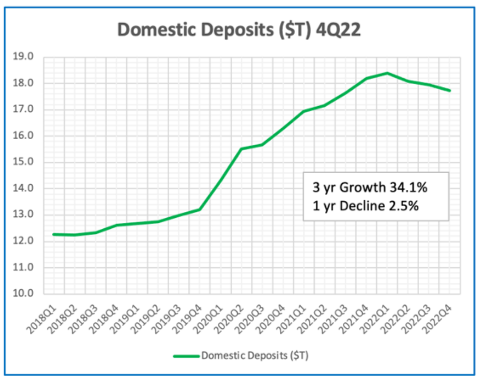
Recent Federal Reserve policies, including rate increase and quantitative tightening, are likely to cause deposits and money supply to further decelerate while inflation will cause *nominal* GDP to grow. Combined, they remove liquidity from the banking system. This exposes several banks with low insured deposit levels or high levels of non-interest bearing deposits as we have already seen this month.

Deposits now stand at 68% of GDP, down from 76% 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.

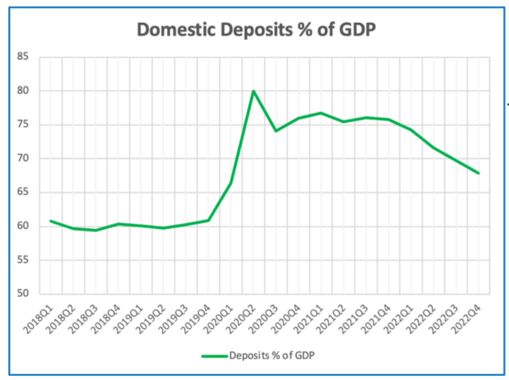
The Carfang Group is pleased to present our Quarterly Deposit Bulletin. Each quarter, we bring you the most up-to-date insights in the USD deposit market. Using our proprietary methodology, we analyze banking, funds flow, deposits, money market and corporate cash data as it is released by the Fed, the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

Domestic deposits at U.S. banks fell $460 billion or 2.5% to $17.7 trillion in 2022.

- 2.5% decline is an historic reversal from the 11.7% growth in 2021 and the 23% growth in 2020. There are no other annual declines in the FDIC's 50 year data series. Although banks in the U.S. have added a phenomenal $4.97 trillion in deposits since the onset of the pandemic, we're now seeing a beginning of the retracing.
- 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 68% of GDP, still well above trendline.
- Deposit declines closely tracked the 1.8% first annual decline in of M2 money supply since 1933.



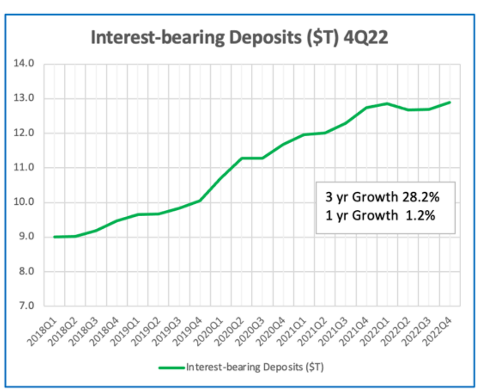
Source: FDIC, The Carfang Group



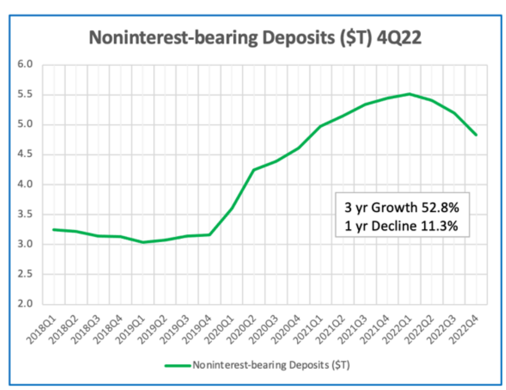
Source: FDIC, The Carfang Group

Noninterest-bearing deposits growth fell by 11.3% while interest bearing deposits grew 1.2%.

- Non-interest-bearing deposits (NIB) fell by 11.3% in 2022, whereas Interest bearing (IB) deposits grew by only 1.2%. However, IB growth outpaced NIB growth in the fourth quarter 3.6% to 2.0%.
- With rates rising, many depositors appeared to begin moving their deposits in search of higher yield.
- Across all U.S. banks, IB deposits accounted for 73% of total domestic deposits in 2022. The pre-pandemic share was 76%, so this is still below trend.



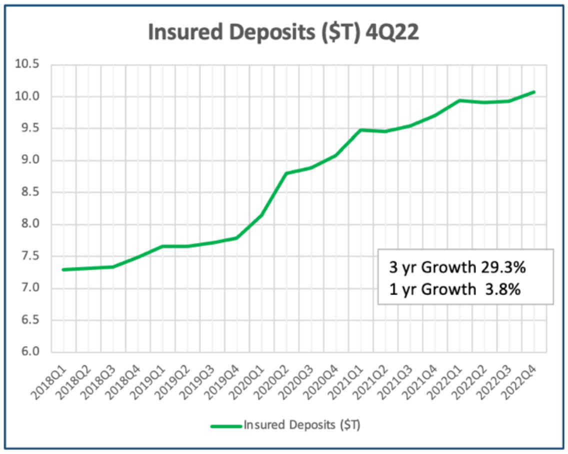
Source: FDIC, The Carfang Group



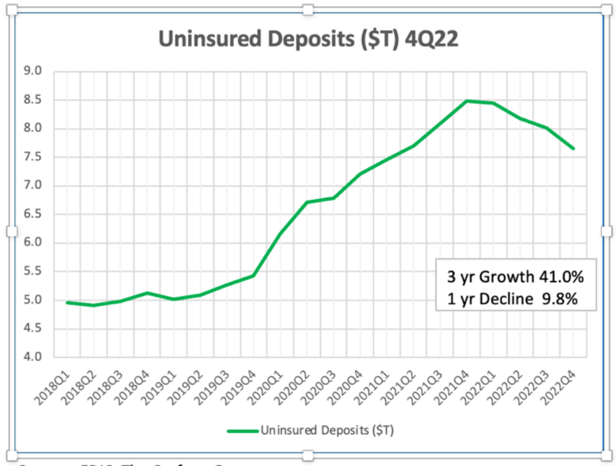
Source: FDIC, The Carfang Group

Uninsured deposits fell (9.8%) of $831 billion in 2022 vs. **insured deposit** growth (2.8%) of $367 billion.

- As the Fed tightens, a flight to quality appears to be underway.
- This flight to quality is likely to have picked up steam given the banking stress this month. That will be reflected in next quarter's bulletin.



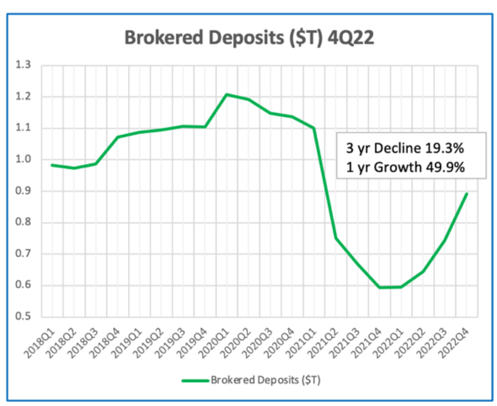
Source: FDIC, The Carfang Group



Source: FDIC, The Carfang Group

Brokered deposits surged by $297 billion or 49.9% in 2022. As shown in the graph below, the major reclassifications took place in the second quarter of 2021, thus it is unclear whether the three year decline of 19% is a real money decline or simply a reporting change. However, the surge in 2022 is real.

- Brokered deposits rose from $594 billion to $891 billion, a 49.9% increase.
- The FDIC redefined brokered deposits more narrowly in 2021, possibly reclassifying $500 billion. If that is the case, the current surge may well be a new record.



Source: FDIC, The Carfang Group

III. Conclusion

The torrid deposit growth during the pandemic has abruptly reversed. The Fed's multi-trillion dollar dollar-creating 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 $831 billion outflow of uninsured deposits. With the current banking crisis that is underway, we fully expect this trend to continue.