

Economic & Banking Conditions

Northern California Community Bankers
Workshop
October 22, 2024

Presented by:

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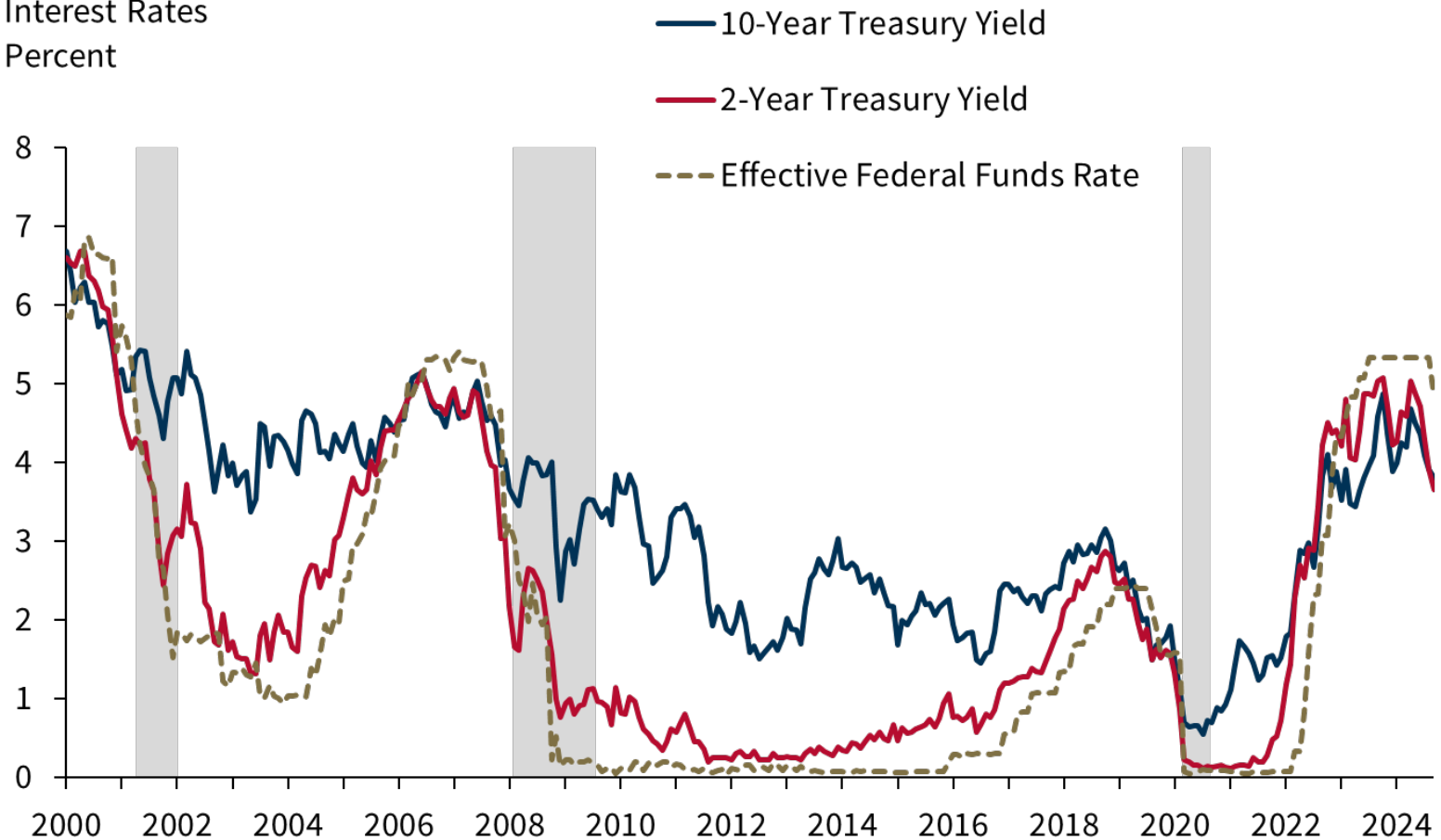
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Economic Conditions

U.S. Treasury Rates Declined in Advance of the Fed's September Rate Cut

Interest Rates
Percent



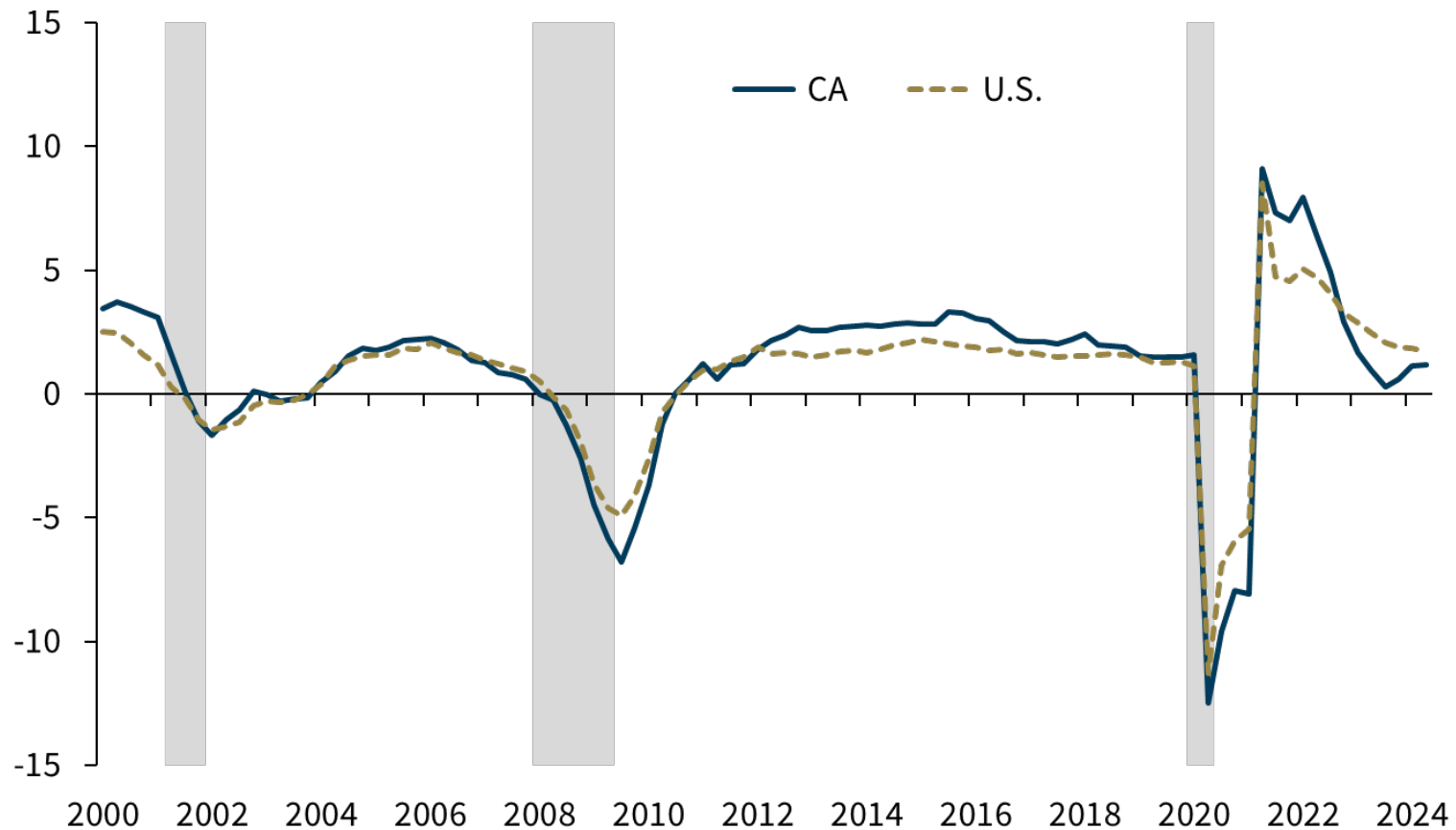
Source: Federal Reserve, National Bureau of Economic Research (Haver Analytics).

Note: Rates are monthly end-of-period figures through September 2024. Shaded periods represent recessions.

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Tech Layoffs and the Writer/Actor Strike Crimped California's 2023 Job Growth

Total Nonagricultural Employment
Year-over-year change, percent

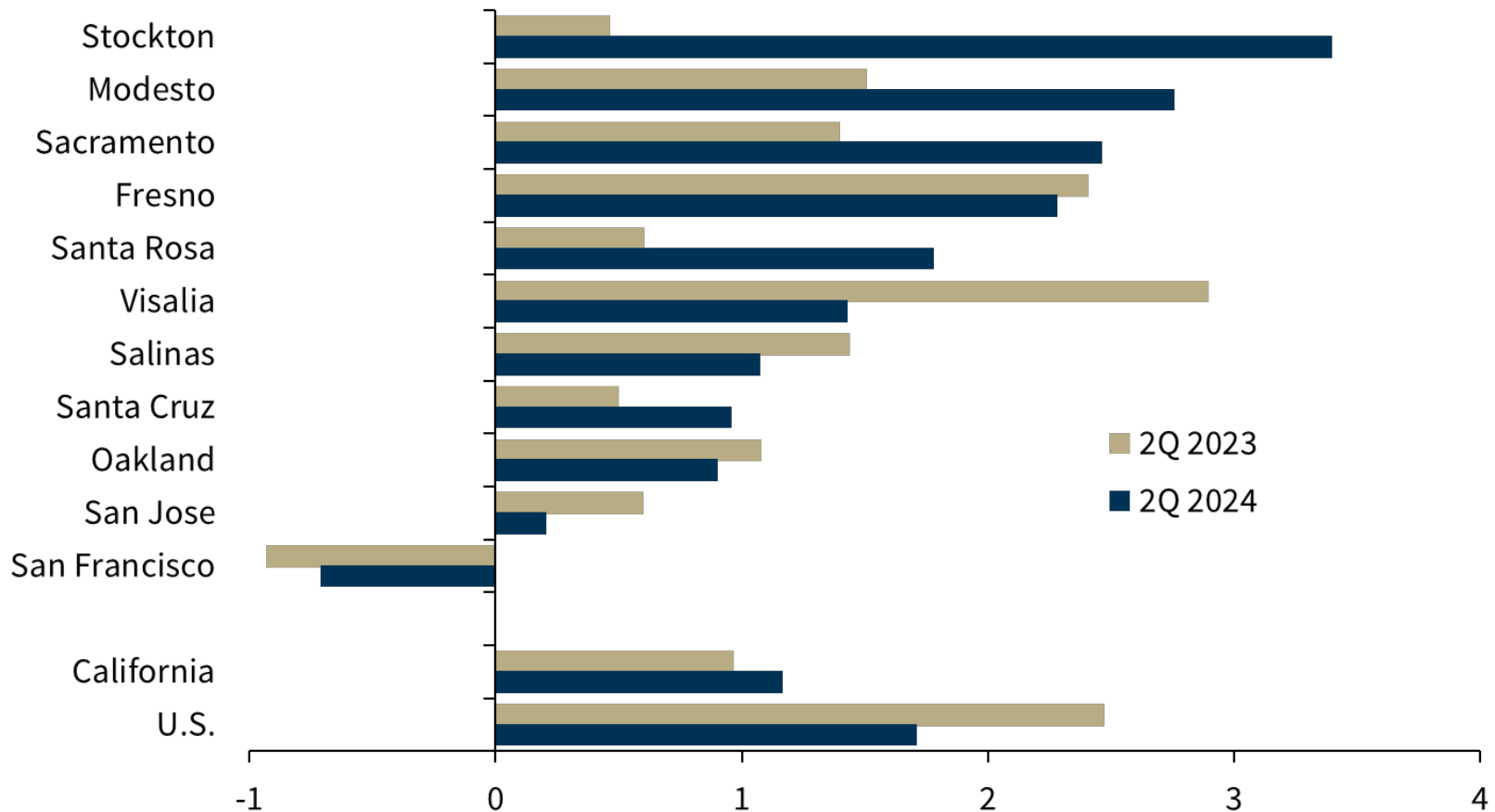


Sources: Bureau of Labor Statistics, National Bureau of Economic Research (Haver Analytics).

Note: Data are non-seasonally adjusted quarterly averages through 2Q 2024. Shading denotes recessions.

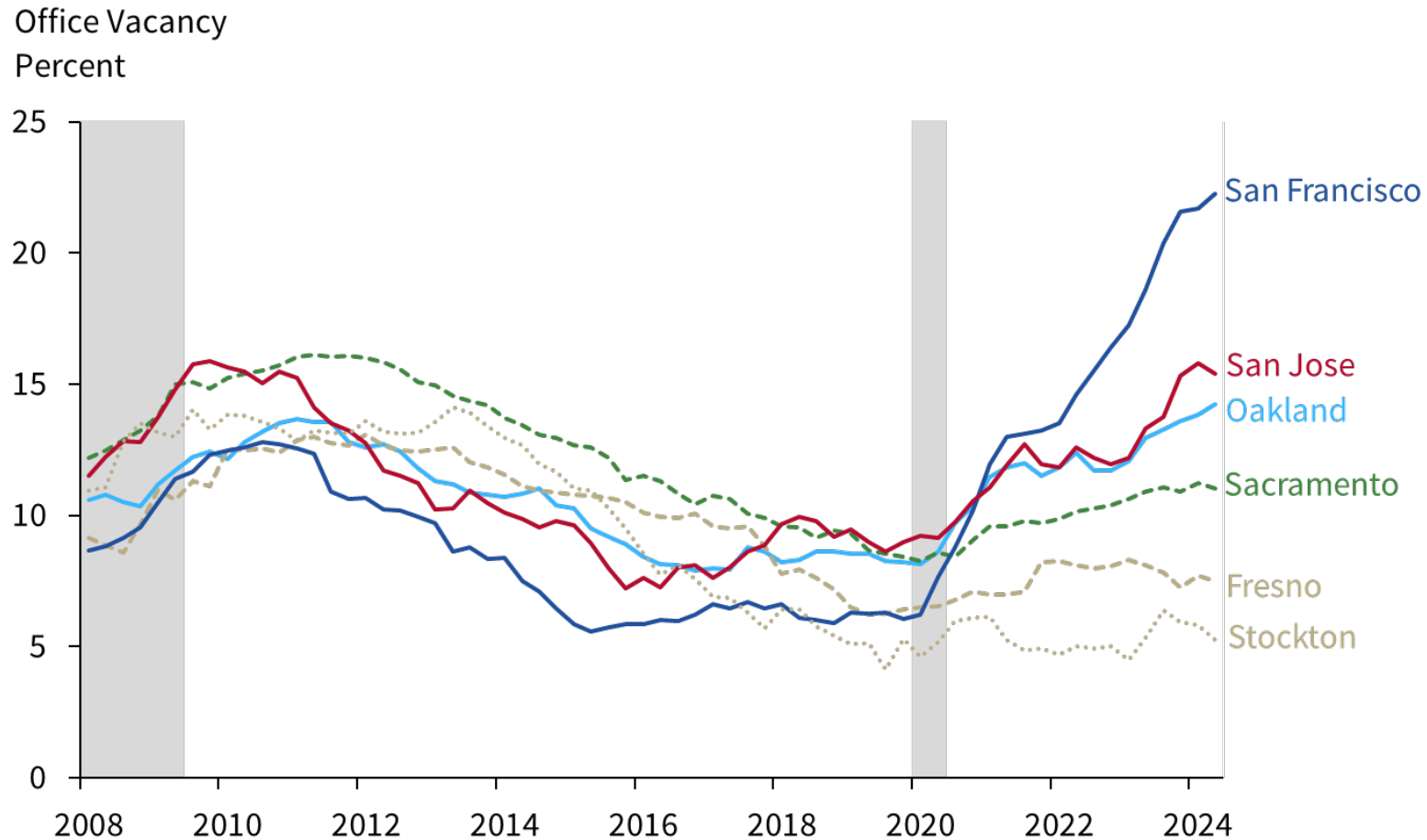
Growth Has Been Uneven Across California's Central/Northern Metros

Total Nonagricultural Employment
Year-over-year change, percent



Source: Bureau of Labor Statistics (Haver Analytics).

Office Vacancies Have Trended Upward, Particularly in San Francisco

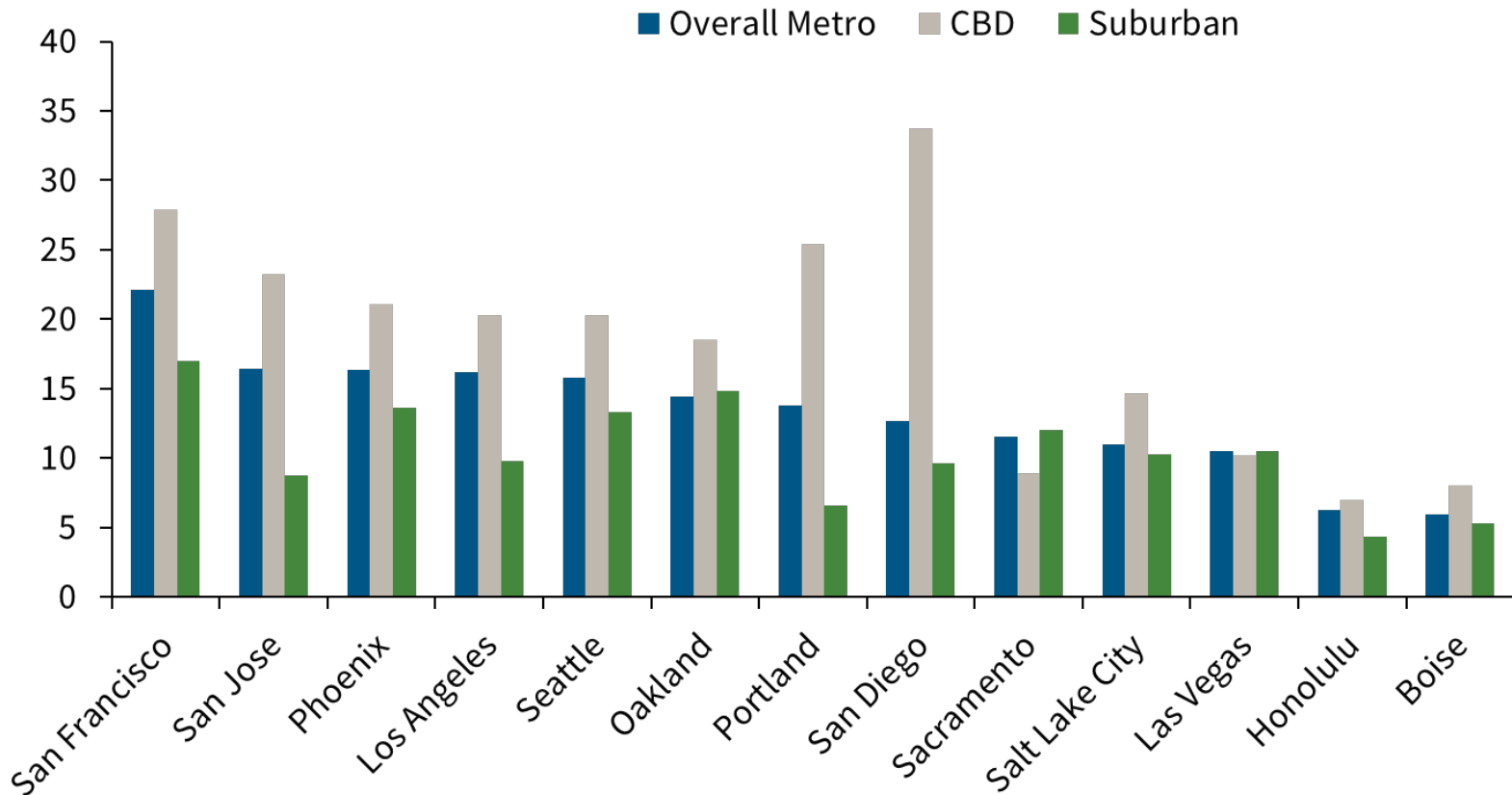


Sources: CoStar, National Bureau of Economic Research (Haver Analytics).

Note: Data are quarterly figures through second quarter 2024. Shaded periods represent recessions.

Central Business District Office Vacancy Usually Exceeded Suburban Levels

Office Vacancy
Percent

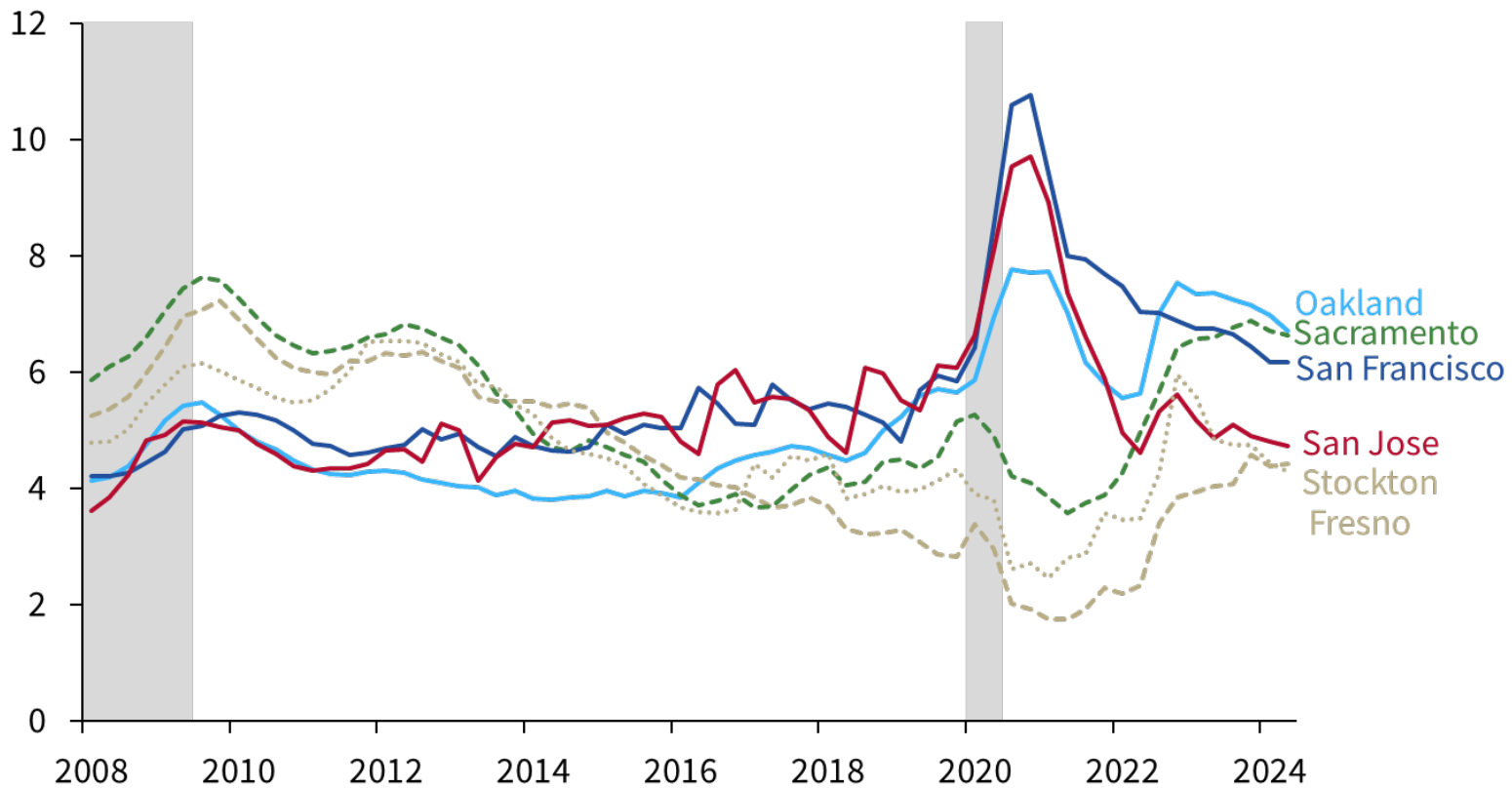


Source: Costar.

Note: Data are quarterly office vacancy rates as of second quarter 2024 for metros and their central business district (CBD) and suburban office segments.

Multifamily Vacancies Have Stabilized in Some Metros

Multifamily Vacancy
Percent

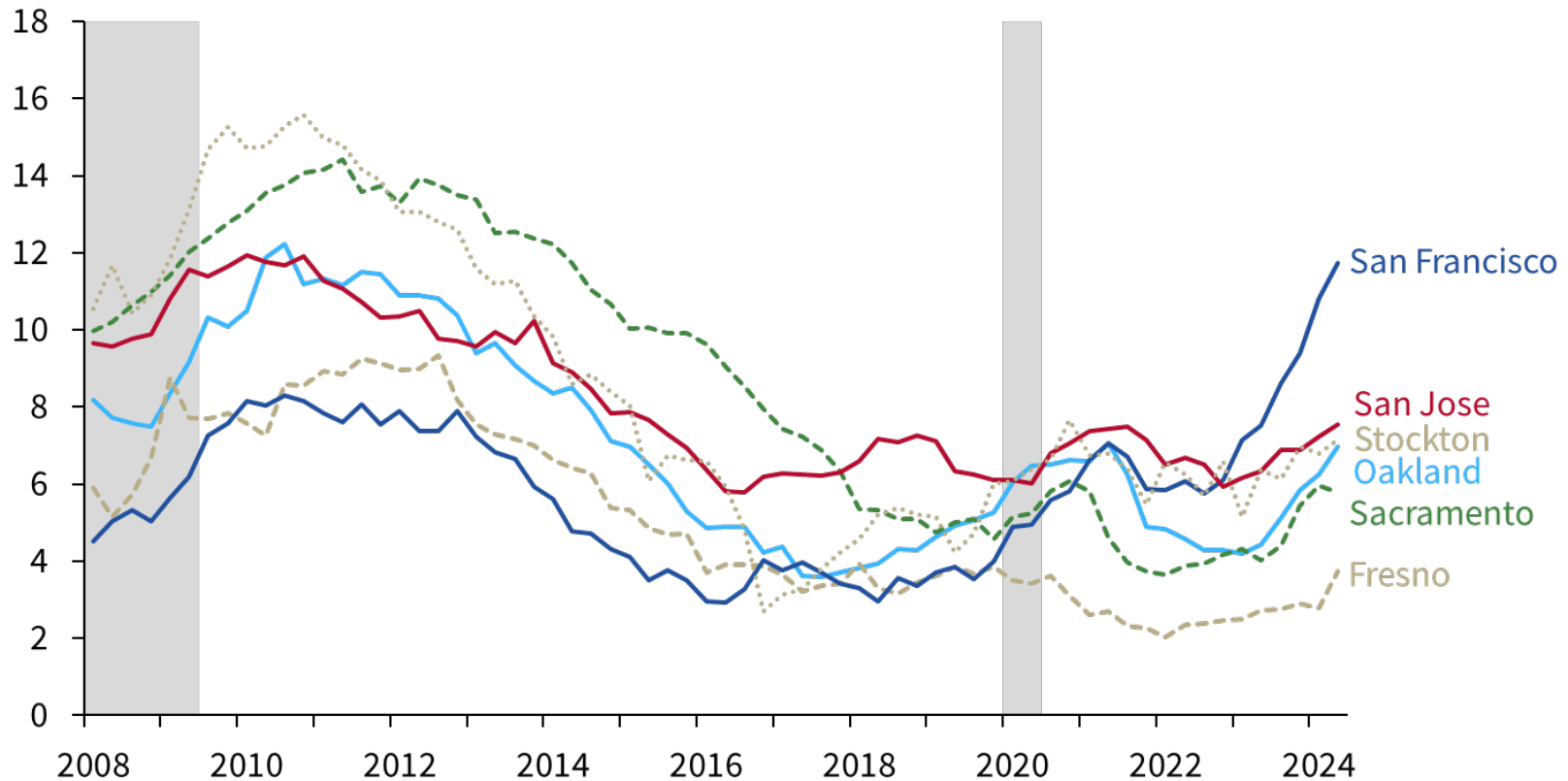


Sources: CoStar, National Bureau of Economic Research (Haver Analytics).

Note: Data are quarterly figures through second quarter 2024. Shaded periods represent recessions.

Industrial Vacancies Increased, but Trailed 2009/2010 Peaks in All But S.F.

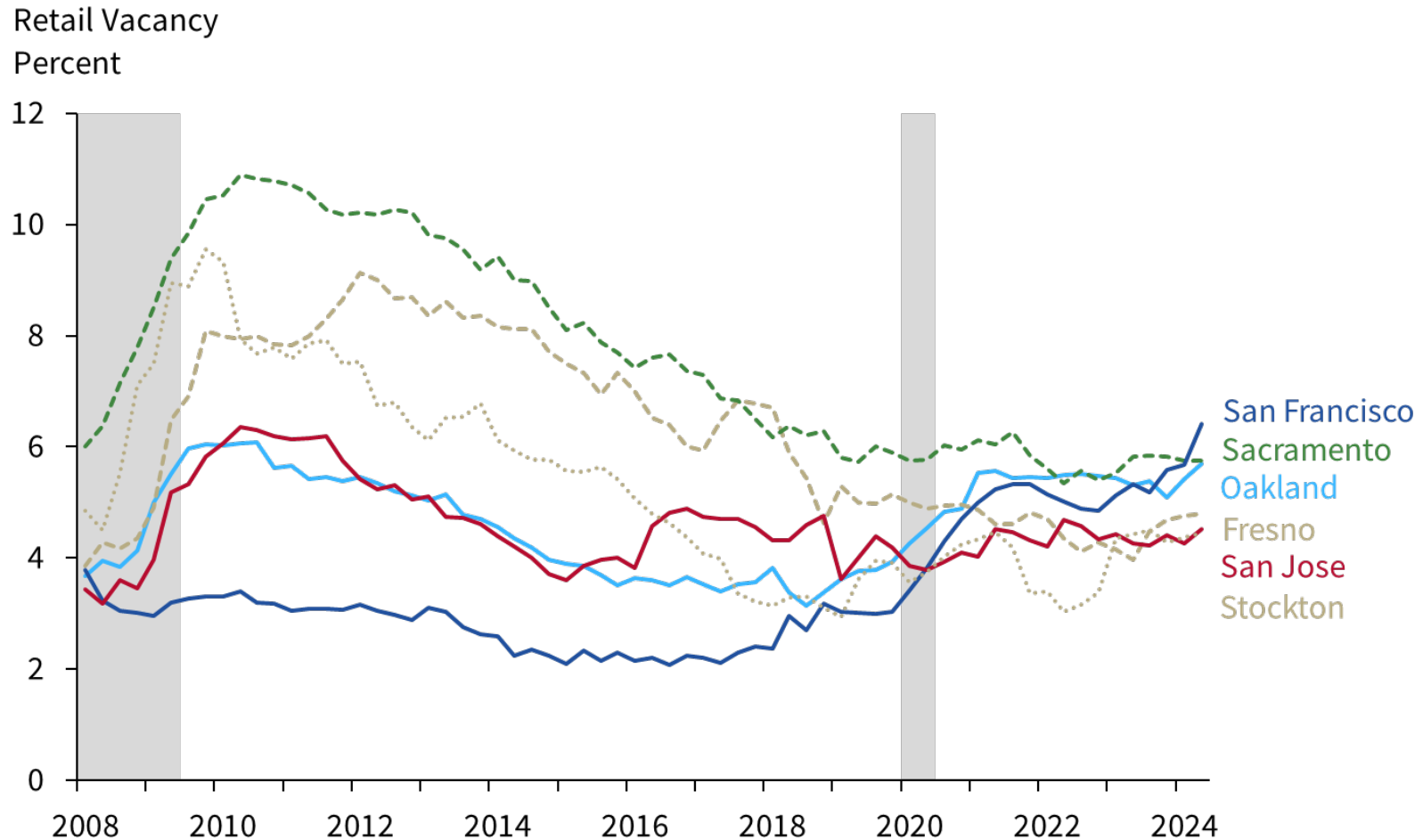
Industrial Vacancy
Percent



Sources: CoStar, National Bureau of Economic Research (Haver Analytics).

Note: Data are quarterly figures through second quarter 2024. Shaded periods represent recessions.

Retail Vacancies Were Generally Stable but Shifted Higher in S.F. and East Bay

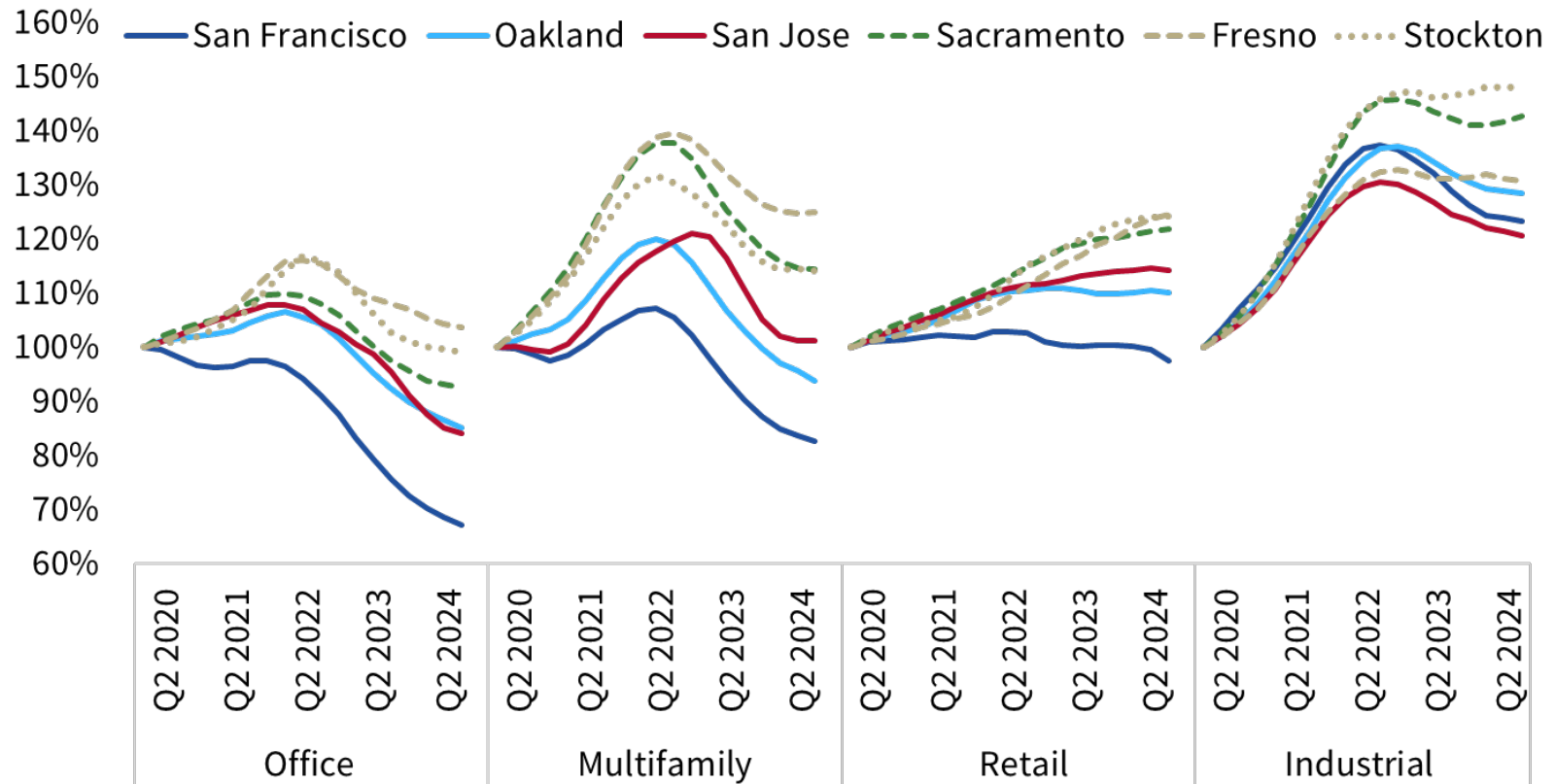


Sources: CoStar, National Bureau of Economic Research (Haver Analytics).

Note: Data are quarterly figures through second quarter 2024. Shaded periods represent recessions.

Some Property Prices Have Declined From Recent Peaks

Commercial Property Prices Relative to Pre-Pandemic
Indexed, 4Q 2019 = 100%

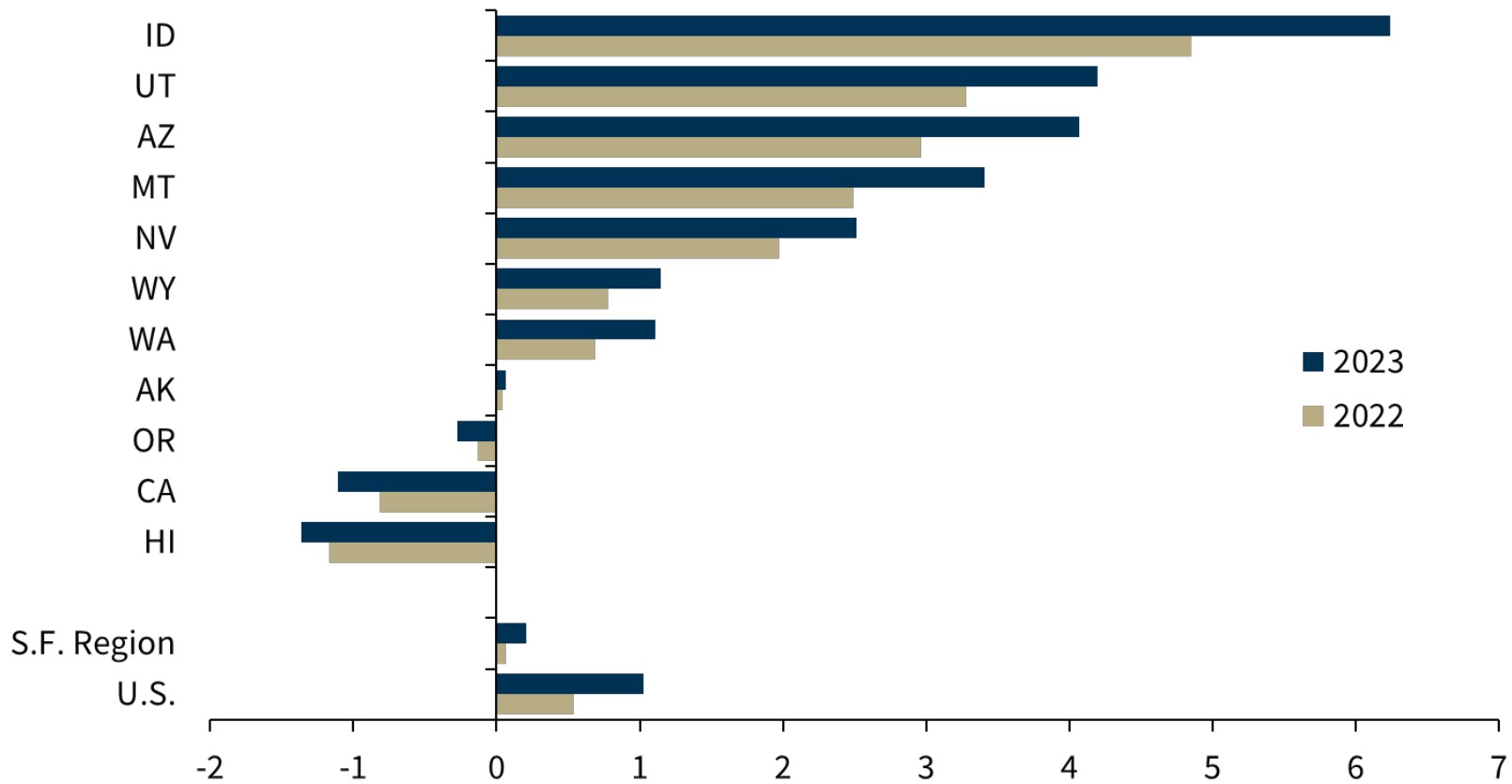


Source: CoStar.

Note: Data are quarterly figures through second quarter 2024.

Population Growth in California Has Been Comparatively Weak

Population
Cumulative percent change from 2020



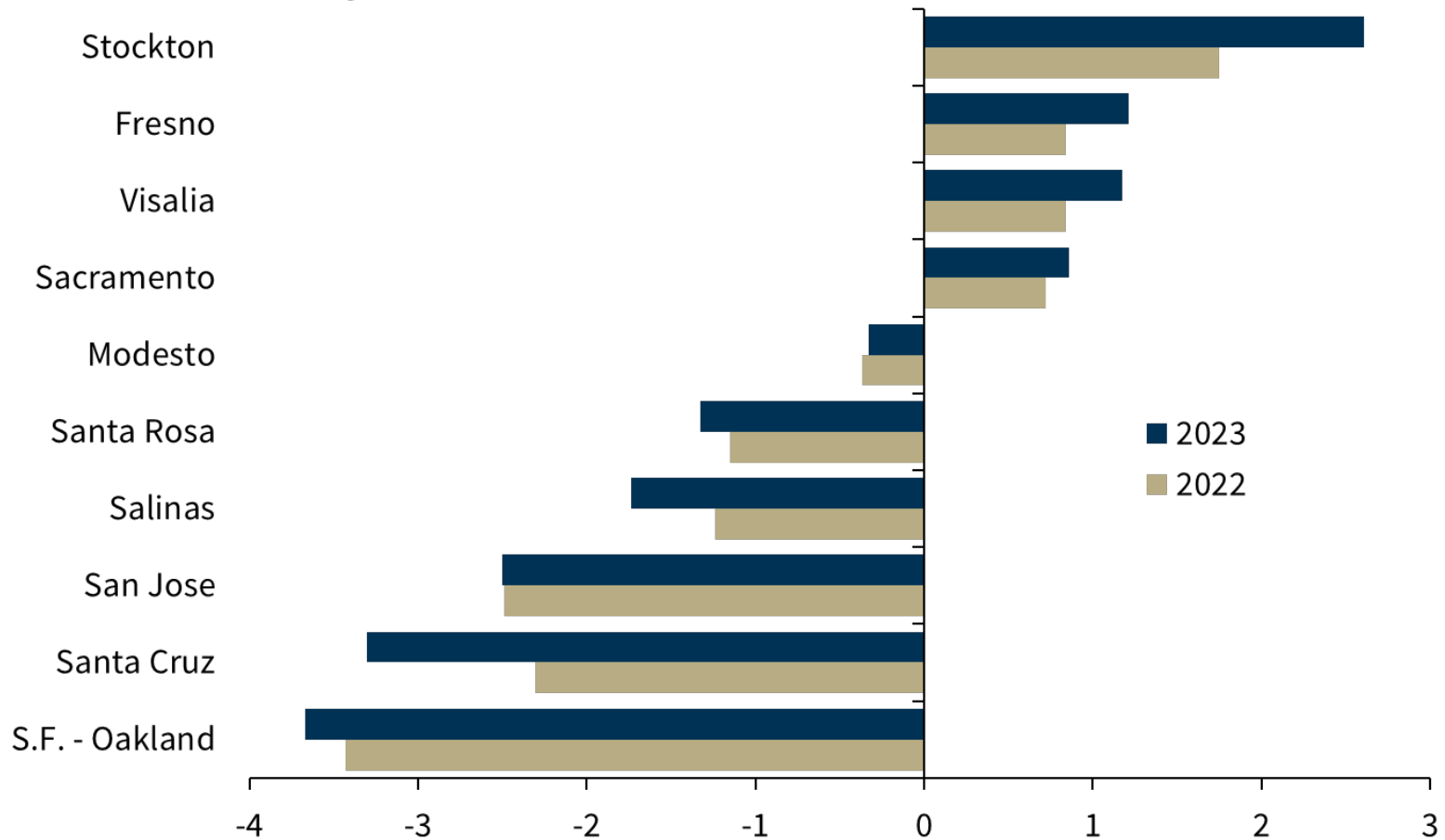
Source: Census Bureau (Haver Analytics).

Note: Annual population measured at July 1 of each year.

Population Growth Was Often Stronger Among Inland/More Affordable Metros

Population

Cumulative percent change from 2020



Source: Census Bureau (Haver Analytics).

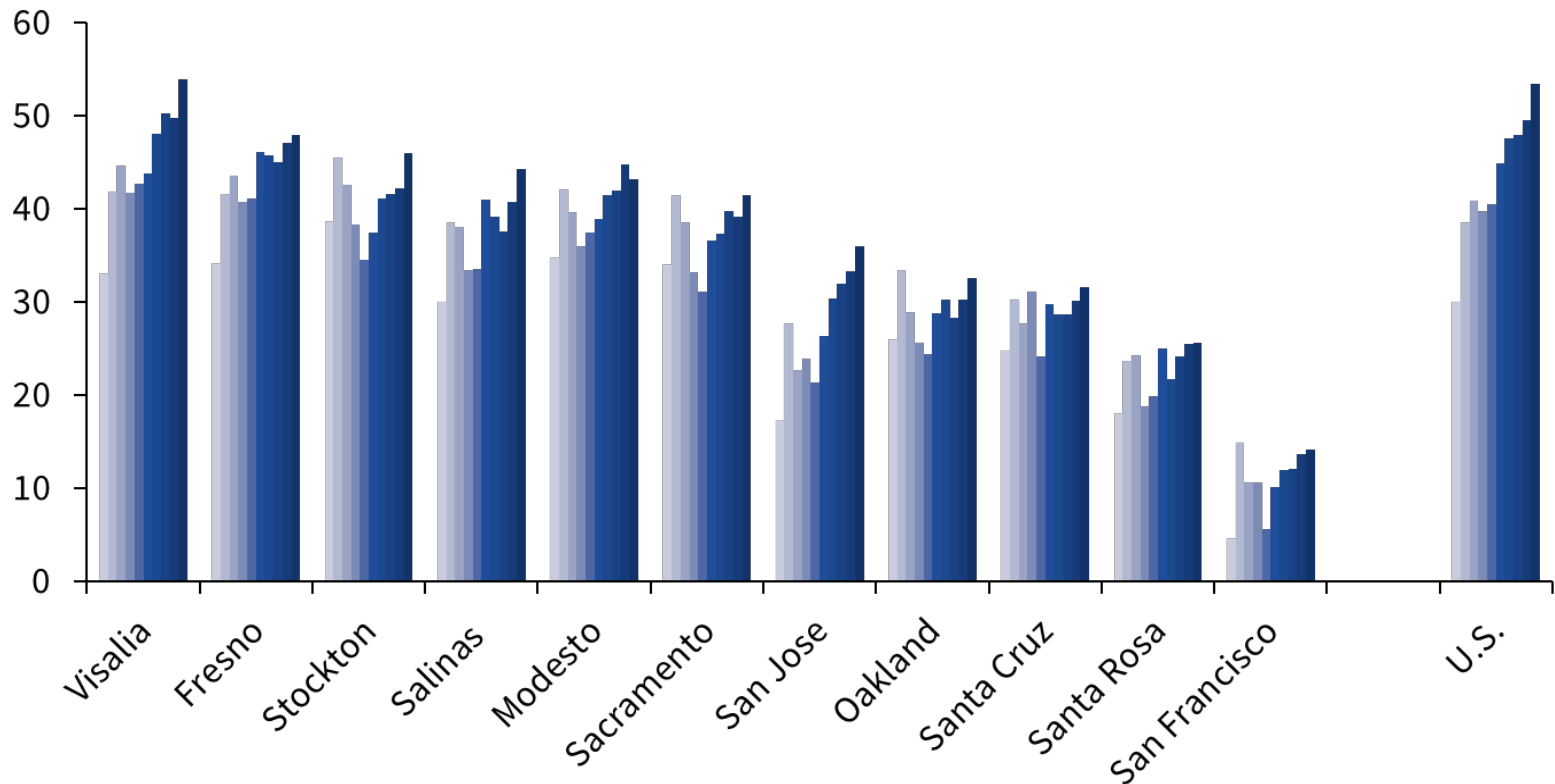
Note: Annual population measured at July 1 of each year.

Northern California Home Prices Mostly Recovered Since Dipping in 2022/2023

House Price Index

Cumulative change from 4Q 2019, percent

■ 1Q 2022 ■ 2Q 2024

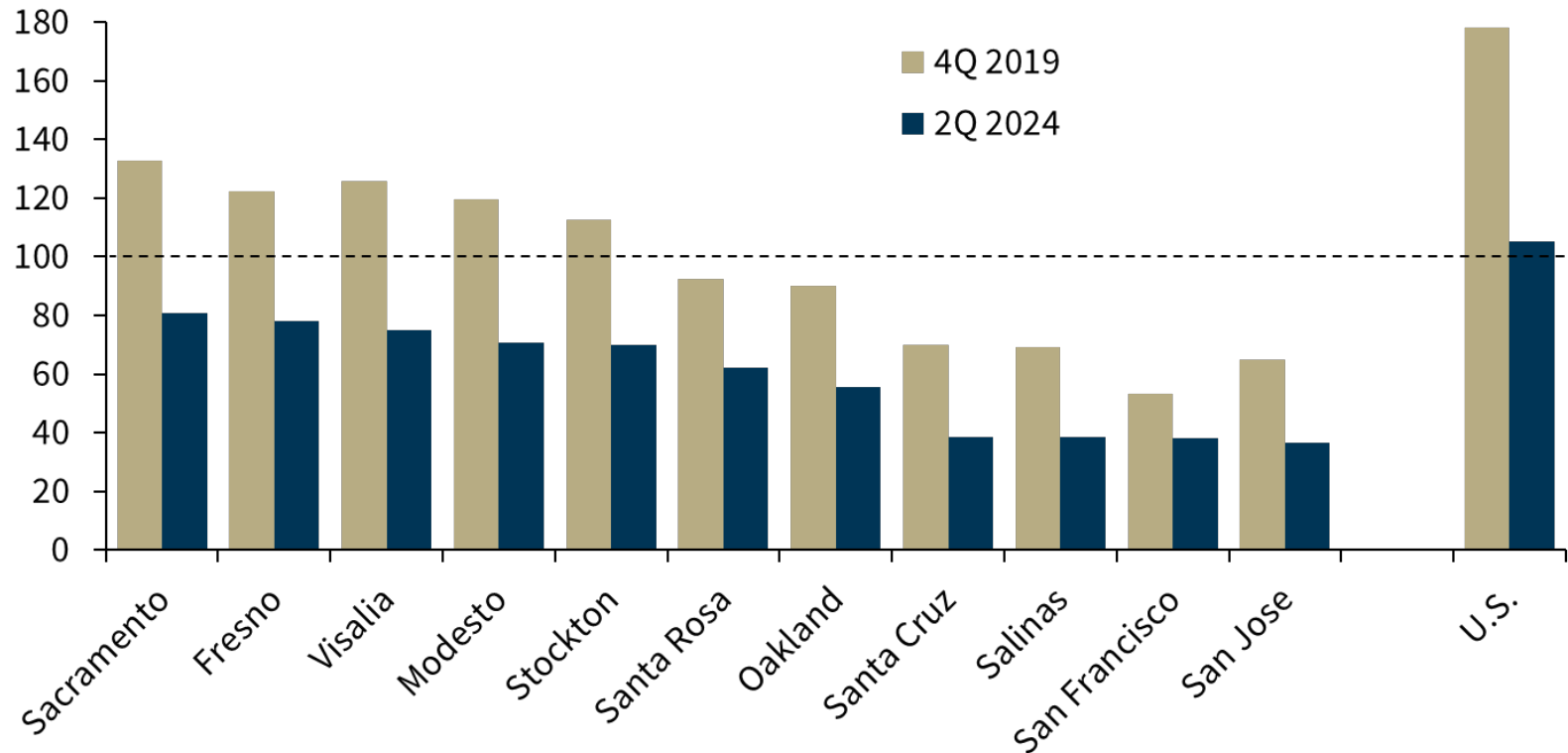


Source: Federal Housing Finance Agency (Haver Analytics).

Note: Data are quarterly, non-seasonally adjusted, all-transactions price indexes. Oakland and San Francisco are metro divisions, while others are metro areas.

Housing Affordability Deteriorated Across California and Nationally

Housing Affordability Index

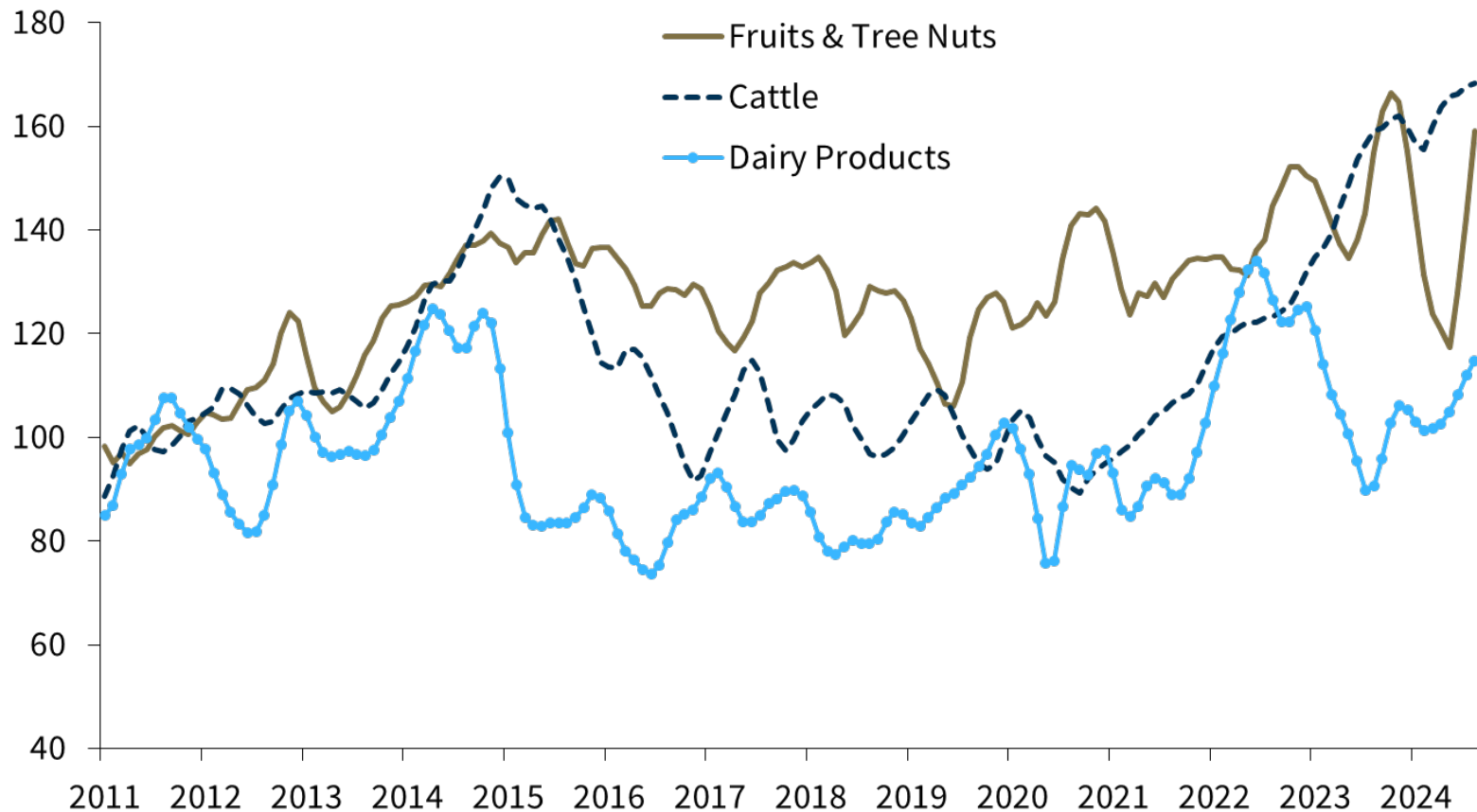


Sources: Moody's Analytics and National Association of Realtors.

Note: The Housing Affordability Index (HAI) is a measure of the degree to which a typical middle-income family can afford the mortgage payments on a typical home in the specified quarter based on income, home prices and mortgage rates. An index of 100 indicates exactly enough income to qualify for a typical mortgage on a median-priced single-family home. San Francisco and Oakland are metro divisions, all others are metro areas.

Prices for Some Key Agricultural Commodities Increased in 2024

Prices Received by Farmers
Index, 2011=100



Source: USDA.

Note: Data are trailing 3-month average figures through August 2024.

Banking Conditions

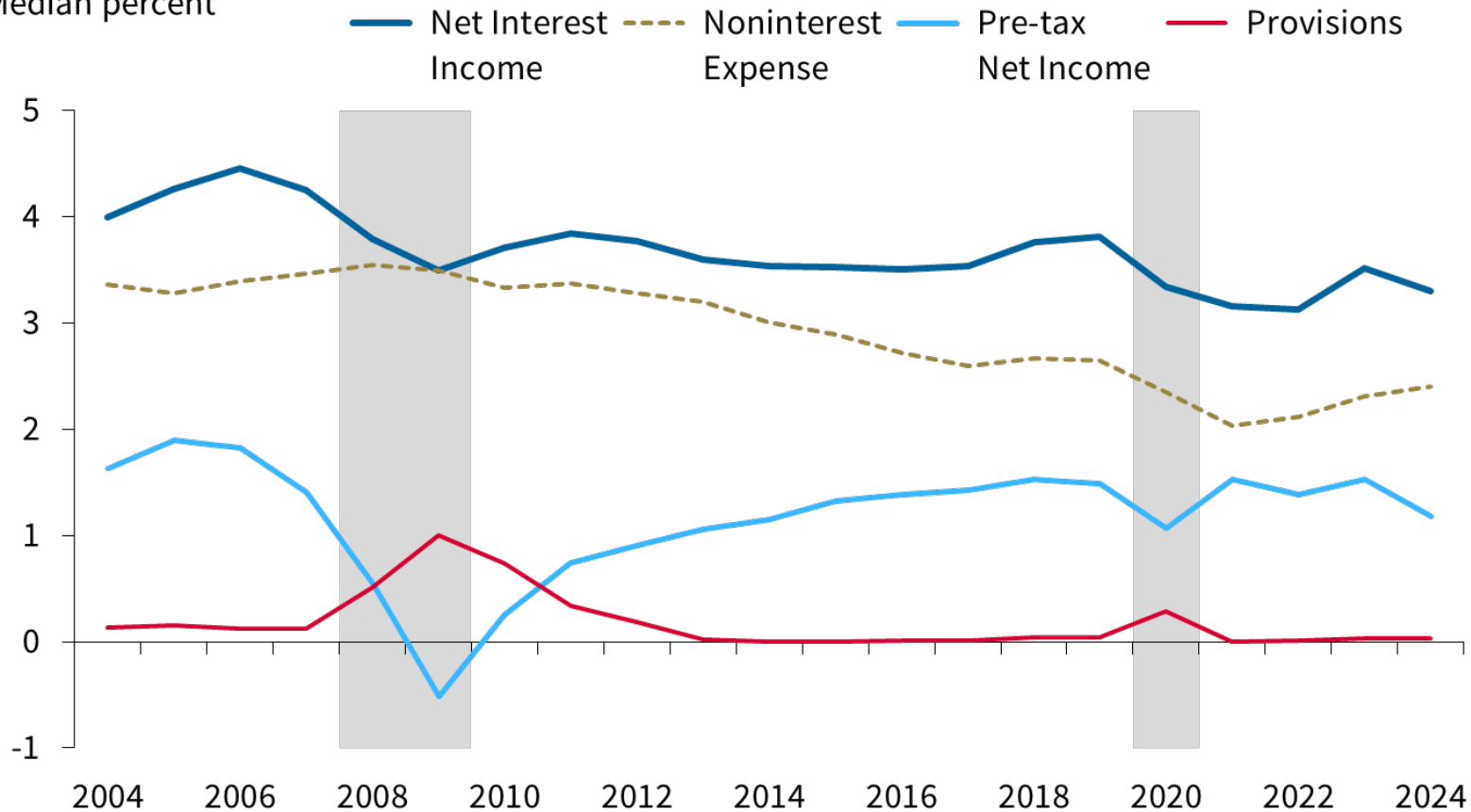


Southern California includes 10 contiguous counties (~60% of banks/jobs); Greater San Francisco (S.F.) Bay Area includes 14 contiguous counties (~25% of banks/jobs); and Rest of California includes the remaining 34 counties (~15% of banks/jobs). Not all counties have banks with headquarters.

California Banks' Earnings in the First Half of 2024 Trailed 2023 Performance

Year-to-Date Annualized as Share of Average Assets, California Banks

Median percent

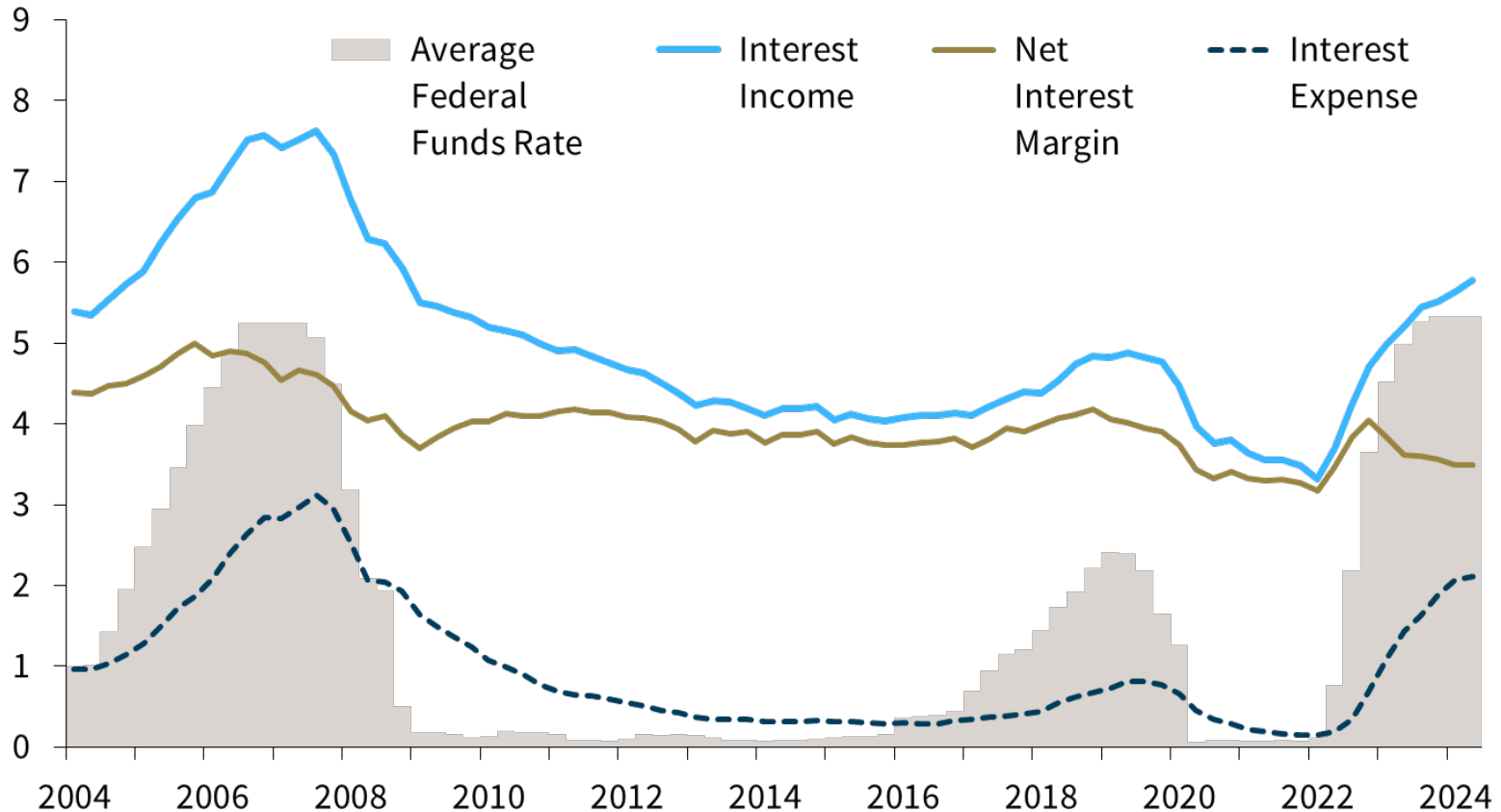


Sources: FDIC and National Bureau of Economic Research (Haver Analytics).

Note: Data year-to-date through second quarter of each year. Pre-tax return on average assets (ROAA) = pre-tax net income / average assets. Shaded periods represent recession.

Quarterly Net Interest Margins More Stable But Rate Cuts Could Pressure Them

One-Quarter Annualized as Share of Average Earning Assets, California Banks
Median percent

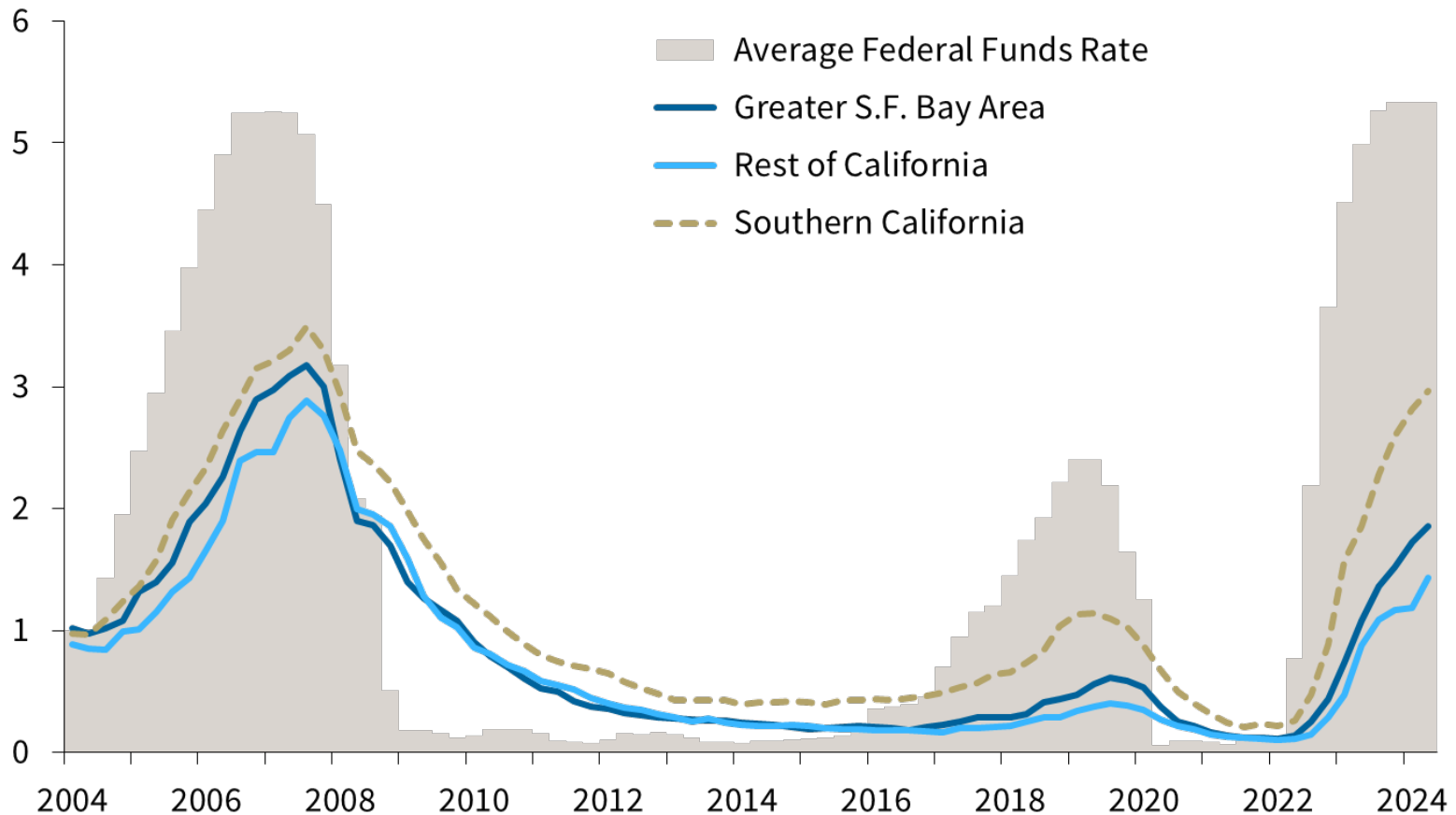


Sources: FDIC and Federal Reserve (Haver Analytics).

Note: Data are quarterly through second quarter 2024.

Deposit Costs Surged Sharply, Especially Among Southern California-Based Banks

One-Quarter Annualized Interest Expense on Deposits / Average Deposits
Median percent



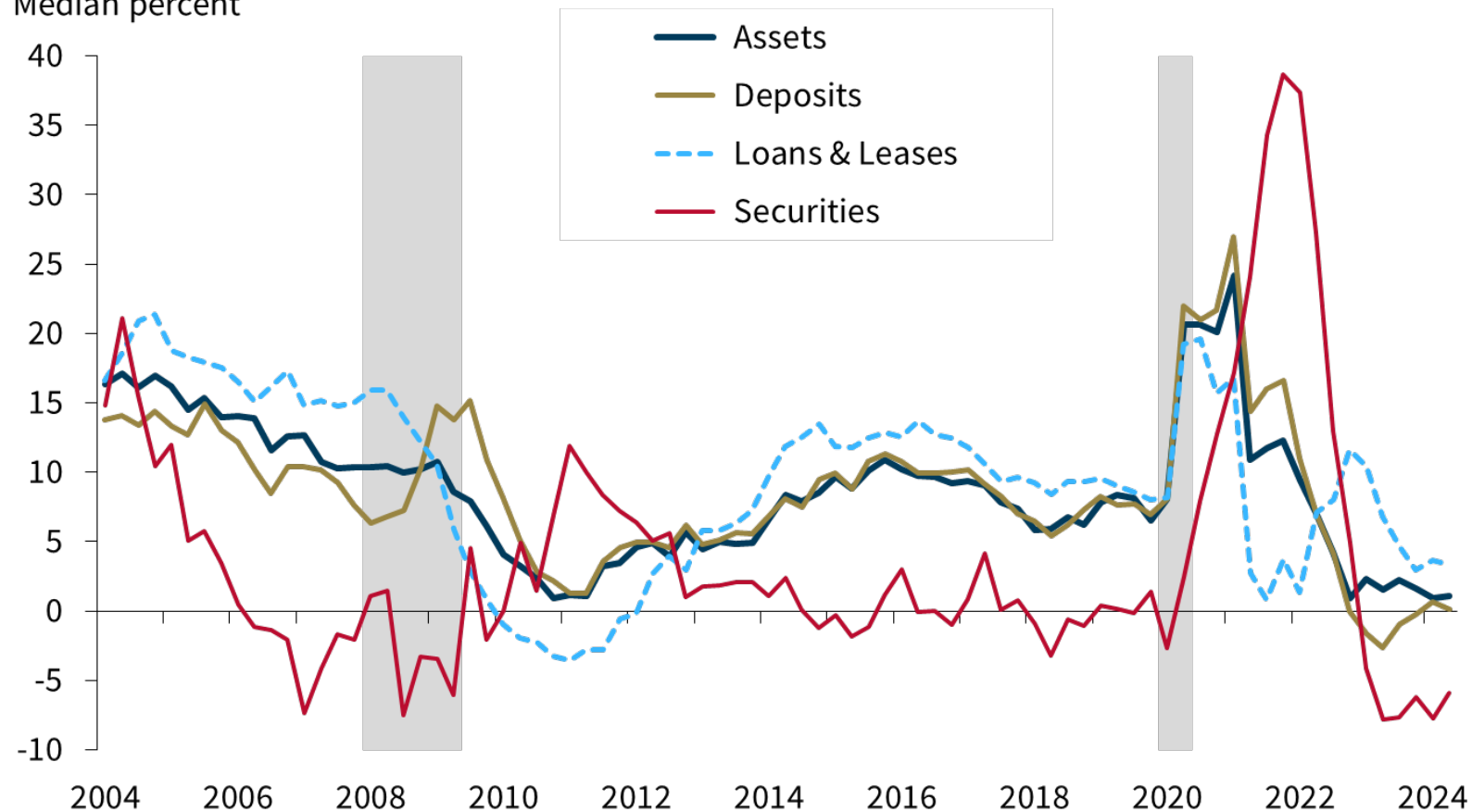
Sources: FDIC and Federal Reserve (Haver Analytics).

Note: Data are quarterly through second quarter 2024.

Deposit Runoff Abated, Asset Growth Eased, Securities Declined

Year-Over-Year Growth Rates, California Banks

Median percent



Sources: FDIC and National Bureau of Economic Research (Haver Analytics).

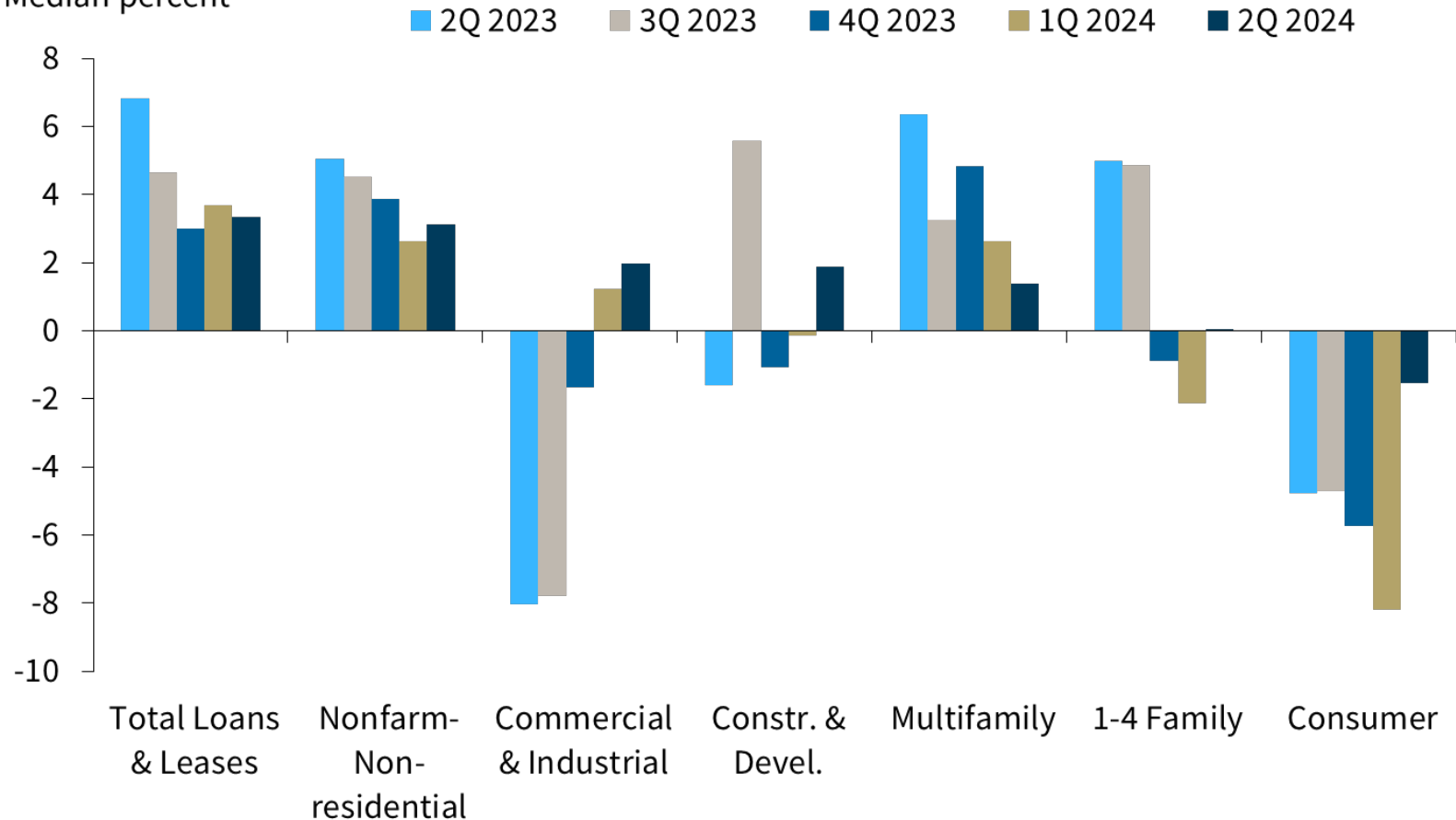
Note: Data are quarterly through second quarter 2024. Loan growth includes Paycheck Protection Program.

Shaded periods represent recessions.

California Banks' Loan Growth Moderated; C&I and C&D Bucked Trend

Year-Over-Year Growth Rates, California Banks

Median percent

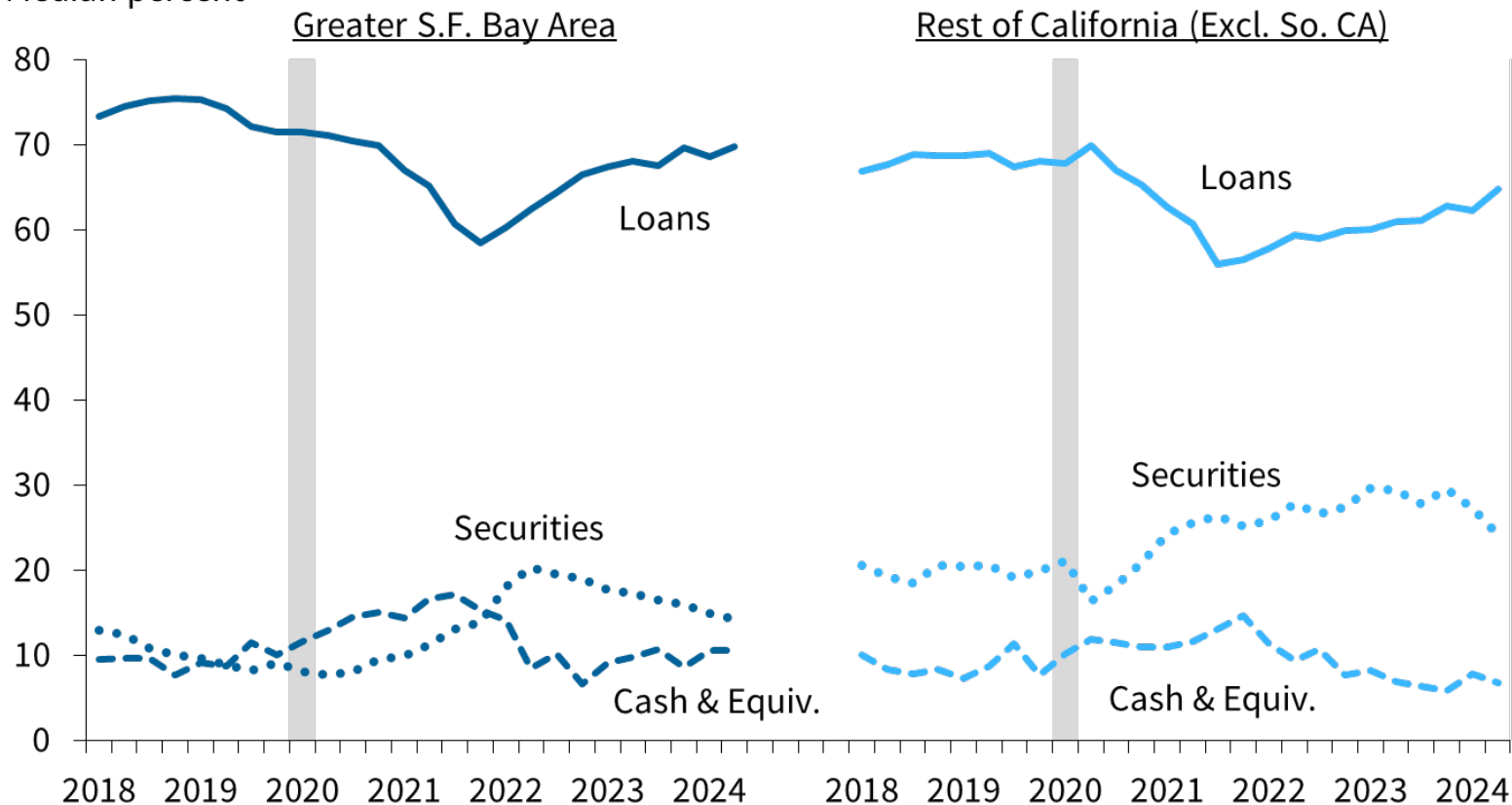


Source: FDIC.

Note: Includes Paycheck Protection Program loans.

The Mix of Assets Differed Slightly by California Region

Share of Total Assets, Non-Southern California Banks
Median percent



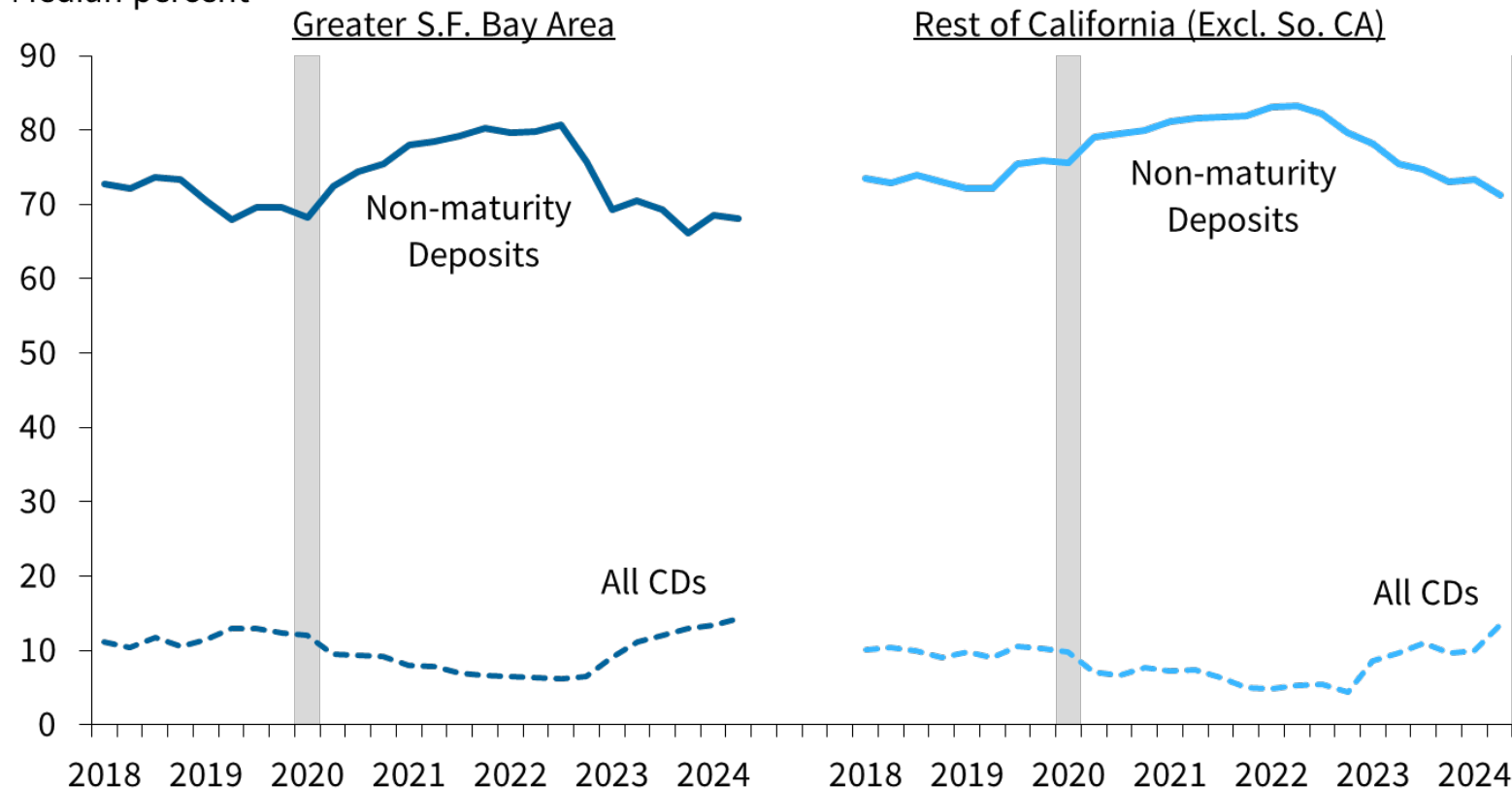
Source: FDIC.

Note: Data are quarterly through second quarter 2024 and exclude banks based in 10 contiguous So. California counties. Shading = pandemic onset. Cash and equivalents = cash, due from, federal funds sold, and reverse repos.

Non-maturity Deposit Runoff Was Backfilled with Pricier Sources

Share of Total Liabilities, Non-Southern California Banks

Median percent

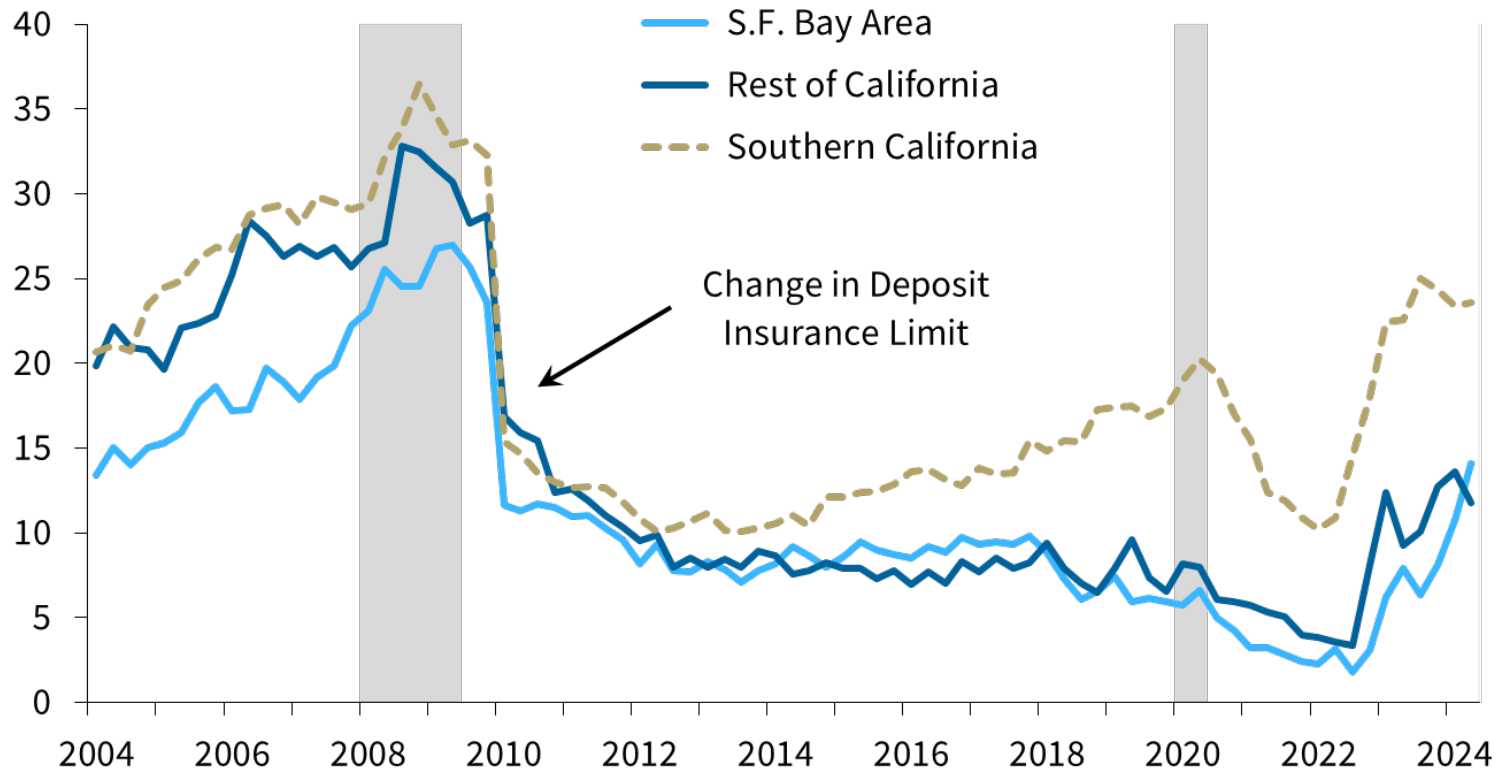


Source: FDIC.

Note: Data are quarterly through second quarter 2024 and exclude banks based in 10 contiguous Southern California counties. Shaded quarter indicates pandemic onset. Non-maturity deposits include all deposits other than certificates of deposit (CDs).

Banks in Southern California Tended to Be More Reliant on Noncore Funds

Noncore Funding / Total Assets
Median percent

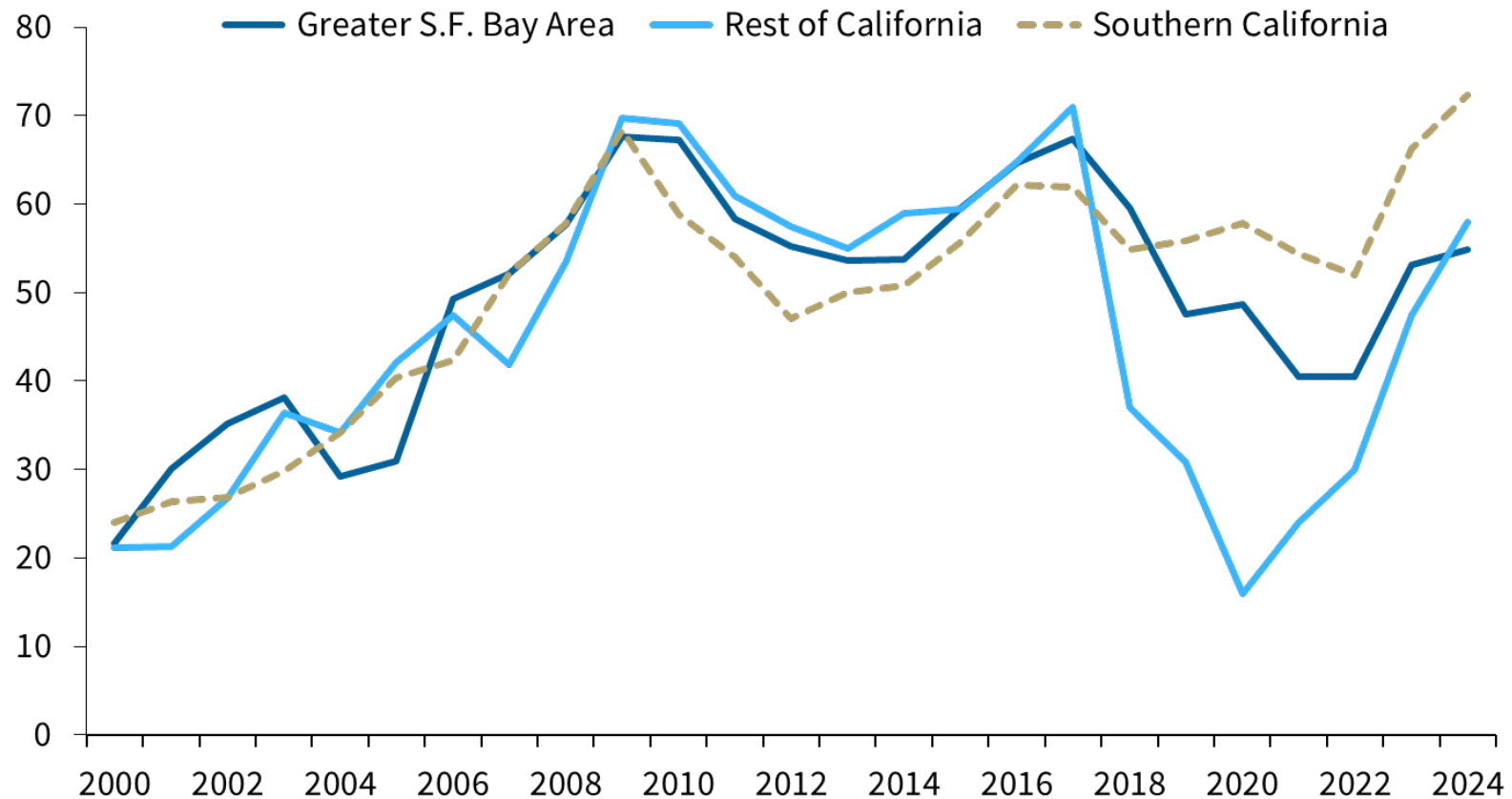


Sources: FDIC and National Bureau of Economic Research (Haver Analytics).

Note: Data are quarterly through second quarter 2024. Shaded periods represent recessions. Noncore funding = time deposits above the insurance limit, brokered deposits below the insurance limit, foreign office accounts, federal funds purchased, repurchase agreements, and other borrowings.

California's Banks Have Increasingly Turned to Brokered Funds

Institutions Holding Brokered Deposits by Share of Assets, California Banks
Percent



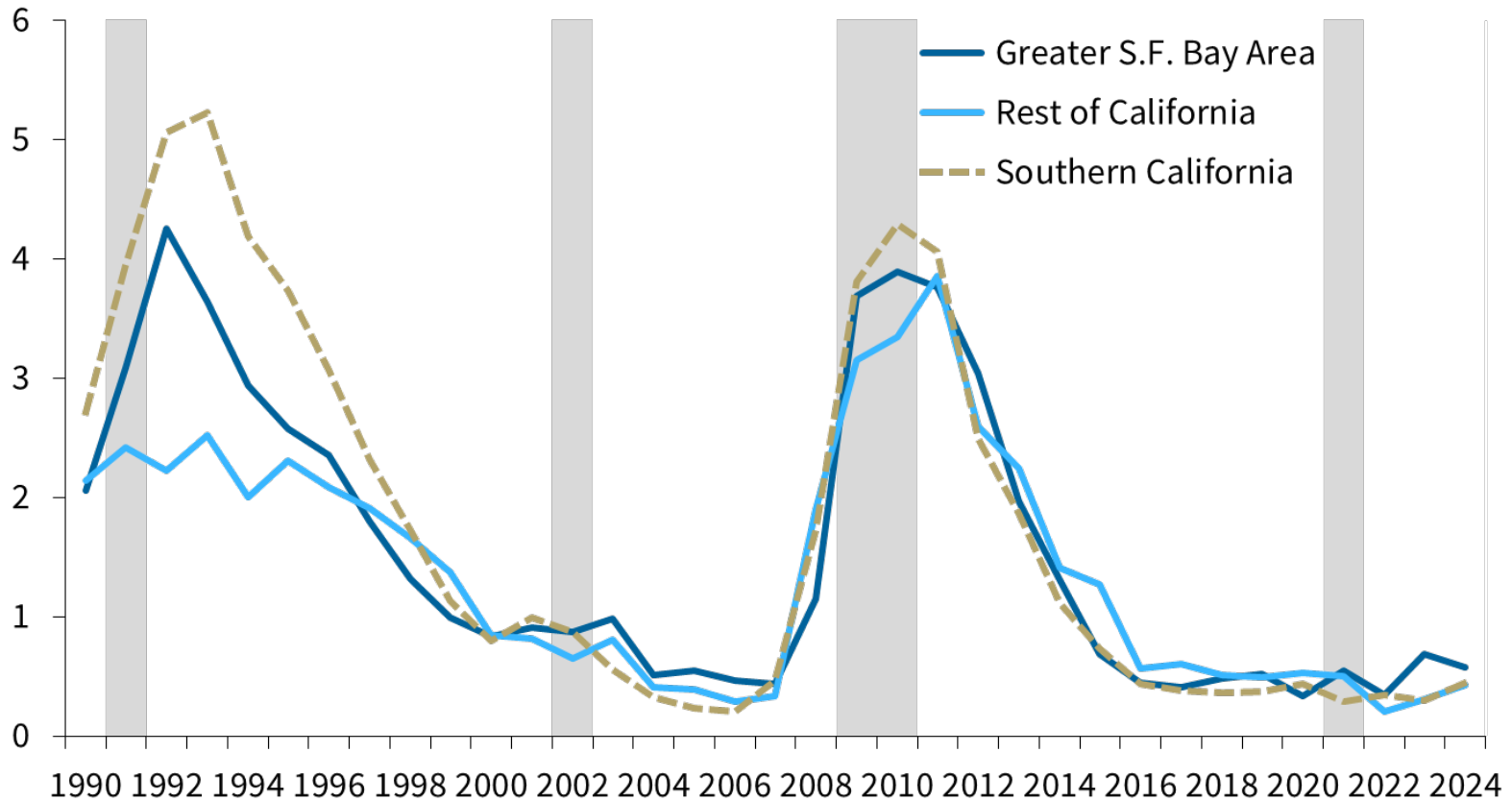
Source: FDIC.

Note: Data are as of second quarter of each year. Beginning in 2018, reciprocal deposits were no longer categorized as brokered in qualifying instances.

Past-Due Loan Ratios Edged Up Among Many; Somewhat Higher in Bay Area

Loans Past Due 30+ Days or Nonaccrual

Median percent



Sources: FDIC, National Bureau of Economic Research (Haver Analytics).

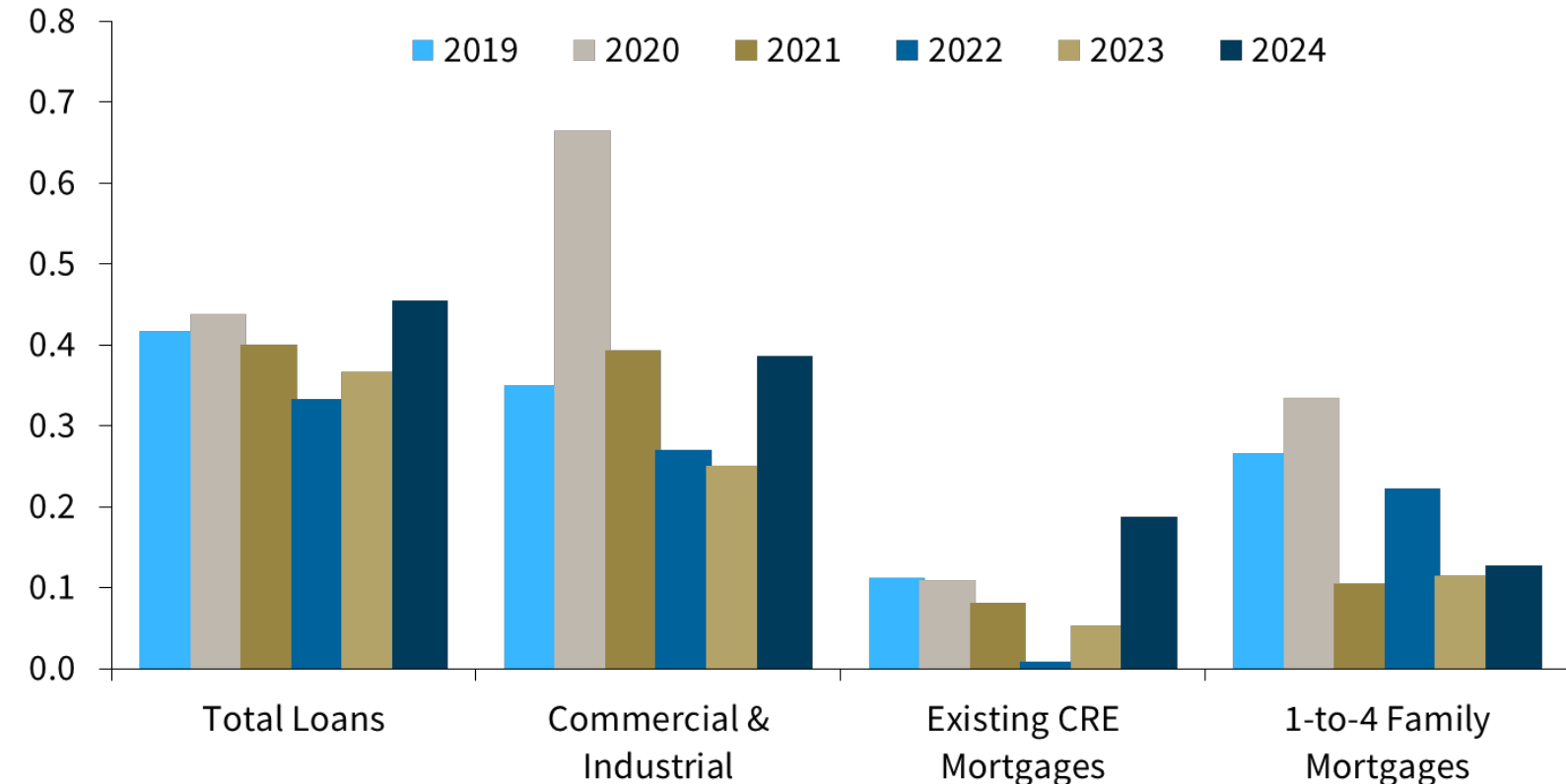
Note: Data are as of second quarter of each year. Denominator excludes Paycheck Protection Program loans.

Shaded periods represent recessions.

Commercial and Industrial Past Dues Highest; Existing CRE Low But Increasing

Loans Past Due 30+ Days or Nonaccrual, California Banks

Median percent



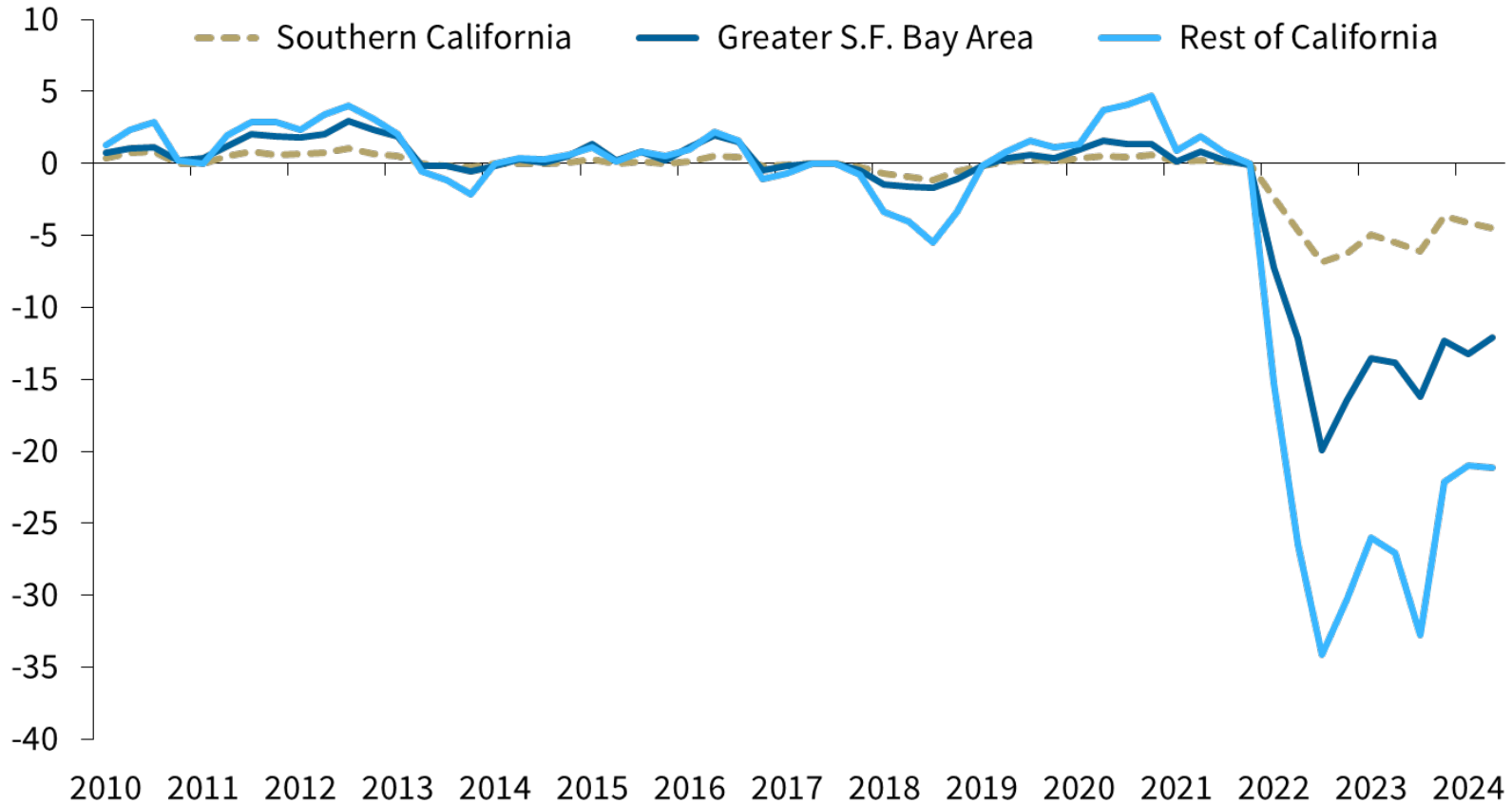
Source: FDIC.

Note: Data are as of second quarter of each year. Existing Commercial Real Estate (CRE) Mortgages include nonfarm-nonresidential and multifamily mortgages, exclusive of construction and development. Total and commercial & industrial delinquency denominators exclude Paycheck Protection Program (PPP) loans.

Impact of Rate Hikes on Bond Valuations Depends Upon Relative Size of Holdings

Pre-Tax Net Unrealized Gains or Losses on Securities / Tier 1 Capital

Median percent



Source: FDIC.

Note: Data are quarterly through the second quarter of 2024 based upon differences between the fair value and amortized cost of securities.

Key Takeaways

- Margins remained under pressure because of funding mix/costs. Rate cuts may challenge margins further.
- On-balance sheet liquidity has been tightening.
- Interest rates have weighed on bond portfolios, but declining rates could benefit valuations.
- Loan performance slipped and faces headwinds:
 - Inflation, high-albeit-declining interest rates, and economic uncertainty/slowing;
 - CRE valuation declines, operating cost increases, and refinancing risks; and
 - Credit availability and demand.

Questions?