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S&P Global Market Intelligence expects U.S. community bank earnings to fall more than 22 percent this year

NEW YORK, May 24, 2023 /PRNewswire/ -- U.S. community banks and their larger counterparts will see earnings drop by double-digits in 2023, according to S&P Global Market Intelligence's annual U.S. Bank and U.S. Community Bank Market Reports. The two new reports conclude that U.S. bank earnings will fall markedly this year as liquidity pressures weigh on net interest margins, while credit costs rise.

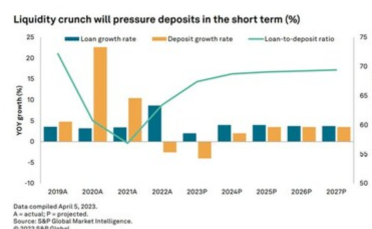
Published by S&P Global Market Intelligence's financial institutions research group, the reports find that U.S. banks will respond to the liquidity crunch by building reserves for loan losses, slowing loan growth and building cash on their balance sheets. Those actions in conjunction with higher funding costs will put pressure on margins and earnings. As margins come under pressure, banks will continue to build reserves for loan losses in the face of an increasingly uncertain economic environment.

"Significant tightening from the Federal Reserve since March 2022 and customers moving cash out of banks into higher-yielding alternatives have put pressure on liquidity across the banking industry," said **Nathan Stovall, director of financial institutions research at S&P Global Market Intelligence.** "More recently, liquidity pressures grew in the wake of the second, third and fourth-largest bank failures in U.S. history, sparking concerns about funding. The increased funding costs will serve as a headwind to banks' net interest margins, but the challenge appears to be an earnings issue rather than a threat to safety and soundness of the banking system."

Key findings from the US Bank Market Report:

- U.S. bank earnings are expected to fall 18.3% in 2023 as deposit outflows and notably higher deposit costs weigh on net interest margins.
- Higher interest rates have boosted loan yields but have also led to growing pressures on bank liquidity. Funding costs will rise at a quicker pace than earning-asset yields in 2023, causing net interest margins to contract by 10 basis points in 2023 and another 7 basis points in 2024.
- Deposit betas, or the percentage of rate changes banks pass on to customers, will more than double in 2023 from year-ago levels.

Key findings from the US Community Bank Market Report:



- U.S. community bank earnings are expected to fall 22.6% in 2023 as deposit outflows and notably higher deposit costs weigh on net interest margins, while credit trends begin to normalize.
- Higher interest rates have boosted loan yields but have also led to growing pressures on bank liquidity. Funding costs will rise at a quicker pace than earning-asset yields in 2023, causing net interest margins to contract by 33 basis points in 2023.
- Deposit betas, or the percentage of rate changes banks pass on to customers, will more than triple the level witnessed in 2022 due to liquidity pressures in the market.
- Community banks will tighten lending standards to preserve liquidity and adjust to stress in the markets. S&P Global Market Intelligence expects community banks to maintain tighter lender standards — which surfaced yet again in the Federal Reserve's latest senior loan officer survey in April 2023 — in the near term and the pull back in lending will contribute to credit costs moving higher for the group.

To request a copy of the 2023 U.S. Community Bank Market Report and/or the 2023 U.S. Bank Market Report, please contact press.mi@spglobal.com.

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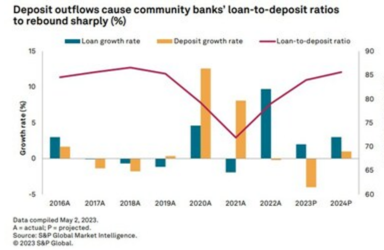

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