Banking Conditions Survey

Federal Reserve Bank of Dallas

September 2019

Data for this report were collected August 6–14, and 58 financial institutions—49 banks and nine credit unions—responded.

The Eleventh District financial sector has shown some signs of slower growth over the past six weeks, according to survey respondents. The loan volume and loan demand indexes, key measures of credit activity, remained positive but fell. This suggests growth continued but at a slower pace than in the prior period.

Survey respondents indicated that while loan volume growth continued at the same or even slightly faster clip for real estate loans, volumes declined for commercial and industrial (C&I) and consumer loans. Nonperforming loans decreased slightly over the period, with the index coming in at -1.8, although there was variance by loan type.

Total loan pricing turned negative for the first time in the three-year history of the survey, with the index falling dramatically from 5.0 to -31.0. Credit standards and terms tightened in the C&I, commercial real estate (CRE) and consumer loan categories, while residential real estate loan standards eased.

Survey respondents indicated that general business activity has expanded at a much slower clip since the previous survey, with the index falling from 27.1 to 7.0.

According to respondents, core deposit volumes and cost of funds also increased much more slowly over the past six weeks. The cost of funds index dropped to the lowest level in the three-year history of the survey, from 50.8 to 5.2, while the core deposit index fell from 17.5 to 5.3. The noninterest income index pushed further positive, while the net interest margins index remained negative.

The outlook for the Eleventh District financial sector is less optimistic than it was six weeks ago. Expectations for total loan demand six months from now point toward no growth. Nonperforming loans are expected to increase slightly over the next six months. Finally, expectations for general business activity fell notably, with the index dropping from -1.7 to -19.3.

Next Release: October 16, 2019

The Federal Reserve Bank of Dallas conducts the Banking Conditions Survey twice each quarter to obtain a timely assessment of activity at banks and credit unions headquartered in the Eleventh Federal Reserve District. CEOs or senior loan officers of financial institutions report on how conditions have changed for indicators such as various loan types, deposits and loan pricings. Respondents are also asked to report on their banking outlook and how they perceive broader economic conditions to have changed (general business activity).

The answers serve a dual function: They provide supplemental anecdotal information for the Eleventh District Beige Book and supply timely information on banking conditions in preparation for monetary policy deliberations before the eight Federal Open Market Committee meetings each year.

Participants are asked whether they are seeing changes in a series of indicators. In addition, participants are given the opportunity to submit comments on current issues that may be affecting their business.

Survey responses are used to calculate an index for each indicator. Each index is calculated by subtracting the percentage of respondents reporting a decrease (or tightening or worsening) from the percentage reporting an increase (or easing or improvement). When the share of firms reporting an increase exceeds the share of firms reporting a decrease, the index will be greater than zero, suggesting the indicator has increased over the prior reporting period. If the share of firms reporting a decrease exceeds the share reporting an increase, the index will be below zero, suggesting the indicator has decreased over the prior reporting period. An index will be zero when the number of firms reporting an increase is equal to the number reporting a decrease. Note: Percentages may not add to 100 due to rounding.

1. Total loans: Over the past six weeks, how have the following changed?

Indicator	Current index	Previous index	Percent reporting increased	Percent reporting no change	Percent reporting decreased
Loan volume	20.7	32.2	44.8	31.0	24.1
Loan demand	15.5	24.1	36.2	43.1	20.7
Nonperforming loans	-1.8	5.2	16.1	66.1	17.9
Loan pricing	-31.0	5.0	6.9	55.2	37.9

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-11.8	-12.9	0.0	88.2	11.8

2. Commercial and industrial loans: Over the past six weeks, how have the following changed?

Indicator	Current index	Previous index	Percent reporting increased	Percent reporting no change	Percent reporting decreased
Loan volume	-9.5	16.0	11.3	67.9	20.8
Nonperforming loans	-7.8	0.0	2.0	88.2	9.8

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-7.7	-4.0	0.0	92.3	7.7

3. Commercial real estate loans: Over the past six weeks, how have the following changed?

Indicator	Current index	Previous index	Percent reporting increased	Percent reporting no change	Percent reporting decreased
Loan volume	19.2	16.3	32.7	53.8	13.5
Nonperforming loans	8.0	-4.3	10.0	88.0	2.0

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-5.8	-8.1	3.8	86.5	9.6

4. Residential real estate loans: Over the past six weeks, how have the following changed?

Indicator	Current index	Previous index	Percent reporting increased	Percent reporting no change	Percent reporting decreased
Loan volume	19.6	20.4	39.2	41.2	19.6
Nonperforming loans	0.0	-2.1	4.0	92.0	4.0

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	3.9	-2.1	3.9	96.1	0.0

5. Consumer loans: Over the past six weeks, how have the following changed?

Indicator	Current index	Previous index	Percent reporting increased	Percent reporting no change	Percent reporting decreased
Loan volume	-1.8	12.7	16.4	65.5	18.2
Nonperforming loans	1.9	0.0	5.7	90.6	3.8

Indicator	Current index	Previous index	Percent reporting eased	Percent reporting no change	Percent reporting tightened
Credit standards and terms	-3.6	-5.4	0.0	96.4	3.6

6. Other banking developments: Over the past six weeks, how have the following changed?

Indicator	Current index	Previous index	Percent reporting increased	Percent reporting no change	Percent reporting decreased
Volume of core deposits	5.3	17.5	28.1	49.1	22.8
Cost of funds	5.2	50.8	33.3	38.6	28.1
Net interest margin	-10.6	-10.5	17.5	54.4	28.1
Noninterest income	7.1	1.7	19.6	67.9	12.5

7. Banking outlook: What is your expectation for the following items six months from now?

Indicator	Current index	Previous index	Percent reporting better	Percent reporting no change	Percent reporting worse
Total loan demand	0.0	23.7	25.9	48.3	25.9

Indicator	Current index	Previous index	Percent reporting more	Percent reporting no change	Percent reporting fewer
Nonperforming loans	8.6	6.7	20.7	67.2	12.1

8. General business activity: What is your evaluation of the level of activity?

Indicator	Current index	Previous index	Percent reporting improved	Percent reporting no change	Percent reporting worsened
Over the past six weeks	7.0	27.1	22.8	61.4	15.8
Six months from now	-19.3	-1.7	22.8	35.1	42.1

9. Issues of concern: Please feel free to comment on any issue that may be affecting your business.

These comments are from respondents and have been edited for publication.

Trade concerns

- Trade issues are impacting nut orchard revenue (indirect effect to bank), and we see a probable negative effect on cotton producers depending on marketing firms' ability to forward price contracts in the prior three to six months.
- Uncertainty in the trade war with China and the recent cut in interest rates are creating an environment that is difficult to navigate.
- There is continued concern in the agricultural area due to excessive rain from winter and spring. Also, the impact of the tariffs is beginning to be felt in the market.
- The tariffs are becoming an increasing concern to our customers and future business.
- We have several businesses that are starting to express concerns that the China trade war is going to directly impact their business. Many indicate they will most likely pass the tariff charges directly on to the consumer. This creates a scenario that causes concern due to a slowdown in lending activity.
- Our local economy is highly driven by the oil extraction and oil service businesses in the Permian Basin. I have concern the trade dispute with China will balloon into a situation that will slow the world economies and cause a decline in the price of crude oil, which will negatively affect our local economic activity.
- Concerns include the trade war effect on farmers, the European Union/European Central Bank effect on interest rates and a general business slowdown.

Political concerns

- The level of uncertainty in the financial markets and geopolitics is increasing.
- The political situation for the U.S. and world is not stable, and global financial [developments] could change regulations and drop rates further, which will squeeze margins.
- Uncertainty created by the upcoming election outcome and potential changes in policies may influence a slowdown in economic growth over the next year. In the past, this has inhibited a lot of businesses from making long-term decisions.

Economic concerns

- The greatest concern is the inverted yield curve and the prospects of the U.S. economy falling into a recession. Trade wars and political pressure on the Federal Reserve to change monetary policy is disrupting markets.
- The housing market seems to be unusually slow this summer when this is normally peak time.
- Interest rate volatility is becoming more difficult to manage.
- Large downturns in the U.S. equity markets, real or perceived concerns over the trade war, and financial weakness being experienced and acknowledged by other countries are translating into uncertainty in the U.S. business world. While the inverted yield curve in and of itself is not a guarantee of a coming recession, taken with the numerous other financial concerns, it appears to indicate the Federal Reserve should be setting a course for lower rates as opposed to a mid-cycle adjustment.

Banking concerns

- There's too much pressure from bank regulators to decrease CRE [commercial real estate] loans. There will be a downturn in CRE because they are creating one. As a matter of fact, there's too much government intervention in day-to-day operations.
- Loan amortizations on commercial real estate are lengthening.
- We see slowing loan volume.
- There's a decline in overall loan demand.
- The border continues to experience increased traffic from Mexico, which should increase sales for local retailers, which have experienced a very slow summer.
- We're still planning for CECL [current expected credit loss accounting standard] but are glad [the Financial Accounting Standards Board is] looking into the purpose for small institutions.