Office of the Comptroller of the Currency

Economics

Economic Update

New York Bankers Association

November 13, 2020

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Key Takeaways

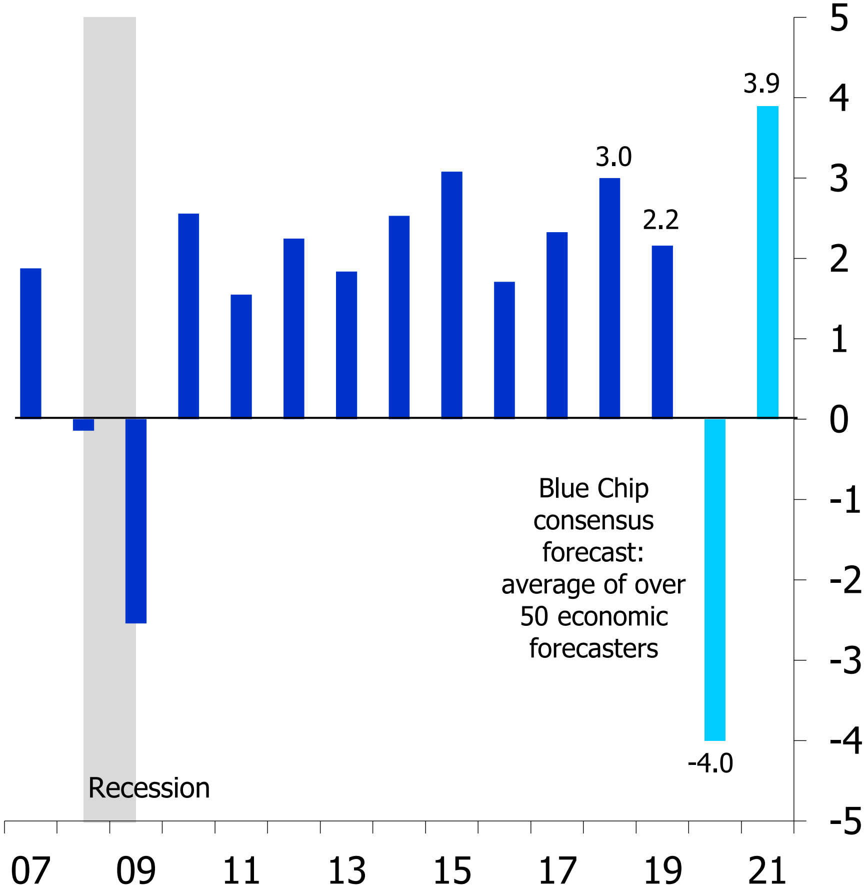
- Real GDP growth in 3Q:20 was historically high, but did not return output to pre-COVID levels and masked a slowing recovery
  - The strength and speed of recovery is uncertain and will largely depend on the virus and policy responses to the path the virus takes this year and next
  - New York state is mired in one of the deepest recessions in its history and is among the furthest from its pre-pandemic state, but the recovery is underway
- Banks in New York initially suffered a larger drop than the overall Community bank aggregate performance
  - NY banks in this recovery were growing faster but faced higher costs and NIM pressures which held performance slightly below peers
  - NY banks have ¾ of their loan portfolio in real estate with CRE dominant share so the path for CRE will have a large impact on performance

Agenda

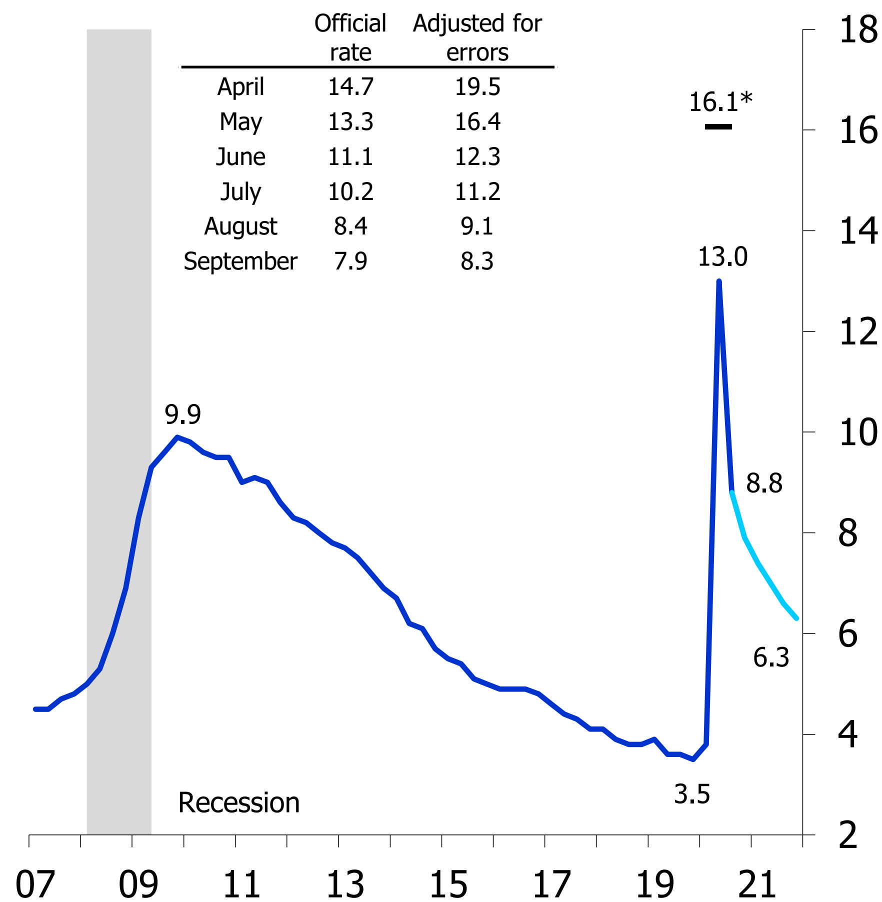
- Overview of general economic conditions
- Impact on banks

Consensus forecasts above trend growth in 2021 with unemployment remaining over 6 percent

Real GDP, % change annual rate



Quarterly average unemployment rate, %

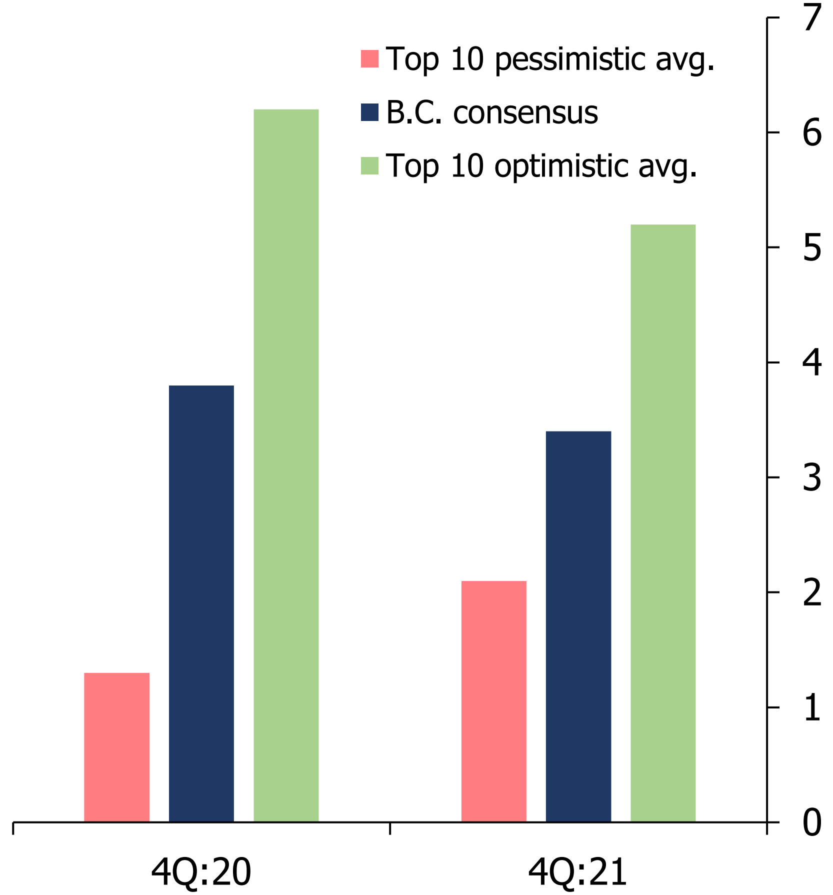


	Official rate	Adjusted for errors
April	14.7	19.5
May	13.3	16.4
June	11.1	12.3
July	10.2	11.2
August	8.4	9.1
September	7.9	8.3

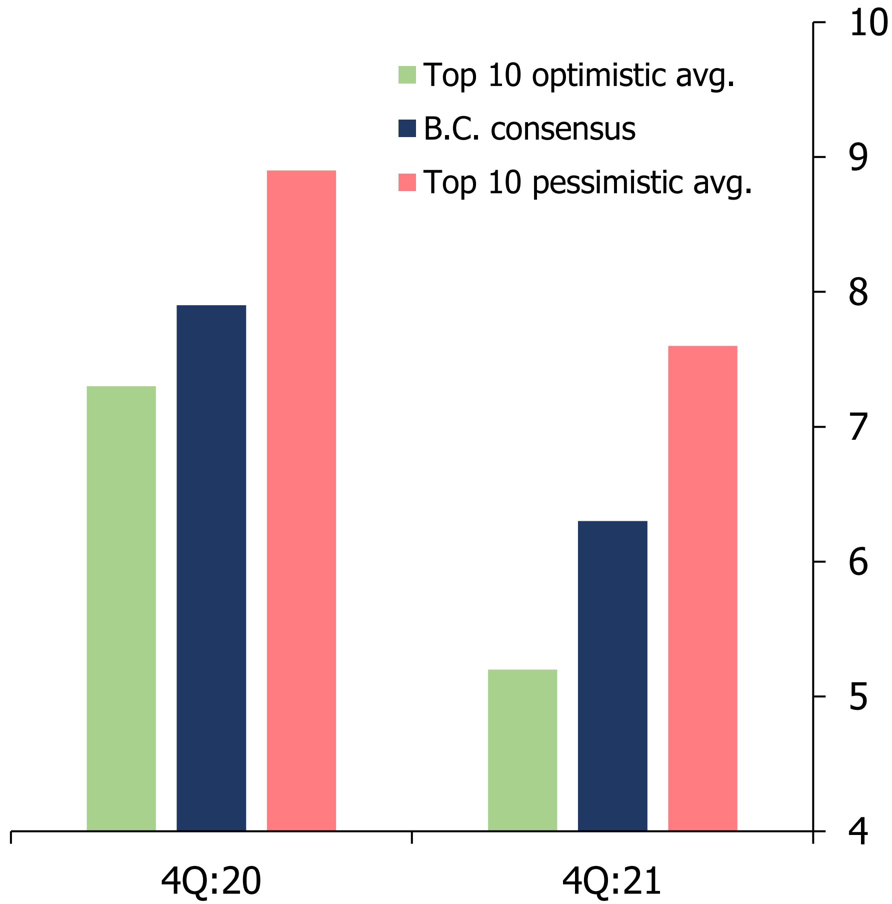
Sources: Bureau of Economic Analysis; Bureau of Labor Statistics; Blue Chip Consensus (October 2020)
*Quarterly official U.S. unemployment rate adjusted for misclassification error noted by BLS.

Wide range in baseline forecasts of growth and unemployment shows high degree of uncertainty

Real GDP growth, baseline forecasts, quarterly change at an annualized rate, %

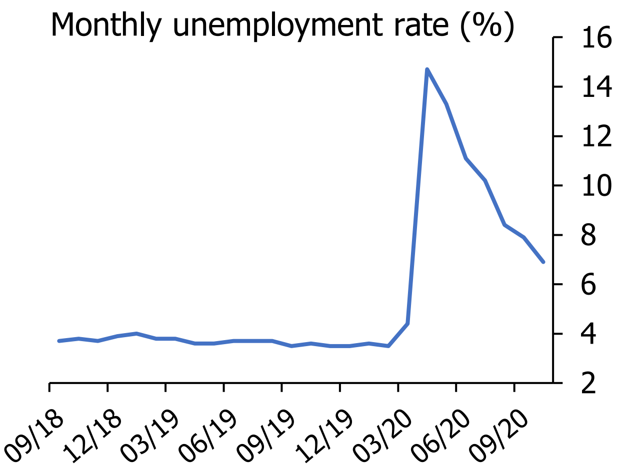


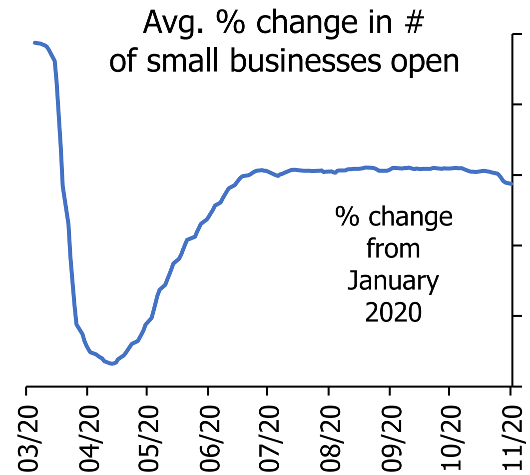
U.S. unemployment rate, baseline forecasts %

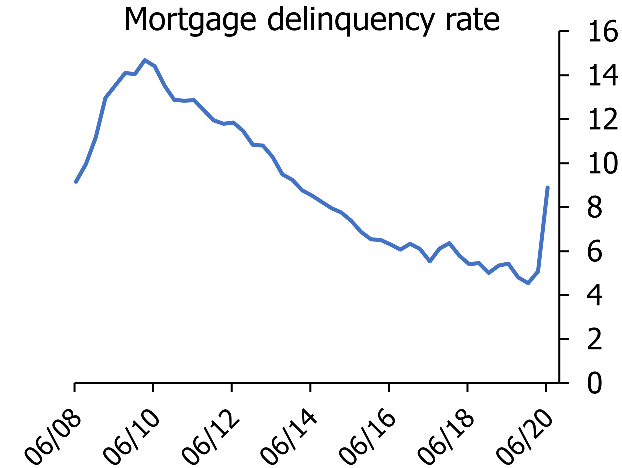


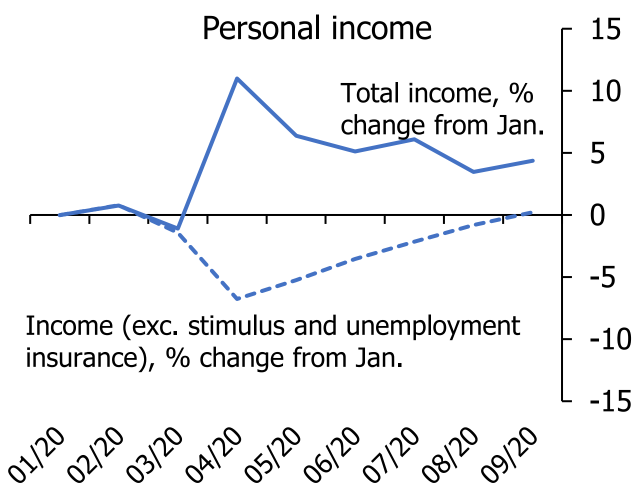
Source: Blue Chip Consensus Forecast (October 2020)

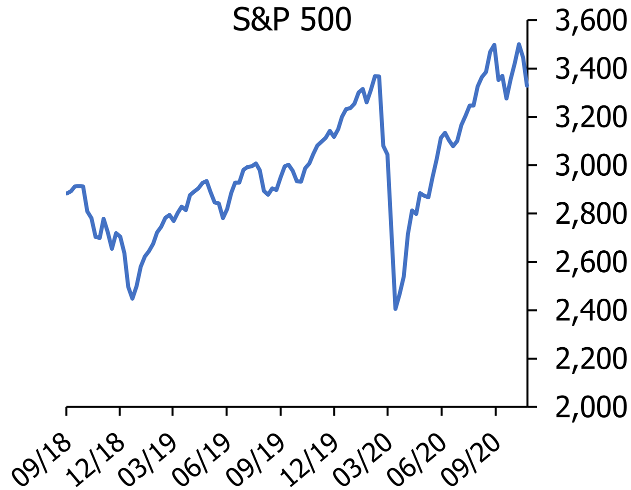
Why is this not a normal cycle? COVID-19 has created unusual economic conditions

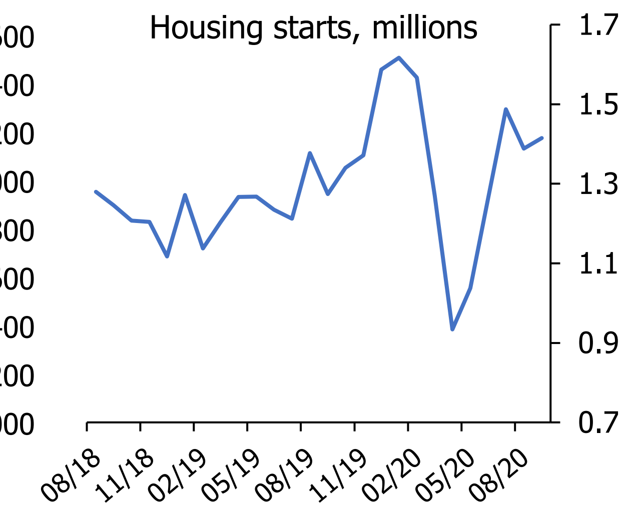






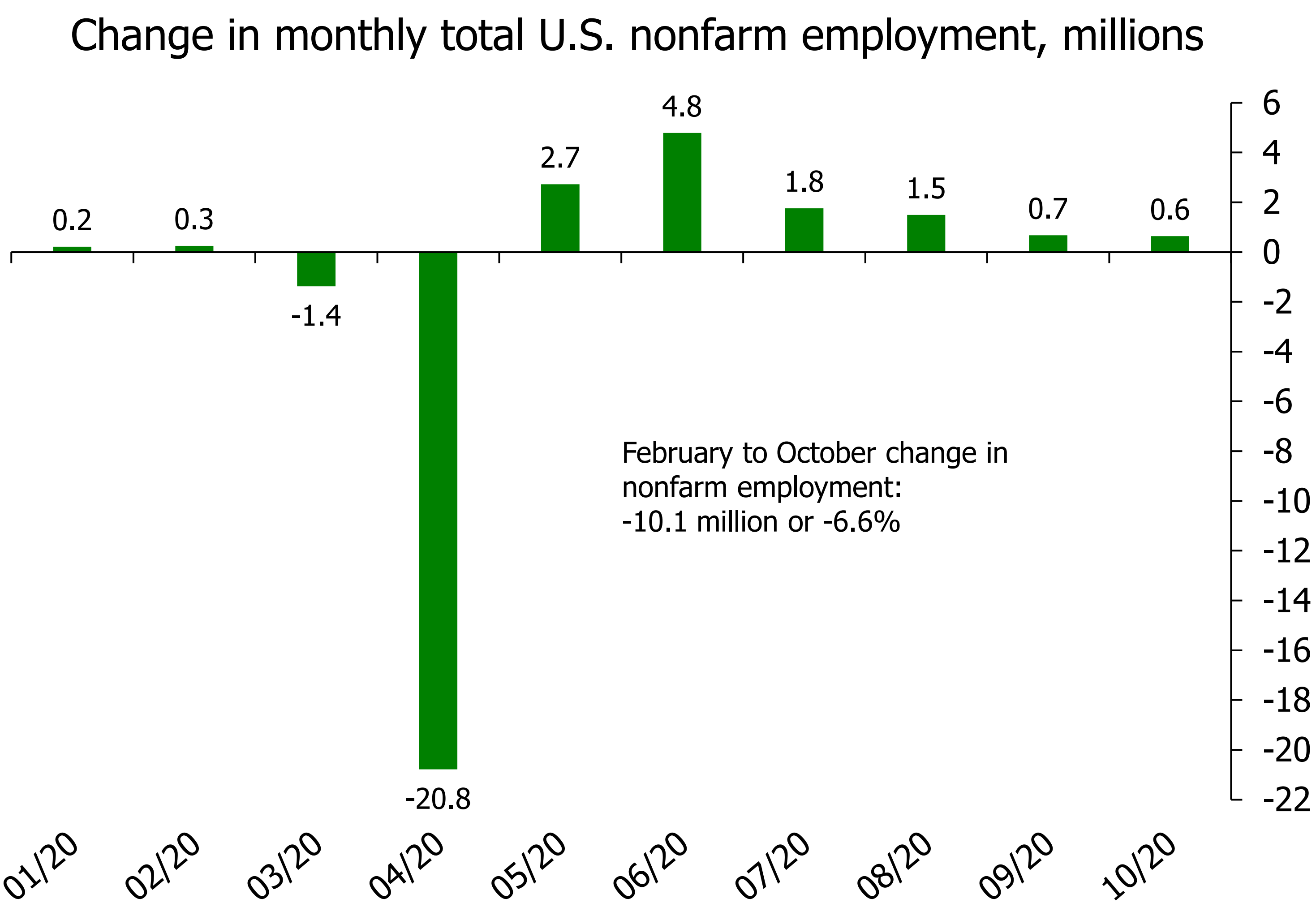






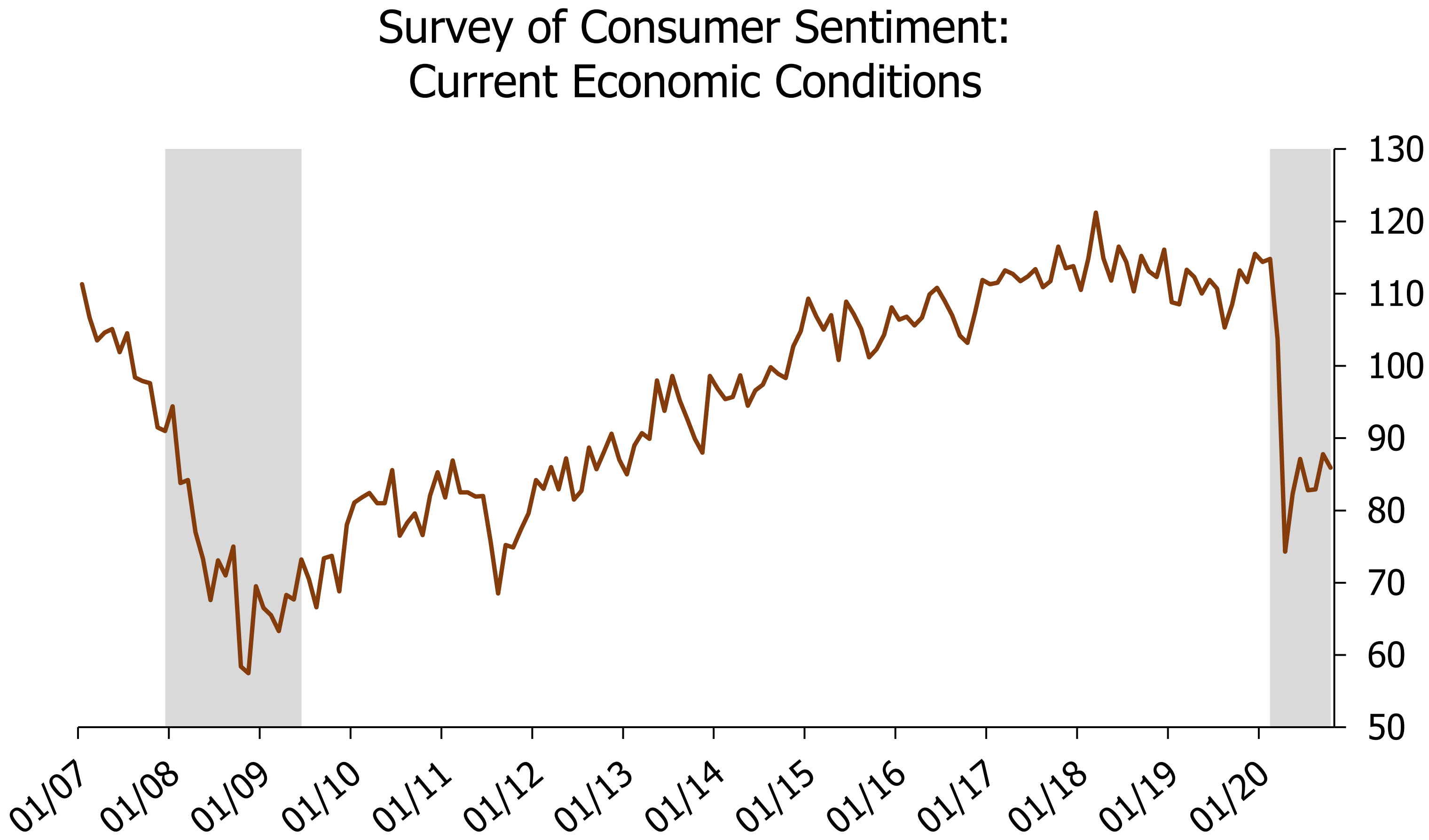
Sources: BLS; Homebase; Mortgage Bankers Association; BEA; Standard and Poor's; Census Bureau

Labor market improved in October, but monthly job gains continued to shrink



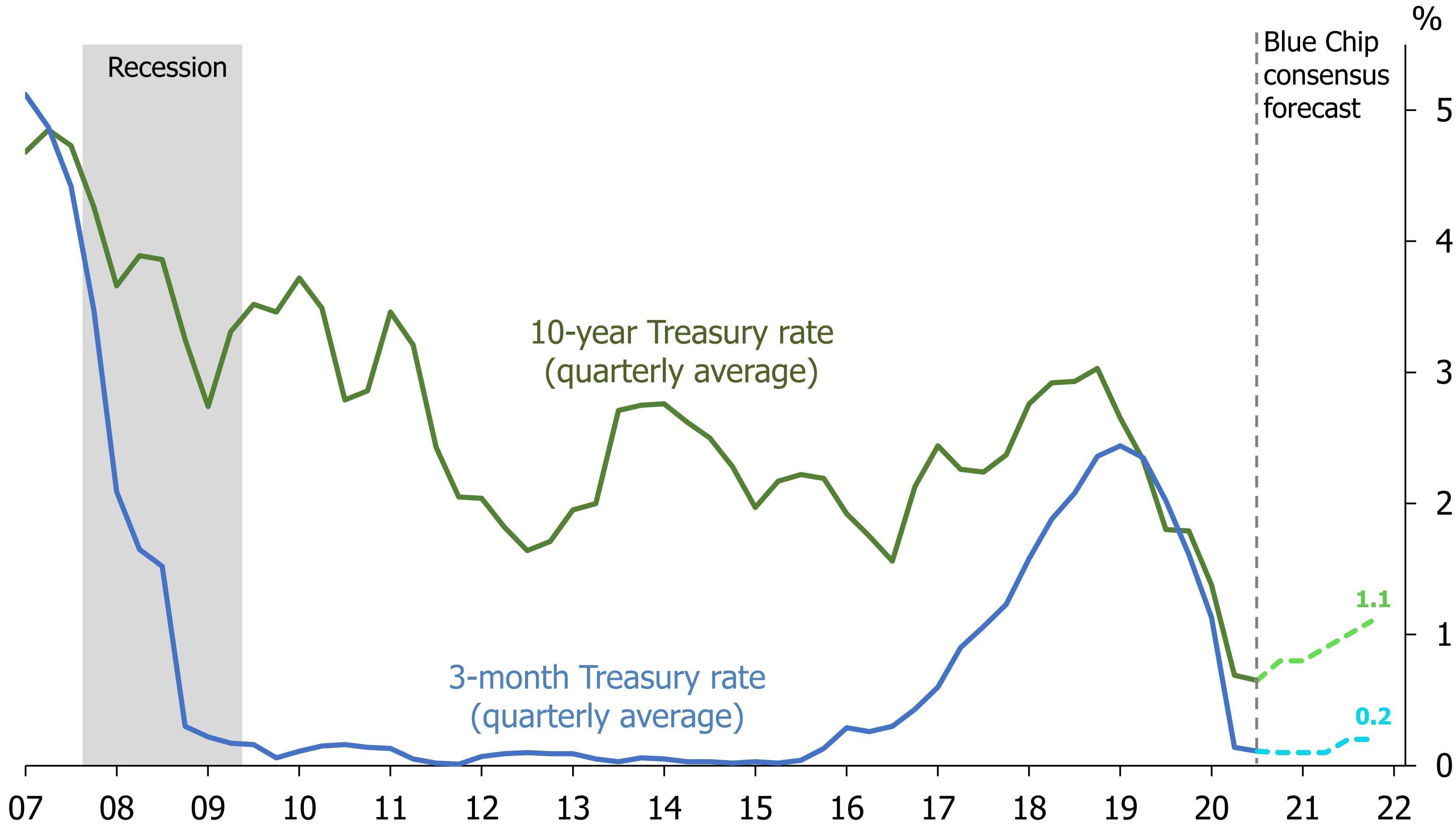
Source: BLS (SA; employment data through October 2020)

Consumer sentiment remains low in the face of continued restrictions and virus outbreaks



Sources: University of Michigan (October 2020)

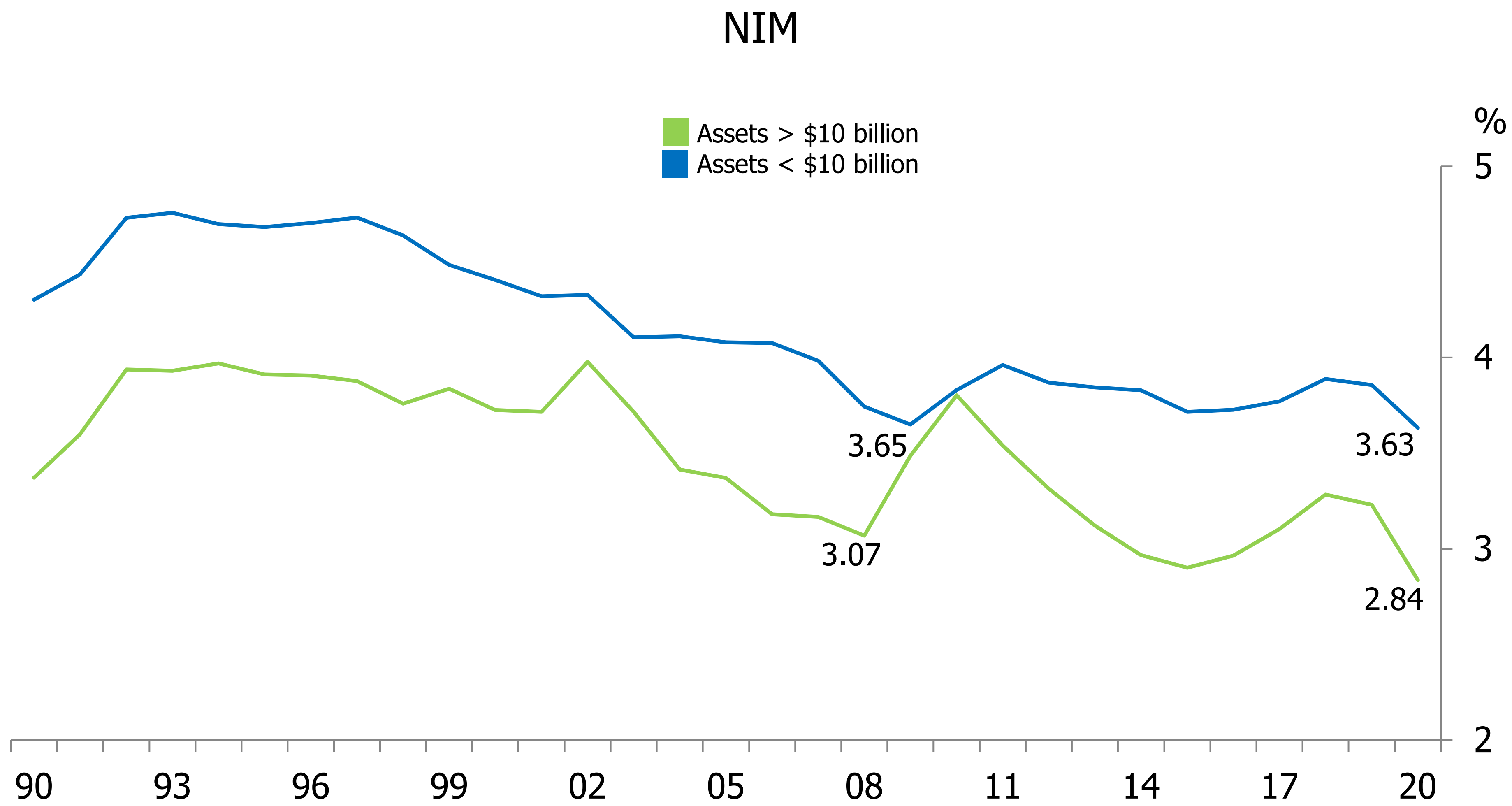
Consensus forecasts long rates to slowly rise over next two years as economy recovers



Sources: Federal Reserve Board (historical through 3Q:2020); Blue Chip Indicators (October 2020)

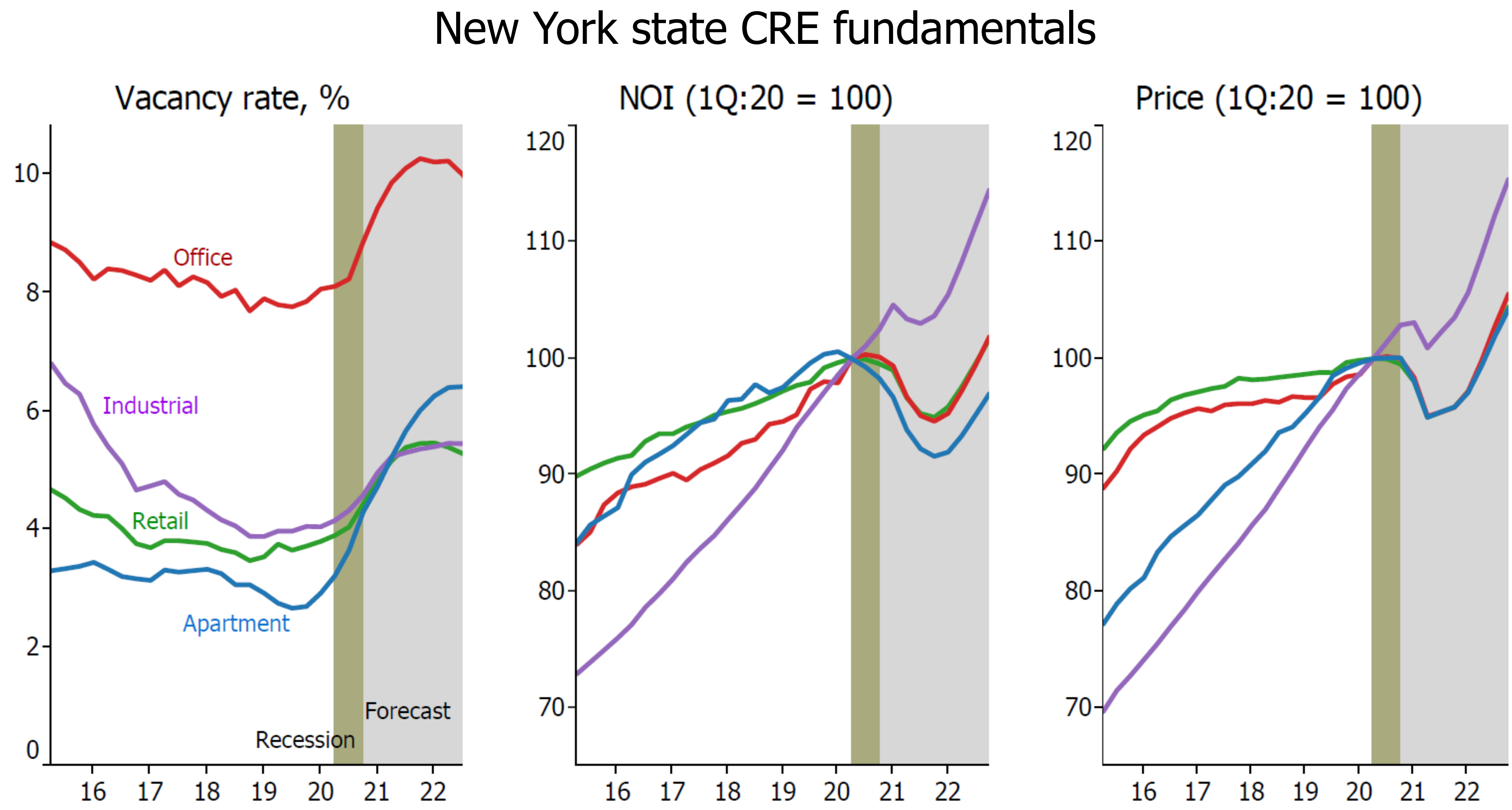
NIM is low historically for all banks but especially for the largest institutions since the last crisis

FDIC-insured commercial banks



Source: Call Reports from OCC Integrated Banking Information System

CoStar forecasts that New York state will endure a significant contraction in commercial real estate



Source: CoStar Portfolio Strategy (historical data through 3Q:2020, baseline forecast updated October 2020)

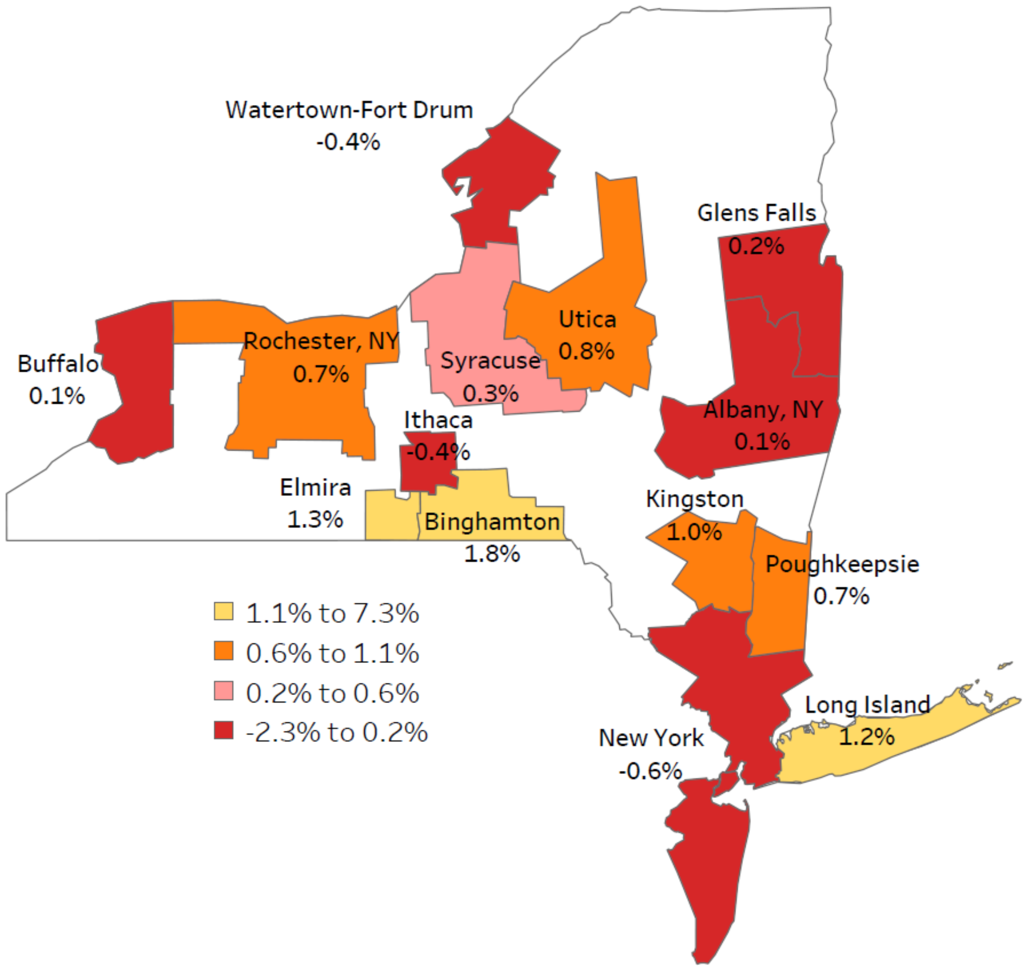
Forecasts of commercial real estate performance uncertain given COVID-19's impact on economy

CRE risks from COVID-19 crisis

- Hotels. A return to pre-pandemic levels of tourism and travel is not expected until an effective vaccine has been widely distributed
- Retail. Social distancing and potentially renewed government-imposed restrictions put bricks and mortar stores that depend on close customer interaction (restaurants, bars, gyms, entertainment, etc.) at serious risk of closure; shift to eCommerce has accelerated
- Multifamily. Urban apartment vacancies could rise if renters shift demand to suburban locations
- Office. Tenants may reduce demand for rental space if more employees permanently work from home
- Industrial. While the accelerated shift to eCommerce increases demand for warehouse space, the drag in economic growth reduces demand to store intermediate goods, building materials, and inventories; net effect is unclear

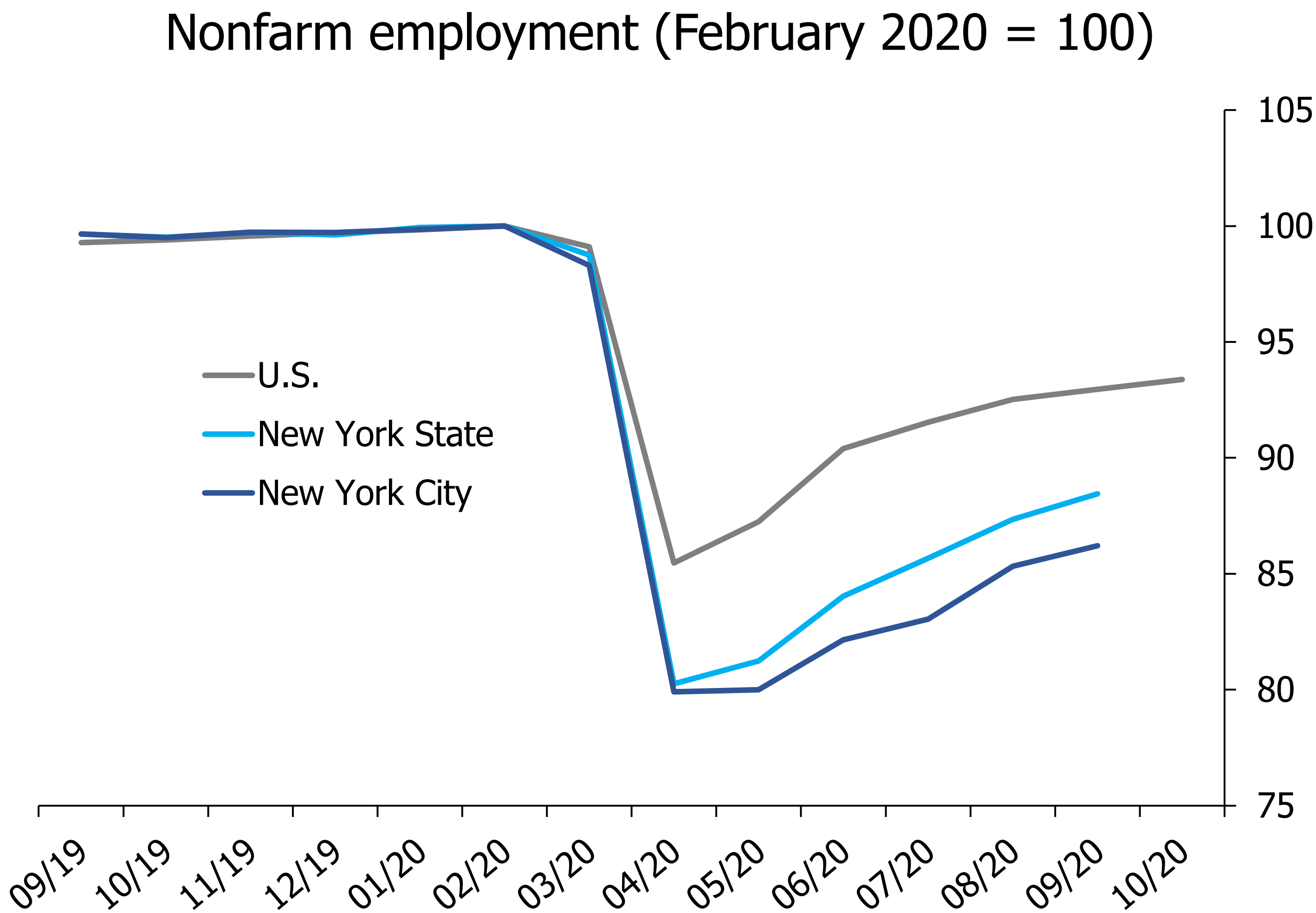
NYC, Albany, and Buffalo in bottom national quartile for NOI performance during Covid-19

NY CRE property NOI, % change from 1Q:20 to 3Q:20



Source: CoStar Portfolio Strategy (historical data through 3Q:20). Data is for aggregate of apartment, industrial, office, and retail properties.

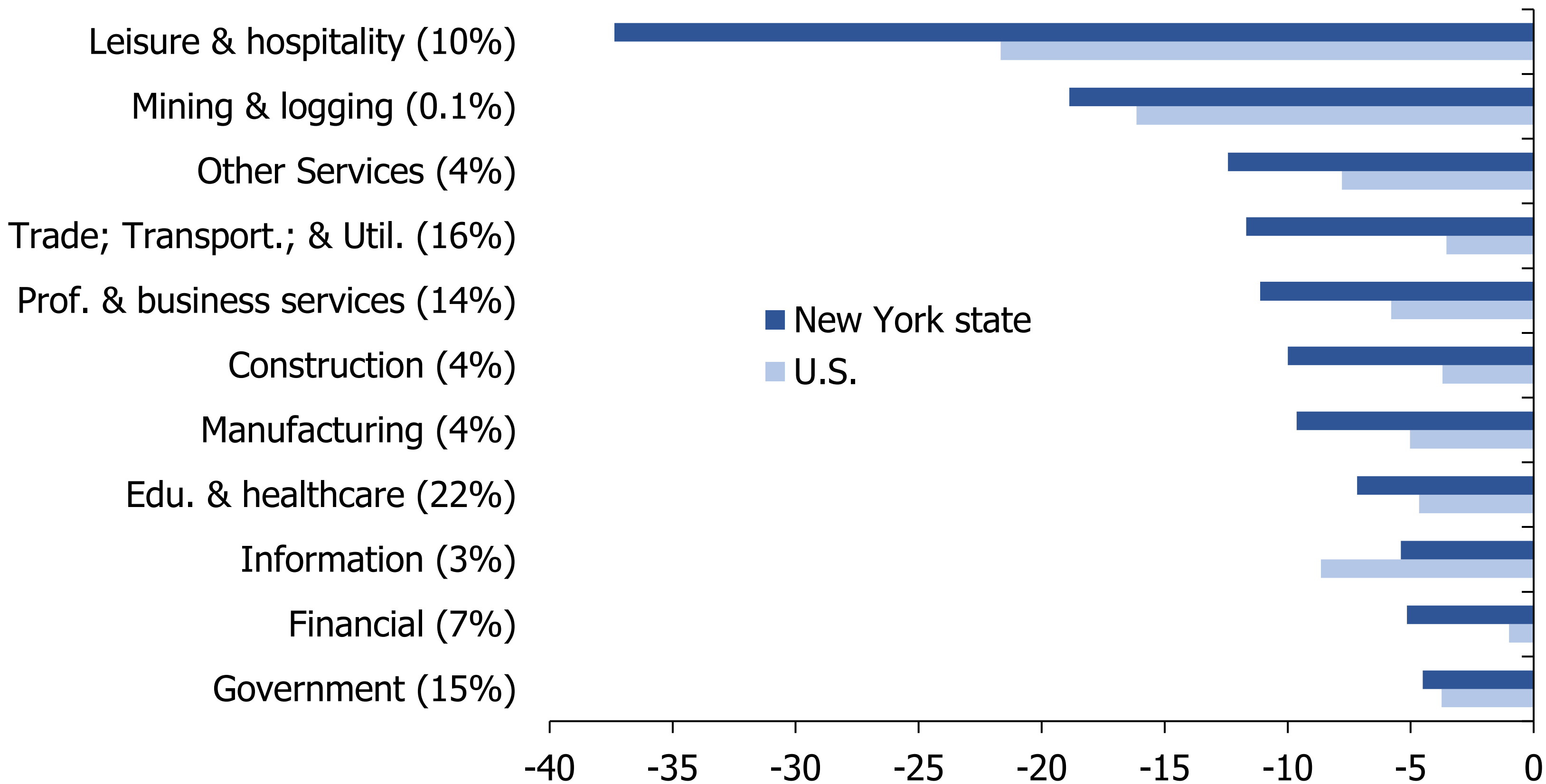
Employment in New York state and NYC fell more sharply than at the national level



Source: BLS (U.S. data through October; state and metro data through September 2020)

New York had more severe job losses than the U.S. average in most sectors over the past year

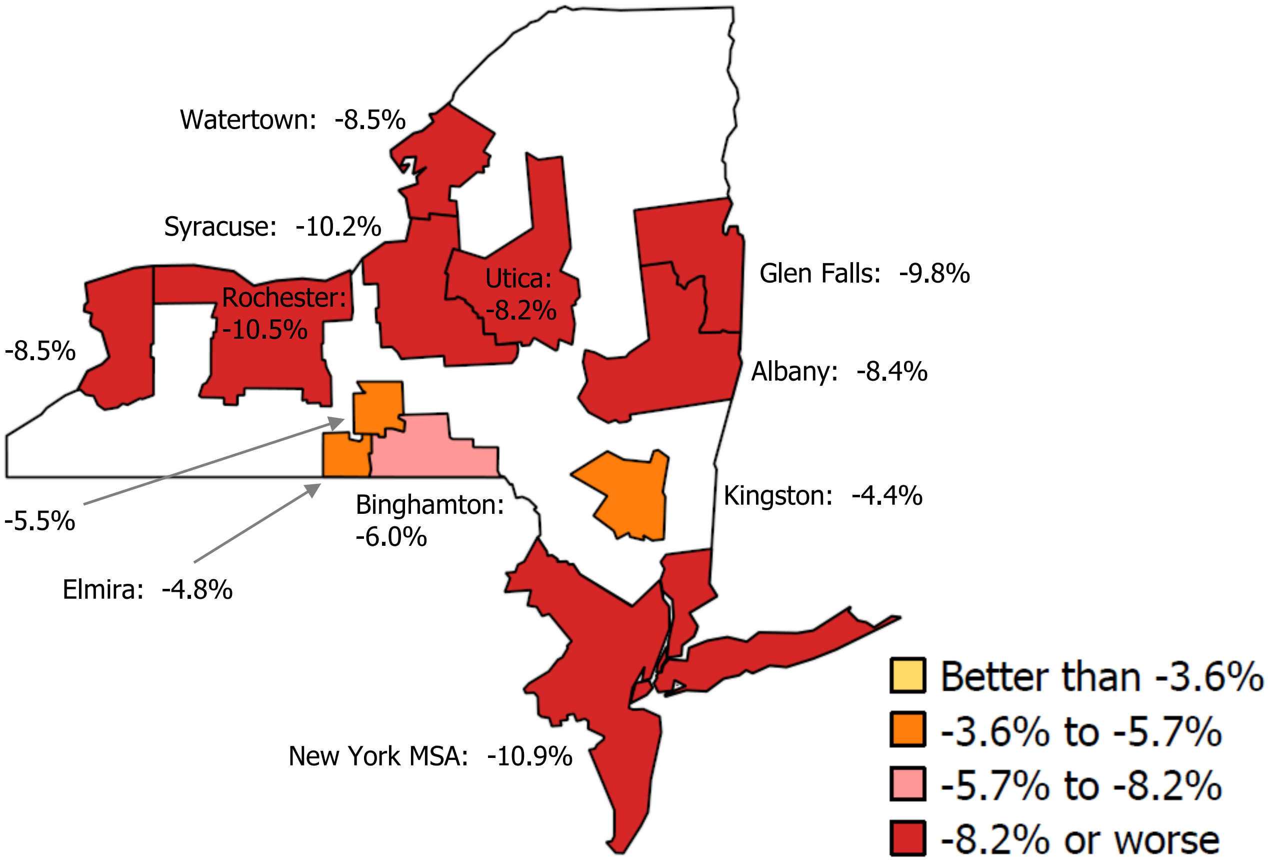
Nonfarm employment, % change from Sept. 2019 to Sept. 2020



Source: BLS (data through September 2020; New York employment shares in parentheses)

Nearly all New York metros had job loss rates at least 200 bps worse than the U.S. pace

Nonfarm employment, % change from Sept. 2019 to Sept. 2020



U.S. = 6.4%

Source: BLS (data through September 2020)

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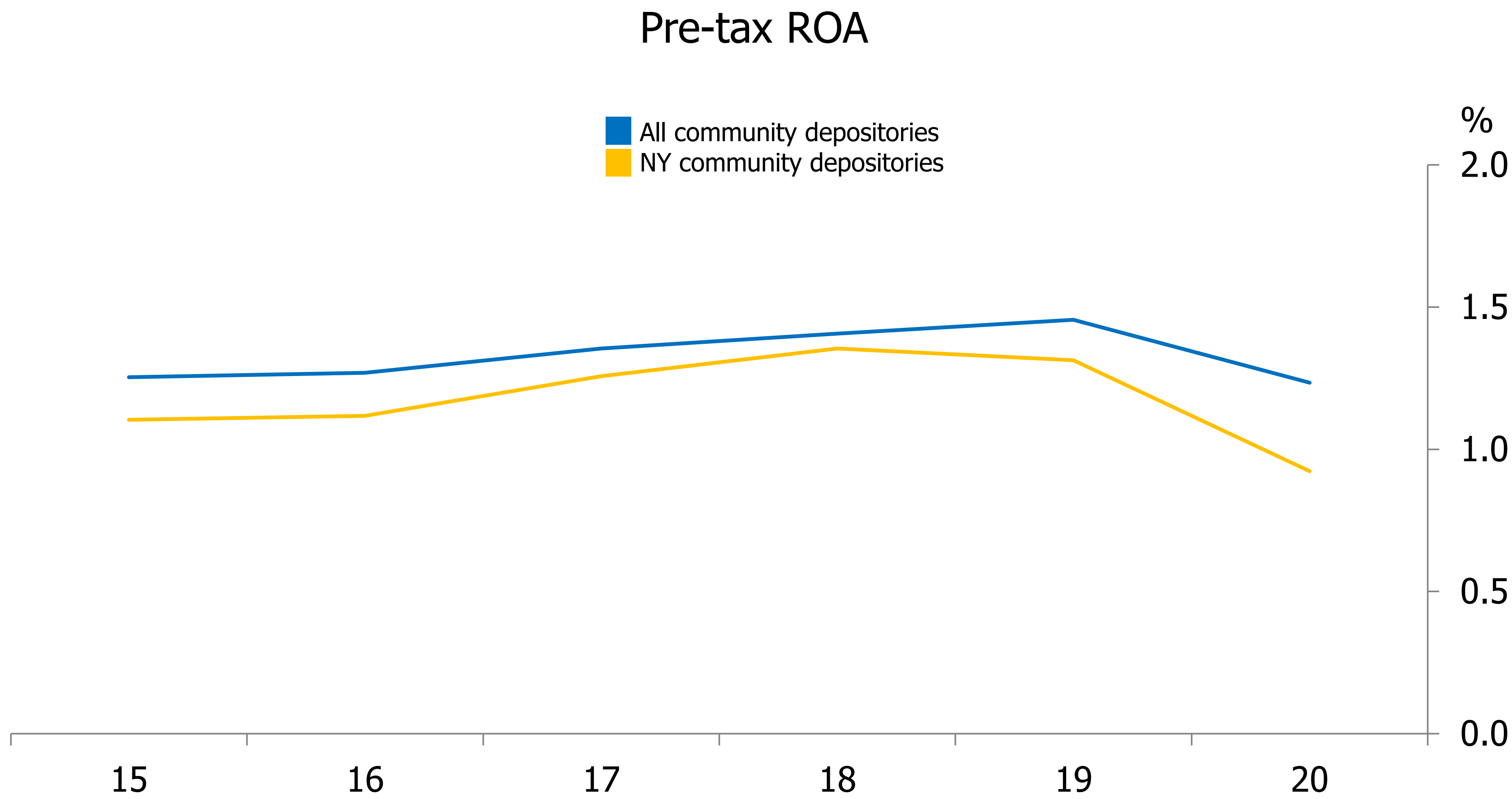
Decline in profitability more pronounced for the New York Community banks

FDIC-insured depositories with assets < $5 billion



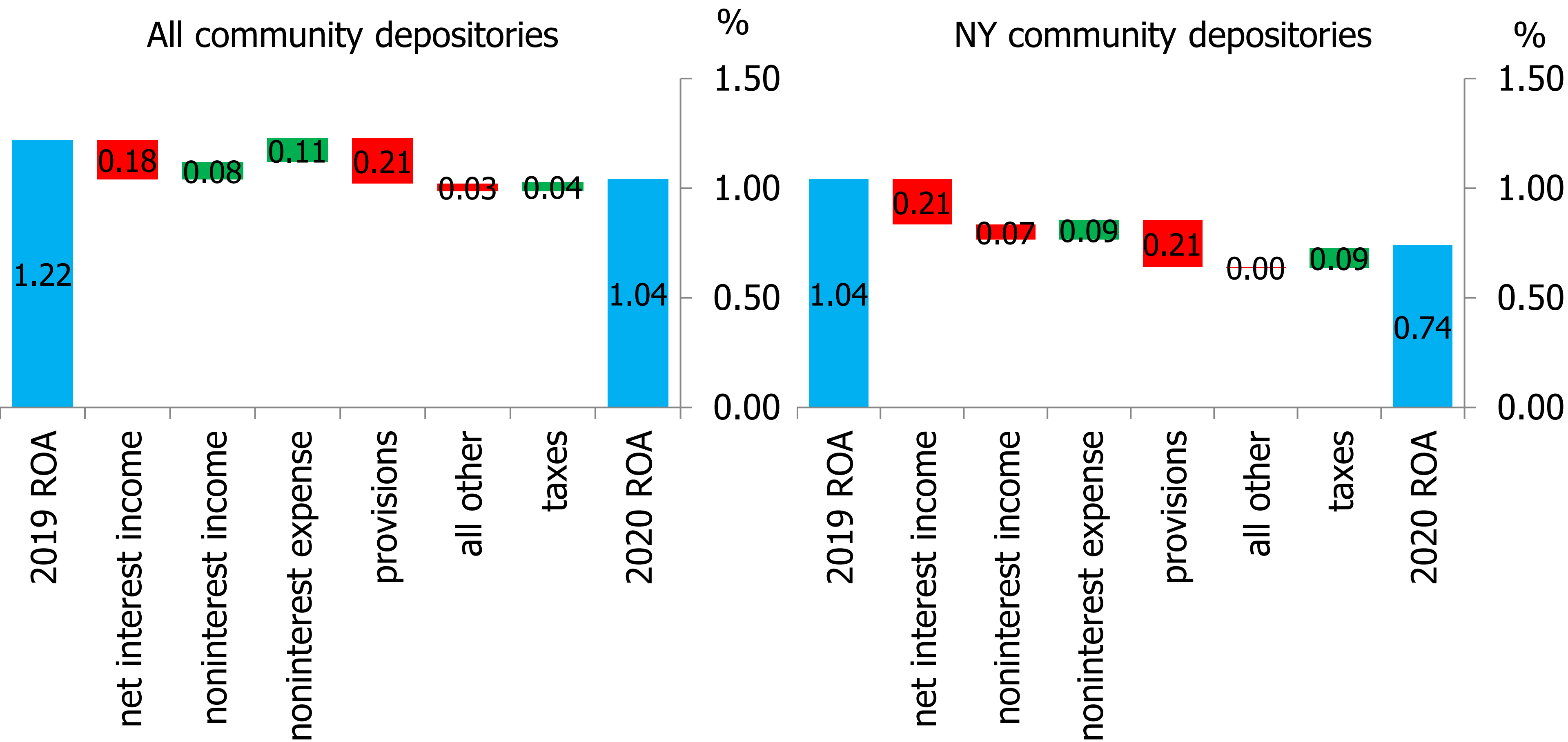
Source: Call Reports from OCC Integrated Banking Information System

Data are merger adjusted for institutions in continuous operation from 1Q:15 to 2Q:20. Data for 2020 are for through 2Q:2020.

All banks hit by credit costs; NY banks also more affected by declining revenue

FDIC-insured depositories with assets < $5 billion

ROA decomposition, 2019 - 2020

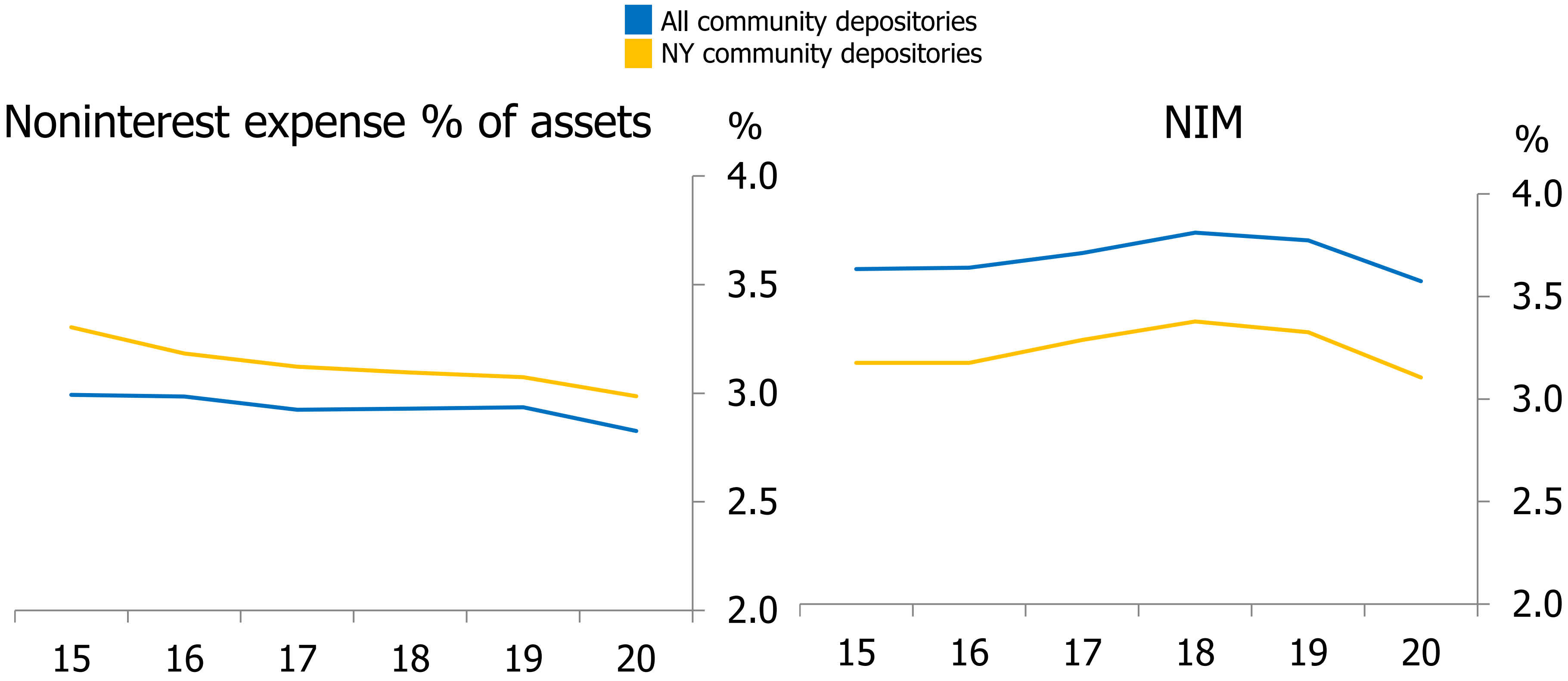


Source: Call/Thrift Reports from OCC Integrated Banking Information System

Data are merger adjusted for institutions in continuous operation from 1Q:15 to 2Q:20. Data are annualized. Data for 2020 are for through 2Q:2020.
'All other' includes realized gains (losses) on held-to-maturity and available-for-sale securities, unrealized holding gains (losses) on equity securities not held for trading, discontinued operations (net of applicable income taxes), and net income (loss) attributable to noncontrolling (minority) interests.

Community banks in NY face higher expenses as well as thinner margins

FDIC-insured depositories with assets < $5 billion

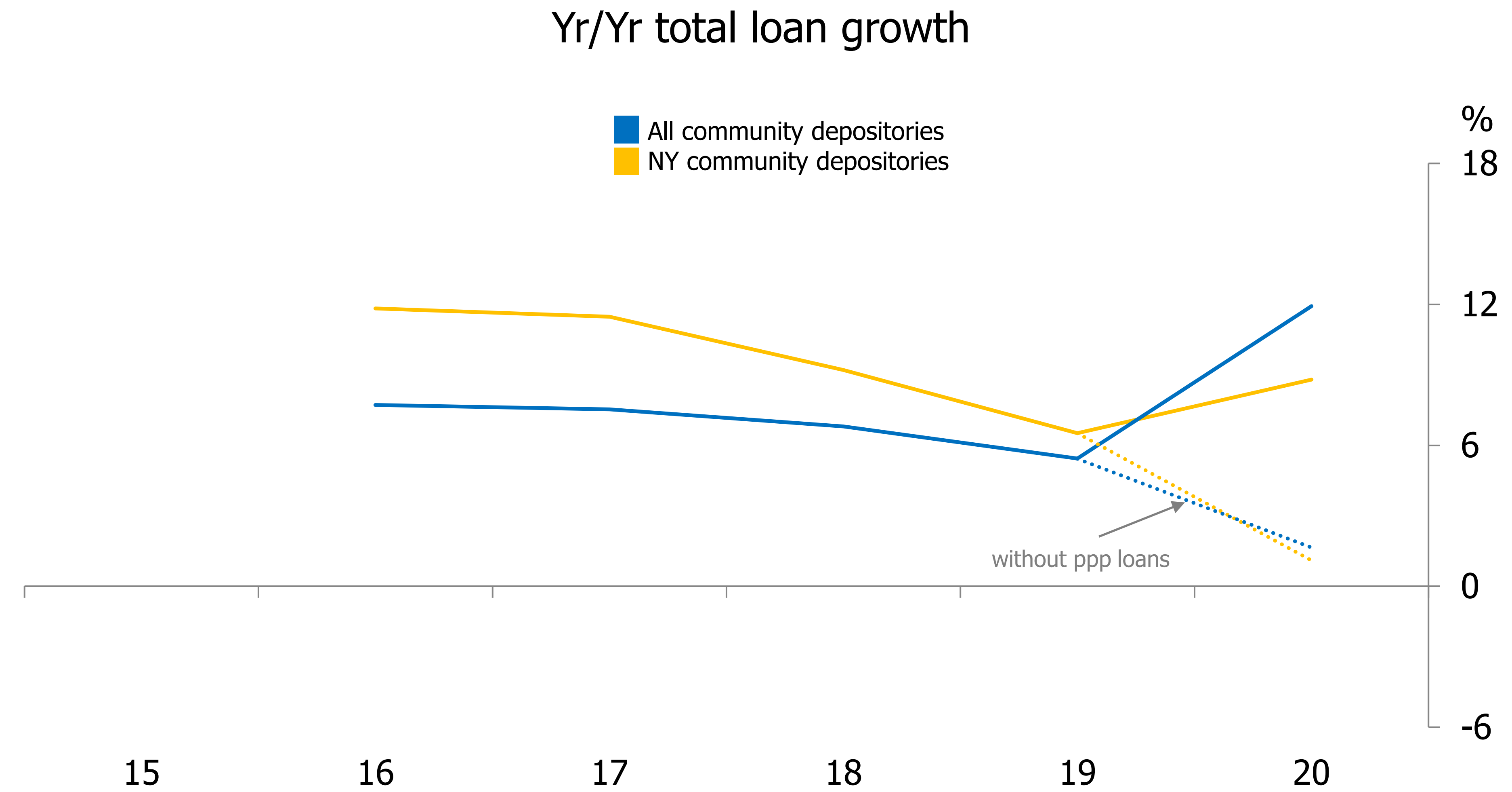


Source: Call Reports from OCC Integrated Banking Information System

Data are merger adjusted for institutions in continuous operation from 1Q:15 to 2Q:20. Data for 2020 are for through 2Q:2020.

NY banks had faster loan growth prior to the pandemic; PPP dominated lending in Q2:20

FDIC-insured depositories with assets < $5 billion

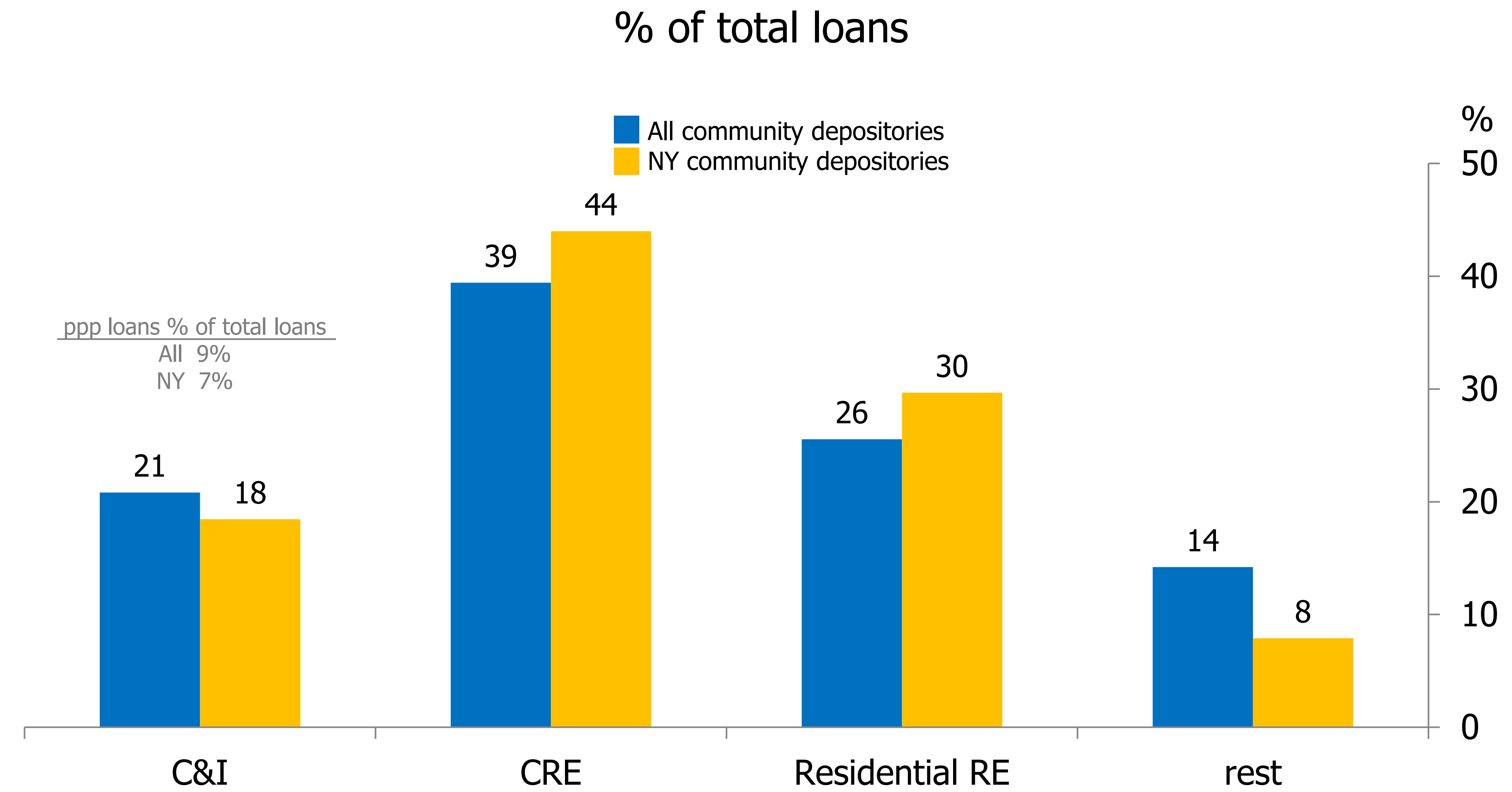


Source: Call Reports from OCC Integrated Banking Information System

Data are merger adjusted for institutions in continuous operation from 1Q:15 to 2Q:20. Data for 2020 are for through 2Q:2020.

Conditions in CRE will be critical for all banks especially those in the NY market

FDIC-insured depositories with assets < $5 billion

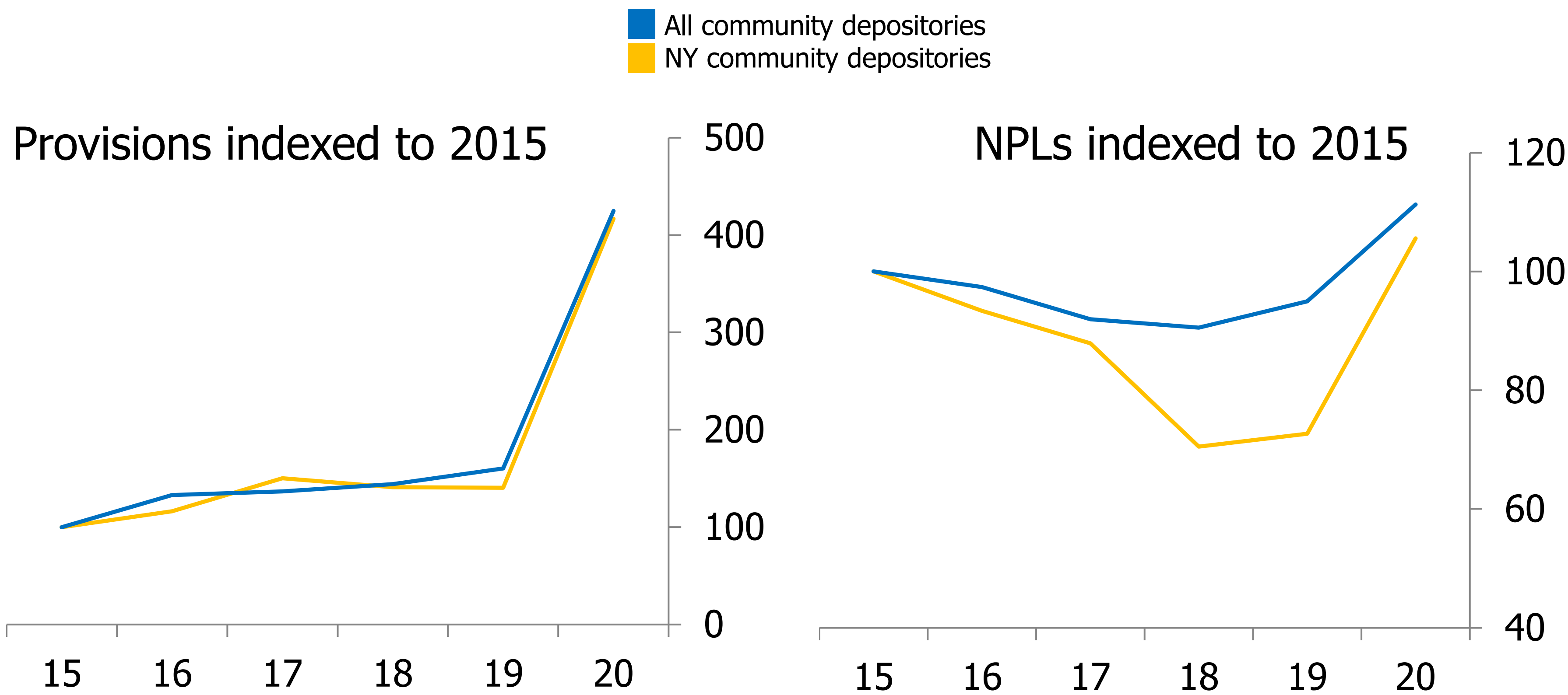


Source: Call Reports from OCC Integrated Banking Information System

Data are merger adjusted for institutions in continuous operation from 1Q:15 to 2Q:20. Data for 2020 are for through 2Q:2020.

NY banks came into the crisis in a better position but saw a bigger spike early compared to peers

FDIC-insured depositories with assets < $5 billion

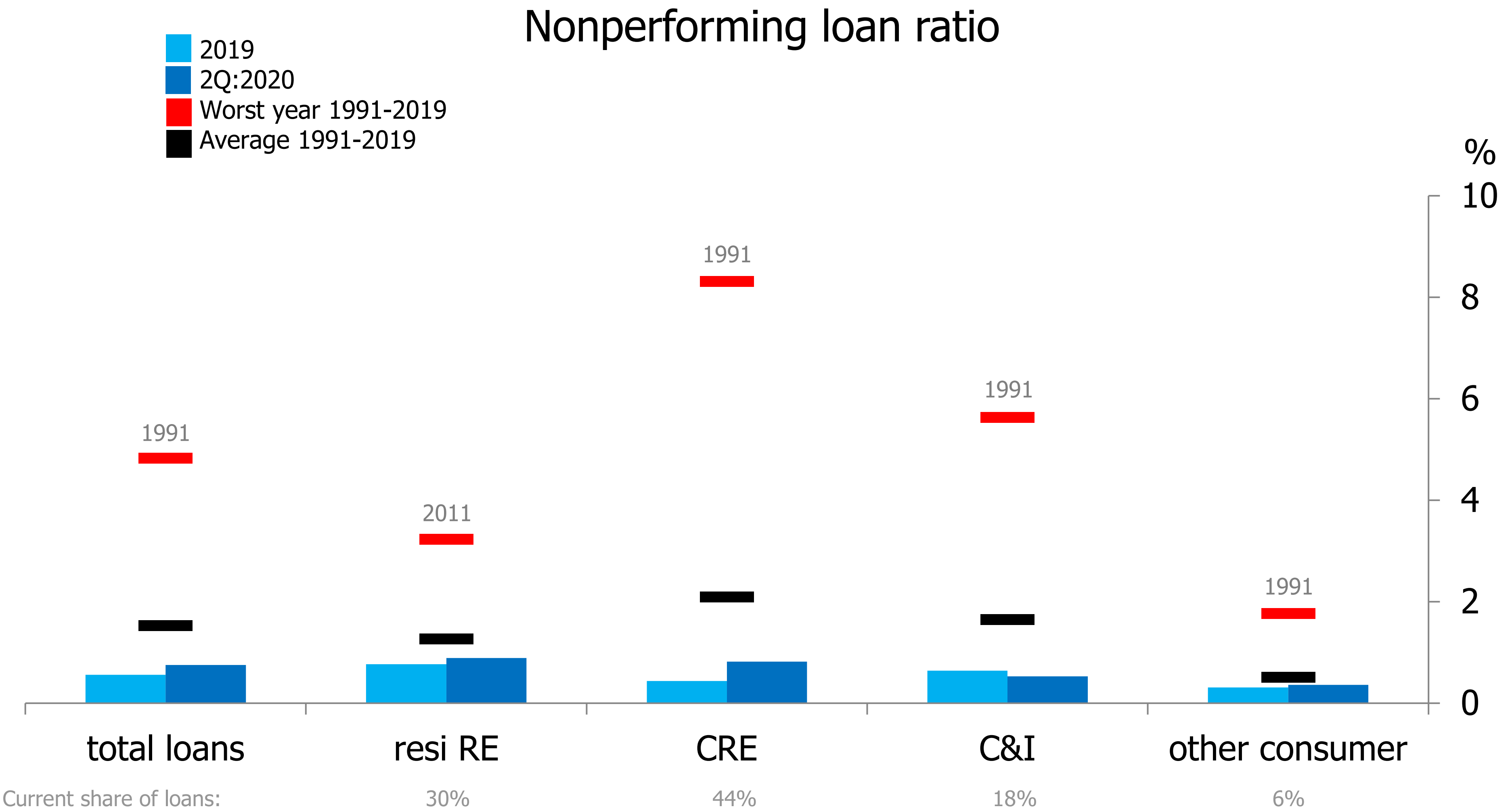


Source: Call Reports from OCC Integrated Banking Information System

Data are merger adjusted for institutions in continuous operation from 1Q:15 to 2Q:20. Data for 2020 are for through 2Q:2020.

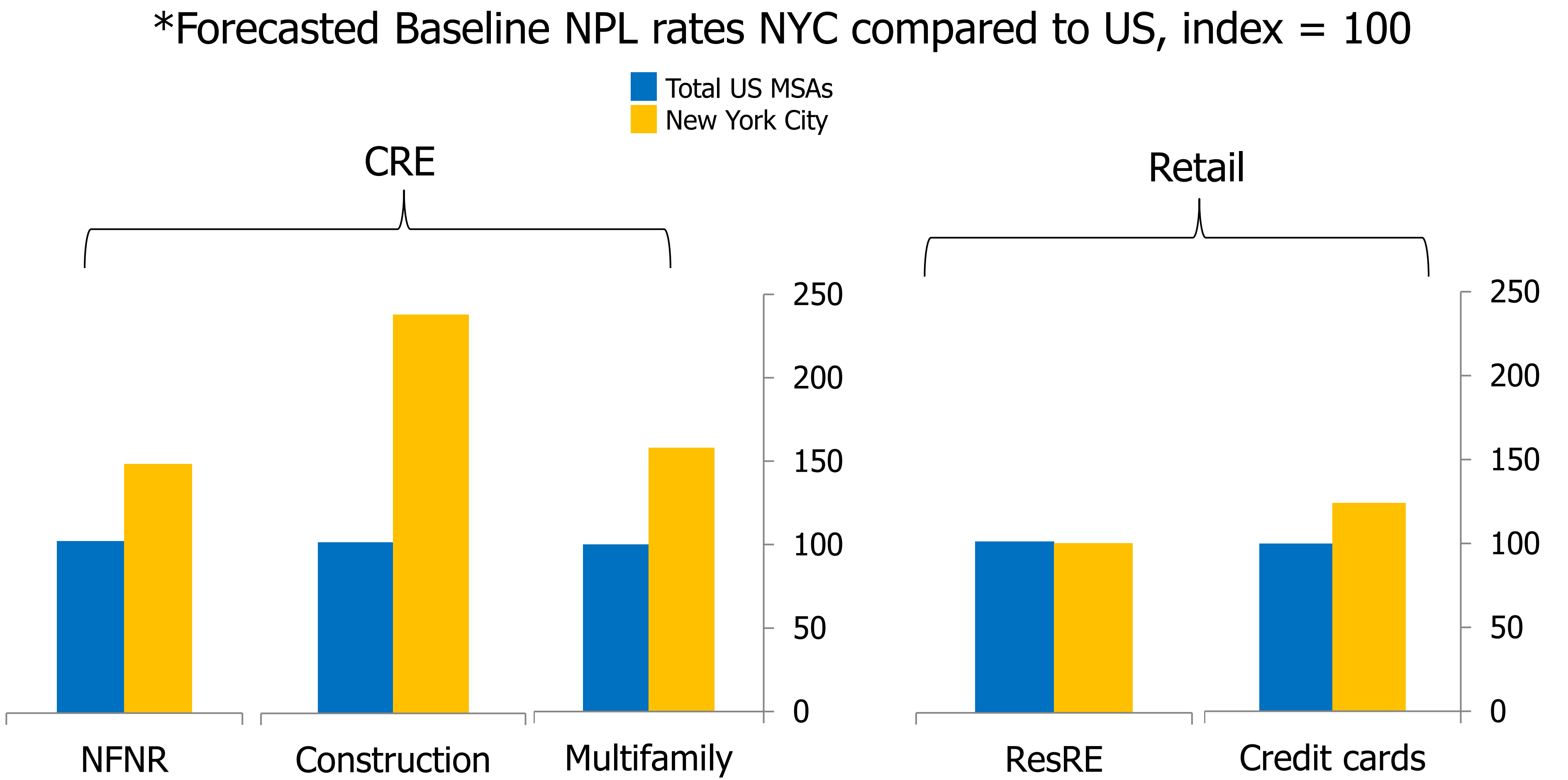
NY banks have seen modest NPL rate increases so far but credit cycles take time

FDIC-insured New York depositories with assets < $5 billion



Source: Call/Thrift Reports from OCC Integrated Banking Information System

Based on OCC internal estimates NYC might face greater relative stress in several loan products



Source: OCC Economics calculations, Moody's Analytics Baseline September 2020 MSA economic scenarios

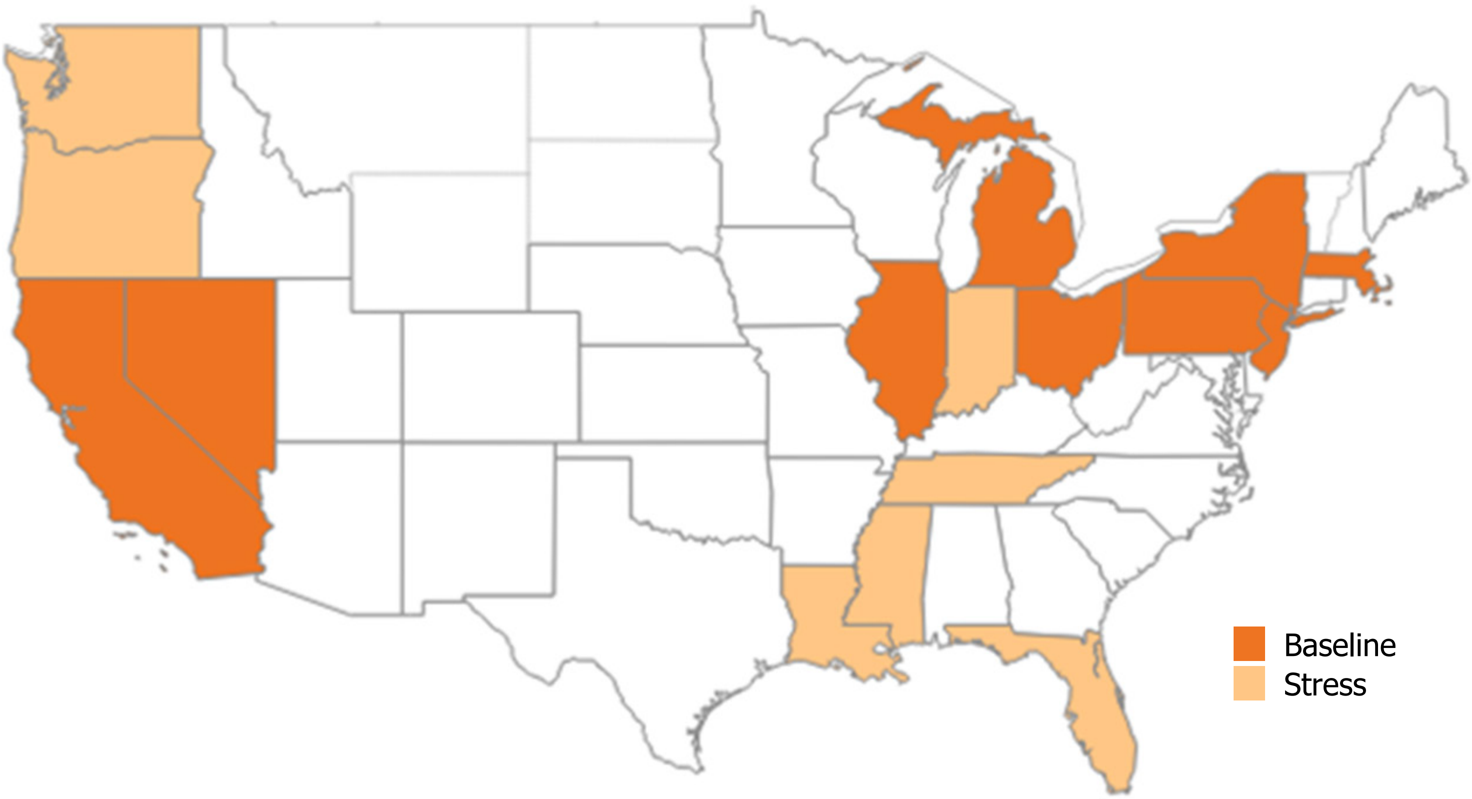
* Bank data representative of a broad industry aggregate at the MSA level

State-by-state forecasts suggest that NY is among the states to face greater relative stress in CRE

FDIC-insured banks with assets < $5 billion

Non-residential RE NPL ratio, 2020:Q4 – 2022:Q4

High risk states in orange have NPL ratios above the 75th percentile over our forecast horizon



Source: Call/Thrift Reports from OCC Integrated Banking Information System, E&PA calculations

Data are quarterly and exclude specialists.

Distribution for the top quartile is based on each state's maximum forecast over the forecast horizon. States with less than 10 banks and states with insufficient CRE data are not included in the sample.

NY community banks projected NPL rates exceed overall US for key loan products

FDIC-insured depositories with assets < $5 billion

Loan share and peak Baseline NPL rate

	Nonfarm Nonres RE		Multifamily RE		Construction		C&I		Residential RE	
	share	peak rate	share	peak rate	share	peak rate	share	peak rate	share	peak rate
NY	30%	7%	9%	9%	5%	19%	19%	7%	30%	3%
All US	28%	5%	5%	6%	7%	14%	21%	5%	25%	3%

Source: Call Reports from OCC Integrated Banking Information System

% share is as of June 30, 2020
Baseline forecast as of September 2020

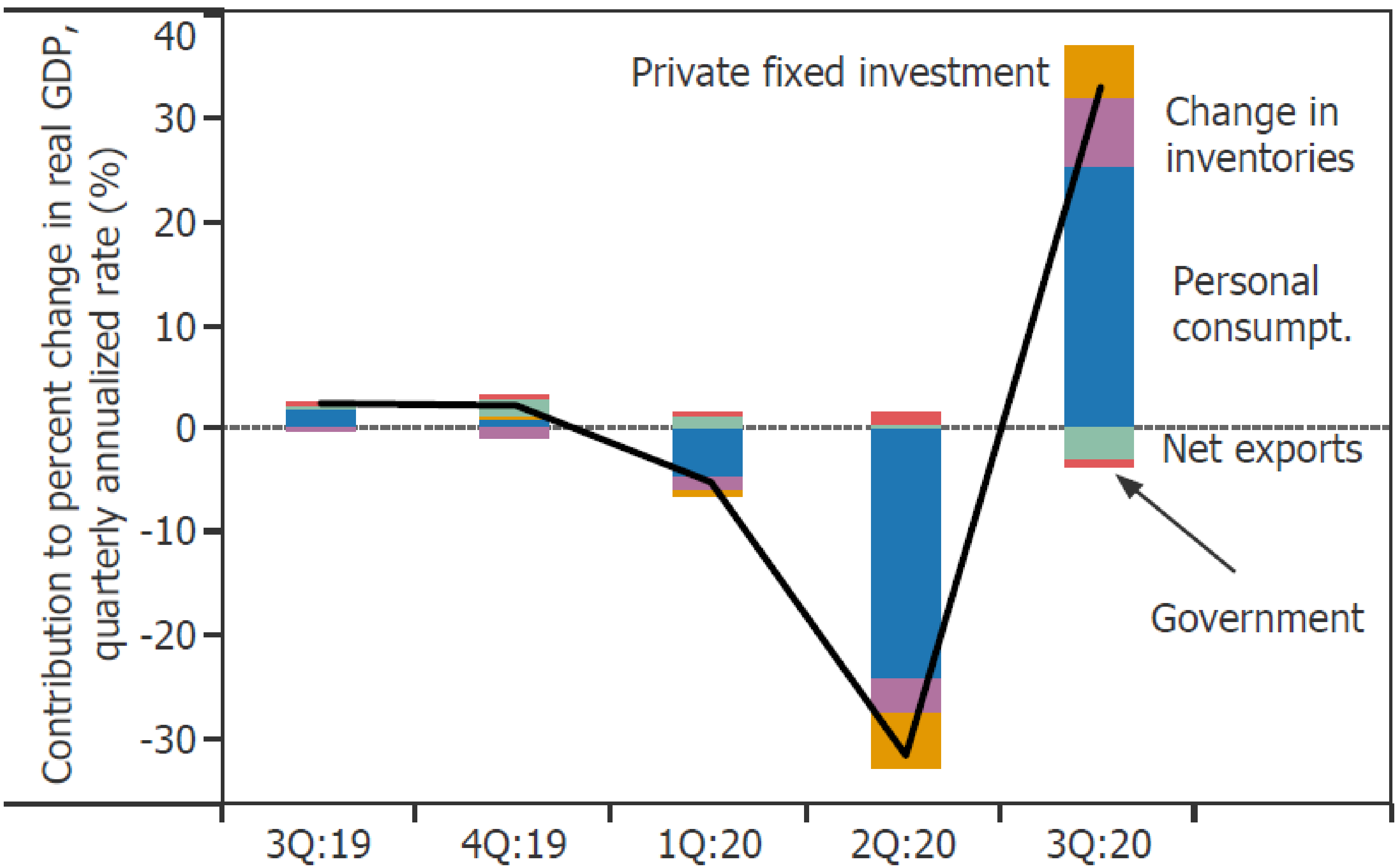
Summary

- Real GDP growth in 3Q:20 was historically high, but did not return output to pre-COVID levels and masked a slowing recovery
  - The strength and speed of recovery is uncertain and will largely depend on policy responses to the path the virus takes this year and next
  - New York is mired in the deepest recession in its history and is among the furthest from its pre-pandemic state, but the recovery is underway
- Banks in New York initially suffered a larger drop than the overall Community bank aggregate performance
  - NY banks in this recovery were growing faster but faced higher costs and NIM pressures which held performance slightly below peers
  - NY banks have ¾ of their loan portfolio in real estate with CRE dominant share so the path for CRE will have a large impact on performance

Appendix

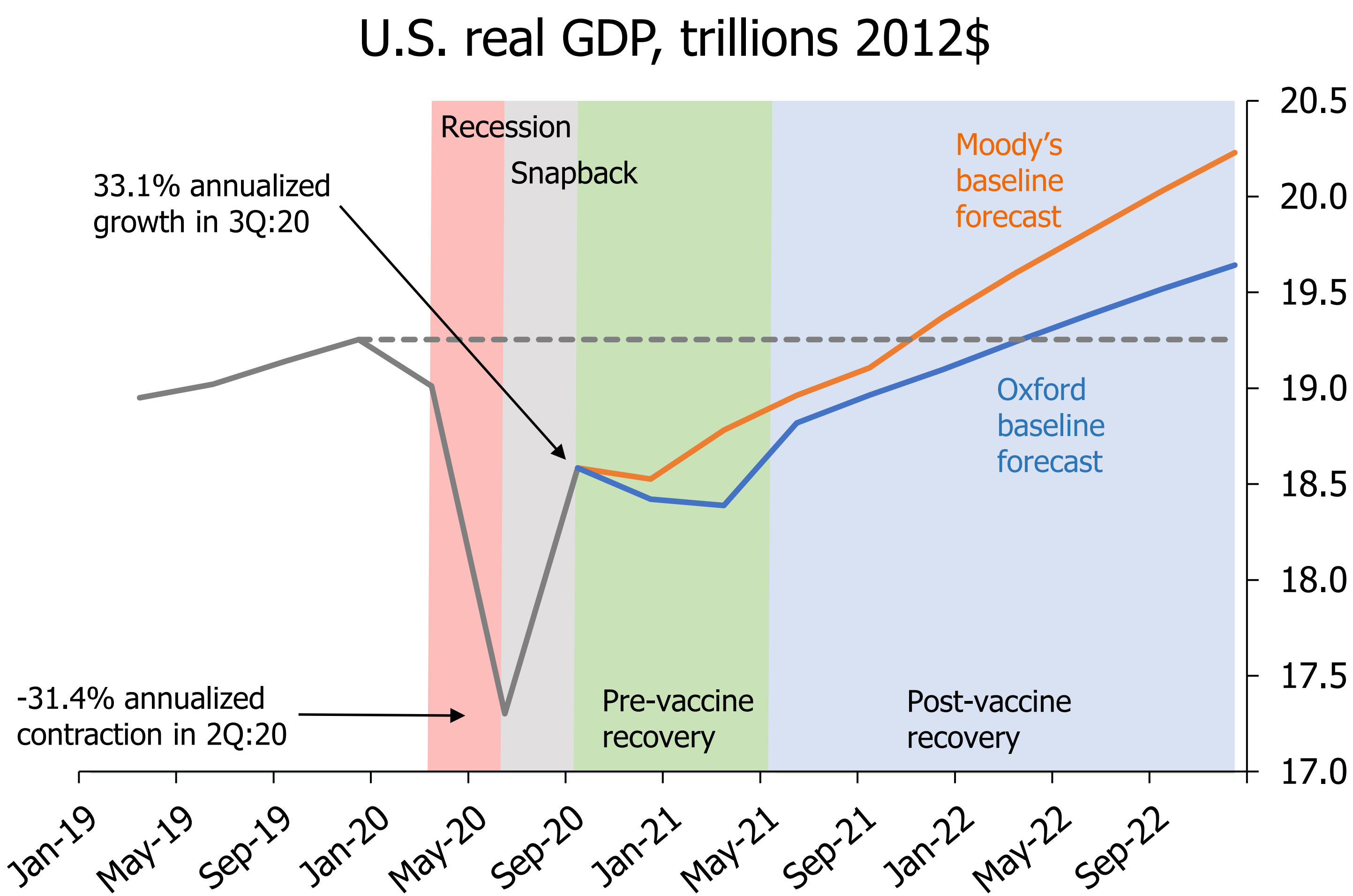
- Additional macro slides
- Additional bank condition slides

Real GDP growth snapped back in the third quarter from a surge in consumer spending



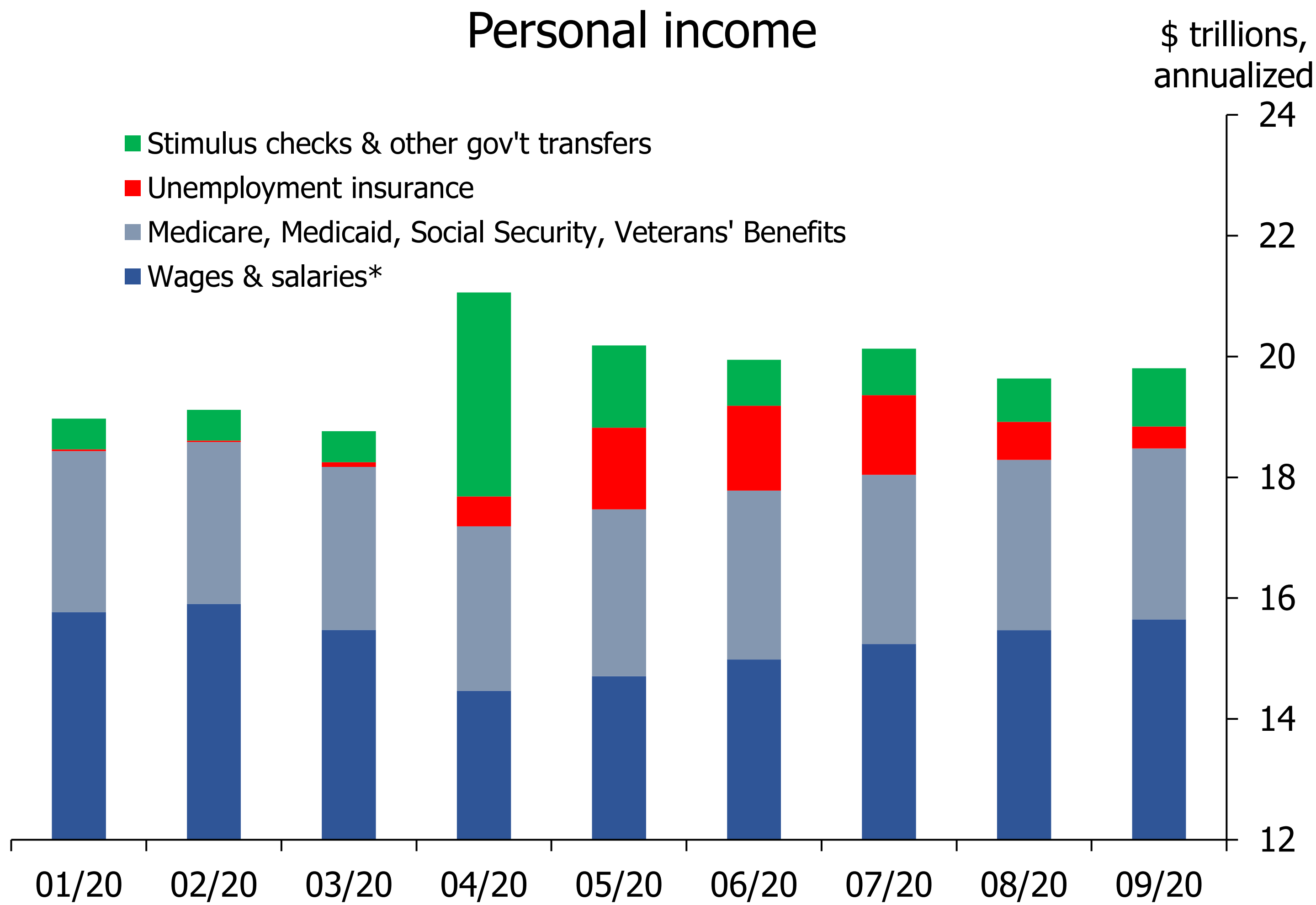
Sources: BEA (data updated October 2020)

Historic 3Q growth did not reverse lost output from COVID-19 and masked a slowing recovery



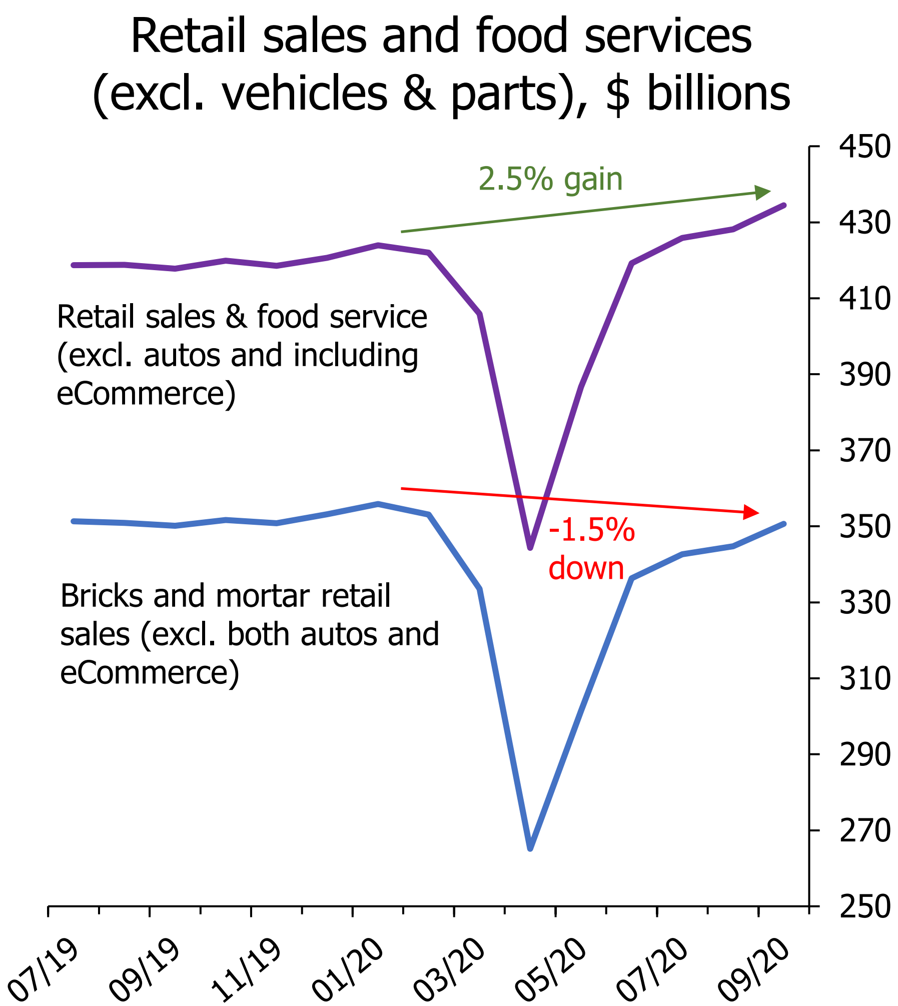
Source: BEA (historical data through 3Q:2020; baseline forecasts from Moody's and Oxford Economics)

Higher wages lifted September personal income despite lower unemployment insurance payments



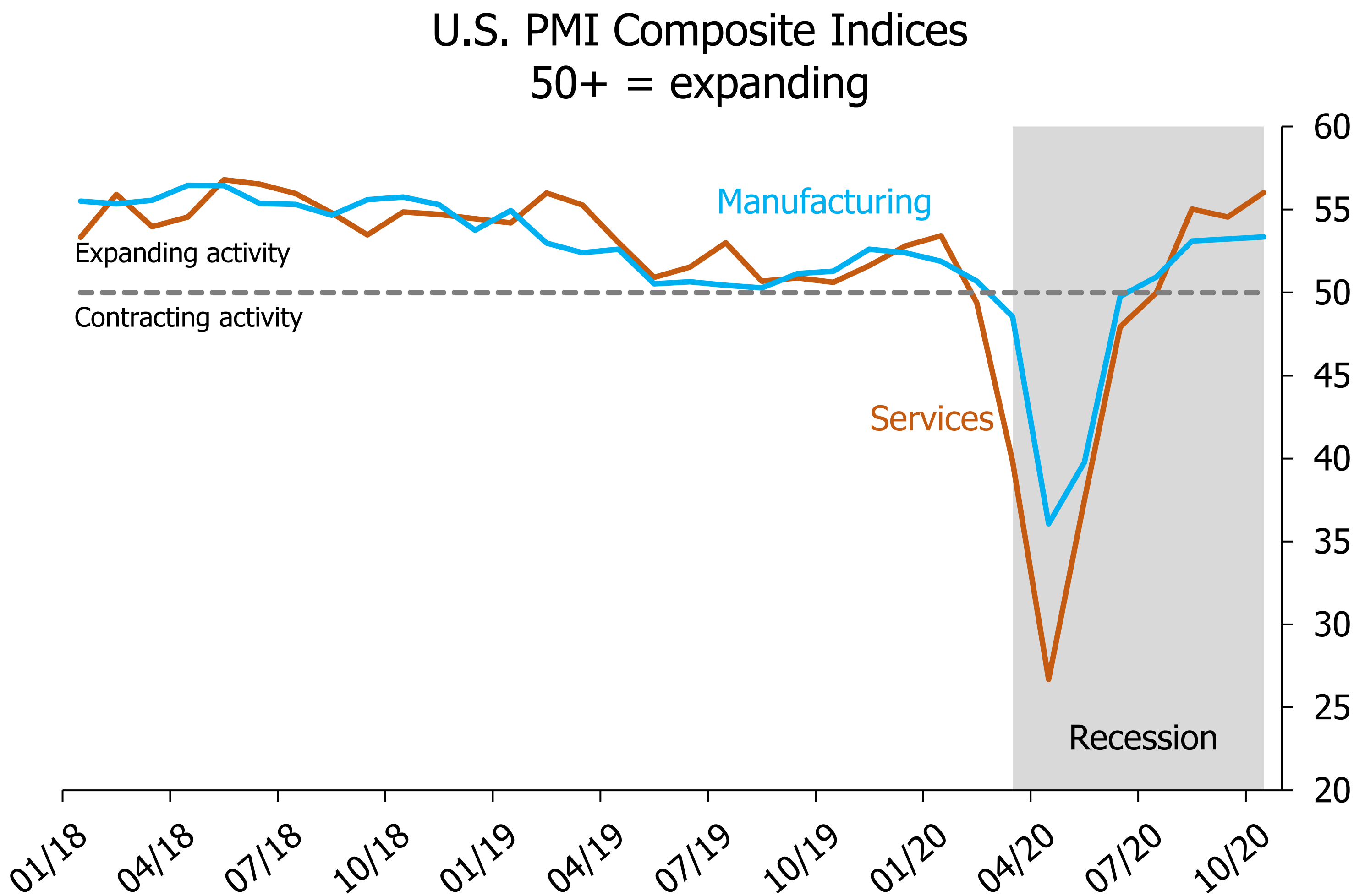
Source: BEA (SAAR, data through September 2020)
* Wages & salaries includes proprietors' income, rental income, and receipts on assets, less contributions for government social insurance

Retail sales, led by eCommerce, are higher than pre-pandemic level but some sectors lagging



Source: Census Bureau (data through September 2020)

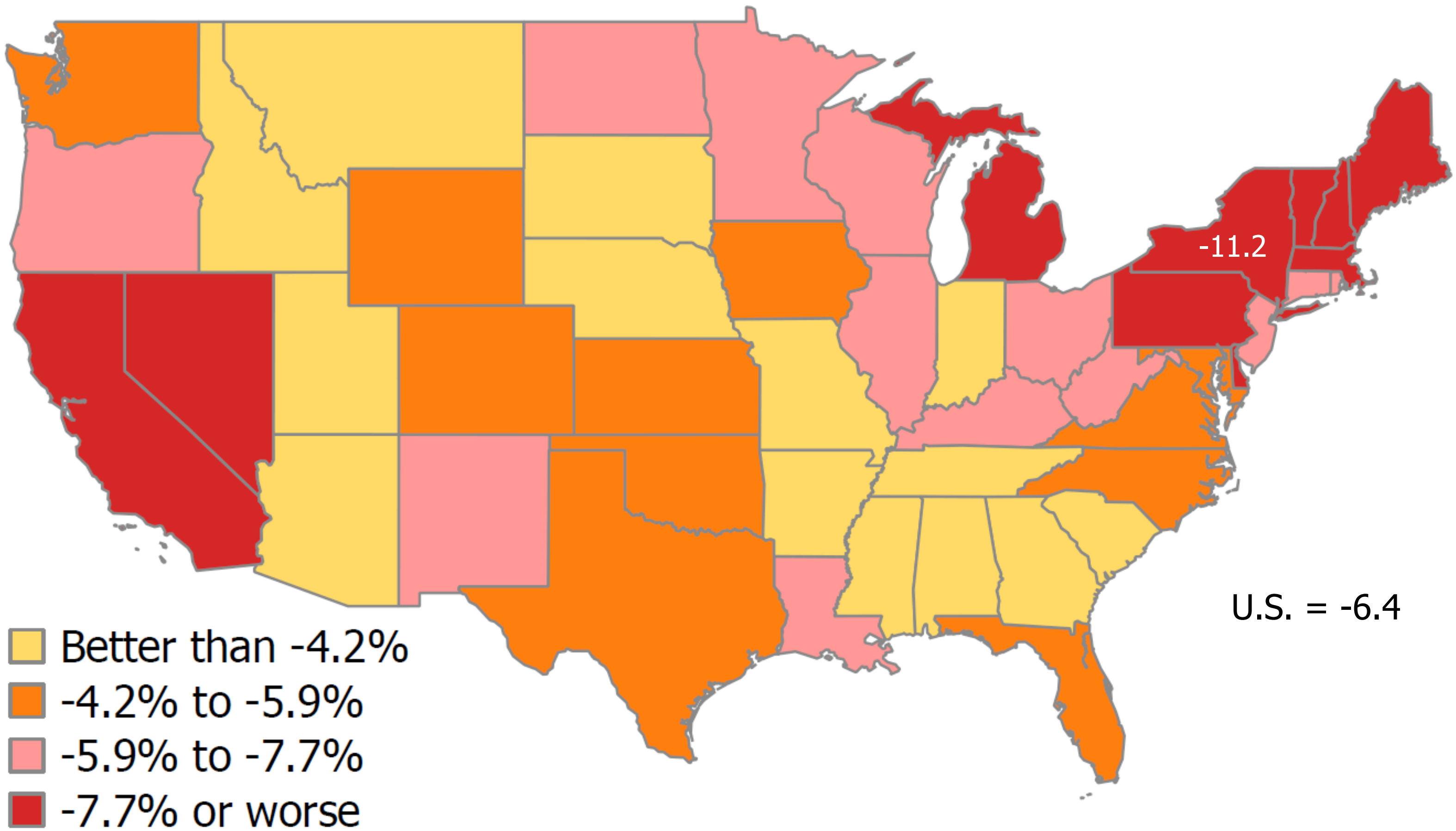
Surveys say business activity is expanding, with services rebounding but manufacturing flat



Sources: IHS Markit (data through October 2020); PMI = Purchasing Manager's Index

Job losses in New York state among worst in the nation over the past year

Nonfarm employment, % change from Sept. 2019 to Sept. 2020



Source: BLS (data through September 2020)

Community bank market in NY features sizable share of smaller savings institutions

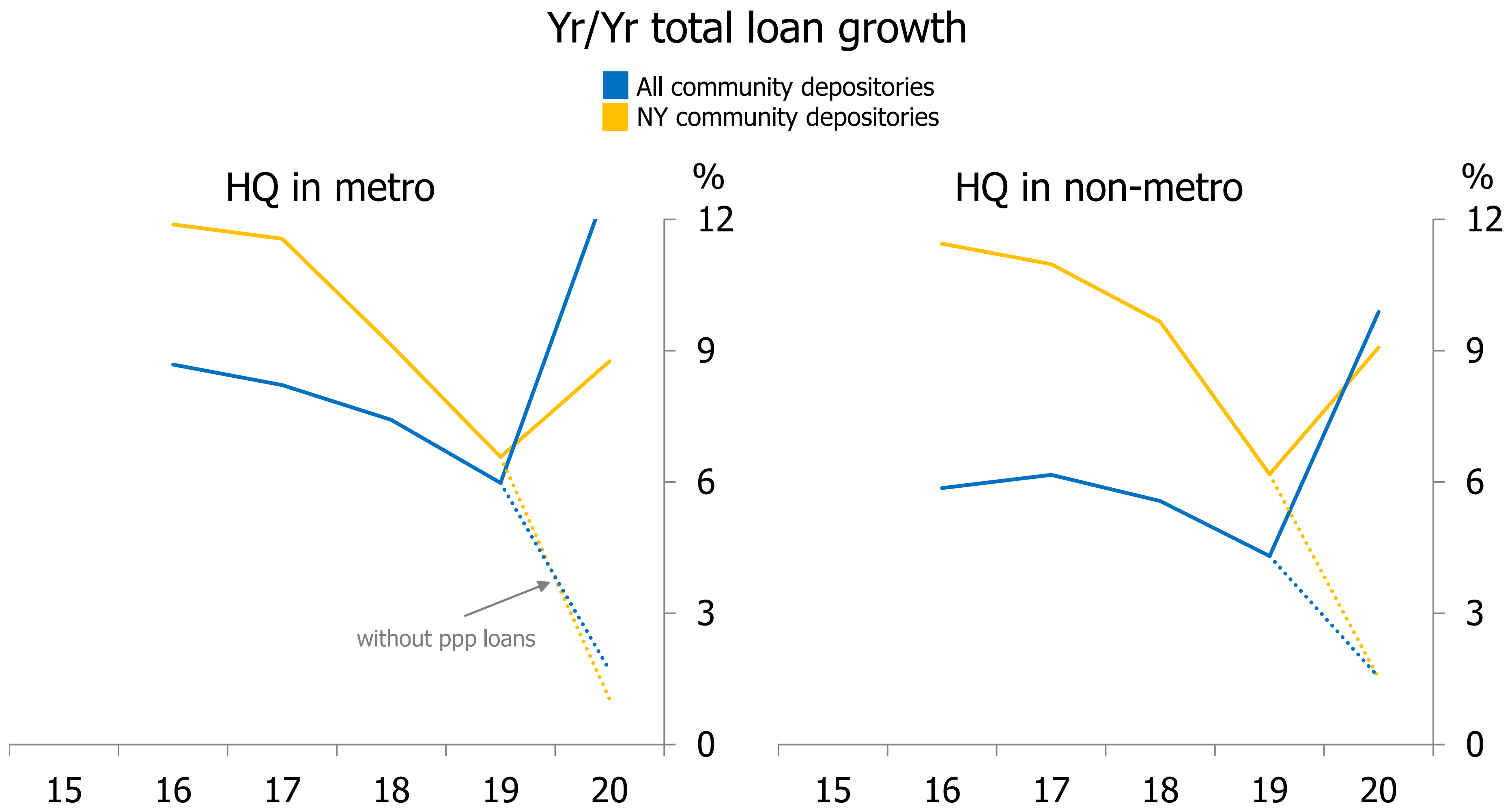
FDIC-insured depositories with assets < $5 billion

	all depositories		commerical banks		thrifts	
	counts	assets ($ billions)	counts	assets ($ billions)	counts	assets ($ billions)
HQ in NY	101	91	69	71	32	20
All	4,729	2,409	4,147	2,060	582	349

Source: Call Reports from OCC Integrated Banking Information System

Data are merger adjusted for institutions in continuous operation from 1Q:15 to 2Q:20.
Data are for 2Q:2020.

FDIC-insured depositories with assets < $5 billion



Source: Call Reports from OCC Integrated Banking Information System

Data exclude specialists and are merger adjusted for institutions in continuous operation from 1Q:15 to 2Q:20. Data for 2020 are for through 2Q:2020.