Vaccines boost U.S. bank earnings outlook, according to S&P Global Market Intelligence's annual U.S. Bank Market Reports

NEW YORK, April 29, 2021 /PRNewswire/ -- Community banks and their larger counterparts stand to report far fewer loan losses than previously expected, 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 the outlook for bank returns is far more favorable now than even a few months ago as credit costs should be significantly lower than previously expected due to the accelerated pace of vaccinations and additional government stimulus.

Published by S&P Global Market Intelligence's Financial Institutions Group (FIG) Research team, the reports spotlight how the banking industry and community banks have responded to the pandemic. The analyses found that the efforts made by banks and the U.S. government to mitigate COVID-19's economic blow has prevented credit deterioration and pushed excess cash into the banking system. As a result, banks have effectively traded credit risk for pressure on net interest margins.

"The banking industry's swift response to the economic crisis created by the pandemic has offered considerable support to many Americans and stands in stark contrast to the last recession. Banks have been part of the solution, not the problem," said Nathan Stovall, principal analyst for FIG at S&P Global Market Intelligence. "Community banks in particular have outpunched their weight, springing into action to assess the potential credit risk in their loan portfolios, while furiously working to offer borrowers some relief through forbearance programs and loans through the Paycheck Protection Program."

Key highlights from the report include:

- Government stimulus, actions by the Federal Reserve and community banks' support for borrowers through forbearance and the Paycheck Protection Program have significantly mitigated credit losses but have led to pressure on net interest income — the key source of revenue for most community banks.
- Deposits jumped more than 20% year over year across the banking industry, while increasing nearly 13% at community banks. This outsized deposit growth stemmed from Fed efforts to flood the markets with liquidity, along with historically high consumer savings rates stemming from government stimulus.
- Excess cash and historically low interest rates punished banks' net interest margins. Margins will remain below historical levels for the foreseeable future as liquidity continues to build in the banking system.
- The outlook for bank returns is far more favorable now than even a few months ago as credit costs should be significantly lower than previously expected. Community bank earnings are projected to fall nearly 13% in 2021, compared to a 41% decline projected in January 2021. Earnings will rebound more than 15% in 2022 as credit quality improves.
- The Biden administration has proposed a multi-trillion-dollar infrastructure plan that it would fund by raising the corporate tax rate to 28%. If that occurred in 2022, community bank earnings would rise just 5% year over year.

Community bank aggregate profitability metrics (%)						
	2020A	2021P	2022P	2023P	2024P	2025P
Efficiency ratio	61.70	64.36	64.99	63.34	61.88	61.28
Net interest margin	3.36	3.31	3.25	3.35	3.44	3.47
ROAA	1.13	0.89	0.99	1.03	1.29	1.30
ROAE	10.08	8.15	9.10	9.36	11.59	11.42
Adjusted for potential tax increases - assumes 28% tax rate beginning in 2022						
ROAA	1.13	0.89	0.90	0.93	1.17	1.18
ROAE	10.08	8.15	8.31	8.58	10.65	10.55

Data compiled April 15, 2021.
A = actual; P = projected
ROAA = Return on average assets; ROAE = Return on average equity
Sources: S&P Global Market Intelligence; proprietary estimates

To request a copy of the 2021 U.S. Community Bank Market Report and/or the 2021 U.S. Bank Market Report, please contact pressinquiries.mi@spglobal.com.

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Media Contact
Amanda Oey
S&P Global Market Intelligence
+1 212-438-1904
amanda.oey@spglobal.com

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