Findings from the 2024 FDIC and NCUA Deposit Statistics

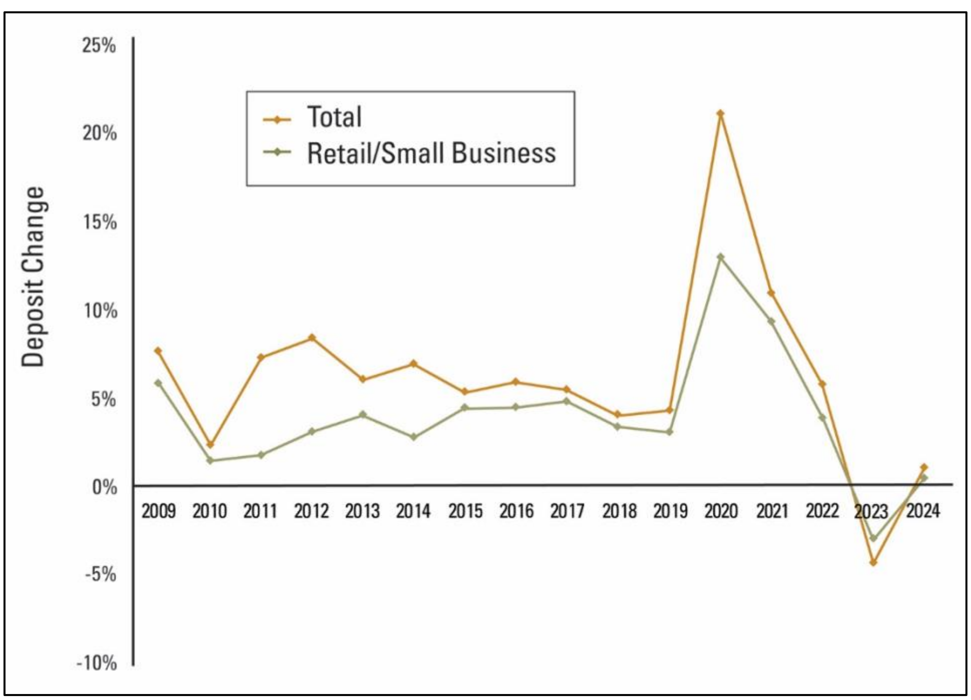
The annual FDIC bank branch deposit filings always provide valuable insights as to the level of branch activity and deposit growth across the U.S. Released in mid-October with data as of June 30 of the respective year, the FDIC data, along with companion institution-level data for credit unions from the NCUA, show a stabilization in the banking industry in terms of both deposit and branch levels.

The COVID pandemic caused an abnormal spike in U.S. deposits in 2020 and 2021, as inflows increased from governmental relief programs, such as Paycheck Protection Program grants, employee retention tax credits and stimulus payments; even as outflows declined as consumers reduced traveling, dining out and retail visits.

As a result, the reporting years ending June 30, 2020 and June 30, 2021 saw growth of 13% and 9%, respectively, in retail and small business deposits nationwide – well above the 3% - 4% pace typical of most pre-pandemic years. The 2022 reporting year saw deposit growth return to 4%, and 2023 showed a 3% decline in total deposits, as consumers and businesses spent down cushions acquired during the pandemic.

In the most recent year ending June 30, 2024, deposit levels fully stabilized, with essentially no change from the prior year. To be specific, aggregate retail and small business deposits across all U.S. branches increased by $46M from June 30, 2023 to the same date in 2024. On a base of $9.5 trillion in deposits, that equated to a gain of only 0.4%. Adding other less branch-dependent categories such as municipal and large corporate deposits, total U.S. deposits increased by $194M in the past year – a gain of 1%.

Taking a longer view to smooth out some of the year-to-year variances, U.S. retail and small business deposits grew at a 2.6% compound annual rate over the past four years: a pace near the norms of the past 25 years, showing the spikes and plummets somewhat offsetting, converging on long-term historic patterns.



Even in the nation's overall flat-growth deposit environment, there were notable regional variances, and some markets showed notable gains and others notable declines. Among the 50 largest deposit markets nationwide (at the metropolitan-statistical-area level), both Salt Lake City and Grand Rapids showed 5% deposit growth (retail and small business) over the past year, while Raleigh, Indianapolis, Columbus (OH) and Buffalo posted deposit gains of 3% - 5%. With the exception of Buffalo, each of those represent strong markets in terms of household growth, especially in the context of their statewide environments overall.

In the opposite direction, the four large metros with the greatest deposit declines were all in California. Total deposits declined by 5% in the San Francisco MSA from June 30, 2023 to the same point in 2024, while San Diego, Los Angeles and San Jose experienced declines in the 2% - 3% range. Also on the West coast, Seattle joined the aforementioned California markets with a 2% decline in market deposits.

Even with flat deposits in the most recent year and a decline in deposits in the year prior, total U.S. deposits still remain above what a trendline extrapolated from pre-pandemic years would indicate. From 2009 to 2019, total U.S. deposits grew with metronomic steadiness in a linear pattern with a constant and shallow slope; i.e., no periods of exponential growth or decay where a line showing a time series of total deposits would suddenly transform into a curve. But then the pandemic intervened, and deposits spiked well above the trendline. If we extrapolate the trend line from immediately before the pandemic to the current date (i.e., if deposit growth had continued along that same metronomic pattern of 2009 - 2019 through to the present), then today the U.S. banking system would hold $15.9 trillion in total deposits.

But in actuality, the banking system today holds $17.7 trillion in total deposits (as of November 20, per the Federal Reserve Board, which tallies and reports total deposits in the U.S. banking system on a weekly basis). Thus, aggregate U.S. deposit levels remain 11% greater than where they "should be" had COVID not intervened and the pattern of 2009 to 2019 deposit growth continued unaffected through to the present day.

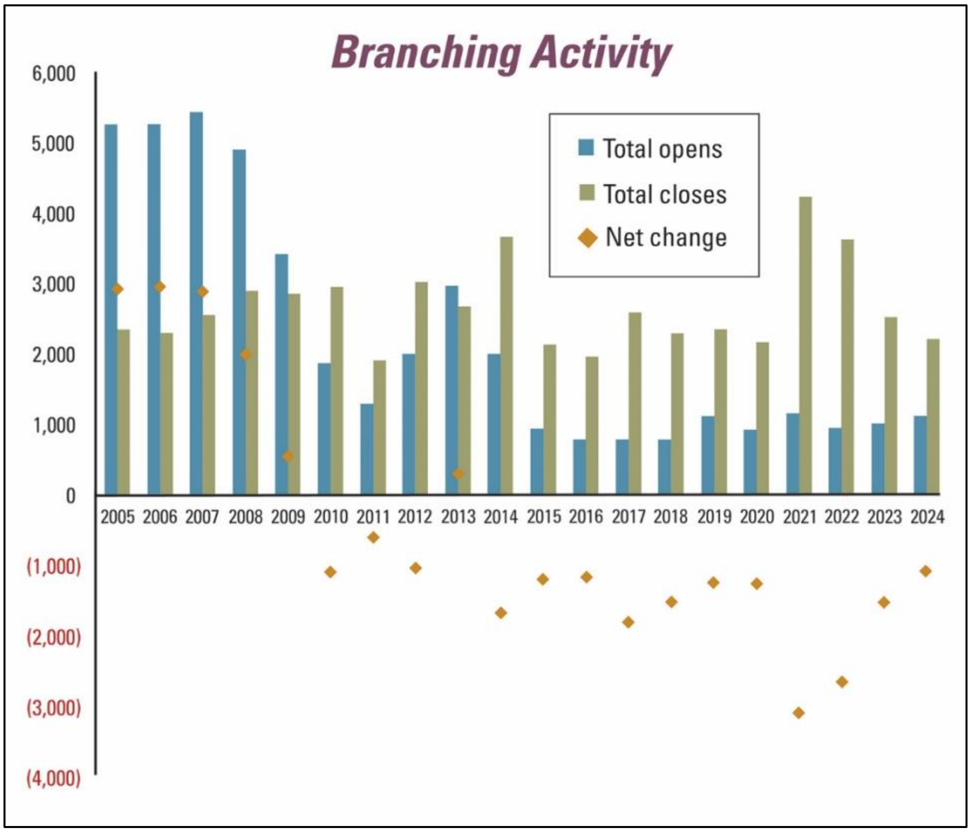
The gap between actual deposits and trended deposits in a non-pandemic environment reached as high as 26% from November 2021 through May 2022. In other words, actual deposits in those months were 26% greater than what historic trends would have predicted had COVID not intervened. And the gap has steadily eroded since then, as actual deposit growth slowed and the passage of time moved the trendline inexorably upward.

Still, it may take another two years of modest deposit growth for the two lines – actual and historic-trend deposits – to reconverge. This carries daunting implications for bankers seeking to raise deposits for their institution in an environment where the total pool of available deposits may be expanding quite slowly. Further, with recent interest-rate declines constraining the rates bankers can charge for loans, it will be difficult to use pricing as a means of augmenting deposit growth without compromising net interest margin.

Beyond the deposit-growth statistics, the other key findings from the FDIC report relate to branching activity. In that context, the topline statistic shows continued contraction in branches, with aggregate branch counts declining by about 1,000 units over the last FDIC reporting year.

However, that represented the smallest decline since 2012, in the period of initial consolidation following the financial crisis and its associated recession. In the pandemic-impacted years of 2021 and 2022, the industry shed a net 3,100 and 2,800 branches, respectively. The actual number of branch closures in those years was even greater: 4,200 in 2021 and 3,600 in 2022. But 2,100 new branch openings in those two years combined offset some of the closures, to yield the aforementioned net reductions.

In 2023, 2,500 branches closed and 1,000 branches opened, yielding a net decline of 1,500 branches. And then 2024 saw approximately 2,200 closures but more than 1,100 opens, for a net decline of nearly 1,100 branches. In sum, the industry is still showing a net decline in branch inventory, but the pace of decline has slowed in each of the past three years, as bankers exhaust the list of low-risk closures (with the low risk being either due to overlap with another branch of the institution, perhaps in the wake of a merger, or to low deposit levels at the consolidated branch).



Even with net declines, banks and credit unions have combined to add at least 1,000 branches in each of the past four years. In other words, there were 1,000 occasions where a bank board, CEO or other executive endorsed a substantial capital investment – the median cost of a new freestanding branch in the U.S. is $2.5M and a storefront branch is $800,000 – with the belief that branch presence could drive sufficient balance and market share gains to justify that investment. Combined with the slowing pace of closures, the industry may be reaching an equilibrium branch level for the current banking environment.

As with the deposit growth statistics, there is geographic variance in the branch-count statistic. Even with an overall decline of 1,500 branches nationwide, 10 states remained neutral or eked out small gains in branch counts: Alaska, Arkansas, Delaware, Nebraska, New Mexico, North Dakota, Rhode Island, Tennessee, Utah and Wyoming. The largest declines in branch counts in absolute terms occurred in California (-161 branches) and New York (-89), with Pennsylvania, New Jersey, Michigan, Illinois and Maryland all showing net declines of 45 to 55 branches over the past year.

In percentage terms, Washington DC (-4%) showed the greatest decline in branch counts in the 2024 reporting year, followed by Maryland and Connecticut (both -3%) and then California, Idaho and New Jersey all at -2%.

At the MSA level, nine markets posted net gains of at least five branches: Jacksonville, Nashville, Providence, Charleston (SC), Fayetteville (AR), Boulder, Memphis, Sarasota and Omaha. Meanwhile the larger, long-established markets of New York, Washington, Los Angeles, San Francisco and Chicago experienced the greatest unit declines. Those large unit declines do not necessarily reflect difficulties specific to those markets, but rather that the absolute branch counts in top-10 metros are so sizable.

Bancography's annual ***Outlook*** will explore these deposit and branching trends at the national and market level in greater detail (slated for release in February 2025).