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Community Bankers' Outlook Still Negative Despite Slight Uptick

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Washington, D.C. – While community bankers continue to hold a negative view of future economic conditions, their outlook is becoming less pessimistic, according to the latest Community Bank Sentiment Index (CBSI), released by the Conference of State Bank Supervisors (CSBS) today.

The CBSI inched up 6 points to 92 in the fourth quarter of 2023. This is the second continued bump for the CBSI and the highest it has been in nearly two years. However, the CBSI remains below the neutral level of 100 for the eighth consecutive quarter, as the nearly 280 community bankers surveyed voiced concerns about future business conditions, profitability, and regulatory burden.

“While it is encouraging to see the CBSI improve even slightly, rapidly rising interest rates that started in early 2022—while necessary to combat rising inflationary pressures—have stressed net interest margins, liquidity, securities valuations, loan demand, and credit quality,” said CSBS Chief Economist Tom Siems.

The CBSI surveys community bankers nationwide in the last month of each quarter to capture their thoughts on future economic conditions in seven areas. An index reading of 100 indicates a neutral sentiment. Anything above 100 indicates a positive sentiment, and anything below 100 indicates a negative sentiment. Quarterly results are included in the Federal Reserve Economic Data, the online database maintained by the Federal Reserve Bank of St. Louis known informally as the FRED.

The CBSI’s fourth quarter uptick follows last quarter’s increase of 13 points, making the six-month surge of 19 points the highest recorded since the survey premiered in 2019. At 81 points, the profitability component rose 3 points but was down 18 points compared to a year prior. The regulatory burden component, at 25 points, continued to be the lowest among the seven components. The business conditions component rose 14 points to 73, its highest level in two years. Meanwhile, the monetary policy component had the greatest quarterly improvement, climbing 40 points to 96.

In a special section unrelated to the seven components, inflation fell from the list of top concerns for the first time in two years, and slightly fewer community bankers (81%) said they believe the U.S. economy is either starting or in a recession.

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The Conference of State Bank Supervisors (CSBS) is the national organization of financial regulators from all 50 states, American Samoa, District of Columbia, Guam, Puerto Rico and U.S. Virgin Islands. State regulators supervise 79% of all U.S. banks and a variety of non-depository financial services. CSBS, on behalf of state regulators, also operates the Nationwide Multistate Licensing System to license and register non-depository financial service providers in the mortgage, money services businesses, consumer finance and debt industries.

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