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Washington, D.C. – Community bankers are showing slightly more confidence in future economic conditions but still have concerns, especially about regulatory burden, according to the latest Community Bank Sentiment Index (CBSI), released by the Conference of State Bank Supervisors (CSBS) today.

The CBSI increased by 6 points in the first quarter of 2024 to 98 points, its highest level in two years. This is the third consecutive quarterly increase; however, the CBSI is still slightly below the neutral level of 100 points. Compared to last quarter, six of the seven components improved, but concerns about regulatory burden, future business conditions, and future profitability continue to put downward pressure on the index.

“Rapid interest rate increases over the past two years have resulted in an inverted yield curve, where short-term interest rates have been higher than long-term rates for more than a year,” said CSBS Chief Economist Tom Siems. “This has created challenges for community bankers to maintain profitability as net interest margins and liquidity positions are squeezed. Moreover, because of higher overall interest rates, bankers must be keenly aware of credit risks that might develop in their loan portfolios."

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 first quarter uptick follows last quarter’s increase of six points and is 15 points higher than a year ago. Regulatory burden fell to 18 points, representing not only the only component to drop this quarter but also the lowest it has been since 2022.

The capital spending component had the greatest quarterly improvement, climbing 13 points to 131. The monetary policy component rose 9 points to 105, its first level above 100 since 2019. On a year-over-year basis, the monetary policy indicator is up 66 points. The business conditions component rose 5 points to 78 points, its highest level since the first quarter of 2022. At 87, the profitability component inched up 6 points from last

quarter.

In a special question, only 66% of community bankers said they believe the U.S. economy is at the start of, or already in, a recession, down from 81% last quarter. Respondents rated their top concerns as government regulation, cyberattacks, the federal debt/deficit, the cost/availability of labor, and inflation.

Contact: Susanna Barnett, 202-407-7156, sbarnett@csbs.org

X: @CSBSNews

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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