

Community Bankers' Economic Outlook Improves...Slightly

Oct 10, 2023

Washington, D.C. - Community bankers have a slightly rosier economic outlook for the first time in a year, according to the most recent <u>Community Banker Sentiment Index</u> (CBSI), released by the Conference of State Bank Supervisors (CSBS) today.

While the third quarter CBSI remains below the neutral level of 100 for the seventh quarter in a row, it bounced up 13 points to 86 from the last quarter. This is the highest CBSI level recorded since 91 a year ago and the CBSI's second largest quarterly increase, following a 17-point increase in Q1 2021.

In a special question, 87% of community bankers believe the U.S. economy is at the start of, or already in, a recession, down from 95% last quarter.

"It is encouraging to see a sharp rebound in the CBSI as community bankers continue to navigate the effects of higher interest rates that have stressed their net interest margins, squeezed liquidity positions and challenged valuations in their securities portfolios," 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.

While all seven components that comprise the CBSI increased from the previous quarter, four indicators continue to put downward pressure and drag the index below 100: regulatory burden, monetary policy, future business conditions and future profitability.

At 23, the regulatory burden component remains the lowest among the seven components. The regulatory burden component has been below 28 for eleven straight quarters. At 59, the outlook for future business conditions continues to weigh down the overall index, although it improved from 43 last quarter and is at its highest level since Q1 2022.

The franchise value component had the greatest quarterly improvement at 125, climbing 23 points from Q2 2023 and back near its average level over the previous year. The profitability component rose 10 points to 78, following three consecutive quarterly declines. Compared to last year, the profitability component is down 43 points.

At 54, the monetary policy component rose 21 points, indicating the Federal Reserve's monetary policy decisions will likely continue to negatively impact market conditions, but these concerns are tempered somewhat from previous quarters. For the previous five quarters, the monetary policy component averaged 35.

In another special question, community bankers rated the following as their top concerns: cyberattacks, government regulation, the federal debt/deficit, the cost/availability of labor, and inflation. These concerns have been rated amongst the highest five concerns since the beginning of 2021.

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The Conference of State Bank Supervisors (CSBS) is the national organization of bank regulators from all 50 states, American Samoa, District of Columbia, Guam, Puerto Rico and U.S. Virgin Islands. State regulators supervise roughly three-quarters 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 nondepository financial service providers in the mortgage, money services businesses, consumer finance and debt industries.

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