A Trend Until It's Not

by Steve Brown

TV dinners became a possibility in the 1920s with development of the technology to flash-freeze and package food. The problem back then was that there wasn't a TV yet, so it didn't really take off until the 1950s (along with television in most households). Stories indicate packaged food company Swanson back then had an oversupply of Thanksgiving turkey leftovers. So, to move the inventory, they packed up the leftovers into silver airplane-looking trays and marketed them as a convenient, all inclusive meal for a modern society. Swanson sold 25mm TV dinners in 1953 and sales continued on an upward trajectory for nearly 60Ys until 2008. Whether it was the near depression or something else, since then frozen pre-packaged meals have seen dramatically dropping sales. Younger consumers are looking for fresher, less processed food and 40% of Americans think frozen dinners have no nutritional value. Nestle, the owner of Lean Cuisine, is even looking to sell the entire line as it doesn't anticipate good prospects for the future.

Another trend that is winding down in the banking industry is the long period of Fed Funds at or near 0%. This has been the case since 2009 and some bankers can hardly remember doing business in any other environment. As things stand now, most community banks still have too much liquidity, as loan portfolios have declined over time. Many bankers are just starting to see loan growth edge higher as the economy recovers.

On the deposit side of the equation, most sit in core such as DDAs, interest checking, savings, MMDAs or short term CDs. That is more because interest rates on all deposit products are so low, customers don't really seem to care much and favor safety over anything else.

As things stand now, the Fed is beginning to communicate it will probably plans to start moving the Fed Funds target rate higher probably beginning sometime in 2015. Looking at the charts, a majority of FOMC members anticipate a level of 1% by the end of 2015 and between 2% and 3% by the end of 2016.

Suddenly the idea that depositors will happily remain in core deposits is less certain and banks are looking for ways to prepare. There is some broad-brush advice that we are hearing around the industry though that we think is not well thought out. The advice we are hearing is that banks should seek to lock in their deposit base and protect their margins by marketing long term CDs to existing customers. This is being offered as a solution to short duration deposits in the face of lengthening duration of assets.

There are a host of problems with this solution and even the premise upon which it is based. Core deposits are typically relationship-based, so they already have a long duration. While there may be an artificial lack of interest rate sensitivity in core deposits right now, this is not the entire story and especially not for every bank.

Unlike core deposit customers, CD customers are typically the most rate-sensitive. As such, these deposits almost always will be of a shorter duration. Further, if a bank thinks a CD penalty will keep a CD customer in place in the face of a 300bp rise in deposit rates, the math doesn't work. If you ask us, raising the bank's cost of funds now by moving customers to long term CDs would significantly hamper current earnings. Even worse, it would rate sensitize the bank's existing customers by teaching them to assess their banking relationship based on price.

Every bank is different, so those with strong relationships should see much slower increases in deposit costs. Nonetheless, work diligently to protect that through careful management of liabilities and especially core deposits. Proper management of deposits takes time to do the right way and involves multiple groups at the bank, so avoid seeking a quick solution wrapped in separate compartments ala TV dinners to maximize success.

BANK NEWS

Temp Jobs

Of note, the BLS reports 2.8mm workers were categorized as having temp jobs in Mar or about 2.5% of the overall workforce. That compares to 1.7mm in 2009.

Social Banking

Research by Carlisle and Gallagher finds 87% of consumers find the way banks use social media is either annoying, boring and 52% say it is unhelpful to them.

Mobile Growth

Research by FindABetterBank indicates 30% of people (as of Mar 2014) "must have" mobile banking with their checking account vs. only 8% in 2009.

Remote Capture

Javelin Strategy and Research reports it costs about 10 cents for a bank to process a mobile deposit vs. $4.25 for a teller transaction.

Less Delinquent

The percentage of loans guaranteed by FNMA and FHLMC that are 60 days or more past due or in foreclosure has declined to 5.3% (the lowest since the GSE's went into conservatorship).

Getting Better

A CNNMoney survey of consumers nationwide finds 75% say their financial situation has stabilized or improved vs. 2012 and 90% expect their finances will be the same or better 1Y from now.

Tight Situation

A survey of households nationwide earning $100,000 or less by CNNMoney finds the following: 55% are living paycheck to paycheck, 66%say they couldn't handle an unexpected $10,000 expense, 47% couldn't live comfortably even 3 months if the breadwinner lost their job and 47% said they would find it tough to get a new job if they were laid off.

Savings

The Investment Company Institute reports only 15% of households saved in an IRA in 2013.