

# Economics Group

## Interest Rate Weekly

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### FDIC Quarterly Points to Healthy Turn in Credit Markets

*The FDIC Quarterly Banking Profile showed total loans and leases grew steadily to end 2016. Noncurrent loan rates declined in the aggregate, with C&I delinquencies falling for the first time in eight quarters.*

#### Delinquencies on the Decline: Welcome Sign

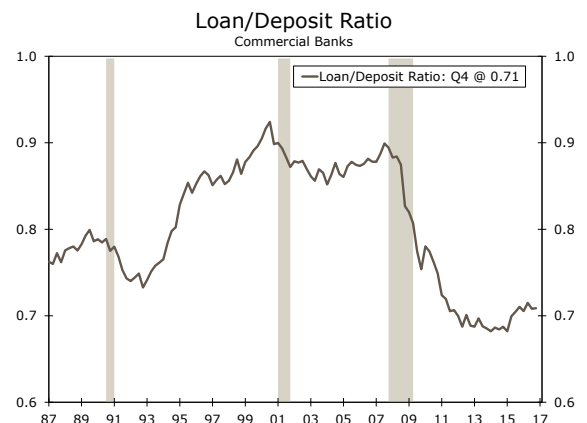
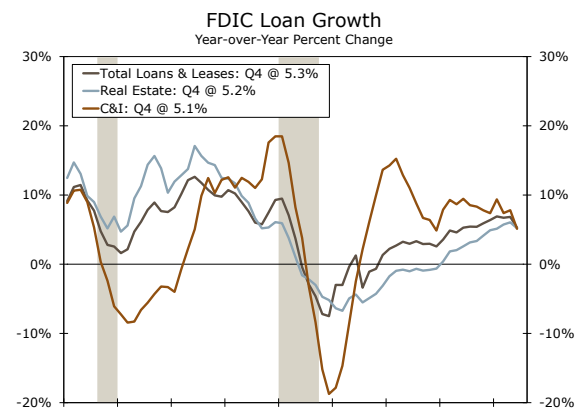
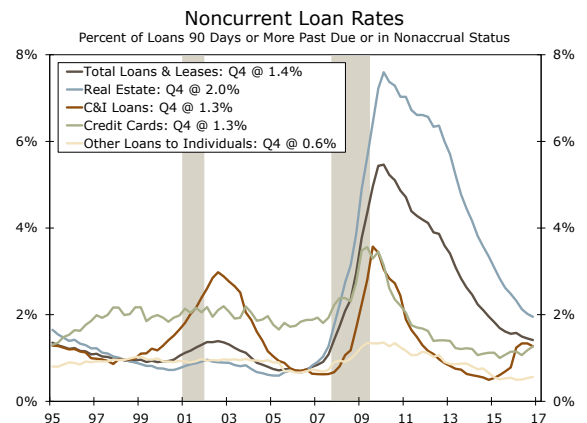
The Quarterly Banking Profile from the FDIC provides a comprehensive summary of the financial results for all FDIC-insured institutions. The delinquency data on bank balance sheets are one of the more useful segments of the report and provides insight into potential risks in financial markets. Noncurrent loan and lease balances declined for the 26<sup>th</sup> time in 27 quarters, falling by percent 1.8. The total noncurrent loan rate fell to 1.4 percent, the lowest since 2007, as the economy has continued to improve. In past reports, we have highlighted that, despite a falling aggregate noncurrent loan rate, the commercial and industrial (C&I) subcategory has seen a bit of deterioration over the past couple years (top chart). The decline in energy prices played a large role, but C&I delinquencies rose in all geographic areas over this period, not just in energy-centric areas.

As a result, the apparent stabilization in this indicator of late is a welcome sign. Noncurrent C&I loan balances fell for the first time in eight quarters, declining 5.3 percent. Real estate delinquencies also continued to decline, dipping below 2 percent for the first time since 2007. Credit card and auto lending saw a modest increase in delinquencies but remain at a relatively low level. That said, this will be an area we will monitor closely for late-credit cycle signs. The consumer has been a key support to economic growth, and weakening credit demand or credit deterioration would be a threat to faster economic growth in 2017. Further, in the most recent Senior Loan Officer Opinion Survey from the Fed, banks responded that they on net expect to tighten standards on auto loans and expect to see asset quality of both auto and credit card loans deteriorate somewhat over 2017.

#### Lending Powder Still Relatively Dry

Total loans and leases grew by 0.8 percent in the fourth quarter, led by a 5 percent increase in credit card lending. For full-year 2016, total lending growth was 5.3 percent (middle chart), with gains in commercial and industrial (5.1 percent), nonfarm nonresidential real estate (7.5 percent) and residential mortgages (4.8 percent).

We expect real GDP to accelerate from 2016's pace and reach 2-2.5 percent in 2017. Coupled with the potential for deregulation under the Trump administration, lending opportunities may grow as the year progresses. As illustrated in the bottom chart, the loan-to-deposit ratio is historically low, a sign that banks may be well-positioned to spur an acceleration in credit if economic growth improves and financial regulation loosens somewhat. We expect a flatter yield curve through the end of our forecast horizon in 2018, which would likely keep pressure on banks' net interest margins, which at 3.2 percent in Q4 remain historically low.



## Wells Fargo U.S. Interest Rate Forecast

	<b>Actual</b>				<b>Forecast</b>							
	<b>2016</b>				<b>2017</b>				<b>2018</b>			
	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>
Quarter End Interest Rates												
Federal Funds Target Rate	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.75	2.00
3 Month LIBOR	0.63	0.65	0.85	1.00	1.05	1.25	1.25	1.50	1.50	1.75	2.00	2.25
Prime Rate	3.50	3.50	3.50	3.75	3.75	4.00	4.00	4.25	4.25	4.50	4.75	5.00
Conventional Mortgage Rate	3.69	3.57	3.46	4.20	4.22	4.24	4.26	4.30	4.33	4.41	4.47	4.54
3 Month Bill	0.21	0.26	0.29	0.51	0.57	0.78	0.84	1.02	1.10	1.30	1.50	1.76
6 Month Bill	0.39	0.36	0.45	0.62	0.69	0.88	0.94	1.12	1.20	1.40	1.61	1.87
1 Year Bill	0.59	0.45	0.59	0.85	0.86	1.03	1.08	1.38	1.46	1.66	1.84	2.05
2 Year Note	0.73	0.58	0.77	1.20	1.23	1.35	1.42	1.66	1.75	1.93	2.11	2.26
5 Year Note	1.21	1.01	1.14	1.93	1.95	1.99	2.06	2.21	2.29	2.40	2.52	2.66
10 Year Note	1.78	1.49	1.60	2.45	2.47	2.50	2.53	2.57	2.62	2.71	2.78	2.86
30 Year Bond	2.61	2.30	2.32	3.06	3.15	3.23	3.26	3.34	3.40	3.49	3.58	3.67

Forecast as of: February 8, 2017

## Wells Fargo U.S. Economic Forecast and FOMC Central Tendency Projections

	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Change in Real Gross Domestic Product</b>			
Wells Fargo	1.9	2.2	2.5
FOMC	1.8 to 1.9	1.9 to 2.3	1.8 to 2.2
<b>Unemployment Rate</b>			
Wells Fargo	4.7	4.6	4.5
FOMC	4.7 to 4.8	4.5 to 4.6	4.3 to 4.7
<b>PCE Inflation</b>			
Wells Fargo	1.5	2.0	2.4
FOMC	1.5	1.7 to 2.0	1.9 to 2.0
<b>"Core" PCE Deflator</b>			
Wells Fargo	1.7	1.9	2.2
FOMC	1.7 to 1.8	1.8 to 1.9	1.9 to 2.0

Forecast as of: February 8, 2017

NOTE: Projections of change in real gross domestic product (GDP) and in inflation are from the fourth quarter of the previous year to the fourth quarter of the year indicated. PCE inflation is the percentage rate of change in the price index for personal consumption expenditures (PCE). Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated.

Fed Data as of: December 14, 2016

Source: IHS Global Insight, Bloomberg LP, Federal Reserve Board and Wells Fargo Securities

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