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Kentucky Banking & Insurance Interim Committee Meeting

Economic and Banking Conditions Update for Kentucky

Jim Fuchs, Vice President

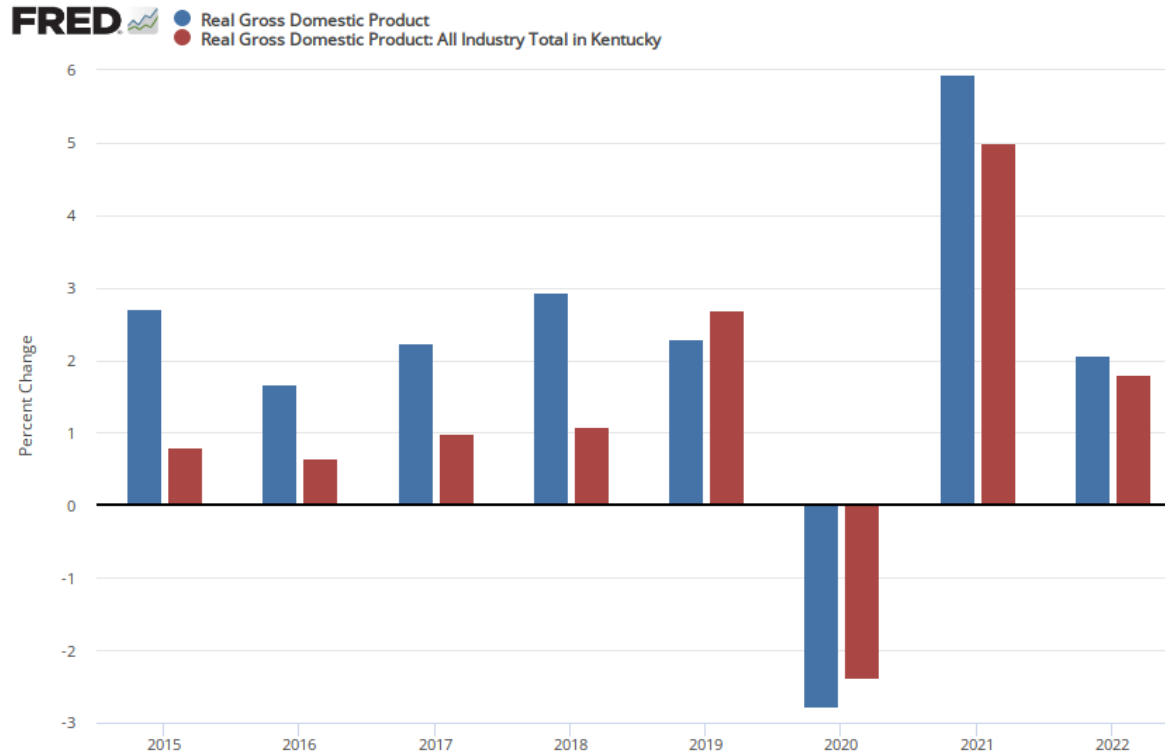
Federal Reserve Bank of St. Louis

August 1, 2023

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Economic Conditions

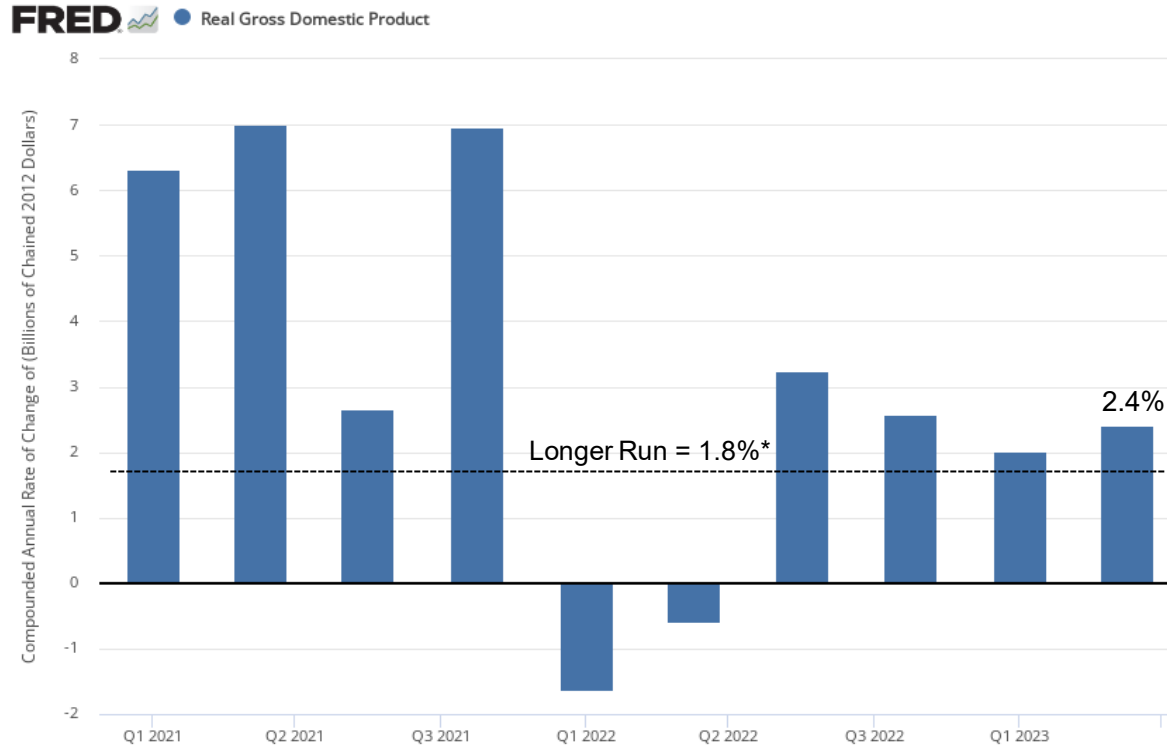
Economic growth slowed in 2022 across US, Kentucky



Source: U.S. Bureau of Economic Analysis

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GDP growth stronger than expected in first half of 2023

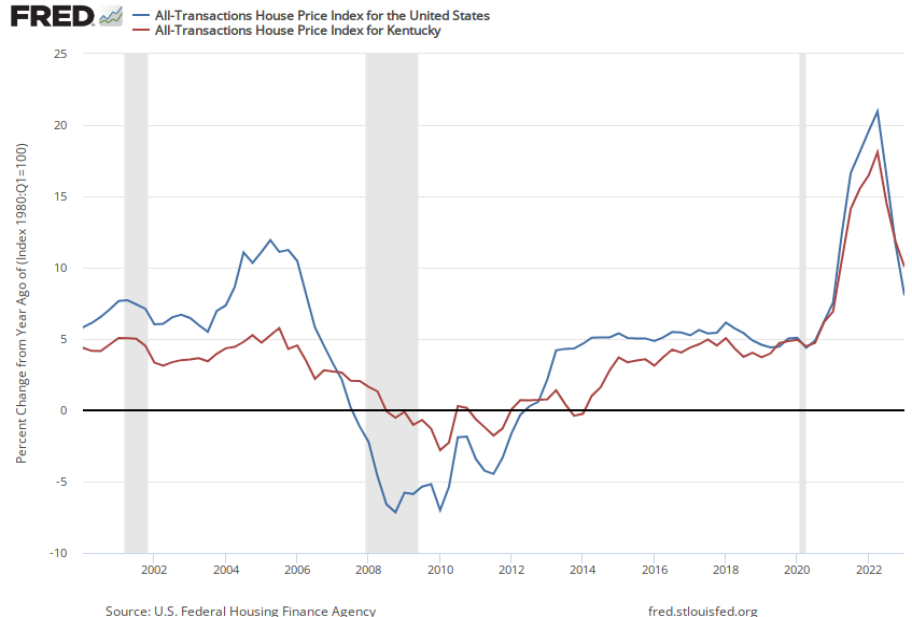


Source: U.S. Bureau of Economic Analysis

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* June 2023 Summary of Economic Projections

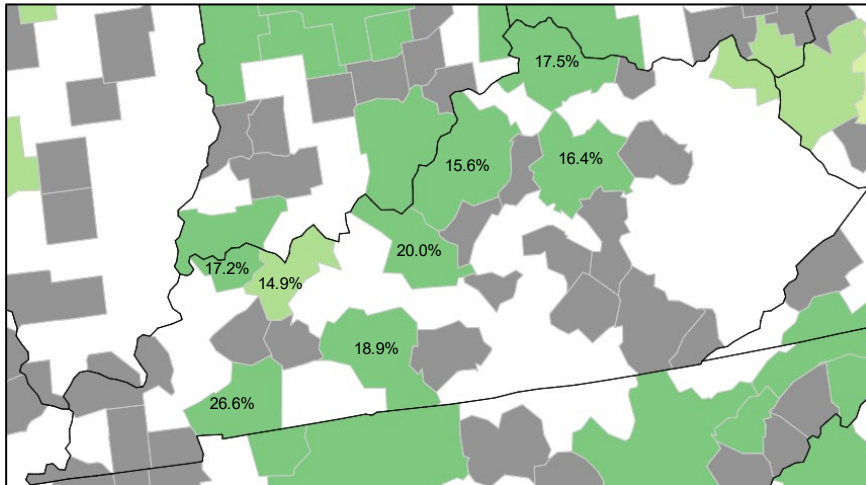
Housing affordability shows some improvement but remains a challenge for homebuyers



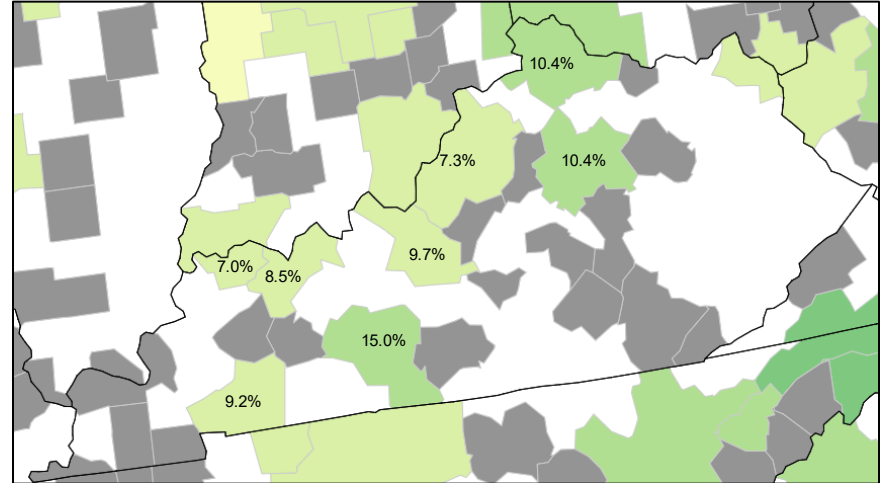
Home price appreciation moderates across Kentucky



All-Transactions House Price Index by Metropolitan Statistical Area (Percent Change from Year Ago)



2022 Q1



2023 Q1

Percent Change from Year Ago

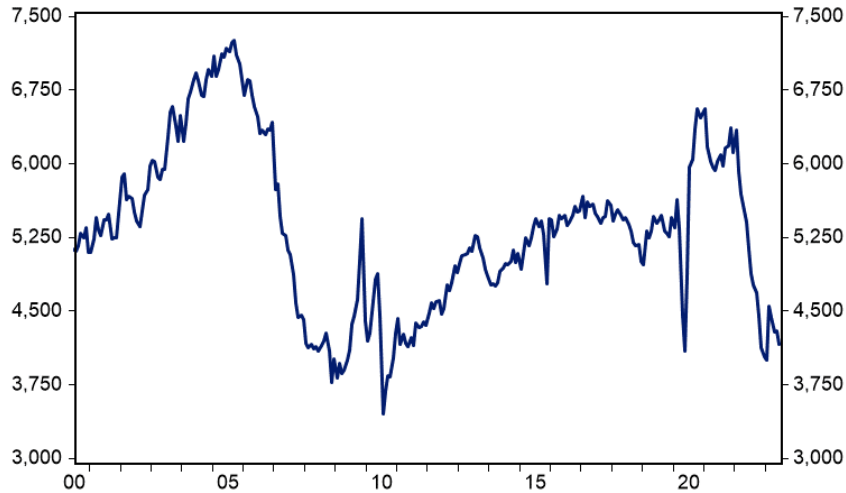


Source: U.S. Federal Housing Finance Agency

Inventories remain a significant hurdle for homebuyers

NAR Total Existing Home Sales, United States

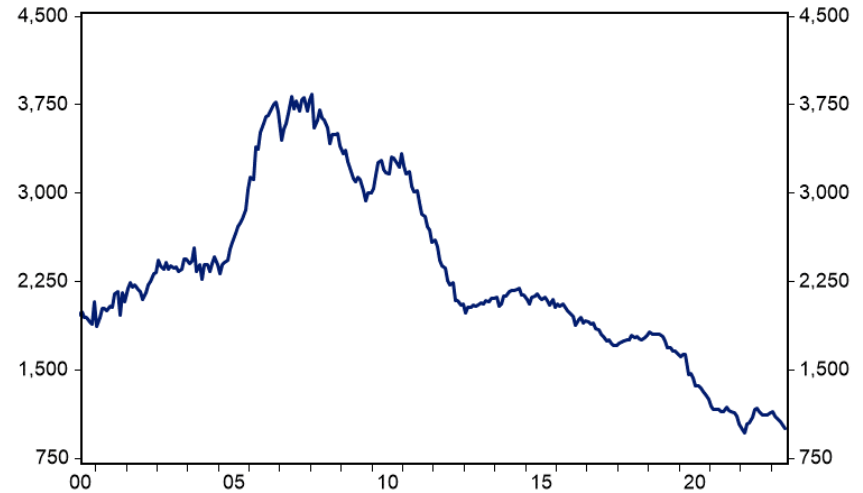
SAAR, Thous



Source: National Association of Realtors/Haver Analytics

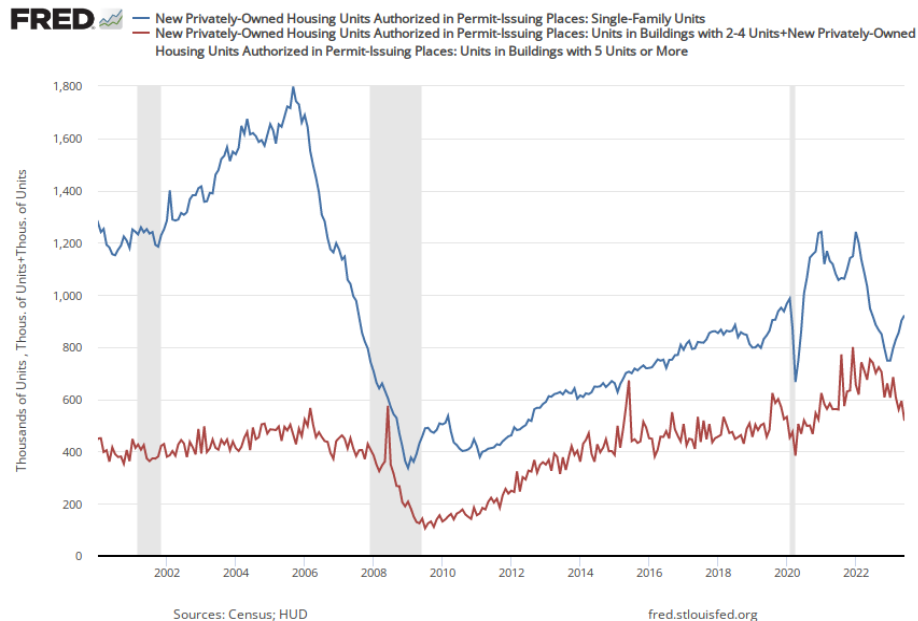
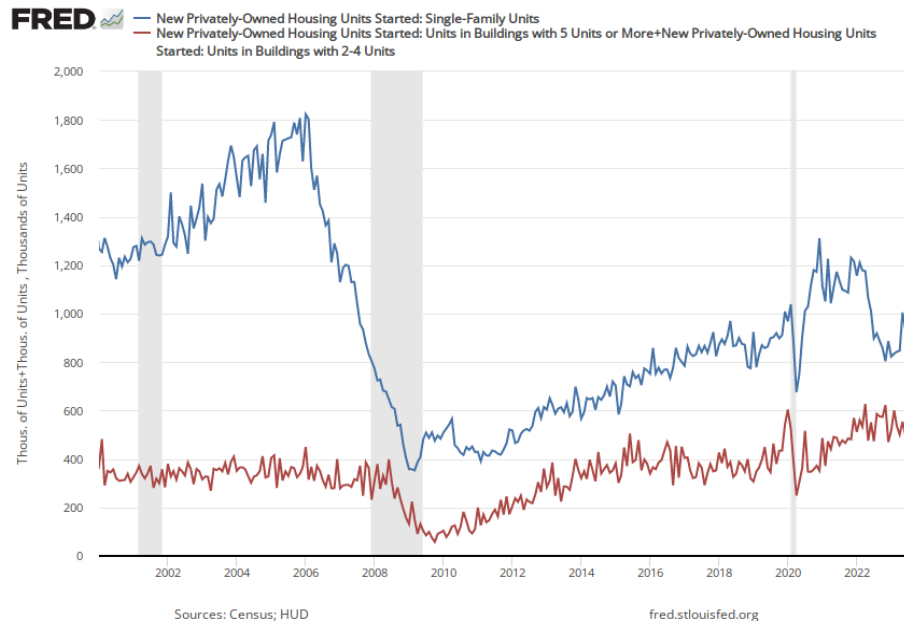
NAR Total Existing Homes Available for Sale at EOP, United States

SA, Thous

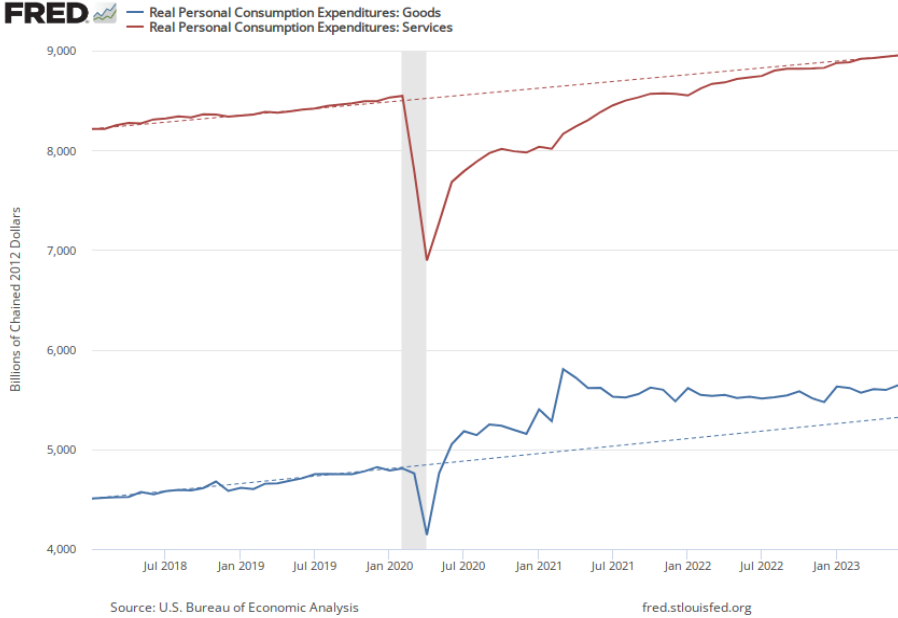
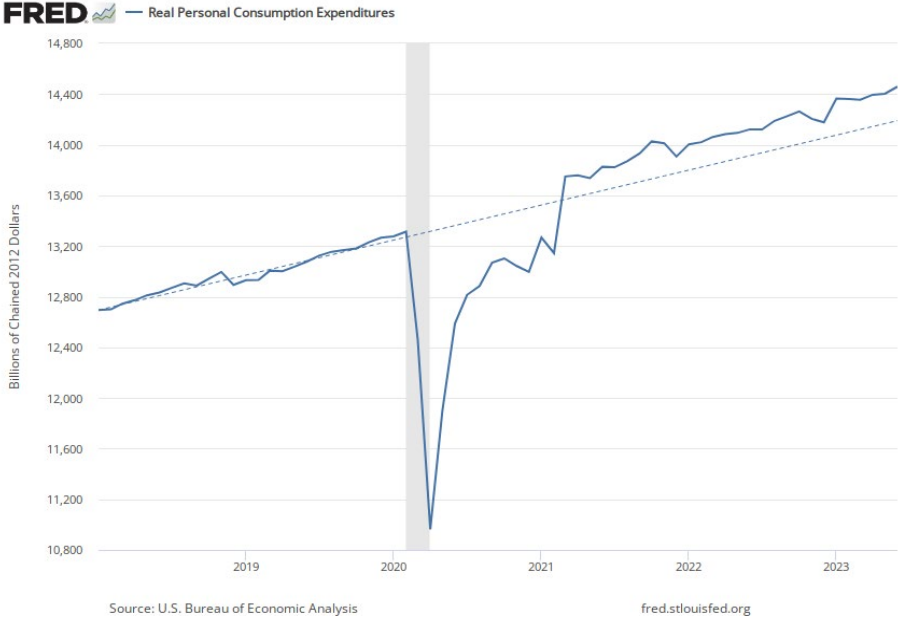


Source: National Association of Realtors/Haver Analytics

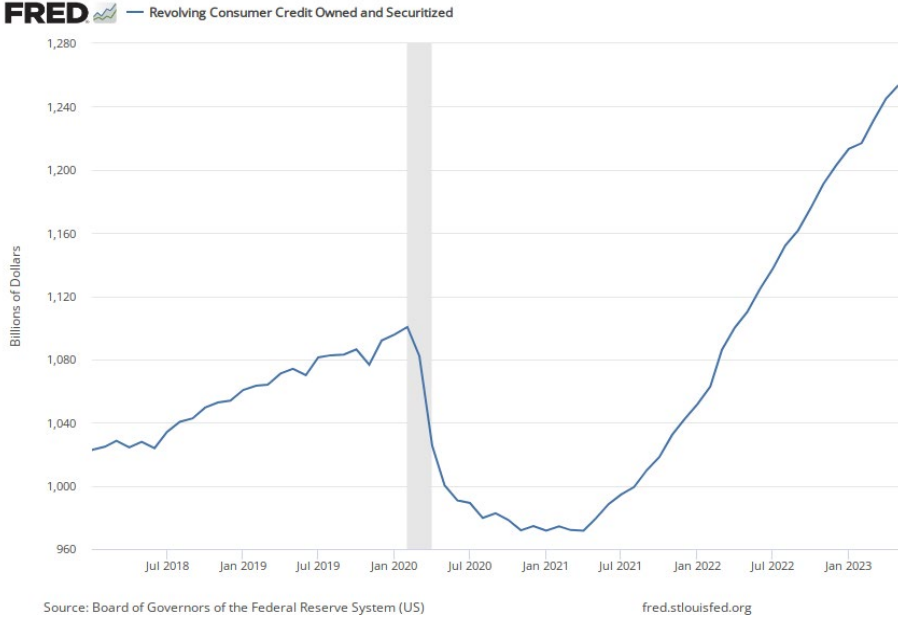
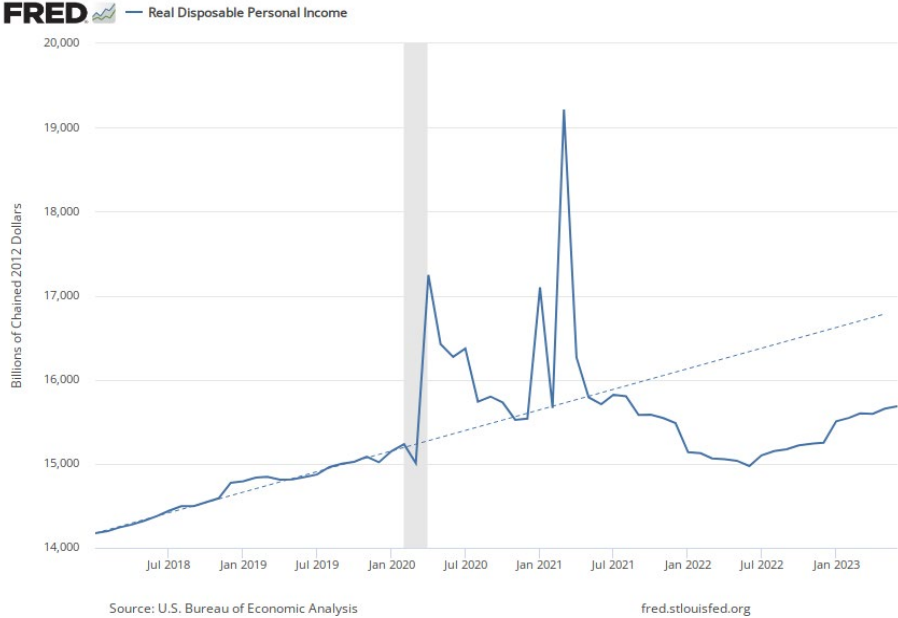
After weak 2022, single-family housing construction turning up; Multifamily market to cool?



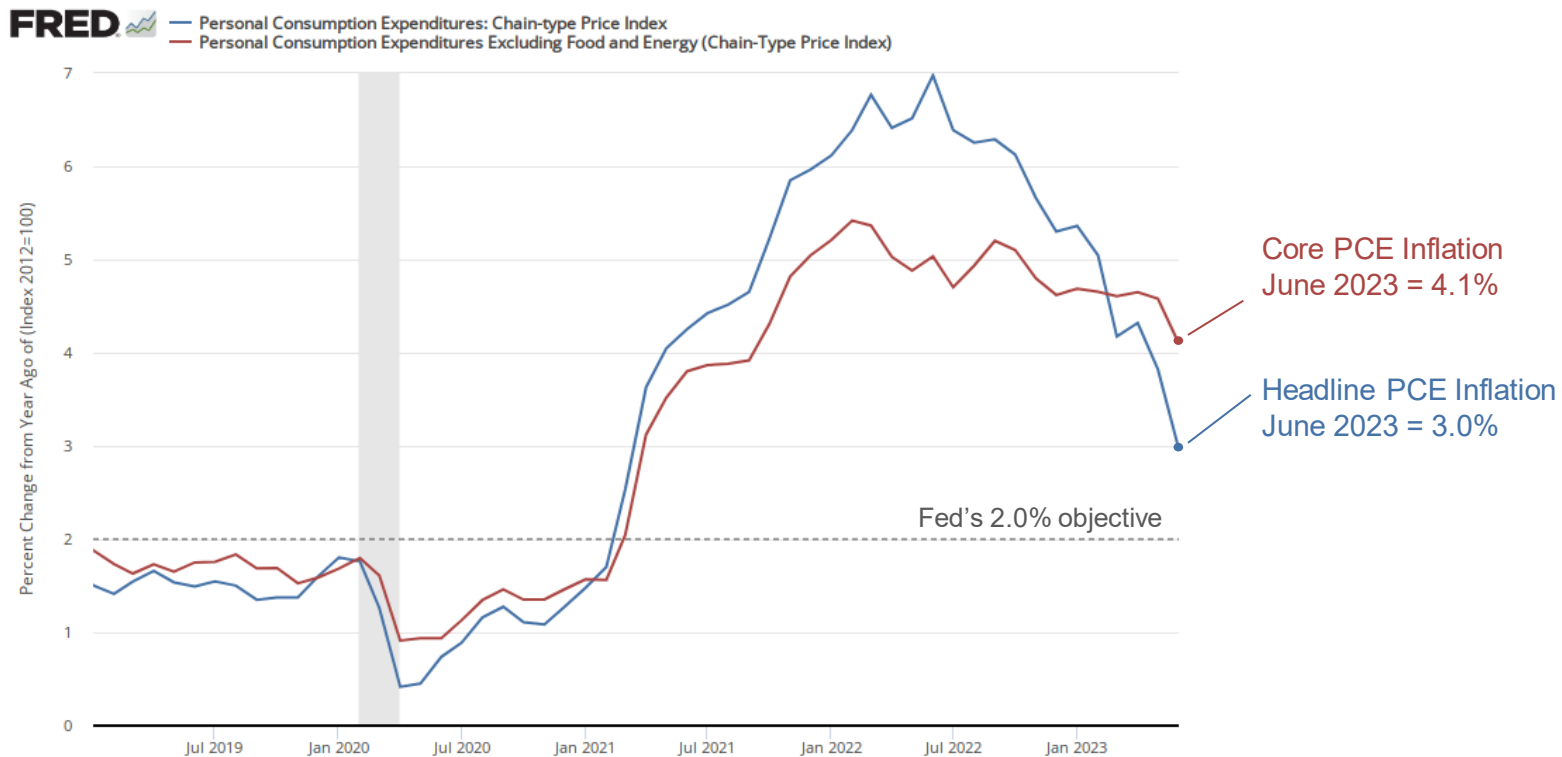
Strength in consumer spending led by goods, as spending on services recovers gradually



Real income softens following pandemic surge, consumer credit usage rises briskly



Inflation continues to moderate but remains elevated

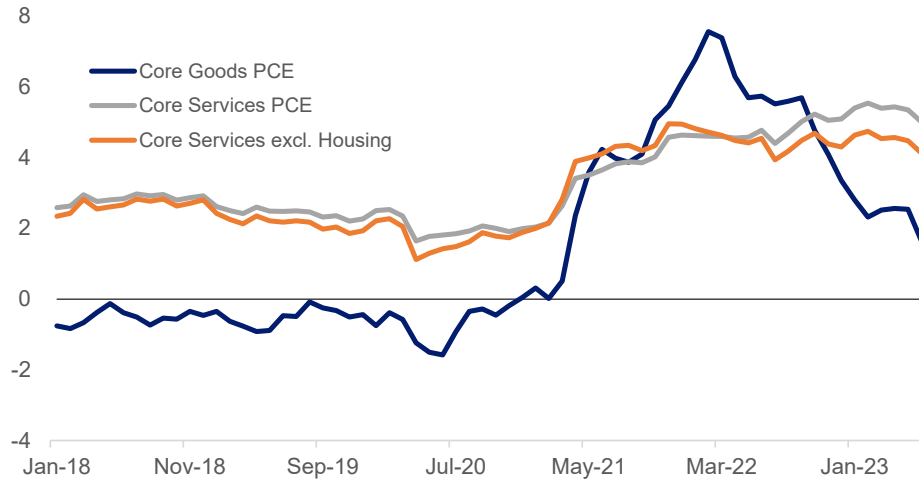


Source: U.S. Bureau of Economic Analysis

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Core goods inflation eases as supply chain pressures dissipate; core services inflation remains elevated

Core PCE Inflation by Goods and Services
year-over-year % change



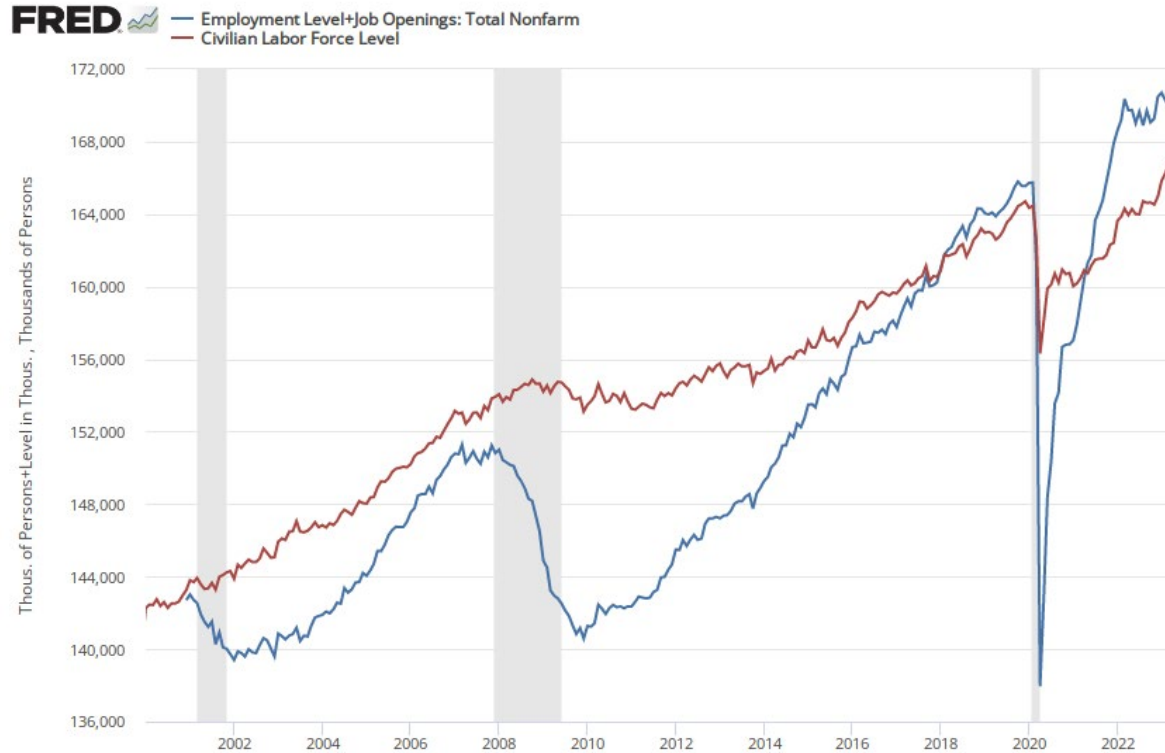
Source: Bureau of Economic Analysis

Global Supply Chain Pressure Index (GSCPI)
standard deviation from average value



Source: Federal Reserve Bank of New York

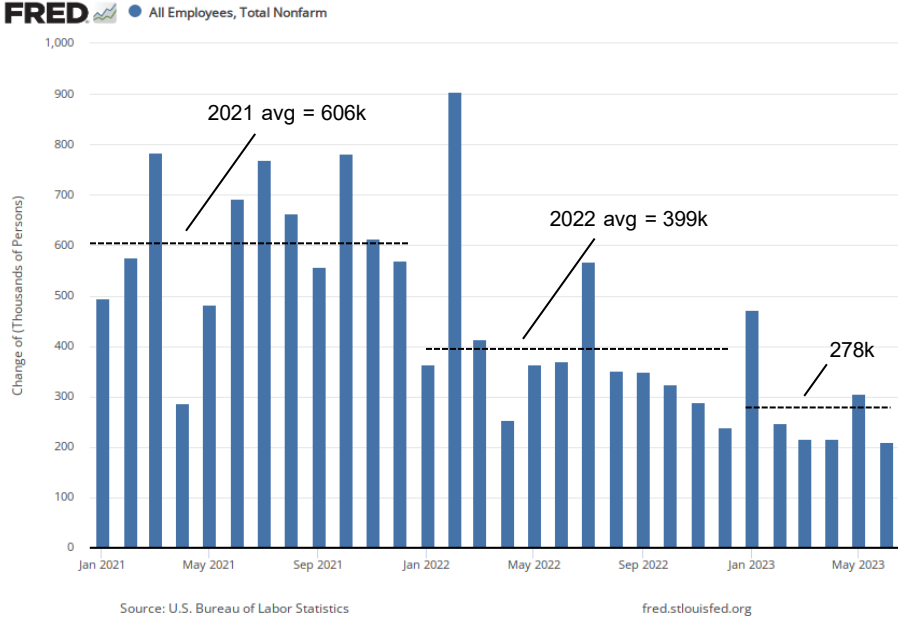
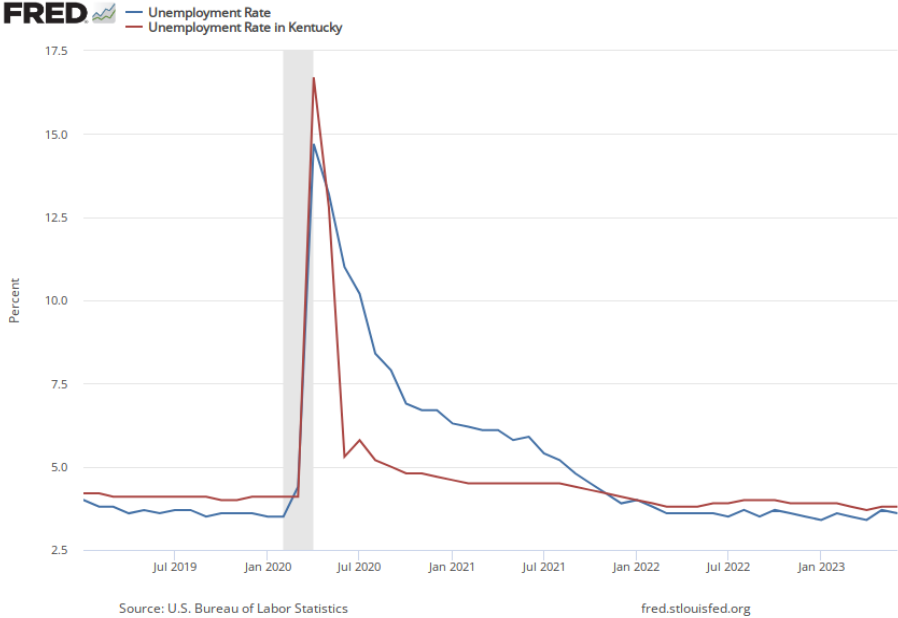
Labor demand continues to exceed labor supply



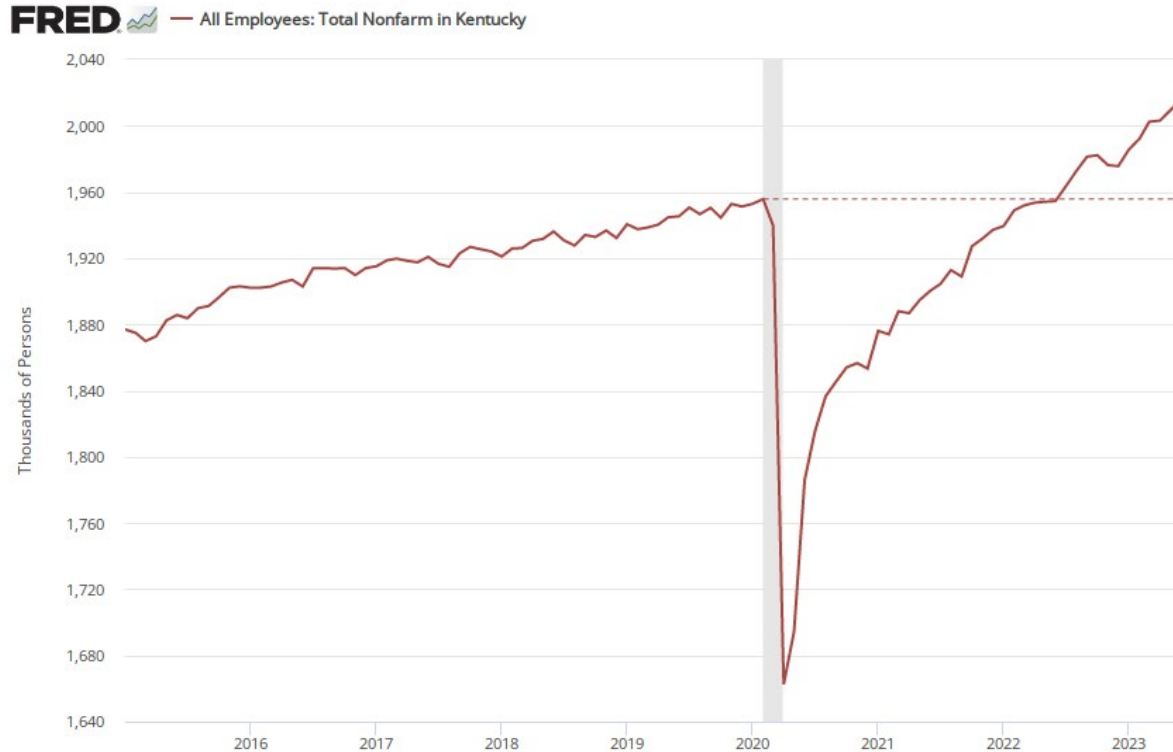
Source: U.S. Bureau of Labor Statistics

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Labor market remains tight, shows some signs of softening



Kentucky employment continues to trend higher

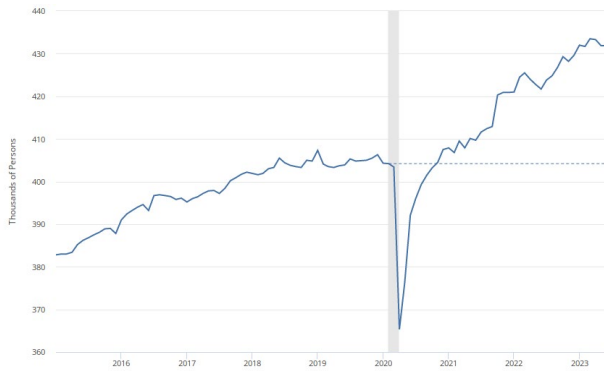


Source: U.S. Bureau of Labor Statistics

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Strength in Kentucky employment varies by sector

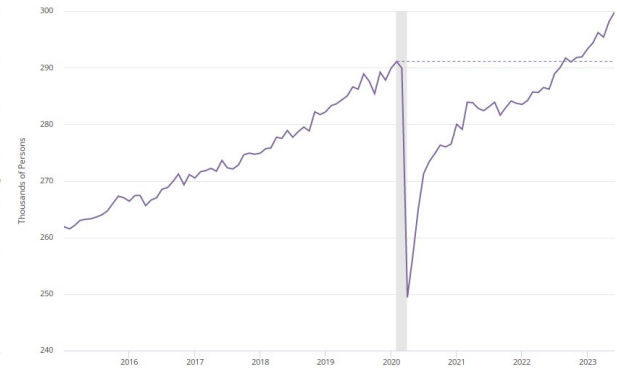
FRED — All Employees: Trade, Transportation, and Utilities in Kentucky



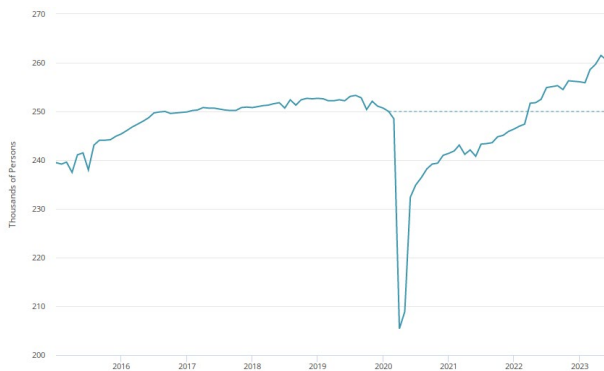
FRED — All Employees: Government in Kentucky



FRED — All Employees: Education and Health Services: Private Ecy



FRED — All Employees: Manufacturing in Kentucky



FRED — All Employees: Professional and Business Services in Kentucky

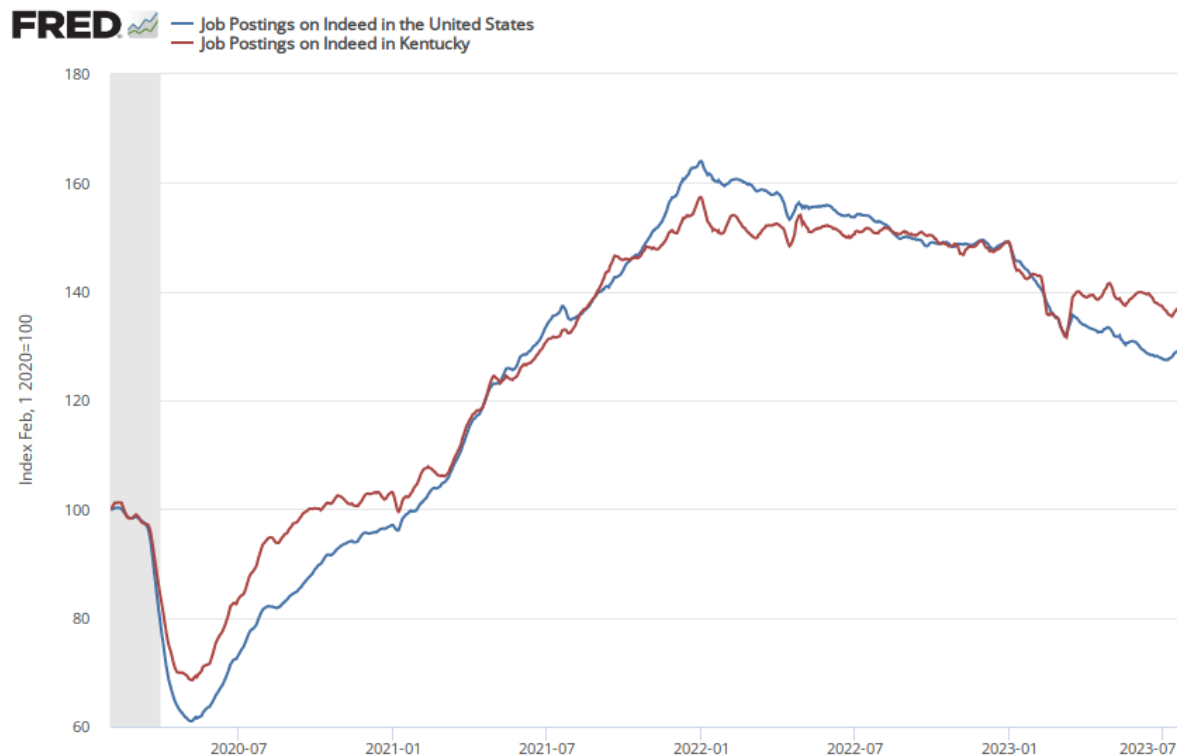


FRED — All Employees: Leisure and Hospitality in Kentucky



Source: U.S. Bureau of Labor Statistics

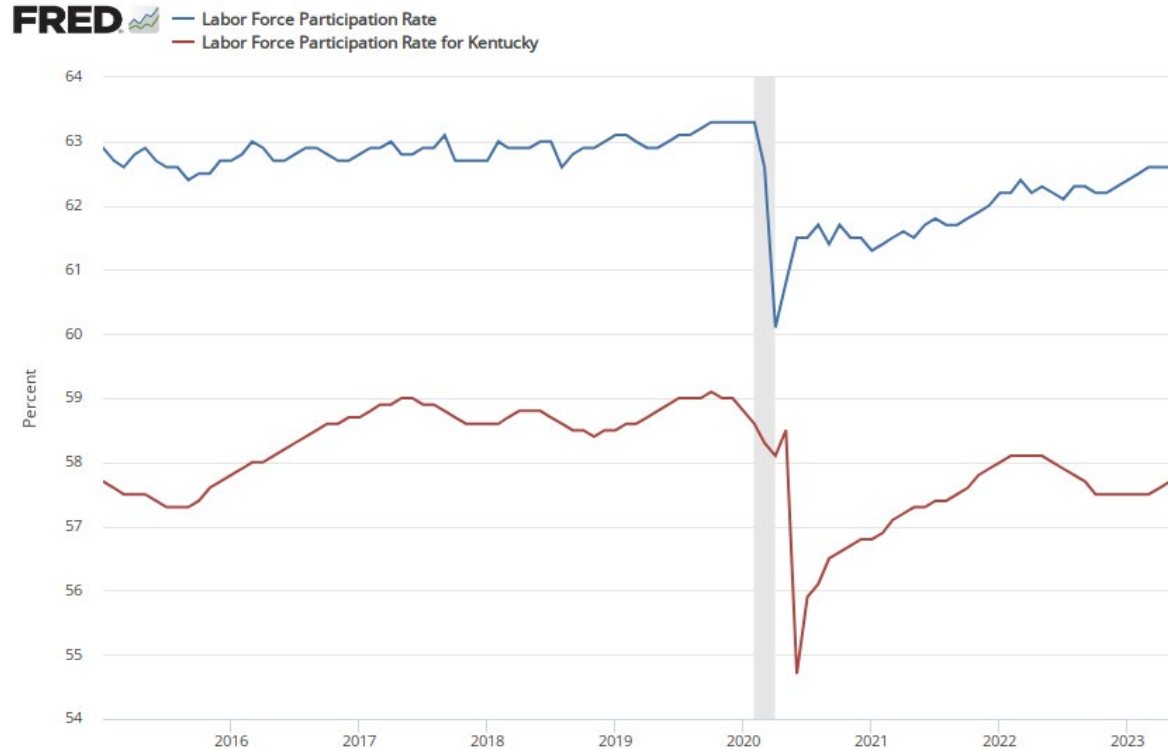
Job openings turn down but remain elevated



Source: Indeed

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Participation trends higher, falls short of pre-pandemic

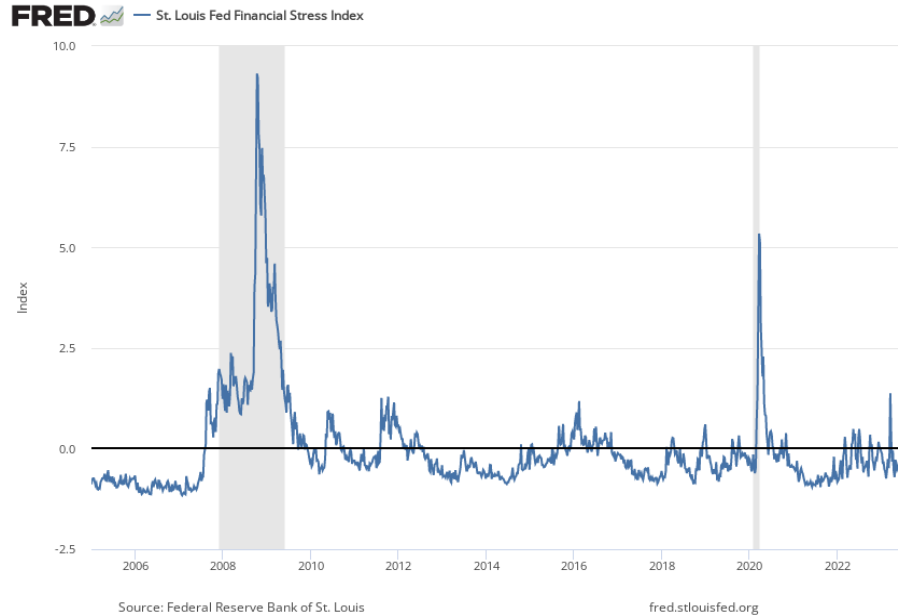


Source: U.S. Bureau of Labor Statistics

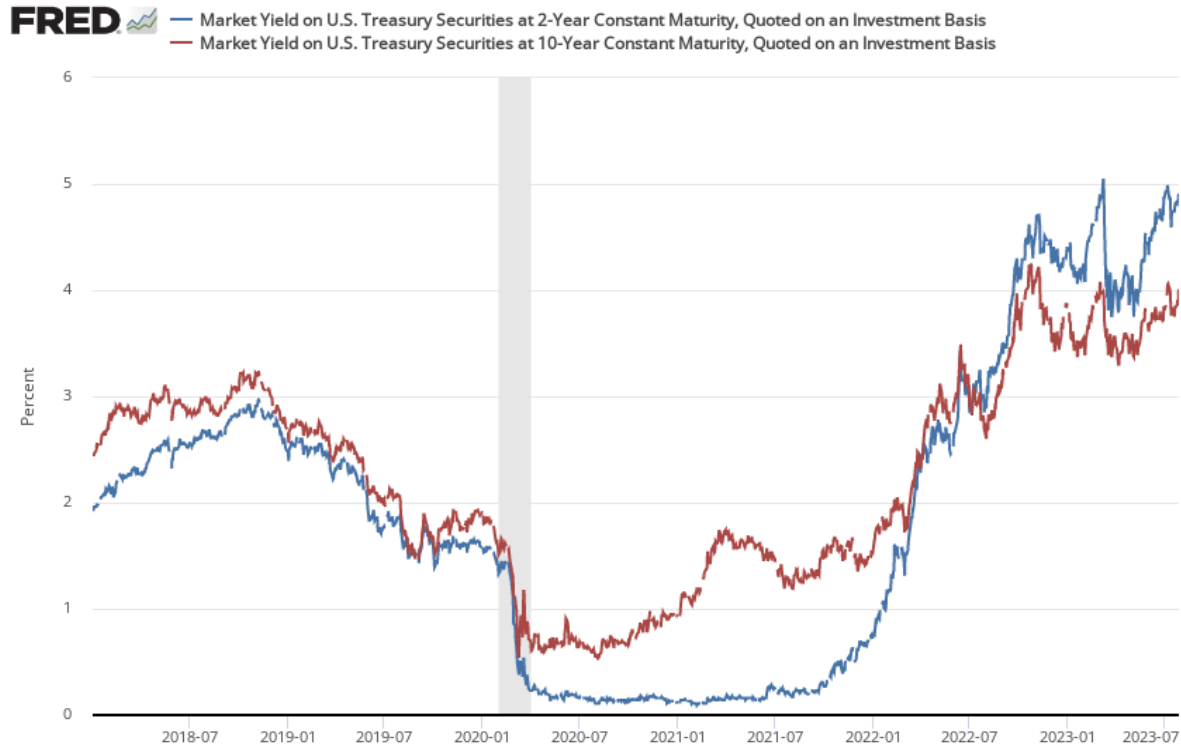
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Financial Conditions

Broad financial conditions have recovered since banking stress in mid-March



Moves in Treasury yields reflect policy expectations

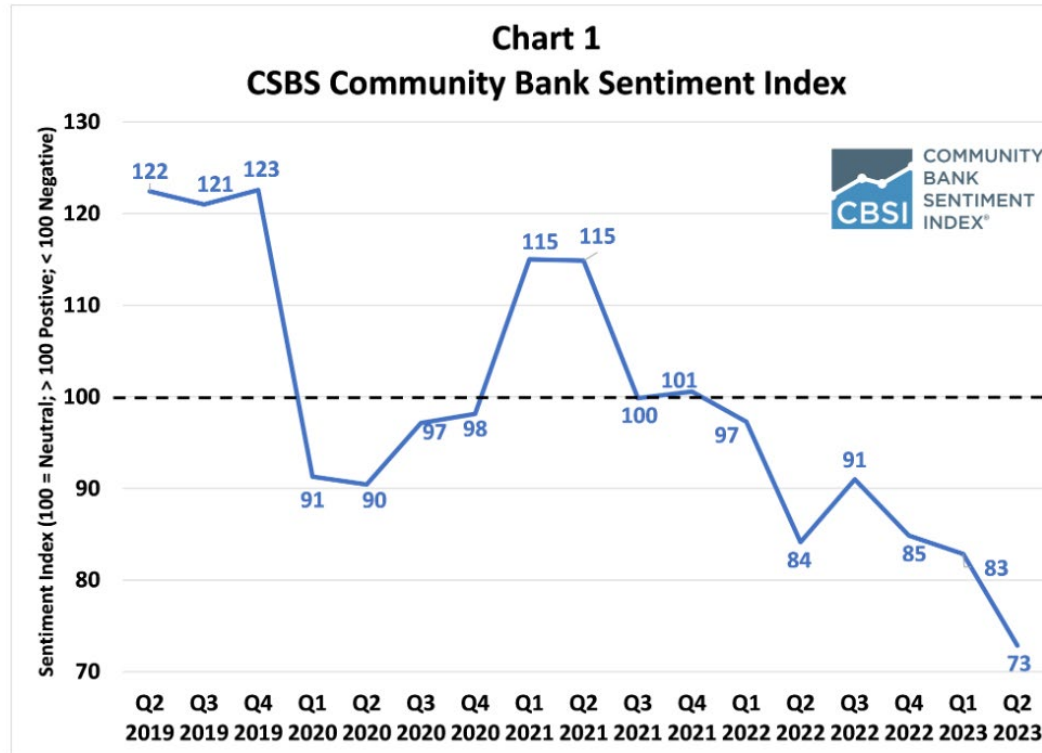


Source: Board of Governors of the Federal Reserve System (US)

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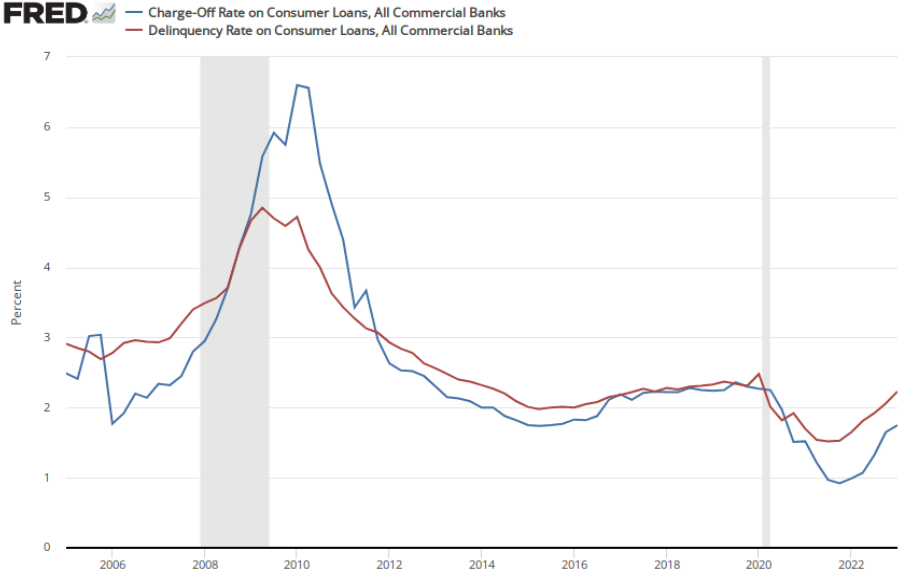
Banking Conditions

Community Bank Sentiment Index: Q2 2023



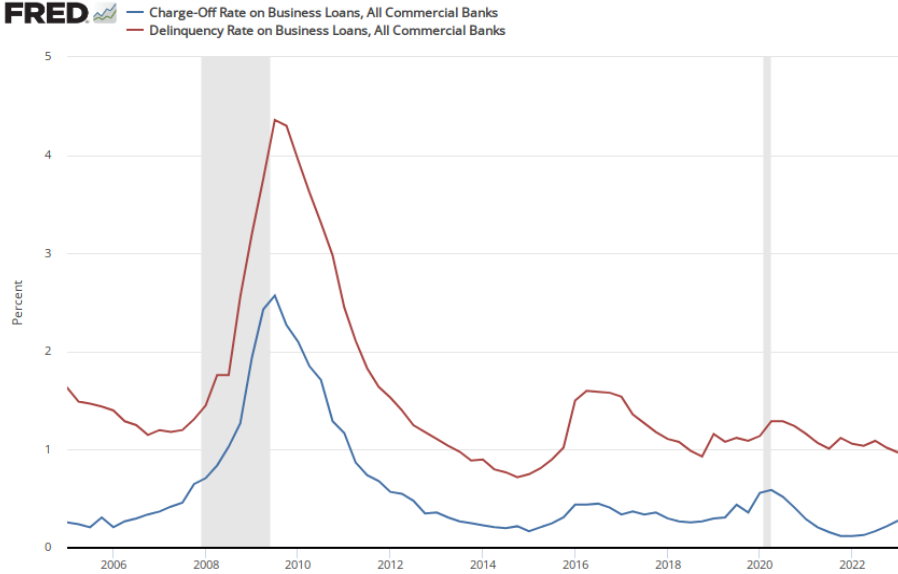
Source: Conference of State Bank Supervisors, 2Q23 Community Bank Sentiment Index ([CBSI](#))

Pick-up in charge-off rates for both consumer and business loans



Source: Board of Governors of the Federal Reserve System (US)

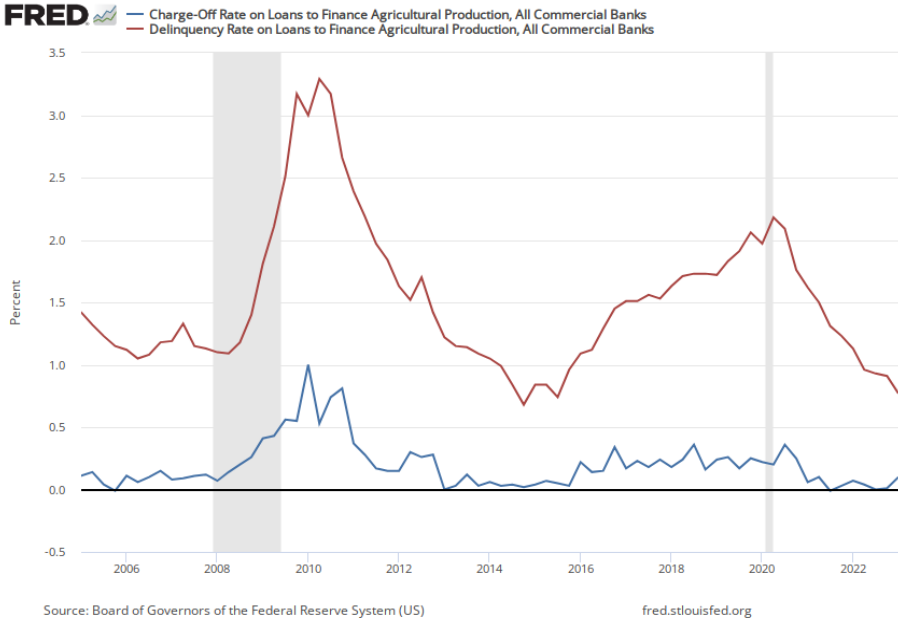
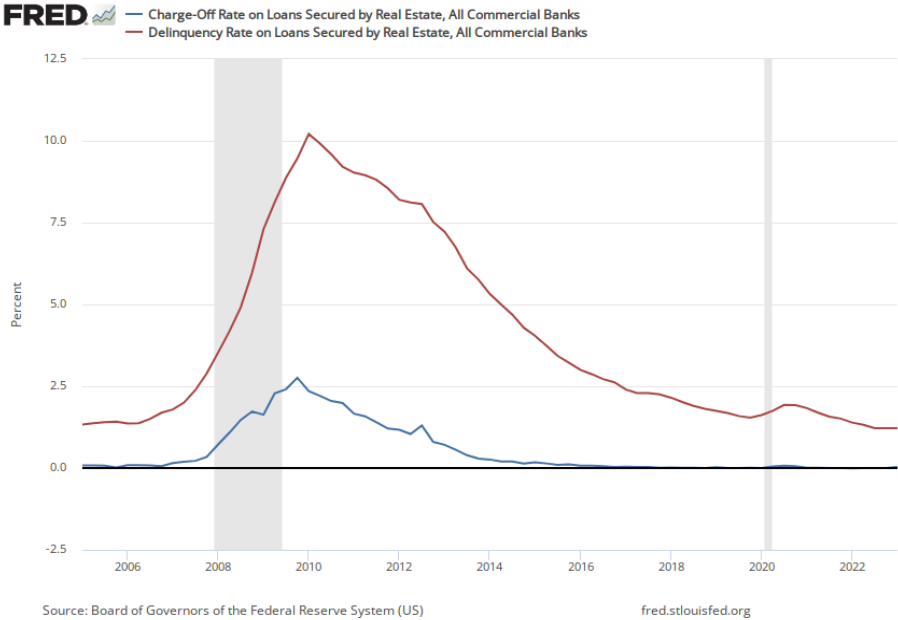
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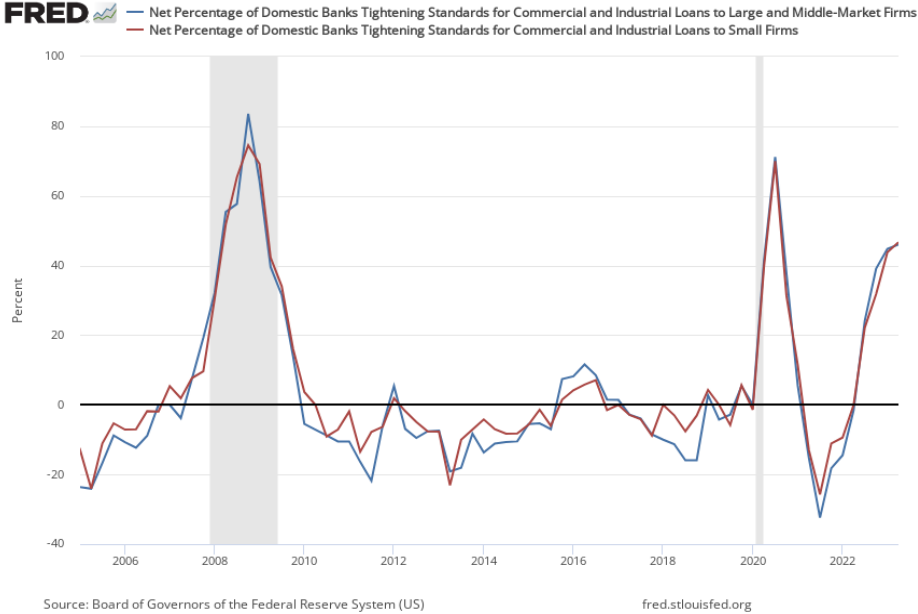
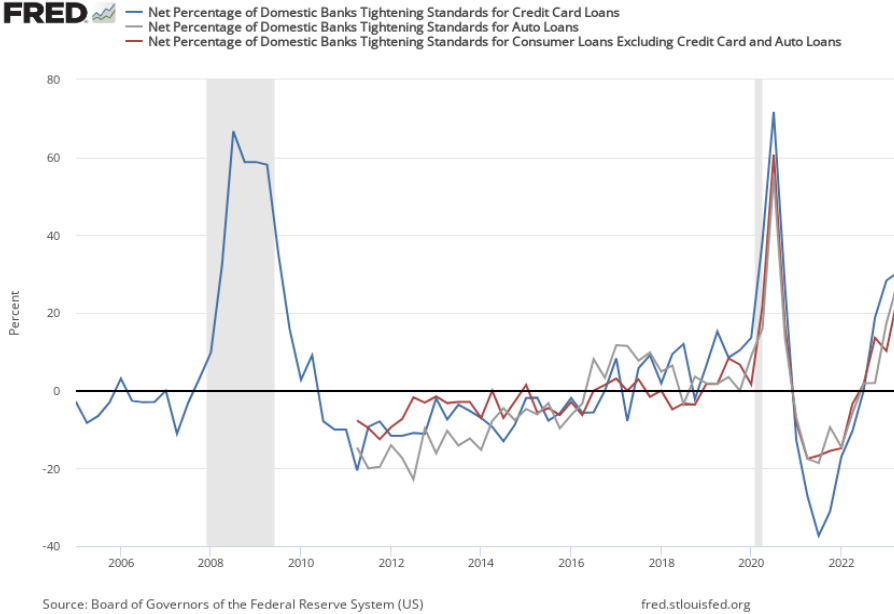
Source: Board of Governors of the Federal Reserve System (US)

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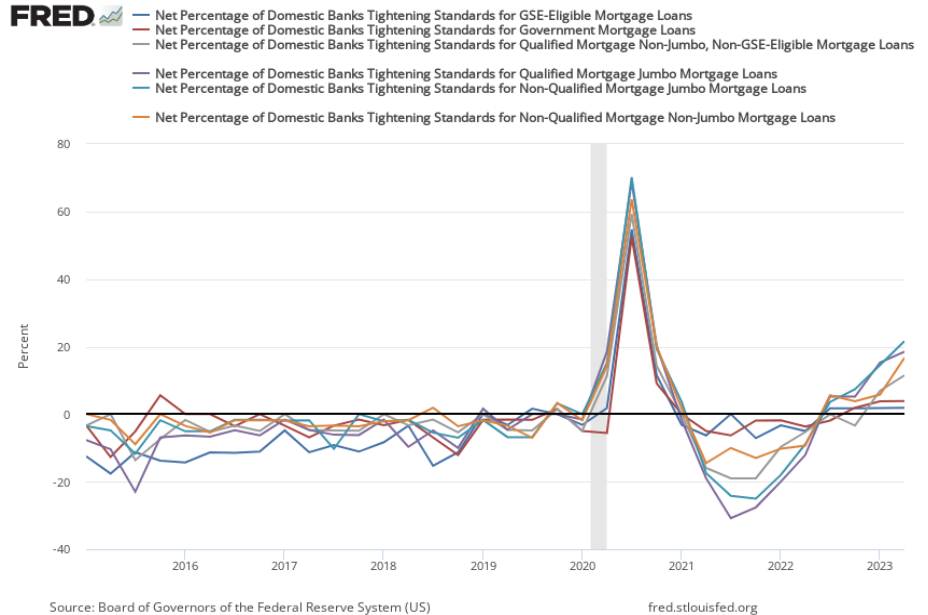
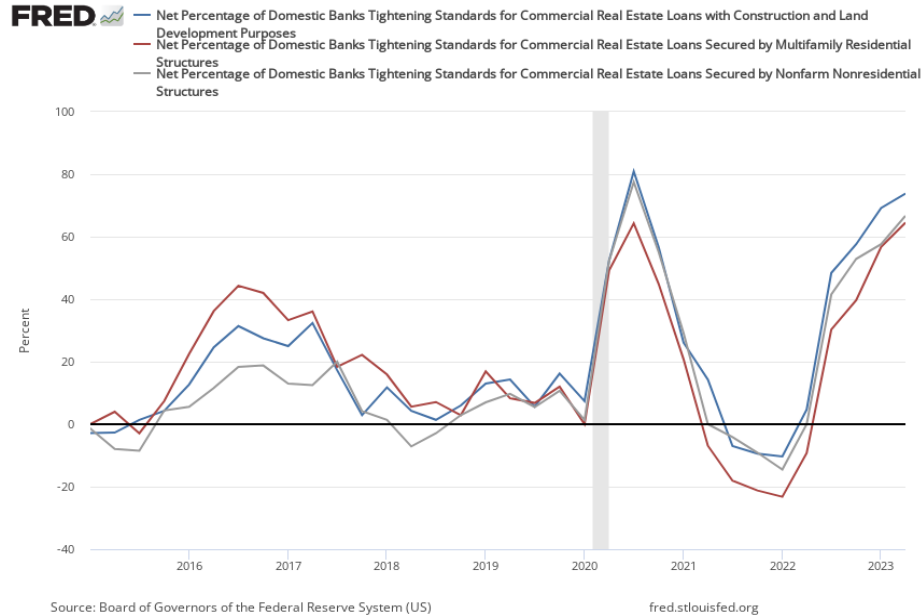
Delinquencies and charge-offs in real estate and agriculture remained low through 2023 Q1



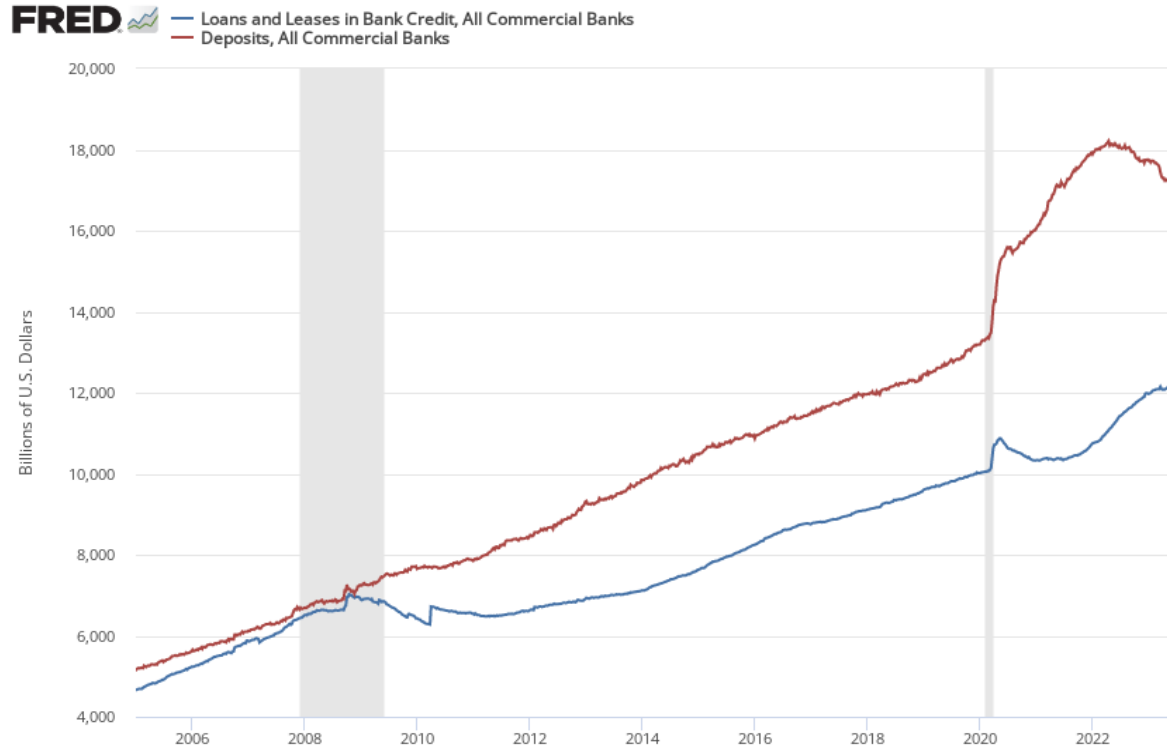
Standards tighten for consumer, C&I loans through early 2023



Banks signal tightening in loan standards for commercial real estate through early 2023



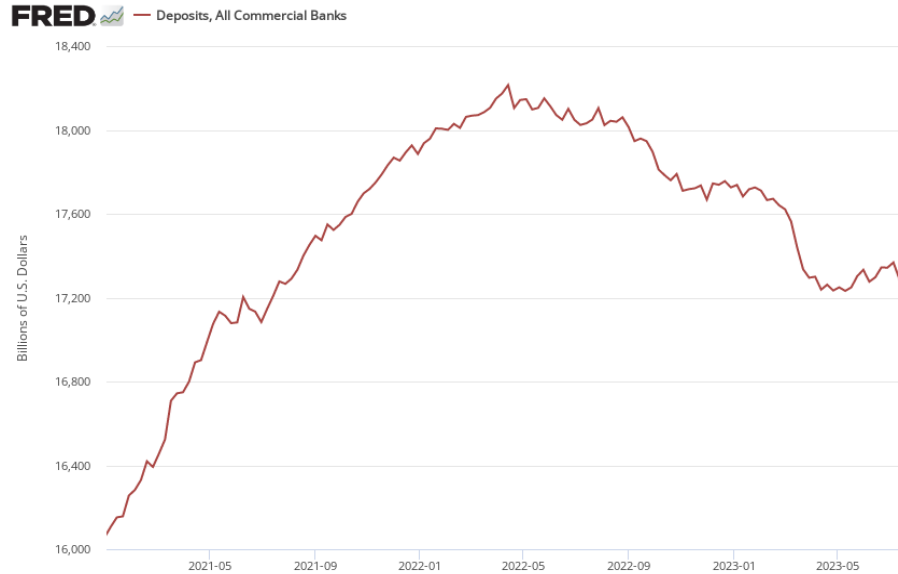
Surge in deposits unwinds, lending slows



Source: Board of Governors of the Federal Reserve System (US)

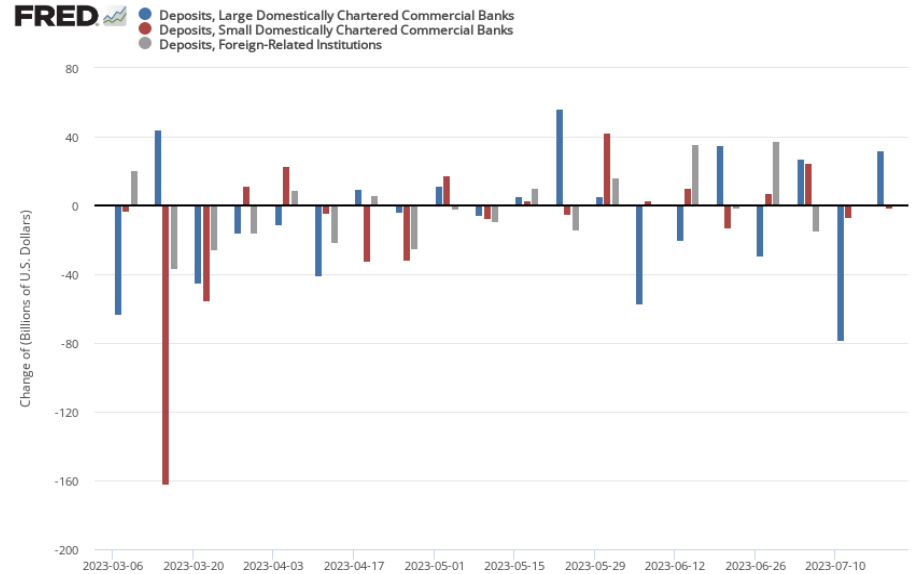
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Aggregate deposits stabilize after recent outflows



Source: Board of Governors of the Federal Reserve System (US)

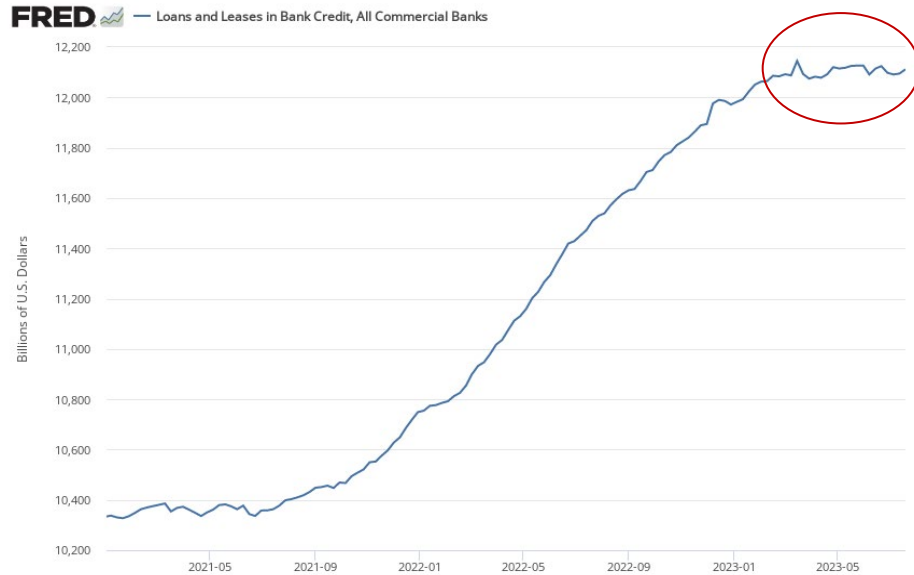
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Source: Board of Governors of the Federal Reserve System (US)

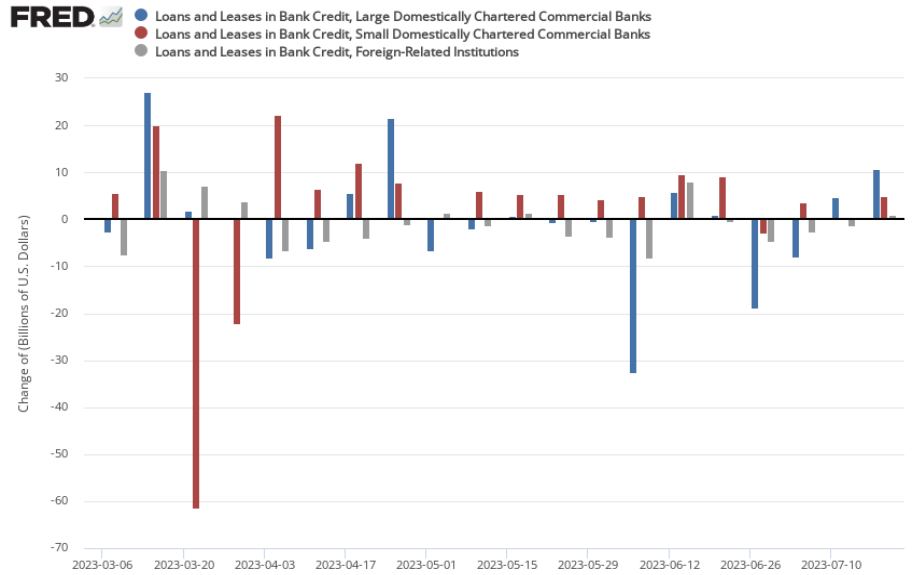
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Monitoring lending for signs of credit tightening



Source: Board of Governors of the Federal Reserve System (US)

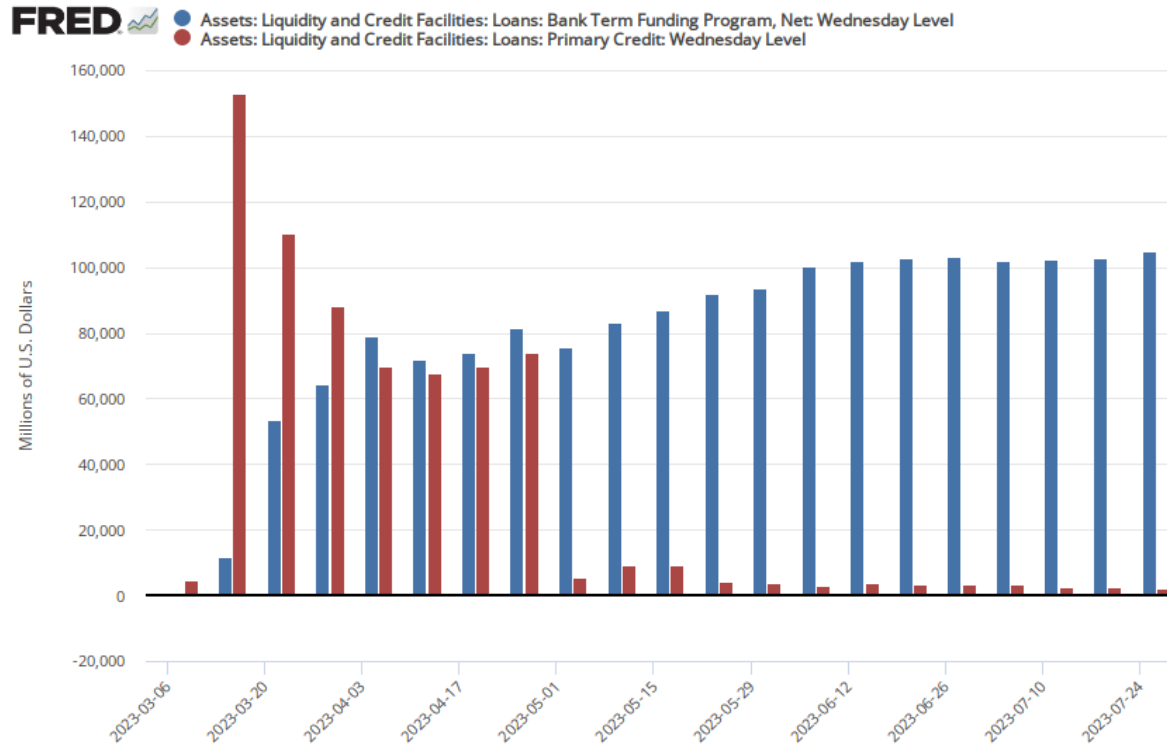
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Source: Board of Governors of the Federal Reserve System (US)

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Banks continue utilizing Bank Term Funding Program



Source: Board of Governors of the Federal Reserve System (US)

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Bank Term Funding Program

- Eligible collateral¹ valued at par instead of at the market rate for “primary credit eligible” banks
- Advances up to a one-year term
- No prepayment penalty
- Favorable rate (initially) when compared to FHLB and Federal Funds (rate is updated daily and posted publicly)
- Concerns regarding disclosures (“Stigma”); advances will be disclosed 1 year after the program ends on March 11, 2024; Discount Window advances are disclosed after eight quarters
- Considered to be part of a sound liquidity management program
(recently affirmed by state and federal banking regulatory agencies)

¹ Eligible BTFP is generally limited (compared to the Discount Window) to U.S. Treasuries, agency debt and mortgage-backed securities

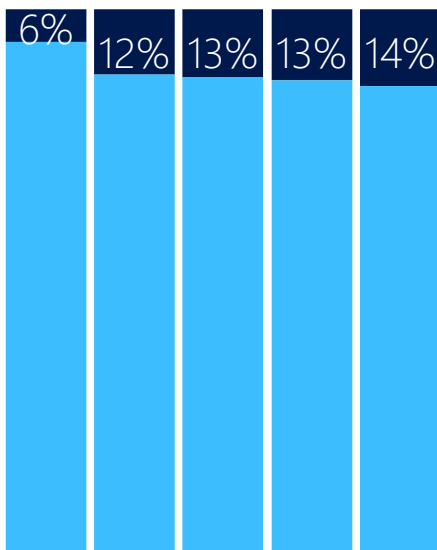
Source: The Federal Reserve Discount Window | Payment System Risk, www.frbdiscountwindow.org (BTFP)

Other Topics

BNPL has grown in popularity but attracts customers with lower credit scores and a propensity for using other high-interest products.

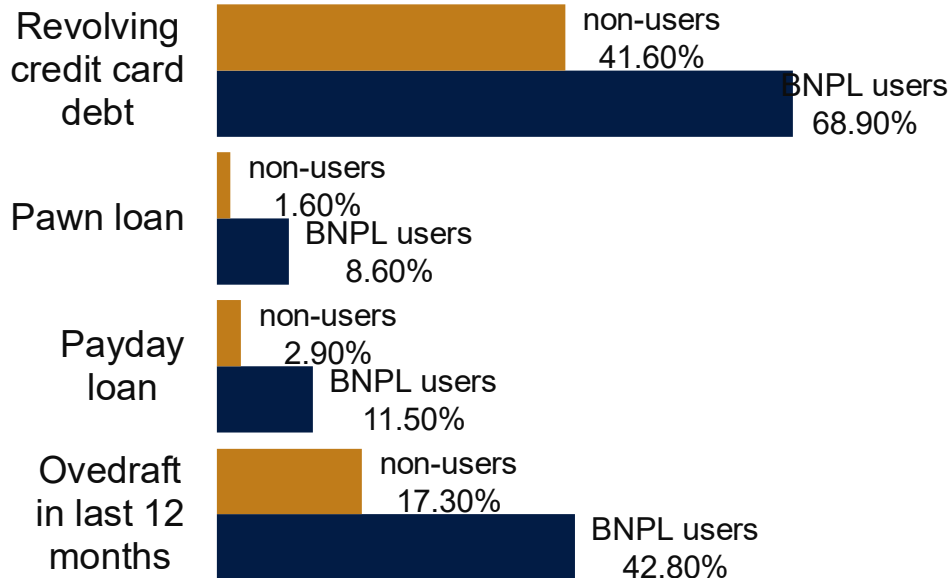
BNPL share of e-commerce transactions

2018 2019 2020 2021 2022



BNPL transactions \$ Billions

2021 2026 Forecast



Sources: [FIS Worldpay – Global Payments Report 2023](#)

[Embedded Finance | Bain & Company](#), 2022

Consumer Financial Protection Bureau, [Consumer Use of Buy Now, Pay Later: Insights from the CFPB Making Ends Meet Survey](#), March 2023

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