Bank failures tend to happen in waves, with the biggest one occurring during the Great Depression. From 1930 to 1933, more than 9,000 banks failed across the country, with depositors losing some $1.3 billion (about $28 billion in today’s dollars). At the time, that was about 20% of all deposits – gone. Depositors were not made whole by the government, either. The FDIC didn’t exist.¹

Deposit insurance and the FDIC came into existence in 1934, but it would take the agency the remainder of the 1930s to clean up the U.S. banking system. Between 1934 and the end of the decade, the FDIC closed about 50 banks a year, on average.

Fast forward to today, and readers may often hear that Silicon Valley Bank (SVB) and Signature Bank New York (SBNY) were the second and fourth largest bank failures in history, including all the major banks that failed during the Great Depression. With the more recent failure of First Republic Bank and ongoing pressure in the sector – namely on PacWest Bancorp – investors are rationally wondering if there’s more to this banking crisis than meets the eye.²

Some context is warranted. First, the statement that SVB and SBNY were the second and fourth biggest bank failures is only true if we do not adjust for inflation or scale the failures relative to GDP. Once we take inflation into account and also the size of the bank’s deposits relative to GDP, we find that Depression-era failures were substantially bigger.

The second factor to consider is that the most recent bank failures – at least to date – pale in comparison to previous waves of closures. As mentioned, more than 9,000 banks failed during the Depression era. During the savings-and-loan crisis that spanned much of the 1980s and early 1990s, just under 3,000 banks failed with collective assets of over $2.2 trillion. During the 2008 Global Financial Crisis, more than 500 banks were wiped out between 2007 and 2014 (this figure does not include the likes of Lehman Brothers, Bear Stearns, and others that were classified as investment banks).

The stock market did not perform well during the Great Depression, as readers know. But then again, the economy didn’t either. The years during and after the savings-and-loan and 2008 financial crisis were different. As you can see in
the performance charts for the S&P 500 below, the market overall continued to trend higher during the savings-and-loan crisis and also in the aftermath of the 2008 Global Financial Crisis. Bank failures no doubt had an impact on the economy and markets, but they didn’t drag on for years and years.

The point here is that the high-profile failures of SVB and SBNY, in addition to the regional bank stress that continues today, may feel like a crisis that isn’t being taken seriously enough. But the other perspective—which I would argue is the equity market’s perspective—is that this string of failures is small and contained relative to what the U.S. economy has experienced historically. The fact that the market has been rising in 2023 may be telling us all we need to know about the scale of this banking ‘crisis.’

**Bottom Line for Investors**

Investor worries about the regional bank crisis—and its potential for economic disruption—may be entering a new chapter with PacWest Bancorp. In a security filing in early May, the bank reported losing 9.5% of its total deposits, most of which occurred on May 4 and 5 when news reports hinted at a potential sale. The stock has been pummeled.

For PacWest and other regional bank names, bond markets are demanding higher yields for regional bank bonds, and short sellers are eager to identify the next possible shoe to drop in the sector. These factors are adding additional pressure, which can easily rattle depositors and result in more failures. But considering the overall health of the U.S. banking sector and the so-far slow roll of these regional bank failures, I do not see the problem escalating the size and scale of previous waves, when hundreds and thousands of banks failed. The stock market seems to have arrived at the same conclusion.
ABOUT MITCH ZACKS

Mitch is the CEO & Senior Portfolio Manager at Zacks Investment Management. Mitch has been featured in various business media including the Chicago Tribune and CNBC. He wrote a weekly column for the Chicago Sun-Times and has published two books on quantitative investment strategies. He has a B.A. in Economics from Yale University and an M.B.A in Analytic Finance from the University of Chicago.


3 Zacks Investment Research.

4 Zacks Investment Research.

5 FDIC. 2023.
https://www.fdic.gov/bank/historical/bank/
The U.S. Consumer Won’t Go Away

In the first quarter of this year, it appeared that the U.S. consumer was pulling back spending. Some economists pointed to dwindling savings and rising concerns about the health of the banking system as reasons for the slight retrenchment. Others cited worries over the jobs market. Data from April shows the pullback didn’t last very long – retail sales for the month rose a seasonally adjusted +0.4% from March. Retail sales measure spending at stores, online, and in restaurants. The Commerce Department reported that spending on dining out, shopping online, and autos all went up. Consumers pared back spending on big-ticket items like furniture and appliances, however. The uptick in consumer spending is a positive development, but there is an important caveat to retail sales data – it does not adjust for inflation. Year-over-year, retail sales rose by 1.6%, but inflation went up by 4.9% over the same period. In other words, consumers are not necessarily out spending more, they’re just paying more for the same items.1

Consumers are Spending, But Are They Using Too Much Credit?

Delinquency rates on credit cards, auto loans, and mortgages are rising. According to the Federal Reserve Bank of New York, about 4.57% of credit card debt crossed 90+ days delinquent in the first quarter, compared to 3.04% in Q1 2022. For auto loans, the delinquent rate rose from 1.61% to 2.33% over the same period, and mortgages moved from 0.34% to 0.54%. Many readers may rightly point out that these figures are quite low, which should be encouraging when thinking in terms of macroeconomics. They are also pretty much in line with pre-pandemic levels when the economy was in fine shape. But there are two features of this delinquency data that are worth noting. The first is that the age group with the highest delinquency rate was 18- to 29-year-olds. The second is that this age group is generally the cohort with the highest level of student debt, the payments of which have been paused because of a Covid-era policy. The question is, what happens to this group when the freeze on federal payments is lifted? The expectation is that delinquencies could rise further, not just in credit cards but also in student loans. All the more reason to start financial education at a young age.2

Source: Federal Reserve Bank of St. Louis3

U.S. Workers are Staying Put

One of the economic legacies of the pandemic was the rise of remote and hybrid work, which spurred many workers to leave cities in search of homes that could facilitate home office setups. In many cases, workers could keep their jobs and work remotely. The return to offices has halted this trend, along with higher mortgage rates that have cooled the housing market. But a recent study also finds that workers are relocating for jobs at the lowest rate on record, with records going back to 1986. Back in the 1980s and 1990s, about one-third of workers would move for new jobs, but higher housing costs coupled with the ability to work remotely have seen these figures plummet. In a
survey conducted in Q1 2023, only 1.6% of workers relocated for a new job.\textsuperscript{4}


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