Banking & Financial Services

Regions Bank chief economist talks Florida's transition to ‘the new normal’ post-pandemic

The pandemic-era boom in Florida markets like Tampa Bay is transitioning to a more normal rate of growth, according to Regions Bank Chief Economist Richard Moody.

AERIAL INNOVATIONS

By Christina Georgacopoulos – Reporter, Tampa Bay Business Journal
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Regions Bank Chief Economist Richard Moody and Chief Investment Officer Alan McKnight are forecasting slower growth for the U.S. economy after an unexpectedly strong performance in 2023.

The labor and supply side expansion of the economy last year raises the question of how much capacity remains for growth in 2024, according to Moody.

Florida markets, in particular, will find a new normal after explosive growth over the last three years, but the outlook is still positive. Large metro areas in Florida remain "some of the hottest markets in the country," Moody said.

"Once the dust settles, there's still outperformance there," he said.

Moody and McKnight spoke with the Tampa Bay Business Journal during a recent visit to the region. They shared their outlook for the Florida economy, thoughts on highly anticipated interest rate cuts in 2024, and highlighted risks for the banking sector.

Birmingham, Alabama-based Regions Bank (NYSE: RF) is the 32nd-largest bank in the U.S. and the sixth largest in Tampa Bay, with $7.66 billion in deposits across 73 local branches.

Regions Bank Chief Economist Richard Moody

REGIONS BANK

Do you share the consensus view of a soft landing this year?

Moody: I don't do the catchy terms like soft landing or Goldilocks, but we do think the economy will continue to grow. We have growth at a bit more than 2%, which is above consensus. The big question is, how much room is there for the supply side of the economy to expand? I also don't think there's as much capacity for the labor force to grow this year. Those were two meaningful contributors last year that will be more or less neutral this year.

But unemployment is still below 4%, and household and corporate balance sheets are still very strong, so we think that's going to be a support for spending.

What's the economic outlook for Florida? Markets here boomed during the pandemic; are those positive trends reversing?

Moody: It's not just Florida; it's Texas, Georgia, Tennessee and the Carolinas. Those are states that already had more favorable demographic profiles in terms of population flows, business migration and, of course, lower costs of living, lower labor costs and more business friendly regulatory environments.

We've been talking about those advantages for decades. It's slowing down a bit in Florida but that's coming off of what was an unsustainable pace over the past three years or so. Florida is still outperforming the U.S. in terms of job and income growth and population migration, and that's not going away.

You also have to think about some of the sectors that drove job growth. In Tampa, in particular, that was financial services, logistics and high tech. Overall growth is slowing but into more normal, pre-pandemic rates.

That still leaves Florida ahead of the U.S. and Tampa ahead of the state. The large Florida and Texas metros are some of the hottest markets in the country. Once the dust settles, there's still outperformance there.

McKnight: The relative advantages are there, but the spread has decreased in terms of opportunity. The regions that had a large boost also have rising costs of living. The number of companies that can move to those areas is going to lessen by the very nature of that trend.

Regions Bank Chief Investment Officer Alan McKnight

REGIONS BANK

How are you thinking about interest rate cuts this year?

McKnight: The markets may be a bit too optimistic about the number of rate cuts. The fact that they're pricing in six cuts at 25 basis points apiece seems a bit aggressive in terms of where we are in the economy. We're just not convinced that we need that magnitude of cuts.

Moody: The degree of rate cuts some markets are pricing in is not at all consistent with most people's outlook for the economy. Six cuts seems wildly implausible.

[Federal Open Market Committee] members have been pushing back pretty aggressively against the markets in their public comments. The realization that six cuts might not happen is sinking in, and we're seeing some readjustment in both equities and fixed income.

Inflation has come down, so that does give the Fed room to start cutting the funds rate this year, but our baseline forecast is four cuts. That's contingent upon inflation. If the economy continues to grow as we expect, it's going to be hard to get to the Fed's 2% target. In fact, we think inflation will still be above the target at the end of this year.

What are the challenges for the banking sector this year? What about regional and small community banks in particular?

Moody: The smaller community banks are where we think some of the potential issues could be. Banks had to compete more aggressively for deposits when rates moved higher. Midsized and larger banks went after deposits, which put more stress on small banks. So, we think there could be some liquidity and capital stress amongst the smaller banks. Although rate cuts will alleviate some of the funding costs and portfolio issues in terms of bond valuations that banks are holding on their books.

The biggest wild card right now is the regulatory environment. What's going to happen with Basel III requirements and other new capital rules? It seems the Fed is starting to rethink those a bit. That, to me, is one of the biggest unknowns.

McKnight: If we assume the regulatory cost structure is going to increase, in addition to the technology spend and capital expenditures that are going higher, it's getting harder to spread those costs for smaller institutions. It's harder to gain scale. That's where there's going to be some challenges as well. The midsized and larger banks are better prepared for those additional costs.

What's another potential risk this year?

McKnight: If, for whatever reason, inflation doesn't come down as much as anticipated, and we have other issues on a geopolitical basis, and we don't see the cuts that have been prescribed by the markets, that's going to be a challenge to the shadow banking system and private credit.

There's an inordinate amount of capital sitting in private credit right now, and it's hard to track and get our arms around. That's a low probability risk but high impact.

THE LIST

Largest Banks by Deposits in Tampa Bay

Local deposits 2023

Rank	Prior Rank	Business name
1	1	Raymond James Bank NA
2	2	Bank of America
3	3	Truist Bank

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