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FDIC FLAGS ECONOMIC, INDUSTRY AND DEMOGRAPHIC CONCERNS

FOR IMMEDIATE RELEASE

A recent scan of the United States by Federal Deposit Insurance Corporation analysts shows:

- In the West, banks in some metropolitan areas face growing risks from high exposure to highly cyclical construction lending.
- In America's agricultural heartland, the aging of farmers is posing challenges to agricultural banks.
- In the South, job growth is slowing -- with the exception of Florida, which continues to boom.

These trends -- and others -- are discussed in eight quarterly publications, titled Regional Outlook, issued today by the FDIC's Division of Insurance. The publications are written by analysts stationed in each of the FDIC's eight regions, which together span the country.

"The goals of our analysts are to track the emerging trends and risks in the banking industry and the overall economy, and to convey this information to examiners, bankers and the public through these publications," said FDIC Chairman Andrew C. Hove, Jr. "We want to give bankers and examiners a heads-up on the risks they may face."

Among the FDIC's findings:

In the San Francisco Regional Outlook for the fourth quarter, FDIC analysts report that local banks have a heavy exposure to construction and commercial real estate lending in fast-growing metropolitan areas, particularly Las Vegas and Phoenix, where the local economies are very dependent on highly cyclical construction activity. Dependence on the construction industry exposes these and other areas to weakness in the event of a slowdown. The analysts conclude that, while the outlook for the fast-growing areas is positive, the effects of potential demographic changes on their booming real-estate-based sectors and the heavy exposure of real estate lenders in the construction and commercial real estate areas should be carefully monitored.

In addition, the analysts in San Francisco note that the concentration of construction and commercial real estate loans is disproportionately high in the region's community banks relative to the rest of the nation. Not only have community banks increased their construction and commercial real estate loans outstanding, they have also sharply increased commitments for these types of loans. For these reasons, the regional and local real estate markets in areas with high real estate concentrations should be closely monitored, the analysts conclude. The FDIC's San Francisco Region covers Alaska, Arizona, California, Guam, Hawaii, Idaho, Montana, Nevada, Oregon, Utah, Washington and Wyoming.

In the Regional Outlook for the Kansas City Region, analysts called attention to a dramatic shift in the country's agricultural population: the average age of farmers has increased sharply in the 1980s and 1990s as the number of new entrants has fallen.

"The combination of off-farm migration and the declining size of farm families during the past several decades means the number of people raised on farms is shrinking rapidly," the analysts noted.

According to the U.S. Census of Agriculture, the average age of farmers increased from 50.3 years in 1978 to 53 years in 1992. Meanwhile, the number of 20 to 29-year-olds raised on farms -- potential new entrants into the field -- dropped more than two-thirds from 1980 to 1995, from 1,443,000 to 454,000, according to the U.S. Department of Agriculture. The increasing average age of farmers may affect agricultural banks in at least three ways, the analysts said:

- New entrants into farming are more likely to rent their farmland for longer periods. Tenant farmers who lack equity in the form of land holdings will tend to be a riskier class of borrowers.

- Agricultural banks may face an evaporating pool of loan candidates.

- The increasing age of farmers may also negatively affect the source of funding at agricultural banks, with money leaving the community upon the death of farmers because their surviving spouses move away or other heirs living elsewhere sell the land and pocket the wealth.

The FDIC's Kansas City Region covers Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota and South Dakota.

In the Regional Outlook for the Atlanta Region, analysts noted that all the states in the region except Florida have seen a gradual slowdown in job growth this year, from 3.4 percent in January to 2.2 percent in June. "Part of the region's slower growth is the result of weakening levels of construction activity, especially in single-family home building. The Region has enjoyed five years of above-average growth. In light of slowing momentum, however, lending decisions that are based on assumptions of continued rapid growth should be examined carefully," the analysts in Atlanta concluded.

For Atlanta metropolitan area specifically, one FDIC analyst noted: "Continued strong retail construction may be occurring at a time when the Atlanta metropolitan area's economic growth is slowing, increasing the risk that the market may become overbuilt. Already, Atlanta's retail vacancy rate has increased dramatically, and the threat of a shakeout in the market may be on the rise. The potential impact of weakening economic and population growth may warrant more cautious lending strategies."

The FDIC's Atlanta Region covers Alabama, Florida, Georgia, North Carolina, South Carolina, Virginia, and West Virginia.

In addition, FDIC analysts writing in the Regional Outlook for the Memphis Region reported that job growth there also continued to decelerate through the first half of 1997, reaching its lowest level since 1991. The FDIC's Memphis Region covers Arkansas, Kentucky, Louisiana, Mississippi, and Tennessee.

The latest Regional Outlooks are available on the Internet (via the World Wide Web at www.fdic.gov), or from the FDIC's Public Information Center at 800-276-6003 or (703) 562-2200. To subscribe to the publication, contact the Center.

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