PRESS RELEASE
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# FDIC ANALYSTS HIGHLIGHT EFFECTS OF ASIAN CRISIS IN U.S., WEIGH RESULTS OF REVISED ACCOUNTING STANDARDS

**FOR IMMEDIATE RELEASE**

A recent evaluation of economic conditions across the United States by Federal Deposit Insurance Corporation analysts found that the impact of reduced Asian demand for U.S. products and competition from cheaper Asian imports will vary considerably across the nation, with some industries experiencing significant effects.

The FDIC's assessment shows:

Reductions in exports of high technology, aerospace and agricultural products could have the most significant impact on the Western states in the agency's San Francisco Region, where exports to Asia are normally more than twice the national average.

Weak export demand for U.S. agricultural products is keeping prices low at a time when farmers are particularly vulnerable because of the phase-out of agricultural price supports.

Diminished economic activity in Asian nations also has reduced their oil consumption. This reduced demand and the relative abundance of oil is keeping crude prices low, discouraging investment in exploration and capital expenditures and reducing income in producing states such as Alaska, Texas, Oklahoma and Louisiana.

These conditions-and others-are discussed in eight quarterly publications, titled Regional Outlook, issued today for the second quarter 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.

Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. It promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars — insured financial institutions fund its operations.

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Among the FDIC's findings:

In the San Francisco Regional Outlook, FDIC analysts report that in 1996 about 52 percent of the Region's merchandise exports went to Asian markets. The nationwide average is 22 percent. Nearly three-quarters of the dollar value of the Region's exports fall into three categories-high technology, aerospace and agriculture. The analysts said all three categories are vulnerable to cutbacks in sales to Asia. Reductions in high technology exports would be felt most by California, Arizona Idaho and Oregon; aerospace exports to Asia represent over four percent of Washington's gross state product (GSP). Asia also is an important agricultural export market for both Oregon and Washington. Tourism-an important industry in Hawaii-is heavily dependent on Asian travelers. Alaska, American Samoa, Federated States of Micronesia, Guam, Montana, Nevada, Utah and Wyoming are also in the San Francisco Region.

In the Regional Outlook for the Memphis Region, analysts concluded Asia's diminished demand for energy may have some effect on the Region's leading energy state-Louisiana-where at least 54 of the state's 64 parishes have energy-related jobs. The analysts noted that Asian countries have been responsible for about 50 percent of the growth in world oil demand. Low demand from Asia and continued price weakness could be costly for Louisiana, where each $1 drop in price reduces tax payments to the state by an estimated $22 million. Arkansas, Kentucky, Mississippi and Tennessee also are in the Memphis Region.

In the Regional Outlook for the Kansas City Region, which includes many of the grain producing states of the Upper Midwest, analysts noted that the Asian turmoil will have negative effects on the Region's agricultural producers. In prior years Asia has been a heavy importer of U.S. feed grains, with two-thirds of U.S. corn exports going to Asia. This, combined with already low grain prices and the phase-out of agricultural price supports, could leave some agricultural producers vulnerable in 1998. The analysts also noted that delays in the delivery of commercial aircraft to Asian airlines will likely have a negative effect on the Wichita, Kansas, area, where several large aircraft production facilities are located. Iowa, Minnesota, Missouri, North Dakota, Nebraska and South Dakota also are in the Kansas City Region.

In the Dallas Region, analysts reported potential negative effects of the Asian difficulties on exports of livestock and feed grains. Agricultural exports accounted for almost one-fourth of the Region's agricultural cash receipts in 1996. In addition, Asia accounts for over a quarter of the world's oil consumption. With continued weak oil prices at about $15 per barrel, cutbacks in the Region's oil exploration sector and the manufacture of oil field equipment are likely. The Dallas Region includes Colorado, New Mexico, Oklahoma and Texas.

The Chicago Region also reported that 16 percent of the Region's exports go to the Asian 10 countries and that the more significant effects for the Region are likely to be on the agricultural and manufacturing sectors. The Chicago Region includes Illinois, Indiana, Michigan, Ohio and Wisconsin.

In all eight regions the analysts concurred that problems in Asia come at a time when the national and regional economies remain strong. Insured institutions in all eight regions continued to post strong performances and, with few exceptions, are adequately reserved and have strong capital positions. Nevertheless, the analysts noted the potential for insured institutions to encounter borrowers under stress in sectors mainly affected by reduced exports to Asia.

FDIC analysts also pointed to the need for bankers and examiners to evaluate carefully the assumptions used in valuing economic interests in transferred or sold assets. Under gain-on-sale accounting rules effective in 1997, some lenders reported substantial income based on assumptions about future performance of subprime loans sold into securitizations. Substantial write-downs resulted in some cases when the assumptions proved incorrect. The FDIC analysts cited reports by several major credit rating agencies that have drawn attention to potential inflation of companies' reported earnings and capital that can result from gain-on-sale accounting.

The latest Regional Outlook for each FDIC Region is available on the Internet (via 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 Regional Outlook, contact the Center.

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