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## FDIC ANALYSTS ASSESS EFFECTS OF ASIAN CRISIS, DROUGHT

FOR IMMEDIATE RELEASE

Although the U.S. banking industry continues to post strong earnings, banks should heed economic warning signals and scrutinize lending and strategic decisions that are based on a continuation of robust economic growth, according to analysts at the Federal Deposit Insurance Corporation (FDIC).

The FDIC analysts report in the most recent editions of Regional Outlook that the effects of Asia's economic crisis are becoming increasingly evident in key sectors: oil, chemicals, agriculture and manufacturing. Although most market analysts remain optimistic about U.S. banks' direct lending exposure in the Asian nations, the FDIC report said that the indirect effects of the Asian economic crisis "could potentially affect small and large institutions in all areas of the country."

Banks in all areas continue to report strong earnings and capital positions, but the FDIC analysts cautioned that, taken together, the potential weaknesses in some markets and easing of underwriting standards could pose problems for banks if the economy falters. These findings, and others, are discussed in the eight quarterly Regional Outlook publications prepared by the FDIC's Division of Insurance.

Among the FDIC's findings around the country:

The prospects for agriculture have dimmed in several regions. In the Dallas Regional Outlook, analysts report that losses resulting from the drought are estimated at over \$2 billion for producers in Texas and Oklahoma, and the total economic impact of the



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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drought-induced agricultural loss in these two states alone is estimated at \$7 billion. Texas, the analysts note, produces about 25 percent of the nation's cotton. Cotton growers have been hardest hit among the state's agricultural producers.

In the Kansas City Regional Outlook, analysts report that the Region's agricultural producers expect bumper crops, but low commodity prices for wheat, soybeans, corn and hogs have dimmed farm income prospects. The banks in the Kansas City Region have significant exposure. Within the Region, there are 1,381 insured banks, most with assets under \$100 million, that have 25 percent or more of more of their portfolio in farm loans.

In the Regional Outlook for the Chicago Region, analysts also report significant exposure to agriculture-related problems. The Region's farm banks do have strong capital positions, but since 1993 there has been a steady reduction in reserves for loan losses at farm banks.

Agricultural problems and low oil prices may cause some stress for banks in the Memphis Region, analysts there report. In Louisiana, low prices are forcing independent producers to reduce drilling activity. The state's rotary rig count stood at 200 at the end of June, down from the November 1997 peak of 274.

Construction lending is expanding in the San Francisco Region due to a boom in some real estate markets. Although the level of construction activity remains below the peak levels reached before the 1990-91 recession, the Region's community banks-institutions with less than \$1 billion in assets-reported construction loan activity grew a robust 28 percent between the first quarter of 1997 and the first quarter of 1998.

The effects of the Asian economic crisis and increasing international competition are threatening to slow the recovery of the pulp and allied products industry in the Atlanta Region, analysts report in the Atlanta Regional Outlook. The pulp and allied products industry is a major employer in the Region's rural areas. Recently, the industry began to emerge from a lengthy period of slow growth. But with nearly 60 percent of the industry's growth over the past decade attributable to shipments to foreign markets, Asia's problems and the strong U.S dollar may dampen continued expansion.

Tight labor markets may constrain economic activity in the Boston Region. Analysts in the Boston Regional Outlook also report that several states in New England are showing record home sales, but the lack of housing inventory and buyer bidding wars may be artificially inflating comparables in some residential markets.

In the New York Regional Outlook, analysts note that money center banks have relatively low direct exposure in the most troublesome Asian markets. They said a greater concern is the spread of economic problems to Latin America and the volatility that global instability brings to the U. S. stock market.

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In all eight editions of the Regional Outlook analysts discuss issues related to collateralized loan obligations. They also assess emerging payments system issues for both small and large banks.

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