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Media Contact:
Stephen Katsanos (202) 898-8669

FDIC ANALYSTS EVALUATE ECONOMIC CONDITIONS, EMERGING RISKS IN BANKING

FOR IMMEDIATE RELEASE

The economy continues to provide a favorable environment for banks and thrifts, but there are areas of concern that analysts at the Federal Deposit Insurance Corporation (FDIC) continue to monitor.

FDIC analysts' semiannual evaluation of economic conditions and emerging risks in banking was released today in the second quarter edition of the Regional Outlook, available on the Internet at www.fdic.gov. The report cites several areas – including subprime and high loan-to-value consumer lending, higher levels of leveraged commercial lending, the potential for localized overbuilding in commercial real estate markets and stress in the agricultural sector – where problems could develop even while national economic conditions remain favorable and the banking industry's overall performance is strong.

In addition to the discussion of overall trends in the economy and in banking lines of business, each of the eight editions of the Regional Outlook includes a review of banking and economic activity in the states in each FDIC Region. Analysts in these regions report generally strong economic conditions but note trends and business sectors of potential concern. Among the findings this quarter:

Agricultural lenders, especially in the Chicago, Dallas, Kansas City and Memphis Regions, are described as entering a difficult period as the farm sector is squeezed by a combination of low commodity prices and the continued phase-out of government payments to farmers. While banks have yet to report significant declines in asset quality, continuing weakness in commodity prices may result in significant stress on bank customers.

The high technology manufacturing sector of the San Francisco Region has weakened following the Asia crisis. This slowing could affect metro areas with concentrations of these jobs that had previously experienced strong growth in their commercial real estate markets.

Although energy prices have begun to rebound, areas of the Kansas City, Memphis and Dallas Regions have seen job losses in the energy sectors related to lower worldwide energy demand and weaker commodity prices. Nevertheless, the effects of lower energy prices on the economies of oil-producing states are far less than experienced during the 1980s.

The Atlanta economy remains strong, but the number of unprofitable institutions has been edging higher, due to an increasing number of new charters and larger banks with restructuring and merger-related expenses. In addition, some community banks with high exposure to the consumer sector are operating in or near areas with high rates of personal bankruptcy, which could imply higher credit risk should the economy weaken.

Analysts in the Boston Region reported a solid economic environment, but also noted pressures on insured institutions to maintain earnings by increasing their risk profiles.

For the New York Region, economic growth remains strong. However, the region's future remains more closely linked to the strength of the stock market than the rest of the nation.

The Regional Outlook for each FDIC region and the National Edition are available on the Internet via the World Wide Web at www.fdic.gov. Printed copies of the Regional Outlook are available from the FDIC's Public Information Center (800-276-6003 or (703) 562-2200). To subscribe to the Regional Outlook, contact the Center.

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