National and District Data

Selected indicators of the national economy and banking, agricultural and business conditions in the Eighth Federal Reserve District

Commercial Bank Performance Ratios

U.S., District and State

	All United States	United States Less Than $15 Billion[1]	District	Arkansas	Illinois	Indiana	Kentucky	Mississippi	Missouri	Tennessee
Return on Average Assets*										
4th quarter 1998	1.23%	1.49%	1.37%	1.23%	1.08%	1.38%	1.32%	1.29%	1.49%	1.47%
3rd quarter 1998	1.24	1.49	1.35	1.37	1.20	1.34	1.34	1.32	1.21	1.63
4th quarter 1997	1.30	1.40	1.34	1.29	1.27	1.33	1.25	1.41	1.30	1.59
Return on Average Equity*										
4th quarter 1998	14.52	15.35	15.49	12.33	10.04	14.70	15.99	13.24	17.29	18.10
3rd quarter 1998	14.55	15.34	15.38	14.11	11.66	14.96	16.18	13.42	14.15	19.68
4th quarter 1997	15.65	14.92	15.16	13.65	14.72	14.73	14.61	14.70	14.87	18.52
Net Interest Margin*										
4th quarter 1998	4.10	4.90	4.55	4.28	4.09	4.89	4.15	4.93	4.29	5.32
3rd quarter 1998	4.05	4.80	4.29	4.29	4.44	4.29	4.21	4.63	3.88	4.81
4th quarter 1997	4.34	4.94	4.53	4.46	4.56	4.34	4.45	4.97	4.59	4.46
Nonperforming Loans[2] ÷ Total Loans										
4th quarter 1998	0.96	1.00	0.90	1.06	1.07	0.52	0.61	0.60	0.80	1.20
3rd quarter 1998	0.94	1.02	0.91	1.02	0.96	0.60	0.69	0.59	0.88	1.18
4th quarter 1997	0.96	1.00	0.97	0.94	1.09	0.55	0.65	0.65	0.85	1.71
Net Loan Losses ÷ Average Total Loans*										
4th quarter 1998	0.68	0.82	0.39	0.25	0.25	0.28	0.36	0.34	0.16	0.79
3rd quarter 1998	0.66	0.80	0.33	0.22	0.29	0.21	0.37	0.28	0.22	0.55
4th quarter 1997	0.66	0.84	0.39	0.25	0.50	0.19	0.37	0.31	0.32	0.62
Loan Loss Reserve ÷ Total Loans										
4th quarter 1998	1.76	1.79	1.34	1.25	1.32	1.30	1.35	1.43	1.37	1.35
3rd quarter 1998	1.82	1.85	1.40	1.29	1.37	1.26	1.37	1.42	1.42	1.51
4th quarter 1997	1.83	1.82	1.40	1.36	1.30	1.25	1.41	1.46	1.43	1.51

[1] U.S. banks with average assets of less than $15 billion are shown separately to make comparisons with District banks more meaningful, as there are no District banks with average assets greater than $15 billion.

[2] Includes loans 90 days or more past due and nonaccrual loans

NOTE: Data include only that portion of the state within Eighth District boundaries.

SOURCE: FFIEC Reports of Condition and Income for all Insured U.S. Commercial Banks

*Annualized data

Regional Economic Indicators

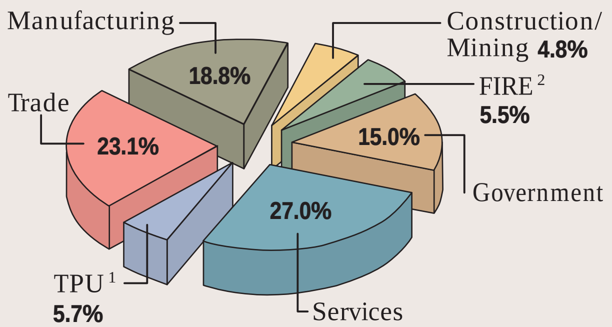
Nonfarm Employment Growth year-over-year percent change

fourth quarter 1998

		Goods Producing		Service Producing				
	total	mfg	cons[1]	govt	tpu[2]	fire[3]	services	trade
United States	2.3%	-0.9%	5.4%	1.6%	2.4%	3.7%	3.8%	2.2%
Arkansas	1.6	0.3	0.9	1.5	3.3	1.0	2.9	1.4
Illinois	2.1	-0.3	3.7	0.9	2.2	1.6	4.2	1.7
Indiana	2.1	1.1	2.2	2.5	3.0	2.4	3.8	1.0
Kentucky	2.3	0.9	3.8	1.1	3.8	0.3	4.1	2.0
Mississippi	1.4	0.9	6.5	2.3	-0.1	0.4	0.6	1.0
Missouri	1.9	0.3	8.9	1.0	0.1	4.4	2.3	1.4
Tennessee	1.9	-1.8	5.9	0.9	3.4	4.3	3.5	2.3

[1] Construction [2] Transportation and Public Utilities [3] Finance, Insurance and Real Estate

Eighth District Payroll Employment by Industry–1998



[1] Transportation and Public Utilities [2] Finance, Insurance and Real Estate

Unemployment Rates

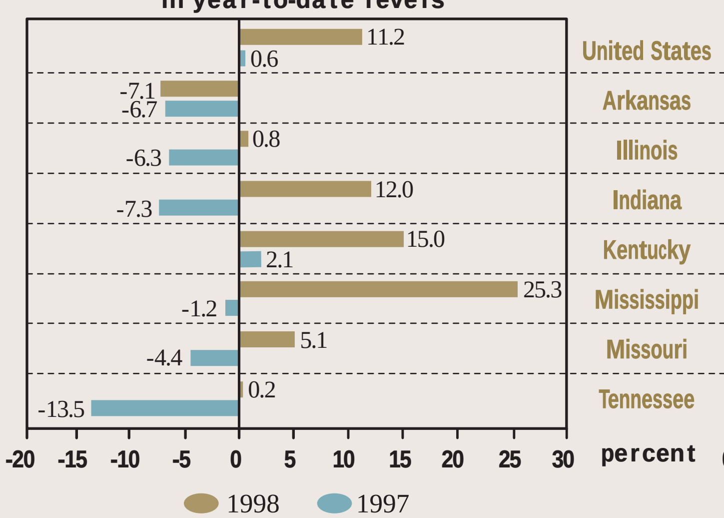
percent

	IV/1998	III/1998	IV/1997
United States	4.4%	4.5%	4.7%
Arkansas	5.4	4.7	5.0
Illinois	4.3	4.4	4.8
Indiana	2.9	2.8	3.5
Kentucky	4.2	4.2	4.9
Mississippi	5.1	5.1	5.4
Missouri	3.5	4.0	4.0
Tennessee	4.1	4.0	5.2

fourth quarter

Housing Permits

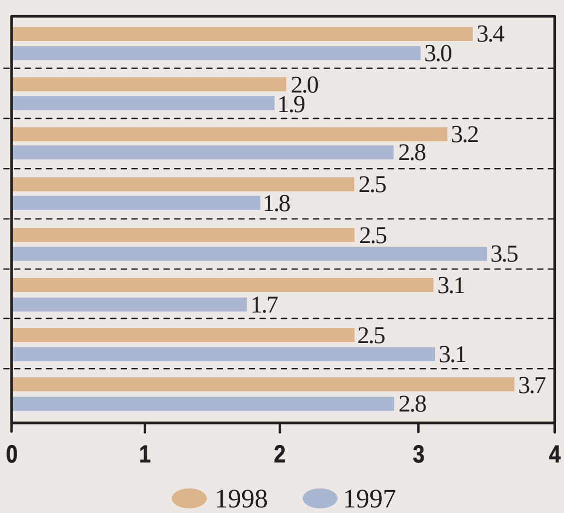
year-over-year percent change in year-to-date levels



third quarter

Real Personal Income

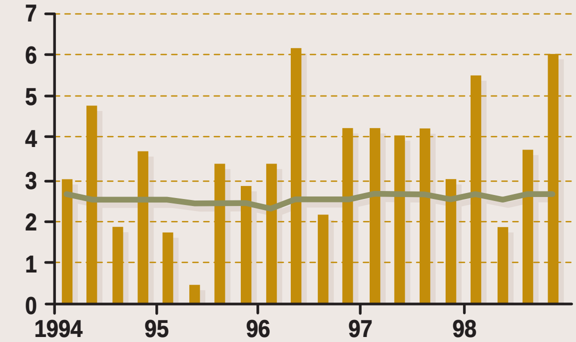
year-over-year percent change



All data are seasonally adjusted.

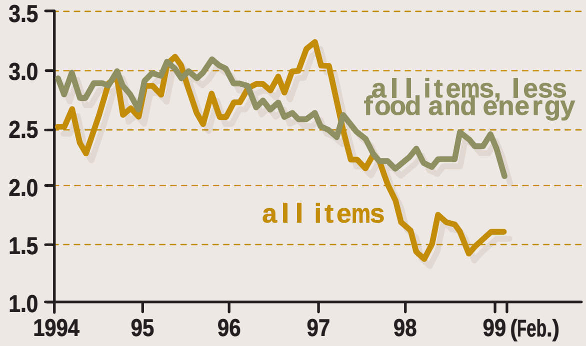
Major Macroeconomic Indicators

Real GDP Growth
percent



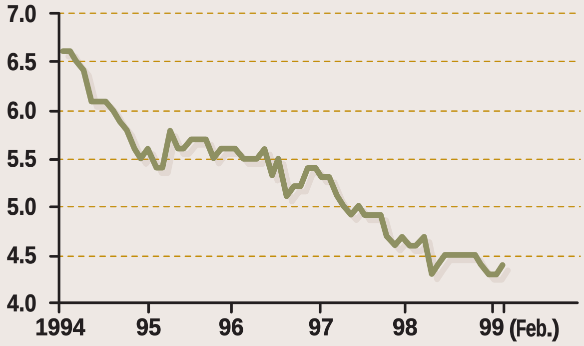
NOTE: Each bar is a one-quarter growth rate (annualized); the green line is the 10-year growth rate.

Consumer Price Inflation
percent

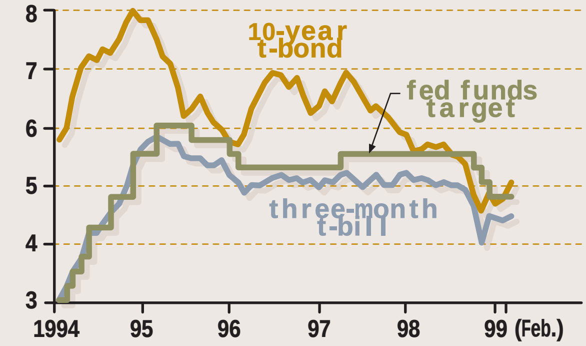


NOTE: Percent change from a year ago

Civilian Unemployment Rate
percent



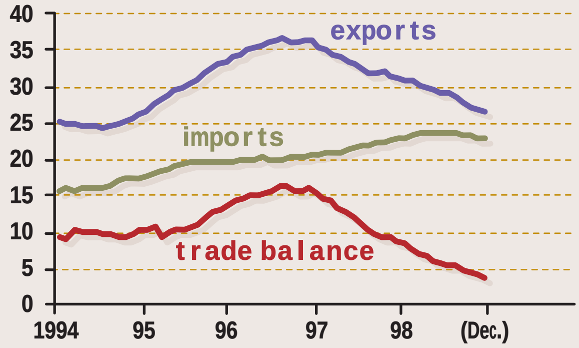
Interest Rates
percent



NOTE: Except for fed funds target, which is end-of-period, data are monthly averages of daily data.

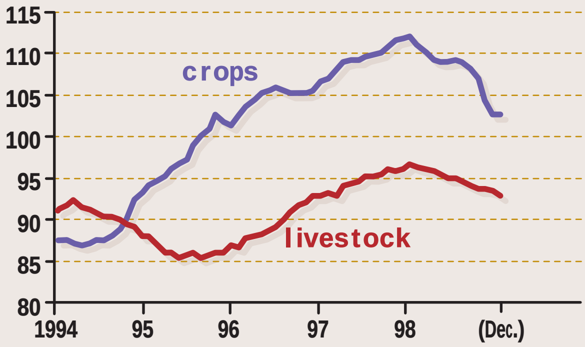
Farm Sector Indicators

U.S. Agricultural Trade
billions of dollars



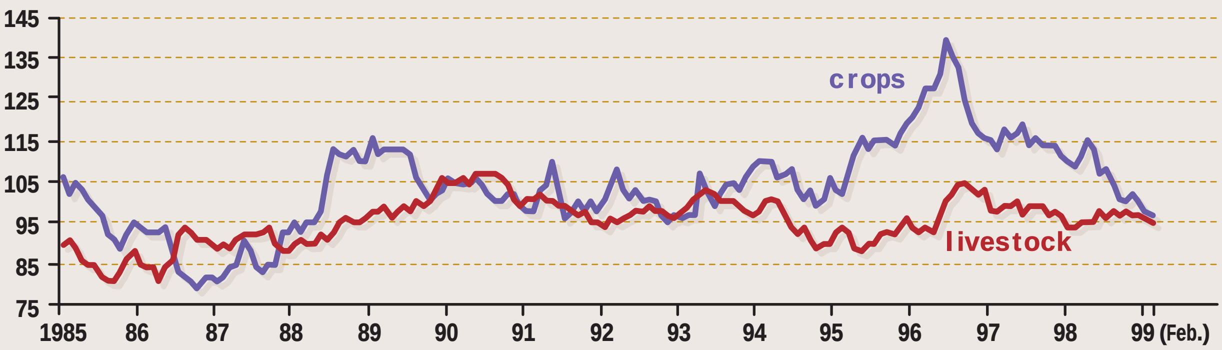
NOTE: Data are aggregated over the past 12 months.

Farming Cash Receipts
billions of dollars



NOTE: Data are aggregated over the past 12 months.

U.S. Crop and Livestock Prices
index 1990-92=100



National and District Overview

by Kevin L. Kliesen

The U.S. economy turned in another remarkable performance last year. Consumer spending registered its largest increase since 1983, business spending on capital goods—particularly computers and other equipment—posted its largest rise since 1984, and housing starts were the highest since 1987. It's little wonder, then, that—despite a sharp drop in U.S. exports—growth of real GDP in 1998 (4.3 percent) was the highest since 1984. Although detailed data on spending and production at the state level will not be available for about two years, it seems reasonable to conclude that growth in the District also remained strong.[1]

On the inflation front, the consumer price index for all urban consumers (CPI-U) increased just 1.6 percent in 1998, roughly the same as in 1997. Certainly, the collapse in crude oil prices helped temper overall price increases both last year and into the first two months of 1999. More impressive, last year's benign increase in the CPI occurred against the backdrop of strong growth in nominal spending, which was fueled by rapid increases in money and credit.

Can the U.S. economy, which is already well into its record-breaking ninth year of expansion, register yet another year of rapid growth and low inflation? It appears so, based on an early reading of 1999 labor market data. U.S. nonfarm payroll employment, for example, rose an average of 246,000 in January and February, outstripping last year's 236,000 average monthly gain. Moreover, February's civilian unemployment rate remained below last year's 4.5 percent average, which was a 29-year low.

Eighth District labor market conditions through the first two months of 1999 also remain strong. On balance, civilian unemployment rates in the seven states dropped a bit farther in February from their year-end levels, which ranged from 2.7 percent in Missouri to 4.7 percent in Arkansas. The seven-state average was 3.9 percent, half a percentage point below the U.S. average. Growth of payroll employment in the District states, however, has been below that for the United States. Through February, year-over-year growth of nonfarm payroll employment in each of the seven states—ranging from 0.8 percent in Mississippi to 2.1 percent in Indiana and Kentucky—was below the U.S. growth rate of 2.2 percent. Weaker job growth in the District states may not be an indication of slowing activity, however. With the demand for labor still strong, it may simply reflect the fact that firms face a smaller pool of workers with employable job skills, as evidenced by the lower average unemployment rate in the District states.

Employment data generally give the best indication of the near-term strength in state-level aggregate demand. At the national level, reasonably timely and accurate expenditure-side data are available as another check. Some of these data point to continued, above-average growth for the United States. For example, real retail sales—paced by purchases of durable goods like automobiles and home furnishings—grew at an 11 percent annual rate over the first two months of 1999.

On the investment side, real residential construction remains on a tear. Total U.S. single-family housing starts averaged 1.8 million units during January/February, up more than 10 percent from the fourth-quarter 1998 rate. State-level housing permit data show similar strength, although nonresidential construction activity is significantly weaker. From November 1998 through January 1999, the current dollar value of nonresidential building contracts in the combined seven-state region averaged 13.2 percent less than the same period a year before. The national average was down 12.4 percent.

Meanwhile, reduced foreign demand has caused some industries to slow dramatically. Manufacturing and agriculture both have been buffeted by the roughly 33 percent increase in the (trade-weighted) value of the U.S. dollar that occurred from mid-1995 to late-1998. Magnifying this price effect is the sharp slowing in world economic growth that began in East Asia in mid-1997. Although the prospects for several Asian countries have improved, the outlook is more clouded for Latin America and continental Europe, where signs of weakness are becoming more prevalent.

Although manufacturing payrolls have been reduced almost 1.5 percent over the past year, other measures—such as those produced by the National Association of Purchasing Managers and the U.S. Census Bureau—suggest the manufacturing sector may have turned the corner at the start of this year. The agricultural sector, though, has the added difficulty of working off substantial inventory increases stemming from last year's bumper crops and record meat production. (See the *Economic Briefing* article on pages 12-13 of this issue for more analysis of developments in the agricultural sector in 1998 and the prospects for 1999.)

Turning to the near-term outlook, the Federal Reserve Bank of St. Louis (similar to other forecasters) expects real GDP growth of about 3 percent during the first half of 1999, with roughly 2.5 percent growth during the second half of the year. This projection may be unduly pessimistic, though, if the first quarter's apparent strength persists. Consumer prices are expected to rise at a nearly 2.3 percent annual rate over the first half of the year, before accelerating to almost 3 percent growth over the second half of the year.

In view of this forecast, policymakers should consider actions to protect the gains that have been achieved in recent years in the pursuit of price stability.

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[1] Equivalent state-level GDP data are published in the gross state product release issued each year by the Commerce Department's Bureau of Economic Analysis. The most recent state-level data are from 1996.