State Profile

FALL 2003

Missouri

Missouri's employment situation remains weak in 2003.

- Missouri's economy continues to shed jobs, although the rate of decline improved in the second quarter of 2003 (see Chart 1).
- The manufacturing sector continues to lose jobs in the first half of 2003, but in June the nondurable sector exhibited the first growth in more than 3 years. Government employment continued to decline in the first six months due to continuing budgetary difficulties.
- Unemployment increased each month from February through June, reaching 5.5 percent at mid-year.

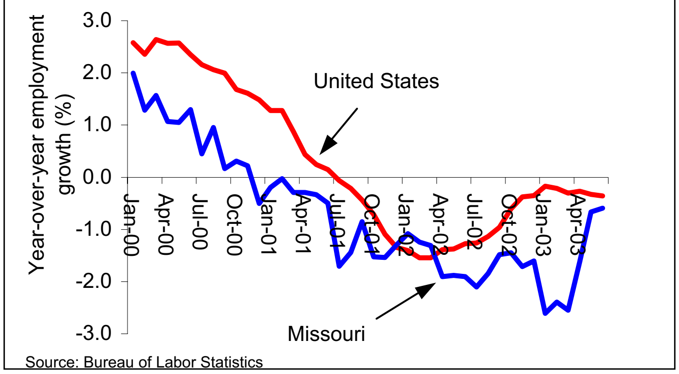
The St. Louis and Kansas City office markets have softened significantly.

- Office vacancy rates increased from 16.9 percent at second quarter 2002 to 18.4 percent at second quarter 2003 in the St. Louis metropolitan area (see Chart 2). New buildings slated for completion in 2003 and negative net absorption caused by office staff reductions have contributed to the forecasted increase in vacancy rates.
- Rental rates for office space in the St. Louis metropolitan area peaked in 1998 and are forecasted to continue to decline through 2005 as vacancy rates increase.
- The Kansas City metropolitan area office market continues to weaken in 2003 with vacancy rates of 19.2 percent at the second quarter 2003, considerably higher than the 16.2 percent vacancy rate reported one year ago.

Area of abnormal dryness increasing substantially compared to the previous year.

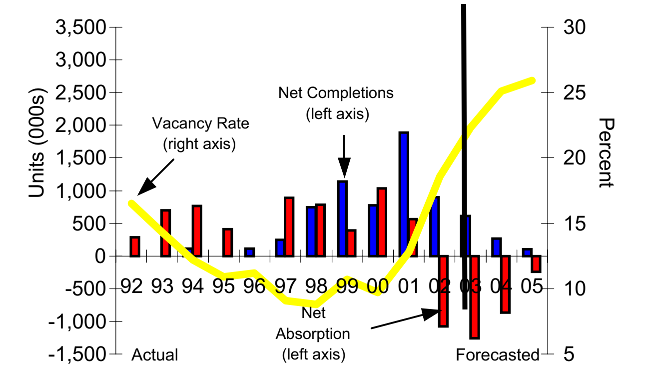
- According to the July 29 Drought Monitor, pictured as Map 1 at right, the area of abnormal dryness has grown to encompass 26 counties in Northwest Missouri.
- An August 4 survey by the United States Department of Agriculture rates 46 percent of the state's pasture and rangeland as "Poor" or "Very Poor," suggesting continuing risks to cattle ranchers.
- Subsoil moisture remains inadequate in much of the affected area, threatening crop yields in the upcoming growing season.

Chart 1: Rate of Missouri Job Losses Moderates in the Second Quarter 2003



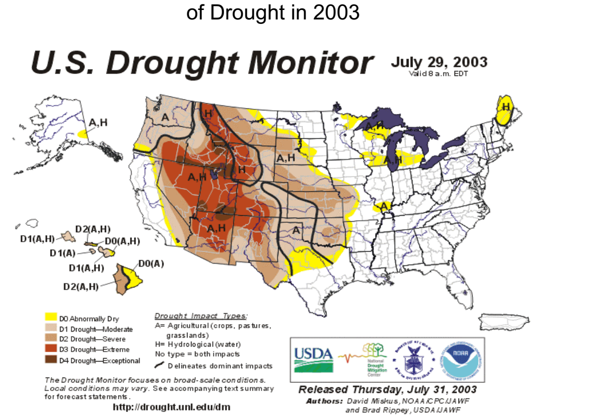
Source: Bureau of Labor Statistics

Chart 2: Weakness Forecasted for the Long Term in the St. Louis Office Market



Source: Torto Wheaton Research

Map 1: Missouri Agriculture Sector Continues to Face Risk of Drought in 2003



Softening commercial real estate markets are a concern to metropolitan commercial lenders headquartered in Missouri.

- Many insured institutions in Missouri's largest metropolitan markets have increased reliance on commercial real estate (CRE) loans during the past two years (see Chart 3).
- This increased exposure has come as metropolitan CRE markets, most notably office and industrial, softened considerably during the past two years. Office vacancy rates have risen to the highest levels in nearly a decade.
- Some weakness in CRE markets is evident in total past-due figures. Although the relatively low March 2003 median loan delinquency ratio of 1.5 percent is less than the 2.0 percent reported two years ago, the proportion of insured institutions reporting delinquency ratios exceeding 5 percent remains elevated at 11.5 percent, up from 11.0 percent two years earlier.

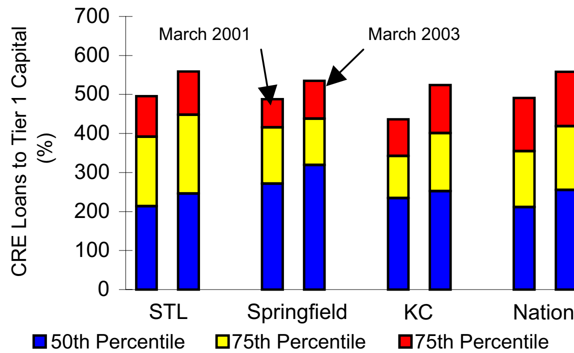
Asset quality remains sound at community banks headquartered in Missouri despite the economic slowdown.

- Noncurrent and past-due loan levels remain moderate and have not risen notably among most insured institutions (see Chart 4). Charge-off rates also remain low.
- Loan loss reserve levels have declined in proportion to total loans, but remain stable relative to the coverage of problem loans.

Community institutions in Missouri continue to face funding challenges.

- Utilization of core funds to support assets declined steadily throughout the 1990s, because of negative population trends, competitive challenges from larger banks and nonbanks, and significant disintermediation of funds into the stock and bond markets. As a result, the median core deposits to total assets ratio for community institutions declined from 84 percent to 74 percent between March 1993 and March 2003.
- To counter declining deposits, community institutions headquartered in Missouri increased reliance on noncore funds, such as large time deposits and borrowings.
- The use of borrowings, primarily Federal Home Loan Bank advances, has increased dramatically (see Chart 5). Between March 1998 and March 2003, the proportion of community institutions with borrowings making up at least 10 percent of total funds increased from 8.5 percent to 18.4 percent.
- The weak economy and significant declines in the stock market have prompted a substantial shift of funds into the banking system. However, as seen in Chart 5, most of the benefit has accrued to the nation's larger banks.
- See "Kansas City Regional Perspectives - Despite Recent Deposit Growth, Community Banks Continue to Face Funding Challenge," *FDIC Outlook*, Spring 2003, for further discussion about funding.

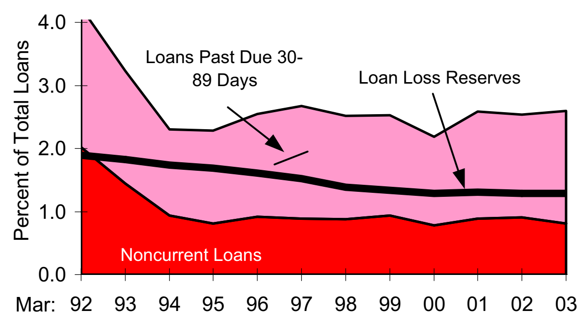
Chart 3: Institutions in Missouri Have Increased Exposure to CRE During the Past Two Years



CRE loans are loans made for construction or development, multifamily housing or nonresidential real estate.

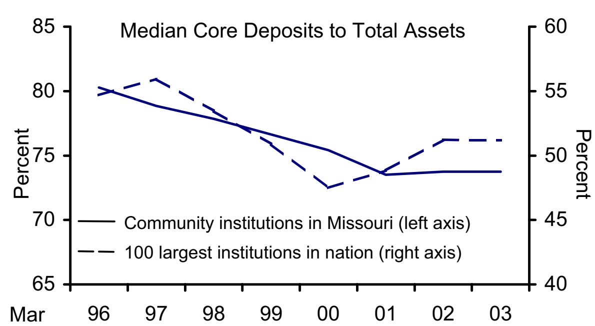
Source: Bank and Thrift Call Reports, excluding new and specialty

Chart 4: Past-Due Loans Remain Relatively Low and Reserves Remain Stable



Source: Bank Call Reports, commercial banks with assets less than $250 million headquartered in Missouri, excluding de novos and specialty banks

Chart 5: Core Funding Has Increased at Larger Institutions More Than Smaller Institutions



Source: Bank and Thrift Call Reports. Community institutions are FDIC-insured institutions with total assets under $250 million headquartered in Missouri.

Missouri at a Glance

General Information	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Institutions (#)	378	385	398	406	423
Total Assets (in thousands)	83,433,841	75,801,061	71,775,003	87,834,806	85,764,188
New Institutions (# < 3 years)	9	11	17	20	18
New Institutions (# < 9 years)	36	34	34	31	28

Capital	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Tier 1 Leverage (median)	8.91	8.80	8.75	8.86	8.97

Asset Quality	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Past-Due and Nonaccrual (median %)	1.86%	2.25%	2.23%	1.84%	1.96%
Past-Due and Nonaccrual >= 5%	49	47	56	40	58
ALLL/Total Loans (median %)	1.25%	1.21%	1.19%	1.19%	1.25%
ALLL/Noncurrent Loans (median multiple)	1.93	1.93	1.70	2.10	2.16
Net Loan Losses/Loans (aggregate)	0.21%	0.18%	0.24%	0.19%	0.14%

Earnings	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Unprofitable Institutions (#)	14	15	23	22	15
Percent Unprofitable	3.70%	3.90%	5.78%	5.42%	3.55%
Return on Assets (median %)	1.06	1.02	0.95	1.04	1.03
25th Percentile	0.73	0.64	0.64	0.72	0.71
Net Interest Margin (median %)	3.88%	3.95%	3.89%	4.14%	3.95%
Yield on Earning Assets (median)	5.99%	6.72%	8.19%	7.98%	7.65%
Cost of Funding Earning Assets (median)	2.09%	2.83%	4.32%	3.91%	3.77%
Provisions to Avg. Assets (median)	0.11%	0.11%	0.10%	0.10%	0.08%
Noninterest Income to Avg. Assets (median)	0.60%	0.56%	0.53%	0.50%	0.50%
Overhead to Avg. Assets (median)	2.69%	2.65%	2.68%	2.74%	2.67%

Liquidity/Sensitivity	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Loans to Deposits (median %)	78.81%	78.24%	78.48%	77.44%	71.73%
Loans to Assets (median %)	66.72%	66.01%	66.69%	66.11%	61.74%
Brokered Deposits (# of Institutions)	57	50	42	34	32
Bro. Deps./Assets (median for above inst.)	1.95%	1.24%	0.68%	1.35%	1.33%
Noncore Funding to Assets (median)	15.92%	15.40%	15.89%	14.33%	12.29%
Core Funding to Assets (median)	72.73%	73.35%	73.20%	74.97%	76.47%

Bank Class	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
State Nonmember	258	261	271	277	292
National	46	46	47	49	50
State Member	41	43	42	39	38
S&L	16	18	19	21	23
Savings Bank	16	16	18	18	19
Mutually Insured	1	1	1	2	1

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	231	25,197,156	61.11%	30.20%
St Louis MO-IL	54	23,828,654	14.29%	28.56%
Kansas City MO-KS	53	27,552,770	14.02%	33.02%
Springfield MO	24	3,970,823	6.35%	4.76%
Joplin MO	8	1,281,219	2.12%	1.54%
St Joseph MO	4	145,509	1.06%	0.17%
Columbia MO	4	1,457,710	1.06%	1.75%