

NORTHWESTERN Banker Newsletter

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1st Chicago Economist Assesses

The Banking Environment in 1984



By **DR. ROY E. MOOR**
Sr. V.P. and
Chief Economist
The First
National Bank
of Chicago, Ill.

... presented November 21 at 1st Chicago's 37th Annual Conference of Bank Correspondents.

WE EXPECT business borrowing from banks to rise in 1984 about 4.7% above the average level of loans in 1983. That is an almost unprecedented low rate of gain in business loans outstanding for a second year of a recovery. The pick up should continue throughout all of next year and indeed accelerate in the latter part of next year. Business loan demands will tend to be concentrated among regional and local banks much more than within money center banks.

During 1983, we had business failures at a rate higher than at any time since the Great Depression. In 1984, we will be dealing with business borrowers who are survivors. For these survivors, their balance sheets are improving and their ability to service their loans is increas-

ing. That means, in turn, that our loan loss reserves may not have to be increased in 1984, although we may not be able to reduce them much either.

Agribusiness Lending—Perhaps surprisingly, we expect loans to farmers will increase by as much as 15% in 1984. The environment appears favorable for such an increase. The facts, as contrasted with the journalistic hype, are that net cash receipts and net farm income have risen quite well in 1983. Moreover, the general financial condition of farmers is not as bad as the newspaper stories would suggest. Total farm debt, both mortgages and others, currently constitute only about 20% of total assets owned by farmers. Farmers should be able to repay some of these existing loans in 1984.

However, we also anticipate substantial increases in acreage and in production, especially for crops other than wheat. Demands for fertilizers, pesticides, and farm machinery should all be up in 1984, because of the increased production anticipated for next year. These demands all fell this year.

Real Estate Loans—Our overall forecast is that real estate loans will increase about 5½% in 1984 over 1983 levels. About ½ of our 5½%

national increase in real estate loans comes from turnover of existing homes. We have seen some pick up in interest, both by lending institutions and by prospective homeowners, in variable rate mortgages. Other than residential loans, we anticipate virtually no changes in outstandings for other types of real estate.

Household Borrowing—Aside from mortgages, consumer-related loan demand should continue to grow and smartly, throughout 1984. The growth in household purchasing in the last six or seven months has been, in part, recoupment demands deferred from earlier periods. Nevertheless, we see consumer loans in the banking system rising about 9% year-over-year in 1984. By the way, part of this demand is to finance home remodeling and refurbishing.

There is more good news here. Despite the expected rise in consumer borrowing, household balance sheets should continue to improve throughout next year. Total family incomes will be rising at least as rapidly as debt, tax rates will remain stable, and personal assets of all types will rise in value.

Deposits—Our view is that general stability has finally arrived in deposit markets after the substantial adjustments brought about by deregulation. Through 1984, therefore, depositors are likely to change their holdings in a more balanced way

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under a better understood set of conditions.

For demand deposits, the only growth is likely to be associated with increased transactions demands, primarily by business. Although business activity will continue to grow, we expect an increase in demand deposits throughout the banking system of only about eight-tenths of one percent year-over-year. Other checkable deposits that yield interest, by contrast, will grow rapidly—we expect over 18%—largely from an interest-sensitive population that will be saving an increasing proportion of their income next year. Savings deposits in the traditional forms should decline in total volume throughout the system by about 2%, again reflecting the interest awareness of the population as well as the continuing advertising campaigns by financial institutions. **Bank Costs**—That is one piece of bad news concerning bank costs in 1984. With relative stable interest rates on deposits and the greatest growth coming in deposits that carry high interest costs, the overall costs of funds to banks will be rising in 1984.

Another bit of bad news stems from our general interest rate outlook. It, along with acute bank competition for loans, implies that yield spreads are not likely to widen very much, if at all, throughout 1984.

These cost pressures, in turn, mean that each of us has to scrutinize our remaining costs and econo-

mize wherever possible, just as does every other type of business. One area is probably the purchase of outside services, such as advertising and legal services.

Our major cost, of course, is for labor. We forecasted last year that the increase in average hourly earnings for bank employers during 1983 would only be about 4½%. On the basis of data available through August, the figure looks to be about 5½%—already the lowest rate of gain in over a decade—and it continues to slow. Our estimates are for increases close to 4½% for hourly earnings gains in banking in 1984.

One change in costs that all of us have been observing through the last several years has been a rapid movement in banking to labor-saving new technologies. We expect at least as fast a pace of conversion to new technology in 1984. This represents capital investment for all of us, but the pay back in overall cost economies still seems justified. **Federal Reserve Policy**—My forecast concerning Federal Reserve policy can be summarized quickly: more of the same. What we have been seeing in the second half of 1983 is what we expect to see, with no significant changes, throughout all of next year. Specifically, we do not anticipate any changes in Fed policies associated with the fact that next year is an election year.

Conclusion—All in all, 1984 appears to be another difficult year. Nevertheless, the worst is behind us. Per-

haps the best thing I can say about 1984 is that our earnings prospects will be more influenced by our own management capabilities and less determined by external forces. That's good news. □

Iowa News

DAVENPORT: It was reported last week that Davenport Bank and Trust Co. will assume ownership of Security State Trust and Savings Bank of Bettendorf sometime in mid December. The purchase price will be \$3 million. Harold J. Abdo has resigned as president of Security State. It was reported that a shortage of \$581,000 from the bank is being investigated. Security State has deposits of \$24,850,000. Following the completion of the sale, Security State's main Bettendorf office and its single branch office will be operated as offices of Davenport Bank and Trust.

MANLY: Cortland D. Peterson has been named president of First State Bank here. He succeeds Tom Masey, who recently resigned. Mr. Peterson, who has been serving as a director of the bank since August, previously was vice president for Independent Financial Corp., Mason City, a position he will continue to serve in.

Nebraska News

Several savings and industrial companies have been merged with banks and are now covered by the FDIC up to \$100,000.

Lincoln Savings Co., which was taken over by the state Friday, November 18, reopened November 22 as a branch of Union Bank and Trust Co., Lincoln. Prior to the Lincoln Savings merger, Northeast Savings and Investment Co. had also merged with Union Bank and Trust and opened as a full-service branch.

Also receiving FDIC approval last Monday were Western Nebraska Savings Co. of Alliance and First of Omaha Savings Co. The three most recent approvals bring to seven the number of industrials approved either for merger with a bank or for FDIC coverage since the failure of Commonwealth Savings and Loan Co. November 1.

ASHLAND: Steve Loogman has joined the staff of Farmers & Merchants National Bank as vice presi-

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dent and senior loan officer. In the last five years he has held positions at Wells Fargo banks at Red Bluffs, South Lake Tahoe, Gridley and San Bernardino.

BAYARD: Dick Barnes has been named executive vice president and director of the First National Bank of Bayard. He previously was vice president of First National Bank in North Platte.

OMAHA: Officials of First National Lincoln Corp. and Omaha National Corporation jointly announced last week that the merger of the two into Firstier, Inc., as previously announced, has been unanimously approved by the respective boards of directors.

OMAHA: Sylvia B. Myers has been appointed vice president and manager of the Central Park facility of Norwest Bank Omaha, N.A. She started with the bank in 1967 and has served as assistant manager of the facility since 1982.

Minnesota News

The Minnesota Bankers Association will be presenting a two-day Microcomputer Workshop sponsored by the MBA operations com-



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mittee to be held November 30-December 1 at the Holiday Inn International, Bloomington.

The workshop will be conducted by Thomas Farin, president of Aurora Systems, Inc., Madison, Wis. He has been a featured speaker at computer seminars around the country and is nationally recognized as one of the leading experts in the microcomputer industry, particularly in the specialized area of bank applications.

EDINA: John D. McDonald has been named senior vice president of the commercial banking division at First Bank Southdale. Previously he held the position of senior vice president of credit administration at First Bank Hopkins. He joined First Bank System in 1959.

MINNEAPOLIS: First Bank System, Inc. board of directors has elected DeWalt H. Ankeny, Jr. president and chief operating officer and Dennis E. Evans as vice chairman and a director. Mr. Ankeny, vice chairman since July of 1982, succeeds George H. Dixon, who remains First Bank System chairman and chief executive officer. In addition, Mr. Evans will serve as chairman and CEO of First Bank Saint Paul, as well as his current position as chairman and CEO of First Bank Minneapolis.

Illinois News

The Illinois Bankers Association's officers for 1984 were formally designated at the IBA's Annual Meeting held November 16 at Holiday Inn O'Hare-Kennedy. The officers, whose terms will run from January 1 to December 31, 1984, are:

President—Charles C. Wilson, chairman and CEO, First National Bank of the Quad Cities, Rock Island;

Vice President—Kenneth Skopec, president, The Mid-City National Bank of Chicago;

Secretary—James Lund, chairman and president, Matteson-Richton Bank, Matteson, and

Treasurer—Donald R. Lovett, chairman and president, Dixon National Bank.

The chief staff officer of the IBA is Executive Vice President William J. Hocter.

* * *

The Independent Community Banks in Illinois will be holding four IRA seminars to be held on consecutive dates in December.

December 6 at Red Lion Inn, Marion;

December 7 at Ramada Inn, Peoria;

December 8 at Ramada Inn, Rockford, and

December 9 at Ramada Inn, Rock Falls.

North Dakota News

North Dakota Bankers Association President Darold Petersen has announced the resignation of Bob Westbee as NDBA president-elect. Mr. Westbee recently accepted a position as president and chief executive officer at United Central Bank in Mason City, Iowa.

Under the NDBA By-Laws, Les Nesvig of the First State Bank, LaMoure, automatically assumes the office of president-elect, leaving his previous position as vice president/treasurer vacant.

A special meeting has been called for December 20 in Bismarck, by John McGinley, nominating committee chairman, at which time a candidate will be selected and approved by the executive council to complete the term. Anyone wishing to recommend a banker for nomination or who is personally interested in serving in this capacity should contact any member of the nominating committee.

The individual chosen will be the official candidate for the 1984-85 NDBA president-elect.

Montana News

BILLINGS: Rick McCann has joined Pioneer Bank as vice president. He previously was serving as assistant vice president, real estate department, for Security Bank, N.A.

BILLINGS: Norwest Bank Billings, N.A., recently announced the addition of Robert D. Anderson as vice president, manager commercial lending. Mr. Anderson started in banking in 1977 and most recently served as vice president/manager commercial lending division of First National Bank in Rochester, Minn.

Wyoming News

GILLETTE: Joe Jackson has been named president and chief executive officer of First Wyoming Bank. He previously was vice president of the Hastings State Bank, Hastings, Neb. He succeeds Gary Turner, who resigned in October. Mr. Turner has served as president since February, 1982.

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BRANCH MANAGER for west bank city center location. Career opportunity for individual interested in branch operations in metro area. Individual must have background in operations and credit and enjoy working with people. Send resume and salary requirement to file VBQ, c/o Northwestern Banker. All replies strictly confidential. (PA)

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Sr. Lender for Southern Minnesota multi-bank holding company bank must be experienced in commercial, ag, and retail lending. Salary to \$36,000

Commercial Lender for \$60 million thrift institution in Eastern Missouri. Excellent opportunity and bonus arrangement. Salary open

Ag Lender for Northern Iowa community bank. Requires two or more years experience plus degree. Excellent opportunity in county seat town. Salary to \$29,000

Ag Lender for N.W. Iowa bank. Salary range is open, depending on experience. Nice small community and working conditions.

Ag Lender for S.W. Iowa community bank. Must have three or more years experience plus degree. Bonus arrangement. Salary to \$30,000

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