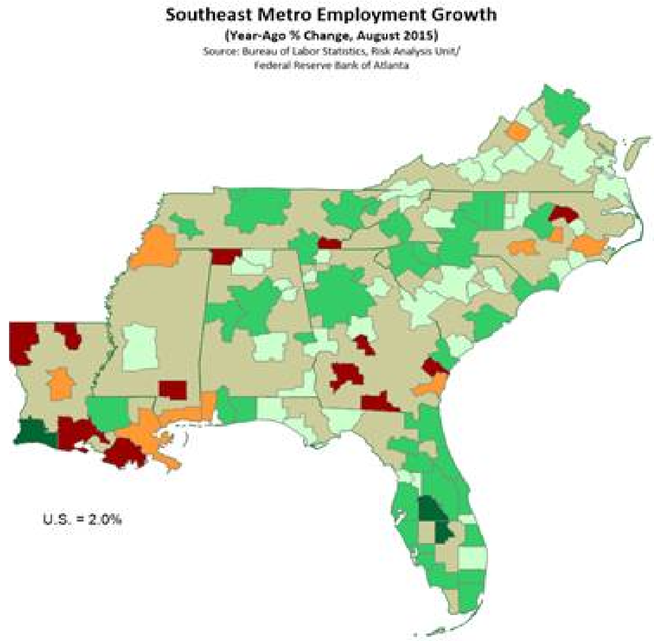
FEDERAL RESERVE BANK of ATLANTA

Louisiana Snapshot

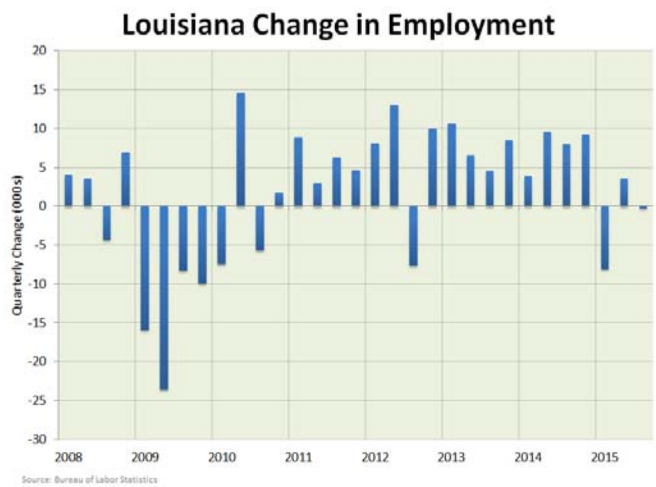
November 2015

Risk Analysis Unit

Louisiana Economic Trends

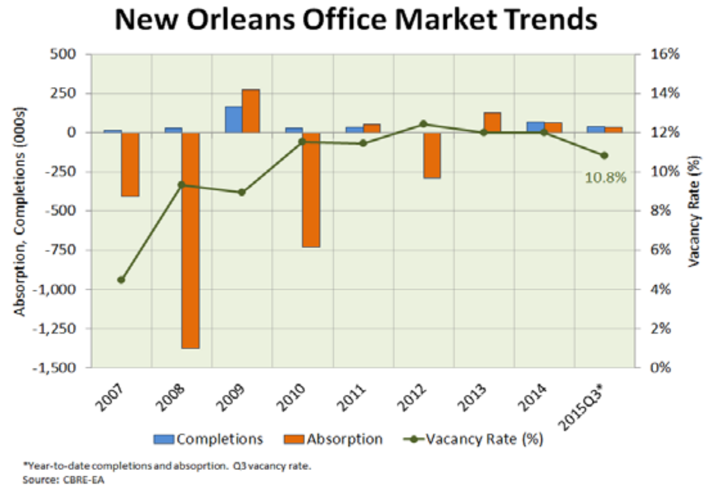


While Louisiana is home to a variety of industries, energy and hospitality play an oversized roll on the economy. Currently, the outlook for the energy market is somewhat unclear. Lower oil prices are certainly not positive news everywhere; in fact, the slowdown in the energy industry is having quite a significant impact on Louisiana's economy. Energy is outpacing all other sectors in job cuts. The seasonally adjusted unemployment rate for June of 2015 was 6.4 percent for Louisiana as compared with 6.2 percent the previous year. Across the state there have been over 4,300 job cuts announced through October of 2015, which is nearly one thousand more than all of 2014 combined. This increase in the unemployment rate is being led by an overall decline in both mining and governmental jobs. Furthermore, after nearly five years of increasing employment, there has been a significant drop in construction employment, pushing it to its lowest level of employment since back in 2005. According to the Bureau of Labor Statistics, weakness in the New Orleans MSA is driving this slowdown; however, this weakness is now spreading across the state. Higher paying energy sector job loss is being somewhat offset by gains in healthcare, education, and retail, which tend to be lower paying jobs. Wage levels in New Orleans and surrounding areas remain at pre-Katrina levels.



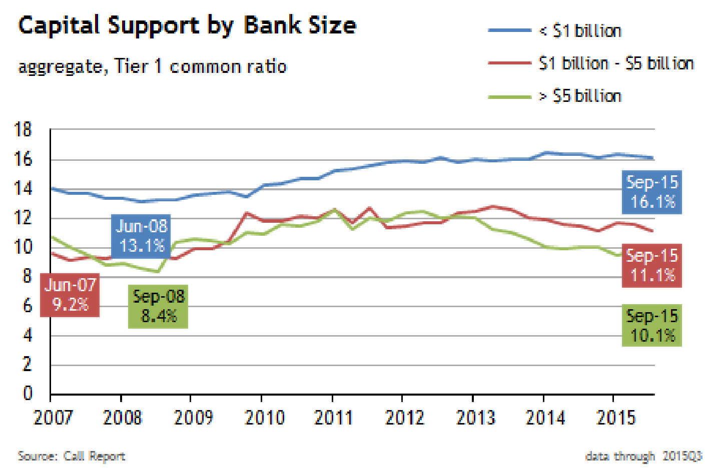
Residential Real Estate

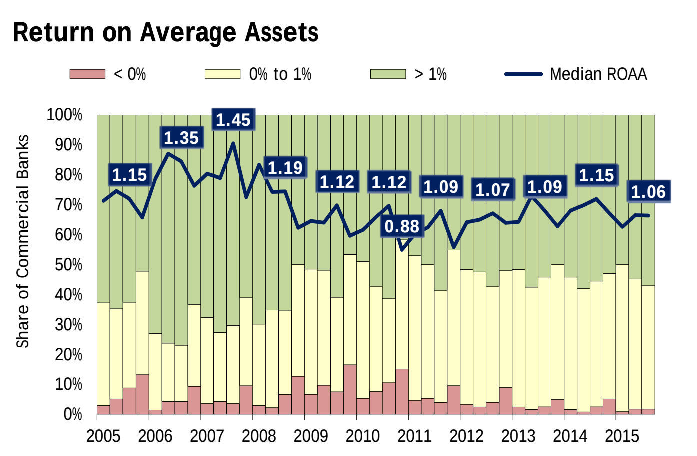
The housing market in Louisiana is somewhat mixed. Following Hurricane Katrina, the level of new home building increased and has remained fairly steady. The Housing and Urban Development department poured than $14 billion into the market, which produced over 12,000 homes that were either rehabbed or reconstructed. For the past 12 months, through mid-2015, housing starts have averaged roughly 1,000 per month. According to local experts, the level of starts is a little difficult ascertain because most parishes don't distinguish between new construction and renovations. In addition, one Louisiana's largest markets, New Orleans, remains very affordable based on the Housing Affordability Index. The index is a measure of whether a typical family has a sufficient level of income to qualify for a mortgage loan on a typical home in the market based on a median-priced, existing single-family. An index level above 100 signals that family earning the median income has more than enough income to qualify for a mortgage loan on a median-priced home, assuming a 20 percent down payment. In New Orleans, the affordability index has been close to 200 for the last three years. Still, there are issues with Louisiana's housing market. One issue is the level of home ownership, which has steadily declined over the past seven years after peaking at 73.5 percent in 2008. The current level is now 65.3 percent according to the latest data available. An estimated 15 percent of home owners still have negative equity. In addition, after 3 year straight years of positive growth in home prices, the housing market in Louisiana has slowed significantly as the negative impacts of the decline in the oil and gas industry have begun to take hold. Home sales, at least in the New Orleans MSA, have dropped sharply from last year as housing demand has weakened. Likewise, home prices, which have climbed steadily since 2012, ended 2Q15 down 2.5 percent. Moving forward, a persistently stagnant regional economy is expected yield continual weakness in the housing sector. For example, the decline in house sales and prices will likely slow the number of housing starts.



Commercial Real Estate

Any impact from the energy slowdown has yet to have a significant effect on Louisiana's commercial real estate (CRE), although some local markets are experiencing a downturn. New office completions are on par with the fifteen year average for the city of New Orleans. New Orleans has added 37,000 square feet of new office space to date in 2015. Office vacancy rates for New Orleans had been climbing since 2010 but finally peaked in January of 2014. Since then vacancy rates have turned in a positive direction, declining to just under 11 percent. New retail CRE completions are far below the fifteen year average as of the second quarter of 2015. Like office, vacancy rates have been climbing but have yet to turn positive. Absorption has once again turned negative. Multifamily is thriving is several markets across the state of Louisiana. In the eastern half of the state there have been a high number of multifamily completions. Downtown office building conversions and new construction are adding to the apartment inventory in New Orleans. According to REIS, although multifamily has done extremely well in many of the markets, Louisiana also had the market with the lowest multifamily growth in the U.S., Lafayette, Louisiana. Lafayette rents have declined 0.3 percent in 2015, after increasing 1.4 percent the prior year. The impact from reduced offshore drilling in recent months has clearly affected Lakeland's apartment market.



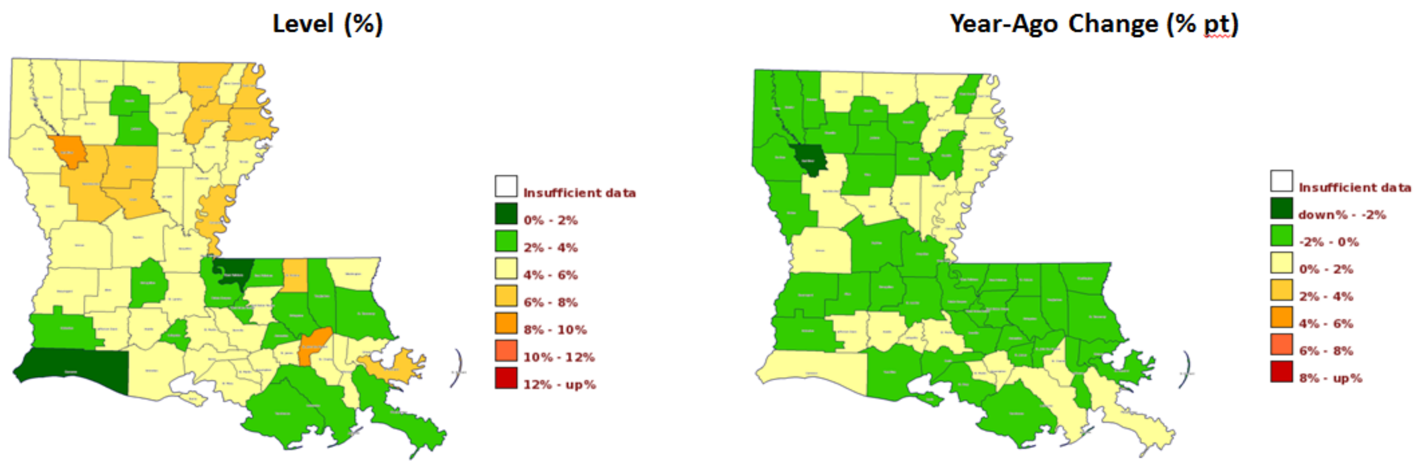


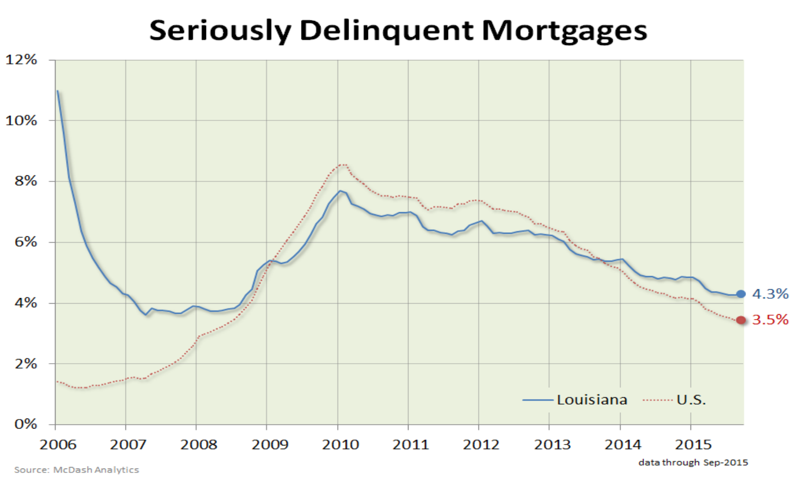
Louisiana Community Bank Trends

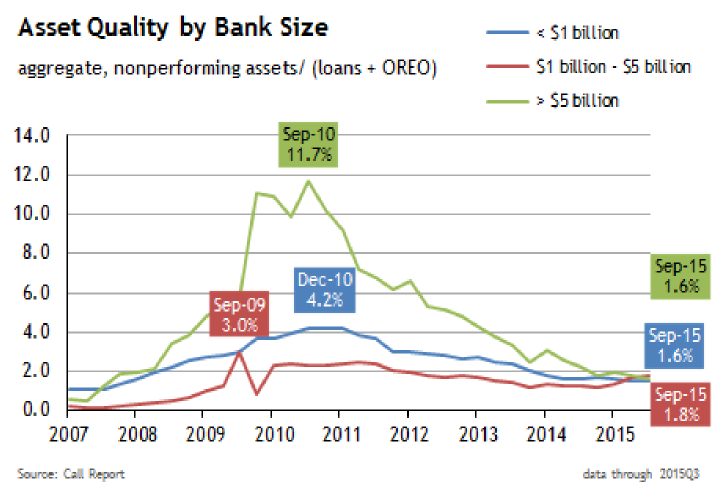
Loan growth in Louisiana has been faster than in any other part of the Southeast, due in part to the growth in the energy sector since the financial crisis. Year-over-year the loan portfolio has increased by roughly 8 percent. However, stresses created by lower oil prices are now contributing to slower loan growth and elevated credit risk in Louisiana as well as some of the surrounding states, especially Texas. Significant decreases in the energy market may have impaired several energy companies' ability to repay. So far, banks active in the energy sector appear to have taken reasonable actions given the current environment. As of third quarter 2015, nonperforming assets (NPAs) were roughly 1.6 percent of total loans on a median basis. During the crisis, NPAs were approximately three times higher for banks with assets under $1 billion than for other institutions. However, examiners continued to press banks to carefully monitor loan portfolio risks, ensure they had sufficient loan collateral, and build up reserves as a cushion against potential problem loans. Seriously delinquent mortgages in Louisiana are actually lower as compared with the U.S. as whole. The level of delinquent mortgages held steady or declined for about half of the state. Still, there are some parishes where the level is climbing. Natchitoches, Richland, and Saint Helena parishes have had significant increases in 30 days past due compared with 2014; two parishes, Richland and Saint Martin, have had an increase in 60 days past due year-over-year. One-third of Richland parish's employment comes from the energy sector.

If there are problems within the loan portfolio, banks have been able to build a larger capital base than what existed during the financial crisis. As of the third quarter of 2015, the median tier 1 common capital level was just over 16 percent for banks within the state. Once again, the growth in median risk-weighted assets slowed, which aids in keeping capital ratios higher. Problems within the local economies, as well as the interest rate environment are impacting earnings. In the third quarter more banks were able to improve their net interest margins versus those whose net interest margins were compressed due to growth in earning assets. Return on Average Assets (ROAA) was 1.06 percent on a median basis, a nine basis point decline from the prior year. Still, earnings are adding to capital, and the share of unprofitable institutions has come down markedly since the recession, with only 1.5 percent of institutions being unprofitable during the quarter.

Seriously Delinquent Mortgages (%)
September 2015







Year-to-Date Commercial Real Estate Completions