



Saltmarsh CPAs
Community Bank Executive Forum
General Economic Conditions
Tampa, Florida
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Takeaways

- **The economic expansion continues to set records.**
- **Strong growth in 2018 is slowing modestly in 2019.**
- **Florida has seen economic conditions improve at a faster pace than the Nation.**
- **Slowing global growth and ongoing trade uncertainties led the FOMC to the first rate cut since 2008.**
- **Yield curve inversions and interest rate futures suggest further rate cuts are coming.**



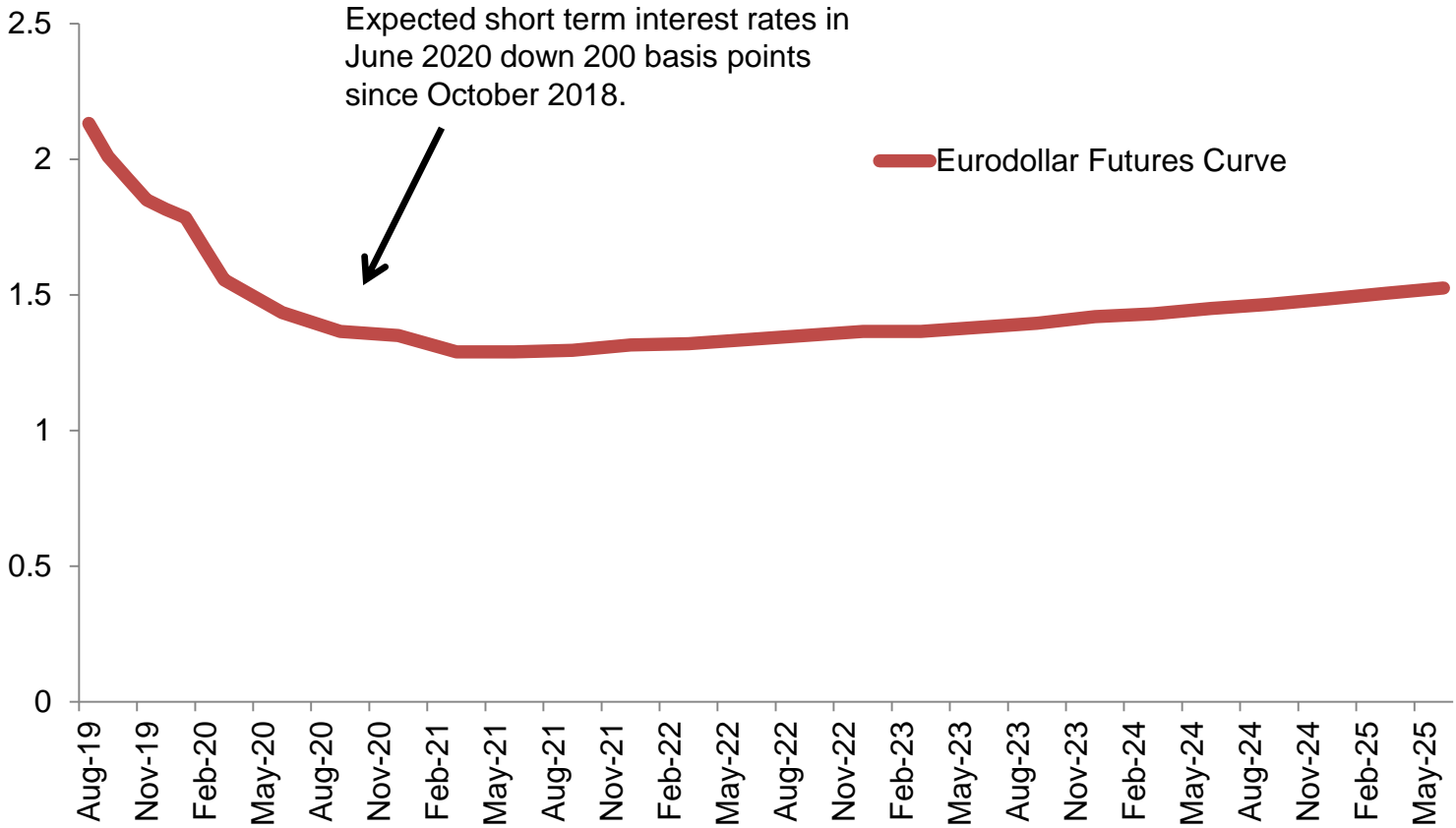
The National Economy

- ❑ Real GDP rose 2.0 percent in second quarter 2019. Positive contributions from personal consumption and government spending were partly offset by negative contributions from exports, fixed investment and inventory investment.
- ❑ In August, payrolls increased by 130,000 jobs as the unemployment rate remained at 3.7 percent, a near 50-year low.
- ❑ Initial and continuing claims for unemployment insurance are also at record lows. This is particularly impressive given the growth in the size of the labor force over the last 50 years.
- ❑ The S&P/Case-Shiller 20-City Home Price Index was up 2.2 percent in June 2019 from a year ago. Annual home price growth has slowed over the last year from the 5 to 6 percent pace seen since early 2015.
- ❑ In July 2019, the FOMC lowered the target range for the federal funds rate to a range of: 2.00 – 2.25 percent, the first cut since 2008. Markets have seen greater volatility since the decision, driven by additional trade concerns with China.
- ❑ Inflation expectations have fallen further below the FOMC's target and Fed Funds futures markets are pricing in a high likelihood of several additional cuts over the next year.



Futures Traders Expect Further Reductions in Short-Term Interest Rates

LIBOR For Spot Settlement
(100 - futures contract price)
Percent (%)

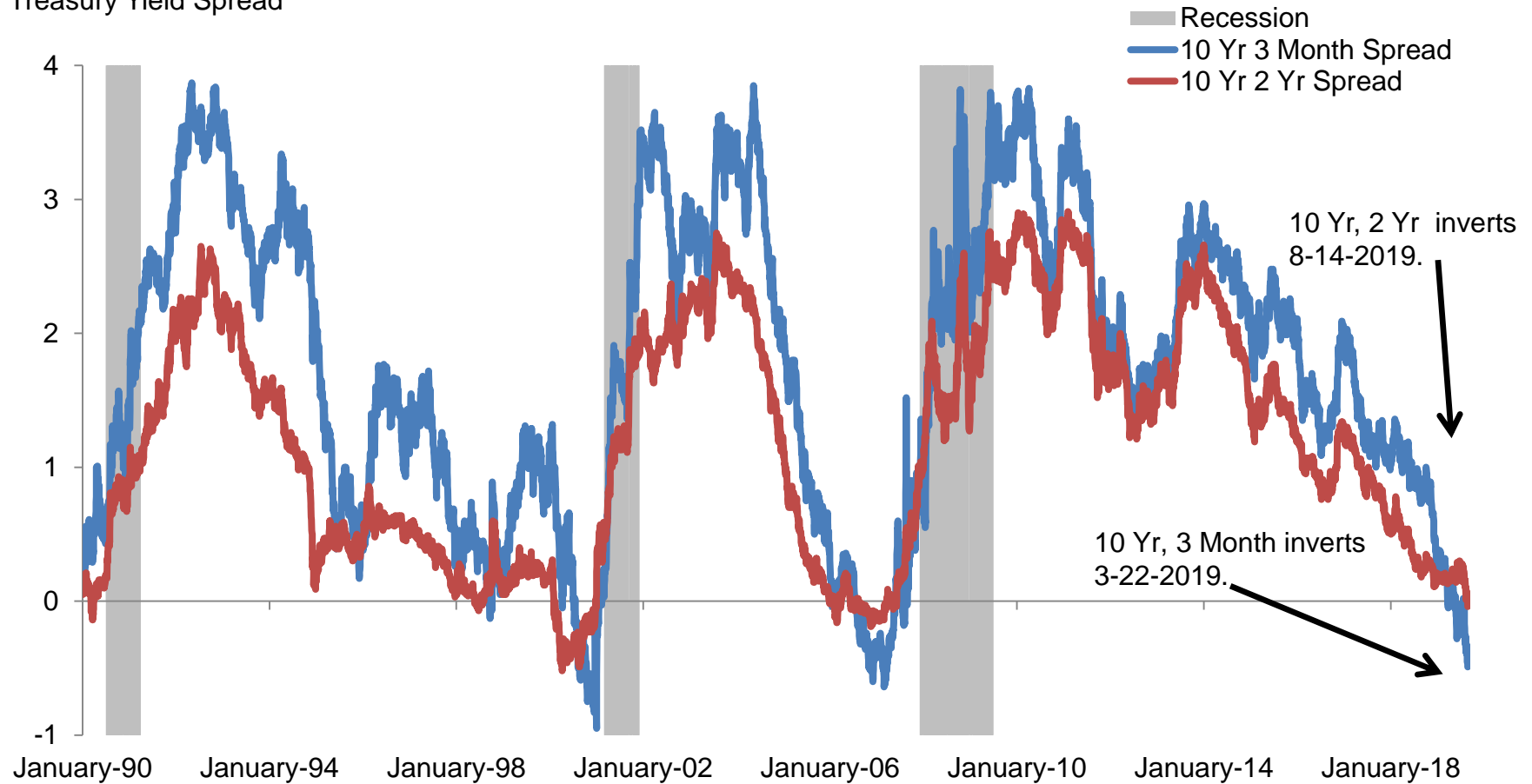


Source: CME Group, August 14th.



The Yield Curve Is Currently Inverted

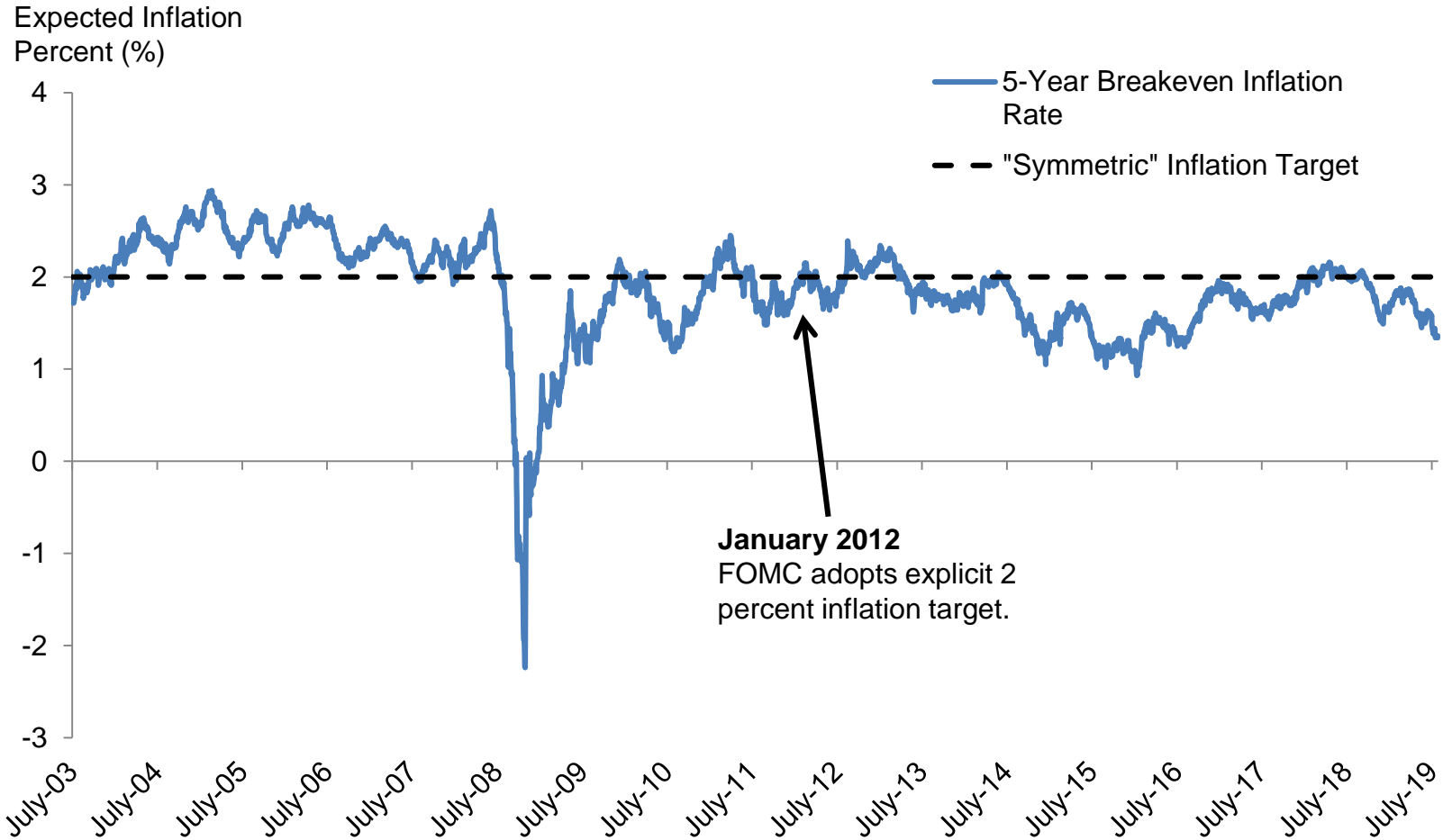
Treasury Yield Spread



Source: U.S. Department of Treasury, Daily Constant Maturity Treasury Rates.



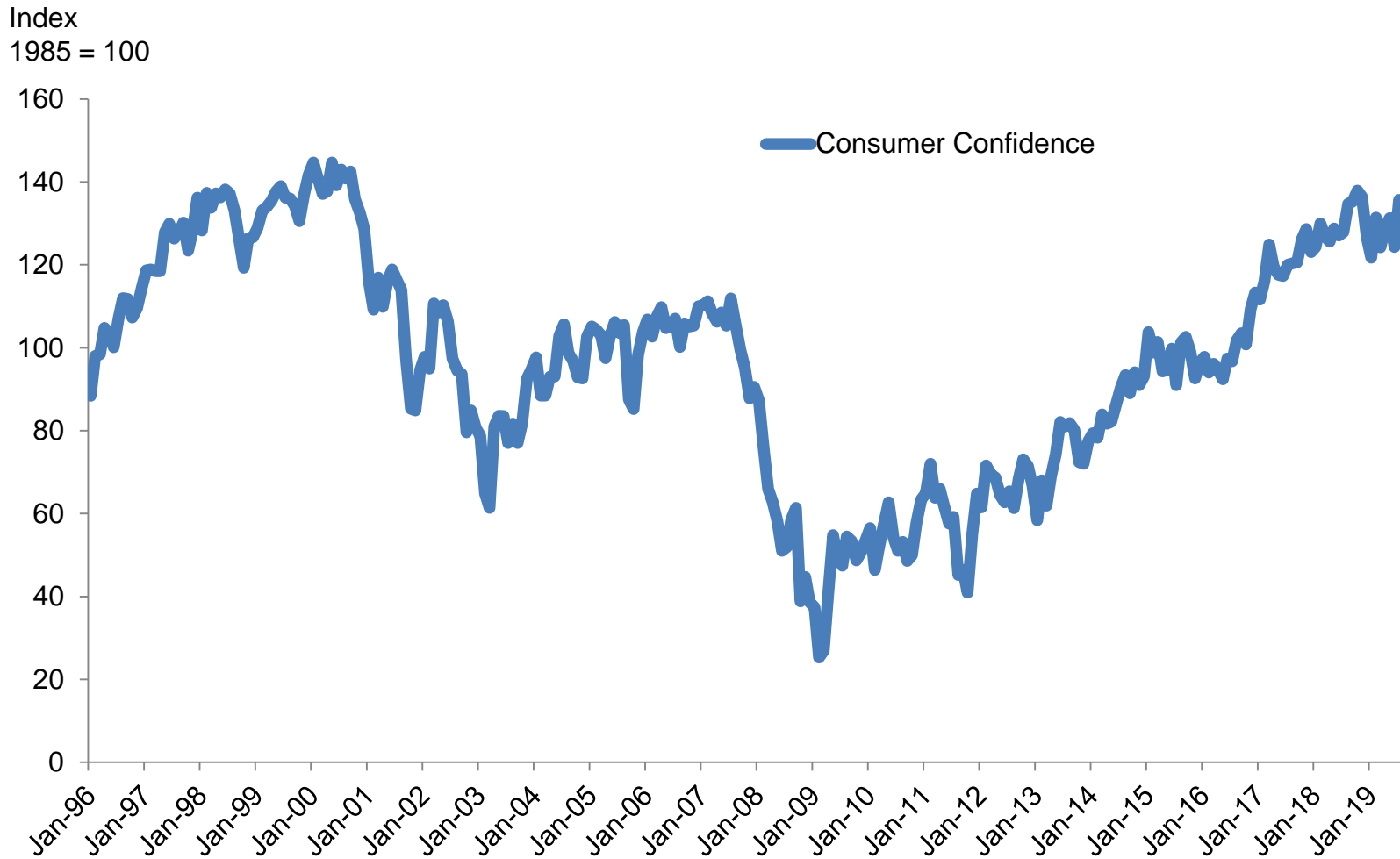
Inflation Expectations Have Anchored Below 2%



Source: Federal Reserve Bank of St. Louis. Percent, Daily, Not Seasonally Adjusted.



Consumer Confidence Remains Upbeat

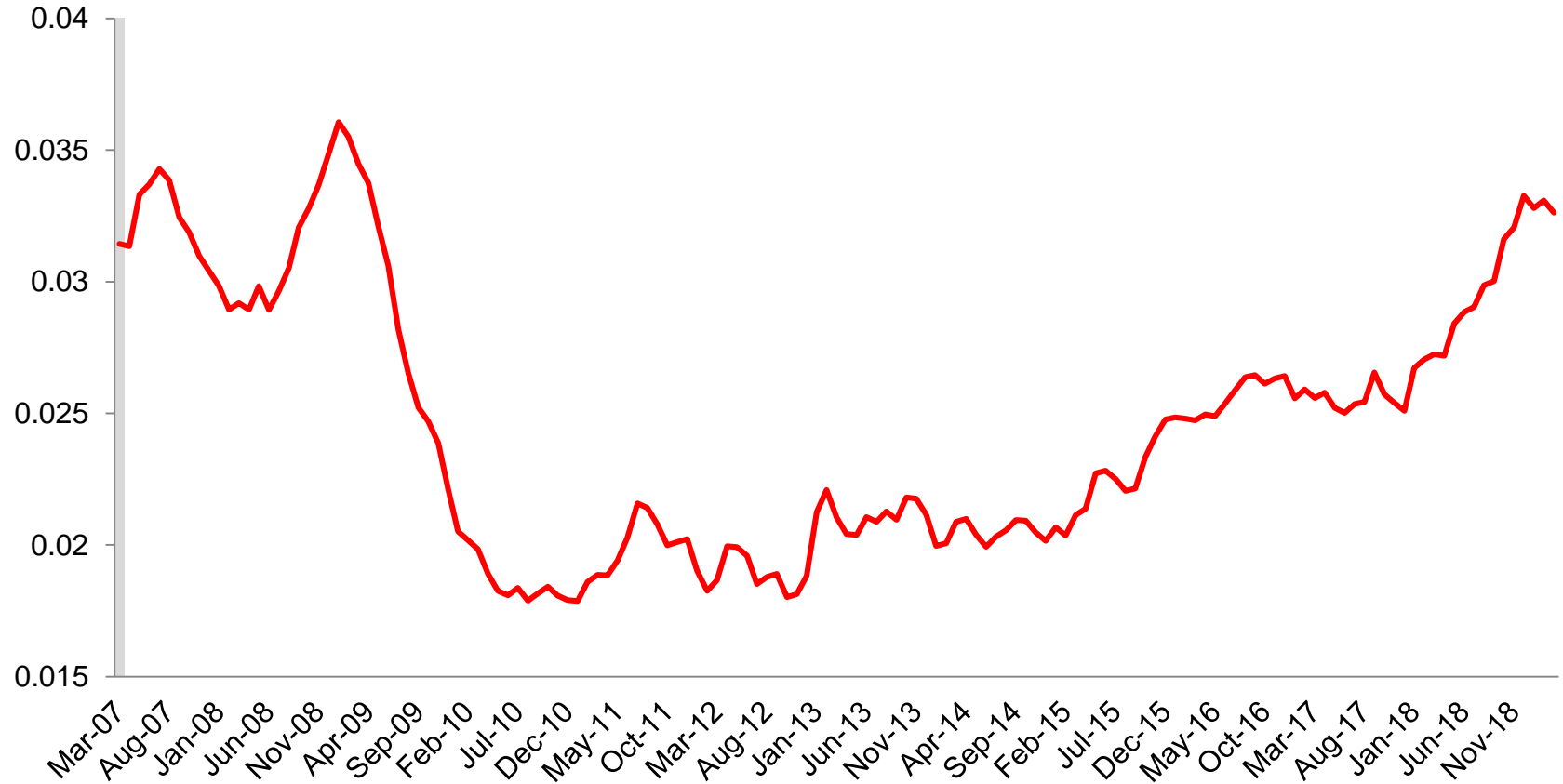


Source: The Conference Board, Haver Analytics. Seasonally Adjusted.



Wages Are Also Rising

Average Hourly Earnings of All Employees: Total Private (SA, \$/Hour)
Year-Over-Year Percent Change (%), 3-month MA

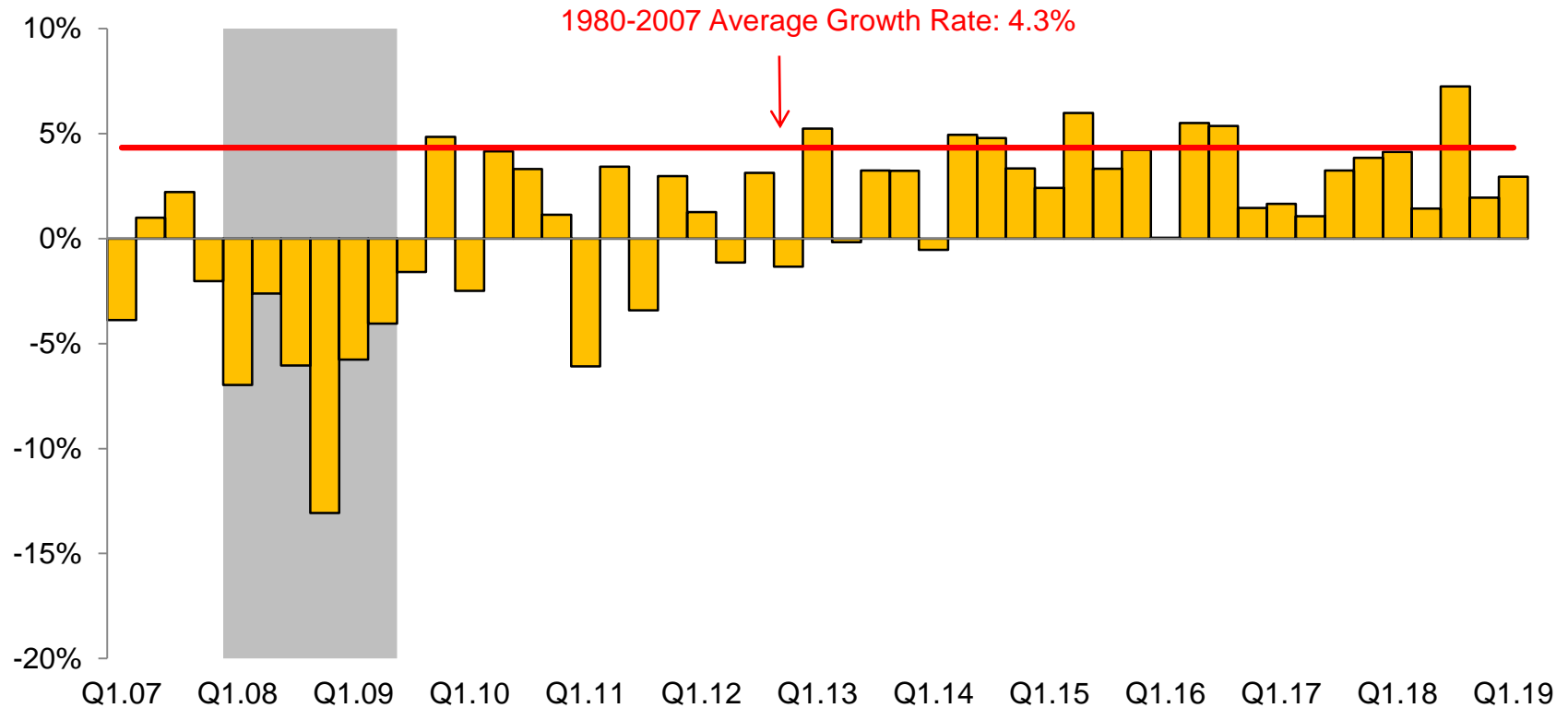


Source: U.S. Bureau of Labor Statistics.



Florida Real GSP Fell Below Its Historic Average in 2019

Real Gross State Product
Quarterly Percent Change, Annualized (%)

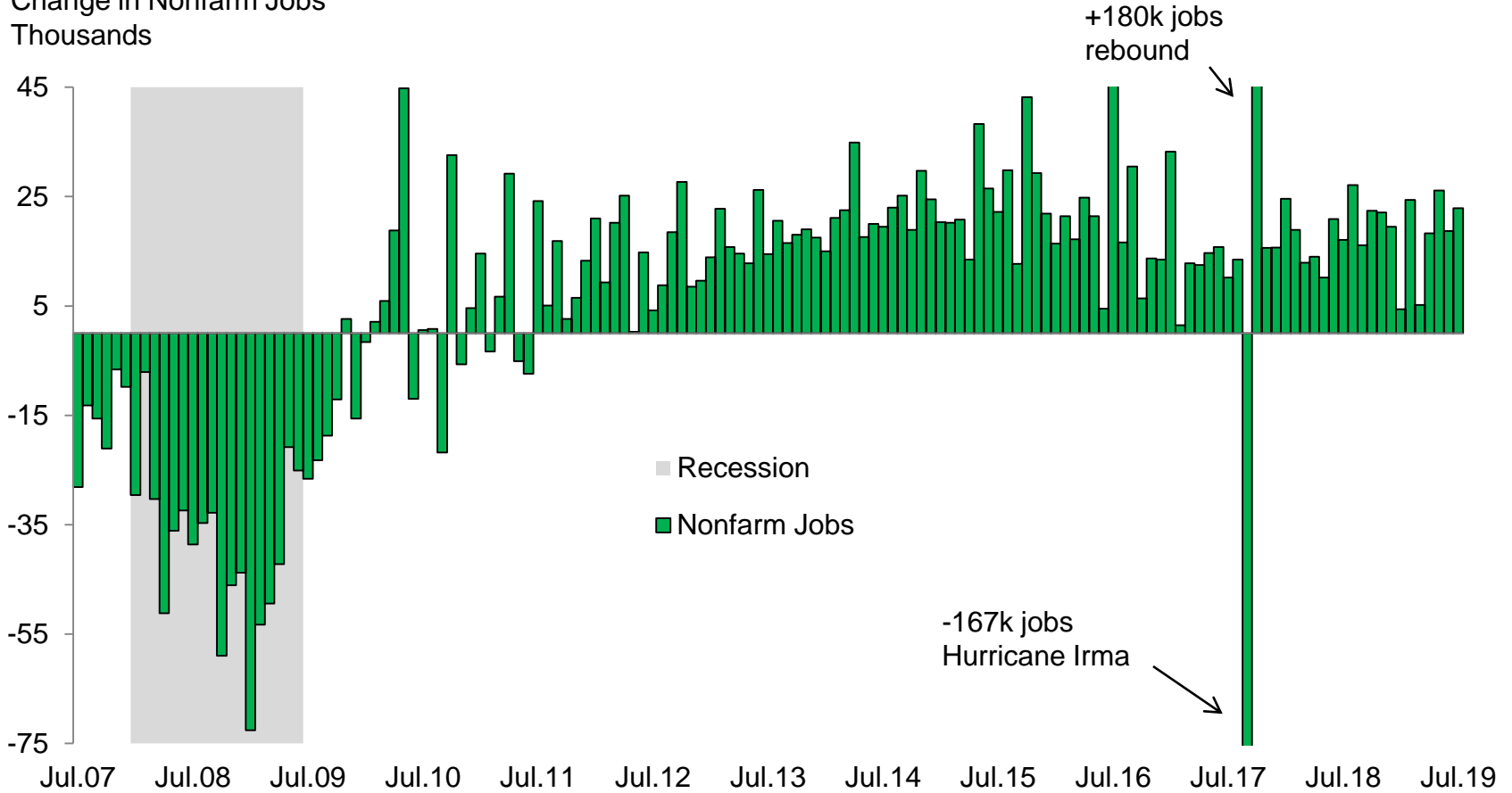


Source: U.S. Bureau of Economic Analysis; Moody's Analytics.



Florida's Job Growth Outpaces the Nation

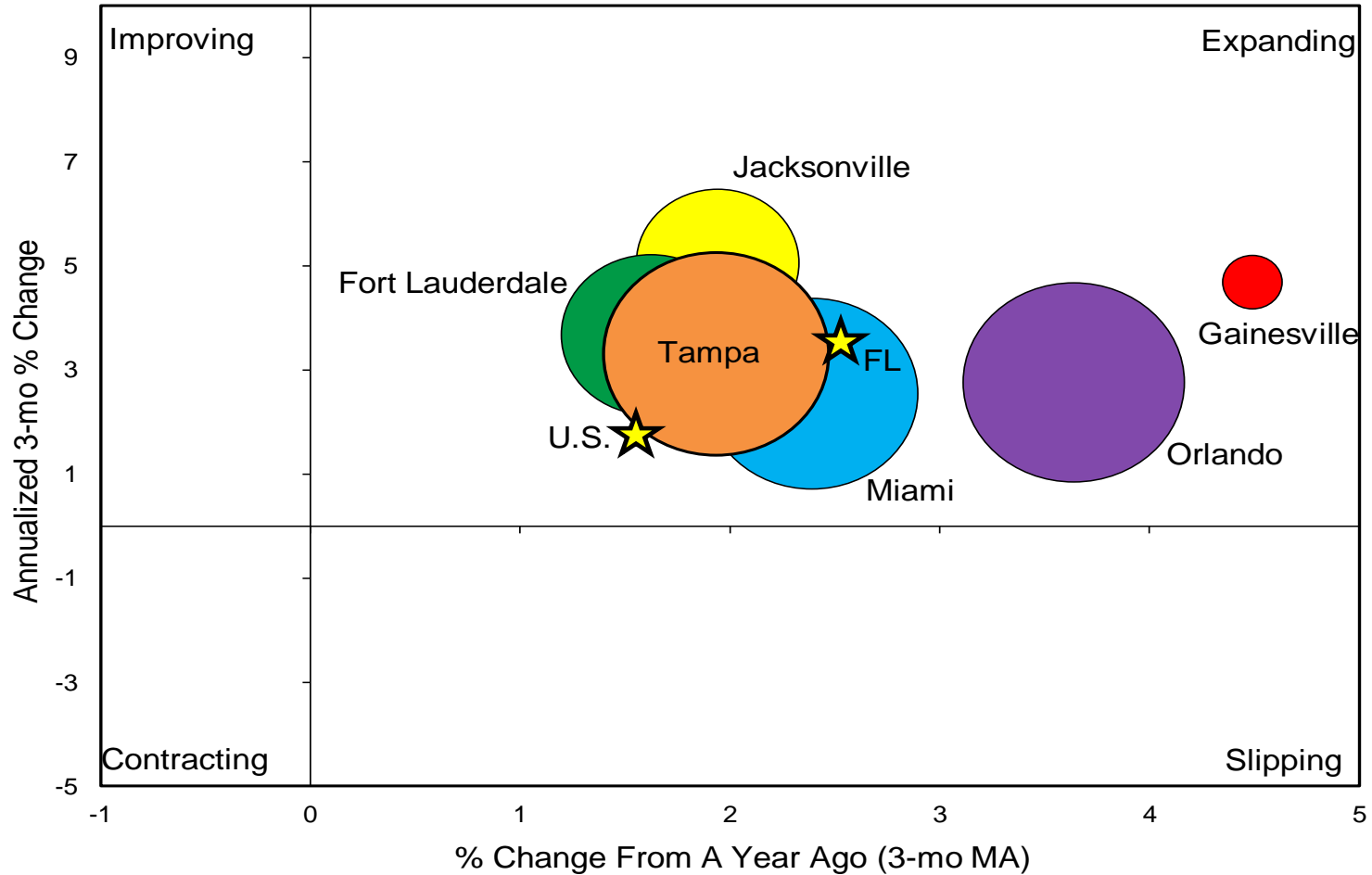
Change in Nonfarm Jobs
Thousands



Source: U.S. Bureau of Labor Statistics. Based on monthly data.



Employment Is Expanding in Nearly All of Florida's Largest MSAs

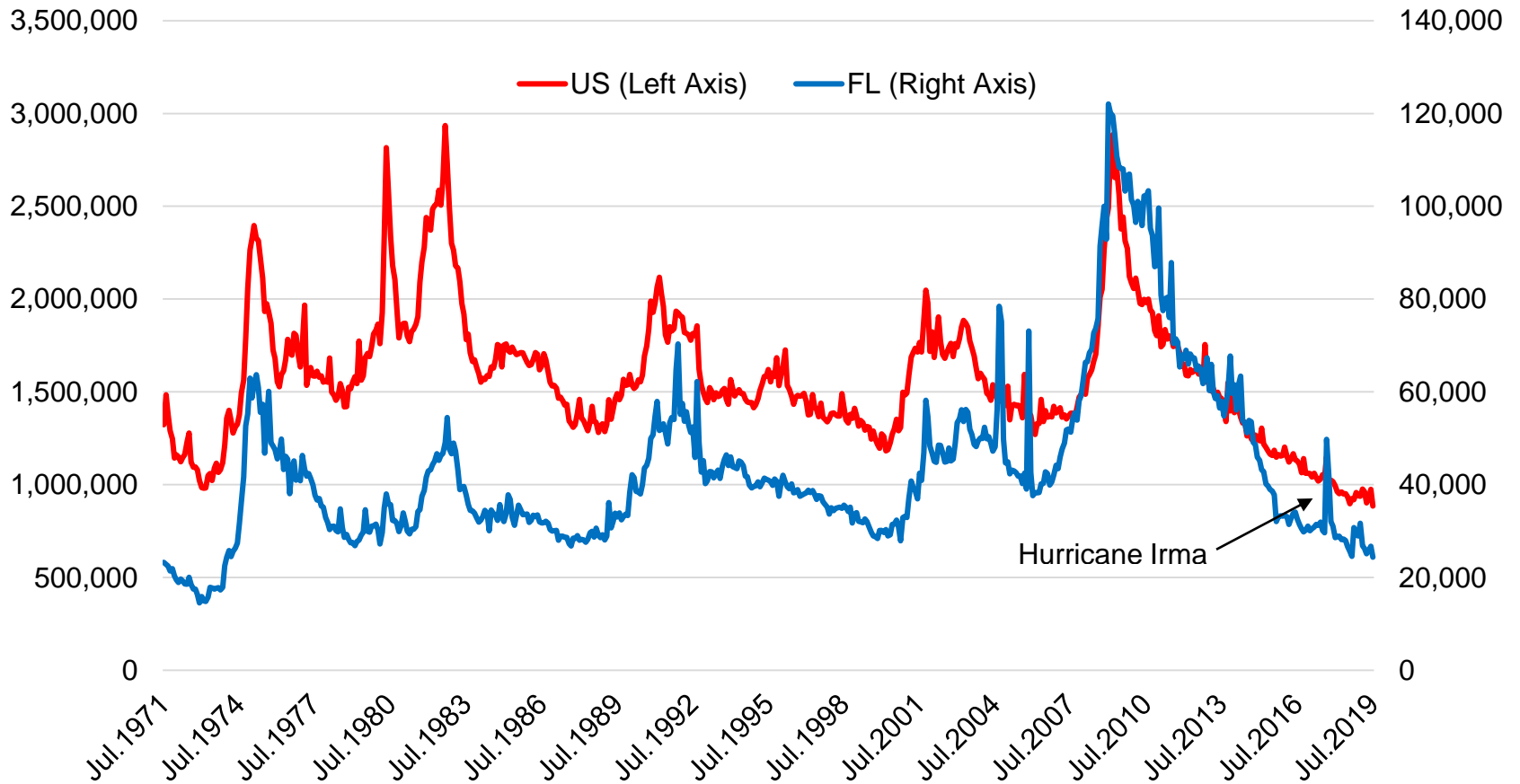


Source: U.S. Bureau of Labor Statistics. Data as of July 2019.



But, There Is No Sign of Imminent Labor Market Distress

Initial Claims: US and FL

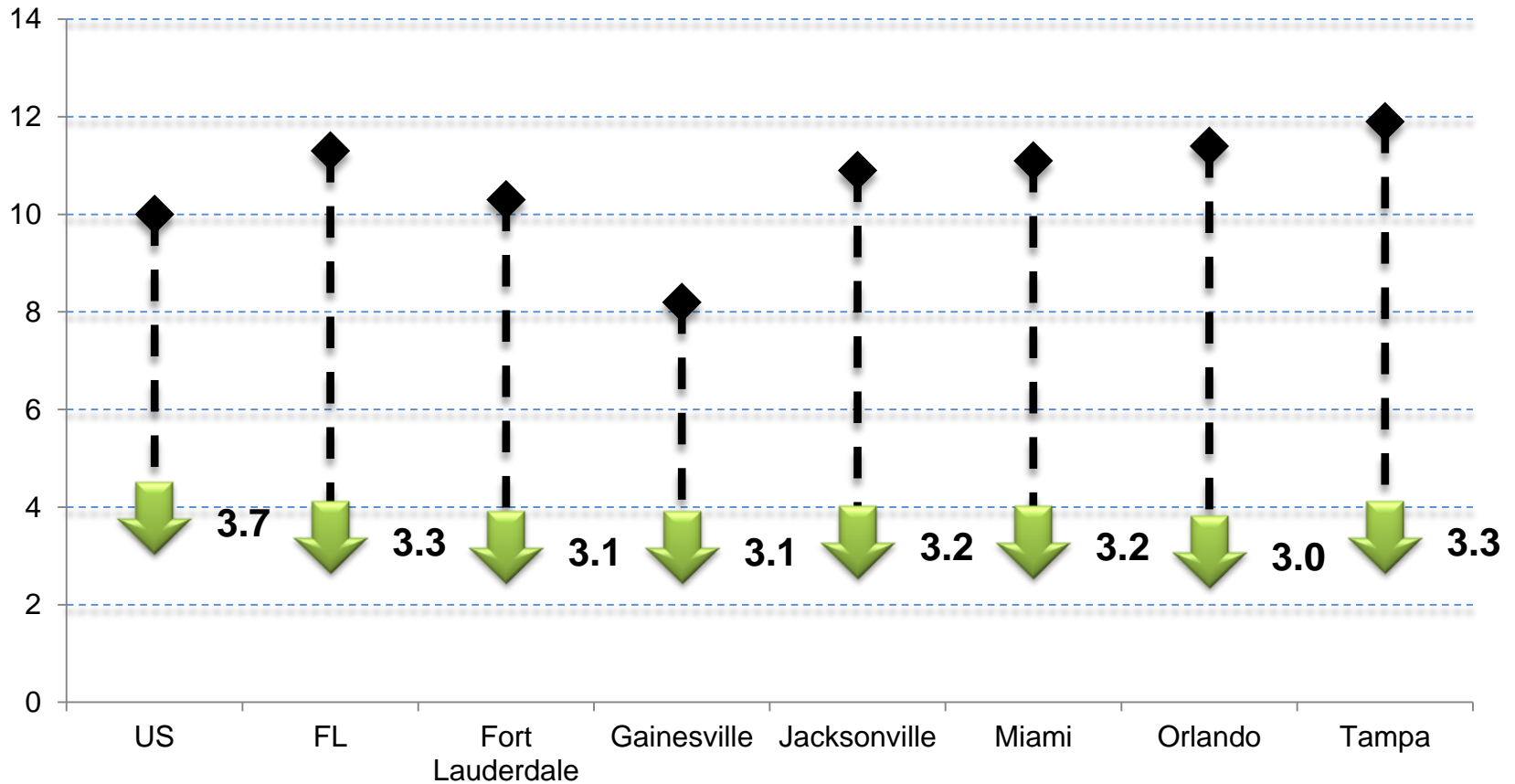


Source: U.S. Department of Labor.



Unemployment Rates Are Very Low

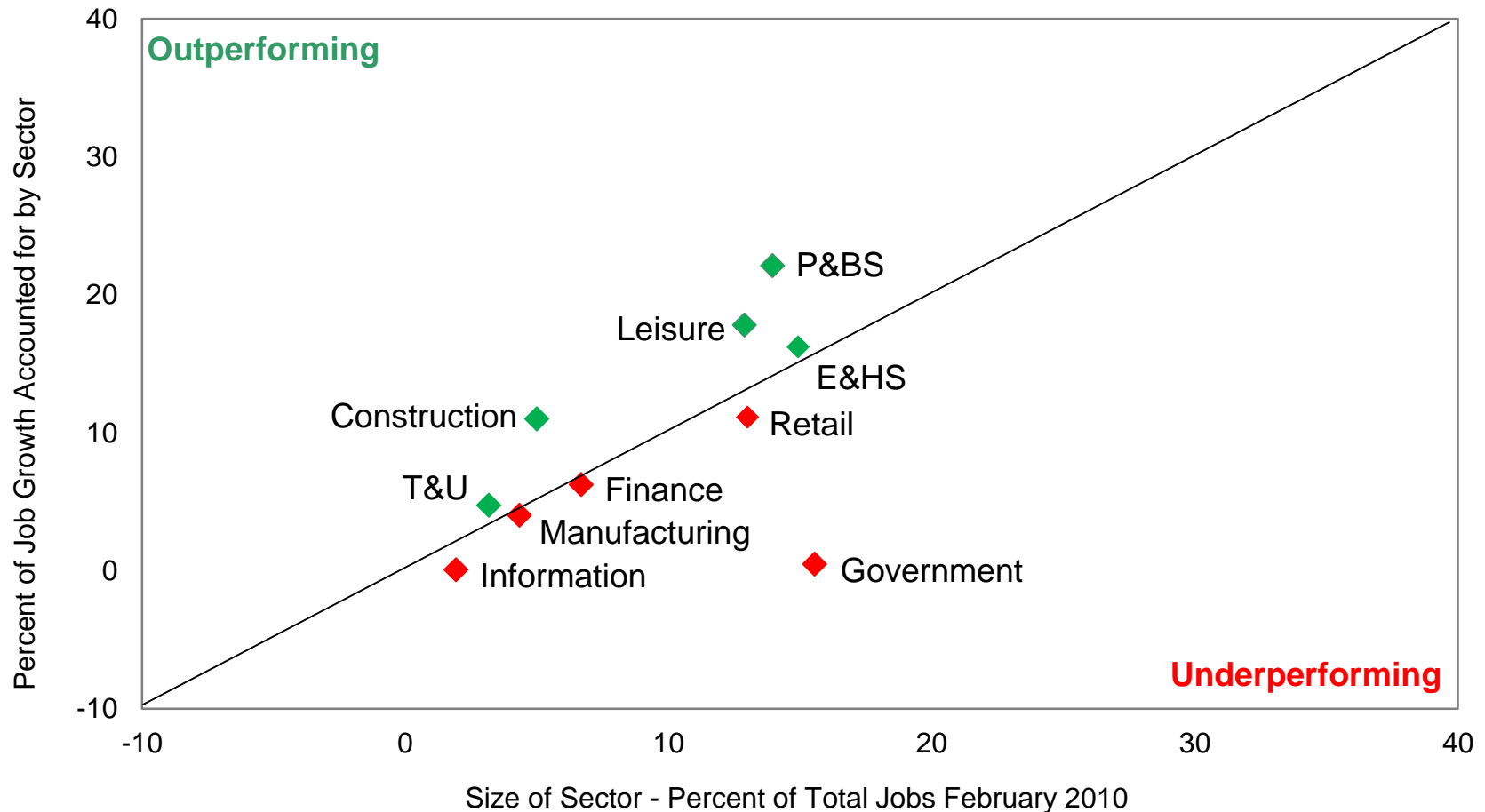
Seasonally Adjusted Unemployment Rate
10-year High/Low and July 2019 Rate



Source: Bureau of Labor Statistics. Arrows represent relative change during the last 6 months.



Professional and Business Services and Leisure Are Driving Job Creation in Florida

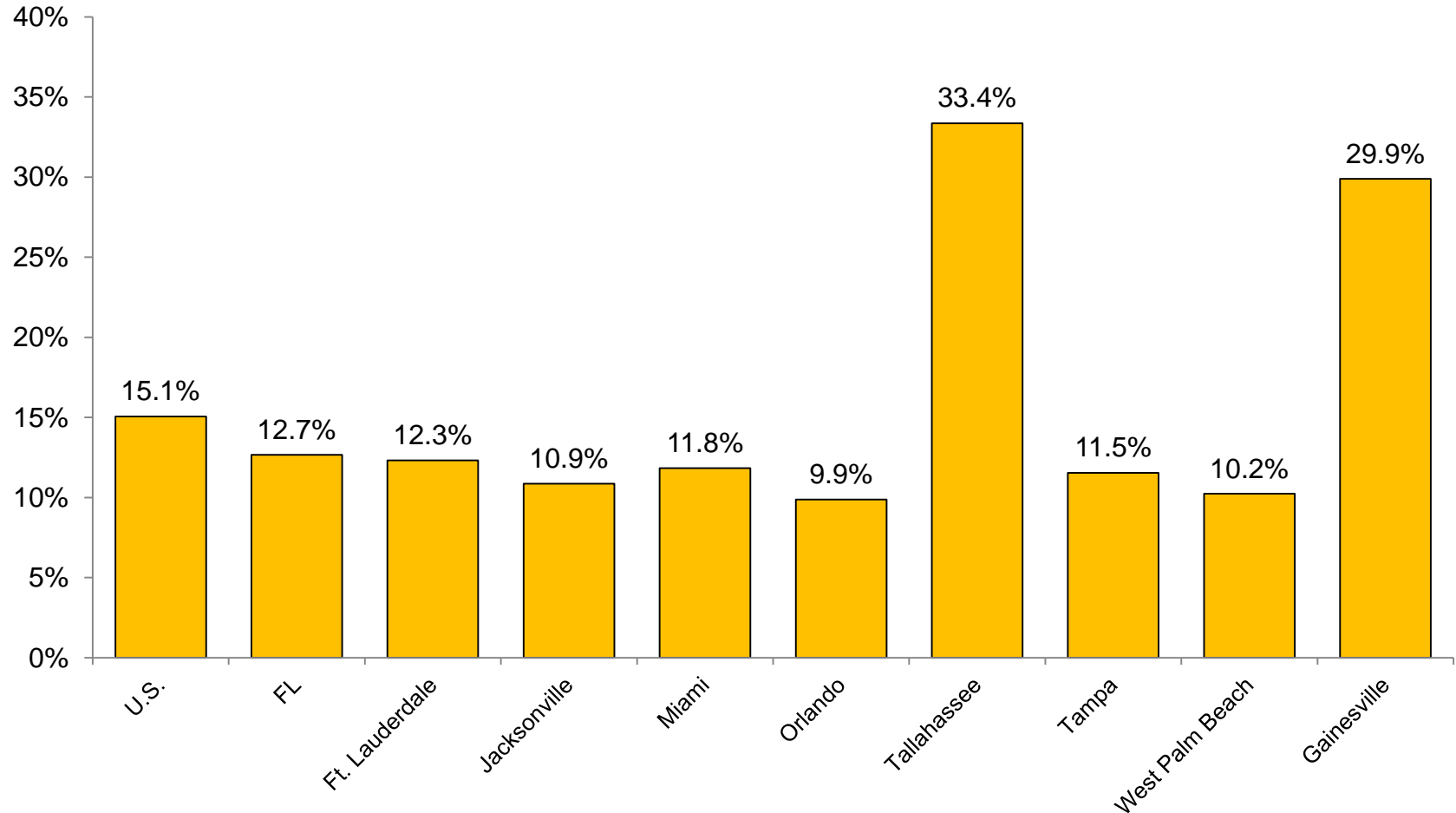


Source: U.S. Bureau of Labor Statistics. Data as of July 2019.



The Government Share of Employment in Florida Is Below the Nation

Government Percent of Total Non-Farm Employment (%)

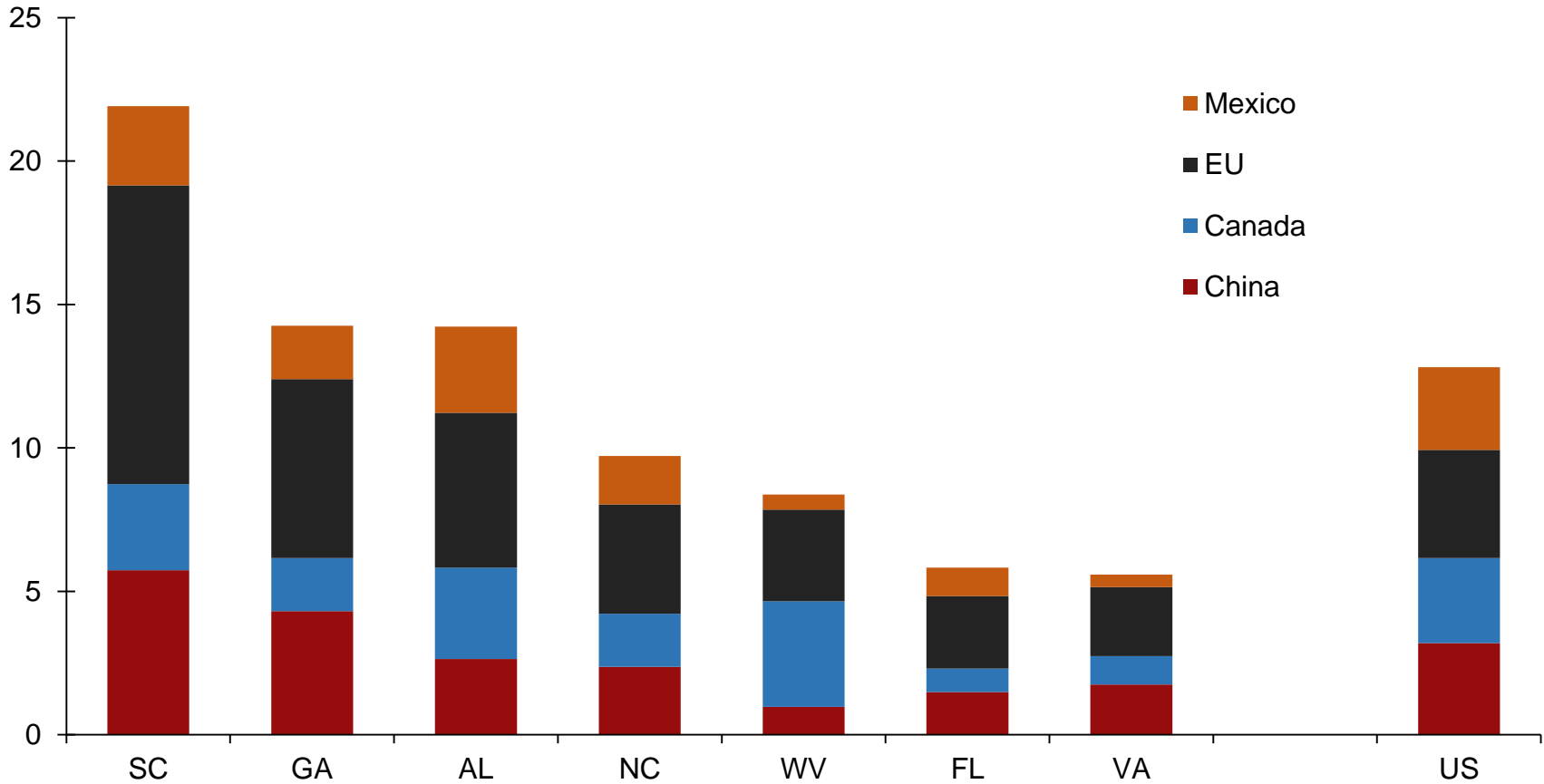


Source: U.S. Bureau of Labor Statistics. Annual data as of 2018.



Florida Has Less Direct Exposure to Trade Than Many Nearby States

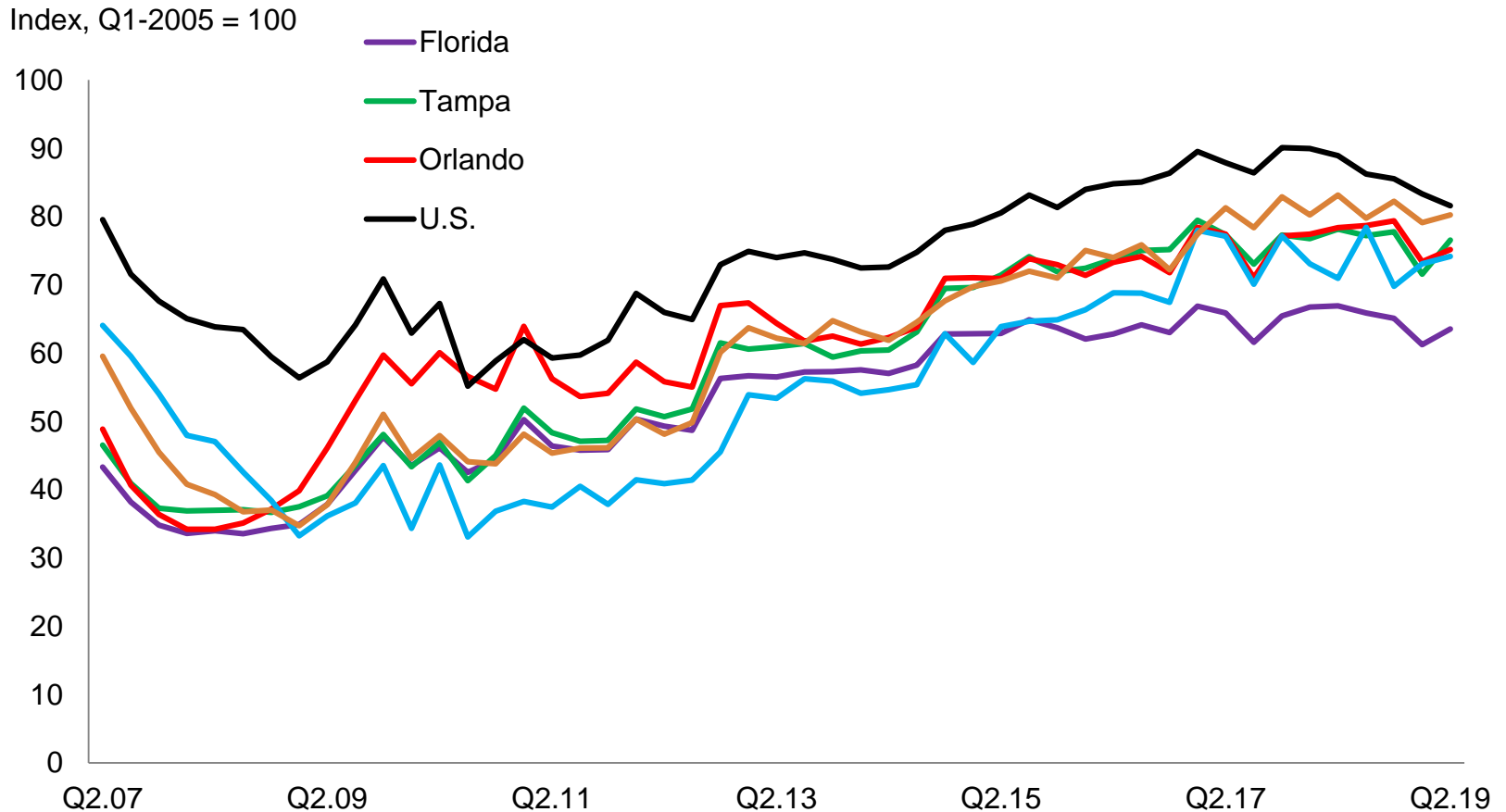
Share of Gross State Product Traded
Percent (%), Three-Year Average



Source: U.S. Census Bureau and Bureau of Economic Analysis (annual data from 2016-2018).



Existing Single-Family Home Sales Growth Has Slowed

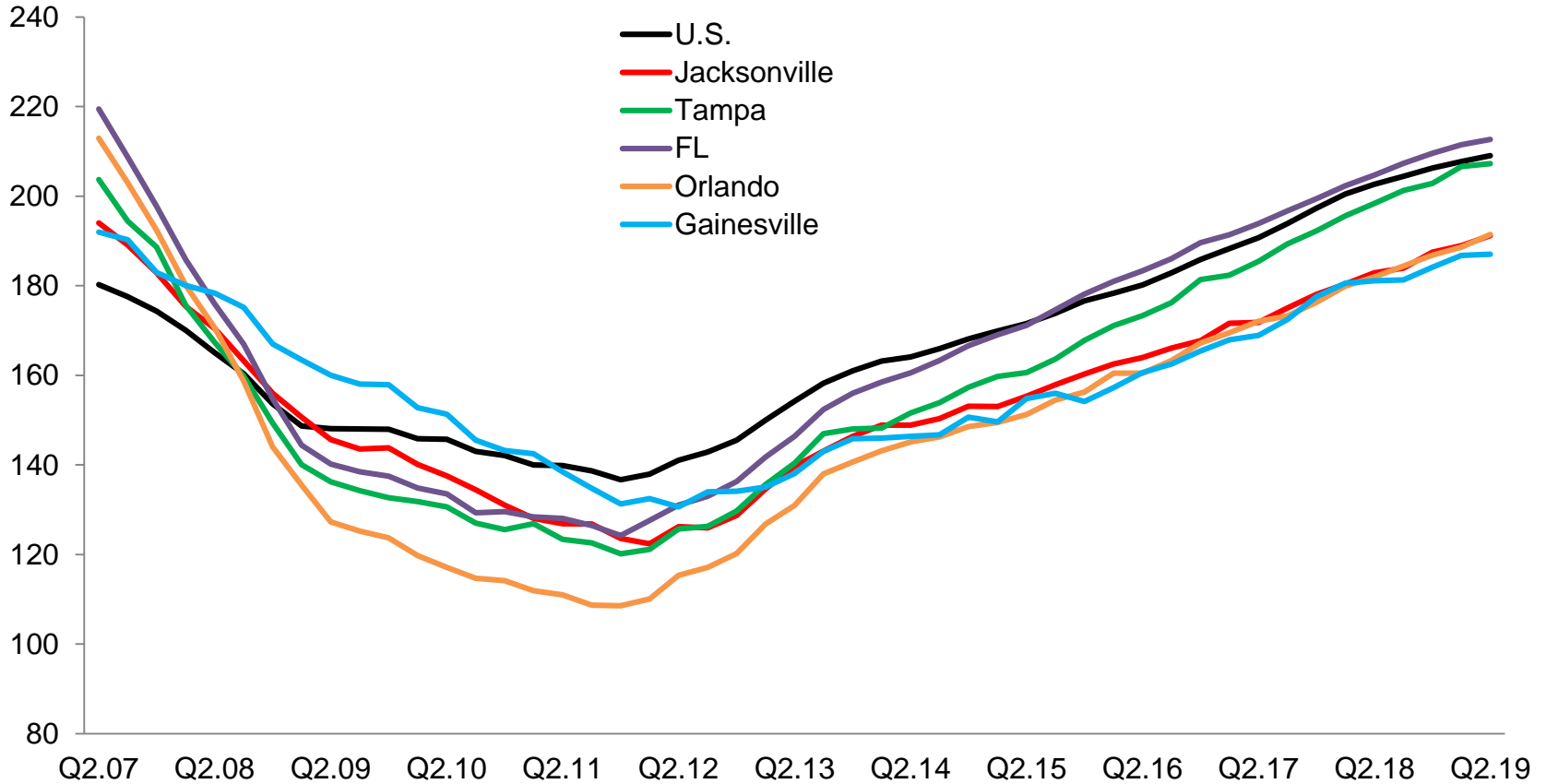


Source: CoreLogic, Inc.; Moody's Analytics.



Lean For-Sale Inventories Are Pushing Home Prices Higher in Florida

Index, Q1-2000 = 100

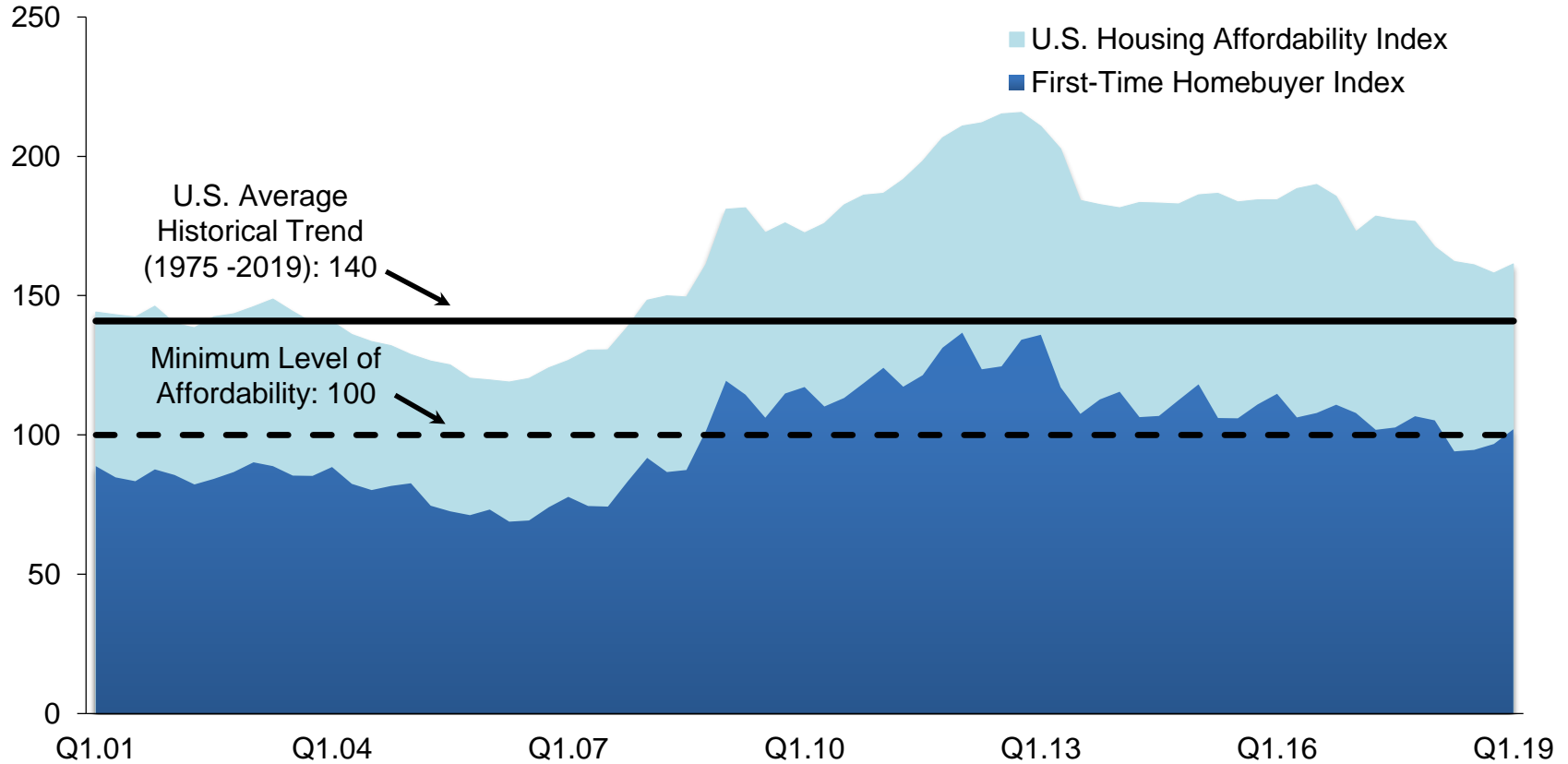


Source: CoreLogic, Inc.; Case-Shiller HPI.



U.S. Affordability Has Declined, but Remains Above the Historical Average

Housing Affordability Index

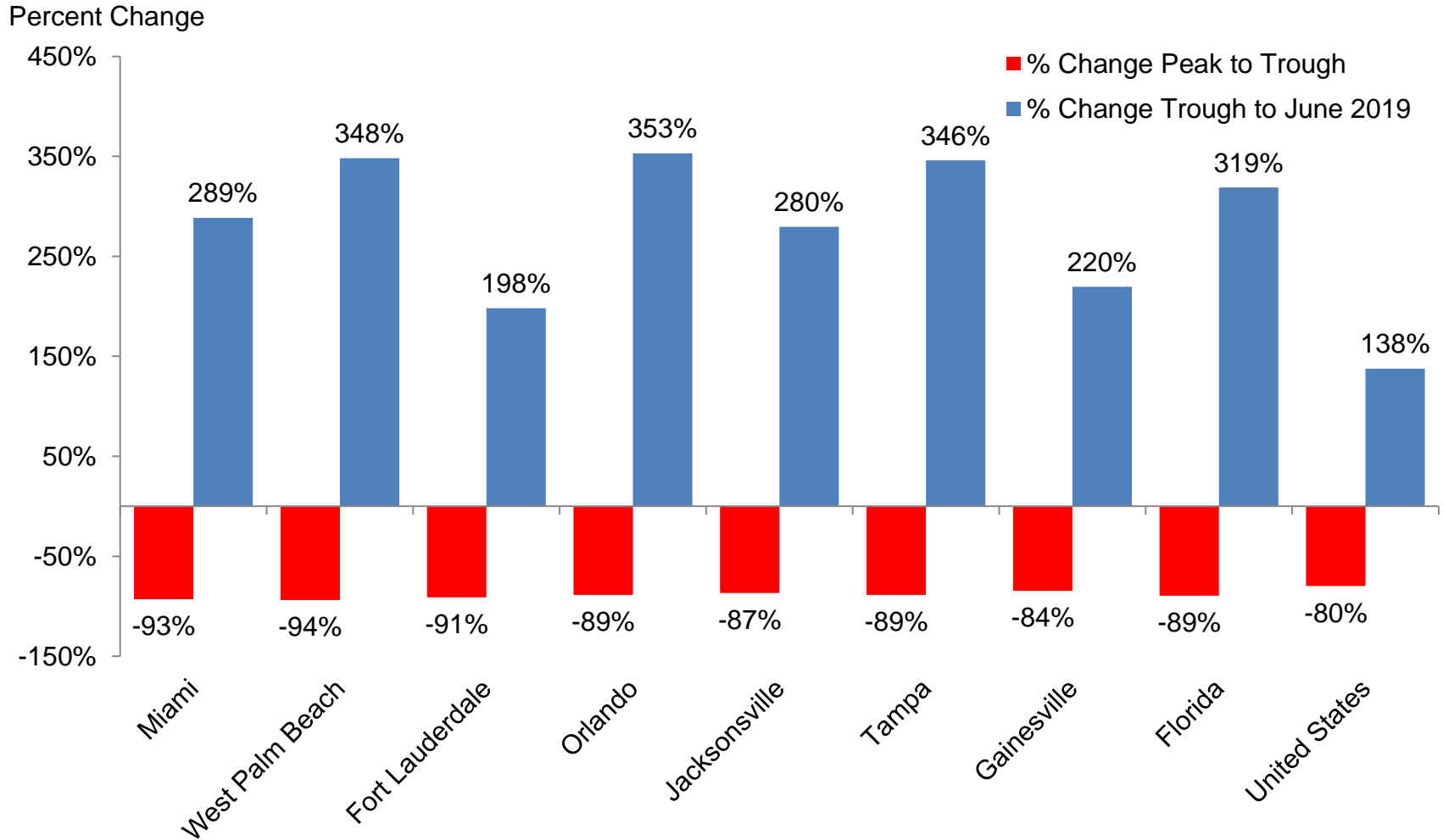


Source: National Association of Realtors.

Note: The U.S. Average Historical Trend data includes first quarter 2019.



Housing Starts in Florida Have Improved Considerably...

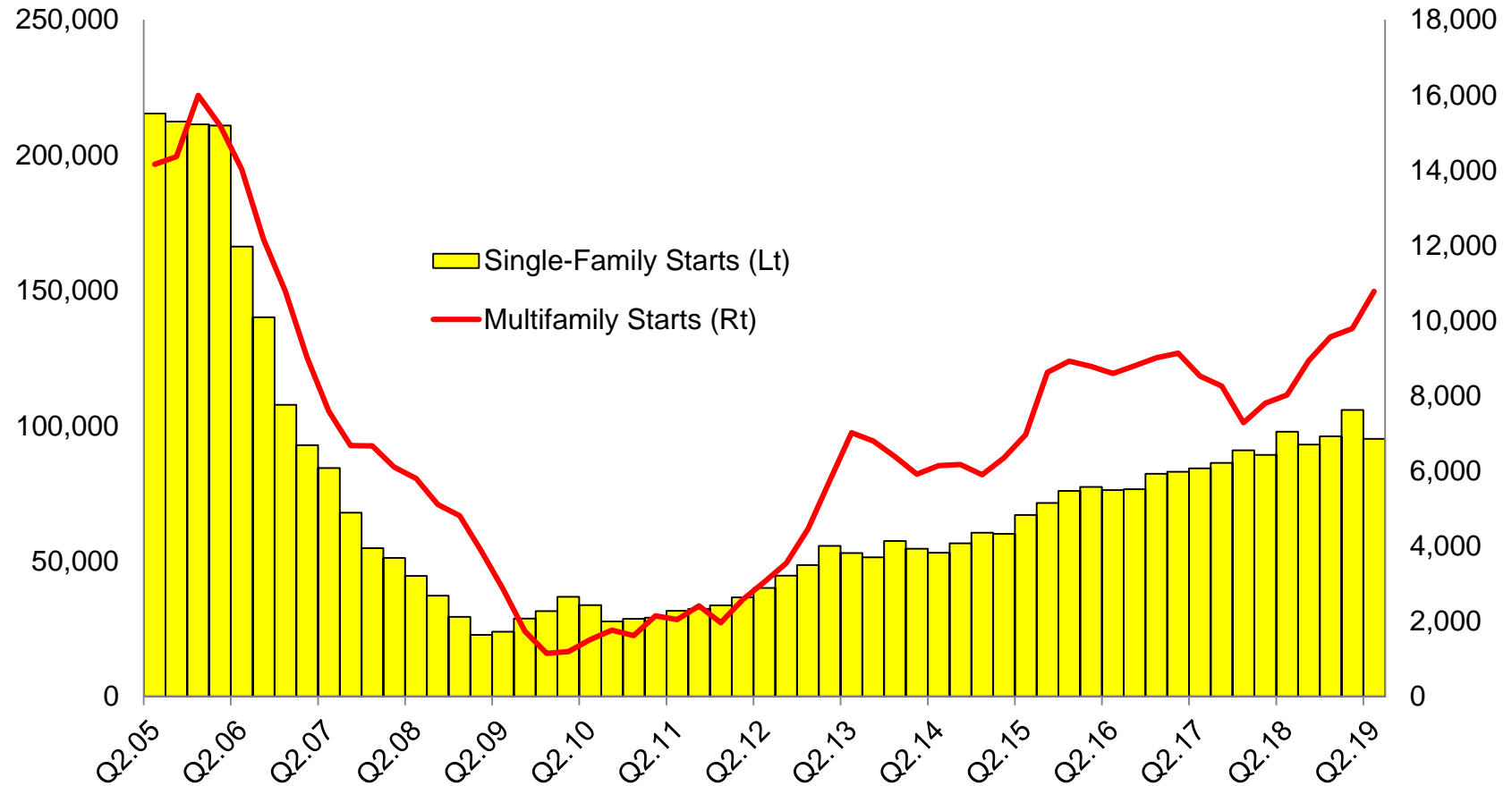


Source: U.S. Census Bureau; Moody's Analytics.



...But They May Never Approach Boom Levels Again

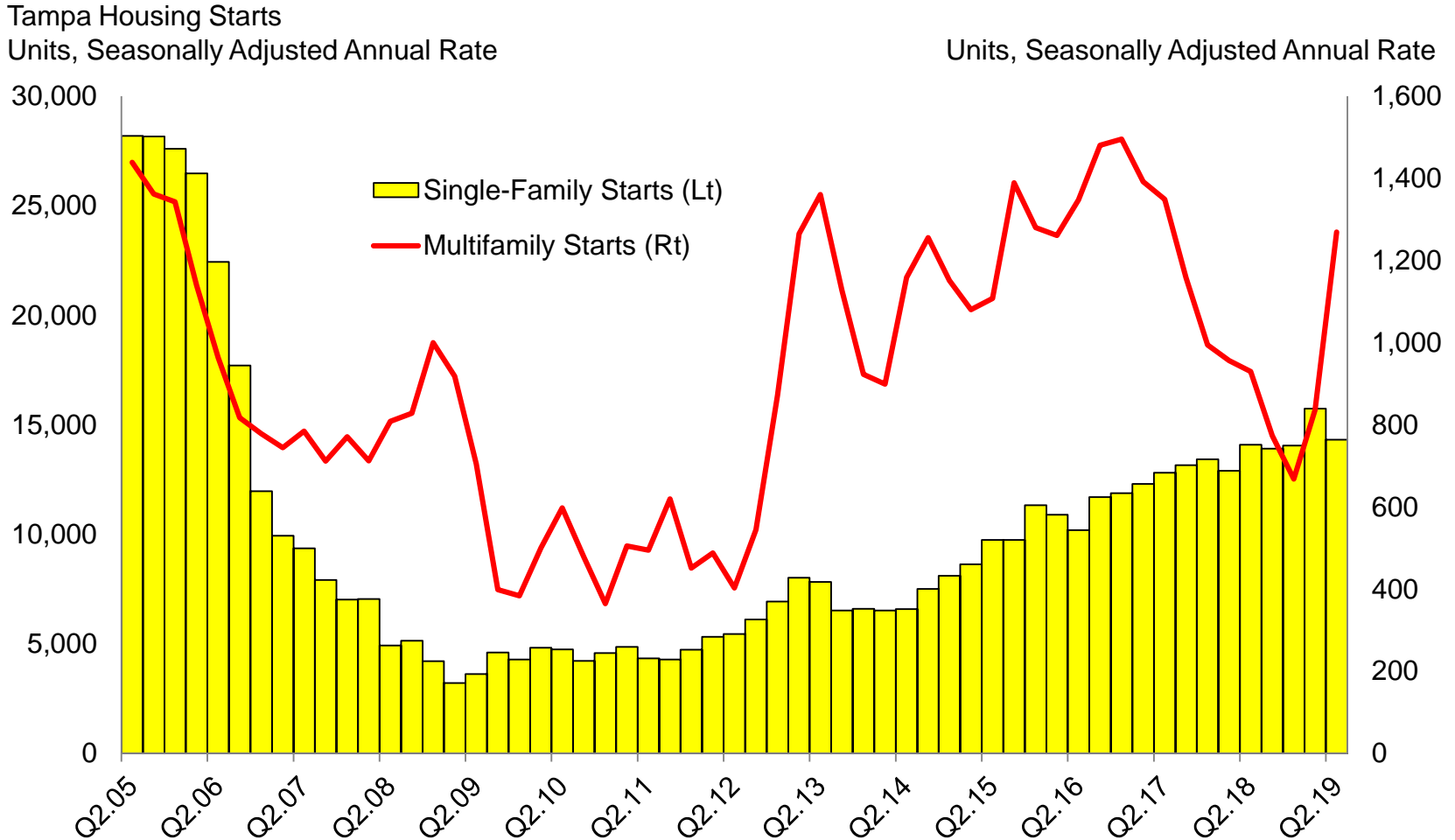
Florida Housing Starts
Units, Seasonally Adjusted Annual Rate



Source: U.S. Census Bureau; Moody's Analytics.

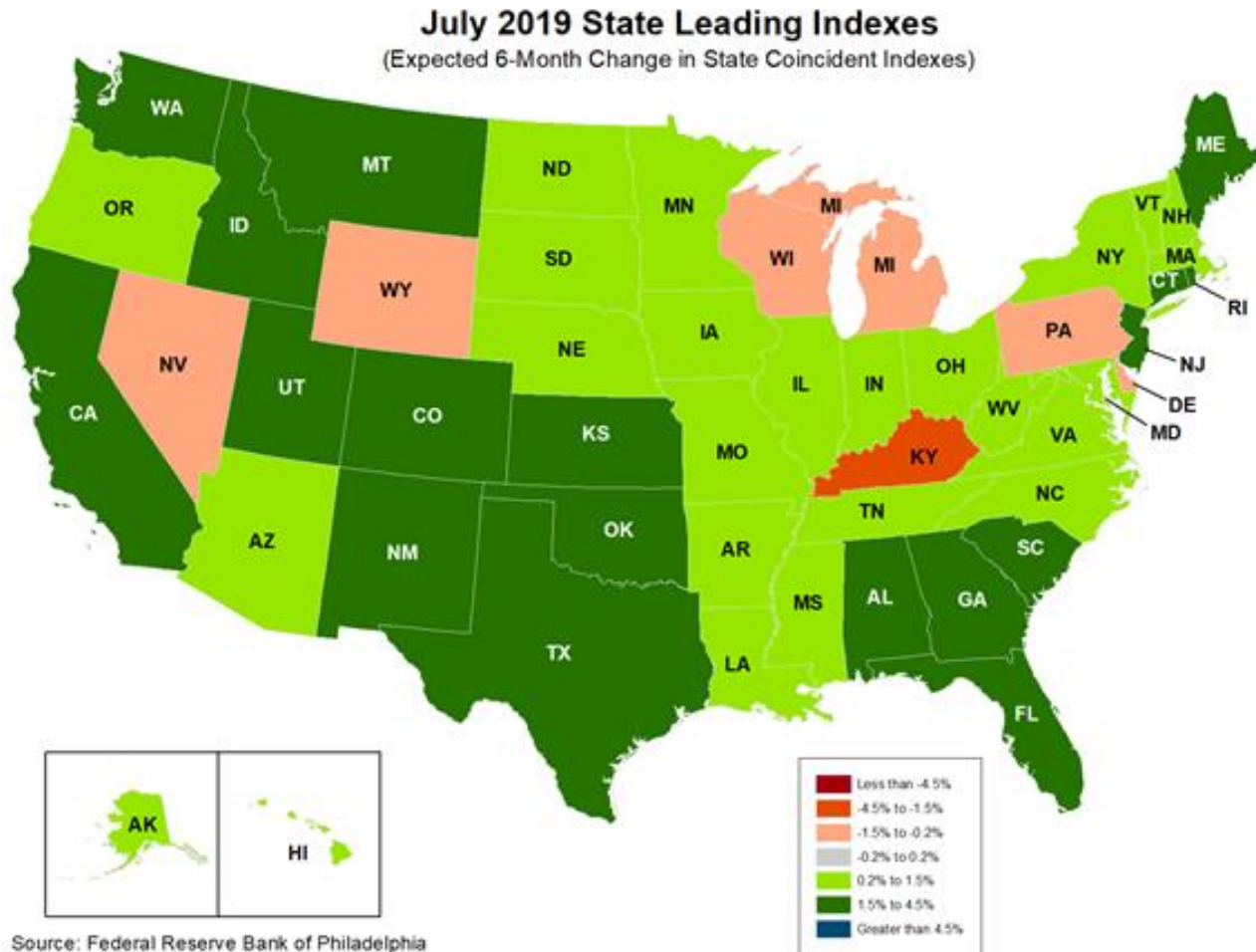


Meanwhile, Multifamily Starts Are Booming Again in the Tampa MSA



Source: U.S. Census Bureau; Moody's Analytics.

The Philly Fed Leading Index Is Signaling Smooth Sailing for Florida





General Banking Conditions



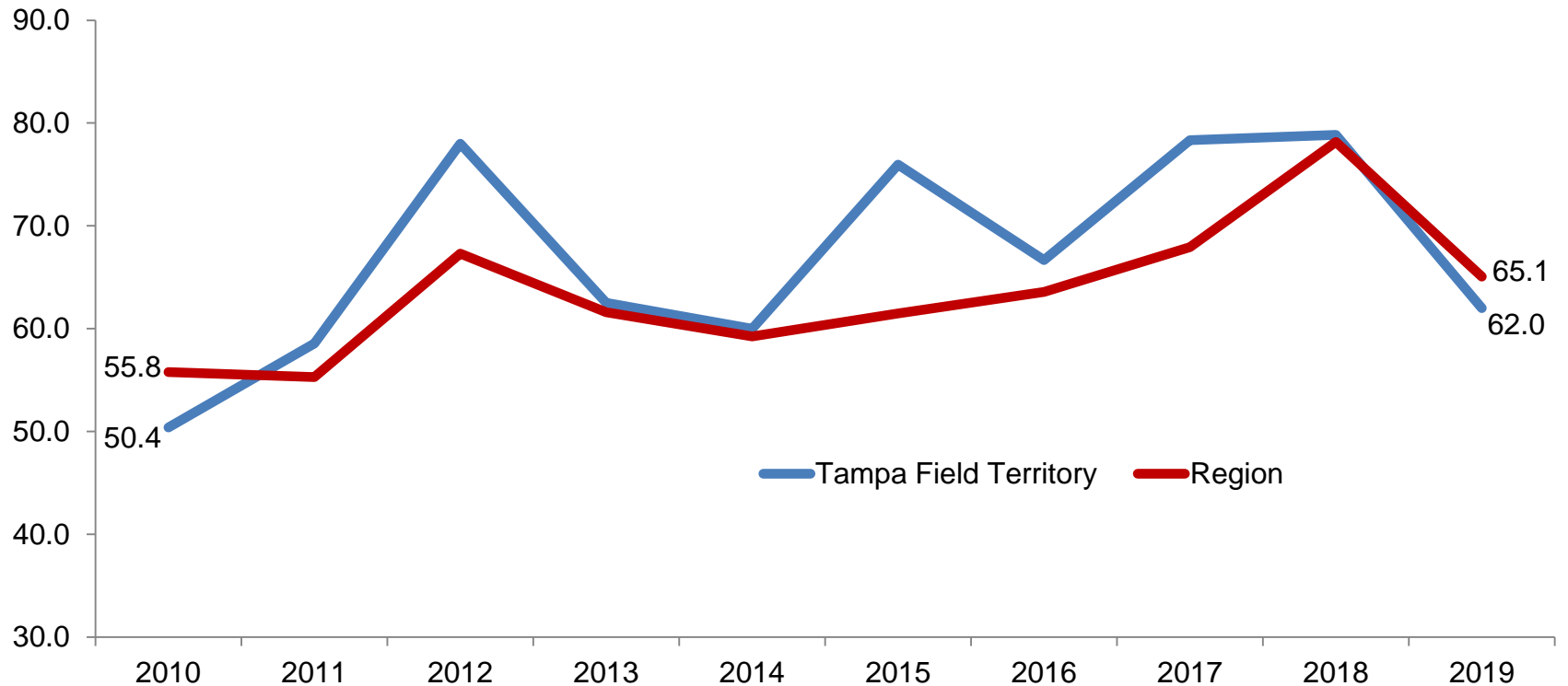
Takeaways

- **Banks continue to report increased profitability despite a decline in NIM.**
- **Elevated levels of long term assets may be cause for concern.**
- **Liquidity risk is declining for most community institutions.**
- **Asset quality metrics continue to improve.**
- **Loan portfolio growth continues at a higher rate.**
- **Significant commercial real estate exposure persists in some states.**
- **Capital levels are solid.**



Earnings Growth Continues for a Majority of Institutions

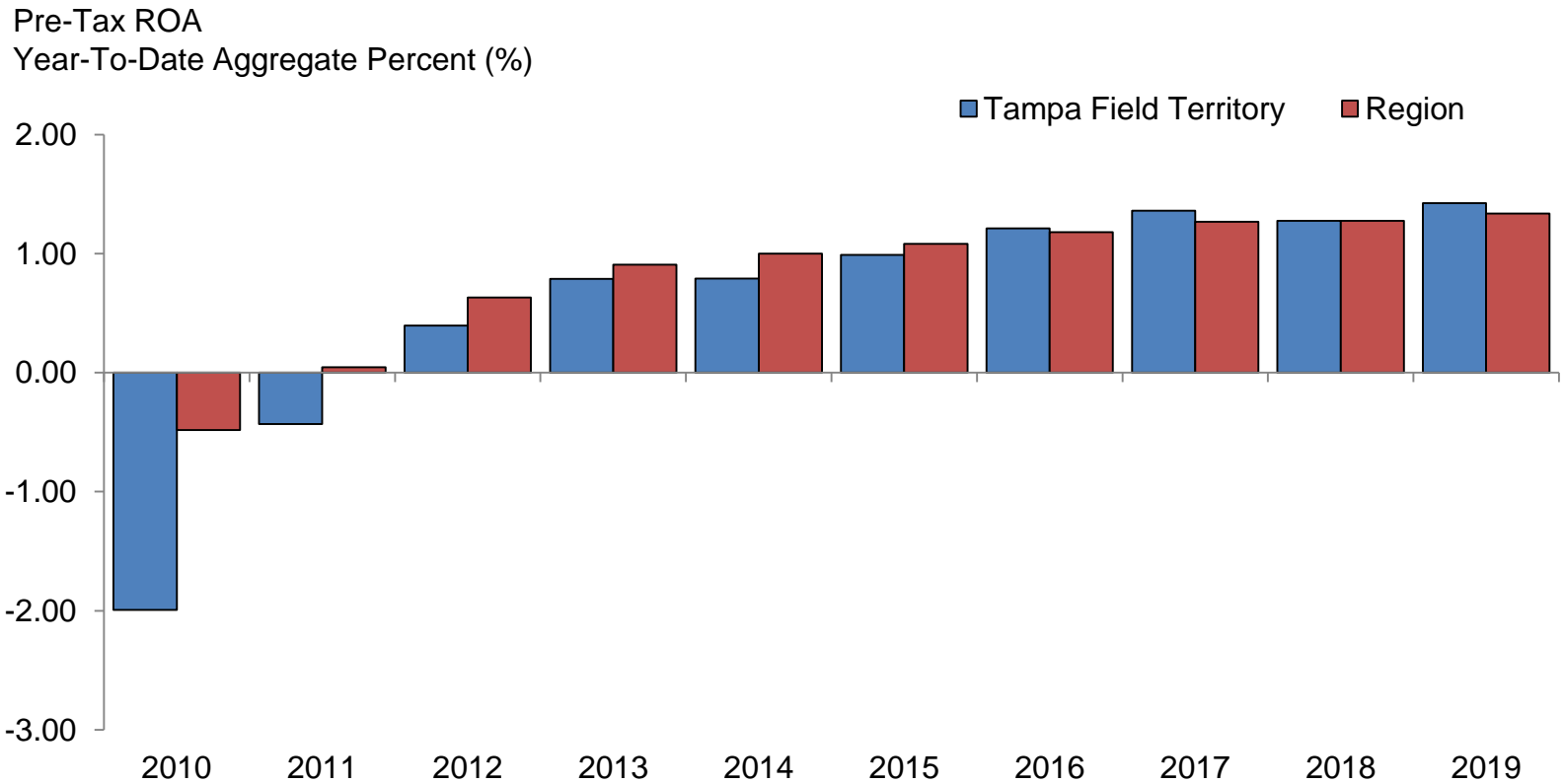
Year-Over-Year Net Income Growth
Percent w/ Positive Growth (%)



Source: FDIC, data as of June 30 for community institutions as defined by the community banking study and headquarters in the Tampa Field Territory.



Profitability Levels Remain Strong

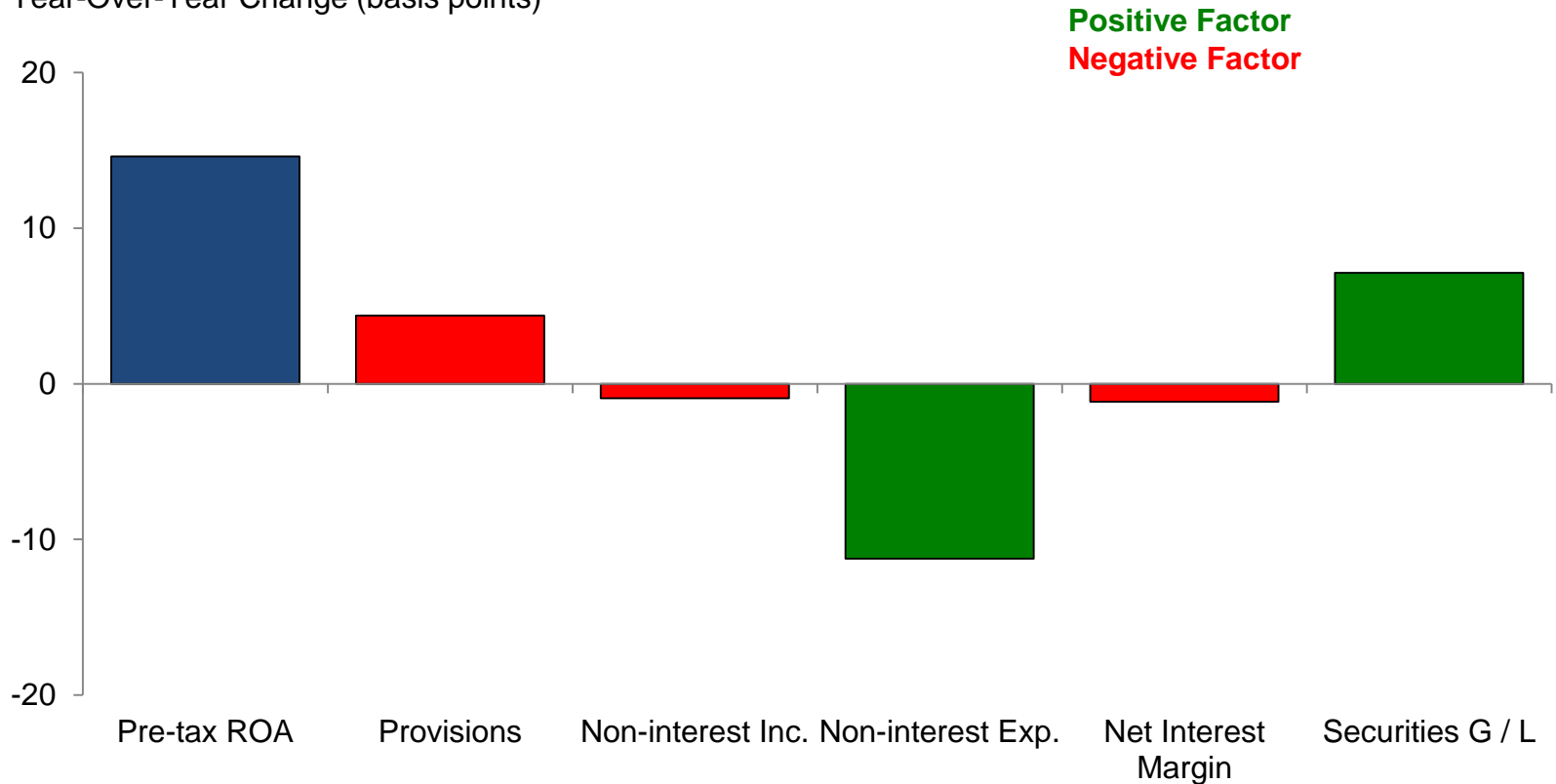


Source: FDIC, data as of June 30 for community institutions as defined by the community banking study.



Contributing Factors to Pre-Tax ROA Were Mixed

Major Components of Pre-Tax ROA Metric
Year-Over-Year Change (basis points)

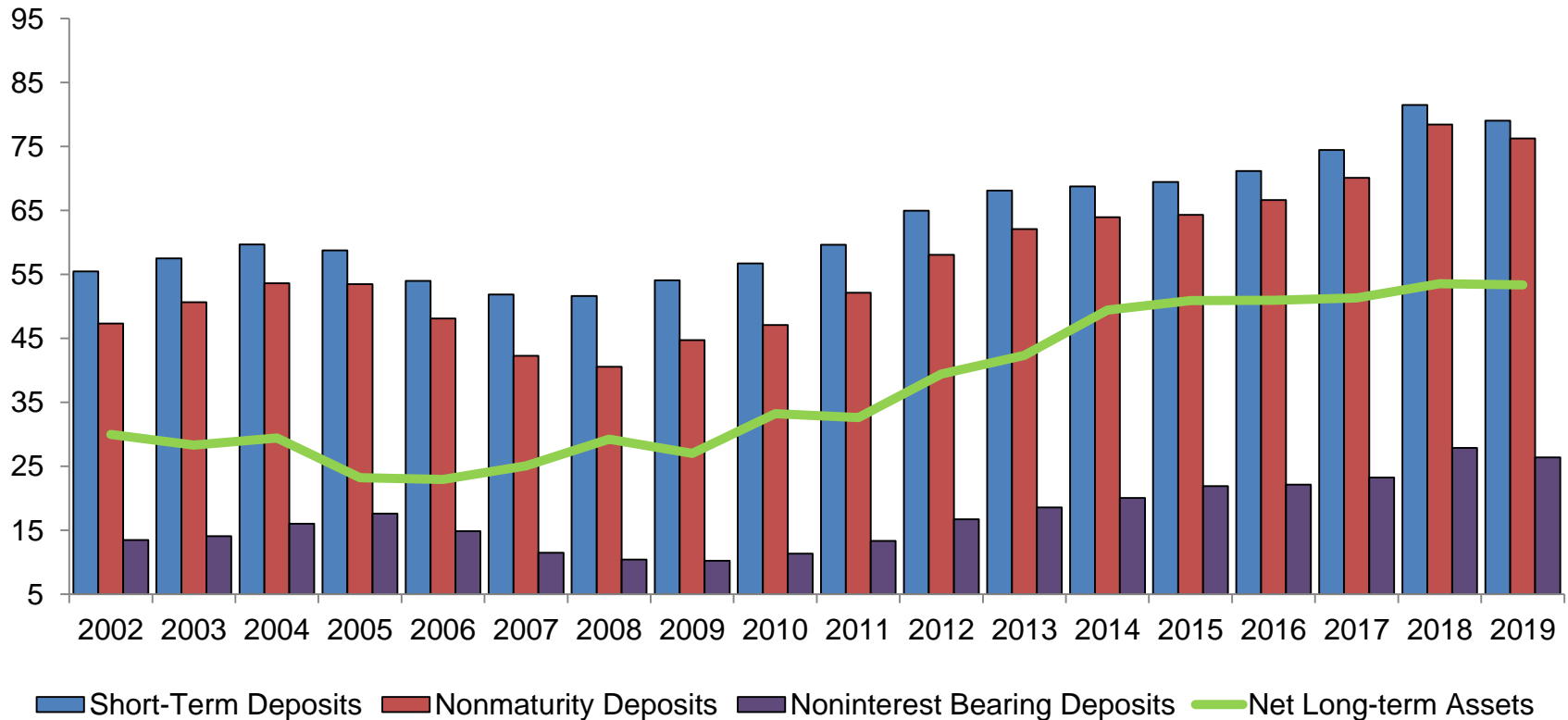


Source: FDIC, data as of June 30 for community institutions as defined by the community banking study and headquarters in the Tampa Field Territory.



Changes in the Balance Sheet Suggest Greater Sensitivity to Rising Interest Rates

Aggregate Percent of Earning Assets

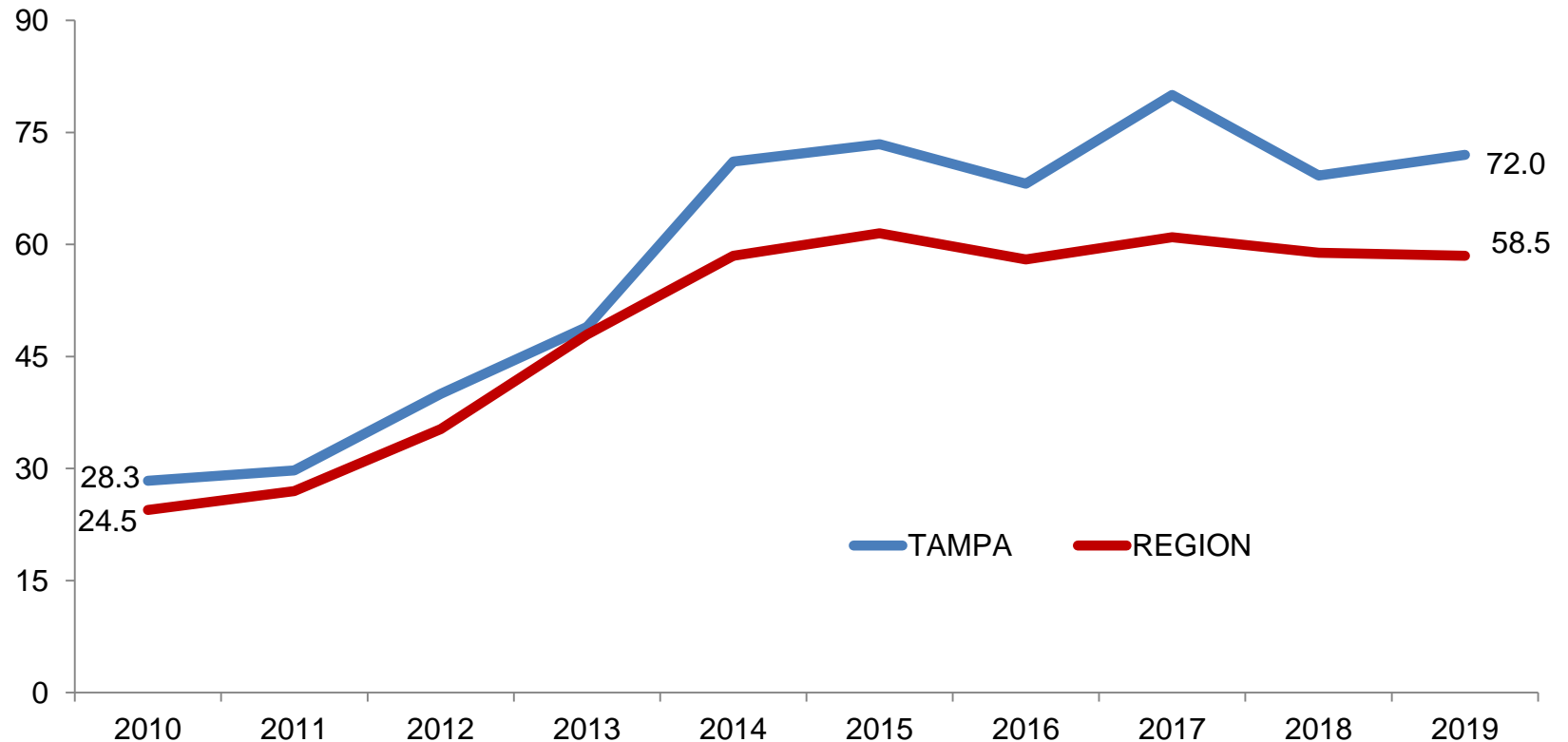


Source: FDIC, data as of June 30 for community institutions as defined by the community banking study and headquarters in the Tampa Field Territory. Note: Net Long-term assets mature or reprice in 3 or more years – liabilities that mature or reprice in 3 or more years.



Many Banks Are Reporting a High Level of Net Long-Term Assets

Net Long-term Assets-to-Total Assets \geq 40 Percent
Percent of Total Institutions (%)

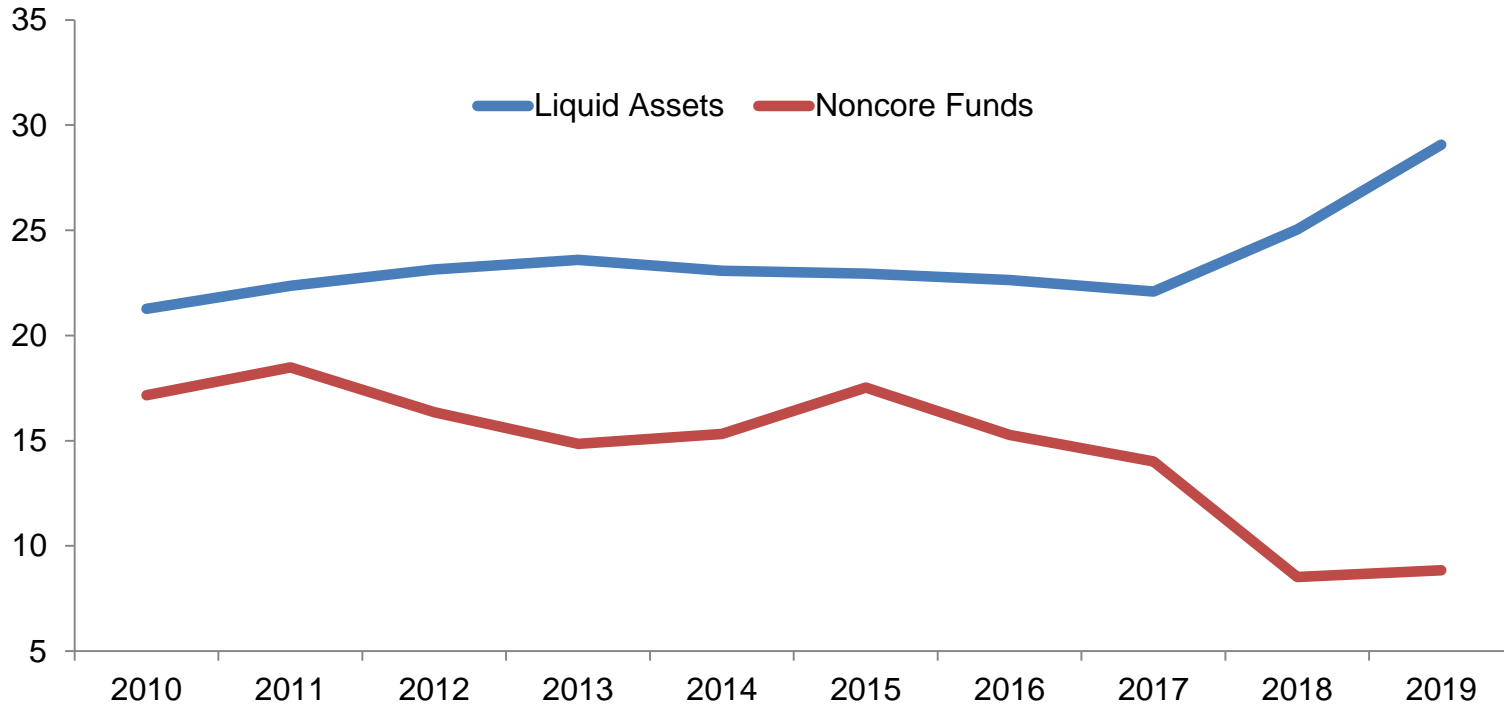


Source: FDIC, data as of June 30 for community institutions as defined by the community banking study and headquarters in the Tampa Field Territory.



Banks Have Reduced Noncore Funds While Holding Higher Amounts of Liquid Assets

Liquid Asset & Noncore Funds
Percent of Total Assets (%)

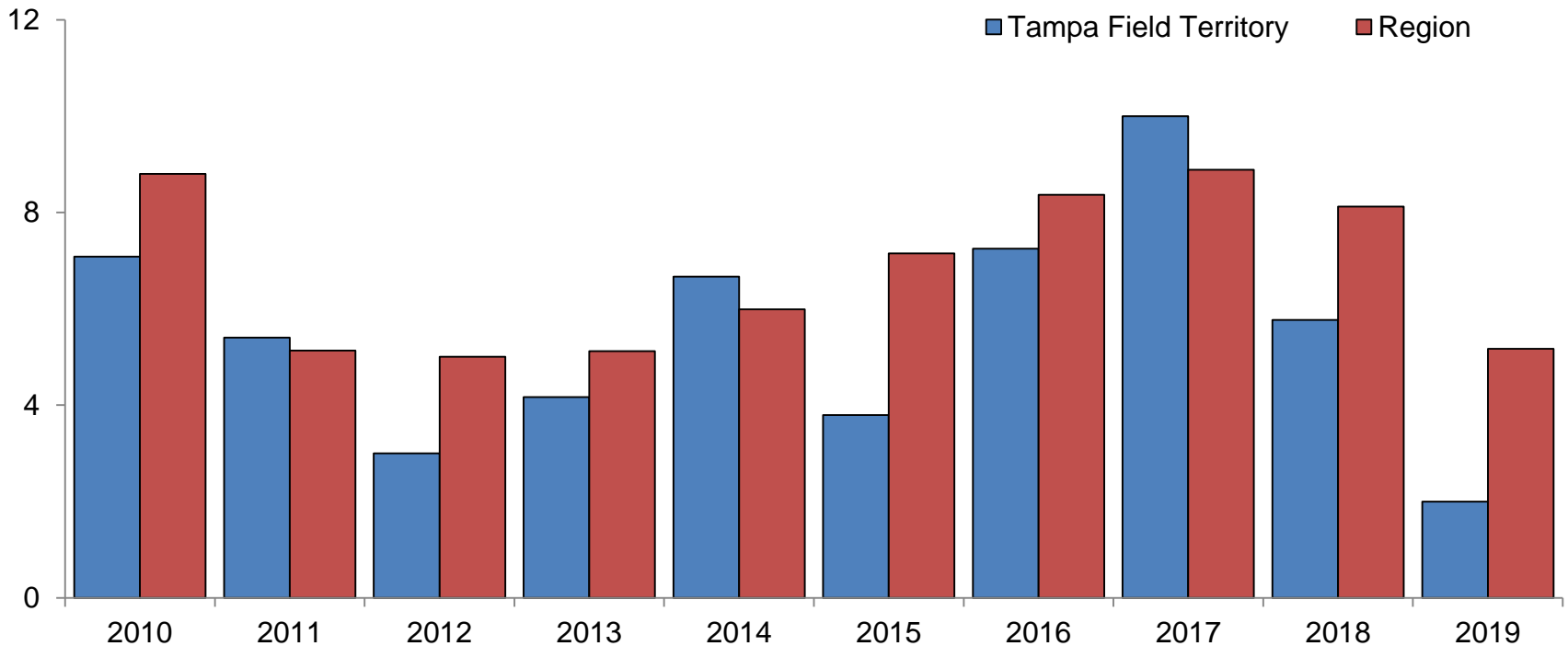


Source: FDIC, data as of June 30 for community institutions as defined by the community banking study and headquarters in the Tampa Field Territory. Note: Liquid assets include unencumbered securities, cash and due from balances, federal funds sold, and securities purchased under an agreement to resell. Noncore funds include borrowings, CDs >\$250M, brokered deposits <\$250M, listing service deposits, foreign deposits, federal funds & repos purchased. Listing service deposits may include the duplication of certain deposits.



The Share of Institutions With Potential Liquidity Challenges Is Falling

Banks With Low Liquidity and High Amounts of Noncore Funds*
Percent of Total Banks (%)

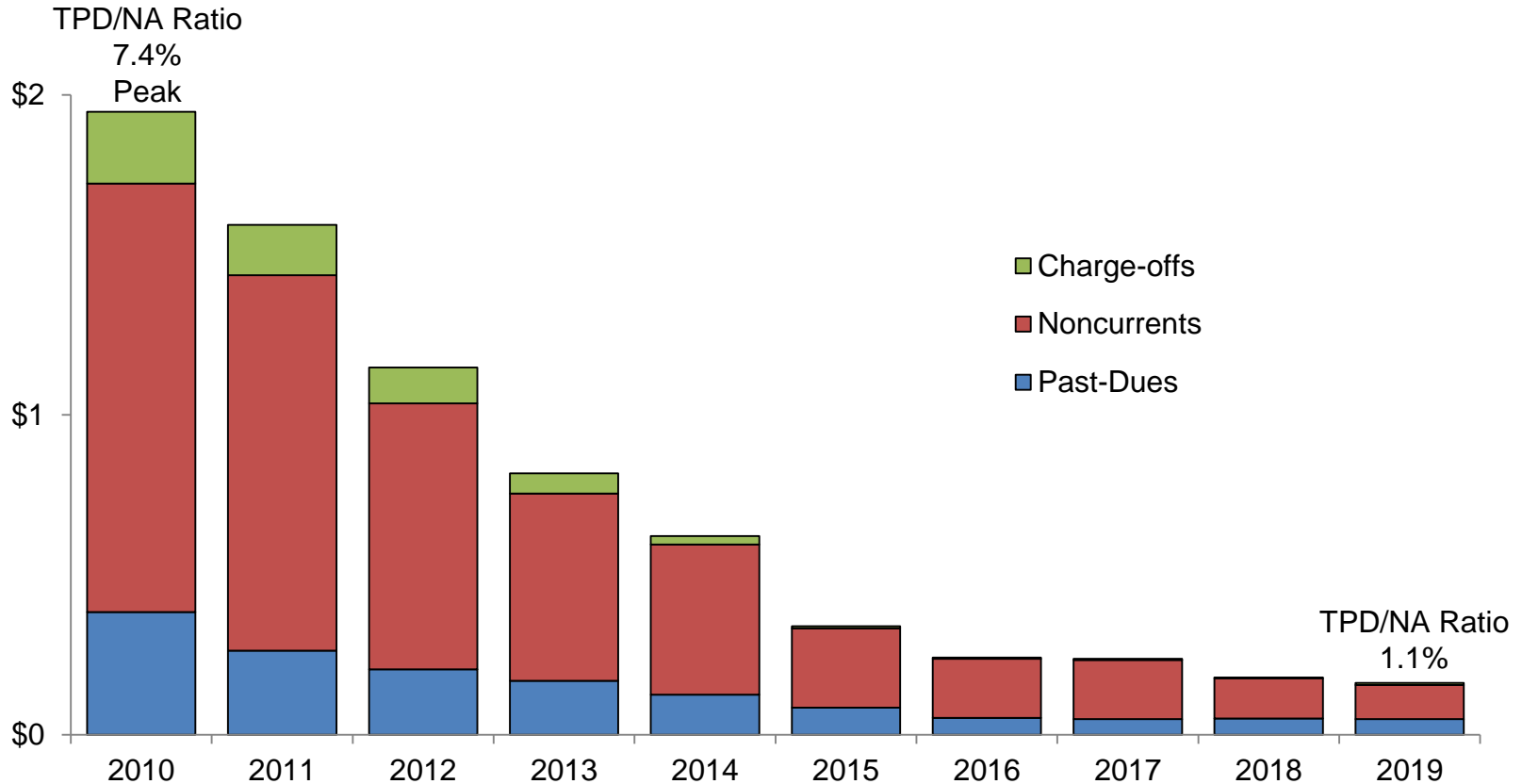


Source: FDIC, data as of June 30 for community institutions as defined by the community banking study and headquarters in the Tampa Field Territory. *Note: Banks in chart have both: 1) Liquid assets less than 10 percent of total assets, and 2) More non-core funds than liquid assets.



Asset Quality Metrics Are Below Historic Levels

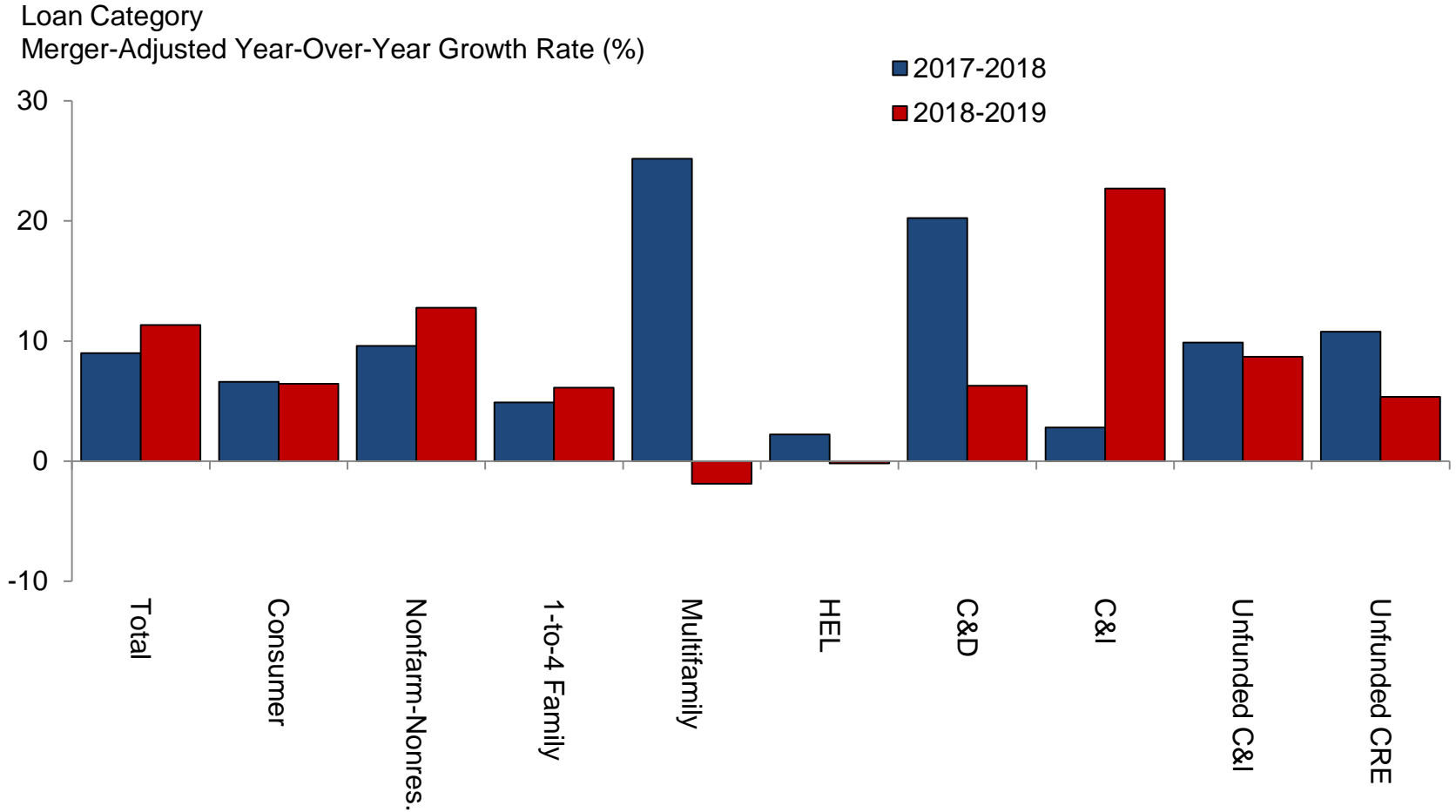
Total Past Due / Nonaccrual
Aggregate \$ Billions



Source: FDIC, data as of June 30 for community institutions as defined by the community banking study and headquarters in the Tampa Field Territory.



Widespread Growth Continues in the Loan Portfolio

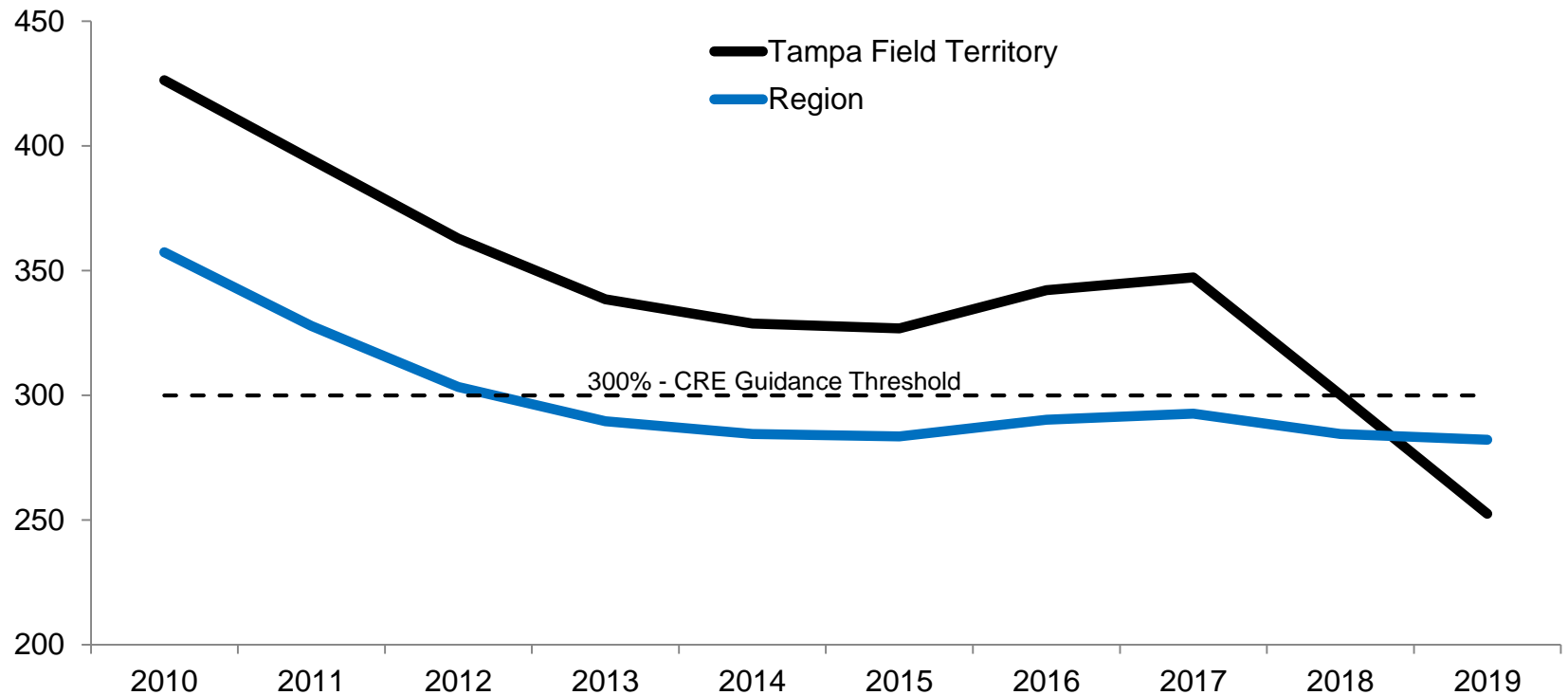


Source: FDIC, data as of June 30 for community institutions as defined by the community banking study and headquarters in the Tampa Field Territory.



The Aggregate CRE Loan Concentration Remains Below Peak Levels...

Total CRE-to-Risk Based Capital Aggregate Percent (%)

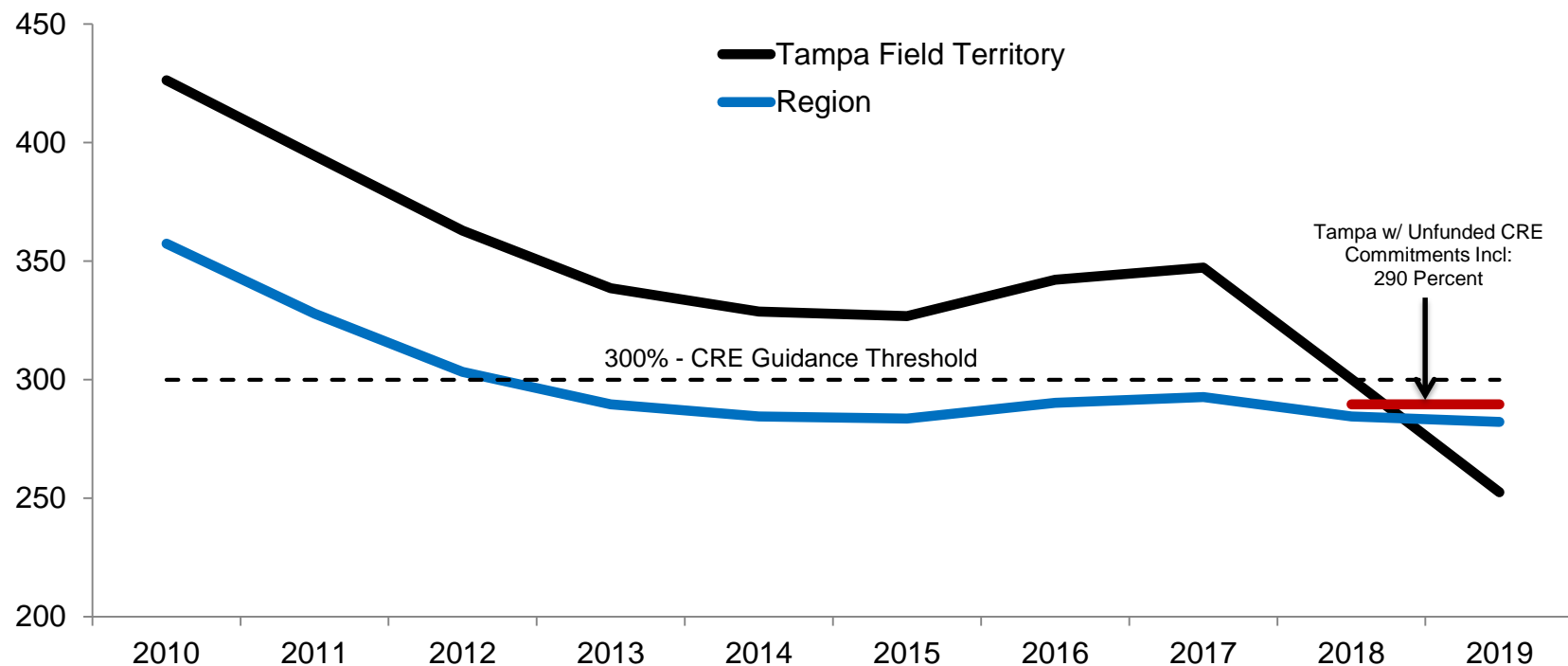


Source: FDIC, data as of June 30 for community institutions as defined by the community banking study and headquarters in the Tampa Field Territory. Note: Total CRE consist of C&D, Multifamily, Nonfarm-Nonresidential, and Other CRE loans.



...But Unfunded CRE Commitments Would Have a Noticeable Impact If Fully Funded

Total CRE-to-Risk Based Capital Aggregate Percent (%)



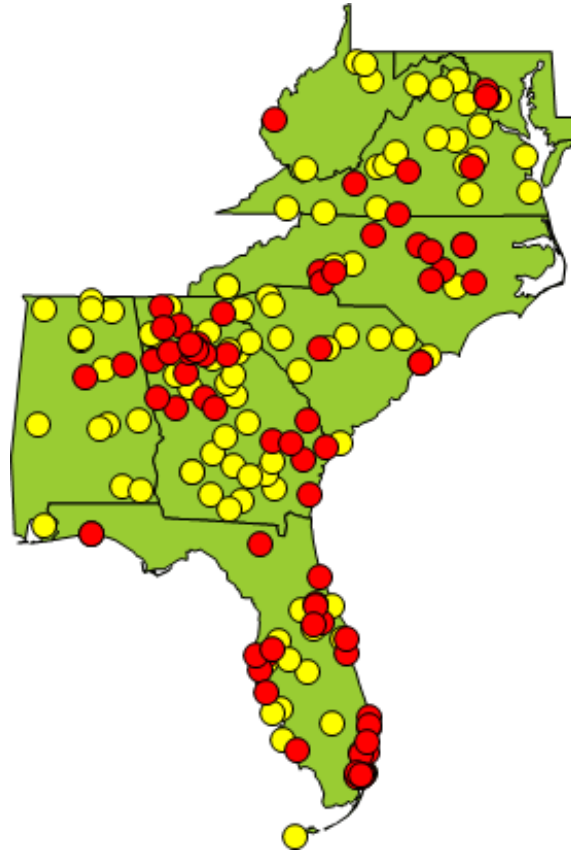
Source: FDIC, data as of June 30 for community institutions as defined by the community banking study and headquarters in the Tampa Field Territory. Note: Total CRE consist of C&D, Multifamily, Nonfarm-Nonresidential, and Other CRE loans.



Elevated CRE Concentration Levels Remain a Risk Among Some Banks in the Region

Institutions with CRE Loan Concentrations of 300 – 400 Percent of Risk Based Capital

Institutions with CRE Loan Concentrations Over 400 Percent of Risk Based Capital



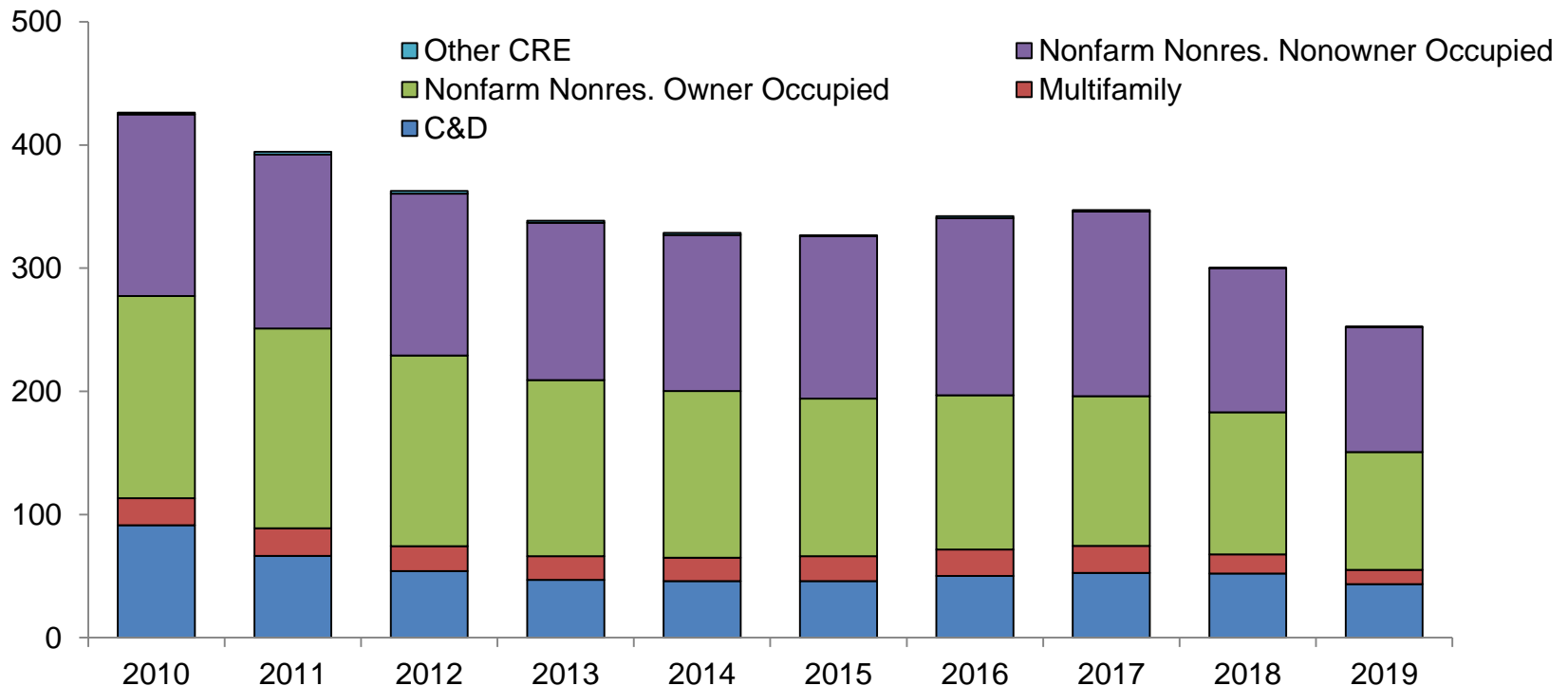
6% of institutions with a concentration of at least 300 percent of total capital have grown their CRE loan balance by at least 20% since Q2.2018

Source: FDIC, data as of June 30 for insured community institutions as defined by the community banking study.
Note: Total CRE consist of C&D, Multifamily, Nonfarm-Nonresidential, and Other CRE loans.



Nonfarm Non-Residential Loans Make Up a Large Percentage of CRE Concentration Levels

Loan Concentration-to-Risk Based Capital Aggregate Percent (%)

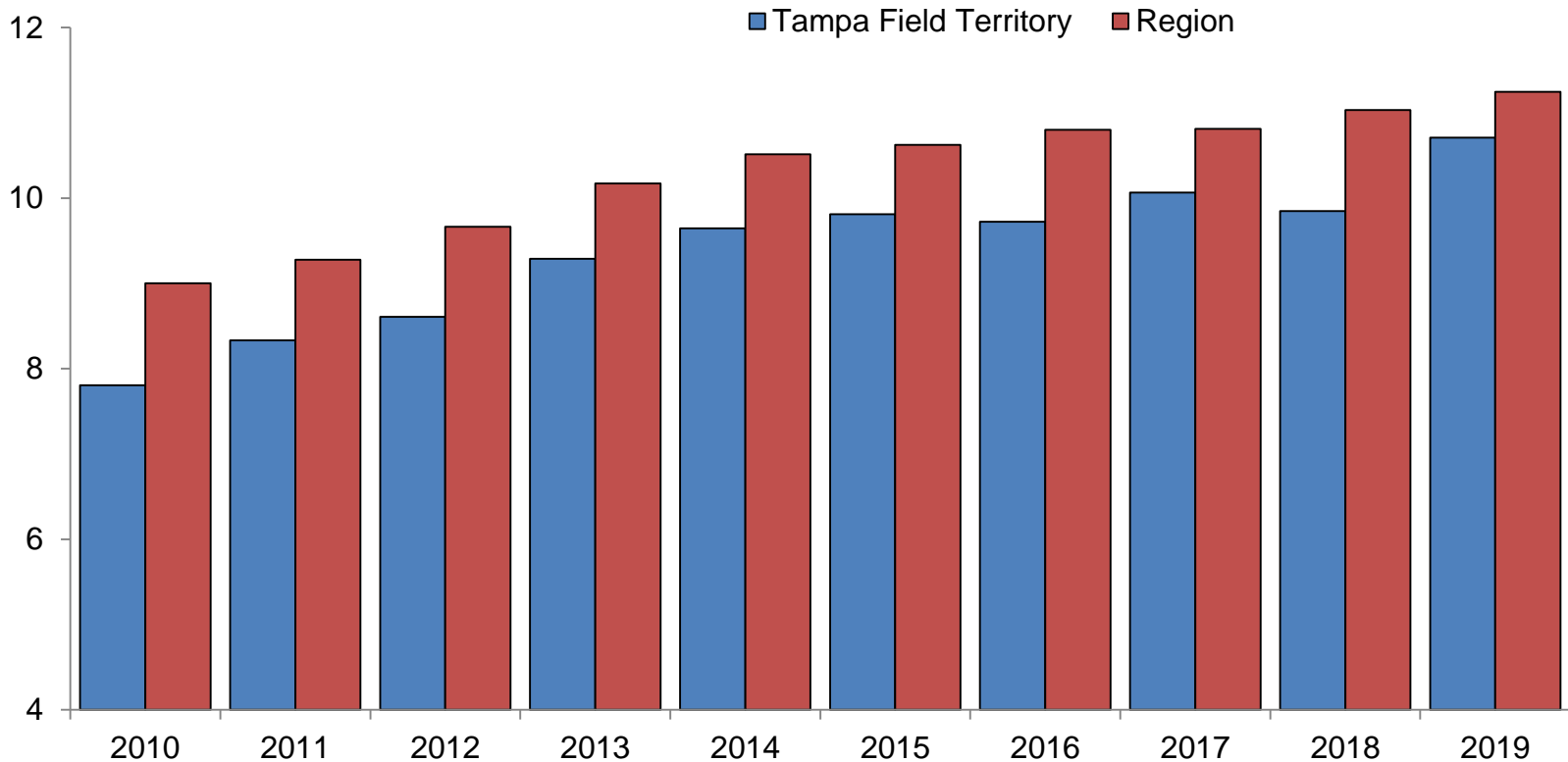


Source: FDIC, data as of June 30 for community institutions as defined by the community banking study and headquarters in the Tampa Field Territory.



Capital Levels Remain Solid but Below Industry Averages

Risk Based Capital-to-Average Assets
Aggregate Percent (%)



Source: FDIC, data as of June 30 for community institutions as defined by the community banking study.



Contact Information

**For further information or a copy of today's presentation, please contact
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