FDIC State Profile

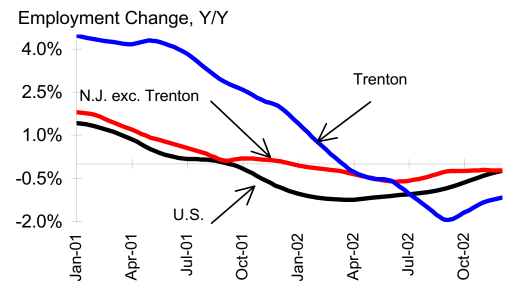
SPRING 2003

New Jersey

The New Jersey economy appears resilient overall. However, key industries face stiff competition and weak fundamentals, clouding the state's near-term economic outlook.

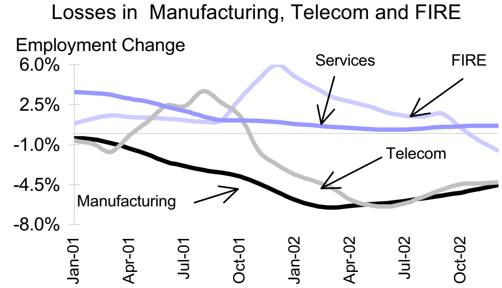
- New Jersey's employment losses occurred late in this economic downturn and have been shallow compared with the nation (chart 1).
- A few of the state's metro areas are underperforming. The ***Trenton*** MSA has exhibited the highest rate of job loss in the state through December 2002. Trenton, the state capital, has been adversely affected by cutbacks in state government spending due to fiscal problems. Weakness in employment growth in the ***Bergen-Passaic*** MSA continues, primarily due to job cuts in the manufacturing, services, and finance, insurance and real estate (FIRE) sectors.
- Job losses in the telecom, manufacturing and FIRE sectors have offset gains in the services and other sectors (chart 2). Employment in New Jersey's FIRE sector surged after 9/11 as companies moved from lower Manhattan. However, the effects of these relocations have eroded, and FIRE sector job growth turned negative late in 2002.
- Telecommunication firms in New Jersey continue to face overcapacity and soft demand, pressuring earnings of service providers and equipment makers. Employment growth has been negative for the past year, and growth is not expected for several quarters. Lucent, Verizon and AT&T are among the state's largest employers, and all have announced layoffs.
- The state's pharmaceutical industry, a subset of the manufacturing industry, faces pressure from generic competitors, and is struggling to replenish a dwindling supply of new products. Industry analysts estimate that generic products represent almost 50 percent of all drug sales; patents on non-generic drugs, with almost $35 billion in annual sales, will expire over the next five years, placing additional earnings pressure on large pharmaceutical firms.
- The Northern New Jersey office market weakened in 2002, consistent with national trends (chart 3). During fourth quarter 2002 the office vacancy rate increased to 16.6 percent from 14.3 percent one year earlier, and was approximately equal to the national vacancy rate. A moderate amount of new office space has been added during the past few quarters, while demand has slackened. Somerset and Morris counties, in particular, experienced large increases in sublet space. According to local reports, Lucent Technologies vacated a large block of space in Somerset County in third quarter 2002, while Global Crossing and American Express returned a total of 520,000 square feet to the market in Morris County.

Chart 1: New Jersey Job Losses Have Been Mild; Trenton Stabilizes After a Steep Decline



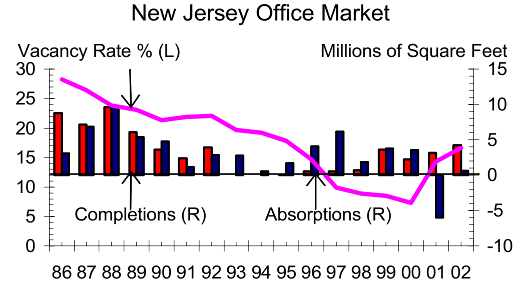
Source: Bureau of Labor Statistics. Data are 3-month moving averages

Chart 2: Job Gains in Services Have Been Offset by Losses in Manufacturing, Telecom and FIRE



Source: Bureau of Labor Statistics. Data are year over year changes in 3-month moving averages.

Chart 3: Softening Has Occurred in the Northern New Jersey Office Market

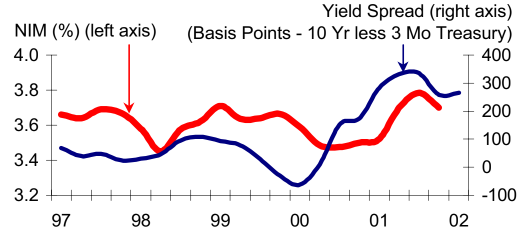


Source: Torto Wheaton Research

After four consecutive quarters of improvement in net interest margins (NIMs), the median NIM among New Jersey's insured institutions declined during third quarter 2002.[1]

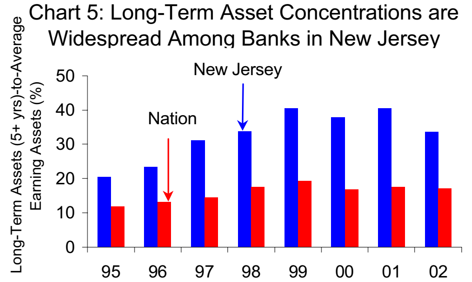
- The median NIM among the state's insured institutions increased during the past year, prompted by a steepening in the Treasury yield curve. During third quarter 2002, however, the yield curve flattened as long-term interest rates neared historic lows and short-term interest rates stabilized. As a result, banks' asset yields declined more than funding costs, pushing the median NIM to 3.70 percent in the third quarter, down from 3.79 percent in the previous quarter (chart 4).
- Short-term interest rates declined subsequent to the end of third quarter 2002, which typically would be followed by reductions in banks' funding costs. However, funding costs are already near historic lows, thereby limiting the likelihood that NIMs may improve in coming quarters.
- Historically low long-term interest rates have contributed to record refinancing levels nationally, as consumers have locked in long-term, fixed-rate residential mortgages. Additionally, a relatively high concentration of residential lenders in New Jersey and more widespread use of long-term mortgage products in the large metropolitan areas of the Northeast resulted in higher concentrations of long-term assets. The median long-term asset concentration level reported by insured institutions headquartered in New Jersey is twice that reported by institutions elsewhere in the nation (chart 5). Liability maturities are comparatively shorter, as most liabilities mature or reprice within three years.
- Insured institutions with high concentrations of long-term assets may face margin compression should interest rates rise, thereby heightening the importance of interest rate risk management.

Chart 4: NIMs Widened in 2001 and First Half of 2002 but Declined Towards Year End



Note: Excludes institutions less than three years old. Median data displayed. NIM figures are through 3q02. Yield Spread data are through 4q02. Source: Bank and Thrift Call Reports

Chart 5: Long-Term Asset Concentrations are Widespread Among Banks in New Jersey

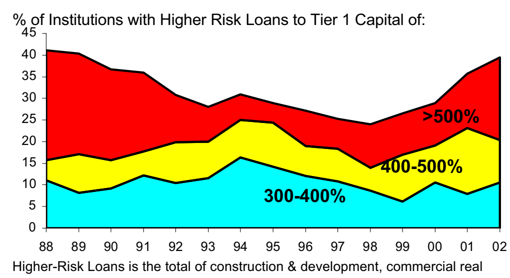


Note: Excludes credit card and agricultural banks, thrifts, and banks less than three years old. Median data displayed. Data for 2002 are as of September 30th. Prior periods are as of December 31st. Source: Bank Call Reports

Despite the economic downturn, insured institutions headquartered in New Jersey continue to report favorable asset quality. However, exposure to typically higher-risk loans has increased in recent years.

- The median past-due loan ratio reported by insured institutions headquartered in New Jersey has been stable during the past year and, at .95 percent, is the fifth lowest among all states.
- The percentage of insured institutions headquartered in the New Jersey that hold concentrations of traditionally higher-risk loans (HRL) has increased in recent years (chart 6). As of September 30, 2002, 40 percent of the state's insured institutions reported HRL concentrations above 300 percent of capital, up from 24 percent four years ago. Almost one-half of these institutions were chartered during the 1990s expansion (the majority in central and northern New Jersey) and until recently, had not experienced an economic slowdown.
- The median loan loss reserve coverage level relative to past due loans among insured institutions headquartered in New Jersey has increased during the past year, as loan delinquency rates have been low. Additionally, the median capital ratio remains favorable. However, as credit quality typically lags the business cycle, loan performance may yet weaken, even if the economic recovery strengthens.

Chart 6: Exposure to Higher Risk Loans has Risen Among Insured Institutions Headquartered in New Jersey



Higher-Risk Loans is the total of construction & development, commercial real estate, and commercial & industrial loans. Source: Bank and Thrift Call Reports

[1] Data are as of September 30, 2002, unless otherwise noted.

New Jersey at a Glance

General Information	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Institutions (#)	152	151	148	147	152
Total Assets (in thousands)	132,015,434	116,106,123	137,488,708	147,611,463	135,428,617
New Institutions (# < 3 years)	19	27	24	21	11
New Institutions (# < 9 years)	44	43	36	30	24

Capital	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Tier 1 Leverage (median)	9.12	10.28	9.84	9.38	9.32

Asset Quality	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Past-Due and Nonaccrual (median %)	0.76%	0.90%	0.91%	1.23%	1.72%
Past-Due and Nonaccrual ≥ 5%	6	7	8	11	16
ALLL/Total Loans (median %)	1.02%	0.97%	0.92%	0.95%	0.99%
ALLL/Noncurrent Loans (median multiple)	2.44	2.20	1.95	1.45	1.18
Net Loan Losses/Loans (aggregate)	0.23%	0.20%	0.21%	0.38%	0.26%

Earnings	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Unprofitable Institutions (#)	19	24	22	23	12
Percent Unprofitable	12.50%	15.89%	14.86%	15.65%	7.89%
Return on Assets (median %)	0.81	0.65	0.76	0.79	0.92
25th Percentile	0.51	0.28	0.38	0.46	0.57
Net Interest Margin (median %)	3.70%	3.49%	3.70%	3.59%	3.70%
Yield on Earning Assets (median)	6.14%	7.00%	7.37%	7.00%	7.37%
Cost of Funding Earning Assets (median)	2.33%	3.59%	3.68%	3.38%	3.72%
Provisions to Avg. Assets (median)	0.10%	0.08%	0.07%	0.10%	0.08%
Noninterest Income to Avg. Assets (median)	0.37%	0.38%	0.36%	0.38%	0.38%
Overhead to Avg. Assets (median)	2.75%	2.81%	2.71%	2.72%	2.62%

Liquidity/Sensitivity	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Loans to Deposits (median %)	67.19%	70.29%	71.16%	68.17%	65.40%
Loans to Assets (median %)	56.19%	58.83%	60.12%	56.78%	55.64%
Brokered Deposits (# of Institutions)	17	14	12	10	12
Bro. Deps./Assets (median for above inst.)	5.35%	8.25%	3.34%	0.69%	0.66%
Noncore Funding to Assets (median)	15.12%	14.47%	14.00%	12.04%	10.23%
Core Funding to Assets (median)	73.65%	72.97%	72.94%	75.72%	78.25%

Bank Class	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
State Nonmember	53	51	49	45	40
National	23	24	24	25	25
State Member	6	5	5	5	5
S&L	11	11	12	16	18
Savings Bank	33	34	31	30	35
Mutually Insured	26	26	27	26	29

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Newark NJ PMSA	33	14,703,540	21.71%	11.14%
Bergen-Passaic NJ PMSA	28	44,060,924	18.42%	33.38%
Middlesex-Somerset-Hunterdon NJ PMSA	23	28,048,622	15.13%	21.25%
Philadelphia PA-NJ PMSA	22	13,927,921	14.47%	10.55%
Monmouth-Ocean NJ PMSA	11	5,627,851	7.24%	4.26%
Jersey City NJ PMSA	11	15,294,989	7.24%	11.59%
Trenton NJ PMSA	10	4,970,984	6.58%	3.77%
Atlantic-Cape May NJ PMSA	9	2,119,026	5.92%	1.61%
Vineland-Millville-Bridgeton NJ PMSA	5	3,261,577	3.29%	2.47%