FDIC State Profile

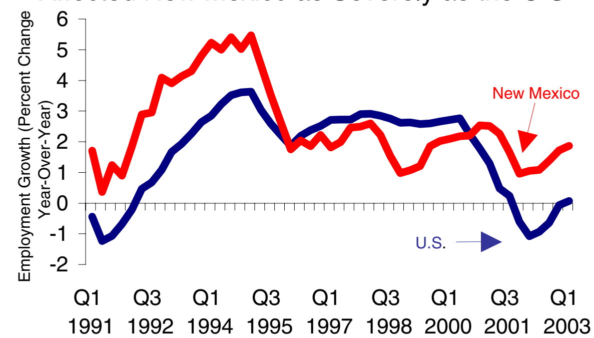
SUMMER 2003

New Mexico

Employment growth in New Mexico continues to outpace the U.S.

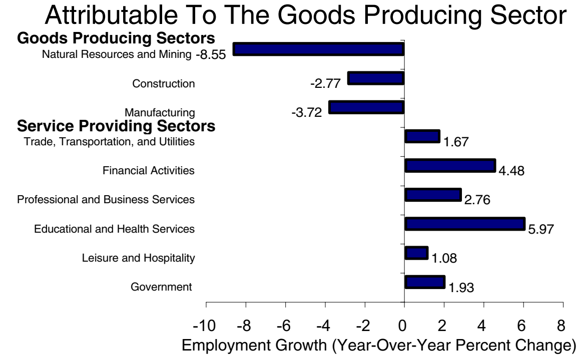
- New Mexico's unemployment rate increased to 5.8 percent in February 2003, up from 5.4 percent one-year earlier, largely because of an increased number of residents looking for work. The New Mexico economy has avoided job losses in absolute terms for the past two recessions (see Chart 1) largely as a result of the state's large and stable government sector, which accounts for 25 percent of total employment. The government sector added 3,800 jobs during the period February 2002 to February 2003. Unlike many other states, New Mexico has no significant budget deficit. Additionally, the New Mexico economy should benefit from increased national defense spending. Five of the top 20 employers in New Mexico have ties to the national defense industry.
- Newly revised employment data for New Mexico showed the manufacturing; construction, and natural resources and mining sectors carrying the brunt of job losses in 2002 (see Chart 2). Weak global demand and national economic conditions are likely the primarily cause of these losses. However, these losses were more then offset by the services sector which continues to add jobs, particularly in the areas of educational and health care services. Moreover, the state's tourism industry has not been affected to the same degree as other areas, attracting steady visitor traffic from residents and neighboring states.
- The mining sector in New Mexico has been adversely affected during the recent recession and has shed 10 percent of its workforce since the recession began. The majority of those job losses have occurred in smaller, rural communities. Recently, Phelps Dodge closed the Chino mine and smelters in Hurley and Santa Rita; these facilities represented dominant sources of employment for these two communities.
- The business-led 2001 national recession—and subsequent weak recovery in 2002—has had a disproportionately large negative effect on New Mexico's high-tech sector, particularly the state's semiconductor and telecommunications industries. Since peaking in 2001, New Mexico has lost 10 percent of its workforce in these industries. The outlook for a near-term rebound is bleak, reflecting continued weak domestic and global demand, industry excess capacity, and lack of business confidence and investment. Prospects for the state's high-tech sector are thus unlikely to turn around until the U.S. economy fully recovers.

Chart 1: The Past Two Recessions Have Not Affected New Mexico as Severely as the U.S.



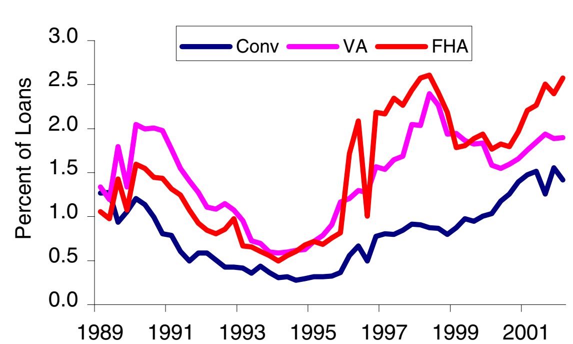
Source: Bureau of Labor Statistics (Haver Analytics)

Chart 2: Job Losses In New Mexico Are Mainly Attributable To The Goods Producing Sector



Source: Bureau of Labor Statistics (Haver Analytics)

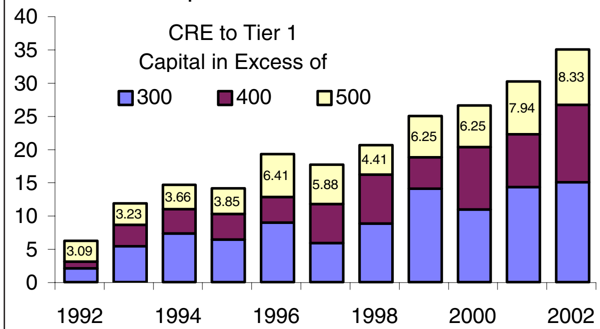
Chart 3: New Mexico Foreclosures Remain High



Source: Mortgage Bankers Association (Haver Analytics)

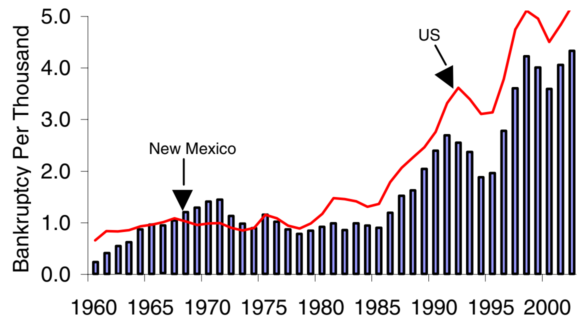
- Severe drought conditions continue to hurt New Mexico agricultural and livestock producers. Eighty percent of the state's agricultural industry is concentrated in livestock production. Increased slaughter activity, combined with recession-related declines in beef consumption, put downward pressure on beef prices during late 2001 and early 2002. Cattle prices began improving in late 2002 and into 2003, but the lack of rainfall may cause many ranchers to liquidate herds, because of poor grazing conditions, causing prices to decline once again. In January 2003, \$3.1 billion in federal drought relief was approved. However, the amount of federal drought relief earmarked for cattle producers was only \$250 million (8 percent of total funds available). This amount of aid does not sufficiently cover livestock producers drought related losses. Agricultural producers and lenders are taking steps to mitigate the effects of the drought, including refinancing or restructuring loans, changing the mix of commodities produced, voluntarily liquidating some assets, and scaling back farming or ranching operations.

Chart 4: New Mexico Commercial Real Estate Exposure Continues to Increase



Source: Bank and Thrift Call Reports as of Year End

Chart 5: New Mexico Bankruptcy Rates Reach Record Levels But Remain Below US



Source: Admin Office of the U.S. Courts (Haver Analytics)

Weakness in the commercial and residential real estate sectors could challenge credit quality among insured institutions headquartered in New Mexico.

- Sixty insured institutions were headquartered in New Mexico as of December 31, 2002. The average return on assets for these banks and thrifts was 1.18 percent, up 20 basis points from year-end 2001. Cost of funding continues to be advantageous, averaging 1.94 percent of earning assets, the lowest level in a decade. New Mexico institutions have a slightly higher noninterest bearing deposit base than the nation. Past-due rates declined to 2.50 percent, down from 3.60 percent one year earlier.

- Residential real estate in New Mexico is showing some signs of stress as evidenced by rising home foreclosure rates (see Chart 3). Moreover, deterioration in FHA and VA mortgages has been significant. Favorably though, New Mexico insured institution past-due and charge-off rates have remained relatively low at 2.38 percent and .11 percent, respectively, suggesting insured banks and thrifts may have benefited from the established sales and securitization markets as well as vigilant underwriting standards.

- The commercial real estate (CRE) sector has weakened nationwide during the recent recession. The office vacancy rate in the Albuquerque MSA as of December 31, 2002, was 14.5 percent, up 170 basis points from two years ago. Despite this weakness, insured institutions headquartered in New Mexico have increased CRE exposure to the highest level on record (see Chart 4). While most of the banks and thrifts headquartered in New Mexico are not lenders for the largest CRE projects, rising vacancies and increasing unemployment may have negative implications for community bank loan portfolios. Some CRE risk has been mitigated by the strong housing market, as residential construction is a material component of construction lending at community banks. However, if job conditions deteriorate further or long-term interest rates begin to rise this sector could also experience difficulties.

- Although New Mexico per capita bankruptcy rates are at a thirty-year high they are still below the national average (see Chart 5). Favorably, insured institutions headquartered in the state are reporting consumer past-due and charge-off rates within levels reported during the past several years. However, continued high bankruptcy rates could pressure future consumer credit quality.

New Mexico at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	60	63	64	64	68
Total Assets (in thousands)	18,845,547	18,694,820	18,568,561	18,823,179	17,649,969
New Institutions (# < 3 years)	6	7	8	6	6
New Institutions (# < 9 years)	12	12	12	8	7

Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	8.67	8.50	8.74	8.44	8.54

Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	1.82%	2.75%	2.53%	1.74%	2.51%
Past-Due and Nonaccrual >= 5%	8	9	8	7	11
ALLL/Total Loans (median %)	1.41%	1.29%	1.23%	1.32%	1.31%
ALLL/Noncurrent Loans (median multiple)	1.41	1.33	1.23	1.89	1.66
Net Loan Losses/Loans (aggregate)	0.39%	0.52%	0.51%	0.38%	0.34%

Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	8	7	8	5	6
Percent Unprofitable	13.33%	11.11%	12.50%	7.81%	8.82%
Return on Assets (median %)	1.15	1.08	1.20	1.21	1.24
25th Percentile	0.70	0.49	0.67	0.69	0.70
Net Interest Margin (median %)	4.70%	4.88%	5.24%	5.17%	5.02%
Yield on Earning Assets (median)	6.77%	7.97%	8.46%	8.18%	8.44%
Cost of Funding Earning Assets (median)	1.88%	3.09%	3.51%	3.18%	3.39%
Provisions to Avg. Assets (median)	0.28%	0.29%	0.18%	0.13%	0.15%
Noninterest Income to Avg. Assets (median)	0.81%	0.75%	0.78%	0.80%	0.88%
Overhead to Avg. Assets (median)	3.42%	3.47%	3.70%	3.51%	3.58%

Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	70.59%	68.57%	69.55%	70.21%	67.69%
Loans to Assets (median %)	59.16%	57.06%	60.53%	60.91%	59.34%
Brokered Deposits (# of Institutions)	9	8	4	7	6
Bro. Deps./Assets (median for above inst.)	2.37%	2.43%	4.32%	1.27%	1.58%
Noncore Funding to Assets (median)	19.71%	20.39%	20.28%	20.45%	17.42%
Core Funding to Assets (median)	68.97%	69.86%	66.95%	68.67%	71.72%

Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	32	34	35	31	32
National	15	15	16	19	21
State Member	4	4	3	4	5
S&L	4	5	5	5	5
Savings Bank	5	5	5	5	5
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	42	9,453,291	70.00%	50.16%
Albuquerque NM	11	6,783,013	18.33%	35.99%
Santa Fe NM	4	2,303,000	6.67%	12.22%
Las Cruces NM	3	306,243	5.00%	1.63%