

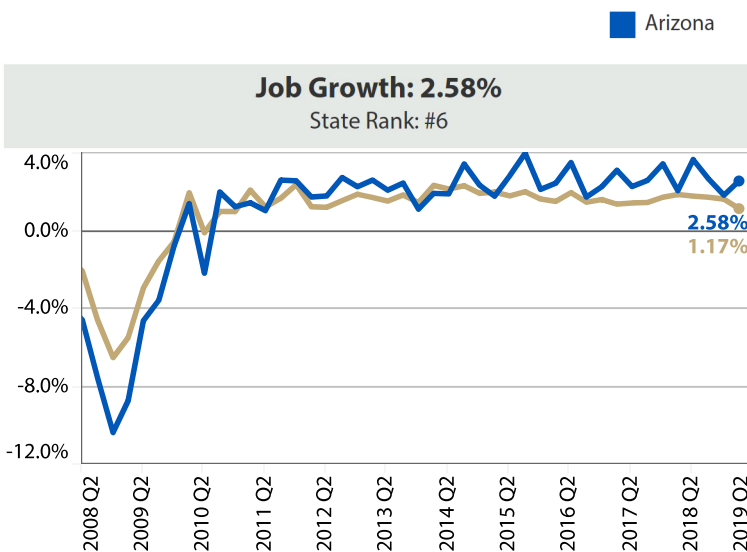
Economy

Arizona's economy remained robust in the second quarter of 2019, bolstered by strong population growth. The state's job growth rate has exceeded the national average since mid-2015, powered by the professional/business and education/health services in recent quarters. Arizona's relatively low business costs make it an attractive location for the back-office operations of finance and technology firms. The state unemployment rate held steady in recent quarters as the national rate fell, but this was largely due to a fast-growing labor force. Although home-price growth and single-family permitting have slowed since the end of 2018, both were well above the national and 12th District averages.

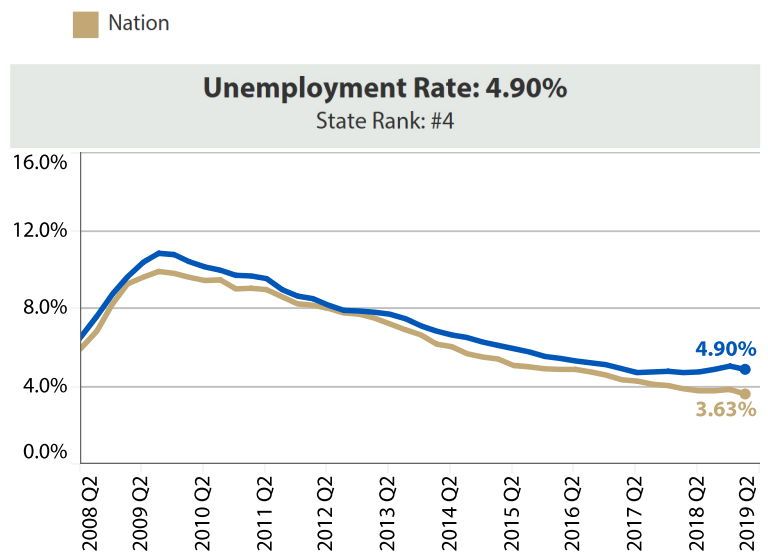
Banks

Average bank profitability in Arizona rose above the national average in 2019 for the first time since before the financial crisis. This occurred because of a reduction in the state's chronically high average overhead expense ratio, even as the state average net interest margins compressed. Average loan growth remained comfortably above the national average thanks to rapid growth in construction and commercial and industrial loans. These fast-growing loan categories weighed on average risk-based capital ratios in 2019. The average CRE concentration ratio also edged up. Arizona banks bucked the national liquidity trend, boosting holdings of liquid instruments and maintaining stable levels of nonmaturity deposit funding, on average.

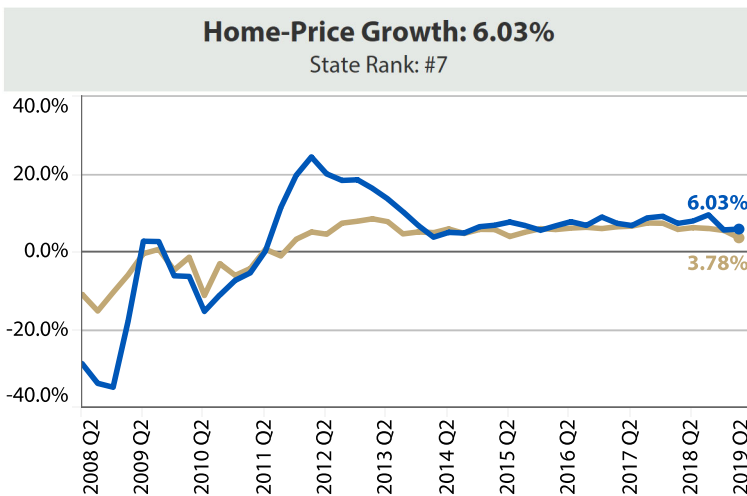
Key Economic Metrics (ranking #1 = highest among 50 states)



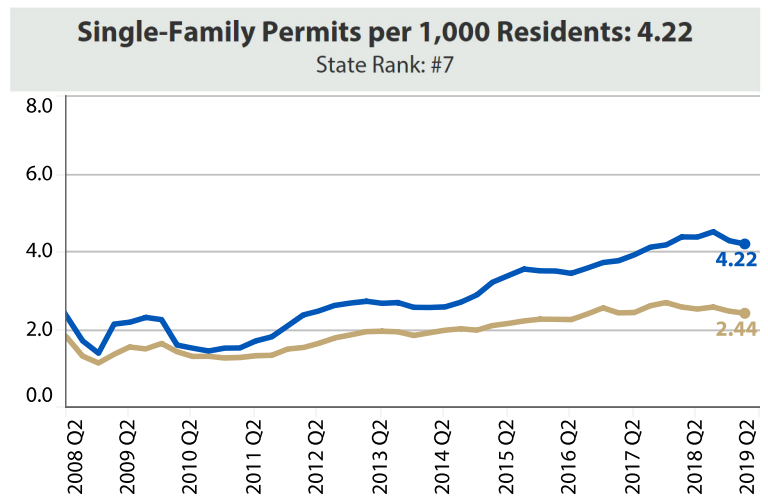
Quarterly average nonfarm payrolls, seasonally adjusted annual rate. Source: Bureau of Labor Statistics (Establishment Survey) via Haver Analytics.



Quarterly average, seasonally adjusted. Source: Bureau of Labor Statistics (Household Employment Survey) via Haver Analytics.



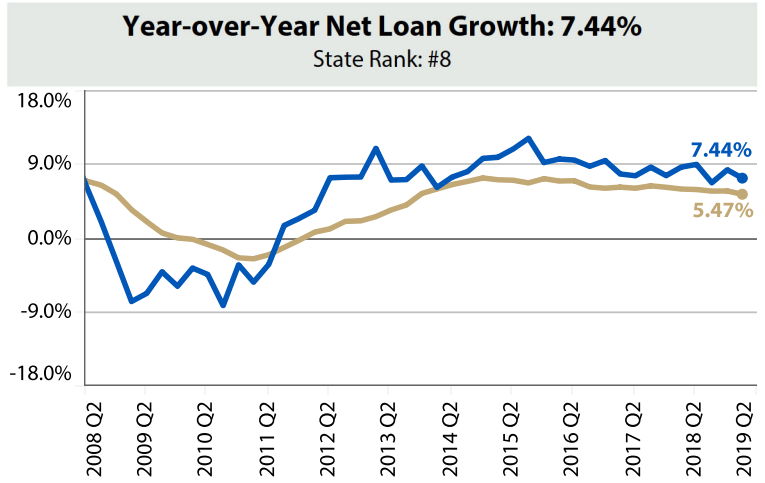
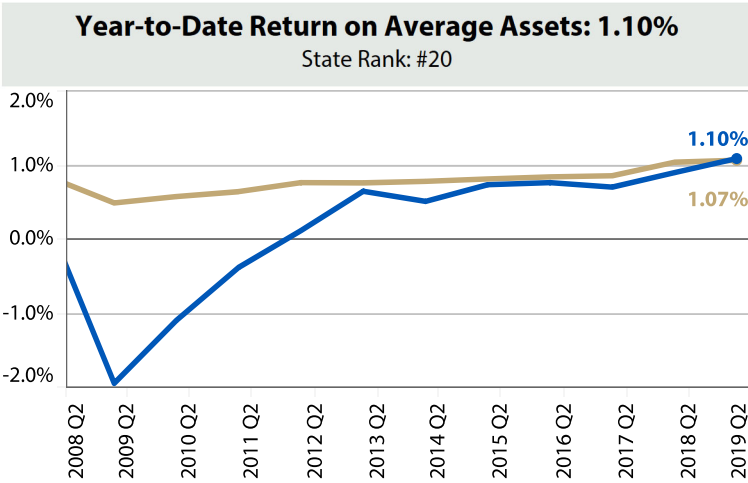
Expanded House Price Index, seasonally adjusted annual rate. Source: Federal Housing Finance Agency via Haver Analytics.



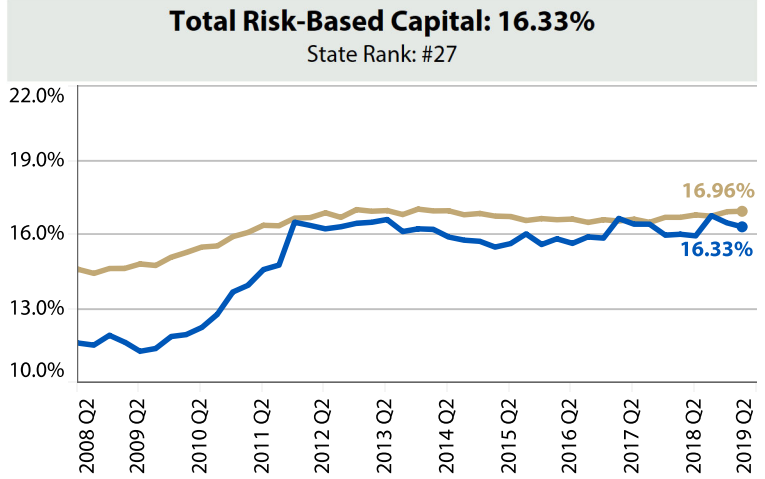
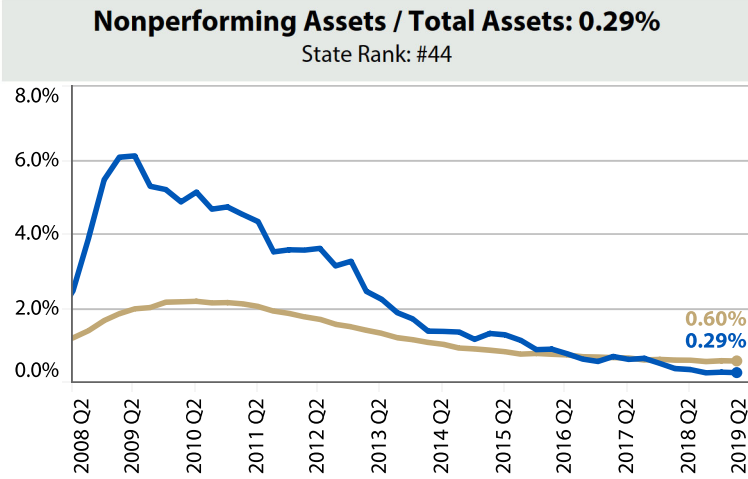
Quarterly average single-family permits (seasonally adjusted annual rate) / quarterly population in thousands. Source: Census Bureau via Haver Analytics.

Key Banking Metrics (averages across banks; ranking #1 = highest among 50 states)

■ Arizona ■ Nation

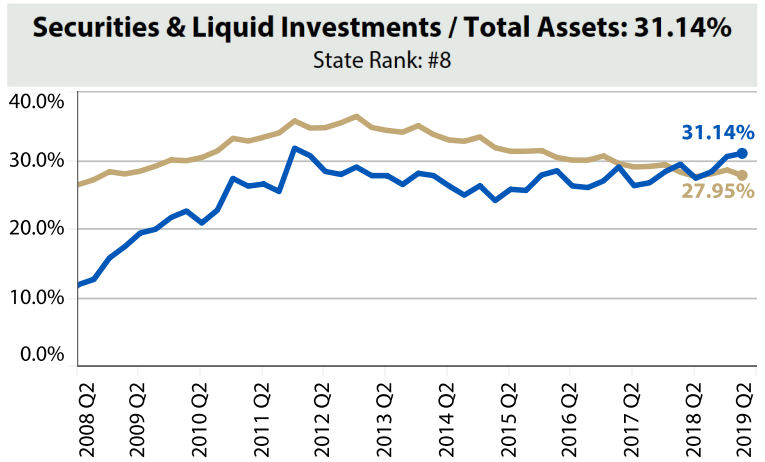
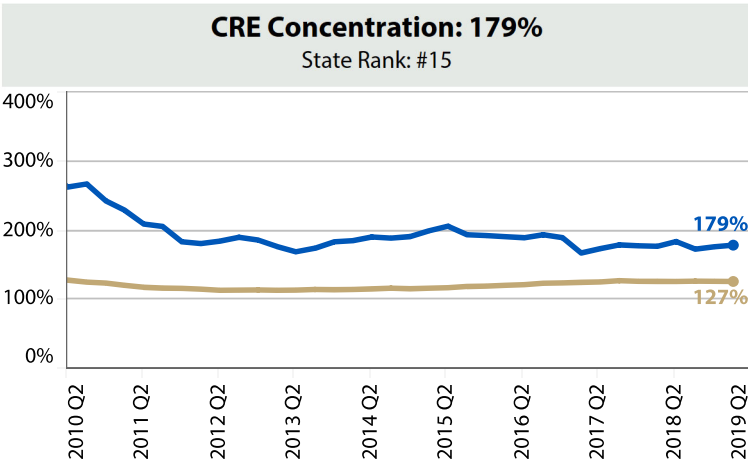


Net income / average assets, adjusted for S-Corps, annualized.



90+ days past due + nonaccruals + other real estate owned / total assets.

Total capital / risk-weighted assets.



Total non-owner-occupied commercial real estate / total capital.

Liquid investments = cash, due-from balances, interest-bearing bank balances, and fed funds sold and securities purchased under agreement to resell.

Source: Call Report data for commercial banks based upon headquarters location. Averages are "trimmed" by removing the highest and lowest 10% of values prior to averaging to prevent distortion by outliers. All charts display quarterly data, except for return on average assets which displays the same quarter in each year. Growth rates are not adjusted for mergers. Graphics and data exclude "de novo" banks (less than five years old), zero-loan banks, and banks where credit card lending is more than 80% of total lending. As of the latest period, the count of banks included in these statistics were 15 for the state and 4,605 for the nation.