Topics

• Labor market conditions
• Community bank conditions
• Current agricultural trends
• Synopsis of FDIC Quarterly article
Disclaimer

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South Dakota Labor Market Conditions
Since falling sharply in April 2020, employment in South Dakota has rebounded to near pre-pandemic level.
After jumping significantly, South Dakota’s unemployment rate has returned to its pre-pandemic low.
South Dakota was tied with three other states for the lowest unemployment rate in March 2021.

Unemployment Rate, Seasonally Adjusted Percent

- Vermont: 2.9%
- Utah: 2.9%
- South Dakota: 2.9%
- Nebraska: 2.9%
- New Hampshire: 3.0%
- Idaho: 3.2%
- Kansas: 3.7%
- Iowa: 3.7%
- Wisconsin: 3.8%
- Montana: 3.8%
- Alabama: 3.8%

South Dakota’s job recovery has outperformed the nation across many employment sectors.

Payroll Employment, Seasonally Adjusted
Year-over-year percent change

- Total Nonfarm
- Trade, Transportation, and Utilities
- Government
- Education and Health Services
- Manufacturing
- Leisure and Hospitality
- Construction
- All Other Sectors

Note: Sectors in descending order of state-wide total employment.
South Dakota Community Bank Conditions
Bank earnings suffered as margins fell and loan loss provisions increased.

Source: FDIC, South Dakota community banks. Note: Data are annual fourth quarter figures.
Banks have funneled strong deposit growth into securities, improving liquidity but hurting margins.

Source: FDIC, South Dakota, community banks.
Note: Data are fourth quarter figures.
Strong balance sheet growth outpaced the accrual of capital at most banks in 2020.

Source: FDIC, South Dakota, community banks.
Note: Data are fourth quarter figures.
So far, past–due and nonaccrual loan ratios have remained generally low despite the pandemic.

Community Nonfarm Banks (14 banks – 2020)
Median past–due and nonaccrual non-agricultural loan ratio

Community Farm Banks (39 banks – 2020)
Median past–due and nonaccrual agricultural loan ratio

Source: FDIC, South Dakota, community banks.
Note: Data are fourth quarter figures.
Recap – Current Bank Conditions

• Earnings are down in 2020, driven by wide-scale margin compression. The drop would have been worse had noninterest expense ratios not declined.
• A glut of deposits has inflated balance sheets, contributing to lower earnings and capital ratios, but improved liquidity.
• A deeper decline in loan growth was blunted by Payment Protection Program (PPP) lending.
• The strong balance sheet growth has diluted capital ratios.
• Past-due loan trends were mixed in 2020, but remained far lower than what was feared earlier in the pandemic.
Agricultural Conditions
China is purchasing far greater quantities of agricultural commodities from the U.S. than it has in several years.

Top 10 U.S. export markets for #soybeans, by volume bit.ly/2lppaop @USDA_ERS

Top 10 U.S. export markets for #corn, by volume bit.ly/2lppaop @USDA_ERS
Agricultural commodity prices are riding the wave of resurging demand.

### GRAINS

<table>
<thead>
<tr>
<th>Contract</th>
<th>Last</th>
<th>Change</th>
<th>Trade Time</th>
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<tbody>
<tr>
<td>Corn</td>
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<tr>
<td>May'21</td>
<td>764-2</td>
<td>+4-6</td>
<td>05/11/21</td>
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<tr>
<td>Jul'21</td>
<td>728-4</td>
<td>+6-2</td>
<td>05/11/21</td>
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<tr>
<td>Sep'21</td>
<td>639-6</td>
<td>+4-6</td>
<td>05/11/21</td>
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<tr>
<td>Dec'21</td>
<td>614-4</td>
<td>+3-2</td>
<td>05/11/21</td>
</tr>
<tr>
<td>Mar'22</td>
<td>618-6</td>
<td>+2-6</td>
<td>05/11/21</td>
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| Soybean  |       |        |            |
| May'21   | 1637-4s | +17-4 | 05/11/21 |
| Jul'21   | 1639-4 | +24-6 | 05/11/21 |
| Aug'21   | 1572-4 | +19-0 | 05/11/21 |
| Sep'21   | 1486-6 | +14-6 | 05/11/21 |
| Nov'21   | 1442-6 | +11-2 | 05/11/21 |

### MEATS

<table>
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<th>Contract</th>
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<th>Change</th>
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</thead>
<tbody>
<tr>
<td>Live Cattle</td>
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<tr>
<td>Jun'21</td>
<td>118.625s</td>
<td>+0.400</td>
<td>05/11/21</td>
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<tr>
<td>Aug'21</td>
<td>122.050s</td>
<td>+1.700</td>
<td>05/11/21</td>
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<tr>
<td>Oct'21</td>
<td>126.150s</td>
<td>+1.600</td>
<td>05/11/21</td>
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<tr>
<td>Dec'21</td>
<td>129.850s</td>
<td>+1.350</td>
<td>05/11/21</td>
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<tr>
<td>Feb'22</td>
<td>133.025s</td>
<td>+1.450</td>
<td>05/11/21</td>
</tr>
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</table>

| Feeder Cattle |       |        |            |
| May'21   | 135.325s | -0.125 | 05/11/21 |
| Aug'21   | 148.850s | +0.150 | 05/11/21 |
| Sep'21   | 150.475s | +0.400 | 05/11/21 |
| Oct'21   | 151.750s | +0.475 | 05/11/21 |
| Nov'21   | 152.650s | +0.150 | 05/11/21 |
Federal Reserve surveys indicate farmland values and cash rents increased in late 2020.

**Nonirrigated Cropland Values, Fourth Quarter**

**Nonirrigated Cropland Cash Rents, Fourth Quarter**

Sources: Federal Reserve District Surveys of Agricultural Credit Conditions.
Bankers expect producers to use higher incomes to pay down debt and purchase machinery.

Chart 4: Expected Uses of Higher Than Expected Income

- Paying down farm debts
- Purchasing machinery
- Supplementing working capital
- Making improvements to real estate
- Making other purchases or paying down personal debt
- Purchasing real estate

Percent of survey respondents
More than 90 percent of South Dakota is experiencing varying degrees of drought.

U.S. Drought Monitor
Designations (May 4, 2021)
D0–Abnormally Dry
D1–Moderate.
D2–Severe
D3–Extreme
D4–Exceptional

Source: https://www.drought.gov/states/south-dakota
FDIC Quarterly – Agricultural Article
Farm Banks: Resilience Through Changing Conditions

The U.S. agricultural sector has experienced large swings over the past decade and a half, from a lengthy period of prosperity in agriculture that ended in 2013 to subsequent years that presented a slow, weak recovery. Most farmers and farm banks were cautious with farm real estate lending during the strong years. As a result, farm banks have held up well despite the agricultural industry’s challenges since 2014. The COVID-19 pandemic initially looked to be harmful for U.S. agriculture, but record government payments helped forecasted 2020 farm income reach the highest level since 2013.

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