



# South Dakota Banking Commission Meeting

May 13, 2021



# Topics

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



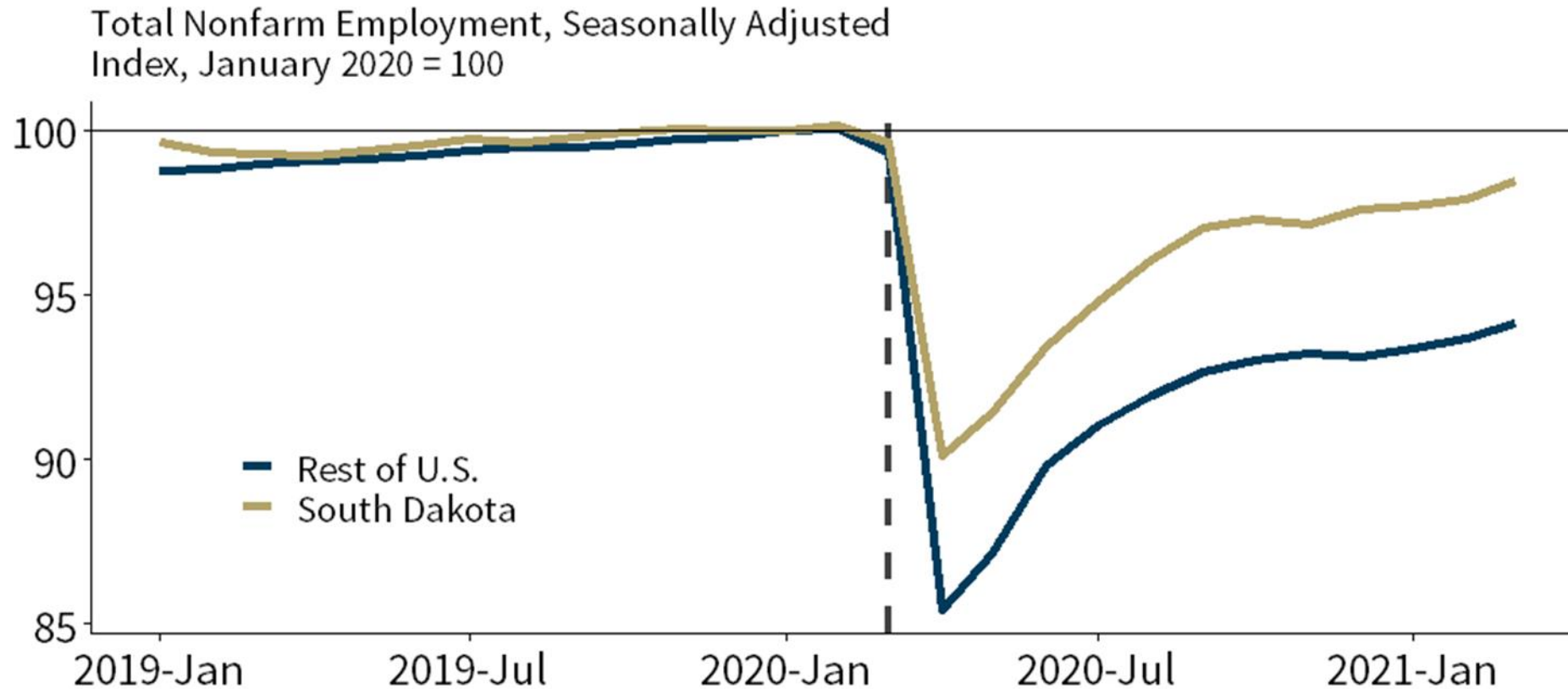
# Disclaimer

*The views expressed are those of the presenter and do not necessarily reflect official positions of the Federal Deposit Insurance Corporation. Some of the information used in the preparation of this presentation was obtained from publicly available sources that are considered reliable. However, the use of this information does not constitute an endorsement of its accuracy by the Federal Deposit Insurance Corporation.*



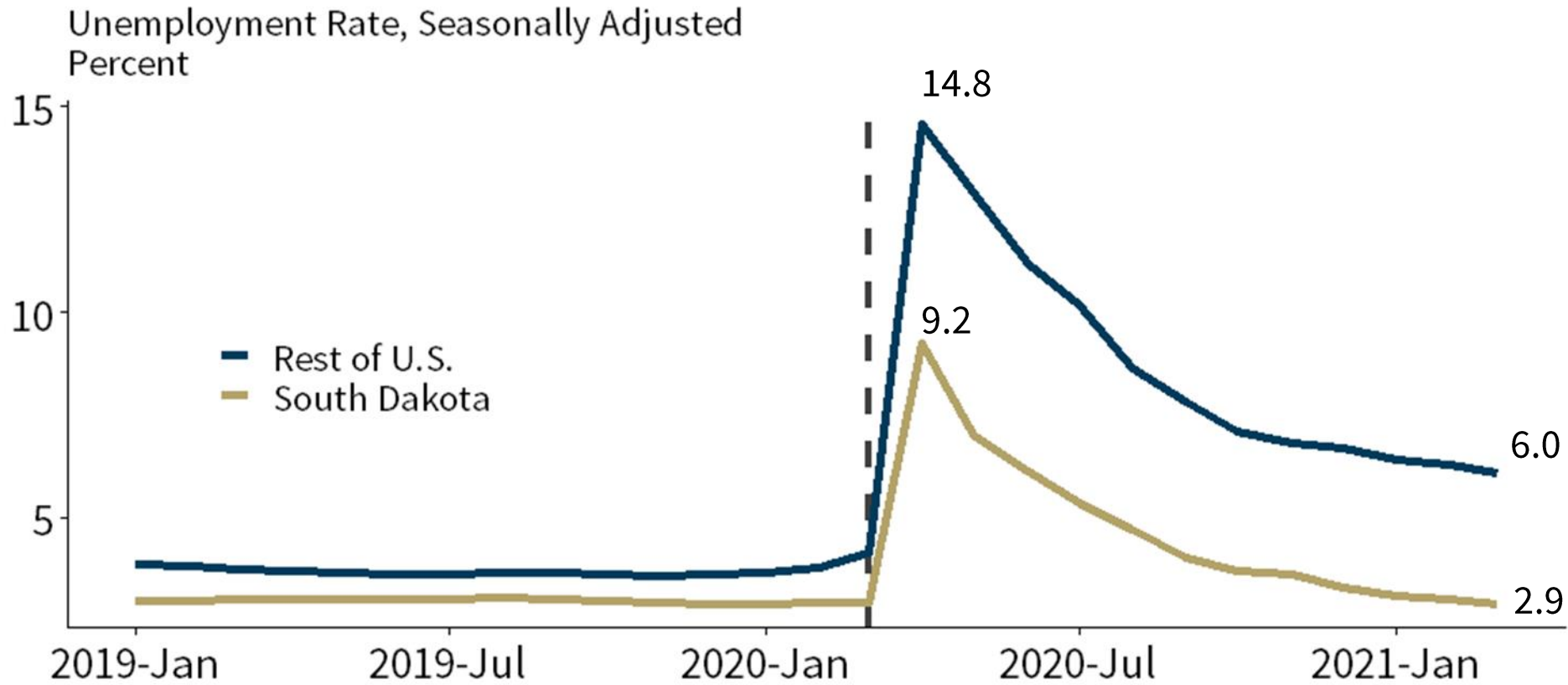
# South Dakota Labor Market Conditions

Since falling sharply in April 2020, employment in South Dakota has rebounded to near pre-pandemic level.



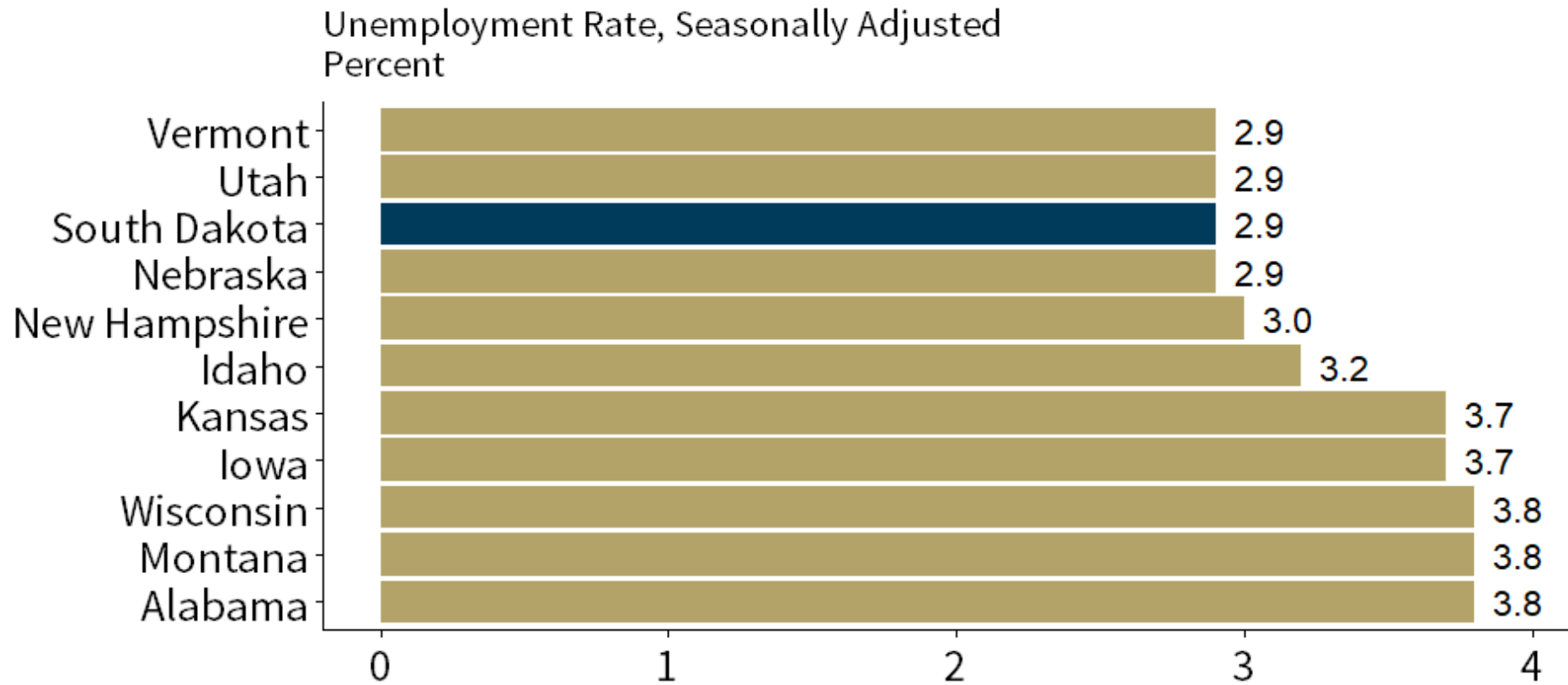
Source: Bureau of Labor Statistics.

# After jumping significantly, South Dakota's unemployment rate has returned to its pre-pandemic low.



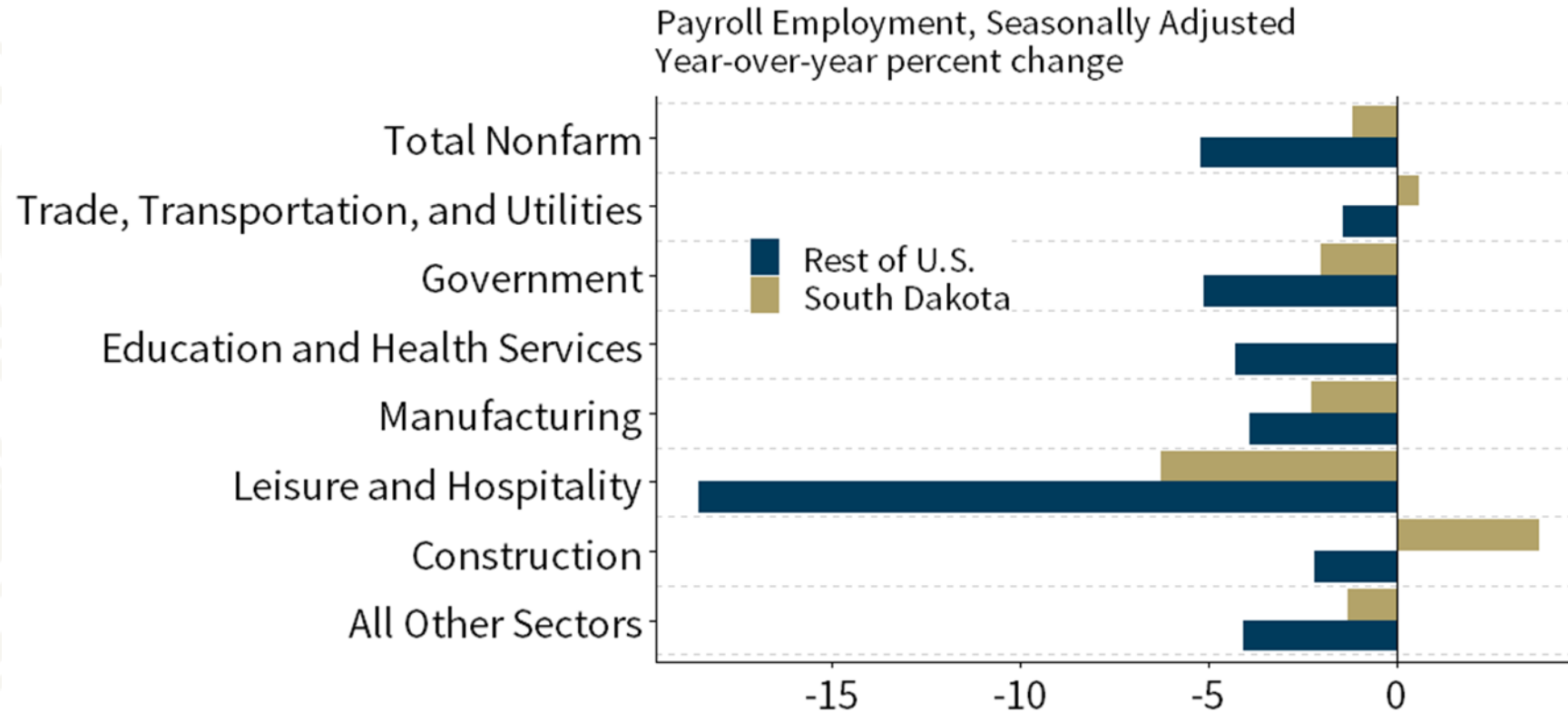
Source: Bureau of Labor Statistics.

# South Dakota was tied with three other states for the lowest unemployment rate in March 2021.



Source: Bureau of Labor Statistics.

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



Source: Bureau of Labor Statistics.

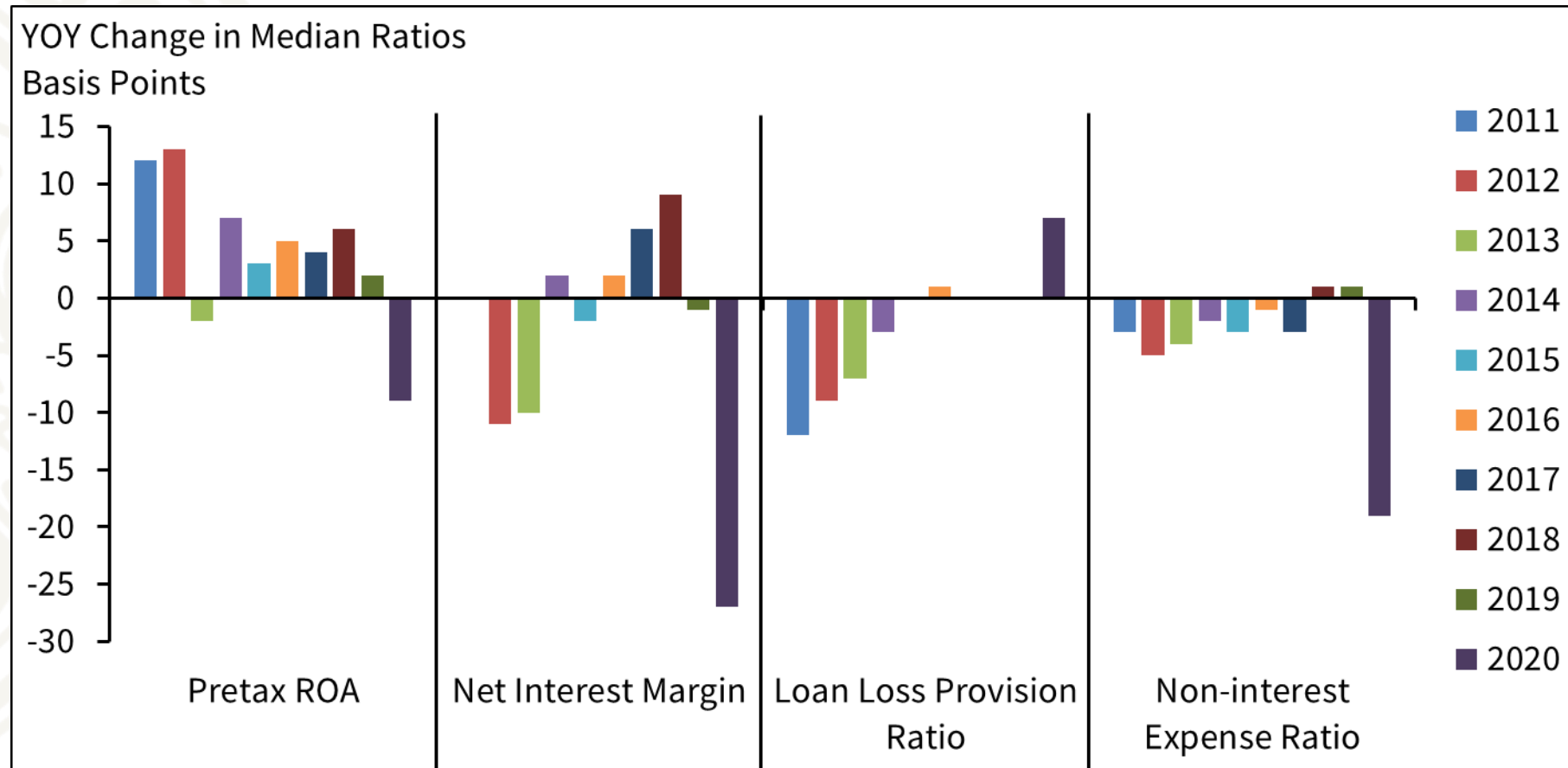
Note: Sectors in descending order of state-wide total employment.





# South Dakota Community Bank Conditions

# Bank earnings suffered as margins fell and loan loss provisions increased.

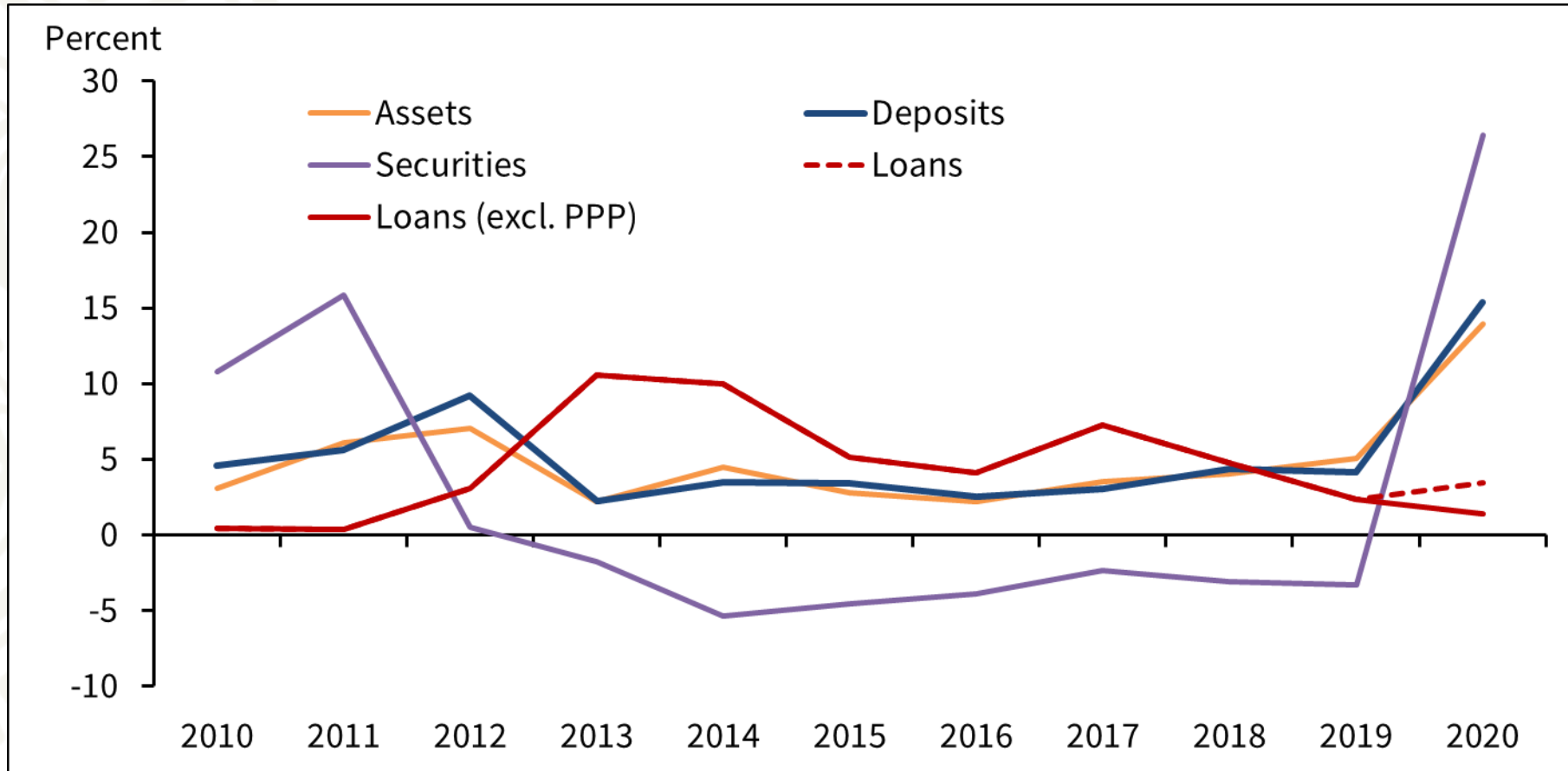


Source: FDIC, South Dakota community banks.

Note: Data are annual fourth quarter figures.

# Banks have funneled strong deposit growth into securities, improving liquidity but hurting margins.

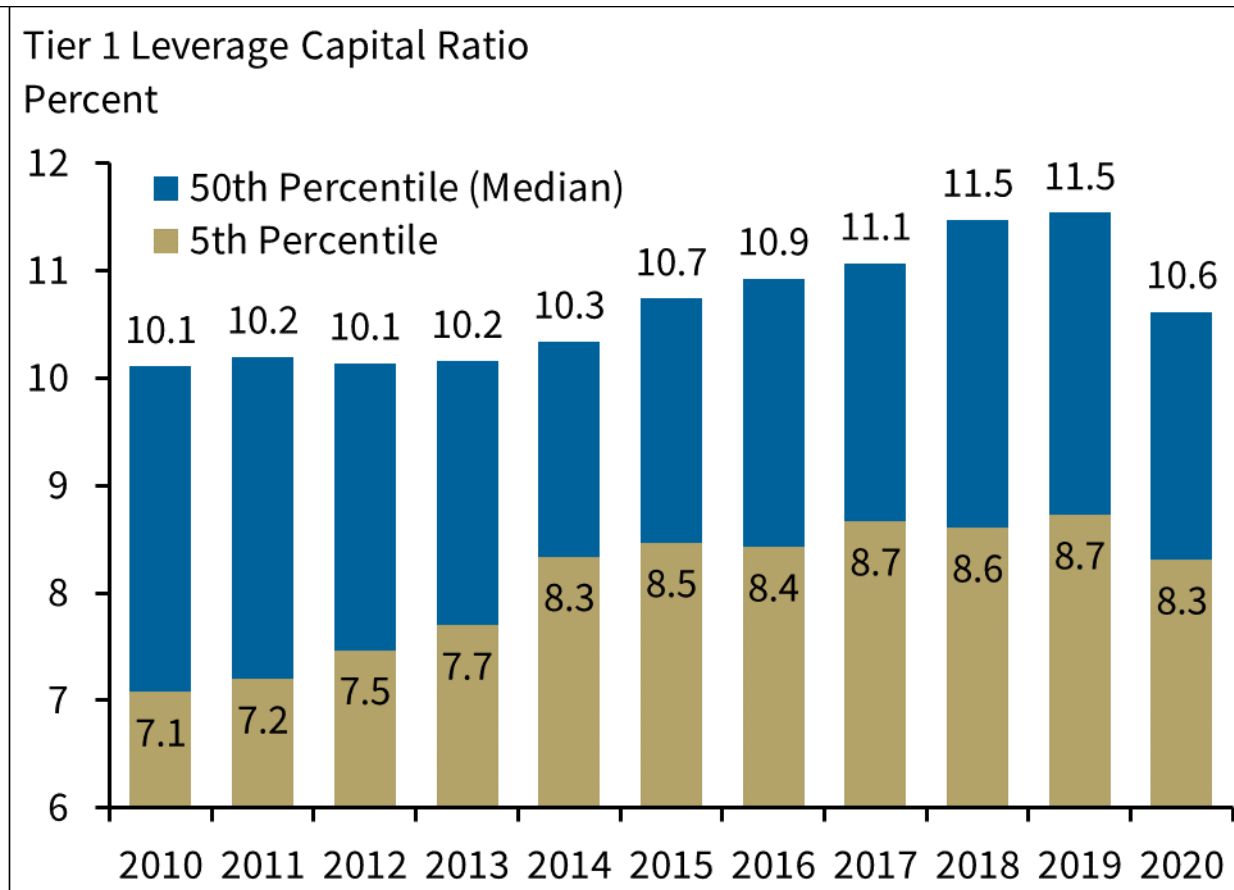
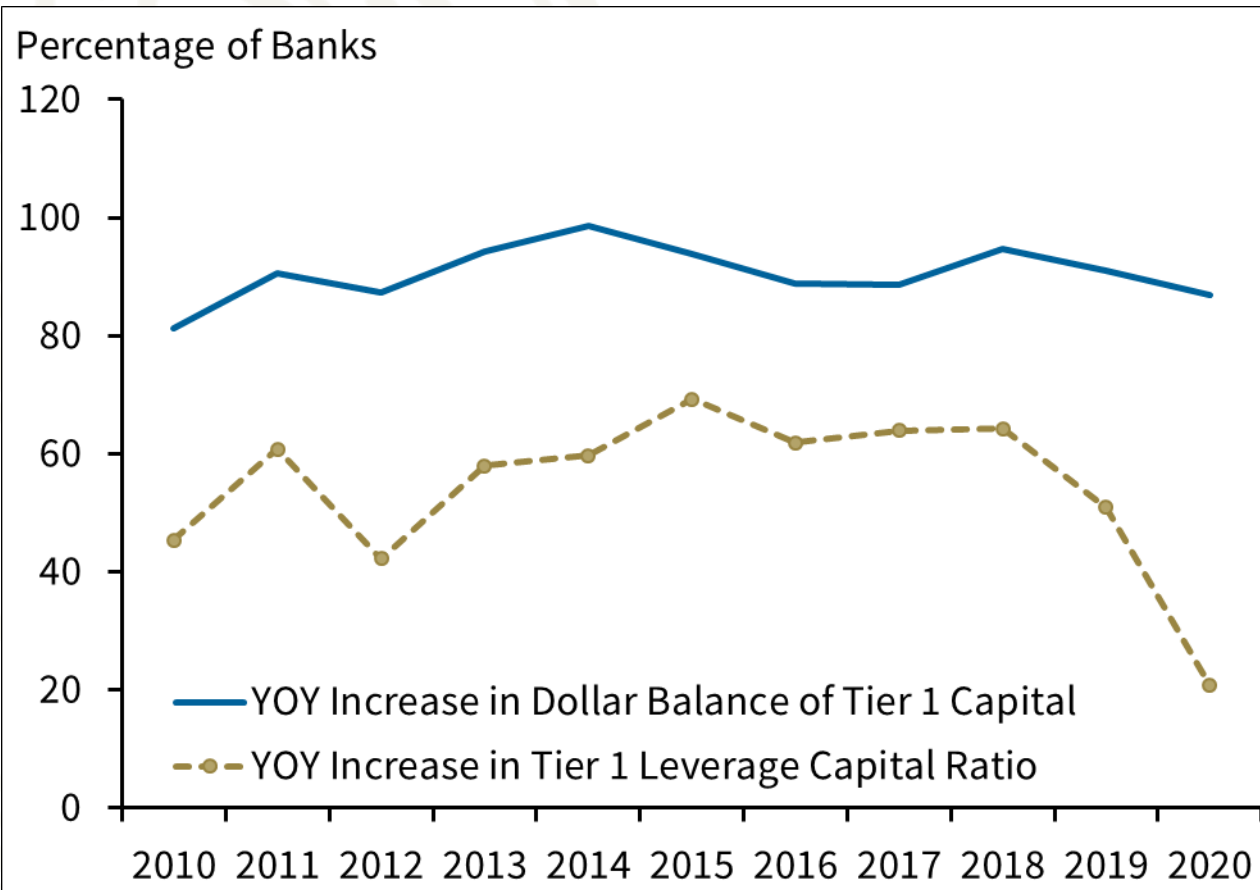
YOY Growth Rate (Median Figures)



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.



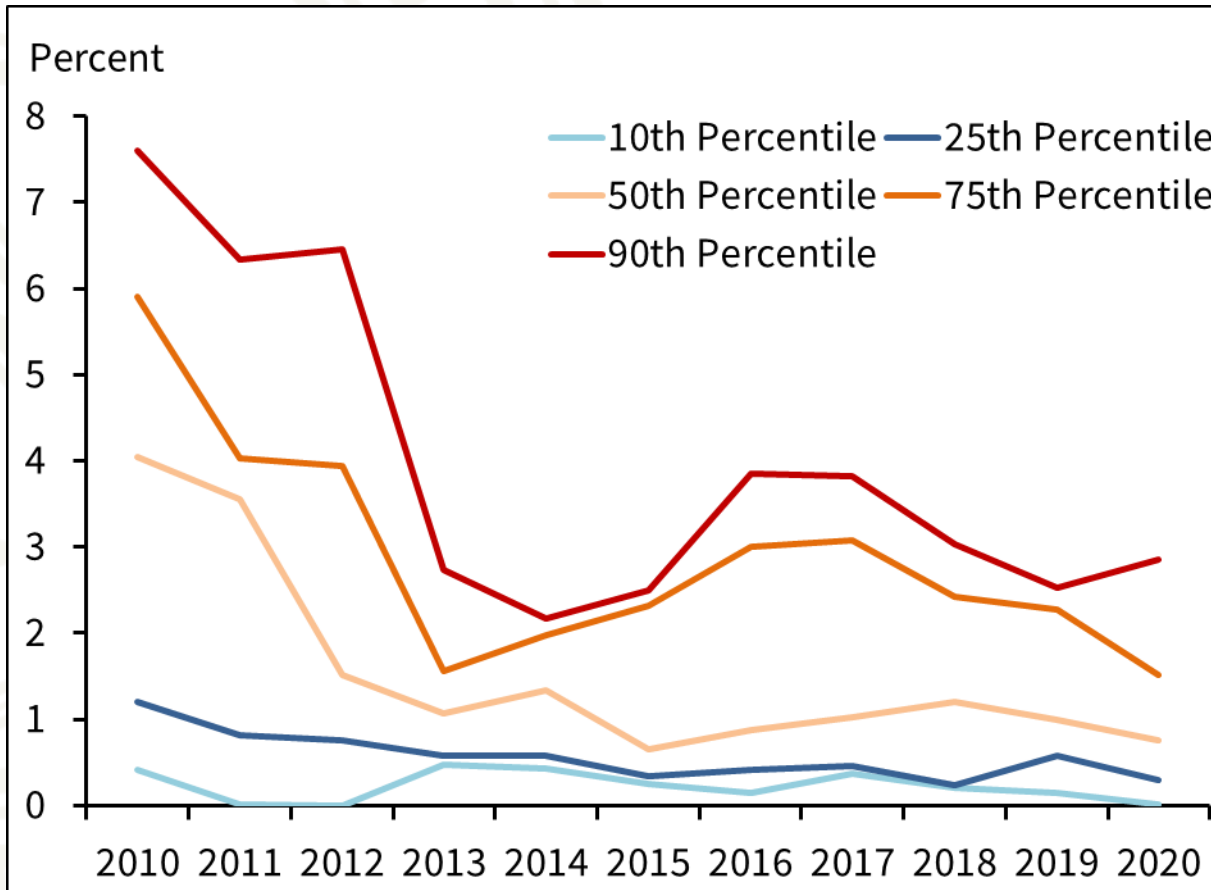
Source: FDIC, South Dakota, community banks.

Note: Data are fourth quarter figures.

# So far, past-due and nonaccrual loan ratios have remained generally low despite the pandemic.

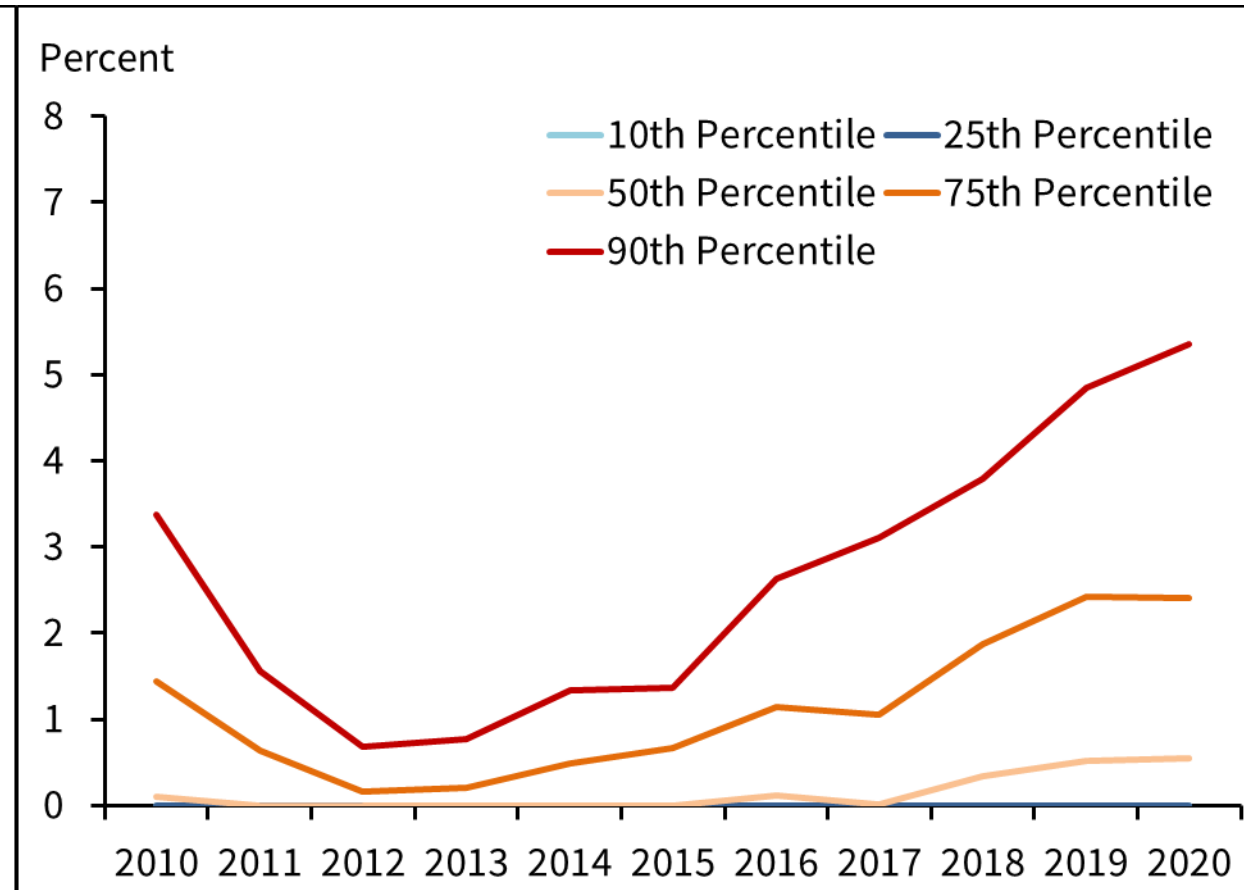
Community Nonfarm Banks (14 banks – 2020)

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.



Farm Policy  
@FarmPolicy



Top 10 U.S. export markets for #soybeans, by volume  
[bit.ly/2lppaop](https://bit.ly/2lppaop) @USDA\_ERS

Top 10 U.S. export markets for soybeans, corn, wheat, and cotton, by volume 1/ 2/				
Commodity	Oct.- Mar.	Oct.- Mar.	Mar.	Mar.
	2020	2021	2020	2021
Metric tons				
<b>Soybeans</b>				
China	11,400,589	30,415,123	208,505	490,496
European Union-27	3,096,479	3,480,408	129,502	27,905
Mexico	2,623,198	2,775,442	322,063	394,256
Egypt	2,007,028	2,302,896	463,210	405,928
Indonesia	1,019,800	1,347,309	289,744	251,723
Japan	1,458,905	1,320,182	298,204	192,825
Taiwan	1,215,678	1,246,469	128,690	107,341
Thailand	1,008,550	1,089,966	107,930	33,077
Pakistan	935,236	818,242	0	0
Bangladesh	992,069	778,458	248,806	58,191
World total	29,025,212	49,170,147	2,570,852	2,295,122

5:55 AM · May 6, 2021



Farm Policy  
@FarmPolicy



Top 10 U.S. export markets for #corn, by volume  
[bit.ly/2lppaop](https://bit.ly/2lppaop) @USDA\_ERS

Top 10 U.S. export markets for soybeans, corn, wheat, and cotton, by volume 1/ 2/				
Commodity	Oct.- Mar.	Oct.- Mar.	Mar.	Mar.
	2020	2021	2020	2021
Metric tons				
<b>Corn</b>				
China	1,212	7,875,022	0	1,747,587
Mexico	6,899,011	7,264,252	1,190,076	1,637,059
Japan	3,975,535	5,736,202	1,323,302	1,747,389
Colombia	2,573,667	2,408,573	436,742	712,704
South Korea	626,653	1,773,006	477,773	1,025,952
Taiwan	347,713	1,147,861	119,528	565,772
Canada	735,645	745,629	170,428	145,926
Guatemala	509,292	639,183	121,383	195,613
Peru	14,560	637,047	0	98,164
Vietnam	66,220	517,511	0	261,118
World total	18,379,712	33,707,293	4,615,561	9,468,380

5:57 AM · May 6, 2021





# Agricultural commodity prices are riding the wave of resurging demand.

## GRAINS

### Corn

Contract	Last	Change	Trade Time
<u>May'21</u>	764-2	+4-6	05/11/21
<u>Jul'21</u>	728-4	+6-2	05/11/21
<u>Sep'21</u>	639-6	+4-6	05/11/21
<u>Dec'21</u>	614-4	+3-2	05/11/21
<u>Mar'22</u>	618-6	+2-6	05/11/21

### Soybean

Contract	Last	Change	Trade Time
<u>May'21</u>	1637-4s	+17-4	05/11/21
<u>Jul'21</u>	1639-4	+24-6	05/11/21
<u>Aug'21</u>	1572-4	+19-0	05/11/21
<u>Sep'21</u>	1486-6	+14-6	05/11/21
<u>Nov'21</u>	1442-6	+11-2	05/11/21

## MEATS

### Live Cattle

Contract	Last	Change	Trade Time
<u>Jun'21</u>	118.625s	+0.400	05/11/21
<u>Aug'21</u>	122.050s	+1.700	05/11/21
<u>Oct'21</u>	126.150s	+1.600	05/11/21
<u>Dec'21</u>	129.850s	+1.350	05/11/21
<u>Feb'22</u>	133.025s	+1.450	05/11/21

### Feeder Cattle

Contract	Last	Change	Trade Time
<u>May'21</u>	135.325s	-0.125	05/11/21
<u>Aug'21</u>	148.850s	+0.150	05/11/21
<u>Sep'21</u>	150.475s	+0.400	05/11/21
<u>Oct'21</u>	151.750s	+0.475	05/11/21
<u>Nov'21</u>	152.650s	+0.150	05/11/21

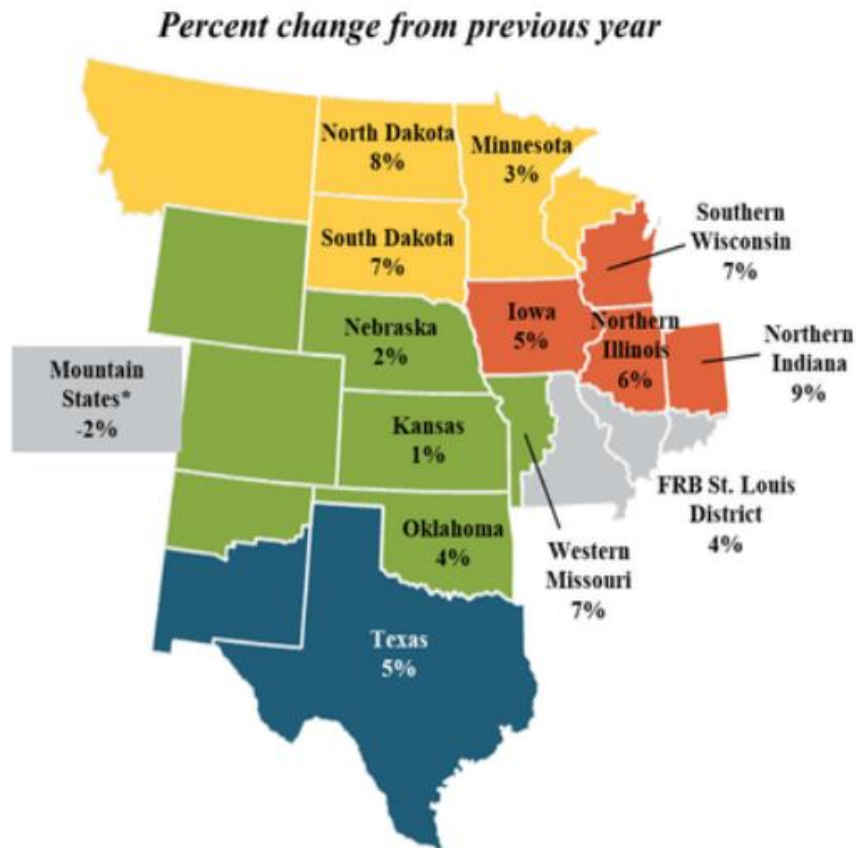
## Ethanol Futures Jun '21

(CBOT: ZKM21)

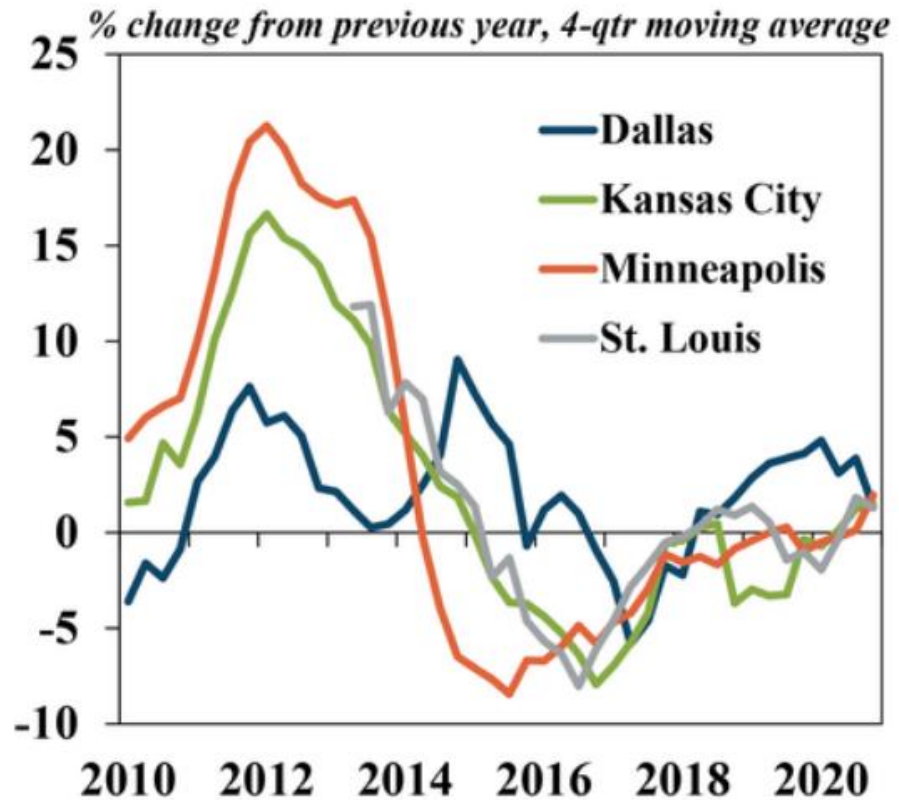


# Federal Reserve surveys indicate farmland values and cash rents increased in late 2020.

## Nonirrigated Cropland Values, Fourth Quarter



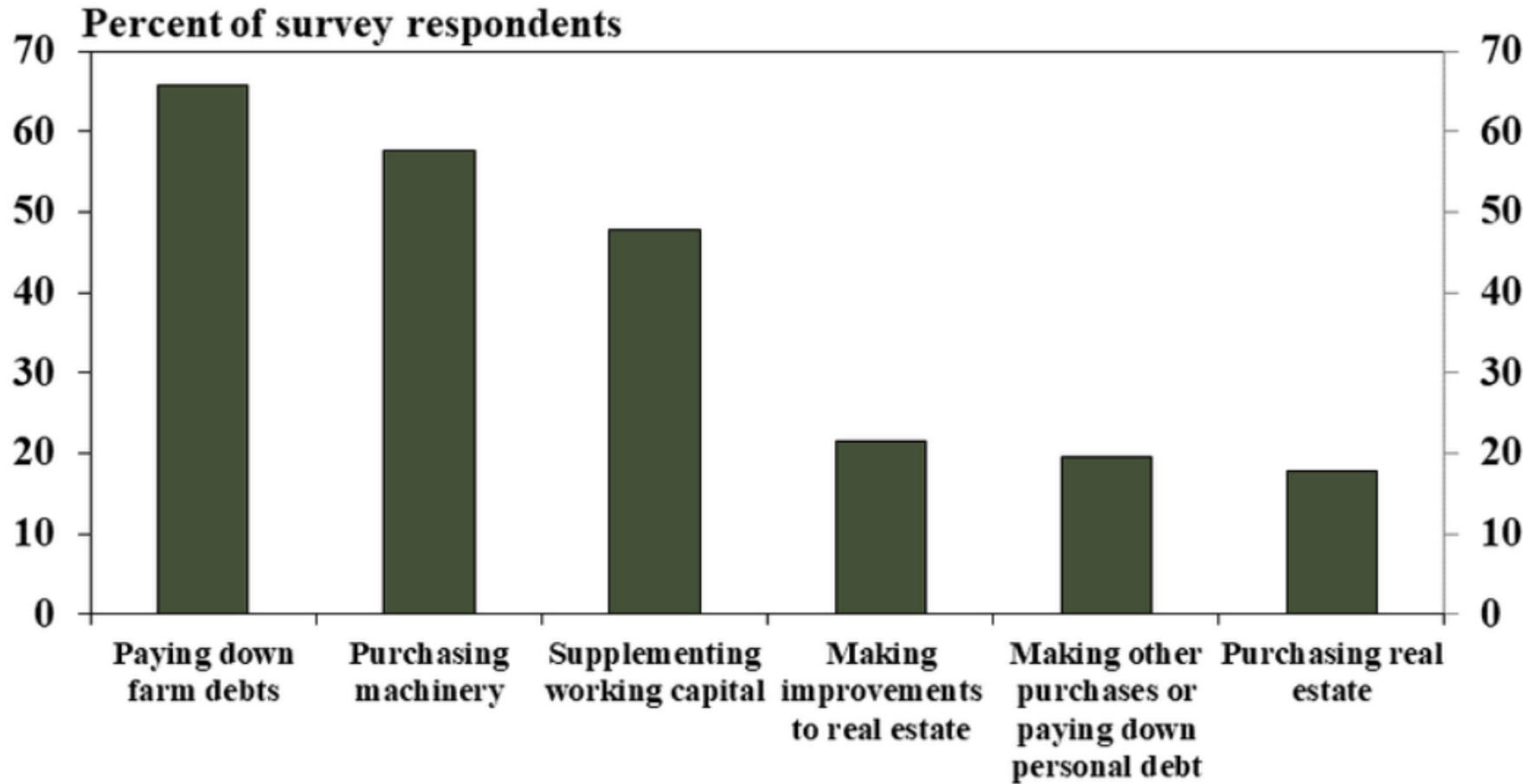
## Nonirrigated Cropland Cash Rents, Fourth Quarter



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**



# More than 90 percent of South Dakota is experiencing varying degrees of drought.

## U.S. Drought Monitor Designations (May 4, 2021)

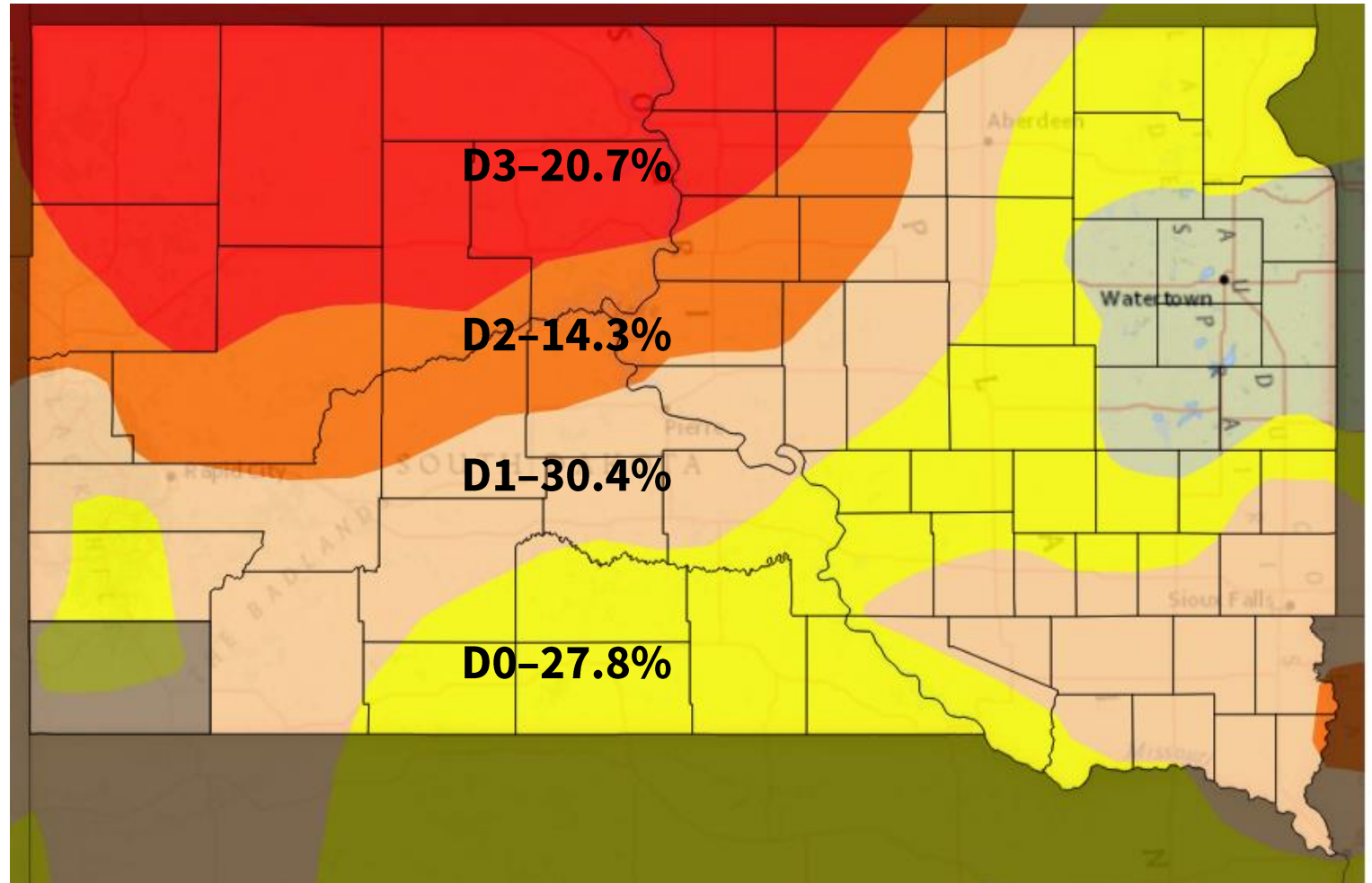
D0–Abnormally Dry

D1–Moderate.

D2–Severe

D3–Extreme

D4–Exceptional





# 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.

<https://www.fdic.gov/bank/analytical/quarterly/2021-vol15-1/fdic-v15n1-4q2020.pdf>



## Presenter's contact information

Rich Cofer Jr.

Regional Manager, Kansas City

FDIC, Division of Insurance and Research

Office: 816-234-8066

Mobile: 816-308-0772

Email: [rcofer@fdic.gov](mailto:rcofer@fdic.gov)