

South Dakota Banking Commission Meeting

Economic Perspectives
May 3, 2023

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Division of Insurance and Research



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The macro story revolves around the fight against inflation.

CPI-U: All Items, 1982-84=100

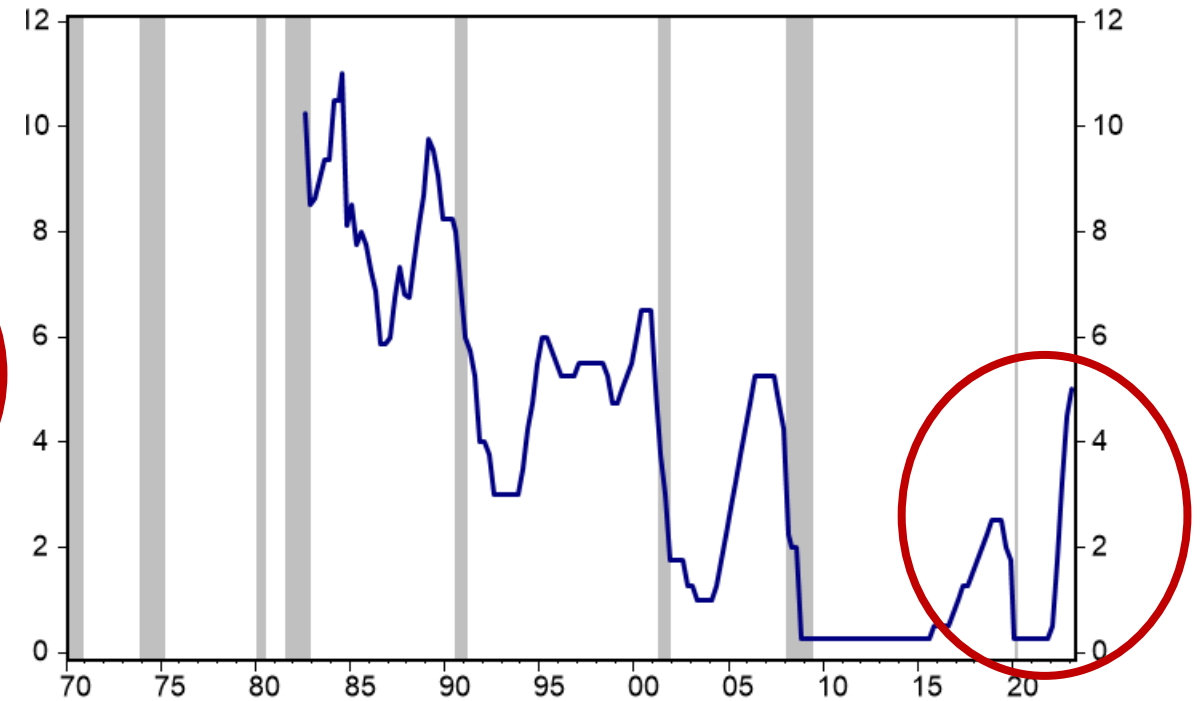
Y/Y %Change



Source: Bureau of Labor Statistics/Haver Analytics

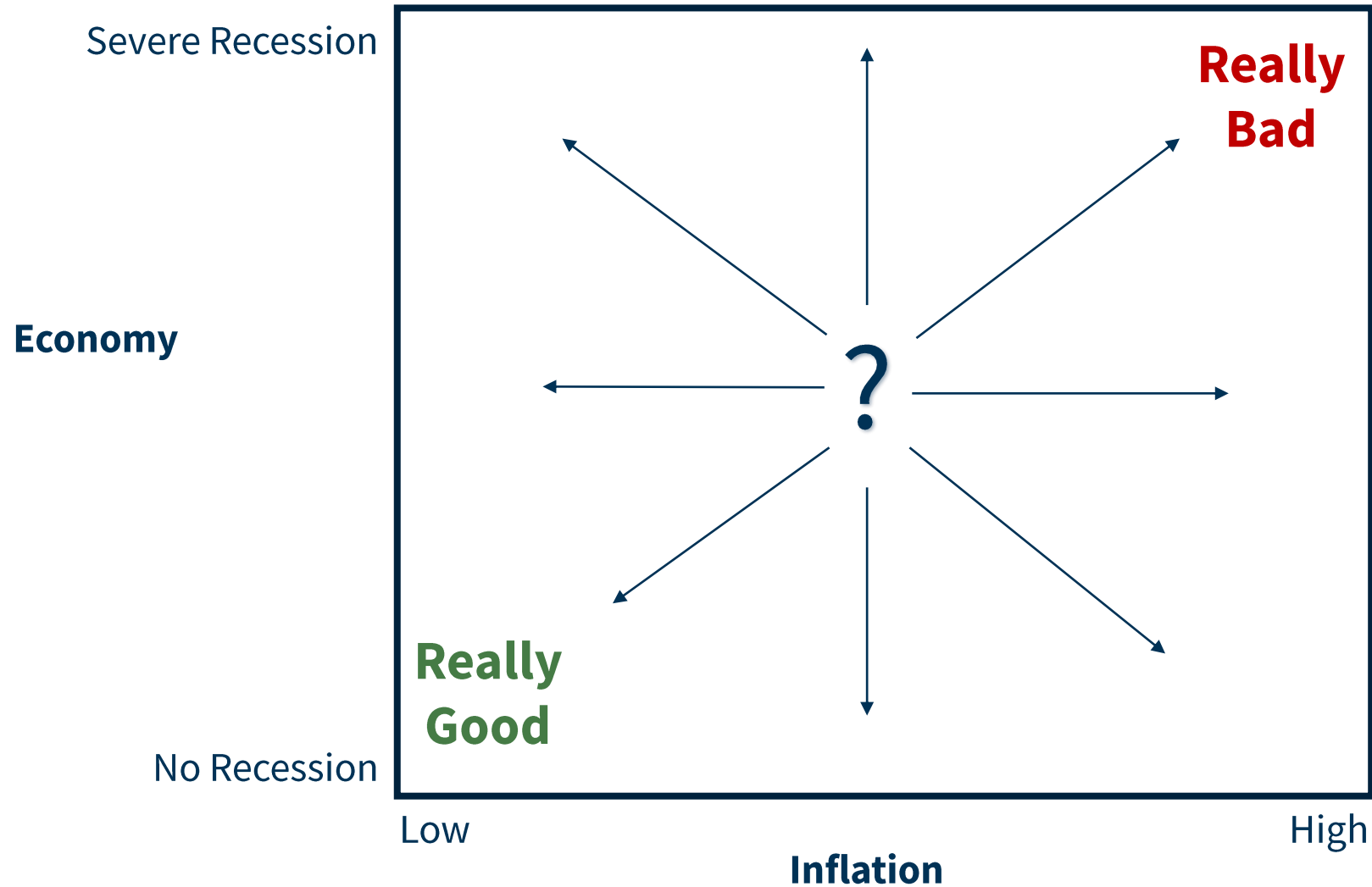
Federal Open Market Committee: Fed Funds Target Rate: Upper Limit

EOP, %

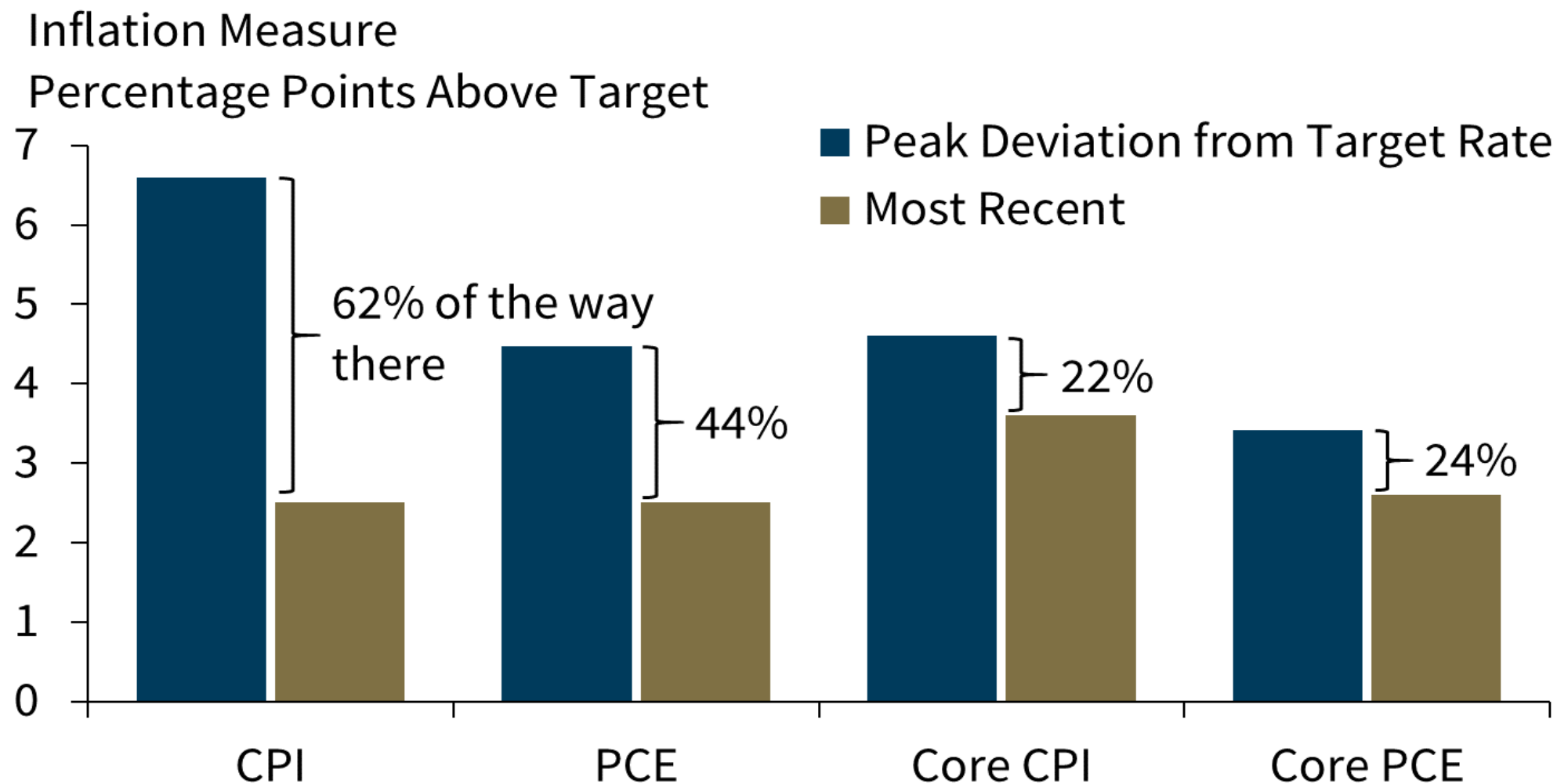


Source: Federal Reserve Board/Haver Analytics

Where will we find ourselves a year from now?



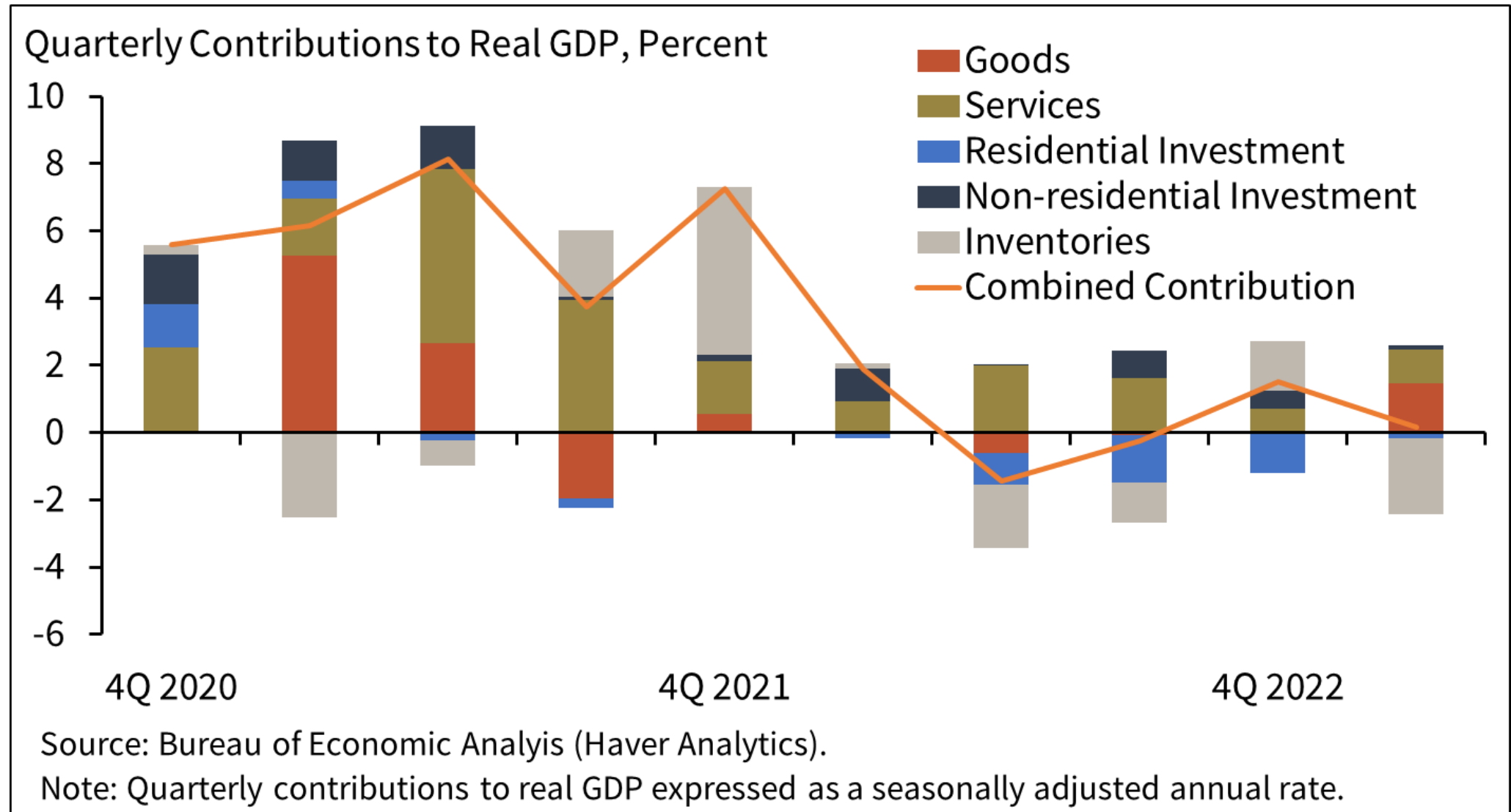
Inflation is down but there is still a long ways to go.



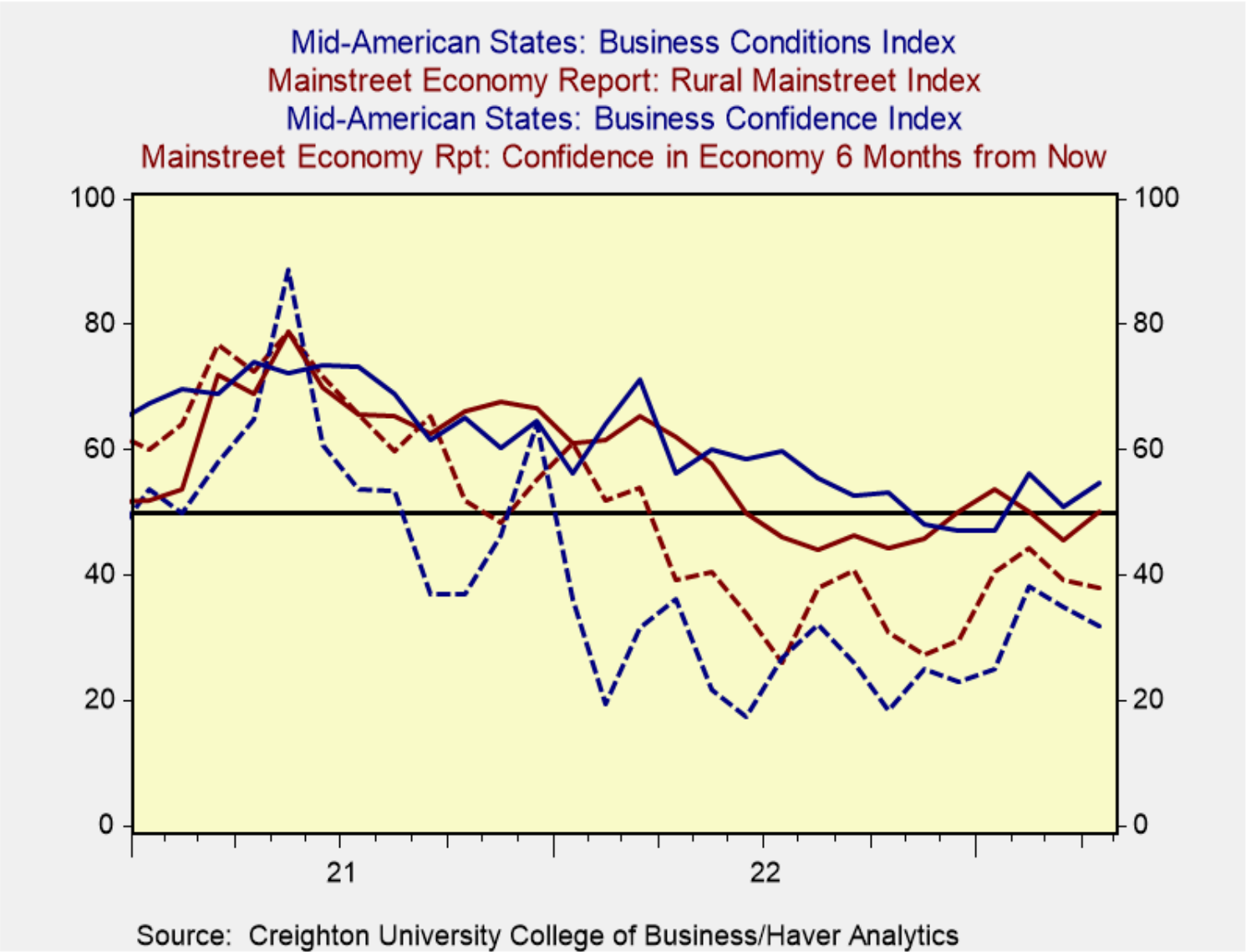
Source: Bureau of Labor Statistics, Bureau of Economic Analysis.

Note: Target considered to be 2.5% for CPI and PCE and 2% for core CPI and core PCE.

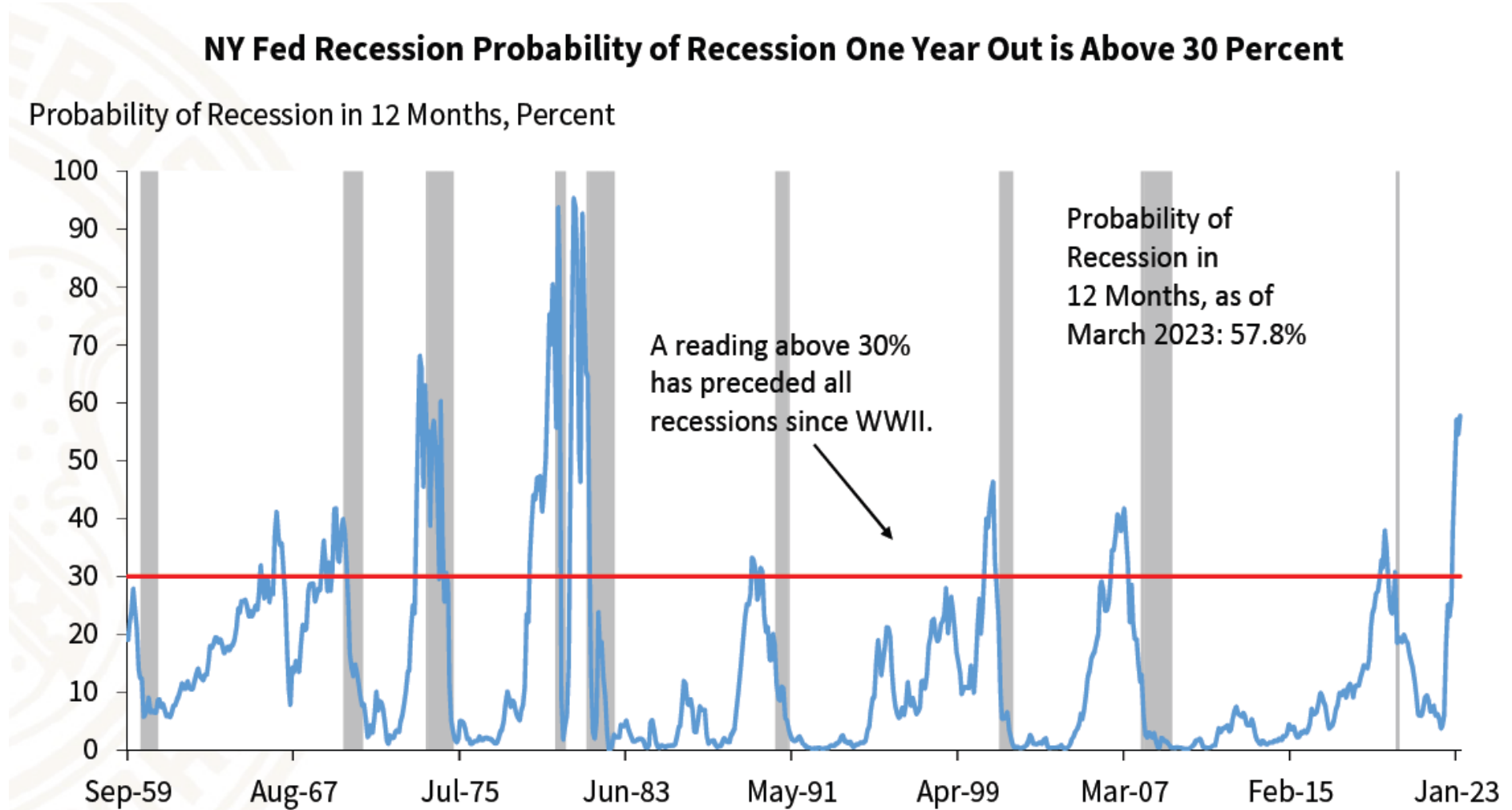
The private sector added little to soft first quarter 2023 GDP growth.



Midwest business conditions and outlook have cooled.



The likelihood of a recession is rising but not certain.

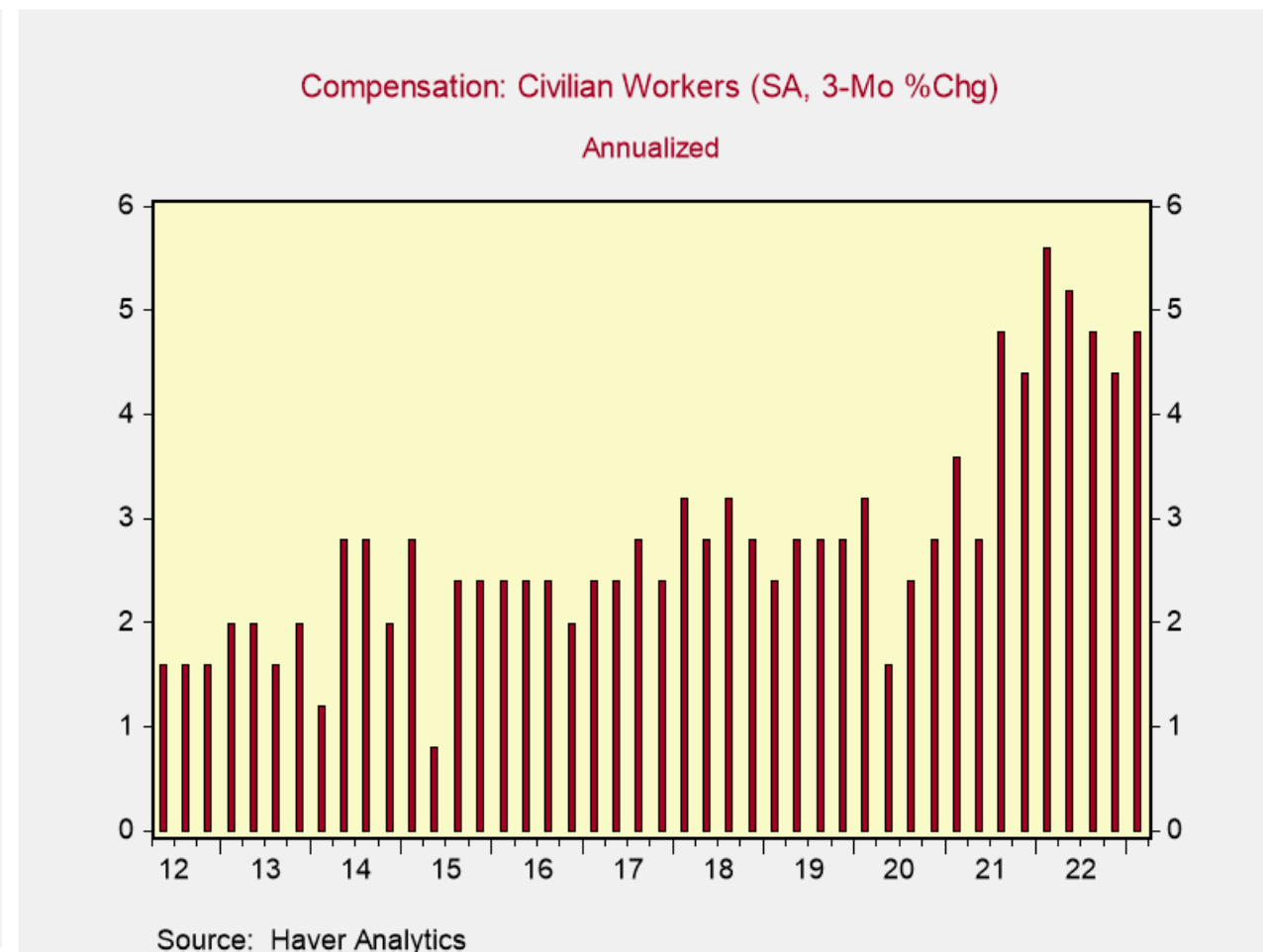
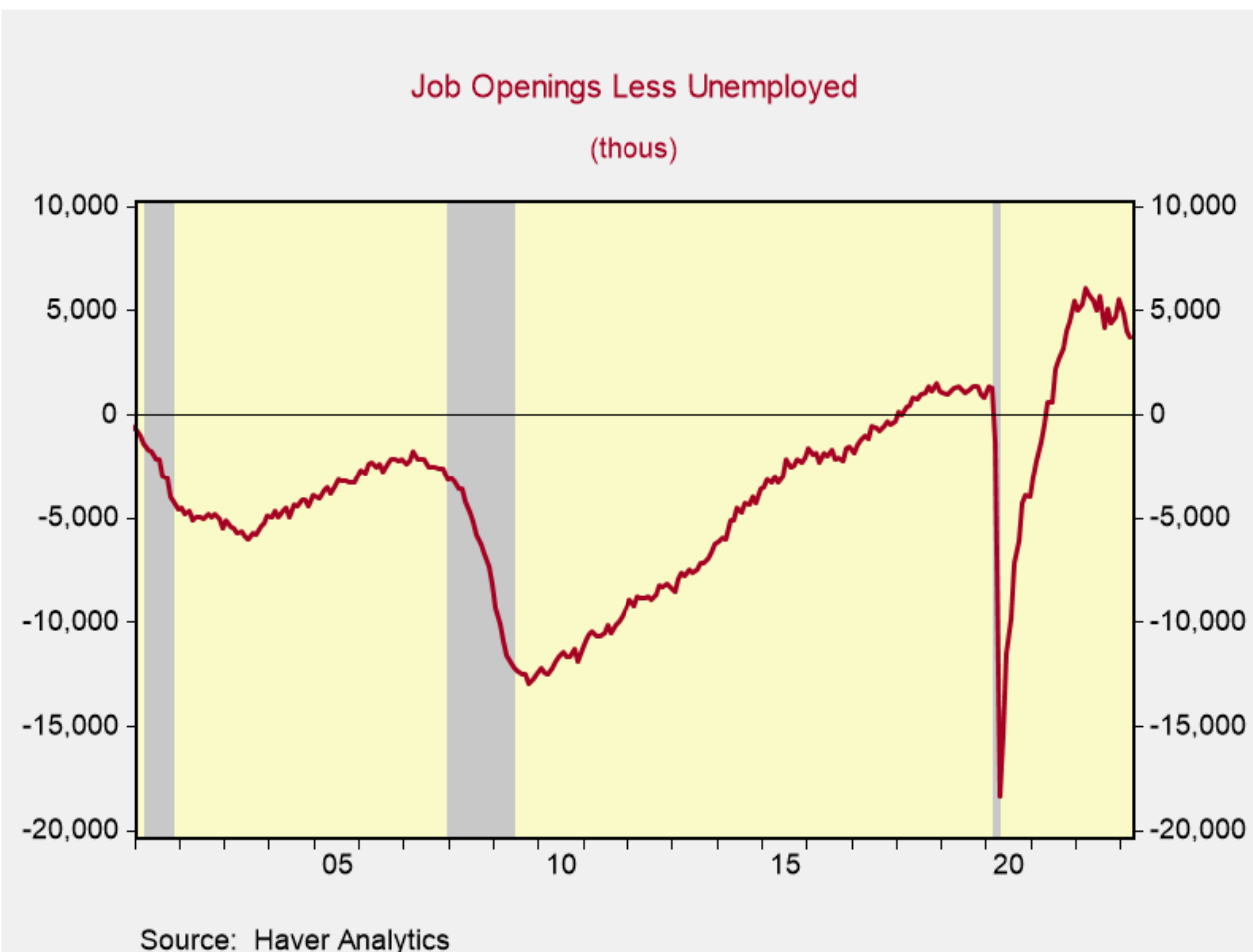


Source: Federal Reserve Bank of New York (Haver Analytics).

Note: The model uses the difference between the

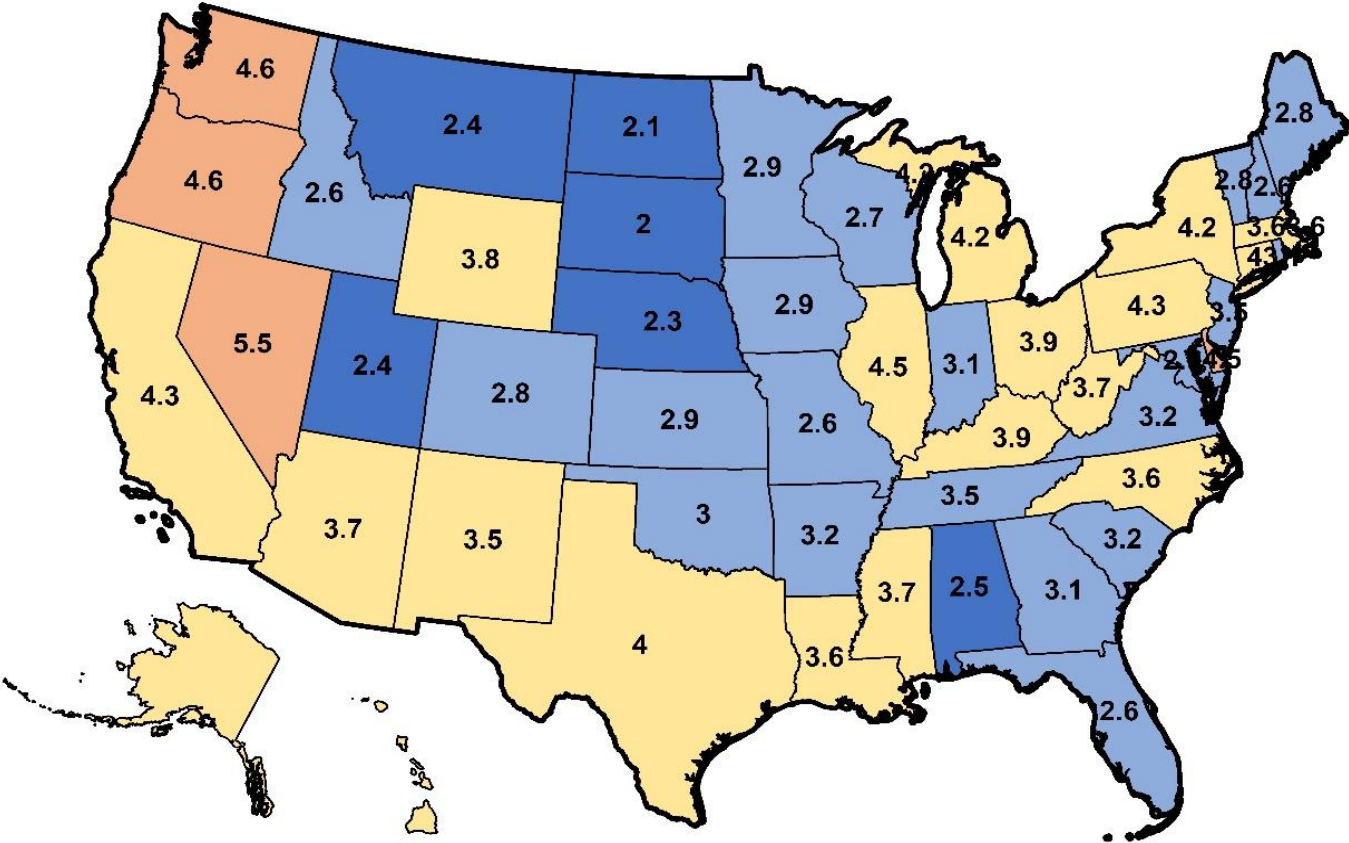
10-year and 3-month Treasury to estimate the probability of entering a recession in the next 12 months. Data are through March 2023.

Labor markets still remain relatively tight.



South Dakota had the lowest 1Q 2023 unemployment rate in the nation.

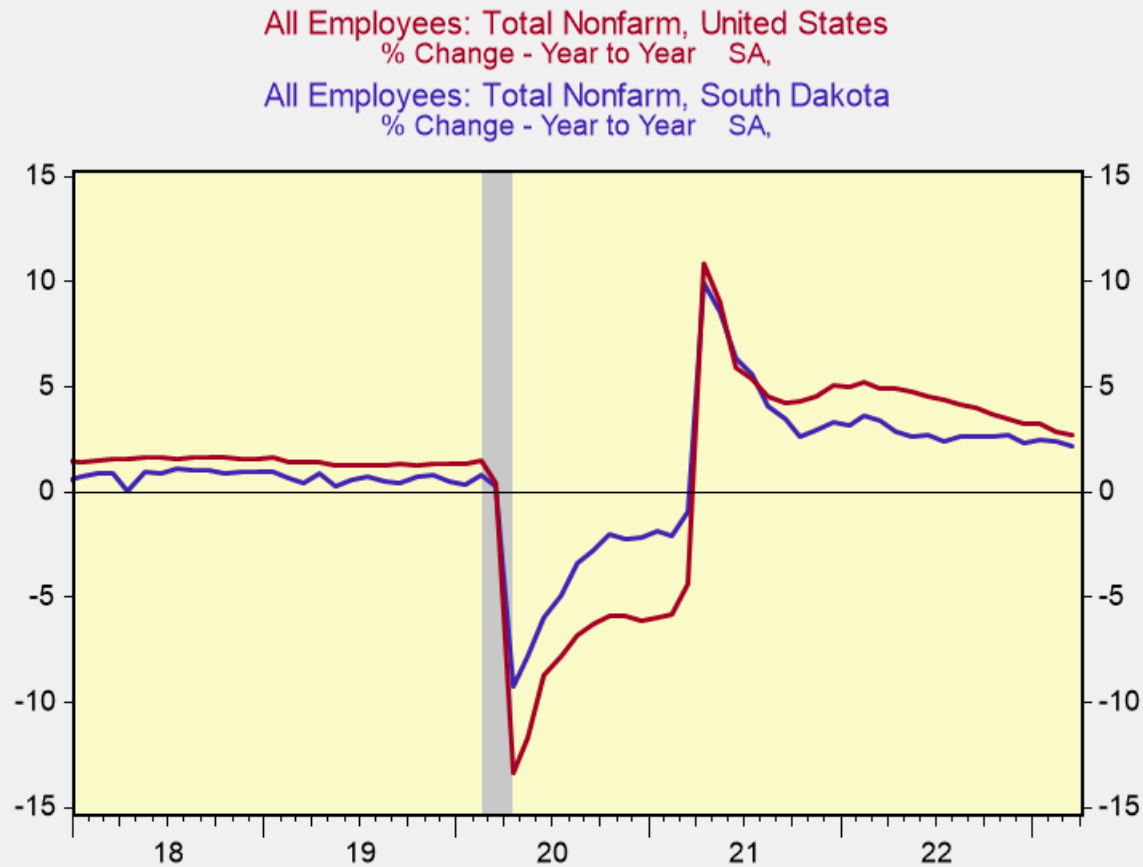
1Q 2023 Quarterly Unemployment Rate, SA



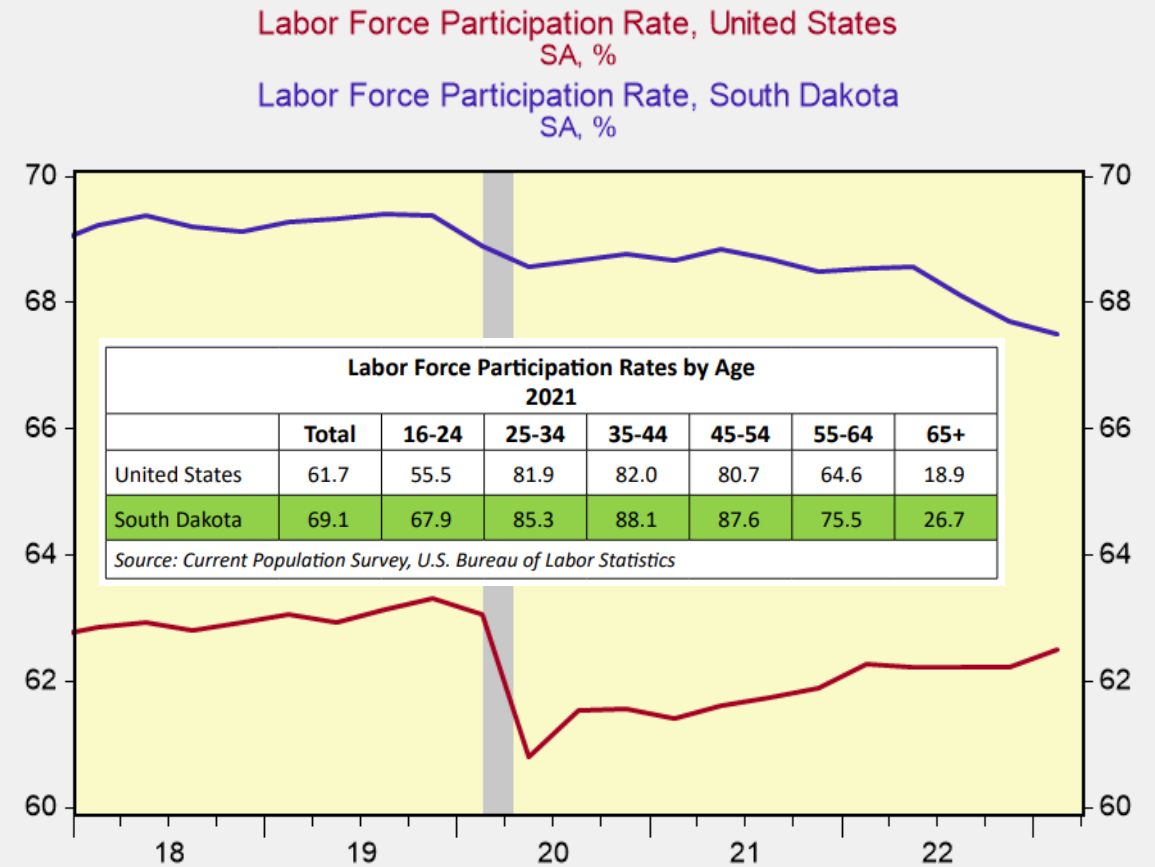
Source: Bureau of Labor Statistics/Haver Analytics.

South Dakota's labor participation rate has been declining.

Monthly YOY Percent Change in Employment, SA



Quarterly Labor Force Participation Rate, SA



Inset box source: 2021 South Dakota Workforce Report

Strong population inflows have benefited the South Dakota labor market.

Civilian Noninstitutional Population, South Dakota

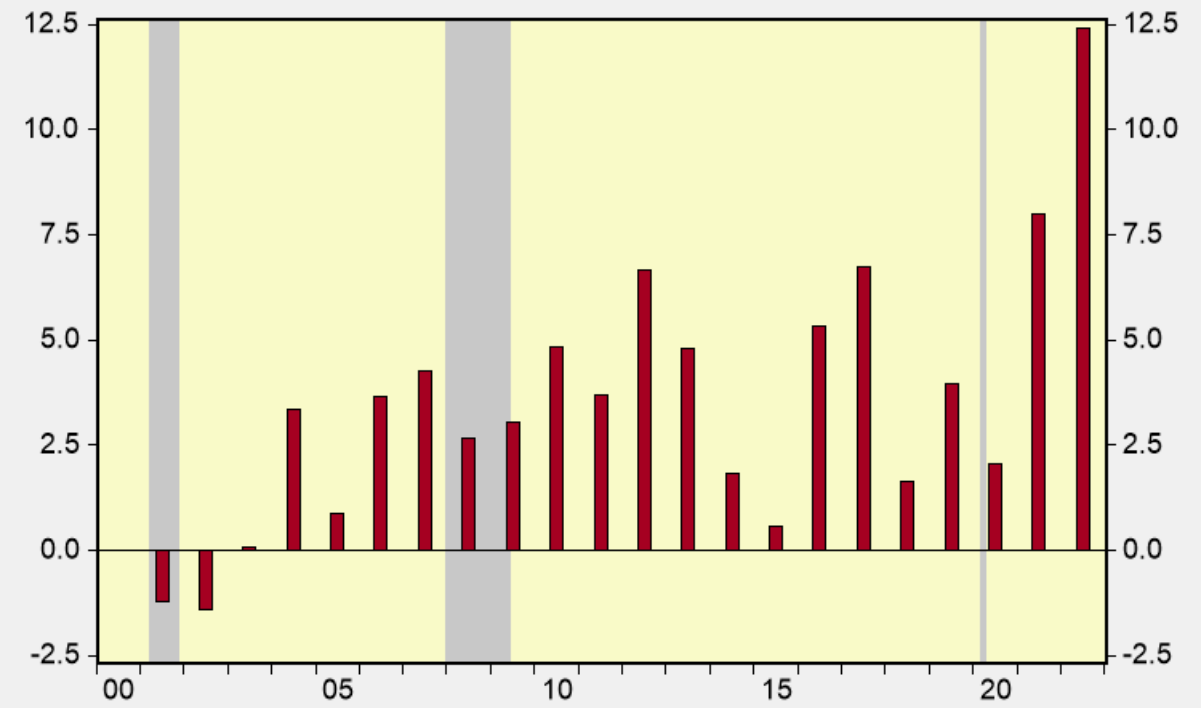
% Change - Year to Year SA,



Source: Bureau of Labor Statistics/Haver Analytics

Rate of Net Migration, South Dakota

per Thous of Persons



Source: Census Bureau/Haver Analytics

U.S. Commercial Real Estate Market Conditions



Office

- Demand is weak amid structural transformation
- Vacancy is at a 12-year high; sublet availability is very high in large markets
- Loan maturities, expiring leases, elevated vacancy, and higher interest rates create refinance risk and credit concerns in 2023-2024

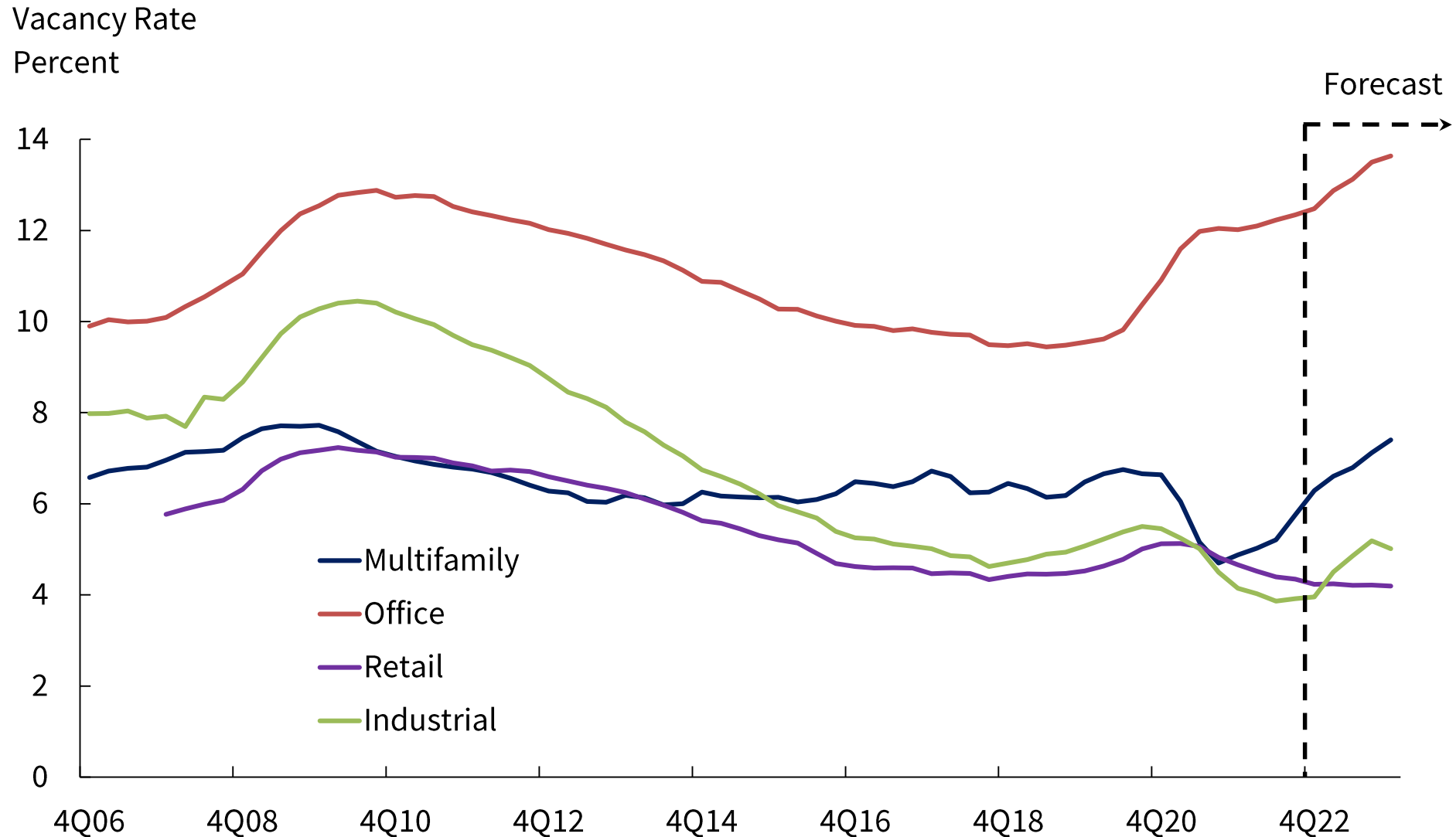
Multifamily | Retail | Hotel

- Multifamily vacancy is low but rising; construction is robust
- Retail is benefitting from minimal new supply, but Mall vacancy is elevated
- Hotels rebound amid strong leisure travel; corporate travel is slowly improving

Industrial

- Demand for warehouse space has been strong, pushing vacancy to 20-year low
- But current construction levels are high

CRE vacancy rates are rising, except in retail.



Source: CoStar.

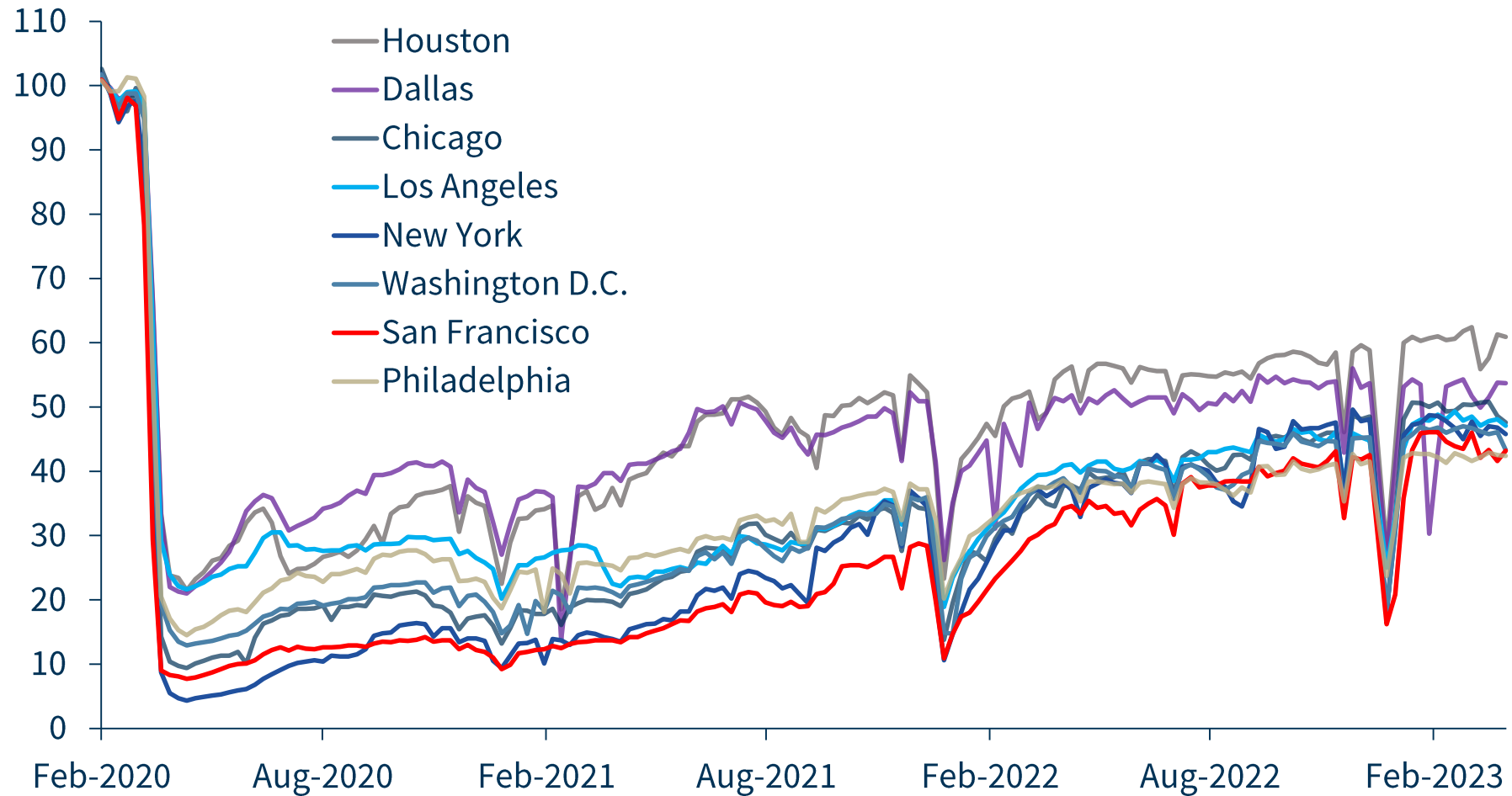
Note: Data as of fourth quarter 2022 with forecast through fourth quarter 2023.



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Office building attendance lags, which will weigh on demand for space.

Office Building Attendance
Percent



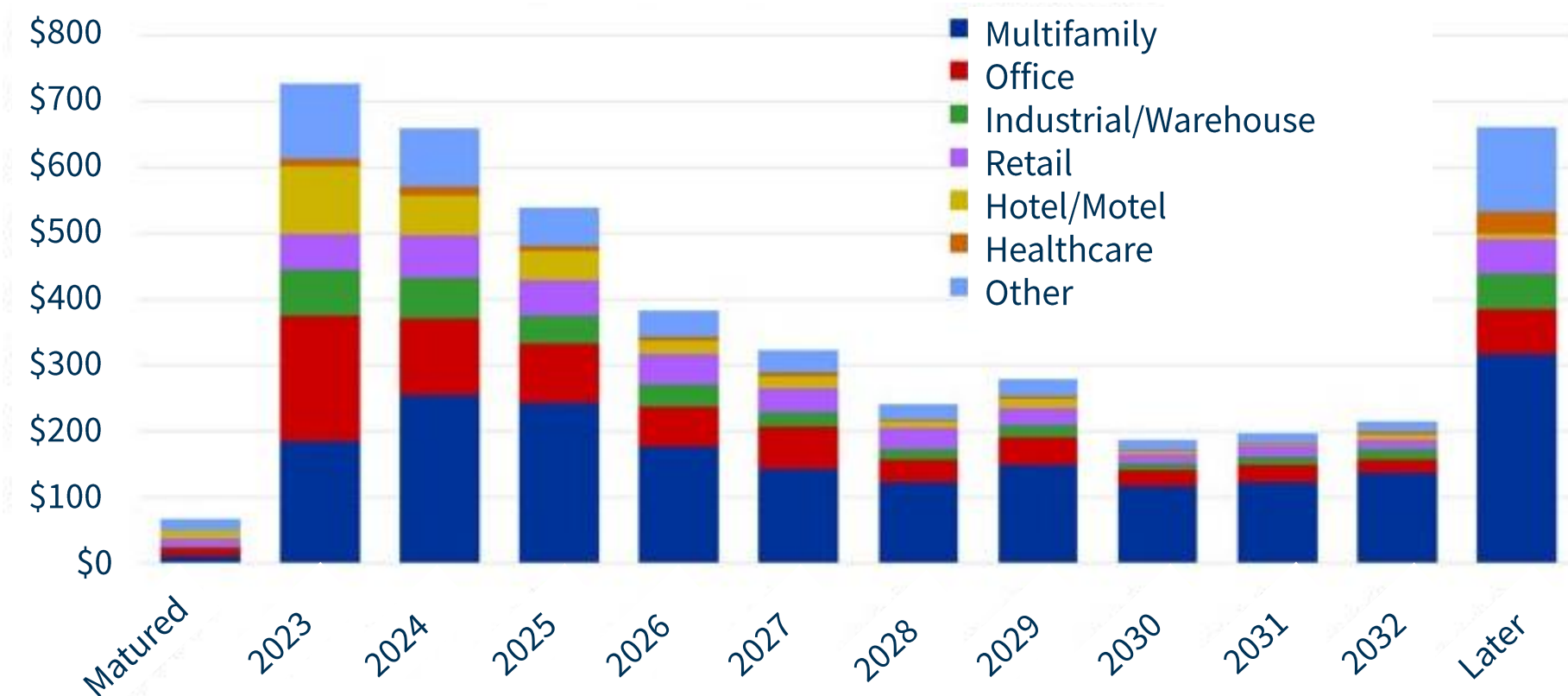
Source: Kastle Systems.

Note: Data through April 5, 2023. Office building attendance reflects card swipes, averaged weekly.

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The maturity wall is high through 2025, which poses refinance challenges amid rising rates and a slowing economy.

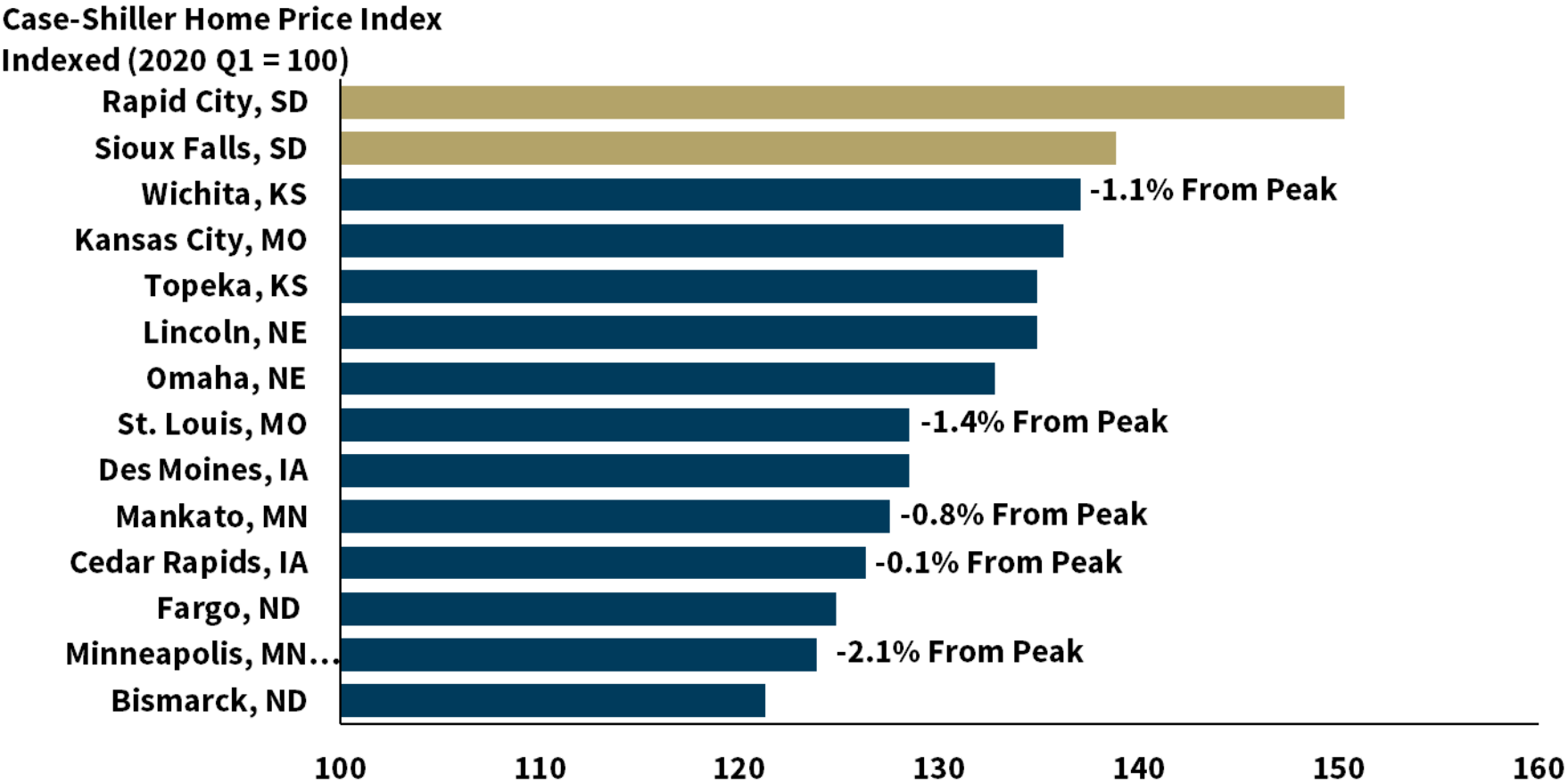
Total Commercial Mortgage Maturities
\$ Billions



Source: Mortgage Bankers Association (MBA).

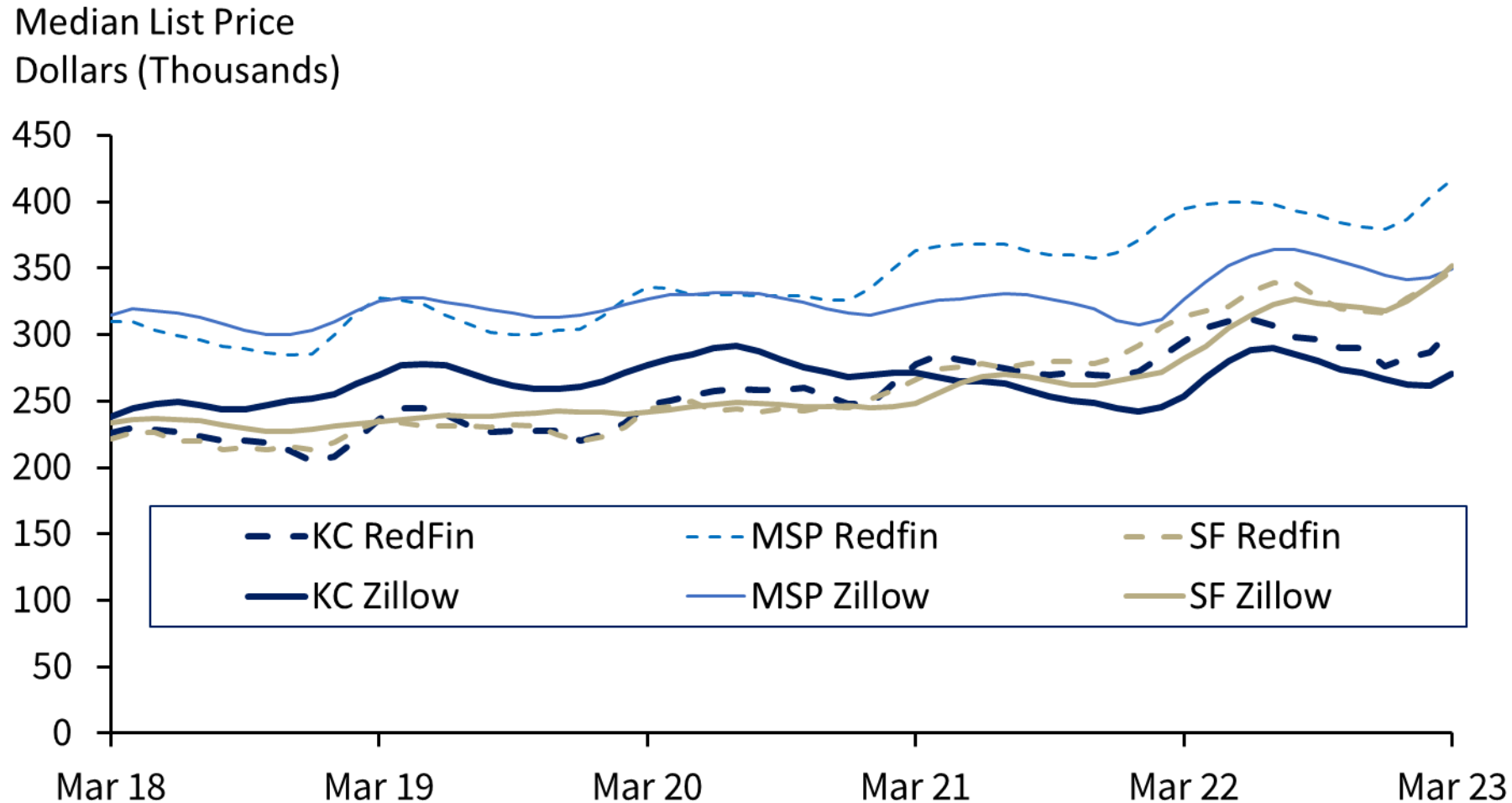
Note: Chart data as of March 10, 2023, as published in MBA's Chart of the Week.

South Dakota has seen strong home price appreciation.



Source: CoreLogic (Moody's).
Note: Data is fourth quarter 2022.

Home listing prices in Sioux Falls have outpaced the Kansas City market in recent months.

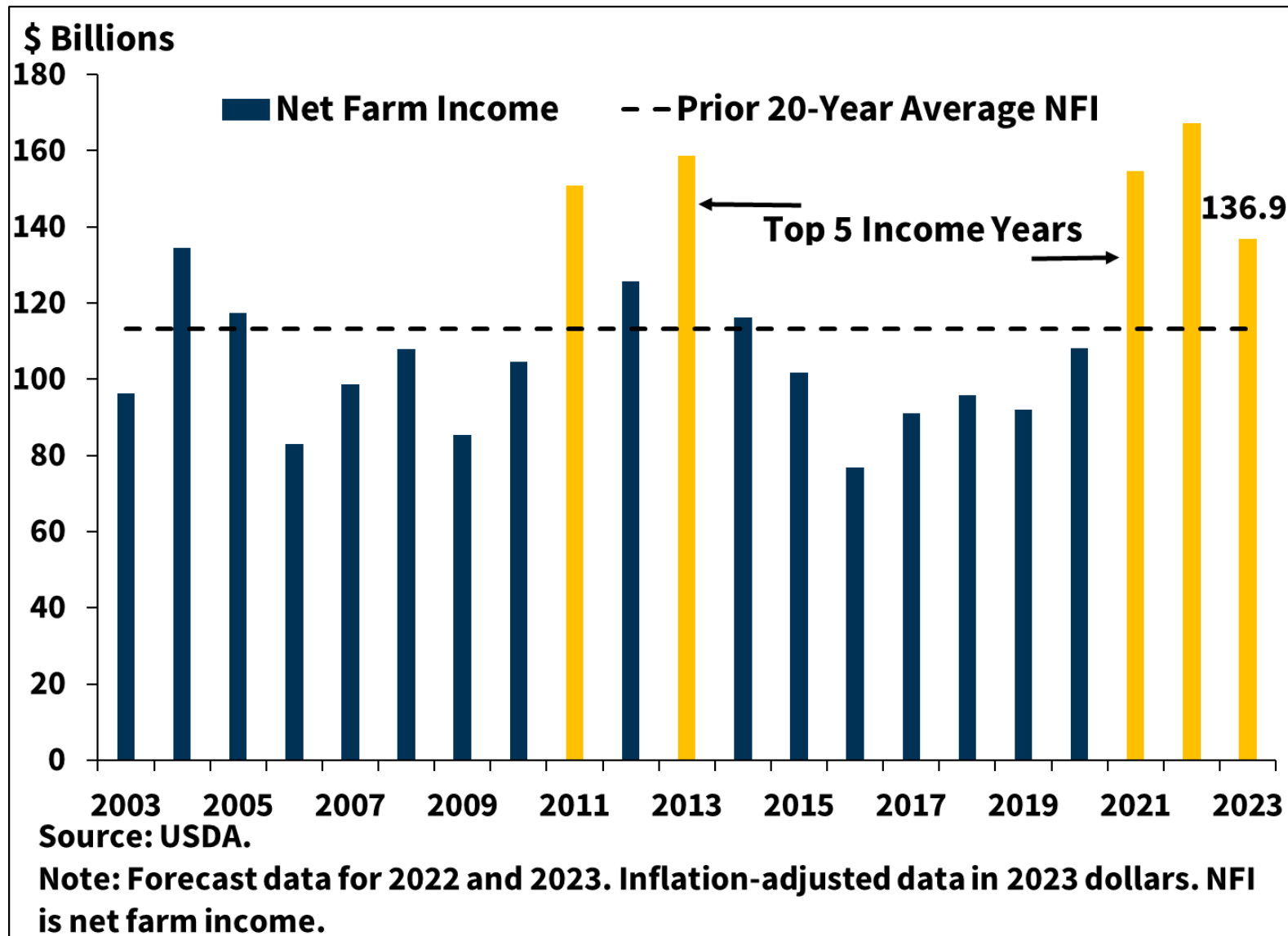


Sources: Redfin, Zillow (Haver Analytics).

Note: Data are 3-month moving averages from March 2018 through March 2023.

Agriculture

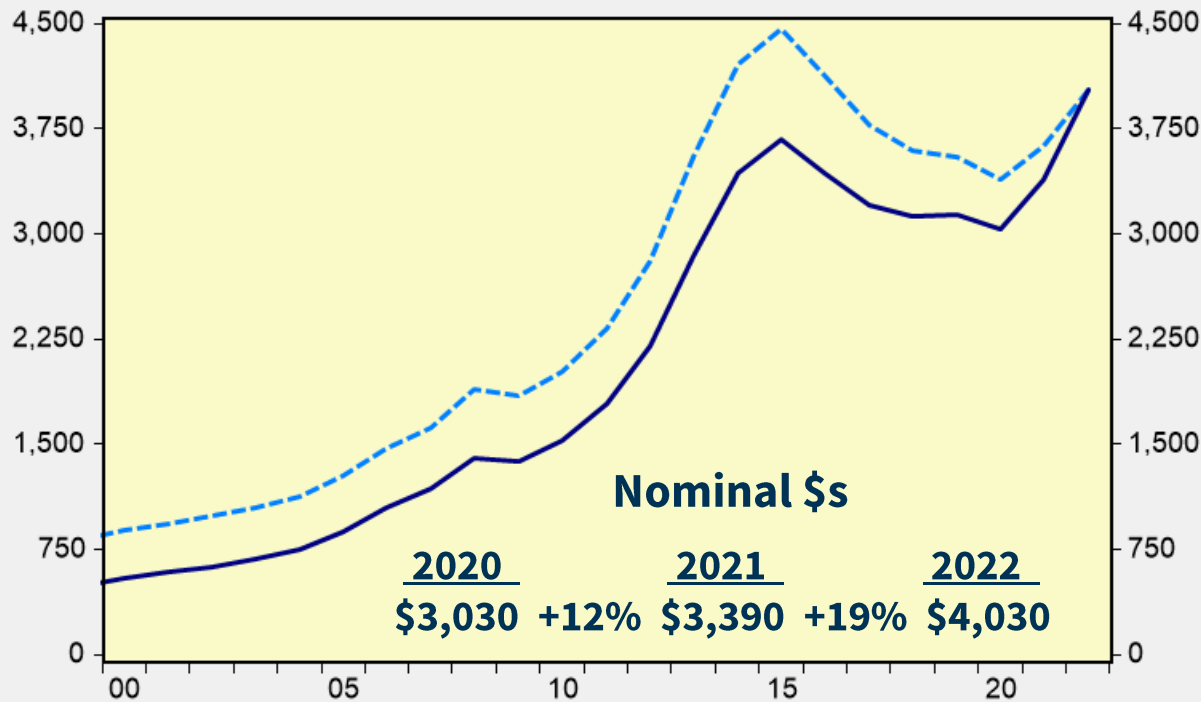
Net farm income is forecast to decline. Even so, 2023 would still be the fifth highest in the past twenty years.



South Dakota farmland values increased sharply in 2021 and 2022.

Nominal Average South Dakota Cropland Value
US\$/Acre

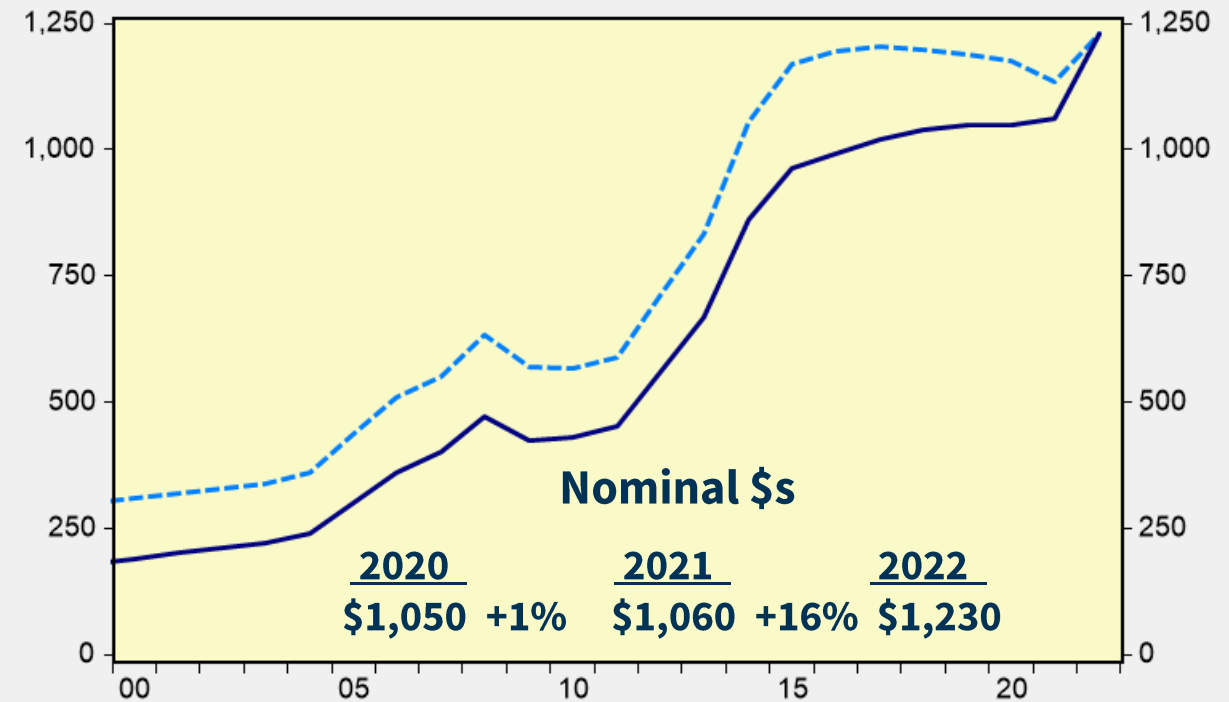
Inflation-Adjusted Average South Dakota Cropland Value
US\$/Acre



Source: United States Department of Agriculture/Haver Analytics

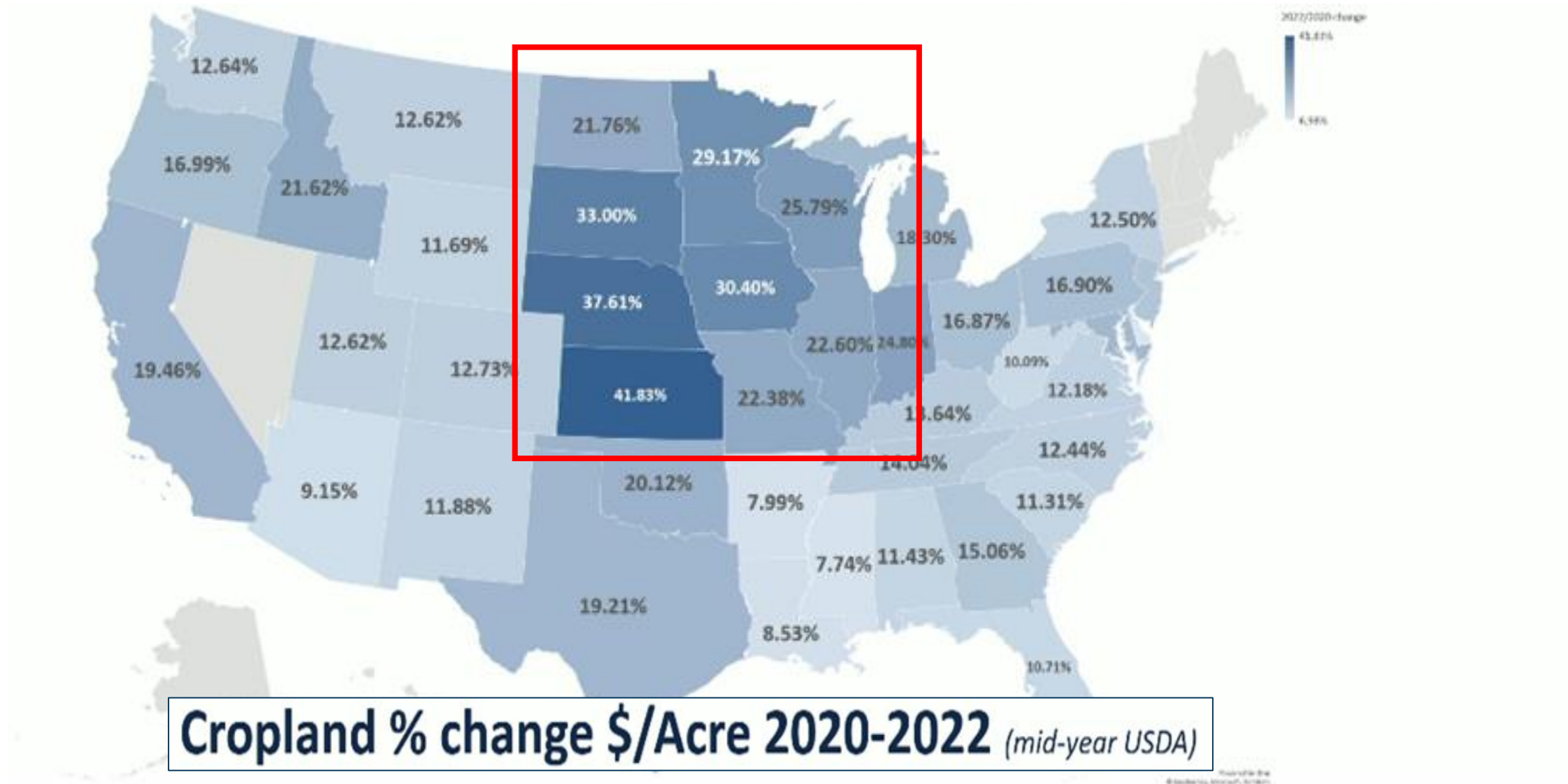
Nominal Average South Dakota Pasture Land Value
US\$/Acre

Inflation-Adjusted Average South Dakota Pasture Land Value
US\$/Acre



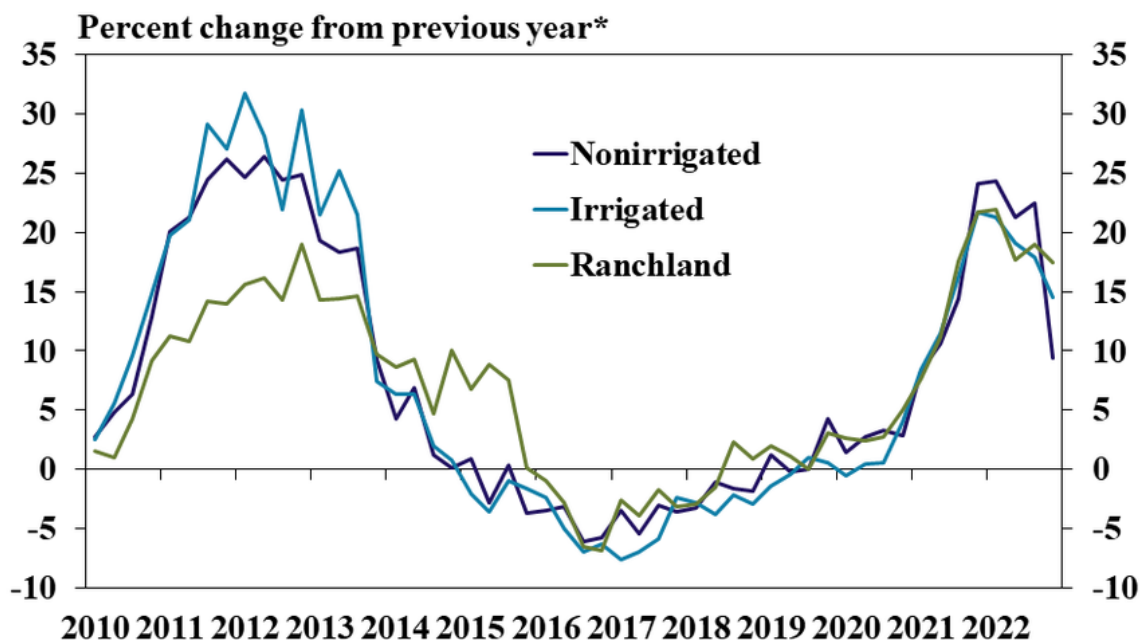
Source: United States Department of Agriculture/Haver Analytics

Farmland appreciation in South Dakota was among the strongest in the nation.



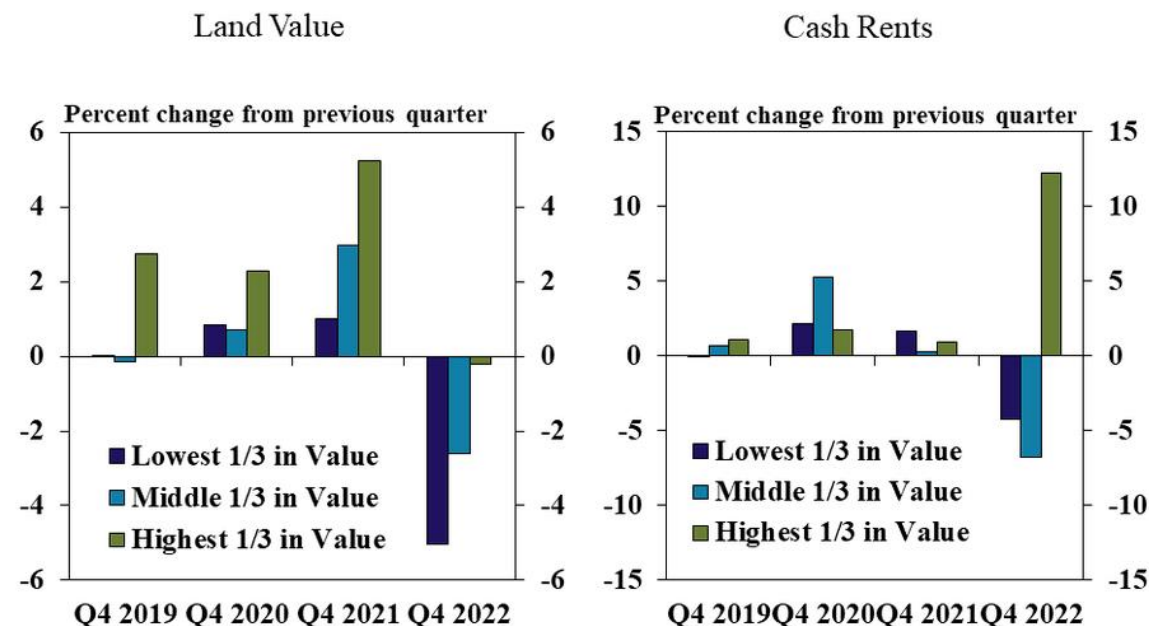
More recently, farmland values show signs of easing.

Chart 3: Tenth District Farmland Values



*Percent changes are calculated using responses only from those banks reporting in both the past and the current quarters.

Chart 5: Distributional Changes in Nonirrigated Farmland Values and Cash Rents

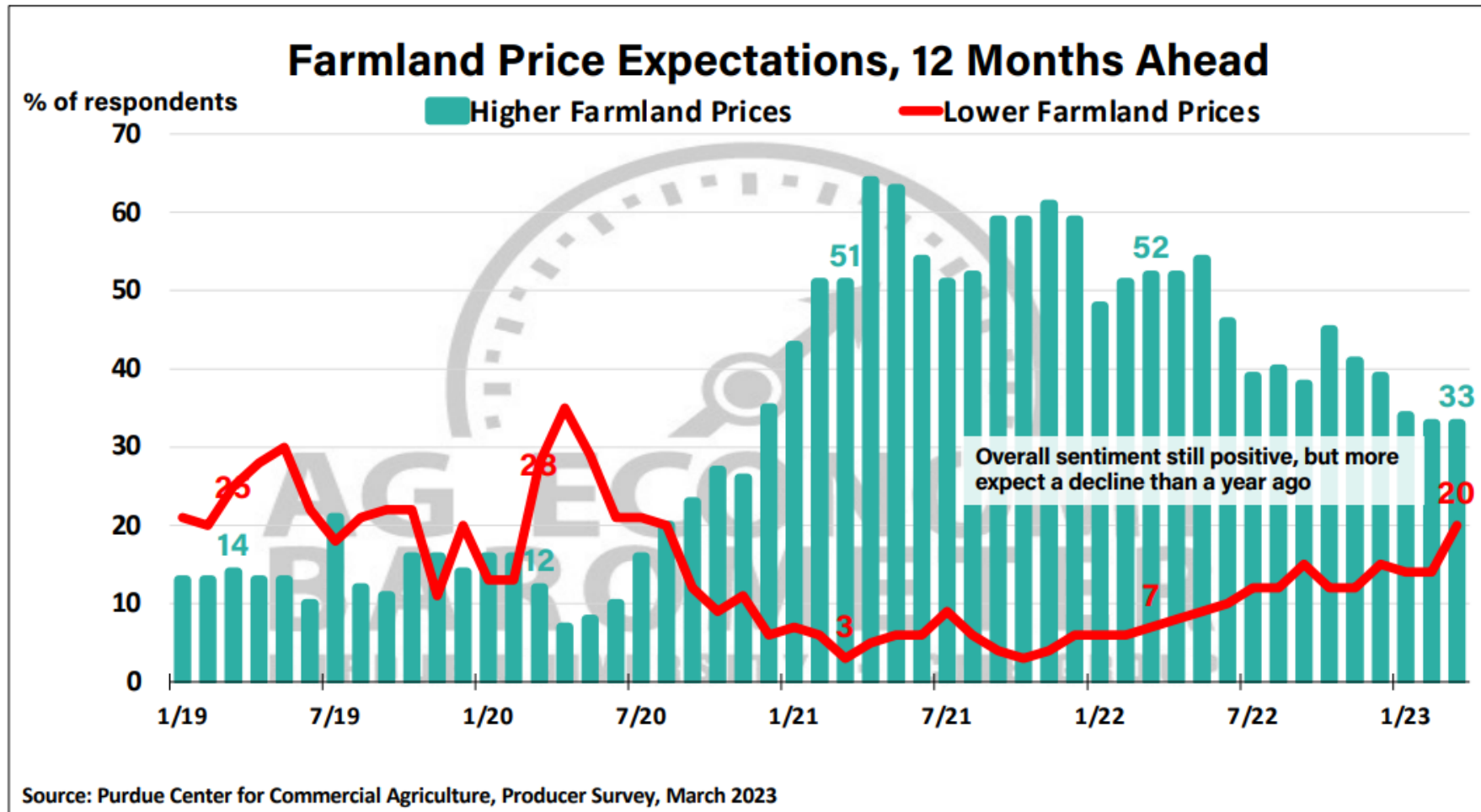


Note: Farmland values and cash rents smoothed with a 2-quarter moving average. Lowest represents the average of land values in the first tercile of the land value or cash rent distribution, Middle represents the average of the second tercile, and Highest represents the average of the third tercile of the distribution.

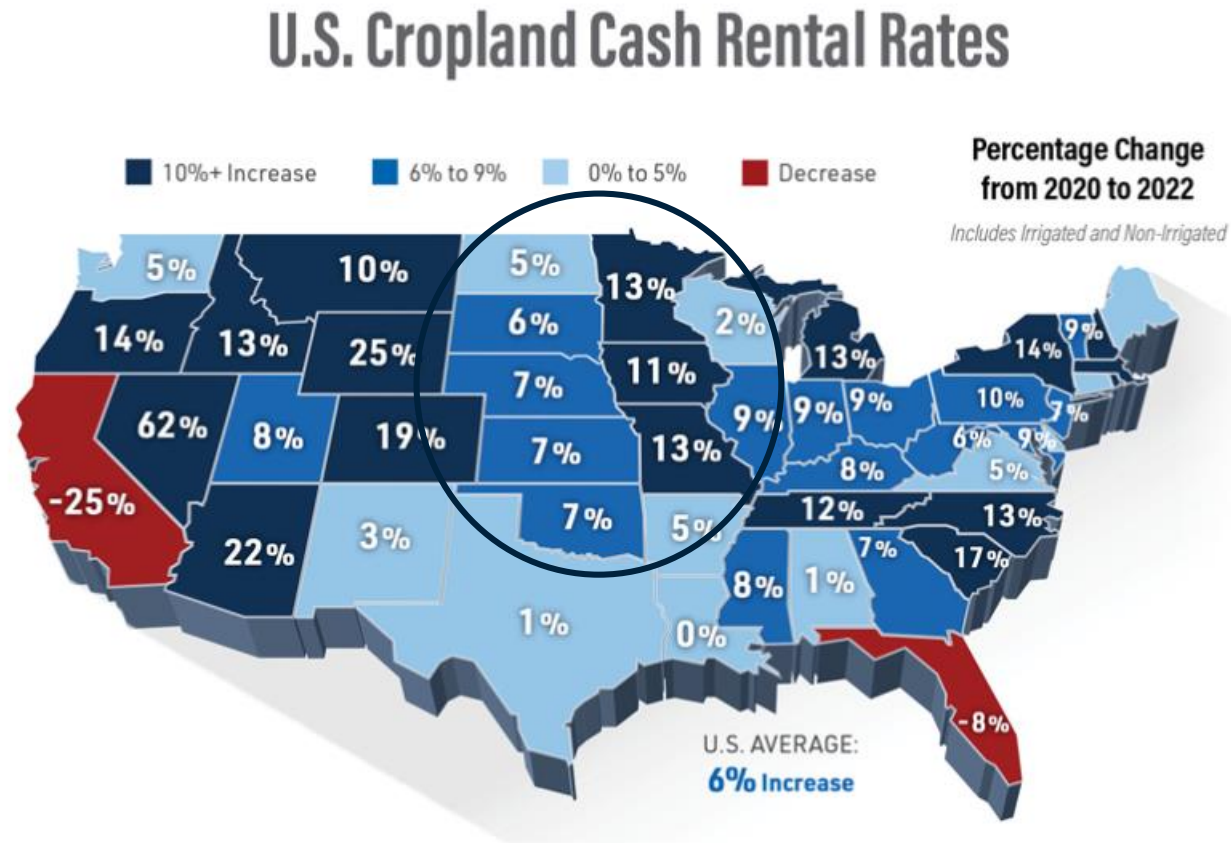
Source: February 2023 Ag Credit Survey, Federal Reserve Bank of Kansas City.

Note: Data are for farmland values in the 10th Federal Reserve District.

Farmland price expectations are cooling.

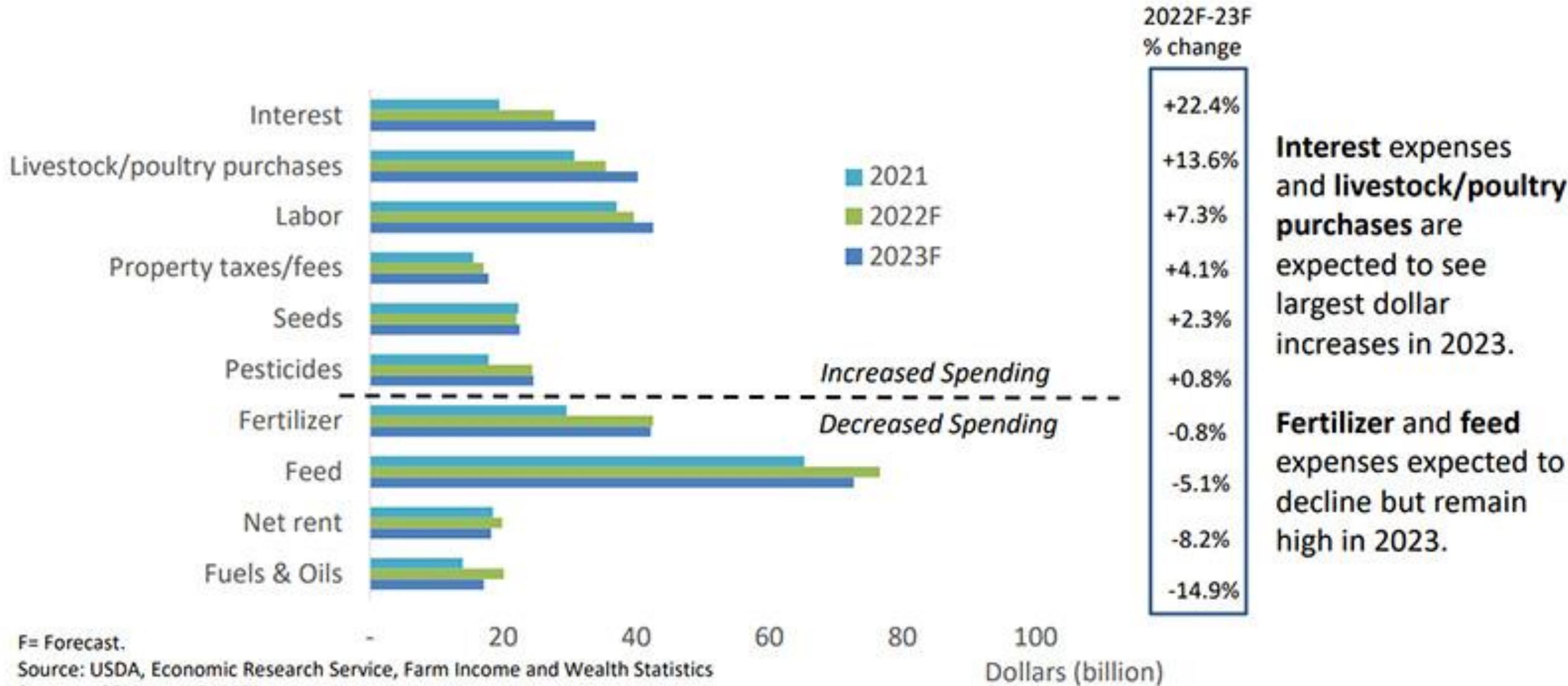


Cash rental rates are also up, but lag farmland valuation increases.

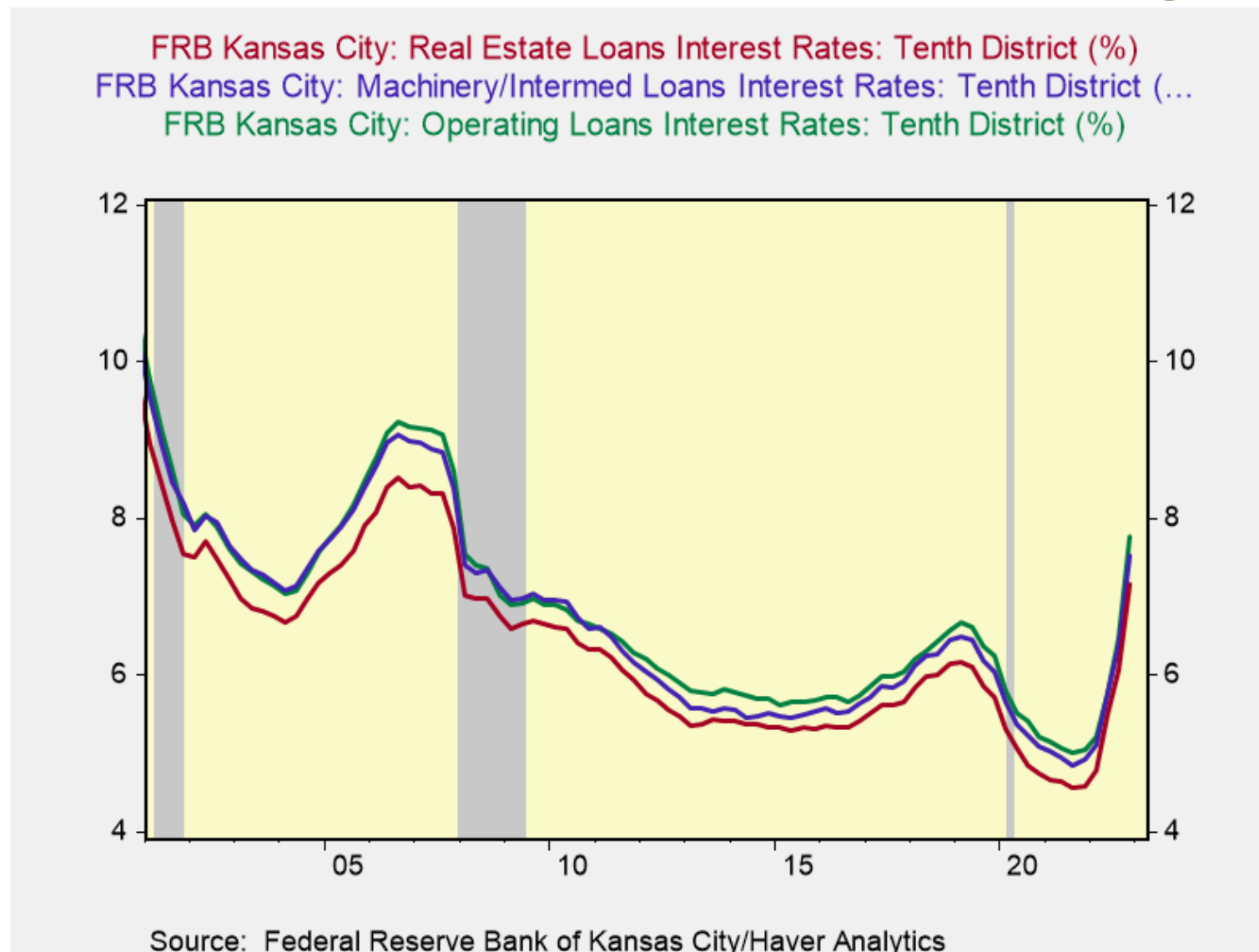


SOURCE: USDA, NASS

Outlook for individual expense items mixed in 2023

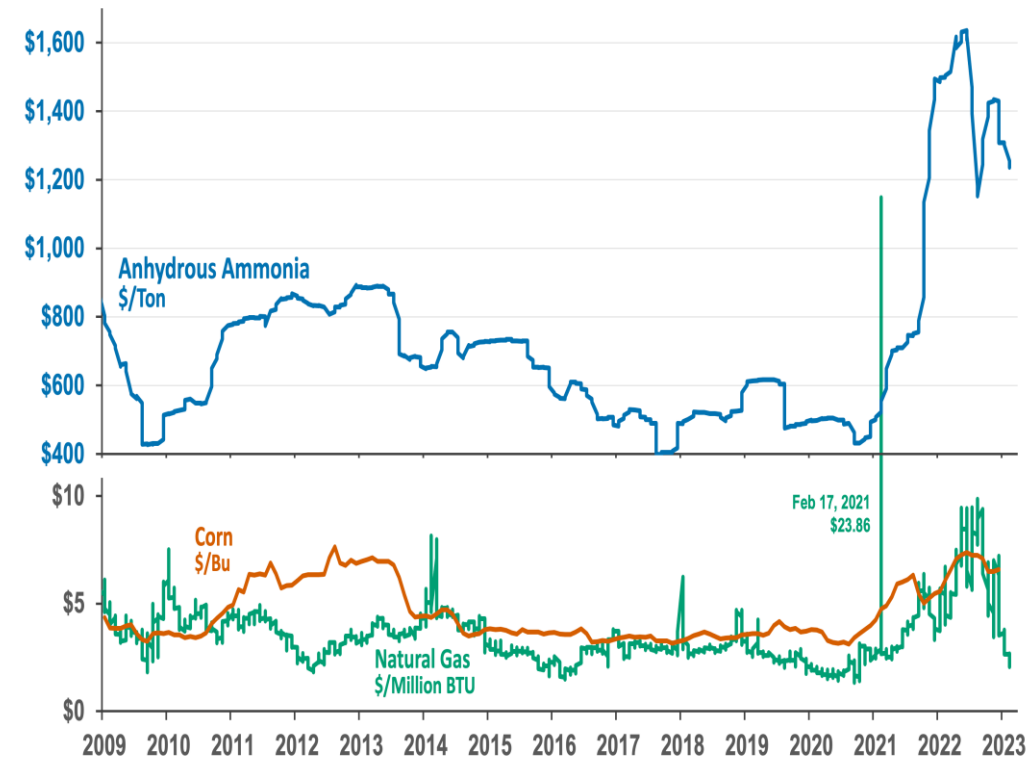


Agricultural interest rates are at 15-year highs.



Fertilizer prices have declined but remain high.

Figure 2: Anhydrous Ammonia, Corn, and Henry Hub Natural Gas Prices

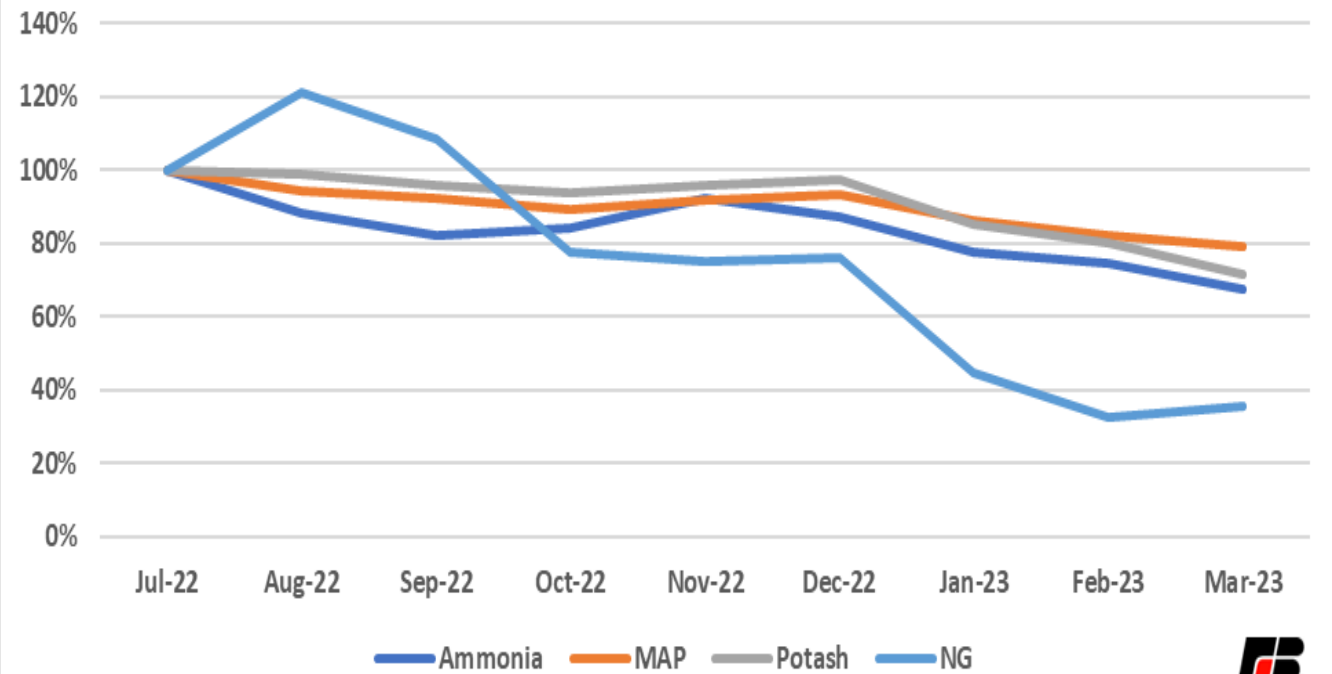


ILLINOIS

Source: US Department of Agriculture, Agricultural Marketing Service, NASS, and U.S. Energy Information Administration (EIA)

farmdocDAILY

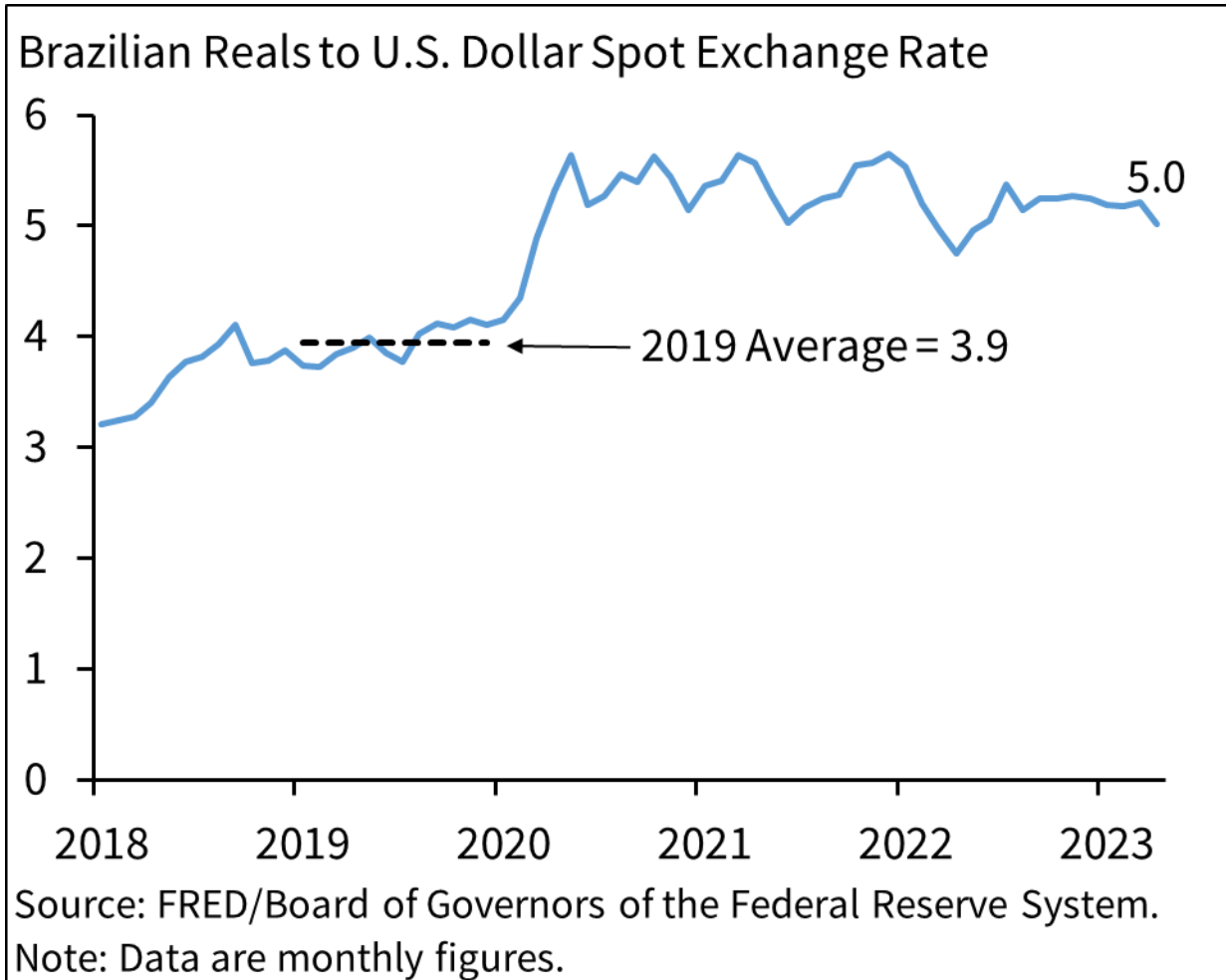
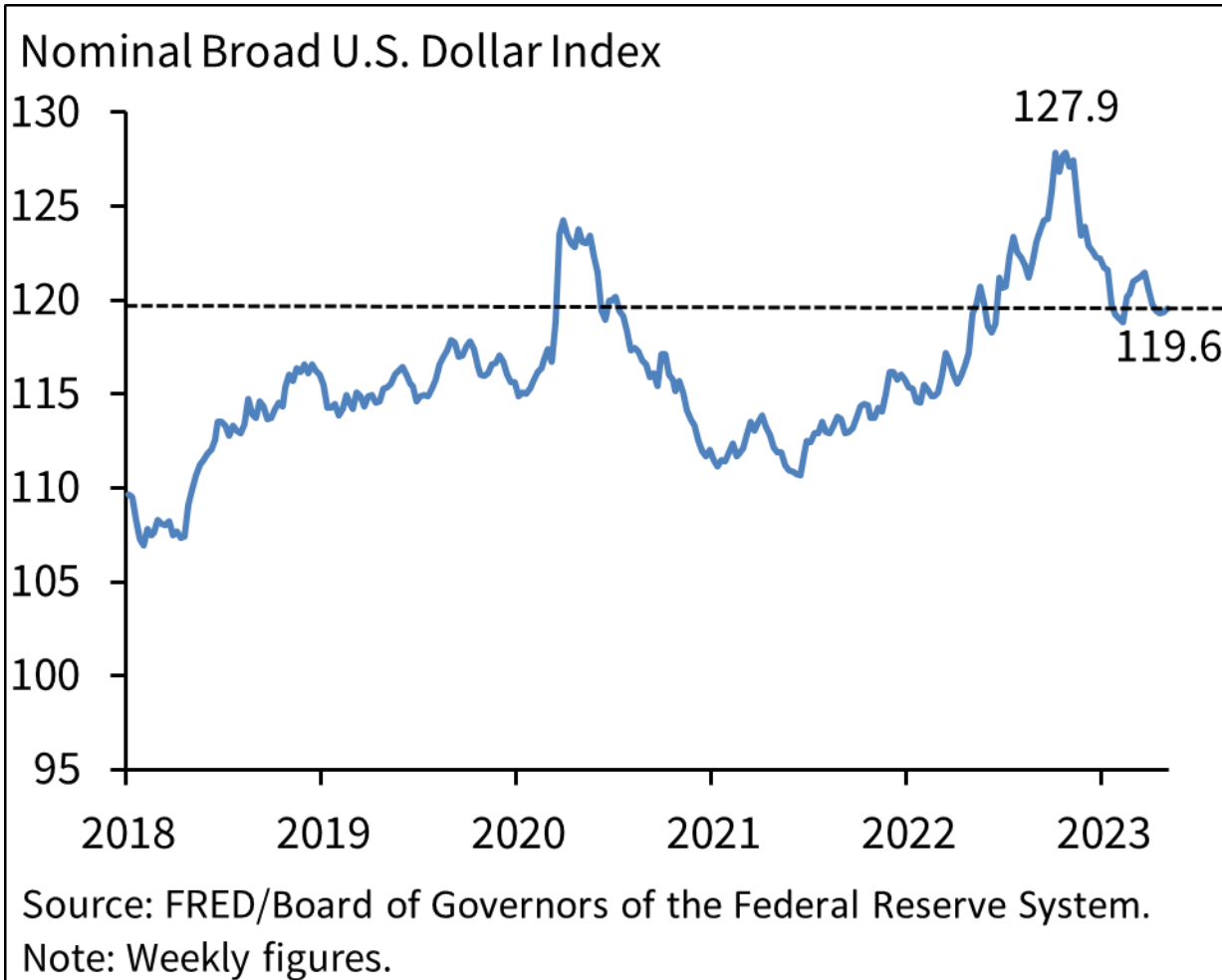
Natural Gas and Fertilizer Prices Indexed to July 2022



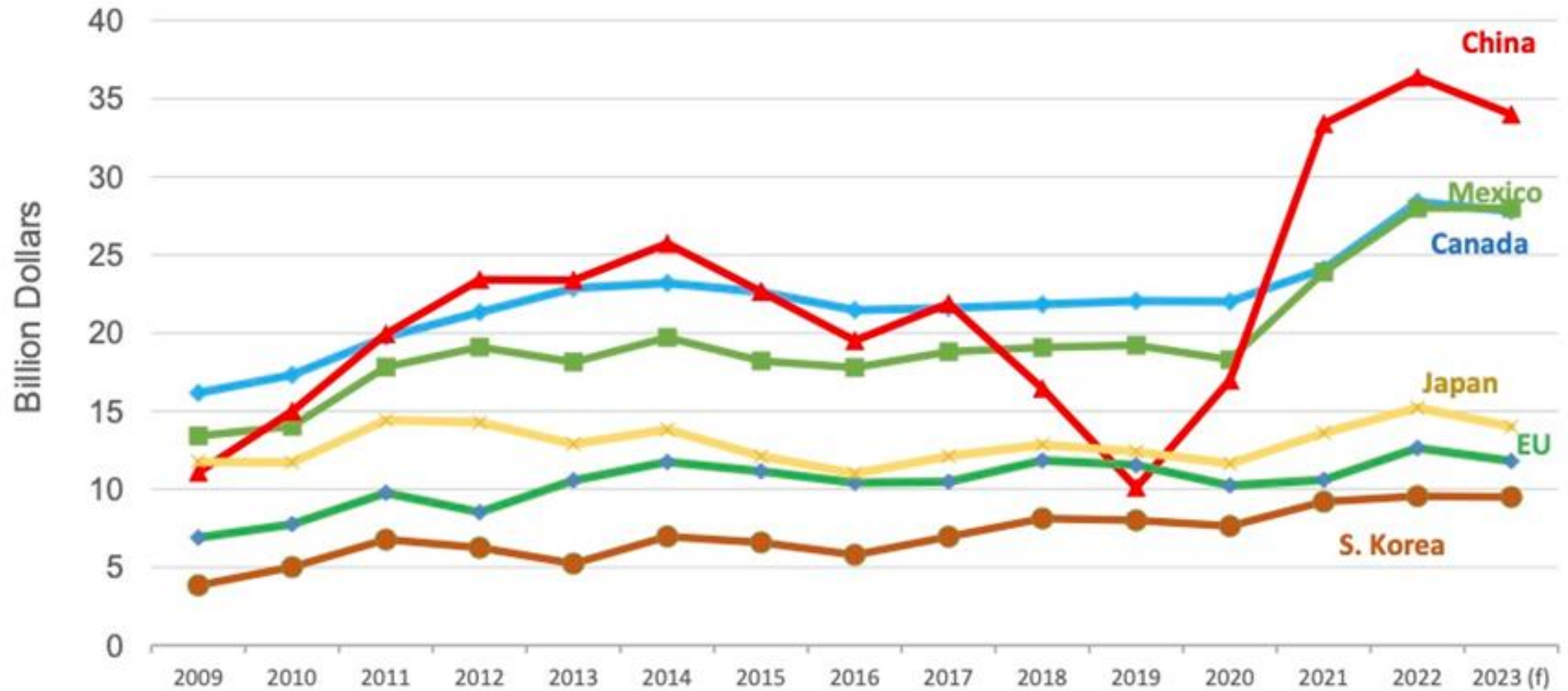
Source: USDA-AMS and EIA

IOWA FARM BUREAU
PEOPLE. PROGRESS. PRICE.

A strong U.S. dollar is a headwind to trade.



China Remains the Top U.S. Ag Export Market

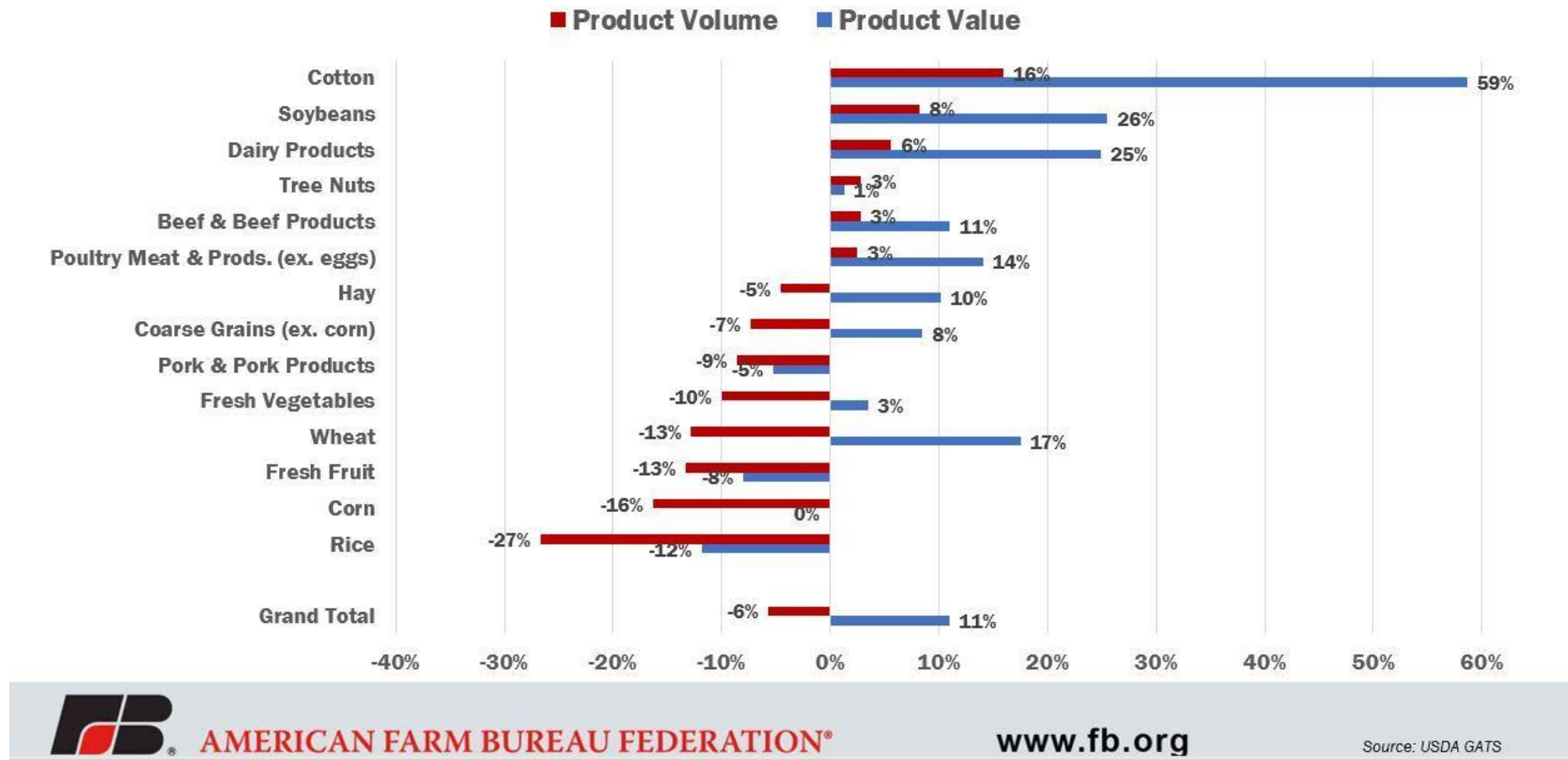


Source: USDA FAS/ERS February Quarterly Agricultural Export Forecast

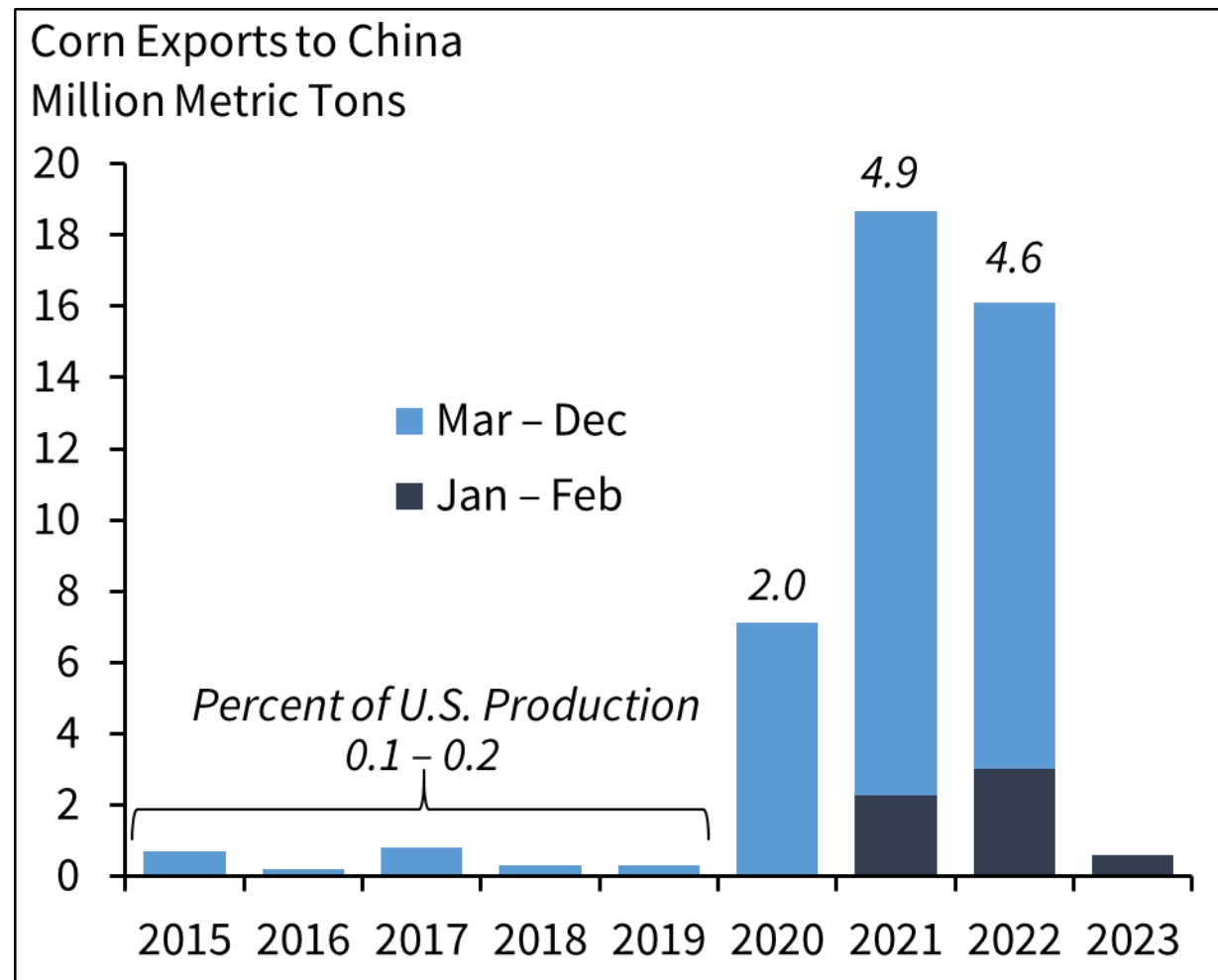
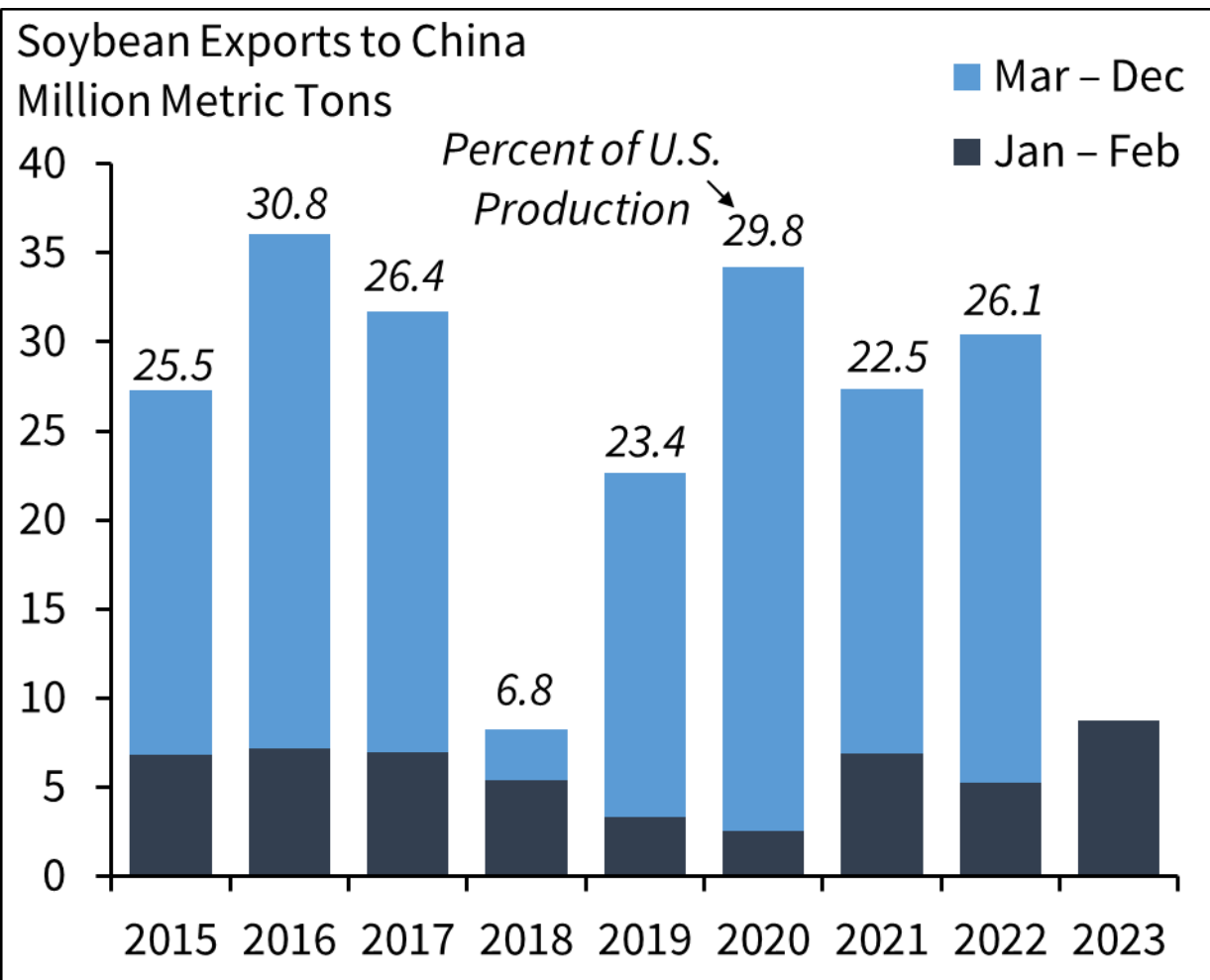
Fiscal Year

The increase in trade was primarily driven by increased prices, although some commodities did see volumes increase.

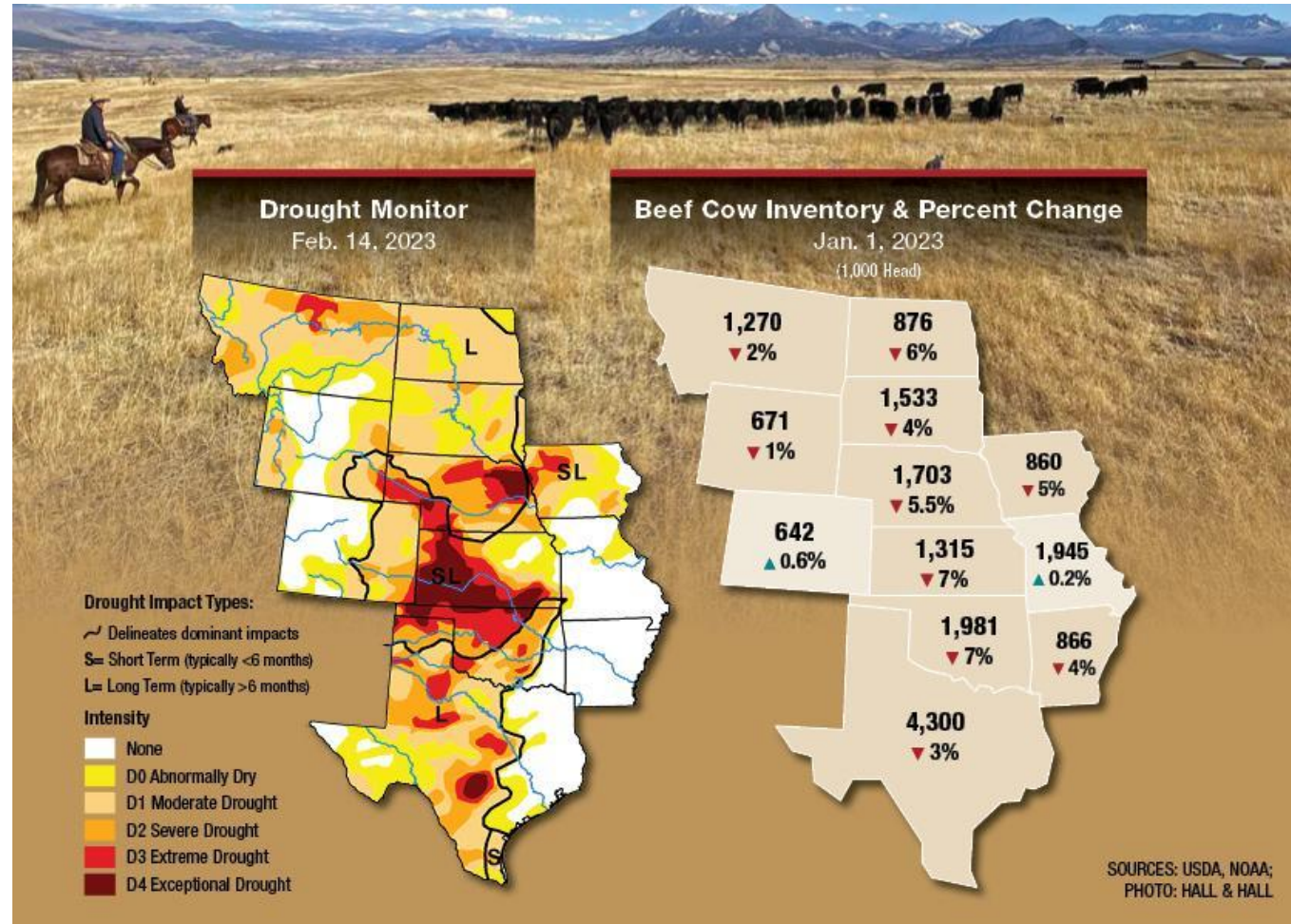
Figure 2. Percentage Change in Ag Exports Between 2021 and 2022



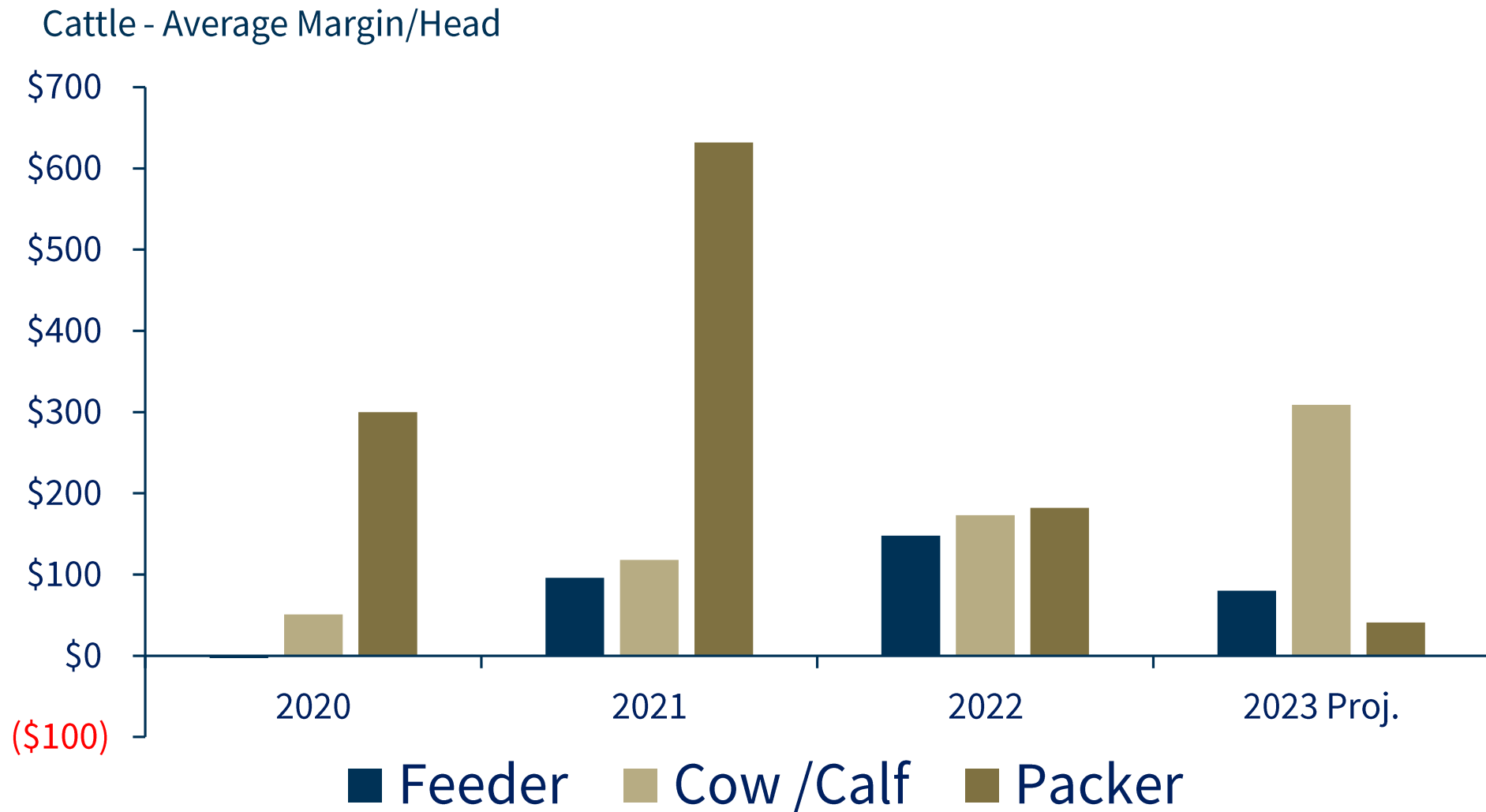
Will U.S. corn and soybean sales to China remain strong?



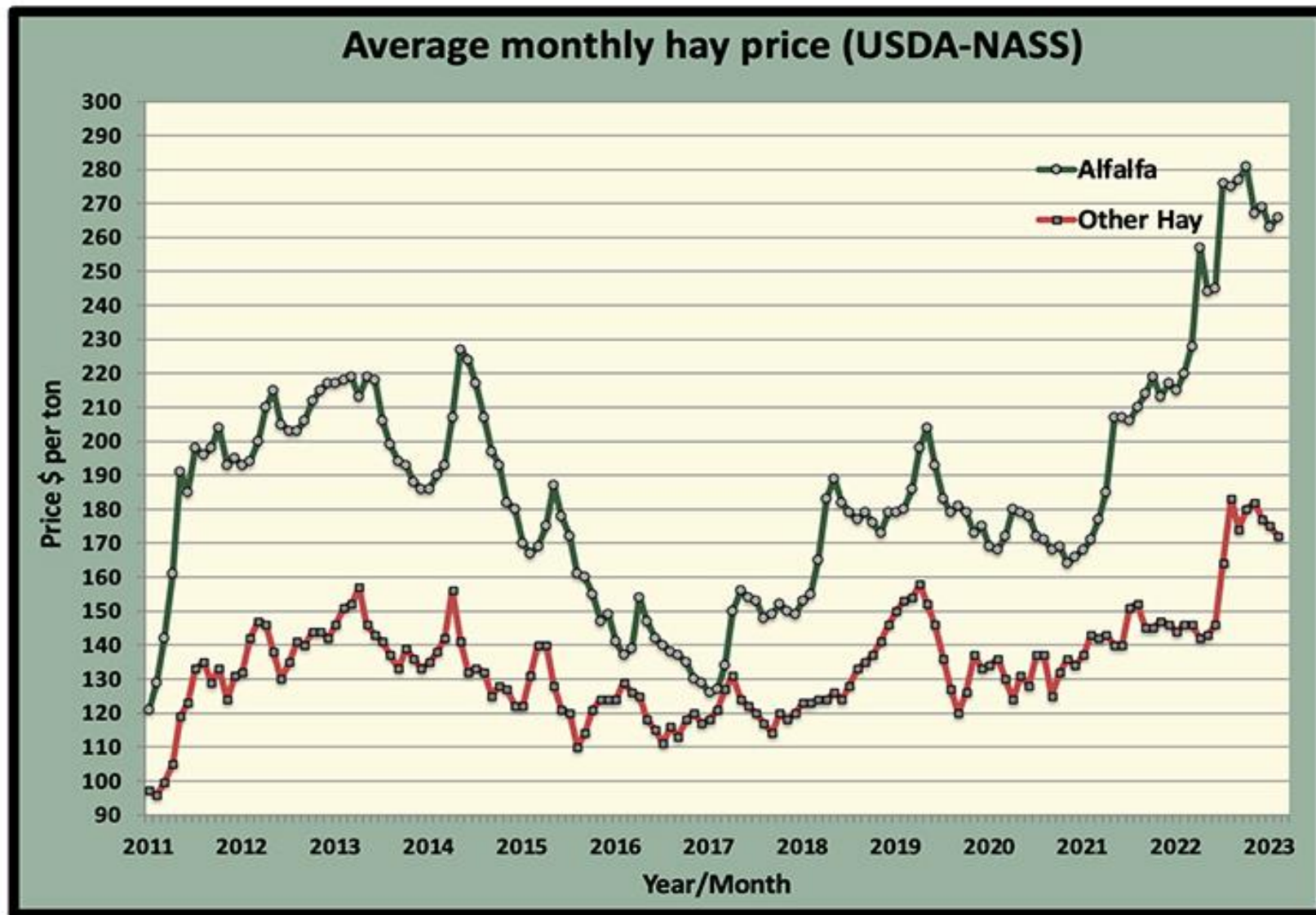
Cattle producers are facing ongoing drought.



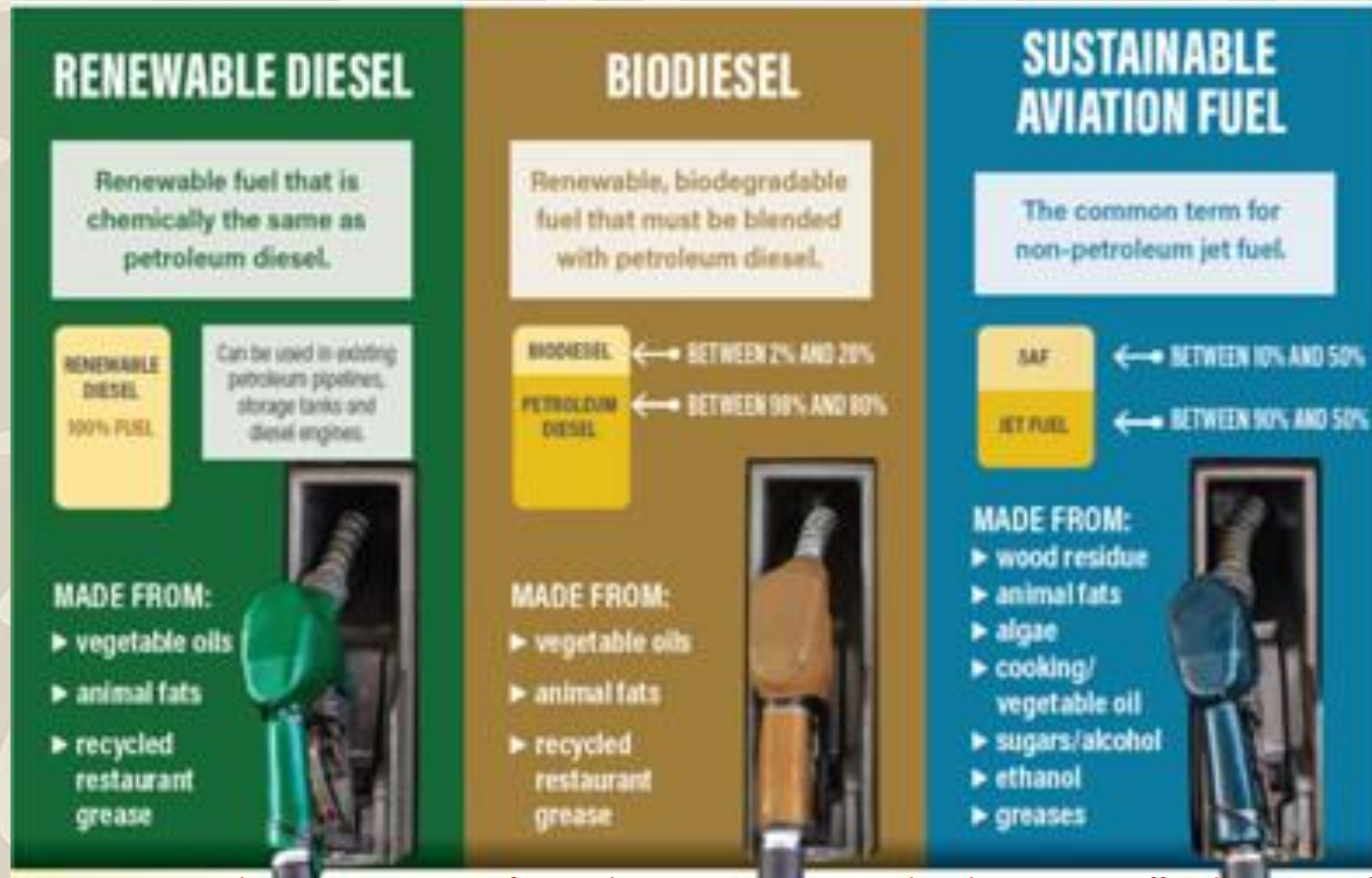
Cow-calf ranchers should see strong sale prices.



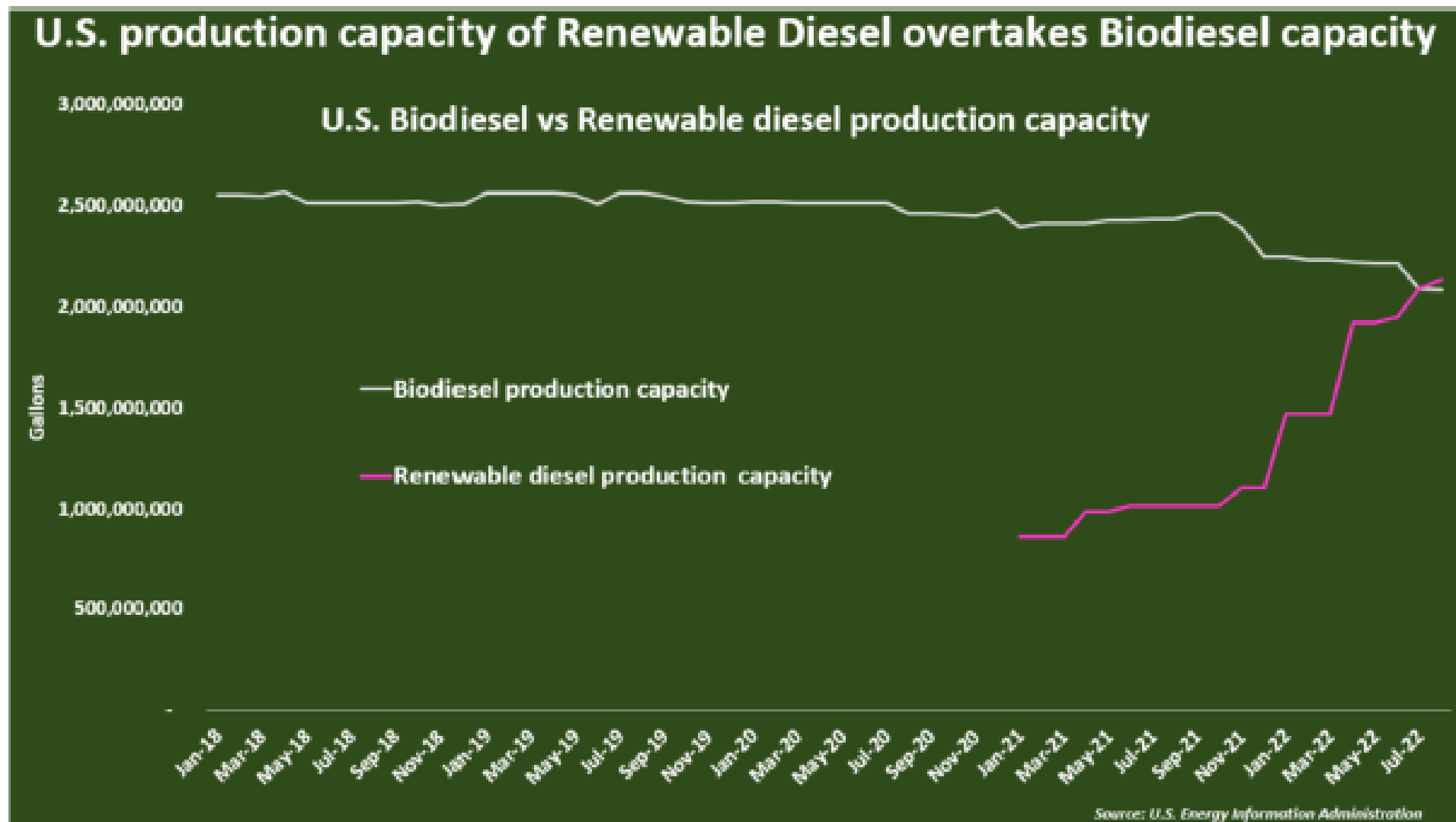
Feed costs remain high for livestock producers.



Renewable Diesel and Other BioFuels



Renewable diesel production overtakes biodiesel.



Renewable diesel could do for soybeans what ethanol did for corn.

Figure 2. Location of Renewable Diesel Production Plants in the U.S., Actual for 2022 and Projected for 2023 - 2025 and Later



Table 1. Projected Expansion of Renewable Diesel Nameplate Production Capacity in the U.S., 2023 and Later

Company	City	State	Annual Nameplate Capacity	
			(million gallons)	Year
Marathon	Martinez	CA	260	2023
REG	Geismar	LA	250	2023
Global Clean Energy	Bakersfield	CA	210	2023
Vertex Royal Dutch Shell	Mobile	AL	200	2023
PBF	Chalmette	LA	150	2023
Kern Energy	Bakersfield	CA	150	2023
Chevron	El Segundo	CA	122	2023
BP Cherry Point	Blaine	WA	55	2023
Camber Energy	Reno	NV	44	2023
P66	Rodeo	CA	680	2024
Marathon	Martinez	CA	480	2024
Grön Fuels LLC	Baton Rouge	LA	215	2024
Love's	Hastings	NE	80	2024

Any Final Thoughts or Questions?

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