

# FDIC State Profile

Fall 2004

## Minnesota

Minnesota posted substantial gains in the labor market for the second quarter 2004.

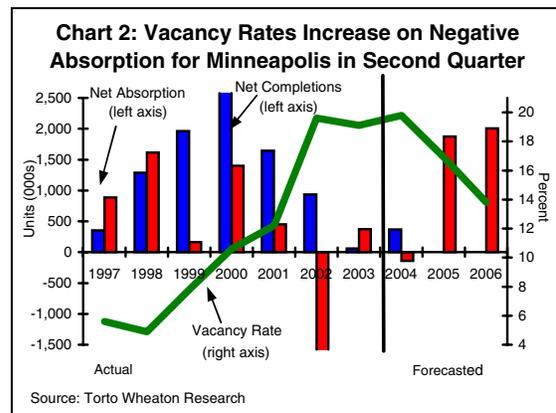
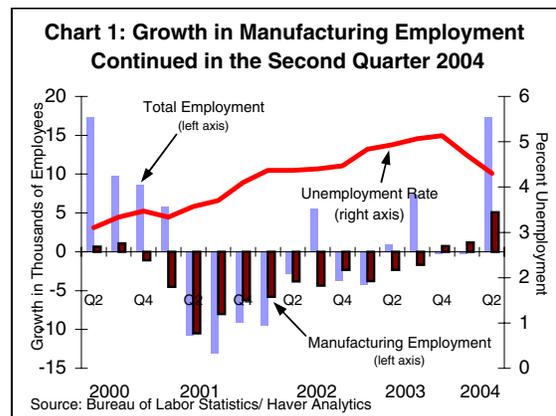
- The Minnesota labor market posted a gain of 17,300 jobs in the second quarter, the largest gains for the state since the second quarter of 2000 (See Chart 1).
- The manufacturing sector posted gains for the third consecutive quarter. The sector added 5,100 jobs for the quarter and 7,000 jobs over the past three quarters.
- The state's unemployment rate declined slightly to 4.3 percent in the second quarter of 2004, down significantly from the same time last year.

Office and Industrial real estate conditions in Minneapolis remain essentially unchanged in the second quarter of 2004.

- Office vacancy rates in the Minneapolis MSA increased slightly to 20.0 percent in second quarter 2004, up from 19.8 percent in the first quarter.
- However, positive absorption trends due to forecasted increased office employment, coupled with minimal new construction, are expected to allow vacancy rates to decline by year-end 2004 and substantially lower by year end 2006 (See Chart 2).
- Vacancy rates in the area's industrial real estate market increased in the second quarter of 2004 to 10.8 percent, because of new completions and lowered demand. However, the sector experienced a modest increase in net asking rents for the quarter.

Higher prices for Minnesota's major agricultural commodities point to improved farm income in 2004.

- Most commodity prices are projected to increase in 2004; in particular, soybean prices are forecasted to increase because of a 2003 crop that was smaller than expected and strong export demand (See Chart 3).
- Results for cattle and hogs improved moderately in the second quarter of 2004. Hog operations are forecasted to see prices remain at current high levels because of strong domestic and export demand.



**Chart 3: Commodity Prices Improved in 2003  
Outlook Strong for 2004**

	2001	2002	Est 2003	Proj 2004	Proportion of State's Ag Revenue
Corn	1.85	1.97	2.32	2.25	19%
Soybeans	4.54	4.25	5.53	5.90	19%
Wheat	2.62	2.78	3.56	3.30	4%
Cattle	72.71	67.50	84.69	86.00	12%
Hogs	45.81	34.92	39.45	49.50	15%
Milk	14.97	12.10	12.45	15.75	12%

Note: Grain prices are for marketing year of each crop.  
Crop quantities are per bushel; livestock and milk are per hundredweight  
Source: USDA/WASDE August 12, 2004

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- The dairy sector is currently enjoying substantially higher prices that are forecasted to continue through 2004.

### Minnesota's metropolitan institutions have increased their commercial real estate (CRE) exposure.

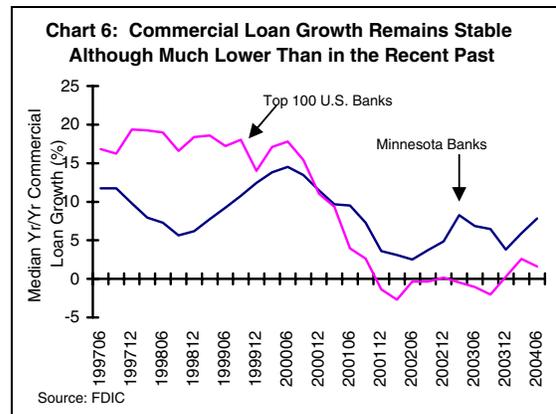
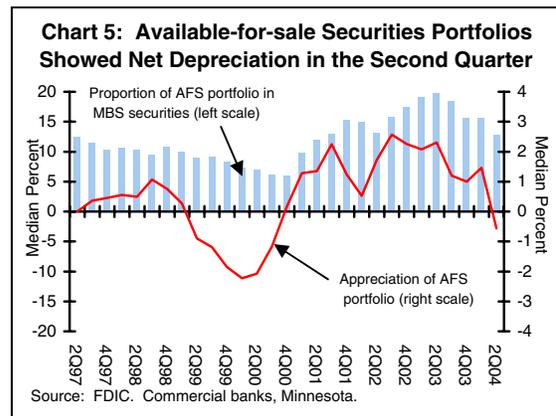
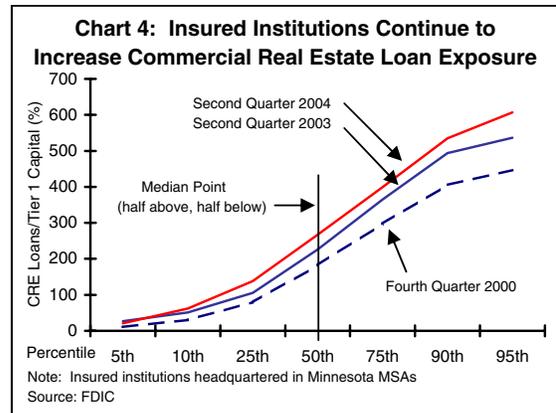
- Minnesota insured institutions again increased their exposure to CRE over the past year in Minneapolis-St. Paul and other metropolitan areas (See Chart 4).
- Most of the growth is in nonresidential, nonfarm properties including owner-occupied business properties and construction and development properties, the latter of which is a historically higher risk CRE segment.
- CRE delinquencies and net charge-offs remain low.

### Securities portfolios experienced net depreciation in the second quarter.

- Commercial bank available-for-sale securities (AFS) portfolios registered their first quarter of net depreciation in 15 quarters as the Federal Reserve began tightening monetary policy for the first time since June 2000 (See Chart 5). Current unrealized depreciation represents 0.69 percent of capital versus 4.03 percent in June 2000.
- The value of securities portfolios may be more volatile than recent history as commercial banks invested heavily in mortgage-backed securities (MBS) over the past few years. MBS typically carry greater market sensitivity than U.S. Treasury and agency securities.
- MBS have represented between 12.9 percent and 19.9 percent of AFS over the past two years, well above the 9.5 to 12.5 percent range in the 24 months immediately preceding second quarter 1999, the beginning of a six-quarter net depreciation period.

### Commercial banks continue to experience growth in business lending.

- Unlike the nation's largest institutions, Minnesota commercial banks continued to experience growth in their commercial lending portfolios over the past several years (See Chart 6).
- However, the growth rate has been much lower than that experienced a few years ago because of the downturn in the state's business sector, especially in manufacturing.
- As Minnesota's economy continues to improve, growth in commercial and industrial lending has upticked recently, similar to the trend in the nation's largest commercial banks.



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### Minnesota at a Glance

<b>General Information</b>	<b>Jun-04</b>	<b>Jun-03</b>	<b>Jun-02</b>	<b>Jun-01</b>	<b>Jun-00</b>
Institutions (#)	485	486	494	508	522
Total Assets (in thousands)	61,815,030	114,063,885	110,610,592	176,222,669	182,794,627
New Institutions (# < 3 years)	17	10	16	20	20
New Institutions (# < 9 years)	43	35	33	35	32
<b>Capital</b>	<b>Jun-04</b>	<b>Jun-03</b>	<b>Jun-02</b>	<b>Jun-01</b>	<b>Jun-00</b>
Tier 1 Leverage (median)	9.19	9.01	9.00	8.88	8.91
<b>Asset Quality</b>	<b>Jun-04</b>	<b>Jun-03</b>	<b>Jun-02</b>	<b>Jun-01</b>	<b>Jun-00</b>
Past-Due and Nonaccrual (median %)	1.65%	2.05%	1.91%	2.10%	1.57%
Past-Due and Nonaccrual >= 5%	42	59	63	57	37
ALLL/Total Loans (median %)	1.27%	1.28%	1.26%	1.23%	1.27%
ALLL/Noncurrent Loans (median multiple)	1.83	1.62	1.78	1.58	2.19
Net Loan Losses/Loans (aggregate)	0.11%	0.14%	0.30%	1.09%	0.53%
<b>Earnings</b>	<b>Jun-04</b>	<b>Jun-03</b>	<b>Jun-02</b>	<b>Jun-01</b>	<b>Jun-00</b>
Unprofitable Institutions (#)	26	18	24	27	23
Percent Unprofitable	5.36%	3.70%	4.86%	5.31%	4.41%
Return on Assets (median %)	1.35	1.30	1.24	1.15	1.22
25th Percentile	0.85	0.85	0.84	0.76	0.85
Net Interest Margin (median %)	4.32%	4.30%	4.48%	4.38%	4.53%
Yield on Earning Assets (median)	5.82%	6.23%	6.99%	8.33%	8.35%
Cost of Funding Earning Assets (median)	1.47%	1.89%	2.55%	3.98%	3.80%
Provisions to Avg. Assets (median)	0.10%	0.12%	0.12%	0.11%	0.09%
Noninterest Income to Avg. Assets (median)	0.61%	0.65%	0.60%	0.63%	0.62%
Overhead to Avg. Assets (median)	2.95%	2.97%	2.96%	2.98%	2.93%
<b>Liquidity/Sensitivity</b>	<b>Jun-04</b>	<b>Jun-03</b>	<b>Jun-02</b>	<b>Jun-01</b>	<b>Jun-00</b>
Loans to Deposits (median %)	82.29%	79.07%	80.46%	79.96%	79.76%
Loans to Assets (median %)	68.19%	67.08%	67.18%	68.32%	67.30%
Brokered Deposits (# of Institutions)	156	133	132	136	137
Bro. Deps./Assets (median for above inst.)	3.73%	3.12%	2.77%	2.65%	3.86%
Noncore Funding to Assets (median)	14.46%	12.68%	13.02%	12.90%	13.18%
Core Funding to Assets (median)	73.96%	75.67%	75.06%	75.54%	75.53%
<b>Bank Class</b>	<b>Jun-04</b>	<b>Jun-03</b>	<b>Jun-02</b>	<b>Jun-01</b>	<b>Jun-00</b>
State Nonmember	320	319	323	332	337
National	116	118	123	125	135
State Member	27	27	26	28	28
S&L	10	10	10	10	10
Savings Bank	12	12	12	13	12
Stock and Mutual SB	0	0	0	0	0
<b>MSA Distribution</b>	<b># of Inst.</b>	<b>Assets</b>	<b>% Inst.</b>	<b>% Assets</b>	
No MSA	306	23,306,201	63.09%	37.70%	
Minneapolis-St Paul MN-WI	120	32,056,724	24.74%	51.86%	
St Cloud MN	22	2,693,467	4.54%	4.36%	
Duluth-Superior MN-WI	16	1,184,056	3.30%	1.92%	
Rochester MN	6	1,178,677	1.24%	1.91%	
Grand Forks ND-MN	6	374,811	1.24%	0.61%	
La Crosse WI-MN	5	232,852	1.03%	0.38%	
Fargo-Moorhead ND-MN	4	788,242	0.82%	1.28%	