

The Housing Market Crisis and Its Fallout on the Local Economy



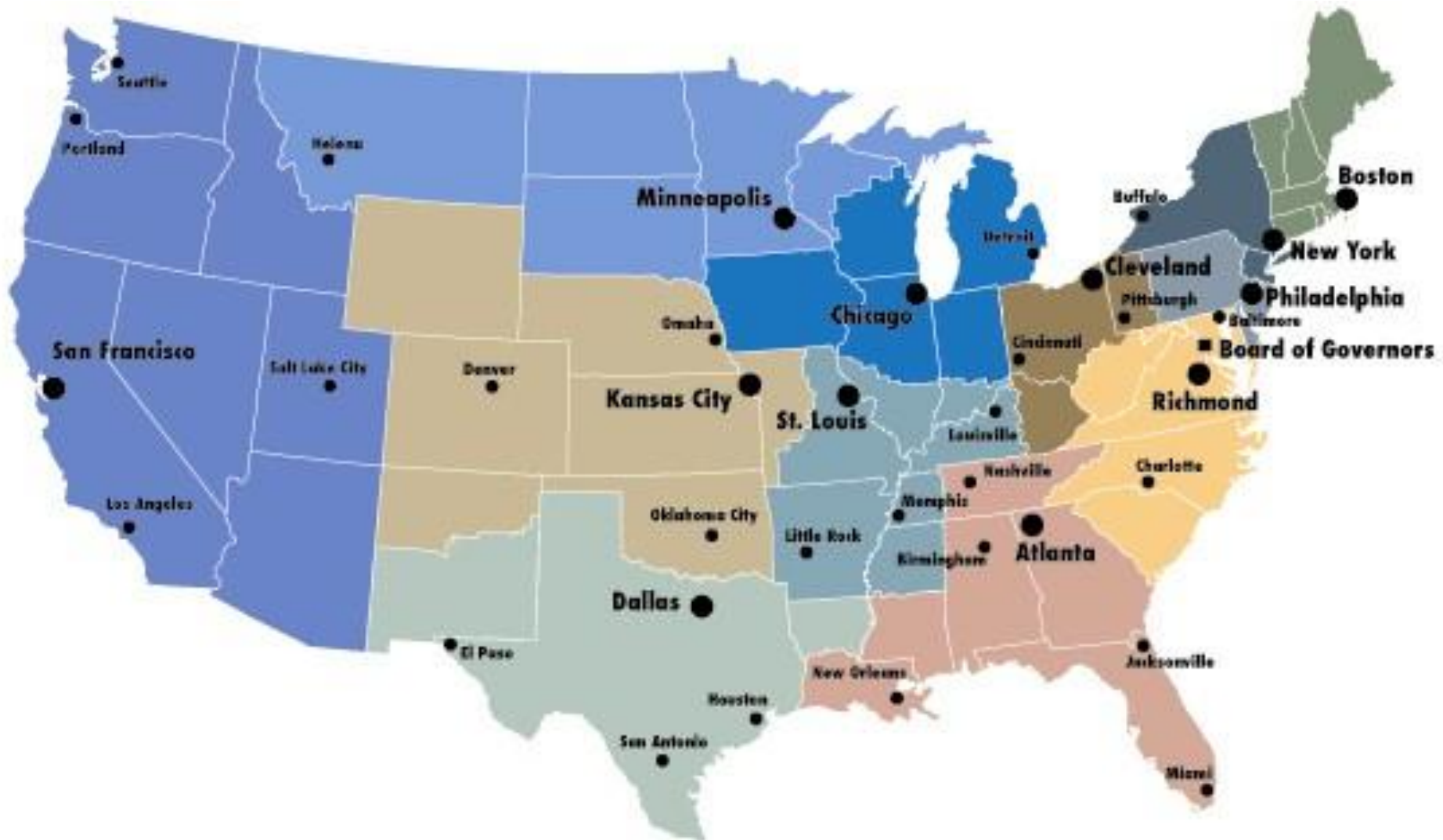
Chad Wilkerson

Oklahoma City Branch Executive
Federal Reserve Bank of Kansas City

Purposes and Structure of the Federal Reserve System

- **Overall purposes of the Fed are to promote:**
 - National financial stability
 - Maximum sustainable economic growth
 - Low and stable inflation
- **Mission areas:**
 - Monetary policy – most visible role to the public, usually
 - Bank regulation – including lender of last resort
 - Payments systems – cash, checks, electronic payments
- **Monetary policy is set by the 12-member FOMC:**
 - The Federal Open Market Committee meets every 6 weeks
 - Voting members consist of:
 - the 7 Governors in Washington;
 - the New York Fed President;
 - 4 of the 11 other Fed presidents on a rotating basis

Federal Reserve Districts and Office Locations



The Kansas City and Oklahoma City Offices

- **Headquarters in Kansas City**

- Nearly **1,000 staff** involved in all mission areas
- **New building** officially opened in June

- **Oklahoma City branch office**

- **Staff and functions** – about 35 staff involved in economic research, bank examinations, and public and community affairs
- **Branch board of directors** – 7 members from around the state; provide anecdotal information in advance of each FOMC meeting

- **Oklahoma City branch board of directors**

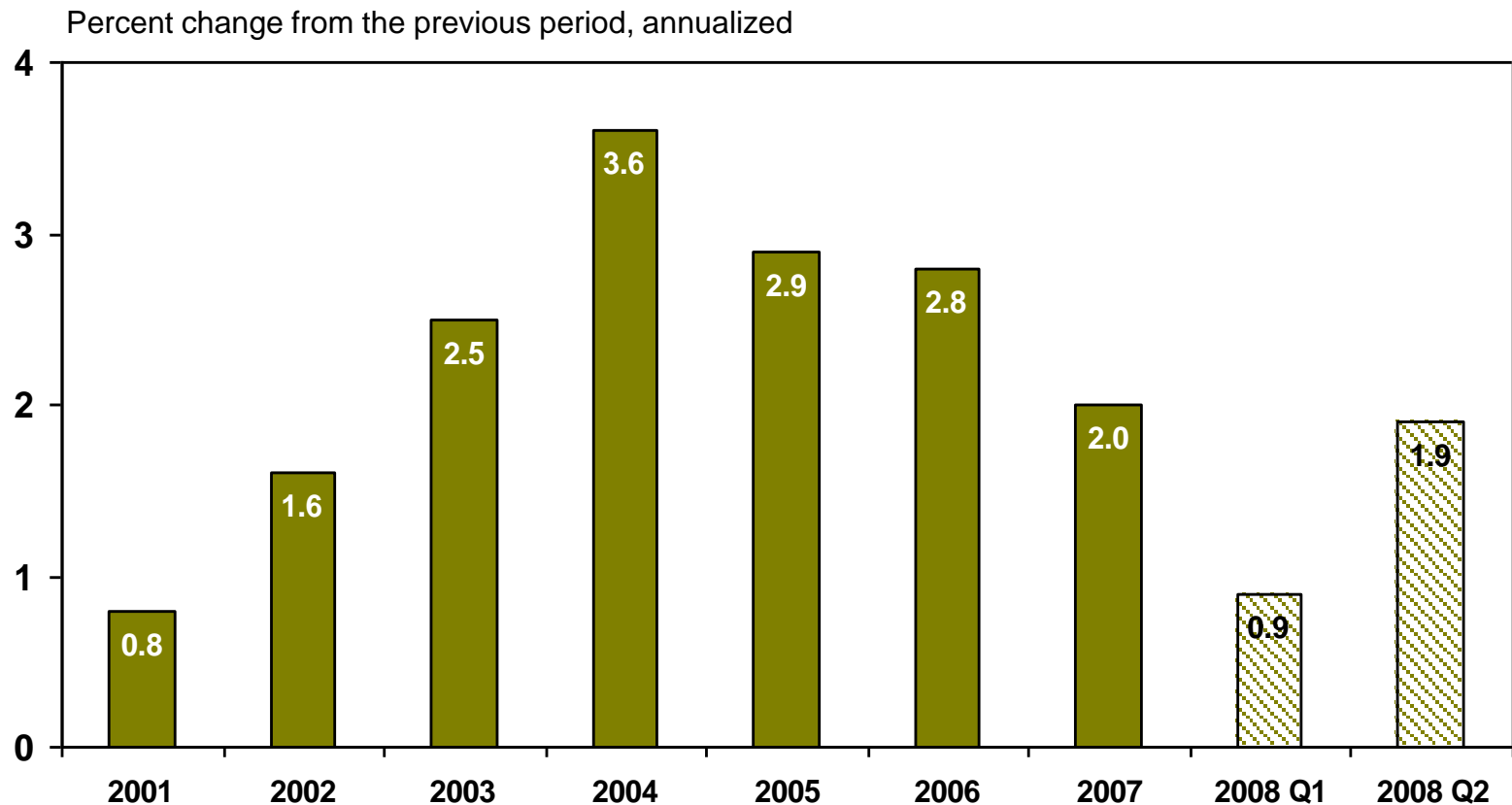
- *Chairman* **Richard Ratcliffe**, Chairman, Ratcliffe's Textbooks, Weatherford
- **Steve Agee**, President, Agee Energy, and Professor, OCU, Oklahoma City
- **Terry Almon**, President, Oklahoma Community Capital Corp., Broken Arrow
- **Jim Dunn**, Chairman, Mill Creek Lumber & Supply Co., Tulsa
- **Barry Golsen**, President, LSB Industries, Oklahoma City
- **Fred Ramos**, President, RGF, Inc., Oklahoma City
- **Doug Tippens**, President, Canadian State Bank, Yukon

The U.S. Economic and Housing Outlook

- U.S. economic growth is below average but still positive
- Inflation pressures have risen
- Weakness in housing is being offset by strength in exports and defense

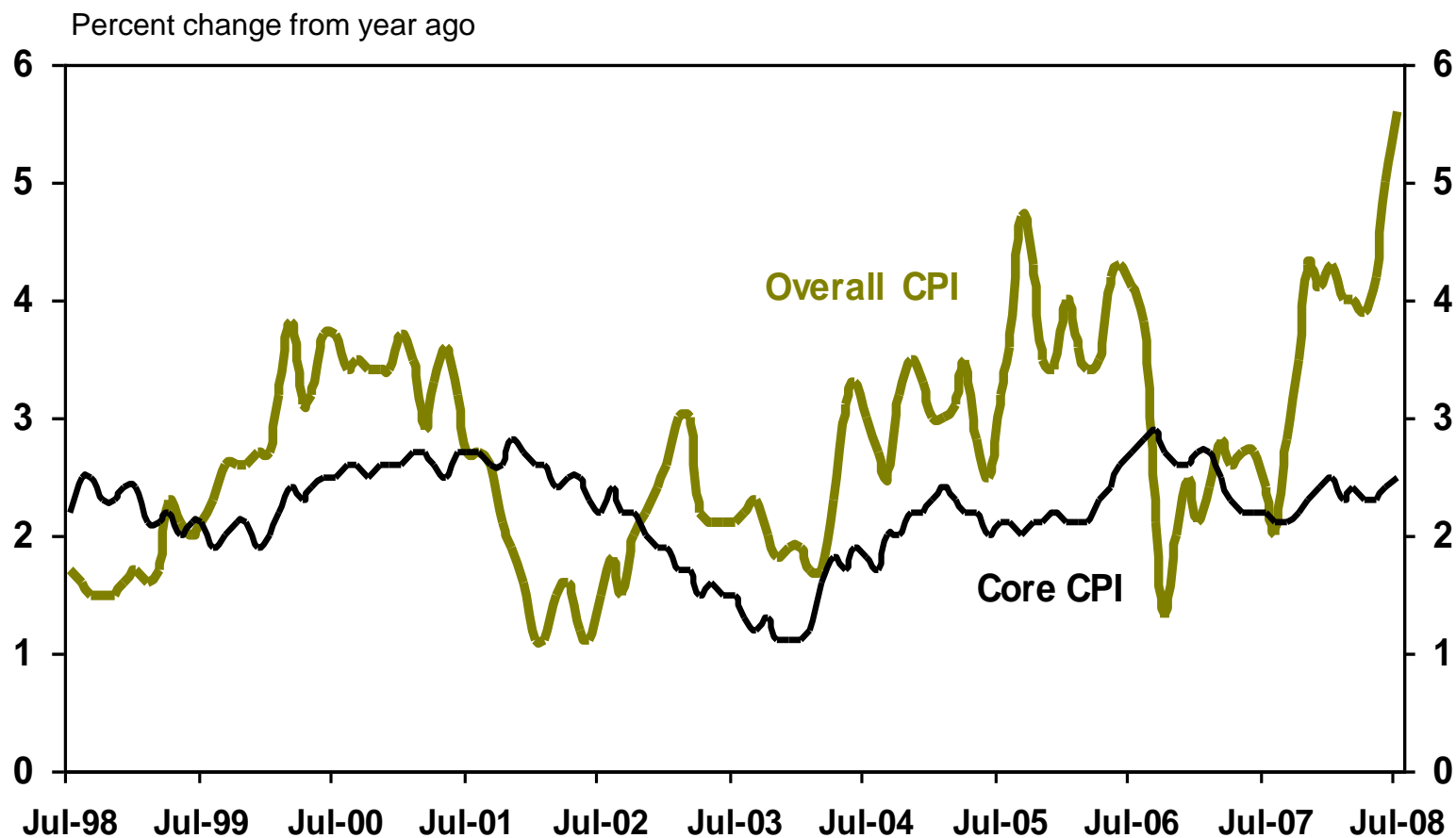
GDP growth was moderate in the first half of 2008

Gross Domestic Product



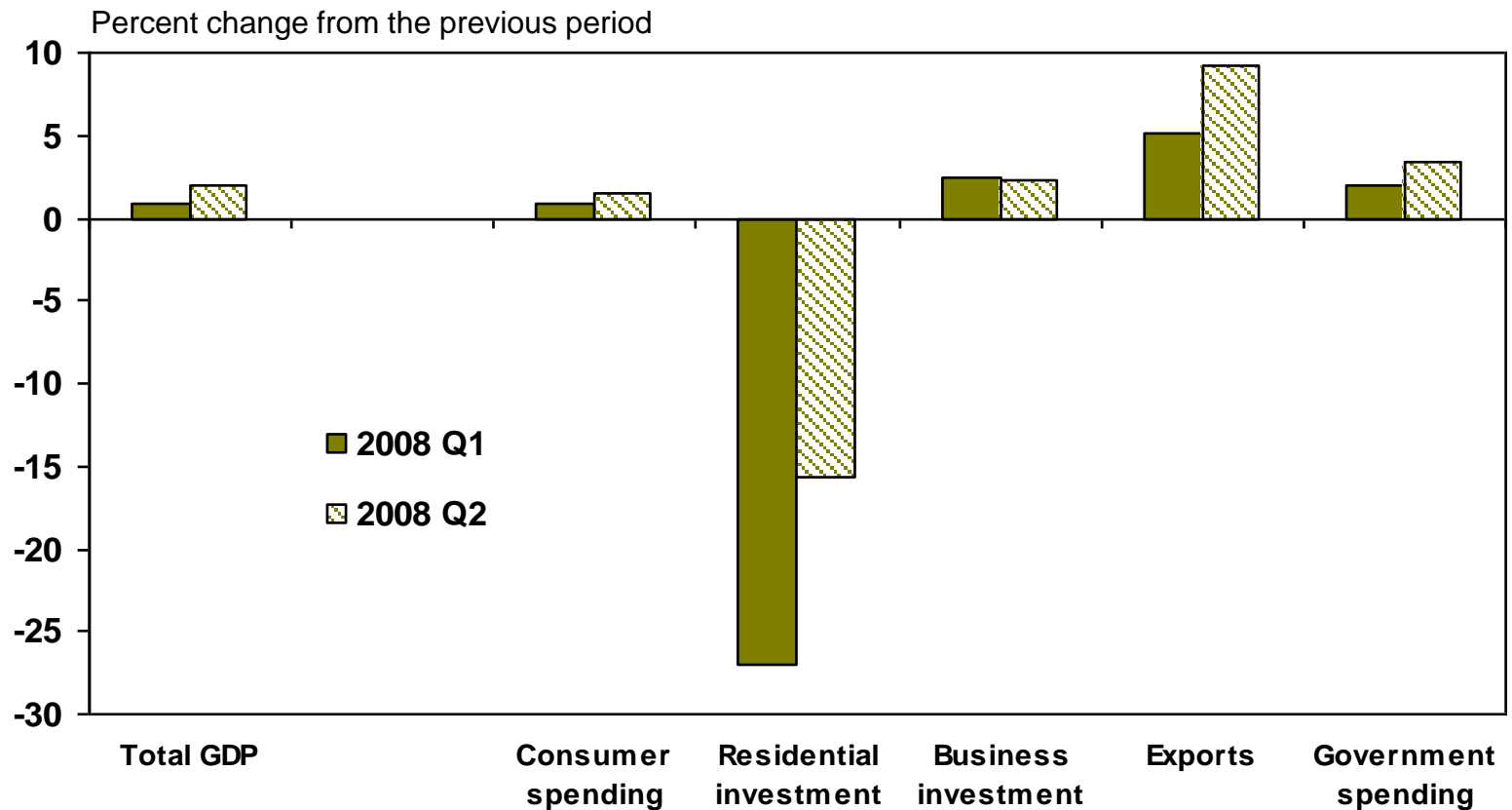
Inflation has surged in recent months, but could ease somewhat with falling oil prices

Consumer Price Index



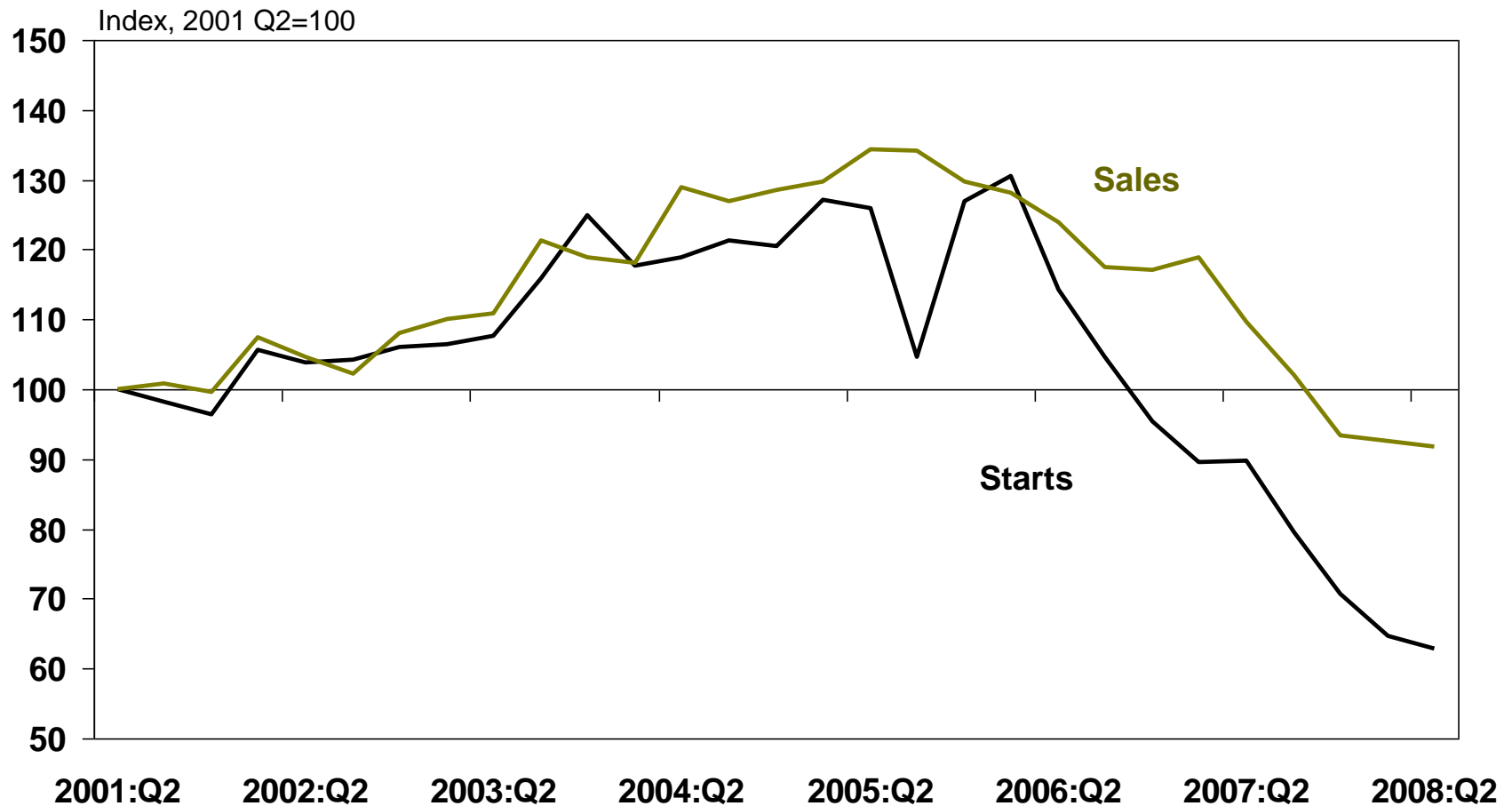
Housing remains the main drag on the national economy

Growth in Components of GDP



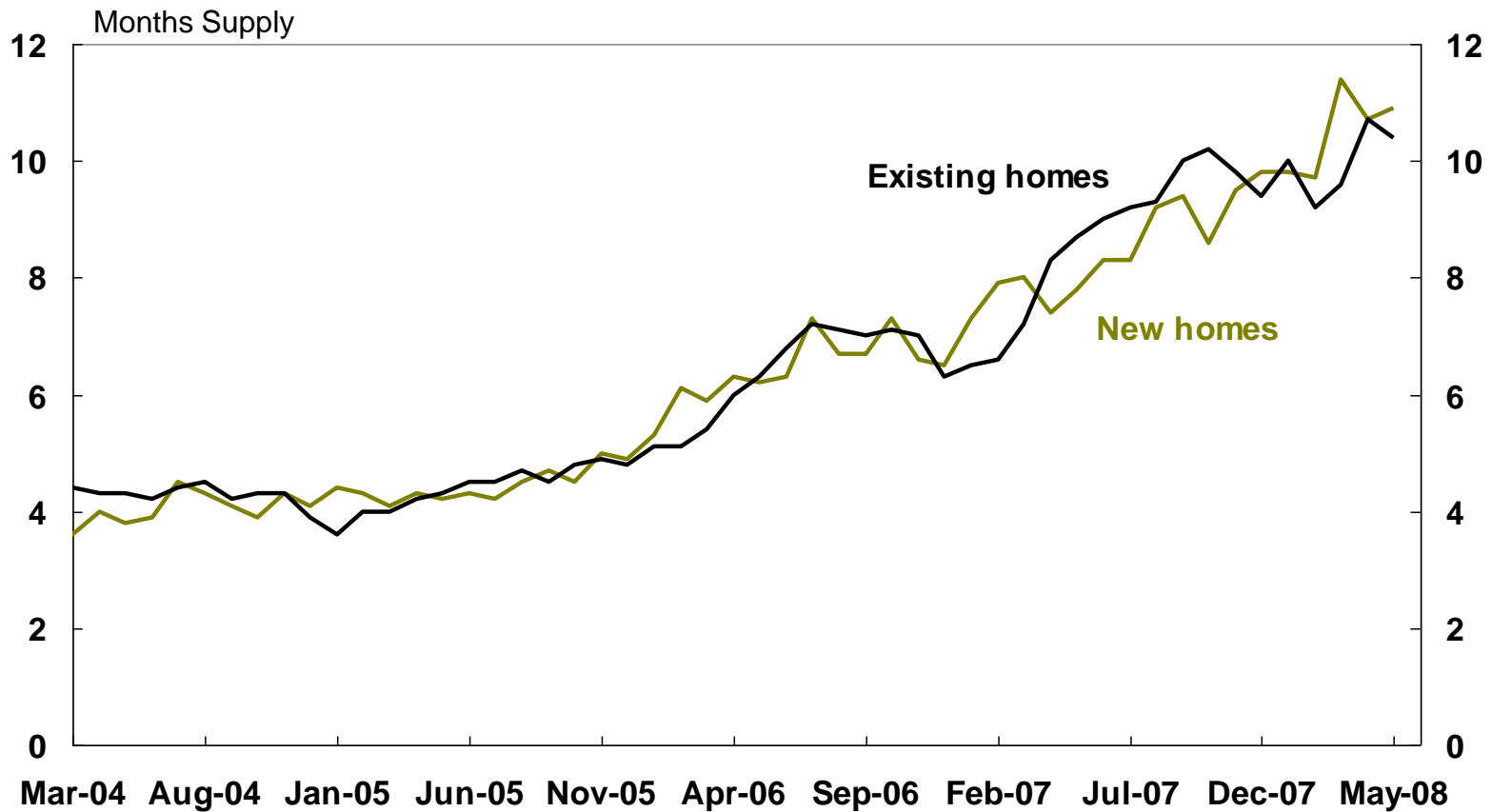
Housing starts and sales have plummeted since 2005

U.S. Single Family Housing Starts and Sales



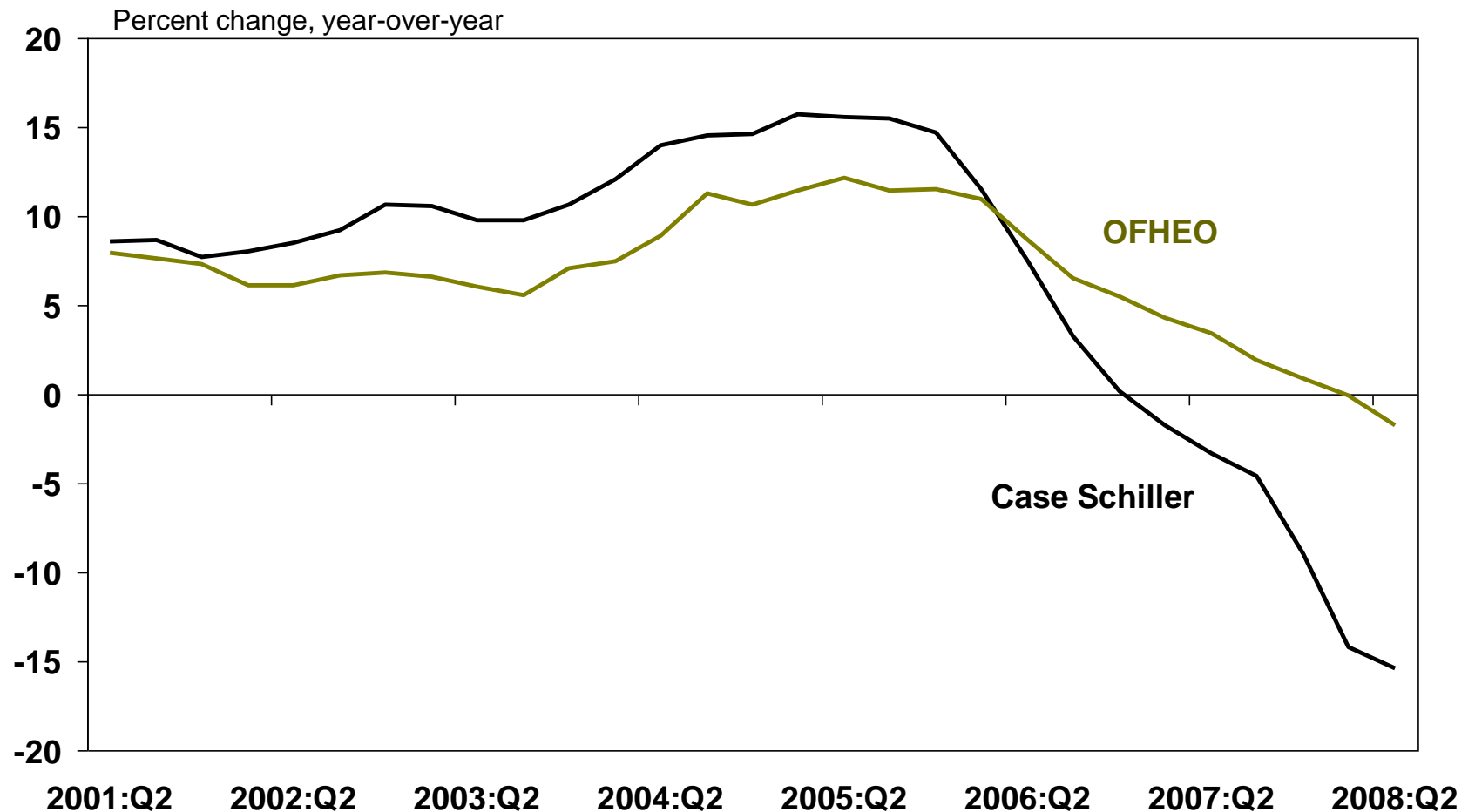
Meanwhile, inventories of unsold homes continue to rise

Inventories of Unsold Homes



Home prices are falling nationally

U.S. Home Prices

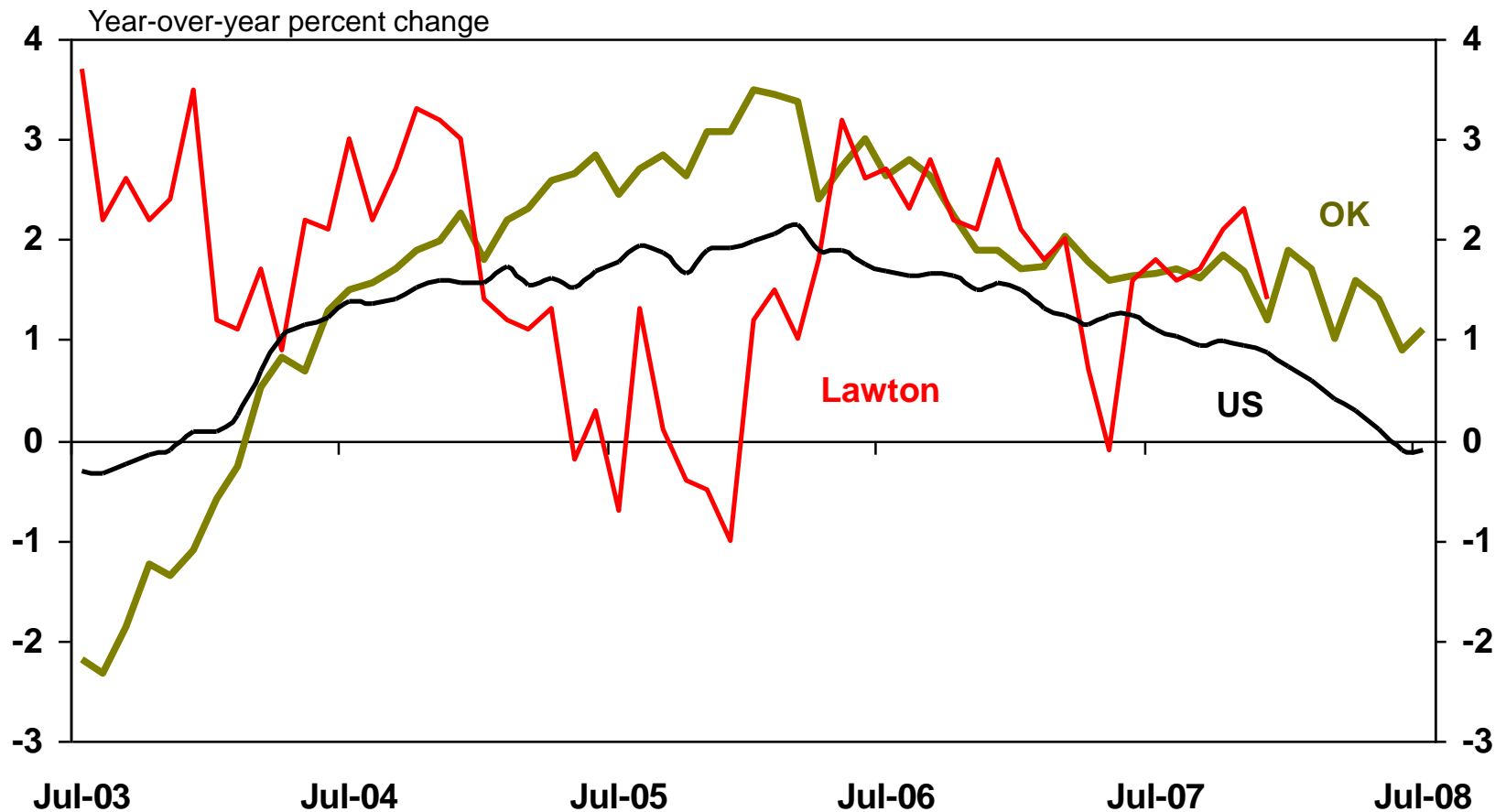


The Oklahoma Economic and Housing Outlook

- Oklahoma economic growth remains solid
- Housing is in better shape than the nation
- Energy and defense should continue to help promote moderate overall growth in the state

Oklahoma job growth has slowed but remains well above the national average

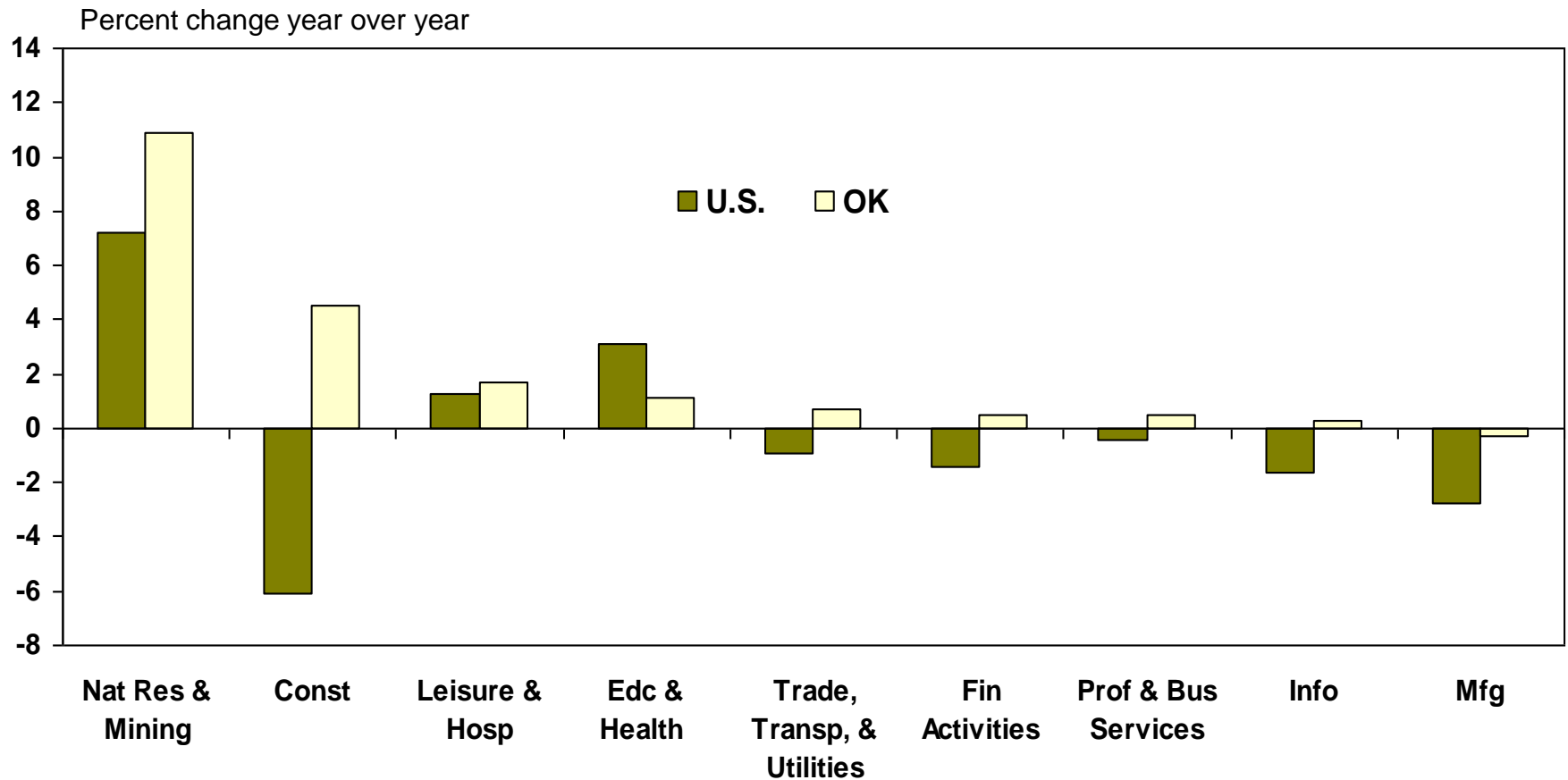
Nonfarm Payroll Employment Growth



Strength in Oklahoma job growth is driven by energy, but also some other sectors

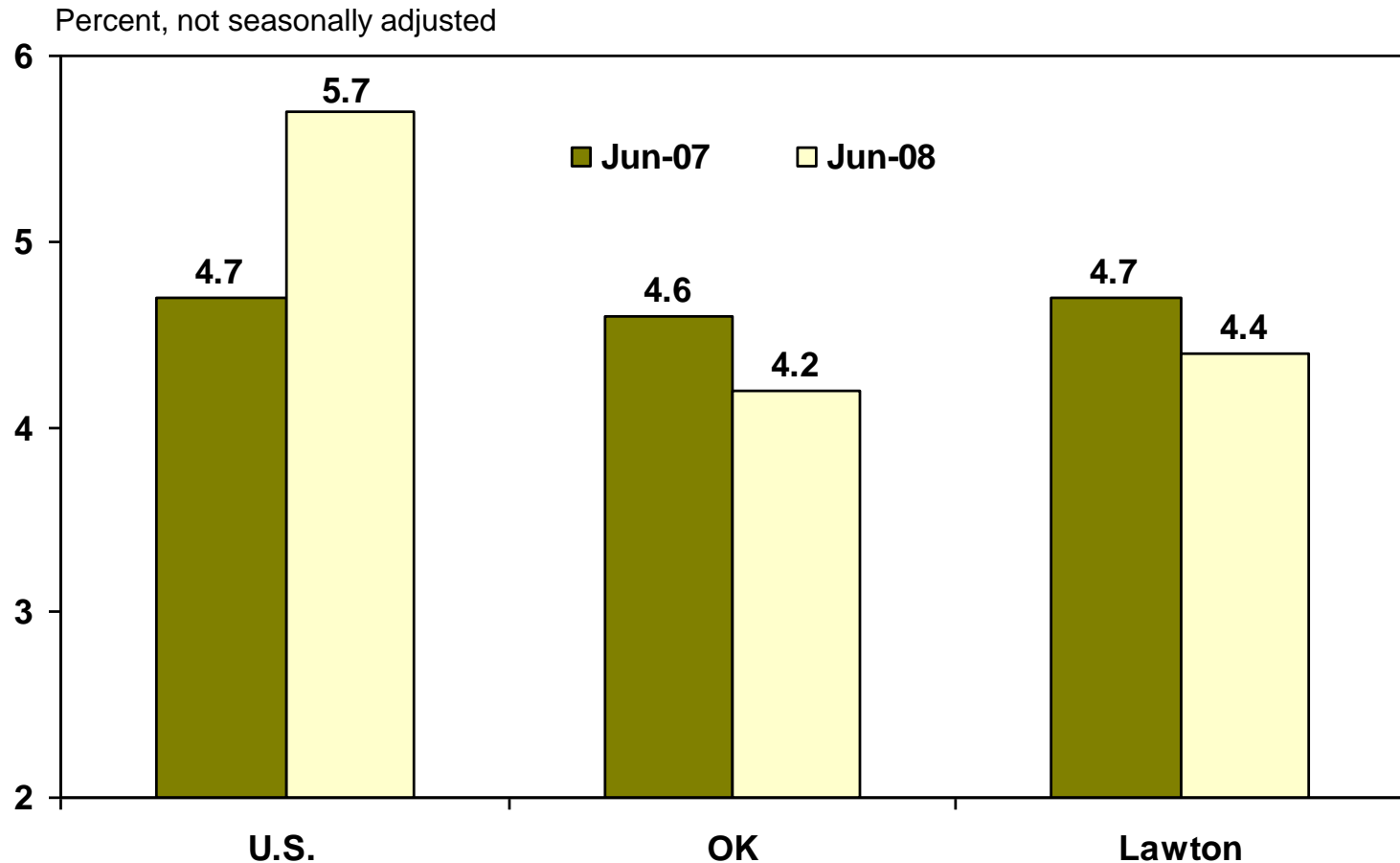
Employment Growth by Industry

July 2008



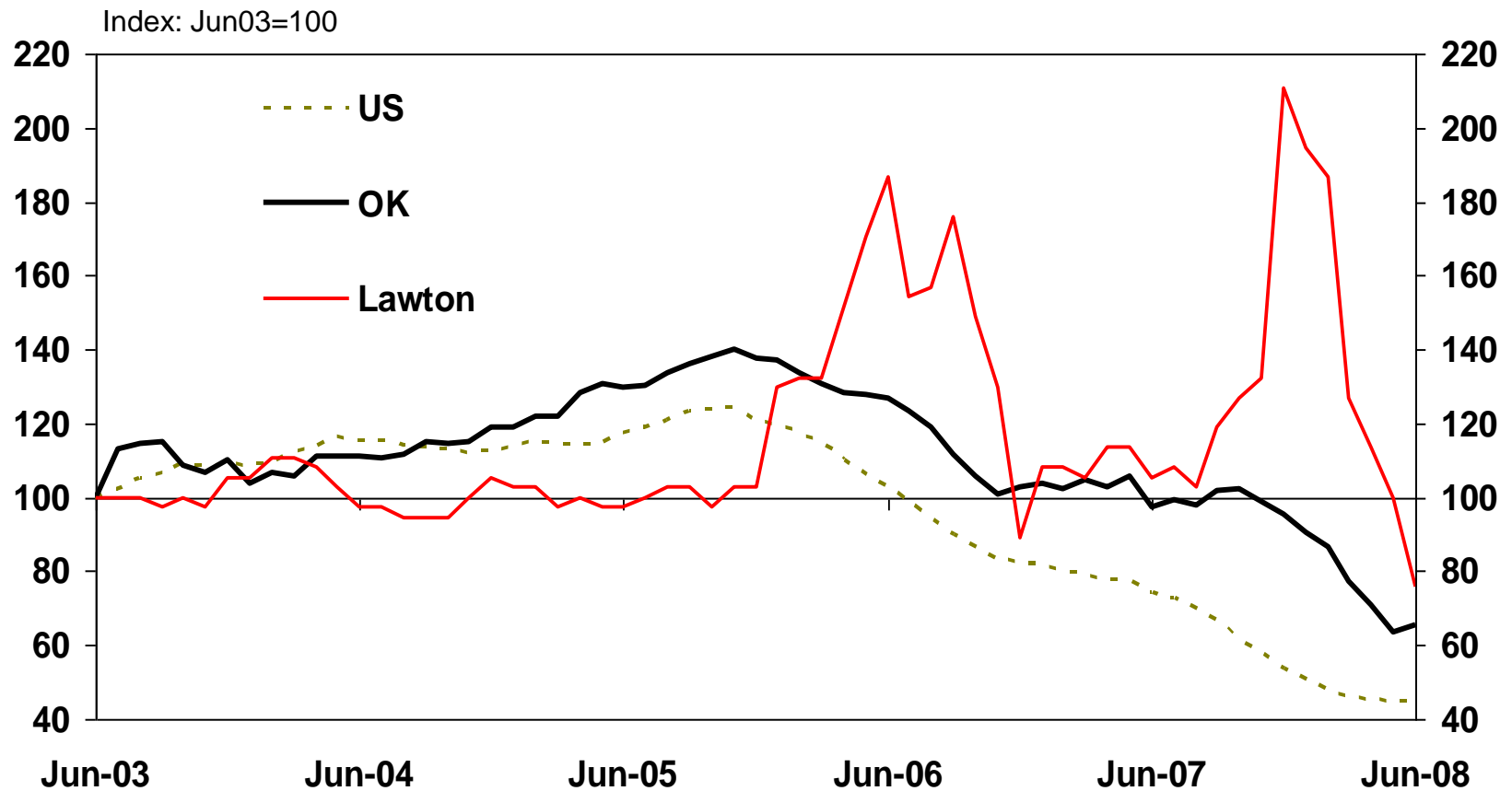
Unemployment rates are down across the state since last year, unlike in the nation

Unemployment Rates



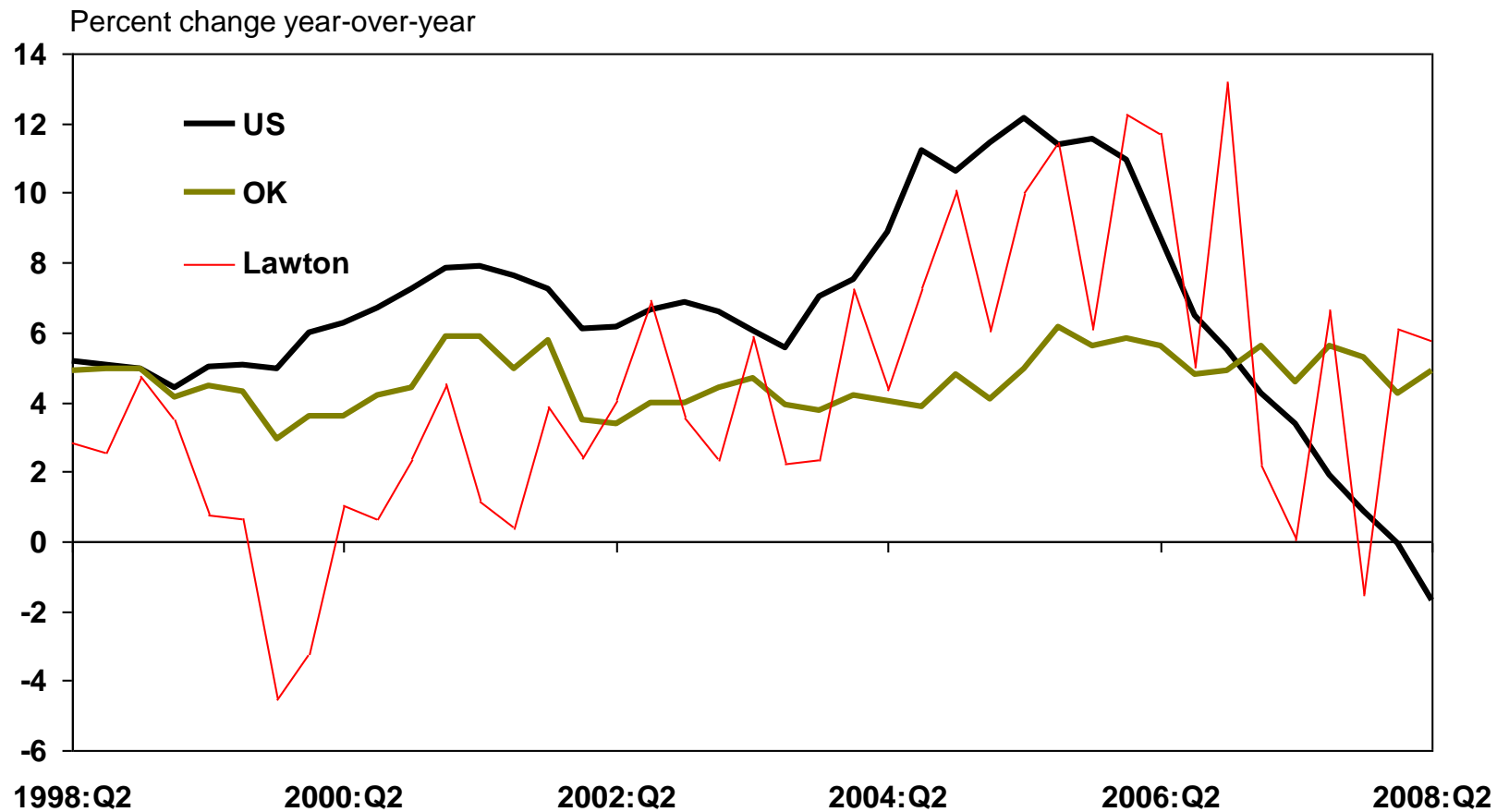
New home construction has not declined as much in Oklahoma as in the nation

Single-Family Housing Permits
Seasonally Adjusted



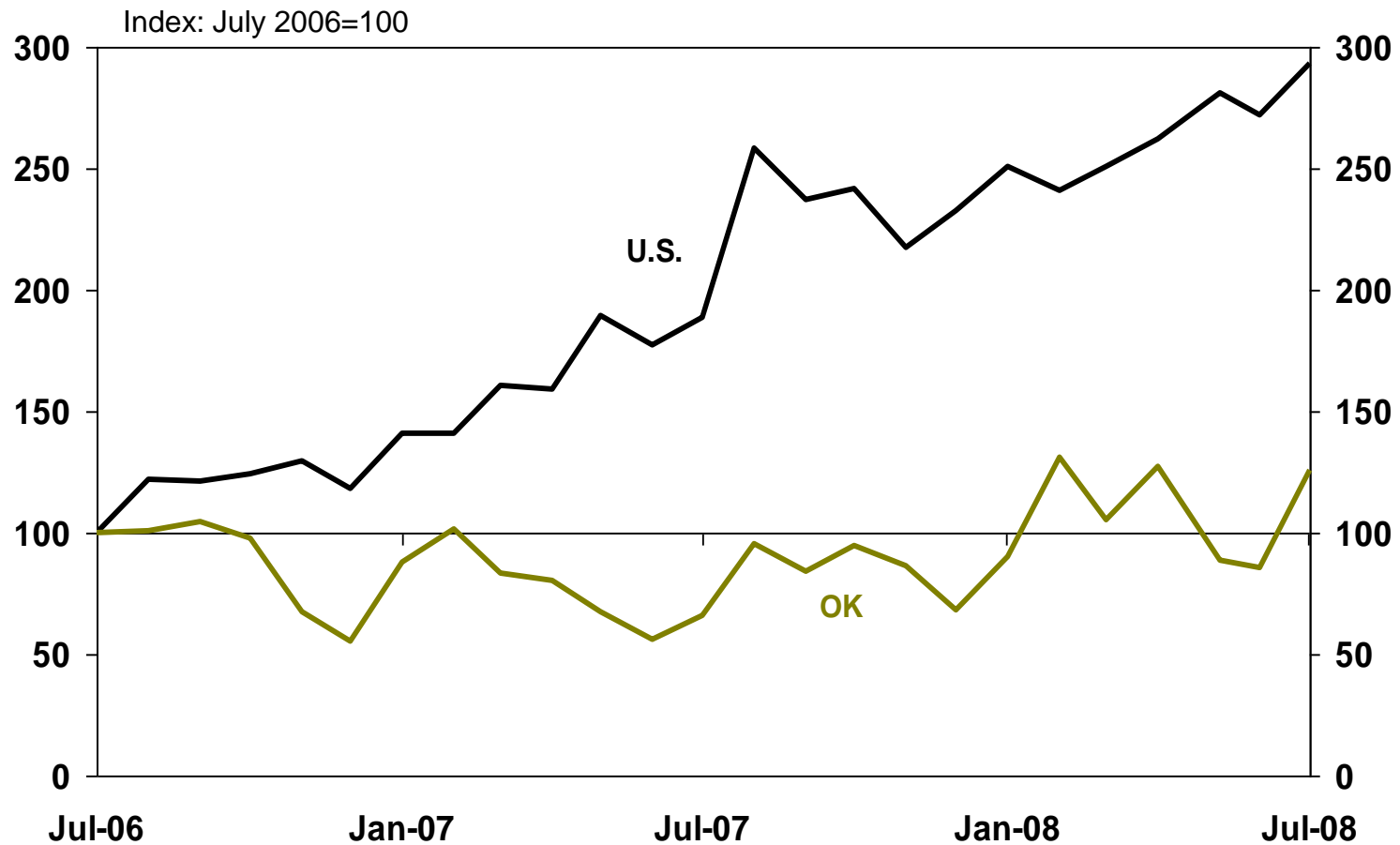
U.S. home prices are now falling, while Oklahoma prices are doing better

Quality-Adjusted Home Price Growth



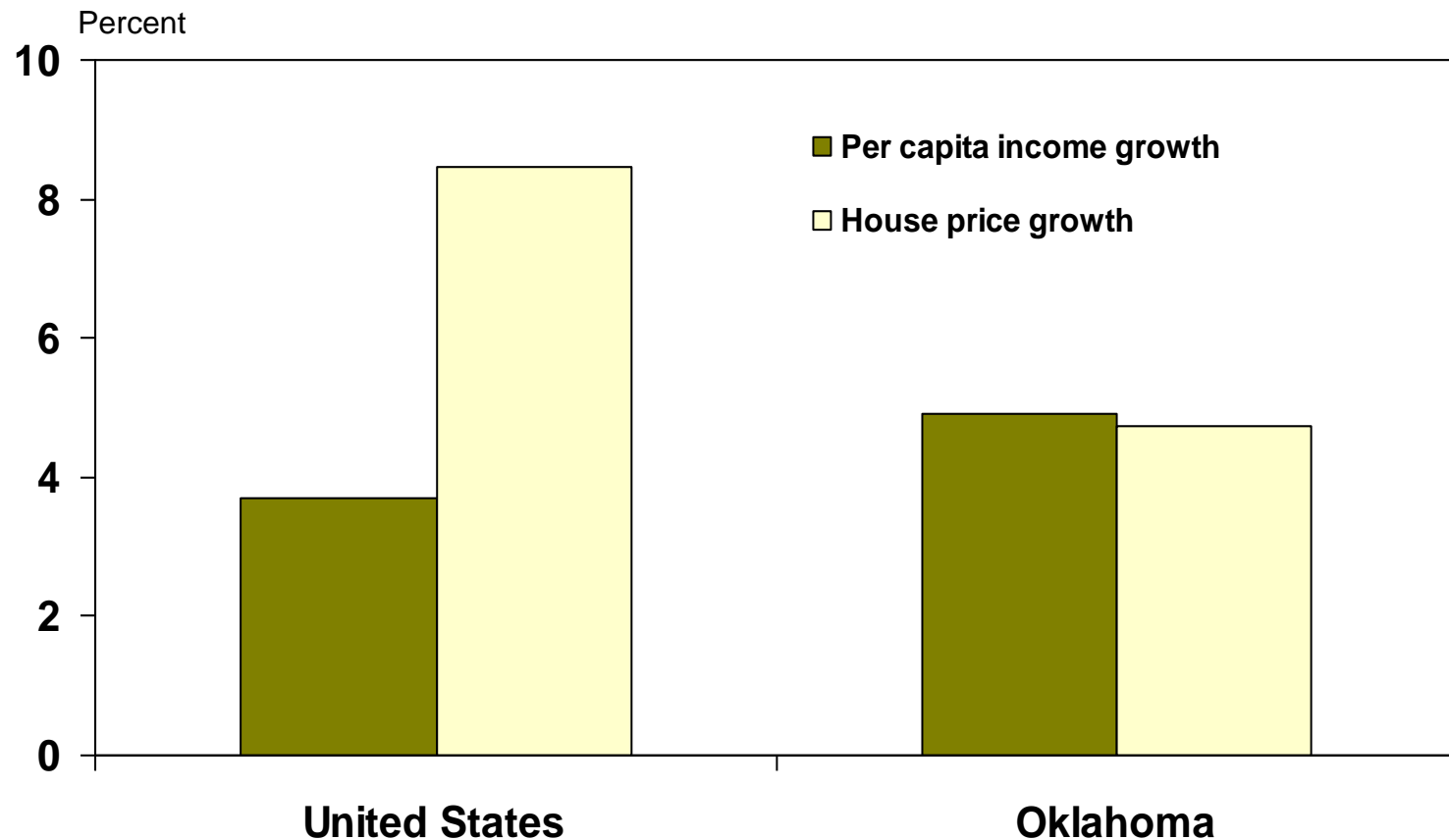
Foreclosure rates have remained relatively stable in Oklahoma, also unlike the nation

Foreclosures in the U.S. vs. Oklahoma



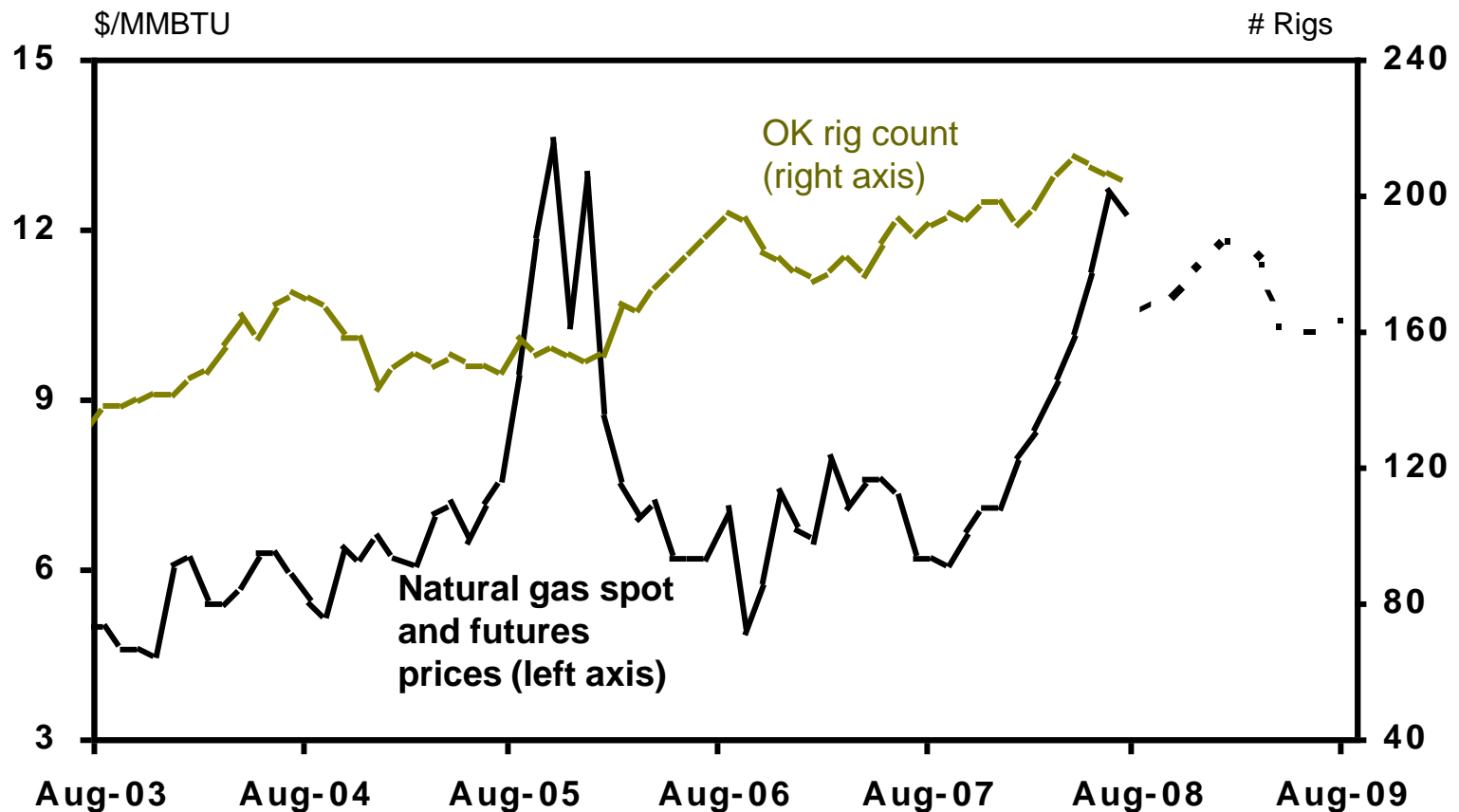
House price fundamentals were more in line in Oklahoma from 2000 to 2005

Annual Growth in Per Capita Incomes and Home Prices
2000 - 2005



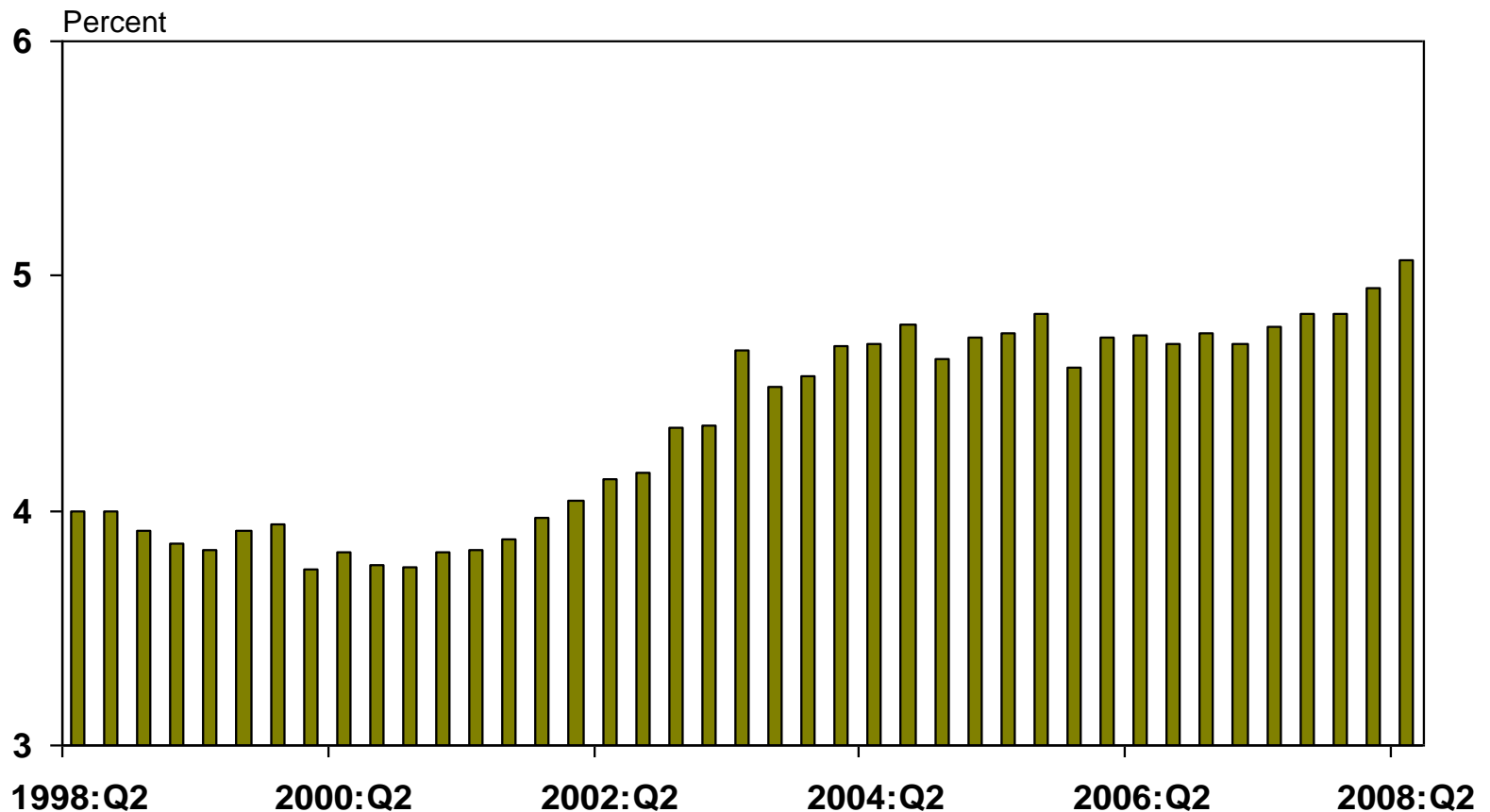
State oil and gas activity remains strong, and futures prices are solid

Count of Active Drilling Rigs and Natural Gas Prices



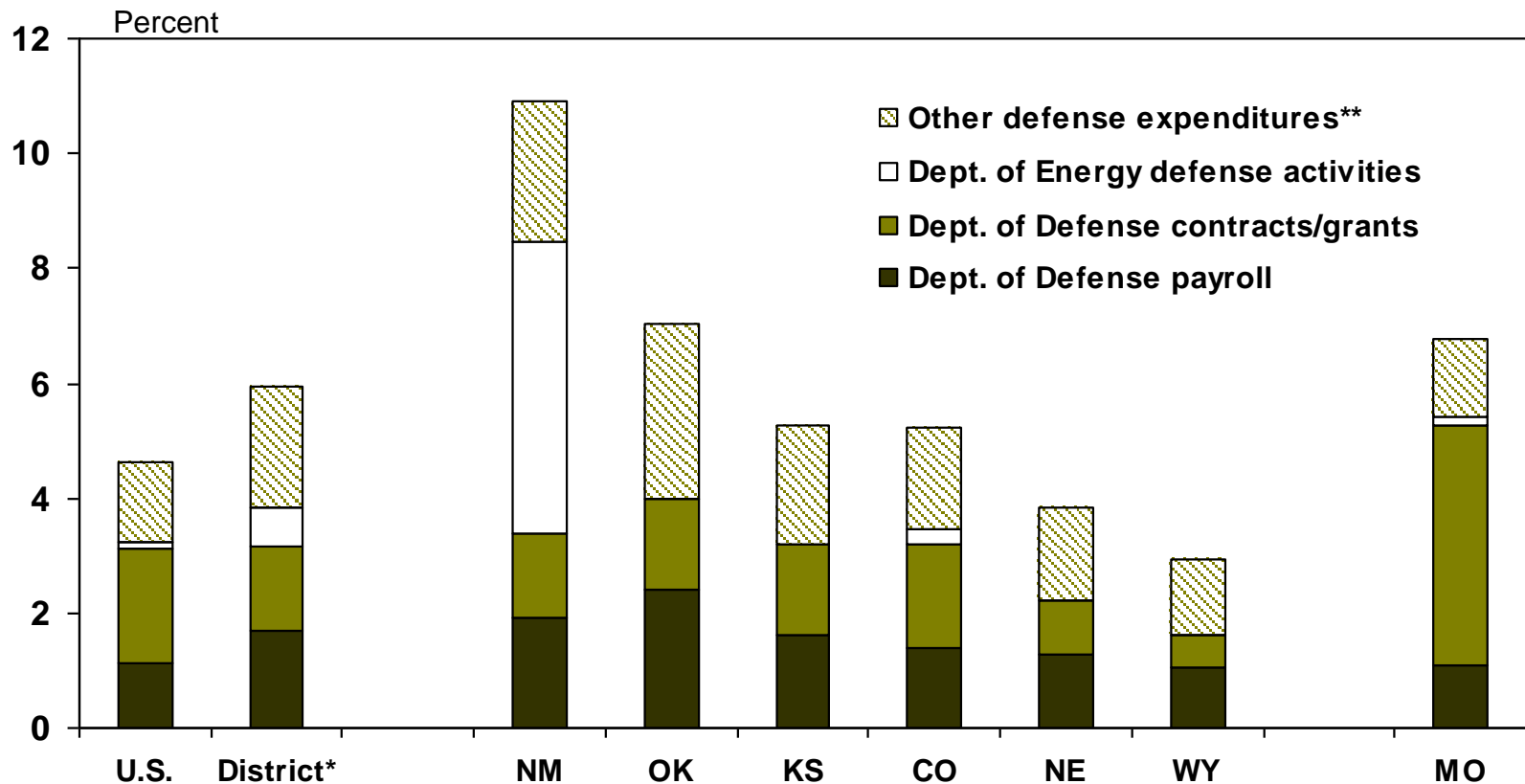
National defense's share of the economy has risen considerably since 2001

National Defense Spending as a Share of U.S. GDP



Oklahoma has an even larger defense presence, especially in terms of personnel

Defense Spending as a Share of GDP, 2006

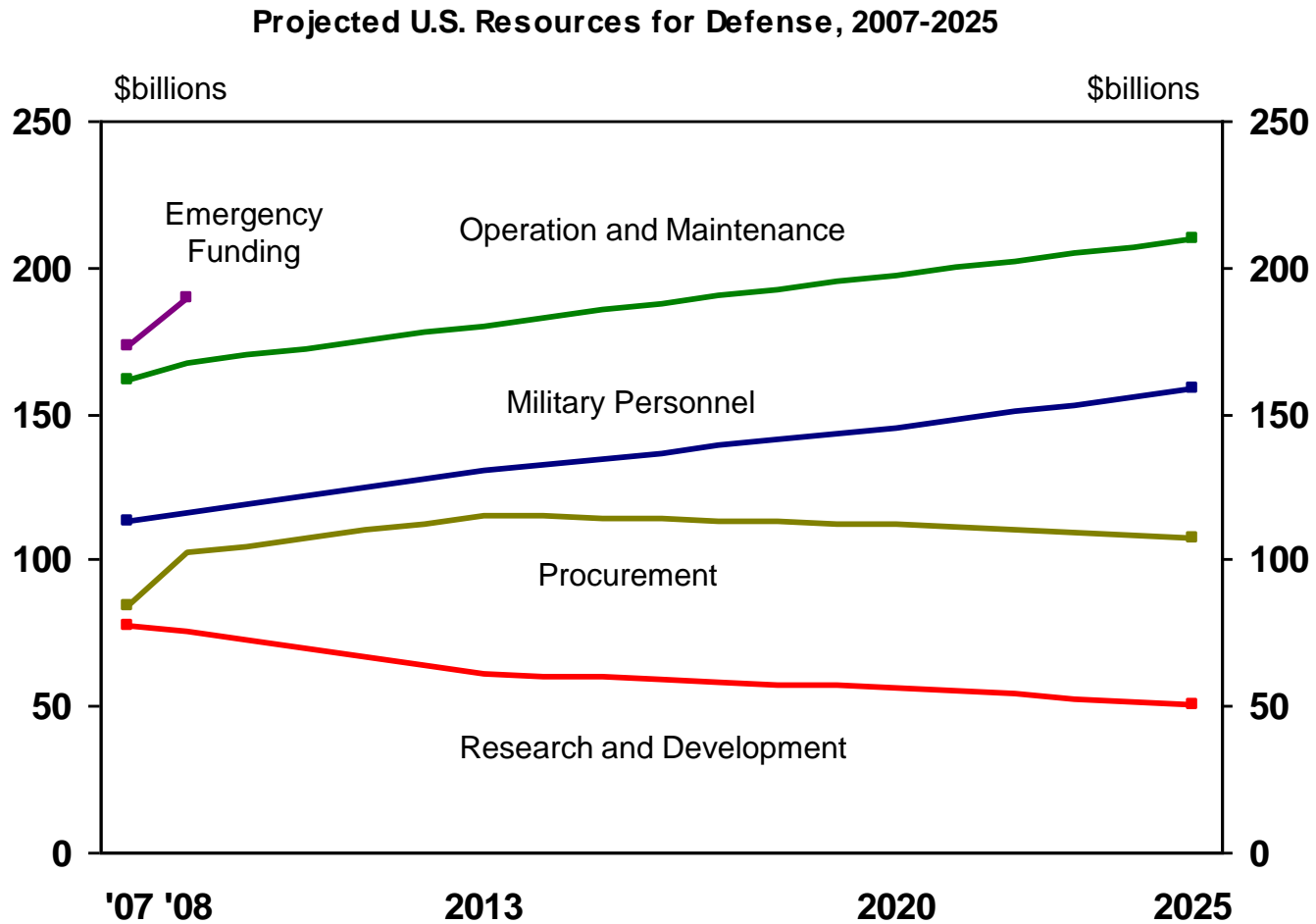


* Excluding Missouri

** Actual for U.S., estimated for District and states

Sources: U.S. Departments of Defense and Energy, Bureau of Economic Analysis

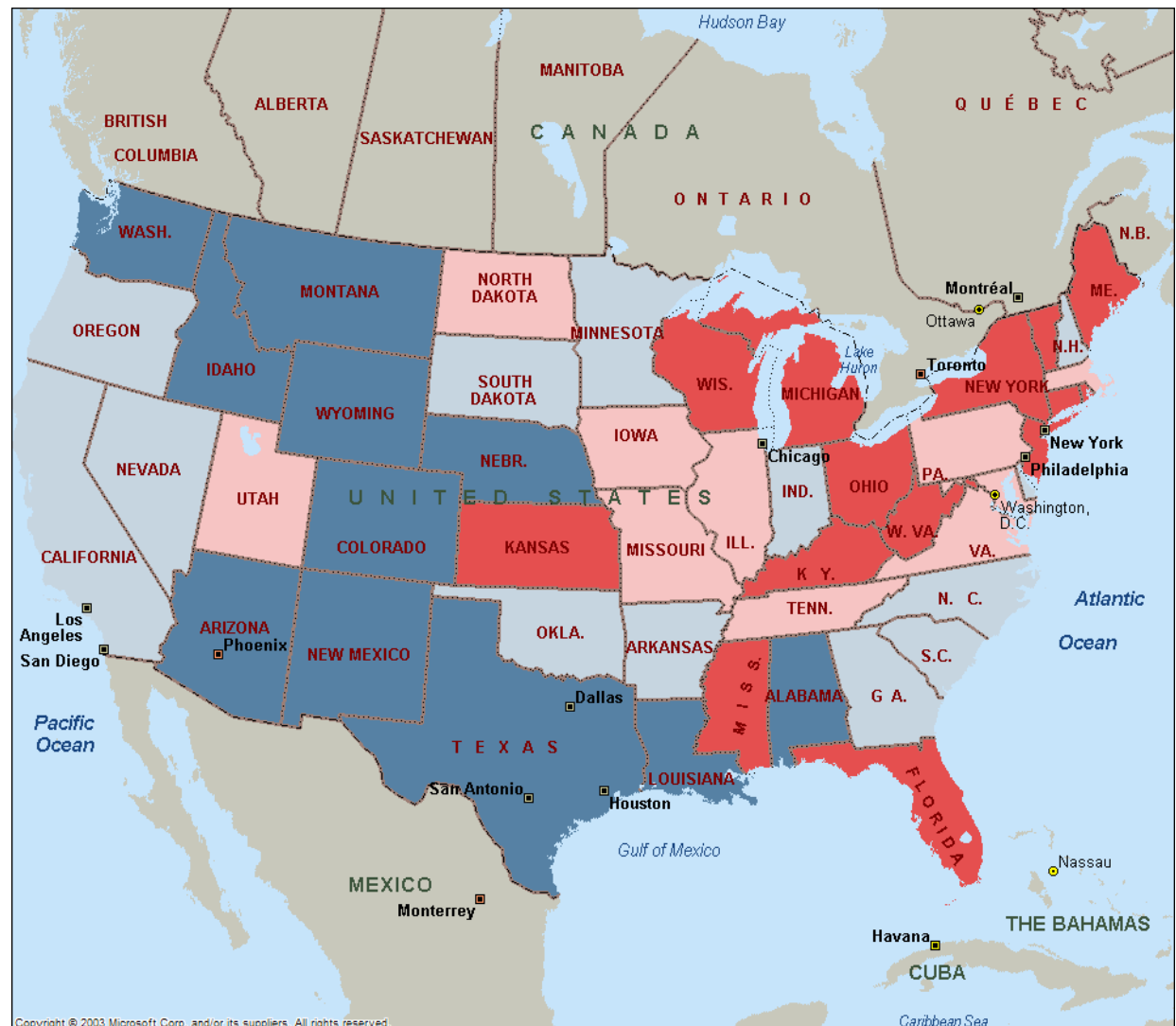
The types of defense concentrated in the region are expected to grow



The 2009 job growth forecast for Oklahoma is generally positive

Projected 2009 Job Growth (as of Jun-08)

- 1.0 to 1.9%
- 0.5 to 0.9%
- 0.0 to 0.4%
- 0.9 to -0.1%



Questions?