U.S. & Oklahoma Economic Outlook
With a Focus on Housing

Community Affairs Affordable Housing Luncheon
May 8, 2012

Chad Wilkerson
Oklahoma City Branch Executive and Economist
Federal Reserve Bank of Kansas City
www.kansascityfed.org/oklahomacity
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  - Examinations and inspections of Oklahoma financial institutions
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U.S. GDP growth eased slightly in Q1, while housing investment rose sharply.

Source: U.S. Bureau of Economic Analysis
Bankers also report that mortgage demand has picked up recently.

Net Share of U.S. Banks Reporting Increased Mortgage Demand
First-Lien Mortgages Only

Source: FRB Senior Loan Officer Survey
At its last meeting, the FOMC expected unemployment to gradually fall further.
And for inflation pressures to stabilize after rising with oil and food prices in 2011.
The majority of FOMC members expect interest rates to stay low through 2014

Federal Funds Rate
Year-end target

Note – Number of participants who project the initial increase will occur in the specified year in parenthesis

Source: U.S. Bureau of Economic Analysis, FOMC
There remains considerable variation in economic strength across the nation

Employment Growth, Year-over-Year (percent)
March 2012

Scale
- 1.73 - 6.58
- 1.10 - 1.73
- 0.52 - 1.10
- -1.11 - 0.52

Source: U.S. Bureau of Labor Statistics
Employment in Oklahoma is back above pre-recession levels…if Tulsa is excluded
OK unemployment is now quite low, but labor force dropouts are part of the reason.

Unemployment Rates by State
Seasonally Adjusted

<table>
<thead>
<tr>
<th>State</th>
<th>March 2012 actual</th>
<th>March 2012 @ 2007 LFPR</th>
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<tbody>
<tr>
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<td>8.2</td>
<td>10.4</td>
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<td>10J</td>
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<td>9.7</td>
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<td>WY</td>
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<tr>
<td>NE</td>
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<td>5.3</td>
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LFPR=Labor Force Participation Rate

Source: Bureau of Labor Statistics
Job growth in most Oklahoma sectors has been better than the nation

Oklahoma Employment Growth
March 2012

Percent change, year-over-year

Source: Bureau of Labor Statistics
New home permits in Oklahoma have edged higher, though are still at low levels.

Single-Family Home Permits
Seasonally Adjusted

Source: Census Bureau
Home prices have held up much better throughout Oklahoma than in the nation.

Home Price Index

Index: 2007Q2=100

Source: FHFA
As a result, OKC and Tulsa home prices now match other regional cities.

Median Home Prices in U.S. and Large Tenth District Cities

Source: NAR
Income fundamentals suggest Oklahoma is at less risk of future home price declines.

Home Prices and Per Capita Income Levels
Index: 2000=100

U.S.

Oklahoma

Source: FHFA, BEA
Unsold home inventories have fallen in the nation and OKC but remain high in Tulsa.

* Combination of existing and new home inventories

Source: NAR, Local realtors associations
Past due mortgages have eased a bit, but still remain well above pre-recession levels.

**Share of Mortgages Seriously Delinquent**
In foreclosure or over 90 days past due

- **Q4 2006**
- **Q4 2007**
- **Q4 2008**
- **Q4 2009**
- **Q4 2010**
- **Q4 2011**

- **90+ Days Past Due**
- **In Foreclosure**

Source: MBA
Oklahoma mortgages are made up of fewer prime loans than in the nation.
All types of mortgages are more current in Oklahoma…but are close in some cases

Seriously Delinquent Mortgages by Type

Percent

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Prime</th>
<th>VA</th>
<th>FHA</th>
<th>Subprime</th>
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<td>Q4 2009</td>
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</table>

Source: MBA
Overall, problem loans are much less elevated at Oklahoma banks than nationally.
Looking ahead, purchasing managers in the region showed less optimism in April.
And Oklahoma energy activity is leveling off somewhat with low natural gas prices.
Conclusions

- The U.S. economy continues to grow moderately, amid limited inflation, with housing showing some recent strength.

- Oklahoma economic growth and housing activity remains better than the nation and region, but growth may slow slightly.
Questions?

For more information about the Oklahoma economy, subscribe to the quarterly Oklahoma Economist at: www.kansascityfed.org/publications/research/oke