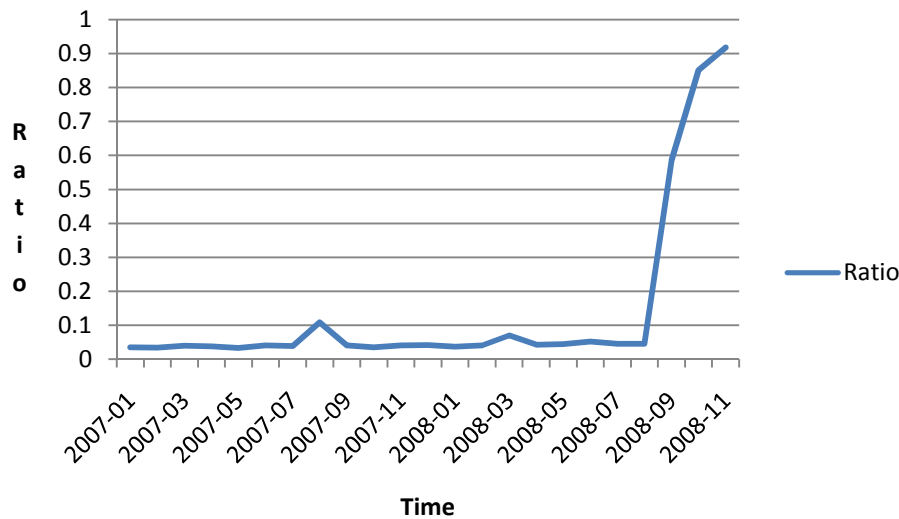


# Robeson County: Current Economic Picture

On Tuesday, December 16, 2008, the Federal Open Market Committee (FOMC), the body that conducts monetary policy (i.e. changes in money supply and the cost of borrowing) set the target federal funds rate, the interest rate that banks charge each other for overnight loans, at zero percent to one fourth of a one percent. The Federal Reserve System, or the Fed, is the central bank of the United States. See more details at [www.federalreserve.gov](http://www.federalreserve.gov).

The Fed does not directly control the federal funds rate. The Fed sets a target federal funds rate and conducts monetary policy such that this target is met. The purpose of lowering the federal funds rate is to increase money supply so that banks have more money to lend to firms and individuals. However, this tool does not seem to be working—at least not yet. Banks, instead of lending, are keeping the funds as excess reserves. Figure 1 shows the ratio of excess reserves to total reserve. The reason is the lack of confidence in the financial markets. The banks would rather earn a lower interest rate either by keeping excess reserves with the Fed<sup>1</sup> or by buying US gov't. securities that are risk free than lend funds to firms and individuals at higher interest rates and risk default.

**Figure 1: Ratio of Excess Reserves to Total Reserves**



Source of Data: [www.federalreserve.gov](http://www.federalreserve.gov)

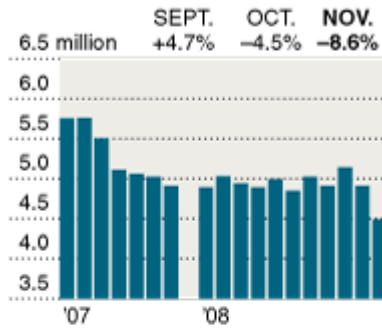
<sup>1</sup> As of October 2008 the Fed pays interest on required and excess reserves balances as well as on contractual clearing balances. <http://www.federalreserve.gov/monetarypolicy/reqresbalances.htm>

The impact of this action by commercial banks is that consumer rates are not declining. For instance on December 23, 2008, the thirty-year fixed mortgage was 5.37% (Source: <http://markets.on.nytimes.com/research/markets/rates/rates.asp>). As a result fewer houses are being bought and sold. This is despite the fact that housing prices are falling. See Figure 2. Troubles in one sector of the economy are not limited to that sector. In this example, if the housing sector is suffering, its troubles spill over to the rest of the economy.

**Figure 2: Existing and New Home Sales and Prices**

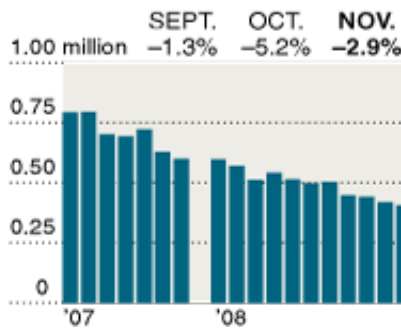
**Existing-Home Sales**

Annual pace of existing single-family homes sold during the month, seasonally adjusted.



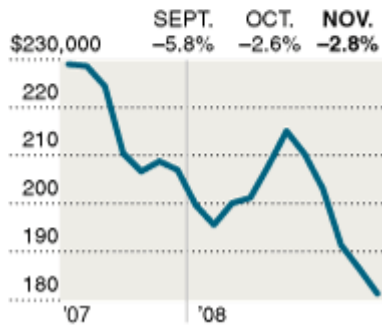
**New-Home Sales**

Annual pace of new private homes sold during the month, seasonally adjusted.



**Home Prices**

Median price for existing homes, not seasonally adjusted.



**Prices of New Homes**

Median price for new homes, not seasonally adjusted.



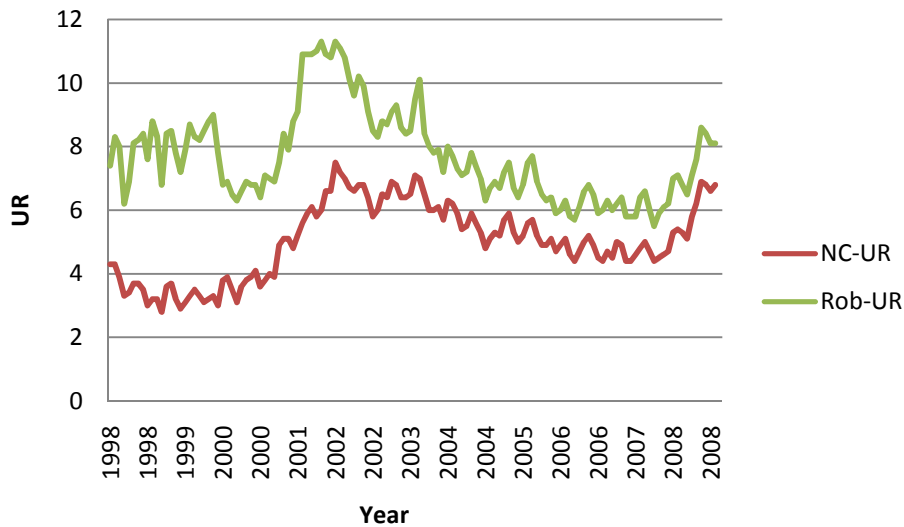
Source: National Association of Realtors Source: Commerce Department

Source of Diagrams: [http://www.nytimes.com/2008/12/24/business/24econ.html?\\_r=1&ref=business](http://www.nytimes.com/2008/12/24/business/24econ.html?_r=1&ref=business).

### North Carolina and Robeson County

Needless to state that in North Carolina and Robeson County, along with the rest of the US, the impacts of economic downturn have been severe. The unemployment rates in North Carolina as well as in Robeson County have been on the rise. At the time of writing this document (December 2008) unemployment rate in NC was 7.8%. It was 8.1% for Robeson County.<sup>2</sup> Fortunately however, at least in Robeson County, so far we have not hit the highs of the recent past. In January 2002 unemployment rate in Robeson County reached 11.3%. See Figure 3.

**Figure 3: North Carolina and Robeson Count Unemployment Rates**



Data Source: Bureau of Labor Statistics ([www.bls.gov](http://www.bls.gov))

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<sup>2</sup> The latest data were available for November 2008 for North Carolina (preliminary figures) and October 2008 for Robeson County (preliminary figures). Data source is the Bureau of Labor Statistics ([www.bls.gov](http://www.bls.gov)).