

Current Economic Conditions in the Eighth Federal Reserve District

Louisville Zone

June 25, 2008

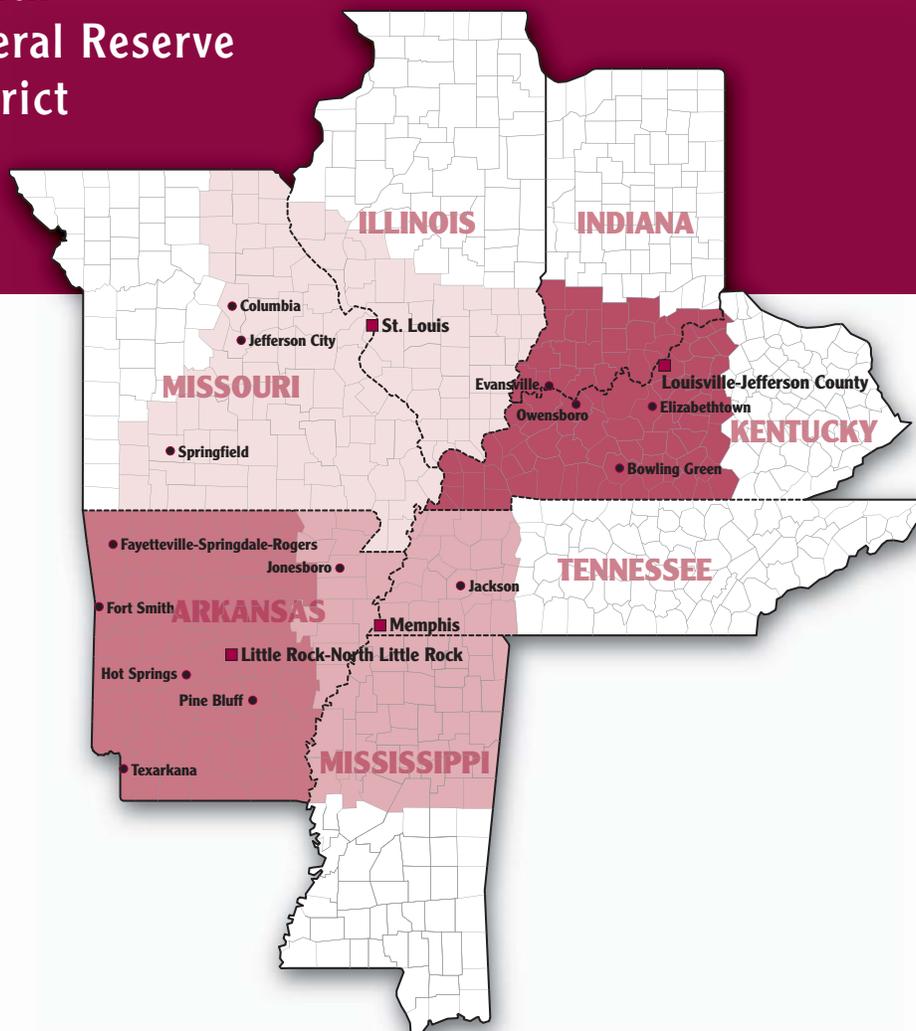
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Center for Regional Economics—8th District



Eighth Federal Reserve District



This report (known as the *Burgundy Book*) summarizes information on economic conditions in the Louisville zone of the Eighth Federal Reserve District (see map above), headquartered in St. Louis. Separate reports have also been prepared for the Little Rock, Memphis, and St. Louis zones and can be downloaded from the CRE8 web site (research.stlouisfed.org/regecon/).

The first section of this report summarizes information provided by various contacts within the District and is similar to the type of information found in the Fed's *Beige Book* (federalreserve.gov/fomc/beigebook/2008/). The period covered by this section coincides roughly with the two *Beige Book* periods immediately preceding this report. The second section includes government-provided data for the metro areas and states of the Louisville zone. These data are the most recent available at the time this report was assembled.

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Louisville Zone Report—June 25, 2008

Overall economic activity in the Louisville zone continues to be weak, but the situation differs across sectors. Retail sales have been flat, but have improved since our previous report. Car dealers continue to see weaker sales than last year. Reports from the manufacturing sector are mostly negative, although the service sector continues to expand. Declines in residential real estate and construction have deepened while commercial real estate remains relatively strong. Although loan and deposit activity remain soft, the banking sector remains stable. Reports from the agriculture sector were generally very positive.

Consumer Spending

One-third of the general retailers and about 60 percent of the car dealers surveyed indicated that sales were down in April and May compared with the same months in 2007. Still, one-third of the general retailers and 40 percent of the car dealers reported increased sales. All car dealers surveyed noted that sales of used cars had increased relative to new ones, while about half reported recent increases in rebates and incentives. Also, two-thirds reported more rejections of finance applications. Two-thirds of the general retailers reported that their inventories were too high, and three-fourths of these retailers plan to use more discounting than usual. Two-thirds of the general retailers and one-third of the car dealers expect sales to be higher this summer than they were a year earlier.

Manufacturing and Other Business Activity

Manufacturing activity in the Louisville zone decreased during the second quarter of 2008. A firm in the apparel manufacturing industries reported plans to consolidate existing facilities and operations, which will allow the firm to hire additional workers. In contrast, contacts in the fabricated metal, furniture, and chemical manufacturing industries all reported plans to lay off workers and decrease operations. Firms in the plastic and motor vehicle parts manufacturing industries announced that they will each close a plant in the zone. The service sector continued to expand and experience job growth. Contacts in business support services, retail services, and financial services all announced plans to expand operations and hire additional workers.

Real Estate and Construction

The downturn in the Louisville housing market has gained momentum. Compared with the same period last year, year-to-date home sales were down by 14 percent in February and 18 percent in April. Permits for single-family homes were 39 percent lower in February and 40 percent lower in April. Com-

mercial real estate activity has been relatively strong, with lower commercial and industrial vacancy rates in Louisville in the first quarter of 2008 than in the fourth quarter of 2007. A contact in Louisville reported that commercial and industrial construction continues at a strong pace, although there have been delays on several large projects. Other contacts in Louisville reported a stable volume of work among nonresidential construction contractors. Contacts in south-central Kentucky reported that commercial construction is relatively strong and that there are considerable projects in the pipeline. A contact in Danville, Kentucky, reported that while healthcare and school construction are in the works, speculative commercial projects are soft.

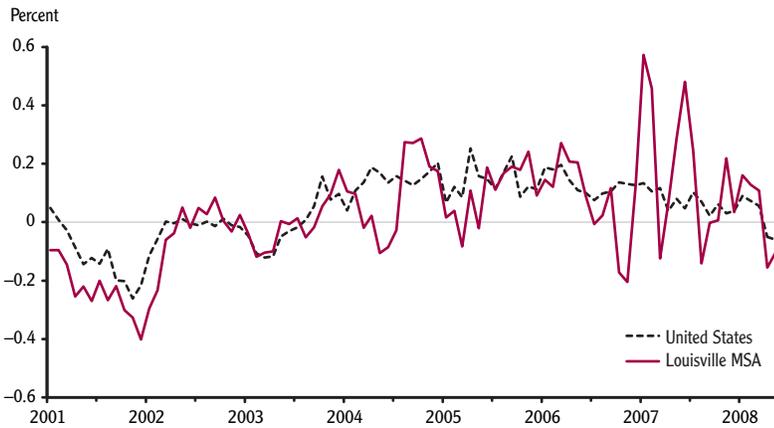
Banking and Finance

Bank contacts reported continued softening in consumer loan demand. A number of contacts noted the absence of the spike in loan activity that usually occurs at this time of year. Most contacts indicated that residential mortgage lending and commercial and industrial lending have been mostly flat. Almost all contacts noted little or no growth in deposits, but that higher market rates might attract more deposits in coming months.

Agriculture and Natural Resources

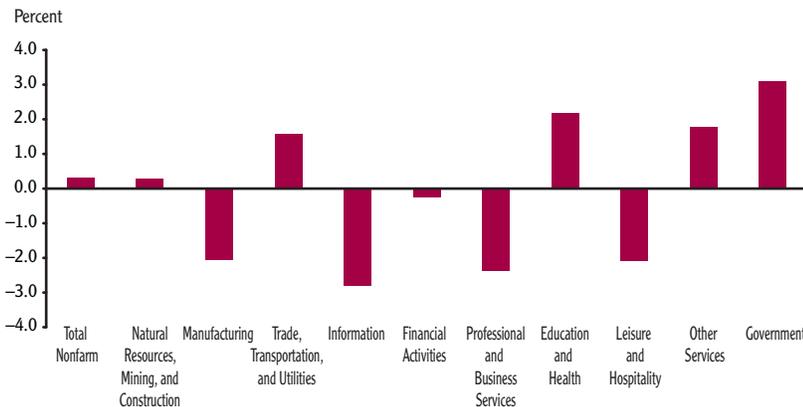
Farmers in Indiana and Kentucky intended to plant fewer acres of corn and more acres of soybeans this year than last. Farmers in both states planted more winter wheat in the fall. On the other hand, Kentucky farmers intended to plant fewer acres of sorghum and tobacco than in 2007. Frequent wet and cool weather conditions have caused delays in planting and crop growth. At the end of May, farmers were behind their normal planting pace for corn, sorghum, and soybeans. Also at the end of May, nearly all of the winter wheat and pasture land in Indiana and Kentucky was rated in fair condition or better—a significant improvement over the same period last year.

Nonfarm Payroll Employment Growth 3-Month Average, SA, January 2001–May 2008



Although there were relatively dramatic swings in employment growth in the Louisville MSA during 2007, the most recent estimates indicate that Louisville outperformed the rest of the country over the course of the year. Estimates for recent months, however, suggest that Louisville has experienced relatively larger job losses than did the country as a whole: Over the three-month period ending in May 2008, Louisville employment growth averaged -0.11 percent per month, while U.S. employment growth averaged -0.06 percent per month.

Louisville MSA Employment Growth by Sector Year/Year Percent Change, May 2007–May 2008



Employment growth in the Louisville MSA between May 2007 and May 2008 varied a great deal across sectors. According to the most recent estimates, the strongest sectors were government and education and health, which saw increases of 3.1 and 2.2 percent, respectively. Other strong sectors were trade, transportation, and utilities and other services. On the other hand, four sectors—manufacturing, information, professional and business services, and leisure and hospitality—were each estimated to have lost more than 2 percent of their jobs over the period.

Louisville Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,
May 2007–May 2008

	Nonfarm payroll employment percent change, May 2007–May 2008			Unemployment rate April 2008
	Total	Goods producing	Service providing	
Louisville	0.30	-1.34	0.65	5.3
Bowling Green, Ky.	1.44	0.00	1.82	4.5
Clarksville, Ky.	0.35	-2.98	1.16	5.6
Evansville, Ind.	2.18	-1.08	3.32	4.3
United States	0.30	-2.49	0.84	4.8

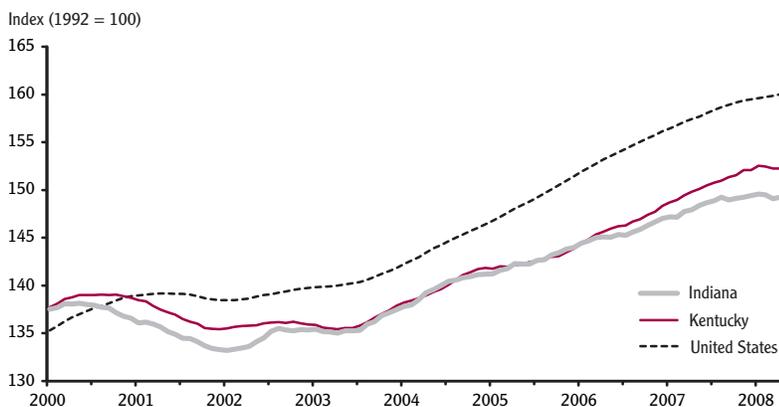
SOURCE: Bureau of Labor Statistics.

Louisville Zone—MSA Housing Activity

	Total building permits, units year to date		House price index, percent change, 2008:Q1/2007:Q1
	April 2008	Percent change	
Louisville	1,226	-45.9	2.73
Bowling Green, Ky.	149	-56.3	1.93
Clarksville, Ky.	548	-28.6	3.22
Elizabethtown, Ky.	115	-30.7	3.01
Evansville, Ind.	198	-48.4	1.65
Owensboro, Ky.	94	6.8	5.24
United States	321,015	-34.6	-0.03

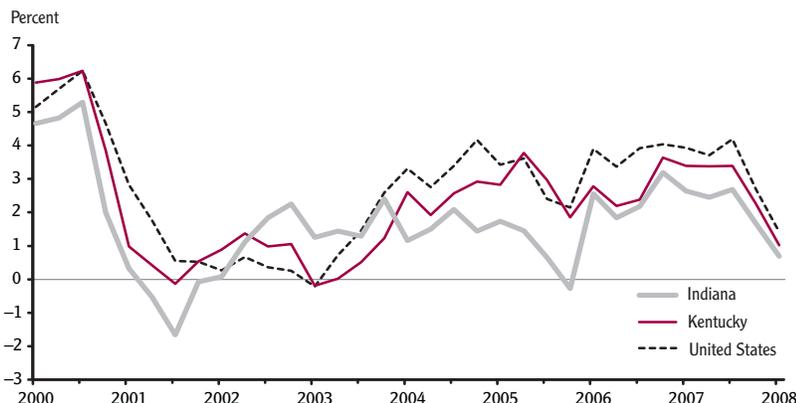
SOURCE: Bureau of the Census, Office of Federal Housing Enterprise Oversight.

Louisville Area Coincident Economic Activity Index



SOURCE: Federal Reserve Bank of Philadelphia.

Louisville Area Real Personal Income Growth Percent Change, Year-Over-Year



SOURCE: Bureau of Economic Analysis.

Total residential building permits in April were substantially lower than a year earlier in every zone MSA except Owensboro. Louisville, Bowling Green, and Evansville all saw decreases of 45 percent or higher. House price indices, however, increased in all metro areas between the first quarters of 2007 and 2008, with especially strong increases in Owensboro. In contrast, the same house price index fell slightly over the period for the country as a whole.

The Philadelphia Fed's coincident index combines payroll employment, wages and salaries, the unemployment rate, and hours worked into a single index. According to this index, Kentucky and Indiana have underperformed relative to the country as a whole since 2001. Between January and April 2008, this trend became more pronounced. While the index for the United States rose by 0.26 percent, it fell by 0.19 and 0.23 for Kentucky and Indiana, respectively.

Personal income growth in Kentucky and Indiana since 2004 has tended to be weaker than in the country as a whole. Also, income growth over the period in Indiana has been consistently weaker than in Kentucky. Although Kentucky's personal income growth has approached that of the country by the second quarter of 2007, it slowed substantially in the second half of the year and through the first quarter of 2008. Indiana's personal income growth continued to lag the country's and Kentucky's over the period, but all three growth rates converged as they fell.

2007 Population Estimates for Eighth District Metro Areas

	2007 Population	Change since 2000	Percent change	International migration	Internal (domestic) migration
Large metro areas					
St. Louis, Missouri-Illinois	2,803,707	105,020	3.9	27,436	-35,697
Little Rock-North Little Rock-Conway, Arkansas	666,401	55,883	9.2	3,644	25,220
Louisville/Jefferson County, Kentucky-Indiana	1,233,735	71,760	6.2	12,115	24,698
Memphis, Tennessee-Arkansas-Mississippi	1,280,533	75,329	6.3	13,399	3,086
Small and medium metro areas					
Bowling Green, Kentucky	116,001	11,835	11.4	2,549	5,784
Columbia, Missouri	162,314	16,648	11.4	3,000	6,769
Elizabethtown, Kentucky	111,610	4,063	3.8	-53	-1,207
Evansville, Indiana-Kentucky	349,717	6,902	2.0	1,493	-393
Fayetteville-Springdale-Rogers, Arkansas-Missouri	435,714	88,669	25.5	10,435	52,725
Fort Smith, Arkansas-Oklahoma	289,693	16,523	6.0	3,937	3,497
Hot Springs, Arkansas	96,371	8,303	9.4	451	9,355
Jackson, Tennessee	112,660	5,283	4.9	1,030	1,180
Jefferson City, Missouri	145,686	5,634	4.0	854	493
Jonesboro, Arkansas	116,402	8,640	8.0	913	4,747
Owensboro, Kentucky	112,104	2,229	2.0	310	-1,022
Pine Bluff, Arkansas	101,484	-5,857	-5.5	448	-8,297
Springfield, Missouri	420,020	51,646	14.0	1,485	39,241
Texarkana, Texas-Arkansas	134,215	4,466	3.4	531	1,970

SOURCE: U.S. Census Bureau.