Current Economic Conditions in the Eighth Federal Reserve District

Louisville Zone

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Prepared by the
Center for Regional Economics—8th District (CRE8)
Federal Reserve Bank of St. Louis

CRE8

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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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Overall economic activity in the Louisville zone continues to be weak, although there are some bright spots. General retailers were mostly positive about recent sales performance and were optimistic about September and October. Auto dealers, however, were mostly negative about recent and future sales. Reports from the manufacturing sector were more positive than negative, and the service sector continues to expand. Declines in residential real estate and construction have continued, while commercial real estate remains relatively strong. In the banking sector, loan activity remains weak, although deposits have picked up. Reports from the agriculture sector were generally positive.

**Consumer Spending**

About two-thirds of the car dealers surveyed during the first half of August indicated that sales were lower in late July and early August than during the same period of 2007. In contrast, two-thirds of the general retailers reported increased sales and about 75 percent noted that sales met or exceeded expectations. Among car dealers, one-third noted that used car sales had increased relative to new car sales, while none reported the opposite. Also, half reported increased sales of low-end relative to high-end cars, while two-thirds reported more rejections of finance applications. Two-thirds of the general retailers expect sales to increase in September and October over 2007 levels, while half of the car dealers expect sales to decrease.

**Manufacturing and Other Business Activity**

According to our contacts, manufacturing activity in the Louisville zone expanded during the third quarter of 2008. Manufacturers of food, dolls/toys/games, plastic bottles, frozen food, non-metallic mineral products, and plastic products reported plans to open new facilities or to expand existing ones. A few firms in the automotive manufacturing industry pledged not to cut jobs despite a noted slowdown in demand. A firm in the furniture manufacturing industry also announced plans to rehire workers due to an increase in demand. In contrast, contacts in the auto parts manufacturing, electrical equipment manufacturing, chemical manufacturing, and auto manufacturing industries reported plans to lay off workers and decrease operations. A firm in the auto parts manufacturing industry announced that it will close a plant in the zone.

The service sector continued to expand, particularly in the business support services sector. Contacts in this sector announced plans to build a new call center and hire additional workers. In contrast, contacts in the health care industry announced plans to consolidate operations and lay off workers.

**Real Estate and Construction**

In Louisville, July year-to-date home sales and year-to-date single-family housing permits were down by 22 and 42 percent, respectively, compared with the same periods in 2007. The industrial vacancy rate in Louisville decreased between the first and second quarters, along with the downtown office vacancy rate. The suburban office vacancy rate, however, increased over the period. Contacts reported that commercial construction in western Kentucky was relatively strong and that industrial construction has slowed in Evansville, Indiana. Commercial contracting contacts in Louisville reported a satisfactory number of projects in the pipeline. An industrial market contact relayed guarded optimism that the Louisville industrial market might avoid a prolonged period of slow economic growth.

**Banking and Finance**

Bank contacts in the Louisville zone reported continued weakness in the consumer and residential mortgage loan categories, usually citing tighter lending standards as the primary reason. Most contacts reported little to no change in commercial and industrial lending. A few contacts noted some concern over credit quality as banks have experienced a spike in the number of delinquencies. Contacts also report an increase in deposits, attributed by one contact to consumers seeking FDIC coverage.

**Agriculture and Natural Resources**

Partly due to late planting this year, development of corn is behind the normal pace in Indiana and Kentucky, as is soybean development in Indiana. As of mid-August, 85 percent of the pastures in Indiana and 75 percent of the pastures in Kentucky were in fair condition or better, which was much higher than in 2007 for both states. Conditions for corn and soybeans in both states, and tobacco in Kentucky, are typically higher than in August 2007. As of August 1, yields for corn and soybeans in Indiana and corn and tobacco in Kentucky were expected to range from 2 percent higher to 9 percent higher than last year’s yields, while soybean yields in Kentucky were expected to be about 50 percent higher. Winter wheat yields were expected to be 21 percent higher in Indiana and 45 percent higher in Kentucky.
Although employment losses in the Louisville MSA were much steeper than for the country as a whole during 2008, the most recent estimates indicate that Louisville has been gaining jobs. 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 June 2008, Louisville employment growth averaged −0.39 percent per month, while U.S. employment growth averaged −0.07 percent per month. By July, however, average employment growth in Louisville jumped to 0.21 percent, while it was 0.03 percent for the United States.

Employment growth in the Louisville MSA between July 2007 and July 2008 varied a great deal across sectors. According to the most recent estimates, the strongest sectors were government and manufacturing, which saw increases of 2.7 and 2.6 percent, respectively. Other strong sectors were trade, transportation, and utilities and education and health. On the other hand, three sectors—information, financial activities, and professional and business services—were each estimated to have lost more than 1.5 percent of their jobs over the period.
Total residential building permits in July were substantially lower than a year earlier in every zone MSA except Owensboro, where they were only 6.3 percent lower. Louisville, Bowling Green, Clarksville, and Evansville all saw decreases of 41 percent or higher. House price indices, however, increased in all metro areas between the second quarters of 2007 and 2008. 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. This trend has become more pronounced throughout 2008. For the year through July, the index for the United States rose by 0.41 percent while falling by 1.8 and 1.1 percent 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 by the second quarter of 2007, Kentucky’s personal income growth approached that of the country 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.
### Residential Mortgage Delinquency Rates for Eighth District States

#### Percent 90+ Days Delinquent or in Foreclosure, 2008:Q2

<table>
<thead>
<tr>
<th>State</th>
<th>All mortgages</th>
<th>Prime</th>
<th>Subprime*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>FRM</td>
<td>ARM</td>
</tr>
<tr>
<td>Missouri</td>
<td>3.1</td>
<td>1.5</td>
<td>1.1</td>
</tr>
<tr>
<td>Illinois</td>
<td>4.7</td>
<td>2.3</td>
<td>1.4</td>
</tr>
<tr>
<td>Indiana</td>
<td>5.7</td>
<td>2.9</td>
<td>2.2</td>
</tr>
<tr>
<td>Kentucky</td>
<td>4.0</td>
<td>1.9</td>
<td>2.2</td>
</tr>
<tr>
<td>Tennessee</td>
<td>3.7</td>
<td>1.7</td>
<td>1.3</td>
</tr>
<tr>
<td>Mississippi</td>
<td>5.0</td>
<td>2.5</td>
<td>1.9</td>
</tr>
<tr>
<td>Arkansas</td>
<td>2.7</td>
<td>1.5</td>
<td>1.0</td>
</tr>
<tr>
<td>U.S. total</td>
<td>4.5</td>
<td>2.4</td>
<td>1.3</td>
</tr>
</tbody>
</table>

*NOTE: *The Mortgage Bankers Association divides the sample of conventional mortgages into prime and subprime categories based on whether the servicer handles primarily prime or subprime loans. Therefore, there are some prime loans in the subprime sample and some subprime loans in the prime sample.

*SOURCE: Mortgage Bankers Association, National Delinquency Survey/Haver Analytics.*

One of the symptoms of the ongoing problems in the nation’s housing markets is a sharp rise in mortgage delinquencies and home foreclosures. From the second quarter of 2007 through the second quarter of 2008, the percentage of mortgages with more than three consecutive missed monthly payments or in foreclosure rose from 2.5 percent to 4.5 percent.

The table above summarizes the data for Eighth District states as of the second quarter of 2008. The data show that our region has suffered along with the nation. In fact, three Eighth District states have had higher proportions of delinquencies than the national average—Illinois, Indiana, and Mississippi. But the other states in the region—Arkansas, Kentucky, Missouri, and Tennessee—have fared better than the national average. Arkansas, in particular, has experienced a much lower rate of delinquencies and foreclosures than the rest of the country has.

For both the nation and the District, there are distinct differences in the pattern of delinquencies across various types of mortgages. Fixed-rate mortgages (FRM) have lower delinquency and foreclosure rates than do adjustable-rate mortgages (ARM). Moreover, the rate of delinquencies and foreclosure is much higher for subprime loans than for prime loans, and the rates for subprime ARMs are much higher than the rates for subprime FRMs. These patterns are clear in each of the Eighth District states. In fact, those states that have delinquency and foreclosure rates above the national average for all mortgages taken together tend to have rates above the national averages for each category of mortgage loans as well.