Current Economic Conditions in the Eighth Federal Reserve District

Louisville Zone

December 17, 2008

Prepared by the
Center for Regional Economics—8th District (CRE8)
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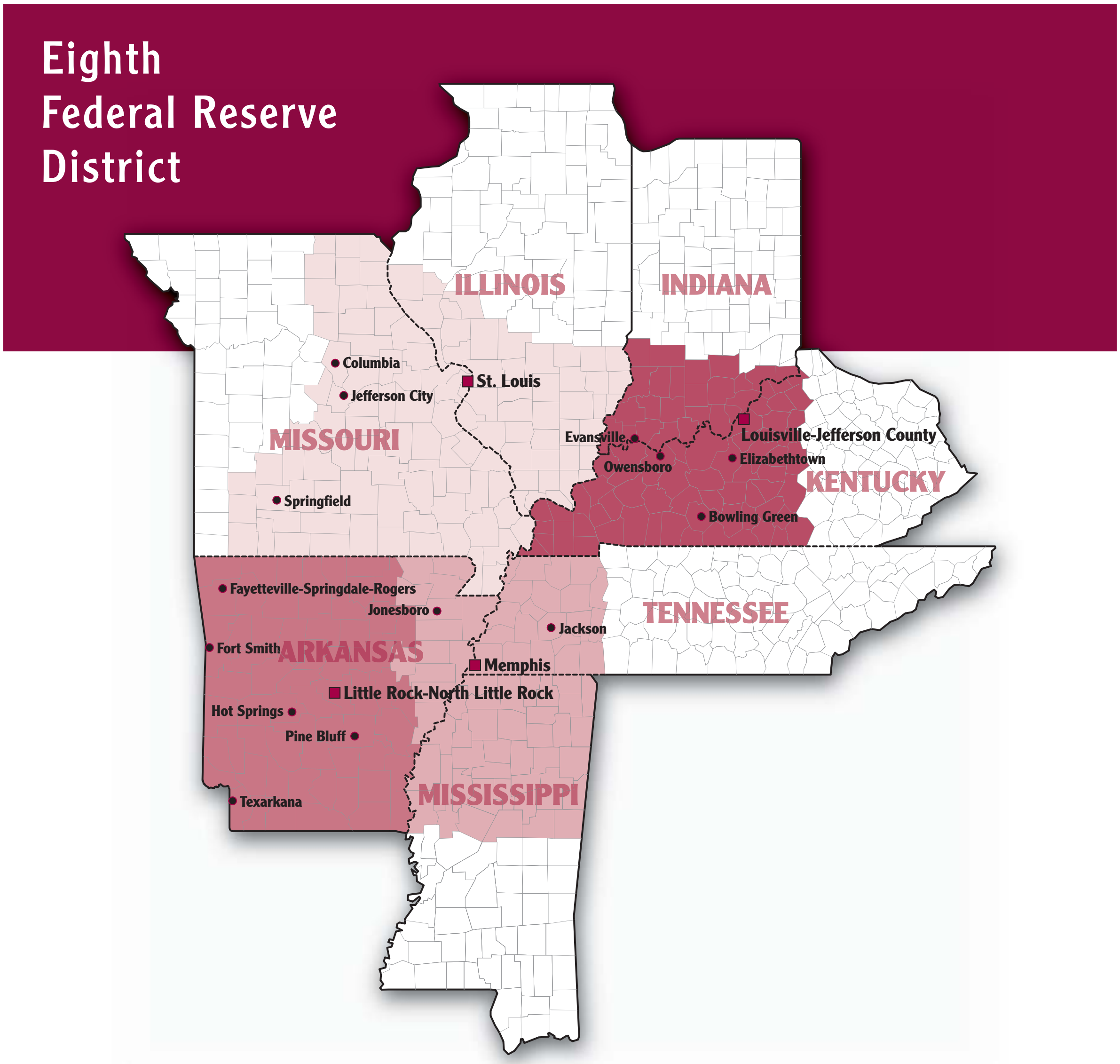

This report (known as the *Burgundy Book*) summarizes information on economic conditions in the Louisville zone of the Eighth Federal Reserve District (see map above), headquartered in St. Louis. Separate reports have also been prepared for the Little Rock, Memphis, and St. Louis zones and can be downloaded from the CRE8 website (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—December 17, 2008

The overall picture for the Louisville zone continues to be somewhat negative. While general retail activity was mixed, car dealers continued to report negative news. Manufacturing declined, while the service sector expanded slightly. The real estate and construction sector continued to decline, and banking activity was mixed. The agriculture and natural resources sectors, on the other hand, continued to be strong.

Consumer Spending

Retail sales for October and the first half of November were mixed among general retailers but negative among car dealers. Half of the general retailers and all of the car dealers surveyed indicated that sales were down compared with the same period in 2007. Among car dealers, one-third reported increased sales of low-end cars relative to high-end cars, while none reported the opposite. More than 80 percent reported recent increases in rebates, one-third reported lower sales prices, and about one-third reported more rejections of finance applications. Half of the general retailers and 83 percent of the car dealers reported that their inventories were too high, while the remaining contacts reported that inventories were at desired levels.

Auto dealers were pessimistic, whereas general retailers were optimistic about the remainder of 2008: Two-thirds of the general retailers expected sales to be higher relative to the same period last year, whereas more than 80 percent of the car dealers expected lower sales.

Manufacturing and Other Business Activity

In contrast with the generally positive news summarized in our previous report, the manufacturing sector has tended to provide negative news. Firms in the automotive parts and automotive manufacturing industries announced plans to idle plants and lay off workers, although a smaller number of firms in automotive parts, food, pharmaceutical, printing, and plastic product manufacturing announced plans to expand production and hire additional workers. Additional firms in the plastic products, machinery, tobacco product, and athletic goods manufacturing also announced plans to lay off workers and decrease operations. The service sector expanded slightly, with firms in business support, truck transportation, and health care services announcing plans to expand operations and employment. On the other hand, a smaller number of firms in financial services and truck transportation services announced plans to decrease operations.

Real Estate and Construction

The residential real estate market continued to be weak relative to the previous year. Compared with the same period in 2007, October home sales were down by 22 percent. Similarly, October year-to-date single-family housing permits declined by 42 percent. These year-over-year declines changed little over previous months, however, suggesting some flattening in the housing market. Industrial and commercial real estate saw increasing weakness since the previous report. The industrial vacancy rate in Louisville rose between the second and third quarters of 2008, as did the suburban and downtown office vacancy rates. A Districtwide commercial construction contact reported that backlogs are shortening and interest in new projects has slowed sharply. A contact in Louisville reported that, with several new projects announced, industrial developers are cautiously optimistic about the fourth quarter.

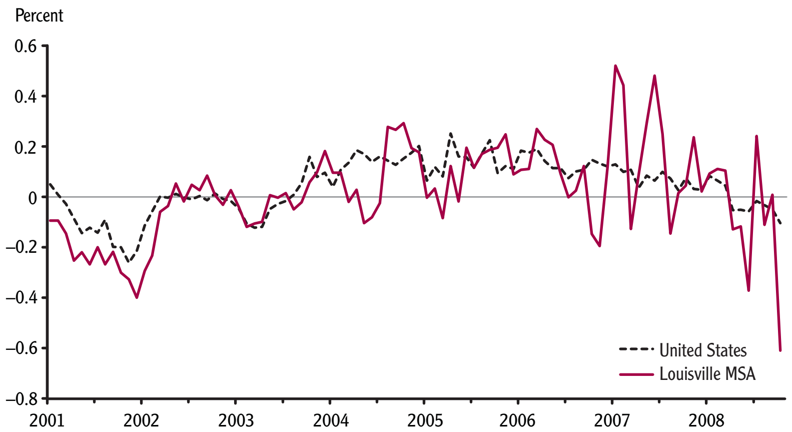
Banking and Finance

There was continued weakness in the commercial and industrial and residential mortgage loan categories, and about half of all contacts reported little to no change in consumer loan activity. One contact noted that most banks are having no problems lending to the most creditworthy borrowers, but tighter lending standards have prevented any sizable increases in lending activity. Contacts also reported an increase in deposits, with customers moving deposits out of troubled national banks and into local banks as a potential reason for the increase.

Agriculture and Natural Resources

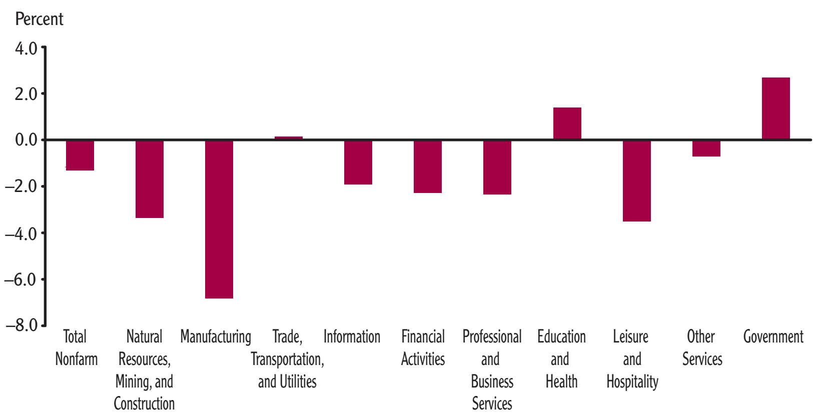
Good weather conditions helped with the harvesting of crops. As of mid-November, Indiana and Kentucky farmers had harvested at least 91 percent of their corn and soybeans (on par with or ahead of normal). November estimates showed that yields for corn in both states were 3 percent higher than last year. Soybean yields were 4 percent lower in Indiana but 24 percent higher in Kentucky than last year. As of mid-November, farmers had planted nearly all of their intended winter wheat crop, with Kentucky farmers ahead of their normal pace. At least 91 percent of the emerged winter wheat in both states was rated in fair condition or better, which was comparable to the ratings at this time last year.

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



Employment losses in the Louisville MSA have been steeper than for the country as a whole during most of 2008. Estimates for recent months, however, show an uneven pattern: Over the three-month period ending in July 2008, Louisville employment growth averaged 0.24 percent per month, while U.S. employment growth averaged –0.02 percent per month. By October, however, average employment growth in Louisville had fallen to –0.61 percent, while it was –0.11 percent for the United States.

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



Employment growth in the Louisville MSA between October 2007 and October 2008 was negative in most of the sectors. According to the most recent estimates, the strongest sectors were government, education and health, and trade, transportation and utilities, which saw increases of 2.7, 1.4, and 0.1 percent, respectively. All other sectors experienced job losses. Manufacturing experienced the steepest decline, losing 6.8 percent of its jobs during the period. Leisure and hospitality and natural resources, mining, and construction were second and third from the bottom, losing 3.5 and 3.4 percent of their jobs, respectively.

Louisville Zone—MSA Employment and Unemployment

	Nonfarm payroll employment percent change, October 2007–October 2008			Unemployment rate October 2008
	Total	Goods producing	Service providing	
Louisville	**–1.30**	**–5.72**	**–0.35**	**6.4**
Bowling Green, Ky.	–0.48	–7.58	1.40	5.2
Clarksville, Ky.	–1.05	–3.61	–0.43	6.7
Evansville, Ind.	–0.39	–1.96	0.15	5.2
United States	–0.31	–3.35	0.28	6.1

SOURCE: Bureau of Labor Statistics.

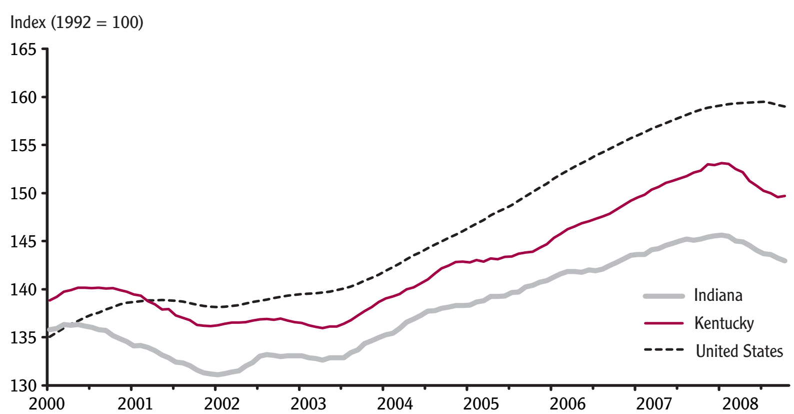
Louisville Zone—MSA Housing Activity

	Total building permits, units year-to-date		House price index, percent change, 2008:Q3/2007:Q3
	October 2008	Percent change	
Louisville	**3,322**	**–40.1**	**1.04**
Bowling Green, Ky.	388	–47.2	0.98
Clarksville, Ky.	1,195	–30.9	3.02
Elizabethtown, Ky.	330	–46.1	–0.88
Evansville, Ind.	563	–38.5	0.70
Owensboro, Ky.	293	–17.9	0.29
United States	812,088	–33.2	–4.00

SOURCE: Bureau of the Census, Federal Housing Financing Authority.

Total residential building permits in October were substantially lower than a year earlier in every zone MSA. Louisville, Bowling Green, Clarksville, Elizabethtown; and Evansville all saw decreases of 30 percent or higher. Owensboro performed the best with a decrease of 17.9 percent. House price indices, however, increased in all metro areas, except for Elizabethtown, between the third quarters of 2007 and 2008. In contrast, the same house price index fell by 4 percent during the period for the country as a whole.

Louisville Area Coincident Economic Activity Index



SOURCE: Federal Reserve Bank of Philadelphia.

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 October, the index for the United States fell by 0.1 percent, while it fell by 2.2 and 1.8 percent for Kentucky and Indiana, respectively.

Louisville Area Real Personal Income Growth
Percent Change, Year/Year

SOURCE: Bureau of Economic Analysis.

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. By the second quarter of 2007, Kentucky's personal income growth approached that of the country, although it slowed substantially in the second half of the year and through the first quarter of 2008. There was, however, a reversal in the second quarter or 2008, with all three growth rates rising. Indiana's personal income growth continued to lag the country's and Kentucky's over the period.

Year-Over-Year Percent Change in State Tax Revenue

	2007:Q3				2008:Q3			
	Personal income	Corporate income	Sales	Total	Personal income	Corporate income	Sales	Total
Arkansas	7.3	9.3	–2.5	3.2	5.7	–10.7	3.7	4.8
Illinois	5.5	–4.3	–2.9	1.3	3.7	1.5	2.5	2.7
Indiana	7.2	6.2	3.7	5.6	–1.9	–10.5	2.7	–0.6
Kentucky	11.5	–41.4	3.2	2.4	6.6	–49.8	1.6	0.4
Mississippi	9.5	14.4	–3.1	2.7	–1.9	–14.6	2.9	1.2
Missouri	7.3	–2.3	4.8	5.8	2.4	–14.5	–2.5	0.4
Tennessee	—	13.3	3.0	5.9	—	–25.2	–2.0	–4.8
United States	6.3	–2.4	3.1	4.4	1.5	–8.3	–0.7	0.1

NOTE: July-September 08/07 data are preliminary data from early-reporting states collected by the Rockefeller Institute of Government.

SOURCE: The Nelson A. Rockefeller Institute of Government/U.S. Bureau of the Census.

In all District states but Arkansas, third-quarter tax revenue growth was lower than it was a year earlier, which mirrors the national experience. For Indiana and Tennessee, total third-quarter 2008 tax revenues were actually lower than they were a year earlier. For the other District states, however, total revenue growth was stronger than the national average.

The largest declines in tax revenue growth tended to be from corporate income taxes. Every state in the District except for Illinois saw double-digit decreases in corporate income tax revenue in the third quarter of 2008 relative to a year earlier. Compared with 2007, year-over-year growth in revenue from personal income taxes was lower for all District states in the third quarter of 2008, although sales tax results were mixed.