

Current Economic Conditions in the Eighth Federal Reserve District

Louisville Zone

December 17, 2009

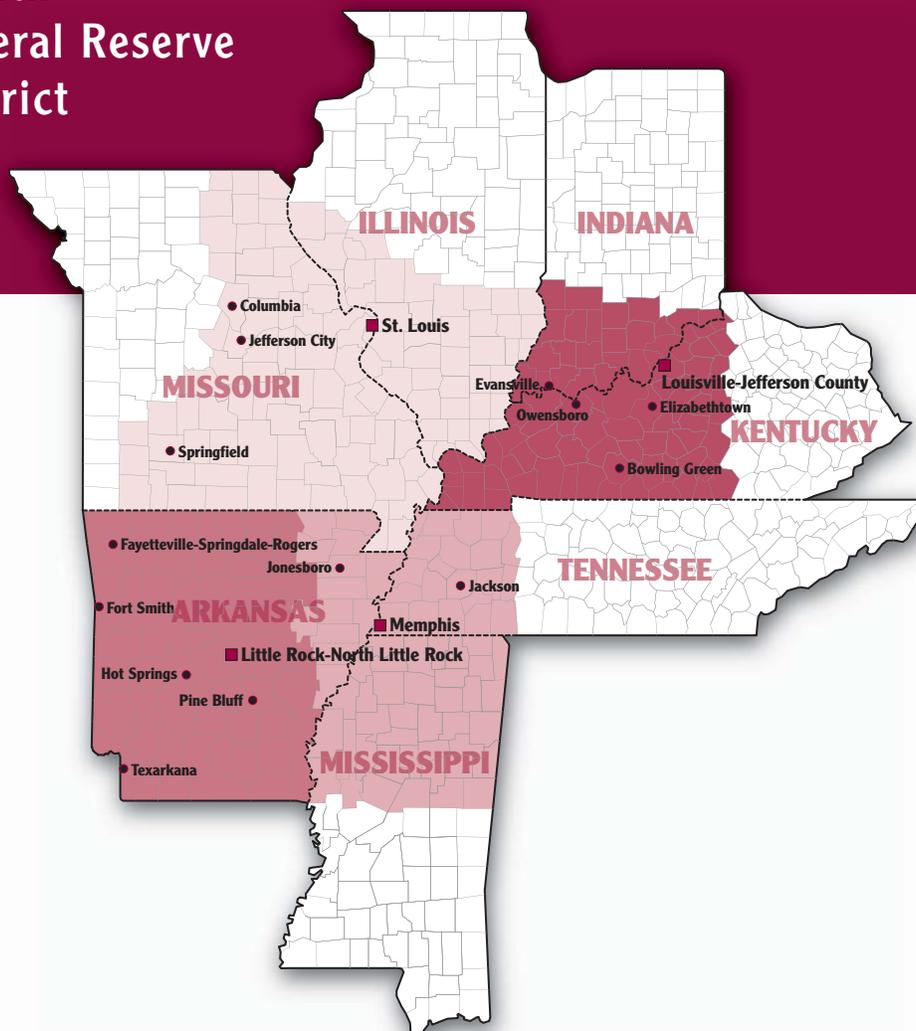
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CRE8

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 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/2009/). 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, 2009

Although the overall picture for the economy of the Louisville zone continues to be mostly negative, conditions have improved in some sectors. Retail activity for general retailers and car dealers was mixed. Manufacturing continued to decline, but portions of the service sector showed signs of improvement. Real estate, construction, and banking all continued to be weak. Economic conditions in the agriculture and natural resource sector, on the other hand, were generally favorable.

Consumer Spending

Reports on retail sales for October and early November were mixed among general retailers and car dealers. About 60 percent of the general retailers and half of the car dealers indicated that sales were down compared with the same months in 2008, and roughly 40 percent of the general retailers and one-third of the car dealers reported increased sales. One-third of general retailers noted that sales levels met their expectations. Among car dealers, one-third reported that used car sales had increased relative to new car sales, but none reported the opposite. Two-thirds of car dealers noted an increase in low-end vehicle sales relative to high-end vehicle sales, but none reported the opposite. The sales outlook for the rest of 2009 was mixed among the general retailers and the car dealers. Half of each group expect sales to increase over 2008 levels.

Manufacturing and Other Business Activity

Manufacturing in the Louisville zone continues to be weak, with manufacturers of pharmaceuticals, auto parts, and appliances reporting layoffs and plant closures. A few firms announced plans to expand and hire new workers, however. These include firms in food and beverage manufacturing and glass manufacturing. In addition, a firm in petroleum and coal manufacturing announced plans to open a new mine and hire additional workers. The service sector has continued to improve slightly since our previous report, with contacts reporting an increase in hiring. One firm in business support services announced that a new facility will be located within the zone and that the firm will hire additional workers.

Real Estate and Construction

The residential real estate market continued to be weak in the Louisville zone. Compared with the same periods in 2008, August 2009 and September 2009 year-to-date home sales were down by 10 percent and 7 percent, respectively. Compared with the same periods in 2008, August 2009 and September 2009 year-to-date single-family housing permits declined by 25 percent and 23 percent, respectively. Compared with the

second quarter of 2009, the third-quarter 2009 industrial vacancy rate remained the same but the suburban and downtown office vacancy rates increased. A contact in south-central Kentucky noted that overall commercial construction continues to lag behind the number of projects in recent years.

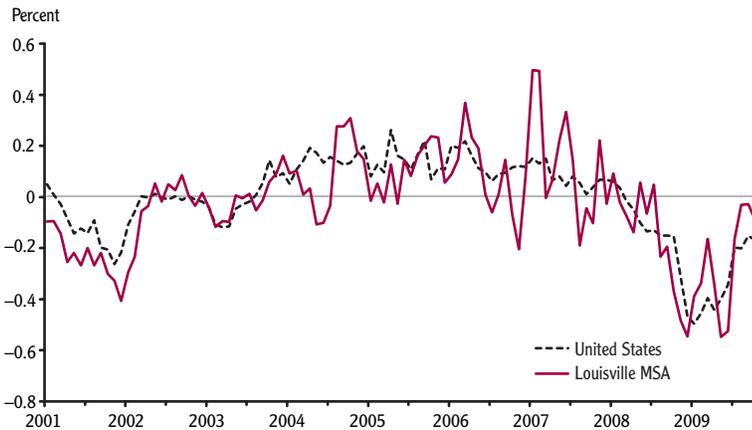
Banking and Finance

Bank contacts in the Louisville zone provided mixed reports on local banking conditions. On net, these reports indicated a decrease in lending activity for commercial and industrial loans despite a few isolated reports of an uptick in demand and originations. Most contacts reported little to no change in lending activity for consumer loans. There were several reports that lower interest rates and the first-time homeowner tax credit increased residential mortgage lending over the past few months, but demand for these loans appears to be waning. Contacts noted concern over decreasing loan quality, and one contact indicated that loan renegotiations are occurring at an unprecedented rate. Most contacts reported an increase in deposits.

Agriculture and Natural Resources

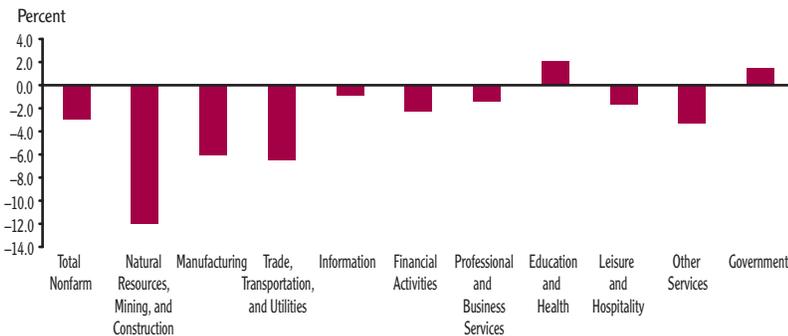
Wet conditions throughout the Louisville zone caused some delays in harvesting and winter wheat planting. As of mid-November, farmers had harvested at least 90 percent of the soybeans in Indiana, 90 percent of the corn in Kentucky, 80 percent of the soybeans in Kentucky, and two-thirds of the corn in Indiana. Yields for corn and soybeans in Indiana were 4 percent and 2 percent higher, respectively, than last year's yields, and yields for those crops in Kentucky were 18 percent and 33 percent higher, respectively, than last year's yields. From October to November, yield estimates changed by less than 5 percent except for soybeans in Indiana, which increased by 7 percent. As of mid-November, farmers in Indiana and Kentucky were behind normal with their winter wheat planting, and crop growth was even farther behind normal. About 95 percent of the emerged winter wheat in both states was rated in fair condition or better, which was comparable to the same time last year.

Nonfarm Payroll Employment Growth 3-Month Average, SA, January 2001–October 2009



For the three-month period ending in October 2009, average monthly employment losses in the Louisville metro area have been smaller than for the country as a whole. Over the period, average monthly employment growth was -0.08 percent in the Louisville metro area compared with -0.18 percent for the United States. This is a reversal over the three-month period immediately prior, when average monthly employment growth in the Louisville area was -0.54 percent compared with -0.37 percent for the United States.

Louisville MSA Employment Growth by Sector Year/Year Percent Change, October 2008–October 2009



Sector-specific employment growth in the Louisville metro area between October 2008 and October 2009 was mixed, although the majority of sectors experienced job losses. The education and health sector experienced annual job growth of 2.1 percent, and job growth in the government sector was 1.5 percent. Job losses were experienced in all other sectors, although the greatest percentage job losses were in natural resources, mining, and construction (12 percent); trade, transportation, and utilities (6.5 percent); and manufacturing. Total job losses in the metro area over this period were 3.0 percent.

Louisville Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,
October 2008–October 2009

	Total	Goods producing	Service providing	Unemployment rate October 2009
Louisville	-2.98	-8.02	-1.96	11.0
Bowling Green, Ky.	-5.69	-18.03	-2.64	12.8
Evansville, Ind.	-3.21	-8.87	-1.28	8.8
United States	-3.87	-12.03	-2.37	10.2

SOURCE: Bureau of Labor Statistics.

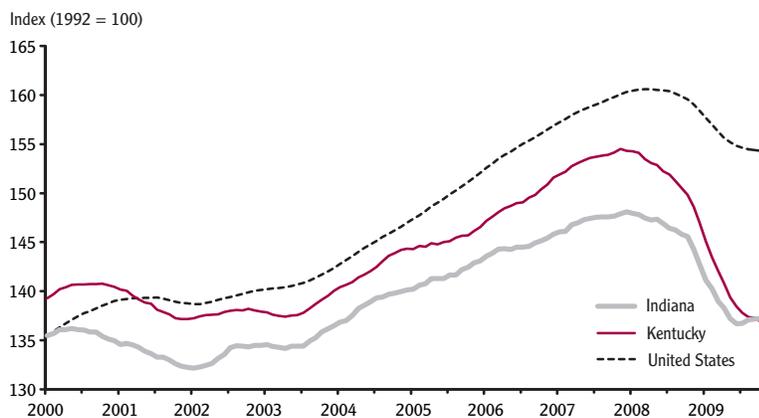
Louisville Zone—MSA Housing Activity

	Total building permits, units year-to-date		House price index, percent change, 2009:Q3/2008:Q3
	September 2009	Percent change	
Louisville	2,063	-37.9	-0.37
Bowling Green, Ky.	305	-21.4	0.83
Elizabethtown, Ky.	239	-17.6	1.82
Evansville, Ind.	401	-28.8	-1.20
Owensboro, Ky.	200	-31.7	2.90
United States	483,013	-40.5	-4.08

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

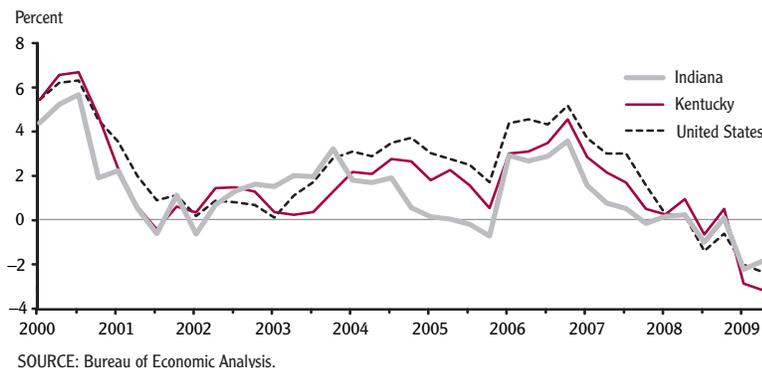
Total year-to-date residential building permits in September were significantly lower than a year earlier in every zone metro area, with decreases ranging from -21.4 percent in Bowling Green to -37.9 percent in Louisville. In comparison, building permits declined by 40.5 percent for the United States. House price indices, however, increased in all but two of the metro areas (Louisville and Evansville) between the third quarters of 2008 and 2009. In contrast, house prices fell by 4.1 percent during the period for the country as a whole.

Louisville Area Coincident Economic Activity Index



The Philadelphia Fed's coincident index combines payroll employment, wages and salaries, the unemployment rate, and hours worked into a single index of economic performance. According to this index, Kentucky and Indiana have underperformed relative to the country as a whole since 2001. This is partly due to losses in the relatively larger manufacturing sector present in Kentucky and Indiana. For January through October 2009, the index for the United States fell by 2.1 percent, while it fell by 5.6 percent and 2.8 percent for Kentucky and Indiana, respectively. In October 2009, the index for Kentucky fell below that of Indiana for the first time over the shown time period January 2000 to October 2009.

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



Personal income growth in Kentucky and Indiana has tended to be weaker than the country as a whole from 2004, although income growth in Kentucky and Indiana for the middle of 2008 was greater than that of the United States. More recently, second-quarter 2009 income growth in Indiana was greater than that of the United States while income growth in Kentucky was below that of the country. For the second quarter of 2009, personal income growth over a year earlier was about -2.4 percent in the United States, compared with -3.2 percent in Kentucky and -1.9 percent in Indiana.

Year-Over-Year Percent Change in State Tax Revenue

	2008:Q3				2009:Q3			
	Personal income	Corporate income	Sales	Total	Personal income	Corporate income	Sales	Total
Arkansas	6.2	-12.4	3.6	3.4	-6.9	-21.4	-11.1	-7.8
Illinois	3.8	-3.4	1.9	1.4	-11.7	-28.4	-13.1	-12.6
Indiana	-1.9	-10.5	19.7	9.1	-20.3	-42.4	-10.9	-14.2
Kentucky	6.6	-48.4	3.2	0.9	-7.1	-40.5	-7.5	-5.5
Mississippi	-1.8	-14.6	2.5	1.4	-12.2	-19.1	-12.4	-11.8
Missouri	0.2	-3.0	-3.6	-1.1	-8.1	-8.5	-6.0	-6.9
Tennessee	—	-25.2	-2.0	-4.2	—	8.2	-9.5	-5.4
United States	1.9	-14.9	4.8	3.0	-11.3	-17.5	-8.8	-11.1

NOTE: 2009:Q3 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.