

Current Economic Conditions in the Eighth Federal Reserve District

Louisville Zone

March 19, 2010

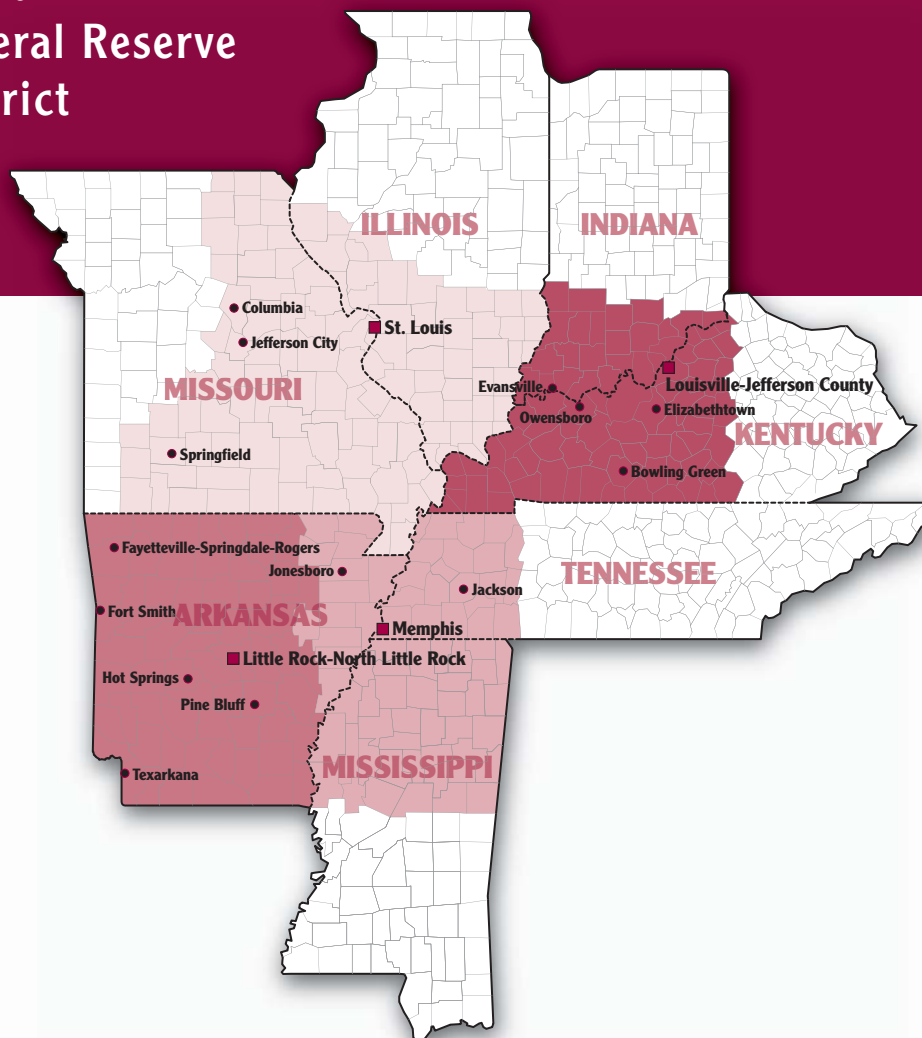
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CRE8

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—March 19, 2010

Reports from our contacts in the Louisville zone suggest that economic activity has been picking up in many sectors. Compared with a year earlier, auto sales have picked up, while general retailers reported flat sales. Manufacturing activity has picked up and manufacturers are more optimistic about the rest of the year. Residential real estate markets have been improving somewhat, although commercial real estate markets have continued to weaken. Contacts in the banking sector reported increased loans by small businesses, but noted that this is due to refinancing rather than an increase in economic activity.

Consumer Spending

Retail sales reports for January and early February were mixed among general retailers but mostly positive among car dealers surveyed in the Louisville zone. Compared with our previous report, this represents an improvement for car dealers and little change for general retailers. Roughly half of the general retailers and more than 80 percent of the car dealers indicated that sales were up compared with the same period in 2009. The remaining general retailers and car dealers reported decreased sales. Almost half of the car dealers reported more acceptances of finance applications, but around 35 percent reported more rejections. Nearly 70 percent of the general retailers and more than 80 percent of the car dealers expect sales to increase over 2009 levels, which are improvements for both groups from our previous report. The remaining contacts expect their sales to decline.

Manufacturing and Other Business Activity

Manufacturing activity in the Louisville zone began to improve since our previous report, with more firms announcing an increase in hiring. Contacts in the appliance manufacturing, auto manufacturing, auto parts manufacturing, and food product machinery manufacturing industries announced plans to hire additional employees. Furthermore, several of these firms noted an improvement in their business outlook for 2010. In contrast, a firm in machinery manufacturing reduced employment by relocating jobs outside the zone. The service sector continued to improve since our previous report. Firms in leisure and hospitality and in medical services announced plans to hire additional employees. Another firm in the medical services industry announced plans to expand its facilities to meet growing needs.

Real Estate and Construction

In Louisville, the residential real estate market had mixed news. Compared with the same period in 2008, year-to-date home sales increased by 3 percent in December 2009, which is an improvement from our previous report. On the other hand, year-

to-date single-family housing permits continued to decline compared with the previous year, as December 2009 permits fell by 15 percent. The industrial and commercial real estate markets declined in the fourth quarter of 2009 as the industrial vacancy rate and the suburban and downtown office vacancy rates increased from the previous quarter. A contact in south-central Kentucky reported that, while commercial construction is relatively strong, it mainly consists of education-related projects. A contact in Evansville, Indiana, noted that major construction projects were lagging and that improvement is not expected for six to twelve months.

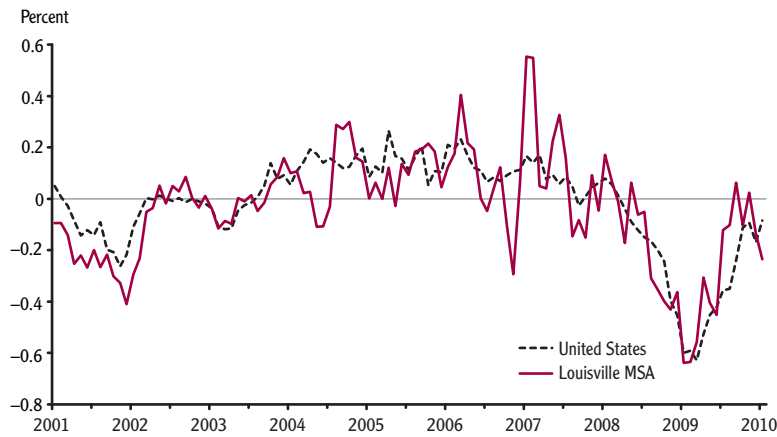
Banking and Finance

Contacts provided mixed reports on local banking conditions. On net, reports indicated an increase in lending activity for commercial and industrial loans, which several contacts mostly attributed to small businesses refinancing current debt rather than new purchases and construction. Most contacts reported a decrease in lending activity for consumer loans after reporting little to no change in our previous report. Contacts noted that customers are simply spending less and prefer to avoid debt. Residential mortgage lending activity was relatively unchanged. Most contacts continued to report an increase in deposits, with several pointing to consumers becoming more accepting of the ongoing low-interest-rate environment as a reason for the increase.

Agriculture and Natural Resources

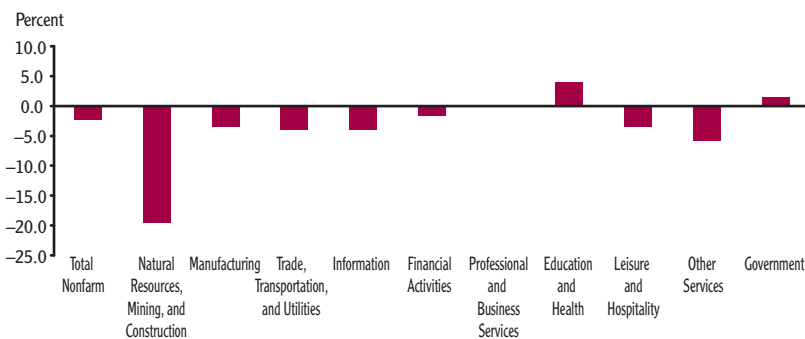
Total coal production in Indiana and Kentucky for all of 2009 increased by 5 percent from its 2008 level. Between 2008 and 2009, the total value of field crops declined in Indiana by 3 percent and increased in Kentucky by 8 percent. Across crops, changes in prices and production were mixed. For both states, the price and production of winter wheat decreased from 2008 to 2009, and the price of corn and soybeans decreased but production increased. Also in Kentucky, the price of tobacco was unchanged and production increased.

Nonfarm Payroll Employment Growth 3-Month Average, SA, January 2001–January 2010



According to revised data (see the table on the last page of this report), Louisville job losses over the course of the recession have been roughly on par with those for the country as a whole. For much of the latter half of 2009, Louisville outperformed the rest of the country, but in recent months its job growth has not kept pace. Over the three-month period ending in January 2010, Louisville employment fell at a 0.24 percent monthly rate, while U.S. employment fell at a 0.09 percent monthly rate.

Louisville MSA Employment Growth by Sector Year/Year Percent Change, January 2009–January 2010



According to revised data, between January 2009 and January 2010 nonfarm employment in the Louisville MSA fell by 2.3 percent and job losses were the norm across sectors. The natural resources, mining, and construction sector was the hardest hit, losing nearly 20 percent of its jobs over the period. Other sectors seeing above-average job losses were manufacturing; trade, transportation, and utilities; information; leisure and hospitality; and other services. The only non-governmental sector to see job gains was education and health services, which saw an employment increase of 3.8 percent over the period.

Louisville Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,
January 2009–January 2010

	Total	Goods producing	Service providing	Unemployment rate December 2009
Louisville	-2.33	-8.56	-1.11	10.7
Bowling Green, Ky.	-3.78	-14.16	-1.28	10.5
Evansville, Ind.	-2.30	-6.72	-0.93	8.5
United States	-3.24	-11.09	-1.89	10.0

SOURCE: Bureau of Labor Statistics.

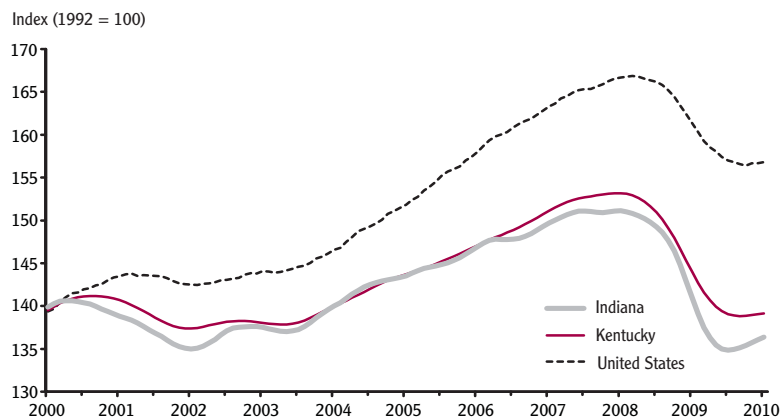
Louisville Zone—MSA Housing Activity

	Total building permits, units year-to-date		House price index, percent change, 2009:Q4/2008:Q4
	January 2010	Percent change	
Louisville	181	54.7	-1.11
Bowling Green, Ky.	27	80.0	0.12
Elizabethtown, Ky.	27	237.5	-1.36
Evansville, Ind.	32	52.4	0.43
Owensboro, Ky.	22	83.3	1.42
United States	39,479	8.9	-4.66

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

Housing markets in the Louisville zone tended to outperform the country as a whole. Total residential building permits in January 2010 were higher than a year earlier in all five metro areas; these percentage changes were all higher than that of the entire country. In addition, the house price index for the fourth quarter of 2009 fell by less than the national average in all five metro areas. Small increases in house prices were indicated for Bowling Green, Evansville, and Owensboro.

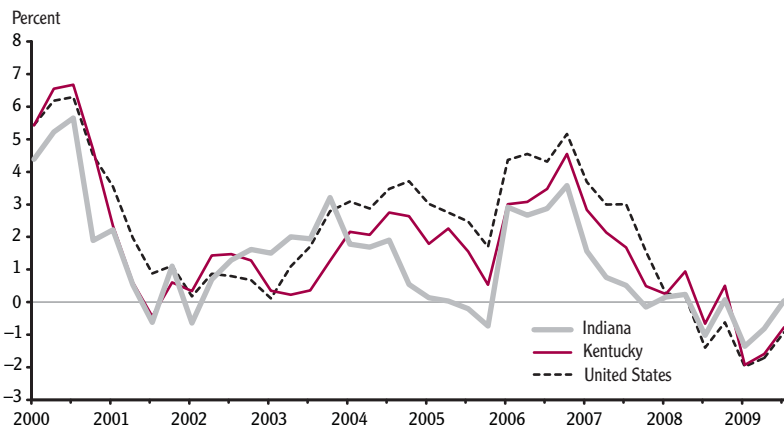
Louisville Area Coincident Economic Activity Index



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 both tended to underperform the country as a whole during the recession. Recently, however, both states have seen increases in this index. Between October 2009 and January 2010, the index rose by 0.19 percent for Kentucky and 0.72 percent for Indiana. Over the same period, the index rose by 0.26 percent for the United States.

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



SOURCE: Bureau of Economic Analysis.

Since 2008, personal income growth in Kentucky and Indiana has roughly followed that of the United States. In 2009, Kentucky's personal income growth was nearly identical to that for the country as a whole, whereas Indiana's crept toward positive territory. In the third quarter of 2009—the most recent quarter for which there are data—year-over-year income growth in Kentucky was -0.8 percent, compared with a -0.9 percent growth rate for the nation as a whole. Personal income in Indiana grew by 0.02 percent over the same period.

Annual Revisions of the Metro Area Employment Data

	December 2008–December 2009				December 2007–December 2008			
	Original estimate as of January 2010		Revised estimate as of March 2010		Original estimate as of January 2010		Revised estimate as of March 2010	
	Thousands	Percent change	Thousands	Percent change	Thousands	Percent change	Thousands	Percent change
Large Metro Areas								
Little Rock-N. Little Rock, Ark.	-3.9	-1.1	-10.1	-2.9	-4.7	-1.3	-3.9	-1.1
Louisville, Ky.-Ind.	-12.6	-2.1	-20.0	-3.2	-16.9	-2.7	-15.2	-2.4
Memphis, Tenn.-Ark.-Miss.	-15.7	-2.5	-31.5	-5.0	-15.7	-2.4	-22.3	-3.4
St. Louis, Mo.-Ill.	-33.8	-2.5	-42.6	-3.2	-19.8	-1.4	-34.2	-2.5
Small and Medium Metro Areas								
Fayetteville-Springfield-Rogers, Ark.	-1.6	-0.8	-4.9	-2.4	-2.6	-1.2	-4.8	-2.3
Fort Smith, Ark.-Okla.	-1.3	-1.0	-6.7	-5.5	-1.4	-1.1	-3.2	-2.5
Texarkana, Tex.-Ark.	-1.2	-2.0	-1.6	-2.8	0.9	1.6	-0.1	-0.2
Bowling Green, Ky.	-3.8	-6.1	-3.1	-5.0	-1.5	-2.4	-2.2	-3.4
Evansville, Ind.-Ky.	-4.3	-2.5	-6.9	-3.9	-4.6	-2.6	-2.3	-1.3
Jackson, Tenn.	-1.9	-3.1	-3.7	-6.1	-1.7	-2.7	-1.5	-2.4
Columbia, Mo.	-0.9	-1.0	-1.1	-1.2	1.1	1.2	0.0	0.0
Jefferson City, Mo.	-2.1	-2.6	-1.6	-2.0	-0.7	-0.9	-0.6	-0.7
Springfield, Mo.	-0.9	-0.5	-6.4	-3.2	-4.6	-2.3	-5.5	-2.7

NOTE: In early March of each year, the Bureau of Labor Statistics carries out a benchmark revision of state and local payroll employment data using information from the more-comprehensive Quarterly Census of Employment and Wages (QCEW). The payroll employment data are revised going back 21 months and the new numbers sometimes show a dramatically different view of local employment experiences. This year, most metro areas in the Eighth District saw large downward revisions for 2009, indicating that employment had been hit much harder by the recession than was previously estimated. The revisions for the 2008 and 2009 calendar years are presented in the table. Note that the data for 2009 are subject to revision again in March 2011.