

Current Economic Conditions in the Eighth Federal Reserve District

Louisville Zone

December 23, 2010

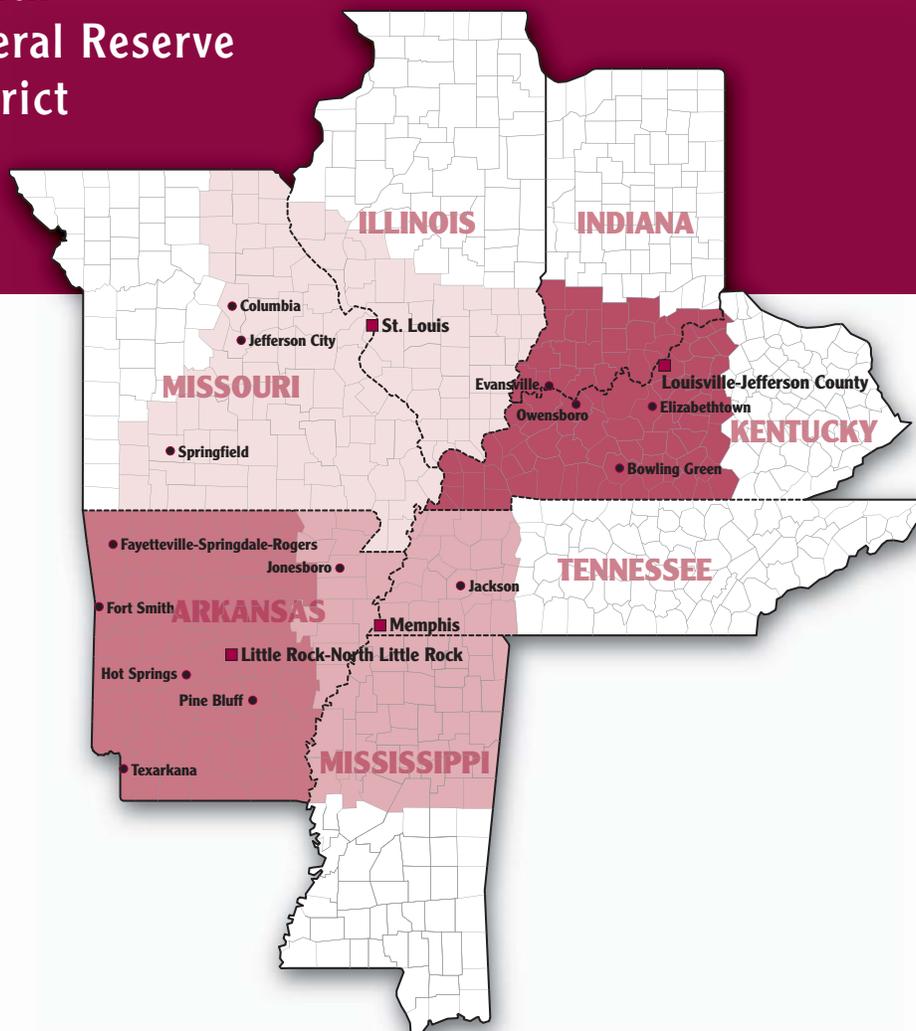
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CRE8

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/2010/). 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 23, 2010

At the close of November, the annual growth of employment, building permits, and housing prices was -1.7 percent, 10.7 percent, and 0.5 percent in the Louisville MSA and 0.7 percent, 5.8 percent, and -1.2 percent in the nation. The annual growth of personal income was 2.5 percent in Kentucky and 2.1 percent in the nation. In the past three months, local employment fell by an average of 0.3 percent per month, while the nation's remained constant. The unemployment rate in the Louisville MSA (10 percent) was higher than the nation's (9.5 percent). According to half of the indicators, Louisville has been outperformed by the nation. This view coincides with somewhat negative anecdotal reports from bankers and construction firms but contrasts with mildly positive reports by retailers and car dealers in the area.

General Retailers

- October and early November sales increased compared with the same time last year for half the contacts.
- Sales met or exceeded expectations for two out of three contacts.
- Sales were expected to increase in this quarter relative to the same time last year for five out of six contacts.

Car Dealers

- October and early November sales increased compared with the same time last year for five out of six contacts.
- Sales were expected to increase or remain constant in this quarter relative to the same time last year for two out of three contacts.

Manufacturing

- Adhesives, refrigerators, fabricated metals, wood, and automobile parts contacts plan to hire workers and/or open plants.
- Motors and furniture contacts plan to lay off workers and close plants.

Services

- Business support contacts plan to open facilities and hire workers.
- Truck transportation and gambling contacts plan to decrease operations and employment.

Real Estate

- Home sales for January through October were 3 percent higher than last year's.
- Single-family housing construction permits for January through October were 5 percent lower than last year's.

- Between the second and third quarters, industrial and downtown office vacancy rates increased, while suburban office vacancy rates decreased.

Construction

- A contact in Evansville reported that construction projects for 2011 are very scarce.
- A contact in south central Kentucky reported that commercial construction "is off for most of the region."

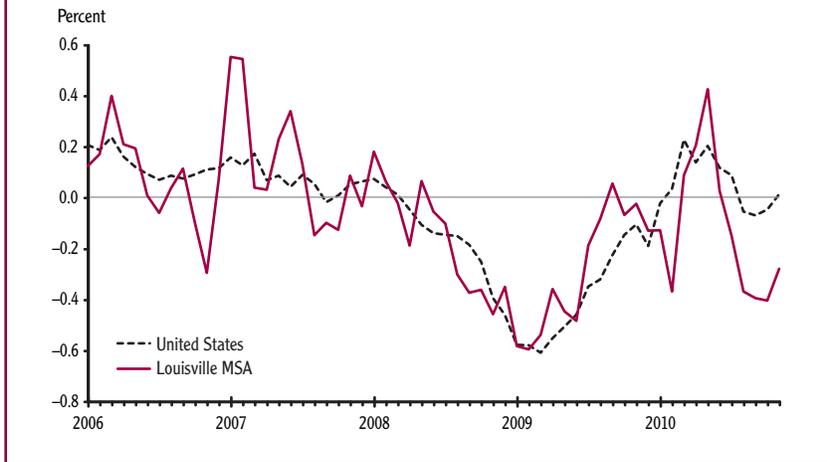
Banking and Finance

- Consumer and commercial and industrial lending activity decreased, with one contact noting that both consumers and businesses in the region are "delaying unnecessary purchases and risky investments."
- Residential mortgage lending activity increased because of "a spike in refinancing activity."
- Lending standards were "tight" across all categories of loans.
- Deposit growth increased modestly.

Agriculture

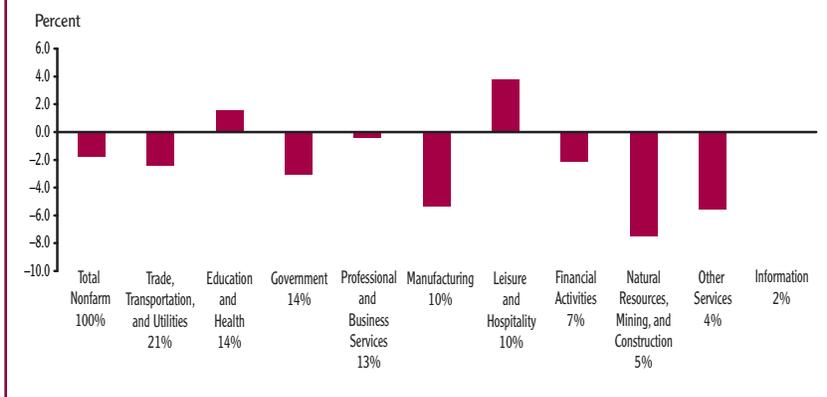
- Weather conditions remained warm, with little precipitation in Louisville over this quarter.
- The harvest progressed ahead of schedule. At least 96 percent of the corn and soybean crops were harvested by early November in the zone.
- Yields on these two crops were lower from 2009, with the exception of a 2 percent increase in Kentucky's soybean crop.
- Winter wheat planting remained ahead of schedule in the zone, and more than half of the crop planted was classified as fair or better.

Nonfarm Payroll Employment Growth 3-Month Average, SA, January 2006–November 2010



Louisville’s recession-related decline in employment, centered on January 2009, was similar to that of the nation overall. The recovery started roughly at the same time in Louisville as in the nation; however, the recovery seems to have stalled in Louisville since mid 2010. Average monthly employment contracted 0.28 percent in Louisville during the past three months, while it expanded 0.01 percent in the nation.

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



Employment growth by sector during the past 12 months distinguishes general trends from sector-specific trends in Louisville’s economic performance. Annual employment fell by 1.7 percent in this zone, compared with a 0.7 percent increase for the United States. The three largest sectors in Louisville are Trade, Transportation, and Utilities; Education and Health; and Government, accounting for 21 percent, 14 percent, and 14 percent of Louisville’s employment. Growth in these three sectors was –2.4 percent, 1.6 percent, and –3.0 percent, respectively. Sectoral and aggregate employment changes in Louisville moved primarily in the same negative direction. The Leisure and Hospitality sector had the best performance in Louisville (3.7 percent) and accounts for 10 percent of employment in this area.

Louisville Zone—MSA Employment and Unemployment

	Nonfarm payroll employment percent change, November 2009–November 2010			Unemployment rate October 2010
	Total	Goods producing	Service providing	
Louisville	-1.73	-6.04	-0.93	10.0
Bowling Green, Ky.	1.72	1.98	1.66	9.8
Evansville, Ind.	-0.35	-3.54	0.61	8.8
United States	0.64	0.34	0.69	9.5

NOTE: Sector-level employment data are not available for Elizabethtown, Ky., or Owensboro, Ky; as a result, these MSAs are not included in the previous chart or in this table.
SOURCE: Bureau of Labor Statistics.

Employment contraction in the Louisville zone is substantial in the Louisville MSA for both goods-producing and service-producing activities, as well as in the Evansville MSA for goods-producing activities. The highest unemployment rate in the Louisville zone was registered in the Louisville MSA at 10.0 percent. This unemployment rate is higher than the 9.5 percent rate registered for the United States.

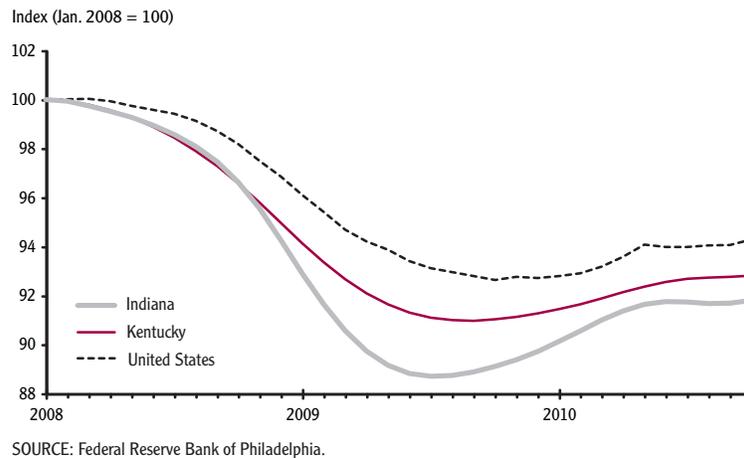
Louisville Zone—MSA Housing Activity

	Total building permits, units year-to-date		House price index, percent change, 2010:Q3/2009:Q3
	October 2010	Percent change	
Louisville	2,283	10.7	0.46
Bowling Green, Ky.	511	67.5	1.58
Elizabethtown, Ky.	427	78.7	3.56
Evansville, Ind.	453	13.0	1.31
Owensboro, Ky.	295	47.5	0.95
United States	510,880	5.8	-1.19

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

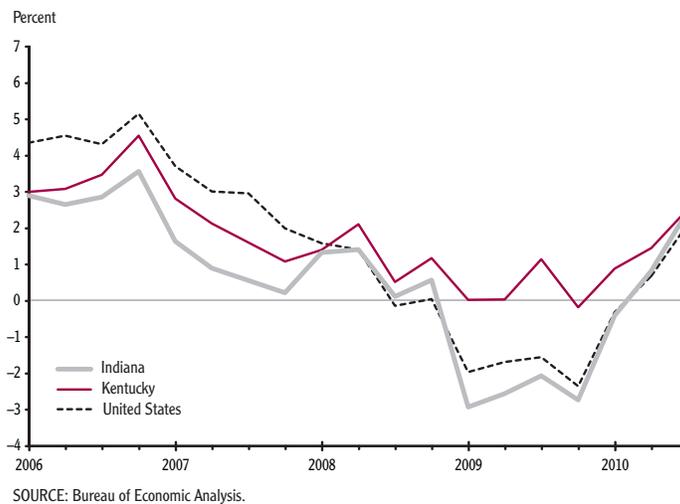
The 10.7 percent expansion of building permits in the Louisville MSA is the lowest among MSAs in the Louisville zone. This expansion is, nonetheless, remarkable compared with a 5.8 percent expansion for the United States. The 0.5 percent house price increase in the Louisville MSA was also at the lower end of the house price increases as compared with the Bowling Green, Elizabethtown, Evansville, and Owensboro MSAs. This increase clearly outperformed the 1.2 percent decrease suffered by the United States. The greatest increase in building permits was registered in the Elizabethtown MSA, while the lowest was registered in the Louisville MSA. The greatest increase in house prices was registered in the Elizabethtown MSA, while the lowest was registered in the Louisville MSA.

Louisville Area Coincident Economic Activity Index



The Philadelphia Fed's coincident index combines information on payroll employment, wages, unemployment, and hours of work to give a single measure of economic performance. This index gives an idea of the state economic environment in which Louisville operates. Kentucky's coincident indices reveals a stronger impact of the recession and a slower recovery compared with the nation. The index bottomed at 91 for Kentucky, while it bottomed at 92.6 for the United States. Current values of the index suggest that economic activity in Kentucky is at 92.8 percent of its pre-recession levels, while it is at 94.3 percent in the nation. Likewise, Indiana's coincident indices reveal a stronger impact of the recession and a slower recovery compared with the nation. The index bottomed at 88.7 for Indiana, while it bottomed at 92.6 for the United States. Current values of the index suggest that economic activity in Indiana is at 91.8 percent of its pre-recession levels, while it is at 94.3 percent in the nation. In summary, the state economic environment of the Louisville zone should roughly coincide with the nation's.

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



In Kentucky and Indiana, personal income growth was below the nation's for several periods leading up to the start of the recession (around June 2007). The recession's impact on Kentucky's personal income was milder and the recovery stronger than in the nation. In contrast, Indiana's personal income growth was lower than the nation's in the same period. Indiana also suffered a stronger impact during the recession and has experienced a similar recovery to the nation. Between the third quarter of 2009 and the third quarter of 2010, personal income grew by 2.5 percent in both Kentucky and Indiana, compared with the 2.1 percent increase in the nation.