

Current Economic Conditions in the Eighth Federal Reserve District

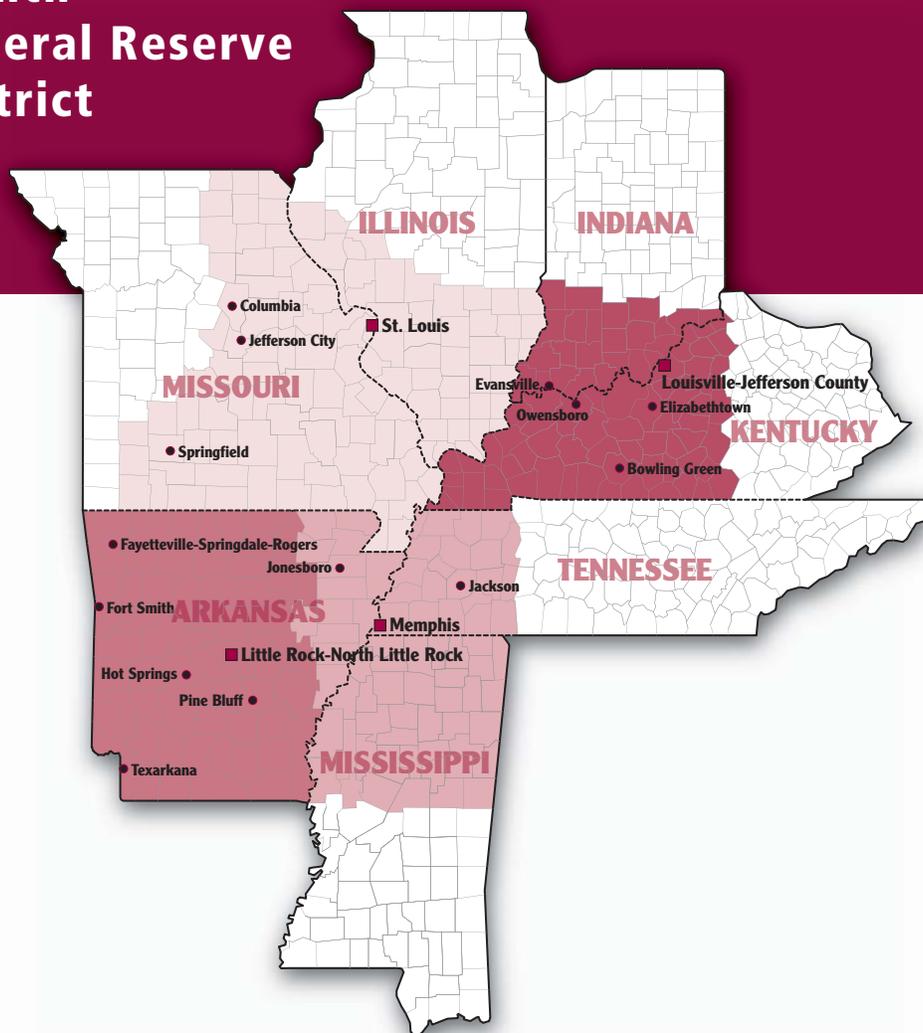
Louisville Zone

March 23, 2012

Prepared by the
Research Division of the
Federal Reserve Bank of St. Louis



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 research.stlouisfed.org/regecon/.

The report includes government-provided data for Kentucky and the metro areas of the Louisville zone. These data are the most recent available at the time this report was assembled.

NOTE: Metropolitan statistical areas (MSAs) are larger geographic areas than cities, as defined by the Census Bureau.

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Louisville Zone Report—March 23, 2012

The most recent data at the time of publication show that Louisville is performing better than the nation in terms of annual employment growth, short-run employment growth, the issuance of building permits, and annual house price growth. The zone's unemployment rate is less favorable than the nation's. The following five points illustrate this assessment:

Annual Changes in Employment

By the end of January 2012, Louisville's nonfarm payroll employment was 2.6 percent higher than one year before, while national employment was 1.6 percent higher.

Short-Term Changes in Employment

Between November 2011 and January 2012, Louisville's local employment increased by an average rate of 0.4 percent per month, while national employment increased at an average rate of 0.2 percent per month.

Unemployment Rate

In Louisville, the unemployment rate decreased slightly, from 9.7 percent in October 2011 to 9.4 percent in December 2011. This rate was 0.9 percent greater than the 8.5 percent rate registered for the nation at the close of December.

Building Permits

The number of building permits issued in Louisville in January 2012 was 41.7 percent higher than the number issued during the same month in 2011. This rise was greater than the 28.6 percent increase experienced by the nation during the same period.

House Prices

At the close of the fourth quarter, housing prices were 1.1 percent lower in Louisville than they were at the same time last year. This decline in house prices was less than the 3.0 percent decline registered for the nation as a whole during the same period.

Anecdotal Information from the Beige Book

Agriculture and Natural Resources

- Year-to-date coal production (by early March) in Indiana was 7 percent lower relative to the same period in 2011; production in western Kentucky was 6 percent lower.
- The overall value of field crops in Indiana and Kentucky rose by 4 percent and 31 percent, respectively, from 2010 to 2011.
- Prices for the zone's crops generally increased from 2010 to 2011: Particularly large price gains were observed for the hay crop in Indiana (26 percent) and the corn crop in Kentucky (24 percent).
- Crop values were mostly higher in 2011, relative to 2010: The value of winter wheat increased by 125 percent and 115 percent in Indiana and Kentucky, respectively. Meanwhile, the value of soybeans fell by 7 percent in Indiana.

Car Dealers

- January and early February sales increased compared with the same time last year for roughly 2 in 3 contacts; sales decreased for the remainder of contacts.
- Sales were expected to increase in March and April when compared with the same time last year for 2 in 3 contacts; the remaining contacts expected sales to be flat.

Construction

- A general contractor contact in central Indiana noted that nonresidential construction has remained steady since the fourth quarter of 2011.
- Contacts in Owensboro-Daviess County have reported a significant number of public and private projects underway.

General Retailers

- January and early February sales increased compared with the same time last year for 1 in 3 contacts; sales decreased for 1 in 3 contacts.
- Sales met or exceeded expectations for roughly 2 in 3 contacts.
- Sales were expected to increase in March and April when compared with the same time last year for 2 in 3 contacts; the remaining contacts expected sales to be flat.

Manufacturing

- Automotive parts, automobile, stone, and primary metal contacts plan to hire workers and/or open new facilities. Faucet and paper product contacts plan to close plants and lay off workers.

Real Estate

- Contacts in the Louisville metropolitan area noted increased commercial real estate market activity since December 2011.

Services

- Distribution, consulting, and health care contacts plan to hire workers and/or open new facilities.

Detailed Indicators: Employment, Unemployment, Personal Income, and General Economic Activity

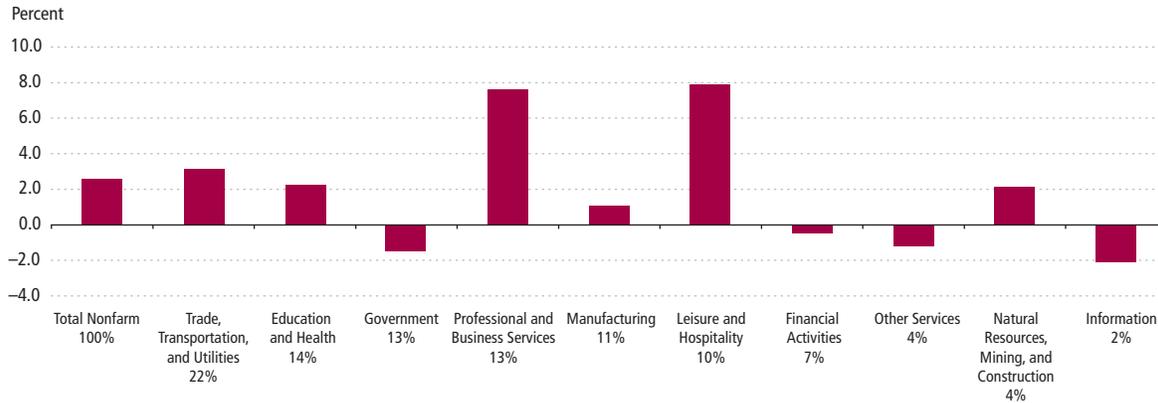
Nonfarm Payroll Employment Growth—Louisville MSA



NOTE: 3-Month moving average, seasonally adjusted, January 2006–January 2012.
SOURCE: Bureau of Labor Statistics.

Louisville's recession-related decline in employment, which was centered at the start of 2009, was similar to the nation's decline. The recovery in Louisville since then has been similar to that of the nation. While the recovery seemed to have slowed in Louisville during the first and second quarters of 2011, the expansion then restarted again in August 2011. Between November 2011 and January 2012, Louisville's employment grew at an average rate of 0.4 percent per month while national employment grew at an average rate of 0.2 percent per month.

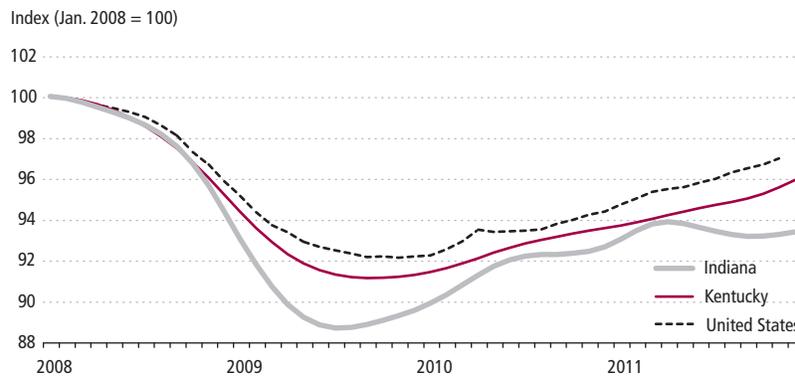
Employment Growth by Sector—Louisville MSA



NOTE: Percent change with respect to one year ago, January 2011–January 2012.
SOURCE: Bureau of Labor Statistics.

Employment growth by sector during the past 12 months distinguishes general trends from sector-specific trends in Louisville’s economic performance. Employment increased by 2.6 percent in this MSA with respect to one year ago, while the increase was only 1.6 percent for the nation. The three largest sectors in Louisville are Trade, Transportation, and Utilities; Education and Health; and Government. These three sectors account for 22 percent, 14 percent, and 13 percent of Louisville’s employment, respectively, and expanded by 3.1 percent, 2.3 percent, and –1.5 percent in the past 12 months, respectively. The figure shows that employment growth varied across sectors, with 4 of 10 sectors reducing employment and the rest increasing employment. The Leisure and Hospitality sector had the best performance in Louisville (7.9 percent), while the Information sector had the worst performance (–2.1 percent).

Coincident Economic Activity Index—Louisville Zone



SOURCE: Federal Reserve Bank of Philadelphia.

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. The relevant index values suggest that the recession’s impact was stronger for both Kentucky and Indiana than for the nation. In fact, the index values during the recession show that, at the lowest point, the level of economic activity in Kentucky and Indiana was at 91.1 percent and 88.7 percent of pre-recession levels, respectively. Meanwhile, the nation’s lowest point of economic activity was at 92.1 percent of its pre-recession level. Since then, the recovery has followed a similar upward trend for Kentucky and the nation, while Indiana’s coincident index has returned to positive trend in the fourth quarter of 2011. The current values of the index are 93.4 for Indiana, 95.9 for Kentucky, and 97.0 for the nation.

Employment and Unemployment by MSA

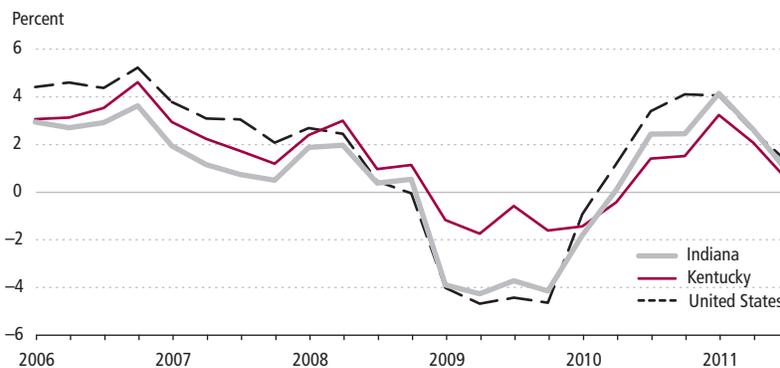
Nonfarm payroll employment percent change,
January 2011–January 2012

	Total	Goods producing	Service providing	Unemployment rate December 2011
Louisville, Ky.–Ind.	2.59	1.39	2.79	9.4
Bowling Green, Ky.	0.86	5.94	-0.21	8.4
Evansville, Ind.	0.82	-0.78	1.28	7.7
United States	1.55	2.53	1.40	8.5

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

Employment expansion in the Louisville zone has been generally positive: The Louisville MSA experienced growth in both goods-producing and service-providing activities, while the Bowling Green MSA experienced strong growth in goods-producing activities. However, the highest unemployment rate in this zone, 9.4 percent, was also registered in the Louisville MSA. This unemployment rate was almost 1 percentage point higher than the 8.5 percent rate registered for the nation at the close of December 2011.

Real Personal Income Growth—Louisville Zone



NOTE: Percent change with respect to previous year.
SOURCE: Bureau of Economic Analysis.

Personal income growth in Kentucky and Indiana was below the nation's for several quarters before the most recent recession (which started in the last quarter of 2007). The recession's impact on personal income was milder in Kentucky than for the nation, while the recession's impact on personal income in Indiana was roughly the same as the impact on the nation. Between the third quarter of 2010 and the third quarter of 2011, personal income grew by 0.5 percent in Kentucky and by 0.8 percent in Indiana. The nation experienced a 1.2 percent increase in personal income for the same period.

Residential Real Estate Activity by MSA

	Total building permits, units year-to-date		House price index, percent change, 2011:Q4/2010:Q4
	January 2012	Percent change	
Louisville, Ky.–Ind.	146	41.7	-1.1
Bowling Green, Ky.	34	-8.1	-0.2
Elizabethtown, Ky.	74	1,380.0	1.2
Evansville, Ind.	28	55.6	1.9
Owensboro, Ky.	13	-18.8	0.5
United States	46,278	28.6	-3.0

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

Real estate activity in the Louisville zone, at the end of 2011 and early 2012, was characterized by an increase in the issuance of building permits and mildly declining or increasing house prices across MSAs. The number of building permits issued in January 2012 was higher than the number issued during the same month in 2011 for all MSAs in the Louisville zone, except Bowling Green and Owensboro. The increases, which ranged from 41.7 percent to 1380.0 percent, were more pronounced in each of the MSAs than in the nation, where the issuance of building permits was 28.6 percent higher than it was last year. Meanwhile, house prices fell in only two of the five MSAs in the zone; and, for those registering price declines, the declines were milder than those experienced by the nation as a whole. The 1.1 percent house price decrease registered in Louisville relative to one year ago was the largest decline registered within the zone. This decline was milder than the 3.0 percent decrease registered at the national level. Finally, the largest increase in house prices among the zone's MSAs was registered in Evansville, where prices increased by 1.9 percent.