

Current Economic Conditions in the Eighth Federal Reserve District

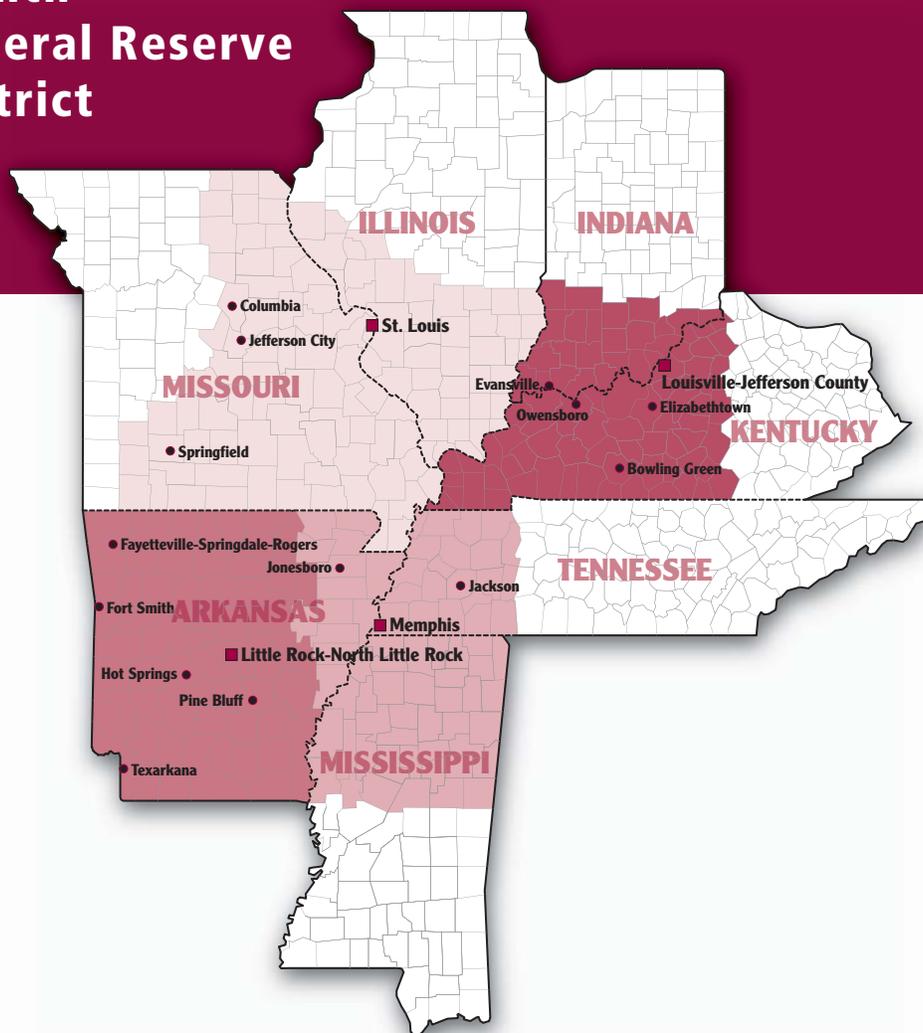
Louisville Zone

September 21, 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—September 21, 2012

By several metrics, Louisville is the top-performing zone in our District. Nonfarm payroll employment growth has been appreciably stronger than the nation's, as has the growth of housing permits. House prices are also increasing from a year earlier, in contrast with many other areas of the District and for the nation. The following five points illustrate this assessment:

Annual Changes in Employment: In July 2012, Louisville's nonfarm payroll employment was 2.8 percent higher than a year earlier. By contrast, the nation's increase was half as much over the same period.

Short-Term Changes in Employment: Between April 2012 and July 2012, Louisville's local employment increased by an average rate of 0.1 percent per month, which matched the nation's increase.

Unemployment Rate: In the Louisville MSA, the unemployment rate decreased by about 0.25 percentage points over the past three months to 8.2 percent in July 2012. This rate was about equal to the nation's 8.3 percent rate, but higher than other key areas in Kentucky.

Building Permits: The number of building permits issued in Louisville from January 2012 through July 2012 was more than 50 percent higher than the number issued during the same period in 2011. Overall, real estate activity (as measured by building permit issuance) in the Louisville zone has been quite strong in 2012, having outpaced the nation's in three of five areas examined.

House Prices: During the second quarter of 2012, housing prices were 0.5 percent higher than a year earlier in the Louisville MSA. For the five areas of the Louisville zone, prices increased by an average of 1.7 percent over the past year, while U.S. house prices fell by 0.6 percent.

Anecdotal Information from the Beige Book

Agriculture and Natural Resources

- Year-to-date coal production through August was 2.8 percent higher in western Kentucky and 1.5 percent lower in Indiana compared with the first eight months of 2011.
- Crop conditions in Kentucky and Indiana have declined significantly since June. Soybean crops are in the best shape, with just over 50 percent reported in fair or better condition. Only about a quarter of pastureland in Indiana and corn crops across both states are reported in fair or better condition.
- Crop yields and production are forecasted to be significantly below year-ago levels in both Indiana and Kentucky. The most negative outlook is for corn crops in Kentucky; yields and annual production are expected to be around 50 percent below 2011 levels.

Car Dealers

- Overall sales were higher, with two of three contacts reporting increased sales, one of six reporting no change in sales, and one of six reporting decreased sales in July and early August.
- Sales are expected to increase in September and October when compared with the same time last year for two of three contacts; one of six contacts expects no change in sales; and one of six contacts expects slightly lower sales.

Construction

- Contacts in Louisville noted new speculative construction plans in Jeffersonville, Indiana.
- With demand for multi-family units remaining strong, plans for apartment construction continued to increase.

General Retail

- July and early August sales increased compared with the same time last year for two of three contacts; sales were flat for the remaining contacts.
- All contacts reported that sales met expectations.
- Sales are expected to increase in September and October when compared with the same time last year for five of six contacts; the remaining contacts expect sales to remain constant.

Manufacturing

- Firms in automobile, appliance, poultry processing, wall coverings, food, construction machinery, and packing and label manufacturing plan to hire new workers and/or expand operations. An appliance manufacturing firm, however, plans to lay off workers and close a plant.

Real Estate

- A contact in Louisville reported that office leasing activity declined in the central business district, while it remained strong in the suburban area.

Services

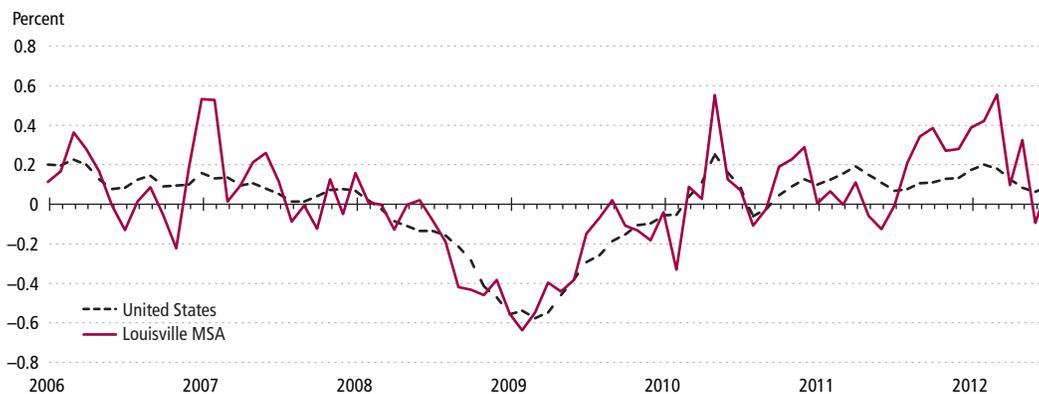
- Business support, medical, healthcare information technology, environmental consulting, and personal care services firms plan to expand operations and hire new employees. In contrast, an educational organization plans to lay off workers.

Banking and Finance

- All contacts expect loan demand to stay the same.
- Two of three contacts find that loan delinquencies are getting worse; the remaining contact finds that loan delinquencies are improving.

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

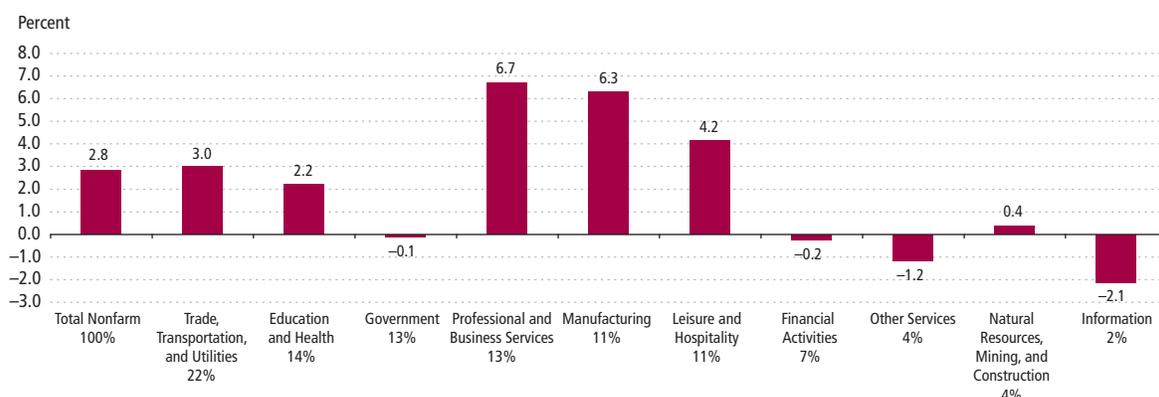
Nonfarm Payroll Employment Growth—Louisville MSA



NOTE: 3-Month moving average, seasonally adjusted, January 2006–July 2012. See the narrative with the St. Louis charts for descriptions and definitions of the series that are also used in the Little Rock, Louisville, and Memphis charts and tables.
SOURCE: Bureau of Labor Statistics.

Payroll employment growth in the Louisville MSA measured on the basis of a three-month moving average has slowed modestly over the past several months. (Earlier in 2012 and extending back to late 2011, Louisville was experiencing relatively faster growth than the nation.) Despite this slowing, employment growth in Louisville, as well as for the nation, remains positive. Between April 2012 and July 2012, Louisville's employment rose by an average rate of 0.1 percent per month, which equaled the nation's growth rate.

Employment Growth by Sector—Louisville MSA



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

Smoothing through the volatile month-to-month gains from the previous report shows that Louisville's economy has seen relatively strong employment growth over the past 12 months. Since July 2012, MSA payroll employment increased by 2.8 percent. This percentage increase is double the nation's 1.4 percent increase. The two largest sectors by employment in Louisville are Trade, Transportation, and Utilities (TTU) and Education and Health, followed closely by Government and Professional and Business Services (PBS). Employment in Manufacturing and Leisure and Hospitality also account individually for more than 10 percent of the nonfarm jobs in the Louisville MSA. Louisville's brisk growth over the past year stems from strong gains in nearly all of these sectors. In particular, employment growth has been exceptionally brisk in PBS, Manufacturing, and Leisure and Hospitality. The main exception has been the Government sector, which has contracted slightly over the past year. Three months earlier (see the June 2012 Burgundy Book), the Natural Resources, Mining, and Construction sector had the largest declines in the Louisville MSA (–3.2 percent). Three months later, this sector has exhibited slightly positive growth.

Employment and Unemployment by MSA

Nonfarm payroll employment percent change,
July 2011–July 2012

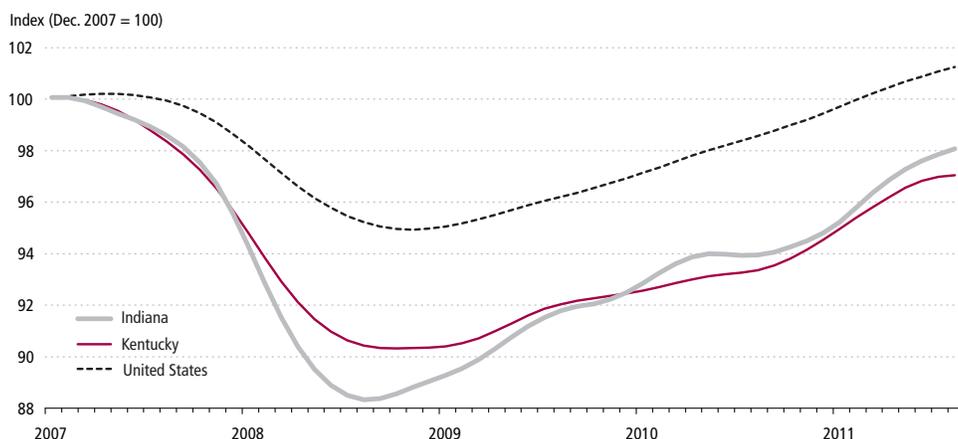
	Nonfarm payroll employment percent change, July 2011–July 2012			Unemployment rate July 2012
	Total	Goods producing	Service providing	
Louisville, Ky.-Ind.	2.82	4.55	2.52	8.2
Bowling Green, Ky.	–1.85	–2.68	–1.66	7.3
Evansville, Ind.	0.63	–2.02	1.42	7.4
United States	1.40	1.52	1.38	8.3

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.

Labor market conditions in the Louisville zone have mostly improved over the past year. Employment growth has been the strongest in the Louisville MSA, as nonfarm payrolls have increased by 2.8 percent over the 12 months ending in July 2012. Louisville has seen exceptionally strong gains in goods-producing industries, but also healthy growth in the service-providing industries. Employment increases also occurred in the Evansville area, as positive growth in service-providing employment more than offset a decline in goods-producing employment.¹ Employment in the Bowling Green area has declined over the past year, as both goods-producing and service-providing industries have experienced job loss. Despite weaker employment conditions in Bowling Green and Evansville, their unemployment rates remained appreciably lower in July 2012 than both the Louisville MSA's rate and the nation's rate.

¹ Although the percentage decline in goods-producing employment was larger than the positive increase in service-providing employment, there was a net increase in jobs because the service-providing sector is considerably larger than the goods-producing sector.

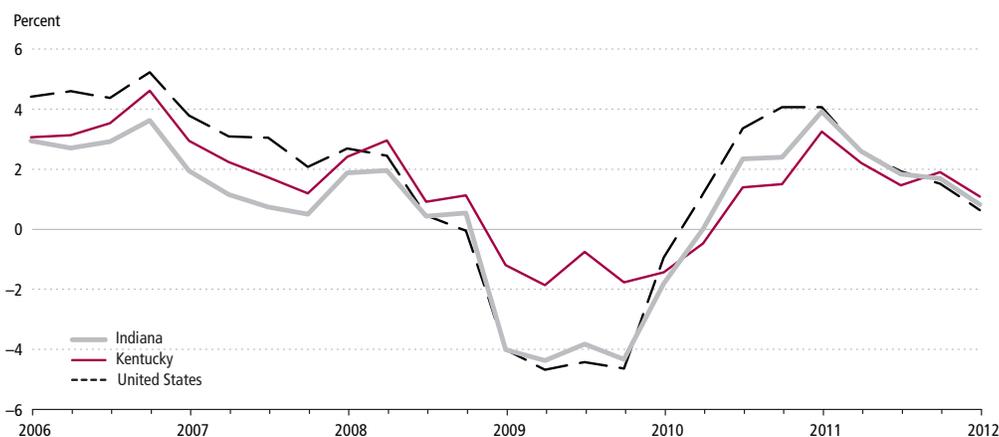
Coincident Economic Activity Index—Louisville Zone



SOURCE: Federal Reserve Bank of Philadelphia.

The Philadelphia Fed's coincident index showed that the contraction in economic activity in Indiana and Kentucky during the previous recession was significantly deeper than for the nation as a whole—which is similar to the cases for Arkansas, Missouri, and Illinois. Whereas economic activity in the United States declined by about 5.5 percent, the decline in Indiana was closer to 12 percent; Kentucky's decline was a little less than 10 percent. At the same time, the index also shows that the recovery in economic activity in Indiana and in Kentucky has been stronger than the nation's. Since their index's trough in 2009, activity has increased by 11 percent in Indiana and 7.5 percent in Kentucky. These gains—which are the strongest among all Eighth District states—have outpaced the nation's increase (6.6 percent) as well. However, the current index reading in July 2012 indicates that the level of activity has not yet returned to its pre-recession peak, as it has for the nation.

Real Personal Income Growth—Louisville Zone



NOTE: Percent change with respect to previous year.

SOURCE: Bureau of Economic Analysis.

Personal income (PI) growth for Kentucky and Indiana generally tracks the nation's. However, their growth rates diverged sharply during the previous recession. Consistent with the coincident index, personal income for Indiana declined more sharply than Kentucky's during the recession. Indiana's growth of PI during the previous recession closely followed the nation's PI growth. More recently, though, PI in these two states increased rapidly and outpaced the nation's growth. Since 2011, though, these growth rate differences have narrowed dramatically. From the first quarter of 2011 to the first quarter of 2012, Kentucky's PI increased by 1.0 percent, while Indiana's PI has increased by 0.8 percent. Meanwhile, the nation's PI increased by 0.6 percent over the same period.

Residential Real Estate Activity by MSA

	Total building permits, units year-to-date		House price index, percent change, 2012:Q2/2011:Q2
	July 2012	Percent change	
Louisville, Ky.-Ind.	2,034	56.7	0.5
Bowling Green, Ky.	449	72.0	1.3
Elizabethtown, Ky.	254	64.9	3.0
Evansville, Ind.	320	21.2	1.6
Owensboro, Ky.	162	20.0	2.2
United States	454,275	31.1	-0.6

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

Of the four zones, Louisville has been the strongest in real estate activity year-to-date. The pace of building permit issuance has exceeded the nation's in three of the five areas we examined. Growth has been especially robust in Louisville, as permits thus far in 2012 are running more than 50 percent higher than the same period in 2011. Permit issuance in the Bowling Green and Elizabethtown areas has also been growing briskly and above the nation's growth. Double-digit permit growth thus far in 2012 has also occurred in the Evansville and Owensboro areas, though these gains have not been as strong as the nation's growth (31.1 percent year to date). House prices have also been increasing in the Louisville zone, in contrast with the modest decline seen for the United States over the most recent four quarters. From the second quarter of 2011 to the second quarter of 2012, house prices in the Louisville zone have increased on average by 1.7 percent across MSAs, versus a decline of 0.6 percent for the nation. The strongest gains in house prices over the past year have occurred in Elizabethtown and in Owensboro.