

Current Economic Conditions in the Eighth Federal Reserve District

Louisville Zone

March 18, 2009

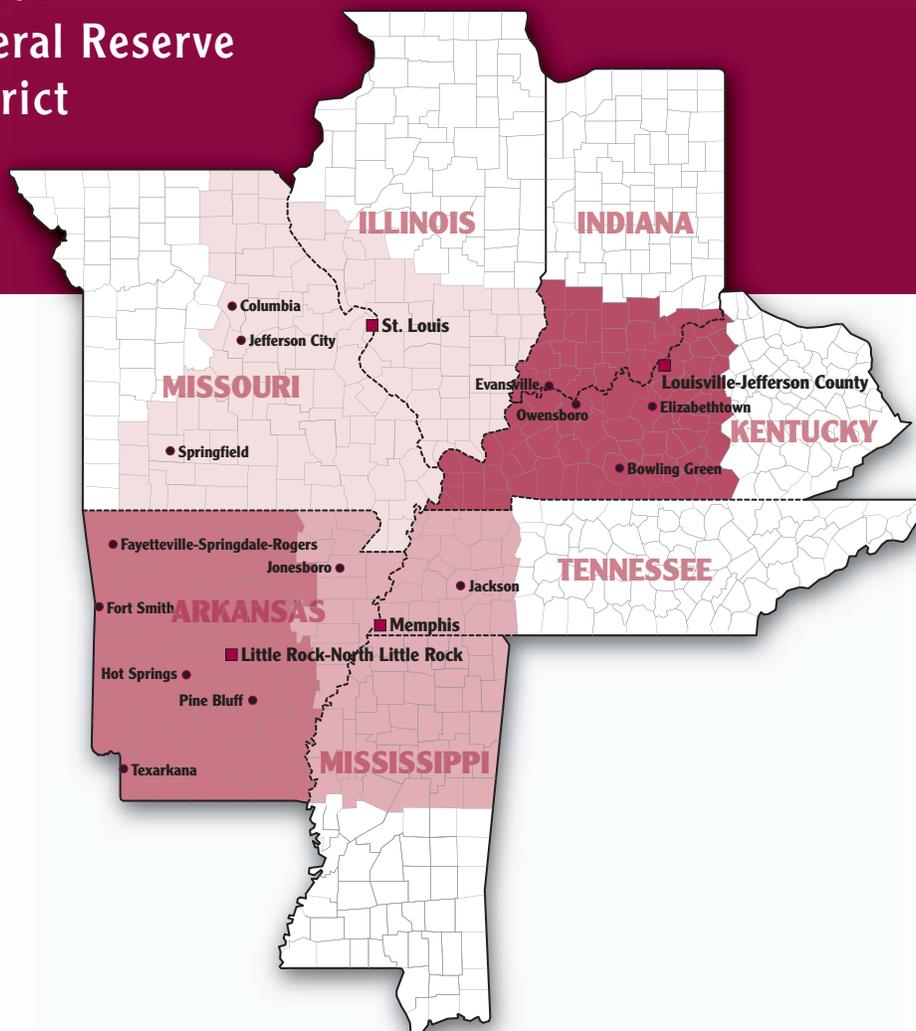
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CRE8

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—March 18, 2009

The overall picture for the Louisville zone's economy continues to be negative. While general retail activity was mixed, car dealers continued to report mostly negative news. Manufacturing continued to decline and the service sector weakened. Real estate and construction continued to be weak while banking activity was mixed. Agriculture and natural resources, on the other hand, continued to be strong.

Consumer Spending

Although not strong, reports from general retailers were notably more positive than reports from car dealers. About one-third of general retailers and two-thirds of car dealers indicated that sales were down compared with the same months in 2008. Among car dealers, half reported an increase in sales of high-end relative to low-end vehicles. Two-thirds reported lower sales prices, while one-third reported more rejections of finance applications and none reported fewer rejections. One-third of general retailers and car dealers reported that their inventories were too high, while 17 percent of the car dealers reported that their inventories were too low. General retailers were more optimistic about March and April 2009 than were car dealers. One-third of the general retailers and 40 percent of the car dealers expect sales to decrease over 2008 levels, while the remaining general retailers and 20 percent of the car dealers expect sales to increase.

Manufacturing and Other Business Activity

Manufacturing employment and output in the zone continued to decline between December 2008 and February 2009. A large number of firms, including several contacts in automotive and auto parts manufacturing, reported plans to cut production and lay off workers. Firms specializing in primary metals, fabricated metals, appliance, and electrical equipment manufacturing all announced job cuts. A firm in the furniture manufacturing industry announced that it will close a plant in the zone. However, a firm in the plastics and rubber-product manufacturing industry reported plans to expand its operations and hire additional workers. The service sector has begun to show more signs of weakness. A few contacts in education, information, and government services reported job losses. On the other hand, a contact in business support services reported plans to expand operations and hire additional workers.

Real Estate and Construction

The residential real estate market continued to be weak. Compared with January 2008, January 2009 home sales were down by 34 percent and January 2009 single-family housing permits

declined by 59 percent. The commercial real estate market has fewer signs of weakness. Compared with the third quarter of 2008, the fourth-quarter 2008 industrial and suburban office vacancy rates decreased. The downtown office vacancy rate increased, however. A contact forecasted a decline in commercial construction led by a downturn in retail development. Another contact reported fewer commercial projects, as business owners are holding back in the uncertain environment. On the other hand, an industrial construction contact reported that local developers are planning to construct additional warehouse space.

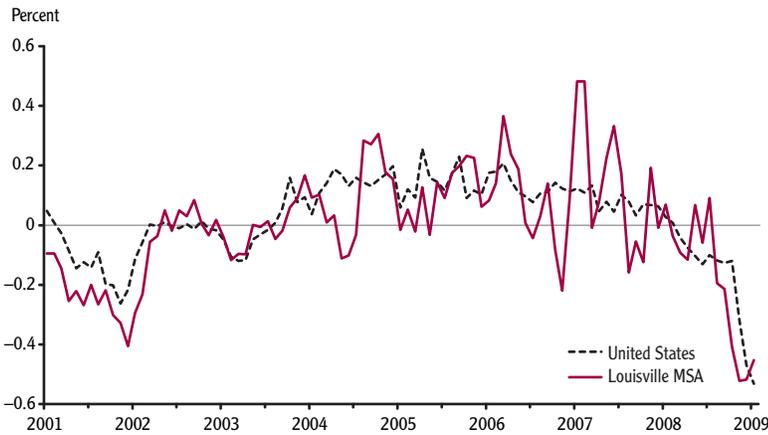
Banking and Finance

Bank contacts provided mixed reports on local banking conditions. Reports indicated weakness in the commercial and industrial loan and consumer loan categories. Contacts noted reduced demand for these loans, as both businesses and consumers are building cash reserves and cutting back on big-ticket items. Reports indicated increased residential mortgage lending with multiple reports of a substantial increase in refinancing activity. Smaller banks reported recent lending opportunities to credit-worthy borrowers who have been turned away by larger regional banks because of lending moratoriums. Contacts also noted tight lending standards across all categories of loans. Reports indicate no change to slight increases in bank deposits.

Agriculture and Natural Resources

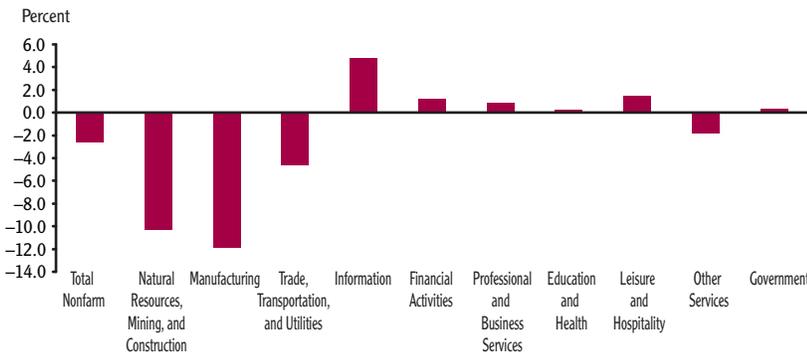
Coal production in Indiana and western Kentucky for 2008 increased by 3 percent from 2007 levels. The total value of field crops in Louisville zone states decreased by 6 percent from 2007 to 2008; Indiana had a decrease of 12 percent, while Kentucky had an increase of 19 percent. Changes in prices and production were mixed across crops. For both states, the price and production of corn decreased from 2007 to 2008, the price and production of winter wheat increased, and the price of soybeans decreased while production increased. Also, in Kentucky, the price and production of sorghum decreased, while the price and production of tobacco increased.

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



Employment losses in the Louisville metro area have been greater than for the country as a whole during the last half of 2008, while the opposite was true for the first half. (See the table on the final page, which provides recent benchmark revisions of employment data.) For the period June 2008 to December 2008, average monthly employment growth was -0.26 percent in Louisville compared with -0.20 percent in the United States. In January 2009, however, the decline in average employment growth for Louisville (-0.46 percent) was slightly less than that of the United States (-0.53 percent).

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



Sector-specific employment growth in the Louisville metro area between January 2008 and January 2009 was mixed. Six sectors had positive, albeit usually small, employment growth. The largest gain was in the information sector, which experienced an increase of 4.8 percent. Four sectors had employment losses, with natural resources, mining, and construction and manufacturing experiencing losses of 10.2 percent and 11.9 percent, respectively. Job losses outweighed job gains across sectors, resulting in a 2.6 percent decrease in total employment for the Louisville metro area during 2008.

Louisville Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,
January 2008–January 2009

	Total	Goods producing	Service providing	Unemployment rate December 2008
Louisville	-2.63	-11.39	-0.77	7.6
Bowling Green, Ky.	-1.96	-12.21	0.83	6.3
Evansville, Ind.	-2.74	-7.17	-1.22	6.7
United States	-2.48	-8.28	-1.39	7.1

SOURCE: Bureau of Labor Statistics.

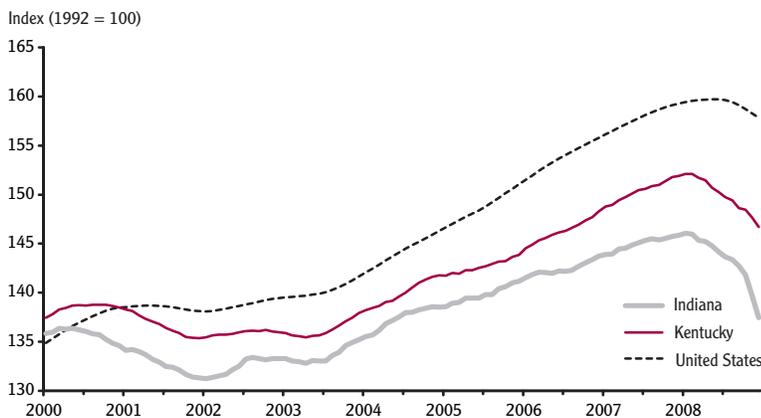
Louisville Zone—MSA Housing Activity

	Total building permits, units year-to-date		House price index, percent change, 2008:Q4/2007:Q4
	January 2009	Percent change	
Louisville	117	-50.6	0.80
Bowling Green, Ky.	15	-53.1	2.64
Elizabethtown, Ky.	8	-65.2	-1.40
Evansville, Ind.	21	-53.3	-2.29
Owensboro, Ky.	12	-33.3	-0.44
United States	36,250	-52.3	-4.47

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

Total residential building permits in January were significantly lower than a year earlier in every zone metro area, with most metro areas seeing a decrease in excess of 50 percent. Owensboro fared slightly better, with a decrease of about 33 percent. House price indices decreased in three of the five metro areas between the fourth quarters of 2007 and 2008. House prices fell by nearly 4.5 percent during the period for the country as a whole.

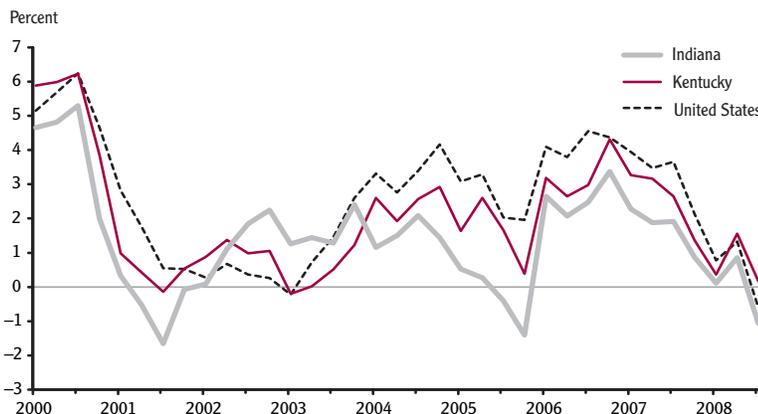
Louisville Area Coincident Economic Activity Index



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 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 2008, the index for the United States fell by 1 percent, while it fell by 3.6 and 5.9 percent for Kentucky and Indiana, respectively.

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



SOURCE: Bureau of Economic Analysis.

Personal income growth in Kentucky and Indiana has tended to be weaker than the country as a whole since 2004. However, income growth in Kentucky approached that of the country in 2007 and was greater than national income growth during the second and third quarters of 2008. Personal income growth has been consistently weaker in Indiana than in Kentucky since 2004. For the third quarter of 2008, personal income growth was negative for the United States and Indiana while it remained slightly positive for Kentucky.

Annual Revisions of the Metro-Area Employment Data

	December 2007–December 2008				December 2006–December 2007			
	Original estimate as of January 2009		Revised estimate as of March 2009		Original estimate as of January 2009		Revised estimate as of March 2009	
	Thousands	Percent change	Thousands	Percent change	Thousands	Percent change	Thousands	Percent change
Large Metro Areas								
Little Rock–N. Little Rock, Ark.	–5.8	–1.7	–4.7	–1.3	5.2	1.5	5.0	1.5
Louisville, Ky.–Ind.	–16.1	–2.5	–16.9	–2.7	6.9	1.1	4.3	0.7
Memphis, Tenn.–Ark.–Miss.	–15.7	–2.4	–15.7	–2.4	5.4	0.8	–0.1	0.0
St. Louis, Mo.–Ill.	–23.0	–1.7	–19.8	–1.4	2.0	0.1	6.7	0.5
Small and Medium Metro Areas								
Fayetteville–Springdale– Rogers, Ark.	–2.5	–1.2	–2.6	–1.2	0.9	0.4	1.2	0.6
Fort Smith, Ark.–Okla.	–1.6	–1.3	–1.4	–1.1	1.7	1.4	2.1	1.7
Texarkana, Texas–Ark.	1.2	2.1	0.9	1.6	0.7	1.2	0.9	1.6
Bowling Green, Ky.	–0.8	–1.3	–1.5	–2.4	1.8	2.9	1.6	2.6
Evansville, Ind.–Ky.	–2.5	–1.4	–4.6	–2.6	1.4	0.8	–0.2	–0.1
Jackson, Tenn.	–0.9	–1.4	–1.7	–2.7	0.3	0.5	0.0	0.0
Columbia, Mo.	0.0	0.0	1.1	1.2	1.0	1.1	–0.1	–0.1
Jefferson City, Mo.	–1.0	–1.2	–0.7	–0.9	1.5	1.9	1.5	1.9
Springfield, Mo.	0.1	0.1	–4.6	–2.3	5.2	2.6	4.4	2.2

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, however, data revisions for Eighth District metro areas are relatively small. The revisions for the 2007 and 2008 calendar years are presented in the table. Note that the data for 2008 are subject to revision again in March 2010.