

Current Economic Conditions in the Eighth Federal Reserve District

Louisville Zone

June 25, 2009

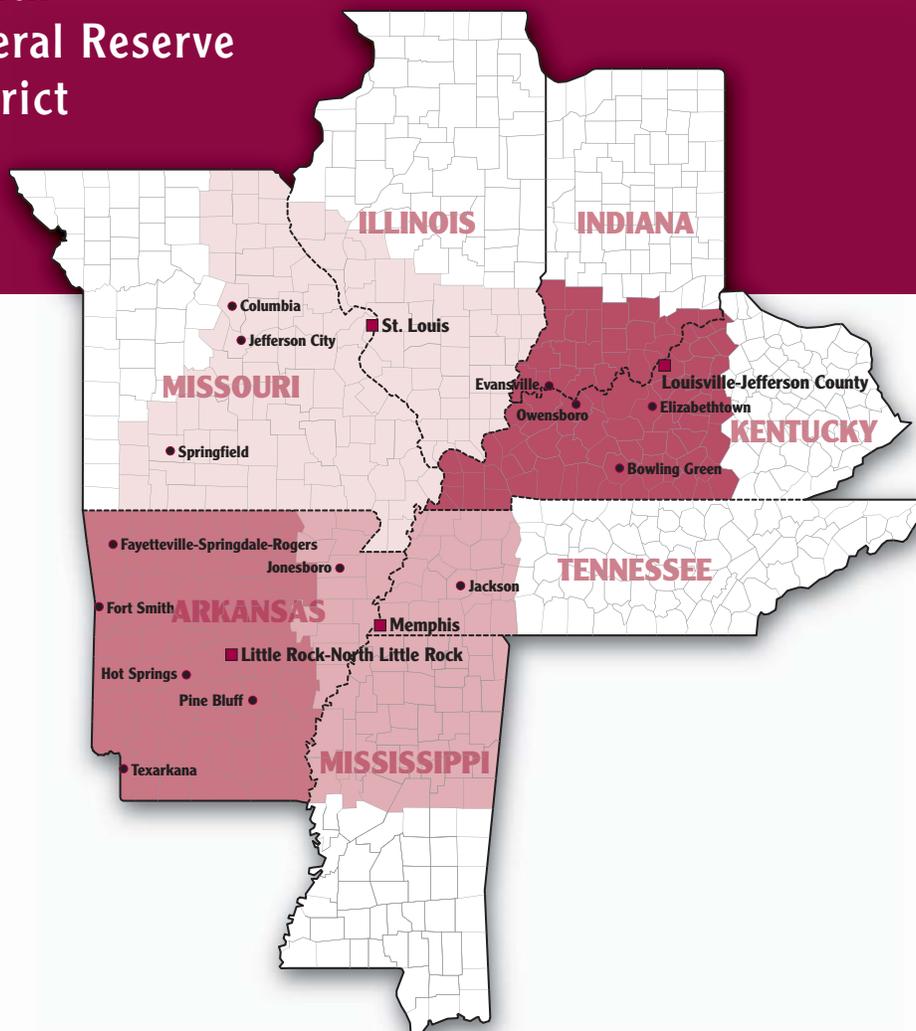
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Center for Regional Economics—8th District



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—June 25, 2009

The overall picture for the economy of the Louisville zone continues to be mostly negative. While general retail activity was mixed, car dealers continued to report mostly negative news. Manufacturing continued to decline, but portions of the service sector showed signs of improvement. Real estate, construction, and banking all continued to be weak. 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 were reports from car dealers. Nearly 20 percent of the general retailers and over 80 percent of the car dealers indicated that sales were down compared with April and May 2008. Among general retailers, two-thirds noted that sales met their expectations. One-third of the car dealers noted that new car sales had increased relative to used car sales, but none reported the opposite. Also, one-third of the car dealers noted an increase in high-end vehicle sales relative to low-end vehicle sales. The sales outlook for the summer was mostly optimistic among general retailers but mixed among car dealers. Two-thirds of the general retailers and one-third of the car dealers expect sales to increase over 2008 levels, while nearly 20 percent of the general retailers and half of the car dealers expect sales to decrease.

Manufacturing and Other Business Activity

Manufacturing employment and output continued to decline in the second quarter of 2009, with a large number of firms reporting reduced output and job layoffs. These firms include manufacturers of primary metal, food and beverages, paper, auto parts, and furniture. Closed plants were reported by firms in the electrical machinery, aluminum product, and auto parts industries. In contrast, a firm in plastic product manufacturing expanded its operations and hired new employees, and a producer of optical equipment was awarded a contract that will allow it to continue production at a high level. Unlike the manufacturing sector, parts of the service sector began to expand. Job growth was reported in financial services and business support services.

Real Estate and Construction

The residential real estate market continued to be weak in the Louisville metro area. Compared with the same months in 2008, February 2009 year-to-date home sales were down by 30 percent and April 2009 year-to-date home sales were down by 26 percent. Compared with the same months in 2008, February 2009 year-to-date single-family housing permits were 48

percent lower and April 2009 year-to-date single-family housing permits were 49 percent lower. The commercial real estate market in Louisville showed fewer signs of weakness. The first-quarter 2009 industrial vacancy rate was unchanged from the fourth quarter of 2008. The suburban and downtown office vacancy rates remained fairly steady as well. Reports on construction activity were mixed. A large construction company in Evansville reported that business has slowed considerably. However, a contact in south-central Kentucky reported that several projects are in progress in downtown Bowling Green and at Western Kentucky University.

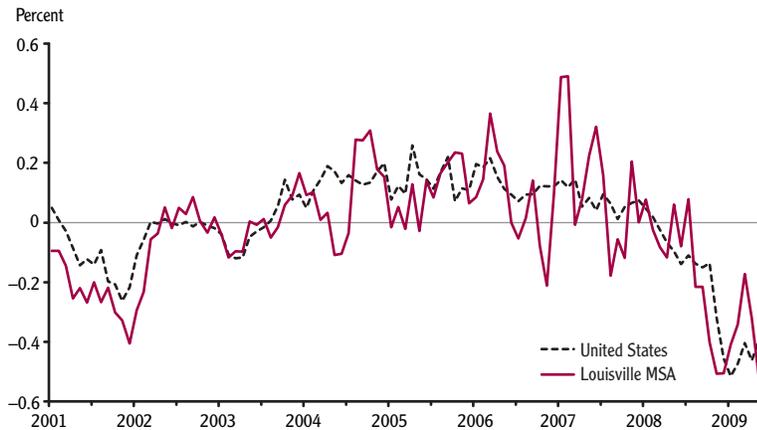
Banking and Finance

Bank contacts reported generally weak local banking conditions. One contact noted that demand for commercial and industrial loans will be weak as long as businesses continue to cut back on capital expenses. Consumer lending activity ranged from unchanged to slightly decreased. Most contacts reported little change in residential mortgage lending. Some contacts reported that refinancing activity has slowed from the levels experienced earlier this year. Lending standards were reported to be tighter in the commercial and industrial, commercial real estate, and consumer lending categories. Reports indicate no change to a slight increase in bank deposits.

Agriculture and Natural Resources

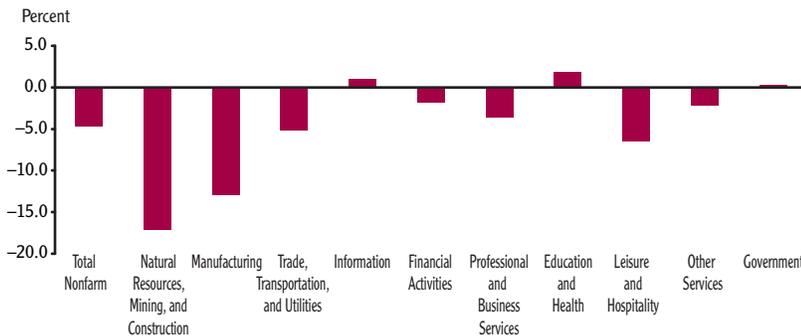
Farmers in Kentucky intended to plant more acres of corn and soybeans, but fewer acres of tobacco. Farmers in Indiana intended to plant the same number of acres of corn and 1 percent fewer acres of soybeans this year than in 2008. Farmers in both states planted less winter wheat in the fall than the previous year. Frequent wet and cool conditions since early April have delayed fieldwork throughout the zone. As a result, farmers reported that they were behind their normal planting pace for corn and soybeans. About 96 percent of the pastures in Indiana and 95 percent in Kentucky were in fair condition or better, which was slightly better than the same time last year for Indiana and roughly the same for Kentucky.

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



Employment losses in the Louisville metro area have been lower than for the country as a whole during the first five months of 2009, reversing the trend of the prior half year. For the period January 2009 to May 2009, average monthly employment growth was -0.36 percent in the Louisville metro area, compared with -0.45 percent for the United States. For the last six months of 2008, average monthly employment growth in the Louisville area was -0.30 percent compared with -0.22 percent for the United States

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



Sector-specific employment growth in the Louisville metro area between May 2008 and May 2009 was mixed, although the majority of sectors experienced negative growth. The information sector, the government sector, and the education and health sector experienced annual job growth of 0.9 percent, 0.2 percent, and 1.9 percent, respectively. The remaining sectors experienced job losses, with the natural resources, manufacturing, and leisure and hospitality sectors having the greatest percentage job loss. Employment in these sectors declined by -17.1 percent, -13 percent, and -6.5 percent, respectively.

Louisville Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,
May 2008–May 2009

	Total	Goods producing	Service providing	Unemployment rate April 2009
Louisville	-4.66	-14.26	-2.61	9.3
Bowling Green, Ky.	-5.28	-18.46	-1.82	9.3
Evansville, Ind.	-3.35	-7.35	-2.01	8.5
United States	-3.95	-12.11	-2.44	8.6

SOURCE: Bureau of Labor Statistics.

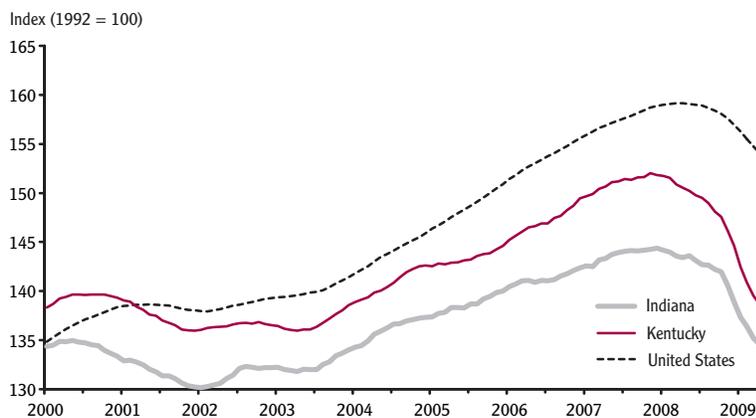
Louisville Zone—MSA Housing Activity

	Total building permits, units year-to-date		House price index, percent change, 2009:Q1/2008:Q1
	April 2009	Percent change	
Louisville	599	-51.1	0.14
Bowling Green, Ky.	99	-33.6	0.83
Elizabethtown, Ky.	55	-52.2	-0.93
Evansville, Ind.	107	-46.0	-0.80
Owensboro, Ky.	62	-34.0	1.54
United States	166,319	-48.2	-3.35

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

Total residential building permits in April were significantly lower than a year earlier in every zone metro area, with all metro areas seeing a decrease in excess of 30 percent. Building permits declined by 51 percent in Louisville compared with a decline of 48 percent for the United States. House price indices increased in all but two of the metro areas (Elizabethtown and Evansville) between the first quarters of 2008 and 2009. In contrast, this index fell by nearly 3.4 percent during the period for the country as a whole.

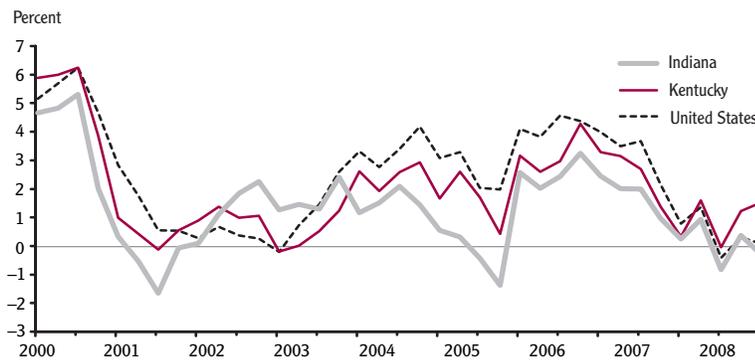
Louisville Area Coincident Economic Activity Index



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 the first four months of 2009, the index for the United States fell by 1.4 percent, while it fell by 2.7 percent and 2.0 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 that of the country as a whole since 2004. However, income growth in Kentucky approached national growth in 2007 and was greater than national growth in the first quarter of 2009. Personal income growth has been consistently weaker in Indiana than in Kentucky since 2004. For the first quarter of 2009, personal income growth was about 0.05 percent in the United States, compared with 1.5 percent in Kentucky and -0.34 percent in Indiana.

Bank Conditions in Eighth District Metro Areas

	2008:Q1 (%)	2008:Q4 (%)	2009:Q1 (%)
Return on Average Assets			
St. Louis	0.66	-0.42	-0.97
Little Rock	1.04	0.72	0.56
Louisville	1.45	0.90	1.15
Memphis	0.21	-0.55	-0.65
Net Interest Margin			
St. Louis	3.54	3.40	3.06
Little Rock	3.85	3.98	4.21
Louisville	4.34	3.89	5.01
Memphis	3.02	3.10	3.05
Loan Loss Provision			
St. Louis	0.63	1.48	1.56
Little Rock	0.38	0.87	1.23
Louisville	0.54	0.43	1.06
Memphis	2.37	2.89	3.54
Nonperforming Loans			
St. Louis	1.62	2.44	2.96
Little Rock	1.14	1.53	2.33
Louisville	1.28	1.34	1.70
Memphis	3.02	4.99	6.12

NOTE: Variable definitions:

Return on Average Assets = (Net Income/Average Assets) × 100

Net Interest Margin = (Tax Equivalent Net Interest Income/Average Earning Assets) × 100

Loan Loss Provision = (Provision for Loan Losses/Average Assets) × 100

Nonperforming Loans = (Nonperforming Loans/Total Loans) × 100

SOURCE: Reports of Condition and Income for Commercial Banks.

For additional statistics and information on bank conditions in the Eighth District, see

“Slump Persists for District and U.S. Banks.” *Central Banker*, Summer 2009, p. 3.

Available at http://www.stlouisfed.org/publications/cb/2009/b/pages/quarterly_report.cfm.