

Current Economic Conditions in the Eighth Federal Reserve District

Louisville Zone

September 24, 2009

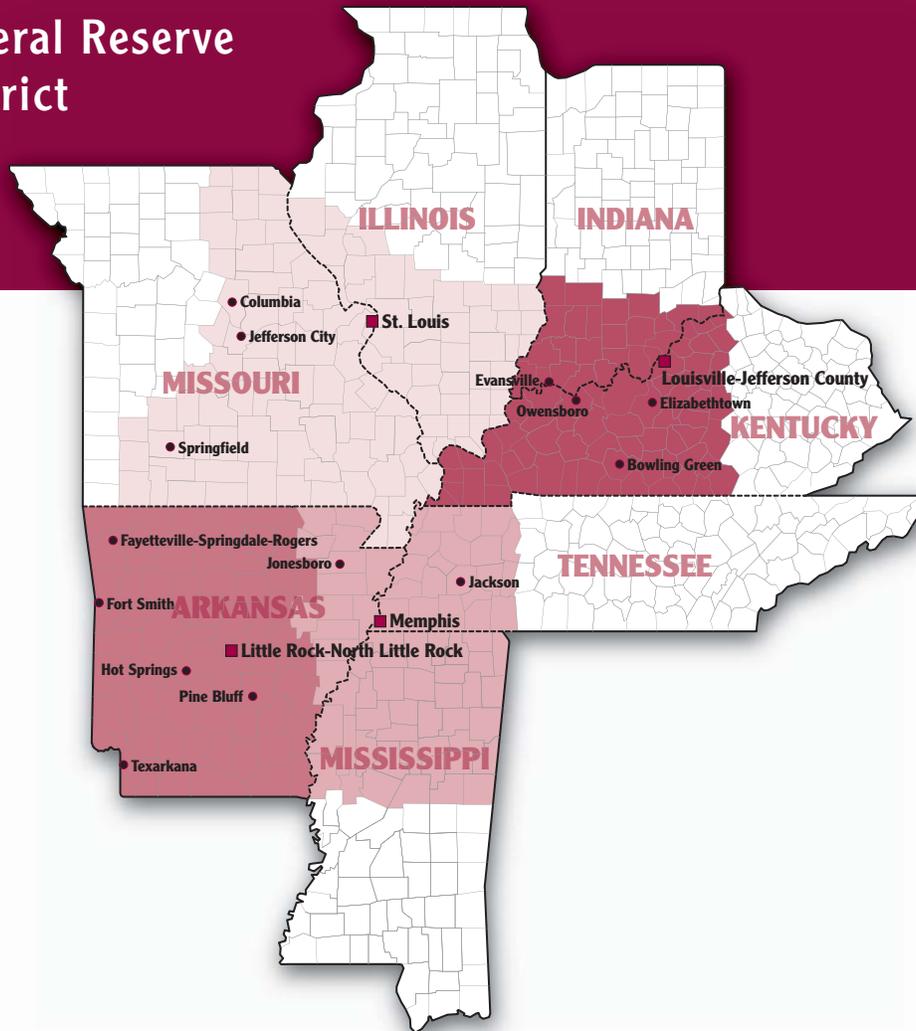
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CRE8

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—September 24, 2009

The overall picture for the Louisville zone was mixed. Car dealers and general retailers reported mixed news. Manufacturing declined, while the service sector was stable. Activity in the real estate and construction sector declined, while the news from banking and agriculture was mixed.

Consumer Spending

Retail sales reports for July and the first part of August were mixed among general retailers and car dealers in the Louisville zone. Half of the general retailers and one-third of the car dealers surveyed indicated that sales were up compared with the same months in 2008. One-third of each group reported decreased sales. Among the general retailers, 33 percent noted that sales levels met their expectations and 50 percent reported sales below expectations. Among car dealers, one-third noted that new car sales had increased relative to used car sales, while another one-third reported the opposite. Also, half noted an increase in low-end vehicle sales relative to high-end vehicle sales, while 17 percent reported the opposite. One-third of the general retailers and 17 percent of the car dealers reported that their inventories were too high, while half of the car dealers reported that their inventories were too low. The remaining contacts reported that their inventories were at desired levels. For September and October, about 83 percent of the general retailers and half of the car dealers expect sales to increase over 2008 levels, while 17 percent of each group expect sales to decrease.

Manufacturing and Other Business Activity

Overall, manufacturing activity in the Louisville zone has continued to decline since our previous report, although the experience was far from uniform across firms and industries. Firms in the petroleum/coal manufacturing, chemical product manufacturing, fabricated metal product manufacturing, rail technology manufacturing, and plastics products manufacturing all announced plans to expand. In contrast, a few firms in auto parts manufacturing announced plans to close their facilities. Firms in transportation manufacturing, tobacco manufacturing, auto manufacturing, and frozen foods manufacturing announced plans to lay off workers. A firm in aluminum product manufacturing reduced production. The service sector was stable. Government services reported strong growth due to new jobs related to the upcoming 2010 census. Firms in business support, health, education, and information all reported job losses.

Real Estate and Construction

In Louisville, compared with the same periods in 2008, June and July 2009 year-to-date home sales were down by 20 percent and 13 percent, respectively. Compared with the same periods in 2008, June and July 2009 year-to-date single-family housing permits declined by 34 percent and 30 percent, respectively. Compared with the first quarter of 2009, the second-quarter 2009 industrial vacancy rate and the suburban and downtown office vacancy rates all rose.

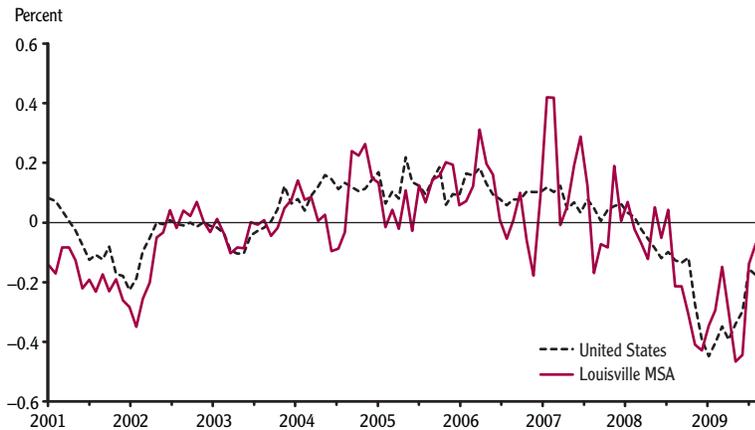
Banking and Finance

Reports indicated a decrease in lending activity for commercial and industrial loans. Lending activity for consumer loans and residential mortgage loans was mixed. Several contacts noted an increase in demand for loan modifications due to economic stress. Other contacts indicated that delinquency rates are stabilizing. Most contacts reported that deposits were rising, but at a slower pace than in previous reports.

Agriculture and Natural Resources

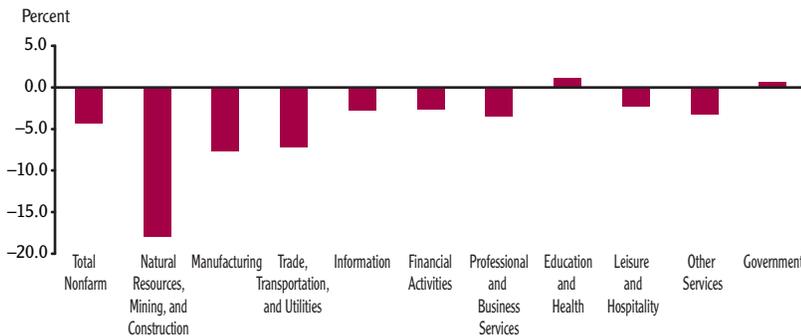
In late August, 11 percent of the corn and soybeans in Indiana were rated in poor condition, but less than 10 percent of the crops in Kentucky had that rating. As of August 1, yields for corn, soybeans, and winter wheat in Indiana and corn and tobacco in Kentucky were expected to range from 10 percent lower to 1 percent higher than last year's yields. In Kentucky, soybean yields were expected to be nearly 20 percent lower and winter wheat yields were expected to be 20 percent higher than last year. Total production of corn and soybeans in Indiana as well as corn and tobacco in Kentucky was expected to range from 1 percent lower to 11 percent higher than last year. Total production of soybeans in Kentucky was expected to be 22 percent higher than last year, and winter wheat production in both states was expected to be at least 20 percent lower than last year.

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



Employment losses in the Louisville MSA show an uneven pattern in comparison with the nation as a whole in the recent months. Over the three-month period ending in May 2009, Louisville employment growth averaged -0.54 percent per month, while U.S. employment growth averaged -0.40 percent per month. By August, however, average employment growth in Louisville rose to -0.08 percent, while it was -0.21 percent for the United States.

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



Employment growth in the Louisville MSA between August 2008 and August 2009 was negative in most of the sectors. According to the most recent estimates, the strongest sectors were education and health and government, which saw increases of 1.1 and 0.6 percent, respectively. All other sectors experienced job losses. Natural resources, mining, and construction experienced the steepest decline, losing 17.9 percent of its jobs during the period. Manufacturing and trade, transportation, and utilities were also among the weakest performing sectors, losing 7.6 and 7.2 percent of their jobs, respectively.

Louisville Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,
August 2008–August 2009

	Total	Goods producing	Service providing	Unemployment rate July 2009
Louisville	-4.25	-10.97	-2.84	10.2
Bowling Green, Ky.	-6.00	-20.93	-2.05	11.1
Evansville, Ind.	-2.56	-7.24	-0.99	8.6
United States	-4.10	-12.41	-2.54	9.7

SOURCE: Bureau of Labor Statistics.

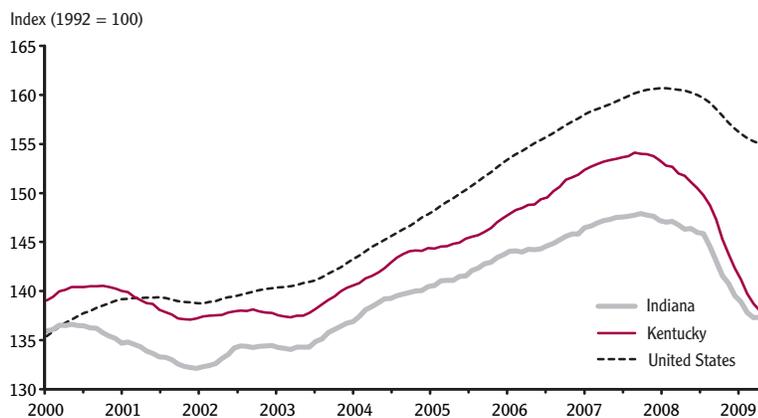
Louisville Zone—MSA Housing Activity

	Total building permits, units year-to-date		House price index, percent change, 2009:Q2/2008:Q2
	July 2009	Percent change	
Louisville	1,356	-43.4	-0.90
Bowling Green, Ky.	176	-34.8	-0.38
Elizabethtown, Ky.	159	-40.7	-1.30
Evansville, Ind.	261	-35.2	-1.81
Owensboro, Ky.	126	-43.8	0.27
United States	331,308	-45.2	-3.99

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

Total residential building permits in July were substantially lower than a year earlier in every zone MSA. Louisville, Bowling Green, Elizabethtown, Evansville, and Owensboro all saw decreases of 34 percent or more. Bowling Green performed the best, with a decrease of 34.8 percent. House price indices declined in all metro areas, except for Owensboro, between the second quarters of 2008 and 2009. The same house price index fell by 4 percent during the period for the country as a whole.

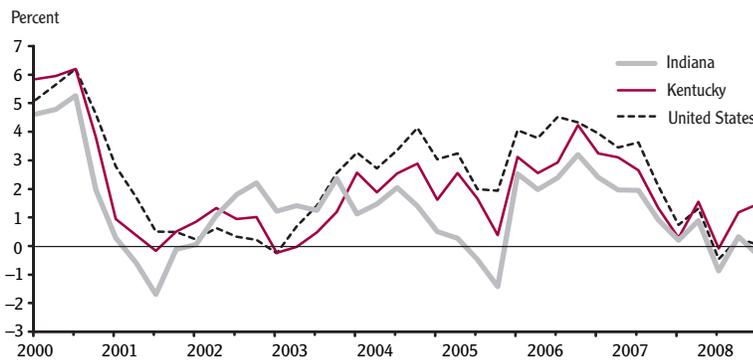
Louisville Area Coincident Economic Activity Index



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. According to this index, Kentucky and Indiana have underperformed relative to the country as a whole since 2001. This trend has become more pronounced throughout 2009. For the year through July, the index for the United States fell by 1.8 percent, while it fell by 5.02 and 3.01 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 since 2004 has tended to be weaker than in the country as a whole. Also, income growth over the period in Indiana has been consistently weaker than in Kentucky. Recent estimates show that Kentucky's personal income growth is higher than that of the country and is rising. Indiana's personal income growth rate is negative in the most recent estimates and continues to lag the country's and Kentucky's over the period.

**Residential Mortgage Delinquency Rates for Eighth District States
Percent 90+ Days Delinquent or in Foreclosure, 2009:Q2**

	All mortgages	Prime			Subprime		
		Total	FRM	ARM	Total	FRM	ARM
Missouri	5.0	3.0	2.5	7.3	18.6	13.7	27.2
Illinois	8.6	5.5	4.0	13.6	29.9	19.7	40.3
Indiana	8.4	5.0	4.2	12.5	23.8	18.3	34.3
Kentucky	5.7	3.3	2.7	9.1	20.4	15.3	31.6
Tennessee	5.9	3.3	2.7	8.8	19.7	14.6	30.1
Mississippi	7.4	4.2	3.6	14.0	22.6	17.9	34.1
Arkansas	4.5	2.8	2.3	8.6	17.0	13.0	25.8
U.S. Total	8.0	5.4	3.5	15.1	26.5	17.1	38.7

NOTE: FRM, fixed-rate mortgages; ARM, adjustable-rate mortgages.

SOURCE: Mortgage Bankers Association, National Delinquency Survey/Haver Analytics.