

# **Current Economic Conditions in the Eighth Federal Reserve District**

## **Louisville Zone**

July 2, 2010

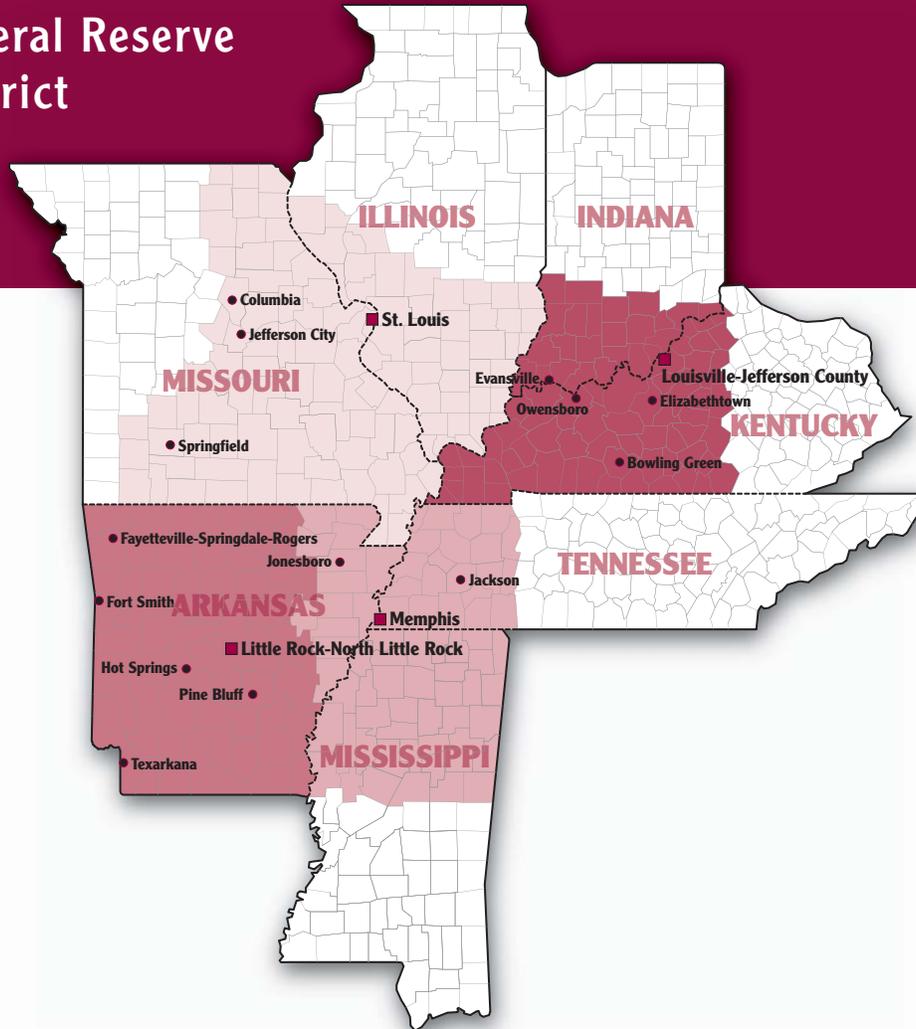
Prepared by the  
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# **CRE8**

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/](http://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/2010/](http://federalreserve.gov/fomc/beigebook/2010/)). 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—July 2, 2010

Reports on economic activity in the Louisville zone were, on balance, positive, with strength in consumer spending, residential real estate, and manufacturing. Industrial and commercial real estate, however, continued to be a source of weakness. Majorities of general retailers and car dealers indicated that sales were higher than for the same period last year. The banking sector was mixed, while farmers reported that the emergence of crops was ahead of normal.

## Consumer Spending

Retail sales reports for April and early May were mostly positive among general retailers and car dealers surveyed in the Louisville zone. About 60 percent of the general retailers and 70 percent of the car dealers indicated that sales were up compared with the same period in 2009. Roughly 20 percent of each group reported decreased sales. Compared with our previous report, this represents an improvement for general retailers and little change for car dealers. The sales outlook for the summer was mostly optimistic among the general retailers and mixed among the car dealers. Nearly all of the general retailers and about half of the car dealers expect sales to increase over 2009 levels.

## Manufacturing and Other Business Activity

Manufacturing activity in the Louisville zone has continued to increase since our previous report, with more new hires than job layoffs. Firms in ballistics manufacturing; metal product manufacturing; and heating, ventilation, and air conditioning industries announced significant capital investments to expand existing production facilities. Alongside the facility expansions, the aforementioned firms also announced plans to hire new employees. In contrast, a firm in the auto parts manufacturing industry announced plans to close a plant and lay off workers as it shifts production to a different domestic plant. Additionally, a firm in the synthetic dye and pigment manufacturing industry announced plans to lay off workers as it shifts production to international firms. The service sector has declined since our previous report, with a significantly greater number of job layoffs than new hires. Government services firms announced plans to lay off workers in response to budget shortfalls. A large firm in the print and publishing services industry announced plans to close a plant and lay off a significant number of workers. Uncertainty over health care costs and financial regulations is cited frequently as an explanation for firms' reluctance and inability to expand hiring.

## Real Estate and Construction

In Louisville, the residential real estate market has improved since our previous report. Compared with the same period in 2009, April 2010 year-to-date home sales increased by 25 percent, and April 2010 year-to-date single-family housing permits increased by 38 percent. In contrast, the industrial and commercial real estate markets continued to decline in the first quarter of 2010 as the industrial vacancy rate and the suburban and downtown office vacancy rates increased from the previous quarter. A contact in Evansville, Indiana, reported that major construction is still slow. A contact in Louisville described the first-quarter industrial real estate market as dismal.

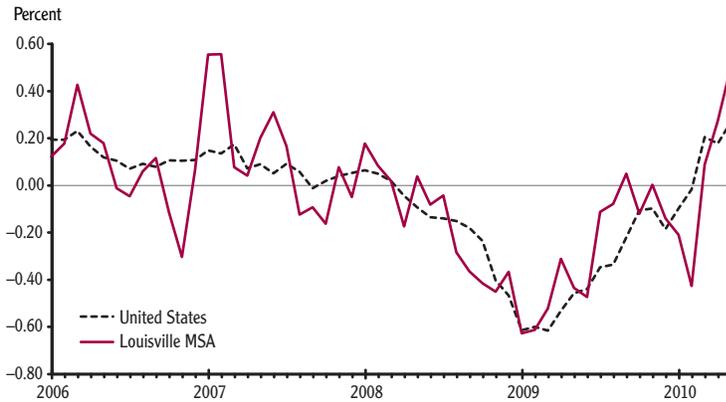
## Banking and Finance

Contacts in the Louisville zone have provided mixed reports on local banking conditions since our previous report. Lending activity for commercial and industrial loans decreased. Several contacts noted weak demand for commercial loans, citing businesses' cautiousness toward new capital spending. In contrast, consumer lending activity increased slightly. Contacts noted that demand remains soft for these loans, but there were isolated reports of an increase in loan requests, particularly for home improvement loans. Residential mortgage lending activity was relatively unchanged, but most contacts reported a steady increase in new originations of residential mortgage loans. Meanwhile, one contact noted that a strong refinancing cycle in this category appears to have run its course. Most contacts continue to report a steady increase in deposits.

## Agriculture and Natural Resources

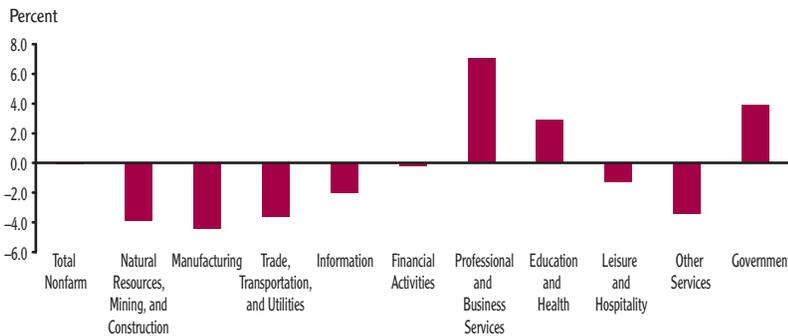
Frequent rains throughout the zone toward the end of the reporting period caused some fieldwork delays. At the end of May, farmers in Indiana were ahead of their normal pace for planting corn but behind for soybeans, while farmers in Kentucky were ahead of their normal pace for planting both crops. Emergence of those crops was ahead of normal. At the end of May, at least 90 percent of the winter wheat and pastures in both states were rated in fair condition or better; the ratings were similar to the same time last year.

### Nonfarm Payroll Employment Growth 3-Month Average, SA, January 2006–May 2010



Since the beginning of the recession, payroll employment growth in the Louisville MSA has roughly tracked that of the United States as a whole. On a three-month moving average basis, Louisville employment growth was negative in early 2010 but has recently been positive and stronger than for the rest of country. Over the three-month period ending in May 2010, Louisville employment expanded at a 0.5 percent monthly rate, while U.S. employment expanded at a monthly rate of 0.26 percent.

### Louisville MSA Employment Growth by Sector Year/Year Percent Change, May 2009–May 2010



Between May 2009 and May 2010, total nonfarm employment in the Louisville MSA fell by 0.1 percent. This rate of job loss was not as steep as for the country as a whole, which saw a 0.45 percent decline in employment over the period. Net job losses were experienced in most sectors of the Louisville economy, with the largest declines occurring in natural resources, mining, and construction (3.9 percent); manufacturing (4.4 percent); trade, transportation, and utilities (3.6 percent); and other services (3.4 percent). Employment in professional and business services, on the other hand, grew by 7.1 percent, while employment in the government sector grew by 3.9 percent, a figure inflated by temporary census workers.

### Louisville Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,  
May 2009–May 2010

	Total	Goods producing	Service providing	Unemployment rate May 2010
Louisville	-0.05	-4.27	0.75	10.1
Bowling Green, Ky.	-1.69	-5.56	-0.83	8.6
Evansville, Ind.	-0.06	-3.52	0.99	8.4
United States	-0.59	-4.45	0.05	9.6

SOURCE: Bureau of Labor Statistics.

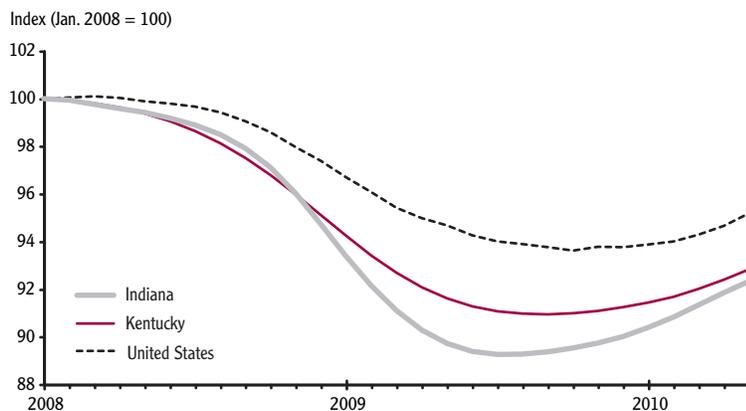
## Louisville Zone—MSA Housing Activity

	Total building permits, units year-to-date		House price index, percent change, 2010:Q1/2009:Q1
	May 2010	Percent change	
<b>Louisville</b>	<b>1,010</b>	<b>25.8</b>	<b>-2.67</b>
Bowling Green, Ky.	200	56.3	-2.17
Elizabethtown, Ky.	209	117.7	-1.15
Evansville, Ind.	248	57.0	-3.83
Owensboro, Ky.	113	37.8	-2.45
United States	255,650	18.3	-6.78

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

Total residential building permits in May 2010 were higher than a year earlier in all five of the MSAs in the Louisville zone. Permits rose by 25.8 percent in Louisville, 56.3 percent in Bowling Green, 117.7 percent in Elizabethtown, 57 percent in Evansville, and 37.8 percent in Owensboro. The FHFA house price index, on the other hand, fell over the period in all five MSAs: by about 2.7 percent in Louisville, 2.2 percent in Bowling Green, 1.2 percent in Elizabethtown, 3.8 percent in Evansville, and 2.5 percent in Owensboro. Nationwide, this index fell by about 6.8 percent over the period.

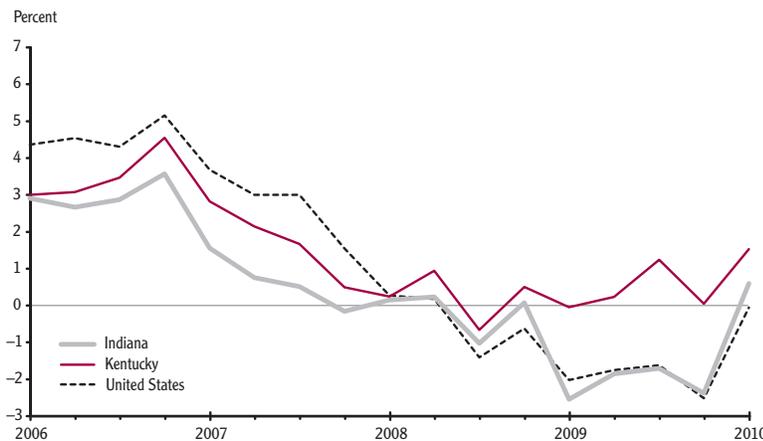
## Louisville Area Coincident Economic Activity Index



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 were both hit harder than the country as a whole by the recession. The index bottomed out at 6.4 percent below its January 2008 level for the United States and by 9 percent and 10.8 percent for Kentucky and Indiana, respectively. Recently, however, the two states have outperformed the rest of the country: Between December 2009 and May 2010, the index rose by 1.7 percent for Kentucky, 2.6 percent for Indiana, and 1.5 percent for the United States.

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



SOURCE: Bureau of Economic Analysis.

As illustrated by the figure, since the beginning of 2008, real personal income growth in Indiana has tended to follow that of the country as a whole. On the other hand, in Kentucky it tended to be mildly positive even during the recessionary period of 2008-09. The most recent data indicate that, while personal income for the country as a whole was effectively unchanged between the first quarters of 2009 and 2010, it rose by 1.5 percent in Kentucky and by 0.6 percent in Indiana.

## 2009 Population Estimates for Eighth District Metro Areas

	2009 Population	Change since 2000	Percent change	Natural increase*	Net international migration	Net domestic migration
<b>Large Metro Areas</b>						
St. Louis, Mo.-Ill.	2,698,664	130,326	4.8	105,672	31,067	-43,750
Little Rock-N. Little Rock-Conway, Ark.	610,514	74,974	12.3	36,083	5,166	34,660
Louisville/Jefferson County, Ky.-Ind.	1,162,414	96,163	8.3	48,692	17,024	34,381
Memphis, Tenn.-Ark.-Miss.	1,205,196	99,730	8.3	85,501	20,490	-8,583
<b>Small and Medium Metro Areas</b>						
Bowling Green, Ky.	104,168	16,427	15.8	5,431	3,216	8,347
Columbia, Mo.	145,666	20,568	14.1	9,911	3,801	7,771
Elizabethtown, Ky.	107,550	5,883	5.5	7,708	339	-1,437
Evansville, Ind.-Ky.	342,816	9,095	2.7	9,769	2,051	-657
Fayetteville-Springfield-Rogers, Ark.-Mo.	347,036	117,587	33.9	33,966	13,474	60,883
Fort Smith, Ark.-Okla.	273,177	19,886	7.3	12,336	4,893	4,450
Hot Springs, Ark.	88,068	10,411	11.8	-1,527	692	11,637
Jackson, Tenn.	107,379	6,250	5.8	4,743	1,448	694
Jefferson City, Mo.	140,051	7,387	5.3	6,258	1,169	844
Jonesboro, Ark.	107,762	12,377	11.5	4,796	1,213	6,942
Owensboro, Ky.	109,876	3,760	3.4	4,533	603	-667
Pine Bluff, Ark.	107,348	-6,654	-6.2	2,964	680	-9,785
Springfield, Mo.	368,375	62,525	17.0	16,971	1,903	45,592
Texarkana, Tex.-Ark.	129,754	7,732	6.0	4,219	639	3,610
<b>All U.S. Metro Areas</b>	<b>232,822,999</b>	<b>29,199,634</b>	<b>12.5</b>	<b>14,793,402</b>	<b>8,449,584</b>	<b>34,754</b>

NOTE: \*Births minus deaths.

SOURCE: U.S. Census Bureau.