

Current Economic Conditions in the Eighth Federal Reserve District

Louisville Zone

October 1, 2010

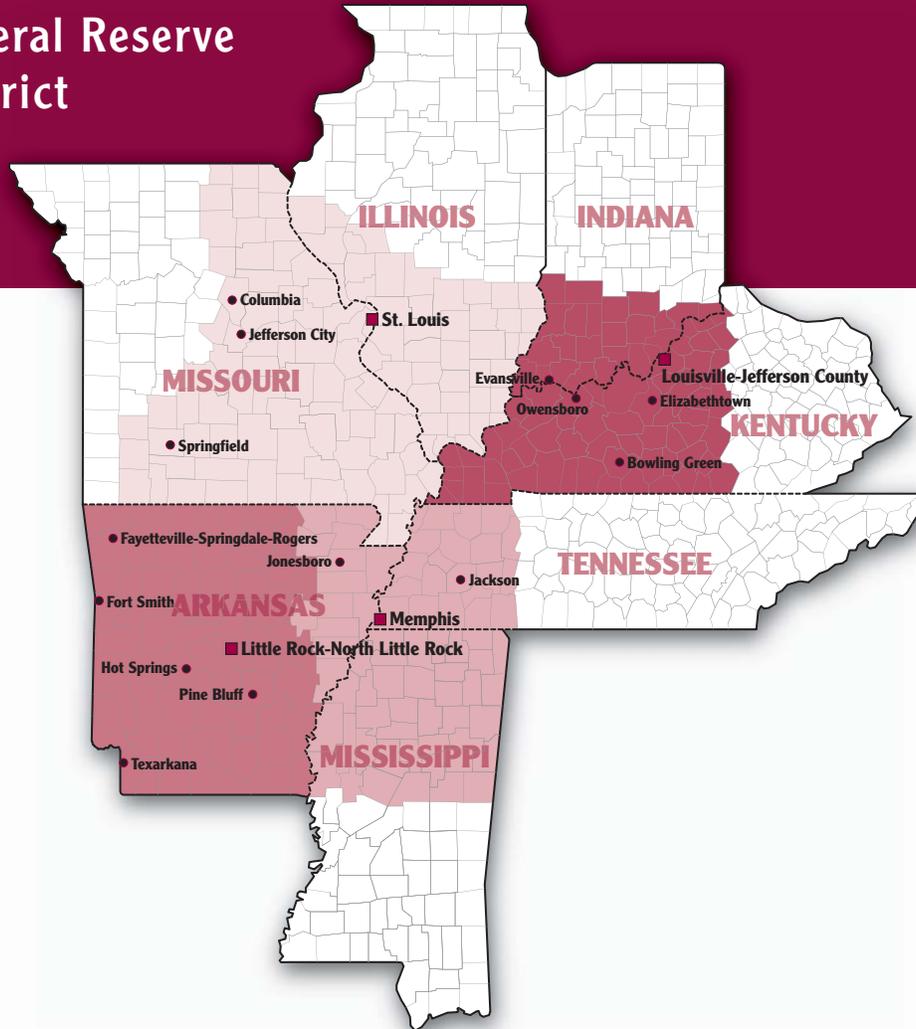
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CRE8

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/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—October 1, 2010

The economy of the Louisville zone has been showing some signs of strength relative to the rest of the country, but significant weakness remains. A majority of general retailers and car dealers saw sales decrease or hold steady over the previous year, although the recent expansion of the manufacturing sector has continued. Overall, the service sector has strengthened somewhat. Residential real estate has experienced increased sales, and the banking sector has seen mixed conditions.

Consumer Spending

Retail sales reports for July and early August were mixed among general retailers and car dealers surveyed in the Louisville zone and were worse for both groups compared with our previous report. About half of each group indicated that sales were down compared with the same months in 2009, while roughly 30 percent of each group reported increased sales. The sales outlook for September and October was mostly optimistic among general retailers but mostly pessimistic among car dealers: Over 80 percent of the general retailers and about 30 percent of the car dealers expect sales to increase over 2009 levels. About 30 percent of car dealers expect sales to decrease.

Manufacturing and Other Business Activity

Manufacturing activity in the Louisville zone has continued to increase since our previous report, with firms announcing more new hires than job layoffs. Firms in adhesive manufacturing, glass and glass product manufacturing, sanitary paper product manufacturing, motor vehicle parts manufacturing, and chemical manufacturing announced plans to expand existing operations and hire new employees. In addition, firms in the plastics material and resin manufacturing industry and the aluminum production and processing industry announced plans to open new plants in the zone. In contrast, a firm in the motor and generator manufacturing industry announced plans to close a plant and lay off workers as it shifts production to an international firm. Activity in the service sector began to increase after our previous report. A real estate leasing firm announced plans to hire a significant number of new employees. In contrast, a firm in the education services industry announced plans to decrease operations and lay off workers.

Real Estate and Construction

In Louisville, activity in the residential real estate market was relatively strong, although not as strong as in our previous report. Compared with the same period in 2009, July 2010 year-to-date home sales were 19 percent higher, while year-to-date single-family housing permits were roughly the same. Reports from the industrial and commercial real estate markets were mixed in the second quarter compared with the first quarter:

Suburban office vacancy rates were higher, downtown office vacancy rates were lower, and industrial vacancy rates were mostly unchanged. A contact in south central Kentucky reported that commercial construction is steady, but there are concerns regarding the development of future projects. A contact in southern Indiana reported that real estate sales are rebounding slowly.

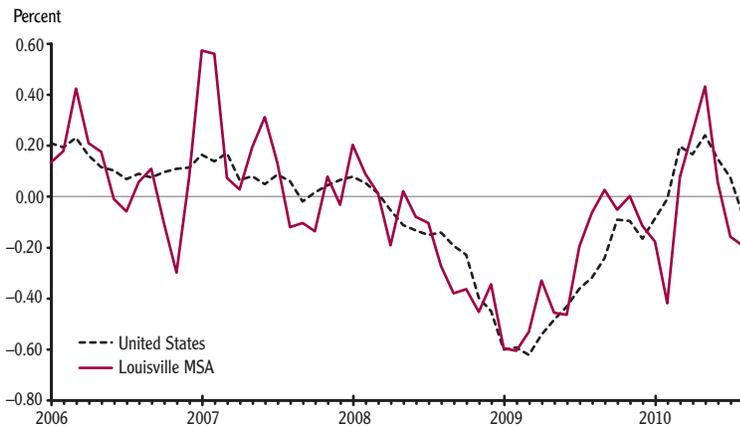
Banking and Finance

Contacts in the Louisville zone have provided mixed reports on local banking conditions since our previous report. Lending activity for commercial and industrial loans continued to decrease. Most contacts reported that businesses are still cautious about taking on new loans; however, one contact noted that, with interest rates reaching historically low levels, businesses may now start to actively seek the refinancing of current debt. In contrast, contacts reported little to no change in consumer lending activity since our previous report. One contact indicated that she has not seen inquiries for loans on big-ticket items and believes that consumers are more interested in paying down current debt than taking on new debt. Residential mortgage lending activity increased slightly, and most contacts reported a spike in refinancing of mortgage loans. Most contacts continue to report a steady increase in deposits.

Agriculture and Natural Resources

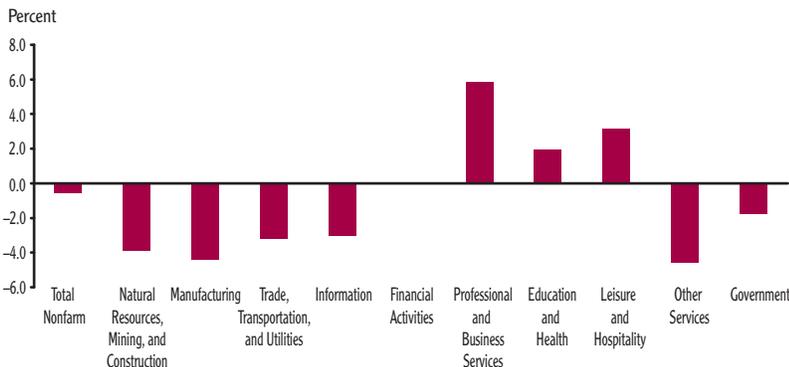
Crop conditions have declined since mid-July for corn and soybeans in both Indiana and Kentucky—especially the latter state—and for tobacco in Kentucky. In late August, at least 14 percent of each of those crops was rated in poor condition. As of August 1, yields for corn and soybeans in Indiana and winter wheat in Kentucky were expected to range from 0 percent to 11 percent higher than last year's yields; in contrast, yields for corn, soybeans, and tobacco in Kentucky and winter wheat in Indiana were expected to range from 2 percent lower to 19 percent lower than last year's yields. Total production of corn in Indiana was expected to be 11 percent higher than last year. In contrast, total production of corn, tobacco, and winter wheat in Kentucky and soybeans in both states was expected to range from 3 percent lower to 23 percent lower than last year; winter wheat production in Indiana was expected to be 44 percent lower than last year.

Nonfarm Payroll Employment Growth 3-Month Average, SA, January 2006–August 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 as recently as the spring was positive and stronger than for the rest of country. Over the three-month period ending in August 2010, however, Louisville employment shrank at a 0.2 percent monthly rate, while U.S. employment shrank at a monthly rate of 0.08 percent.

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



Between August 2009 and August 2010, total nonfarm employment in the Louisville MSA fell by 0.6 percent. This performance was weaker than for the country as a whole, which saw a modest 0.15 percent increase in employment over the period. Net job losses were experienced in a majority of the sectors of the Louisville economy, with the largest declines occurring in other services (4.6 percent); manufacturing (4.4 percent); natural resources, mining, and construction (3.9 percent); and trade, transportation, and utilities (3.2 percent). Employment in professional and business services, on the other hand, grew by 5.8 percent, while employment in leisure and hospitality grew by 3.1 percent.

Louisville Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,
August 2009–August 2010

	Total	Goods producing	Service providing	Unemployment rate August 2010
Louisville	-0.57	-4.20	0.12	10.2
Bowling Green, Ky.	-1.03	-2.83	-0.63	9.5
Evansville, Ind.	-0.12	-2.28	0.53	9.0
United States	0.15	-1.38	0.41	9.5

SOURCE: Bureau of Labor Statistics.

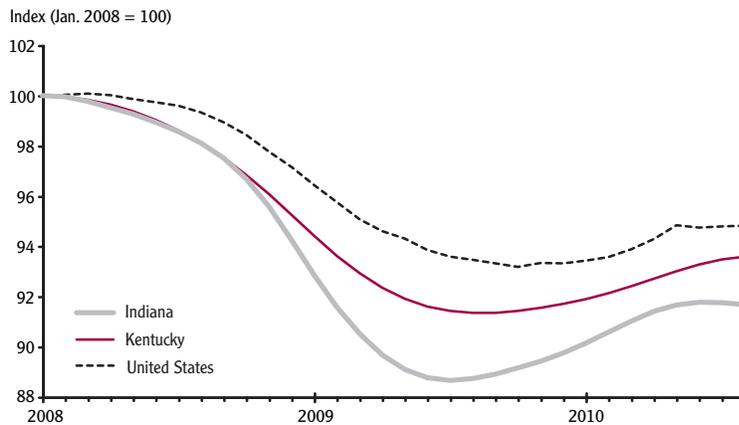
Louisville Zone—MSA Housing Activity

	Total building permits, units year-to-date		House price index, percent change, 2010:Q2/2009:Q2
	August 2010	Percent change	
Louisville	1,648	-0.4	-2.25
Bowling Green, Ky.	427	103.3	-1.93
Elizabethtown, Ky.	293	59.2	0.47
Evansville, Ind.	384	25.5	-1.24
Owensboro, Ky.	252	64.7	-1.00
United States	418,181	9.0	-4.95

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

Total residential building permits in August 2010 were higher than a year earlier in four of the five of the MSAs in the Louisville zone. Permits rose by 103.3 percent in Bowling Green, 59.2 percent in Elizabethtown, 25.5 percent in Evansville, and 64.7 percent in Owensboro. Louisville saw a small decrease of 0.4 percent. The FHFA house price index fell over the period in four of the five MSAs: by about 2.3 percent in Louisville, 1.9 percent in Bowling Green, 1.2 percent in Evansville, and 1.0 percent in Owensboro. Nationwide, this index fell by about 5 percent over the period.

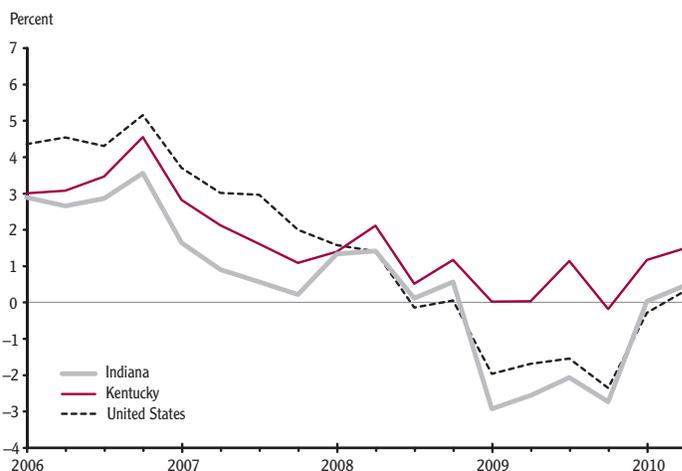
Louisville Area Coincident Economic Activity Index



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. This year, however, the two states have outperformed the rest of the country: Between December 2009 and August 2010, the index rose by 2.0 percent for Kentucky, 2.1 percent for Indiana, and 1.6 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 increased by 0.3 percent between the second quarters of 2009 and 2010, it rose by 1.5 percent in Kentucky and by 0.5 percent in Indiana.

Residential Mortgage Delinquency Rates for Eighth District States
Percent 90+ Days Delinquent or in Foreclosure, 2010:Q2

	All mortgages	Prime			Subprime		
		Total	FRM	ARM	Total	FRM	ARM
Arkansas	5.2	3.4	3.0	8.9	18.4	14.9	27.3
Illinois	11.1	8.0	6.3	17.7	33.4	24.6	44.5
Indiana	8.8	5.5	4.8	12.2	25.1	20.5	35.2
Kentucky	6.6	4.0	3.4	10.3	22.5	17.9	33.2
Mississippi	8.4	5.3	4.9	14.0	24.7	20.5	36.0
Missouri	5.6	3.6	3.2	7.5	20.2	15.5	29.4
Tennessee	6.6	3.8	3.4	9.3	21.7	16.6	31.8
U.S. Total	9.1	6.8	4.9	17.8	28.3	20.6	40.5

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

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