

Current Economic Conditions in the Eighth Federal Reserve District

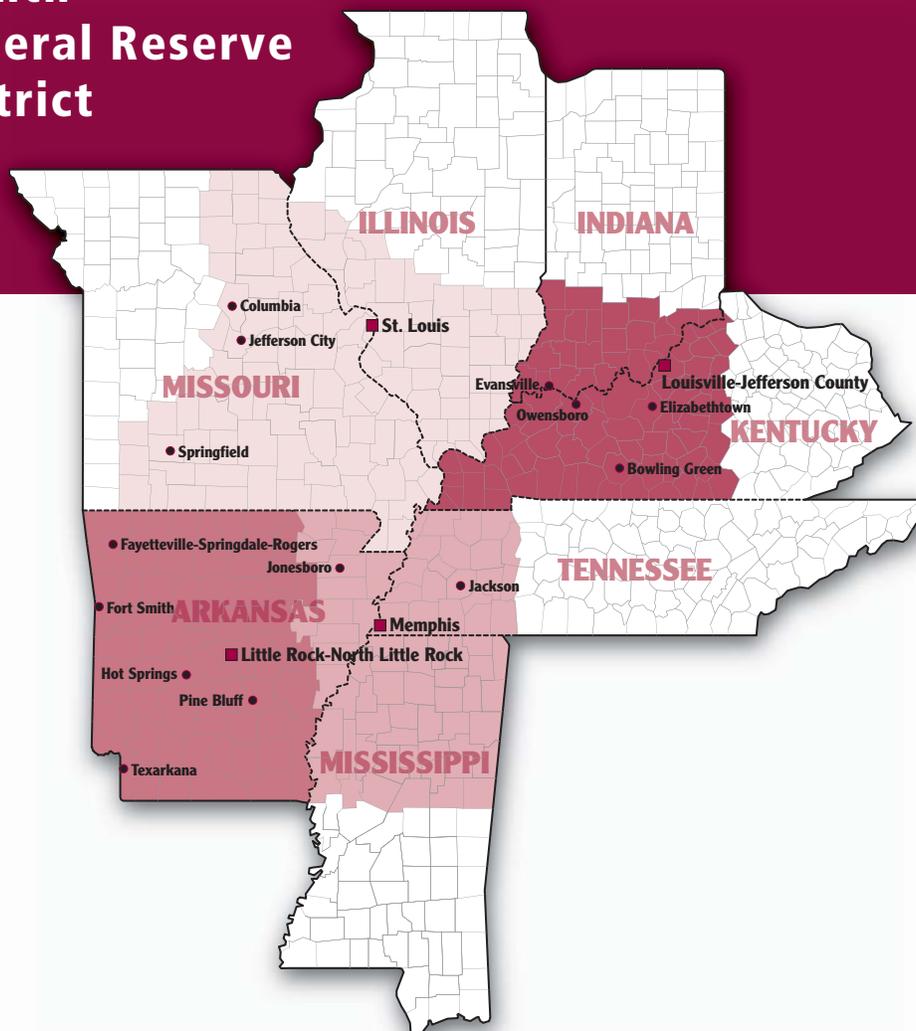
Louisville Zone

December 23, 2011

Prepared by the
Research Division of the
Federal Reserve Bank of St. Louis



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 research.stlouisfed.org/regecon/.

The report includes government-provided data for Kentucky and the metro areas of the Louisville zone. These data are the most recent available at the time this report was assembled.

NOTE: Metropolitan statistical areas (MSAs) are larger geographic areas than cities, as defined by the Census Bureau. Unless noted otherwise, when we refer to a location—such as Louisville—we refer to the Louisville MSA and not to the city of Louisville.

For more information, please contact the Louisville office:

Maria G. Hampton, 502-568-9205, maria.g.hampton@stls.frb.org

Economist:

Alejandro Badel, 314-444-8712, alejandro.badel@stls.frb.org

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The most recent data at the time of publication show that Louisville is performing better than the nation in terms of annual employment growth, short-run employment growth, and annual house price growth, while its performance in terms of the unemployment rate and the issuance of building permits is less favorable than the nation's. The following five points illustrate this assessment:

Annual Changes in Employment

By the end of October, Louisville's nonfarm payroll employment was 2.9 percent higher than one year before, while national employment was 1.2 percent higher than last year.

Short-Term Changes in Employment

Between August and October, Louisville's local employment increased by an average rate of 0.5 percent per month, exceeding the increase in employment observed in the nation, which was 0.1 percent per month.

Unemployment Rate

In Louisville, the unemployment rate increased slightly, from 9.6 percent in July to 9.7 percent in October. This rate was 0.7 percent greater than the 9.0 percent rate registered for the nation at the close of October.

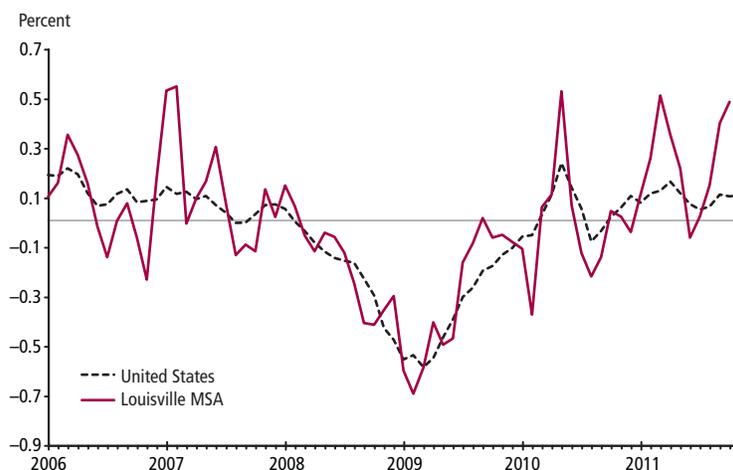
Building Permits

The number of building permits issued in the Louisville zone from the beginning of 2011 through October was 8.3 percent lower than the number issued during the same months of 2010. This fall contrasts with the approximately constant number of building permits issued in the nation as a whole during the same periods.

House Prices

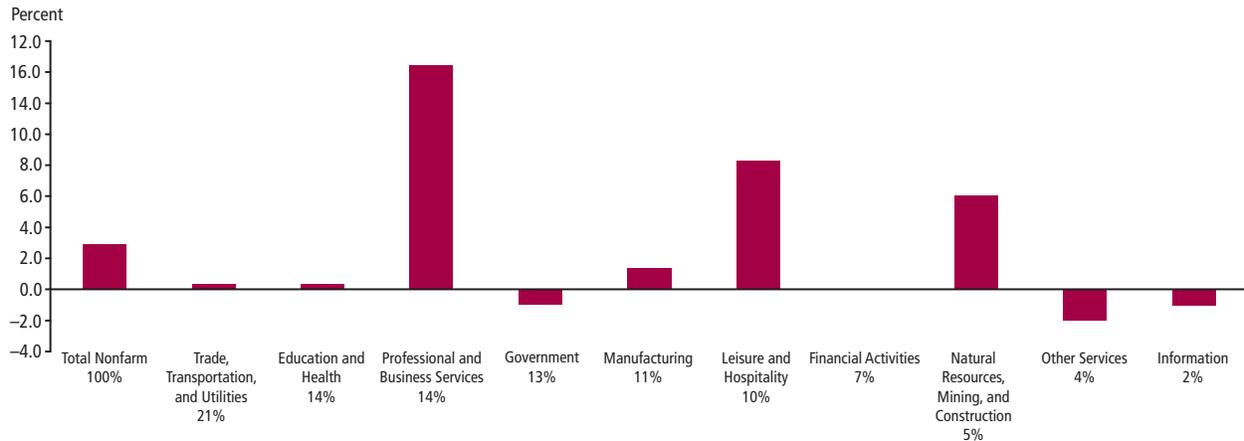
At the close of the third quarter, housing prices were 2.3 percent lower in the Louisville zone compared with the same time last year. This increase in house prices contrasts with the fall of 4.3 percent registered for the nation as a whole during the same period.

Nonfarm Payroll Employment Growth 3-Month Moving Average, SA, January 2006–October 2011



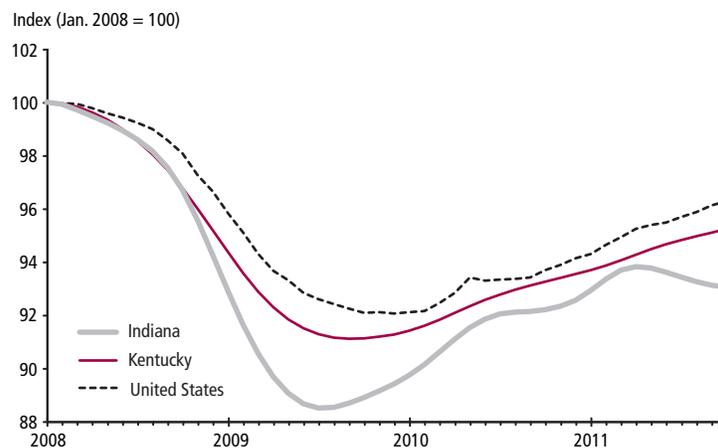
Louisville's recession-related decline in employment, which was centered at the start of 2009, was similar to the nation's decline. The recovery in Louisville has been similar to that of the nation; however, the recovery seemed to have stalled in Louisville during the third and fourth quarters of 2010, and employment expansion restarted only in January 2011. Between August and October, Louisville's employment expanded, on average, by 0.5 percent per month while national employment grew at an average of 0.1 percent per month.

Louisville MSA Employment Growth by Sector Year/Year Percent Change, October 2010–October 2011



Employment growth by sector during the past 12 months distinguishes general trends from sector-specific trends in Louisville’s economic performance. Employment increased by 2.9 percent in this MSA with respect to one year ago, while the increase was only 1.2 percent for the nation. The three largest sectors in Louisville are Trade, Transportation, and Utilities; Education and Health; and Professional and Business Services, accounting for 21 percent, 14 percent, and 14 percent of Louisville’s employment, respectively. Employment growth in these three sectors during the past 12 months was 0.4 percent, 0.4 percent, and 14.5 percent, respectively. Employment growth varied across sectors, with 3 of 10 sectors reducing employment and the rest increasing employment or displaying constant employment. The Professional and Business Services sector had the best performance in Louisville, while the Other Services sector, which accounts for 4 percent of employment, had the worst performance (–2.0 percent).

Louisville Zone Coincident Economic Activity Index



SOURCE: Federal Reserve Bank of Philadelphia.

The Philadelphia Fed’s coincident index combines information on payroll employment, wages, unemployment, and hours of work to give a single measure of economic performance. The relevant index values suggest that the recession’s impact was stronger for both Kentucky and Indiana than for the nation. In fact, the index values during the recession show that, at the lowest point, the level of economic activity in Kentucky and Indiana was at 91.1 percent and 88.5 percent of pre-recession levels, respectively. Meanwhile, the nation’s lowest point of economic activity was at 92.1 percent of its pre-recession level. Since then, the recovery has followed a similar upward trend for Kentucky and the nation while Indiana’s coincident index has trended downward since the second quarter of 2011. The current values of the index are 93.0 for Indiana, 95.2 for Kentucky, and 96.3 for the nation.

Louisville Zone—MSA Employment and Unemployment

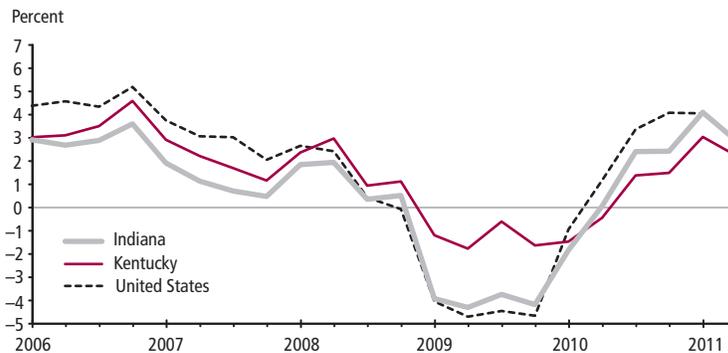
	Nonfarm payroll employment percent change, October 2010–October 2011			Unemployment rate October 2011
	Total	Goods producing	Service providing	
Louisville	2.94	2.76	2.98	9.7
Bowling Green, Ky.	-1.82	1.89	-2.61	8.8
Evansville, Ind.	1.44	1.00	1.57	7.8
United States	1.21	1.81	1.11	9.0

NOTE: Sector-level employment data are not available for Elizabethtown, Ky., or Owensboro, Ky; as a result, these MSAs are not included in the previous chart or in this table.

SOURCE: Bureau of Labor Statistics.

Employment expansion in the Louisville zone has been substantial in the Louisville and Evansville MSAs for both goods-producing and service-providing activities. However, the highest unemployment rate in this zone, 9.7 percent, was registered in the Louisville MSA. This unemployment rate is more than half a percentage point higher than the 9.0 percent rate registered for the nation at the close of October.

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



SOURCE: Bureau of Economic Analysis

Personal income growth in Kentucky and Indiana was below the nation's for several quarters before the most recent recession (which started in the last quarter of 2007). The recession's impact on personal income in Kentucky was milder than in the nation, while the impact on personal income in Indiana was roughly the same as in the nation. Between the second quarter of 2010 and the second quarter of 2011, personal income grew by 2.2 percent in Kentucky and by 2.9 percent in both Indiana and the nation.

Louisville Zone—MSA Housing Activity

	Total building permits, units year-to-date		House price index, percent change, 2011:Q3/2010:Q3
	October 2011	Percent change	
Louisville	2,093	-8.3	-2.3
Bowling Green, Ky.	526	2.9	-0.2
Elizabethtown, Ky.	193	-54.8	-0.3
Evansville, Ind.	381	-15.9	-0.2
Owensboro, Ky.	232	-21.4	0.3
United States	510,949	0.0	-4.3

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

Real estate activity in the Louisville zone during the 12 months preceding October 31 was characterized by a slowdown in the issuance of building permits and by mildly declining house prices. The number of building permits issued since the beginning of the year through October was lower than the number issued during the same months of 2010 for all MSAs in the Louisville zone, except Bowling Green. The declines, which ranged from 8.3 to 54.8 percent, were more pronounced in each of the MSAs than in the nation, where issuance of building permits remained roughly unchanged with respect to last year.

House prices, however, show a milder decline in the zone relative to the nation. The 2.3 percent house price decrease registered in Louisville relative to one year ago was the largest decline registered within the zone. This decline is mild compared with the 4.3 percent decrease for the nation. Finally, the only increase in house prices in the zone's MSAs, 0.3 percent, was registered in Owensboro.