

Current Economic Conditions in the Eighth Federal Reserve District

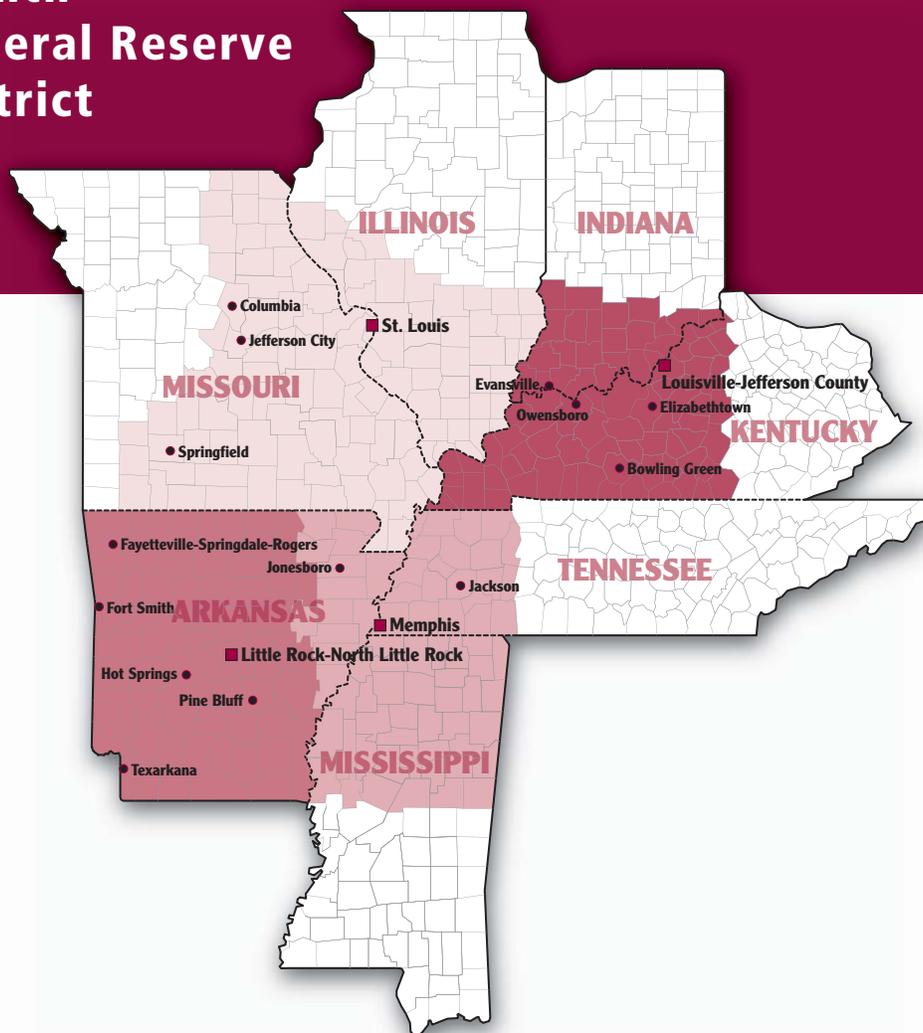
Louisville Zone

June 22, 2012

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.

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Louisville Zone Report—June 22, 2012

The most recent data at the time of publication show that Louisville is performing better than the nation in terms of annual employment growth and annual house price growth, while its performance in terms of the short-term changes in employment, the unemployment rate, and 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 April 2012, Louisville's nonfarm payroll employment was 2.4 percent higher than one year before, while national employment was 1.3 percent higher than last year.

Short-Term Changes in Employment: Between February 2012 and April 2012, Louisville's local employment decreased by an average rate of 0.1 percent per month, while national employment grew at an average rate of 0.1 percent per month.

Unemployment Rate: In Louisville, the unemployment rate decreased slightly, from 9.1 percent in January 2012 to 8.4 percent in April 2012. This rate was 0.3 percent greater than the 8.1 percent rate registered for the nation at the close of April.

Building Permits: The number of building permits issued in Louisville by April 2012 was 14.3 percent higher than the number issued during the same period in 2011. This rise was less than the 30.1 percent increase experienced by the nation during the same period.

House Prices: At the close of the fourth quarter, housing prices were 0.3 percent lower in Louisville compared with the same time last year. This decline in house prices was less than the decline of 1.4 percent registered for the nation as a whole during the same period.

Anecdotal Information from the Beige Book

Agriculture and Natural Resources

- Year-to-date coal production (by early June) in Indiana was 5.1 percent lower compared with the same period last year; production in western Kentucky was 4.1 percent lower.
- Rates of completion (by early June) for the planting of soybeans in both Indiana and Kentucky were at least 18 percentage points higher than their 5-year average rates.
- In Indiana, 90 percent of the winter wheat crop was rated as fair or better in early June, and 77 percent or more of pasture land was rated as fair or better in Indiana and Kentucky.

Car Dealers

- Overall sales were mixed, with half of contacts reporting increased sales and half reporting decreased sales in April and early May.
- Sales were expected to increase in June and July when compared with the same time last year for five of six contacts; the remaining contacts expected no change in sales.

Construction

- Contacts in south central Kentucky noted that new large commercial construction projects have been undertaken in the downtown Bowling Green area.
- A contact in the Louisville MSA reported plans for speculative industrial construction.

General Retail

- April and early May sales increased compared with the same time last year for five of six contacts; sales were flat for the remaining contacts.
- Sales met or exceeded expectations for two of three contacts; sales were below expectations for one of three contacts.
- Sales were expected to increase in June and July when compared with the same time last year for one of three contacts; the remaining contacts expect sales to remain constant.

Manufacturing

- Contacts in automobile parts and solar panel manufacturing plan to hire new workers while expanding operations or opening new plants. Meanwhile, a contact in paint manufacturing reported plans to close a plant and lay off workers.

Real Estate

- Contacts in Louisville reported that the increase in office real estate activity slowed during April and May, compared with the first quarter of 2012.

Services

- Contacts in distribution, hotels, and natural gas distribution services plan to hire new workers while expanding operations or opening new facilities. By contrast, a religious organization reported plans to lay off workers and reduce operations.

Banking and Finance

- All contacts expect loan demand to stay the same.
- One of two contacts finds that loan delinquencies are staying about the same; the remaining contacts find that loan delinquencies are getting worse.

Detailed Indicators: Employment, Unemployment, Personal Income, and General Economic Activity

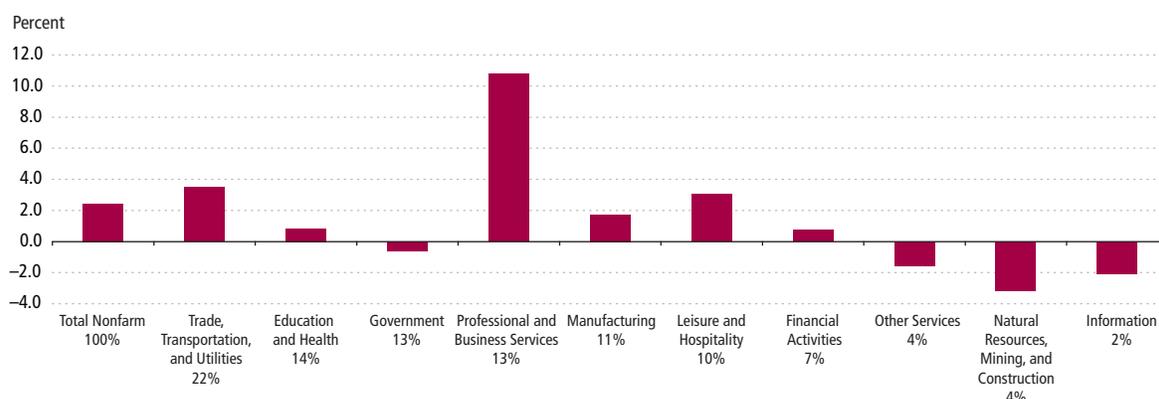
Nonfarm Payroll Employment Growth—Louisville MSA



NOTE: 3-Month moving average, seasonally adjusted, January 2006–April 2012.
SOURCE: Bureau of Labor Statistics.

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 since then has been similar to that of the nation. While the recovery seemed to have slowed in Louisville during the first and second quarters of 2011, the expansion then restarted in August 2011. Between February 2012 and April 2012, however, Louisville's employment contracted at an average rate of 0.1 percent per month, while national employment grew at an average rate of 0.1 percent per month.

Employment Growth by Sector—Louisville MSA



NOTE: Percent change with respect to one year ago, April 2011–April 2012.

SOURCE: Bureau of Labor Statistics.

Employment growth by sector during the past 12 months distinguishes general trends from sector-specific trends in Louisville’s economic performance. Employment increased by 2.4 percent in this MSA with respect to one year ago, while the increase was only 1.3 percent for the nation. The three largest sectors in Louisville are Trade, Transportation, and Utilities; Education and Health; and Professional and Business Services. These three sectors account for 22 percent, 14 percent, and 13 percent of Louisville’s employment, respectively. Employment growth within these sectors was 3.5 percent, 0.8 percent, and 10.8 percent in the past 12 months, respectively. The figure shows that employment growth varied across sectors, with 4 of 10 sectors reducing employment and the rest increasing employment. The Professional and Business Services sector had the best performance in Louisville (10.8 percent expansion), while the Natural Resources, Mining, and Construction sector had the worst performance (3.2 percent contraction).

Employment and Unemployment by MSA

Nonfarm payroll employment percent change,
April 2011–April 2012

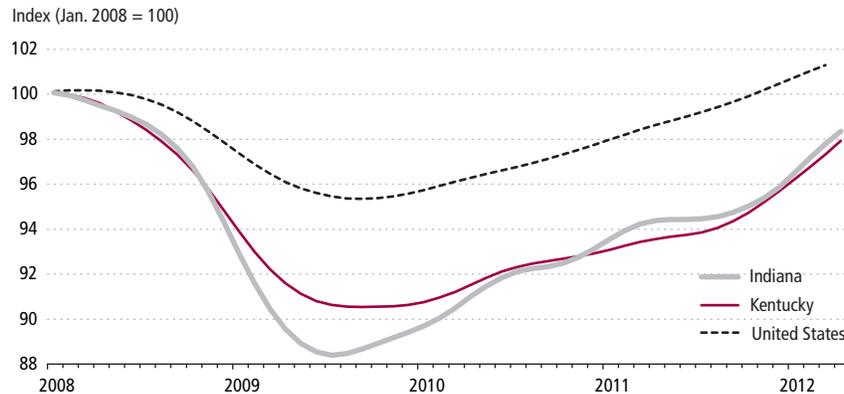
	Total	Goods producing	Service providing	Unemployment rate April 2012
Louisville, Ky.–Ind.	2.44	0.34	2.81	8.4
Bowling Green, Ky.	0.17	-0.92	0.40	7.5
Evansville, Ind.	-0.86	-3.50	-0.07	7.2
United States	1.29	1.89	1.20	8.1

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

SOURCE: Bureau of Labor Statistics.

Employment expansion in the Louisville zone has been mixed: The Louisville MSA experienced growth in both goods-producing and service-providing activities, while the Evansville MSA experienced a decline in both activities. Even with substantial job growth in the Louisville MSA, the highest unemployment rate in this zone (8.4 percent) was also registered there. This unemployment rate was over a quarter of a percentage point higher than the 8.1 percent rate registered for the nation at the close of April 2012.

Coincident Economic Activity Index—Louisville Zone

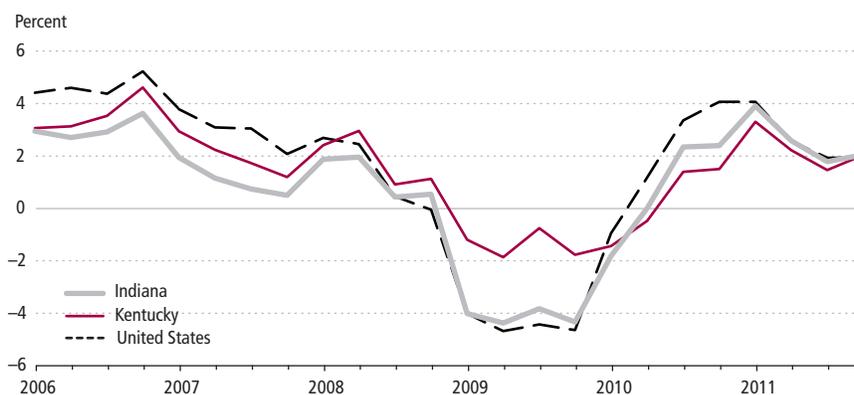


SOURCE: Federal Reserve Bank of Philadelphia.

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 90.5 percent and 88.3 percent of pre-recession levels, respectively. Meanwhile, the nation's lowest point of economic activity was at 95.3 percent of its pre-recession level. Since then, the recovery has followed a similar upward trend for Kentucky, Indiana, and the nation. The current values of the index are 98.3 percent for Indiana, 97.9 percent for Kentucky, and 101.2 percent for the nation.

Note: The Federal Reserve Bank of Philadelphia has significantly revised their national coincident economic activity index since our previous publication. Interested readers can view archival versions of the data in the St. Louis Fed's ALFRED database. <http://alfred.stlouisfed.org>. The series ID is USPHCI.

Real Personal Income Growth—Louisville Zone



NOTE: Percent change with respect to previous 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 was milder in Kentucky than at the national level, while the recession's impact on personal income in Indiana was roughly the same as in the nation. Between the fourth quarter of 2010 and the fourth quarter of 2011, personal income grew by 2.0 percent in both Kentucky and Indiana. Meanwhile, the nation experienced a 1.9 percent increase in personal income.

Residential Real Estate Activity by MSA

	Total building permits, units year-to-date		House price index, percent change, 2012:Q1/2011:Q1
	April 2012	Percent change	
Louisville, Ky.–Ind.	961	14.3	-0.3
Bowling Green, Ky.	330	114.3	2.0
Elizabethtown, Ky.	167	187.9	-0.1
Evansville, Ind.	153	15.0	0.3
Owensboro, Ky.	68	-9.3	-0.5
United States	230,165	30.1	-1.4

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

Real estate activity in the Louisville zone in early 2012 was characterized by an increase in the issuance of building permits and a mild decline in house prices. The number of building permits issued by April 2012 was higher than the number issued during the same period in 2011 for all MSAs in the Louisville zone, except Owensboro. The increases ranged from 14.3 percent to 187.9 percent; half were above the rate for the nation and half were below.

Meanwhile, house prices decreased in three of the five MSAs in the zone, and those price decreases were milder than the decrease experienced by the nation as a whole. The 0.5 percent house price decrease registered in Owensboro relative to one year ago was the largest decrease registered within the zone. This decrease was milder than the 1.4 percent decrease registered at the national level. Finally, the largest increase in house prices among the zone's MSAs was registered in Bowling Green, where prices increased by 2.0 percent.