

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

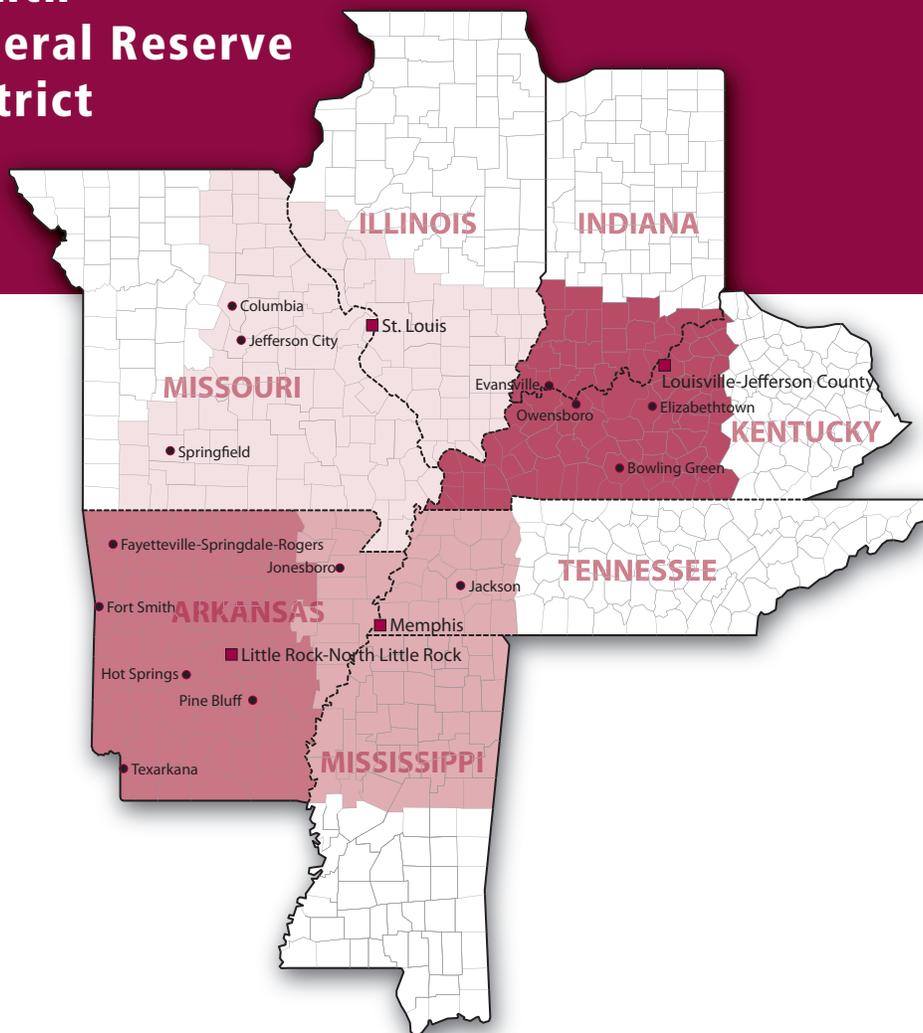
## **Louisville Zone**

December 21, 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/](https://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—December 21, 2012

Louisville remains the top-performing zone in our District according to several key economic variables. Louisville's non-farm payroll employment growth has been appreciably stronger than the nation's growth, as has Louisville's growth of personal income and housing permits. However, house prices are little changed from a year earlier, similar to the other three zones and the nation. The following five points illustrate this assessment:

**Annual Changes in Employment:** In October 2012, Louisville's nonfarm payroll employment was 2.7 percent higher than a year earlier. This increase was nearly double the nation's increase over the same period.

**Short-Term Changes in Employment:** Between July 2012 and October 2012, Louisville's MSA employment increased by an average of 0.3 percent per month, which, again, outpaced the nation's increase (0.1 percent per month).

**Unemployment Rate:** In the Louisville MSA, the unemployment rate measured 8 percent in October 2012, a 0.2 percentage point decline from three months earlier. This rate was about equal to the nation's 7.9 percent rate, but higher than the two other MSAs in Kentucky (Bowling Green and Evansville).

**Building Permits:** Similar to our previous report in September, building permits issued in the Louisville MSA continue to run more than 50 percent higher than the same period in 2011. Overall, real estate activity (as measured by building permit issuance) in the Louisville zone has been exceptionally strong in four of the five areas we examined.

**House Prices:** During the third quarter of 2012, house prices were about unchanged from a year earlier in the Louisville MSA and in three of the four other areas we examined. By and large, the Louisville zone mirrors the nation, which saw no change in house prices over the most recent four quarters.

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## Anecdotal Information from the Beige Book

### Agriculture and Natural Resources

- In the wake of this summer's drought, harvest completion rates were all on pace or ahead of their 5-year averages in Indiana and Kentucky. By early November, the corn crop in Kentucky was almost completely harvested and in Indiana an additional 15 percentage points of the corn crop had been harvested relative to the 5-year average.
- The USDA continues to forecast that corn production will be 28 to 42 percent lower in Kentucky and Indiana in 2012 relative to 2011, though they have significantly upgraded their forecasts for soybean production. New estimates of 2012 soybean production are 22 to 28 percent higher than the early September estimates, though the USDA still indicates a 5 to 6 percent decrease in production relative to 2011.
- As of late November, nearly all of the planned winter wheat has been planted and emerged in Indiana, with 99 percent of the crop rated in fair or better condition.
- Year-to-date coal production through November was 4.0 percent higher in western Kentucky and 2.0 percent lower in Indiana compared with the first 11 months of 2011.

### Car Dealers

- Half of contacts reported increased sales in October and early November; one of three contacts reported no change in sales; the remaining contacts reported decreased sales.
- Five of six contracts reported that sales met or exceeded expectations; the remaining contacts reported that sales fell short of expectations.
- Half of contacts expected sales to increase in November and December compared with the same time last year; the remaining contacts expected no change in sales.

### Construction

- A contact in south central Kentucky noted that commercial construction remains strong, particularly in the downtown Bowling Green area.
- A contact in Louisville noted plans for speculative industrial construction in Jefferson City and several industrial construction projects in southern Indiana and Bullitt County.

## General Retail

- Five of six contacts reported increased sales for October and early November compared with the same time last year; the remaining contacts reported decreased sales.
- Two of three contacts reported that sales met or exceeded expectations; the remaining contacts reported that sales fell short of expectations .
- Two of three contacts expected sales to increase in November and December compared with the same time last year; the remaining contacts expected sales to remain the same.

## Manufacturing

- A beverage manufacturing firm announced plans to hire new employees and open a new facility in the Louisville zone. In contrast, a coal manufacturer and an automobile parts manufacturer reported layoff plans (the former due to a mine closure).

## Real Estate

- A contact in the Louisville metropolitan area reported that the office and industrial space leasing activities in the third quarter of 2012 are less robust compared with the previous quarter, while a contact in Louisville reported strong industrial leasing activity in Bullitt County.
- A contact in Louisville anticipates an uncertain outlook for office real estate in 2013.

## Services

- Firms in electric power generation, business support services, and legal services announced plans to hire new workers (on net) and expand operations.

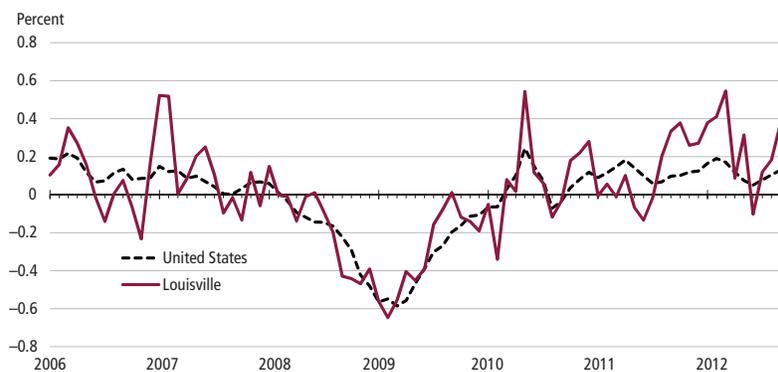
## Banking and Finance

- Five of eight contacts expect loan demand to stay the same, two of eight expect loan demand to increase, and one contact expects it to decrease.
- Four of eight contacts find that loan delinquencies are improving; the remaining contacts find that loan delinquencies are mostly unchanged.

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

### Nonfarm Payroll Employment Growth—Louisville MSA

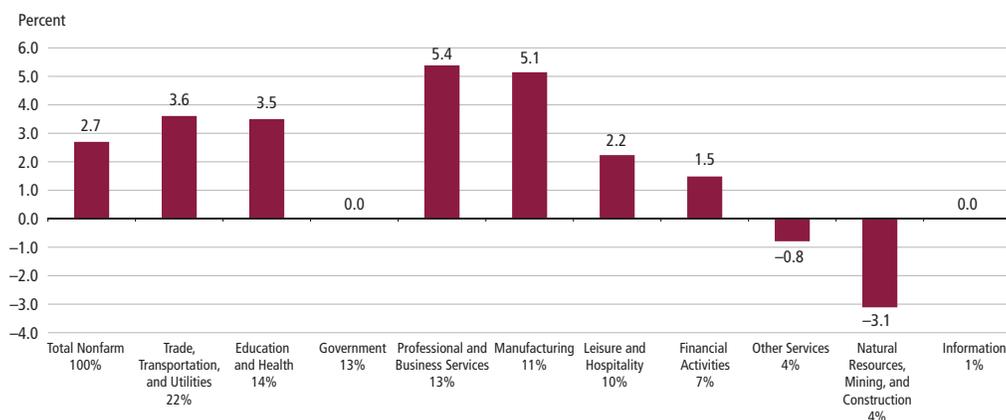


NOTE: 3-Month moving average, seasonally adjusted, January 2006–October 2012. See the narrative with the St. Louis charts for descriptions and definitions of the series that are also used in the Little Rock, Louisville, and Memphis charts and tables.

SOURCE: Bureau of Labor Statistics.

Payroll employment growth in the Louisville MSA, although more volatile than the nation's, continues to run a bit stronger. For the three months ending in October 2012, nonfarm payroll employment increased by an average of 0.3 percent per month, versus 0.1 percent for the nation. Thus far in 2012, job gains in Louisville averaged 1,460 per month, versus 650 per month over the same period in 2011. Along with a significantly faster pace of hiring this year, employment gains in Louisville during the current business expansion (4.7 percent) have been appreciably stronger than the nation's growth (2.6 percent). Indeed, Louisville's employment growth during this expansion is the strongest of the four Branch city MSAs (Little Rock, Louisville, Memphis, and St. Louis).

## Employment Growth by Sector—Louisville MSA



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

SOURCE: Bureau of Labor Statistics.

Louisville’s economy has experienced relatively rapid employment growth over the past 12 months, 2.7 percent. In fact, this increase is nearly double the nation’s 1.4 percent increase and, moreover, stems entirely from healthy gains in private-sector employment. The two largest sectors by employment in Louisville—Trade, Transportation, and Utilities and Education and Health—have each boosted their payrolls by roughly 3.5 percent for the 12 months ending in October 2012. The next largest employer, Government, has had no job growth over the past year. By contrast, two sectors that account for about a quarter of the jobs in the Louisville MSA—Professional and Business Services and Manufacturing—have seen extremely rapid job growth over the past year, 5.4 percent and 5.1 percent, respectively. Over the past year, only two sectors have seen falling employment, and those sectors account for less than 10 percent of the total nonfarm jobs in the Louisville MSA. Three months earlier, 4 of the 10 sectors had experienced declining employment over the past year.

## Employment and Unemployment by MSA

Nonfarm payroll employment percent change,  
October 2011–October 2012

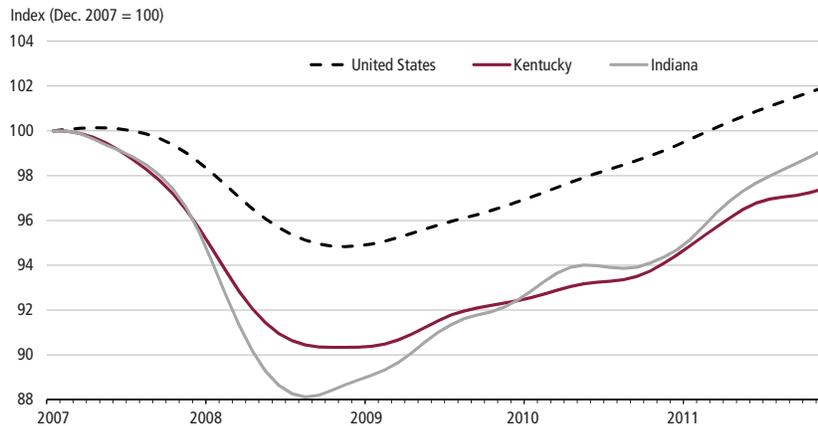
	Total	Goods producing	Service providing	Unemployment rate October 2012
Louisville, Ky.-Ind.	2.70	2.78	2.68	8.0
Bowling Green, Ky.	1.32	-1.80	2.03	7.4
Evansville, Ind.	0.96	1.50	0.81	7.2
United States	1.45	1.15	1.49	7.9

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.

As measured by job growth over the past year, the Louisville MSA has outperformed the other two major MSAs in the Louisville zone. This growth, moreover, reflects strong gains in both the goods-producing and service-providing sectors—roughly 2.75 percent growth in each sector. Employment gains over the past year have also been positive in the Bowling Green and Evansville MSAs, 1.3 percent and 1 percent, respectively. However, growth in these two MSAs lags both Louisville (2.7 percent) and the nation (1.4 percent). Despite the relatively weaker growth in these two areas, both MSAs have seen improving job growth over the past three months. In our September 2012 report, Bowling Green’s employment had declined by a bit less than 2 percent from July 2011 to July 2012, while Evansville’s employment had increased by only 0.6 percent. Evansville’s improvement largely reflects faster growth in goods-producing employment, while Bowling Green’s improvement mostly reflects a sharp turnaround in services-providing employment. Compared with the St. Louis and Little Rock zones, unemployment rates in the Louisville zone are closer to the nation’s unemployment rate, but still a bit lower on average. From July 2012 to October 2012, the unemployment rate has declined by 0.2 percentage points in Louisville and in Evansville. However, over the past three months the unemployment rate has inched up by 0.1 percentage points in Bowling Green to 7.4 percent.

## Coincident Economic Activity Index—Louisville Zone

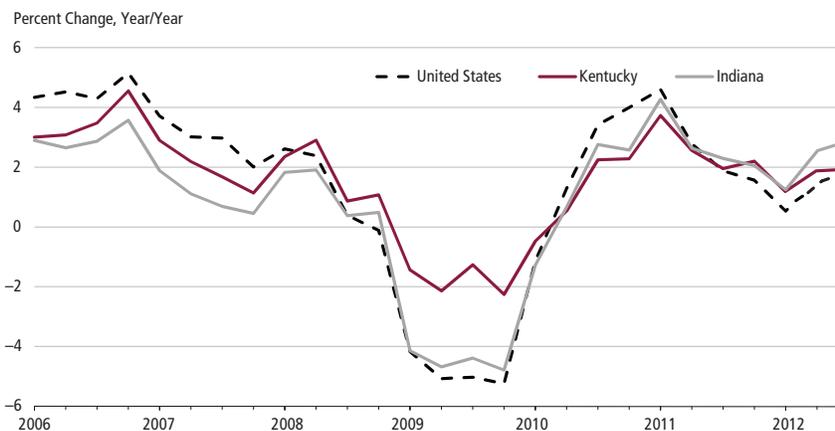


SOURCE: Federal Reserve Bank of Philadelphia.

The Philadelphia Fed's coincident index combines information on payroll employment, nominal wages and salaries, the unemployment rate, and average hours worked in the manufacturing sector. It is designed to be a comprehensive measure of economic performance at the state level, comparable with real GDP at the national and state level (gross state product). [NOTE: The level of activity is measured on a state-wide basis rather than by the boundaries of the Federal Reserve Districts.] In this chart, the index is set to equal to 100 at December 2007, which is the peak of the previous U.S. business expansion according to the National Bureau of Economic Research Business Cycle Dating Committee.

Economic activity in the Louisville zone has benefited from relatively rapid growth in Indiana and, to a lesser extent, Kentucky. Through the first 10 months of 2012, Indiana's coincident index increased by 4.2 percent, outpacing Kentucky's healthy 2.7 percent gain and the nation's 2.3 percent gain. The pace of economic activity measured by the coincident index shows that these two states are the fastest-growing states in the Eighth District. With their paces of growth surpassing that of the United States, the gap in the level of activity between the nation and Indiana and Kentucky has been narrowing. Still, unlike the nation, which surpassed its previous business cycle peak (December 2007) in early 2012, the levels of activity in Indiana and Kentucky still remain a bit below their levels in December 2007. However, at their current year-to-date growth rates, Indiana is projected to surpass its December 2007 level in early 2013, while Kentucky is projected to surpass its December 2007 level by mid-2013. Of course, any deviation from this growth rate would change this projection.

## Real Personal Income Growth—Louisville Zone



NOTE: Percent change with respect to previous year.

SOURCE: Bureau of Economic Analysis.

Real personal income (PI) is a measure of the income received by households from a variety of sources.<sup>1</sup> The largest component of PI is compensation, which is largely wages and salaries. PI also includes interest and dividend income, transfer payments from the government, and some other sources. At the national level, PI is about 85 percent of GDP. Thus, its growth rate generally tracks GDP closely.

Consistent with recent trends in state coincident indexes, PI growth for Kentucky and Indiana has been modestly stronger than growth for other District states and for the nation over the past year. Over the four quarters ending in the third quarter of 2012, PI has increased by 2.6 percent in Indiana and by 1.9 percent in Kentucky. For the nation, PI increased by 1.8 percent from the third quarter of 2011 to the third quarter of 2012.

<sup>1</sup> Real personal income for the nation and the states is nominal personal income deflated by the personal consumption expenditure chain-price index.

## Residential Real Estate Activity by MSA

	Total building permits, units year-to-date		House price index, percent change, 2012:Q3/2011:Q3
	October 2012	Percent change	
Louisville, Ky.-Ind.	3,232	54.4	0.1
Bowling Green, Ky.	740	40.7	0.3
Elizabethtown, Ky.	355	83.9	0.0
Evansville, Ind.	535	40.4	0.4
Owensboro, Ky.	222	-4.3	2.4
United States	679,933	33.1	0.0

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

Benefiting from robust overall economic growth, real estate activity continued to increase at exceptionally strong rates in most areas of the Louisville zone. Year-to-date, total permit issuance in the Louisville zone's five MSAs totaled a little less than 5,100 units, which is a 48.4 percent increase from a year earlier. In the Louisville MSA, permit issuance thus far in 2012 is up by more than 54 percent from the same period in 2011. Permit issuance has been even stronger in Elizabethtown, but modestly weaker in the Bowling Green and Evansville MSAs. Over the past three months, real estate activity has slipped in Owensboro. As a result, year-to-date permit issuance has declined by 4.3 percent from a year earlier. In our previous report (September 2012), Owensboro's year-to-date permit issuance had increase by 20 percent. Despite strong growth of permit issuance, house prices in the Louisville zone are essentially unchanged from a year earlier, mirroring the nation. The exception, again, was Owensboro, which saw house prices rise by 2.4 percent from the third quarter of 2011 to the third quarter of 2012.