

Current Economic Conditions in the Eighth Federal Reserve District

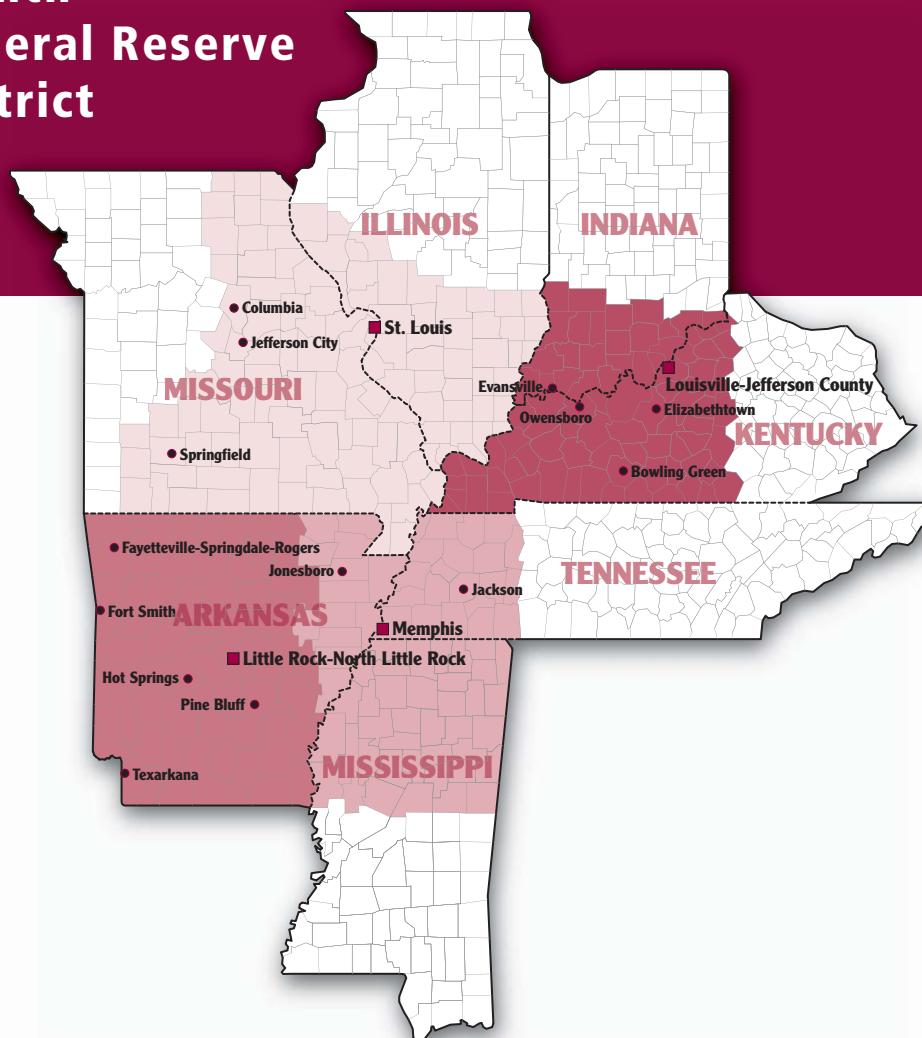
Louisville Zone

September 30, 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

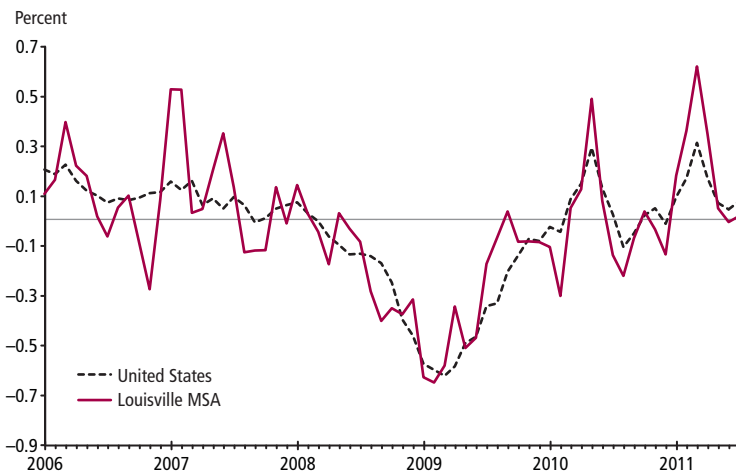
Economist:

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

Louisville Zone Report—September 30, 2011

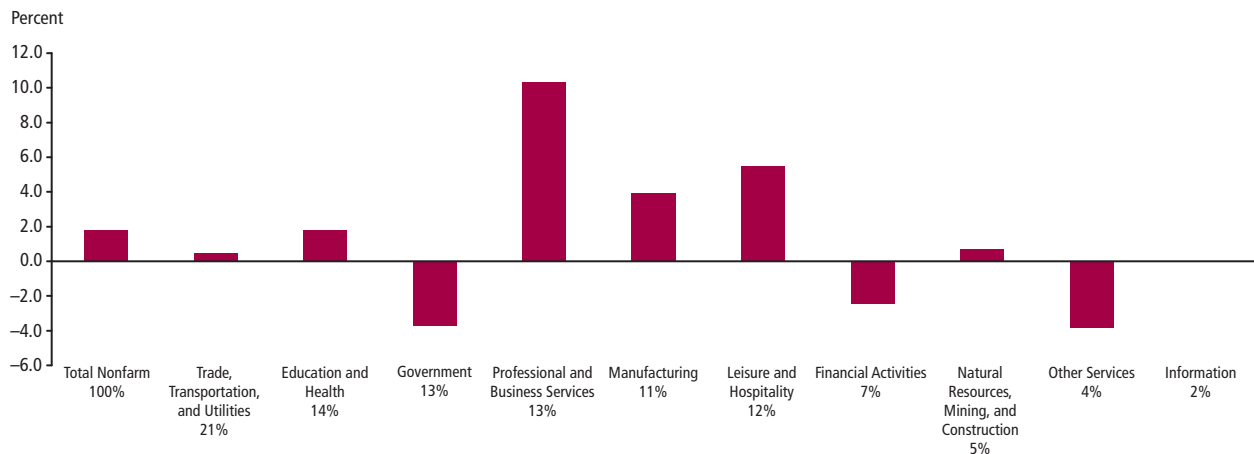
At the close of July, the annual growth of employment, building permits, and housing prices was 1.8 percent, -7.2 percent, and -1.3 percent in Louisville and 0.9 percent, -4.9 percent, and -4.5 percent in the nation. At the same time, the annual growth of personal income was 3.1 percent in both Kentucky and the nation. Also, in the past three months, local employment remained roughly unchanged, while nationwide employment increased by an average rate of 0.1 percent per month. Finally, the unemployment rate in Louisville (9.7 percent) was higher than the nation's (9.1 percent). Therefore, according to three of the six indicators considered, Louisville has underperformed the nation.

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



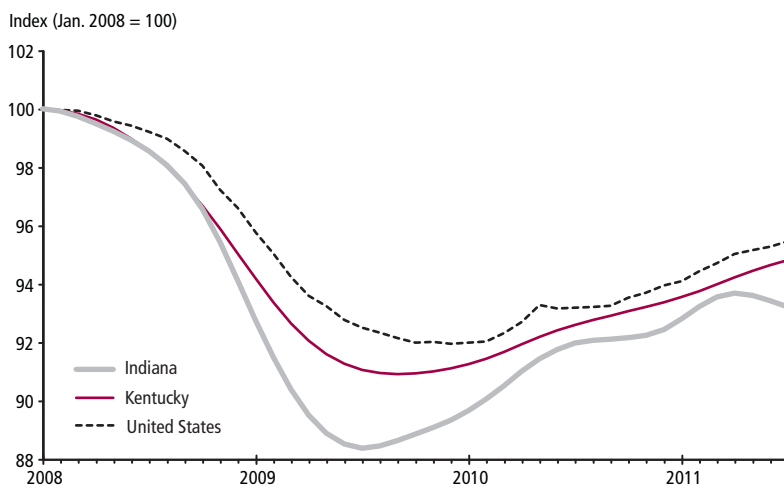
Louisville's recession-related decline in employment, which was centered at the start of 2009, was similar to the nation's decline. The recovery in Louisville has been similar to that of the nation; however, the recovery seemed to have stalled in Louisville during the third and fourth quarters of 2010, and employment expansion restarted only in January of 2011. During the past three months, Louisville's employment remained roughly unchanged on an average monthly basis while national employment expanded at an average rate of 0.1 percent per month.

Louisville MSA Employment Growth by Sector Year/Year Percent Change, July 2010–July 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 1.8 percent in this MSA with respect to one year ago, while the increase was only 0.9 percent for the United States. 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 13 percent of Louisville’s employment, respectively. Growth in these three sectors was 0.5 percent, 1.8 percent, and 10.3 percent, respectively. Employment growth varied across sectors, with 3 of 10 sectors reducing employment and the rest increasing employment or remaining unchanged. 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 in Louisville (–3.8 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 Kentucky and milder for Indiana than for the nation. In fact, the index values during the recession show that, at the lowest point, Kentucky’s, Indiana’s, and the nation’s levels of economic activity were at 90.9, 88.4, and 91.9 percent of their pre-recession levels. Since then, the recovery has followed a similar pace for these three geographic areas; hence, the gaps across the three areas that were created by the differential impact of the recession have persisted up through the latest period of observation. The current values of the index are 94.8 for Kentucky, 93.2 for Indiana, and 95.5 for the United States.

Louisville Zone—MSA Employment and Unemployment

Nonfarm payroll employment percent change,
July 2010–July 2011

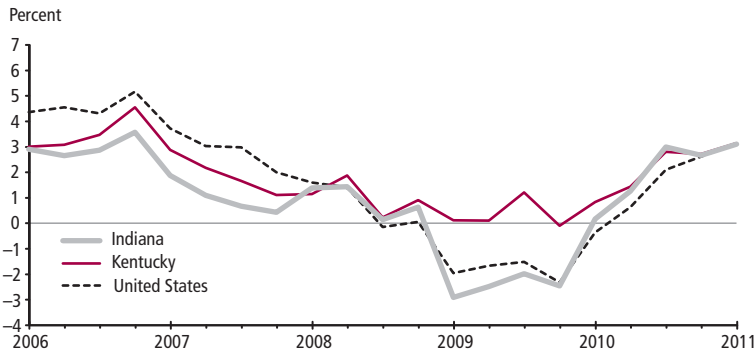
| | Total | Goods producing | Service providing | Unemployment rate July 2011 |
|--------------------|-------------|-----------------|-------------------|--------------------------------|
| Louisville | 1.78 | 2.93 | 1.58 | 9.7 |
| Bowling Green, Ky. | 0.17 | 3.85 | –0.63 | 8.1 |
| Evansville, Ind. | 0.58 | 0.76 | 0.53 | 7.5 |
| United States | 0.92 | 1.66 | 1.68 | 9.1 |

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 Louisville and Evansville for both goods-producing and service-providing activities. However, the highest unemployment rate in the Louisville zone was registered in Louisville at 9.7 percent. This unemployment rate is more than half a percentage point higher than the 9.1 percent rate registered for the United States.

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



SOURCE: Bureau of Economic Analysis

In Kentucky and Indiana, personal income growth 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 Kentucky's personal income was milder than the nation's. Indiana's rate of recovery has also been roughly similar to the nation's. Between the first quarter of 2010 and the first quarter of 2011, personal income grew by 3.1 percent in Kentucky and Indiana, while it also grew by 3.1 percent in the nation.

Louisville Zone—MSA Housing Activity

| | Total building permits, units year-to-date | | House price index, percent change, 2011:Q2/2010:Q2 |
|--------------------|--|----------------|---|
| | July 2011 | Percent change | |
| Louisville | 1,298 | -7.2 | -1.3 |
| Bowling Green, Ky. | 261 | -27.1 | -0.7 |
| Elizabethtown, Ky. | 154 | -43.8 | -0.6 |
| Evansville, Ind. | 264 | -22.4 | -0.3 |
| Owensboro, Ky. | 135 | -38.6 | 0.8 |
| United States | 346,452 | -4.9 | -4.5 |

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

Housing activity in the Louisville zone shows both a slowdown in building permits and weak house prices. The number of building permits issued since the beginning of the year through July was lower than the number issued during the same months of 2010 for all MSAs in the Louisville zone. The declines, which ranged from 7.2 percent to 43.6 percent were more pronounced in each of the MSAs than in the nation, where they declined by 4.9 percent. By contrast, house prices show a milder decline in the zone relative to the nation. The 1.3 percent house price decrease on a year-over-year basis in Louisville was the greatest decline registered within the zone. This decline is mild compared with the 4.5 percent decrease for the United States. The only increase in house prices in the zone was registered in Owensboro at 0.8 percent.