Current Economic Conditions in the Eighth Federal Reserve District

Louisville Zone

March 19, 2008

Prepared by the
Center for Regional Economics—8th District (CRE8)
Federal Reserve Bank of St. Louis

CRE8

Center for Regional Economics—8th District

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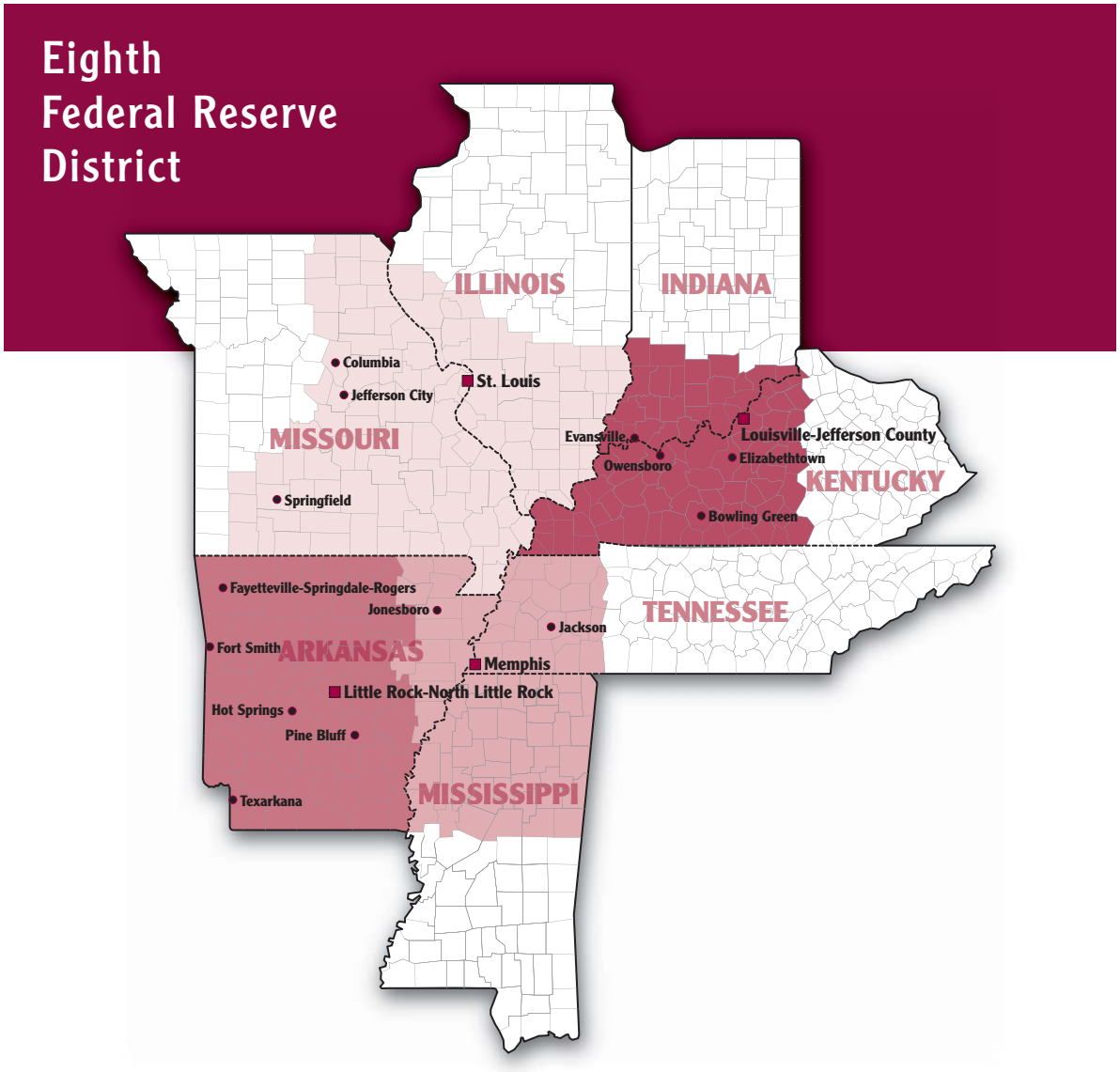

This report summarizes information on economic conditions in the Louisville zone of the Eighth Federal Reserve District (see map above), headquartered in St. Louis. Separate reports have also been prepared for the Little Rock, Memphis, and St. Louis zones and can be downloaded from the CRE8 web site (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/2008/). 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—March 19, 2008

The overall pace of the economic activity in the Louisville zone has declined somewhat in recent months. Consumer spending has slowed, and, despite the growth experienced in food manufacturing, the manufacturing and service sectors have both declined.The residential real estate and construction sectors also declined, although commercial real estate remained strong and reports from the banking sector were mixed. The agriculture and natural resources sector reported gains, with the increased value in agriculture being mostly due to price increases of major crops.

Consumer Spending

Retail sales reports for January and early February were mostly negative among general retailers and car dealers in the Louisville zone. Two-thirds of each group surveyed indicated that sales were down compared with the same two months in 2007. Food and essential items were strong sellers, while gift items were moving more slowly. Half of the general retailers and two-thirds of the car dealers reported that their inventories were at desired levels, but the remaining contacts reported high inventories. Two-thirds of general retailers and one-half of car dealers expected sales to decrease in coming months.

Manufacturing and Other Business Activity

Overall manufacturing activity in the Louisville zone slowed during the first quarter of 2008, although this was not uniform. While firms in chemical manufacturing and furniture manufacturing reported plans to lay off workers, firms in food manufacturing reported plans to expand operations. Also, while some motor vehicle parts manufacturers reported contractions, others in Evansville, Indiana, reported expansions. Contacts in fabricated metal manufacturing reported mixed conditions. In the service sector, signs of weakness appeared, with job losses reported in health care services.

Real Estate and Construction

Compared with the same period in 2006, December 2007 year-to-date home sales in Louisville declined by a modest 3 percent. For January 2008, however, year-over-year home sales declined by 20 percent. The housing slowdown has also been indicated by a decline in building permits: December 2007 year-to-date single-family housing permits fell 7 percent compared with the same period in 2006. One contact described current real estate conditions in Southern Indiana as "flat, stagnant, and no growth," Still, the general feeling among contacts was the housing markets in the Louisville zone were not faring badly relative to other regions.

Reports in commercial real estate were rosier as industrial vacancy rates in Louisville declined in late 2007, as did downtown and suburban office vacancy rates. More recently, contacts generally reported continuing strength in this sector, at least for now. For example, a contact in Evansville reported significant commercial activity in the area but noted tighter underwriting on loans and indicated that there are signs of a slight slowdown in the near future.

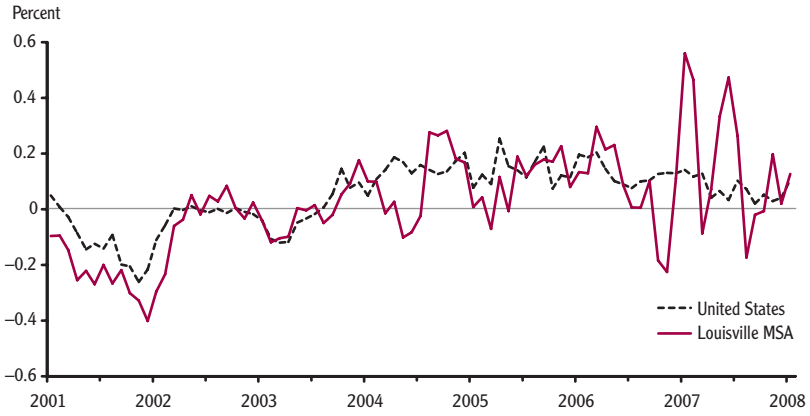
Banking and Finance

Most bank contacts reported some softening in loan demand in both the consumer and residential mortgage categories. However, other contacts reported an increase in demand for residential mortgage loans, citing a decrease in interest rates. Contacts noted little change in deposits, but there were reports that intense competition for deposits has forced the banks to offer higher rates than desired. One typical response came from a contact who described the pipeline for loans as stable, with bankers across the region encouraging potential home buyers and builders to enter the market to take advantage of favorable interest rates.

Agriculture and Natural Resources

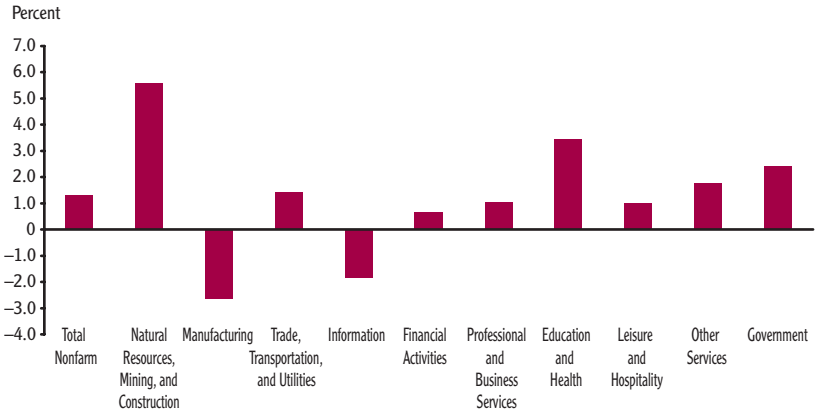
Total coal production for 2007 increased by 4 percent from 2006 levels. The total value of all field crops in Louisville zone states rose by 25 percent from 2006 to 2007. Indiana had an increase of 34 percent, while Kentucky's value did not change—perhaps because Kentucky suffered persistent drought during the growing season. The increased values mostly reflect higher prices of major crops in 2007 than in 2006, especially corn (around 28 percent), soybeans (around 60 percent), and winter wheat (around 60 percent), whereas total production increased only for corn (in both states) and tobacco (in Kentucky).

Nonfarm Payroll Employment Growth
3-Month Average, SA, January 2001–January 2008



Although there were relatively dramatic swings in employment growth in the Louisville MSA during 2007, the most recent estimates indicate that Louisville outperformed the rest of the country over the course of the year. (See the table at the top of the final page, which provides recent benchmark revisions of employment data.) Estimates for recent months suggest that this trend continues: Over the three-month period ending in January 2008, Louisville employment growth averaged 0.12 percent per month, while U.S. employment growth averaged 0.10 percent per month.

Louisville MSA Employment Growth by Sector
Year/Year Percent Change, Janury 2007–January 2008



Employment growth in the Louisville MSA between January 2007 and January 2008 varied a great deal across sectors. According to the most recent estimates, the strongest sector was natural resources, mining, and construction, which saw an increase of 5.6 percent. Other strong sectors were education and health; trade, transportation, and utilities; and government. The manufacturing and information sectors, on the other hand, were estimated to have seen relatively large job losses of 2.9 and 1.9 percent, respectively.

Louisville Zone—MSA Employment and Unemployment

	Nonfarm payroll employment percent change, January 2007–January 2008			Unemployment rate December 2007
	Total	Goods producing	Service providing	
Louisville	**1.34**	**–0.28**	**1.69**	**5.4**
Bowling Green, Ky.	2.99	1.56	3.37	4.0
Clarksville, Ky.	–0.71	-6.94	0.89	5.4
Evansville, Ind.	1.37	-2.87	2.85	4.2
United States	0.89	–1.48	1.35	4.8

SOURCE: Bureau of Labor Statistics.

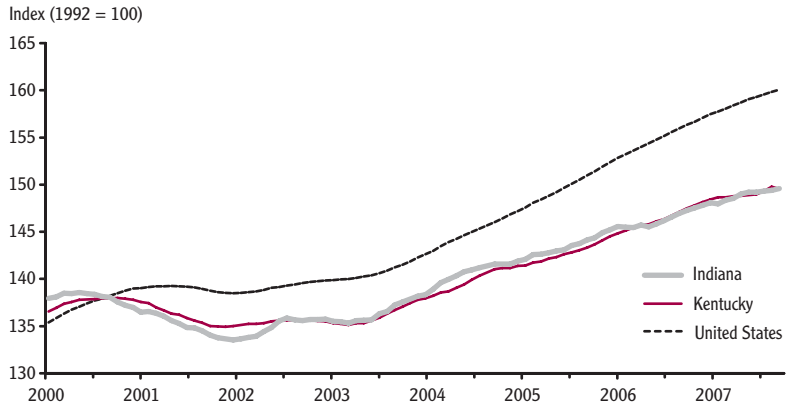
Louisville Zone—MSA Housing Activity

	Total building permits, units year to date		House price index, percent change, 2007:Q4/2006:Q4
	January 2008	Percent change	
Louisville	**237**	**–54.3**	**3.03**
Bowling Green, Ky.	32	–50.0	1.91
Clarksville, Ky.	98	–50.5	7.18
Elizabethtown, Ky.	23	–28.1	5.20
Evansville, Ind.	45	–28.6	0.68
Owensboro, Ky.	18	20.0	1.29
United States	75,933	–32.4	0.84

SOURCE: Bureau of the Census, Office of Federal Housing Enterprise Oversight.

Total residential building permits in January were substantially lower than a year earlier in every zone MSA except Owensboro, Kentucky. Louisville, Bowling Green, and Clarksville, Kentucky, all saw decreases of 50 percent or higher. House price indices, however, increased in all metro areas in 2007, with especially strong increases in Clarksville and Elizabethtown, Kentucky. Evansville, Indiana, was the only metro area for which the house price index rose more slowly than for the country as a whole.

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 have underperformed relative to the country as a whole since 2001. The recession of 2001 in these states was deeper and longer, and the recovery and expansion were not as strong. In 2007 this index rose by 2.4 percent nationally, but only 1.6 and 1.4 percent for Indiana and Kentucky, respectively.

Louisville Area Real Personal Income Growth

Percent Change, Year-Over-Year

SOURCE: Bureau of Economic Analysis.

Personal income growth in Kentucky and Indiana since 2004 has tended to be weaker than in the country as a whole. Also, income growth over the period in Indiana has been consistently weaker than in Kentucky. By the second quarter of 2007, however, Kentucky's income growth began to match the national rate. Indiana's personal income growth continued to lag the country's and Kentucky's into the third quarter of 2007.

Metro Area Employment Growth
December 2006 to December 2007

	Revised estimate as of March 2008	
	Change (in thousands)	Percent change
Large metro areas		
Little Rock–North Little Rock, Arkansas	5.2	1.5
Louisville, Kentucky-Indiana	6.9	1.1
Memphis, Tennessee-Arkansas-Mississippi	5.4	0.8
St. Louis, Missouri-Illinois	2.0	0.1
Small and medium metro areas		
Fayetteville-Springdale-Rogers, Arkansas	0.9	0.4
Fort Smith, Arkansas-Oklahoma	1.7	1.4
Texarkana, Texas-Arkansas	0.7	1.2
Bowling Green, Kentucky	1.8	2.9
Evansville, Indiana-Kentucky	1.4	0.8
Jackson, Tennessee	0.3	0.5
Columbia, Missouri	1.0	1.1
Jefferson City, Missouri	1.5	1.9
Springfield, Missouri	5.2	2.6

NOTE: These are the most recent benchmark revisions from March 11, 2008. See CRE8 Occasional Paper #2008-01 for a discussion of these revisions (http://research.stlouisfed.org/regecon/occasionalpapers.html).

SOURCE: Bureau of Labor Statistics.

Foreclosures, 2007

	Percentage of households, 2007	Percent change from 2006
Little Rock–North Little Rock, Arkansas	0.95	15.52
Louisville, Kentucky-Indiana	0.60	–12.05
Memphis, Tennessee-Arkansas-Mississippi	2.14	30.35
St. Louis, Missouri-Illinois	1.28	58.11
Arkansas	0.51	26.44
Ilinois	1.25	25.29
Indiana	1.03	11.31
Kentucky	0.27	23.45
Mississippi	0.11	91.65
Missouri	0.91	80.93
Tennessee	0.98	24.56
United States	1.03	74.99

SOURCE: RealtyTrac.