An Update on Economic Conditions in the Louisville Metro Area

Presentation to the Building Industry Association of Greater Louisville
Louisville, Kentucky

Kevin L. Kliesen
Business Economist and Research Officer
Federal Reserve Bank of St. Louis
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Not an official document
The U.S. Economy: The Big Picture

• The economy is into the seventh year of expansion.

• The song remains the same . . . Modest growth, low inflation, and an extremely easy monetary policy.

• Job gains remain healthy and the unemployment rate is low, but uncertainty seems to be rising.

• The FOMC finally moved off zero; policy will probably remain very easy for quite a while.
An Economic Profile of the Louisville Economy

• The transportation and trade sectors employ the most people.

• Like the nation, professional and business services are becoming more important.

• The education and health care sectors are the third-largest employers.

• The automotive manufacturing industry has a sizable presence.
In contrast with the previous expansion, the Louisville-area economy has outperformed the U.S. economy in the current business expansion.

**2001-2007**

**Growth of the Louisville Economy vs. the U.S. Economy: 2001 to 2007**

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The Louisville-area economy’s growth has surpassed Indianapolis but still trails Nashville.

**Growth of the Louisville Economy vs. the U.S., St. Louis, Indianapolis, and the Nashville Economies: 2001 to 2007**
Percent changes at annual rates

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The Louisville-area economy’s growth is highly correlated with the U.S. economy’s growth.

Correlation Between the Growth of the U.S. Economy: The St. Louis, Louisville, Indianapolis, and Nashville Economies: 2001 to 2014
Correlation coefficient: 1.0 = 100% correlation

- US-Louisville: 0.898
- US-Indianapolis: 0.777
- US-Nashville: 0.662
- US-St. Louis: 0.528
Louisville Zone Highlights

Positive outlook on labor market conditions.

Automotive sector drives manufacturing growth in Kentucky.

Louisville’s residential construction activity shows growth.

Auto and mortgage debt continues to rise.

Stable loan demand; bank asset quality strong.

Agriculture is struggling.
Compared with a year earlier, optimism has waned a bit among Louisville-area business contacts.

Survey of Louisville-Area Beige Book Business Contacts on the Economic Outlook for the Next Year

Percent of total responses

- About the Same: Q4:2014 - 29, Q4:2015 - 31
Compared with a year earlier, a smaller percentage of contacts report sales meeting expectations.

Survey of Louisville-Area Beige Book Business Contacts on Expectations of Business Sales, Year-to-Date (Current Year vs. Previous Year)
Percent of total responses

- Fell Short: Q4:2014 = 9, Q4:2015 = 27
- Exceeded: Q4:2014 = 40, Q4:2015 = 40
"We’ve seen fewer exports and more imports as a result of the strong dollar."

—Evansville manufacturer

"Employment is a challenge. Although we have not had much turnover, we just can’t find the workers to support new growth. We will soon begin construction on a 50,000 square foot addition and hope to find workers to fill it."

—Louisville area manufacturer

"As a [real estate construction] industry, we realize we are lagging behind...more housing construction will take place."

—Louisville area construction contact
Louisville has seen strong job growth in most key industries; transportation is a notable exception.

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<th>U.S. and Louisville MSA Employment Growth in Louisville's Five Largest Industries</th>
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<td>Percent change, 12 months ending in December 2015</td>
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<tr>
<td></td>
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<tr>
<td>Total</td>
</tr>
<tr>
<td>Trade, Trans., &amp; Utilities</td>
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<td>Government</td>
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Source: BLS.
Louisville’s job growth exceeds the U.S., but it has slowed some relative other large MSAs.
Unemployment rates in Louisville and surrounding MSAs are below the nation’s rate.

Dec. 2015 unemployment rates:

LVL: 4.9%
IND: 4.3%
NVL: 4.6%
STL: 4.7%
U.S.: 5.0%

Source: Bureau of Labor Statistics/Haver Analytics

Potential Risks Facing Key Louisville Industries

• **Transportation:** Sensitive to domestic and global growth trends. Fuel prices are a wild card.

• **Health Care:** Continued emphasis on cost containment, but spending and industry employment growth is increasing.

• **Real Estate:** A rising interest-rate environment. Rising home prices are good for some but not for others.

• **Automotive:** Light truck sales have been strong, but higher gasoline prices and/or slower U.S. growth will slow sales.
QUESTIONS?