

MSA. While this level of housing permits was certainly a welcome respite given the economy, it still trailed behind the peak of residential construction in 2000 when 1,830 permits were issued for single- and multi-family building permits. In 2012, 345 permits were issued (2012 data are January-to-August figures for Tippecanoe County only), which constitutes about a third of the 2011 metro figures. However, based on last year's forecast, permit issuances must have surged in the third and fourth quarters, so the same situation may yet occur in 2012. Housing markets are improving, a trend that will likely be reflected in the Lafayette MSA during 2013.

**Table 4** compares year-to-date (January through September) figures to illustrate that the Lafayette MSA real estate market has picked up in 2012. This is indicated by an uptick in listings (6.4 percent) and closed sales (17.3 percent), along with a decline in the months' supply of inventory (-23.5 percent) and inventory of homes (-7.4 percent). As of September 2012, the Lafayette MSA had nine months' worth of housing inventory to sell—a declining number likely associated with the smaller inventory in Tippecanoe County (6.5 months).

The median sales prices for the sold homes varied, with Benton County witnessing a -34.3 percent drop in prices and Carroll County seeing a 28.1 percent increase. Nationally, the housing market appears to have hit bottom and is now climbing upward. In 2013, Lafayette's housing market is expected to maintain its steady yet slow growth.

## Conclusion

The outlook is sluggish for 2013, but the Lafayette MSA will continue its incremental increases in population, income, jobs, wages and even in the housing market. Housing trends indicate that the industry may have turned a corner and those ripple effects within the economy would be a welcome boost to the region. However, the fiscal cliff will cause businesses to be cautious and its outcome could certainly derail any anticipated momentum. ■

## Notes

1. The uptick in unemployment in June and July 2012 mirrors the recurring trend seen in 2009 to 2011, likely attributed to the change in labor force needs due to students leaving the area during summer break.
2. Tim Slaper and Ryan Krause, "Occupational Hazard: Why Indiana's Wages Lag the Nation," *Indiana Business Review* 85 (Spring 2010), [www.ibrc.indiana.edu/ibr/2010/spring/article1.html](http://www.ibrc.indiana.edu/ibr/2010/spring/article1.html).

# Louisville Forecast 2013

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**A**s 2012 came to an end, the Louisville metro<sup>1</sup> was just shy of hitting a pre-recession peak in nonfarm payrolls. As of September 2012, payrolls were just 7,000 short of the 627,000 nonfarm payrolls that the Louisville metro observed in January of 2008. This progress comes with very strong year-over-year growth in nonfarm payrolls, well exceeding the U.S., Indiana and Kentucky. As we move into 2013, will this high growth be sustained, or can we expect growth to level off to levels consistent with the national, Indiana and Kentucky economies?

The 2013 outlook for the Louisville metro is for growth to continue, but likely decelerate compared to 2012. The national economy in 2013 will be affected by uncertainty surrounding the fiscal cliff. Slower nationwide growth will have an impact locally. Consequently, slower payroll growth for the Louisville metro is expected in 2013.

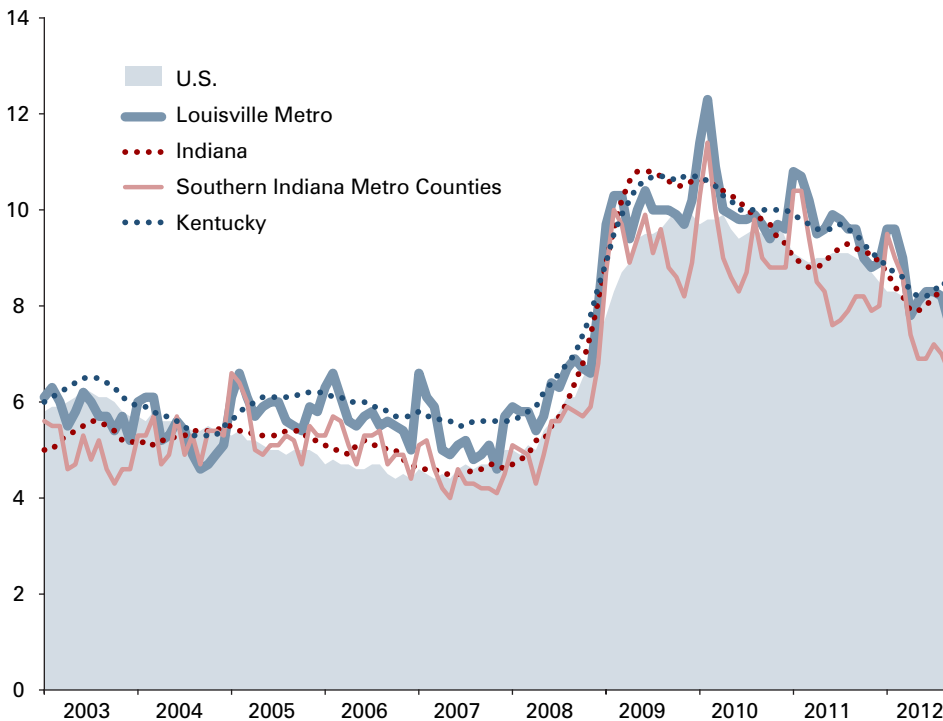
## Labor Markets

The unemployment rate for the Louisville metro has trended down since 2011 and just moved under the national rate as of September 2012. The Southern Indiana area of the metro region fared better, with rates hovering around 7 percent and the lowest among the region and both states (see **Figure 1**). Despite a lower unemployment rate, the number of unemployed remains stubbornly high—nearly double than prior to the recession.

## Sector Growth

The professional and business services sector was a key sector in

**FIGURE 1: Louisville Unemployment Rates, March 2003 to September 2012**



Source: Bureau of Labor Statistics

overall job growth for the Louisville metro last year. Professional and business services added 5,400 jobs out of 19,300 added for the entire region, as of September 2012 (see **Figure 2**). However, the professional and business services sector appears to be

decelerating compared to early gains. Year-over-year gains had reached 11.3 percent earlier in the year, but have declined to 7.0 percent in September. This is likely reflective of an overall soft economy, but could also be

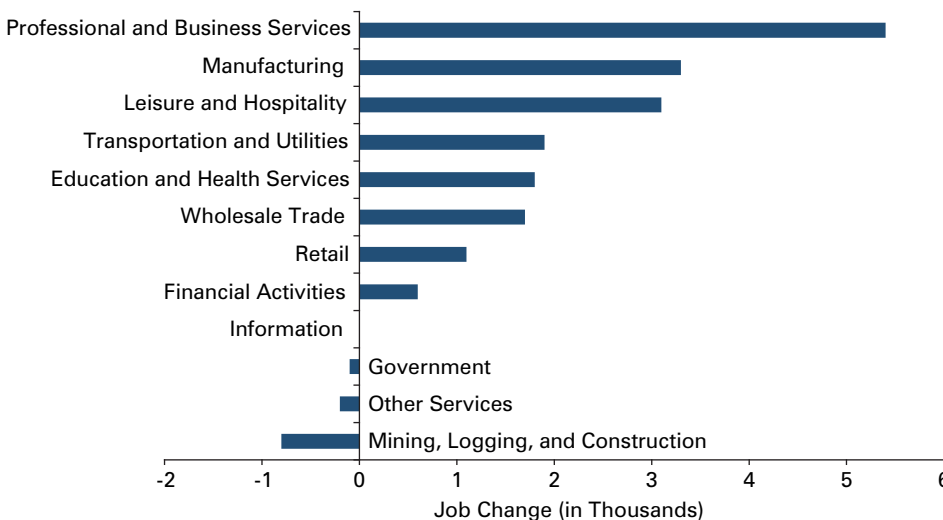
indicative of subsequent slowing of total payrolls in the metro region.

Leisure and hospitality also showed solid gains, reflective of improving sentiment among consumers. Education and health services continued to show gains, but at a slower pace compared to recessionary and post-recession years. While housing continues to recover, construction continues to face challenges in overall employment. Despite the increase in building permits, construction employment remains flat compared to last year. Transportation and utilities, as well as retail and wholesale trade, showed moderate gains over 2012.

### Manufacturing

Even though total manufacturing payrolls are lower today than 10 years ago, it continues to be an important payroll sector for the Louisville metro and Southern Indiana. While not the leading sector in job growth this past year, manufacturing did see another year of gains and contributed to overall job growth, adding 3,300 jobs. Much of this growth came in the durable goods sector, with local manufacturers in automotive and related automotive parts being responsible for a good portion of this growth. Automotive production, perhaps driven by pent-up demand, has been a major driver of gains in manufacturing. A key issue is whether gains can be sustained once auto sales move past the pent-up demand phase. Recent indicators suggest that a bottoming in manufacturing has occurred, but considerable uncertainty remains, largely due to weak domestic and global demand. Weak demand is the biggest challenge facing manufacturing. The sector may get an offsetting boost from encouraging signs in housing.

**FIGURE 2: Louisville Metro Year-over-Year Job Change by Sector, 2011 to 2012**

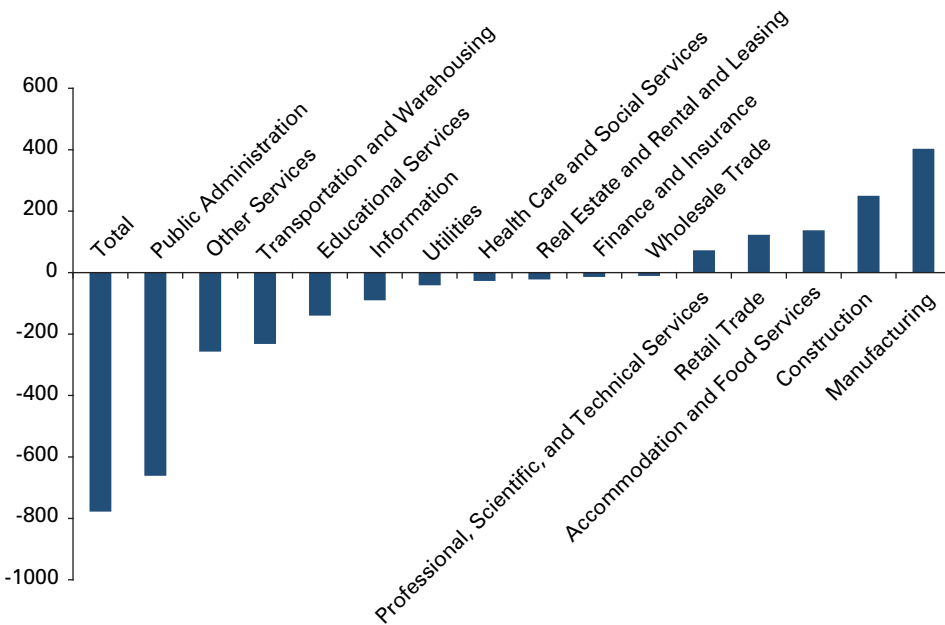


Note: Data are for September of each year.  
Source: FactSet

### Southern Indiana

Payroll gains in Southern Indiana were lower due to declines in public

**FIGURE 3: Year-over-Year Job Change by Sector for Southern Indiana's Louisville Metro Counties, 2011 Q1 to 2012 Q1**



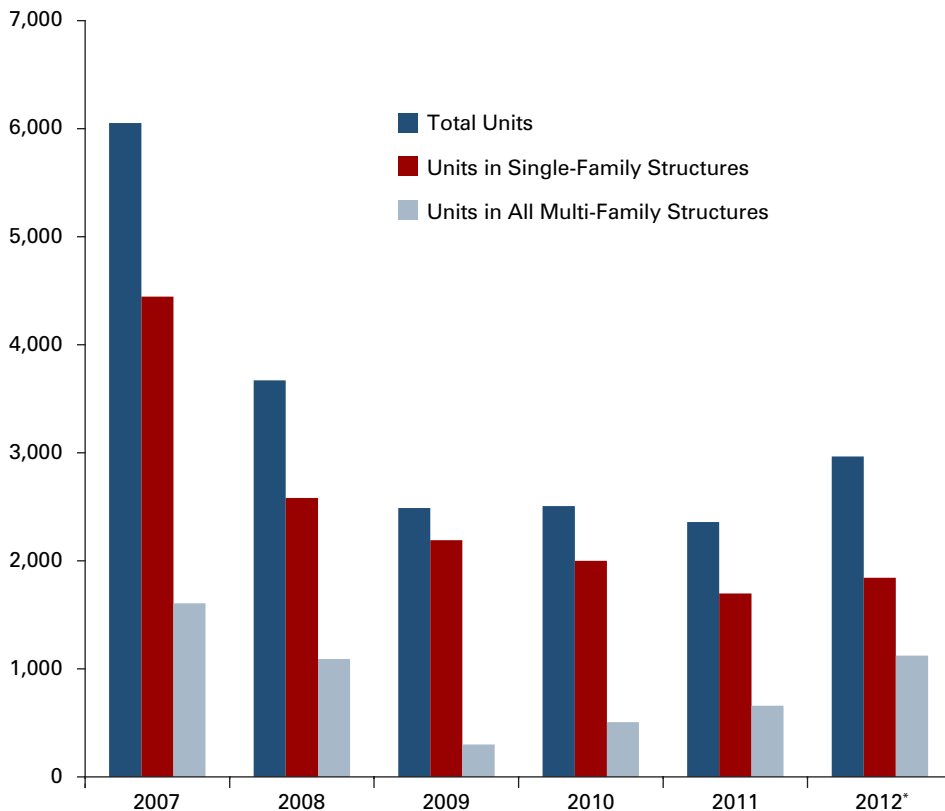
Note: Some industries are unavailable due to disclosure issues.  
Source: STATS Indiana, using Quarterly Census of Employment and Wages data

administration, likely the result of reductions in payrolls at Clark County's Census operations (see **Figure 3**). Removing the impact of public administration declines, payroll growth in Southern Indiana was at a subdued pace. Manufacturing was quite strong and contributed to overall payroll growth. However, slowdowns in manufacturing, prompted by continued weak national demand, will take away from overall payroll growth in 2012 and 2013.

**Housing**

Housing continues to see improvement. Overall permits are up, and housing values continue to rebound. As of September, building permits in the region continue to be down 42 percent from 2007. However, September 2012 year-to-date permits have already exceeded total permits for 2011 (see **Figure 4**). Gains to housing will continue but at a moderate pace.

**FIGURE 4: Louisville Metro Building Permits, 2007 to 2012**



\*2012 data are year-to-date through September.  
Source: State of the Cities Data Systems

**Outlook**

Last year's outlook, as presented at the annual Economic Outlook program, was that payrolls would surprise to the upside and exceed expectations. Indeed, year-over-year payroll gains for the Louisville metro have been the highest since the 1990s. Contributing to these gains were professional and business services, manufacturing, and leisure and hospitality. For 2013, growth will begin to decelerate due to continued weak domestic and global demand. The region's unemployment rate will see gradual declines, but the number of unemployed will continue to remain higher than pre-recession levels. This past year's record of year-over-year job gains will be tough to match. For that reason, expect slower payroll gains for 2013. ■

**Notes**

1. The Louisville-Jefferson County Metropolitan Statistical Area consists of Clark, Floyd, Harrison and Washington counties in Indiana and Bullitt, Henry, Jefferson, Meade, Nelson, Oldham, Shelby, Spencer and Trimble counties in Kentucky.