

Louisville-Jeffersonville-New Albany

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Like the national economy, the Louisville metropolitan area economy has been humming along briskly this year—as it did in 1998. Our seven counties (Clark, Floyd, Harrison, and Scott counties in Indiana and Jefferson, Oldham, and Bullitt counties in Kentucky) out-performed the state of Indiana in many respects.

Employment

Nonfarm employment in the Louisville metropolitan area grew by about 16,000 jobs between the third quarter of 1998 and the third quarter of this year. That is more jobs than the entire state of Indiana is estimated to have added in 1999. This is the third straight year of job growth of this magnitude, despite the very tight labor market conditions. **Figure 1** shows this employment growth over the last three years, with the data seasonally adjusted to smooth out normal seasonal fluctuations.

How have businesses been able to fill so many new jobs? There appear to be several factors making this possible. Workers are taking on additional jobs; more people are commuting in to work from outside the seven metropolitan counties; retirees, labor force dropouts, and others are continuing to enter or re-enter the labor force because of the strong job availability; and during the last two or three years jobs and other attractions have apparently induced more people to move into this area.

As usual, nearly all the net job growth occurred in nonmanufacturing, with the largest increases occurring in retail trade, business services, health services, and education. Manufacturing now accounts for only about 15% of the more than 580,000 non-farm jobs located in the seven counties.

If we focus only on the Indiana portion of the metropolitan area, we find that manufacturing accounts for about 21% of the 90,000 jobs in those four counties. Despite new plants locating here and others expanding, job losses at other manufacturers have kept total manufacturing employment hovering around 19,400 jobs (on a seasonally adjusted basis) since the first quarter of 1997. Nonmanufacturing employment grew steadily throughout this period, adding more than 8,000 jobs between the first quarter of 1997 and the first quarter of 1999. Most of the net job growth occurred in the trade and services sectors.

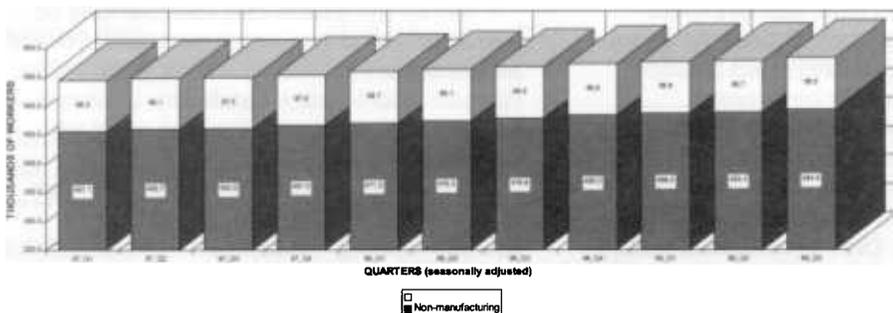
Employment estimates for the Indiana counties in the second quarter (the latest quarter for which complete data for these counties are available, as of this writing) indicate a decline in nonmanufacturing jobs. However, it is likely that this apparent decline will disappear when employment data are revised by the state next year. This same pattern of declining mid-year employment has appeared in the initial estimates each of the past three years, but revisions the following year have shown seasonally adjusted employment rising steadily rather than falling.

Residential Construction

One of the more visible signs of economic activity is residential construction, which continued at a brisk pace this year on both sides of the Ohio River. The 1990s have been a phenomenal decade for home building in this area. In the nine years from 1990 through 1998 nearly twice as many single family homes were built as in the preceding nine years (1981-89). About 75% of our households now own their own homes, well above the national average.

In 1998 Jefferson County, Kentucky, jurisdictions issued **25% more** building permits for single family homes than in any other year on record. Preliminary data show the first three quarters of 1999 matching that pace, despite a decline in September mirroring

Figure 1
Local Area Economic Data
Employment in Metropolitan Area



the national decline for that month.

The Indiana portion of the metropolitan area also had a busy year for home building, although not a record-setting year. **Figure 2** shows residential building permits issued in Clark, Floyd, Harrison, and Scott counties during the past three years. The first quarter was not up to the pace of the last few years, but the number of single family building permits issued in the next six months (April through September) matched the number issued in the same period last year. Fourth quarter data is not yet available, but informal reports from builders indicate that they are still having a hard time keeping up with demand.

Figure 2
Residential Building Permits
Clark/Floyd/Scott/Harrison Counties, Indiana

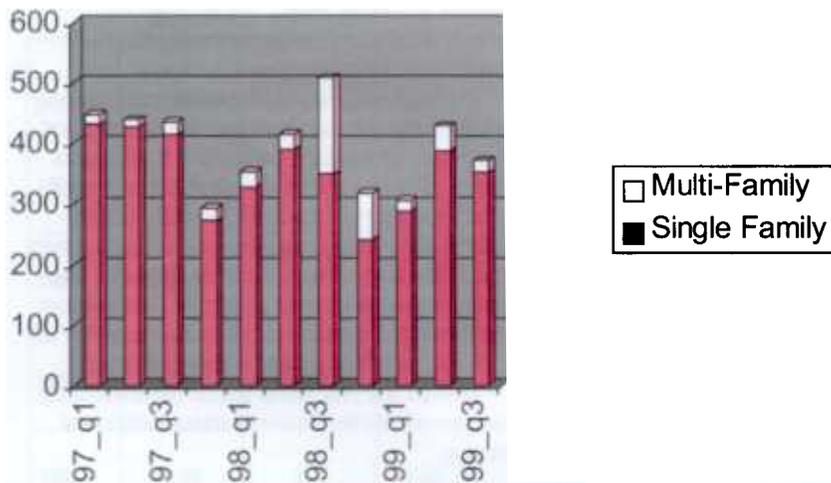
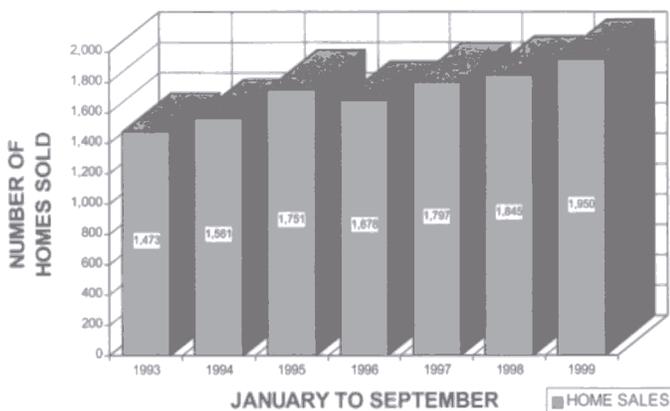


Figure 3
Real Estate Sales (Homes)
Clark/Crawford/Floyd/Harrison/Jefferson/Scott/Washington Counties



Home Sales

That strong demand was also evident in the market for existing homes. Through September of this year 1,950 homes were sold through multiple listing services in the seven southern Indiana counties indicated in **Figure 3**. That was nearly 6% higher than last year's record sales for the same period. Preliminary October data suggests a slowdown, particularly among repeat buyers. However, demand from first time home buyers and from buyers moving across the river from Kentucky appears to be holding up.

Despite that exodus, home sales in the Kentucky portion of the metropolitan area were also at record levels, with sales for the first 9 months running about 850 homes ahead of last year—an increase of just over 1%.

Car Sales

Car sales, like home sales, provide an indicator of trends in income, spending, and consumer outlook. With the tight labor market boosting incomes, the rising stock market increasing wealth, and low interest rates keeping borrowing costs down, consumer demand for cars has been strong. As a result, a record level of new cars and light trucks were sold during the first nine months of 1999 on both sides of the Ohio River (see **Figure 4**). Light trucks (which include pickups, sport utility vehicles, etc.) accounted for more than a third of the nearly 40,000 new vehicles sold through September.

Those Left Behind

While the economy has been very strong overall, not everyone has shared equally in the benefits. Dare to Care, the local "Second Harvest" volunteer agency, which keeps careful records of the food aid dispersed at its several centers, serves as one indicator of this problem. During the third quarter of 1999 Dare to Care provided emergency food relief to nearly 22,000 persons. This was about 3,400 more men, women, and children than were served during the same period last year—despite the higher level of employment.

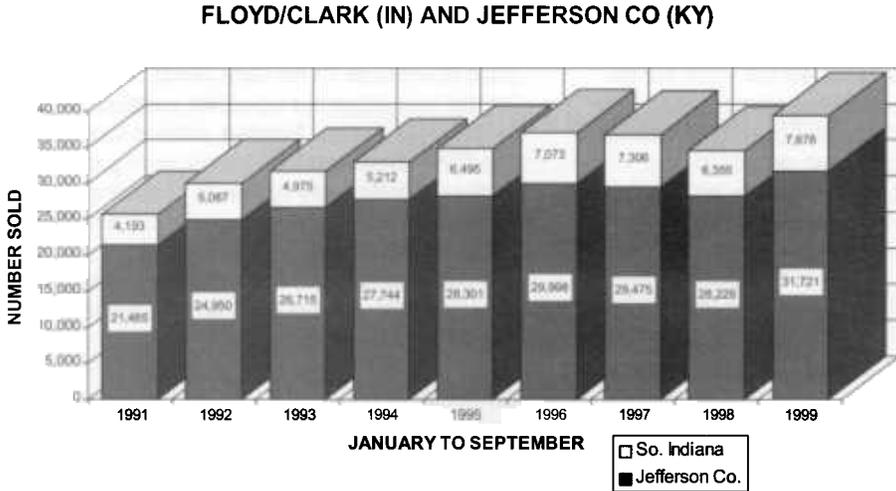
Economic Outlook for 2000

All indicators point toward continued growth in the Louisville-southern Indiana economy during the year 2000, although it may not be quite as strong as it has been in this banner year.

There are two main concerns in our local area. First, as noted above, there have been some recent signs of weakening demand in our very strong housing market. Until more data is available it is impossible to tell whether that is just a temporary blip, or whether it indicates a longer trend.

Second, the local labor market continues to be very tight. If businesses add another 16 or 17,000

Figure 4
New Car and Light Truck Sales
Floyd/Clark (IN) and Jefferson Co. (KY)



jobs next year, will the workers be there to fill them yet again? Equally important, will the available workers have the qualities and skills needed?

Also, there is the possibility of national developments leading to higher interest rates or to other problems that could slow local consumption or output growth. We are, of course, tied into the larger economic world.

Still, the underlying fundamentals for continued growth appear strong. While it is possible that these areas of concern could dampen the growth somewhat, there is no reason to expect them to derail it. The area economy is much more diversified than in previous decades, which can cushion the impact of problems affecting one or two sectors. New firms continue to locate here and existing firms continue to announce expansion plans. The international economy should be stronger next year, which will benefit many of our businesses.

The labor force has shown much greater supply elasticity in the last two years than we expected and will probably do so again, particularly if employers continue to be resourceful in their efforts to attract and retain workers. Employers have also been resourceful about increasing efficiency and productivity, thereby offsetting some of the labor shortages and contributing to the low rate of inflation. Competitive pressures in our increasingly integrated economy will induce this beneficial activity to continue as well.

All in all, the year ahead should see moderately strong growth for the Louisville metropolitan area economy.

Evansville

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Evansville finds itself in a sea of economic growth. There are steel mills growing to our east and an automobile producer growing to our North. Firms in the area continue to grow, and local firms selling abroad are also likely to experience increases in demand as Asia recovers and Europe takes off.

Indiana workforce development reports annual pay levels have been recently rising at rates exceeding six percent. They report earnings in southwest Indiana to have averaged \$23,800 in 1996, \$25,200 in