

Louisville Forecast 2014

Uric Dufrene, Ph.D.: Executive Vice Chancellor for Academic Affairs, Indiana University Southeast, New Albany

The Louisville metro saw an overall deceleration of payrolls in 2013 compared to 2012. Even though payrolls slowed compared to the previous year, the region finally surpassed its pre-recession jobs peak (see **Figure 1**). As 2013 ended, payrolls began to accelerate once again, and 2014 payrolls will be comparable to the high payroll growth of 2012.

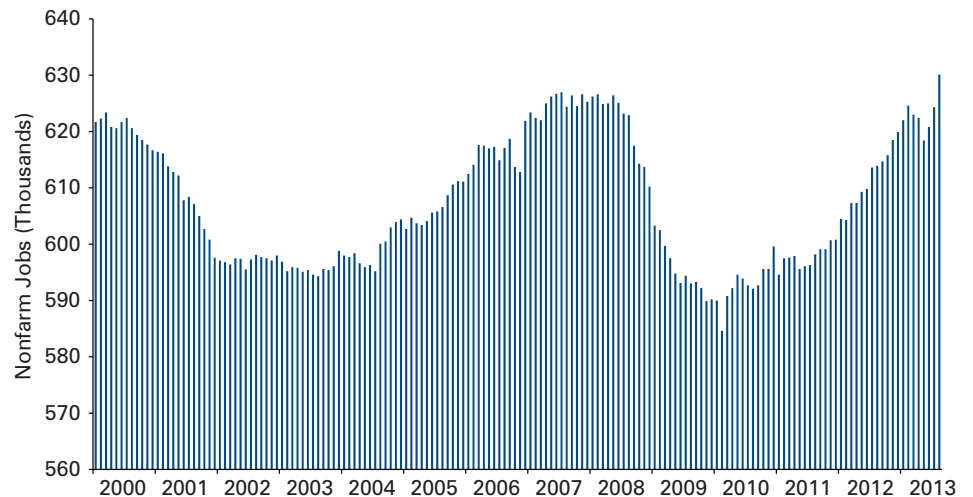
Labor Markets

Unemployment rates continued a downward trend in 2013. However, unemployment rates in Southern Indiana and the Louisville metro did increase slightly in the middle of the year due to the overall payroll growth deceleration (see **Figure 2**). Rates in both regions now hover above the national average, a reversal for Southern Indiana compared to 2012. As payroll growth resumes at a higher rate in 2014, regional unemployment rates should return to a consistent downward trend.

Sector Growth

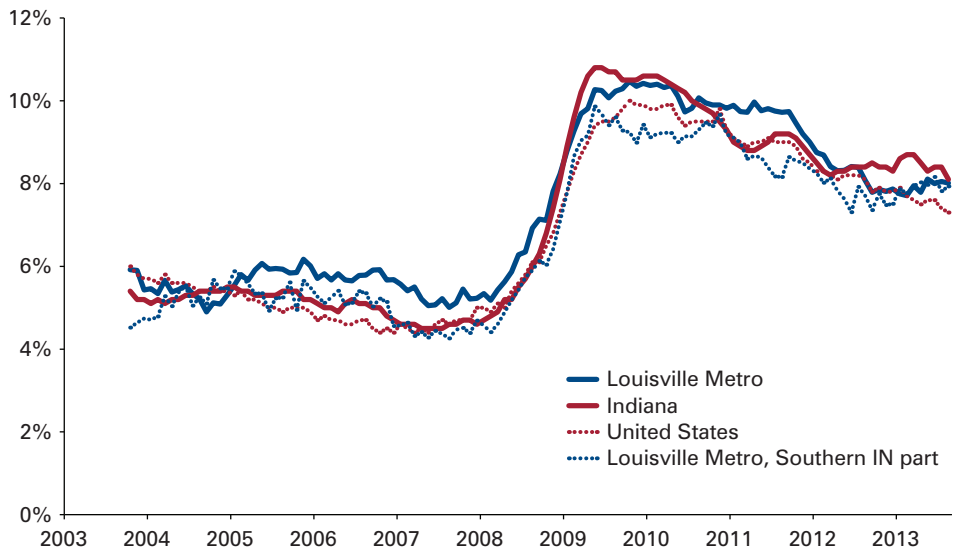
Unlike 2012, most sectors in the Louisville metro showed slower growth in 2013. The professional and business services sector was one of the largest contributors to overall growth in 2012, but slowed during 2013. Leisure and hospitality, one of the leading sectors of 2012, also saw slower growth in 2013. Retail increased slightly from earlier in the year, but the growth rate was less than the overall job growth for the Louisville metro. The one sector that showed the most favorable change compared to the previous year was construction. During the first quarter and almost all of 2012, construction showed negative job growth. Even though housing showed an overall turnaround in 2012, construction employment did not reflect gains to housing. This has changed for 2013.

FIGURE 1: Louisville Metro Nonfarm Payroll Jobs, January 2000 to August 2013



Source: FactSet

FIGURE 2: Unemployment Rates in the Louisville Metro, Indiana and the United States, October 2003 to August 2013



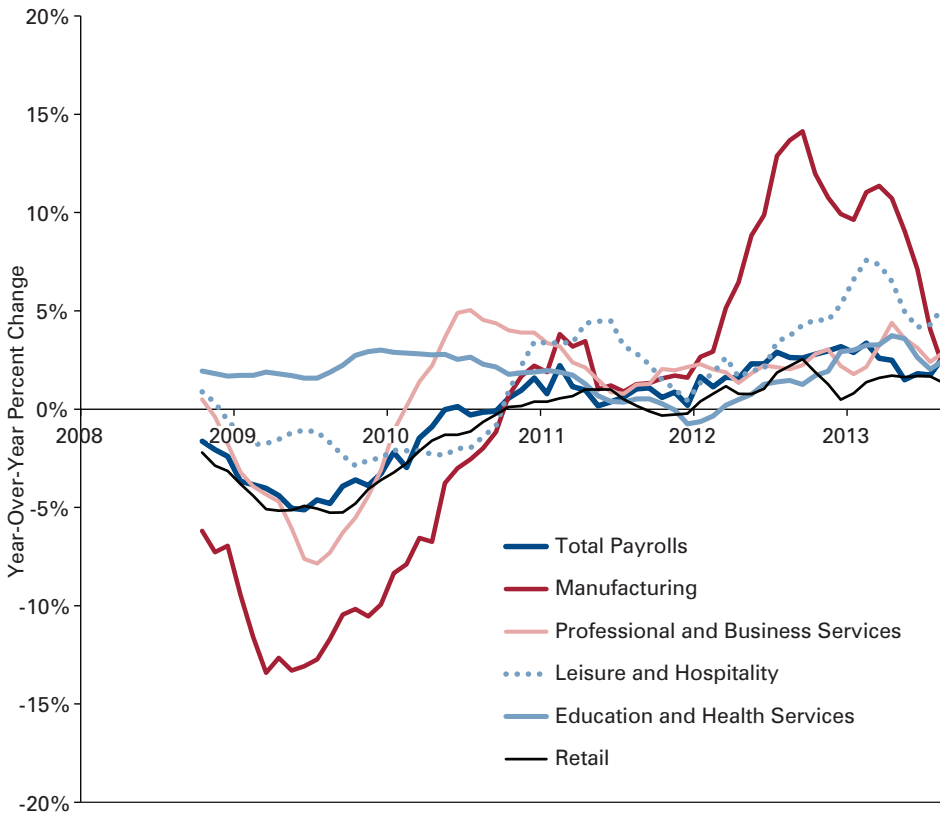
Source: FactSet

Manufacturing

Perhaps the sector that showed the biggest change from 2012 to 2013 was manufacturing (see **Figure 3**). Manufacturing was a significant contributor to above average job growth for the metro area during 2012. Likewise, it was a key reason overall job growth slowed in 2013. Growth in manufacturing continues

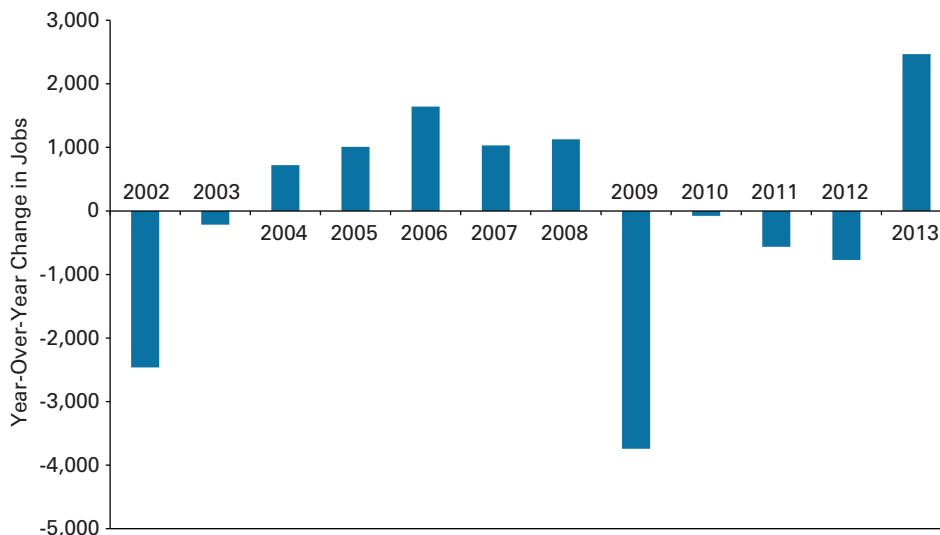
to remain higher than overall job growth, but at rates considerably lower than they were at the beginning of 2013. National manufacturing indicators such as the ISM Manufacturing Index point in the direction of expansion in manufacturing. During the first half of 2013, the index pointed to contraction in manufacturing, and this was ultimately reflected in slower

FIGURE 3: Louisville Metro Sector Job Growth for Select Industries, October 2008 to August 2013



Source: FactSet

FIGURE 4: Change in Jobs in the Louisville Metro Southern Indiana Counties, 2002 Q1 to 2013 Q1



Note: Data show year-over-year change using first quarter data for each year.
Source: FactSet

Louisville manufacturing payroll growth.

Southern Indiana

Payrolls in Southern Indiana finally showed considerable improvement during the first quarter of 2013. Year-over-year change in first quarter payrolls were the most favorable since 2010, and 2010 growth was driven primarily by Census hiring in Clark County. Outside of the 2010 change, the first quarter of 2013 represents the highest year-over-year gain in payrolls since the start of the Great Recession (see **Figure 4**). Employment growth has been consistently positive in 2013, but at rates considerably lower than the two previous post-recession recoveries.

2014 Outlook

Last year's outlook called for slower overall growth for the Louisville metro. Payroll growth did decline compared to 2012, but Louisville managed to surpass the pre-recession jobs peak. As 2013 progressed, higher job growth resumed, and this is an early signal for 2014. The Louisville metro will see above average job growth in 2014, and jobs added will rival the impressive growth observed in 2012. We expect payroll gains to exceed 2.5 percent year-over-year, likely closer to 3 percent, positioning the Louisville metro to add nearly 20,000 jobs in 2014. This job growth should also result in additional declines to the unemployment rate, reversing the small increases of 2013. By this time in 2014, the metro should expect an unemployment rate in the range of 7 percent to 7.5 percent. ■