

Louisville Forecast 2010

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November 2009

The Louisville metro and the southern Indiana region¹ experienced significant employment losses over the prior year. Will the region enjoy a rapid recovery, or make slower progress over the coming year?

The Labor Markets

Since the current recession began in December 2007, the Louisville metro area has suffered a 4.9 percent decline in total nonfarm payrolls, equivalent to 30,400 jobs.² This change is less than the 5.2 percent decline for the United States, but exceeds the combined total job losses for the Louisville metro during the past two recessions.

Table 1 shows changes in nonfarm payroll employment over the past three years. Regional job losses began to escalate during late 2008 and reached an apparent bottoming of over-the-year losses in May 2009. Significant losses occurred in manufacturing and transportation, both walloped by national problems. Local job losses and cautionary consumer spending have hurt the retail sector.

September's 10 percent unemployment rate for the metro area exceeds the national average of 9.8 percent. However, claims for unemployment peaked in the first half of 2008 and are now trending downward (see Figures 1 and 2).³

Manufacturing, transportation, and retail will see low growth in the coming year due to tepid consumer spending.

Construction employment will rebound as building permits increase and existing homes clear the market. However, the construction sector will not see the gains in employment enjoyed earlier in the decade, and housing will rebound only slightly.

The Louisville metro area will see small gains in professional and business services, primarily due to increases in temporary labor services

and a generally improved business climate. Leisure and hospitality will be fairly stable, with a potential for declines due to a more cautious consumer. Health care and educational services have been the most resilient during the year, but the second half of the year has seen a deceleration in gains. Nevertheless, hiring will likely continue in this sector.

Manufacturing

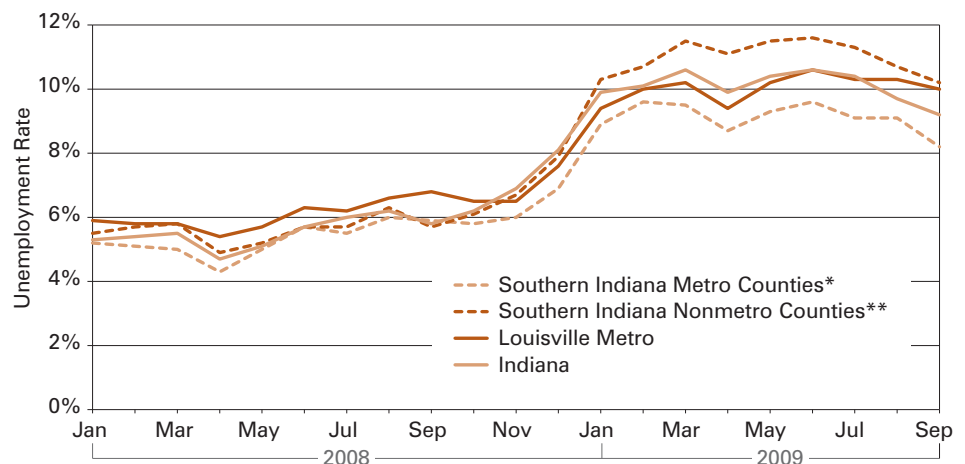
September data show a year-over-year loss of only 3,900 jobs, a noticeable deceleration from an earlier trough of 10,000. Significant reductions in inventory stocks are causing manufacturers to ramp up production and re-hire workers. For example, from January to September of 2008, manufacturing employment declined by 5,000. Over that same period in 2009, manufacturing employment

■ TABLE 1: Percent Change in Louisville Metro Nonfarm Payroll Employment, 2006 to 2009*

Industry	2006–2007	2007–2008	2008–2009
Total	6.1	-7.4	-23.6
Construction	1.4	0.0	-5.7
Transportation and Utilities	1.5	-1.8	-4.5
Manufacturing	-2.5	-7.4	-3.9
Retail	1.2	-1.5	-3.9
Professional and Business Services	0.8	0.3	-2.7
Wholesale	0.1	-0.2	-1.7
Leisure and Hospitality	0.5	0.9	-1.5
Financial Activities	1.1	0.1	-0.8
Other Services	0.1	-0.6	-0.4
Information	0.4	0.4	-0.2
Education and Health Services	2.0	1.7	0.8
Government	-0.5	0.7	0.9

*Calculated using January through September data for each year
Source: Bureau of Labor Statistics

■ FIGURE 1: Unemployment Rates for Selected Regions, 2008 to 2009



*Includes Clark, Floyd, Harrison, and Washington counties
**Includes Crawford, Jackson, Jefferson, Orange, and Scott counties
Source: Bureau of Labor Statistics

is basically unchanged. Moving forward, however, the region will likely not recover the number of lost manufacturing jobs, and any hope for a strong recovery in manufacturing will be muted due to national consumer behavioral changes. The key for local manufacturers will then turn to exports.

Consumer-Related Sectors

Consumer-driven sectors will experience challenges during the coming year. As of the first quarter of 2009, average weekly wages were down for southern Indiana,⁴ and the same likely applies to all of the Louisville metro.⁵ Depressed personal earnings, relatively high unemployment rates, and a more frugal consumer will provide significant challenges to certain retail and leisure and hospitality establishments. As an example of the challenges faced by consumer discretionary establishments, attendance at the Horseshoe Southern Indiana Casino is 25 percent lower than in 2004, equivalent to a reduction of 200,000 customers.⁶ Despite such challenges, some establishments will actually thrive and increase market share due to a business strategy that successfully adjusts to changing consumer habits.

Housing and Real Estate

Data from the National Association of Realtors indicate that home prices in the Louisville metro may have reached a bottom during the first quarter of 2009. Second quarter data show an increase of 9.5 percent from the first quarter and a 1.6 percent decline from the second quarter of 2008.⁷ Building permits for the Louisville metro are at a level that is 57 percent of the permit activity in 2008, a year that also saw a significant decline in permits from the previous year (see **Figure 3**).⁸ During the most recent quarter, however, building permits have turned upward, running at an annual rate that would exceed 2008 total permits.

Outlook for 2010

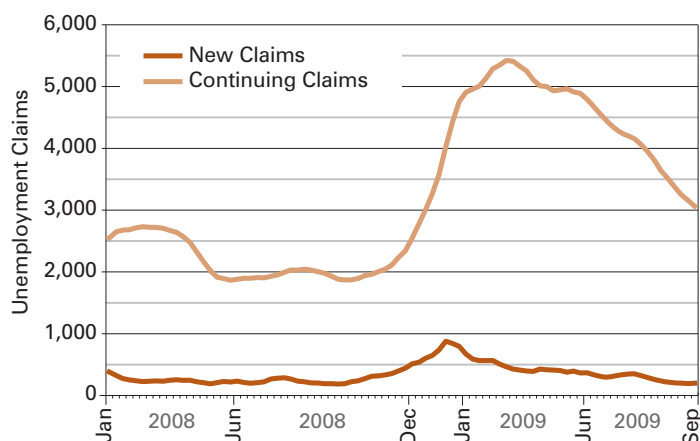
The region will continue to experience elevated rates of unemployment (exceeding 8 percent) through 2010, with some individual counties faring better. The region will continue to see a deceleration of year-over-year employment losses, but will not recover total jobs lost during the recession. The local housing market will continue to rebound as buyers take advantage of government incentives and foreclosed properties, but the commercial real estate sector will continue to face challenges. Consumers will be vigilant with their

spending, and pursuits of leisure and discretionary retail shopping will reflect these behavioral changes. The risk to a recovery lies in both local and national unemployment rates. Sustained unemployment may contribute to additional home foreclosures and will impose additional challenges to consumer discretionary establishments. In summary, 2010 will be a year of low growth, continued labor market stress, and the emergence of the new consumer. ■

Notes

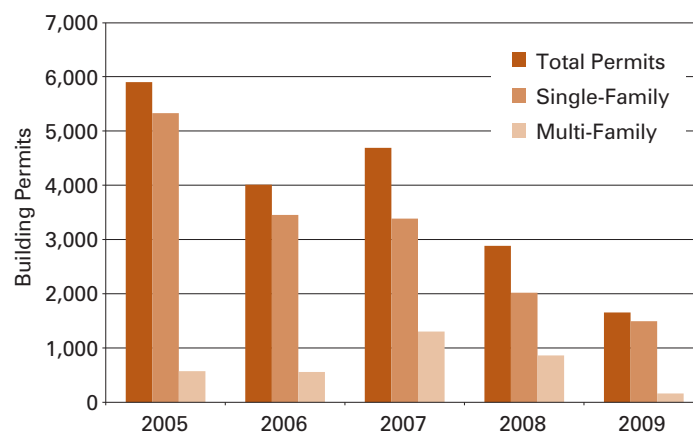
1. The southern Indiana region is defined as Clark, Crawford, Floyd, Harrison, Jackson, Jefferson, Orange, Scott, and Washington counties.
2. 30,400 is the difference between jobs in September 2009 and December 2007, using seasonally adjusted data from the Bureau of Labor Statistics at www.bls.gov.
3. This statement is based on unemployment claims for Indiana Economic Growth Region 10 (consisting of Clark, Crawford, Floyd, Harrison, Scott, and Washington counties), using data from the Indiana Department of Workforce Development at www.hoosierdata.in.gov.
4. Based on QCEW data at www.stats.indiana.edu.
5. Average weekly earnings of Louisville metro production workers declined by 10 percent in September, both on a month-over-month and year-over-year basis. Source: www.bls.gov.
6. www.in.gov/igc/2363.htm
7. www.realtor.org/research/research/metropri
8. Building permits data are from: <http://socds.huduser.org/index.html>.

■ **FIGURE 2: Unemployment Claims for Economic Growth Region 10, January 2008 to September 2009***



*Includes Clark, Crawford, Floyd, Harrison, Scott, and Washington counties
Source: Indiana Department of Workforce Development

■ **FIGURE 3: Building Permits for the Louisville Metro, 2005 to 2009**



Note: Calculated using January through August data of each year.
Source: State of the Cities Data Systems