Lexington – Expansion Continues

The Lexington metro area continues to expand at a moderate pace as it benefits from significantly increased construction at the area’s largest employer, the University of Kentucky, and expansion at Toyota’s largest automotive plant outside of Japan. Area employment has returned to pre-recession levels as the region continues to benefit from growth in the construction, leisure and hospitality, and professional and business services sectors.

**UNEMPLOYMENT RATE**

The Lexington metro area has benefited from a relatively large share of employment in sectors that have recently seen strong growth nationally, such as leisure and hospitality, professional and business services, and construction. Largely because of this, as of the end of 2013, the area’s 6.6 percent unemployment rate was marginally better than the nation’s rate of 6.7 percent, but significantly better than Kentucky’s 7.9 percent. Being the seat of the state’s premier university and the storied equine industry also helps the Lexington metro area expand, as the demand for education and leisure grows in the region.

**GROSS DOMESTIC PRODUCT**

By the end of 2012, the Lexington metro area’s GDP per capita remained at 7 percent below its pre-recession level, while Kentucky’s average exceeded pre-recession levels by approximately 1.7 percent. Metropolitan income and production levels continue to increase, and population growth in the metro area has outpaced the rate of output production due to its attractive lifestyle and growing employment opportunities.

**HOUSING PRICES**

The housing recovery continues apace in the Lexington metro, but is lagging the nation. This is largely due to the area’s housing prices, which never fell as low as that of the national housing market. Nonetheless, the annual growth rate has approximately reached pre-recession levels, with a gain of 2.5 percent in 2013. Housing demand and prices are expected to continue to improve as area population expands and residential real estate construction responds. However, growth in the foreclosure inventory has recently increased due to the lengthy period of time that judicial foreclosure states such as Kentucky take to resolve the process. This will work to contain price growth even in the face of expanding demand.
Employment in the Lexington metro area is benefitting from growth in the construction and leisure and hospitality sectors. Additionally, professional and business services and the trade, transportation, and utilities sectors are also expanding as population and consumer demand grow. Lexington is a town of primarily moderate- to smaller-size companies, but it still boasts significant employment bases from larger institutions and companies such as the University of Kentucky (14,000), Toyota (7,900), Central Baptist Hospital (3,000), Xerox (3,000), and Lexmark International (2,800).

The Lexington economy benefits from a highly educated and relatively young workforce and a large, established presence in key sectors. From June 2012 to June 2013, the construction sector exhibited the strongest growth as the University of Kentucky embarked on a multiyear project to expand its facilities. Additionally, Toyota’s nearby automotive manufacturing plant is adding an assembly line to accommodate growing demand for its popular Camry and Lexus vehicles. The leisure and hospitality sector has also seen strong growth. The horse industry, after many years of retrenchment due to the suffering economy, is gaining steam as interest in farm land and equine-focused recreation are again on the rise.

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Historically, consumers in the Lexington metro area have supported more mortgage, auto, and credit card debt per capita than the average Kentuckian, but less than the average American. Like much of the nation, the metro area has actively sought to deleverage since the onset of the recession in late 2007 and has succeeded at a rate similar to that of the nation. Reasons for the debt decline include lower mortgage debt due to foreclosures and smaller average outstanding balances on revolving debt instruments, such as credit cards and home equity loans.

Source: FRBNY Consumer Credit Panel.

Construction in the housing sector has continued to advance as the supply of residential homes has waned in the face of increasing demand. Through February 2014, housing permits are running at approximately 144 percent of the 2007 level. By way of comparison, the nation is at 82 percent, Kentucky 115 percent, and Lexington’s nearby metro areas 102 percent. Housing supply remains exceptionally tight, also helping to prop up house prices. Multifamily vacancy rates remain low, as apartment construction has yet to catch up with growth in regional demand. Two factors often cited for the slow resurgence of supply are the ongoing tight credit conditions and a scarcity of skilled construction labor. Recently, the residential construction labor force has begun to grow, helping to reduce the disparity between increased housing demand and short supply.

Source: Census Bureau/Haver Analytics.

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Source: FRBNY Consumer Credit Panel.

The credit card delinquency rate is an indicator of the financial health of households. The credit profile of the Lexington region remains much better than the nation’s and is in line with Kentucky. Declines in credit card delinquency rates continued through 2011, the latest period for which data is available. In 2011, the share of credit card balances that were 90-or-more days delinquent was approximately 4 percentage points lower in the Lexington metro than in the United States, falling back to its pre-recession level.

Source: FRBNY Consumer Credit Panel/Haver Analytics.
All monthly figures are seasonally adjusted and all dollar figures are in current dollars. Several charts use indexed measures to facilitate comparisons across regions and have a reference line at 100. These numbers can be thought of as the percentages of pre-recession levels. If levels were growing before the recession, pre-recession indexes will be below 100; if levels were falling before the recession, pre-recession indexes will be above 100. Employment data in the Metro Mix come from the Quarterly Census of Employment and Wages, which we have found to be the earliest accurate source of the number of jobs in metro areas.

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