

# FOURTH DISTRICT METRO MIX

YOUR DISTRICT, YOUR DATA



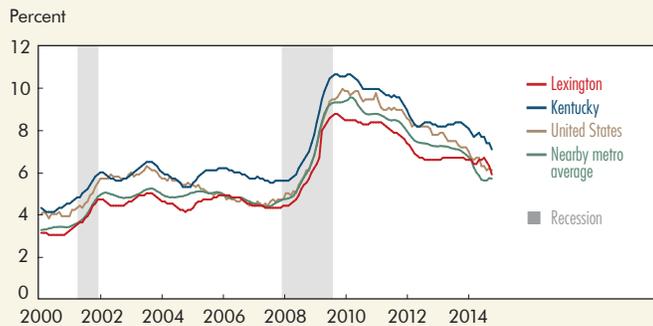
LEXINGTON, KENTUCKY MSA | FOURTH QUARTER, 2014

FEDERAL RESERVE BANK of CLEVELAND

## Lexington – Opening Up a Lead in a Previously Sluggish Field

After a relatively rough first half of 2014 due to a harsh winter, the Lexington metro area economy has resumed a moderate growth pace, bearing positive implications in the near and medium terms. Some of the area's largest employers promise economic gains: the University of Kentucky continues with its expansion plan for enrollment and capital investment; Toyota manufacturing continues to respond to pent-up demand in the auto sector; and the local Lockheed Martin plant will benefit from continued defense spending by the federal government.

Lexington's unemployment rate has fallen to 5.9%

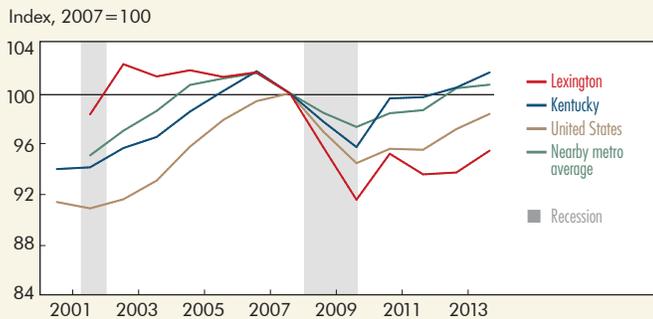


Source: Bureau of Labor Statistics/Haver Analytics.

### ◀ UNEMPLOYMENT RATE

The Lexington metro area continues to outperform the state of Kentucky's unemployment rate improvements and general economic growth. Through August 2014, the unemployment rate in the Lexington area declined to 5.9 percent, slightly lower than national performance of 6.1 percent. This is substantially better than the state's performance, which stood at 7.1 percent. Additionally, this improvement follows an extended two-year period where the rate stood relatively constant at 6.6 percent. Significant growth in the metro area's professional and business services sector account for the bulk of the decline in unemployment levels.

Despite continued improvement, per capita GDP still sits well below pre-recession levels

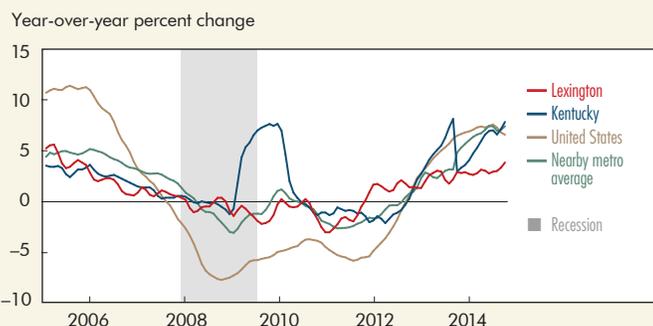


Source: Bureau of Economic Analysis/Haver Analytics.

### ◀ GROSS DOMESTIC PRODUCT

Despite its improved performance, Lexington's per capita GDP continues to underperform that of the nation, state, and nearby metro areas. After declining approximately 8 percentage points from its pre-recession level, per capita GDP in the Lexington metro area has yet to fully recover its pre-recession values. It remains approximately 4.5 percentage points below the pre-recession level. Despite growth in the metro area's income and production levels, population growth in the region has outpaced the rate of output production.

Lexington's housing recovery is fairly muted



Source: Zillow.com/Haver Analytics.

### ◀ HOUSING PRICES

The housing recovery continues apace (though fairly muted) in the Lexington metro area. This is largely due to the fact that Lexington experienced smaller declines in housing prices than did the nation. Likewise, its recovery has not been as strong. Prices are rising in the metro area at an approximate rate of 4 percent. Housing demand and prices are expected to continue to improve, albeit at a moderate pace as area population expands and residential real estate construction growth lags. Additionally, the housing market is likely to face increased pressure as growth in key sectors such as professional and business services and skilled manufacturing continues to occur.

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## EMPLOYMENT AND INDUSTRIAL SECTORS

Lexington's employment growth outperforms the nation, state, and nearby metro areas

Index, 2007: M12=100

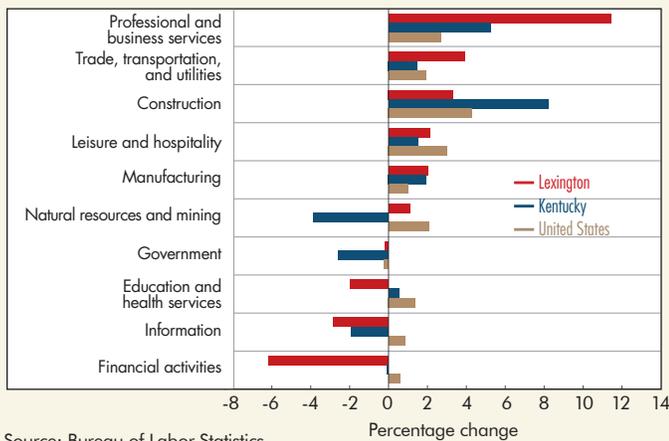


Source: Bureau of Labor Statistics.

### EMPLOYMENT

Job growth in the Lexington metro area remains strong as the region capitalizes on its substantial base of highly educated and innovative workers. The professional and business services sector has led the growth in payroll employment. The region benefits from the University of Kentucky, where enrollment continues to grow and university construction projects expand. The metro area also benefits from the fact that it has a much higher percentage of adults with a college degree or higher than the state or nation. In 2013, approximately 36 percent of the metro area's residents over 25 had obtained at least a college degree, versus 30 percent at the national level.

The professional and business services sector leads Lexington's sectoral growth

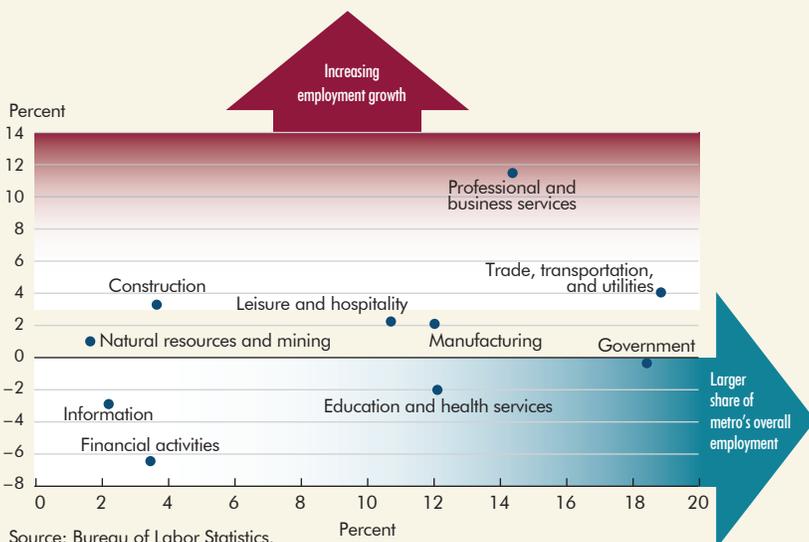


Source: Bureau of Labor Statistics.

### EMPLOYMENT GROWTH BY SECTOR

The Lexington metro area economy benefits from a highly educated and relatively young workforce, as well as a strong presence in key sectors such as professional and business services, government, education and healthcare, and leisure and hospitality. The professional and business services sector has led growth as activity in the downtown area has increased the need for such services, as has continued expansion at the area's manufacturers and the University of Kentucky. Additionally, growth has been strong (surpassing both the state and national performances) in the trade, transportation, and utilities sector. This largely reflects increased consumer demand in the area in response to the falling unemployment rate and slowly increasing area wage rate.

Employment growth spans much of Lexington's relatively diverse economy



Source: Bureau of Labor Statistics.

### RELATIVE EMPLOYMENT GROWTH

Relative to other metro areas in the state of Kentucky, Lexington's economy is diverse. Most of the area's largest employers are experiencing some degree of growth as the national economy expands: the University of Kentucky (14,000), Toyota (7,900), Central Baptist Hospital (3,000), Xerox (3,000), and Lexmark International (2,800). Employment in the Lexington metro area benefits the most from the professional and business services, construction, and the trade, transportation, and utilities sectors. Similar to the nation, employment in the information (not including high-tech employment), and financial activities sectors has continued to decline moderately as improved technology displaces the need for increased labor in these sectors.

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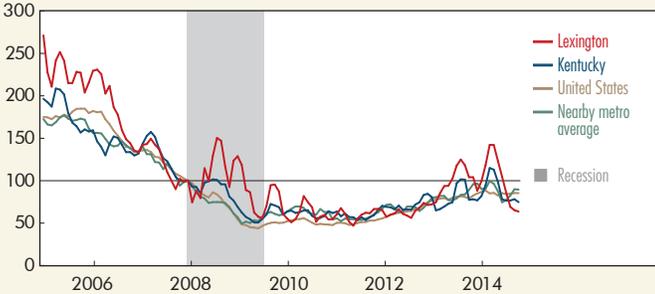
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## HOUSING MARKET

New housing permits are nearly 40% below pre-recession levels

Index, 2007: M12=100, three-month moving average



Source: Census Bureau/Haver Analytics.

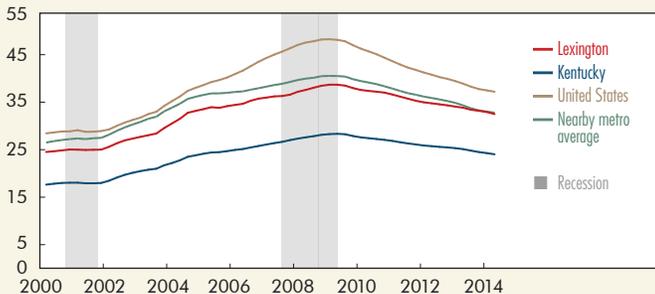
### HOUSING PERMITS

Similar to 2013, construction in the Lexington housing market remains highly volatile as builders hesitate to replenish a tight housing stock due to tight credit and shifts in underlying housing demand. Despite increasing through much of the first quarter of 2014, new housing permits are running at approximately 40 percent below pre-recession levels. According to local area contacts, the 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.

## CONSUMER FINANCES

Deleveraging in the Lexington metro area continues

Thousands of dollars



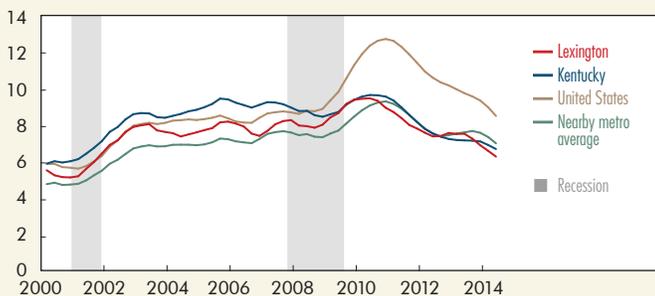
Source: Authors' calculations from FRBNY's Consumer Credit Panel/Equifax.

### CONSUMER DEBT

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. This continued to be the case through mid-2014. Like much of the nation, the metro has been deleveraging since the onset of the recession in late 2007 and has done so 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.

Credit card delinquency rates are lower in the metro area than they are at the state and national levels

Percent of credit card balances delinquent



Source: Authors' calculations from FRBNY's Consumer Credit Panel/Equifax.

### CREDIT CARD DELINQUENCY RATES

The credit card delinquency rate is an indicator of the financial health of households. The credit profile of Lexington remains much better than the nation's and is slightly better than the state's average. Declines in credit card delinquency rates have continued through June 2014, the latest period for which data is available. The share of credit card balances that were 90-or-more days delinquent was approximately 2 percentage points lower in Lexington than in the nation, which is below the metro area's pre-recession level.

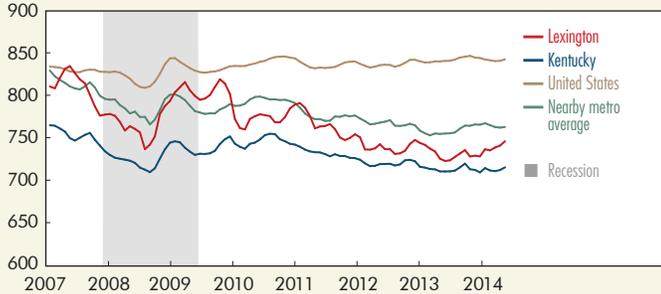
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Average weekly wages in the area are improving, but at very slow rate

Dollars, three-month moving average



Source: Bureau of Labor Statistics/Haver Analytics.

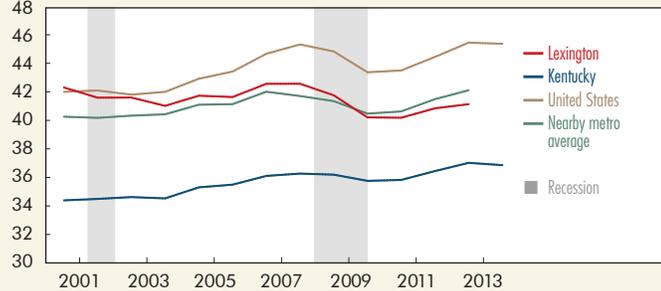
## INCOME

### ◀ AVERAGE WEEKLY EARNINGS

Weekly wages in the Lexington area are improving very slowly. Since the start of the recession in December 2007, average weekly wages fell from approximately \$778 to a low of \$722 in August of 2013. Since that time, wages have recovered to approximately \$746. Nearby metro areas and the nation did not see as large declines in average wages and have stabilized at higher levels than in the Lexington metro area. The stagnancy of the recovery in Lexington's metro area wages is largely in response to slower growth in the higher-paying manufacturing sector. Despite the fact that the major manufacturing facility in the region, Toyota, is expanding, this is likely to have only a short-term impact on wage growth as much of the plant's retooling is focused on using automation and robotics.

Lexington's income per capita is increasing, but at a relatively slow rate

Thousands of dollars



Source: Bureau of Economic Analysis/Haver Analytics.

### ◀ INCOME PER CAPITA

The Lexington metro area and the nation continue to have higher income levels per capita than the state of Kentucky. Lexington and the nation experienced similar declines during the recession, which were greater than the state's average over the same period. Population growth in the metro area has risen in recent years as in-migration, primarily from other similarly-sized metro areas in the region, has exceeded out-migration. However, income growth per capita continues to increase, albeit at a relatively slow rate, which should continue to encourage in-migration to Lexington as economic growth continues.

## DEMOGRAPHICS AND EDUCATION

### ◀ LEXINGTON, KENTUCKY

According to 2013 Census estimates, Lexington is the 107th largest of the 381 metropolitan statistical areas in the United States.

	Lexington metro area		United States	
	2013	Change from 2009	2013	Change from 2009
Population	489,435	+4.7%	316,129,000	+3.1%
Adults with less than a high school diploma	11.5%	-1.9%	13.4%	-1.3%
Adults with an undergraduate degree or higher	35.7%	+1.2%	29.6%	+1.7%
Median age (years)	35.5	+0.6 years	37.5	+0.7 years
Median household income	\$51,335	-0.9%	\$53,348	-4.2%

Sources: Census Population estimates; American Community Survey.

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.

The Federal Reserve Bank of Cleveland, including its branch offices in Cincinnati and Pittsburgh, serves the Fourth Federal Reserve District (Ohio, western Pennsylvania, the northern panhandle of West Virginia, and eastern Kentucky).

