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%**

![Unemployment Rate Graph]


**GROSS DOMESTIC PRODUCT**

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

![GDP Graph]

Source: Bureau of Economic Analysis/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.
Lexington’s employment growth outperforms the nation, state, and nearby metro areas

Index, 2007: M12 = 100


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


Employment growth spans much of Lexington’s relatively diverse economy


Employment and Industrial Sectors

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.

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.

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.
CONSUMER FINANCES

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.

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

HOUSING MARKET

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.

Source: Census Bureau/Haver Analytics.

CONSUMER FINANCES

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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.

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

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.

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