

# FOURTH DISTRICT METRO MIX

YOUR DISTRICT, YOUR DATA



LEXINGTON, KENTUCKY MSA | JULY 2015

FEDERAL RESERVE BANK of CLEVELAND

## Lexington – The Bluegrass Region Continues to Gain Steam

The Lexington economy continues to gain steam as the labor market expands, wages rise, the automotive production sector strengthens, and enrollment grows at the state's flagship university. The housing sector has stabilized, albeit at low levels of price appreciation. However, job creation, wage growth, and increased household formation are expected to increase the demand for housing.

Lexington's unemployment rate has fallen to 4.8%

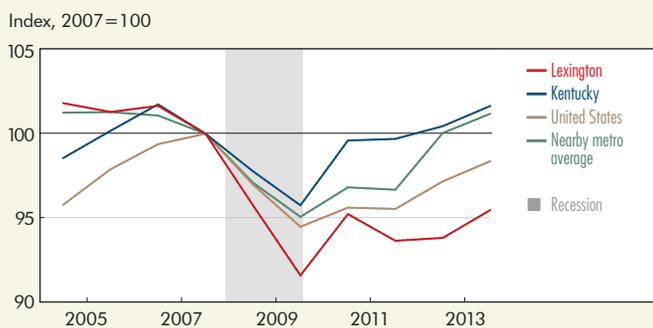


Source: Bureau of Labor Statistics/Haver Analytics.

### ◀ UNEMPLOYMENT RATE

The Lexington metro area continues to lead the state of Kentucky in improvements in its unemployment rate and general economic growth. Through December 2014, the unemployment rate in the Lexington area declined to 4.8 percent, slightly lower than the national performance of 5.6 percent at that time. This was also lower than the state's rate of 5.5 percent and that of nearby metro areas averaging 4.9 percent. Significant growth in the metro area's professional and business services sector, followed closely by the trade, transportation, and utilities sector account for the bulk of the decline in unemployment levels.

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

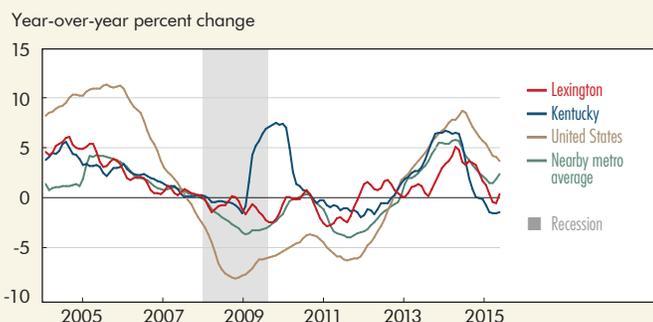


Source: Bureau of Economic Analysis/Haver Analytics.

### ◀ GROSS DOMESTIC PRODUCT

Despite its improved performance, Lexington's per capita GDP continues to lag the state, nearby metro areas, and the nation as a whole. After declining by 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 value, remaining approximately 4.5 percentage points below its pre-recession value. Despite growth in the area's metropolitan income and production levels, population growth in the region has outpaced the rate of output growth.

The housing recovery is fairly muted, although price growth remains positive



Source: Zillow.com/Haver Analytics.

### ◀ HOUSING PRICES

The housing recovery in the Lexington metro area continues apace, but is fairly muted. Housing prices continue their recovery, albeit at rates below that of the nation and other nearby metro areas. Prices were rising in the metro area at approximately a 0.6 percent rate in March after having fallen in each of the previous two months. Housing demand and prices are expected to continue to improve, albeit at a moderate pace, as area population has expanded more quickly than has residential real estate construction. Additionally, the housing market is likely to face increased pressure as growth in key sectors such as professional and business services and skilled manufacturing occurs.

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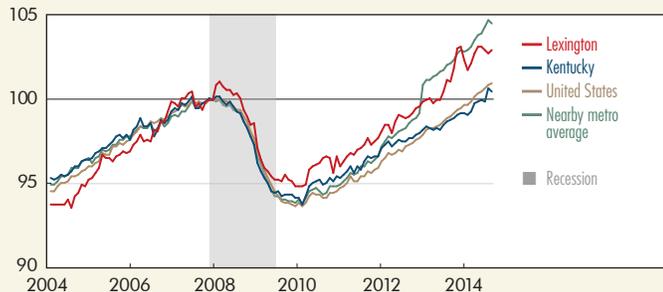
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## EMPLOYMENT AND INDUSTRIAL SECTORS

Lexington's employment growth outperforms the nation and state

Index, 2007: M12=100

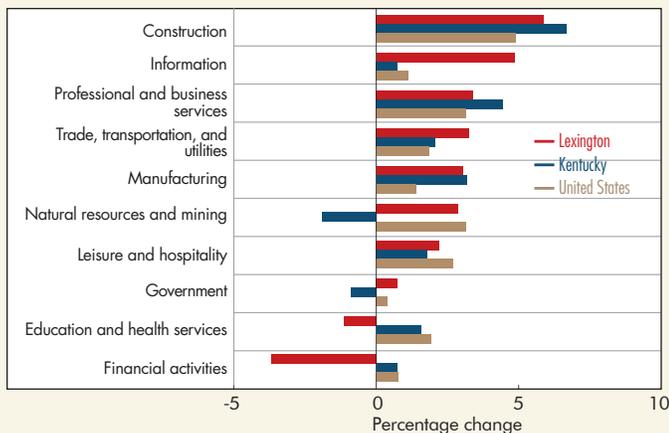


Source: Bureau of Labor Statistics' Quarterly Census of Employment and Wages.

### ◀ EMPLOYMENT

Job growth in the Lexington metro area remains strong as the region capitalizes on its substantial base of highly educated and innovative workers and the presence of major automotive manufacturers and suppliers. The professional and business services sector has led the growth in payroll employment, followed closely by the trade, transportation, and utilities sector. Through September 2014, employment levels were 3 percent above those at the end of the last expansionary period in 2007. A significant contributor to the growth is the strength of the automotive sector, where national sales rates are running at levels comparable to pre-recession levels. Additionally, the region benefits from the presence of the University of Kentucky, the area's largest employer, where enrollment continues to grow and university construction projects expand.

Construction and information growth rates led Lexington's sectoral gains

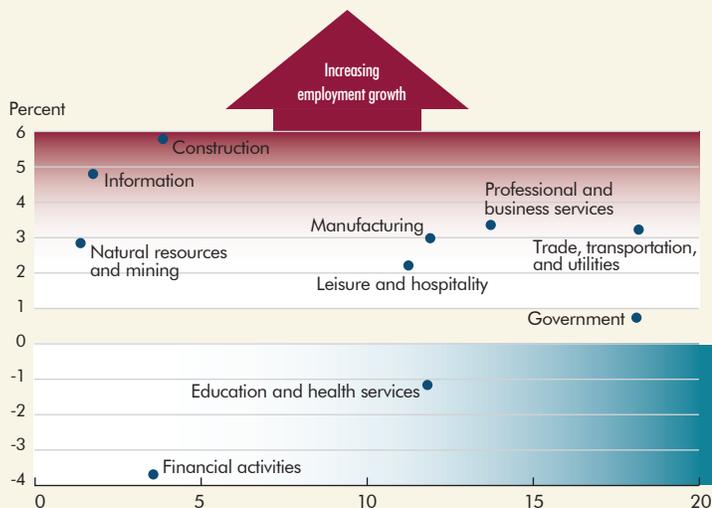


Source: Bureau of Labor Statistics' Quarterly Census of Employment and Wages.

### ◀ EMPLOYMENT GROWTH BY SECTOR

The Lexington metro area economy benefits from a highly educated and relatively young workforce and a large presence in key sectors such as professional and business services, government, education and healthcare, and leisure and hospitality. The construction and information sectors led area growth rates, while the trade, transportation, and utilities sector was responsible for the most payroll employment gains. Additionally, growth has been strong in the trade, transportation, and utilities sectors, surpassing both state and national performances. This is largely in response to continued growth in consumer demand, prompted by a low and declining unemployment rate and the gradual increase in wage rates.

Employment growth spans much of Lexington's relatively diverse economy



Source: Bureau of Labor Statistics' Quarterly Census of Employment and Wages.

### ◀ RELATIVE EMPLOYMENT GROWTH

Relative to other metro areas in the state of Kentucky, Lexington is a diverse economy. Most of the area's largest employers, the University of Kentucky (12,430), Toyota (7,900), KentuckyOne Health (3,000), Xerox (3,000), and St. Joseph Hospital (2,500), are experiencing some degree of growth as the national economy expands. Employment in the Lexington metro area benefits the most from professional and business services, construction growth caused by expansion at the University of Kentucky and downtown, and the trade, transportation, and utilities sector. There continues to be some contraction in the financial activities sector, as well as some recent softness in the education and healthcare sector; however, this is expected to be short-lived.

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## HOUSING MARKET

New housing permits are nearly 16% below pre-recession levels

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



Source: Census Bureau/Haver Analytics.

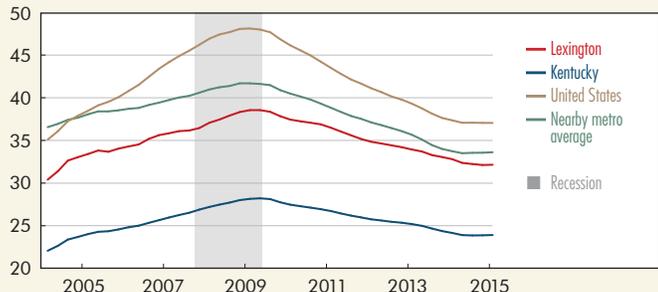
### HOUSING PERMITS

Similar to 2013, construction in the Lexington housing market remains highly volatile as builders hesitate to replenish a tight housing stock due to a myriad of reasons, including 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 16 percent below pre-recession levels. 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



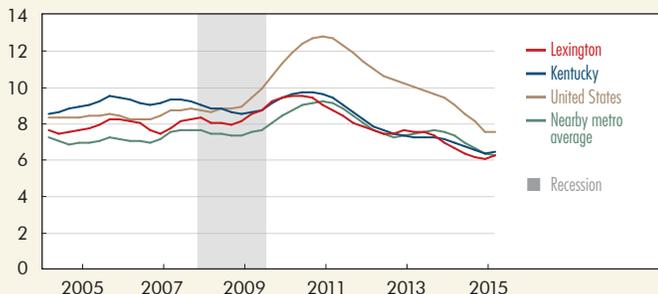
Source: Authors' calculations from the Federal Reserve Bank of New York's Consumer Credit Panel/Equifax.

### 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. Through the first quarter of 2015, this continued to be the case. 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.

Lexington's credit card delinquency rate is lower than the national average

Percent of credit card balances delinquent



Source: Authors' calculations from the Federal Reserve Bank of New York'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. The metro area's credit card delinquency rate continued to decline through the end of 2014, but increased slightly during the first quarter of 2015. The share of credit card balances that were 90-or-more days delinquent was approximately 1.3 percentage points lower in Lexington than in the nation, but largely similar to that of the state of Kentucky and nearby metro areas.

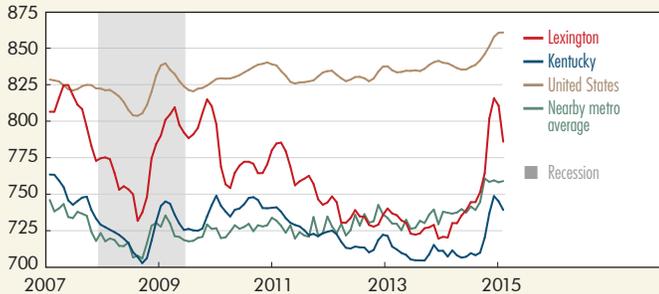
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Average weekly wages in the area are improving, albeit below recent levels

Dollars, three-month moving average



Source: Bureau of Labor Statistics/Haver Analytics.

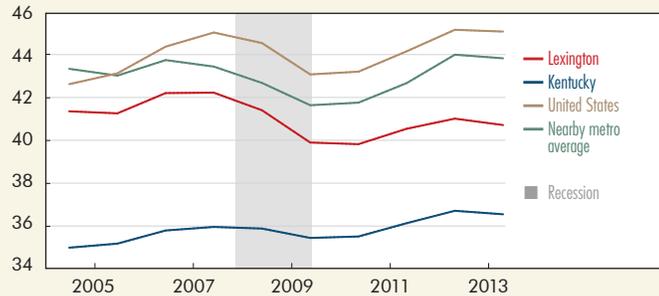
## INCOME

### ◀ AVERAGE WEEKLY EARNINGS

Following significant growth through January of 2015, average weekly wages retrenched slightly in February and March. However, at \$785 they remain significantly above that of the state and nearby metro area averages. A portion of this growth represents expected recovery from levels depressed during the period of slow growth post-recession. Average wage declines in nearby metro areas and the nation were not as large and thus, have not rebounded as strongly as in the Lexington area. The improvement in the metro area's wages is largely in response to continued growth in the higher-paying manufacturing sector and a general tightening in the supply of available qualified labor in the Lexington area.

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. A significant reason for Lexington's mixed performance is that it continues to benefit from increasing population growth as the area's economic opportunities increase. 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.

## DEMOGRAPHICS AND EDUCATION

### ◀ LEXINGTON, KENTUCKY

According to 2014 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	\$50,961	-0.9%	\$52,959	-4.2%

Sources: American Community Survey; Bureau of Economic Analysis; Census population estimates.

All monthly and quarterly figures are seasonally adjusted and all dollar figures are in current dollars, except home prices (which are left nominal). Where applicable, these adjustments are made prior to calculating percent changes or indexes. 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.

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).