

FOURTH DISTRICT METRO MIX

YOUR DISTRICT, YOUR DATA



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LEXINGTON, KENTUCKY MSA | SEPTEMBER 2019

FEDERAL RESERVE BANK of CLEVELAND

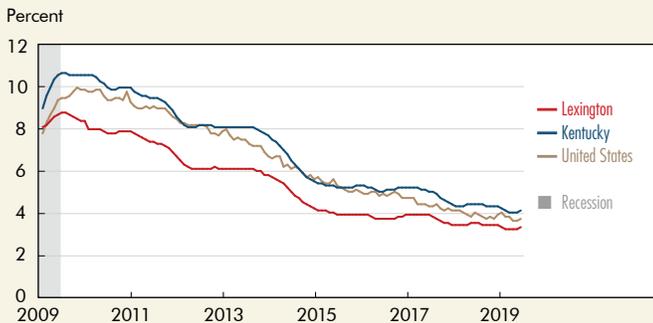
Lexington—Regaining Momentum?

Data painted a mixed picture of the Lexington metro area's economic health toward the end of 2018, but newer data suggest conditions improved in the first half of 2019. The metro area's unemployment rate, for example, was 3.3 percent in June 2019—one of the lowest unemployment rates it has seen since 2001. Moreover, labor force participation was up during the past 12 months even as the unemployment rate dipped, indicating that there were more new jobs than new workers, on balance. Such job activity may signify a resumption of employment growth in the first half of 2019 following a disappointing end to 2018. In 2017, per capita GDP declined 0.5 percent for the metro area, a situation that stands in contrast to gains seen in Kentucky and the United States. In June 2019, the median value of a home in the metro area was \$179,200, up 5.3 percent from the median value a year earlier but still well below the nationwide median of \$227,700.

METRO AREA SNAPSHOT

	Unemployment Rate		Median Home Value		Payroll Employment		Credit Card Delinquency Rate	
	June 2019 (percent)	One-year change (percentage points)	June 2019	One-year change (percent)	December 2018 (thousands)	One-year change (percent)	2019:Q1 (percent)	One-year change (percentage points)
Lexington	3.3	-0.2	\$179,200	5.3	264	-1.7	6.4	-0.0
Kentucky	4.1	-0.3	\$145,800	5.3	1,886	0.3	7.2	0.4
United States	3.7	-0.3	\$227,700	5.2	146,988	1.5	7.5	0.2

The Lexington metro area's unemployment rate has been relatively flat, ranging between 3.2 percent and 3.3 percent since the beginning of 2019.

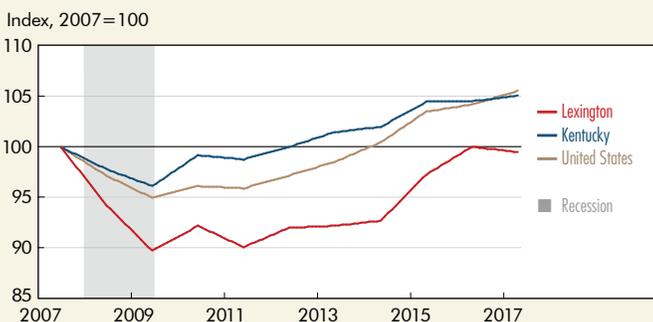


Source: Bureau of Labor Statistics/Haver Analytics.

◀ UNEMPLOYMENT RATE

The Lexington metro area's unemployment rate was 3.3 percent in June 2019, well below comparable rates for Kentucky (4.1 percent) and the United States (3.7 percent). Moreover, the metro area's rate remains near its lowest level since 2001. Since the beginning of 2019, the area has seen a 0.6 percent increase in the size of its labor force. A stable unemployment rate in the face of rising labor force participation suggests that new labor force participants are being hired by firms quickly. In other words, the metro area was creating jobs as fast as new workers could enter the labor force. This development may point to firmer demand for labor and payroll employment growth—both of which ended 2018 on a down note.

GDP per capita in the Lexington metro area fell approximately 0.5 percent in 2017.



Source: Bureau of Economic Analysis/Haver Analytics.

◀ GROSS DOMESTIC PRODUCT

The Lexington metro area's GDP per capita fell approximately 0.5 percent in 2017 following a period of robust growth (8.0 percent) from 2014 to 2016. The metro area's trends were in sharp contrast to those in Kentucky and the United States, both of which saw slower growth from 2014 to 2016 but stronger growth in 2017 (0.5 percent and 1.3 percent, respectively). While the state and the nation had surpassed their prerecession levels of per capita GDP by 2015, the metro area lagged behind. The metro area reached its prerecession level of per capita GDP in 2016, before again dipping below that level the following year. Interestingly, the metro area's output increased in 2017, but its population grew faster, resulting in the lower GDP per capita reading.

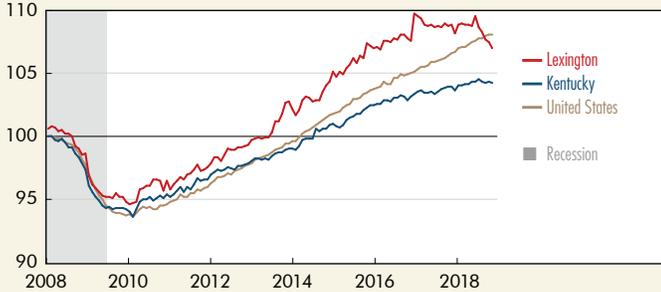
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The Lexington metro area's payroll employment fell in the second half of 2018.

Index, 2007:M12=100



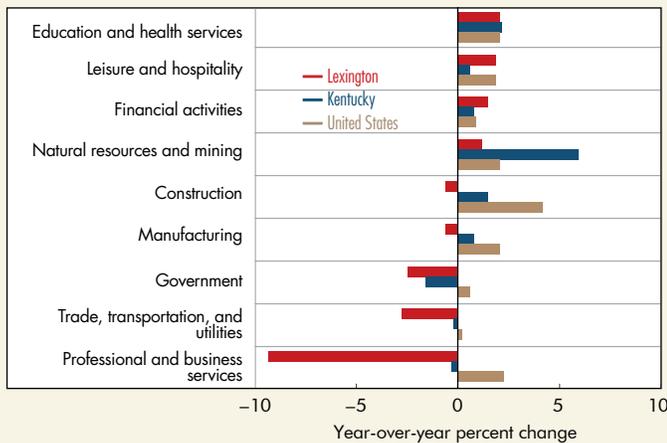
Source: Bureau of Labor Statistics' Quarterly Census of Employment and Wages.

EMPLOYMENT AND INDUSTRIAL SECTORS

◀ EMPLOYMENT

Job growth in the Lexington metro area had compared quite favorably to job growth in Kentucky and the United States during much of the past decade. The metro area's job losses were not as severe as those in the state and the nation during the Great Recession, and job growth during the recovery had been outperforming both through the middle of 2018. However, payroll employment in the metro area began to fall in August 2018 and declined approximately 1.5 percent by the end of that year. On a year-over-year basis, payroll employment was down roughly 1.7 percent (approximately 5,000 jobs) in December 2018 for the metro area. Neither Kentucky nor the United States saw such declines in payroll employment, suggesting this trend was unique to Lexington. As a result of the year-end decline in the metro area's employment, the metro area lagged the nation in terms of job growth since the last peak (December 2007), although growth in the metro area still compares favorably to that in the state. More recent data (most notably, the metro area's unemployment rate) and anecdotal reports signify a resumption of job growth in the area during the first half of 2019.

As of December 2018, professional and business services employment in the Lexington metro area saw the largest year-over-year decline.



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

◀ EMPLOYMENT GROWTH BY SECTOR

Payroll employment growth in the Lexington metro area began falling in August of 2018, with the declines mostly concentrated in three industries. As of December of 2018, the professional business services sector saw the largest year-over-year decline, falling 9.4 percent. The trade, transportation, and utilities sector and the government sector also saw notable job losses, falling 2.8 percent and 2.5 percent, respectively. This decline in trade, transportation, and utilities is supported by anecdotal information from transportation and logistics executives who saw a meaningful decrease in demand at year-end 2018. While Kentucky also saw employment declines in these three sectors, the United States experienced gains in each. The decline in the metro area's professional and business services sector is particularly notable because this industry has been a major driver of job growth throughout much of the nation, including in the metro area, since the expansion got underway in mid-2009. With the labor force's growing in the region during the first half of 2019 and the unemployment rate's remaining near historical lows, it is likely that job growth has resumed in the metro area.

The Lexington metro area's professional and business services sector lost almost 3,700 jobs in 2018.

Sector	Employment	12-month change	Share of employment
Trade, transportation, and utilities	53,016	-1,552	19.7
Government	48,122	-1,258	17.9
Professional and business services	35,660	-3,682	13.2
Education and health services	34,428	695	12.8
Leisure and hospitality	31,287	595	11.6
Manufacturing	30,542	-192	11.3
Construction	12,549	-73	4.7
Financial activities	9,625	141	3.6
Natural resources and mining	4,420	54	1.6

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

◀ SECTOR EMPLOYMENT

All three of the Lexington metro area's largest industries saw net job losses in 2018. Trade, transportation, and utilities, the metro area's largest employment sector, lost approximately 1,550 jobs during the year. The professional and business services sector saw the largest absolute decline in employment, losing approximately 3,700 jobs. The metro area's manufacturing and construction sectors experienced more modest job losses since December of 2017, but these industries also employ many fewer workers in the metro area. Education and health services and leisure and hospitality employment increased during the year, approximately 2.1 percent and 1.9 percent, respectively.

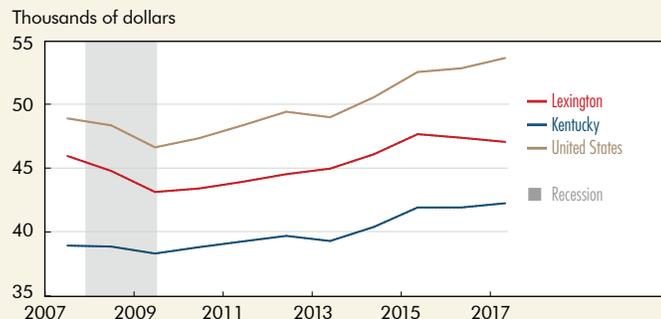
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INCOME

Real per capita income in the Lexington metro area increased at an average annual rate of 1.1 percent since the last recession.



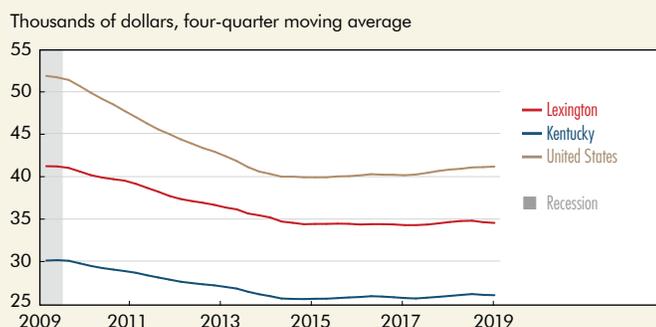
Source: Bureau of Economic Analysis/Haver Analytics.

◀ INCOME PER CAPITA

Since the end of the most recent recession (June 2009), real per capita income in the Lexington metro area rose at an average rate of 1.1 percent per year, despite a 0.7 percent decline in 2017. During this period, the metro area underperformed both the statewide and national averages, wherein real per capita income increased at a 1.3 percent and 1.8 percent average annual rate, respectively. Because this measure is in real dollars, a positive growth rate indicates that per capita income grew faster than the cost of living. This would suggest that, on balance, the standard of living in all three regions improved from 2009 through 2017.

CONSUMER FINANCES

Debt per capita in the Lexington metro area ticked down 0.3 percent year over year in the first quarter of 2019.

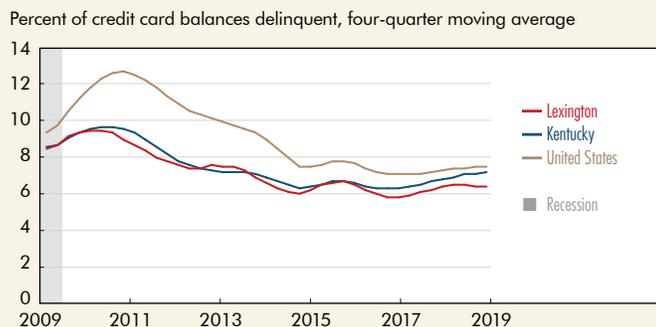


Source: Authors' calculations from the Federal Reserve Bank of New York's Consumer Credit Panel/Equifax.

◀ CONSUMER DEBT

Debt per capita in the Lexington metro area ticked down 0.3 percent on a year-over-year basis in the first quarter of 2019. By contrast, Kentucky and the United States as a whole saw 0.3 percent and 0.9 percent increases in the same timeframe. Interestingly, the decline in debt per capita in the first quarter of 2019 for the metro area was due to the growth rate of the population exceeding the growth rate of debt. Looking at the components of consumer debt, automotive loans and bank-issued credit card revolving debt saw notable increases in the metro area in the first quarter of 2019. Relative to those at the end of the recession (June 2009), per capita consumer debt levels are about 16 percent lower in the Lexington metro area and roughly 14 percent and 20 percent lower in Kentucky and the United States, respectively.

Credit card delinquencies declined slightly in the Lexington metro area in the first quarter of 2019.



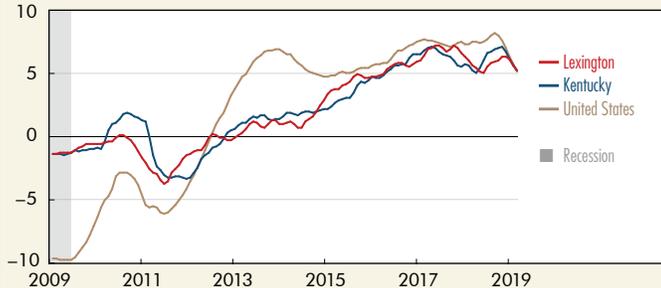
Source: Authors' calculations from the Federal Reserve Bank of New York's Consumer Credit Panel/Equifax.

◀ CREDIT CARD DELINQUENCY RATE

The credit card delinquency rate in the Lexington metro area peaked in the second quarter of 2018 at 6.5 percent, and then eased back to 6.4 percent by the first quarter of 2019. This downturn marks the end of a trend of increasing delinquency rates seen in the metro area from the first quarter of 2017 through the second quarter of 2018. For Kentucky and the United States, credit card delinquencies continued to increase through the first quarter of 2019, although the rate of growth has been falling in recent quarters, and the rates remained low by recent historical standards.

Growth in home prices began slowing in March 2019; however, temporary dips in growth are not uncommon.

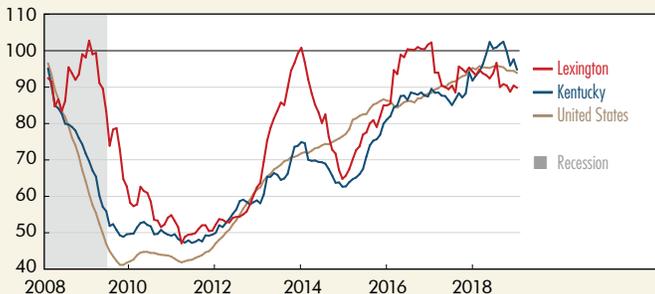
Year-over-year percent change



Source: Zillow.com/Haver Analytics.

Building permit issuance in the Lexington metro area has declined 7.1 percent since peaking in December 2018.

Index, 2007:M12=100, 12-month moving average



Source: US Census Bureau/Haver Analytics.

HOUSING MARKET

HOUSING PRICES

Home values in the Lexington metro area rose 5.3 percent year over year in June 2019. While this growth rate is lower than the peak growth rate of 6.4 percent seen in March 2019, it is still robust by historical standards. Growth rates in home values slowed in Kentucky and the United States in the beginning of 2019 as well, suggesting this slowdown in pricing was part of a broader nationwide trend. However, home prices are known to be volatile, and given the very low inventories and quick selling times reported by realtors and builders, there is little evidence to suggest that the trend of solid home price appreciation is reversing.

HOUSING PERMITS

Since peaking in December 2018, building permits issuance in the Lexington metro area declined 7.1 percent through June 2019. Kentucky saw a similar decrease, with permit issuances falling 6.1 percent during the same time. While the United States also saw softer building permit issuance during this time, the decrease was a more modest 2.0 percent. Despite the recent declines, the metro area's outlook for permit issuance appears relatively stable; mild fluctuations in permit issuance are common. The stable outlook is supported by reports from builders and contractors who indicate that demand is still relatively strong, with many projects in the pipeline. While well above 2011 levels, permitting activity remained below prerecession peaks the metro area, Kentucky, and the United States.

DEMOGRAPHICS AND EDUCATION

LEXINGTON, KENTUCKY

In the 10 years from 2007 to 2017, population growth was significantly higher in the Lexington metro area (13.4 percent) than population growth in the United States (7.9 percent). Simultaneously, the average education level of adults in the metro area grew significantly because the number of adults with less than a high school diploma decreased 4.6 percentage points and the number of adults with an undergraduate degree or higher increased 4.7 percentage points. The median annual household income for the metro area is lower than the nationwide median (by about \$2,370), but it grew at a faster rate than the nation's from 2007 to 2017.

	Lexington Metro Area		United States	
	2017	Change from 2007	2017	Change from 2007
Population	512,732	+13.4%	325,147,000	+7.9%
Adults with less than a high school diploma	9.0%	-4.6 pp	12.0%	-3.5 pp
Adults with an undergraduate degree or higher	37.5%	+4.7 pp	32.0%	+4.5 pp
Median age (years)	36	+0.7	38.1	+1.4
Median household income	\$60,680	+4.3%	\$63,049	+0.6%

Note: Percentage points is abbreviated as pp.

Source: US Census Bureau population estimates, American Community Survey.

Rick Kaglic is vice president and senior regional officer of the Cincinnati Branch of the Federal Reserve Bank of Cleveland. Tristan Young is a research analyst at the branch. The authors thank economic analyst Christopher Vecchio for preparing the charts.

All monthly and quarterly figures are seasonally adjusted, and all dollar figures are in constant dollars, for which the base period is provided by the latest available data. Home prices are an exception, and they are not adjusted for inflation. 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 prerecession levels. If levels were growing before the recession, prerecession indexes will be below 100; if levels were falling before the recession, prerecession indexes will be above 100.

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