

KENTUCKY ECONOMIC INDICATORS

September 2009 as of November 22, 2009

KY Composite Index of Leading Indicators increased by 0.3 percent in September.

- The Leading Index increased for the fourth consecutive month.
- The month-over-same-month-last-year growth rate declined for the twenty-eighth consecutive month with -4.5 percent growth.
- Component indicators were mixed; two increased, two decreased and one remained constant, 2:2:1.
 - KY Labor Intensity Index decreased by 1.4 percent.
 - + KY Index of Initial UI Claims increased by 10.9 percent.
 - US Retail Sales decreased by 24.2 percent.
 - US Manufacturer's New Orders Index remained constant at 99.8.
 - + The Louisville Help Wanted Index increased one point to 5.

Component weights for September are 68.7, 13.6, 11.4, 5.2 and 1.2 respectively.

KY Composite Index of Coincident Indicators decreased by 1.2 percent in September.

- The Coincident Index growth is positive for the seventh time this year.
- The month-over-same-month-last-year growth rate is negative for the nineteenth consecutive month with -4.5 percent growth.
- All component indicators were mixed, 2:1.
 - KY Non-farm Employment decreased 8.6 percent.
 - + US Industrial Production Index increased 8.0 percent.
 - US Personal Income Less Transfers decreased 3.5 percent.

Component weights for September are 37.7, 28.4 and 21.4 respectively. Component weights do not sum to one because the two US components were discounted to give the Kentucky component more weight.

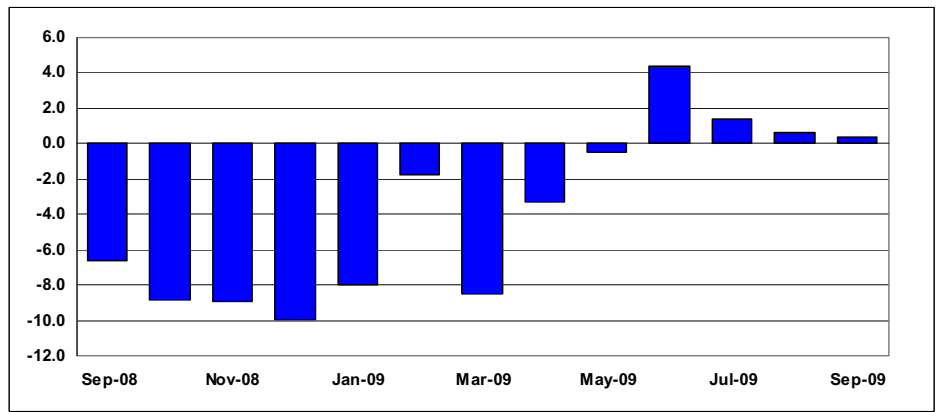
Large upward data revisions to several employment sectors components led to a significant upward revision in the Kentucky Labor Intensity Index, which was significant enough to boost the Kentucky Leading Index into positive territory for August. This triggers our three-month rule, which is now back-dated a month. The three-month rule means that in three to nine months (from August), we expect to see a turning point in the Kentucky reference series. The Kentucky reference series is composed of Kentucky inflation-adjusted personal income less transfer payments and policy-adjusted General Fund tax receipts.

The September leading index components were mixed. The Kentucky Leading Index leaned only slightly positive for September due in large part because the Kentucky Initial UI Claims Index was strongly positive. Both subcomponents of that index, the Kentucky First Payments and the US Initial Claims, fell for September and therefore boosted the (inverted) UI Claims index. Kentucky First Payments fell by 6.4 percent, while US Initial Claims fell by 5.7 percent. While this is a good sign for both Kentucky and the nation, the level of both of these key measures is still quite high. In addition, both of these UI measures are coming off of high bases from August, so declines were not unexpected. Kentucky First Payments is still 11.8 percent above its September 2008 level, while US Initial Claims is 14.9 percent above its September 2008 level. These two series must decline significantly before they return to levels consistent with an expanding economy.

While the UI Claims index was the most significant mover for September, it is the Kentucky Labor Intensity Index which is the most important series for August and September. Revisions to the August 2009 average weekly hours were substantial. Average weekly hours for wood products was revised down 0.7 hours, average weekly hours for Fabricated metals was revised up by 0.7 hours and average weekly hours for petroleum, coal, plastics and rubber products was revised up by 0.5 hours. The other two labor intensity industries were not revised. Historically, average weekly hours is revised by 0.1 to 0.2 hours for the previous month. So all three revisions are large and significant.

Interpreting movements in average weekly hours is not always easy. In September, in three of the five Kentucky labor intensity sectors both employment and average weekly hours declined. This is indicative of a prolonged and contracting aggregate demand in those industries. Firms have seen sales decline for many months, and they are reacting to move production back significantly to bring themselves in-line with the needed much lower output levels. Employment in the petroleum, coal, plastics and rubber products sector fell for September over August, while average weekly hours increased. This is not necessarily a promising sign. As demand falls, firms lay off unneeded workers. That leaves fewer workers to do a smaller amount of work. But in some cases, after some employees are fired, the remaining employees are required to do more work than before to produce the new lower output level. So the data will show that employment has fallen, but average weekly hours have risen.* This is not a desirable situation for the firm or the remaining employees, as it indicates continued weakness in that sector. But it could also simply indicate demand picked up a little for the month, but not enough to prevent the overall employee reductions. So the increase in average weekly hours alone is not sufficient to interpret cause. It must be interpreted along with the employment data and with the history of both series to accurately determine the state of the employment picture. Both employment and average weekly hours increased in the wood products (previously called lumber products) sector. This is a clear positive sign.

Employment in the chemical products sector has performed the best over the last 22 months (that number of months that brings us back to the official US recession start date, December 2007). Employment only declined in 13 of the last 22 months. The net loss in that sector was 550 seasonally adjusted jobs, a 4.0 percent decline. The makeup of monthly gains and losses is not a large departure from its pre-recession makeup. The sector which had the largest declines was transportation equipment which fell in 14 of the last 22 months and lost a net 12,690 seasonally adjusted jobs, 24.1 percent. The other three sectors have been declining steadily since the recession began. Petroleum, coal, plastics and rubber products employment fell by a net 2,620 seasonally adjusted jobs, or a 13.8 percent decline. It declined in 21 of the last 22 months. Wood products employment fell by a net 2,460 seasonally adjusted jobs, a 19.4 percent decline. It declined in 20 of the last 22 months. Fabricated metals employment declined by a net 2,440 seasonally adjusted jobs, or a 11.3 percent decline. It also declined in 20 of the last 22 months. The Kentucky Labor Intensity Index lost all the gains it had made in August and it is down a net 2.4 percent over September 2008. Despite the weakness in the labor intensity index, the Kentucky leading index was positive for September, and revised to positive for August 2009, triggering the three-month rule.



Petroleum, coal, plastics and rubber products employment fell by a net 2,620 seasonally adjusted jobs, or a 13.8 percent decline. It declined in 21 of the last 22 months. Wood products employment fell by a net 2,460 seasonally adjusted jobs, a 19.4 percent decline. It declined in 20 of the last 22 months. Fabricated metals employment declined by a net 2,440 seasonally adjusted jobs, or a 11.3 percent decline. It also declined in 20 of the last 22 months. The Kentucky Labor Intensity Index lost all the gains it had made in August and it is down a net 2.4 percent over September 2008. Despite the weakness in the labor intensity index, the Kentucky leading index was positive for September, and revised to positive for August 2009, triggering the three-month rule.

Kentucky non-farm employment fell again in September, losing 13,200 jobs in one month. The small gains from August were completely wiped out and the series reached a new low for this recession with 1,760,000 total jobs. The state has now lost 112,400 jobs since the last peak in November 2007, which is one month before the official start date of the 2007 recession (December 2007, source: NBER).

* note: this is not a natural state for salaried workers, unless contracts are adjusted to compensate the existing workers for their additional work.

Our indices are compiled and published on a monthly basis, roughly two weeks following the Conference Board release of the U.S. Leading Index. A complete description of the Index of Leading Indicators and methodology was published in the University of Kentucky Center for Business and Economic Research *Kentucky Annual Economic Report, 2000*.

About the Indicators

Kentucky Reference Series

Inflation-adjusted personal income less transfer payments and policy-adjusted General Fund tax receipts are combined to form the GOEA composite reference series.

Kentucky Leading Indicators

- **GOEA Labor Intensity Index:** Composed of seasonally adjusted weekly hours multiplied by employment for the following manufacturing industries: lumber products; chemical and allied products; petroleum, coal, rubber and plastic products; fabricated metals; and transportation equipment.
- **GOEA Initial Unemployment Insurance (UI) Claims Index:** This index has two components: Kentucky claims in their first month of payment and total U.S. initial claims. Additional claims for UI are the subset of initial claims filed by workers who have previously filed UI claims but are currently filing new claims with intermittent workforce attachment since their original claim. The claims in their first month of payment without intermittent qualified experience performed better in the testing process and were chosen accordingly.
- **U.S. Retail Sales:** Inflection points used to determine turning points.
- **U.S. Manufacturer's New Orders Index:** This index has two components: U.S. Manufacturer's New Orders for Nondefense Capital Goods and U.S. Manufacturer's New Orders for Consumer Goods and Materials. Separately these two series slightly missed one or two turning points in the official reference series. But together they preceded each turning point.
- **Louisville Help-Wanted Index:** The Conference Board computes an index of help-wanted advertisements for major regions across the United States; Louisville is the only city in Kentucky covered by the Conference Board.

Notes:

- Growth rates are computed with precise numbers. Due to rounding, two observations may have the same reported value but still exhibit growth at a more precise level.
- More information is available on our website, <http://www.osbd.ky.gov/>.

Office of State Budget Director
 Room 284, Capitol Annex
 Frankfort, Kentucky 40601-3453

Thomas Jones, Ph.D
 Phone: 502-564-7300
 taj@ky.gov

**SELECTED KENTUCKY ECONOMIC INDICATORS
SEASONALLY ADJUSTED**

2008

2009

	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP
KY Leading Index (1992=100)	107.7	106.9	106.1	105.2	104.4	104.3	103.5	103.2	103.2	103.5	103.7	103.7	103.7
% Chg Previous Month SAAR	-6.6	-8.9	-8.9	-10.0	-8.0	-1.7	-8.5	-3.3	-0.5	4.4	1.4	0.6	0.3
% Chg Same Month Last Year	-3.2	-3.7	-4.6	-5.3	-5.8	-5.7	-6.3	-6.1	-6.1	-5.5	-5.0	-4.3	-3.7
KY Leading Index Diffusion Index	13.3	10.0	3.3	3.3	6.7	13.3	13.3	20.0	26.7	36.7	40.0	40.0	50.0
KY Coincident Index (1992=100)	133.8	134.1	133.8	132.8	131.1	130.1	129.2	128.7	128.1	127.5	127.8	128.0	127.7
% Chg Previous Month SAAR	-13.2	3.1	-2.6	-9.2	-13.8	-9.3	-7.8	-4.5	-5.7	-4.8	2.2	2.5	-2.7
% Chg Same Month Last Year	-2.6	-2.3	-2.6	-3.4	-4.4	-5.0	-5.4	-5.6	-6.0	-6.0	-5.8	-5.4	-4.5
KY Non-farm Employment (000s)	1,845.0	1,844.8	1,838.1	1,823.8	1,812.4	1,800.9	1,796.4	1,790.3	1,780.0	1,774.4	1,773.1	1,773.2	1,760.0
% Chg Previous Month SAAR	-8.0	-0.1	-4.3	-8.9	-7.2	-7.4	-3.0	-4.0	-6.7	-3.7	-0.9	0.1	-8.6
% Chg Same Month Last Year	-1.3	-1.3	-1.8	-2.6	-3.0	-3.6	-3.5	-3.8	-4.5	-4.4	-4.6	-4.6	-4.6
KY Private Services Employment (000s)	1,177.7	1,176.6	1,171.8	1,165.8	1,169.4	1,166.8	1,164.7	1,165.1	1,151.8	1,151.1	1,150.4	1,149.6	1,146.4
% Chg Previous Month SAAR	-4.4	-1.1	-4.8	-6.0	3.8	-2.7	-2.2	0.4	-12.8	-0.7	-0.8	-0.8	-3.3
% Chg Same Month Last Year	-0.3	-0.6	-1.1	-1.6	-1.2	-1.4	-1.2	-1.4	-2.5	-2.4	-2.8	-2.8	-2.7
KY Mfg Employment (000s)	240.4	239.9	237.7	230.6	220.5	217.3	215.1	211.6	210.1	208.1	211.4	210.0	209.0
% Chg Previous Month SAAR	-14.3	-2.5	-10.5	-30.5	-41.6	-16.1	-11.5	-17.9	-8.2	-10.8	20.8	-7.7	-5.6
% Chg Same Month Last Year	-5.9	-5.1	-6.6	-8.8	-12.6	-13.9	-14.5	-15.1	-16.0	-15.6	-14.0	-13.8	-13.1
KY Unemployment Rate (%)	6.9	6.9	7.2	7.6	8.8	9.3	9.8	9.9	10.7	10.9	11.1	11.2	10.9
KY Index of Initial UI Claims (1992=100)	97.8	96.7	96.2	94.8	94.6	93.0	92.7	93.5	93.3	93.6	96.0	95.1	95.9
% Chg Previous Month SAAR	-13.4	-12.2	-6.3	-16.4	-2.2	-18.2	-4.5	10.7	-1.5	4.0	35.3	-11.3	10.9
% Chg Same Month Last Year	-5.7	-4.8	-6.5	-7.1	-8.0	-9.4	-8.7	-7.5	-7.8	-6.5	-3.8	-3.9	-1.9
KY Labor Intensity Index (1992=100)	102.6	102.5	102.2	101.7	101.3	101.2	100.7	100.5	100.3	100.3	100.2	100.3	100.2
% Chg Previous Month SAAR	-4.1	-1.4	-3.4	-5.8	-4.9	-0.6	-5.9	-2.4	-1.6	-0.4	-0.7	0.6	-1.4
% Chg Same Month Last Year	-1.8	-1.8	-2.2	-2.5	-2.9	-2.9	-3.2	-3.2	-3.3	-3.0	-2.9	-2.6	-2.4
Louisville HWI (1992=100)	11.0	10.0	8.0	9.0	6.0	6.0	5.0	4.0	4.0	5.0	4.0	4.0	5.0
% Chg Previous Month SAAR	0.0	-68.1	-93.1	311.0	-99.2	0.0	-88.8	-93.1	0.0	1,355.2	-93.1	0.0	1,355.2
% Chg Same Month Last Year	-52.2	-56.5	-57.9	-55.0	-68.4	-66.7	-75.0	-73.3	-73.3	-66.7	-69.2	-63.6	-54.5
GF Total Tax Receipts (\$ mill)	786.1	658.3	674.7	822.2	693.7	503.5	613.1	804.5	592.2	729.9	595.0	599.0	705.1
% Chg Same Month Last Year	-4.4	3.0	8.0	0.0	-4.2	-10.8	0.4	-12.8	-3.0	-10.3	-4.0	-2.5	-10.3
GF Sales & Use Receipts (\$ mill)	233.6	252.5	216.9	246.9	284.3	193.2	213.9	234.9	228.3	235.3	244.4	231.2	218.3
% Chg Same Month Last Year	-0.8	2.4	-8.1	5.0	-4.2	-6.0	2.1	1.1	-4.2	-5.5	-8.2	-8.1	-6.6
GF Income Tax Receipts (\$ mill)	343.6	286.9	269.3	303.4	236.0	212.1	167.4	415.3	245.4	302.9	245.3	259.4	309.7
% Chg Same Month Last Year	3.2	8.0	13.7	2.7	-13.5	-9.7	-13.5	-23.7	-6.2	-14.7	-6.5	-4.2	-9.9

**SELECTED U.S. ECONOMIC INDICATORS
SEASONALLY ADJUSTED**

2008

2009

	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP
US Leading Index (2004=100)	100.6	99.6	99.0	98.9	98.6	98.2	97.9	98.9	100.2	101.1	102.1	102.5	103.5
% Chg Previous Month SAAR	0.0	-11.3	-7.0	-1.2	-3.6	-4.8	-3.6	13.0	17.0	11.3	12.5	4.8	12.4
% Chg Same Month Last Year	-3.2	-3.8	-4.0	-4.0	-3.8	-3.9	-4.0	-3.1	-1.8	-1.0	0.7	1.9	2.9
US Coincident Index (1996=100)	104.6	104.8	104.1	103.4	102.5	101.8	101.0	100.5	100.1	99.7	99.8	99.9	99.8
% Chg Previous Month SAAR	-12.8	2.3	-7.7	-7.8	-10.0	-7.9	-9.0	-5.8	-4.7	-4.7	1.2	1.2	-1.2
% Chg Same Month Last Year	-2.3	-2.2	-2.9	-3.5	-4.2	-4.7	-5.3	-5.8	-6.0	-6.3	-6.0	-5.6	-4.6
US Non-farm Employment (Mil.)	136.7	136.4	135.8	135.1	134.3	133.7	133.0	132.5	132.2	131.7	131.4	131.3	131.0
% Chg Previous Month SAAR	-2.8	-3.3	-5.1	-5.9	-6.4	-5.9	-5.7	-4.6	-2.7	-4.1	-2.7	-1.4	-2.0
% Chg Same Month Last Year	-0.7	-1.1	-1.6	-2.2	-2.7	-3.1	-3.5	-3.8	-3.9	-4.1	-4.2	-4.2	-4.2
US Service-Providing Employment (Mil.)	115.5	115.3	114.9	114.5	114.2	113.8	113.5	113.2	113.1	112.9	112.7	112.7	112.6
% Chg Previous Month SAAR	-2.2	-2.0	-3.6	-4.1	-3.5	-4.0	-3.5	-2.6	-1.0	-2.6	-2.0	-0.3	-1.1
% Chg Same Month Last Year	-0.1	-0.4	-0.9	-1.3	-1.6	-1.9	-2.2	-2.4	-2.4	-2.6	-2.7	-2.6	-2.5
US Manufacturing Employment (000s)	13,322.0	13,203.0	13,082.0	12,902.0	12,640.0	12,468.0	12,296.0	12,146.0	12,000.0	11,877.0	11,836.0	11,781.0	11,736.0
% Chg Previous Month SAAR	-5.7	-10.2	-10.5	-15.3	-21.8	-15.2	-15.4	-13.7	-13.5	-11.6	-4.1	-5.4	-4.5
% Chg Same Month Last Year	-3.4	-4.1	-5.1	-6.4	-8.0	-8.9	-9.9	-10.6	-11.5	-12.1	-12.0	-12.0	-11.9
US Unemployment Rate (%)	6.2	6.6	6.8	7.2	7.6	8.1	8.5	8.9	9.4	9.5	9.4	9.7	9.8
US Manufacturer's New Orders Index (1992=100)	114.9	111.6	108.2	103.7	99.9	100.8	99.1	99.1	99.5	99.9	102.1	99.8	99.8
% Chg Previous Month SAAR	-16.5	-29.6	-31.0	-39.6	-36.4	12.1	-18.6	0.2	3.7	5.8	29.1	-23.5	0.0
% Chg Same Month Last Year	-11.2	-14.0	-16.4	-20.4	-21.2	-19.8	-20.9	-19.7	-18.4	-18.3	-16.5	-14.4	-13.1
US Initial Claims for UI (000s)	470.4	480.1	519.7	544.0	580.9	636.8	668.0	624.4	632.5	616.1	566.5	573.0	540.3
% Chg Previous Month SAAR	120.5	27.8	158.9	73.0	119.8	201.2	48.1	-46.7	16.7	-27.0	-70.5	42.0	-50.6
% Chg Same Month Last Year	49.0	45.4	54.7	59.3	72.6	85.7	78.9	69.7	69.0	56.5	31.6	30.1	14.9
US Industrial Production Index (1992=100)	104.8	106.2	104.8	102.4	100.1	99.3	97.7	97.2	96.2	95.8	96.7	97.9	98.6
% Chg Previous Month SAAR	-38.4	16.3	-14.7	-24.2	-23.4	-8.9	-17.6	-6.1	-12.0	-5.1	11.8	16.9	8.0
% Chg Same Month Last Year	-6.4	-4.7	-6.5	-8.9	-10.9	-11.3	-12.5	-12.4	-13.1	-13.3	-12.4	-10.3	-6.0
US Personal Income Less Trans. (Bil. 2000 chnd)	9,437.3	9,433.6	9,500.4	9,495.6	9,321.2	9,188.0	9,113.2	9,066.2	9,051.1	8,986.3	8,992.0	8,968.4	8,941.9
% Chg Previous Month SAAR	-2.4	-0.5	8.8	-0.6	-19.9	-15.9	-9.3	-6.0	-2.0	-8.0	0.5	-3.1	-3.5
% Chg Same Month Last Year	-2.6	-2.6	-1.7	-1.6	-3.0	-4.1	-4.6	-4.9	-4.8	-4.9	-4.7	-5.2	-5.2
CPI, All Urban (1982-84=100)	218.7	216.9	213.3	211.6	212.2	213.0	212.7	212.7	212.9	214.5	214.5	215.4	215.8
% Chg Previous Month SAAR	0.5	-9.4	-18.3	-9.1	3.4	4.8	-1.6	-0.2	1.2	9.3	0.1	5.5	2.0
% Chg Same Month Last Year	4.9	3.7	1.0	-0.1	-0.2	0.1	-0.4	-0.6	-1.0	-1.2	-1.9	-1.4	-1.3
US Retail Sales (\$Billions)	365.9	353.6	347.7	336.4	342.0	343.4	339.2	338.3	339.9	342.9	342.5	350.8	342.8
% Chg Previous Month SAAR	-16.3	-33.5	-18.4	-32.7	21.8	5.1	-13.8	-3.1	5.6	11.3	-1.5	33.3	-24.2
% Chg Same Month Last Year	-1.7	-5.4	-8.4	-10.6	-9.1	-8.0	-9.5	-10.0	-9.8	-8.8	-8.5	-5.5	-6.3
US Consumer Expectations (1966=100)	67.2	57.0	53.9	54.0	57.8	50.5	53.5	63.1	69.4	69.2	63.2	65.0	73.5
% Chg Previous Month AR	497.4	-86.1	-48.9	2.2	126.2	-80.2	99.9	624.6	213.3	-3.4	-66.3	40.1	337.0
% Chg Same Month Last Year	-9.3	-18.7	-18.6	-17.7	-15.1	-19.1	-11.0	18.4	35.8	40.7	18.1	12.3	9.4
Ave. Prime Interest Rate (% NSA)	5.00	4.56	4.00	3.61	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25