

Economic Briefs

Week Ending February 25, 2011

Sales/Consumption

Consumer Confidence Rises To Three-Year High

<http://www.courier-journal.com/article/20110222/BUSINESS/302220104/1003/Consumer-confidence-rises-three-year-high>

Consumer confidence rose in February to the highest level in three years as Americans became more optimistic about their incomes and the economy. The Conference Board's index of sentiment increased to 70.4, the highest since February 2008, from 64.8 the prior month. Economists projected the gauge would be little changed at 65.5, according to the median forecast in a Bloomberg News survey.

A pickup in optimism and job gains may encourage Americans to increase purchases, bolstering consumer spending, the biggest part of the economy. At the same time, unemployment at 9 percent or higher for almost two years and mounting home foreclosures threaten to restrain households.

The share of Americans who said they expect their incomes to increase in the next six months rose to 17.3 in February from 15.3 a month earlier. Those who said jobs were currently plentiful rose to 4.9 this month from 4.6, the fourth straight gain.

The Conference Board's measure of present conditions climbed to 33.4 in February from 31.1, the fifth consecutive increase.

Manufacturing/Output

GDP Report: Economic Growth Revised Sharply Lower

http://money.cnn.com/2011/02/25/news/economy/gdp_revision/index.htm?hpt=T2

Budget cuts by state and local governments hurt the economy more than originally thought, according to a government report. Gross domestic product, the broadest measure of economic activity, was revised lower to an annual growth rate of 2.8 percent in the three months ending in December. The initial reading had been for a 3.2 percent growth rate in the period. That's a surprising dip, given that economists were expecting the rate to be revised upward to 3.3 percent. Lower state and local government spending was the main drag, falling 2.4 percent during the quarter, compared to a 0.9 percent drop originally reported. Consumer spending was also weaker than initially reported, and was revised down to a 4.1 percent growth rate, from 4.4 percent.

Real final sales of domestic product grew at a rate of 6.7 percent during the quarter. While that's slightly lower than the 7.1 percent previously estimated, it's still strong, especially given that the rate stood at a mere 0.9 percent in the third quarter. The government calculates GDP as a measure of goods and services produced in the United States. The number is backward looking and is often revised multiple times. This is the second reading for the fourth quarter.

U.S. Durable-Goods Orders Rebound In January

<http://www.marketwatch.com/story/us-durable-goods-orders-rebound-in-january-2011-02-24?dist=countdown>

The January increase came after orders for U.S.-made big-ticket items had stumbled in the prior three months. However, stronger demand was largely confined to the aircraft sector. Excluding a 27.6 percent increase from the transportation sector, orders were down 3.6 percent last month, the weakest showing since January 2009. The gain in headline durable goods was roughly in line with expectations. Economists had anticipated a 2.5 percent increase in January orders.

Employment

Jobless Claims Fall To 391,000

http://money.cnn.com/2011/02/24/news/economy/initial_claims/index.htm

In another sign that the job market is slowly recovering, the number of Americans filing first-time claims for unemployment benefits fell last week. There were 391,000 initial jobless claims filed in the week ended Feb. 19, the Labor Department said. That was down 22,000 from the week before, and better than the 410,000 claims economists had expected.

The numbers point to the same trend economists have been speaking about for months: The job market is improving, but at a snails pace. The weekly figure has hovered close to the 400,000 level since December, but is gradually heading lower overall. Economists look to the 4-week moving average to smooth out the volatility of week-to-week bumps. The 4-week moving average fell to 402,000 from the previous week's revised average of 418,500.

Meanwhile, continuing claims -- which include people filing for the second week of benefits or more -- fell by 54,750 to 3,790,000 in the week ended Feb. 12, the most recent week available.

Housing

Home Prices Near 2009 Lows

http://money.cnn.com/2011/02/22/real_estate/december_home_prices/index.htm

Home prices took a big hit at the end of 2010, even as the economy gained steam. National home prices fell 4.1 percent during the last three months of 2010, compared with 12 months earlier, according to the latest report from the S&P/Case-Shiller home price index, a closely watched indicator of market trends. They were down 1.9 percent compared with three months earlier. On a seasonally adjusted basis, the national index surpassed its the low it hit in the first quarter of 2009.

The decline was widespread, with 18 of the 20 large cities covered in a separate S&P/Case-Shiller index recording losses for the year. The only gains were posted by Washington, which was up 4.1 percent, and San Diego, which saw prices climb 1.7 percent.

Home Sales Inching Up

http://money.cnn.com/2011/02/23/real_estate/january_home_sales/index.htm

Sales of existing homes recorded modest gains in January, the third straight month of month-over-month increases. According to the National Association of Realtors, homes sold at an annual rate of 5.36 million in January, up 2.7 percent from December and 5.3 percent higher than January 2010 sales. At the same time, the median home price fell 3 percent to \$158,000, compared to a year earlier. It was the first time in seven months that the monthly sales total was higher than the year before.

Foreclosures Make Up 26 Percent Of Home Sales

http://money.cnn.com/2011/02/24/real_estate/foreclosure_sales/index.htm

Home prices are down but sales are up, somewhat contradictory trends. Home prices fell nearly 6 percent during the six months ended Dec. 31, sending values to their lowest levels in the post-bubble period, S&P/Case-Shiller reported. On Wednesday, the National Association of Realtors reported that sales of existing homes rose for the third straight month.

That's because 26 percent of all homes sold last year were foreclosures and short sales, according to a RealtyTrac report. That's down slightly from 2009, but a jump compared to 2008. Homes already foreclosed on and repossessed by banks, called REOs (real estate owned), sold for an average of 36 percent less than normal sales, RealtyTrac reported. Meanwhile, the discount for homes sold while they were still in the foreclosure process (short sales) was 15 percent.

New-Home Sales In January Drop 12.6 Percent

http://www.usatoday.com/money/economy/housing/2011-02-24-new-home-sales_N.htm

Sales of new homes fell significantly in January, a dismal sign after the worst year for that sector in nearly a half-century. New-home sales dropped to a seasonally adjusted rate of 284,000 homes last month, the Commerce Department said. That's down from 325,000 in December and less than half the 600,000-a-year pace economists consider healthy. Bad weather likely hampered some sales, although the industry has been struggling since the housing bubble burst in 2006.

Last year was the fifth consecutive year that new-home sales have declined after hitting record highs during the housing boom. Buyers purchased 322,000 new homes last year, lowest annual total on records going back 47 years. Economists say it could take years before new-home sales return to a healthy pace.

Builders are struggling to compete in markets saturated by foreclosures. High unemployment and uncertainty over home prices have kept many potential buyers from making purchases.

New-home sales were uneven across the U.S. In January, sales fell 36.5 percent in the West and 12.8 percent in the South. But they rose 17.1 percent in the Midwest and 54.5 percent in the Northeast.

The big declines in the West came after a huge increase in December. Buyers had rushed to take advantage of a state tax credit of up to \$10,000 on new home purchases in California at the end of the month.

Mortgage applications are near their lowest levels in 15 years. The average rate on a 30-year fixed mortgage this week dipped to 4.95 percent from 5 percent, Freddie Mac said. It hit a 40-year low 4.17 percent in November, and has been trending upward since.

About 188,000 new homes were for sale at the end of January, fewest since 1967. The number of homes that have received permits to begin construction has held steady the past year while the number under construction and finished have plummeted.

The median sale price of a new home sold in January was \$230,600, down 1.9 percent from the month before. Given the pace of new-home sales, it would take nearly 8 months to clear them off the market. Economists say a six-month supply is healthy.

Gas/Oil

Crude Oil Jumps 6 Percent As Libya Protests Spread

http://www.usatoday.com/money/industries/energy/2011-02-21-oil-prices_N.htm

Crude oil prices jumped 6 percent Monday as violent protests spread in Libya, raising the possibility that oil supplies from that OPEC nation could be disrupted. Oil consuming nations have emergency reserves they can use to stabilize markets in case the violence in Libya or elsewhere in the Middle East escalates and crimps production.

Oil prices jumped Monday because of the turmoil in Libya, where Moammar Gadhafi's son, Seif al-Islam Gadhafi, warned protesters Sunday that they risk igniting a civil war in which Libya's oil wealth "will be burned." By afternoon in Europe, light, sweet crude for March delivery was up \$5.05 to \$91.25 for a 42-gallon barrel. The April contract was up more than \$5 to \$94.84. A barrel is 42 gallons.

Libya alone exports at least 1 million barrels of crude a day. Even more worrying for markets is the potential spread of political violence to other countries in the Organization of Petroleum Exporting Countries — key exporters Saudi Arabia and Kuwait are considered potential flashpoints.

David Fyfe, head of the oil industry and markets division at the International Energy Agency, stressed that IEA member countries reserves of 1.6 billion barrels of oil — equivalent to some 4 million barrels a day for 12 months — that could be brought onto the market if necessary. The IEA's 28 members are mainly oil consuming industrial nations such as the United States, Japan, Britain and Germany.

The IEA has used government oil supplies to steady the oil market twice before, during the Gulf War in 1991 and after Hurricane Katrina hit the Gulf of Mexico in 2005.

Gas Prices Spike 6 Cents Overnight

http://money.cnn.com/2011/02/25/news/economy/gasoline_prices/index.htm?hpt=T2

Gas prices jumped 6 cents overnight, as the recent spike in oil prices begins to hit filling stations across America. The national average price for a gallon of regular gas rose 5.9 cents to \$3.287, motorist group AAA said Friday. That marks the third day in a row that prices have risen, and brings the national average to the highest level since October 2008.

Prices at the pump can vary widely among states, due in large part to vastly different levels of gasoline tax. So far this week, gas prices have increased nearly 12 cents a gallon. And analysts expect prices to continue higher in the next few days following a sharp rise in the price of crude oil. Gas prices were highest in Hawaii, where drivers paid \$3.757 a gallon, on average. Wyoming had the lowest gas prices at roughly, \$3.014 a gallon.

The jump in pump prices follows a surge in prices for crude oil, the main ingredient in gasoline. Oil prices were holding near \$98 a barrel early Friday morning, one day after prices hit a high of \$103 a barrel -- the highest since October 2008.

Kentucky

Mideast Turmoil Hits Louisville Gas Pumps

<http://www.courier-journal.com/article/20110222/BUSINESS/302220093/1003/Mideast-turmoil-hits-Louisville-gas-pumps>

Gas prices across the Louisville area shot higher Tuesday as oil surged in New York trading to its highest level in more than two years. The average in Louisville was \$3.19 by afternoon, up a dime from Monday.

Revolts in Libya — the world's 15th biggest oil exporter — and worries about turmoil in other oil-rich Mideast countries were blamed for the hike. The New York Mercantile Exchange oil price rose \$5.71 per 42-gallon barrel, on top of a \$4 jump Monday, to \$95.42.

Prices have routinely been higher than \$3 per gallon in Louisville since signs of economic recovery — and greater demand — began emerging around the December holidays. But the most recent increases come before seasonal shortages that arise each year as refineries shut down to make the switch to summer-grade fuel. That spring-time jump could bring average prices nationwide up to \$3.50 or \$3.75 per gallon, said Tom Kloza, analyst for the Oil Price Information Service.

Downtown Office Vacancy Rate Rises

<http://www.kentucky.com/2011/02/24/1646189/downtown-office-vacancy-rate-rises.html#>

Vacancy rates fell somewhat across the majority of Lexington's commercial real estate categories in the second half of 2010, except for available downtown office space. NAI Isaac Commercial Properties' year-end market report revealed the vacancy rate for downtown office space was 16.6 percent, up from 14.5 percent in July 2010 and 13.8 percent at the end of 2009.

Even with the increase, the downtown vacancy rate remained lower than the suburban office rate, which was 17 percent. Although the suburban rate was down from 17.3 percent in July, the report said it was evidence the office markets "have been the slowest to recover in Lexington."

Mingua Beef Jerky Among Companies OK'd For Tax Incentives

<http://www.kentucky.com/2011/02/26/1648884/mingua-beef-jerky-among-companies.html#>

The Kentucky Economic Development Finance Authority board approved tax incentives for many companies at its monthly meeting. In general, when a company is approved for tax incentives, it can keep that amount of money, which it would otherwise pay in taxes, assuming it fulfills the terms of the deal.

Here are selected board approvals:

Mingua Brothers Beef Jerky in Paris, \$150,000 to add 14,000 square feet to its operations. The company estimates that the expansion would cost \$2.1 million. It is expected to add 10 jobs that pay an average hourly wage of \$12.51, including benefits. The company was also approved for an additional \$50,000 under a different incentive program.

Hematite of Kentucky in Danville, \$580,000 to open a location to produce plastic injection molded and vacuum-formed parts for the automotive industry. The start-up company estimates that the location would cost \$5.6 million. It is expected to add 29 jobs that pay an average hourly wage of \$12, including benefits.

Meggitt Aircraft Braking Systems Kentucky in Danville, \$2 million to expand its operations to conduct final assembly and worldwide distribution of aircraft wheels, brakes and components. The company estimates that the expansion would cost \$7.3 million. It is expected to add 63 jobs that pay an average hourly wage of \$19, including benefits.

Katayama American Co. in Shelbyville, \$440,000 to expand assembly of parts for the automotive industry. The company estimates that the expansion would cost \$2.1 million. It is expected to add 22 jobs that pay an average hourly wage of \$20, including benefits.

Shelby Industries in Shelbyville, \$100,000 to add equipment to its metal stamping and plating facility. The company estimates that the added equipment would cost \$280,000. It is expected to add 10 jobs that pay an average hourly wage of \$14, including benefits.

SLT Secured Systems in London, \$5 million to open a location to improve shipping of high-security items for the military and defense contractors. The company estimates that the location would cost \$10 million. It is expected to add 180 jobs that pay an average hourly wage of \$29, including benefits.

American HomePatient in Glasgow, \$1.9 million for its plans to open a center to contact patients diagnosed with sleep apnea to provide them with therapy and supplies as needed. The company estimates that the location would cost \$4 million. It is expected to add 164 jobs that pay an average hourly wage of \$15.86, including benefits.

In other actions, the group approved a six-month extension for the U.S. Equestrian Federation for its plan to relocate its equine drug testing research laboratory to Kentucky from Ithaca, N.Y. The organization has been approved for \$300,000 in tax incentives for the move, which is expected to bring 12 jobs paying an average hourly wage of \$26 including benefits, according to state records. The relocation is expected to cost \$1.47 million, state officials said.

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