



2009 Regional Economic Outlook

INTRODUCTION

“We must be inside the cyclone...Toto, I’ve a feeling we’re not in Kansas anymore.”

– Dorothy, *The Wizard of Oz*

The rapid change in the economy experienced in 2008 certainly makes it seem like we have traveled to a different land, neither Oz nor Kansas. When we last reported on the direction of the economy in September 2007, the U.S. economy was enjoying an expansion that was approximately six years long. At that time, we highlighted three developments, the increasing volatility in the stock market, a pick-up in inflation, and an overall slowing of economic growth, suggesting a possible turning point in economic activity. The committee concluded that the economy was showing “some of the classical signs of a mature expansion, one ready to enter a slowdown or possibly even negative growth.” We also noted that we “could add the emergence of problems in the sub-prime mortgage market...the extent to which these problems will impact overall liquidity and credit markets is uncertain at the present time, but could be substantial.” “Substantial” has proven to be an understatement in an environment where the word “crisis” is frequently used in reference to current financial and economic conditions.

In last year’s *Economic Outlook*, we argued that the two major questions facing the economy heading into 2008 were: (1) would the uncertainty in financial markets spread further, deepening the housing market’s bust, causing consumers to pull back further, and/or lead to significant reductions in business investment and spending; and (2) what would be the policy response of the Federal Reserve? While we anticipated an economic slowdown, we expected the Federal Reserve’s policy moves would be successful at bringing the economy to a soft landing and, subsequently, accelerating growth.

As 2008 unfolded, the economy suffered a dramatic rise in energy prices during the first part of the year. The continued decline in housing values and subsequent mortgage-related woes, and ongoing and widening turmoil in global financial and credit markets ultimately lead to the collapse of several long-tenured financial institutions. Add in an increasingly bleak labor market with measured unemployment rate rising from 4.8% in February to

The Federal Open Market Committee decided today to establish a target range for the federal funds rate of 0 to 0.25 percent...

The focus of the Committee’s policy going forward will be to support the functioning of financial markets and stimulate the economy through open market operations and other measures that sustain the size of the Federal Reserve’s balance sheet at a high level. As previously announced, over the next few quarters the Federal Reserve will purchase large quantities of agency debt and mortgage-backed securities to provide support to the mortgage and housing markets, and it stands ready to expand its purchases of agency debt and mortgage-backed securities as conditions warrant. The Committee is also evaluating the potential benefits of purchasing longer-term Treasury securities. Early next year, the Federal Reserve will also implement the Term Asset-Backed Securities Loan Facility to facilitate the extension of credit to households and small businesses. The Federal Reserve will continue to consider ways of using its balance sheet to further support credit markets and economic activity.

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6.7% by November and payroll employment falling throughout 2008—533,000 jobs reported lost in November alone—and it is not surprising that consumer and business confidence, along with equity values, have eroded significantly.

***“This is a highly irregular procedure!
This is absolutely unprecedented!”***

– The Wizard, *The Wizard of Oz*

The policy responses to the recession, recently dated as officially beginning in December 2007 by the National Bureau of Economic Research, by the both the federal government and the Federal Reserve have resulted in a level of their involvement in financial markets and the real economy that is unprecedented in the post-World War II period. In addition to pushing its target range for the federal funds rate down to 0 to 0.25%, the Fed has devised an assortment of new policy tools designed to provide needed liquidity to financial and credit markets significantly expanding its balance sheet. In February, the federal government implemented what, in hindsight, will be considered a modest fiscal stimulus package including tax rebates for 2008. In October, the Emergency Economic Stabilization Act of 2008 was enacted granting the Department of the Treasury \$700 billion for the Troubled Asset Relief Program (TARP). It is widely anticipated that a fiscal stimulus package in the range of \$700 billion to \$1 trillion will be enacted in early 2009.

NATIONAL OVERVIEW

“Now which way do we go?”

– Dorothy, *The Wizard of Oz*

Last year, given emerging events, we indicated that we faced “interesting challenges” in preparing our consensus forecast. This year, members of the Economic Advisory Committee would like to amend that to “daunting challenges.” The Committee has focused its efforts to provide guidance on the future direction of the economy and, in particular, its consensus views of the catalyst(s) for and the timing of a recovery. It is our hope that you find the forecasts and analysis provided in this year’s *Economic Outlook* valuable for planning your business. We are pleased to submit our consensus forecast, *2009 Regional Economic Outlook*, for the benefit of the investors in the Cincinnati USA Partnership, the regional development initiative supported by the Cincinnati USA Regional Chamber, the members of the Northern Kentucky Chamber of Commerce, and the general business community.

Respectfully Submitted,

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“Lions and tigers and bears! Oh, my!”

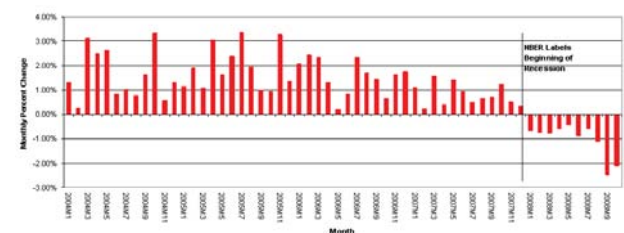
– Dorothy, *The Wizard of Oz*

Sub-prime mortgages and collateralized debt obligations and credit default swaps! Oh, my! Seemingly every day, the economy is shaken by another piece of troubling economic data.

We have clearly entered a scary market. Consumers and business leaders are wondering where the floor is in this business cycle. With numerous mortgage foreclosures, investment banks and other financial institutions collapsing, and major manufacturers seeking government support, tremendous uncertainty has dramatically decreased investments in new and existing ventures. The economy has entered a period in which investors are hesitant to invest and consumers are reluctant to spend. Cash is king.

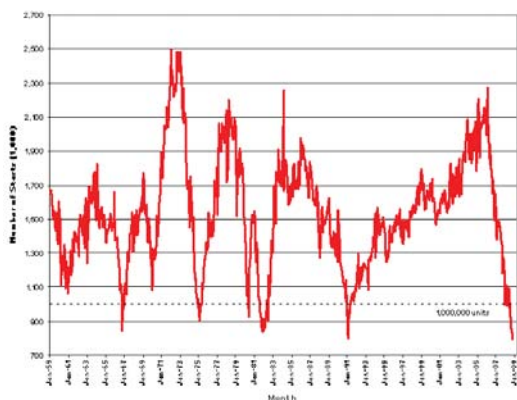
The Business Cycle Dating Committee of the National Bureau of Economic Research (NBER) determined that the recession in the U.S. economy began December 2007. This represented the end of an expansion that began in November 2001 and lasted 73 months. In pegging the time for the beginning of the recession, the NBER noted that total payroll employment reached a peak in December 2007 and has declined every month since then (see Chart: National 1).

Chart National 1: National Employment Monthly Percent Change - Annual Rate



The supply of new homes for sale stands now at 11 months. Housing starts have declined 65% from their peak in early 2006 (see Chart: National 2).

Chart National 2: Housing Starts



Energy prices also played a role. The volatility during 2008 was unprecedented. The price of oil (Domestic West Texas Intermediate \$/barrel) rose 67% by mid-2008, but then as overall economic activity showed greater weakness, both nationally and globally, the price of oil has since declined 72%.

Impacts from the housing market bust and the rise in energy prices spread through the economy severely limiting credit markets and causing consumers to retrench and businesses to freeze plans for growth. Total retail sales (nominal value) declined in each of the past 5 months and domestic auto sales (autos and light trucks) plummeted to levels below that seen in the late 1950's. Manufacturing durable goods orders declined almost 7% in October 2008 and the Purchasing Manager's Index from the Institute for Supply Management hit 36.2 in November 2008, the lowest level since 1982 (see Chart: National 3).

Chart National 3: ISM Purchasing Manager's Index



Consumer spending is the major driver of the U.S. economy, representing over two-thirds of total GDP (Gross Domestic Product). When consumers put away their wallets, you can count on a fall in business activity. Job losses created a restriction in consumer

spending as did a decline in the value of household portfolios (stock valuations and housing prices).

In addition, many of those in the Baby Boomer generation, nearing retirement, are thinking about increasing savings to offset portfolio losses. While the increase in saving will be good for individuals in terms of repairing household balance sheets, increases in saving across the whole economy will lead to further weakness in economic activity. Economists have labeled this the "paradox of thrift," i.e., what is good for the individual can be bad for the whole.

***"It's snowing! No, it isn't! Yes, it is!
Oh, maybe that'll help!"***

– The Scarecrow, *The Wizard of Oz*

The economy suffers from an overall lack of demand. The Federal Reserve and the federal government are considering ways to reduce the impacts of the downturn and to bolster demand. In order to make projections for the economy, economists must consider the likely impacts of these government policies. When one tallies up the spending from the programs initiated by the Fed and the Treasury plus the actions taken by the FDIC and others, one finds that it is enormous. One estimate is \$7.4 trillion. Not all of that will go to support demand for goods and services. A major portion is targeted to restore solvency to financial institutions and improve liquidity that will allow for the sourcing of new loans. It is likely that both the federal government and the Federal Reserve will continue to pursue multiple avenues to address this economic crisis.

Looking forward, it will be important to track both the intent and impact of fiscal and monetary policy moves. Key areas currently being addressed and issues debated include:

- Unclogging credit channels, both for short-term credit to businesses and potential homeowners
 - Enhancing the ability of businesses to obtain capital for current and on-going operations
- Stabilizing the housing market through write-downs of mortgages
 - Restructuring loans in order to forestall increases in the number of homes for sale
- Helping state and local governments find ways to preserve services and staffing
 - Increasing state and local taxes or cutting employment exacerbates the downturn
- Providing major tax incentives for purchases of autos
 - An innovative way to boost spending
- Increasing support for infrastructure rebuilding
 - The new administration is drafting proposals to rebuild the country's infrastructure
 - Needs to have a good blend of short-term and long-term projects

From a review of the economic environment, the current efforts of the government and the likely plans for the future, the Committee has projected that real GDP will post an increase of 1.1%. While the economy has been in recession since December 2007, GDP growth in 2008 is still positive. The major hit to the economy came in the 4th quarter and is unlikely to be large enough to totally offset the gains made earlier in the year. However, the Committee projects that the economy will experience a decline of -1.2% in 2009.

More detail on the forecast of the national economy is provided in the following table.

National Economic Outlook

		2008	2009
Real GDP	(%CH)	1.1%	-1.2%
Total Employment	(%CH)	-0.2%	-1.5%
Manufacturing Employment	(%CH)	-3.0%	-3.5%
Unemployment Rate	(Level)	5.8%	7.7%
Inflation – CPI	(Level)	4.1%	1.5%
Retail Sales – Nominal	(%CH)	1.0%	0.25%
3 Month T-Bills	(Level)	1.4%	1.0%
10 Year Treasury	(Level)	3.7%	3.5%
Prime Rate	(Level)	5.1%	4.0%

The Committee projects that the economy will continue in recession through the first half of 2009 and will likely rebound late in the 3rd quarter. This means that this recession will be the longest in the post WWII era. On average the ten recessions since the end of WWII resulted in a -2.4% decline in real GDP. This recession is likely to approximate the -2.6% decline (peak to trough) experienced during the 1981 to 1982 downturn.

“I never do anything without consulting my crystal first.”

– Professor Marvel, The Wizard of Oz

The Committee expects that the efforts of the Federal government, including the Federal Reserve and the Treasury, will help to shorten the length and severity of the recession. That being said, there is still a lot of uncertainty on the outcome. The following represent areas critical to an upswing in economic activity and signs pointing toward progress in achieving positive momentum for the economy:

- Stabilizing financial markets and easing the credit crunch
 - Reduced stock price volatility
- Stabilizing housing markets

- Reductions in foreclosures, stabilization of housing prices, and issuance of new, but appropriately structured mortgages
- Restoring business confidence
 - Return of entrepreneurs willing to start and expand businesses
- Putting people back to work
 - Employment growing again
- Restoring consumer confidence
 - Retail sales activity improves and auto sales increase

Overall, the Committee is optimistic that government policies will be successful, but it will take time for conditions to improve. Changes in the economy are more like the movements of an ocean-liner. It does not turn on a dime, but must be slowly steered to a new direction. Economic conditions should be more robust in 2010.

The following sections provide details on specific areas of the forecast.

Gross Domestic Product

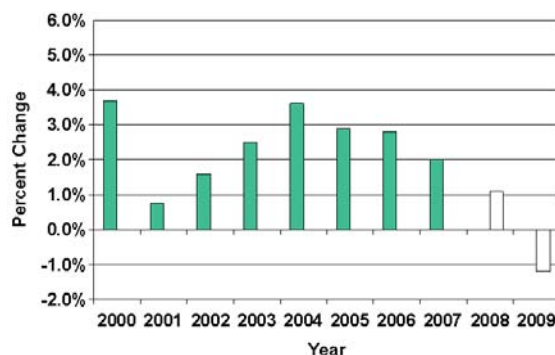
Current Status and Emerging Issues

- GDP posted a decline of -0.5% in the third quarter of 2008. This occurred after experiencing slow but positive growth in the 1st and 2nd quarters which was bolstered by a stimulus package that ran its course by the 3rd quarter.
- Consumer confidence hit record lows in 2008, but should rebound in mid-2009.
- Residential investment remains weak as the economy works off excess inventories, especially in housing. There are 11 months of houses for sale. This needs to drop to more normal levels of 3 to 4 months before a turnaround in construction will occur.

Forecast

- GDP growth (Chart: National 4) is expected to be 1.1% in 2008 and -1.2% in 2009.

Chart National 4: Real Gross Domestic Product
(Projected: 2008 & 2009)



Retail Sales

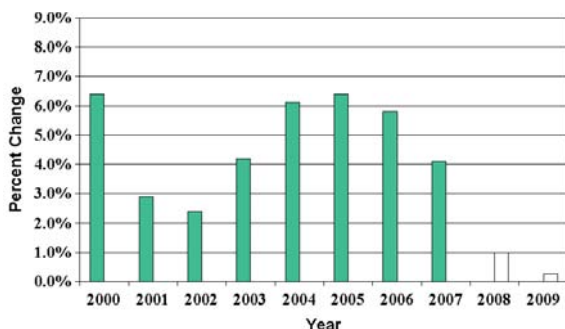
Current Status and Emerging Issues

- Consumer spending has declined for the last 5 months.
- Stock price declines, home foreclosures, housing price declines, and rising unemployment have sapped consumer confidence.
- Stabilizing housing markets and putting people back to work is critical to a recovery.

Forecast

- Year-over-year growth in nominal retail sales (Chart: National 5) is expected to be modest in 2008 at 1.05% and barely positive in 2009 at 0.25%.

Chart National 5: Retail Sales - National (Projected: 2008 & 2009)



Employment and Unemployment

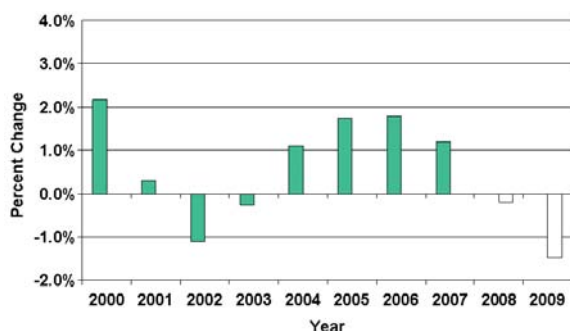
Current Status and Emerging Issues

- Employment has been declining since the end of 2007.
- The pace of job declines accelerated in November 2008, when employment dropped by over 500,000.
- The overall slowdown in economic activity will continue to affect employment growth through most of 2009, leading to further increases in the unemployment rate.

Forecast

- Total employment (Chart: National 6) is projected to decline -0.2% in 2008 and -1.5% in 2009.
- The unemployment rate is expected to rise from 5.8% in 2008 to 7.7% in 2009.

Chart National 6: National Employment (Projected: 2008 & 2009)



Manufacturing Employment and Industrial Production

Current Status and Emerging Issues

- As in past business cycles, manufacturing employment is taking the brunt of this recession. Most job losses are coming in the areas using lesser skilled workers.
- Increases in manufacturing productivity will continue to limit or decrease manufacturing employment.
- Strong export demand for U.S. goods partially offset job losses, but with weakness in the global economy occurring contemporaneously with the downturn in the U.S., this effect has weakened.
- Industrial production activity weakened, down -4% from 2007 levels.

Forecast

- Manufacturing employment is suffering a sharp decline in this business cycle, expected to fall by -3.0% in 2008 and -3.5% in 2009.

Interest Rates and Prices

Current Status and Emerging Issues

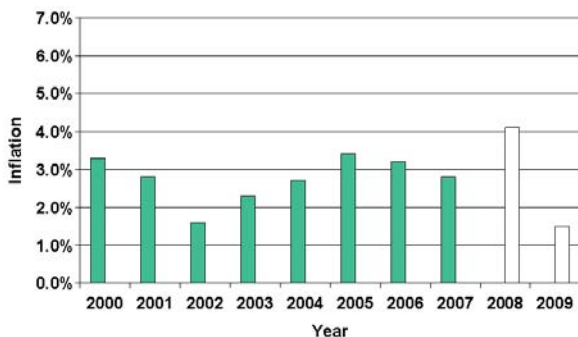
- The Federal Reserve has significant challenges navigating through this business cycle. The Fed's latest actions have lowered the federal funds interest rate to near 0% at the time of this report.
- The Treasury and the Fed have taken heroic steps to stabilize the financial system and ease the credit crunch. While credit conditions have not returned to normal, the Fed and the Treasury stand ready to take further action.
- Short-term interest rates likely will not change appreciably unless economic activity expands suddenly.
- Rates on long-term 10-year bonds are also expected to stay low. This will help support reductions in mortgage rates and the environment for future investment.
- Significant increases in food and energy costs increased measured inflation during 2008. Weakness in the global economy took the steam out of energy prices and other commodity prices leading to declines in price indices in recent months. This is temporary, but helps support lower long-term interest rates.

Forecast

- Interest rates are expected to stay low until the economy demonstrates greater strength. Further declines in interest rates are anticipated.
- The projections for 3-month bills (Chart: National 7) are 1.4% for 2008 and 1.0% in 2009. This implies some decline in rates into 2009 before beginning to rise later in the year.
- Long-term 10-year bonds are expected to be 3.7% in 2008 with a slight decline to 3.5% for 2009.

- After a run-up in inflation in 2008 to 4.1%, the level of inflation (Chart: National 8) is expected to moderate significantly to 1.0% for 2009.

Chart National 8: Inflation Rate (Projected: 2008 & 2009)



National Conclusion

The year 2008 has provided numerous challenges for the economy. The Committee's consensus forecast presented in this *Outlook* predicts that the economy will experience further weakness into the first half of 2009 before showing signs of recovery later in the year. This is a time for businesses to monitor market conditions closely in order to take advantage of opportunities that will develop, either through expanding market share or mergers and acquisitions. Those with strong balance sheets will be well positioned.

The ability of the economy to navigate through these uncertain times will depend significantly on the success of government policies to boost economic demand. Some potential positive and negative factors that can impact the economy in 2009 and 2010 are summarized below.

“Someday I’ll wish upon a star and wake up where the clouds are far behind me.”

– Dorothy, The Wizard of Oz

Upside Potential

- Government policies are successful in stabilizing financial institutions and markets. Nearly \$700 billion of TARP spending should provide a positive impact.
- Volatility in the stock market returns to more normal levels, reducing uncertainty and bolstering business confidence.
- Lower mortgage rates helps work off the inventory of homes for sale allowing residential construction activity to move forward.
- Resurgence of growth in the global economy brings strength to U.S. export activity.

Downside Risk

- Uncertainty increases about the future of the overall economy due to continued volatility in financial markets.
- The housing sector continues to weaken with further declines in housing values, rising foreclosures, and the inability of prospective homeowners to obtain reasonably priced conventional mortgages.
- Structural unemployment persists. Workers must gain new skills and training to find a place in growth areas of the economy.
- The domestic auto industry is unsuccessful at turning itself around.
- Consumer Confidence is slow to recover, depressing consumer spending.
- Weakness in international economy continues to weaken our export sector.

“Oh, I’d give anything to get out of Oz all together—but which is the way back to Kansas? I can’t go the way I came.”

– Dorothy, The Wizard of Oz

And, finally, there is the tightrope that must be walked as there are new, and greater, regulations placed on the financial services sector and credit markets. It is very clear that the landscape has changed permanently and continues to be reshaped through ongoing, and dramatic, shifts as institutions fail, merge and/or transform into new structures. Here, both in the U.S. and globally, the key will be to enhance stability and transparency in these markets while still enabling innovation and efficiency.

As always, closely tracking these factors provides businesses insight into the path of the economy and guidance on how to navigate in an uncertain world. There are risks associated with forecasts, and this one is no exception. There are numerous social and political factors that will impact the direction of the economy. With a new administration, there will be policy changes. It makes sense to follow these changes carefully, especially areas where incentives are provided for consumption and investment, and where new regulations may be imposed to address issues around global warming, health care, and tax policy.

REGIONAL OVERVIEW

“There’s no place like home. There’s no place like home...”

Introduction

In a global economy, no community is an island unto itself. The three state, 15 county region encompassing Southwest Ohio, Northern Kentucky, and Southeastern Indiana, is no different. This region, known as Cincinnati USA, shares similar economies, and therefore will be referred to in this report as the regional economy. The future of the regional economy depends on how closely we follow national and international economic trends. Home is important; but the rest of the world plays an important role as well. At the same time, while there has been a close linkage historically between regional and national economic trends, differences do exist in this current business cycle. We will look at those differences in detail in this report.

According to the National Bureau of Economic Research, the U.S. economy last peaked in December 2007, marking the beginning of a national recession. Likewise, the question of whether or not there will be a recession in the region has been answered. Economic activity in the Cincinnati MSA last peaked in November 2007 as evidenced by the NKY/Greater Cincinnati Current Conditions Index.¹ On this dimension, there is close alignment between the timing of national and local trends.

This leads to four central questions to address in preparing an economic forecast for 2009:

- How long will the regional recession last?
- How deep will the regional recession be?
- Which industries will be hardest hit during the regional recession?
- Which industries will likely lead the area out of regional recession?

In this year’s assessment of how the regional economy will fare given the national economic outlook and regional trends, the members of the Economic Advisory Committee recognized the near-term challenges facing the nation and region. These realities are reflected in this forecast.

“We’ll gaze into the crystal...what’s this I see?”

– Professor Marvel, *The Wizard of Oz*

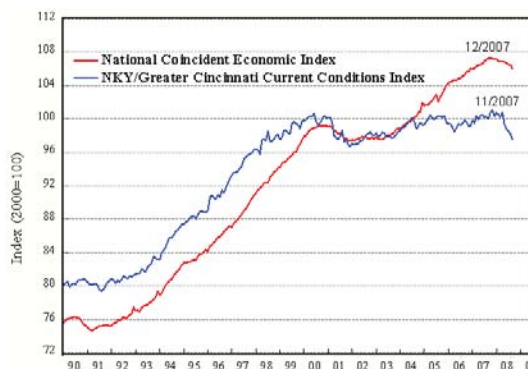
Current Conditions

Leading Indicators

A review of recent economic activity provides the background and foundation for understanding where our regional economy is headed in the short-term.

The NKY/Greater Cincinnati Current Conditions Index (CCI) dates the latest regional economic peak in November 2007 with aggregate economic activity declining since that time (see Figure 1). The national economy last peaked in December 2007, marking the beginning of a recession in the U.S. economy. The regional slowdown is already more than a year in duration, mirroring nearly exactly the start of the national decline. If the national recession and accompanying regional slowdown continue into the second half of 2009 as expected, the regional economy will be in the midst of its longest contraction since the 18-month decline in the CCI of 3.97 percentage points. In 2000/2001.

Figure 1: Trends in the NKY/Greater Cincinnati Current Conditions Index



The NKY/Greater Cincinnati Leading Economic Index (LEI) fell 0.6 percent from the preceding month to 99.0 in October, and has now declined for five months in a row (see Figure 2).ⁱⁱ

Data for the first half of 2008 show across the board declines among the LEI component indicators (see Table 1). The current trends in the LEI signal a downward trend in the regional economy extending well into the second half of 2009.

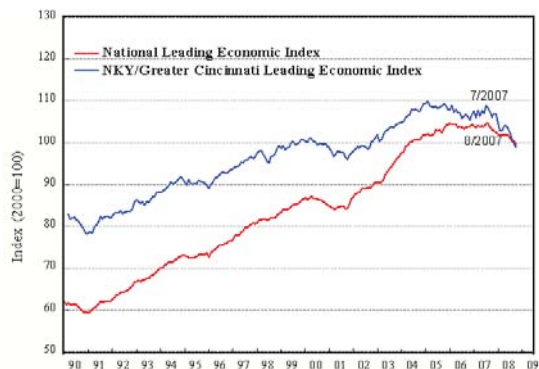
Table 1: NKY/Greater Cincinnati Leading Economic Index

	2005	2006	2007	2008				
				1st Half	Jul.	Aug.	Sep.	Oct.
LEADING ECONOMIC INDEX (2000=100)	109.0	108.1	110.6	108.1	102.4	100.8	99.6	99.0
% change	1.04	-0.84	2.34	-2.31	-5.23	-1.56	-1.19	-0.60
LEADING ECONOMIC INDICATORS (seasonally adjusted)*								
Weekly hours in mfg. (Hours, 3 mo. moving avg.)	42.41	40.90	41.96	41.58	41.46	41.13	40.69	40.46
% change	0.38	-3.56	2.59	-0.91	-0.29	-0.80	-1.07	-0.57
Weekly jobless claims for unemploy. ins. (Persons)	5643.2	5769.5	5410.0	6071.4	7499.8	7167.6	7970.9	7682.8
% change	-4.70	2.24	-6.23	12.23	23.53	-4.43	11.21	-3.61
Building permits for new private housing (Units)	890.32	623.16	436.03	307.25	289.00	245.34	262.24	279.68
% change	-1.88	-30.01	-30.03	-29.53	-5.94	-15.11	6.89	6.65
Total Valuation of Housing Permits (Millions \$)	84.62	65.49	48.29	34.54	31.54	27.16	25.83	26.96
(% change)	11.61	-22.61	-26.26	-28.47	-8.69	-13.89	-4.90	4.37
NKY/Greater Cincinnati stock index (2000=100)	134.42	147.53	163.33	147.36	139.6	139.6	124.0	115.5
(% change)	8.49	9.75	10.71	-9.78	-5.27	0.00	-11.17	-6.85
In-bound Air Freight (Tons)	803.29	831.54	809.33	706.91	734.75	583.73	603.60	613.23
(% change)	-25.65	3.52	-2.67	-12.65	3.94	-20.55	3.40	1.60
Cincinnati Purchasing Manager Index (Diffusion Index)	57.31	58.28	57.44	49.91	52.37	49.75	47.88	48.28
(% change)	-6.82	1.69	-1.44	-13.11	4.93	-5.00	-3.76	0.84
National Leading Economic Index (2004=100)	102.7	104.0	103.8	102.0	101.2	100.3	100.4	99.6
(% change)	2.70	1.27	-0.19	-1.73	-0.78	-0.89	0.10	-0.80

*The component indicators included in the LEI are seasonally adjusted by the CEAD and may differ from those of other published reports

Data Sources: Bureau of Labor Statistics, U.S. Bureau of Census, Cincinnati/Northern Kentucky International Airport, Institute for Supply Management-Cincinnati, The Conference Board.

Figure 2: NKY/Greater Cincinnati Leading Economic Index



As demonstrated in Figure 3, between June 2007 and October 2008, the local stock index declined by 42 percent, compared to the 39 percent drop suffered by the S&P 500 index since hitting an all-time high of 1,565.15 in October 2007. As investors have become more risk averse or are forced to liquidate risky assets, the *NKY/Greater Cincinnati Stock Index*—along with the major U.S. stock indexes—deteriorated sharply in September and October despite various policy actions by the Federal Reserve and U.S. Treasury. The financial crisis that started with sub-prime problems has spread with losses at financial institutions as well as deleveraging and falling asset prices. *NKY/Greater Cincinnati Stock Index* declined sharply in October 2008, hitting a five-year low. The steep downward trend of the stock index, reflecting the general sentiments of investors, signals sluggish economic growth in the region extending into 2009.

Figure 3: NKY/Greater Cincinnati Stock Index versus S&P 500 Stock Index



Notes: The NKY/Greater Cincinnati Stock Index is reflected in the left scale and S&P 500 Stock Index on the right scale.

“Where do we go now?”
 – The Lion, The Wizard of Oz

Regional Gross Regional Product

Forecast

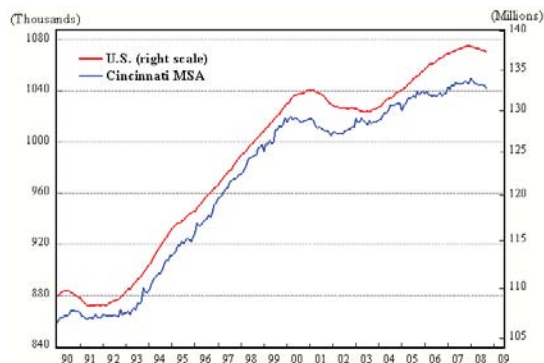
Based on recent trends in national and regional conditions, leading indicators, and area stock market activity, the Economic Advisory Committee estimates that local gross regional product will decline by 1 percent in 2009 compared to an estimated 2008 increase of 1.5 percent.

Employment & Unemployment

Current Status and Emerging Issues

As shown in Figure 4 total non-farm employment in the Cincinnati USA region closely mirrored that of the United States over a long period of time, but began to diverge over the past few years. In other words, regional employment local employment growth has not kept pace with the rest of the country in recent years. It appears that trend is likely to continue for the next few years (see the discussion below on regional population trends).

Figure 4: Seasonally Adjusted Total Nonfarm Payroll Employment



While regional employment did not grow as fast as national employment during the most recent expansion, it is not suffering losses as quickly either. Between third quarter 2007 and third quarter 2008, total regional employment declined by 0.2 percent for a net loss of 1,600 jobs (see Table 2).

Outside of the government and health care sectors, net job losses were nearly across the board in all industries. The majority of job losses have occurred in the goods producing sectors (a net loss of nearly 2,700 jobs).

Overall the service producing sectors saw flat employment over this period. The health care sector was the only service sector to see any significant net job growth (up nearly 2,000 jobs).

The trade and transportation sectors all experienced job losses.

The government sector had a net increase of nearly 1,200 jobs.

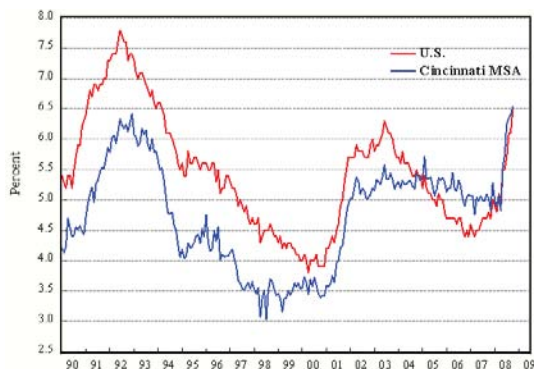
Table 2: Wage and Salary Employment Trends, Cincinnati MSA

	2007 Q3	2008 Q3	Level change	Percent change
Total	1,048,667	1,047,033	(1,633)	-0.2%
Government	126,700	127,833	1,133	0.9%
Private	921,967	919,200	(2,767)	-0.3%
Goods producing	174,567	171,900	(2,667)	-1.5%
Trade, transportation	212,633	212,300	(333)	-0.2%
Service producing	534,767	535,000	233	0.0%

Unfortunately, the industries with the greatest number of job losses are also among the highest paying industries in the region. The average wage for all jobs in the region is \$43,984. Within the manufacturing sector the average wage per job is \$54,256 or 23 percent above average. The average wage within the health care, which had the most jobs gains over the past year, is just slightly below average at \$43,618.

In October the seasonally adjusted unemployment rate in the Cincinnati MSA was 6.5 percent, up from 5 percent a year earlier (see Figure 5). The number of unemployed rose by more than 16,000, while the number of employed declined by 11,400. The difference in employment numbers reflects the actions of individuals in a poor economy. The higher number of unemployed is the result of new entrants into the workforce that were not previously accounted for. For example, a retiree or stay-at-home spouse may decide to re-enter the workforce to earn additional income. Once that individual begins to look for employment, he or she is considered among the unemployed.

Figure 5: Seasonally Adjusted Unemployment Rate, Cincinnati MSA



Forecast

Based on these recent trends in employment and unemployment, the members of the Economic Advisory committee expect total employment to decrease in 2009 by 1 percent after remaining flat in 2008. Employment in the manufacturing sector is forecast to decline by 2.5 percent after declining an estimated 1.6 percent in 2008.

In 2009, the unemployment rate is forecast to average 7.6 percent, up from 2008's estimated annual average of 5.8 percent.

Construction and Real Estate

Current Status and Emerging Issues

The regional housing market has demonstrated weakness over the past year, however not at the rate or severity of the national housing market. For the 12 months ending September 30, 2008, the housing price indexⁱⁱ (HPI) for the Cincinnati MSA was down 0.91 percent year-over-year and down 1.19 percent from second quarter 2008. However, the Cincinnati USA area housing market has out-performed the U.S. overall and continues to do so currently. Nationally, the HPI fell 2.7 percent in the third quarter and was down 4.0 percent over the four-quarter period. The four-quarter decline was the largest four-quarter drop in the history of the index, which extends back to 1975. This is consistent with the fact that regional housing prices did not experience the same type of price escalation as experienced nationally.

While much of the economic headlines speak of recession and stalled projects, development is still occurring in the Cincinnati USA region. Cincinnati's largest downtown office building, Queen City Square, broke ground in 2008 with the anchor tenant, American Financial Group, occupying more than half of the 41-story building's 825,000-sq-ft. The long awaited \$600 million "Banks Project" between Paul Brown Stadium and Great American Ball Park also broke ground in 2008 and Ovations, an \$800 million mixed used residential and commercial development on the banks of the Ohio River in Newport is scheduled to break ground in 2009. These projects are encouraging signs that even though the Cincinnati USA economy is in a recession, there is energy and momentum present to revitalize this region.

Forecast

Regional construction trends are similar to the trends seen in real estate. The value of construction permits for the Cincinnati MSA plunged 31 percent between October 2007 and October 2008. New commercial square footage is estimated to total 9.8 million for 2008, declining to a forecasted 7 million-sq-ft in 2009.

“Don’t stand there talking! Put me together!”

– The Scarecrow, *The Wizard of Oz*

Which Industries Will Lead the Regional Economy Out of Recession?

Historically the United States has relied on consumer spending to lead the economy out of recession. Construction, real estate and auto sales have been the notable leaders in this process. However, at this time, American consumers do not appear prepared or willing to lead the economic rebound. If that holds true, businesses and government sectors will need to lead the rebound.

The Federal government is injecting record amounts of stimulus into the credit markets in hopes of reviving lending. It is anticipated that the Federal government will inject additional stimulus into the economy through infrastructure spending. Countering the Federal government’s effort will likely be combinations of layoffs, spending cuts and tax increases at the state, county and city level, and unlike the Federal government, state and local governments cannot run a deficit.

From a business standpoint, clear winners and losers will emerge. Likely industrial winners will be alternative energy, construction (which is expected to benefit from a government push to improve infrastructure), and hospitals and health care supply companies, which will do well as the aging population utilizes the health care system. Industries expected to face greater challenges include established energies, such as coal and oil, because they face environmental hurdles, defense manufacturers, and pharmaceutical and tobacco companies. All of these industries are likely to be under pressure from the incoming administration and the Democratic-controlled Congress.

The outlook for other industries will depend, in large part, on the actions or inactions of the Federal government. Given the importance of automobile manufacturing to the regional economy, the format and success of the auto “bailout” is a key unknown in predicting the course of the economy in 2009.

Population Trends

The Cincinnati MSA continues to see population growth at a rate slightly below the national average and in the middle of the pack compared to similar-sized areas in Ohio and neighboring states. The Cincinnati region has added about 119,000 people from 2000 to 2007, with most of the growth occurring in Warren and Butler Counties in Ohio and Boone County in Kentucky.

While estimates for 2008 will not be released until March 2009, there are clear signs that population growth in the fastest-growing counties in the region has slowed with the collapse of the market for new housing. New school enrollments tapered off last fall in districts like Lakota in Butler County and Mason in Warren County where new home construction was most heavily concentrated.

In a positive development for the vitality of the entire region, the population of the City of Cincinnati has stabilized since the year 2000. Over the past seven years, the city registered a slight gain of just over 1,000 residents.

Table 3: Population Growth by County, 2000-2007

Population	Change		% Change	
	2000	2007	2000-2007	2000-2007
Cincinnati-Middletown, OH-KY-IN	2,014,727	2,133,678	118,951	5.9%
Dearborn County, IN	46,344	49,759	3,415	7.4%
Franklin County, IN	22,222	23,234	1,012	4.6%
Ohio County, IN	5,636	5,772	136	2.4%
Boone County, KY	87,005	112,459	25,454	29.3%
Bracken County, KY	8,278	8,574	296	3.6%
Campbell County, KY	88,663	86,858	-1,805	-2.0%
Gallatin County, KY	7,884	8,035	151	1.9%
Grant County, KY	22,546	25,161	2,615	11.6%
Kenton County, KY	151,694	156,675	4,981	3.3%
Pendleton County, KY	14,488	15,058	570	3.9%
Brown County, OH	42,585	43,956	1,371	3.2%
Butler County, OH	333,698	357,888	24,190	7.2%
Clermont County, OH	178,114	193,490	15,376	8.6%
Hamilton County, OH	844,333	842,369	-1,964	-0.2%
Warren County, OH	161,237	204,390	43,153	26.8%
Indiana Portion	74,202	78,765	4,563	6.1%
Kentucky Portion	380,558	412,820	32,262	8.5%
Ohio Portion	1,559,967	1,642,093	82,126	5.3%
Cincinnati City	331,263	332,458	1,195	0.4%
United States	282,194,308	301,621,157	19,426,849	6.9%

Table 4: MSA Population Growth, 2000-2007

MSA	Population		% Change	Natural Increase	Net Migrants	Domestic Migrants	International Migrants
	2000	2007	2000-2007	2000-2007	2000-2007	2000-2007	2000-2007
Pittsburgh, PA	2,429,079	2,355,712	-3.0%	-24,847	-40,344	-56,353	16,009
Cleveland-Elyria-Mentor, OH	2,148,032	2,096,471	-2.4%	38,113	-90,082	-115,411	25,329
Louisville/Jefferson County, KY-IN	1,165,123	1,233,735	5.9%	36,304	36,813	24,698	12,115
Columbus, OH	1,619,606	1,754,337	8.3%	92,107	52,924	21,835	31,089
Indianapolis-Carmel, IN	1,531,170	1,695,037	10.7%	90,158	78,813	57,508	21,305
Cincinnati-Middletown, OH-KY-IN	2,014,727	2,133,678	5.9%	84,430	1,495	-16,433	17,928

In 2007, Cincinnati was the second largest largest of six nearby MSAs with populations over one million. Of this half dozen, the Cincinnati MSA is growing at about the same rate as Louisville. Indianapolis and Columbus are the two fastest-growing nearby metropolitan areas, and they are growing faster largely because they are attracting more migrants than other metropolitan areas.

The remaining two areas, Cleveland and Pittsburgh, have both been in decline as a result of significant out-migration since 2000. They are losing population simply because more people are moving out than are moving in.

Figure 6a: Population Growth and Per Capita Income Growth % Population Growth 2000-2007

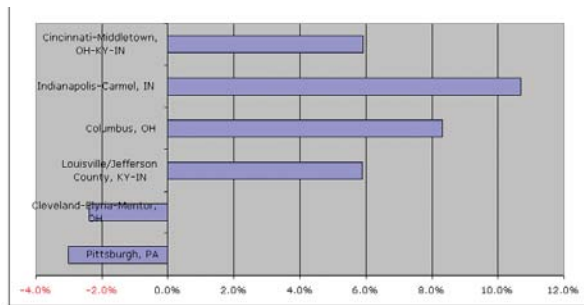
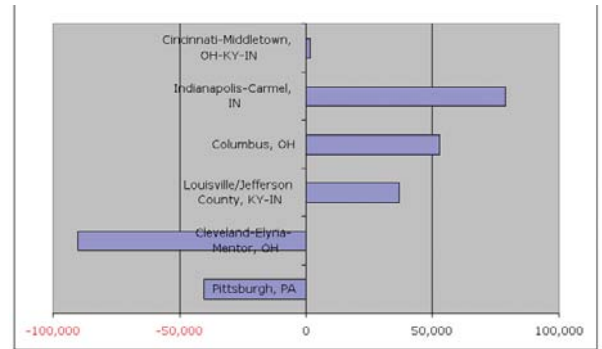


Figure 6b: Population Growth and Per Capita Income Growth Net Migrants 2000-2007



By itself, growing population is not desirable and does not automatically make the average resident of any area better. As an example, Pittsburgh has shown the largest increase since 2000 in Per Capita Income (PCI) of the six nearby large MSAs, at the same time that it has lost the most population.

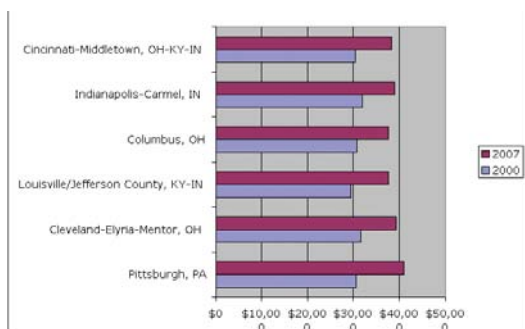
A growing population is clearly not the only or even the most important measure of a region's economic success. Pittsburgh was able to increase Per Capita Incomes over this period because it managed to increase total employment in spite of the decline in population.

Table 5: Per Capita Income, 2000-2007

MSA	Per Capita Income		Change	% PCI
	2000	2007	2000-2007	Change
Pittsburgh, PA	\$30,613	\$40,949	\$10,336	34%
Cleveland-Elyria-Mentor, OH	\$31,627	\$39,258	\$7,631	24%
Louisville/Jefferson County, KY-IN	\$29,396	\$37,675	\$8,279	28%
Columbus, OH	\$30,730	\$37,664	\$6,934	23%
Indianapolis-Carmel, IN	\$31,911	\$38,980	\$7,069	22%
Cincinnati-Middletown, OH-KY-IN	\$30,472	\$38,290	\$7,818	26%

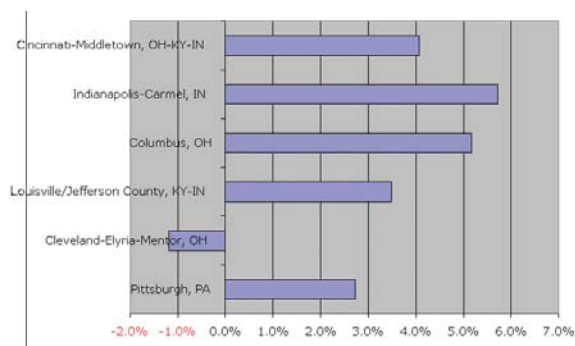
While the differences among them are slight, Cincinnati and Louisville have outpaced both Indianapolis and Columbus in Per Capita Income growth since 2000 while lagging them in population growth.

Figure 7a: Income and Employment Growth Per Capita Income 2000-2007



Cincinnati and the other five large MSAs to which we are comparing it had a respectable increase in Per Capita Income through 2007. Since then, the recession has undoubtedly taken its toll on all six.

Figure 7b: Income and Employment Growth % Change in Total Employment 2000-2007



Regional Conclusion

“Somewhere, over the rainbow, skies are blue...”

– Dorothy, *The Wizard of Oz*

The regional economy contracted in 2008 as the housing bubble burst, energy prices rose, and higher interest rates took their toll. The Committee’s consensus forecast presented in the 2009 *Regional Economic Outlook* predicts that the economy will contract through the first half of 2009, with continued pressure in the labor and housing markets. Forecast details are listed in Table 6.

Table 6: Regional Forecast Summary

	2008	2009
Gross Regional Product in constant dollars	1.5%	-1%
Total Employment	0%	-1%
Manufacturing Employment	-1.6%	-2.5%
Unemployment Rate	5.8%	7.6%
Construction Activity		
Residential Dwelling Units	3,700	3,700
Non-Residential Square Footage (million of sq-ft)	9.8	7

With the weak economy, it is important to keep in mind that the Cincinnati USA regional economy is still one of the most diverse in the nation. Manufacturing activity is spread across a wide number of industries and not concentrated in any one. During this rather broad-based recession, manufacturing is negatively impacted. Given the level of our manufacturing base, the region must continue to strive to reinvent itself in service industries.

That does not mean manufacturing should lose focus. Opportunities will continue to surface in the aerospace, biotechnology, advanced manufacturing, plastics, and motor vehicle industries, especially with electric vehicles. Additionally, Cincinnati USA’s strengths, including relatively low cost of doing business and affordable housing, positions us well for new business opportunities.

Regional businesses will need to continue to examine opportunities to expand market share, even during an economic downturn. Maintaining focus on customers and markets sets the stage for a brighter future.

The regional economy continues to face many challenges during this business cycle, but this region has many great assets that can help drive Cincinnati USA to new success. Our diversified economy, competitive cost structure, skilled work force, international airport, and easy access to national and regional markets continue to provide a solid environment for attracting new businesses and a strong foundation for future growth.

“That’s all—the crystal’s gone dark.”

– Professor Marvel, *The Wizard of Oz*

NOTES

- i The NKY/Greater Cincinnati Current Conditions Index is produced by the Center for Economic Analysis and Development (CEAD) at Northern Kentucky University. The CCI covers the 15-county Cincinnati metropolitan statistical area.
- ii The NKY/Greater Cincinnati Leading Economic Indicators Index is produced by the Center for Economic Analysis and Development (CEAD) at Northern Kentucky University. The LEI covers the 15-county Cincinnati metropolitan statistical area.
- iii The HPI is a broad measure of the movement of single-family house prices calculated using data provided by Fannie Mae and Freddie Mac.

All quotes are from: Mervyn LeRoy (Producer) & Victor Fleming (Director). 1939. *The Wizard of Oz* [Motion Picture], United States, Metro-Goldwyn-Mayer.

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2009 Regional Economic Outlook

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