Commonwealth of Kentucky

Quarterly Economic & Revenue Report

Third Quarter Fiscal Year 2018

Governor's Office for Economic Analysis

Office of State Budget Director

Office of State Budget Director
284 Capitol Annex, 702 Capitol Avenue
Frankfort, Kentucky 40601

(502) 564-7300
Internet: osbd.ky.gov

Governor's Office for Policy and Management
Governor's Office for Economic Analysis
Governor's Office for Policy Research

Matthew G. Bevin
Governor

John E. Chilton
State Budget Director

April 30, 2018

The Honorable Matthew G. Bevin
Governor
Commonwealth of Kentucky
State Capitol Building
Frankfort, KY 40601

Dear Governor Bevin:

Pursuant to KRS 48.400 (2), the Office of State Budget Director has prepared the attached Quarterly Economic and Revenue Report which summarizes the Commonwealth's revenue and economic statistics for the third quarter of Fiscal Year 2018 (FY18). It also includes an interim economic and revenue forecast for the next three fiscal quarters. The estimates discussed in this report are internal staff estimates and do not constitute an official revision to the enacted estimates.

General Fund receipts in the third quarter of FY18 totaled $2,490.5 million compared to $2,364.5 million in the third quarter of FY17, an increase of $125.9 million or 5.3 percent. Receipts have now grown 3.8 percent for the first nine months of FY18. The official revenue estimate, rendered by the Consensus Forecasting Group (CFG) in December 2017, calls for 2.3 percent revenue growth for the fiscal year. To meet the estimate, receipts can decline 1.6 percent over the last three months of FY18.

General Fund growth in the final quarter of FY18 is projected to be 2.3 percent compared to the final quarter of FY17. Revenues for the entire FY18 are predicted to be $10,829.1 million for growth of 3.4 percent. Collections at the forecasted levels would compare favorably to the FY18 official revenue estimate of $10,718.4 million, leading to FY18 revenues in excess of the official estimate of $110.7 million. However, please note that the official revenue estimate that the CFG approved in December was $138 million less than the originally enacted estimate for FY18. If the $110.7 million current-year revenue surplus materializes, all but $28 million of the FY18 shortfall predicted by the CFG will be recovered by the end of the fiscal year.

Road Fund revenue fell 1.7 percent in the third quarter of FY18. Receipts totaled $370.1 million compared to the $376.5 million received in the third quarter of the last fiscal year. Through the first nine months of FY18, receipts have decreased 0.8 percent. The official Road Fund revenue estimate calls for revenues to decline 0.3 percent for the fiscal year. Based on year-to-date tax collections, revenues must grow 1.2 percent for the remainder of FY18 to meet the estimate.

The Kentucky General Assembly passed two revenue measures during the 2018 Regular Session. At the time this report was being compiled, final scores for these revenue bills are still being tabulated for HB 366 and HB 487. Therefore, the effects and fiscal impacts of these revenue bills are not included in this interim forecast. The combination of the two bills represent a revenue enhancement that will be fully detailed in the Fourth Quarter Economic and Revenue Report that will be published on July 30, 2018. As such, this report compares the most recent interim forecast to the official estimates rendered by the CFG on December 15, 2017, and specifically <u>does not</u> include the actions of the General Assembly during the 2018 Regular Session.

Cordially,

John E. Chilton
State Budget Director

TABLE OF CONTENTS

Executive Summary . . . .

In accordance with KRS 48.400(2), the Office of State Budget Director (OSBD) has prepared this *Quarterly Economic and Revenue Report* for the third quarter of FY18. This report includes updates on the national and Kentucky landscapes, as well as an economic and fiscal outlook for the next three fiscal quarters.

The revenue forecasts discussed in this report were prepared by OSBD using the March 2018 "control scenario" economic forecast from both IHS Markit and the Kentucky Macroeconomic Model. Forecasted revenues prepared pursuant to KRS 48.400(2) are internal estimates prepared by the staff of OSBD.

The Kentucky General Assembly passed two revenue measures during the 2018 Regular Session. Scores for these revenue bills are still being tabulated for HB 366 and HB 487. Therefore, the effects and fiscal impacts of these revenue bills are not included in this interim forecast. The combination of those two bills represent a revenue enhancement that will be fully detailed in the Fourth Quarter Economic and Revenue Report that will be published on July 30, 2018. As such, this report compares the most recent interim forecast to the official estimates rendered by the Consensus Forecasting Group (CFG) on December 15, 2017, and specifically <u>does not</u> include the actions of the General Assembly during the 2018 Regular Session.

General Fund receipts in the third quarter of FY18 totaled $2,490.5 million compared to $2,364.5 million in the third quarter of FY17, an increase of $125.9 million or 5.3 percent. Receipts have now grown 3.8 percent for the first nine months of FY18. Growth rates for the first three quarters of the fiscal year, receipts were 2.9, 3.2 and 5.3 percent. The official revenue estimate, approved by the Consensus Forecasting Group in December 2017, calls for 2.3 percent revenue growth for the fiscal year. To meet the estimate, receipts can decline 1.6 percent over the last three months of FY18.

Road Fund revenue fell 1.7 percent in the third quarter of FY18. Receipts totaled $370.1 million compared to the $376.5 million received in the third quarter of the last fiscal year. Through the first nine months of FY18, receipts have decreased 0.8 percent. Growth rates for the first three quarters of the fiscal year were -0.5, -0.3 and -1.7 percent, respectively. The official Road Fund revenue estimate calls for revenues to decline 0.3 percent for the fiscal year. Based on year-to-date tax collections, revenues must grow 1.2 percent for the remainder of FY18 to meet the estimate.

Real GDP grew by 2.6 percent in the third quarter of FY18. This is the second consecutive quarter of growth at 2.5 percent or higher. Real consumption, real investment, and real exports lead the real GDP growth with growth rates of 2.8 percent, 5.3 percent and 3.5 percent, respectively. US personal income grew by 3.6 percent in the third quarter of FY18. This is the fifth consecutive quarter of solid adjacent-quarter growth.

Kentucky personal income grew by 3.7 percent in the third quarter of FY18 and grew by 1.5 percent on an adjacent-quarter basis. This is just the seventh time since the end of the recession that adjacent-quarter growth has reached 1.5 percent or higher. Wages and salaries income and supplements to wages and salaries income grew strongly in the third quarter, growing 3.8 and 3.9 percent, respectively (see Table 5). Kentucky employment growth continues to be very weak, growing only 0.9 percent in the third quarter.

As we enter the fourth quarter of the 2018 fiscal year, the economy is primed for acceleration in the coming fiscal quarters, as fiscal stimulus from the Tax Cuts and Jobs Act (TCJA) provisions are combined with the increased federal spending afforded by the Bipartisan Budget Act of 2018. Despite the recent volatility, real GDP is expected to strengthen in the final quarter of the fiscal year by 2.7 percent. The gains are expected to be driven by consumer spending, which has been encouraged by record household net worth and continued gains in employment and after-tax income.

Shifting focus towards Kentucky's Economic Outlook for the final quarter of FY18 and first two quarters of FY19, the Commonwealth is poised to maintain a steady pace of growth for personal income at an estimated 4.4 percent to end FY18, and 5.2 percent entering FY19. Kentuckians' wages and salaries projection have a similar outlook, reflecting steady growth of 4.7 percent in the fourth quarter of FY18. Interim projections call for continued growth of 5.3 percent into the first two quarters of FY19.

The Kentucky employment picture, while generally positive, remains weak compared to other recovery periods. Total non-farm payroll employment is anticipated to edge up 24,000 by June and an additional 10,200 by December to end the second quarter of FY19.

Projected General Fund revenues for the next three quarters are shown in Table 7. As the table indicates, General Fund growth in the final quarter of FY18 is projected to be 2.3 percent compared to the final quarter of FY17. Growth in the first three quarters of FY18 was 3.8 percent. Revenues for the entire FY18 are predicted to be \$10,829.1 million for growth of 3.4 percent. Collections at the forecasted levels would compare favorably to the FY18 official revenue estimate of \$10,718.4 million, leading to revenues in excess of the official estimate of \$110.7 million. The largest single revenue source that is expected to outperform the official estimate is the individual income tax, with a projected excess of \$71.1 million. Revenue growth in the whole

General Fund in the first half of FY19 is forecasted to soften somewhat to a pace of 1.7 percent.

Road Fund revenues are expected to decline slightly in the fourth quarter of FY18, extending their run of quarterly decreases. Should revenues fall in the fourth quarter, it would be the first time since FY10 in which receipts fell in all four quarters of a fiscal year. Road Fund revenues have historically experienced steady, solid growth. For perspective, Road Fund revenues declined in only seven of the past 36 years. Growth rates for the first three quarters of FY18 have been -0.5, -0.3, and -1.7 percent, respectively.

Revenue Receipts . . . .

GENERAL FUND
Third Quarter FY18

General Fund receipts in the third quarter of FY18 totaled $2,490.5 million compared to $2,364.5 million in the third quarter of FY17, an increase of $125.9 million or 5.3 percent. Receipts have now grown 3.8 percent for the first nine months of FY18. Growth rates for the first three quarters of the fiscal year, receipts have been 2.9, 3.2 and 5.3 percent. The official revenue estimate, approved by the CFG in December 2017, calls for 2.3 percent revenue growth for FY18. To meet the estimate, receipts can decline 1.6 percent over the last three months of FY18.

Collections in the major revenue categories are shown in summary form in Table 1. Detailed information on these and other accounts is available in the Appendix. Third quarter gains were primarily driven by individual, sales and use, corporation, and lottery, taxes.

Table 1
Summary General Fund Receipts
$ millions

	FY18 Q3	FY17 Q3	Diff $	Diff %
Individual Income	1,027.7	944.0	83.7	8.9
Sales and Use	859.9	818.7	41.2	5.0
Property	136.3	138.1	-1.8	-1.3
Corporation Income	37.8	26.3	11.5	43.5
Coal Severance	22.3	27.3	-5.0	-18.5
Cigarette Taxes	49.4	51.6	-2.2	-4.2
LLET	35.3	51.2	-15.9	-31.0
Lottery	59.5	58.0	1.5	2.6
Other	262.2	249.3	12.9	5.2
Total	**2,490.5**	**2,364.5**	**125.9**	**5.3**

Individual income tax posted receipts of $1,027.7 million, compared to last year's third quarter receipts of $944.0 million. The resulting growth rate was 8.9 percent more than the third quarter of FY17. Both declarations and withholding payments increased as compared to the same period last year. Income tax refund payments were slightly delayed in 2018 due to the Department of Revenue's enhanced fraud detection initiative. This program ensures that only legitimate refund claims are paid and typically influences receipts during tax filing season from February through April. Overall collections in the individual income tax have grown 5.2 percent through the first nine months of FY18.

Total sales and use tax receipts for the quarter were $859.9 million compared to $818.7 million in the third quarter of FY17. The $41.2 million difference translates to an increase of 5.0 percent. Receipts have now grown 3.5 percent for the first nine months of FY18.

Property tax receipts were $1.8 million, or 1.3 percent less than the third quarter of FY17. Collections of $136.3 million compare to $138.1 million received in the third quarter of FY17. Property tax collections have grown 3.7 percent through the first nine months of FY18, right on track with expectations.

Corporation income tax grew 43.5 percent, or $11.5 million, during the third quarter of FY18. Receipts totaled $37.8 million compared to the $26.3 million received a year earlier. For the year, collections have increased 5.1 percent.

Coal severance tax receipts continued to decline in the third quarter with receipts down 18.5 percent. Collections of $22.3 million compared to the FY17 third quarter total of $27.3 million. Tax receipts have declined 10.9 percent through the first nine months of the fiscal year.

Cigarette taxes receipts were $49.4 million, 4.2 percent less than collected in the third quarter of FY17. Year-to-date cigarette tax receipts have declined 4.7 percent.

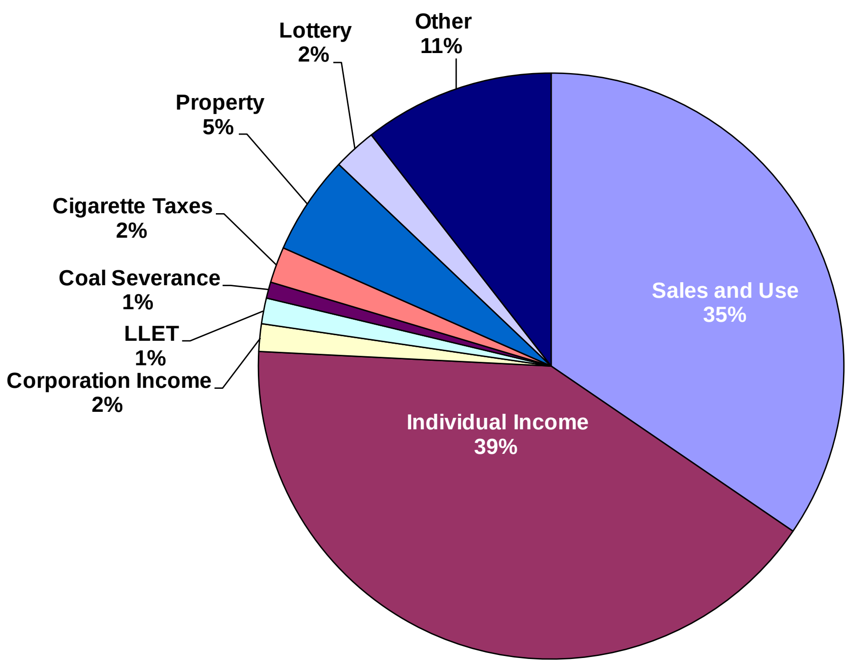
The limited liability entity tax (LLET) endured a $15.9 million decrease in the third quarter of FY18 when compared to the third quarter of FY17. Collections of $35.3 million compares to the $51.2 million received in the third quarter of FY17.

Lottery dividends posted an increase of 2.6 percent, or $1.5 million, during the third quarter of FY18. Receipts totaled $59.5 million and compare to revenues of $58.0 million received a year earlier.

The "Other" category, which represents the remaining accounts of the General Fund, increased 5.2 percent in the third quarter. Third quarter receipts for FY18 were $262.2 million and compare to $249.3 million in FY17.

Figure 1 details the composition of third-quarter General Fund receipts by tax type. Seventy-four percent of General Fund revenues were collected in the areas of the individual income and sales taxes. The next largest source of revenue was the "Other" account at 11 percent. The major components in this category include insurance premium, bank franchise, telecommunications, beer wholesale taxes and inheritance taxes. Property tax accounted for five percent. The lottery, corporation income and cigarette taxes accounted for two percent each. Finally, LLET and coal taxes accounted for one percent each.

Figure 1
Composition of Third Quarter FY18
General Fund Revenues



ROAD FUND
Third Quarter FY18

Road Fund revenue fell 1.7 percent in the third quarter of FY18. Receipts totaled $370.1 million compared to the $376.5 million received in the third quarter of the last fiscal year. Through the first nine months of FY18, receipts have decreased 0.8 percent. Growth rates for the first three quarters are -0.5, -0.3 and -1.7 percent, respectively. The official Road Fund revenue estimate calls for revenues to decline 0.3 percent for the fiscal year. Based on year-to-date tax collections, revenues must grow 1.2 percent for the remainder of FY18 to meet the estimate. Summary data are contained in Table 2 and detailed data are shown in the Appendix.

Table 2
Summary Road Fund Receipts
$ millions

	FY18 Q3	FY17 Q3	Diff $	Diff %
Motor Fuels	180.8	176.2	4.6	2.6
Motor Vehicle Usage	123.1	129.1	-6.1	-4.7
Motor Vehicle License	32.2	36.9	-4.8	-12.9
Motor Vehicle Operators	4.0	3.9	0.1	3.1
Weight Distance	20.2	20.7	-0.5	-2.4
Income on Investments	0.6	0.8	-0.2	-22.8
Other	9.3	8.8	0.5	5.1
Total	**370.1**	**376.5**	**-6.4**	**-1.7**

Motor fuels tax receipts increased 2.6 percent during the third quarter of FY18. Receipts were $180.8 million and compare to $176.2 million collected during the third quarter of last year. Through the first nine months of FY18, motor fuels grew 0.5 percent. Since the tax rate on motor fuels has been the same over both time periods, the increase in motor fuels taxes is solely attributable to an increase in gallons of gasoline or special fuels (like diesel).

Motor vehicle usage tax receipts fell 4.7 percent, or $6.1 million, during the third quarter. Receipts were $123.1 million compared to $129.1 million collected during the same period last year. Through the first nine months of FY18, motor vehicle usage tax decreased 2.5 percent.

Motor vehicle license tax receipts decreased 12.9 percent during the third quarter of FY18. Receipts of $32.2 million compare to $36.9 million received during the third quarter of FY17.

Motor vehicle operators' license fees totaled $4.0 million, a 3.1 percent increase compared to the level observed a year ago.

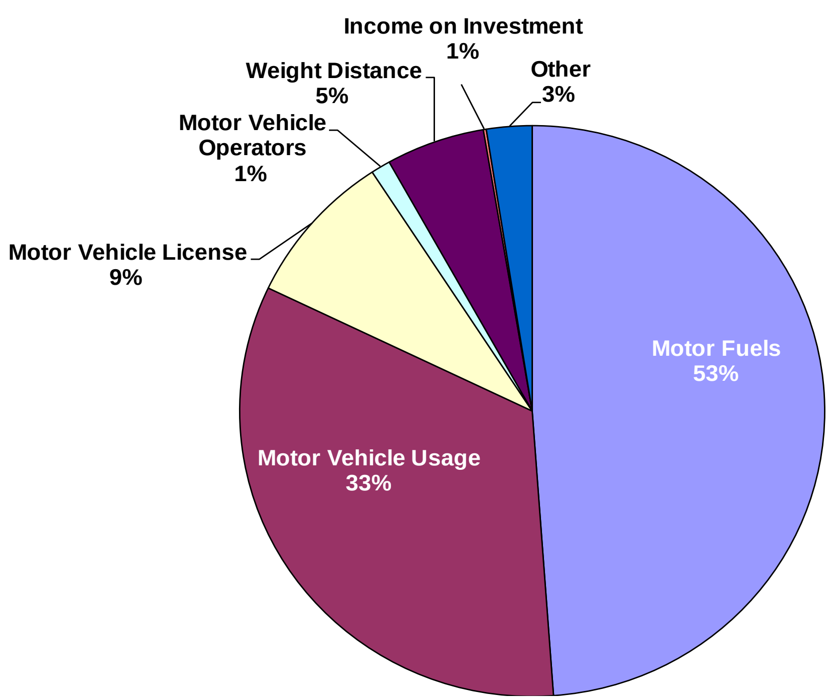
Weight distance tax receipts of $20.2 million represent a 2.4 percent decrease compared to receipts collected during the third quarter of FY17. The weight distance tax is a good proxy for goods in transit over Kentucky highways.

Income on investment receipts totaled $0.6 million, a 22.8 percent decrease compared to the level observed a year ago.

The remainder of the accounts in the Road Fund combined for an increase of 5.1 percent. Receipts for the "Other" category totaled $9.3 million during the third quarter, compared to $8.8 million in the third quarter of FY17.

Figure 2 details the composition of Road Fund revenues by tax type in the third quarter of FY18. Motor fuels taxes and the motor vehicle usage tax accounted for 86 percent of Road Fund revenues in the third quarter. The next-largest sources of revenue were the motor vehicle license tax with nine percent followed by weight distance with five percent. The "Other" category accounted for three percent, while motor vehicle operators' license fees comprised one percent. Income on investment accounted for a negligible amount of total Road Fund receipts.

Figure 2
Composition of Third Quarter FY18
Road Fund Revenue



The Economy
Third Quarter FY18. . . . .

NATIONAL ECONOMY

Real gross domestic product (real GDP) grew by 2.6 percent in the third quarter of FY18. This is the second consecutive quarter of growth at 2.5 percent or higher. Furthermore, this is the seventh consecutive quarter that the quarterly growth rate has increased. In the fourth quarter of FY16, real GDP growth was 1.2 percent and it has increased in every quarter since then. This increasing rate of growth in real GDP is largely a result of real investment. On an adjacent-quarter basis, real GDP has grown for the last 16 consecutive quarters with growth rates ranging from 0.1 to 1.3 percent.

Real consumption grew by 2.8 percent in the third quarter of FY18. On an adjacent-quarter basis, real consumption growth slowed slightly in the third quarter, falling to 0.5 percent compared to 0.9 percent in the second quarter. Overall, real consumption has been very stable in the last several quarters. In the last 13 quarters adjacent-quarter growth rates ranged from 0.5 to 0.9 percent. Real consumption made up 69.6 percent of real GDP in the third quarter.

Real investment grew by 5.3 percent in the third quarter of FY18. Real investment seems to have finally come out of its stupor. Between the second quarter of FY16 and the third quarter of FY17, real investment declined in four of the six quarters on an adjacent-quarter basis. On an adjacent-quarter basis, real investment growth has been positive and solid for the last four quarters, growing 1.0, 1.8, 0.9, and 1.6 percent, respectively. Real investment has soared since the end of the 2007 recession; gaining a net 69.1 percent since then, while real GDP gained only 20.5 percent over the same time period. Real investment made up 17.6 percent of real GDP in the third quarter.

Real government expenditures grew 1.1 percent in the third quarter of FY18. Real government expenditures have risen (on an adjacent-quarter basis) for the last three quarters. Real government expenditures had declined (on an adjacent-quarter basis) in three of the five quarters prior to the fourth quarter of FY17. Government expenditures are historically countercyclical. That is, when real GDP increases, government expenditures decrease and vice versa. This is because during recessions (when real GDP is declining), government expenditures increase in the form of increased unemployment insurance payments, increased number of people receiving welfare payments, and increases in fiscal spending, which some politicians believe will 'stimulate' the economy. Then during expansion periods (when real GDP is increasing), those forms of government expenditures decrease because citizens are self-sustaining and do not require any government assistance, and politicians typically do not vote for 'stimulus package' legislation.

The current expansion period has been unusual, in that, government expenditures have not followed the normal countercyclical pattern. From the fourth quarter of FY14 to the third quarter of FY16, real government expenditures rose moderately and consistently, as well as during the last three consecutive quarters. Since these patterns between government expenditures and real GDP are contemporaneous and not leading, this unusual pattern does not seem to portend any future event negative or positive. It is just unusual. Real government expenditures made up 16.9 percent of real GDP in the third quarter.

Real exports grew by 3.5 percent in the third quarter of FY18. This is the fifth consecutive quarter of adjacent-quarter growth in real exports. Adjacent-quarter growth declined slightly relative to the previous four quarters. Growth rates during that time were: 1.8, 0.9, 0.5, 1.7 and 0.3 percent, respectively. Real exports are a function of foreign country demand, which include incomes and preferences changes, as well as US domestic supply issues like availability of natural resources, labor productivity, and technological advancements. Real exports are also subject to changes in the exchange rates of the countries' currencies.

Table 3
Summary of US Economic Series
Third Quarter FY18 & FY17

	Third Quarter			
	FY18	**FY17**	**Chg**	**% Chg**
Real GDP	17,350.9	16,903.2	447.6	2.6
Real Consumption	12,083.4	11,758.0	325.4	2.8
Real Investment	3,051.9	2,897.0	154.9	5.3
Real Govt. Expenditures	2,928.0	2,896.6	31.4	1.1
Real Exports	2,238.0	2,162.3	75.7	3.5
Real Imports	2,924.0	2,784.5	139.5	5.0
CPI all goods (% chg)	2.2	2.6	NA	NA
CPI Food (% chg)	1.6	0.1	NA	NA
CPI Energy (% chg)	6.3	12.6	NA	NA
CPI Core (% chg)	1.9	2.1	NA	NA
Industrial Production Index (% chg)	3.8	0.6	NA	NA
Working Population[1] (millions)	256.9	254.2	2.7	1.1
Civilian Labor Force[2]	161.0	159.4	1.7	1.0
Employed[3]	154.0	151.6	2.5	1.6
Unemployed[4]	7.0	7.8	-0.8	-10.2
Not in Labor Force[5]	95.9	94.9	1.0	1.1
Labor Force Participation Rate[6] (%)	62.9	62.9	NA	NA
Unemployment Rate (%)	4.1	4.7	NA	NA

Real imports grew by 5.0 percent in the third quarter of FY18. On an adjacent-quarter basis, this was the second consecutive quarter of growth in real imports. The United States is a net importer country, which means that the US imports more goods and services than it exports. There are several reasons for this. First, the United States is a wealthy nation and therefore it has lots of disposable income with which to buy many goods. Second, foreign countries covet the ability to sell within the United States. This is because Americans are notorious for being laissez faire when it comes to buying foreign goods versus domestically-produced goods. Americans are less likely to reject a good solely on its country of origin than people from other countries do. As a result, nearly every year and every quarter, US imports are greater than US exports. Real exports made up 12.9 percent of real GDP in the third quarter, while real imports, a deduction from real GDP, made up 16.9 percent.

Federal outlays grew by 3.5 percent in the third quarter of FY18. Outlays were driven by two main accounts in the third quarter, social security and interest on the debt. Social Security expenditures grew by 5.0 percent, a net $45.9 billion, in the third quarter. That is nearly one-third of the total outlay growth. Similarly, the interest on the debt grew by 10.0 percent, a net $51.5 billion, in the third quarter. These two accounts made up two-thirds of the net growth in total outlays in the third quarter. The interest on the debt now makes up 12.8 percent of total federal outlays. The interest share of total outlays varies considerably over time. It varies due to the amount of total borrowing, but it also varies with respect to increases in the interest rate. As recently as third quarter of FY15, the share of interest on the debt fell below 10 percent.

Table 4
US Federal Outlays
$ billions, AR

	Third Quarter			
	FY18	**FY17**	**Chg**	**% Chg**
Federal Outlays excl. Gross Investment	4,390.7	4,242.0	148.7	3.5
Social Security	961.9	916.1	45.9	5.0
Medicare	686.3	667.4	18.9	2.8
National Defense	606.0	581.6	24.4	4.2
Interest on Debt	564.1	512.7	51.5	10.0
Medicaid	381.0	381.1	-0.1	0.0
Non-Medicaid Grants to S&L Govts	180.2	183.1	-2.9	-1.6
Subsidies	62.0	60.5	1.5	2.5
Aid to Foreign Governments	53.0	54.0	-1.0	-1.8

US personal income rose by 3.6 percent in the third quarter of FY18. This is the fifth consecutive quarter of solid adjacent-quarter growth. The components of personal income grew uniformly and were modest, but wages and salaries income was the strongest, growing 4.2 percent in the third quarter. The last five quarters of adjacent-quarter wages and salaries growth were equally strong paralleling the good growth in total personal income. Proprietor's income was the weakest among the components in the third quarter with a still respectable 2.0 percent growth.

US non-farm employment rose by 1.5 percent in the third quarter of FY18. Adjacent-quarter growth has been very stable for the last five years, ranging between 0.3 percent to 0.6 percent, only once falling to 0.3 percent. While quarterly growth has ranged from 1.5 percent to 2.2 percent. Historically, these are low to medium growth rates. Growth has only been above 2.0 percent in three quarters since the end of the 2007 recession. No one industry is responsible for this weak growth. It appears to be an intrinsic change in the labor market. This change occurred sometime following the 2001 recession and was seen clearly in the recovery period following the 2001 recession.

Table 5
Personal Income
$ billions, SAAR

	Third Quarter			
	FY18	**FY17**	**$ Diff**	**% Diff**
United States				
Personal Income	16,827	16,245	582	3.6
Social Insurance	1,333	1,284	49	3.8
Residence Adjustments	0	0	0	-335.0
Dividends, Interest and Rents	3,262	3,151	111	3.5
Transfer Receipts	2,921	2,832	89	3.1
Wages & Salaries	8,578	8,232	345	4.2
Supplements to W&S	1,991	1,934	57	2.9
Proprietor's Income	1,408	1,380	28	2.0
Kentucky				
Personal Income	180.7	174.3	6.4	3.7
Social Insurance	15.3	14.8	0.5	3.4
Residence Adjustments	-1.7	-1.7	0.0	2.1
Dividends, Interest and Rents	28.1	27.2	0.9	3.4
Transfer Receipts	43.5	42.1	1.4	3.3
Wages & Salaries	92.2	88.8	3.4	3.8
Supplements to W&S	23.3	22.4	0.9	3.9
Proprietor's Income	10.6	10.3	0.3	3.4

A large part of the fundamental change can be seen in the labor force participation rate data. Throughout the 1990s, the labor force participation rate hovered between 66.1 percent and 67.2 percent. It is not unusual for the labor force participation rate to dip during a recession, as some workers are put out of work involuntarily. But it usually returns to normal levels during the subsequent recovery period, as employers hire more workers to keep up with increased demand and purchases. However, following the 2001 recession, the labor force participation rate fell from 67.2 percent in the third quarter of FY01 to 66.0 percent in the fourth quarter of FY07. There was no recovery in the labor force participation rate during any time of the 2001 recovery. Then following the 2007 recession, the labor force participation rate plummeted by an even greater amount and has never recovered. The labor force participation rate fell from 65.3 percent in the first quarter of FY10 to 62.9 percent in the third quarter of FY18.

Mining employment grew the fastest among the employment supersectors, gaining 9.0 percent in the third quarter of FY18. Mining, the smallest of the supersectors, grew from 653,000 jobs to 712,000 jobs over the last year. This is a net gain of 59,000 jobs during that time. In absolute terms, business services employment and educational services employment grew by the most in the third quarter, each gaining a net 500,000 jobs in the last four quarters. The worst performing sector in the third quarter was information services, which lost 1.4 percent during that time. Information services employment has fallen by small amounts in every quarter for the last five quarters. For the five years from the third quarter of FY10 to the fourth quarter of FY15, information services employment remained at 2.7 million. Then in FY16, information services employment grew slowly to 2.8 million jobs and has remained there.

KENTUCKY ECONOMY

Kentucky personal income grew by 3.7 percent in the third quarter of FY18. On an adjacent-quarter basis, personal income grew by 1.5 percent. Kentucky personal income has been quite volatile over the last few years. Adjacent-quarter growth rates have ranged from -1.5 percent to 1.5 percent. This is just the fourth time that adjacent-quarter growth has reached 1.5 percent or higher since the end of the recession. Both wages and salaries and supplements to wages and salaries grew strongly in the third quarter, growing 3.8 percent and 3.9 percent, respectively.

Transfer income grew by 3.3 percent in the third quarter of FY18. This is the second quarter in a row that transfer income has grown, following four quarters of declines. This is an interesting inflection point during an era where transfer income is growing as a share of total personal income. In 2000, transfer income made up 17.4 percent of Kentucky personal income. Right before the 2007 recession, transfer income made up 19.6 percent of Kentucky personal income. In the third quarter of FY18, transfer income makes up 24.1 percent of Kentucky personal income. So the countercyclical nature of transfer payments has changed during the last 18 years.

Transfer income has changed in a fundamental sense, and now seems to be an acyclical monotonically increasing series. This is concerning because it has crowded out other forms of incomes, like wages and salaries and dividends, interest, and rent income. Wages and salaries income made up 53.7 percent of personal income in 2000 and declined to 51.0 percent of personal income by the third quarter of FY18.

Dividends, interest and rent income made up 17.8 percent of income in 2000, and decreased to 15.6 percent of personal income by the third quarter of FY18. These are fairly substantial changes in the makeup of personal income.

Kentucky non-farm employment grew by 0.9 percent in the third quarter of FY18. This is historically very low growth. It is also low growth relative to the nation as a whole. Kentucky non-farm employment growth has not reached 2.0 percent in a single quarter during the current expansion period. This is also the sixth consecutive quarter of growth below 1.0 percent. On an adjacent-quarter basis, non-farm employment growth has only reached 1.0 percent one time since the 2007 recession ended.

Manufacturing employment grew by 0.9 percent in the third quarter of FY18. On an adjacent-quarter basis, manufacturing employment has declined in three of the last four quarters, with growth rates of -0.1, -0.3, -0.1 and 1.4 percent, respectively. Manufacturing employment is the fourth largest employment supersector in Kentucky. Motor vehicles and parts; food, beverage, and tobacco products; and chemical products are the three largest subsectors of the Kentucky manufacturing employment base. Signature industries within these categories include automobile parts, tobacco, and bourbon.

Kentucky manufacturing employment suffered large losses during and following the 2001 recession, losing a net 7.4 percent during the recession period. During the 2001 "recovery", manufacturing employment fell continuously from 2001 to 2007, losing a net 9.8 percent of jobs. Then manufacturing employment suffered more large losses during the 2007 recession, losing a net 16.7 percent. Employment growth during the 2007 recovery period has been very slow. Employment rose from a post recession low of 208.8 million jobs in the fourth quarter of FY10 to 252.9 million in the third quarter of FY18. This is a net growth of 20.5 percent over 35 quarters. Historically, that is very slow growth.

Leisure and hospitality services employment, the fastest growing supersector in the third quarter, grew 1.6 percent. This represents a net 3,200 increase in jobs. Adjacent-quarter employment growth in leisure and hospitality has been weak for the last three years, growing over 1.0 percent just two times during that time. [The other time was the second quarter of FY16 with 1.3 percent growth]

Government employment, which includes federal, state and local government employment, grew by 0.0 percent in the third quarter of FY18. This was the slowest growing sector in the third quarter. At the end of the 2007 recession, government employment in Kentucky was 312.9 million. Following the official end of the recession, government employment rose to 324.7 million jobs by the fourth quarter of FY12. Government employment frequently increases during and following recessions as more government services are demanded by way of unemployment insurance claimants, welfare payments recipients, and other transfer payment recipients.

However, it is somewhat unusual for government employment to continue to rise this long following the end of a recession. After the fourth quarter FY12, government employment began to decline and decline steadily until second quarter of FY17. Government employment has risen in four of the last six quarters. Again, this is very unusual for being this far removed from the end of a recession. See Table 6.

Table 6
Summary of US & KY Employment
Third Quarter FY18 & FY17

	US Q3 (millions)			KY Q3 (thousands)		
	FY18	FY17	% Chg	FY18	FY17	% Chg
Non-farm Employment	148.0	145.9	1.5	1,937.5	1,920.3	0.9
Goods-producing	20.4	19.9	2.3	343.3	338.8	1.3
Construction	7.1	6.9	3.1	78.6	77.8	1.0
Mining	0.7	0.7	9.0	11.8	10.4	13.5
Manufacturing	12.6	12.4	1.5	252.9	250.7	0.9
Service-providing	105.3	103.6	1.6	1,278.2	1,265.7	1.0
Trade, Transportation & Utilities	27.7	27.4	0.8	403.8	399.9	1.0
Information	2.8	2.8	-1.4	22.9	22.7	0.8
Finance	8.5	8.4	1.3	94.5	93.7	0.8
Business Services	20.7	20.3	2.3	216.9	215.3	0.7
Educational Services	23.5	23.0	2.0	274.3	271.5	1.0
Leisure and Hospitality Services	16.3	15.9	2.2	200.0	196.8	1.6
Other Services	5.8	5.7	1.7	66.0	65.7	0.5
Government	22.3	22.3	0.1	316.0	315.8	0.0

Interim Outlook . . . .

GENERAL FUND OUTLOOK
Beyond the Third Quarter, FY18

The revenue forecasts presented in Table 7 and Table 8 were prepared using the March 2018 "control scenario" economic forecast from both Global Insight and the Kentucky MAK model. Forecasted revenues prepared pursuant to KRS 48.400(2) are internal estimates prepared by the staff of the OSBD. As stated in the Executive Summary, the Kentucky General Assembly passed two revenue measures during the 2018 Regular Session. Scores for these revenue bills are still being tabulated for HB 366 and HB 487. Therefore, the effects and fiscal impacts of these revenue bills are not included in this interim forecast. The combination of the two bills represent a revenue enhancement that will be fully detailed in the Fourth Quarter Annual Report that will be published on July 30, 2018. This report compares the most recent interim forecast to the official estimates rendered by the CFG on December 15, 2017, and specifically does not include the actions of the General Assembly during the 2018 Regular Session.

Table 7
General Fund Interim Forecast
$ millions

	FY18						FY18		FY19	
	Q1 - Q3		Q4		Full Year		Official CFG		Q1 - Q2	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	$ Diff	Estimate	% Chg
Individual Income	3,263.8	5.2	1,316.2	1.9	4,580.1	4.2	4,509.0	71.1	2,278.6	1.9
Sales & Use	2,667.6	3.5	936.6	3.3	3,604.1	3.4	3,611.9	-7.8	1,856.1	2.7
Property	552.1	3.7	65.3	-6.5	617.4	2.5	607.9	9.5	409.5	-1.5
Corporate Income	313.2	5.1	259.7	30.3	572.9	15.2	558.6	14.3	277.1	0.6
Coal Severance	68.9	-10.9	23.3	0.9	92.2	-8.2	88.5	3.7	52.1	11.7
Cigarette Tax	155.6	-4.7	56.5	-2.8	212.1	-4.2	214.3	-2.2	103.7	-2.3
LLET	141.1	-5.0	49.9	-48.6	191.0	-22.2	186.2	4.8	106.9	1.1
Lottery	176.0	-0.1	67.0	2.3	243.0	0.6	243.0	0.0	118.5	1.7
Other	552.1	4.6	164.2	1.3	716.3	3.8	699.0	17.3	291.2	0.4
General Fund	**7,890.4**	**3.8**	**2,938.8**	**2.3**	**10,829.1**	**3.4**	**10,718.4**	**110.7**	**5,493.7**	**1.7**

Projected General Fund revenues for the next three quarters are shown in Table 7. As the table indicates, General Fund growth in the final quarter of FY18 is projected to be 2.3 percent compared to the final quarter of FY17. Growth in the first three quarters of FY18 was 3.8 percent. Revenues for the entire FY18 are predicted to be $10,829.1 million for growth of 3.4 percent. Collections at the forecasted levels would compare favorably to the FY18 official revenue estimate of $10,718.4 million, leading to revenues in excess of the official estimate by $110.7 million. The largest single revenue source that is expected to outperform the official estimate is the individual income tax, with a projected excess of $71.1 million. Revenue growth for the whole General Fund in the first half of FY19 is forecasted to soften somewhat to a pace of 1.7 percent.

In forecasting the individual income tax receipts, the first step is to estimate "withholding" collections. Withholding receipts account for roughly 95 percent of the total individual income tax receipts. Declaration (estimated) payments are historically positive, but declarations are offset nearly dollar-for-dollar by net payments with returns. This net payments account historically runs negative due to over-withholding and the high number of refunds that are returned to taxpayers in February, March, and April every year.

The withholding component of the individual income tax adds stability to the overall growth. Individual income tax growth posted 5.2 percent in the first three quarters of FY18. Withholding is expected to slow for the remainder of FY18 and into the first half of FY19. Withholding is closely tied to wages and salaries and employment in the state. Overall, projections for the individual income tax indicate that FY18 will end 4.2 percent higher than FY17.

Annual sales tax receipts slowed significantly in FY17 but have rebounded nicely in FY18. Through the first nine months, sales taxes have grown 3.5 percent with expected growth of 3.3 percent in the fourth quarter. If the expectations for the fourth quarter prove accurate, the sales tax will generate $3,604.1 million in FY18; just $7.8 million lower than the official estimate. Growth in the first half of FY19 is expected to taper off to 2.7 percent, but the consumption sector in Kentucky appears to have recovered from the 0.7 percent growth witnessed in FY17. Improvements in personal income, especially wages and salaries, have likely contributed to the rebound in the sales and use tax.

Property tax revenues are expected to decrease by 6.5 percent over the remainder of the year following growth of 3.7 percent in the first nine months of FY18. Over 90 percent of the property tax receipts have already been collected in FY18, so the modest drop in the fourth quarter will not have a devastating effect on the annual growth rate which is expected to be 2.5 percent. Property taxes are finally shaking off the effects of the 2007 recession, even though the state rate on real property has remained at 12.2 cents per $100 in valuation since the beginning of the recession.

The OSBD has fundamentally changed the way that the two largest business taxes, the corporation income tax and the LLET, are estimated. Due to the interaction between payment of the LLET and the credit on the income tax return, it is difficult to pinpoint exact amounts of business tax to apportion or allocate between each tax category. Therefore, OSBD has adopted a model with a combined forecasting variable equal to the sum of LLET and corporate income tax receipts.

The forecast for the final quarter of FY18 calls for strong growth in the corporation income tax with an offsetting sharp decline in the LLET. Through March, the combined accounts have grown 1.7 percent as the income tax has grown 5.1 percent while the LLET has declined 5.0 percent. Receipts can decline 2.0 percent for the remainder of the fiscal year and still hit the official estimate, but our interim forecast calls for the Commonwealth to exceed the estimate by $19.1 million.

Energy markets, and coal markets in particular, continue to be fraught with downside risk. The official estimate for the coal severance tax calls for receipts of $88.5 million, a decline of 11.9 percent. The interim estimate calls for receipts of $23.3 million in the fourth quarter of FY18, bringing the annual total to $92.2 million – a decline of 8.2 percent for the year. Partially due to the uptick in mining employment discussed in this report, the prospects for the coal severance tax are expected to improve slightly in the first half of FY19 with growth of 11.7 percent. However, any meaningful rebound in the coal severance tax to its previous high are certainly not built into this interim forecast.

Cigarette tax receipts grew 1.5 percent in FY16 followed by a 1.3 percent decline in FY17. There are two counter-balancing forces that characterize the current market for Kentucky-sold cigarettes. First, there is the protracted downward trend in smoking rates both nationally and in Kentucky. Second, there is increased border sales due to higher tax rates in most neighboring states. Smoking rates have been declining for at least two decades due to health concerns, smoking bans, and other factors. Thus far in FY18, the downturn in smoking rates trend has dominated any border impacts as receipts have fallen 4.7 percent. Receipts are expect to decline another 2.8 percent for the fourth quarter of FY18 resulting in an annual decline of 4.2 percent.

Kentucky Lottery receipts are virtually flat thus far in FY18, but expectations for the fourth quarter include a 2.3 percent increase. Growth at the projected rate will put year-end lottery receipts right on the estimate of $243.0 million. In FY19 Lottery dividends to the General Fund are expected to grow $5.0 million based on continued sales growth in nearly all Kentucky Lottery products.

The ubiquitous “Other” revenue accounts have been a pleasant surprise in the first three quarters of FY18, growing at a rate of 4.6 percent. Growth in the final quarter is expected to wane to 1.3 percent making year-end growth equal to 3.8 percent -- $17.3 million higher than the official estimate. Several of the larger accounts have outpaced projections, including the insurance premiums tax, bank franchise tax, telecommunications tax, pari-mutuel taxes, and the PSC assessment fee.

ROAD FUND OUTLOOK
Beyond the Third Quarter, FY18

Road Fund revenues are expected to decline slightly in the fourth quarter of FY18, extending their run of quarterly decreases. Should revenues fall in the fourth quarter, it would be the first time since FY09 in which receipts fell in all four quarters of a fiscal year. Road Fund revenues have historically experienced steady, solid growth. For perspective, Road Fund revenues declined in only seven of the past 36 years. Growth rates for the first three quarters of FY18 have been -0.5, -0.3, and -1.7 percent, respectively. Revenues are forecasted to fall in the first two quarters of FY19 as shown in Table 8. Growth rates for the fourth quarter of the current fiscal year and the first six months of FY19 are forecast to be -0.8 percent and -0.3 percent, respectively. The FY18 full-year forecast is $7.9 million less than the official revenue forecast as approved by the CFG in December 2017.

Table 8
Road Fund Interim Forecast
$ millions

	FY18						FY18		FY19	
	Q1 - Q3		Q4		Full Year		Official CFG		Q1 - Q2	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	$ Diff	Estimate	% Chg
Motor Fuels	569.1	0.5	190.7	-1.7	759.8	-0.1	761.2	-1.4	383.4	-1.3
Motor Vehicle Usage	364.6	-2.5	125.9	-0.1	490.5	-1.9	493.9	-3.4	243.7	0.9
Motor Vehicle License	73.5	-4.1	36.0	1.9	109.5	-2.2	113.4	-3.9	40.0	-3.1
Motor Vehicle Operators	12.4	4.3	4.3	1.7	16.7	3.6	16.6	0.1	7.9	-5.8
Weight Distance	61.7	-1.5	20.2	-0.1	81.9	-1.2	81.4	0.5	42.3	2.1
Income on Investments	1.6	167.1	0.4	-61.4	2.0	26.5	2.0	0.0	1.5	44.5
Other	26.8	-0.6	8.2	0.1	35.0	-0.4	34.8	0.2	18.4	5.0
Road Fund	**1,109.6**	**-0.8**	**385.8**	**-0.8**	**1,495.4**	**-0.8**	**1,503.3**	**-7.9**	**737.2**	**-0.3**

Motor fuels tax collections are forecasted to decline 1.7 percent over the final quarter of FY18. Because the tax rate in effect for the current fiscal year is unchanged from the prior year, growth in this revenue source is limited to changes in consumption which tends to be in the range of -1.0 percent to 1.0 percent annually. Receipts in the first two quarters of FY19 are expected to continue their decline, falling 1.3 percent, as the tax rate remains unchanged.

Motor vehicle usage tax collections have fallen 2.5 percent in the first three quarters of the fiscal year and are expected to decrease in the fourth quarter as well, falling 0.1 percent. Collections are forecasted to rebound slightly in the first half of FY19, with receipts increasing 0.9 percent. The FY18 growth rates for the first three quarters have been -4.4, 2.4, and -4.7 percent.

To estimate the growth of all other components of the Road Fund, officials of the Kentucky Transportation Cabinet and staff of the Governor's Office for Economic Analysis together assessed recent growth patterns as well as administrative and statutory factors.

Motor vehicle license taxes are forecasted to grow 1.9 percent in the final quarter of FY18 before falling 3.1 percent in the first two quarters of FY19. Motor vehicle operators' licenses are projected to increase 1.7 percent for the remainder of the fiscal year but decrease 5.8 percent over the first six months of FY19. Weight distance tax revenue is forecast to decrease 0.1 percent in the final quarter of the fiscal year but increase 2.1 percent in the first half of FY19. Investment income has grown over the first nine months of the fiscal year and that trend is expected to continue over the forecast horizon. All other revenues have fallen 0.6 percent during the first three quarters of the current fiscal year. However, receipts in this revenue category are expected to increase over the next nine months, increasing 0.1 percent in the fourth quarter of FY18 and 5.0 percent for the first half of FY19.

NATIONAL ECONOMY OUTLOOK
Beyond the Third Quarter, FY18

As we enter the fourth quarter of the 2018 fiscal year, the economy is primed for acceleration in the coming fiscal quarters, as fiscal stimulus from the Tax Cuts and Jobs Act (TCJA) provisions are combined with the increased federal spending afforded by the Bipartisan Budget Act of 2018. Looking past the recent volatility, real GDP is expected to strengthen in the upcoming, final quarter of the fiscal year by 2.7 percent. The gains are expected to be driven by consumer spending, which have been encouraged by record household net worth and continued gains in employment and after-tax income. Additional growth will be fueled by the Bipartisan Budget Act of 2018, signed into law by President Trump in early February, which authorizes $296 billion in additional discretionary spending, extended several expiring tax provisions, and suspends the debt ceiling until early calendar 2019.

In March, President Trump—invoking national security concerns under Section 232 of the Trade Expansion Act of 1962—enacted new tariffs of 25 percent on imported steel and 10 percent on imported aluminum. Imports from Canada and Mexico, the first and third largest foreign suppliers, respectfully, are exempt from the tariffs pending the outcome of renegotiations of the North American Free Trade Agreement. Additionally, other trading partners and impacted domestic companies may petition for relief. Domestic producers of steel and aluminum lauded the move while domestic consumers and foreign suppliers have expressed strong objections.

Tariffs ranging from 8 percent to 30 percent were last imposed on steel for 30 months during the administration of George W. Bush. The consensus view of researchers is that, while domestic steel production did rise when those tariffs were in force, several hundred thousand jobs were lost in steel-consuming industries. At the current stage, the economic concern is concentrated in the specific industries and employment sectors that are directly impacted by the proposed tariffs. At the macroeconomic level, the proposed tariffs on imported steel and aluminum represent a modest impact on the current forecast with a potential decrease in annual real GDP growth of 0.1 percentage points and a corresponding 0.1 percentage point increase in CPI inflation. The greater concern, and potentially significant downside risk to the overall economy, is the potential for these tariffs to be just an opening salvo, inviting retaliation by our trading partners and eventually escalating into a full-blown trade war.

The Federal Open Market Committee (FOMC), as expected, raised the federal funds rate by 25 basis points at their March meeting. In addition to raising the benchmark interest rate, the FOMC signaled that the committee is considering increasing the pace at which increases to the federal funds rate could occur at future meetings. Given the forecast for strong consumer demand, tight labor markets, and the impact of fiscal stimulus; expected increases in personal consumption expenditure (PCE) price indexes could rapidly exceed the targeted inflation rate of the Federal Reserve necessitating future rate hikes.

KENTUCKY ECONOMY OUTLOOK
Beyond the Third Quarter, FY18

As the close of FY18 approaches, the third quarter marked the fifth consecutive quarter Kentuckian's have experienced growth in personal income. As result, individual income tax collections have gained benefit from the economic tailwind, reflecting 5.2 percent growth through the first nine months of FY18. In the same respect, sales and use tax receipts have increased 6.5 percent for the month of March and have grown 3.5 percent year-to-date. After declining 1.3 percent in the first two months of the fiscal year, sales and use collections have made a solid rebound, exceeding 5.3 percent growth in five of the past seven months.

Shifting focus towards Kentucky's Economic Outlook for the final quarter of FY18 and first two quarters of FY19, the Commonwealth is poised to maintain a steady pace of growth for personal income at an estimated 4.4 percent to end FY18, and 5.2 percent entering FY19. Kentuckians' wages and salaries projection have a similar outlook, reflecting steady growth of 4.7 percent in the fourth quarter of FY18. Continued growth of 5.3 percent is expected to span into the first two quarters of FY19.

The employment picture, while generally positive, remains weak compared to other recovery periods. Total non-farm payroll employment is anticipated to edge up 24,000 by June and an additional 10,200 by December to end the second quarter of FY19.

Breaking into a sectoral analysis, the outlook for goods-producing employment projects growth in all three supersectors. While, weaker growth is expected for construction and manufacturing employment, the mining sector has a more favorable outlook. Employment in the mining sector is anticipated to witness an increase of 1,100 jobs in fourth quarter of FY18, compared to the fourth quarter in the prior year, proving to be a rarity as of late with the decline of the coal industry. Mining employment is anticipated to rise 10.4 percent in closing out FY18, with a lower pace of growth anticipated of 2.4 percent in the first half of FY19. The largest contributors pertaining to the employment gain in mining supersector group is attributable to oil production and natural gas severance.

The service-providing sector will end the final quarter of FY18 on a positive note with growth anticipated at 1.3 percent, along with growth of 1.6 percent over the rest of the forecast horizon. Focusing now on the first two quarters of FY19, slight job loss are expected in other services. Business services are expected to account for the largest employment surge in the first and second quarters of FY19, gaining an estimated 8,200 additional employees in the industry supersector group. The service-providing sector accounts for approximately 66 percent of Kentucky's workforce, or 1.3 million employees of the non-farm employment labor force.

Government employment is projected to rise 0.2 percent in the final quarter of FY18, and 0.3 percent into the first and second quarters of FY19.

Table 9
US Economic Outlook
FY18 Q4, FY19 Q1 & Q2

	Q4			Full Year		Q1 & Q2	
	FY18	FY17	% Chg	FY18	% Chg	FY19	% Chg
Real GDP	17,486.9	17,031.1	2.7	17,318.3	2.5	17,699.1	2.8
Real Consumption	12,170.4	11,853.0	2.7	12,049.6	2.7	12,291.3	2.7
Real Investment	3,094.6	2,924.7	5.8	3,031.4	4.8	3,178.5	6.3
Real Govt. Expenditures	2,947.2	2,895.2	1.8	2,924.0	0.9	2,977.6	2.3
Real Exports	2,258.7	2,181.1	3.6	2,229.9	3.6	2,311.4	4.5
Real Imports	2,957.2	2,794.8	5.8	2,888.5	4.7	3,032.9	6.9
CPI all goods (% chg)	2.4	1.9	NA	2.2	NA	2.1	NA
CPI Food (% chg)	1.5	0.8	NA	1.4	NA	1.9	NA
CPI Energy (% chg)	5.8	5.6	NA	6.6	NA	1.2	NA
CPI Core (% chg)	2.3	1.8	NA	1.9	NA	2.3	NA
Industrial Production Index (% chg)	2.9	2.1	NA	2.9	NA	3.4	NA
Unemployment Rate (%)	4.0	4.3	NA	4.1	NA	3.8	NA

Table 10
Kentucky Economic Outlook
FY18 Q4, FY19 Q1 & Q2

	Q4			Full Year		Q1 & Q2	
	FY18	FY17	% Chg	FY18	% Chg	FY19	% Chg
Personal Income ($ millions)	182,600.6	174,842.0	4.4	179,328.4	3.0	186,168.5	5.2
Wages and Salaries ($ millions)	93,260.7	89,113.2	4.7	91,507.1	3.0	95,024.4	5.3
Non-farm Employment (thousands)	1,943.6	1,919.6	1.2	1,931.5	0.8	1,953.8	1.6
Goods-producing	344.8	337.6	2.1	340.3	0.9	346.1	2.9
Construction	79.0	76.8	2.9	77.8	1.1	79.6	3.6
Mining	11.6	10.5	10.4	11.0	6.8	10.5	2.4
Manufacturing	254.1	250.4	1.5	251.5	0.6	256.0	2.6
Service-providing	1,282.7	1,266.3	1.3	1,275.3	0.9	1,290.9	1.6
Trade, Transportation & Utilities	405.0	400.7	1.1	404.3	1.1	406.4	0.6
Information	22.8	22.9	-0.4	22.8	-0.7	22.8	0.4
Finance	94.6	93.7	1.0	93.7	0.1	95.3	2.6
Business Services	218.2	214.1	1.9	216.0	0.5	222.7	3.8
Educational Services	275.2	272.1	1.1	273.7	1.1	276.2	1.3
Leisure and Hospitality Services	201.1	196.9	2.1	198.7	1.4	202.4	2.8
Other Services	65.8	65.8	0.0	66.1	0.6	65.2	-1.8
Government	316.2	315.7	0.2	315.9	0.0	316.8	0.3

APPENDIX

General and Road Fund Receipts
Third Quarter FY18

KENTUCKY STATE GOVERNMENT – GENERAL FUND

	Third Quarter FY 2018	Third Quarter FY 2017	% Change	Year-To-Date FY 2018	Year-To-Date FY 2017	% Change
TOTAL GENERAL FUND	$2,490,472,569	$2,364,536,706	5.3%	$7,890,359,031	$7,604,054,485	3.8%
Tax Receipts	$2,420,844,961	$2,290,308,261	5.7%	$7,638,705,700	$7,348,933,339	3.9%
Sales and Gross Receipts	$1,024,349,640	$973,768,245	5.2%	$3,104,826,594	$3,011,899,378	3.1%
Beer Consumption	1,254,010	1,353,172	-7.3%	4,510,905	4,605,040	-2.0%
Beer Wholesale	12,178,572	12,486,235	-2.5%	43,589,464	44,130,011	-1.2%
Cigarette	49,439,604	51,594,876	-4.2%	155,576,176	163,248,303	-4.7%
Distilled Spirits Case Sales	36,428	35,716	2.0%	114,796	115,188	-0.3%
Distilled Spirits Consumption	3,322,483	3,308,468	0.4%	10,521,492	10,674,988	-1.4%
Distilled Spirits Wholesale	10,596,534	10,364,751	2.2%	33,383,320	32,838,402	1.7%
Insurance Premium	60,271,135	53,100,228	13.5%	106,530,607	99,853,309	6.7%
Pari-Mutuel	2,241,696	1,897,974	18.1%	5,054,805	4,029,469	25.4%
Race Track Admission	1,307	35,573	-96.3%	159,457	141,991	12.3%
Sales and Use	859,897,370	818,714,364	5.0%	2,667,554,744	2,578,166,009	3.5%
Wine Consumption	801,616	650,760	23.2%	2,345,972	2,309,008	1.6%
Wine Wholesale	4,442,041	4,615,392	-3.8%	13,010,806	13,942,211	-6.7%
Telecommunications Tax	14,848,166	10,447,528	42.1%	46,231,604	41,810,325	10.6%
Other Tobacco Products	5,018,423	5,159,009	-2.7%	16,243,120	16,029,086	1.3%
Floor Stock Tax	257	4,199	-93.9%	(673)	6,040	---
License and Privilege	$113,832,241	$105,630,876	7.8%	$115,224,334	$104,904,413	9.8%
Alc. Bev. License Suspension	114,000	48,550	134.8%	389,367	284,253	37.0%
Corporation License	(8,655)	14,184	---	3,431	6,746	-49.1%
Corporation Organization	30,481	48,255	-36.8%	48,121	971,452	-95.0%
Occupational Licenses	44,826	39,630	13.1%	112,408	106,534	5.5%
Race Track License	3,150	46,000	-93.2%	232,200	227,475	2.1%
Bank Franchise Tax	113,488,781	105,269,886	7.8%	113,934,428	102,789,317	10.8%
Driver License Fees	159,658	164,371	-2.9%	504,380	518,637	-2.7%
Natural Resources	$29,099,743	$34,131,357	-14.7%	$93,351,024	$99,374,746	-6.1%
Coal Severance	22,268,547	27,314,665	-18.5%	68,896,013	77,338,437	-10.9%
Oil Production	1,295,607	1,377,758	-6.0%	3,713,846	3,825,636	-2.9%
Minerals Severance	2,914,071	3,136,644	-7.1%	13,860,802	13,160,344	5.3%
Natural Gas Severance	2,621,518	2,302,290	13.9%	6,880,364	5,050,330	36.2%
Income	$1,100,816,843	$1,021,532,678	7.8%	$3,718,049,256	$3,548,794,761	4.8%
Corporation	37,795,373	26,340,921	43.5%	313,153,477	298,061,550	5.1%
Individual	1,027,696,586	943,978,118	8.9%	3,263,822,562	3,102,169,569	5.2%
Limited Liability Entity	35,324,884	51,213,639	-31.0%	141,073,217	148,563,642	-5.0%
Property	$136,325,541	$138,096,675	-1.3%	$552,145,104	$532,334,834	3.7%
Building & Loan Association	21,518	0	---	31,401	15,372	104.3%
General - Real	68,538,164	69,861,121	-1.9%	277,940,069	268,531,995	3.5%
General - Tangible	55,348,424	57,149,910	-3.2%	204,411,457	191,700,646	6.6%
Omitted & Delinquent	5,246,602	4,245,755	23.6%	14,452,627	13,555,430	6.6%
Public Service	6,470,176	6,113,049	5.8%	53,548,968	56,861,323	-5.8%
Other	700,657	726,840	-3.6%	1,760,581	1,670,067	5.4%
Inheritance Tax	$10,386,472	$10,089,395	2.9%	$37,382,548	$32,674,162	14.4%
Miscellaneous	$6,034,482	$7,059,034	-14.5%	$17,726,841	$18,951,045	-6.5%
Legal Process	3,392,613	3,436,570	-1.3%	9,769,283	10,021,816	-2.5%
T. V. A. In Lieu Payments	2,631,901	3,596,979	-26.8%	7,943,710	8,859,960	-10.3%
Other	9,968	25,485	-60.9%	13,848	69,269	-80.0%
Nontax Receipts	$67,342,940	$69,136,381	-2.6%	$247,177,552	$247,778,012	-0.2%
Departmental Fees	7,167,229	6,518,335	10.0%	14,886,784	13,966,994	6.6%
PSC Assessment Fee	14,584	381	3730.3%	15,840,021	13,031,700	21.5%
Fines & Forfeitures	4,517,027	4,583,059	-1.4%	13,125,799	13,879,448	-5.4%
Income on Investments	(2,204,640)	(600,629)	---	(5,448,062)	(927,633)	---
Lottery	59,500,000	58,000,000	2.6%	176,000,000	176,127,129	-0.1%
Miscellaneous	(1,651,259)	635,235	---	32,773,010	31,700,373	3.4%
Redeposit of State Funds	$2,284,667	$5,092,065	-55.1%	$4,475,779	$7,343,134	-39.0%

KENTUCKY STATE GOVERNMENT – ROAD FUND REVENUE

	Third Quarter FY 2018	Third Quarter FY 2017	% Change	Year-To-Date FY 2018	Year-To-Date FY 2017	% Change
TOTAL ROAD FUND	$370,133,544	$376,520,443	-1.7%	$1,109,647,558	$1,119,011,638	-0.8%
Tax Receipts-	$363,699,545	$369,399,324	-1.5%	$1,091,862,476	$1,102,055,939	-0.9%
Sales and Gross Receipts	$303,840,886	$305,376,087	-0.5%	$933,686,480	$940,339,403	-0.7%
Motor Fuels Taxes	180,780,203	176,226,413	2.6%	569,070,645	566,511,399	0.5%
Motor Vehicle Usage	123,060,683	129,149,674	-4.7%	364,615,835	373,828,004	-2.5%
License and Privilege	$59,858,659	$64,023,236	-6.5%	$158,175,996	$161,716,536	-2.2%
Motor Vehicles	32,188,364	36,947,827	-12.9%	73,476,185	76,590,392	-4.1%
Motor Vehicle Operators	3,990,652	3,869,404	3.1%	12,375,584	11,868,391	4.3%
Weight Distance	20,240,755	20,731,656	-2.4%	61,673,568	62,638,710	-1.5%
Truck Decal Fees	27,052	13,315	103.2%	52,412	31,686	65.4%
Other Special Fees	3,411,835	2,461,034	38.6%	10,598,247	10,587,357	0.1%
Nontax Receipts	$6,407,024	$6,848,520	-6.4%	$17,151,619	$16,391,891	4.6%
Departmental Fees	4,978,649	5,765,635	-13.6%	13,770,967	14,246,093	-3.3%
In Lieu of Traffic Fines	92,600	101,486	-8.8%	261,496	269,006	-2.8%
Income on Investments	586,412	759,766	-22.8%	1,624,142	608,977	166.7%
Miscellaneous	749,364	221,633	238.1%	1,495,013	1,267,816	17.9%
Redeposit of State Funds	$26,975	$272,600	-90.1%	$633,463	$563,808	12.4%

Glossary

Table Notes

GLOSSARY

Adjacent-quarter	A growth rate computed as the current quarter relative to the previous quarter.
AR	Annual Rate is the quantity of a series that would occur for the entire year, if the current period's growth were to continue for the entire year.
Civilian Labor Force	A subset of the working population who are currently employed or are actively looking for employment.
Employed	In the context of working population and civilian labor force data, Employed is a subset of the civilian labor force who are employed regardless of industry or profession. This is therefore different than non-farm employment, which explicitly does not include those persons employed in the agricultural sector.
Growth rate	Unless otherwise stipulated, a growth rate is computed as the current quarter relative to the same quarter of the previous year.
Labor Force Participation Rate	The Civilian Labor Force divided by the Working Population.
Not in Labor Force	A subset of the working population who have decided not to be employed nor seek employment.
SA	Seasonally-Adjusted
SAAR	Seasonally-Adjusted Annual Rate
Unemployed	In the context of working population and civilian labor force data, Unemployed is a subset of the civilian labor force who are not currently employed but are actively seeking employment.
Working population	The group of persons who are 16 years or older, non-institutionalized, not in prison, not in an old-age home, and not engaged in active military duty. It is meant to capture those persons who are capable of working and could work if suitable employment were found. Working population figures are listed in millions.

TABLE NOTES

Table 3
Not Seasonally Adjusted. Real series are annual rate, billions of chained 2000 dollars.
Components do not sum to GDP because they are annualized independently.
Data for FY18 Q3 are March 2018 estimates.
Source: IHS Markit – Economics and Country Risk March 21, 2018 data release.

Table 4
Not Seasonally Adjusted. Data for FY18 Q3 are March 2018 estimates.
Source: IHS Markit – Economics and Country Risk March 21, 2018 data release.

Table 6
Not Seasonally Adjusted. Data for FY18 Q3 are March 2018 estimates.
Source: IHS Markit – Economics and Country Risk March 21, 2018 data release.

Table 9
Not Seasonally Adjusted. Real series are annual rate, billions of chained 2000 dollars.
Components do not sum to GDP because they are annualized independently.
Source: IHS Markit – Economics and Country Risk March 21, 2018 data release.

Table 10
Not Seasonally Adjusted.
Source: IHS Markit – Economics and Country Risk and the Kentucky Governor's Office for Economic Analysis MAK model, March 2018.