

Commonwealth of Kentucky  
**Quarterly Economic &  
Revenue Report**

Second Quarter Fiscal Year 2025



Governor's Office For Economic Analysis  
Office of State Budget Director

*Celebrating 100 Years of Kentucky State Parks*







**Office of State Budget Director**

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**Andy Beshear**  
Governor

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January 30, 2025

The Honorable Andy Beshear  
Governor  
Commonwealth of Kentucky  
State Capitol Building  
Frankfort, Kentucky 40601

Mr. Jay Hartz, Director  
Legislative Research Commission  
Room 300, State Capitol  
Frankfort, Kentucky 40601

Mr. Zach Ramsey, Director  
Administrative Office of the Courts  
1001 Vandelay Drive  
Frankfort, Kentucky 40601

Dear Honorable Governor Beshear, Mr. Hartz and Mr. Ramsey:

In accordance with KRS 48.400(2), the Office of State Budget Director (OSBD) is directed to report on the actual revenue receipts from the just-concluded quarter and prepare an interim forecast for revenue receipts for the next three fiscal quarters. In fulfillment of this mandate, OSBD submits this *Quarterly Economic and Revenue Report* for the second quarter of fiscal year 2025 (FY25).

This report includes the actual revenue receipts and economic conditions for the second quarter and an unofficial forecast for the final two quarters of FY25 and first fiscal quarter of FY26 (the forecast horizon). The report also provides an outlook for the national and state economies that provided the inputs into the revenue models.

TEAM   
KENTUCKY

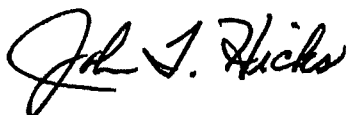


When combining the first half of actual receipts from FY25 with the next two fiscal quarters, the interim forecast predicts FY25 General Fund revenue of \$15,816.4 million, or a 1.6 percent increase compared to FY24. Collections at this level would result in \$243.5 million more than the \$15,572.9 million enacted estimate for FY25. Compared to the previous edition of the *Quarterly Economic and Revenue Report*, top-line growth in the unofficial interim estimate for the General Fund has been upwardly revised from a projected 1.4 percent decline in FY25 in the prior report to a 1.6 predicted increase for FY25 in the current outlook. The \$458 million improvement in the General Fund outlook for FY25 is attributable to two sets of accounts: the major business taxes and the individual income tax.

With the first half of FY25 actual Road Fund receipts complete, the interim forecast for the second half of FY25 predicts Road Fund revenue of \$1,864.8 million which would result in \$39.8 million more than the enacted estimate. After revenue growth in seven of the past eight years, the January 2025 interim Road Fund forecast calls for a reduction of collections in the second half of FY25 and continuing into the first quarter of FY26. The expansionary period was characterized by growth in the two largest accounts – motor vehicle usage and motor fuels taxes. Beginning in the first quarter of FY25 and continuing through the forecast period of this report, declining motor fuels taxes will impede growth in the Road Fund as a whole, primarily due to a reduction of 2.1 cent per gallon in the tax rate on motor fuels.

This office will continue to closely monitor Kentucky's economic and revenue conditions and will provide updates at the appropriate times.

Sincerely,



John T. Hicks  
State Budget Director



# TABLE OF CONTENTS

**Executive Summary** ..... 1

## **Revenue & Economic Outlook Second Quarter FY25**

General Fund Outlook..... 4  
Road Fund Outlook..... 7  
National Economic Outlook ..... 8  
Kentucky Economic Outlook..... 10

## **Revenue Receipts – Second Quarter FY25**

General Fund ..... 12  
Road Fund ..... 14

## **The Economy – Second Quarter FY25**

National Economy ..... 17  
Kentucky Economy ..... 20

## **Appendix**

General Fund and Road Fund Receipts ..... 23-25

**Glossary**..... 26-27





# EXECUTIVE SUMMARY

In accordance with KRS 48.400(2), the Office of State Budget Director (OSBD) is directed to report on the actual revenue receipts from the just-concluded quarter and prepare an interim forecast for revenue receipts for the next three fiscal quarters. In fulfillment of this mandate, OSBD submits this *Quarterly Economic and Revenue Report* for the second quarter of fiscal year 2025 (FY25). This report includes the actual revenue receipts for the second quarter and an unofficial forecast for the remaining two quarters of FY25 and the first quarter of FY26 (the forecasting horizon). The report also provides updates on the national and Kentucky economic conditions for the most recently completed quarter and an economic outlook for the forecasting horizon.

The interim General Fund and Road Fund outlooks prepared are presented in Table 1 and Table 2. General Fund and Road Fund unofficial estimates were projected using the December 2024 “control scenario” economic forecast from both IHS Markit and the Kentucky MAK model as the primary inputs into the account-specific revenue models. IHS Markit has placed a 55 percent probability on their “control scenario” as being the most likely economic outcome, relative to the pessimistic (25 percent) and optimistic (20 percent) scenarios. In addition, the revenue estimates incorporate various tax law changes enacted during recent legislative sessions of the General Assembly.

Compared to the previous edition of the *Quarterly Economic and Revenue Report*, top-line growth in the unofficial interim estimate for the General Fund has been upwardly revised from a projected 1.4 percent decline in FY25 in the prior report to a 1.6 percent predicted increase for FY25 in the current outlook. The \$458 million improvement in the General Fund outlook for FY25 is attributable to two sets of accounts: the major business taxes and the individual income tax. The major business taxes, the corporation income tax and limited liability entity tax (LLET), improved by \$232.4 million based on continued strong collections and stronger-than-expected corporate profits. The outlook for individual income taxes improved \$238.4 million due to an improved outlook for all components of the tax. All remaining General Fund accounts combined to a difference of \$12.8 million relative to the first quarter report.

## **Projected General Fund Growth for the Forecast Horizon**

The current enacted estimate for FY25 is \$15,572.9 million was established by the Consensus Forecasting Group in December 2023 and modified during the 2024 regular session of the Kentucky General Assembly. Table 1 displays the interim forecast for the remainder of FY25 in comparison to the enacted estimates. When combined with the first half of actual receipts, the interim forecast predicts General

Fund revenue of \$15,816.4 million which would result in \$243.5 million more than the enacted estimate. Revenue during the first quarter of FY26 is expected to be essentially flat as the individual income tax continues to decline, while the combined other accounts improve by nearly the same amount.

### **Projected Road Fund Growth for the Forecast Horizon**

When combined with the first half of actual receipts, the interim forecast predicts Road Fund revenue of \$1,864.8 million which would result in \$39.8 million more than the enacted estimate. After revenue growth in seven of the past eight years, the January 2025 interim Road Fund forecast calls for a reduction of collections in the second half of FY25 and continuing into the first quarter of FY26. The expansionary period was characterized by growth in the two largest accounts – motor vehicle usage and motor fuels taxes. Beginning in the first quarter of FY25 and continuing through the forecast period of this report, declining motor fuels taxes will impede growth in the Road Fund as a whole, primarily due to a 2.1 cent motor fuels tax rate reduction. Going forward, Road Fund collections are forecasted to decrease 1.2 percent for the remainder of the year and decline 1.8 percent in the first quarter of FY26. Motor fuels tax revenues are forecasted to decline 8.1 percent over the final two quarters of the year and then fall 5.0 percent in the first quarter of FY26. Motor vehicle usage tax collections on the other hand, are forecasted to remain strong through the forecast period. Growth rates for the final six months of FY25 and the first quarter of FY26 are forecasted to be 6.0 percent and 3.6 percent, respectively.

### **Outlook for Major Economic Components**

Real GDP is expected to grow 2.1 percent in the second half of FY25, followed by 1.7 percent growth in the first quarter of FY26. The biggest contributor to growth during the forecast horizon is real exports, with expected growth of 3.6 percent in the second half of FY25 and then another 2.4 percent growth in the first quarter of FY26. Real consumption, the largest component of real GDP, is expected to grow 2.8 percent in the final six months of FY25. Inflation is expected to fall to 2.4 percent in the last six months of FY25, but then it is expected to rise to 3.2 percent in the first quarter of FY26.

US non-farm employment is expected to rise 1.1 percent in the second half of FY25, and then gain an additional 0.8 percent in the first quarter of FY26. All three major categories are expected to grow modestly: goods-producing, service-providing, and government. Eight of the 11 supersectors show mild growth, and three mild reductions. (Table 4). US personal income is expected to rise 4.6 percent in the second half of FY25, then rise an additional 5.6 percent in the first quarter of FY26.

The outlook for Kentucky personal income projects growth in the second half of FY25, increasing 4.1 percent compared to the third and fourth quarters of FY24. The wages and salaries component of Kentucky personal income is forecasted to increase 4.2 percent in the final two quarters of FY25, a pace slightly behind the 4.7 percent

growth in the first half of FY25. When the first two quarters of FY25 are combined with the forecasted period, full-year FY25 wages and salaries growth is expected to be 4.5 percent.

### **Summary of Second Quarter Tax Receipts**

General Fund receipts grew 2.1 percent in the second quarter of FY25 after increasing 1.3 percent in the first quarter. The official General Fund revenue estimate calls for no revenue growth in FY25 which means revenues can fall 1.6 percent over the final six months of the fiscal year and still meet the official estimate. The major business taxes showed extraordinary growth with revenues nearly \$200 million more than in the second quarter of FY24. An expected drop in individual income tax revenues mitigates those gains. Among the remaining major accounts, coal severance and property taxes, and lottery receipts all grew in the quarter. Sales and use taxes were flat. Cigarette taxes and "Other" collections posted quarterly declines.

Total Road Fund receipts had their first quarterly decline since the first quarter of FY23 as revenues fell 3.3 percent in the just completed quarter. Revenue collections were \$14.7 million less than what was collected last year with the majority of the decline resulting from the reduction in the motor fuels tax rate. The official Road Fund revenue estimate calls for a 2.6 percent decrease in revenues for the year. Based on year-to-date collections, revenues could fall 5.4 percent for the remainder of the year and still meet the estimate. Motor fuels tax receipts fell 8.1 percent, or \$18.4 million, largely due a 2.1 cent per gallon decline in the motor fuels tax rate. Motor vehicle usage tax receipts rose 3.1 percent in the second quarter after increasing 9.4 in the first three months.

### **Summary of the Economy for the Second Quarter of FY25**

Real GDP rose by 2.3 percent in the second quarter of FY25. Real consumption, real investment, and real government expenditures each rose by 2.7 percent in the second quarter of FY25. Inflation was 2.7 percent in the second quarter of FY25, up slightly from 2.6 percent inflation in the first quarter. US personal income rose 5.3 percent in the second quarter of FY25. Transfer receipts income was the fastest growing component of US personal income, growing 7.9 percent in the second quarter of FY25.

Kentucky non-farm employment rose 1.2 percent in the second quarter of FY25, an increase of about 25,000 jobs. All three major sectors grew modestly: goods-producing, service-providing, and government. Eight of the 11 supersectors showed growth, with business services and educational services adding the most jobs. Three supersectors lost jobs in the second quarter: information services, manufacturing, and financial services. Kentucky personal income grew 5.4 percent in the second quarter of FY25. Kentucky wages and salaries grew 5.2 percent, while transfer receipts income grew 8.4 percent in the second quarter of FY25.

# REVENUE & ECONOMIC OUTLOOK

## GENERAL FUND OUTLOOK

Pursuant to KRS 48.400(2), the state budget director shall report to the head of each branch budget the actual revenue receipts from the just-concluded quarter, as well as the projected revenue receipts for the next three fiscal quarters. In accordance with this statute, the General Fund outlook is reported on Table 1 and the Road Fund outlook is displayed on Table 2. Both forecasts were projected using the December 2024 “control scenario” economic forecast from both S&P Global and the Kentucky MAK model as the primary inputs. S&P Global has placed a 55 percent probability on their control or baseline scenario as being the most likely economic outcome, relative to the pessimistic (25 percent) and optimistic (20 percent) scenarios. The revenue estimates also incorporate various tax law changes enacted during recent sessions of the General Assembly. All estimates in this outlook extend through the first quarter of FY26 (the forecasting horizon).

When combining the first half of actual receipts from FY25 with the next two fiscal quarters, the interim forecast predicts FY25 General Fund revenue of \$15,816.4 million, or a 1.6 percent increase compared to FY24. Collections at this level would result in \$243.5 million more than the \$15,572.9 million enacted estimate for FY25. Broadly speaking, this forecast is the result of expected decreases due to tax law changes in the individual income tax, slower growth in sale taxes in FY25, and projected strength in the major business taxes as well as the group of revenues in the “Other” category.

**Table 1**  
**General Fund Interim Outlook**  
**\$ millions**

	FY25						FY25		FY26	
	Q1 & Q2		Q3 & Q4		Full Year		Official		Q1	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	\$ Diff	Estimate	% Chg
Individual Income	2,454.0	-13.4	2,739.4	-7.9	5,193.4	-10.6	5,546.3	-352.9	1,155.2	-6.9
Sales & Use	2,938.4	0.5	2,959.4	2.8	5,897.8	1.6	6,081.1	-183.3	1,539.5	3.2
Corp. Inc. & LLET	1,004.7	76.0	932.9	37.5	1,937.6	55.1	1,327.8	609.8	578.0	3.3
Property	533.3	2.2	301.9	5.4	835.2	3.3	837.2	-2.0	80.2	2.1
Lottery	179.5	3.7	171.2	0.4	350.7	2.1	350.7	0.0	82.5	1.9
Cigarettes	127.5	-8.7	120.6	-7.8	248.1	-8.3	249.5	-1.4	65.0	-7.3
Coal Severance	34.8	3.3	38.1	-13.7	72.9	-6.3	65.4	7.5	15.7	-4.5
Other	602.0	10.2	678.8	2.0	1,280.8	5.7	1,114.9	165.9	321.5	3.4
<b>General Fund</b>	<b>7,874.2</b>	<b>1.7</b>	<b>7,942.2</b>	<b>1.5</b>	<b>15,816.4</b>	<b>1.6</b>	<b>15,572.9</b>	<b>243.5</b>	<b>3,837.6</b>	<b>-0.3</b>

General Fund revenue collections grew 1.7 percent in the first half of FY25. The majority of the increase came from the major business taxes, which together rose by \$433.9 million. A nearly equal decline in individual income tax revenue offset most of those gains. In the case of the individual income tax, all four of the major components of the tax receipts: withholding, net returns, estimated payments and the pass-through entity tax (PTET); declined by a combined \$380.7 million.

Due to legislative tax policy changes, **individual income tax** receipts are projected to fall 7.9 percent in the second half of FY25 after declining 13.4 percent during the first half of FY25. Full-year FY25 receipts for the individual income tax are projected to be \$5,193.4 million, or \$352.9 million less the enacted estimate. The official forecast and this interim forecast both accommodated the tax rate reduction from 4.5 percent to 4.0 percent for tax year 2024, a change which created the largest overall drop in the individual income tax. However, the largest alteration from the official forecast is due to the pass-through entity tax, which has created timing issues regarding payments and credits in FY24 and FY25. The result is that substantial PTET credits from prior tax years will be taken in FY25 and cause a significant reduction to individual income tax receipts for the fiscal year. The first quarter of FY26 completes the forecasting horizon for this report. Receipts are expected to decline 6.9 percent with collections of \$1,155.2 million.

Regarding the timing of the PTET credits, owners or members of pass-through entities receive a credit when filing their individual income tax returns equal to their distributive share of the PTET paid by at the entity level. However, the payment of the PTET by the entity and the use of the credit by the individual owners and members do not happen simultaneously. In FY24, pass-through entities paid in \$791.9 million attributable to the entity tax. Individuals earned and used approximately \$500 million in available credits in FY24. That left these taxpayers with nearly \$290 million in outstanding PTET credits available to them in FY25 or beyond. As a result, the Commonwealth expects both the FY25 individual income tax declarations account and the FY25 individual income tax net returns account to absorb those outstanding credits from FY24. When the official estimates from the Consensus Forecasting Group (CFG) were rendered in December 2023, this timing issue associated with the credit was not fully considered, thus explaining a large portion of the \$352.9 million gap between the interim estimate and the enacted estimate.

Growth in the **sales and use tax** receipts is forecasted to accelerate slightly from the rate of increase exhibited in the first half of the fiscal year. Revenues inched up 0.5 percent in the first half of FY25 but are expected to rise 2.8 percent in the second half of the year, ending the overall fiscal year 1.6 percent higher than FY24. Collections at forecasted levels will be \$183.3 million less than the official estimate. Overall collections in this account are cooling off following the rapid growth experienced during FY21 to FY23 when revenues rose at double-digit rates in all three years. Receipts grew 4.1 percent in FY24 but were flat in the fourth quarter of FY24 leading into FY25. Lower expected inflation predicted in the December S&P Global forecast

is predicted to create a dampening effect on expected growth during the final six months of FY25 before rising 3.2 percent on the first quarter of FY26.

**Major business taxes** (corporation income tax plus the LLET) grew 76.0 percent in the first half of FY25 on the strength of unexpected increases in declaration payments. Collections in the first two quarters equaled \$1,004.7 million – far and away the highest first half of a fiscal year ever. Growth for the remainder of the fiscal year is forecasted to be 37.5 percent based on continued growth of US corporate profits and continued strength in declaration payments. If the major business taxes achieve the FY25 unofficial interim estimate, they will exceed the official estimate by \$609.8 million, more than enough to completely offset the projected differences in the individual income and sales tax combined. The corporation income tax and the LLET have been reported and estimated in combination due to the interrelationship of the tax credit that flows between the two revenue sources. The combined business taxes account is the most volatile major category of General Fund revenues.

**Property tax** receipts increased 2.2 percent in the first half of FY25, but the remainder of FY25 is expected to rise by 5.4 percent resulting in an annual rate of growth of 3.3 percent. The highest two quarters of property tax revenue are normally collected in the second and third quarter of the fiscal year. Timing differences in billing and payments often alter the balance between the two highest quarters, so the upcoming fiscal quarter will largely determine the annual rate of growth for FY25.

**Kentucky Lottery** dividends grew 3.7 percent through the first six months of the fiscal year and are expected to rise 0.4 percent during the second half of the fiscal year. Dividend payments to the General Fund are capped by the FY24-FY26 budget bill (HB 6), which diverts any lottery receipts greater than \$350,679,200 to a trust and agency account awaiting future appropriations.

**Cigarette taxes** are collected at the rate of \$1.10 per pack. Collections in the first half of FY25 fell 8.7 percent. Cigarette tax receipts continued their downward march falling 9.6 percent in FY24 after declining 7.8 percent in FY23. The FY25 decline is projected to be 8.3 percent. Smoking rates have continued to fall and the number of cigarettes per smoker has also decreased. The interim outlook projects a further decrease of 7.3 percent in the first quarter of FY26, suggesting that additional losses in cigarette stamp sales are expected going forward.

The **coal severance tax** fell 19.4 percent in FY24 after substantial growth rates in the prior two fiscal years. The downward trend is expected to continue in FY25. The forecast calls for 13.7 percent decline over the remainder of the year after revenues actually grew 3.3 percent in the first half of FY25, with a year-end projected decrease of 6.3 percent in collections. Coal severance collections equal to the interim projections will be \$7.5 million greater than the official estimate.

The **“Other” category of revenues** contains roughly 60 accounts that are not otherwise classified in the major accounts. Insurance premiums taxes, alcohol taxes, telecommunication taxes, inheritance taxes, and income from investments are the five largest ongoing account categories. Overall receipts in the “Other” category are forecasted to grow 5.7 percent for the year, largely due to the 10.2 percent increase from the first half of FY25. Income from investments, while not a longstanding source of significant perennial income, has increased dramatically over the past three years. Collections in this account were just over \$500,000 in FY22 before growing to \$150.5 million in FY23 and further ballooning to \$300.2 million in FY24. With receipts of \$171.8 million through the first six months of FY25, income on investments is expected to be \$303.5 million in FY25. The pace of collections in the second half of FY25 is expected to weaken slightly as both investable balances and interest rates are projected to be lower than prior levels.

## ROAD FUND OUTLOOK

The January 2025 interim Road Fund forecast calls for a decline of 0.5 percent in the second half of FY25 with a further decline in the first quarter of FY26. Road Fund collections have grown in seven of the past eight years with the exception being FY20, which was negatively affected by the COVID-19 pandemic. This period was characterized by growth in the two largest accounts – motor vehicle usage and motor fuels taxes. Beginning in the first quarter of FY25 and continuing through the forecast horizon of this report, declining motor fuels taxes, due to a reduction in tax rates, will impede growth in the Road Fund as a whole. Road Fund collections grew 6.9 percent in FY24 but increased only 0.2 percent in the first half of FY25. Going forward, collections are forecasted to decrease 1.2 percent for the remainder of the year and decline 1.8 percent in the first quarter of FY26.

**Table 2**  
**Road Fund Interim Outlook**  
**\$ millions**

	FY25						FY25		FY26	
	Q1 & Q2		Q3 & Q4		Full Year		Official		Q1	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	\$ Diff	Estimate	% Chg
Motor Fuels	432.5	-5.1	413.6	-8.1	846.1	-6.6	866.8	-20.7	212.2	-5.0
Motor Vehicle Usage	355.6	6.4	357.0	6.0	712.6	6.2	650.1	62.5	196.5	3.6
Motor Vehicle License	36.4	-8.6	83.0	4.1	119.4	-0.1	128.1	-8.7	20.4	3.2
Motor Vehicle Operators	17.0	2.6	16.5	2.4	33.5	2.5	32.0	1.5	8.9	2.3
Weight Distance	44.4	1.6	43.2	0.2	87.6	0.9	89.7	-2.1	22.6	1.2
Income on Investments	8.8	28.0	5.0	-35.7	13.8	-5.6	9.5	4.3	1.1	-81.6
Other	23.8	20.4	28.0	13.1	51.8	16.3	48.8	3.0	11.8	-5.3
<b>Road Fund</b>	<b>918.5</b>	<b>0.2</b>	<b>946.3</b>	<b>-1.2</b>	<b>1,864.8</b>	<b>-0.5</b>	<b>1,825.0</b>	<b>39.8</b>	<b>473.5</b>	<b>-1.8</b>

Road Fund revenues grew 0.2 percent, or \$1.9 million, over the first two quarters of the fiscal year. While motor vehicle usage tax collections rose by \$21.3 million, motor fuels revenues declined by \$23.1 million. The remainder of the major accounts, motor vehicle operators’ collections, income on investments, motor vehicle license, weight distance and other receipts combined to rise by only \$3.7 million.

Motor fuels tax collections fell 5.1 percent in the first half of the year largely due to a 2.1 cent per gallon statutory drop in the tax rate. Revenues are forecasted to decline 8.1 percent over the final two quarters of the year and then fall 5.0 percent in the first quarter of FY26.

Motor vehicle usage tax collections grew 6.4 percent in the first half of the year and are forecasted to remain strong through the forecast period. Growth rates for the final six months of FY25 and the first quarter of FY26 are forecasted to be 6.0 percent and 3.6 percent, respectively.

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 4.1 percent in the final two quarters of FY25 before increasing 3.2 percent in the first quarter of FY26. Motor vehicle operators' license revenues are projected to grow 2.4 percent for the remainder of the fiscal year and rise 2.3 percent in the first quarter of FY26. Investment income is expected to be \$5.0 million for the remainder of the fiscal year and \$1.1 million in the first three months next year. All other revenues will increase 13.1 percent during the last six months of the year but decrease 5.3 percent in the first quarter of FY26.

## **NATIONAL ECONOMIC OUTLOOK**

Real GDP is expected to grow 2.1 percent in the second half of FY25 followed by 1.7 percent growth in the first quarter of FY26. The biggest contributor to growth during the forecast horizon is real exports, with expected growth of 3.6 percent in the second half of FY25 and then another 2.4 percent growth in the first quarter of FY26. Real consumption, the largest component of real GDP, is expected to grow 2.8 percent in the final six months of FY25. Inflation is expected to fall to 2.4 percent in the last six months of FY25, but then it is expected to rise to 3.2 percent in the first quarter of FY26.

US non-farm employment is expected to rise 1.1 percent in the second half of FY25, and then gain an additional 0.8 percent in the first quarter of FY26. All three major categories of employment are expected to grow modestly: goods-producing, service-providing, and government. Eight of the 11 supersectors show mild growth, and three mild reductions. (Table 4).

Three supersectors are expected to lose jobs during the second half of FY25: manufacturing; trade, transportation, and utilities; and information services employment. The losses are expected to be small, ranging from 0.1 percent for trade, transportation, and utilities employment to 1.0 percent in information services employment. All three of these supersectors are expected to lose additional jobs in the first quarter of FY26 as well, ranging from 0.5 percent to 0.9 percent.



US personal income is expected to rise 4.6 percent in the second half of FY25, then rise an additional 5.6 percent in the first quarter of FY26. US wages and salaries, the largest component of US personal income, is expected to grow 4.8 percent in the final six months of FY25. Wages and salaries growth is expected to improve to 6.0 percent in the first quarters of FY26.

**Table 3**  
**US Economic Outlook**  
**Interim Forecast**

	Q3 & Q4			Full Year		Q1	
	FY25	FY24	% chg	FY25	% chg	FY26	% chg
Real GDP	23,635.7	23,138.7	2.1	23,536.4	2.3	23,776.9	1.7
Real Consumption	16,349.7	15,912.1	2.8	16,254.9	2.8	16,452.4	2.1
Real Investment	4,392.7	4,325.9	1.5	4,381.7	2.3	4,436.0	1.3
Real Govt. Expenditures	3,979.9	3,902.4	2.0	3,974.6	2.5	3,980.4	0.4
Real Exports	2,668.4	2,575.1	3.6	2,645.1	3.4	2,689.5	2.4
Real Imports	3,770.0	3,581.4	5.3	3,733.2	5.8	3,795.8	2.5
CPI all goods (% chg)	2.4	3.2	NA	2.5	NA	3.2	NA
CPI Food (% chg)	1.9	2.3	NA	2.0	NA	2.3	NA
CPI Energy (% chg)	-1.5	0.5	NA	-2.3	NA	2.3	NA
CPI Core (% chg)	2.9	3.6	NA	3.1	NA	3.5	NA
Industrial Production Index (% chg)	0.4	-0.3	NA	0.1	NA	0.5	NA
Unemployment Rate (%)	4.4	3.9	NA	4.3	NA	4.5	NA
Housing Starts (millions, NSA)	1.3	1.4	-4.0	1.3	-5.6	1.3	-2.4

**Table 4**  
**US Labor and Income Outlook**  
**Interim Forecast**

	Q3 & Q4			Full Year		Q1	
	FY25	FY24	% chg	FY25	% chg	FY26	% chg
Non-farm Employment (millions, NSA)	159.8	158.1	1.1	159.4	1.3	160.1	0.8
Goods-producing	21.9	21.8	0.5	21.9	0.6	21.9	0.2
Construction	8.4	8.2	2.1	8.3	2.4	8.4	1.6
Mining	0.6	0.6	0.1	0.6	-0.4	0.6	0.6
Manufacturing	12.9	13.0	-0.5	12.9	-0.4	12.8	-0.6
Service-providing	114.4	113.1	1.1	114.1	1.3	114.6	0.9
Trade, Transportation & Utilities	29.0	29.0	-0.1	29.0	0.3	28.8	-0.9
Information	3.0	3.0	-1.0	3.0	-0.7	3.0	-0.5
Finance	9.3	9.2	0.7	9.3	0.5	9.3	0.8
Business Services	23.0	23.0	0.3	23.0	0.3	23.2	1.2
Educational Services	27.0	26.1	3.1	26.8	3.5	27.0	2.1
Leisure and Hospitality Services	17.2	16.9	2.1	17.1	1.9	17.3	2.0
Other Services	5.9	5.9	0.5	5.9	0.8	5.9	-0.1
Government	23.6	23.2	1.5	23.5	1.8	23.6	1.0
Personal Income (\$ billions, AR)	25,583.2	24,459.1	4.6	25,245.5	4.9	26,142.8	5.6
Wages and Salaries	12,886.6	12,297.0	4.8	12,715.5	5.1	13,208.7	6.0
Transfer Receipts	4,715.2	4,479.2	5.3	4,650.2	6.3	4,788.2	5.1
Dividends, Interest, and Rents	5,147.7	4,994.3	3.1	5,084.1	3.0	5,289.6	5.9
Supplements to Wages and Salaries	2,738.8	2,587.7	5.8	2,697.2	5.9	2,799.8	6.2
Proprietors' Income	2,053.2	1,987.2	3.3	2,034.5	3.0	2,052.0	2.1
Social Insurance	1,958.3	1,886.4	3.8	1,935.9	3.8	1,995.5	4.8
Residence Adjustment	0.0	0.0	NA	0.0	NA	0.0	NA

## KENTUCKY ECONOMIC OUTLOOK

Kentucky non-farm employment is anticipated to grow by 1.0 percent over the third and fourth quarters of FY25, adding approximately 20,800 annualized jobs to the Commonwealth's economy. Eight of the 11 supersectors are forecasted to experience varying degrees of employment gains over the next six months. In percentage and absolute terms, the service-providing employment sectors are poised to experience the most pronounced employment expansion, increasing 1.3 percent for the remainder of the fiscal year, or an annual increase of 18,400 jobs. Among the different service-producing sectors, educational services employment will add more jobs than any other supersector over the final two fiscal quarters of FY25, a gain of 10,300 annualized jobs or 3.3 percent.

Six of the 11 supersectors are expected to experience varying degrees of employment gains entering the first quarter of FY26. Total non-farm employment growth is expected to increase 0.8 percent compared to the first quarter of FY25. The service-providing employment sectors are anticipated to lead the way in job growth, a gain of 0.9 percent compared to one year prior. Job losses are expected to be more prominent across the entirety of the goods-providing sector. In absolute terms, manufacturing employment is anticipated to have the most significant decline within the goods-producing sector in the first quarter of FY26 compared to the first quarter in FY25. Mining employment is forecasted to decline the most in percentage terms, a loss of 2.8 percent entering the first quarter of FY26.

Government employment, which includes federal, state, and local government jobs, is anticipated to continue its positive trajectory over the forecast horizon. The government sector is expected to increase by approximately 2,800 annualized jobs, a 0.9 percent increase, compared to the third and fourth fiscal quarters in FY24. An increase of 1.4 percent, or 4,400 annualized jobs in the government sector is forecasted for the first quarter of FY26 when compared to the same period one year prior.

The outlook for Kentucky personal income projects growth in the second half of FY25, increasing 4.1 percent compared to the third and fourth quarters of FY24. The wages and salaries component of Kentucky personal income is forecasted to increase 4.2 percent in the final two quarters of FY25, a pace slightly behind the 4.7 percent growth in the first half of FY25. When the first two quarters of FY25 are combined with the forecasted period, full-year FY25 wages and salaries growth is expected to be 4.5 percent.

**Table 5**  
**KY Labor and Income Outlook**  
**Interim Forecast**

	Q3 & Q4			Full Year		Q1	
	FY25	FY24	% chg	FY25	% chg	FY26	% chg
Non-farm Employment (thousands, NSA)	2,055.8	2,035.0	1.0	2,050.5	1.1	2,059.3	0.8
Goods-producing	356.5	357.0	-0.1	356.6	0.0	356.8	-0.1
Construction	93.9	92.1	2.0	93.5	2.5	94.3	1.3
Mining	9.1	9.1	0.3	9.2	3.9	9.0	-2.8
Manufacturing	253.5	255.8	-0.9	253.8	-1.0	253.6	-0.5
Service-providing	1,383.8	1,365.5	1.3	1,379.7	1.4	1,386.0	0.9
Trade, Transportation & Utilities	426.1	425.7	0.1	426.9	0.1	423.5	-1.0
Information	21.7	22.5	-3.4	21.8	-4.0	21.7	-0.9
Finance	96.4	95.5	1.0	96.2	0.3	96.8	0.9
Business Services	232.2	229.2	1.3	231.4	1.1	235.1	2.0
Educational Services	324.5	314.2	3.3	322.4	4.1	324.7	1.8
Leisure and Hospitality Services	210.4	205.7	2.3	208.4	1.7	212.2	3.4
Other Services	72.5	72.8	-0.4	72.6	0.2	72.2	-0.8
Government	315.4	312.6	0.9	314.1	0.9	316.4	1.4
Personal Income (\$ billions, AR)	272.9	262.2	4.1	269.8	4.6	277.5	4.7
Wages and Salaries	132.0	126.6	4.2	130.3	4.5	134.6	5.3
Transfer Receipts	71.9	68.7	4.7	71.0	6.3	72.9	4.4
Dividends, Interest, and Rents	44.7	44.0	1.7	44.4	2.0	45.5	3.5
Supplements to Wages and Salaries	31.6	29.9	5.7	31.1	5.5	32.4	6.4
Proprietors' Income	18.7	17.9	4.2	18.5	3.2	18.7	2.1
Social Insurance	21.3	20.6	3.6	21.0	3.4	21.7	4.8
Residence Adjustment	-4.7	-4.4	NA	-4.6	NA	-4.8	NA

# REVENUE RECEIPTS

## GENERAL FUND Second Quarter FY25

General Fund receipts grew 2.1 percent in the second quarter of FY25, which is an improvement from the 1.3 percent rate of growth in the first quarter. Year-to-date growth in collections now stand at 1.7 percent. Collections in the just completed quarter totaled \$4,024.5 million compared to \$3,943.3 million in the second quarter of FY24. The official General Fund revenue estimate calls for revenue growth of 0.0 percent compared to FY24 receipts. General Fund revenues can fall 1.6 percent for the remainder of the fiscal year and still meet the official estimate.

Second quarter collections were \$81.2 million more than what was collected last year. The major business taxes showed extraordinary growth with revenues nearly \$200 million more than in FY24. The decline in individual income tax revenues

<b>Table 6</b>				
<b>Summary General Fund Receipts</b>				
<b>\$ millions</b>				
	<b>FY25</b>	<b>FY24</b>	<b>Diff</b>	<b>Diff</b>
	<b>Q2</b>	<b>Q2</b>	<b>\$</b>	<b>%</b>
Individual Income	1,213.0	1,329.5	-116.5	-8.8
Sales & Use	1,446.1	1,450.3	-4.2	-0.3
Corp. Inc. & LLET	445.3	248.4	196.9	79.3
Property	454.7	450.9	3.8	0.8
Lottery	98.5	95.0	3.4	3.7
Cigarettes	57.3	64.4	-7.0	-10.9
Coal Severance	18.4	11.1	7.3	66.4
Other	291.2	293.7	-2.5	-0.9
<b>Total</b>	<b>4,024.5</b>	<b>3,943.3</b>	<b>81.2</b>	<b>2.1</b>

significantly cut into those gains. Among the remaining major accounts, coal severance and property taxes, as well as lottery receipts all grew in the quarter. In contrast, sales and use and cigarette taxes, and "Other" collections posted declines. Collections for the major revenue categories are shown in Table 6. Detailed information on all tax accounts can be found in the Appendix.

Individual income tax receipts were \$1,213.0 million in the second quarter of FY25, a decrease of 8.8 percent, or \$116.5 million. This compares to \$1,329.5 million that was received in the second quarter of FY24. Withholding and pass-through entity tax revenues both fell sharply in the quarter, with declines of \$90.5 million and \$98.9 million, respectively. Declarations and fiduciary revenues both had modest gains while net returns grew by just over \$60 million.

Sales and use tax receipts fell 0.3 percent in the quarter after growing 1.3 percent in the first quarter. Revenues were \$1,446.1 million, or \$4.2 million, less than collected last year. Year-to-date collections in this account have grown 0.5 percent.

Corporate and LLET receipts grew 79.3 percent, or \$196.9 million, in the second quarter. Both corporation income and the limited liability entity tax (LLET) revenues increased in the quarter. Year-to-date, corporate and LLET collections have grown 76.0 percent. Total revenues through the first six months of the fiscal year have exceeded \$1 billion and are not far from last year's 12-month total of \$1.25 billion.

Property tax receipts grew by 0.8 percent or \$3.8 million, to \$454.7 million in the second quarter. None of the major accounts in this tax had significant changes compared to FY24 collections with the largest difference being just under \$3 million. Property tax receipts fluctuate considerably from quarter to quarter because billing timing varies from year to year. It is best to measure the health of property tax receipts in February once all bills have gone out and taxpayers have had sufficient time to make their payments. Year-to-date property tax receipts have grown 2.2 percent over FY24.

Cigarette tax receipts fell 10.9 percent, or \$7.0 million, in the just completed quarter. Year-to-date collections in this account have decreased 8.7 percent.

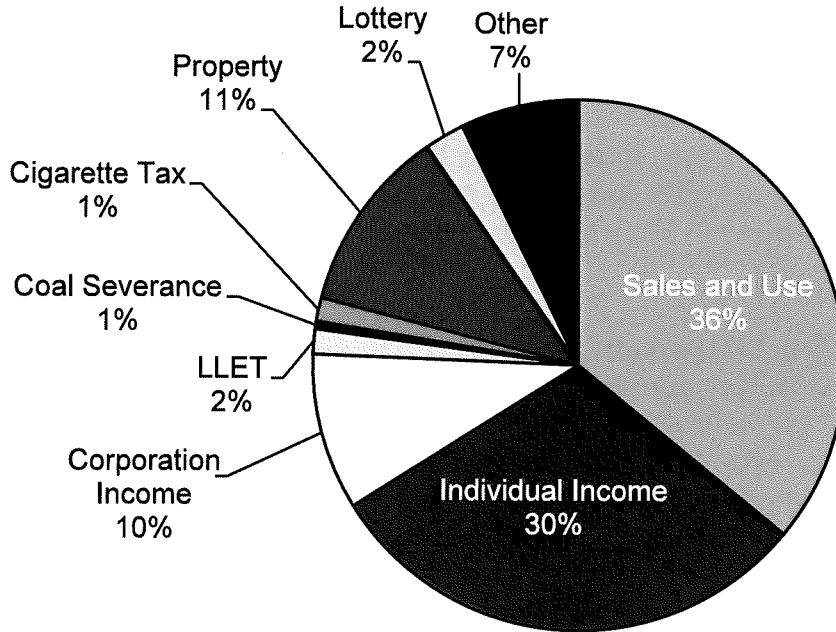
Coal severance receipts rose 66.4 percent in the second quarter to \$18.4 million. Collections in FY24 were adversely affected by one-time, multi-period refunds which caused the large percentage increase in FY25 revenues. Year-to-date collections have increased 3.3 percent.

Lottery receipts rose 3.7 percent to \$98.5 million in the second quarter. Year-to-date collections in this account have grown 3.7 percent.

The "Other" category, which is composed of numerous smaller accounts, decreased 0.9 percent in the second quarter. Quarterly receipts were \$291.2 million. This is \$2.5 million less than was received in the same quarter of FY24.

Figure 1 shows the composition of General Fund revenues by tax type for the second quarter of FY25. The individual income and sales and use taxes together make up 66 percent of General Fund tax receipts. The next largest sources of revenue were the major business taxes which combined to account for 12 percent of total receipts. Property taxes account for 11 percent of receipts while the "Other" category makes up seven percent of receipts. Lottery receipts contribute two percent while coal severance and cigarette taxes each account for one percent.

**Figure 1**  
**Composition of Second Quarter FY25**  
**General Fund Revenues**



**ROAD FUND**  
**Second Quarter FY25**

Total Road Fund receipts fell 3.3 percent in the just completed quarter, the first quarterly decline since the first quarter of FY23. Revenues fell in each month of the second quarter with declines ranging from -1.1 percent to -5.4 percent.

Total receipts received in the second quarter were \$436.2 million, which was \$14.7 million less than what was collected last year. The vast majority of the decline came from the motor fuels taxes. Motor vehicle license collections and investment income also had decreases, but they were relatively small. The remaining accounts showed growth in the period and combined to grow by \$7.3 million.

The official Road Fund revenue estimate calls for a 2.6 percent decrease in revenues for the year. Based on year-to-date collections, revenues could fall 5.4 percent for the remainder of the year and still meet the estimate. Summary data are contained in Table 7 and detailed data are shown in the Appendix.

Motor fuels tax receipts fell 8.1 percent, or \$18.4 million, during the second quarter after decreasing 2.1 percent in the first quarter. The large revenue drop is primarily the result of a 2.1 cent per gallon statutory decline in the motor fuels tax rate.

Receipts for the quarter were \$209.1 million as compared to \$227.5 million collected during the second quarter last year. Year-to-date collections for the motor fuels accounts have fallen 5.0 percent.

Motor vehicle usage tax receipts rose 3.1 percent in the second quarter after increasing 9.4 percent in the first three months. For the quarter, revenues were \$166.0 million, \$5.0 million more than what was received in FY24. Revenues in this account have now increased 6.4 percent through the first six months of FY25.

Motor vehicle license tax receipts have declined in both quarters of FY25, with growth rates of -4.4 percent and -13.2 percent, respectively. Collections in the second quarter were \$16.7 million compared to \$19.2 million in FY24. Year-to-date revenues in this account have fallen 8.6 percent.

Motor vehicle operators' tax receipts rose 1.1 percent in the just completed quarter after increasing 4.0 percent in the first quarter of the year. Year-to-date collections have grown 2.6 percent in this account.

Weight distance tax receipts were \$22.1 million in the quarter, a 2.1 percent increase compared to receipts collected during the second quarter of FY24. The weight distance tax has some significance as a leading indicator of economic activity, as it is a rough proxy for goods in transit over Kentucky highways. Through the first six months of FY25, receipts have grown 1.6 percent.

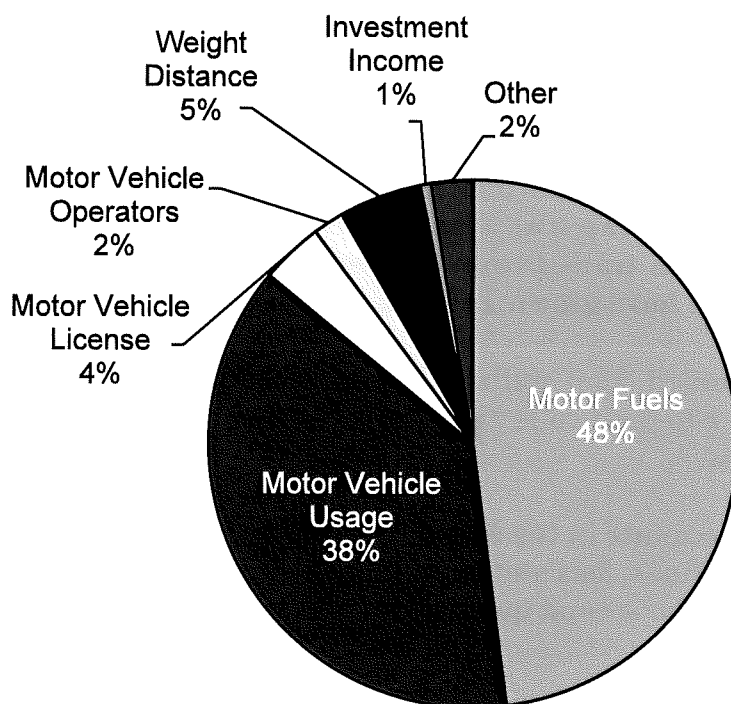
Investment income totaled \$2.9 million in the second quarter compared to \$4.0 million last year. Year-to-date collections in this account stand at \$8.8 million, an increase of 28.0 percent.

The remainder of the accounts in the Road Fund are grouped in the "Other" category and consist primarily of fines, fees and miscellaneous receipts. These funds combined to total \$11.3 million in the second quarter of FY25 which is 17.9 percent more than collected in FY24.

	<b>FY25 Q2</b>	<b>FY24 Q2</b>	<b>Diff \$</b>	<b>Diff %</b>
Motor Fuels	209.1	227.5	-18.4	-8.1
Motor Vehicle Usage	166.0	160.9	5.0	3.1
Motor Vehicle License	16.7	19.2	-2.5	-13.2
Motor Vehicle Operators	8.3	8.2	0.1	1.1
Weight Distance	22.1	21.6	0.4	2.1
Income on Investments	2.9	4.0	-1.1	-28.3
Other	11.3	9.6	1.7	17.9
<b>Total</b>	<b>436.2</b>	<b>451.0</b>	<b>-14.7</b>	<b>-3.3</b>

Figure 2 shows the composition of Road Fund revenues by tax type in the second quarter. The motor fuels tax and the motor vehicle usage tax are by far the largest components of the Road Fund. Together, they combined for 86 percent of Road Fund revenues in the second quarter. The next largest sources of revenue were the weight distance tax at five percent and motor vehicle license tax at four percent. The motor vehicle operators and the "Other" account each accounted for two percent of the total and investment income totaled one percent.

**Figure 2**  
**Composition of Second Quarter FY25**  
**Road Fund Revenues**





# THE ECONOMY

## SECOND QUARTER FY25

### NATIONAL ECONOMY

Real gross domestic product (real GDP) rose 2.3 percent in the second quarter of FY25 compared to the same quarter in FY24. See Table 8. Quarter-to-quarter growth slowed considerably over the last several quarters. Adjacent-quarter growth in the first quarter of FY25 is 0.7 percent, while adjacent-quarter growth in the second quarter slowed to 0.4 percent. That is the lowest adjacent-quarter growth since the fourth quarter of FY22. Real consumption was by far the largest contributor to second quarter FY25 real GDP growth.

Real consumption grew 2.7 percent in the second quarter of FY25. Adjacent-quarter growth softened slightly from the first quarter to the second quarter. First quarter adjacent-quarter growth is 0.9 percent, and second quarter adjacent-quarter growth is 0.7 percent. Real consumption is composed of consumption on goods and services. Goods consumption is further broken down into durable goods and non-durable goods consumption. Real consumption made up 69.0 percent of real GDP in the second quarter of FY25.

**Table 8**  
**History of US Economic Variables**

	FY24						FY25			
	Q2	% chg	Q3	% chg	Q4	% chg	Q1	% chg	Q2	% chg
Real GDP (\$ billions, AR)	22,960.6	3.2	23,053.5	2.9	23,223.9	3.0	23,386.7	2.7	23,487.3	2.3
Real Consumption	15,781.4	3.0	15,856.9	2.2	15,967.3	2.7	16,106.4	2.9	16,213.9	2.7
Real Investment	4,244.8	2.2	4,282.5	5.5	4,369.2	5.6	4,380.8	3.4	4,360.5	2.7
Real Government Expenditures	3,870.7	4.3	3,887.7	3.5	3,917.0	3.5	3,964.7	3.3	3,974.0	2.7
Real Exports	2,559.6	2.0	2,571.8	2.0	2,578.4	3.5	2,625.4	4.1	2,618.4	2.3
Real Imports	3,496.3	1.2	3,548.7	2.9	3,614.0	5.6	3,702.9	7.0	3,689.7	5.5
CPI - All Goods (% chg)	3.2	NA	3.2	NA	3.2	NA	2.6	NA	2.7	NA
CPI - Food (% chg)	3.0	NA	2.3	NA	2.2	NA	2.2	NA	2.1	NA
CPI - Energy (% chg)	-3.9	NA	-1.4	NA	2.3	NA	-3.4	NA	-2.6	NA
Core CPI (% chg)	4.0	NA	3.8	NA	3.4	NA	3.2	NA	3.2	NA
Industrial Prod. Index (% chg)	-0.1	NA	-0.5	NA	0.0	NA	-0.4	NA	-0.2	NA
Working Population (millions, NSA)	267.8	1.2	267.7	0.6	268.3	0.6	268.9	0.6	269.5	0.6
Civilian Labor Force	167.5	1.9	167.2	0.7	168.0	0.6	169.0	0.6	168.2	0.4
Employed	161.5	1.6	160.4	0.5	161.6	0.2	161.8	0.1	161.6	0.0
Unemployed	5.9	8.2	6.8	7.8	6.5	12.6	7.2	13.5	6.6	11.0
Not in Labor Force	100.3	0.1	100.5	0.4	100.2	0.6	99.8	0.7	101.3	1.0
Labor Force Participation Rate (%)	62.6	NA	62.6	NA	62.6	NA	62.7	NA	62.5	NA
Unemployment Rate (%)	3.8	NA	3.8	NA	4.0	NA	4.2	NA	4.2	NA
Housing Starts (millions, AR)	1.5	5.8	1.4	2.8	1.3	-7.9	1.3	-3.5	1.3	-10.4

Real investment grew 2.7 percent in the second quarter of FY25. Real investment fell 0.5 percent on an adjacent-quarter basis in the second quarter of FY25. This ends a string of six consecutive quarters of adjacent-quarter growth. Adjacent-quarter growth in the first quarter of FY25 is 0.3 percent. Real investment is composed of two parts: non-residential and residential investment. Non-residential investment is further broken down into structures, equipment, and intellectual property products. Real investment made up 18.6 percent of real GDP in the second quarter of FY25.

Real government expenditures grew 2.7 percent in the second quarter of FY25. Adjacent-quarter growth in the second quarter of FY25 is 0.2 percent. Growth slowed significantly from the first quarter. Adjacent-quarter growth in the first quarter of FY25 is a robust 1.2 percent. Real government expenditures are divided into two major categories: federal and state and local. Federal government expenditures are then broken out into two smaller categories: National Defense and non-National Defense. Real government expenditures made up 16.9 percent of real GDP in the second quarter of FY25.

Real exports grew by 2.3 percent in the second quarter of FY25 compared to the second quarter of FY24. However, on an adjacent-quarter basis, real export declined by 0.3 percent compared to the first quarter of FY25. Real imports grew 5.5 percent in the second quarter of FY25 compared to the second quarter of FY24. However, on an adjacent-quarter basis, just like with exports, real imports declined by 0.4 percent compared to the first quarter of FY25. Real exports made up 11.1 percent of real GDP in the second quarter of FY25. Real imports, a deduction from real GDP, made up 15.7 percent of real GDP in the second quarter of FY25. Net exports (computed as real exports less real imports) are -\$1,071.3 billion in the second quarter of FY25. This is the fifth time in US history that net exports have exceeded \$1 trillion.

Inflation (for all goods) was 2.7 percent in the second quarter of FY25. This is up slightly from 2.6 percent in the first quarter. However, inflation has softened relative to the prior four quarters. Inflation in the energy sector was -2.6 percent in the second quarter. It is the only component of inflation which declined in the second quarter. See Table 8.

The labor force grew 0.4 percent in the second quarter of FY25 compared to the second quarter of FY24. However, all of that growth occurred in the fourth quarter of FY24 and the first quarter of FY25. The labor force contracted in the second quarter of FY24, third quarter of FY24, and the second quarter of FY25 on an adjacent-quarter basis. Adjacent-quarter growth in the second quarter is -0.5 percent. Both components of the labor force contracted in the second quarter. Employed contracted by 0.2 percent, and unemployed contracted by 8.5 percent. The unemployed series has been alternating between growth and contraction every quarter for thirteen consecutive quarters. This is very unusual and the absolute growth rates in each quarter are quite large, with many of them greater than 10.0 percent. On net, the changes have resulted in a small positive trajectory.

US non-farm employment rose 1.4 percent in the second quarter of FY25 compared to the second quarter of FY24. On an adjacent-quarter basis, US non-farm employment has grown for 18 consecutive quarters. Adjacent-quarter growth has been tapering for the last four quarters. Adjacent-quarter growth for the last two quarters is 0.3 percent.

The best performing supersector in the second quarter of FY25 is Educational Services employment. Educational Services employment rose by 3.8 percent, or 1.0 million jobs, compared to the second quarter of FY24. Educational Services employment made up 16.8 percent of total non-farm employment in the second quarter of FY25.

Eight of the 11 supersectors gained jobs in the second quarter of FY25. Three supersectors lost employment in the second quarter of FY25. Mining, manufacturing, and information services employment each lost small amounts of jobs in the second quarter of FY25 compared to the second quarter of FY24.

US personal income rose 5.3 percent in the second quarter of FY25. On an adjacent-quarter basis, US personal income has grown for 14 consecutive quarters. Adjacent-quarter growth increased in the second quarter. First quarter adjacent-quarter growth was 0.7 percent and increased to 1.3 percent in the second quarter of FY25.

Wages and salaries grew 5.7 percent in the second quarter of FY25 over the second quarter of FY24. US wages and salaries have increased for the last 18 consecutive quarters following the end of the 2020 recession. Adjacent-quarter growth in the first quarter of FY25 is 0.9 percent, while adjacent-quarter growth in the second quarter of FY25 improved to 1.4 percent. This is solid growth, but not as strong as some previous quarters in 2024. Wages and salaries income is the largest component of personal income and made up 50.4 percent of personal income in the second quarter of FY25.

The fastest growing component of personal income in the second quarter is transfer receipts income which rose 7.9 percent compared to the second quarter of FY24. Adjacent-quarter growth in the first quarter of FY25 was 1.0 percent. Adjacent quarter in the second quarter of FY25 is 1.2 percent. Transfers receipts income made up 18.4 percent of personal income in the second quarter of FY25.

Supplements to wages and salaries (also known as fringe benefits) grew 5.9 percent in the second quarter of FY25. Supplements to wages and salaries have been growing robustly for the last 10 consecutive quarters with adjacent-quarter growth above 1.0 percent in every quarter. Adjacent-quarter growth in the first quarter of FY25 is 1.3 percent and 1.5 percent in the second quarter of FY25. Supplements to wages and salaries income made up 10.7 percent of personal income in the second quarter of FY25.

## KENTUCKY ECONOMY

Kentucky non-farm employment rose by 1.2 percent in the second quarter of FY25. Growth on an adjacent-quarter basis has become very weak in the last seven quarters. Adjacent-quarter growth in the first quarter of FY25 is 0.02 percent, while adjacent-quarter growth in the second quarter of FY25 is 0.3 percent.

Mining employment is the fastest-growing component in the second quarter of FY25, which grew by 7.2 percent, or 600 jobs, over the second quarter of FY24. This is the fifth consecutive quarter of growth for mining employment. Mining employment is the smallest supersector in Kentucky. It made up 0.5 percent of total non-farm employment in the Commonwealth in the second quarter of FY25.

Three supersectors have lost jobs in the second quarter of FY25 compared to the same period in FY24. Information services employment, manufacturing employment, and financial services employment all lost jobs in the second quarter of FY25. Information services employment loss of the most jobs in percentage terms, losing 3.5 percent, or 800 jobs, compared to the second quarter of FY24. Information services employment made up 1.1 percent of non-farm employment in the second quarter of FY25.

Kentucky personal income increased by 5.4 percent in the second quarter of FY25. However, an examination of the adjacent-quarter growths reveals that the majority of that growth occurred in the third quarter of FY24. Adjacent-quarter growth in the third quarter of FY24 was 2.8 percent, while growth in the second quarter of FY25 was 1.1 percent.

Wages and salaries income, the largest component of Kentucky personal income, grew 5.2 percent in the second quarter of FY25 over the second quarter of FY24. Kentucky wages and salaries income also experienced a solid bump in the third quarter of FY24, growing 2.8 percent from the second quarter to the third quarter of FY24. Adjacent-quarter growth in the second quarter of FY25 is 1.4 percent. Kentucky wages and salaries made up 48.3 percent of total personal income in the second quarter of FY25.

Transfer receipts income was the fastest-growing component of Kentucky personal income in the second quarter of FY25, growing 8.4 percent. Just like personal income, the majority of that growth occurred in the third quarter of FY24. On an adjacent-quarter basis, transfer receipts jumped 4.8 percent in the third quarter of FY24 compared to the second quarter of FY24. That is over half of the annual growth in one quarter. Kentucky transfer receipts grew 1.0 percent on an adjacent-quarter basis in the second quarter of FY25. Kentucky transfer receipts made up 26.3 percent of Kentucky personal income in the second quarter of FY25. Prior to the 2020 recession, transfer receipts share of personal income hovered between 24.2 and 24.7 percent. Following the 2020 recession, the share rose to a high of 36.8 percent and has settled into a new normal of 26.0 to 26.3 percent.

**Table 9**  
**US Federal Outlays**  
**\$ billions, AR**

	Second Quarter			
	FY25	FY24	Chg	% Chg
Federal Outlays excl. Gross Investment	7,015.3	6,619.8	395.5	6.0
National Defense	851.5	802.7	48.8	6.1
Non-Defense Consumption	584.1	544.3	39.8	7.3
Federal Transfer Payments to Resident Persons	3,335.0	3,095.6	239.5	7.7
Medicare	1,114.0	1,035.3	78.7	7.6
Social Security	1,473.0	1,374.0	99.0	7.2
Social Insurance to Rest of the World	39.1	32.4	6.7	20.6
Grants-in-Aid to State & Local Govts	915.5	941.4	-25.9	-2.7
Medicaid	611.3	612.0	-0.7	-0.1
Non-Medicaid Grants to State & Local Govts	304.2	329.3	-25.2	-7.6
Aid to Foreign Govts	56.4	55.9	0.5	0.9
Interest on the Debt	1,140.0	1,030.7	109.3	10.6
Subsidies	93.7	98.9	-5.2	-5.3

**Table 10**  
**History of US Labor and Income Data**

	FY24						FY25			
	Q2	% chg	Q3	% chg	Q4	% chg	Q1	% chg	Q2	% chg
Non-farm Employment (millions, NSA)	157.1	1.9	157.8	1.8	158.4	1.7	158.8	1.5	159.3	1.4
Goods-producing	21.7	1.3	21.8	1.2	21.8	1.1	21.8	0.9	21.8	0.6
Mining	0.6	2.9	0.6	1.4	0.6	-0.9	0.6	-1.4	0.6	-0.4
Construction	8.1	3.1	8.2	3.0	8.2	2.9	8.3	2.8	8.3	2.6
Manufacturing	12.9	0.1	13.0	0.2	13.0	0.1	12.9	-0.1	12.9	-0.5
Service-providing	112.3	1.8	112.8	1.7	113.3	1.6	113.6	1.5	113.9	1.4
Trade, Transportation & Utilities	28.9	0.5	28.9	0.4	29.0	0.6	29.0	0.6	29.0	0.6
Information	3.0	-3.3	3.0	-1.2	3.0	-1.1	3.0	-0.4	3.0	-0.3
Finance	9.2	1.0	9.2	0.9	9.2	0.5	9.3	0.3	9.3	0.5
Business Services	22.9	0.6	22.9	0.7	23.0	0.5	23.0	0.4	22.9	0.3
Educational Services	25.7	4.2	26.0	4.2	26.3	4.2	26.5	3.9	26.7	3.8
Leisure and Hospitality Services	16.8	3.6	16.8	2.7	16.9	2.2	17.0	1.8	17.1	1.6
Other Services	5.9	1.8	5.9	1.7	5.9	1.7	5.9	1.2	5.9	1.1
Government	23.0	3.0	23.2	2.9	23.3	2.5	23.4	2.3	23.5	2.1
Personal Income (\$ billions, AR)	23,807.8	5.1	24,344.2	5.9	24,574.0	5.5	24,749.9	5.2	25,065.6	5.3
Wages and Salaries	11,955.3	5.6	12,251.0	6.7	12,343.0	6.0	12,457.6	5.4	12,631.2	5.7
Transfer Receipts	4,276.5	0.7	4,446.1	4.7	4,512.3	5.4	4,557.6	6.8	4,612.8	7.9
Dividends, Interest, and Rents	4,932.7	8.5	4,985.1	6.2	5,003.6	4.4	4,994.5	3.4	5,046.5	2.3
Supplements to Wages and Salaries	2,525.9	7.2	2,572.8	7.1	2,602.6	6.5	2,635.8	6.0	2,675.4	5.9
Proprietors' Income	1,970.1	2.9	1,972.1	1.9	2,002.3	3.4	2,009.5	2.8	2,021.8	2.6
Social Insurance	1,852.8	6.1	1,882.9	6.0	1,889.9	4.7	1,905.0	3.9	1,922.0	3.7
Residential Adjustment	0.0	NA	0.0	NA	0.0	NA	0.0	NA	0.0	NA

**Table 11**  
**History of KY Labor and Income Data**

	FY24						FY25			
	Q2	% chg	Q3	% chg	Q4	% chg	Q1	% chg	Q2	% chg
Non-farm Employment (thousands, NSA)	2,023.4	1.6	2,028.0	1.0	2,042.0	1.3	2,042.3	1.0	2,048.0	1.2
Goods-producing	355.6	2.1	355.7	1.4	358.2	1.0	357.3	0.3	356.0	0.1
Mining	8.7	2.8	9.0	3.1	9.2	6.5	9.3	8.2	9.3	7.2
Construction	90.8	6.5	90.7	3.1	93.4	5.1	93.1	3.4	93.4	2.9
Manufacturing	256.2	0.6	256.0	0.7	255.6	-0.6	254.9	-1.0	253.3	-1.1
Service-providing	1,356.0	1.2	1,359.7	0.5	1,371.2	1.3	1,373.0	1.2	1,378.3	1.6
Trade, Transportation & Utilities	426.7	-0.1	425.0	-0.6	426.3	-0.4	427.8	0.1	427.7	0.2
Information	22.6	-0.9	22.7	-1.7	22.3	-3.9	21.9	-5.7	21.8	-3.5
Finance	96.3	0.3	95.3	-2.1	95.6	-1.4	95.9	-0.8	96.2	-0.1
Business Services	226.8	-1.2	227.3	-1.1	231.0	0.3	230.4	0.1	230.8	1.7
Educational Services	307.0	4.1	311.1	3.8	317.3	5.5	319.0	5.1	321.8	4.8
Leisure and Hospitality Services	204.5	2.1	205.8	0.8	205.6	1.2	205.3	0.9	207.3	1.4
Other Services	72.2	4.1	72.5	2.1	73.1	2.2	72.7	1.0	72.6	0.6
Government	311.7	3.1	312.6	2.6	312.5	1.8	312.0	1.1	313.8	0.7
Personal Income (\$ billions, AR)	254.3	5.1	261.4	6.3	262.9	5.4	265.1	4.9	268.1	5.4
Wages and Salaries	123.1	5.9	126.6	6.3	126.6	5.5	127.9	4.2	129.6	5.2
Transfer Receipts	65.0	3.3	68.2	7.4	69.2	6.2	69.8	7.5	70.5	8.4
Dividends, Interest, and Rents	43.5	8.7	43.9	6.3	44.1	4.3	44.0	3.1	44.2	1.7
Supplements to Wages and Salaries	29.2	5.2	29.9	6.5	30.0	6.0	30.4	5.0	30.9	5.7
Proprietors' Income	17.9	-0.3	17.9	0.9	18.0	1.6	18.3	2.1	18.4	2.4
Social Insurance	20.2	4.2	20.6	5.3	20.5	4.1	20.7	2.9	20.9	3.6
Residential Adjustment	-4.3	NA	-4.5	NA	-4.4	NA	-4.5	NA	-4.6	NA

***APPENDIX***

***General Fund and Road Fund  
Revenue Receipts***

***SECOND QUARTER FY25***

## Kentucky State Government – General Fund

	Second Quarter FY 2025	Second Quarter FY 2024	%	Year-To-Date FY 2025	Year-To-Date FY 2024	%
			Change			Change
<b>TOTAL GENERAL FUND</b>	<b>\$4,024,535,959</b>	<b>\$3,943,314,509</b>	<b>2.1%</b>	<b>\$7,874,150,517</b>	<b>\$7,743,648,512</b>	<b>1.7%</b>
<b>Tax Receipts</b>	<b>\$3,790,811,088</b>	<b>\$3,719,162,171</b>	<b>1.9%</b>	<b>\$7,438,510,463</b>	<b>\$7,351,076,446</b>	<b>1.2%</b>
<b>Sales and Gross Receipts</b>	<b>\$1,628,157,102</b>	<b>\$1,640,671,327</b>	<b>-0.8%</b>	<b>\$3,344,743,917</b>	<b>\$3,325,569,247</b>	<b>0.6%</b>
Beer Consumption	340,529	1,426,560	-76.1%	1,961,597	3,104,658	-36.8%
Beer Wholesale	17,078,068	17,305,699	-1.3%	36,493,046	36,771,124	-0.8%
Cigarette	57,349,316	64,385,867	-10.9%	127,472,732	139,606,976	-8.7%
Distilled Spirits Case Sales	58,824	123,974	-52.6%	119,209	181,389	-34.3%
Distilled Spirits Consumption	4,424,823	5,470,219	-19.1%	9,333,691	9,302,974	0.3%
Distilled Spirits Wholesale	19,538,346	22,863,697	-14.5%	37,919,931	37,980,729	-0.2%
Insurance Premium	14,301,070	18,433,629	-22.4%	66,926,609	62,870,186	6.5%
Pari-Mutuel	21,915,608	13,557,249	61.7%	32,075,246	21,262,433	50.9%
Race Track Admission	0	0	—	0	0	—
Sales and Use	1,446,113,567	1,450,294,055	-0.3%	2,938,371,897	2,923,719,585	0.5%
Wine Consumption	746,207	853,595	-12.6%	1,450,092	1,504,366	-3.6%
Wine Wholesale	5,150,705	5,767,462	-10.7%	9,731,236	9,880,989	-1.5%
Telecommunications Tax	19,823,772	19,133,124	3.6%	39,450,453	36,791,301	7.2%
Other Tobacco Products	10,411,967	10,465,797	-0.5%	20,998,092	21,051,602	-0.3%
Floor Stock Tax	204	48	324.2%	276	969	-71.5%
Car Rental & Ride Sharing	10,904,097	10,590,352	3.0%	22,439,809	21,539,966	4.2%
<b>Natural Resources</b>	<b>\$28,360,007</b>	<b>\$21,040,903</b>	<b>34.8%</b>	<b>55,373,282</b>	<b>\$53,551,923</b>	<b>3.4%</b>
Coal Severance	18,398,463	11,054,388	66.4%	34,842,094	33,725,102	3.3%
Oil Production	1,343,825	1,548,952	-13.2%	2,886,169	2,901,049	-0.5%
Minerals Severance	7,795,887	7,828,982	-0.4%	16,331,674	15,115,112	8.0%
Natural Gas Severance	821,832	608,582	35.0%	1,313,345	1,810,659	-27.5%
<b>Individual Income Tax</b>	<b>\$1,212,958,935</b>	<b>\$1,329,501,837</b>	<b>-8.8%</b>	<b>2,453,987,031</b>	<b>\$2,834,659,008</b>	<b>-13.4%</b>
Withholding	1,121,349,120	1,211,878,378	-7.5%	2,199,762,703	2,422,301,077	-9.2%
Declarations	38,086,423	32,537,934	17.1%	112,277,059	128,185,533	-12.4%
Net Returns	(34,349,385)	(95,235,494)	—	(68,179,240)	(80,004,685)	—
Fiduciary	(5,922,554)	(12,330,049)	—	(7,151,902)	(15,838,306)	—
Pass-Through Entity Tax	93,795,332	192,651,069	-51.3%	217,278,411	380,015,389	-42.8%
<b>Major Business Taxes</b>	<b>\$445,318,846</b>	<b>\$248,432,428</b>	<b>79.3%</b>	<b>1,004,707,276</b>	<b>\$570,776,306</b>	<b>76.0%</b>
Corporation Income	383,753,547	205,133,230	87.1%	906,915,961	461,732,474	96.4%
LLET	61,565,299	43,299,198	42.2%	97,791,315	109,043,832	-10.3%
<b>Property</b>	<b>\$454,749,218</b>	<b>\$450,919,566</b>	<b>0.8%</b>	<b>533,311,065</b>	<b>521,660,253</b>	<b>2.2%</b>
General - Real	272,661,559	271,441,796	0.4%	272,901,179	271,998,134	0.3%
General - Tangible	89,506,915	89,049,215	0.5%	104,934,056	102,080,354	2.8%
Tangible - Motor Vehicle	42,201,265	40,393,211	4.5%	88,818,403	84,831,732	4.7%
Omitted & Delinquent	4,267,682	4,869,616	-12.4%	9,811,251	8,830,393	11.1%
Public Service	45,989,165	43,089,942	6.7%	53,551,180	50,925,975	5.2%
Other	122,632	2,075,787	-94.1%	3,294,996	2,993,664	10.1%
<b>Inheritance Tax</b>	<b>\$18,111,503</b>	<b>\$22,945,046</b>	<b>-21.1%</b>	<b>43,648,266</b>	<b>\$40,304,821</b>	<b>8.3%</b>
<b>Miscellaneous</b>	<b>\$3,155,477</b>	<b>\$5,651,064</b>	<b>-44.2%</b>	<b>2,739,626</b>	<b>4,554,889</b>	<b>-39.9%</b>
License and Privilege	\$495,246	\$387,036	28.0%	1,011,184	915,259	10.5%
Bank Franchise	(\$2,775,342)	(\$110,166)	—	(2,964,661)	(851,957)	—
Legal Process	2,235,170	2,223,120	0.5%	4,578,372	4,431,787	3.3%
T. V. A. In Lieu Payments	3,194,836	3,148,249	1.5%	102,795	56,976	—
Other	5,568	2,824	97.2%	11,936	2,824	322.6%
<b>Nontax Receipts</b>	<b>\$233,358,934</b>	<b>\$223,795,414</b>	<b>4.3%</b>	<b>434,315,008</b>	<b>\$391,367,409</b>	<b>11.0%</b>
Departmental Fees	2,664,834	3,258,915	-18.2%	5,936,075	6,401,374	-7.3%
PSC Assessment Fee	25,768	74,298	-65.3%	10,901,393	11,160,970	-2.3%
Fines & Forfeitures	4,654,457	6,236,920	-25.4%	9,551,852	11,587,703	-17.6%
Income on Investments	69,609,961	72,557,717	-4.1%	171,777,119	141,352,468	21.5%
Lottery	98,471,720	95,048,869	3.6%	179,471,720	173,048,869	3.7%
Miscellaneous	57,932,193	46,618,696	24.3%	56,676,849	47,816,026	18.5%
<b>Redeposit of State Funds</b>	<b>\$365,937</b>	<b>\$356,923</b>	<b>2.5%</b>	<b>1,325,046</b>	<b>\$1,204,657</b>	<b>10.0%</b>



## Kentucky State Government – Road Fund

	Second Quarter FY 2025	Second Quarter FY 2024	%	Year-To-Date FY 2025	Year-To-Date FY 2024	%
			Change			Change
<b>TOTAL STATE ROAD FUND</b>	<b>\$436,248,961</b>	<b>\$450,975,551</b>	<b>-3.3%</b>	<b>\$918,517,681</b>	<b>\$916,541,392</b>	<b>0.2%</b>
<b>Tax Receipts-</b>	<b>\$425,222,770</b>	<b>\$440,210,870</b>	<b>-3.4%</b>	<b>\$891,585,510</b>	<b>\$894,975,913</b>	<b>-0.4%</b>
<b>Sales and Gross Receipts</b>	<b>\$375,201,957</b>	<b>\$388,387,718</b>	<b>-3.4%</b>	<b>\$788,354,512</b>	<b>\$789,764,309</b>	<b>-0.2%</b>
Motor Fuels Taxes	209,085,371	227,450,192	-8.1%	432,521,725	455,500,115	-5.0%
Motor Vehicle Usage	165,979,037	160,937,526	3.1%	355,566,219	334,264,194	6.4%
EV Charging Station Tax	137,549	0	—	266,568	0	—
<b>License and Privilege</b>	<b>\$50,020,813</b>	<b>\$51,823,152</b>	<b>-3.5%</b>	<b>\$103,230,998</b>	<b>\$105,211,604</b>	<b>-1.9%</b>
Motor Vehicles	16,671,760	19,201,411	-13.2%	36,438,324	39,872,993	-8.6%
Motor Vehicle Operators	8,259,806	8,167,701	1.1%	16,956,141	16,530,450	2.6%
Weight Distance	22,054,030	21,608,296	2.1%	44,396,101	43,694,645	1.6%
Truck Decal Fees	25,440	17,700	43.7%	70,380	64,500	9.1%
Other Special Fees	3,009,777	2,828,044	6.4%	5,370,052	5,049,016	6.4%
<b>Nontax Receipts</b>	<b>\$10,622,179</b>	<b>\$10,538,304</b>	<b>0.8%</b>	<b>\$26,198,686</b>	<b>\$19,986,366</b>	<b>31.1%</b>
Departmental Fees	5,348,139	4,733,997	13.0%	12,627,249	9,816,526	28.6%
In Lieu of Traffic Fines	38,790	39,750	-2.4%	82,230	84,810	-3.0%
Income on Investments	2,869,541	4,002,505	-28.3%	8,844,585	6,909,455	28.0%
Miscellaneous	1,396,407	1,762,052	-20.8%	2,645,840	3,175,575	-16.7%
Hybrid/ Electric Annual Fee	969,302	0	—	1,998,782	0	—
<b>Redeposit of State Funds</b>	<b>\$404,011</b>	<b>\$226,377</b>	<b>78.5%</b>	<b>\$733,485</b>	<b>\$1,579,113</b>	<b>-53.6%</b>

An electronic version of this report is available for viewing and downloading in PDF format at the Office of the State Budget Director's web site. To access this report, set your browser to <http://www.osbd.ky.gov>.

## 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.

## Tables 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.

Source: IHS Markit - Economics & Country Risk, December 12, 2024 data release.

### Table 4

Not Seasonally Adjusted, Data for FY25 Q2 are December 2024 estimates.

Source: IHS Markit - Economics & Country Risk, December 12, 2024 data release.

### Table 7

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 FY25 Q2 are December 2024 estimates.

Source: IHS Markit - Economics & Country Risk, December 12, 2024 data release.

<sup>1</sup> Working population is 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.

<sup>2</sup> Civilian Labor Force is a subset of the working population who are currently employed or are actively looking for employment.

<sup>3</sup> 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.

<sup>4</sup> Unemployed is a subset of the civilian labor force who are not currently employed but are actively seeking employment.

<sup>5</sup> Not in Labor Force is a subset of the working population who have decided not to be employed nor seek employment.

<sup>6</sup> Labor Force Participation Rate is computed as the Civilian Labor Force divided by the Working Population.

### Table 8

Not Seasonally Adjusted.

Source: IHS Global Insight, Inc. and the Kentucky Governor's Office for Economic Analysis MAK model, December 2024.

### Table 10

Seasonally Adjusted. Data for FY25 Q2 are December 2024 estimates.

Source: IHS Markit – Economics & Country Risk, December 12, 2024 data release.

