

Commonwealth of Kentucky

Quarterly Economic & Revenue Report

First Quarter Fiscal Year 2026

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



TEAM  KENTUCKY



Office of State Budget Director

200 Mero Street, 5th Floor
Frankfort, Kentucky 40622

Andy Beshear
Governor

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

John Hicks
State Budget Director

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

October 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 Vandalay 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 continuously monitor the financial situation of the Commonwealth. In furtherance of this directive, OSBD submits this *Quarterly Economic and Revenue Report* for the first quarter of Fiscal Year 2026 (FY26) to the three branches of government.

This report includes the actual revenue receipts and economic conditions for the first quarter and an unofficial forecast for the final three quarters 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.

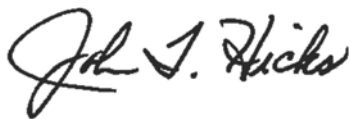


Governor Beshear; Mr. Hartz; Mr. Ramsey
October 30, 2025
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The interim General Fund and Road Fund revenue projections prepared for this report are identical to the revised official estimates agreed to by the Consensus Forecasting Group (CFG) on September 16 in accordance with KRS 48.115(2). When combined with the first quarter of actual receipts, the interim forecast predicts FY26 General Fund revenue of \$15,349.7 million, or a 2.3 percent decline compared to FY25. The revised official estimate would result in a revenue shortfall of \$305.2 million compared to the previous official estimate of \$15,654.9 million enacted during the 2024 Regular Session, and as revised in the 2025 Regular Session. The FY26 decline relative to FY25 is primarily attributable to the 23.6 percent downward correction to the major business taxes discussed and agreed upon by the CFG at the September 16 meeting.

Total Road Fund collections are expected to decline 3.8 percent over the final three quarters of FY26, ending the year 2.8 percent below FY25 levels and \$82.1 million below the previous official estimate of \$1,894.3 million. The negative revision to the official estimate stems from a \$125.8 million projected revenue decline in the motor fuels taxes, partially offset by a forecasted \$59.6 million positive movement in the motor vehicle usage tax. Motor fuels taxes are forecasted to fall 5.1 percent over the remainder of the fiscal year due to the 1.4 cent-per-gallon drop in the tax rate on motor fuels that became effective on July 1, 2025.

Sincerely,

A handwritten signature in black ink, reading "John T. Hicks". The signature is written in a cursive, flowing style with a large initial "J".

John T. Hicks
State Budget Director

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EXECUTIVE SUMMARY

In accordance with KRS 48.400(2), the Office of State Budget Director (OSBD) is directed to continuously monitor the financial situation of the Commonwealth. In fulfillment of this statutory requirement, OSBD submits this *Quarterly Economic and Revenue Report* for the first quarter of fiscal year 2026 (FY26). This interim report includes the actual revenue receipts and economic landscape for the first quarter, a comprehensive revenue outlook for upcoming three fiscal quarters which make up the remainder of FY26, as well as a US and Kentucky economic outlook for the same period. All estimates in this outlook extend from the second quarter through the fourth quarter of FY26 (the forecasting horizon).

The interim General Fund and Road Fund outlooks prepared pursuant to KRS 48.400(2) are identical to the revised official estimates agreed to by the Consensus Forecasting Group (CFG) on September 16 in accordance with KRS 48.115(2). Forecasted revenues presented in Table 1 were projected using the August 2025 “control scenario” economic forecast from both IHS Markit and the Kentucky MAK model as the primary inputs. IHS Markit has placed a 55 percent probability on their “control scenario” as being the most likely economic outcome, relative to the pessimistic (30 percent) and optimistic (15 percent) scenarios.

Regarding the FY26 General Fund revenue outlook, a brief review of FY25 is helpful. The General Fund recorded a 1.9 percent increase in the final quarter of FY25 which helped generate a 0.8 percent annual increase of \$131.9 million. The sales tax and individual income tax combined to contribute \$11,140.5 million in receipts in FY25 but fell short of the official estimate by \$485.9 million. The shortfall from the largest two taxes was more than offset by the major business taxes, which were 46.9 percent higher than the previous year’s record amount and exceeded the official estimate by \$506.7 million. During the CFG meeting in September 2025, members decided that the \$585.4 million increase from FY24 to FY25 in the major business taxes was nonrecurring, and that the largest two taxes will perform relatively better in FY26 while the major business taxes will decline for the year due to the one-time collections received in FY25.

Projected General Fund Growth for the final three quarters of FY26

Table 1 displays the interim forecast for the remainder of FY26. When combined with the first quarter of actual receipts, the interim forecast predicts FY26 General Fund revenue of \$15,349.7 million, or a 2.3 percent decline compared to FY25, and would result in a revenue difference of \$305.2 million compared to the previous official estimate of \$15,649.9 million enacted during the 2024 Regular Session. The FY26 General Fund decline is primarily attributable to the 23.6 percent downward correction to the major business taxes discussed and agreed upon by the CFG at the September 16 meeting

Projected Road Fund Growth for the final three quarters of FY26

Total Road Fund collections are expected to decline 3.8 percent over the final three quarters of FY26, ending the year 2.8 percent below FY25 levels and \$82.1 million below the previous official estimate of \$1,894.3 million. The negative revision to the official estimate stems from a projected \$125.8 million revenue difference in the motor fuels taxes, partially offset by a forecasted \$59.6 million positive movement in the motor vehicle usage tax. Motor fuels tax revenue is expected to decline 5.1 percent over the remainder of the year due to the 1.4 cents-per-gallon drop in the tax rate that occurred on July 1, 2025.

Summary of Projected Major Economic Factors

US real GDP is expected to rise 1.9 percent, or \$458.1 billion, over the forecast horizon. This growth is expected to come from two sources, consumption and imports. Real consumption is expected to rise 1.3 percent, or \$212.7 billion, while real imports are expected to fall 5.2 percent, or \$197.8 billion over the forecast horizon. Inflation, as measured by the change in the CPI for all goods, is expected to rise to 2.8 percent in the forecast horizon. US non-farm employment is expected to rise 0.6 percent in the final three quarters of FY26, led by educational services employment with 3.1 percent growth. Five sectors are expected to lose jobs during the forecast horizon, offsetting the solid gains in the educational services sector. US personal income is expected to rise 5.1 percent in the final three quarters of FY26. This growth is led by transfer receipts income with 6.5 percent growth expected over the three-quarter forecast horizon.

Kentucky non-farm employment is expected to grow 0.6 percent during the forecast horizon. Like the US, the fastest growing sector is expected to be educational services employment. Kentucky personal income is expected to increase 4.6 percent, a net increase of \$12.5 billion, in the final three quarters of FY26. The largest income component in Kentucky is wages and salaries. Wage and salary income makes up 47.6 percent of total Kentucky personal income. It is expected to grow 4.4 percent during the forecast horizon, a net increase of \$5.7 billion, compared to the same three quarters in FY25.

Summary of First Quarter Tax Receipts

General Fund receipts in the first quarter of FY26 were boosted by growth in the sales and use and individual income taxes. Counteracting these gains were a significant drop in major business tax collections. Revenues in the just completed quarter totaled \$3,743.2 million compared to \$3,849.6 million in the first quarter of FY25, for a decrease of \$106.4 million. Individual income and sales and use taxes accounted for the majority of General Fund. The next largest sources of revenue were the combined corporation income and LLET taxes and the “other” set of accounts. The cigarette, property, lottery and coal severance taxes accounted for two percent or less.

Road Fund collections in the first three months of FY26 moved back into positive territory after being negative in the final three quarters of FY25. Revenues were just barely positive with an increase of only 0.1 percent. Receipts for the quarter were \$482.9 million, or \$0.6 million more than what was collected last year. Growth in motor vehicle usage tax revenue almost exactly offset a decline in motor fuels receipts. Motor vehicle license collections was the only other major account which had a significant revenue increase. The new official Road Fund revenue estimate calls for a 2.8 percent decline in revenues for the year. Based on year-to-date tax collections, revenues can fall 3.8 percent for the remainder of the year and still meet the estimate.

Summary of the Economy for the First Quarter of FY26

US real gross domestic product (real GDP) rose by 1.5 percent, or \$352.3 billion, in the first quarter of FY26. Real consumption contributed the majority to that growth, growing a net \$279.5 billion. Net exports continues to be a major drag on real GDP and real GDP growth. Net exports in the first quarter of FY26 is -\$1,032.6 billion. Inflation increased slightly to 3.0 percent in the first quarter of FY26. US non-farm employment grew 0.9 percent in the first quarter of FY26, led by educational services employment. US personal income rose 5.2 percent in the first quarter of FY26, led by transfer receipts income.

Kentucky non-farm employment rose 0.7 percent in the first quarter of FY26, led by educational services employment. The largest employment sector, trade, transportation, and utilities lost 0.2 percent, or 1,100 net jobs in the first quarter of FY26. Kentucky personal income rose 4.7 percent in the first quarter of FY26. Transfer receipts income grew the fastest, growing 8.5 percent in the first quarter of FY26. Wage and salary income, the largest share of Kentucky personal income, grew 3.8 percent.

REVENUE & ECONOMIC OUTLOOK

GENERAL FUND REVENUE OUTLOOK

The interim General Fund and Road Fund outlooks prepared for this report are identical to the revised official estimates agreed to on September 16, 2025, by the CFG in accordance with KRS 48.115 (2). Forecasted revenues presented in Table 1 and Table 2 were projected using the August 2025 “control scenario” economic forecast, as agreed to by the CFG, from both the S&P Global and the Kentucky MAK model as the primary inputs. S&P Global assigned a 55 percent probability on their control or baseline scenario, relative to the pessimistic (30 percent) and optimistic (15 percent) scenarios. All estimates in this outlook extend through the fourth quarter of FY26 (the forecasting horizon).

Table 1
General Fund Interim Outlook
\$ millions

	FY26						FY26		FY26	
	Q1		Q2, Q3, & Q4		Full Year		Official CFG		Old Official	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	\$ Diff	Estimate	\$ Diff
Individual Income	1,330.8	7.2	3,914.1	-4.0	5,244.9	-1.4	5,244.9	0.0	5,381.1	-136.2
Sales & Use	1,550.9	3.9	4,420.0	2.1	5,970.9	2.6	5,970.9	0.0	6,299.1	-328.2
Corp. Inc. & LLET	325.4	-41.8	1,076.2	-15.6	1,401.6	-23.6	1,401.6	0.0	1,352.9	48.7
Property	63.2	-19.6	805.1	5.8	868.3	3.5	868.3	0.0	861.9	6.4
Lottery	84.0	3.7	286.0	6.1	370.0	5.5	370.0	0.0	370.0	0.0
Cigarettes	64.3	-8.4	159.5	-8.0	223.8	-8.1	223.8	0.0	231.7	-7.9
Coal Severance	13.9	-15.7	36.4	-8.0	50.3	-10.3	50.3	0.0	47.9	2.4
Other	310.9	0.0	909.0	-2.0	1,219.9	-1.5	1,219.9	0.0	1,110.3	109.6
General Fund	3,743.2	-2.8	11,606.5	-2.1	15,349.7	-2.3	15,349.7	0.0	15,654.9	-305.2

When combining the first quarter of actual receipts with the next three fiscal quarters, the interim outlook predicts FY26 General Fund revenue of \$15,349.7 million, or a 2.3 percent decline, and would result in a revenue difference of \$305.2 million compared to the enacted estimate that was used in the budget process. The expected General Fund decline in FY26 would also snap the current streak of 15 consecutive years of increases.

It is more difficult to understand the FY26 General Fund revenue outlook without a brief review of FY25. The General Fund recorded a 1.9 percent increase in the final quarter of FY25, prompting a 0.8 percent annual increase of \$131.9 million in FY25. The sales tax and individual income tax combined to contribute \$11,140.5 million in receipts in FY25 but fell short of the official estimate by \$485.9 million. The shortfall from the largest two taxes was more than offset by the major business taxes, which were 46.9 percent higher than the previous year’s record amount and exceeded the official estimate by \$506.7 million. During the CFG meeting in September 2025,

members decided that the \$585.4 million increase from FY24 to FY25 in the major business taxes was nonrecurring. Based on this abbreviated review of FY25, it is reasonable to expect that the largest two taxes will perform relatively better in FY26 while the major business taxes will decline for the year due to the one-time collections received in FY25.

Individual income tax receipts increased a robust 7.2 percent growth in the first quarter of FY26 but are projected to decline 4.0 percent during the three-quarter forecasting horizon. The projected decline in the individual income tax for the remainder of the fiscal year is primarily attributable to legislative tax rate reduction from 4.0 percent to 3.5 percent that becomes effective January 1, 2026. Since the rate reduction conditions were enacted in HB 8 during the 2022 legislative session, the flat rate on Kentucky net income has fallen in half-percentage-point increments from 5.0 percent from tax year 2022 to 3.5 percent in tax year 2026. Rate reductions affect all the major components of the individual income tax. Withholding collections and estimated payments decline predictably, but net returns and the pass-through entity tax (PTET) are also impacted. The PTET collections are reduced because pass-through entities face a lower tax liability. The effect on net returns is ambiguous because pay returns are lower, but refund returns are as well.

Sales and use tax receipts are expected to rise 2.1 percent over the forecasting horizon. When combined with the 3.9 percent growth from the first quarter of FY26, annual growth in the sales tax is expected to be 2.6 percent. Going back to FY23, the sales tax had grown at torrid pace with double-digit growth in three prior fiscal years. Growth of 12.0 percent in FY21 was followed by increases of 11.0 percent and 10.1 percent in FY22 and FY23, respectively. During that three-year span, the sales and use tax has risen from \$4,070.9 million in FY20 to \$5,576.3 million in FY23, a remarkable and unprecedented growth spurt. However, even accounting for higher inflation at the time, receipts from the sales and use tax had outrun the underlying economic fundamentals that are typically tightly correlated to revenue outcomes. The sales and use tax corrected somewhat in FY24 with 4.1 percent growth, followed by further softening to a 0.3 percent increase in FY25. The sales and use tax grew 3.9 percent in the first quarter of FY26 and is expected to show modest growth for the remainder of the fiscal year, easily outpacing the flat performance in FY25.

Major business taxes (corporation income tax plus the limited liability entity tax) have always posed unique challenges in forecasting due to the credit that flows through from the LLET, dollar-for-dollar except for the \$175 minimum LLET tax payment, to the corporation income tax. This flow of payments between the taxes has created data challenges that OSBD has addressed by combining the taxes prior to estimation. In FY25, a different complication emerged – a large gain in corporation estimated payments. Three months of the prior fiscal year experienced abnormally high payments that totaled over \$400 million in seemingly nonrecurring revenues. Major business taxes grew 46.9 percent in FY25 with collections of \$1,834.5 million. As stated earlier in this outlook, the CFG agreed in September that a large part of the FY25 payments was nonrecurring, so the appropriate adjustments were made to

the major business taxes model to normalize the forecast. The adjusted forecast calls for a FY26 decline of 23.6 percent with total receipts of \$1,401.6 million. That level of collections would be the second-highest annual total for the major business taxes, surpassed only by FY25.

Despite falling nearly 20.0 percent in the first quarter of FY26, **property tax** receipts are expected to increase 5.8 percent during the forecasting horizon, ending the fiscal year with 3.5 percent growth over FY25. Property tax collections have a strong seasonal component, and only 7.3 percent of projected FY26 total collections were collected in the first fiscal quarter. Real property tax collections, comprising 43.9 percent of total state property taxes, are expected to post growth of 3.5 percent in FY26. While some real property owners experienced higher assessments, it should be noted that the state rate on real property fell from 10.9 cents per \$100 in valuation in tax year 2024 to 10.6 cents per \$100 in tax year 2025 to adjust for the growing assessment base. The next largest categories of state property revenue, motor vehicle property taxes and tangible personal property, are projected to increase by 3.2 percent and 3.3 percent, respectively.

Dividend payments from the **Kentucky Lottery** continue to be a reliable source of General Fund revenues despite the maturity of the state lottery and the growing number of alternative sources of recreational gaming. General Fund payments totaled \$350.7 million in FY25. The total dividend payments from the Kentucky Lottery were \$371.0 million, but \$20.3 million was transferred to a trust and agency account due to budget bill language from HB 6 in the 2024 Regular Session. The 2026 official estimate for General Fund lottery revenue is \$370.0 million.

Cigarette taxes are collected at the rate of \$1.10 per pack, effective July 1, 2018. Cigarette tax receipts continued to drop in FY25, plunging by 9.9 percent after declining 9.6 percent in FY24. Smoking rates continue to fall, and the number of cigarettes per smoker has also decreased. The FY26 official estimate predicts a further decrease in cigarette taxes with an 8.1 percent projected decline. An 11.0 percent increase in FY26 for other tobacco products (OTP), including vaping, somewhat mitigates the decline from cigarette tax receipts, but the 11.0 percent increase in OTP only equates to a \$2.7 million revenue increase in “other taxes” compared to the expected \$19.8 million revenue loss in cigarette taxes from FY25 to FY26.

Since the **coal severance tax** grew 36.7 percent to \$96.6 million in FY23, receipts have endured a dramatic decline. Coal severance tax collections fell to \$77.8 million in FY24 followed by \$56.1 million in FY25. The retreat is expected to continue throughout the forecasting horizon. Receipts in the first quarter of FY26 dropped 15.7 percent and are projected to end the year with \$50.3 million in total collections.

The **“other” category of revenues** contains roughly 60 accounts that are not otherwise classified in the major accounts. Income on investments, insurance premiums taxes, collective alcohol taxes, and telecommunications taxes are the four largest ongoing accounts. Income from investments recorded receipts of \$323.0 million in FY25 for growth of 7.6 percent. The dramatic increase in the income on investments since FY23 stems from prior year surpluses that were deposited into the State’s “Rainy Day Fund”. Looking ahead to FY26, the CFG agreed to a \$63.0 million decline in General Fund income from investments, bringing the FY26 forecast down to \$260 million. The large projected decrease was attributed to declining investable balances and a reduction to interest rates accruing to the short-term pool. “Other taxes” taken collectively are expected to fall \$18.7 million between FY25 and FY26. With the outlook for income from investments falling \$63.0 million while the aggregate loss of \$18.7 million in the other category of receipts, several additional accounts within the “other taxes” are expected exceed prior expectations and narrow the gap. Insurance premium taxes, pari-mutuel taxes, and alcohol taxes are projected to increase by \$33.6 million, or 75 percent of the \$44.3 million gap described above.

ROAD FUND REVENUE OUTLOOK

Road Fund revenues grew only 0.1 percent in the first quarter of FY26 but that’s an improvement on FY25 when collections declined in each of the final three quarters. An increase in motor vehicle usage tax collections almost exactly cancelled out a drop in motor fuels taxes for the period July through September 2025. The remaining five major revenue accounts each had small changes in revenue collections compared to the same time last year.

Table 2
Road Fund Interim Outlook
\$ millions

	FY26						FY26		FY26	
	Q1		Q2, Q3, & Q4		Full Year		Official CFG		Old Official	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	\$ Diff	Estimate	\$ Diff
Motor Fuels	215.9	-3.4	581.9	-5.1	797.8	-4.6	797.8	0.0	923.6	-125.8
Motor Vehicle Usage	197.0	3.9	522.9	-1.3	719.9	0.1	719.9	0.0	660.3	59.6
Motor Vehicle License	23.2	17.4	96.2	-1.4	119.4	1.8	119.4	0.0	130.9	-11.5
Motor Vehicle Operators	9.1	4.1	25.4	1.8	34.5	2.4	34.5	0.0	32.3	2.2
Weight Distance	22.2	-0.5	63.5	-0.7	85.7	-0.7	85.7	0.0	91.7	-6.0
Income on Investments	3.1	-47.6	6.2	-52.5	9.3	-51.0	9.3	0.0	6.2	3.1
Other	12.4	-0.6	33.2	-14.6	45.6	-11.2	45.6	0.0	49.3	-3.7
Road Fund	482.9	0.1	1,329.3	-3.8	1,812.2	-2.8	1,812.2	0.0	1,894.3	-82.1

Looking ahead, total Road Fund collections are expected to decline 3.8 percent over the final three quarters of FY26, ending the year 2.8 percent below FY25 levels. The Road Fund outlook used in this report is identical to the revised official estimates agreed to by the CFG at the September 16, 2025, meeting. Motor fuels taxes are forecasted to continue their first quarter trajectory, falling 5.1 percent over the remainder of the year due to the 1.4 cent-per-gallon drop in the tax rate on motor fuels that became effective on July 1, 2025. Motor vehicle usage taxes rose 3.9 percent in the first quarter but are expected to decline 1.3 percent over the rest of the year as demand for light vehicles eases.

Motor vehicle license receipts rose 17.4 percent in the first three months of the year. The forecast for the remainder of the year is for revenues to decrease 1.4 percent, ending the year with 1.8 percent. First quarter motor vehicle operator's collections grew 4.1 percent. Receipts in this account are expected to ease over the remainder of the year, increasing 1.8 percent. Weight distance tax collections fell 0.5 percent in the first quarter of FY26 and that trend is forecasted to continue over the final nine months of the year with revenues ending the year down 0.7 percent. Income on investments fell by nearly half in the first quarter with collections of \$3.1 million. Lower rates of return will mean declining returns over the remainder of the year. The forecast calls for an additional \$6.2 million for the rest of the year, 52.5 percent less than what was collected in FY25. Finally, the "other" category fell 0.6 percent in the first quarter but is forecast to decrease 14.6 percent in the final three quarters of the year.

NATIONAL ECONOMIC OUTLOOK

Real gross domestic product (Real GDP) is expected to rise 1.9 percent, or \$458.1 billion, over the forecast horizon. This is an improvement over first quarter growth in FY26. This growth is expected to come primarily from two sources: real consumption and real imports. Real consumption is expected to rise 1.3 percent, or \$212.7 billion, over the forecast horizon. That is 46.4 percent of the net \$458.1 billion in gains of real GDP over the forecast horizon. Real imports are expected to fall 5.2 percent, or \$197.8 billion over the forecast horizon. The majority of the decline in real imports is due to the increased tariff rates. As tariff rates increase, it becomes challenging for foreign sellers to sell their goods in US markets and compete with domestic goods. As real imports are a deduction from real GDP, this will result in an increase to real GDP. The \$197.8 billion gain is 43.2 percent of the \$458.1 billion in net gains of real GDP during the forecast horizon. Combined these two components make up 89.6 percent of the expected net gains during the forecast horizon.

Inflation, as measured by the change in the CPI for all goods, is expected to rise to 2.8 percent in the forecast horizon. This compares to 2.6 percent in the same period in FY25. Food and non-food non-energy items are the primary sources of the increase. Food inflation is expected to be 3.3 percent during the forecast horizon. Food inflation during the same period in FY25 was 2.6 percent, a significant increase. Meanwhile, energy prices continue to fall, albeit at a slower rate than in FY25. Energy inflation

is expected to be -0.7 percent during the forecast horizon, compared to -2.0 percent during the same three-quarter period in FY25. See Table 3. Core inflation represents those goods which are not energy goods nor food goods. Core inflation for the forecast period is expected to be 3.2 percent up slightly from the 3.1 percent in the same period of FY25.

The unemployment rate is expected to worsen during the final three quarters of FY26, rising to 4.4 percent compared to the 4.1 percent during the same three quarters in FY25. Most of the unemployed are expected to come from the goods-producing sectors. The goods-producing employment sectors are expected to lose 1.1 percent during the forecast horizon.

Non-farm employment is expected to rise 0.6 percent in the final three quarters of FY26. The fastest-growing sector is expected to be educational services employment, which will rise 3.1 percent, or 0.8 million net jobs during the forecast horizon. The largest employment sector is trade, transportation, and utilities employment. It is expected to rise 0.6 percent, or 0.2 million net jobs during the forecast horizon. Educational services employment makes up 17.4 percent of total non-farm employment, while trade, transportation, and utilities employment makes up 18.3 percent.

Five sectors are expected to lose jobs during the forecast period: construction, mining, manufacturing, business services, and government employment. The biggest loser in both percentage and nominal terms is expected to be manufacturing employment with an anticipated 1.7 percent loss, or 0.2 million net jobs decline during the forecast horizon. US manufacturing employment makes up 7.8 percent of total US non-farm employment.

US personal income is expected to rise 5.1 percent in the final three quarters of FY26. The fastest-growing personal income component is expected to be transfer receipts income with 6.5 percent growth over the three-quarter forecast horizon. The largest personal income component is wages and salaries, and it is expected to grow 4.7 percent during the forecast horizon. All five contributing components are expected to grow during the forecast horizon.

Table 3
US Economic Outlook
Interim Forecast

	Q2-Q4			Full Year	
	FY26	FY25	% chg	FY26	% chg
Real GDP (\$ billions, AR)	24,038.2	23,580.1	1.9	23,966.8	1.8
Real Consumption	16,517.8	16,305.1	1.3	16,486.5	1.4
Real Investment	4,434.1	4,410.0	0.5	4,425.2	0.5
Real Govt. Expenditures	4,023.5	3,994.0	0.7	4,015.8	0.7
Real Exports	2,659.0	2,635.1	0.9	2,648.7	0.5
Real Imports	3,583.3	3,781.0	-5.2	3,600.1	-4.3
CPI all goods (% chg)	2.8	2.6	NA	2.9	NA
CPI Food (% chg)	3.3	2.6	NA	3.2	NA
CPI Energy (% chg)	-0.7	-2.0	NA	-0.4	NA
CPI Core (% chg)	3.2	3.1	NA	3.2	NA
Industrial Production Index (% chg)	0.1	0.6	NA	0.3	NA
Unemployment Rate (%)	4.4	4.1	NA	4.4	NA
Housing Starts (millions, NSA)	1.3	1.4	-3.9	1.3	-3.4

Table 4
US Labor and Income Outlook
Interim Forecast

	Q2-Q4			Full Year	
	FY26	FY25	% chg	FY26	% chg
Non-farm Employment (millions, NSA)	160.0	159.1	0.6	159.9	0.7
Goods-producing	21.4	21.7	-1.1	21.5	-0.9
Construction	8.3	8.3	-0.2	8.3	0.1
Mining	0.6	0.6	-1.2	0.6	-1.1
Manufacturing	12.5	12.8	-1.7	12.6	-1.5
Service-providing	115.1	113.8	1.1	114.9	1.1
Trade, Transportation & Utilities	29.2	29.1	0.6	29.2	0.6
Information	3.0	2.9	3.0	3.0	2.4
Finance	9.4	9.2	1.5	9.3	1.4
Business Services	22.4	22.6	-0.9	22.4	-0.7
Educational Services	27.9	27.1	3.1	27.8	3.1
Leisure and Hospitality Services	17.2	17.0	1.1	17.1	1.2
Other Services	6.1	6.0	0.8	6.1	0.9
Government	23.4	23.6	-0.5	23.5	-0.3
Personal Income (\$ billions, AR)	26,728.9	25,424.1	5.1	26,550.2	5.2
Wages and Salaries (\$ billions, AR)	13,365.9	12,764.2	4.7	13,291.1	4.9
Transfer Receipts	5,086.2	4,774.5	6.5	5,052.0	7.0
Dividends, Interest, and Rents	5,268.1	5,075.4	3.8	5,232.7	3.5
Supplements to Wages and Salaries	2,863.0	2,708.7	5.7	2,844.1	5.7
Proprietors' Income	2,169.4	2,053.1	5.7	2,144.8	5.0
Social Insurance	2,023.7	1,951.7	3.7	2,014.6	3.9
Residence Adjustment	0.0	0.0	NA	0.0	NA

KENTUCKY ECONOMIC OUTLOOK

Kentucky non-farm employment is expected to grow 0.6 percent during the forecast horizon. This is down slightly from the 0.7 percent annual growth in the first quarter of FY26. Educational services employment is expected to grow the most, with 2.7 percent growth, or an increase of 8,700 net jobs, during the forecast horizon. The largest employment sector in Kentucky is trade, transportation, and utilities employment which is expected to grow 0.2 percent, or 1,000 net jobs, during the forecast horizon. Educational services employment makes up 15.9 percent of total Kentucky non-farm employment. Trade, transportation, and utilities employment makes up 20.8 percent of total Kentucky non-farm employment.

Five sectors are expected to lose net jobs during the forecast horizon: construction, mining, manufacturing, information services, and business services. The sector with the worst growth is mining employment, which is expected to fall 3.3 percent, or 300 net jobs, during the forecast horizon. Mining employment is the smallest employment sector in Kentucky and makes up 0.4 percent of total Kentucky non-farm employment.

Kentucky personal income is expected to increase 4.6 percent, a net increase of \$12.5 billion, in the final three quarters of FY26. All five income-contributing components are expected to grow during the forecast horizon. The fastest-growing component is expected to be proprietors' income, which will grow 6.4 percent, a net increase of \$1.2 billion, in the forecast horizon compared to the same three quarters in FY25. See Table 5. The largest income component in Kentucky is wages and salaries. Wages and salaries makes up 47.6 percent of total Kentucky personal income. It is expected to grow 4.4 percent during the forecast horizon, a net increase of \$5.7 billion, compared to the same three quarters in FY25. Proprietors' income makes up 7.0 percent of total Kentucky personal income.

Table 5
KY Labor and Income Outlook
Interim Forecast

	Q2-Q4			Full Year	
	FY26	FY25	% chg	FY26	% chg
Non-farm Employment (thousands, NSA)	2,059.5	2,048.2	0.6	2,058.6	0.6
Goods-producing	357.7	362.7	-1.4	358.3	-1.1
Construction	93.8	96.9	-3.1	93.9	-2.5
Mining	7.5	7.7	-3.3	7.5	-4.2
Manufacturing	256.4	258.1	-0.7	257.0	-0.4
Service-providing	1,384.2	1,367.8	1.2	1,382.4	1.1
Trade, Transportation & Utilities	428.8	427.9	0.2	428.7	0.1
Information	20.7	20.8	-0.2	20.7	0.0
Finance	96.5	95.1	1.5	96.3	1.3
Business Services	225.3	225.5	-0.1	225.5	0.0
Educational Services	327.3	318.6	2.7	326.3	2.7
Leisure and Hospitality Services	210.9	205.7	2.5	210.4	2.3
Other Services	74.7	74.3	0.5	74.6	0.4
Government	317.7	317.6	0.0	317.8	0.3
Personal Income (\$ billions, AR)	283.2	270.7	4.6	281.5	4.6
Wages and Salaries (\$ billions, AR)	134.8	129.0	4.4	134.0	4.3
Transfer Receipts	77.4	73.2	5.7	76.9	6.4
Dividends, Interest, and Rents	45.4	44.5	2.0	45.2	1.8
Supplements to Wages and Salaries	32.8	30.9	6.1	32.5	5.8
Proprietors' Income	19.7	18.6	6.4	19.5	5.5
Social Insurance	21.8	20.9	4.0	21.7	4.0
Residence Adjustment	-5.0	-4.5	NA	-5.0	NA

REVENUE RECEIPTS

GENERAL FUND

General Fund revenue collections in FY25 were characterized by strong growth in the major business taxes and a decline in the individual income tax. Receipts in the first quarter of FY26 were nearly the inverse of this. Major business tax collections were down significantly but offset by increases in the individual income and sales and use taxes. Receipts in the just completed quarter totaled \$3,743.2 million compared to \$3,849.6 million in the first quarter of FY25, for a decrease of \$106.4 million.

Collections from the major revenue categories are shown in summary form in Table 6, which reveals a near-equal number accounts which grew and those that declined; however, total receipts were 2.8 percent lower. On the positive side, sales and use, individual income, and lottery combined to increase \$151.4 million. Counteracting these gains were collections from the major business taxes, property, coal severance, and cigarette taxes which collectively fell by \$257.7 million. Detailed information on these major accounts is available in the Appendix.

Table 6 Summary General Fund Receipts \$ millions				
	FY26 Q1	FY25 Q1	Diff \$	Diff %
Individual Income	1,330.8	1,241.0	89.8	7.2
Sales & Use	1,550.9	1,492.3	58.6	3.9
Corp. Inc. & LLET	325.4	559.4	-234.0	-41.8
Property	63.2	78.6	-15.4	-19.6
Lottery	84.0	81.0	3.0	3.7
Cigarettes	64.3	70.1	-5.9	-8.4
Coal Severance	13.9	16.4	-2.6	-15.7
Other	310.9	310.8	0.1	0.0
Total	3,743.2	3,849.6	-106.4	-2.8

The official General Fund revenue estimate for FY26 calls for collections to fall 2.3 percent compared to FY25 receipts. Given the year-to-date revenue situation, General Fund receipts can fall 2.1 percent for the remainder of the fiscal year and still meet the official estimate.

Individual income tax receipts rose by \$89.8 million in the first quarter of the year with receipts of \$1,330.8 million. Three of the four of the major components of the tax had growth in

the first quarter. Withholding grew 7.5 percent; declarations were up 22.1 percent; net returns were nearly \$30 million higher; but pass-through entity (PTE) collections fell by 32.2 percent.

Sales and use tax collections rose 3.9 percent, or \$58.6 million, over FY25 levels. The growth in the sales tax was an encouraging sign following no growth in the prior quarter. Collections for the quarter were \$1,550.9 million.

Property tax revenue declined by 19.6 percent in the quarter with collections of \$63.2 million. This compares to \$78.6 million received in the first quarter of the prior fiscal year. The first quarter is typically the lowest quarter of collections each fiscal year, contributing less than 10 percent of the annual total for the property tax accounts. All components of the tax declined during the collection period.

The major business taxes fell 41.8 percent, or \$234.0 million, in the just completed quarter. Receipts totaled \$325.4 million. For the period, corporation income tax revenue declined by \$385.7 million while limited liability entity tax (LLET) receipts rose \$151.7 million.

Coal severance tax collections were \$13.9 million compared to \$16.4 million in FY25.

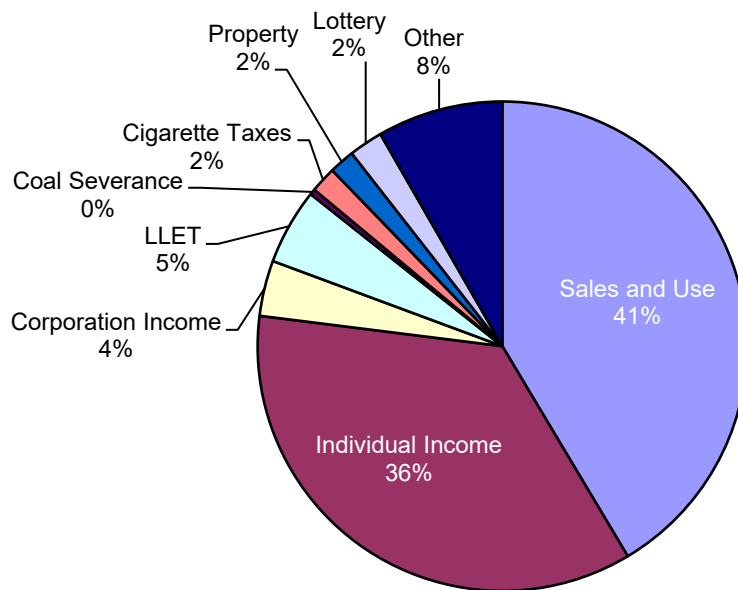
Cigarette taxes declined 8.4 percent in the first quarter with receipts of \$64.3 million. This compares to \$70.1 million collected in the first quarter of FY25.

Lottery receipts increased 3.7 percent, or \$3.0 million, in the first quarter.

The “other” category represents the remaining accounts in the General Fund, and collections in the other accounts were essentially flat in FY26. Gains in several “other” revenue sources were enough to offset a large decline in income on investments, which yielded \$29.1 million less than the amount collected in the first quarter of FY25. Aggregate collections in the other accounts were \$310.9 million during the first quarter of FY26.

Figure 1 details the composition of first quarter General Fund receipts by tax type. Seventy-seven percent of General Fund revenues were collected in the areas from the individual income and sales and use taxes. The next largest source of revenue was the combined corporation income and LLET taxes which made up nine percent while the “other” account contributed eight percent of the total. Cigarette, property and lottery receipts each accounted for two percent. Finally, the coal severance tax accounted for less than one percent.

Figure 1
Composition of First Quarter FY26
General Fund Revenues



ROAD FUND

After growing 3.6 percent in the first quarter of FY25, Road Fund receipts declined in the three remaining quarters of the year. Collections in the first three months of FY26 moved back into positive territory, albeit just barely at 0.1 percent. Receipts for the quarter were \$482.9 million, \$0.6 million more than collected last year. Growth in motor vehicle usage tax revenue almost exactly offset a decline in motor fuels receipts. Motor vehicle license collections was the only other major account which had a significant revenue increase.

The official Road Fund revenue estimate calls for a 2.8 percent decline in revenues for the year. Based on year-to-date tax collections, revenues can fall 3.8 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 3.4 percent, or \$7.5 million, during the quarter after declining 7.6 percent in FY25. The decline is primarily the result of a 1.4 cent per gallon statutory decline in the motor fuels tax rate. Receipts for the quarter were \$215.9 million as compared to \$223.4 million collected during the first quarter of last year. See Table 7 for a summary the first quarter actual receipts.

Motor vehicle usage tax revenue rose 3.9 percent in the just completed quarter with collections of \$197.0 million. This account continues to be a significant revenue source as it has seen record collections in each of the past five years.

Table 7 Summary Road Fund Receipts \$ millions				
	FY26	FY25	Diff	Diff
	Q1	Q1	\$	%
Motor Fuels	215.9	223.4	-7.5	-3.4
Motor Vehicle Usage	197.0	189.6	7.4	3.9
Motor Vehicle License	23.2	19.8	3.4	17.4
Motor Vehicle Operators	9.1	8.7	0.4	4.1
Weight Distance	22.2	22.3	-0.1	-0.5
Income on Investments	3.1	6.0	-2.8	-47.6
Other	12.4	12.5	-0.1	-0.6
Total	482.9	482.3	0.6	0.1

Motor vehicle license tax receipts rose 17.4 percent, or \$3.4 million, in the first quarter of FY26. Receipts in the quarter were \$23.2 million compared to \$19.8 million during the same period last year.

Motor vehicle operator's tax receipts were \$9.1 million in the first quarter of FY26, a 4.1 percent increase compared to collections a year ago.

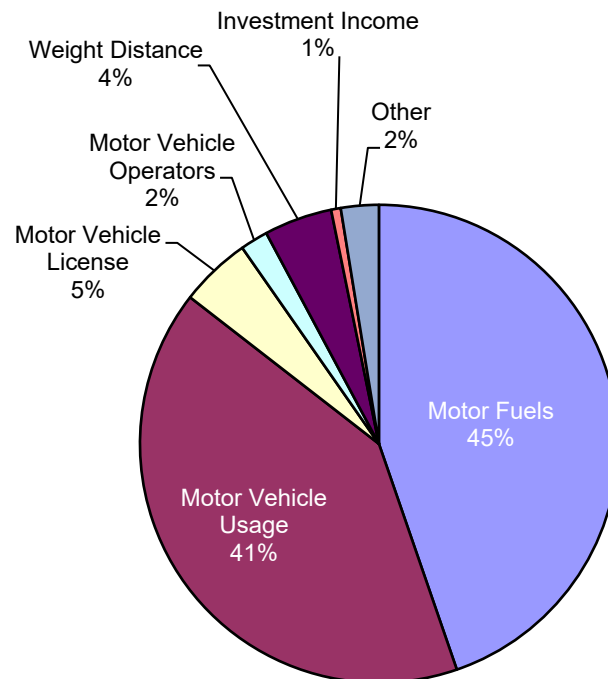
Weight distance tax receipts were \$22.2 million in the quarter, a 0.5 percent decrease compared to receipts collected during the first quarter of FY25.

Investment income was \$3.1 million in the quarter as lower rates of return lead to the decline in receipts. Collections were \$6.0 million in the first quarter of FY25.

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 \$12.4 million, a 0.6 percent decrease from FY25 levels.

Figure 2 shows the composition of Road Fund revenues by tax type in the 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 first quarter. The next largest source of revenue was the motor vehicle license tax at five percent and the weight distance tax at four percent. The “other” category and motor vehicle operators each contributed two percent. Lastly, income on investments was one percent.

**Composition of First Quarter FY26
Road Fund Revenues**



THE ECONOMY

FIRST QUARTER FY26

NATIONAL ECONOMY

Real gross domestic product (real GDP) rose by 1.5 percent in the first quarter of FY26. Real GDP rose 0.3 percent in the first quarter of FY26 compared to the fourth quarter of FY25. Adjacent-quarter growth has been positive for two consecutive quarters, following the small decline of 0.1 percent in the third quarter of FY25. Real GDP is made up of five components, four contributing to real GDP and one detracting from real GDP. Real GDP grew a net \$352.3 billion in the first quarter of FY26 over the first quarter of FY25. Among the five components, real consumption contributed the most to this net gain, growing \$279.5 billion in the first quarter of FY26 over the first quarter of FY25.

Real consumption grew 1.7 percent in the first quarter of FY26 over the first quarter of FY25. On an adjacent-quarter basis, real consumption has grown for 21 consecutive quarters. Adjacent-quarter growth allows you to see clearly how the landscape has changed across different periods. Adjacent-quarter growth has slowed over the last six quarters. The average adjacent-quarter growth for the last three quarters is 0.2 percent. The average adjacent-quarter growth for the three quarters before that is 0.9 percent. Real consumption made up 69.0 percent of real GDP in the first quarter of FY26.

Real investment grew 0.5 percent in the first quarter of FY26. Real investment has been highly volatile for the last six quarters. The adjacent-quarter growth rates for the last six quarters are: 2.0, 0.2, -1.4, 5.5, -4.2, and 0.8 percent, respectively. Despite this increased volatility, real investment has moved upwards on net. Real investment vis-a-vis six quarters ago is up a net \$116.1 billion, or 2.7 percent. Real investment made up 18.5 percent of real GDP in the first quarter of FY26.

Real government expenditures grew 0.7 percent in the first quarter of FY26. However, most of that growth came in the first quarter of FY25. On an adjacent-quarter basis, real government expenditures have been flat for the last three quarters, with growth rates of -0.1, 0.1, and -0.1 percent, respectively. Real government expenditures made up 16.8 percent of real GDP in the first quarter of FY26.

Real exports fell 0.8 percent in the first quarter of FY26. On an adjacent-quarter basis, real exports fell 0.4 percent in the first quarter of FY26 over the fourth quarter of FY25. Adjacent-quarter growth in real exports has fallen for two consecutive quarters; both times by 0.4 percent. Real exports made up 11.0 percent of real GDP in the first quarter of FY26. Real imports fell 1.5 percent in the first quarter of FY26.

On an adjacent-quarter basis, real imports fell 0.1 percent in the first quarter of FY26 over the fourth quarter of FY25. Adjacent-quarter growth in real imports has fallen in three of the last four quarters. Real imports, a deduction from real GDP, made up 15.4 percent of real GDP in the first quarter of FY26. Net exports is real exports less real imports. Net exports has been a net loss to real GDP in every quarter since 1992. Net exports in the first quarter of FY26 is -\$1,032.6 billion. For the last six consecutive quarters, net exports has been less than -\$1.0 trillion. However, it is currently well above its all-time low of -\$1.4 trillion recorded in the third quarter of FY25.

Real government expenditures, a subset of total government outlays, rose 0.7 percent in the first quarter of FY26. Total outlays, which represents all expenditures made by the federal government, rose by 4.2 percent in the first quarter of FY26. Federal transfer payments to resident persons, which consists of Social Security, Medicare, and other direct transfers, contributed the largest amount in absolute terms to outlay growth, growing \$306.2 billion, or 9.3 percent, in the first quarter of FY26. While subsidies, grew the fastest in percentage terms, increasing 13.2 percent in the first quarter of FY26. Total outlay growth on an adjacent-quarter basis averaged 1.0 percent for the last four quarters, while outlay growth averaged 2.0 percent in the previous four quarters.

Inflation, as measured by the CPI for all goods, ticked up to 3.0 percent in the first quarter of FY26. This is the first time that inflation has reached three percent since the fourth quarter of FY24. See Table 8. Food inflation for the first quarter of FY26 was 3.2 percent, while energy inflation was 0.3 percent for the same quarter. The reduced energy inflation should have a positive effect on other prices going forward, as energy is an input into the production of most goods.

US non-farm employment grew 0.9 percent in the first quarter of FY26. Year over year growth rates have been tapering for the last 15 consecutive quarters. Educational services employment rose the fastest in the first quarter, gaining 0.9 million jobs, or 3.3 percent over the first quarter of FY25. Three sectors had small reductions of jobs: mining, manufacturing, and business services employment, each of which lost 100,000 jobs or less over the last year.

US personal income rose 5.2 percent in the first quarter of FY26. This is solid growth boosted by strong growth in transfer receipts income, which grew 8.3 percent in the first quarter of FY26. All five contributing components of income grew in the first quarter of FY26. The largest component, wages and salaries, grew 5.3 percent in the first quarter. Wages and salaries income made up 50.2 percent of total personal income in the first quarter of FY26.

Table 8
History of US Economic Variables

	FY25								FY26	
	Q1	% chg	Q2	% chg	Q3	% chg	Q4	% chg	Q1	% chg
Real GDP (\$ billions, AR)	23,400.3	2.7	23,542.3	2.5	23,512.7	2.0	23,685.3	2.0	23,752.6	1.5
Real Consumption	16,113.0	3.0	16,273.2	3.1	16,291.8	2.7	16,350.2	2.4	16,392.6	1.7
Real Investment	4,377.7	3.3	4,315.1	1.7	4,552.0	6.3	4,363.0	-0.1	4,398.6	0.5
Real Government Expenditures	3,966.2	3.4	3,996.3	3.2	3,990.6	2.6	3,995.1	2.0	3,992.8	0.7
Real Exports	2,638.2	4.6	2,637.2	3.0	2,639.9	2.6	2,628.1	1.9	2,617.8	-0.8
Real Imports	3,707.4	7.1	3,689.8	5.5	3,998.9	12.7	3,654.4	1.1	3,650.4	-1.5
CPI - All Goods (% chg)	2.7	NA	2.7	NA	2.7	NA	2.5	NA	3.0	NA
CPI - Food (% chg)	2.2	NA	2.3	NA	2.7	NA	2.9	NA	3.2	NA
CPI - Energy (% chg)	-3.4	NA	-2.8	NA	-0.9	NA	-2.4	NA	0.3	NA
Core CPI (% chg)	3.3	NA	3.3	NA	3.1	NA	2.8	NA	3.2	NA
Industrial Prod. Index (% chg)	-0.4	NA	-0.3	NA	1.2	NA	0.9	NA	1.1	NA
Working Population (millions, NSA)	268.9	0.6	269.5	0.6	272.9	1.9	273.4	1.9	G	NA
Civilian Labor Force	169.0	0.6	168.2	0.4	170.2	1.8	170.7	1.6	G	NA
Employed	161.8	0.1	161.6	0.0	162.8	1.5	163.8	1.4	G	NA
Unemployed	7.2	13.5	6.6	11.0	7.4	9.5	7.0	7.7	G	NA
Not in Labor Force	99.8	0.7	101.3	1.0	102.7	2.2	102.7	2.4	G	NA
Labor Force Participation Rate (%)	62.7	NA	62.5	NA	62.5	NA	62.4	NA	G	NA
Unemployment Rate (%)	4.2	NA	4.2	NA	4.1	NA	4.2	NA	4.3	NA
Housing Starts (millions, AR)	1.3	-3.3	1.4	-5.5	1.4	-1.0	1.3	-1.1	1.3	-2.1

G = Due to the federal government shutdown, this data was not available at the time of publication.

Table 9
US Federal Outlays
\$ billions, AR

	First Quarter			
	FY26	FY25	Chg	% Chg
Federal Outlays excl. Gross Investment	7,350.2	7,052.1	298.1	4.2
National Defense	877.1	851.2	25.9	3.0
Non-Defense Consumption	579.1	571.5	7.5	1.3
Federal Transfer Payments to Resident Persons	3,589.9	3,283.8	306.2	9.3
Medicare	1,212.0	1,090.2	121.8	11.2
Social Security	1,589.1	1,453.1	136.0	9.4
Social Insurance to Rest of the World	37.7	34.3	3.4	10.0
Grants-in-Aid to State & Local Govts	966.3	981.6	-15.3	-1.6
Medicaid	654.2	641.2	13.0	2.0
Non-Medicaid Grants to State & Local Govts	312.1	340.4	-28.3	-8.3
Aid to Foreign Govts	46.1	122.1	-76.0	-62.2
Interest on the Debt	1,149.9	1,117.0	32.9	2.9
Subsidies	104.2	92.1	12.1	13.2

Table 10
History of US Labor and Income Data

	FY25								FY26	
	Q1	% chg	Q2	% chg	Q3	% chg	Q4	% chg	Q1	% chg
Non-farm Employment (millions, NSA)	158.1	1.3	158.6	1.2	159.2	1.2	159.5	1.1	159.6	0.9
Goods-producing	21.7	0.6	21.7	0.4	21.7	0.2	21.7	0.1	21.6	-0.3
Mining	0.6	-2.8	0.6	-2.0	0.6	-1.7	0.6	-0.4	0.6	-0.7
Construction	8.2	2.6	8.3	2.4	8.3	1.9	8.3	1.4	8.3	0.8
Manufacturing	12.8	-0.4	12.8	-0.7	12.8	-0.7	12.8	-0.7	12.7	-0.9
Service-providing	113.0	1.1	113.4	1.2	113.9	1.3	114.2	1.2	114.4	1.2
Trade, Transportation & Utilities	28.9	0.4	29.0	0.5	29.1	0.8	29.1	0.5	29.1	0.6
Information	2.9	-1.7	2.9	-0.8	2.9	-0.8	2.9	-0.4	3.0	0.7
Finance	9.2	-0.2	9.2	0.2	9.2	0.8	9.2	1.0	9.3	1.1
Business Services	22.6	-0.7	22.6	-0.4	22.6	-0.3	22.6	-0.2	22.5	-0.3
Educational Services	26.6	4.1	26.9	3.9	27.1	3.6	27.3	3.4	27.5	3.3
Leisure and Hospitality Services	16.8	1.2	16.9	1.3	17.0	1.3	17.0	1.4	17.0	1.3
Other Services	6.0	1.9	6.0	1.6	6.0	1.5	6.0	1.2	6.0	1.1
Government	23.4	2.4	23.5	2.1	23.6	1.6	23.6	1.2	23.6	0.6
Personal Income (\$ billions, AR)	24,716.7	5.0	25,042.3	5.2	25,450.1	4.5	25,780.1	4.9	26,014.1	5.2
Wages and Salaries	12,404.1	4.9	12,606.2	5.4	12,767.0	4.2	12,919.4	4.7	13,066.5	5.3
Transfer Receipts	4,570.4	7.1	4,626.6	8.2	4,776.6	7.4	4,920.3	9.0	4,949.6	8.3
Dividends, Interest, and Rents	4,994.5	3.4	5,030.5	2.0	5,099.5	2.3	5,096.3	1.9	5,126.6	2.6
Supplements to Wages and Salaries	2,632.0	5.8	2,668.0	5.6	2,709.0	5.3	2,749.0	5.6	2,787.4	5.9
Proprietors' Income	2,013.5	3.0	2,035.5	3.3	2,053.2	4.1	2,070.5	3.4	2,071.0	2.9
Social Insurance	1,897.7	3.5	1,924.6	3.9	1,955.3	3.8	1,975.3	4.5	1,987.0	4.7
Residential Adjustment	0.0	NA	0.0	NA	0.0	NA	0.0	NA	0.0	NA

KENTUCKY ECONOMY

Kentucky non-farm employment rose 0.7 percent in the first quarter of FY26. However, Kentucky non-farm employment declined by 0.1 percent in the first quarter compared to the fourth quarter of FY25. Growth has been subdued for the last 10 quarters, with average adjacent-quarter growth 0.2 percent during that time. Educational services employment was the fastest growing sector in the first quarter of FY26. Educational services employment increased 2.7 percent, or 8,500 net jobs, in the first quarter of FY26 compared to the first quarter of FY25.

Much like the national economy, the largest employment sector in Kentucky is trade, transportation, and utilities (TTU) employment. Unlike the national economy, TTU employment growth dropped 0.2 percent, or 1,100 net jobs in the first quarter of FY26 compared to the first quarter of FY25. Trade, transportation, and utilities was one of three sectors which lost jobs during the first quarter of FY26. The other two were mining and construction employment. Mining employment fell 6.6 percent, or 500 net jobs in the first quarter of FY26. Construction employment fell 0.7 percent, or 600 net jobs, relative to the first quarter of FY25. Trade, transportation, and utilities employment made up 20.8 percent of total Kentucky non-farm employment in the first quarter of FY26. Mining employment and construction employment made up 0.4 percent and 4.6 percent of total Kentucky non-farm employment, respectively.

Kentucky personal income rose 4.7 percent in the first quarter of FY26. All five contributing income components rose in the first quarter of FY26. The fastest-growing component was transfer receipts income, which grew 8.5 percent, or \$5.9 billion, compared to the first quarter of FY25. The largest income component is wages and salaries. Wages and salaries grew 3.8 percent, or \$4.9 billion, in the first quarter of FY26 compared to FY25. Kentucky wages and salaries growth has improved during the last three quarters. Average adjacent-quarter growth during the last three quarters is 1.1 percent. Adjacent-quarter growth during the previous three quarters was 0.2 percent. By comparison, average adjacent-quarter growth since the 2020 recession is 1.8 percent. Transfer receipts income made up 27.3 percent of total personal income in the first quarter of FY26. Wages and salaries income made up 47.7 percent of total personal income in the first quarter of FY26.

Table 11
History of KY Labor and Income Data

	FY25								FY26	
	Q1	% chg	Q2	% chg	Q3	% chg	Q4	% chg	Q1	% chg
Non-farm Employment (thousands, NSA)	2,040.7	1.1	2,041.1	0.7	2,046.4	0.7	2,057.1	1.0	2,055.8	0.7
Goods-producing	360.4	1.0	359.0	0.1	362.8	0.8	366.3	1.7	360.3	0.0
Mining	8.2	-5.3	8.0	-5.9	7.7	-8.0	7.5	-8.5	7.6	-6.6
Construction	94.6	4.5	93.9	1.8	96.9	3.8	99.8	6.8	93.9	-0.7
Manufacturing	257.7	-0.1	257.2	-0.3	258.2	-0.1	259.0	0.2	258.7	0.4
Service-providing	1,365.2	0.8	1,365.3	0.6	1,366.4	0.5	1,371.8	0.7	1,377.1	0.9
Trade, Transportation & Utilities	429.2	0.7	428.4	0.5	427.7	0.5	427.6	0.2	428.1	-0.2
Information	20.7	-9.3	20.8	-5.5	20.7	-2.1	20.8	-0.2	20.8	0.5
Finance	95.1	-1.3	94.7	-1.5	95.0	-0.8	95.5	0.1	95.6	0.5
Business Services	225.5	-1.4	225.2	-0.5	225.3	-0.7	226.1	-0.1	226.0	0.2
Educational Services	314.6	3.5	316.7	3.0	318.5	2.6	320.6	2.4	323.2	2.7
Leisure and Hospitality Services	205.8	1.2	205.4	-0.1	205.2	-0.2	206.5	0.0	208.9	1.5
Other Services	74.3	2.5	74.2	1.6	74.0	0.5	74.7	1.3	74.4	0.2
Government	315.0	2.1	316.7	1.8	317.2	1.3	319.0	1.7	318.4	1.1
Personal Income (\$ billions, AR)	264.0	4.5	266.7	4.8	271.2	3.7	274.3	4.5	276.4	4.7
Wages and Salaries	127.0	3.5	127.5	3.5	129.1	1.9	130.5	3.4	131.9	3.8
Transfer Receipts	69.6	7.1	71.1	9.3	73.2	7.4	75.2	8.7	75.5	8.5
Dividends, Interest, and Rents	44.0	3.1	44.3	1.7	44.8	2.0	44.5	1.0	44.6	1.4
Supplements to Wages and Salaries	30.3	4.7	30.4	4.3	30.8	3.2	31.4	4.8	31.9	5.1
Proprietors' Income	18.2	1.7	18.3	2.2	18.6	3.8	18.7	4.1	18.7	2.9
Social Insurance	20.6	2.3	20.6	2.2	20.9	1.7	21.2	3.6	21.3	3.8
Residential Adjustment	-4.5	NA	-4.4	NA	-4.4	NA	-4.8	NA	-4.8	NA

APPENDIX

General Fund and Road Fund Revenue Receipts

FIRST QUARTER FY26

Kentucky State Government – General Fund

	First Quarter FY 2026	First Quarter FY 2025	% Change
TOTAL GENERAL FUND	\$3,743,220,156	\$3,851,365,560	-2.8%
Tax Receipts	\$3,553,369,755	\$3,647,699,375	-2.6%
Sales and Gross Receipts	\$1,784,049,888	\$1,716,586,815	3.9%
Beer Consumption	1,449,521	1,621,068	-10.6%
Beer Wholesale	17,323,320	19,414,978	-10.8%
Cigarette	64,252,200	70,123,416	-8.4%
Distilled Spirits Case Sales	61,037	60,385	1.1%
Distilled Spirits Consumption	4,832,056	4,908,868	-1.6%
Distilled Spirits Wholesale	17,963,637	18,381,586	-2.3%
Insurance Premium	63,268,966	52,625,539	20.2%
Pari-Mutuel	17,684,082	10,159,638	74.1%
Race Track Admission	0	0	—
Sales and Use	1,550,856,705	1,492,258,331	3.9%
Wine Consumption	647,988	703,885	-7.9%
Wine Wholesale	4,375,487	4,580,531	-4.5%
Telecommunications Tax	20,146,190	19,626,681	2.6%
Other Tobacco Products	8,797,894	10,586,125	-16.9%
Floor Stock Tax	(4)	72	—
Car Rental & Ride Sharing	12,390,809	11,535,712	7.4%
Natural Resources	\$26,789,173	\$27,013,276	-0.8%
Coal Severance	13,866,176	16,443,631	-15.7%
Oil Production	995,734	1,542,344	-35.4%
Minerals Severance	10,280,234	8,535,787	20.4%
Natural Gas Severance	1,647,029	491,514	235.1%
Individual Income Tax	\$1,330,818,718	\$1,241,028,096	7.2%
Withholding	1,159,586,888	1,078,413,583	7.5%
Declarations	90,616,522	74,190,635	22.1%
Net Returns	(4,387,676)	(33,829,854)	—
Fiduciary	1,245,880	(1,229,348)	—
Pass-Through Entity Tax	83,757,104	123,483,079	-32.2%
Major Business Taxes	\$325,378,887	\$559,388,430	-41.8%
Corporation Income	137,500,414	523,162,414	-73.7%
LLET	187,878,473	36,226,015	418.6%
Property	\$63,179,611	\$78,561,847	-19.6%
General - Real	(414,808)	239,619	—
General - Tangible	12,248,534	15,427,142	-20.6%
Tangible - Motor Vehicle	46,200,303	46,617,137	-0.9%
Omitted & Delinquent	894,208	5,543,570	-83.9%
Public Service	2,343,904	7,562,015	-69.0%
Other	1,907,469	3,172,364	-39.9%
Inheritance Tax	\$22,798,043	\$25,536,763	-10.7%
Miscellaneous	\$355,435	(\$415,851)	—
License and Privilege	\$554,949	\$515,939	7.6%
Bank Franchise	(\$5,946)	(\$189,319)	—
Legal Process	2,567,575	2,343,202	9.6%
T. V. A. In Lieu Payments	(2,776,801)	(3,092,040)	—
Other	15,658	6,368	145.9%
Nontax Receipts	\$187,874,617	\$202,707,075	-7.3%
Departmental Fees	2,827,612	3,271,241	-13.6%
PSC Assessment Fee	14,400,696	10,875,624	32.4%
Fines & Forfeitures	5,573,309	4,897,395	13.8%
Income on Investments	73,083,660	102,167,158	-28.5%
Lottery	84,000,000	81,000,000	3.7%
Miscellaneous	7,989,340	495,657	1511.9%
Redeposit of State Funds	\$1,975,784	\$959,110	106.0%

Kentucky State Government – Road Fund

	First Quarter FY 2026	First Quarter FY 2025	% Change
TOTAL STATE ROAD FUND	\$482,907,507	\$482,273,721	0.1%
Tax Receipts-	\$470,180,598	\$466,367,740	0.8%
Sales and Gross Receipts	\$413,088,003	\$413,152,555	0.0%
Motor Fuels Taxes	215,944,572	223,436,353	-3.4%
Motor Vehicle Usage	196,954,600	189,587,182	3.9%
EV Charging Station Tax	188,831	129,019	46.4%
License and Privilege	\$57,092,595	\$53,215,185	7.3%
Motor Vehicles	23,203,026	19,771,564	17.4%
Motor Vehicle Operators	9,051,157	8,696,335	4.1%
Weight Distance	22,235,887	22,342,071	-0.5%
Truck Decal Fees	35,040	44,940	-22.0%
Other Special Fees	2,567,484	2,360,275	8.8%
Nontax Receipts	\$12,590,982	\$15,576,507	-19.2%
Departmental Fees	6,343,181	7,279,110	-12.9%
In Lieu of Traffic Fines	43,980	43,440	1.2%
Income on Investments	3,130,226	5,975,044	-47.6%
Miscellaneous	2,485,490	1,249,433	98.9%
Hybrid/ Electric Annual Fee	588,106	1,029,480	-42.9%
Redeposit of State Funds	\$135,927	\$329,474	-58.7%

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, August 12, 2025 data release.

Table 8

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 FY26 Q1 are August 2025 estimates.

Source: IHS Markit - Economics & Country Risk, August 12, 2025 data release.

¹ 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.

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

³ 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.

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

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

⁶ Labor Force Participation Rate is computed as the Civilian Labor Force divided by the Working Population.

Table 10

Seasonally Adjusted. Data for FY26 Q1 are August 2025 estimates.

Source: IHS Markit – Economics & Country Risk, August 12, 2025, data release.