



**Office of State Budget Director**

200 Mero Street, 5<sup>th</sup> Floor  
Frankfort, Kentucky 40622

**Andy Beshear**  
Governor

(502) 564-7300  
Internet: [osbd.ky.gov](http://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

January 30, 2026

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 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 furtherance of this directive, OSBD submits this *Quarterly Economic and Revenue Report* for the second quarter of Fiscal Year 2026 (FY26) to the three branches of government.

This report includes the actual revenue receipts and economic conditions for the second quarter and the revenue outlooks for the final two quarters of FY26 and first fiscal quarter of FY27. The report also provides an outlook for the national and state economies that provided the inputs into the revenue models.

**TEAM**  
**KENTUCKY**

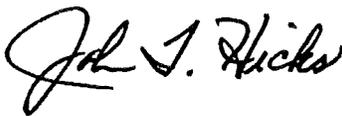


The interim General Fund and Road Fund revenue projections prepared for this report are identical to the official estimates agreed to by the Consensus Forecasting Group (CFG) on December 16, 2025, in accordance with KRS 48.120(2). When combining the actual receipts from the first half of FY26 with the next two fiscal quarters, the interim forecast predicts FY26 General Fund revenue of \$15,498.9 million -- a 1.3 percent decline compared to FY25. The revenue outlook for FY26 is highlighted by an increase of 1.2 percent in collections from the individual income tax, a 3.9 percent increase in the sales and use tax, and a 26.6 percent downward correction to the major business taxes discussed and agreed upon by the CFG at the December meeting.

Total Road Fund collections are expected to decline 2.2 percent in the second half of FY26, ending the year 1.0 percent below FY25 levels. An \$18.1 million expected annual increase in the motor vehicle usage tax will only partially offset the \$30.2 million decline in the motor fuels taxes for FY26. Fuels taxes are forecasted to fall 3.9 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. Looking ahead to FY27, the Road Fund outlook calls for a 2.2 percent drop in the first quarter of the upcoming fiscal year.

Kentucky personal income is projected to increase 4.4 percent, or \$12.0 billion, in the second half of FY26. Wage and salary income is expected to increase by 4.6 percent over that period.

Sincerely,

A handwritten signature in black ink that reads "John T. Hicks". The signature is written in a cursive, flowing style.

John T. Hicks  
State Budget Director



# TABLE OF CONTENTS

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

## **Revenue & Economic Outlook Second Quarter FY26**

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

## **Revenue Receipts – Second Quarter FY26**

General Fund ..... 13  
Road Fund ..... 15

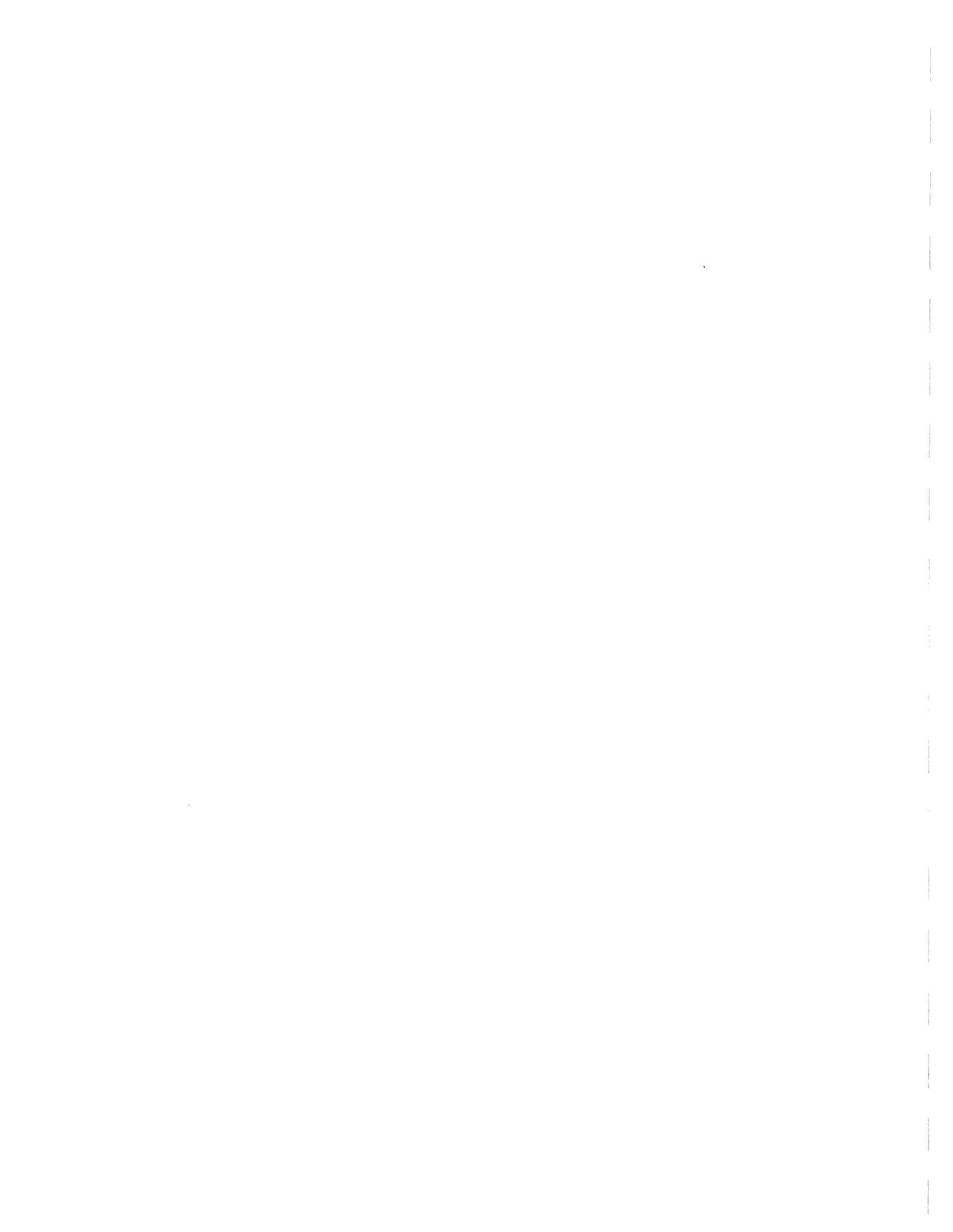
## **The Economy – Second Quarter FY26**

National Economy ..... 18  
Kentucky Economy ..... 21

## **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 continuously monitor the financial situation of the Commonwealth. In fulfillment of this statutory requirement, OSBD submits this *Quarterly Economic and Revenue Report* for the second quarter of fiscal year 2026 (FY26). This interim report includes the actual revenue receipts and economic landscape for the second quarter of FY26, a comprehensive revenue outlook for upcoming three fiscal quarters, as well as a US and Kentucky economic outlook for the same period. All estimates in this outlook extend from the third quarter of FY26 through the first quarter of FY27 (the forecasting horizon).

The interim General Fund and Road Fund outlooks prepared pursuant to KRS 48.400(2) are identical to the official estimates agreed to by the Consensus Forecasting Group (CFG) on December 16, 2025, in accordance with KRS 48.120 (2). Forecasted revenues presented in Table 1 were projected using the November 2025 “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 scenario” as being the most likely economic outcome, relative to the pessimistic (15 percent) and optimistic (30 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, enough to generate the annual revenue increase of \$131.9 million in FY25. In FY25, individual income tax receipts fell by 8.4 percent and sales tax receipts rose by a narrow 0.3 percent compared to FY24. The impact from the two largest revenue sources was counterbalanced by a 46.9 percent surge in major business taxes. During the CFG meeting in December 2025, members decided that most of the \$585.4 million increase from FY24 to FY25 for 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 sharply for the year due to the one-time collections received in FY25.

## **Projected General Fund Growth for the forecasting horizon**

Table 1 displays the interim forecast for the remainder of FY26. When combined with the actual receipts through December 2025, the interim forecast predicts FY26 General Fund revenue of \$15,498.9 million, or a 1.3 percent decline compared to FY25. The first quarter of FY27 is also expected to decline at a rate of 1.4 percent. The expected decrease in FY26 would break the current streak of 15 consecutive increases in fiscal year revenues for the General Fund. Fiscal Year 2026 is projected

to be a mirror image of FY25 in that the largest two revenue sources are expected to post collective gains in FY26 while the major business taxes will decline.

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

The current interim Road Fund forecast calls for a revenue decline in the second half of the year with that decline continuing into the first quarter of FY27. Receipts grew 0.2 percent in the first half of the fiscal year after falling 0.6 percent in FY25. Revenues are forecasted to decrease 2.2 percent for the remainder of the year and decline 2.2 percent in the first quarter of FY27. Motor fuels tax collections fell 3.4 percent in the first half of the FY26 due to a decrease in the tax rate which will lead to similar revenue patterns in tax receipts for the remainder of the fiscal year. The current forecast calls for another 1.4 cent drop in the tax rate for FY27, leading to a steeper decline in collections during the first quarter of FY27. On the other hand, motor vehicle usage tax collections rose 3.9 percent in the first half of the year. Revenues, however, are forecasted to weaken over the next three quarters as light vehicle sales decline.

### **Projected Major Economic Factors for the Forecasting Horizon**

Real GDP is expected to grow 2.3 percent in the second half of FY26 and 2.0 percent in the first quarter of FY27. Real consumption is expected to be the fastest growing component, growing 2.2 percent in the second half of FY26. Inflation is expected to rise throughout the forecast horizon. Inflation in the second half of FY26 is expected to be 2.9 percent and then 3.0 percent in the first quarter of FY27.

US non-farm employment is expected to rise 0.4 percent in the second half of FY26 and rise 0.5 percent in the first quarter of FY27. Six of the 11 supersectors are expected to rise in the second half of FY26. Educational services employment is expected to rise the fastest, growing 2.8 percent in the second half of FY26 and 2.2 percent in the first quarter of FY27.

Kentucky non-farm employment is expected to rise 0.3 percent in the second half of FY26 and rise 0.4 percent in the first quarter of FY27. It is expected that seven of the 11 supersectors will lose jobs in the second half of FY26. The biggest loser is expected to be construction employment with a 4.7 percent decline projected for the second half of FY26 compared to the second half of FY25. Kentucky personal income is projected to increase 4.4 percent, or \$12.0 billion, in the final six months of FY26. Wages and salaries income is expected to increase 4.6 percent over that period. Wages and salaries is the largest component of Kentucky personal income. It makes up 47.6 percent of total personal income.

## **Second Quarter Tax Receipts**

General Fund receipts grew in the second quarter of FY26 after falling 2.8 percent in the first quarter. Receipts for the quarter totaled \$4,082.0 million, an increase of 1.4 percent compared to the same period in FY25. Growth in the sales and use tax and individual income tax helped offset a significant decline in major business tax receipts. The individual income tax and sales and use tax were bolstered by solid growth in the Kentucky wages and salaries component of personal income. The official General Fund revenue estimate calls for revenues to fall 1.3 percent in FY26 compared to FY25 receipts. Based on year-to-date receipts, revenues can fall 1.9 percent over the remainder of the fiscal year and still meet the official estimate.

Total Road Fund receipts grew 0.3 percent in the just completed quarter, which was only slightly better than the 0.1 percent increase in the first quarter. Receipts totaled \$437.3 million and were \$1.1 million more than what was collected in the second quarter last year. Road Fund revenues showed mixed performance across the major accounts, resulting in moderate overall growth. The largest revenue source is the motor fuels tax, which declined by \$7.1 million. The decreasing revenues from the motor fuels taxes were largely offset by increases in vehicle-related fees like the motor vehicle usage tax receipts, which rose \$6.5 million. The official Road Fund revenue estimate calls for a 1.0 percent decline in revenues to \$1,844.0 million for FY26. Based on year-to-date collections, revenues could fall 2.2 percent for the remainder of the year and still meet the estimate.

## **The Economy for the Second Quarter of FY26**

Real GDP rose 1.8 percent in the second quarter of FY26. Real GDP growth has softened over the last three quarters. Real consumption, the largest real GDP component, also grew at 1.8 percent in the second quarter. Real exports were flat, while real imports fell 2.8 percent, thus making net exports (exports less imports) rise. US wages and salaries income grew 4.5 percent, while transfer receipts income grew 8.0 percent. US non-farm employment rose 0.6 percent in the second quarter of FY26.

Kentucky personal income grew 4.7 percent in the second quarter of FY26. Wages and salaries income increased 4.3 percent, while transfer receipts grew 7.5 percent. Kentucky non-farm employment rose 0.7 percent in the second quarter of FY26. Seven of the 11 supersectors gained jobs in the second quarter of FY26. Educational services performed the best, growing 2.4 percent. Mining employment fell 7.1 percent, losing a net 600 jobs in the second quarter of FY26 compared to the second quarter of FY25.

# REVENUE & ECONOMIC OUTLOOK

## GENERAL FUND OUTLOOK

The interim General Fund and Road Fund outlooks prepared for this report are identical to the official estimates agreed to on December 16, 2025, by the CFG in accordance with KRS 48.120 (2). Forecasted revenues presented in Table 1 and Table 2 were projected using the November 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 (15 percent) and optimistic (30 percent) scenarios. All estimates in this outlook extend from the third quarter of FY26 through the first quarter of FY27 (the forecasting horizon).

When combining the actual receipts from the first half of FY26 with the remaining two quarters of the fiscal year, the interim outlook required for this report predicts FY26 General Fund revenue of \$15,498.9 million, or a 1.3 percent decline compared to FY25. The first quarter of FY27 is expected to decline at a rate of 1.4 percent. The expected decrease in FY26 would break the current streak of 15 consecutive increases in fiscal year revenues. The General Fund recorded a 1.9 percent increase in the final quarter of FY25, enough to record a narrow annual revenue increase of \$131.9 million in FY25. During FY25, the individual income tax fell by 8.4 percent and sales tax receipts inched upward 0.3 percent. Weakness in the largest two revenue sources was counterbalanced by 46.9 percent surge in major business taxes.

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

	FY26						FY26		FY27	
	Q1 & Q2		Q3 & Q4		Full Year		Official		Q1	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	\$ Diff	Estimate	% Chg
Individual Income	2,667.6	8.7	2,715.2	-5.2	5,382.8	1.2	5,382.8	0.0	1,329.5	-0.1
Sales & Use	3,094.2	5.3	2,953.5	2.4	6,047.7	3.9	6,047.7	0.0	1,532.6	-1.2
Corp. Inc. & LLET	583.3	-41.9	763.8	-8.0	1,347.1	-26.6	1,347.1	0.0	296.5	-8.9
Property	509.6	-4.4	354.6	15.9	864.2	3.0	864.2	0.0	78.3	23.9
Lottery	185.4	3.3	184.6	7.8	370.0	5.5	370.0	0.0	78.9	-6.1
Cigarettes	129.6	1.7	95.1	-18.1	224.7	-7.7	224.7	0.0	63.9	-0.5
Coal Severance	32.3	-7.4	22.8	7.6	55.1	-1.7	55.1	0.0	11.5	-17.1
Other	623.2	3.5	584.1	-8.2	1,207.3	-2.5	1,207.3	0.0	299.0	-3.8
<b>General Fund</b>	<b>7,825.3</b>	<b>-0.6</b>	<b>7,673.6</b>	<b>-2.0</b>	<b>15,498.9</b>	<b>-1.3</b>	<b>15,498.9</b>	<b>0.0</b>	<b>3,690.2</b>	<b>-1.4</b>

Table 1 demonstrates FY26 is projected to be a mirror image of FY25 in that the largest two revenue sources are expected to grow collectively while the major business taxes will decline. During the CFG meetings in September and December 2025, members estimated that over two-thirds of the \$585.4 million increase from FY24 to FY25 in the major business taxes was nonrecurring. The one-time nature of that portion of the FY25 revenues from the major business taxes inflated the base of comparison and created headwind for growth in General Fund revenues for FY26.

**Individual income tax** receipts increased a robust 8.7 percent growth in the first half of FY26 but are projected to decrease 5.2 percent over the final six months of the year. The projected decline in the individual income tax is primarily attributable to the legislatively enacted tax rate reduction from 4.0 percent to 3.5 percent that becomes effective January 1, 2026. Since the rate reduction conditions for the individual income tax were enacted in HB 8 during the 2022 legislative session, the flat rate on Kentucky net income has fallen by 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 also affected because pass-through entities pay based on the lower tax rate as well. The impact on net returns is theoretically ambiguous because pay returns will be presumably lower, but refund returns lower will all decrease since fewer dollars will be flowing through the taxing process to be potentially refunded.

**Sales and use tax** receipts are expected to rise 2.4 percent in the second half of FY26. When combined with the 5.3 percent increase in the first six months of FY26, annual growth in the sales tax is expected to be 3.9 percent. In the period between FY21 and FY25, sales and use tax collections have fluctuated greatly, posting annual growth rates of 12.0, 11.0, 10.1, 4.1, and 0.3 percent, respectively. The double-digit growth during the earlier years of that range was significantly above related economic variables, but growth in the past two years has allowed the economic fundamentals to catch up to the level of sales tax collections. Going forward, the expectation is that revenues from the sales and use tax will once again become more closely aligned to the Kentucky economy.

**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 dollar-for-dollar from the LLET 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 fiscal year experienced abnormally high payments that totaled over \$400 million in seemingly nonrecurring revenues. As discussed earlier, major business taxes grew 46.9 percent in FY25 with collections of \$1,834.5 million. Appropriate adjustments were made to the major business taxes model to account for these nonrecurring

payments. The adjusted forecast calls for a FY26 decline of 26.6 percent for total receipts of \$1,347.1 million. Even with the adjustment, the projected level of collections would produce the second-highest annual total for the major business taxes, surpassed only by FY25.

Despite falling 4.4 percent in the first half of FY26, property tax receipts are expected to increase 15.9 percent during the remainder of FY26, ending the fiscal year with 3.0 percent growth over FY25. Declining property tax receipts through December have occurred due to the timing of billing and collections. December falls in the middle of the collection cycle for many of the types of state property tax revenues. When the collection cycle ends for FY26, real property tax collections 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 assessed 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 FY26 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. The FY26 official estimate predicts a further decrease in cigarette taxes with a 7.7 percent projected annual decline. An 11.0 percent expected increase in FY26 for other tobacco products (OTP) is estimated. The 11.0 percent increase in OTP equates to a \$2.7 million revenue increase in “other taxes” compared to the expected \$18.9 million revenue loss in cigarette taxes from FY25 to FY26. A surprising number from Table 1 is the 1.7 percent growth in cigarette tax revenues through December. October cigarettes taxes rose 14.3 percent followed by growth in November of 18.9 percent and an 8.9 percent increase in December. Growth rates from these three months are not sustainable in a perennially falling revenue source. Cigarette stamp purchases are notoriously prone to month-to-month timing irregularities like the October-December growth spurt, which front-loaded FY26 collections into first half of FY26 at the projected expense of receipts for the remaining six months.

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 and to \$56.1 million in FY25. The decline is expected to continue throughout the forecasting horizon. Receipts in the first half of FY26 dropped 7.4 percent and are projected to end the year with \$55.1 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 premium taxes, 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 Budget Reserve Trust Fund, the state’s “Rainy Day Fund”. Looking ahead to FY26, the CFG agreed to a \$80.4 million decline in General Fund income from investments, bringing the FY26 forecast down to \$242.6 million. The large projected decrease is attributable to declining investable balances and a reduction in interest rates accruing to these balances. “Other taxes” taken collectively are expected to fall \$31.3 million in FY26. Growth in the remaining “other” accounts, primarily concentrated in gross receipts and excise taxes, is projected to offset over half of the decline in investment income.

## **ROAD FUND OUTLOOK**

The January 2026 interim Road Fund forecast calls for a revenue decline in the second half of the year with that decline continuing into the first quarter of FY27. Collections in this fund grew 0.2 percent in the first half of FY26 after falling 0.6 percent in FY25. Going forward, collections are forecasted to decrease 2.2 percent for the remainder of the year and decline 2.2 percent in the first quarter of FY27.

Road Fund revenues grew by \$1.7 million in the first two quarters of the fiscal year with the motor vehicle usage tax and motor vehicle license collections accounting for most of the positive movements. Motor fuels tax revenue fell sharply, however, and eliminated nearly all of the gains from the usage and license taxes.

Motor fuels tax collections fell 3.4 percent in the first half of the FY26. The decline is due to a decrease in the tax rate which will lead to similar revenue patterns in tax receipts for the remainder of the fiscal year. The current forecast calls for another drop in the tax rate for FY27, leading to a steeper decline in collections during the first quarter of FY27. Growth rates for this account are expected to be -3.9 percent over the rest of the current fiscal year and -6.0 percent in the first quarter of FY27.

Motor vehicle usage tax collections rose 3.9 percent in the first half of the fiscal year. Revenues, however, are forecasted to rise modestly over the next three quarters as US consumer expenditures on light vehicles decline. Growth rates for the final six months of the current year and the first quarter of FY27 are forecasted to be 1.2 percent and 0.7 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 fall 3.7 percent in the final two quarters of the fiscal year before growing 0.4 percent in the first quarter of FY27. Motor vehicle operators' license revenues are projected to increase 7.7 percent in quarters three and four and increase 2.7 percent in the first quarter of FY27. Investment income is expected to be \$5.2 million over the remainder of the fiscal year and \$3.2 million in the first three months next year. All other revenues will decrease 17.3 percent during the last six months of the year and then increase 0.9 percent in the first quarter of FY27.

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

	FY26						FY26		FY27	
	Q1 & Q2		Q3 & Q4		Full Year		Official		Q1	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	\$ Diff	Estimate	% Chg
Motor Fuels	417.9	-3.4	388.3	-3.9	806.2	-3.6	806.2	0.0	203.0	-6.0
Motor Vehicle Usage	369.5	3.9	368.1	1.2	737.6	2.5	737.6	0.0	198.4	0.7
Motor Vehicle License	42.6	16.8	77.8	-3.7	120.4	2.7	120.4	0.0	23.3	0.4
Motor Vehicle Operators	16.6	-2.2	18.0	7.7	34.6	2.7	34.6	0.0	9.3	2.7
Weight Distance	44.6	0.5	43.5	3.8	88.1	2.1	88.1	0.0	22.6	1.6
Income on Investments	4.0	-54.7	5.2	-48.6	9.2	-51.5	9.2	0.0	3.2	2.2
Other	25.1	5.4	22.8	-17.3	47.9	-6.8	47.9	0.0	12.5	0.9
<b>Road Fund</b>	<b>920.2</b>	<b>0.2</b>	<b>923.8</b>	<b>-2.2</b>	<b>1,844.0</b>	<b>-1.0</b>	<b>1,844.0</b>	<b>0.0</b>	<b>472.3</b>	<b>-2.2</b>

## NATIONAL OUTLOOK

Real gross domestic product (real GDP) is expected to grow 2.3 percent in the second half of FY26. It is expected to taper to 2.0 percent in the first quarter of FY27. Real consumption is expected to be the fastest-growing component, growing 2.2 percent during the second half of FY26. That is a net gain of \$359.1 billion which makes up 64.7 percent of the total gains in real GDP for the second half of FY26.

Inflation, as measured by the change in the CPI for all goods, is expected to rise slightly in the second half of FY26 compared to the second half of FY25. However, it is expected to remain constant at 2.9 percent relative to the first half of FY26. Then inflation is expected to rise in the first quarter of FY27 to 3.0 percent. Food inflation is very similar to inflation for all goods. Energy inflation is expected to improve to -1.1 percent in the second half of FY26 from -1.7 percent in the second half of FY25. Energy inflation is then expected to rise above zero to 1.4 percent in the first quarter of FY27 compared to the first quarter of FY26.

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

	Q3 & Q4			Full Year		Q1	
	FY26	FY25	% chg	FY26	% chg	FY27	% chg
Real GDP (\$ billions, AR)	24,215.0	23,659.6	2.3	24,099.2	2.1	24,435.7	2.0
Real Consumption	16,754.9	16,395.7	2.2	16,676.4	2.2	16,893.2	1.9
Real Investment	4,384.7	4,465.4	-1.8	4,381.2	-0.6	4,433.2	1.4
Real Govt. Expenditures	4,038.1	3,993.4	1.1	4,011.3	0.5	4,049.6	1.3
Real Exports	2,696.2	2,653.4	1.6	2,675.8	0.7	2,754.2	3.9
Real Imports	3,653.5	3,872.8	-5.7	3,640.5	-4.2	3,686.3	1.6
CPI all goods (% chg)	2.9	2.6	NA	2.9	NA	3.0	NA
CPI Food (% chg)	2.8	2.8	NA	3.0	NA	2.9	NA
CPI Energy (% chg)	-1.1	-1.7	NA	-0.1	NA	1.4	NA
CPI Core (% chg)	3.3	2.9	NA	3.2	NA	3.2	NA
Industrial Production Index (% chg)	-0.6	1.1	NA	0.2	NA	-0.7	NA
Unemployment Rate (%)	4.5	4.1	NA	4.4	NA	4.5	NA
Housing Starts (millions, NSA)	1.3	1.4	-5.2	1.3	-3.9	1.3	-3.5

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

	Q3 & Q4			Full Year		Q1	
	FY26	FY25	% chg	FY26	% chg	FY27	% chg
Non-farm Employment (millions, NSA)	159.9	159.3	0.4	159.8	0.6	160.4	0.5
Goods-producing	21.5	21.7	-0.8	21.5	-0.6	21.4	-1.1
Construction	8.3	8.3	-0.4	8.3	-0.1	8.3	-0.5
Mining	0.6	0.6	-2.5	0.6	-2.4	0.6	0.8
Manufacturing	12.6	12.8	-1.0	12.7	-0.8	12.5	-1.6
Service-providing	115.0	114.0	0.9	114.7	1.0	115.5	1.0
Trade, Transportation & Utilities	29.1	29.1	0.2	29.1	0.4	29.3	0.8
Information	3.0	2.9	1.1	3.0	0.7	3.0	1.8
Finance	9.3	9.2	1.2	9.3	1.1	9.4	1.6
Business Services	22.3	22.6	-1.3	22.4	-0.8	22.3	-1.2
Educational Services	27.9	27.2	2.8	27.7	2.9	28.1	2.2
Leisure and Hospitality Services	17.3	17.0	1.7	17.2	1.4	17.4	2.3
Other Services	6.1	6.0	0.6	6.1	0.9	6.1	0.1
Government	23.4	23.6	-0.6	23.5	-0.3	23.5	-0.4
Personal Income (\$ billions, AR)	27,182.5	25,892.4	5.0	26,799.4	5.0	27,767.6	5.6
Wages and Salaries	13,522.8	12,866.9	5.1	13,331.8	4.9	13,787.1	5.4
Transfer Receipts	5,154.0	4,870.1	5.8	5,078.5	7.0	5,232.6	5.1
Dividends, Interest, and Rents	5,551.4	5,318.2	4.4	5,458.8	3.4	5,656.9	5.9
Supplements to Wages and Salaries	2,890.9	2,739.2	5.5	2,849.6	5.4	2,941.2	5.4
Proprietors' Income	2,125.9	2,104.2	1.0	2,122.5	2.2	2,239.0	6.0
Social Insurance	2,062.5	2,006.2	2.8	2,041.7	3.3	2,089.3	3.5
Residence Adjustment	0.0	0.0	NA	0.0	NA	0.0	NA

The unemployment rate is expected to remain below historical norms at 4.5 percent predicted for the second half of FY26 and remain there into the first quarter of FY27. The historical average for the US unemployment rate is 5.6 percent.

US non-farm employment is expected to rise 0.4 percent in the second half of FY26 over the second half of FY25. Then that rate is expected to tick up to 0.5 percent in the first quarter of FY27. Six of the 11 supersectors are expected to gain jobs during the second half of FY26. Educational services employment is expected to be the fastest-growing sector with 2.8 percent growth for the second half of FY26, a net increase of 800,000 jobs over the second half of FY25. Educational services employment is then expected to rise 2.2 percent in the first quarter of FY27 over the first quarter of FY26.

Trade, transportation, and utilities (TTU), the largest supersector, is expected to increase by 0.2 percent, or 100,000 net jobs in the second half of FY26. This growth is expected to accelerate in FY27. TTU is expected to gain 0.8 percent in the first quarter of FY27. This sector makes up 18.2 percent of total non-farm employment.

Five supersectors are expected to lose jobs in the second half of FY26: construction, mining, manufacturing, business services, and government. The largest loser is expected to be the mining sector with an anticipated 2.5 percent decline, or 15,700 jobs lost, in the second half of FY26 compared to FY25. Mining is the smallest supersector in the US claiming just 0.4 percent of total non-farm employment.

US personal income is expected to grow 5.0 percent in the second half of FY26. US personal income growth is expected to increase to 5.6 percent in the first quarter of FY27. All five contributing components are expected to grow robustly in the second half of FY26. The fastest growing component is expected to be transfer receipts income which is expected to grow 5.8 percent in the second half of FY26, then slow slightly to 5.1 percent in the first quarter of FY27. The largest component, wages and salaries, is expected to grow 5.1 percent in the first half of FY26 and then 5.4 percent in the first quarter of FY27. Wages and salaries make up 49.7 percent of total personal income.

## **KENTUCKY OUTLOOK**

Kentucky non-farm employment is forecasted to rise 0.3 percent in the final six months of FY26. It is then expected to rise slightly to 0.4 percent in the first quarter of FY27. It is expected that seven of the 11 supersectors will lose jobs in the second half of FY26 compared to the second half of FY25. The fastest growing sector is expected to be leisure and hospitality services employment with 3.2 percent growth over the second half of FY25. Leisure and hospitality services makes up 10.3 percent of total non-farm employment.

The biggest decline is expected to be construction employment, which is expected to fall 4.7 percent in the second half of FY26 over FY25. Then construction employment is expected to moderate to a 0.2 percent decline in the first quarter of FY27.

The largest employment sector in Kentucky is TTU employment. It is expected to fall 0.005 percent, which is effectively flat. Then employment is expected to rebound and grow 0.3 percent in the first quarter of FY27. TTU employment makes up 20.8 percent of total non-farm employment in the state.

Kentucky personal income is projected to increase 4.4 percent, or \$12.0 billion, in the final six months of FY26. That growth is expected to expand to 4.8 percent in the first quarter of FY27. Supplements to wages and salaries is expected to be the fastest growing component in the next two quarters. Supplements to wages and salaries are anticipated to increase by 5.7 percent in the last two quarters of FY26, and by 5.6 percent in the first quarter of FY27. Supplements to wages and salaries makes up 11.5 percent of total Kentucky personal income.

Wages and salaries income is expected to increase 4.6 percent in the second half of FY26 and 4.6 percent in the first quarter of FY27 compared to the first quarter of FY26. Wages and salaries growth makes up precisely 50 percent of the growth in total personal income during that time period. Total personal income is expected to increase by \$12.0 billion in the second half of FY26, with \$6.0 billion of that growth coming from wages and salaries income. Wages and salaries is the largest component of Kentucky personal income. It makes up 47.6 percent of total personal income.

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

	Q3 & Q4			Full Year		Q1	
	FY26	FY25	% chg	FY26	% chg	FY27	% chg
Non-farm Employment (thousands, NSA)	2,058.5	2,051.4	0.3	2,057.0	0.5	2,063.5	0.4
Goods-producing	357.3	364.6	-2.0	358.6	-1.0	356.6	-1.2
Construction	93.8	98.4	-4.7	93.8	-2.6	93.9	-0.2
Mining	7.3	7.6	-3.6	7.4	-5.6	7.3	-2.8
Manufacturing	256.2	258.6	-0.9	257.3	-0.3	255.4	-1.5
Service-providing	1,383.4	1,368.8	1.1	1,380.7	1.0	1,388.2	0.8
Trade, Transportation & Utilities	427.7	427.7	-0.005	427.9	-0.1	429.3	0.3
Information	20.7	20.8	-0.5	20.7	-0.3	20.7	-0.3
Finance	96.5	95.2	1.3	96.1	1.1	97.0	1.6
Business Services	224.3	225.5	-0.5	225.1	-0.2	224.5	-0.7
Educational Services	327.3	319.5	2.5	325.5	2.5	327.9	1.5
Leisure and Hospitality Services	212.2	205.7	3.2	210.8	2.5	214.3	2.6
Other Services	74.7	74.4	0.5	74.7	0.5	74.5	-0.2
Government	317.8	318.0	-0.1	317.8	0.3	318.7	0.1
Personal Income (\$ billions, AR)	285.1	273.1	4.4	281.6	4.6	290.1	4.8
Wages and Salaries	135.8	129.8	4.6	134.1	4.3	137.9	4.6
Transfer Receipts	78.4	74.4	5.3	77.3	6.7	79.5	4.7
Dividends, Interest, and Rents	46.2	44.8	2.9	45.6	2.6	46.7	3.8
Supplements to Wages and Salaries	32.8	31.0	5.7	32.3	5.3	33.4	5.6
Proprietors' Income	18.8	18.6	1.1	18.8	1.9	19.9	6.6
Social Insurance	21.8	21.1	3.4	21.5	3.4	22.1	3.9
Residence Adjustment	-5.1	-4.6	NA	-5.0	NA	-5.2	NA

# REVENUE RECEIPTS

## GENERAL FUND Second Quarter FY26

Growth in General Fund receipts improved in the second quarter of FY26, compared to the first quarter when revenues fell by 2.8 percent. General Fund receipts for the second quarter of FY26 totaled \$4,082.0 million, an increase of 1.4 percent compared to the same period in FY25. Growth in major revenue sources such as sales and use tax and individual income tax helped offset a significant decline in major business tax receipts. The individual income tax and sales and use tax were bolstered by solid growth in the Kentucky wages and salaries component of personal income. The official General Fund revenue estimate calls for revenues to fall 1.3 percent compared to FY25 receipts. General Fund revenues can fall 1.9 percent for the remainder of the fiscal year and still meet the official estimate.

<b>Table 6</b>				
<b>Summary General Fund Receipts</b>				
<b>\$ millions</b>				
	<b>FY26</b>	<b>FY25</b>	<b>Diff</b>	<b>Diff</b>
	<b>Q2</b>	<b>Q2</b>	<b>\$</b>	<b>%</b>
Individual Income	1,336.8	1,213.0	123.8	10.2
Sales & Use	1,543.4	1,446.1	97.3	6.7
Corp. Inc. & LLET	257.9	445.3	-187.4	-42.1
Property	446.5	454.7	-8.3	-1.8
Lottery	101.4	98.5	2.9	3.0
Cigarettes	65.4	57.3	8.0	14.0
Coal Severance	18.4	18.4	0.0	0.1
Other	312.3	291.2	21.2	7.3
<b>Total</b>	<b>4,082.0</b>	<b>4,024.5</b>	<b>57.5</b>	<b>1.4</b>

Individual income tax collections totaled \$1,336.8 million in the second quarter of FY26; an increase of 10.2 percent compared to the prior year. This strong growth reflects higher wages and improved employment levels. Individual income tax was one of the most significant contributors to the overall revenue increase. Withholding, declaration payments, and net returns combined to account for \$120.3 million of the \$123.8 million increase in this account in the second quarter.

Sales and use tax receipts reached \$1,543.4 million in the second quarter of FY26, logging the third consecutive quarter of receipts in excess of \$1.5 billion. Overall collections were up \$97.3 million, or 6.7 percent from FY25. This increase is consistent with continued strength in consumer spending and taxable sales activity during the quarter. The sales and use tax has become further entrenched as the largest single source of General Fund revenue and a key driver of overall revenue growth. Year-to-date collections in this account have grown 5.3 percent.

Major business taxes are running 41.9 percent below what was collected through the first six months of FY25. The sharp rate of decline was anticipated since prior-year receipts contained roughly \$400 million in nonrecurring payments. Receipts indicate that \$300 million of the total \$400 million in one-time revenue was collected in the first half of FY25, partially explaining the 41.9 percent plunge in major business tax receipts for FY26.

Property tax receipts fell 1.8 percent, or \$8.3 million, to \$446.5 million in the second quarter. A 4.8 percent increase in real property tax receipts was offset by a \$26.5 million decline in public service receipts, due to a timing issue. 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 declined 4.4 percent over FY25 totals.

Lottery receipts rose 3.0 percent to \$101.4 million in the second quarter. Year-to-date collections in this account have grown 3.3 percent.

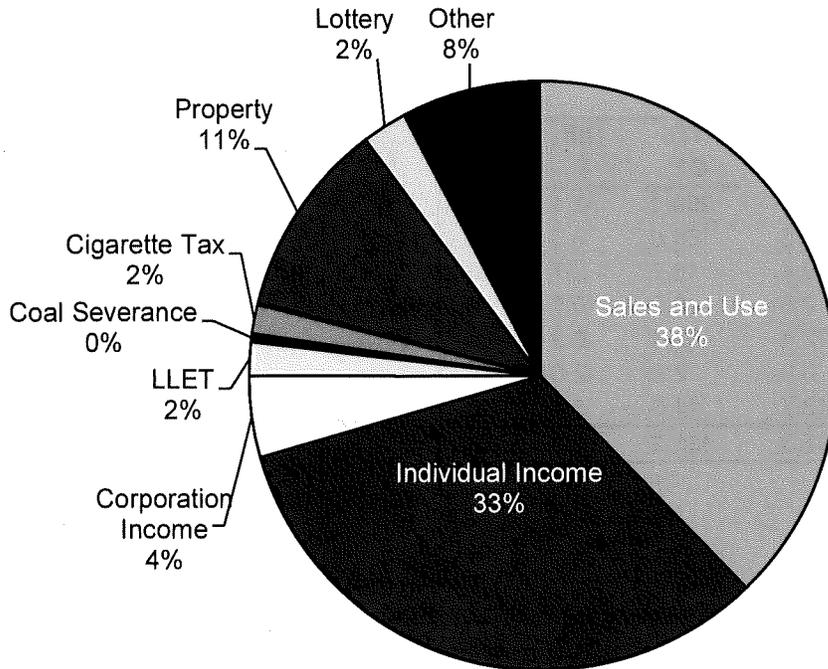
Cigarette tax receipts grew 14.0 percent in the just completed quarter, the first quarterly increase since the fourth quarter of FY21. Year-to-date collections in this account have increased 1.7 percent.

Coal severance receipts were essentially flat in the second quarter with collections of \$18.4 million. Year-to-date collections have decreased 7.4 percent.

The "Other" category, which is composed of over 60 accounts not otherwise classified, grew 7.3 percent in the second quarter. Quarterly receipts were \$312.3 million. This is \$21.2 million more than was received in the same quarter of FY25. The second-quarter increase in "Other" revenues occurred despite a 10.4 percent decline from income on investments, the largest single component in this category.

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 71 percent of General Fund tax receipts. The next largest sources of revenue were the property taxes which contributed 11 percent. "Other" receipts accounted for eight percent and the major business taxes combined to account for six percent of total receipts. Lottery receipts and the cigarette taxes each contribute two percent while the coal severance account for less than one percent.

**Figure 1  
Composition of Second Quarter FY26  
General Fund Revenues**



**ROAD FUND  
Second Quarter FY26**

Total Road Fund receipts grew 0.3 percent in the just completed quarter which was only slightly better than the 0.1 percent increase in the first quarter. Revenues grew nearly five percent in October before falling in each of the next two months.

Road Fund receipts totaled \$437.3 million in the second quarter of FY26, representing a small increase of \$1.1 million compared with FY25. Road Fund revenues showed mixed performance across the major accounts with only moderate overall growth. The largest revenue source, motor fuels taxes, declined by \$7.1 million. Investment income experienced a substantial percentage decline, dropping nearly 70 percent though this category represents a small portion of total receipts.

These declines were largely offset by increases in vehicle-related taxes and fees. Motor vehicle usage tax receipts rose \$6.5 million, motor vehicle license revenues increased \$2.7 million, and the weight distance tax posted a modest gain of 1.5 percent. The "Other" category increased \$1.4 million, providing additional offsetting growth.

The official Road Fund revenue estimate calls for a 1.0 percent decline in revenues for FY26 to \$1,844.0 million. Based on year-to-date collections, revenues could fall 2.2 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.

<b>Table 7</b>				
<b>Summary Road Fund Receipts</b>				
<b>\$ millions</b>				
	<b>FY26</b>	<b>FY25</b>	<b>Diff</b>	<b>Diff</b>
	<b>Q2</b>	<b>Q2</b>	<b>\$</b>	<b>%</b>
Motor Fuels	202.0	209.1	-7.1	-3.4
Motor Vehicle Usage	172.5	166.0	6.5	3.9
Motor Vehicle License	19.4	16.7	2.7	16.1
Motor Vehicle Operators	7.5	8.3	-0.7	-8.9
Weight Distance	22.4	22.1	0.3	1.5
Income on Investments	0.9	2.9	-2.0	-69.6
Other	12.7	11.3	1.4	12.1
<b>Total</b>	<b>437.3</b>	<b>436.2</b>	<b>1.1</b>	<b>0.3</b>

Motor fuels tax receipts fell 3.4 percent during the second quarter, which was identical to the first quarter performance. The revenue 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 \$202.0 million as compared to \$209.1 million collected during the second quarter last year. Year-to-date collections for the motor fuels accounts have fallen 3.4 percent.

Motor vehicle usage tax receipts rose 3.9 percent in the second quarter, and like the motor fuels tax, had a growth rate identical to the first three months. For the quarter, revenues were \$172.5 million, \$6.5 million more than what was received in the second quarter of FY25. Revenues in this account have now increased 3.9 percent through the first six months of FY26.

Motor vehicle license tax receipts have experienced double-digit growth in both quarters of FY26, with growth rates of 17.4 percent and 16.1 percent, respectively. Collections in the second quarter were \$19.4 million compared to \$16.7 million in FY25. Year-to-date revenues in this account have grown 16.8 percent.

Motor vehicle operators' tax receipts fell 8.9 percent in the just completed quarter after increasing 4.1 percent in the first quarter of the year. Year-to-date collections have declined 2.2 percent in this account.

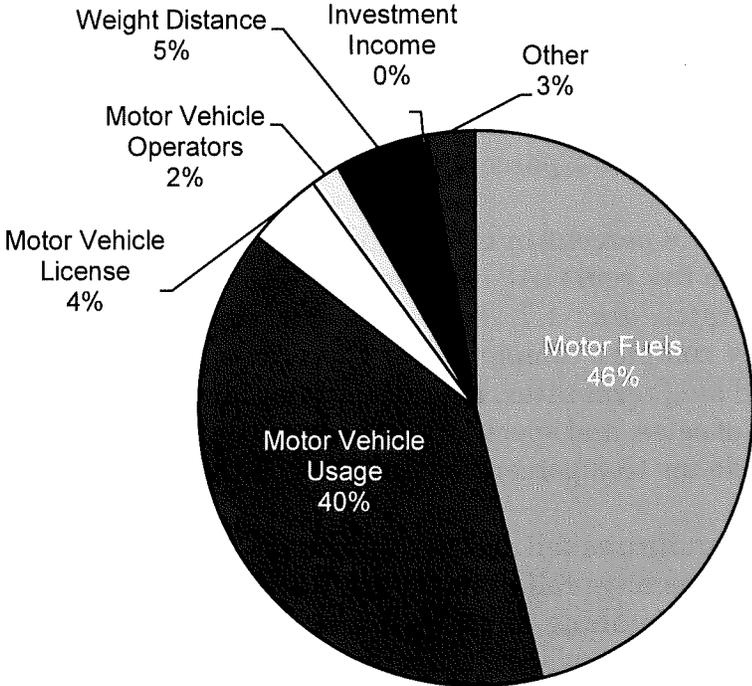
Weight distance tax receipts were \$22.4 million in the quarter, a 1.5 percent increase compared to receipts collected during the second quarter of FY25. The weight distance tax has some significance as a leading indicator of economic activity, as it is a rough proxy for goods in transit over Kentucky highways. Through the first six months of FY26, receipts have grown 0.5 percent.

Investment income totaled \$0.9 million in the second quarter compared to \$2.9 million last year. Year-to-date collections in this account stand at \$4.0 million.

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 \$12.7 million in the second quarter which is 12.1 percent more than was collected in FY25.

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 "Other" account contributed three percent while the motor vehicle operators accounted for two percent. Investment income totaled just under one percent.

**Figure 2**  
**Composition of Second Quarter FY26**  
**Road Fund Revenues**



# THE ECONOMY

## SECOND QUARTER FY26

### NATIONAL ECONOMY

Real Gross Domestic Product (real GDP) grew 1.8 percent in the second quarter of FY26. This is down slightly from the 2.1 percent recorded in the first quarter. The National Bureau of Economic Research, the entity responsible for identifying official turning points in the economy, including recessions, uses adjacent-quarter growth rates for real GDP to determine recessions. The last four adjacent-quarter growth rates for real GDP are: -0.2, 0.9, 0.8, and 0.2 percent, respectively. Real GDP is made up of five components, consumption, investment, government expenditures, exports, and imports. And in this equation, imports is a deduction from real GDP, such that if imports go up, then real GDP goes down.

Real consumption grew 1.8 percent in the second quarter of FY26 compared to the second quarter of FY25. Adjacent-quarter growth has softened considerably since the first quarter. First quarter adjacent-quarter growth was 0.8 percent, while it was 0.3 percent in the second quarter. This is down considerably from the second quarter of FY25 when real consumption adjacent-quarter growth was 1.0 percent for the third quarter in a row. Consumption is the most stable of the five real GDP components. Real consumption made up 69.2 percent of real GDP in the second quarter of FY26.

Real investment grew 1.6 percent in the second quarter of FY26. Real investment is the most volatile of the five real GDP components. The last five adjacent-quarter real investment growth rates are -1.7, 5.4, -3.6, -0.3, and 0.3 percent, respectively. Investment is a very complex component of the economy. It is affected by interest rates, both short and long term rates, availability/liquidity of capital, exchange rates, long-term prospects of sales, and speculation in several different instrument markets. Real investment made up 18.3 percent of real GDP in the second quarter of FY26.

Real government expenditures fell 0.8 percent in the second quarter of FY26. Real government expenditures have fallen in three of the last four quarters, and very low positive growth in the remaining quarter. While all of these growth rates are very close to zero, it still puts downward pressure on real GDP relative to last year and relative to last quarter. Real government expenditures made up 16.5 percent of real GDP in the second quarter of FY26.

Real exports grew by 0.04 percent in the second quarter of FY26 over the same quarter a year ago. Real exports have been soft for the last five quarters, hovering near zero percent growth on an adjacent-quarter basis. Real exports made up 11.1 percent of real GDP in the second quarter. Real imports fell 2.8 percent in the second quarter of FY26. Real imports have fallen for three consecutive quarters on an adjacent-quarter basis. The last three adjacent-quarter growth rates for real imports are: -8.3, -2.0, and -0.1 percent, respectively. Real imports, a deduction from real GDP, made up 15.1 percent of real GDP in the second quarter of FY26.

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

	FY25						FY26			
	Q2	% chg	Q3	% chg	Q4	% chg	Q1	% chg	Q2	% chg
Real GDP (\$ billions, AR)	23,586.5	2.4	23,548.2	2.0	23,771.0	2.1	23,960.1	2.1	24,006.6	1.8
Real Consumption	16,320.9	3.4	16,345.8	3.1	16,445.7	2.7	16,573.5	2.5	16,622.5	1.8
Real Investment	4,315.6	0.1	4,547.9	5.9	4,382.8	0.0	4,370.5	-0.5	4,385.0	1.6
Real Government Expenditures	4,003.8	3.6	3,993.9	2.7	3,993.0	1.9	3,998.2	0.7	3,970.9	-0.8
Real Exports	2,658.5	3.3	2,659.5	2.1	2,647.3	1.5	2,651.1	-0.5	2,659.6	0.0
Real Imports	3,727.4	6.2	4,040.2	13.2	3,705.3	1.8	3,630.0	-2.7	3,624.9	-2.8
CPI - All Goods (% chg)	2.7	NA	2.7	NA	2.5	NA	2.9	NA	2.9	NA
CPI - Food (% chg)	2.3	NA	2.7	NA	2.9	NA	3.1	NA	3.2	NA
CPI - Energy (% chg)	-2.8	NA	-0.9	NA	-2.4	NA	0.5	NA	1.2	NA
Core CPI (% chg)	3.3	NA	3.1	NA	2.8	NA	3.1	NA	3.0	NA
Industrial Prod. Index (% chg)	-0.3	NA	1.2	NA	0.9	NA	1.2	NA	1.0	NA
Working Population (millions, NSA)	269.5	0.6	272.9	1.9	273.4	1.9	274.0	1.9	G	0.0
Civilian Labor Force	168.2	0.4	170.2	1.8	170.7	1.6	171.3	1.3	G	0.0
Employed	161.6	0.0	162.8	1.5	163.8	1.4	163.7	1.1	G	0.0
Unemployed	6.6	11.0	7.4	9.5	7.0	7.7	7.6	6.0	G	0.0
Not in Labor Force	101.3	1.0	102.7	2.2	102.7	2.4	102.7	2.9	G	0.0
Labor Force Participation Rate (%)	62.5	NA	62.5	NA	62.4	NA	62.3	NA	G	NA
Unemployment Rate (%)	4.2	NA	4.1	NA	4.2	NA	4.3	NA	4.4	NA
Housing Starts (millions, AR)	1.4	-5.5	1.4	-1.0	1.4	0.8	1.3	0.6	1.3	-5.4

G = Data for Q4 2025 were not produced. Data for October 2025 were not collected due to the federal government shutdown.

Total US outlays increased by 3.8 percent in the second quarter of FY26 compared to the second quarter of FY25. Federal Transfer Payments to Resident Persons is the largest outlay category and grew the most in absolute terms among the components in the second quarter. It grew 9.0 percent in the second quarter of FY26 compared to the second quarter of FY25. The two largest sub-components of Federal Transfer Payments to Resident Persons are Social Security and Medicare. These accounts grew by 8.6 percent and 10.8 percent, respectively. This category of outlays has been the largest driver of outlay growth for the last four years, generating 47.4 percent of total outlay growth during that time.

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

	Second Quarter			
	FY26	FY25	Chg	% Chg
Federal Outlays excl. Gross Investment	7,522.7	7,247.7	275.1	3.8
National Defense	903.8	884.4	19.3	2.2
Non-Defense Consumption	587.9	601.3	-13.4	-2.2
Federal Transfer Payments to Resident Persons	3,699.6	3,393.7	305.9	9.0
Medicare	1,263.3	1,140.3	123.0	10.8
Social Security	1,595.1	1,469.1	126.0	8.6
Social Insurance to Rest of the World	36.9	34.5	2.4	6.8
Grants-in-Aid to State & Local Govts	952.3	982.3	-30.0	-3.1
Medicaid	655.5	646.4	9.1	1.4
Non-Medicaid Grants to State & Local Govts	296.9	335.9	-39.0	-11.6
Aid to Foreign Govts	42.2	99.6	-57.5	-57.7
Interest on the Debt	1,196.9	1,155.6	41.3	3.6
Subsidies	103.2	94.0	9.2	9.8

US personal income grew 4.8 percent in the second quarter of FY26. US personal income has grown for 18 consecutive quarters. US personal income growth increased slightly from the first quarter. Adjacent-quarter growth in the first quarter was 0.8 percent and it was 1.0 percent in the second quarter. The boost in growth was caused by increases in growth in transfer payments income; dividends, interest, and rents income; and proprietors' income. US personal income is made up of seven components. Five contributing components, one deduction, and one net component that accounts for citizens who live in the US but work outside the US versus citizens who live outside the US but work inside the US. This seventh component, the Resident Adjustment is very small. The deduction component is Social Insurance, which is already counted in Wages and Salaries and Supplements to Wages and Salaries; therefore, to avoid double-counting, it is removed. The fastest growing component in the second quarter is transfer receipts income. Transfer receipts income grew by 8.0 percent, or \$374.3 billion compared to the second quarter of FY25. The largest component, wages and salaries grew by 4.5 percent, or \$571.2 billion compared to the second quarter of FY25. US wages and salaries made up 49.7 percent of total US personal income in the second quarter, while transfer receipts income made up 18.9 percent of total US personal income during the same period.

US non-farm employment rose 0.6 percent in the second quarter of FY26. Five sectors lost jobs in the second quarter, including all three goods-producing sectors, manufacturing, construction, and mining, which fell collectively by 0.5 percent. The fastest growing and largest nominal growth sector is educational services employment, which grew 2.9 percent, an increase of 0.8 million jobs compared to last year. The largest employment sector, TTU, grew 0.6 percent in the second quarter.

## KENTUCKY ECONOMY

Kentucky personal income grew 4.7 percent in the second quarter of FY26. Kentucky personal income has now grown in 18 consecutive quarters. All five components that contribute to personal income grew in the second quarter. Transfer receipts and wages and salaries contributed the most to Kentucky personal income growth.

Transfer receipts income was the fastest growing component, growing 7.5 percent in the second quarter, or a net increase of \$5.3 billion compared to the second quarter of FY25. Transfer receipts income made up 27.4 percent of total Kentucky personal income in the second quarter. Transfer receipts income continues to grow as a share of total Kentucky personal income. In 2000, transfer receipts income made up only 17.4 percent of total Kentucky personal income.

Kentucky wages and salaries income, the largest income component, grew 4.3 percent in the second quarter of FY26. Kentucky wages and salaries contributed the most towards personal income growth in the second quarter, growing a net \$5.4 billion compared to the same quarter last year. Kentucky wages and salaries income made up 47.6 percent of total Kentucky personal income in the second quarter of FY26.

Kentucky non-farm employment rose 0.7 percent in the second quarter of FY26, slightly higher than US non-farm employment growth. Seven of the 11 supersectors gained jobs in the second quarter compared to the same quarter last year: educational services, leisure and hospitality, finance, other services, government, business services, and manufacturing. The four sectors which lost jobs this quarter relative to last year are mining, construction, TTU, and information services. The fastest-growing sector in the second quarter is educational services employment, which grew 2.4 percent compared to the same period last year. That is a net gain of 7,700 jobs compared to the second quarter of FY25. This fast-growing sector made up over half of the total gains Kentucky non-farm employment for the quarter. Mining employment declined by 7.1 percent, or 600 jobs. Mining is the smallest supersector in the Commonwealth, making up just 0.4 percent of total non-farm employment.

TTU is the largest employment supersector in Kentucky, which fell 0.05 percent, or 20,800 jobs, compared to the second quarter of FY25. TTU employment made up 20.8 percent of total non-farm employment in the second quarter of FY26.

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

	FY25						FY26			
	Q2	% chg	Q3	% chg	Q4	% chg	Q1	% chg	Q2	% chg
Non-farm Employment (millions, NSA)	158.6	1.2	159.2	1.2	159.4	1.0	159.6	0.9	159.6	0.6
Goods-producing	21.7	0.4	21.7	0.2	21.7	0.1	21.6	-0.2	21.6	-0.5
Mining	0.6	-2.0	0.6	-1.7	0.6	-0.5	0.6	-2.1	0.6	-2.5
Construction	8.3	2.4	8.3	1.9	8.3	1.4	8.3	0.7	8.3	-0.1
Manufacturing	12.8	-0.7	12.8	-0.7	12.8	-0.7	12.7	-0.7	12.7	-0.6
Service-providing	113.4	1.2	113.9	1.3	114.2	1.2	114.4	1.2	114.6	1.0
Trade, Transportation & Utilities	29.0	0.5	29.1	0.8	29.1	0.6	29.1	0.5	29.1	0.6
Information	2.9	-0.8	2.9	-0.8	2.9	-0.5	2.9	0.1	2.9	0.5
Finance	9.2	0.2	9.2	0.8	9.2	0.9	9.3	0.9	9.3	1.0
Business Services	22.6	-0.4	22.6	-0.3	22.6	-0.3	22.5	-0.3	22.5	-0.5
Educational Services	26.9	3.9	27.1	3.6	27.3	3.4	27.5	3.2	27.6	2.9
Leisure and Hospitality Services	16.9	1.3	17.0	1.3	17.0	1.4	17.0	1.3	17.1	0.9
Other Services	6.0	1.6	6.0	1.5	6.0	1.2	6.0	1.2	6.1	1.1
Government	23.5	2.1	23.6	1.6	23.6	1.2	23.6	0.6	23.4	-0.5
Personal Income (\$ billions, AR)	25,322.4	5.4	25,717.7	5.1	26,067.1	5.1	26,288.3	5.1	26,544.5	4.8
Wages and Salaries	12,626.6	5.5	12,788.7	5.3	12,945.1	5.1	13,083.9	5.0	13,197.8	4.5
Transfer Receipts	4,653.0	9.1	4,788.0	7.7	4,952.3	9.2	4,978.7	8.5	5,027.3	8.0
Dividends, Interest, and Rents	5,255.2	2.3	5,311.5	2.3	5,324.9	1.9	5,342.0	2.3	5,390.5	2.6
Supplements to Wages and Salaries	2,682.5	5.5	2,722.2	5.1	2,756.2	4.9	2,790.5	5.0	2,825.9	5.3
Proprietors' Income	2,064.5	5.4	2,103.3	6.1	2,105.2	4.6	2,112.5	4.0	2,125.7	3.0
Social Insurance	1,959.4	6.4	1,995.9	5.9	2,016.5	5.4	2,019.3	4.3	2,022.7	3.2
Residential Adjustment	0.0	NA								

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

	FY25						FY26			
	Q2	% chg	Q3	% chg	Q4	% chg	Q1	% chg	Q2	% chg
Non-farm Employment (thousands, NSA)	2,041.1	0.7	2,046.4	0.7	2,056.5	1.0	2,056.1	0.8	2,055.0	0.7
Goods-producing	359.0	0.1	362.8	0.8	366.4	1.7	361.0	0.1	358.7	-0.1
Mining	8.0	-5.9	7.7	-8.0	7.5	-8.5	7.5	-7.9	7.4	-7.1
Construction	93.9	1.8	96.9	3.8	99.9	6.9	94.1	-0.5	93.6	-0.3
Manufacturing	257.2	-0.3	258.2	-0.1	259.0	0.2	259.3	0.6	257.6	0.2
Service-providing	1,365.3	0.6	1,366.4	0.5	1,371.2	0.6	1,376.7	0.8	1,379.2	1.0
Trade, Transportation & Utilities	428.4	0.5	427.7	0.5	427.7	0.2	428.0	-0.3	428.2	-0.05
Information	20.8	-5.5	20.7	-2.1	20.8	-0.2	20.7	0.3	20.7	-0.4
Finance	94.7	-1.5	95.0	-0.8	95.5	0.1	95.5	0.4	95.9	1.2
Business Services	225.2	-0.5	225.3	-0.7	225.8	-0.3	226.0	0.2	225.6	0.2
Educational Services	316.7	3.0	318.5	2.6	320.4	2.3	323.0	2.7	324.3	2.4
Leisure and Hospitality Services	205.4	-0.1	205.2	-0.2	206.2	-0.1	208.9	1.5	209.7	2.1
Other Services	74.2	1.6	74.0	0.5	74.7	1.3	74.6	0.4	74.8	0.8
Government	316.7	1.8	317.2	1.3	318.9	1.6	318.4	1.1	317.1	0.1
Personal Income (\$ billions, AR)	266.7	4.8	271.2	3.7	274.9	4.7	276.9	4.9	279.2	4.7
Wages and Salaries	127.5	3.5	129.1	1.9	130.5	3.4	131.8	3.8	132.9	4.3
Transfer Receipts	71.1	9.3	73.2	7.4	75.6	9.4	75.9	9.1	76.5	7.5
Dividends, Interest, and Rents	44.3	1.7	44.8	2.0	44.9	1.8	45.0	2.3	45.2	2.2
Supplements to Wages and Salaries	30.4	4.3	30.8	3.2	31.2	4.4	31.6	4.4	32.1	5.3
Proprietors' Income	18.3	2.2	18.6	3.8	18.6	3.4	18.7	2.6	18.8	2.6
Social Insurance	20.6	2.2	20.9	1.7	21.2	3.5	21.3	3.4	21.3	3.5
Residential Adjustment	-4.4	NA	-4.4	NA	-4.8	NA	-4.8	NA	-4.9	NA

***APPENDIX***

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

***SECOND QUARTER FY26***

## Kentucky State Government – General Fund

	Second Quarter FY 2026	Second Quarter FY 2025	%	Year-To-Date FY 2026	Year-To-Date FY 2025	%
			Change			Change
<b>TOTAL GENERAL FUND</b>	<b>\$4,082,048,714</b>	<b>\$4,026,096,164</b>	<b>1.4%</b>	<b>\$7,825,268,870</b>	<b>\$7,877,461,724</b>	<b>-0.7%</b>
<b>Tax Receipts</b>	<b>\$3,833,070,693</b>	<b>\$3,790,811,088</b>	<b>1.1%</b>	<b>\$7,386,440,448</b>	<b>\$7,438,510,463</b>	<b>-0.7%</b>
<b>Sales and Gross Receipts</b>	<b>\$1,731,738,746</b>	<b>\$1,628,157,102</b>	<b>6.4%</b>	<b>\$3,515,788,634</b>	<b>\$3,344,743,917</b>	<b>5.1%</b>
Beer Consumption	1,414,784	340,529	315.5%	2,864,305	1,961,597	46.0%
Beer Wholesale	18,434,228	17,078,068	7.9%	35,757,549	36,493,046	-2.0%
Cigarette	65,377,481	57,349,316	14.0%	129,629,681	127,472,732	1.7%
Distilled Spirits Case Sales	59,423	58,824	1.0%	120,459	119,209	1.0%
Distilled Spirits Consumption	4,795,586	4,424,823	8.4%	9,627,642	9,333,691	3.1%
Distilled Spirits Wholesale	19,457,639	19,538,346	-0.4%	37,421,276	37,919,931	-1.3%
Insurance Premium	9,305,963	14,301,070	-34.9%	72,574,929	66,926,609	8.4%
Pari-Mutuel	22,104,040	21,915,608	0.9%	39,788,122	32,075,246	24.0%
Race Track Admission	0	0	---	0	0	---
Sales and Use	1,543,381,473	1,446,113,567	6.7%	3,094,238,178	2,938,371,897	5.3%
Wine Consumption	695,021	746,207	-6.9%	1,343,009	1,450,092	-7.4%
Wine Wholesale	5,013,281	5,150,705	-2.7%	9,388,768	9,731,236	-3.5%
Telecommunications Tax	20,582,013	19,823,772	3.8%	40,728,202	39,450,453	3.2%
Other Tobacco Products	8,673,560	10,411,967	-16.7%	17,471,453	20,998,092	-16.8%
Floor Stock Tax	122	204	-40.2%	118	276	-57.1%
Car Rental & Ride Sharing	12,444,133	10,904,097	14.1%	24,834,942	22,439,809	10.7%
<b>Natural Resources</b>	<b>\$29,841,853</b>	<b>\$28,360,007</b>	<b>5.2%</b>	<b>56,631,025</b>	<b>\$55,373,282</b>	<b>2.3%</b>
Coal Severance	18,412,631	18,398,463	0.1%	32,278,807	34,842,094	-7.4%
Oil Production	1,265,334	1,343,825	-5.8%	2,261,068	2,886,169	-21.7%
Minerals Severance	8,984,784	7,795,887	15.3%	19,265,017	16,331,674	18.0%
Natural Gas Severance	1,179,104	821,832	43.5%	2,826,133	1,313,345	115.2%
<b>Individual Income Tax</b>	<b>\$1,336,771,906</b>	<b>\$1,212,958,935</b>	<b>10.2%</b>	<b>2,667,590,624</b>	<b>\$2,453,987,031</b>	<b>8.7%</b>
Withholding	1,173,588,877	1,121,349,120	4.7%	2,333,175,765	2,199,762,703	6.1%
Declarations	68,716,932	38,086,423	80.4%	159,333,454	112,277,059	41.9%
Net Returns	3,062,680	(34,349,385)	---	(1,324,996)	(68,179,240)	---
Fiduciary	(5,596,225)	(5,922,554)	---	(4,350,345)	(7,151,902)	---
Pass-Through Entity Tax	96,999,643	93,795,332	3.4%	180,756,747	217,278,411	-16.8%
<b>Major Business Taxes</b>	<b>\$257,921,651</b>	<b>\$445,318,846</b>	<b>-42.1%</b>	<b>583,300,538</b>	<b>\$1,004,707,276</b>	<b>-41.9%</b>
Corporation Income	182,621,404	383,753,547	-52.4%	320,121,818	906,915,961	-64.7%
LLET	75,300,246	61,565,299	22.3%	263,178,720	97,791,315	169.1%
<b>Property</b>	<b>\$446,455,661</b>	<b>\$454,749,218</b>	<b>-1.8%</b>	<b>509,635,272</b>	<b>533,311,065</b>	<b>-4.4%</b>
General - Real	285,862,968	272,661,559	4.8%	285,448,160	272,901,179	4.6%
General - Tangible	90,140,047	89,506,915	0.7%	102,388,581	104,934,056	-2.4%
Tangible - Motor Vehicle	41,213,325	42,201,265	-2.3%	87,413,628	88,818,403	-1.6%
Omitted & Delinquent	7,591,925	4,267,682	77.9%	8,486,133	9,811,251	-13.5%
Public Service	19,508,223	45,989,165	-57.6%	21,852,127	53,551,180	-59.2%
Other	2,139,173	122,632	1644.4%	4,046,642	3,294,996	22.8%
<b>Inheritance Tax</b>	<b>\$24,355,659</b>	<b>\$18,111,503</b>	<b>34.5%</b>	<b>47,153,702</b>	<b>\$43,648,266</b>	<b>8.0%</b>
<b>Miscellaneous</b>	<b>\$5,985,218</b>	<b>\$3,155,477</b>	<b>89.7%</b>	<b>6,340,654</b>	<b>2,739,626</b>	<b>131.4%</b>
License and Privilege	\$418,066	\$495,246	-15.6%	973,015	1,011,184	-3.8%
Bank Franchise	\$0	(\$2,775,342)	---	(5,946)	(2,964,661)	---
Legal Process	2,260,083	2,235,170	1.1%	4,827,658	4,578,372	5.4%
T. V. A. In Lieu Payments	3,305,779	3,194,836	3.5%	528,978	102,795	414.6%
Other	1,291	5,568	-76.8%	16,949	11,936	42.0%
<b>Nontax Receipts</b>	<b>\$247,546,551</b>	<b>\$234,919,140</b>	<b>5.4%</b>	<b>435,421,169</b>	<b>\$437,626,215</b>	<b>-0.5%</b>
Departmental Fees	2,930,961	2,664,834	10.0%	5,758,574	5,936,075	-3.0%
PSC Assessment Fee	18,634	25,768	-27.7%	14,419,330	10,901,393	32.3%
Fines & Forfeitures	4,545,987	4,654,457	-2.3%	10,119,296	9,551,852	5.9%
Income on Investments	62,380,219	69,609,961	-10.4%	135,463,879	171,777,119	-21.1%
Lottery	101,386,064	98,471,720	3.0%	185,386,064	179,471,720	3.3%
Miscellaneous	76,284,685	59,492,399	28.2%	84,274,025	59,988,056	40.5%
<b>Redeposit of State Funds</b>	<b>\$1,431,469</b>	<b>\$365,937</b>	<b>291.2%</b>	<b>3,407,253</b>	<b>\$1,325,046</b>	<b>157.1%</b>

## Kentucky State Government – Road Fund

	Second Quarter FY 2026	Second Quarter FY 2025	%	Year-To-Date FY 2026	Year-To-Date FY 2025	%
			Change			Change
<b>TOTAL STATE ROAD FUND</b>	<b>\$437,342,366</b>	<b>\$436,248,961</b>	<b>0.3%</b>	<b>\$920,249,873</b>	<b>\$918,522,681</b>	<b>0.2%</b>
<b>Tax Receipts-</b>	<b>\$428,117,784</b>	<b>\$425,222,770</b>	<b>0.7%</b>	<b>\$898,298,382</b>	<b>\$891,590,510</b>	<b>0.8%</b>
<b>Sales and Gross Receipts</b>	<b>\$374,714,048</b>	<b>\$375,201,957</b>	<b>-0.1%</b>	<b>\$787,802,050</b>	<b>\$788,354,512</b>	<b>-0.1%</b>
Motor Fuels Taxes	201,993,156	209,085,371	-3.4%	417,937,728	432,521,725	-3.4%
Motor Vehicle Usage	172,520,013	165,979,037	3.9%	369,474,613	355,566,219	3.9%
EV Charging Station Tax	200,879	137,549	46.0%	389,710	266,568	46.2%
<b>License and Privilege</b>	<b>\$53,403,736</b>	<b>\$50,020,813</b>	<b>6.8%</b>	<b>\$110,496,331</b>	<b>\$103,235,998</b>	<b>7.0%</b>
Motor Vehicles	19,350,788	16,671,760	16.1%	42,553,815	36,443,324	16.8%
Motor Vehicle Operators	7,525,722	8,259,806	-8.9%	16,576,879	16,956,141	-2.2%
Weight Distance	22,377,978	22,054,030	1.5%	44,613,865	44,396,101	0.5%
Truck Decal Fees	22,840	25,440	-10.2%	57,880	70,380	-17.8%
Other Special Fees	4,126,409	3,009,777	37.1%	6,693,893	5,370,052	24.7%
<b>Nontax Receipts</b>	<b>\$8,670,419</b>	<b>\$10,622,179</b>	<b>-18.4%</b>	<b>\$21,261,401</b>	<b>\$26,198,686</b>	<b>-18.8%</b>
Departmental Fees	5,940,743	5,348,139	11.1%	12,283,924	12,627,249	-2.7%
In Lieu of Traffic Fines	37,650	38,790	-2.9%	81,630	82,230	-0.7%
Income on Investments	872,375	2,869,541	-69.6%	4,002,601	8,844,585	-54.7%
Miscellaneous	1,288,541	1,396,407	-7.7%	3,774,031	2,645,840	42.6%
Hybrid/Electric Annual Fee	531,110	969,302	-45.2%	1,119,216	1,998,782	-44.0%
<b>Redeposit of State Funds</b>	<b>\$554,163</b>	<b>\$404,011</b>	<b>37.2%</b>	<b>\$690,090</b>	<b>\$733,485</b>	<b>-5.9%</b>

## 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, November 10, 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 Q2 are November 2025 estimates.

Source: IHS Markit - Economics & Country Risk, November 10, 2025 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 10

Seasonally Adjusted. Data for FY26 Q2 are November 2025 estimates.

Source: IHS Markit – Economics & Country Risk, November 10, 2025 data release.

