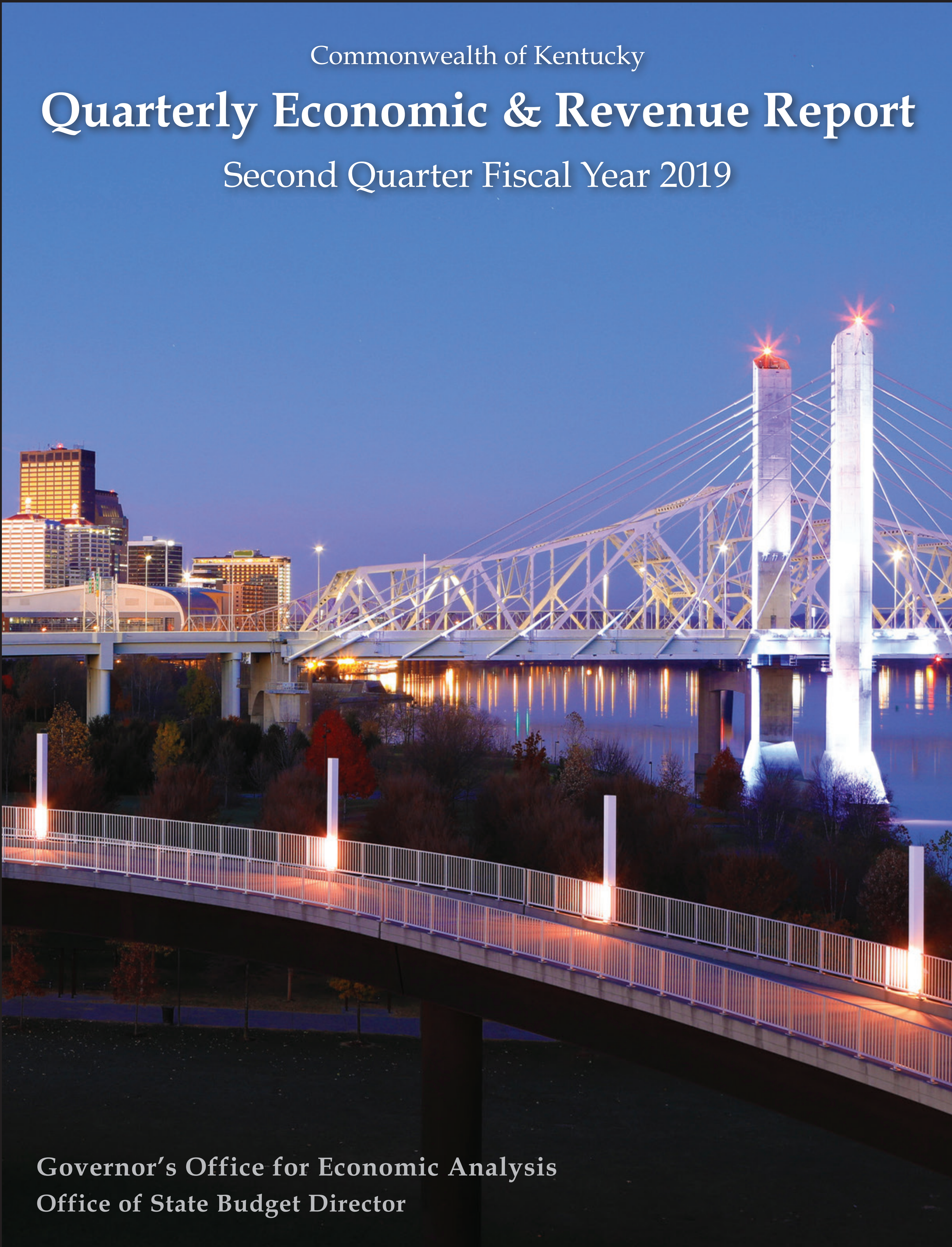
Commonwealth of Kentucky

Quarterly Economic & Revenue Report

Second Quarter Fiscal Year 2019



Governor's Office for Economic Analysis

Office of State Budget Director

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Matthew G. Bevin
Governor

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State Budget Director

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

January 30, 2019

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

Dear Governor Bevin:

The enclosed Quarterly Economic and Revenue Report summarizes Kentucky's revenue and economic statistics for the second quarter of Fiscal Year 2019 (FY19). This report includes a synopsis of the current economic and fiscal conditions of the Commonwealth, as well as an outlook for the next three fiscal quarters.

The Interim Outlook presents unofficial staff estimates rather than an official revision to the enacted estimate. In addition to the latest economic forecast for the U.S. and Kentucky, the revenue estimates incorporate various tax law changes enacted during the 2018 Regular Session of the General Assembly.

General Fund receipts in the second quarter of FY19 totaled $2,929.7 million compared to $2,846.3 million in the second quarter of FY18, for an increase of 2.9 percent, or $83.4 million. Through the first half of the fiscal year, receipts have increased 3.7 percent. Total Road Fund collections increased 4.8 percent during the second quarter of FY19. Total receipts of $374.0 million compare to $356.9 million from the second quarter of last year. Year-to-date collections have grown 4.3 percent compared to last year's total.

Looking ahead to the forecast for FY19 in its entirety, projected General Fund revenues for FY19 equal $11,176.1 million – a total that is $22.1 million below the official budget estimate of $11,198.2 million. General Fund growth is projected to be

2.6 percent for the remainder of FY19, with strength in the sales and cigarette taxes and expected declines in both the individual and corporation income taxes. It is anticipated that the Road Fund will end the year well above the enacted estimate. Total Road Fund revenues are projected to exceed the official forecast in FY19 by $49.4 million.

Kentucky personal income grew by 3.7 percent in the second quarter of FY19. Wages and salaries in Kentucky grew by 3.5 percent in the second quarter. Kentucky non-farm employment was slow, growing only 1.0 percent in the second quarter. The Commonwealth's economic outlook for personal income and wages calls for slightly accelerated growth in the remaining two quarters of FY19, and a modest increase entering into the first quarter of FY20. Personal income is anticipated to rise 4.0 percent for the entirety of FY19 and 5.0 percent for the first quarter of FY20.

We will continue to closely monitor Kentucky's economic and revenue conditions given the close proximity of our current General Fund estimates to the official budgeted revenues. Updates will be provided as additional information is gathered.

Cordially,

John E. Chilton
State Budget Director

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EXECUTIVE SUMMARY

Pursuant to KRS 48.400(2), the Office of State Budget Director (OSBD) has prepared this *Quarterly Economic and Revenue Report* for the second quarter of Fiscal Year 2019 (FY19). This report includes a synopsis of the current economic and fiscal conditions of the Commonwealth, as well as an outlook for the next three fiscal quarters.

The Interim Outlook presents unofficial staff estimates rather than an official revision to the enacted estimate. In addition to the latest economic forecast for the U.S. and Kentucky, the revenue estimates incorporate various tax law changes enacted during the 2018 regular session of the General Assembly. The official estimate is defined as the Consensus Forecasting Group's estimates adjusted by any actions of the General Assembly. The Consensus Forecasting Group last met in December of 2017. The 2018 Regular Session of the General Assembly then passed HB 487, which added a net $192.3 million to the General Fund for FY19. A portion of the impact from HB 487 has already occurred and was incorporated into the various accounts during the first half of FY19. In practice, it is very difficult to bifurcate the impacts of the economy versus the effects of the new tax law.

Projected General Fund revenues for FY19 are expected to close at $11,176.1 million – a total that is $22.1 million below the official budget estimate of $11,198.2 million. General Fund growth is projected to be 2.6 percent for the remainder of FY19 compared to the 3.7 percent pace set in the first half of FY19. Road Fund revenues continued to gain strength in the second quarter of FY19, growing 4.8 percent. This builds on the 3.8 percent increase in the first quarter of FY19. Going forward, the rate of growth of the fund is expected to soften but it is anticipated that the Road Fund will end the year well above the enacted estimate. Total revenues are projected to exceed the official forecast in FY19 by $49.4 million.

Major points that will be discussed in this report include the following:

- General Fund receipts in the second quarter of FY19 totaled $2,929.7 million compared to $2,846.3 million in the second quarter of FY18, for an increase of 2.9 percent, or $83.4 million. Through the first half of the fiscal year, receipts have increased 3.7 percent. Sales and use and cigarette tax collections continued to perform strongly while income taxes have been soft. This conforms to expectations following the 2018 tax reform measures adopted in HB 487 where consumption taxes were increased and income-based taxation was lowered through rate reductions.

- Real gross domestic product increased by 3.1 percent in the second quarter of FY19. Strong growth in real investment was the primary driving factor for this high growth. US personal income grew by 4.3 percent in the second quarter. This high growth was uniform across all the contributing factors of income. Kentucky personal income grew by 3.7 percent in the second quarter of FY19. Transfer receipts were the fastest growing component, growing 4.8 percent, continuing several quarters of high growth. Kentucky non-farm employment was slow, growing only 1.0 percent in the second quarter.

- The national outlook for the second half of FY19 is similar to the first half. Expect similar growth in real GDP, a small softening in employment and payrolls, and slightly higher inflation. Real GDP growth is forecasted to be 2.8 percent over the next two fiscal quarters. Continued political uncertainty, international trade concerns, and financial stress are contributing to the slowdown.

- Kentucky's economic outlook remains strong for the remaining two quarters of FY19. As observed in preceding quarters, the upswing in Kentuckians' personal income is poised to continue its recent run of robust growth over the forecast horizon, growing to 5.0 percent by the first quarter of FY20. In contrast to the strong growth in Kentuckians' personal income, total employment continues to experience lethargic growth overall.

- The General Fund revenue outlook is greatly impacted by the passage of HB 487. Most notably, consumption taxes (especially the sales tax and the cigarette tax) are projected to continue to increase while income-based taxes will fall. Individual income tax receipts are expected to decline by 1.3 percent during the second half of FY19 following a year-to-date decline of 2.3 percent. The full FY19 impact of HB 487 is a $118.3 million reduction to the individual income tax. A share of that impact will occur in the remaining six months of FY19. Sales and use tax receipts grew 8.6 percent during the first half of FY19, primarily due to the base expansion elements of HB 487. Beyond the addition of selective services to the tax base, another contributor to the growth in the sales tax is the October 1 implementation of sales tax collections on internet sales made possible by the U.S. Supreme Court's *Wayfair* decision.

- Motor fuels taxes grew 1.9 percent in the first half of the year and are forecasted to increase 1.6 percent over the remainder of the year, as consumption remains strong due to continued low pump prices. Motor vehicle usage tax receipts also rose in the first half, growing 5.6 percent. That rate of growth is expected to abate to 2.3 percent over the final six months of FY19 as tariffs raise the price of vehicles.

REVENUE RECEIPTS

GENERAL FUND
Second Quarter, FY19

General Fund receipts in the second quarter of FY19 totaled $2,929.7 million compared to $2,846.3 million in the second quarter of FY18, for an increase of 2.9 percent, or $83.4 million. Through the first half of the fiscal year, receipts have increased 3.7 percent. The official General Fund revenue estimate for FY19 calls for revenue to grow 3.3 percent compared to FY18 actual receipts. General Fund revenues must increase 3.0 percent for the remainder of the fiscal year to meet the official estimate.

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

Table 1
Summary General Fund Receipts
$ millions

	FY19 Q2	FY18 Q2	Diff $	Diff %
Individual Income	1,068.4	1,112.8	-44.5	-4.0
Sales & Use	986.1	904.7	81.4	9.0
Corp. Inc. & LLET	172.2	184.0	-11.8	-6.4
Property	382.2	362.2	20.1	5.5
Lottery	66.1	61.5	4.6	7.6
Cigarettes	86.3	51.0	35.3	69.1
Coal Severance	19.8	21.3	-1.5	-7.2
Other	148.5	148.8	-0.3	-0.2
Total	**2,929.7**	**2,846.3**	**83.4**	**2.9**

Individual income tax posted receipts of $1,068.4 million, compared to last year's second quarter receipts of $1,112.8 million. The resulting rate of decline was 4.0 percent, and compares to a growth rate of 4.2 percent for the second quarter of last year. Taxpayers accelerated their declaration payments in December 2017 to take advantage of the state and local tax deduction, which was repelled as of December 31, 2017. This acceleration resulted in higher than normal declarations for December 2017. As a result, the growth rate for December 2018 was negatively influenced, but was expected. Year-to-date declarations collections are down 17.2 percent. Earlier in 2018, the top corporate and individual income tax rates were decreased from 6.0 percent to 5.0 percent. Declarations and withholding payments have declined as compared to the same time frame last year.

The sales and use tax receipts were up $81.4 million, or 9.0 percent, higher than the second quarter of FY18. Receipts totaled $986.1 million, as compared to $904.7 million in the second quarter of FY18. This surge in consumption taxes is directly attributable to the expansion of the sales tax base and our ongoing efforts to capture a higher percentage of online sales due to the U.S. Supreme Court's recent *Wayfair* decision. Sales and use taxes have grown for the last seven quarters following a reduction recorded in the third quarter of FY17. Year-to-date sales tax receipts have increased 8.6 percent as compared to the last year, roughly congruous with the projections for all of FY19.

Property tax receipts posted revenues that were $20.1 million more than the second quarter of FY18. The difference is primarily due to the timing of collections in the public service property tax. That account grew 40.1 percent, or $12.1 million, in the second quarter of FY19. Large fluctuations in the public service property tax collections are typical between the first three quarters of a fiscal year due to variances in the mailing out of billing letters. Collections of $382.2 million compare favorably to $362.2 million received in the second quarter of the prior fiscal year.

Corporation income tax posted an increase of 17.5 percent, or $21.3 million, during the second quarter of FY19. Receipts totaled $143.0 million compared to the $121.7 million received a year earlier.

The limited liability entity tax registered a $33.1 million decrease in collections in the second quarter of FY19 when compared to FY18. Total collections in the current fiscal year totaled $29.2 million and compare to revenues of $62.3 million in the same period a year earlier.

The coal severance tax revenue continued to decline in the second quarter, with receipts down 7.2 percent. Collections of $19.8 million compare to the FY18 second quarter total of $21.3 million. Coal tax collections have continued to decline for the last five quarters. Year-to-date collections are down 14.7 percent.

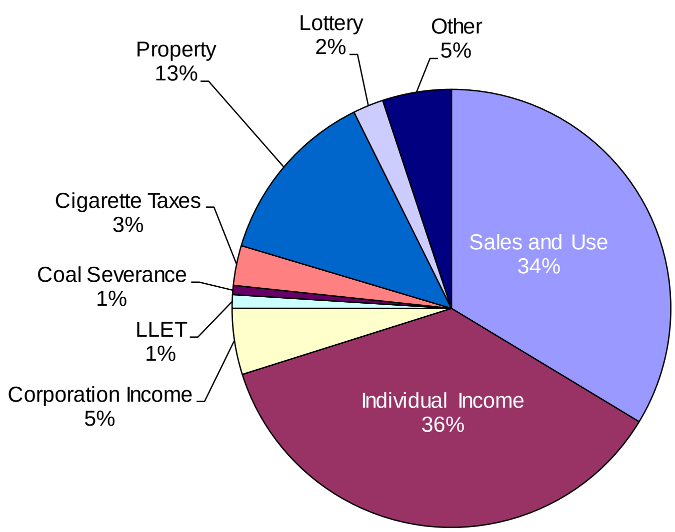
Cigarette tax receipts were $86.3 million in the second quarter of FY19 as compared to $51.0 million in the second quarter of FY18. Cigarette tax receipts continued their strong performance for the last two quarters. This increase coincides with the 83.3 percent increase in the cigarette tax from $0.60 per pack to $1.10 per HB 487.

Lottery receipts were $66.1 million, which were 7.6 percent more than last year's second quarter total of $61.5 million. Positive growth in the second quarter marks the fifth quarter of growth in the lottery following three consecutive quarterly declines. Year-to-date collections are up 5.3 percent for the year.

The "Other" category, which represents the remaining accounts of the General Fund, decreased 0.2 percent in the second quarter. Second quarter receipts for FY19 were $148.5 million and compare to $148.8 million in FY18.

Figure 1 details the composition of General Fund revenues by tax type for the second quarter of FY19. Seventy percent of General Fund revenues were collected in the areas of the individual income tax and the sales tax. The next largest sources of revenue were property tax, which accounted for 13.0 percent of the total General Fund receipts. The "Other" category and corporation income taxes accounted for 5.0 percent each. The largest components in the "Other" category include insurance premium tax, the bank franchise tax, telecommunication tax, beer wholesale tax, and the inheritance tax. Cigarette taxes accounted for 3.0 percent followed by lottery which accounted for 2.0 percent. Finally, LLET and coal severance receipts accounted for 1.0 percent each.

Figure 1
Composition of Second Quarter FY19
General Fund Revenues



ROAD FUND
Second Quarter, FY19

Total Road Fund receipts increased 4.8 percent during the second quarter of FY19. Total receipts received were $374.0 million and compare to $356.9 million from the second quarter of last year. Year-to-date collections have grown 4.3 percent compared to last year's total. Despite declines in Road Fund revenue in FY15 and FY16 and anemic growth in FY17 and FY18, receipts have now risen in eight of the past 10 months. The official Road Fund revenue estimate calls for a 0.3 percent decrease in receipts for the entire FY19. Based on year to date tax collections, revenues can decline 4.7 percent for the remainder of FY19 to meet the estimate. Summary data are contained in Table 2 and detailed data are shown in the Appendix.

Table 2 Summary Road Fund Receipts $ millions				
	FY19 Q2	FY18 Q2	Diff $	Diff %
Motor Fuels	194.4	189.5	4.9	2.6
Motor Vehicle Usage	122.0	114.6	7.4	6.4
Motor Vehicle License	21.7	20.3	1.4	6.8
Motor Vehicle Operators	4.0	4.1	0.0	-1.0
Weight Distance	21.1	20.6	0.4	2.2
Income on Investments	1.9	0.1	1.8	1,400.9
Other	8.9	7.6	1.3	17.3
Total	**374.0**	**356.9**	**17.1**	**4.8**

Motor fuels tax receipts increased 2.6 percent during the second quarter. Receipts were $194.4 million as compared to $189.5 million collected during the second quarter of last year. Year-to-date collections are up 1.9 percent.

Motor vehicle usage tax receipts of $122.0 million represent an increase of 6.4 percent compared to the $114.6 million collected in the second quarter of FY18. Vehicle usage tax collections fluctuate with the level of the vehicle sale transactions that occur in the Kentucky economy. Motor vehicle usage collections have now increased 5.6 percent so far in FY19.

Motor vehicle license tax receipts increased 6.8 percent in the second quarter of FY19 to $21.7 million.

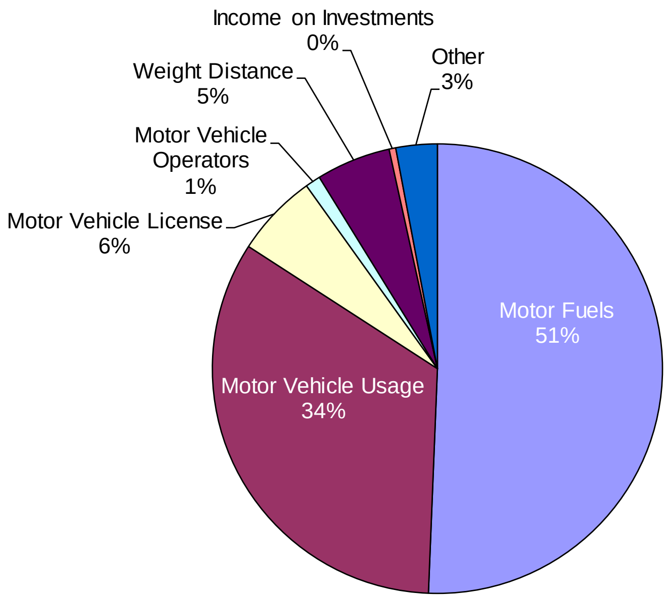
Motor vehicle operators license tax receipts were $4.0 million in the second quarter of FY19, a 1.0 percent decrease compared to the level observed a year ago.

Weight distance tax receipts of $21.1 million represent a 2.2 percent increase compared to receipts of $20.6 million during the second quarter of FY18. 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.

The remainder of the accounts in the Road Fund are grouped in the “Other” category combined for an increase of 17.3 percent from a year earlier. In the “Other” category, revenues of $8.9 million were received and compared to $7.6 million in the second quarter of FY18.

Figure 2 details the composition of Road Fund revenues by tax type in the second quarter of FY19. The motor fuels tax and the motor vehicle usage tax combined accounted for 85.0 percent of Road Fund revenues in the second quarter. The next-largest sources of revenue were the motor vehicle license and weight distance taxes with 6.0 percent each. The “Other” category accounted for 2.0 percent, while motor vehicle operators comprised 1.0 percent. Income on investments accounted for a negligible amount of total Road Fund receipts.

Figure 2
Composition of First Quarter FY19
Road Fund Revenues



THE ECONOMY
SECOND QUARTER FY19

NATIONAL ECONOMY

Real gross domestic product (real GDP) increased by 3.1 percent in the second quarter of FY19. See Table 3. This growth is the highest since the fourth quarter of FY15. Adjacent-quarter growth has averaged 0.6 percent per quarter during the current expansion period. It is helpful to talk about adjacent-quarter growth to get a sense of the short-term movements of real GDP. Over the last three quarters, adjacent-quarter growth has slowed. The last three adjacent-quarter growth rates were 1.0, 0.9, and 0.6 percent, respectively.

The real GDP data is chained 2009 dollars annual rate data that is not seasonally-adjusted. Therefore, inflation is taken into consideration. Also, annual rate means that the quarterly data are in levels which are reflective of the annual total of GDP had GDP grown at the current growth rate for the full calendar year. These are both positive traits of using annual rate data. However, because the data is not seasonally adjusted, adjacent-quarter growth rates may contain normal but complex seasonal movements which are not apparent to the casual view. It is important to remember that some of the growth (or decline) in the adjacent-quarter data may be due to normal seasonal variations, and not actual economic activity. Examining adjacent-quarter growth rates is still useful because it allows us to see short-term trends and effects that might be missed by the quarter compared to same quarter last year growth rates as presented in the tables (see Table 3). So while the second quarter growth rate of 3.1 percent is very strong, it is important to note, that quarterly growth has tempered some in the last two quarters. Average adjacent-quarter growth over the last seven quarters is 0.7 percent, a significant improvement over the rest of the expansion period.

Real consumption grew by 2.7 percent in the second quarter of FY19. Adjacent-quarter growth has averaged 0.6 percent during the current expansion period. Real consumption growth rates while still high, have softened in the second quarter. Adjacent-quarter growth over the last four quarters is 0.1, 0.9, 0.9, and 0.7 percent respectively. Average adjacent-quarter growth over the last seven quarters is 0.7 percent. During the four-quarter period between the fourth quarter of FY14 and the third quarter of FY15, real consumption growth averaged 1.0 percent. This period was the best four-quarter consumption growth period during the current expansion. Real consumption made up 69.4 percent of real GDP in the second quarter of FY19.

Real investment grew by 6.4 percent in the second quarter of FY19. On an adjacent-quarter basis, real investment grew by 0.5 percent in the second quarter. Adjacent-quarter growth has averaged 1.7 percent during the current expansion period. Investment is historically, the most volatile of the five components of real GDP and it has been so during the last four quarters as well. The adjacent-quarter growth rates for the last four quarters are 2.3, -0.1, 3.6, and 0.5 percent, respectively. Real investment made up 17.1 percent of real GDP in the second quarter of FY19.

Real government expenditures grew by 2.6 percent in the second quarter of FY19. Recently, government expenditures have begun to rise again. This is unusual. It is common that government expenditures rise even after the official end of a recession, as unemployed workers are still looking for work and receive unemployment insurance payments. Also some welfare recipients are still receiving more benefits than the previous year, at least until their financial situations improve. That is, government expenditures commonly increase after a recession has ended, as dependence on welfare programs continues after the official recession date has ended. Real government expenditures have followed an unusual path following 2014. In the fourth quarter of FY14, real government expenditures reached a clear minimum following the 2007 recession. This is normal, as welfare expenditures taper. But then government expenditures began to rise clearly and significantly until the third quarter of FY16. Real government expenditures rose by a net 3.7 percent in that short period of time. Then government expenditures remained flat (essentially constant) until the first quarter of FY18. Then government expenditures began to learly and significantly rise again. Real government expenditures rose by a net 3.2 percent between the first quarter of FY18 and the second quarter of FY19. Real government expenditures made up 17.7 percent of real GDP in the second quarter of FY19.

Government expenditures rose sharply in all top five outlay categories (Social Security, Medicare, national defense, interest on the debt, and Medicaid) in the second quarter of FY19. See Table 4. The fastest growing account in the second quarter was interest on the debt, which grew by 7.6 percent. Interest on the debt has grown significantly in the last three years. Between the third quarter of FY16 and the second quarter of FY19, interest on the debt grew by a net 31.3 percent. This is very similar to the 12-quarter period between the second quarter of FY05 and the first quarter of FY08, when interest on the debt grew by 31.7 percent. This is extremely high growth both historically and relative to other categories' growths. Total outlays in the last twelve quarters grew a net 13.0 percent.

Table 3
Summary of US Economic Series
Second Quarter FY19 & FY18

	Second Quarter			
	FY19	FY18	Chg	% Chg
Real GDP	18,787.1	18,223.8	563.4	3.1
Real Consumption	13,047.9	12,706.4	341.5	2.7
Real Investment	3,454.2	3,246.0	208.2	6.4
Real Govt. Expenditures	3,222.8	3,140.2	82.7	2.6
Real Exports	2,562.1	2,495.9	66.3	2.7
Real Imports	3,536.9	3,395.1	141.7	4.2
CPI all goods (% chg)	2.2	2.1	NA	NA
CPI Food (% chg)	1.3	1.4	NA	NA
CPI Energy (% chg)	4.5	7.5	NA	NA
CPI Core (% chg)	2.2	1.7	NA	NA
Industrial Production Index (% chg)	4.1	3.0	NA	NA
Working Population[1]	258.7	255.9	2.8	1.1
Civilian Labor Force[2]	162.6	160.3	2.4	1.5
Employed[3]	156.8	154.0	2.8	1.8
Unemployed[4]	5.8	6.3	-0.5	-7.2
Not in Labor Force[5]	96.1	95.7	0.4	0.4
Labor Force Participation Rate[6] (%)	63.0	62.7	NA	NA
Unemployment Rate (%)	3.7	4.1	NA	NA

The account with the largest absolute increase was Social Security, which rose by $57.0 billion, a 6.1 percent increase, in the second quarter of FY19. Social Security growth has been stable, but high for most of its existence. Social Security growth has been between 4.0 and 7.5 percent each quarter for most of its history. Interestingly, Social Security growth fell below 3.0 percent in every quarter of calendar 2016, where the growth rates were 2.9, 2.8, 2.9, and 2.8 percent respectively. Following that brief one year respite, growth rates again shot up to the six percent range.

The top five accounts combined grew by $217.7 billion in the second quarter of FY19 compared to the second quarter of FY18. Since 2000, the average growth for these five accounts combined is 4.8 percent. Growth in the last four quarters has been 4.9, 7.2, 7.5, and 6.9 percent respectively. This is very high growth. Growth from the first quarter to the second quarter of FY19 alone was $55.1 billion. These data are not seasonally adjusted. The top five outlay accounts make up just over 73 percent of total outlays.

Two of the top eight federal outlay accounts declined in the second quarter - subsidies and aid to foreign government - which declined by 6.7 percent and 5.0 percent respectively. The combined absolute decline in these two accounts is $7.1 billion.

Real exports grew by 2.7 percent in the second quarter of FY19. Real exports are a complicated account to analyze because it is really a function of the incomes and demands of all of our trading partners as well as the various supply factors encompassing the millions of goods and services that the United States sells. That is probably why exports are acyclical (that is, not correlated to the US business cycle) and why there is no discernable pattern to them on an annual basis. Real exports adjacent-quarter growth rates for the last four quarters were 0.9, 2.2, -1.1, and 0.6 percent respectively. A good example of this non-correlation, is the condition of real exports near the 2007 recession. Real exports performed well in the first half of the 2007 recession, growing above eight percent for each of the four quarters and in double digits growth for two of the four quarters. The recession was officially over in the fourth quarter of FY09. Real exports growth shot up again immediately to double-digit growth rates.

Real imports grew by 4.2 percent in the second quarter of FY19. Real imports, as you might expect follow a similar cyclical pattern as real consumption. Adjacent-quarter growth for the last six quarters has been inconsistent but mostly positive, growing 0.7, 2.8, 0.7, -0.1, 2.2, and 1.3 percent, respectively. The real imports outpaced real exports in the second quarter of FY19 by $974.7 billion (balance of trade). The balance of trade is at an all-time high. That is to say that exports minus imports (also known as net exports), are at an all-time low.

Table 4
US Federal Outlays
$ billions, AR

	Second Quarter			
	FY19	**FY18**	**Chg**	**% Chg**
Federal Outlays excl. Gross Investment	4,571.9	4,337.2	234.7	5.4
Social Security	992.5	935.5	57.0	6.1
Medicare	757.8	706.6	51.2	7.2
National Defense	640.3	598.5	41.8	7.0
Interest on Debt	560.9	521.1	39.8	7.6
Medicaid	403.6	375.7	27.9	7.4
Non-Medicaid Grants to S&L Govts	187.2	185.5	1.7	0.9
Subsidies	59.4	63.6	-4.2	-6.7
Aid to Foreign Governments	55.0	57.9	-2.9	-5.0

US personal income grew by 4.3 percent in the second quarter of FY19. US personal income has been very consistent - just above four percent growth for the last eight quarters. This is just above average. Since the end of the 2007 recession, average personal income growth has been 3.9 percent. There are six components and one adjustment which comprises personal income. Five of the six components contribute to personal income and one is a subtraction from personal income. Wages and salaries is the largest component and grew by 4.3 percent in the second quarter. Wage and salary income was also the largest absolute contributor to second quarter personal income gaining $368 billion, which is precisely half of the gains made in personal income. Transfer receipts and proprietor's income grew strongly each with 5.2 percent growth. Dividends, interest and rents grew by 3.9 percent.

US non-farm employment rose by 1.7 percent in the second quarter of FY19. The data presented in Table 6 are seasonally adjusted. So any variation based on temporary summer construction or holiday retail booms has been taken into account. US non-farm employment has been consistent and above average since the second quarter of FY13. During that time, adjacent-quarter growth rates have been between 0.3 and 0.6 percent. The average adjacent-quarter growth since 2000 has been 0.2 percent.

Mining employment was the fastest growing employment sector in the second quarter, growing 9.3 percent, an increase of 100,000 seasonally-adjusted jobs. Business services and education services both grew 500,000, which were the fastest growing sectors in absolute terms. Information services employment was the slowest growing sector. Information services contracted, losing 0.3 percent over the second quarter of FY18.

Table 5
Personal Income
$ billions, SAAR

	Second Quarter			
	FY19	**FY18**	**$ Diff**	**% Diff**
United States				
Personal Income	17,835	17,103	732	4.3
Social Insurance	1,378	1,317	61	4.6
Dividends, Interest and Rents	3,571	3,438	133	3.9
Transfer Receipts	3,038	2,888	151	5.2
Wages & Salaries	8,956	8,588	368	4.3
Supplements to W&S	2,042	1,980	62	3.1
Proprietor's Income	1,606	1,526	80	5.2
Kentucky				
Personal Income	190	184	7	3.7
Social Insurance	15	15	1	3.7
Residence Adjustments	-2	-2	0	0.9
Dividends, Interest and Rents	31	30	1	3.3
Transfer Receipts	47	44	2	4.8
Wages & Salaries	94	91	3	3.5
Supplements to W&S	23	23	1	2.3
Proprietor's Income	13	12	0	3.9

Table 6
Summary of US & KY Employment
Second Quarter FY19 & FY18

	US Q2 (millions)			KY Q2 (thousands)		
	FY19	FY18	% Chg	FY19	FY18	% Chg
Non-farm Employment	149.9	147.4	1.7	1,942.6	1,922.9	1.0
Goods-producing	20.9	20.2	3.2	338.3	335.7	0.8
Construction	7.3	7.0	4.3	76.6	76.2	0.5
Mining	0.8	0.7	9.3	10.3	10.2	1.0
Manufacturing	12.8	12.5	2.3	251.4	249.3	0.8
Service-providing	106.6	104.9	1.7	1,288.4	1,272.5	1.2
Trade, Transportation & Utilities	27.9	27.6	1.1	414.8	406.1	2.2
Information	2.8	2.8	-0.3	22.4	22.7	-1.3
Finance	8.6	8.5	1.4	94.6	92.7	2.0
Business Services	21.2	20.7	2.6	218.7	214.3	2.0
Educational Services	23.9	23.3	2.2	274.0	272.9	0.4
Leisure and Hospitality Services	16.4	16.2	1.6	196.7	196.9	-0.1
Other Services	5.9	5.8	1.3	67.2	66.9	0.4
Government	22.4	22.3	0.3	316.0	314.8	0.4

KENTUCKY ECONOMY

Kentucky personal income grew by 3.7 percent in the second quarter of FY19. Average growth since 2000 is 3.5 percent. Kentucky personal income growth has hovered near that average for the last eight consecutive quarters. The contributing components all grew in the second quarter.

Transfer receipts income was the fastest growing personal income component in the second quarter, growing 4.8 percent over the second quarter of FY18. Transfer receipts income growth has been "high" for four of the last five quarters. That is high relative to personal income growth. However, growth in transfer receipts income in Kentucky has been high for several decades. Average growth in transfer receipts income since 2000 is 5.6 percent. Transfer receipts growth is extraordinarily high during and immediately following recessions (range between 7.0 and 26.0 percent) and during normal expansion period times also runs higher than average personal income growth. Transfer receipts income made up 24.5 percent of total personal income in the second quarter.

Supplements to wages and salaries was the slowest growing component of Kentucky personal income in the second quarter. Supplements to wages and salaries (sometimes known as fringe benefits) include employer-provided pension contributions and employer-provided workers' compensation contributions. Supplements to wages and salaries grew by 2.3 percent in the second quarter of FY19. Supplements to wages and salaries income grew above 2.0 percent for each of the last eight quarters. Average growth since 2000 is 3.2 percent. While supplements to wages and salaries have grown steadily for the last eight quarters, only once during that time did growth exceed the 18-year average. Supplements to wages and salaries made up 12.2 percent of total personal income in the second quarter.

Kentucky non-farm employment grew by 1.0 percent in the second quarter of FY19. This represents a net gain of 19,600 seasonally adjusted jobs. Adjacent-quarter growth has increased steadily over the last seven quarters. In the fourth quarter of FY17, adjacent-quarter growth was 0.0 percent. In the second quarter of FY19, adjacent-quarter growth is 0.4 percent. Average growth in the last eight quarters is slower than the in the rest of the expansion period before it. In the period between the 2007 recession and the second quarter of FY17, adjacent-quarter growth averaged 0.3 percent. Average growth during the last eight quarters, while rising, is only 0.2 percent.

Trade, transportation, and utilities employment grew the fastest in both percent and absolute terms in the second quarter of FY19. Trade, transportation, and utilities employment grew by 2.2 percent, or 8,800 jobs. In the period between the end of the 2007 recession and the second quarter of FY17, adjacent quarter growth averaged 0.3 percent. In the last eight quarters, adjacent-quarter growth averaged 0.5 percent, a significant improvement. Trade, transportation, and utilities employment is the largest of the 11 supersectors and makes up 21.4 percent of total non-farm employment in Kentucky.

Information services employment was the slowest growing sector in the second quarter, falling 1.3 percent over the second quarter of FY18. This is a net decline of 300 seasonally adjusted jobs. This is the sixth consecutive quarter that information services employment has fallen. Average adjacent-quarter growth in information services employment since the end of the 2007 recession has been -0.4 percent. On average, information services employment has fallen in every quarter since the recession ended. The information services sector comprises establishments engaged in activities including: producing or distributing information, transmission of data or communications, and data processing. Information services employment is the second smallest employment sector in Kentucky, making up only 1.2 percent of total non-farm employment.

INTERIM OUTLOOK

GENERAL FUND

The Interim Outlook represents unofficial staff estimates prepared pursuant to KRS 48.400 (2). Forecasted revenues presented in Table 7 and Table 8 were projected using the December 2018 “control scenario” economic forecast from both IHS Markit and the Kentucky MAK model as our primary inputs. In addition, the revenue estimates incorporate various tax law changes enacted during the 2018 regular session of the General Assembly. The official estimate is defined as the Consensus Forecasting Group's estimates adjusted by any actions of the General Assembly. The Consensus Forecasting Group last met in December of 2017. The 2018 Regular Session of the General Assembly then passed HB 487, which added a net $192.3 million to the General Fund for FY19.

A portion of the impact from HB 487 has already occurred and was incorporated into the various accounts during the first half of FY19. In practice, it is very difficult to bifurcate the impacts of the economy versus the effects of the new tax law.

Projected General Fund revenues are shown in Table 7. As the table indicates, General Fund growth is projected to be 2.6 percent for the remainder of FY19. When coupled actual collections from the first half of the fiscal year, FY19 is expected to close at $11,176.1 million – a total which is $22.1 million below the official budget estimate of $11,198.2 million.

Table 7
General Fund Interim Forecast
$ millions

	FY19						FY19		FY20	
	Q1 & Q2		Q3 & Q4		Full Year		Official CFG		Q1	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	$ Diff	Estimate	% Chg
Individual Income	2,184.3	-2.3	2,337.7	-1.3	4,522.0	-1.8	4,531.2	-9.2	1,127.7	1.1
Sales & Use	1,963.5	8.6	1,945.4	8.2	3,908.9	8.4	3,907.6	1.3	1,021.3	4.5
Corp. Inc. & LLET	367.0	-3.7	363.9	-1.2	730.8	-2.5	773.2	-42.4	201.4	3.4
Property	430.8	3.6	199.3	-3.0	630.1	1.4	620.7	9.4	51.3	5.5
Lottery	122.6	5.3	134.6	-1.4	257.2	1.7	249.0	8.2	57.0	0.9
Cigarettes	198.2	86.8	147.4	39.5	345.7	63.2	337.9	7.8	83.4	-25.5
Coal Severance	39.8	-14.7	35.1	-18.4	74.9	-16.5	77.9	-3.0	15.8	-20.6
Other	290.9	0.3	415.7	0.4	706.5	0.4	700.7	5.8	144.5	1.5
General Fund	**5,597.1**	**3.7**	**5,579.0**	**2.6**	**11,176.1**	**3.1**	**11,198.2**	**-22.1**	**2,702.4**	**1.3**

Individual income tax receipts are expected to decline by 1.3 percent during the second half of FY19 following a year-to-date decline of 2.3 percent. The individual income tax was heavily impacted by the contents of HB 487. The full FY19 impact of HB 487 is a $118.3 million reduction to the individual income tax. A share of that impact will occur in the remaining six months of FY19. The withholding component of the individual income tax was profoundly impacted by the rate reduction elements of the tax bill. Withholding tables were adjusted in May 2018, following the passage of HB 487. The lower withholding amounts through the first half of FY19 support the expected annual decline in the individual income tax. Positive growth should return during the first quarter of FY20 since the tax law changes will be built into the historical data from FY19.

Sales and use tax receipts grew 8.6 percent during the first half of FY19, primarily due to the base expansion elements of HB 487. The full-year FY19 impact of the expansion of the sales tax is $208.2 million. An appropriate share of that impact was added to the forecast shown in Table 7. Beyond the addition of selective services to the tax base, another contributor to the growth in the sales tax is the October 1 implementation of sales tax collections on internet sales made possible by the U.S. Supreme Court's *Wayfair* decision. Additional taxpayer accounts surface each month as online sellers come into compliance with the new tax laws. Growth will continue into the first quarter of FY20 with a projected 4.5 percent uptick.

Property tax revenues are on pace to exceed the FY19 estimate by $9.4 million. Growth in the first half of FY19 was a robust 3.6 percent. Receipts are expected to decline 3.0 percent in the second half of FY19 due to the timing of billing and payments thus far in the annual cycle. In particular, the public service account as well as the omitted and delinquent account have overachieved thus far in FY19. Both of these accounts have shown double-digit growth through December, which historically leads to weakness in the remainder of the fiscal year. In addition, the state rate on real property remained at 12.2 cents per $100 in valuation. Many especially rural areas of the state continue to languish from the effects of the housing recession and diminished economic opportunities. Thus, the state rate has remained at 12.2 cents since valuation year 2008, an unprecedented run of 11 consecutive years without a rate decline.

The corporation income tax and the LLET are now estimated in aggregate due to the inability to separate the receipts in a meaningful manner. Business taxes were also affected by the changes in HB 487. The progressive rate structure was replaced with a flat rate of 5.0 percent, which represents a tax cut for most businesses. Rate cuts were coupled with some base broadening and an update to the IRC effective January 1, 2018 – partially mitigating the negative fiscal impact of the rate reduction. Due in part to the estimated tax law effect in FY19 of -$27.6 million, the combined amount of corporation taxes is expected to decline 2.5 percent in FY19. Year-to-date collections are down 3.7 percent. A further decline of 1.2 percent is expected for the remainder of FY19, followed by a 3.4 percent increase in the first quarter of FY20.

Coal severance receipts fell 10.8 percent in FY18 but managed to exceed the official estimate by $1.1 million. Coal severance receipts have fallen from an all-time high of $298.3 million in FY12 to an all-time low of $89.6 million in FY18. This interim estimate calls for a further decline in coal severance tax receipts of 16.5 percent in FY19, which includes a setback of 14.7 percent in the first six months of the fiscal year. The coal severance tax was unaffected by the provisions of HB 487 so no exogenous changes were applied to the forecast.

Cigarette tax receipts in FY19 have been significantly impacted by the change in the rate of taxation. HB 487 raised the tax on each pack of cigarettes from 60 cents to $1.10, with an associated tax impact of $130.0 million for FY19. A floor stocks tax of 50 cents per pack was also added to inventories to prevent hoarding prior to the July 1 tax increase. The effect of the tax increase and floor stocks tax are projected to increase receipts by 63.2 percent in FY19. Growth thus far has been 86.8 percent, but that included collections of $21.2 million for the floor stock tax that will not be present in the second half of FY19. An increase of 39.5 percent is expected during that period. The downward trend in smoking is expected to continue beyond the forecasting horizon. Therefore, the revenue total from FY19 is likely to be a high watermark for cigarette tax receipts going forward – absent any further changes to the rate of taxation.

Lottery dividends exceeded the FY18 estimate by $10.0 million, largely due to strength in the online games and solid growth in the instant ticket marketplace. As with any revenue source, unusually high growth in the base period creates a higher bar to clear for the projections in the following years. While the dividend schedule for the remainder of FY19 has not yet been released, improvement is expected vis-à-vis the official estimate of $249.0 million. Lottery collections are projected to be $257.2 million in FY19.

The “Other” category contains dozens of smaller accounts, which make up the remainder of the General Fund. Insurance premiums tax, bank franchise and telecommunications tax are the three largest accounts in the “Other” category. The “Other” category of taxes is expected to rise 0.4 percent during FY19, a rate of growth slightly under the 2.0 percent increase in FY18. Each account was re-examined after the first half of FY19 and the proper adjustments were made to calibrate the models. The “Other” accounts totaled $703.7 million in FY18. “Other” collections are estimated to be $706.5 million for FY19, which is $5.8 million greater than the official estimate.

ROAD FUND

Road Fund revenues continued to gain strength in the second quarter of FY19, growing 4.8 percent. This builds on the 3.8 percent increase in the first quarter of FY19 and is the largest quarterly increase since the third quarter of FY17 when the Road Fund grew 5.4 percent. Growth in the second quarter was largely the result of increases in motor vehicle usage tax collections but motor fuels revenues also performed well in the period.

Going forward, the rate of growth of the fund is expected to decline but it is anticipated that the Road Fund will end the year well above FY18 levels. Total revenues are projected to exceed the official forecast by $49.4 million as shown in Table 8. Motor fuels taxes grew 1.9 percent in the first half of the year and are forecasted to increase 1.6 percent over the remainder of the year, as consumption remains strong due to continued low pump prices. Motor vehicle usage tax receipts also rose in the first half, growing 5.6 percent. That rate of growth is expected to abate to 2.3 percent over the final six months of FY19 as tariffs raise the price of vehicles. Most of the remaining Road Fund accounts - motor vehicle license, weight distance, investment and "Other" receipts all posted solid growth in the first half of the fiscal year. However, forecasted values for these accounts are expected to slow from their current rates over the remainder of the year, growing at a combined rate of 1.7 percent. The forecasted FY19 total for the Road Fund is $1,556.0 million, marking the highest total since the Road Fund peaked in FY14 during an era of much higher motor fuels taxes.

Table 8
Road Fund Interim Forecast
$ millions

	FY19						FY19		FY20	
	Q1 & Q2		Q3 & Q4		Full Year		Official CFG		Q1	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	$ Diff	Estimate	% Chg
Motor Fuels	395.6	1.9	382.8	1.6	778.4	1.8	759.2	19.2	204.8	1.8
Motor Vehicle Usage	255.2	5.6	257.4	2.3	512.6	3.9	494.0	18.6	134.5	1.0
Motor Vehicle License	45.4	10.1	71.6	0.0	117.0	3.7	116.5	0.5	22.3	-6.0
Motor Vehicle Operators	8.4	-0.2	8.5	1.5	16.9	0.6	16.7	0.2	4.4	1.9
Weight Distance	42.3	2.1	41.4	2.8	83.7	2.4	82.1	1.6	21.6	1.8
Income on Investments	3.8	266.1	2.9	61.2	6.7	136.1	3.1	3.6	1.4	-26.6
Other	20.7	17.9	20.0	-5.6	40.7	5.1	35.0	5.7	11.9	0.9
Road Fund	**771.3**	**4.3**	**784.7**	**1.7**	**1,556.0**	**3.0**	**1,506.6**	**49.4**	**400.9**	**0.9**

NATIONAL OUTLOOK

The national outlook for the second half of FY19 is similar to the first half. Expect similar growth in real GDP, a small softening in employment and payrolls, and slightly higher inflation. Real GDP growth is forecasted to be 2.8 percent over the next two fiscal quarter. Continued political uncertainty, international trade concerns, and financial stress are contributing to the slowdown. Recent stock market volatility is expected to reduce consumer confidence and result in reduced consumer spending. The current forecast for real consumption expenditures for the remainder of the fiscal year is a 2.9 percent increase over the same period in the previous fiscal year.

Complicating the forecast picture is the fact that the current, underlying forecast does not include any impact of the current federal government shutdown. In 2018, legislation was passed to fund the majority of the federal government. However, seven federal government functions representing approximately 25 percent of discretionary federal outlays were funded under a Continuing Resolution, which expired on December 21, 2018. The direct impact on real GDP is estimated to be approximately $3.8 billion per week that the shutdown continues. Also the loss of the government services not produced by furloughed employees reduces the annualized level of estimated real GDP by approximately 0.03 percent per week that the shutdown continues. The indirect impact of the shutdown will depend upon the overall length of the shutdown. Affected employees would be expected to curtail current expenditures, and the financial impact to businesses of halted contracts, delayed farm payments, delayed air travel, or postponed court cases could delay commerce in the private sector. These impacts would be expected to be small and represent a shift in timing. However, a prolonged federal shutdown would result in impacts to real GDP over the remainder of the fiscal year, which are not currently accounted for in the interim forecast tables presented herein.

The current trade tensions continue to appear in the macroeconomic data. At the close of FY18, a surge in exports, especially soybeans, from the United States was observed, and the impact on net exports was an increase of $61 billion for the final quarter of FY18. However, the expectation for a shifting global supply landscape to temporarily add to GDP, as exports increased in anticipation of then promised retaliatory tariffs, was anticipated to be short-lived. In the first quarter of FY19, net exports have declined by $104 billion, and the underlying forecast assumes an average reduction of 0.1 percent per quarter from real GDP growth through calendar 2022 due to declining net exports. Additionally, the underlying forecast assumes the threatened 25 percent step-up tariff rate on $200 billion in Chinese imports will not be implemented by the Trump administration. This assumption lowers the core PCE inflation index by 0.3 percentage points for calendar 2019.

The Federal Open Market Committee (FOMC), as expected, raised the federal funds rate by 25 basis points at their December meeting to maintain a target rate of between 2.25 - 2.50 percent. However, expectations for future rate increases have been lowered due to the increased risks to the economy outlined by the FOMC policymakers. These risks include uncertain trade policy, financial market volatility, and a slower pace in global growth. Thus, the current forecast assumes that the FOMC will moderate the pace of their rate increases to only two increases in calendar 2019 and one increase in calendar 2020. The yield on two- and ten-year Treasury issuances have decreased by 50 basis points since November, as investor sentiment and federal deficits have contributed to declining term yields. Over the near term, the Treasury yield curve will continue to flatten, as short- and intermediate-term rates rise by more than long-term rates, and the equity markets may continue to falter if the Treasury yield curve shows signs of inverting, as was observed in December.

KENTUCKY OUTLOOK

The Commonwealth's economic outlook reflects a positive trajectory for the remaining two quarters of FY19. As observed in preceding quarters, the upswing in Kentuckians' personal income is poised to continue its recent run of robust growth over the forecast horizon, growing to 5.0 percent by the first quarter of FY20. Holding pace with personal income, the wages and salaries component expects growth of 4.1 percent in the third and fourth quarters of FY19 compared to the same periods in the prior year. Looking ahead, wages and salaries are expected to increase 4.4 percent in the first quarter of FY20. The continued rise in personal income, in combination with low unemployment, indicates the recent trend of economic stability will persist into the new fiscal year. Kentucky's seasonally-adjusted unemployment rate had a subtle uptick, but remained low at 4.5 percent according to the Bureau of Labor Statistics' November 2018 report.

In contrast to the robust growth in Kentuckians' personal income, total employment continues to experience depressed growth overall. Shifting focus towards the sectoral analysis, non-farm employment is expected to rise by an additional 19,600 jobs over the next three quarters. Employment gains are reflected in each of the three sectors, and 10 of the 11 supersectors.

In terms of nominal jobs, the construction and manufacturing supersectors are expected to increase over the next three quarters. The employment surge in construction trade and manufacturing industry continue to be a persistent trend in the economic outlook. Construction employment is expected to increase 1.0 percent for the final two quarters of FY19, while manufacturing employment is anticipated to rise 1.5 percent. The first quarter of FY20 calls for increased growth of 2.3 and 2.7 percent, respectively. Despite the recent economic challenges created by trade tariffs, climbing interest rates, and cyclical downturns in the market, forward looking indicators in Kentucky's outlook suggest future quarters of economic expansion.

In its entirety, the service-providing sector is anticipated to close the final two quarters of FY19 and enter FY20 with growth of 1.5 percent. The majority of the slight momentum is expected to be gained in the business services supersector. Growth of 2.6 percent is anticipated for the third and fourth quarters of FY19, an increase of an additional 5,500 jobs to close out the fiscal year. Looking ahead, stronger growth of 3.2 percent is anticipated in the first quarter of FY20 for the supersector.

Table 9
US Economic Outlook
FY19 Q3 & Q4, FY20 Q1

	Q3 & Q4			Full Year		Q1	
	FY19	FY18	% Chg	FY19	% Chg	FY20	% Chg
Real GDP	18,932.9	18,417.8	2.8	18,831.2	2.9	19,107.2	2.3
Real Consumption	13,152.6	12,782.4	2.9	13,077.6	2.9	13,279.2	2.5
Real Investment	3,473.3	3,318.9	4.7	3,459.0	5.4	3,525.2	2.6
Real Govt. Expenditures	3,258.5	3,162.0	3.1	3,233.0	2.7	3,278.4	2.7
Real Exports	2,615.2	2,546.0	2.7	2,584.5	2.9	2,668.3	4.8
Real Imports	3,608.6	3,417.7	5.6	3,561.4	5.3	3,691.7	5.7
CPI all goods (% chg)	2.0	2.4	NA	2.2	NA	2.1	NA
CPI Food (% chg)	1.3	1.4	NA	1.3	NA	1.5	NA
CPI Energy (% chg)	2.4	8.5	NA	4.5	NA	2.0	NA
CPI Core (% chg)	2.1	2.1	NA	2.2	NA	2.2	NA
Industrial Production Index (% chg)	3.6	3.4	NA	4.1	NA	2.5	NA
Unemployment Rate (%)	3.5	4.0	NA	3.6	NA	3.5	-8.4

Table 10
Kentucky Economic Outlook
FY19 Q3 & Q4, FY20 Q1

	Q3 & Q4			Full Year		Q1	
	FY19	FY18	% Chg	FY19	% Chg	FY20	% Chg
Personal Income ($ millions)	193,923.6	185,601.0	4.5	191,505.7	4.0	197,194.8	5.0
Wages and Salaries ($ millions)	95,761.9	91,960.1	4.1	94,714.0	3.7	97,176.9	4.4
Non-farm Employment (thousands)	1,952.3	1,927.8	1.3	1,945.4	1.1	1,962.2	1.4
Goods-producing	341.3	336.6	1.4	339.2	0.8	344.2	2.5
Construction	77.2	76.5	1.0	76.8	0.1	77.8	2.3
Mining	10.5	10.4	0.9	10.4	0.9	10.5	0.6
Manufacturing	253.6	249.7	1.5	251.9	1.0	255.9	2.7
Service-providing	1,295.0	1,276.1	1.5	1,290.3	1.3	1,301.8	1.5
Trade, Transportation & Utilities	415.9	410.0	1.4	415.0	1.9	416.6	0.8
Information	22.4	22.3	0.7	22.4	-0.3	22.5	0.7
Finance	94.9	93.4	1.7	94.7	1.7	95.6	1.4
Business Services	220.9	215.4	2.6	219.5	2.1	224.4	3.2
Educational Services	275.5	271.8	1.4	274.5	0.8	276.5	1.3
Leisure and Hospitality Services	198.2	196.0	1.1	197.1	0.3	199.0	1.9
Other Services	67.2	67.3	-0.1	67.1	0.5	67.1	0.1
Government	316.0	315.1	0.3	316.0	0.2	316.3	0.1

APPENDIX

General Fund and Road Fund Revenue Receipts

Second Quarter FY19

KENTUCKY STATE GOVERNMENT – GENERAL FUND REVENUE

	Second Quarter FY 2019	Second Quarter FY 2018	% Change	Year-To-Date FY 2019	Year-To-Date FY 2018	% Change
TOTAL GENERAL FUND	**$2,929,696,069**	**$2,846,323,741**	**2.9%**	**$5,597,125,965**	**$5,399,886,462**	**3.7%**
Tax Receipts	$2,813,863,128	$2,737,102,791	2.8%	$5,401,989,132	$5,217,860,739	3.5%
Sales and Gross Receipts	$1,147,087,466	$1,025,447,079	11.9%	$2,326,708,121	$2,080,476,954	11.8%
Beer Consumption	1,585,478	1,477,323	7.3%	3,331,119	3,256,894	2.3%
Beer Wholesale	13,672,616	14,306,460	-4.4%	29,958,792	31,410,893	-4.6%
Cigarette	86,282,818	51,028,906	69.1%	177,046,940	106,136,572	66.8%
Distilled Spirits Case Sales	41,349	40,219	2.8%	75,093	78,368	-4.2%
Distilled Spirits Consumptioı	3,191,986	3,656,338	-12.7%	6,856,358	7,199,009	-4.8%
Distilled Spirits Wholesale	11,110,489	11,964,408	-7.1%	22,716,271	22,786,787	-0.3%
Insurance Premium	17,859,403	10,291,977	73.5%	47,974,163	46,259,472	3.7%
Pari-Mutuel	3,331,935	1,583,233	110.5%	4,817,967	2,813,108	71.3%
Race Track Admission	66,937	59,090	13.3%	153,276	158,150	-3.1%
Sales and Use	986,139,225	904,693,442	9.0%	1,963,470,838	1,807,657,375	8.6%
Wine Consumption	687,010	799,473	-14.1%	1,456,562	1,544,357	-5.7%
Wine Wholesale	3,937,649	4,498,430	-12.5%	7,987,514	8,568,766	-6.8%
Telecommunications Tax	13,885,757	15,608,306	-11.0%	28,289,586	31,383,438	-9.9%
Other Tobacco Products	5,264,421	5,439,423	-3.2%	11,383,704	11,224,697	1.4%
Floor Stock Tax	30,394	51	59021.3%	21,189,939	(931)	---
License and Privilege	**$259,193**	**$1,758,607**	**-85.3%**	**($82,538)**	**$1,392,094**	**-105.9%**
Alc. Bev. License Suspensic	69,007	141,517	-51.2%	180,257	275,367	-34.5%
Corporation License	1,787	1,190	50.2%	46,443	12,086	---
Corporation Organization	97,535	5,265	1752.5%	107,040	17,640	506.8%
Occupational Licenses	24,694	30,715	-19.6%	55,714	67,581	-17.6%
Race Track License	123,375	128,975	-4.3%	218,375	229,050	-4.7%
Bank Franchise Tax	(243,642)	1,290,376	---	(1,048,868)	445,647	---
Driver License Fees	186,438	160,569	16.1%	358,500	344,722	4.0%
Natural Resources	**$29,363,057**	**$30,561,613**	**-3.9%**	**$58,621,364**	**$64,251,281**	**-8.8%**
Coal Severance	19,804,862	21,339,818	-7.2%	39,759,234	46,627,466	-14.7%
Oil Production	1,449,045	1,269,783	14.1%	3,176,467	2,418,239	31.4%
Minerals Severance	5,819,491	5,409,136	7.6%	10,823,568	10,946,731	-1.1%
Natural Gas Severance	2,289,660	2,542,877	-10.0%	4,862,096	4,258,845	14.2%
Income	**$1,240,577,990**	**$1,296,824,941**	**-4.3%**	**$2,551,304,330**	**$2,617,232,413**	**-2.5%**
Corporation	143,021,515	121,721,637	17.5%	288,837,756	275,358,104	4.9%
Individual	1,068,370,921	1,112,822,132	-4.0%	2,184,309,370	2,236,125,976	-2.3%
Limited Liability Entity	29,185,554	62,281,172	-53.1%	78,157,203	105,748,333	-26.1%
Property	**$382,241,236**	**$362,166,608**	**5.5%**	**$430,814,983**	**$415,819,563**	**3.6%**
Building & Loan Association	0	(801)	---	257,579	9,883	2506.3%
General - Real	216,152,140	210,124,835	2.9%	216,206,484	209,401,905	3.2%
General - Tangible	115,136,668	116,355,622	-1.0%	147,968,382	149,063,034	-0.7%
Omitted & Delinquent	7,587,326	4,403,168	72.3%	12,531,258	9,206,025	36.1%
Public Service	42,360,667	30,230,164	40.1%	52,842,357	47,078,792	12.2%
Other	1,004,435	1,053,620	-4.7%	1,008,924	1,059,924	-4.8%
Inheritance Tax	**$10,989,006**	**$14,341,079**	**-23.4%**	**$24,583,900**	**$26,996,075**	**-8.9%**
Miscellaneous	**$3,345,179**	**$6,002,864**	**-44.3%**	**$10,038,972**	**$11,692,359**	**-14.1%**
Legal Process	2,375,182	3,194,710	-25.7%	6,433,279	6,376,670	0.9%
T. V. A. In Lieu Payments	969,997	2,821,593	-65.6%	3,601,898	5,311,809	-32.2%
Other	0	(13,439)	---	3,795	3,880	-2.2%
Nontax Receipts	**$114,133,353**	**$107,078,218**	**6.6%**	**$192,726,009**	**$179,834,612**	**7.2%**
Departmental Fees	2,733,581	4,425,420	-38.2%	6,383,518	7,719,554	-17.3%
PSC Assessment Fee	450,441	12,854	3404.2%	16,139,609	15,825,437	2.0%
Fines & Forfeitures	3,996,107	4,185,745	-4.5%	10,390,207	8,608,772	20.7%
Income on Investments	(4,493,694)	(2,106,873)	---	(5,938,568)	(3,243,422)	---
Lottery	66,146,017	61,500,000	7.6%	122,646,017	116,500,000	5.3%
Miscellaneous	45,300,900	39,061,071	16.0%	43,105,226	34,424,269	25.2%
Redeposit of State Fund	**$1,699,588**	**$2,142,733**	**-20.7%**	**$2,410,824**	**$2,191,112**	**10.0%**

KENTUCKY STATE GOVERNMENT
ROAD FUND REVENUE

	Second Quarter FY 2019	Second Quarter FY 2018	% Change	Year-To-Date FY 2019	Year-To-Date FY 2018	% Change
TOTAL ROAD FUND	$374,033,793	$356,887,658	4.8%	$771,318,586	$739,514,013	4.3%
Tax Receipts-	$365,695,722	$350,494,592	4.3%	$755,049,395	$728,162,931	3.7%
Sales and Gross Receip	$316,456,720	$304,171,861	4.0%	$650,759,004	$629,845,594	3.3%
Motor Fuels Taxes	194,417,348	189,524,180	2.6%	395,593,938	$388,290,442	1.9%
Motor Vehicle Usage	122,039,371	114,647,681	6.4%	255,165,067	$241,555,152	5.6%
License and Privilege	$49,239,002	$46,322,731	6.3%	$104,290,391	$98,317,337	6.1%
Motor Vehicles	21,712,323	20,327,903	6.8%	45,438,693	$41,287,821	10.1%
Motor Vehicle Operators	4,041,243	4,080,229	-1.0%	8,368,429	$8,384,931	-0.2%
Weight Distance	21,058,823	20,614,759	2.2%	42,285,050	$41,432,813	2.1%
Truck Decal Fees	10,927	8,767	24.6%	27,665	$25,360	9.1%
Other Special Fees	2,415,687	1,291,073	87.1%	8,170,554	$7,186,412	13.7%
Nontax Receipts	$7,626,377	$6,065,378	25.7%	$15,285,829	$10,744,595	42.3%
Departmental Fees	4,684,971	5,282,138	-11.3%	9,487,598	$8,792,318	7.9%
In Lieu of Traffic Fines	87,470	81,046	7.9%	180,103	$168,896	6.6%
Income on Investments	1,892,143	126,071	---	3,799,232	$1,037,731	---
Miscellaneous	961,793	576,123	66.9%	1,818,896	$745,650	143.9%
Redeposit of State Fund	$711,695	$327,688	117.2%	$983,362	$606,488	62.1%

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 laborforce 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 laborforce 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.
Data for FY19 Q2 are December 2018 estimates.
Source: IHS Markit - Economics & Country Risk, December 10, 2018 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 4
Not Seasonally Adjusted. Data for FY19 Q2 are December 2018 estimates.
Source: IHS Markit - Economics & Country Risk, December 10, 2018 data release.

Table 6
Not Seasonally Adjusted. Data for FY19 Q2 are December 2018 estimates.
Source: IHS Markit - Economics & Country Risk, December 10, 2018 data release.

Table 9
Not Seasonally Adjusted. Real series are annual rate, billions of chained 2000 dollars.
Components do not sum to GDP because they are annualized independently.
Source: IHS Markit - Economics & Country Risk, December 10, 2018 data release.

Table 10
Not Seasonally Adjusted.
Source: IHS Global Insight, Inc. and the Kentucky Governor's Office for Economic Analysis
MAK model, December 2018.