Commonwealth of Kentucky

Quarterly Economic & Review Report

First Quarter Fiscal Year

2021

Mammoth Cave National Park - Kentucky

Governor's Office for Economic Analysis

Office of State Budget Director

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

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

Andy Beshear
Governor

John T. Hicks
State Budget Director

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

November 4, 2020

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

Ms. Laurie Dudgeon
Director
Administrative Office of the Courts
1001 Vandalay Drive
Frankfort, Kentucky 40601

Dear Governor Beshear, Mr. Hartz and Ms. Dudgeon:

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. To that end, OSBD submits this *Quarterly Economic and Revenue Report* for FY21 to the three branches of government.

This report includes a revenue forecast for FY21 for the General and Road funds. The report also provides updates on the national and Kentucky economic landscapes.

The national economic forecast provided by IHS Markit that is used within this report assumes a continuation of several federal relief programs which have subsequently expired creating further uncertainty in that economic forecast. To accommodate the overstatements of economic activity that assumption entails, the revenue forecast included in this report uses HIS Markit's pessimistic scenario.

The revenue estimates in this Quarterly Report reveal an estimated FY21 General Fund revenue shortfall of $99.0 million compared to the enacted revenue estimate of $11,603.1 million. The unofficial General Fund estimate is $11,504.1 million, representing a 0.5 percent decline from the FY20 annual total. The Road Fund outlook has improved. The unofficial estimate of $1,552.7 million implies a $9.3 million revenue overage compared to the enacted estimate of $1,543.4 million.

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

Sincerely,

John T. Hicks
State Budget Director

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EXECUTIVE SUMMARY

In accordance with KRS 48.400(2), the Office of State Budget Director (OSBD) is directed to continuously monitor the financial situation of the Commonwealth. To that end, OSBD submits this *Quarterly Economic and Revenue Report* for the first quarter of fiscal year 2021 (FY21). This report includes the actual revenue receipts for the first quarter and an unofficial forecast for FY21. The report also provides updates on the national and Kentucky economic landscapes.

Due to the continued impact of the coronavirus, the level of uncertainty in the economy and revenue picture remains heightened. The national economic forecast provided by IHS Markit for September includes several scenarios. IHS Markit's control scenario assumes a significant pre-election day federal relief package, including a second round of payments to households and Paycheck Protection Program benefits to businesses, as well as an additional $300 a week in unemployment benefits. Based on consistent news reporting of the low likelihood of a near-term relief package, this report uses the pessimistic scenario as a proxy economic forecast.

All of IHS Markit's economic forecasts assume a vaccine becomes distributable in mid-2021. The pessimistic scenario assumes an upturn in cases from the July peaks, as recent reports have reflected. The increase in infection cases would hinder the pace of businesses reopening, making households less confident about resuming familiar spending patterns, and greatly slowing the recovery of consumer spending and investment. The delay in further federal relief pushes the "fiscal ledge" back to early 2021. From March through July, Kentucky received over $14 billion in payments from the federal government to individual and businesses. The vast majority of those payment programs have expired.

Projected FY21 General Fund Revenue Shortfall – $99.0 million

The unofficial General Fund revenue estimate for FY21 is projected to be $11,504.1 million, a decline of 0.5 percent from FY20 and would result in a $99.0 million revenue shortfall. This figure computes to a 0.9 percent revenue shortfall compared to the enacted estimate of $11,603.1 million. General Fund revenues in the final quarter of FY20 declined by only 4.5 percent but bounced back to grow by 5.8 percent in the first three months of FY21 buoyed by the billions in federal government payments to individuals and businesses.

Nearly 77.6 percent of projected General Fund revenues are attributable to two tax accounts – individual income and the sales tax. Slight growth is expected in these two revenue sources. Individual income taxes are estimated to increase by 1.4 percent while the sales tax will inch ahead by 0.8 percent. The remainder of the General Fund revenue sources are projected to decline a collective 5.8 percent in FY21. Total General Fund receipts are estimated to fall 0.5 percent in FY21.

Projected FY21 Road Fund Revenue Surplus – $9.3 million

The FY21 Road Fund revenues are forecasted to be $1,552.7 million, an increase of 4.1 percent from FY20 with a revenue surplus of $9.3 million compared to the enacted estimate of $1,543.4 million.

Road Fund revenue bounced back in the first quarter of FY21 after a steep decline in the final three months of FY20 and the outlook for the remainder of the year is for growth in revenues. Total Road Fund revenues are expected to be 4.1 percent higher for the year. Motor fuels are forecasted to rise 1.9 percent in FY21 while motor vehicle usage tax collections are forecasted to grow 9.5 percent. Both of the major Road Fund taxes are expected to rise sharply in the fourth quarter of FY21 compared to April-June 2020 period by returning to their pre-coronavirus levels. Fourth quarter of FY21 revenues will be compared to the fourth quarter of FY20, where usage was down 27.8 percent and motor fuels taxes were down 19.0 percent. Under the current outlook, revenues would exceed the enacted estimate by $9.3 million. The revenue overage is largely the result of the improved motor vehicle usage tax receipt estimate which has been increased by $51.9 million compared to the enacted estimate.

Motor fuels collections are expected to fall short of the official estimate by $30.8 million. The remaining accounts would all be lower than the enacted estimates and would net out to an $11.8 million reduction compared to the official estimate.

FY21 First Quarter Revenues

First quarter General Fund receipts rose as five of the eight major revenue categories increased. Revenues increased 5.8 percent in the initial quarter of the fiscal year with collections of $2,854.3 million compared to $2,697.3 million in the first quarter of FY20. The July through September months coincided with continued federal relief payments and a re-opening of economic activity, including purchases that were deferred from the fourth quarter of FY20. It is difficult to separate out the various effects. The official General Fund revenue estimate for FY21 calls for collections to grow 0.3 percent compared to FY20 actual receipts. Given the year-to-date revenue situation, General Fund receipts can fall 1.4 percent for the remainder of the fiscal year and still meet the official estimate.

Total Road Fund receipts rebounded in the first quarter of the fiscal year following a dismal fourth quarter in FY20. Collections increased 1.9 percent in first quarter FY21 after falling 23.6 percent in the prior three months due to the effects of the novel coronavirus. Collections were aided by vehicle sales which would normally have occurred last fiscal year but were delayed due to shutdowns caused by the novel coronavirus as well as revenue that was due in FY20 but collected this fiscal year, primarily motor vehicle and operators licenses.

First quarter collections exceeded last year's total by $7.8 million caused primarily by a $17.1 million increase in motor vehicle usage tax receipts. This was offset by a $10.7 million decline in the motor fuels tax. The official Road Fund revenue estimate calls for a 3.5 percent increase in revenues for the year over the FY20 actual receipts. Based on year-to-date tax collections, revenues must increase 4.0 percent for the remainder of FY21 to meet the estimate

Summary of Major Economic Factors

Real GDP is expected to drop 6.6 percent during the next three quarters. The quarterly numbers show sharper rates of decline early in the fiscal year with modest growth in the fourth fiscal quarter of FY21. Among the elements that comprise real GDP, real consumption is expected to fall the most in absolute terms, losing a staggering $818.1 billion, a 6.4 percent decline in the final three quarters of FY21 compared to the same period in the year prior. Real investment is poised to fall the fastest in percentage terms among the five components of real GDP, losing $380.3 billion or 11.9 percent over the final three quarters of FY21. Real exports and real imports are both forecasted to contract sharply, with exports falling 11.6 percent and real imports falling 9.6 percent over the next three quarters as lower incomes affect both export and import demands.

Kentucky non-farm employment is anticipated to contract by 7.6 percent in FY21. During the final three quarters of FY21, Kentucky is projected to lose an additional 117,100 non-farm workers. Kentucky personal income is expected to fall 3.0 percent while wages and salaries are expected to decline 4.2 percent over the final three quarters of FY21. Throughout the course of FY21, Kentucky personal income is expected to decline by 1.8 percent, slightly outperforming the US personal income decline of 3.0 percent. The expected decline in personal income is due in large part to a large decrease in wages and salaries and proprietors' income relative to the same three quarter period in FY20.

Real GDP fell by 3.7 percent in the first quarter of FY21. However, on an adjacent-quarter basis, real GDP rose by 6.7 percent in the first quarter of FY21. US personal income rose by 5.0 percent in the first quarter of FY21. The majority of this increase occurred in the fourth quarter of FY20, when transfer receipts income rose substantially as a result of stimulus legislation. Transfer receipts income rose by just over $2.6 trillion in the fourth quarter of FY20, a 75.8 percent increase over the third quarter of FY20. US non-farm employment fell by 6.9 percent in the first quarter of FY21. Job losses occurred across all 11 supersectors.

Kentucky personal income rose by 5.6 percent in the first quarter of FY21. This reflects the high transfer receipts income growth from the fourth quarter of FY20. Kentucky transfer receipts income rose by $38.1 billion alone in the fourth quarter of FY20. Kentucky non-farm employment fell by 7.9 percent in the first quarter of FY21. The majority of these losses occurred in the fourth quarter of FY20. These declines occurred in all 11 supersectors. On an adjacent-quarter basis, non-farm employment rose by 6.6 percent in the first quarter of FY21 relative to the fourth quarter of FY20.

REVENUE & ECONOMIC OUTLOOK

GENERAL FUND

The Interim Outlook represents unofficial staff estimates prepared pursuant to KRS 48.400(2). Forecasted revenues presented in Table 1 were projected using the September 2020 "pessimistic scenario" economic forecast from both IHS Markit and the Kentucky MAK model as the primary inputs. In addition, the revenue estimates incorporate various tax law changes enacted during the 2018, 2019, and 2020 Regular Sessions of the General Assembly. The September pessimistic scenario was selected for two reasons. The "control" forecast included federal fiscal stimulus that is unlikely to occur during the fall months. Second, the control scenario assumed COVID-19 cases were peaking in late August, an assumption that has proven false. In contrast, the September pessimistic scenario assumes a resurgence of new cases into the fall months, which pushes any robust economic recovery back to calendar year 2021. The pessimistic scenario pattern of new COVID-19 activity seems to be more congruous with what has occurred since the forecast was prepared in late August, so it was selected as the foundation of this interim outlook.

For FY20, General Fund receipts totaled $11,566.6 million, which is a 1.5 percent increase over FY19 collections. The FY20 General Fund total exceeded the budget estimates enacted in April 2020 by $104.6 million. Many other states saw similar results as forecasts rendered in May of 2020 have proven too pessimistic. Revenues came in stronger than anticipated in the fourth quarter of FY20, partially due to federal fiscal policy measures that helped stabilize disposable income. The higher disposable income resulted in increased spending on taxable goods in Kentucky. As a result, FY20 tax receipts were bolstered. Withholding was also improved due to a historical increase in taxable unemployment insurance (UI) benefits.

The current official estimate for FY21 is the enacted projection of $11,603.1 million, which is 0.3 percent greater than actual FY20 General Fund collections. Projected General Fund revenues are displayed in Table 1. This unofficial, interim outlook calls for a 0.5 percent decline in General Fund revenues for FY21. Expected collections of $11,504.1 million would be $99.0 million below the FY21 enacted estimate of $11,603.1 million.

Nearly 77.6 percent of projected General Fund revenues are attributable to two tax accounts – individual income and the sales tax. In FY20, both taxes grew on an annual basis. The individual income tax rose 4.9 percent while the sales and use tax grew 3.4 percent. Growth is expected again in these two revenue sources, albeit at much slower rates. Individual income taxes are expected to increase by 1.4 percent while the sales tax will inch ahead by 0.8 percent. The remainder of the General Fund revenue sources are projected to decline a collective 5.8 percent. Total General Fund receipts, therefore, are expected to fall 0.5 percent in FY21.

Individual income receipts are projected to rise 1.4 percent in FY21. Individual income tax receipts rose 4.5 percent in the first quarter and are expected to rise 0.4 percent during the remaining three quarters of FY21. The individual income tax is composed of four parts: withholding, declaration payments, net returns, and fiduciary. Withholding is by far the largest component, making up over 90 percent of the total individual income tax. The withholding component is expected to increase 3.9 percent for FY21 in total despite a projected 6.0 percent forecasted decline in Kentucky wages and salaries for the fiscal year. Declarations are made by some individual income tax filers based on their expected tax liability for tax year 2020. This component of the individual income tax is forecasted to decline by 4.8 percent due to lower expected tax liabilities. Net returns are the combination of pay returns less refunds, with the sum being historically a negative number. Net returns are also projected to worsen in FY21, partially due to anticipated refunds on taxable unemployment insurance benefits that were subject to withholding in calendar year 2020. The final component, fiduciary payments, are a very small revenue source that is expected to rise in FY21 due to historically low collections in FY20.

Sales and use tax receipts increased 3.4 percent during FY20, but the fourth quarter declined by 5.9 percent due to the pandemic. The first quarter of FY21 rebounded nicely with 7.0 percent growth. Modest declines are expected in the second and third fiscal quarters followed by growth in the fourth quarter as the economy expands. Slower growth in the middle part of the year is expected to predominate as FY21 collections are expected to increase just 0.8 percent following a 7.0 percent surge in the first quarter and predicted growth in the fourth quarter. Recent data reveal changes in consumer spending habits during the pandemic. During the month of September, advancing sectors include online sales, building materials and hardware, general household merchandise, and sporting goods/hobbies/book stores. Laggard sectors were hotels, amusement/gambling/recreation, movie theaters, performing arts, and dry cleaning/laundry services.

Corporation taxes fell 16.2 percent in FY20, the largest annual decline since the Great Recession. The share of total General Fund revenues derived from the corporation income tax and the Limited Liability Entity Tax (LLET) dropped to 5.5 percent in FY20. The corporation income tax and the LLET are now reported and estimated in combination due to the inability to separate the receipts in a meaningful manner. Corporate and LLET combined are expected to decline another 21.1 percent in the forecast for FY21. The steep rate of decline in the forecast is a continuation of weak receipts seen in FY20. In the case of business taxes, the tax law changes from 2018 and 2019 have had a profound impact on collections even before the onset of the pandemic. The effects of tax law changes have led to larger declines than would be predicted based on the forecasted pattern of corporate profits.

Despite real property tax growth of 3.5 percent, aggregate property tax revenues dropped 0.6 percent in FY20 and fell short of the enacted estimate by $14.1 million. Several of the accounts within the aggregate property tax receipts failed to meet expectations, especially motor vehicle property taxes and omitted and delinquent tangible. These tax accounts were negatively influenced by collection efforts due to the pandemic. Growth is expected to increase slightly to 1.6 percent in the forecast for FY21 due primarily to continued strength in the real property tax and the catch-up in motor vehicle property taxes. The largest declining account in the property tax category is the tangible property tax with an expected fall of 6.6 percent in FY21. Many businesses that pay the tangible property tax have sought reductions in valuations due to a reduction of commercial activity seen during the pandemic.

Lottery dividends totaled $271.4 million in FY20. While some games have fallen off sharply, the federal stimulus money is believed to have injected consumers with disposable income. The FY21 estimate of $277.0 million remains equal to the enacted estimate of $277.0 million due to strong growth in scratch-off sales and modest advancements in the draw games.

Cigarette tax receipts in FY19 and FY20 were significantly impacted by the change in the rate of taxation from 60 cents per pack to $1.10, effective July 1, 2018. Despite the tax increase, cigarette consumption has been sustained. In fact, collections in FY20 exceeded the level in FY19, bucking the national trend of declining cigarette consumption. The forecast for FY21 calls for a 3.0 percent decline in cigarette tax revenues. Receipts in the first quarter of FY21 fell by 3.3 percent. Since the rate of taxation will remain the same in FY21 as it was in FY19 and FY20, variations in cigarette tax receipts will be based solely on the volume of cigarette tax stamps sold to wholesalers and registered stamping agents. The forecast calls for a 3.0 percent reduction in stamp purchases in FY21. The decline in expected nominal stamps sold is less than the national rate of decline in packs sold, which has been running between 5.0 percent and 6.0 percent per year.

Coal severance tax receipts dropped sharply in FY20, declining by 36.7 percent to $58.8 million. First quarter receipts in the coal severance tax revealed a 31.1 percent decline. The FY21 forecast in its entirety calls for another steep annual decline of 20.4 percent to a level of $46.9 million. If achieved, FY21 coal severance tax receipts will be $2.3 million higher than the enacted estimate of $44.6 million.

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" accounts totaled $763.1 million in FY20, a sum $5.4 million higher than the enacted estimate for the fiscal year. Each account was re-examined and the resulting forecast for FY21 sums to $745.4 million compared to an enacted estimate of $767.4 million. Appropriate adjustments were made to calibrate the models for effects from the coronavirus pandemic. Some accounts, like the telecommunications tax, seem to thrive as healthy-at-home initiatives have led to an increase in the purchase of video streaming and other taxable telecommunications services. Other accounts, like court fees and the pari-mutuel tax, will continue to be disrupted by the reduced hours of operation or limited patronage for the coming months.

Table 1
General Fund Interim Forecast
$ millions

	FY21						FY21	
	Q1		Q2, Q3, & Q4		Full Year		Official CFG	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	$ Diff
Individual Income	1,184.7	4.5	3,645.0	0.4	4,829.7	1.4	4,770.9	58.8
Sales & Use	1,127.1	7.0	2,975.8	-1.4	4,102.9	0.8	4,190.5	-87.6
Corp. Inc. & LLET	165.1	-5.3	339.5	-27.0	504.6	-21.1	545.9	-41.3
Property	54.1	23.5	599.3	0.0	653.4	1.6	671.7	-18.3
Lottery	60.5	3.4	216.5	1.7	277.0	2.1	277.0	0.0
Cigarettes	87.9	-3.3	256.4	-2.9	344.3	-3.0	335.2	9.1
Coal Severance	12.1	-31.1	34.7	-15.8	46.8	-20.4	44.6	2.3
Other	162.8	30.1	582.6	-8.7	745.4	-2.3	767.4	-22.0
General Fund	**2,854.3**	**5.8**	**8,649.8**	**-2.5**	**11,504.1**	**-0.5**	**11,603.1**	**-99.0**

ROAD FUND

Road Fund revenue bounced back in the first quarter of FY21 after a steep decline in the final three months of FY20 and the outlook for the remainder of the year is for growth in revenues. There are three factors that will contribute to the increase in Road Fund collections. First, some revenue that was due in FY20 has, or will be, collected this fiscal year. Second, some economic activity that normally would have occurred in FY20 was postponed due to shutdowns or disruptions caused by the pandemic and will be realized this year. These impacts are present in the first quarter receipts; however, it is possible these impacts will also be seen in future quarters. The final reason we will see an elevated growth rate over the final three quarters of the year is because of the low level of collections in the fourth quarter of FY20 which will naturally make the rate of growth seem higher than normal.

Total Road Fund collections in the first quarter of FY21 rose 1.9 percent after falling 23.6 percent in the fourth quarter of FY20. Motor vehicle usage tax collections grew 12.1 percent in the first three months of the year. The strength of the usage tax receipts were enough to overcome a 5.3 percent decline in motor fuels collections. The remaining accounts combined to increase 2.5 percent.

Going forward, total Road Fund collections are expected to increase 4.9 percent over the final three quarters of FY21, ending the year 4.1 percent over the prior year. Motor fuels taxes are forecasted to increase 4.6 percent over the last nine months of the year after falling 19.0 percent in the final quarter of FY 20 and 5.3 percent in first quarter FY21. This will enable motor fuels collections to finish the year up 1.9 percent over FY20 revenues. Motor vehicle usage taxes rose 12.1 percent in the first quarter and the growth is expected to continue for the remainder of the year. The forecasted growth, while not as strong as what we saw in Q1, arises from two sources; an increase in projected vehicle sales and the low level of collections received in the fourth quarter last year. Growth in the final three quarters is set at 8.5 percent, ending the year up 9.5 percent. Motor vehicle license receipts ended first quarter of FY21 up 24.7 percent and are forecasted to grow 5.1 percent for the remainder of the fiscal year. First quarter motor vehicle operator's collections were aided by an influx of FY20 revenue and are expected to grow 21.4 percent for the rest of FY21. Weight distance tax collections are one of four categories to fall in the first quarter and is forecasted to decline in quarters two through four. Collections fell 12.0 percent in first quarter of FY21 and are expected to decline 3.9 percent for the remainder of the year. The other two accounts are income on investments and "other" receipts.

Based on this forecast, revenues would exceed the enacted estimate by $9.3 million. The overage is largely the result of the improved motor fuels estimate which has been increased by $51.9 million compared to the enacted estimate. Motor fuels collections have been revised lower to the tune of $30.8 million. The remaining accounts combined are expected to be lower than the enacted estimates by $11.8 million reduction with the largest being $4.1 million.

Table 2
Road Fund Interim Forecast
$ millions

	FY21						FY21	
	Q1		Q2, Q3, & Q4		Full Year		Official CFG	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	$ Diff
Motor Fuels	192.1	-5.3	563.7	4.6	755.8	1.9	786.6	-30.8
Motor Vehicle Usage	158.0	12.1	388.7	8.5	546.7	9.5	494.8	51.9
Motor Vehicle License	25.7	24.7	92.5	5.1	118.2	8.8	118.8	-0.6
Motor Vehicle Operators	5.3	26.1	10.6	21.4	15.9	23.0	18.3	-2.4
Weight Distance	18.9	-12.0	59.5	-3.9	78.4	-6.0	81.2	-2.8
Income on Investments	0.2	-88.9	0.3	-93.6	0.5	-92.5	2.4	-1.9
Other	9.3	-8.3	27.9	-3.4	37.2	-4.7	41.3	-4.1
Road Fund	**409.4**	**1.9**	**1,143.3**	**4.9**	**1,552.7**	**4.1**	**1,543.4**	**9.3**

NATIONAL OUTLOOK

The IHS Markit forecasts considered for the first quarter quarterly report for FY21 underscore the difficulty of pegging future movements of the national economy during these unique times. A significant degree of uncertainty looms over the forecast horizon as economic outcomes are strongly influenced by federal fiscal relief measures, as well as the rate of coronavirus cases and deaths. The pessimistic forecast, which will be the basis of this quarterly report, is heavily based upon a belief that some of the recent economic improvements will not generate a firmer recovery until a vaccine becomes available by mid-calendar year 2021. It also assumes a resurgence in new coronavirus cases will occur in the fall months, an assumption that has already been met in most states including Kentucky.

The IHS Markit forecast scenarios assume legislation extending emergency unemployment benefits of $300 per week from September through December, a second round of stimulus checks to households to be dispersed as early as October, and another round of the Paycheck Protection Program. At the time of this report, however, no federal relief package has been agreed to; therefore, the timing and likelihood of the assumed additional fiscal policy adds complexity to the forecasting.

Early in the pandemic's course, federal fiscal spending and quantitative easing led to a noticeable bump in the economy. Payroll tax delays, assistance to state and local governments for just additional costs responding to the virus, and temporary Census hiring contributed to the bump. However, fiscal policy can only be a temporary fix to an economic downturn, as pressures will continue to mount in response to the increase of national debt. A holding pattern has formed, since the easy gains related to inventory corrections, federal fiscal policy, and quantitative easing have already occurred. Amid a surging number of new coronavirus cases, the focus must shift to the resolution of three very critical issues: the path of the consumer, the path of corporations, and foreign demand for US exports.

The ongoing threat of sporadic regional outbreaks of the coronavirus will continue to hinder the pace of businesses reopening and keep consumers from resuming previous spending habits, thereby greatly slowing the recovery in consumer spending and business investment. Real GDP is expected to drop 6.6 percent during the next three quarters. The quarterly numbers show sharper rates of decline early in the fiscal year with modest growth in the fourth fiscal quarter of FY21. Real consumption is expected to fall the most in absolute terms, losing a staggering $818.1 billion, a 6.4 percent decline in the final three quarters of FY21, compared to the same period in the year prior. Real investment is poised to fall the fastest in percentage terms among the five components of real GDP, losing $380.3 billion or 11.9 percent over the fiscal three quarters of FY21. Real exports and real imports are both forecasted to contract sharply, with exports falling 11.6 percent and real imports falling 9.6 percent over the next three quarters lower incomes affect export and import demands.

The unexpected delay of a new federal relief package has pushed most of the assumed federal payments back one quarter, weakening personal income in the near-term. US personal income is expected to contract 4.4 percent for the final three quarters of FY21. The expected decline in personal income is due in large part to a reduction in proprietor's income, which is expected to lose a net $462.7 billion of the $849.1 billion in personal income loses over the next three quarters. Wages and salaries is the second largest loser, expected to fall $272.3 billion during the same three quarters. Government transfer payments is the only component of US personal income that is expected to grow over the next three quarters, with a rate of 3.3 percent. Although inflation and nominal interest rates have reached historic lows, consumers will remain cautious until household disposable income and employment gain a better foothold.

Table 3
US Economic Outlook
Quarters 2, 3, & 4

	Q2, Q3, & Q4			Full Year	
	FY21	FY20	% Chg	FY21	% Chg
Real GDP	17,296.4	18,515.7	-6.6	17,279.1	-7.5
Real Consumption	11,945.8	12,763.9	-6.4	11,901.4	-7.7
Real Investment	2,820.5	3,200.7	-11.9	2,863.6	-12.2
Real Govt. Expenditures	3,298.1	3,352.1	-1.6	3,310.1	-1.0
Real Exports	2,060.4	2,332.0	-11.6	2,043.5	-14.3
Real Imports	2,833.7	3,135.5	-9.6	2,852.3	-11.5
Personal Income ($ billions)	18,522.9	19,371.1	0.8	18,600.7	-3.0
Wages and Salaries ($ billions)	8,993.0	9,265.3	3.9	8,955.0	-3.5
Transfer Receipts	4,160.3	4,026.1	3.3	4,188.2	10.1
Dividends, Interest, and Rents	3,512.8	3,755.1	-1.2	3,526.6	-6.1
Supplements to Wages and Salaries	2,033.5	2,109.1	3.2	2,029.8	-4.0
Proprietors' Income	1,174.4	1,637.1	-20.5	1,256.2	-23.7
Social Insurance	1,351.1	1,421.6	1.8	1,354.9	-4.6
CPI all goods (% chg)	0.8	1.7	NA	0.8	NA
CPI Food (% chg)	3.2	2.9	NA	3.4	NA
CPI Energy (% chg)	-7.7	-6.0	NA	-9.0	NA
CPI Core (% chg)	1.3	2.2	NA	1.4	NA
Industrial Production Index (% chg)	-7.9	-5.5	NA	-9.2	NA
Unemployment Rate (%)	10.8	6.8	NA	11.1	NA
Housing Starts (millions, AR)	1.12	1.33	-0.2	1.14	-13.5

KENTUCKY OUTLOOK

The economic outlook for the Commonwealth reveals a bleak trajectory for personal income, as well as wages and salaries for the final three quarters of FY21. Kentucky personal income is anticipated to contract 3.0 percent, a net decrease of $6,245.6 million compared to the same three quarters one year ago. Kentucky personal income growth is expected to slightly exceed the national growth over the three quarter span.

The wages and salaries component of Kentucky personal income is expected to decline by 4.2 percent for the remainder of FY21. The macro model for Kentucky (MAK) is sensitive to changes in the national outlook for the components of personal income. In addition to the effect on withholding, losses to wages and salaries will directly affect sales and use tax receipts as well.

Wage and salary income is the largest component of personal income and has historically made up near 53 percent of personal income. In FY21, wages and salaries will comprise 44 percent of state personal income. Income from wages will be slow to accelerate in the near term, as thousands of Kentuckians remain unemployed due to statewide shutdown orders and business closures.

The second largest component of Kentucky personal income is transfer receipts, which represent an astonishing 32 percent of personal income in FY21. The rate of growth in transfer receipts, as well as the percentage of total income comprised by transfers, both exceed the corresponding national data. Transfer receipts are expected to increase 10.6 percent for the full year of FY21 and 3.8 percent for the final three quarters of the fiscal year. Transfer receipts growth slows down by the fourth quarter of FY21.

The decline in Kentucky personal income is largely due to the declines in wages and salaries and proprietors' income. Proprietors' income is expected to drop 20.6 percent over the next three quarters. Kentucky personal income is expected to drop $6.2 billion (annual rate) over the next three quarters. Kentucky wages and salaries will drop $3.9 billion and proprietors' income will drop $2.6 billion during the same three quarters.

The short-run economic outlook for Kentucky predicts continued employment sector weakness. Total non-farm payroll employment is expected to fall 6.3 percent, a loss of 117,100 jobs (annual rate) during the final three quarters of FY21. See Table 4. All eleven supersectors are forecasted to endure varying degrees of employment declines. The service-producing sector is expected to take the brunt of the job loss, which will account for a staggering decline of 82,600 jobs, or a 6.7 percent drop over the outlook period. In percentage terms, the goods-producing sector is expected to experience the most pronounced weakness in the employment sector. The decrease in goods-producing employment will account for a loss of 31,400 jobs, or a 9.6 percent drop over the forecasting horizon. Job loss in the goods-producing sectors are especially impactful to the state economy due to the multiplier impact associated with the sector. Many regional economies that will lose the goods-producing jobs will see a fall-off in supporting businesses that the goods-producing sector generates in their communities.

Table 4
Kentucky Economic Outlook
Quarters 2, 3, & 4

	Q2, Q3, & Q4			Full Year	
	FY21	**FY20**	**% Chg**	**FY21**	**% Chg**
Personal Income ($ millions)	201,557.9	207,803.6	-3.0	201,569.0	-1.8
Wages and Salaries ($ millions)	89,488.2	93,401.0	-4.2	88,524.4	-6.0
Transfer Receipts	63,893.6	61,581.9	3.8	64,294.5	10.6
Dividends, Interest, and Rents	32,102.2	33,941.0	-5.4	32,201.7	-5.1
Supplements to Wages and Salaries	24,024.0	24,631.8	-2.5	24,032.7	-2.3
Proprietors' Income	10,188.6	12,833.7	-20.6	10,667.3	-17.2
Social Insurance	15,254.2	15,880.1	-3.9	15,288.1	-3.6
Non-farm Employment (thousands)	1,735.9	1,853.0	-6.3	1,733.0	-7.6
Goods-producing	294.4	325.8	-9.6	296.3	-10.2
Construction	75.2	79.2	-5.0	75.9	-4.6
Mining	5.4	8.0	-32.2	5.7	-32.5
Manufacturing	213.7	238.5	-10.4	214.7	-11.3
Service-providing	1,141.9	1,224.5	-6.7	1,137.7	-8.3
Trade, Transportation & Utilities	371.9	386.6	-3.8	369.7	-5.5
Information	18.7	19.9	-6.2	19.1	-6.1
Finance	88.7	91.0	-2.5	89.0	-2.9
Business Services	147.3	205.6	-28.3	153.7	-26.2
Educational Services	274.1	276.0	-0.7	269.9	-2.9
Leisure and Hospitality Services	179.2	181.4	-1.2	174.6	-6.3
Other Services	62.1	64.0	-3.1	61.8	-4.3
Government	299.7	302.8	-1.0	299.1	-1.9

REVENUE RECEIPTS

GENERAL FUND
First Quarter FY21

Prior to the coronavirus, the rate of growth of General Fund receipts had increased in each of the first three quarters of FY20. The shutdowns and social distancing mandated have produced disruptions across the Commonwealth, causing collections to fall 4.5 percent in the final quarter of FY20. Revenue growth has picked up, rising 5.8 percent in the initial quarter of FY21. Total revenues in the just completed quarter totaled $2,854.3 million compared to $2,697.3 million in the first quarter of FY20, for an increase of $156.9 million. A portion of the growth in revenue was the result of normal economic activity while some can be attributed to an aberration in consumption patterns caused by the pandemic. However, it is difficult to separate out the two effects.

Table 5
Summary General Fund Receipts
$ millions

	FY21 Q1	FY20 Q1	Diff $	Diff %
Individual Income	1,184.7	1,134.0	50.7	4.5
Sales & Use	1,127.1	1,053.3	73.9	7.0
Corp. Inc. & LLET	165.1	174.3	-9.2	-5.3
Property	54.1	43.8	10.3	23.5
Lottery	60.5	58.5	2.0	3.4
Cigarettes	87.9	90.9	-3.0	-3.3
Coal Severance	12.1	17.6	-5.5	-31.1
Other	162.8	125.1	37.6	30.1
Total	**2,854.3**	**2,697.3**	**156.9**	**5.8**

Collections from the major revenue categories are shown in summary form in Table 5 which reveals broad-based growth across the major accounts with declines in only three of the accounts: coal severance, corporation income and the LLET taxes, and cigarettes. The five remaining accounts combined to account for an increase of $174.5 million. Detailed information on these major accounts is available in the Appendix.

The official General Fund revenue estimate for FY21 calls for collections to grow 0.3 percent compared to FY20 actual receipts. Given the year-to-date revenue situation, General Fund receipts can fall 1.4 percent for the remainder of the fiscal year and still meet the official estimate.

Individual income tax receipts grew 4.5 percent in the first quarter of the year. Receipts were $1,184.7 million which was an increase of $50.7 million over FY20 collections. Declarations and withholding receipts increased by a combined $65.6 million and were aided by an influx of federal coronavirus transfer payments.

Sales and use tax collections have been bolstered by shifts in consumption patterns. Apparently, shoppers are shifting their spending to more taxable products with a decline in purchases of personal services and entertainment services, which in many cases require closer contact. Many of these purchases of taxable products have occurred through online sources, as sales tax receipts remitted by remote retailers and marketplace providers have hit record highs in Kentucky. The result was an increase in revenues of $73.9 million, or 7.0 percent above the first quarter of FY20. Collections for the first quarter of FY21 were $1,127.1 million.

The combined corporation income and LLET taxes fell 5.3 percent, or $9.2 million in the recently completed quarter as coronavirus related issues and tax law changes continue to have a negative impact on revenues. Receipts totaled $165.1 million compared to the $174.3 million received a year earlier.

Property taxes rose 23.5 percent in the first quarter of FY21 with collections of $54.1 million, which likely included some delayed payments from the final quarter of FY20. This compares to $43.8 million received in the first quarter of the prior fiscal year. The first quarter is typically the smallest quarter of collections each fiscal year, contributing less than 10 percent of the annual total for the property tax accounts.

Lottery receipts increased 3.4 percent, or $2.0 million, in the first quarter of FY21. Revenues were $60.5 million compared to $58.5 million collected in the first quarter of FY20.

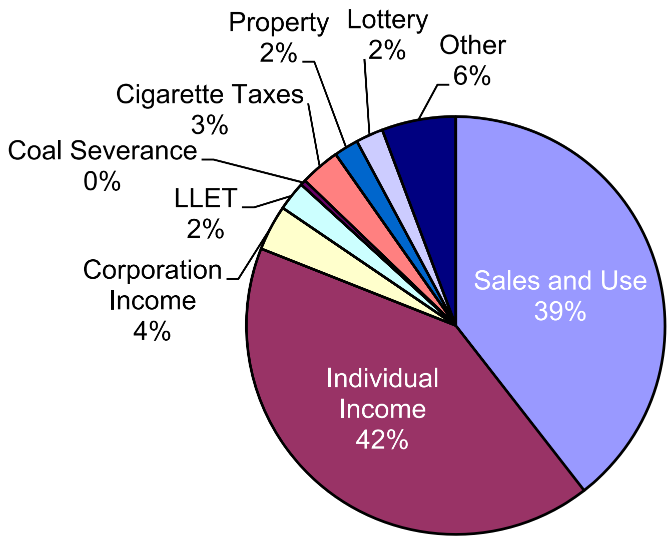
Cigarette taxes were down 3.3 percent in the first quarter with receipts of $87.9 million. This compares to $90.9 million collected in the first quarter of FY20. Cigarette consumption has been trending downward nationwide for several years and that trend has begun to manifest itself in this revenue stream for Kentucky.

Coal severance tax collections fell 31.1 percent in the first quarter, the fourth consecutive quarter in which revenues have fallen at least 25 percent. Receipts for the quarter were $12.1 million which is the second lowest quarterly total on record.

The "other" category represents the remaining accounts in the General Fund, and collections in this account increased 30.1 percent with receipts of $162.8 million compared to $125.1 million collected in the first quarter of FY20. Several of the larger accounts combined to create the large bump in "other" taxes, including most alcohol excise taxes, the telecommunications tax, and the inheritance tax.

Figure 1 details the composition of first quarter General Fund receipts by tax type. Eighty-one percent of General Fund revenues were collected in the areas of the individual income and sales and use taxes. The next largest sources of revenue were the combined corporation income and LLET taxes, and the "other" category which accounted for six percent. The cigarette taxes accounted for three percent. Lottery receipts and property accounted for two percent each. Finally, the coal severance tax accounted for less than one percent.

Figure 1
Composition of First Quarter FY21
General Fund Revenues



ROAD FUND
First Quarter FY21

Total Road Fund receipts rebounded in the first quarter of the fiscal year following a dismal fourth quarter in FY20. Collections increased 1.9 percent in the just completed quarter after falling 23.6 percent in the prior three months due to the effects of the coronavirus. The rate of growth in the first quarter of FY21 revenue is in line with what the Road Fund posted in the first three quarters of FY20 when collections grew 1.1 percent in each of the first two quarters and 4.6 percent in the third quarter. First quarter collections were aided by economic activity which would normally have occurred last fiscal year but was delayed due to shutdowns caused by the coronavirus. There was also some revenue that was due in FY20 but collected this fiscal year.

Total receipts received in the first quarter were $409.4 million, which exceeded last year's first quarter total by $7.8 million. Motor vehicle usage tax receipts were $17.1 million higher than in the same quarter last year but were offset by a $10.7 million decline in the motor fuels tax. The remaining accounts collectively increased $1.4 million with only small to moderate changes in these accounts.

Table 6
Summary Road Fund Receipts
$ millions

	FY21 Q1	FY20 Q1	Diff $	Diff %
Motor Fuels	192.1	202.8	-10.7	-5.3
Motor Vehicle Usage	158.0	140.9	17.1	12.1
Motor Vehicle License	25.7	20.6	5.1	24.7
Motor Vehicle Operators	5.3	4.2	1.1	26.1
Weight Distance	18.9	21.5	-2.6	-12.0
Income on Investments	0.2	1.5	-1.3	-88.9
Other	9.3	10.1	-0.8	-8.3
Total	**409.4**	**401.7**	**7.8**	**1.9**

The official Road Fund revenue estimate was revised in December 2019 and calls for a 3.5 percent increase in revenues for the year. Based on year-to-date tax collections, revenues must increase 4.0 percent for the remainder of FY21 to meet the estimate. Summary data are contained in Table 6 and detailed data are shown in the Appendix.

Motor fuels tax receipts fell 5.3 percent during the first quarter, continuing their fourth quarter FY20 slide in which collections declined 19.0 percent. Total vehicle miles traveled have been declining over the past several months due to shutdowns and more people working from home. Additionally, growth has been limited due to a tax rate that has remained unchanged since the fourth quarter of FY15. Receipts were $192.1 million as compared to $202.8 million collected during the first quarter of last year.

Motor vehicle usage tax receipts have bounced back rapidly following their sharp fourth quarter decline, increasing 12.1 percent in the first quarter. Some of the increase in first quarter collections can be attributed to a delay in vehicle purchases that, in the absence of the pandemic, would have occurred in FY20. Collections have grown by at least 3.9 percent in seven of the last nine quarters. For the quarter, revenues were $158.0 million compared to $140.9 million in the first quarter of FY20.

Motor vehicle license tax receipts rose 24.7 percent, or $5.1 million in the first quarter of FY21. Receipts were inflated due to office closures last quarter which impacted taxpayer's ability to make timely payments, shifting FY20 liabilities into the current year. Revenues in first quarter of FY21 were $25.7 million compared to $20.6 million during the same period last year.

Motor vehicle operator's tax receipts were $5.3 million in the first quarter of FY21, a 26.1 percent increase compared to collections a year ago. Like motor vehicle license tax receipts, collections in this account reflect both current and prior quarter's liabilities.

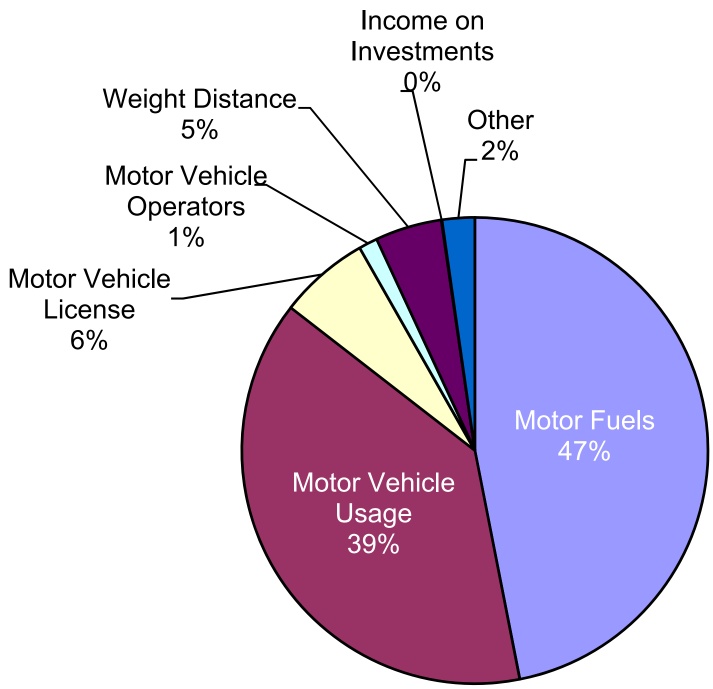
Weight distance tax receipts were $18.9 million in the quarter and represent a 12.0 percent decrease compared to receipts collected during the first quarter of FY20. The weight distance tax has some significance as a leading indicator of economic activity, as it is a rough proxy for goods in transit over Kentucky highways.

Income on investments fell from $1.5 million in the first quarter of FY20 to just under $200,000, in the first quarter of FY21 as cash balances available for investment declined.

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 $9.3 million, an 8.3 percent decrease from FY20 levels.

Figure 2 shows the composition of Road Fund revenues by tax type in the quarter. The motor fuels tax and the motor vehicle usage tax are by far the largest components of the Road Fund. Together, they combined for 86 percent of Road Fund revenues in the first quarter. The next largest sources of revenue were the motor vehicle license at six percent and weight distance taxes at five percent. The "other" category accounted for two percent, while motor vehicle operators comprised one percent. Income on investments accounted for a negligible amount of total Road Fund receipts.

Figure 2
Composition of First Quarter FY21
Road Fund Revenues



THE ECONOMY
FIRST QUARTER FY21

NATIONAL ECONOMY

Real gross domestic product (real GDP) fell by 3.7 percent in the first quarter of FY21. This is the second consecutive quarter that year-over-year growth has declined. On an adjacent-quarter basis, real GDP increased in the first quarter following two consecutive declines. The last four adjacent-quarter growth rates are 0.6, -1.3, -9.1, and 6.7 percent, respectively. The adjacent-quarter growth of 6.7 percent is the largest single-quarter growth in the history of recorded real GDP following the lowest growth quarter in the previous quarter.

The second quarter of FY20 is the peak of the real GDP series at $19,254.0 billion. The trough of the series occurred in the fourth quarter of FY20 at $17,282.2 billion. That is a net loss of $1,971.8 billion from peak to trough. From the fourth quarter of FY20 to the first quarter of FY21, real GDP rose 6.7 percent, or $1,156.8 billion. Real GDP therefore, made up 58.7 percent of the recession losses during the first quarter.

The National Bureau of Economic Research (NBER), the body responsible for identifying the official turning points in the US economy, has identified February 2020 as the most recent peak (the beginning of the recession) in the current business cycle. For purposes of quarterly turning points, NBER has identified the second quarter of FY20 as the official beginning of the recession. The previous expansion lasted 128 months, the longest in the history of US business cycles, which began being dated in 1864.

Real consumption declined by 3.6 percent in the first quarter of FY21. The year-over-year decline is a net $479.0 billion, which is 68.2 percent of the total real GDP losses. Real consumption followed a very similar pattern to real GDP during the last four quarters. Adjacent-quarter growth rates for the last four quarters are 0.4, -1.8, -9.9, and 8.5 percent, respectively. Real consumption made up 69.3 percent of total real GDP in the first quarter of FY21.

Real investment declined by 8.5 percent in the first quarter of FY21. All of the declines during the last four quarters occurred between the second quarter of FY20 and the fourth quarter of FY20. On an adjacent-quarter basis, real investment increased by 10.4 percent in the first quarter of FY21. The last five adjacent-quarter growth rates are 0.5, -0.9, -2.3, -14.4, and 10.4 percent, respectively. This is excellent growth and is quite welcome following the 14.4 percent plunge in the fourth quarter of FY20. Real investment was performing weakly even before the coronavirus event. Real investment made up 17.2 percent of total real GDP in the first quarter of FY21.

Real government expenditures increased by 1.1 percent in the first quarter of FY21. Real government expenditures followed a very unusual path during the previous expansion, increasing during most parts of the expansion. Typically, real government expenditures are countercyclical. That is, during expansions real government expenditures contract and during recessions they expand. The strange behavior of real government expenditures has reversed itself quite spontaneously during the current recession. On an adjacent quarter basis, government expenditures have increased during the first four of the last five quarters and declined during the last quarter. Adjacent-quarter growth rates for the last five quarters are 0.5, 0.6, 0.3, 0.7, and -0.5 percent, respectively. Real government expenditures incorporates all government expenditures from federal, state and local governments. Therefore, transfers from federal government to state governments cancel each other out on the accounting ledger sheet and do not appear in real government expenditures. That is why real government expenditures appear so smooth despite the massive transfer "spending" made by the federal government during the last few months. Real government expenditures made up 17.7 percent of total real GDP in the first quarter of FY21.

It is helpful to examine federal outlays, because transfer payments to state governments are not visible when examining real government expenditures alone. Total outlays skyrocketed in the first quarter of FY21 to $7.7 trillion, an increase of 61.2 percent, or $2.9 trillion dollars. The great majority of that increase occurred in subsidies and transfers to persons and firms. Subsidies increased from a meager $81.4 million in the first quarter of FY20 to $1.4 trillion in the first quarter of FY21. Subsidies made up 18.7 percent of total outlays in the first quarter of FY21.

Interest on the debt has been increasing steadily since 2003. In the second quarter of FY20, the interest on the debt reached a peak of $584.5 billion (annual rate). Then for the next three quarters the interest on the debt decreased on an adjacent-quarter basis. The last three adjacent-quarter growth rates are -0.5, -3.9, and -4.0 percent, respectively. Interest on the debt made up 7.0 percent of total outlays in the first quarter of FY21.

Real exports declined by 11.3 percent in the first quarter of FY21. As incomes across the globe declined from the global recession so too does import demand for US goods and services. The result is a significant decline in real exports. Mirroring real GDP, the majority of real exports losses occurred in the fourth quarter of FY20. The adjacent-quarter growth rates for the last five quarters are 0.2, 0.8, -2.5, -22.1, and 15.8 percent, respectively. Despite the 15.8 percent growth in the first quarter of FY21, real exports are still significantly lower than a year ago. Real exports made up 13.5 percent of total real GDP in the first quarter of FY21.

Real imports declined by 9.4 percent in the first quarter of FY21. There was also a considerable decline in US incomes during the recession. This decrease in incomes has led to a decrease in demand for both domestic and foreign goods. Real imports in the first quarter increased compared to the fourth quarter of FY20 by 16.8 percent. This recent gain is due to the fact that some forms of income rose relative to fourth quarter FY20 incomes. The adjacent-quarter growth rates for the last five quarters are 0.1, -1.9, -4.0, -17.6, and 16.8 percent, respectively. Real imports made up 17.7 percent of total real GDP in the first quarter of FY21. NB: Real imports are a deduction from real GDP. Net exports are a net deduction to real GDP of $908.8 billion, or 4.9 percent.

US personal income rose by 5.0 percent in the first quarter of FY21. Congress authorized just over $4.0 trillion in additional expenditures in the fourth quarter of FY20. Adjacent-quarter growth for the last five quarters are 0.6, 0.9, 1.0, 7.7, and -4.3 percent, respectively. Total personal income was still elevated during the first quarter of FY21 relative to historical levels, but was far less than the fourth quarter FY20 income.

The majority of the fourth quarter FY20 growth in personal income came as a result of a massive increase in transfer receipts income during the quarter. Transfer receipts income rose by just under $2.6 trillion (annual rate) alone in the fourth quarter of FY20. Adjacent-quarter growth rates for transfer receipts income for the last five quarters are 0.7, 0.4, 2.5, 75.8, and -24.8 percent, respectively. Transfer receipts income remains elevated in the first quarter of FY21 relative to historical levels, but is lower than that in the fourth quarter of FY20. Transfer receipts income made up 16.9 percent of total personal income in the first quarter of FY20. However, due to the massive increase in transfer receipts in the last two quarters, transfer receipts income made up 21.9 percent of total personal income in the first quarter of FY21.

Total non-farm employment declined by 6.9 percent in the first quarter of FY21. All of those losses occurred in the fourth quarter of FY20 when mandatory business shutdowns were ordered by the majority of governors across the nation. Some of those shutdowns resulted in business closures that will never reopen, even after the shutdown mandates and customer limitations have been suspended. Most governors have loosened the shutdown mandates during the first quarter of FY21. This resulted in a moderate increase in employment during the first quarter of FY21 relative to the fourth quarter of FY20. The adjacent-quarter growth rates for the last five quarters are 0.4, 0.4, 0.1, -12.0, and 5.2 percent, respectively. There were net job losses in all 11 supersectors in the first quarter of FY21. The largest losses occurred in the leisure and hospitality services sector, where employment dropped by 23.3 percent, or 3.9 million jobs.

Table 7
Summary of US Economic Series
First Quarter FY21 & FY20

	First Quarter			
	FY21	**FY20**	**Chg**	**% Chg**
Real GDP	18,439.0	19,141.7	-702.7	-3.7
Real Consumption	12,822.4	13,301.3	-479.0	-3.6
Real Investment	3,151.8	3,445.7	-293.9	-8.5
Real Govt. Expenditures	3,352.8	3,317.7	35.1	1.1
Real Exports	2,250.3	2,536.6	-286.3	-11.3
Real Imports	3,159.1	3,486.8	-327.7	-9.4
CPI all goods (% chg)	1.2	1.8	NA	NA
CPI Food (% chg)	4.2	1.8	NA	NA
CPI Energy (% chg)	-9.0	-3.6	NA	NA
CPI Core (% chg)	1.6	2.3	NA	NA
Industrial Production Index (% chg)	-8.0	0.2	NA	NA
Working Population[1]	260.6	259.4	1.1	0.4
Civilian Labor Force[2]	160.8	164.3	-3.5	-2.1
Employed[3]	146.5	158.2	-11.7	-7.4
Unemployed[4]	14.3	6.1	8.2	135.4
Not in Labor Force[5]	99.8	95.1	4.6	4.9
Labor Force Participation Rate[6] (%)	61.5	63.1	NA	NA
Unemployment Rate (%)	9.0	3.6	NA	NA

Table 8
US Federal Outlays
$ billions, AR

	First Quarter			
	FY21	**FY20**	**Chg**	**% Chg**
Federal Outlays excl. Gross Investment	7,718.0	4,786.4	2,931.6	61.2
Social Security	1,083.7	1,034.3	49.4	4.8
Medicare	841.8	789.9	51.9	6.6
National Defense	695.8	680.5	15.3	2.3
Interest on Debt	536.7	583.9	-47.2	-8.1
Subsidies	1,440.0	81.4	1,358.6	1,669.1
Aid to Foreign Governments	42.8	50.5	-7.7	-15.3
Federal Transfer Payments to Resident Persons	3,386.5	2,331.4	1,055.0	45.3
Grants-in-Aid to S&L Governments	1,098.9	610.3	488.6	80.1
Medicaid	531.1	418.8	112.3	26.8
Non-Medicaid Grants to S&L Govts	567.8	191.5	376.3	196.5

KENTUCKY ECONOMY

Kentucky personal income rose by 5.6 percent in the first quarter of FY21. On an adjacent-quarter basis, personal income declined in the first quarter relative to the fourth quarter of FY21. Adjacent-quarter growth rates for the last five quarters are 0.8, 0.9, 0.5, 11.9, and -7.0 percent, respectively. The large increase in the fourth quarter of FY20 was mostly caused by a massive increase in transfer receipts income. While the large decrease in Kentucky personal income in the first quarter of FY21 was almost entirely caused by a decrease in transfer receipts income.

Transfer receipts income rose by 77.3 percent in the fourth quarter of FY20 relative to the third quarter. Transfer receipts income declined by 25.1 percent in the first quarter FY21 relative to the fourth quarter of FY20. So while transfer receipts income dropped significantly in the first quarter of FY21, it is still very high historically-speaking. Transfer receipts income rose by $38.1 billion in the fourth quarter of FY20, and then fell by $21.9 billion in the first quarter of FY21. Transfer receipts income is still elevated at $65.5 billion in the first quarter of FY21. Prior to the recession, transfer receipts income was just under $48 billion. Transfer receipts income made up 31.4 percent of total personal income in the first quarter of FY21.

Wages and salaries income was also significantly affected during the recession. Wages and salaries income fell by 12.9 percent in the fourth quarter of FY20 relative to the third quarter of FY20. Then wages and salaries rose by 7.3 percent in the first quarter of FY21 over the fourth quarter of FY20. Wages and salaries in the first quarter of FY21 is still significantly depressed from where it was before the recession. The previous peak for wages and salaries income was $97.9 billion in the second quarter of FY20. Wages and salaries income is still $6.8 billion below the previous peak. Wages and salaries income made up 43.7 percent of total personal income in the first quarter of FY21. This is down significantly from the 48.9 percent share in the first quarter of FY20.

Kentucky non-farm employment dropped by 7.9 percent in the first quarter of FY21. The majority of losses occurred in the fourth quarter of FY20. Kentucky non-farm employment growth was weak or flat before the recession. Adjacent-quarter growth rates for the last eight quarters are 0.1, 0.3, -0.01, 0.2, -0.1, 0.004, -13.4, and 6.6 percent, respectively. There were (annual growth) declines in all 11 Kentucky supersectors. On a percentage basis, the largest losses were in the mining sector. Mining employment dropped by 31.8 percent, or 3,100 jobs. On an absolute basis, the largest losses were in the leisure and hospitality services sector, which fell by 19.0 percent, or 38,400 jobs.

Table 9
Personal Income
$ billions, SAAR

	Q1			
	FY20	**FY19**	**$ Diff**	**% Diff**
United States				
Personal Income	19,520	18,598	923	5.0
Social Insurance	1,434	1,419	15	1.0
Residence Adjustments	0	0	0	NA
Dividends, Interest and Rents	3,666	3,760	-93	-2.5
Transfer Receipts	4,275	3,142	1,134	36.1
Wages & Salaries	9,276	9,311	-35	-0.4
Supplements to W&S	2,118	2,127	-9	-0.4
Proprietor's Income	1,618	1,677	-59	-3.5
Kentucky				
Personal Income	208	197	11	5.6
Social Insurance	16	16	0	1.7
Residence Adjustments	-3	-3	0	8.0
Dividends, Interest and Rents	33	34	-1	-1.9
Transfer Receipts	66	48	18	37.2
Wages & Salaries	91	96	-5	-5.7
Supplements to W&S	25	24	0	0.7
Proprietor's Income	13	13	0	-2.1

Table 10
Summary of US & KY Employment
First Quarter FY21 & FY20

	US Q1 (millions)			KY Q1 (thousands)		
	FY21	**FY20**	**% Chg**	**FY21**	**FY20**	**% Chg**
Non-farm Employment	140.7	151.2	-6.9	1,789.4	1,942.4	-7.9
Goods-producing	19.9	21.1	-5.4	312.9	343.1	-8.8
Construction	7.2	7.5	-4.0	78.8	80.7	-2.4
Mining	0.6	0.7	-15.9	6.6	9.7	-31.8
Manufacturing	12.1	12.8	-5.7	227.5	252.7	-10.0
Service-providing	99.0	107.4	-7.9	1,179.2	1,288.0	-8.4
Trade, Transportation & Utilities	26.4	27.7	-4.6	381.5	404.9	-5.8
Information	2.6	2.9	-10.2	20.3	21.5	-5.7
Finance	8.7	8.8	-1.2	92.0	93.6	-1.6
Business Services	20.1	21.4	-6.1	194.3	216.6	-10.3
Educational Services	23.1	24.3	-4.7	266.1	283.7	-6.2
Leisure and Hospitality Services	12.7	16.6	-23.3	163.2	201.6	-19.0
Other Services	5.4	5.9	-8.4	61.7	66.0	-6.6
Government	21.8	22.6	-3.7	297.3	311.3	-4.5

APPENDIX

General Fund and Road Fund Revenue Receipts

FIRST QUARTER FY21

Kentucky State Government – General Fund

	First Quarter FY 2021	First Quarter FY 2020	% Change
TOTAL GENERAL FUND	**$2,854,286,906**	**$2,697,336,996**	**5.8%**
Tax Receipts	$2,770,225,854	$2,619,085,190	5.8%
Sales and Gross Receipts	$1,332,381,610	$1,227,829,767	8.5%
Beer Consumption	1,671,453	1,614,672	3.5%
Beer Wholesale	18,436,819	16,872,300	9.3%
Cigarette	87,885,202	90,854,388	-3.3%
Distilled Spirits Case Sales	51,326	36,785	39.5%
Distilled Spirits Consumption	4,437,681	3,322,337	33.6%
Distilled Spirits Wholesale	15,464,525	10,967,067	41.0%
Insurance Premium	41,927,941	22,879,911	83.3%
Pari-Mutuel	4,831,636	3,599,876	34.2%
Race Track Admission	0	80,510	-100.0%
Sales and Use	1,127,108,868	1,053,250,090	7.0%
Wine Consumption	851,831	652,372	30.6%
Wine Wholesale	4,673,716	3,503,795	33.4%
Telecommunications Tax	17,706,633	14,546,019	21.7%
Other Tobacco Products	7,328,162	5,624,869	30.3%
Floor Stock Tax	5,815	24,776	-76.5%
License and Privilege	**$1,206,030**	**$217,906**	**453.5%**
Alc. Bev. License Suspension	18,500	88,000	-79.0%
Corporation License	22,165	942	2254.0%
Corporation Organization	440	27,435	-98.4%
Occupational Licenses	48,293	35,686	35.3%
Race Track License	80,000	95,000	-15.8%
Bank Franchise Tax	831,963	(197,943)	—
Driver License Fees	204,669	168,786	21.3%
Natural Resources	**$19,159,364**	**$26,157,904**	**-26.8%**
Coal Severance	12,114,184	17,571,676	-31.1%
Oil Production	875,854	1,436,630	-39.0%
Minerals Severance	5,585,009	5,636,844	-0.9%
Natural Gas Severance	584,318	1,512,754	-61.4%
Income	**$1,349,806,003**	**$1,308,225,391**	**3.2%**
Corporation	100,401,053	134,241,162	-25.2%
Individual	1,184,713,966	1,133,970,486	4.5%
Limited Liability Entity	64,690,985	40,013,743	61.7%
Property	**$54,116,314**	**$43,827,499**	**23.5%**
Building & Loan Association	51,057	46,771	9.2%
General - Real	(102,989)	73,130	—
General - Tangible	40,046,087	33,018,120	21.3%
Omitted & Delinquent	4,869,942	3,433,039	41.9%
Public Service	9,306,792	7,256,726	28.3%
Other	(54,574)	(288)	—
Inheritance Tax	**$14,231,697**	**$10,425,927**	**36.5%**
Miscellaneous	**($675,165)**	**$2,400,797**	**---**
Legal Process	2,432,313	3,297,440	-26.2%
T. V. A. In Lieu Payments	(3,503,357)	(1,175,324)	—
Other	395,880	278,681	42.1%
Nontax Receipts	$78,827,088	$76,167,351	3.5%
Departmental Fees	2,776,756	3,595,870	-22.8%
PSC Assessment Fee	14,344,316	13,014,402	10.2%
Fines & Forfeitures	2,652,231	4,360,041	-39.2%
Income on Investments	(227,617)	(1,831,789)	—
Lottery	60,500,000	58,500,000	3.4%
Miscellaneous	(1,218,599)	(1,471,172)	—
Redeposit of State Funds	**$5,233,964**	**$2,084,455**	**151.1%**

Kentucky State Government – Road Fund

	First Quarter FY 2021	First Quarter FY 2020	% Change
TOTAL ROAD FUND	**$409,436,318**	**$401,666,340**	**1.9%**
Tax Receipts-	$402,784,704	$392,393,114	2.6%
Sales and Gross Receipts	**$350,064,463**	**$343,740,511**	**1.8%**
Motor Fuels Taxes	192,096,252	202,824,589	-5.3%
Motor Vehicle Usage	157,968,211	140,915,922	12.1%
License and Privilege	**$52,720,241**	**$48,652,603**	**8.4%**
Motor Vehicles	25,675,898	20,592,045	24.7%
Motor Vehicle Operators	5,340,665	4,234,075	26.1%
Weight Distance	18,929,339	21,504,601	-12.0%
Truck Decal Fees	44,660	15,417	189.7%
Other Special Fees	2,729,679	2,306,465	18.3%
Nontax Receipts	**$6,578,884**	**$8,394,247**	**-21.6%**
Departmental Fees	5,288,390	5,815,294	-9.1%
In Lieu of Traffic Fines	38,685	87,592	-55.8%
Income on Investments	165,879	1,496,680	-88.9%
Miscellaneous	1,085,931	994,681	9.2%
Redeposit of State Funds	**$72,730**	**$878,979**	**-91.7%**

Glossary

Adjacent-quarter	A growth rate computed as the current quarter relative to the previous quarter.
AR	Annual Rate is the quantity of a series that would occur for the entire year, if the current period's growth were to continue for the entire year.
Civilian Labor Force	A subset of the working population who are currently employed or are actively looking for employment.
Employed	In the context of working population and civilian 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 FY21 Q1 are September 2020 estimates.
Source: IHS Markit - Economics & Country Risk, September 9, 2020 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 FY21 Q1 are September 2020 estimates.
Source: IHS Markit - Economics & Country Risk, September 9, 2020 data release.

Table 6
Not Seasonally Adjusted. Data for FY21 Q1 are September 2020 estimates.
Source: IHS Markit - Economics & Country Risk, September 9, 2020 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, September 9, 2020 data release.

Table 10
Not Seasonally Adjusted.
Source: IHS Global Insight, Inc. and the Kentucky Governor's Office for Economic Analysis
MAK model, September 2020.