Commonwealth of Kentucky

Quarterly Economic & Review Report

First Quarter Fiscal Year

- 2022 -

Governor's Office for Economic Analysis

Office of the State Budget Director

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October 29, 2021

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 Honorable 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. In furtherance of this directive, OSBD submits this *Quarterly Economic and Revenue Report* for the first quarter of fiscal year 2022 (FY22) to the three branches of government.

This report includes the actual revenue receipts for the first quarter and an unofficial forecast for the final three quarters of FY22 (the forecast horizon). The report also provides updates on the national and Kentucky economic landscapes.

The current official estimate for FY22 is the enacted projection of $11,849.8 million, which is 7.6 percent less than actual FY21 General Fund collections. This unofficial, interim outlook calls for a 5.7 percent increase in General Fund revenues for FY22 compared to total collections received in FY21. Projected General Fund revenues are $1,706.8 million higher than the enacted revenue estimates for FY22. All projections in this quarterly report are identical to the preliminary estimates approved by the Consensus Forecasting Group (CFG) on October 14, 2021. Official FY22-FY24 estimates will be forthcoming following the meeting of the CFG later this year in December.

The preliminary Road Fund outlook for FY22 calls for revenues of $1,689.7 million -- a 2.9 percent increase in Road Fund revenues compared to FY21. By way of comparison, the FY22 preliminary estimates from the CFG exceed the enacted Road Fund revenue estimate of $1,609.2 million by $80.5 million.

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

Sincerely,

John T. Hicks
State Budget Director

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Executive Summary

In accordance with KRS 48.400(2), the Office of State Budget Director (OSBD) is directed to continuously monitor the financial situation of the Commonwealth. In fulfillment of this statutory requirement, OSBD submits this *Quarterly Economic and Revenue Report* for the first quarter of fiscal year 2022 (FY22). This report includes the actual revenue receipts for the first quarter, analysis of the economic conditions from the first quarter, as well as an economic and revenue outlook for the next three fiscal quarters which make up the remainder of FY22.

In odd-numbered years, the first quarterly report coincides with the schedule of the Consensus Forecasting Group (CFG), a group established under KRS 48.115 consisting of individuals who are knowledgeable about the state and national economy and the revenue and financial conditions of the Commonwealth. At a meeting held on October 14, 2021 the CFG reached a consensus on preliminary estimates that will be used in this revenue outlook. The CFG considered three scenarios for economic conditions and three separate revenue outlooks before reaching a conclusion that the control forecast represented the most likely outcome for the national and state economies, and by extension the revenues forecasted based on these forecasts. Forecasted revenues presented in Table 1 and Table 2 were projected using the September 2021 "control scenario" economic forecast from both IHS Markit and the Kentucky MAK model as the primary inputs, as directed by the CFG.

Since the previous edition of the quarterly report, the Commonwealth posted positive collections in both the General and Road Funds during the first quarter of FY22. General Fund receipts rose 35.0 percent in September alone with revenues of $1,505.7 million, aided in large part by a one-time cash inflow equaling $225.0 million pursuant to a legal settlement with Flutter Entertainment, the parent company of PokerStars. September collections were robust even discounting the settlement. Base receipts would have risen 14.8 percent after making an adjustment for the $225.0 million. Thus far in FY22, the General Fund has grown 20.0 percent, or 12.1 percent on an adjusted basis.

The largest three General Fund revenue sources constitute 89.8 percent of total tax receipts in the first quarter of FY22. Collectively, the sales tax, individual income tax, and major business taxes have grown 12.7 percent in the first quarter of FY22 – providing a solid platform for overall revenue growth. Kentucky, like many other states, is witnessing some of the strongest overall revenue growth in over a decade.

Projected General Fund Growth for the final three quarters of FY22

The current official General Fund estimate for FY22 is the enacted estimate of $11,849.8 million. Given the unanticipated 10.9 percent revenue growth in FY21, the official estimate is 7.6 percent lower than actual FY21 General Fund collections. Projected General Fund revenues for the forecasting horizon are displayed in Table 1. The preliminary outlook calls for FY22 General Fund revenues of $13,556.6 million -- a 5.7 percent increase in General Fund revenues over FY21. If the estimate materializes, FY22 receipts will exceed the enacted revenue estimate by $1,706.8 million. When the 20.0 percent revenue growth already received in the first quarter is factored in, the growth needed for the rest of the fiscal year to hit the preliminary estimate for FY22 is 1.8 percent.

Projected Road Fund Growth for the final three quarters of FY22

Collections in the first quarter of FY22 rose 3.5 percent after growing 43.8 percent in the fourth quarter of FY21. Motor vehicle usage and motor fuels tax collections accounted for all of the $14.4 million increase over FY21 first quarter collections.

Going forward, total Road Fund collections are expected to increase 2.7 percent over the final three quarters of FY22, ending the fiscal year with 2.9 percent. Motor fuels taxes, which grew at 4.9 percent in the first quarter, are forecasted to maintain their strength, increasing 5.3 percent over the last nine months of the fiscal year. Motor vehicle usage taxes rose 3.8 percent in the first quarter. However, the forecast calls for a slowdown with growth in the final three quarters predicted to be 1.0 percent.

The preliminary outlook calls for FY22 Road Fund revenues of $1,689.7 million -- a 2.9 percent increase in Road Fund revenues relative to FY21. By way of comparison, the FY22 preliminary estimate exceeds the enacted revenue estimate of $1,609.2 million by $80.5 million.

Summary of Projected Major Economic Factors

The CFG agreed that the control economic scenario from the September outlook was the most likely outcome for the national and state economies. Real GDP is expected to grow 5.1 percent in the final three quarters of FY22 compared to the same period in the prior fiscal year. The real GDP growth is led by much stronger growth in real investment, continued strong growth in real consumption, and significant growth in real exports.

Inflation is expected to exceed the informal target set by the Fed, with FY22 growth in the CPI for all goods coming in at 4.2 percent. Among other broad US aggregate statistics, the unemployment rate is projected to decline to a level of 4.8 percent in FY22, down from the 6.9 percent rate in FY21.

Kentucky's economic outlook was projected using the OSBD Macroeconomic Model which was generated by using the September 2021 IHS Markit data and underlying assumptions. Kentuckian's personal income is expected to decline slightly over the forecast horizon as transfer payments from the federal government continue to phase out. Through the remainder of FY22, a 1.6 percent decline in personal income is expected compared to the second, third and fourth quarters of FY21. While total Kentucky personal income fails to gain momentum, strong growth is forecasted for wages and salaries across the outlook periods. Wages and salaries are poised to grow 7.8 percent in the final three quarters of FY22 compared to the same period one year prior.

Summary of the Economy from the First Quarter of FY22

Real GDP grew by 5.2 percent in the first quarter of FY22 over the same quarter in FY21. Adjacent-quarter growth has now slowed to 0.8 percent, which is the slowest growth since the recession ended. US personal income grew by 3.8 percent in the first quarter of FY22 compared to a year earlier. US wages and salaries income was the highest growth component of personal income, growing 9.6 percent in the first quarter of FY22. US transfer receipts continue to be the biggest drag among the personal income components, which declined 6.9 percent in the first quarter. US non-farm employment increased by 4.5 percent in the first quarter of FY22. Leisure and hospitality services employment performed the best during the last four quarters, growing a net 17.2 percent during that time.

Kentucky personal income grew by 6.4 percent in the first quarter of FY22. Kentucky wages and salaries was the fastest growing component growing 9.8 percent in the first quarter compared to the first quarter of FY21. Kentucky non-farm employment rose by 4.0 percent in the first quarter of FY22. Despite the solid growth in the last five quarters, non-farm employment still lies below its previous peak. Leisure and hospitality services employment was the fastest growing sector in Kentucky as well, growing 14.2 percent in the first quarter.

REVENUE & ECONOMIC OUTLOOK

GENERAL FUND

The interim outlook presented below represents unofficial estimates prepared pursuant to KRS 48.120 (2), the statute governing the preliminary budget estimates. At a meeting held on October 14, 2021, the Consensus Forecasting Group (CFG) agreed upon the preliminary estimates that will be used in this revenue outlook. The October CFG estimates include General Fund and Road Fund forecasts for FY22-FY24. Since KRS 48.400(2) requires a three-quarter outlook, the forecasting horizon used in this quarterly report is the remaining three quarters of FY22.

During the October 14th meeting, the CFG considered three different economic scenarios: a pessimistic forecast, a control or baseline forecast, and an optimistic scenario. A consensus was reached among the members that the control forecast represented the most likely outcome for the national and state economies, and for the revenue forecasts. Forecasted revenues presented in Table 1 were projected using the September 2021 “control scenario” economic forecast from both IHS Markit and the Kentucky MAK model providing the primary inputs, as directed by the CFG.

General Fund revenue collections posted a second consecutive quarterly increase of more than 20 percent in the first quarter of FY22, but both consecutive quarters were aided by one-time events. Receipts in the final quarter of FY21 were positively impacted by a low base of comparison from the fourth quarter of FY20 that contained the lowest point of the economic downturn. Receipts in first quarter of the current fiscal year were boosted by a legal settlement. Collections for the period July – September period of FY22 grew 20.0 percent and were amplified by a $225 million one-time legal settlement with Flutter Entertainment, the parent company of PokerStars. Excluding the settlement, first-quarter revenues were still strong, growing 12.1 percent. Notwithstanding the caveats to growth, the General Fund enters the forecasting horizon with considerable momentum.

The current official estimate for FY22 is the enacted projection of $11,849.8 million. Given the unanticipated 10.9 percent revenue growth in FY21, the official estimate is 7.6 percent less than actual FY21 General Fund collections. Projected General Fund revenues for the forecasting horizon are displayed in Table 1. The preliminary outlook calls for FY22 General Fund revenues of $13,556.6 million -- a 5.7 percent increase in General Fund revenues. If the estimate materializes, FY22 receipts will exceed the enacted revenue estimate by $1,706.8 million.

Table 1
General Fund Interim Forecast
$ millions

	FY22						FY22	
	Q1		Q2, Q3, & Q4		Full Year		Official CFG	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	$ Diff
Individual Income	1,262.3	6.5	4,010.4	1.3	5,272.7	2.5	5,004.1	268.6
Sales & Use	1,238.6	9.9	3,645.7	6.2	4,884.3	7.1	4,336.0	548.3
Corp. Inc. & LLET	290.6	76.0	686.2	-4.4	976.8	10.6	469.1	507.7
Property	63.1	16.5	647.9	-0.1	711.0	1.2	681.7	29.3
Lottery	69.5	14.9	249.8	9.3	319.3	10.4	292.0	27.3
Cigarettes	84.0	-4.4	257.1	-1.9	341.1	-2.5	335.0	6.2
Coal Severance	12.9	6.1	51.2	16.6	64.1	14.3	51.9	12.2
Other	404.0	148.2	583.3	-14.2	987.3	17.2	680.1	307.3
General Fund	**3,424.9**	**20.0**	**10,131.7**	**1.6**	**13,556.6**	**5.7**	**11,849.8**	**1,706.8**

Individual income tax receipts grew 6.5 percent in the first quarter of the year. Receipts in the withholding component of the tax were 5.3 percent higher than the first quarter of FY21. Excluding withholding from unemployment insurance benefits, first quarter withholding receipts increased by 8.2 percent. Total withholding in FY22 is expected to expand by 5.6 percent, slightly ahead of the current pace. However, the individual income tax growth rate for FY22 is projected to be 2.5 percent with growth of 1.3 percent during the remaining three quarters of FY22. Estimated payments and net returns (pay returns plus refunds) are expected to compare unfavorably to FY21 during the forecasting horizon, thereby offsetting part of the growth in withholding.

Sales and use tax collections in the first quarter of FY22 were strong as well, posting an increase of 9.9 percent. Revenues from the sales and use account are forecasted to grow 6.2 percent during the final three quarters of FY22 and end the year with a cumulative growth rate of 7.1 percent. Sales tax growth is expected to be greater than withholding growth over the forecast horizon. This pattern was also true in FY21, partially attributable to federal stimulus payments that sustained consumer spending. That stimulative effect is arguably still working its way through the economy as many analysts believe that a large portion of the 2020 and 2021 stimulus money was saved.

Coming off a strong revenue performance in FY21, the combined business taxes (corporation income and LLET) jumped 76.0 percent in the first quarter of FY22. The business taxes are expected to decline 4.4 percent during the forecasting horizon, however, as FY22 receipts will be compared to the high base of FY21 actual collections. The fiscal impacts of the 2020 and 2021 Regular Session legislation are also projected to be a drag on business tax receipts for the remainder of FY22.

Despite the projected decline in receipts for the remainder of FY22, total growth for the fiscal year is expected to be 10.6 percent with total collections of $976.8 million.

Total property tax receipts had a breakout year in FY21, posting annual growth of 9.2 percent, after falling in FY20 due primarily to a weak fourth quarter. The two largest categories of property, real and tangible property, expanded by 4.4 and 15.9 percent in FY21, respectively. Although property taxes grew 16.5 percent in the first quarter, aggregate property taxes are expected to decline in quarters two through four at a combined rate of 0.1 percent. In total, property taxes are expected to grow 1.2 percent in FY22.

Lottery revenues deposited into the General Fund for FY21 were $289.1 million, or 6.5 percent over the previous year, and $3.0 million in excess of the budgeted estimate. An additional $58 million in lottery revenue was deposited into a holding account until the next budget cycle. Together, lottery revenues jumped to $347.1 million in FY21 compared to $271.4 million in FY20. In FY22, lottery ticket sales growth will be muted, but receipts still historically high, with the lottery dividend expected to scale back to $319.3 million, a decline of 8.0 percent. Ticket sales are expected to continue to gravitate toward products that return a higher prize percentage, like iLottery, Keno, and higher value instant tickets. The forecast released by the Kentucky Lottery projects the sales for instant games and draw games will decline slightly in FY22, with iLottery instant play growing from a 7.5 percent market share to 11.9 percent. This movement in ticket sales across the Kentucky Lottery product line triggers an increase in prize expenses from 67.9 percent in FY21 to 69.1 percent in FY22.

Cigarette taxes were one of two major accounts to decline in FY21, falling $5.0 million, or 1.4 percent. Other tobacco products grew by $19.0 million in FY21 with the new vaping tax bringing in $17.6 million. Cigarette taxes fell 4.4 percent in the first quarter of FY22, with a continued downward drift of 1.9 percent in the remaining three quarters of FY22. The cigarette taxes will end the year with a cumulative decline of 2.5 percent for FY22.

Coal severance tax receipts rose by 6.1 percent in the first quarter of FY22 with collections of $12.9 million. The outlook for the forecasting horizon in FY22 calls for a further rebound of 16.6 percent over the prior year. Final FY22 growth is expected to be 14.3 percent. Following a sharp FY20 decline in coal severance tax receipts, collections grew by 29.2 percent in the fourth quarter of FY21 and this recent momentum is expected to continue throughout FY22.

The “other” category contains dozens of smaller accounts, which make up the remainder of the General Fund. Insurance premiums tax, alcohol taxes, telecommunication taxes, inheritance taxes, and abandoned property receipts are the five largest ongoing accounts in the “other” category forecast. The bank franchise tax made the list of the largest other taxes in historical years, but the FY22 receipts are expected to fall to nearly zero since the tax was repealed effective January 1, 2021. The "other" accounts totaled $842.2 million in FY21, a sum $78.9 million higher than the enacted estimate for the fiscal year. Each account was re-examined and the resulting forecast for FY22 sums to $987.3 million, an increase of 17.2 percent over FY21. As mentioned earlier in this section, "other" tax receipts were amplified in the first quarter by a $225 million one-time legal settlement with Flutter Entertainment, the parent company of PokerStars. Since this settlement was posted to the General Fund in other miscellaneous taxes, first quarter receipts in the "other" category were $404.0 million, nearly 150 percent more than the first quarter of FY21. Receipts are projected to decline 14.2 percent during the remainder of the fiscal year due to the repeal of the bank franchise tax, partially offset by an increase in receipts from the sale of abandoned property.

ROAD FUND

Road Fund revenue grew at a typical rate in the first quarter of FY21 after two years of disruptions caused by COVID. The outlook for the remainder of the year is for a continuation of normalized growth but at a slightly slower rate. Over the past two fiscal years, COVID caused disruptions and in some cases, fundamentally changed the way Kentuckians travel. Some of those changes are reflected in past Road Fund receipts as well as the current forecast. Motor fuels collections have been affected as people are travelling less and more people are working from home which means fewer miles driven. Pent up demand for motor vehicles as the pandemic limited the availability of autos due to dealerships closing and supply chain issues which put constraints on the availability of some key parts. Closures, likewise, impacted the collection of motor vehicle operators and licenses revenues.

Total collections in the first quarter of FY22 rose 3.5 percent after growing 43.8 percent in the fourth quarter of FY21. Motor vehicle usage and motor fuels tax collections accounted all of the $14.4 million increase over first quarter FY21 collections. On the downside, motor vehicle license revenues were down by $5.9 million. The remaining accounts combined to increase $4.9 million.

Going forward, total Road Fund collections are expected to increase 2.7 percent over the final three quarters of FY22, ending the year with 2.9 percent. Motor fuels taxes, which grew at 4.9 percent in the first quarter, are forecasted maintain their strength, increasing 5.3 percent over the last nine months of the year. Motor vehicle usage taxes rose 3.8 percent in the first quarter; however, the forecast calls for a slowdown with growth in the final three quarters set at 1.0 percent. Motor vehicle license receipts fell 23.2 percent in the first quarter due to inflated collections last year. The forecast for the remainder of the year is for revenues to decline 3.8 percent. First quarter motor vehicle operator's collections were aided by a ramping up of the issuance of REAL ID licenses and are expected to grow 6.0 percent for the rest of FY22 after increasing 37.7 percent in the first quarter. Weight distance tax collections were strong in the first three months, growing 15.0 percent. Receipts will slow over the final nine months of the year, increasing only 3.9 percent. Income on investments will continue to remain weak. Revenue from this source was just over $100,000 in the first quarter and the forecast calls for no additional revenue for the rest of the year. Finally, the "other" category had growth of 1.5 percent in the first quarter but is forecast to decline 2.7 percent in the final three quarters of the year.

Based on Table 2 below, revenues are expected to exceed the enacted estimate by $80.5 million. Motor fuels and motor vehicle usage tax collections account for $68.0 million while motor vehicle operators and weight distance revenues together account for $14.8 million. Taken together, the remaining accounts net out to $2.3 million less than the enacted level.

Table 2
Road Fund Interim Forecast
$ millions

	FY22						FY22	
	Q1		Q2, Q3, & Q4		Full Year		Official CFG	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	$ Diff
Motor Fuels	201.5	4.9	585.7	5.3	787.2	5.2	769.2	18.0
Motor Vehicle Usage	164.0	3.8	467.4	1.0	631.4	1.7	581.4	50.0
Motor Vehicle License	19.7	-23.2	96.0	-3.8	115.7	-7.8	119.6	-3.9
Motor Vehicle Operators	7.4	37.7	17.7	6.0	25.1	13.7	17.6	7.5
Weight Distance	21.8	15.0	66.7	3.9	88.5	6.4	81.2	7.3
Income on Investments	0.1	-32.4	0.0	-95.7	0.1	-184.7	0.4	-0.3
Other	9.4	1.5	32.3	-2.7	41.7	-1.8	39.8	1.9
Road Fund	**423.8**	**3.5**	**1,265.9**	**2.7**	**1,689.7**	**2.9**	**1,609.2**	**80.5**

NATIONAL OUTLOOK

The forecast used in this quarterly report for the national economic outlook is the September 2021 IHS Markit outlook control scenario -- the same forecast that was selected by the CFG during the October 14, 2021 meeting.

Economic growth is anticipated to remain elevated for the next three fiscal quarters as the US economy recovers from disruptions caused by the COVID-19 pandemic. The September 2021 IHS Markit outlook incorporates the bipartisan Infrastructure Investment and Jobs Act. However, based on the uncertainty in the eventual scope and timing, the outlook does not include the proposed Build Back Better reconciliation bill.

Real GDP is expected to grow 5.1 percent in the final three quarters of FY22 compared to the same period in the prior fiscal year. The real GDP growth is led by much stronger growth in real investment, continued strong growth in real consumption, and significant growth in real exports Inflation is expected to exceed the informal target set by the Fed, with FY22 growth in the CPI for all goods coming in at 4.2 percent. Among other broad US aggregate statistics, the unemployment rate is projected to decline to a level of 4.8 percent in FY22 compared to the 6.9 percent rate in FY21.

Among the five components of real GDP, real investment is poised to grow the fastest in percentage terms, gaining $276.1 billion or 7.8 percent over the outlook periods. Real consumption is expected to rise the most in absolute terms, gaining $637.5 billion, a 4.8 percent increase in the final three quarters of FY22, compared to the same period in the year prior. Modest growth is anticipated for real exports, rising 5.9 percent, outpacing the 3.3 percent growth in real imports over the next three fiscal quarters.

The combined factors of the rise in the delta variant, the expiration of supplemental unemployment benefits, fading impact of fiscal stimulus, and rising prices appear to be weighing on consumer sentiment. While sentiment rebounded marginally in September 2021 after falling to a decade low one month prior, August's decline suggests that consumers are significantly more cautious than they have been in recent months. A solid rebound to consumer sentiment is expected in the outward quarters of this forecast.

Recent inflationary pressures were driven in part by shortages of new and used vehicles. The new car supply scarcity is anticipated to persist beyond the outlook periods, as the semiconductor chip shortage continues to suppress production and dwindle inventories. Without vehicles available for sale, light vehicle sales are anticipated to fall sharply in the second quarter and gradually improve in the third and fourth quarters of FY22.

The pace of inflation will continue to be dictated by rising costs and supply chain issues. Price pressures will likely persist if the pandemic continues to increase the risk of supply chain bottlenecks, as well as exacerbate friction in the labor market. Short-term and long-term inflation expectations suggest price spikes are transitory – meaning the price increases are a direct result of the pandemic and not structural or long-term in nature.

Growth in US wages and salaries is expected to be 7.8 percent for the forecasting horizon and 8.2 percent for FY22. The high growth in wages and salaries, coupled with employers seeking additional workers, suggests a temporary imbalance in the labor markets where labor demand exceeds labor supply. According to the Bureau of Labor Statistics, the US labor force participation rate fell from 63.3 percent in February of 2020 to 60.2 percent in April. Since then, the labor force participation rate has only clawed back 1.4 percent of the 3.1 percentage loss with the September reading at 61.6 percent. The immediate magnitude in the reduction of the labor force participation rate dating back to the outbreak of the COVID-19 onset exceeds any declines seen since the formation of this data series in 1948. Many workers have yet to return to the labor force, while others have retired due to a variety of reasons. US employment remains 5.3 million jobs short of the pre-pandemic peak. Table 4 suggests that US non-farm employment is expected to gain 5.9 million workers during the forecasting horizon compared to the final three quarters of FY21, but projected employment for FY22 of 149.0 million is still expected to remain 900,000 jobs lower in FY22 than the FY19 peak of 149.9 million.

Table 3
US Economic Outlook
Interim Forecast

	Q2-Q4			Full Year	
	FY22	FY21	% chg	FY22	% chg
Real GDP	20,040.4	19,061.3	5.1	19,910.8	5.1
Real Consumption	13,927.8	13,290.3	4.8	13,866.9	5.3
Real Investment	3,812.2	3,536.1	7.8	3,759.3	7.6
Real Govt. Expenditures	3,432.7	3,373.9	1.7	3,423.6	1.6
Real Exports	2,414.9	2,280.0	5.9	2,391.6	6.2
Real Imports	3,595.9	3,482.0	3.3	3,582.0	5.1
CPI all goods (% chg)	3.9	2.6	NA	4.2	NA
CPI Food (% chg)	3.3	3.3	NA	3.4	NA
CPI Energy (% chg)	6.1	6.9	NA	10.3	NA
CPI Core (% chg)	3.9	2.3	NA	4.0	NA
Industrial Production Index (% chg)	4.9	2.9	NA	5.1	NA
Unemployment Rate (%)	4.6	6.3	NA	4.8	NA
Housing Starts ($ millions, NSA)	1.4	1.6	-9.2	1.5	-5.9

KENTUCKY OUTLOOK

The forecast for Kentucky personal income by type and the employment outlook by sector was prepared using the Kentucky MAK model and the September 2021 "control" forecast from IHS Markit.

Kentuckian's personal income is expected to decline slightly over the forecast horizon as transfer payments from the federal government continue to phase out. Through the remainder of FY22, a decline in personal income is expected; falling 1.6 percent compared to the second, third and fourth quarters of FY21. The Child Tax Credit payments authorized under the American Rescue Plan are set to expire at the end of calendar year 2021, following the expiration of special unemployment insurance programs in September 2021. Transfer receipts, the second largest component of Kentucky personal income, are expected to drop 13.5 percent for the full year of FY22 and 18.4 percent during the final three quarters of the fiscal year.

While total Kentucky personal income fails to gain momentum, relatively strong growth is forecasted for wages and salaries across the outlook periods. Wages and salaries are poised to grow 7.8 percent in the final three quarters of FY22 compared to the same period one year prior. Wage and salary income is the largest component of personal income and has historically made up near 53 percent of personal income. In FY22, wages and salaries will comprise 49.8 percent of state personal income.

Remote working, while not available in all occupations, has created opportunities for certain households to remain attached to the workplace despite complications such as school closings, family health care needs, and direct contact with the virus. However, the opportunity to work remotely has not been available in many industries and occupations, leading to worker shortages, supply-chain disruptions, and withdrawal from the workforce for affected workers since early in the pandemic. Those who must work from their job site are left most vulnerable to the pandemic from a health and economic standpoint.

To date in the economic slowdown, the disproportionate job losses in the leisure and hospitality sector have artificially *increased* the level of average wages as lower wage workers experienced the majority of the job loss when compared to their higher-paid counterparts. As the economic recovery continues and lower-paid jobs are added back to the workforce, the process typically works in the opposite direction, decreasing average wages. However, average wage is not anticipated to decrease moving forward. Rather, the opposite is forecasted to occur. As workers return to the labor market, many are insisting on an increase in wages. Lower paid employees, who currently are required to report to a job site, are specifically insisting on this increase.

Total non-farm employment is expected to grow 3.9 percent, a gain of 71,800 jobs (annual rate) during the final three quarters of FY22. Nine of the eleven supersectors are forecasted to experience varying degrees of employment gains. In percentage and absolute terms, the service-providing sector is expected to experience the most pronounced job growth, which will account for an increase of 53,300 jobs, or a 4.3 percent increase over the outlook period.

Table 4
US Labor and Income Outlook
Interim Forecast

	Q2-Q4			Full Year	
	FY22	**FY21**	**% chg**	**FY22**	**% chg**
Non-farm Employment (millions, NSA)	149.6	143.7	4.1	149.0	4.2
Goods-producing	20.5	20.3	1.3	20.5	1.7
Construction	7.4	7.4	-0.2	7.4	0.5
Mining	0.7	0.6	10.3	0.7	9.9
Manufacturing	12.5	12.2	1.8	12.5	2.1
Service-providing	106.6	101.9	4.6	106.1	4.9
Trade, Transportation & Utilities	27.3	27.1	0.7	27.3	1.4
Information	2.8	2.7	4.4	2.8	4.6
Finance	9.0	8.8	3.0	9.0	2.7
Business Services	22.0	20.6	6.4	21.7	6.2
Educational Services	24.1	23.3	3.1	24.0	3.0
Leisure and Hospitality Services	15.5	13.8	12.1	15.4	13.3
Other Services	6.0	5.5	7.8	5.9	7.5
Government	22.5	21.6	4.3	22.4	3.5
Personal Income ($ billions, AR)	20,630.8	20,658.1	-0.1	20,607.6	0.8
Wages and Salaries ($ billions, AR)	10,683.4	9,911.4	7.8	10,591.4	8.2
Transfer Receipts	3,774.7	4,680.4	-19.4	3,847.7	-16.4
Dividends, Interest, and Rents	3,756.5	3,630.1	3.5	3,735.9	3.4
Supplements to Wages and Salaries	2,318.5	2,206.7	5.1	2,303.0	5.3
Proprietors' Income	1,731.2	1,760.7	-1.7	1,752.4	-0.5
Social Insurance	1,633.5	1,531.2	6.7	1,622.8	7.2
Residence Adjustment	0.0	0.0	NA	0.0	NA

Table 5
KY Labor and Income Outlook
Interim Forecast

	Q2-Q4			Full Year	
	FY22	**FY21**	**% chg**	**FY22**	**% chg**
Non-farm Employment (thousands, NSA)	1,928.9	1,857.1	3.9	1,922.1	3.9
Goods-producing	335.0	328.2	2.1	334.2	2.5
Construction	79.1	79.3	-0.2	79.1	0.8
Mining	7.8	7.3	7.1	7.8	6.9
Manufacturing	248.1	241.6	2.7	247.3	2.9
Service-providing	1,288.1	1,234.9	4.3	1,283.6	4.4
Trade, Transportation & Utilities	403.6	403.4	0.1	404.4	0.6
Information	20.1	20.1	-0.1	20.1	0.5
Finance	98.0	94.7	3.4	97.5	3.6
Business Services	226.6	210.8	7.5	223.8	6.8
Educational Services	283.7	276.3	2.7	282.6	2.6
Leisure and Hospitality Services	190.4	167.7	13.5	189.9	13.7
Other Services	65.9	61.8	6.6	65.3	6.1
Government	305.7	294.0	4.0	304.3	3.4
Personal Income ($ billions, AR)	219.5	223.1	-1.6	219.5	0.3
Wages and Salaries ($ billions, AR)	110.2	102.2	7.8	109.3	8.3
Transfer Receipts	55.5	68.0	-18.4	56.5	-13.5
Dividends, Interest, and Rents	33.8	32.8	3.2	33.7	3.1
Supplements to Wages and Salaries	26.8	25.2	6.2	26.6	6.3
Proprietors' Income	13.7	14.2	-3.4	13.9	-1.7
Social Insurance	18.0	16.8	7.3	17.9	7.7
Residence Adjustment	-2.5	-2.5	NA	-2.5	NA

REVENUE RECEIPTS

GENERAL FUND
First Quarter FY22

General Fund revenue collections posted their second consecutive quarterly increase of more than 20 percent. However, each comes with a caveat. Receipts in the final quarter of FY21 were positively impacted by a recession-level base while receipts in the just completed quarter were boosted by a legal settlement. Collections for the period July – September grew 20.0 percent and were boosted by a $225 million one-time legal settlement with Flutter Entertainment, the parent company of PokerStars. Excluding the settlement, revenues were still strong, growing 12.1 percent. Total revenues in the just completed quarter totaled $3,424.9 million compared to $2,854.3 million in the first quarter of FY21, for an increase of $570.6 million.

Collections from the major revenue categories are shown in summary form in Table 6 which reveals broad-based growth across the major accounts with declines in only one account: cigarettes. The sales and use tax, the major business taxes (corporation income and the limited liability entity tax) and the miscellaneous taxes all increased by more than $100 million while the individual income tax grew by $77.6 million. Detailed information on these major accounts is available in the Appendix.

Table 6
Summary General Fund Receipts
$ millions

	FY22 Q1	FY21 Q1	Diff $	Diff %
Individual Income	1,262.3	1,184.7	77.6	6.5
Sales & Use	1,238.6	1,127.1	111.5	9.9
Corp. Inc. & LLET	290.6	165.1	125.5	76.0
Property	63.1	54.1	8.9	16.5
Lottery	69.5	60.5	9.0	14.9
Cigarettes	84.0	87.9	-3.9	-4.4
Coal Severance	12.9	12.1	0.7	6.1
Other	404.0	162.8	241.2	148.2
Total	**3,424.9**	**2,854.3**	**570.6**	**20.0**

The official General Fund revenue estimate for FY22 calls for collections to decline 7.7 percent compared to FY21 actual receipts. Given the year-to-date revenue situation, General Fund receipts can fall 15.7 percent for the remainder of the fiscal year and still meet the official estimate. The official estimate is currently being revised as the CFG met in August and October to review the latest data and forecasts. A consensus on a new official estimate is expected to occur in December.

Individual income tax receipts grew 6.5 percent in the first quarter of the year. Receipts were $1,262.3 million which was an increase of $77.6 million over FY21 collections. Declarations and net returns accounted for $22.4 million of the increase.

Sales and use tax collections were strong as well, increasing $111.5 million over first quarter FY21 levels. Collections for the quarter were $1,238.6 million, an increase of 9.9 percent.

The combined corporation income and limited liability entity tax (LLET) taxes rose 76.0 percent, or $125.5 million in the just completed quarter. Receipts totaled $290.6 million compared to the $165.1 million received a year earlier.

Property taxes rose 16.5 percent in the first quarter of FY22 with collections of $63.1 million. This compares to $54.1 million received in the first quarter of the prior fiscal year. The first quarter is typically the lowest quarter of collections each fiscal year, contributing less than 10 percent of the annual total for the property tax accounts.

Lottery receipts increased 14.9 percent, or $9.0 million, in the first quarter of FY22. Total dividend payments were $69.5 million compared to $60.5 million collected in the first quarter of FY21.

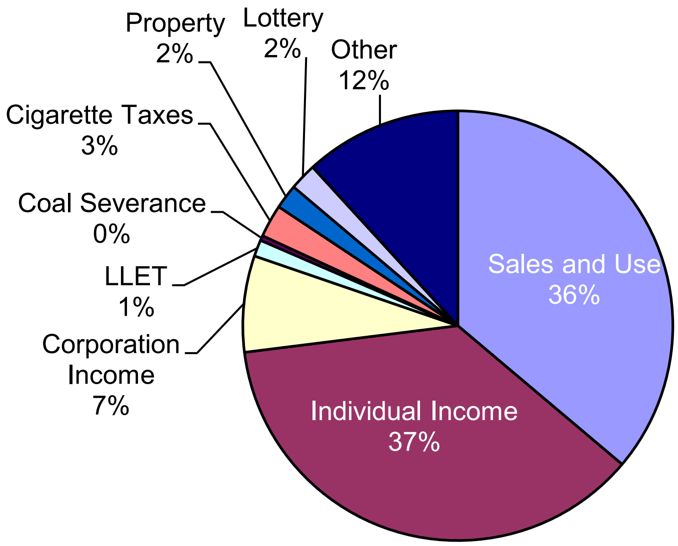
Coal severance tax collections grew 6.1 percent in the first quarter, the third time in the last four quarters in which revenues have increased. Receipts for the quarter were $12.9 million.

Cigarette taxes were down 4.4 percent in the first quarter with receipts of $84.0 million. This compares to $87.9 million collected in the first quarter of FY21. Cigarette consumption has been trending downward for several years and that trend is reflected in this revenue stream.

The "other" category represents the remaining accounts in the General Fund, and collections in this account increased 148.2 percent with receipts of $404.0 million, aided by the one-time legal settlement

Figure 1 details the composition of first quarter General Fund receipts by tax type. Seventy-three percent of General Fund revenues were collected in the areas of the individual income and sales and use taxes. The next largest source of revenue was the "other" category which accounted for 12 percent. The combined corporation income and LLET taxes made up eight percent while 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 FY22
General Fund Revenues



ROAD FUND
First Quarter FY22

First quarter Road Fund receipts returned to a more normal level of activity after two years of COVID-related disruptions. Fiscal years 2020 and 2021 were marked by below normal collections in the first three quarters of the year followed by enormous swings in the final quarter. In FY20, revenues in the first three quarters averaged just over two percent before falling nearly 24 percent in the fourth quarter while FY21 saw receipts average less than one percent over the first nine months before surging more than 43 percent in the fourth quarter.

Total receipts received in the first quarter grew 3.5 percent with collections of $423.8 million, which exceeded last year's first quarter total by $14.4 million. Motor vehicle usage tax receipts were $6.1 million higher than in the same quarter last year while the motor fuels tax increased by $9.4 million. The remaining accounts collectively decreased $1.0 million.

The official Road Fund revenue estimate was rendered in December 2020 and calls for a 2.0 percent decrease in revenues for the year. Based on year-to-date tax collections, revenues can fall 3.9 percent for the remainder of FY22 and still meet the estimate. Summary data are contained in Table 7 and detailed data are shown in the Appendix.

Table 7
Summary Road Fund Receipts
$ millions

	FY22 Q1	FY21 Q1	Diff $	Diff %
Motor Fuels	201.5	192.1	9.4	4.9
Motor Vehicle Usage	164.0	158.0	6.1	3.8
Motor Vehicle License	19.7	25.7	-5.9	-23.2
Motor Vehicle Operators	7.4	5.3	2.0	37.7
Weight Distance	21.8	18.9	2.8	15.0
Income on Investments	0.1	0.2	-0.1	-32.4
Other	9.4	9.3	0.1	1.5
Total	**423.8**	**409.4**	**14.4**	**3.5**

Motor fuels tax receipts rose 4.9 percent during the quarter, reversing the recent trend in which collections were tepid as total vehicle miles traveled fell due to shutdowns and more people working from home. Receipts were $201.5 million as compared to $192.1 million collected during the first quarter of last year.

Motor vehicle usage tax receipts are beginning to soften, growing only 3.8 percent in the first quarter. For perspective, the low point of FY21 receipts was the third quarter in which revenues rose 8.3 percent. For the quarter, revenues were $164.0 million compared to $158.0 million in the first quarter of FY21.

Motor vehicle license tax receipts fell 23.2 percent, or $5.9 million in the first quarter of FY22 due to an increase in last year's receipts caused by timing issues related to COVID. Receipts in the first quarter were $19.7 million compared to $25.7 million during the same period last year.

Motor vehicle operator's tax receipts were $7.4 million in the first quarter of FY22, a 37.7 percent increase compared to collections a year ago. Collections in this account were positively impacted by the ramping up of the issuance of REAL ID compliant driver's licenses.

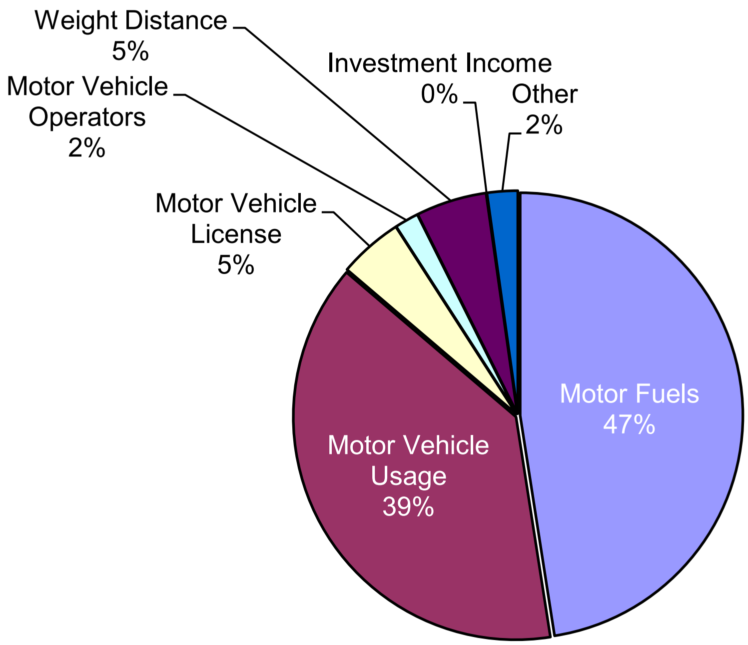
Weight distance tax receipts were $21.8 million in the quarter and represent a 15.0 percent increase compared to receipts collected during the first quarter of FY21. The weight distance tax has some significance as a leading indicator of economic activity, as it is a rough proxy for goods in transit over Kentucky highways.

Investment income fell 32.4 percent to just over $112,000 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 $9.4 million, a 1.5 percent increase from FY21 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 and weight distance taxes each with 5 percent. The "other" category as well as motor vehicle operators were each at 2.0 percent. Income on investments accounted for a negligible amount of total Road Fund receipts

Figure 2
Composition of First Quarter FY22
Road Fund Revenues



THE ECONOMY
FIRST QUARTER FY22

NATIONAL ECONOMY

Real gross domestic product (real GDP) grew by 5.2 percent in the first quarter of FY22. See Table 8. Real GDP was still below its previous peak in the first quarter of FY21, therefore, real GDP for the first quarter of FY22 had a low hurdle in order to generate growth. It is more instructive to examine the adjacent-quarter growth rates to see how well real GDP has performed in the last two quarters. The last eight adjacent-quarter growth rates were: 0.5, -1.3, -8.9, 7.5, 1.1, 1.5, 1.6, and 0.8 percent, respectively. As you can see quarterly growth is half of what it was just last quarter and is the lowest of the last five quarters. Still, 0.8 percent is a solid adjacent-quarter growth rate.

Real consumption rose by 6.7 percent in the first quarter of FY22 over the first quarter of FY21. Just like with real GDP, the year-over-year growth rate obscures what is really happening with real consumption during the last quarter. The last eight adjacent-quarter growth rates were: 0.4, -1.8, -9.7, 9.1, 0.8, 2.7, 2.8, and 0.2 percent, respectively. Growth has slowed significantly. Real consumption surpassed its previous peak in the third quarter of FY21. Real consumption made up 70.1 percent of real GDP in the first quarter of FY22.

Real investment grew by 6.8 percent in the first quarter compared to the first quarter of FY21. Again, this is somewhat misleading about the exact nature of the growth over the last five quarters in real investment. Real investment was soft even before the recession began. The recession led to significant declines in real investment just like it did in many other components. Likewise, real investment experienced significant increases in the two quarters following the end of the recession. However, unlike other components, real investment declined after those two significant increases. The last nine adjacent-quarter growth rates were: 0.3, -1.7, -1.4, -15.4, 16.2, 5.7, -0.6, -1.0, and 2.7 percent, respectively. Real investment made up 18.4 percent of real GDP in the first quarter of FY22.

Real government expenditures grew by 1.1 percent in the first quarter of FY22. It is important to note that real government expenditures do not contain any transfer payments. It includes neither transfers to individuals in the form of social security payments nor payments to states in the form of Medicare expenditures. For this reason, real government expenditures growth, both positive and negative, has been muted for the last eight quarters. Adjacent-quarter growth rates for the last eight quarters were: 0.7, 0.9, 1.0, -0.5, -0.1, 1.0, -05, and 0.6 percent, respectively. Real government expenditures for the most part has resumed its usual countercyclical behavior. Real government expenditures made up 17.4 percent of real GDP in the first quarter of FY22.

Table 8
History of US Economic Variables

	FY21								FY22	
	Q1	% chg	Q2	% chg	Q3	% chg	Q4	% chg	Q1	% chg
Real GDP ($ billions, AR)	18,560.8	-2.9	18,767.8	-2.3	19,055.7	0.5	19,360.6	12.2	19,521.9	5.2
Real Consumption	12,820.8	-2.8	12,927.9	-2.4	13,282.7	2.1	13,660.2	16.2	13,684.1	6.7
Real Investment	3,371.0	-4.7	3,561.9	2.4	3,541.3	3.2	3,505.0	20.8	3,600.5	6.8
Real Government Expenditures	3,360.2	2.1	3,356.0	1.2	3,390.9	1.3	3,374.9	-0.1	3,396.1	1.1
Real Exports	2,166.3	-14.9	2,279.0	-10.7	2,262.3	-7.4	2,298.6	18.3	2,321.8	7.2
Real Imports	3,187.5	-8.3	3,411.8	0.3	3,488.4	6.2	3,545.7	30.5	3,540.4	11.1
CPI - All Goods (% chg)	1.3	NA	1.2	NA	1.9	NA	4.8	NA	5.2	NA
CPI - Food (% chg)	4.1	NA	3.9	NA	3.6	NA	2.3	NA	3.6	NA
CPI - Energy (% chg)	-9.1	NA	-8.7	NA	3.7	NA	25.6	NA	22.6	NA
Core CPI (% chg)	1.7	NA	1.6	NA	1.4	NA	3.7	NA	4.1	NA
Industrial Prod. Index (% chg)	-6.7	NA	-4.3	NA	-1.6	NA	14.6	NA	5.9	NA
Working Population (millions, NSA)	260.6	0.4	261.1	0.4	260.9	0.5	261.2	0.4	0.0	0.0
Civilian Labor Force	160.8	-2.1	160.5	-2.3	159.9	-2.2	161.1	1.8	0.0	0.0
Employed	146.5	-7.4	150.1	-5.5	149.5	-4.6	151.7	10.1	0.0	0.0
Unemployed	14.3	135.4	10.4	90.1	10.4	55.5	9.3	-54.3	0.0	0.0
Not in Labor Force	99.8	4.9	100.6	5.1	101.0	5.0	100.2	-1.6	0.0	0.0
Labor Force Participation Rate (%)	61.5	NA	61.5	NA	61.4	NA	61.6	NA	0.0	NA
Unemployment Rate (%)	8.8	NA	6.7	NA	6.2	NA	5.9	NA	5.3	NA
Housing Starts (millions, AR)	1.4	11.4	1.6	12.1	1.6	7.7	1.6	46.1	1.5	4.8

Total federal outlays declined by 15.8 percent in the first quarter of FY22 compared to the first quarter of FY21. See Table 9. Outlays have receded somewhat since the first quarter of FY21. However, total outlays are still greatly elevated relative to historical levels. In the second quarter of FY20, prior to the recession, total outlays were $4.8 trillion (annual rate). In the fourth quarter of FY20, during the recession, federal outlays peaked at $9.1 trillion (annual rate). In the first quarter of FY22, total outlays were $6.1 trillion (annual rate). So, while outlays have declined slightly over the past year, they are still over 25 percent higher than pre-recession levels.

Table 9
US Federal Outlays
$ billions, AR

	First Quarter			
	FY22	FY21	Chg	% Chg
Federal Outlays excl. Gross Investment	6,068.2	7,206.8	-1,138.5	-15.8
National Defense	733.9	703.0	30.9	4.4
Non-Defense Consumption	485.5	466.4	19.1	4.1
Federal Transfer Payments to Resident Persons	3,074.5	3,468.3	-393.8	-11.4
Medicare	824.7	825.8	-1.1	-0.1
Social Security	1,117.1	1,080.2	36.9	3.4
Social Insurance to Rest of the World	26.0	35.0	-9.0	-25.8
Grants-in-Aid to State & Local Govts	809.5	738.5	71.0	9.6
Medicaid	506.7	481.7	25.0	5.2
Non-Medicaid Grants to State & Local Govts	302.8	256.8	46.0	17.9
Aid to Foreign Govts	43.3	53.6	-10.2	-19.1
Interest on the Debt	499.6	521.5	-21.9	-4.2
Subsidies	396.0	1,220.5	-824.5	-67.6

The largest outlay classification is federal transfer payments to resident persons, which makes up just over 50 percent of total federal outlays. Federal transfer payments to resident persons declined by 11.4 percent in the first quarter of FY22 over the first quarter of FY21. Not surprisingly, the massive changes in federal transfer payments over the last six quarters explain nearly all the variation in total federal outlays. Federal transfer payments to resident persons adjacent-quarter growth rates for the last eight quarters were: 0.8, 2.9, 97.1, -27.2, -18.1, 78.6, -33.6, and -8.7 percent, respectively. The peak for federal transfer payments occurred in the third quarter of FY21, when payments were $5.1 trillion (annual rate). Federal transfer payments were hovering near $2.3 trillion (annual rate) just prior to the 2020 recession. Transfer payments in the first quarter of FY22 were $3.1 trillion. So, while transfer payments have fallen in the last two quarters, they are still about 30 percent higher than they were before the recession.

US subsidies declined by 67.6 percent in the first quarter of FY22. This was the largest mover in both percentage and absolute terms in the first quarter of FY22. Subsidies is also the category of expenditures which has deviated the farthest from its pre-recession level. Prior to the 2020 recession, subsidies were hovering near the $80 billion level. Subsidies exploded in the fourth quarter of FY19 growing to $1.1 trillion (annual rate) in one quarter. Subsidies expenditures have tapered since the first quarter of FY20 but are still historically high. Subsidies reached a peak in the first quarter of FY20 at $1.2 trillion. Over the next four quarters, subsidies have declined to $396.0 billion by the first quarter of FY22. Subsidies are still 393.2 percent higher than their pre-recession levels. Prior to the recession, subsidies made up 1.7 percent of total federal outlays. In the first quarter of FY22, subsidies made up 6.5 percent of total federal outlays.

US exports rose by 7.2 percent in the first quarter of FY22. The last eight adjacent-quarter growth rates were: 0.3, -4.4, -20.4, 11.5, 5.2, -0.7, 1.6, and 1.0 percent, respectively. The previous peak for US exports occurred in the third quarter of FY19 with $2.6 trillion in sales. US exports still have not surpassed that peak. US exports in the first quarter of FY22 were $2.3 trillion. US imports rose by 11.1 percent in the first quarter of FY22. This annual growth rate obscures what has really occurred in the current quarter. On an adjacent-quarter basis, US imports declined in the first quarter of FY22. The last eight adjacent-quarter growth rates were: -2.2, -3.4, -17.2, 17.3, 7.0, 2.2, 1.6, and -0.1 percent, respectively. The previous peak for US imports occurred in the fourth quarter of FY19 with $3.49 trillion in sales. US imports in the first quarter of FY22 were $3.54 trillion. US imports surpassed its previous peak in the third quarter of FY21.

US personal income grew by 3.8 percent in the first quarter of FY22 compared to the first quarter of FY21. All that growth occurred in the third quarter of FY21. US personal income declined in the other three quarters of the last four quarters. This can be easily seen by examining the adjacent-quarter growth rates. The last eight adjacent-quarter growth rates were: 1.0, 1.0, 8.0, -2.8, -1.2, 11.9, -6.0, and -0.1

percent, respectively. Those two large growth rates were caused almost exclusively by increases in transfer payments income.

US wages and salaries income grew by 9.6 percent in the first quarter of FY22. US wages and salaries has followed a very different path than total personal income during the last six quarters. In the fourth quarter of FY20 (the second quarter of the two-quarter recession), total personal income rose by 8.0 percent on an adjacent-quarter basis, while wages and salaries declined by 6.5 percent. Then in the first two quarters of FY21, total personal income growth was -2.8 and -1.2 percent, respectively, while wages and salaries growth was 4.8 and 4.0 percent. In the fourth quarter of FY21 and the first quarter of FY22, total personal income growth was -6.0 and -0.1 percent, respectively, while US wages and salaries income growth was 2.0 and 2.4 percent, respectively.

US personal income growth was largely affected by transfer payments income, while wages and salaries growth was largely a function of increased demand at online shopping centers and pizza delivery restaurants, which resulted in higher wages in some sectors. Total non-farm employment has declined a net 3.0 percent from the second quarter of FY20 (pre-recession) to the first quarter of FY22. During that same period, US wages and salaries rose by a net 9.0 percent. The Governor-mandated shutdowns resulted in fewer people working at higher wages or salaries than before the recession. While the unemployment rate has tapered since the recession ended, it is still well above its pre-recession level. In the second quarter of FY20, the unemployment rate was 3.6 percent and in the first quarter of FY22 the unemployment rate was 5.3 percent. The unemployment rate reached a peak of 13.0 percent in the fourth quarter of FY20. The unemployment rate has been above five percent for six consecutive quarters, while wages and salaries continue to remain high. Wages and salaries will move higher until it can satisfy the demand of the industries' higher demand for goods and services. It is therefore expected that wages and salaries will continue to rise albeit slowly for the near future.

US transfer receipts declined by 6.9 percent in the first quarter of FY22. This figure greatly obscures the large movements in this income category over the last five quarters. There were two large infusions to individuals in the form of federal stimulus payments during that time. Those payments occurred in the fourth quarter of FY20 and in the third quarter of FY21. The last eight adjacent-quarter growth rates for US transfer payments income were: 0.6, 1.8, 74.3, -22.4, -14.6, 60.4, -27.6, and -6.1 percent, respectively. So, while there were four declines in the last eight quarters, the four increases were an aggregate even larger. US transfer receipts in the quarter before the recession were $3.2 trillion (annual rate). US transfer receipts peaked in the fourth quarter of FY20 at $5.6 trillion (annual rate). US transfer receipts in the first quarter of FY22 were $4.1 trillion (annual rate), which is still 28.1 percent higher than the level before the recession. US transfer receipts income made up 19.8 percent of total personal income in the first quarter of FY22. This is the fifth highest share in US history. The six highest shares in US history have all occurred in the last six quarters.

US non-farm employment rose by 4.5 percent in the first quarter of FY22. Employment growth has been modest to good since the end of the recession. The adjacent-quarter growth rates for the last eight quarters were: 0.4, 0.1, -12.0, 5.4, 1.2, 0.5, 1.2, and 1.5 percent, respectively. US non-farm employment peaked in the third quarter of FY20 with 151.9 million jobs. US non-farm employment in the first quarter of FY22 was 147.2 million. So, while employment has had solid growth for the last five quarters, it is still below the pre-recession level --- 3.0 percent below.

Leisure and hospitality services employment has performed the best over the last year, gaining a net 17.2 percent in jobs. See Table 10. Leisure and hospitality employment has also performed well over the last five quarters, nearly regaining all of its recession losses. The last eight adjacent-quarter growth rates were: 1.1, -0.8, -37.9, 26.3, 3.2, 0.04, 7.1, and 5.9 percent, respectively. Leisure and hospitality is now only 8.8 percent below its pre-recession level.

Table 10
History of US Labor and Income Data

	FY21								FY22	
	Q1	% chg	Q2	% chg	Q3	% chg	Q4	% chg	Q1	% chg
Non-farm Employment (millions, NSA)	140.9	-6.8	142.6	-6.0	143.4	-5.6	145.1	8.5	147.2	4.5
Goods-producing	19.9	-5.5	20.2	-4.3	20.3	-3.8	20.3	6.0	20.5	2.9
Mining	0.6	-18.0	0.6	-15.7	0.6	-12.0	0.6	2.6	0.6	8.7
Construction	7.2	-3.8	7.4	-2.5	7.4	-2.7	7.4	7.5	7.4	2.6
Manufacturing	12.1	-5.8	12.2	-4.7	12.3	-4.0	12.3	5.2	12.4	2.8
Service-providing	99.1	-7.7	101.0	-6.5	101.6	-6.0	103.0	10.8	104.7	5.6
Trade, Transportation & Utilities	26.5	-4.5	26.9	-3.1	27.1	-2.6	27.2	8.3	27.4	3.6
Information	2.6	-8.6	2.7	-8.1	2.7	-7.9	2.7	3.9	2.8	5.3
Finance	8.7	-1.1	8.8	-0.7	8.8	-0.9	8.8	2.2	8.8	1.9
Business Services	19.9	-6.7	20.4	-4.6	20.7	-3.2	20.8	7.7	21.0	5.5
Educational Services	23.0	-5.0	23.3	-4.7	23.3	-4.8	23.5	5.9	23.7	2.7
Leisure and Hospitality Services	13.0	-21.3	13.5	-19.7	13.5	-19.0	14.4	39.7	15.3	17.2
Other Services	5.4	-8.9	5.5	-7.3	5.5	-6.7	5.6	16.4	5.7	6.7
Government	21.8	-3.6	21.5	-5.3	21.5	-5.6	21.7	0.8	22.1	1.1
Personal Income ($ billions, AR)	19,777.4	7.1	19,542.0	4.8	21,867.3	16.1	20,564.9	1.1	20,538.1	3.8
Wages and Salaries	9,410.3	0.9	9,783.0	3.4	9,879.2	2.9	10,072.1	12.2	10,315.3	9.6
Transfer Receipts	4,369.4	38.4	3,729.5	17.5	5,982.5	85.1	4,329.1	-23.2	4,066.8	-6.9
Dividends, Interest, and Rents	3,566.3	-2.7	3,619.6	-1.7	3,615.8	-2.0	3,655.0	1.0	3,674.2	3.0
Supplements to Wages and Salaries	2,129.4	0.1	2,181.1	1.9	2,209.7	2.7	2,229.2	8.7	2,256.4	6.0
Proprietors' Income	1,760.7	9.3	1,730.0	6.3	1,714.0	4.6	1,838.2	25.0	1,816.2	3.1
Social Insurance	1,458.7	2.6	1,501.3	4.2	1,533.8	4.2	1,558.6	10.9	1,590.7	9.1
Residential Adjustment	0.0	NA	0.0	NA	0.0	NA	0.0	NA	0.0	NA

KENTUCKY ECONOMY

Kentucky personal income rose 6.4 percent in the first quarter of FY22. See Table 11. This annual growth rate misses several important changes that have happened during the last four quarters. Therefore, it is useful to examine the adjacent-quarter growth rates to see this buried effect. The last eight adjacent-quarter growth rates were: 0.8, 0.9, 10.8, -6.7, 0.5, 16.4, -8.4, and -0.6 percent, respectively. The two large increases were caused almost entirely by the sharp rise in Kentucky transfer payments income during those two quarters.

Kentucky wages and salaries was the fastest growing component of Kentucky personal income over the last four quarters. Kentucky wages and salaries grew by 9.8 percent in the first quarter of FY22 over the first quarter of FY21. Kentucky wages and salaries has sustained solid to strong growth for the last five quarters. The adjacent-quarter growth rates for the last eight quarters were: 1.3, 0.5, -7.7, 7.1, 2.8, 2.7, 1.7, and 2.3 percent, respectively. Kentucky wages and salaries surpassed its previous peak in the second quarter of FY21. Kentucky wages and salaries is now \$8.4 billion, or 8.6 percent, above its previous peak. Kentucky wages and salaries made up 48.6 percent of total Kentucky personal income in the first quarter of FY22.

Kentucky supplement to wages and salaries (aka fringe benefits) increased by 6.7 percent in the first quarter of FY22. Supplements income has risen steadily over the last five quarters. The last eight adjacent-quarter growth rates for supplements were: 1.0, -0.2, -6.5, 6.2, 1.4, 2.6, 1.2, and 1.4 percent, respectively. Supplements income is now 5.7 percent, or \$1.4 billion, above its pre-recession peak. Supplements income made up 11.8 percent of total Kentucky personal income in the first quarter of FY22.

Kentucky non-farm employment rose by 4.0 percent in the first quarter of FY22. See Table 11. This is the fifth consecutive quarter that non-farm employment has risen. The last eight adjacent-quarter growth rates for Kentucky non-farm employment were: 0.03, 0.2, -12.3, 6.8, 1.2, 0.3, 0.3, and 2.1 percent, respectively. The recession job losses were significant and have still not been made up entirely despite the five quarters of solid growth. The previous peak occurred in the third quarter of FY20 with 1,952,900 jobs. Kentucky non-farm employment in the first quarter of FY22 was 1,901,600, which puts the Commonwealth 189,400 jobs above the trough and 51,300 jobs below the previous peak. Kentucky has now made up 78.7 percent of recession job losses.

Kentucky leisure and hospitality services employment was by far the best performing sector in the first quarter of FY22, gaining a net 14.2 percent over the first quarter of FY21. The first quarter of FY22 was a significant growth quarter on its own. The last eight adjacent-quarter growth rates were: 0.5, -0.4, -36.5, 28.4, 1.2, -0.1, 1.8, and 11.0 percent, respectively. Prior to the recession, leisure and hospitality growth was very modest, gaining only 0.2 to 0.8 percent, respectively each quarter. The previous peak for leisure and hospitality services employment occurred in the second quarter of FY20 with 203,100 jobs. The recession hurt the sector significantly, resulting in a loss of 74,700 jobs during the recession. Since the recession ended, the leisure and hospitality sector has regained 59,900 of those lost jobs. That is a recovery of 80.2 percent of recession losses. Leisure and hospitality made up 9.9 percent of total non-farm employment in the Commonwealth in the first quarter of FY22. That makes it the sixth largest supersector (out of eleven) in Kentucky.

Table 11
History of KY Labor and Income Data

	FY21								FY22	
	Q1	% chg	Q2	% chg	Q3	% chg	Q4	% chg	Q1	% chg
Non-farm Employment (thousands, NSA)	1,829.0	-6.2	1,851.7	-5.0	1,857.0	-4.9	1,862.5	8.8	1,901.6	4.0
Goods-producing	320.0	-6.8	327.0	-4.3	327.8	-3.7	329.9	11.0	331.7	3.6
Mining	7.3	-25.0	7.3	-25.0	7.4	-15.6	7.1	3.3	7.8	6.5
Construction	76.1	-5.7	79.0	-2.0	78.7	-3.4	80.2	7.1	79.1	4.0
Manufacturing	236.6	-6.4	240.6	-4.2	241.7	-3.4	242.6	12.6	244.8	3.4
Service-providing	1,214.4	-6.2	1,230.6	-5.1	1,236.0	-5.0	1,238.0	10.4	1,269.9	4.6
Trade, Transportation & Utilities	397.5	-1.7	401.7	-0.9	404.0	-0.4	404.6	7.3	406.7	2.3
Information	19.8	-8.6	20.2	-6.2	20.3	-5.7	19.7	1.0	20.2	2.2
Finance	92.0	-1.9	93.7	-0.5	95.4	0.7	95.0	4.7	96.0	4.3
Business Services	206.2	-5.1	210.4	-2.8	212.4	-2.4	209.6	8.8	215.6	4.6
Educational Services	273.0	-5.1	276.3	-4.0	275.7	-5.1	277.0	7.5	279.4	2.3
Leisure and Hospitality Services	164.9	-18.4	166.9	-17.8	166.7	-17.6	169.7	32.1	188.3	14.2
Other Services	61.0	-9.3	61.5	-9.4	61.4	-10.4	62.4	12.8	63.7	4.4
Government	294.6	-5.4	294.1	-5.7	293.3	-5.8	294.6	0.3	300.1	1.8
Personal Income ($ billions, AR)	206.3	5.2	207.3	4.8	241.2	20.9	220.9	-0.1	219.6	6.4
Wages and Salaries	97.2	0.6	99.9	2.1	102.6	4.4	104.3	15.0	106.7	9.8
Transfer Receipts	57.3	20.8	54.7	15.2	86.2	77.3	63.1	-21.0	59.5	3.9
Dividends, Interest, and Rents	32.3	-2.4	32.7	-1.3	32.7	-1.9	33.0	0.9	33.2	2.7
Supplements to Wages and Salaries	24.3	0.0	24.7	0.5	25.3	3.3	25.6	11.8	26.0	6.7
Proprietors' Income	13.8	5.9	14.1	7.2	13.9	4.3	14.5	18.7	14.3	3.7
Social Insurance	16.1	2.0	16.3	2.9	16.9	5.5	17.2	13.5	17.5	9.2
Residential Adjustment	-2.5	NA	-2.5	NA	-2.6	NA	-2.5	NA	-2.5	NA

APPENDIX

General Fund and Road Fund Revenue Receipts

FIRST QUARTER FY22

Kentucky State Government – General Fund

	First Quarter 2022	First Quarter 2021	% Change
TOTAL GENERAL FUND	**$3,424,906,837**	**$2,854,286,906**	**20.0%**
Tax Receipts	$3,109,272,411	$2,769,755,294	12.3%
Sales and Gross Receipts	$1,449,219,938	$1,332,381,610	8.8%
Beer Consumption	1,768,766	1,671,453	5.8%
Beer Wholesale	19,429,315	18,436,819	5.4%
Cigarette	84,007,814	87,885,202	-4.4%
Distilled Spirits Case Sales	58,186	51,326	13.4%
Distilled Spirits Consumption	4,918,394	4,437,681	10.8%
Distilled Spirits Wholesale	17,458,187	15,464,525	12.9%
Insurance Premium	37,056,696	41,927,941	-11.6%
Pari-Mutuel	9,335,370	4,831,636	93.2%
Race Track Admission	44,073	0	---
Sales and Use	1,238,582,601	1,127,108,868	9.9%
Wine Consumption	925,425	851,831	8.6%
Wine Wholesale	4,909,160	4,673,716	5.0%
Telecommunications Tax	19,127,949	17,706,633	8.0%
Other Tobacco Products	11,595,644	7,328,162	58.2%
Floor Stock Tax	2,357	5,815	-59.5%
Natural Resources	$20,986,834	$19,159,364	9.5%
Coal Severance	12,853,296	12,114,184	6.1%
Oil Production	1,569,191	875,854	79.2%
Minerals Severance	5,780,964	5,585,009	3.5%
Natural Gas Severance	783,382	584,318	34.1%
Individual Income Tax	$1,262,295,330	$1,184,713,966	6.5%
Withholding	1,129,763,447	1,073,369,525	5.3%
Declarations	128,426,926	123,197,732	4.2%
Net Returns	4,908,445	(12,227,007)	---
Fiduciary	(803,488)	373,716	---
Major Business Taxes	$290,605,551	$165,092,037	76.0%
Corporation Income	248,021,158	100,401,053	147.0%
LLET	42,584,393	64,690,985	-34.2%
Property	$63,064,812	$54,116,314	16.5%
General - Real	(145,827)	(102,989)	---
General - Tangible	10,484,891	1,329,780	688.5%
Tangible - Motor Vehicle	38,737,715	38,716,307	0.1%
Omitted & Delinquent	4,435,887	4,869,942	-8.9%
Public Service	7,969,541	9,306,792	-14.4%
Other	1,582,605	(3,517)	---
Inheritance Tax	$17,764,638	$14,231,697	24.8%
Miscellaneous	$5,335,308	$60,306	8747.1%
License and Privilege	$455,689	$374,067	21.8%
Bank Franchise	$285,050	$831,963	-65.7%
Legal Process	2,445,897	2,052,268	19.2%
T. V. A. In Lieu Payments	2,143,950	(3,503,357)	---
Other	4,723	305,365	-98.5%
Nontax Receipts	$310,701,176	$79,297,648	291.8%
Departmental Fees	3,144,335	2,776,756	13.2%
PSC Assessment Fee	13,442,610	14,344,316	-6.3%
Fines & Forfeitures	4,786,573	2,652,231	80.5%
Income on Investments	(133,023)	(227,617)	---
Lottery	69,500,000	60,500,000	14.9%
Miscellaneous	219,960,681	(748,039)	---
Redeposit of State Funds	$4,933,250	$5,233,964	-5.7%

Kentucky State Government – Road Fund

	First Quarter 2022	First Quarter 2021	% Change
TOTAL STATE ROAD FUND	**$423,836,188**	**$409,436,318**	**3.5%**
Tax Receipts-	$416,408,151	$402,784,704	3.4%
Sales and Gross Receipts	$365,480,238	$350,064,463	4.4%
Motor Fuels Taxes	201,458,094	192,096,252	4.9%
Motor Vehicle Usage	164,022,144	157,968,211	3.8%
License and Privilege	$50,927,913	$52,720,241	-3.4%
Motor Vehicles	19,729,226	25,675,898	-23.2%
Motor Vehicle Operators	7,354,849	5,340,665	37.7%
Weight Distance	21,763,848	18,929,339	15.0%
Truck Decal Fees	37,200	44,660	-16.7%
Other Special Fees	2,042,790	2,729,679	-25.2%
Nontax Receipts	$7,279,109	$6,578,884	10.6%
Departmental Fees	6,166,623	5,288,390	16.6%
In Lieu of Traffic Fines	61,545	38,685	59.1%
Income on Investments	112,152	165,879	-32.4%
Miscellaneous	938,789	1,085,931	-13.5%
Redeposit of State Funds	$148,928	$72,730	---

Glossary

Adjacent-quarter	A growth rate computed as the current quarter relative to the previous quarter.
AR	Annual Rate is the quantity of a series that would occur for the entire year, if the current period's growth were to continue for the entire year.
Civilian Labor Force	A subset of the working population who are currently employed or are actively looking for employment.
Employed	In the context of working population and civilian labor force data, Employed is a subset of the civilian labor force who are employed regardless of industry or profession. This is therefore different than non-farm employment, which explicitly does not include those persons employed in the agricultural sector.
Growth rate	Unless otherwise stipulated, a growth rate is computed as the current quarter relative to the same quarter of the previous year.
Labor Force Participation Rate	The Civilian Labor Force divided by the Working Population.
Not in Labor Force	A subset of the working population who have decided not to be employed nor seek employment.
SA	Seasonally-Adjusted
SAAR	Seasonally-Adjusted Annual Rate
Unemployed	In the context of working population and civilian labor force data, Unemployed is a subset of the civilian labor force who are not currently employed but are actively seeking employment.
Working population	The group of persons who are 16 years or older, non-institutionalized, not in prison, not in an old-age home, and not engaged in active military duty. It is meant to capture those persons who are capable of working and could work if suitable employment were found. Working population figures are listed in millions.

Tables Notes

Table 3
Not Seasonally Adjusted. Real series are annual rate, billions of chained 2000 dollars.
Components do not sum to GDP because they are annualized independently.
Source: IHS Markit - Economics & Country Risk, September 9, 2021 data release.

Table 4
Not Seasonally Adjusted. Data for FY22 Q1 are September 2021 estimates.
Source: IHS Markit - Economics & Country Risk, September 9, 2021 data release.

Table 7
Not Seasonally Adjusted. Real series are annual rate, billions of chained 2000 dollars.
Components do not sum to GDP because they are annualized independently.
Source: IHS Markit - Economics & Country Risk, September 9, 2021 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 8
Not Seasonally Adjusted.
Source: IHS Global Insight, Inc. and the Kentucky Governor’s Office for Economic Analysis
MAK model, September 2021

Table 10
Not Seasonally Adjusted.
Source: IHS Global Insight, Inc. and the Kentucky Governor's Office for Economic Analysis; MAK model, September 2021.