COMMONWEALTH OF KENTUCKY

Quarterly Economic & Revenue Report

First Quarter Fiscal Year 2024

GOVERNOR'S OFFICE FOR ECONOMIC ANALYSIS

OFFICE OF STATE BUDGET DIRECTOR

TEAM KENTUCKY

Office of State Budget Director
200 Mero Street, 5th Floor
Frankfort, Kentucky 40622

Andy Beshear
Governor

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

John Hicks
State Budget Director

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

October 31, 2023

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. Katie Comstock
Administrative Office of the Courts
1001 Vandalay Drive
Frankfort, Kentucky 40601

Dear Honorable Governor Beshear, Mr. Hartz and Ms. Comstock:

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 2024 (FY24) to the three branches of government.

This report includes the actual revenue receipts and economic conditions for the first quarter and an unofficial forecast for the final three quarters of FY24 (the forecast horizon). The report also provides an outlook for the national and state economies that provided the inputs into the revenue models.

Both the General Fund and Road Fund outlooks are identical to the preliminary estimates prepared by the Consensus Forecasting Group (CFG) in accordance with KRS 48.120 (1). When combined with the first quarter of actual receipts, the interim forecast predicts General Fund revenue of $15,394.2 million, or 1.6 percent growth in FY24, a revenue surplus of $1,243.2 million over the enacted estimates of $14,150.9 million from the 2022 Regular Session.

Road Fund collections are expected to increase 6.3 percent over the forecasting horizon, ending the year at 7.2 percent growth. Based on the interim forecast, revenues would exceed the official revenue estimate by $200.6 million. Motor fuels and motor vehicle usage tax revenues together would be $180.9 million above estimate while the remaining accounts would be $19.7 million more than the enacted level.

This office will continue to closely monitor Kentucky's economic and revenue conditions and will provide updates at the appropriate times. Official estimates for the current year and next two fiscal years will be rendered by the CFG in December.

Sincerely,

John T. Hicks

John T. Hicks
State Budget Director

TABLE OF CONTENTS

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 2024 (FY24). This interim report includes the actual revenue receipts and economic landscape for the first quarter, a comprehensive revenue outlook for upcoming three fiscal quarters which make up the remainder of FY24, as well as a US and Kentucky economic outlook for the same period. All estimates in this outlook extend from the second quarter through the fourth quarter of FY24 (the forecasting horizon).

The interim General Fund and Road Fund outlooks prepared pursuant to KRS 48.400(2) are identical to the preliminary estimates agreed to by the Consensus Forecasting Group (CFG) in September in accordance with KRS 48.120 (1). Forecasted revenues presented in Table 1 were projected using the August 2023 “control scenario” economic forecast from both IHS Markit and the Kentucky MAK model as the primary inputs. IHS Markit has placed a 55 percent probability on their "control scenario" as being the most likely economic outcome, relative to the pessimistic (25 percent) and optimistic (20 percent) scenarios. In addition, the revenue estimates incorporate various tax law changes enacted during recent legislative sessions of the General Assembly.

Since the previous edition of the *Quarterly Economic and Revenue Report*, top-line growth in the General Fund has remained strong. General Fund revenues grew 6.9 percent in the first quarter. Beneath the surface, however, signs of a revenue slowdown are evident due to legislative actions, particularly the early payments from the new Pass-Through Entity Tax (PTET) which are expected to be refunded later in the year, and the individual income tax rate which will be lowered another half percent to 4 percent effective January 1, 2024.

Projected General Fund Growth for the final three quarters of FY24

The current official estimate for FY24 is $15,117.7 million as set by the Consensus Forecasting Group in December 2022 along with $348 million in newly enacted tax reductions. Table 1 displays the interim forecast for the remainder of FY24 in comparison to the official estimates. When combined with the first quarter of actual receipts, the interim forecast predicts General Fund revenue of $15,394.2 million, or 1.6 percent growth in FY24, and would result in a revenue surplus of $1.2 billion compared to the enacted estimates of $14,150.9 million from the 2022 Regular Session. The existing official estimates for the General Fund and the Road Fund will be revised this December as the CFG renders official estimates for FY24 and the FY25 to FY26 biennium.

Projected Road Fund Growth for the final three quarters of FY24

Road Fund collections are expected to increase 6.3 percent over the forecasting horizon, ending the year at 7.2 percent. Revenues of $1,879.8 million in FY24 would exceed the 2022 enacted estimate by $200.6 million. Among the major accounts, motor fuels taxes are projected to remain strong, growing 13.7 percent over the remainder of the year. Motor vehicle usage taxes are expected to decline 1.3 percent over the rest of the year as demand for light vehicles eases.

Summary of Projected Major Economic Factors

Growth in real GDP is expected to increase by 1.8 percent during the forecasting horizon. Among the five components of real GDP, real exports are poised to increase by the largest amount in percentage terms, increasing 2.8 percent. Growth in real imports, a deduction from real GDP, is expected to slightly trail real exports. Real imports are forecasted to increase 2.6 percent in the final three quarters of FY24, compared to the same quarters in FY23. Real US government expenditures are also expected to be a positive contributor to overall economic growth over the nine-month outlook, increasing 2.0 percent.

Growth in real consumption is projected to increase 1.9 percent over the forecasting horizon, compared to the same period one year prior. Real consumption made up 70.6 percent of real GDP in the first quarter of FY24, so the outlook for real consumption plays a major role in shaping the path of real GDP. Over the last 13 quarters, adjacent-quarter growth has averaged 1.6 percent per quarter. This is solid to good growth but has tapered in the last three quarters. Compared to the recent trend in real consumption, the 1.9 percent projected growth over the forecasting horizon represents a marked slowdown in US real consumption.

The Kentucky outlook for personal income projects positive nominal growth for the forecasting horizon, increasing 3.7 percent compared to the final three quarters of FY23. Growth at the projected level would represent an $8.8 billion increase in Kentuckians' personal income. Wages and salaries, the largest component of personal income, is poised to grow by 4.3 percent in the final three quarters of FY24, compared to the same periods one year prior.

Summary of First Quarter Tax Receipts

General Fund revenue collections grew 6.9 percent in the just completed quarter, an improvement from the 3.4 percent decline in the final quarter of FY23. Most of the revenue gains in the first quarter came from the sales and individual income taxes. In the case of the individual income tax, $187.4 million came from the newly-created PTET. Revenues in the just completed quarter totaled $3,800.3 million compared to $3,556.6 million in the first quarter of FY23, for an increase of $243.7 million. The individual income and sales and use taxes accounted for 78 percent of the revenues in the quarter. The next largest source of revenue was the combined corporation income and LLET taxes which made up eight percent of the total.

Road Fund revenues had a strong first quarter, increasing 10.2 percent over FY23 levels. Motor fuels tax revenues drove the growth due to a larger than normal increase in the tax rate. In addition to the motor fuels increase, motor vehicle usage, motor vehicle operators and investment income collections all had increases in the quarter. Total receipts for the quarter were $465.6 million, which is $43.0 million more than what was collected last year in the first quarter.

Summary of the Economy for the First Quarter of FY24

Real GDP grew by 2.3 percent in the first quarter of FY24. This is the fifth consecutive increase in real GDP on an adjacent-quarter basis. Real GDP growth was primarily due to increases in real consumption and real government expenditures during that time. Federal outlays grew 5.3 percent in the first quarter of FY24. Inflation rose by 3.4 percent in the first quarter of FY24. US non-farm employment rose 2.1 percent in the first quarter of FY24. Employment growth was led by educational services employment, which grew by 3.9 percent in the first quarter of FY24. US personal income grew by 4.7 percent in the first quarter of FY24. US dividends, interest, and rents income and US transfer receipts income were the two fastest growing income components, which grew by 5.9 and 5.2 percent, respectively, in the first quarter of FY24.

Kentucky non-farm employment rose by 1.3 percent in the first quarter of FY24. Adjacent-quarter growth rates for Kentucky non-farm employment have swung from 0.9 percent in the first quarter of FY23 down to -0.5 percent in the first quarter of FY24. The 12 quarters prior to the first quarter of FY24 averaged 1.3 percent growth per quarter. Government employment was the greatest contributing supersector in the first quarter, which grew by 9,400 jobs, or 3.2 percent, over the last four quarters. Kentucky personal income grew by 3.6 percent in the first quarter of FY24. Kentucky dividends, interest, and rents income was the fastest growing component, and grew 4.5 percent in the first quarter of FY24. The second fastest growing component was transfer receipts income, which grew 3.7 percent in the first quarter.

REVENUE & ECONOMIC OUTLOOK

GENERAL FUND

The Interim General Fund and Road Fund Outlooks prepared pursuant to KRS 48.400(2) are identical to the preliminary estimates agreed to on September 25, 2023, by the CFG in accordance with KRS 48.120 (1). Forecasted revenues presented in Table 1 were projected using the August 2023 "control scenario" economic forecast from both IHS Markit and the Kentucky MAK model as the primary inputs. IHS Markit has placed a 55 percent probability on their control or baseline scenario as being the most likely economic outcome, relative to the pessimistic (25 percent) and optimistic (20 percent) scenarios. The revenue estimates also incorporate various tax law changes enacted during recent sessions of the General Assembly. All estimates in this outlook extend through the fourth quarter of FY24 (the forecasting horizon).

Table 1
General Fund Interim Outlook
$ millions

	FY24						FY24	
	Q1		Q2, Q3, & Q4		Full Year		Official	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	$ Diff
Individual Income	1,505.2	10.0	4,095.2	-8.5	5,600.4	-4.2	5,384.4	216.0
Sales & Use	1,473.4	5.5	4,314.9	3.2	5,788.3	3.8	6,037.4	-249.1
Corp. Inc. & LLET	322.3	-4.4	1,042.8	17.9	1,365.1	11.7	1,298.3	66.8
Property	70.7	4.1	737.9	4.5	808.6	4.4	784.6	24.0
Lottery	78.0	4.0	265.6	1.4	343.6	2.0	343.6	0.0
Cigarettes	75.2	-7.3	200.1	-8.3	275.3	-8.0	291.4	-16.1
Coal Severance	22.7	2.4	58.7	-21.1	81.4	-15.7	58.2	23.2
Other	252.8	22.0	878.7	11.0	1,131.5	13.3	919.8	211.7
General Fund	**3,800.3**	**6.9**	**11,593.9**	**0.0**	**15,394.2**	**1.6**	**15,117.7**	**276.5**

When combining the first quarter of actual receipts with the next three fiscal quarters, the interim forecast predicts FY24 General Fund revenue of $15,394.2 million, or growth of 1.6 percent, and would result in a revenue surplus of $1,243.2 million.

General Fund revenue collections recorded a 3.4 percent decline in the final quarter of FY23 but rebounded nicely with 6.9 percent growth in first quarter of FY24. Most of the revenue gains came from the sales and individual income taxes. In the case of the individual income tax, $187.4 million came from the newly created PTET that was retroactively enacted for 2022 tax year returns. However, the PTET payments are coupled with a refundable credit against the individual income tax that will likely lead to offsetting transactions later in FY24.

Due to legislative tax policy changes, **individual income tax** receipts are projected to fall 8.5 percent during the three-quarter forecast horizon after growing 10.0 percent during the first quarter of FY24. The projected decline in the individual income tax is solely attributable to legislative rate reduction actions. Of the combined legislative actions that affect FY24, the largest impact comes from the two rate reductions.

HB 8 from the 2022 legislative session lowered the rate from 5.0 percent to 4.5 percent, effective January 1, 2023, which affects the first half of FY24. HB 1 from the 2023 legislative session further reduced the rate from 4.5 percent to 4.0 percent effective January 1, 2024, which affects the second half of FY24. As mentioned above, the 10.0 percent increase in the first quarter was also the direct result of the PTET that was enacted in HB 5 from the 2023 legislative session. Pass-through entities may elect to be taxed at the entity level dating back to tax year 2022 in order to achieve federal tax savings. To meet federal filing deadlines, Kentucky entity level taxes were remitted in the first quarter of FY24 that artificially inflated individual income tax collections. If the pass-through entity tax receipts are disregarded, individual income tax revenues would have declined 3.7 percent in the first quarter.

Sales and use tax receipts are expected to rise 3.2 percent over the forecasting horizon. When combined with the 5.5 percent growth from the first quarter of FY23, annual growth in the sales tax is expected to be 3.8 percent. Entering FY24, the sales tax has grown at torrid pace with double-digit growth in three consecutive fiscal years. Growth of 12.0 percent in FY21 was followed by increases of 11.0 percent and 10.1 percent in FY22 and FY23, respectively. During that three-year span, the sales and use tax has risen from $4,070.9 million in FY20 to $5,576.3 million in FY23, a remarkable growth spurt. However, even accounting for inflation, receipts from the sales and use tax have outrun the underlying economic fundamentals. All three models used to forecast the sales tax call for moderation in growth. Extraneous factors will also curb growth in the sales tax. A net fiscal impact of $67.8 million was deducted from the estimate to account for the combined legislative effects since 2022, which were a net positive, and the Century Aluminum ruling from the Kentucky Supreme Court, which carried a larger negative fiscal impact.

Business taxes (corporation income tax plus the limited liability entity tax) grew 3.0 percent in FY23 following surges of 34.4 percent in FY22 and a 38.1 percent in FY21. The corporation income tax and the LLET have been reported and estimated in combination due to the interrelationship of the tax credit that flows between the two revenue sources. Corporate and business taxes are expected to increase 17.9 percent during the forecasting horizon following a first quarter growth decline of 4.4 percent. Growth in the US corporate profits, before taxes, is the expected engine of growth for the combined business taxes during the forecasting horizon. The combined business taxes account is the most volatile major category of General Fund revenues.

Property tax receipts surged in FY23, increasing 7.0 percent, on the strength of real and tangible personal property. Real property grew at 4.1 percent while tangible property advanced by 9.7 percent. Motor vehicle property taxes also increased by 10.2 percent as older vehicles are being replaced with newer models with higher valuations. The first quarter of FY24 advanced at a rate of 4.1 percent, but the three-quarter forecasting horizon is expected to produce growth of 4.5 percent to finish FY24 at a 4.4 percent overall increase. For FY24, the motor vehicle property tax is expected to show the quickest pace of growth at 7.3 percent, followed by tangible property and real property at rates of 4.3 and 3.8 percent, respectively.

Dividend payments from the **Kentucky Lottery** have continued to grow despite the maturity of the state lottery and the growing number of alternative sources of recreational gaming. General Fund payments totaled $337.0 million in FY23, up from the $295.0 million received in the General Fund in FY22. Including the dividend payments that were required to be diverted into a separate account at the direction of HB 1 from the 2022 Regular Session, total lottery dividend payments were $347.3 million in FY22 and $370.3 million in FY23. The FY24 lottery dividend payment to the General Fund is expected to be $343.6 million, 2.0 percent higher than the General Fund dividend from FY23. The budget bill referenced above limits the amount that can be deposited into the General Fund to $343,574,700 in FY24. An additional $14.0 million is expected to be diverted into a separate trust and agency account and shall not be expended or appropriated without the express authority of the General Assembly.

Cigarette taxes are collected at the rate of $1.10 per pack, effective July 1, 2018. Cigarette tax receipts continued to drop in FY23, plunging by 7.8 percent after declining 7.3 percent in FY22. Smoking rates continue to fall, and the number of cigarettes per smoker has also decreased. The interim outlook forecasts a further decrease in cigarette taxes with an 8.0 percent expected falloff in FY24. A 3.6 percent increase in FY24 for other tobacco products, including vaping, somewhat mitigates the decline from cigarette tax receipts.

The **coal severance tax** has seen a resurgence over the last two fiscal years. Receipts have grown from $56.1 million in FY21 to $96.6 million in FY23, increasing by 26.0 percent and 36.7 percent, respectively over the two-year span. Spot prices for coal increased sharply during that period as the price of substitute sources of energy, like oil and natural gas, have also fluctuated to the upside. The forecast calls for a partial reversal of fortunes for the coal severance tax with an expected decline of 21.1 percent over forecasting horizon as coal prices have fallen significantly since last December. When combined with the 2.4 percent growth from the first quarter, FY24 receipts are projected to fall 15.7 percent to $81.4 million. A decrease in the producer price index for coal is the main contributor to the expected decline.

The **"Other" category of revenues** contains roughly 60 accounts that are not otherwise classified in the major accounts. Insurance premiums taxes, alcohol taxes, telecommunication taxes, inheritance taxes, and abandoned property receipts are the five largest ongoing accounts. Income from investments, while not a perennial source of significant income, recorded receipts of $150.5 million in FY23. The dramatic increase in the income on investments stems from prior year surpluses that were deposited into the State's "Rainy Day Fund". Looking ahead to FY24, total other receipts are projected to increase from $998.7 million in FY23 to $1,131.5 million in FY24, an increase of $132.8 million. Two accounts make up the majority of the anticipated growth. Income on investments is expected to rise to $247.8 million, an increase of $97.3 million over FY23 levels. The ride-sharing tax forecast calls for growth of $23.2 million. With an effective date for the new ride-sharing tax of January 1, 2023, FY23 saw only a partial year of actual tax receipts. The remaining accounts in the other category were recalibrated for the CFG estimates in September and contain a combination of growing and declining accounts.

ROAD FUND

Road Fund revenues grew sharply in the first quarter of FY24 on the strength of motor fuels collections. Revenues in the quarter were 10.2 percent, or $43.0 million, greater than what was received in the first quarter of FY23. Motor fuels revenue was the major contributor to the growth, with receipts $28.0 million more than in the prior year. Motor vehicle usage, motor vehicle operators and investment income each rose by approximately $6 million. These gains were offset by small losses in motor vehicle license receipts, weight distance taxes and "Other" collections. The growth in motor fuels taxes was primarily the result of an emergency regulation issued by Governor Beshear which froze the tax rate at the FY22 level. Once the regulation expired, the tax rate increased by 2.0 cents per gallon beginning in March and an additional 2.1 cents per gallon effective July 1, 2023.

Going forward, total Road Fund collections are expected to increase 6.3 percent over the final three quarters of FY24, ending the year at 7.2 percent. Motor fuels taxes are forecasted to remain strong, growing 13.7 percent over the remainder of the year due to the tax rate. The motor vehicle usage tax rose 3.4 percent in the first quarter but is expected to decline 1.3 percent over the rest of the year as demand for light vehicles eases. Motor vehicle license receipts fell 6.3 percent in the first quarter. The forecast for the remainder of the year is for revenues to increase 3.7 percent. First quarter motor vehicle operators' collections grew 228.7 percent as a result of a timing issue which suppressed FY23 revenues in the first quarter but inflated them for the remainder of the year. Receipts in this account are expected to decline 20.0 percent over the final three quarters, ending the year at 1.3 percent. Weight distance tax collections fell 1.3 percent in the first three months. Receipts will pick up over the final nine months of the year, increasing 3.3 percent. Income on investments will continue to improve. Revenue from this source was $2.9 million in the first quarter and the forecast calls for an additional $13.4 million for the rest of the year. Finally, the "Other" category fell 4.7 percent in the first quarter but is forecast to increase 10.3 percent in the final three quarters of the year.

Based on the above forecast, revenues would exceed the official revenue estimate by $198.9 million. Motor fuels and motor vehicle usage tax revenues together would be $177.8 million above estimate while the remaining accounts would be $21.2 million more than the enacted level. The CFG is in the processing of revising the FY24 official estimate with a new estimate expected to be rendered in December.

Table 2
Road Fund Interim Outlook
$ millions

	FY24						FY24	
	Q1		Q2, Q3, & Q4		Full Year		Enacted	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	$ Diff
Motor Fuels	228.1	14.0	679.8	13.7	907.9	13.7	817.4	90.5
Motor Vehicle Usage	173.3	3.4	486.2	-1.3	659.5	-0.1	569.1	90.5
Motor Vehicle License	20.7	-6.3	108.5	3.7	129.2	2.0	121.7	7.5
Motor Vehicle Operators	8.4	228.7	21.8	-20.0	30.1	1.3	28.3	1.8
Weight Distance	22.1	**-1.3**	67.5	3.3	89.6	2.1	96.6	-7.0
Income on Investments	2.9	-203.9	13.4	47.1	16.3	158.4	2.1	14.2
Other	10.2	-4.7	37.0	10.3	47.2	6.7	44.1	3.1
Road Fund	**465.6**	**10.2**	**1,414.2**	**6.3**	**1,879.8**	**7.2**	**1,679.2**	**200.7**

NATIONAL OUTLOOK

The forecast of the national outlook presented in Table 3 and the US labor and income outlook presented in Table 4 were prepared using the IHS Markit control scenario from August 2023. The economic estimates correspond to the official revenue estimates agreed upon by the CFG at the September 2023 meeting. The August IHS Markit economic outlook suggests the US economy is poised for a modest expansion, avoiding the suggestion of an outright recession in the control scenario.

Growth in real GDP is expected to be 1.8 percent in the second, third and fourth quarters of FY24, compared to the same periods one year prior. Among the five components of real GDP, real exports are poised to grow the quickest in percentage terms, increasing 2.8 percent. Growth in real imports, a deduction from real GDP, is expected to slightly trail real exports. Real imports are forecasted to increase 2.6 percent in the final three quarters of FY24, compared to the same quarters in FY23. Real government expenditures are also expected to be a positive contributor to overall economic growth over the nine-month outlook, increasing 2.0 percent.

Real investment growth is expected to regain positive movement over the three-quarter forecast horizon, rising 1.4 percent. Real investment continues to struggle under the weight of high interest rates and tightening lending standards by financial institutions that has led to a decline in business activity. A dampening business climate and the slower growth in economic output have lowered future expectations, lowering the internal rate of return on investments. Coupled with high borrowing costs, fewer business investments have an internal rate of return higher than prevailing costs of borrowing. While prevailing interest rates are expected to ease, borrowing costs are still expected to remain above pre-pandemic levels for the duration of the forecast periods.

Growth in real consumption is projected to increase 1.9 percent over the forecasting horizon, compared to the same period one year prior. Real consumption made up 70.6 percent of real GDP in the first quarter of FY24, so the outlook for real consumption plays a major role in shaping the path of real GDP. Over the last 13 quarters, adjacent-quarter growth has averaged 1.6 percent per quarter. This is solid to good growth but has tapered in the last three quarters. Compared to the recent trend in real consumption, the 1.9 percent projected growth over the forecasting horizon represents a marked slowdown in real consumption. Factors at play include persistent inflation, higher interest rates, and rising consumer debt.

Federal fiscal policy remains a major headwind assumed in the outlook. The Supreme Court ruling against the Biden Administration's plan to forgive one third of student debt while forbearance on student loan payments expired on August 31 is anticipated to moderately restrain consumer spending. Additionally, the continued unwinding of temporary pandemic-era relief initiatives, which include expansion of the child tax credit, a 15 percent increase in SNAP benefits, expanded eligibility for Medicaid and CHIP benefits, and the 6.2 FMAP increase for Medicare all serve to curb aggregate demand for goods and services. A significant decline in Medicaid rolls over the next 18 months is anticipated.

Among other broad US aggregate statistics, a slight uptick in the rate of unemployment is expected over the final quarters of FY24, reaching 3.7 percent compared to the 3.5 percent rate in FY23. The US jobless rate remains near historic lows. Total non-farm employment is expected to increase 1.1 percent in the final three quarters of FY24, representing a gain of approximately 1.7 million seasonally adjusted jobs. Labor markets will remain tight over the three-quarter outlook, slowing the pace of job expansion.

US personal income is expected to increase 4.6 percent in the final three quarters of FY24. The US wages and salaries component is anticipated to continue its positive trajectory with a 5.1 percent increase over the nine-month outlook. The projected increase in personal income is also attributed to strong growth in dividends, interest, and rents, which is forecasted to grow 6.5 percent in the final three quarters of FY24, compared to the same period one year prior. Transfer receipts are expected to rise 3.0 percent over the second, third and fourth quarters of FY24.

Table 3
US Economic Outlook
Interim Forecast

	Q2-Q4			Full Year	
	FY24	**FY23**	**% chg**	**FY24**	**% chg**
Real GDP	20,654.1	20,289.8	1.8	20,619.6	1.9
Real Consumption	14,596.6	14,331.3	1.9	14,568.2	1.9
Real Investment	3,683.4	3,634.1	1.4	3,675.8	1.0
Real Govt. Expenditures	3,547.2	3,477.9	2.0	3,542.0	2.3
Real Exports	2,660.2	2,587.5	2.8	2,641.4	1.9
Real Imports	3,903.1	3,805.0	2.6	3,873.6	1.4
CPI all goods (% chg)	2.7	5.6	NA	2.9	NA
CPI Food (% chg)	1.6	8.9	NA	2.2	NA
CPI Energy (% chg)	-4.3	1.2	NA	-5.4	NA
CPI Core (% chg)	3.7	5.6	NA	3.9	NA
Industrial Production Index (% chg)	-0.9	0.9	NA	-0.8	NA
Unemployment Rate (%)	3.7	3.5	NA	3.6	NA
Housing Starts (millions, NSA)	1.4	1.4	-1.8	1.4	-1.5

Table 4
US Labor and Income Outlook
Interim Forecast

	Q2-Q4			Full Year	
	FY24	**FY23**	**% chg**	**FY24**	**% chg**
Non-farm Employment (millions, NSA)	156.8	155.2	1.1	156.7	1.3
Goods-producing	21.5	21.5	-0.1	21.5	0.3
Construction	8.0	7.9	1.3	8.0	1.6
Mining	0.6	0.6	-0.6	0.6	0.6
Manufacturing	12.9	13.0	-0.9	12.9	-0.5
Service-providing	112.4	111.2	1.1	112.4	1.4
Trade, Transportation & Utilities	28.8	28.8	-0.2	28.8	0.0
Information	3.1	3.1	0.4	3.1	0.1
Finance	9.2	9.1	1.1	9.2	1.1
Business Services	23.1	22.9	1.0	23.1	1.1
Educational Services	25.6	25.0	2.5	25.6	2.8
Leisure and Hospitality Services	16.6	16.4	1.3	16.6	1.9
Other Services	6.0	5.8	2.2	5.9	2.4
Government	22.9	22.5	2.0	22.9	2.1
Personal Income ($ billions, AR)	23,547.5	22,505.3	4.6	23,410.0	4.6
Wages and Salaries ($ billions, AR)	12,138.4	11,553.6	5.1	12,069.8	4.9
Transfer Receipts	4,162.8	4,043.2	3.0	4,146.3	3.5
Dividends, Interest, and Rents	4,577.7	4,297.3	6.5	4,532.9	6.4
Supplements to Wages and Salaries	2,552.6	2,440.0	4.6	2,537.5	4.5
Proprietors' Income	1,932.9	1,899.3	1.8	1,928.8	2.0
Social Insurance	1,816.9	1,728.1	5.1	1,805.3	5.0
Residence Adjustment	0.0	0.0	NA	0.0	NA

KENTUCKY OUTLOOK

The Kentucky labor and income outlook presented in Table 5 was prepared using the August 2023 economic forecast from both IHS Markit and the Kentucky MAK model. The economic estimates correspond to the official revenue estimates agreed upon by the CFG at the September 2023 meeting. Kentucky's MAK model uses variables from the national economic outlook to forecast Kentucky employment by supersectors and personal income by its components.

Kentucky personal income grew 3.6 percent in the first quarter of FY24, a ninth consecutive increase in total personal income. The outlook for personal income projects positive growth in the second, third and fourth quarters of FY24, increasing 3.7 percent compared to the final three quarters of FY23. Growth at the projected level would represent a $8.8 billion nominal increase in Kentuckians' personal income. Wages and salaries, the largest component of personal income, represents 49.4 percent of personal income growth over the forecasted horizon. Kentucky wages and salaries is poised to grow by 4.3 percent in the final three quarters of FY24, compared to the same periods one year prior. US wages and salaries growth is projected to be 5.1 percent, slightly outpacing the same projected employee compensation of Kentuckians.

Kentucky non-farm employment is anticipated to grow by 0.2 percent over the next three fiscal quarters, adding approximately 3,800 jobs to the Commonwealth's economy. Seven of the 11 supersectors are forecasted to experience varying degrees of employment gains over the nine-month forecast. In absolute and percentage terms, the service-providing sector is expected to experience the most pronounced job growth with an increase of 6,000 jobs, or a 0.4 percent increase over the outlook period.

The sector with the fastest anticipated growth is leisure and hospitality services employment. Leisure and hospitality services employment is expected to increase by 3.2 percent, or 6,300 jobs during the next three quarters. Leisure and hospitality were significantly affected by the 2020 recession. Also, that sector has been slow to recover during the latest expansion. The sector with the second fastest anticipated growth is government employment, which is expected to grow 2.1 percent, or 6,300 jobs over the three-quarter forecast horizon. Government employment includes government employment from the federal, state, and local levels.

Employment in the goods-producing sector is forecasted to contract over the forecasting horizon by approximately 5,400 jobs, a 1.5 percent decline compared to the same periods one year prior. In absolute terms, manufacturing employment is anticipated to have the most significant decline across all supersectors. Over the final three quarters of FY24, the manufacturing employment sector is anticipated to lose roughly 4,900 annualized jobs, accounting for a decrease of 1.9 percent compared to the same three quarters in FY23. Fiscal year 2023 was a high base of comparison for Kentucky manufacturing growth, as Kentucky grew 4.1 percent in FY23 compared to the 2.8 percent growth for the manufacturing sector in the national economy.

Table 5
KY Labor and Income Outlook
Interim Forecast

	Q2-Q4			Full Year	
	FY24	**FY23**	**% chg**	**FY24**	**% chg**
Non-farm Employment (thousands, NSA)	1,997.4	1,993.6	0.2	1,997.6	0.5
Goods-producing	345.8	351.1	-1.5	346.3	-1.1
Construction	84.7	84.8	-0.1	84.6	0.1
Mining	8.3	8.6	-4.2	8.3	-2.2
Manufacturing	252.8	257.7	-1.9	253.4	-1.4
Service-providing	1,342.3	1,336.3	0.4	1,342.7	0.6
Trade, Transportation & Utilities	428.0	431.3	-0.8	428.6	-0.3
Information	22.1	22.1	-0.3	22.1	0.3
Finance	96.9	95.3	1.7	96.8	1.2
Business Services	233.4	229.9	1.5	233.0	1.2
Educational Services	288.6	291.5	-1.0	289.3	-0.6
Leisure and Hospitality Services	204.9	198.6	3.2	204.6	3.2
Other Services	68.4	67.6	1.2	68.3	1.3
Government	309.3	303.0	2.1	308.6	2.4
Personal Income ($ billions, AR)	249.6	240.8	3.7	248.4	3.6
Wages and Salaries ($ billions, AR)	123.4	118.4	4.3	122.8	4.0
Transfer Receipts	63.3	61.7	2.5	63.0	2.8
Dividends, Interest, and Rents	39.7	37.7	5.2	39.4	5.0
Supplements to Wages and Salaries	30.7	29.4	4.4	30.6	4.1
Proprietors' Income	17.6	17.5	0.9	17.6	1.4
Social Insurance	20.5	19.6	4.6	20.4	4.3
Residence Adjustment	-4.6	-4.3	NA	-4.6	NA

REVENUE RECEIPTS

GENERAL FUND
First Quarter FY24

General Fund revenue collections rebounded from a 3.4 percent decline in the final quarter of FY23 and grew 6.9 percent in the first quarter of FY24. Most of the revenue gain in the first quarter came from the sales and individual income taxes. In the case of the individual income tax, $187.4 million came from the newly created PTET that was retroactively enacted for 2022 tax year returns. Revenues in the just completed quarter totaled $3,800.3 million compared to $3,556.6 million in the first quarter of FY23, for an increase of $243.7 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 two accounts: the corporation income taxes and cigarette taxes. The sales and use and individual income taxes combined to increase by $212.6 million while the “Other” account rose by $45.7 million. The largest decliner was the corporation income tax which was $34.9 million less than last year’s first quarter. The remaining accounts, taken together, were within $6.3 million of FY23 levels. Detailed information on these major accounts is available in the Appendix.

The official General Fund revenue estimate for FY24 calls for collections to decline 0.2 percent compared to FY23 actual receipts. Given the year-to-date revenue situation, General Fund receipts can fall 2.4 percent for the remainder of the fiscal year and still meet the official estimate. The CFG has begun the process of revising the FY24 revenue estimate by meeting on September 25 to reach a consensus on the preliminary estimates for FY24-FY26. That preliminary estimate for FY24 can be found in Table 1 under the “Full Year” column header. The new official estimate will be rendered in December.

Individual income tax receipts grew 10.0 percent in the first quarter of the fiscal year. Receipts were $1,505.2 million which was an increase of $136.2 million over FY23 collections. If the PTET collections of $187.4 million are removed, then receipts would have fallen by 3.7 percent. Since the payment of PTET tax creates a refundable credit to be used by the owners and members of the business entity, declines in the rest of the fiscal year are anticipated that will offset the positive receipts year-to-date. Withholding revenue fell 0.8 percent in the quarter, which is primarily the result of the 10 percent drop in the tax rate.

Sales and use tax collections increased $76.3 million over FY23 levels. Collections for the quarter were $1,473.4 million, an increase of 5.5 percent. The positive growth in the first quarter of FY24 marks the 13th consecutive quarter in which sales taxes have grown.

The combined corporation income and LLET taxes fell 4.4 percent, or $14.8 million in the just completed quarter. Receipts totaled $322.3 million compared to the $337.2 million received a year earlier. Estimated payments for the corporation income tax were $60.1 million less than in the previous year and offset a combined $45.3 million increase from corporation income tax net returns and LLET collections.

Property taxes rose 4.1 percent in the quarter with collections of $70.7 million. This compares to $68.0 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 4.0 percent, or $3.0 million, in the first quarter of FY24. Revenues were $78.0 million compared to $75.0 million collected in the first quarter of FY23.

Cigarette taxes declined 7.3 percent in the first quarter with receipts of $75.2 million. This compares to $81.1 million collected in the first quarter of FY23.

Coal severance tax collections had their smallest quarterly rate of growth in the past nine quarters, increasing 2.4 percent in the first quarter. Receipts were $22.7 million compared to $22.1 million in FY23.

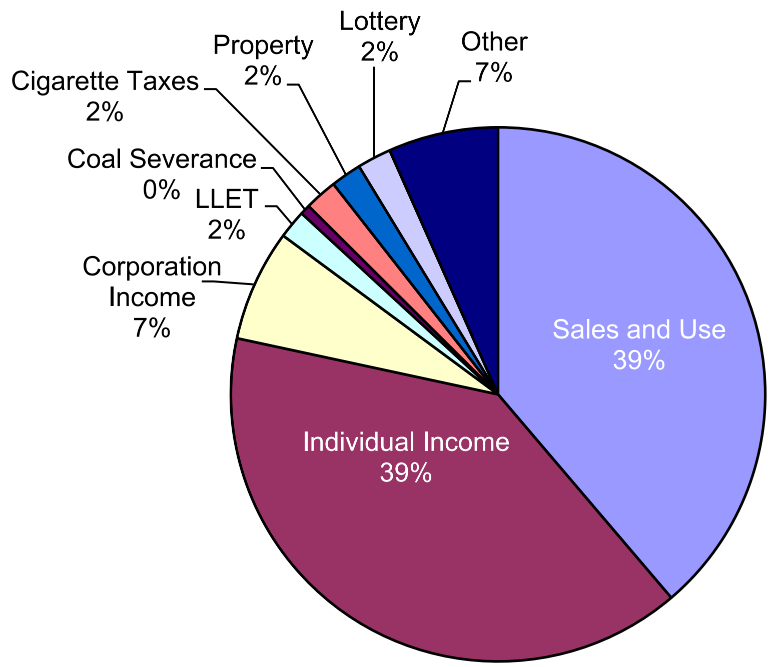
Table 6
Summary General Fund Receipts
$ millions

	FY24 Q1	FY23 Q1	Diff $	Diff %
Individual Income	1,505.2	1,368.9	136.2	10.0
Sales & Use	1,473.4	1,397.1	76.3	5.5
Corp. Inc. & LLET	322.3	337.2	-14.8	-4.4
Property	70.7	68.0	2.8	4.1
Lottery	78.0	75.0	3.0	4.0
Cigarettes	75.2	81.1	-5.9	-7.3
Coal Severance	22.7	22.1	0.5	2.4
Other	252.8	207.1	45.7	22.0
Total	**3,800.3**	**3,556.6**	**243.7**	**6.9**

The "Other" category represents the remaining accounts in the General Fund, and collections in this account increased 22.0 percent on the strength of income on investments which rose by over 400 percent. Collections in the quarter were $252.8 million.

Figure 1 details the composition of first quarter General Fund receipts by tax type. Seventy-eight 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 combined corporation income and LLET taxes made up nine percent while the "Other" account contributed seven percent. Cigarette, property and lottery receipts each accounted for two percent. Finally, the coal severance tax accounted for less than one percent.

Figure 1
Composition of First Quarter FY24
General Fund Revenues



ROAD FUND
First Quarter FY24

First quarter Road Fund receipts rose 10.2 percent over collections in the first quarter of FY23. The vast majority of the growth came from the motor fuels tax due to a larger than normal increase in the tax rate. In addition to the motor fuels increase, motor vehicle usage, motor vehicle operators and investment income collections all had increases in the quarter. Total receipts were $465.6 million, which is $43.0 million more than what was collected last year.

The official Road Fund revenue estimate calls for a 4.1 percent decline in revenues for the fiscal year. Based on year-to-date tax collections, revenues can fall 8.7 percent for the remainder of FY24 and still meet the estimate. The CFG is in the process of revising the FY24 official estimate and a new one is expected in December. Summary data are contained in Table 2 and detailed data are shown in the Appendix.

Motor fuels tax receipts grew 14.0 percent, or $28.0 million, during the quarter after growing 3.0 percent in FY23. The large increase is the result of Governor Beshear issuing an emergency regulation in response to inflation and surging gas prices. The regulation prevented a two-cent tax increase beginning in July 2022. The Kentucky Legislature chose not to extend the freeze so the tax rate rose two cents effective March 2023. July 2023 ushered in another tax increase of 2.1 cents per gallon that occurred by operation of law, so the period between July 2023 and March 2024 will include both effects for a total rate increase of 4.1 cents per gallon. Receipts for the quarter were $228.1 million as compared to $200.1 million collected during the first quarter of last year.

Motor vehicle usage tax revenue rose 3.4 percent in the just completed quarter. Revenues have eased in the last two quarters as consumer spending on light vehicles retreats from an all-time high. Collections were $173.3 million compared to $167.6 million in the first quarter of FY23.

Motor vehicle license tax receipts fell 6.3 percent, or $1.4 million in the first quarter of FY24. Receipts in the first quarter were $20.7 million compared to $22.1 million during the same period last year.

Motor vehicle operators' tax receipts were $8.4 million in the first quarter of FY24, a 228.7 percent increase compared to collections a year ago. Fiscal year 2023 collections were suppressed as a result of timing issues brought about by changes in the accounting system which led to a larger rise in collections in the just completed quarter.

Weight distance tax receipts were $22.1 million for the quarter, a 1.3 percent decrease compared to receipts collected during the first quarter of FY23.

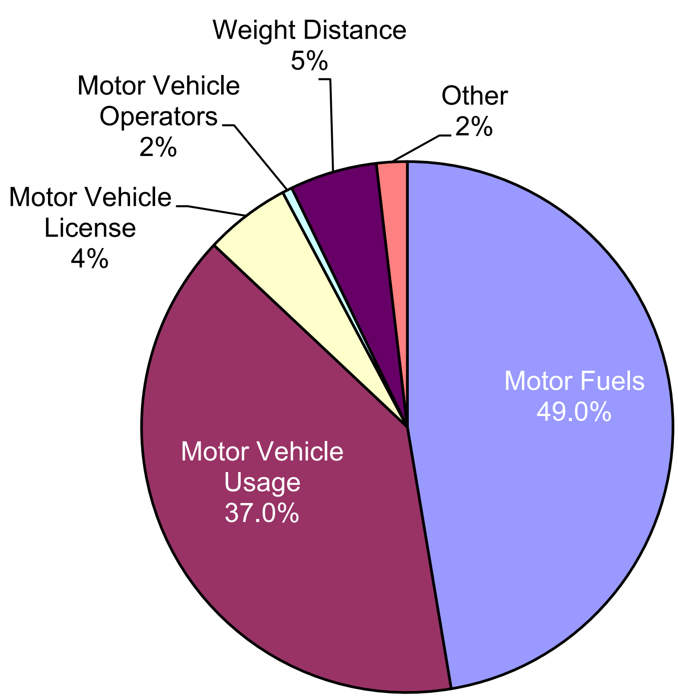
Investment income was $2.9 million in the quarter as favorable interest rates lead to the increase in receipts. Collections were -$2.8 million in the first quarter of FY23.

Table 7 Summary Road Fund Receipts $ millions				
	FY24 Q1	FY23 Q1	Diff $	Diff %
Motor Fuels	228.1	200.1	28.0	14.0
Motor Vehicle Usage	173.3	167.6	5.7	3.4
Motor Vehicle License	20.7	22.1	-1.4	-6.3
Motor Vehicle Operators	8.4	2.5	5.8	228.7
Weight Distance	22.1	22.4	-0.3	-1.3
Income on Investments	2.9	-2.8	5.7	NA
Other	10.2	10.7	-0.5	-4.7
Total	**465.6**	**422.6**	**43.0**	**10.2**

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 $10.2 million, a 4.7 percent decrease from FY23 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 86.0 percent of Road Fund revenues in the first quarter. The next largest source of revenue was the weight distance tax at 5.0 percent and the motor vehicle license tax at 4.0 percent. The "Other" category and the motor vehicle operators contributed 2.0 percent each while income on investments made up 1.0 percent.

Figure 2
Composition of First Quarter FY24 Road Fund Revenues



THE ECONOMY
FIRST QUARTER FY24

NATIONAL ECONOMY

Real gross domestic product (real GDP) grew 2.3 percent in the first quarter of FY24. On an adjacent-quarter basis, real GDP grew by 0.5 percent in the first quarter over the fourth quarter of FY23. This is the fifth consecutive quarter of adjacent-quarter growth. Prior to those five quarters of consecutive growth, real GDP fell for two consecutive quarters. The last seven quarters of adjacent-quarter growth for real GDP are: -0.4, -0.1, 0.8, 0.6, 0.5, 0.6, and 0.5 percent, respectively. The two shallow quarterly losses were made up immediately in the following quarter, the first quarter of FY23. All four components of real GDP improved in the first quarter of FY24. The improvement was nearly uniform across the components, with no single component standing out or deviating from the 0.5 percent growth by very much.

Real consumption rose by 2.1 percent in the first quarter of FY24. On an adjacent-quarter basis, real consumption has risen for 13 consecutive quarters, following the recession of 2020. In the last seven quarters, adjacent-quarter growth has softened. The average adjacent-quarter growth for the prior six quarter period was 2.9 percent. The last seven adjacent-quarter growth rates are: 0.3, 0.5, 0.6, 0.3, 1.0, 0.4, and 0.4 percent, respectively. Real consumption made up 70.6 percent of real GDP in the first quarter of FY24.

Real investment fell by 0.03 percent in the first quarter of FY24. On an adjacent-quarter basis, real investment has been very erratic since the end of the 2020 recession. It included nine increases and four decreases during that time. The first quarter of FY21 was an outlier in growth, growing 17.7 percent over the fourth quarter of FY20. The last seven quarters of adjacent quarter growth are: 1.3, -3.7, -2.5, 1.1, -3.1, 1.4, and 0.7 percent, respectively. Real investment's behavior can be characterized as acyclical during the current expansion period. Real investment made up 17.8 percent of real GDP in the first quarter of FY24.

Real government expenditures rose by 3.4 percent in the first quarter of FY24. Real government expenditures adjacent-quarter growth has been nearly as erratic as real investment. One would also characterize real government expenditures as acyclical during the current expansion period. The adjacent-quarter growth rates for the last seven quarters are: -0.6, -0.4, 0.9, 0.9, 1.2, 0.6, and 0.6 percent, respectively. In the 13 quarters since the end of the 2020 recession, real government expenditures has risen six times and fallen seven times. On net, real government expenditures have risen by 2.3 percent, or $78.2 billion since the end of the 2020 recession. Real government expenditures made up 17.2 percent of real GDP in the first quarter of FY24.

Federal outlays excluding gross investment rose by 5.3 percent in the first quarter of FY24. See Table 9. Federal outlays increased significantly in the fourth quarter of FY20 and the third quarter of FY21 due to the large increases in Federal Transfer Payments to Resident Persons, which was caused by three separate rounds of stimulus checks. Federal outlays declined for four consecutive quarters following the third quarter of FY21. However, federal outlays then increased for the next five consecutive quarters. Federal outlays declined on an adjacent-quarter basis in the first quarter of FY24. The last seven adjacent-quarter growth rates for federal outlays are: -3.1, 0.7, 2.2, 2.7, 3.4, 0.5, and -1.3 percent, respectively.

Federal outlays grew by $323.9 billion in the first quarter of FY24 over the first quarter of FY23. The majority of the first quarter increase was due to Interest on the Debt. Interest on the Debt grew 34.6 percent, or $254.9 billion, in the first quarter of FY24 compared to the first quarter of FY23. Interest on the Debt has soared in the last 12 quarters. Prior to the 2020 recession, Interest on the Debt hovered around $550 billion. For the last three quarters in a row, Interest on the Debt has been above $900 billion (annual rate). Interest on the Debt in the first quarter of FY24 was $991.7 billion. This is partly because of increased borrowing (deficits) but is primarily a function of increasing interest rates on that debt. Adjacent-quarter growth rates for the last seven quarters are: 0.5, 7.5, 13.6, 15.7, 8.9, 4.4, and 2.2 percent, respectively. Interest on the Debt made up 15.5 percent of all federal outlays in the first quarter of FY24.

The second-fastest growing outlay is Social Security expenditures. Social Security grew by 12.4 percent, or $151.1 billion, in the first quarter of FY24 over the first quarter of FY23. Social Security expenditures are an acyclical expenditure. They have increased in every single quarter since the third quarter of Fiscal Year 2000. That growth has been accelerating in the last couple years. The last seven quarters of adjacent-quarter growth are: 6.4, 0.7, 0.6, 0.9, 9.3, 1.0, and 0.9 percent, respectively. Social Security expenditures made up 21.4 percent of all federal outlays in the first quarter of FY24.

Three major categories of federal outlays decreased in the first quarter, Grants-in-Aid to State & Local Governments, Aid to Foreign Governments, and Subsidies. The largest declining outlay in absolute terms was Grants-in-Aid to State & Local Governments, which declined by 8.1 percent, or $77.4 billion in the first quarter of FY24 compared to the first quarter of FY23. Grants-in-Aid to State & Local Governments has been trending downward since the fourth quarter of FY21. The last nine adjacent-quarter growth rates are: -34.3, -14.8, 1.7, 2.2, -0.7, -0.01, 2.8, -0.1, and -10.6 percent, respectively. Grants-in-Aid to State & Local Governments is still historically very high. Just prior to the 2020 recession, Grants-in-Aid to State & Local Governments reached a peak of $617.5 billion. Grants-in-Aid to State & Local Governments in the first quarter of FY24 was $876.0 billion. Grants-in-Aid to State & Local Governments made up 13.7 percent of all federal outlays in the first quarter of FY24.

Real exports fell by 0.7 percent in the first quarter of FY24. While real exports fell relative to a year ago, real exports increased by 1.2 percent in the first quarter of FY24 compared to the fourth quarter of FY23. Despite three adjacent-quarter declines in the last seven quarters, real exports is trending upwards. Real exports eight quarters ago were $2,465.7 billion. Real exports in the first quarter of FY24 are $2,584.8 billion, a net increase of $119.2 billion from eight quarters ago. The last seven adjacent-quarter growth rates are: -1.2, 3.3, 3.5, -0.9, 1.9, -2.8, and 1.2 percent, respectively. Real exports made up 12.6 percent of real GDP in the first quarter of FY24.

Real imports fell by 2.3 percent in the first quarter of FY24. However, on an adjacent-quarter basis, real imports rose 0.7 percent in the first quarter. Despite the first quarter improvement, adjacent-quarter growth has been plagued by recent declines. The last seven adjacent-quarter growth rates are: 4.3, 0.6, -1.9, -1.4, 0.5, -2.0, and 0.7 percent, respectively. Real imports, a deduction from real GDP, made up 18.4 percent of real GDP in the first quarter of FY24. Net exports' position improved slightly from -$1,205.5 billion in the fourth quarter of FY23 to -$1,200.3 billion in the first quarter of FY24.

Inflation for all goods rose by 3.4 percent in the first quarter of FY24. These are price increases on top of the 8.3 percent inflation that occurred in the first quarter of FY23. See Table 8. The CPI has grown a net 18.5 percent from the quarter immediately before the 2020 recession to the first quarter of FY24. Food inflation grew 4.0 percent in the first quarter of FY24, while Energy inflation fell 8.7 percent. Despite the recent decline in energy prices, the CPI for energy still remains very high. The CPI for energy rose from 2.19 in the quarter immediately prior to the start of the 2020 recession to 2.77 in the first quarter of FY24. That is a net 26.6 percent increase.

Many of the labor force indicators are looking positive in the first quarter of FY24. See Table 8. The working population increased by 1.1 percent. The civilian labor force increased by 1.9 percent and the number of employed persons increased by 1.7 percent. And finally, the labor force participation rate has ticked up for the fourth consecutive quarter. The unemployment rate has remained nearly unchanged for the last five quarters. NB: The working population and civilian labor force data are from the Bureau of Labor Statistics release on October 6, 2023, and are the most recently available data. While the other series in Table 8 are from the S&P Global August 2023 data release.

US non-farm employment rose by 2.1 percent in the first quarter of FY24. See Table 10. US non-farm employment has enjoyed 13 consecutive quarters of growth. However, that US non-farm employment growth has been tapering for some time. This is the ninth consecutive quarter that adjacent-quarter growth has diminished. The last nine adjacent-quarter growth rates are: 1.4, 1.3, 1.1, 0.8, 0.8, 0.6, 0.6, 0.4, and 0.3 percent, respectively.

The fastest growing supersector in the first quarter of FY24 is US mining. US mining employment grew by 4.2 percent in the first quarter of FY24. Unfortunately, that growth occurred over the previous three quarters and not in the first quarter. Adjacent-quarter growth in mining fell in the first quarter of FY24. The last seven quarters of adjacent-quarter growth are: 1.8, 3.1, 1.8, 1.7, 1.7, 1.3, and -0.6 percent, respectively. US mining employment is the smallest US supersector and made up 0.4 percent of total US non-farm employment in the first quarter of FY24.

Educational services employment was also notable in the first quarter of FY24. Educational services employment had the greatest increase in net jobs in the first quarter of FY24 among all the supersectors, gaining, 1.0 million net jobs, or 3.9 percent growth. Educational services employment has grown in every single quarter since the end of the 2020 recession. The last seven adjacent-quarter growth rates are: 0.5, 0.9, 1.3, 1.0, 1.0, 0.9, and 0.9 percent, respectively. Educational services employment made up 16.3 percent of total non-farm employment in the first quarter.

US personal income increased 4.7 percent in the first quarter of FY24. All five contributing components of personal income rose in the first quarter. The fastest growing component was dividends, interest, and rents income, which grew by 5.9 percent in the first quarter of FY24 over the first quarter of FY23. Dividends, interest, and rents income has risen in every quarter since the first quarter of FY21. Growth rates in dividends, interest, and rents income have diminished over the last four quarters. The last seven quarters of adjacent-quarter growth are: 0.4, 2.1, 1.3, 2.0, 1.5, 1.4, and 0.9 percent, respectively. Dividends, interest, and rents income made up 19.1 percent of total US personal income in the first quarter of FY24.

US transfer receipts income is the second fastest growing component of personal income. US transfer receipts grew by 5.2 percent in the first quarter of FY24. US transfer receipts income has risen for the last six consecutive quarters. The last seven adjacent-quarter growth rates are: -1.5, 0.4, 0.2, 2.7, 1.5, 0.4, and 0.6 percent, respectively. US transfer receipts are still significantly above their pre-recession levels. In the quarter immediately before the recession, US transfer receipts were $3,170.5 billion. US transfer receipts in the first quarter of FY24 are $4,097.1 billion. That is $926.5 billion more than pre-recession levels, or a net 29.2 percent increase and rising. US transfer receipts income made up 17.8 percent of total US personal income in the first quarter of FY24.

Table 8
History of US Economic Variables

	FY23								FY24	
	Q1	% chg	Q2	% chg	Q3	% chg	Q4	% chg	Q1	% chg
Real GDP ($ billions, AR)	20,054.7	1.9	20,182.5	0.9	20,282.8	1.8	20,404.1	2.6	20,516.3	2.3
Real Consumption	14,178.6	2.2	14,214.9	1.7	14,360.4	2.4	14,418.8	2.3	14,482.9	2.1
Real Investment	3,653.9	1.9	3,694.1	-3.8	3,579.1	-8.1	3,629.2	-3.1	3,652.8	0.0
Real Government Expenditures	3,410.6	-0.3	3,442.5	0.9	3,484.5	2.7	3,506.7	3.8	3,526.3	3.4
Real Exports	2,604.1	11.3	2,579.6	4.6	2,628.4	7.9	2,554.4	1.5	2,584.8	-0.7
Real Imports	3,872.9	7.4	3,818.2	1.5	3,836.8	-2.3	3,759.9	-4.8	3,785.2	-2.3
CPI - All Goods (% chg)	8.3	NA	7.1	NA	5.8	NA	4.1	NA	3.4	NA
CPI - Food (% chg)	11.1	NA	10.7	NA	9.4	NA	6.7	NA	4.0	NA
CPI - Energy (% chg)	25.3	NA	12.6	NA	2.0	NA	-11.1	NA	-8.7	NA
Core CPI (% chg)	6.3	NA	6.0	NA	5.6	NA	5.2	NA	4.6	NA
Industrial Prod. Index (% chg)	3.5	NA	1.8	NA	0.9	NA	0.0	NA	-0.6	NA
Working Population (millions, NSA)	264.2	1.0	264.7	1.0	266.1	1.1	266.6	1.1	267.2	1.1
Civilian Labor Force	164.9	1.8	164.4	1.6	166.0	1.5	166.9	1.7	168.0	1.9
Employed	158.9	3.5	158.9	2.2	159.7	1.8	161.2	1.8	161.7	1.7
Unemployed	6.0	-28.5	5.5	-14.0	6.3	-6.3	5.7	-0.8	6.3	6.0
Not in Labor Force	99.3	-0.4	100.3	0.1	100.1	0.4	99.7	0.2	99.2	-0.1
Labor Force Participation Rate (%)	62.2	NA	62.2	NA	62.5	NA	62.6	NA	62.7	NA
Unemployment Rate (%)	3.5	NA	3.6	NA	3.5	NA	3.5	NA	3.5	NA
Housing Starts (millions, AR)	1.4	-8.2	1.4	-16.9	1.4	-19.3	1.4	-11.5	1.4	-0.6

Table 9
US Federal Outlays
$ billions, AR

	First Quarter			
	FY24	FY23	Chg	% Chg
Federal Outlays excl. Gross Investment	6,387.4	6,063.5	323.9	5.3
National Defense	780.9	743.1	37.8	5.1
Non-Defense Consumption	587.1	535.1	52.0	9.7
Federal Transfer Payments to Resident Persons	2,972.4	2,840.1	132.4	4.7
Medicare	972.3	920.3	52.0	5.7
Social Security	1,365.8	1,214.6	151.1	12.4
Social Insurance to Rest of the World	32.0	29.4	2.6	9.0
Grants-in-Aid to State & Local Govts	876.0	953.4	-77.4	-8.1
Medicaid	586.0	605.6	-19.6	-3.2
Non-Medicaid Grants to State & Local Govts	290.0	347.8	-57.8	-16.6
Aid to Foreign Govts	44.3	108.9	-64.6	-59.3
Interest on the Debt	991.7	736.8	254.9	34.6
Subsidies	103.0	113.8	-10.8	-9.5

Table 10
History of US Labor and Income Data

	FY23								FY24	
	Q1	% chg	Q2	% chg	Q3	% chg	Q4	% chg	Q1	% chg
Non-farm Employment (millions, NSA)	153.3	4.2	154.3	3.4	155.2	2.9	155.9	2.6	156.5	2.1
Goods-producing	21.3	4.4	21.4	3.6	21.5	2.9	21.6	2.0	21.6	1.4
Mining	0.6	8.8	0.6	8.7	0.6	8.6	0.6	6.6	0.6	4.2
Construction	7.8	4.6	7.8	3.7	7.9	3.2	7.9	2.6	8.0	2.3
Manufacturing	12.9	4.0	13.0	3.4	13.0	2.5	13.0	1.5	13.0	0.7
Service-providing	109.8	4.9	110.6	3.9	111.2	3.1	111.7	2.7	112.1	2.1
Trade, Transportation & Utilities	28.8	3.7	28.8	2.4	28.9	1.3	28.9	0.8	28.9	0.4
Information	3.1	7.4	3.1	5.7	3.1	3.1	3.1	0.9	3.1	-0.6
Finance	9.1	2.7	9.1	2.1	9.1	1.4	9.1	1.0	9.2	1.2
Business Services	22.7	5.6	22.8	3.9	22.9	2.6	23.0	2.3	23.1	1.5
Educational Services	24.5	3.3	24.7	3.8	25.0	4.3	25.2	4.3	25.5	3.9
Leisure and Hospitality Services	16.0	9.7	16.2	7.5	16.5	6.2	16.6	5.4	16.6	3.9
Other Services	5.7	4.0	5.8	3.4	5.8	3.3	5.9	3.1	5.9	2.9
Government	22.2	0.7	22.3	1.2	22.5	1.9	22.6	2.4	22.7	2.4
Personal Income ($ billions, AR)	21,969.5	4.6	22,241.3	5.1	22,519.2	5.6	22,755.3	5.5	22,997.4	4.7
Wages and Salaries	11,361.0	9.0	11,413.9	6.2	11,545.6	5.7	11,701.3	5.8	11,863.9	4.4
Transfer Receipts	3,892.8	-6.0	3,998.2	1.8	4,057.5	4.9	4,073.8	4.9	4,097.1	5.2
Dividends, Interest, and Rents	4,153.7	5.3	4,235.8	5.9	4,297.6	7.0	4,358.5	6.3	4,398.2	5.9
Supplements to Wages and Salaries	2,394.0	6.0	2,414.2	5.1	2,440.0	4.5	2,466.0	4.6	2,492.3	4.1
Proprietors' Income	1,863.5	4.0	1,882.9	5.2	1,909.5	5.4	1,905.6	3.8	1,916.2	2.8
Social Insurance	1,695.6	9.1	1,703.7	6.8	1,730.8	5.9	1,749.9	5.8	1,770.3	4.4
Residential Adjustment	0.0	NA	0.0	NA	0.0	NA	0.0	NA	0.0	NA

KENTUCKY ECONOMY

Kentucky non-farm employment rose 1.3 percent in the first quarter of FY24. See Table 11. However, on an adjacent-quarter basis, Kentucky non-farm employment fell by 0.5 percent, or 11,000 jobs. This is the first time that Kentucky non-farm employment has fallen since the end of the 2020 recession. The last seven adjacent-quarter growth rates are: 0.8, 0.4, 0.9, 0.3, 0.8, 0.8, -0.5 percent, respectively.

Kentucky mining employment was the fastest growing supersector in the first quarter of FY24 compared to the first quarter of FY23. Kentucky mining employment grew by 4.0 percent, or 300 net jobs. Kentucky mining employment was doing well for several quarters, until the fourth quarter of FY23. Mining employment has fallen for two consecutive quarters now. The last seven adjacent-quarter growth rates are: 3.9, 2.9, 0.9, 3.6, 1.2, -0.5, and -0.3 percent, respectively. Mining employment is the smallest supersector in Kentucky and made up 0.4 percent of total non-farm jobs in the first quarter of FY24.

The fastest growing employment supersector on an absolute basis was government employment. See Table 11. Government employment is composed of federal, state and local government employees who perform their work inside the Kentucky state boundaries. Government employment rose by 3.2 percent, or 9,400 jobs, in the first quarter of FY24 over the first quarter of FY23. However, this growth mostly occurred one quarter ago and three quarters ago. Government employment was essentially flat in the first quarter of FY24. The last seven adjacent-quarter growth rates are: -0.2, -0.2, -0.4, 1.1, 0.7, 1.4, and -0.01 percent, respectively.

Only one supersector shrunk in the first quarter of FY24 compared to the first quarter of FY23, and that was financial services employment. Financial services employment fell 0.5 percent, or 400 net jobs, in the first quarter of FY24. However, most of those losses occurred in the previous three quarters. On an adjacent-quarter basis, financial services employment rose by 1.9 percent in the first quarter of FY24 over the fourth quarter of FY23. The financial services employment sector has been struggling lately, so this solid increase in the first quarter is welcome news. The last seven adjacent-quarter growth rates are: -0.3, 0.5, 0.03, -1.2, -0.6, -0.6, and 1.9 percent, respectively. Financial services employment made up 4.8 percent of total Kentucky non-farm employment in the first quarter of FY24.

Kentucky personal income rose 3.6 percent in the first quarter of FY24. Kentucky personal income has risen for nine consecutive quarters. The last seven adjacent-quarter growth rates are: 0.9, 1.4, 1.0, 0.6, 1.7, 0.5, and 0.8 percent, respectively.

All five contributing components of personal income rose in the first quarter of FY24. The fastest growing component was dividends, interest, and rents income which grew by 4.5 percent in the first quarter of FY24 over the first quarter of FY23. Dividends, interest, and rents income has grown in every quarter since the first quarter of FY21. The last seven adjacent-quarter growth rates are: 0.3, 1.5, 1.0, 1.4, 1.1, 1.2, and 0.8 percent, respectively. Dividends, interest, and rents income made up 15.7 percent of total Kentucky personal income in the first quarter of FY24.

The second-fastest growing component of personal income was transfer receipts income. Transfer receipts income grew by 3.7 percent in the first quarter of FY24 over the first quarter of FY23. Transfer receipts income had been trending downwards for many quarters. Only in the last four quarters has that downward trend reversed itself. The last 10 adjacent-quarter growth rates are: -26.0, -0.4, -2.4, -1.6, -1.0, -1.9, 1.3, 2.7, -0.8, and 0.5 percent, respectively. In the final quarter of the 2020 recession, Kentucky transfer receipts income was $83.0 billion. By the first quarter of FY23, Kentucky transfer receipts income had fallen to $60.0 billion. That seemed to be the end of the contraction. Kentucky transfer receipts income has risen in three of the last four quarters, gaining a net $2.2 billion, or 3.7 percent, in just four quarters. Kentucky transfer receipts income made up 25.4 percent of total Kentucky personal income in the first quarter of FY24.

Table 11
History of KY Labor and Income Data

	FY23								FY24	
	Q1	% chg	Q2	% chg	Q3	% chg	Q4	% chg	Q1	% chg
Non-farm Employment (thousands, NSA)	1,972.4	3.3	1,978.0	2.4	1,993.4	2.4	2,009.3	2.8	1,998.3	1.3
Goods-producing	347.0	5.0	347.0	3.9	350.3	3.9	356.1	4.1	348.0	0.3
Mining	8.3	9.2	8.6	11.7	8.7	8.8	8.6	5.2	8.6	4.0
Construction	83.6	5.4	82.7	2.3	84.8	3.0	86.9	6.1	84.3	0.8
Manufacturing	255.1	4.8	255.7	4.2	256.9	4.0	260.6	3.4	255.1	0.0
Service-providing	1,328.5	3.7	1,330.8	2.4	1,337.8	2.1	1,340.4	2.0	1,343.9	1.2
Trade, Transportation & Utilities	425.1	3.1	429.0	2.0	432.4	2.1	432.4	2.3	430.3	1.2
Information	21.7	4.7	22.0	6.3	22.2	5.6	22.2	4.9	22.2	2.1
Finance	97.0	0.9	95.8	-1.1	95.3	-1.3	94.7	-2.3	96.6	-0.5
Business Services	230.7	4.8	227.7	2.1	229.5	1.3	232.6	1.8	231.8	0.5
Educational Services	290.2	2.6	291.6	2.8	291.5	2.5	291.4	1.9	291.3	0.4
Leisure and Hospitality Services	196.9	6.3	197.7	4.2	199.5	3.1	198.7	3.1	203.7	3.4
Other Services	66.9	5.3	67.0	3.8	67.5	3.5	68.4	4.1	68.1	1.8
Government	296.9	-0.2	300.3	0.3	302.2	1.2	306.4	2.8	306.4	3.2
Personal Income ($ billions, AR)	236.3	3.9	237.6	3.8	241.7	4.7	243.0	3.8	244.8	3.6
Wages and Salaries	117.0	10.7	116.7	7.4	118.5	6.5	119.8	5.3	121.0	3.4
Transfer Receipts	60.0	-6.8	60.8	-3.3	62.4	1.0	61.9	1.1	62.2	3.7
Dividends, Interest, and Rents	36.8	3.9	37.3	4.2	37.7	5.1	38.2	4.7	38.5	4.5
Supplements to Wages and Salaries	29.1	7.7	29.1	5.9	29.5	5.1	29.7	3.8	30.0	3.1
Proprietors' Income	17.0	5.1	17.3	9.4	17.6	7.8	17.5	2.5	17.5	2.9
Social Insurance	19.4	10.7	19.3	7.8	19.7	6.6	19.8	4.9	20.1	3.4
Residential Adjustment	-4.4	NA	-4.3	NA	-4.4	NA	-4.3	NA	-4.4	NA

APPENDIX

General Fund and Road Fund Revenue Receipts

FIRST QUARTER FY24

Kentucky State Government – General Fund

	First Quarter FY 2024	First Quarter FY 2023	% Change
TOTAL GENERAL FUND	**$3,800,334,002**	**$3,556,591,021**	**6.9%**
Tax Receipts	**$3,631,914,274**	**$3,446,661,406**	**5.4%**
Sales and Gross Receipts	$1,684,897,920	$1,612,316,916	4.5%
Beer Consumption	1,678,098	1,774,172	-5.4%
Beer Wholesale	19,465,425	20,195,637	-3.6%
Cigarette	75,221,108	81,147,640	-7.3%
Distilled Spirits Case Sales	57,415	71,179	-19.3%
Distilled Spirits Consumption	3,832,755	4,758,749	-19.5%
Distilled Spirits Wholesale	15,117,032	17,883,244	-15.5%
Insurance Premium	44,436,557	46,217,123	-3.9%
Pari-Mutuel	7,705,184	7,091,085	8.7%
Race Track Admission	0	63,820	-100.0%
Sales and Use	1,473,425,531	1,397,123,023	5.5%
Wine Consumption	650,771	763,780	-14.8%
Wine Wholesale	4,113,527	4,737,198	-13.2%
Telecommunications Tax	17,658,177	18,881,035	-6.5%
Other Tobacco Products	10,585,805	11,607,466	-8.8%
Floor Stock Tax	921	1,765	-47.8%
Car Rental & Ride Sharing	10,949,614	0	---
Natural Resources	**$32,511,020**	**$37,733,485**	**-13.8%**
Coal Severance	22,670,714	22,131,217	2.4%
Oil Production	1,352,098	2,569,311	-47.4%
Minerals Severance	7,286,131	7,711,713	-5.5%
Natural Gas Severance	1,202,077	5,321,244	-77.4%
Individual Income Tax	**$1,505,157,171**	**$1,368,907,575**	**10.0%**
Withholding	1,210,422,699	1,219,907,786	-0.8%
Declarations	95,647,599	143,142,887	-33.2%
Net Returns	15,230,809	6,873,171	121.6%
Fiduciary	(3,508,257)	(1,016,269)	---
Pass-Through Entity Tax	187,364,320	0	---
Major Business Taxes	**$322,343,877**	**$337,178,767**	**-4.4%**
Corporation Income	256,599,244	291,490,216	-12.0%
LLET	65,744,633	45,688,551	43.9%
Property	**$70,740,687**	**$67,979,659**	**4.1%**
General - Real	556,338	(273,966)	---
General - Tangible	13,031,139	9,054,246	43.9%
Tangible - Motor Vehicle	44,438,521	45,324,649	-2.0%
Omitted & Delinquent	3,960,777	159,289	2386.5%
Public Service	7,836,034	11,668,561	-32.8%
Other	917,877	2,046,879	-55.2%
Inheritance Tax	**$17,359,775**	**$23,435,444**	**-25.9%**
Miscellaneous	**($1,096,175)**	**($890,441)**	**---**
License and Privilege	$528,222	$402,118	31.4%
Bank Franchise	($741,792)	($4,480)	---
Legal Process	2,208,667	2,381,908	-7.3%
T. V. A. In Lieu Payments	(3,091,272)	(3,691,145)	---
Other	0	21,158	-100.0%
Nontax Receipts	$167,571,995	$109,590,853	52.9%
Departmental Fees	3,142,459	3,668,708	-14.3%
PSC Assessment Fee	11,086,672	10,153,525	9.2%
Fines & Forfeitures	5,350,783	4,853,630	10.2%
Income on Investments	68,794,752	13,008,508	428.8%
Lottery	78,000,000	75,000,000	4.0%
Miscellaneous	1,197,329	2,906,482	-58.8%
Redeposit of State Funds	**$847,733**	**$338,762**	**150.2%**

Kentucky State Government – Road Fund

	First Quarter FY 2024	First Quarter FY 2023	% Change
TOTAL STATE ROAD FUND	**$465,639,422**	**$422,642,759**	**10.2%**
Tax Receipts-	**$454,838,624**	**$417,066,629**	**9.1%**
Sales and Gross Receipts	**$401,450,172**	**$367,780,456**	**9.2%**
Motor Fuels Taxes	228,123,504	200,142,382	14.0%
Motor Vehicle Usage	173,326,668	167,638,074	3.4%
License and Privilege	**$53,388,452**	**$49,286,173**	**8.3%**
Motor Vehicles	20,671,582	22,069,753	-6.3%
Motor Vehicle Operators	8,362,749	2,544,287	228.7%
Weight Distance	22,086,349	22,383,722	-1.3%
Truck Decal Fees	46,800	67,720	-30.9%
Other Special Fees	2,220,972	2,220,690	0.0%
Nontax Receipts	**$9,448,062**	**$5,472,653**	**72.6%**
Departmental Fees	5,082,529	7,104,409	-28.5%
In Lieu of Traffic Fines	45,060	116,685	-61.4%
Income on Investments	2,906,950	(2,798,577)	---
Miscellaneous	1,413,523	1,050,136	34.6%
Redeposit of State Funds	**$1,352,736**	**$103,478**	**1207.3%**

Glossary

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

Tables Notes

Table 3
Not Seasonally Adjusted. Real series are annual rate, billions of chained 2000 dollars. Components do not sum to GDP because they are annualized independently.
Source: IHS Markit - Economics & Country Risk, August 9, 2023 data release.

Table 4
Employment data are Seasonally Adjusted.
Source: IHS Markit - Economics & Country Risk, August 9, 2023 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. Data for FY24 Q1 are August 2023 estimates.
Source: IHS Markit - Economics & Country Risk, August 9, 2023 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, August 2023

Table 10
Seasonally Adjusted. Data for FY23 Q1 are August 2023 estimates
Source: IHS Markit – Economics & Country Risk, August 2023 data release.