Post-Covid-19 Economic Conditions in Kentucky

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It has been a year and a half since the Covid-19 pandemic began sweeping across America, causing the well-known initial health care emergency, and subsequent major economic, fiscal, and social distortions. The National Bureau of Economic Research just established the dates for the resulting recession, with it beginning in February and ending in April of 2020 – by far the shortest recession in the 160 years for which records are available. This note examines the latest public data to study the apparent economic and fiscal damage related to Covid responses in Kentucky, and to assess conditions now that the pandemic is seemingly over, at least in the United States. I find that:

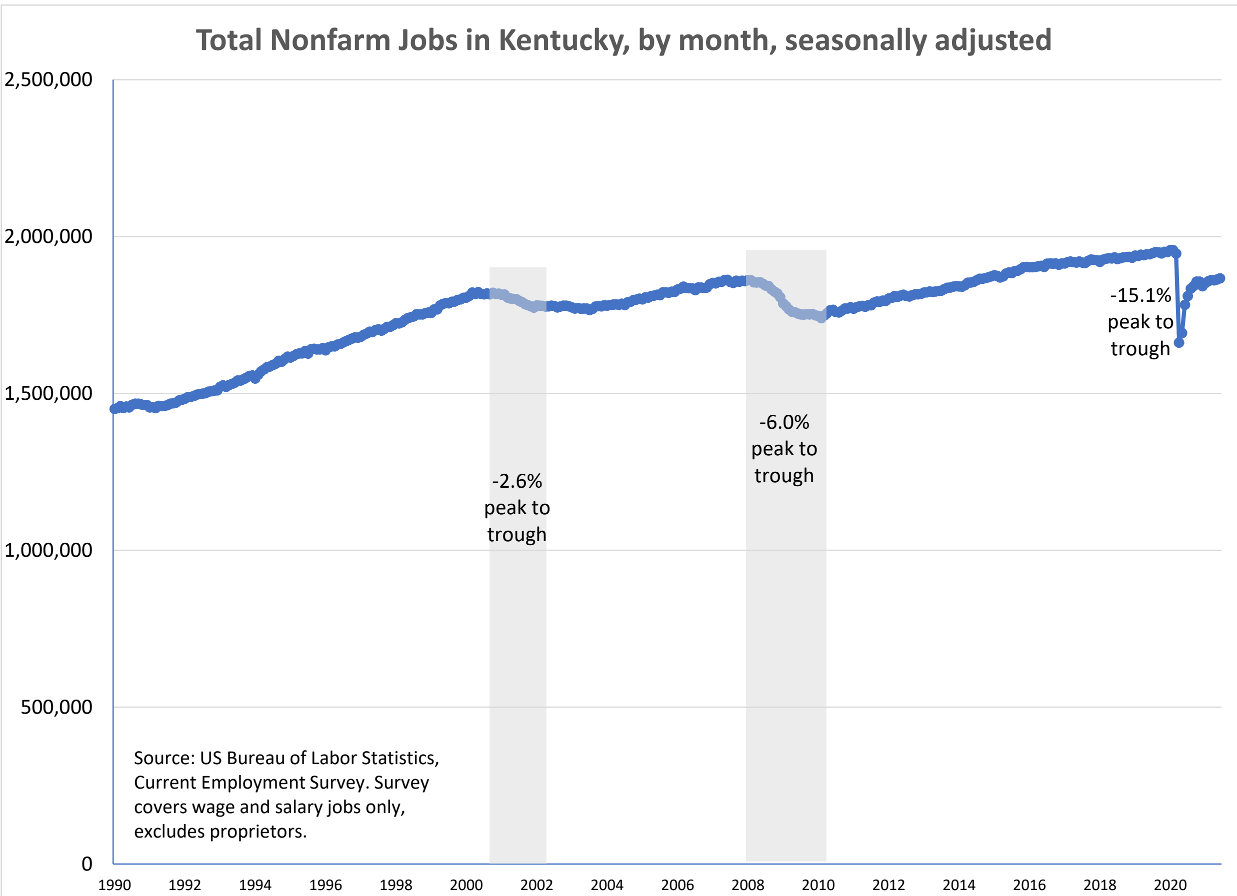
- Employment fell dramatically, beginning in March 2020. The number of wage and salary jobs, after adjusting for normal seasonal patterns, peaked in February at 1,957,000. By April, there were 295,000 fewer jobs reported than in February, or a 15.1 percent decline in two months.
- Looking year over year at employment, from April 2019 to April 2020, restaurants and bars took the biggest hit, accounting for 24 percent of the total net job loss in the state at the worst part of the downturn. Similarly, declines in manufacturing, retail, employment services, physicians' offices, and entertainment were widespread, and together with food and drinking places accounted for about 72 percent of all job losses. By March 2021, about two-thirds of the net job losses had been recovered.
- The average pay in the industries hit hardest by the shutdown is much lower than the average for all industries. For example, the industry "Food Service and Drinking Places", lost 66,700 jobs during the Spring, with average annual pay of only $19,400. Retail trade lost 31,000 jobs, with average pay of $28,900. The "Arts, Entertainment, and Recreation" industry shed half its jobs statewide, but average pay is only $25,500. Hotel employment was down 66 percent, but the average pay is only $27,300. The average pay across all industries in the state is $47,400. However, manufacturing also suffered significant job losses, around 47,000 in the worst month, and the average pay there is $61,200.
- The measured spike in unemployment beginning March 2020 is the greatest on record. However, there are several factors that make it tricky to compare recent measures with those from previous downturns. First, government public health policies in this case caused the unemployment - as opposed to a conventional recession in a business cycle. Second, the federal unemployment supplement of $600 per week to the state benefit, through July 25 (and then extended with a $300 per week supplement), meant that for

most recipients the government has been paying people not to work, thus exacerbating unemployment. Third, traditional qualifications for receiving unemployment benefits were relaxed. Self-employed people were eligible for benefits, even though they had not paid into the unemployment insurance trust fund. Part-time workers were eligible not only for their nominal state benefit, but also the federal $600 supplement per week. Most people receiving unemployment benefits received more income from not working than from their former jobs. Unemployment insurance claims have consistently trended down since, with the insured unemployment rate dropping from an April 2020 high of 13.8 percent to 1.0 percent by the May 2021.

- The CARES Act and subsequent federal legislation provided an infusion of at least $13 billion in federal funds to Kentucky workers and residents during 2020, just enough to offset the decline in wages, salaries, proprietors' income, and investment income to residents. Federal unemployment benefit supplement of $600 per week brought around $4.0 billion to Kentucky workers. The IRS economic impact payments to households amounted to $4.1 billion. And the Paycheck Protection Program provided over $1.2 billion in forgivable loans to Kentucky business proprietors. There are other programs as well. Kentucky state and local governments received billions in relief funds, provided as grants so long as the expenditures were related to the pandemic. And health care providers in Kentucky received grants totaling $1.3 billion. More federal legislation was passed and funding was added later in 2020, and another large round of funding was begun in early 2021.
- Kentucky personal income grew in 2020, up about $12.7 billion, or 6.5 percent, over 2019. However, this was totally due to an increase of $13.1 billion in government transfer payments, almost all federal and funded by new debt. Wages and salaries actually fell by $433 million, and proprietors' income grew only because of the federal Paycheck Protection payments to business owners. Property income (dividends, interest, rent) also fell in 2020. The infusion of federal dollars meant that transfer payments accounted for 29 percent of the personal income of Kentucky residents in 2020. This ranks fourth highest among states, following only Mississippi, West Virginia, and New Mexico. Kentucky ranked fifth highest fifty years ago, when transfer payments accounted for just 10 percent of personal income.

Employment and Payrolls

Preliminary data on wage and salary employment in Kentucky are available through June 2021. These are based on the US Bureau of Labor Statistics monthly survey of employers. The precipitous decline in jobs is evident from these data beginning with the estimates for April 2020. The decline began in March, but the survey was conducted before the government-mandated shutdowns of businesses (the survey is conducted in the week containing the 12th day of the month, and the major shutdown date in Kentucky was around March 17th). The number of jobs, after adjusting for normal seasonal patterns, peaked in February at 1,957,000. By April, there were 295,000 fewer jobs reported than in February, or a 15.1 percentage decline in two months.



One can see in the chart how the job losses compare to previous recessions. There were 6.0 percent fewer jobs at the trough of the 2007-09 recession compared to the peak of the expansion. The 2001 recession led to a net job loss of only 2.6 percent. It is nonetheless encouraging to see the quick rebound in jobs beginning in May 2020. And by June 2021, approximately two-thirds of the net job loss had been recovered. Nevertheless, seventeen months after the Covid-induced recession, Kentucky still has about 93,000 fewer jobs than it did prior to the downturn. One can see from the chart that the hoped for V-shaped recovery began but seems to have slowed last summer, now looking more like a checkmark. This will end up being the deepest but shortest recession on record. The several rounds of multi-billion dollars in federal dollars flowing into Kentucky as part of the CARES act and its successors certainly softened the financial blow to businesses, workers, households, and state and local governments. With even more trillions nationally now in the pipeline from DC, it is hard to discern how much of the recovery is self-generated versus subsidized.

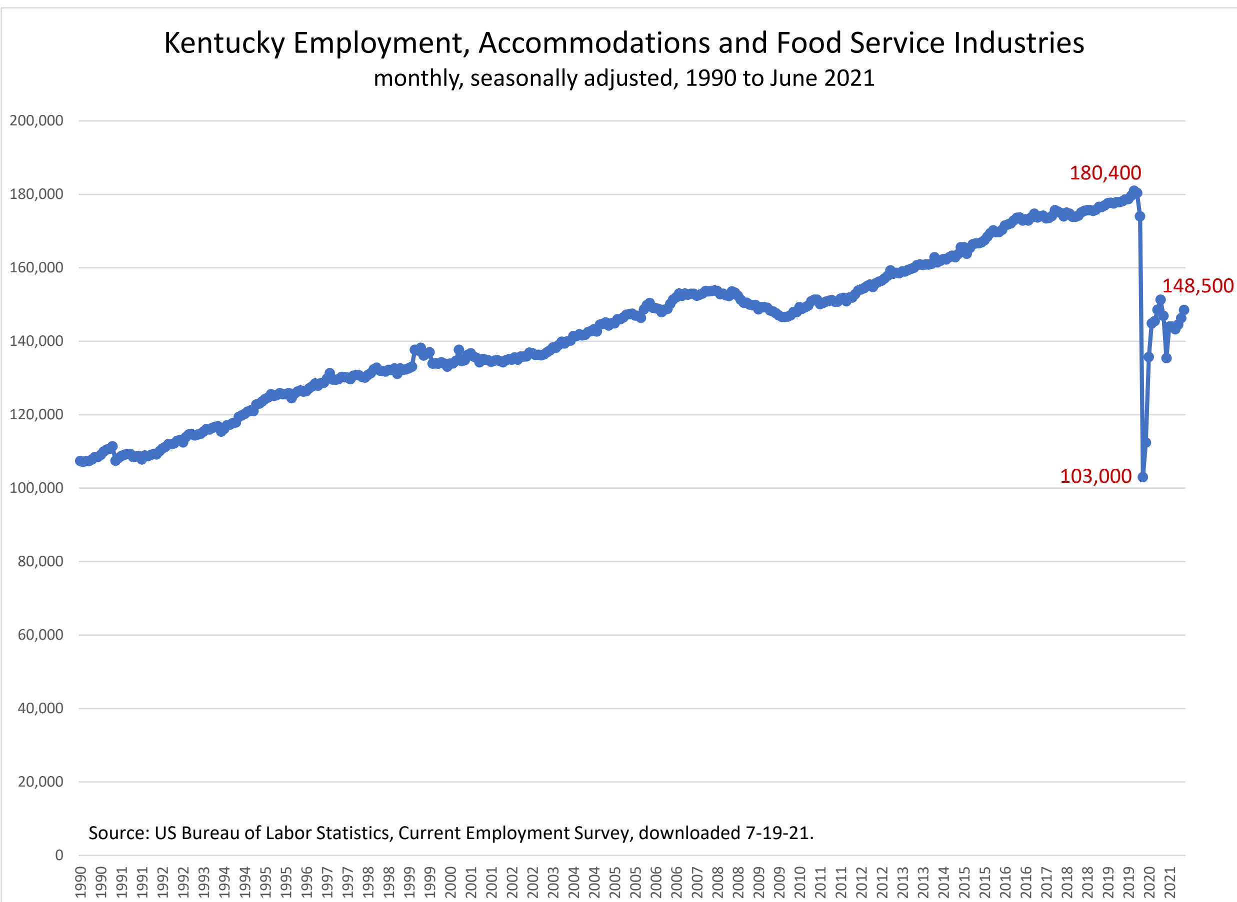
Job Growth in Kentucky, April 2019 to April 2020

Industry	Jobs	Contribution to Total Net Decline
Food Services and Drinking Places	-66,700	24%
Manufacturing	-47,100	17%
Retail Trade	-31,000	11%
Professional and Business Services	-26,600	10%
Ambulatory Health Care Services	-15,200	5%
Arts, Entertainment, and Recreation	-14,200	5%
Other Services	-13,600	5%
Local Government Educational Services	-8,100	3%
Accommodations	-7,900	3%
Social Assistance	-6,900	2%
Construction	-6,200	2%
Educational Services	-5,500	2%
Wholesale Trade	-5,000	2%
Mining and Logging	-4,200	2%
Hospitals	-3,800	1%
Local Government excl Educational Services	-3,400	1%
Financial Activities	-3,000	1%
Information	-2,400	1%
Transportation and Utilities	-2,400	1%
Nursing and Residential Care Facilities	-2,100	1%
State Government Educational Services	-1,700	1%
Federal Government	-800	0%
State Government Excl Education	300	
Total Nonfarm	-277,500	

Source: US Bureau of Labor Statistics, Current Employment Survey, not seasonally adjusted.
Program measures wage and salary jobs only, not proprietors, and double counts moonlighters.

It is instructive to examine the detailed estimates of jobs by industry. April 2020 was the hardest hit month in terms of job declines. The table shows which sectors had the most job losses, though some further explanation is needed. It is no surprise to see restaurants and bars taking the biggest hit, accounting for 24 percent of the total net job loss in the state. Similarly, declines in retail, entertainment, and hotels were widely reported, and together with restaurants accounted for about 43 percent of all job losses. The fourth entry, Professional and Business Services, also posted a large decline, which seems counterintuitive since by the title one assumes most of these jobs could be shifted to home. However, a look inside the sector reveals that the most job losses occurred in the Employment Services subindustry, which includes temporary help agencies. This indicates that companies cut back on 'temps' while keeping their regular workers employed.

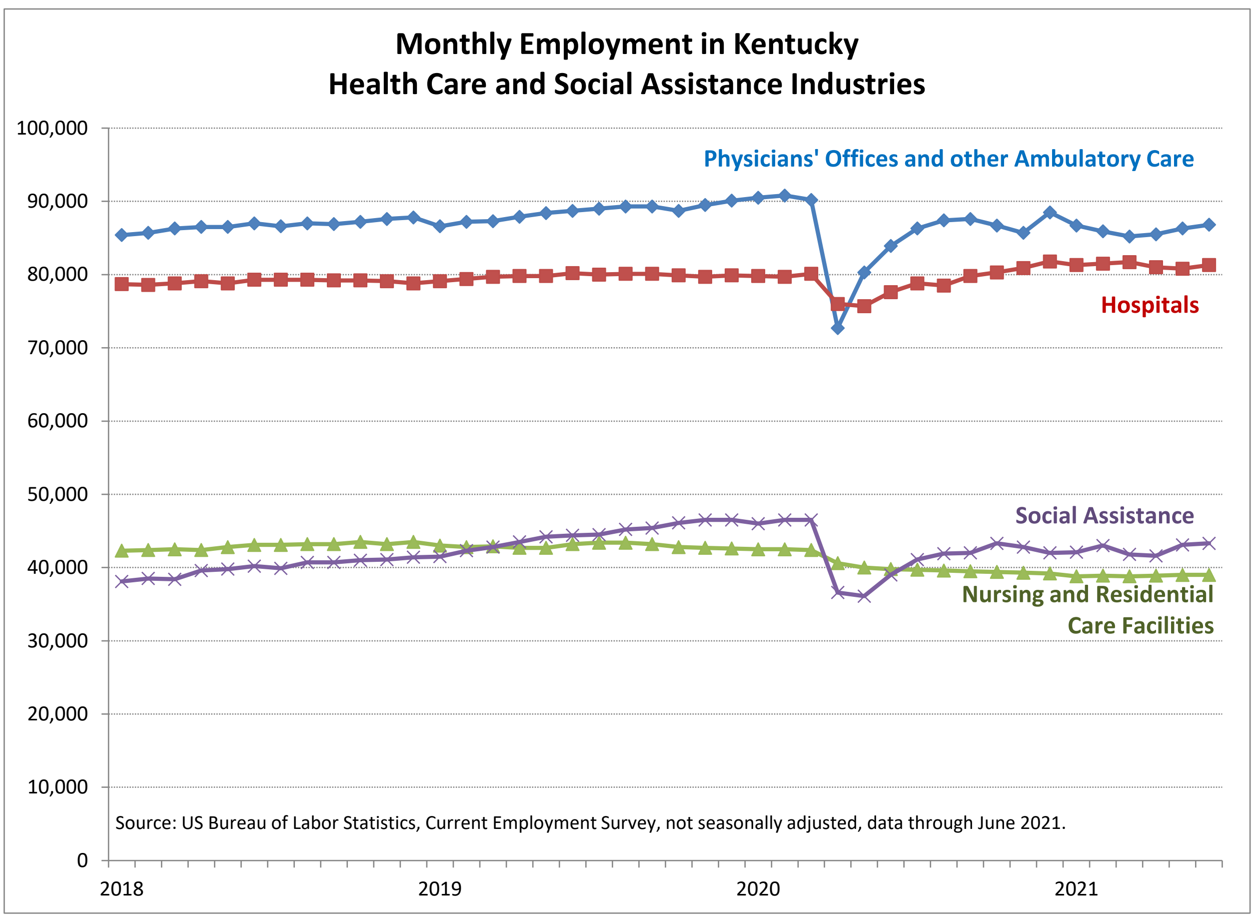
Manufacturing was also hit hard by Covid and the public response, with employment down 47,100 jobs in April 2020 compared to a year earlier (manufacturing employed about 250,000 before the pandemic). The largest component of the job losses was in the transportation equipment sector, dominated by motor vehicle assembly and parts production. By March 2021, manufacturing had gained back about 38,000 of the jobs it had shed a year before, though remains about 9,000 jobs below its previous peak.



The loss in jobs was more severe than the loss in worker earnings due to the prevalence of part-time and low-pay occupations in some of the hardest hit industries. The average annual pay in restaurants, for example, is only $19,400. Jobs in retail trade average $28,900, hotels $27,200, and arts, entertainment and recreation $25,500. These compare to the statewide average across all industries of $47,400 per year. Meanwhile, large sectors like construction ($55,800), wholesale trade ($66,900), transportation and utilities ($58,100), and hospitals ($55,000) posted only modest job losses.

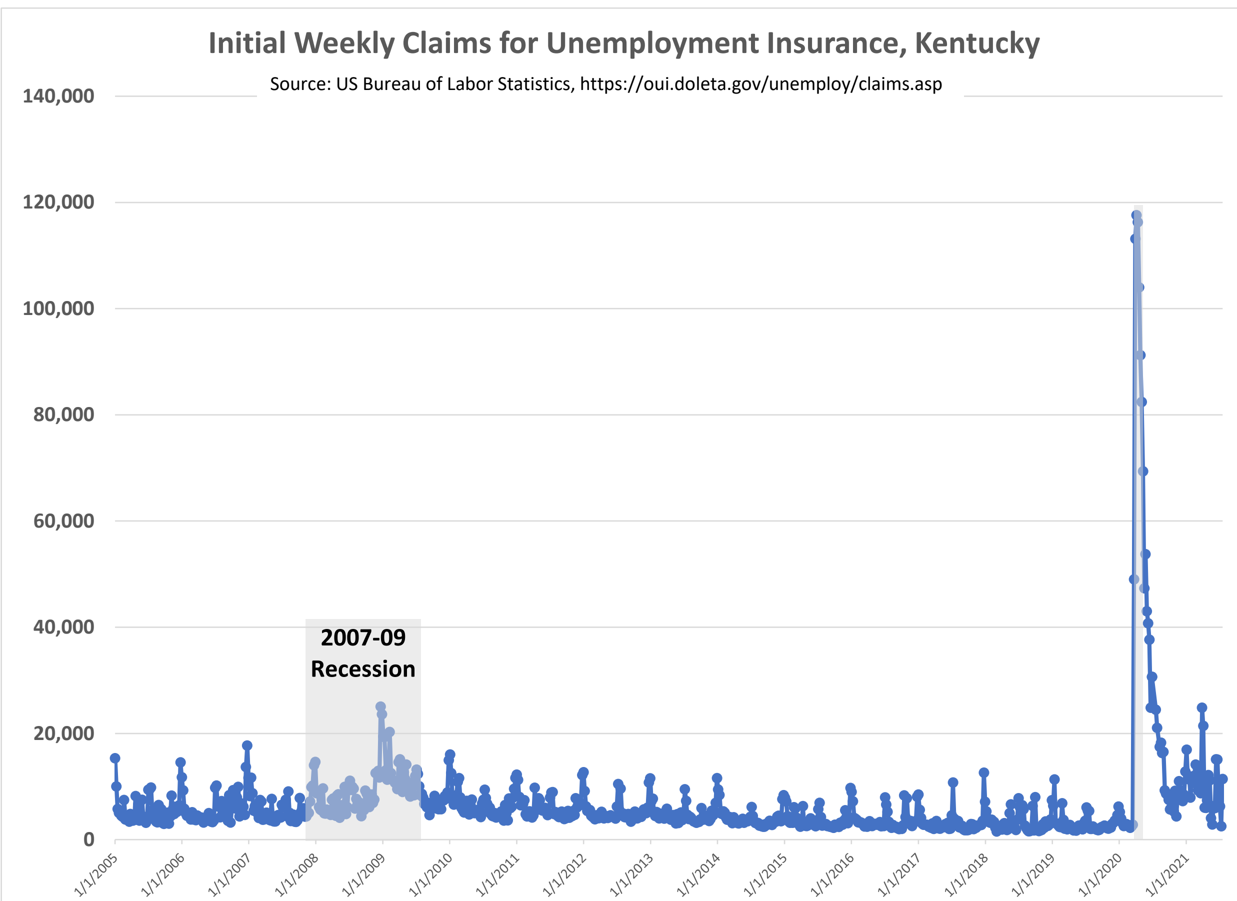
One can see in the chart above how severe the hit was, and continues to be, in the restaurant and hotel industries. On a seasonally adjusted basis, the hospitality industry shed 78,000 jobs in just two months as state policies closed businesses and prohibited events. The overall industry has only recovered about 60 percent of its prior employment, and appears stalled.

Ironically, given that Covid began as a health care crisis, there was a sharp drop in employment at hospitals, nursing homes, and physician offices. Seventeen months later, the combined health care and social assistance sector is supporting 9,000 fewer jobs than it did in February 2020. Given the concentration of Covid deaths in nursing homes, it is surprising to see a steady decline in employment there. One would have expected a large step-up in jobs to deal with the infections and danger for residents and staff. Physicians' offices reported the biggest immediate decline in workforce, as regular visits to doctors and dentists were canceled or postponed. As of June 2021, employment at ambulatory care facilities remains 4 percent below its pre-Covid peak. Hospital employment did not recover to pre-Covid levels until October 2020.



Unemployment – A Novel Variety

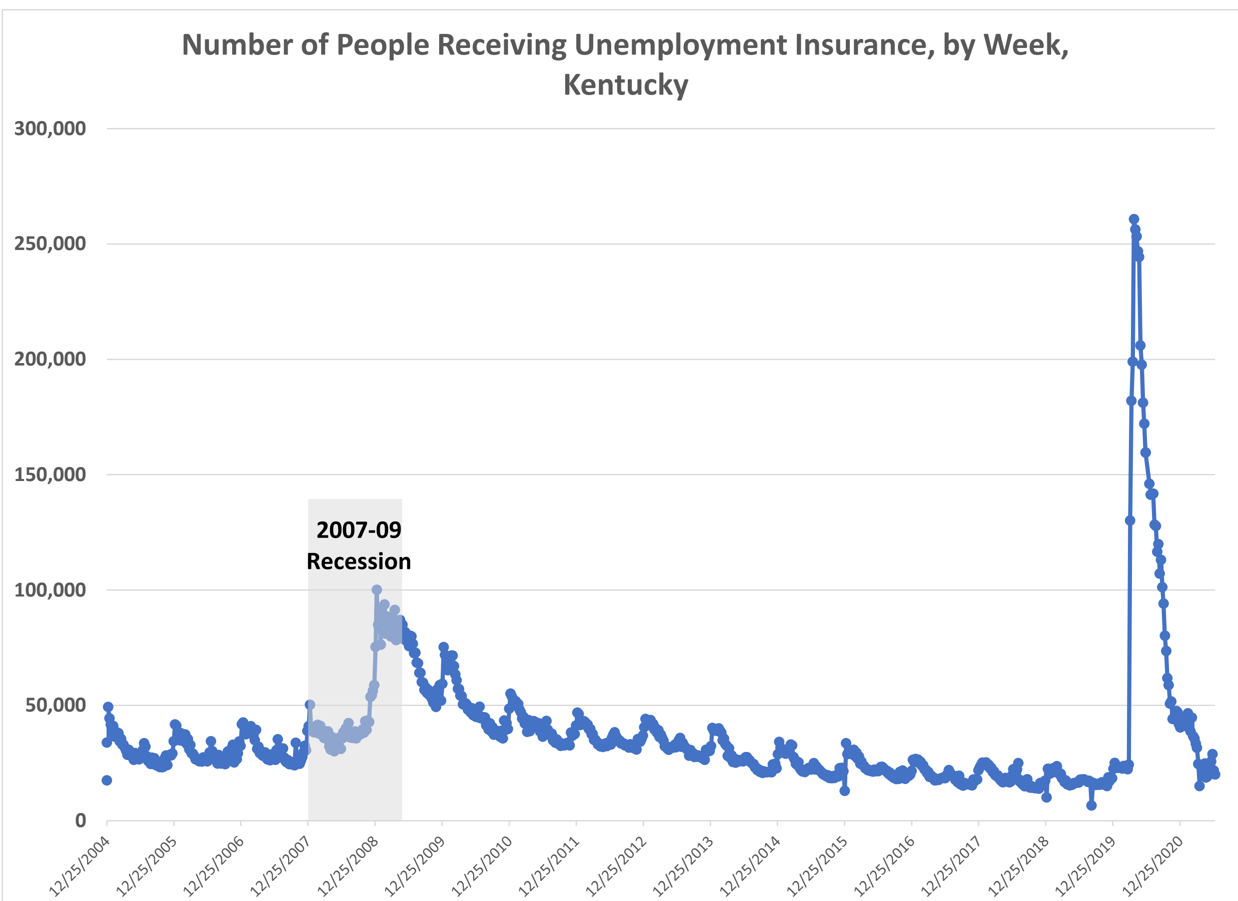
The measured spike in unemployment beginning March 2020 was the greatest on record. However, there are several factors that make it tricky to compare recent measures with those from previous downturns. First, government public health policies in this case caused the unemployment, as opposed to a conventional recession in a business cycle. Second, the federal unemployment supplement of $600 per week to the state benefit, through July 25, meant that for most recipients the government has been paying people not to work, thus exacerbating unemployment. Third, traditional qualifications for receiving unemployment benefits were relaxed. Self-employed people were eligible for benefits, even though they had not paid into the unemployment insurance trust fund. Part-time workers, even the occasional substitute teacher, were eligible not only for the nominal state benefit, but also the federal $600 supplement per week. Most people receiving unemployment benefits received more income from not working than from their former job[1]. All these factors resulted in extremely high estimates of unemployment, as well as billions of dollars of government transfer payments to Kentuckians as they were told to stay home to prevent the spread of Covid. Now we are observing how well the economy absorbs the thousands of people needing to return to work.



[1] According to the Congressional Budget Office, "Roughly five of every six recipients would receive benefits that exceeded the weekly amounts they could expect to earn from work during those six months". www.cbo.gov/system/files/2020-06/56387-CBO-Grassley-Letter.pdf

The accompanying two charts provide some historical perspective on UI beneficiaries in Kentucky, the first showing initial UI claims by week, and the second showing continuing claims. The last data point is for the week of July 17, released by the US Bureau of Labor Statistics on July 22. One can see the unprecedented spike in initial claims beginning in late March 2020, then the steady decline in claims through November, a mini-surge during the winter, and now back to pre-Covid levels.

A key indicator is the number of continuing claims, as shown in the second chart. There is a certain amount of churn in initial filings and re-employment; continuing claims represent persistent unemployment. In April 2020, Kentucky had the highest proportion of workers receiving unemployment benefits of any state, with continuing claims reaching 261,000. During the last recession, in 2009, continuing claims peaked at 100,000, but relatively high unemployment persisted for two years. Over the seventeen months it appears that the increased unemployment, while severe, was short-lived. The number of people receiving unemployment insurance payments has fallen consistently over the last year. The insured unemployment rate dropped from an April 2020 high of 13.8 percent to less than 2 percent since March 2021. About 20,000 people are now receiving UI payments, similar to that in July of 2019.



Business Closures – too early to tell

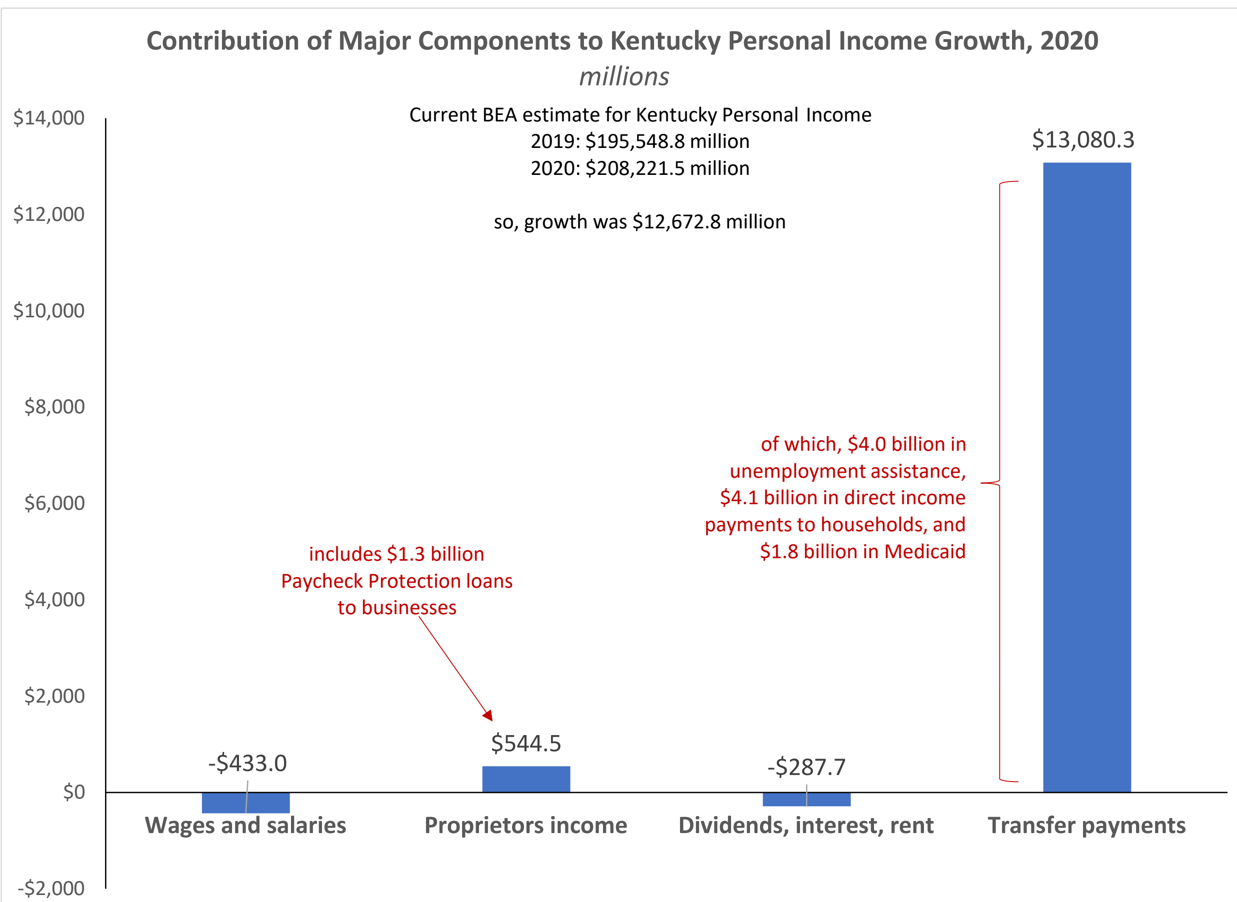
There has substantial national news about permanent business closures due to Covid fears and public policies. Many businesses in low-margin industries simply could not sustain three or more months without revenues. I expect to find that many small retail stores in Kentucky will close forever[2]. Clothing, furniture, and appliance stores were ordered closed in mid-March. Meanwhile, national big box chains - like Walmart, Target, Meijer, Home Depot, Lowes – were allowed to remain open and sell clothing, furniture and appliances. Gyms, restaurants, boutiques, hotels, have all been mentioned in media reports as vulnerable to closure. Within a year we should have better information on the decline in operating business establishments. The Quarterly Census of Employment and Wages, based on unemployment insurance premium filings by employers, provides a count of business establishments by industry and county, as well as the number of employees and their wages. However, there is an eight-month lag in collecting and reporting preliminary estimates, and these are only now available through December 2020.

[2] A recent story on business closures and openings in downtown Louisville reveals that restaurants and art galleries were the hardest hit. For example, in 2020 there were 19 restaurants closing versus 9 opening: www.courier-journal.com/story/news/local/2021/05/04/what-downtown-louisville-businesses-opened-and-closed-in-2020/7340233002/

Federal Dollars and Personal Income of Kentucky Residents

As described above, individual and public policy responses to Covid have had a large negative impact on employment and payroll in Kentucky. This was partly mitigated by the unprecedented inflow of federal dollars in the form of expanded unemployment benefits, direct payments to households, forgivable loans to businesses, and large outright grants to hospitals, school systems, and state and local governments. In this section I examine early data on personal income changes in 2020 to learn more about the net effect of all these developments.

One can see in the chart that Kentucky personal income grew in 2020, up about $12.7 billion, or 6.5 percent, over 2019. However, this was totally due to an increase of $13.1 billion in government transfer payments. Wages and salaries actually fell by $433 million, and proprietors' income grew only because of the federal Paycheck Protection payments to business owners. Property income (dividends, interest, rent) also fell in 2020.



This is a continuation of a concerning trend. Using preliminary data in 2020, it appears that transfer payments accounted for 29 percent of the personal income of Kentucky residents. This ranks fourth highest among states, following only Mississippi, West Virginia, and New Mexico.

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