

NATIONAL OUTLOOK

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DECEMBER 17, 2021

Office of State Budget Director

Key Differences in the IHS Markit Forecast

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- GDP growth revised down in near term, up in FY2023
 - Real GDP growth in FY2022 revised down from 5.1% to 4.6%
 - Real GDP growth in FY2023 revised up from 3.4% to 3.8%
 - Continued drawdown of inventories pushes inventory investment into FY2023, as firms raise production to rebuild depleted stocks
- Inflation forecast increased
 - Headline PCE Inflation measures at 2.3% in FY2023 and FY2024
 - Prices of food, energy, and motor vehicles retreat with recovering supplies, with long-run inflation slightly above Federal Reserve target rate of 2%
- Full “tapering” of Federal Reserve asset purchase program to be completed by FY2023Q1.

Control Scenario

(Probability – 50%)

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- GDP growth estimated to be 4.6% in FY2022 and 3.8% in FY2023
 - ▣ Growth projections in FY22 reduced
 - Impact from deceleration of PCE-services expenditures in FY2022Q1 in response to continued spread of Delta variant of COVID-19
 - GDP growth increases in FY2022Q3, as inventory investment continues and labor-force participation increases
 - Consumer spending patterns shift in a “renormalization” as consumers increase expenditures on services
 - ▣ Growth lost in FY2022 shifted out to FY2023
- Federal Reserve maintains Federal Funds rates near 0% through FY2023Q1 with asset purchases tapering completed by FY2023
- Increases in West Texas Intermediate oil prices, as oil expected to be \$81.39/bbl in FY2022Q2, reduced slightly to \$74.36 in FY2023Q1

Optimistic Scenario

(Probability – 20%)

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- GDP growth increases to 5.5% in FY2022 and 4.8% in FY2023
 - ▣ Consumer response to Infrastructure Investment and Jobs Act stimulus exceeds baseline forecast
 - ▣ Widespread vaccination and adherence to safety guidelines results in significantly quicker decline in new COVID cases and deaths
- Employment increases by 4.9% in FY2022
- Unemployment rate down to 3.1% by FY2022Q4
- Real Consumer Spending increase by 6.8% in FY2022
- Core PCE declines from 4.9% in FY2022Q2 to 2.3% by FY2023Q2
- Unit sales of light vehicles continues robust growth of 19.5% in FY2023
- Global economy recovers from COVID impacts more quickly than baseline forecast

Pessimistic Scenario

(Probability – 30%)

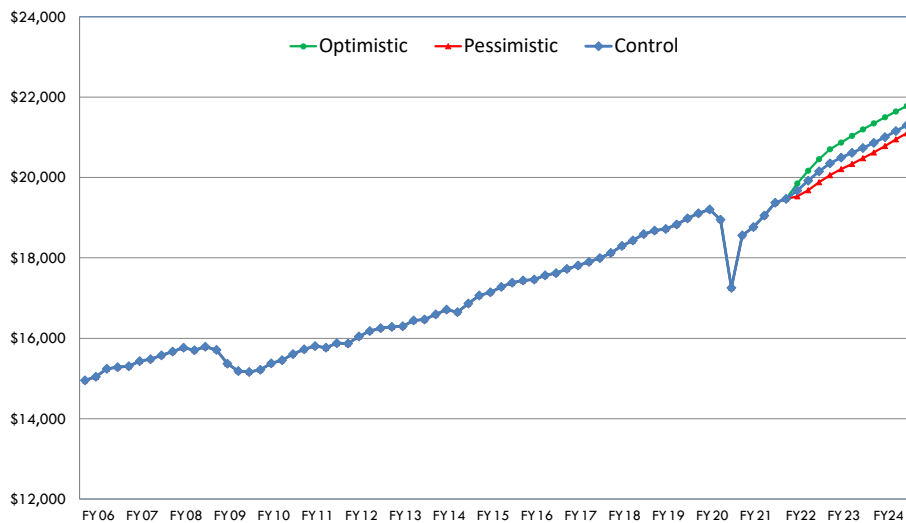
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- GDP growth rises to 3.7% in FY2022 and 3.2% in FY2023
 - ▣ Resurgent virus and significant increase in cases and hospitalizations
 - ▣ Employment impacted by continued delays in opening and availability of daycare and impacted in-person learning
- Consumer spending increases 4.8% in FY2022 and 2.8% in FY2023
- On-going supply-chain issues worsen, delaying production and shipment of durable goods
- Employment increases by 4.3% in FY2022
- Unemployment rate down to 4.1% by FY2022Q4
- Core PCE declines from 4.2% in FY2022Q2 to 1.0% by FY2023Q2
- Global economy continues to experience setbacks in recovering from COVID-related impacts

Real GDP

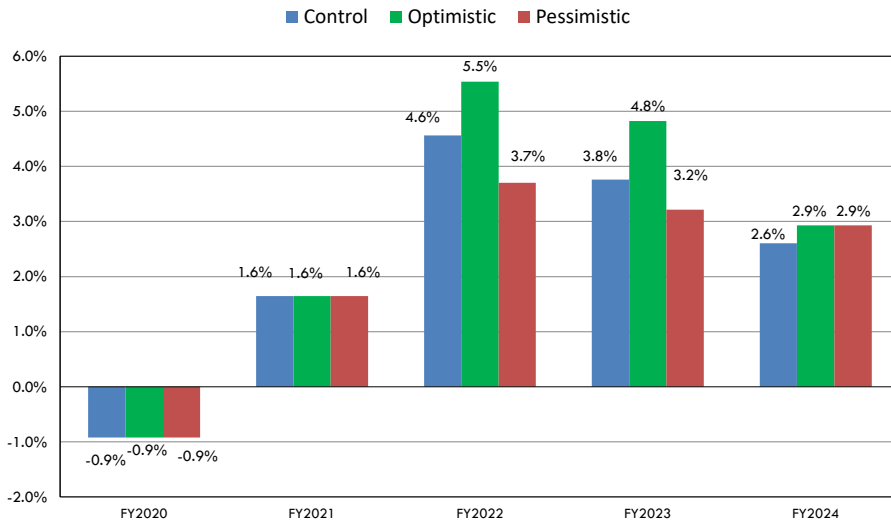
(Billions of Chained 2012 Dollars, Annual Rate, BEA)

6



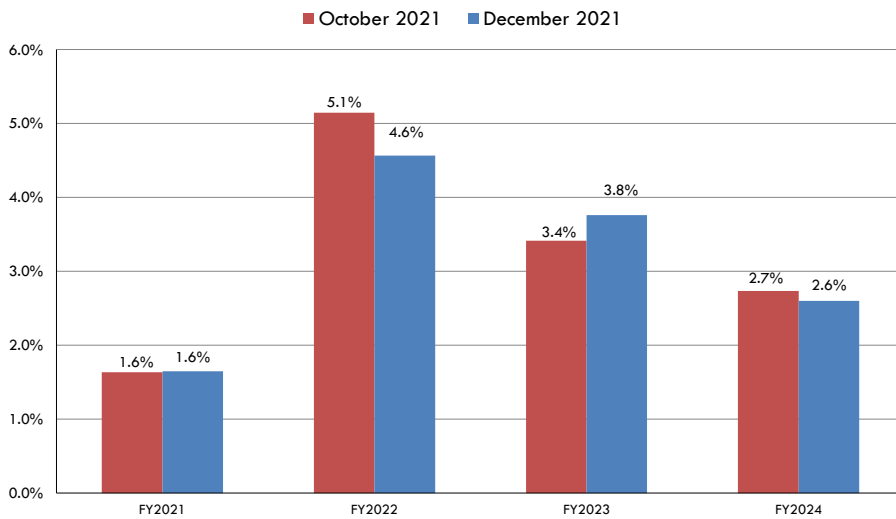
Real GDP (IHS Markit, Annual Growth Rates)

7



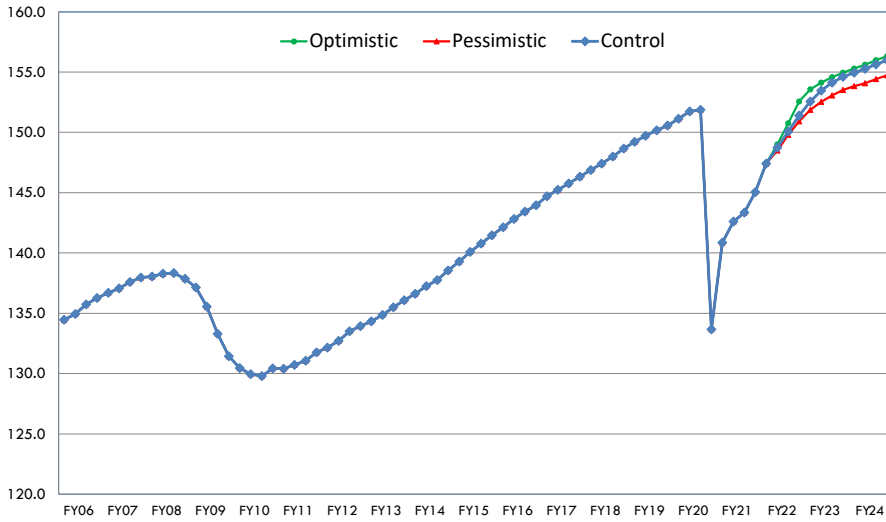
Real GDP – Control Forecast (IHS Markit, Annual Growth Rates)

8



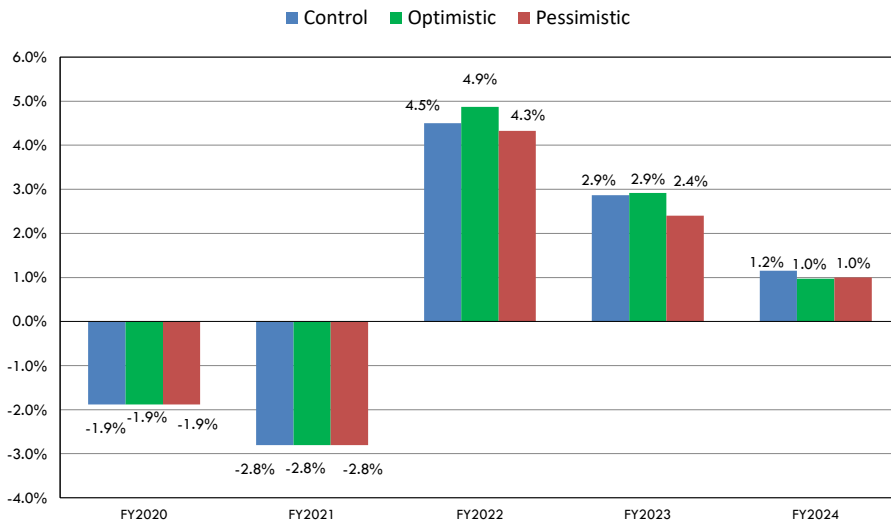
U.S. Employment – Total Non-Farm Payrolls (Millions, BLS)

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U.S. Employment – Total Non-Farm Payrolls (IHS Markit Forecast, Annual Growth Rates)

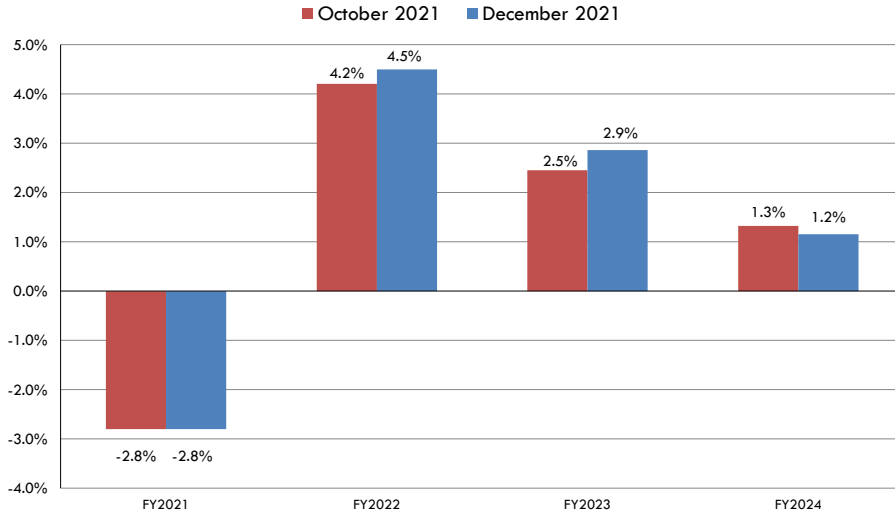
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U.S. Employment – Total Non-Farm Payrolls Control Forecast

(IHS Markit, Annual Growth Rates)

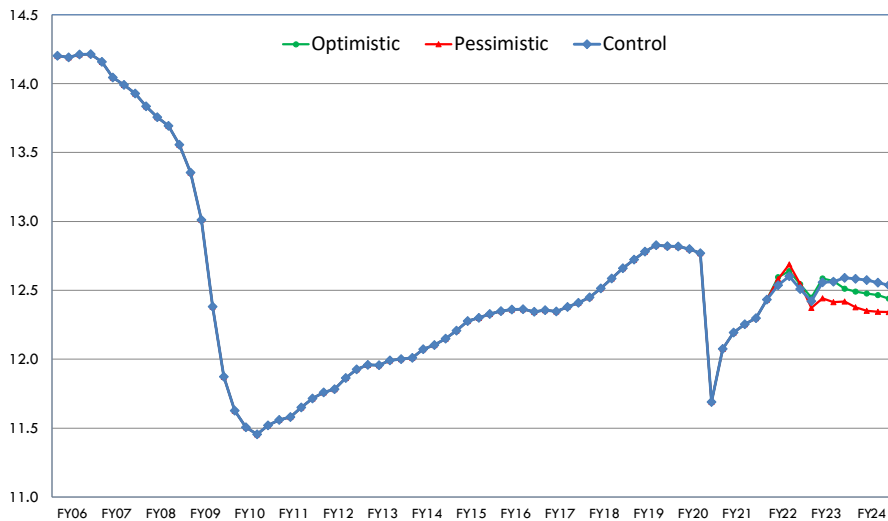
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U.S. Employment – Manufacturing

(Millions, BLS)

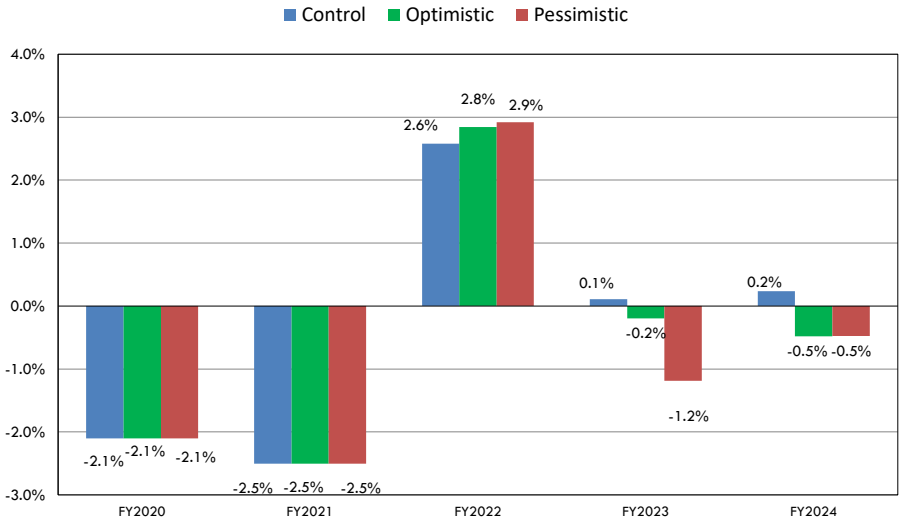
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U.S. Employment – Manufacturing

(IHS Markit Forecast, Annual Growth Rates)

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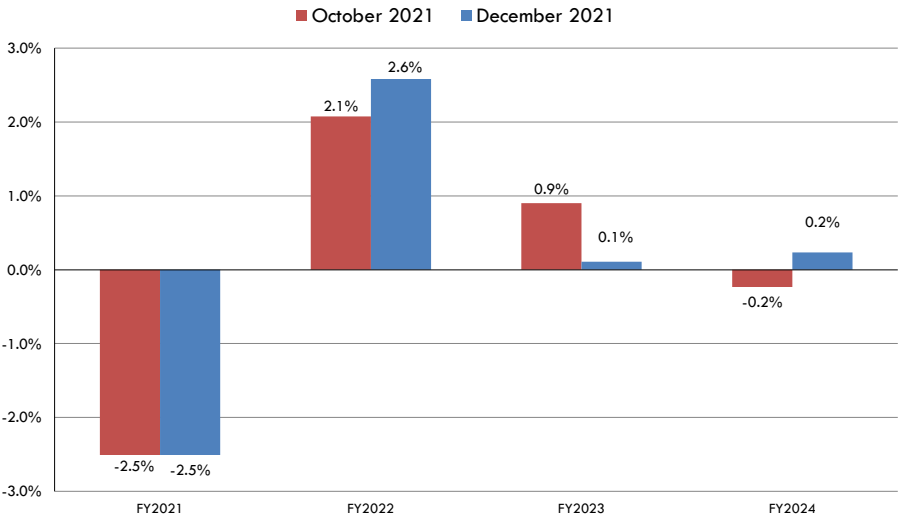


U.S. Employment – Manufacturing

Control Forecast

(IHS Markit Forecast, Annual Growth Rates)

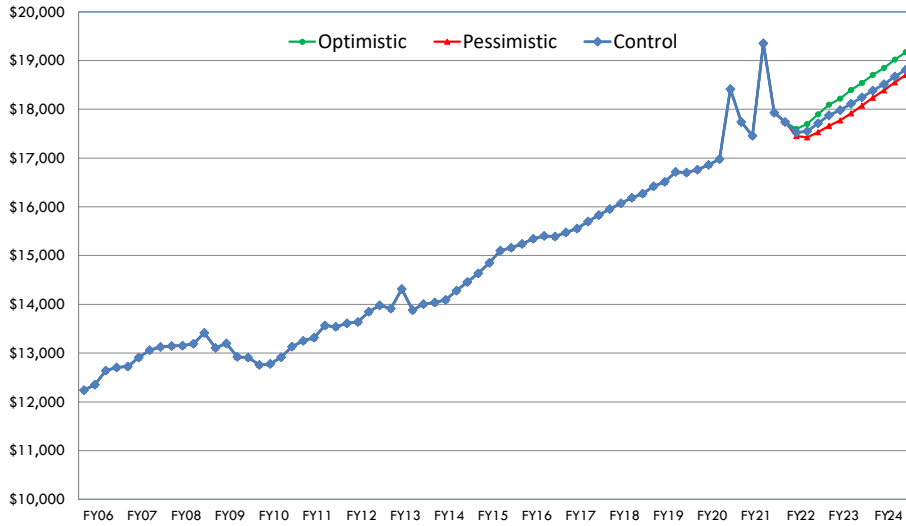
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Real Personal Income

(Billions of Chained 2012 Dollars, Annual Rate, BEA)

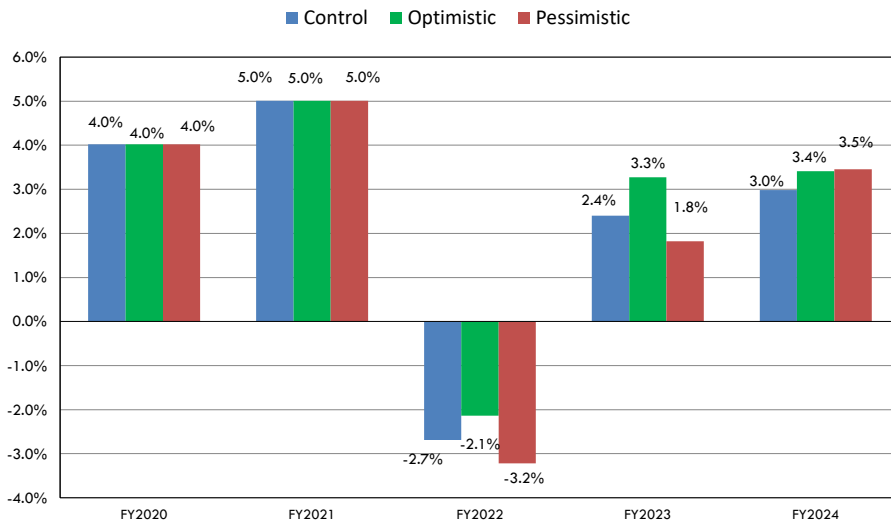
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Real Personal Income

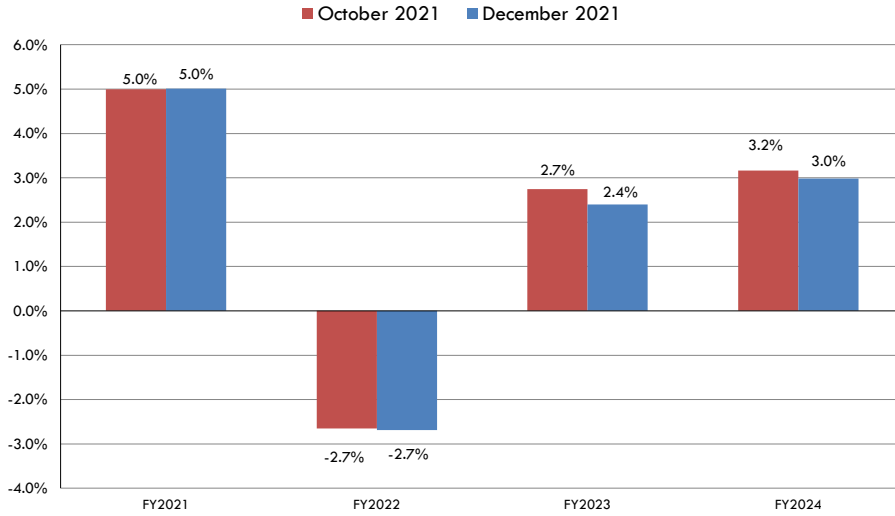
(IHS Markit Forecast, Annual Growth Rates)

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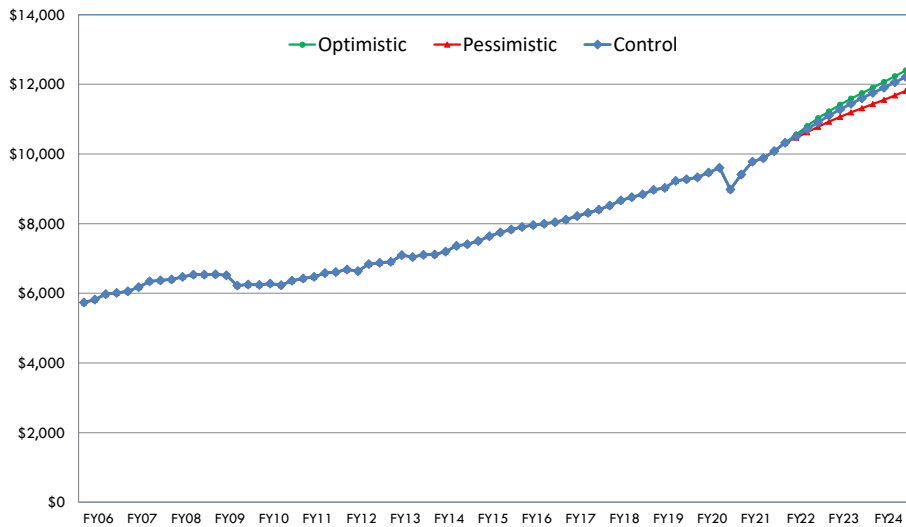
Real Personal Income - Control Forecast (IHS Markit Forecast, Annual Growth Rates)

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Wage and Salary Disbursements (Billions of Dollars, Annual Rate, BEA)

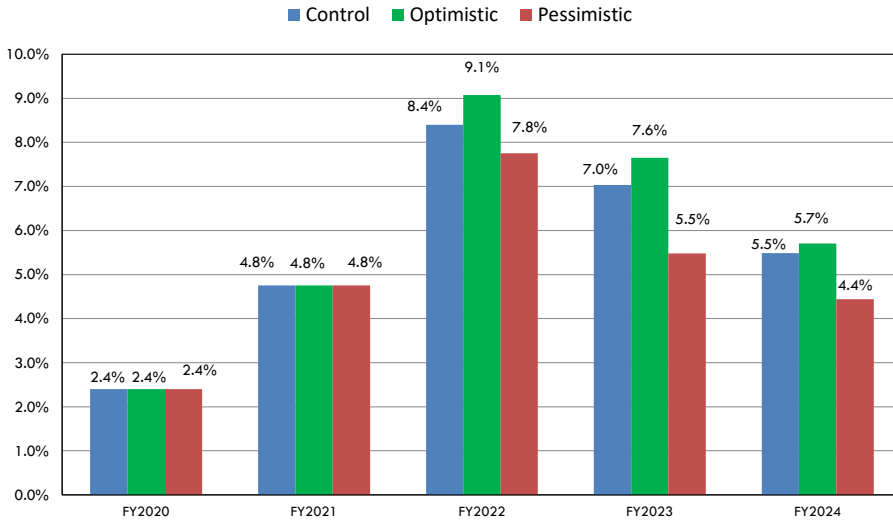
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Wage and Salary Disbursements

(IHS Markit Forecast, Annual Growth Rates)

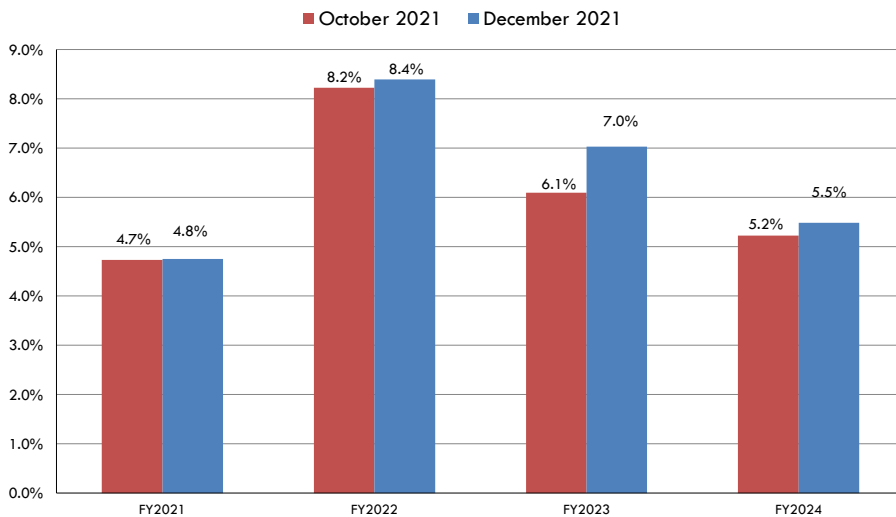
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Wage and Salary Disbursements - Control Forecast

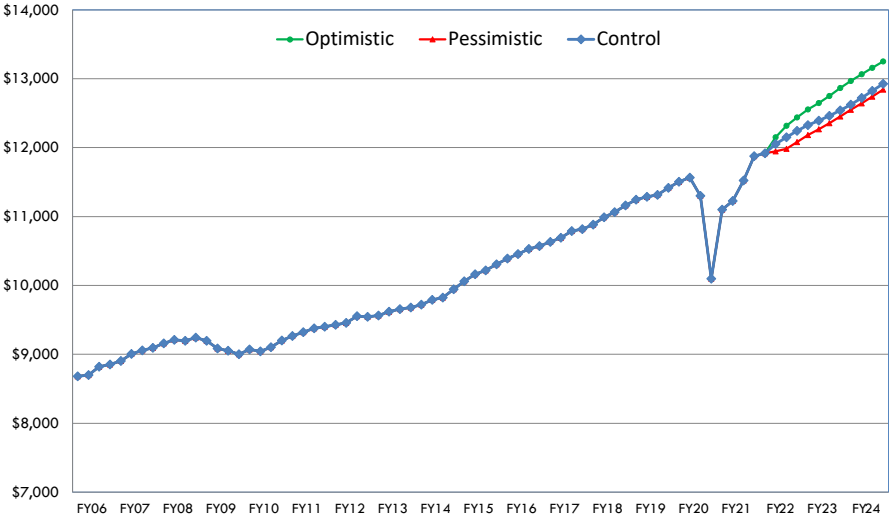
(IHS Markit Forecast, Annual Growth Rates)

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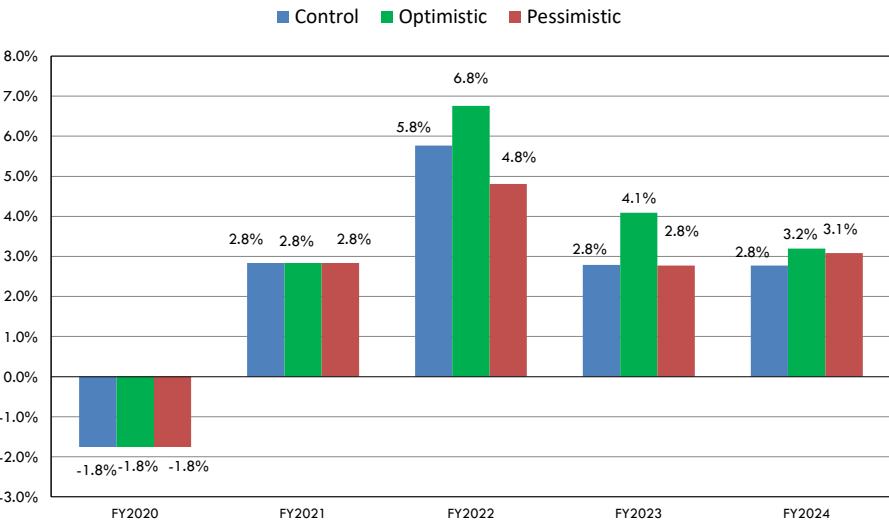
Real Consumer Spending (Excluding Food and Energy)

(Billions of 2012 Dollars, Annual Rate, BEA)



Real Consumer Spending (Excluding Food and Energy)

(IHS Markit Forecast, Annual Growth Rates)

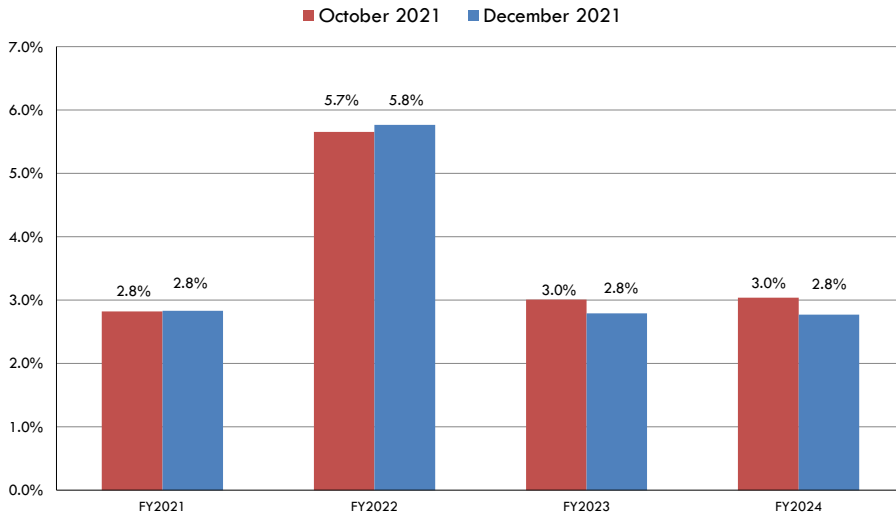


Real Consumer Spending (Excluding Food and Energy)

Control Forecast

(IHS Markit Forecast, Annual Growth Rates)

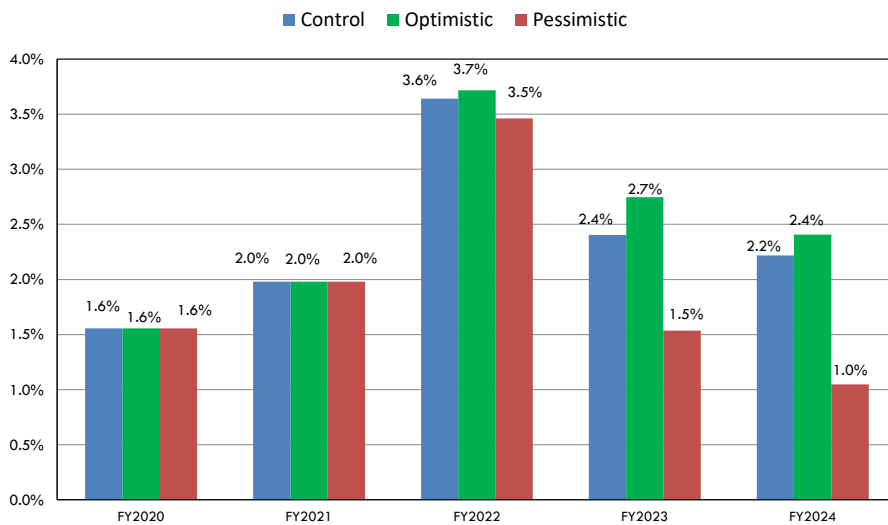
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Chained Price Index - Consumer Spending (Excluding Food and Energy)

(IHS Markit Forecast, Annual Growth Rates)

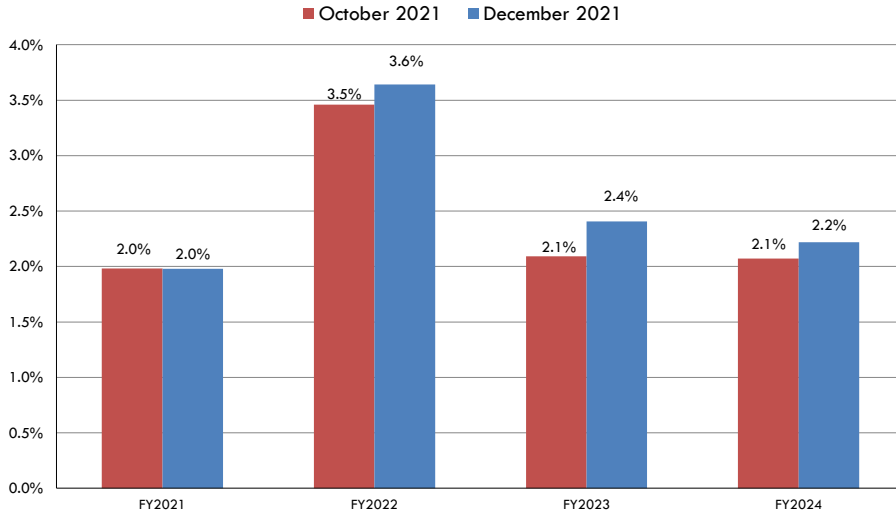
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Chained Price Index - Consumer Spending (Excluding Food and Energy) – Control Forecast

(IHS Markit Forecast, Annual Growth Rates)

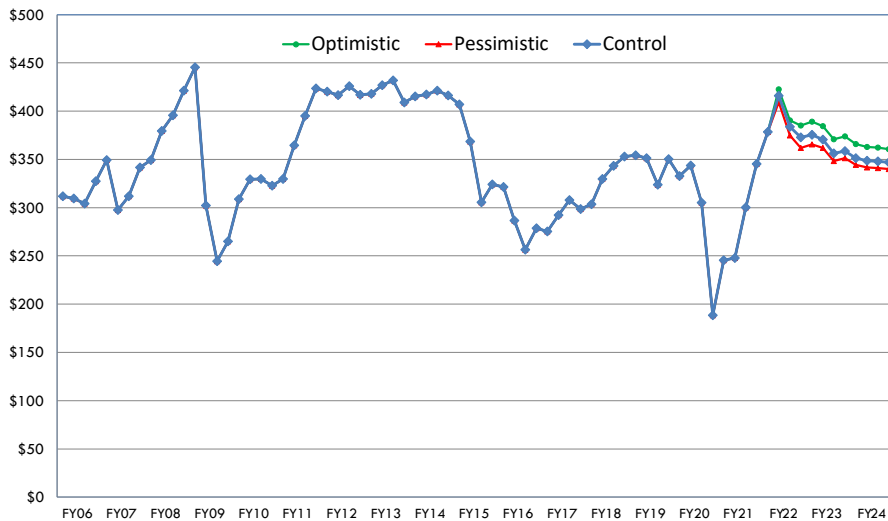
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Nominal Consumption of Gasoline and Oil

(Billions of Dollars, Annual Rate, BEA)

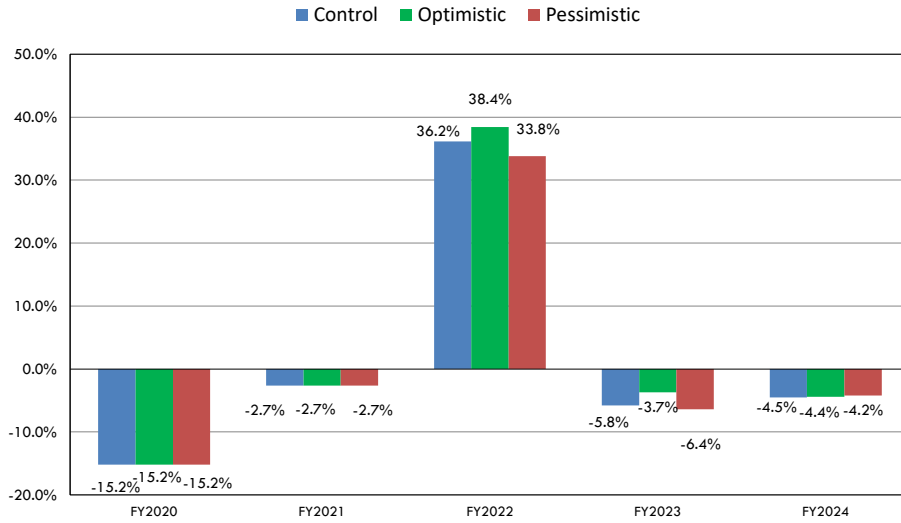
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Nominal Consumption of Gasoline and Oil

(IHS Markit Forecast, Annual Growth Rates)

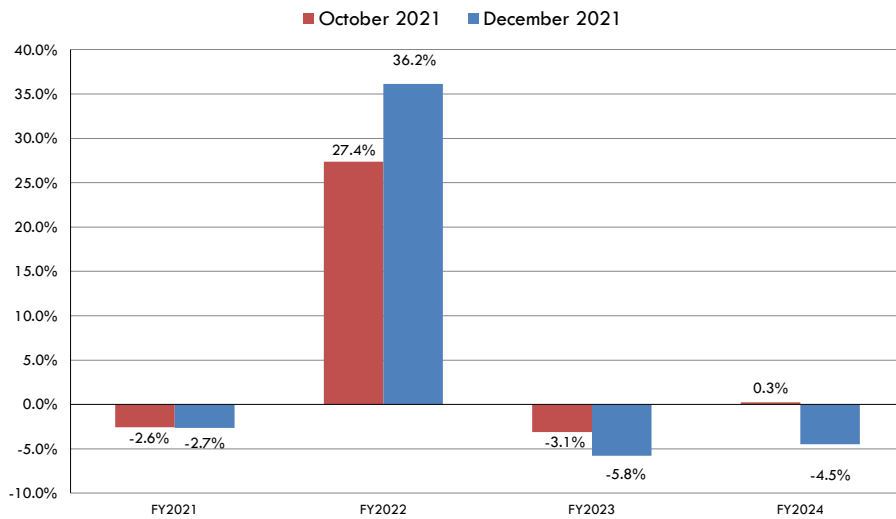
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Nominal Consumption of Gasoline and Oil Control Forecast

(IHS Markit Forecast, Annual Growth Rates)

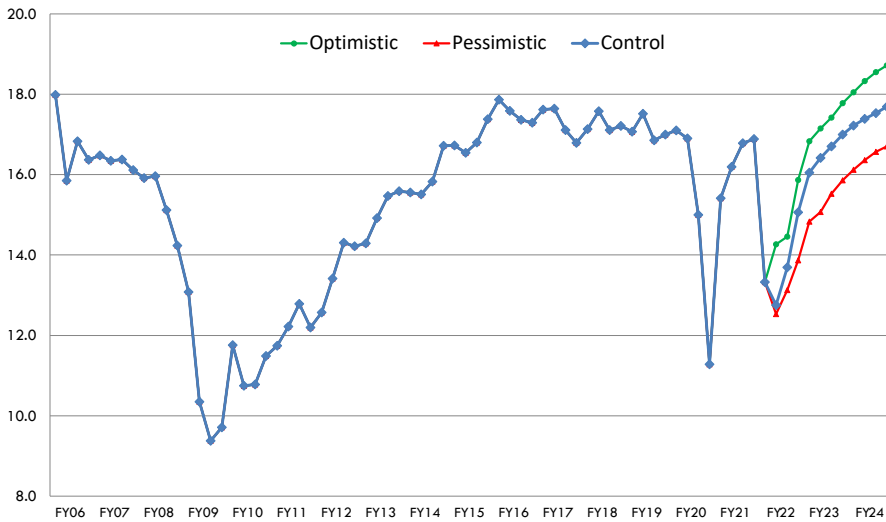
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Unit Sales of New Light Vehicles

(Millions, Annual Rate, BEA)

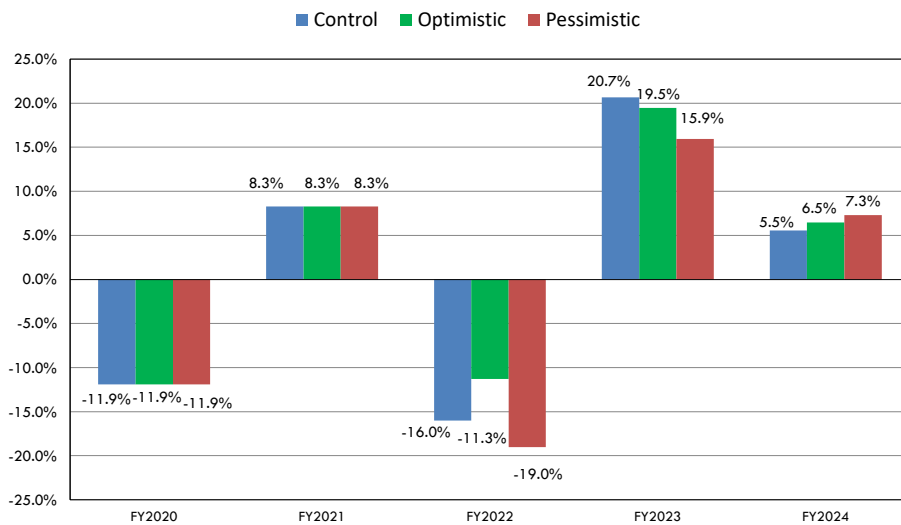
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Unit Sales of New Light Vehicles

(IHS Markit Forecast, Annual Growth Rates)

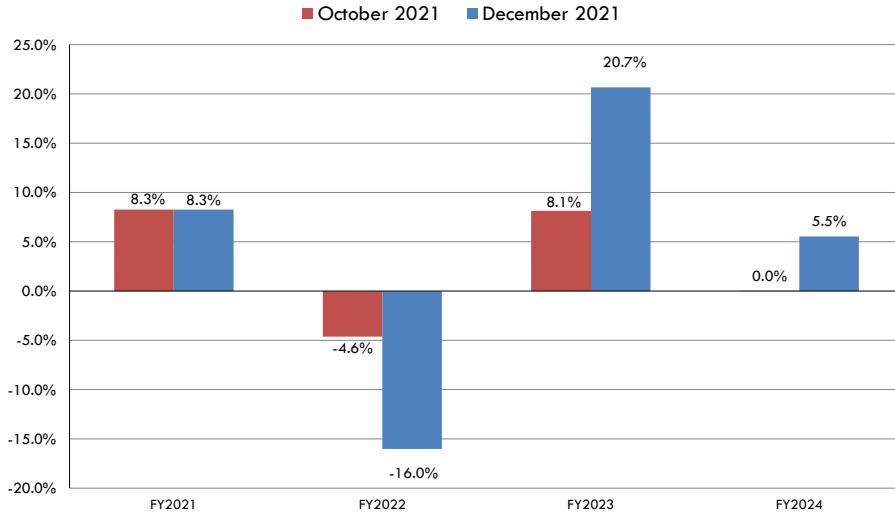
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Unit Sales of New Light Vehicles Control Forecast

(IHS Markit Forecast, Annual Growth Rates)

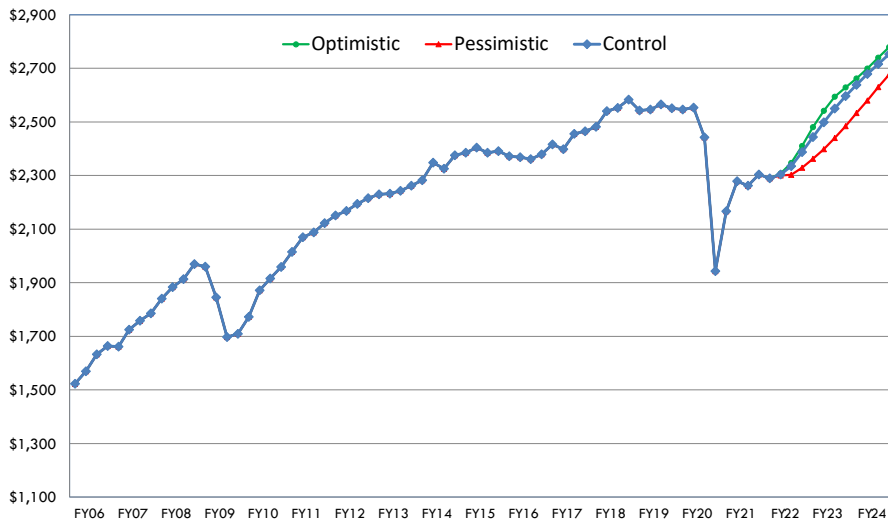
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Real Exports of Goods and Services

(Billions of Chained 2012 Dollars, Annual Rate, BEA)

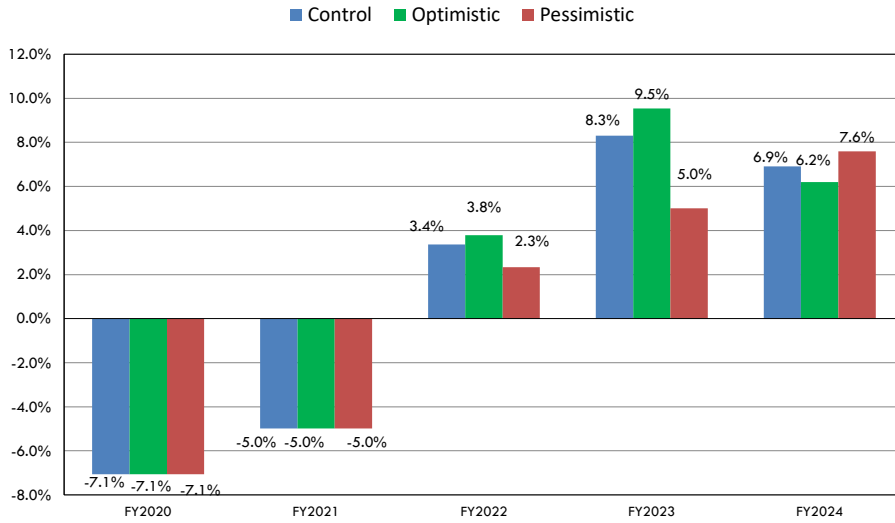
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Real Exports of Goods and Services

(IHS Markit Forecast, Annual Growth Rates)

33

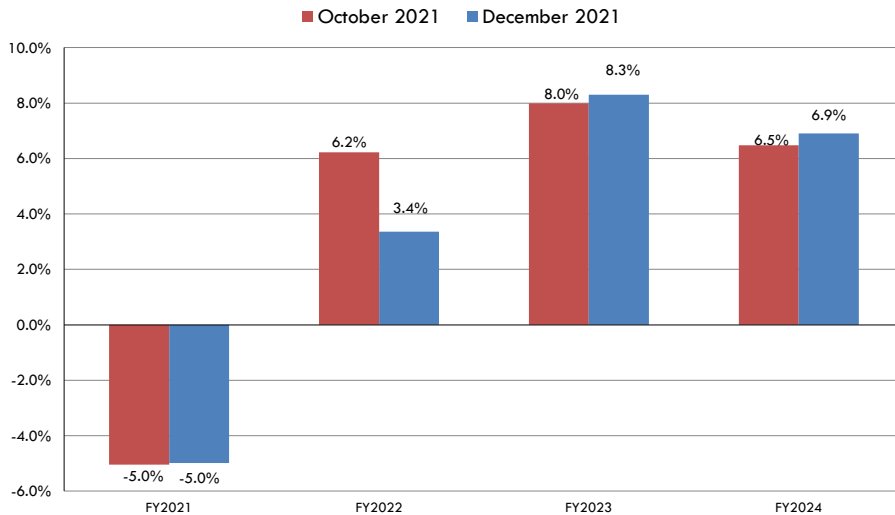


Real Exports of Goods and Services

Control Forecast

(IHS Markit Forecast, Annual Growth Rates)

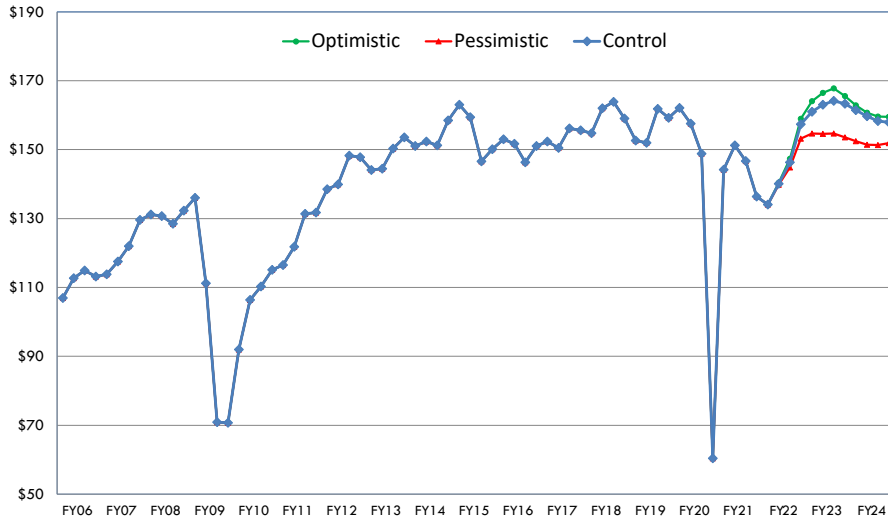
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Real Exports of Motor Vehicles and Parts

(Billions of Chained 2012 Dollars, Annual Rate, BEA)

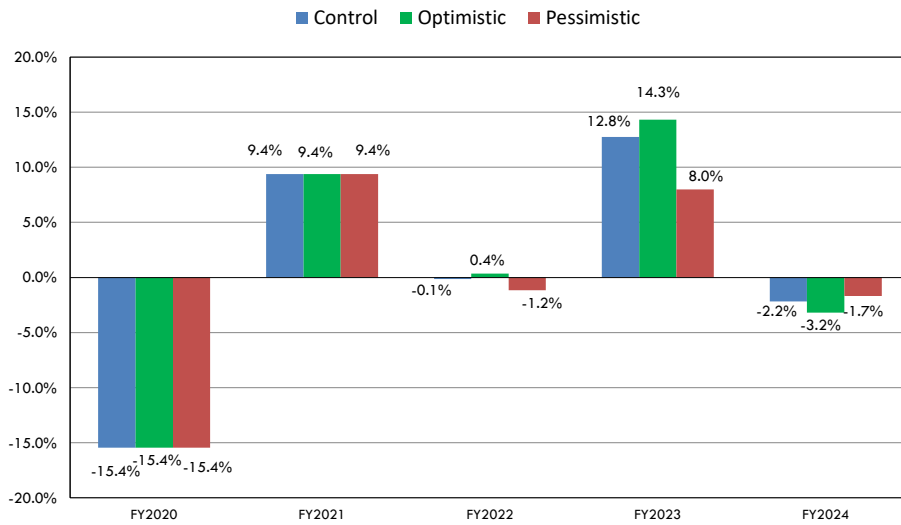
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Real Exports of Motor Vehicles and Parts

(IHS Markit Forecast, Annual Growth Rates)

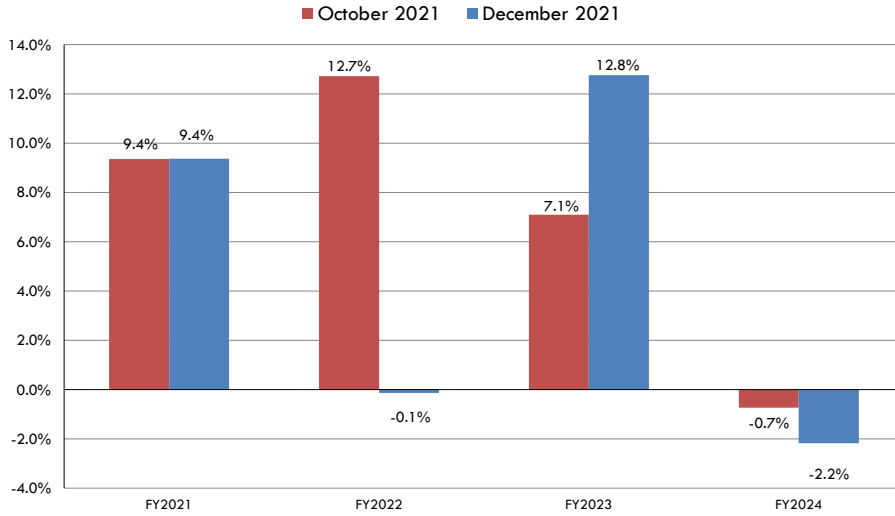
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Real Exports of Motor Vehicles and Parts Control Forecast

(IHS Markit Forecast, Annual Growth Rates)

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KENTUCKY ECONOMIC OUTLOOK

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Key Differences in the Current Forecast

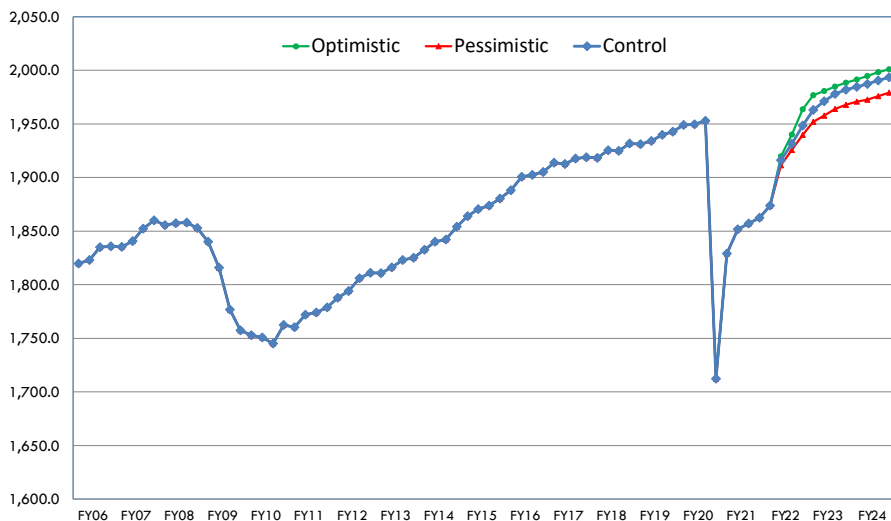
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- Current Fiscal Year Employment Growth Estimates Moderate and Shift to FY2023
 - ▣ Non-farm employment in FY22 declines to 3.6% from previous estimate of 3.9%, while FY2023 increases to 2.9% from 2.2% in previous estimate
 - ▣ Manufacturing employment increases to 3.6% in FY2022 and 2.4% in FY2023
- Wages and Salaries Growth Estimates Increase
 - ▣ Wages and salaries have continued to show gains as historically low labor force participation rate continues
 - ▣ Current forecast assumes two additional years to regain pre-pandemic levels of labor force participation
- Personal Income forecasted to be negative in FY2022 with -1.1% growth rate as compared to 0.3% growth in previous forecast
 - ▣ Advance payments of the Child Tax Credit authorized under the American Rescue Plan have provided support for personal income in past quarters
 - ▣ Significant decline in transfer payments as stimulus measures recede

Kentucky Non-Farm Employment

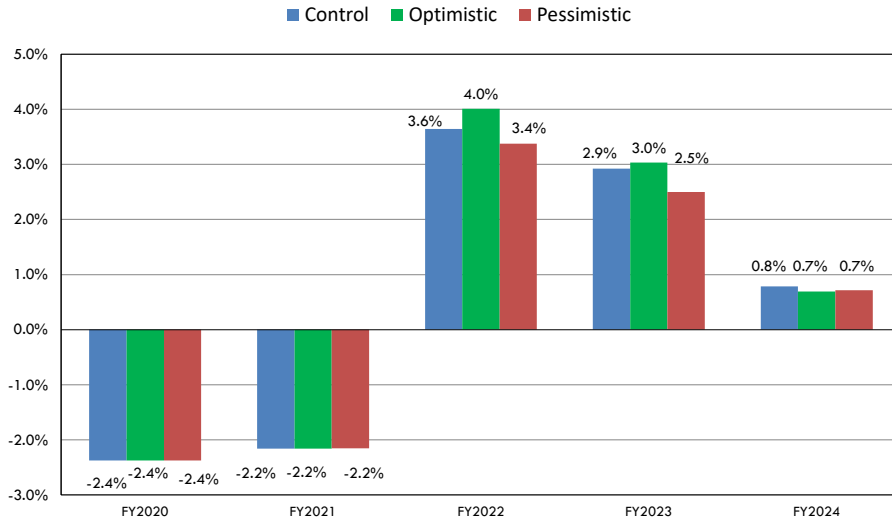
(Thousands, KY MAK Model)

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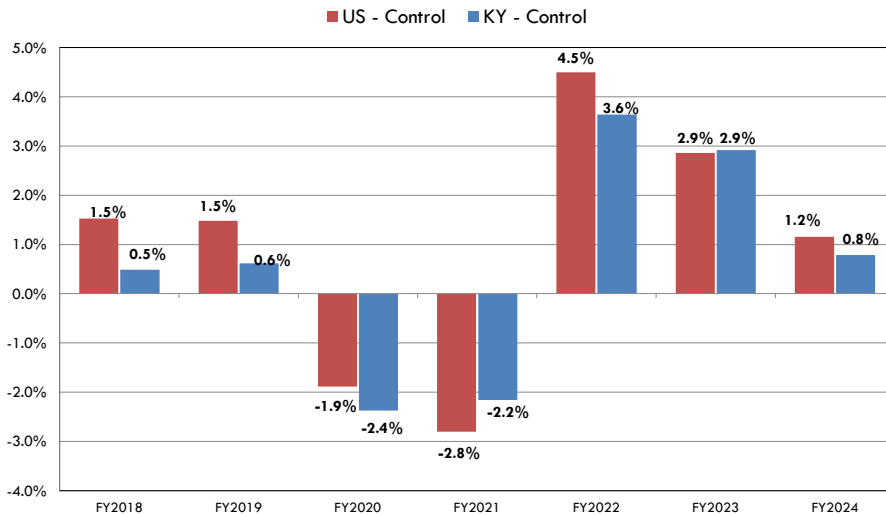
Kentucky Non-Farm Employment Forecasts (KY MAK Model, Annual Growth Rates)

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Non-Farm Employment – US and Kentucky (Fiscal Year Growth Rates, IHS Markit and KY MAK Model)

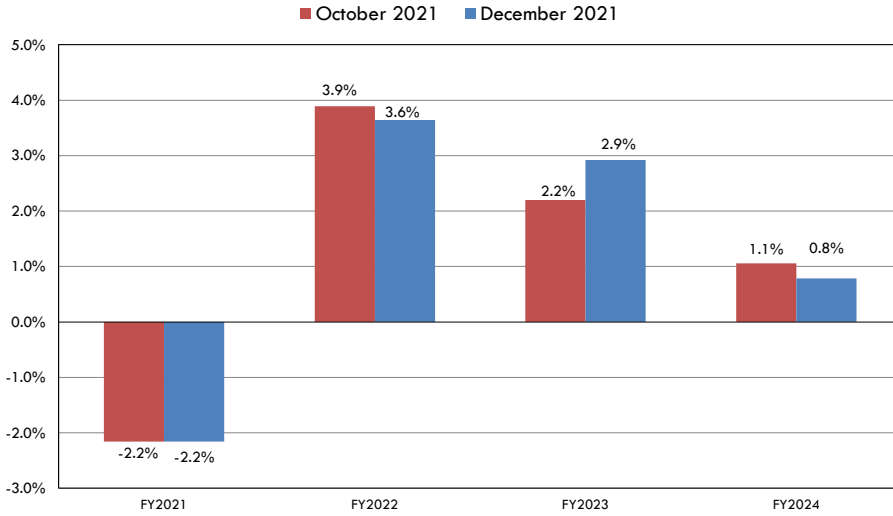
42



Kentucky Non-Farm Employment Control Forecast

(KY MAK Model, Annual Growth Rates)

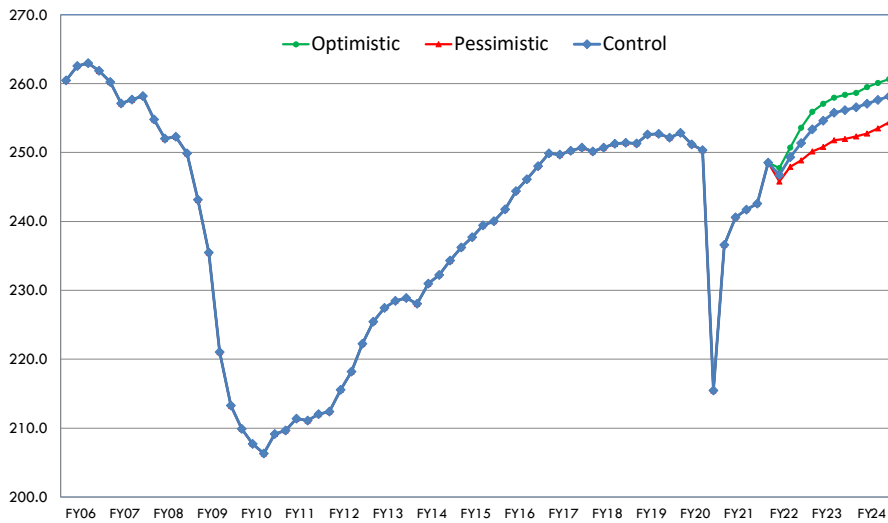
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Kentucky Manufacturing Employment

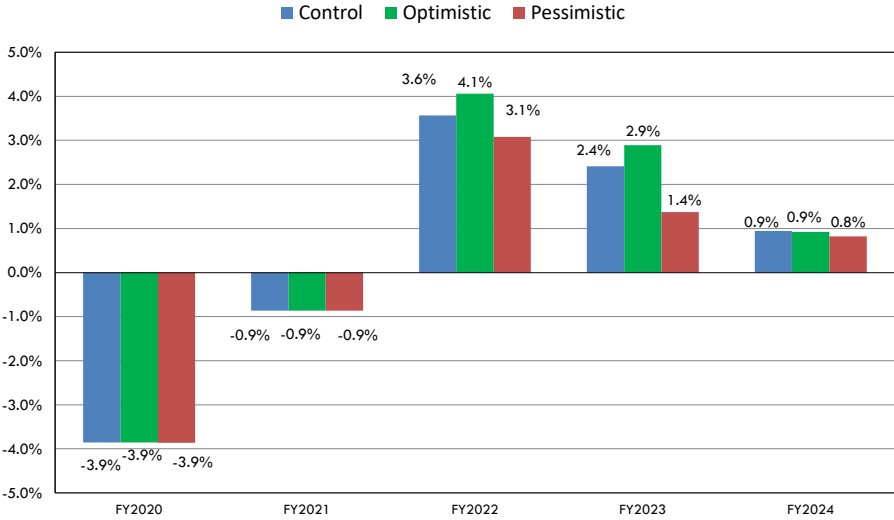
(Thousands, KY MAK Model)

44



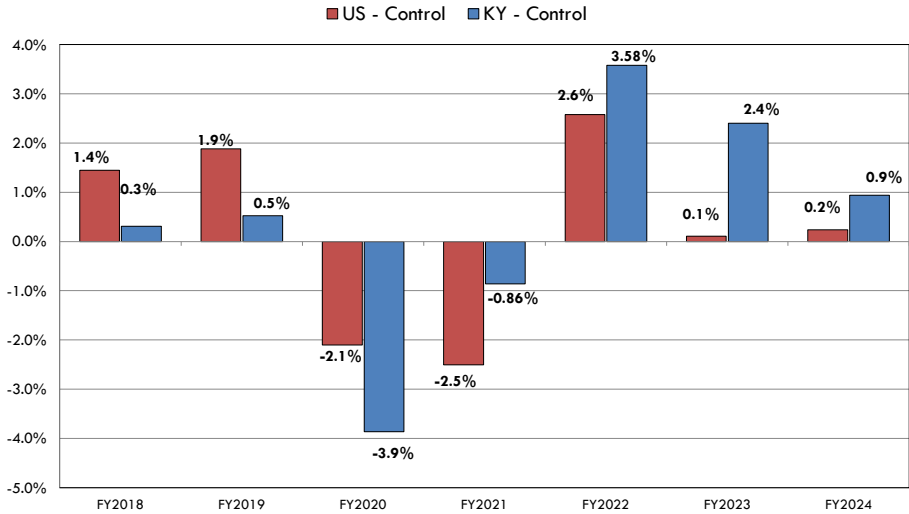
Kentucky Manufacturing Employment Forecasts

(KY MAK Model, Annual Growth Rates)



Manufacturing Employment – US and Kentucky

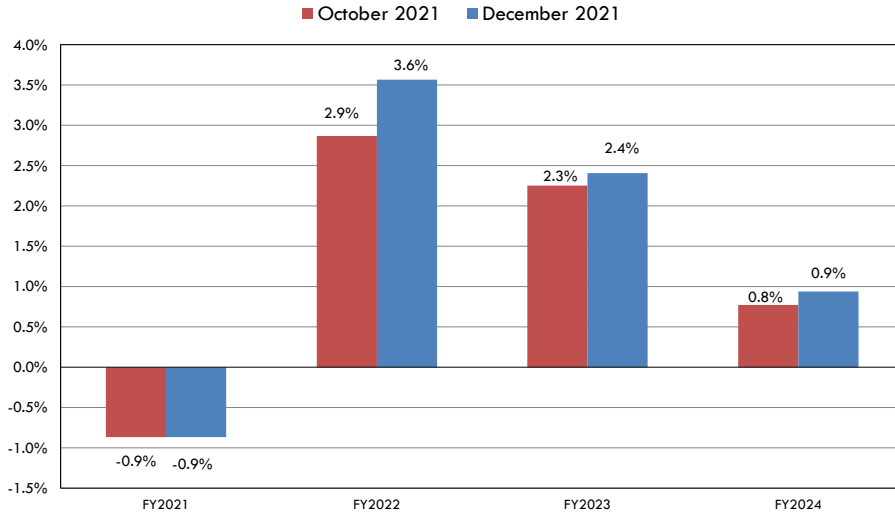
(Fiscal Year Growth Rates, IHS Markit and KY MAK Model)



Kentucky Manufacturing Employment Control Forecast

(KY MAK Model, Annual Growth Rates)

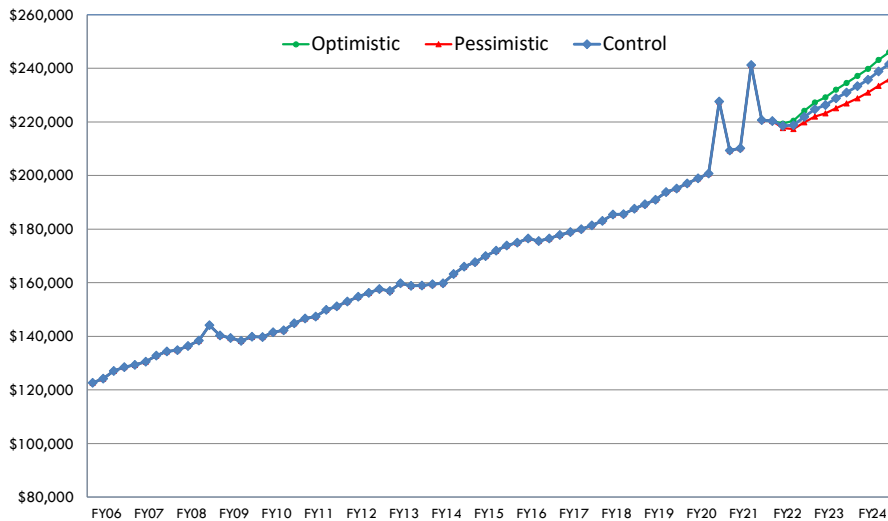
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Kentucky Personal Income

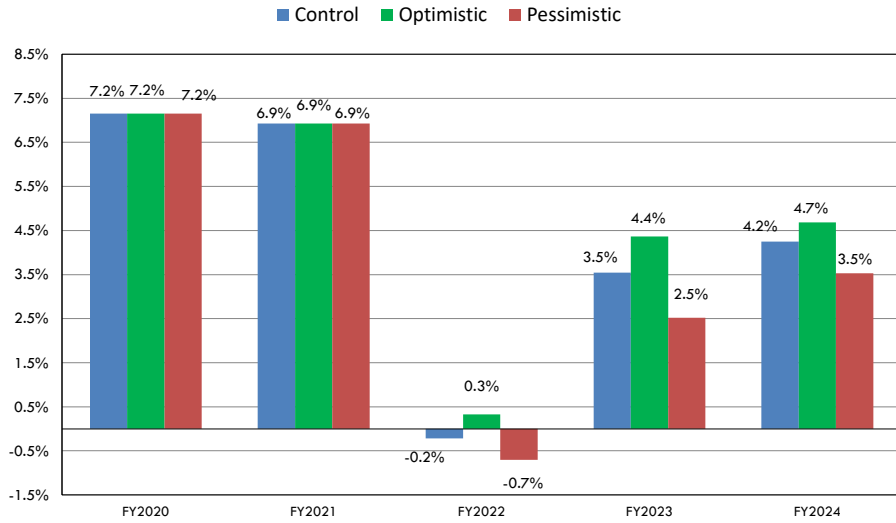
(Millions of Dollars, KY MAK Model)

48



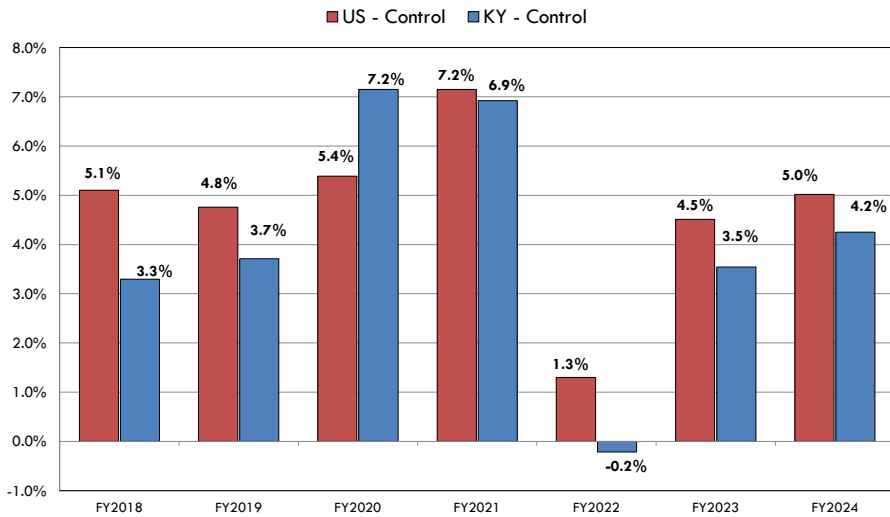
Kentucky Personal Income Forecasts (KY MAK Model, Annual Growth Rates)

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Personal Income – US and Kentucky (Fiscal Year Growth Rates, IHS Markit and KY MAK Model)

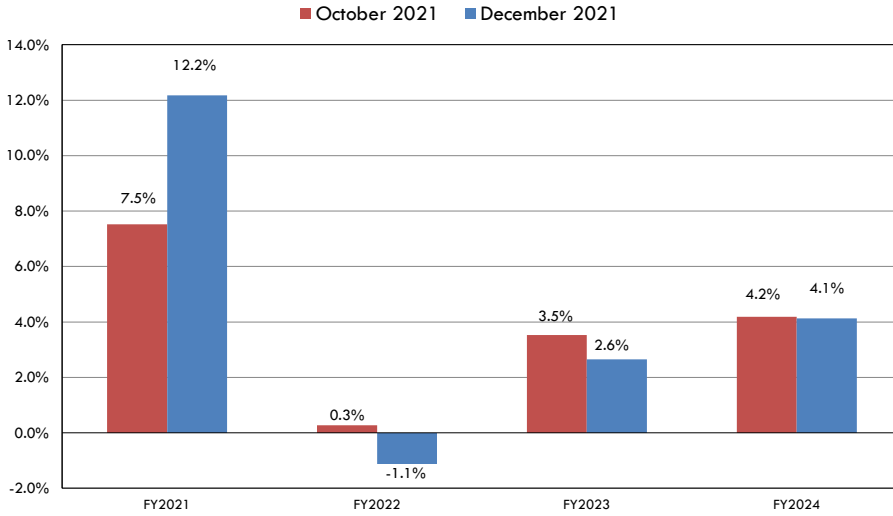
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Kentucky Personal Income Forecasts

(KY MAK Model, Annual Growth Rates)

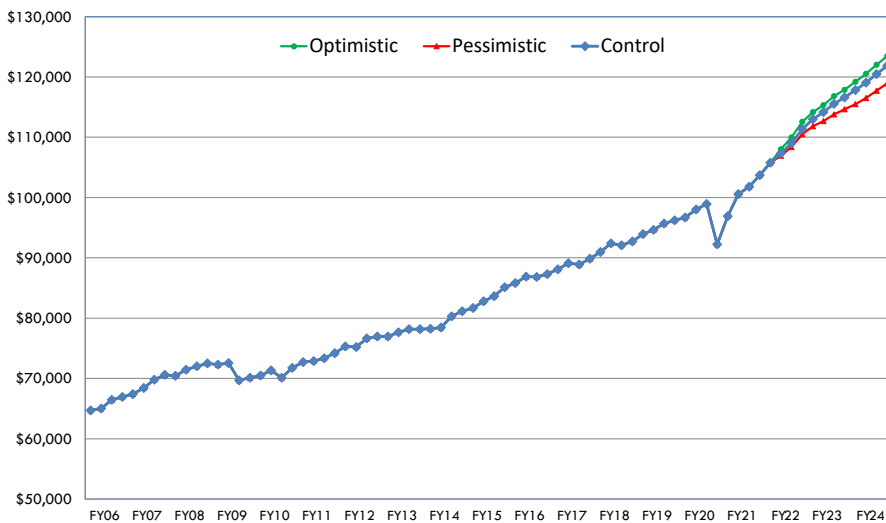
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Kentucky Wages and Salaries Forecasts

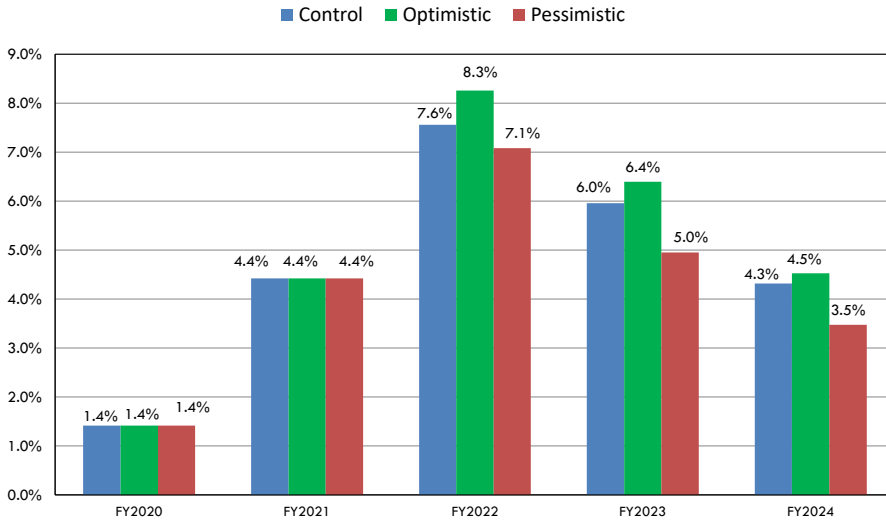
(Millions of Dollars, KY MAK Model)

52



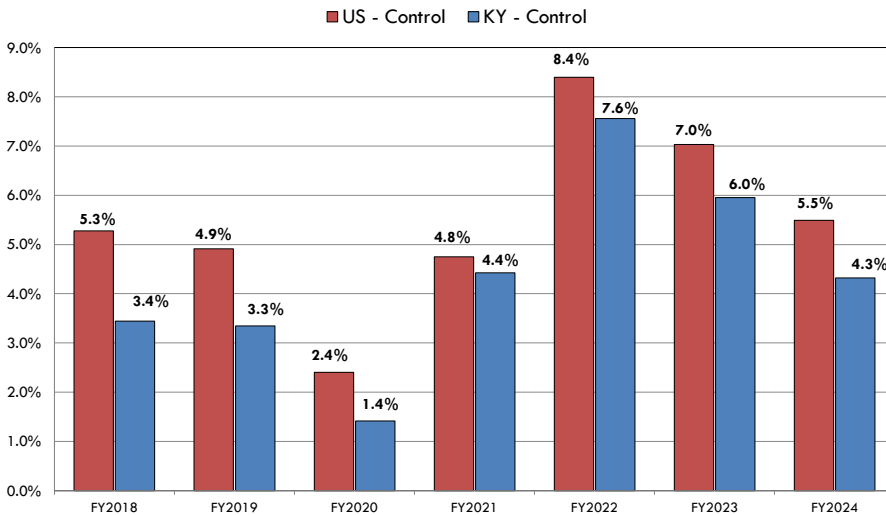
Kentucky Wages and Salaries Forecasts (KY MAK Model, Annual Growth Rates)

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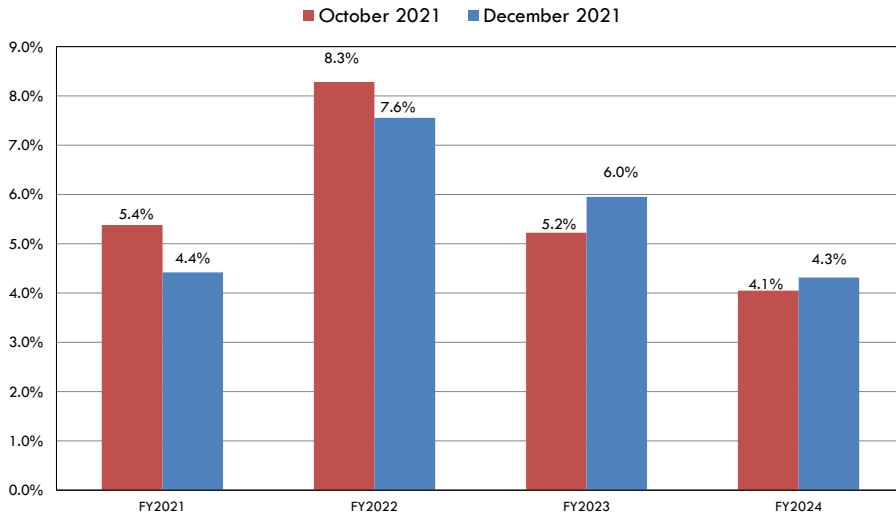
Wages and Salaries – US and Kentucky (Fiscal Year Growth Rates, IHS Markit and KY MAK Model)

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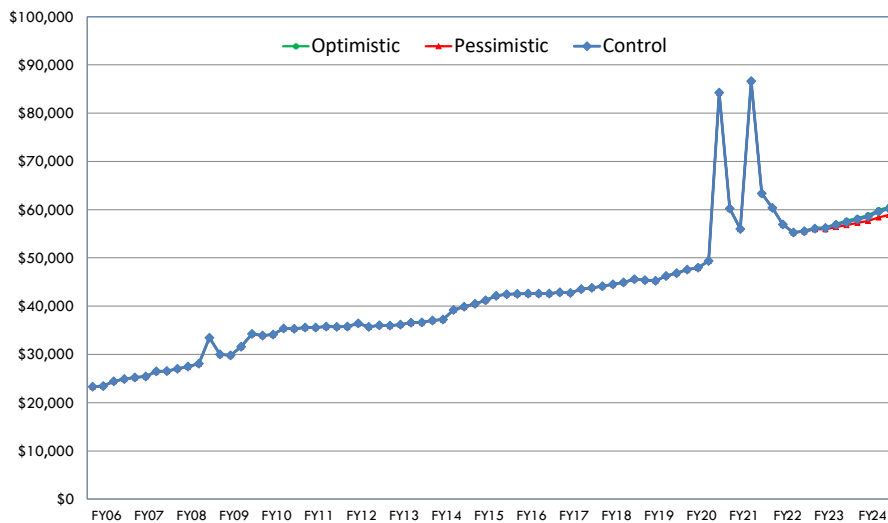
Kentucky Wages and Salaries Forecasts (KY MAK Model, Annual Growth Rates)

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Kentucky Transfer Payments (Millions of Dollars, KY MAK Model)

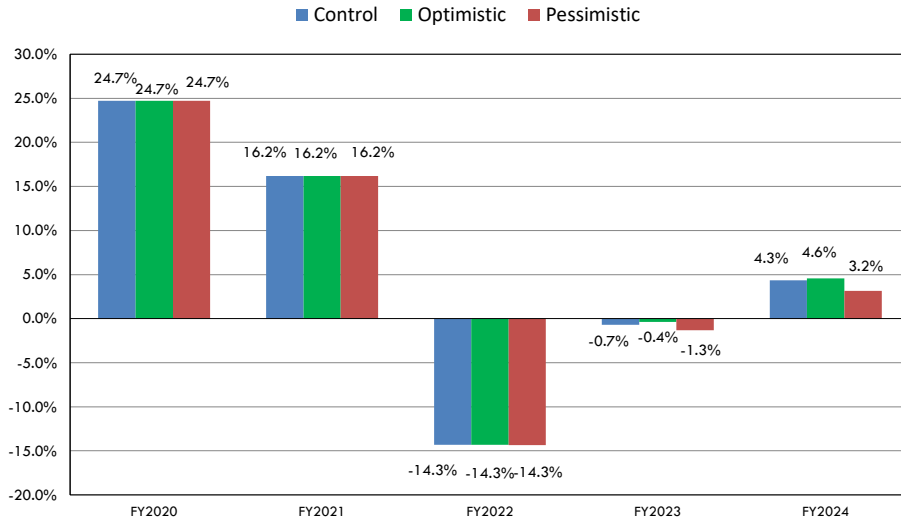
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Kentucky Transfer Payments Forecasts

(KY MAK Model, Annual Growth Rates)

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Kentucky Transfer Payments Forecasts

(KY MAK Model, Annual Growth Rates)

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