NATIONAL OUTLOOK

J. MICHAEL JONES, PHD

SEPTEMBER 16, 2025

Office of State Budget Director

Control Scenario

(Probability – 50%)

- Below Trend Growth
  - Real GDP growth of 1.8% estimated for FY26
  - Continued below-trend growth in FY27 and FY28
  - Business Fixed Investment slows after rescinding of CHIPs Act incentives
- Federal Reserve maintains Federal Funds rates until December 2025, followed by three consecutive 25 basis point cuts by April 2026
- Trends in payroll growth continue to decline, with unemployment rate rising to 4.5% by FY27Q3
- Statutory average effective tariff rate on nonpetroleum imports is 21%, driving core PCE to 4.0% in FY26Q2 before moderating over the forecast period

Pessimistic Scenario

(Probability – 30%)

3

- GDP growth slows to 0.8% in FY26 and 1.0% in FY27 and FY28
  - Higher tariffs imposed on trading partners with more pronounced countermeasures put in place in response
  - Higher tariffs result in higher inflation, combined with weakening financial conditions, resulting in reduced economic output
  - Deportations happen faster and on larger scale than in baseline forecast
- Non-Farm Employment increases by 0.2% in FY26, with decreases of -0.7% in FY27 and -0.5% and FY28
- Consumer spending growth slows to 0.6% in FY26 and 0.5% in FY27
- Unemployment rate increases to 6.3% by end of FY27
- Week demand lowers world oil price to under $50/bbl by FY27Q3

Optimistic Scenario

(Probability – 20%)

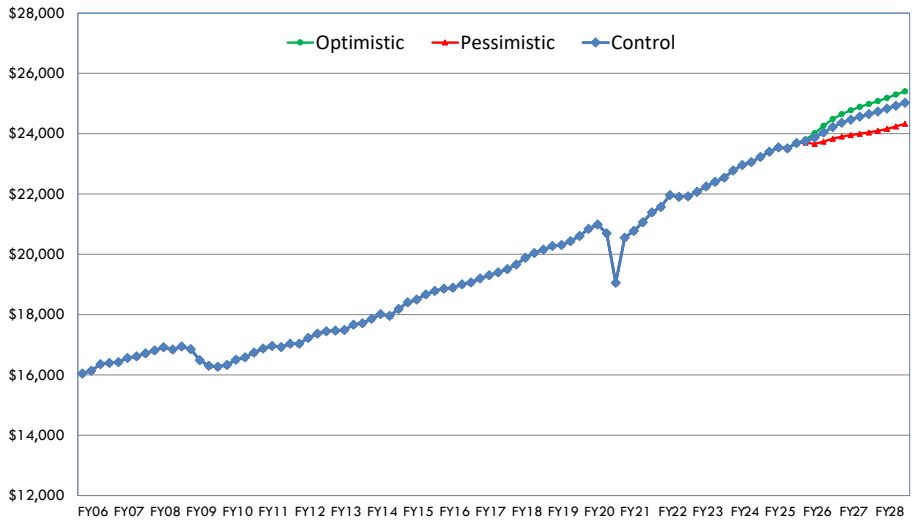
4

- GDP growth increases to 2.6% in FY26 and 2.8% in FY27
  - Consumer response to lower tariff rates
  - Less pronounced countermeasures by trading partners
  - Population growth increases as deportations slow
- Employment increases by 0.9% in FY26
- Real Personal Income has growth in FY26 of 2.3%
- Housing Starts increase by 3.3% in FY27 and 1.4% in FY28
- Real Consumer Spending increase by 2.5% in FY26 and 3.0% in FY27
- Unemployment rate rising to 4.3% by FY27Q3, 0.2% lower than baseline forecast

Real GDP

(Billions of Chained 2017 Dollars, Annual Rate, BEA)

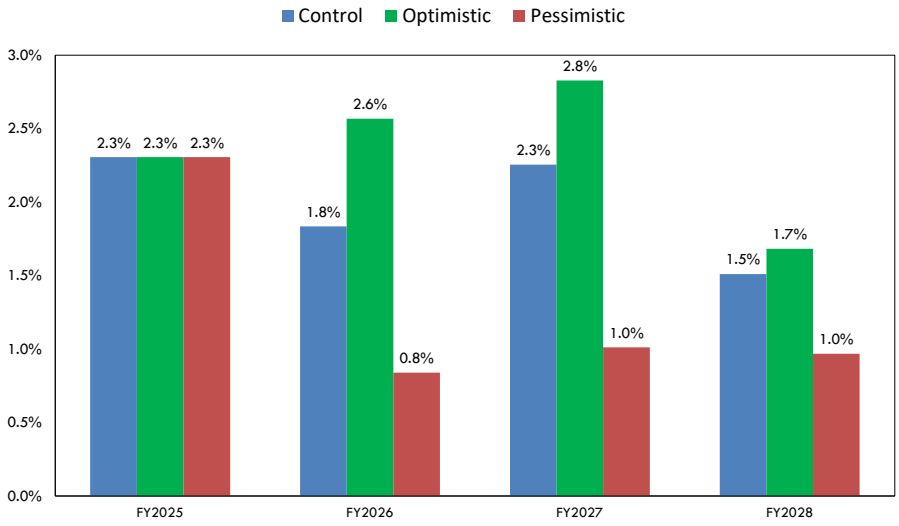
5



Real GDP

(S&P Global, Annual Growth Rates)

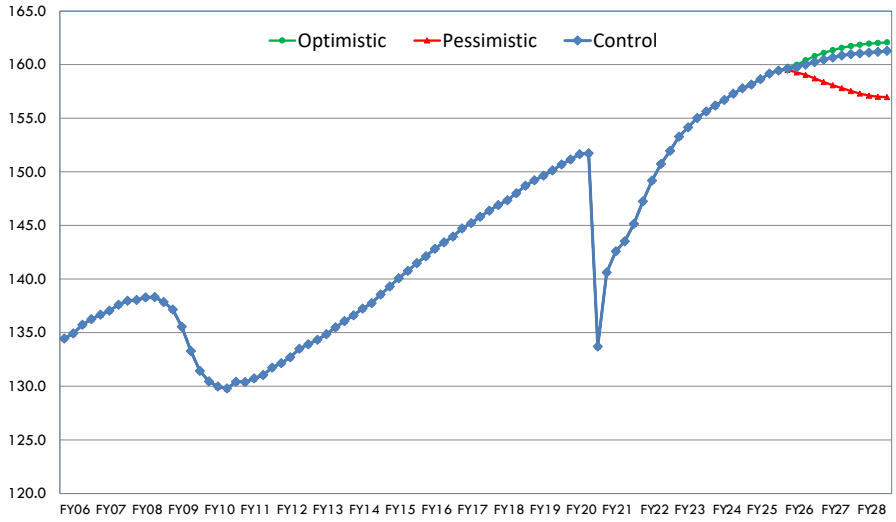
6



U.S. Employment – Total Non-Farm Payrolls

(Millions, BLS)

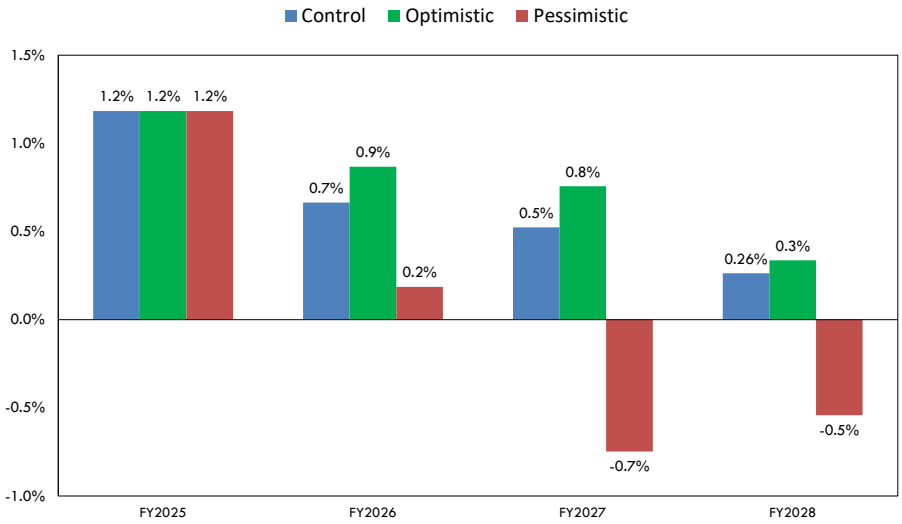
7



U.S. Employment – Total Non-Farm Payrolls

(S&P Global Forecast, Annual Growth Rates)

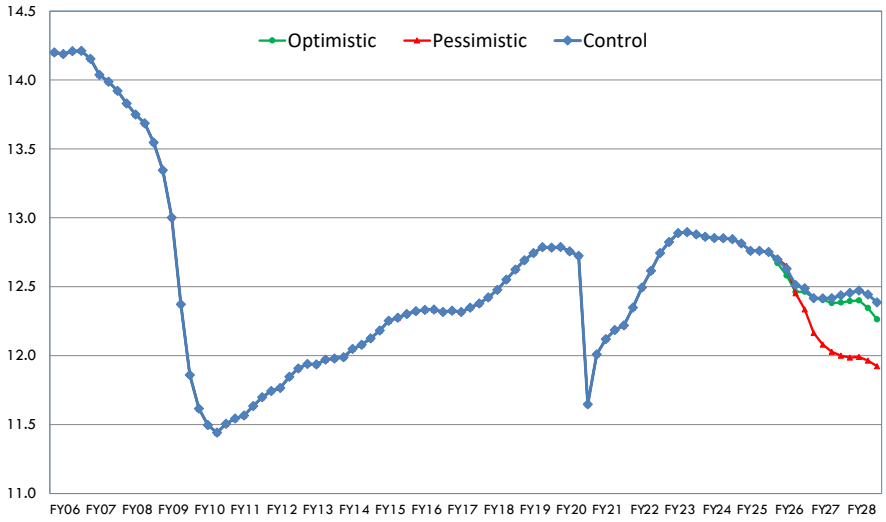
8



U.S. Employment – Manufacturing

(Millions, BLS)

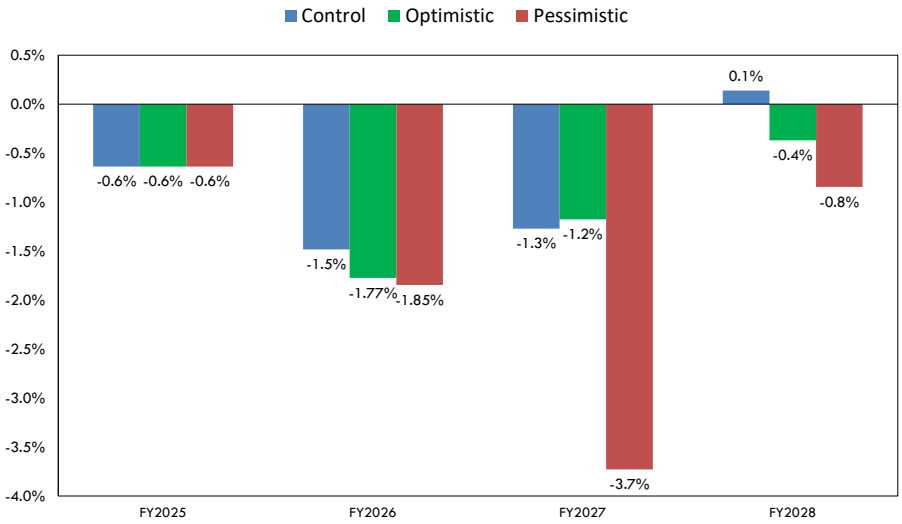
9



U.S. Employment – Manufacturing

(S&P Global Forecast, Annual Growth Rates)

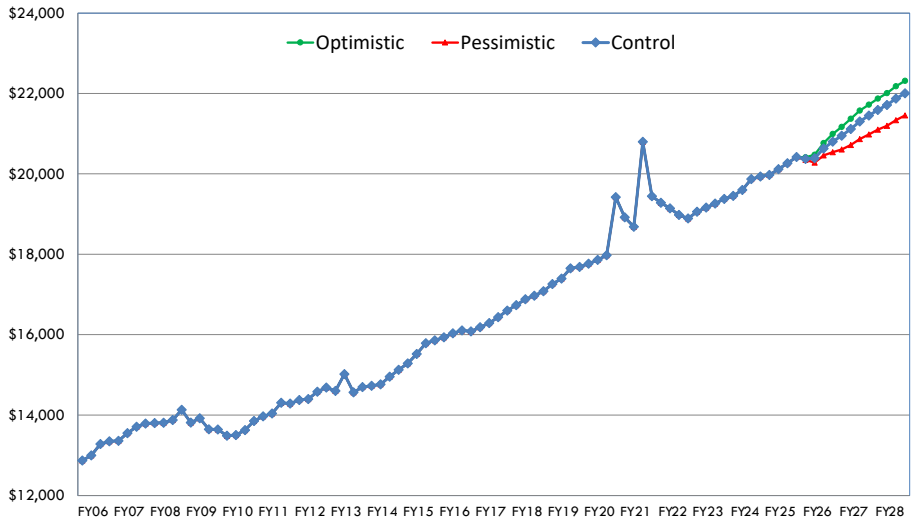
10



Real Personal Income

(Billions of Chained 2017 Dollars, Annual Rate, BEA)

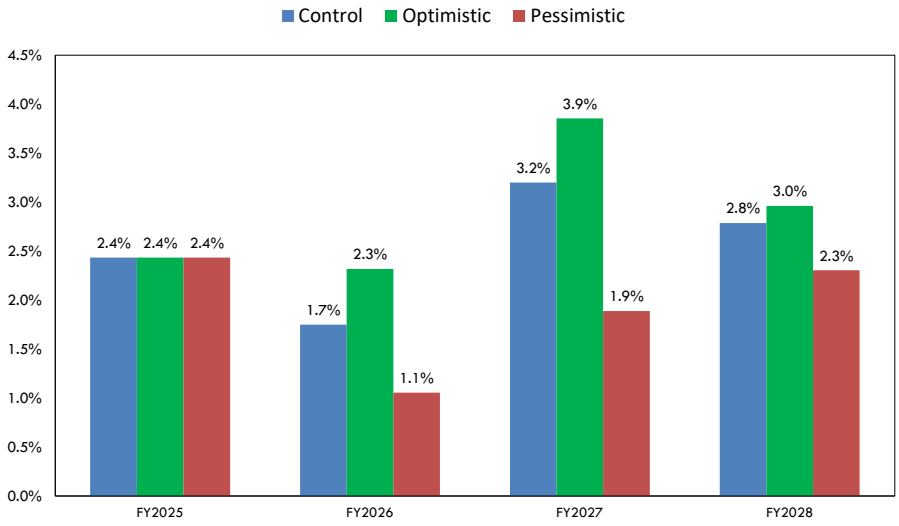
11



Real Personal Income

(S&P Global Forecast, Annual Growth Rates)

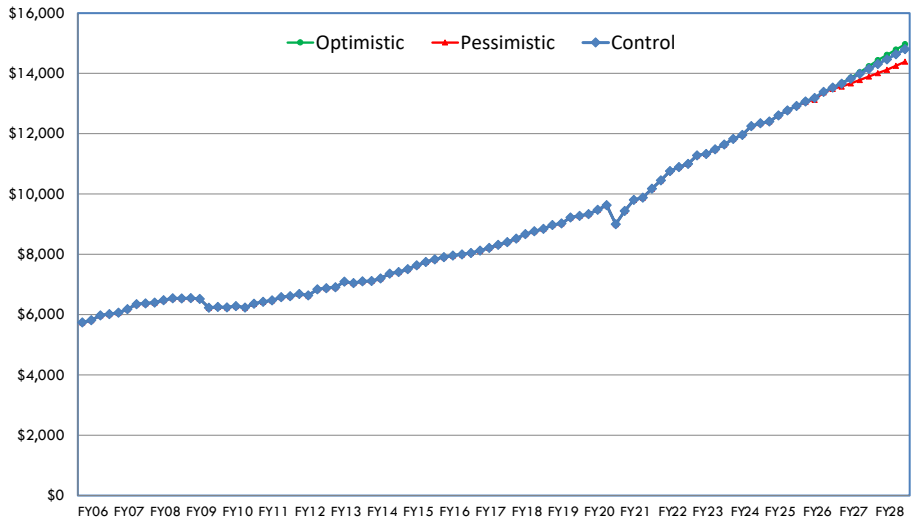
12



Wage and Salary Disbursements

(Billions of Dollars, Annual Rate, BEA)

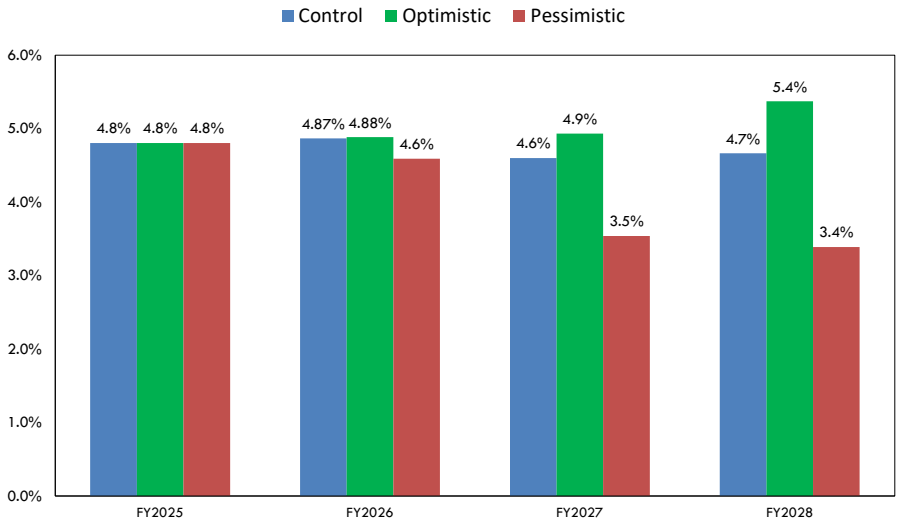
13



Wage and Salary Disbursements

(S&P Global Forecast, Annual Growth Rates)

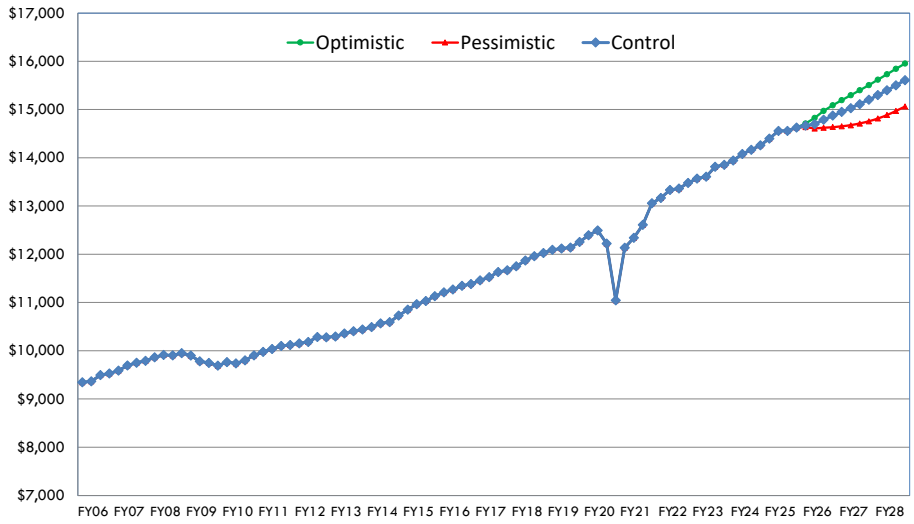
14



Real Consumer Spending (Excluding Food and Energy)

(Billions of 2017 Dollars, Annual Rate, BEA)

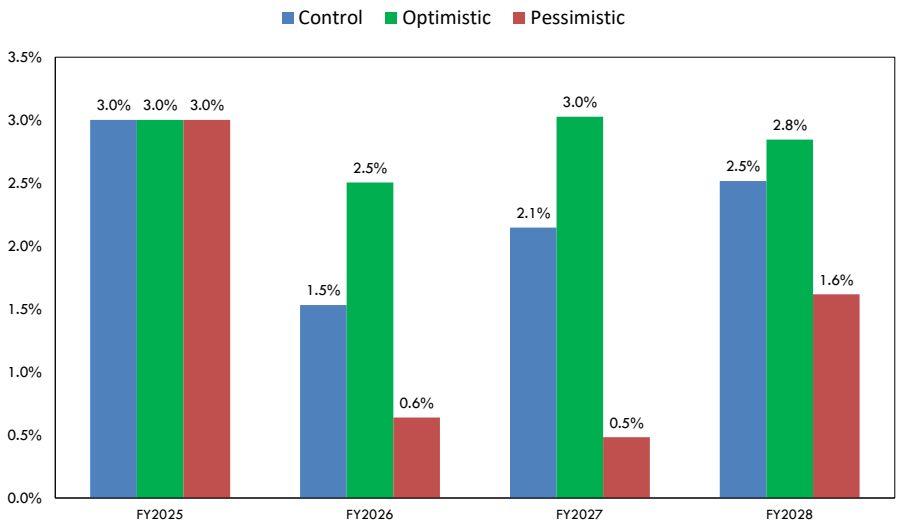
15



Real Consumer Spending (Excluding Food and Energy)

(S&P Global Forecast, Annual Growth Rates)

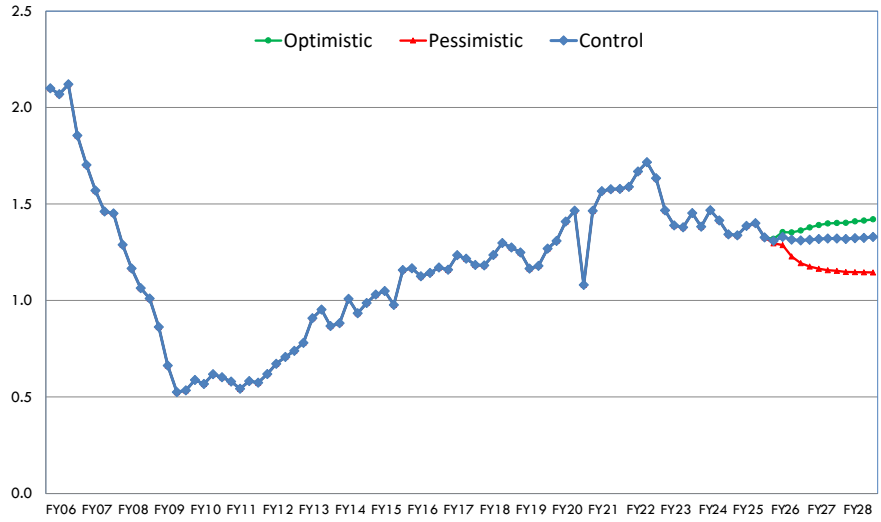
16



Housing Starts

(Millions, Annual Rate, U.S. Bureau of the Census)

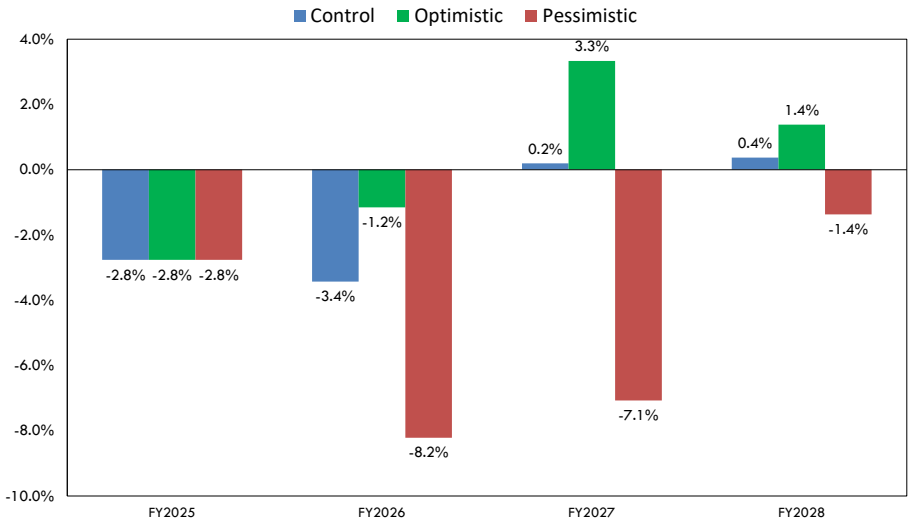
17



Housing Starts

(Millions, Annual Rate, U.S. Bureau of the Census)

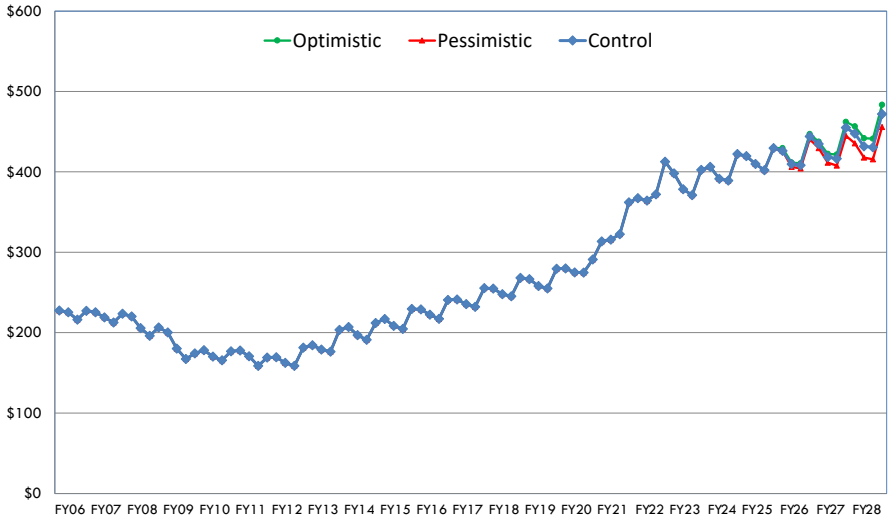
18



Median Sales Price of Existing Single-Family Homes

(Thousands of Dollars, NAR)

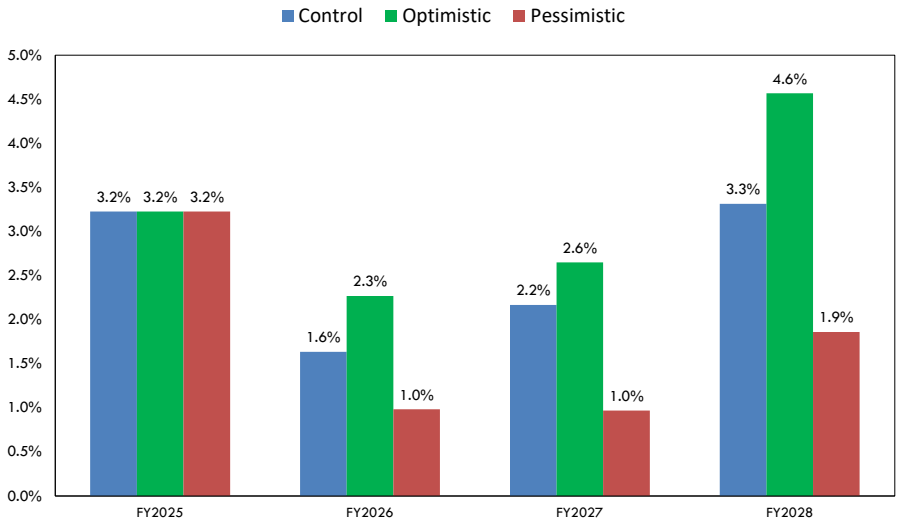
19



Median Sales Price of Existing Single-Family Homes

(S&P Global Forecast, Annual Growth Rates)

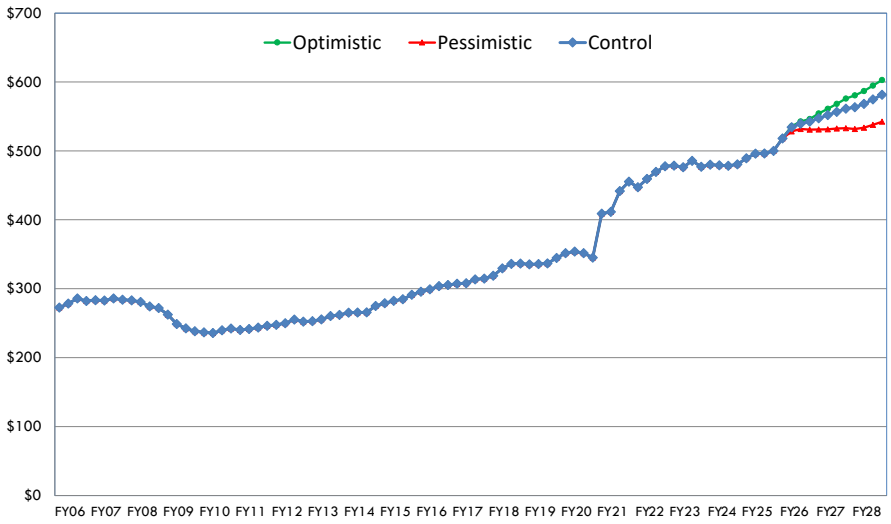
20



Consumer Spending – Furnishings and Durable Household Equipment

(Billions of Dollars, Annual Rate, BEA)

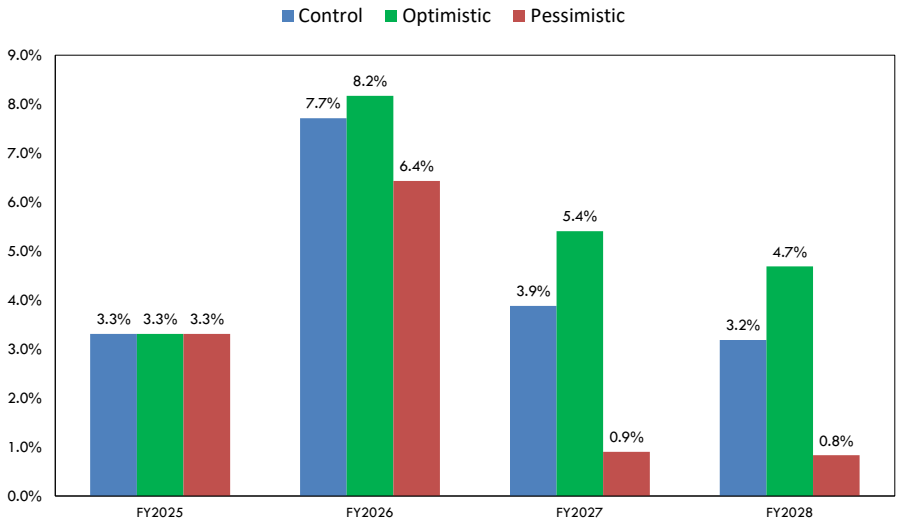
21



Consumer Spending – Furnishings and Durable Household Equipment

(S&P Global, Annual Growth Rates)

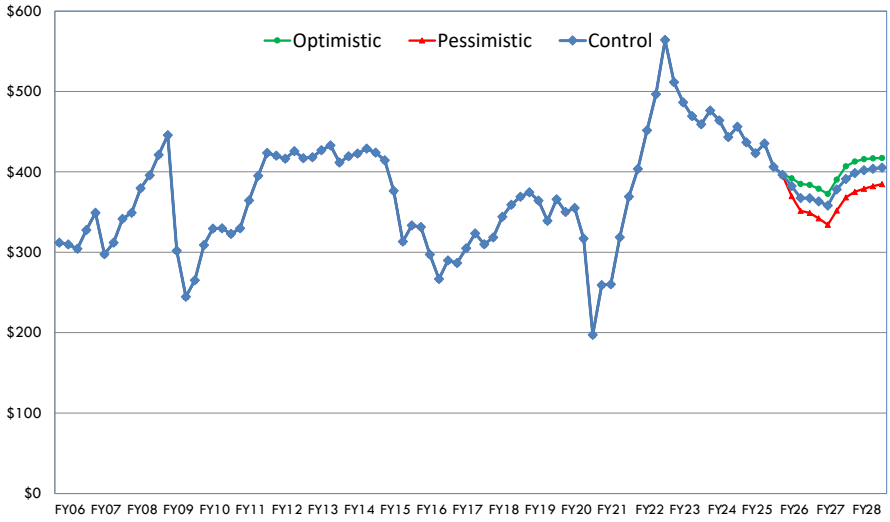
22



Nominal Consumption of Gasoline and Oil

(Billions of Dollars, Annual Rate, BEA)

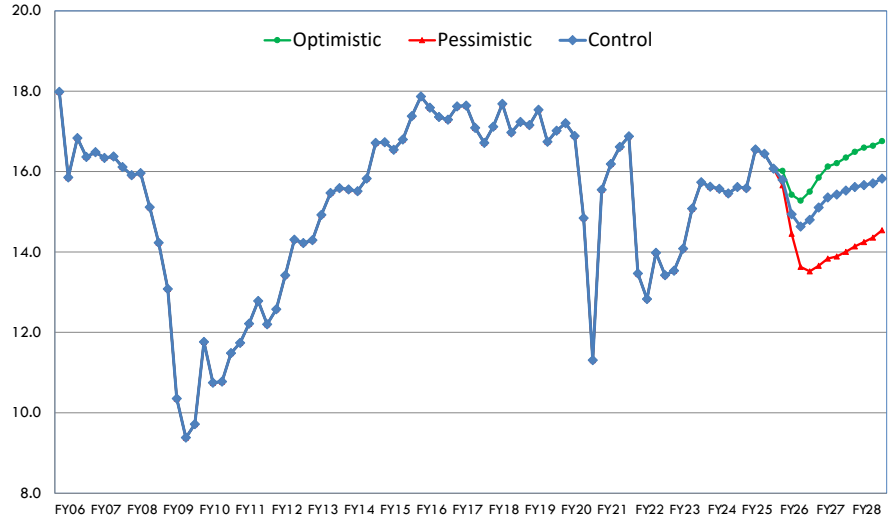
23



Unit Sales of New Light Vehicles

(Millions, Annual Rate, BEA)

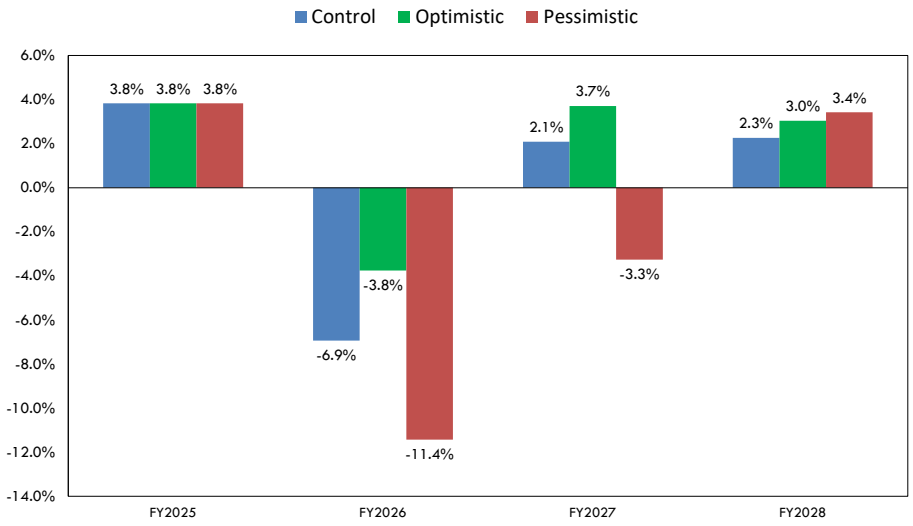
24



Unit Sales of New Light Vehicles

(S&P Global Forecast, Annual Growth Rates)

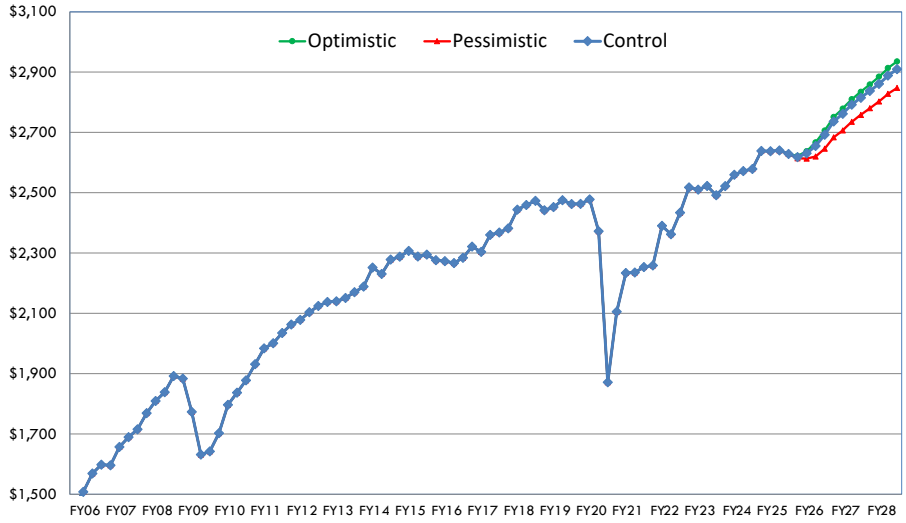
25



Real Exports of Goods and Services

(Billions of Chained 2017 Dollars, Annual Rate, BEA)

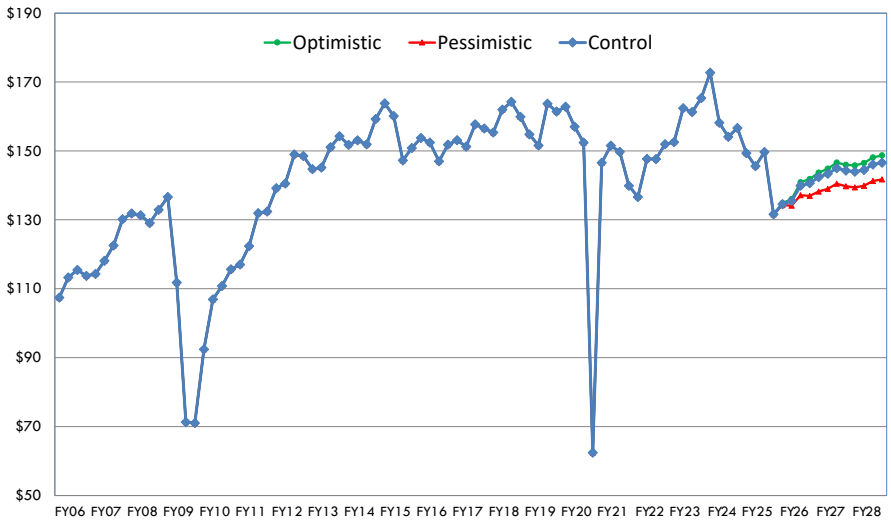
26



Real Exports of Motor Vehicles and Parts

(Billions of Chained 2017 Dollars, Annual Rate, BEA)

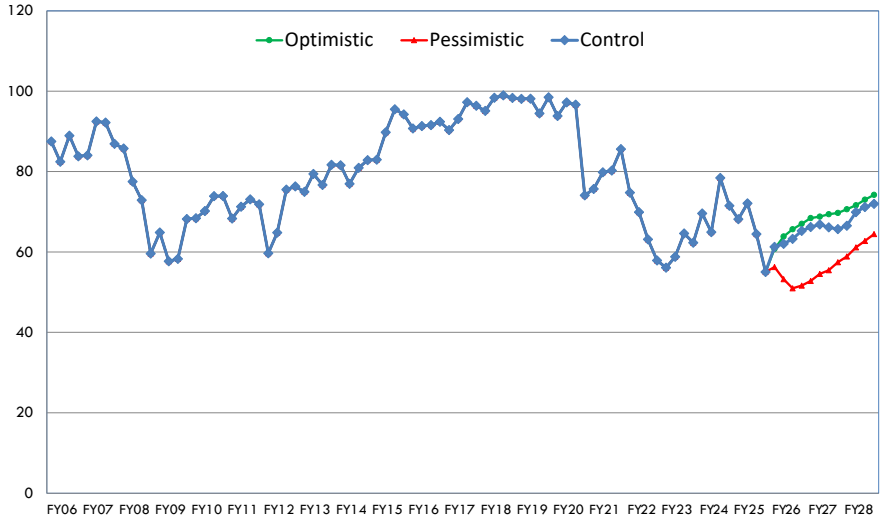
27



Consumer Sentiment Index – University of Michigan

(Diffusion Index)

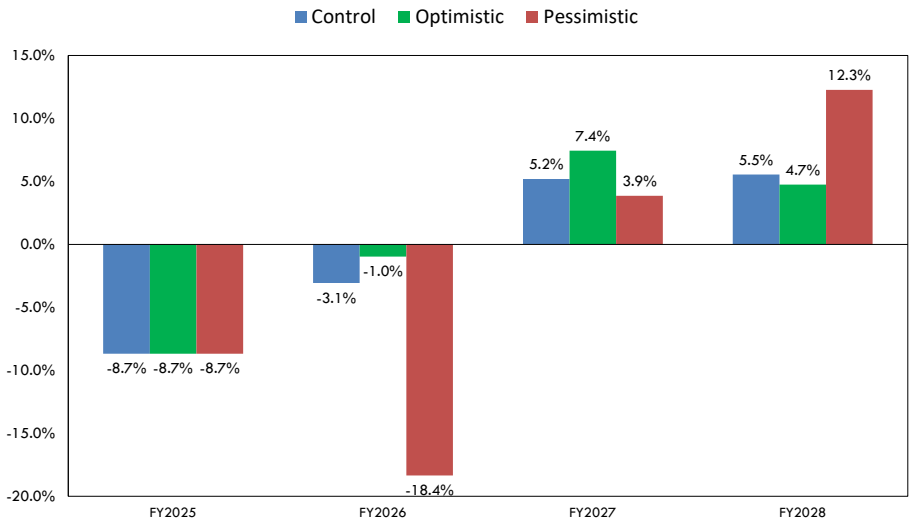
28



Consumer Sentiment Index – University of Michigan

(S&P Global, Annual Growth Rates)

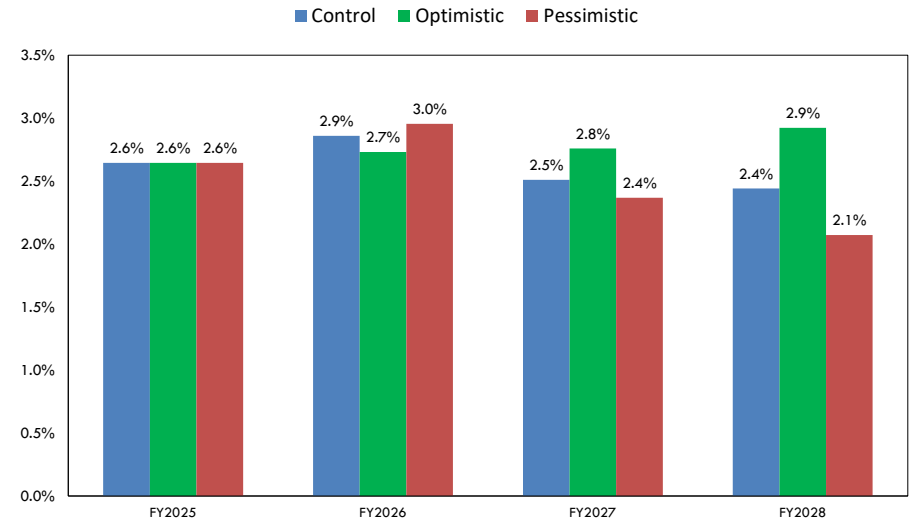
29



Consumer Price Index, All-Urban

(S&P Global, Annual Growth Rates)

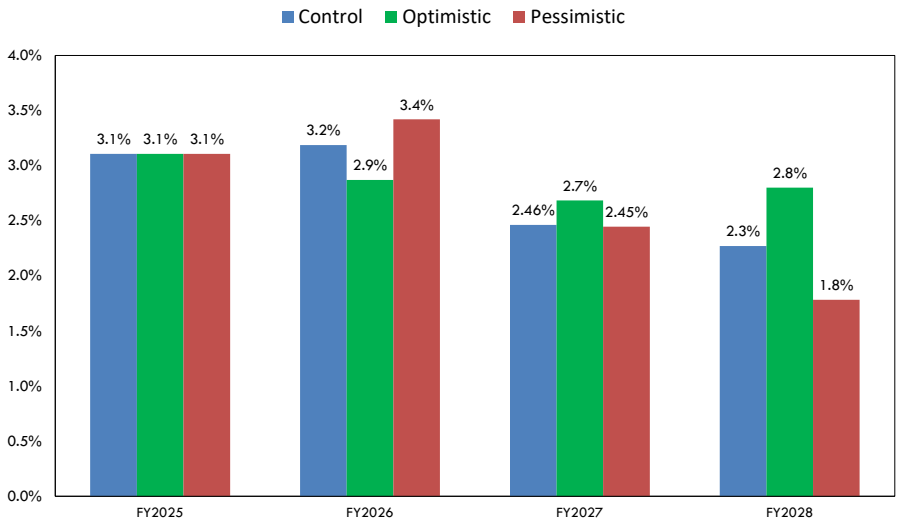
30



Core Consumer Price Index (Excludes Food & Energy)

(S&P Global, Annual Growth Rates)

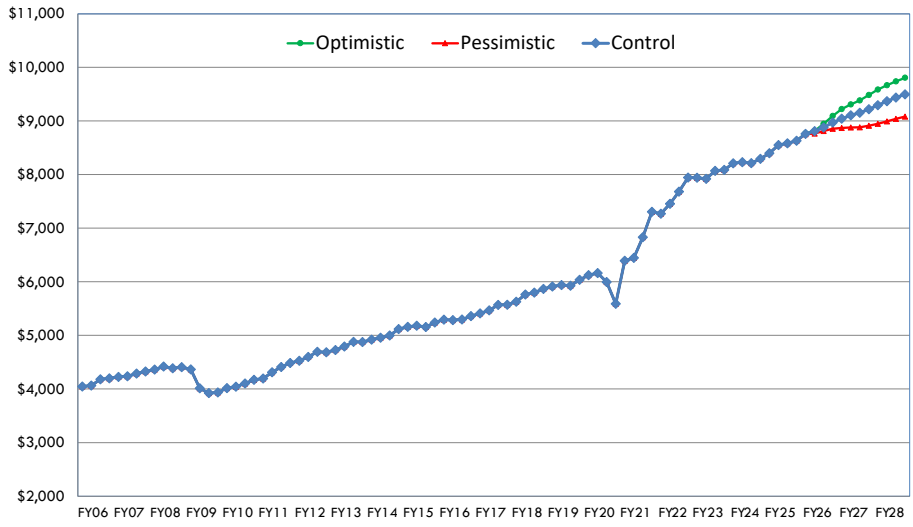
31



Retail Sales - Including Food Service

(Billions of Dollars, Annual Rate, BEA)

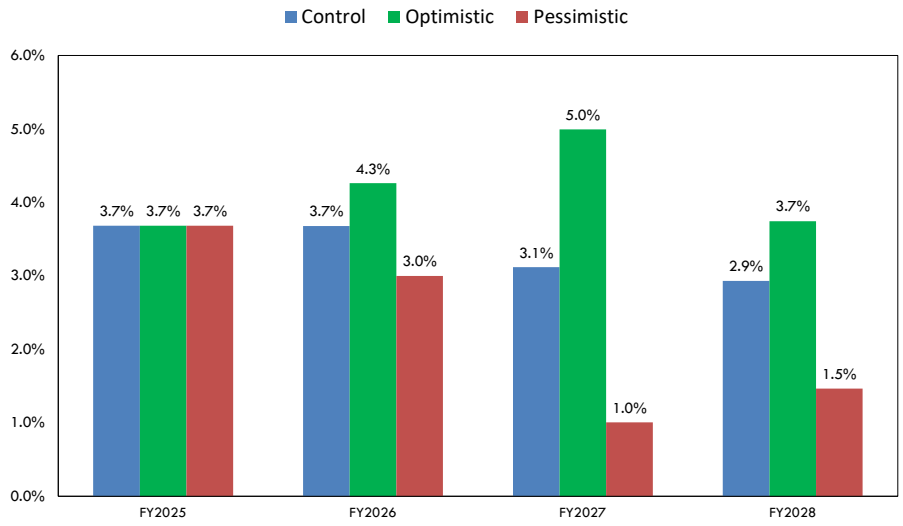
32



Retail Sales - Including Food Service

(S&P Global, Annual Growth Rates)

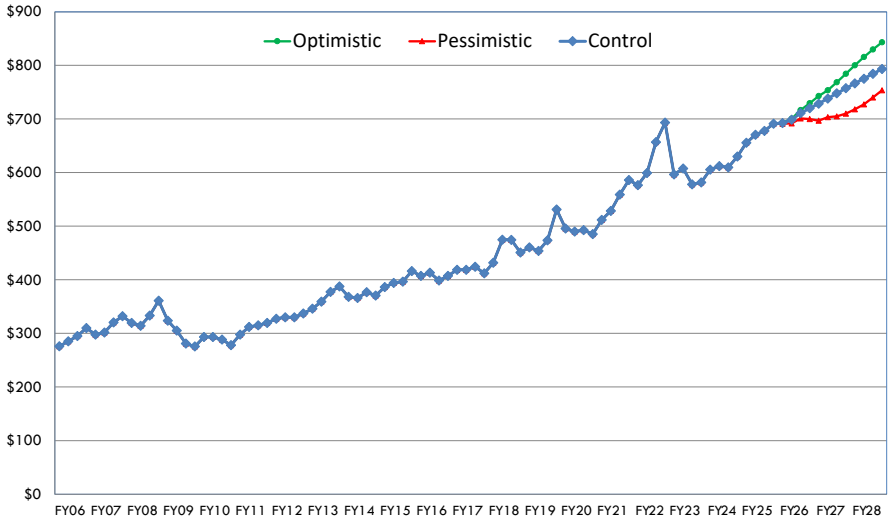
33



State and Local Government Personal Tax Receipts

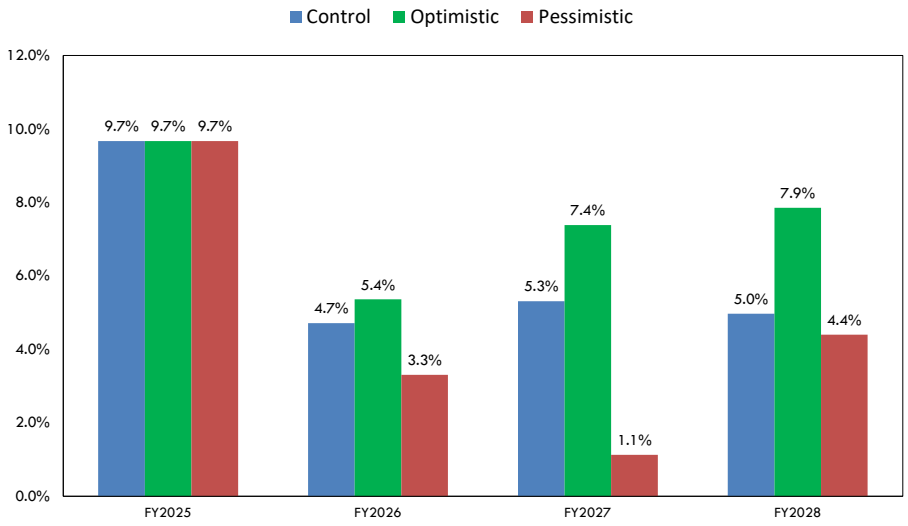
(Billions of Dollars, Annual Rate, BEA)

34



State and Local Government Personal Tax Receipts

(S&P Global, Annual Growth Rates)



KENTUCKY ECONOMIC OUTLOOK

J. MICHAEL JONES, PHD

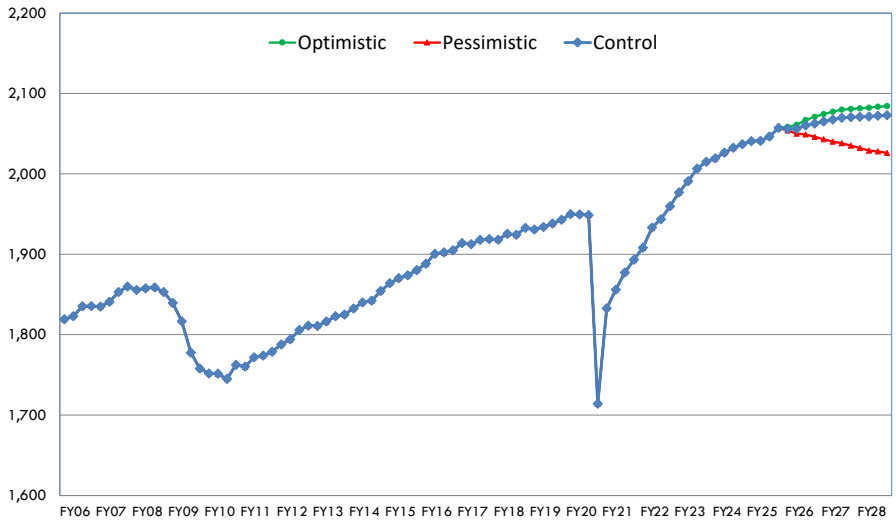
SEPTEMBER 16, 2025

Office of State Budget Director

Kentucky Non-Farm Employment

(Thousands, KY MAK Model)

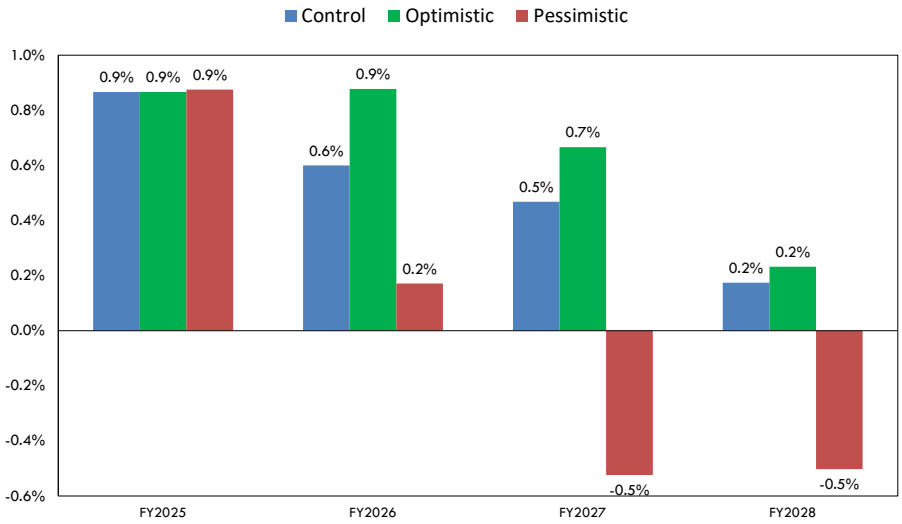
37



Kentucky Non-Farm Employment Forecasts

(KY MAK Model, Annual Growth Rates)

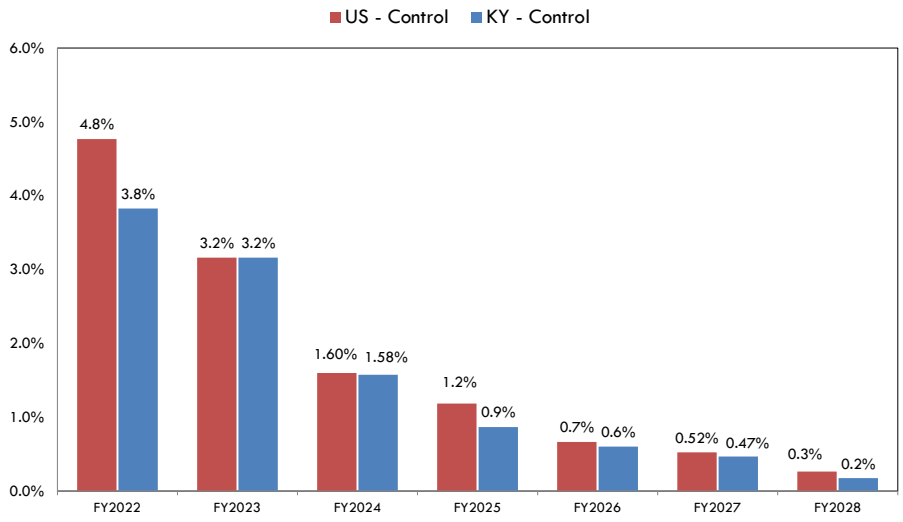
38



Non-Farm Employment – US and Kentucky

(Fiscal Year Growth Rates, S&P Global and KY MAK Model)

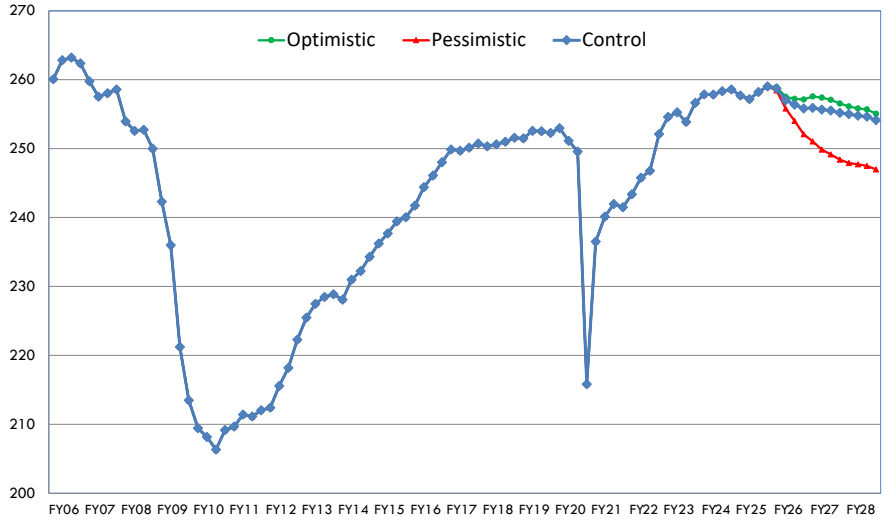
39



Kentucky Manufacturing Employment

(Thousands, KY MAK Model)

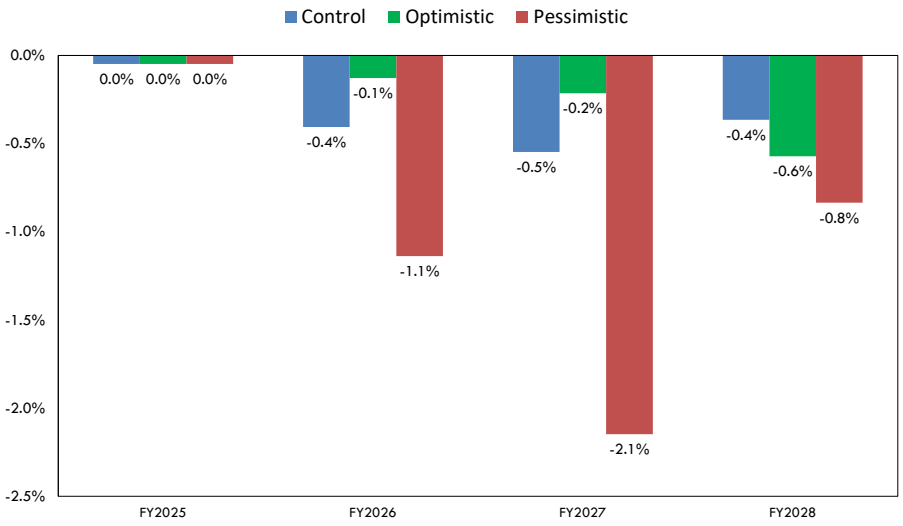
40



Kentucky Manufacturing Employment Forecasts

(KY MAK Model, Annual Growth Rates)

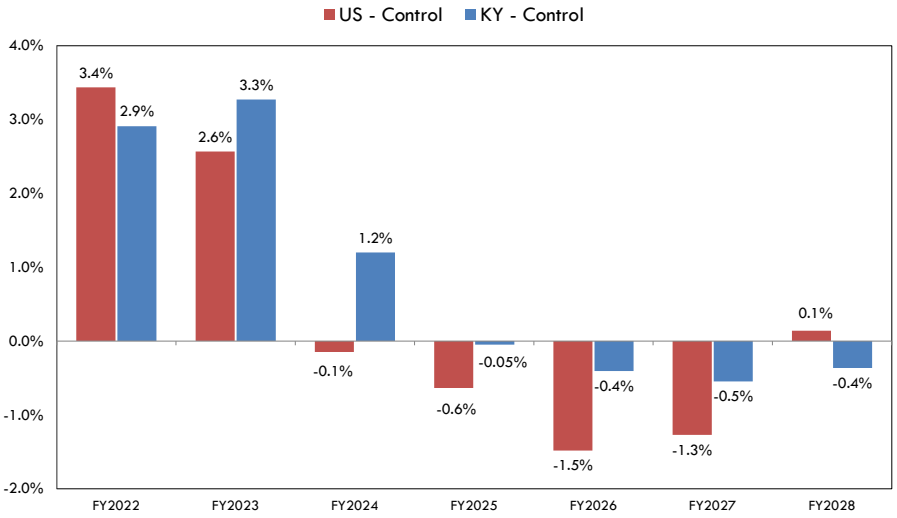
41



Manufacturing Employment – US and Kentucky

(Fiscal Year Growth Rates, S&P Global and KY MAK Model)

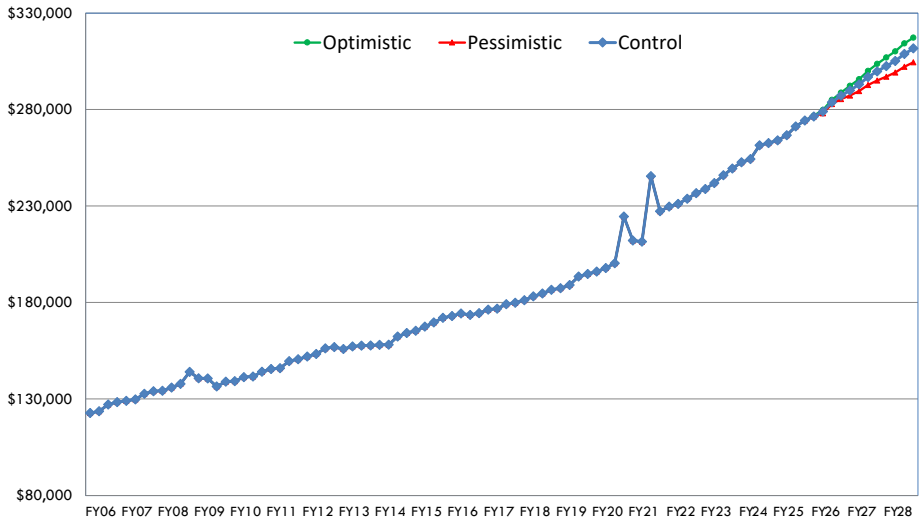
42



Kentucky Personal Income

(Millions of Dollars, KY MAK Model)

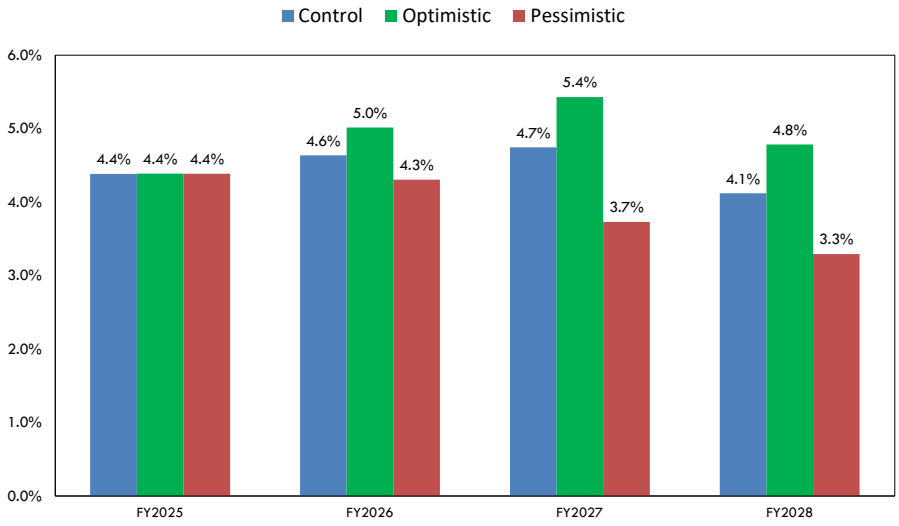
43



Kentucky Personal Income Forecasts

(KY MAK Model, Annual Growth Rates)

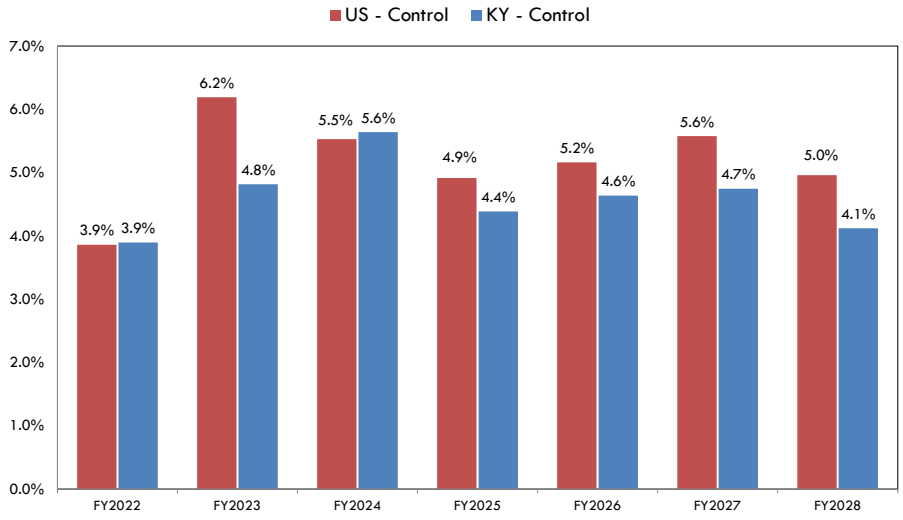
44



Personal Income – US and Kentucky

(Fiscal Year Growth Rates, S&P Global and KY MAK Model)

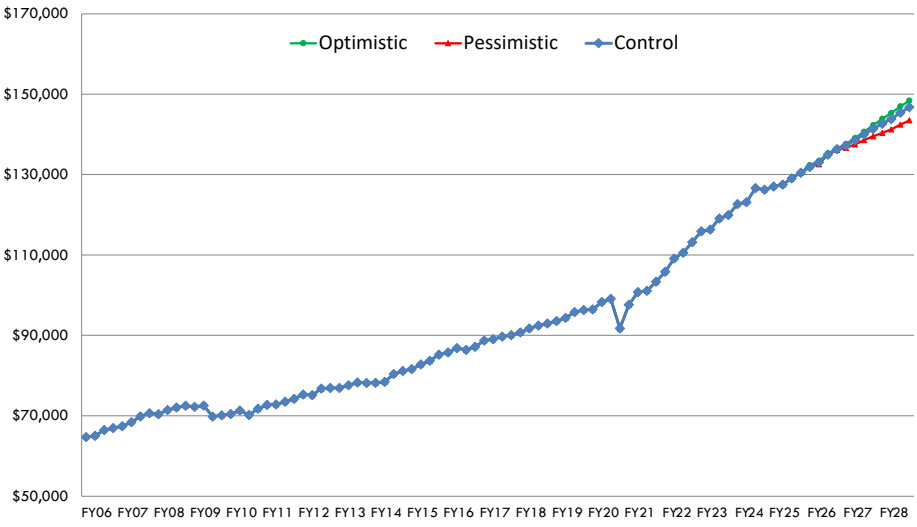
45



Kentucky Wages and Salaries Forecasts

(Millions of Dollars, KY MAK Model)

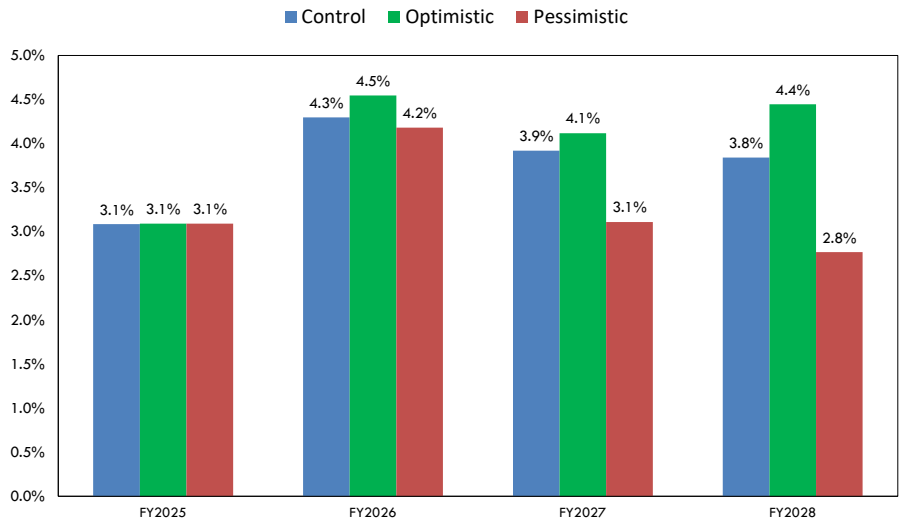
46



Kentucky Wages and Salaries Forecasts

(KY MAK Model, Annual Growth Rates)

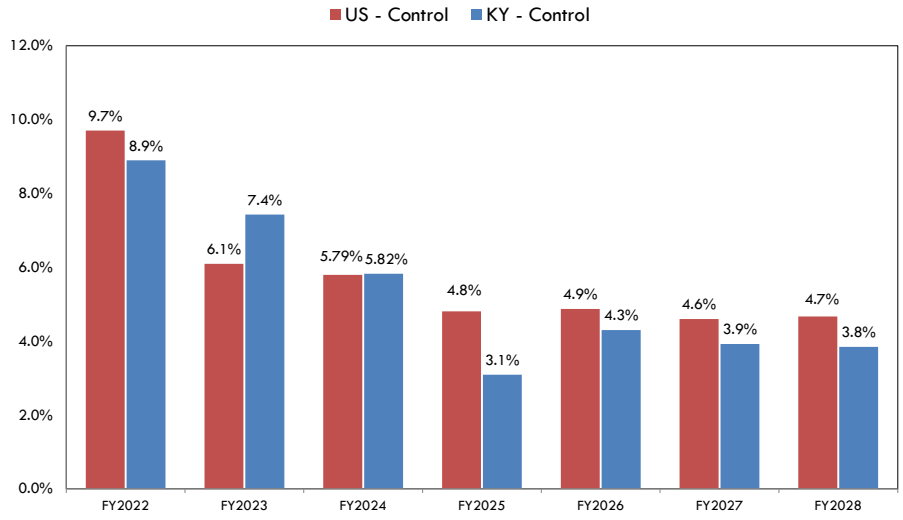
47

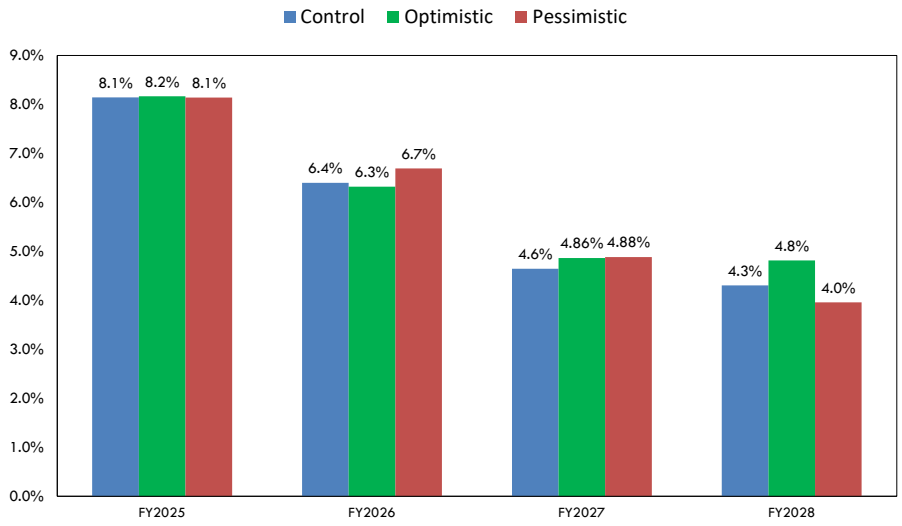


Wages and Salaries – US and Kentucky

(Fiscal Year Growth Rates, S&P Global and KY MAK Model)

48



Kentucky Transfer Payments Forecasts

(KY MAK Model, Annual Growth Rates)