

# NATIONAL OUTLOOK

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DECEMBER 16, 2025

Office of State Budget Director

## Key Differences in the S&P Global Forecast

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- GDP growth revised up in near term, down in FY2027
  - Real GDP growth in FY2026 revised up from 1.8% to 2.1%
  - Real GDP growth in FY2027 revised down from 2.3% to 2.1%
  - Recent tax law changes increase disposable personal income, and budget bill increases government consumption expenditures and gross investment
- Longer than expected government shut down and absence of official data requires use of alternative private and financial data to create updated forecast
- Reversal of weighting of probability of pessimistic and optimistic forecast scenarios – Optimistic now 30% and Pessimistic 20%
- Pessimistic scenario now includes two-quarter recession beginning in FY26Q2, with a non-annualized decrease in GDP of 0.3%

## Other Variables with Significant Differences from Previous S&P Global Forecast

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- Manufacturing Employment
  - ▣ FY27 and FY28 more pessimistic in all scenarios
- Wage and Salary Disbursements
  - ▣ Stronger Growth in FY27 – Current Control forecast anticipates 5.3% growth vs 4.5% in previous forecast
- Housing Starts
  - ▣ Significantly Weaker in FY27 - Current Control forecast anticipates -1.5% decline vs 0.2% growth in previous forecast
- Consumer Sentiment
  - ▣ Significantly Weaker in FY26 - Current Control forecast anticipates -9.2% decline vs 3.1% decline in previous forecast
- Before-Tax Corporate Profits
  - ▣ More optimistic in FY26, more pessimistic in FY27-28 in all scenarios
- Kentucky Non-Farm Employment
  - ▣ Significantly Weaker in FY26 - Current Control forecast anticipates 0.6% growth vs 0.9% growth in previous forecast

## Control Scenario (Probability – 50%)

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- Continued Trend Growth
  - ▣ Real GDP growth of 2.1% estimated for FY26 and FY27
  - ▣ Below-trend growth of 1.6% in FY28
  - ▣ Business Fixed Investment slows after rescinding of CHIPS Act incentives
- Federal Reserve maintains Federal Funds rates in December 2025, followed by a pause in rate cuts until June 2026
- Trends in payroll growth continue to decline, with unemployment rate rising to 4.7% by FY27Q3
- Forecast includes new, additional tariffs levied on semiconductors and critical minerals. Core PCE increases to 3.8% in FY26Q2 before moderating over the forecast period.

## Pessimistic Scenario

(Probability – 20%)

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- GDP growth slows to 1.3% in FY26 and 0.3% in FY27
  - ▣ 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 -1.0% in FY27 and -0.7% in FY28
- Consumer spending growth slows to 1.5% in FY26 and has negative growth in FY27 of -0.2%
- Unemployment rate increases to 6.7% by end of FY28
- Lower demand lowers world oil price to \$54/bbl by FY27Q3

## Optimistic Scenario

(Probability – 30%)

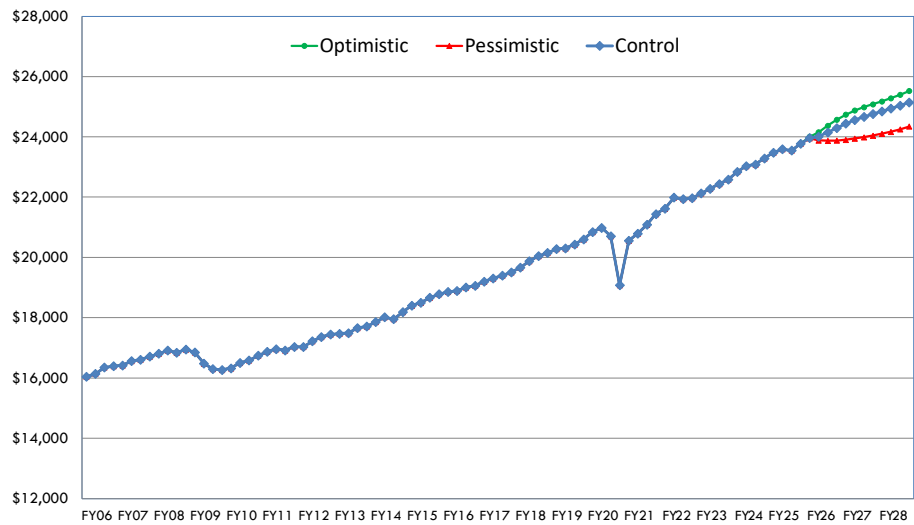
6

- GDP growth increases to 2.9% in FY26 and 2.7% in FY27
  - ▣ Consumer response to lower tariff rates
  - ▣ Less pronounced countermeasures by trading partners
  - ▣ Population growth increases as deportations slow
- Employment increases by 0.7% in FY26
- Real Personal Income has growth in FY26 of 2.5%
- Housing Starts increase by 2.1% in FY27 and 1.1% in FY28
- Real Consumer Spending increase by 3.4% in FY26 and 3.0% in FY27
- Unemployment rate rising to 4.4% by FY27Q3, 0.1% lower than baseline forecast

## Real GDP

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

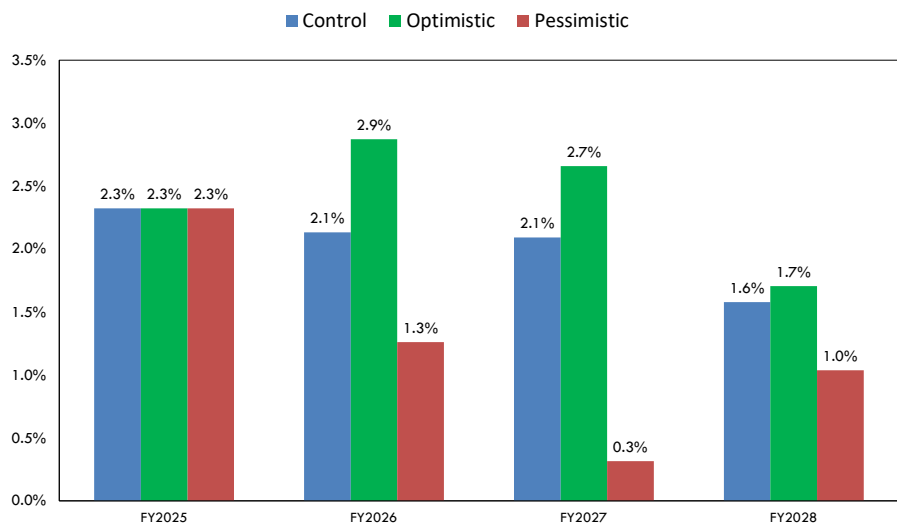
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## Real GDP

(S&P Global, Annual Growth Rates)

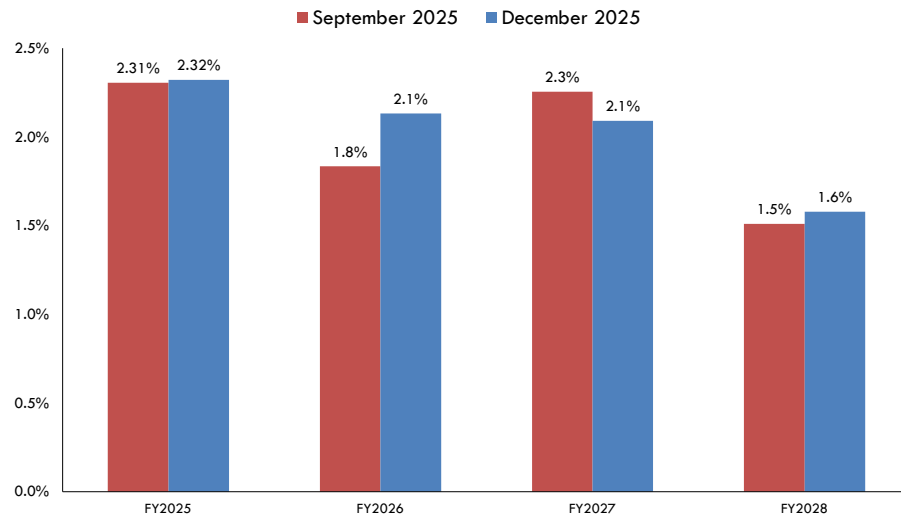
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## Real GDP – Control Forecast

(S&P Global, Annual Growth Rates)

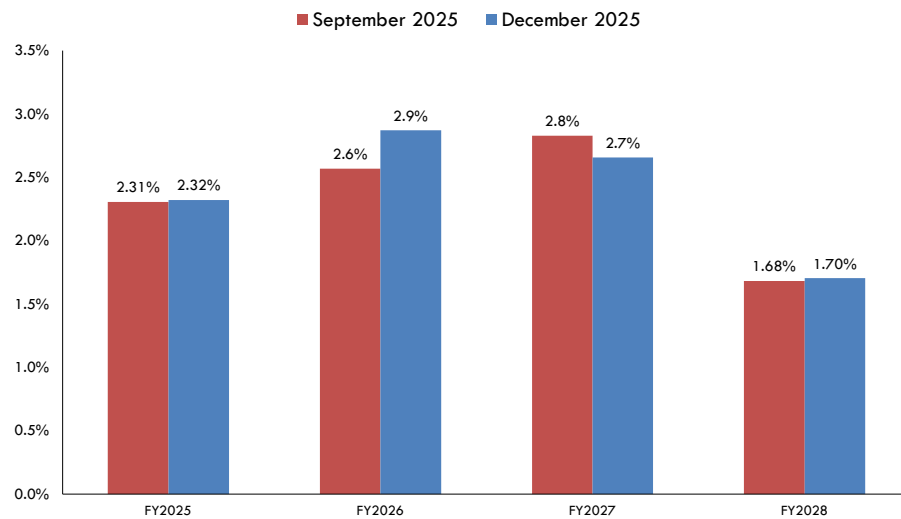
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## Real GDP – Optimistic Forecast

(S&P Global, Annual Growth Rates)

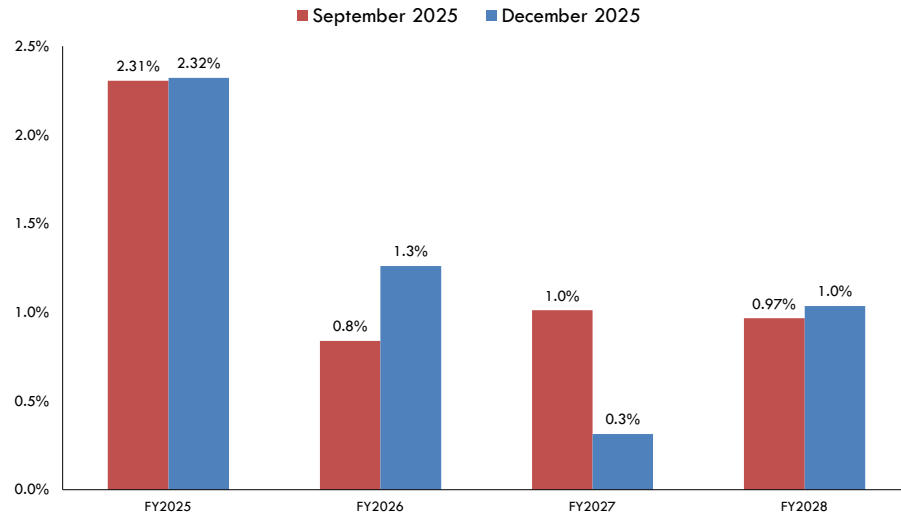
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## Real GDP – Pessimistic Forecast

(S&P Global, Annual Growth Rates)

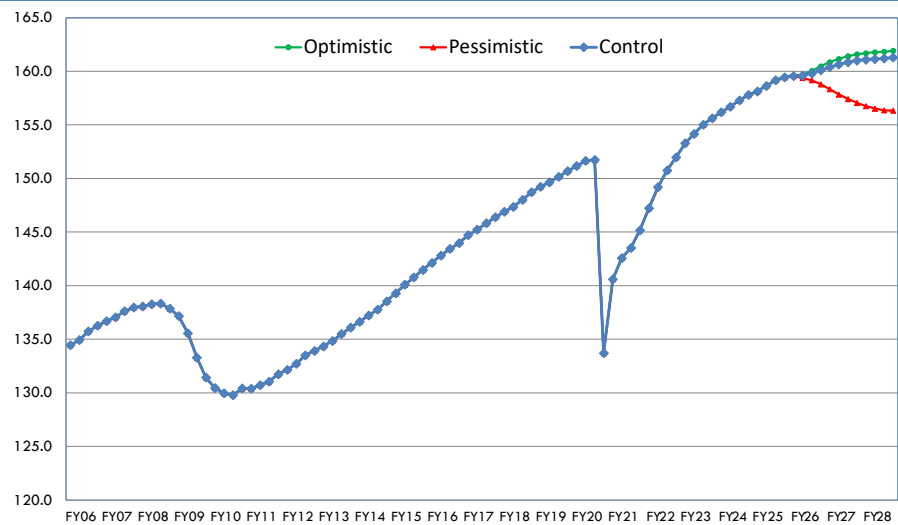
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## U.S. Employment – Total Non-Farm Payrolls

(Millions, BLS)

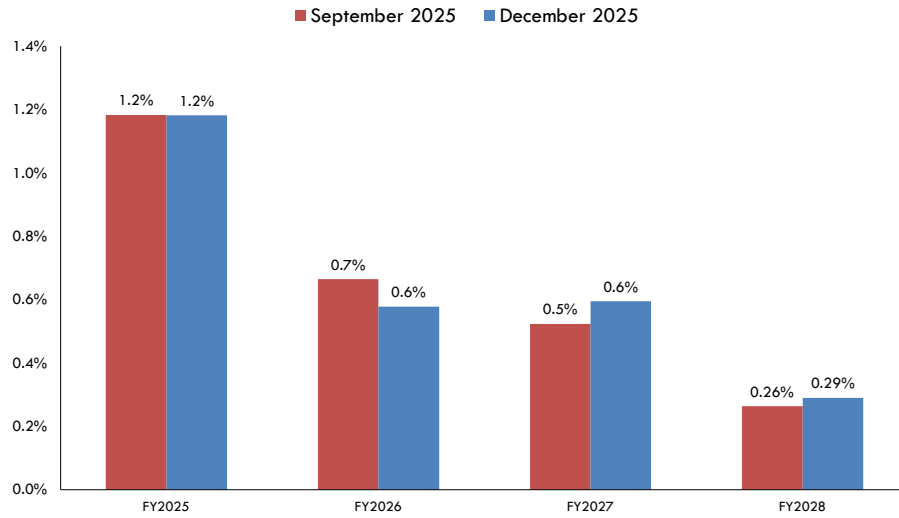
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## U.S. Employment – Total Non-Farm Payrolls Control Forecast

(S&P Global, Annual Growth Rates)

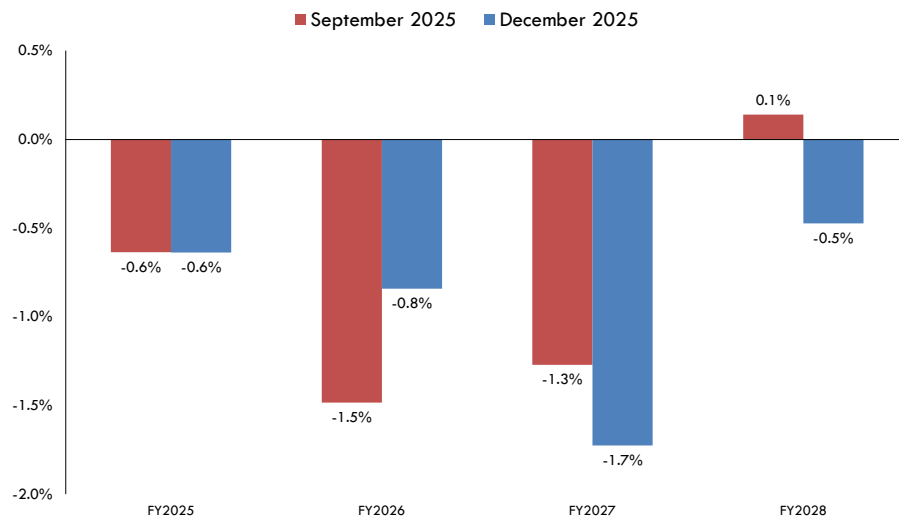
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## U.S. Employment – Manufacturing Control Forecast

(S&P Global, Annual Growth Rates)

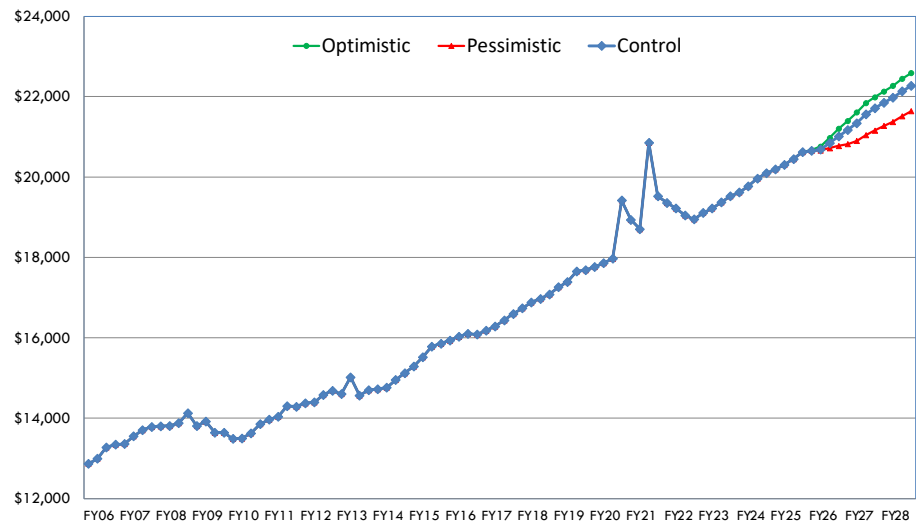
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## Real Personal Income

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

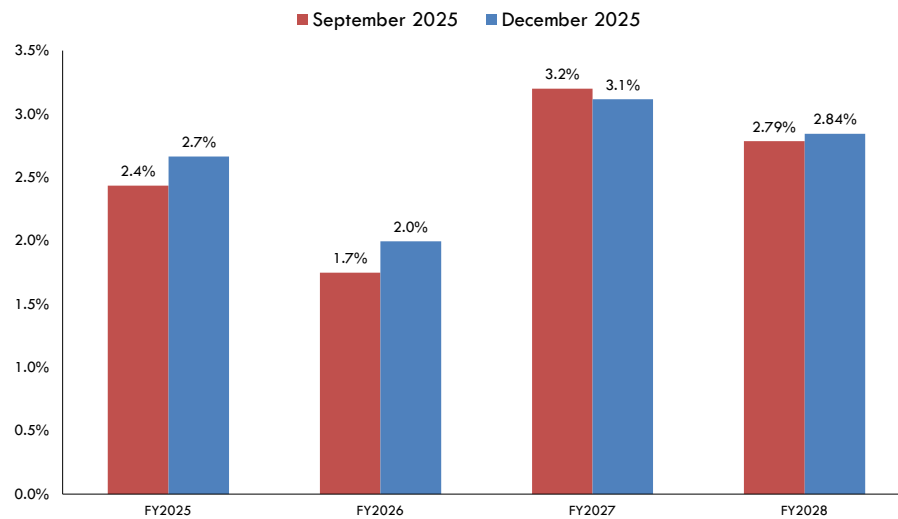
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## Real Personal Income – Control Forecast

(S&P Global, Annual Growth Rates)

16

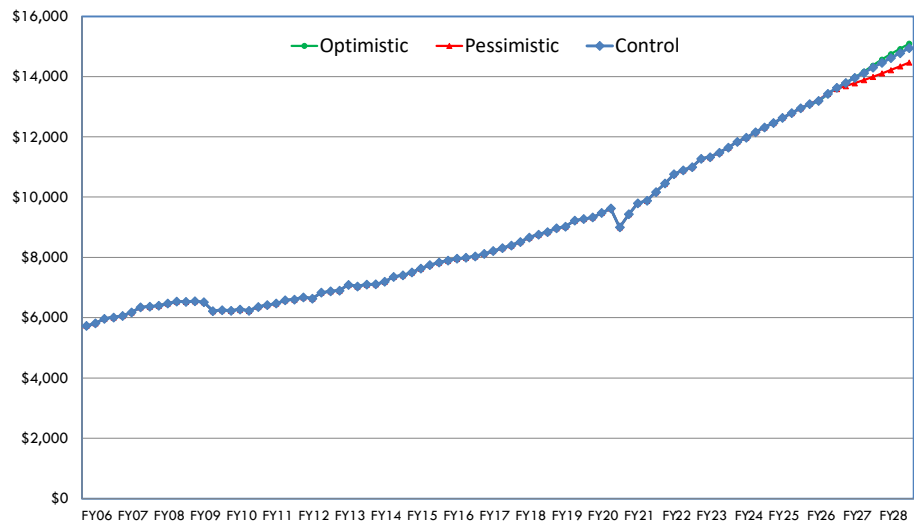




## Wage and Salary Disbursements

(Billions of Dollars, Annual Rate, BEA)

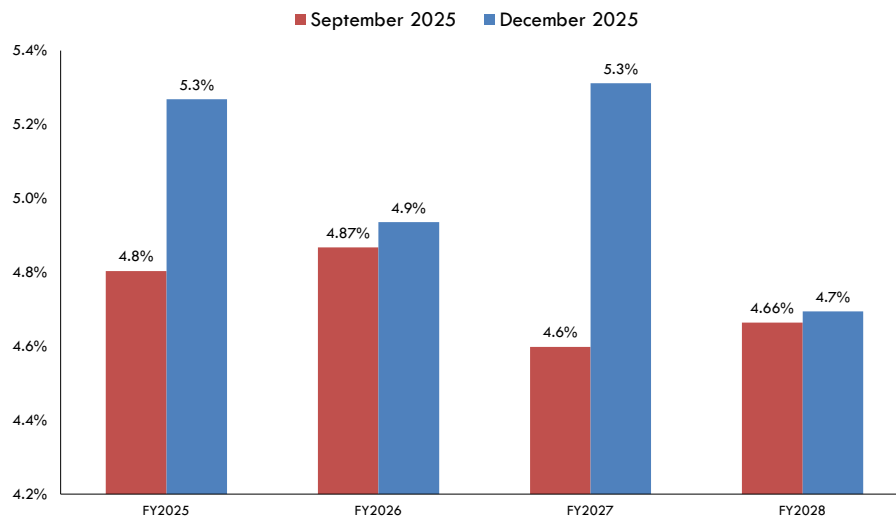
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## Wage and Salary Disbursements – Control Forecast

(S&P Global, Annual Growth Rates)

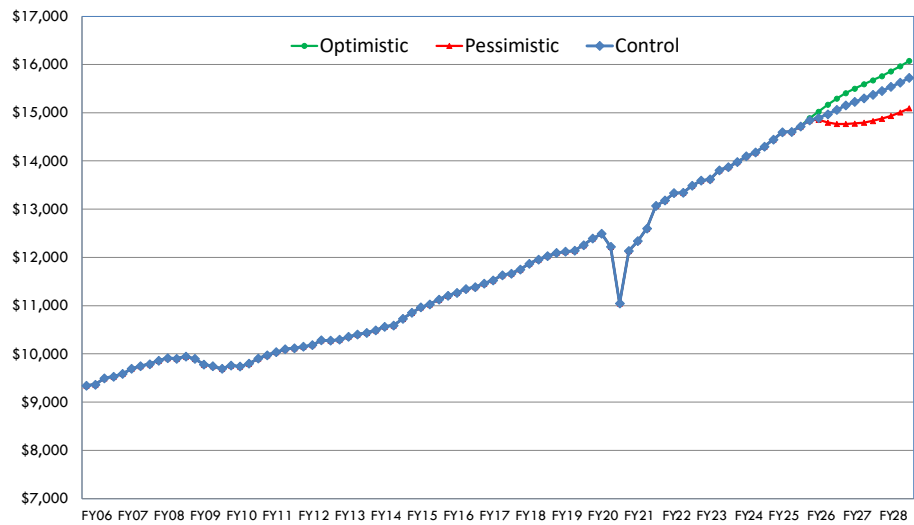
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## Real Consumer Spending (Excluding Food and Energy)

(Billions of 2017 Dollars, Annual Rate, BEA)

19

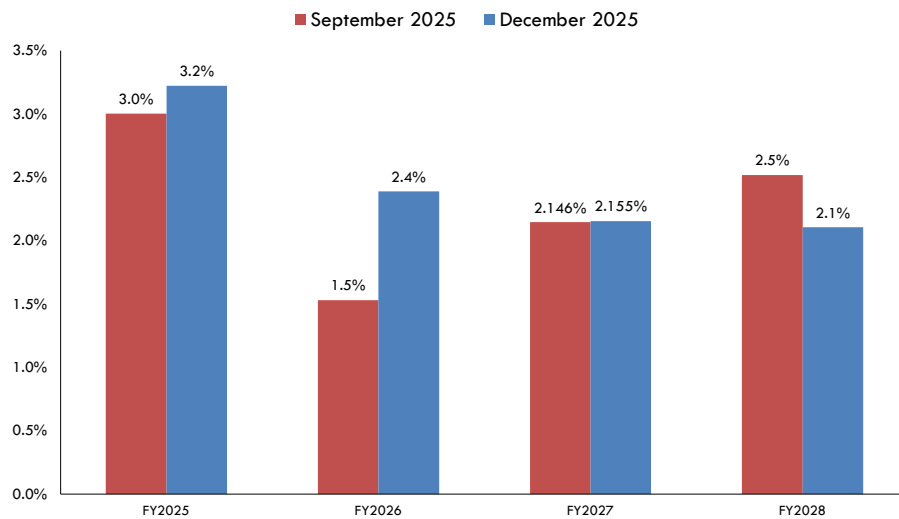


## Real Consumer Spending (Excluding Food and Energy)

### Control Forecast

(S&P Global, Annual Growth Rates)

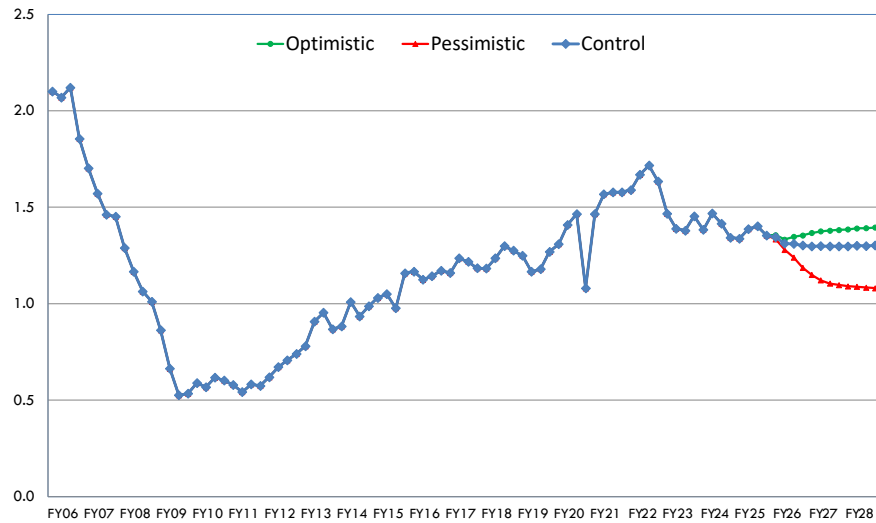
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## Housing Starts

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

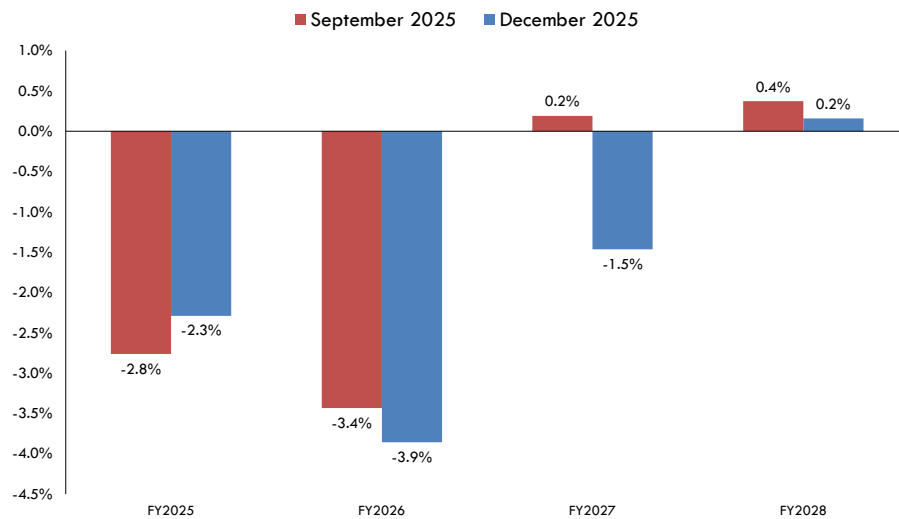
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## Housing Starts – Control Forecast

(S&P Global, Annual Growth Rates)

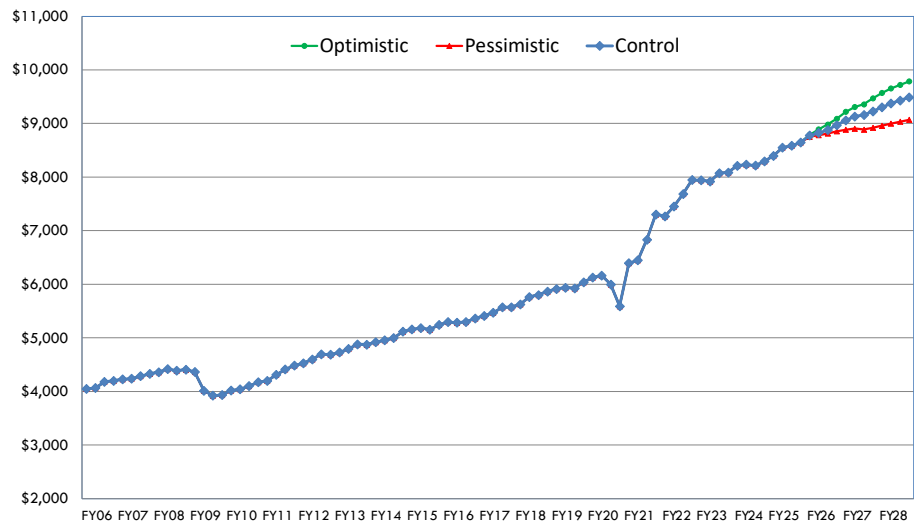
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## Retail Sales - Including Food Service

(Billions of Dollars, Annual Rate, BEA)

23

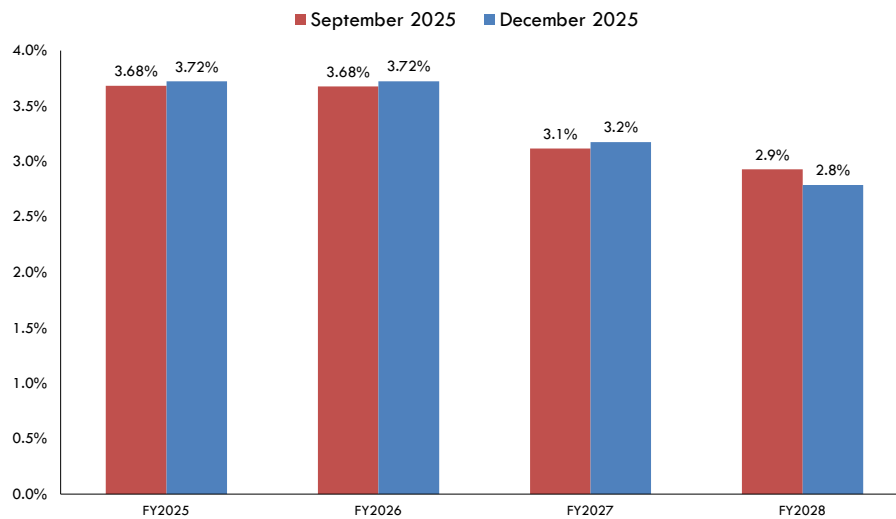


## Retail Sales - Including Food Service

### Control Forecast

(S&P Global, Annual Growth Rates)

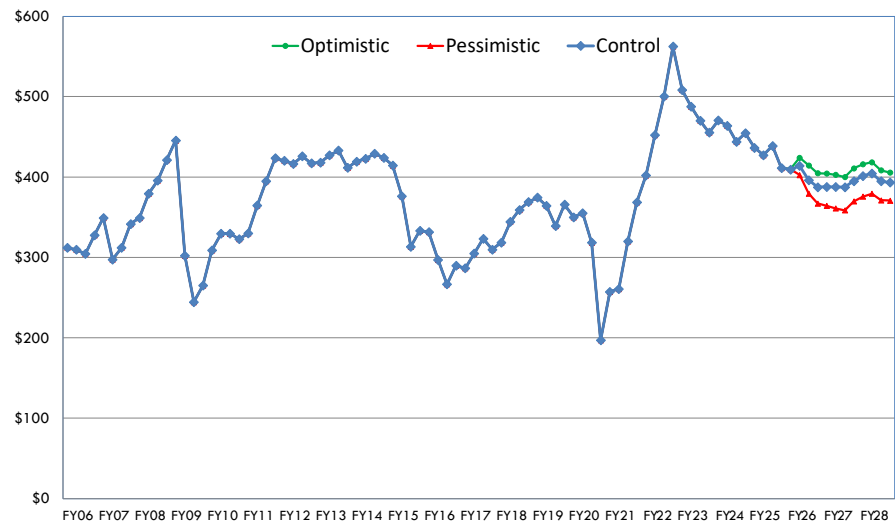
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## Nominal Consumption of Gasoline and Oil

(Billions of Dollars, Annual Rate, BEA)

25

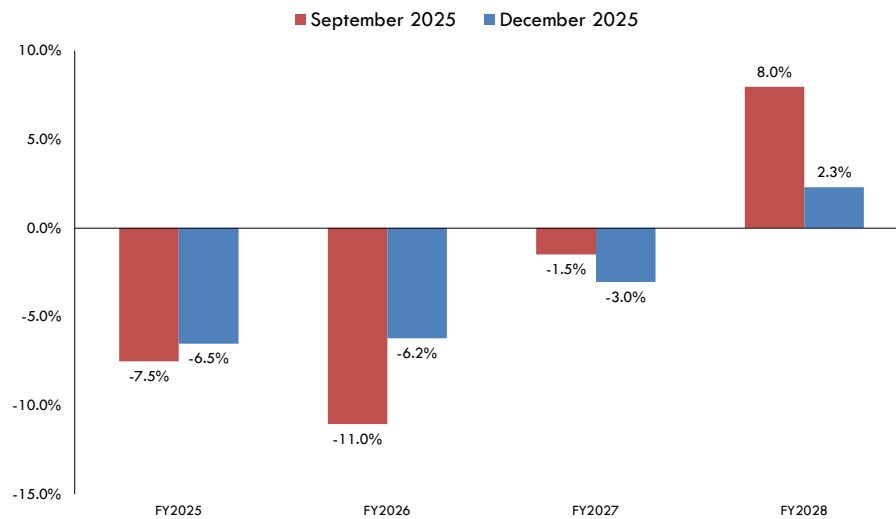


## Nominal Consumption of Gasoline and Oil

### Control Forecast

(S&P Global, Annual Growth Rates)

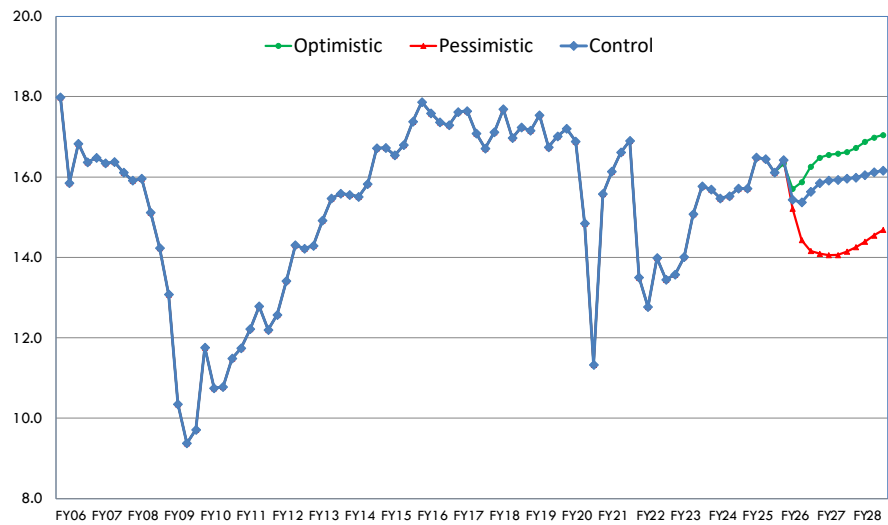
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## Unit Sales of New Light Vehicles

(Millions, Annual Rate, BEA)

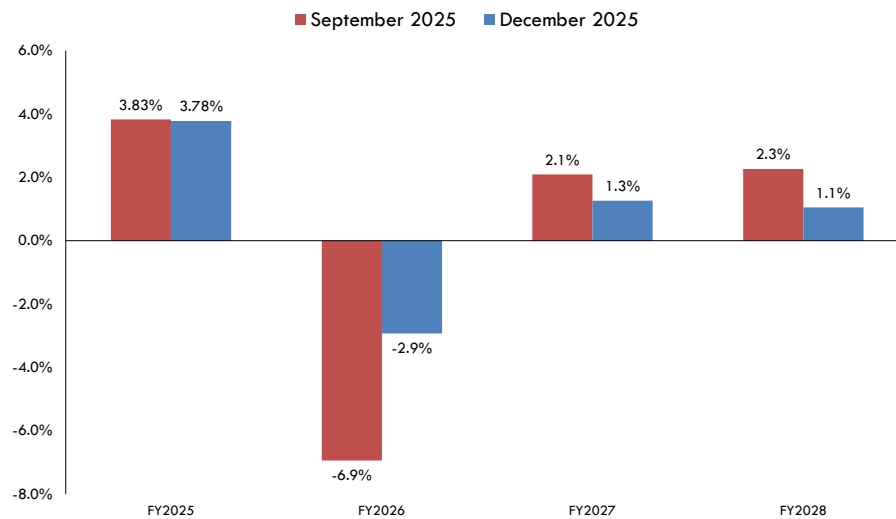
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## Unit Sales of New Light Vehicles - Control Forecast

(S&P Global, Annual Growth Rates)

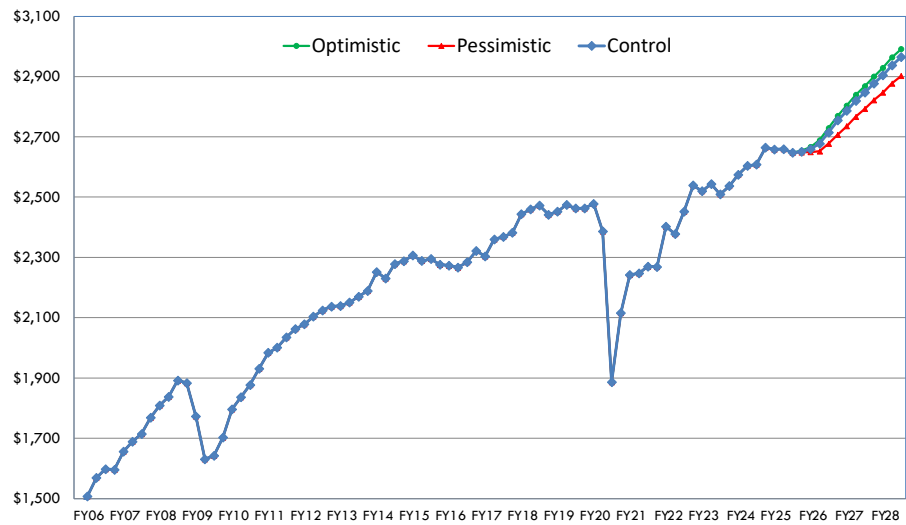
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## Real Exports of Goods and Services

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

29

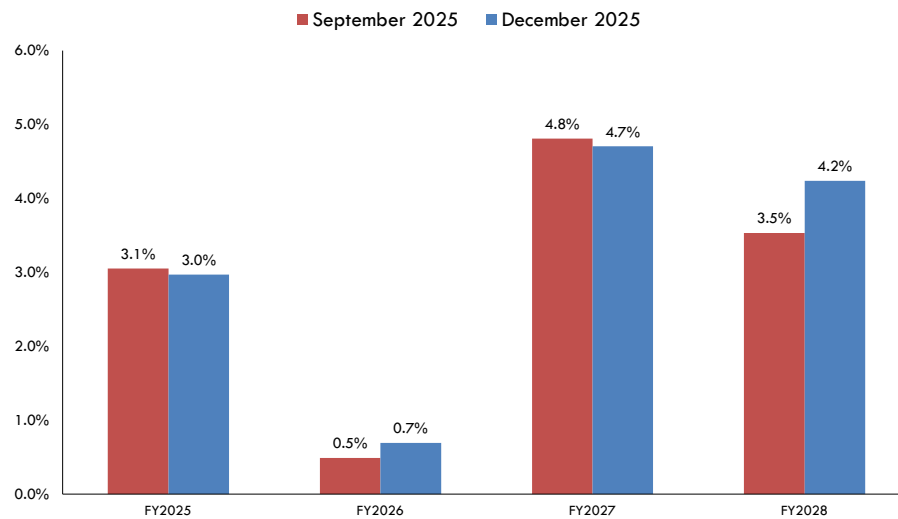


## Real Exports of Goods and Services

### Control Forecast

(S&P Global, Annual Growth Rates)

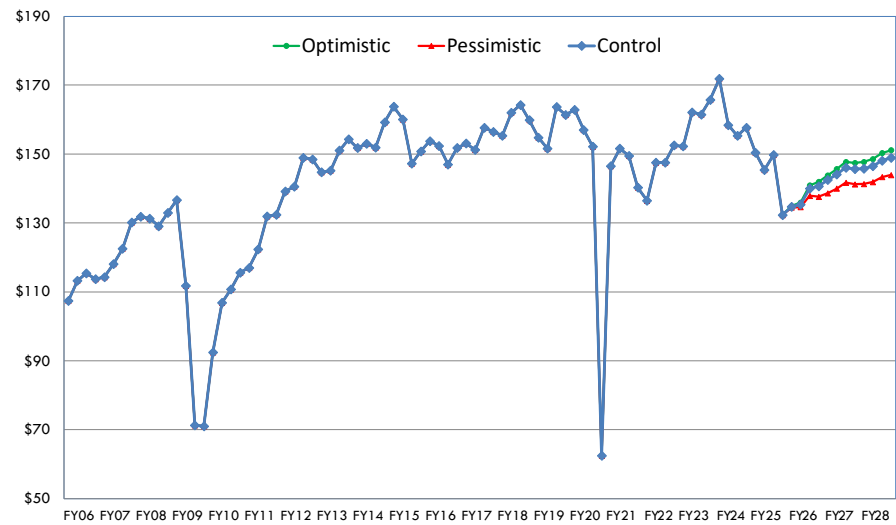
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## Real Exports of Motor Vehicles and Parts

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

31

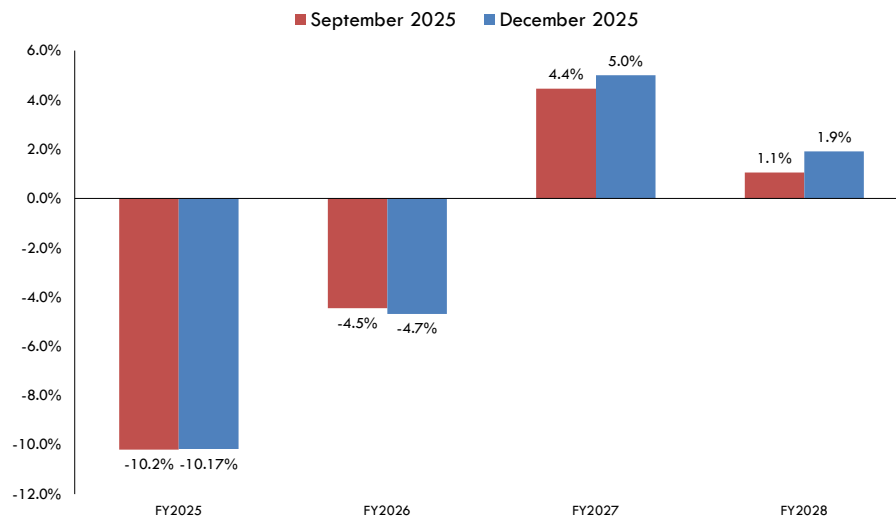


## Real Exports of Motor Vehicles and Parts

### Control Forecast

(S&P Global, Annual Growth Rates)

32

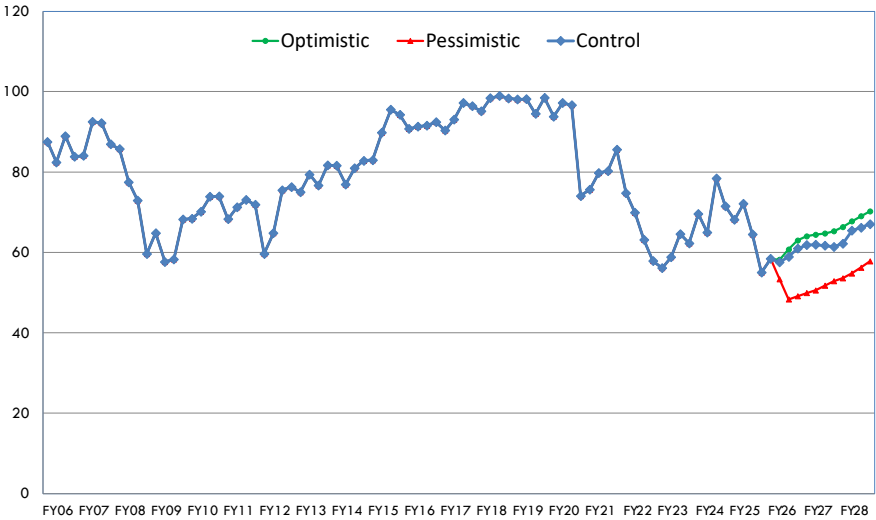




# Consumer Sentiment Index – University of Michigan

(Diffusion Index)

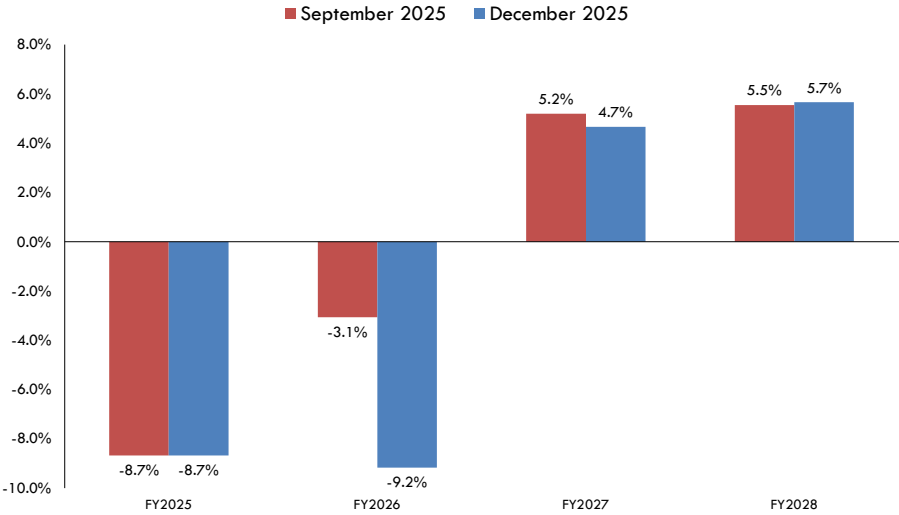
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# Consumer Sentiment Index – Control Forecast

(S&P Global, Annual Growth Rates)

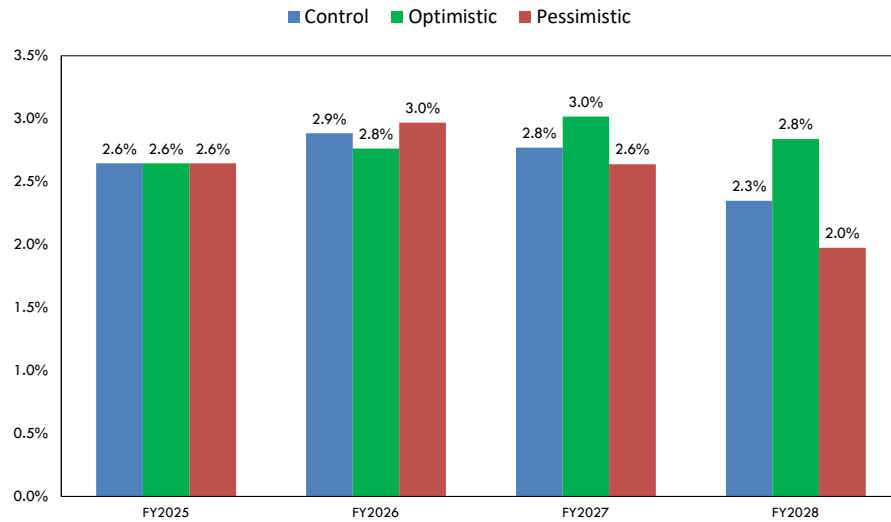
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## Consumer Price Index, All-Urban

(S&P Global, Annual Growth Rates)

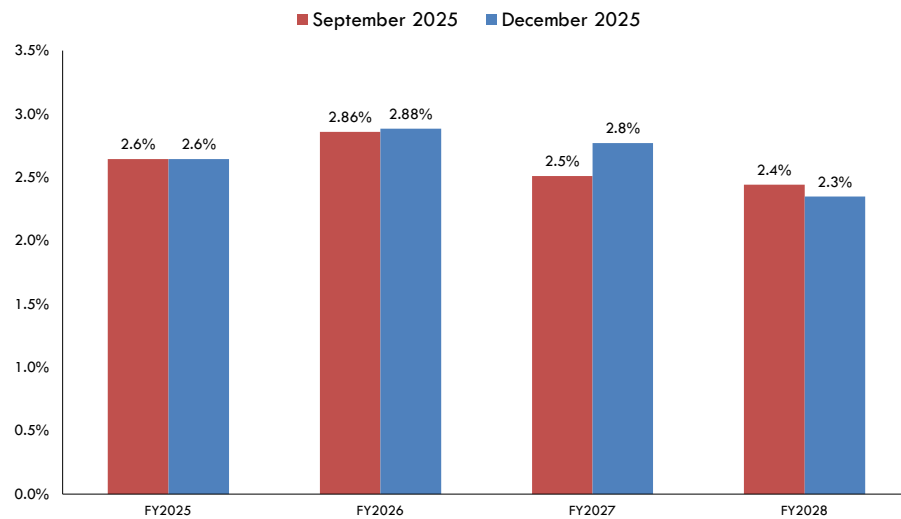
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## Consumer Price Index, All-Urban – Control Forecast

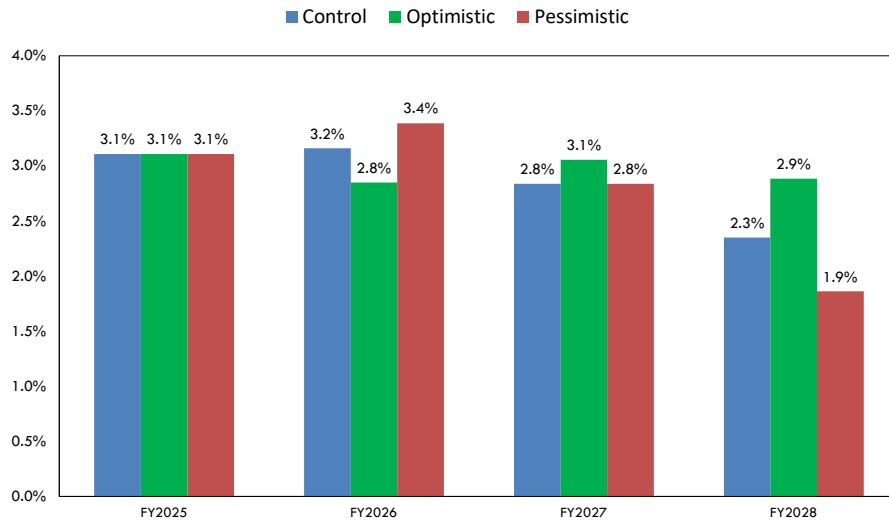
(S&P Global, Annual Growth Rates)

36



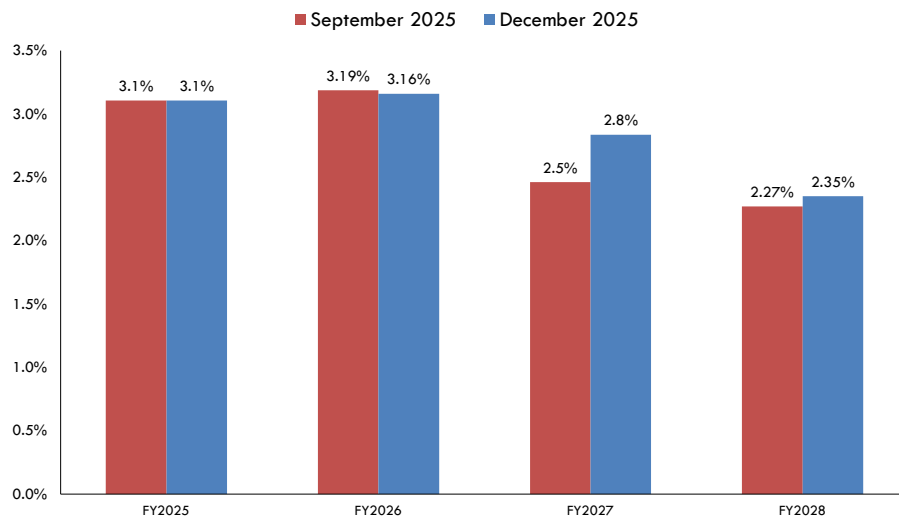
## Core Consumer Price Index (Excludes Food & Energy) (S&P Global, Annual Growth Rates)

37



## Core Consumer Price Index – Control Forecast (S&P Global, Annual Growth Rates)

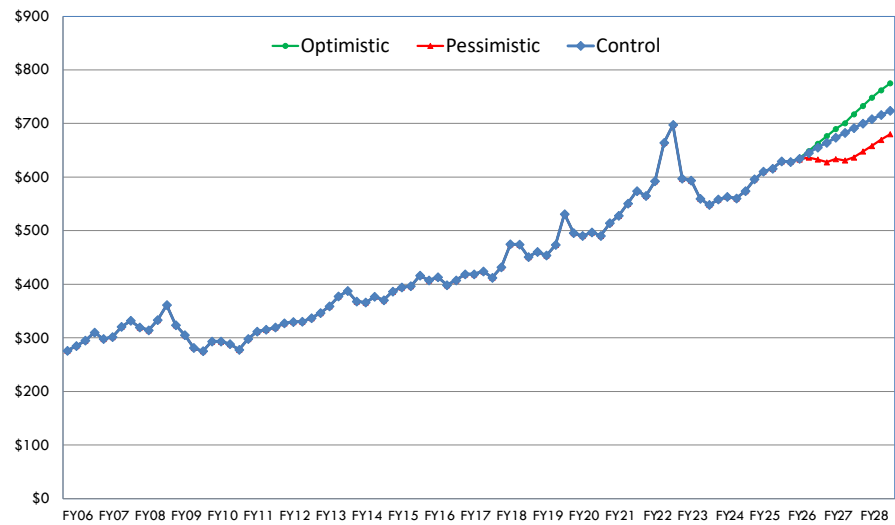
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## Before-Tax Corporate Profits

(Billions of Dollars, Annual Rate, BEA)

39

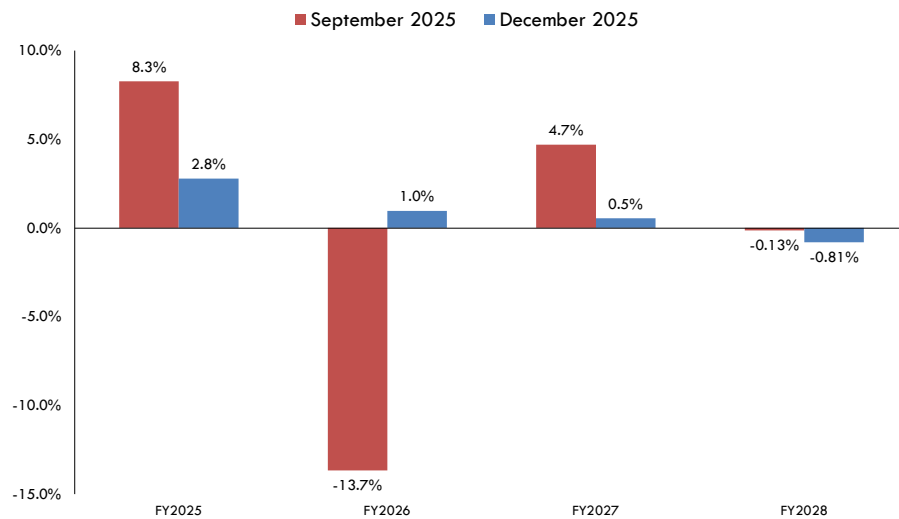


## Before-Tax Corporate Profits

### Control Forecast

(S&P Global, Annual Growth Rates)

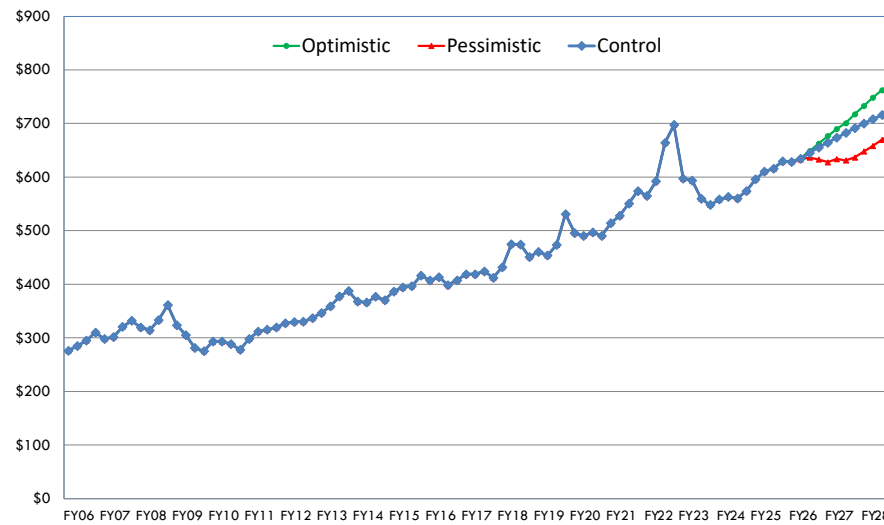
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## State and Local Government Personal Tax Receipts

(Billions of Dollars, Annual Rate, BEA)

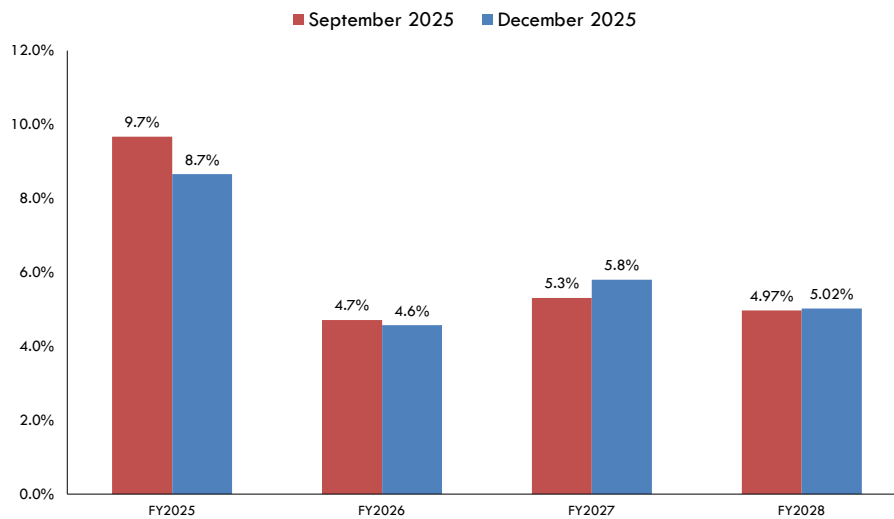
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## State and Local Government Personal Tax Receipts Control Forecast

(S&P Global, Annual Growth Rates)

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# KENTUCKY ECONOMIC OUTLOOK

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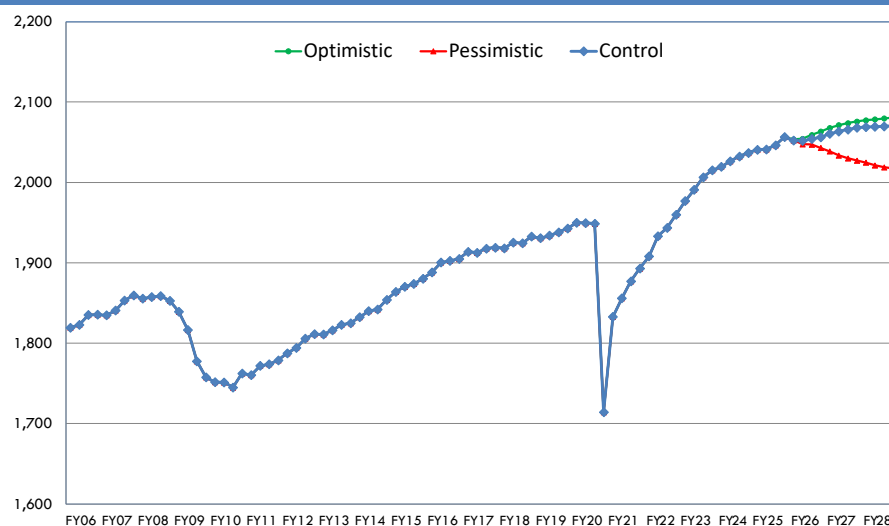
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## Kentucky Non-Farm Employment

(Thousands, KY MAK Model)

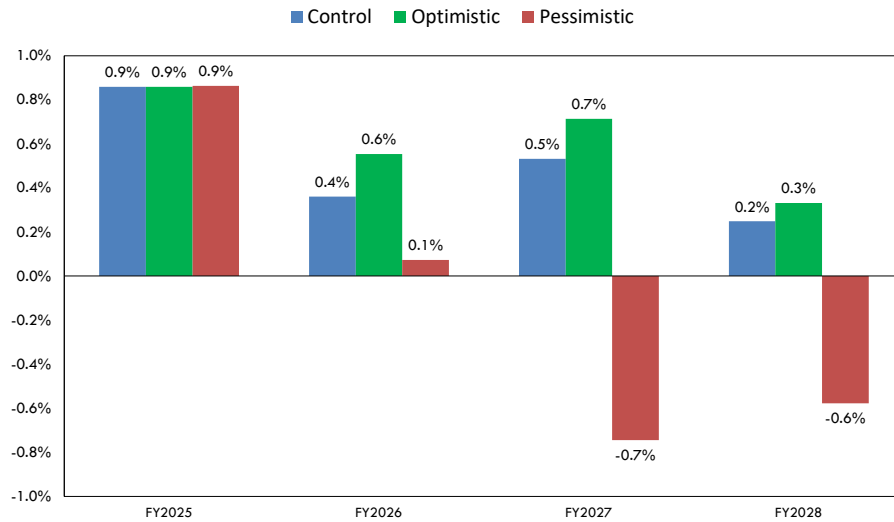
44



## Kentucky Non-Farm Employment Forecasts

(KY MAK Model, Annual Growth Rates)

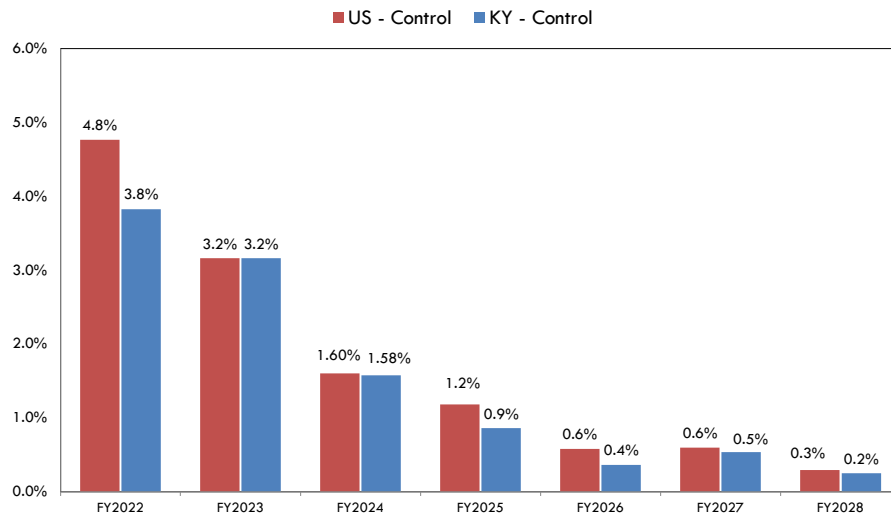
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## Non-Farm Employment – US and Kentucky

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

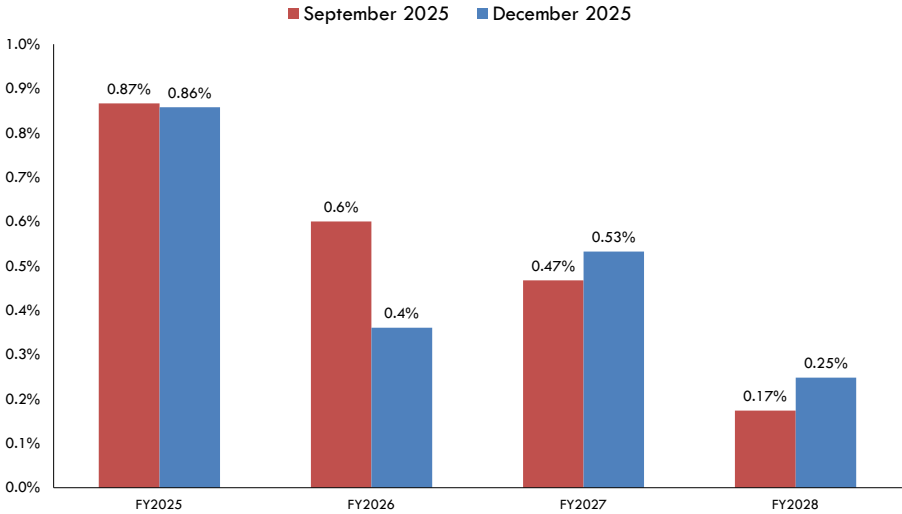
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# Kentucky Non-Farm Employment – Control Forecast

(S&P Global, Annual Growth Rates)

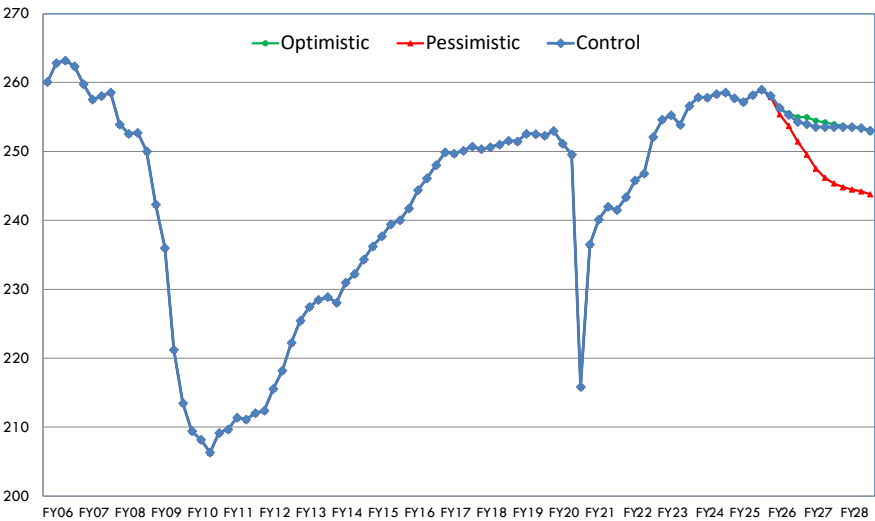
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# Kentucky Manufacturing Employment

(Thousands, KY MAK Model)

48

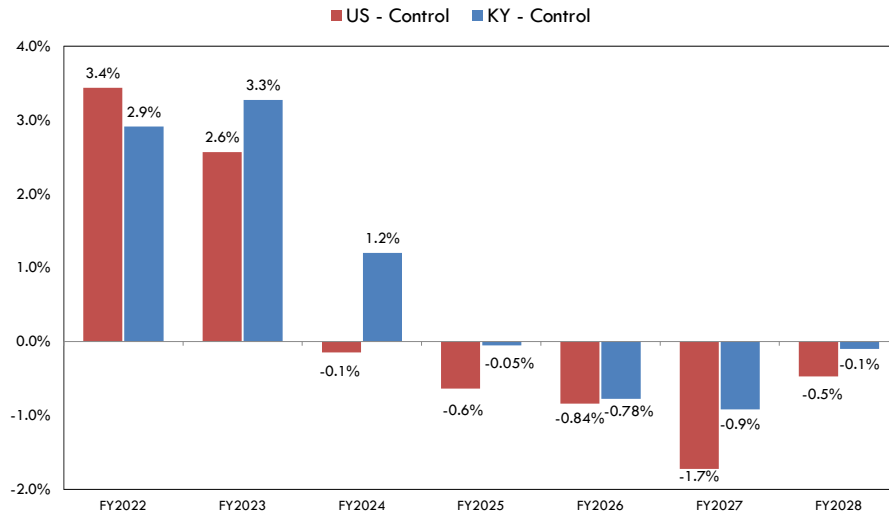




## Manufacturing Employment – US and Kentucky

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

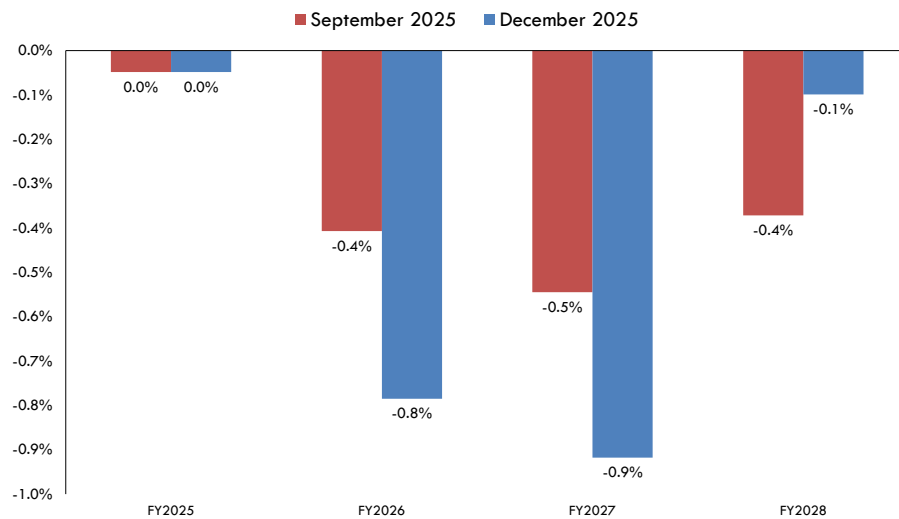
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## Kentucky Manufacturing Employment – Control Forecast

(S&P Global, Annual Growth Rates)

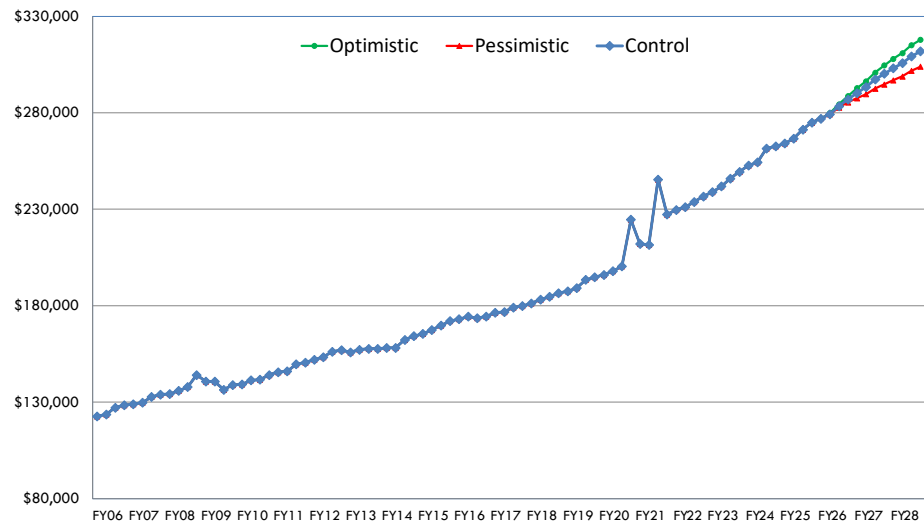
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## Kentucky Personal Income

(Millions of Dollars, KY MAK Model)

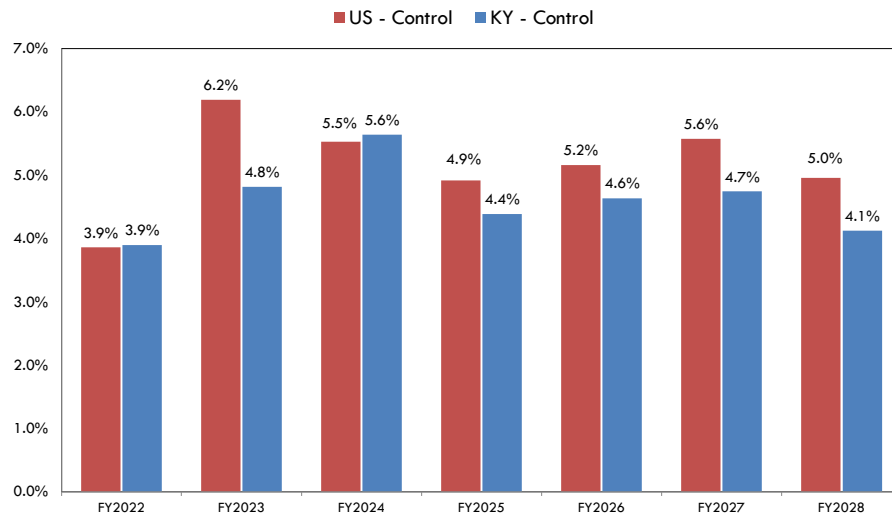
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## Personal Income – US and Kentucky

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

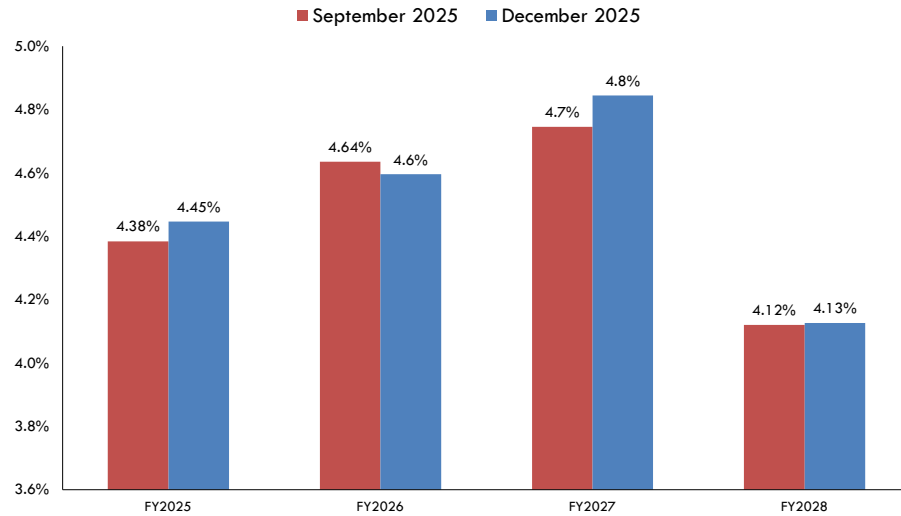
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## Kentucky Personal Income – Control Forecast

(S&P Global, Annual Growth Rates)

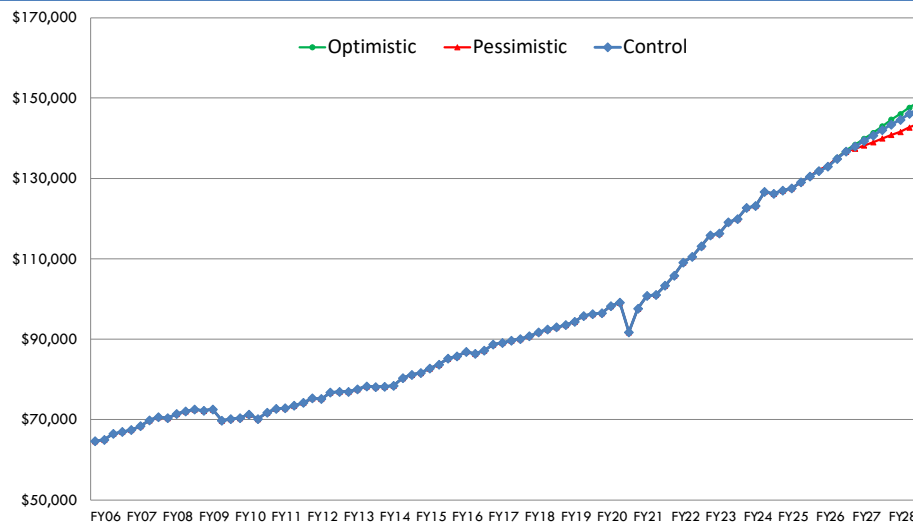
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## Kentucky Wages and Salaries Forecasts

(Millions of Dollars, KY MAK Model)

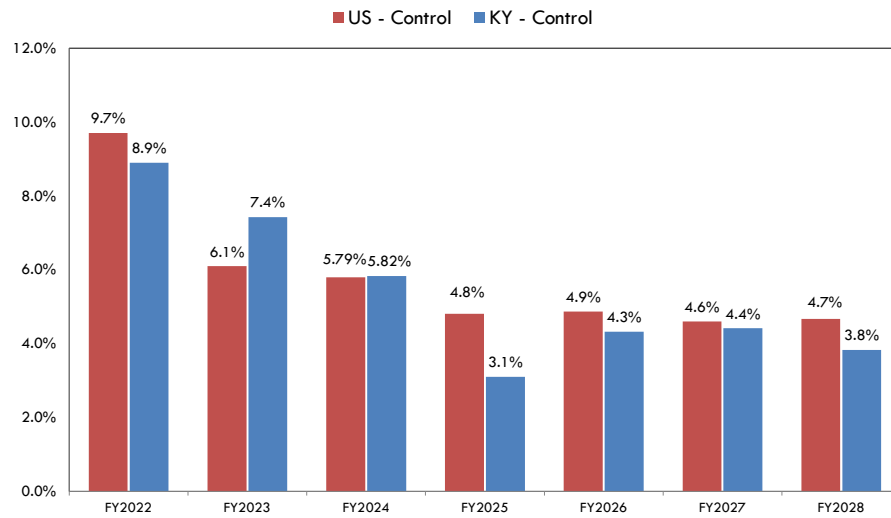
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## Wages and Salaries – US and Kentucky

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

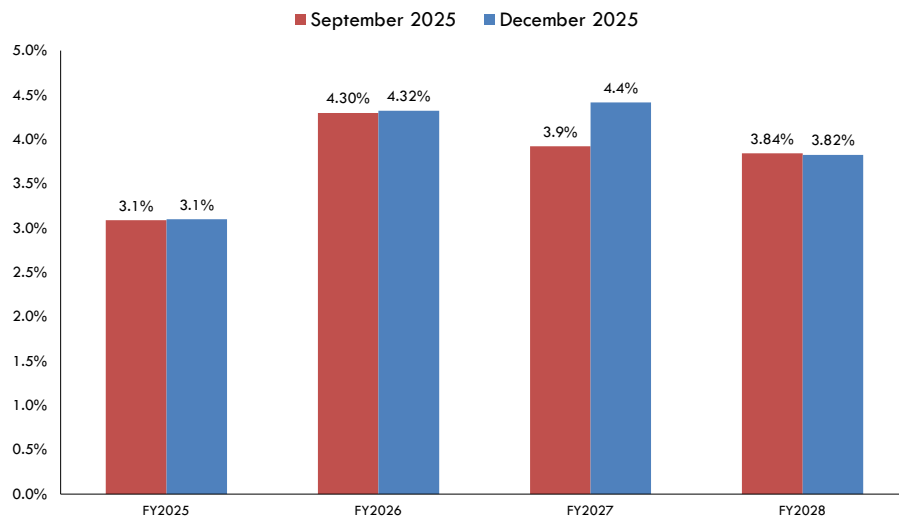
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## Kentucky Wages and Salaries – Control Forecast

(S&P Global, Annual Growth Rates)

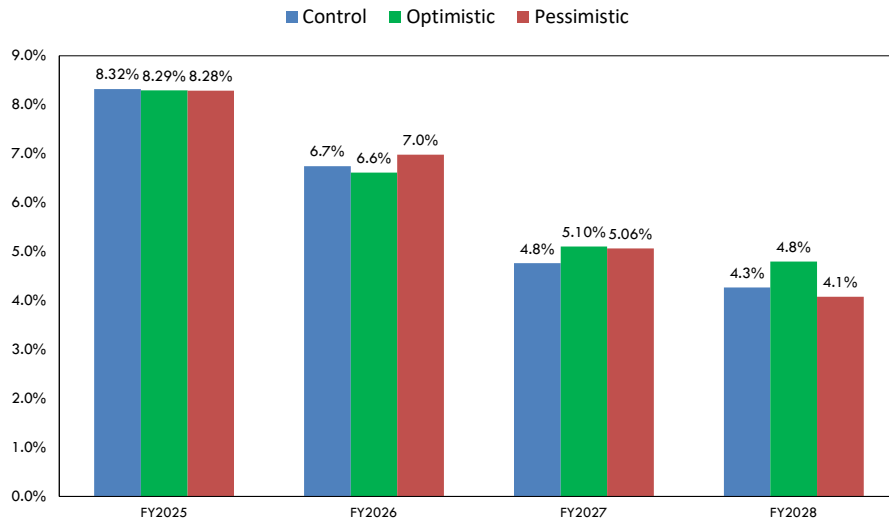
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## Kentucky Transfer Payments Forecasts

(KY MAK Model, Annual Growth Rates)

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## Kentucky Transfer Payments – Control Forecast

(S&P Global, Annual Growth Rates)

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