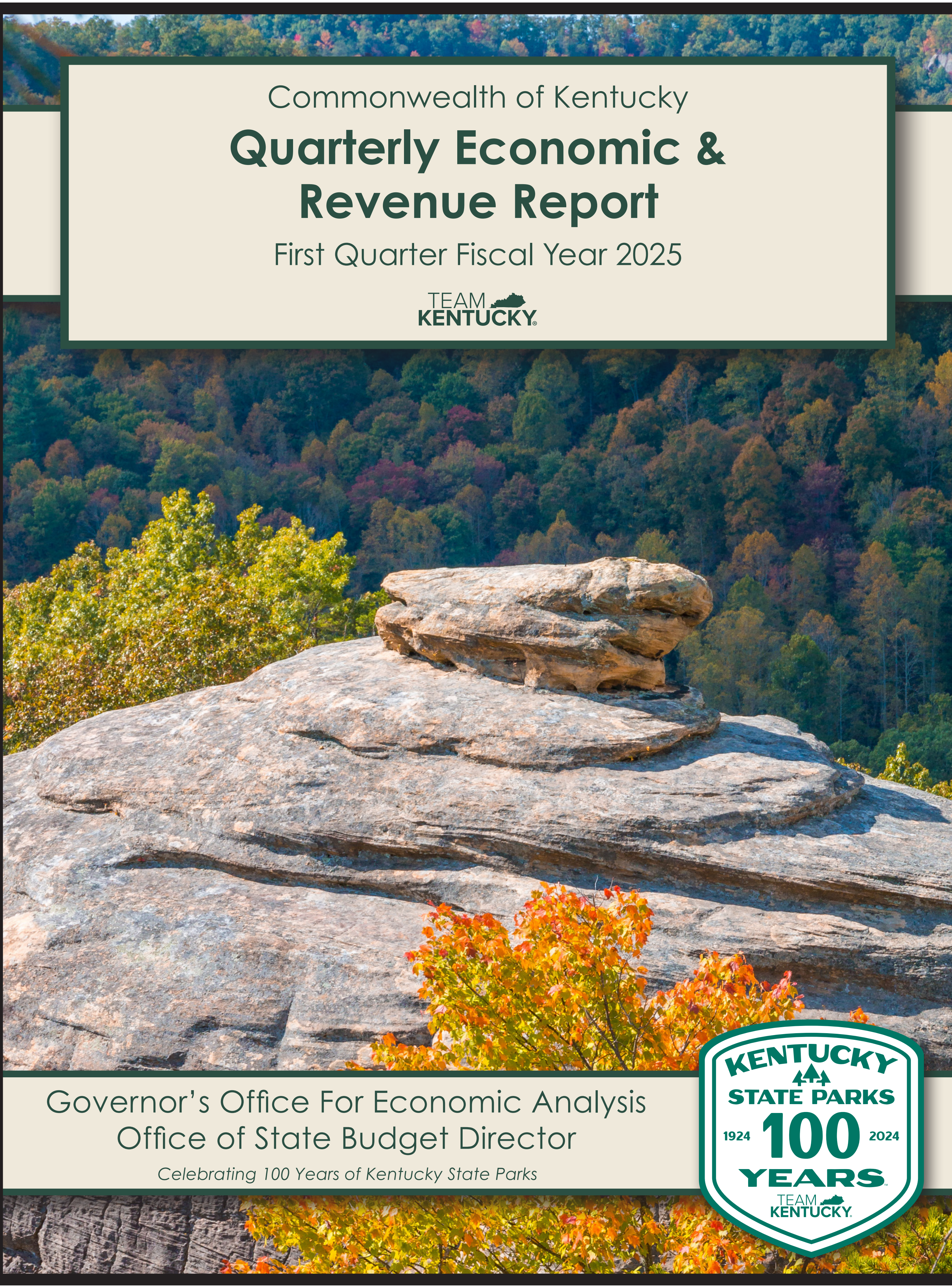
Commonwealth of Kentucky

Quarterly Economic & Revenue Report

First Quarter Fiscal Year 2025

TEAM KENTUCKY



Governor's Office For Economic Analysis
Office of State Budget Director

Celebrating 100 Years of Kentucky State Parks

KENTUCKY STATE PARKS 1924 100 2024 YEARS

TEAM KENTUCKY

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

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

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

Andy Beshear
Governor

John Hicks
State Budget Director

November 21, 2024

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

Mr. Jason McGinnis, Acting Director
Administrative Office of the Courts
1001 Vandalay Drive
Frankfort, Kentucky 40601

Dear Honorable Governor Beshear, Mr. Hartz and Mr. McGinnis:

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 2025 (FY25) 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 FY25 (the forecast horizon). The report also provides an outlook for the national and state economies that provided the inputs into the revenue models.

When combined with the first quarter of actual receipts, the unofficial interim forecast calls for FY25 General Fund revenue of $15,358.4 million, or a 1.4 percent decline in FY25 compared to FY24. Relative to the enacted General Fund estimate, the unofficial interim estimate is $214.5 million lower. The most notable estimated reduction to the official forecast is due to the new pass-through entity tax which has created timing issues related to payments received in FY24 that did not have the offsetting credits taken in FY24. This asynchronized timing inflated FY24 collections in the individual income tax and will reduce expected FY25 receipts. The projected revenue change is also the result of a moderation in sale tax receipts coupled with projected strength in the major business taxes and the group of revenues in the “Other” category.

Road Fund revenues grew 3.6 percent in the first quarter of FY25. The nine month forecast calls for a 2.7 percent decline in revenues. Motor fuels taxes are forecasted to decline, falling 5.7 percent over the remainder of the year due to an expected decline in the tax rate on motor fuels. Motor vehicle usage taxes rose 9.4 percent in the first quarter but are expected to soften, with expected growth of 1.3 percent over the rest of the year as demand for light vehicles eases. Based on the unofficial interim forecast in this report, revenues at the end of FY25 would exceed the enacted revenue estimate by $28.1 million.

This office will continue to closely monitor Kentucky’s economic and revenue conditions and will provide updates at the appropriate times.

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 report on the actual revenue receipts from the just-concluded quarter and prepare an interim forecast for revenue receipts for the next three fiscal quarters. In fulfillment of this mandate, OSBD submits this *Quarterly Economic and Revenue Report* for the first quarter of fiscal year 2025 (FY25). This report includes the actual revenue receipts for the first quarter and an unofficial forecast for the remaining three quarters of FY25 (the forecast horizon). The report also provides updates on the national and Kentucky economic conditions for the most recently completed quarter and an economic outlook for the forecasting horizon.

The interim General Fund and Road Fund outlooks prepared pursuant to KRS 48.400(2) are presented in Table 1 and Table 2. General Fund and Road Fund unofficial estimates were projected using the September 2024 “control scenario” economic forecast from both IHS Markit and the Kentucky MAK model as the primary inputs into the account-specific revenue models. 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.

Compared to the previous edition of the *Quarterly Economic and Revenue Report*, top-line growth in the General Fund of 1.3 percent shows only modest improvement from the 0.0 percent revenue growth seen in the fourth quarter of FY24. First quarter revenues are characterized by significant declines in the individual income tax offset by sizable gains in the major business taxes. The drops in the individual income tax are directly linked to a legislative change. The largest estimated reduction to the official forecast is due to the new pass-through entity tax which has created timing issues related to payments received in FY24 that did not have the offsetting credits taken in FY24. This asynchronized timing inflated FY24 collections in the individual income tax and will reduce expected FY25 receipts. Both the official forecast and this interim forecast accommodated the individual income tax rate reduction from 4.5 percent to 4.0 percent for tax year 2024.

Projected General Fund Growth for the Forecast Horizon

The current enacted estimate for FY25 is $15,572.9 million was established by the Consensus Forecasting Group in December 2023 and modified during the 2024 regular session of the Kentucky General Assembly. Table 1 displays the interim forecast for the remainder of FY25 in comparison to the enacted estimates. When combined with the first quarter of actual receipts, the interim forecast predicts General Fund revenue of $15,358.4 million which would result in $214.5 million less than the enacted estimate. Broadly speaking, this is the result of expected weakness in the individual income and sales tax in FY25 coupled with projected strength in the major business taxes and the group of revenues in the "Other" category.

Projected Road Fund Growth for the Forecast Horizon

Road Fund revenues grew 3.6 percent in the first quarter of FY25. The nine-month interim forecast calls for a 2.7 percent decline in revenues. Motor fuels taxes are forecasted to decline, falling 5.7 percent over the remainder of the year, due primarily to an expected decline in the motor fuels tax. Motor vehicle usage taxes rose 9.4 percent in the first quarter but are expected to soften, growing only 1.3 percent over the rest of the year as demand for light vehicles eases. The remaining accounts are projected to be $10.3 million below the enacted level. Based on the current forecast, revenues at the end of FY25 would exceed the official revenue estimate by $28.2 million with motor vehicle usage collections accounting for the majority of the increase.

Outlook for Major Economic Components

Real growth domestic product (real GDP) growth is expected to temper over the forecast horizon with 2.0 percent growth. Inflation is expected to taper to 2.2 percent during the next three quarters. US non-farm employment is expected to grow by 1.0 percent during the forecast horizon compared to the same three quarters in FY24. Employment in nine of the 11 supersectors is forecasted to grow over the forecast horizon; only mining and manufacturing employment are expected to decline. US personal income is expected to grow 4.8 percent during the final three quarters of FY25. Wages and salaries are expected to have the largest absolute growth with a growth rate of 4.7 percent. Transfer receipts is expected to be the fastest growing income account.

Kentucky non-farm employment is anticipated to increase by 1.0 percent over the next three fiscal quarters, adding approximately 21,100 jobs to the Commonwealth's economy. Eight of the 11 supersectors are forecasted to experience varying degrees of employment gains over the nine-month forecast. The outlook for personal income projects positive growth during the forecast horizon, increasing 4.3 percent compared to the final three quarters of FY24. Growth at the projected level would represent a $10.9 billion nominal increase in Kentuckians' personal income.

Summary of First Quarter Tax Receipts

General Fund receipts in the just completed quarter continued a similar growth path seen over the final three quarters of FY24. Revenues are characterized by significant declines in the individual income tax offset by gains in the major business taxes. Collections in the just completed quarter totaled $3,849.6 million compared to $3,800.3 million in the first quarter of FY24, for an increase of 1.3 percent. Collections from the major revenue categories reveals a near-equal split between accounts which grew and those that declined. On the positive side, corporation income tax dominated, with receipts $266.6 million more than last year. Sales and use, property, and "Other" taxes as well as lottery receipts all rose moderately. Counteracting these gains, individual income tax collections very nearly offset the gains in the major business taxes, declining by $264.1 million.

First quarter Road Fund receipts grew 3.6 percent over collections in the first quarter of FY24. Receipts for the quarter were $16.7 million more than collected last year. Motor vehicle usage tax revenue accounted for most of the increase. Investment income and "Other" receipts combined for a minimal increase. Declines in motor fuels and motor vehicle tax receipts offset the increases in collections. The enacted Road Fund estimate calls for a 2.6 percent decline in revenues for the year. Based on year-to-date tax collections, revenues can fall 4.7 percent for the remainder of the year and still meet the enacted estimate.

Summary of the Economy for the First Quarter of FY25

Real gross domestic product (real GDP) rose 2.5 percent in the first quarter of FY25 over the first quarter of FY24. The strongest component of real GDP was real investment which increased by 3.8 percent in the first quarter of FY25 over the first quarter of FY24, following two strong quarterly growth rates. Inflation moderated in the first quarter of FY25 with 2.7 percent growth as computed with the consumer price index (CPI) for all goods. US non-farm employment rose 1.5 percent in the first quarter of FY25. Educational services employment gained the most in both percentage and absolute terms, gaining 3.8 percent, or 1.0 million jobs over last year. US personal income rose 4.5 percent in the first quarter of FY25. Wages and salaries had the largest absolute growth. Transfer receipts income had the highest growth rate at 6.5 percent compared to the first quarter of last year.

Kentucky non-farm employment rose 1.2 percent in the first quarter of FY25 compared to the first quarter of FY24. Educational services employment was both the largest gainer of jobs in both absolute and percentage terms, gaining 12,000 jobs, or 3.9 percent in the first quarter of FY25 compared to the first quarter of FY24. Kentucky personal income rose 3.8 percent in the first quarter of FY25. The fastest-growing component of Kentucky personal income was transfer receipts income, which grew by 6.5 percent, or a net $4.0 billion, in the first quarter of FY25 compared to the first quarter of FY24.

REVENUE & ECONOMIC OUTLOOK

GENERAL FUND

The interim General Fund and Road Fund Outlooks are prepared pursuant to KRS 48.400(2) and were projected using the September 2024 “control scenario” economic forecast from both S&P Global and the Kentucky MAK model as the primary inputs. S&P Global 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 FY25 (the forecasting horizon).

When combining the first quarter of actual receipts with the next three fiscal quarters, the interim forecast predicts FY25 General Fund revenue of $15,358.4 million, or a 1.4 percent decline compared to FY24. Collections at this level would result in $214.5 million less than the $15,572.9 million enacted estimate for FY25. Broadly speaking, this is the result of expected weakness in the individual income and sale taxes in FY25 coupled with projected strength in the major business taxes and the group of revenues in the “Other” category.

Table 1
General Fund Interim Outlook
$ millions

	FY25						FY25	
	Q1		Q2, Q3, & Q4		Full Year		Official CFG	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	$ Diff
Individual Income	1,241.0	-17.5	3,714.0	-13.7	4,955.0	-14.7	5,546.3	-591.3
Sales & Use	1,492.3	1.3	4,404.4	1.7	5,896.7	1.6	6,081.1	-184.4
Corp. Inc. & LLET	559.4	73.5	1,145.8	23.6	1,705.2	36.5	1,327.8	377.4
Property	78.6	11.1	752.6	2.1	831.2	2.9	837.2	-6.0
Lottery	81.0	3.8	269.7	1.5	350.7	2.1	350.7	0.0
Cigarettes	70.1	-6.8	177.5	-9.1	247.6	-8.5	249.5	-1.9
Coal Severance	16.4	-27.5	53.9	-2.3	70.3	-9.7	65.4	4.9
Other	310.8	23.0	990.9	3.3	1,301.7	7.4	1,114.9	186.8
General Fund	**3,849.6**	**1.3**	**11,508.8**	**-2.2**	**15,358.4**	**-1.4**	**15,572.9**	**-214.5**

General Fund revenue collections grew 1.3 percent in first quarter. Of the $49.3 million increase in revenues, the majority came from the corporation income tax, which rose by $266.6 million. A nearly equal decline in individual income tax revenue erased almost all of those gains. In the case of the individual income tax, all four of the major components of the tax receipts: withholding, net returns, estimated payments and the pass-through entity tax (PTET); declined by a combined $266.4 million.

Due to legislative tax policy changes, **individual income tax** receipts are projected to fall 13.7 percent during the three-quarter forecast horizon after declining 17.5 percent during the first quarter of FY25. Full-year FY25 receipts for the individual income tax are projected to be $4,995.0 million, or $591.3 million less the enacted estimate. The largest estimated reduction to the official forecast is due to the new pass-through entity tax, which has created timing issues related to payments received in FY24. This asynchronized timing inflated FY24 collections and will reduce expected FY25 receipts. Both the official forecast and this interim forecast accommodated the individual income tax rate reduction from 4.5 percent to 4.0 percent for tax year 2024. The credits associated with payment of the PTET which were accrued in FY24 will be taken in FY25. The available credits from FY24 will cause reductions in the declarations, non-resident withholding, and net returns accounts in FY25.

Owners or members of pass-through entities receive a credit when filing their individual income tax returns equal to their distributive share of the PTET paid by at the entity level. Once all owners take their proportional credit, the amount of PTET paid at the entity level should equal the PTET credits used by individual filers. In FY24, pass-through entities paid in $791.9 million attributable to the entity tax. In FY24, individuals earned and used approximately $500 million in available credits. That left them with nearly $290 million in outstanding PTET credits available to them. This happened partly because of timing issues across calendar tax years and fiscal years. But it also partly occurred because some taxpayers at the individual level decided to hold their credits for the next tax year, which moved them into the next fiscal year. As a result, the Commonwealth expects both the FY25 individual income tax declarations account and the FY25 individual income tax net returns account to absorb those outstanding credits from FY24.

Sales and use tax receipts are forecasted to remain largely unchanged from the growth path exhibited in the first quarter of the fiscal year. Revenues increased 1.3 percent in the just completed quarter and are expected to rise 1.7 percent over the forecasting horizon, ending the overall fiscal year 1.6 percent higher than FY24. Collections in this account are cooling off following the rapid growth experienced during Fiscal Years 2021 to 2023 when revenues rose at double-digit rates in all three years. Receipts grew 4.1 percent in FY24 but were flat in the fourth quarter of FY24 leading into FY25. Lower expected inflation predicted in the September S&P Global forecast is predicted to create a dampening effect on expected growth over the forecasting horizon.

Major business taxes (corporation income tax plus the limited liability entity tax) grew 73.5 percent in the first quarter on the strength of unexpected increases in declaration payments. Growth for the remainder of the year is forecasted to be 23.6 percent based on continued growth of US corporate profits and continued strength in declaration payments. 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. The combined business taxes account is the most volatile major category of General Fund revenues.

Property tax receipts increased 11.1 percent in the first quarter of FY25, but the three-quarter forecasting horizon is expected to produce growth of 2.1 percent to finish FY25 at a 2.9 percent overall increase. 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 and therefore, can be quite volatile.

Kentucky Lottery dividends grew 3.8 percent in the just completed quarter and are expected to rise 1.5 percent over the next three quarters. Dividend payments to the General Fund are capped by the 2024-2026 budget bill (HB 6), which diverts any lottery receipts greater than $350,679,200 to a trust and agency account.

Cigarette taxes are collected at the rate of $1.10 per pack. Collections in the first quarter of FY25 fell 6.8 percent. Cigarette tax receipts continued their downward march in FY24, falling 9.6 percent after declining 7.8 percent in FY23. Smoking rates have continued to fall and the number of cigarettes per smoker has also decreased. The interim outlook projects a further decrease in cigarette tax revenue with an 8.5 percent decline in FY25.

The **coal severance tax** fell 19.4 percent in FY24 after substantial growth rates in the prior two fiscal years. The downward trend is expected to continue in FY25. The forecast calls for 2.3 percent decline over the remainder of the year after revenues fell 27.5 percent in the first quarter, with a year-end decrease of 9.7 percent in collections.

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 income from investments are the five largest ongoing account categories. Overall receipts in the "Other" category are forecasted to grow 7.4 percent for the year. Income from investments, while not a longstanding source of significant perennial income, has increased dramatically over the past three years. Collections in this account were just over $500,000 in FY22 before growing to $150.5 million in FY23 and further ballooning to $300.2 million in FY24. With receipts of $102.2 million in the first quarter of FY25, income on investments is expected to be $305.0 million in FY25. The pace of collections in the final three quarters of FY25 is expected to weaken as both investible balances and interest rates are projected to be lower than first quarter levels.

ROAD FUND

The official Road Fund revenue forecast for FY25 calls for a 2.6 percent decline over FY24 actual revenues. Based on this interim forecast, Road Fund revenues at the end of FY25 would exceed the official revenue estimate by $28.2 million. Looking ahead, total Road Fund collections are expected to decline 2.7 percent over the final three quarters of FY25, ending the year 1.1 percent below FY24 levels.

Motor fuels taxes are forecasted to continue their first quarter trajectory, falling 5.7 percent over the remainder of the year. A 2.1 cent lower tax rate impacted receipts beginning in August.

Motor vehicle usage taxes rose 9.4 percent in the first quarter but are expected to soften, growing 1.3 percent over the rest of the year as demand for light vehicles eases.

Motor vehicle license receipts fell 4.4 percent in the first quarter. The forecast for the remainder of the year is an increase of 2.3 percent, ending the year at 1.1 percent. First quarter motor vehicle operator's collections grew 4.0 percent. Receipts in this account are expected to remain steady for the remainder of the year, increasing 3.2 percent.

Weight distance tax collections grew 1.2 percent in the first three months of FY25; however, receipts are forecasted to fall 2.1 percent over the final nine months of the year.

Income on investments more than doubled in the first quarter with collections of $6.0 million but lower interest rates will mean declining returns over the remainder of the year. The forecast calls for an additional $7.8 million for the rest of the year.

Table 2
Road Fund Interim Outlook
$ millions

	FY25						FY25	
	Q1		Q2, Q3, & Q4		Full Year		Official CFG	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	$ Diff
Motor Fuels	223.4	-2.1	638.5	-5.7	861.9	-4.8	866.8	-4.9
Motor Vehicle Usage	189.6	9.4	503.9	1.3	693.5	3.4	650.1	43.4
Motor Vehicle License	19.8	-4.4	101.1	2.3	120.9	1.1	128.1	-7.2
Motor Vehicle Operators	8.7	4.0	25.1	3.2	33.8	3.4	32.0	1.8
Weight Distance	22.3	1.2	63.4	-2.1	85.7	-1.3	89.7	-4.0
Income on Investments	6.0	105.5	7.8	-33.2	13.8	-5.6	9.5	4.3
Other	12.5	22.7	31.1	-9.4	43.6	-2.1	48.8	-5.2
Road Fund	**482.3**	**3.6**	**1,370.9**	**-2.7**	**1,853.2**	**-1.1**	**1,825.0**	**28.2**

The remainder of the accounts in the Road Fund are grouped in the "Other" category and consist of fines, fees, and miscellaneous receipts. They grew 22.7 percent in the first quarter but is forecasted to decrease 9.4 percent in the final three quarters of the year. Legislation enacted earlier this year will reduce revenues in this account going forward.

NATIONAL ECONOMIC OUTLOOK

Real gross domestic product (real GDP) growth is expected to soften to 2.0 percent over the remainder of FY25 as shown in Table 3. That brings the full year real GDP growth to 2.1 percent for the year. Growth in the first quarter of FY25 was 2.5 percent which is down from the 3.1 percent growth seen in the fourth quarter of FY24. Growth softened in the forecast among four of the five components of real GDP relative to the first quarter of FY25 with real exports being the only exception.

Real consumption growth is forecasted to be 2.4 percent over the final three quarters of FY25 which is slightly lower than what was seen in the final three months of FY24. Real consumption growth in all of FY24 was 2.4 percent. This is solid stable growth for real consumption.

Real investment growth is expected to be 2.3 percent over the forecast horizon. This is down slightly from the 3.6 percent growth real investment experienced in FY24. Real investment, which accounts for approximately 18 percent of real GDP, is typically the most volatile among the five real GDP components.

Growth in real government expenditures is expected to be 1.2 percent over the final three quarters of FY25. The tapered growth over the forecast horizon is in comparison to 4.2 percent growth in FY24.

Real exports growth is projected to be 3.5 percent over the next nine months. This is a considerable increase in growth compared to last year. Real exports grew just 1.3 percent in FY24. Real imports growth is expected to be 5.0 percent over the remainder of FY25. Real imports grew 5.6 percent in the first quarter of FY25 compared to the first quarter of FY24.

Inflation is expected to taper to 2.2 percent during the three-quarter forecast horizon. This is down from 3.2 percent inflation recorded in the final three quarters of FY24. Energy prices are expected to decline by 1.0 percent during the forecast period. Energy prices declined 1.0 percent during those same three quarters in FY24 as well. Food prices are expected to rise 1.6 percent during the forecast horizon. So, it is the non-food and non-energy components which are growing the fastest among all prices.

The industrial production index, a measure of production and output, is expected to increase by 0.6 percent in the three quarters from the second quarter of FY25 to the fourth quarter of FY25. This is a considerable improvement from the 0.1 percent reduction in the index that occurred in the final three quarters of FY24.

US non-farm employment is expected to grow by 1.0 percent during the forecast horizon compared to the same three quarters in FY24. Growth was focused in the service-providing sectors, while growth in the goods-producing sectors were flat in aggregate. See Table 4. By comparison, US non-farm employment grew 1.9 percent in FY24 compared to FY23.

US educational services employment is expected to be the source of the most growth during the forecast horizon. US educational services employment is expected to grow 2.4 percent, or 600,000 jobs, over the forecast horizon.

The US unemployment rate is expected to increase to 4.3 percent over the forecast horizon. The unemployment rate in the final three quarters of FY24 was 3.8 percent.

US personal income is expected to grow 4.8 percent during the final three quarters of FY25. See Table 4. Wages and salaries income, the largest component of personal income, is expected to grow 4.7 percent over the forecast horizon. Transfer receipts is expected to be the fastest growing income account with 5.7 percent growth over the forecast horizon. Wages and salaries make up approximately 51.4 percent of total US personal income, while transfer receipts make up approximately 18.0 percent of total US personal income.

Table 3
US Economic Outlook
Interim Forecast

	Q2-Q4			Full Year	
	FY25	FY24	% chg	FY25	% chg
Real GDP	23,234.4	22,787.6	2.0	23,190.3	2.1
Real Consumption	16,044.7	15,661.6	2.4	16,005.2	2.5
Real Investment	4,271.7	4,173.6	2.3	4,270.1	2.7
Real Govt. Expenditures	3,952.3	3,907.1	1.2	3,948.5	1.5
Real Exports	2,626.8	2,538.1	3.5	2,613.8	3.4
Real Imports	3,677.1	3,501.1	5.0	3,662.7	5.2
CPI all goods (% chg)	2.2	3.2	NA	2.3	NA
CPI Food (% chg)	1.6	2.5	NA	1.8	NA
CPI Energy (% chg)	-1.0	-1.0	NA	-1.2	NA
CPI Core (% chg)	2.6	3.7	NA	2.7	NA
Industrial Production Index (% chg)	0.6	-0.1	NA	0.5	NA
Unemployment Rate (%)	4.3	3.8	NA	4.3	NA
Housing Starts (millions, NSA)	1.3	1.4	-5.3	1.3	-5.1

Table 4
US Labor and Income Outlook
Interim Forecast

	Q2-Q4			Full Year	
	FY25	**FY24**	**% chg**	**FY25**	**% chg**
Non-farm Employment (millions, NSA)	159.4	157.8	1.0	159.3	1.2
Goods-producing	21.8	21.8	0.0	21.8	0.3
Construction	8.3	8.2	2.0	8.3	2.2
Mining	0.6	0.6	-1.8	0.6	-1.7
Manufacturing	12.8	13.0	-1.1	12.8	-0.8
Service-providing	114.2	112.8	1.2	114.0	1.3
Trade, Transportation & Utilities	29.0	28.9	0.3	29.0	0.4
Information	3.1	3.0	1.7	3.0	1.3
Finance	9.3	9.2	1.0	9.3	0.9
Business Services	23.1	22.9	0.8	23.1	0.7
Educational Services	26.6	26.0	2.4	26.6	2.8
Leisure and Hospitality Services	17.1	16.8	1.7	17.1	1.7
Other Services	5.9	5.9	0.8	5.9	0.9
Government	23.4	23.2	1.2	23.4	1.5
Personal Income ($ billions, AR)	24,713.3	23,589.9	4.8	24,565.5	4.7
Wages and Salaries ($ billions, AR)	12,704.8	12,135.0	4.7	12,639.5	4.6
Transfer Receipts	4,458.6	4,217.7	5.7	4,433.9	5.9
Dividends, Interest, and Rents	4,881.5	4,700.7	3.8	4,846.6	3.8
Supplements to Wages and Salaries	2,609.3	2,502.9	4.2	2,596.2	4.3
Proprietors' Income	1,994.6	1,891.1	5.5	1,976.2	4.9
Social Insurance	1,935.5	1,857.6	4.2	1,926.8	4.3
Residence Adjustment	0.0	0.0	NA	0.0	NA

KENTUCKY ECONOMIC OUTLOOK

The Kentucky employment and income outlook presented in Table 5 was prepared using the September 2024 economic forecast from both IHS Markit and the Kentucky MAK model. Kentucky's MAK model uses variables from the national economic outlook to forecast Kentucky employment by supersectors and personal income by its components.

Kentucky non-farm employment is anticipated to increase by 1.0 percent over the next three fiscal quarters, adding approximately 21,100 jobs to the Commonwealth's economy. Eight of the 11 supersectors are forecasted to experience varying degrees of employment gains over the nine-month forecast.

In absolute terms, the service-providing sector is expected to experience the most pronounced job growth with an increase of 16,000 jobs, or a 1.2 percent increase over the outlook period. Amongst the different service-producing sectors, leisure and hospitality services employment will add more jobs than any other supersector over the next three fiscal quarters of FY25, a gain of 5,600 jobs. Employment in educational services is on track to be the second-best performer, forecasted to net approximately 5,300 annualized jobs, accounting for an increase of 1.7 percent compared to the same three quarters in FY24.

Employment in the goods-producing sector is forecasted to slightly contract by approximately 300 jobs over the forecast horizon, a 0.1 percent decline compared to the same periods one year prior. Construction employment is anticipated to be the bright spot across the goods-producing sector. Over the final three quarters of FY25, the construction employment sector is anticipated to gain roughly 1,400 annualized jobs, accounting for an increase of 1.5 percent compared to the same three quarters in FY24.

Government employment is expected to grow 1.8 percent, or 5,500 jobs over the three-quarter forecast horizon. Government employment includes government employment from the federal, state, and local levels.

The outlook for personal income projects positive growth in the second, third and fourth quarters of FY25, increasing 4.3 percent compared to the final three quarters of FY24. Growth at the projected level would represent a $10.9 billion nominal increase in Kentuckians' personal income. Wages and salaries, the largest component of personal income, represents 49.8 percent of total personal income. Kentucky wages and salaries is poised to grow 4.4 percent in the final three quarters of FY25, compared to the same periods one year prior. US wages and salaries growth is projected to be 4.7 percent, slightly outpacing the Kentucky growth in wage and salary income.

Table 5
KY Labor and Income Outlook
Interim Forecast

	Q2-Q4			Full Year	
	FY25	**FY24**	**% chg**	**FY25**	**% chg**
Non-farm Employment (thousands, NSA)	2,052.3	2,031.1	1.0	2,050.5	1.1
Goods-producing	356.2	356.5	-0.1	356.3	0.0
Construction	93.0	91.6	1.5	92.9	1.8
Mining	8.3	9.0	-7.8	8.3	-6.1
Manufacturing	255.0	255.9	-0.4	255.2	-0.5
Service-providing	1,378.3	1,362.3	1.2	1,376.9	1.2
Trade, Transportation & Utilities	426.1	426.0	0.0	426.4	0.0
Information	22.3	22.5	-0.9	22.3	-1.6
Finance	97.3	95.7	1.6	97.1	1.2
Business Services	231.9	228.4	1.5	231.3	1.1
Educational Services	317.1	311.8	1.7	316.7	2.2
Leisure and Hospitality Services	210.9	205.3	2.7	210.4	2.7
Other Services	72.7	72.6	0.2	72.7	0.4
Government	317.8	312.3	1.8	317.3	1.9
Personal Income ($ billions, AR)	262.3	251.4	4.3	260.9	4.2
Wages and Salaries ($ billions, AR)	130.6	125.1	4.4	130.0	4.1
Transfer Receipts	67.1	63.6	5.6	66.8	5.8
Dividends, Interest, and Rents	41.3	40.4	2.2	41.1	2.2
Supplements to Wages and Salaries	30.4	29.1	4.5	30.3	4.1
Proprietors' Income	18.6	17.6	5.6	18.4	4.9
Social Insurance	20.9	20.0	4.4	20.8	4.1
Residence Adjustment	-4.9	-4.5	NA	-4.9	NA

REVENUE RECEIPTS

GENERAL FUND

General Fund revenue collections grew 6.9 percent in the first quarter of FY24 but then rose only 1.6 percent for the remainder of the year. Growth in the first quarter of FY25 continued this trend by increasing just 1.3 percent, impacted substantially by a lower individual income tax rate. Much like the final nine months of FY24, receipts in the just completed quarter were characterized by significant declines in the individual income tax offset by gains in the major business taxes. Revenues in the just completed quarter totaled $3,849.6 million compared to $3,800.3 million in the first quarter of FY24, for an increase of $49.3 million.

Table 6
Summary General Fund Receipts
$ millions

	FY25 Q1	FY24 Q1	Diff $	Diff %
Individual Income	1,241.0	1,505.2	-264.1	-17.5
Sales & Use	1,492.3	1,473.4	18.9	1.3
Corp. Inc. & LLET	559.4	322.3	237.0	73.5
Property	78.6	70.7	7.8	11.1
Lottery	81.0	78.0	3.0	3.8
Cigarettes	70.1	75.2	-5.1	-6.8
Coal Severance	16.4	22.7	-6.2	-27.5
Other	310.8	252.8	58.0	22.9
Total	**3,849.6**	**3,800.3**	**49.3**	**1.3**

Collections from the major revenue categories are shown in summary form in Table 6, which reveals a near-equal split between accounts which grew and those that declined. On the positive side, corporation income tax dominated, growing 103.9 percent, or $266.6 million. Sales and use, property, and “Other” taxes as well as lottery receipts all rose by a combined $87.7 million. Counteracting these gains, individual income tax collections very nearly offset the gains in the major business taxes, declining by $264.1 million, or 17.5 percent. The remaining accounts, taken together, were within $40.8 million of FY24 levels. Detailed information on these major accounts is available in the Appendix.

The official General Fund revenue estimate for FY25 calls for collections to be flat compared to FY24 receipts. Given the year-to-date revenue situation, General Fund receipts can fall 0.4 percent for the remainder of the fiscal year and still meet the enacted estimate.

Individual income tax receipts declined by $264.1 million in the first quarter of the year with receipts of $1,241.0 million. All four of the major components of the tax declined in the first quarter. Withholding was down 10.9 percent due to an 11.1 percent reduction in the individual income tax rate, from 4.5 percent to 4.0 percent, effective January 1, 2024. Declarations fell by 22.4 percent while net returns were nearly $50 million lower. Pass-through entity tax (PTET) collections fell by 34.1 percent compared to the first quarter of FY24.

Sales and use tax collections rose slightly increasing $18.8 million, or 1.3 percent, over FY24 levels. Collections for the quarter were $1,492.3 million.

The combined corporation income and LLET taxes grew 73.5 percent, or $237.0 million, in the just completed quarter. Receipts totaled $559.4 million and were boosted by a significant increase in estimated payments. For the period, corporation income tax revenue rose $266.6 million while limited liability entity tax (LLET) receipts fell $29.5 million.

Property tax revenue rose 11.1 percent in the quarter with collections of $78.6 million. This compares to $70.7 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. Tangible property, including motor vehicles, as well as omitted and delinquent, and "Other" receipts all rose during the collection period.

Lottery receipts increased 3.8 percent, or $3.0 million, in the first quarter of FY25. Recent trends in the Kentucky Lottery show strong growth in overall sales, led by iLottery instant play products. Daily draw game sales accounted for a significantly smaller portion of total sales, and multi-state draw games like Powerball and Mega Millions sales are slightly behind last year's levels due to large jackpots that bolstered prior year sales. Scratch-off tickets are still growing, but at a slower pace than iLottery and other online play.

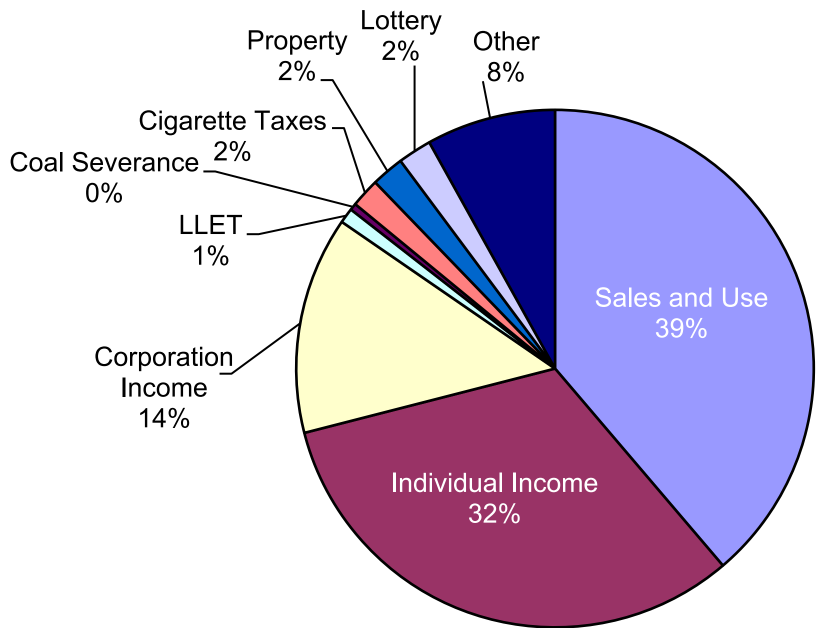
Cigarette taxes declined 6.8 percent in the first quarter with receipts of $70.1 million. This compares to $75.2 million collected in the first quarter of FY24.

After years of decline, coal severance tax collections experienced strong growth in Fiscal Years 2022 and 2023. Since then, revenues have steadily fallen. Revenues fell over 15 percent last year and declined 27.5 percent in the first quarter of FY25. Receipts were $16.4 million in the first quarter compared to $22.7 million in FY24.

The "Other" category represents the remaining accounts in the General Fund, and collections in this account increased 22.9 percent on the strength of investment interest income which was $33.4 million more than collected last year. Collections in the quarter were $310.8 million.

Figure 1 details the composition of first quarter General Fund receipts by tax type. Seventy-one percent of General Fund revenues were collected in the areas from the individual income and sales and use taxes. The next largest source of revenue was the combined corporation income and LLET taxes which made up 15 percent while the "Other" account contributed eight percent of the total. 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 FY25
General Fund Revenues



ROAD FUND

First quarter Road Fund receipts grew 3.6 percent over collections in the first quarter of FY24. While that is lower than the 6.9 percent growth for all of FY24, it should still be considered healthy growth given a significant decline in the motor fuels tax rate. Receipts for the quarter were $482.3 million, $16.7 million more than collected last year. Motor vehicle usage tax revenue accounted for $16.3 million of the increase. Investment income and "Other" receipts combined for an increase of $5.4 million. Declines in motor fuels and motor vehicle tax receipts offset the increases in collections.

The official Road Fund revenue estimate calls for a 2.6 percent decline in revenues in FY25. Based on year-to-date tax collections, revenues can fall 4.7 percent for the remainder of the year and still meet the estimate. Summary data are contained in Table 2 and detailed data are shown in the Appendix.

Table 7
Summary Road Fund Receipts
$ millions

	FY25 Q1	FY24 Q1	Diff $	Diff %
Motor Fuels	223.4	228.0	-4.6	-2.0
Motor Vehicle Usage	189.6	173.3	16.3	9.4
Motor Vehicle License	19.8	20.7	-0.9	-4.4
Motor Vehicle Operators	8.7	8.4	0.3	4.0
Weight Distance	22.3	22.1	0.3	1.2
Income on Investments	6.0	2.9	3.1	105.5
Other	12.5	10.2	2.3	22.6
Total	**482.3**	**465.6**	**16.7**	**3.6**

Motor fuels tax receipts fell 2.0 percent, or $4.6 million, during the quarter after growing 13.4 percent in FY24. The decline is primarily the result of a 2.1 cent per gallon statutory decline in the motor fuels tax rate. Receipts for the quarter were $223.4 million as compared to $228.0 million collected during the first quarter of last year.

Motor vehicle usage tax revenue rose 9.4 percent in the just completed quarter with collections of $189.6 million. Growth of 9.4 percent is the strongest quarterly increase since the third quarter of FY23 when collections rose 10 percent. This is significant considering collections in this account have seen annual increases in each of the past four years.

Motor vehicle license tax receipts fell 4.4 percent, or $0.9 million in the first quarter of FY25. Receipts in the quarter were $19.8 million compared to $20.7 million during the same period last year.

Motor vehicle operator's tax receipts were $8.7 million in the first quarter of FY25, a 4.0 percent increase compared to collections a year ago.

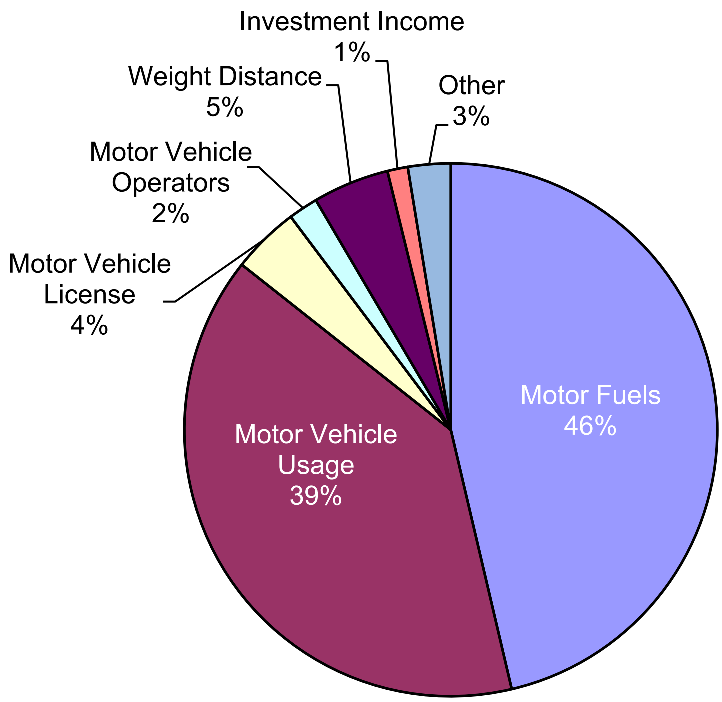
Weight distance tax receipts were $22.3 million in the quarter, a 1.2 percent increase compared to receipts collected during the first quarter of FY24.

Income on investments was $6.0 million in the quarter as favorable interest rates lead to the increase in receipts. Collections were $2.9 million in the first quarter of FY24.

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 $12.5 million, a 22.7 percent increase from FY24 levels. Just over $1 million of the increase came from the hybrid and electric car annual fee and the EV charging station tax.

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 85 percent of Road Fund revenues in the first quarter. The next largest source of revenue was the weight distance tax at five percent and the motor vehicle license tax at four percent. The "Other" category accounted for three percent while motor vehicle operators contributed two percent. Lastly, income on investments was one percent.

Figure 2
Composition of First Quarter FY25
Road Fund Revenues



THE ECONOMY
FIRST QUARTER FY25

NATIONAL ECONOMY

Real gross domestic product (real GDP) rose 2.5 percent in the first quarter of FY25 over the first quarter of FY24. The majority of the growth in the first quarter of FY25 came from real consumption, which contributed $425.4 billion in annual growth to real GDP over the last four quarters. Real GDP grew a net $567.1 billion in the first quarter compared to the first quarter of FY24. On an adjacent-quarter basis, real GDP grew 0.6 percent in the first quarter compared to the fourth quarter of FY24. This is the ninth consecutive quarter of growth for real GDP. The last four adjacent-quarter growth rates are: 0.8, 0.4, 0.7, and 0.6 percent, respectively.

Real consumption rose 2.8 percent in the first quarter of FY25. Real consumption growth has been modest and quite stable over the last five quarters. So while real consumption was not the fastest-growing component, it still contributed the most to the net increase in real GDP because of its size and share. See Table 8. Real consumption made up 68.9 percent of total real GDP in the first quarter of FY25.

Real investment increased by 3.8 percent in the first quarter of FY25 over the first quarter of FY24. Real investment growth tapered considerably in the first quarter, with growth falling to just a third of its fourth quarter growth rate. The last four adjacent-quarter growth rates are: 0.2, 1.1, 1.8, and 0.6 percent, respectively. Adjacent-quarter growth rates range from -2.8 to 2.4 percent in just a six quarter time period. This is not unusual even during an expansion period. Real investment is historically the most volatile of the five components of real GDP. Real investment made up 18.5 percent of real GDP in the first quarter of FY25.

Real government expenditures grew 2.4 percent in the first quarter of FY25. Real government expenditures has historically been a countercyclical series in real GDP. During expansions real government expenditures fall and during recessions real government expenditures rise. However, during the last four business cycles that relationship is no longer true. Now real government expenditures can best be described as acyclical. The rise and fall of real government expenditures is not coincident with the timing of the business cycle or real GDP growth. Currently real government expenditures have risen for the last nine consecutive quarters, a net gain of $295.8 billion, or 8.1 percent, during that time. Real government expenditures made up 17.1 percent of real GDP in the first quarter of FY25.

Real exports increased by 3.1 percent in the first quarter of FY25. Real exports have grown for five consecutive quarters. Real imports increased by 5.6 percent in the first quarter of FY25. Real imports have grown slightly faster than real exports and therefore the trade balance has worsened over the last five quarters. The trade deficit surpassed $1.0 trillion for just the fourth time in US history in the first quarter of FY25. The trade deficit for the first quarter was $1,044.8 billion. Real exports made up 11.2 percent of real GDP in the first quarter of FY25. Real imports (a deduction from real GDP) made up 15.7 percent of real GDP in the first quarter of FY25.

Inflation moderated in the first quarter of FY25 with 2.7 percent growth in the consumer price index (CPI) for all goods. See Table 8. This follows three consecutive quarters of 3.2 percent growth (annual rate). The CPI for food has experienced similar small declines with food inflation falling to 2.1 percent in the first quarter. The CPI for energy products exerted the most downward pressure on the overall CPI, by falling 1.9 percent in the first quarter of FY25. Core inflation (CPI for all goods less food and energy) fell from 3.4 percent in the fourth quarter of FY24 to 3.2 percent in the first quarter of FY25.

The US civilian labor force grew 0.6 percent in the first quarter of FY25 compared to the first quarter of FY24. The labor force is composed of two components, the employed and the unemployed. The employed category rose 0.1 percent in the first quarter of FY25 compared to the first quarter of FY24. Meanwhile, the unemployed category rose by 13.5 percent in the first quarter compared to last year. The total number of unemployed persons in the first quarter of FY24 was 6.3 million and it rose to 7.2 million in the first quarter of FY25, a net rise of 900,000 compared to last year. This is, historically-speaking, a large increase over a short timeframe.

US non-farm employment rose 1.5 percent in the first quarter of FY25. This is the seventeenth consecutive quarter of improvement for US non-farm employment. Eight supersectors gained employment in the first quarter of FY25, while three supersectors lost employment.

Educational services employment gained the most in both percentage and absolute terms. In the first quarter of FY25 compared to the same quarter last year, educational services gained 3.8 percent, or 1.0 million jobs. Educational services employment has grown 17 quarters in a row. Educational services employment grew a net 4.2 million jobs during that time.

Mining lost the most in percentage terms, losing 1.5 percent, or a loss of 10,000 jobs nationwide. Mining makes up 0.4 percent of total US non-farm employment. While both manufacturing employment and information services employment lost 0.1 percent in the first quarter of FY25 compared to the first quarter of last year.

US personal income rose 4.5 percent in the first quarter of FY25. On an adjacent-quarter basis, US personal income has hovered between 0.7 and 1.7 percent for the last seven quarters. This is very solid and steady growth. The last four adjacent-quarter growth rates are: 0.7, 1.7, 1.0, and 1.0 percent, respectively. All five contributing components of personal income rose in the first quarter of FY25.

Wages and salaries, the largest component of personal income, represents 51.6 percent of total personal income in the first quarter of FY25. US wages and salaries is poised to grow 4.7 percent in the final three quarters of FY25, compared to the same periods one year prior. The fastest-growing component of US personal income in the first quarter was transfer receipts income, which grew 6.5 percent compared to the first quarter last year. See Table 10. US transfer receipts made up 18.1 percent of total US personal income in the first quarter of FY25.

Table 8
History of US Economic Variables

	FY24								FY25	
	Q1	% chg	Q2	% chg	Q3	% chg	Q4	% chg	Q1	% chg
Real GDP ($ billions, AR)	22,490.7	2.9	22,679.3	3.1	22,758.8	2.9	22,924.9	3.1	23,057.8	2.5
Real Consumption	15,461.4	2.2	15,586.7	2.7	15,643.0	2.2	15,755.2	2.7	15,886.8	2.8
Real Investment	4,111.1	2.1	4,118.7	1.5	4,163.2	5.0	4,239.0	5.6	4,265.2	3.8
Real Government Expenditures	3,843.4	4.8	3,887.0	4.6	3,904.3	3.9	3,930.1	3.7	3,937.0	2.4
Real Exports	2,497.3	-0.4	2,528.2	1.8	2,538.1	0.5	2,548.0	3.4	2,574.8	3.1
Real Imports	3,428.0	-1.7	3,446.8	-0.1	3,498.4	1.1	3,558.2	4.9	3,619.6	5.6
CPI - All Goods (% chg)	3.6	NA	3.2	NA	3.2	NA	3.2	NA	2.7	NA
CPI - Food (% chg)	4.3	NA	3.0	NA	2.3	NA	2.2	NA	2.1	NA
CPI - Energy (% chg)	-5.8	NA	-3.9	NA	-1.4	NA	2.3	NA	-1.9	NA
Core CPI (% chg)	4.4	NA	4.0	NA	3.8	NA	3.4	NA	3.2	NA
Industrial Prod. Index (% chg)	-0.1	NA	-0.1	NA	-0.5	NA	0.2	NA	0.0	NA
Working Population (millions, NSA)	267.2	1.1	267.8	1.2	267.7	0.6	268.3	0.6	0.0	0.0
Civilian Labor Force	168.0	1.9	167.5	1.9	167.2	0.7	168.0	0.6	0.0	0.0
Employed	161.7	1.7	161.5	1.6	160.4	0.5	161.6	0.2	0.0	0.0
Unemployed	6.3	6.0	5.9	8.2	6.8	7.8	6.5	12.6	0.0	0.0
Not in Labor Force	99.2	-0.1	100.3	0.1	100.5	0.4	100.2	0.6	0.0	0.0
Labor Force Participation Rate (%)	62.7	NA	62.6	NA	62.6	NA	62.6	NA	0.0	NA
Unemployment Rate (%)	3.7	NA	3.8	NA	3.8	NA	4.0	NA	4.2	NA
Housing Starts (millions, AR)	1.4	-5.5	1.5	5.8	1.4	2.8	1.3	-7.9	1.3	-4.5

Table 9
US Federal Outlays
$ billions, AR

	First Quarter			
	FY25	**FY24**	**Chg**	**% Chg**
Federal Outlays excl. Gross Investment	6,701.4	6,400.4	301.0	4.7
National Defense	817.9	789.1	28.8	3.6
Non-Defense Consumption	585.5	557.2	28.2	5.1
Federal Transfer Payments to Resident Persons	3,120.7	2,930.1	190.6	6.5
Medicare	1,003.2	946.3	56.9	6.0
Social Security	1,452.6	1,361.3	91.3	6.7
Social Insurance to Rest of the World	40.0	32.2	7.8	24.0
Grants-in-Aid to State & Local Govts	880.0	918.5	-38.5	-4.2
Medicaid	600.0	590.9	9.1	1.5
Non-Medicaid Grants to State & Local Govts	280.0	327.6	-47.6	-14.5
Aid to Foreign Govts	50.0	87.4	-37.4	-42.8
Interest on the Debt	1,113.3	981.3	132.0	13.5
Subsidies	94.0	102.4	-8.4	-8.2

Table 10
History of US Labor and Income Data

	FY24								FY25	
	Q1	**% chg**	**Q2**	**% chg**	**Q3**	**% chg**	**Q4**	**% chg**	**Q1**	**% chg**
Non-farm Employment (millions, NSA)	156.4	2.1	157.1	1.9	157.8	1.8	158.4	1.7	158.8	1.5
Goods-producing	21.6	1.6	21.7	1.3	21.8	1.2	21.8	1.1	21.8	0.9
Mining	0.6	5.1	0.6	2.9	0.6	1.4	0.6	-0.9	0.6	-1.5
Construction	8.0	3.1	8.1	3.1	8.2	3.0	8.2	2.9	8.3	2.8
Manufacturing	12.9	0.5	12.9	0.1	13.0	0.2	13.0	0.1	12.9	-0.1
Service-providing	111.9	2.0	112.3	1.8	112.8	1.7	113.3	1.6	113.6	1.5
Trade, Transportation & Utilities	28.9	0.4	28.9	0.5	28.9	0.4	29.0	0.6	29.0	0.6
Information	3.0	-2.8	3.0	-3.3	3.0	-1.2	3.0	-1.1	3.0	-0.1
Finance	9.2	1.5	9.2	1.0	9.2	0.9	9.2	0.5	9.3	0.4
Business Services	22.9	1.0	22.9	0.6	22.9	0.7	23.0	0.5	23.0	0.5
Educational Services	25.5	4.1	25.7	4.2	26.0	4.2	26.3	4.2	26.4	3.8
Leisure and Hospitality Services	16.7	4.3	16.8	3.6	16.8	2.7	16.9	2.2	17.0	1.8
Other Services	5.8	2.3	5.9	1.8	5.9	1.7	5.9	1.7	5.9	1.1
Government	22.8	2.6	23.0	3.0	23.2	2.9	23.3	2.5	23.3	2.2
Personal Income ($ billions, AR)	23,085.7	4.8	23,247.5	4.4	23,644.3	4.4	23,877.9	4.4	24,122.0	4.5
Wages and Salaries	11,917.5	5.7	11,976.0	5.8	12,138.9	5.0	12,290.0	4.7	12,443.3	4.4
Transfer Receipts	4,093.7	2.8	4,086.8	0.3	4,248.8	3.6	4,317.6	4.8	4,359.7	6.5
Dividends, Interest, and Rents	4,580.9	5.4	4,655.4	5.0	4,723.4	4.4	4,723.2	3.5	4,742.0	3.5
Supplements to Wages and Salaries	2,451.2	4.9	2,472.1	4.8	2,506.0	4.4	2,530.7	4.5	2,556.9	4.3
Proprietors' Income	1,859.6	2.9	1,882.6	3.1	1,890.4	3.4	1,900.4	4.2	1,920.9	3.3
Social Insurance	1,817.1	5.3	1,825.5	5.3	1,863.2	5.0	1,884.0	5.0	1,900.8	4.6
Residential Adjustment	0.0	NA	0.0	NA	0.0	NA	0.0	NA	0.0	NA

KENTUCKY ECONOMY

Kentucky non-farm employment rose 1.2 percent in the first quarter of FY25 compared to the first quarter of FY24 and is forecasted to rise 1.1 percent in FY25. Kentucky non-farm employment has risen for 17 consecutive quarters. Kentucky non-farm employment is composed of 11 supersectors. Six supersectors gained jobs in the first quarter of FY25 and five supersectors lost jobs in the first quarter.

Educational services employment was the largest gainer of jobs in both absolute and percentage terms, gaining 12,000 jobs, or 3.9 percent in the first quarter of FY25 compared to the first quarter of FY24, but slightly declined from the fourth quarter of FY24. This ended nine consecutive quarters of job growth in educational services employment in Kentucky. Employment in this sector is forecasted to grow 2.2 percent in FY25. The last four adjacent-quarter growth rates are: 1.1, 1.3, 2.0, and -0.5 percent, respectively. Educational services employment is the third largest supersector and made up 15.4 percent of total Kentucky non-farm employment in the first quarter of FY25.

The largest declining sector on a percentage basis in the first quarter of FY25 was information services employment, which lost 3.7 percent, or 900 jobs, compared to the first quarter of FY24. Information services employment made up 1.1 percent of total non-farm employment in Kentucky in the first quarter.

The largest declining sector on an absolute basis in the first quarter of FY25 was manufacturing employment, which lost 1,800 jobs, or 0.7 percent, compared to the first quarter of FY24. Employment in this sector is forecasted to decline by -0.5 percent in FY25. The annual growth rates, however, mask a very different story at the quarterly level. A close look at the adjacent-quarter growth rates shows that the losses in manufacturing employment occurred entirely in the second, third, and fourth quarters of FY24, and not in the first quarter of FY25. Adjacent-quarter growth rates for the last four quarters are: -0.5, -0.1, -0.1, and 0.03 percent, respectively. So, while manufacturing employment has declined in four of the last 11 quarters, the manufacturing sector has gained jobs during that time. Over the last three years, manufacturing employment has risen a net 4.3 percent, or 10,500 jobs. Manufacturing employment made up 12.5 percent of total non-farm employment in Kentucky in the first quarter.

Kentucky personal income rose 3.8 percent in the first quarter of FY25. It is forecasted to grow by 4.2 percent in FY25. On an adjacent-quarter basis, Kentucky personal income has risen for the last three consecutive quarters with tapering growth rates in each quarter. All five contributing components of personal income rose during the first quarter of FY25.

Kentucky wages and salaries grew by $4.0 billion, or 3.2 percent, in the first quarter of FY25 compared to the first quarter of FY24. For FY25, Kentucky wages and salaries are forecasted to grow by 4.1 percent. Kentucky wages and salaries has increased for three consecutive quarters. The last four adjacent-quarter growth rates are: -0.6, 1.1, 1.9, and 0.9 percent, respectively. Despite the two declining quarters, Kentucky wages and salaries has been trending up for the last three years. Kentucky wages and salaries made up 49.9 percent of total Kentucky personal income in the first quarter of FY25.

The fastest-growing component of Kentucky personal income was transfer receipts income, which grew by 6.5 percent, or a net $4.0 billion, in the first quarter of FY25 compared to the first quarter of FY24. Transfer receipts are forecasted to grow by 5.8 percent in FY25. On an adjacent-quarter basis, transfer receipt income has grown for the last three consecutive quarters. The last four adjacent-quarter growth rates are: -0.3, 4.9, 0.8, and 1.0 percent, respectively. Transfer receipts income made up 25.5 percent of total Kentucky personal income in the first quarter of FY25.

Table 11
History of KY Labor and Income Data

	FY24								FY25	
	Q1	% chg	Q2	% chg	Q3	% chg	Q4	% chg	Q1	% chg
Non-farm Employment (thousands, NSA)	2,021.2	2.2	2,023.4	1.6	2,028.0	1.0	2,042.0	1.3	2,045.4	1.2
Goods-producing	356.1	2.7	355.6	2.1	355.7	1.4	358.2	1.0	356.7	0.2
Mining	8.6	2.9	8.7	2.8	9.0	3.1	9.2	6.5	8.5	-0.6
Construction	90.1	7.1	90.8	6.5	90.7	3.1	93.4	5.1	92.5	2.7
Manufacturing	257.5	1.2	256.2	0.6	256.0	0.7	255.6	-0.6	255.7	-0.7
Service-providing	1,356.4	1.8	1,356.0	1.2	1,359.7	0.5	1,371.2	1.3	1,372.6	1.2
Trade, Transportation & Utilities	427.3	0.3	426.7	-0.1	425.0	-0.6	426.3	-0.4	427.3	0.0
Information	23.2	4.6	22.6	-0.9	22.7	-1.7	22.3	-3.9	22.3	-3.7
Finance	96.7	0.1	96.3	0.3	95.3	-2.1	95.6	-1.4	96.7	-0.1
Business Services	230.1	-0.1	226.8	-1.2	227.3	-1.1	231.0	0.3	229.5	-0.3
Educational Services	303.6	4.2	307.0	4.1	311.1	3.8	317.3	5.5	315.6	3.9
Leisure and Hospitality Services	203.4	2.8	204.5	2.1	205.8	0.8	205.6	1.2	208.6	2.6
Other Services	72.0	5.5	72.2	4.1	72.5	2.1	73.1	2.2	72.6	0.9
Government	308.6	3.5	311.7	3.1	312.6	2.6	312.5	1.8	316.0	2.4
Personal Income ($ billions, AR)	247.4	5.2	247.3	4.6	252.1	4.0	254.8	4.4	256.8	3.8
Wages and Salaries	124.2	7.1	123.4	6.5	124.8	3.7	127.1	5.3	128.2	3.2
Transfer Receipts	61.6	3.6	61.4	2.7	64.4	5.8	64.9	4.8	65.6	6.5
Dividends, Interest, and Rents	39.7	3.4	40.2	3.5	40.6	3.3	40.5	2.1	40.5	2.2
Supplements to Wages and Salaries	28.9	5.7	28.8	5.1	29.1	2.7	29.5	4.4	29.8	3.1
Proprietors' Income	17.4	3.2	17.6	2.5	17.6	2.1	17.7	3.7	17.9	2.7
Social Insurance	19.8	6.4	19.7	5.9	20.0	3.6	20.3	5.0	20.5	3.5
Residential Adjustment	-4.6	NA	-4.4	NA	-4.5	NA	-4.7	NA	-4.8	NA

APPENDIX

General Fund and Road Fund Revenue Receipts

FIRST QUARTER FY25

Kentucky State Government – General Fund

	First Quarter FY 2025	First Quarter FY 2024	% Change
TOTAL GENERAL FUND	**$3,849,614,558**	**$3,800,334,002**	**1.3%**
Tax Receipts	**$3,647,699,375**	**$3,631,914,274**	**0.4%**
Sales and Gross Receipts	$1,716,586,815	$1,684,897,920	1.9%
Beer Consumption	1,621,068	1,678,098	-3.4%
Beer Wholesale	19,414,978	19,465,425	-0.3%
Cigarette	70,123,416	75,221,108	-6.8%
Distilled Spirits Case Sales	60,385	57,415	5.2%
Distilled Spirits Consumption	4,908,868	3,832,755	28.1%
Distilled Spirits Wholesale	18,381,586	15,117,032	21.6%
Insurance Premium	52,625,539	44,436,557	18.4%
Pari-Mutuel	10,159,638	7,705,184	31.9%
Race Track Admission	0	0	---
Sales and Use	1,492,258,331	1,473,425,531	1.3%
Wine Consumption	703,885	650,771	8.2%
Wine Wholesale	4,580,531	4,113,527	11.4%
Telecommunications Tax	19,626,681	17,658,177	11.1%
Other Tobacco Products	10,586,125	10,585,805	0.0%
Floor Stock Tax	72	921	-92.2%
Car Rental & Ride Sharing	11,535,712	10,949,614	5.4%
Natural Resources	**$27,013,276**	**$32,511,020**	**-16.9%**
Coal Severance	16,443,631	22,670,714	-27.5%
Oil Production	1,542,344	1,352,098	14.1%
Minerals Severance	8,535,787	7,286,131	17.2%
Natural Gas Severance	491,514	1,202,077	-59.1%
Individual Income Tax	**$1,241,028,096**	**$1,505,157,171**	**-17.5%**
Withholding	1,078,413,583	1,210,422,699	-10.9%
Declarations	74,190,635	95,647,599	-22.4%
Net Returns	(33,829,854)	15,230,809	---
Fiduciary	(1,229,348)	(3,508,257)	---
Pass-Through Entity Tax	123,483,079	187,364,320	-34.1%
Major Business Taxes	**$559,388,430**	**$322,343,877**	**73.5%**
Corporation Income	523,162,414	256,599,244	103.9%
LLET	36,226,015	65,744,633	-44.9%
Property	**$78,561,847**	**$70,740,687**	**11.1%**
General - Real	239,619	556,338	-56.9%
General - Tangible	15,427,142	13,031,139	18.4%
Tangible - Motor Vehicle	46,617,137	44,438,521	4.9%
Omitted & Delinquent	5,543,570	3,960,777	40.0%
Public Service	7,562,015	7,836,034	-3.5%
Other	3,172,364	917,877	245.6%
Inheritance Tax	**$25,536,763**	**$17,359,775**	**47.1%**
Miscellaneous	**($415,851)**	**($1,096,175)**	**---**
License and Privilege	$515,939	$528,222	-2.3%
Bank Franchise	($189,319)	($741,792)	---
Legal Process	2,343,202	2,208,667	6.1%
T. V. A. In Lieu Payments	(3,092,040)	(3,091,272)	---
Other	6,368	0	---
Nontax Receipts	$200,956,074	$167,571,995	19.9%
Departmental Fees	3,271,241	3,142,459	4.1%
PSC Assessment Fee	10,875,624	11,086,672	-1.9%
Fines & Forfeitures	4,897,395	5,350,783	-8.5%
Income on Investments	102,167,158	68,794,752	48.5%
Lottery	81,000,000	78,000,000	3.8%
Miscellaneous	(1,255,345)	1,197,329	---
Redeposit of State Funds	**$959,110**	**$847,733**	**13.1%**

Kentucky State Government – Road Fund

	First Quarter FY 2025	First Quarter FY 2024	% Change
TOTAL STATE ROAD FUND	**$482,268,721**	**$465,565,841**	**3.6%**
Tax Receipts-	**$466,362,740**	**$454,765,043**	**2.6%**
Sales and Gross Receipts	**$413,152,555**	**$401,376,591**	**2.9%**
Motor Fuels Taxes	223,436,353	228,049,923	-2.0%
Motor Vehicle Usage	189,587,182	173,326,668	9.4%
EV Charging Station Tax	129,019	0	---
License and Privilege	**$53,210,185**	**$53,388,452**	**-0.3%**
Motor Vehicles	19,766,564	20,671,582	-4.4%
Motor Vehicle Operators	8,696,335	8,362,749	4.0%
Weight Distance	22,342,071	22,086,349	1.2%
Truck Decal Fees	44,940	46,800	-4.0%
Other Special Fees	2,360,275	2,220,972	6.3%
Nontax Receipts	**$15,576,507**	**$9,448,062**	**64.9%**
Departmental Fees	7,279,110	5,082,529	43.2%
In Lieu of Traffic Fines	43,440	45,060	-3.6%
Income on Investments	5,975,044	2,906,950	105.5%
Miscellaneous	1,249,433	1,413,523	-11.6%
Hybrid/Electric Annual Fee	1,029,480	0	---
Redeposit of State Funds	**$329,474**	**$1,352,736**	**-75.6%**

An electronic version of this report is available for viewing and downloading in PDF format at the Office of the State Budget Director's web site. To access this report, set your browser to http://www.osbd.ky.gov.

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, September 12, 2024 data release.

Table 4
Not Seasonally Adjusted. Data for FY25 are September 2024 estimates.
Source: IHS Markit - Economics & Country Risk, September 12, 2024 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 FY25 Q1 are September 2024 estimates.
Source: IHS Markit - Economics & Country Risk, September 12, 2024 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, September 2024.

Table 10
Seasonally Adjusted. Data for FY25 Q1 are September 2024 estimates.
Source: IHS Markit – Economics & Country Risk, September 12, 2024, data release.