

Commonwealth of Kentucky

Quarterly Economic & Revenue Report

Third Quarter Fiscal Year 2025



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

Celebrating 100 Years of Kentucky State Parks





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June 6, 2025

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. Zach Ramsey, Director
Administrative Office of the Courts
1001 Vandalay Drive
Frankfort, Kentucky 40601

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

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 third quarter of fiscal year 2025 (FY25).

This report includes the actual revenue receipts and economic conditions for the third quarter and an unofficial forecast for the final quarter of FY25 and the first two quarters of FY26 (the forecast horizon). The report also provides an outlook for the national and state economies that provided the inputs into the revenue models.

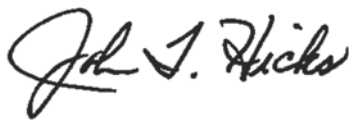


When combining the actual revenue receipts for the first three quarters of FY25 with the interim forecast for the fourth quarter, the interim forecast for FY25 is General Fund revenues of \$15,562.1 million. This level of revenues would be a 0.1 percent decrease compared to FY24. Revenue receipts at this level are \$9.8 million below the official estimate rendered in December of 2023 and modified by the General Assembly in 2024 and 2025. The interim estimates in this report represent a small downward revision compared to the interim estimates from the second quarter quarterly report. The downward shift relative to the second quarter came primarily from small downward revisions to the corporate taxes and sales & use accounts.

Combining the first three quarters of actual receipts with the interim forecast for the fourth quarter, the interim forecast for FY25 for the Road Fund revenues is \$1,844.7 million. This is a decrease of 1.6 percent compared to FY24 revenues. The drop in revenues from last year is almost entirely due to a decline in motor fuels tax receipts. Motor fuels receipts have fallen in each of the first three quarters of this fiscal year (-2.0 percent, -8.1 percent, and -12.4 percent, respectively). This decline in motor fuels receipts was expected and is mostly due to a reduction of 2.1 cents per gallon in the tax rate on motor fuels.

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

Sincerely,

A handwritten signature in black ink, reading "John T. Hicks". The signature is written in a cursive, flowing style with a large initial "J".

John T. Hicks
State Budget Director

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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 third quarter of fiscal year 2025 (FY25). This report includes the actual revenue receipts for the third quarter and an unofficial forecast for the fourth quarter of FY25 and the first half of FY26 (the forecasting 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 unofficial interim forecasts for the General Fund and Road Fund are presented in Table 1 and Table 2. These unofficial estimates were projected using the March 2025 “control scenario” economic forecast from both S&P Global and the Kentucky MAK model as the primary inputs into the account-specific revenue models. S&P Global has placed a 50 percent probability on their "control scenario" as being the most likely economic outcome, relative to the pessimistic (25 percent) and optimistic (25 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 unofficial interim estimate for the General Fund has been revised downward from a projected 1.6 percent increase in FY25 in the prior report to a 0.1 percent predicted decrease for FY25 in the current outlook. The \$254.3 million downward revision in the FY25 General Fund outlook is largely attributable to weakness in the third quarter of FY25, where General Fund receipts fell 2.3 percent. The current interim forecast is nearly identical to the official enacted estimates rendered in December 2023 as modified by the General Assembly. Currently, both the individual income tax and sales & use tax interim forecasts are below the official forecast, while the corporation income tax, LLET, and "other" interim forecasts are above the official forecast.

Projected General Fund Growth for the Forecast Horizon

The current enacted estimate for FY25 of \$15,571.9 million was established by the Consensus Forecasting Group in December 2023 and modified during the 2024 and 2025 regular sessions of the Kentucky General Assembly. Table 1 displays the interim forecast for the remainder of FY25 in comparison to the enacted estimates, as well as a look ahead to the first half of FY26. When combining the first three quarters of actual receipts from FY25 with the fourth quarter of projected revenue, the interim forecast predicts FY25 General Fund revenue of \$15,562.1 million, or a 0.1 percent decline compared to FY24. Collections at this level would result in \$9.8

million less revenue than the \$15,571.9 million enacted estimate for FY25. Revenue during the first half of FY26 is expected to drop 2.3 percent, as the individual income tax and major business taxes decline to completely offset projected increases in the sales tax, property taxes, and the “other” category of accounts.

Projected Road Fund Growth for the Forecast Horizon

The FY25 Road Fund interim forecast is \$19.7 million more than the official revenue estimate. Motor vehicle usage tax revenues are expected to exceed the official estimate by almost \$65 million while motor fuels revenues are forecasted to be \$34 million short of the official estimate. Road Fund revenues have declined 0.6 percent year-to-date but were forecasted to decline 2.6 percent in the official estimate. After increasing in the first quarter, Road Fund revenues have declined in both the second and third quarters. Collections are forecasted to continue to decline through the end of the year before showing growth over the first six months of FY26. Most of the year-to-date revenue decline is concentrated in the motor fuels account which had a 7.6 percent decline in tax rate and brought in nearly \$50 million less than last year. On the positive side, motor vehicle usage tax collections have increased by \$31 million.

Outlook for Major Economic Components

Real GDP is expected to grow 2.0 percent in the fourth quarter of FY25 followed by 1.6 percent growth in the first half of FY26. Adjacent-quarter growth rates over the forecast horizon are the lowest since the fourth quarter of FY22. Adjacent-quarter growth in the forecast for real consumption will be muted at 0.5, 0.4, and 0.5 percent, respectively with all three quarters well below the post-recession average of 1.4 percent. S&P Global cites consumer uncertainty as one potential reason for the weak anticipated growth in real consumption.

Inflation is expected to be 3.1 percent during the fourth quarter of FY25, with an uptick to 3.4 percent in first half of FY26 due in part to price pressures stemming from actual and projected tariffs and counter-tariffs. Beyond the direct effect on consumers, inflation – and the expectations for future inflation – influence policy decisions of the Federal Reserve regarding interest rates through the setting of the federal funds rate. Higher interest rates have a dampening effect on consumption and business planned investment.

Kentucky wage and salaries is projected to grow 4.8 percent during the fourth quarter of FY25 and 4.6 percent in the first half of FY26, both slightly exceeding the growth rate of personal income.

Kentucky personal income growth is expected to be 4.4 percent for the fourth quarter of FY25, same as the US personal income. Kentucky wages and salaries growth for the fourth quarter of FY25 is higher than the US wages and salaries growth. For both the US and Kentucky, the wages and salaries forecasts for the fourth quarter of FY25 is an acceleration of growth compared to the last three quarters. Growth for each quarter of the forecast horizon for Kentucky wages and salaries is expected to be more constant than the volatility experienced in the last six quarters.

Summary of Third Quarter Tax Receipts

After posting modest growth in the first two quarters of the fiscal year, General Fund revenues declined 2.3 percent in the third quarter as the two largest accounts, individual income taxes and sales and use, had decreases. Receipts were \$3,450.7 million, \$80.1 million less than what was received in the third quarter of FY24. Sales and use, and the individual income tax together brought in \$150.8 million less than in the same period last year. On the positive side, the corporation income tax brought in \$112.5 million more than in the previous year. General Fund revenues have now grown 0.4 percent through the first nine months of the year.

Total Road Fund receipts declined for the second consecutive quarter after increasing in the first quarter of FY25. Total receipts received in the third quarter were \$438.2 million compared to last year's third quarter total of \$447.9 million. While only three of the seven accounts had revenue declines in the quarter, a large decrease in motor fuels receipts due to a lower tax rate offset the relatively small increases in the growing accounts. Year-to-date Road Fund collections are down 0.6 percent. Even with the quarterly declines, Road Fund revenues are on pace to meet the official estimate.

Summary of the Economy for the Third Quarter of FY25

Real GDP rose 2.5 percent in the third quarter of FY25. US personal income grew 4.2 percent in the third quarter of FY25. US personal income growth was led by transfer receipts income which grew 6.3 percent in the third quarter of FY25. US non-farm employment increased 1.2 percent in the third quarter of FY25. US employment growth was led by educational services employment, which rose by 3.6 percent in the third quarter.

Kentucky personal income grew by 3.9 percent in the third quarter of FY25. Kentucky personal income growth was led by transfer receipts income, which grew by 5.5 percent in the third quarter of FY25. Kentucky non-farm employment grew 1.2 percent in the third quarter of FY25. Growth among the sectors was very mixed; the fastest growing employment sector in Kentucky was educational services employment, which grew 4.2 percent in the third quarter of FY25.

REVENUE & ECONOMIC OUTLOOK

GENERAL FUND

Pursuant to KRS 48.400(2), the state budget director shall report to the head of each branch budget the actual revenue receipts from the just-concluded quarter, as well as the projected revenue receipts for the next three fiscal quarters. In accordance with this statute, the General Fund outlook is reported on Table 1 and the Road Fund outlook is displayed on Table 2. Both forecasts were projected using the March 2025 “control scenario” economic forecast from both S&P Global and the Kentucky MAK model as the primary inputs. S&P Global has placed a 50 percent probability on their control or baseline scenario as being the most likely economic outcome, relative to the pessimistic (25 percent) and optimistic (25 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 from the fourth quarter of FY25 through the second quarter of FY26 (the forecasting horizon).

Table 1
General Fund Interim Outlook
\$ millions

	FY25						FY25		FY26	
	Q1, Q2, & Q3		Q4		Full Year		Official		Q1 & Q2	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	\$ Diff	Estimate	% Chg
Individual Income	3,690.6	-11.7	1,553.1	-4.5	5,243.8	-9.7	5,546.3	-302.5	2,359.6	-3.8
Sales & Use	4,308.6	-0.6	1,502.7	2.4	5,811.3	0.1	6,080.1	-268.8	3,014.7	2.6
Corp. Inc. & LLET	1,173.7	81.7	575.5	-4.6	1,749.2	40.0	1,327.8	421.4	825.3	-17.9
Property	739.9	1.8	91.8	13.1	831.7	2.9	837.2	-5.5	553.0	3.7
Lottery	269.0	3.6	81.7	-2.8	350.7	2.1	350.7	0.0	181.3	1.0
Cigarettes	179.8	-10.6	67.1	-3.1	246.9	-8.7	249.5	-2.6	117.8	-7.6
Coal Severance	48.1	-18.2	11.8	-38.1	59.9	-23.1	65.4	-5.5	18.9	-45.8
Other	915.2	5.7	353.5	2.1	1,268.6	4.7	1,114.9	153.7	622.5	3.4
General Fund	11,324.8	0.4	4,237.2	-1.4	15,562.1	-0.1	15,571.9	-9.8	7,693.0	-2.3

When combining the first three quarters of actual receipts from FY25 with the fourth quarter of projected revenue, the interim forecast predicts FY25 General Fund revenue of \$15,562.1 million, or a 0.1 percent decline compared to FY24. Collections at this level would result in \$9.8 million less than the \$15,571.9 million enacted estimate for FY25. Broadly speaking, year-to-date revenues and the forecast for the fourth quarter are the result of expected decreases in the individual income tax due to tax law changes and slower FY25 growth in the sales tax. These two declining or flat revenue sources are partially offset by projected strength in the major business taxes as well as the group of revenue accounts in the “other” category.

General Fund revenue collections grew 0.4 percent in the first three quarters of FY25. The majority of that increase came from the major business taxes, which rose by \$527.6 million. A decline in individual income tax revenue offset most 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 \$490.3 million.

Due to ongoing legislative tax policy changes, **individual income tax** receipts are projected to fall 4.5 percent in the fourth quarter of FY25 after declining 11.7 percent year-to-date. Full-year FY25 receipts for the individual income tax are projected to be \$5,243.8 million, or \$302.5 million less the enacted estimate. The official forecast and this interim forecast both implemented the tax rate reduction from 4.5 percent to 4.0 percent for tax year 2024. While that rate change created the largest overall drop in the individual income tax, the largest alteration from the official forecast is due to the pass-through entity tax (PTET), which has created unforeseen timing issues regarding payments and credits in FY24 and FY25. The result is that substantial PTET credits from prior tax years continue to be taken in FY25 and cause a significant reduction to individual income tax receipts for the fiscal year. The first half of FY26 completes the forecasting horizon for this report. Receipts are expected to decline 3.8 percent with collections of \$2,359.6 million.

Regarding the timing of the PTET credits, 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 at the entity level. However, the payment of the PTET by the entity and the use of the credit by the individual owners and members do not happen simultaneously. In FY24, pass-through entities paid in \$791.9 million attributable to the pass-through entity tax. Individuals earned and used approximately \$500 million in available credits in FY24. That left these taxpayers with nearly \$290 million in outstanding PTET credits available to them in FY25 or beyond. 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. When the official estimates from the Consensus Forecasting Group (CFG) were rendered in December 2023, this timing issue associated with the credit was not known and explains a large portion of the \$302.5 million gap between the interim estimate and the enacted estimate.

Sales and use tax receipts have fallen 0.6 percent through the first nine months of FY25 but are expected to increase 2.4 percent in the fourth quarter. Third quarter collections in the sales tax slid 2.9 percent and second quarter receipts declined 0.3 percent. Overall collections in this account have continued a cooling-off period following the rapid growth experienced during FY21 to FY23 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. The 2.4 percent growth projected for the fourth quarter of FY25 is partly attributable to weak fourth quarter receipts in FY24, where receipts were flat compared to FY23. In addition to the low base from

the prior year, inflation can cause sales tax receipts to increase because higher prices on taxable items lead to more sales tax being collected on the same market basket of goods. Sales tax growth at the projected level will lead to FY25 collections of \$5,811.3 million, an amount \$268.8 million lower than the official estimate. The first half of FY26 is projected to produce growth of 2.6 percent, very close to the expected performance during the fourth quarter of FY25.

Major business taxes (corporation income tax plus the LLET) grew 81.7 percent through the first three quarters of FY25 on the strength of unexpected increases in declaration payments. Collections through the first nine months equaled \$1,173.7 million – far and away the highest start to a fiscal year heading into the fourth quarter. Major business tax receipts are expected to decline in the fourth quarter by 4.6 percent but still produce receipts of \$575.5 million. Fourth quarter collections are always the highest of the fiscal year since calendar-year filers make two declaration payments (April and June) during that quarter. If the major business taxes achieve the FY25 unofficial interim estimate, they will exceed the official estimate by \$421.4 million. Major business taxes are projected to decline by 17.9 percent during the first half of FY26 due to the unusually high base from FY25. 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 1.8 percent in the first three quarters of FY25, but the remainder of FY25 is expected to rise by 13.1 percent resulting in an annual rate of growth of 2.9 percent. The highest two quarters of property tax revenue are normally collected in the second and third quarters of the fiscal year. Timing differences in billing and payments often alter the balance between the two highest quarters, so the high projected growth in the fourth quarter does not influence the FY25 growth rate as much as prior quarters. Collections of \$91.8 million in the fourth quarter will bring the annual total up to \$831.7 million, or \$5.5 million less than the official estimate of \$837.2 million. Growth of 3.7 percent is called for in the first half of FY26 to complete the forecasting horizon.

Kentucky Lottery dividends grew 3.6 percent through the first nine months of the fiscal year but are expected to fall 2.8 percent during the final quarter of the fiscal year. The expected drop occurs because lottery dividend payments to the General Fund are capped by the FY24-FY26 budget bill (HB 6), which diverts any lottery receipts greater than \$350,679,200 to a trust and agency account awaiting future appropriations.

Cigarette taxes are collected at the rate of \$1.10 per pack. Collections in the first three quarters of FY25 fell 10.6 percent. Cigarette tax receipts continued their downward march falling 9.6 percent in FY24 after declining 7.8 percent in FY23. The FY25 decline is projected to be 8.7 percent. Smoking rates have continued to fall and the number of cigarettes per smoker has also decreased. The interim outlook projects a further decrease of 7.6 percent in the first half of FY26, suggesting that additional losses in cigarette stamp sales are expected going forward.

The **coal severance tax** fell 19.4 percent in FY24 after substantial growth rates in the prior two fiscal years. The downward trend has continued into FY25 with a decline of 18.2 percent through the first three quarters. The forecast calls for 38.1 percent decline over the remainder of the year with a year-end projected decrease of 23.1 percent in collections. Coal severance collections of \$59.9 million would be \$5.5 million less than the official estimate.

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 on investments are the five largest ongoing account categories. Overall receipts in the “other” category are forecasted to grow 4.7 percent for the year, largely due to the 5.7 percent increase year-to-date in FY25. Revenues at the projected levels will produce FY25 total receipts of \$1,268.6 million, which would be \$153.7 million more than the official estimate. The “other” receipts, along with major business taxes, are the largest two sources of revenues which are in excess of the official estimates.

Income from investments, while not a longstanding source of significant perennial income in the “other” revenues, 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 \$245.5 million through the first nine months of FY25, income on investments is expected to be \$324.3 million in FY25. The pace of collections going forward is expected to be higher than projected in the official estimates, as both investable balances and interest rates remain higher than was anticipated when the forecast was originally prepared.

ROAD FUND

Through the first nine months of FY25, Road Fund revenues have declined 0.6 percent. After growing 3.6 percent in the first quarter, revenues fell 3.3 percent in the second quarter and fell an additional 2.2 percent in third quarter. Collections are forecasted to continue to decline through the end of the year before showing growth over the first six months of FY26. Year-to-date revenues are \$7.8 million less than what was collected last year. Most of the revenue decline is concentrated in the motor fuels account which brought in nearly \$50 million less than last year, mostly due to a 2.3 cents per gallon tax reduction. On the positive side, motor vehicle usage tax collections have increased by \$31 million year-to-date.

Table 2
Road Fund Interim Outlook
\$ millions

	FY25						FY25		FY26	
	Q1, Q2, & Q3		Q4		Full Year		Official		Q1 & Q2	
	Actual	% Chg	Estimate	% Chg	Estimate	% Chg	Estimate	\$ Diff	Estimate	% Chg
Motor Fuels	620.4	-7.4	212.2	-9.8	832.6	-8.0	866.8	-34.2	421.9	-2.5
Motor Vehicle Usage	524.4	6.3	190.5	7.2	714.9	6.5	650.1	64.8	385.8	8.5
Motor Vehicle License	70.1	-1.2	48.7	0.2	118.8	-0.6	128.1	-9.3	37.1	1.8
Motor Vehicle Operators	24.3	0.6	8.6	0.9	32.9	0.6	32.0	0.9	17.1	0.8
Weight Distance	65.5	0.3	20.3	-5.4	85.8	-1.1	89.7	-3.9	44.9	1.1
Income on Investments	13.7	47.5	2.4	-54.4	16.1	10.1	9.5	6.6	2.3	-74.0
Other	38.4	22.4	5.3	-60.1	43.6	-2.0	48.8	-5.2	23.1	-2.9
Road Fund	1,356.7	-0.6	488.0	-4.3	1,844.7	-1.6	1,825.0	19.7	932.2	1.5

The FY25 full-year interim forecast is \$19.7 million more than the official revenue estimate. Motor vehicle usage tax revenues are expected to exceed the official estimate by almost \$65 million while motor fuels revenues are forecasted to be \$34 million short of the official estimate. It should be noted that while the official revenue forecast is an average of the control, optimistic and pessimistic economic scenarios, the forecast presented in this publication is based solely on the control scenario.

Motor fuels tax collections have not only declined in each quarter of the fiscal year, but the percentage decline has also gotten larger. The drop-off in collections is largely due to a decline in the tax rate. Revenues are expected to fall 9.8 percent in the final quarter of the year and decrease 2.5 percent over the first half of FY26.

Motor vehicle usage tax collections have been solid this year with revenues increasing 6.3 percent year-to-date. The forecast calls for a 7.2 percent rate of growth in the final quarter of the year and an 8.5 percent increase over the first two quarters of FY26.

Weight distance tax revenue is forecast to decrease 5.4 percent in the final quarter of the fiscal year but increase 1.1 percent in the first half of FY26.

To estimate the growth of all other components of the Road Fund, officials of the Kentucky Transportation Cabinet and staff of the Governor’s Office for Economic Analysis together assessed recent growth patterns as well as administrative and statutory factors.

Motor vehicle license taxes are forecasted to grow 0.2 percent in the final quarter of FY25 but increase 1.8 percent in the first six months of FY26. Motor vehicle operators’ licenses are projected to increase 0.9 percent for the remainder of the fiscal year and grow 0.8 percent over the first six months of FY26. Investment income receipts were \$13.7 million over the first nine months of the fiscal year and receipts are expected to be positive with revenues of \$2.4 million in the fourth quarter and \$2.3 million through the first half of FY26. All other revenues have grown 22.4 percent during the first three quarters of the current fiscal year. However, receipts in this revenue category are expected to decrease 60.1 percent over the next three months and fall another 2.9 percent in the first half of next year.

NATIONAL ECONOMIC OUTLOOK

Both the state and national economic forecasts presented below are based on the S&P Global “control” forecast from March 2025. In their summary comments that undergird the control or baseline forecast, S&P Global acknowledges that recession fears are mounting. However, they conclude that a “*growth* recession” – “a period of below potential growth and rising unemployment” – is the more likely outcome for the US economy. Three shocks to the economy that are cited by S&P Global as causes for concern are: tariffs; uncertainty regarding trade policy; and large and rapid cuts in federal employment.

For the purposes of this three-quarter economic outlook, sluggish real GDP growth is projected. Real GDP is expected to grow 2.0 percent in the fourth quarter of FY25 followed by 1.6 percent growth in the first half of FY26. (Table 3). Adjacent-quarter growth rates over the forecast horizon are the lowest since the fourth quarter of FY22.

Adjacent-quarter growth in the forecast for real consumption will be slower than the last three quarters of real consumption growth at 0.5, 0.4, and 0.5 percent, respectively, with all three quarters well below the post-recession average of 1.4 percent. S&P Global cites consumer uncertainty as one potential reason for the weak anticipated growth in real consumption. The pullback in consumer spending began in the third quarter of FY25, where the adjacent-quarter growth in real consumption fell to 0.5 percent compared to 1.0 percent in the previous quarter.

Inflation, as measured by the percentage change of the CPI for all goods, is expected to be 3.1 percent during the fourth quarter of FY25. S&P Global projects an uptick to 3.4 percent in first half of FY26 due in part to price pressures stemming from actual and projected tariffs and counter-tariffs. Beyond the direct effect on consumers, inflation – and the expectations for future inflation – influence policy decisions of the

Federal Reserve regarding interest rates through the setting of the federal funds rate. Higher interest rates have a dampening effect on consumption and business planned investment. The rate of return on business planned investments must exceed the rate of interest for firms to undertake further investments in productive capital.

US non-farm employment is expected to rise 1.1 percent in the fourth quarter of FY25, and then gain an additional 0.9 percent in the first half of FY26. Modest growth is expected for the fourth quarter of FY25 in service-providing and government. The goods-producing category is expected to be essentially flat in the fourth quarter of FY25. Seven of the 11 supersectors show some growth, with four projected to incur mild reductions. See Table 4. All three quarters of the forecasting horizon for US non-farm employment are projected to be at the lowest growth levels since the 2020 recession, using either year-over-year or adjacent quarter measures of growth. Four employment supersectors are expected to lose jobs during the fourth quarter of FY25: mining, manufacturing, information services, and business services employment. The losses are expected to be small, ranging from 0.1 percent information services employment to 0.8 percent in mining employment. All of these supersectors are expected to lose additional jobs in the first half of FY26 except for information services, which is expected to recover roughly the same number of jobs as were lost in the fourth quarter of FY25.

US personal income is expected to rise 4.4 percent in the fourth quarter of FY25, then increase an additional 5.1 percent in the first half of FY26. US wages and salaries, the largest component of US personal income and a crucial explanatory variable in the Kentucky MAK model, is expected to grow 4.3 percent in the final quarter of FY25. Wages and salaries growth is expected to improve to 5.0 percent in the first half of FY26.

KENTUCKY ECONOMIC OUTLOOK

Kentucky non-farm employment is anticipated to grow by 0.8 percent in the fourth quarter of FY25, adding approximately 15,400 jobs to the Commonwealth's economy. See Table 5. The first half of FY26 is expected to taper slightly to 0.7 percent growth. Two service-providing employment categories are forecasted to lead the expanding supersectors: educational services, and leisure and hospitality services. Goods-producing supersectors are collectively projected to decline fractionally throughout the forecasting horizon while service-producing sectors expand in aggregate by 1.2 percent. In the fourth quarter of FY25, that level of growth for service-producing sectors equates to 16,700 additional jobs.

Kentucky's total non-farm employment picture has many similarities to the national employment forecast over the next three quarters. Both forecasts call for muted growth in the fourth quarter of FY25 followed by more subdued increases in the first half of FY26. The national and state employment outlooks point to a contraction in manufacturing employment, but the Kentucky forecast drops by a smaller percentage

(0.2 percent) than the national counterpart (0.6 percent) in the fourth quarter of FY25. The same pattern of Kentucky outperforming the national manufacturing outlook replicates in the first half of FY26, but the gap between the two narrows to a 0.2 percent difference in their respective declines. Nearly identical growth patterns are projected in the service providing supersectors, where the national outlook edges out the Kentucky growth by one-tenth of a percent in the fourth quarter of FY25. Both forecasts are expanding by 1.2 percent in the first half of FY26.

Kentucky's personal income is forecasted to equal an annualized level of \$274.4 billion in the fourth quarter of FY25. That is a slightly higher than the FY25 annualized rate of \$269.9 billion. Adjacent-quarter growth over the last ten quarters has averaged 1.3 percent. The forecasting horizon for Kentucky personal income calls for marginally slower adjacent quarter growth of 1.0, 1.1, and 1.0 percent, respectively, beginning in the fourth quarter of FY25. All subcategories of personal income are expected to rise. The largest category of Kentucky personal income is wages and salaries, representing 48.3 percent of the total in the fourth quarter of FY25. Kentucky wage and salaries growth is projected to outpace total personal income growth, with year-over-year growth in wages and salaries equaling 4.8 percent compared to 4.4 percent growth for total personal income. That gap shrinks in the first half of FY26, with Kentucky wages and salaries narrowly outpacing total income growth by a margin of 4.7 percent to 4.6 percent. Kentucky wage and salary income also compares favorably to income growth from transfer payments, with wage growth edging out transfer payment growth in the fourth quarter of FY25 and the first half of FY26.

Kentucky personal income growth is expected to be 4.4 percent for the fourth quarter of FY25, exactly like the US personal income. However, the Kentucky wages and salaries growth for the fourth quarter of FY25 is expected to be 4.8 percent, which is better than the US wages and salaries growth for that quarter. For both the US and Kentucky, the wages and salaries forecasts for the fourth quarter of FY25 is an acceleration of growth compared to the last three quarters. Growth for each quarter of the forecast horizon for Kentucky wages and salaries is expected to be more constant, than the volatility experienced in the last six quarters. Adjacent quarter growth for the last six quarters of Kentucky wages and salaries is: 0.4, 2.8, -0.01, 1.0, 1.4, and 1.1 percent, respectively. While adjacent-quarter growth over the forecast horizon is expected to be 1.2, 1.2, and 1.0 percent, respectively.

Table 3
US Economic Outlook
Interim Forecast

	Q4			Full Year		Q1 & Q2	
	FY25	FY24	% chg	FY25	% chg	FY26	% chg
Real GDP	23,694.6	23,223.9	2.0	23,563.1	2.4	23,848.2	1.6
Real Consumption	16,438.8	15,967.3	3.0	16,297.3	3.1	16,548.7	2.2
Real Investment	4,400.9	4,369.2	0.7	4,371.6	2.1	4,414.0	1.6
Real Govt. Expenditures	3,977.5	3,917.0	1.5	3,982.5	2.7	3,967.5	-0.3
Real Exports	2,670.6	2,578.4	3.6	2,651.9	3.7	2,673.8	1.4
Real Imports	3,811.0	3,614.0	5.5	3,755.4	6.4	3,765.5	1.7
CPI all goods (% chg)	3.1	3.2	NA	2.8	NA	3.4	NA
CPI Food (% chg)	2.8	2.2	NA	2.5	NA	2.6	NA
CPI Energy (% chg)	-1.7	2.3	NA	-2.1	NA	2.8	NA
CPI Core (% chg)	3.6	3.4	NA	3.3	NA	3.7	NA
Industrial Production Index (% chg)	0.6	0.0	NA	0.2	NA	1.3	NA
Unemployment Rate (%)	4.3	4.0	NA	4.2	NA	4.4	NA
Housing Starts (millions, NSA)	1.4	1.3	2.1	1.4	-2.5	1.4	-0.3

Table 4
US Labor and Income Outlook
Interim Forecast

	Q4			Full Year		Q1 & Q2	
	FY25	FY24	% chg	FY25	% chg	FY26	% chg
Non-farm Employment (millions, NSA)	159.5	157.8	1.1	158.9	1.2	159.8	0.9
Goods-producing	21.7	21.7	0.2	21.7	0.4	21.7	0.2
Construction	8.3	8.2	1.6	8.3	2.1	8.4	1.2
Mining	0.6	0.6	-0.8	0.6	-1.9	0.6	-0.2
Manufacturing	12.8	12.8	-0.6	12.8	-0.6	12.7	-0.5
Service-providing	114.3	112.8	1.3	113.7	1.2	114.6	1.2
Trade, Transportation & Utilities	29.1	28.9	0.7	29.0	0.6	29.1	0.4
Information	2.9	3.0	-0.1	2.9	-0.7	3.0	1.3
Finance	9.3	9.2	1.1	9.2	0.5	9.3	1.5
Business Services	22.6	22.6	-0.3	22.6	-0.5	22.5	-0.3
Educational Services	27.3	26.4	3.6	27.0	3.8	27.6	3.2
Leisure and Hospitality Services	17.0	16.8	1.4	16.9	1.3	17.1	1.1
Other Services	6.0	6.0	1.1	6.0	1.5	6.1	1.3
Government	23.5	23.3	1.0	23.5	1.8	23.5	0.0
Personal Income (\$ billions, AR)	25,653.4	24,574.0	4.4	25,193.3	4.7	26,149.1	5.1
Wages and Salaries	12,870.7	12,343.0	4.3	12,639.5	4.5	13,108.6	5.0
Transfer Receipts	4,764.4	4,512.3	5.6	4,675.3	6.8	4,836.4	5.0
Dividends, Interest, and Rents	5,142.8	5,003.6	2.8	5,068.4	2.6	5,243.8	4.5
Supplements to Wages and Salaries	2,740.6	2,602.6	5.3	2,685.6	5.4	2,786.9	5.2
Proprietors' Income	2,090.6	2,002.3	4.4	2,052.9	4.0	2,154.4	6.4
Social Insurance	1,955.7	1,889.9	3.5	1,928.3	3.4	1,981.0	3.8
Residence Adjustment	0.0	0.0	NA	0.0	NA	0.0	NA

Table 5
KY Labor and Income Outlook
Interim Forecast

	Q4			Full Year		Q1 & Q2	
	FY25	FY24	% chg	FY25	% chg	FY26	% chg
Non-farm Employment (thousands, NSA)	2,057.4	2,042.0	0.8	2,050.3	1.1	2,060.5	0.7
Goods-producing	357.7	358.2	-0.1	358.1	0.5	358.1	-0.2
Construction	93.7	93.4	0.3	93.6	2.6	94.1	0.5
Mining	9.0	9.2	-2.1	9.2	3.4	9.0	-2.8
Manufacturing	255.0	255.6	-0.2	255.3	-0.4	255.1	-0.3
Service-providing	1,387.9	1,371.2	1.2	1,379.9	1.4	1,390.6	1.2
Trade, Transportation & Utilities	429.3	426.3	0.7	428.1	0.4	427.6	0.2
Information	21.7	22.3	-2.8	21.8	-4.1	21.7	-0.7
Finance	96.9	95.6	1.3	96.4	0.4	97.4	1.5
Business Services	230.9	231.0	0.0	230.1	0.6	230.7	0.6
Educational Services	327.2	317.3	3.1	323.5	4.5	329.7	2.6
Leisure and Hospitality Services	209.2	205.6	1.7	207.3	1.2	210.4	2.1
Other Services	72.8	73.1	-0.4	72.8	0.4	73.2	0.6
Government	311.7	312.5	-0.3	312.3	0.3	311.7	-0.4
Personal Income (\$ billions, AR)	274.4	262.9	4.4	269.9	4.7	278.9	4.6
Wages and Salaries	132.6	126.6	4.8	130.3	4.4	134.8	4.7
Transfer Receipts	72.4	69.2	4.7	71.2	6.6	73.4	4.5
Dividends, Interest, and Rents	44.7	44.1	1.5	44.4	1.9	45.3	2.7
Supplements to Wages and Salaries	31.7	30.0	5.6	31.0	5.2	32.3	5.5
Proprietors' Income	19.0	18.0	5.8	18.6	4.0	19.6	7.0
Social Insurance	21.4	20.5	4.1	21.0	3.4	21.6	4.0
Residence Adjustment	-4.8	-4.4	NA	-4.6	NA	-4.9	NA

REVENUE RECEIPTS

GENERAL FUND Third Quarter FY25

After posting modest growth in the first two quarters of FY25, General Fund revenues declined 2.3 percent in the third quarter as the two largest accounts, sales and use, and individual income taxes, had decreases. Receipts in the just completed quarter were \$3,450.7 million, \$80.1 million less than what was received in the third quarter of FY24. Sales and use, and the individual income tax together brought in \$150.8 million less than in the same period last year. On the positive side, the corporation income tax brought in \$112.5 million more than in the previous year. General Fund revenues have now grown 0.4 percent through the first nine months of the year.

Table 6 Summary General Fund Receipts \$ millions				
	FY25	FY24	Diff	Diff
	Q3	Q3	\$	%
Individual Income	1,236.6	1,346.3	-109.7	-8.1
Sales & Use	1,370.2	1,411.3	-41.1	-2.9
Corp. Inc. & LLET	169.0	75.3	93.7	124.4
Property	206.6	205.4	1.2	0.6
Lottery	89.5	86.5	3.0	3.5
Cigarettes	52.3	61.6	-9.3	-15.0
Coal Severance	13.2	25.1	-11.8	-47.2
Other	313.2	319.4	-6.2	-1.9
Total	3,450.7	3,530.8	-80.1	-2.3

The individual income tax fell 8.1 percent in the quarter with collections of \$1,236.6 million. Looking at the individual components of the tax, withholding collections were down \$22.4 million, declarations were \$21.5 million lower and Pass-Through Entity revenues fell by \$78.4 million. Net returns and fiduciary combined to increase \$12.7 million. Year-to-date revenues in this account have declined 11.7 percent.

Sales and use tax receipts have generally been flat this year, falling 2.9 percent in the just completed quarter after growing 1.3 percent in the first quarter and declining 0.3 percent in the second quarter. Collections in the third quarter were \$1,370.2 million, which is \$41.1 million less than FY24 revenues. Year-to-date collections in this account stand at -0.6 percent.

In contrast to the sales and use tax, major business tax receipts have grown sharply in each quarter of FY25. Receipts in the quarter rose 124.4 percent with collections of \$169.0 million, which is \$93.7 million more than in the prior year. Growth rates for the three quarters have been 73.5 percent, 79.3 percent and 124.4 percent, respectively.

Property tax revenue has exceeded expectations in the first three quarters of FY25. Collections grew strongly in the first quarter before leveling off in the next two

quarters. Collections rose 0.6 percent, or \$1.2 million, in the just completed quarter while year-to-date receipts have increased 1.8 percent. Growth rates for the three quarters this year have been 11.1 percent, 0.8 percent and 0.6 percent, respectively.

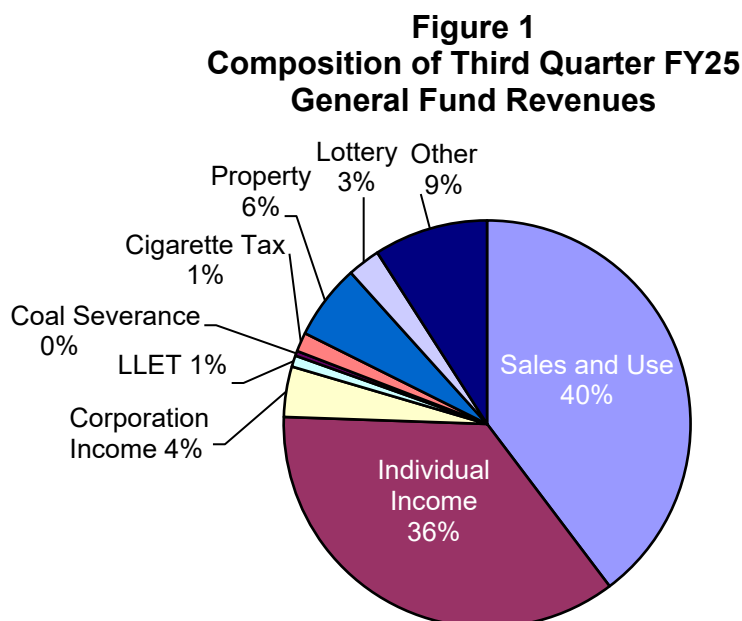
Lottery receipts increased by 3.5 percent in the third quarter to \$89.5 million. Thus far in FY25, lottery dividend payments total \$269.0 million, up 3.6 percent compared to FY24.

Cigarette tax receipts fell 15.0 percent in the just completed quarter. Third quarter revenues were \$52.3 million. Fiscal Year 2025 quarterly growth rates for this account have been -6.8 percent, -10.9 percent and -15.0 percent, respectively.

Coal severance tax receipts have declined in two of the three quarters of FY25. Third quarter collections were \$13.2 million, a decrease of 47.2 percent. Growth rates for the three quarters this year have been -27.5 percent, 66.4 percent and -47.2 percent, respectively.

The other category, which is composed of many smaller tax accounts, fell 1.9 percent, or \$6.2 million for the quarter. Third quarter receipts were \$313.2 million.

Figure 1 shows the composition of General Fund revenues by tax type for the third quarter of FY25. Individual income tax and sales and use taxes made up 76 percent of General Fund tax receipts. The “other” category made up nine percent of receipts in the third quarter. The next largest source of revenue is the property tax, which made up six percent of total receipts. Major business contributed five percent while lottery dividends made up three percent of the General Fund receipts. Cigarette taxes made up one percent of total receipts, while coal made up less than one percent.



ROAD FUND

Third Quarter FY25

After increasing in the first quarter of FY25, total Road Fund receipts have declined for the second consecutive quarter. Collections fell 2.2 percent in the just completed quarter after growing 3.6 percent in the first quarter and falling 3.3 percent in the second quarter. Total receipts received in the third quarter were \$438.2 million compared to last year's third quarter total of \$447.9 million, a difference of \$9.7 million. Only three of the seven accounts had revenue declines in the quarter but a

Table 7 Summary Road Fund Receipts \$ millions				
	FY25	FY24	Diff	Diff
	Q3	Q3	\$	%
Motor Fuels	187.9	214.5	-26.7	-12.4
Motor Vehicle Usage	168.8	159.1	9.8	6.1
Motor Vehicle License	33.6	31.0	2.6	8.4
Motor Vehicle Operators	7.4	7.7	-0.3	-3.8
Weight Distance	21.1	21.6	-0.5	-2.4
Income on Investments	4.8	2.3	2.5	104.9
Other	14.6	11.6	3.0	25.9
Total	438.2	447.9	-9.7	-2.2

large decrease in motor fuels receipts offset the relatively small increases in the accounts which rose. Year-to-date Road Fund collections are down 0.6 percent.

Through the first nine months of the year, Road Fund revenues are on pace to meet the official estimate. The official FY25 revenue estimate calls for a 2.6 percent decrease in revenue for the year. Based on year-to-date

tax collections, revenues can fall 8.2 percent in the final quarter of the fiscal year and still meet the revenue estimate. Summary data are contained in Table 2 and detailed data are shown in the Appendix.

For the quarter, motor fuels tax receipts fell 12.4 percent, or \$26.7 million, for total third quarter receipts of \$187.9 million. Growth rates for the first three quarters of the year have been -2.0 percent, -8.1 percent and -12.4 percent, respectively. Prior year revenues were inflated by a tax rate freeze which kept the rate in effect higher than it otherwise would have been. Year-to-date collections in this account have declined 7.4 percent.

Motor vehicle usage tax receipts rose 6.1 percent in the third quarter after exhibiting good growth through the first two quarters. Revenues were \$168.8 million for the quarter, a \$9.8 million increase compared to FY24 levels. Year-to-date collections have increased 6.3 percent with quarterly growth rates of 9.4 percent, 3.1 percent and 6.1 percent, respectively.

After declining in each of the first two quarters, motor vehicle license tax receipts rose in the third quarter. Collections were up \$2.6 million, or 8.4 percent, in the third quarter. Year-to-date revenues in this account have fallen 1.2 percent. Growth rates for the first three quarters of FY25 have been -4.4 percent, -13.2 percent and 8.4 percent, respectively.

Motor vehicle operator's tax receipts were \$7.4 million in the third quarter, a \$0.3 million decrease compared to collections a year ago. Receipts have increased 0.6 percent for the year with quarterly growth rates of 4.0 percent, 1.1 percent and -3.8 percent, respectively.

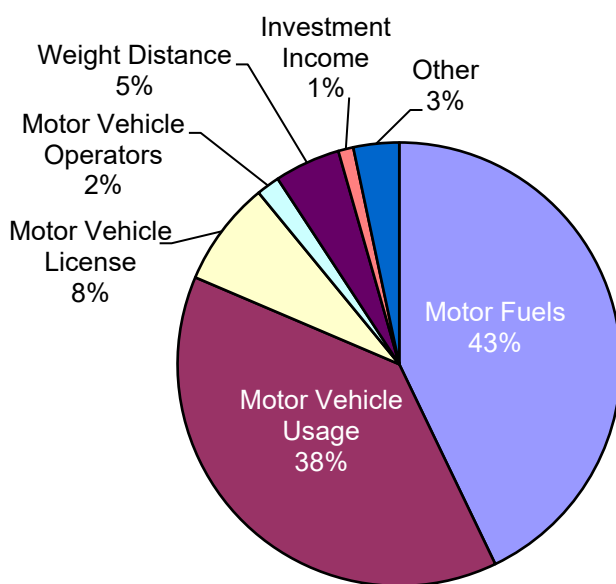
Weight distance tax receipts grew modestly in the first two quarters of FY25 before falling in the just completed quarter. Revenues for the quarter were \$0.5 million less than the \$21.6 million received last year. Growth rates for the three quarters have been 1.2 percent, 2.1 percent and -2.4 percent, respectively.

Income on investment was \$4.8 million in the third quarter, \$2.5 million more than what was received last year. Year-to-date revenues in this account have grown 47.5 percent to \$13.7 million.

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 \$14.6 million in the third quarter, \$3.0 million more than FY24 levels.

Figure 2 shows the composition of Road Fund revenues by tax type in the third 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 \$356.7 million, or 81.0 percent of total collections in the third quarter. The next largest source of revenue was motor vehicle licenses at eight percent, followed by weight distance taxes with five percent. The "other" category accounted for three percent, while motor vehicle operators accounted for two percent and income on investments at one percent.

Figure 2
Composition of Third Quarter FY25
Road Fund Revenues



THE ECONOMY

THIRD QUARTER FY25

NATIONAL ECONOMY

Real gross domestic product (real GDP) rose by 2.5 percent in the third quarter of FY25 compared to the third quarter of FY24. Adjacent-quarter growth softened to 0.4 percent in the third quarter. Long run adjacent-quarter growth for real GDP is 0.5 percent. Adjacent-quarter growth has tapered over the last three quarters with growth rates of 0.8, 0.6, and 0.4 percent, respectively. Real GDP is composed of five components: real consumption, real investment, real government expenditures, real exports and real imports. On an adjacent-quarter basis, real consumption and real investment rose in the third quarter, while government expenditures and net exports fell.

Real consumption rose 3.2 percent in the third quarter of FY25. On an adjacent-quarter basis, real consumption grew 0.9, 1.0, and 0.5 percent, respectively during the last three quarters. This is the nineteenth consecutive quarter of growth for real consumption, dating back to the end of the 2020 recession. Real consumption made up 69.3 percent of real GDP in the third quarter of FY25.

Real investment rose 2.6 percent in the third quarter of FY25. On an adjacent-quarter basis, real investment has bounced around over the last three quarters. The last three adjacent-quarter growth rates are: 0.2, -1.5, and 1.9 percent, respectively. Since the end of the 2020 recession, real investment has increased 13 times and declined six times. Despite the declines, real investment has trended upwards. Since the end of the recession real investment has grown a net \$1.2 trillion, or 38.9 percent growth. Real investment made up 18.6 percent of real GDP in the third quarter of FY25.

Real government expenditures increased 2.7 percent in the third quarter of FY25 compared to the third quarter of FY24. Real government expenditures fell 0.1 percent in the third quarter of FY25 compared to the second quarter of FY25. The average adjacent-quarter growth for the previous 10 quarters is 0.9 percent. There has been substantial drop off in real government expenditures adjacent-quarter growth over the last three quarters. Real government expenditures made up 16.9 percent of real GDP in the third quarter of FY25.

Real exports rose 3.6 percent in the third quarter of FY25. Export growth has fluctuated quite a bit for the last six quarters. The last six adjacent-quarter growth rates are: 1.5, 0.5, 0.3, 2.3, -0.1, and 1.1 percent, respectively. Exports are a function of demand for the goods and services in the foreign country, supply of the goods and services from the US, and exchange rate fluctuations. The value of the US dollar has fallen versus the Canadian dollar and the Mexican peso since February 2025. The value of the US dollar has fallen versus the EU's euro from since January 2025. Fears of tariff wars have also caused fluctuations in imports and exports, as individuals and firms make the transactions before tariffs rise.

Real imports rose 7.3 percent in the third quarter of FY25. Imports have been greater than exports for well over three decades. Net exports is the difference between exports and imports. As net exports fall (becomes a larger negative number), real GDP falls. This has been a significant contributor to downward pressure on real GDP for over 10 years, as import growth exceeds export growth in nearly every quarter. Real exports made up 11.3 percent of real GDP in the third quarter of FY25. Real imports, a deduction from real GDP, made up 16.1 percent of real GDP in the third quarter of FY25.

Federal outlays grew 5.8 percent in the third quarter of FY25 compared to the third quarter of FY24. The fastest growing outlay in percentage terms is Aid to Foreign Governments, which grew by 34.3 percent in the third quarter of FY25 over the third quarter of FY24. The fastest growing outlay in absolute terms is Medicare, which grew by \$97.8 billion in the third quarter of FY25 compared to the third quarter of FY24. Two outlays declined in the third quarter, Non-Medicaid Grants to State & Local Governments and Subsidies. The fastest declining outlay in percentage and absolute terms is Non-Medicaid Grants to State & Local Governments, which fell by \$12.2 billion or 3.8 percent in the third quarter of FY25 compared to the same period in FY24. See Table 9.

Inflation, as measured by the growth in the CPI for all goods (see Table 8), was 2.9 percent in the third quarter of FY25. This is up slightly from the second quarter when inflation was 2.7 percent. Energy inflation, as measured by the growth in the CPI for Energy goods, was -0.3 percent in the third quarter. The rate of decline has tempered considerably from the second quarter when energy inflation was -2.8 percent.

The US labor force grew by 1.8 percent in the third quarter of FY25. This growth rate is a considerable jump from the previous four quarters, where the annual growth rate was 0.7 percent or less each quarter. The number of employed rose by 1.5 percent in the third quarter of FY25, while the number of unemployed rose by 9.5 percent during that time. The number of persons Not in the Labor Force rose 2.2 percent in the third quarter, while the labor force participation rate remained unchanged at 62.5 percent.

US personal income rose 4.2 percent in the third quarter of FY25 compared to the third quarter of FY24. The fastest growing component of personal income is transfer receipts income, which grew by 6.3 percent in the third quarter of FY25. US personal income grew a net \$1.0 trillion in the third quarter of FY25 compared to the same quarter last year. US wages and salaries income growth made up \$469.9 billion of that \$1.0 trillion in growth. Wages and salaries made up 50.1 percent of total personal income in the third quarter of FY25, while transfer receipts income made up 18.6 percent of total personal income.

US non-farm employment rose by 1.2 percent in the third quarter of FY25. Moreover, this is the 19th consecutive increase in US non-farm employment on an adjacent-quarter basis. The fastest growing employment sector is educational services employment, which grew 3.6 percent in the third quarter of FY25 compared to the third quarter of FY24. Four employment sectors lost jobs in the third quarter of FY25. The sector with the largest decline was mining employment which declined by 1.8 percent. The largest employment sector is trade, transportation, and utilities employment which grew by 0.8 percent in the third quarter of FY25 compared to the same quarter last year. Trade, transportation, and utilities employment makes up 18.3 percent of total non-farm employment. Educational services employment makes up 17.0 percent of total non-farm employment. Mining employment is the smallest employment sector and makes up 0.4 percent of total non-farm employment.

KENTUCKY ECONOMY

Kentucky personal income grew 3.9 percent in the third quarter of FY25 over the third quarter of FY24. Kentucky personal income has grown for 15 consecutive quarters on an adjacent-quarter basis, following the personal income declines experienced in FY21. The 2020 recession was an unusual recession in numerous ways. One way is that Kentucky personal income rose during the recession, and then fell after the recession. In Kentucky's case, Kentucky personal income fell in the first quarter of FY21, the second quarter of FY21, and in the fourth quarter of FY21. The increase in personal income during the recession and the declines in personal income following the recession were almost entirely due to transfer receipts income movements.

Kentucky transfer receipts income rose by 5.5 percent in the third quarter of FY25 compared to the same quarter in FY24. Transfer receipts income was the fastest growing component of Kentucky personal income in the third quarter of FY25. In the quarter before the 2020 recession, Kentucky transfer receipts income made up 24.2 percent of Kentucky personal income. In the third quarter of FY25, Kentucky transfer receipts income make up 26.5 percent of Kentucky personal income. That is a 2.3 percentage point increase relative to personal income just since the 2020 recession. While transfer receipts declined following the end of the 2020 recession, they have not come back down to pre-recession levels, neither in absolute terms nor relative to the share of total personal income.

Kentucky wages and salaries income, the largest component of Kentucky personal income, rose by 3.5 percent in the third quarter of FY25. On an adjacent-quarter basis, this is the third consecutive quarter that Kentucky wages and salaries income has grown. Kentucky wages and salaries are one of the three income components that fell relative to Kentucky personal income since the last recession. In the quarter before the 2020 recession, Kentucky wages and salaries made up 49.7 percent of personal income. In the third quarter of FY25, Kentucky wages and salaries made up 48.2 percent of personal income. That is a drop of 1.4 percentage points. Kentucky supplements to wages and salaries (also known as fringe benefits) share dropped by 0.9 percentage points since the 2020 recession. The shares of the other components of personal income only changed by a trivial amount.

Kentucky non-farm employment rose 1.2 percent in the third quarter of FY25. This is the nineteenth consecutive quarter of adjacent-quarter growth for Kentucky non-farm employment. Eight sectors gained jobs, while three sectors lost jobs, in the third quarter of FY25 relative to the third quarter of FY24. The three sectors that lost jobs were manufacturing employment, information services employment and government employment. Note: government employment includes federal government, state government, and local government employment that occurs inside the borders of the Commonwealth of Kentucky. See Table 11.

The fastest growing sector is educational services employment, which grew 4.2 percent in the third quarter of FY25. Educational services employment was the fastest growing in percentage and absolute terms. Educational services employment grew by 13,100 net jobs in the third quarter of FY25 over the third quarter of FY24. Educational services job growth made up over half of the net jobs gained in non-farm employment in the third quarter. Educational services employment is the second largest supersector in Kentucky and makes up 15.8 percent of all non-farm jobs.

Table 8
History of US Economic Variables

	FY24				FY25					
	Q3	% chg	Q4	% chg	Q1	% chg	Q2	% chg	Q3	% chg
Real GDP (\$ billions, AR)	23,053.5	2.9	23,223.9	3.0	23,400.3	2.7	23,536.3	2.5	23,621.2	2.5
Real Consumption	15,856.9	2.2	15,967.3	2.7	16,113.0	3.0	16,278.5	3.1	16,358.9	3.2
Real Investment	4,282.5	5.5	4,369.2	5.6	4,377.7	3.3	4,313.8	1.6	4,393.9	2.6
Real Government Expenditures	3,887.7	3.5	3,917.0	3.5	3,966.2	3.4	3,994.3	3.2	3,992.0	2.7
Real Exports	2,571.8	2.0	2,578.4	3.5	2,638.2	4.6	2,634.8	2.9	2,664.2	3.6
Real Imports	3,548.7	2.9	3,614.0	5.6	3,707.4	7.1	3,696.2	5.7	3,806.9	7.3
CPI - All Goods (% chg)	3.2	NA	3.2	NA	2.7	NA	2.7	NA	2.9	NA
CPI - Food (% chg)	2.3	NA	2.2	NA	2.2	NA	2.3	NA	2.5	NA
CPI - Energy (% chg)	-1.4	NA	2.3	NA	-3.4	NA	-2.8	NA	-0.3	NA
Core CPI (% chg)	3.8	NA	3.4	NA	3.3	NA	3.3	NA	3.2	NA
Industrial Prod. Index (% chg)	-0.5	NA	0.0	NA	-0.4	NA	-0.3	NA	1.1	NA
Working Population (millions, NSA)	267.7	0.6	268.3	0.6	268.9	0.6	269.5	0.6	272.9	1.9
Civilian Labor Force	167.2	0.7	168.0	0.6	169.0	0.6	168.2	0.4	170.2	1.8
Employed	160.4	0.5	161.6	0.2	161.8	0.1	161.6	0.0	162.8	1.5
Unemployed	6.8	7.8	6.5	12.6	7.2	13.5	6.6	11.0	7.4	9.5
Not in Labor Force	100.5	0.4	100.2	0.6	99.8	0.7	101.3	1.0	102.7	2.2
Labor Force Participation Rate (%)	62.6	NA	62.6	NA	62.7	NA	62.5	NA	62.5	NA
Unemployment Rate (%)	3.8	NA	4.0	NA	4.2	NA	4.2	NA	4.1	NA
Housing Starts (millions, AR)	1.4	2.8	1.3	-7.9	1.3	-3.5	1.4	-6.3	1.4	-2.1

Table 9
US Federal Outlays
\$ billions, AR

	Third Quarter			
	FY25	FY24	% Chg	% Chg
Federal Outlays excl. Gross Investment	7,162.9	6,772.8	390.0	5.8
National Defense	862.1	810.8	51.3	6.3
Non-Defense Consumption	586.5	556.6	29.9	5.4
Federal Transfer Payments to Resident Persons	3,402.5	3,201.1	201.4	6.3
Medicare	1,146.9	1,049.2	97.8	9.3
Social Security	1,518.2	1,426.5	91.6	6.4
Social Insurance to Rest of the World	34.8	32.9	1.9	5.7
Grants-in-Aid to State & Local Govts	957.1	941.0	16.0	1.7
Medicaid	646.9	618.7	28.2	4.6
Non-Medicaid Grants to State & Local Govts	310.1	322.3	-12.2	-3.8
Aid to Foreign Govts	83.1	61.9	21.2	34.3
Interest on the Debt	1,143.1	1,067.3	75.8	7.1
Subsidies	93.7	96.1	-2.5	-2.5

Table 10
History of US Labor and Income Data

	FY24				FY25					
	Q3	% chg	Q4	% chg	Q1	% chg	Q2	% chg	Q3	% chg
Non-farm Employment (millions, NSA)	157.3	1.5	157.8	1.4	158.1	1.3	158.6	1.2	159.2	1.2
Goods-producing	21.6	0.8	21.7	0.8	21.7	0.6	21.7	0.4	21.7	0.3
Mining	0.6	-0.1	0.6	-2.3	0.6	-2.8	0.6	-2.0	0.6	-1.8
Construction	8.1	2.6	8.2	2.7	8.2	2.6	8.3	2.4	8.3	2.0
Manufacturing	12.9	-0.3	12.8	-0.3	12.8	-0.4	12.8	-0.7	12.8	-0.7
Service-providing	112.4	1.3	112.8	1.2	113.0	1.1	113.4	1.2	113.9	1.3
Trade, Transportation & Utilities	28.9	0.1	28.9	0.4	28.9	0.4	29.0	0.5	29.1	0.8
Information	3.0	-3.1	3.0	-2.8	2.9	-1.7	2.9	-0.8	3.0	-0.3
Finance	9.2	0.1	9.2	-0.2	9.2	-0.2	9.2	0.2	9.2	0.9
Business Services	22.7	-0.7	22.6	-0.8	22.6	-0.7	22.6	-0.4	22.6	-0.4
Educational Services	26.1	4.7	26.4	4.7	26.6	4.1	26.9	3.9	27.1	3.6
Leisure and Hospitality Services	16.7	2.0	16.8	1.6	16.8	1.2	16.9	1.3	17.0	1.3
Other Services	5.9	2.5	6.0	2.5	6.0	1.9	6.0	1.6	6.0	1.5
Government	23.2	3.0	23.3	2.7	23.4	2.4	23.5	2.1	23.6	1.7
Personal Income (\$ billions, AR)	24,344.2	5.9	24,574.0	5.5	24,716.7	5.0	25,027.0	5.1	25,376.1	4.2
Wages and Salaries	12,251.0	6.7	12,343.0	6.0	12,404.1	4.9	12,562.5	5.1	12,720.8	3.8
Transfer Receipts	4,446.1	4.7	4,512.3	5.4	4,570.4	7.1	4,640.9	8.5	4,725.3	6.3
Dividends, Interest, and Rents	4,985.1	6.2	5,003.6	4.4	4,994.5	3.4	5,042.1	2.2	5,094.1	2.2
Supplements to Wages and Salaries	2,572.8	7.1	2,602.6	6.5	2,632.0	5.8	2,664.9	5.5	2,704.9	5.1
Proprietors' Income	1,972.1	1.9	2,002.3	3.4	2,013.5	3.0	2,035.3	3.3	2,072.1	5.1
Social Insurance	1,882.9	6.0	1,889.9	4.7	1,897.7	3.5	1,918.7	3.6	1,941.2	3.1
Residential Adjustment	0.0	NA	0.0	NA	0.0	NA	0.0	NA	0.0	NA

Table 11
History of KY Labor and Income Data

	FY24				FY25					
	Q3	% chg	Q4	% chg	Q1	% chg	Q2	% chg	Q3	% chg
Non-farm Employment (thousands, NSA)	2,028.0	1.0	2,042.0	1.3	2,042.3	1.0	2,049.5	1.3	2,052.1	1.2
Goods-producing	355.7	1.4	358.2	1.0	357.3	0.3	360.1	1.3	357.2	0.4
Mining	9.0	3.1	9.2	6.5	9.3	8.2	9.2	6.5	9.2	1.7
Construction	90.7	3.1	93.4	5.1	93.1	3.4	94.0	3.6	93.6	3.1
Manufacturing	256.0	0.7	255.6	-0.6	254.9	-1.0	256.8	0.3	254.5	-0.6
Service-providing	1,359.7	0.5	1,371.2	1.3	1,373.0	1.2	1,375.5	1.4	1,383.3	1.7
Trade, Transportation & Utilities	425.0	-0.6	426.3	-0.4	427.8	0.1	426.0	-0.2	429.3	1.0
Information	22.7	-1.7	22.3	-3.9	21.9	-5.7	21.8	-3.5	21.7	-4.3
Finance	95.3	-2.1	95.6	-1.4	95.9	-0.8	96.1	-0.2	96.6	1.4
Business Services	227.3	-1.1	231.0	0.3	230.4	0.1	228.3	0.7	230.7	1.5
Educational Services	311.1	3.8	317.3	5.5	319.0	5.1	323.8	5.5	324.2	4.2
Leisure and Hospitality Services	205.8	0.8	205.6	1.2	205.3	0.9	206.7	1.1	208.1	1.1
Other Services	72.5	2.1	73.1	2.2	72.7	1.0	72.7	0.7	72.8	0.4
Government	312.6	2.6	312.5	1.8	312.0	1.1	313.9	0.7	311.5	-0.4
Personal Income (\$ billions, AR)	261.4	6.3	262.9	5.4	265.1	4.9	268.3	5.5	271.7	3.9
Wages and Salaries	126.6	6.3	126.6	5.5	127.9	4.2	129.6	5.3	131.0	3.5
Transfer Receipts	68.2	7.4	69.2	6.2	69.8	7.5	70.8	8.8	71.9	5.5
Dividends, Interest, and Rents	43.9	6.3	44.1	4.3	44.0	3.1	44.2	1.6	44.5	1.3
Supplements to Wages and Salaries	29.9	6.5	30.0	6.0	30.4	5.0	30.8	5.5	31.3	4.7
Proprietors' Income	17.9	0.9	18.0	1.6	18.3	2.1	18.4	2.9	18.8	5.1
Social Insurance	20.6	5.3	20.5	4.1	20.7	2.9	20.9	3.8	21.2	2.9
Residential Adjustment	-4.5	NA	-4.4	NA	-4.5	NA	-4.6	NA	-4.7	NA

APPENDIX

General Fund and Road Fund

Revenue Receipts

THIRD QUARTER FY25

KENTUCKY STATE GOVERNMENT

GENERAL FUND REVENUE

	Third Quarter FY 2025	Third Quarter FY 2024	% Change	Year-To-Date FY 2025	Year-To-Date FY 2024	% Change
TOTAL GENERAL FUND	\$3,450,663,080	\$3,530,796,674	-2.3%	\$11,324,813,597	\$11,274,445,186	0.4%
Tax Receipts	\$3,284,546,065	\$3,358,065,995	-2.2%	\$10,723,056,528	\$10,709,142,441	0.1%
Sales and Gross Receipts	\$1,625,574,537	\$1,675,991,564	-3.0%	\$4,970,318,454	\$5,001,560,811	-0.6%
Beer Consumption	1,270,801	1,302,688	-2.4%	3,232,398	4,407,346	-26.7%
Beer Wholesale	14,879,060	15,021,042	-0.9%	51,372,106	51,792,166	-0.8%
Cigarette	52,306,544	61,565,204	-15.0%	179,779,276	201,172,180	-10.6%
Distilled Spirits Case Sales	53,399	58,338	-8.5%	172,607	239,727	-28.0%
Distilled Spirits Consumption	4,357,584	4,930,576	-11.6%	13,691,275	14,233,550	-3.8%
Distilled Spirits Wholesale	17,198,256	18,955,132	-9.3%	55,118,187	56,935,861	-3.2%
Insurance Premium	96,348,566	88,927,402	8.3%	163,275,175	151,797,588	7.6%
Pari-Mutuel	25,615,442	25,403,806	0.8%	57,690,689	46,666,240	23.6%
Race Track Admission	0	0	---	0	0	---
Sales and Use	1,370,200,474	1,411,325,233	-2.9%	4,308,572,371	4,335,044,818	-0.6%
Wine Consumption	723,604	796,810	-9.2%	2,173,696	2,301,176	-5.5%
Wine Wholesale	4,923,559	5,239,591	-6.0%	14,654,795	15,120,580	-3.1%
Telecommunications Tax	20,402,024	23,749,969	-14.1%	59,852,477	60,541,270	-1.1%
Other Tobacco Products	8,454,092	9,996,920	-15.4%	29,452,184	31,048,522	-5.1%
Floor Stock Tax	36	74	-51.0%	313	1,043	-70.0%
Car Rental & Ride Sharing	8,841,097	8,718,779	1.4%	31,280,906	30,258,745	3.4%
Natural Resources	\$21,424,016	\$32,711,230	-34.5%	\$76,797,299	\$86,263,153	-11.0%
Coal Severance	13,233,643	25,073,940	-47.2%	48,075,737	58,799,042	-18.2%
Oil Production	1,404,569	1,366,371	2.8%	4,290,738	4,267,420	0.5%
Minerals Severance	4,825,008	5,580,933	-13.5%	21,156,682	20,696,046	2.2%
Natural Gas Severance	1,960,795	689,986	184.2%	3,274,141	2,500,645	30.9%
Individual Income Tax	\$1,236,630,808	\$1,346,300,874	-8.1%	\$3,690,617,839	\$4,180,959,882	-11.7%
Withholding	1,196,309,097	1,218,754,854	-1.8%	3,396,071,799	3,641,055,931	-6.7%
Declarations	87,200,967	108,711,708	-19.8%	199,478,026	236,897,241	-15.8%
Net Returns	(151,586,193)	(160,194,376)	---	(219,765,433)	(240,199,061)	---
Fiduciary	(2,960,148)	(7,051,490)	---	(10,112,049)	(22,889,796)	---
Pass-Through Entity Tax	107,667,085	186,080,178	-42.1%	324,945,496	566,095,567	-42.6%
Major Business Taxes	\$169,011,866	\$75,312,694	124.4%	\$1,173,719,142	\$646,089,000	81.7%
Corporation Income	138,181,676	25,690,608	437.9%	1,045,097,637	487,423,082	114.4%
LLET	30,830,190	49,622,086	-37.9%	128,621,505	158,665,918	-18.9%
Property	\$206,600,774	\$205,364,090	0.6%	\$739,911,839	\$727,024,343	1.8%
General - Real	91,208,873	83,118,582	9.7%	364,110,052	355,116,716	2.5%
General - Tangible	33,511,560	27,389,814	22.4%	138,445,616	129,470,168	6.9%
Tangible - Motor Vehicle	48,341,337	48,111,347	0.5%	137,159,740	132,943,079	3.2%
Omitted & Delinquent	3,842,985	18,313,061	-79.0%	13,654,236	27,143,454	-49.7%
Public Service	28,471,427	26,588,239	7.1%	82,022,606	77,514,215	5.8%
Other	1,224,592	1,843,047	-33.6%	4,519,589	4,836,712	-6.6%
Inheritance Tax	\$18,358,898	\$16,841,209	9.0%	\$62,007,164	\$57,146,030	8.5%
Miscellaneous	\$6,945,165	\$5,544,334	25.3%	\$9,684,792	\$10,099,223	-4.1%
License and Privilege	\$475,653	\$399,187	19.2%	1,486,837	1,314,446	13.1%
Bank Franchise	(\$116,563)	\$47,988	---	(3,081,224)	(803,969)	---
Legal Process	2,610,178	2,184,883	19.5%	7,188,551	6,616,671	8.6%
T. V. A. In Lieu Payments	3,971,090	2,907,960	36.6%	4,073,886	2,964,936	37.4%
Other	4,807	4,315	11.4%	16,742	7,139	134.5%
Nontax Receipts	\$165,754,484	\$172,512,794	-3.9%	\$600,069,492	\$563,880,203	6.4%
Departmental Fees	4,948,434	5,024,935	-1.5%	10,884,509	11,426,309	-4.7%
PSC Assessment Fee	1,625	6,377	-74.5%	10,903,018	11,167,347	-2.4%
Fines & Forfeitures	4,908,112	5,191,532	-5.5%	14,459,964	16,779,235	-13.8%
Income on Investments	73,770,790	73,342,050	0.6%	245,547,909	214,694,518	14.4%
Lottery	89,500,000	86,500,000	3.5%	268,971,720	259,548,869	3.6%
Miscellaneous	(7,374,477)	2,447,901	---	49,302,371	50,263,926	-1.9%
Redeposit of State Funds	\$362,532	\$217,885	66.4%	\$1,687,578	\$1,422,542	18.6%

KENTUCKY STATE GOVERNMENT
ROAD FUND REVENUE

	Third Quarter FY 2025	Third Quarter FY 2024	% Change	Year-To-Date FY 2025	Year-To-Date FY 2024	% Change
TOTAL STATE ROAD FUND	\$438,210,530	\$447,893,283	-2.2%	\$1,356,728,211	\$1,364,434,675	-0.6%
Tax Receipts-	\$424,828,525	\$438,864,061	-3.2%	\$1,316,414,035	\$1,333,839,974	-1.3%
Sales and Gross Receipts	\$356,854,616	\$373,690,854	-4.5%	\$1,145,209,128	\$1,163,455,163	-1.6%
Motor Fuels Taxes	187,857,988	214,547,336	-12.4%	620,379,712	670,047,451	-7.4%
Motor Vehicle Usage	168,847,150	159,082,125	6.1%	524,413,369	493,346,319	6.3%
EV Charging Station Tax	149,479	61,393	143.5%	416,048	61,393	577.7%
License and Privilege	\$67,973,909	\$65,173,207	4.3%	\$171,204,907	\$170,384,811	0.5%
Motor Vehicles	33,617,551	31,022,929	8.4%	70,055,875	70,895,922	-1.2%
Motor Vehicle Operators	7,383,900	7,674,922	-3.8%	24,340,041	24,205,373	0.6%
Weight Distance	21,112,159	21,639,556	-2.4%	65,508,260	65,334,202	0.3%
Truck Decal Fees	46,720	56,960	-18.0%	117,100	121,460	-3.6%
Other Special Fees	5,813,579	4,778,839	21.7%	11,183,631	9,827,855	13.8%
Nontax Receipts	\$13,082,217	\$8,783,322	48.9%	\$39,280,903	\$28,769,688	36.5%
Departmental Fees	5,268,599	4,480,584	17.6%	17,895,848	14,297,110	25.2%
In Lieu of Traffic Fines	40,290	52,200	-22.8%	122,520	137,010	-10.6%
Income on Investments	4,812,173	2,348,081	104.9%	13,656,759	9,257,537	47.5%
Miscellaneous	2,349,413	1,680,276	39.8%	4,995,253	4,855,851	2.9%
Hybrid/Electric Annual Fee	611,741	222,180	175.3%	2,610,523	222,180	1075.0%
Redeposit of State Funds	\$299,788	\$245,899	21.9%	\$1,033,273	\$1,825,013	-43.4%

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 laborforce 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 laborforce 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, March 14, 2025 data release.

Table 4

Not Seasonally Adjusted. Data for FY25 Q3 are March 2025 estimates.

Source: IHS Markit - Economics & Country Risk, March 14, 2025 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 Q3 are March 2025 estimates.

Source: IHS Markit - Economics & Country Risk, March 14, 2025 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, March 2025.

Table 10

Not Seasonally Adjusted. Data for FY25 Q3 are March 2025 estimates.

Source: IHS Markit - Economics & Country risk, March 14, 2025 data release.