KENTUCKY'S ECONOMIC RECOVERY

A quarterly update of workforce, employment, and state economic indicators

DECEMBER 2021

Gatton College of Business and Economics
Center for Business and Economic Research

Kentucky Chamber
Uniting Business. Advancing Kentucky.

As we start to close out 2021, the current state of the economy presents a mix of good news and bad news along with some indicators of what business leaders and policymakers might expect in 2022. This 4th edition of Kentucky's new quarterly economic report, produced by the Chamber in partnership with the Center for Business and Economic Research at the University of Kentucky, paints a picture of an economy that continues to make steady progress toward a recovery from the pandemic, but it is becoming increasingly clear that a full return to "normal" is unlikely to happen anytime soon.

On the labor market front – which has been a key concern and challenge for Kentucky employers – the data shows a noticeable uptick in Kentuckians returning to (or joining) the workforce. After a steady exodus of workers in the first half of the year, the second half has seen a rebound. But it hasn't been nearly enough for employers to meet the staffing levels required by the high levels of demand for goods and services that are shaping the post-pandemic economy. Businesses continue to struggle to find workers, and employers are in constant competition with each other for attracting and retaining talent. As this report illustrates, exceptional wage growth throughout 2021 is a reflection of how fiercely businesses are competing for workers.

This 4th edition also explores a new dataset from the Bureau of Labor Statistics that provides information on labor turnover in the states, including Kentucky. Last month, Kentucky made national headlines for having the highest "quit rate" in the nation, meaning more Kentuckians were leaving their jobs than elsewhere in the country. As the report notes, this datapoint was another indicator of Kentucky's tight labor market, as it likely represents workers switching jobs and exploring new opportunities in an environment with numerous open positions. That same new dataset showed Kentucky with 170,000 open jobs in August and 142,000 open jobs in September.

Our new report addresses other important aspects of Kentucky's economy, including GDP growth, continuing concerns over inflation and supply chain disruptions, employment levels, and the housing market. With so much unpredictability and uncertainty continuing to color our post-pandemic economy, it remains vital that business leaders and policymakers approach decision making with reliable data and a strong understanding of economic trends. That's exactly what these economic update reports offer. The previous three editions of our quarterly economic update reports can be viewed on the Kentucky Chamber's website.

Ashli Watts

ASHLI WATTS
President & Chief Executive Officer
Kentucky Chamber of Commerce

Much of the recovery has already occurred. Output and employment continue to improve but at slower paces. Supply chain constraints, scarcity of workers, and higher inflation rates remain concerns.

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When the pandemic began, economists discussed what the recovery might look like. The most common opinion seemed to be that if new restrictions were not needed to slow the spread of COVID, the recovery could resemble the Nike swoosh. That is, the economy would recover rapidly at first as businesses reopened but the recovery would slow over time. So far, both the national and Kentucky economies have followed this pattern. Much of the recovery has already occurred. Output and employment continue to improve but at slower paces. Supply chain constraints, scarcity of workers, and higher inflation rates remain concerns.

HIGHLIGHTS

While workers are slowly returning to the labor force, they are not returning quickly enough to fill the job openings available.

Kentucky's employers added 21,500 jobs to their payrolls from June to October.

Job turnover is high as workers see opportunities to find higher paying jobs.

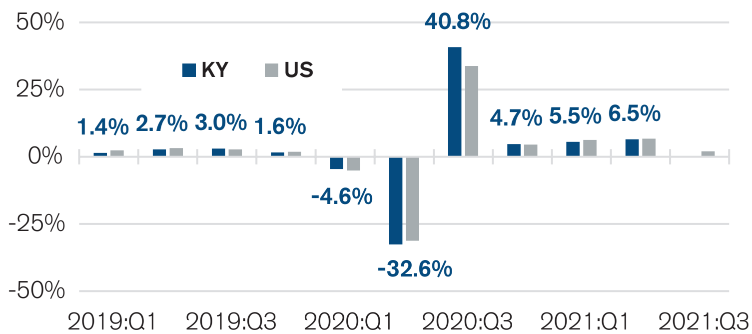
Kentucky has recovered or replaced 76% of the jobs lost during the pandemic.

ECONOMIC OUTPUT

U.S. real Gross Domestic Product (GDP), the value of goods and services produced in an economic area, continued to grow during the 3rd quarter of 2021 but at a much slower pace. Third quarter real GDP increased at an annualized rate of 2% compared to 6.7% during the 2nd quarter. A couple of factors likely contributed to this slower growth. First, the high growth rates of the past few quarters largely reflect businesses that reopened and returned to more normal operations. This contribution to GDP growth had to slow eventually as a large share of businesses have already return to normal or adapted to a new normal. Second, the supply chain problems significantly reduced the availability of many goods even as demand remains high. Kentucky's GDP continues to move closely with the national economy.

Kentucky's real GDP for the second quarter, the most recent estimate available, posted an annualized growth rate of 6.5%, which was just below the national rate for this period.

Figure 1
Percent Change Real GDP from Prior Quarter, Annual Rate



Source: US Bureau of Economic Analysis.

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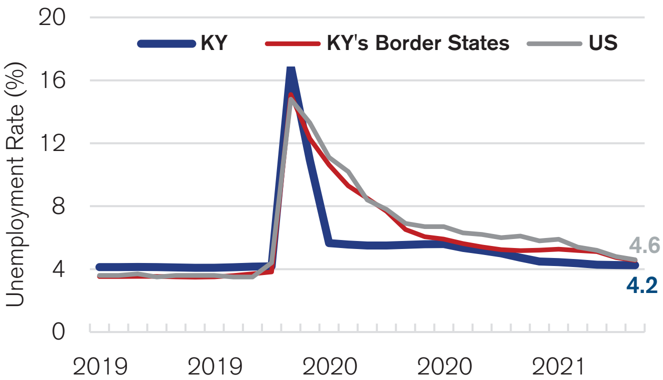
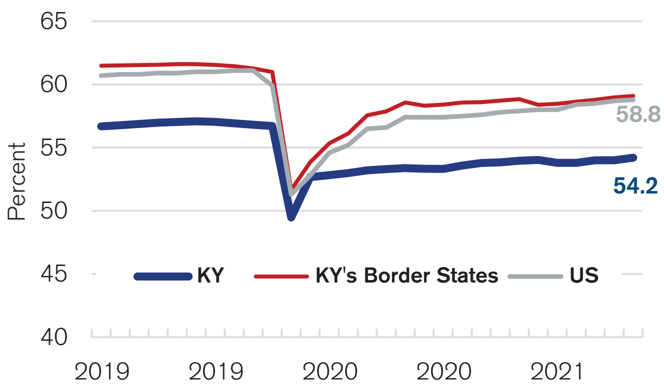
LABOR MARKET

Figure 2
Unemployment Rates



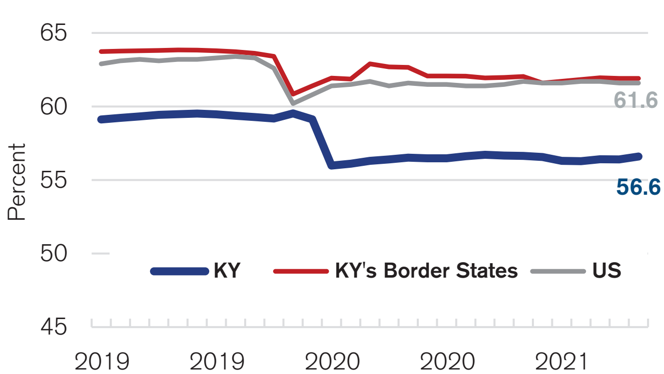
Source: US Bureau of Labor Statistics. Local Area Unemployment Statistics.

Figure 3
Employment to Population Ratio



Source: US Bureau of Labor Statistics. Local Area Unemployment Statistics.

Figure 4
Labor Force Participation Rate



Source: US Bureau of Labor Statistics. Local Area Unemployment Statistics.

The labor market has improved but remains tight. Employers' need for workers is high. However, while workers are slowly returning to the labor force, they are not returning quickly enough to fill the job openings available. As a result, employers are competing more aggressively for the workers who are available. This is leading to higher wages and greater turnover as workers see opportunities to find better paying jobs.

Kentucky's unemployment rate decreased to 4.2% in October (Figure 2). The decline was driven by workers finding employment rather than leaving the labor force as has been an issue in the recent past. Unemployment rates for the nation and Kentucky's border states remain higher than Kentucky's but have been decreasing more quickly in recent months. October's unemployment rates were 4.6% for both the nation and Kentucky's border states.

Estimates of the number of people employed in Kentucky was up 15,208 from June to October. Kentucky saw increases in the number of people working in all but one month of 2021. These gains have helped the state's employment to population ratio increase slightly (Figure 3). Kentucky's employment to population ratio increased from 53.6% in January to 54.2% in October, a gain of 0.6 percentage points. The employment to population ratio for the nation increased from 57.5% in January to 58.8% in October, a gain of 1.3 percentage points.

Kentucky's labor force decreased in each month from March through June. In total, approximately 13,000 workers left the labor force during these months. However, this downward trend reversed in July. From July through October, Kentucky's labor force increased each month, adding nearly 12,000 workers in total. While the labor force increases were small and were still somewhat volatile from month-to-month, they were a welcome change. With these periods of decreases and increases, Kentucky's labor force participation rate for October was similiar to the rate at the beginning of the year.

Definitions of Labor Market Statistics

Employment: the number of people employed.

Unemployment: the number of people without employment but actively searching for work.

Labor force: the number of people employed and unemployed.

Not in the Labor Force: the number of people who are not employed and are not actively searching for work.

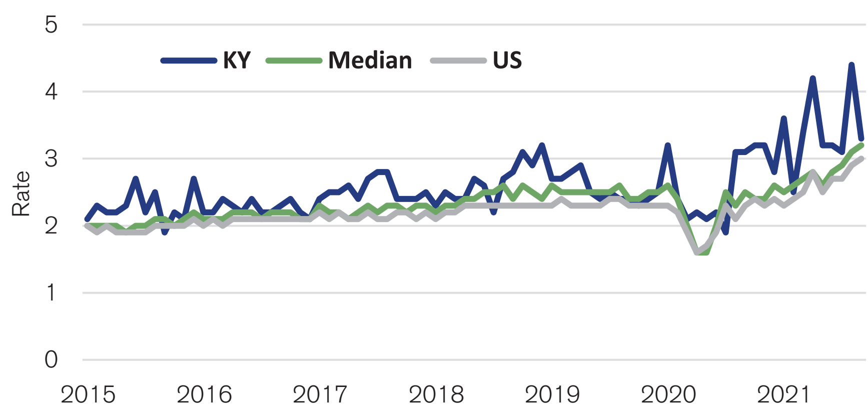
$$\text{Unemployment Rate} = \frac{\text{Number of People Unemployed}}{\text{Number of People Unemployed \& Employed}}$$

$$\text{Labor Force Participation Rate} = \frac{\text{Number of people in the labor force}}{\text{Civilian noninstitutional population aged 16 and over}}$$

On October 22nd, the U.S. Bureau of Labor Statistics (BLS) released a new data series that describes the amount of labor turnover within each state. Specifically, this data series show estimates of quits, hires, discharges, and job openings relative to employment. The release provided estimates for August 2021. It reported that Kentucky's August quit rate of 4.4% was the highest in the nation. This prompted a number of media reports about why Kentucky's rate was so high and why workers were quitting their jobs. Some additional context is needed to put Kentucky's August quit rate in perspective.

First, estimates of Kentucky's quit rates are volatile from month-to-month. Therefore, it is important to look at how rates compare in more than a single month. Figure 5 shows quit rates for Kentucky and the nation and the median quit rate among the 50 states. In February, 26 states had higher quit rates than Kentucky. In July, 11 states had quit rates higher than Kentucky. However, the median quit rate of 2.9% across states was not much lower than Kentucky's rate of 3.1%. On November 19th, the BLS released new quit rates that reflected September's labor market. Kentucky's September quit rate was 3.3%. The median rate among states was 3.2%. Twenty states had higher quit rates than Kentucky in September and two states had rates equal to Kentucky. This monthly volatility means that Kentucky can rank high or low depending on the month examined. When examining quit rates over several months, it does appear that Kentucky's quit rates tend to run a bit higher than the nation's rates. However, this was also true prior to the pandemic.

Figure 5
Quit Rates



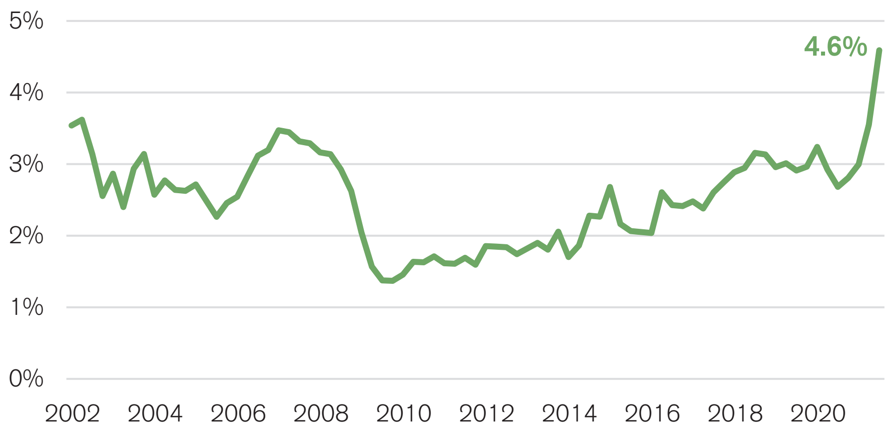
Source: US Bureau of Labor Statistics. State Job Openings, Layoffs, and Turnover.

It is also helpful to consider the quit rate in the context of other labor market indicators. While Kentucky's quit rates have been somewhat higher than the rest of the nation, its job opening and hire rates were also high. In addition, Kentucky's labor force has been improving over the past few months rather than decreasing. These other indicators suggest that the quits probably do not reflect workers who are leaving their jobs and exiting the labor force. It seems more likely that the high quit rates reflect increased job turnover. With the tight labor market, employers are competing for scarce workers by bidding up wages. This provides workers with more opportunities to find better paying jobs. The rest of the nation is experiencing similar trends.

The higher turnover is good for workers who are finding higher wages, but turnover is costly for employers even beyond the higher wages they must pay to attract workers. It takes time and resources to find and train workers. When these workers leave, the employer loses these investments. Also, productivity may be reduced until employers can fill these vacancies and train their new workers.

The degree to which wages are increasing is reflected in the U.S. Employment Cost Index (ECI). The ECI shows that wage and salary growth in the nation accelerated during 2021. Figure 6 shows the 12-month percent change in the index each quarter.

Figure 6
US Employment Cost Index, Wages & Salaries, All Private Industry Workers, 12-month Percent Change

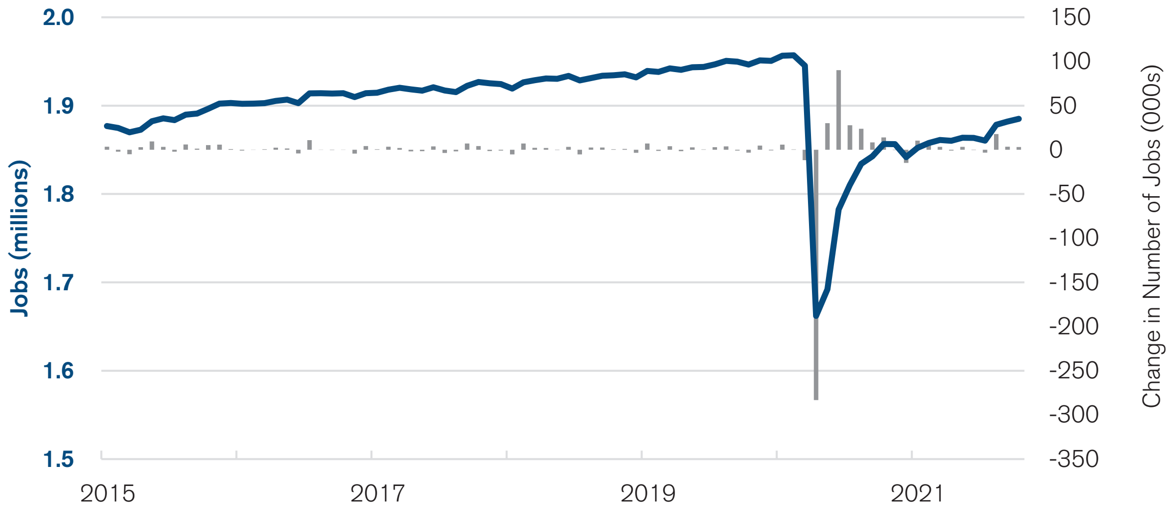


Source: US Bureau of Labor Statistics. Seasonally Adjusted. Not adjusted for Inflation.

From 2010 through 2014, wages and salaries typically grew at less than 2%—basically just keeping up with inflation. From 2015 through 2019, wage and salary growth improved and was at 3% just before the pandemic. During the 3rd quarter of 2021, wages and salaries increased by 4.6%.

Employment data reported by businesses indicate that Kentucky is continuing to make steady progress in recovering and replacing jobs lost to the pandemic. Kentucky employers added 21,500 jobs from June to October (Figure 7). As of October, Kentucky had recovered 76% of the 294,000 jobs lost when the pandemic began. Kentucky's total non-farm employment was still down 3.7% in October compared to January 2020. U.S. employment was down 2.6% and Kentucky's border states were down 3.5% in total.

Figure 7
Kentucky Non-farm Employment

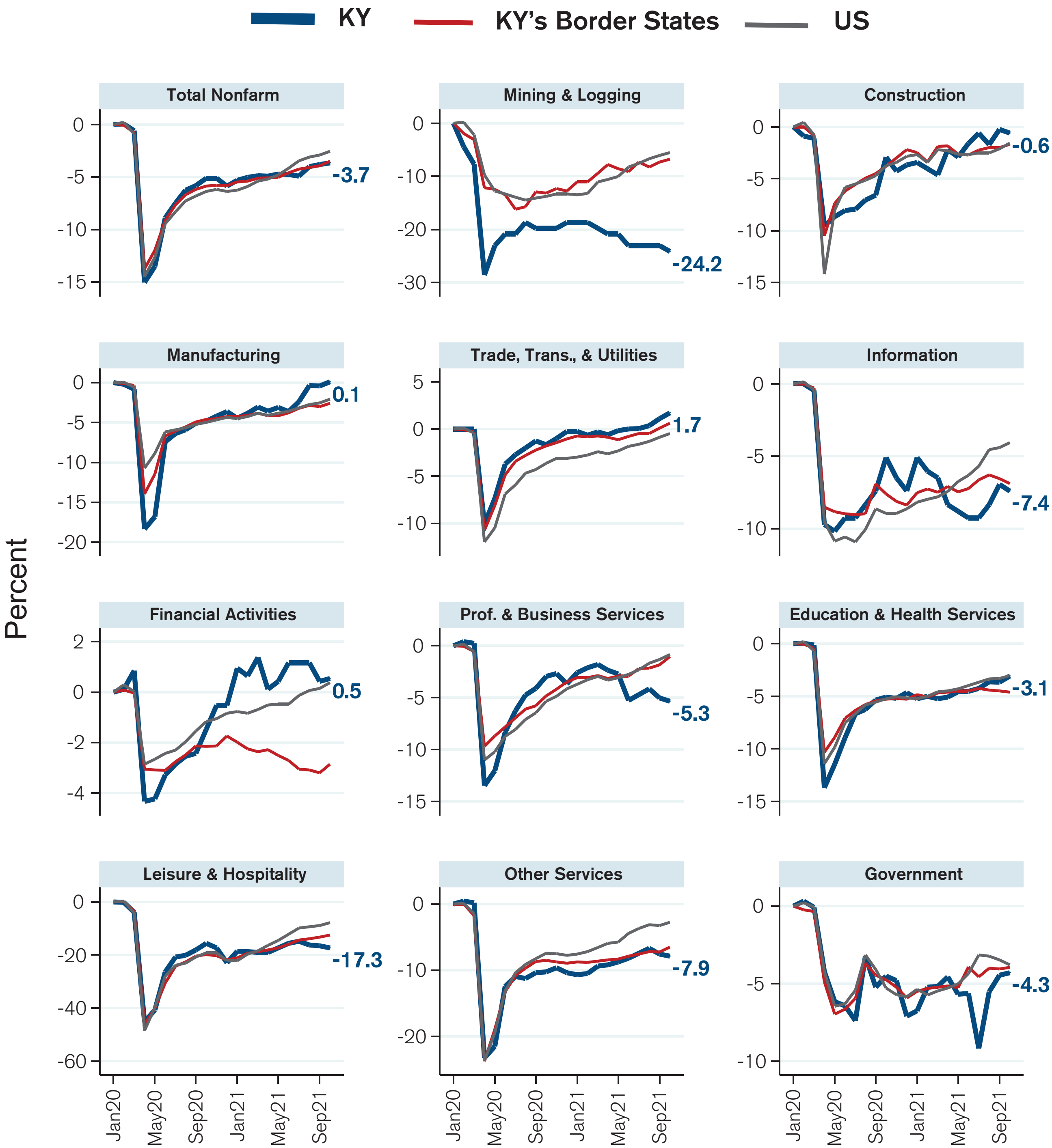


Source: US Bureau of Labor Statistics. Current Employment Statistics. Seasonally Adjusted.

As of October, employers in three of Kentucky's major industrial sectors reported job levels above those in January 2020, just before the pandemic (Figures 8 and 9). As of October, employment in Kentucky's manufacturing sector was just above pre-pandemic levels. This is considerably better than manufacturing in Kentucky's border states and the nation, which were still down 2.6% and 2.1% respectively. Employment in Kentucky's trade, transportation, and utilities sector was up 1.7% compared to January 2020 and has recovered more quickly than the U.S. Employment in Kentucky's financial activities sector fell since the summer but was still above pre-pandemic levels. After initially recovering, financial activities employment in Kentucky's border states has fallen again and is near pandemic lows. Three of Kentucky's major sectors—leisure and hospitality; professional and business services; and mining and logging—recently gave up some of their employment gains.

Figure 8

Percent Change in Employment Since January 2020

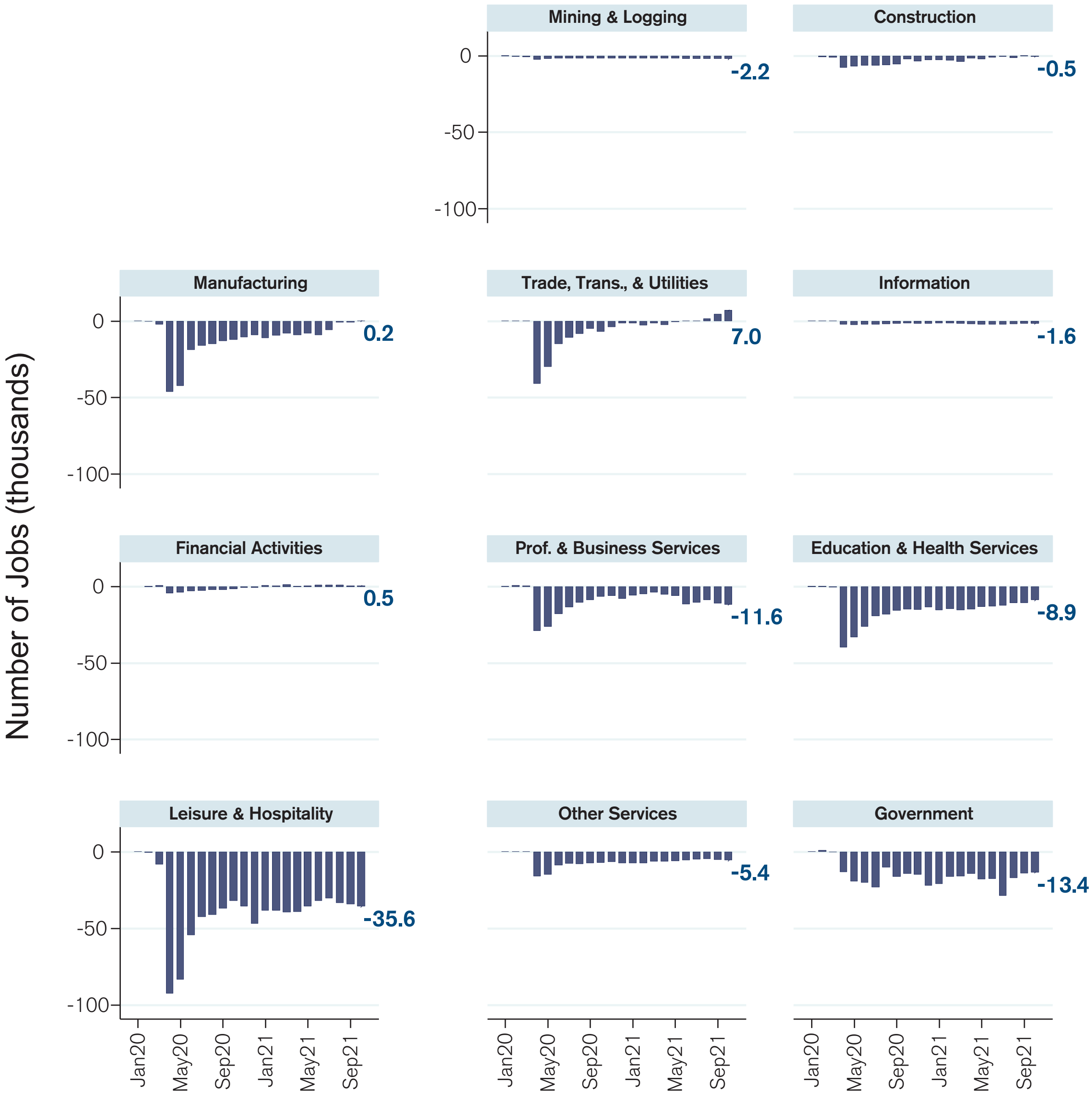


Source: US Bureau of Labor Statistics. Current Employment Statistics.

Note: The scale varies across charts to emphasize the changes within each sector.

Figure 9

Change in Employment Since January 2020, Kentucky



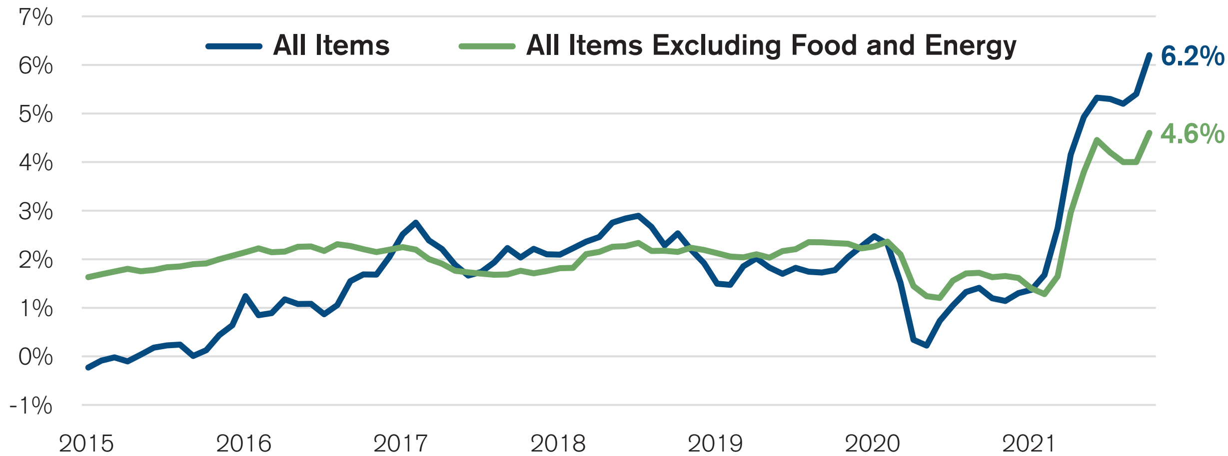
Source: US Bureau of Labor Statistics. Current Employment Statistics.

Note: The scales are constant across charts to show the relative employment changes across sectors.

INFLATION

Supply chain constraints and labor shortages continue to push prices higher. The U.S. Bureau of Labor Statistics reported that the Consumer Price Index for all items had increased by 0.9% from September to October. The CPI was up 6.2% from October 2020 to October 2021 (Figure 10). Inflation rose across a wide range of consumer goods.

Figure 10
Consumer Price Index
12-month Percent Change



Source: US Bureau of Labor Statistics. Consumer Price Index, All Urban Consumers, Seasonally Adjusted.

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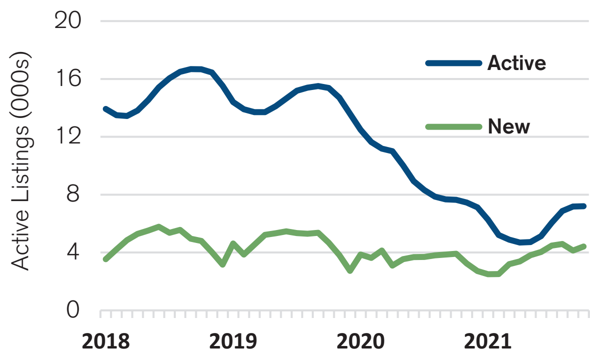
HOUSING MARKET

The housing inventory improved considerably over the spring, but the improvements slowed during the summer (Figure 11). The number of houses listed in October was down 53 percent from October 2019. Houses that are listed continue to sell quickly. Median days on the market for October was 39 days. In October 2019, a house was on the market for a median of 67 days (Figure 12).

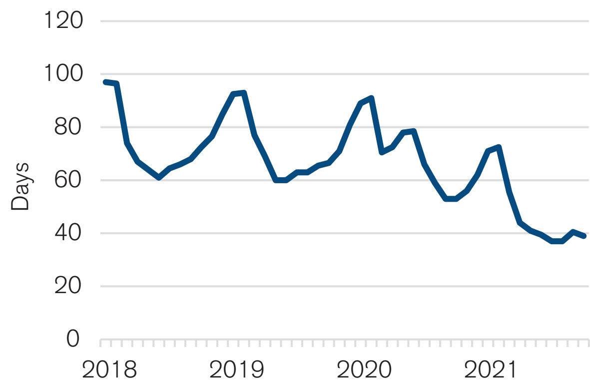
The Federal Housing Finance Agency's (FHFA) Housing Price Index for the U.S. increased by 4.9% from the 1st to 2nd quarter of 2021 (Figure 13). Kentucky's index increased by 5% over this period. More recent data collected by Realtor.com suggest Kentucky's housing price increases continued into the Fall. Kentucky's median list price for October was $243,000. While this was down from $250,000 during the summer, it was up 5.7% from October 2020 and up 15.7% from October 2019.

Figure 11
Number of Active & New For Sale House Listings, Kentucky



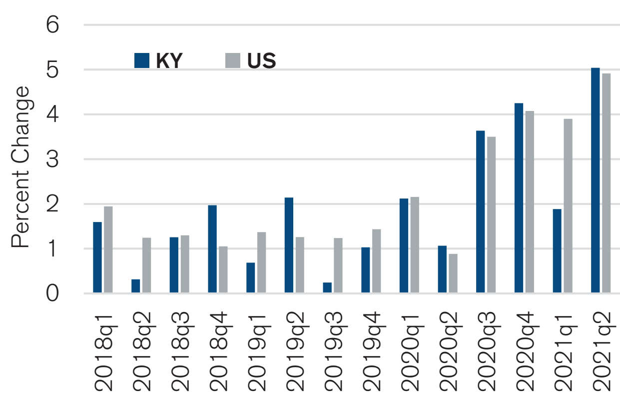
Source: REALTOR.com. Not Seasonally Adjusted.

Figure 12
Median Days on the Market, Kentucky



Source: REALTOR.com. Not Seasonally Adjusted.

Figure 13
FHFA Housing Price Index, Percent Change from Prior Quarter



Source: Federal Housing Finance Agency. Seasonally Adjusted.

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