



Kentucky Chamber

Uniting Business. Advancing Kentucky.

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Economic Conditions Across Kentucky

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EUR/USD 1.212

USD/JPY 78.170 78.548 77.932

GBP/USD 1.55361 1.56320 1.55208

USD/CHF 0.99034 0.99404 0.98960

AUD/USD 1.02887 1.03686 1.02723

USD/CAD 1.01617 1.01722 1.01286

1.0170

1.0165

1.0160

1.0155

1.0150

1.0145

22:00 23:00 00:00 01:00 02:00 03:00 04:00 05:00 06:00

NZD/USD 0.79182 0.79986 0.79004

GBP/JPY 121.455 122.652 121.125

Economic conditions uneven across state as 2014 begins

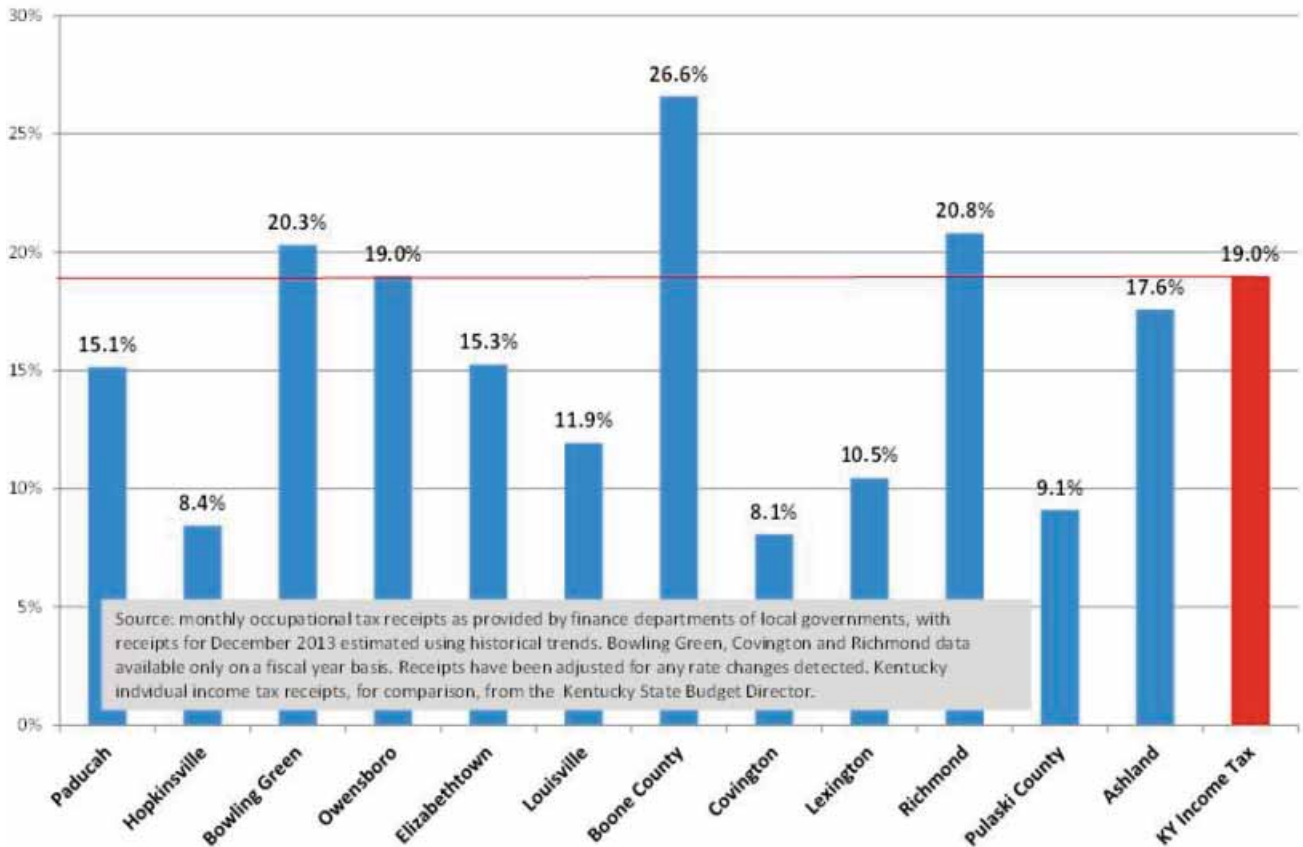
WHAT IS THE AVERAGE elevation of Colorado? That question provides a good analogy to discussing economic conditions around Kentucky. Averages mask the large variation in economic activity as one scans the state, from Paducah to Ashland. We recently surveyed local fiscal reports and federal databases to discern recent economic performance around the state. The various geographic references vary, from municipalities to counties to metropolitan areas, but interesting patterns emerge. Here is what we found.



SUMMARY

- **Wages and salary growth** since 2007 (the peak of last national expansion) in major local government jurisdictions varied widely, from a low of 8 percent in the City of Covington to a high of 27 percent for Boone County Fiscal Court. The largest cities – Louisville and Lexington – have been slow to rebound from the recession, with payrolls growing more slowly than the state average.
- The fastest growing Kentucky counties in terms of total **wages and salaries paid** since the last recession have been Hardin, Madison, Christian – all home to major military operations that expanded.
- **Job growth** has been uneven, with several metropolitan areas now surpassing the number of jobs they supported before the 2008 recession. The Owensboro MSA has had the strongest net job growth, followed by Clarksville-Hopkinsville. But several metros are still well below their 2007 peak job levels, including Huntington-Ashland and Cincinnati-Northern Kentucky. The state of Kentucky, as a whole, is still about 34,000 jobs (2 percent) below its peak in 2007.
- The **housing recovery** is actually more like housing stability, with new home construction still below half of its 2005 peak in most markets. The good news is that the last few years have been very stable across Kentucky. Going back to the bubble years of the first half of the last decade is not realistic, nor recommended given the severe financial and economic consequences of the overbuilding and easy credit.

Growth in Wages and Salaries, 2007 to 2013, Earned by Workers in Large Local Government Jurisdictions Around Kentucky



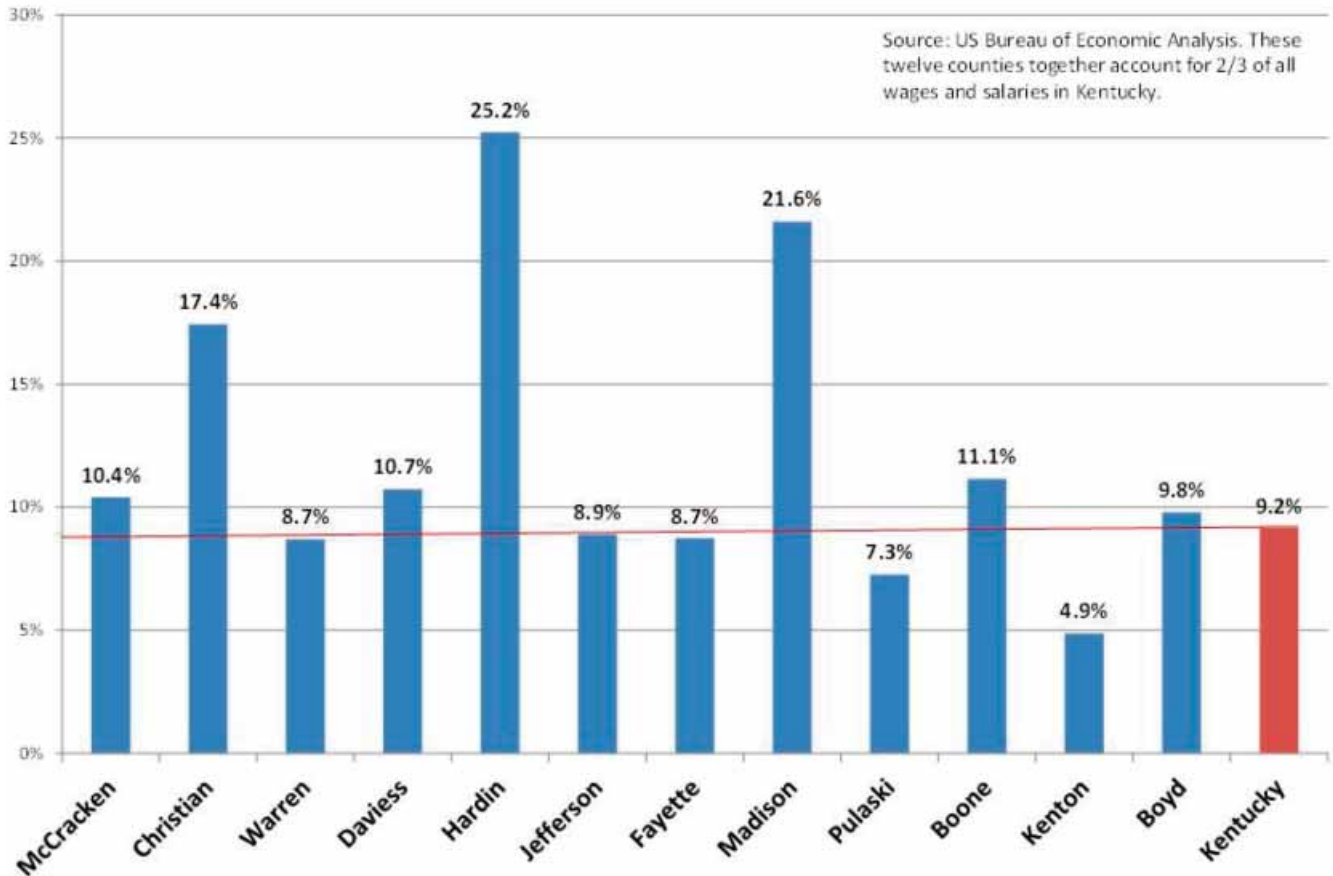
PAYROLL GROWTH

We obtained recent monthly data on payroll tax receipts by some of the largest local governments across Kentucky, and used them to divine trends in payroll growth across our regional economies. The local governments included encompass over half of the wages and salaries paid statewide. The payroll tax receipts are very reliable indicators of economic activity, for several reasons. Unlike most local economic measures, they are reported right away and are never revised. And they reflect a flat percentage tax on wages and salaries paid in the local jurisdiction, and hence ebb and flow with total local payrolls. So, if one is interested in the latest read on economic activity around the Commonwealth, there is nothing better available (though this is certainly not a comprehensive list of local governments).

Using data through November 2013, we see that the Boone County Fiscal Court had the strongest growth among the jurisdictions the last six years. Large cities, like Louisville, Covington, and Lexington have had a slower rebound from the last recession. The growth in receipts from the Kentucky individual income tax is shown for comparison, but keep in mind that the income tax applies to all forms of income, not just wages and salaries, and reflects all the various deductions and exemptions related to household structure.



Growth in Wages and Salaries, 2007 to 2012, Central Counties

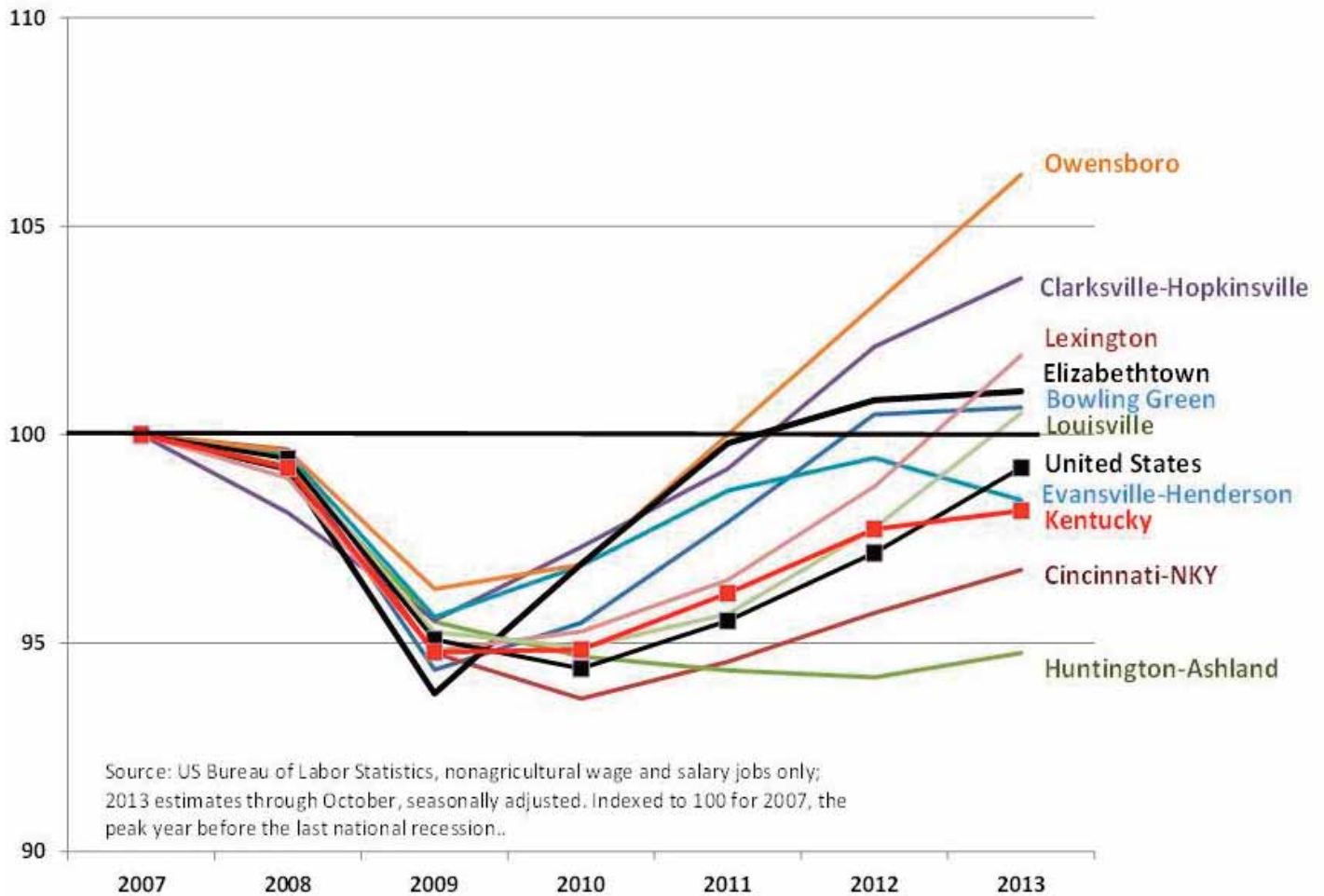


This pattern is similar to one revealed by county-level data, available only through 2012. One can see that Hardin, Christian, and Madison counties have had the strongest payroll growth. These are all counties with a very large military presence, and their local economies have been lifted by the favorable results of the last Base Realignment and Closure Commission round. Fort Campbell, Fort Knox, and the US Army Depot all received net boosts in missions and dollars. Most of the other major counties tracked the state average, except that Kenton County has shown very little growth in payrolls over the last five years.

¹ None of these counties ranked so highly in terms of private sector payroll growth. Indeed, looking across all 120 Kentucky counties, those with the highest growth rates in labor earnings were smaller counties with strong industrial expansions: Union (43 percent), Ohio (43 percent), Bullitt (42 percent), Carlisle (38 percent), and Martin (35 percent).

Job Growth Since Last Recession

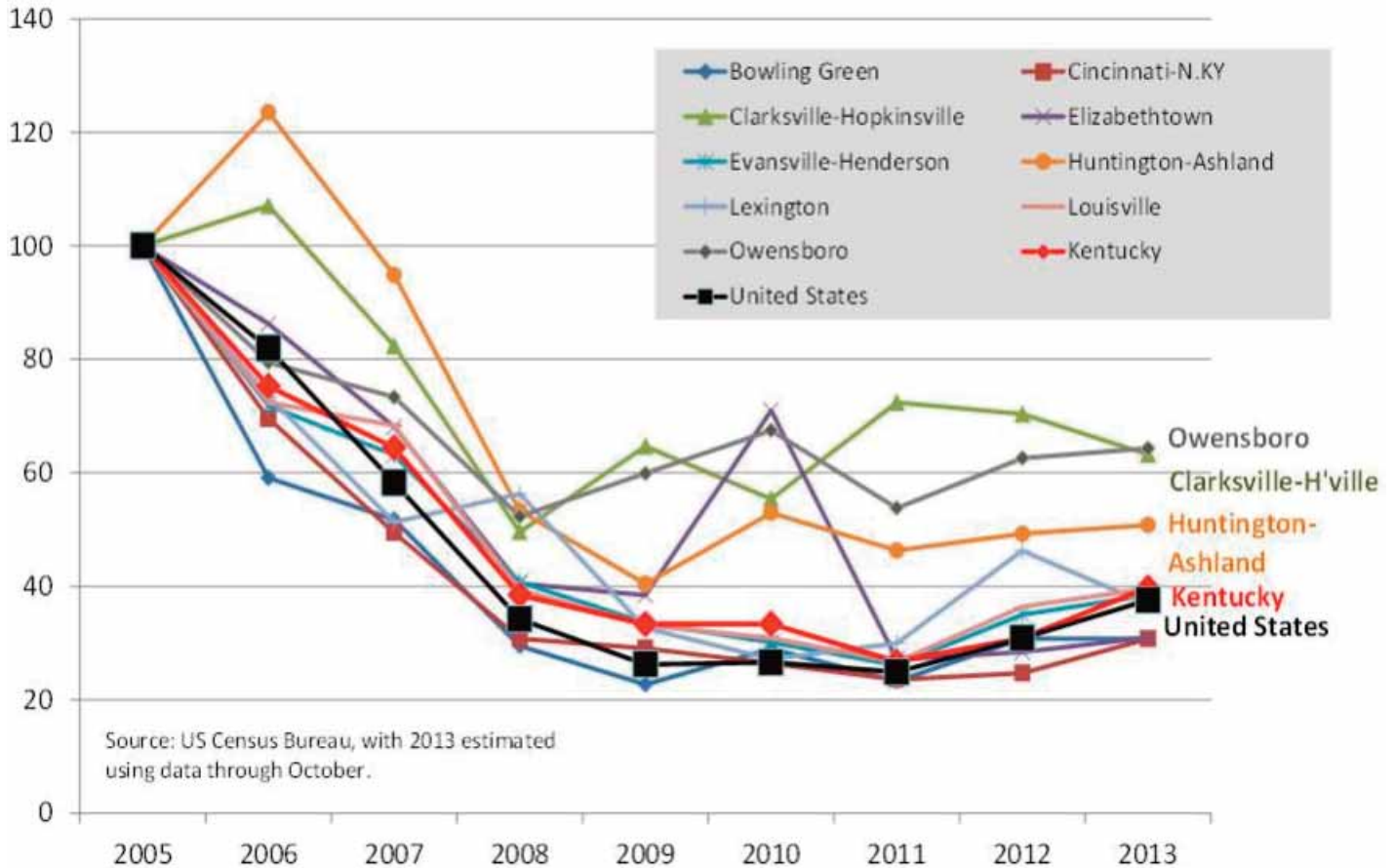
Metropolitan Areas Containing Kentucky Counties



JOB GROWTH

The peak of the last economic expansion nationally was in late 2007, and six years later the US is just getting back to the employment levels it reached then. How is Kentucky faring in the employment recovery? While the state as a whole is still about two percent below its last peak, several metropolitan economies appear to be growing briskly, while at least one remains stuck at a recession level. Owensboro has added several thousand jobs since the recession ended, and in percentage terms has had the strongest growth of all the major regional economies around Kentucky. Owensboro recently built a large new hospital, serving all surrounding counties, and continues to add hundreds of employees annually. The Clarksville-Hopkinsville MSA has also been expanding quickly, followed by Lexington and Elizabethtown. However, the Huntington-Ashland MSA has added no net jobs during the national recovery. And the Cincinnati-Northern Kentucky MSA is still about 30,000 jobs away from the level it hit at the peak of the last national expansion.

Single-Family Building Permits Issued by Metropolitan Area Containing Kentucky Counties, Indexed to 2005 Peak



HOUSING MARKETS

The recovery of the housing market has been given great play in the media over the last two years, as one of the few sources of economic growth nationally. However, a glance at the accompanying chart reveals how modest the upturn has been, particularly compared to the level of activity during the boom years. For the United States as a whole, single-family building permits peaked in 2005 at 1.5 million units. There will be only around 600,000 housing units permitted in 2013, though this does represent a 22 percent growth over 2012. Note that permits for the state of Kentucky track the national pattern almost perfectly, as do permits for the nine metropolitan statistical areas containing Kentucky counties. All geographies but three – Owensboro, Clarksville-Hopkinsville, and Huntington-Ashland MSAs – are reporting less than half the building permits this year than they did in 2005. Multi-family housing permits, not shown, exhibit a similar pattern, though they have grown in importance the last few years as fewer households qualify for mortgages under the more stringent, post-crisis, lending standards.



Kentucky Chamber

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The Kentucky Chamber represents the interests of more than 90,000 employers across the Commonwealth. From family-owned shops to Fortune 500 companies in virtually every industry in the state, our business community shares a vested interest in enhancing Kentucky's ability to compete on a national and global scale.

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