# KENTUCKY'S ECONOMIC RECOVERY

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

**FEBRUARY 2021**


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

Kentucky Chamber
Uniting Business. Advancing Kentucky.

In addition to causing a global health crisis, the COVID-19 pandemic has also shaken our economy to its core. In February 2020, Kentucky's economy was strong-we had a record number of job investments, record low unemployment and job creators were charging full-speed ahead as we entered a new decade. Of course, all of that came to a screeching halt in March when the COVID-19 pandemic paralyzed our economy. Very quickly, Kentucky set a record for the number of unemployment claims with more than 591,000 claims filed in 6 weeks, small businesses were closing, and our workforce participation rate plummeted to the lowest in the nation.

As the COVID-19 vaccination becomes more readily available, we are hopeful the economy will start to get back on track, but we must keep our eye on the ball. The Kentucky Chamber, partnering with the University of Kentucky's Center for Business and Economic Research, will be publishing a report every three months taking a deep dive into the Commonwealth's economy as we work to rebuild, recover and get our citizens back to work. Our goal is for these regular, quarterly reports will be to inform the public and provide a tool for lawmakers as they shape policy essential to our economic recovery.

Our economy will look different post-recovery, as business sectors have shifted and consumer habits have evolved. In a time of such transition, we must make sure Kentucky is a place that attracts growth, talent, and the job creators that will lead us into the future. But in order to achieve this, we must have a strong, educated and skilled workforce and a competitive economy.

Highlights of this first release of "Kentucky Economic Update" include:

- Kentucky's GDP bounced back during the 3rd quarter of 2020 but was still below pre-pandemic levels.
- While employment was still down 5.2% in December compared to a year ago, Kentucky has recovered 65% of jobs lost during initial months of the pandemic.
- As of December 2020, Kentucky's unemployment rate stood at 6%, down from 16.6% in April 2020.
- Kentucky's labor participation rate, which was 59.6% just before the pandemic dropped to 57.5% in December 2020.

With federal and state aid helping keep the economy afloat, the extent of damage occurred over the last 11 months is still yet to be seen, but we must prioritize our economic recovery. We are hopeful these quarterly reports will keep our eye on the ball as we work toward a post-pandemic economy.

Ashli Watts

**ASHLI WATTS**
President & Chief Executive Officer
*Kentucky Chamber of Commerce*

Kentucky Chamber

# While the state's economy is improving, there is still a high degree of uncertainty associated with the pace of recovery.

**Michael W. Clark, Ph.D.**
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When the state issued social distancing orders and businesses suspended operations to curb the spread of the virus, Kentucky's employment declined by just over 326,000 jobs and output plummeted. As restrictions were eased, firms began rehiring workers and increasing production. Kentucky has now recovered 65 percent of the jobs lost at the beginning of the pandemic. While the state's economy is improving, there is still a high degree of uncertainty associated with the pace of recovery. Employment growth slowed in recent months and fell in December as cold weather and reduced capacity for in-door dining caused restaurants and other hospitality businesses to reduce their payrolls again. Kentucky's economy is still operating below pre-pandemic levels. The rate of continued recovery will depend on the vaccine roll-out and strengthening consumer confidence.

# HIGHLIGHTS

**KY's GDP bounced back during the 3rd quarter of 2020 but was still below pre-pandemic levels.**

**While employment was still down 5.2% in December compared to a year ago, KY has recovered 65% of jobs lost during initial months of pandemic.**

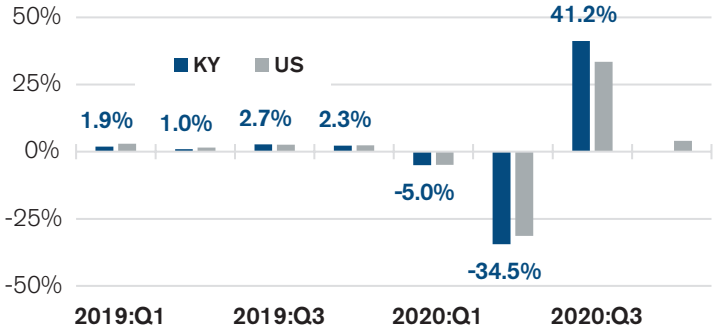
**KY construction employment up three percent from year ago.**

**KY housing prices up 3.6% in 3rd quarter of 2020.**

# ECONOMIC OUTPUT

Kentucky's **real Gross Domestic Product** (GDP), which represents the value of goods and services produced in the state adjusted for inflation, increased at an annual rate of 41.2 percent during the 3rd quarter (Figure 1). This followed an unprecedented decline of 34.5 percent during the second quarter when social distancing orders were issued and businesses shuttered to help control the spread of COVID-19. Kentucky's 3rd quarter increase exceeded the national increase of 33 percent during the 3rd quarter. U.S. GDP extended its growth during the 4th quarter, posting an annualized increase of four percent over the third quarter. However, the state's real GDP was still 3.2 percent lower than its peak during the 4th quarter of 2019.

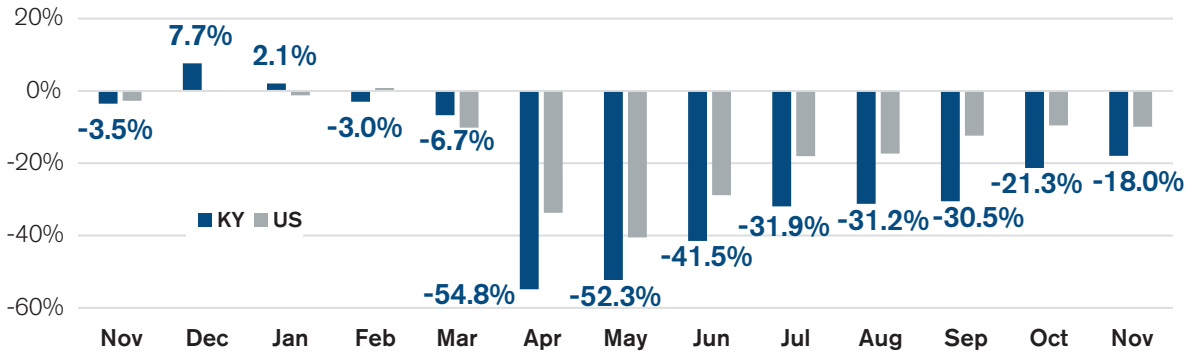
**Figure 1**
**Percent Change Real GDP from Prior Quarter, Annual**




*Source: US Bureau of Economic Analysis.*

In 2019, Kentucky **exports** totaled $33 billion, accounting for 15 percent of the Commonwealth's GDP. When the pandemic began, Kentucky exports were hit hard (Figure 2). April's exports fell 55 percent compared to April 2019. While they have recovered somewhat, Kentucky's exports for November, the most recent available, were still 18 percent lower than November 2019. Transportation equipment accounted for most of the decline for the year. Kentucky's transportation equipment exports for January through November 2020 were $7 billion lower than the same period in 2019. While most of Kentucky's export sectors saw declines, some such as computer and electronic products and primary metal manufacturing increased in 2020.

**Figure 2**
**Exports Percent Change From Same Month Prior Year**




*Source: US Census Bureau, Trade On-line. Not Seasonally Adjusted.*

# LABOR FORCE & EMPLOYMENT

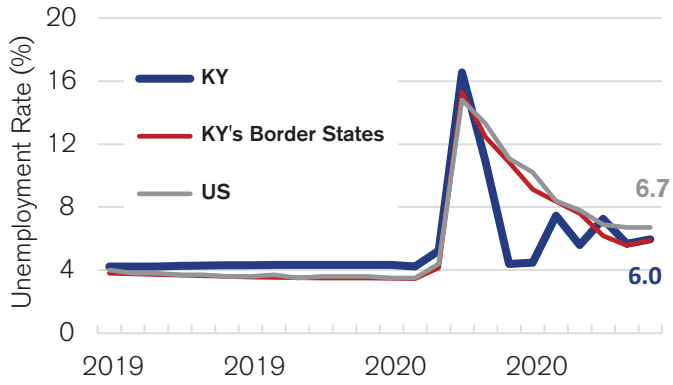
As of December, Kentucky's **unemployment rate** stood at six percent (Figure 3). This was down significantly from the peak of 16.6 percent in April. December's figures put Kentucky's rate essentially equal to the rate for surrounding states in total and lower than the national rate of 6.7 percent. Kentucky's unemployment rate declined for two reasons. First, many workers returned to their jobs or found new jobs. This is demonstrated by the state's **employment to population ratio**, which improved from 48.9 percent in April to 54.1 percent in December (Figure 4).

The second reason the state's unemployment rate decreased is that fewer Kentuckians were in the labor force. The U.S. Bureau of Labor Statistics (BLS) estimates unemployment rates using surveys that ask residents about their employment situation. Based on respondents' answers, the BLS assigns them to one of three categories. Those who worked for pay are defined as employed. Those without a job but who are actively looking for work are considered unemployed. These two groups make up the labor force. The unemployment rate equals the number of people unemployed divided by the number of people in the labor force. Those who are without a job but not looking for one are not in the labor force.

The data suggests that many of the workers who lost jobs were not searching for work and have left the labor force.

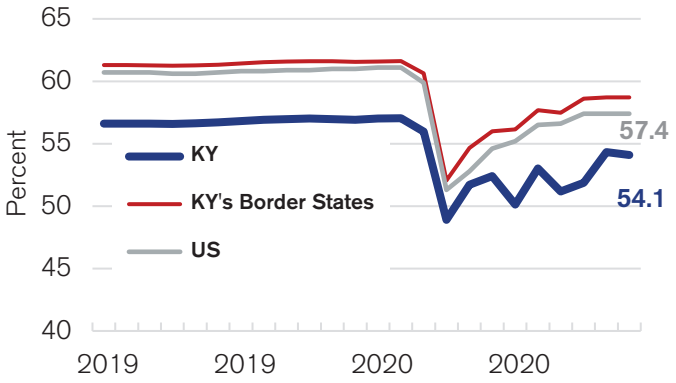
Unemployment rates have been volatile over the past few months. The volatility could reflect the dramatic swings in Kentucky's labor market caused by the pandemic and the difficulty of measuring workers' employment status during this period.

**Figure 3**
**Unemployment Rates**




*Source: US Bureau of Labor Statistics. Local Area Unemployment Statistics. Seasonally Adjusted.*

**Figure 4**
**Employment to Population Ratio**

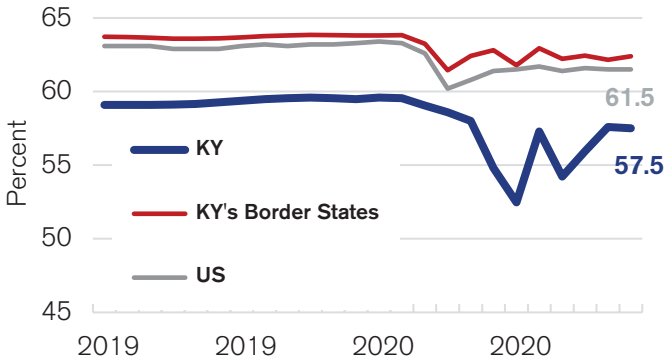



*Source: US Bureau of Labor Statistics. Local Area Unemployment Statistics.*

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

Several factors could explain why some unemployed workers were not searching for work during this time. Some workers, particularly during the early months of the pandemic, might have expected to be called back to work by their previous employers. Kentucky also waived the job search requirement for unemployment insurance. Others might have felt the prospects of finding work were low or could not return to work due to the increased challenges of finding childcare during the pandemic. Since these individuals are classified as not in the labor force rather than unemployed, even though many might want to return to work, they are not included in the state's unemployment rate. This issue is reflected in Kentucky's **labor force participation rate**, which was 59.6 percent just before the pandemic and was 57.5 percent in December (Figure 5). Kentucky has the 6th lowest labor force participation rate among the 50 states. The decline in labor force participation suggests that the unemployment rate does not fully reflect the employment situation.

**Figure 5**
**Labor Force Participation Rate**

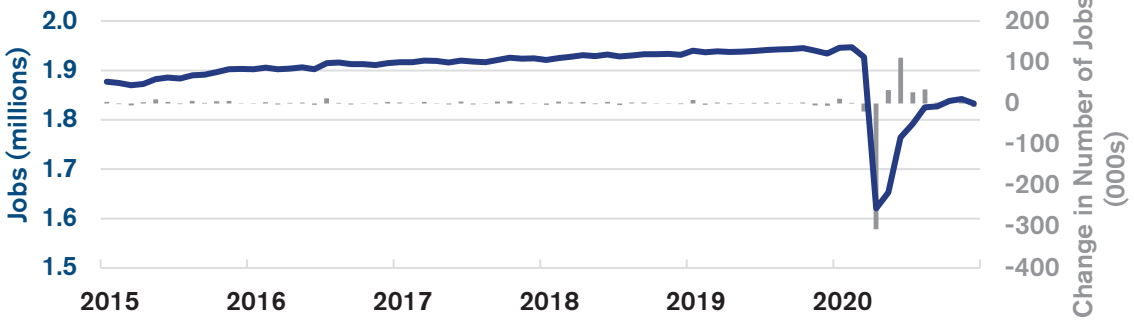



*Source: US Bureau of Labor Statistics. Local Area Unemployment Statistics.*

A separate survey of nonfarm businesses and government entities shows the number of employees on payroll. The survey covers all nonfarm employers but excludes individuals who are self-employed. In March and April, Kentucky's **total nonfarm employment** fell by 326,300 jobs (Figure 6). As of December, Kentucky had recovered 65 percent of the jobs lost during the first months of the pandemic. While jobs recovered quickly after restrictions were lifted, growth has slowed in recent months and cold weather and additional restrictions on indoor dining capacity for restaurants contributed to a decline of 9,100 jobs in December. This was the first contraction in employment since April.

Kentucky's employment was still down 5.2 percent, or 100,900 jobs, compared to one year ago.[1] This was slightly better than the US, which was down 6.2 percent, and slightly worse than Kentucky's border state, which combined were down five percent.

**Figure 6**
**Kentucky Non-farm Employment**




*Source: US Bureau of Labor Statistics. Local Area Unemployment Statistics. Seasonally Adjusted.*

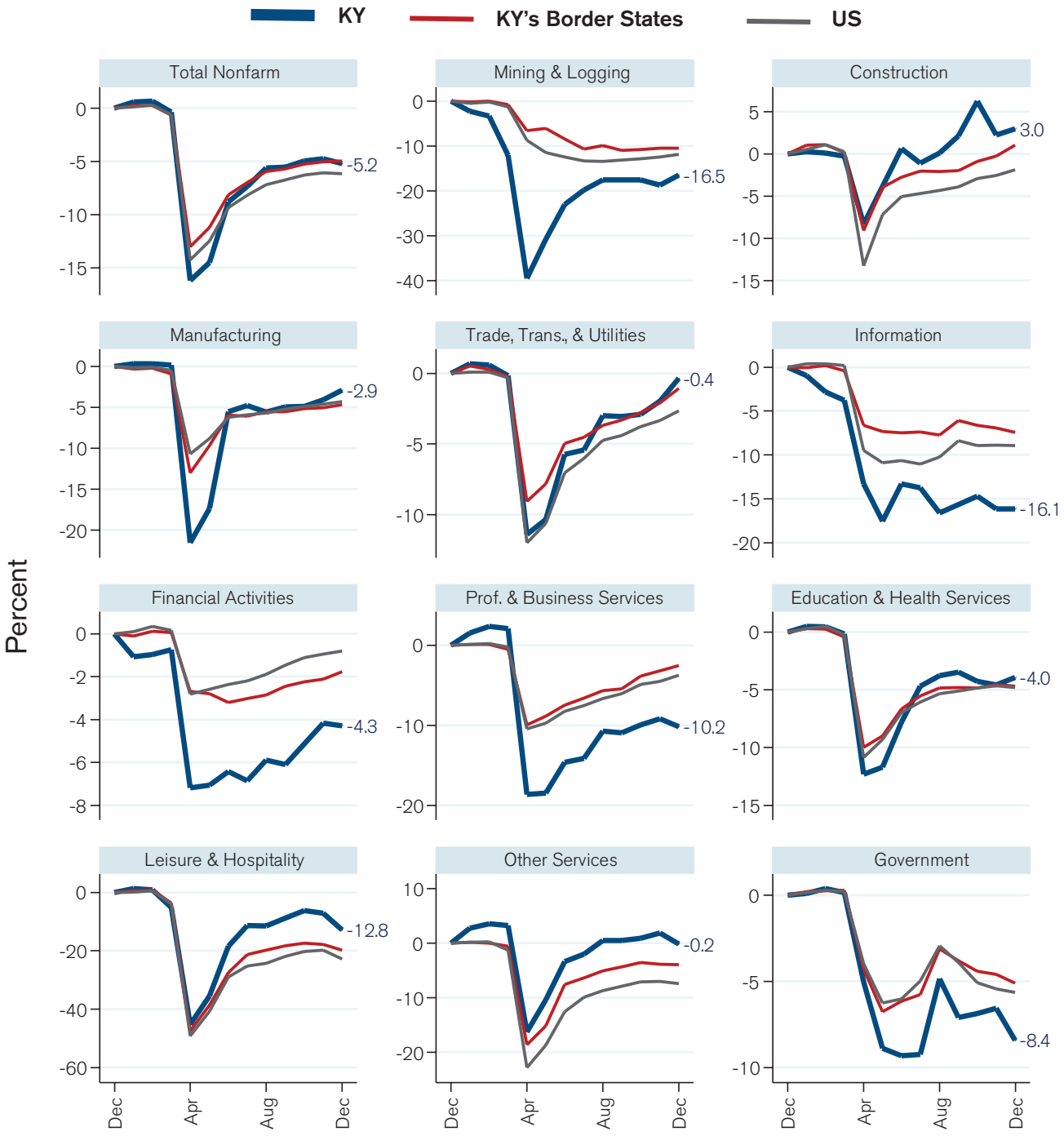
Figures 7 and 8 show how employment has changed over the past 12 months across major industrial sectors. Figure 7 shows the percentage change in employment each month compared to December 2019 and shows similar numbers for the nation and Kentucky's border states. Figure 8 shows the change in the number of jobs each month compared to December 2019 for each major industrial sector. By benchmarking monthly employment numbers to levels in December, the figures show how Kentucky's employment progressed each month compared to just before the pandemic.

All of Kentucky's major industrial sectors experienced significant employment losses during the first months of the pandemic. Most recovered some of these losses in the following months as the economy reopened. Trade, transportation, and utilities firms, which lost 45,300 jobs from December 2019 to April 2020, were only down 1,400 jobs as of December 2020. Both retail and wholesale trade posted more jobs in December than the previous year. Kentucky's leisure and hospitality sector experienced the largest employment losses as the pandemic began—down 92,700 jobs from December to April. While many of these jobs had been returning, cold weather and additional restrictions on indoor capacity contributed to additional job losses in December.

While jobs losses in the retail trade and the leisure and hospital sectors have received a lot of attention, job losses in professional and business services; education and health care; and government sectors also accounted for a large share of Kentucky's losses and these sectors have been slower to recover. Construction was the one sector that grew, likely driven by increased demand for remodeling and new housing. Kentucky's construction sector has outperformed the US and surrounding states.

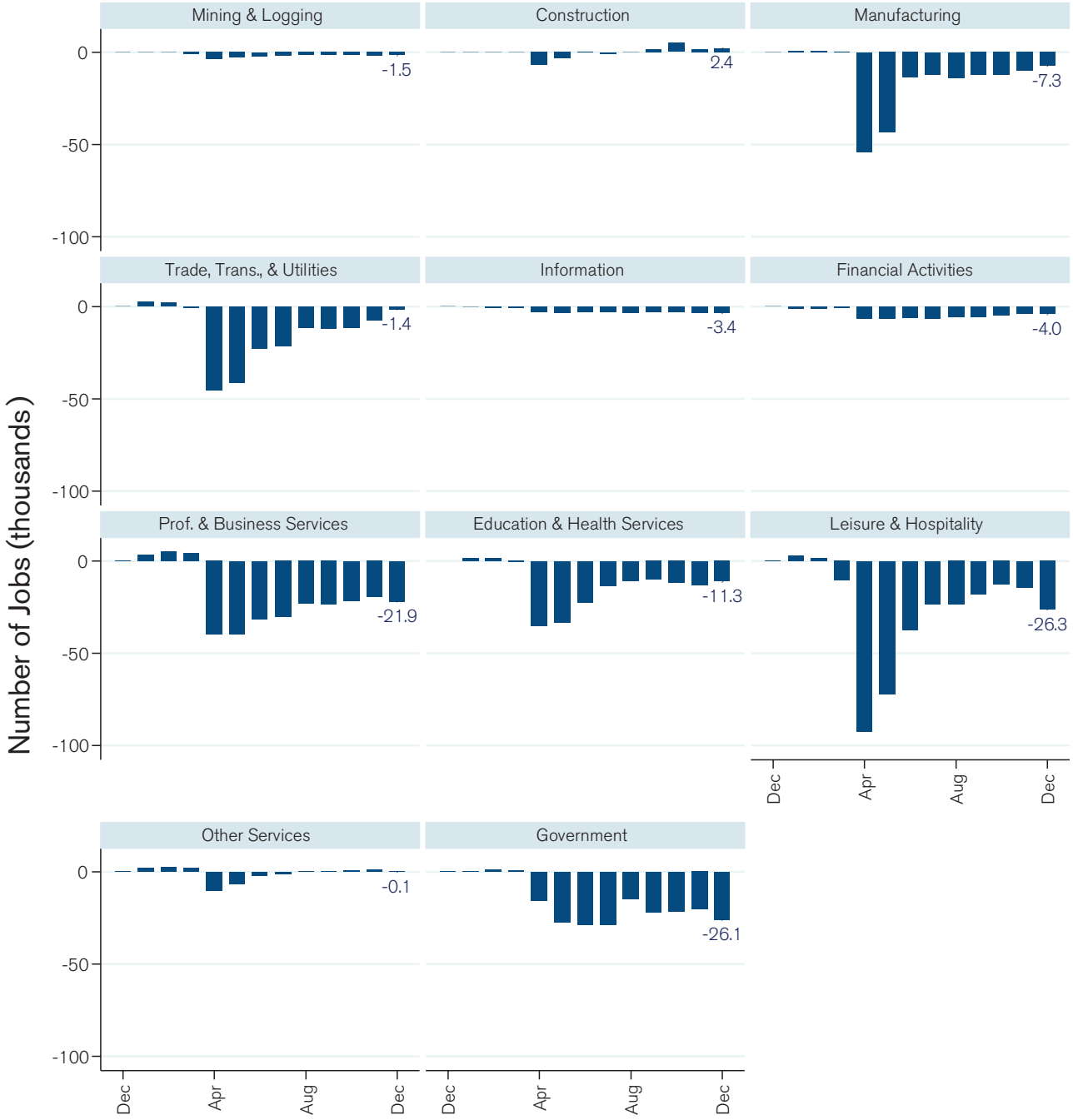
[1]Detailed information on Kentucky's labor market including data, monthly updates, and reports can be found at the Kentucky Center for Statistics **https://kystats.ky.gov/**.

**Figure 7**
**Percent Change in Employment Since December 2019**




*Source: US Bureau of Labor Statistics. Current Employment Statistics.*
*Note: The scale varies across charts to emphasize the changes within each sector.*

## Figure 8
### Change in Employment Since December 2019, Kentucky



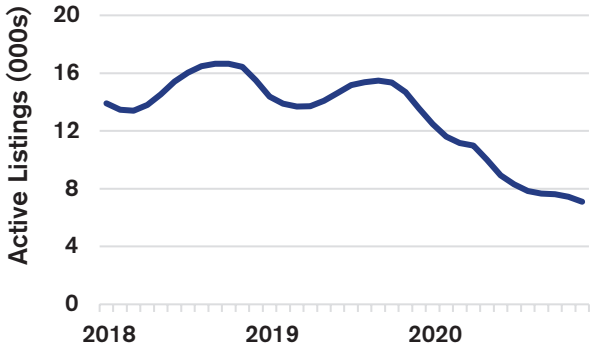

*Source: US Bureau of Labor Statistics. Current Employment Statistics.*
*Note: The scales are constant across charts to show the relative employment changes across sectors.*

# HOUSING MARKET

Historically low mortgage rates and a growing desire for more living-space has fueled housing demand in Kentucky. However, supply has not kept up with demand as families have been reluctant to list their homes, possibly due to the heighten uncertainty with the pandemic and recession. Data from REALTOR.com suggests the number of active listings have broken their typical seasonal cycle. Rather than increasing in the spring and summer, active listings declined (Figure 9). As of December, active listings were down 50 percent from one year ago.

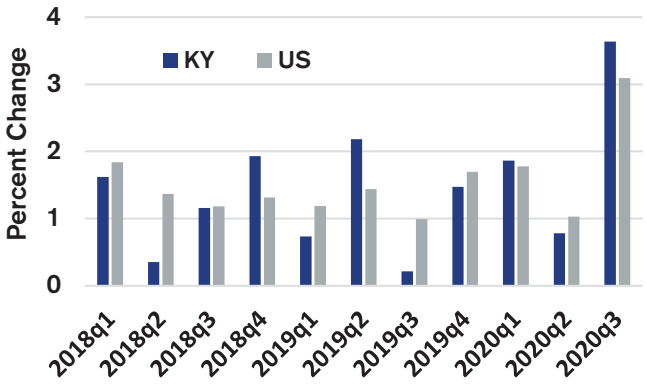
While housing prices fell during the 2nd quarter of 2020, increasing demand and fewer listings have put considerable pressure on Kentucky's housing market in recent months—driving prices higher and reducing the length of time houses are on the market. The Federal Housing Finance Agency's Housing Price Index for Kentucky was up 3.6 percent in the 3rd quarter of 2020 (Figure 10). National housing prices were up 3.1 percent. While median days on the market are increasing as cold weather sets in, days on the market remain low compared to the same period last year. In December of 2020, Kentucky houses were on the market for a median of 62 days (Figure 11). One year ago, the median was 81 days.

**Figure 9**
**Number of Active For Sale Housing Listings, Kentucky**



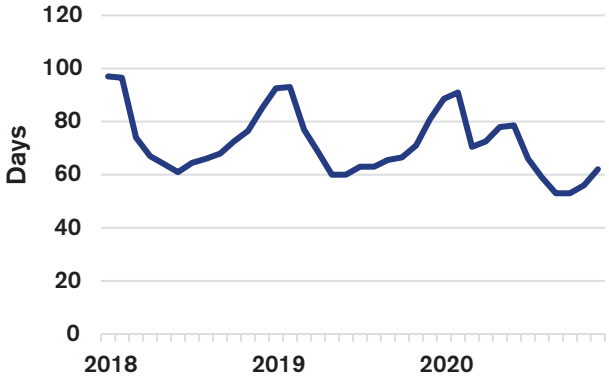

*Source: REALTOR.com. Not Seasonally Adjusted.*

**Figure 10**
**FHFA Housing Price Index, Percent Change from Prior Quarter**




*Source: Federal Housing Finance Agency. Seasonally Adjusted.*

**Figure 11**
**Median Days on the Market, Kentucky**




*Source: REALTOR.com. Not Seasonally Adjusted.*

# Kentucky's economy is still operating below pre-pandemic levels. The rate of continued recovery will depend on the vaccine roll-out and strengthening consumer confidence.