

KENTUCKY'S ECONOMIC RECOVERY

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



SEPTEMBER 2021

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


Kentucky Chamber
Uniting Business. Advancing Kentucky.



It's been more than 17 months since the first COVID-19 case was announced in Kentucky. Since then, our economy has felt something like a rollercoaster, with ups and downs, starts and stops, twists and turns, and a lot of uncertainty about what is coming next.

The 3rd edition of Kentucky's new quarterly economic report, produced in partnership with the Center for Business and Economic Research at the University of Kentucky, captures this unique moment in the Commonwealth's economic history. For example, despite employers continuing to add jobs to payrolls during the second quarter of 2021, Kentucky's workforce is struggling to return to pre-pandemic levels. In fact, after several months of gradual growth, the size of our workforce actually declined between March 2021 and June 2021. This data echoes the challenges we hear about every day from Kentucky employers who struggle to find workers and fill open positions.

Another twist in the story of our economic recovery is the emergence of inflation as a major topic of concern. Economists, business leaders, and policymakers have all been watching this issue closely. As our new report shows, the factors driving inflation may prove to be temporary. Nonetheless, inflation adds an additional (and unwelcome) layer of uncertainty for employers and policymakers to navigate as we all continue working to rebuild Kentucky's economy.

On top of all this, the economic impact of the COVID-19 Delta variant remains something of a mystery. Much of the data on which this report is based predates the surge in COVID cases we are currently experiencing. It is common for economic data to have a lag to it. While we are all hearing about potential event cancellations, making changes to our travel plans, and readjusting to public safety recommendations, the impact of the Delta variant on our economy likely will not be detectable until new data is released in the coming months. In the meantime, the Chamber is continuing to encourage all eligible Kentuckians to get vaccinated against this virus.

In times of uncertainty and unpredictability, reliable and accurate information is more important than ever. That is exactly why the Chamber partnered with the University of Kentucky's Center for Business and Economic Research to produce these quarterly reports on the Commonwealth's economic recovery. Business leaders and policymakers should closely review the contents of this new report and use it as a resource to make informed decisions to support our economic recovery. The Chamber will release its fourth economic update report later this year. Previous reports can be found on the Chamber website.

Ashli Watts

ASHLI WATTS

President & Chief Executive Officer
Kentucky Chamber of Commerce



Kentucky Chamber

While the recession might officially have lasted only two months, the pandemic has not ended and the economy still has a way to go before it has completely recovered.





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It's official. The economic recession that was prompted by the national response to suppress COVID-19 is over. Actually, it ended some time ago and only lasted two months.

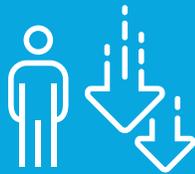
The National Bureau of Economic Research (NBER) is responsible for identifying when the US economy reaches the peaks and troughs that define the business cycle. NBER defines expansions as periods when economic activity—as measured by factors such as employment and output—is growing. Recessions represent periods with sustained or significant declines in economic activity.

According to the NBER, the COVID-19 recession began in March 2020 as the nation imposed restrictions to fight the pandemic. These restrictions caused a significant contraction in economic activity and ended the longest economic expansion in US history. However, the decline in economic activity was brief. Many of the restrictions were eased over the following months. As these restrictions were eased, economic activity began to improve. On July 19, 2021, NBER announced that the recession technically ended in April 2020 due to the sustained improvements in economic activity. While the recession might officially have lasted only two months, the pandemic has not ended and the economy still has a way to go before it has completely recovered.

HIGHLIGHTS



The COVID-19 recession
began in March 2020 and ended in April 2020 as employment and economic output began to improve, according to official sources.



Kentucky's labor force declined slightly
between March and June 2021.



Kentucky's non-farm employment was up 5,800 jobs
during the 2nd quarter of 2021.

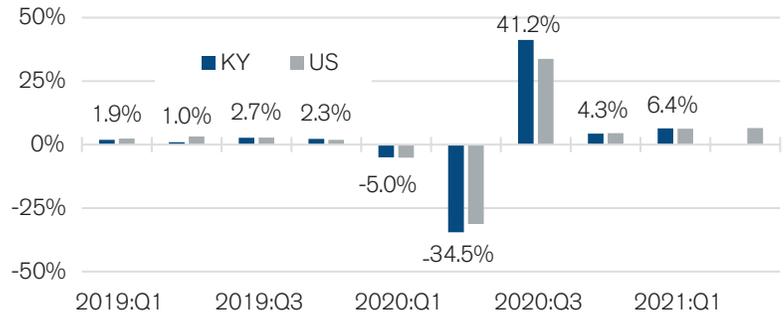


Inflation increased
between April and July 2021, but at this point the primary causes appear to be related to supply-chain and labor force issues that are likely to be temporary.

ECONOMIC OUTPUT

Both the national and state economies posted marked improvements during the first half of 2021 (Figure 1). Nationally, Gross Domestic Product (GDP) increased at annualized rates of 6.3% and 6.5% during the 1st and 2nd quarters of 2021. For comparison, national GDP growth during the last expansion from 2009 to 2019 averaged 2.25% per year. With these higher growth rates, the nation's real GDP has caught up to pre-pandemic levels. US real GDP for the 2nd quarter exceeded its previous high set during the 4th quarter of 2019. Second quarter GDP figures for Kentucky are not yet available, but the Commonwealth's 1st quarter growth rate of 6.4% mirrored the nation's growth.

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

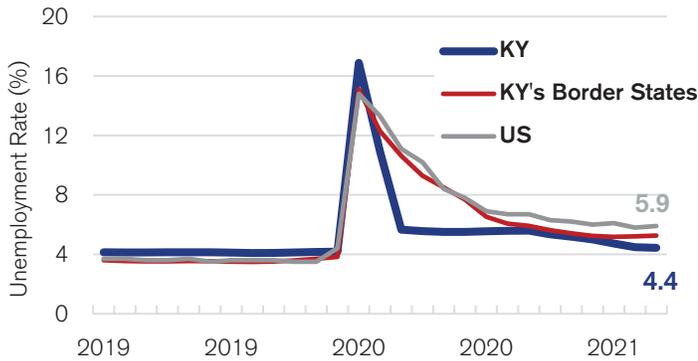


Source: US Bureau of Economic Analysis.



LABOR FORCE & EMPLOYMENT

Figure 2
Unemployment Rates

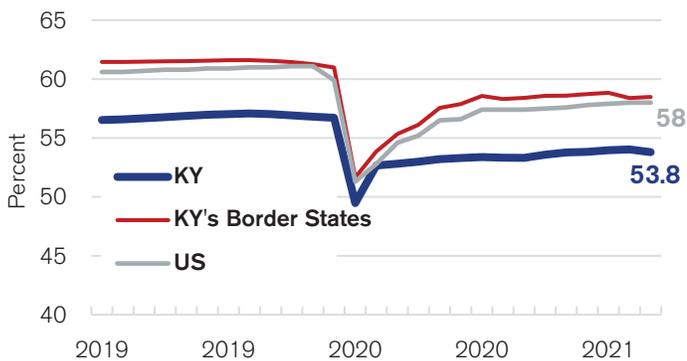


Source: US Bureau of Labor Statistics. Local Area Unemployment Statistics.

Kentucky's unemployment rate has been below the nation's rate throughout the recovery and fell further during the 2nd quarter (Figure 2). The state's unemployment rate fell from 5.6% in December 2020 to 4.4% in June. Kentucky's unemployment rate has not typically been lower than the nation's rate and should not be interpreted to indicate that Kentucky's economy is doing better than the rest of the nation.

The number of people employed in Kentucky improved during April and May, but a significant portion of these gains were lost in June. With June's decline, the number of people employed in Kentucky during the 2nd quarter was up by 2,000 workers over the previous quarter. This represents a growth rate of one-tenth of a percent. While this was an improvement, the additional workers finding jobs were not sufficient to have much impact on Kentucky's employment to population ratio, which was 53.8% in June and has changed little since February (Figure 3). The employment gains did help lower Kentucky's unemployment rate but were not the main factor behind the lower rate.

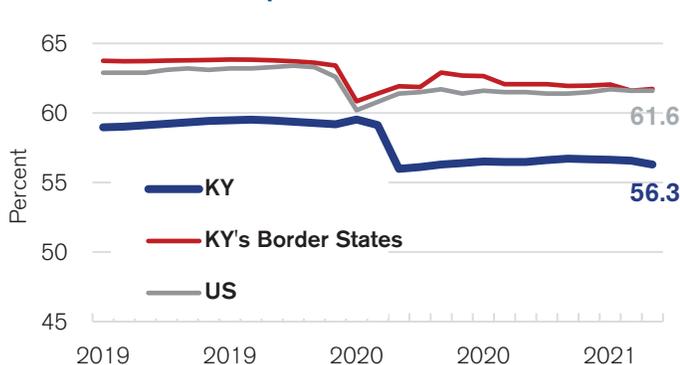
Figure 3
Employment to Population Ratio



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

People leaving the labor force was the main driver behind Kentucky's lower unemployment rate. Kentucky's labor force declined during each of the last four months (Figure 4A). During these months, Kentucky's labor force declined by more than 12,000 workers. The decline is relatively small compared to the total labor force, representing only six tenths of a percent. Nevertheless, it represents a reversal of the gains that occurred from June 2020 through February 2021. During this period, many workers who lost jobs and temporarily left the labor force due to the pandemic returned to work as restrictions were lifted.

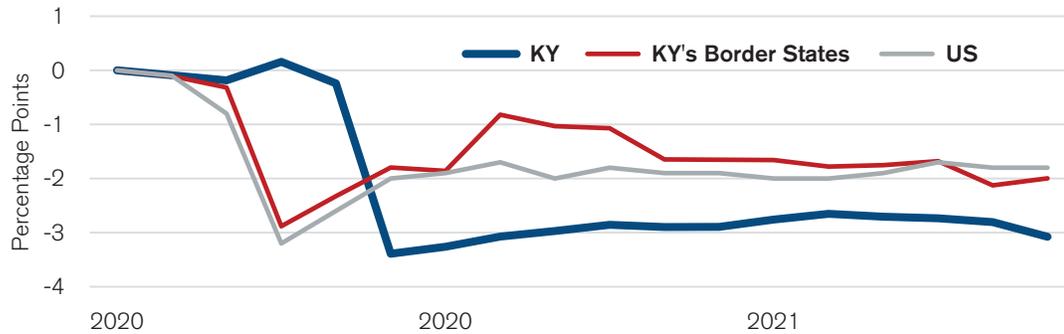
Figure 4A
Labor Force Participation Rate



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

Kentucky's labor force participation rate has also recovered more slowly than rates for the nation and Kentucky's border states. Figure 4B shows how labor force participation rates changed since January 2020. As of June, the nation's rate was only 1.8 percentage points lower than it was in January 2020. This represents a significant improvement considering the nation's rate was down 3.2 percentage points in April 2020. Similarly, the labor force participation rate for Kentucky's surrounding states was down 2.9 percentage points from January 2020 to April 2020. As of June, this rate was only down 2 percentage points from January 2020. Kentucky's LFP rate declined by 3.4 percentage points from January 2020 to June 2020. As of June 2021, it was still 3.1 percentage points lower than in January 2020.

Figure 4B
Difference in Labor Force Participation Rates
Since January 2020



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

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.

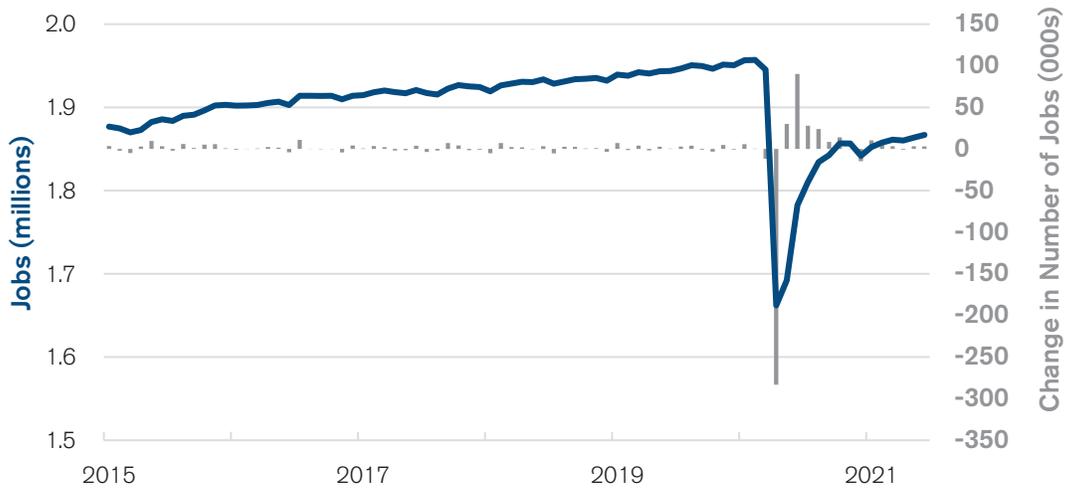
Not in the Labor Force: the number of people who are not employed and are not actively searching for work.

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

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

Employment data from employers indicates that Kentucky is continuing to make steady progress in recovering and replacing jobs lost to the pandemic. Nonfarm payroll employment fell by 800 jobs in April but added 3,400 in jobs May and 3,200 jobs in June. By comparison, Kentucky added an average of 1,700 jobs per month from 2010 through 2019. As of June, Kentucky had recovered 69% of the 294,000 jobs lost when the pandemic began.

Figure 5
Kentucky Non-farm Employment



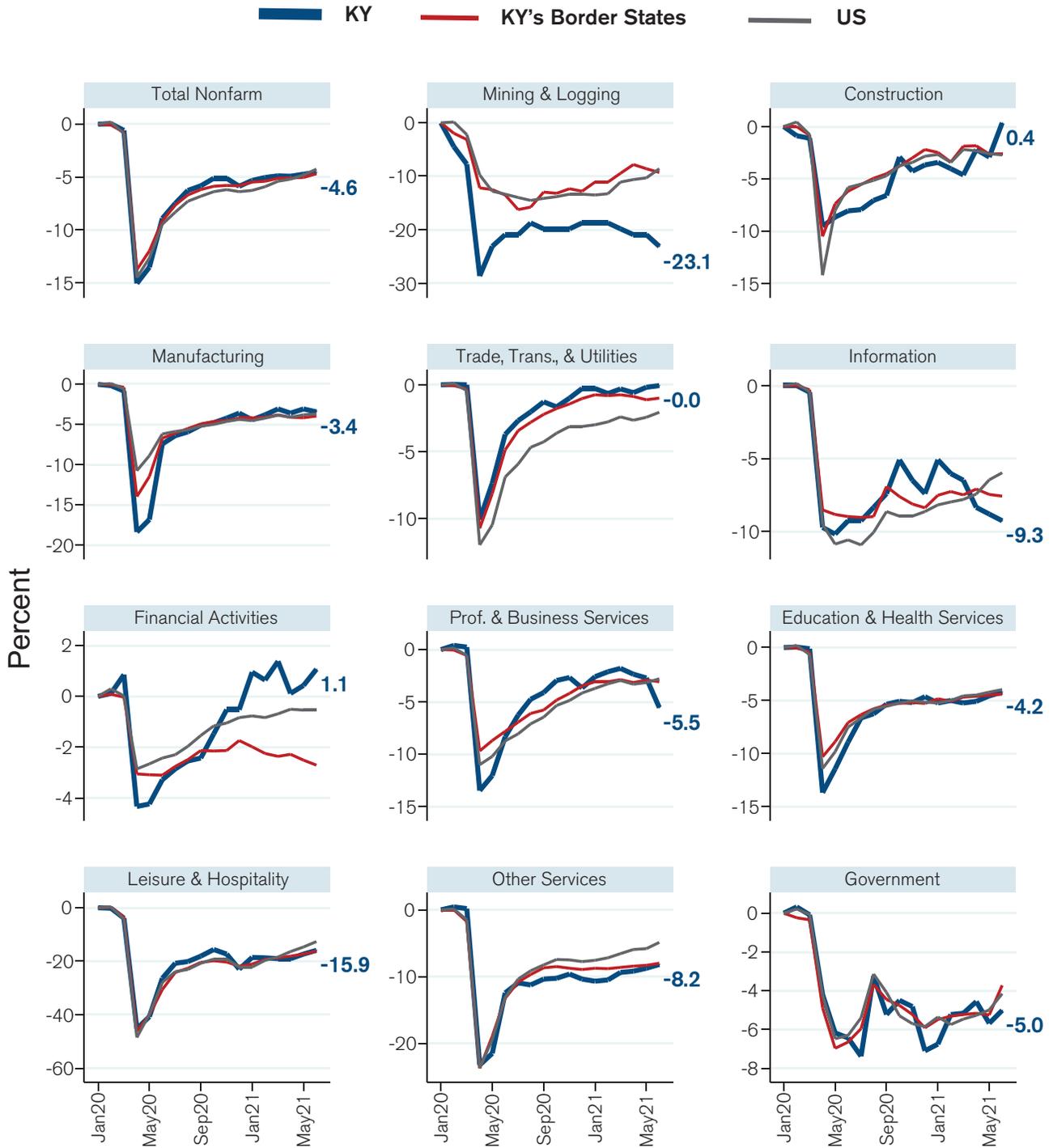
Source: US Bureau of Labor Statistics. Current Employment Statistics. Seasonally Adjusted.

As of June, three of Kentucky's major industrial sectors reported jobs levels at or above those of January 2020, just before the pandemic (Figures 6 and 7). Employment in Kentucky's construction sectors jumped in June. Strong housing demand likely contributed to this increase and helped to bring the state's construction employment just above its pre-pandemic levels. Kentucky's financial activities sector saw employment drop slightly but was still outperforming employment in Kentucky's border states and the nation.

Employment in three of Kentucky's major sectors gave up some of their past gains. These sectors were information; professional and business services; and mining and logging. While employment in these sectors declined over the last three months in Kentucky, employment in mining and logging and information grew nationally. National employment in the professional and business services sector was basically unchanged.

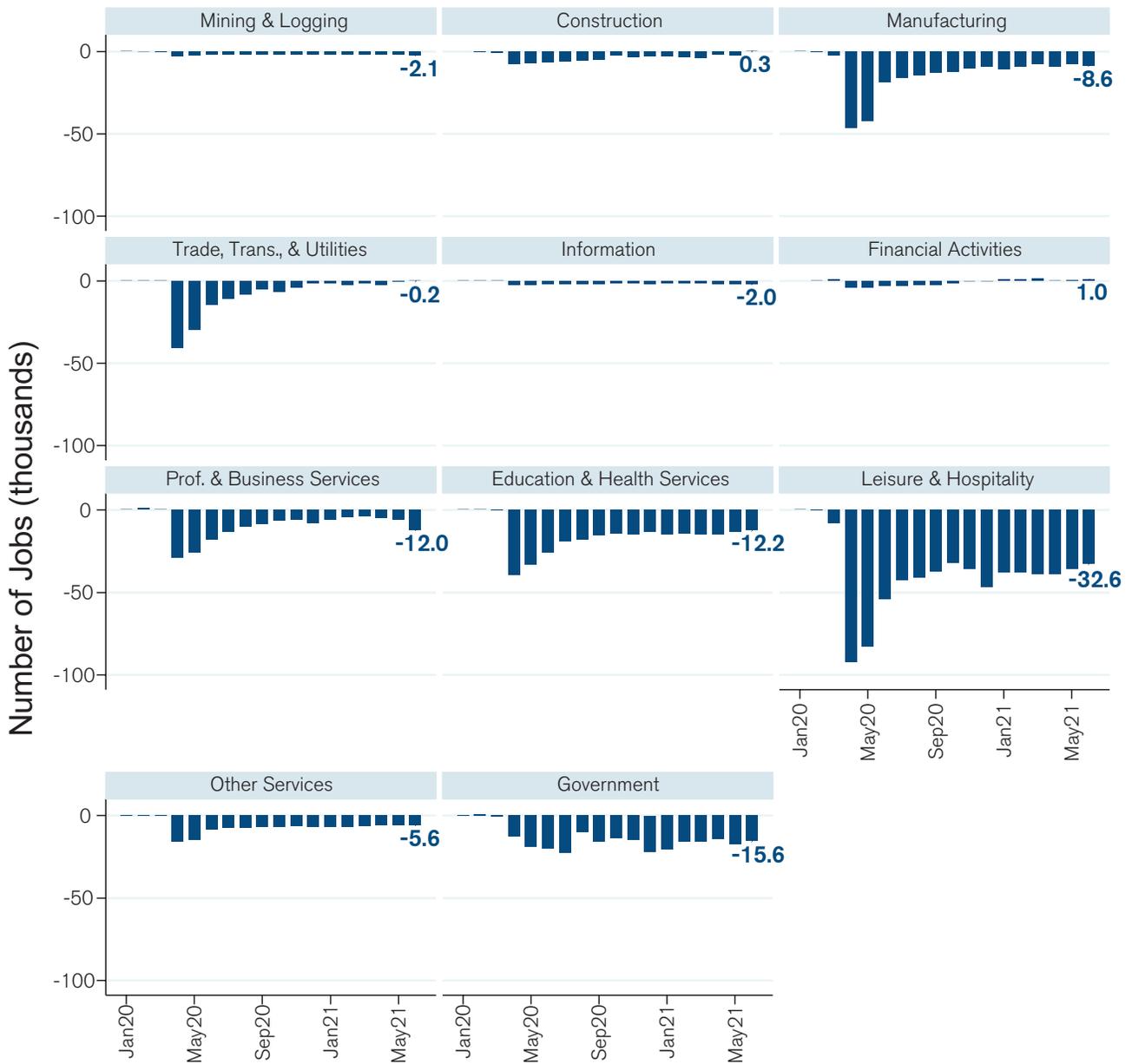
As employers try to expand their payrolls to meet growing demand, the reduced labor force numbers suggest they have a shrinking pool of workers available from which to choose. This may cause employers to bid up wages as they compete for scarce workers. Data from the US Bureau of Labor Statistics show that wages and salaries for private sector workers in the US have remained strong since the pandemic began and increased by 3.6% during the second quarter of 2021 (Figure 5). This is the largest increase in wages and salaries since 2002.

Figure 6
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.

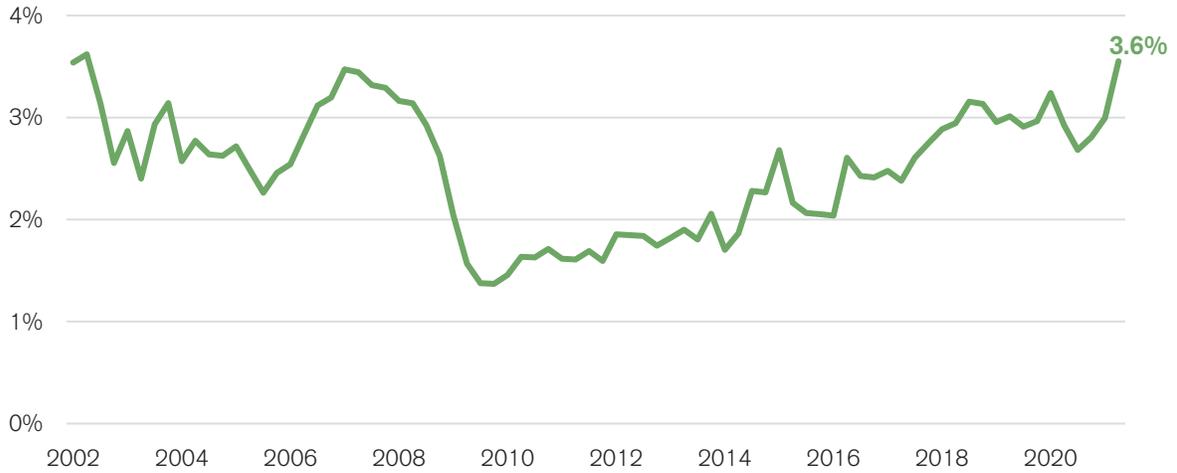
Figure 7
Change in Employment Since January 2020, Kentucky



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

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

Figure 8: 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.

As workers are seeing their earnings increase, they are also facing higher prices.



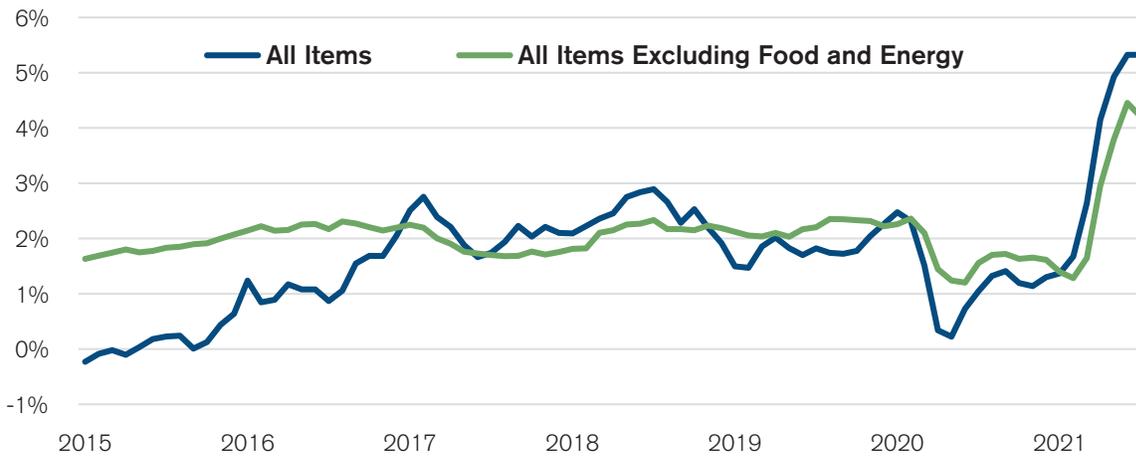
INFLATION

As workers are seeing their earnings increase, they are also facing higher prices (Figure 9). The Consumer Price Index (CPI), a broad measure of US inflation, has increased over the past few months. The change in the CPI was particularly high in June, 0.9% higher than May, and 5.4% higher than in June 2020. Price increases eased somewhat in July. The CPI for July was 0.5% higher than in June and 5.4% higher than in July 2020.

Currently, these inflationary pressures appear to be primarily due to temporary supply-chain constraints. The pandemic significantly changed consumer spending patterns and businesses had trouble keeping up with these changes. This has led to shortages of inputs for many goods, such as computer chips for automobiles, and has driven price increases. Prices for new automobiles increased by 6.4% from July 2020 to July 2021 and prices for used cars increased by 41.7%. As businesses catch up with the changes in consumer spending, these inflationary pressures are likely to ease.

The labor shortage has likely also contributed to the recent increase in inflation. As employers increase pay, the additional costs are often passed on to their customers in the form of higher prices.

**Figure 9 Consumer Price Index
12-month Percent Change**



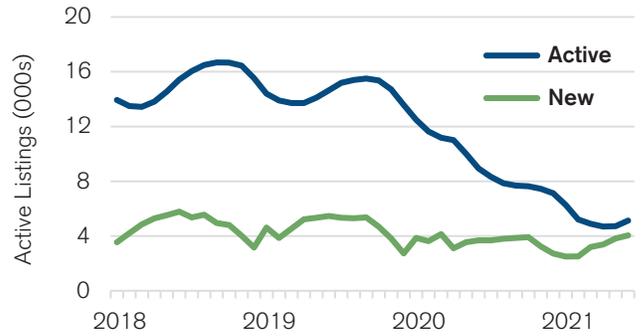
Source: US Bureau of Labor Statistics. Consumer Price Index, All Urban Consumers, Seasonally Adjusted.

HOUSING MARKET

The number of houses listed for sale in Kentucky increased over the past few months (Figure 10). Even with this increase, the number of active listings remains low as houses sell quickly. Median days on the market fell to 39.5 days in Kentucky (Figure 11).

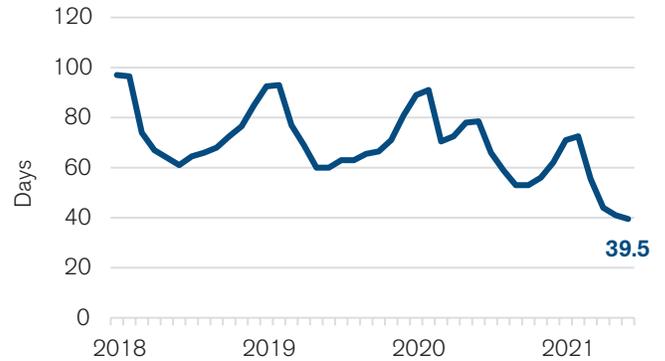
The pressure on housing prices seems to have eased somewhat during the 1st quarter of 2021. The Federal Housing Finance Agency's (FHFA) Housing Price Index increased by 3.8% during the second quarter of 2020. The price index for Kentucky still increased during the 2nd quarter but by only 2.1%. Given that the supply of houses has not increased appreciably, the slower growth selling price might be due to decreased demand as prospective home buyers postpone buying a home.

Figure 10
Number of Active & New For Sale House Listings, Kentucky



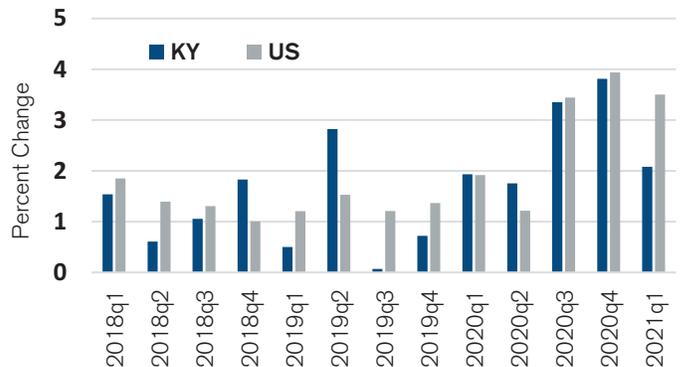
Source: REALTOR.com. Not Seasonally Adjusted.

Figure 11
Median Days on the Market, Kentucky



Source: REALTOR.com. Not Seasonally Adjusted.

Figure 12
FHFA Housing Price Index, Percent Change from Prior Quarter



Source: Federal Housing Finance Agency. Seasonally Adjusted.

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