REGIONAL PERSPECTIVES

Kentucky Economic Outlook
### Economic Forecast

#### OUTPUT AND EMPLOYMENT

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<td>United States</td>
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<td>Real GDP</td>
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<td>$ billions (fourth quarter)</td>
<td>$14,996</td>
<td>$14,575</td>
<td>$14,540</td>
<td>$14,942</td>
<td>$15,242</td>
<td>$15,540</td>
<td>$15,942</td>
<td>$16,501</td>
<td>$17,120</td>
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<td>% change over the four quarters</td>
<td>1.9%</td>
<td>-2.8%</td>
<td>-0.2%</td>
<td>2.8%</td>
<td>2.0%</td>
<td>2.0%</td>
<td>2.6%</td>
<td>3.5%</td>
<td>3.8%</td>
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<td>Nonfarm employment</td>
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<td>Job count (fourth quarter)</td>
<td>138,246,000</td>
<td>135,493,667</td>
<td>130,877,667</td>
<td>130,652,000</td>
<td>132,642,667</td>
<td>134,853,667</td>
<td>137,247,667</td>
<td>139,694,848</td>
<td>141,679,460</td>
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<td>% change over the four quarters</td>
<td>0.9%</td>
<td>-2.0%</td>
<td>-4.1%</td>
<td>0.6%</td>
<td>1.5%</td>
<td>1.7%</td>
<td>1.8%</td>
<td>1.8%</td>
<td>1.4%</td>
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<tr>
<td>Average monthly change</td>
<td>101,667</td>
<td>-229,361</td>
<td>-468,000</td>
<td>64,528</td>
<td>165,889</td>
<td>184,250</td>
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<tr>
<td>Kentucky</td>
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<td>$ billions (fourth quarter)</td>
<td>$141</td>
<td>$139</td>
<td>$138</td>
<td>$143</td>
<td>$146</td>
<td>$147</td>
<td>$149</td>
<td>$153</td>
<td>$158</td>
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<tr>
<td>% change over the four quarters</td>
<td>-0.4%</td>
<td>-1.7%</td>
<td>-0.7%</td>
<td>3.9%</td>
<td>1.8%</td>
<td>1.3%</td>
<td>1.2%</td>
<td>2.3%</td>
<td>3.5%</td>
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<td>Nonfarm employment</td>
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<tr>
<td>Job count (fourth quarter)</td>
<td>1,868,400</td>
<td>1,824,600</td>
<td>1,760,500</td>
<td>1,781,767</td>
<td>1,804,500</td>
<td>1,827,100</td>
<td>1,840,367</td>
<td>1,850,588</td>
<td>1,869,773</td>
</tr>
<tr>
<td>% change over the four quarters</td>
<td>0.9%</td>
<td>-2.3%</td>
<td>-3.5%</td>
<td>1.2%</td>
<td>1.3%</td>
<td>1.3%</td>
<td>0.7%</td>
<td>0.6%</td>
<td>1.0%</td>
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<tr>
<td>Average monthly change</td>
<td>1,425</td>
<td>-3,650</td>
<td>-5,342</td>
<td>1,772</td>
<td>1,894</td>
<td>1,883</td>
<td>1,106</td>
<td>852</td>
<td>1,599</td>
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</tbody>
</table>

**WHAT THE TABLE SHOWS:**

- Kentucky’s GDP forecast is derived from the national forecast by allocating output to each of the 50 states based on employment shares. So, forecast misses reflect surprises in the aggregate forecast as well as unexpected shifts in a state’s GDP share.
- Kentucky’s economy has been mirroring the broad outlines of the national economic recovery recently.

**KEY MESSAGES:**

- Kentucky is forecast to grow a little more slowly than the national economy this year and the next.

Note: GDP figures are based on quarterly values that are interpolated from annual GDP estimates using quarterly employment changes. Unbolded figures are reported actual values and bold figures represent forecasts.

Sources: US Department of Commerce; US Department of Labor
The Economy’s Structure

WHAT THE CHART SHOWS:

- The figure compares the relative importance of selected industries to the state’s economy with the national footprint of each industry (state and national figures reflect the value added of each industry as a percent of aggregate state or US nominal GDP, respectively).
- Kentucky’s vulnerability to the national recession is underscored by its heavy concentration in durable manufacturing, which includes the motor vehicle industry. Sixteen percent of Kentucky’s economy comprises manufacturing, compared with 10% for the nation as a whole.

KEY MESSAGES:

- The strength of the motor vehicle industry now is a plus for the state.

Bankruptcies

WHAT THE CHART SHOWS:

- The figure illustrates trends in bankruptcy filings by businesses and persons relative to the number of filings in 2007 Q4, prior to the recession.
- Bankruptcies have fallen back to normal levels.

KEY MESSAGES:

- Indicators of financial stress are a useful coincident indication of economic distress.
- Financial strains built up during the recession, but the improving economy is relieving pressure on local businesses.

Source: Administrative Office of the U.S. Courts; Updated through March 2014.
Oil & Gas Activity

WHAT THE CHART SHOWS:
- The figure illustrates recent trends in the rig count for petroleum drilling operations.
- Oil and gas drilling activity in Kentucky had been slowing but again is rebounding.

KEY MESSAGES:
- Kentucky’s economy has been restrained by a deceleration in its energy sector.

Private Business Surveys

WHAT THE CHART SHOWS:

- The figures shows the Business Barometer Index, based on the survey of purchasing managers, and real GDP growth in Kentucky (a reading above 50 means the state's economy is growing, while less than 50 means the economy is shrinking). The index comprises seven business activity indicators, including production, new orders, order backlogs, inventories, employment, supplier deliveries, and prices paid.

KEY MESSAGES:

- Business surveys are expected to turn back up later this spring.

Note: Business Barometer data are unavailable prior to 1997.

Sources: Institute of Supply Management; US Department of Commerce. Updated through April 2014 (survey) and 2014 Q1 (GDP).
Initial Jobless Claims

WHAT THE CHART SHOWS:

- The figure tracks layoffs in Kentucky and the national level of claims.
- Weekly layoffs, both the state and national tallies, are illustrated in the figure as a ratio to the level of layoffs in the fourth quarter of 2007, prior to the recession.
- Like other states where the motor-vehicle industry has an outsized footprint, layoffs have fallen to below levels seen before the recession.

KEY MESSAGES:

- Layoff trends signal important changes in the economy’s momentum.
- The low level of layoffs in Kentucky underscores the state’s very favorable economic performance.

Source: US Department of Labor. Updated through May 17, 2014 (state) and May 24, 2014 (US).
Economic Growth

WHAT THE CHART SHOWS:

- Real GDP growth in Kentucky (the line in the figure) is superimposed on top of US real GDP growth (bars in the figure).
- Kentucky’s economic recovery is being driven by many of the same forces that are lifting the national economy.

KEY MESSAGES:

- Kentucky’s economy is expected to accelerate into late 2013 and 2014.

Source: US Department of Commerce. Updated through 2012 (state) and 2014 Q1 (US). Quarterly estimates for states after 2012 are interpolated from employment figures (through April 2014), based on the historical correlation of state and national employment changes.
Economic Output

WHAT THE CHART SHOWS:

- The figure illustrates the evolution of real GDP of the state and the overall US economy since the fourth quarter of 2000, the peak of the previous business cycle—that is, at any point in time the lines trace the ratio of real GDP to its level in 2000 Q4.
- Kentucky lagged the national economy for most of the past decade, but the recession was not as harsh for the state as it was for the overall economy and the state’s output is tracking the national economy.

KEY MESSAGES:

- Kentucky’s economy appears to be on the mend and is forecast to rise steadily in the years ahead.

Source: US Department of Commerce. Updated through 2012 (state) and 2014 Q1 (US). Quarterly estimates for states after 2012 are interpolated from employment figures (through April 2014), based on the historical correlation of state and national employment changes.
Employment Growth

**WHAT THE CHART SHOWS:**

- Many of the themes echoed throughout the Midwest have described Kentucky as well.
- Kentucky’s job market has lost a little momentum recently.

**KEY MESSAGES:**

- Hiring is solid and is forecast to speed up into 2014.

Source: US Department of Labor. Updated through April 2014 (state) and April 2014 (US).
Employment

WHAT THE CHART SHOWS:

- The figure illustrates the evolution of employment in the state compared with the nation since 2000 Q4, the peak of the previous business cycle. The lines trace out the ratio of employment at the time to employment in 2000 Q4.
- Kentucky’s work force expanded more slowly than the national market in this decade and the recent downturn leaves the total job count about 1½ percent below the 2000 peak. The state’s economy is on a track to gain on the national trends in 2012.
- Kentucky as recovered or replaced 81 percent of the jobs lost during the recession.

KEY MESSAGES:

- The jobs recovery may be slow but it is sure.

Source: US Department of Labor. Updated through April 2014 (state) and April 2014 (US).
Intrastate Employment

WHAT THE CHART SHOWS:
- Job trends in local communities within the state.
- Employment in most communities is on the rise.

KEY MESSAGES:
- Kentucky’s economy still depends importantly on the strength of the vehicle industry.

Source: US Department of Labor. Updated through April 2013.
Unemployment

WHAT THE CHART SHOWS:

- Unemployment rate trends in Kentucky, compared with the national average.
- Kentucky’s unemployment rate spiked above 11 percent at the worst of the recession, but has been falling back for the most part since then.

KEY MESSAGES:

- The unemployment rate is the single best indicator of the relative economic performance of a region.
- The unemployment rate is forecast to resume falling in the coming year.

Source: US Department of Labor. Updated through April 2014 (state) and April 2014 (US).
Relative House Prices

WHAT THE CHART SHOWS:

- The figure tracks the relative price of houses in the state versus the nation—that is, it reflects the ratio of the state price index to the national house price index, with that ratio set to unity in the summer of 1995. A drop in the line means that house prices in the state lag the national trend. States that did not suffer from speculative conditions saw a decline in the relative price of houses in this last decade.
- The state did not suffer from real estate speculation that plagued other regions.

KEY MESSAGES:

- House prices are in normal alignment with national trends.

Source: FHFA. Updated through 2013 Q4.
Real Estate Markets

WHAT THE CHART SHOWS:

- The figure tracks the cumulative percentage deviation in house prices since 1995 in selected local markets and compares those with the national average.
- Real estate appreciation has been steady in most markets.

KEY MESSAGE:

- Steady real estate trends now are a blessing.

Source: FHFA. Updated through 2013 Q4.
WHAT THE CHART SHOWS:

- New home construction in Kentucky, compared with the US average level of construction.
- New home building in the state is beginning to pick up.

KEY MESSAGES:

- The housing sector is expected to provide new energy in the coming years.

Source: Census Department. Updated through March 2014 (state) and April 2014 (US).
Office Markets

PERCENT OF OFFICE SPACE THAT IS VACANT

WHAT THE CHART SHOWS:

- Office vacancy rates in Kentucky’s metropolitan area, compared with the national office vacancy rate.
- Office market conditions appear to be stabilizing, finally.

KEY MESSAGES:

- Commercial real estate markets are likely to stabilize soon.
