

KENTUCKY'S ECONOMIC RECOVERY

A quarterly update of
workforce, employment, state GDP, and exports



MAY 2021

UK Gatton College of
Business and Economics


Kentucky Chamber
Uniting Business. Advancing Kentucky.



A lot can change in just three months. When the Kentucky Chamber published our first quarterly report documenting the Commonwealth's economic recovery back in February, the vaccine rollout was just getting underway, many health and safety restrictions remained in place, and the COVID positivity rate was above 5 percent. Things are looking much different today. Almost 2 million Kentuckians have received at least one dose of a COVID vaccine, restrictions are being eased and gradually phased out, and our positivity rate is down to just above 3 percent.

This is welcome news for all Kentuckians as we continue the hard work of getting life back to "normal" and rebuilding our economy.

This second release of the Chamber's "Kentucky Economic Update," produced in partnership with the University of Kentucky, tells a complex story about Kentucky's economic recovery. While metrics such as job growth and GDP are trending in positive directions, labor market indicators suggest that fewer Kentuckians are actively returning to work than in other states. This data reflects the struggle to fill open positions that the Kentucky Chamber has increasingly heard about from Kentucky's business community. Workforce will be critical not only to our economic recovery but also to the Commonwealth's competitiveness in the post-pandemic economy.

Some of the highlights of our second release include:

- Employment in Kentucky grew in the first quarter of 2021 but still remains below pre-pandemic levels.
- Kentucky's gross domestic product continued to grow in the final quarter of 2020.
- The gap between Kentucky's labor force participation rate and the national rate is almost a full point wider than it was before the pandemic.
- Kentucky's housing market continues to follow national and regional trends with fewer listings, faster sales, and higher prices.

Making good policy decisions to drive our economic recovery requires access to good data and analysis. Providing that access is a key goal of the Chamber's quarterly economic reports, and I want to encourage policymakers in the Commonwealth to use these reports to shape policy decisions that support economic growth and workforce development. The Chamber will release a third update late this Summer.

ASHLI WATTS

President & Chief Executive Officer
Kentucky Chamber of Commerce



Kentucky Chamber

While all major indicators suggest the Commonwealth's economy is healing, they also show that Kentucky's economy is still operating below pre-pandemic levels.





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Kentucky's economy posted significant improvements over the past three months as vaccination rates increased, COVID related restrictions were eased, and life moved closer to normal. Kentucky's gross domestic product increased, more Kentucky workers were employed, and fewer workers were unemployed. With employers expanding payrolls by 19,200 jobs from December to March, Kentucky has recovered 67 percent of the jobs lost in the first months of the pandemic. While all major indicators suggest the Commonwealth's economy is healing, they also show that Kentucky's economy is still operating below pre-pandemic levels. This is reflected in Kentucky's low labor force participation rate, which fell further behind the rates for the nation and the average of surrounding states during the pandemic.

HIGHLIGHTS



Non-farm employment was up 19,200 jobs from December to March but still down 4.9 percent from January 2020.



The gap between Kentucky's labor force participation rate and the national rate was 4.8 percent in March compared to an average of 3.9 percent in 2019.



Kentucky's GDP grew at an annual rate of 4.3 percent from the 3rd to 4th quarter of 2020.

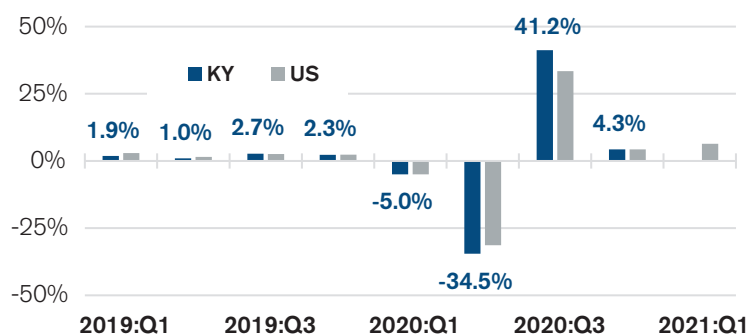


Kentucky's tight housing market pushed prices up 10.7% from the 4th quarter of 2019 to the 4th quarter of 2020.

ECONOMIC OUTPUT

Kentucky's businesses continued to ramp up production of goods and services during the last quarter of 2020. Kentucky's **real Gross Domestic Product (GDP)** increased at an annual rate of 4.3 percent from the 3rd to 4th quarters, matching GDP growth for the nation (Figure 1). While state estimates for the 1st quarter of 2021 are not yet available, preliminary estimates indicate US real GDP grew at an annual rate of 6.4 percent.

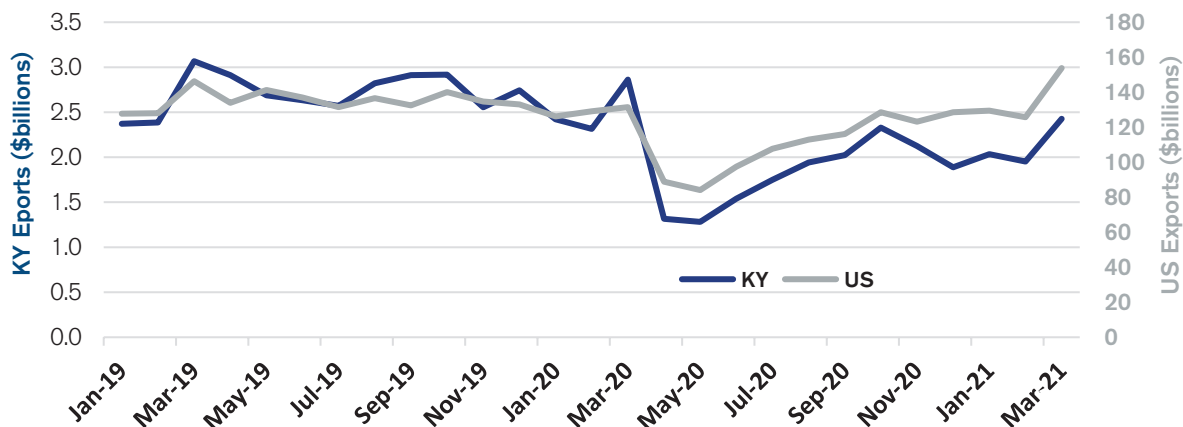
Figure 1
Percent Change Real GDP from Prior Quarter, Annual Rate



Source: US Bureau of Economic Analysis.

After lagging since the pandemic began, **exports** for both Kentucky and the nation jumped in March (Figure 2). Kentucky's export growth for March was driven mainly by gains in three of the state's largest export sectors — transportation equipment, computer and electronics, and fabricated metals. While this is welcoming news, exports are volatile from month to month, so it is unclear whether the March increase represents a temporary jump or a permanent increase in exports.

Figure 2
Value of Exports, Kentucky & US

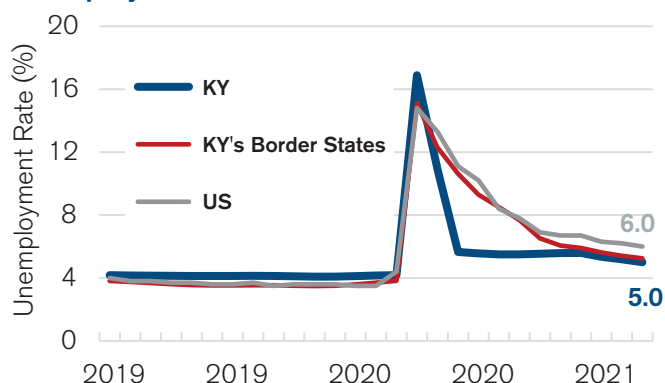


Source: US Census Bureau, Trade On-line. Not Seasonally Adjusted.

LABOR FORCE & EMPLOYMENT

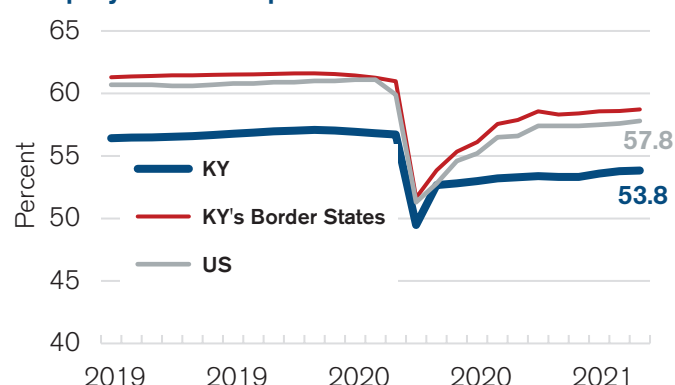
Kentucky's **unemployment rate** fell from 5.6 percent in December to 5.0 percent in March (Figure 3). This decrease was driven mainly by people finding work. Seasonally adjusted employment estimates indicate that there were 19,000 more Kentucky residents working in March than in December. The employment gains are reflected in the state's **employment to population ratio**, which was up slightly from 53.3 percent in December to 53.8 percent in March (Figure 4). There were also 11,400 fewer people classified as unemployed, that is without employment but looking for work. While employment increased over the past three months, there were still 104,000 fewer Kentucky residents employed in March 2021 than in January 2020.

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.

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.

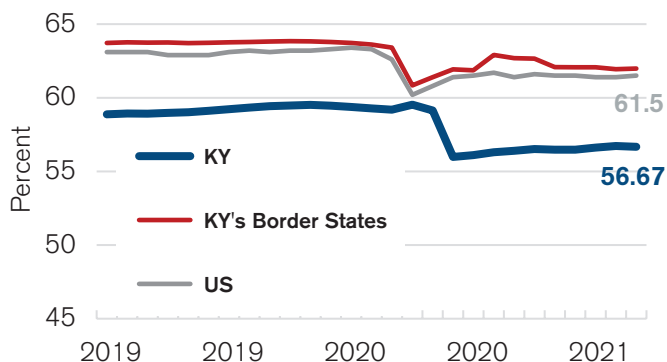
$$\text{Unemployment Rate} = \frac{\text{Number of People Unemployed}}{\text{Number of People Unemployed \& Employed}}$$

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

Kentucky's unemployment rate was a full point lower than the US unemployment rate of 6.0 percent in March. However, Kentucky's unemployment rate appears low largely because the state has more workers sitting out of the labor force. Kentucky's **labor force participation** (LFP) rate remained well below pre-pandemic levels in March and has increased only slightly over the past few months (Figure 5). Kentucky's LFP rate is typically lower than the nation's rate, but the pandemic widened the gap. In 2019, Kentucky's rate was 3.9 percentage points lower on average than the US rate. In March, the gap was 4.8 percentage points.

The difference in LFP rates suggests that a larger share of workers who lost jobs during the recession are not looking for work in Kentucky compared to the rest of the nation. These individuals might not be looking for work for several reasons including lack of child-care, health and safety concerns, and enhanced unemployment insurance benefits. If these individuals were counted in the unemployment numbers, Kentucky's unemployment rate might be similar to the nation's rate.

Figure 5
Labor Force Participation Rate

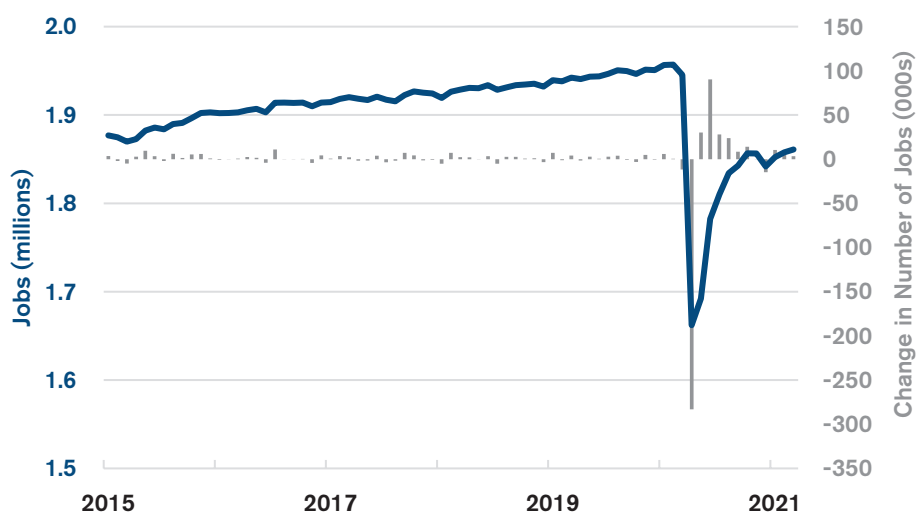


Source: US Bureau of Labor Statistics. Local Area Unemployment Statistics.



Kentucky's employers also reported higher employment. Figure 6 shows how **Kentucky's nonfarm employment** has changed. From December to March, employers added 19,200 jobs to their payrolls. With these additional jobs, Kentucky had recovered 67 percent of the jobs lost during the pandemic. However, Kentucky's nonfarm employment was still down 4.9 percent compared to January 2020. This was slightly better than surrounding states and the nation, which were down 5.1 percent and 5.3 percent respectively since January 2020.

Figure 6
Kentucky Non-farm Employment



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

Figures 7 and 8 show how employment has changed across major industrial sectors. Figure 7 shows the percentage change in employment each month compared to January 2020 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 January 2020 for each major industrial sector. By benchmarking monthly employment numbers to levels in January, the figures show how Kentucky's employment progressed each month compared to just before the pandemic.

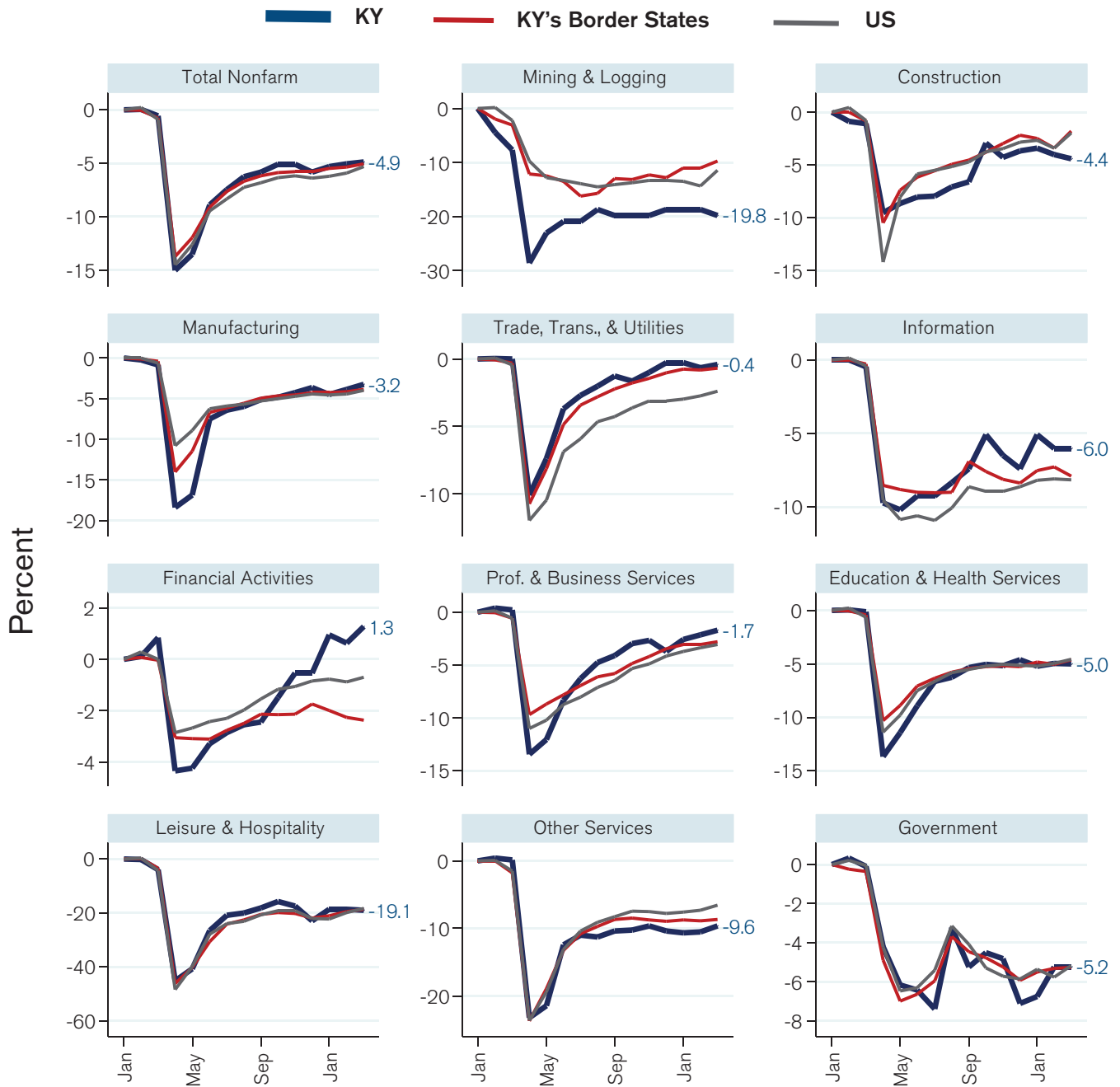
The U.S. Bureau of Labor Statistics publishes employment estimates each month and revises these estimates each year to reflect additional data that becomes available. The revised estimates provide a more accurate picture of how employment changed over the year.

Previous estimates suggested that employment in Kentucky's construction sector had grown faster than surrounding states and the US. Revised estimates indicate that Kentucky's construction employment grew at a similar pace as surrounding states and the US. Kentucky's construction employment fell slightly in February and March. As of March 2021, employment in this sector was 4.4 percent lower than in January 2020.

Employment in Kentucky's financial activities, professional and business services, and information sectors have all been growing at a faster rate than surrounding states and the US. Employment in Kentucky's education and health services sector has leveled off over the past few months. Since October, employment in this sector has been approximately 5 percent below January 2020 employment, which is fairly consistent with trends in surrounding states and the US.

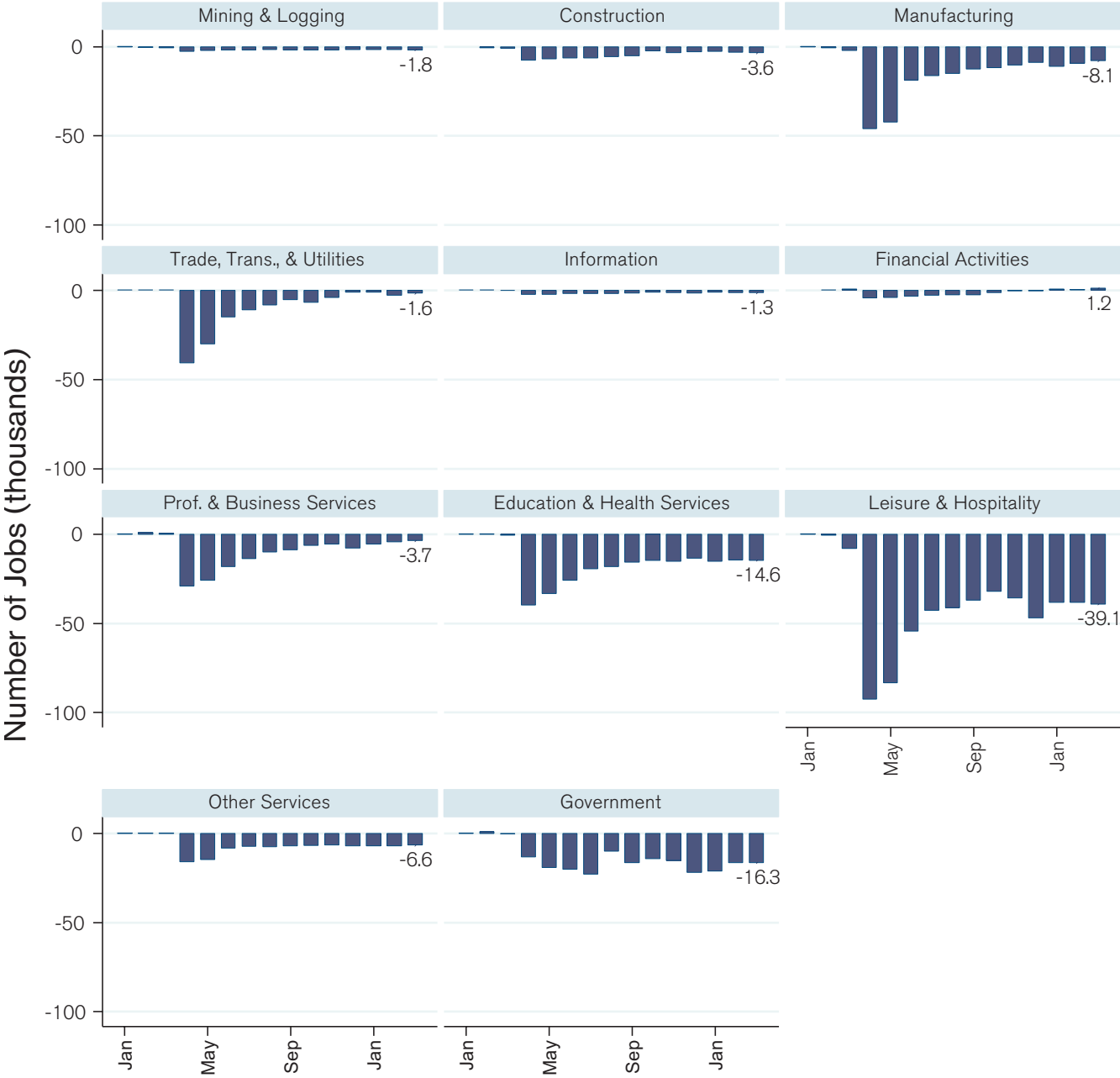
Kentucky employment in leisure and hospitality was still down 19 percent from January 2020. This represents a loss of approximately 39,100 jobs for the state. Over the summer and fall, Kentucky had been recouping these jobs at a faster rate than surrounding state and the US. Over the past few months, leisure and hospitality employment in these areas have caught up with Kentucky.

Figure 7
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 8
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.

HOUSING MARKET

Demand for housing continues to exceed supply in Kentucky, extending an unusually tight housing market. New listings in the state increased in March and April but were still well below pre-pandemic levels. Even with these additional listings, the total number of active listings declined as homes sell quickly (Figure 9). Active listings for April 2021 were down 57 percent from April 2020. Houses were on the market for a median of 44 days in April. This was 28 fewer days than in April of 2020 and 25 fewer days than in April 2019 (Figure 10).

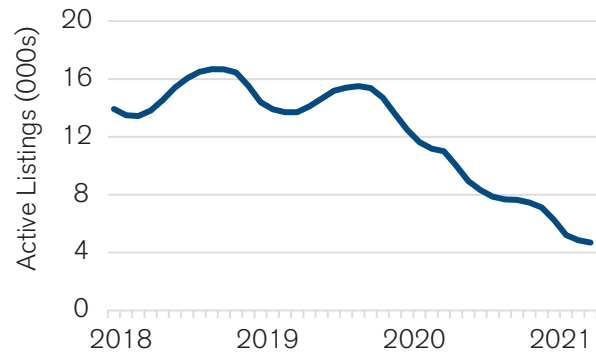
This tight market is also reflected in housing prices (Figure 11). The Federal Housing Finance Agency's Housing Price Index indicates that Kentucky houses sold during the 4th quarter of 2020 fetched prices 3.5 percent higher than those sold in the 3rd quarter of 2020 and 10.7% higher than those sold a year earlier. Data collected by the Kentucky Realtors Association indicate that median prices for March 2021 were 16 percent higher than in March 2020.¹

Kentucky's tight housing market is not unique. Surrounding states have also seen fewer listings, faster sales, and higher prices. Prices in Indiana, Ohio, and Tennessee increased slightly faster than in Kentucky (Figure 12). Price increases in West Virginia and Illinois were somewhat lower than in Kentucky.

Home builders appear to be responding to the higher prices and preparing to ramp up new home construction over the next few months. The number of new housing units authorized by building permits in Kentucky had been increasing throughout the pandemic but jumped in recent months (Figure 13). Permits for single family homes were up 28 percent from the first quarter of 2020 to the first quarter of 2021. The number of total units authorized, including multi-family housing units such as apartments, was up 47 percent during this period. As these new homes are completed, they will help to ease some of the pressure in Kentucky's housing market. However, data from the U.S. Census Bureau indicates that construction of single-family housing units in the south takes approximately seven months to complete once authorized. Construction of multi-family units takes 11 to 19 months depending on the number of units. Therefore, the tight housing market could be around for awhile.

¹<http://housingstats.kyrealtors.com/closing-price.cfm>.

Figure 9
Number of Active For Sale House Listings, Kentucky



Source: REALTOR.com. Not Seasonally Adjusted.

Figure 10
Median Days on the Market, Kentucky

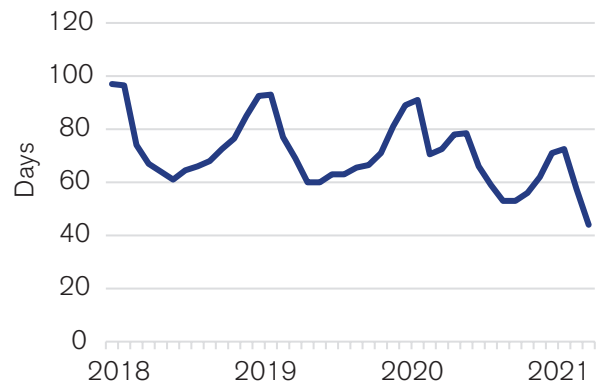
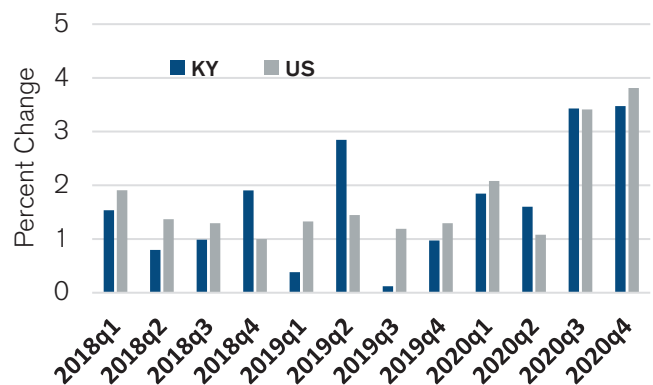


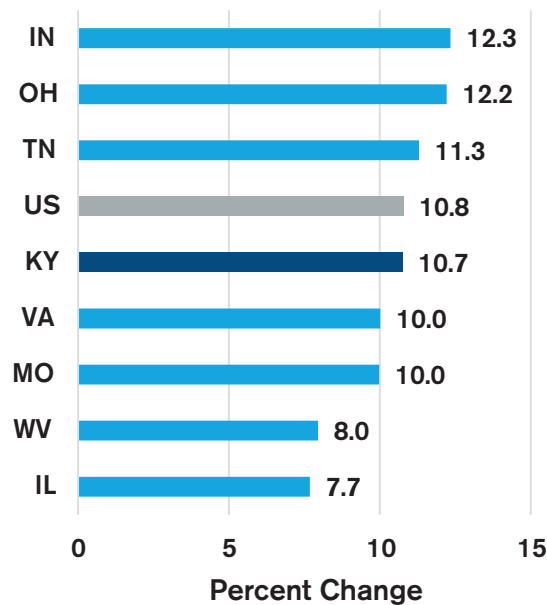
Figure 11
FHFA Housing Price Index, Percent Change from Prior Quarter



Source: Federal Housing Finance Agency. Seasonally Adjusted.

Demand for housing continues to exceed supply in Kentucky, extending an unusually tight housing market.

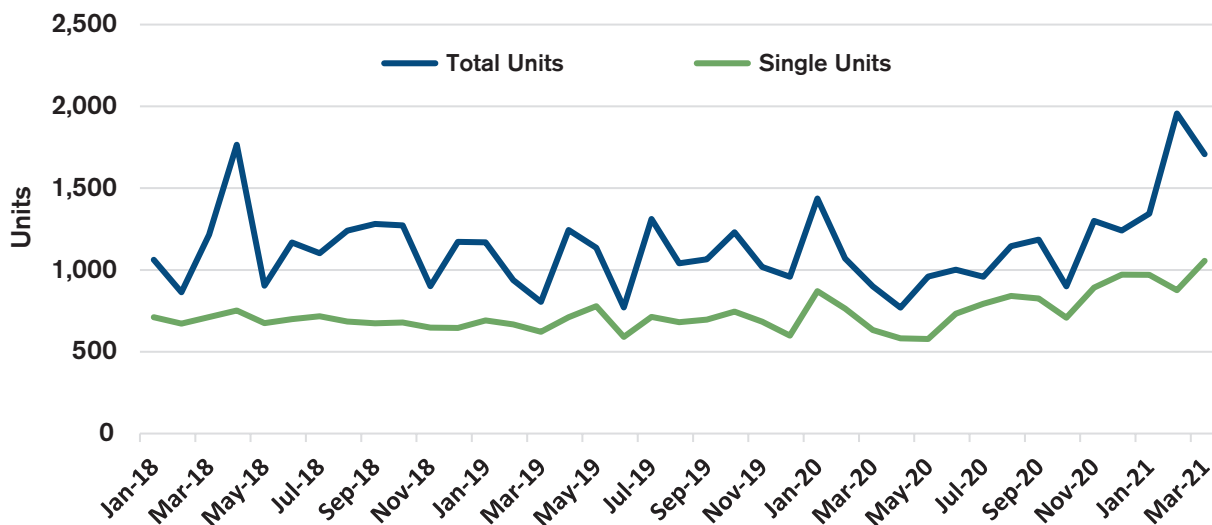
Figure 12
FHFA Housing Price Index,
Percent Change 2020Q4 to 2021Q4



Source: Federal Housing Finance Agency. Seasonally Adjusted.



Figure 13
New Housing Units Authorized by Building Permits, Kentucky



Sources: U.S. Census Bureau, New Private Housing Units Authorized by Building Permits for Kentucky, retrieved from FRED, Federal Reserve Bank of St. Louis. Seasonally Adjusted.

