

KENTUCKY'S ECONOMIC RECOVERY

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



MARCH 2022

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


Kentucky Chamber
Uniting Business. Advancing Kentucky.



Economic data continues to deliver mixed signals and a combination of good news and bad news on the state of Kentucky's economy, as illustrated by the Chamber's newest economic update report, produced in partnership with the Center for Business and Economic Research at the University of Kentucky. While metrics associated with employment, labor force participation, and unemployment all point in positive directions, inflation remains highly concerning and the threat of COVID continues to discourage at least some workers from re-entering the labor market. Moreover, even though 2021 saw almost 40,000 Kentuckians come back to work, our labor force is still more than 20,000 workers smaller than it was before the pandemic began.

This new report's conclusions reflect what we hear from Kentucky businesses on a daily basis: can-do attitudes and optimism about the future but deep concerns about the challenges employers continue to face in this ever-changing and unpredictable post-COVID economy.

The persistence of many of these challenges is one of many reasons that the Kentucky Chamber continues to advocate for policy measures to address Kentucky's workforce issues and enhance our competitiveness when it comes to attracting businesses, workers, and new opportunities for the Commonwealth. Ultimately, Kentucky's future hinges closely on business leaders and policymakers working together to solve major statewide challenges.

As with previous economic update reports, this newest report covers a wide range of economic datapoints, including employment growth, employment and unemployment rates, job vacancies, inflation, wage growth, GDP, and the housing market. Business leaders and policymakers alike should review it closely as we continue to closely monitor Kentucky's economic progress. The previous four editions of our quarterly economic update reports can be viewed on the Kentucky Chamber's website.

A handwritten signature in black ink that reads "Ashli Watts".

ASHLI WATTS

President & Chief Executive Officer
Kentucky Chamber of Commerce



Kentucky Chamber
Uniting Business. Advancing Kentucky.

Kentucky still needs nearly 22,600 additional workers just to reach its pre-pandemic labor force and COVID is still restricting the state's labor market.





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On March 2, 2022, the US Bureau of Labor Statistics released revised estimates of its state labor market statistics. The revisions were part of an annual process to incorporate additional data that became available during the year and provide a more accurate picture of state labor markets. Kentucky's revised estimates suggest two important differences from prior estimates.

First, the revised estimates indicate that Kentucky's unemployment rate ended 2021 higher than prior estimates suggested. Prior estimates indicated that Kentucky's unemployment rate was below national rates and had reached a historic low in December. The revised estimates indicate that Kentucky's rate was actually higher than national rates and ended the year at 4.6%. This indicates there were more workers searching for jobs.

The second difference is that Kentucky's labor force began recovering earlier in the year than initially thought. Revised estimates indicate that Kentucky's labor force increased by 38,800 workers during 2021. While a strong improvement, Kentucky still needs nearly 22,600 additional workers to reach its pre-pandemic labor force. The revised estimates show that COVID is still restricting the state's labor market. While health risks, a lack of child-care, and other issues have improved, they likely remain serious concerns for many workers.

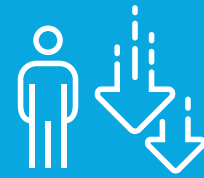
HIGHLIGHTS



Kentucky added 38,800 workers to its labor force in 2021.



Nonfarm employment increased 61,500 jobs, or 3.3%, in 2021 and 65% of these jobs were created during the last six months.



Kentucky's December unemployment rate was 4.6%.



Kentucky housing units authorized by building permits increased by 22% in 2021.



As of December, Kentucky recovered 82% of the 294,900 jobs lost during the initial months of the pandemic.

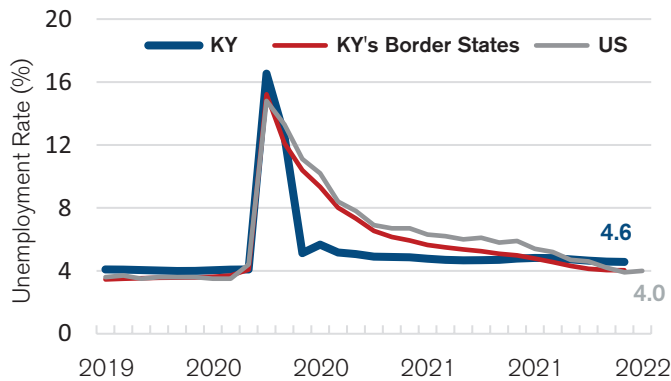
LABOR MARKET

Throughout 2021, businesses have struggled to find workers as they expanded their payrolls to keep up with strong demand for goods and services. Increasingly, these businesses have raised their wages and salaries as they compete with other employers for scarce workers. These higher wages, along with other factors, seem to be encouraging workers to re-enter the labor market.

Kentucky's unemployment rate ended 2021 at 4.6% (Figure 1). The US Bureau of Labor Statistics' revised estimates of Kentucky's unemployment rates were higher than previously reported and were higher than the rest of the nation.

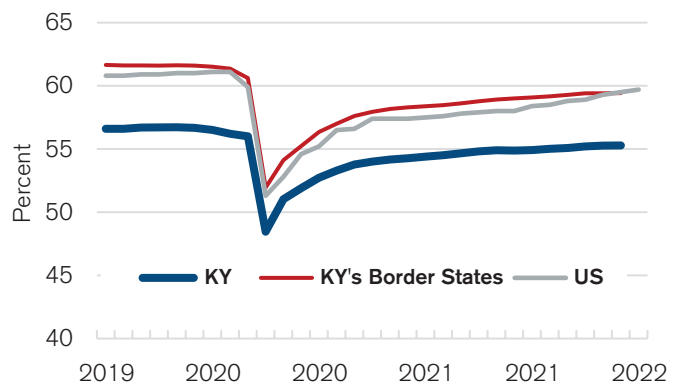
While the employment to population ratio remains well below pre-pandemic levels, it continues to improve as workers find jobs (Figure 2). Kentucky's employment to population ratio has increased slowly but steadily throughout the year.

Figure 1
Unemployment Rates



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

Figure 2
Employment to Population Ratio



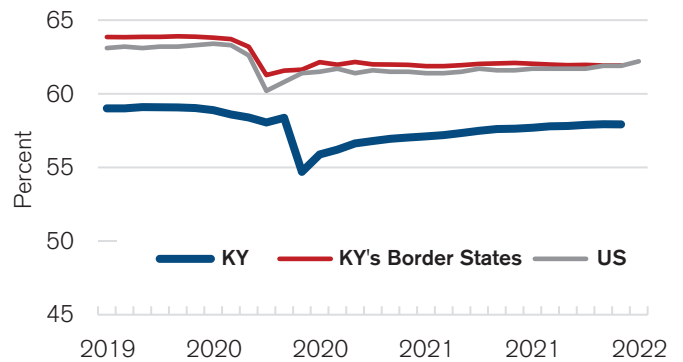
Source: US Bureau of Labor Statistics.
Local Area Unemployment Statistics.

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Kentucky labor force participation rate was 57.9% in December (Figure 3A). This was down one percentage point from January 2020. The revised estimates suggest that Kentucky's labor force improved throughout the year (Figure 3B). The state's labor force improved in November and December, but the number of workers entering the labor force was down from prior months.

Figure 3A
Labor Force Participation Rate

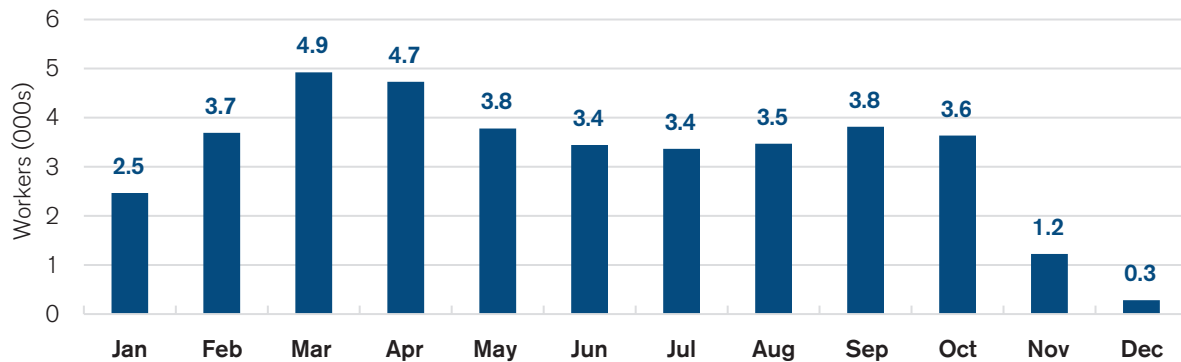


Source: US Bureau of Labor Statistics.
Local Area Unemployment Statistics.

In total, Kentucky's labor force grew by 38,800 workers during the last half of the year. This represents an average gain of 3,200 workers per month. In 2018 and 2019, Kentucky's labor force increased an average of 398 and 2,084 workers per month respectively.

Several factors likely contributed to workers returning to the labor force. Over the last six months, schools have reopened, which might have eased the child-care issues for some worker parents. Wider-spread distribution of the vaccine may have alleviated some concerns over health risks. However, these issues remain, and the emergence of new variants suggest COVID will continue to shape Kentucky's labor market. Kentucky needs approximately 22,600 additional workers to return to its pre-pandemic labor force.

Figure 3B
Change in Labor Force 2021, Kentucky



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.

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

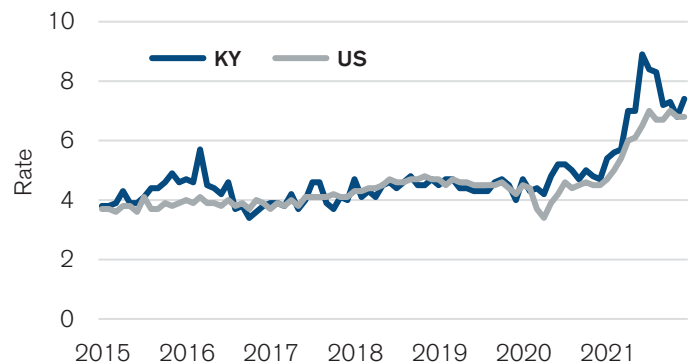
$$\text{Labor Force Participation Rate} = \frac{\text{Number of people in the labor force}}{\text{Civilian noninstitutional population aged 16 and over}}$$

Employers continue to report a large number of job openings both in Kentucky and the nation. Kentucky's job opening rate declined since the summer but remains well over pre-pandemic levels. With this decline, Kentucky's job opening rate is more in-line with the national rate.

Job opening statistics by industry are not available for Kentucky. Nationally, job opening rates were highest for the leisure and hospitality; healthcare and social assistance; and transportation, warehousing, and utilities sectors.

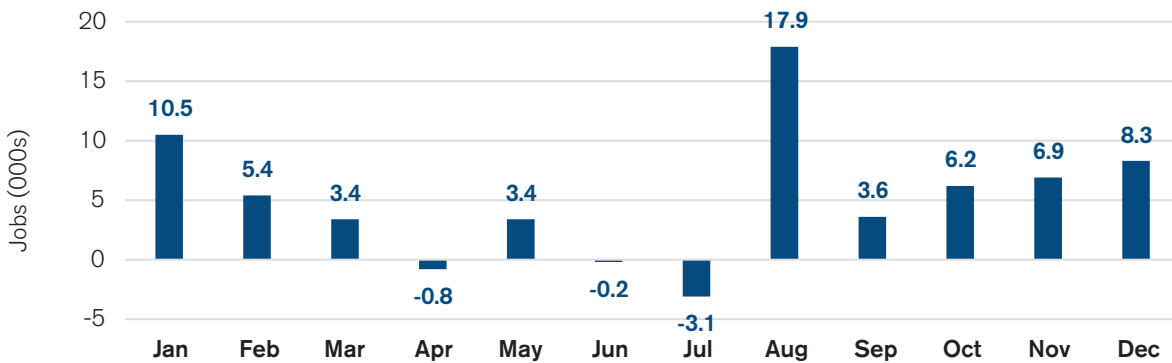
Despite the smaller labor force, Kentucky's businesses continued to expand their payrolls. The state's total nonfarm employment increased by 61,500 jobs in 2021. More than a third of this growth occurred during the last three months of the year. As of December 2021, Kentucky recovered 82% of the 294,900 jobs lost during the initial months of the pandemic.

Figure 4
Job Openings Rates



Source: US Bureau of Labor Statistics. State Job Openings, Layoffs, and Turnover.

Figure 5
Monthly Change in Kentucky Total Nonfarm Employment, 2021



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

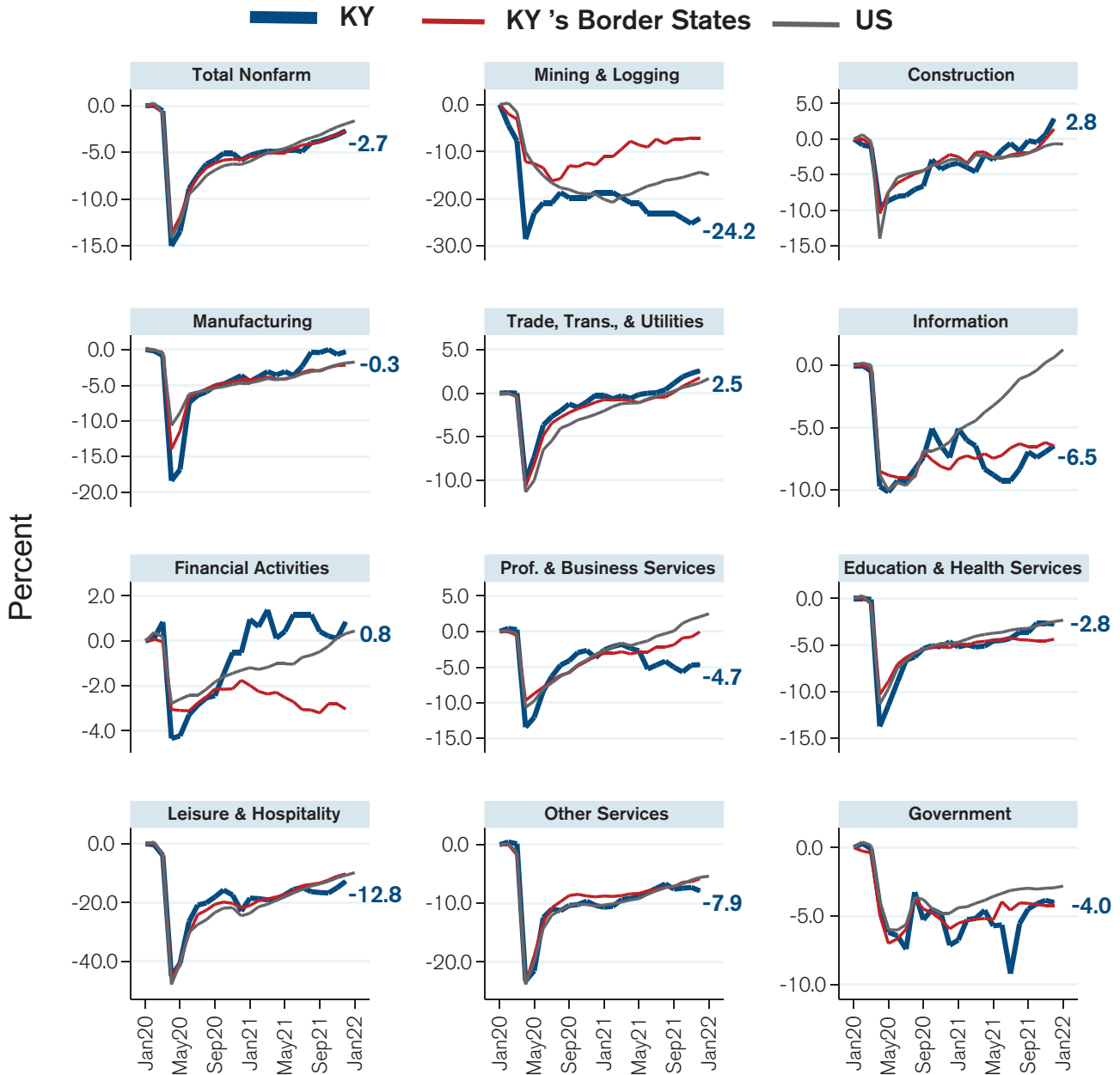
With these gains, Kentucky’s total nonfarm employment was just 2.7% below prepandemic levels. This was in-line with Kentucky’s border states but lower than national employment. In December 2022, national employment was just 1.9% below January 2020 levels. The national employment numbers improved to being only 1.6% below prepandemic levels in January.

As of December, Kentucky’s employment recovery has outperformed the U.S. in the construction, manufacturing, and financial activities sectors. However, Kentucky’s recovery underperformed in several other sectors including information, professional and business services, leisure and hospitality, and other services.

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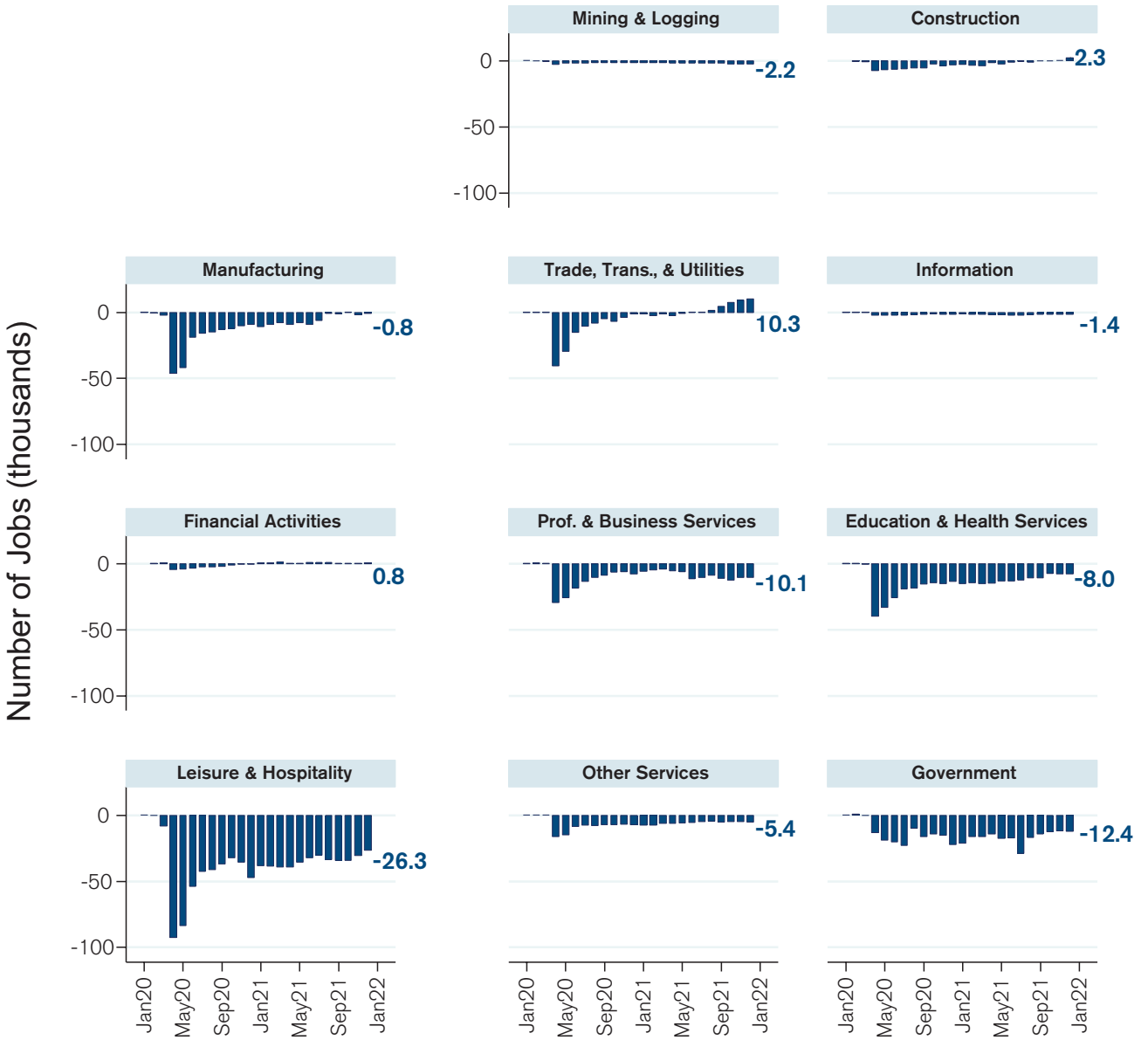


Figure 6
Percent Change in Employment Since January 2020



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

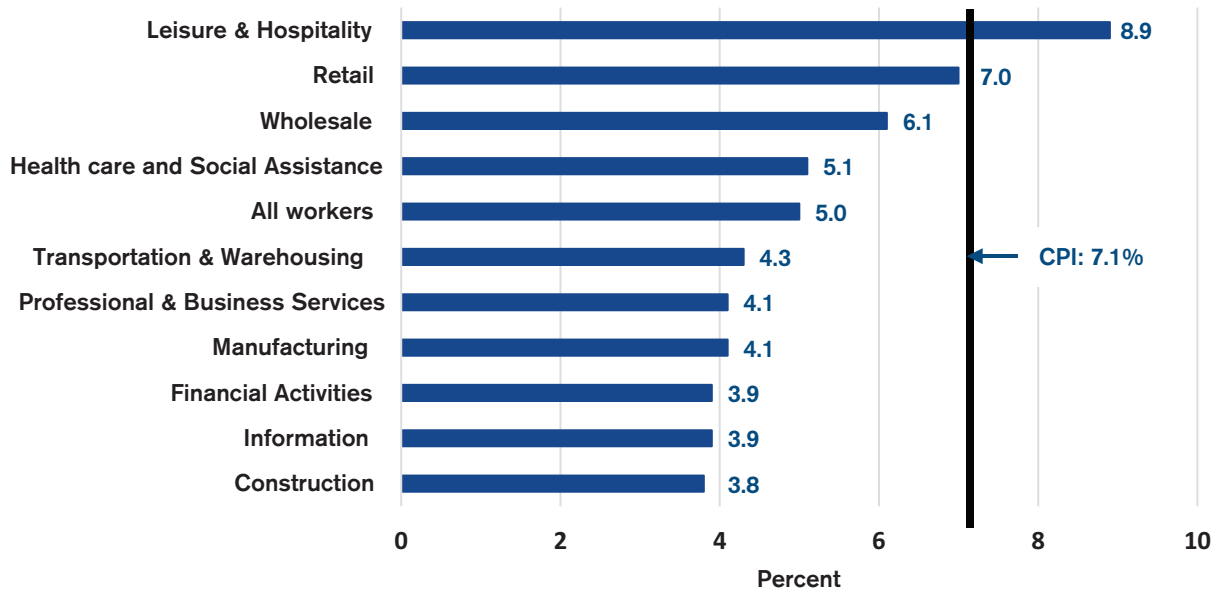


Source: US Bureau of Labor Statistics. Current Employment Statistics.

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

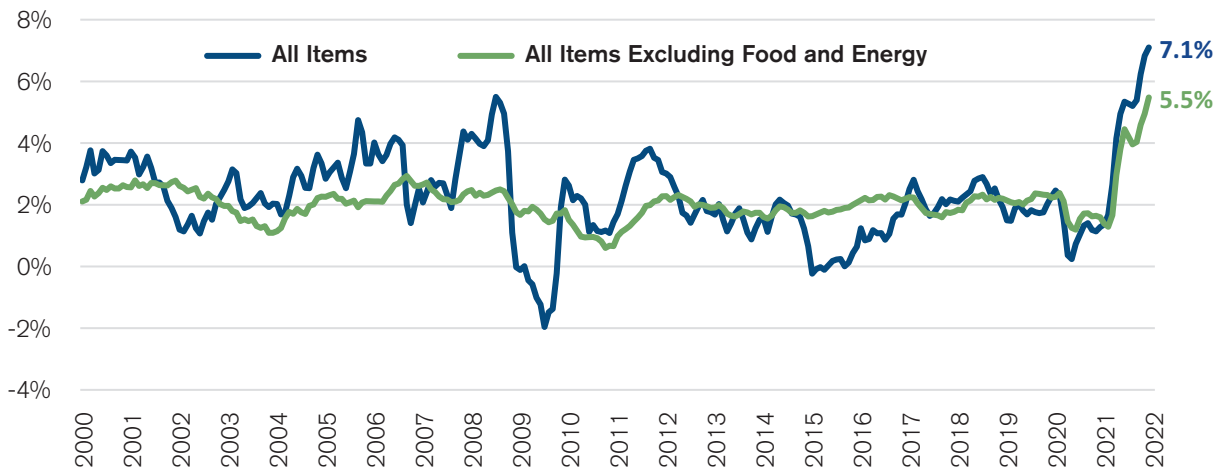
Nationally, wages and salaries as measured by the US Bureau of Labor Statistics' Employment Cost Index increased further during the last quarter of 2021. Wages and salaries were up 5% over the last quarter of 2021 (Figure 8). Wage pressures remain particularly high for jobs in the leisure and hospitality, retail, and wholesale sectors. Unfortunately, the wage growth in many sectors was offset by higher prices. The December Consumer Price Index for all items was 7.1% higher than in December 2020 (Figure 8 and Figure 9). As a result, the leisure and hospitality sector was the only sector to see wages and salaries grow faster than prices.

Figure 8
US Employment Cost Index, Private Workers, Wages and Salary
4th Quarter 2021, 12-month Percent Change



Source: US Bureau of Labor Statistics.

Figure 9 Consumer Price Index
12-month Percent Change



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

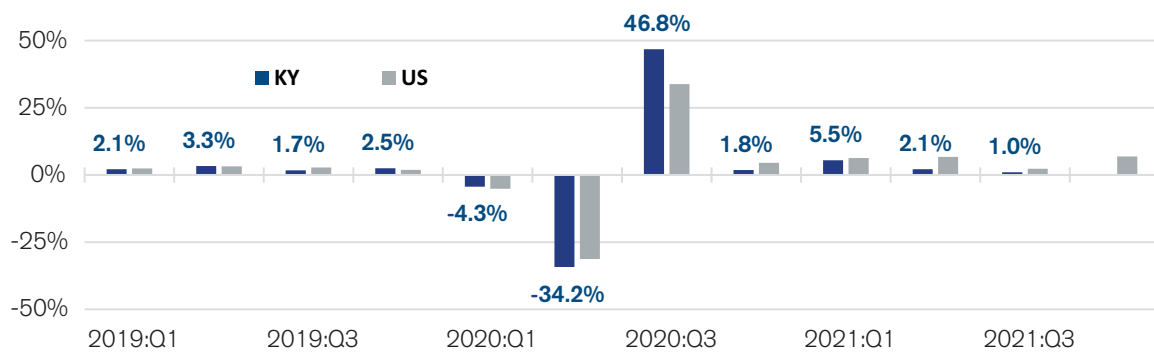
ECONOMIC OUTPUT

Kentucky's economic output continued to increase during the 3rd quarter of 2021 but at a slower pace. The state's real Gross Domestic Product (GDP), which measures the value of the goods and services produced, grew at an annual rate of 1% during the 3rd quarter of 2021. This was down from a 2.1% increase during the 2nd quarter.¹

Nationally, GDP growth also slowed during the 3rd quarter but bounced back during the 4th quarter. U.S. real GDP increased at an annual rate of 6.9% during 4th quarter. This represents the largest increase in GDP since the 3rd quarter of 2020 when many of the COVID related restrictions were eased. The 4th quarter increase was driven partially by an increase in consumption. However, an increase in inventories accounted for 4.9 percentage points, or 71%, of the increase in GDP. Businesses likely rebuilt inventories in preparation for the holidays.

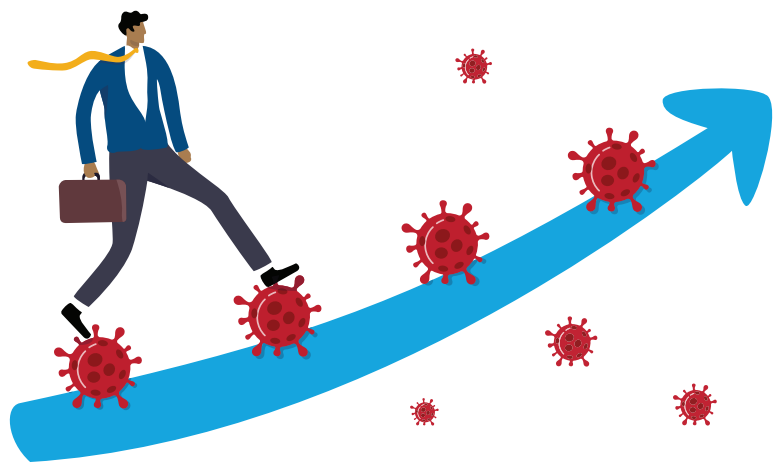
It worth noting that while Kentucky's economic output as measured by GDP now exceeds pre-pandemic levels, its total nonfarm employment was below pre-pandemic levels. This suggests that Kentucky's workers have been more productive. That is, fewer workers produced more goods.

Figure 10
Percent Change Real GDP from Prior Quarter, Annual Rate



Source: US Bureau of Economic Analysis.

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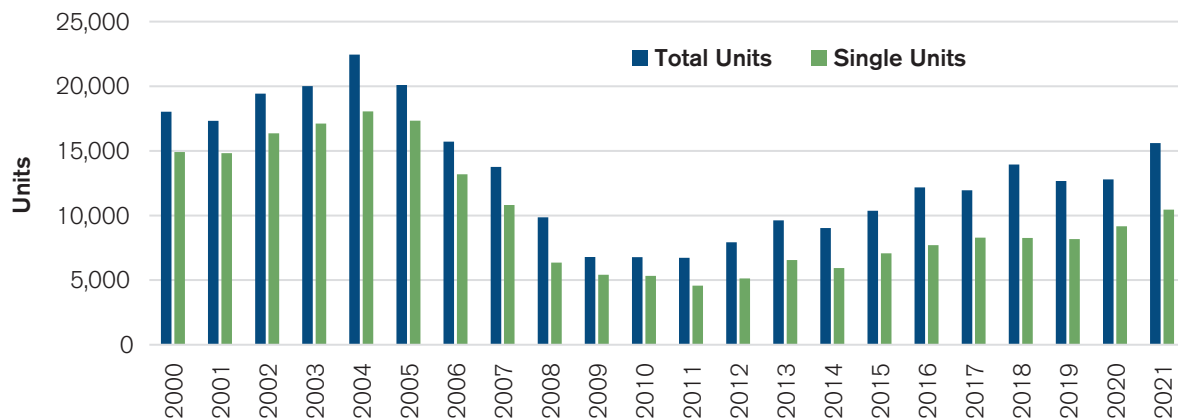


HOUSING MARKET

The number of housing units authorized by building permits increased in 2021 as builders work to catch up with demand. Total housing units increased by 22% for the year (Figure 11). Most of the increase was in multi-unit housing. After decreasing in 2019 and 2020, multi-unit housing permits increased by 42% in 2021. Single-unit housing permits were up 12.1% in 2020 and up 14.1% in 2021. Permits provide a signal of future changes to the supply of housing. According to U.S. Census Bureau, it can take one to three months for construction to begin once the permit is authorized.² It can take another 6 to 18 months to complete depending on the type of housing. Persistent supply chain bottlenecks may be lengthening the time to complete some projects.

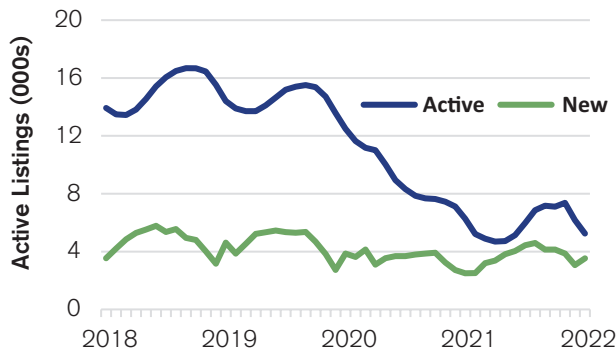
After increasing somewhat during the Fall, active listings for homes for sell in Kentucky fell in January (Figure 12). New listings followed a similar pattern. However, houses remained on the market for a longer period (Figure 13). In January 2022, houses were on the market for a median of 53 days. This is still a much shorter time than is typical for a January.

Figure 11
New Housing Units Authorized by Building Permits, Kentucky



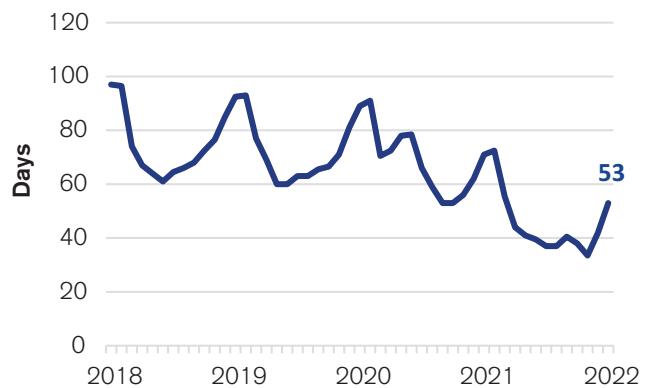
Sources: U.S. Census Bureau, New Private Housing Units Authorized by Building Permits for Kentucky, retrieved from FRED, Federal Reserve Bank of St.Louis. Seasonally Adjusted.

Figure 12
Number of Active & New For Sale House Listings, Kentucky



Source: REALTOR.com. Not Seasonally Adjusted.

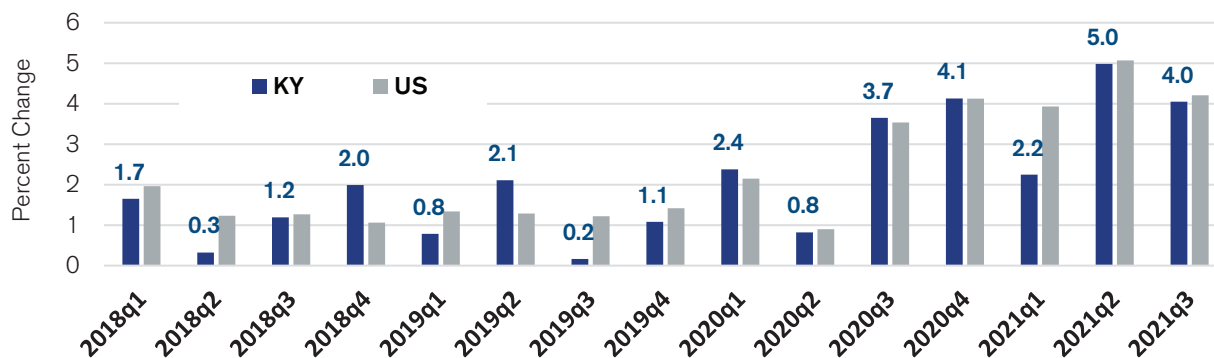
Figure 13
Median Days on the Market, Kentucky



Source: REALTOR.com. Not Seasonally Adjusted.

The Federal Housing Finance Agency's Housing Price Index for Kentucky increased by 4% during the 3rd quarter of 2021 (Figure 14). This increase was in line with the national price increase of 4.2%.

Figure 14
FHFA Housing Price Index, Percent Change from Prior Quarter



Source: Federal Housing Finance Agency. Seasonally Adjusted.

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¹ The US Bureau of Economic Analysis will release 4th quarter estimates on March 31, 2022.

² US Census Bureau. New Residential Construction. Length of Time.

