Kentucky Chamber
Center for Policy & Research

POLICY BRIEF

The Story Behind Kentucky's Rising Unemployment Rate in 2024

Key Highlights

- Kentucky's unemployment rate increased last year, but the key driver was more people joining the labor force and looking for work.
- Layoff numbers are low, meaning most employed adults are keeping their jobs, but unemployed adults looking for work are having a more difficult time getting hired than they were compared to 2022 or 2023.
- Kentucky's story largely mirrors the so-called "Big Stay" trend shaping the national economy, in which adults with jobs are generally staying put.
- Current economic conditions appear stable—based on available data—but warrant careful decision-making by employers and policymakers, with an emphasis on pro-growth policy and stability.

Kentucky's unemployment rate increased almost a whole percentage point in 2024, rising from 4.3 percent in December 2023 to 5.2 percent one year later. While this rate is well below Kentucky's historical average, it marked the highest recorded rate since January 2016 (excluding the COVID-19 pandemic). On top of this, December unemployment rates in all 120 counties were higher than they were a year ago.

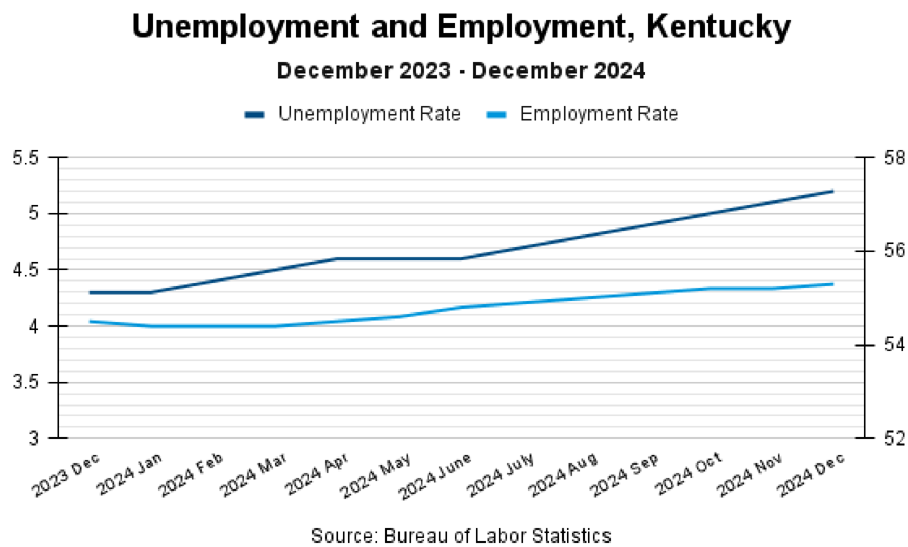
Rising unemployment has raised concerns across the Commonwealth about economic conditions, but the story behind last year's increase is complex. Unemployment rates in Kentucky point to a mixture of news—good, bad, and neutral. While the fundamentals of Kentucky's economy appear stable, there is uncertainty on the horizon. These dynamics underscore the need for careful decision-making by employers and stability and pro-growth policy from the government.

Why the Unemployment Rate Increased Last Year

Understanding why the unemployment rate increased last year starts with understanding what it measures. Unemployment looks at the number of adults older than 15 years of age who are not employed but are actively looking for a job. Individuals who are neither working nor looking for a job are not considered unemployed—they are simply not part of the labor force. These definitions come from the U.S. Bureau of Labor Statistics, which partners with the U.S. Census Bureau to conduct monthly surveys to help us assess economic conditions. The definition of unemployment is significant because it means unemployment can rise for two different reasons: 1) employed workers losing their jobs and searching for a new one; and 2) non-employed individuals starting to look for work.

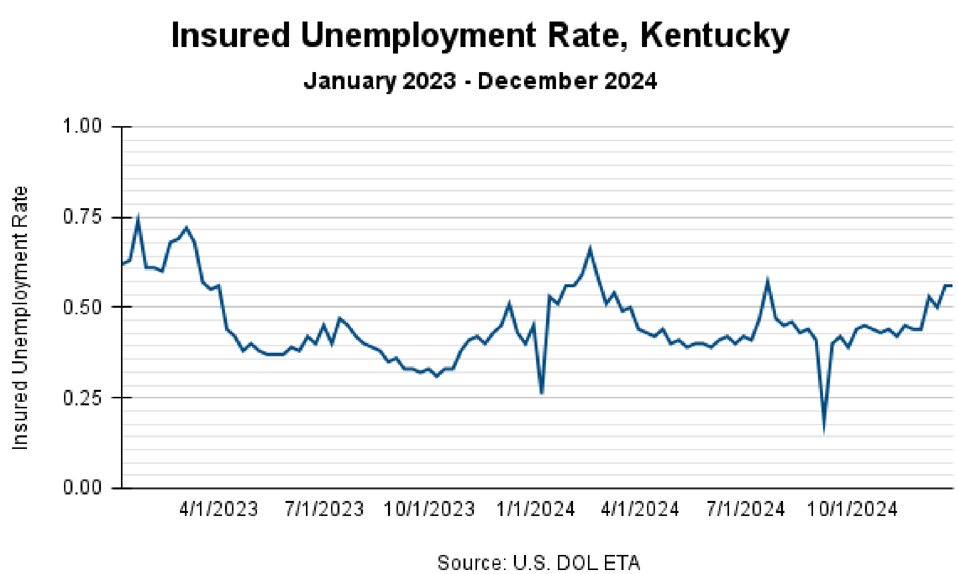
Throughout last year, the available data suggests that Kentucky's unemployment rate rose primarily because of more adults in the state looking for work. Economist Mike Clark at the University of Kentucky summed up this situation succinctly in a recent analysis of Kentucky economic data. "Throughout the past year, both the number of people employed and the number of people in the labor force in Kentucky have increased. Since workers are entering the labor force faster than they are finding jobs, the state's unemployment rate has also increased this year," said Clark. These non-employed adults looking for work could include individuals coming off the sidelines as well as immigrants or individuals moving to Kentucky from other states.

Evidence for this dynamic comes from a few places. First, as the unemployment rate increased last year, so too did the employment rate. While the unemployment rate increased from 4.3 percent to 5.2 percent, the employment rate (which measures the share of all adults who are employed) increased from 54.4 percent to 55.3 percent. In total numbers, unemployment increased by approximately 22,000 adults. Employment increased by approximately 38,000. If layoffs were the primary driver of rising unemployment, we would expect to have seen falling or potentially stagnant employment.



Second, unemployment insurance claims remained relatively stable throughout 2024. The percentage of the population eligible to receive benefits who filed claims averaged 0.45 percent. For comparison, the average in 2019 was 0.92 percent. Similar to the above, if layoffs were driving the unemployment rate, we would expect to have seen more claims being filed.

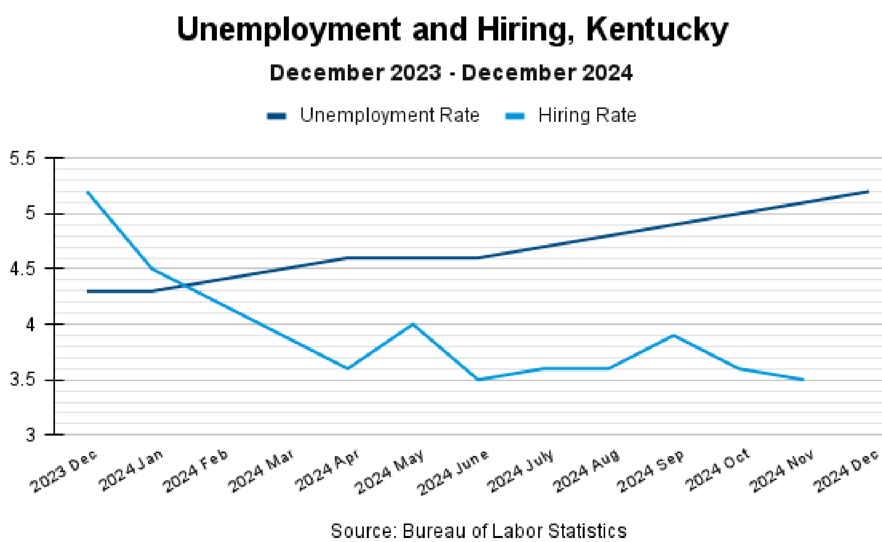
Third, the Bureau of Labor Statistics produces monthly estimates of layoffs for the nation and every state. Throughout 2024, layoffs data was stable.



This does not mean that layoffs did not happen last year or that no Kentuckians became unemployed due to job loss. Rather, the data suggests that layoffs were not the *key driver* of a rising unemployment rate—which is good news. Instead, more non-employed adults started searching for work in the state—which, on the whole, is also good news because more Kentuckians working is good for economic growth.

A Slowdown in Hiring

The not-so-good news is that some of these Kentuckians are not having an easy time finding jobs, and employers are becoming more reluctant to hire than they were one or two years ago. A key metric to illustrate this trend is the hiring rate, which measures the number of monthly hires reported by employers as a percentage of total employment. Last year, Kentucky's hiring rate trended downwards, from 5.2 percent in December 2023 to 3.5 percent in November 2024 (December 2024 data is not yet available). Moreover, the average monthly hiring rate in 2024 was 3.8 percent, which is the lowest average monthly hiring rate Kentucky has seen since 2013, when the country was still recovering from the Great Recession.



What the data shows us, then, is that unemployment in Kentucky increased last year because more non-employed adults were looking for work, but they entered into a labor market where it appears more difficult to find a job than it has been in recent years.

This dynamic is a departure from where the economy was a little over two years ago. In March 2022, Kentucky saw an all-time low unemployment rate of just 3.9 percent and an all-time high hiring rate of 6.2 percent (outside of the rapid rehiring in mid-2020). Anyone who wanted a job could find one, and employers were desperate for workers. Fast forward to the end of 2024, and things look different. Though layoffs still appear rare and most employed adults appear to have job stability, it's harder for non-employed adults to find a job than it was in 2022 or 2023, and employers are more cautious about hiring.

What gives?

The "Big Stay"

Kentucky's recent economic trends run parallel to the nation's. The national unemployment rate is low by historical standards at just 4.1 percent in December but higher than it has been in recent years. Also, like Kentucky, layoffs are stable, but the hiring rate—3.4 percent in November—is in line with where the country was during the recovery from the Great Recession.

Some economists and commentators are describing this dynamic as the "Big Stay"—a labor market characterized by "low hiring, low firing, and low job-switching," according to Julia Pollak, an economist with the recruitment company ZipRecruiter. "It's this 'big stay' type of situation—it's great if you have a job you like, and it's not great if you don't have a job," Pollack told CBS News in December 2024. The "Big Stay" might be compared to the so-called "Great Resignation," which commentators used as short hand for describing the rapid job-switching, job-quitting, and hiring trends that characterized 2021 and 2022.

High interest rates are the most likely reason for a slowdown in hiring in 2023 and 2024. The Federal Reserve began raising interest rates in 2022 to carefully cool an unusually hot labor market and combat rising inflation. The Federal Reserve started lowering rates again last summer. This activity has had the effects of instilling caution in business decisions and reducing borrowing and investments, all of which can lead to less hiring in the short term.

Economic Stability

While concerning for non-employed individuals struggling to find a job, none of this suggests a looming economic downturn. In fact, other data, both for Kentucky and the U.S., mostly indicates economic stability. Kentucky, for example, added 28,700 new jobs between December 2023 and December 2024. The state added 30,100 jobs in the 12 months before then. Further, Kentucky's December 2024 unemployment rate of 5.2 percent, while higher than a year ago, is lower than the state's almost-50-year historical average of 6.5 percent. Similarly, the total number of unemployed Kentuckians in December – 108,623 – was also lower than the historical average of 120,560.

Economic stability was the message shared by Federal Reserve Chairman Jerome Powell in public remarks on January 29, 2025. Speaking to the national picture, he said:

> "In the labor market, conditions remain solid. Payroll job gains averaged 170,000 per month over the past three months. Following earlier increases, the unemployment rate has stabilized since the middle of last year, and at 4.1 percent in December, remains low. … Overall, a wide set of indicators suggests that conditions in the labor market are broadly in balance."

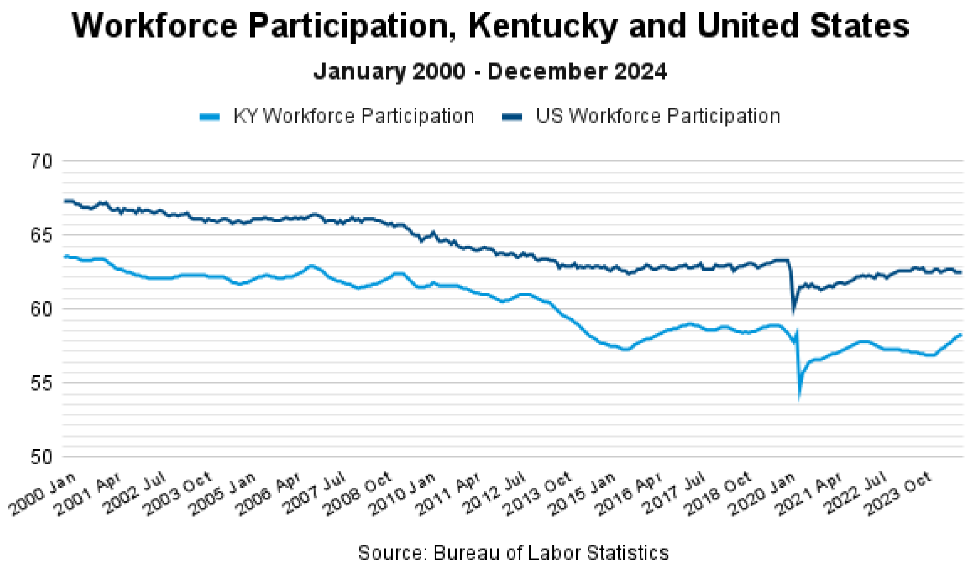
On the other hand, reduced hiring and rising unemployment point to a potential vulnerability in the labor market. When asked about risks he was monitoring, Chairman Powell noted that a sudden spike in layoffs could trigger fast growth in unemployment: "… one is that there's a low hiring rate, and so that if there were to be a spike in layoffs, if companies were to start to reduce headcount, you would see unemployment go up pretty quickly, because the hiring rate is quite low."

How Employers and Policymakers Should Navigate the Coming Months

There are several important takeaways from all this information for employers and policymakers.

Continue Focus on Workforce Development

First, despite reduced hiring rates in 2024 compared to recent years, workforce challenges remain a concern both in the short term and long term. Workforce participation in December 2024 was 58.3 percent, 4.2 points lower than the national average and 0.5 points below the state's rate in December 2019. As the Center for Policy and Research has detailed in other reports, workforce participation in Kentucky and the U.S. has been trending downwards for the past quarter of a century. Moreover, Kentucky employers are still posting more open jobs than there are Kentucky adults looking for work. November 2024 recorded 152,000 open jobs in Kentucky, an increase of 37,000 over November 2023 and 43,000 more than the number of unemployed Kentuckians.



In the short term, more attention should be given to addressing skills mismatches by helping Kentucky adults upskill through increased access to education and training. Attention should also be given to addressing geographic mismatches between open jobs and adults looking for work. Building more housing closer to areas with strong demand for workers would be a good place to start. Supporting entrepreneurship to create jobs in rural communities would be another productive strategy.

In the long term, as the economy moves through business cycles, there will remain a need to encourage more Kentucky adults to join the workforce. This means continuing efforts to remove barriers to work, increasing access to child care, and funding and modernizing workforce development initiatives.

Pro-Growth Reforms

Second, policymakers could help facilitate more investment and job opportunities in Kentucky through tax relief and pro-growth regulatory reforms. Kentucky policymakers have been carefully working to reduce individual income taxes—which directly helps pass-through business owners—but they may need to consider broader reforms to business taxes as well. This includes improved tax treatment of business investments in things like machinery and equipment and reforming the state's Limited Liability Entity Tax. The Kentucky Chamber Center for Policy and Research has produced several resources to guide policymakers in considering these proposals (here, here, and here). Similarly, while the state has implemented important regulatory reforms to systems like workers' compensation, attention to other regulatory pain points for employers may be prudent.

Certainty and Predictability

Third, employers always need certainty and predictability from government policy, but this is especially true in times of economic uncertainty. Recent proposals at the federal level to dramatically and suddenly change international trade policy are good examples of steps that the government should *not* be taking. This is particularly true for trade policy with key partners like Canada and Mexico, two of Kentucky's top three export markets representing a total of $12.8 billion in exports in 2023 alone. In January 2025, the White House proposed imposing unprecedented broad-based tariffs on imports from Canada and Mexico. Such tariffs would almost certainly trigger retaliatory tariffs, harming the ability of Kentucky businesses to export their products. The proposal was temporarily put on hold as the countries continued to negotiate. A better path forward would be to maintain international trade agreements like the United States-Mexico-Canada-Agreement from 2019, which provides the type of certainty and predictability that employers need from government entities.

Another area of uncertainty for employers is the looming expiration of the 2017 Tax Cuts and Jobs Act. The provisions of this landmark tax reform package expire at the end of this year, resulting in effective tax increases for both individuals and businesses. The sooner Congress can act to extend the pro-growth provisions of the Tax Cuts and Jobs Act, the more certainty they can provide for businesses, which can help facilitate more investment and hiring.

Monitor Trends, Not Short-Term Takes

As always, more information in the coming months will be necessary to fully discern economic conditions for Kentucky and the nation. In fact, at the time of writing, December 2024 data for Kentucky is still preliminary, and the Bureau of Labor Statistics usually revises past year's data in the first quarter of a new year. Finalized data and more resources like the monthly jobs reports and monthly state tax receipts will help us paint a more comprehensive picture. In the meantime, policymakers and employers should view short-term takes based on singular data points with caution and focus on broader trends before making significant business or policy decisions.