KENTUCKY'S LABOR MARKET RECOVERY AFTER THE GREAT RECESSION

The Great Recession and subsequent recovery are often analyzed and discussed in a national context. Government officials and popular media focus on the national unemployment rate, national GDP, and other measures of national economic health, paying less attention to regional differences. While the recession had a nearly universal negative effect on states and localities around the country, considerable differences can be observed among states in the growth of employment, wages, and the number of people participating in the labor force.

In "Kentucky's Labor Market Recovery after the Great Recession," Adam A. Millsap, Matt Crumb, and J. Patrick Higgins show the diverse levels of recovery by examining what happened to the labor market in Kentucky and its seven border states, as well as in Kentucky's metropolitan statistical areas (MSAs) and even in the counties within the Louisville–Jefferson County MSA. By analyzing labor force, employment, and entrepreneurship data at the regional, state, and local levels, this study can help provide context to policy discussions regarding the ongoing labor market recovery.

KEY FINDINGS

- Kentucky's labor force has yet to return to its prerecession level, although private employment is up.
- Kentucky's labor market recovery has been stronger than many of its neighbors', particularly in the case of business starts and other measures of entrepreneurship.
- Kentucky's urban areas recovered faster than its rural areas.

INTERSTATE VARIATION

At the national level, the labor force participation (LFP) rate—the percentage of the population age 16 and over that is employed or looking for work—has not reached its prerecession levels. In addition to

For more information, contact
Marc Morris, 703-993-9887, mmorris@mercatus.gmu.edu
Mercatus Center at George Mason University
3434 Washington Boulevard, 4th Floor, Arlington, VA 22201

the usual LFP rate, this study examines the prime-age LFP rate as an alternative measure of a state's labor force, eliminating the very low LFP rate among the young and the elderly. Only including 25–54-year-olds means that prime-age LFP rates are typically higher than the general LFP rates in each state, but the labor force decline is still apparent.

The LFP rate declines experienced by all the states in this study suggest that many workers are unsure of their ability to find a job and have even given up looking for employment.

Coal Trouble Despite Private Employment Increases

As of 2014, 60 percent of US coal workers were employed in the eight states sampled in this study, with most located in West Virginia and Kentucky. While coal employment makes up a small portion of each state's total employment, declines in the energy sector can have a large impact on a state's economy. These states lost a substantial amount of coal employment—particularly Kentucky, which lost 30 percent.

These declines have been intensified by the availability of cheap natural gas and by federal environmental regulations.

Measuring Entrepreneurship

In 2015, the eight states featured in this study ranked poorly on the Kauffman Index compared to the rest of the country in terms of entrepreneurship levels:

- Missouri, Illinois, and Virginia were in the middle of the pack for Startup Density (a measure of the number of new firms per 100,000 residents), while Indiana, Tennessee, Ohio, Kentucky, and West Virginia all ranked in the bottom 10 states.

- Seven of the states fell below the median rate of 290 new entrepreneurs per month (0.29); only Kentucky did not (0.35).

INTRASTATE VARIATION

All five of the MSAs studied surpassed their prerecession employment levels by September 2015. The smaller MSAs—Bowling Green, Elizabethtown–Fort Knox, and Owensboro—experienced job growth of over 10 percent in the private sector, far outpacing that of the larger Louisville–Jefferson County and Lexington-Fayette MSAs.

Though average weekly wages were higher in 2015 than in 2007 in all the MSAs, wage growth only exceeded that of the entire state in the Owensboro MSA.

INTRA-MSA VARIATION

Variation can also be seen in private employment growth and average weekly wage growth across the 12 counties in Kentucky and Indiana that make up Kentucky's largest MSA, Louisville–Jefferson County. Eight counties experienced private-sector employment growth while four counties lost jobs. There were stark differences in wage growth as well: counties in Kentucky performed better than counties in Indiana.