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# UK Economists: Kentucky Climbing out of Recession

**POSTED ON MARCH 2, 2012**
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**Lexington, KY –** The 23rd annual University of Kentucky Economic Outlook Conference revealed further signs that the state's economy is slowly returning to normal.

"Kentucky has had a better performance than some other parts of the country. Our unemployment rate fell to 9.1 percent in December 2011, which is the lowest rate in three years," Dr. Kenneth Troske, UK Gatton College of Business and Economics professor told about 275 conference attendees.

Troske said Kentucky employment fell by five percent between 2007 and 2009 and rose by only one percent between 2009 and 2011. "We are still about 74,000 jobs below the peak pre-recession levels," Troske told the crowd. "The Lexington MSA is doing better on regaining employment. It rose by about two percent between 2009 and 2011. I think it will be 6.25 percent."

So when can we expect a return to normalcy? "It is probably not going to be until 2014 that we return to normal employment," Troske predicted.

Other hopeful signals: the Kentucky economy and the Lexington economy grew at a little faster rate than the U.S. economy. Kentucky is producing more goods and services, in real dollars and adjusted for inflation, than it did in 2007. "Our economy is bigger now than it was before the start of the recession," said the UK economist, who added there is no sign of contraction and growth seems to be speeding up.

One troubling note about Kentucky workers was shared. "We need to figure out what to do with the rising numbers of workers with low skills and little prospect for steady employment," Troske warned. "I don't hear conversation about what we're doing with these workers, a large number of whom haven't found work in a long, long time."

In addition, the economies of Eastern and Western Kentucky will continue to lag behind other regions of the state, primarily the so called "Golden Triangle" of Lexington, Louisville and Northern Kentucky.

On the housing front, foreclosures have risen by more across the U.S. than in Kentucky. Nationally, home prices are dropping but are fairly stable in Kentucky and in the Lexington area.

"Typically, housing leads recoveries so we are unlikely to experience an increase in growth until the housing market begins to recover," explained Troske.

Problems noted by the economist included how Kentucky must adjust to the end of AARA (American Recovery and Investment Act) funds from the federal government. Lower employment than normal will mean less tax revenue for the LFUCG. In addition, the European debt crisis (Kentucky exports many goods to Europe) may impact manufacturing here and uncertainty continues over health care costs, financial reform and new federal debt.

Some may ask whether a sluggish economy should be viewed as "the new normal in America and the state. Troske emphatically says "No."

"Research shows that our current recovery is fairly typical of a recovery after any financial crisis. We will get back to normal."

### Affordable Care Act Impact

Another portion of the economic conference dealt with how the federal Affordable Care Act's employer mandate will impact Kentucky businesses.

Effective January 1, 2014 the act requires large businesses (50 or more employees) to either provide affordable health insurance to full-time employees, but not their dependents, or pay a $2,000 per employee tax penalty. It's also known as "Pay or Play"

"More than 283,000 Kentucky workers are likely to be affected by the mandate. Put differently, around 22 percent of workers at large firms would be impacted," estimated Dr. Aaron Yelowitz, another UK Gatton College of Business and Economics professor.

In Central Kentucky, about 11.9 percent of full-time workers will be affected by the mandate.

Relative to the now well-known individual health care mandate, Yelowitz says there's been much less discussion about the Act's impact on larger businesses. Politically, opponents call it "a job and wage killer." The White House defends it, saying it is a "shared responsibility fee" and that taxpayers are "supporting the cost of health insurance for workers through premium tax credits for middle to low income families."

Industries with large firms and many full-time workers who lack health insurance will be most impacted. The industries expected to be most affected in Kentucky are administrative and support, waste management and remediation services, followed by various types of manufacturing firms and then mining.

Large employers can provide health care insurance themselves or put employees into insurance exchanges (subsidized insurance). It might modify employment. Employers may decide to reduce the number of full-time workers to less than 50 to skirt the rules or may cut an employee's hours to less than 30 in a week.

Yelowitz says there could be some job losses if the new health care rules cause a company's profits to shrink. "It may raise the cost of doing business to some extent in some industries and in all Kentucky regions," noted Yelowitz, who added that employers in southeastern Kentucky, where there are fewer large companies, may feel the impact the most.





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