

## CREATE BRIDGES Briefs 23-3

### Kentucky Retail Trade Analysis

Dr. Sreedhar Upendram, University of Tennessee  
Dr. James Mingie, University of Tennessee

#### Retail Pull Factors

Retail trade is the sale and distribution of merchandise to consumers through either a store location or non-store location such as internet, phone, catalog, or advertising.

Retail trade is one of the key economic indicators of regional economies. The retail strength of a county is a function of the customer base served, the buying power of the customer base, and the quality of the retail environment. Retail pull factors measure retail sales captured by counties across Kentucky in the nine sectors.

In 2018, according to the National Retail Federation (2020), 429,250 employees worked in the retail sector at 56,100 establishments across Kentucky. Employees in the retail sector earned an average wage of \$27,254 accounting for \$11.7 billion in direct labor income.

Figure 1 illustrates the percentage of retail sales by industry, in 2021. The greatest amount of retail sales was in the auto dealers and gasoline services sector (30%), followed by general merchandise (19%), food (13%), eating and drinking (12%), building materials (9%), and health and personal care (7%). Miscellaneous retail (5%), apparel and accessories (3%), and home furniture (2%) accounted for the remaining retail sales in Kentucky.



#### Program Overview

CREATE BRIDGES (Celebrating REtail, Accommodations, Tourism, and Entertainment by Building Rural Innovations and Developing Growth Economies) is a pilot project designed for multi-county regions to raise the awareness of the role retail, accommodations, tourism, and entertainment businesses play in the local economy; determine challenges, barriers, and opportunities related to those businesses; and develop and implement strategies to strengthen the retail, accommodations, tourism, and entertainment sectors within a region. CREATE BRIDGES is a collaborative partnership between the Southern Rural Development Center, the University of Arkansas, The University of Illinois, the University of Kentucky, New Mexico State University, North Carolina State University and Oklahoma State University. It is currently active in eight regions throughout the six partner states.

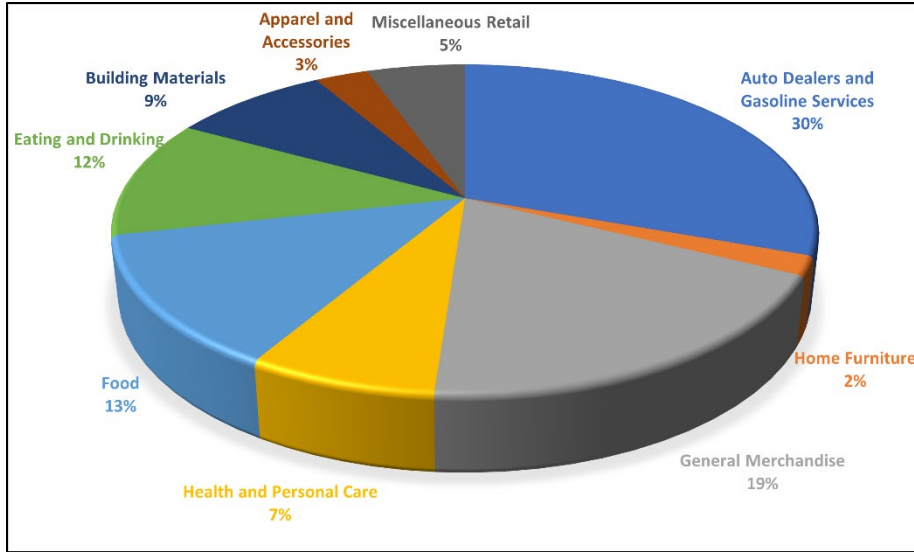


Figure 1. Retail Sales Breakdown in Kentucky by Detailed Industry, 2021

Source: Woods and Poole Economics, Inc., 2022

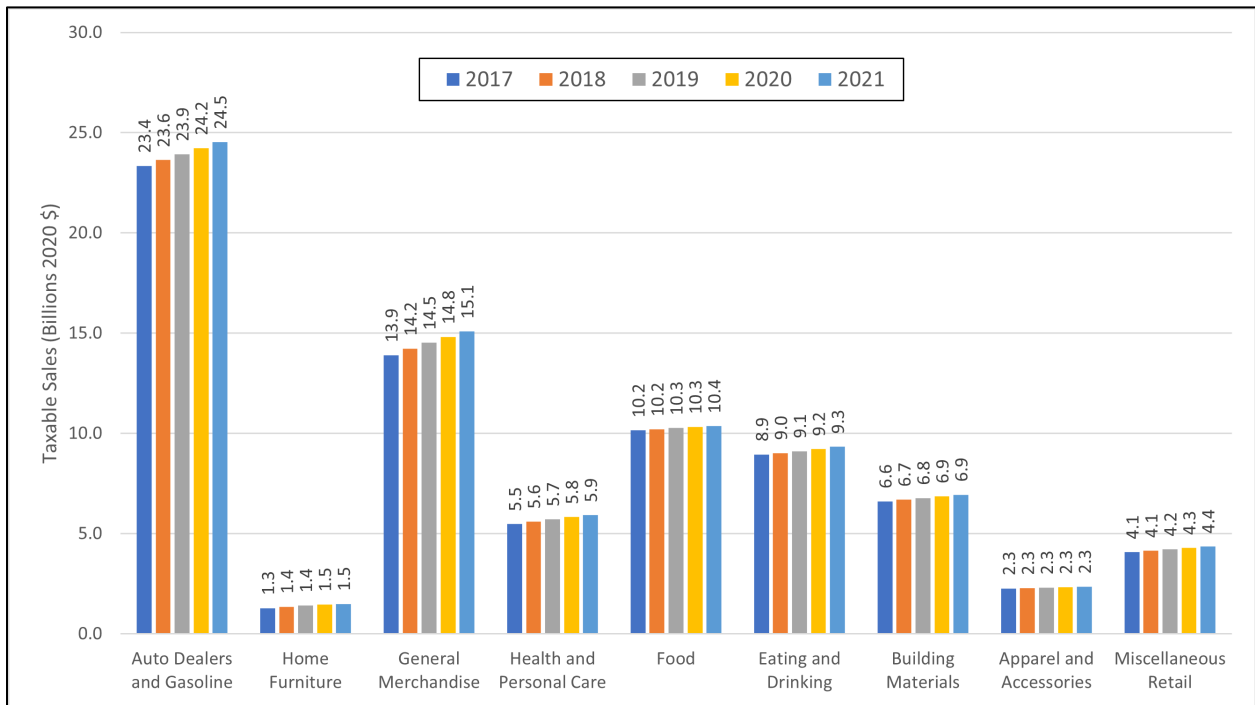


Figure 2. Comparison of Taxable Sales by Detailed Industry in Kentucky, 2017-2021

Source: Woods and Poole Economics, Inc., 2022

When considering the retail sales trends over the last four years (Figure 2), retail customers in Kentucky spent the highest share of the money (over \$23 billion) at auto dealers/gasoline services followed by general merchandise goods (over \$13 billion). Expenditures on food (over \$10 billion) and eating and drinking places (almost \$9 billion)

also experienced a small growth over the past five years. During the same time frame, retail expenditure ranged from \$6.6 to \$6.9 billion for building materials, \$5.5 to \$5.9 billion for health and personal care, and \$4.1 to \$4.4 billion for miscellaneous retail sectors. Apparel and accessories expenditure remained unchanged at \$2.3 billion. Retail expenditure on home furnishings was the least among all sectors in the range of \$1.3 to \$1.5 billion. All of the retail sales were adjusted for inflation and presented in 2020 dollars. Appendix B provides a detail of the retail trade classifications and the sectors or industries included in each category.

**CREATE BRIDGES in Kentucky**

In Kentucky, Celebrating REtail, Accommodations, Tourism, and Entertainment by Building Rural Innovations and Developing Growth Economies (CREATE BRIDGES) counties are found in the southeastern region of the state or the Eastern Kentucky Concentrated Employment Program FOCUS/Big Sandy region (Bell, Clay, Harlan, Jackson, Johnson, Knox, Lee, Leslie, Letcher, Magoffin, Owsley, Perry, Pike, Whitley, and Wolfe counties) as presented in Figure 3.

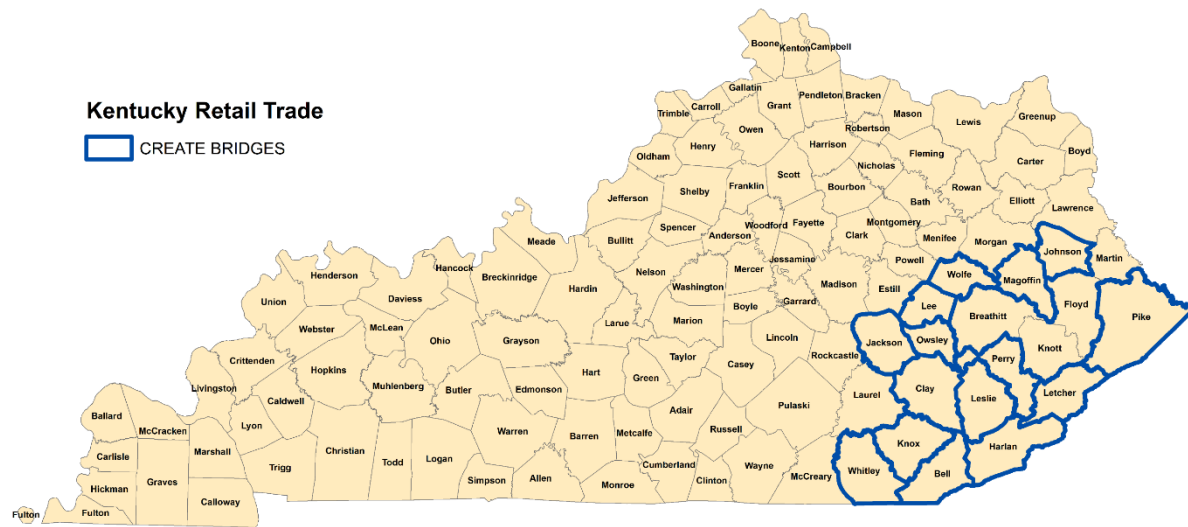


Figure 3. CREATE BRIDGES counties in Kentucky

In Table 1, total retail sales are summarized for Kentucky CREATE BRIDGES counties from 2017 to 2021.

	2017	2018	2019	2020	2021
<b>Bell</b>	467.68	471.00	474.16	477.10	479.74
<b>Clay</b>	183.83	185.96	188.04	190.04	191.94
<b>Harlan</b>	268.44	269.87	271.19	272.40	273.42
<b>Jackson</b>	58.71	59.47	60.20	60.92	61.61
<b>Johnson</b>	497.95	503.87	509.63	515.23	520.54

<b>Knox</b>	462.46	469.45	476.37	483.15	489.68
<b>Lee</b>	71.40	72.17	72.93	73.65	74.34
<b>Leslie</b>	67.96	68.68	69.38	70.06	70.69
<b>Letcher</b>	193.62	195.28	196.89	198.40	199.80
<b>Magoffin</b>	80.92	81.88	82.81	83.71	84.57
<b>Owsley</b>	19.59	19.81	20.03	20.24	20.44
<b>Perry</b>	663.38	669.52	675.48	681.14	686.39
<b>Pike</b>	1187.27	1198.28	1208.91	1219.04	1228.41
<b>Whitley</b>	611.57	620.62	629.59	638.35	646.79
<b>Wolfe</b>	75.77	76.70	77.61	78.49	79.33

Table 1. Summary of total retail sales in CREATE BRIDGES counties in Kentucky (millions 2020\$)

Source: Woods and Poole Economics, Inc., 2022

### Kentucky County Retail Pull Factors

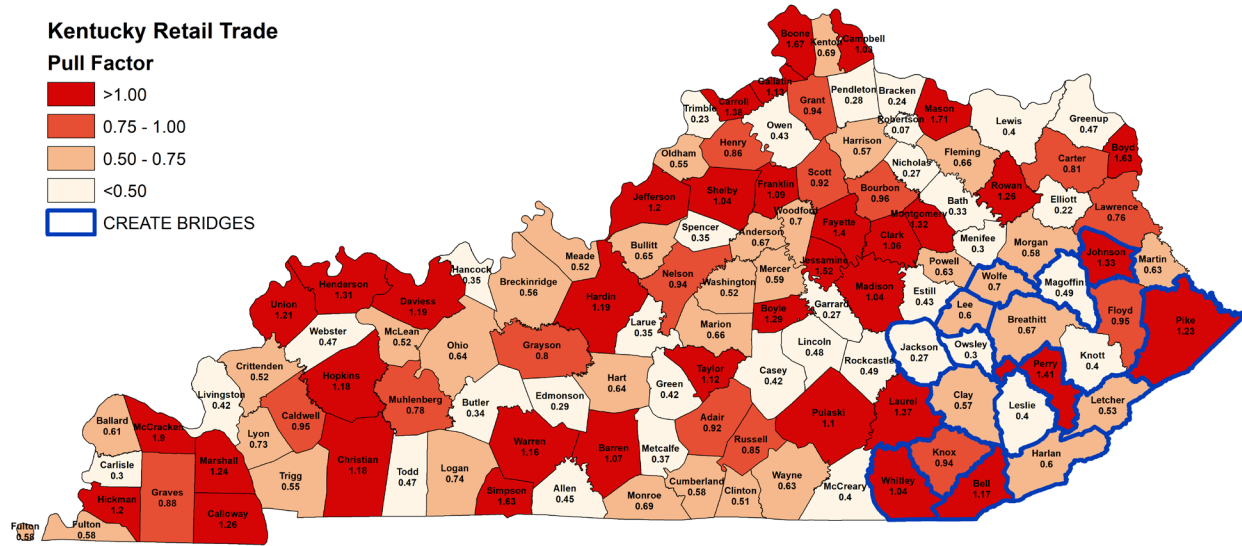


Figure 4. Kentucky County Retail Trade Pull Factors

Sources: Woods and Poole Economics, Inc., 2022; U.S. Census Bureau, 2022a; U.S. Census Bureau, 2022b

The equation to compute retail trade pull factor is as follows:

$$Pull\ Factor_{sector} = \frac{Retail\ sales_{county}}{Adjusted\ population_{county}} \div \frac{Retail\ sales_{state}}{Adjusted\ population_{state}}$$

In 2021, 37 counties in Kentucky had a retail trade pull factor greater than 1 indicating either a gain in customers from other counties or residents spent more than the state average on retail purchases (Figure 4). On the other hand, 83 counties had a pull factor below 1 indicating residents either spent less than other counties or purchased more goods outside their county of residence. For example, McCracken, Mason, and Boone



Jefferson, Fayette, Boone, and McCracken counties gained the most retail customers while Kenton, Oldham and Bullitt counties lost the most retail customers. It is evident that the metropolitan areas of Louisville, Lexington-Frankfort, Paducah, and the suburbs of Cincinnati attracted the most retail customers. The counties adjacent to the metropolitan areas lost the most retail customers.

Another trend is the loss of retail customers in counties that are neighboring the states of Tennessee, Ohio, Missouri, Indiana, Illinois, Virginia, and West Virginia.

The estimated retail customer surplus or leakage is calculated as follows:

$$\text{Estimated Customers}_{\text{county}} = \text{Trade Area Capture}_{\text{county}} * \text{Adjusted Population}_{\text{county}}$$

### Summary and Conclusions

Retail trade is an important sector for Kentucky's economy supporting 429,250 employees working in 56,100 establishments across the State. The retail sector has exhibited some growth over the years particularly in 2021 demonstrating economic recovery from the COVID-19 pandemic. Retail expenditures on automobiles and parts and general merchandise have been particularly noteworthy while other sectors remained stable over the last five years.

Retail customers spent more than the state average in the metropolitan areas of Louisville, Lexington-Frankfort, Paducah, and the suburbs of Cincinnati. Counties surrounding metropolitan areas have lost retail customers across the state. Retail goods and services for residents along the eastern and Appalachian region of Kentucky could be better served.

One of the limitations of this study in calculating the retail measures is that the economy of the state is considered closed to any out-of-state customers buying retail goods and services. It is also assumed that none of the retail customers within the state shop for retail goods and services outside the state. Of course, there is free movement of retail customers across the state borders which is beyond the scope of this study.

Serving rural retail customers and retaining their business is a particular challenge for the retail sector as illustrated through various retail measures. Addressing the needs of low-income consumers and hard to reach areas in specific regions can provide growth opportunities for the retail industry of Kentucky.

Retail trade activity in the CREATE BRIDGES region can be improved. The region borders West Virginia, Virginia, and Tennessee indicating a potential to attract retail customers from these states. The retail pull factors for counties in the region are relatively high

indicating the presence of anchor retail establishments that cater to the needs of retail customers in the area which also attract retail customers to this region and prevent the loss of retail customers to other regions. The buying power of retail customers in this region is relatively low, indicating a demographic of low-income customers in this region. Lack of direct access to interstate highways is a big disadvantage for these communities which affects storage and distribution of retail goods across the region. An in-depth analysis of willingness to pay for retail goods and understanding the preferences of local retail customers will help in recruiting and retaining the appropriate retail outlets in this region.

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