

Economic Forecast

The outlook for the economy, as measured by expected growth of gross domestic product in the nation and Ohio, has shifted to a somewhat slower pace since January. Prospects still appear favorable for continued expansion through the end of the upcoming biennium. Inflation is projected to ease after turning higher this year. With growth expected to be slower than in earlier years of the economic expansion, unemployment rises slightly in FY 2008 as a share of the labor force. Economic reports recently have tended to be more positive regarding the pace of economic activity. But the latest forecasts show generally slower expansion than the January forecasts that served as the basis for LSC's initial revenue projections for the upcoming biennium. The updated economic forecasts, in conjunction with more complete data on FY 2007, served as the basis for the Legislative Service Commission's revisions to these revenue projections.

Predictions for the economic outlook from forecasting firm Global Insight and from the Governor's Council of Economic Advisors are shown in the following tables. The Global Insight forecasts shown below for the nation and Ohio were released in January and May. The Governor's Council of Economic Advisors' forecasts are the consensus outlooks from meetings of that group in January and May. Annual changes shown below are based on the annual average for each fiscal year, from the preceding fiscal year's annual average except for the unemployment rate.

U.S. Gross Domestic Product

Global Insight's forecast for growth of the nation's economy, measured by real gross domestic product, continues to show expansion through FY 2009 and beyond, but the rate of growth has been revised downward by 0.2 to 0.4 percentage point for FY 2008 and FY 2009. The Governor's Council of Economic Advisors has also lowered its consensus forecast for next year, by 0.2 percentage point, but raised its forecast for FY 2009 by the same percentage.

Table 1: U.S. Real GDP Growth

| Forecast | FY 2007 | FY 2008 | FY 2009 |
|--------------------|--------------------------|---------|---------|
| | -----percent change----- | | |
| Global Insight's | | | |
| January forecast | 2.6 | 2.7 | 3.4 |
| May forecast | 2.5 | 2.3 | 3.2 |
| change | -0.1 | -0.4 | -0.2 |
| Economic Advisors' | | | |
| January forecast | 2.6 | 2.7 | 2.9 |
| May forecast | 2.6 | 2.5 | 3.1 |
| change | 0.0 | -0.2 | 0.2 |

Ohio Gross Domestic Product

Similarly, Ohio's gross domestic product continues to increase over the forecast horizon, but the state's economy is not expected to grow as rapidly as that of the nation. Global Insight's forecast for growth in the state was revised downward by 0.2 to 0.4 percentage point in the next two fiscal years.

Table 2: Ohio Real GDP Growth

| Forecast | FY 2007 | FY 2008 | FY 2009 |
|--------------------|--------------------------|---------|---------|
| | -----percent change----- | | |
| Global Insight's | | | |
| January forecast | 1.6 | 2.3 | 2.7 |
| May forecast | 1.0 | 1.9 | 2.5 |
| change | -0.6 | -0.4 | -0.2 |
| Economic Advisors' | | | |
| May forecast | 1.1 | 1.8 | 2.4 |

U.S. Inflation

Both Global Insight and the Governor's Council of Economic Advisors expect the rate of rise in the general price level, as measured by the consumer price index, to moderate during the next two fiscal years. However, Global Insight projects that increases in this indicator of inflation will slow to less than 2%, while the Governor's Council of Economic Advisors consensus shows less of a slowing, with inflation remaining higher than that rate.

Table 3: U.S. Consumer Price Index Inflation

| Forecast | FY 2007 | FY 2008 | FY 2009 |
|--------------------|--------------------------|---------|---------|
| | -----percent change----- | | |
| Global Insight's | | | |
| January forecast | 2.2 | 2.1 | 1.9 |
| May forecast | 2.5 | 1.8 | 1.9 |
| change | 0.3 | -0.3 | 0.0 |
| Economic Advisors' | | | |
| January forecast | 2.2 | 2.0 | 2.1 |
| May forecast | 2.5 | 2.3 | 2.3 |
| change | 0.3 | 0.3 | 0.2 |

U.S. Personal Income

Revisions to expectations for growth of personal income in the nation and Ohio were mixed, but differences between expected rates of growth are fairly small.

Table 4: U.S. Personal Income Growth

| Forecast | FY 2007 | FY 2008 | FY 2009 |
|--------------------|--------------------------|---------|---------|
| | -----percent change----- | | |
| Global Insight's | | | |
| January forecast | 5.8 | 5.1 | 6.0 |
| May forecast | 5.8 | 5.5 | 5.6 |
| change | 0.0 | 0.4 | -0.4 |
| Economic Advisors' | | | |
| January forecast | 5.4 | 5.1 | 5.5 |
| May forecast | 5.9 | 5.6 | 5.6 |
| change | 0.5 | 0.5 | 0.1 |

Ohio Personal Income

Income to persons who reside in Ohio continues to be projected to grow at a rate somewhat slower than the national average.

Table 5: Ohio Personal Income Growth

| Forecast | FY 2007 | FY 2008 | FY 2009 |
|--------------------|--------------------------|---------|---------|
| | -----percent change----- | | |
| Global Insight's | | | |
| January forecast | 4.5 | 4.3 | 4.9 |
| May forecast | 4.5 | 4.2 | 4.6 |
| change | 0.0 | -0.1 | -0.3 |
| Economic Advisors' | | | |
| January forecast | 3.8 | 4.1 | 4.2 |
| May forecast | 4.6 | 4.5 | 4.6 |
| change | 0.8 | 0.4 | 0.4 |

Ohio Wage Disbursements

Ohio wage disbursements are a driver for the personal income tax forecast and the nonauto sales tax forecast. Global Insight's prediction for Ohio wage disbursements was revised significantly lower between January and May.

Table 6: Ohio Wage Disbursements Growth

| Forecast | FY 2007 | FY 2008 | FY 2009 |
|------------------|--------------------------|---------|---------|
| | -----percent change----- | | |
| Global Insight's | | | |
| January forecast | 3.8 | 3.9 | 4.4 |
| May forecast | 3.4 | 3.2 | 3.8 |
| change | -0.4 | -0.7 | -0.6 |

U.S. Unemployment Rate

Unemployment nationwide as a share of the labor force is expected to rise somewhat, but both Global Insight and the Governor's Council of Economic Advisors slightly lowered the levels to which they expect this rate to rise in the coming year.

Table 7: U.S. Unemployment Rate

| Forecast | FY 2007 | FY 2008 | FY 2009 |
|--------------------|--------------------------------------|---------|---------|
| | -----percent of the labor force----- | | |
| Global Insight's | | | |
| January forecast | 4.7 | 5.0 | 4.7 |
| May forecast | 4.6 | 4.8 | 4.8 |
| change | -0.1 | -0.2 | 0.1 |
| Economic Advisors' | | | |
| January forecast | 4.7 | 4.9 | 4.8 |
| May forecast | 4.6 | 4.7 | 4.7 |
| change | -0.1 | -0.2 | -0.1 |

Ohio Unemployment Rate

The two forecast groups are in agreement on the outlook for the unemployment rate in Ohio, on average, in the next two fiscal years.

Table 8: Ohio Unemployment Rate

| Forecast | FY 2007 | FY 2008 | FY 2009 |
|--------------------|--------------------------------------|---------|---------|
| | -----percent of the labor force----- | | |
| Global Insight's | | | |
| January forecast | 5.5 | 5.7 | 5.5 |
| May forecast | 5.4 | 5.5 | 5.4 |
| change | -0.1 | -0.2 | -0.1 |
| Economic Advisors' | | | |
| January forecast | 5.6 | 5.5 | 5.3 |
| May forecast | 5.4 | 5.5 | 5.4 |
| change | -0.2 | 0.0 | 0.1 |