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Economic Conditions and Outlook

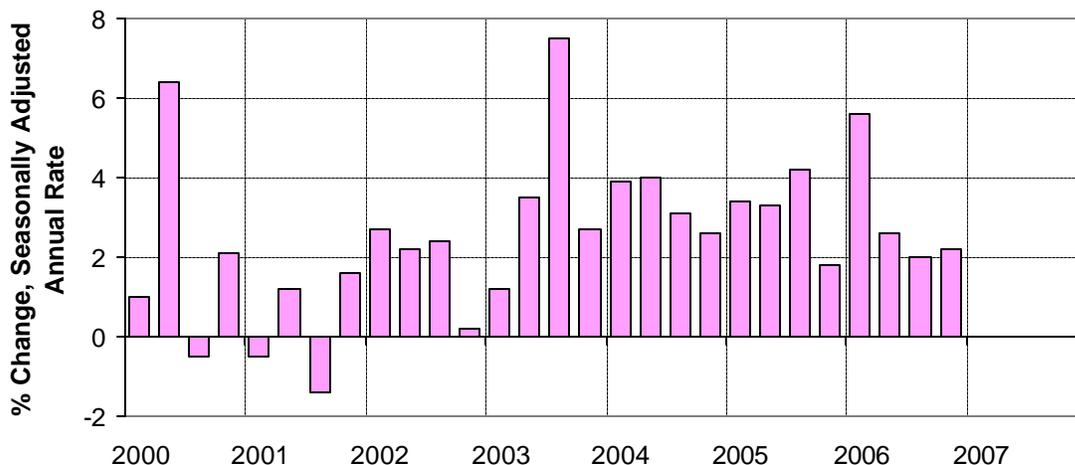
State of the Economy

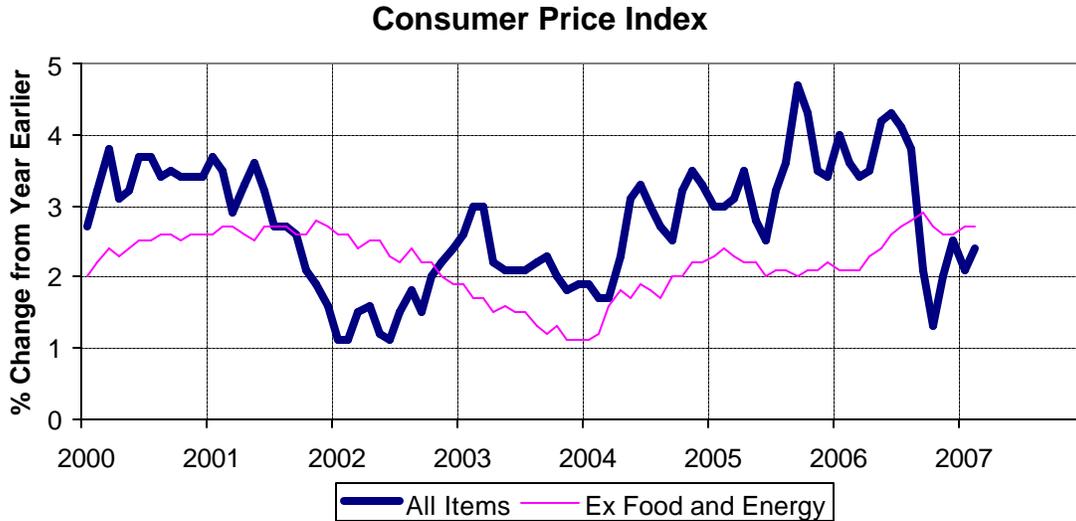
The nation's economy has been growing for more than five years, following the recession in 2001. Recovery in Ohio has been slower than in much of the rest of the country, and total nonfarm payroll employment here has declined since last March.

National

Growth of the nation's economy slowed during 2006, following generally stronger expansion since mid-2003. The slower rise in inflation-adjusted (real) gross domestic product during the last three quarters of last year reflected mainly weakening in housing markets and related industries, but also slowing in demand for American-nameplate light motor vehicles and for the output of suppliers to manufacturers of those vehicles. Total manufacturing activity nationwide shrank in last year's fourth quarter and in January of this year, but picked up in February. Manufacturing employment in this country is at its lowest level in more than half a century but factory output is near all-time highs reflecting long-term productivity gains. Excess housing inventories continue to restrain construction. Despite the softness in the housing sector, consumer spending on other goods and services, overall, continued to expand at a fairly healthy pace last year, but appears to have flattened in the first quarter. In contrast with the steep slowdown in

United States Real Gross Domestic Product



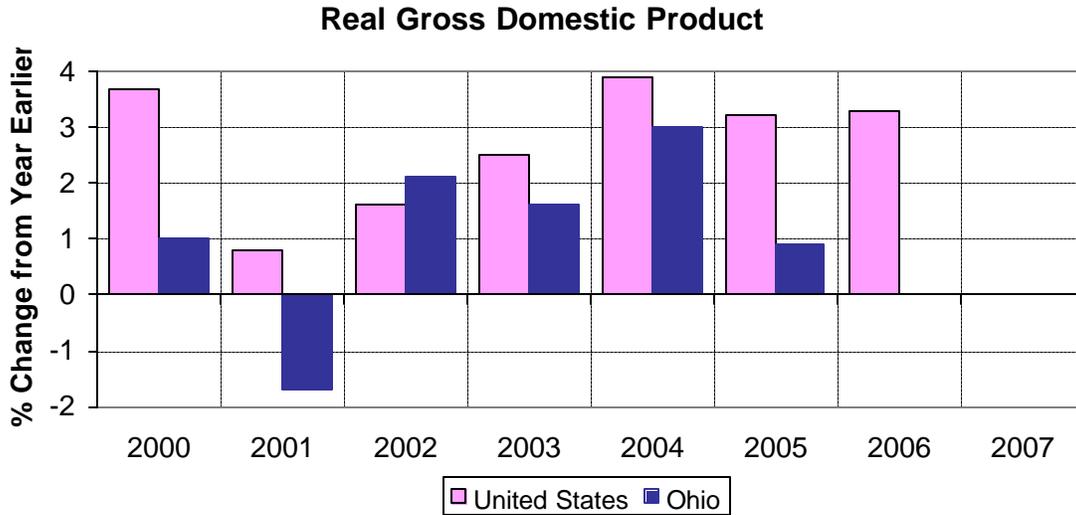


residential construction, nonresidential investment in structures strengthened last year, though investment slowed in the fourth quarter, as construction of commercial and other buildings grew more rapidly while mining activity, particularly oil and gas well drilling, again rose at a double-digit rate. Business investment in equipment trended upward last year though less rapidly than earlier in the expansion, and spending slowed in the fourth quarter. American exports rose more rapidly and import growth slowed. Government spending growth turned higher last year, mainly as a result of more rapid increases in state and local government outlays.

Inflation eased in 2006 as energy prices declined. Since January, crude oil and gasoline prices have again turned higher. Increases in 2006 and early 2007 in prices for finished goods and services, excluding volatile energy and food prices, remained above the 2% year-over-year rate of increase widely seen as the top end of the range preferred by the nation's central bank. Labor cost increases have turned higher as wage and salary gains have been somewhat larger over the past couple of years than earlier, while yearly increases in productivity have slowed after large increases in 2002-2003. Anticipating that slower but continued overall growth of the economy will ease pressures on capacity and bring inflation down to more acceptable rates, the nation's central bank has held its target short-term interest rate, for federal funds, unchanged at 5.25% since mid-2006, following increases from 1% two years earlier.

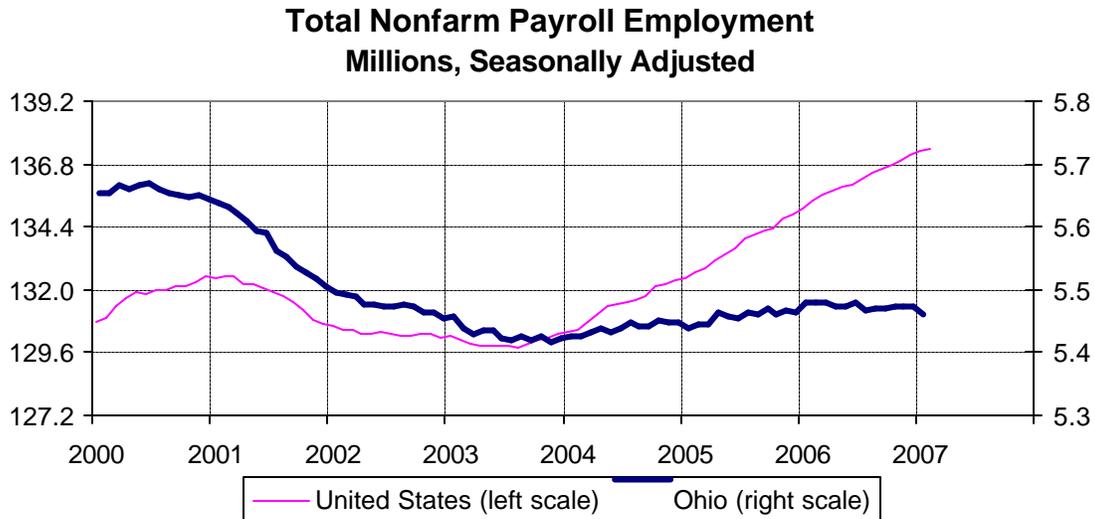
Ohio

Expansion in this state's economy has generally trailed that of the nation for many years. This is illustrated by data on Ohio's gross domestic product, the broadest measure

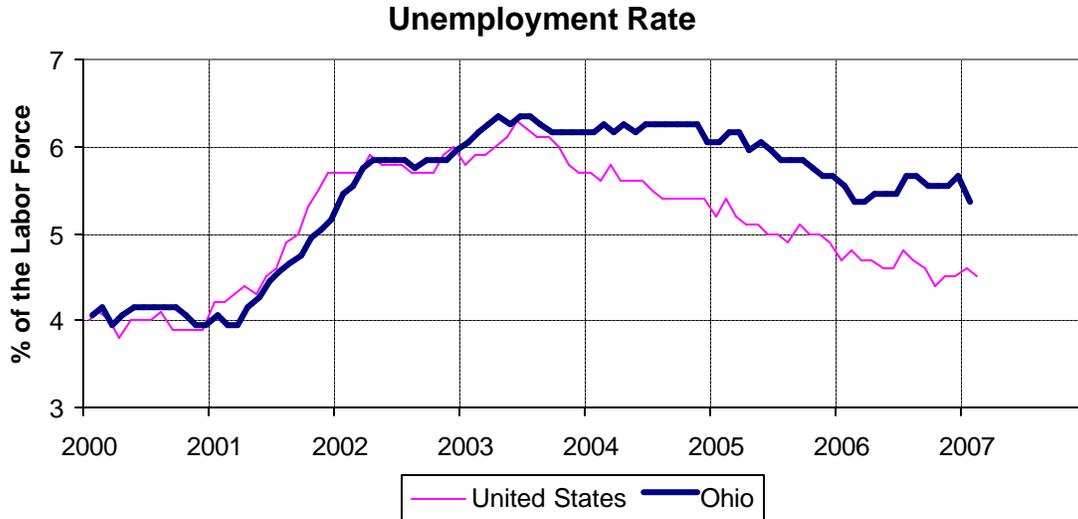


of statewide economic activity. Gross domestic product has risen more slowly in the state than nationwide every year since 1998, with the exception of 2002. The state's share of national output has trended lower since the 1960s. Estimates of state gross domestic product are available from the U.S. Bureau of Economic Analysis only annually and with a long lag; the most recent history currently available is for 2005.

Following the 2001 recession, payroll employment in both the state and the nation continued to decline until 2003. Total payroll employment nationwide has risen 5.8% since the 2003 low, while that in Ohio has climbed only 0.8%. Total payroll employment in the state has fallen since March of last year. The state's economy has been under stress in part because of the greater concentration of motor vehicle and other durable goods production here.

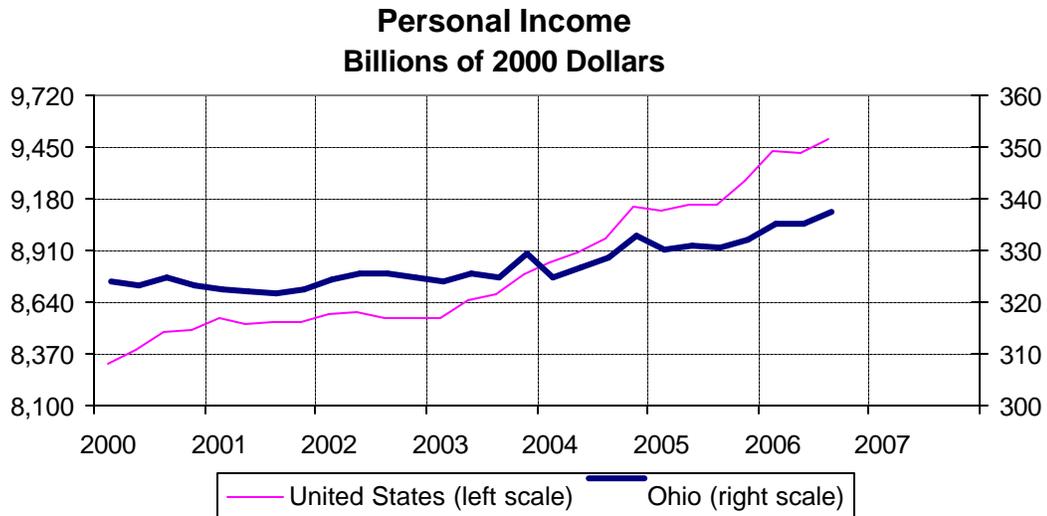


Unemployment as a percent of the labor force, in the nation and in Ohio, peaked in 2003 then began to decline. Since then, the unemployment rate nationwide has been consistently below that for the state. The nation's unemployment rate in February was

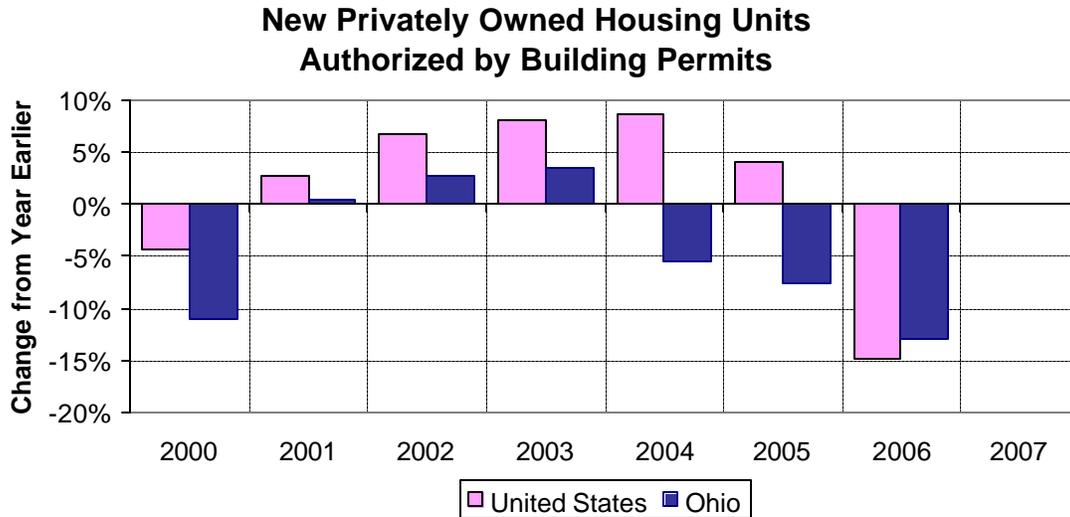


4.5%, near the recent low of 4.4% last October. In Ohio, the unemployment rate in January was 5.3%, equaling the recent low in February and March 2006.

Growth of personal income in Ohio, for which data are available only through last year's third quarter, trailed that of the nation since 2003. Over the last three years, inflation-adjusted personal income rose 4.0% in Ohio, less than half of the 9.3% increase during the same time nationwide.



Housing permits data indicate that new residential construction turned down in the state earlier than in the nation. Last year's decline in housing construction in Ohio, however, was not as sharp as in some other parts of the country.



Economic Forecasts

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. The Governor's Council of Economic Advisors' forecast is the consensus outlook from a January 2007 meeting of that group. Quarterly changes shown below are from the preceding quarter of the calendar year indicated. Annual changes are based on the annual average for the fiscal year ending in the second quarter of the calendar year indicated, from the preceding fiscal year's annual average.

U.S. Gross Domestic Product

Both Global Insight and the Governor's Council of Economic Advisors expect the national economy to continue growing during the next two years. Although a recession is a possibility, such an outcome appears less likely. The pace of expansion in economic activity in the current fiscal year and in FY 2008 is expected to be slower than the 3.4% rise in FY 2006.

Forecast	2007				2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent change at annual rate-----											
Global Insight	2.0	2.3	2.6	2.8	3.6	3.4	3.5	3.3	3.5	3.6	3.4	3.2
Global Insight		2.6				2.7				3.4		
Economic Advisors	2.2	2.5	2.9	3.1	3.3	3.1	3.1	2.9	3.1	3.0		
Economic Advisors		2.6				2.7				2.9		

Ohio Gross Domestic Product

Global Insight expects Ohio gross domestic product to continue to increase over the forecast horizon, but not as rapidly as the nation's total economic output.

Table 2 Ohio Real GDP Growth

Forecast	2007				2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent change at annual rate-----											
Global Insight	1.9	1.9	2.3	2.5	3.0	2.6	2.6	2.6	2.8	2.8	2.5	2.5
Global Insight		1.6				2.3				2.7		

U.S. Inflation

Both Global Insight and the Governor's Council of Economic Advisors expect the rise in the general price level, as measured by the consumer price index, to moderate from increases of 3.0% and higher during the past two fiscal years.

Table 3 U.S. Consumer Price Index Inflation

Forecast	2007				2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent change at annual rate-----											
Global Insight	3.1	2.5	2.3	2.2	2.1	1.8	2.0	1.9	2.1	1.7	1.9	1.8
Global Insight		2.2				2.1				1.9		
Economic Advisors	2.4	2.7	2.3	2.2	1.6	2.6	2.1	2.1	2.2	2.2		
Economic Advisors		2.2				2.0				2.1		

U.S. Personal Income

Nationwide personal income is forecast to continue to grow during 2007 through 2009. Income growth in the current quarter was boosted by bonus payments, stock option gains, federal pay raises, and cost-of-living adjustments to transfer payments.

Table 4 U.S. Personal Income Growth

Forecast	2007				2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent change at annual rate-----											
Global Insight	6.0	4.6	4.8	4.9	5.7	6.0	6.0	6.1	6.3	6.3	6.2	6.1
Global Insight		5.8				5.1				6.0		
Economic Advisors		5.4				5.1				5.5		

Ohio Personal Income

Income to persons who reside in Ohio is also projected to continue to grow during the next three years, but at a rate somewhat slower than the national average. Ohio personal income increased an estimated 4.0% in FY 2006.

Table 5 Ohio Personal Income Growth

Forecast	2007				2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent change at annual rate-----											
Global Insight	5.3	3.9	4.1	4.6	4.5	4.9	5.0	5.0	5.1	5.3	5.0	5.1
Global Insight		4.5				4.3				4.9		
Economic Advisors	4.3	3.8	4.0	4.1	4.4	4.6	4.5	4.6	4.7	4.7		
Economic Advisors		3.8				4.1				4.2		

U.S. Unemployment Rate

Unemployment nationwide as a share of the labor force is expected to rise somewhat from the February level of 4.5%.

Table 6 U.S. Unemployment Rate

Forecast	2007				2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent of the labor force-----											
Global Insight	4.7	4.9	5.0	5.0	5.0	4.9	4.9	4.8	4.7	4.6	4.5	4.5
Global Insight		4.7				5.0				4.7		
Economic Advisors		4.7				4.9				4.8		

Ohio Unemployment Rate

The unemployment rate in Ohio rises somewhat initially during the forecast period, from 5.3% in January, then falls in 2009.

Table 7 Ohio Unemployment Rate

Forecast	2007				2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent of the labor force-----											
Global Insight	5.5	5.7	5.8	5.8	5.7	5.7	5.6	5.5	5.4	5.3	5.2	5.1
Global Insight		5.5				5.7				5.5		
Economic Advisors		5.6				5.5				5.3		