Baseline Forecasts of GRF Tax Revenues and Medicaid Service Expenditures for the FY 2026-FY 2027 Biennial Budget

Testimony Before the Conference Committee on H.B. 96

June 17, 2025

Chair Stewart, Vice-Chair Cirino, and members of the Conference Committee, I am Wendy Zhan, Director of the Legislative Service Commission (LSC). I am here to testify on LSC's updated baseline forecasts for General Revenue Fund (GRF) tax revenues and Medicaid service expenditures for fiscal years 2025 through 2027. The forecasts were developed by LSC's Legislative Budget Office (LBO) economists. My testimony will focus on the differences between our February and June forecasts. The attachment to this testimony provides more detailed information on the state of the economy and forecasts of GRF tax revenues and Medicaid service expenditures. These baseline forecasts were developed according to the current Revised Code tax structure and current law and administrative policies on Medicaid. They do not reflect any policy changes that may be enacted in H.B. 96.

Before we get into any details of the forecast comparison, I would like to reiterate what I said back in February: economic forecasts are uncertain by nature. We all know that "past performance is no guarantee of future results." LBO economists employed a sound methodology in developing our revenue and Medicaid forecasts for the next biennium. Our goal is for our forecasts to have the smallest variances possible from the actual results. However, uncertainties abound. Our baseline forecasts could prove too optimistic regarding economic growth in the nation and Ohio. Alternatively, they could be too pessimistic.

Comparison of LBO February and June GRF tax revenue forecasts

Compared with our February forecasts, LBO economists now forecast higher GRF tax revenues for fiscal year 2025 as well as the upcoming biennium. Table 1 summarizes the differences between our June and February forecasts. The differences are presented as June forecast minus the February forecast, so positive numbers indicate a higher updated forecast for each fiscal year.

Table 1. Summary of Differences Between LBO February and June Revenue Forecasts (After Distributions to the LGF and PLF)

	FY 2025	FY 2026	FY 2027
Dollar Difference	$294.2 million	$93.6 million	$180.5 million
Percent Difference	1.0%	0.3%	0.6%

For fiscal year 2025, GRF tax revenues are now expected to total $28.8 billion. This reflects actual GRF tax receipts through May and estimated tax receipts for June, the final month of the fiscal year. The updated estimate is $294.2 million (1.0%) higher than what we presented in February. The increase is led by a $177.5 million upward revision for the personal income tax. Revenue from this tax outperformed expectations during the recently concluded filing season. The sales and use tax also exceeded estimates in April and May, as some purchases seemed to have been made in anticipation of pending tariffs.

For fiscal year 2026, baseline GRF tax revenues are now forecast to increase by 2.6% over fiscal year 2025 to $29.6 billion. This is $93.6 million (0.3%) higher than our February forecast. The upward revision for fiscal year 2026 is primarily due to the sales and use tax. LBO economists now anticipate this tax will generate $143.2 million more for the GRF during FY 2026, due in part to higher anticipated inflation in the upcoming fiscal year.

For fiscal year 2027, our June forecast is revised upward, again largely due to the sales and use tax. Baseline GRF tax revenues for fiscal year 2027 are expected to grow by 2.9% over fiscal year 2026 to $30.4 billion. This is $180.5 million (0.6%) higher than our February forecast. An increase of $240.1 million in our forecast for the sales and use tax is partially offset by a decrease of $60.0 million in our forecasts for the two insurance taxes. The insurance tax receipts are expected to be reduced by a substantial increase in tax credit claims during each fiscal year of the upcoming biennium.

Comparison of LBO February and June Medicaid service expenditure forecasts

Compared with our February forecast, LBO economists now forecast higher baseline Medicaid service expenditures for both fiscal years 2026 and 2027. Table 2 summarizes the differences between the two forecasts for the upcoming biennium. The differences are presented as June forecast minus the February forecast, so positive numbers indicate a higher updated forecast for each fiscal year. As seen from the table, in dollar terms, the updated forecast is higher by $38.3 million in fiscal year 2026 and by $132.4 million in fiscal year 2027. The state share forecast is higher by $10.7 million in fiscal year 2026 and by $37.1 million in fiscal year 2027, assuming an overall federal reimbursement rate of 72%. In percentage terms, the updated forecast is 0.1% higher in fiscal year 2026 and 0.4% higher in fiscal year 2027.

Table 2. Summary of Differences Between LBO February and June Medicaid Expenditure Forecasts

	FY 2026	FY 2027
Total Difference	$38.3 million	$132.4 million
State Share Difference	*$10.7 million*	*$37.1 million*
Federal Share Difference	*$27.6 million*	*$95.3 million*
Total Percent Difference	0.1%	0.4%

The upward forecast revision is primarily due to the newly incorporated data that includes higher unemployment estimates for the next biennium. The June forecast incorporated several more months of actual or updated caseload and payment data that was not available in the

February forecast. The caseload decreases during the first few months of 2025 have been greater than projected in the February forecast. The June caseload forecast was, therefore, adjusted to start the biennium at a lower level. However, updated unemployment estimates for the coming years led LBO economists to revise the caseload forecasts upward for the next biennium. The net result is a somewhat higher caseload forecast in the June forecast compared with that in the February forecast. The higher caseload figures contributed to higher projected service expenditures for fiscal years 2026 and 2027.

Chair Stewart and members of the Conference Committee, thank you for the opportunity to present the LSC forecasts. The staff and I would be happy to answer any questions that you may have.

Attachment: Section 1: Revenue forecasts
Section 2: Medicaid service expenditure forecast
Section 3: Economic conditions and outlook

ATTACHMENT: FY 2026-FY 2027 BIENNIAL BUDGET FORECAST

Section 1: Revenue forecasts

Summary

The table below summarizes the differences between LBO's February and June baseline forecasts for GRF tax revenue. As seen from the table, the updated forecasts are higher for the current year as well as FY 2026 and FY 2027. For the upcoming biennium, the net revenue effect is an increase of $274.1 million. The revision to FY 2025 was larger, $294.2 million. Most of this FY 2025 improvement can be attributed to the personal income tax (PIT) and the sales and use tax. Revenue from the PIT outperformed estimate during the annual tax filing season, largely due to unanticipated gains in non-wage income. Sales and use tax receipts have also significantly exceeded estimate in April and May, which included purchases made in advance of looming tariffs. The better than expected FY 2025 experience flowed through to the forecast for FY 2026 and FY 2027. However, Moody's macroeconomic outlook for the next biennium has deteriorated somewhat over the past six months. The firm modestly downgraded its baseline projections, but it does not regard a recession as imminent.

Table 1. Comparison of LBO Baseline GRF Revenue Forecasts
($ in millions)

	February			June		
	FY 2025 Estimate	FY 2026 Forecast	FY 2027 Forecast	FY 2025 Estimate	FY 2026 Forecast	FY 2027 Forecast
Total GRF taxes	$28,500.4	$29,460.9	$30,230.9	$28,794.6	$29,554.5	$30,411.4
			Difference	$294.2	$93.6	$180.5
			% Difference	1.0%	0.3%	0.6%

GRF tax revenue forecast

The LBO baseline forecasts for FY 2026 and FY 2027 assume the current statutory tax structure, including tax changes enacted by the 135th General Assembly. It thereby reflects the changes to the PIT enacted in H.B. 33 of the 135th General Assembly, including consolidating the nonbusiness income tax brackets to two and lowering the marginal tax rate for the higher bracket to 3.5% beginning in tax year (TY) 2024. It also reflects the changes to the commercial activity tax (CAT), including an exclusion on the first $6 million of taxable gross receipts beginning in 2025. Other tax changes having smaller revenue effects were also incorporated into the forecast. Statutory law allocates 1.70% of GRF tax revenue to each of the Local Government Fund (LGF) and the Public Library Fund (PLF).

Three taxes that generated some revenue in recent years, the corporate franchise tax (CFT), the business and property tax, and the estate tax, have been repealed. LBO expects no revenue from these taxes in future years.

GRF tax revenue under current law is forecast to increase by $759.9 million (2.6%) in FY 2026. PIT revenue is expected to grow about 3.6%, restrained by the slow economic growth expected by Moody's. Although anticipated growth for the sales and use tax (4.0%) is comparatively higher, the comparison is skewed by the sales tax holiday occurring in FY 2025. If the growth rate is normalized for consistent tax policy, the result is a 3.1% gain in forecasted tax receipts. The CAT is expected to decline (7.2%) due to the aforementioned policy change about taxable income, but the businesses' gross receipts are still expected to grow, albeit modestly, due to the impact of tariffs. Cigarette tax revenue is expected to decline, as cigarette consumption in recent years has decreased faster than the pre-pandemic historical trend. Revenue from the foreign and domestic insurance taxes is expected to decline despite growth in the tax base. Since the enactment of S.B. 39 of the 133rd General Assembly, the Ohio Tax Credit Authority approved $400 million in tax credits for transformational mixed use development projects, and previously awarded credits are expected to be claimed in the upcoming biennium against the insurance taxes for completed projects.

GRF tax revenue under current law is forecast to increase by $856.9 million (2.9%) in FY 2027. Growth is expected to continue for most tax sources, but the tepid gains reflect higher inflation and modest economic expansion. Moody's expects Ohio wage growth to outpace the increase in Ohio retail sales, which is evident in the FY 2027 tax revenue forecasts for the PIT and the nonauto sales and use tax.

The following four tables provide overviews of GRF tax receipt forecasts.

Table 2. Total GRF Tax Revenue Growth, FY 2021-FY 2027, ($ in millions)
June 2025 Forecast

	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Actual	FY 2025 Estimate	FY 2026 Baseline Forecast	FY 2027 Baseline Forecast
Revenue	$26,466.9	$28,152.5	$28,915.7	$27,944.5	$28,794.6	$29,554.5	$30,411.4
Growth	17.0%	6.4%	2.7%	-3.4%	3.0%	2.6%	2.9%

Table 3. LBO Baseline GRF Tax Revenue Forecasts, FY 2026-FY 2027 ($ in millions) June 2025 Forecast							
Tax	**FY 2024 Actual**	**FY 2025 Estimate**	**Growth Rate**	**FY 2026 Forecast**	**Growth Rate**	**FY 2027 Forecast**	**Growth Rate**
Auto Sales & Use	$1,917.2	$1,975.0	3.0%	$1,992.7	0.9%	$2,030.8	1.9%
Nonauto Sales & Use	$11,783.3	$11,986.5	1.7%	$12,530.4	4.5%	$12,868.2	2.7%
Total Sales & Use	**$13,700.5**	**$13,961.5**	**1.9%**	**$14,523.1**	**4.0%**	**$14,899.0**	**2.6%**
Personal Income	$9,519.3	$10,271.5	7.9%	$10,645.8	3.6%	$11,069.4	4.0%
Commercial Activity	$2,366.0	$2,239.6	-5.3%	$2,078.7	-7.2%	$2,105.4	1.3%
Cigarette	$750.4	$716.8	-4.5%	$677.5	-5.5%	$658.9	-2.7%
Kilowatt-hour Excise	$284.5	$297.4	4.5%	$301.6	1.4%	$305.1	1.1%
Foreign Insurance	$402.1	$404.0	0.5%	$400.0	-1.0%	$415.0	3.8%
Domestic Insurance	$349.7	$356.0	1.8%	$346.0	-2.8%	$363.0	4.9%
Financial Institutions	$204.9	$208.0	1.5%	$213.0	2.4%	$217.0	1.9%
Public Utility	$170.3	$158.6	-6.9%	$172.7	8.9%	$181.2	4.9%
Natural Gas Consumption	$68.9	$54.3	-21.2%	$68.6	26.3%	$68.9	0.5%
Alcoholic Beverage	$60.7	$61.0	0.5%	$62.5	2.5%	$64.0	2.4%
Liquor Gallonage	$56.6	$54.5	-3.7%	$55.0	0.9%	$55.0	0.0%
Petroleum Activity	$13.2	$11.0	-16.6%	$10.0	-9.1%	$9.5	-5.0%
Corporate Franchise	$0.2	$0.2	-20.4%	$0.0	-100.0%	$0.0	--
Business & Property	$0.2	$0.2	60.0%	$0.0	-100.0%	$0.0	--
Estate	$0.0	$0.0	7.3%	$0.0	-100.0%	$0.0	--
Total Tax Revenue	**$27,944.5**	**$28,794.6**	**3.0%**	**$29,554.5**	**2.6%**	**$30,411.4**	**2.9%**

Table 4. FY 2025 GRF Tax Revenue Estimate Comparison ($ in millions)			
Tax	February	June	Change
Auto Sales & Use	$1,910.0	$1,975.0	$65.0
Nonauto Sales & Use	$11,944.8	$11,986.5	$41.7
Total Sales & Use	**$13,854.8**	**$13,961.5**	**$106.7**
Personal Income	$10,094.0	$10,271.5	$177.5
Commercial Activity	$2,171.4	$2,239.6	$68.2
Cigarette	$724.5	$716.8	-$7.7
Kilowatt-hour Excise	$293.9	$297.4	$3.5
Foreign Insurance	$418.0	$404.0	-$14.0
Domestic Insurance	$375.0	$356.0	-$19.0
Financial Institutions	$208.0	$208.0	--
Public Utility	$162.8	$158.6	-$4.2
Natural Gas Consumption	$67.7	$54.3	-$13.4
Alcoholic Beverage	$62.6	$61.0	-$1.6
Liquor Gallonage	$55.6	$54.5	-$1.1
Petroleum Activity	$11.9	$11.0	-$0.9
Corporate Franchise	$0.0	$0.2	$0.2
Business & Property	$0.0	$0.2	$0.2
Estate	$0.0	$0.0	$0.0
Total Tax Revenue	**$28,500.4**	**$28,794.6**	**$294.2**

Table 5. LBO Baseline GRF Tax Revenue Forecast Comparison, FY 2026 and FY 2027
($ in millions)

Tax	FY 2026			FY 2027		
	February	June	Change	February	June	Change
Auto Sales & Use	$1,929.1	$1,992.7	$63.6	$1,909.8	$2,030.8	$121.0
Nonauto Sales & Use	$12,450.8	$12,530.4	$79.6	$12,749.1	$12,868.2	$119.1
Total Sales & Use	**$14,379.9**	**$14,523.1**	**$143.2**	**$14,658.9**	**$14,899.0**	**$240.1**
Personal Income	$10,633.3	$10,645.8	$12.5	$11,034.9	$11,069.4	$34.5
Commercial Activity	$2,078.6	$2,078.7	$0.1	$2,155.5	$2,105.4	-$50.1
Cigarette	$703.5	$677.5	-$26.0	$685.0	$658.9	-$26.1
Kilowatt-hour Excise	$285.5	$301.6	$16.1	$278.7	$305.1	$26.4
Foreign Insurance	$422.0	$400.0	-$22.0	$435.0	$415.0	-$20.0
Domestic Insurance	$387.0	$346.0	-$41.0	$403.0	$363.0	-$40.0
Financial Institutions	$211.0	$213.0	$2.0	$215.0	$217.0	$2.0
Public Utility	$160.5	$172.7	$12.2	$163.8	$181.2	$17.4
Natural Gas Consumption	$68.6	$68.6	--	$69.1	$68.9	-$0.2
Alcoholic Beverage	$63.3	$62.5	-$0.8	$64.1	$64.0	-$0.1
Liquor Gallonage	$57.1	$55.0	-$2.1	$58.5	$55.0	-$3.5
Petroleum Activity	$10.6	$10.0	-$0.6	$9.3	$9.5	$0.2
Corporate Franchise	$0.0	$0.0	--	$0.0	$0.0	--
Business & Property	$0.0	$0.0	--	$0.0	$0.0	--
Estate	$0.0	$0.0	--	$0.0	$0.0	--
Total Tax Revenue	**$29,460.9**	**$29,554.5**	**$93.6**	**$30,230.9**	**$30,411.4**	**$180.5**

ATTACHMENT: FY 2026-FY 2027 BIENNIAL BUDGET FORECAST

Section 2: Medicaid service expenditure forecast

Expenditure forecast summary

As seen from Table 6, compared with LBO's February baseline forecast, LBO's updated baseline forecast for Medicaid service expenditures is higher by $38.3 million in FY 2026 and by $132.4 million in FY 2027, for a biennial difference of $170.7 million. The state share is higher by $10.7 million in FY 2026 and by $37.1 million in FY 2027, for a biennial difference of $47.8 million, assuming an overall federal reimbursement rate of 72%. Table 7 on the following page shows the updated Medicaid service expenditure forecasts by payment category.

The baseline forecasts presented in this section were developed based on current law and administrative policies on Medicaid. They do not reflect any policy changes that may be enacted in H.B. 96.

Table 6. LBO Baseline Forecast of Medicaid Service Expenditures (Combined State and Federal Dollars, $ in millions)

Category		June	February		June	
	FY 2024 Actuals	FY 2025 Estimate	FY 2026 Forecast	FY 2027 Forecast	FY 2026 Forecast	FY 2027 Forecast
Expenditures	$29,090.0	$30,295.8	$33,090.9	$35,184.5	$33,129.2	$35,316.9
Growth	-2.0%	4.1%	8.2%	6.3%	9.4%	6.6%
Total state and federal difference					$38.3	$132.4
% difference					0.1%	0.4%
State share difference (assuming 72% federal reimbursement)					$10.7	$37.1

The June forecast incorporates actual data for the first few months of 2025 that was unavailable in February as well as updates to previous data that were made as the data continued to be finalized during these months. The June forecast is somewhat higher primarily because the newly incorporated data includes higher unemployment rates for Ohio. The caseload decreases during the first few months of 2025 have been greater than projected in the February forecast. Consequently, the June caseload forecast was adjusted to start the biennium at a lower level. However, updated unemployment estimates for the coming years led LBO to revise the caseload figures upward for FY 2026 and FY 2027. The net result of incorporating new data is somewhat higher caseload forecasts for the next biennium in the June forecast. More details on the comparison between LBO's February and June caseload forecasts are provided in the section that follows this expenditure forecast summary section. The higher caseload figures led to an upward revision to total projected expenditures in FY 2026 and FY 2027.

Table 7. LBO Baseline Forecast of Medicaid Service Expenditures by Payment Category (Combined State and Federal Dollars, $ in millions)							
Category	FY 2024 Actuals	June Forecast					
		FY 2025 Estimates	Growth Rate	FY 2026 Forecast	Growth Rate	FY 2027 Forecast	Growth Rate
Managed Care	**$23,923.9**	**$24,722.4**	**3.3%**	**$27,031.3**	**9.3%**	**$28,631.1**	**5.9%**
CFC	$6,505.9	$6,411.8	-1.5%	$6,819.2	6.4%	$7,184.6	5.4%
Group VIII	$5,718.7	$5,662.7	-1.0%	$5,856.5	3.4%	$6,112.5	4.4%
ABD	$2,603.1	$2,754.8	5.8%	$3,107.2	12.8%	$3,243.4	4.4%
My Care	$3,299.3	$3,548.5	7.6%	$4,111.1	15.9%	$4,321.3	5.1%
OhioRise	$454.7	$765.2	68.3%	$1,180.0	54.2%	$1,428.5	21.1%
PBM	$5,342.1	$5,579.3	4.4%	$5,957.3	6.8%	$6,340.9	6.4%
Fee-For-Service	**$5,166.2**	**$5,573.5**	**7.9%**	**$6,098.0**	**9.4%**	**$6,685.8**	**9.6%**
Nursing Facilities	$1,977.0	$1,975.4	-0.1%	$2,076.9	5.1%	$2,091.0	0.7%
Hospitals	$882.3	$850.7	-3.6%	$1,053.3	23.8%	$1,238.4	17.6%
Aging Waivers	$435.1	$739.1	69.9%	$821.3	11.1%	$917.76	11.8%
Prescription Drugs	$393.8	$391.7	-0.5%	$389.2	-0.6%	$425.2	9.2%
Home Care Waivers	$193.5	$255.5	32.0%	$252.1	-1.3%	$267.5	6.1%
Behavioral Health	$140.9	$158.7	12.7%	$193.1	21.7%	$342.3	77.3%
All Other	$1,143.5	$1,202.3	5.2%	$1,312.0	9.1%	$1,403.6	7.0%
Total	**$29,090.0**	**$30,295.8**	**4.1%**	**$33,129.2**	**9.4%**	**$35,316.9**	**6.6%**

LBO forecasts caseload-driven Medicaid service expenditures. However, our forecast does not include service expenditures for various Medicaid programs administered by the Ohio Department of Developmental Disabilities, which depend partly on caseloads and partly on policies. ODM also incurs some service expenditures that depend more heavily on state and federal policies or other factors than Medicaid caseload. These service expenditures, such as Medicare Buy-In or Medicare Part D, are not included in LBO's baseline Medicaid service expenditure forecast either. In addition to service expenditures, the Medicaid Program also incurs administrative costs, which typically account for about 5% of total program expenditures.

LBO's caseload-driven baseline forecast represents about 87% of total Medicaid expenditures. Although overall Medicaid Program expenditures are higher than the figures reported in this section, they do not affect the comparison of LBO's and ODM's baseline service expenditure forecasts. The caseload-driven forecast is the only source of the difference between the LBO and ODM forecasts.

Caseload forecast summary

The following four tables (tables 8-11) detail the changes in LBO's Medicaid caseload forecasts. The June forecast for the monthly total caseload is higher than the February forecast by about 3,150 in FY 2026 and 12,800 in FY 2027. As mentioned above, the updated forecast includes a few more months of actual caseload data, though all ODM caseload numbers since January 2025 are still preliminary. When ODM determines a recipient is no longer eligible, a grace period allows for the recipient to remain on the rolls until the end of the month, and an appeal process means some disenrollments are undone, so caseload numbers often experience minor adjustments for up to a year.

Table 8. Comparison of Total Medicaid Caseload Forecasts

		February			June		
	FY 2024 Actuals	FY 2025 Estimates	FY 2026 Forecast	FY 2027 Forecast	FY 2025 Estimates	FY 2026 Forecast	FY 2027 Forecast
Caseload	3,242,526	3,055,962	3,058,501	3,067,447	3,046,240	3,061,655	3,080,266
Growth	-7.6%	-5.8%	0.1%	0.3%	-6.1%	0.5%	0.6%
				Difference	-9,722	3,154	12,819
				% Difference	-0.3%	0.1%	0.4%

Table 9. Comparison of CFC Medicaid Caseload Forecasts

		February			June		
	FY 2024 Actuals	FY 2025 Estimates	FY 2026 Forecast	FY 2027 Forecast	FY 2025 Estimates	FY 2026 Forecast	FY 2027 Forecast
Caseload	2,600,964	2,413,051	2,413,617	2,422,955	2,405,240	2,417,279	2,435,317
Growth	-9.0%	-7.2%	0.0%	0.4%	-7.5%	0.5%	0.8%
				Difference	-7,811	3,661	12,362
				% Difference	-0.3%	0.2%	0.5%

Table 10. Comparison of ABD Medicaid Caseload Forecasts

		February			June		
	FY 2024 Actuals	FY 2025 Estimates	FY 2026 Forecast	FY 2027 Forecast	FY 2025 Estimates	FY 2026 Forecast	FY 2027 Forecast
Caseload	504,936	501,744	502,859	501,330	499,667	502,304	501,710
Growth	-1.4%	-0.6%	0.2%	-0.3%	-1.0%	0.5%	-0.1%
				Difference	-2,077	-555	379
				% Difference	-0.4%	-0.1%	-0.1%

Table 11. Comparison of Other Caseload Forecasts

		February			June		
	FY 2024 Actuals	FY 2025 Estimates	FY 2026 Forecast	FY 2027 Forecast	FY 2025 Estimates	FY 2026 Forecast	FY 2027 Forecast
Caseload	136,625	141,168	142,025	143,162	141,333	142,073	143,239
Growth	-2.6%	3.3%	0.6%	0.8%	3.5%	0.5%	0.8%
				Difference	166	48	77
				% Difference	0.1%	0.0%	0.1%

ATTACHMENT: FY 2026-FY 2027 BIENNIAL BUDGET FORECAST

Section 3: Economic conditions and outlook

State of the economy

With inflation cooling and unemployment slowly trending upward, the Federal Reserve began a series of rate cuts this past September, lowering its targeted interest rate by one percentage point in total by the end of 2024. Inflation expectations inched up and investors demanded a higher rate of return, pushing up interest rates on long-term debt such as 30-year mortgages. This, combined with the economic uncertainty surrounding federal policy changes, have factored into the Federal Reserve's decision to slow the pace of short-term interest rate reductions in 2025. Neither inflation nor the unemployment rate were substantially different at the end of April compared to September.

Output growth slowed in the first quarter of 2024 then picked up over the following quarters. Industrial production contracted in the first and third quarters and finished the year at roughly the same level as the end of 2023. Employers collectively continued to add to payrolls through the end of 2024, though growth of total employment continued to slow from 2023. Contrary to the increasing number of jobs, the unemployment rate slowly increased in 2024, settling at 4.1% by December. Little changed in subsequent months as the unemployment rate was 4.2% in May.

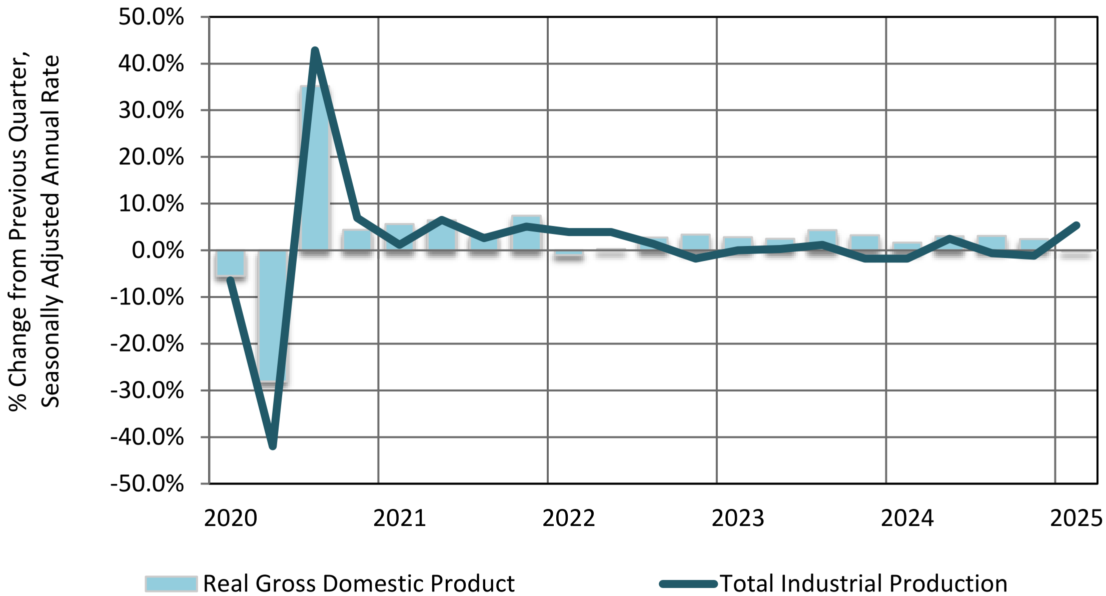
Economic activity in Ohio, as elsewhere, will be influenced by a host of forces in the near future. On the one hand, production growth is slowing, and the labor market is becoming a buyer's market as companies post fewer openings and fewer workers quit their jobs for better opportunities elsewhere. Furthermore, inflation has not yet reached the Federal Reserve's stated target of 2%, meaning that the rate of increase in the price level is higher than the central bank deems ideal for the economy. Prospective tariffs also threaten to contribute to inflation and reduce economic activity overall. On the other hand, if the Federal Reserve can control inflation and continue lowering short-term interest rates, consumer loans such as those for automobiles or short-term revolving credit may become cheaper, stimulating consumption.

As discussed more fully below, most but not all measures of economic activity in the state show Ohio trailing the nation in the expansion following the 2020 recession.

The national economy

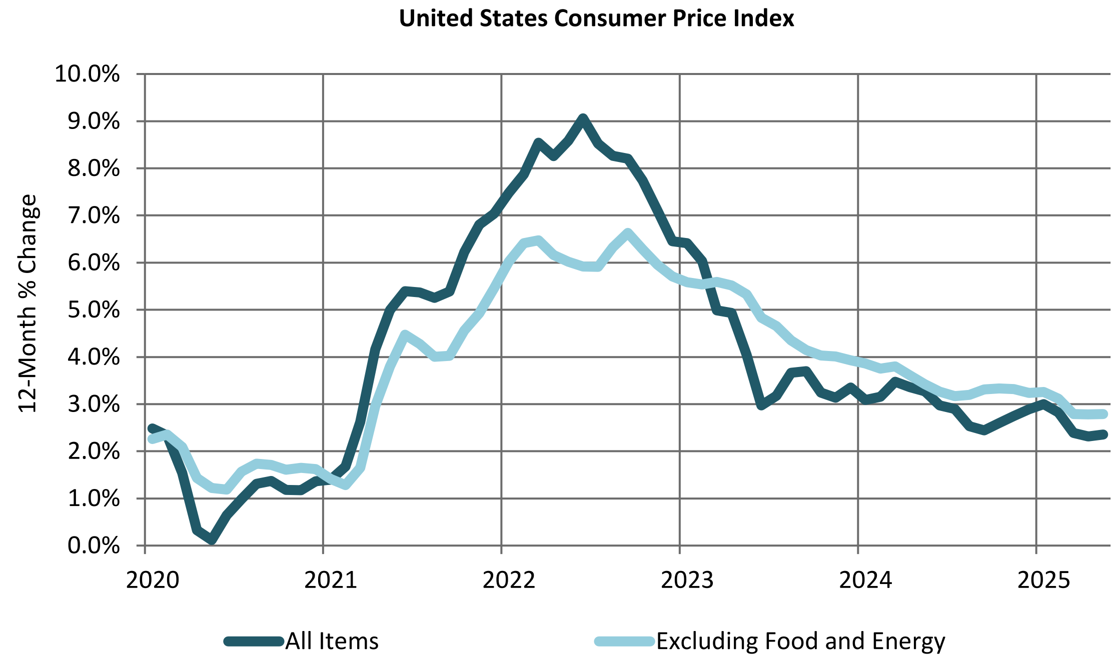
The chart below displays the extreme deviations in real GDP and industrial production that occurred during the COVID-19 pandemic followed by a return to lower, more typical rates of growth. After a minor contraction in 2022, the economy expanded at a normal pace through 2024 before contracting by a small percentage in 2025. The reversal is mostly due to businesses that pushed imports, which are a subtraction from GDP, to historic levels prior to newly levied tariffs taking effect. On the other hand, industrial production fell in the fourth quarter of 2022 and in three of the five most recent quarters as manufacturing production was reduced in numerous industries. Aerospace manufacturing output is slowly recovering from worker strikes at Textron Aviation and Boeing, the world's largest manufacturer of commercial jetliners and defense, space, and security systems.

United States Output Measures

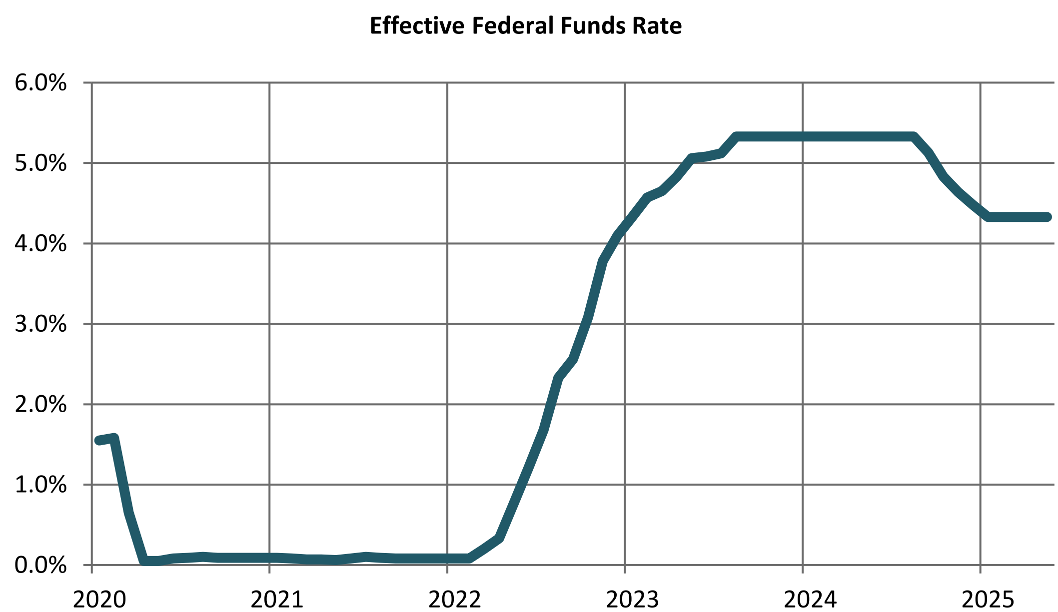


In an effort to stimulate the economy during the pandemic, the Federal Reserve increased the money supply at historic rates by lowering short-term interest rates and purchasing substantial amounts of financial assets during the pandemic. The increase was such that by 2021, one in four dollars in the money supply was newly created. The combination of cheaper loans, government stimulus, and a pausing in the payment of many debt obligations, such as student loans, led to a dramatic increase in the demand for goods and services, pushing up prices. Inflation during this time was exacerbated by supply constraints caused by economic shutdowns all over the world, leading buyers flush with excess cash to outbid each other over fewer available goods and services.

Inflation measured by the year-over-year percent change in the consumer price index for all urban consumers (CPI-U) is shown in the following chart, for all items and for consumer prices other than food and energy (Core CPI-U). Inflation reached levels not observed since the early 1980s in 2022; inflation for all items peaked at 9.1% in June. The rate at which prices increase moderated since this peak, falling below 3% in 2025.

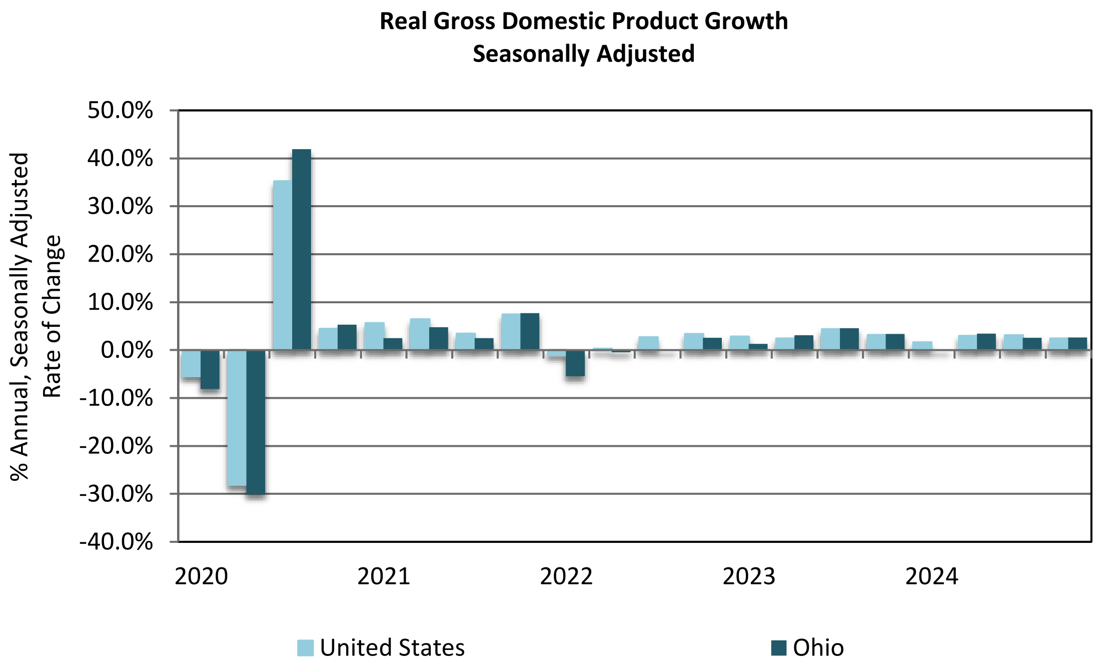


As the economy began to fully reopen, the Federal Reserve sharply increased its target short-term interest rate to fight the rapid ascent of inflation observed in the chart above. The central bank also halted their program of buying U.S. Treasury, agency, and mortgage-backed securities, which was designed to hold down longer-term interest rates, and began allowing its securities holdings to decline as they matured. In mid-September 2024, the central bank's policy-setting Federal Open Market Committee began a series of interest rate cuts, lowering its target rate from 5.3% to 4.3% over the following three months. Chairman Jerome Powell announced in December the central bank's intention to slow the rate of interest rate cuts in 2025 due to core inflation remaining above 2% and economic uncertainty surrounding potential economic policy changes.

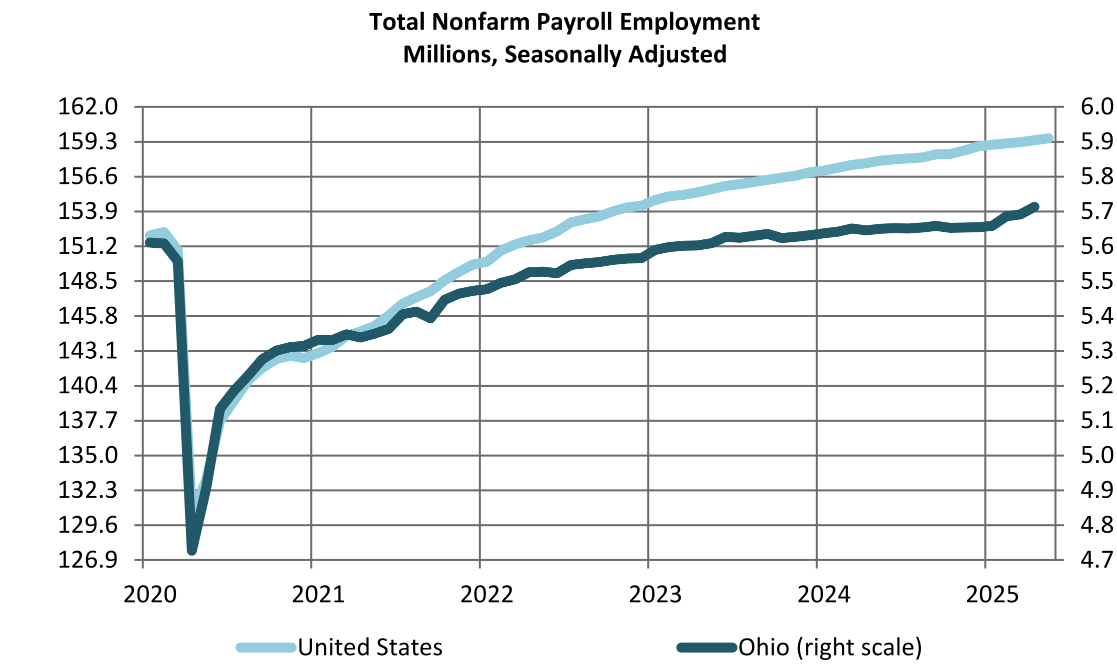


The Ohio economy

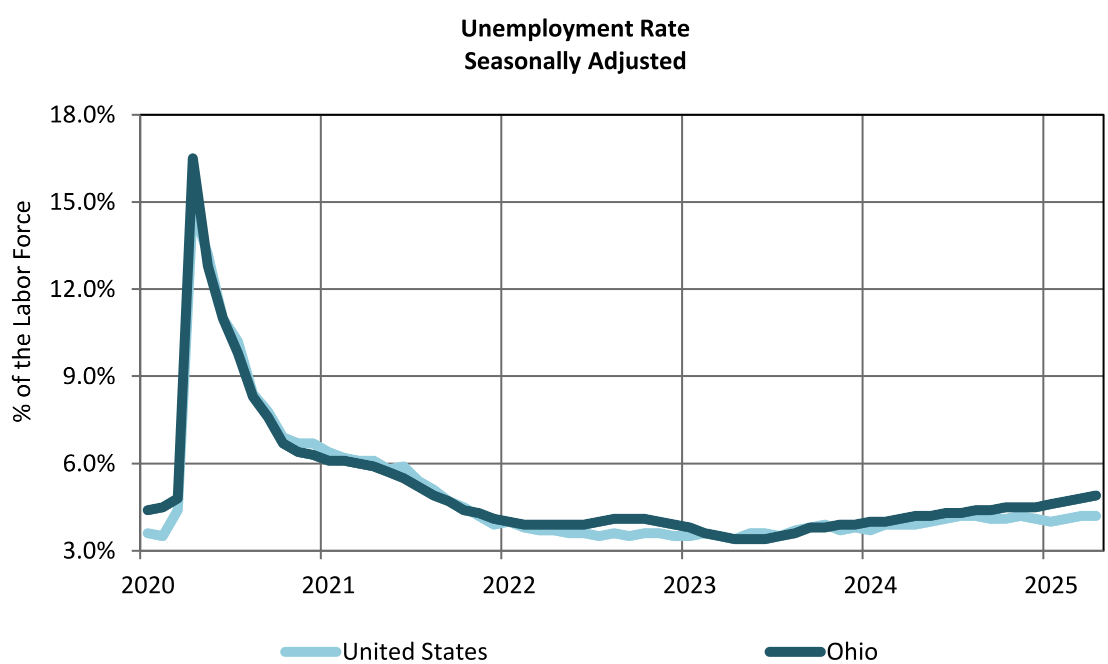
Ohio's economy has grown slower in the post-pandemic expansion compared to the nation by the broadest measure, real GDP. Most industries grew at a slow pace or contracted slightly. The retail industry expanded faster than others over the last two years while the manufacturing industry has alternated between expansion and contraction.



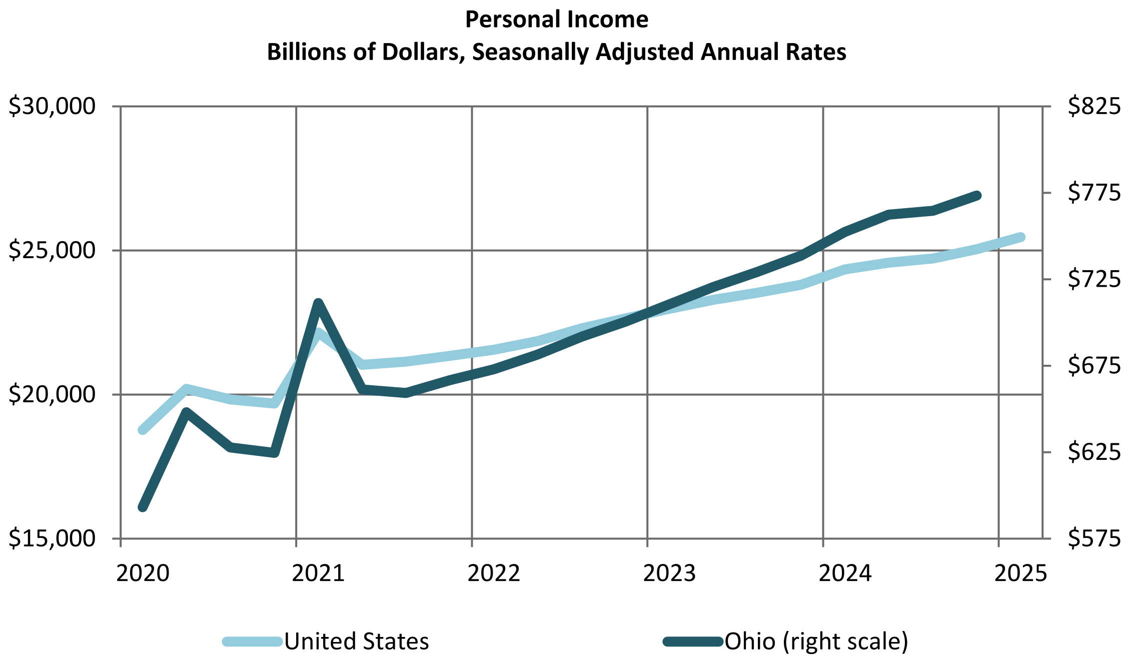
Job growth in Ohio has lagged that of the nation since the reopening of the economy. From the April 2020 recession trough through April 2025, total statewide nonfarm payroll employment rose 20.9%, compared with a 22.2% increase nationwide. Ohio employment remained above the prerecession peak from May 2023 onwards and surpassed the previous all-time high in March 2024. This contrasts with the comparable nationwide statistic, which rose to an all-time high more than a year before Ohio in January 2023.



Ohio's unemployment rate was the same as or lower than the nation's between February 2023 and October 2023 according to revised estimates from the Bureau of Labor Statistics. However, the state unemployment rate surpassed that of the nation in November 2023 and has remained higher since. In April 2025, the percentage of unemployed individuals actively seeking work in the state was 4.9%, higher than the national average of 4.2%. Unemployment rates from January 2020 through April 2025 are shown in the chart below for both the state and the nation.



Personal income per capita rose sharply in 2020 and 2021 due to federal transfer payments enacted in response to the pandemic. Over the full period shown in the chart, Ohio's total personal income rose by 30.4%, which is approximately equivalent to a 5.7% annual rate. Nationwide, total personal income increased by 33.4%, which is approximately equivalent to a 6.3% annual rate.



Economic forecasts

The following are forecasts of key indicators of the economic environment that will determine state tax revenues during the next biennium. Some of the indicator forecasts were inputs to LBO models used to make state revenue forecasts. Both these economic indicator forecasts and LBO's forecasts for state revenues are inherently subject to uncertainty. The economic indicator projections shown below are from baseline forecasts released in May 2025 by Moody's Analytics, an economic forecasting firm used by LBO.

The first line in each table contains quarter-by-quarter projected changes in the indicator at annual rates. The second line contains year-over-year projected changes in the indicator averaged over the four quarters of the fiscal year. The unemployment rate tables are Moody's Analytics unemployment rate projections for the quarters indicated (first line) and the average of the rates in the quarters of each fiscal year (second line).

U.S. gross domestic product

Moody's Analytics anticipated the economy to begin growing again in the second quarter of calendar year (CY) 2025 and slowly pick up pace through the fourth quarter of CY 2027. U.S. real GDP was projected to increase about 1.4% annually on average in the next biennium, as shown below.

U.S. Real GDP Growth												
	2025				2026				2027			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	---------------------------------- Percent change at annual rate ----------------------------------											
Quarterly	-0.3	0.4	1.3	1.6	1.4	1.7	1.9	1.9	2.1	2.3	2.2	2.2
Fiscal Year		2.2				1.1				1.8		

Ohio gross domestic product

Ohio's economy is expected to expand at a slower pace than the national economy, with growth bottoming out in the second quarter of 2025 before increasing through 2027. Real GDP in the state is projected to increase at about a 1.1% annual rate on average in the next biennium, somewhat slower than the nation's growth rate.

Ohio Real GDP Growth												
	2025				2026				2027			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	---------------------------------- Percent change at annual rate ----------------------------------											
Quarterly	0.3	-0.2	0.7	1.1	0.9	1.3	1.7	1.6	1.8	2.0	1.8	1.9
Fiscal Year		2.0				0.7				1.5		

U.S. inflation

Inflation, as measured by the rate of increase in the CPI for all urban consumers, is predicted to decline, reaching a low in the fourth quarter of 2026 and averaging around 2.9% annually during the next biennium.

U.S. Consumer Price Index Inflation												
	2025				2026				2027			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	---------------------------------- Percent change at annual rate ----------------------------------											
Quarterly	3.8	3.8	3.3	3.2	3.5	2.9	2.1	1.8	1.9	2.0	2.1	2.1
Fiscal Year		2.8				3.4				2.4		

U.S. personal income

Nationwide personal income growth was projected to drop from 6.5% to 3.5% in the second quarter of 2025, stabilize between 4% and 5% in 2026, and slowly decline in 2027. The year-over-year rate of growth is expected to hold stable between 4.3% and 4.4% for FY 2025 through FY 2027.

U.S. Personal Income Growth												
	2025				2026				2027			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	---------------------------------- Percent change at annual rate ----------------------------------											
Quarterly	6.5	3.5	5.0	3.4	4.2	4.9	4.5	4.5	4.3	4.3	4.0	3.9
Fiscal Year		4.3				4.4				4.4		

Ohio personal income

Total personal income in Ohio was forecast to grow slower than the nation, equaling about 4.4% on average annually during the upcoming biennium. Similar to the nation as a whole, total personal income growth in the state is projected to drop from a peak in the first quarter of 2025, bounce between 4% and 5% in 2026 before slowly declining in 2027.

Ohio Personal Income Growth												
	2025				2026				2027			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	---------------------------------- Percent change at annual rate ----------------------------------											
Quarterly	6.8	3.1	4.9	3.5	4.2	5.0	4.6	4.5	4.2	4.1	3.8	3.5
Fiscal Year		3.9				4.4				4.4		

U.S. unemployment rate

In Moody's Analytics May baseline forecast, the seasonally adjusted national unemployment rate increases relatively steadily throughout 2026. The rate is projected to peak at 4.9% in the third quarter of 2026 and remain at that rate until the fourth quarter of 2027.

U.S. Unemployment Rate												
	2025				2026				2027			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	---------------------------------- Percent of the labor force ----------------------------------											
Quarterly	4.1	4.2	4.2	4.4	4.6	4.8	4.9	4.9	4.9	4.9	4.9	4.8
Fiscal Year		4.1				4.5				4.9		

Ohio unemployment rate

Ohio's seasonally adjusted unemployment rate is projected to follow a similar pattern to the nation's. Statewide unemployment is forecast to peak at 5.6% in the third quarter of 2026 and not decline until the third quarter of 2027.

Ohio Unemployment Rate												
	2025				2026				2027			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	---------------------------------- Percent of the labor force ----------------------------------											
Quarterly	4.7	4.8	4.9	5.1	5.3	5.5	5.6	5.6	5.6	5.6	5.5	5.4
Fiscal Year		4.6				5.2				5.6		