Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION FEBRUARY 2009

STATUS OF THE GRF

HIGHLIGHTS

—Ross Miller, Chief Economist, 614-644-7768

The recession has not let up. Ohio consumers reduced their spending during the holiday season and beyond, reducing revenue from the sales and use tax sharply. Revenue from the tax for FY 2009 through the end of January is 5.0% below the comparable period of FY 2008. Revenue from the personal income tax for the year through January is down 7.5% compared with FY 2008; in that case, though, about two-thirds of the decrease is attributable to lower tax rates enacted by H.B. 66 of the 126th General Assembly. Economic forecasters are generally projecting that the economy will not turn around until at least the second half of calendar year 2009, so overall tax receipts are likely to end the year well below FY 2008 levels.

Through January 2009, GRF sources totaled $14,800.6 million:

- Tax revenues were $380.3 million (3.6%) below estimate.
  - Sales and use tax revenue was below estimate by $245.4 million (5.3%).
  - Revenue from the personal income tax was $184.2 million (3.7%) below estimate.

Through January 2009, GRF uses totaled $17,485.1 million:

Most program expenditures remained below estimated amounts, but property tax relief expenditures caused GRF uses as a whole to exceed estimates by $30.6 million (0.2%).

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STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

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Table 1: General Revenue Fund Sources
Preliminary Actual vs. Estimate
Month of January 2009
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on February 2, 2009)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$65,389	$59,820	$5,569	9.3%
Nonauto Sales and Use	$585,753	$676,075	-$90,322	-13.4%
Total Sales and Use Taxes	$651,142	$735,895	-$84,753	-11.5%
Personal Income	$918,217	$1,053,495	-$135,278	-12.8%
Corporate Franchise	$132,431	$99,157	$33,274	33.6%
Public Utility	$8,680	$65	$8,615	13253.6%
Kilowatt Hour Excise	$12,161	$10,624	$1,537	14.5%
Commercial Activity Tax**	$0	$0	$0	---
Foreign Insurance	$97	$0	$97	---
Domestic Insurance	$0	$0	$0	---
Business and Property	-$29	$49	-$78	-160.0%
Cigarette	$77,578	$73,475	$4,103	5.6%
Alcoholic Beverage	$4,264	$4,253	$11	0.3%
Liquor Gallonage	$3,826	$3,890	-$64	-1.6%
Estate	$121	$1,000	-$879	-87.9%
Total Tax Revenue	**$1,808,487**	**$1,981,903**	**-$173,416**	**-8.7%**
NONTAX REVENUE				
Earnings on Investments	$46,285	$35,700	$10,585	29.6%
Licenses and Fees	$17,982	$17,220	$762	4.4%
Other Revenue	$7,631	$7,900	-$269	-3.4%
Total Nontax Revenue	**$71,897**	**$60,820**	**$11,077**	**18.2%**
TRANSFERS				
Liquor Transfers***	$10,000	$12,000	-$2,000	-16.7%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$30,000	$30,360	-$360	-1.2%
Total Transfers In	**$40,000**	**$42,360**	**-$2,360**	**-5.6%**
TOTAL STATE SOURCES	**$1,920,384**	**$2,085,083**	**-$164,699**	**-7.9%**
Federal Grants	$740,183	$548,554	$191,629	34.9%
TOTAL GRF SOURCES	**$2,660,568**	**$2,633,637**	**$26,931**	**1.0%**

* Revised estimates of the Office of Budget and Management released October 6, 2008.
**Commercial activity tax receipts in FY 2009 are non-GRF.
*** Liquor transfers based on information from OBM
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Preliminary Actual vs. Estimate
FY 2009 as of January 31, 2009
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on February 2, 2009)

	Actual	Estimate*	Variance	Percent	FY 2008	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$510,997	$502,439	$8,558	1.7%	$536,163	-4.7%
Nonauto Sales and Use	$3,883,010	$4,136,943	-$253,933	-6.1%	$4,090,031	-5.1%
Total Sales and Use Taxes	$4,394,007	$4,639,382	-$245,375	-5.3%	$4,626,194	-5.0%
Personal Income	$4,840,353	$5,024,543	-$184,190	-3.7%	$5,232,862	-7.5%
Corporate Franchise	$130,905	$95,448	$35,457	37.1%	$187,425	-30.2%
Public Utility	$84,803	$76,808	$7,995	10.4%	$62,269	36.2%
Kilowatt Hour Excise	$80,204	$81,348	-$1,144	-1.4%	$185,617	-56.8%
Commercial Activity Tax**	$0	$0	$0	---	$0	---
Foreign Insurance	$136,651	$133,802	$2,849	2.1%	$132,782	2.9%
Domestic Insurance	-$772	-$158	-$614	388.4%	$428	-280.3%
Business and Property	$372	$425	-$53	-12.5%	$396	-6.0%
Cigarette	$501,449	$494,083	$7,366	1.5%	$511,053	-1.9%
Alcoholic Beverage	$33,265	$34,317	-$1,052	-3.1%	$33,605	-1.0%
Liquor Gallonage	$21,688	$21,967	-$279	-1.3%	$21,084	2.9%
Estate	$30,837	$32,082	-$1,245	-3.9%	$31,025	-0.6%
Total Tax Revenue	**$10,253,761**	**$10,634,047**	**-$380,286**	**-3.6%**	**$11,024,738**	**-7.0%**
NONTAX REVENUE						
Earnings on Investments	$97,747	$78,100	$19,647	25.2%	$83,679	16.8%
Licenses and Fees	$37,543	$36,931	$612	1.7%	$42,076	-10.8%
Other Revenue	$43,408	$41,805	$1,603	3.8%	$69,983	-38.0%
Total Nontax Revenue	**$178,698**	**$156,836**	**$21,862**	**13.9%**	**$195,738**	**-8.7%**
TRANSFERS						
Liquor Transfers***	$97,000	$84,000	$13,000	15.5%	$105,000	-7.6%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$361,391	$322,200	$39,191	12.2%	$303,792	19.0%
Total Transfers In	**$458,391**	**$406,200**	**$52,191**	**12.8%**	**$408,792**	**12.1%**
TOTAL STATE SOURCES	**$10,890,850**	**$11,197,083**	**-$306,233**	**-2.7%**	**$11,629,269**	**-6.3%**
Federal Grants	$3,909,706	$3,953,879	-$44,173	-1.1%	$3,610,924	8.3%
TOTAL GRF SOURCES	**$14,800,556**	**$15,150,962**	**-$350,407**	**-2.3%**	**$15,240,193**	**-2.9%**

* Revised estimates of the Office of Budget and Management released October 6, 2008.

**Commercial activity tax receipts in FY 2009 are non-GRF.

*** Liquor transfers based on information from OBM

January tax revenues were below estimate by $173.4 million. Year-to-date tax revenues were below estimate by $380.3 million and below FY 2008 receipts by $771.0 million.

REVENUES

—*Jean J. Botomogno, Senior Economist, 614-644-7758*

Overview

Although GRF receipts for January 2009 were above estimate, they remain substantially below estimate for the fiscal year. The Office of Budget and Management, on December 19, 2008, reduced estimated GRF tax revenues for FY 2009 by an additional $640.4 million.[1] The estimates used in this publication were released by OBM on October 6, 2008, and do not take into account the December revenue revision.

Tables 1 and 2 show GRF sources for the month of January and for FY 2009 through January, respectively. GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants, which are federal reimbursements for human service programs such as Medicaid and Temporary Assistance for Needy Families (TANF) that receive federal funding.

For the month of January, total GRF sources of $2,660.6 million were above estimate by $26.9 million (1.0%), but this was due to federal grants exceeding estimate by $191.6 million (34.9%). January 2009 was another bad month for state tax revenues, which came in $173.4 million (8.7%) below estimate. This is the third consecutive month in which tax sources performed poorly. Tax revenues of $1,808.5 million were 8.7% below estimate,[2] from shortfalls of $135.3 million (12.8%) in personal income tax receipts and $84.8 million (11.5%) in sales and use tax revenues. Revenues from the cigarette tax, the third most important tax source, were $4.1 million (5.6%) above estimate. Revenues from the first corporate franchise tax payment of the fiscal year were $33.3 million (33.6%) above estimate. Among nontax revenues, earnings on investments brought in $10.6 million more than estimate, which more than offset lower than estimated results for other nontax sources.

Through January, FY 2009 total GRF sources of $14,800.6 million were below estimate by $350.4 million (2.3%). State-source receipts totaled $10,890.9 million, $306.2 million (2.7%) below estimate. Federal grants were $44.2 million (1.1%) below estimate. Total tax revenues of

[1] This reduction is in addition to a $540.7 million reduction announced in October.

[2] January tax receipts were $60.5 million (3.1%) below revised estimates of December 2008. Sales and use tax and personal income tax receipts were below revised estimates by $60.2 million (8.5%) and $45.0 million (4.7%), respectively.

$10,253.8 million were $380.3 million (3.6%) below estimate. The personal income tax and the sales and use tax were $184.2 million (3.7%) and $245.4 million (5.3%), respectively, below estimate. Revenue from the cigarette tax was $7.4 million (1.5%) above estimate. Receipts from the corporate franchise tax were $35.5 million (37.1%) above estimate. The foreign insurance tax and the public utility excise tax were above estimate by $2.8 million (2.1%) and $8.0 million (10.4%), respectively. All the remaining taxes were below expectations, while nontax revenues were above estimate.

Compared to FY 2008, FY 2009 year-to-date GRF sources were $439.6 million (2.9%) below the level of January 2008, due to a $738.4 million (6.3%) decrease in state-source receipts. Tax revenues declined $771.0 million (7.0%) compared to FY 2008 tax receipts through January. Year-to-date receipts from all three primary GRF tax sources were below the levels of January 2008, including decreases of $392.5 million (7.5%) in personal income tax receipts, $232.2 million (5.0%) in sales and use tax receipts, and $9.6 million (1.9%) in cigarette tax receipts. Other taxes with notable year-to-year revenue variances included a decrease of $105.4 million (56.8%) in kilowatt hour tax receipts due to an increase this year in the share of receipts distributed to local government funds, a decrease of $56.5 million in corporate franchise tax receipts from a reduced tax rate this year, and an increase of $22.5 million (36.2%) in public utility excise tax receipts. FY 2009 year-to-date nontax revenues were $17.0 million (8.7%) below the FY 2008 level in the corresponding period, from a decline of $26.6 million (38.0%) in various miscellaneous state revenues. FY 2009 year-to-date transfers in were $49.6 million (12.1%) above the FY 2008 level in the corresponding period.

Personal Income Tax

January income tax receipts were $220.8 million below last year's levels.

After a poor performance in the second quarter of FY 2009, personal income tax receipts plunged in January 2009. Receipts of $918.2 million were $135.3 million (12.8%) below estimate and $220.8 million (19.4%) below January 2008 receipts. Through January, FY 2009 receipts of $4,840.4 million were $184.2 million (3.7%) below estimate and $392.5 million (7.5%) below receipts in the corresponding period in FY 2008. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the local government funds. Gross collections are the sum of withholding, quarterly estimated payments,[3] trust payments, payments associated with

[3] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due on or before April 15,

annual returns, and miscellaneous payments. January gross collections were down $237.2 million (17.8%) compared to collections in January 2008, due primarily to a decrease of $161.2 million (31.0%) in estimated payments. Payments from this component of the income tax are the fourth and final estimated payments for CY 2008. These payments are usually made by taxpayers with significant nonwage income who expect to be underwithheld by large amounts. This income often comes from investments, especially capital gains realized in the stock market. Monthly revenue from employer withholding was $68.0 million (8.8%) below receipts in January 2008. Adjusting this result by the decrease in the tax rate of this year, January receipts from withholding were about 4.0% below last year's level.

FY 2009 Year-to-date
Income Tax Revenue Variances and Changes by Component

Category	Year-to-date Variance from Estimate		Year-to-date Changes from FY 2008	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	-$66.4	-1.5%	-$207.5	-4.4%
Quarterly Estimated Payments	-$115.5	-11.9%	-$179.6	-17.4%
Trust Payments	-$7.3	-22.2%	-$10.4	-28.9%
Annual Return Payments	$14.9	9.8%	$19.0	12.9%
Miscellaneous Payments	-$12.7	-26.8%	-$7.8	-18.3%
Gross Collections	-$187.0	-3.3%	-$386.3	-6.5%
Less Refunds	$2.3	0.7%	-$12.6	-3.9%
Less Local Government Fund Distribution	-$5.1	-1.2%	$19.0	4.9%
Income Tax Revenue	-$184.2	-3.7%	-$392.6	-7.5%

The table above summarizes FY 2009 year-to-date income tax revenue variances from estimate and annual changes by components. Employer withholding (which accounted for about 70% of gross collections in FY 2008) reflects real time labor conditions and the dismal performance of that component of the tax reflects deepening job losses in the current economic downturn. Recent forecasts of Ohio personal

June 15, and September 15 of the tax year and January 15 of the following year. Most estimated payments are made by high-income taxpayers.

income and wage growth suggest a continuation of poor performances for this tax in the months ahead.

Sales and Use Tax

The performance of the sales and use tax was not surprising given the dismal holiday sales of November and December 2008. For the fourth month in a row, monthly receipts were below receipts a year ago and the pace of the decline appears to have intensified. January receipts of $651.1 million were $84.8 million (11.5%) below estimate and $92.4 million (12.4%) below receipts in January 2008. January 2009 receipts increased the cumulative shortfall. Through December, FY 2009 receipts were 3.6% below FY 2008 receipts through December 2007. Through January, FY 2009 receipts of $4,394.0 million were $245.4 million (5.3%) below estimate and also $232.2 million (5.0%) below FY 2008 receipts through January 2008.

Monthly sales tax receipts were below FY 2008 level for the fourth consecutive month.

For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[4] generally arise from the sale of motor vehicles while nonauto sales and use tax collections arise from other sales. However, auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax, instead of the auto tax.

Nonauto Sales and Use Tax

The performance of the nonauto sales and use tax, which had been poor in the second quarter of FY 2009, deteriorated further in January 2009. Receipts of $585.8 million were $90.3 million (13.4%) below estimate and $83.6 million (12.5%) below receipts in January 2008. This follows a decline in receipts of 12.9% in December 2008 compared to December 2007.

The cumulative shortfall in nonauto sales and use tax receipts grew in January. Through December, FY 2009 receipts were 3.6% below receipts in the corresponding period in FY 2008. Through January, FY 2009 year-to-date nonauto sales and use tax receipts of $3,883.0 million were $253.9 million (6.1%) below estimate and $207.0 million (5.1%) below receipts in FY 2008. The slowdown in consumer spending which started in the third quarter of CY 2008 intensified in the fourth quarter and continued in January. Layoffs, slumping home prices, declining

[4] The clerks of court generally make auto sales and use tax payments on Monday for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales and use tax receipts largely reflect vehicles sold and titled during the month.

Monthly and year-to-date auto sales tax receipts are above estimates.

consumer confidence, job losses, and poor credit conditions are keeping shoppers tightfisted. National retail figures are likely to be awful again in January. The International Council of Shopping Centers' index of same-store sales (which tallies sales at stores open at least a year from major retailers) fell 1.6% in January, following a combined drop of 2.2% in November and December, the biggest decline in the history of the series back to 1970.

Employment, unemployment, wage growth, and income gains, which determine nonauto sales and use tax receipts, have continued to deteriorate. As a consequence, the outlook for the nonauto sales and use tax holds little hope for improvement during the remainder of the fiscal year.

Auto Sales and Use Tax

January auto sales and use tax receipts of $65.4 million were $5.6 million (9.3%) above estimate, but $8.9 million (12.0%) below receipts in January 2008. Through January, FY 2009 year-to-date auto sales and use tax receipts of $511.0 million were $8.6 million (1.7%) above estimate. However, receipts were $25.2 million (4.7%) below receipts through January in FY 2008.

The freefall in nationwide vehicle sales continued in January, as buyers ignored manufacturers' discounts and better credit conditions. Reduced manufacturers' fleet sales also contributed to the decline in sales. Nationwide light vehicle (autos and light trucks) sales in January fell 35%, when compared to year-ago sales. For the month, on an annualized basis, 4.6 million autos and 5.0 million light trucks were sold. Sales of light vehicles through January in FY 2009 were 27.4% below unit sales in the corresponding period in FY 2008. Sales of autos and light trucks declined about 21.8% and 32.4%, respectively. Auto sales and use tax receipts will very likely remain weak in the next several months.

Cigarette and Other Tobacco Products Tax

January GRF receipts from the cigarette and other tobacco products tax were $77.6 million, $4.1 million (5.6%) above estimate and $1.4 million (1.8%) above January 2008 receipts. Through January, FY 2009 year-to-date receipts from the tax were $501.4 million, $7.4 million (1.5%) above estimate. Those receipts were $9.6 million (1.9%) below FY 2008 receipts in the corresponding period. Revenues from taxed cigarettes were $477.6 million, down $10.9 million (2.2%) from last year's level. Revenues from the tax on other tobacco products were $23.8 million, up $1.3 million (5.7%). Receipts from the cigarette and other tobacco products tax are the third largest tax source in FY 2009, after the personal income tax and the sales and use tax.

Corporate Franchise Tax

The first major corporate franchise tax payment in FY 2009 of $132.4 million was $33.3 million (33.6%) above estimate. Those receipts were $104.6 million (44.1%) below revenues in January 2008 due to the reduction in the tax rate for nonfinancial corporations. FY 2009 tax payments are based on 20% of the calculated liability, down from 40% in FY 2008, due to the phase-out of the tax on nonfinancial corporations that was enacted by H.B. 66 of the 126th General Assembly. As the due date of the first payment falls on the last day of January, the size of receipts in February will determine the true performance of the tax. Through January, FY 2009 receipts were $130.9 million, $35.5 million (37.1%) above estimate. A one-time large settlement accounts for revenues in excess of estimate so far this fiscal year. Although some of the January returns are still being processed, year-to-date results portend a strong performance of the tax this year. The next two major tax payments are due March 31 and May 31. As part of the five-year phase out of the corporate franchise tax enacted in H.B. 66, the corporate franchise tax for nonfinancial corporations will be eliminated in FY 2010, and the tax will become essentially a tax on financial institutions.

First corporate franchise tax payment was $33.3 million above estimate.

Commercial Activity Tax

In January 2009, commercial activity tax (CAT) receipts were $38.8 million, $6.0 million (18.3%) above estimate and $3.2 million (8.9%) above receipts in January 2008. Through January, FY 2009 total CAT receipts were $685.1 million, $27.1 million (4.1%) above estimate, and $192.2 million (39.0%) above receipts in FY 2008, primarily due to a higher tax rate this fiscal year. The next payment for quarterly taxpayers is due on February 9, 2009, for taxable gross receipts booked in the last quarter of CY 2008. Receipts growth is expected to decline due to the economic recession. Through FY 2011, revenues from the tax are not deposited into the GRF as they are earmarked for reimbursing school districts and other local governments for the reductions and phase-out of local taxes on most tangible personal property.[5] Taxpayers pay 80% of their liability in FY 2009 and in FY 2010 the tax will be fully phased in.

CAT receipts growth is expected to decline due to the recession.

[5] CAT receipts are distributed to the School District Tangible Property Tax Replacement Fund (70%) and to the Local Government Tangible Property Tax Replacement Fund (30%).

Table 3: General Revenue Fund Uses
Preliminary Actual vs. Estimate
Month of January 2009
($ in thousands)
(Actual based on OAKS reports run February 4, 2009)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$810,873	$787,430	$23,443	3.0%
Higher Education	$182,333	$181,156	$1,177	0.6%
Total Education	$993,206	$968,586	$24,620	2.5%
Public Assistance and Medicaid	$869,722	$910,483	-$40,761	-4.5%
Health and Human Services	$156,590	$141,442	$15,147	10.7%
Total Welfare and Human Services	$1,026,311	$1,051,925	-$25,613	-2.4%
Justice and Public Protection	$202,798	$181,297	$21,501	11.9%
Environment and Natural Resources	$7,351	$8,165	-$814	-10.0%
Transportation	$995	$1,981	-$986	-49.8%
General Government	$20,463	$17,695	$2,769	15.6%
Community and Economic Development	$7,709	$9,692	-$1,983	-20.5%
Capital	$0	$0	$0	---
Total Government Operations	$239,316	$218,830	$20,486	9.4%
Tax Relief and Other	$6,749	$11,394	-$4,645	-40.8%
Debt Service	$73,191	$78,103	-$4,912	-6.3%
Total Other Expenditures	$79,940	$89,498	-$9,557	-10.7%
Total Program Expenditures	**$2,338,774**	**$2,328,839**	**$9,935**	**0.4%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$0	$0	$0	---
Total Transfers Out	$0	$0	$0	---
TOTAL GRF USES	**$2,338,774**	**$2,328,839**	**$9,935**	**0.4%**

* October 2008 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Table 4: General Revenue Fund Uses
Preliminary Actual vs. Estimate
FY 2009 as of January 31, 2009
($ in thousands)
(Actual based on OAKS reports run February 4, 2009)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2008**	**Percent Change**
Primary, Secondary, and Other Education	$4,394,562	$4,468,891	-$74,329	-1.7%	$4,045,055	8.6%
Higher Education	$1,541,753	$1,551,610	-$9,857	-0.6%	$1,511,284	2.0%
Total Education	$5,936,315	$6,020,500	-$84,186	-1.4%	$5,556,338	6.8%
Public Assistance and Medicaid	$6,958,573	$7,054,596	-$96,023	-1.4%	$6,647,588	4.7%
Health and Human Services	$806,709	$818,340	-$11,631	-1.4%	$799,461	0.9%
Total Welfare and Human Services	$7,765,282	$7,872,937	-$107,655	-1.4%	$7,447,049	4.3%
Justice and Public Protection	$1,337,766	$1,324,458	$13,308	1.0%	$1,322,385	1.2%
Environment and Natural Resources	$70,122	$66,450	$3,672	5.5%	$72,450	-3.2%
Transportation	$14,369	$16,210	-$1,841	-11.4%	$17,229	-16.6%
General Government	$232,742	$239,224	-$6,482	-2.7%	$231,469	0.5%
Community and Economic Development	$89,798	$90,591	-$793	-0.9%	$82,224	9.2%
Capital	$187	$67	$120	179.1%	$56	235.6%
Total Government Operations	$1,744,984	$1,737,001	$7,983	0.5%	$1,725,812	1.1%
Tax Relief and Other	$797,456	$569,156	$228,300	40.1%	$654,130	21.9%
Debt Service	$396,525	$402,410	-$5,885	-1.5%	$385,357	2.9%
Total Other Expenditures	$1,193,981	$971,566	$222,415	22.9%	$1,039,487	14.9%
Total Program Expenditures	**$16,640,561**	**$16,602,004**	**$38,558**	**0.2%**	**$15,768,686**	**5.5%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers Out	$844,504	$852,439	-$7,935	-0.9%	$618,683	36.5%
Total Transfers Out	$844,504	$852,439	-$7,935	-0.9%	$618,683	36.5%
TOTAL GRF USES	**$17,485,065**	**$17,454,443**	**$30,622**	**0.2%**	**$16,387,369**	**6.7%**

* October 2008 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

EXPENDITURES

—*Russ Keller, Economist, 614-644-1751**

Overview

Total GRF program spending for FY 2009 is likely to be below the October 2008 OBM estimate, which did not reflect the $180.5 million budget reductions ordered in December.

Tables 3 and 4 show GRF uses for the month of January and for FY 2009 through January, respectively. For January, GRF uses of $2,338.8 million were $9.9 million (0.4%) above the estimate released by the Office of Budget and Management (OBM) in October 2008. For the first seven months of FY 2009, GRF uses of $17,485.1 million were $30.6 million (0.2%) above estimate. GRF uses consist primarily of program expenditures and also include transfers out. There were no transfers out in January so GRF program expenditures equaled GRF uses in that month. Through January, GRF program expenditures totaled $16,640.6 million, $38.6 million (0.2%) above estimate. This year-to-date positive variance was partially offset by a $7.9 million (0.9%) negative variance in transfers out.

Fiscal year-to-date variances differ substantially from one program category to another. Categories with expenditures substantially lower than estimates include Public Assistance and Medicaid ($96.0 million), Primary, Secondary, and Other Education ($74.3 million), and Health and Human Services ($11.6 million). These negative year-to-date variances were completely offset by a $228.3 million positive variance in the Tax Relief and Other category. As discussed in the November issue of this report, the positive variance in this program category will likely continue in future months because the OBM estimate did not account for increased expenditures attributable to the Homestead exemption enacted in H.B. 119 of the 127th General Assembly.

The October OBM estimate takes into account the budget reductions ordered in February and September, but excludes the reductions ordered in December.[6] As a result, for the purposes of this publication, GRF program expenditures as a whole will likely finish the year below estimate.

[6] In response to tax revenue shortfalls, the Governor ordered agency GRF budget reductions in February ($159.3 million), September ($198.3 million), and December ($180.5 million) of 2008. These three executive orders reduced FY 2009 GRF appropriations by a total of $538.1 million.

Public Assistance and Medicaid

In January, GRF expenditures for the Public Assistance and Medicaid program category totaled $869.7 million, $40.8 million (4.5%) below estimate. For the first seven months of FY 2009, Public Assistance and Medicaid expenditures of $6,958.6 million were $96.0 million (1.4%) below estimate. Medicaid accounts for about 92% of spending in this program category. GRF Medicaid expenditures totaled $777.4 million in January, which was $33.7 million (4.2%) below estimate. Through January, fiscal year-to-date Medicaid expenditures of $6,398.1 million were $94.3 million (1.5%) below estimate. Table 5 presents Medicaid expenditures by service category.

The most notable variance occurred in the Inpatient Hospitals subcategory, as expenditures for this purpose were below estimate by $13.1 million (15.8%) in January and $20.6 million (3.3%) below estimate for the year to date. According to OBM, the negative variance can be attributed to the timing of invoices for inpatient hospital claims.

Expenditures for the ODJFS Waivers subcategory were $2.5 million (9.4%) below estimate in January and $14.7 million (7.4%) below estimate for the first seven months of FY 2009. As waiver enrollments continue to grow at their slower than expected pace, these negative variances may persist.

Expenditures within the All Other service subcategory were below estimate by $7.5 million (9.4%) in January and $31.1 million (5.2%) for the year to date. These negative variances were due primarily to higher than expected recovery of third party liability (TPL) payments. Private insurance companies and Medicare both remit TPL payments to the state to repay the Medicaid program for those medical claims for which the respective provider bears financial responsibility. Recovered TPL payments offset expenditures in the All Other service subcategory.

Still another negative variance resulted from expenditures on managed care plans for the aged, blind, and disabled (ABD), which were $8.0 million (7.1%) under estimate in January and $26.3 million (3.0%) under estimate year to date. The variances in this subcategory were largely driven by lower-than-expected enrollments in managed care by ABD populations in the Northeast and Northwest regions. In each of these regions, only one managed care plan is currently available. As a result, ABD Medicaid recipients in these two regions are permitted to opt out of managed care and receive services through the fee-for-service system.

For the first seven months of FY 2009, Medicaid spending was $94.3 million (1.5%) below estimate.

Year-to-date spending for Primary, Secondary, and Other Education was $74.3 million below estimate.

Primary, Secondary, and Other Education

GRF expenditures for the Primary, Secondary, and Other Education program category were $810.9 million in January, $23.4 million (3.0%) above estimate. However, this program category's year-to-date expenditures of $4,394.6 million were $74.3 million (1.7%) below estimate. The positive variance in January was partially due to earlier than expected payments of $12.0 million for school bus purchase allowances; the OBM estimate assumed this subsidy would be paid in February. The January positive variance was also due to higher than expected school foundation payments. As reported in the January issue of this report, foundation payments generally increase after the month in which the current year student enrollment data are used for the first time (December in FY 2009). Overall, GRF school foundation expenditures are likely to finish the year below estimate for two reasons. First, actual enrollments are likely to be lower than the projected enrollments used for appropriations. Second, additional lottery profits will be used for foundation payments in place of payments from the GRF. School foundation payments represent 90% of total expenditures for the Primary, Secondary, and Other Education program category. As a result of the lower-than-expected school foundation expenditures, this program category's expenditures are likely to be below estimate for the year.

Health and Human Services

GRF expenditures for the Health and Human Services program category totaled $156.6 million in January, $15.1 million (10.7%) above estimate. The Department of Mental Health (DMH) contributed a $25.5 million positive variance that was partially offset by an $8.4 million negative variance in the Department of Mental Retardation and Developmental Disabilities (DMR). The positive variance in DMH's January expenditures was related to timing associated with quarterly subsidies to community mental health boards. In past years, quarterly funds were distributed upon request. Beginning this year, OBM required that quarterly subsidies be distributed in the first month of the respective quarter, resulting in a $30.4 million positive variance in January. This positive variance should narrow in the next two months. The negative variance in DMR's January expenditures was mainly due to a $7.0 million decrease in subsidies for county MR/DD boards as a result of the December budget reductions. Through January, fiscal year-to-date GRF expenditures for the Health and Human Services program category totaled $806.7 million, which was $11.6 million (1.4%) below estimate.

Justice and Public Protection

In addition to the Tax Relief and Other program category, described above, Justice and Public Protection was the only other program category that registered notable positive variances in both monthly and year-to-date expenditures. In January, GRF expenditures for the Justice and Public Assistance program category totaled $202.8 million, $21.5 million (11.9%) above estimate. For the first seven months of FY 2009, this program category's expenditures were $1,337.8 million, $13.3 million (1.0%) above estimate. The Department of Rehabilitation and Corrections (DRC), which accounts for about 75% of expenditures in the Justice and Public Protection program category, was the main source of both the January and year-to-date positive variances. These variances were partially due to timing of payments related to a newly developed statewide system for purchasing and delivering drugs to agencies that administer medications. Invoices for some medications utilized by DRC were delayed and did not get paid until January. Furthermore, in order to reduce long-term costs, DRC has implemented an early retirement incentive (ERI) program. The ERI initiative, totaling approximately $3 million as of January 2009, contributed to the positive variances in the Justice and Public Protection program category.

Year-to-date spending for Justice and Public Protection was $13.3 million above estimate.

** Todd A. Celmar, Economist, 614-466-7358 contributed to this report.*

Table 5: Medicaid Spending in FY 2009
($ in thousands)

Medicaid (600-525) Payments by Service Category	January Actual	January Estimate	January Variance	January Percent Variance	Year to Date Actual thru Jan	Year to Date Estimate thru Jan	Year to Date Variance	Year to Date Percent Variance
Nursing Facilities	$214,965	$216,876	-$1,911	-0.9%	$1,510,511	$1,500,530	$9,981	0.7%
ICFs/MR	$48,722	$46,724	$1,998	4.3%	$315,159	$320,825	-$5,666	-1.8%
Inpatient Hospitals	$70,055	$83,181	-$13,126	-15.8%	$595,772	$616,340	-$20,568	-3.3%
Outpatient Hospitals	$29,247	$28,457	$790	2.8%	$223,193	$218,439	$4,754	2.2%
Physicians	$24,254	$24,525	-$271	-1.1%	$193,456	$187,398	$6,058	3.2%
Prescription Drugs	$41,965	$43,815	-$1,850	-4.2%	$303,463	$308,276	-$4,813	-1.6%
ODJFS Waivers	$23,738	$26,207	-$2,469	-9.4%	$184,715	$199,459	-$14,744	-7.4%
MCP - CFC	$272,781	$274,346	-$1,565	-0.6%	$2,051,314	$2,066,311	-$14,997	-0.7%
MCP - ABD	$104,662	$112,613	-$7,951	-7.1%	$848,427	$874,754	-$26,327	-3.0%
Medicare Buy-In	$26,287	$26,480	-$193	-0.7%	$181,925	$182,644	-$719	-0.4%
All Other	$71,472	$78,927	-$7,455	-9.4%	$570,661	$601,805	-$31,144	-5.2%
DA Medical	$719	$804	-$85	-10.6%	$6,459	$6,941	-$482	-6.9%
Total Payments	$928,867	$962,955	-$34,088	-3.5%	$6,985,055	$7,083,722	-$98,667	-1.4%
Offsets								
Drug Rebates	-$8,215	-$8,155	-$60	0.7%	-$40,915	-$41,227	$312	-0.8%
Revenue and Collections	-$7,552	-$7,595	$43	-0.6%	-$37,520	-$38,323	$803	-2.1%
ICF/MR Franchise Fees	-$1,250	-$1,250	$0	0.0%	-$5,000	-$5,000	$0	0.0%
NF Franchise Fees	-$19,444	-$19,444	$0	0.0%	-$77,778	-$77,778	$0	0.0%
IMD/DSH Payments	-$8,750	-$8,750	$0	0.0%	-$17,500	-$17,500	$0	0.0%
MCP Assessments	-$20,000	-$20,000	$0	0.0%	-$100,000	-$100,000	$0	0.0%
Health Care Federal	-$106,343	-$106,745	$402	-0.4%	-$451,451	-$454,265	$2,814	-0.6%
Total Offsets	-$171,554	-$171,939	$385	-0.2%	-$730,164	-$734,093	$3,929	-0.5%
Total 600-525 (net of offsets)	$757,313	$791,016	-$33,703	-4.3%	$6,254,891	$6,349,629	-$94,738	-1.5%
Medicare Part D (600-526)	$20,064	$20,088	-$24	-0.1%	$143,176	$142,781	$395	0.3%
Total GRF	**$777,377**	**$811,104**	-$33,727	**-4.2%**	**$6,398,067**	**$6,492,410**	-$94,343	**-1.5%**
Total All Funds	**$948,931**	**$983,043**	-$34,112	**-3.5%**	**$7,128,231**	**$7,226,503**	-$98,272	**-1.4%**

Source: Ohio Department of Job & Family Services.

ICFs/MR - Intermediate Care Facilities for the Mentally Retarded
ODJFS - Ohio Department of Job and Family Services
MCP - Managed Care Plan
CFC - Covered Families and Children
ABD - Aged, Blind, and Disabled
DA Medical - Disability Medical Assistance
NF - Nursing Facilities
IMD/DSH - Institutions for Mental Disease/Disproportionate Share

ISSUE UPDATES

Rehabilitation and Correction Allocates Almost $57 Million in GRF Funding for Community-Based Correctional Facilities

—Joseph Rogers, Senior Budget Analyst, 614-644-9099

The Department of Rehabilitation and Correction has allocated a total of $56.9 million in FY 2009 GRF funding for the operation of 18 community-based correctional facilities (CBCFs). These facilities are minimum security single- or multi-county operations. As an alternative to incarceration in a state correctional institution, CBCFs house low level felony offenders and offer services such as education, job training, and substance abuse treatment. The table below summarizes the amount of funding allocated to the lead county of each CBCF, and the number of available beds.

Currently, CBCF beds are available to 87 of Ohio's 88 counties. By the close of FY 2009, the total number of available CBCF beds is expected to be 1,990. This will permit the diversion of approximately 5,652 felony offenders annually. The average length of stay in a CBCF is about 124 days. One county, Cuyahoga, is not currently being served by a CBCF; a new facility for the county is in the design stage.

CBCF State Funding Allocations, FY 2009					
Lead County	Funding Allocation	Number of Beds Funded	Lead County	Funding Allocation	Number of Beds Funded
Allen	$2,807,167	94	**Lucas**	$3,578,943	112
Athens	$1,955,928	64	**Mahoning**	$2,122,470	70
Butler	$2,908,740	106	**Montgomery**	$4,696,300	157
Clark/Union	$3,083,512	122	**Scioto**	$2,317,139	86
Franklin	$5,309,214	200	**Seneca**	$2,063,164	84
Hamilton	$5,771,840	200	**Stark**	$3,296,951	105
Jefferson	$2,874,637	104	**Summit**	$5,347,283	183
Licking	$1,805,989	55	**Trumbull**	$3,274,925	116
Lorain	$1,946,182	72	**Wood**	$1,783,404	60

Searchable State Registry of Ohio's Habitual OVI/OMWI Offenders Goes Live

—Sara D. Anderson, Senior Budget Analyst, 614-728-4812

On December 31, 2008, the Department of Public Safety unveiled a searchable Internet database of Ohio's habitual OVI/OMWI[7] offenders (https://ext.dps.state.oh.us/omvi/). The database allows the public to access information in the State Registry of Ohio's Habitual OVI/OMWI Offenders on all offenders who are convicted on or after September 30, 2008, and who have had at least four prior OVI/OMWI convictions in the preceding 20 years. S.B. 17 of the 127th General Assembly required the Department to establish and maintain the Internet database and the State Registry.

As of January 2009, the Internet database and the State Registry include information on 17 habitual offenders. The database is searchable by offender name, county, and ZIP code. The available information on each offender includes the offender's name, residential address, the number of times within the preceding 20 years that the offender has been convicted in Ohio for an OVI/OMWI violation, and the date of each of those convictions. The Ohio court that convicts such an offender is required to submit the information that is contained in the State Registry.

Closure of Two State Psychiatric Hospitals Saves More Than $19 Million

—Deauna Hale, Budget Analyst, 614-995-0142

On June 30, 2008, the Department of Mental Health (DMH) closed the Cambridge and Dayton psychiatric hospitals. DMH estimates a net savings of $19.6 million in FY 2009. A total of 102 employees were laid off and 89 took early retirement. Remaining staff and patients from these two facilities were transferred to seven other existing facilities. DMH states that the capacity of the state's mental health system has not been affected by the closures.

Gross savings as a result of the closures will total $23.6 million in FY 2009 for DMH. This amount will be partially offset by the $4 million cost for unemployment benefits, early retirement incentives, and site maintenance. Unemployment benefits and early retirement incentives are one-time costs that will be incurred in FY 2009 only. At this time, DMH is responsible for the maintenance of the Cambridge and Dayton hospital sites. Beginning in FY 2010, the Department of Mental Retardation and Developmental Disabilities will be responsible for maintaining the Cambridge hospital site.

[7] OVI stands for Operating a Vehicle While Intoxicated and OMWI stands for Operating a Motor Vehicle While Under the Influence.

Over $4 Million in Child Care Quality Grants Awarded

—Maggie Priestas, Budget Analyst, 614-995-9992

In FY 2008, the Department of Job and Family Services awarded $4.2 million in Step Up To Quality (SUTQ) improvement grants to 455 of Ohio’s 4,239 licensed child care programs. Using a rating system based on quality benchmarks that exceed state minimum licensing standards, the goals of SUTQ are to improve the quality of early care and education and to assist parents in choosing a child care program. Participation by child care programs is voluntary.

Under SUTQ, there are three levels of quality, referred to as star ratings. A child care program earns a "star" and a financial reward for each level achieved. Of the 455 participating child care programs, 274 earned three stars, 111 earned two stars, and 70 earned one star. Award amounts range from $3,000 to $36,000, based on star rating, license capacity, and ratio of total enrollment to the number of children receiving subsidized care. Recipients must use the awards to maintain and improve the quality of their early care and education services.

Ohio EPA Launches eBusiness Center

—Terry Steele, Budget Analyst, 614-387-3319

In October 2008, the Ohio Environmental Protection Agency (EPA) launched the eBusiness center, a secure portal. When fully operational the center will allow an entity or individual that is subject to EPA rules to electronically file and modify permit applications and submit required reports to EPA's five regulatory divisions. Partly in response to a U.S. EPA requirement that all states collect, process, and manage certain data electronically, the eBusiness center is designed to provide a secure one-stop shop for Ohio EPA services.

The system is being rolled out on a staggered basis to allow for component testing. It is currently fully functional within the Division of Surface Water and partially so within the Division of Air Pollution Control. In addition to the centralized operating cost, each regulatory division was assessed for the development costs of the eBusiness center. These expenses, which have totaled $2.6 million over the FY 2008-FY 2009 biennium, are listed in the table below.

eBusiness Center System Costs, FY 2008-FY 2009	
Centralized eBusiness Operating Costs	$449,340
Division of Surface Water	$458,500
Division of Drinking and Ground Waters	$318,669
Division of Air Pollution Control	$985,506
Division of Solid and Infectious Waste Management	$78,000
Division of Hazardous Waste Management	$300,000
Total	**$2,590,015**

Currently, EPA receives no GRF operating money; its operations are funded by permit fees, assessments, and federal funds. Intra-division assessments for the development of the eBusiness center were deposited in the Central Support Indirect Fund (Fund 2190). In addition to these assessments, Fund 2190 receives charges assessed to all EPA's other funds and supports agency-wide administrative functions and IT maintenance, including the centralized cost of operating the eBusiness center.

175 Ohio Teachers Achieve National Board Certification

—Andrew Plagenz, Budget Analyst, 614-728-4815

The Department of Education (ODE) announced in December that 175 Ohio teachers achieved National Board Certification from the National Board for Professional Teaching Standards in 2008. Candidates for certification must submit portfolios of student work, classroom videotapes, evaluations, and other documentation. Candidates must also pass a comprehensive exam to demonstrate advanced teaching knowledge, skills, and practice. In each of the past four years, an average of 144 Ohio teachers have achieved certification. According to ODE, 2,932 Ohio teachers have achieved National Board Certification since the program started. Of these, 2,802 are currently working as full-time teachers in the state.

Ohio's 175 recipients were part of 9,600 teachers receiving certification nationwide in 2008, placing Ohio 14th nationwide in the number of newly certified teachers for the year. Currently, Ohio ranks sixth nationwide in the total number of National Board certified teachers. The following table shows the top five school districts in Ohio and the top five states in the country with the highest number of nationally certified teachers.

Highest Number of National Board Certified Teachers				
	Ohio		Nationwide	
Rank	School District	Total Teachers	State	Total Teachers
1	Columbus City	114	North Carolina	14,203
2	Cincinnati City	105	Florida	12,644
3	Hilliard City	76	South Carolina	6,499
4	Toledo City	44	California	4,239
5	Cleveland Municipal	41	Illinois	3,188
	Statewide	**2,932**	**Nationwide**	**73,481**

Ohio encourages teachers to obtain national certification by providing both a one-time application stipend of $2,225 for up to 400 candidates per year as well as an annual salary stipend for certified teachers. H.B. 119 appropriates $10.25 million for these stipends for FY 2009.

STEM Subcommittee Awards Second Round of Grants

—Edward Millane, Budget Analyst, 614-995-9991

In January, the STEM (Science, Technology, Engineering, and Mathematics) Subcommittee of the Partnership for Continued Learning announced the recipients of the STEM schools and the K-8 STEM programs of excellence grants for FY 2009. These recipients are listed below. H.B. 119 appropriates $3.0 million for the school grants and $3.3 million for the program grants in FY 2009. This second round of awards includes $2.9 million for three new and five renewal school grants and $3.1 million for seventeen new and two renewal program grants.

All five of the STEM schools that received grants in FY 2008 were awarded renewal grants in FY 2009. One of these, the Cleveland Metropolitan School District's MC^{2}STEM (Metropolitan Cleveland Consortium for STEM) High School has opened in FY 2009. The other four plan on opening in FY 2010. Of the three new school grant award winners, the Perkins City School District is expected to open a STEM school in FY 2010 that will eventually serve 1,500 students in grades 6 through 12. The New Miami Local School District and the Reynoldsburg City School District are both expected to open schools in FY 2011. New Miami plans to eventually serve 500 students in grades 6 through 12 and Reynoldsburg plans to eventually serve 400 students in grades 9 through 12.

FY 2009 STEM Schools Grant Recipients	
1.* Akron City School District (and partners)	5.* Wright State University (and partners)
2.* Cleveland Metropolitan School District (and partners)	6. New Miami Local School District (and partners)
3.* Educational Council (and partners)	7. Perkins City School District (and partners)
4.* STRIVE (and partners)	8. Reynoldsburg City School District (and partners)
FY 2009 K-8 STEM Programs of Excellence Grant Recipients	
1.* Fort Recovery Local School District	11. Napoleon Area School District
2.* New Lebanon Local School District	12. New Boston Local School District
3. Akron City School District	13. New Miami Local School District
4. Anna Local School District	14. Newcomerstown Exempted Village School District
5. Avon Lake City School District	15. Northwestern Local School District
6. Bexley City School District	16. Oberlin City School District
7. Fairborn City School District	17. Parma City School District
8. Girard City School District	18. Reynoldsburg City School District
9. Liberty Local School District	19. Youngstown City School District
10. Morgan Local School District	** indicates a renewal grant*

Ohio Receives "Making Opportunity Affordable" Grant

—Mary Morris, Budget Analyst, 614-466-2927

On January 12, the Board of Regents (BOR) received Controlling Board approval to spend a new $150,000 grant from the Lumina Foundation, an independent private organization that seeks to expand access to and success in post-secondary education. Ohio is one of 11 states that received a grant through Lumina's Making Opportunity Affordable program, part of the Foundation's national effort to study college affordability. The program provides incentives for the development of affordable and efficient higher education strategies. BOR will use the grant funds to work with the National Center for Higher Education Management Systems (NCHEMS) to identify policies around the state that may have created unnecessary expenses or wastefulness in Ohio's public higher education system. The NCHEMS review represents the initial phase of the program and positions Ohio to receive additional grants totaling up to $2 million in future years. Through subsequent grants, BOR hopes to identify and implement innovative ways of making post-secondary education more affordable.

TRACKING THE ECONOMY

—*Phil Cummins, Economist, 614-387-1687*

Overview

The national economic downturn accelerated in late 2008, and the sharp slowdown continued into early 2009. U.S. gross domestic product (GDP) fell in last year's fourth quarter at the sharpest rate since 1982. Consumer spending, fixed investment, and exports slowed while inventories accumulated, likely portending further production cuts to bring inventories into line with reduced sales. In January, employment fell 0.6 million and the unemployment rate rose to 7.6%, highest in over 16 years. Announcements by companies of more job cuts appear frequently in the press. Initial claims for unemployment compensation rose to the highest level since 1982. Motor vehicle sales weakened further in January, to the lowest pace since 1982. Large retail chains reported another month of weak sales, below year-earlier levels. Purchasing managers said activity continued to contract last month, but not as many of them as late last year reported slowing. Housing starts and new home sales fell in December to record lows, but sales of previously occupied units rose and may be bottoming out. Inflation at the finished goods level is lowest in more than half a century, but some commodity prices have stopped falling or turned higher. Ohio's economy continued to slow through yearend.

The U.S. recession that began in December 2007 had, as of January 2009, already lasted 13 months, longer than the average post-World War II recession length of 10 months. The two longest of these recessions each lasted 16 months, in 1973-1975 and 1981-1982. Pre-World War II recessions, when government's countercyclical role was smaller, often lasted much longer. The most severe post-World War II recession in terms of the decline in real (inflation-adjusted) GDP was in 1957-1958 when real GDP fell 3.7%. Second most severe was the 1973-1975 recession with a real GDP decline of 3.1%.

Following the inauguration of the Obama administration, the U.S. House of Representatives passed its version of the new administration's fiscal stimulus plan. The Congressional Budget Office estimates that the House plan will increase the federal deficit by $819.5 billion through federal fiscal year 2019, with most of the spending and tax cuts in the first three years, but only $170 billion of the deficit in the year ending next September. The Senate is now legislating its plan.

The Federal Reserve announced in late January that it was keeping its short-term interest rate target at 0% to 0.25%, and expected that target to remain exceptionally low "for some time." The central bank noted some improvement in financial market conditions, but said credit remains very tight for businesses and consumers. It said that it was continuing to purchase large amounts of securities in support of housing markets, would be initiating programs to support other extensions of credit to households and businesses, and may begin injecting additional money into credit markets through purchases of longer term U.S. Treasury securities.

A Federal Reserve survey of bank lending practices released last month showed many banks continuing to tighten credit standards for commercial and industrial loans, commercial real estate loans, residential mortgage loans, and consumer loans. However, the percentages of banks tightening standards were lower, for each of these types of loans, than in a survey released in October. The January survey also indicated that demand for loans remains weak, though the extent of weakness lessened considerably since October for prime residential mortgage loans.

An International Monetary Fund (IMF) forecast, released in late January, projects that U.S. economic output will decline 1.6% this year. The IMF expects world output to rise only 0.5% in 2009, the slowest rate of growth in 60 years, weighed down by continued strains in financial markets. Advanced economies are expected to contract by 2.0% and less developed economies to grow by only 3.3%. The forecast shows 3.0% world output growth in 2010 with most large economies beginning to recover.

The National Economy

Employment fell 0.6 million in January. The unemployment rate rose to 7.6%.

Employment and Unemployment

Total nonfarm payroll employment declined 598,000 in January, after falling by 3.0 million in the year to December 2008. The net job loss in 2008 is larger than previously reported, following the U.S. Bureau of Labor Statistics' annual revision of the data. Employment fell in January in most segments of the economy. Manufacturing employment fell 207,000. Construction jobs declined 111,000. The service sector shed 279,000 jobs, with declines in most industries. Unemployment nationwide rose to 11.6 million people, 4.1 million more than a year earlier, and 7.6% of the labor force, highest since 1992.

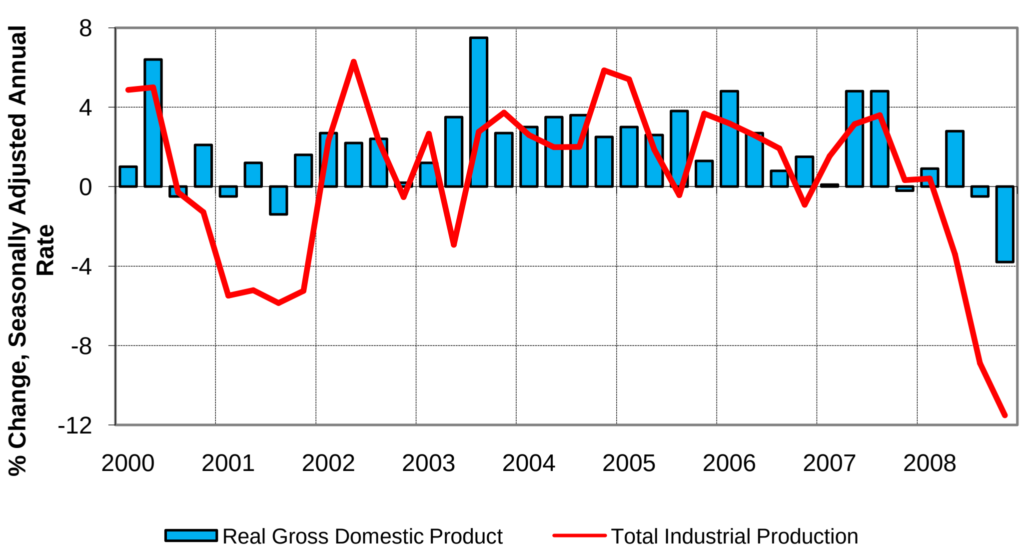
Initial claims for unemployment compensation rose in the last week of January to the highest total since 1982, seasonally adjusted. The total number of people receiving unemployment insurance benefits rose to 4,788,000 in the January 24 week, highest since 1967 when records begin. Because of growth in the total number of workers covered by unemployment insurance, the insured unemployment rate, those receiving benefits as a percent of total workers covered, is well below peaks in the 1970s and 1980s.

Production

GDP declined in the fourth quarter at a 3.8% annual rate, adjusted for inflation, following a 0.5% rate of decline in the third quarter, the first declines in two consecutive quarters since 1990-1991.[8] The fourth quarter decline was the most rapid in any quarter since 1982. Cutbacks were widespread in the fourth quarter among final sales categories, as consumer spending, residential and nonresidential fixed investment, and exports all contracted. Government spending rose as increased federal outlays more than offset reduced purchases of goods and services by state and local governments. Imports declined for the fifth consecutive quarter. Inflation-adjusted inventories rose in the fourth quarter, an indication that businesses will cut production further to try to reduce inventories into better alignment with lower sales. The GDP deflator fell at a 0.3% annual rate in the fourth quarter, the first decline in this

Real gross domestic product fell sharply in last year's fourth quarter.

Chart 1: United States Output Measures



measure of inflation since 1952.

[8] GDP declined in two quarters during the relatively mild recession of 2001, in the first and third quarters of that year.

Surveys of purchasing managers show declines in activity in January less widespread than in late 2008.

Industrial production fell 2.0% in December to 7.8% below its year-earlier rate. The fall in industrial production and in GDP in the fourth quarter is shown in Chart 1. Manufacturing output declined 2.3% in December and was 9.9% lower than in December 2007. Declines in production in December and in the fourth quarter were widespread among industries and market groups. Production of consumer goods fell at a 2.8% annual rate in the fourth quarter, after sharper declines earlier in the year. Output of business equipment rose in December as output of commercial aircraft recovered from a strike at Boeing, but fell in the fourth quarter at a 19% annual rate reflecting cuts in motor vehicle production and effects of the strike. Production of industrial equipment and of information processing equipment continued to fall.

Manufacturing activity contracted again in January, as indicated by the monthly survey of purchasing executives from the Institute for Supply Management (ISM). Reports of declining activity were widespread, but somewhat less so than in December. The number of survey respondents reporting falling new orders exceeded that saying new orders rose for the fourteenth consecutive month. The production index fell for the fifth straight month. Order backlogs fell for the ninth consecutive month. Prices paid fell for the fourth straight month but reports of lower prices were less widespread than in December.

The ISM's January survey of purchasing executives with nonmanufacturing organizations showed contraction in business activity and new orders, but the reports of declines were less widespread than in November and December. Supplier deliveries slowed for the first time since September. Order backlogs fell for the sixth straight month. Prices paid by the purchasing managers fell again, though fewer of them said they paid less, and more reported paying higher prices, than in November and December.

Manufacturers' new orders received in December were 3.9% lower than a month earlier, the fifth consecutive monthly decline, and were 18% lower than a year earlier. The data on manufacturers are not adjusted for inflation or price reductions. Factory shipments fell 2.9% in December, also the fifth consecutive monthly decline, to 12% less than in December 2007. Unfilled orders fell 1.4% in December, the third consecutive monthly decline, but were 3% higher than a year earlier. Nearly 40% of these order backlogs are nondefense aircraft and parts, reflecting the long lead times to buy commercial jets. Manufacturers' inventories were reduced 1.4% in December, the fourth consecutive monthly decline, and were 3% higher than at the end of 2007. The inventory-to-sales ratio for all manufacturers, an indicator of potential excess inventories, has been rising for five months and is at its highest level since 1996.

Consumer Spending

Personal consumption expenditures fell 0.5% in December, after adjusting for inflation, and at a 3.5% annual rate in the fourth quarter after a 3.8% rate of decline in the third quarter. Spending on both durable and nondurable goods fell in both quarters. Average prices paid by consumers fell in December for the third consecutive month. The personal saving rate, *i.e.*, personal saving as a percent of disposable income, rose to 3.6% in December, one of the highest rates since the 1990s.

Dismal retail sales continued in January.

Declines in retail sales in December were widespread among various types of businesses. Total retail sales fell 2.7% from November, and were 10% below a year earlier. The numbers are reported in dollars, not adjusted for inflation. Motor vehicle and parts dealer sales fell 0.7% from a month earlier to 22% below sales in December 2007. Sales at department stores fell 2.3% in December to 7% below a year earlier. Declines were reported for clothing stores; sporting goods, hobby, book, and music stores; furniture and home furnishings stores; electronics and appliance stores; building materials stores; and nonstore (catalog and Internet) retailers. Gasoline station sales were sharply lower reflecting the fall in gasoline prices. A segment outperforming the rest was warehouse clubs and supercenters, for which sales, reported with a one-month lag, were 7% higher in November than in a year earlier. Health and personal care store sales in December were 5% above a year earlier.

Light motor vehicle sales fell further in January to a 9.5 million unit seasonally adjusted annual rate, lowest since 1982. Sales of cars and light trucks were 38% below the year-earlier pace. At a 5 million unit annual rate, light truck sales were slowest, apart from last October, since the early 1990s. Car sales, at a 4.6 million unit rate, were slowest since 1967 based on records kept by the U.S. Bureau of Economic Analysis.

The dollar value of retail sales in January was 1.6% below a year earlier at large stores that release sales results monthly, in the International Council of Shopping Centers (ICSC) compilation of these reports. These sales are reported on a same-store basis, including only store locations open for business in both months being compared, for example, January of both 2008 and 2009. Sales on this basis have been lower than a year earlier for four consecutive months. The ICSC said that wholesale clubs were the segment with the strongest gains, up 3.7%, and that discounters' sales rose 1.1%.

Home building remains very weak but sales may be bottoming out.

Consumer prices fell in last year's fourth quarter, but gasoline prices have risen from December lows.

Construction

Housing starts fell in December to a 550,000 unit seasonally adjusted annual rate, lowest since 1959 when the monthly records begin. Starts in December matched the all-time low recorded in 1982 in the Midwest, were lowest on record in the South, and were lowest ever for single-family homes in the West. For the full year, 904,300 housing units were started nationwide, also lowest since 1959. Issuance of permits in December for starts on new housing units was also lowest on record since 1960.

New one-family homes sold in December declined to a 331,000 unit seasonally adjusted annual rate, the weakest sales rate on records maintained since 1963. In all of 2008, 482,000 new homes were sold, lowest since 1982. Sales in the Midwest and West were also lowest since 1982, and sales in the Northeast were lowest on record. The average new home price nationwide fell to $246,900, 13% lower than a year earlier.

Sales of homes, generally previously occupied units, reported by the National Association of Realtors (NAR) rose 7% in December, seasonally adjusted, but were 3% below a year earlier. Sales rose most in the West, where prices have fallen more than in other regions, suggesting that lower prices may be attracting bargain hunters. The NAR said that sales in recent months have been above a year earlier in several local markets around the country. Distressed sales—transactions involving homes in foreclosure or at prices short of amounts needed to repay loans and other obligations—continued to account for an unusually high share of transactions, according to the trade group. For all of 2008, NAR figures show 4.9 million homes were sold, down from 5.7 million in 2007 and 6.5 million in 2006, and lowest since 1997. The number of listings has been reduced from 4.6 million last summer to 3.7 million, still high relative to the pace of sales. The average sales price in the U.S. in December was $216,000, 15% lower than a year earlier.

The value of new construction put in place nationwide in December declined 1.4%, seasonally adjusted but not adjusted for inflation, and was 3.6% below a year earlier. Private nonresidential construction, which had been rising earlier, fell for the third straight month. In all of 2008, construction spending declined 5%, as private residential building fell 27%, private nonresidential construction rose 15%, and public construction rose 7%.

Inflation

The consumer price index fell 0.7% in December, its fourth decline in the last five months, but was 0.1% above a year earlier, the lowest year-to-year change since 1955. Lower energy prices, particularly for gasoline, accounted for much of the decline. Energy prices in December were 21% below a year earlier, food prices were about 6% higher, and prices for all other items averaged 1.8% above the year-earlier level. Not all energy prices were lower; the cost of natural gas and electricity services was nearly 8% higher in December than a year earlier. Excluding energy services, prices for other services were 2.7% higher than a year earlier. Durable goods prices fell 2.9% in the year to December.

Gasoline prices have rebounded from lows at the end of December, though they remain far below peaks last summer. The nationwide average price of regular gasoline was $1.93 per gallon on February 9, in the U.S. Energy Information Administration's weekly survey, up from $1.61 at the end of December. Comparable average prices in Ohio were $1.81 in the latest week, up from $1.55. These prices are less than half of the cost at the pump last summer, when gasoline cost more than $4 per gallon.

The producer price index for finished goods fell 1.9% in December, its fifth consecutive decline. The index in December was 0.9% below a year earlier. Lower prices for energy commodities accounted for much of the decline at the finished goods level from November to December as well as from December 2007 to December 2008. At earlier stages in the production process, the indexes for prices of intermediate goods and of crude materials fell in December for the fifth consecutive month. The intermediate goods price index fell 4.2% in December, with price declines widespread, and was 1.7% lower than a year earlier. The index for crude materials prices declined 5.3% in December after dropping 12.5% in November, and was 25% below the year-earlier level.

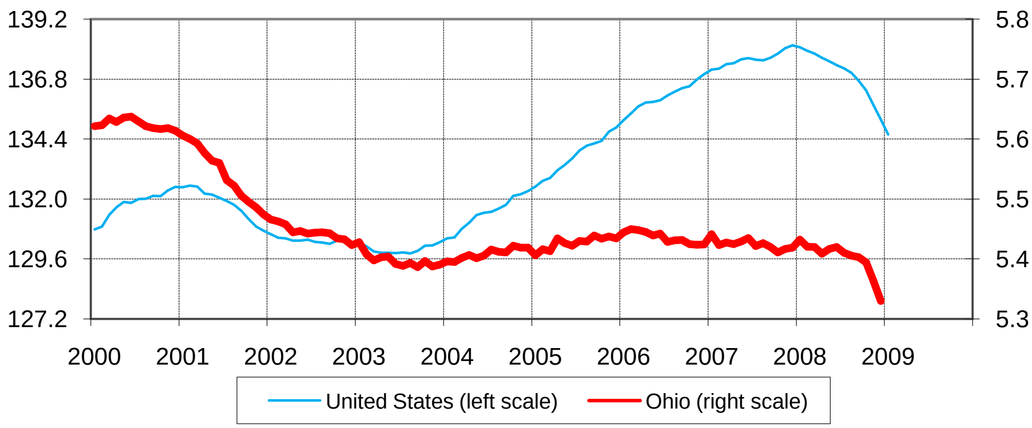
In late December and in 2009, crude oil prices have increased from lows in December, but are still much lower than last summer. The U.S. benchmark crude oil, West Texas Intermediate, were above $40 per barrel recently, up from December lows near $30 per barrel. The rise in the cost of crude oil from the December lows appears to account for the increase in gasoline prices at the pump.

Employment dropped in December in Ohio, and the state's unemployment rate rose to a 22-year high.

The Ohio Economy

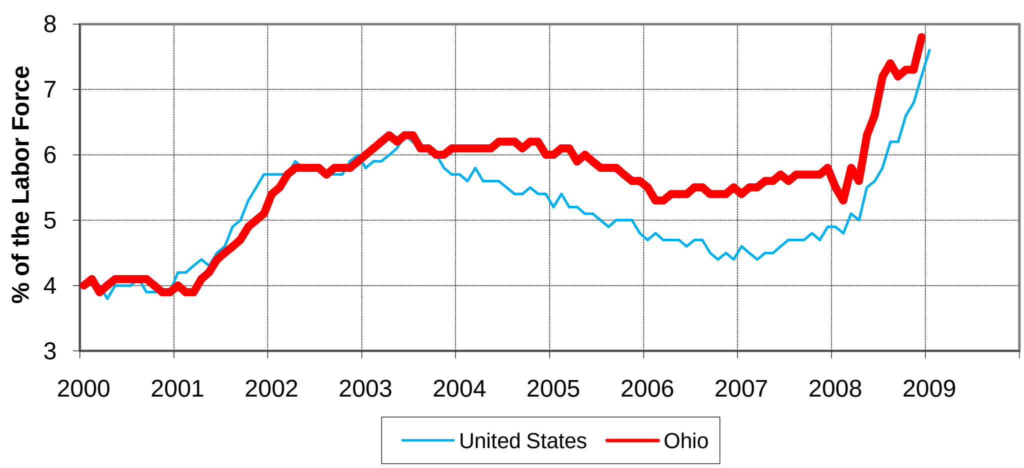
Nonfarm payroll employment in Ohio fell 33,400 (0.6%) from November to December, and was 89,000 (1.6%) lower than at the end of 2007. Total nonagricultural payrolls have declined 2.2% from the recent peak in February 2006, a slide that accelerated in the second half of last year as is evident in Chart 2. About two-thirds of the decline in employment last year was in goods-producing industries, mostly at manufacturers of durable goods but also in construction and at makers of nondurable goods. Service sector job losses were heaviest in business and professional services and in trade, transportation, and utilities. Education and health services and the leisure and hospitality industry continued to add jobs.

Chart 2: Total Nonfarm Payroll Employment
Millions, Seasonally Adjusted



The number of people counted as unemployed in Ohio rose to 465,000 in December, 7.8% of the labor force and 118,000 higher than a year earlier. The state's unemployment rate is highest since 1986. The sharp rise in the national and Ohio unemployment rates is shown in Chart 3.

Chart 3: Unemployment Rate



The number of housing units sold in Ohio in December was 5% below a year earlier, at an average selling price 16% lower than in December 2007, according to the Ohio Association of Realtors' year-end report. For all of 2008, the number of units sold fell 13%, and the average selling price was 9% below that in 2007.

Economic activity slowed further in Ohio and parts of nearby states, according to the Cleveland Federal Reserve Bank's contribution to the January issue of the Beige Book, a compilation of reports from business and other outside contacts. Motor vehicle production in the region fell sharply. Shipping volumes of steel makers and service centers to all end markets slumped. Almost half of manufacturers reported that they have trimmed or halted capital spending, a majority have laid off workers, and several eliminated overtime and initiated hiring freezes. Some that renewed credit lines said the agreements included additional restrictions and the credit was more costly. The downtrend in raw materials costs was said to have begun to level off. Residential contractors report extremely weak sales but an upturn in indications of potential buyer interest. Nevertheless, no turnaround was expected in 2009, and builders have cut staff. Though mortgage interest rates are low, lenders continued to toughen credit standards. Home sales that failed to close have added to builders' inventories, and some are renting out unsold units. Commercial builders reported slowing construction activity and some layoffs. Retail sales were generally flat or lower, except at one large national discount merchandiser. Auto dealers' sales of new and used vehicles continued to decline, and several have cut staffing. Freight transport companies' shipping volumes have slowed across all lines of business, but particularly in consumer products, autos, and construction materials. Many trucking companies are no longer hiring drivers and are cutting office staff.