Budget Footnotes

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STATUS OF THE GRF

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STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

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HIGHLIGHTS

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

Seven months into the fiscal year, FY 2011 tax receipts are $443 million above the estimate issued by the Office of Budget and Management in September 2010, and pointing to a strong rebound in those GRF sources for the fiscal year as a whole. Economic momentum continues to build. January tax receipts were 9.2% above estimate, reflecting a growing economy, falling unemployment in recent months, and strong quarterly estimated payments buoyed in large part by the rise in the stock market in 2010.

Statewide unemployment fell to 9.6% in December 2010, down from a peak of 11% in March 2010, and matching the lowest point since March 2009. However, hiring is still sluggish, with nonfarm payroll jobs in December 2010 just 0.1% above the cyclical low point of 4,996,600 in February 2010.

Through January 2011, GRF sources totaled $15.63 billion:

- Personal income tax receipts were $230.1 million above estimate;
- Sales and use tax receipts were $161.3 million above estimate.

Through January 2011, GRF uses totaled $17.11 billion:

- Program expenditures were $112.4 million below estimate, due primarily to Public Assistance and Medicaid which was $110.0 million below estimate;
- Transfers out were $91.5 million above estimate.

Table 1: General Revenue Fund Sources
Preliminary Actual vs. Estimate
Month of January 2011
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on February 8, 2011)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$73,280	$65,700	$7,580	11.5%
Nonauto Sales and Use	$638,064	$619,200	$18,864	3.0%
Total Sales and Use Taxes	$711,344	$684,900	$26,444	3.9%
Personal Income	$911,381	$802,100	$109,282	13.6%
Corporate Franchise	$61,048	$49,000	$12,048	24.6%
Public Utility	$0	$600	-$600	-100.0%
Kilowatt Hour Excise	$12,473	$13,600	-$1,127	-8.3%
Commercial Activity Tax**	$0	$0	$0	---
Foreign Insurance	$70	$0	$70	---
Domestic Insurance	$0	$0	$0	---
Business and Property	$0	$0	$0	---
Cigarette	$70,377	$68,000	$2,377	3.5%
Alcoholic Beverage	$4,568	$4,300	$268	6.2%
Liquor Gallonage	$4,009	$3,800	$209	5.5%
Estate	$166	$0	$166	---
Total Tax Revenue	**$1,775,435**	**$1,626,299**	**$149,136**	**9.2%**
NONTAX REVENUE				
Earnings on Investments	$1,525	$21,000	-$19,475	-92.7%
Licenses and Fees	$8,369	$12,230	-$3,861	-31.6%
Other Revenue	$405	$7,420	-$7,015	-94.5%
Total Nontax Revenue	**$10,298**	**$40,650**	**-$30,352**	**-74.7%**
TRANSFERS				
Liquor Transfers***	$8,538	$11,300	-$2,762	-24.4%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$42,025	$39,000	$3,025	7.8%
Total Transfers In	**$50,563**	**$50,300**	**$263**	**0.5%**
TOTAL STATE SOURCES	**$1,836,296**	**$1,717,250**	**$119,046**	**6.9%**
Federal Grants	$624,867	$864,598	-$239,731	-27.7%
TOTAL GRF SOURCES	**$2,461,163**	**$2,581,848**	**-$120,685**	**-4.7%**

* Tax estimates of the Office of Budget and Management received September 2010.
**Commercial activity tax receipts in FY 2011 are non-GRF.
***Liquor Transfers based on a report run in OAKS as of February 1, 2011.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Preliminary Actual vs. Estimate
FY 2011 as of January 31, 2011
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on February 8, 2011)

	Actual	Estimate*	Variance	Percent	FY 2010	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$550,044	$506,800	$43,244	8.5%	$498,678	10.3%
Nonauto Sales and Use	$3,991,189	$3,873,100	$118,089	3.0%	$3,742,165	6.7%
Total Sales and Use Taxes	$4,541,233	$4,379,900	$161,333	3.7%	$4,240,843	7.1%
Personal Income	$4,546,910	$4,316,800	$230,110	5.3%	$4,184,777	8.7%
Corporate Franchise	$57,005	$11,400	$45,605	400.0%	-$16,545	444.5%
Public Utility	$56,416	$75,100	-$18,684	-24.9%	$57,163	-1.3%
Kilowatt Hour Excise	$93,751	$97,700	-$3,950	-4.0%	$90,392	3.7%
Commercial Activity Tax**	$0	$0	$0	---	$0	---
Foreign Insurance	$132,300	$132,750	-$450	-0.3%	$132,847	-0.4%
Domestic Insurance	-$1,023	$134	-$1,157	-863.2%	$1,242	-182.3%
Business and Property	-$1,006	$126	-$1,132	-898.5%	$226	-544.3%
Cigarette	$458,477	$426,800	$31,677	7.4%	$477,140	-3.9%
Alcoholic Beverage	$33,041	$33,400	-$359	-1.1%	$32,647	1.2%
Liquor Gallonage	$22,661	$21,700	$961	4.4%	$22,092	2.6%
Estate	$27,436	$28,400	-$964	-3.4%	$25,909	5.9%
Total Tax Revenue	**$9,967,201**	**$9,524,210**	**$442,991**	**4.7%**	**$9,248,731**	**7.8%**
NONTAX REVENUE						
Earnings on Investments	$4,681	$41,500	-$36,819	-88.7%	$21,441	-78.2%
Licenses and Fees	$24,302	$34,991	-$10,689	-30.5%	$38,603	-37.0%
Other Revenue	$151,325	$172,150	-$20,825	-12.1%	$159,271	-5.0%
Total Nontax Revenue	**$180,308**	**$248,641**	**-$68,333**	**-27.5%**	**$219,314**	**-17.8%**
TRANSFERS						
Liquor Transfers***	$85,977	$83,300	$2,677	3.2%	$94,000	-8.5%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$404,986	344,106	$60,880	17.7%	$380,893	6.3%
Total Transfers In	**$490,963**	**$427,406**	**$63,557**	**14.9%**	**$474,893**	**3.4%**
TOTAL STATE SOURCES	**$10,638,472**	**$10,200,257**	**$438,215**	**4.3%**	**$9,942,938**	**7.0%**
Federal Grants	$4,994,147	$5,387,434	-$393,287	-7.3%	$4,487,891	11.3%
TOTAL GRF SOURCES	**$15,632,619**	**$15,587,691**	**$44,927**	**0.3%**	**$14,430,829**	**8.3%**

* Tax estimates of the Office of Budget and Management received September 2010.

**Commercial activity tax receipts in FY 2011 are non-GRF.

***Liquor Transfers based on a report run in OAKS as of February 1, 2011.

Detail may not sum to total due to rounding.

REVENUES

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

Overview

January tax receipts were $149.1 million above estimate.

January GRF sources of $2.46 billion were $120.7 million below projections due to a negative variance of $239.7 million in federal grants. This large shortfall in federal grants, due to a timing issue, was partially offset by a positive variance of $119.0 million in state-source receipts. Tables 1 and 2 show GRF sources for the month of January and FY 2011, respectively. GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants, which are primarily federal reimbursements for human service programs such as Medicaid and Temporary Assistance for Needy Families (TANF) that receive federal funding.

In January, GRF tax sources exceeded expectations for the sixth consecutive month in FY 2011. Receipts of $1.78 billion were above estimates by $149.1 million, increasing the year-to-date positive variance to $443.0 million, up from $293.9 million at the end of December 2010. This month again, the primary tax sources surpassed anticipated receipts. The personal income tax, the sales and use tax, and the cigarette tax were above estimate, respectively, by $109.3 million, $26.4 million, and $2.4 million. The first corporate franchise tax payment for FY 2011,[1] due January 31, was $12.0 million above estimate. The kilowatt hour tax and the public utility excise tax were below estimate, respectively, by $1.1 million and $0.6 million. The remaining tax sources were above their monthly estimates by small amounts. A deficit of $30.4 million in nontax revenue, created in large part by a shortfall of $19.5 million in earnings on investments, reduced the positive variance in tax receipts.

FY 2011 GRF tax receipts through January were $443.0 million above estimate.

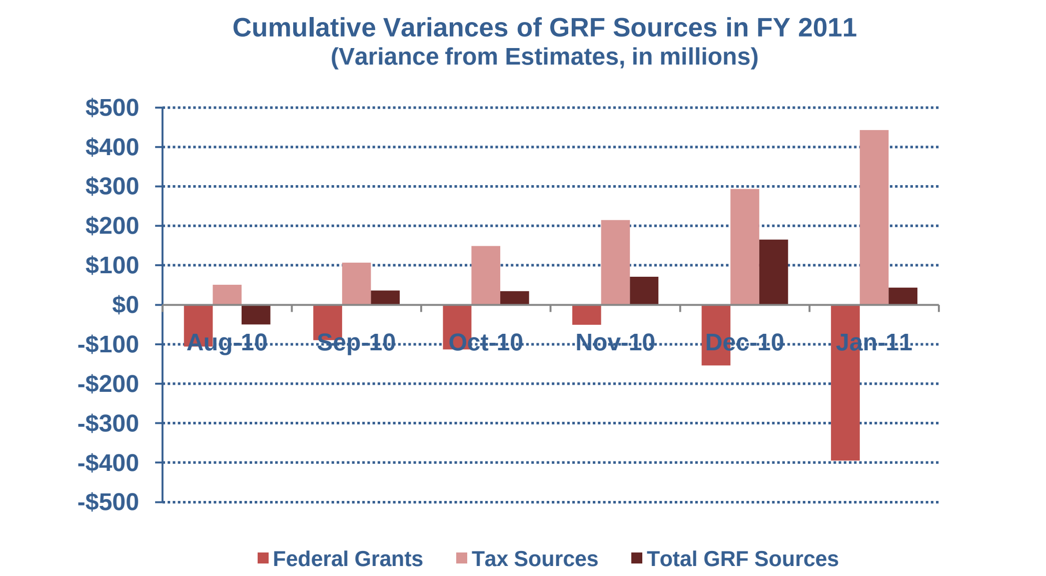
Through January, FY 2011 total GRF sources of $15.63 billion were $44.9 million above estimate. State-source receipts of $10.64 billion were above estimate by $438.2 million, but federal grants were short of projections by $393.3 million.[2] Seven months into the fiscal year, GRF tax receipts were $443.0 million above projections. A positive variance of $63.6 million in transfers to the GRF was more than offset by a shortage of $68.3 million in nontax revenue. All GRF nontax revenue sources were

[1] The other two corporate franchise tax payments are due March 31 and May 31, 2011.

[2] The shortfall in federal grants is primarily due to a negative variance in year-to-date spending on Medicaid. See the **Expenditures** section of this *Budget Footnotes* for an explanation of that negative variance.

below estimate, though more than half of the deficit in this category was due to lower earnings in investments (resulting from a low interest rate environment). The personal income tax was above estimate by $230.1 million, the sales and use tax by $161.3 million, and the cigarette tax by $31.7 million. Corporate franchise tax receipts were $45.6 million above estimate; however, this positive variance is likely to be somewhat reduced at the end of February. The liquor gallonage tax posted a positive variance of $1.0 million. The remaining tax sources were below estimates. The public utility excise tax fell short of estimate by the largest amount, $18.7 million. The kilowatt hour tax was below projection by $3.9 million, the domestic insurance tax by $1.2 million, the business and property tax by $1.1 million, and the estate tax by $1.0 million. The graph below shows the cumulative variance against estimate for federal grants, tax sources, and total GRF sources. (Estimates were not available for the month of July.)

Year-to-date through January, federal grants were $393.3 million below estimate.



FY 2011 GRF sources through January were $44.9 million above estimate.

FY 2011 year-to-date GRF sources increased $1.20 billion compared to receipts in the corresponding period in FY 2010, from higher tax receipts ($718.5 million), federal grants ($506.3 million), and transfers ($16.1 million). Those gains were reduced by $39.0 million in lower receipts from nontax sources this fiscal year.

Receipts from the personal income tax and the sales and use tax were above the levels of FY 2010 by $362.1 million and $300.4 million, respectively. Corporate franchise tax receipts were $73.6 million higher than receipts through January in FY 2010. Other taxes with notable year-to-year revenue increases included the kilowatt hour tax ($3.4 million) and the estate tax ($1.5 million). Year-to-date receipts in FY 2011 decreased for the cigarette tax ($18.7 million), the domestic insurance tax ($2.3 million), and the business and property tax ($1.2 million).

January receipts from the personal income tax were $109.3 million above estimate.

Personal Income Tax

The personal income tax had a remarkable performance in January 2011. GRF receipts from the tax of $911.4 million were $109.3 million (13.6%) above estimate and $157.0 million (20.8%) above receipts in January 2010. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the Local Government Fund. Gross collections are the sum of withholding, quarterly estimated payments,[3] trust payments, payments associated with annual returns, and miscellaneous payments.

Quarterly estimated payments of $328.4 million were the primary source of this month's positive variance, coming in $57.8 million (21.3%) above estimate. Quarterly estimated payments were also $65.7 million (25.0%) above the level of January 2010, but still below the amount of $358.1 million received in FY 2009. For the month, receipts from employer withholding were $45.4 million (6.3%) above estimate and $88.1 million (14.3%) above January 2010 receipts. Through January, the GRF received $4.55 billion from the personal income tax in FY 2011. This amount was $230.1 million (5.3%) above estimate and $362.1 million (8.7%) above receipts in the corresponding period in FY 2010.

Through January, FY 2011 GRF income tax receipts were $230.1 million above estimate.

FY 2011 Year-to-Date
Income Tax Revenue Variances and Changes by Component

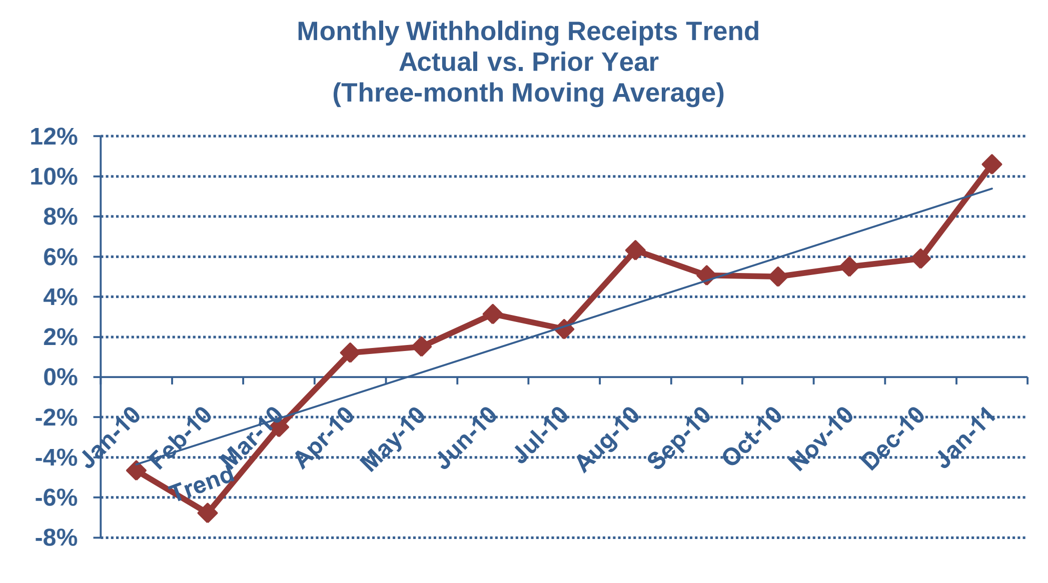
Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2010	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	$154.2	3.7%	$274.1	6.8%
Quarterly Estimated Payments	$80.7	12.7%	$98.8	16.0%
Trust Payments	$0.0	0.2%	$0.6	3.8%
Annual Return Payments	-$10.5	-7.7%	-$10.3	-7.5%
Miscellaneous Payments	$11.3	24.1%	$12.0	26.0%
Gross Collections	$235.6	5.1%	$375.2	7.8%
Less Refunds	-$6.8	-2.4%	-$12.7	-4.4%
Less Local Government Fund Distribution	$12.3	3.3%	$25.8	7.2%
Income Tax Revenue	$230.1	5.3%	$362.1	8.7%

[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, June 15, and September 15 of the tax year and January 15 of the following year.

The table above summarizes FY 2011 income tax revenue variances from estimates and annual changes by components. All components, except receipts from annual returns, contributed to the positive variance against estimates and to higher income tax collections this year. Also, through January, refunds were lower than corresponding amounts in FY 2010, and distributions to the Local Government Fund were higher due to increased tax collections this year.

Through January, FY 2011, revenue from withholding was $154.2 million above estimate.

Year to date, employer withholding, the most important component of the tax, was $274.1 million (6.8%) above withholding receipts in FY 2010 through January. The labor market picked up pace in the last quarter of 2010. Various gauges of the labor market confidence continue to point toward improvement, though hiring is still weak; the job openings rate has trended upward, the pace of hiring has risen modestly, and firings have abated.



Through January, FY 2011 sales and use tax receipts were $161.3 million above estimate.

Compared to a year ago, quarterly estimated payments, the second most important component of the personal income tax grew $98.8 million (16.0%) in FY 2011 through January. Year-to-date results from employee withholding and the ongoing recovery in quarterly estimated payments have brightened the outlook for personal income tax receipts for the remainder of the fiscal year.

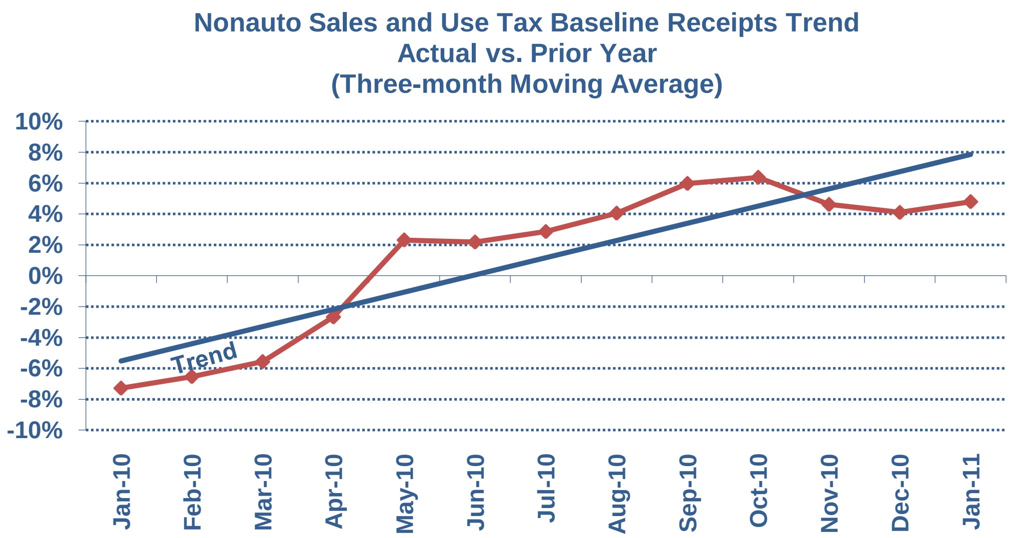
Sales and Use Tax

Sales and use tax receipts continued their upward trajectory in January 2011, reflecting steady growth in consumer spending in recent months. Nationwide, 2010 fourth quarter personal consumption expenditures grew at a 4.4% annual rate, its strongest rise since 2006. January GRF sales and use tax receipts of $711.3 million were $26.4 million

FY 2011 year-to-date nonauto sales and use tax receipts were $118.1 million above estimate.

(3.9%) above estimate, and $33.7 million (5.0%) above receipts in January 2010. Through January, FY 2011 GRF sales and use tax receipts of $4.54 billion were $161.3 million (3.7%) above estimate and $300.4 million (7.1%) above receipts in the corresponding period in FY 2010.

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. Year to date, both components of the sales tax are performing above expectations.



Nonauto Sales and Use Tax

GRF nonauto sales and use tax receipts were $638.1 million in January 2011, $18.9 million (3.0%) above estimate and $21.8 million (3.5%) above January 2010 receipts. For the fiscal year, year-to-date GRF nonauto sales and use tax receipts of $3.99 billion were $118.1 million (3.0%) above estimate and $249.0 million (6.7%) above receipts through January in FY 2010. This positive variance reflects an expansion of the tax base, *i.e.*, it includes payments for health care services provided by Medicaid health insuring corporations.[5] Excluding receipts from the base

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[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.

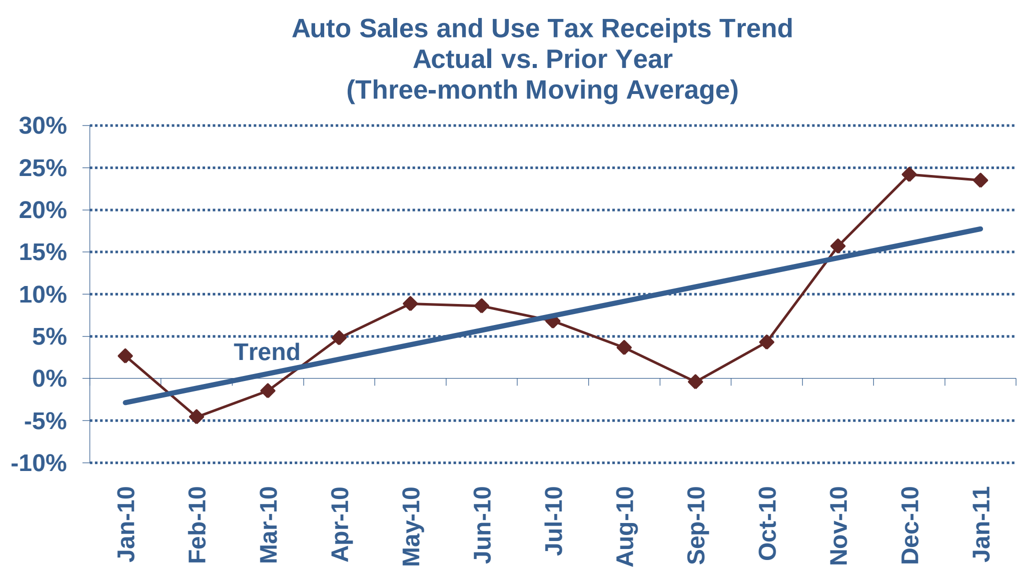
[5] New taxes were imposed on health care services provided by Medicaid health insuring corporations starting on October 1, 2009 (H.B. 1, the operating

expansion, year-to-date nonauto sales and use tax baseline tax receipts grew about 4.9%. The graph above shows the trend in nonauto sales and use tax baseline receipts in recent months. Consumers are growing more confident about the economy. Sales at 30 large multi-store retailers were 4.2% higher in January 2011 than the corresponding period a year ago, on a same-store basis, the highest January performance since 2007. The Federal Reserve Board reported that the use of credit cards increased for the first time in December 2010 since August 2008, showing that consumers are less skittish about opening their wallets or borrowing.

FY 2011 year-to-date auto sales tax receipts were $43.2 million above estimate.

Auto Sales and Use Tax

Auto sales and use tax receipts of $73.3 million in January were $7.6 million (11.5%) above estimate and $11.9 million (19.5%) above receipts in January 2010. Year to date, FY 2011 GRF receipts from the auto sales and use tax of $550.0 million were $43.2 million (8.5%) above estimate and $51.4 million (10.3%) above receipts in FY 2010 through January 2010. The graph below compares monthly receipts with year-ago receipts in the corresponding month. According to data from the Ohio Bureau of Motor Vehicles, the gains in auto sales tax receipts are due to an increase in the sale of used vehicles, and higher prices for both new and used vehicles, though the number of new vehicles titled decreased.[6]



budget act for the current biennium). Those services are newly taxed under the sales and use tax and the insurance taxes.

[6] BMV data indicate an overall increase of 3.0% in titles, but new vehicle titles fell 4.1%, and used vehicle titles grew 4.7%. Vehicle prices grew, on average, 7.3%, though used vehicle prices jumped 13.6% due to higher demand.

FY 2011 year-to-date cigarette tax receipts were $31.7 million above estimate.

FY 2011 year-to-date CAT receipts were $42.5 million above estimate.

In January 2011, nationwide new light vehicle (autos and light trucks) sales of 12.6 million units (annualized rate) were slightly higher than December's level of 12.5 million units. Sales of 11.6 million units in 2010 are expected to increase gradually to average about 13.0 million for 2011.[7] Such level of sales would be below that of 2007 and earlier when annual sales exceeded 15 million or 16 million units, which are more consistent with underlying population and income trends. Therefore, auto sales tax receipts will probably increase in the coming months and years if labor markets, consumer confidence, and credit availability continue to improve.

Cigarette and Other Tobacco Products Tax

Receipts from the tax on cigarettes and other tobacco products were $70.4 million in January 2011, $2.4 million (3.5%) above estimate and $2.0 million (2.8%) below January 2010 receipts. Through January, FY 2011 receipts of $458.5 million were $31.7 million (7.4%) above estimate and $18.7 million (3.9%) below FY 2010 receipts through January 2010. Receipts from cigarette sales were $427.5 million. Sales of products other than cigarettes provided $31.0 million. Compared to FY 2010 through January, receipts from the sale of cigarettes declined $22.6 million (5.0%) and those from the sale of other tobacco products increased about $3.9 million (14.4%). Receipts from the cigarette and other tobacco products tax are the third-largest tax revenue source in FY 2011, after the personal income tax and the sales and use tax.

Commercial Activity Tax

January commercial activity tax (CAT) receipts were $41.1 million, $1.8 million (4.6%) above estimate, and $1.1 million (2.8%) above receipts in January 2010. Through January, FY 2011 receipts of $761.4 million were $42.5 million (5.9%) above estimate and $72.4 million (10.5%) above receipts through January in FY 2010. After declining in FY 2010, CAT payments through January suggest a relatively strong recovery this fiscal year. The third payment of FY 2011 by quarterly calendar taxpayers is due February 11, 2011.

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 (TPP). CAT receipts are distributed to

[7] For example, Global Insight and Moody's Economy.com, two national forecasting firms, anticipate 13.1 million units. The National Auto Dealers Association predicts sales of 12.9 million units.

the School District Tangible Property Tax Replacement Fund (70%) and to the Local Government Tangible Property Tax Replacement Fund (30%). If CAT receipts are insufficient for the reimbursements, current law requires a GRF subsidy to the two funds. In FY 2010, the subsidy totaled $281.9 million. FY 2011 receipts will be higher than receipts a year earlier, but they are unlikely to be sufficient for the required payments. Thus, another GRF subsidy will probably be necessary in FY 2011.

Table 3: General Revenue Fund Uses
Preliminary Actual vs. Estimate
Month of January 2011
($ in thousands)
(Actual based on OAKS reports run February 2, 2011)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$826,501	$825,228	$1,273	0.2%
Higher Education	$185,161	$195,162	-$10,001	-5.1%
Total Education	$1,011,662	$1,020,390	-$8,728	-0.9%
Public Assistance and Medicaid	$1,029,851	$1,273,126	-$243,276	-19.1%
Health and Human Services	$138,447	$148,622	-$10,176	-6.8%
Total Welfare and Human Services	$1,168,297	$1,421,749	-$253,451	-17.8%
Justice and Public Protection	$200,784	$197,865	$2,919	1.5%
Environment and Natural Resources	$5,942	$6,244	-$302	-4.8%
Transportation	$1,004	$1,191	-$187	-15.7%
General Government	$18,642	$17,978	$664	3.7%
Community and Economic Development	$5,242	$6,782	-$1,540	-22.7%
Capital	$0	$43	-$43	-100.0%
Total Government Operations	$231,615	$230,103	$1,512	0.7%
Tax Relief and Other	$5,028	$5,000	$28	0.6%
Debt Service	$43,360	$44,743	-$1,383	-3.1%
Total Other Expenditures	$48,388	$49,743	-$1,355	-2.7%
Total Program Expenditures	**$2,459,962**	**$2,721,984**	**-$262,022**	**-9.6%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$7,416	$300	$7,116	2371.9%
Total Transfers Out	$7,416	$300	$7,116	2371.9%
TOTAL GRF USES	**$2,467,378**	**$2,722,284**	**-$254,906**	**-9.4%**

* September 2010 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 2011 as of January 31, 2011
($ in thousands)
(Actual based on OAKS reports run February 2, 2011)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2010**	**Percent Change**
Primary, Secondary, and Other Education	$4,275,318	$4,247,867	$27,451	0.6%	$4,381,068	-2.4%
Higher Education	$1,440,910	$1,439,405	$1,505	0.1%	$1,448,118	-0.5%
Total Education	$5,716,228	$5,687,272	$28,956	0.5%	$5,829,185	-1.9%
Public Assistance and Medicaid	$7,023,410	$7,133,382	-$109,972	-1.5%	$6,370,268	10.3%
Health and Human Services	$712,454	$740,823	-$28,369	-3.8%	$682,607	4.4%
Total Welfare and Human Services	$7,735,864	$7,874,206	-$138,341	-1.8%	$7,052,875	9.7%
Justice and Public Protection	$1,200,264	$1,220,619	-$20,355	-1.7%	$1,214,226	-1.1%
Environment and Natural Resources	$48,540	$49,301	-$761	-1.5%	$59,309	-18.2%
Transportation	$9,916	$9,633	$283	2.9%	$11,178	-11.3%
General Government	$172,854	$184,564	-$11,710	-6.3%	$182,156	-5.1%
Community and Economic Development	$61,077	$71,040	-$9,963	-14.0%	$62,885	-2.9%
Capital	$24	$213	-$189	-88.8%	$330	-92.8%
Total Government Operations	$1,492,674	$1,535,370	-$42,695	-2.8%	$1,530,084	-2.4%
Tax Relief and Other	$846,682	$801,269	$45,413	5.7%	$891,875	-5.1%
Debt Service	$325,909	$331,682	-$5,773	-1.7%	$252,971	28.8%
Total Other Expenditures	$1,172,591	$1,132,952	$39,640	3.5%	$1,144,846	2.4%
Total Program Expenditures	**$16,117,358**	**$16,229,799**	**-$112,441**	**-0.7%**	**$15,556,989**	**3.6%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers Out	$995,113	$903,600	$91,513	10.1%	$1,025,027	-2.9%
Total Transfers Out	$995,113	$903,600	$91,513	10.1%	$1,025,027	-2.9%
TOTAL GRF USES	**$17,112,471**	**$17,133,399**	**-$20,928**	**-0.1%**	**$16,582,017**	**3.2%**

* September 2010 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Table 5: FY 2011 Medicaid Expenditures
($ in thousands)
(Actuals based on OAKS report run on February 4, 2011)

Medicaid (600525) 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
Managed Care Plans	$432,172	$428,925	$3,247	0.8%	$2,924,785	$2,852,886	$71,899	2.5%
Nursing Facilities	$231,518	$232,732	-$1,214	-0.5%	$1,582,048	$1,605,958	-$23,910	-1.5%
Prescription Drugs	$163,450	$197,148	-$33,698	-17.1%	$989,445	$1,131,621	-$142,176	-12.6%
Hospitals	$136,198	$147,969	-$11,771	-8.0%	$877,549	$925,273	-$47,724	-5.2%
ICFs/MR	$46,358	$46,268	$90	0.2%	$325,118	$319,310	$5,808	1.8%
ODJFS Waivers	$32,377	$36,569	-$4,192	-11.5%	$196,151	$226,204	-$30,053	-13.3%
Physicians	$32,093	$33,066	-$973	-2.9%	$194,219	$206,927	-$12,708	-6.1%
All Other	$153,249	$143,999	$9,250	6.4%	$912,840	$924,547	-$11,707	-1.3%
Total Payments	$1,227,415	$1,266,676	-$39,261	-3.1%	$8,002,155	$8,192,726	-$190,571	-2.3%
Total Offsets (non-GRF)	-$307,690	-$135,051	$172,639	127.8%	-$1,577,051	-$1,700,856	-$123,805	-7.3%
Total 600525 (net of offsets)	$919,725	$1,131,625	-$211,900	-18.7%	$6,425,104	$6,491,870	-$66,766	-1.0%
Medicare Part D (600526)	$16,430	$19,916	-$3,486	-17.5%	$94,095	$100,728	-$6,633	-6.6%
Total GRF	**$936,155**	**$1,151,541**	**-$215,386**	**-18.7%**	**$6,519,199**	**$6,592,598**	**-$73,399**	**-1.1%**
Total All Funds	**$1,243,845**	**$1,286,592**	**-$42,747**	**-3.3%**	**$8,096,250**	**$8,293,454**	**-$197,204**	**-2.4%**

Estimates from the Ohio Department of Job and Family Services (ODJFS)

ICFs/MR - Intermediate Care Facilities for the Mentally Retarded

EXPENDITURES

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

Overview

Through January, FY 2011 GRF program expenditures totaled $16.12 billion, $112.4 million below the estimate released by the Office of Budget and Management (OBM) in September 2010. Year-to-date GRF transfers out totaled $995.1 million, $91.5 million above estimate. GRF uses as a whole were $17.11 billion, $20.9 million below estimate for the year to date. Tables 3 and 4 show GRF uses for the month of January and for FY 2011 through January, respectively. For January, GRF program expenditures were $262.0 million below estimate; transfers out were $7.1 million above estimate. Total GRF uses for January were $254.9 million below estimate.

Through January, FY 2011 GRF uses of $17.11 billion were $20.9 million below estimate.

Categories that had significant negative year-to-date variances include Public Assistance and Medicaid ($110.0 million), Health and Human Services ($28.4 million), and Justice and Public Protection ($20.4 million). Categories that had significant positive year-to-date variances include Transfers Out ($91.5 million), Tax Relief and Other ($45.4 million), and Primary, Secondary, and Other Education ($27.5 million). Except for Public Assistance and Medicaid, which will be discussed in the next section, year-to-date variances at the end of January for the other five categories were generally about the same as at the end of December. These five categories' year-to-date variances are briefly discussed in the remainder of this section. For more detailed discussion, see the January issue of *Budget Footnotes*.

Major contributors to the negative year-to-date variance in Health and Human Services were item 440459, Help Me Grow ($8.8 million), in the Department of Health's budget, item 332504, Martin Settlement ($4.9 million), in the Department of Developmental Disabilities' budget, and item 334408, Hospital Mental Health Services ($3.3 million), in the Department of Mental Health's budget. Items 502321, Mental Health Services, and 505321, Institution Medical Services, in the Department of Rehabilitation and Corrections' (DRC) budget, contributed a combined $11.0 million to Justice and Public Protection's year-to-date negative variance while item 470401, RECLAIM Ohio, in the Department of Youth Services' budget contributed another $3.8 million. The majority of these variances were timing related. However, the negative variances in the inmate mental health and medical service items also reflect the fact that much of the work in these areas was previously done on a contract basis whereas now they are provided by DRC personnel.

GRF transfers out will remain above estimate for the remainder of the fiscal year, as explained in the January edition of *Budget Footnotes*. The positive year-to-date variance in Tax Relief and Other reflects the fact that actual expenditures for the first of two annual property tax relief settlements were above the OBM estimate. Finally, the year-to-date positive variance in Primary, Secondary, and Other Education was mainly related to items 200550, Foundation Funding, and 200551, Foundation Funding – Federal Stimulus, in the Department of Education's budget. These two items had a combined positive year-to-date variance of $44.1 million, which was partially offset by negative variances in several other items within this program category. The positive year-to-date variance in foundation funding was due largely to timing. The adjustments for FY 2011 school foundation payments will continue in the remainder of FY 2011 and in FY 2012.

Year-to-date Medicaid GRF spending was $73.4 million below estimate; all-fund spending was $197.2 million below estimate.

Public Assistance and Medicaid

Year-to-date GRF expenditures for Public Assistance and Medicaid totaled $7.02 billion, $110.0 million (1.5%) below estimate. Medicaid, including both state and federal shares, accounts for about 93% of the total. Table 5 details Medicaid GRF expenditures by service category and also summarizes Medicaid expenditures across all funds. As seen from the table, year-to-date Medicaid GRF expenditures totaled $6.52 billion, $73.4 million (1.1%) below estimate. Across all funds, Medicaid expenditures totaled $8.10 billion, $197.2 million (2.4%) below their year-to-date estimate.

Medicaid is mainly funded with the GRF but is also supported by various non-GRF funds. In January, Medicaid GRF expenditures were $215.4 million (18.7%) below estimate, which was largely responsible for turning the year-to-date variance for Medicaid GRF expenditures as a whole from a positive $141.8 million at the end of December into a negative of $73.4 million at the end of January, the first negative year-to-date variance in FY 2011. The $215.4 million negative variance in January was mainly due to non-GRF Medicaid expenditures (shown as offsets in Table 5), which were $172.6 million (127.8%) above estimate for the month. This positive variance was a result of expending $243.2 million of the tobacco settlement funds that were authorized for Medicaid in H.B. 1. Medicaid estimates assumed that the state would expend the tobacco funds each month in FY 2011 starting in August. However, for the first half of FY 2011, these funds were not available due to litigation; more GRF dollars were used to pay for Medicaid expenditures. On December 22, 2010, the Supreme Court of Ohio ruled that the tobacco funds could be used to pay for nontobacco-related expenditures. The

$243.2 million expenditures made in January included $70.8 million in tobacco funds and $172.4 million in related federal match.

Prescription Drug also contributed to the negative variance in the month of January and for the year to date. Expenditures in this category were below estimate by $33.7 million (17.1%) in January and $142.2 million (12.6%) for the year to date. According to the Ohio Department of Job and Family Services (ODJFS), these negative variances were mainly due to lower than estimated drug costs and utilization. Other categories that had relatively large year-to-date negative variances include Hospitals ($47.7 million, 5.2%), ODJFS Waivers ($30.1 million, 13.3%), and Nursing Facilities ($23.9 million, 1.5%). Somewhat offsetting the year-to-date negative variance, expenditures for Managed Care Plans were above estimate by $71.9 million (2.5%).

As of November 2010 (the latest month for which data are available), Medicaid caseloads totaled 2.14 million, which was about 25,800 (1.2%) above estimate. Most of this variance occurred in the Aged, Blind, and Disabled (ABD) population. ABD recipients totaled 506,420 in November, which was above estimate by 18,570 (3.8%). This population includes individuals enrolled in the Medicare Premium Assistance Program, which pays for cost-sharing expenses (copayments, deductibles, and premiums) for low-income Medicare recipients. Enrollees on this program were above estimate by about 8,510 (9.3%).

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

ISSUE UPDATES

Prison System Partners with the Second Harvest Food Banks to Grow Food for Those in Need

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

The Department of Rehabilitation and Correction (DRC) has joined with the Ohio Association of Second Harvest Foodbanks (OASHF) to provide produce grown on four Ohio prison farms to the twelve regional food banks in the OASHF system, for distribution to those in need. This cooperative effort has produced a two-year total of 281,392 pounds of donated produce with a retail value of $251,858. The table below shows the number of pounds and the retail value of donated produce by prison farm.

Prison Farms Donated Food Production, FY 2010-FY 2011

Prison Farm Location	FY 2010		FY 2011	
	Lbs. Donated	Retail Value	Lbs. Donated	Retail Value
London Correctional	6,131	$5,163	8,525	$7,194
Mansfield Correctional	31,548	$25,682	101,193	$133,931
Ross Correctional	68,464	$34,232	34,586	$19,763
Southeastern Correctional	944	$924	30,000	$24,970
TOTALS	**107,087**	**$66,001**	**174,304**	**$185,858**

Source: Ohio Association of Second Harvest Foodbanks

All of the donated food is surplus agricultural production grown both on prison farm acreage as well as on additional lands acquired through agreements with various entities, such as National Guard bases and state parks. The food supplies of the prison inmate population are not reduced or otherwise compromised as a result of this cooperative endeavor. In fact, there is little, if any, cost incurred by DRC. DRC provides land and inmate labor, whereas OASHF pays for seeds, fertilizer, fuel, and any packaging or other materials needed. In an effort to make this food donation program as a whole more self sufficient, DRC planted a cash crop of winter wheat and soybeans on about 100 acres of land at the Ohio Reformatory for Women in Marysville. The sale of this cash crop generated nearly $64,000 in FY 2011, which will be reinvested in the continued production of food for the food banks.

ODADAS Receives $5 Million for Prescription Drug Abuse Treatment

—Jim Ramey, Budget Analyst, 614-644-5231

In January 2011, the Ohio Department of Alcohol and Drug Addiction Services (ODADAS) received $5 million from the Ohio Department of Job and Family Services (ODJFS) for prescription drug abuse treatment. ODADAS estimates that 3,000 Ohioans will gain access to treatment as a result of this funding. The source of funding is additional federal reimbursement under the Medicaid Program due to the extension of the enhanced federal medical assistance percentage through the end of FY 2011. ODADAS distributed the funds to the 50 local behavioral health boards based on two allocation methodologies. Eighty-nine percent of the total, or $4.45 million, was allocated to the boards primarily on a per capita basis. The remaining $547,680 was allocated to the 15 boards that include, within their service areas, the 20 counties with the highest average annual mortality rate associated with opiate overdoses.[8] Each county's allocation was determined by multiplying the average cost of treatment ($1,600) by the county's average number of deaths associated with opiate overdoses per 100,000 population.

ODJFS provided this funding to ODADAS following issuance of the Ohio Prescription Drug Abuse Task Force report and recommendations in October 2010. The task force was created in April 2010 to develop recommendations to address Ohio's prescription drug abuse epidemic. The report included a recommendation to explore federal funding opportunities to increase access to treatment.

Ohio Works First Cash Benefits Unchanged for a Second Straight Year

—Todd A. Celmar, Economist, 614-466-7358

Ohio Works First (OWF) cash benefits in 2011 will remain at the 2009 level, due to slow growth in the Consumer Price Index. State law requires OWF benefits to increase every January by the same percentage as the cost-of-living adjustment (COLA) made by the federal Social Security Administration for Social Security benefits. Social Security benefits generally increase each year as long as there is an increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) from the third quarter of one year to the third quarter of the next. However, if the index decreases, benefits stay flat until the index reaches a level greater than the level it was at before the initial decrease. From 2008 to 2009, the CPI-W decreased 2.1%, which held benefits flat in 2010. The index increased 1.5% from 2009 to 2010, but not above the

[8] The 20 counties are Adams, Athens, Brown, Clark, Clermont, Clinton, Crawford, Fayette, Franklin, Greene, Hardin, Hocking, Jackson, Jefferson, Montgomery, Preble, Ross, Scioto, Trumbull, and Vinton.

level from 2008. Therefore, there is no COLA for 2011. The last annual COLA increase for OWF went into effect in January 2009. Benefits increased 5.8% in that year, which increased the monthly benefit for a family of three from $410 to $434.

OWF benefits are funded through state and federal Temporary Assistance for Needy Families (TANF) dollars. To be eligible for OWF, an assistance group must have at least one child and family income must be less than 50% of the federal poverty guidelines (about $9,155 annually for a family of three). Benefits are limited to 36 months but, in some cases, may be extended up to 60 months due to hardship. In FY 2010, Ohio expended $451 million for OWF cash benefits to an average of 227,657 individuals each month.

Ohio's Medicare Part D Clawback Payments for the Second Half of FY 2011 Expected to be $33 Million Lower Than Assumed in H.B. 1

—Ivy Chen, Principal Economist, 614-644-7764

In late October 2010, Federal Funds Information for States (FFIS) released an updated estimate indicating that Ohio's Part D clawback payments would total $108.5 million for the last two quarters of FY 2011. This is $33 million lower than the $141.5 million assumed in H.B. 1 for the same period of time. The October estimate reflects the updated per capita Medicare Part D drug expenditure released by the Centers for Medicare and Medicaid Services (CMS). In addition, the updated estimate reflects the extension of enhanced federal Medicaid reimbursement for the second half of FY 2011, which occurred after the enactment of H.B. 1.

The Medicare Prescription Drug Improvement and Modernization Act of 2003 (MMA) requires states to share the cost of Medicare prescription drug coverage for individuals eligible for both Medicare and Medicaid (dual eligibles). Prior to MMA, state Medicaid programs covered these costs. The states' share of the costs that must be paid to the federal government is known as "clawback." Clawback payments are made monthly to the federal Medicare Program. A state's monthly clawback amount is equal to the product of a three-part formula: (1) a state's monthly count of dual eligibles; (2) CMS's estimate of the state's share of its per capita expenditure (PCE) for Medicaid covered drugs; and (3) the statutory phase-down percentage. Each state's PCE is estimated by first increasing the state's 2003 PCE amount by the estimated annual national growth in per capita prescription drug spending, and then multiplying that result by the state's federal reimbursement rate for the year. Under MMA, the clawback payment percentage is phased down from 90% in 2006 to 75% in 2015 and annually thereafter.

Year-to-date Expenditures for State Employee Unemployment Benefits Total Close to $3.4 Million

—Todd A. Celmar, Economist, 614-466-7358

As of January 25, 2011, 53 state agencies expended approximately $3.4 million in FY 2011 to fund unemployment benefits for eligible former state employees. This amount represents 44.4% of the $7.5 million expended for FY 2010 as a whole. The table below shows state expenditures for unemployment benefits, including their GRF and non-GRF shares, for FY 2009, FY 2010, and FY 2011. The five agencies that incurred the highest amounts of FY 2011 year-to-date unemployment benefit expenditures are: Youth Services (approximately $706,000), Rehabilitation and Correction ($647,000), Developmental Disabilities ($324,000), Natural Resources ($237,000), and Mental Health ($203,000). Together, these five agencies account for 63.2% ($2.1 million) of the total year-to-date unemployment benefit expenditures. The employee headcounts in these five agencies total 24,133 as of December 15, 2010, representing 41.0% of the total state employee headcount on that day.

State Expenditures for Unemployment Benefits			
Fund	**FY 2009**	**FY 2010**	**FY 2011 (As of January 25, 2011)**
GRF	$3,309,523	$3,681,623	$1,909,867
Non-GRF	$3,849,391	$3,865,649	$1,440,506
Total	**$7,158,914**	**$7,547,273**	**$3,350,373**

As with other employers, the state government is responsible for paying unemployment benefits for up to 26 weeks to state employees who lose their jobs through no fault of their own.[9] However, whereas private employers are required to make advanced contributions to their unemployment compensation trust fund accounts and are commonly referred to as "contributory" employers, the state government and other governmental entities are "reimbursing" employers who reimburse the unemployment compensation system only after benefits have been paid to their former employees.

[9] Extended benefits (beyond 26 weeks) are fully paid by the federal government.

2010 Ohio State Fair Cleared Profit of $386,000

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

In its December 2010 report, the Expositions Commission reported a profit of approximately $386,000 from the 2010 State Fair. This is a 34% decrease from the profit of approximately $585,000 reported for the 2009 State Fair. Overall revenue from the 2010 State Fair, held from July 28th to August 8th, was $7.7 million, of which $5.6 million (72.7%) was derived from admission fees, ticket sales for entertainment and attractions, and exhibit space rentals. The remaining $2.1 million came from event sponsorships, parking and camping fees, and other sources such as concessions and livestock auction revenues. Expenses were $7.3 million, with payroll and entertainment contracts accounting for $4.6 million (63%) of that amount. The remaining $2.7 million in expenses was used for prizes, advertising, fairground maintenance, supplies, utilities, and other items. Attendance for the 2010 State Fair was approximately 812,000, down from 2009 attendance of approximately 826,000.

The annual State Fair, with its emphasis on promoting Ohio's agricultural industry and youth education in the field of agriculture, is the Commission's chief responsibility. A Junior Fair and harness races are held in conjunction with the State Fair. The Junior Fair receives $252,000 in GRF subsidy in FY 2011 whereas harness races are completely funded by race entry fees. The fees for the 2010 harness races totaled $284,000. The Commission also holds many other public events at the Ohio Expo Center that generate revenue throughout the year. If receipts from the State Fair fall short, the Commission may tap the State Fair Reserve Fund to meet agency operating expenses, although it has not needed to do so since FY 2002. As of January 22, the reserve fund had a cash balance of approximately $125,000. The overall appropriation for the Commission is just over $14 million for FY 2011.

2010 Cooperative Agricultural Pest Survey Results Identify Two Species of Insect Pests Among State's Nursery Stock Producers

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

In January, the Ohio Department of Agriculture (AGR), in conjunction with the National Agricultural Pest Information System, released Ohio's results in the 2010 Cooperative Agricultural Pest Survey (CAPS). CAPS is a combined effort by the U.S. Department of Agriculture and the states to survey for, detect, and monitor agricultural crop pests. The 2010 survey for Ohio examined thirteen different plant pests, and found two insect pests to exist in the northeast region of the state, where many nursery stock producers are located. These insects were the viburnum leaf beetle and the hemlock woolly adelgid, although the latter is now thought to have been eradicated. In Ohio, the CAPS survey program involves field work and laboratory sampling of specimens from nursery stock producers. The surveys are conducted by thirteen plant pest control specialists and one field supervisor within AGR's Plant Pest Division. The surveys are part of AGR's overall nursery stock producers inspection and certification program. There are approximately 1,200 licensed nurseries and 5,200 licensed dealers throughout Ohio.

The CAPS survey program and the nursery inspections are funded through two separate sources. The CAPS program is funded through federal grants awarded by the U.S. Department of Agriculture. These grant awards are deposited into the Cooperative Contracts Fund (Fund 3820), which houses the proceeds from a number of other federal grants directed toward plant and animal pest control. Overall, AGR spent approximately $110,000 on the CAPS program in FY 2010. The costs of routine nursery inspections are paid for from the Plant Pest Program Fund (Fund 5FC0), which consists of nursery stock fees. AGR spent approximately $1.0 million on nursery inspections in FY 2010.

Department of Insurance Awards Contract to Launch a Health Insurance Consumer Ombudsman Program

—Ruhaiza Ridzwan, Economist, 614-387-0476

The Department of Insurance has recently entered a contract, in an amount of approximately $571,000, with the Ohio Association of Second Harvest Foodbanks (OASHF) to provide services to Ohioans seeking health care coverage assistance. This contract, which was approved by the Controlling Board at its December 13, 2010 meeting, is part of a newly established health insurance consumer ombudsman program. Under the contract, OASHF will partner with the Universal Health Care Action Network of Ohio, Family Voices of Ohio, and the Ohio Association of County Behavioral Health Authorities in assisting Ohioans in accessing health care resources and educating Ohioans about the opportunities under the federal Affordable Care Act. Among other things, these entities will establish and maintain an advertised health care information toll-free hotline, assist consumers in obtaining public or private health insurance coverage or in obtaining free or discounted medical treatment, as well as collect, track, and quantify problems and inquiries encountered by consumers.

The contract is funded by a portion of the $1.3 million grant awarded to the Department of Insurance in October 2010 by the U.S. Department of Health and Human Services. The grant requires no state match. The purpose of the grant is to help the state set up a health insurance consumer ombudsman program. The program is to assist consumers with enrolling in a health insurance plan, and with filing complaints and appeals related to their coverage. It will also inform consumers about their rights and responsibilities related to health insurance plans and coverage and collect various data. On November 8, 2010, the Controlling Board approved the Department of

Insurance's request to create a new fund, the Consumer Assistance Grant Fund (Fund 3EX0), to receive this federal grant and authorized expenditures of $1.3 million in FY 2011 from the fund to disburse the grant.

Commission on Dispute Resolution & Conflict Management Continues Operations in FY 2011

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

While it did not receive any GRF funding for FY 2011, the Commission on Dispute Resolution and Conflict Management continues to deliver its services, although at reduced levels, by spending down the cash balance in its Gifts and Grants Fund (Fund 4B60). The fund started the fiscal year with an available cash balance of around $150,000 and has picked up another $6,000 in service reimbursements. Expenditures to date have totaled close to $90,000, leaving roughly $66,000 in cash to carry the Commission to the end of FY 2011. The Commission's primary cost component is payroll related expenses associated with three full-time employees.

The Commission, which was established in 1989, has provided a range of dispute resolution and conflict management programs to Ohio schools, communities, courts, and state and local governments. Historically, the Commission has relied almost exclusively on GRF appropriations to deliver its services. Its search for other sources of funding, including federal grants, has yet to bear any fruit. The Commission is governed by 12 volunteer commissioners.

TRACKING THE ECONOMY

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

Overview

Economic activity in the U.S. continues to expand. Inflation-adjusted gross domestic product (real GDP) rose at a 3.2% annual rate in last year's fourth quarter. Growth continued into the first quarter, evidenced by rising sales of light motor vehicles, sales gains at large retailers, and purchasing managers' reports. Winter storms may have held down hiring during January, but the pace of new hires has been sluggish since the cyclical low for employment early last year. Unemployment nationwide fell in January to its lowest level since 2009. The housing sector remains weak. In Ohio, unemployment is down but, overall, little net hiring has been done in the past year. Headline finished goods and services inflation rose modestly at year-end on higher prices for gasoline and other energy products. Upward pressures continue on commodity prices. Short-term interest rates remained firmly anchored at very low levels by unchanged U.S. monetary policy. Longer-term U.S. Treasury interest rates, though still low, have risen by more than one percentage point in the past four months. Interest rates on corporate and municipal notes and bonds have also risen from lows last year.

U.S. nonfarm payroll employment was little changed in January. Data for earlier months were revised lower in the annual benchmarking.

The National Economy

Employment and Unemployment

U.S. nonfarm payroll employment was little changed in January, rising only 36,000 (0.03%) from December's downward-revised level. The nationwide average unemployment rate fell to 9.0% in January, down from a peak of 10.1% in October 2009 and lowest since April 2009. U.S. total nonfarm payroll employment and the unemployment rate are shown in Chart 1.

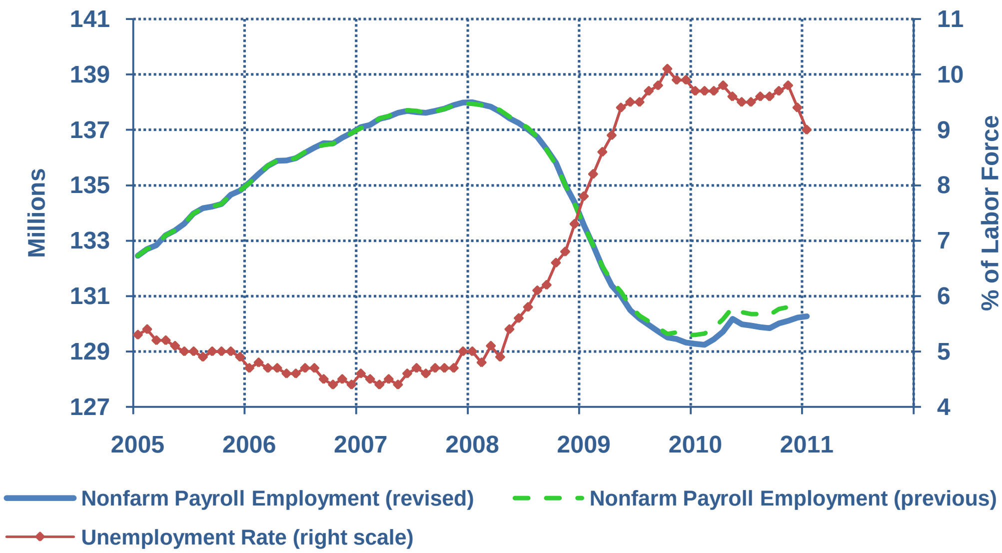
Payroll employment data were revised lower in the annual benchmarking of the survey-based monthly estimates to a count of nationwide jobs.[10] The count was as of March 2010. Seasonal factors were also revised, back to 2006. Total payroll employment in December 2010 was revised downward by nearly 0.5 million (0.4%). With the revision, the cyclical low point for total nonfarm payroll employment was shifted

[10] The count is derived primarily from unemployment insurance tax records.

forward from December 2009, as shown by the previous figures, to February 2010. Employment has grown since last February by 1.0 million (0.8%). Both revised total nonfarm payroll employment and the previous estimate are shown in Chart 1.

Employment has grown since last February by 1.0 million.

Chart 1: U.S. Employment and Unemployment



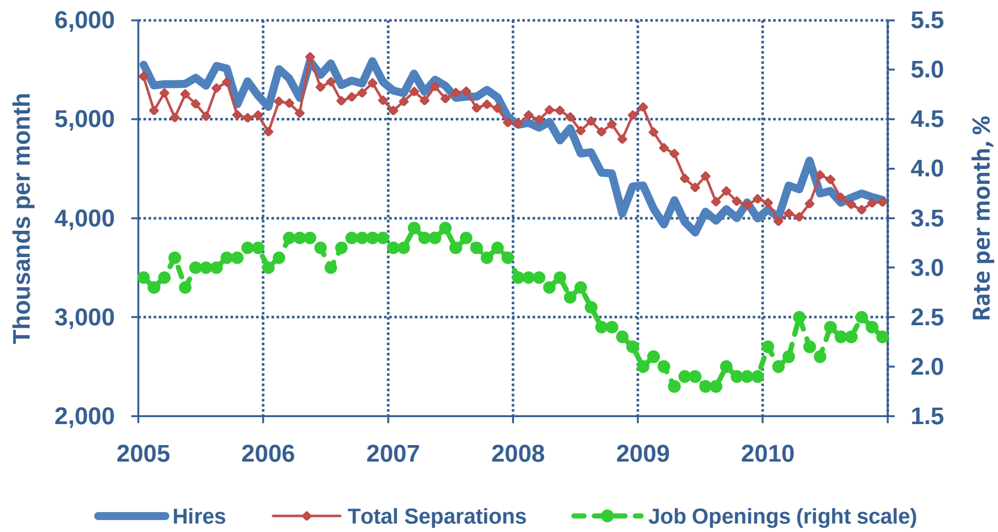
The weaker-than-expected employment gain in January may have been due in part to temporary factors, notably severe weather's adverse effects on construction activity and employment during the month. Jobs were added by durable goods manufacturing in January. This sector has increased employment by 205,000 since December 2009. Retail trade also added to employment, seasonally adjusted, in January, perhaps reflecting constrained seasonal hiring ahead of the holiday season, resulting in fewer than usual post-holiday layoffs. Retail trade has added 123,000 jobs since December 2009. Total private-sector employment rose 50,000 in January, while government employment fell 14,000, mostly at local governments which have shed 366,000 jobs since the peak in 2008.

The national unemployment rate fell to 9.0% in January.

The national unemployment rate fell to 9.0% in January from 9.4% in December and 9.8% in November. A two-month decline of 0.8 percentage point in this statistic is unusually steep. No decline this large had occurred previously since 1958 in so short a period of time. In January, 13.9 million people were counted as unemployed, including 6.2 million out of work for more than six months. An additional 8.4 million people were working part-time but would have preferred full-time jobs. Among persons who were neither employed nor actively looking for jobs, 1.0 million were available for work and had searched for work in the past 12 months but were no longer doing so because they believed no work was available for them.

The number of job openings nationwide has increased by more than 700,000 since the recession low in 2009, the U.S. Bureau of Labor Statistics reports, and the job openings rate (openings as a percent of employment plus openings) has trended upward since then. The job openings rate is shown in Chart 2. Despite the uptrend, job openings remain low compared with past levels prior to the 2008 financial crisis. The pace of hiring has risen modestly from 2009 lows but remains weak.

Chart 2: Job Openings and Labor Turnover



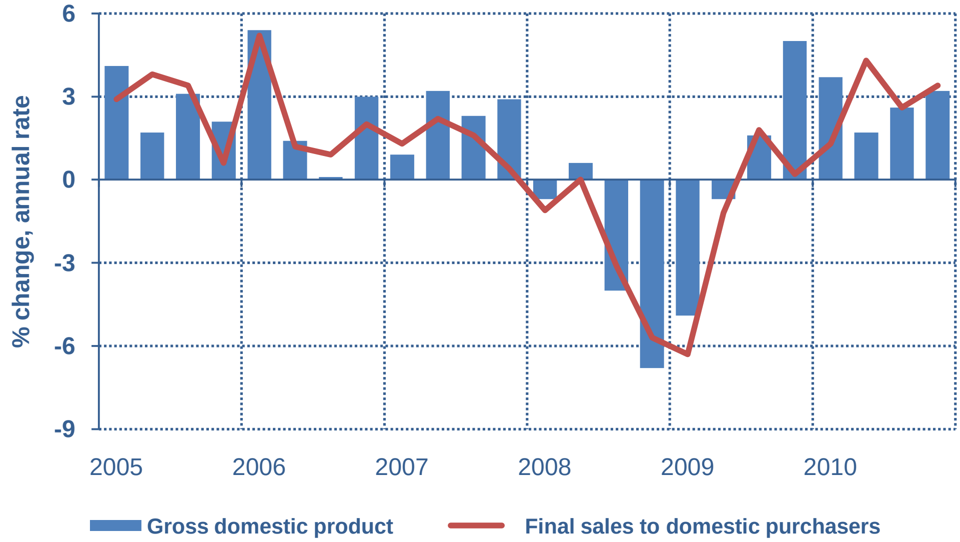
Real GDP rose in the fourth quarter of 2010 at a 3.2% annual rate.

Production, Shipments, and Inventories

Real GDP rose in the fourth quarter of 2010 at a 3.2% annual rate, the strongest growth since last year's first quarter. Total economic activity nationwide, as measured by real GDP, has risen for six consecutive quarters, after declining during the recession in 2008 and the first half of 2009. Growth of consumer spending strengthened, private nonresidential as well as residential fixed investment increased, and exports rose more rapidly. On the other hand, government spending fell, particularly at the state and local level. Changes in real GDP and in final sales to domestic purchasers are shown in Chart 3.[11] For the full calendar year, real GDP rose 2.9% in 2010 after falling 2.6% in 2009. Increases in goods and services prices remained muted last year, as the price index for GDP rose only 1.0% after increasing 0.9% in 2009.

[11] Final sales to domestic purchasers include personal consumption expenditures, residential and nonresidential fixed investment, and government purchases of goods and services.

Chart 3: Inflation-adjusted Gross Domestic Product



Total industrial production has trended higher since the recession low in June 2009, by a total of 11%.

Industrial production rose 0.8% in December, as manufacturing output rose 0.4% and utility output jumped 4.3% to meet strong heating demand in response to cold weather. Total industrial production has trended higher since the recession low in June 2009, by a total of 11%, after falling from the 2007 peak by more than 15%. In the 2010 fourth quarter, consumer goods production contracted, following a strong third quarter. Business equipment production expanded at a 10% annual rate in the fourth quarter, the third consecutive quarter of growth at that rate or faster.

Manufacturing activity nationwide continued to expand in January, according to purchasing managers surveyed by the Institute for Supply Management (ISM). Respondents reporting increases in production, new orders, and order backlogs outnumbered those noting decreases in these measures. An index of new orders rose to its highest level since 2004. Increases in prices paid were widespread. An ISM survey of purchasing managers with organizations other than manufacturers also showed stronger growth with more widespread increases in prices paid.

The dollar value of U.S. manufacturers' shipments rose 2.0% in December, the fourth consecutive increase. Shipments in all of 2010 were 9.0% higher than in 2009. Factory new orders increased 0.2% in December, and rose in five of the most recent six months. New orders in 2010 were 11.9% above those in the previous year. Unfilled orders at year-end were 3.8% higher than a year earlier, but were 11.3% higher excluding transportation equipment. A large portion (45%) of all unfilled orders was for aircraft and parts. Factory inventories at year-end were

8.2% higher than a year earlier, and 8.8% higher than at the cyclical low point in September 2009. The pace of manufacturing inventory building has picked up in recent months.

Consumer Spending

Growth of consumer spending turned higher at the end of 2010, as inflation-adjusted personal consumption expenditures rose 0.4%, seasonally adjusted, in December. For the fourth quarter, consumer spending grew at a 4.4% annual rate, its strongest rise since 2006. Higher spending on motor vehicles and other durables accounted for much of the fourth quarter upturn in consumer spending growth.

For the fourth quarter, consumer spending grew at a 4.4% annual rate, its strongest rise since 2006.

The upturn in the pace of car and light truck sales in last year's fourth quarter continued into January. Sales of light motor vehicles were at a 12.6 million unit seasonally adjusted annual rate last month. In calendar year 2010, light motor vehicle sales totaled 11.6 million units, up from 10.4 million in 2009, the recession low point. The January sales pace remained below that in 2007 and earlier, when annual sales exceeded 16 million units.

The dollar value of sales at retailers that report results monthly, on a same-store basis, were 4.2% higher in January than a year earlier.[12] This was the strongest January performance since 2007. Bank of Tokyo-Mitsubishi UFJ, which compiles and summarizes these stores' reports, noted that sales gains at high-end stores outpaced those at discounters.

Consumer credit outstanding rose 0.3% in December, seasonally adjusted, the third consecutive monthly increase following declines in most months since July 2008. Notably, revolving credit, which is mostly credit cards, rose for the first time in more than two years. Nonrevolving consumer credit, consisting of most other types of consumer borrowing but not including loans secured by real estate, has been growing since May 2010 and is at a new all-time high. Consumer credit is an important source of funds for many large-ticket household purchases as well as for spending on smaller items.

Construction and Real Estate

Housing starts fell 4% from November to December, seasonally adjusted. For the year, housing starts rose 6% but were still at a low level, 72% below the number of housing units started in peak year 2005. Permits for new housing construction rose 17% during the month,

[12] Same-store sales comparisons include only store locations open in the specified month and the year-earlier month, so exclude growth from new store openings as well as declines from store closings.

perhaps reflecting changes in building codes in three states effective in January 2011.

The number of contract signings for the purchase of new homes nationwide rose 18% in December to the highest rate, seasonally adjusted, since April 2010. The rate of new home sales nevertheless remained slow, only about one-fourth of sales in 2005. Builders' inventories were greatly reduced from earlier peaks, and the median time to sell finished new homes following their completion was reduced in December to 7.9 months, lowest since April 2008. For all of 2010, 321,000 new homes were sold, 14% fewer than in 2009 and the lowest annual sales on records kept since 1963.

Home sales reported by the National Association of Realtors (NAR), which are closings mostly on previously occupied homes, rose 12% in December to the highest rate since May. For all of 2010, sales were 5% lower than in 2009, and 31% below sales in peak year 2005. Another series from NAR, the pending home sales index, which measures newly signed contracts and tends to lead closings, rose 2% in December to its highest level since April.

Housing starts rose 6% in 2010 but were 72% below starts in 2005.

An index of housing prices nationwide from the Federal Housing Finance Agency was little changed in November after increasing 0.2% in October, seasonally adjusted. The house price index for September was at its lowest level since 2004. House prices in November, on average, were 15% below the peak in 2007. Another index of housing prices, the Standard & Poor's/Case-Shiller index for 20 metropolitan statistical areas, declined in October and November to levels of 2003. This housing price index remained about 3% above a low reached in April 2009, but was 30% below the peak in 2006.

The dollar value of U.S. construction spending fell 2.5% in December, with declines in private residential and nonresidential construction spending as well as in public construction. For all of 2010, total construction spending of $814 billion fell 10% lower than in 2009, the fourth consecutive yearly decline.

Inflation

Inflation ticked up in December as indicated by the consumer price index, which rose 0.5% from a month earlier. Higher gasoline prices accounted for 80% of this increase. Compared with its level a year earlier, the consumer price index in December was 1.5% higher, and the index excluding food and energy prices was 0.8% higher, remaining under 1% for the ninth consecutive month.

Gasoline prices have been rising over the past four to five months. A nationwide average of prices for regular gasoline, as reported in the U.S. Energy Information Administration's weekly survey, was $2.68 per gallon in early September and had risen to $3.13 per gallon by early February. In Ohio, prices rose from $2.54 per gallon in late August to $3.13. The uptrend in gasoline prices reflects rising costs for crude oil.

The producer price index for finished goods also rose more rapidly in December than in previous recent months, increasing 1.1%. The faster rise in the index resulted from higher prices for energy, including gasoline, heating oil, and liquified petroleum gas. At earlier stages in the production process, prices also continued to rise. Compared with a year earlier, the finished goods price index was 4.0% higher, the intermediate goods price index was 6.5% higher, and the crude materials price index was 15.5% higher. A component of the latter index, for prices of crude nonfood materials less energy, was 28% higher in December than a year earlier.

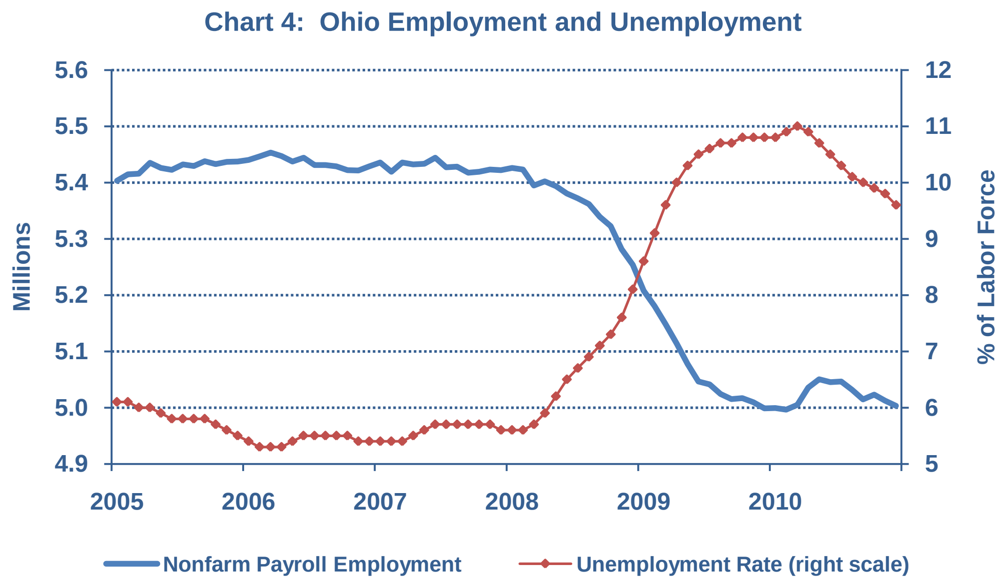
Average wage increases remain low but have increased since the end of the last recession. The employment cost index, based on hourly pay and benefits, rose 2.1% in the year to December 2010 for private industry, up from an increase of 1.2% during 2009. Hourly wages and salaries rose 1.8%, on average, in the latest year. Benefits rose 2.9%. For state and local governments, average hourly compensation costs of their workers rose 1.8% in the latest year.

The statewide unemployment rate in Ohio fell to 9.6% in December, lowest since March 2009.

The Ohio Economy

Unemployment in Ohio fell by 13,000 in December to 567,000. This decline reduced the statewide unemployment rate to 9.6%, down from a peak of 11% in March 2010 and lowest since March 2009 when it was also 9.6%. However, the number of nonfarm payroll jobs in the state declined 9,100 (0.2%) from November to December, and was barely higher (6,300, or 0.1%) at year-end than at the cyclical low point in February 2010. Total employment in Ohio is at 1993 levels, 635,000 (11%) lower than at the peak in 2000. Trends in Ohio employment and unemployment are shown in Chart 4.

The number of nonfarm payroll jobs in Ohio in December was only 0.1% higher than at the cyclical low point in February 2010.



Economic activity in this part of the country grew at a modest pace in late 2010, according to the Federal Reserve Bank of Cleveland's section of the central bank's Beige Book.[13] Manufacturing demand was stable or rising in recent weeks, with at least modest growth expected in 2011. Retailers' reports were generally positive, and retailers anticipate further growth this year with increased spending on discretionary items. Construction of new homes was characterized as mostly flat at low levels, while nonresidential building was described as mixed with projects in health care, industrial, and infrastructure construction. Freight transport executives expect growth in shipping volumes in 2011, and anticipate modestly higher capital spending this year because of aging equipment. Employment at manufacturers was said to have grown slightly, with hiring at the same pace expected in 2011. Retail hiring was limited to seasonal temporary positions, and no upturn was expected this year.

Preliminary figures for Ohio housing permits in 2010 show construction of new units 1% higher than in 2009. However, the number of units authorized by issuance of permits was 75% lower last year than in recent peak year 2003. The highest number of housing permits in Ohio for any year was in 1971, on records kept since 1960. The number of Ohio housing units authorized by permits in 2010 was 84% lower than in 1971.

[13] The Beige Book summarizes comments gathered from business and other contacts outside the central bank. The latest edition is compiled from information collected by January 3, 2011. The Cleveland bank's section covers developments in Ohio and parts of Kentucky, Pennsylvania, and West Virginia.

Ohio's residential resale market continued soft through the end of 2010, as indicated by data from the Ohio Association of Realtors. Unit sales statewide in December were 2% below a year earlier, and average sales prices were fractionally lower. In all of 2010, unit sales fell 4%, the fifth consecutive yearly decline, to 31% lower than in 2005. The average sales price, however, rose 3%, following four consecutive years of falling prices, with an 18% drop in the average home selling price from 2005 through 2009.

Ohio's residential resale market continued soft through the end of 2010.