Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION JUNE 2012

STATUS OF THE GRF

HIGHLIGHTS

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

The U.S. economic expansion appears to have slowed. In April and May, payroll employment increases nationwide were the slowest in a year, and unemployment rose in May to 8.2% from 8.1% in April. In Ohio, declines in nonfarm payroll employment in April and March followed increases in February and January, but the unemployment rate in Ohio dropped further, to 7.4% in April from 7.5% in March, and remained below the nationwide average.

With a month left in FY 2012, total GRF sources were $39.2 million below estimate although GRF tax receipts were $397.5 million above estimate. The negative variance in total GRF sources was largely due to budgeted receipts of $550 million, related to the transfer of the state liquor franchise and the sale of prisons, that have yet to materialize, and a shortfall in federal grants resulting from lower Medicaid spending levels.

Through May 2012, GRF sources totaled $24.68 billion:

- Revenue from the personal income tax was $248.5 million above estimate;
- Sales and use tax receipts were $180.8 million above estimate.

Through May 2012, GRF uses totaled $25.27 billion:

- Program expenditures were $626.1 million below estimate, due primarily to Public Assistance and Medicaid ($475.2 million) and Justice and Public Protection ($78.7 million).

VOLUME 35, NUMBER 10

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

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Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of May 2012
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on June 6, 2012)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$97,081	$87,500	$9,581	11.0%
Nonauto Sales and Use	$580,656	$571,200	$9,456	1.7%
Total Sales and Use Taxes	$677,737	$658,700	$19,037	2.9%
Personal Income	$635,446	$609,520	$25,926	4.3%
Corporate Franchise	$32,287	$56,400	-$24,113	-42.8%
Public Utility	$34,277	$45,500	-$11,223	-24.7%
Kilowatt Hour Excise	$23,306	$14,700	$8,606	58.5%
Natural Gas Consumption (MCF)	$11,348	$30,200	-$18,852	-62.4%
Commercial Activity Tax	$97,595	$78,000	$19,595	25.1%
Foreign Insurance	-$11,597	-$11,800	$203	1.7%
Domestic Insurance	$177,449	$136,500	$40,949	30.0%
Business and Property	$12,975	$22,400	-$9,425	-42.1%
Cigarette	$129,439	$127,600	$1,839	1.4%
Alcoholic Beverage	$4,364	$4,500	-$136	-3.0%
Liquor Gallonage	$3,067	$3,100	-$33	-1.1%
Estate	$7,381	$12,100	-$4,719	-39.0%
Total Tax Revenue	**$1,835,073**	**$1,787,420**	**$47,652**	**2.7%**
NONTAX REVENUE				
Earnings on Investments	$5	$0	$5	---
Licenses and Fees	$5,989	$753	$5,236	695.3%
Other Revenue	$1,084	$3,206	-$2,122	-66.2%
Total Nontax Revenue	**$7,078**	**$3,959**	**$3,119**	**78.8%**
TRANSFERS				
Liquor Transfers**	$0	$0	$0	---
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$45,141	$0	$45,141	---
Total Transfers In	**$45,141**	**$0**	**$45,141**	**---**
TOTAL STATE SOURCES	**$1,887,292**	**$1,791,379**	**$95,913**	**5.4%**
Federal Grants	$630,449	$637,679	-$7,230	-1.1%
TOTAL GRF SOURCES	**$2,517,741**	**$2,429,059**	**$88,683**	**3.7%**

* Tax estimates of the Office of Budget and Management as of September 2011.

**Liquor Transfers based on a report run in OAKS as of June 1, 2012.

Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate
FY 2012 as of May 31, 2012
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on June 6, 2012)

	Actual	Estimate*	Variance	Percent	FY 2011	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$965,715	$886,100	$79,614	9.0%	$882,310	9.5%
Nonauto Sales and Use	$6,411,493	$6,310,300	$101,193	1.6%	$6,048,514	6.0%
Total Sales and Use Taxes	$7,377,208	$7,196,400	$180,808	2.5%	$6,930,824	6.4%
Personal Income	$7,593,799	$7,345,274	$248,525	3.4%	$7,344,475	3.4%
Corporate Franchise	$122,360	$214,701	-$92,341	-43.0%	$231,584	-47.2%
Public Utility	$113,792	$134,100	-$20,308	-15.1%	$124,343	-8.5%
Kilowatt Hour Excise	$285,499	$295,700	-$10,201	-3.4%	$144,813	97.1%
Natural Gas Consumption (MCF)	$46,038	$65,900	-$19,862	-30.1%	$0	---
Commercial Activity Tax	$409,595	$369,500	$40,096	10.9%	$0	---
Foreign Insurance	$267,719	$252,499	$15,220	6.0%	$256,654	4.3%
Domestic Insurance	$177,599	$140,300	$37,299	26.6%	$97,735	81.7%
Business and Property	$11,381	$20,900	-$9,519	-45.5%	$4,082	178.8%
Cigarette	$771,080	$748,000	$23,080	3.1%	$779,031	-1.0%
Alcoholic Beverage	$51,927	$51,700	$227	0.4%	$50,530	2.8%
Liquor Gallonage	$35,901	$33,800	$2,100	6.2%	$34,383	4.4%
Estate	$63,701	$61,300	$2,401	3.9%	$70,374	-9.5%
Total Tax Revenue	**$17,327,598**	**$16,930,074**	**$397,525**	**2.3%**	**$16,068,829**	**7.8%**
NONTAX REVENUE						
Earnings on Investments	$4,026	$5,150	-$1,124	-21.8%	$5,329	-24.4%
Licenses and Fees	$64,553	$61,438	$3,115	5.1%	$58,566	10.2%
Other Revenue	$29,094	$591,268	-$562,174	-95.1%	$168,821	-82.8%
Total Nontax Revenue	**$97,673**	**$657,856**	**-$560,183**	**-85.2%**	**$232,716**	**-58.0%**
TRANSFERS						
Liquor Transfers**	$92,638	$69,500	$23,138	33.3%	$139,462	-33.6%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$274,696	$10,598	$264,098	2492.0%	$770,604	-64.4%
Total Transfers In	**$367,334**	**$80,098**	**$287,236**	**358.6%**	**$910,066**	**-59.6%**
TOTAL STATE SOURCES	**$17,792,605**	**$17,668,027**	**$124,578**	**0.7%**	**$17,211,611**	**3.4%**
Federal Grants	$6,883,326	$7,047,085	-$163,758	-2.3%	$7,943,826	-13.3%
TOTAL GRF SOURCES	**$24,675,931**	**$24,715,112**	**-$39,182**	**-0.2%**	**$25,155,437**	**-1.9%**

* Tax estimates of the Office of Budget and Management as of September 2011.
**Liquor Transfers based on a report run in OAKS as of June 1, 2012.
Detail may not sum to total due to rounding.

REVENUES

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

Overview

Through May, FY 2012 tax receipts were $397.5 million above estimate.

May GRF sources were $88.7 million above estimate.

With a month left in FY 2012, total GRF sources of $24.68 billion were $39.2 million below the estimates released by the Office of Budget and Management (OBM) in September 2011. GRF tax sources and total transfers in were $397.5 million and $287.2 million, respectively, above estimates. Those positive variances were reduced by shortfalls of $560.2 million in nontax revenues and $163.8 million in federal grants. Tables 1 and 2 show GRF sources for the month of May and for FY 2012 through May, 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 that receive federal funding.

For the month of May, GRF sources were $88.7 million above estimate, largely due to surpluses of $47.7 million in tax receipts and $45.1 million in other transfers in. Federal grants were $7.2 million below estimate. Receipts from the major tax sources were above estimates: the personal income tax, by $25.9 million; the sales and use tax, by $19.0 million; and the cigarette tax, by $1.8 million. Following a trend established in earlier months, revenue from the third and final payment from the corporate franchise tax (CFT) was $24.1 million short of estimate, increasing the cumulative deficit for this source to $92.3 million, and raising the possibility that the yearly shortfall may be sizable.[1] The public utility tax and the natural gas consumption tax were below estimates by a total of $30.1 million for the month, raising the year-to-date combined negative variance of utility-related GRF taxes (including the kilowatt hour tax) to $50.4 million. Also, receipts of the first payment by dealers in intangibles, for the business and property tax, were $9.4 million below estimate; however, in FY 2011 more than 80% of total receipts for the tax were collected in June 2011.[2]

Nontax revenues remained significantly below their year-to-date estimates in May. As explained in recent editions of *Budget Footnotes,* this negative variance was primarily due to the fact that budgeted receipts related to the transfer of the state liquor franchise ($500 million), and the

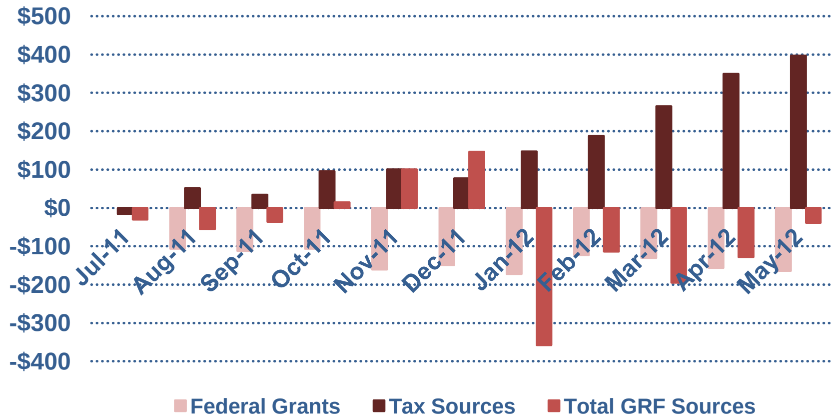
[1] Receipts of $5.3 million are anticipated for the CFT in June 2012.

[2] Generally, the Treasurer of State issues a tax bill to dealers in intangibles in May with payment due 20 to 30 days from the date the bill is mailed, so a substantial portion of revenues is received in June.

sale/leasing of state prisons ($50 million), have not materialized so far, and those payments may possibly not occur by the end of June.

The revenue performance in May shrank the year-to-date negative variance of GRF total sources to $39.2 million, down from $127.9 million through April. Chart 1 below shows the cumulative FY 2012 variances against estimate for federal grants, tax sources, and total GRF sources.

Chart 1: Cumulative Variances of GRF Sources in FY 2012 (Variance from Estimates, $ in Millions)



FY 2012 total GRF sources decreased $479.5 million compared to receipts through May in FY 2011, due to decreases of $1.06 billion in federal grants,[3] $542.7 million in total transfers in, and $135.0 million in nontax revenues. Those decreases were partly offset by an increase of $1.26 billion in GRF tax receipts. The increase in FY 2012 year-to-date tax revenues, compared to receipts a year ago, was due to the continuing economic recovery and to changes in H.B. 153 to the allocation of tax receipts. Collectively, H.B. 153 changes increased GRF tax receipts by about $660.2 million, about 52% of the FY 2012 increase in tax revenue through May 2012.

Through May, FY 2012 GRF income tax receipts were $248.5 million above estimate.

Personal Income Tax

May GRF receipts from the personal income tax of $635.4 million were $25.9 million (4.3%) above estimate, from higher than anticipated quarterly estimated payments and, as in most recent months, fewer refunds to taxpayers. Monthly receipts were also $75.5 million above receipts in May 2011. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the Local

[3] The American Recovery and Reinvestment Act of 2009 (ARRA) boosted FY 2011 federal grants, a portion of which was deposited in the GRF. ARRA revenues are no longer available, so that federal grants in FY 2012 are expected to be below the level of FY 2011.

Through May, FY 2012 withholding receipts were $119.1 million below estimate.

Government Fund (LGF). Gross collections are the sum of employer withholding, quarterly estimated payments,[4] trust payments, payments associated with annual returns, and miscellaneous payments.

In May, quarterly estimated payments were above estimate by $25.4 million (208.1%), and refunds were below estimate by $18.1 million (23.6%). Payments associated with annual returns and monthly employer withholding were below estimate, respectively, by $11.3 million (27.9%) and $9.9 million (1.5%). For the year through May, the GRF received $7.59 billion from the personal income tax, $248.5 million (3.4%) above estimates. Fewer refunds to taxpayers were mostly responsible for that positive variance, as gross collections were below estimates. The shortfall in gross collections was due to poor employer withholding receipts which have been below estimates most of the fiscal year, for a total deficit of $119.1 million through May 2012.

FY 2012 Year-to-Date Income Tax Revenue Variances and Changes by Component

Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2011	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	-$119.1	-1.7%	$299.8	4.4%
Quarterly Estimated Payments	$33.1	3.4%	$79.0	8.5%
Trust Payments	-$0.4	-0.9%	$2.7	5.6%
Annual Return Payments	$23.0	2.2%	-$107.7	-9.1%
Miscellaneous Payments	$9.8	8.0%	$11.1	9.1%
Gross Collections	-$53.7	-0.6%	$285.0	3.1%
Less Refunds	-$308.3	-20.3%	$126.4	11.6%
Less Local Government Fund Distribution	$6.0	1.1%	-$90.7	-14.2%
Income Tax Revenue	$248.5	3.4%	$249.3	3.4%

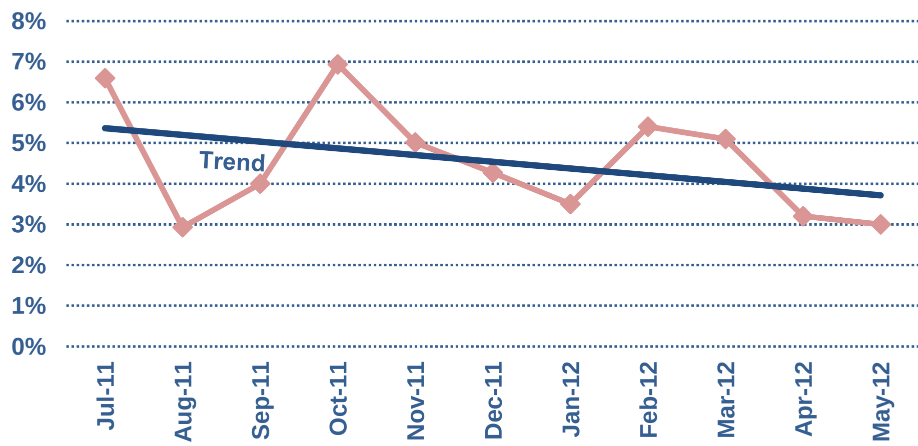
Through May, FY 2012 employer withholding was $299.8 million above similar receipts in FY 2011.

The table above summarizes FY 2012 income tax revenue variances from estimates and annual changes by component. Through May, FY 2012 GRF receipts were $249.3 million above receipts during the corresponding period in FY 2011. Revenues from employer withholding were $299.8 million above receipts in this category last year, but growth of withholding receipts has weakened, as shown in Chart 2 below. The

[4] 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. Most estimated payments are made by high-income taxpayers.

Ohio labor market has shown mixed signals so far in 2012; after an increase of 52,200 in the first two months of the year, total nonfarm payroll employment declined 8,600 in the March-April period, though the unemployment rate fell again in April, this time to 7.4%, the lowest since 2008. Quarterly estimated payments increased $79.0 million (8.5%), and distributions to the Local Government Fund were $90.7 million (14.2%) below amounts in that category through May in FY 2011, due to H.B. 153 changes in distributions of state tax revenues to local governments.

Chart 2: Monthly Withholding Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)



Sales and Use Tax

May GRF receipts from the sales and use tax of $677.7 million were $19.0 million (2.9%) above estimate and $81.2 million (13.6%) above receipts in May 2011. Through May, FY 2012 GRF sales and use tax receipts totaled $7.38 billion, $180.8 million (2.5%) above estimate and $446.4 million (6.4%) above receipts in the corresponding period last year. For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[5] 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.

Through May, FY 2012 GRF sales and use tax receipts were $180.8 million above estimate.

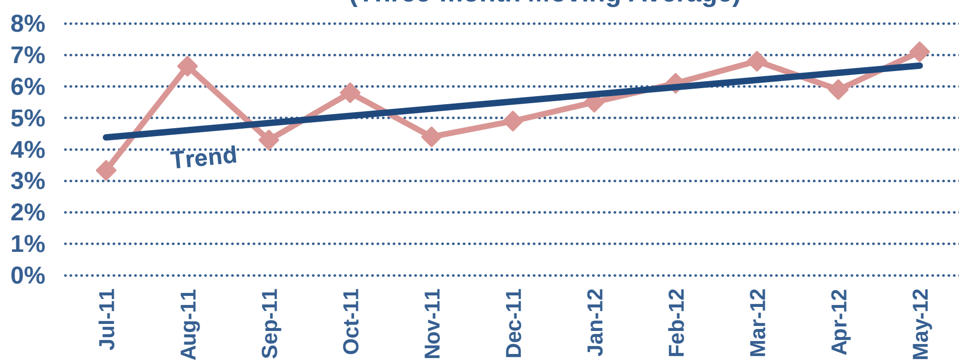
[5] The clerks of court generally make auto sales and use tax payments on Monday for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales and use tax receipts largely reflect vehicles sold and titled during the month.

Through May, GRF receipts from the nonauto sales and use tax were $101.2 million above estimate.

Nonauto Sales and Use Tax

Monthly GRF receipts from the nonauto sales and use tax were $580.7 million, $9.5 million (1.7%) above estimate, and $67.6 million (13.2%) above May 2011 receipts. Through May, FY 2012 GRF nonauto sales and use tax receipts were $6.41 billion. Those receipts were $101.2 million (1.6%) above estimate, and $363.0 million (6.0%) above receipts in the corresponding period in FY 2011. Year-to-date receipts include $322.7 million in tax payments by Medicaid health insuring corporations, up $65.9 million (25.7%) in this category compared to FY 2011 through May. Chart 3 below shows a steady increase in FY 2012 nonauto sales tax monthly receipts against prior-year receipts in the same month. Nationwide retail sales growth slowed in April and May; however, the economic slowdown has not affected Ohio's nonauto sales tax growth in the latest months. Consumer fundamentals, including credit availability and personal income, are still improving, despite the recent economic soft patch.

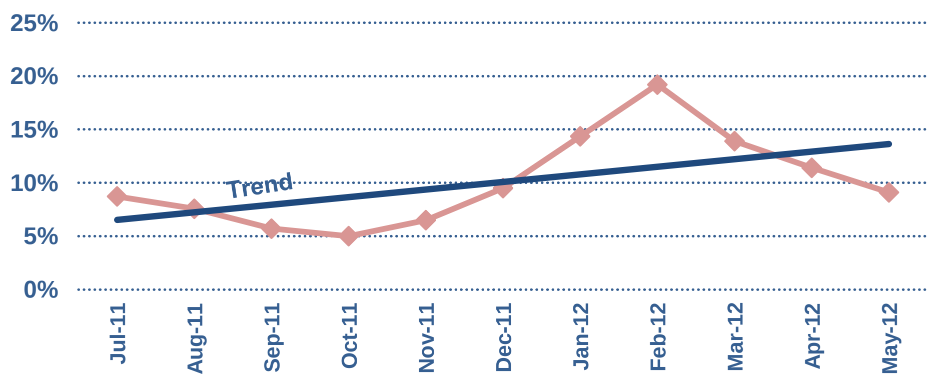
Chart 3: Nonauto Sales and Use Tax Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)



Auto Sales and Use Tax

The auto sales and use tax provided GRF receipts of $97.1 million in May. Those receipts were $9.6 million (11.0%) above estimate and $13.5 million (16.2%) above May 2011 receipts. For the fiscal year, auto sales and use tax receipts totaled $965.7 million, $79.6 million (9.0%) above estimate and $83.4 million (9.5%) above receipts through May in FY 2011. Chart 4 below compares FY 2012 monthly auto sales and use tax receipts with year-ago receipts in the same period. On a seasonally adjusted annualized basis, though higher than any month in the last two years, nationwide vehicle sales weakened to 13.7 million in May, down from 14.4 million units in April. The decline in the sales pace was generally linked to a decrease in sales incentives which peaked in March, and a storm-free winter which enabled consumers to purchase vehicles earlier than normal.

Chart 4: Auto Sales and Use Tax Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)



Through May, FY 2012 auto sales and use tax receipts were $79.6 million above estimate.

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of $129.4 million in May 2012 were $1.8 million (1.4%) above estimate and $0.6 million (0.5%) below receipts in the corresponding period in FY 2011. Through May, FY 2012 receipts of $771.1 million were $23.1 million (3.1%) above estimate. Receipts from cigarette sales were $723.1 million, and sales of products other than cigarettes provided $48.0 million. Compared to FY 2011, total receipts were $8.0 million (1.0%) below receipts in the corresponding period. Receipts from the sale of cigarettes decreased $8.8 million and those from the sale of other tobacco products increased $0.8 million. Generally, cigarette tax receipts experience a sustained downward trend on a year-ago basis, though the decline in FY 2012 is likely to be less severe than in recent years.

Through May, FY 2012 GRF CAT receipts were $40.1 million above estimate.

Commercial Activity Tax

The last fiscal year's payment for calendar quarter taxpayers, due May 10, ensured that the commercial activity tax (CAT) will end the year with a positive variance. May GRF receipts from the CAT of $97.6 million were $19.6 million (25.1%) above estimate. CAT receipts to the GRF in FY 2012 totaled $409.6 million, $40.1 million (10.9%) above estimate. Overall, FY 2012 total (all funds) CAT receipts of $1.64 billion were $205.9 million (14.4%) above receipts through May in FY 2011.

Through FY 2011, revenues from the tax were not deposited into the GRF as they were fully earmarked for reimbursing school districts and other local governments for the reductions and phase-out of local taxes on most tangible personal property.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of May 2012
($ in thousands)
(Actual based on OAKS reports run June 5, 2012)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$438,039	$500,944	-$62,904	-12.6%
Higher Education	$177,552	$176,582	$971	0.5%
Total Education	$615,592	$677,525	-$61,934	-9.1%
Public Assistance and Medicaid	$1,040,279	$1,078,545	-$38,266	-3.5%
Health and Human Services	$59,233	$63,121	-$3,888	-6.2%
Total Welfare and Human Services	$1,099,512	$1,141,666	-$42,154	-3.7%
Justice and Public Protection	$138,130	$113,422	$24,708	21.8%
Environment and Natural Resources	$9,405	$9,739	-$335	-3.4%
Transportation	$1,036	$1,186	-$150	-12.6%
General Government	$19,506	$14,148	$5,358	37.9%
Community and Economic Development	$9,317	$6,705	$2,612	39.0%
Capital	$0	$0	$0	---
Total Government Operations	$177,393	$145,200	$32,193	22.2%
Tax Relief and Other	$595,695	$338,907	$256,789	75.8%
Debt Service	$0	$0	$0	---
Total Other Expenditures	$595,695	$338,907	$256,789	75.8%
Total Program Expenditures	**$2,488,193**	**$2,303,298**	**$184,894**	**8.0%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$16	$2,097	-$2,082	-99.3%
Total Transfers Out	$16	$2,097	-$2,082	-99.3%
TOTAL GRF USES	**$2,488,208**	**$2,305,396**	**$182,813**	**7.9%**

* September 2011 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Table 4: General Revenue Fund Uses
Actual vs. Estimate
FY 2012 as of May 31, 2012
($ in thousands)
(Actual based on OAKS reports run June 5, 2012)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2011**	**Percent Change**
Primary, Secondary, and Other Education	$5,927,114	$5,988,272	-$61,157	-1.0%	$6,466,866	-8.3%
Higher Education	$1,942,282	$1,960,047	-$17,765	-0.9%	$2,230,797	-12.9%
Total Education	$7,869,397	$7,948,319	-$78,922	-1.0%	$8,697,663	-9.5%
Public Assistance and Medicaid	$11,695,072	$12,170,290	-$475,218	-3.9%	$10,748,006	8.8%
Health and Human Services	$917,612	$930,378	-$12,766	-1.4%	$1,052,427	-12.8%
Total Welfare and Human Services	$12,612,683	$13,100,667	-$487,984	-3.7%	$11,800,433	6.9%
Justice and Public Protection	$1,732,184	$1,810,900	-$78,717	-4.3%	$1,807,186	-4.2%
Environment and Natural Resources	$69,075	$67,389	$1,687	2.5%	$69,981	-1.3%
Transportation	$9,180	$12,224	-$3,044	-24.9%	$12,744	-28.0%
General Government	$259,551	$279,096	-$19,545	-7.0%	$258,234	0.5%
Community and Economic Development	$94,102	$99,715	-$5,613	-5.6%	$96,333	-2.3%
Capital	$120	$0	$120	---	$24	402.1%
Total Government Operations	$2,164,212	$2,269,324	-$105,112	-4.6%	$2,244,502	-3.6%
Tax Relief and Other	$1,680,459	$1,576,964	$103,495	6.6%	$1,591,105	5.6%
Debt Service	$327,323	$384,906	-$57,583	-15.0%	$450,367	-27.3%
Total Other Expenditures	$2,007,782	$1,961,870	$45,912	2.3%	$2,041,472	-1.7%
Total Program Expenditures	**$24,654,074**	**$25,280,180**	**-$626,106**	**-2.5%**	**$24,784,069**	**-0.5%**
TRANSFERS						
Budget Stabilization	$246,899	$246,899	$0	0.0%	$0	---
Other Transfers Out	$365,955	$144,952	$221,003	152.5%	$1,178,011	-68.9%
Total Transfers Out	$612,853	$391,851	$221,003	56.4%	$1,178,011	-48.0%
TOTAL GRF USES	**$25,266,927**	**$25,672,031**	**-$405,104**	**-1.6%**	**$25,962,080**	**-2.7%**

* September 2011 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Table 5: FY 2012 Medicaid Expenditures
($ in thousands)
(Actuals based on OAKS report run on June 6, 2012)

Medicaid (600525) Payments by Service Category	May Actual	May Estimate	May Variance	May Percent Variance	Year to Date Actual thru May	Year to Date Estimate thru May	Year to Date Variance	Year to Date Percent Variance
Managed Care Plans	$557,356	$594,079	-$36,723	-6.2%	$5,859,941	$6,049,363	-$189,422	-3.1%
Nursing Facilities	$200,922	$198,269	$2,653	1.3%	$2,241,193	$2,277,621	-$36,428	-1.6%
Hospitals	$112,276	$110,218	$2,058	1.9%	$1,231,996	$1,330,176	-$98,180	-7.4%
Prescription Drugs	$39,238	$41,415	-$2,177	-5.3%	$857,097	$890,971	-$33,874	-3.8%
Aging Waivers	$44,723	$52,507	-$7,784	-14.8%	$547,913	$565,993	-$18,080	-3.2%
ICFs/MR	$48,799	$46,112	$2,687	5.8%	$513,076	$514,364	-$1,288	-0.3%
Physicians	$25,233	$29,484	-$4,251	-14.4%	$271,853	$331,168	-$59,315	-17.9%
ODJFS Waivers	$24,537	$26,653	-$2,116	-7.9%	$290,015	$319,757	-$29,742	-9.3%
All Other	$139,312	$138,530	$782	0.6%	$1,488,358	$1,548,790	-$60,432	-3.9%
Total Payments	$1,192,396	$1,237,267	-$44,871	-3.6%	$13,301,442	$13,828,203	-$526,761	-3.8%
Total Offsets (non-GRF)	-$226,686	-$231,938	$5,252	-2.3%	-$2,581,942	-$2,687,684	$105,742	-3.9%
Total 600525 (net of offsets)	$965,710	$1,005,329	-$39,619	-3.9%	$10,719,500	$11,140,519	-$421,019	-3.8%
Medicare Part D (600526)	$23,398	$23,853	-$455	-1.9%	$239,595	$254,101	-$14,506	-5.7%
Total GRF	**$989,108**	**$1,029,182**	**-$40,074**	**-3.9%**	**$10,959,095**	**$11,394,620**	**-$435,525**	**-3.8%**
Total All Funds	**$1,215,794**	**$1,261,120**	**-$45,326**	**-3.6%**	**$13,541,037**	**$14,082,304**	**-$541,267**	**-3.8%**

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

Overview

Through May, FY 2012 GRF uses totaled $25.27 billion. These uses were $405.1 million below the estimate released by the Office of Budget and Management (OBM) in September 2011. GRF uses consist primarily of program expenditures but also include transfers out. Year-to-date GRF program expenditures totaled $24.65 billion, which was $626.1 million below estimate. This negative variance was partially offset by a positive variance of $221.0 million in transfers out, which totaled $612.9 million for FY 2012 through May. For the month of May, GRF uses of $2.49 billion were $182.8 million above estimate due primarily to sooner than expected property tax relief payments. Tables 3 and 4 show GRF uses for the month of May and for FY 2012 through May, respectively.

Through May, FY 2012 total GRF uses were $405.1 million below estimate.

Categories with significant negative year-to-date variances were Public Assistance and Medicaid ($475.2 million), Justice and Public Protection ($78.7 million), Primary, Secondary, and Other Education ($61.2 million), and Debt Service ($57.6 million). Categories with significant positive year-to-date variances were Other Transfers Out ($221.0 million) and Tax Relief and Other ($103.5 million). The variances in these six categories are briefly discussed below.

Negative Variances

Year-to-date GRF expenditures for Public Assistance and Medicaid totaled $11.70 billion, $475.2 million (3.9%) below estimate. Medicaid, including both state and federal shares, accounts for about 94% of expenditures in this program category. The federal share of Medicaid expenditures is about 64% and the state's share is about 36% in FY 2012. Medicaid is mainly funded by the GRF, but is also supported by various non-GRF funds. Through May, FY 2012 Medicaid GRF expenditures totaled $10.96 billion, which was $435.5 million (3.8%) below estimate. The state's share of this negative variance is about $156.1 million. Across all funds, year-to-date Medicaid expenditures amounted to $13.54 billion, which was $541.3 million (3.8%) below estimate. The state's share of this negative variance is about $194.0 million. Table 5 details Medicaid GRF expenditures by service category and also summarizes Medicaid expenditures across all funds.

Year-to-date GRF spending for Medicaid was $435.5 million ($156.1 million state share) below estimate.

As seen from Table 5, Medicaid expenditures were below their year-to-date estimates for all categories. Categories with significant

The average monthly Medicaid caseload was about 27,000 (1.2%) below estimate.

negative year-to-date variances included Managed Care Plans ($189.4 million, 3.1%), Hospitals ($98.2 million, 7.4%), All Other ($60.4 million, 3.9%), and Physicians ($59.3 million, 17.9%). As reported in prior issues of *Budget Footnotes*, OBM indicated that the negative variance in Managed Care Plans was mainly due to lower than projected managed care capitated rates for calendar year 2012. For the other categories, the main reason for the negative variances was the implementation of the Medicaid Information Technology System (MITS). There are programming issues in MITS that have affected timing of certain payments; such timing-related negative variances may narrow next month. At the same time, MITS is expected to produce some savings as the new system has a more comprehensive mechanism to properly reject certain claims. Expenditures for several of the categories may be somewhat lower than estimated for the fiscal year. The overall negative variance was also attributable to caseloads being below estimate for the year. On average, the Medicaid caseload has been 2,191,506 per month in FY 2012, about 27,000 (1.2%) below estimate.

Justice and Public Protection will likely finish the fiscal year below estimate.

In May, Justice and Public Protection registered the category's first positive monthly variance since August 2011; the category's May expenditures were $24.7 million (21.8%) above its monthly estimate. Through May, this category's expenditures totaled $1.73 billion. These expenditures were $78.7 million (4.3%) below estimate, of which $72.8 million was attributable to the Department of Rehabilitation and Correction (DRC), the largest agency within this category. Expenditures for DRC's GRF appropriation item 501321, Institutional Operations, were $48.8 million (5.7%) below their year-to-date estimate. This item is the primary funding source for DRC's operations. Two other items with significant year-to-date negative variances were GRF appropriation items 505321, Institution Medical Services ($9.1 million), and 502321, Mental Health Services ($6.3 million). The organizational restructuring in DRC has resulted in a higher than expected personnel vacancy rate and a lower than expected expenditure level in FY 2012. The Justice and Public Protection program category will most likely finish the fiscal year below estimate.

Year-to-date expenditures for Primary, Secondary, and Other Education totaled $5.93 billion, $61.2 million (1.0%) below estimate. This variance was entirely due to this category's expenditures for the month of May being $62.9 million (12.6%) below estimate. In May, expenditures for GRF appropriation item 200550, Foundation Funding, were $63.3 million below estimate, due likely to timing issues. Item 200550 is the primary funding source for the school foundation program under which the majority of state funding for schools is distributed. It is not unusual to see relatively large variances in this program. A school's foundation payment for FY 2012 may still be adjusted in the early months of FY 2013.

Year-to-date expenditures for Debt Service totaled $327.3 million, $57.6 million (15.0%) below estimate. Agencies with the largest negative year-to-date variances were the School Facilities Commission ($28.1 million), the Board of Regents ($11.6 million), and the Department of Development ($11.0 million). These agencies receive general obligation bond proceeds to help fund the construction and renovation of K-12 and higher education facilities as well as various economic development projects. They also receive funding to pay required debt service payments on those general obligation bonds. The Ohio Constitution requires the state to fully fund required debt service payments for general obligation bonds it has issued.

Positive Variances

Year-to-date Other Transfers Out totaled $366.0 million, $221.0 million (152.5%) above estimate. This was mainly due to the temporary transfers made in November 2011 to address the cash flow issue related to tangible personal property tax loss reimbursements for schools and local governments; these transfers were not anticipated in the OBM estimate. As a result, this category will end the fiscal year above estimate.

For the month of May, expenditures for Tax Relief and Other were $256.8 million (75.8%) above estimate, which turned this category's year-to-date variance from a negative $153.3 million at the end of April to a positive $103.5 million (6.6%) at the end of May. Through May, this category's expenditures totaled $1.68 billion. Reimbursement payments based upon the February 2012 property tax settlement were made to all but Montgomery County, which will be made in June. The category's expenditures for the month of June are expected to be below its monthly estimate as the payment process went quicker than originally anticipated by OBM. H.B. 153 appropriated $1,086.5 million to GRF appropriation item 200901, Property Tax Allocation, in the Department of Education budget, and $610.9 million to GRF appropriation item 110901, Property Tax Allocation, in the Department of Taxation budget, for purposes of making property tax relief reimbursement payments for schools and local governments, respectively. It also appropriates any additional amounts deemed necessary to fully pay those reimbursements. As reported in prior issues of *Budget Footnotes*, actual reimbursements based on the

The GRF appropriation for item 110901, Property Tax Allocation, was increased by $25.0 million in May.

August (2011) property tax settlement, which were completed in December, were $23.0 million higher than the OBM estimates for these two items for the first six months of FY 2012. In May, the appropriation for item 110901 was increased by $25.0 million.

ISSUE UPDATES

Development Awards $13.4 Million in Final Round of Job Ready Sites Grants

—Tom Middleton, Budget Analyst, 614-728-4813

On May 7, 2012, the Controlling Board approved the final round of Job Ready Sites grants totaling $13.4 million to 12 grantees. This brings the total award for FY 2012 to $15.0 million for 13 grantees.[6] Funding for the Job Ready Sites grant program was approved by Ohio voters under Issue One in 2005. Issue One authorized the state to issue up to $150.0 million in general obligation bonds to fund the Job Ready Sites grants, which are administered by the Department of Development. Grants are awarded on a competitive basis, although there is a discretionary component that allows the Department to award funding to qualifying projects under certain conditions. The grant awards, which are capped at $5.0 million per grantee, must be approved by the Controlling Board. The first grants were approved by the Controlling Board in FY 2007. Since then the Controlling Board has approved 60 grants totaling approximately $153.5 million under the Job Ready Sites program (see table below). Overall, approximately 75% of the grants have been awarded to political subdivisions, 15% to nonprofit economic development organizations, and 10% to private entities.

Job Ready Sites Grants Approved by the Controlling Board FY 2007-FY 2012		
Fiscal Year	**Number of Grants**	**Amount Awarded (millions)**
2007	20	$60.0
2009	13	$48.5
2011	14	$30.0
2012	13	$15.0
Total	**60**	**$153.5**

The Job Ready Sites grant program provides eligible entities with funding to develop marketable commercial and industrial sites. Projects under the program are divided into two categories: "high intensity" or "low intensity." High intensity projects must undergo moderate to significant infrastructure improvement and require certification after completion. Certification indicates that infrastructure meets standards and that all required governmental permitting standards and clearances have been obtained.

[6] On April 9, 2012, Abbott Laboratories was awarded a $1.6 million Job Ready Sites grant.

Although all available Job Ready Sites grants have been awarded, the 129th General Assembly recently enacted H.B. 436 and created the SiteOhio Certification Program. Under the program, the Department of Development will certify and market projects which, upon completion, will be sites intended for commercial, industrial, or manufacturing use. Once a project is approved, the Department is required to list the project on its web site and market the site to interested parties. To fund the program, H.B. 436 allows the Department to charge an application fee to entities wishing to enroll their sites in the program.

Ohio Selected to Implement Streamlined Application Process for Free School Meals

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

In May 2012, the U.S. Department of Agriculture (USDA) announced that Ohio was selected, along with New York, West Virginia, and the District of Columbia, to participate in the Community Eligibility Option beginning in the 2012-2013 school year. The option streamlines the current annual household application process for free and reduced price meals in high poverty schools. It allows for all children in eligible schools to receive free meals, thus reducing administrative costs for the participating schools. To be eligible, schools must have at least 40% of their students eligible for free meals in the year prior to the implementation of the option, agree to serve free lunches and breakfasts to all students for four consecutive school years, and agree to cover with nonfederal funds any costs above the amounts provided through federal assistance. According to USDA, approximately 100 school food authorities[7] in Ohio meet the 40% threshold and may be eligible for the option. The Ohio Department of Education (ODE) conducted an informational webinar on the Community Eligibility Option on May 22. School food authorities that are interested in implementing the option in the 2012-2013 school year must send in their applications to ODE by June 30, 2012.

The Community Eligibility Option was authorized under the federal Healthy, Hunger-Free Kids Act of 2010. The Act requires the option to be phased in over a period of three years. In the 2011-2012 school year, Illinois, Kentucky, and Michigan were selected as the first group of states to participate. USDA is expected to select another four states to implement the option in the 2013-2014 school year. The option will then be made available to all states beginning in the 2014-2015 school year.

[7] A school food authority is the governing authority which is responsible for the administration of one or more schools and which has the legal authority to operate a nonprofit school food service program.

eTech Ohio Awards $760,000 in Blended Learning Grants

—Michele Perch, Budget Analyst, 614-644-1262

In May 2012, eTech Ohio awarded $760,000 in state Blended Learning grants. Blended learning refers to a combination of classroom and online learning. Seven schools received development grants for $80,000 each to offer blended learning alternatives for the first time. Five consortia consisting of multiple schools each received $40,000 expansion grants to build upon blended learning models already used by the lead school or district of each consortium. The table below lists the seven development grant recipients and the five expansion grant lead recipients. Together, these 12 grants will serve 31 schools, educational service centers, and joint vocational school districts. In FY 2013, eTech anticipates awarding development grant recipients up to an additional $50,000 and expansion grant recipients up to an additional $20,000.

In FY 2012 and the first half of FY 2013, schools are expected to prepare for blended learning programs by selecting technology, establishing curricula, and administering professional development. In the second half of FY 2013 and FY 2014, schools will implement their blending learning models. Under the grant requirements, not more than 8% of the grant funds may be used for administration of the programs and at least 25% must be used for professional development. Grant recipients are required to submit several reports to eTech during the course of the grant period and will participate in a longitudinal study administered by eTech until 2017.

Blended Learning Grant Recipients, FY 2012	
Development Grant Recipients (County)	**Expansion Grant Lead Recipients (County)**
Clear Fork Middle School (Richland)	Canton Local School District (Stark)
Clyde Elementary School (Sandusky)	Mogadore Local School District (Summit)
Medina Senior High School (Medina)	Perkins Local School District (Erie)
National Trail High School (Preble)	Quaker Digital Academy (Tuscarawas)
New Albany High School (Franklin)	Tuscarawas Valley Local School District (Tuscarawas)
Union Local High School (Belmont)	
Streetsboro High School (Portage)	

University Hospitals of Cleveland Receives Health Care Innovation Award

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

On May 8, 2012, the Centers for Medicare & Medicaid Services' (CMS) Innovation Center announced that University Hospitals (UH) of Cleveland's Rainbow Babies and Children's Hospital is to receive a health care innovation award totaling about $12.8 million. The grant will be used to improve the health care of over

65,000 children with high rates of emergency room visits, complex chronic conditions, and significant behavioral health problems in several counties across northeastern Ohio.

UH Rainbow Babies and Children's Hospital will partner with the Ohio Medicaid program and other entities to implement the Physician Extension Team (PET) model. The PET model is designed to create collaborations with primary care providers, hospitals, managed care organizations, and health educators to provide children with better health outcomes at lower costs. The PET model will provide customized education and training to primary care offices and assist primary care physicians in providing their patients with necessary medical and social service supports. The model will provide patients with around the clock access to nurses and physicians through telephone triage, community-based telehealth facilities, and emergency alert monitoring. Over 50 nurses, care coordinators, and other health professionals will be hired or retrained to implement the model. According to UH Rainbow Babies and Children's Hospital, these initiatives are expected to reduce health care costs by $13.5 million over three years.

Ohio Enrolls Almost 2,500 Individuals in Pre-Existing Condition Insurance Plan Program

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

According to a May 18 report from the U.S. Department of Health and Human Services, as of March 31, 2012, Ohio has enrolled 2,480 individuals in its Pre-Existing Condition Insurance Plan (PCIP) Program. The PCIP Program was created by the Affordable Care Act of 2010 (ACA) as a temporary high risk health insurance program for uninsured people with pre-existing conditions such as diabetes, asthma, cancer, and HIV/AIDS. Under the ACA, states were given the option of running their own plans or having them administered by the U.S. Department of Health and Human Services. Ohio, along with 26 other states, chose to run its own program, known as the Ohio High Risk Pool, and selected Medical Mutual of Ohio as the entity to administer it.

Under the program, Medical Mutual offers two benefit plans to enrollees, one with a $1,500 deductible and another with a $2,500 deductible. Each plan also has a different out-of-pocket limit and premiums that range from $103 to $531 per month. The plans provide a broad range of health benefits, including primary and specialty care, hospital care, and prescription drugs. To qualify, individuals must have been without health coverage for at least six months, have a pre-existing condition or have been denied health coverage because of a health condition, and have U.S. citizenship or reside in the U.S. legally.

The federal government is providing funding for the payment of claims and administrative expenses in excess of the premiums collected from individuals enrolled in the program. Under the ACA, the Ohio High Risk Pool will continue until January 1, 2014, at which time insurers will be prohibited from denying coverage to anyone with a pre-existing condition and new competitive marketplaces called Affordable Insurance Exchanges will offer individuals the opportunity to shop for affordable insurance coverage that best suits their needs.

Veterans Services Allocated Money to Add 42 DOM-Plus Beds to Sandusky Veterans Home

—Jamie L. Doskocil, Senior Budget Analyst, 614-387-0477

On May 7, 2012, the Controlling Board approved the Department of Veterans Services' request for an increase in state non-GRF and federal funds totaling $1.35 million to renovate existing space located at the Veterans Home in Sandusky. This renovation will double Sandusky Veterans Home's Domiciliary-Plus (DOM-Plus) beds, from 42 to 84. The domiciliary complex in Sandusky, which currently consists of a total of 293 beds, provides shelter, food, and necessary medical care on an ambulatory self-care basis to assist eligible veterans who are suffering from a disability, disease, or defect that incapacitates the veterans from earning a living. DOM-Plus provides additional assistance, such as reminders to take medicine and limited help with daily activities, as these residents do not require hospital or nursing home care but are not fully capable of independent living. The DOM-Plus bed expansion will help alleviate the current waiting list for services. Once the rooms are filled to capacity, up to five additional staff members will be needed (primarily nursing staff). These additional annual operating costs will be paid for through the residents' assessments and per diem reimbursements by the U.S. Department of Veterans Affairs.

ODMH Releases Results of Block Grant Funding Priorities Survey

—Justin Pinsker, Budget Analyst, 614-466-5709

In March 2012, the Ohio Department of Mental Health (ODMH) released the results of its Block Grant Funding Priorities Survey. The purpose of the survey was to seek broad stakeholder input regarding federal Community Mental Health Block Grant funding priorities for FY 2013. The survey was completed by 650 stakeholders including advocates, community behavioral health providers, mental health board members, consumers and their family members, and state employees. The stakeholders selected crisis and safety net services to be the highest funding priority. Crisis and safety net services include suicide and crisis hotlines, a mobile crisis unit, and crisis beds in emergency rooms. The next highest priority was services to children with serious emotional disturbance (SED). The third highest priority was housing.

The current allocation of Community Mental Health Block Grant funding generally reflects the same priorities identified by stakeholders in the survey. In FY 2012, ODMH received a total block grant award of $14.7 million. Of that amount,

$7.5 million was disbursed to local county alcohol, drug addiction, and mental health services (ADAMHS) boards to be used for crisis and safety net services, children with SED, housing, and forensic services. The remainder of the block grant provides additional support for these same services and also provides funding for specific community projects.

Ohio EPA Launches Buckeye Lake Nutrient Reduction Project

—Matthew L. Stiffler, Budget Analyst, 614-466-5654

On May 3, 2012, the Ohio Environmental Protection Agency (Ohio EPA) announced the creation of the Buckeye Lake Nutrient Reduction Project funded by a $425,000 federal grant from the U.S. EPA. The project will assess, protect, and improve water quality in Buckeye Lake, a shallow 3,000-plus acre canal lake situated in portions of Fairfield, Licking, and Perry counties. As part of this project, the Ohio EPA will continue its comprehensive water quality monitoring in the lake and its tributaries as well as provide sub-grants to its Buckeye Lake partners: the Buckeye Lake for Tomorrow, the Department of Natural Resources' Division of Parks and Recreation, and the Fairfield Soil and Water Conservation District. The amount allotted for each project participant is noted in the table below, along with the related scope of work. This federal grant is provided under Section 319 of the federal Clean Water Act to reduce nonpoint source pollution. This type of pollution, which results from water picking up natural and human-made pollutants as it moves over and under the ground, is the leading cause of water quality impairment in Ohio.

Buckeye Lake Nutrient Reduction Project Grant Allocations

Recipient	Amount	Scope of Work
Ohio EPA	$188,747	Conduct another year of in-lake and tributary monitoring.
Buckeye Lake for Tomorrow	$100,000	Develop a management and nutrient reduction plan, and conduct public outreach and educational awareness workshops with lakefront owners.
Department of Natural Resources	$80,000	Retrofit a boat launch with permeable pavement at Buckeye Lake State Park's Fairfield Beach.
Fairfield Soil and Water Conservation District	$56,253	Document existing land uses and surface cover, plant cover crops, and conduct rain barrel-related activities, such as workshops, signs, and system installations.

TRACKING THE ECONOMY

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

Overview

The U.S. economic expansion appears to have slowed. Slower growth recently may reflect, to an uncertain extent, a boost to economic activity last winter from mild weather. Weakness in European markets for U.S. exports and heightened sovereign credit risk there are concerns. Inflation-adjusted gross domestic product (real GDP) continued a gradual recovery through this year's first quarter, rising at a 1.9% annual rate. In April and May, payroll employment increases nationwide were the slowest in a year, and unemployment rose in May. Industrial production expanded in April, and purchasing managers' reports indicate further gains in activity in May. Consumer spending continued to rise through April, but light vehicle sales weakened somewhat in May. Private construction activity is recovering robustly, from low levels. Inflation is low, based on national indicators, and energy prices are down.

In April and May, payroll employment increases nationwide were the slowest in a year.

U.S. monetary policy was kept unchanged at an April 24-25 meeting of the central bank's Federal Open Market Committee. The interest rate target for federal funds was held at zero to 0.25%, and the post-meeting statement continued to indicate that economic conditions were expected to warrant exceptionally low levels for that rate at least through late 2014. A program was continued to extend the average maturity of the Federal Reserve's securities portfolio, by buying $400 billion of longer-term U.S. Treasury securities and selling the same value of shorter-term securities by the end of June. Also continued were policies of rolling over maturing Treasury securities into new issues, and of reinvesting principal payments on agency debt and agency mortgage-backed securities into other mortgage-backed securities.

In financial markets, in part reflecting these policies and in part as a result of flight-to-quality buying of U.S. government debt, interest rates fell to exceptionally low levels. Ten-year U.S. Treasury note yields fell to 1.47% on June 1, lowest in the daily record starting in 1962 that is maintained online by the Federal Reserve System, and have since risen somewhat.

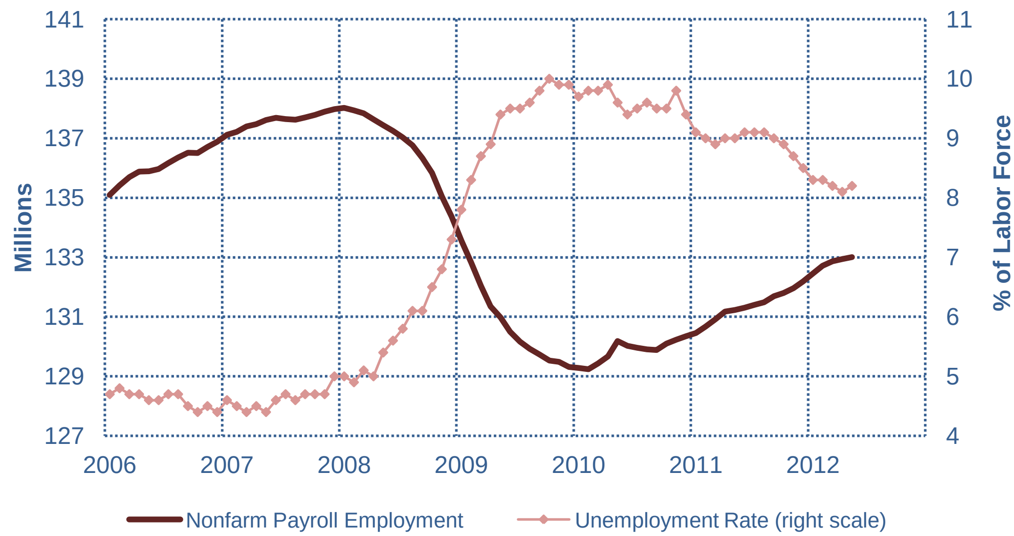
Unemployment as a share of the labor force ticked up to 8.2% in May from 8.1% in April.

The National Economy

Employment and Unemployment

U.S. total nonfarm payroll employment rose only 69,000 in May, after a downward-revised 77,000 increase in April. Unemployment as a share of the labor force ticked up to 8.2% in May from 8.1% in April, the lowest the national unemployment rate has been since January 2009. Trends in U.S. total nonfarm payroll employment and in the unemployment rate are shown in Chart 5.

Chart 5: U.S. Employment and Unemployment

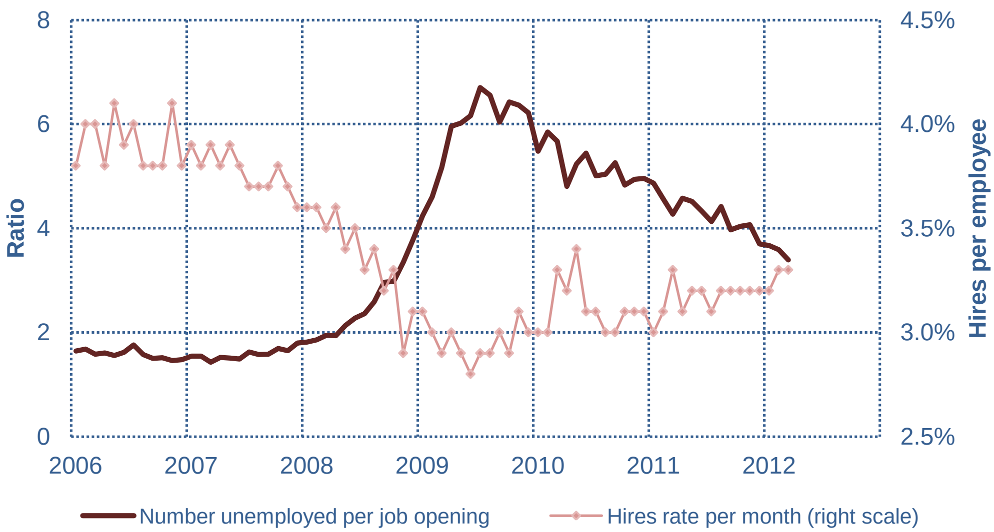


Payroll employment growth in April and May was the slowest since May 2011. The mild weather this past winter may have tended to boost employment earlier in 2012 and at the end of 2011. Nevertheless, the latest figures appear indicative of an economy growing only slowly, and of only weak recovery in labor markets. In May, employment rose in health care, transportation and warehousing, and wholesale trade, and fell in construction. In the past year, the largest gains have been in professional and business services, health care, leisure and hospitality, manufacturing (mostly in durable goods), and retail trade. Government at all levels has continued to shed jobs.

The nationwide average unemployment rate has fluctuated in a narrow range this year after falling from a peak of 10% in late 2009. About 12.7 million people were counted as unemployed in May. Labor force participation, the share of the civilian noninstitutional population 16 years of age and older who are either working or actively seeking work, rose in May to 63.8% from 63.6% in April, the lowest this measure has been since 1981. The labor force participation rate peaked in 2000 (at 67.3%). The unemployed in May included 5.4 million people who had been out of work and actively seeking employment for more than six months. The number of these long-term unemployed was down from a peak of 6.7 million two years earlier, but far above levels from 2008 back to 1948, when these data start.

The job market has been improving gradually since the 2007-2009 recession. Layoffs and discharges fell sharply in the second half of 2009 through early 2011, from elevated levels during the recession, and have remained at reduced rates into early 2012. Quits, an indicator of confidence among labor market participants, have been rising, though they remain well below levels prior to the recession. The number of unemployed persons for each job opening has been declining, falling to fewer than four persons per job opening at the end of 2011 and continuing to drop through March as shown in Chart 6. The hires rate (persons hired relative to the number of employees) has trended irregularly higher after reaching a low point in 2009, but has remained low compared with pre-recession rates.

Chart 6: Job Openings and Labor Turnover



Real GDP rose at a downward-revised 1.9% annual rate in this year's first quarter.

Production, Shipments, and Inventories

Real GDP rose at a downward-revised 1.9% annual rate in this year's first quarter, continuing the slow uptrend underway since the second quarter of 2009.[8] Last year, real GDP rose 1.7%, after a 3.0% increase in 2010. The economic recovery and expansion through this

[8] The U.S. Bureau of Economic Analysis' estimate of real GDP growth in the first quarter was revised downward, based on more complete data, from a 2.2% rate of growth initially reported.

year's first quarter, as measured by real GDP, has been the slowest of the post-World War II period. In the latest quarter, consumer spending, exports, and residential and nonresidential fixed investment increased. Additions to private inventories also rose. On the other hand, government purchases of goods and services fell, at both the federal and the state and local levels. Part of the net increase in total demand was met by increased imports.

The U.S. industrial production index rose 1.1% in April, after falling 0.6% in March.

The U.S. industrial production index rose 1.1% in April, after falling 0.6% in March. Total industrial production was 5.2% higher in April than a year earlier, and rose in most months since the recession trough in June 2009. Manufacturing output rose 0.6% in April as motor vehicle and parts production increased 3.9% and most other categories of durable goods output also increased. On the other hand, nondurable goods production fell in April, more than accounted for by lower output of petroleum and coal products, down 2.6%. Utility output rose 4.5% in April after being held down in earlier months by generally mild winter temperatures and reduced demand for heating. Mining output rose 1.6% in April following larger declines in March and February.

The dollar value of manufacturers' shipments and orders fell in April. Factory new orders fell 0.6% and declined in three of the last four months. Shipments decreased 0.3% in April after rising in the previous four months. Unfilled orders fell 0.1% after 27 consecutive months of increases. Inventories rose slightly in April.

In May, manufacturing production and new orders rose, according to purchasing managers surveyed by the Institute for Supply Management (ISM). However, more survey respondents said backlogs of orders declined at their companies than reported increases. Also, more indicated declines in raw materials costs than noted increases, the first price drop since December 2011. A separate ISM survey of purchasing managers with nonmanufacturing organizations showed further growth in business activity, new orders, and order backlogs.

Consumer Spending

Personal income, net of adjustments for inflation and taxes, rose 0.2% from March to April and was 0.6% higher than in April 2011. Wage and salary disbursements continued to rise gradually. Real consumer spending rose 0.3% from March to April, increasing to 2.1% higher than a year earlier. Inflation-adjusted consumer spending was advancing at about a 3% annual rate in April compared with the first quarter average.

Sales of light vehicles slowed in May to a 13.7 million unit seasonally adjusted annual rate, down from 14.4 million units in April and the weakest monthly sales so far this year. The May sales rate was, however, stronger than in any month last year or in 2010.

Sales figures from large retailers that report their results monthly, compiled by the International Council of Shopping Centers (ICSC), were 4.0% higher in May than a year earlier. These figures exclude pharmacies, for which data were not yet available, and are on a same-store basis, including only store locations open in both the latest and year-earlier months.

Construction and Real Estate

Housing construction has strengthened but remains well short of high levels in past years. Starts on new housing construction rose 3%, seasonally adjusted, from March to April. Year-to-date housing starts were 25% higher than in the year-earlier period, with starts on single-family homes 19% higher and starts on units in structures with two or more units 42% higher. Data on permits for new housing construction, collected separately from the survey on which the housing starts figures are based, show the number of units authorized by permits in this year's first four months 30% higher than a year earlier, with permits for single-family housing 17% higher and permits for multifamily housing 61% higher.

Year-to-date housing starts were 25% higher than in the year-earlier period.

Sales of new homes nationwide in April rose 3% compared with the previous month, on a seasonally adjusted basis, and were 10% higher than a year earlier. Year-to-date sales were 15% higher than a year earlier in the U.S., and 18% higher in the Midwest. Although home sales have improved from the very weak levels that followed expiration in 2010 of the federal home buyer tax credit, the pace of sales remains far below levels in past decades.

Home sales reported by the National Association of Realtors (NAR), generally homes that were previously resided in, also rose 3% in April from the previous month, and were 10% above the year-earlier sales pace. In the first four months of 2012, home sales nationwide were 7% higher than in the year-earlier period, and in the Midwest were 17% higher. Distressed sales — foreclosures and short sales — accounted for a smaller share of the U.S. market, at 28% in April, than in April 2011 when they were 37% of total sales.

An index of nationwide average house prices was higher in this year's first quarter than in the year-earlier quarter, the first year-over-year increase in the index since 2007. This index is published by the Federal Housing Finance Agency, which oversees Fannie Mae and Freddie Mac, and is based on repeat sales of houses with mortgages purchased or securitized by those agencies. The index has risen back to around its level in 2004, after tumbling during 2007 to 2011. However, another measure of housing prices, the S&P/Case-Shiller national home price index, fell to a new post-crisis low in the first quarter and was around its level in 2002.

The national average contract mortgage interest rate for commitments on 30-year fixed-rate home loans fell to 3.67% in the first week of June. This is the lowest rate for this type of loan in the history of this survey, conducted by Freddie Mac since 1971.

Construction spending — the value of new construction put in place — in the U.S. rose 0.3% in April after a similar increase in March. In the first four months of 2012, the value of new construction was 7% higher than in the year-earlier period, with private residential construction up 7% and private nonresidential construction up 18%, but with public construction down 3%.

The consumer price index (CPI) for all items was unchanged between March and April, and was 2.3% higher in April than a year earlier, its smallest year-over-year rise in more than a year.

Inflation

The consumer price index (CPI) for all items was unchanged between March and April, and was 2.3% higher in April than a year earlier, its smallest year-over-year rise in more than a year. Energy prices fell in April after rising earlier in the year, mainly reflecting lower gasoline prices. Food prices as well as prices for all items other than food and energy rose 0.2% in April. The CPI for food was 3.1% higher in April than a year earlier, and the CPI for all items other than energy and food was 2.3% higher than in April 2011.

Gasoline prices have fallen in the past two months. The nationwide average price for regular gasoline, in the U.S. Energy Information Administration's weekly survey, fell to $3.61 per gallon on June 4 from a recent peak of $3.94 per gallon on April 2. In Ohio, the average price of regular gasoline fell to $3.55 per gallon on June 4 from $3.91 per gallon in late March. The price of crude oil, the main determinant of gasoline prices, has fallen, with the U.S. benchmark grade down from a recent peak above $109 per barrel in late February to less than $85 per barrel in early June.

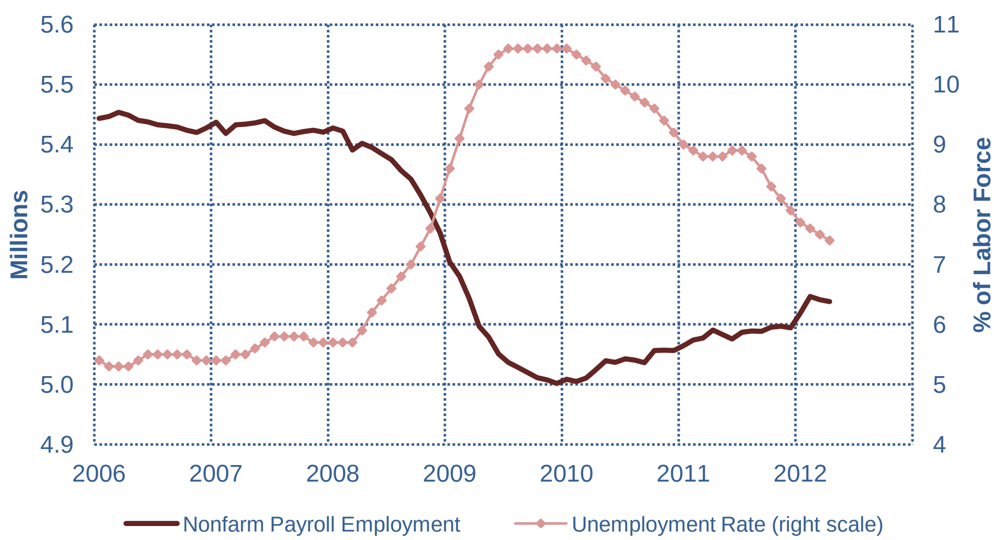
The producer price index (PPI) for finished goods declined 0.2% in April after being unchanged in March. Prices for finished energy goods fell in March and April. The decline in the energy index in April resulted from lower gasoline prices, as well as lower prices for residential natural gas and for liquefied petroleum gas. Compared with a year earlier, the PPI for all finished goods was 1.9% higher, lowest since 2009. At earlier stages of processing, the PPI for intermediate goods fell 0.5% in April, to an index level 1.1% above that in April 2011, and the PPI for crude goods fell 4.4% in April after falling 2.5% in March, declining to 7.3% lower than a year earlier. At the intermediate level, lower prices for energy products were the main source of the decline in the index for all items, but the fall in crude materials prices was broadly based.

The Ohio Economy

Total nonfarm payroll employment in Ohio declined 3,400 (0.1%) from March to April, but was 47,200 (0.9%) higher in the latest month than in April 2011. The statewide average unemployment rate fell further to 7.4% in April, lowest since October 2008. Changes in Ohio employment and unemployment are shown in Chart 7.

Total nonfarm payroll employment in Ohio declined 3,400 (0.1%) from March to April, but was 47,200 (0.9%) higher in the latest month than in April 2011.

Chart 7: Ohio Employment and Unemployment



Declines in total nonfarm payroll employment in April and also in March followed large increases in February and January. These data are seasonally adjusted, and the pattern may be in part a result of the relatively mild weather last winter. As shown in the chart, the total for employment in the state has trended irregularly upward since the cyclical low point at the end of 2009. From December 2009 to April 2012, total nonfarm payroll employment in Ohio increased 136,300. In the latest year, industries in which employment increased included manufacturing, particularly of durable goods but also of nondurables; health care; retail and wholesale trade; and professional and business services. Employment declined in the past year in leisure and hospitality and in government.

The number of unemployed Ohioans totaled an estimated 431,000 in April. The state's average unemployment rate was below the national average of 8.1% and has been lower each month than the rate for the U.S. since late 2010.

Ohio's statewide average unemployment rate fell further to 7.4% in April, lowest since October 2008.

The U.S. Bureau of Economic Analysis recently released its initial estimates of 2011 gross domestic product by state. Ohio remained the eighth largest state with gross domestic product estimated at about $484 billion, 3.2% of the national total. The largest state was California, followed by Texas, New York, Florida, Illinois, Pennsylvania, and New Jersey. Real GDP in Ohio rose 1.1% in 2011, less than the 1.5% increase last year for all 50 states plus the District of Columbia. The industry group contributing the most to Ohio's growth in 2011 was durable goods manufacturing, followed by professional, scientific, and technical services, and then by nondurable goods manufacturing.

Unit sales of homes in the state, as reported by the Ohio Association of Realtors, were 8% higher in April than a year earlier, and 11% higher during January through April than in the year-earlier period. Homes in the four-month period sold at an average price of about $122,000, 4% higher than a year earlier.

Business activity in this region grew at a moderate pace between early April and late May, based on the report by the Federal Reserve Bank of Cleveland in the latest edition of the Federal Reserve System's Beige Book, a summary of information from business and other outside contacts.[9] Manufacturers reported steady new orders and production, except that a few indicated weaker orders from European customers. Nevertheless, the factory outlook was described as improved with increased activity in the construction, energy, and transportation sectors. Construction activity is rising, both residential and nonresidential, and building materials prices increased. Retail sales were described as steady. Freight transport volume increased, with higher demand from the energy and transportation sectors and for seasonal products.

[9] The Federal Reserve Bank of Cleveland reports on developments in Ohio and parts of Kentucky, Pennsylvania, and West Virginia. The information in the current Beige Book was collected on or before May 25.