

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

NOVEMBER 2011

STATUS OF THE GRF

HIGHLIGHTS

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

The national economy continues to expand, growing at a 2.5% annual rate in the third quarter, when measured by real Gross Domestic Product. Nonfarm payroll employment nationwide rose by 80,000 in October, and the unemployment rate was 9.0%, down from 9.1% in September. In Ohio, nonfarm payroll employment fell 21,600 in September, but remained 1.9% higher than at the low point of December 2009, and the state unemployment rate was unchanged at 9.1%.

Through October, FY 2012 total GRF sources were \$15 million above estimate. GRF tax sources were \$96 million above estimate, with all major tax sources, except for the kilowatt hour tax, performing relatively well. Transfers were also ahead of expectations; however, federal grants were short of estimate by \$107 million.

Through October 2011, GRF sources totaled \$8.84 billion:

- Revenue from the personal income tax was \$22.9 million above estimate;
- Sales and use tax receipts were \$43.9 million above estimate.

Through October 2011, GRF uses totaled \$10.49 billion:

- Program expenditures were \$268.9 million below estimate, due primarily to Public Assistance and Medicaid (\$224.0 million) and Justice and Public Protection (\$46.4 million).

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STATUS OF THE GRF

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Table 1: General Revenue Fund Sources**Preliminary Actual vs. Estimate****Month of October 2011**

(\$ in thousands)

(Actual based on report run in OAKS Actuals Ledger on November 7, 2011)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	\$76,242	\$75,700	\$542	0.7%
Nonauto Sales and Use	\$563,752	\$554,900	\$8,852	1.6%
Total Sales and Use Taxes	\$639,993	\$630,600	\$9,393	1.5%
Personal Income	\$625,671	\$591,999	\$33,671	5.7%
Corporate Franchise	\$12,890	-\$2,400	\$15,290	637.2%
Public Utility	\$1,985	\$2,100	-\$115	-5.5%
Kilowatt Hour Excise	\$25,637	\$28,000	-\$2,363	-8.4%
Natural Gas Consumption (MCF)	\$483	\$500	-\$17	-3.3%
Commercial Activity Tax	\$10,614	\$11,200	-\$586	-5.2%
Foreign Insurance	\$127,325	\$124,400	\$2,925	2.4%
Domestic Insurance	\$20	-\$800	\$820	102.4%
Business and Property	\$5	-\$400	\$404	101.1%
Cigarette	\$63,041	\$70,800	-\$7,759	-11.0%
Alcoholic Beverage	\$5,150	\$4,900	\$250	5.1%
Liquor Gallonage	\$3,239	\$3,000	\$239	8.0%
Estate	\$23,411	\$14,500	\$8,912	61.5%
Total Tax Revenue	\$1,539,464	\$1,478,399	\$61,065	4.1%
NONTAX REVENUE				
Earnings on Investments	\$1,189	\$1,250	-\$61	-4.9%
Licenses and Fees	\$1,527	\$679	\$848	124.9%
Other Revenue	\$1,585	\$7,361	-\$5,776	-78.5%
Total Nontax Revenue	\$4,301	\$9,290	-\$4,989	-53.7%
TRANSFERS				
Liquor Transfers**	\$0	\$11,000	-\$11,000	-100.0%
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$0	\$0	\$0	---
Total Transfers In	\$0	\$11,000	-\$11,000	-100.0%
TOTAL STATE SOURCES	\$1,543,765	\$1,498,689	\$45,076	3.0%
Federal Grants	\$670,421	\$664,603	\$5,818	0.9%
TOTAL GRF SOURCES	\$2,214,186	\$2,163,292	\$50,894	2.4%
* Tax estimates of the Office of Budget and Management as of September 2011.				
**Liquor Transfers based on a report run in OAKS as of November 4, 2011.				
<i>Detail may not sum to total due to rounding.</i>				

Table 2: General Revenue Fund Sources
Preliminary Actual vs. Estimate
FY 2012 as of October 31, 2011

(\$ in thousands)

(Actual based on report run in OAKS Actuals Ledger on November 7, 2011)

	Actual	Estimate*	Variance	Percent	FY 2011	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	\$351,388	\$336,000	\$15,388	4.6%	\$336,087	4.6%
Nonauto Sales and Use	\$2,281,992	\$2,253,500	\$28,492	1.3%	\$2,173,751	5.0%
Total Sales and Use Taxes	\$2,633,380	\$2,589,500	\$43,880	1.7%	\$2,509,838	4.9%
Personal Income	\$2,582,949	\$2,560,090	\$22,859	0.9%	\$2,354,621	9.7%
Corporate Franchise	\$8,602	-\$1,999	\$10,601	530.3%	-\$1,828	570.6%
Public Utility	\$35,157	\$34,999	\$158	0.5%	\$32,476	8.3%
Kilowatt Hour Excise	\$114,198	\$120,900	-\$6,702	-5.5%	\$66,800	71.0%
Natural Gas Consumption (MCF)	\$13,710	\$10,400	\$3,310	31.8%	\$0	---
Commercial Activity Tax	\$107,588	\$101,900	\$5,688	5.6%	\$0	---
Foreign Insurance	\$133,794	\$130,000	\$3,795	2.9%	\$132,125	1.3%
Domestic Insurance	\$58	-\$1,100	\$1,158	105.2%	-\$1,038	105.5%
Business and Property	-\$1,788	-\$300	-\$1,488	-496.2%	-\$201	-789.0%
Cigarette	\$238,053	\$233,900	\$4,153	1.8%	\$244,266	-2.5%
Alcoholic Beverage	\$20,921	\$20,600	\$321	1.6%	\$20,184	3.6%
Liquor Gallonage	\$13,132	\$12,300	\$832	6.8%	\$12,465	5.4%
Estate	\$26,370	\$18,799	\$7,571	40.3%	\$18,281	44.2%
Total Tax Revenue	\$5,926,125	\$5,829,990	\$96,135	1.6%	\$5,387,990	10.0%
NONTAX REVENUE						
Earnings on Investments	\$1,199	\$1,250	-\$51	-4.0%	\$3,152	-61.9%
Licenses and Fees	\$13,401	\$9,300	\$4,101	44.1%	\$10,237	30.9%
Other Revenue	\$9,017	\$14,962	-\$5,945	-39.7%	\$11,647	-22.6%
Total Nontax Revenue	\$23,617	\$25,512	-\$1,895	-7.4%	\$25,036	-5.7%
TRANSFERS						
Liquor Transfers**	\$35,132	\$45,000	-\$9,868	-21.9%	\$51,144	-31.3%
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers In	\$47,858	\$10,598	\$37,260	351.6%	\$12,329	288.2%
Total Transfers In	\$82,990	\$55,598	\$27,392	49.3%	\$63,473	30.7%
TOTAL STATE SOURCES	\$6,032,733	\$5,911,100	\$121,632	2.1%	\$5,476,498	10.2%
Federal Grants	\$2,805,459	\$2,912,198	-\$106,739	-3.7%	\$3,145,347	-10.8%
TOTAL GRF SOURCES	\$8,838,191	\$8,823,298	\$14,892	0.2%	\$8,621,845	2.5%

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

**Liquor Transfers based on a report run in OAKS as of November 4, 2011.

Detail may not sum to total due to rounding.

REVENUES

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

Overview

Through October, FY 2012 total GRF sources of \$8.84 billion were \$14.9 million (0.2%) above the estimates released by the Office of Budget and Management in September 2011. For the month of October, total GRF sources of \$2.21 billion were \$50.9 million (2.4%) above estimate. State-source receipts and federal grants were above estimate for the month, respectively, by \$45.1 million and \$5.8 million. Tables 1 and 2 show GRF sources for the month of October and for FY 2012 through October, 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.

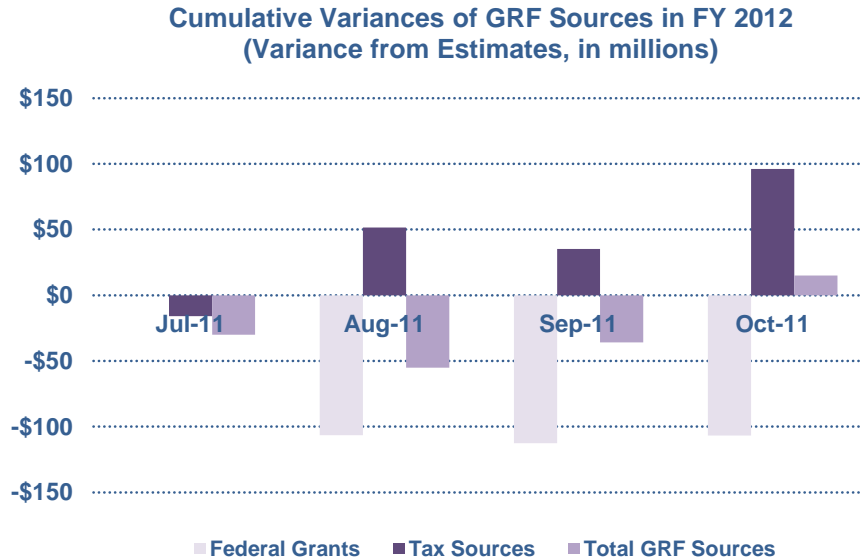
For the month of October, GRF tax receipts of \$1.54 billion were \$61.1 million above estimate. The personal income tax, the sales and use tax, and the corporate franchise tax were above estimate by, respectively, \$33.7 million, \$9.4 million, and \$15.3 million. Receipts were also greater than estimates for the estate tax, by \$8.9 million, and the foreign insurance tax, by \$2.9 million. The shortfalls in receipts from the cigarette tax and the kilowatt hour tax were \$7.8 million and \$2.4 million, respectively. A combined negative variance of \$16.0 million in nontax revenues and transfers, mostly due to a lack of liquor transfers this month, reduced the positive variance of tax sources.

Through October, FY 2012 federal grants of \$2.80 billion were \$106.7 million short of estimate, while state-source receipts were \$121.6 million ahead of projections. The latter variance was due to positive variances of \$96.1 million in tax receipts and \$27.4 million in transfers in, and a negative variance of \$1.9 million in nontax revenues.

The positive variance in tax revenues was due to higher than anticipated receipts from the sales and use tax (\$43.9 million), personal income tax (\$22.9 million), corporate franchise tax (\$10.6 million), estate tax (\$7.6 million), commercial activity tax (\$5.7 million), cigarette tax (\$4.2 million), foreign insurance tax (\$3.8 million), natural gas consumption tax (\$3.3 million), and domestic insurance tax (\$1.2 million). Year-to-date receipts were below estimates for the kilowatt hour tax (\$6.7 million) and the business and property tax (\$1.5 million). The graph below shows the cumulative variance against estimate for federal grants, tax sources, and total GRF sources.

October
GRF tax
receipts
were
\$61.1 million
above
estimates.

Through
October,
FY 2012 tax
receipts
were
\$96.1 million
above
estimates.



FY 2012 year-to-date GRF sources increased \$216.3 million compared to receipts in the corresponding period in FY 2011. An increase of \$556.2 million in state-source receipts was partially offset by a decrease of \$339.9 million in federal grants.¹ The increase in state-source receipts was largely due to a gain of \$538.1 million in GRF tax receipts. Over one-fifth of the increase in tax receipts over FY 2011 (\$121.3 million) was from the commercial activity tax and the natural gas consumption tax, tax sources that were not contributing to the GRF last fiscal year. Through October, FY 2012 GRF receipts from the personal income tax and the sales and use tax were above the previous year's level, respectively, by \$228.3 million and \$123.5 million. Receipts also increased for the kilowatt hour tax (\$47.4 million), the corporate franchise tax (\$10.4 million), the estate tax (\$8.1 million), the public utility excise tax (\$2.7 million), the foreign insurance tax (\$1.7 million), and the domestic insurance tax (\$1.1 million). Taxes with year-to-year revenue decreases included the cigarette tax (\$6.2 million), and the business and property tax (\$1.6 million).

¹ 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.

Personal Income Tax

Through
October,
FY 2012
GRF income
tax receipts
were
\$22.9 million
above
estimates.

October GRF receipts from the personal income tax of \$625.7 million were \$33.7 million (5.7%) above estimate and \$81.5 million (15.0%) above receipts in October 2010. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the Local Government Fund (LGF). Gross collections are the sum of withholding, quarterly estimated payments,² trust payments, payments associated with annual returns, and miscellaneous payments.

Most income tax components were above estimates for the month, including employer withholding (\$23.8 million), quarterly estimated payments (\$4.9 million), and annual returns payments (\$5.4 million).

Through October, the GRF received \$2.58 billion from the personal income tax in FY 2012. This amount was \$22.9 million (0.9%) above estimates and \$228.3 million (9.7%) above receipts during the corresponding period in FY 2011. The table below summarizes FY 2012 income tax revenue variances from estimates and annual changes by component.

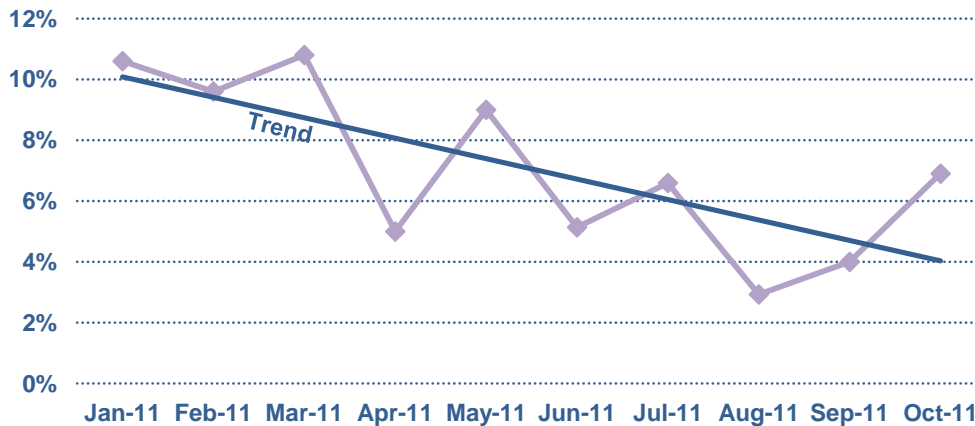
FY 2012 Year-to-Date Income Tax Revenue Variances and Changes by Component				
Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2011	
	Amount (\$ in millions)	Percentage (%)	Amount (\$ in millions)	Percentage (%)
Withholding	\$0.5	0.0%	\$127.5	5.5%
Quarterly Estimated Payments	\$2.2	0.7%	\$47.8	17.8%
Trust Payments	\$1.3	17.3%	\$2.5	42.2%
Annual Return Payments	\$14.5	14.9%	\$20.0	21.8%
Miscellaneous Payments	-\$0.7	-2.2%	\$0.6	2.0%
Gross Collections	\$17.7	0.6%	\$198.4	7.4%
Less Refunds	-\$7.0	-5.7%	-\$8.9	-7.1%
Less Local Government Fund Distribution	\$1.8	0.9%	-\$21.0	-9.6%
Income Tax Revenue	\$22.9	0.9%	\$228.3	9.7%

² 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.

All components of this tax source contributed to higher gross collections in FY 2012. Through October, gross collections increased by \$198.4 million (7.4%) compared to the corresponding period in FY 2011, reflecting a continued increase in the tax base. Revenues from employer withholding were \$127.5 million (5.5%) above receipts in this category last year. The graph below shows monthly changes, on a year-ago basis, in withholding receipts in CY 2011.

Quarterly estimated payments, the second most important income tax component after employer withholding, increased \$47.8 million (17.8%). Refunds to taxpayers and distributions to the LGF were, respectively, \$8.9 million and \$21.0 million below amounts in those categories in the corresponding period in FY 2011. H.B. 153 reduced the amount of state tax revenues credited to the LGF below FY 2011 levels for each month between August 2011 and June 2012.³ Those allocations are debited from the personal income tax. Thus, FY 2012 monthly distributions to the LGF will be below FY 2011's amounts.

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



Sales and Use Tax

October GRF receipts from the sales and use tax of \$640.0 million were \$9.4 million (1.5%) above estimate and \$29.4 million (4.8%) above receipts in October 2010. Through October, FY 2012 GRF sales and use tax receipts totaled \$2.63 billion, \$43.9 million (1.7%) above estimate and \$123.5 million (4.9%) above receipts in the corresponding period last year.

³ The Greenbook for the Department of Taxation, which may be found at <http://www.lsc.state.oh.us/fiscal/greenbooks129/tax.pdf>, details the changes to the distribution of tax receipts to local government funds, including the LGF.

Through October, FY 2012 employer withholding was \$127.5 million above similar receipts in FY 2011.

Through October, FY 2012 GRF sales and use tax receipts were \$43.9 million above estimates.

October receipts from the nonauto sales and use tax were \$8.9 million above estimate.

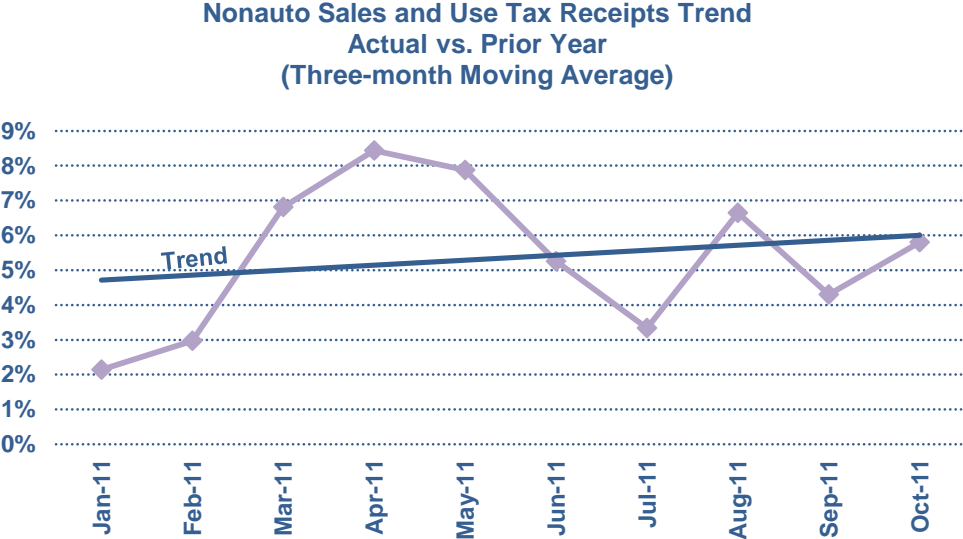
For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections⁴ generally arise from the sale of motor vehicles while nonauto sales and use tax collections arise from other sales. However, auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax, instead of the auto tax.

Nonauto Sales and Use Tax

Monthly receipts from the nonauto sales and use tax were \$563.8 million, \$8.9 million (1.6%) above estimate, and \$28.9 million (5.4%) above October 2010 receipts. Through October, FY 2012 GRF nonauto sales and use tax receipts were \$2.28 billion. Those receipts were \$28.5 million (1.3%) above estimate and \$108.2 million (5.0%) above receipts in the corresponding period in FY 2011. The nonauto sales and use tax base continues to expand, though growth has been uneven in the last few months. The graph following shows the trend in monthly receipts in CY 2011 against prior-year receipts in the same month. Nationwide, consumer spending boosted economic growth in the July-September period. Retail sales (excluding motor vehicles) grew about 1.1% from the second quarter, and about 8% compared to the corresponding period on a year-ago basis. The gains in retail sales were broad-based, suggesting consumers are finding ways to finance consumption despite weak job and income growth. Also, sales at the largest retailers (excluding Wal-Mart)⁵ were 3.7% higher in October than a year earlier. Economic data suggest consumers may have reduced savings to finance purchases; however, to sustain retail sales gains, job growth needs to accelerate and generate higher wage income.

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.

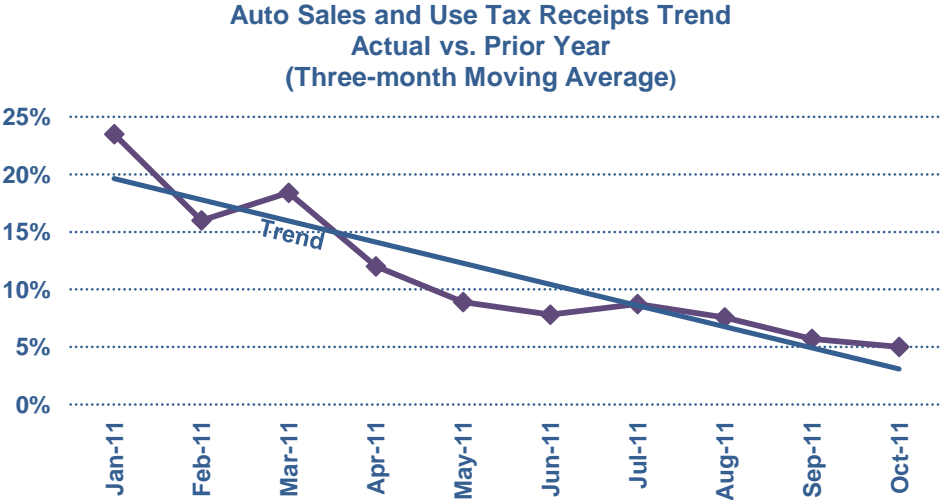
⁵ Data are from the International Council of Shopping Centers, and are reported on a comparable store basis for stores open both this year and last.



Auto Sales and Use Tax

GRF receipts from the auto sales and use tax of \$76.2 million in October 2011 were above both estimate and October 2010 receipts by about \$0.5 million. Receipts were 0.7% above estimate and 0.6% above October 2010 revenues. For the fiscal year, auto sales and use tax receipts to the GRF totaled \$351.4 million, \$15.4 million (4.6%) above estimate and \$15.3 million (4.6%) above receipts through October in FY 2011.

The graph below, which compares monthly auto sales and use tax receipts with year-ago receipts in the same period shows a sustained downward trend in the growth rate, though receipts on this basis do continue to grow.



Through
October,
FY 2012
cigarette tax
receipts
were
\$4.2 million
above
estimates.

Nationwide auto sales started the quarter on a high note. Light vehicle (autos and light trucks) sales in October, at an annualized rate of 13.2 million units, hit their strongest pace since February 2011. Sales were slightly up from an annualized sales rate of 13.1 million units in September. In the July through October period, sales climbed over 6%, compared to the corresponding period in 2010, due to lower gas prices, stronger demand, and plentiful inventory. Sales are expected to continue rising slowly in the remaining months of 2011 and into next year.

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of \$63.0 million in October 2011 were \$7.8 million (11.0%) below estimate and \$10.8 million (14.7%) below receipts in the corresponding period in FY 2011. The monthly negative variance was mostly due to timing, and partly reversed a large positive variance of \$11.7 million in September.

Through
October,
FY 2012
GRF CAT
receipts
were
\$5.7 million
above
estimates.

Through October, FY 2012 receipts of \$238.1 million were \$4.2 million (1.8%) above estimate, and \$6.2 million (2.5%) below receipts in the corresponding period in FY 2011. Receipts from cigarette sales were \$220.3 million. Sales of products other than cigarettes provided \$17.7 million. Compared to FY 2011, receipts from the sale of cigarettes decreased \$6.1 million and those from the sale of other tobacco products declined \$0.1 million. Generally, cigarette tax receipts experience a sustained downward trend on a year-ago basis.

Commercial Activity Tax

October GRF receipts from the commercial activity tax (CAT) of \$10.6 million were \$0.6 million (5.2%) below estimate. CAT receipts to the GRF in FY 2012 totaled \$107.6 million, \$5.7 million (5.6%) above estimate. Overall, FY 2012 total (all funds) CAT receipts of \$441.3 million were \$46.0 million (11.6%) above receipts in the first four months of FY 2011. The second payment in FY 2012 for quarterly calendar taxpayers is due November 11, 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 (TPP). This fiscal year, CAT receipts are distributed to the GRF (25%), to the School District Tangible Property Tax Replacement Fund (52.5%), and the Local Government Tangible Property Tax Replacement Fund (22.5%). If CAT receipts are insufficient for the reimbursements, current law requires a GRF subsidy to the two funds.

Table 3: General Revenue Fund Uses
Preliminary Actual vs. Estimate
Month of October 2011
(\$ in thousands)
(Actual based on OAKS reports run November 9, 2011)

PROGRAM	Actual	Estimate*	Variance	Percent
Primary, Secondary, and Other Education	\$558,275	\$542,870	\$15,405	2.8%
Higher Education	\$175,266	\$173,776	\$1,490	0.9%
Total Education	\$733,541	\$716,646	\$16,895	2.4%
Public Assistance and Medicaid	\$1,289,379	\$1,353,211	-\$63,832	-4.7%
Health and Human Services	\$96,073	\$119,289	-\$23,216	-19.5%
Total Welfare and Human Services	\$1,385,452	\$1,472,499	-\$87,048	-5.9%
Justice and Public Protection	\$207,314	\$221,824	-\$14,510	-6.5%
Environment and Natural Resources	\$6,665	\$4,608	\$2,057	44.7%
Transportation	\$2,218	\$840	\$1,378	164.0%
General Government	\$16,330	\$21,840	-\$5,510	-25.2%
Community and Economic Development	\$5,643	\$7,804	-\$2,161	-27.7%
Capital	\$0	\$0	\$0	---
Total Government Operations	\$238,170	\$256,916	-\$18,746	-7.3%
Tax Relief and Other	\$214,028	\$298,125	-\$84,097	-28.2%
Debt Service	\$42,864	\$42,866	-\$2	0.0%
Total Other Expenditures	\$256,892	\$340,991	-\$84,099	-24.7%
Total Program Expenditures	\$2,614,054	\$2,787,052	-\$172,998	-6.2%
TRANSFERS				
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$1,128	\$0	\$1,128	---
Total Transfers Out	\$1,128	\$0	\$1,128	---
TOTAL GRF USES	\$2,615,182	\$2,787,052	-\$171,870	-6.2%

* 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
Preliminary Actual vs. Estimate
FY 2012 as of October 31, 2011
(\$ in thousands)
(Actual based on OAKS reports run November 9, 2011)

<i>PROGRAM</i>	Actual	Estimate*	Variance	Percent	FY 2011	Percent Change
Primary, Secondary, and Other Education	\$2,451,751	\$2,440,596	\$11,154	0.5%	\$2,549,148	-3.8%
Higher Education	\$711,553	\$715,695	-\$4,141	-0.6%	\$802,701	-11.4%
Total Education	\$3,163,304	\$3,156,291	\$7,013	0.2%	\$3,351,849	-5.6%
Public Assistance and Medicaid	\$4,849,359	\$5,073,320	-\$223,960	-4.4%	\$4,324,044	12.1%
Health and Human Services	\$453,349	\$417,773	\$35,576	8.5%	\$444,478	2.0%
Total Welfare and Human Services	\$5,302,708	\$5,491,092	-\$188,384	-3.4%	\$4,768,522	11.2%
Justice and Public Protection	\$701,685	\$748,040	-\$46,355	-6.2%	\$756,127	-7.2%
Environment and Natural Resources	\$24,241	\$22,409	\$1,832	8.2%	\$26,532	-8.6%
Transportation	\$3,718	\$4,811	-\$1,093	-22.7%	\$7,822	-52.5%
General Government	\$125,680	\$139,653	-\$13,974	-10.0%	\$118,165	6.4%
Community and Economic Development	\$43,112	\$45,467	-\$2,355	-5.2%	\$42,406	1.7%
Capital	\$120	\$0	\$120	---	\$24	402.1%
Total Government Operations	\$898,555	\$960,381	-\$61,826	-6.4%	\$951,076	-5.5%
Tax Relief and Other	\$623,577	\$640,913	-\$17,336	-2.7%	\$639,713	-2.5%
Debt Service	\$172,167	\$180,547	-\$8,380	-4.6%	\$267,518	-35.6%
Total Other Expenditures	\$795,744	\$821,460	-\$25,716	-3.1%	\$907,231	-12.3%
Total Program Expenditures	\$10,160,312	\$10,429,224	-\$268,913	-2.6%	\$9,978,678	1.8%
TRANSFERS						
Budget Stabilization	\$246,899	\$246,899	\$0	0.0%	\$0	---
Other Transfers Out	\$84,937	\$79,441	\$5,496	6.9%	\$985,513	-91.4%
Total Transfers Out	\$331,836	\$326,340	\$5,496	1.7%	\$985,513	-66.3%
TOTAL GRF USES	\$10,492,147	\$10,755,564	-\$263,417	-2.4%	\$10,964,191	-4.3%

* 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 November 7, 2011)

Medicaid (600525) Payments by Service Category	October				Year to Date			
	Actual	Estimate	Variance	Percent Variance	Actual thru Oct	Estimate thru Oct	Variance	Percent Variance
Managed Care Plans	\$597,389	\$589,240	\$8,149	1.4%	\$1,862,795	\$1,906,728	-\$43,933	-2.3%
Nursing Facilities	\$202,910	\$204,279	-\$1,369	-0.7%	\$819,095	\$843,250	-\$24,155	-2.9%
Prescription Drugs	\$131,318	\$141,110	-\$9,792	-6.9%	\$572,003	\$579,751	-\$7,748	-1.3%
Hospitals	\$118,228	\$140,955	-\$22,727	-16.1%	\$417,904	\$505,804	-\$87,900	-17.4%
Aging Waivers	\$51,129	\$50,451	\$678	1.3%	\$224,793	\$204,771	\$20,022	9.8%
ICFs/MR	\$46,241	\$46,110	\$131	0.3%	\$185,012	\$186,993	-\$1,981	-1.1%
ODJFS Waivers	\$30,034	\$33,829	-\$3,795	-11.2%	\$109,772	\$122,161	-\$12,389	-10.1%
Physicians	\$27,515	\$33,093	-\$5,578	-16.9%	\$95,267	\$118,591	-\$23,324	-19.7%
All Other	\$135,870	\$152,837	-\$16,967	-11.1%	\$534,375	\$559,353	-\$24,978	-4.5%
Total Payments	\$1,340,634	\$1,391,904	-\$51,270	-3.7%	\$4,821,017	\$5,027,402	-\$206,385	-4.1%
Total Offsets (non-GRF)	-\$203,618	-\$206,833	\$3,215	-1.6%	-\$364,846	-\$373,741	\$8,895	-2.4%
Total 600525 (net of offsets)	\$1,137,016	\$1,185,071	-\$48,055	-4.1%	\$4,456,171	\$4,653,661	-\$197,490	-4.2%
Medicare Part D (600526)	\$22,992	\$23,373	-\$381	-1.6%	\$80,565	\$89,604	-\$9,039	-10.1%
Total GRF	\$1,160,008	\$1,208,444	-\$48,436	-4.0%	\$4,536,736	\$4,743,265	-\$206,529	-4.4%
Total All Funds	\$1,363,626	\$1,415,277	-\$51,651	-3.6%	\$4,901,582	\$5,117,006	-\$215,424	-4.2%

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
October,
FY 2012
GRF uses of
\$10.49 billion
were
\$263.4 million
(2.4%)
below
estimate,
due largely
to timing
issues.

Tables 3 and 4 show GRF uses for the month of October and for FY 2012 through October, respectively. For October, GRF uses of \$2.62 billion were \$171.9 million (6.2%) below the estimate published by the Office of Budget and Management (OBM) in September 2011. Through October, FY 2012 GRF uses of \$10.49 billion were \$263.4 million (2.4%) below estimate.

GRF uses primarily consist of program expenditures but also include transfers out. For the first four months of FY 2012, GRF program expenditures amounted to \$10.16 billion (96.8% of total GRF uses), whereas transfers out totaled \$0.3 billion (3.2%). Year-to-date GRF program expenditures were \$268.9 million (2.6%) below estimate. Negative program expenditure variances, including those in Public Assistance and Medicaid (\$224.0 million), Justice and Public Protection (\$46.4 million), and Tax Relief and Other (\$17.3 million), were partially offset by positive variances, of which the most notable was Health and Human Services (\$35.6 million). These variances are briefly discussed below.

Negative Variances

Year-to-date GRF expenditures for Public Assistance and Medicaid totaled \$4.85 billion, \$224.0 million (4.4%) below estimate. Medicaid, including both state and federal shares, accounts for 94% of expenditures in this program category. Table 5 details Medicaid GRF expenditures by service category and also summarizes Medicaid expenditures across all funds. (Medicaid is mainly funded with the GRF but is also supported by various non-GRF funds.) As seen from the table, Medicaid GRF expenditures for the year to date totaled \$4.54 billion, which was \$206.5 million (4.4%) below estimate. Across all funds, year-to-date Medicaid expenditures amounted to \$4.90 billion, which was \$215.4 million (4.2%) below estimate.

According to the Ohio Department of Job and Family Services (ODJFS), the main contributing factor to the negative variance, as in prior months, is the implementation of the new Medicaid Information Technology System (MITS), which has caused timing issues with payments to certain fee-for-service providers. MITS was operational beginning in August. ODJFS expects expenditures for the categories affected by MITS to align with estimates later in the fiscal year. The two

categories most affected are Hospitals with a negative variance of \$87.9 million (17.4%) for the year to date and Physicians with a negative variance of \$23.3 million (19.7%). Also contributing to the negative year-to-date variance, Managed Care Plan expenditures were \$43.9 million (2.3%) below estimate. Somewhat offsetting these negative variances, Medicaid expenditures for Aging Waivers were above estimate by \$20.0 million (9.8%). Each month, ODJFS advances funding for the PASSPORT, Assisted Living, and Choices waiver programs to the local Area Agencies on Aging (AAAs). The expenditures made by the AAAs for these Medicaid waivers are reconciled at a later date.

Justice and Public Protection category expenditures totaled \$701.7 million for the first four months of FY 2012, which was \$46.4 million below estimate. The Department of Rehabilitation and Correction (DRC) contributed the largest negative variance, \$35.3 million, among agencies in this category. Within the DRC budget, the two largest GRF appropriation items 501321, Institutional Operations, and 505321, Institution Medical Services, were both below their four-month estimates, by \$19.4 million and \$10.4 million, respectively. Item 501321 is the primary funding source for DRC's operations whereas item 505321 funds medical services for inmates housed in the state's prison system. After DRC, the Department of Youth Services (DYS) had the second largest negative variance in this category, expending \$9.4 million less than anticipated. Of this year-to-date variance, \$8.5 million is attributable to GRF appropriation item 470401, RECLAIM Ohio. This item, which ended FY 2011 \$3.9 million below estimate, funds institutional placement and community program services to youth who have been convicted of a felony offense and to other delinquent children.

October expenditures in the Tax Relief and Other program category totaled \$214.0 million, \$84.1 million (28.2%) below estimate. Whereas this program category maintained a \$66.8 million year-to-date positive variance at the close of September, the category is now below the four-month estimate by \$17.3 million (2.7%) as a result of October expenditures. Expenditures in this category are made by the Department of Education and Department of Taxation to reimburse schools and local governments for the 10% rollback, 2.5% rollback, and the homestead exemption. The variances are due to timing issues related to reimbursement payments for the August real property tax settlements. All but four of Ohio's 88 counties have submitted the necessary reimbursement information to the Department of Taxation. Reimbursements are expected to be complete before the end of this calendar year.

Year-to-date GRF Medicaid spending was \$206.5 million below estimate; year-to-date all fund Medicaid expenditures were \$215.4 million below estimate.

Positive Variances

Expenditures within the Health and Human Services category were above the year-to-date estimate by \$35.6 million (8.5%). The bulk of this positive variance was attributable to the Department of Mental Health (DMH), which was \$36.3 million above the FY 2012 estimate. The single largest reason for the positive variance within DMH was GRF appropriation item 335501, Mental Health Medicaid Match, which was \$40.1 million above estimate. As explained in the previous issue of *Budget Footnotes*, this new GRF appropriation item is used to distribute the nonfederal share (also referred to as match) of Medicaid funding to local behavioral health boards in FY 2012. H.B. 153 "elevated" the financial responsibility for the nonfederal share of community mental health Medicaid costs from local boards to the state, and beginning in FY 2013, community mental health Medicaid services will be paid for by ODJFS. The positive variance for item 335501 was partially offset by GRF appropriation item 334412, Hospital Services, which was \$3.3 million below estimate. This new GRF line item is used to fund the operating budget of DMH's hospitals, civil bed days purchased by local boards, and forensic bed days utilized by individuals committed through the criminal justice system.

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

ISSUE UPDATES

Department of Youth Services Issues First Youthful Offender Release Identification Card

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

On September 27, the Department of Youth Services issued its first Youthful Offender Release Identification Cards (YO-RIC) to each youth released from a state juvenile correctional facility. The YO-RIC, which contains a youth's photograph, name, date of birth, and Social Security number, is to be used by the youth as the primary document presented to a deputy registrar in order to obtain a valid state of Ohio Identification Card. Obtaining the latter card is important because it assists the youth in getting more prompt access to needed services (housing, public assistance, education, medical, mental health, and substance abuse treatment, etc.) that will help increase the likelihood of his or her successful re-entry into the local community.

The YO-RIC is the result of a memorandum of understanding that Youth Services developed in collaboration with the state's Bureau of Motor Vehicles, the U.S. Social Security Administration, and the Ohio Department of Health's Office of Vital Statistics. The first year's costs for the YO-RIC production system are expected to total around \$3,625, which includes \$2,500 in start-up funds for the Department's four juvenile correctional facilities and Paint Creek, a contract facility, plus another \$1,125 to provide YO-RICs to around 700 youth annually (\$1.60 annual cost per card). The Social Security Administration and Vital Statistics are providing identity verification services free of charge.

Attorney General Distributes \$17.8 Million in State and Federal Crime Victim Services Grant Funding to 272 Agencies Statewide

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

In September, the Office of the Attorney General announced the recipients of the 2011-2012 crime victim services grants funded pursuant to the federal Victims of Crime Act (VOCA) and Ohio's State Victims Assistance Act. A total of \$17.8 million in grant funding was awarded to 272 agencies throughout the state. These agencies will receive their funding on a reimbursement basis through the end of FY 2012. Of the total grant award, \$14.4 million was funded by the federal Crime Victims Assistance Fund (Fund 3830) and \$3.4 million was funded by the state Victims of Crime/Reparations Fund (Fund 4020). Fund 4020's revenues are derived primarily from court costs imposed

upon certain offenders and secondarily from federal grants and driver's license reinstatement fees.

The table below shows the five counties that were awarded the most funding during this grant period. Franklin County's appearance at the top of the list is not surprising, as many statewide organizations are headquartered in Columbus. The smallest amount of funding went to Wyandot County, which was awarded one grant totaling \$26,391. Fulton, Perry, and Putnam are the only three counties that were not awarded any direct funding. However, crime victims in those counties can receive services from agencies in neighboring counties. The Office of the Attorney General is currently exploring the possibility of expanding the infrastructure in those three counties so that direct services could be provided in the future.

Top 5 Total Victim Assistance Grant Awards by County, CYs 2011-2012			
County	Number of Agencies Awarded Funding	Total Amount of Funding Awarded	Percentage of Total Funding
Franklin	25	\$1,476,720	8.3%
Hamilton	12	\$928,728	5.2%
Cuyahoga	11	\$861,374	4.8%
Summit	6	\$769,490	4.3%
Lucas	7	\$732,728	4.1%
Top 5 Total	61	\$4,769,040	26.8%
Statewide Total	272	\$17,812,907	N/A

Ohio Receives Grant to Reduce Overpayment of Unemployment Benefits

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

In September, the Ohio Department of Job and Family Services (ODJFS) received a \$2.1 million federal grant to help reduce the overpayment of unemployment insurance benefits. The grant is to be used to update state unemployment tax and benefit systems and to support other technologies that would help reduce overpayments or recover overpayments after they have occurred.

According to the U.S. Department of Labor (DOL), Ohio is one of ten states with improper payment rates over 15%. Over the three-year period from July 2008 to June 2011, Ohio had an average improper payment rate of 16.4% with overpayments totaling \$866.6 million. According to DOL, most overpayments in Ohio are made to individuals who either are not actively searching for work or are not registered for employment services. These activities are required under state law for an individual to receive unemployment benefits. Overpayments are also made to individuals who continue to file claims after returning to work and to individuals whose separation from work made them ineligible for benefits. Individuals are ineligible for benefits if they leave work voluntarily or are terminated from employment due to their own fault.

ODJFS works with the Attorney General's Office to collect overpayments. In 2010, \$15 million was collected. In that year, Ohio was recognized by DOL as the top performer among large states for implementing safeguards to reduce improper payments.

Public Safety Awards \$12.5 Million in Traffic Safety Grants

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

In October 2011, the Department of Public Safety's Office of Criminal Justice Services awarded 154 federal traffic safety grants totaling \$12.5 million to state and local law enforcement and safety partners.⁶ The grants are focused on traffic safety priority areas such as seat belt use, impaired driving, motorcycle safety, and youthful drivers. The types of grants issued include 81 High Visibility Enforcement Overtime grants, 32 Safe Communities Program grants, 25 General Traffic Safety grants, ten Countywide OVI Task Force Program grants, five Traffic Engineering grants, and one Occupant Protection for Children Program grant. Of the 154 grants awarded, ten were for statewide projects totaling \$3.6 million and the remaining were for local projects in 64 counties. The table below summarizes the total local grant awards by county.

Federal Fiscal Year 2012 Traffic Safety Grant Awards by County							
County	Amount	County	Amount	County	Amount	County	Amount
Allen	\$182,663	Geauga	\$44,702	Lorain	\$189,389	Ross	\$42,000
Ashland	\$28,393	Greene	\$41,999	Lucas	\$416,650	Sandusky	\$32,161
Ashtabula	\$75,250	Hamilton	\$450,632	Mahoning	\$327,500	Scioto	\$32,019
Brown	\$56,931	Hancock	\$19,277	Marion	\$136,780	Seneca	\$36,828
Butler	\$856,148	Hardin	\$32,713	Medina	\$89,760	Shelby	\$36,486
Clark	\$297,734	Harrison	\$20,039	Meigs	\$24,795	Stark	\$191,823
Clermont	\$131,013	Henry	\$30,784	Miami	\$54,763	Summit	\$588,251
Columbiana	\$35,000	Highland	\$27,048	Montgomery	\$402,771	Trumbull	\$342,449
Crawford	\$28,072	Hocking	\$15,502	Morrow	\$49,209	Tuscarawas	\$28,072
Cuyahoga	\$866,737	Holmes	\$25,000	Muskingum	\$28,982	Union	\$25,000
Defiance	\$33,709	Huron	\$65,837	Ottawa	\$29,055	Warren	\$112,590
Delaware	\$100,063	Jefferson	\$25,854	Pickaway	\$76,772	Washington	\$40,158
Erie	\$34,772	Knox	\$35,000	Pike	\$26,510	Wayne	\$74,365
Fayette	\$32,656	Lake	\$92,351	Portage	\$62,671	Williams	\$25,000
Franklin	\$1,118,712	Licking	\$243,640	Putnam	\$54,938	Wood	\$95,990
Gallia	\$24,310	Logan	\$75,209	Richland	\$135,728	Wyandot	\$29,042

⁶ A complete list of funding projects can be found at: http://publicsafety.ohio.gov/links/FY12_TrafficGrantList.xls.

Board of Nursing Awards \$2.5 Million in Grants to Nursing Education Programs

—Michele Perch, LSC Fellow, 614-644-1262

The Ohio Board of Nursing awarded 15 grants totaling \$2.5 million to nursing education programs for the period of September 1, 2011 to August 31, 2013. The Board provides two-year grants to nursing education programs that partner with health care facilities, community health agencies, or other education programs in order to help increase nursing student enrollment capacity. Grants are awarded to pre-licensure programs for licensed practical nurses and registered nurses and to post-graduate programs. The table below lists the grant recipients and awards for the current grant period.

Nursing Education Grant Awards for September 1, 2011 to August 31, 2013	
Program Name	Award
Licensed Practical Nurse Pre-Licensure Programs	
Nancy J. Knight School of Nursing	\$200,000
Tri-Rivers School of Practical Nursing	\$186,800
Columbiana County School of Practical Nursing	\$163,756
Registered Nurse Pre-Licensure Programs	
Marion Technical College Nursing Department	\$200,000
North Central State College	\$200,000
Xavier University Bachelor of Science in Nursing Program	\$199,784
Otterbein University	\$199,685
Franciscan University of Steubenville Nursing Program	\$198,672
James A. Rhodes State College	\$103,450
Firelands Regional Medical Center School of Nursing	\$49,042
Post-Graduate Programs	
The Ohio State University College of Nursing	\$199,988
Otterbein University	\$199,671
Lourdes College	\$197,772
Xavier University Master of Science in Nursing Program	\$174,388
Kent State University College of Nursing	\$33,043
Total	\$2,506,501

Nursing education programs may apply for funding in each grant period and typically receive funds quarterly. A grant recipient may not receive more than \$200,000 in each grant cycle or more than \$1 million over the life of the program. Funds can be used for clinical faculty, instructional personnel, educational equipment, and any approved activities that may support an increase in enrollment. The program requires grant recipients to submit quarterly and annual reports to the Board.

The program is funded by \$10 of each nursing license renewal fee, which is deposited into Fund 5AC0, Nurse Education Grant Program. The Board began collecting this revenue on January 1, 2004, and awarded grants starting in September 2005. Under current law, revenue may be collected through December 31, 2013. The Board will award grants until all funds in the account are expended. Since the program's start, including the current grant period, the Board has awarded over \$7.3 million to 28 different programs.

Ohio Housing Finance Agency Awards \$3.5 Million to Finance Five Housing Development Assistance Program Projects

—*Brian Hoffmeister, Senior Budget Analyst, 614-644-0089*

On October 19, the Ohio Housing Finance Agency (OHFA) awarded \$3.5 million to provide low-interest financing for five projects under the Housing Development Assistance Program (HDAP). These funds will allow for new construction, acquisition, renovation, and rehabilitation on multifamily housing projects collectively consisting of 239 units. Funding for HDAP is derived from a combination of the Ohio Housing Trust Fund, which consists primarily of county recordation fee revenues, and federal HOME Investment Partnerships Program funds from the U.S. Department of Housing and Urban Development. The table below lists these HDAP awards and includes brief descriptions of the projects being funded.

OHFA Housing Development Assistance Program Awards, October 2011				
Project Name	Location (County)	Number of Units	Amount	Description
Cranes Landing	Toledo (Lucas)	40	\$300,000	Construction of a two-story senior residential building
Eastway Village	Whitehall (Franklin)	66	\$300,000	Construction of a senior housing community, including a two-story structure and seven one-story cottages
Lincoln Green Apartments	Columbus (Franklin)	66	\$1,500,000	Acquisition and rehabilitation of a townhouse-style apartment complex for families
Westwood Senior Apartments	Van Wert (Van Wert)	32	\$565,000	Construction of a new single-story senior housing development
Bedford Place*	Dresden (Muskingum)	35	\$850,000	Construction of new lease-purchase homes and a community building
Total		239	\$3,515,000	

* This project is also receiving \$700,000 in Housing Tax Credits and a \$2 million Housing Development Loan.

Military Injury Relief Grants Reduced from \$1,000 to \$500

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

The Ohio Department of Job and Family Services (ODJFS) decreased military injury relief grants from \$1,000 to \$500 for FY 2012. The decrease was implemented to accommodate the growing numbers of applicants given a limited amount of funding for the program. The program is funded by donations made through a check-off on state income tax returns. While the number of approved grants has increased from about 300 in FY 2008 to about 2,000 in FY 2011, donations have remained fairly flat at about \$570,000 per year. ODJFS increased the grant amount from \$500 in FY 2008 to \$750 in FY 2009 and then again to \$1,000 in FY 2010 and FY 2011.

In FY 2011, \$2.1 million in grants were disbursed to 2,115 individuals. The cash balance in the Military Injury Relief Fund (Fund 5DB0), which supports the grants, was not sufficient to provide grants to all approved applicants. Expenditures from that fund totaled \$884,000, which accounted for about 42% of grants disbursed in that year. The remaining \$1.2 million was paid out of another eligible fund, the Administration and Operating Fund (Fund 5DM0) used by ODJFS. Fund 5DM0 is generally used to fund state hearings, audit adjustments, and other related costs associated with federal grant administration. Revenue in the fund is federal reimbursement for expenditures that have been claimed to federal grants.

In order to be eligible for a military injury grant, an individual must either (1) have been injured while serving on active duty during Operation Enduring Freedom (Afghanistan), Operation Iraqi Freedom, or Operation New Dawn, which is the current operation in Iraq or (2) have been diagnosed with post traumatic stress disorder after having served in those operations. The injury must have occurred while the individual was receiving pay for hazardous, combat, or hostile fire duty.

OBM's Office of Internal Audit Releases FY 2012 Operation Plan

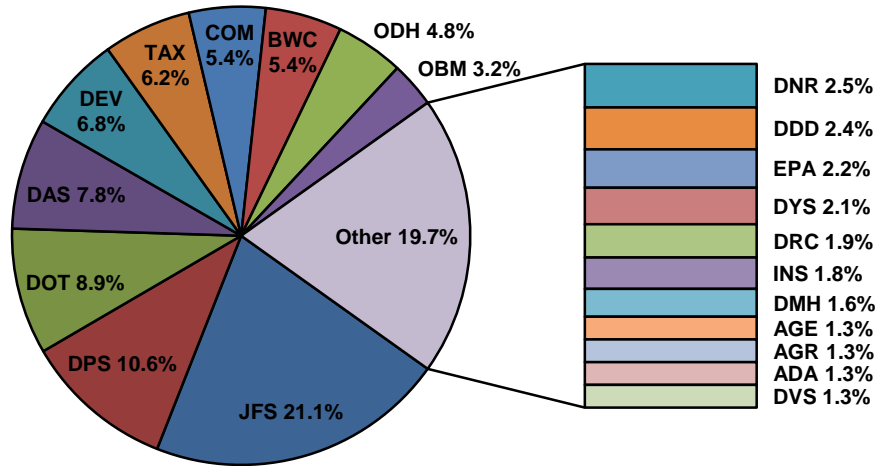
—*Jason Phillips, Senior Budget Analyst, 614-466-9753*

As prescribed by R.C. 126.47, the Office of Internal Audit (OIA), housed under the Office of Budget and Management (OBM), recently released its audit plan for FY 2012. The plan summarizes the audit prioritization process and the areas in which audits will be conducted over the course of the fiscal year. During FY 2012, OIA will engage all 22 agencies under its purview, including the Board of Regents, which was added by H.B. 153, the main operating budget act for the FY 2012-FY 2013 biennium, to the list of agencies under OIA oversight.

FY 2012 activities will be focused on finishing a series of IT general control reviews, conducting reviews that scrutinize both financial and IT processes in an integrated manner, and providing additional consulting services due to an increase in

process changes and new systems at state agencies. Internal auditing activities within the Department of Job and Family Services will consume most of OIA's budgeted hours under the audit plan, followed by the departments of Public Safety, Transportation, Administrative Services, and Development. The chart below lists the anticipated workload share associated with each agency during FY 2012, not including the workload resulting from any engagements with the Board of Regents.

OIA Budgeted Workload Share by Agency, FY 2012



The overall workload planned for FY 2012 is similar to the level of audit activities that occurred in FY 2011. According to OIA's FY 2011 annual report, OIA completed 31 assurance audits during that year. FY 2011 activities focused on database vulnerability, IT general controls, and American Recovery and Reinvestment Act of 2009 (ARRA) program reviews. The cost for OIA's services amounted to \$2.6 million in FY 2011, most of which was for personnel costs. OIA is funded by a combination of direct charges to agencies audited and a portion of the accounting and budgeting services payroll check-off. Both the FY 2011 annual report and the FY 2012 audit plan may be viewed online at OBM's web site: www.OBM.Ohio.Gov → Internal Audit.

TRACKING THE ECONOMY

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

Overview

National real
GDP grew
at a 2.5%
annual rate
in the third
quarter of
2011.

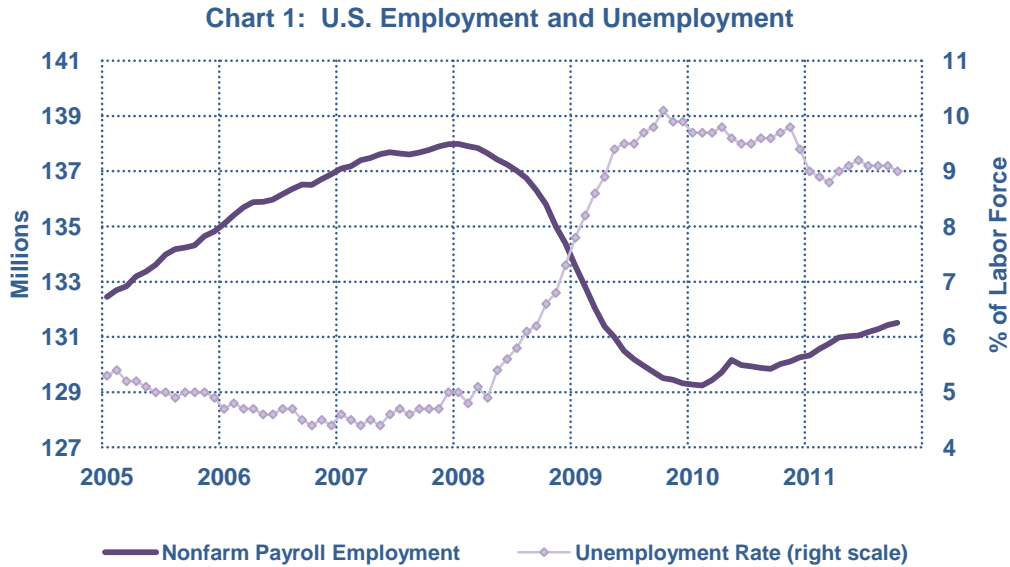
The national economy continues to expand. Inflation-adjusted gross domestic product (real GDP) grew in the third quarter at a 2.5% annual rate, after slower growth in the previous three quarters. Nonfarm payroll employment nationwide rose further in October. Purchasing managers' reports for the month were mixed. Motor vehicle sales strengthened slightly in October. Home sales and construction remain weak but starts on apartments rose in September. Private nonresidential construction has turned higher in 2011, from a low level. Consumer price inflation has picked up this year, but commodity prices have eased. Average wage and benefit increases in the private sector are up from post-recession lows, but remain small. In Ohio, nonfarm payrolls fell in September, the latest month data are available.

The Federal Reserve held monetary policy unchanged at the November meeting of its Federal Open Market Committee. In its post-meeting announcement, the Committee noted that economic growth picked up somewhat in the third quarter but unemployment remained elevated and inflation had moderated. A summary of Committee members' forecasts showed that they expected continued economic expansion but had become more pessimistic about the pace of growth and about reductions in unemployment. One Committee member dissented from the decision not to alter monetary policy, favoring additional easing.

The National Economy

Employment and Unemployment

Employment on U.S. nonfarm payrolls rose by 80,000 (0.1%) in October and employment in September was revised higher by 102,000. The nationwide unemployment rate in October was 9.0%, down from 9.1% in July through September. Employment and unemployment in the nation are shown in Chart 1.



Nonfarm payroll employment continues to grow slowly.

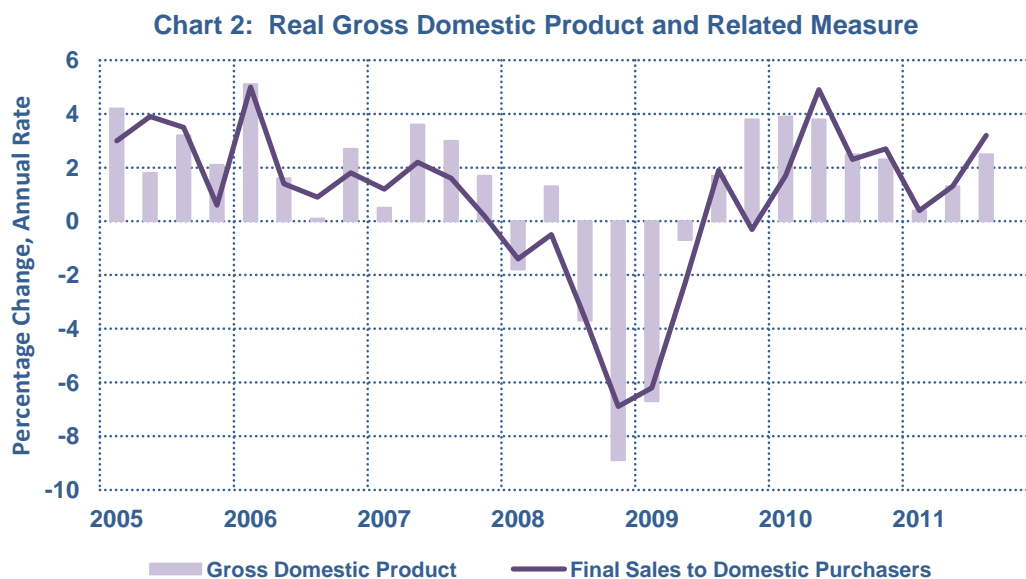
Total nonfarm payroll employment continues the slow uptrend underway since early 2010. After declining by nearly 8.8 million during 2008 to early 2010, nonfarm payrolls have since risen by only 2.3 million, recovering a little more than one out of every four jobs lost. In the latest month, private payrolls increased by 104,000, while governments reduced employment by 24,000. Private-sector employment in October continued to trend upward in professional and business services, leisure and hospitality, health care, and mining. Construction employment declined, offsetting most of an increase in the previous month. Most of October's decline in government jobs was in state government employment other than in education. State and local government employment has been trending lower since 2008.

The number of people counted as unemployed nationwide totaled 13.9 million in October, down from a peak of 15.6 million persons two years earlier. Persons unemployed for more than six months fell to 5.9 million in October, down from a peak of 6.7 million in May 2010. The number working part time (34 hours per week or less) for economic reasons (slack work or business conditions, or could only find part-time work) was 8.9 million, down from a peak of 9.5 million in 2010 but up from 8.3 million in February of this year. Among those not in the labor force, neither working nor looking for work in the past four weeks, the number of "discouraged workers," persons not actively seeking work because they think no job is available for them, was 1.0 million in October, down from 1.2 million a year earlier, but well above levels of 0.5 million or lower in October 2008 and most earlier months.

Production, Shipments, and Inventories

Growth of the U.S. economy picked up in the third quarter. Real GDP rose at a 2.5% annual rate, its highest rate of increase since the third quarter of 2010. Consumer spending increased as outlays for durable goods rose after declining in the previous quarter. Residential fixed investment rose, for the second consecutive quarter. Nonresidential fixed investment increased strongly, with spending on both structures and equipment up at double-digit annual rates. Government purchases were about unchanged on balance, with higher federal spending offset by lower state and local government spending. Exports continued to grow. Quarter-to-quarter changes in real GDP and in final sales to domestic purchasers (consumer spending plus residential and nonresidential fixed investment plus government spending) are shown in Chart 2. As the chart indicates, domestic sales grew faster than production in the third quarter.

U.S. nonresidential fixed investment rose strongly in the third quarter.



Industrial production rose 0.2% in September, as manufacturing output increased 0.4% and mining activity rose 0.8%, while output of utilities declined 1.8%. The increase in factory production followed gains of 0.3% in August and 0.7% in July. Utility output fell with more moderate temperatures. Output of consumer goods rose only 0.1% in September, to a production rate 1.6% higher than a year earlier. Production of business equipment increased 1.0% in the latest month, and was 10% higher than in September 2010. Production of construction supplies has gained 4.3% in the past 12 months. Since the recession trough in June 2009, total industrial production has risen 13%, but remains 6.5% lower than at the all-time peak in September 2007.

Manufacturers' shipments, inventories, and orders rose in September. New orders rose 0.3%, the third consecutive increase. Shipments also rose 0.3%, the fourth straight rise. Unfilled orders rose 0.9%, and rose in 19 of the last 21 months. Inventories increased in most months over the past two years, but rose only 0.1% in September.

Purchasing managers' reports for October were mixed. More purchasing managers with manufacturing firms said new orders rose than reported declines, in a survey by the Institute for Supply Management (ISM). New orders fell in the previous three months, allowing for usual seasonal patterns. Production was about unchanged in October, and inventories and order backlogs contracted. An index of prices paid showed declining prices for the first time since May 2009. A comparable ISM survey of purchasing managers with organizations other than manufacturers showed new orders and business activity growing, but growth was less widespread than earlier, and inventories and order backlogs declined. Prices paid rose but by less than in most months since 2009.

Consumer Spending

Personal income rose only 0.1% in September, and fell in each of the latest three months on an after-tax, inflation-adjusted basis. Real consumer spending, however, rose 0.5% in September, matching the increase in July, and was little changed in August. Softness in incomes reflects slow growth of employee compensation and declines in interest income and in transfer payments, notably from Medicaid programs as well as unemployment compensation. Changes in spending on motor vehicles and other durable goods accounted for most of the month-to-month change in total personal consumption expenditures.

In October, motor vehicle sales continued to recover. Sales of light vehicles were at a 13.2 million unit seasonally adjusted annual rate in the latest month, up from 13.1 million units in September and a low this year of 11.5 million units in June following supply chain disruptions that hampered deliveries. Sales in 2007 and earlier years totaled more than 16 million units.

Sales at 25 large retailers that report their results monthly were 3.7% higher in October than a year earlier, in a compilation by the International Council of Shopping Centers (ICSC). These sales are reported on a comparable store basis, including only store locations open in both the current and year-earlier periods. ICSC said the increase was the weakest since March. Weather effects, notably the snowstorm in the Northeast, may account in part for the smaller sales increase.

Real
consumer
spending
rose 0.5% in
September,
although
personal
income grew
only 0.1%.

Construction and Real Estate

Housing starts rose 15% in September as starts on construction of apartments jumped to the highest rate since 2008. Starts on new apartments, nevertheless, remained below the construction pace in most years back to 1959, when statistics on the current definitions begin. Single-family housing starts rose 2% but remained well within the low range in which they have varied since late 2008.

New home sales rose 6% in September but remained weak, at a lower rate (seasonally adjusted) than in any month from 1963 through April 2010. Builder inventories of completed homes for sale as well as of homes under construction and for sale were the lowest ever on records kept since 1973. Average and median prices at which homes sold were at some of the lowest levels since 2003.

Sales of homes reported by the National Association of Realtors (NAR), mostly previously occupied homes, fell 3% from August to September, but were 11% higher than in September 2010. The pace of home sales remains nearly one-third lower than in peak year 2005. NAR indicated that "distressed homes," including foreclosures and short sales, accounted for 30% of sales in September.

Construction activity generally continued slow through September, with the rate of total construction spending lower by about one-third from that in the peak year, 2006. Residential construction activity remains weak. Year-to-date private residential construction spending was 3% lower than in the first nine months of 2010, and outlays in all of 2010 were 61% lower than in 2006. Private nonresidential construction spending was 36% lower last year than in peak year 2008, but has picked up from lows early this year, with increases in several sectors including power, manufacturing, commercial, health care, education, and amusement and recreation. Public construction was 4% lower last year than in peak year 2009, and was 7% lower in the first nine months of this year than in the same period of 2010.

Inflation

The consumer price index (CPI) increased 0.3% in September. Food prices rose 0.4%, including an increase in the price of food at home of 0.6%. Energy prices rose 2.0% in September, as the price of gasoline rose 2.9% after increasing 1.9% in August. Prices for all items other than food and energy rose 0.1% in September, the smallest rise since March. Compared with a year earlier, the CPI for all items was higher by 3.9%, with food prices up 4.7% and energy prices higher by 19.3%. The CPI for

The consumer price index was 3.9% higher in September than a year earlier.

all items less food and energy in September was higher than a year earlier by 2.0%, for the second consecutive month, the largest year-over-year increase since late 2008.

The producer price index (PPI) for finished goods rose 0.8% in September as energy prices jumped 2.3% and food prices rose 0.6%. Higher gasoline prices accounted for most of the rise in the index for energy. The PPI for finished goods excluding food and energy rose a more modest 0.2% from August to September. Compared with September 2010, the PPI for finished goods was 6.9% higher, and that for finished goods less food and energy was 2.5% higher. At earlier stages in the production process, intermediate goods prices were 10.5% higher in September than a year earlier, and crude materials prices were 20.9% higher, though most of the month-to-month increases occurred early this year and in late 2010.

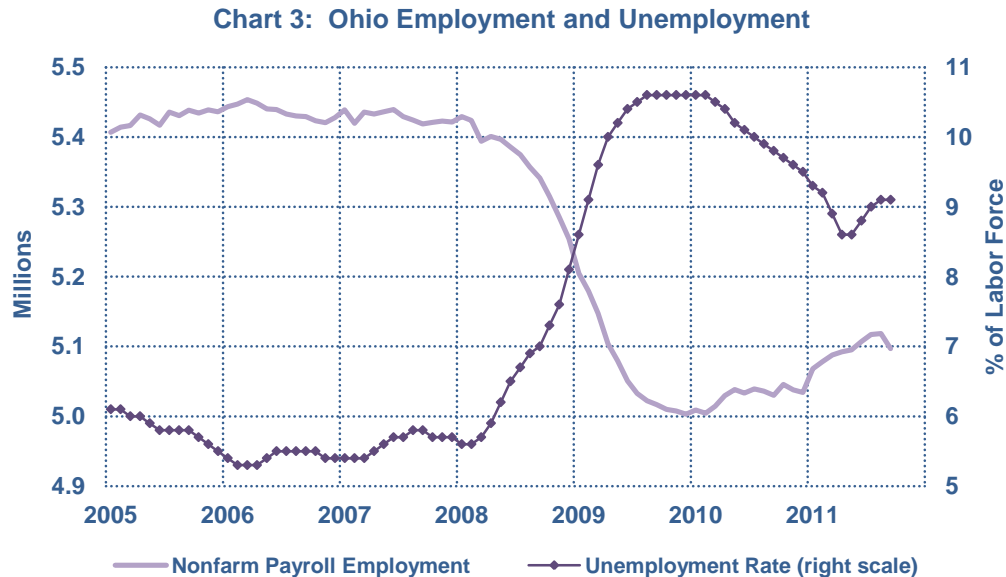
The average cost to private-industry employers of wages and salaries paid to their employees rose 1.7% in the year ending in September, according to the Employment Cost Index from the U.S. Bureau of Labor Statistics (BLS). This is up from the low point for average private-sector wage increases of 1.3% in the year to December 2009. From 2001 through 2007, private-sector wage gains averaged 3.0% per year. The cost of benefits paid by employers in the private sector rose 3.3% in the 12 months ending in September, up from a low of 0.9% in 2009 but below the 4.7% average increase in 2001-2007. At state and local governments, average wages and salaries rose 1.0% in the year to September, the lowest increase during a 12-month period in this series that begins in 2001. The cost of benefits provided by state and local governments rose 2.5% in the year to September, matching the smallest increase on record, which was reported in 2010.

BLS also estimates changes in the average labor cost of producing a unit of output (unit labor costs). These estimates combine information on labor compensation with estimates of productivity, or output per labor hour. Unit labor costs are an indicator of pressures on businesses to raise the prices of their products. In the nonfarm business sector, hourly labor compensation (wages plus benefits) increased 2.3% in the year ending in the third quarter, output per hour rose 1.1%, and consequently unit labor costs rose 1.2%. In contrast, during 2009 and 2010, exceptionally low compensation increases coupled with above-average increases in productivity resulted in declining unit labor costs. Declines in unit labor costs are unusual, though not unprecedented. From 1948 through 2008, unit labor costs rose 3.1% per year on average, and declined in seven years.

Private-sector compensation gains have increased, but remain low.

The Ohio Economy

Total nonfarm payroll employment in Ohio fell 21,600 (0.4%) from August to September. The statewide unemployment rate was unchanged at 9.1%. Ohio employment and unemployment are shown in Chart 3.



Ohio's unemployment rate was 9.1% in September, for the second consecutive month.

The drop in total nonfarm payroll employment was the largest month-to-month decline in this measure of employment in the state since June 2009. Total employment remained 1.9% higher in September than at the low point for statewide employment in December 2009. Previously, the number of jobs in Ohio fell 7.7% from December 2007, at the end of the last business cycle expansion, to December 2009. Private-sector payroll employment fell 0.5% in September, its sharpest fall since the last recession, but remained 2.5% higher than at the low point in December 2009. Government employment in Ohio has fallen 4.0% since a peak in December 2006, with most of the decline in the past three years, and with local governments accounting for most of the reductions.

The unemployment rate in September was up from a recent low of 8.6% in April and May of this year, but below the peak of 10.6% from August 2009 through February 2010. The number of Ohioans counted as unemployed in September totaled 534,000.

Economic activity in this region continues to expand, but only slowly, according to a report from the Federal Reserve Bank of Cleveland.⁷ Manufacturers said production was stable but reported small declines in new orders and backlogs. Freight transport volumes were said to be slightly higher. Retail sales were also characterized as slightly higher, except new car buying which was mixed. Single-family home construction activity remained weak, with some builders shifting to multifamily projects. Nonresidential construction activity also was weak, and contracts were mainly with manufacturers and health care providers. Hiring has slowed from the pace earlier in the third quarter, with job openings in technical occupations and health care.

Unit sales of homes in this state in September were 14% higher than a year earlier, according to the Ohio Association of Realtors. Sales in the third quarter were 19% higher than in the year-earlier period, after declining in the first half. These comparisons reflect the impact of federal income tax credits that boosted purchases in the first half of 2010. For the year to date, unit home sales were 3% lower than in January through September 2010. The average home sales price in the state in the latest nine months was about \$130,000, 3% lower than a year earlier.

⁷ The report is the Federal Reserve Bank of Cleveland's section of the Beige Book, a summary of comments from outside contacts published by the Federal Reserve System. Information for the latest report was collected through October 7. The Federal Reserve Bank of Cleveland's section covers developments in all of Ohio plus parts of Kentucky, Pennsylvania, and West Virginia.