Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION MAY 2017

STATUS OF THE GRF

HIGHLIGHTS

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

April GRF tax revenue was $159 million below the August 2016 estimate by the Office of Budget and Management (OBM), as the April income tax filing season was disappointing and sales tax revenue was nearly $48 million below the estimate. Payments accompanying income tax returns were $28 million below estimate, and refunds were $82 million above estimate.

Ten months into FY 2017 it is likely that GRF tax revenue, currently nearly $774 million below the August estimate, will end the year below the January OBM estimate. The Executive budget proposal reduced GRF tax revenue projections for FY 2017 by $592 million compared to the August estimate, and Ohio ended April $182 million below that. The spending side of the state budget is also well below estimate, but the possibility that FY 2017 GRF revenue exceeds expenditures looks unlikely.

Through April 2017, GRF sources totaled $27.79 billion:

- Revenue from the personal income tax was $554.4 million below the August OBM estimate, while sales tax receipts were $208.4 million below estimate.

Through April 2017, GRF uses totaled $29.55 billion:

- GRF program expenditures were $1.17 billion below OBM's August 2016 estimate. Medicaid accounted for $872.6 million of the total variance.

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STATUS OF THE GRF

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Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of April 2017
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on May 1, 2017)

STATE SOURCES	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$121,625	$124,700	-$3,075	-2.5%
Nonauto Sales and Use	$791,719	$836,200	-$44,481	-5.3%
Total Sales and Use Taxes	**$913,343**	**$960,900**	**-$47,557**	**-4.9%**
Personal Income	$781,906	$888,600	-$106,694	-12.0%
Corporate Franchise	-$24	$0	-$24	---
Financial Institution	$26,873	$33,200	-$6,327	-19.1%
Public Utility	$264	$0	$264	---
Kilowatt-Hour Excise	$30,290	$32,400	-$2,110	-6.5%
Natural Gas Consumption (MCF)	$3,314	$3,900	-$586	-15.0%
Commercial Activity Tax	$45,554	$39,500	$6,054	15.3%
Petroleum Activity Tax	$0	$0	$0	---
Foreign Insurance	-$2,235	-$1,000	-$1,235	-123.5%
Domestic Insurance	$1,012	$0	$1,012	---
Business and Property	$0	$0	$0	---
Cigarette	$72,779	$75,300	-$2,521	-3.3%
Alcoholic Beverage	$4,509	$4,300	$209	4.9%
Liquor Gallonage	$3,887	$3,600	$287	8.0%
Estate	$86	$0	$86	---
Total Tax Revenue	**$1,881,558**	**$2,040,700**	**-$159,142**	**-7.8%**
NONTAX REVENUE				
Earnings on Investments	$13,274	$8,700	$4,574	52.6%
Licenses and Fees	$2,224	$2,565	-$341	-13.3%
Other Revenue	$418	$705	-$287	-40.8%
Total Nontax Revenue	**$15,916**	**$11,970**	**$3,946**	**33.0%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$4,018	$9,800	-$5,782	-59.0%
Total Transfers In	**$4,018**	**$9,800**	**-$5,782**	**-59.0%**
TOTAL STATE SOURCES	**$1,901,492**	**$2,062,470**	**-$160,978**	**-7.8%**
Federal Grants	$780,466	$802,098	-$21,632	-2.7%
TOTAL GRF SOURCES	**$2,681,958**	**$2,864,568**	**-$182,610**	**-6.4%**

*Estimates of the Office of Budget and Management as of August 2016.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate
FY 2017 as of April 30, 2017
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on May 1, 2017)

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2016	Percent Change
TAX REVENUE						
Auto Sales	$1,136,967	$1,143,000	-$6,033	-0.5%	$1,109,618	2.5%
Nonauto Sales and Use	$7,626,008	$7,828,400	-$202,392	-2.6%	$7,487,296	1.9%
Total Sales and Use Taxes	**$8,762,975**	**$8,971,400**	**-$208,425**	**-2.3%**	**$8,596,914**	**1.9%**
Personal Income	$6,260,845	$6,815,200	-$554,355	-8.1%	$6,444,653	-2.9%
Corporate Franchise	$3,371	$0	$3,371	---	$32,369	-89.6%
Financial Institution	$132,595	$165,100	-$32,505	-19.7%	$159,981	-17.1%
Public Utility	$72,566	$73,900	-$1,334	-1.8%	$75,407	-3.8%
Kilowatt-Hour Excise	$302,806	$288,900	$13,906	4.8%	$292,467	3.5%
Natural Gas Consumption (MCF)	$35,459	$36,300	-$841	-2.3%	$34,061	4.1%
Commercial Activity Tax	$1,005,554	$1,027,500	-$21,946	-2.1%	$996,871	0.9%
Petroleum Activity Tax	$5,014	$4,900	$114	2.3%	$5,598	-10.4%
Foreign Insurance	$334,535	$316,700	$17,835	5.6%	$317,187	5.5%
Domestic Insurance	$1,170	$600	$570	95.0%	$565	107.1%
Business and Property	-$678	$0	-$678	---	$93	-831.9%
Cigarette	$740,042	$733,500	$6,542	0.9%	$768,021	-3.6%
Alcoholic Beverage	$47,366	$45,300	$2,066	4.6%	$44,822	5.7%
Liquor Gallonage	$38,673	$37,300	$1,373	3.7%	$37,501	3.1%
Estate	$580	$0	$580	---	$1,613	-64.1%
Total Tax Revenue	**$17,742,871**	**$18,516,600**	**-$773,729**	**-4.2%**	**$17,808,123**	**-0.4%**
NONTAX REVENUE						
Earnings on Investments	$37,357	$25,900	$11,457	44.2%	$26,196	42.6%
Licenses and Fees	$58,468	$55,575	$2,893	5.2%	$55,490	5.4%
Other Revenue	$55,052	$54,755	$297	0.5%	$45,737	20.4%
Total Nontax Revenue	**$150,877**	**$136,230**	**$14,647**	**10.8%**	**$127,423**	**18.4%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$96,862	$41,600	$55,262	132.8%	$195,474	-50.4%
Total Transfers In	**$96,862**	**$41,600**	**$55,262**	**132.8%**	**$195,474**	**-50.4%**
TOTAL STATE SOURCES	**$17,990,610**	**$18,694,430**	**-$703,820**	**-3.8%**	**$18,131,020**	**-0.8%**
Federal Grants	$9,803,375	$10,511,932	-$708,557	-6.7%	$10,311,786	-4.9%
TOTAL GRF SOURCES	**$27,793,985**	**$29,206,362**	**-$1,412,378**	**-4.8%**	**$28,442,806**	**-2.3%**

*Estimates of the Office of Budget and Management as of August 2016.
Detail may not sum to total due to rounding.

REVENUES

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

Overview

April GRF tax revenue was $159.1 million below estimate.

FY 2017 GRF tax revenue was $773.7 million below estimate through April.

For the fiscal year through April, total GRF sources[1] of $27.79 billion were $1.41 billion below expected revenues, due to the underperformance from the most important tax sources throughout FY 2017. The April 2017 income tax filing season concluded with a negative variance of $106.7 million for the personal income tax (PIT), based on the August 2016 OBM estimate. This poor result increased the PIT's year-to-date negative variance to $554.4 million, up from $447.7 million through March 2017. In addition, sales and use tax revenues were $47.6 million below estimate in April, following a large shortfall of $40.5 million in the previous month. The latest revenue performance increased the year-to-date deficit for the sales and use tax to $208.4 million.

The PIT and sales tax negative variances accounted for nearly the total monthly deficit of $159.1 million for all GRF tax sources in April. For the fiscal year, total GRF tax sources were below anticipated receipts by $773.7 million. That shortfall was partially offset by a surplus of $69.9 million in revenue from nontax revenue and transfers in, thus resulting in a gap of $703.8 million for state-sources receipts for FY 2017. Federal grants were also below estimate by $21.6 million in April, increasing the fiscal year's negative variance for this GRF source to $708.6 million. This shortfall, however, is primarily related to the level of spending in the Medicaid program which has been below anticipated expenditures. (See the "**Expenditures**" section of this publication.).[2] Tables 1 and 2 above show GRF sources for April and for FY 2017 through April, respectively.

On January 30, 2017, OBM revised downward its August 2016 estimates of FY 2017 GRF tax revenue by $592.2 million, which was consistent with revenue experiences throughout the fiscal year. With two months left in FY 2017, it is likely that GRF tax revenue as a whole will end the year below the most recent estimate, as Ohio ended April with a year-to-date negative variance $181.6 million larger than the January

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[1] GRF sources consist of state-source receipts (tax revenue, nontax revenue, and transfers in) and federal grants, which are typically federal reimbursements for Medicaid and other programs.

[2] Through April, FY 2017 GRF Medicaid spending was $872.6 million below estimate.

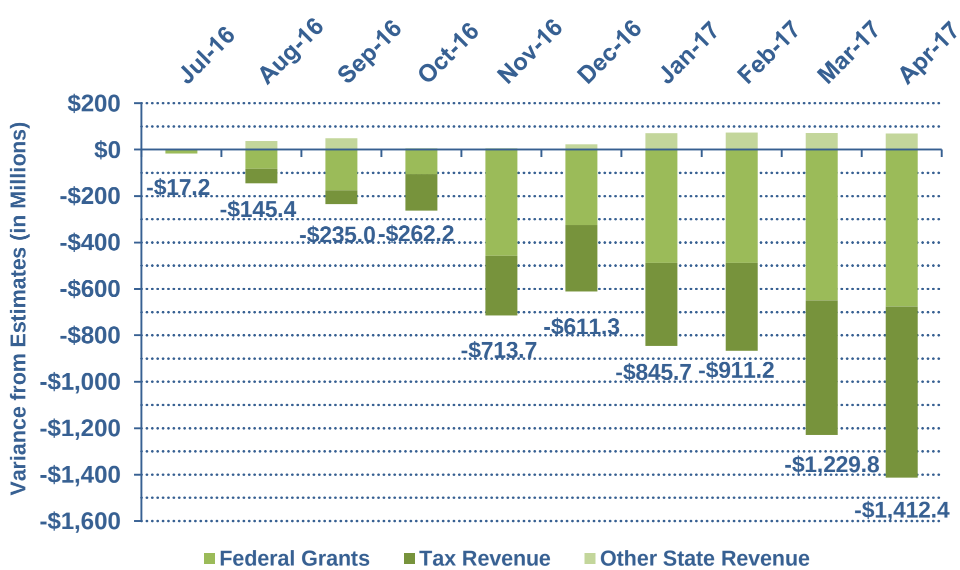
estimate of the full-year variance. The variance analyses in this issue of *Budget Footnotes* are based on the August estimates as OBM did not revise its monthly estimates for the remainder of FY 2017.

For the month of April, GRF sources of $2.68 billion were $182.6 million below the August estimate. In addition to the two largest tax sources mentioned above, the financial institutions tax (FIT), the cigarette tax, the kilowatt-hour tax, and the foreign insurance tax were also below monthly projections by $6.3 million, $2.5 million, $2.1 million, and $1.2 million, respectively. Those negative variances above were partially offset by positive variances of $6.1 million from the commercial activity tax (CAT) and $1.0 million from the domestic insurance tax.

FY 2017 federal grants were $708.6 million below estimate through April.

The following chart illustrates the cumulative performance of total GRF sources relative to estimates through each month of FY 2017, broken down by its largest components. Through April, GRF sources were $1,412.4 million below estimate, as labeled in the far right column.

Chart 1: GRF Source Fiscal Year Cumulative Performance by Component



GRF tax revenue in FY 2017 was $65.3 million (0.4%) lower than receipts during the corresponding period in FY 2016. Most of the revenue decrease was due to lower collections from the PIT ($183.8 million). Receipts from the corporate franchise tax, the cigarette tax, and the FIT also decreased by $29.0 million, $28.0 million, and $27.4 million, respectively. On the other hand, sales and use tax revenue was $166.1 million higher than in FY 2016 and revenue also grew for the foreign insurance tax ($17.3 million), the kilowatt-hour excise tax ($10.3 million), and the CAT ($8.7 million).

Sales and Use Tax

Sales and use tax receipts were $208.4 million below estimates through April in FY 2017.

Following a shortfall of $40.5 million in March, the sales and use tax had another bad month in April. GRF sales and use tax revenue of $913.3 million was $47.6 million (4.9%) below estimate, but $6.8 million (0.8%) above revenue in the same month last year. For the fiscal year to date, GRF sales and use tax receipts of $8.76 billion were $208.4 million (2.3%) below estimate, though they were $166.1 million (1.9%) above receipts in FY 2016 through April. In January, OBM decreased FY 2017 estimates for this tax by $259.3 million to $10.55 billion, down from $10.81 billion. With two remaining months in the fiscal year, it is increasingly improbable the sales and use tax will meet the revised estimate.

The sales and use tax is the largest state-sourced revenue stream to the GRF. For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto; both tax sources were below projections in April. Auto sales and use tax collections generally arise from the sale of motor vehicles, but auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax instead of the auto tax.[3]

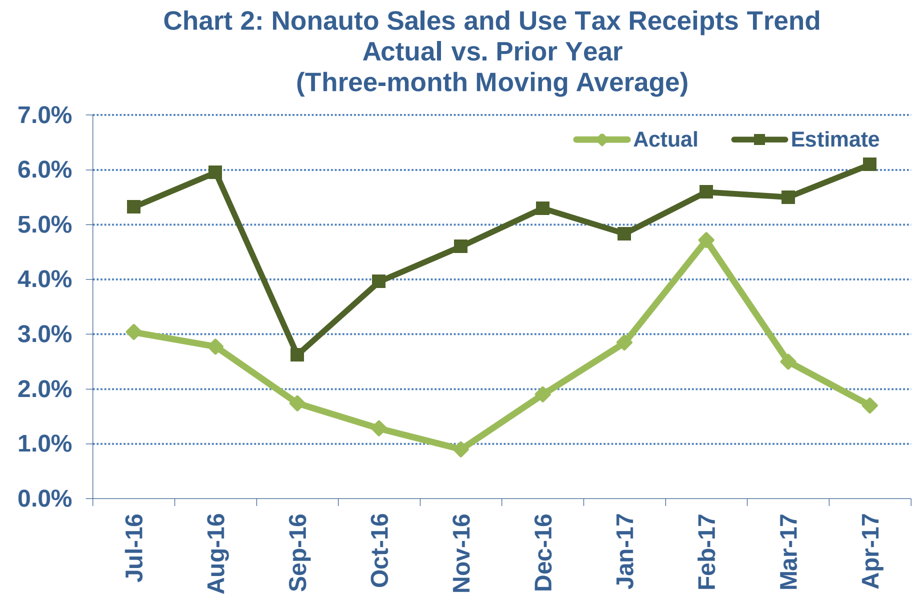
Nonauto Sales and Use Tax

Nonauto sales and use tax revenue was $202.4 million below estimate through April in FY 2017.

Nonauto sales and use tax revenue to the GRF was $791.7 million in April, an amount $44.5 million (5.3%) below estimate, though $2.6 million (0.3%) above revenue in April 2016. This performance follows another large negative variance of $37.4 million in March 2017. Collections from this segment of the tax have been below the estimate every month this fiscal year, except in December. Comparing revenue, month by month, to revenue from the same month a year ago reveals growth, but the pace has decreased in the most recent months. For FY 2017 through April, nonauto sales and use tax revenue of $7.63 billion was $202.4 million (2.6%) below expectations, though receipts were $138.7 million (1.9%) above receipts in the corresponding period in

[3] Taxes arising from leases are paid immediately upon the lease signing. The clerks of court generally make auto sales and use tax payments on Mondays for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales and use tax receipts mostly, but not perfectly, reflect vehicles sold and titled during the month.

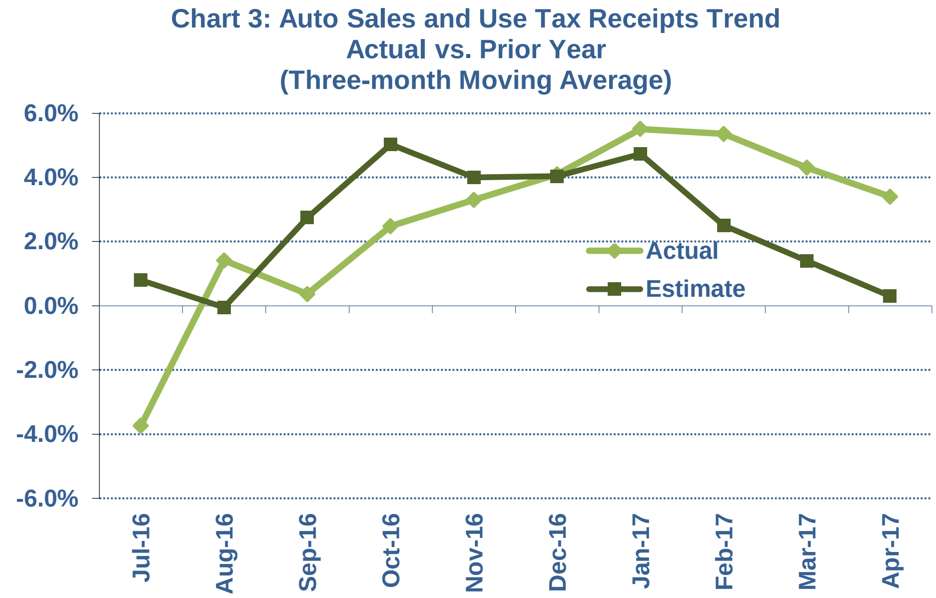
FY 2016. The soft yearly growth is the weakest recorded since the years preceding the 2008-2009 economic recession, and less than half the growth rate anticipated at the start of FY 2017. Chart 2 below illustrates the year-over-year growth of nonauto sales and use tax collections and its failure to meet estimates in FY 2017.



Auto Sales and Use Tax

After a strong performance that brought its revenue up to estimate for the year in February, the auto sales tax stumbled in the two subsequent months. For the month of April, the GRF received $121.6 million from this tax source, an amount that was $3.1 million (2.5%) below expectations, following a negative variance of $3.0 million (2.3%) in March. April auto tax revenue was, however, $4.3 million (3.6%) above receipts in April 2016. For the fiscal year, GRF revenue of $1.14 billion was $6.0 million (0.5%) below the August estimates and $27.3 million (2.5%) above revenue in FY 2016 through April. As Chart 3 below illustrates, the year-over-year growth generally picked up in the first-half of the fiscal year, but growth has slowed in 2017. For this tax source, the January downward revision was $60 million, compared to the August estimate. Based on the year-to-date results, this tax may meet the lowered estimate of $1.34 billion in GRF revenue (which is $6.4 million below actual FY 2016 revenue).

Auto sales and use tax revenue was $6.0 million below estimate through April in FY 2017.



Nationwide, growth in vehicle sales appears to have stalled in 2017. The sales pace of light vehicles (autos and light trucks) fell to 17.1 million units (seasonally adjusted annual rate) in the first four months of 2017, down from 17.5 million units sold during 2016. In the corresponding period of 2016, sales averaged 17.3 million units. The weakness is due to auto sales, which have fallen 12% in 2017, while light truck sales were about 4% above their 2016 level. Gasoline prices are still relatively low, inventory high, and sales incentives plentiful. The slowdown in overall light vehicle sales comes amid reports of a pullback in auto lending by big banks this year. Light truck sales have helped maintain Ohio auto sales tax revenue. Therefore, a substantial retrenchment in those sales would negatively affect sales and use tax revenue.

Personal Income Tax

FY 2017 PIT revenue was $554.4 million below estimate through April.

The performance of the PIT has been underwhelming throughout the fiscal year and is the main culprit for the sustained weakness of GRF tax sources in FY 2017. Similarly to FY 2016, the April "surprise" in 2017 was negative, due to poor revenue from payments due with annual tax returns and refunds that were higher than anticipated. April PIT receipts of $781.9 million to the GRF were 12.0% below the August estimate. This result increased the year-to-date deficit for this tax to $554.4 million, up from $447.7 million at the end of March 2017. Monthly PIT revenue had generally been below estimate throughout FY 2016, but the latest performance confirmed the tax source would end FY 2017 in substantial negative territory, and well below the January revised estimate of $7.93 billion.

Through the end of April 2017, total FY 2017 GRF revenue from the PIT was $6.26 billion and $183.8 million (2.9%) below PIT revenue in the corresponding period in FY 2016. PIT revenue is comprised of gross collections, minus refunds and distributions to the Local Government Fund (LGF). Gross collections consist of employer withholdings, quarterly estimated payments,[4] trust payments, payments associated with annual returns, and other miscellaneous payments.

The performance of the tax is typically driven by employer withholdings. However in February, March, and April during the tax filing season, tax refunds and taxes due with annual returns are also significant components of net collections (though this year, refunds have been below estimate all year, except in December). In April, tax refunds were $82.0 million (20.4%) higher than projected and taxes due with annual returns were $28.3 million (5.7%) below estimate. Also, employer withholding experienced a shortfall of $6.8 million (1.0%). The negative variances were partially offset by surpluses of $5.0 million (6.4%) in quarterly estimated payments and $3.0 million (14.2%) in revenue from trusts.

For FY 2017 through April, the PIT revenue shortfall was also driven by refunds that were $353.5 million (24.3%) higher than expected; and employer withholding revenue was $199.0 million (2.8%) short of anticipated receipts. In addition to that negative variance, annual return payments, miscellaneous payments, and revenue from trusts were lower than expected by $14.4 million (2.2%), $9.9 million (11.4%), and $2.7 million (5.4%), respectively. Partly offsetting those shortfalls and the only component above projections, quarterly estimated payments were above estimate by $13.1 million (2.2%). For the fiscal year, the negative variance for gross collections as a whole was $212.9 million (2.5%).

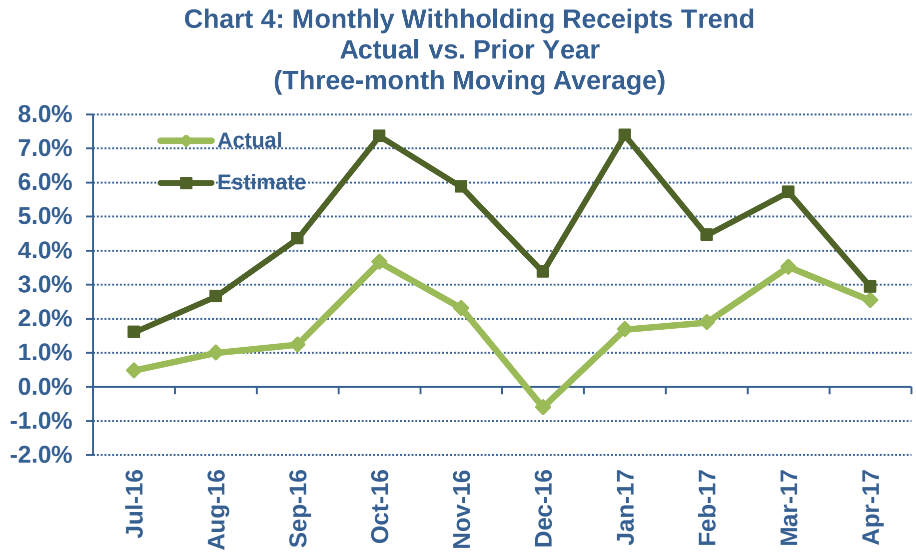
Revenue from employer withholding was $199.0 million below estimate in FY 2017 through April.

Chart 4 below illustrates how a three-month moving average of monthly employer withholdings has grown relative to one year earlier. The pace of growth increased during early FY 2017, despite the effects of policy changes (which led to reduced withholding rates in August 2015),[5] but fell in the second fiscal quarter. Employer withholding began growing

[4] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due in April, June, and September of an individual's tax year and January of the following year. Most estimated payments are made by high-income taxpayers.

[5] H.B. 64, the budget act for the current biennium, reduced income tax rates for all brackets by 6.3% for taxable years beginning in 2015, and the withholding rate reduction was implemented in August 2015.

again in December and early in 2017, though payroll growth appears to have weakened in the most recent observation, representing year-over-year growth for the three months ending in April.



FY 2017 revenues through April from each component of the PIT relative to estimates and to revenue received in the corresponding period of FY 2016 are detailed in the table below.

FY 2017 Year-to-Date Personal Income Tax Revenue
Estimate Variances and Year-over-Year Changes by Component

Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2016	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	-$199.0	-2.8%	$91.1	1.3%
Quarterly Estimated Payments	$13.1	2.2%	-$206.3	-25.5%
Trust Payments	-$2.7	-5.4%	$6.8	16.7%
Annual Return Payments	-$14.4	-2.2%	$17.5	2.9%
Miscellaneous Payments	-$9.9	-11.4%	-$7.1	-8.5%
Gross Collections	-$212.9	-2.5%	-$97.9	-1.2%
Less Refunds	$353.5	24.3%	$83.0	4.8%
Less LGF Distribution	-$12.0	-3.8%	$2.9	1.0%
GRF PIT Revenue	-$554.4	-8.1%	-$183.8	-2.9%

FY 2017 gross collections were $97.9 million below collections through the first ten months of FY 2016. Most of the decline was due to lower quarterly estimated payments ($206.3 million) as taxpayers adjusted the payments to lower tax rates and lower taxation of business income. On the other hand, payroll continued to grow and employer withholding increased by $91.1 million compared to the corresponding period last year.

Cigarette and Other Tobacco Products Tax

Though monthly revenue was below estimate, for the fiscal year through April, the cigarette and other tobacco products tax continued to be the only major tax source that consistently outperformed expectations. April GRF revenue of $72.8 million from this tax was, however, $2.5 million (3.3%) below estimate and $6.2 million (7.9%) below revenue in April 2016. For the fiscal year, receipts from the tax were $740.0 million, $6.5 million (0.9%) above estimate. Of the total revenue, $688.2 million was from sales of cigarettes and $51.8 million was from sales of other tobacco products. Compared to the corresponding period of FY 2016, receipts in FY 2017 were $28.0 million (3.6%) lower. Generally, cigarette tax receipts are trending downward long term; however, legislative changes[6] led to increased receipts in the early months of FY 2016. Excluding floor tax receipts, FY 2017 receipts were 1.5% below receipts in FY 2016, with revenue from the tax on other tobacco products slightly above the year-ago level.

FY 2017 revenue from the cigarette tax was $6.5 million above estimate.

Generally, combined cigarette tax revenues in May and June are about 25% of total revenue for the fiscal year. Thus, despite good year-to-date results for this tax source so far, with two months left in the fiscal year, it is uncertain whether this tax will finish above or below the projected yearly estimate.

Commercial Activity Tax

April revenue from the CAT was $45.6 million, $6.1 million (15.3%) above estimate, and $8.5 million (22.9%) above revenue in the same month last year. For the fiscal year through April, CAT revenues to the GRF totaled $1.01 billion, $21.9 million (2.1%) below estimate, and $8.7 million (0.9%) above GRF revenue in the corresponding period in FY 2016. According to OAKS, gross collections were $1.44 billion, $1.9 million (0.1%) above collections through April in FY 2016. The last fiscal year payment for calendar quarter CAT taxpayers is due in May, and that payment will determine whether the CAT meets the January estimate (which reduced the August estimate by $32.0 million). A positive revenue variance in May would probably ensure the tax finishes the fiscal year at or above the revised estimate.

FY 2017 revenue from the CAT was $21.9 million below estimate.

[6] H.B. 64 increased the cigarette tax from $1.25 to $1.60 per pack of 20 cigarettes, effective July 1, 2015. This led to the payment of a "floor tax" for cigarettes in inventory at the time the new tax rate went into effect. Excluding the effect of the floor tax, the year-over-year decline in tax revenue was about 0.6%.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of April 2017
($ in thousands)
(Actual based on OAKS reports run May 2, 2017)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary and Secondary Education	$663,008	$653,331	$9,677	1.5%
Higher Education	$185,750	$184,333	$1,416	0.8%
Other Education	$3,746	$7,031	-$3,286	-46.7%
Total Education	$852,503	$844,695	$7,808	0.9%
Medicaid	$1,106,279	$1,107,355	-$1,076	-0.1%
Health and Human Services	$124,172	$140,049	-$15,878	-11.3%
Total Welfare and Human Services	$1,230,451	$1,247,404	-$16,953	-1.4%
Justice and Public Protection	$189,239	$197,845	-$8,606	-4.3%
General Government	$31,805	$34,009	-$2,204	-6.5%
Total Government Operations	$221,044	$231,854	-$10,810	-4.7%
Property Tax Reimbursements	$156,932	$391,743	-$234,811	-59.9%
Debt Service	$57,675	$73,777	-$16,102	-21.8%
Total Other Expenditures	$214,606	$465,520	-$250,913	-53.9%
Total Program Expenditures	**$2,518,604**	**$2,789,473**	**-$270,869**	**-9.7%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$44	$18,852	-$18,808	-99.8%
Total Transfers Out	$44	$18,852	-$18,808	-99.8%
TOTAL GRF USES	**$2,518,647**	**$2,808,324**	**-$289,677**	**-10.3%**

*August 2016 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 2017 as of April 30, 2017
($ in thousands)
(Actual based on OAKS reports run May 2, 2017)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2016**	**Percent Change**
Primary and Secondary Education	$6,956,452	$6,946,824	$9,628	0.1%	$6,666,459	4.4%
Higher Education	$1,918,996	$1,928,781	-$9,785	-0.5%	$1,856,055	3.4%
Other Education	$65,942	$68,220	-$2,278	-3.3%	$62,120	6.2%
Total Education	$8,941,390	$8,943,825	-$2,436	0.0%	$8,584,634	4.2%
Medicaid	$14,503,409	$15,375,971	-$872,562	-5.7%	$15,103,503	-4.0%
Health and Human Services	$1,165,466	$1,234,115	-$68,649	-5.6%	$1,136,687	2.5%
Total Welfare and Human Services	$15,668,875	$16,610,086	-$941,211	-5.7%	$16,240,190	-3.5%
Justice and Public Protection	$1,766,592	$1,798,457	-$31,865	-1.8%	$1,709,427	3.3%
General Government	$317,702	$335,937	-$18,235	-5.4%	$304,318	4.4%
Total Government Operations	$2,084,294	$2,134,395	-$50,100	-2.3%	$2,013,745	3.5%
Property Tax Reimbursements	$1,292,362	$1,436,226	-$143,864	-10.0%	$1,447,966	-10.7%
Debt Service	$1,276,056	$1,308,099	-$32,043	-2.4%	$1,265,492	0.8%
Total Other Expenditures	$2,568,419	$2,744,325	-$175,907	-6.4%	$2,713,457	-5.3%
Total Program Expenditures	**$29,262,978**	**$30,432,631**	**-$1,169,654**	**-3.8%**	**$29,552,027**	**-1.0%**
TRANSFERS						
Budget Stabilization	$29,483	$29,483	$0	0.0%	$425,500	-93.1%
Other Transfers Out	$256,300	$288,393	-$32,092	-11.1%	$406,027	-36.9%
Total Transfers Out	$285,783	$317,875	-$32,092	-10.1%	$831,527	-65.6%
TOTAL GRF USES	**$29,548,760**	**$30,750,506**	**-$1,201,746**	**-3.9%**	**$30,383,554**	**-2.7%**

*August 2016 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Table 5: Medicaid Expenditures by Department
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on May 5, 2017)

	Month of April 2017				Year to Date Through April 2017			
Department	Actual	Estimate*	Variance	Percent	Actual	Estimate*	Variance	Percent
Medicaid	**$1,885,414**	**$1,931,958**	**-$46,544**	**-2.4%**	**$18,921,871**	**$20,052,747**	**-$1,130,876**	**-5.6%**
GRF	$1,058,300	$1,054,413	$3,887	0.4%	$13,969,308	$14,804,569	-$835,261	-5.6%
Non-GRF	$827,114	$877,545	-$50,431	-5.7%	$4,952,563	$5,248,177	-$295,614	-5.6%
Developmental Disabilities	**$191,127**	**$202,965**	**-$11,838**	**-5.8%**	**$2,064,355**	**$2,184,994**	**-$120,639**	**-5.5%**
GRF	$42,372	$47,204	-$4,833	-10.2%	$467,869	$479,337	-$11,468	-2.4%
Non-GRF	$148,756	$155,761	-$7,005	-4.5%	$1,596,486	$1,705,657	-$109,171	-6.4%
Job and Family Services	**$14,119**	**$11,324**	**$2,795**	**24.7%**	**$174,115**	**$207,022**	**-$32,907**	**-15.9%**
GRF	$5,060	$5,202	-$141	-2.7%	$58,205	$84,472	-$26,267	-31.1%
Non-GRF	$9,059	$6,123	$2,936	48.0%	$115,910	$122,550	-$6,640	-5.4%
Health	**$1,481**	**$1,385**	**$96**	**6.9%**	**$22,346**	**$21,662**	**$684**	**3.2%**
GRF	$271	$254	$17	6.7%	$3,194	$2,744	$449	16.4%
Non-GRF	$1,210	$1,131	$79	7.0%	$19,152	$18,917	$235	1.2%
Aging	**$479**	**$514**	**-$35**	**-6.8%**	**$5,888**	**$6,278**	**-$391**	**-6.2%**
GRF	$276	$282	-$5	-1.9%	$3,083	$3,098	-$15	-0.5%
Non-GRF	$202	$232	-$30	-12.8%	$2,805	$3,181	-$376	-11.8%
Mental Health and Addiction	**$430**	**$154**	**$276**	**178.8%**	**$4,602**	**$3,565**	**$1,036**	**29.1%**
GRF	$0	$0	$0	---	$1,750	$1,750	$0	0.0%
Non-GRF	$430	$154	$276	178.8%	$2,851	$1,815	$1,036	57.1%
Total GRF	**$1,106,279**	**$1,107,355**	**-$1,076**	**-0.1%**	**$14,503,409**	**$15,375,971**	**-$872,562**	**-5.7%**
Total Non-GRF	**$986,771**	**$1,040,946**	**-$54,175**	**-5.2%**	**$6,689,768**	**$7,100,297**	**-$410,529**	**-5.8%**
Total All Funds	**$2,093,050**	**$2,148,301**	**-$55,251**	**-2.6%**	**$21,193,177**	**$22,476,268**	**-$1,283,092**	**-5.7%**

*Estimates are from the Department of Medicaid.
Detail may not sum to total due to rounding.

Table 6: All-Funds Medicaid Expenditures by Payment Category
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on May 5, 2017)

	April				Year to Date Through April 2017			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$916,172	$934,220	-$18,047	-1.9%	$8,471,040	$9,123,553	-$652,513	-7.2%
Nursing Facilities	$131,841	$125,248	$6,593	5.3%	$1,269,815	$1,224,206	$45,609	3.7%
DDD Services	$186,776	$198,251	-$11,475	-5.8%	$1,999,092	$2,112,322	-$113,230	-5.4%
Hospitals	$78,035	$70,152	$7,883	11.2%	$1,826,253	$1,949,186	-$122,933	-6.3%
Behavioral Health	$99,413	$100,266	-$853	-0.9%	$953,242	$1,009,781	-$56,539	-5.6%
Administration	$77,221	$82,721	-$5,500	-6.6%	$748,591	$898,472	-$149,881	-16.7%
Aging Waivers	$28,119	$30,162	-$2,043	-6.8%	$286,869	$294,521	-$7,652	-2.6%
Prescription Drugs	$27,136	$35,109	-$7,973	-22.7%	$317,249	$368,907	-$51,658	-14.0%
Medicare Buy-In	$49,410	$41,405	$8,005	19.3%	$506,867	$395,589	$111,278	28.1%
Physicians	$11,702	$15,621	-$3,919	-25.1%	$139,698	$167,665	-$27,967	-16.7%
Medicare Part D	$40,881	$29,353	$11,528	39.3%	$336,675	$282,734	$53,941	19.1%
Home Care Waivers	$9,214	$13,494	-$4,280	-31.7%	$101,679	$142,068	-$40,389	-28.4%
ACA - Managed Care	$358,953	$398,618	-$39,665	-10.0%	$3,430,227	$3,734,029	-$303,802	-8.1%
All Other	$78,177	$73,683	$4,494	6.1%	$805,879	$773,236	$32,644	4.2%
Total All Funds	**$2,093,050**	**$2,148,301**	**-$55,251**	**-2.6%**	**$21,193,177**	**$22,476,268**	**-$1,283,092**	**-5.7%**

* Estimates are from the Department of Medicaid.
Detail may not sum to total due to rounding.

Expenditures

– Russ Keller, Senior Economist, 614-644-1751

– Nicholas J. Blaine, Budget Analyst, 614-387-5418

Overview

Through April, GRF program expenditures were below OBM's August 2016 estimate by $1.17 billion, of which $872.6 million occurred in Medicaid.

For the first ten months of FY 2017, GRF program expenditures totaled $29.26 billion. These expenditures were $1.17 billion below the estimate released by OBM in August 2016.[7] This negative year-to-date variance exceeds the $825 million downward adjustment made by OBM in January for GRF program expenditures as a whole for the full fiscal year. The negative variance in GRF Medicaid expenditures of $872.6 million represents almost 75% of the total negative variance in program expenditures. Due to timing issues, Property Tax Reimbursements were $234.8 million below estimate in April and $143.9 million below the category's year-to-date estimate through April. This category is expected to finish the fiscal year somewhat below estimate.

The only program category that had a positive year-to-date variance at the end of April was Primary and Secondary Education. In addition to variances in foundation funding that have continued throughout the fiscal year, this category also has a significant positive variance in spending on student assessments; this variance is a timing issue that should be largely resolved in May.

Tables 3 and 4 show GRF uses for the month of April and for FY 2017 through April, respectively. GRF uses mainly consist of program expenditures but also include transfers out. Including both program expenditures and transfers out, year-to-date GRF uses were $1.20 billion (3.9%) below OBM's August 2016 estimate.

Medicaid

Medicaid is primarily funded by the GRF, but also receives funding from various non-GRF funds. As a joint federal-state program, both GRF and non-GRF Medicaid expenditures contain federal and state moneys. In recent years, the federal government reimburses about two-thirds of Ohio's all-funds Medicaid expenditures.

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[7] OBM revised FY 2017 disbursement estimates downward from $35.89 billion to $35.07 billion as part of its executive budget submission on January 30, 2017. However, the variance analyses for this and future Expenditures reports will continue to be based on those compiled by OBM in August 2016.

Table 5 shows GRF and non-GRF Medicaid expenditures for the Ohio Department of Medicaid (ODM) and ODM's five "sister" agencies – Developmental Disabilities, Job and Family Services, Health, Aging, and Mental Health and Addiction Services. Through April, all-funds Medicaid expenditures totaled $21.19 billion, $1.28 billion (5.7%) below estimate. Year-to-date GRF Medicaid expenditures were below estimate by $872.6 million (5.7%), and non-GRF Medicaid expenditures were below estimate by $410.5 million (5.8%).

Across all funds, year-to-date Medicaid expenditures were $1.28 billion below estimate at the end of April.

Table 6 details all-funds Medicaid expenditures by payment category. As seen from the table, all payment categories have negative year-to-date variances except for Nursing Facilities, Medicare Buy-In, Medicare Part D, and All Other. Managed Care and ACA – Managed Care are the largest payment categories and have the largest negative variances ($652.5 million and $303.8 million, respectively). Of the approximately 3 million Ohioans receiving Medicaid, more than 80% of them receive services through Managed Care. Negative variances in spending in Managed Care continue to be driven by lower than forecasted managed care rates. Actual rates (which are set at the beginning of each calendar year) for calendar years 2016 and 2017 were both below the rates used in the estimate. Therefore, the negative variances in Managed Care and ACA – Managed Care will likely continue to grow through the end of FY 2017.

The largest positive year-to-date variance ($111.3 million) was in the Medicare Buy-In category. This positive variance has been driven by larger than anticipated increases in Medicare Part B premiums for both calendar years 2016 and 2017. The Medicare Buy-in Program pays Medicare premiums, deductibles, and coinsurance for certain low-income Ohioans.

Also worth noting, the All Other category had a positive year-to-date variance of $32.6 million due partly to payments for the new Comprehensive Primary Care (CPC) Program. Participating CPC practices are eligible to receive a per-member per-month incentive payment by engaging in activities that are known to improve patients' health. Payments average $4 per member per month. The first payments were made in February.

ISSUE UPDATES

Department of Natural Resources Awards Over $216,000 in Grants to Volunteer Fire Departments in Rural Counties

– Tom Wert, Budget Analyst, 614-466-0520

On April 17, 2017, the Department of Natural Resources (DNR) announced that 36 volunteer fire departments in 20 rural counties would receive grants under the federal Volunteer Fire Assistance (VFA) Grant Program. The program, administered by DNR's Division of Forestry, provides grants of up to $10,000 to volunteer fire departments in communities with populations of fewer than 10,000 residents. The communities must provide matching funds to qualify for the award. Grant funds may be used to purchase wildland fire slip-in pumper units, wildland fire personal protective equipment, all terrain and utility vehicles, and Multi-Agency Radio Communication System (MARCS) compatible equipment and radios. For 2017, seven volunteer fire departments were awarded the maximum grant of $10,000. These include Jackson Township Fire Department (Coshocton County), Jewett Volunteer Fire Department (Harrison County), Scioto Township Volunteer Fire and Rescue Inc. (Jackson County), Fayette Fire Department (Lawrence County), Licking Township Fire Company (Licking County), Camp Creek Volunteer Fire Department (Pike County), and Minford Volunteer Fire Department Inc. (Scioto County). In all, more than $216,000 was awarded under the VFA Program in 2017. A complete list of the volunteer fire departments that received grants under the VFA Program can be found online at http://forestry.ohiodnr.gov/portals/forestry/pdfs/2017vfagrantrecipients.pdf.

Bureau of Workers' Compensation Announces $1.1 billion in Premium Rebates

– Terry Steele, Senior Budget Analyst, 614-387-3319

On April 28, 2017, the Ohio Bureau of Workers' Compensation (BWC) approved a $1.1 billion rebate for private employers and public taxing districts. This rebate includes an estimated $967 million to private employers and $133 million to public taxing districts, which includes $92 million to local governments and $41 million to school districts. In total, approximately 200,000 employers will receive these rebates, which total nearly 66% of their prior year premium payments. For private employers, the rebate will be based on their payments for the July 1, 2015-June 30, 2016 policy year. For public employers, the policy year coincides with the calendar year, and their rebates will be based on premium payments for 2016. BWC will begin issuing the rebates in July 2017.

To qualify for the actual premium rebate, both private employers and public taxing districts must pay into the State Insurance Fund, have been billed premiums for the most recent applicable policy year, and be current in meeting policy requirements. Premium rebates for employers with outstanding balances will be applied to the balances first, with any remainder going toward the new premium billing. All rebates are paid from the State Insurance Fund. The State Insurance Fund, as of this writing, has a net position of $9.6 billion.

I-Corps@Ohio Selects Third Cohort of Participants

– Edward M. Millane, Senior Budget Analyst, 614-995-9991

In early April, I-Corps@Ohio, a research commercialization initiative of the Department of Higher Education, announced a third cohort[8] of faculty and graduate student researchers that will participate in the program, which assists participants in evaluating the market viability of their technologies and launching start-up companies. This cohort consists of 20 teams of researchers from Case Western Reserve University, Cleveland State University, Ohio University, University of Akron, University of Cincinnati, University of Toledo, and Nationwide Children's Hospital that will be focused on medical technology and science and engineering. Beginning in May, each of the teams will begin a seven-week, hands-on training program designed to help the teams understand the market for their technology, develop a commercialization strategy, and attain new skills that can be used to sustain a long-term career in research and development.

Under the program, grants of $15,000 are offered on a competitive basis to teams of faculty and graduate students from any accredited Ohio university, college, or community college. A portion of the grants must be used for travel expenses to attend certain program events in Columbus with the remainder available for participant stipends, mentor compensation, and other project-related expenses. Since the program's inception in FY 2015, I-Corps@Ohio grants have been supported by the proceeds of Third Frontier bonds through an annual appropriation of $800,000 from Fund 7014 appropriation item 235696, Research Incentive Third Frontier Tax.

[8] Previous cohorts were announced in 2015 and 2016.

Person-Centered Staff Engagement Project Begins

– Wendy Risner, Fiscal Supervisor, 614-644-9098

On April 1, 2017, a two-year Person-Centered Staff Engagement Project was launched to improve resident care and quality of life for nursing home residents. During this two-year period, 100 nursing homes will engage staff in person-centered practices. The focus of the project will be on implementing individualized care at participating nursing homes through the adoption of practices such as consistent assignment of staff, daily staff huddles or meetings to discuss resident care, and the involvement of nurse aides in care planning. The project will also introduce best practices in preventing avoidable hospitalizations and eliminating off-label usage of antipsychotics. Specific goals of the project include measurable improvements in clinical outcomes for residents, as well as a reduction in both resident complaints and citations issued against participating nursing homes.

The Office of the State Long-Term Care Ombudsman will administer the program in collaboration with Ohio's 12 regional programs, which will provide training and assistance to the participating nursing homes. The Office, which is under the Department of Aging, advocates for long-term care consumers receiving home and community-based services and residents of long-term care facilities. Specific ombudsman activities include complaint handling, advocacy services, and public education.

The federal Centers for Medicare and Medicaid Services approved approximately $2 million for the project. These funds come from civil monetary penalties imposed on nursing homes that do not meet federal health and safety standards. States are required to use civil monetary penalties to improve residents' outcomes in Medicaid- or Medicare-certified nursing homes.

Ohio History Connection Awards History Fund Grants

– Adam Wefler, Budget Analyst, 614-466-0632

On March 1, 2017, Ohio Statehood Day, the Ohio History Connection (OHC) awarded $74,000 to seven Ohio History Fund grant recipients. The awards ranged from $2,500 to $15,000. The 2017 recipients, project descriptions, and award amounts are described in the table below. The History Fund Grant Program provides competitive grants to local history organizations, nonprofits, and local governments for projects designed to support historic preservation and education. Grant amounts depend on the type of project seeking funding, and may range from a $1,000 minimum for an organizational development project to a $20,000 maximum for brick-and-mortar or programs and collections projects. The grants require a local match of between 20% and

40%, depending on the project. The grant program receives support primarily through a state income tax check-off.

2017 Ohio History Fund Grant Recipients			
County	**Organization**	**Project Description**	**Award Amount**
Fairfield	Lancaster-Fairfield Community Action Agency	Window restoration at the Fairfield County Children's Home (now known as the Rutherford House), constructed in 1886	$15,000
Clark	Westcott House Foundation	Repair and preservation of porches and pergola at the Westcott House, designed by Frank Lloyd Wright	$15,000
Summit	Peninsula Valley Historic & Education Foundation	Rehabilitation of historic steeple at Bronson Church, located within Cuyahoga Valley National Park	$14,000
Summit	University of Akron, Department of Archaeology and Classical Studies	Study of ceramic and stone artifacts of the Hopewell people; assistance with nomination of the Hopewell sites for World Heritage status	$12,500
Montgomery	Dayton Society of Natural History	New exhibit space at SunWatch Village	$12,000
Seneca	Seneca County Commissioners	Strategic planning for the Seneca County Museum's advisory board	$3,000
Portage	Kent State University, Department of Anthropology	Archaeological survey of the Berlin Lake Reservoir	$2,500
Total			**$74,000**

Additional $3.7 million in Funding for Development Services Agency's Small Businesses Collateral Enhancement Program

– Tom Middleton, Senior Budget Analyst, 614-728-4813

On April 10, 2017, the Development Services Agency (DSA) received Controlling Board approval to use an additional $3.7 million of federal funding for the Small Business Collateral Enhancement Program (SBCEP). As of March 2017, all of the $5.6 million originally appropriated for the line item that funds the program was committed. The SBCEP provides the 28 participating lending institutions with cash collateral deposits of up to 30% of the loan amount (or up to 50% for a minority-owned business or a business located in an economically distressed area) to supplement collateral support for loans they make to eligible businesses. Eligible businesses must be Ohio-based, have fewer than 250 employees, and generate revenues of less than $20 million annually. They must also commit to creating or retaining jobs with the money loaned to them. The maximum loan amount is $5 million. The loans can be used for real estate purchases, equipment acquisition, or working capital. Lenders approved 229 loans to eligible businesses under the SBCEP in FY 2016.

The SBCEP is one of the three prongs of the federal State Small Business Credit Initiative (SSBCI) that is designed to encourage lending to small businesses. The other two programs are the Ohio Capital Access Program and the Technology Targeted Investment Program. Ohio was awarded $55.2 million by the U.S. Department of Treasury in FY 2012 under the SSBCI initiative.

Ohio EPA Public Water Project Loans Save Recipients Money

– Robert Meeker, Budget Analyst, 614-466-3839

The Ohio Environmental Protection Agency (Ohio EPA) awards two types of loans to help local entities lower the costs of financing public wastewater and water system projects. The public wastewater project loans are backed with money drawn from the Ohio Water Pollution Control Loan Fund (WPCLF) and the public water system project loans are backed with money drawn from the Water Supply Revolving Loan Account (WSRLA). Both funds are managed by the Ohio EPA with assistance from the Ohio Water Development Authority. The WPCLF provides below-market rate, zero interest rate, and principal forgiveness loans[9] for the planning, design, and construction of wastewater treatment facilities and sewer systems. The WSRLA provides below-market rate loans to public water systems for the planning, design, and construction of improvements to community water systems and nonprofit noncommunity public water systems. Both the WPCLF and WSRLA are funded with federal capitalization grants, loan repayments, and bond proceeds.

WPCLF and WSRLA loans save recipients money relative to the cost of going to the open market for a similar loan. Ohio EPA awards these loans throughout the year. The table below shows examples of WPCLF and WSRLA project loans and estimated savings. These loans were all made in March 2017. As seen from the table, in March, 11 local governmental entities were awarded wastewater project loans with a combined estimated savings of $4.3 million and four local governments were awarded water system project loans with a combined estimated savings of $396,000. The Northwestern Water and Sewer District (NWSD) is the only entity that received both wastewater and water system project loans.

[9] Principal forgiveness loans are loans in which eligible capital costs of a project are reduced by the principal forgiveness amount, thereby eliminating a portion of the principal (and interest) that the borrower must repay.

Examples of Ohio EPA Public Wastewater and Water System Project Loans and Savings			
Recipient (County)	**Loan Type**	**Project Description**	**Savings**
WPCLF Public Wastewater Project Loans, March 2017			
Bellmore Village (Putnam)	Principal Forgiveness	Installation of centralized sewage system	$2,026,239
Willoughby City (Lake)	Below-Market Interest Rate	Construct Quentin Road underground storage basin for sanitary sewage	$653,000
Fayette County	Principal Forgiveness	Home sewage treatment system repair and replacement	$419,000
Ross County	Principal Forgiveness	Home sewage treatment system repair and replacement	$419,000
NWSD (Wood)	Below-Market Interest Rate	Sanitary sewer rehabilitation in (1) Millbury and (2) Williamsburg-on-the-River	$252,442
Toledo City (Lucas)	Below-Market Interest Rate	Location and removal of unauthorized sanitary sewer connections	$207,000
Clermont County	Principal Forgiveness	Home sewage treatment system repair and replacement	$210,000
Warren City (Trumbull)	Below-Market Interest Rate	High Street sanitary sewer overflow planning	$56,674
Chardon City (Geauga)	Below-Market Interest Rate	Upgraded sanitary sewer design	$8,000
Caldwell Village (Noble)	Below-Market Interest Rate	Wastewater collection system improvement study	$4,700
Perrysville Village (Ashland)	Zero Interest Rate	Assessment of wastewater treatment plant	$786
		WPCLF Total	**$4,256,841**
WSRLA Project Loans, March 2017			
Belle Center Village (Logan)	Below-Market Interest Rate	Installation of new 150,000-gallon water tank and related infrastructure	$225,112
Hamilton City (Butler)	Below-Market Interest Rate	Replacement of the River Road water main	$148,600
NWSD (Wood)	Below-Market Interest Rate	Inspection of 12 miles of water mains and planning for any rehabilitation	$17,057
DeGraff Village (Logan)	Below-Market Interest Rate	Design of a new drinking water plant and well	$4,757
		WSRLA Total	**$395,526**

TRACKING THE ECONOMY

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Overview

Real GDP growth in the first quarter of 2017 was the slowest in three years.

New economic data reported in April and early May revealed a mixed performance thus far in 2017. Nationwide employment growth rebounded in April from a weak March and has grown in 2017 at the same pace as 2016, while wage gains in the private sector continued to outpace inflation. But the Bureau of Economic Analysis (BEA) reported inflation-adjusted gross domestic product (real GDP) growth in the first quarter of 2017 was the slowest in three years. Inflation-adjusted consumer spending and disposable personal income growth also hit multi-year lows during the first quarter. The real estate market remained growing at a healthy pace in the aggregate, but with severe local variance.

In Ohio, nonfarm payroll employment declined in March, but over the last 12 months is averaging an increase of 3,000 per month. The state's unemployment rate was 5.1% in March, and has been stuck between 4.9% and 5.1% for over a year. Overall economic activity is still increasing in the region though, as reported by the Federal Reserve's survey of local business contacts, and March home sales in the state were the highest in over 20 years.

In May, the Federal Reserve[10] kept its short-term interest rate target range at 0.75% to 1.0%, after raising it a quarter point at its meeting six weeks prior. At the prior meeting, the governors projected two more incremental increases of the interest rate target during 2017, and gave no indication of a change to that plan in the post-meeting statement in early May.

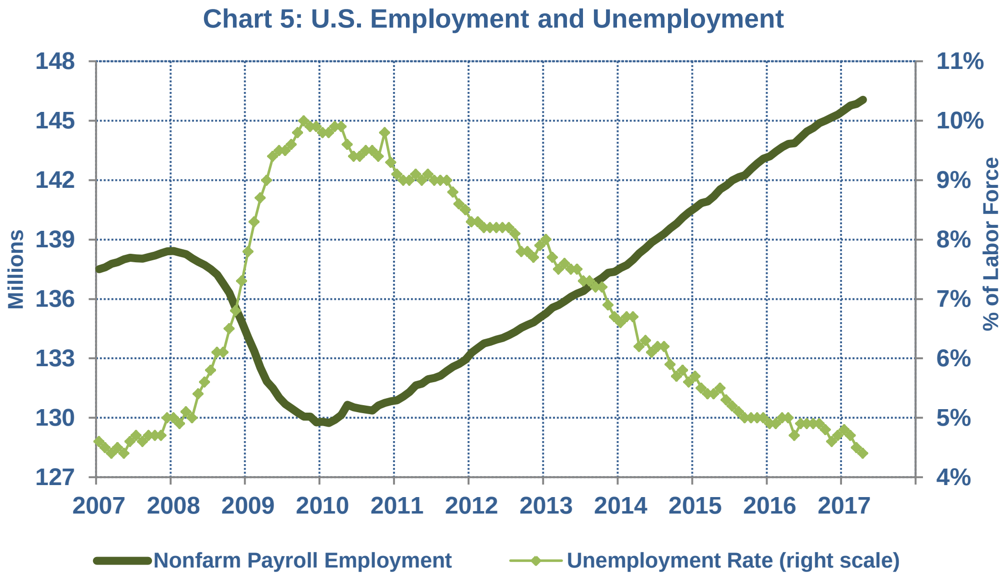
The National Economy

Employment and Unemployment

The national unemployment rate fell to 4.4% in April, its lowest rate since 2007 (see Chart 5). Healthy employment gains combined with a labor force which has grown slowly in recent months (55,000 per month

[10] The Federal Open Market Committee is the policy-setting body within the Federal Reserve. Its most recent meeting concluded on May 3.

over the last seven) has led to the drop. The unemployment rate is measured as the percent of the labor force[11] that is unemployed.



The unemployment rate in April (4.4%) was the lowest since 2007.

The U.S. added 211,000 jobs[12] in April, rebounding from March (+79,000) and continuing a streak of 79 straight months with employment gains. Thus far in 2017, job growth has averaged 185,000 per month, matching the pace during 2016 nearly exactly, when the average per month was 187,000. Leisure and hospitality (+55,000), health care and social assistance (+36,800), and professional and business services (+39,000) continued to lead the way in April for job gains among industry sectors. The information industry lost jobs during the month, about 8,700 combined from the broadcasting and telecommunications subsectors.

Average hourly earnings among private, nonfarm employees rose in April for the 22nd straight month. Overall, earnings for these workers grew 2.5% in the last 12 months, outpacing inflation during the same period.

Production, Shipments, and Inventories

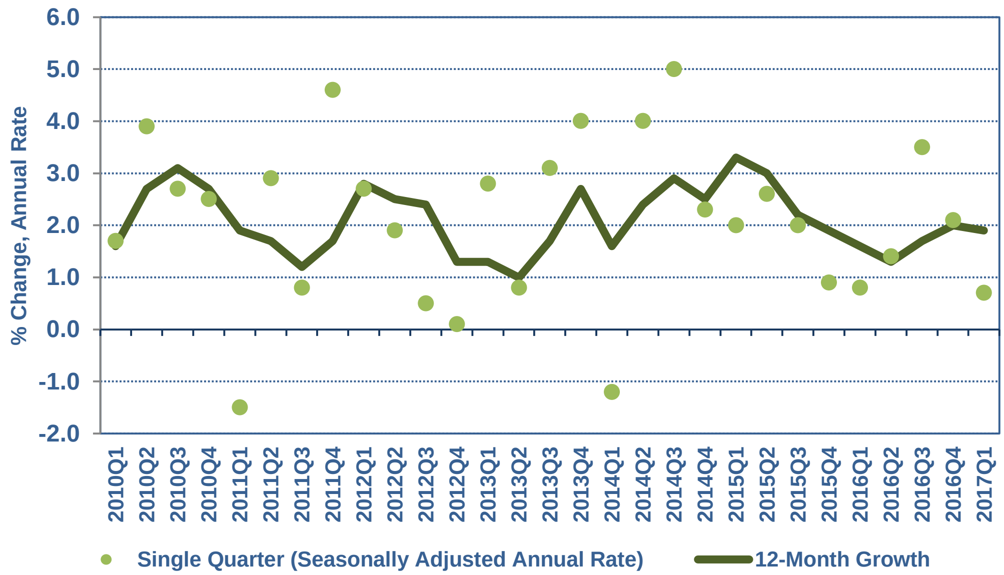
Growth of economic output slowed in the first quarter of 2017. Based on estimates from the BEA, real GDP grew just 0.7%[13] during the

[11] The labor force is the number of civilians age 16 and over who are either currently employed or unemployed but looked for work in the last four weeks.

[12] Nonfarm payroll, seasonally adjusted.

[13] Seasonally adjusted annual rate.

quarter, which would make it the slowest quarter of growth in three years. It also continued a recent pattern of slow first quarters. Three of the four slowest quarters of growth since 2014 have come during the first quarter of a calendar year. Overall however, the four-quarter pace of growth in the U.S. seems to be holding fairly steady, remaining near 2% (see Chart 6).



Industrial production increased in March as the result of a pickup in the output of utilities, but manufacturing output took a step back, decreasing 0.4% during the month according to data from the Federal Reserve. Over all though, both manufacturing (2.7% annual rate) and mining (12.1%) increased at healthy rates during the first quarter of 2017.

Real consumer spending growth in the first quarter of 2017 was slower than any other since the fourth quarter of 2009.

Consumer Spending and Incomes

Price-adjusted (real) consumer spending rebounded in March after declining in January and February. For the quarter though, real spending was nearly flat (0.3% growth at a seasonally adjusted annual rate). It was the slowest quarter of consumer spending growth since the fourth quarter of 2009. Spending during the first quarter was held in check by significant decreases of spending for motor vehicles and parts, as well as energy goods and services. Real disposable personal income grew by just 1.0% (seasonally adjusted annual rate) during the quarter as well, its slowest quarter of growth since the fourth quarter of 2013.

Sales of motor vehicles in April remained at a slowed pace relative to the record-setting 2016. Through April, cars and light trucks sold at an average seasonally adjusted annual rate of 17.1 million units, down 2.3% compared to the whole of 2016 when the rate was 17.5 million units. The slowed growth continues to come in cars, while light truck and SUV sales remain elevated.

Construction and Real Estate

Markets for new and used housing continue to recover. Though starts on new housing units fell about 7%, seasonally adjusted, in March, building permits rose. For the year to date, housing starts were 8% higher than a year earlier, after a 6% increase in all of 2016. Year-to-date permits were 10% higher. Home sales continue to rebound. New single-family home sales in this year's first three months were 12% above year-earlier sales, following a 12% rise in 2016. Sales reported by the National Association of Realtors, mostly previously occupied homes, were 5% higher in January-March than a year ago, after a 4% rise in 2016.

Nationwide public construction was 7% lower in the first quarter of 2017 than the first quarter of 2016.

Continued recovery in the housing market has been accompanied by rising home prices. An index of nationwide prices of houses sold rose 6.4% in the year to February, after a 5.8% increase in the previous year.[14] This index has risen well above its peak prior to the 2007-2009 recession. Conditions vary widely in local markets around the country.

The total dollar value of construction put in place nationwide in this year's first three months was 5% higher than a year earlier, after a similar increase in all of 2016. The year-to-date value of private residential building was 9% higher than a year ago, and nonresidential construction was 8% higher on this basis, but public construction was down 7%.

Inflation

Seasonally adjusted consumer prices declined in March, after significant increases in the first two months of the calendar year. The drop was led by gasoline prices, which declined by 6.2% as measured by the consumer price index for urban consumers. Core prices, typically noted for a higher level of stability, declined in March as well, as measured by the price index of personal consumption expenditures less food and energy. For this subset, it was the first monthly decline since December 2008. Large monthly price declines were noted in the apparel category (a reversal of recent trend), as well as vehicles (a continuation of recent trend). Prices for used cars and trucks decreased significantly in particular, and are now 4.7% lower than they were in March one year ago, according to the Bureau of Labor Statistics.

[14] The index cited is the Federal Housing Finance Agency's index of U.S. house prices for mortgages sold to or guaranteed by Fannie Mae or Freddie Mac.

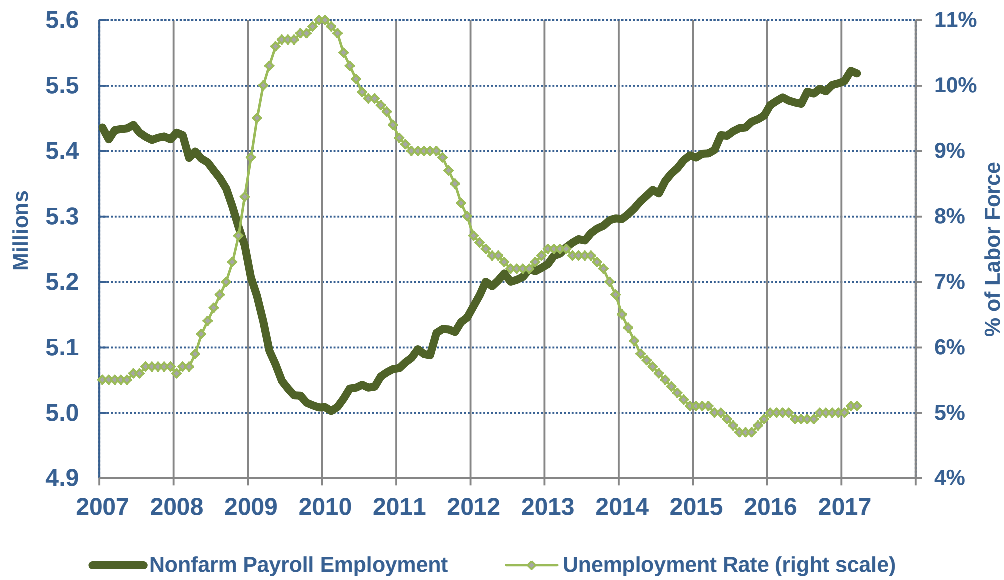
The decline in prices during March was felt by producers as well, about three quarters of which was attributable to the cost of services. Prices for final demand goods fell in March also, though mostly due to gasoline. Prices for final demand less food, energy, and trade services edged up 0.1% in March.

The Ohio Economy

Employment and Unemployment

Total nonfarm payroll employment in March was down from February by 4,100 persons (0.1%), but was higher than a year earlier by 36,500 (0.7%). Statewide unemployment was 5.1% of the labor force in March, the same as in February and up from 5.0% in March 2016. Trends in Ohio employment and unemployment are shown in Chart 7.

Chart 7: Ohio Employment and Unemployment Rates



The drop in employment in the latest month mainly reflected declines in several service industries. Higher total employment compared with a year ago resulted from gains in both goods-producing and private service industries, notably construction which added 7,900 employees (3.7%) and health care and social assistance with 13,100 (1.6%) more employees than a year ago. Government employment was below the year-earlier level by 7,700 (1.0%) as the number of both state and local government jobs fell.

Longer term, trend growth in total employment in the state has slowed from almost 2% per year in 2012, when the state's economy was climbing out of recession, to near 1% per year in 2017.

Statewide unemployment has risen from a post-recession low of 4.7% of the labor force in 2015. Since then, growth in the number of people who want jobs has outpaced increases in the number employed.

Ohio home sales prices were up 7% year-over-year in the first quarter of 2017.

Ohio Home Sales

The number of homes sold in March was highest ever for the month, in data tracked since 1998 by the Ohio Association of Realtors. In the first three months of 2017, home sales were 3% higher than in the year-earlier period. Prices of homes sold in the first quarter averaged 7% higher than in January-March 2016.

Regional Economy

A report on this region's economy from the Cleveland Federal Reserve Bank noted continued growth in activity.[15] Spending by consumers was characterized as stable while factory output rose. Commercial builders reported growing backlogs of work to be done. The volume of freight transported rose. Prices and wages were said to be increasing. Employment rose except at retail stores.

[15] This summary is from Cleveland's section of the April issue of the Beige Book, a collection of comments on economic conditions gathered by Federal Reserve Banks from business and other contacts in each region.