

Second Quarter 2008

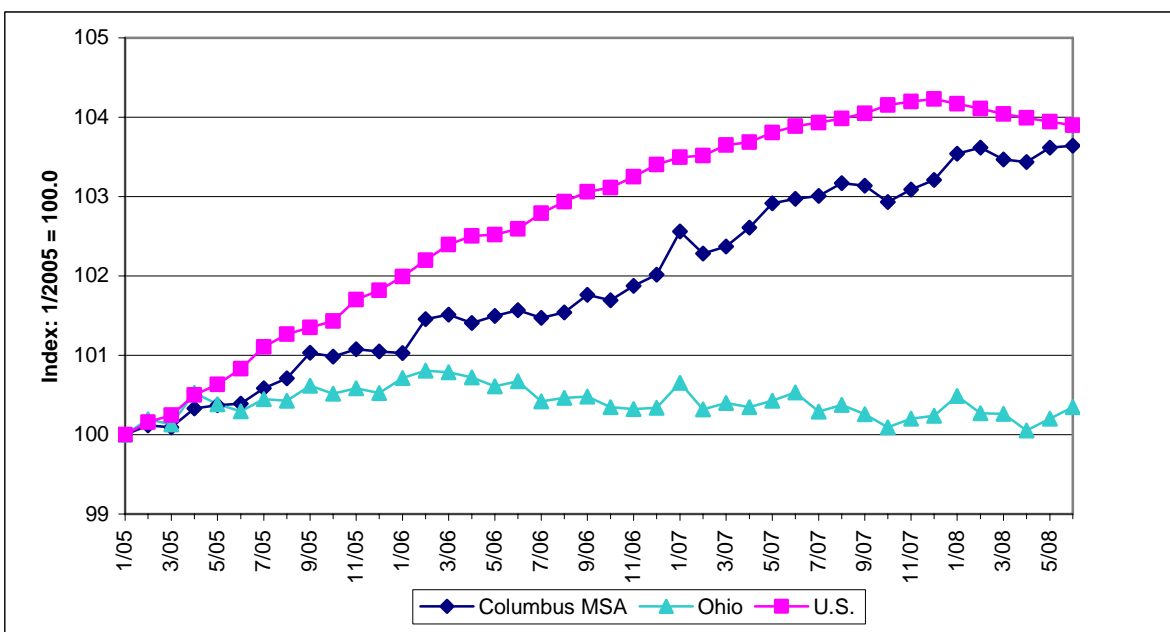
SUMMARY

- Employment in the Columbus Metropolitan Statistical Area (MSA – Delaware, Fairfield, Franklin, Licking, Madison, Morrow, Pickaway, and Union Counties) increased 1,600 (0.2 percent) during the second quarter. Ohio employment increased less than 0.1 percent, while national employment declined 0.1 percent.
- The region's seasonally-adjusted unemployment rate finished the quarter at 5.5 percent, up from 4.9 percent in March and 4.8 percent a year ago. Resident employment showed little change, but the number of those looking for work increased sharply. The June unemployment rate tied the U.S. rate, but was well below Ohio's 6.6 percent – a nearly 15-year high.
- Sector employment growth results were mixed. The small transportation sector continued to be by far the strongest percentage contributor and among the largest numerical contributors to growth. Business services and retail also grew in employment. All three of these sectors declined at the national level. However, construction, information, financial activities, leisure, and government were all lower and weaker than their national counterparts.
- Economists in the monthly *Wall Street Journal* survey generally expect the U.S. to fall into a recession within the next 12 months, although fewer believe that we are now in one than was the case in April. The consensus is for economic weakness to persist at least through the second quarter of 2009.
- **2008 Columbus BlueChip Economic Forecast Update:** Columbus MSA employment growth for 2008 is likely to be in the 0.6 percent range – somewhat better than the 0.4 percent forecast in January, and much better than the U.S. average. Although the slowing economy during the second half will reduce employment growth in virtually all sectors, the strong first half is likely to result in a gain of 6,000 jobs for the year as a whole. In contrast, unless U.S. employment growth strengthens during the second half, U.S. average employment during 2008 will be equal to or less than its level during 2007.

Columbus MSA employment increases 1,600 during the second quarter

- Columbus MSA employment registered a net increase of 1,600 (0.2 percent) during the second quarter. The preliminary seasonally-adjusted June total of 950,800 was 6,100 (0.6 percent) higher than June 2007.
 - Ohio employment increased 4,600 (less than 0.1 percent). The preliminary June total was 9,900 (0.2 percent) lower than June 2007.
 - As in the first quarter, both Columbus MSA and Ohio employment growth outperformed the U.S. National employment registered a loss of 0.1 percent during the second quarter, and has declined for six consecutive months. June U.S. employment was 0.1 percent higher than its level in June 2007, a growth rate considerably weaker than the MSA, but stronger than the state.
- The graph on the next page diagrams the employment trends discussed above, and makes clear the recent relative strength of the Columbus MSA economy. Local employment growth since January 2005 has totaled 3.6 percent, compared to 3.9 nationally and 0.3 percent at the state level.

Seasonally adjusted Columbus MSA, Ohio, and U.S. employment growth, January 2005-June 2008



Source: U.S. Bureau of Labor Statistics Current Employment Statistics series; seasonal adjustment of Columbus MSA employment by the Columbus Chamber.

Unemployment rates are up across the board from a year ago, though for different reasons

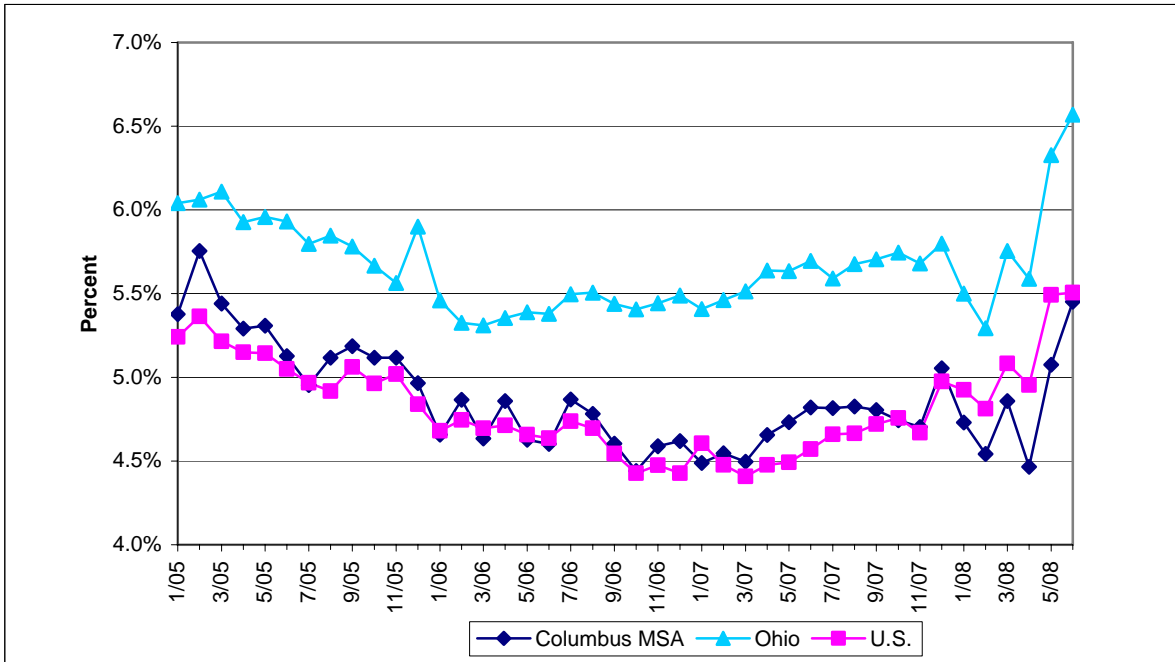
- The seasonally-adjusted Columbus MSA unemployment rate finished the second quarter at 5.5 percent, up from 4.9 percent in March and a full percentage point above its April level. The U.S. rate also stood at 5.5 percent in June, up from 5.1 percent in March. The Ohio rate rose from 5.8 percent to 6.6 percent. While the regional and U.S. rates are at their highest levels since February 2005 and July 2004, respectively, the Ohio rate has not been at 6.6 percent since October 1993.
- Seasonally adjusted unemployment rates for the eight counties of the MSA, the state, and the nation were as follows. All counties except Morrow and Pickaway were below the state rate in June; Delaware, Franklin, and Union were below the U.S. rate.

	June 2008	March 2008	June 2007
Delaware	4.6%	4.1%	4.1%
Fairfield	5.6%	5.0%	5.0%
Franklin	5.4%	4.8%	4.7%
Licking	6.0%	5.5%	5.4%
Madison	5.5%	5.2%	5.2%
Morrow	6.7%	6.1%	5.7%
Pickaway	6.6%	6.1%	6.0%
Union	5.3%	4.7%	4.7%
Columbus MSA	5.5%	4.9%	4.8%
Ohio	6.6%	5.8%	5.7%
U.S.	5.5%	5.1%	4.6%

Source: U.S. Bureau of Labor Statistics Local Area Unemployment Statistics series; seasonal adjustment of county and regional unemployment rates by the Columbus Chamber.

- The chart below graphs regional, state, and national unemployment rates since January 2005.

Seasonally adjusted Columbus MSA, Ohio and U.S. unemployment rates, January 2005-June 2008



Source: U.S. Bureau of Labor Statistics Local Area Unemployment Statistics series; seasonal adjustment of Columbus MSA unemployment rates by the Columbus Chamber.

- As shown in the table on the next page, labor force is defined as the sum of the number of residents employed plus those unemployed – including only those who have actively sought employment within the past 30 days.
 - The number of Columbus MSA residents employed was essentially unchanged during the quarter, but up 0.7 percent from June 2007 – consistent with the increase in jobs within the region over the year. However, the number of job-seekers rose, leading to robust gains in labor force of 0.5 percent for the quarter and 1.4 percent for the year and a higher unemployment rate than last June.
 - Statewide resident employment was down in June from a year ago, while labor force remained unchanged. As a result, unemployment increased.
 - U.S. employment was nearly unchanged from a year ago, but unemployment was higher because of an increase in the labor force.

Changes in components of regional, state, and national unemployment rate

	June 2008	Percentage change from:	
		March 2008	June 2007
Columbus MSA			
Employment	919,798	-0.1%	0.8%
Plus Unemployment	53,046	12.8%	14.7%
Equals Labor force	972,844	0.5%	1.4%
Unemployment rate (Unemp./Labor force)	5.5%	---	---
Ohio			
Employment	5,594,888	-0.9%	-0.8%
Plus Unemployment	393,306	14.1%	15.5%
Equals Labor force	5,988,194	0.0%	0.1%
Unemployment rate (Unemp./Labor force)	6.6%	---	---
United States (thousands)			
Employment	145,891	-0.1%	-0.1%
Plus Unemployment	8,499	8.8%	21.5%
Equals Labor force	154,390	0.4%	0.9%
Unemployment rate (Unemp./Labor force)	5.5%	---	---

Employment growth among sectors was mixed

- The following table shows seasonally-adjusted employment changes by sector during the second quarter and from June 2007. Sector employment changes over the quarter were mixed. Transportation and business services continued to contribute the largest numerical growth; both sectors declined at the national level. Columbus MSA retail employment was higher both for the quarter and the year, while declining nationally. However, three sectors that were relatively strong last quarter – construction, financial activities, and leisure – weakened, while government and information continued weaker than their national counterparts.

Columbus MSA and national quarterly and year-to-year sector employment changes

Sector	June 2008 Columbus total	Change: 3/08 to 6/08			Change: 6/07 to 6/08		
		Columbus		U.S.	Columbus		U.S.
		Amt.	Pct.	Pct.	Amt.	Pct.	Pct.
Construction and mining	36,800	-800	-2.1%	-1.5%	-1,700	-4.4%	-4.9%
Manufacturing	75,200	-200	-0.3%	-0.8%	-1,800	-2.3%	-2.5%
Wholesale trade	40,100	600	1.5%	-0.3%	1,200	3.1%	0.1%
Retail trade	103,300	700	0.7%	-0.5%	300	0.3%	-1.0%
Transportation and utilities	52,700	1,100	2.1%	-0.2%	2,500	5.0%	0.0%
Information	18,300	-200	-1.1%	-0.4%	-500	-2.7%	-1.1%
Financial activities	73,700	-600	-0.8%	-0.2%	200	0.3%	-1.2%
Professional and business svcs.	154,000	1,300	0.9%	-0.5%	3,600	2.4%	0.0%
Educational and health services	112,800	500	0.4%	0.6%	2,400	2.2%	2.8%
Leisure and hospitality	90,000	-400	-0.4%	0.3%	0	0.0%	1.9%
Other services	37,200	0	0.0%	0.1%	-200	-0.5%	0.6%
Government	156,700	-600	-0.4%	0.4%	0	0.0%	1.2%
Total	950,800	1,600	0.2%	-0.1%	6,100	0.6%	0.0%

National forecasters revise their outlooks upward for the second quarter and downward for the second half, and generally expect a recession.

- Economic forecasts summarized in *The Wall Street Journal's* monthly survey of 56 economists have changed markedly over the course of the year. The January view was that a weak first half would give way to a much stronger second half, with GDP growth by the fourth quarter approaching the three percent generally regarded as indicating a strong economy. But the July poll calls for a far weaker second half than was the consensus just a month ago, and for this weakness to continue into the first half of 2009.
 - The strength of second-quarter GDP growth took the panel by surprise. The consensus forecast rose from 0.5 percent in the June poll to 1.4 percent in July. The U.S. Bureau of Economic Analysis (BEA) announced on July 31 that its “advance” estimate of second-quarter GDP growth was 1.9 percent.
 - The most recent poll calls for 1.5 percent growth in the third quarter, falling to 0.6 percent in the fourth quarter, and then rising to a still- tepid 2.0 percent by the second quarter of 2009.
- The general view among the economists was that the stimulus measures at best only postponed a recession rather than preventing one.
 - The average probability participants assigned to a recession within the next twelve months is 63 percent. Half the panel believes that we are currently in a recession, a proportion unchanged from last month, but down from 76 percent in April.
 - Adding support to this prognosis, the July 31 BEA release revised fourth quarter 2007 growth downward to a negative 0.2 percent. As discussed in the first quarter Columbus Economic Update, the National Bureau of Economic Research, the group that defines economic turning points, does not necessarily require two quarters of negative GDP growth to declare a recession.

2008 Columbus BlueChip Economic Forecast update: Job growth for the year likely to be 0.6 percent – higher than that forecast in January.

- Columbus MSA sector employment trends during the first six months suggests that 2008 growth will be in the 0.6 percent range. While this growth is weaker than last year’s 1.3 percent, it is better than the 0.4 percent predicted by the Columbus BlueChip Economic Forecast in January.
- The revised sector employment forecast for Columbus takes into account both the national economic conditions discussed above and each sector’s recent employment trend. The BlueChip Forecast is the average of four independent forecasts¹, while this update is produced solely by Bill LaFayette, Columbus Chamber.
 - The original forecast – as is true of all employment forecasts – is based on trends derived from preliminary employment estimates that are subject to substantial revision even several years after the fact. A number of sector growth rates are different than those forecast in January only because the Bureau of Labor Statistics’ March 2007 sector employment revisions implied that the 2007 employment trend was substantially different from that originally estimated. (See the first quarter Columbus Economic Update for details of these revisions.)

¹ Bill LaFayette, Ph.D., vice president, economic analysis, Columbus Chamber; Joseph Mandeville, assistant vice president, Red Capital Group; George Mokrzan, Ph.D., vice president, senior economist, Huntington Bancshares; and James Newton, Ph.D., chief economic advisor, Commerce National Bank.

- The following table shows for each industry sector the change in average employment for the first six months for the MSA and the U.S., the original 2008 consensus and LaFayette's forecasts, and LaFayette's mid-year predictions. The final column lists projected U.S. employment changes for the year. These are *not* actual forecasts; they are the changes that will be realized if each sector's employment trend through July continues through the remainder of the year.

Sector	Jan.-June average, 2008 vs. 2007		2008 MSA forecasts			2008 U.S. projection
	Columbus	U.S.	Consensus	LaFayette	Revised	
Construction and mining	-3.2%	-3.8%	-1.9%	-2.2%	-3.4%	-4.5%
Manufacturing	-2.4%	-2.3%	-2.1%	-1.4%	-2.5%	-2.6%
Wholesale trade	3.4%	0.9%	1.1%	1.4%	2.6%	-0.1%
Retail trade	0.0%	-0.6%	-2.1%	-2.0%	-0.2%	-1.1%
Transportation and utilities	5.1%	0.2%	3.5%	4.8%	4.5%	-0.3%
Information	-1.8%	-0.8%	-1.5%	-1.7%	-2.0%	-1.3%
Financial activities	0.1%	-1.2%	-0.6%	-1.1%	0.0%	-1.1%
Professional & business svcs.	3.3%	0.7%	2.1%	2.4%	2.9%	-0.2%
Education and health services	2.4%	3.1%	1.2%	1.0%	2.2%	3.1%
Leisure and hospitality	0.5%	2.2%	1.7%	2.3%	0.3%	1.6%
Other services	-0.7%	0.7%	-1.1%	-1.2%	-0.4%	0.7%
Government	0.2%	1.1%	0.7%	0.7%	-0.3%	1.3%
Total	0.9%	0.3%	0.4%	0.5%	0.6%	0.0%

- The new Columbus MSA forecast assumes that the slowing economy during the second half will reduce employment growth in virtually all sectors. Thanks to the strong first half, however, average employment during 2008 will still exceed that during 2007 – an increase of 0.6 percent to 949,500. In contrast, unless U.S. employment growth strengthens during the second half, U.S. average employment will be at best equal to the 2007 level.
 - **Construction and mining** has been in decline locally since February 2006 and nationally since January 2007. The difference is that U.S. employment, echoing the housing boom, peaked 14 percent higher than at the beginning of the 2001 recession, while Columbus MSA employment was still nearly four percent below its 2001 level. Despite this much weaker employment growth, local output per worker in 2005 (the most recently-available year) was 7.6 percent less than its 2001 level, not much better than the 9.1 percent decline nationally. Thus, the employment decline is due both to market weakness and a drive to improve worker productivity.
 - **Manufacturing** employment has experienced an unremitting decline since 2000, and has posted declines so far this year exceeded only by those in construction. Here, though, the story is one of strongly increasing output, leading to productivity gains of nearly one-third between 2001 and 2005. The rate of employment decline slowed at mid-decade but has accelerated again recently as a result of the weak economy.
 - **Wholesale** employment growth was far less than average during the first half of the decade, but has exploded over the past two years. Sector employment is now almost seven percent higher than its August 2006 level. (Because wholesale is a small sector, that translates to growth of only 2,500 jobs.) As with several other sectors, this growth makes wholesale vulnerable to weak consumer demand.

- **Retail and financial activities** are both performing much better than originally expected and much better in the Columbus MSA than elsewhere. Each of these sectors has experienced job losses coupled with output increases over the past several years, resulting in an above-average level of worker efficiency. Although growth in both these sectors should slow during the second half, productivity gains put them in a much stronger position here than elsewhere.
- **Transportation and utilities** (which is 93 percent transportation and warehousing) has had growth of 40 percent since early 2001 – 20 times the national average. Although the trend through June shows no sign of breaking, this sector is vulnerable to high fuel prices and weak consumer demand.
- **Information**, including primarily telecommunications, publishing, broadcasting, and Web services, has suffered a 20 percent employment decline nationally and locally since February 2001 – translating to a decline of 5,000 Columbus MSA jobs in this smallest of all sectors.
- **Professional and business services** has enjoyed employment growth far stronger than the national average over the past six years, and stands 20 percent (25,600 jobs) higher than its October 2002 trough. Although outstanding growth continued during the first half, there is a possibility of weaker demand for professional services, less hiring in corporate administrative offices, and less demand for temporary employees in coming months.
- **Education and health services** employment is more than 80 percent healthcare. This and transportation were the only sectors that never declined during the first years of the decade, and this is the one sector whose strong growth is not likely to slow during the second half.
- **Leisure and hospitality** growth has been far weaker than elsewhere during the past two years. Our January forecast of 2008 growth is likely to miss the mark fairly dramatically. This sector's 2007 employment growth was cut in half in the Bureau of Labor Statistics' March revisions, and subsequent performance has been no better.
- **Other services** (various personal services, religious organizations, and professional and social associations) is another sector that has been growing much more weakly than average over the past several years. This forecast expects growth to continue weak, but not necessarily to worsen by much.
- **Government** employment growth has been unusually weak all year. The only area of strength in this sector is at the federal level – thanks to the ongoing job creation at DSCC. The forecast expects weak state and local government budgets to erode employment growth further.