OHIO CHAMBER OF COMMERCE
RESEARCH FOUNDATION

OHIO CHAMBER ECONOMIC ADVISOR COUNCIL



OHIO ECONOMIC OUTLOOK REPORT

OCTOBER 2026

Ohio Economic Outlook Report

October 2026

Executive Summary

Inflation is Real
Core PCE revised upward to 3.3%.

Higher For Longer
Fed Funds Rate increases to 4.00%–4.25%.

Growth Resilience
U.S. GDP projected at 2.0%–2.3%.

Grid Capacity Limits
Power transmission is primary site hurdle.

The Ohio Chamber of Commerce's Economic Advisor Council presents this October 2026 economic update and inaugural forward-looking baseline for 2027. Following our comprehensive January forecast and July mid-year update, this quarterly report monitors the shifting macroeconomic landscape and tracks how Ohio businesses are navigating late-2026 conditions.

Since the summer, macroeconomic crosscurrents have become more pronounced. Recent inflation data confirms that inflationary pressures remain real, persistent, and sticky. Rather than witnessing the quick return toward the Federal Reserve's 2.0% target that many expected earlier this year, headline consumer and producer price trends—amplified by global energy price volatility, supply chain adjustments, and tariff pass-throughs—have kept upward pressure on costs.

Consequently, expectations for near-term Federal Reserve monetary easing have been dismantled. The Council now projects a prolonged restrictive rate stance, with the federal funds target rate expected to settle between 4.00% and 4.25% through year-end 2026, and only modest, highly data-dependent reductions in 2027. In the bond market, heavy federal debt issuance and sticky inflation have pushed the 10-year Treasury yield toward 5.00%–5.35%, elevating capital costs for business investment and commercial lending.

Despite these restrictive financial conditions, headline economic growth remains resilient. Real U.S. GDP is forecasted to expand at a solid 2.0% to 2.3% in 2026, moderating to 1.5% to 2.2% in 2027 as higher borrowing costs filter through. In Ohio, Real GDP is projected to track slightly below the national pace at 1.8% to 2.1% in 2026, tracking in line with the national level in 2027 at 1.6% to 2.1%. While Ohio benefits from unprecedented capital investment in data centers, semiconductor ecosystems, and advanced manufacturing, the state continues to face structural

headwinds in labor supply, utility infrastructure interconnections, and industrial exposure to trade policy uncertainty.

Key Findings & Indicator Comparison:

Indicator	Jan 2026	Jul 2026	Oct 2026 (FY26)	Oct 2026 (FY27)
Federal Funds Rate	3.00%–3.50%	3.50%–3.75%	4.00%–4.25%	3.50%–4.50%
10-Yr U.S. Treasury	4.00%–4.25%	4.25%–4.50%	5.00%–5.35%	4.50%–5.25%
U.S. Real GDP Growth	~2.0%	1.8%–2.5%	2.0%–2.3%	1.5%–2.2%
Ohio Real GDP Growth	1.2%–2.0%	1.3%–1.8%	1.8%–2.1%	1.6%–2.1%
U.S. Core PCE Inflation	2.1%–2.5%	2.5%–3.0%	3.0%–3.5%	2.3%–2.7%
Ohio Unemployment Rate	4.5%–5.0%	3.9%–4.2%	3.5%–3.8%	3.5%–4.1%

Macroeconomic & Policy Landscape

1. Inflation is Real: Upward Pressure Reshapes the Horizon

The latest economic indicators reinforce that disinflation has hit a wall. Core PCE inflation projections for year-end 2026 have pushed higher to a range of **3.0% to 3.5%**, with headline PCE running even higher (projected at 3.4% to 3.7%) due to energy and transportation pass-throughs.

The council notes that while energy prices—such as Brent crude and retail gasoline—may moderate heading into 2027, the second-round effects have already permeated business operations. Freight, industrial utility rates, and raw material expenses (steel, chemicals, machinery components) remain structurally elevated. Cleveland Fed district data indicates that firms expect to pass roughly 60% of tariff and input cost increases through to customers while absorbing 40% in narrowed operating margins.

2. Monetary Policy: Higher-for-Longer Takes Hold

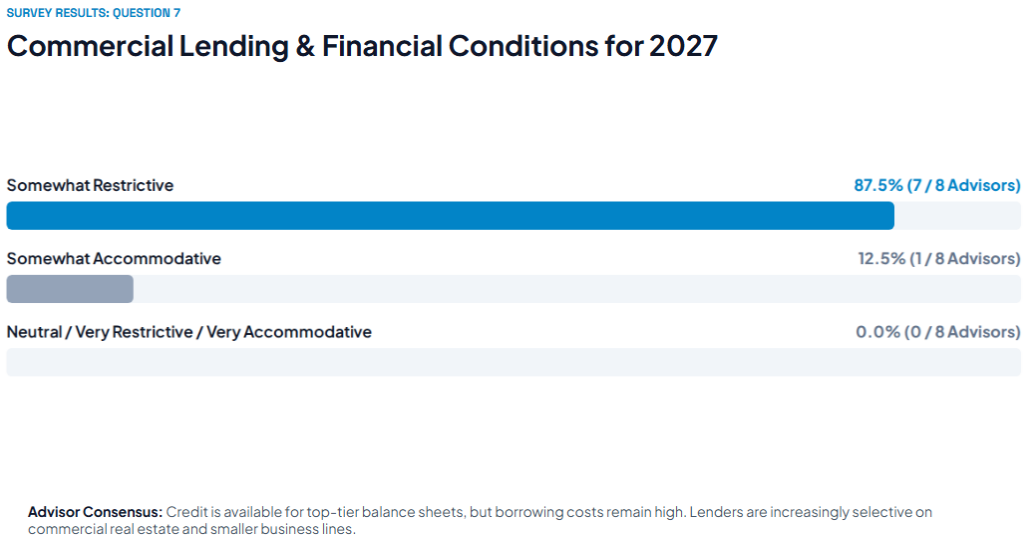
The prospect of aggressive Federal Reserve rate cuts has vanished. The consensus expectation for the Federal Funds target rate has adjusted upward to **4.00%–4.25%** by the end

of 2026. For 2027, the council projects an extended period of restrictive policy, with targets clustering between **3.50% and 4.50%**. Several members emphasize that persistent inflation and solid aggregate output limit the Fed's latitude to ease policy without risking another inflationary flare-up.

In the bond market, benchmark 10-year Treasury yields are projected to finish 2026 elevated at **5.00% to 5.35%**, with only modest compression to **4.50%–5.25%** by year-end 2027. Heavy federal debt issuance, combined with elevated term premiums, is keeping long-term borrowing costs high.

3. Financial & Credit Conditions for Ohio Businesses

An overwhelming **87.5% of council members characterize current credit conditions for Ohio businesses as "somewhat restrictive"** heading into 2027. While regional banks report active commercial lending to qualified borrowers, borrowing costs remain a significant hurdle for interest-sensitive sectors, capital equipment financing, and commercial real estate. Credit is available, but lenders remain cautious, requiring higher collateral and imposing wider spreads on smaller and highly leveraged firms.



Global Architecture, Trade & Supply Chains

The BRICS Dynamic & Global Trade Architecture

Following the recent BRICS Summit and discussions around alternative cross-border payment platforms, bilateral local-currency trade settlements, and strategic commodity trading outside traditional Western financial rails, council members evaluated the implications for domestic markets:

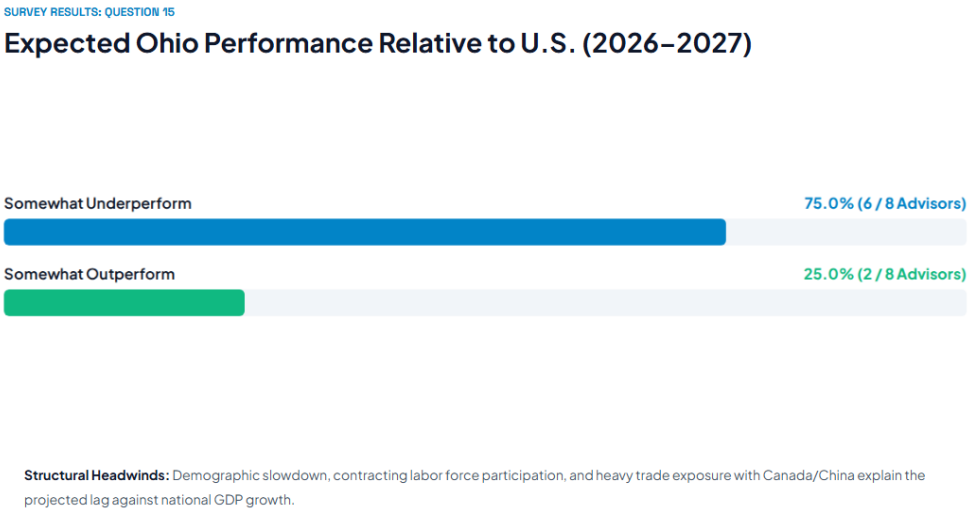
- **U.S. Financial Primacy:** The council views the movement toward non-dollar settlements as a **"slow-burn structural headwind"** rather than an imminent threat to dollar dominance. While the U.S. dollar continues to dominate foreign exchange reserves and global banking transactions, incremental diversification could exert upward pressure on U.S. Treasury term premiums and national borrowing costs over the next 2 to 5 years.

- **Impact on Ohio Exporters:** Ohio's trade-intensive agricultural and manufacturing sectors face mixed outcomes. Commodity agricultural exporters (notably soybean and corn producers) face higher counterparty and pricing volatility if global commodity trade fragments. Conversely, regional manufacturers and logistics providers stand to benefit from North American nearshoring, strengthened Canada-Mexico supply chains, and greater domestic sourcing.

The Ohio Economic Outlook & Megaproject Bottlenecks

Growth Divergence & The "Low-Unemployment Illusion"

75% of advisors project Ohio's economic performance will somewhat underperform the national average in 2026–2027. While large-scale capital investments provide a substantial floor, the state's structural exposure to interest-sensitive manufacturing, export tariffs, and slower population growth create a drag on top-line expansion.



A crucial insight highlighted by the council is the **decoupling of Ohio's headline unemployment rate from underlying labor health**. While Ohio's U-3 unemployment rate reached a historic low of 3.3% in August 2026, advisors caution that this decline reflects a **contracting labor force** rather than robust net payroll growth. As labor force participation erodes, talent shortages become binding constraints on economic output even in a cooling hiring environment.

Mega-Investment Bottlenecks: Power Emerges as the Primary Barrier

As Ohio builds out its semiconductor corridors, advanced manufacturing clusters, and hyperscale data centers, advisors universally identify **electric grid capacity and transmission interconnection** as the single most critical bottleneck threatening delivery timelines:

- **Grid Interconnection Timelines:** Data center and mega-manufacturing power demands are expanding faster than utility transmission infrastructure can be deployed. With regional utilities projecting large-load demand to triple over the coming years, generation and transmission lead times are delaying commercial operation dates.

- **Water, Sewer, and Permitting:** While Ohio possesses structural macro-water abundance, localized water and wastewater treatment upgrades remain site-specific hurdles.
- **Local Friction & Regulatory Backlash:** Council members warned of growing politicization and local municipal pushback, including moratoriums on new facilities, that could slow project approvals and investment.

Strategic Guidance for Ohio Leadership

Top 3 Business Contingency Priorities

1. **Secure Firm Infrastructure & Energy Inputs:** Prioritize power availability, dual-sourcing energy resilience, and water infrastructure connections before committing capital to major physical expansions.
2. **Stress-Test Financing Against Higher-for-Longer Rates:** Audit corporate cash flow, capital expenditure programs, and debt structures against benchmark interest rates remaining above 4.0% through 2027.
3. **Active Supply Chain & Margin Management:** Build tariff and energy cost escalation contingencies directly into vendor contracts and pricing structures to protect operating margins against persistent input cost inflation.

Statehouse Policy Priorities

- **Modernize Energy Permitting & Grid Infrastructure:** Accelerate transmission approvals, promote behind-the-meter generation, and clearly define large-load utility cost allocation to expand capacity without unfairly shifting costs to residential ratepayers.
- **Expand the Labor Base via Childcare & Housing:** Address prime-age labor supply constraints by expanding affordable childcare access and reducing regulatory barriers to entry-level and workforce housing development.
- **Targeted Technical Credentials & Apprenticeships:** Double down on career-technical education, portable apprenticeships, and industry-led upskilling programs to train the electricians, pipefitters, and specialized operators required to build and maintain Ohio's mega-sites.

Summary of Verbatim Responses

On Inflation, Interest Rates & Bond Markets

- *"Persistent inflation, a higher expected path for short-term rates, heavy Treasury issuance, and an elevated term premium are likely to keep long-term yields historically high. Some decline is expected by 2027 as inflation moderates, but fiscal pressures and structurally higher term premiums should limit yield compression."*
- *"Persistent inflation is likely to require one additional 25-basis-point increase in 2026 and an extended period of restrictive policy. Continued economic growth and a relatively stable labor market reduce the need for near-term easing..."*
- *"Demand for investment capital from business along with reduced, but still elevated economic policy uncertainty keep 10-year Treasury above 5%."*
- *"Persistent inflation, resilient economic activity, AI-related demand, elevated energy costs, and indications that current policy may be only mildly restrictive support additional tightening during 2027 rather than the previously assumed extended hold."*
- *"August core PCE held at 3.0% year over year, while September manufacturing data showed intensifying input-cost pressures and resilient demand, suggesting limited near-term disinflation... elevated energy costs and supply pressures make a return to 2% by year-end less likely than previously assumed."*

On Trade, Tariffs & The BRICS Summit

- *"Greater use of local currencies and alternative payment systems could gradually reduce demand for dollar intermediation and U.S. safe assets, putting modest upward pressure on Treasury term premiums and U.S. capital costs. However, the effect over the next 2–5 years is likely to be limited because the dollar remains dominant in reserves, trade invoicing, global banking, and debt markets."*
- *"This is not an immediate replacement of the dollar centered system. However, the dollar will be losing its dominant reserve role and we should see less foreign demand for U.S. treasury securities. This could push up the U.S. term premium and cost of capital for the government and private sector."*
- *"Trade issues definitely produce significant impacts across higher landed costs, longer sourcing lead times, more deliberate inventory management... Cleveland Fed data indicates firms expect to raise selling prices by roughly 0.6% for every 1% increase in costs, implying approximately 60% pass-through and 40% absorption."*
- *"Agricultural exporters—particularly soybean and corn producers—face the greatest exposure if BRICS commodity trade shifts toward local currencies and competing suppliers. Manufacturers could encounter additional currency and compliance costs, but Ohio may benefit from North American nearshoring, stronger Canada-Mexico supply*

chains, and increased demand for its manufacturing, warehousing, rail, and logistics capacity."

On Labor Markets, Megaprojects & Strategic Risks

- *"One overlooked risk is that Ohio's very low unemployment rate partly reflects a shrinking labor force, meaning workforce constraints could become binding even without rapid job growth. Grid availability could likewise determine whether announced mega-investments translate into actual output on schedule."*
- *"Much of Ohio's low unemployment rate is due to a shrinking labor force rather than job growth. This could be a significant problem for Ohio businesses in 2027."*
- *"The most significant hurdle is electric-power availability—generation capacity, transmission upgrades, and lengthy grid-interconnection timelines. Data-center and advanced-manufacturing loads are growing faster than new power infrastructure can be delivered; AEP Ohio projects large-load additions rising from roughly 2.3 GW in 2026 to 7.6 GW by 2030."*
- *"Over-reliance on data center projects is a major under-appreciated risk, while they are important in the short term the AI bubble is going to correct at some point... Single family housing and school quality is a perpetual issue for economic competitiveness - where can I buy an affordable house in a good school district within a 30 minute commute to my job is one of the major underlying attraction issues for top talent..."*

Disclaimer

This report represents the collective views of the Ohio Economic Advisor Council based on survey responses collected in September and October 2026, along with analysis of recent economic data. Individual opinions may vary.

As a member of the Ohio Economic Advisor Council, Dr. Lisa Barrow participated in this survey but did not provide answers about monetary policy or the Federal Reserve. The answers she gave do not necessarily represent the views of the Federal Reserve Bank of Cleveland or the Federal Reserve System.

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