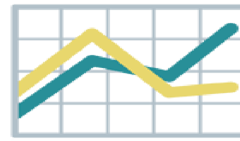
Wade Wire  Q2 2014

A Quarterly Assessment of Key Local Economic Indicators in Lucas County

Second Quarter 2014 Report

> ### What is the Wade Wire?
>
> As a public information service, ***The Wade Wire*** is a regularly published/released quarterly report in which we identify, measure, and analyze key local economic indicators within Lucas County.
>
> Rather than formulating a complex Index of Leading Economic Indicators aimed at predicting trends yet to occur, we want to determine how well our local economy is *currently* performing (compared to the prior year) based on three essential questions:
>
> **1. Are people working? 2. Are people spending?**
> **3. Are people building?**
>
> The data sources we use generally fall under the category of "concurrent" economic indicators (reflective of present conditions). However, some of them have had historically leading or predictive qualities. Thus, each report will also include a quarterly assessment, aimed at summarizing significant developments within and among our indicators and evaluating their potential impact on our county's economy.
>
> **Wade Kapszukiewicz**
> **Lucas County Treasurer**

As my last report suggested, just when the national economy appeared to have gathered and maintained some encouraging momentum to end last year, the Bureau of Economic Analysis (BEA) initially estimated U.S. first quarter 2014 GDP at near-zero growth (0.1%),[1] once again disappointing investors and rekindling a debate about the strength of the recovery.

I contended at that time that there appeared to be a substantial disconnect between the April BEA report and the positive data we were surveying among critical national and local economic indicators – especially in the areas of unemployment/hiring and consumer confidence/spending. Agreeing with those economists who pinned the flat first quarter performance primarily on the unusually harsh early-year weather, I remained confident in both the underlying strength of the economy and the likelihood of strong growth in 2014.

Six weeks later, however, the BEA revised downward its first quarter GDP numbers – concluding that the U.S. economy had actually shrunk by 2.9% in the first three months of 2014.[2] While no one questioned the harsh winter's detrimental impact, the unexpected size of the drop renewed doubt about the essential health of the economy and even the sustainability of the recovery itself. Regardless, the resulting uncertainty didn't exactly instill confidence in investors, employers, job-seekers, or consumers. In short, we knew we would likely learn a lot from the BEA's July 30th GDP Second Quarter 2014 Advance Estimate, and that it couldn't come soon enough.

With few exceptions, the early data could hardly be more encouraging. **Led by a surge in durable goods spending and a big jump in auto sales, second quarter 2014 GDP grew by 4.0%.[3]** When taken with the news of continued of solid job growth and declining unemployment, the national debate has shifted away from whether the economy is growing toward how and when the Fed will "tap the brakes" to ease its stimulus/bond-buying program and incrementally raise interest rates – in order to keep inflation at bay.

According to our data, it looks like our local economy also picked up the pace in second quarter 2014. **Both Toledo and Lucas County again saw dramatic drops in their unemployment rates, and local consumer activity remains strong, with record auto sales once again leading the way.**

However, there remains room for improvement within two important economic indicators. First, our local residential construction sector numbers continue to lag a bit behind those from last year, raising some doubt about whether area contractors can reasonably make up for time lost during the harsh winter months of the first quarter. **Second, the steady and precipitous drop in the national and local**

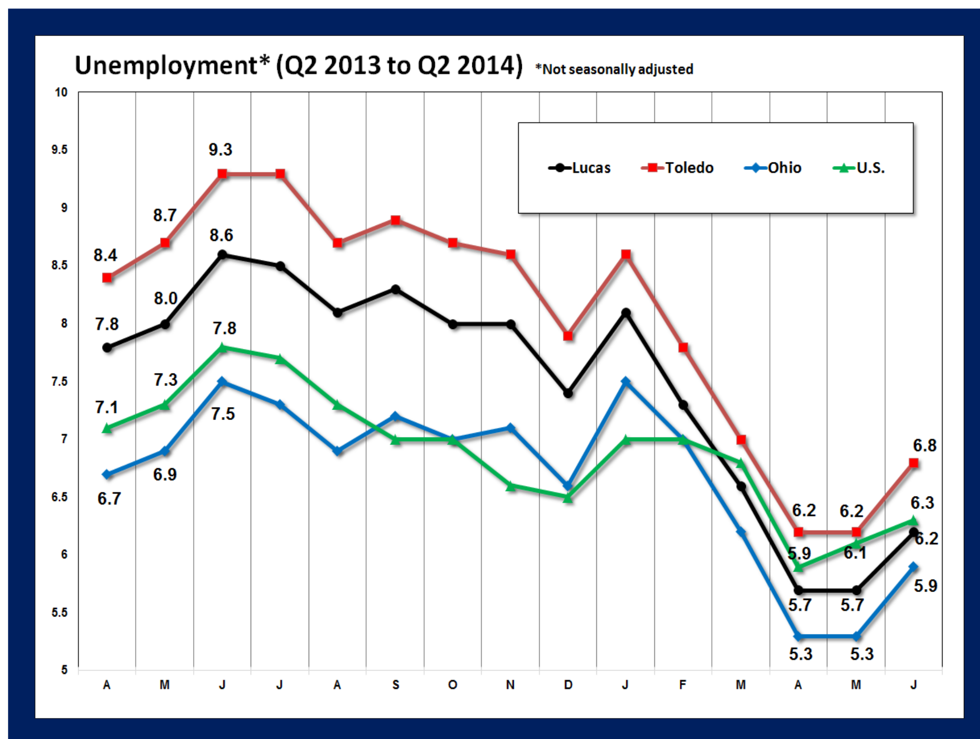
unemployment rates still has not yet led to rising wages. As we will discuss in greater depth later in this report, we'll be closely monitoring both of these critical indicators throughout 2014.

For now, however, let's turn to our Key Local Economic Indicators.

Are People Working?

Whatever doubts there were about the first quarter GDP stumble must not have shaken the confidence of the nation's employers. **In the second quarter the U.S. registered robust gains of 304,000 jobs in April, 229,000 in May, and 298,000 in June.[4]** The momentum was evident in our local job market data as well, with both Toledo and Lucas County posting steep declines in their unemployment rates for the second consecutive quarter.

Table 1 *(Source: Ohio Dept. of Job and Family Services)[5]*



Looking at our fifteen month rolling track of local unemployment data, we continue to see a steep decline in the recent numbers. As *Table 1* indicates, Lucas County's April 2014 jobless rate of 5.7% marked a steep drop from 7.8% the previous year. Likewise, by holding at 5.7% in May the improvement was even more impressive (down from 8.0% in 2013). **The county finished the quarter strong with a June jobless rate of 6.2%, a healthy 2.4% lower than the previous year (8.6%).**

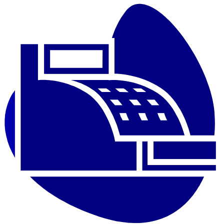
As was the case in our last report, Toledo's improvement was slightly better than Lucas County's. Its April 2014 jobless rate had plummeted to 6.2% from 8.4% the previous year. By holding at 6.2% in May, it bested the previous year's rate (8.7%) by a full 2.5%. **And Toledo also finished the quarter strong by posting a June jobless rate of 6.8%, again beating the previous year's mark (9.3%) by an impressive 2.5% spread.**

As in previous reports, some of the local jobless rate drop can still be attributed to a decline in the Civilian Labor Force (CLF, the U.S. Department of Labor term for the sum of those people either working or seeking work). Of late, however, it seems that **new hires are becoming a bigger driver of the recent decline in the local jobless rates.**

Building on last year's progress, Toledo continued to add jobs throughout second quarter 2014. The city's non-seasonally adjusted employment level for April 2014 (119,200) was 1,100 higher than the previous year.[6] May saw payrolls increase by 500, and *June's mark of 122,000 meant there were 2,000 more people working in Toledo than the year before.[7]* Lucas County job numbers gained strength during Q2/14 as well, where there were 1,700 more people employed in April of 2014 (192,500) than the year before (190,800). May's numbers were up by 900, and the June employment level of 197,000 meant 3,200 more jobs for our community than the prior year.[8]

Although the recent employment numbers were nothing short of sensational, wages remain a cause for concern. **Locally, our payroll withholding survey reflected a somewhat better jobs and wages environment for area workers, with a 4.14% year-to-date gain over last year.** The national picture wasn't quite so bright, where second quarter average weekly wages were roughly unchanged from a year earlier, while inflation had grown by roughly 2.1%.[9]

Despite the progress of the last few years, it's safe to assume that our region has yet to regain all of the jobs and wages we lost during the Great Recession. However, as I will discuss in the Summary, we may have reached a turning point. If the data trends we are seeing hold, we could be witnessing an essential stabilization of our national and local labor markets which could bring about long-overdue upward wage pressure and a stronger economy.



Are People Spending?

As I mention in every report, it's the flow of currency (from employer to employee, from consumer to merchant/vendor) that is the lifeblood of a thriving local economy. For the purpose of this report, we choose to focus on two key concurrent indicators of consumer spending – the sales tax generated by purchases made in Lucas County and the motor vehicle sales sector of our local economy.

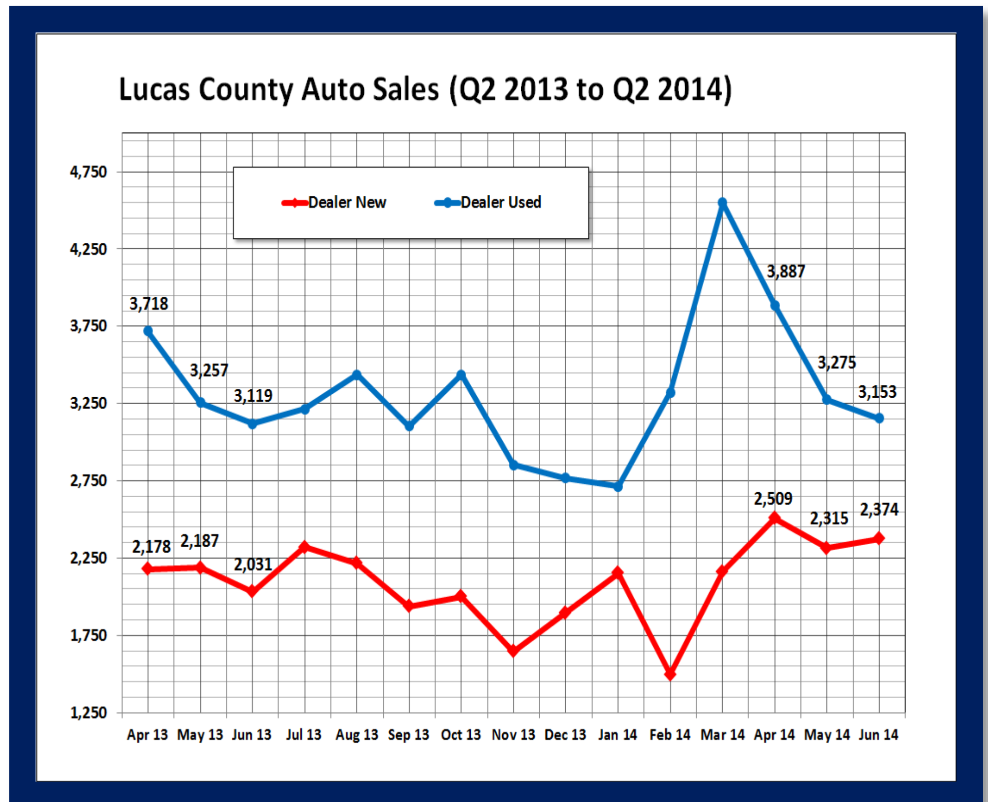
Looking first at taxes collected on sales in Lucas County, the second quarter of 2014 topped last year's figures by a sturdy 3.92% (an improvement of $703,815.74).[10] Halfway through 2014, Lucas County consumer sales are up by 3.55% (a gain of $1,341,225.45 from the previous year).[11]

The mid-year figures not only indicate soaring consumer confidence, but are especially remarkable given the tens of millions of dollars likely sidelined during the brutal winter months at the beginning of the year.

There are few better indicators of consumer confidence than the purchase of durable goods, and it's hard to find an example more fitting and relevant to our region than that of auto sales.

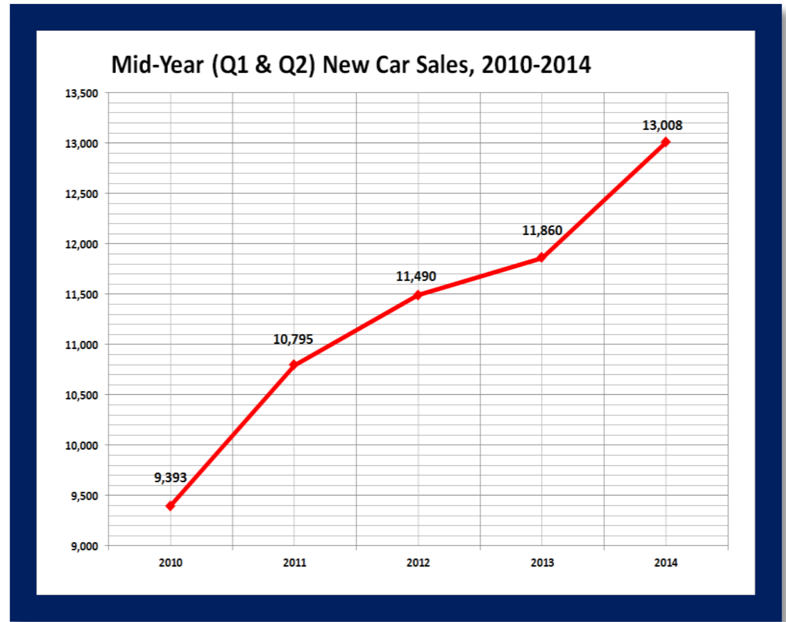
As *Table 2* shows, **dealers saw their April 2014 new car sales beat last year's record tallies by 15.20%, and their used car figures jumped by another 4.55%.** Proving that there was more to the surge than lingering demand leftover from the winter, **local new car sales increased by another 5.85% in May and 16.89% in June.**

Table 2 (Source: Lucas County Clerk of Courts)[12]



As *Table 3* vividly illustrates, every single mid-year new car sales figure has topped the previous mark for each of the five years since the end of the Great Recession.

Table 3 *(Source: Lucas County Clerk of Courts)*[13]



As was the case with the robust sales tax figures, the data at mid-point in 2014 are all the more remarkable when you consider that new car sales were running behind 2013 numbers after the first two months of the year.

Auto sales remained strong at the national level as well and were a driving factor (pardon the pun) behind the potent durable goods rebound in the second quarter. In particular, June sales exceeded the already lofty expectation of 16.4 million and rolled in at a surprising 16.9 million.[14] Industry analysts had anticipated a possible dip from the May sales figures, which they considered possibly inflated by late-buying winter purchasers.[15] Even GM posted a second quarter profit, despite undergoing a costly and image-damaging recall of roughly 29 million vehicles.[16]

Powered by record sales of Jeep sport-utility vehicles, the Chrysler Group also reported a jump in second quarter profits, saying it earned $619 million, up 22% from the same period a year earlier.[17]

But the 4% second quarter GDP advance was much more broad-based than just auto sales. The GDP report also showed consumers made more durable goods purchases of appliances and furniture, while businesses added to their inventories, and also invested in equipment and technology. This is significant because, as one analyst observed, “Both can be seen as good signs that households and companies are more optimistic and investing in the future.”[18]

Are People Building?

Building permit activity has always been considered the gold standard of economic indicators. Because the industry relies on a combination of confidence and optimism, access to credit, and several time-intensive stages of planning and development, economists have long relied on building permit activity as a tried and true “leading” or predictive indicator for an economy’s future direction. In addition, it bears repeating that the construction industry is also well known for its “multiplier effect,” generating spin-off manufacturing, retail, and transportation jobs and profit.

There can be little doubt that the brutal winter weather was the chief culprit in the across-the-board dip in our first quarter local construction industry indicators. In many respects, it will likely render our local data somewhat anomalous for the near future. More relevant to our local economy and our community, however, is whether area contractors can make up the difference during the remainder of the year. Meanwhile, the outlook for the housing and construction sectors is far murkier on the national level. With an assortment of mixed indicators giving conflicting signals, **home building and sales have suddenly emerged as one of the few possible weak spots in an otherwise accelerating economy.**

Turning to our second quarter survey of local building permit activity *(Table 4)*, **we saw a huge rebound in new commercial construction activity, with permits drawn for projects with a combined estimated value of $25,957,423**. Although the category's first quarter figures were down $11.5 million from the previous year, with the second quarter spike factored in, **local new commercial construction is now ahead by $7,033,959 at mid-year.**

Likewise, **there was also a turnaround in the commercial adds/alterations category, where permits were drawn for projects with a combined estimated value of $39,529,363**. The uptick has already erased a near $3 million first quarter shortfall. As a result, **local commercial additions and alterations are now ahead by $2,699,163 after two quarters.**

New residential construction rebounded substantially in second quarter 2014, but still fell short of figures from the previous year. Permits were drawn for new residential construction projects with a combined estimated value of $24,308,613. By falling $929,370 short in the second quarter, **the category remains down $5,398,109 after two quarters.**

Residential additions and alterations were essentially flat for the quarter, but they still lag at mid-year. Permits were drawn for residential adds/alts with a combined estimated value of $9,122,471. With its small second quarter gain ($63,629), **the category remains down $443,003 after two quarters.**

Table 4 **Q2/14 Permits (vs. Q2/13)**

Category	Permits	Change	Est. Value	Change
Residential New	Permits: 161	10 (6.62%)	Est: $24,308,613	-$929,370 (-3.68%)
Residential Add/Alt	Permits: 1,164	58 (5.24%)	Est: $9,186,100	$63,629 (0.70%)
Commercial New	Permits: 114	51 (80.95%)	Est: $25,957,423	$18,609,795(253.28%)
Commercial Add/Alt	Permits: 292	-94 (-24.35%)	Est: $39,529,363	$5,676,341 (16.77%)

As I mentioned earlier, the national housing and construction figures have been erratic throughout the second quarter, perhaps indicative of the sector's continued struggle to regain its footing after the rough start to the year. Despite the early-year sputter, in April the National Association of Home Builders (NAHB) was still projecting a big year for the country's builders, with new single-family starts expected to increase by 22% over the previous year, new home sales to climb by 29%, and residential remodeling to post a 3.8% gain in 2014.[19] Several weeks later, however, NAHB data showed single-family production dropping by 5.9%, but permit issuance rising by almost 4%.[20] In mid-July, the association released June data showing that single-family starts were down roughly 9%.[21] But the statistic is misleading, to say the least, as the drop was driven primarily by a 30% drop in the South – all other regions posted monthly gains.[22]

Regarding the second quarter 2014 local real estate market, the Toledo Board of Realtors reported that total home sales were down 4% in April (compared to April 2013), but were up 7% in May, and 1% in June.[23] This seems mostly in line with the general sluggishness of national housing sales trends throughout the second quarter. While new home sales may have tumbled in June, existing home sales (the lion's share of the residential market) posted better-than-expected gains.[24]

Suffice it to say, the housing picture outlook looks mixed, at best, at the national level. Nonetheless, **I remain optimistic that the local construction sector rebound will accelerate as we move further into the year.** My confidence is guided by the sense that *all of our key local economic indicators are now heading in the right direction*. With that in mind, I will elaborate in my comprehensive take on second quarter 2014.

Summary: An Assessment of Second Quarter 2014

I opened this second quarter report by recapping how the BEA revised its initial estimate of GDP growth to suggest that the U.S. economy had likely shrunk by 2.9% during the first three months of the year.[25] Nonetheless, I held that almost all of the economic indicators we were tracking at that time were sufficiently positive to remain upbeat about the recovery's continued upward trajectory into 2014.

It was hardly surprising that the GDP rebounded in the second quarter, although the 4% initial growth estimate likely exceeded many analyst expectations. Even better was the news that a further revision of the previous quarter's GDP reduced the estimated decline to 2.1%.[26] Perhaps more significant (though less reported) were the additional upward revisions to both the third and fourth quarters of 2013 (Q3/13 from 4.1% to 4.5%, and Q4/13 from 2.6% to 3.5%).[27] In short, **the data suggest that the national economy shook off the first quarter stumble relatively quickly and is probably on sturdier footing than previously thought.**

With the economy's underlying strength less in doubt, the Federal Reserve Board has been gradually tapering its bond-buying efforts, and it is weighing its options for the appropriate time and manner in which to introduce inflation-curbing incremental interest rate increases. But due to her continued concerns about slow wage growth and the relative fragility of the fledgling housing sector recovery, Fed Chair Janet Yellen has given indications that such moves may not begin until spring or summer of 2015.

As I mentioned earlier, though slightly concerned, I am still fairly confident that our local construction sector will continue to rebound from the dismal start to the year. With the harsh winter behind them, local builders are more likely to be challenged by strained resources than by a lack of job opportunities. For example, a recent NAHB survey found that builders have been experiencing a growing shortage of labor (i.e., framing crews, both rough and finish carpenters, masons/bricklayers, etc.) since the housing market rebound started picking up in early 2013.[28] Because of its vital importance to our economy, we will continue to closely monitor the construction sector throughout the year.

On the other hand, **the problem of wage stagnation has persisted throughout the entire recovery. But some important second quarter labor market data suggest that conditions may finally be right for us to soon see some long-overdue upward wage pressure.**

Clearly, there wasn't much to criticize about the huge job gains posted in the second quarter (304,000 in April, 229,000 in May, and 298,000 in June).[29] **The June jobs report to close the second quarter marked the first time in fifteen years that the country had seen five straight months of job growth over 200,000.[30] Similarly, the number of Americans filing new claims for unemployment benefits in mid-July fell to the lowest level in over eight years.[30]** And in a much-anticipated report, the Fed

recently estimated that, among the jobless, the ranks of the long-term unemployed (out of work for more than six months) have fallen from 45.3% in April 2010 to 32.8% in June 2014.[31]

In an important development, the labor force participation rate (the share of the population in the labor force), which had been dropping since the beginning of the Great Recession and through the subsequent recovery, has stabilized for the last year.[32] While at least half of the dip was estimated to have been caused by people moving into retirement, an indeterminate portion may have become discouraged job-seekers.[33] **Taken together, these factors (steady job growth, falling jobless rates, fewer long-term unemployed, and a stabilization of the labor force participation rate) should reduce the amount of slack in the labor market and thereby begin to push wages higher.**

I'll close by noting a new Labor Department report which estimates that employers posted 4.67 million jobs in June, the highest total since February 2001.[34] Yet the same report holds that many postings listed in the last year remain unfilled, due to employers reporting difficulty finding appropriately skilled applicants.[35] The same question has lingered ever since the end of the recession: Are employers simply not paying enough to entice desirable applicants, or are job-seekers waiting longer for the perfect help wanted ad?

If the labor market continues to tighten, employers will likely have little choice but to pay workers more if they wish to remain competitive. Since those higher paychecks would certainly fuel further growth, it is likely that higher wages would provide the last piece to the economic recovery puzzle.

Considering that wages have barely kept pace with inflation in the five years since the end of the recession, I have no doubt that millions of working Americans are ready for a raise.

Wade Kapszukiewicz
Lucas County Treasurer

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