

Third Quarter 2014 Report

My last report suggested that any lingering early-year doubts about the essential health of the recovery were likely dispelled when the Bureau of Economic Analysis (BEA) reported that the U.S. economy grew by a healthy 4.0% in the second quarter.¹ Subsequent revisions ultimately measured second quarter growth at an even greater 4.6%.²

As further evidence of an economy gathering momentum, the Commerce Department reported that **U.S. GDP grew by 3.9% in third quarter 2014.**³ Although the pace of growth slowed somewhat from the prior three months, it nonetheless exceeded analyst estimates and, when combined with the 4.6% gain in the second quarter, marks **the strongest six-month gain since 2003.**⁴

In brief, although third quarter retail data was mixed and consumer spending slipped somewhat from the torrid pace of the second quarter, there was mostly positive news. The country's trade gap narrowed as exports grew, after several quarters of austerity government outlays actually increased (mostly in defense spending), and strong auto sales again helped buoy GDP growth. In fact, **American consumers are buying cars at the highest annualized pace in nearly a decade.**⁵ And the construction industry's recovery continued, even though the pace slowed somewhat during the third quarter.⁶ Nonetheless, builder and realtor surveys suggest industry optimism for the remainder of the year and well into 2015.⁷

However, the most eye-popping numbers came from the U.S. Labor Department's revised data indicating that **there were 747,000 jobs created in the third quarter of 2014 (now over 2.3 million for the year).**⁸ Further, **unemployment has now fallen below 6% and the number of people seeking unemployment aid has dropped to levels unseen since April of 2000.**⁹

Not surprisingly, with yet another solid quarter of job growth in the books and continued declining unemployment, the Fed followed through on its promise to end its stimulus/bond-buying program at the end of October,¹⁰ instead turning its attention to monitoring wages and inflation, with interest rate increases likely to begin sometime near the middle of next year.

Turning to our survey of local indicators, it looks like our local economy also picked up the pace in third quarter 2014, with nearly every metric showing improvement over the same time last year. As was the case in my last report, **unemployment continued to decline substantially in both Toledo and Lucas County, and local consumer activity stayed strong, with robust auto sales again leading the way.**

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

Also, in my last analysis I raised questions about whether local construction firms would be able to make up for the projects they lost during the harsh winter months of the first quarter. **Three quarters into 2014, it appears that most of the construction sector has caught up to or surpassed the year-to-date markers – with the exception of the new residential category, which still trails 2013 YTD figures.**

However, the overarching theme of the last report was that more than five years into the economic recovery, and despite the steady decline in the unemployment rate in recent years, wage stagnation continues to frustrate American workers. However, while I didn't predict when it would happen, I suggested that labor market conditions were finally shaping up for long-overdue upward wage pressure.

The improvement in the economy probably didn't come soon enough for most of the voters participating in the recent midterm elections, since seven in 10 of those participating in exit polls said the economy *had gotten worse*.¹¹ I will address the role the economy may have played in the midterm elections in the Summary.

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



Are People Working?

Building on an already strong trend of job growth this year, the nation's employers continued to hire at their best pace since 1999.¹² **The U.S. Department of Labor announced final revised Third Quarter job gains of 243,000 jobs in July, 203,000 in August, and 256,000 in September.**¹³ Consistent with the national dynamic, our local

job market data also showed dramatic improvement, with both Toledo and Lucas County posting steep declines in their jobless rates yet again.

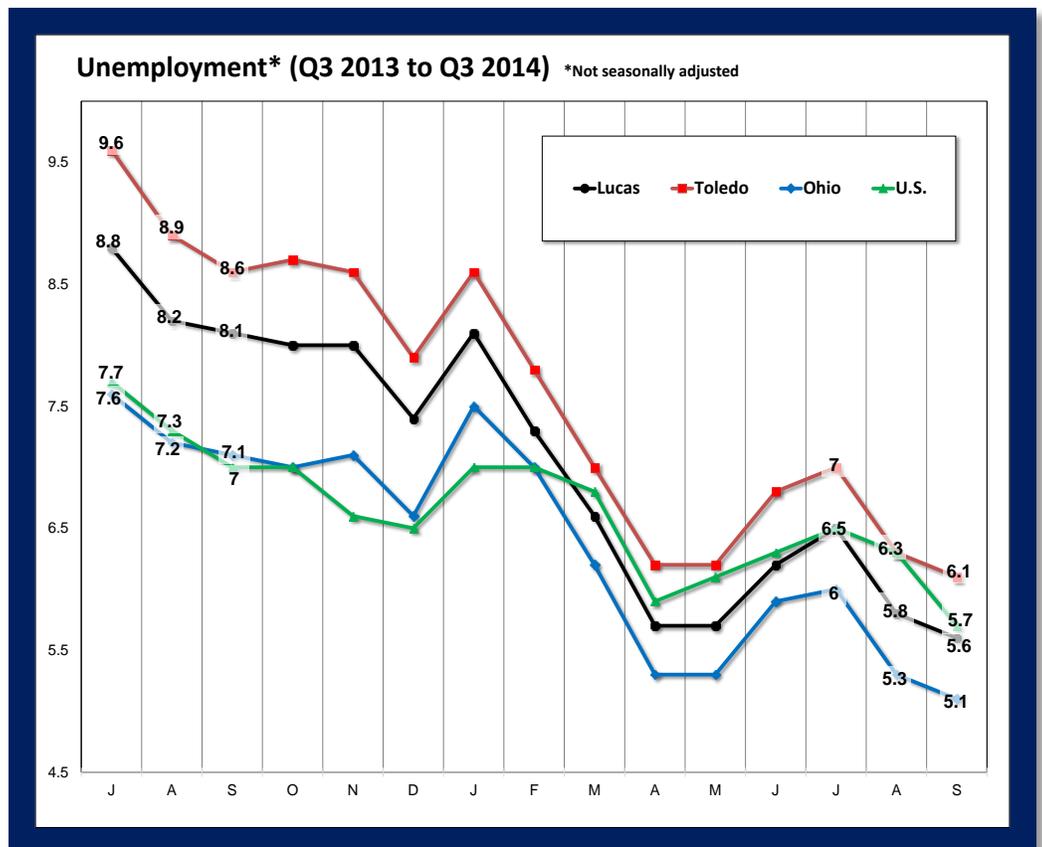
Looking at our fifteen month rolling track of local unemployment data, there continued to see a steady decline in the recent numbers.

As Table 1 indicates, Lucas County's July 2014 jobless rate dipped to 6.5%, down steeply from the 8.8% of the prior year. The drop was even bigger in August, when it plunged to 5.8% (from 8.2% in 2013).

The county finished the quarter on a strong note, with a September jobless rate of 5.6%, a full 2.5% lower than the previous year (8.1%).

Table 1

(Source: Ohio Dept. of Job and Family Services)¹⁴



Likewise, **the Toledo job market also posted impressive gains in July.** Its July 2014 jobless rate plummeted to 7.0% from 9.6% a year earlier. In August, it dropped sharply again, this time to 6.3% from 8.9% in 2013. **Both July and August figures marked improvements of 2.6% over the previous year.** Toledo also finished the quarter strong by posting a September jobless rate of 6.1%, also beating the previous year's mark (8.6%) 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). **For several quarters, however, new hires have become the more significant driver of the recent decline in the local jobless rates.**

For example, the city's non-seasonally adjusted data showed that **there were 1,900 more Toledoans working in September 2014 (122,400) than in the year before (120,500).**¹⁵ When combined with the drop in the number of people seeking work (130,300 in September 2014, compared to 131,900 a year earlier), the 2.5% plunge in the unemployment rate in a single year cannot be dismissed as an aberration.¹⁶ But the same potent dynamic of employment gains and declining CLF wasn't unique to Toledo. That same month **there were 3,100 more Lucas County residents working (197,700) than there were a year earlier (194,600),** when the September CLF dropped from 211,600 in 2013 to 209,300 in 2014.¹⁷

Such strong job gains are no doubt welcome news for the area, but one wonders just how much and what kind of slack remains in the local labor market and, most importantly, when substantial wage growth will become evident.

In an encouraging development, **our local payroll withholding survey data suggest that both jobs and wages continue to improve for area workers, posting a third quarter gain of 4.79%** over the same period last year and year-to-date improvement of 4.42%.¹⁸ Last, more than five years into the recovery, **national wages and salaries grew by 0.8% in the third quarter – their largest gain since 2008.**¹⁹

It bears repeating that, despite over five years of sustained recovery, our region has yet to regain all of the jobs and wages lost during the Great Recession. However, as I asserted in the last report and I will discuss further in the Summary, we may be on the verge of the long-overdue phase of the recovery in which the workers finally get a pay raise.



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, I 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.

Turning to taxes collected on sales in Lucas County, the third quarter of 2014 surpassed last year's figures by a hefty 6.51% (a gain of \$1,269,556.40).²⁰ **Three-fourths of the way through 2014, Lucas County consumer sales are up by 4.56% (an increase of \$2,610,781.85 over the previous year).**²¹

As I noted in my previous report, these year-to-date figures are somewhat remarkable given the tens of millions of dollars likely sidelined during the brutal winter months at the beginning of the year.

Retailers routinely attempt to gauge the mood of consumers in determining orders and inventories. For the purposes of this report, 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 auto sales.

As Table 2 shows, the 2014 Lucas County auto sales surge continued, as **dealers posted third quarter new car sales gains of 13.10%.**

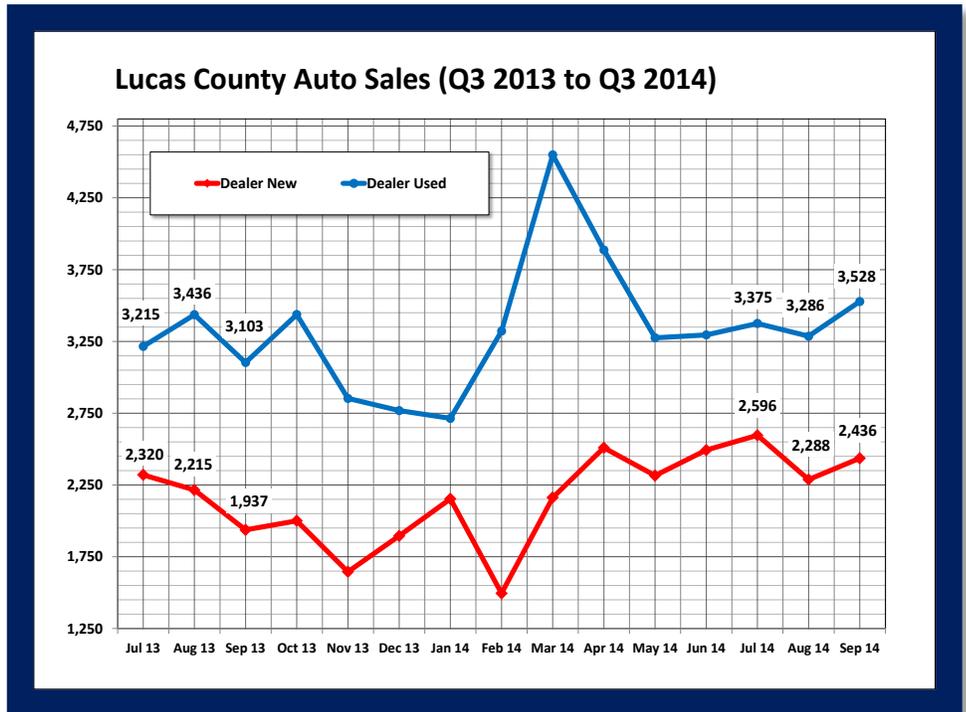
July new car sales topped last year's markers by 11.90%, but cooled somewhat in August, when they only improved by 3.30%.

However, **September new vehicle sales scored a gigantic 25.76% increase over the previous year.**

Area auto dealers also saw used car sales grow by 4.46% over the prior year.

Table 2

(Source: Lucas County Clerk of Courts)²²

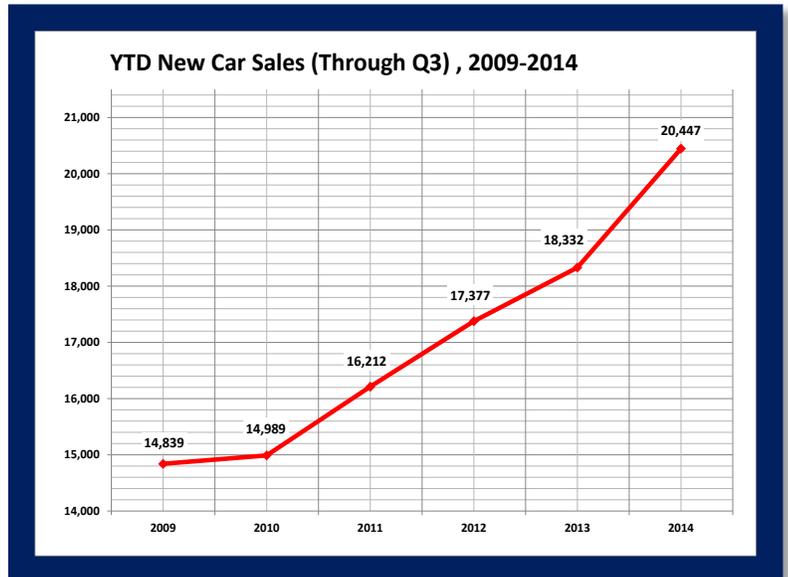


As Table 3 indicates, every single third quarter year-to-date sales figure has topped the previous mark for each of the five years since the end of the Great Recession. As is the case with the county's sales tax figures, what makes the 2014 data so astonishing is that new car sales were running behind 2013 numbers after the first two months of the year (due to the harsh winter weather).

As has been seen throughout the entire recovery, motor vehicle sales once again led much of the GDP advance in third quarter 2014. Having posted particularly healthy gains in September (a 9.4% increase from a year earlier), analysts now project U.S. sales to reach at least 16.4 million for the year, the best since 2006, when the industry sold 16.5 million vehicles.²⁴ Most notably, GM continued to overcome the financial setbacks and brand damage caused by recent recalls and logged its best third quarter since 1980, posting an 8% gain in U.S. sales, scoring particularly well in the truck and SUV crossover markets.²⁵

Table 3

(Source: Lucas County Clerk of Courts)²³



Powered once again by record sales of Jeep sport-utility vehicles, the Chrysler Group reported that net income jumped 32% in the third quarter, saying it earned \$611 million, up from \$464 million in the same period a year earlier.²⁶

It's worth noting that those record profits were announced a mere one month after Fiat Chrysler Automobiles CEO Sergio Marchionne hinted that production of the Jeep Wrangler could be relocated out of Toledo as part of a possible conversion to a next-generation version of the company's popular Toledo-built sport utility vehicle.²⁷ Because so much of our local economy depends on our automotive sector and Jeep, in particular, the entire community will be watching this issue closely in the coming months.

Let's hope that, in some future report, Mr. Marchionne's unfortunate comment will be remembered as a mere footnote to an otherwise ongoing success story.

But three quarters into the year, consumer activity is pointing in the right direction, both locally and at the national level. As I will elaborate in the Summary, most data suggest the economy will likely pick up steam in the fourth quarter. Meanwhile, let's turn our attention to local and national building permits data activity.



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.

(Note: In tracking local building permit activity, we periodically exclude from our comparison certain infrequent or large-scale projects. For example, the one-time construction of the Hollywood Casino was of vital importance to the local construction industry, but its inclusion would have skewed any worthwhile statistical comparison.)

Turning to the third quarter survey of local building permit activity (Table 4), new residential construction surged during third quarter 2014, making up for much of the activity lost during the early months of the year. **Permits were drawn for new residential construction projects with a combined estimated value of \$27,732,726. The Q3/14 gain (\$2,681,450) topped the previous third quarter figure by 10.70%.** The category remains behind 2013 project estimates, but the increased third quarter activity nearly cut the YTD lag in half (from -\$5,398,110 after two quarters to -\$2,716,659 after nine months).

Residential additions and alterations activity also increased in the third quarter. **Permits were drawn for a combined estimated value of \$11,283,001. The Q3/14 gain (\$2,666,898) marks a 30.95% improvement over the prior year, and it puts the YTD total ahead of of 2013 by 9.78%.**

New commercial construction activity continued to expand during third quarter 2014, with permits drawn for projects with a combined estimated value of \$26,746,899. The Q3/14 advance of \$2,270,023 was an uptick of 12.29%

Table 4 **Q3/14 Permits (vs. Q3/13)**

Residential New	
Permits: 179	Est: \$27,732,726
18 (11.18%)	\$2,681,450 (10.70%)
Residential Add/Alt	
Permits: 1,104	Est: \$11,283,001
38 (3.56%)	\$2,666,898 (30.95%)
Commercial New	
Permits: 126	Est: \$26,746,899
52 (70.27%)	\$2,270,203 (12.29%)
Commercial Add/Alt	
Permits: 354	Est: \$31,048,184
-64 (-15.31%)	\$13,311,291 (75.05%)

from the previous third quarter and puts the YTD total ahead of 2013 by 16.82%

Turning to commercial adds/alterations activity, third quarter permit data showed projects with an estimated value of \$31,048,184. Despite lagging permit numbers, the Q3/14 estimated project values grew by 75.05% over the prior year. As a result, the YTD total is now ahead by 17.42%.

As I've mentioned earlier, **the national housing and construction markets remained in recovery, although their trajectories continue to be more erratic than the other economic sectors.** For example, U.S. home construction jumped 15.7% in July.²⁸ Then came word that a steep 31.7% decline in multifamily dwellings and a 2.4 % drop in single-family starts pushed the rate down 14.4% in August.²⁹ But then new housing starts rose again in September by 6.3%.³⁰

Regarding the third quarter 2014 local real estate market, all of the data headed in the right direction. **The Toledo Board of Realtors reported that total home sales were up 9% compared to the third quarter of 2013.**³¹ **The average sale price was \$135,508 (an increase of 7%).**³² **New listings also rose by 5%, while the average days on market decreased by 9%.**³³

Despite the continued improvement in the local economy and a steep decline in foreclosures in recent years, the greater Toledo housing market has been hindered by years of population loss and property devaluation. Nonetheless, both the real estate and residential construction sectors have been experiencing a steady, if moderate, recovery of late. And while local builders may not yet have regained pre-recession volume, the direction and momentum of the industry continues to improve.



Summary: An Assessment of Third Quarter 2014

There was very little not to like about the numbers from the third quarter of 2014. Our local economic indicators are all moving in the right direction, as are data trends at the regional and national levels.

Of all segments of the economy, the automotive sector's outlook continues to look especially bright. A well-known catalyst for job creation, the industry has apparently been encouraged by the better employment data to offer further consumer incentives (like zero-interest financing, friendlier financing terms, etc.). The additional sales produce more manufacturing jobs, creating a sort perpetual motion dynamic.

On the retail front, despite slowing a bit, consumer purchasing continued at a healthy clip during Q3. With a report from the Conference Board putting consumer confidence at a seven-year high in October, and with gasoline prices at their lowest prices in years, shoppers should have extra money to help drive fourth quarter and holiday spending.

I began this third quarter report by recapping how the U.S. had just posted its best back-to-back quarters of economic growth in over a decade. Nearly 750,000 jobs had been created, the jobless rate had dropped below 6%, and the number of people filing for unemployment assistance had dropped to its lowest level in over fifteen years.

The economy was the most important issue on the minds of the voters during the midterm elections, and roughly 70% of those answering exit polls said that *the economy had gotten worse* in recent months and years. One explanation for this apparent disconnect almost certainly has to do with wage stagnation.

One recent analysis suggests that in 2007, the median household income in Toledo was 10% lower than the U.S. average.³⁵ By 2013, that number had slipped to 15% below the U.S. average and, despite all of the

progress made by the local job market, was still at its 2006 level.³⁶Life in the industrial Midwest was already difficult enough before the financial crisis and recession, so Toledo and other cities may understandably recover at different rates.

Regardless, the economy seems to have reached a sort of a tipping point. For several quarters, economists once wondered when they would start to see 3% GDP growth. Then it started to happen. As I suggested in my last analysis, the local and national labor market conditions are finally getting to the point where upward wage pressures are an inevitability.

The U.S. Labor Department recently reported third quarter wage gains were the largest since 2008.³⁷Although one report doesn't constitute a trend, there is mounting evidence that employers might have to start offering higher pay. Throughout the recovery, while unemployment remained high, employers had the ability to draw from a large talent pool while offering lower wages (an "employers market"). Even as the jobless rate dropped, some positions have remained unfilled, as employers have often said they couldn't find workers with the right skills.

Many economists, however, have suggested that as the recovery has continued and profits have risen, it is more likely that companies haven't been offering high enough pay to attract the best candidates. That may have to change for firms wishing to remain competitive. As a recent report showed, there were just two jobless workers pursuing each opening in September, the fewest since early 2008, and down from almost seven in 2009.³⁸(The 2-to-1 ratio is the threshold that typically leads to pay increases stemming from employers competing over a dwindling talent pool, according to economists at UBS Securities LLC.³⁹

If this trend continues, the reality of an improving local and national economy will be matched by the perception that things are, in fact, getting better.

Wade Kapszukiewicz
Lucas County Treasurer

References:

1. U.S. Bureau of Economic Analysis. (2014, Jul. 30). National Income and Product Accounts Gross Domestic Product, 2nd quarter 2014 (Advance Estimate) [Press release]. Retrieved from http://bea.gov/newsreleases/national/gdp/2014/gdp2q14_adv.htm
2. U.S. Bureau of Economic Analysis. (2014, Sept. 26). National Income and Product Accounts Gross Domestic Product, 2nd quarter 2014 (Third Estimate) [Press release]. Retrieved from http://bea.gov/newsreleases/national/gdp/2014/gdp2q14_3rd.htm
3. U.S. Bureau of Economic Analysis. (2014, Nov. 25). National Income and Product Accounts Gross Domestic Product, 3rd quarter 2014 (Second Estimate) [Press release]. Retrieved from http://www.bea.gov/newsreleases/national/gdp/2014/gdp3q14_2nd.htm
4. Cohen, Patricia. (2014, Oct. 30). Third-Quarter G.D.P. Rose 3.5%, Lifting Hopes for U.S. Economy. *NY Times*. Retrieved from http://www.nytimes.com/2014/10/31/business/economy/us-economy-q3-2014-gdp.html?_r=0
5. Hirsch, Jerry. (2014, Oct. 1). Slowing truck sales keep Ford from September auto sales gains; GM rises. *L.A. Times*. Retrieved from <http://www.latimes.com/business/autos/la-fi-hy-gm-ford-chrysler-september-auto-sales-20141001-story.html>
6. Cohen, Patricia. (2014, Oct. 30). Third-Quarter G.D.P. Rose 3.5%, Lifting Hopes for U.S. Economy. *NY Times*. Retrieved from http://www.nytimes.com/2014/10/31/business/economy/us-economy-q3-2014-gdp.html?_r=0
7. National Association of Home Builders. (2014, Sept. 17). Builder Confidence Hits Highest Level Since November of 2005 [Press release]. Retrieved from http://www.nahb.org/news_details.aspx?newsID=16995
8. U.S. Bureau of Labor Statistics. (2014, Nov. 7). Employment Situation Summary October 2014 [Press release]. Retrieved from <http://www.bls.gov/news.release/pdf/empst.pdf>
9. Associated Press (2014, Nov. 6). Applications for US jobless aid decline; 14-year low for benefits points to strong hiring. Retrieved from <http://www.foxnews.com/us/2014/11/06/applications-for-us-jobless-aid-decline-14-year-low-for-benefits-points-to/>
10. Reuters. (2014, Oct. 30). Dollar surges as Fed ends QE on hawkish note. Retrieved from <http://www.reuters.com/article/2014/10/30/us-markets-global-idUSKBN0J01J20141030>
11. Langer, Gary and Crowder, Anja. (2014, Nov. 4). Midterm Elections 2014: National Exit Poll Reveals Major Voter Discontent. Retrieved from <http://abcnews.go.com/Politics/national-exit-poll-reveals-major-voter-discontent-midterm/story?id=26688877>

12. Woellert, Lorraine. (2014, Oct. 16) Factory Production Rebounds as U.S. Sustains Expansion. Retrieved from <http://www.bloomberg.com/news/2014-10-16/industrial-output-in-u-s-increases-by-most-since-november-2012.html>
 13. U.S. Bureau of Labor Statistics. (2014, Nov. 7). Employment Situation Summary October 2014 [Press release]. Retrieved from <http://www.bls.gov/news.release/empsit.pdf>
 14. Ohio Dept. of Job and Family Services. (2014). Ohio Labor Market Information Civilian Labor Force Query Retrieved from <http://ohiolmi.com/asp/laus/vbLaus.htm>
 15. *ibid.*
 16. *ibid.*
 17. *ibid.*
 18. Payroll withholding survey of the cities of Toledo, Oregon, Maumee, and Sylvania
 19. Reuters. (2014, Oct. 31). U.S. third-quarter wage gains largest since 2008. Retrieved from <http://www.reuters.com/article/2014/10/31/us-economy-costs-idUSKBN0IK19A20141031>
 20. Sales tax figures provided by the Lucas County Office of Management and Budget
 21. *ibid.*
 22. Auto sales figures provided by Lucas County Clerk of Courts Bernie Quilter
 23. *ibid.*
 24. Hirsch, Jerry. (2014, Oct.1). Slowing truck sales keep Ford from September auto sales gains; GM rises. *L.A. Times*. Retrieved from <http://www.latimes.com/business/autos/la-fi-hy-gm-ford-chrysler-september-auto-sales-20141001-story.html>
 25. Reuters. (2014, Oct. 15). GM's third-quarter global vehicle sales up 2% on strong China, U.S. demand. Retrieved from <http://www.reuters.com/article/2014/10/15/us-gm-sales-idUSKCN0I41PI20141015>
 26. Wayland, Michael. (2014, Nov. 5) Chrysler Q3 earnings jump 32% to \$611M. *The Detroit News*. Retrieved from <http://www.detroitnews.com/story/business/autos/chrysler/2014/11/05/chrysler-third-quarter-earnings/18528805/>
 27. Linkhorn, Tyrel and Chavez, Jon. (2014, Oct. 3) Jeep hints at Wrangler exit. Chrysler CEO: Toledo can't handle 2017 production changes. *Toledo Blade*. Retrieved from <http://www.toledoblade.com/Automotive/2014/10/03/Jeep-hints-at-Wrangler-exit.html>
 28. Associated Press. (2014, Aug. 19) U.S. Home Construction Jumps 15.7% in July. Retrieved from <http://www.foxbusiness.com/markets/2014/08/19/us-home-construction-jumps-157-percent-in-july-to-10-million-rate-fastest-pace/>
 29. National Association of Home Builders.. (2014, Sept. 18). Multifamily Decline Pushes Nationwide Housing Starts Down 14.4 Percent in August [Press release]. Retrieved from http://www.nahb.org/news_details.aspx?newsID=16996&fromGSA=1
 30. Morath, Eric and Hudson. (2014, Oct. 17) U.S. Housing Starts Up 6.3% in September. Building Permits, Bellwether of Future Construction, Increase 1.5%. *Wall Street Journal Online*. Retrieved from <http://online.wsj.com/articles/u-s-housing-starts-up-6-3-in-september-1413549111>
 31. Toledo Board of Realtors. (2014, Oct.). Local Market Update – 3rd Quarter 2014 [Press release]. Retrieved from <http://www.toledorealtors.com/img/pdf/housing-statistics/2014/3rdQuarter2014.pdf>
 32. *ibid.*
 33. *ibid.*
 34. Cohen, Patricia. (2014, Nov. 7)). Jobs Data Show Steady Gains, but Stagnant Wages Temper Optimism. *NY Times*. Retrieved from <http://www.nytimes.com/2014/11/08/business/jobs-numbers-for-october-2014-reported-by-labor-department.html>
 35. *2nd Quarter 2014 Toledo Market Outlook*. ©2014 The PNC Financial Services Group. Pittsburgh, PA
 36. *ibid.*
 37. Reuters. (2014, Oct. 31). U.S. third-quarter wage gains largest since 2008. Retrieved from <http://www.reuters.com/article/2014/10/31/us-economy-costs-idUSKBN0IK19A20141031>
 38. Clough, Richard, Stilwell, Victoria, and Kaplan, Jennifer. (2014, Nov. 19). Wages to Rise on Signs of Improving U.S. Job Market. Retrieved from <http://www.bloomberg.com/news/2014-11-19/wages-poised-to-rise-as-signs-emerge-of-improved-u-s-job-market.html>
 39. *ibid.*
-