# Wade Wire Q3 2015

A Quarterly Assessment of Key Local Economic Indicators in Lucas County


## Third Quarter 2015 Report

Since publication of my last report, government data updates indicated that the country's economy rebounded from yet another early-year stall to post a solid 3.9% GDP expansion in the second quarter.

However, **the Commerce Department's recent Advance Estimate report showed that U.S. economic growth braked sharply in the third quarter, posting a 1.5% GDP gain.[1]**

Likewise, while there were 678,000 new hires in the second quarter, **the pace of job creation also slowed in the third quarter, with the nation's employers posting 513,000 new hires from July through September.[2]** Anxieties were further compounded when a 1,500-point stock market "correction" occurred in mid-August.

### 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.

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But a closer look into the details of both the Initial Estimate and some subsequent data would suggest that the nation's economy is much stronger than the report initially indicated. **Consumer spending was robust (especially in the areas of durable goods and auto sales), the housing and construction numbers remained solid, and there were strong signs of upward wage pressure.** The data also suggest that the biggest drag on third quarter growth was likely due to companies selling off excess inventories. Further, **despite the slowing of job growth in the third quarter, the nation's unemployment rate dipped to 5.1% (and preliminary numbers suggest that the job market bounced back in October, adding 271,000 new hires).[3]**

While the soft jobs numbers and stock market jitters may have been enough to forestall a federal funds rate increase in September, the Fed's Open Market Committee has apparently seen enough positive recent data to hint that "liftoff" will most likely occur in December or in early 2016 at the latest.

**Closer to home, the local economic outlook was also mostly positive but somewhat mixed.** The area job market improved in the third quarter, in terms of both jobs and wages. As I'll discuss in the "Are People Working?" section, the data showed that the improvement in **the unemployment rate in both Toledo and Lucas County continues to be driven mostly by job gains rather than people leaving the work force.** As further evidence that there is little slack remaining in the local labor market, **both third quarter and year-to-date payroll tax withholding data show that area wages are headed upward.**

As was the case at the national level, the pace of local consumer purchases slowed from that of the previous three months. However, **sales tax data still indicated a healthy 2.38% third quarter gain, buoyed by what may turn out to be a record-setting year for Lucas County new vehicle sales.**

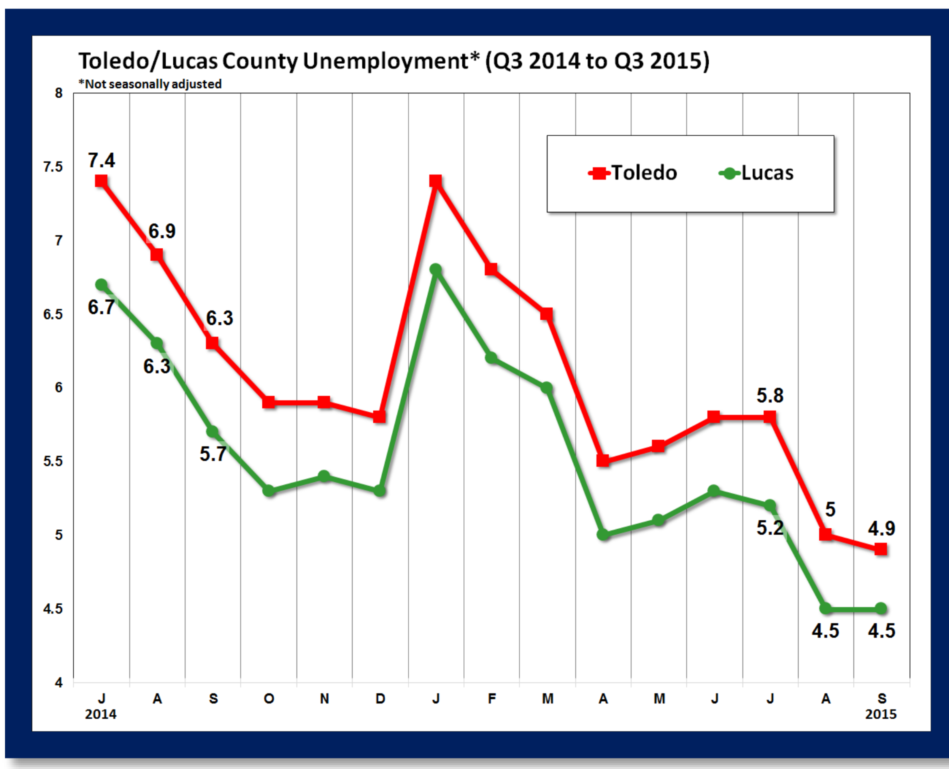
**Local building permit activity numbers were generally lower in the third quarter but construction sector data remains mixed at best.** Granted, the housing and construction sector has been the most volatile sector of the economy throughout the recovery, and will likely remain among the chief causes for concern throughout the rest of the year. **After three quarters, residential construction continues to recover (but has yet to match pre-recession levels), new commercial building is substantially expanding, but both residential and commercial adds/alts are dramatically behind last year's totals.**

Most analysts expected the third quarter data to dip from those of the previous three months. But the combination of three consecutive weak jobs reports, a major stock market plunge, and the 1.5% GDP nonetheless caught many by surprise. I'll assess these developments and their impact on the various economic sectors throughout this report. For now, however, let's take a look at our Key Local Economic Indicators.

## Are People Working?

The news was mostly positive but nonetheless mixed on the national level as job creation undeniably lost momentum during the third quarter, despite news that the national unemployment rate had dropped to 5.1%.[4] **The U.S. Department of Labor's revised data showed revised third quarter gains of 223,000 jobs in July, 153,000 in August, and 137,000 in September.**[5]

*Table 1* *(Source: Ohio Dept. of Job and Family Services)*[6]




Looking at the fifteen month rolling track of non-seasonally adjusted local unemployment data, the area also continued to see a substantial improvement in its recent numbers.

As *Table 1* shows, Lucas County's July 2015 jobless rate dipped to 5.2%, a steep drop from the 6.7% of the prior year. Likewise, the August rate of 4.5% was a dramatic 1.8% improvement from the year before (6.3%).

**Lucas County ended the quarter in September with an unemployment rate of 4.5%, a sturdy gain over the 5.7% of the previous year.**

As the chart further indicates, **the Toledo job market also made substantial gains in the second quarter.** Its July 2015 jobless rate improved to 5.8% from 7.4%. In August, it dropped by even more, this time to 5.0% from 6.9% in 2014. **Toledo also ended the quarter strongly, by posting a September unemployment rate of 4.9%, a gain of 1.4% over the previous year's mark (6.3%).**

*As I've detailed in previous reports, fluctuations in unemployment rates can mean many things. Ticks downward can be skewed by demographic trends (i.e., baby boomers retiring) or discouraged job-seekers giving up their search for work, while upward movement can often be an encouraging sign that the long-*

*term unemployed are rejoining the labor market. With that in mind, let's look closer at the year-over-year Civilian Labor Force (CLF, those actively seeking work) and employment statistics from August 2015, when the unemployment rate in Toledo fell by 1.9% and by 1.8% in Lucas County.*

The city's non-seasonally adjusted data showed that **there were 2,500 more Toledoans working in August 2015 (122,500) than in June 2014 (120,000).**[7] Unlike many previous quarters, in which there were significant fluctuations in the CLF – *the number of people seeking work was nearly identical* (129,000 in June 2015, compared to 128,900 in June 2014).[8] That same month **there were 4,200 more Lucas County residents working (200,000) than there were a year earlier (195,800),** while the number of county job-seekers was also nearly identical (209,500 in 2015, compared to 209,000 in 2014).[9]

Looking closer at the statistics, Toledo saw its August 2015 CLF grow by only 0.08% from the prior year, while its employment level increased by 2.08%. At the same time, Lucas County's CLF went up by a scant 0.24%, while its employment level grew by 2.15%. The area's job market has no doubt improved since the end of the recession and the unemployment rate has consistently declined, but why and to what extent have often been subjects for debate. Yet this third quarter CLF to Employment ratio suggests that **the continued unemployment rate drop was driven mainly *by job gains, rather than people dropping out of the work force.***

**Turning to the issue of wages, our local payroll withholding survey data showed a year-over-year third quarter gain of 3.74% and a year-to-date advance of 2.81%.**[10]When combined with the positive local employment news, the data suggests that our local job market is healthy and improving, with little slack remaining, with most signs pointing to continued moderate wage growth in the coming months.

The employment-cost index, a broad measure of workers' wages and benefits, rose a seasonally adjusted 0.6% in the third quarter.[11]**And in the twelve months ending in October were ahead 2.5% – the highest annual increase since 2009.**[12]

## 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 the local economy.

As was the case at the national level, local consumer spending slowed noticeably from the brisk pace of the previous three months, as **taxes collected on sales in Lucas County increased by a more modest 2.38% from a year ago (a gain of $494,892.24).**[13] But it's worth noting that the **year-to-date tallies are still up 7.19% from the same period a year ago**.[14]

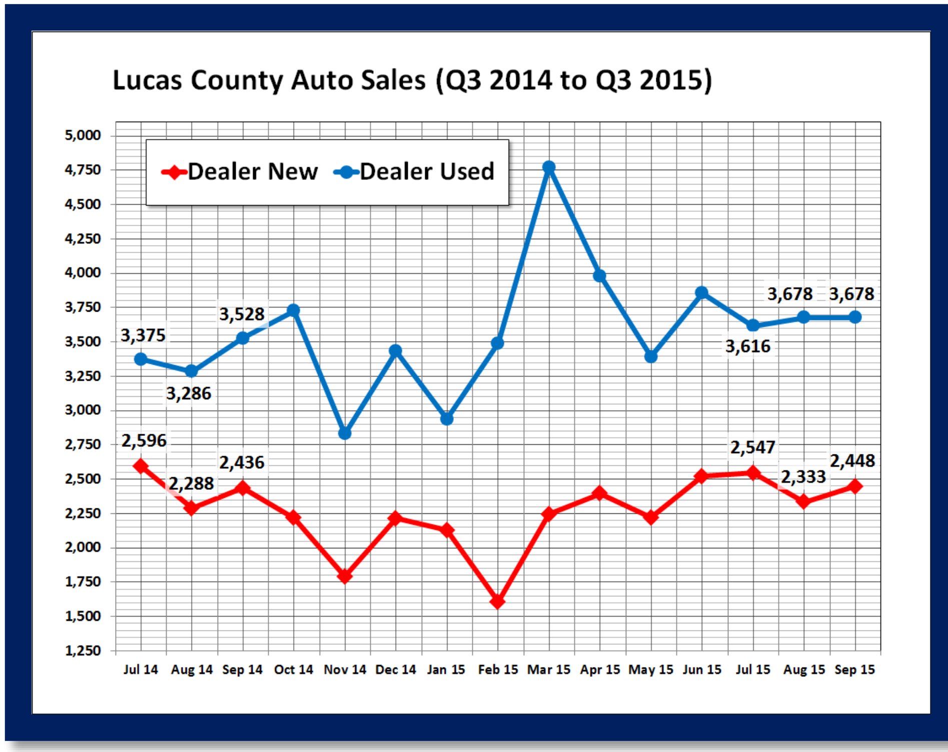
*As I noted in my last report, despite the county's recent 0.25% increase in its sales tax rate, the third quarter 2015 data has been adjusted accordingly (to not include post-increase revenue) in order to achieve a more accurate year-over-year comparison.*

Meanwhile, there remain 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* indicates, **Lucas County auto dealers posted a slim 0.11% year-over-year gain in third quarter new car sales.** But area dealers saw their pre-owned car sales expand by 7.68% during the same period.

But the third quarter sales figures were anything but disappointing. Given that 2014 sales were the best in over ten tears, and that auto manufacturers have scaled back on many sales incentives, the 2015 data is testament to both the underlying durability of the auto sales sector and the strong consumer confidence among local buyers.

*Table 2* *(Source: Lucas County Clerk of Courts)*[15]




**In a statistic that is nothing short of remarkable, 2015 Lucas County new car sales stood at 20,447 after three quarters – the same exact total from a year earlier.** These local numbers are in line with the national data, which suggest that **2015 U.S. new vehicle are on pace to top the all-time historic high of 17.4 million.**[16]As of last month, vehicle sales were estimated at a seasonally adjusted annualized rate 18.24 million.[17]It's worth noting that at the worst point of the Great Recession in 2009 U.S. auto sales dropped to only 10.4million.[18]

Of course, for almost a year, we awaited word about whether Jeep Wrangler production would remain in Toledo. However, FCA announced in September that the Wrangler would stay but Cherokee assembly would be relocated to accommodate the transition.[19] Company officials assured workers and local leaders that between the next-generation Wranglers and a new Wrangler-based truck, there won't likely be a net job-loss. Although the Cherokee "build out" isn't scheduled until late 2016, and industrywide collective bargaining is just wrapping up, Jeep and the local auto sector may not be out of the woods quite yet.

## 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.*

As *Table 3* shows, the area's **new residential construction permit activity rebounded in the third quarter of 2015, but still trailed 2014 figures.** Permits were drawn for a combined estimated value of $25,239,142. **The drop (-$2,493,584) marked an 8.99% decline from 2014 figures.**

However, as *Table 4* shows, **the New Residential category has posted across-the-board statistical gains year-to-date.**

Likewise, **residential additions and alterations permit activity picked up in the third quarter, but lagged the previous year's tallies.** Permits were drawn for a combined estimated value of $8,387,707. **The drop (-$902,454) was an 8.00% decrease from the 2014 totals.**

Year-to-date, the number of permits drawn has increased, **but the value (as reported) of Addition/Alteration projects still trails 2014 figures.**

**New commercial construction activity slowed during third quarter 2015.** Permits were drawn for a combined estimated value of $17,605,950. **The dip (-$3,140,949) marked a 15.14% drop from 2014 totals.**

**But year-to-date new commercial construction data show that projects begun in 2015 have an estimated value of more than double of those from one year earlier (over $141million after third quarter 2015 vs. $64million in 2014).**

Last, **commercial adds/alterations activity continued to lag in third quarter 2015.** Permits were drawn for a combined estimated value of $18,537,562. **The drop (-$12,510,621) is yet another sharp decrease from 2014 figures (-40.29%).**

As a result, **the year-to-date estimated value for commercial adds/alterations projects is down 54% from 2014.**

In all, third quarter permit numbers give us a murky picture of the local construction sector. While each category trailed for the quarter, the year-to-date picture still had the new residential category ahead of 2014 figures and new commercial projects more than doubling the estimated value last year's undertakings.

While the national housing market has yet to fully recover to pre-recession levels, the ever-volatile construction sector has experienced generally sustained growth throughout 2015. **Private investment in housing grew at an annualized pace of 6.1% in the period from July through September.**[21] Although the statistic may overstate the construction industry's health (since the sector's recovery had been slow and erratic during the last six years) the recent third quarter growth is welcome news. While much of the residential building is being driven by demand for apartments and

*Table 3* **Q3/15 Permits (vs. Q3/14)**[20]

| Category | Permits | Est. |
|---|---|---|
| Residential New | Permits: 175<br>-4 (-2.23%) | Est: $25,239,142<br>-$2,493,584 (-8.99%) |
| Residential Add/Alt | Permits: 1,188<br>84 (7.61%) | Est: $10,380,547<br>-$902,454 (-8.00%) |
| Commercial New | Permits: 65<br>-61 (-48.41%) | Est: $17,605,950<br>-$3,140,949 (-15.14%) |
| Commercial Add/Alt | Permits: 303<br>-51 (-14.41%) | Est: $18,537,562<br>-$12,510,621 (-40.29%) |

*Table 4* **Q3/15 YTD Permits (vs. Q3/14)**[19]

| Category | Permits | Est. |
|---|---|---|
| Residential New | Permits: 445<br>9 (2.06%) | Est: $64,341,919<br>$1,653,900 (2.64%) |
| Residential Add/Alt | Permits: 2,771<br>52 (1.91%) | Est: $23,067,812<br>-$1,902,715 (-7.62%) |
| Commercial New | Permits: 205<br>-117 (-36.34%) | Est: $141,047,821<br>$76,422,935 (118.26%) |
| Commercial Add/Alt | Permits: 812<br>-26 (-3.10%) | Est: $49,650,966<br>-$58,289,069 (-54.00%) |

condominiums, overall private residential construction recently rose to the highest level since January 2008.[22]

Turning to the third quarter 2015 local real estate market, the data were pretty positive. **The Toledo Board of Realtors reported that total home sales in Lucas County were up 5% compared to the third quarter of 2014.[23]** The average sale price rose to $131,937 (an increase of 7%).[24] And, following the national trend of dwindling inventories, the number of listings fell by 1% (from 2,100 in 2014 to 2,083 in 2015), and the average days on market was unchanged 101).[25]

As I mentioned in the introduction, there is little doubt that economic growth slowed in the third quarter of 2015. Job numbers certainly disappointed, foreign markets sagged (sparking a major stock market "correction"), and inventories grew excessive to the point where they were a substantial detriment to GDP growth. It's hardly surprising that some "bears" foresee a recession within the next year. Others are trying to guess whether the Fed will pull the trigger on its first federal funds rate increase since June 2006 at its next policy meeting in mid-December. With that in mind, I'll now assess the third quarter 2015.

## Summary: An Assessment of Third Quarter 2015

Despite initial appearances, the nation's economy in third quarter 2015 was most likely much healthier than it looked. As we move further into the the year's final stanza, **my read of the data leads me to conclude that both the local and national economies are on firm footing and should continue their moderate, but sustained expansion through the fourth quarter.**

I am particularly encouraged by the sustained durability of the nation's domestic economy. In many ways, the combined forces of homegrown consumer demand and a steadily improving labor market have helped the country withstand the impact of the global recession.

While in many previous quarters the strong dollar and trade imbalance were directly responsible for dragging down net GDP, there was actually a narrowing of the trade gap in the third quarter. The biggest culprit this quarter was likely an "inventory correction" as companies sold off excess stock faster than they replaced it. **Inventories are estimated to have shaved 1.4% from growth, the largest such measurement since 2012.[26]** Among other important economic indicators, **final sales of domestic product (which measures demand for domestic goods and services) rose 3.0% in the third quarter, and consumer spending rose 3.2%.[27]** And despite the rate of consumer purchase activity slowing, durable goods sales (especially autos) remained robust throughout the third quarter.

Finally, although the third quarter job creation numbers initially seemed to be cause for concern, the dual news of 271,000 new hires in October and significant recent wage growth should remind us that a little perspective is never a bad thing. After all, the entire 1,500 point drop during the mid-August stock market "correction" has since been recovered. And while we may be disappointed that only 513,000 jobs were created in the third quarter, we should perhaps take a moment to remember that between October of 2008 and April of 2009, an average of 700,000 American workers lost their jobs *each month.*[28]

Happy Thanksgiving.

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