Wade Wire Q1 2016

A Quarterly Assessment of Key Local Economic Indicators in Lucas County

First Quarter 2016 Report

Although revised data showed fourth quarter 2015 GDP growth of 1.4%, it was clear that the pace of economic expansion had slowed in the year's final three months. Worse, the continued decline of global markets helped prompt the DOW to drop by over 1,750 points during the first six weeks of 2016.

Then the Bureau of Economic Analysis (BEA) released its Advance Estimate report showing that **national GDP growth tapered to a disappointing 0.5% for first quarter 2016, the weakest period since first quarter 2014 (when the data initially indicated a contraction of 0.9%).[1]**

Weak first quarter GDP numbers have become somewhat routine of late. From 2010 through 2015, growth only averaged 0.8% in the first quarter compared with 3.1% in the second, 2.2% in the third, and 2.4% in the fourth.[2] Taking note of this pattern, the Commerce Department revised its methodology last year to address what experts call "residual seasonality."[3] Regardless of whether the GDP data was the product of still-imperfect measuring practices or, worse, a harbinger of a potential recession, the report's stew of mixed economic indicators only fueled uncertainty and doubts about the economy's stamina.

Accordingly, the Federal Reserve Board at its April Open Market Committee meeting acknowledged the volatility, noting that "labor market conditions have improved further even as growth in economic activity appears to have slowed."[4] Meeting minutes also stated that "growth in household spending has moderated, although households' real income has risen at a solid rate and consumer sentiment remains high," and that "the housing sector has improved further but business fixed investment and net exports have been soft."[5] As a result, the Fed opted to not raise its federal funds rate, and indicated that the central bank would move "cautiously" in 2016.[6]

At the national level, several national economic indicators showed encouraging strength in first quarter 2016. For instance, **there were over 600,000 new jobs added in the first three months and wages continued to rise, albeit moderately.[7]** Likewise, **U.S. construction spending in March rose to its highest level in over eight years.[8]** On the downside, however, **auto sales remained strong but were lagging behind last year's record figures.[9]** And global developments continued to hamper growth, as **the strong dollar, low oil prices, and sluggish foreign demand caused exports to decline and imports to grow during the first quarter.**

At the local level, all of our economic indicator data posted year-over-year gains in first quarter 2016. Perhaps benefitting from the mild winter, **Lucas County auto sales surpassed last year's record**

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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markers and are once again poised for another big year. Likewise, local consumers were in a spending mood, as evidenced by the remarkably strong first quarter sales tax figures we surveyed. **And both Toledo and Lucas County again saw significant drops in their unemployment rates, although the rate of improvement may be leveling off as the labor market tightens.**

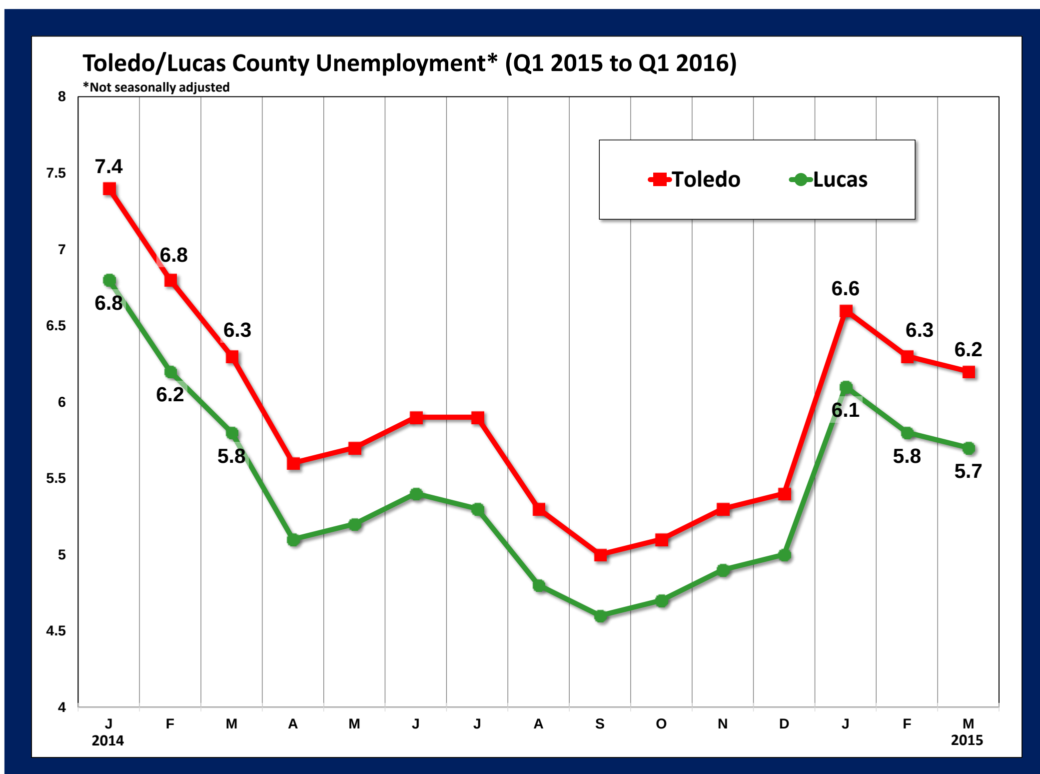
In a welcome development, **local construction sector data posted permit activity gains in every category, with particular strength in the commercial segment, both for new buildings and additions/alterations.** While the industry has yet to recover to pre-recession levels, it's a positive sign for this critical part of our local economy. As I've mentioned in previous reports, building permit activity is among the most vital of our local economic indicators due to the "multiplier effect" that home building and the construction industry has in spurring growth in numerous other economic sectors (manufacturing, transportation, retail, etc.).

The first quarter 2016 national economic indicators were, without question, decidedly mixed. Most notably, the job market seems to be at its healthiest point in nearly two decades, yet economic growth remains stubbornly sluggish. For now, however, let's take a look at our Key Local Economic Indicators.

Are People Working?

Starting the year on a positive note, the nation's employers hired just over 600,000 new employees during the first three months of 2016. **The U.S. Department of Labor announced revised first quarter job gains of 168,000 jobs in January, 233,000 in February, and 208,000 in March.**[10] Once again in line with the national momentum, our local job market data also continued to improve, with both Toledo and Lucas County posting sizable drops in their year-over-year jobless rates.

Table 1 *(Source: Ohio Dept. of Job and Family Services)*[11]



Looking at our fifteen month rolling track of non-seasonally adjusted local unemployment data, the area continued to enjoy a steep decline in its recent numbers.

As *Table 1* shows, Lucas County's January 2016 jobless rate improved to 6.1%, down sharply from the 6.8% of the prior year. The February rate of 5.8% also showed improvement from the 6.2% posted a year earlier.

Lucas County ended the quarter in March with a jobless rate of 5.7%, a slim 0.1% lower than the previous year (5.8%).

Similarly, **the Toledo job market also made healthy gains in the first quarter.** Its January 2016 jobless rate improved by 0.8% in a single year, to 6.6% from 7.4%. In February, it dropped sharply again, this time to 6.3% from 6.8% in 2015. **Toledo finished the quarter by posting a March jobless rate of 6.2%, edging the previous year's mark (6.3%) by a narrow 0.1% spread.**

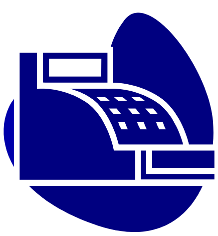
As I've detailed in previous reports, fluctuations in unemployment rates can mean many things. Ticks downward can be skewed by demographic trends (i.e., baby boomers retiring) or discouraged job-seekers giving up their search for work, while upward movement can often be an encouraging sign that the long-term 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 March 2016, when the year-over-year unemployment rate in fell by only 0.1% in both Toledo and Lucas County.

The city's non-seasonally adjusted data showed that **there were 2300 more Toledoans working in March 2016 (122,400) than in March 2015 (120,100).[12]** Unlike some previous quarters – in which a dramatic improvement in the unemployment rate could be attributed, in part, to a drop in the CLF – *the number of people seeking work in March actually grew* (130,500 in 2016, compared to 128,200 the year before).[13] That same month **there were 3,700 more Lucas County residents working (200,100) than there were a year earlier (196,400),** while the number of county job-seekers had also grown substantially (212,300 in 2016, compared to 208,500 in 2015).[14]

A closer look at the statistics shows that Toledo's March 2016 CLF grew by 1.10% from the prior year, while its employment level increased by 2.03%. At the same time, Lucas County's CLF went up by 1.25%, while its employment level grew by 2.02%. The increase in both the CLF and number of people working suggests that the year-over-year job market gains were likely greater than the slim unemployment rate change would indicate. Once again, ***the improvement in local jobless rates is still being driven by job gains, rather than people dropping out of the work force – but there may be very little slack remaining in the local job market.***

Turning to wages, our local payroll withholding survey data showed a sturdy year-over-year first quarter gain of 8.17%.[15] Taken together, the employment and payroll data suggest that our local job market is healthy and improving, with all signs pointing to continued moderate wage growth in 2016.

The employment-cost index, a broad measure of workers' wages and benefits, rose by a seasonally adjusted 0.6% in the first quarter.[16] **And in the twelve months ending in March, the index showed total wages were ahead by 1.9%, keeping paycheck growth ahead of inflation, but marking the smallest gain in two years.[17]**

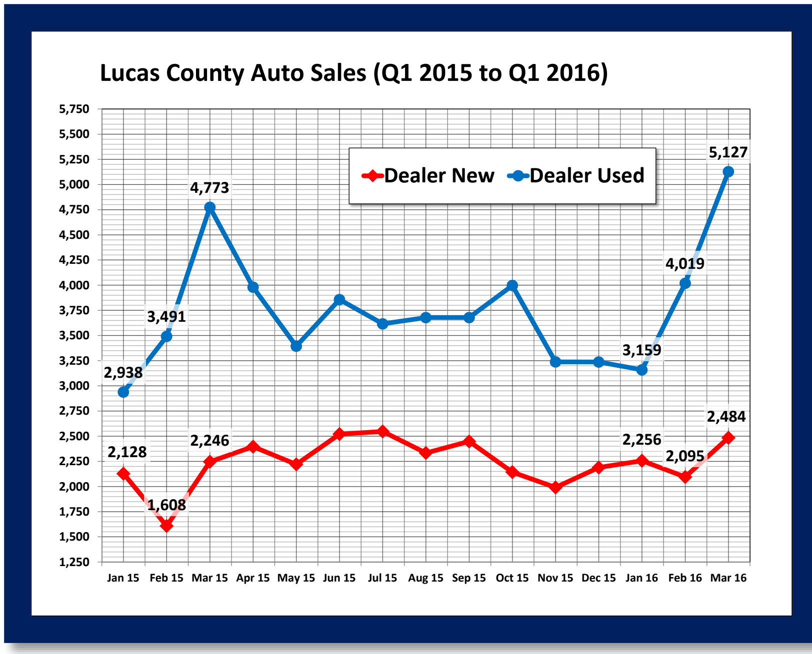


Are People Spending?

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.

Unlike the national data, local consumer spending was strong in the first quarter, as **taxes collected on sales in Lucas County increased by 4.92% from a year ago (a gain of $1,101,634.83).[18]** *As I noted in my last report, despite the county's recent 0.25% increase in its sales tax rate, the first quarter 2016 data has been adjusted accordingly (to not include post-increase revenue) in order to achieve a more accurate year-over-year comparison.*

Table 2 (Source: Lucas County Clerk of Courts)[19]



Meanwhile, 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* indicates, **Lucas County auto dealers posted first quarter new car sales gains of 14.26% over last year's record figures**. Area dealers saw used car sales grow by 9.85% during the same period.

On a Roll: Auto sales have been the sturdiest of our local indicators, as only one quarter's sales data failed to top the prior year's figures in the nearly seven years since the end of the Great Recession.

On the national level, auto manufacturing and sales continued to drive much of the country's GDP expansion, posting a first quarter gain of 3.2% over last year's markers.[20] Yet analysts grew doubtful that the industry would top last year's all-time record sales, citing some first quarter data as being cause for concern. For example, skeptics believe the data for the sagging sedan/light vehicle segment may have been inflated, due to a combination of fleet/rental sales and higher than usual discounts.[21]

Regardless, low fuel prices, favorable credit conditions and a strengthening economy still helped several automakers post record March sales. In fact, **Ford Motor Company more than doubled its profits during the first three months of the year, lifting the company to its best quarter in its 113-year history.[22]** Likewise, **Jeep sales rose 15 percent for its best March ever.[23]** And because the popular SUV brand comprised 39% of its March sales, **Fiat Chrysler America enjoyed its best quarter since 2006** (selling 213,187 vehicles, up from 197,261 the year before).[24]

In further Jeep-related news, Dana Corporation recently announced its plans to build a $70 million plant within the Toledo-Lucas County Port Authority's Overland Industrial Park, which was once home to the former Jeep Parkway factory.[25] Scheduled to open in mid to late 2017, the new plant will make axles for the next generation of the Jeep Wrangler and is expected to employ at least 300 people.[26]

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, **new residential construction activity increased substantially in first quarter 2016.** Permits were drawn for a combined estimated value of $27,550,080. **The gain ($5,582,775) marked a 25.41% improvement over 2015 figures.**

Residential additions and alterations activity also grew in the first quarter. Permits were drawn for a combined estimated value of $6,910,214. **The increase ($2,610,655) was a hearty 60.72% better than the 2015 totals.**

New commercial construction activity surged during first quarter 2016. Permits were drawn for a combined estimated value of $132,255,800. **The growth ($78,197,100) marked a 144.65% gain over 2015 numbers.**

Last, **commercial adds/alterations activity bounced back strongly in first quarter 2016.** Permits were drawn for a combined estimated value of $41,789,798. **The uptick ($29,233,734) represents an impressive 232.83% increase from the 2015 figures.**

While our local construction sector saw year-over-year gains in every category, the national data was somewhat mixed. However, the numbers may have been better than the headlines would suggest.

Table 3 **Q1/16 Permits (vs. Q1/15)**[27]

Residential New	**Permits: 134** 19 (16.52%)	**Est: $27,550,080** $5,582,775 (25.41%)
Residential Add/Alt	**Permits: 563** 54 (10.61%)	**Est: $6,910,214** $2,610,655 (60.72%)
Commercial New	**Permits: 43** 8 (22.86%)	**Est: $132,255,800** $78,197,100 (144.65%)
Commercial Add/Alt	**Permits: 215** 7 (3.37%)	**Est: $41,789,798** $29,233,734 (232.83%)

While the pace of home construction may have slowed to the lowest level since last October, **total housing starts in March grew to an annual rate of 1.09 million, an increase of 14.2% from 2015.**[28] The country's total construction spending (including nonresidential projects) in March posted a year-over-year gain of 8.0%, pushing first quarter 2016 figures to a 9.1% increase over the previous year.[29] Continuing to benefit from the improving economy, **March 2016 sales of newly built single-family homes rose to 511,000 units, an increase of 5.4% from the March 2015 estimate of 485,000.**[30]

Locally, **The Toledo Board of Realtors reported that total home sales were up 8% compared to the first quarter of 2015.**[31] The average sale price rose to $112,365 (an increase of 7%).[32] New listings rose by just under 1%, although the average days on the market increased by almost 2%.[33]

As I mentioned in the introduction, the country's economy had clearly lost steam at the end of 2015, suffered a significant stock market "correction" during the new year's first six weeks, and then apparently went into a virtual stall for the for the third consecutive year. As a result, we're faced with the same question we had one year ago: Was the first quarter 2016 slump somehow different from those of recent years, or was it what New York Yankee catcher Yogi Berra famously uttered, *"like déjà vu all over again" – again?*

Summary: An Assessment of First Quarter 2016

Starting the year on a positive note, all of our key local economic indicators advanced in the first quarter of 2016. **Local unemployment rates continued to improve, wages grew, consumers bought more cars and other goods, and area builders posted gains in all four residential and commercial categories.**

At the national level, however, a series of mixed first quarter economic indicators only served to fuel the same uncertainty that sparked the early-year stock market dip. While Wall Street has more than recovered the losses of January and February, the country's economy appeared to be at a crossroads after the first three months of 2016.

At its April meeting, the Federal Reserve Board acknowledged that economic growth slowed even as the job market continued to improve. While it declined a federal funds rate hike at the time, it left open the possibility of an increase as early as June.[34] And after data showed a fourth consecutive month of respectable job growth, a majority of analysts polled foresaw a rate hike no later than July.[35]

Yet the first quarter data was as mixed as any the Fed had seen in several years. For example, business investment declined 5.9% in the first quarter, the sharpest drop since mid-2009, shaving an estimated 0.76% from overall GDP growth.[36]The slump was likely due to the continued decline in energy industry infrastructure, wariness caused by the fourth quarter economic slowdown, and lingering concern about global market turmoil.

Similarly, foreign trade continued to be a problem, as overseas market weakness and the strong dollar caused exports to decrease by 2.6% and imports to edge upward by 0.2%, trimming 0.34% from first quarter GDP.[37]

Consumers also moved somewhat cautiously, as retail sales were estimated to have dipped by 0.3% in the period from January through March.[38] Spending on goods slowed to a narrow 0.1% increase from the fourth quarter, while outlays for services (i.e., restaurants and travel) grew by 2.7%.[39] However, the housing sector was a bright spot in the first quarter, as residential fixed income investment rose 14.8% at an annual rate (the sixth straight quarter with growth over 8%), adding 0.49% to the GDP.[40] And particularly robust April sales have the auto sector back on pace to top last year's record totals.[41]

Last, the country's job market continues to move in the right direction. New research released earlier this month by ADP, which compiles payroll data for hundreds of thousands of corporate clients, showed first quarter wages rising at a 4.6% annual rate for full-time employees who had been working for at least one year.[42] And recent new unemployment claims are near the lowest level since the 1970s.[43]

As a result, I remain cautiously optimistic that sustained job growth, increasing wages, and low fuel prices will deliver yet another, albeit moderate, second quarter rebound.

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