Wade Wire Q3 2016

A Quarterly Assessment of Key Local Economic Indicators in Lucas County

Third Quarter 2016 Report

As I wrote in my last report, analysts were stunned by the government's initial report that the economy had posted an anemic 1.2% gain in the spring.[1] Although subsequent revisions would ultimately measure overall growth at 1.4%, the mark was still a full percentage point below most projections.[2]

Fortunately, **the Commerce Department's Advance Estimate reported third quarter growth at 2.9%,[3] and last week's update revised the GDP upward to 3.2% – the strongest gain in two years.[4]**

In addition to the bullish GDP reports, there were numerous other indicators pointing to a healthy economy. For example, **there were nearly 620,000 new jobs added in the third quarter.[5]** Although the pace may have slowed from that of the spring, **consumer spending continued to grow at a solid clip in the third quarter, while inventory investment (one of the most volatile components of GDP) boosted GDP growth after subtracting from it in the prior five quarters.[6]** And in another encouraging development, the Census Bureau reported that **the median U.S. household income had risen to just over $56,500 in 2015, a 5.2% increase from 2014 (after adjusting for inflation), and the highest since 2007.**[7]

However, the government's data were not without some weaknesses. For example, although real exports grew by 10.0%, the figure was generally accepted as being temporary, the result of record soy bean exports to flood-ravaged regions of South America.[8] Further, while historically low oil prices have generally benefitted consumers, they have hampered energy sector infrastructure investment. **As oil prices have risen in recent months, the decline of oil related equipment outlays has slowed of late, and has become less of a drag on overall growth.[9]** Last, despite fears of waning consumer demand, **third quarter auto sales remained mostly strong, and were near last year's record sales pace.[10]**

As a result of the mostly upbeat data, nearly all analysts now expect the Federal Reserve Board to raise rates at its December Open Market Committee meeting. The Fed cited the continued improvement of the labor market and the recent uptick in consumer activity in September meeting minutes, stating, "the case for an increase in the federal funds rate continues to strengthen."[11]

Our local economic indicator data was also mostly upbeat. **Lucas County auto sales were up in third quarter 2016, and year-to-date figures are still ahead of 2015 totals.[12]** Likewise, **local consumer spending grew solidly in the summer, continues to outpace 2015 year-to-date totals.[13]**

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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On the other hand, despite starting the quarter with a year-over-year improvement, **both Toledo and Lucas County saw an unusual unemployment rate spike in September.**[14]

In an encouraging development, **third quarter local construction sector data posted permit activity gains three of four categories, only trailing 2015 figures in the residential adds/alterations segment.**[15] On the bright side, **however, year-to-date totals are ahead of last year's figures for all four categories.**[16]

The third quarter 2016 national and local economic indicators were considerably stronger than those from the first half of the year. Yet many analysts disagree about the health of the economy and its prospects for the months ahead. For now, however, let's take a look at our Key Local Economic Indicators.

Are People Working?

Although the nation's second quarter job growth data were the most volatile in almost a decade, **the U.S. Department of Labor announced solid and steady third quarter gains of 252,000 jobs in July, 176,000 in August, and 191,000 in September.**[17] **And the country's unemployment rate recently tumbled to 4.6%, the lowest since August of 2007,** the result of both more people finding work and a slight dip in the labor participation rate.[18]

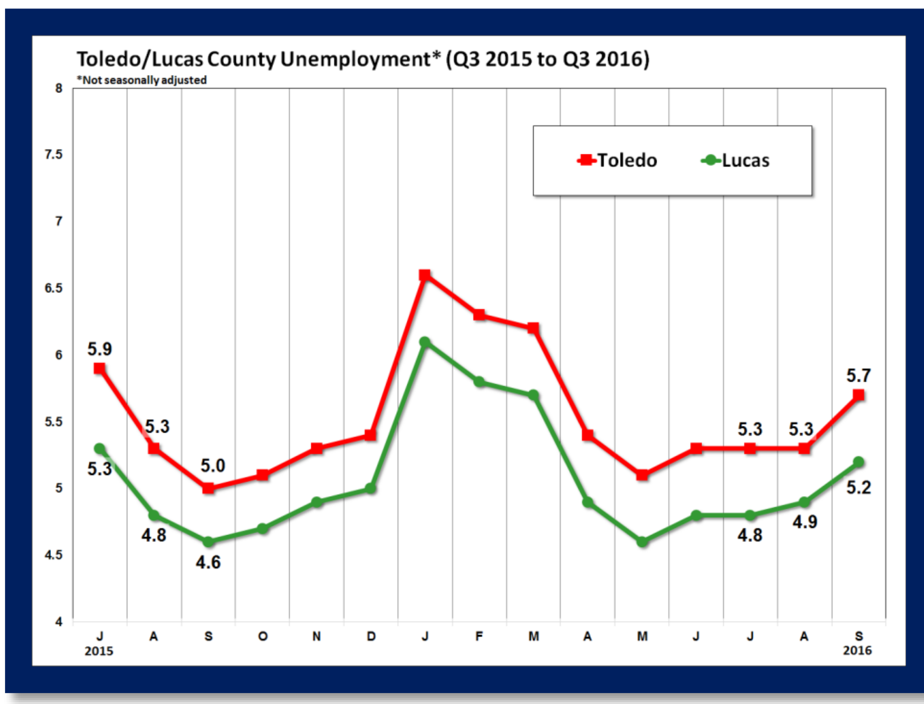
Turning to our local job market, the data were considerably mixed, to say the least.

As *Table 1* shows, Lucas County's July 2016 jobless rate stood at 4.8%, a strong improvement from the 5.3% of the prior year. However, the August rate of 4.9% marked a slight *increase* from the 4.8% posted a year earlier.

Lucas County ended the quarter in September with a jobless rate of 5.2%, a stunning 0.6% worse than the previous year (4.6%).

The Toledo job market also gave mixed signals in the third quarter. The city's July 2016 jobless rate plunged to 5.3%, down substantially from 5.9% a year earlier. In August, it held steady at 5.3, unchanged from the year before.

Table 1 *(Source: Ohio Dept. of Job and Family Services)*[19]



But Toledo finished the quarter by posting a September jobless rate of 5.7%, a somewhat startling 0.7% spike from the previous year's mark of 5.0%.

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 at the year-over-year

Civilian Labor Force (CLF, those actively seeking work) and employment statistics from September 2016, when the year-over-year unemployment rate rose substantially in both Toledo and Lucas County.

As we observed in some previous reports, improvement in the unemployment rate can sometimes be more the result of a drop in the CLF rather than job gains. In this case, however, the opposite may have occurred, as *the number of people seeking work in September increased by 2,300* (130,300 in 2016, compared to 128,000 the year before).[20] Although the city's non-seasonally adjusted data showed that there were 1,300 more Toledoans working in September 2016 (122,900) than in September 2015 (121,600), the pace of job growth did not match the pace of CLF expansion.[21]

Likewise, that same month **there were 2,200 more Lucas County residents working (201,000) than there were a year earlier (198,800), but the number of county job-seekers had also grown substantially (212,000 in 2016, compared to 208,400 in 2015).[22]**

A closer look at the statistics shows that Toledo's September 2016 CLF grew by 1.80% from the prior year, while its employment level only increased by 1.07%.[23] That same month, Lucas County's CLF went up by 1.73%, while its employment level only grew by 1.11%.[24] As a result, for the first time in several years, we had local unemployment rates finish a quarter with unemployment rates higher than the year before. However, **there were many more people working in both Toledo (+1,300) and Lucas County (+2,200) in September 2016 than the year before, but the month's year-over-year rise in its jobless rates was likely fueled by an unusually large increase in the work force (+2,300 in Toledo and +3,600 in Lucas County).[25]**

While a single month does not constitute a trend, and the cause of the sudden spike in the CLF is unclear at this time, the local job market data will certainly warrant close scrutiny in the coming months.

Turning to wages, our local payroll withholding survey data showed a respectable year-over-year third quarter gain of 3.27%.[26] As a whole, the employment and payroll data still suggest that our local job market remains healthy, with most signs pointing to continued upward wage growth as we approach the end of the year.

The nation's employment cost index, a broad measure of workers' wages and benefits, rose by a seasonally adjusted 0.6% in the third quarter.[27] **And in the twelve months ending in September 2016, the index showed civilian worker wages were ahead by 2.4%, keeping paycheck growth ahead of inflation.[28]**

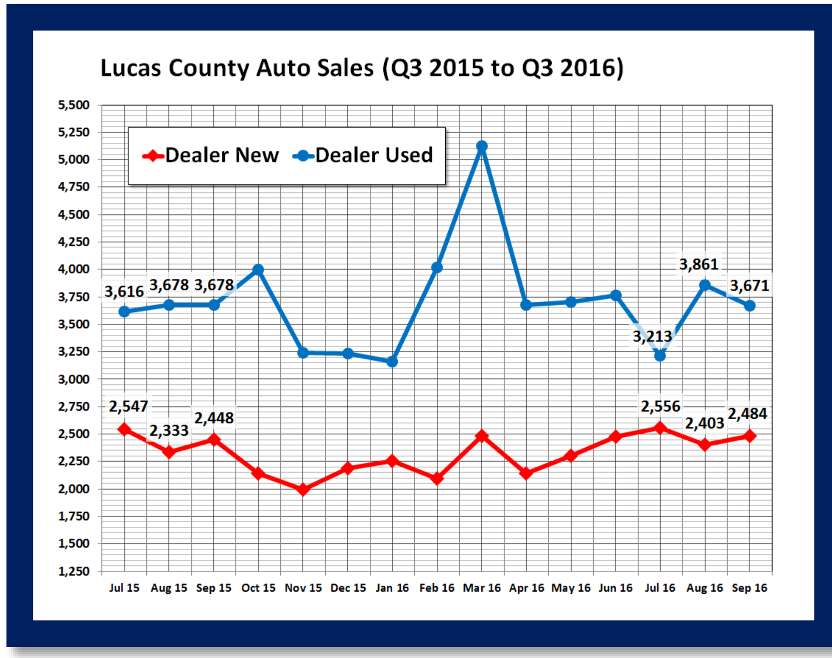
Are People Spending?

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.

Paralleling the national data, local consumer spending was also robust in the third quarter, as **taxes collected on sales in Lucas County increased by 6.62% from a year ago (a gain of $1,686,297.09).[29] And year-to-date totals remain ahead of 2015 numbers by a solid 4.54% (up $3,098,104.99).[30]**

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.

Table 2 (Source: Lucas County Clerk of Courts)[31]



As *Table 2* indicates, **Lucas County auto dealers posted a modest 1.57% year-over-year gain in third quarter new car sales.** However, area dealers' used car sales dipped by 2.07% during the same period.

Year-to-date, area new car sales are still 3.66% ahead of 2015 totals, while dealer used vehicle sales remain up 2.36%.

Nine months into 2016, the nation's auto industry is expected to nearly match last year's record 17.5 million vehicle sales, although many industry experts believe that the sector may have reached a plateau.[32]

Of particular concern to our local economy, Fiat Chrysler reported that Jeep sales suffered a 2.7% year-over-year sales decline in September, the first such dip in three years.[33] Further, Automotive News reported in October that, instead of padding inventories ahead of the Cherokee's move to Illinois, FCA informed Toledo workers that it would scale-back production from 20 hours per day, six days a week to 16 hours per day, five days a week.[34] On the upside, the model's "build- out" (shut down) is expected to run through the end of 2016, longer than initial plans, according to local parts manufacturers.[35] On the other hand, the slower transition will likely set back the schedule for the transition to the planned expansion of local Wrangler production.

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.

As *Table 3* shows, the area's **new residential construction permit activity posted strong gains in the Third quarter of 2016.** Permits were drawn for an estimated value of $36,160,769. **The increase ($10,921,627) was a sturdy 43.27% gain from 2015 figures.**

As *Table 4* shows, **the new residential category is $31,412,557 ahead of 2015 figures year-to-date (up 48.82%).**

However, third quarter **residential additions and alterations permit activity once again lagged the previous year's tallies.** Permits were drawn for a combined estimated value of $8,558,491. **The decline**

Table 3 **Q3/16 Permits (vs. Q3/15)**[36]

Residential New	Permits: 167 -8 (-4.57%)	Est: $36,160,769 $10,921,627 (43.27%)
Residential Add/Alt	Permits: 533 -655 (-55.13%)	Est: $8,558,491 -$1,822,055 (-17.55%)
Commercial New	Permits: 220 155 (238.46%)	Est: $46,492,418 $28,886,468 (164.07%)
Commercial Add/Alt	Permits: 304 1 (0.33%)	Est: $52,533,810 $33,996,247 (183.39%)

(-$1,822,055) was a 17.55% dip from 2015 totals.

While year-to-date, the number of permits drawn remained down, **the value (as reported) of addition/alteration projects is still slightly ahead of 2015 figures by $239,438 (up 1.04%).**

New commercial construction activity surged during third quarter 2016. Permits were drawn for a combined estimated value of $46,492,418. **The increase ($28,886,468) marked a 164.07% spike from 2015 totals.**

Year-to-date, **the reported value of new commercial projects is still ahead of 2015 figures by a healthy $86,080,531 (up 61.03%).**

Last, **commercial adds/alterations activity made a robust rebound in third quarter 2016.** Permits were drawn for a combined estimated value of $52,533,810. **The gain ($33,996,247) is a stunning 183.39% increase from 2015 figures.**

As a result, **the year-to-date estimated value for commercial adds/alterations projects is substantially ahead of 2015 totals. The increase ($61,754,752) is a 124.38% year-over-year gain.**

Table 4 **2016 YTD Permits (vs. 2015)**[37]

Category	Permits	Est.
Residential New	Permits: 457 12 (2.70%)	Est: $95,754,476 $31,412,557 (48.82%)
Residential Add/Alt	Permits: 1,718 -1,053 (-38.00%)	Est: $23,307,250 $239,438 (1.04%)
Commercial New	Permits: 397 192 (93.66%)	Est: $227,128,352 $86,080,531 (61.03%)
Commercial Add/Alt	Permits: 656 -156 (-19.17%)	Est: $111,405,719 $61,754,752 (124.38%)

In all, the third quarter permit numbers painted a much brighter picture of the local construction sector than we saw in the first half of the year. Three of four categories made healthy year-over-year gains, and the year-to-date data showed all segments ahead of 2015 figures (some substantially so).

On the national level, the third quarter construction data was considerably mixed. For example, **privately-owned housing starts in September were at a seasonally adjusted rate of 1,047,000 – a full 9.0% under the revised August estimate of 1,150,00, and 11.9% below the September 2015 rate of 1,189,000.**[38] On a slightly brighter note, single-family housing starts we at a rate of 783,000, up 8.1% from the revised August estimate of 724,000 (suggesting that the overall residential construction decline was isolated to the volatile multifamily segment).[39] The country's total construction spending (including nonresidential projects) in September dipped 0.2% from 2015 figures, but remained ahead by 4.4% year-to-date.[40] And in an indication that the economy continues to improve, **September 2016 sales of new single-family homes rose to 593,000 units, an increase of 29.8% from the September 2015 estimate of 457,000.**[41]

Locally, **The Toledo Board of Realtors reported that total home sales rose by a slim 1.0% in the third quarter of 2016 (1,375 sales in 2016, up from 1,360 in 2015).**[42] The average sale price was virtually unchanged at $131,736 (actually a decrease of 0.05%).[43] However, new listings dropped by 5%, although the average days on the market also dipped by 3%.[44]

As I mentioned in my last report, the U.S. GDP had nearly stalled in the first quarter for the third consecutive year, and then fell far short of expectations in the second quarter. While Commerce Department data showed a strong rebound in the third quarter, many analysts still disagree about the economy's relative strength and the direction in which it is heading.

Summary: An Assessment of Third Quarter 2016

Third quarter 2016 local and national indicators suggest that the economy enjoyed a much-needed rebound in the summer months. **The nation's auto industry may be struggling to match last year's record totals, but is still on track to post historically strong sales.[45]** And solid consumer spending continues to drive GDP growth, allowing the country's economy to expand despite the considerable challenges caused by the strong U.S. dollar and still-weak foreign market demand. **In a reversal from the spring, the national housing data were mixed and volatile, while our local construction sector appears to have enjoyed a strong third quarter.** Last, the Commerce Department data also showed businesses restocking inventories and investing in structure construction once again.

But the most significant data from the third quarter pertained to jobs and wages.

As I mentioned earlier, **the nation's employers made nearly 620,000 new hires during the summer,** with the month-by-month gains much more evenly distributed than the extreme volatility shown in the second quarter jobs reports. **Wages were up 2.4% in the twelve-month period ending in September, and the unemployment rate recently dropped to 4.6%, the lowest since 2007.[46]**

In September, the Census Bureau reported that the median U.S. household income rose to just over $56,500, up 5.2% from 2014 (after adjusting for inflation), and the first increase since 2007.[47] The number of Americans living in poverty fell by 3.5 million, bringing the poverty rate down to 13.5%, the biggest decline since 1968.[48] Despite the good news, the incomes of the bottom 60 percent of American households have not yet returned to pre-recession levels, and the incomes of those living outside of metropolitan areas were unchanged or even lower in 2015.[49]

As a result, as we near the end of 2016, the economy appears to have regained its footing after the sluggish first half. But, even after seven straight years of recovery, there's still work to be done.

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