Wade Wire Q2 2017

A Quarterly Assessment of Key Local Economic Indicators in Lucas County

Second Quarter 2017 Report

As I noted in my last report, the Bureau of Economic Analysis (BEA) Advance Estimate initially reported that national GDP growth had slowed to 0.7% in the first quarter of 2017, the weakest pace in three years.[1] While revised data would ultimately push that figure higher, the Commerce Department's Third Estimate showed first quarter growth at a still-disappointing 1.2%.[2]

However, throughout the recovery, dismal first quarter reports have always been followed by strong second quarter rebounds. True to form, **the economy regained its footing in the second quarter, posting a 2.6% GDP gain in the Commerce Department's Advance Estimate,** driven mostly by a better trade balance, strong consumer spending, and an increase in nonresidential fixed investment.[3]

The newly released Second Estimate revised second quarter growth upward to 3.0%.[4]

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

Continuing to underpin the progress of the recovery, **job creation remained one of the brightest aspects of the economy, with the nation's employers posting 562,000 new hires from April through June.[5]** Yet despite all of the job growth, wages and salaries have only risen 2.3% in the past year.[6] Sadly, wage stagnation has persisted as the chief frustration throughout the recovery and could inhibit critical consumer spending in the near future.

On the downside, however, the nation's auto sales have now posted year-over-year declines from last year's figures for six consecutive months.[7]

At its June Open Market Committee meeting, the Federal Reserve Board acknowledged the uneven gains in the overall economy, but chose to raise its benchmark rate for the third time since December. In explaining the decision, the Fed said in a statement that "job gains have moderated but have been solid, on average, since the beginning of the year, and the unemployment rate has declined." It described economic activity that has "been rising moderately so far this year."[8]

At the local level, our economic indicator data was considerably more mixed in second quarter 2017. Most notably, **both Toledo and Lucas County saw their unemployment rates rise significantly during the second quarter.** And, like their counterparts across the nation, **area car dealers saw sales lag for the sixth consecutive month.**

However, **second quarter local construction sector data showed gains in all four categories, with especially strong activity in the Commercial Additions/Alterations segment.** As a result, **year-to-date building permits data show all four categories ahead midway through 2017.** 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.).

In all, the second quarter 2017 national economic indicators were all too typical of many previous reporting periods. Once again, the job market seems to be at its healthiest point in nearly two decades, yet wages remain stubbornly sluggish. The construction sector appears to be making progress, but now auto sales are slumping.

For now, however, let's take a look at our Key Local Economic Indicators.

Are People Working?

Although the month-by-month numbers were somewhat uneven, **the U.S. Department of Labor announced revised second quarter job gains of 207,000 jobs in April, 145,000 in May, and 210,000 in June.**[9] While the employment data have been touted as cause for confidence in the overall health of the economy, year-to-date job growth continues to lag last year's already slowing pace (1,060,000 through June 2017, versus 1,081,000 through June 2016).[10] Last, local job market data once again showed both Toledo and Lucas County running contrary to the national dynamic, posting higher year-over-year jobless rates in all three months of the second quarter.

Looking at our fifteen month rolling track of non-seasonally adjusted local unemployment data, the area's jobless rates were uncharacteristically disappointing in first quarter 2017.

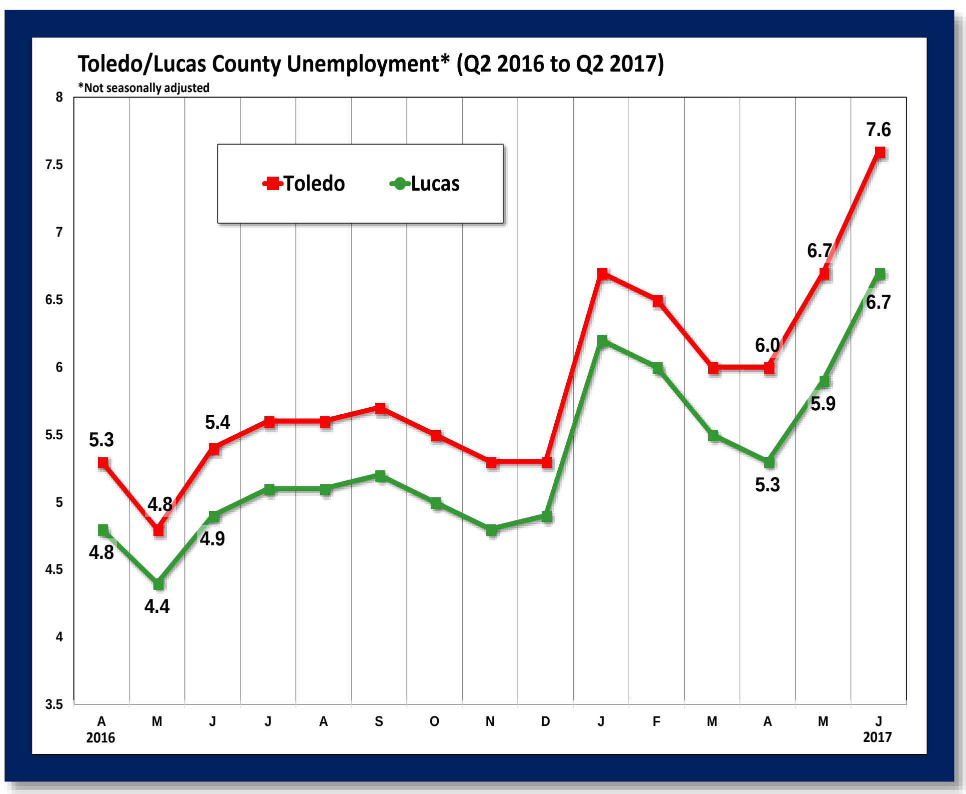
As *Table 1* shows, Lucas County's April 2017 jobless rate stood at 5.3%, up from the 4.8% of the prior year. The May rate of 5.9% was an even greater increase, up from the 4.4% posted a year earlier.

Lucas County ended the quarter in June with a jobless rate of 6.7%, a sizeable 1.8% jump from the previous year (4.9%).

The City of Toledo also saw its unemployment rate rise in the second quarter. Its April 2017 rate increased to 6.0% from 5.3%. In May, it rose more sharply, this time to 6.7% from 4.8% in 2016.

Toledo closed the quarter by posting a June jobless rate of 7.6%, up dramatically from 5.4% a year earlier.

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



As I observed in my last report, there seems to be a troubling trend emerging. There is little doubt that our area and the industrial Midwest struggled with the decline of manufacturing in recent decades, and that the region was among the hardest hit during the Great Recession. Likewise, the jobless rates of both Toledo and Lucas County remained somewhat higher than those of the state and nation throughout much of the recovery. However, from April 2014 through July of 2016, the monthly unemployment rates for both Lucas County and Ohio were usually equal to or below those of the nation, with Toledo's only lagging by roughly one half of one percent.[12] **But second quarter numbers showed the region's job market continuing to lose ground relative those of Ohio and the nation, and the gap seems to be growing.** As *Table 1* shows, June 2017 unemployment rates were 6.7% in Lucas County and 7.6% in Toledo (up from 4.9% and 5.4%, respectively, a year earlier). Yet June 2017 data showed the nation's jobless rate at 4.5% and Ohio's at 5.4% (down, respectively, from 5.1% and 5.0% the year before).

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 June 2017, when the year-over-year unemployment rate rose sharply in both Toledo and Lucas County.

The city's non-seasonally adjusted data showed that **there were 400 more Toledoans working in June 2017 (123,200) than in June 2016 (122,800).[13]** But unlike some previous quarters, in which a dramatic improvement in the unemployment rate could be attributed to a drop in the CLF, the opposite seems to have occurred – *the number of people seeking work grew substantially in June* (133,300 in 2017, compared to 129,800 the year before).[14] That same month **there were 700 more Lucas County residents working (201,600) than there were a year earlier (200,900),** while the number of county job-seekers had also grown substantially (216,000 in 2017, compared to 211,300 in 2016).[15]

A closer look at the statistics shows that Toledo's June 2017 CLF grew by 2.70% from the prior year, while its employment level increased by only 0.33%. At the same time, Lucas County's CLF went up by 2.22% while its employment level only grew by 0. 35%. While increases in both the CLF and number of people working are usually positive trends, ***the increase in local jobless rates was driven by a significant growth in the CLF, rather than people losing jobs, but it is also apparent that job growth is failing to keep pace with the number of people seeking work.***

Turning to wages, our local payroll withholding survey data showed a troubling year-over-year second quarter decline of 2.21%.[16] However, y**ear-to-date payroll withholding data remain up a narrow 0.42%.[17]** In sum, the employment and payroll data suggest that our local job market is still tight, but with job seekers outpacing new hires, and wage growth slowing as we move further into 2017.

The employment-cost index, a broad measure of U.S. workers' wages and benefits, rose by a seasonally adjusted 0.5% in the second quarter.[18] **And in the twelve months ending in June, the index showed total wages were ahead by 2.3%, keeping paycheck growth just ahead of inflation.[19]**

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.

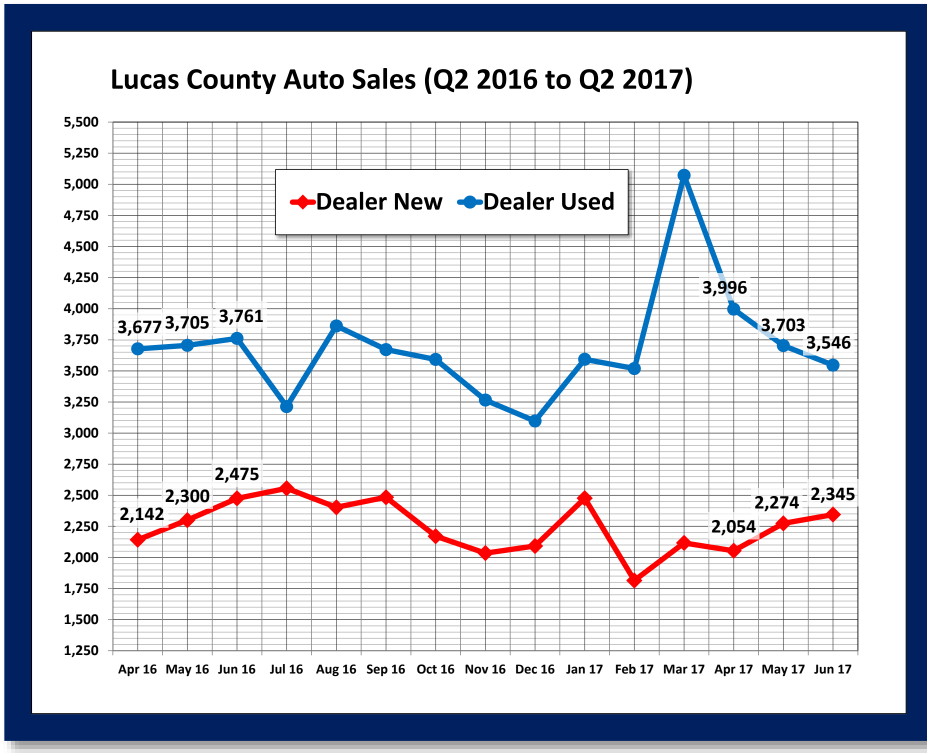
Like the national data, local consumer spending made respectable gains in second quarter 2017, as **taxes collected on sales in Lucas County grew by 2.76% from a year ago (a gain of $683,715.04).[20]** Year-to-date tax receipts show spending up a modest 1.64% midway through 2017 (an increase of $869,274.22).[21]

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* shows, **Lucas County auto dealers reported that second quarter new car sales fell by 3.53% from last year's figures**. However, area dealers saw used car sales grow by 0.92% during the same period.

The second quarter of 2017 marks only the fourth time that local sales data failed to top the prior year's figures in the nearly eight years since the end of the recession. However, it was the third down quarter in the last year. ***And year-to-date sales are the lowest since 2013.***

Table 2 *(Source: Lucas County Clerk of Courts)*[22]



Nationwide, June sales showed GM moving 243,155 units – a drop of 5%.[23] Ford made 227,166 sales, a decline of 5%, and Fiat Chrysler America's 187,348 tallies marked a downturn of 7%.[24]

After fueling much of recovery, declining auto sales limited second quarter 2017 GDP growth. **With June 2017 sales down 3% from a year earlier, the industry's losing streak stretched to six straight months – and year-to-date sales were 2.3% below 2016 figures midway through 2017.[25]**

While many factors (low fuel prices and continued improvement of the job market) point to continued auto sector strength in the short term, other signs indicate challenges to new car sales in the next year or so. Chief among them are disappointing wage growth and the likelihood that expiring leases will soon flood the market with affordable late-model used cars.

Whatever the case, barring a miraculous turnaround in the year's final six months, the auto sector's seven-year winning streak will end in 2017.

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 modest gains in the second quarter of 2017.** Permits were drawn for an estimated value of $33,076,708. **The increase ($1,033,081) was a 3.22% gain from 2016 figures.**

As *Table 4* shows, **the new residential category is $3,047,044 ahead of 2016 figures year-to-date (up 5.11%).**

In a welcome development, second quarter **residential additions and alterations permit activity increased again from last year's tallies.** Permits were drawn for a combined estimated value of $8,129,923. **The increase ($291,378) was a 3.72% uptick from 2016 totals.**

Year-to-date, the number of permits drawn remained down, but **the value (as reported) of addition/alteration projects is still ahead of 2016 figures by $512,195 (up 3.47%).**

New commercial construction activity maintained its solid momentum during second quarter 2017. Permits were drawn for a combined estimated value of $51,705,893. **The increase ($3,325,759) marked a 6.87% gain from 2016 totals.**

Year-to-date, **the reported value of new commercial projects is still ahead of 2016 figures by a sturdy $62,383,181 (up 34.54%).**

Last, **commercial adds/alterations activity made a strong comeback in second quarter 2017.** Permits were drawn for a combined estimated value of $45,537,861. **The gain ($28,455,750) is a dramatic 166.58% increase from 2016 totals.**

As a result, **the year-to-date estimated value for commercial adds/alterations projects has now moved ahead of 2016 totals. The increase ($12,004,739) marks a 20.39% year-over-year gain.**

In all, the second quarter permit numbers painted a much brighter picture of the local construction sector than we saw in the first three months of the year. All four categories made healthy year-over-year quarterly gains, and the year-to-date data showed all segments ahead of 2016 figures (the commercial segments substantially so).

The nation's total housing starts in June grew to an annual rate of 1.21 million, an increase of 2.1% from 2016.[28] The country's total construction spending (including nonresidential projects) in June posted a year-over-year gain of 1.6%, pushing year-to-date 2017 figures to a 4.8% increase over the previous year.[29] Continuing to benefit from the improving economy, **June 2017 sales of newly built single-family homes rose to an annual rate of 610,000 units, an increase of 9.1% from the June 2016 estimate of 559,000.[30]**

Table 3 **Q2/17 Permits (vs. Q2/16)[26]**

Category	Permits	Est.
Residential New	Permits: 226 70 (44.87%)	Est: $33,076,708 $1,033,081 (3.22%)
Residential Add/Alt	Permits: 587 -35 (-5.63%)	Est: $8,129,923 $291,378 (3.72%)
Commercial New	Permits: 134 (Same as Q1)	Est: $51,705,893 $3,325,759 (6.87%)
Commercial Add/Alt	Permits: 255 118 (85.63%)	Est: $45,537,861 $28,455,750 (166.58%)

Table 4 **2017 YTD Permits (vs. 2016)[27]**

Category	Permits	Est.
Residential New	Permits: 394 104 (35.86%)	Est: $62,640,751 $3,047,044 (5.11%)
Residential Add/Alt	Permits: 955 -230 (-19.41%)	Est: $15,260,954 $512,195 (3.47%)
Commercial New	Permits: 532 355 (200.56%)	Est: $243,019,115 $62,383,181 (34.54%)
Commercial Add/Alt	Permits: 544 192 (54.38%)	Est: $70,876,648 $12,004,739 (20.39%)

Locally, **The Toledo Board of Realtors reported that total home sales were up 7.1% compared to the second quarter of 2016.[31]** The average sale price rose to $141,289 (an increase of 2.8%).[32] New listings dropped by 18.8%, and the average days on the market shortened by 11.6%.[33]

As I noted in the introduction, the country's economy had clearly lost steam in first quarter 2017, but rebounded in the second quarter. For the most part, the underlying dynamics appear strong enough to fuel continued moderate growth in the near future. Yet there are some potential trouble spots looming as we move further into the year. With that in mind, let's turn to my assessment of first quarter 2017.

Summary: An Assessment of Second Quarter 2017

As I mentioned earlier, the year began on a familiar down note, followed by an equally familiar second quarter rebound. For the most part, the fundamentals of the national economy were sound enough to prompt the Fed to raise its benchmark interest rate in June (the third such rate increase since December, 2016). Likewise, our local economy remains on a generally upward trajectory. However, both national and local economic indicators include data that should warrant some concern.

At the local level, **area unemployment rates have risen in five of the year's six months, and appear to be lagging the state and national rates by an ever-widening gap.** While slightly more people were working than in the previous year, there were many more job seekers than there were new hires in the second quarter. Further, **while area builders continued to log gains in every permits category, local car dealers have posted the lowest mid-year sales totals since 2013.**

Likewise, the national data was also decidedly mixed. **The nation's employers continued to add more jobs, though at a slower pace than in recent years, and wages continued to make only moderate gains.** However, in a positive development**, second quarter consumer spending was relatively robust and was accompanied by more favorable trade conditions (as the dollar has steadily weakened since January and foreign markets have gained strength).**

As I mentioned in my last report, **I am concerned about the ongoing decline in U.S. auto sales.** The Big Three auto manufacturers are transitioning their production and inventory strategies to better meet consumer demand for SUVs, crossovers, and trucks. But the nation's car dealers are already offering historically high purchase incentives and subprime financing terms. And now they are also dealing with a glut of off-lease vehicles, which offer consumers relatively low-mileage late-model used cars as an alternative to buying new.

Last, it goes without saying that the storm and flood damage caused by Hurricane Harvey has already cost dozens of lives and will, no doubt, disrupt the regional and national economy. While the area's builders will be booked for several months, if not years, the storm's immediate impact was to sideline Texas and Louisiana consumers and producers for days and/or weeks. And the impact on the nation's oil supply will likely drive up prices at the pump for the near future, and will likely affect the balance of global energy trade in the short-term.

We will likely know more when we see the early storm-related data in my next report. In the meantime, our thoughts and prayers must be both with those who were lost and the survivors of this horrific disaster.

Wade Kapszukiewicz
Lucas County Treasurer

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