Wade Wire Q1 2014

A Quarterly Assessment of Key Local Economic Indicators in Lucas County

First Quarter 2014 Report

As our last report suggested, the economy overcame significant hurdles to end 2013 on a relatively high note. Then the Bureau of Economic Analysis released a recent report showing that **national GDP growth was near stagnant at 0.1% for first quarter 2014.[1]**

Auto sales, which had surged throughout 2013, tapered off at year's end and abruptly stalled during the first two months of 2014.[2] Although the figures varied by region, housing starts were off by 16 % in January[3] and flat in February.[4] Consumer spending rose, but much of that was attributed to rising utility bills and the implementation of the Affordable Care Act.[5]

Thankfully, Q1/14 looked a lot brighter at the local level. Despite a sluggish start to the year, **Lucas County auto sales again topped last year's tallies and appear poised for a big year.** Likewise, I'm encouraged by the strong first quarter sales tax figures we've surveyed, **and both Toledo and Lucas County saw dramatic drops in their unemployment rates.**

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

But the news was not all good. Mirroring the national dynamic, **local construction sector numbers were significantly down from last year in every category.** 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.).

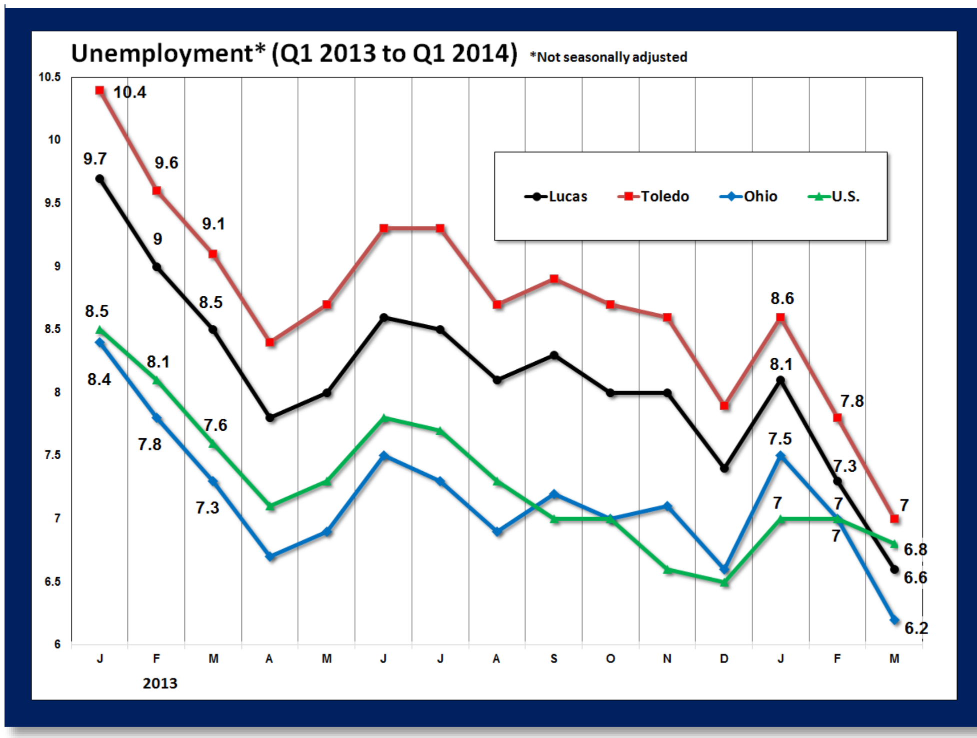
While there can be little doubt that the unusually harsh winter of 2013-2014 hurt both the national and local economies from December through early March, in which sectors and to extent what will warrant closer examination. For now, however, let's take a look at our Key Local Economic Indicators.

Are People Working?

The news remains promising on the jobs front. **The first quarter U.S. job market registered gains of 144,000 in January, 222,000 in February, and 203,000 in March.[6]** The news was positive at the local level as well, with both Toledo and Lucas County seeing a steep decline in their first quarter unemployment rates. However, as was the case in our previous report, we must attribute some of the decline to people dropping out of the labor force for one reason or another (more later).

And despite the harsh winter conditions hurting many sectors of the nation's economy, U.S. employers posted more job openings in February than any month since January 2008, just before the Great Recession began, a sign that hiring will only increase as the year progresses.[7] Continuing the positive trend from last year, more employers seem to be hiring, preparing to hire, and/or laying off fewer people as we move further into 2014.[8]

Table 1 *(Source: Ohio Dept. of Job and Family Services)*[9]



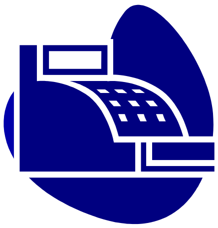
Turning to our tracking of local unemployment data, we have seen a significant improvement in the recent numbers. As *Table 1* indicates, Lucas County's January 2014 jobless rate of 8.1% marked a steep drop from 9.7% the previous year. Likewise, the rate dropped even further in February to 7.3% (from 9.0%). The county finished the quarter with a March unemployment rate of 6.6%, below that of the U.S. (6.8%), and 1.9% lower than the previous year (8.5%).

Toledo's improvement was even more dramatic. Its January 2014 jobless rate had plummeted to 8.6% from 10.4% the previous year. That improved to 7.8% in February (from 9.6%) and March saw the city's rate tumble to 7.0% – plunging more than two points in a year (from 9.1%).

We could attribute most of the steep dip in the local jobless rate at year's end to a larger than normal 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). Despite the local unemployment rates looking dramatically better, there were actually *600 fewer people* working in Lucas County in December 2013 than one year earlier, and there were *400 fewer people* working in Toledo during the same time frames.[10]

A look at the March 2014 numbers suggests that although the rates may still be somewhat exaggerated, **the local job market appears to be picking up steam.** For example, unlike the last report, it appears that there were actually *more* people employed in Toledo in March 2014 (118,300) than there were a year earlier (118,200).[11] The numbers were stronger on the county level, where there were *600 more* people employed in March of 2014 (191,000) than the year before (190,400).[12] These job gains may seem small at first glance, and our community still needs better job growth, but those numbers may actually be sturdier than they initially appear – given that both Toledo and Lucas County's populations have been steadily trending downward for several years, if not decades.[13]

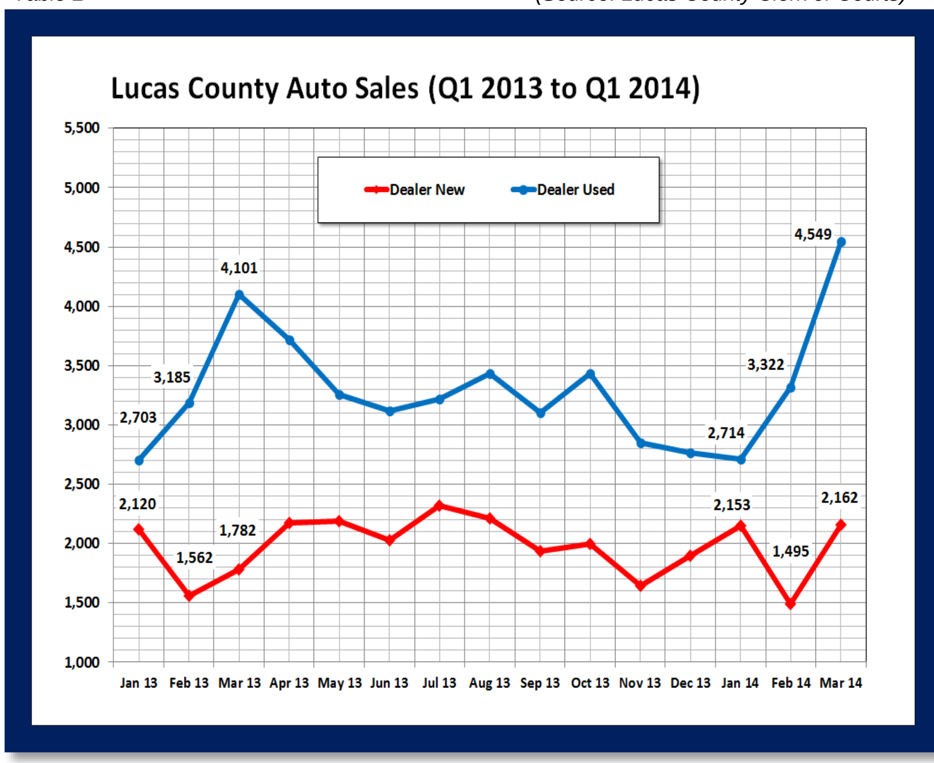
In another encouraging development, the U.S. Bureau of Labor Statistics reported that first quarter median weekly earnings of the nation's 104.3 million full-time wage and salary workers were $796 (not seasonally adjusted), representing a 3.0% gain over last year, and outpacing inflation during the same period (est. 1.4%).[14] **Locally, our first quarter 2014 payroll withholding survey showed a 10.36% increase in the amount of money withheld compared to the same period in last year – indicating an improvement in both jobs and wages for area workers.** Again, our purpose for measuring this indicator is merely to track and compare current data to the same period one year prior, but it's worth noting that cash-strapped local governments depend on payroll withholdings as a vital source of revenue.



Are People Spending?

As I mention in every report, it's easier to afford and buy goods and services if you have a good-paying job. But it's the flow of currency, from employer to employee, from consumer to merchant/vendor and, potentially, reinvested as capital improvement/expansion of the commercial/industrial infrastructure that is the lifeblood of a thriving local economy. For the purpose of this report, we choose to 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.

Table 2 *(Source: Lucas County Clerk of Courts)*[17]



Looking first at taxes collected on sales in Lucas County, the first quarter of 2014 bested last year's figures by a respectable 3.22% (a gain of $637,409.71).[15]

When you consider that our local economy likely lost tens of millions in revenue due to the extreme cold and snow of our recent winter, most notably during the unprecedented three countywide Level Three Snow Emergencies[16] – the strong sales tax numbers are nothing short of remarkable.

Lucas County auto sales further illustrate the durability of local consumer confidence and purchasing activity in Q1/14. As *Table 2* shows, dealer sales of both new and used vehicles were largely flat in the first two months of 2014. February new car sales were especially disappointing, and the two-month 2014 total actually fell short of the previous year by 0.92%. While dealer used car sales fared better in February 2014 than the previous year, the two-month total represented a respectable but somewhat modest gain of 2.51% over the prior year. Private party used car sales in January 2014 tumbled by 19.14% from the previous year and remained 0.97% behind last year's numbers in February.

Auto sales had been the hottest sector of the economy throughout 2013. Industry analysts wondered if the disappointing early 2014 sales were merely a temporary setback caused by bad weather or if it was something worse, a harbinger of bad things to come.

While some of the snow may have lingered on, all doubts about the local auto sector quickly melted away with record sales tallies in March. **Dealers saw their March 2014 new car sales top last year's figures by 21.32%, and their used car transactions increased by 10.92% over the previous year.** As further evidence of pent-up consumer demand, both new car (2,162) and used vehicle (4,549) sales figures were the highest March totals in over five years. **Powered by this resurgence, new car sales finish the first quarter 6.33% ahead of last year, while dealer used car sales were up 5.97%.** Private party used vehicle sales remained down by 7.80% for the quarter.

Despite the rough winter, the auto sector seems to have resumed its upward arc, as **first quarter dealer sales of both new and used vehicles have increased steadily since 2009.** In fact, first quarter new car sales have increased for six straight years and dealer used vehicle sales for five of the last six. This is an encouraging sign as we move further into 2014. As I've mentioned in previous reports, people buy cars and other "durable goods" when they have some economically essential critical mass combination of income, credit, and/or optimism about their current or future job and income prospects.

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. And it bears repeating, the construction industry is just as well known for its "multiplier effect," generating spin-off manufacturing, retail, and transportation jobs and profit.

As I hinted in the introduction, according to our analysis of area permits/inspections departments, **our local construction sector took a severe hit in the first quarter, falling short of last year's figures in every category.** How bad was it? As *Table 3* illustrates, the estimated value of early-year new housing starts dropped by 29.56% from last year's figures, while new commercial construction fared even worse, dropping by 39.24%. The first three months were marked by ups and downs for residential and commercial additions/alterations, but both categories finished the quarter behind last year's markers – with residential down 10.12% and commercial off by 7.38%.

Table 3 **Q1/14 Permits (vs. Q1/13)**

Residential New	**Permits: 129**	**Est: $10,646,680**
	-29 (-23.20%)	-$4,468,739 (-29.56%)
Residential Add/Alt	**Permits: 451**	**Est: $4,501,426**
	-69 (-13.27%)	-$506,632 (-10.12%)
Commercial New	**Permits: 82**	**Est: $17,920,564**
	43 (110.26%)	-$11,575,836(-39.24%)
Commercial Add/Alt	**Permits: 192**	**Est: $37,362,488**
	-130 (-40.37%)	-$2,977,178 (-7.38%)

There can be little doubt that the historically severe winter weather was the chief culprit thwarting what had been a slow and steady comeback for the construction sector, both locally and nationally. According to the National Association of Home Builders (NAHB), although housing starts were off 16% nationally in January, they were estimated to have been down 60.3% across the Midwest.[18]

Similarly, local home sales were off by 23% in January, down 24% in February and, offering some source for optimism, sales were only down 2% in March.[19] Likewise, the winter blast has been blamed for at least temporarily stalling what had been a steady rise in home values and sale prices throughout most of last year.

However, most of the same variables driving the increase are still trending favorably – a drop in foreclosures, declining unemployment, and pent-up demand from buyers.

On the bright side, the NAHB reported that national housing starts rose 2.8 in March.[20] There also appears to be no shortage of demand or projects in Lucas County, and it appears area builders are going to try to make up for the lost time.

Despite the brutal effects of the recent winter, I remain optimistic that the local construction sector can rebound as we move into warmer weather this year. And, once again, I believe *most of our key local economic indicators are still heading in the right direction*. With that in mind, I will elaborate in my comprehensive take on first quarter 2014.

Summary: An Assessment of First Quarter 2014

Despite absorbing the blunting impact of an early-year payroll tax increase, sequestration federal budget cuts, and the unnecessary costs and financial uncertainty caused by the government shutdown – the economic recovery nonetheless persisted throughout 2013 and the year ended on a relatively bright note. With those troubles behind us, most economists predicted that 2014 would finally be the year in which we would return to normal growth rates around 3%, even lower unemployment rates, more robust job creation and upward pressure on wages. I was solidly in their camp.

Then winter 2013-2014 happened.

Much of the country suffered record cold and snow, but we can stake claim to having suffered worse than most everyone else. Using its “misery index” measuring departure from average temperature and snowfall, the Weather Channel concluded that, by winter’s end, Toledo had endured the Worst Winter of 2013-2014 – surpassing cities like Chicago, Buffalo, Minneapolis, Green Bay, and Duluth.[21] Literally a winter for the ages, Toledo shattered its previous season snowfall record of 73.1 inches (1977-78) with 85.3 inches as of March 19.[22] There were also 25 days in January and February in which the temperature reached 0 degrees or colder.[23] And things ground to a halt during an unprecedented three separate countywide Level Three Snow Emergencies.

But can the severe winter weather explain away the weak performance of the national economy in early 2014? The first quarter GDP report was *really* bad.

I mentioned in the introduction that much of the first quarter increase in national consumer spending apparently went toward heating bills and enrollment in the Affordable Care Act – somewhat at the expense of both durable goods like cars (-0.3%) and nondurable goods like clothing and food (-0.7%).[24] But it could be argued that the high winter utility bills were probably a temporary drag on the economy in the sense that the extra spending wasn’t likely to create any new jobs or generate any spin-off commercial activity. The test would be whether retail spending and growth would again accelerate once people were freed from winter’s chill.

Like clockwork, **just as we saw local auto sales skyrocket with the onset of warmer weather, U.S. retail sales rose by 1.1% in March (its largest gain in 18 months) – led by strong gains in sales of autos, furniture, hardware, and clothing.[25]** Further, the government recently revised its February data to a 0.7% gain, more than double its previous estimate.[26]

It appears that the economy still has some momentum, despite the rough start to 2014. Also, as I mentioned in the introduction, **our local auto manufacturing and sales sectors should be in for a big year due to near-perfect market conditions.** Consumer confidence has grown as the employment situation has improved, auto loans are still available at the lowest interest rates in the last six years, and there is a growing demand to replace aging vehicles.[28] (A recent study found that the average age of all light utility vehicles on the road was at an all-time high: 11.4 years old.)[29]

It appears the severe winter weather not only crippled our local home-building and construction economy, but also rendered our first quarter data anomalous beyond any analytical value for this report. Suffice it to say, the bad numbers were all too real to the men and women in the construction industry, their families, and the countless other businesses doing business with them. We'll all be eager to see a rebound in our next report.

On the employment front, the U.S. economy reached a significant milestone in March.

Numerically, the country finally regained the estimated 8.8 million private sector jobs lost during the 2007-2009 financial crisis and Great Recession. With the March gains (203,000 jobs created), employers are estimated to have hired 8.9 million workers since mid-2009.[30] This is certainly welcome news, but it must be put into context. First, there doesn't yet appear to be an adjusted figure that takes population growth into account. But more importantly, the milestone loses some of its luster when one assesses which kinds of jobs and wages were lost during the recession and which were regained during the recovery. For example, a recent study stated:

- **Lower-wage** industries accounted for 22 percent of job losses during the recession but 44 percent of employment growth over the last four years. Today, lower-wage industries employ 1.85 million more workers than at the start of the recession.
- **Mid-wage** industries accounted for 37 percent of job losses but 26 percent of recent employment growth. There are now 958,000 fewer jobs in mid-wage industries than at the start of the recession.
- **Higher-wage** industries accounted for 41 percent of job losses but 30 percent of recent employment growth. There are now 976,000 fewer jobs in higher-wage industries than at the start of the recession.[31]

As the numbers clearly show, we're still not fully recovered from the banking meltdown and Great Recession of 2007-2009. We'll see if continued growth this year can help the prospects of the country's 3.7 million long-term unemployed, or if a tightening jobs market will lead to upward pressure on wages.

I am concluding my analysis on a mostly positive note, but with some lingering questions and concerns about parts of the economy, both national and local. Many economists have been predicting for several years that the economy is on the brink of returning to historic growth rates and rising wages, only to be disappointed.

With the winter of 2013-2014 behind us, I think we're all ready for spring…and a rejuvenated economy.

Wade Kapszukiewicz
Lucas County Treasurer

References:

1. U.S. Bureau of Economic Analysis. (2014, Apr. 30). National Income and Product Accounts
Gross Domestic Product, 1st quarter 2014 (advance estimate) [Press release]. Retrieved from
http://bea.gov/newsreleases/national/gdp/2014/pdf/gdp1q14_adv.pdf
2. Reuters. (2014, Mar. 3). U.S. auto sales flat, incentives could hit profit. *Reuters.com.* Retrieved from
http://www.reuters.com/article/2014/03/03/autos-ussales-idUSL1N0M01N520140303
3. National Association of Home Builders.. (2014, Feb. 19). Cold Weather Drives Housing Starts Down in January
[Press release]. Retrieved from http://nahb.com/news_details.aspx?sectionID=122&newsID=16691
4. National Association of Home Builders.. (2014, Mar. 18). Housing Starts Hold Steady in February
[Press release]. Retrieved from http://nahb.com/news_details.aspx?sectionID=122&newsID=16726
5. Kurtz, Annalyn. (2014, Apr. 30). U.S. economy slows to stall-speed. *CNNMoney.* Retrieved from
http://money.cnn.com/2014/04/30/investing/gdp-economy/index.html
6. U.S. Bureau of Labor Statistics. (2014, May 2). Employment Situation Summary
April 2014 [Press release]. Retrieved from http://www.bls.gov/news.release/empsit.nr0.htm
7. Associated Press. (2014, Apr. 8). U.S. employers advertised more open jobs in February. *Toledo Blade.* Retrieved from
http://www.toledoblade.com/Economy/2014/04/08/US-employers-advertised-more-open-jobs-in-February-1.html
8. ibid.
9. Ohio Dept. of Job and Family Services. (2014). Ohio Labor Market Information Civilian Labor Force Query Retrieved from
http://ohiolmi.com/asp/laus/LAUS.asp
10. ibid.
11. ibid.
12. ibid.
13. Troy, Tom. (2013, May 23). Toledo's population slips again. *Toledo Blade.* Retrieved from
http://www.toledoblade.com/local/2013/05/23/Toledos-population-slips-again.html
14. U.S. Bureau of Labor Statistics. (2014, Apr. 17). Usual Weekly Earnings of Wage and Salary Workers First Quarter 2014 [Press release].
Retrieved from http://www.bls.gov/news.release/pdf/wkyeng.pdf
15. Sales tax figures provided by the Lucas County Office of Management and Budget
16. Hormann, Bill. (2014, Jan. 8). Storm cost could be tens of millions of dollars. 13ABC.com. Retrieved from
http://www.13abc.com/story/24397842/storm-cost-nw-oh-5-billion-says-commissioner
17. Auto sales figures provided by Lucas County Clerk of Courts Bernie Quilter.
18. Toledo Board of Realtors. (2014, Jan.). January 2014 Local Market Update [Press release]. Retrieved from
http://www.toledorealtors.comwww.toledorealtors.com/img/pdf/housing-statistics/2014/LocalMarketUpdateJanuary2014v2.pdf
19. Isidore, Chris. (2014, Mar. 25). Winter hits housing recovery. *CNNMoney.* Retrieved from
http://money.cnn.com/2014/03/25/news/economy/home-prices/index.html
20. National Association of Home Builders.. (2014, Apr. 16). Housing Starts Rise 2.8% in March
[Press release]. Retrieved from http://www.nahb.org/news_details.aspx?sectionID=148&newsID=16770
21. Erdman, Jon. (2014, Mar. 21). 10 Major Cities With the Worst Winter of 2013-2014. *Weather.com.* Retrieved from
http://www.weather.com/news/weather-winter/10-worst-winter-cities-2013-2014-20140320
22. ibid.
23. ibid.
24. U.S. Bureau of Economic Analysis. (2014, Apr. 30). National Income and Product Accounts
Gross Domestic Product, 1st quarter 2014 (advance estimate) [Press release]. Retrieved from
http://bea.gov/newsreleases/national/gdp/2014/pdf/gdp1q14_adv.pdf
25. Associated Press. (2014, Apr. 14). U.S. retail sales up strong 1.1% in March. *Toledo Blade.* Retrieved from
http://www.toledoblade.com/Retail/2014/04/14/US-retail-sales-up-strong-1-1-percent-in-March.html
26. ibid.
27. ibid.
28. Chandan, Varun. (2014, Jan. 10). The Motley Fool: 3 Reasons U.S. Auto Sales Will Remain Robust in 2014. *Fool.com.* Retrieved from
http://www.fool.com/investing/general/2014/01/10/three-reasons-us-auto-sales-will-remain-robust-in.aspx
29. ibid.
30. Associated Press. (2014, Apr. 14). U.S. retail sales up strong 1.1% in March. *Toledo Blade.* Retrieved from
http://www.toledoblade.com/Retail/2014/04/14/US-retail-sales-up-strong-1-1-percent-in-March.html
31. National Employment Law Project. (2014, Jan.). Data Brief April 2014: The Low-Wage Recovery [Web Publication]. Retrieved from
http://www.nelp.org/page/content/lowwagerecovery2014/