

Fourth Quarter 2014 Report And Year-End Summary

Although the nation's economic expansion slowed somewhat from the torrid pace of the previous six months, the Commerce Department recently reported that **U.S. GDP grew by 2.6% in the fourth quarter of 2014.**¹ And while there were indications of significant drags on the country's economy during the last stanza (mostly due to a decrease in defense spending and weakening exports), these were more than outweighed by the best consumer spending growth in almost a decade² and nearly one million new jobs added to payrolls during this period.³

Because our economic indicator data also showed improvement in nearly every category during the fourth quarter of 2014, it appears that both our local and national economies are poised for accelerated growth in 2015.

By the end of the 2014, there appeared to be growing consensus that the U.S. economy had arrived at a turning point. Despite an alarmingly slow start (in which first quarter GDP shrunk by 2.1%), the economy had averaged 2.4% growth per quarter by the end of 2014, and most analysts are now predicting 2015 rates from 3.0% to 3.5%. Likewise, despite the economic slowdowns among our overseas trading partners, there appears to be sufficient strength within the domestic economy to somewhat offset the resulting trade imbalance (which is estimated to have reduced the fourth quarter 2014 GDP by a full percentage point, and could still affect subsequent revisions in the coming months).⁴

Turning to our fourth quarter 2014 survey of local indicators, **our area economy also seems to have ended the year on a positive note, with nearly every data category showing improvement over the same time last year.** As has been the case in several consecutive reports, unemployment continued to plummet in both Toledo and Lucas County, and local consumers picked up the pace of their purchasing, with surging auto sales yet again leading the way.

Like the national trends, **our economic indicator data still showed a couple of sectors lagging the recovery of our local economy during the fourth quarter and throughout much of 2014.** In my Q4/13 report one year ago, I suggested that our local labor market was still recovering jobs and wages at a slower pace than the rest of the country. Twelve months later, after dramatic drops in the local unemployment rate, our area seems to have closed the joblessness gap. But like the rest of the country, the impressive job growth hasn't yet led to a substantial increase in wages, which in 2014 barely grew faster than inflation.⁵

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

Turning to the housing market and construction sectors, it was unclear throughout the year whether area builders would be able to make up for the projects they lost during the harsh winter months of the first quarter. **Yet our data show that the local construction sector had easily surpassed its 2013 markers by the end of 2014 in all segments but one – the critical new residential category.** However, a closer look at the statistics suggests that the early-year weather wasn't the only culprit.

I'll analyze the state of the local housing market and the prospects for higher wages in 2015 in the Summary section. For now, however, let's turn to our Key Local Economic Indicators.



Are People Working?

Ending the year on a resoundingly positive note, the nation's employers hired nearly one million new employees during the final months of 2014. **The U.S. Department of Labor announced final revised Fourth Quarter job gains of 221,000 jobs in October, 423,000 in November, and 329,000 in December.**⁶ In sync with the national dynamic, our local job market data also showed dramatic improvement, with both Toledo and Lucas County again posting sharp declines in their year-over-year jobless rates.

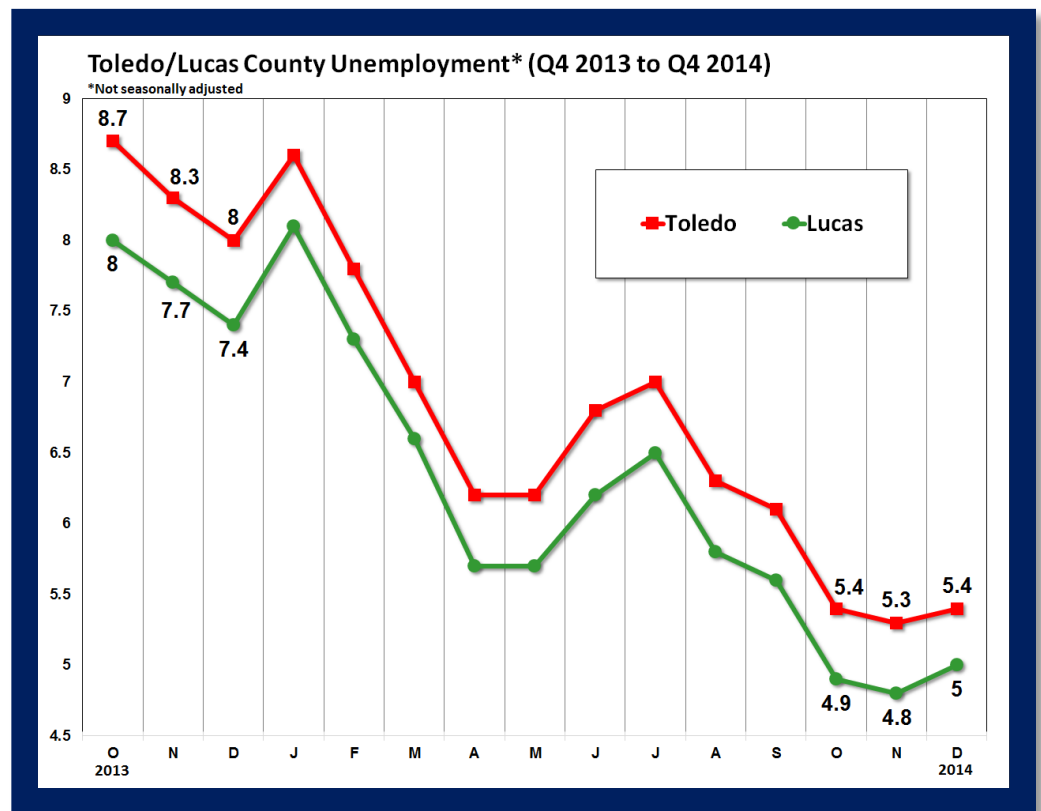
Looking at our fifteen month rolling track of non-seasonally adjusted local unemployment data, the area continued to enjoy a steep decline in its recent numbers.

As *Table 1* shows, Lucas County's October 2014 jobless rate dropped to 4.9%, down sharply from the 8.0% of the prior year. The November rate of 4.8% also marked a big improvement from the 7.7% posted a year earlier.

The county finished the quarter with a December jobless rate of 5.0%, a full 2.4% lower than the previous year (7.4%).

Table 1

(Source: Ohio Dept. of Job and Family Services)⁷



Likewise, **the Toledo job market also posted impressive gains in the fourth quarter of 2014.** Its October 2014 jobless rate plummeted by 3.3% in a single year, to 5.4% from 8.7%. In November, it dropped sharply again, this time to 5.3% from 8.3% in 2013. **Toledo also finished the quarter strong by posting a December jobless rate of 5.4%, beating the previous year's mark (8.0%) by an impressive 2.6% spread.**

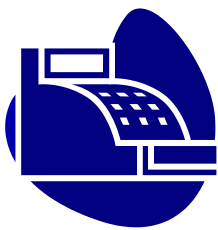
As I've detailed in previous reports, fluctuations in unemployment rates can mean many things. Ticks downward can be skewed by demographic trends (i.e., baby boomers retiring) or discouraged job-seekers giving up their search for work, while upward movement can often be an encouraging sign that the long-term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

boomer retirement transition, and has suffered both population and job loss for many years, there can be little doubt that some part of the recent decline in the local jobless rates must be attributed to a drop in the Civilian Labor Force (CLF, the U.S. Department of Labor term for the sum of those people either working or seeking work). With that in mind, let's look closer at some year-over-year CLF and employment statistics from fourth quarter 2014.

The city's non-seasonally adjusted data showed that **there were 2,200 more Toledoans working in October 2014 (122,800) than in the year before (120,600).**⁸ When combined with the significant drop in the number of people seeking work during the same period (129,900 in October 2014, compared to 132,100 a year earlier), the dynamic behind the dramatic 3.3% plunge in the unemployment rate in a single year becomes more easily grasped. That same month **there were 3,600 more Lucas County residents working (198,400) than there were a year earlier (194,800),** when the October CLF dropped from 211,800 in 2013 to 208,700 in 2014.⁹

According to these statistics, Toledo saw its October 2014 CLF drop by 1.67% from the prior year, while its employment level increased by 1.82%. During the same sample period, Lucas County's CLF dropped by 1.46%, while its employment level grew by 1.85%. In short, the area's dramatic single-year unemployment rate plunge continues to be driven by both impressive job gains and a drop in the CLF, with new hires remaining the greater catalyst.

As further evidence of local labor market progress, **our local payroll withholding survey statistics suggest both jobs and wages continue to improve for area workers, posting a fourth quarter gain of 5.75% and an increase of 4.78% in 2014.**¹⁰ As I'll discuss in the summary, **U.S. hourly wages grew by a disappointing 0.5% in the fourth quarter** (considerably short of the 0.8% increase in the third quarter, which had been the largest gain since 2008) **and 1.7% in 2014, barely ahead of inflation.**¹¹



Are People Spending?

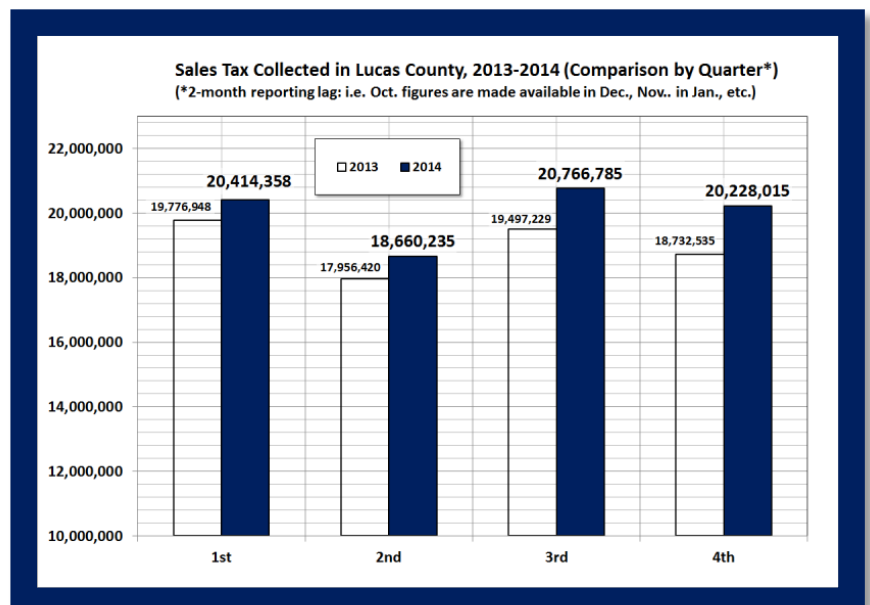
As I mention in every report, it's the flow of currency (from employer to employee, from consumer to merchant/vendor) that is the lifeblood of a thriving local economy. For the purpose of this report, I focus on two key concurrent indicators of consumer spending – the sales tax generated by purchases made in Lucas County and the motor

vehicle sales sector of our local economy.

As Table 2 shows, fourth quarter consumer spending was strong, as **taxes collected on sales in Lucas County increased by 7.98% from a year ago (a gain of \$1,495,480.05).** And after posting four consecutive quarterly gains, **the county's sales tax receipts were up by 5.41% for 2014 (an increase of \$4,106,261.90).**

As I noted in my previous report, these year-to-date figures are somewhat remarkable given the tens of millions of dollars likely sidelined during the brutal winter months at the beginning of the year.

Table 2 (Source: Lucas County Office of Management and Budget)¹²



Although the steadily growing sales have benefited area commerce, they haven't delivered a windfall to county government, as the recent increases were hardly enough to offset years of declining revenues and rising costs (including the newly added expense of housing Toledo's inmates and the need to build a new jail), leading the county commissioners to recently raise the sales tax rate for the first time since 1992. As a result, we'll need to adjust future collection comparisons accordingly.

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 3 indicates, Lucas County car buyers were out in force at the end of the year, as **dealers posted fourth quarter new car sales gains of 12.31%**.

In an indication of increasing consumer confidence, **local new car sales grew by 11.72 % in 2014**.

Area auto dealers also saw their fourth quarter used car sales grow by 10.28% over the prior year and by 5.98% for the year.

As Table 4 shows, every single annual new car sales figure has topped the previous mark for each of the five years since the end of the Great Recession. As is the case with the county's sales tax figures, what makes the 2014 data so astonishing is that new car sales were running behind 2013 numbers after the first two months of the year (due to the harsh winter weather).

As we have seen throughout most of the recovery, surging auto sales were no doubt a significant part of the fourth quarter's GDP advance. But the industry's 16.52 million vehicles sold in 2014 topped last year's figures by nearly 1 million and marked the auto sector's best year since 2006.¹⁵

I've suggested before that the auto industry seemed to be entering a "virtuous cycle" in which the improving job market would foster both better lending and spending conditions, which could beget more auto sales, production, and hiring. And with the onset of lower fuel prices near the end of 2014, consumer demand not only grew for the already scorching truck and SUV markets, but consumers now had some extra cash in their pockets with which they could afford them.¹⁶

Table 3

(Source: Lucas County Clerk of Courts)¹³

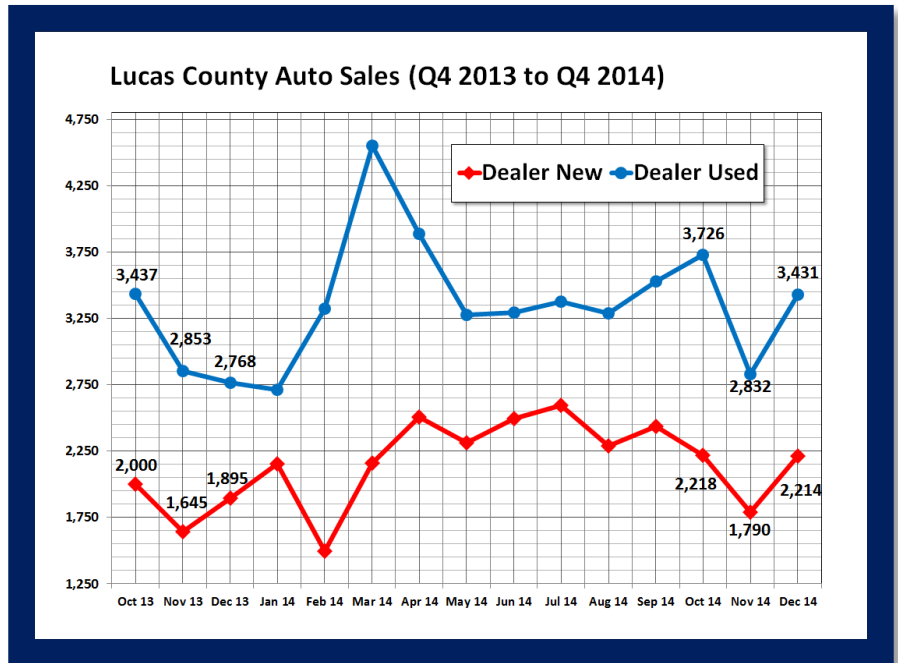
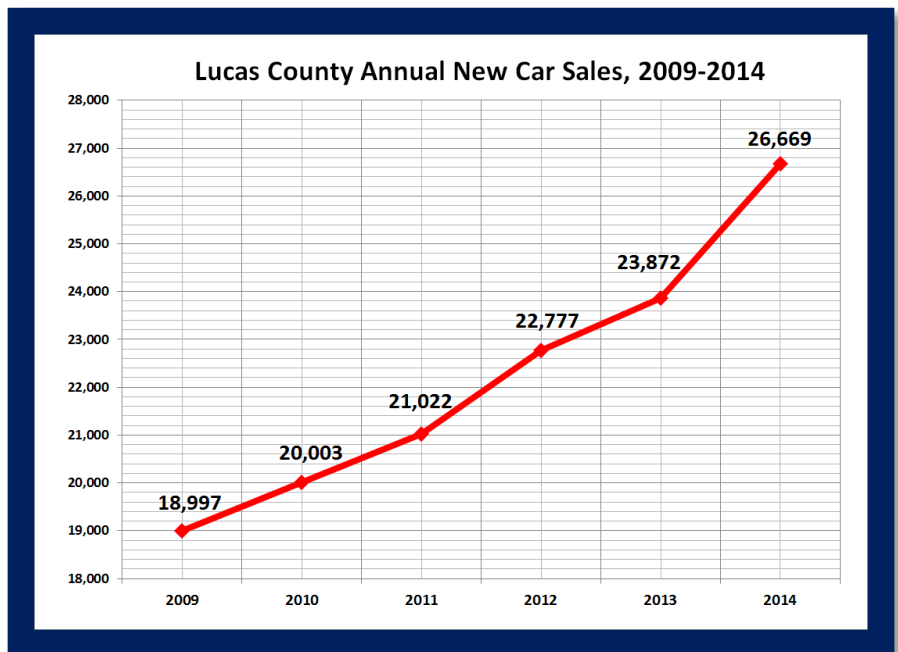


Table 4

(Source: Lucas County Clerk of Courts)¹⁴



This was particularly good news for Fiat Chrysler Automobiles (FCA), which had a huge year in 2014, seeing its U.S. sales jump by 16%, eclipsing 2 million vehicles and marking their best year since 2006.¹⁷ In particular, **Jeep sold just over 1 million vehicles worldwide in 2014, of which almost half were built here in Toledo.**¹⁸ It goes without saying that meeting FCA Chairman Sergio Marchionne’s ambitious goal of 1 million 2014 sales would not have been possible without the achievement of another important milestone – the assembly of more than 500,000 Jeep Wranglers at the Toledo Assembly Complex.¹⁹

The future of Wrangler production in Toledo is undoubtedly the biggest question looming for our local economy. Since FCA officials have stated that the latest a decision could be made is early June, it appears that both our local and national economies begin 2015 with more than a few uncertainties. I’ll address them, as well as the prospects for growth, in the Summary. Meanwhile, let’s turn our attention to local and national building permits data activity.



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 5 shows, **new residential construction plummeted during fourth quarter 2014**, marking a frustrating end to a disappointing year. Permits were drawn for new residential construction projects with a combined estimated value of \$14,781,285. **The decline (-\$5,831,867) fell short of the 2013 marker by a whopping 28.29%.**

However, **residential additions and alterations activity increased slightly in the fourth quarter.** Permits were drawn for a combined estimated value of \$7,904,527. **The gain (\$89,345) edged the 2013 amount by 1.14%.**

On the other hand, **new commercial construction activity skyrocketed during fourth quarter 2014.** Permits were drawn for a combined estimated value of \$47,686,367. **The gain (\$21,505,517) trounced the 2013 total by 82.14%.**

Last, **commercial adds/alterations activity showed strong growth in the fourth quarter.** Permits were drawn for a combined estimated value of \$24,702,771. **The gain (\$2,911,965) was a respectable 13.36% improvement over the 2013 figure.**

Table 5 Q4/14 Permits (vs. Q4/13)

Residential New	
Permits: 114	Est: \$14,781,285
-15 (-11.63%)	-\$5,831,867 (-28.29%)
Residential Add/Alt	
Permits: 904	Est: \$7,904,527
62 (7.36%)	\$89,345 (1.14%)
Commercial New	
Permits: 86	Est: \$47,686,367
26 (43.33%)	\$21,505,517 (82.14%)
Commercial Add/Alt	
Permits: 259	Est: \$24,702,771
-3 (-1.15%)	\$2,911,965 (13.36%)

As I suggested earlier, *Table 6* shows that **new residential construction fell in 2014 from 2013 levels**. Permits were drawn for new residential construction projects with a combined estimated value of \$77,469,304. **The decline (-\$8,548,526) fell short of the 2013 total by 9.94%.**

However, **residential additions and alterations activity increased in 2014**. Permits were drawn for a combined estimated value of \$32,875,054. **The gain (\$2,313,239) marked a 7.57% increase over the prior year.**

New commercial construction activity climbed sharply in 2014. Permits were drawn for a combined estimated value of \$112,311,253. **The gain (\$30,809,679) easily surpassed the 2013 marker by 37.80%**

Finally, **commercial adds/alterations activity also advanced in 2014**. Permits were drawn for a combined estimated value of \$18,922,965. **The gain (\$18,922,419) was a sturdy 16.64% improvement over 2013 figures.**

On a national level, the building and construction industry continued to make progress, although the sector's recovery has varied by region. For example, although overall starts topped 1 million for the year for the first time since 2007, the Midwest saw a 13.3% decline from last year's figures.²⁰

Regarding the fourth quarter 2014 local real estate market, the data were a mixed bag of positives and negatives. **The Toledo Board of Realtors reported that total home sales were up 6% compared to the fourth quarter of 2013.**²¹ But the average sale price was \$117,106 (a decrease of 2%).²² However, new listings rose by 5%, while the average days on the market decreased by 7%.²³

As I suggested in the introduction, the economy ended on a mostly high note in 2014, but five years after the recession ended, it's apparent that the housing market and construction sector still has more than just adverse weather to overcome.

Table 6 2014 Totals (vs. 2013)

Residential New	
Permits: 550	Est: \$77,469,304
- 1 (-2.83%)	-\$8,548,526 (-9.94%)
Residential Add/Alt	
Permits: 3,623	Est: \$32,875,054
89 (2.52%)	\$2,313,239 (7.57%)
Commercial New	
Permits: 408	Est: \$112,311,253
172 (72.88%)	\$30,809,679 (37.80%)
Commercial Add/Alt	
Permits: 1,097	Est: \$132,642,806
-291 (-20.97%)	\$18,922,419 (16.64%)



Summary: An Assessment of Fourth Quarter 2014 and Year-End Review

There was a lot to like in the fourth quarter 2014 data. As a result, I'm not alone in my optimism for a stronger U.S. economy in 2015.

By all accounts, the national GDP would have been nearly a point higher were it not for an increase in imports, due mostly to the strong dollar. While we should be concerned about world markets and their potential impact on future exports, I am particularly impressed that consumer spending increased by 4.3% in the fourth quarter (compared to only 3.2% in the third quarter).²⁴ Consumer spending is estimated to make up nearly 70% of economic activity, and the fourth quarter surge was the largest gain since 2006.²⁵

It's also hard to argue with the job growth in the fourth quarter. Employers must be optimistic as well, as they added nearly 1 million new hires during the last three months of the year and over 3 million in 2014, the strongest year for job growth since 1999.²⁶

Yet the staggering job advances failed to bring corresponding wage increases, although there were mixed indicators at the end of the year. While hourly wages rose just 0.5% in the fourth quarter and 1.7% for the year, the “employment cost index” (which includes wages and benefits) rose 2.2% in 2014, the biggest increase since 2006.²⁷ But with seasonally adjusted unemployment nearing historically low rates, and with much of recent job growth occurring in higher-paying industries (i.e., construction, manufacturing, health care, etc.), chances are improving that we will see wage growth early in 2015.

Turning to housing, the new residential housing construction numbers proved disappointing for the quarter and the year, both locally and nationally. But, as I suggested, there was likely more to it than the bad early-year weather. It’s notable that every other data segment in our survey outpaced last year’s figures. In previous reports I’ve detailed how the greater Toledo housing market has been hindered by years of population loss and property devaluation. Yet both the real estate and residential construction sectors have been experiencing a steady, if moderate, recovery of late. In fact, with a steadily improving job market and low interest rates, it would seem that conditions are ideal for both realtors and builders.

However, industry articles point to a decline of purchases by first-time home buyers, suggesting that student loan debt is likely to blame. Industry analysts say that student loan debt has tripled from a decade earlier, while wages of college graduates have dropped – leaving them unable to secure loans or make down payments for home purchases.²⁸

This uncertain data on housing is a significant cause for concern as we move into what should otherwise be a strong year for our local and national economies.

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