

First Quarter 2015 Report

As my previous report suggested, the U.S. economy had overcome an alarmingly slow start to add over three million jobs and average 2.4% growth per quarter in 2014. And while the pace of economic expansion slowed in the year's final three months, economists were still encouraged enough by the fourth quarter data to forecast an average rate near 3.5% for 2015.

Then, in a near-replay of a year ago, the Bureau of Economic Analysis released its Advance Estimate report showing that **national GDP growth stalled to a near-stagnant 0.2% for first quarter 2015.**¹

The Federal Reserve Board at its April meeting acknowledged the recent economic slowdown and weakness in the labor market, but attributed most of the subpar first quarter GDP to “transitory factors.”² As a result, the long-anticipated federal funds rate hike now looked unlikely to occur before September.

These “transitory factors” included a second straight year of unusually harsh winter weather and a now-settled labor dispute which had disrupted trade at West Coast ports. While consumer spending and construction data will no doubt rebound with the onset of warmer weather, other impediments to growth evident in the first quarter report – like the trade deficit – are likely to linger throughout the year. With their anxieties renewed, many analysts fear this year's inevitable rally may not be as strong as last year's.

At the local level, nearly all of our economic indicator data posted year-over-year gains in first quarter 2015. Overcoming yet another brutal winter season, **Lucas County auto sales surpassed last year's 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.**

In line with much of the national data, **local construction sector numbers were mixed, although permit activity in the New Residential and New Commercial categories posted year-over-year gains in the first quarter.** But we should certainly view the first quarter data from a broader perspective. Although the figures are a welcome improvement over last year's dismal numbers (when our local permit activity declined in every category), we cannot forget that the early-year inclement weather was clearly yet another setback for an industry which has yet to recover to pre-recession levels. 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.).

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

The winter of 2014-2015 undoubtedly hurt both the national and local economies from December through early March, but 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?

Starting the year on a positive note, but at a decidedly slower pace than recent reporting periods, the nation's employers hired just over one half million new employees during the first three months of 2015. **The U.S. Department of Labor announced revised First Quarter job gains of 264,000 jobs in January, 201,000 in February, and 126,000 in March.**³ 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.

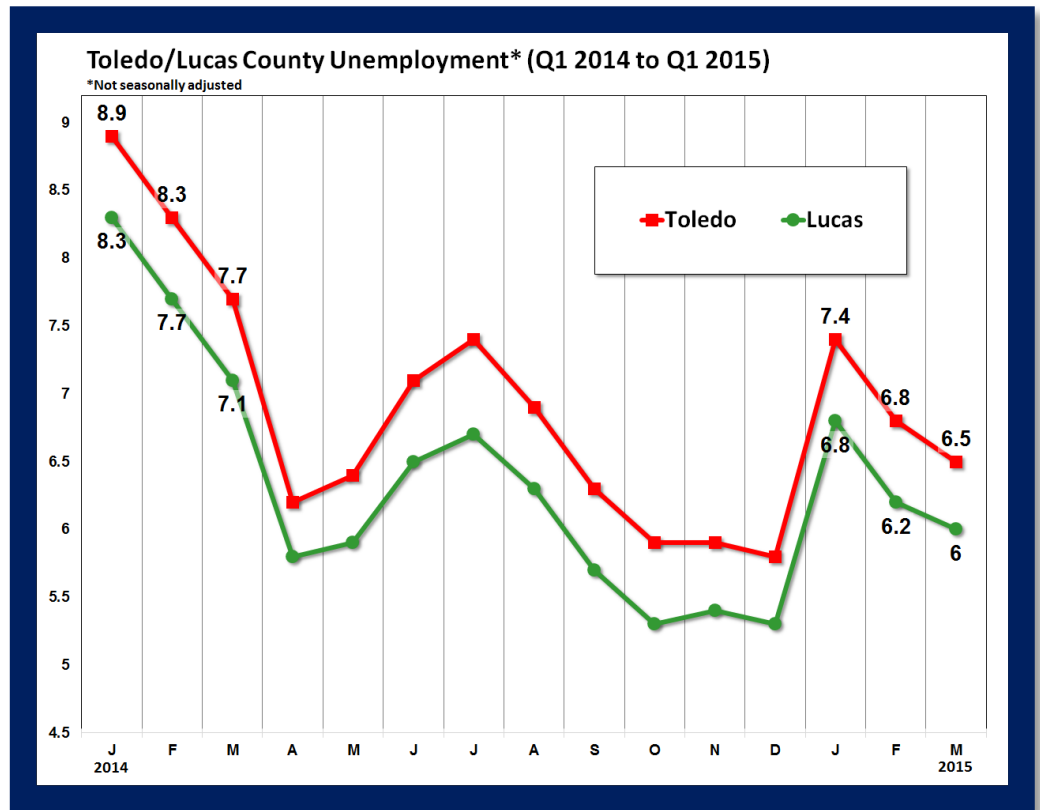
Looking at our fifteen month rolling track of non-seasonally adjusted local unemployment data, the area continued to enjoy a steep decline in its recent numbers.

As *Table 1* shows, Lucas County's January 2015 jobless rate improved to 6.8%, down sharply from the 8.3% of the prior year. The February rate of 6.2% also showed a marked improvement from the 7.7% posted a year earlier.

Lucas County ended the quarter in March with a jobless rate of 6.0%, a full 1.1% lower than the previous year (7.1%).

Table 1

(Source: Ohio Dept. of Job and Family Services)⁴



Similarly, **the Toledo job market also made substantial gains in the first quarter.** Its January 2015 jobless rate improved by 1.5% in a single year, to 7.4% from 8.9%. In February, it dropped sharply again, this time to 6.8% from 8.3% in 2014. **Toledo also finished the quarter strong by posting a March jobless rate of 6.5%, beating the previous year's mark (7.7%) by a solid 1.2% 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 some year-over-year Civilian Labor Force (CLF, those actively seeking work) and employment statistics from March 2015, when the unemployment rate in Toledo fell by 1.2% and by 1.1% in Lucas County.

The city's non-seasonally adjusted data showed that **there were 700 more Toledoans working in March 2015 (119,800) than in the year before (119,100).**⁵ At the same time, *there were fewer people seeking*

work (129,000 in March 2014, compared to 128,100 a year earlier).⁶ That same month **there were 1,100 more Lucas County residents working (195,500) than there were a year earlier (194,400)**, but the number of county job-seekers also dropped (from 209,200 in 2014 to 207,900 in 2015).⁷

According to these statistics, Toledo saw its March 2015 CLF drop by 0.70% from the prior year, while its employment level increased by 0.59%. During the same sample period, Lucas County’s CLF dropped by 0.62%, while its employment level grew by 0.57%. In short, the area’s single-year unemployment rate drop was driven almost equally by both job gains and a drop in the CLF. However, since part of the CLF decline is likely due to retiring workers, new hires still remain the greater catalyst.

Our local payroll withholding survey data continue to suggest a tightening local labor market, posting a first quarter gain of 3.80%.⁸ As I’ll discuss in the summary, despite the soft job growth and weak GDP numbers, U.S. wages grew by a 0.7% in the first quarter and 2.8% in the 12 months through March, the biggest gain in over six years.⁹



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.

First quarter consumer spending was remarkably strong, as **taxes collected on sales in Lucas County increased by 9.76% from a year ago (a gain of \$1,992,240.84).**¹⁰ I mentioned in my last report that the steadily growing sales in recent years have benefited area commerce but haven’t exactly delivered a windfall to county government. For example, 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 of my next report, I will adjust the sales tax collection comparisons accordingly.

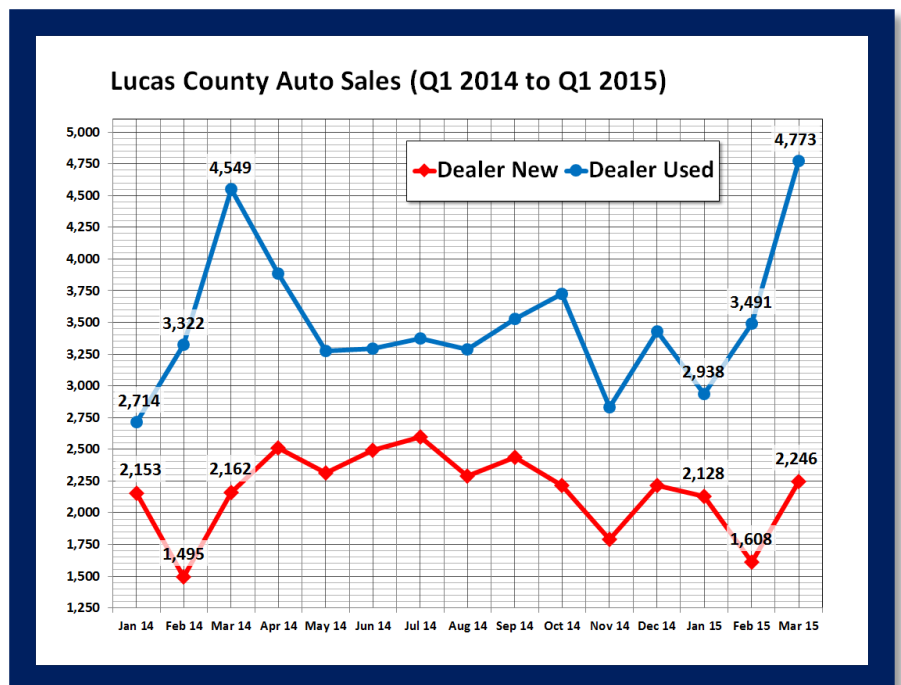
Meanwhile, there remain few better indicators of consumer confidence than the purchase of durable goods, and it’s hard to find an example more fitting and relevant to our region than auto sales.

As *Table 2* indicates, despite frigid weather likely keeping buyers home in January, **Lucas County auto dealers still posted first quarter new car sales gains of 2.96%.** Area dealers also saw used car sales grow by 5.83% during the same period.

On a Roll: Since the end of the Great Recession, every successive quarter’s sales data has topped the those of the previous six years.

Table 2

(Source: Lucas County Clerk of Courts)¹¹



On the national level, despite various individual and industrywide challenges, the auto manufacturing and sales sector continues to drive much of the country’s GDP expansion. For example, although it is still paying recall and accident recovery costs for its faulty ignition switches, GM nonetheless recorded a \$2.18 billion profit in North America.¹² While the strong dollar and the sagging markets in Europe, Russia, and Brazil cut into net proceeds, low fuel prices and continued demand for higher-priced trucks and SUV have GM and industry analysts optimistic that sales will only increase in the coming months. In fact, after posting a near-record 16.52 million vehicles sales in 2014, the auto sector appears on target to hit 17 million in 2015.¹³

Fiat Chrysler America announced a first quarter 2015 profit jump of 22%.¹⁴ As in previous reports, the company’s earnings were only made possible by its surging SUV division. Meanwhile, local leaders are “cautiously optimistic” they can reach a deal with FCA before the company’s previously-announced June deadline regarding the location for production of the next-generation Jeep Wrangler. For our community’s sake, let’s hope they’re right.



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, despite the frigid early-year weather, the area’s **new residential construction activity increased substantially in first quarter 2015**. Permits were drawn for a combined estimated value of \$21,967,305. **The gain (\$11,320,625) marked a 106.33% improvement over 2014 figures.**

However, **residential additions and alterations activity dipped slightly in the first quarter**. Permits were drawn for a combined estimated value of \$4,299,558. **The drop (-\$201,868) was a 4.48% decrease from the 2014 totals.**

On the other hand, **new commercial construction activity skyrocketed during first quarter 2015**. Permits were drawn for a combined estimated value of \$54,093,700. **The spike (\$36,173,136) marked a 201.85% gain over 2014 numbers.**

Last, **commercial adds/alterations activity showed a steep decline in first quarter 2015**. Permits were drawn for a combined estimated value of \$12,977,064. **The drop (\$24,385,424) represents a disappointing 65.27% decrease from the 2013 figures.**

Table 3 Q1/15 Permits (vs. Q1/14)

Residential New	
Permits: 115	Est: \$21,967,305
19 (19.79%)	\$11,320,625 (106.33%)
Residential Add/Alt	
Permits: 509	Est: \$4,299,558
58 (12.86%)	-\$201,868 (-4.48%)
Commercial New	
Permits: 35	Est: \$54,093,700
-47 (-57.32%)	\$36,173,136 (201.85%)
Commercial Add/Alt	
Permits: 208	Est: \$12,977,064
16 (8.33%)	-\$24,385,424 (-65.27%)

On the national level, the building and construction industry was clearly dealt a setback by rough winter weather during the first quarter. Overcoming cold conditions, the nation's builders registered housing starts at an annualized pace of 1.08 million units in January of 2015.¹⁵ Yet single-family residential groundbreaking plunged 17% in February to a pace of 897,000.¹⁶ Although the February 2015 housing starts dropped 3.3% from a year earlier, the biggest declines occurred in the Northeast and Midwest (where the winter weather was most severe).¹⁷ However, analysts note that permits for future construction rose during the same period, an important indication that the downturn may only have been temporary.¹⁸

Regarding the first quarter 2015 local real estate market, the data were fairly encouraging. **The Toledo Board of Realtors reported that total home sales were up 13% compared to the first quarter of 2014.**¹⁹ The average sale price rose to \$117,106 (an increase of 14%).²⁰ In a sign that the local market may be heating up, new listings rose by 7%, although the average days on the market shortened by only 1%.²¹

On the national level, winter weather is probably only partly to blame for the mixed bag of real estate data emerging from the first quarter of 2015. Weather delays almost certainly pushed back completion of residential construction projects, thereby helping explain the 11.4% drop in new home sales in March.²² Yet new home sales data varied greatly by region – falling 33.3% in the Northeast, 15.8% in the South, 3.4% in the West – *but actually increasing in the Midwest.*²³ Conversely, after two subpar months to start the year, existing-home sales (comprising roughly 90 percent of the market) rose 6.1% in March.²⁴

As I mentioned in the introduction, the country's economy ended last year on a mostly high note, apparently having turned a corner, only to go into a virtual stall for the for the second consecutive year. But was the first quarter 2015 U.S. economy significantly different from that of a year ago, or was it what New York Yankee catcher Yogi Berra famously uttered, "*like déjà vu all over again*"?



Summary: An Assessment of First Quarter 2015

In a welcome turn of events, nearly all of our local economic indicators posted gains in the first quarter of 2015. **Local unemployment rates continued to improve, wages grew, consumers bought more cars and other goods, and area builders overcame another rough winter to top most (but not all) of last year's figures.** However, due to its potential impact on our local economy, I want to focus on the Commerce Department's recent GDP report.

At its April meeting, the Federal Reserve Board acknowledged that "economic growth slowed during winter months, in part reflecting transitory factors."²⁵ It further noted that the pace of job growth had "moderated" and "underutilization of labor resources was little changed."²⁶ Although it didn't rule out a June federal funds rate hike, most analysts subsequently concluded that the incremental rate increases would now begin no sooner than September.

But the pace of job growth had not merely "moderated." **First quarter 2015 job gains were only half those of fourth quarter 2014.** Worse, there appeared to be an alarming trend forming when each of the first three months posted successively lower numbers. And things only got worse when the Labor Department later made corrective downward revisions to the January and February figures.

Yet there were still a number of positive things to be found among the first quarter labor market data. For instance, due to the torrid pace of job growth over the last six months of 2014, we were disappointed that there that there were only a little over 500,000 new hires in first quarter of 2015. In previous years, an annualized pace for 2,000,000 job gains would be cause for celebration. Further, despite the economic slowdown, **U.S. jobless claims recently fell to a 15-year low and private sector wages were up 2.8% in the 12 months through March, the biggest gain since the third quarter of 2008.**²⁷

Although the 0.2% first quarter 2015 GDP is still subject to two more revisions (last year's 0.1% first quarter estimate was ultimately bottomed out at -2.9%), a closer look at this year's report suggests that the nation's economy is on firmer footing than it was twelve months ago. Although consumer spending had clearly shrunk in the first three months of 2014, early indications are that it increased in 2015. And while the import/export data recalculations could still move the needle, it's unlikely that we are in for the full three percentage point downward revision we witnessed a year ago at this time. In all, while consumer purchases likely added 1.9 percent to the GDP, the unusually cold weather is estimated to have pared 0.3 to 0.5 points, with the trade imbalance subtracting another 1.25 percent.²⁸ As I mentioned earlier, a now-settled West Coast port labor dispute is estimated to have cut the GDP by an additional 0.2 percent.²⁹

So what should we make of the first quarter 2015 GDP? A recent study by Goldman Sachs noted that since 2010, growth in the first quarter averaged 0.6%, while growth in other quarters averaged 2.9%.³⁰ A similar review looked back to 1985 and concluded that first quarter growth lagged average annual growth by almost a full point.³¹

Despite the first quarter setback, analysts still anticipate a big year from the auto industry and real estate sales. And based on the data I have seen, I am optimistic that most consumers have more income than they did a year ago, and the potent combination of solid job growth, increasing wages, and low fuel prices will lead to yet another strong second quarter rebound.

Wade Kapszukiewicz
Lucas County Treasurer

References:

1. U.S. Bureau of Economic Analysis. (2015, Apr. 29). National Income and Product Accounts Gross Domestic Product, 1st quarter 2015 (Advance Estimate) [Press release]. Retrieved from <http://bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>
2. U.S. Board of Governors of the Federal Reserve System. (2015, Apr. 29). Federal Reserve issues FOMC statement [Press release]. Retrieved from <http://www.federalreserve.gov/newsevents/press/monetary/20150429a.htm>
3. U.S. Bureau of Labor Statistics. (2015, Apr. 3). Employment Situation Summary, March 2015 [Press release]. Retrieved from <http://www.bls.gov/news.release/pdf/empst.pdf>
4. Ohio Dept. of Job and Family Services. (2015). Ohio Labor Market Information Civilian Labor Force Query Retrieved from <http://ohiolmi.com/asp/laus/vblaus.htm>
5. *ibid.*
6. *ibid.*
7. *ibid.*
8. Payroll withholding survey of the cities of Toledo, Oregon, Maumee, and Sylvania
9. BloombergBusiness (2015, Apr.30). Wages Show Signs of Picking Up as U.S. Job Market Improves. Retrieved from <http://www.bloomberg.com/news/articles/2015-04-30/jobless-claims-in-u-s-decrease-to-lowest-level-in-15-years>
10. Sales tax figures provided by the Lucas County Office of Management and Budget
11. Auto sales figures provided by Lucas County Clerk of Courts Bernie Quilter
12. General Motors Corporation (2015, Apr.23). Investors: Earnings Releases "GM Reports Solid First Quarter Operating Performance [Press release]. Retrieved from <http://media.gm.com/content/dam/Media/gmcom/investor/2015/apr/GM-2015-Q1-Financial-Highlights.pdf>
13. Burden, Melissa. (2014, Nov. 17). NADA predicts nearly 17 million U.S. auto sales in '15. *The Detroit News*. Retrieved from <http://www.detroitnews.com/story/business/autos/2014/11/17/nada-predicts-us-auto-sales-growth/19172839/>
14. Ebhardt, Tommaso and Clothier, Mark. (2015, Apr. 29). Fiat Chrysler Profit Jumps 22% on North America, Currencies. *Bloomberg Business*. Retrieved from <http://www.bloomberg.com/news/articles/2015-04-29/flat-chrysler-profit-jumps-22-on-north-america-currency-boost>
15. FoxBusiness.com (2015, Mar. 517). Housing Starts Plunge 17% in February, Permits Rise. (*from Reuters*) Retrieved from <http://www.foxbusiness.com/economy-policy/2015/03/17/housing-starts-plunge-17-in-february/>
16. *ibid.*
17. *ibid.*
18. *ibid.*
19. Toledo Board of Realtors. (2015, April.). Local Market Update – 1st Quarter 2015 [Press release]. Retrieved from <http://www.toledorealtors.com/img/pdf/housing-statistics/2015/LocalMarketUpdateFirstQuarter2015v1.pdf>
20. *ibid.*
21. *ibid.*
22. National Association of Home Builders. (2015, Apr. 23). New Home Sales Drop 11.4 Percent in March [Press release]. Retrieved from http://www.nahb.org/news_details.aspx?newsID=17233
23. *ibid.*

24. Sparshott, Jeffrey and Hudson, Kris. (2015, NovApr. 22). Existing-Home Sales Up 6.1% in March: Sales rose to highest level in 18 months, National Association of Realtors reports. *The Wall Street Journal*. Retrieved from <http://www.wsj.com/articles/existing-home-sales-up-6-1-in-march-nar-1429711475>
25. U.S. Board of Governors of the Federal Reserve System. (2015, Apr. 29). Federal Reserve issues FOMC statement [Press release]. Retrieved from <http://www.federalreserve.gov/newsevents/press/monetary/20150429a.htm>
26. *ibid.*
27. BloombergBusiness (2015, Apr.30). Wages Show Signs of Picking Up as U.S. Job Market Improves. Retrieved from <http://www.bloomberg.com/news/articles/2015-04-30/jobless-claims-in-u-s-decrease-to-lowest-level-in-15-years>
28. Mutikani, Lucia. (2015, Apr. 29). U.S. economy nearly stalls in first-quarter as weather, lower energy prices bite. (*Reuters*) Retrieved from <http://uk.reuters.com/article/2015/04/29/usa-economy-idUKLNNTFEB9Z20150429>
29. *ibid.*
30. Wolfers, Justin. (2015, Apr. 23). Why You Can't Put Faith in Reports of First-Quarter Economic Slumps. *New York Times*. Retrieved from http://www.nytimes.com/2015/04/24/upshot/why-you-cant-put-faith-in-reports-of-first-quarter-economic-slumps.html?_r=0&abt=0002&abg=1
31. *ibid.*