Wade Wire Q4 2015

A Quarterly Assessment of Key Local Economic Indicators in Lucas County

Fourth Quarter 2015 Report And Year-End Summary

After the Dow dropped by over 1,750 points during the first six weeks of 2016, it was hardly surprising that much of the nation's economic news became focused on Wall Street volatility. Although the index would recover by more than 1,400 points three weeks later, some analysts have hinted that nearly seven years of recovery will soon draw to a close, and that another recession may be looming in the near future.

Many experts likely found confirmation of their pessimism when the Commerce Department recently released revised data showing that **U.S. GDP grew by only 1.0% in the fourth quarter of 2015.[1]**

While there were significant drags on the country's economy during the last stanza (most notably the slowing global economy and strong dollar hurting U.S. exports), the updated data actually exceeded consensus expectations, as economists polled by Reuters had expected that fourth-quarter GDP growth would be revised down to a 0.4 percent pace.[2]

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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In fact, a closer look at the details of the GDP data shows that the core of the nation's economy remains stronger than recent headlines would suggest. For example, **consumer spending still grew by 2.0% and over 850,000 new jobs were added to payrolls during last three months of the year.[3]** In addition, the sustained job creation and wage growth helped buoy key segments of the economy. Most notably, **housing and construction numbers remained strong, and the nation's auto industry sold a record-high 17.47 million vehicles in 2015.[4]**

Closer to home, almost all of our local economic indicators showed year-over-year gains in both the fourth quarter and throughout the year. **Area unemployment rates continued to drop and wages rose in 2015.** Local consumers picked up the pace of their purchases, as local sales tax data showed solid fourth quarter and annual gains. **Strong fourth quarter vehicle sales helped local auto dealers post their highest year-end totals in over a decade.**

While local building permit activity numbers were generally higher in the fourth quarter, the construction sector year-end data remained decidedly mixed. Housing and construction numbers have been volatile throughout the entire recovery. Last year was no exception, as new residential construction continued to improve (but has yet to match pre-recession levels), and new commercial building dramatically increased. But the residential adds/alts category finished slightly behind 2014 figures, and commercial adds/alts dropped dramatically from last year's totals.

Most analysts expected the fourth quarter data to show that the nation's economic engine was losing steam at the end of 2015. Growth had slowed to a tepid 2.0%[5] in the third quarter, and the most recent numbers indicated that fourth quarter GDP had decelerated again, this time to a paltry 1.0%.[6] Already facing substantial headwinds, the economy was further saddled by the early-year stock market "correction." Taken together, the developments were enough to prevent the Fed from raising interest rates at its late-January meeting, although they left open the possibility of incremental rate hikes as early as this spring. But some economists now argue that the Fed's December 2015 "liftoff" was premature, and that Chairman Yellen may need to consider another rate cut in order to stave off an economic downturn.

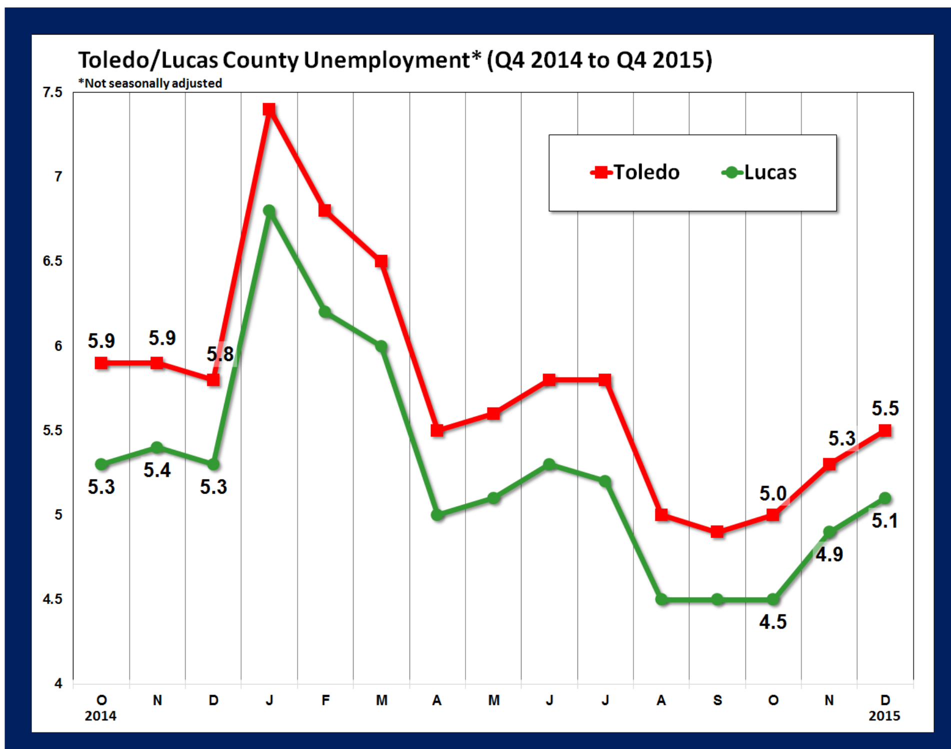
I'll discuss these developments and assess the chances for a recession in 2016 throughout this report. For now, however, let's take a look at our Key Local Economic Indicators.

Are People Working?

Rebounding from a disappointing third quarter, the nation's employers resumed a brisk pace of hiring during the final months of 2015. **The U.S. Department of Labor announced final revised Fourth Quarter job gains of 307,000 jobs in October, 280,000 in November, and 271,000 in December.[7]**

Looking at the fifteen month rolling track of non-seasonally adjusted local unemployment data, the area also continued to see an improvement in its recent numbers.

Table 1 (Source: Ohio Dept. of Job and Family Services)[8]



As *Table 1* shows, Lucas County's October 2015 jobless rate dipped to 4.5%, a solid drop from the 5.3% of the prior year. Likewise, the November rate of 4.9% was a healthy 0.5% better than the year before (5.4%).

In an indication of an ever-tightening job market, **Lucas County posted a December unemployment rate of 5.1%, only a slight improvement on the 5.3% of the previous year.**

As the chart further indicates, **the Toledo job market also made gains in the second quarter.** Its October 2015 jobless rate improved to 5.0% from 5.9%. In November, it dropped to 5.3% from 5.9% in 2014. **Toledo also saw a narrowing of its year-over-year gain in December, although the unemployment rate of 5.5% was still a gain of 0.3% from the previous year's mark (5.8%).**

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-

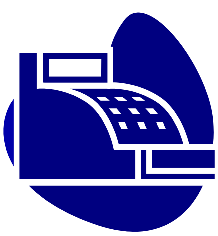
year Civilian Labor Force (CLF, those actively seeking work) and employment statistics from December 2015, when the unemployment rate in Toledo fell by 0.3% and by 0.2% in Lucas County.

The city's non-seasonally adjusted data showed that **there were 700 more Toledoans working in December 2015 (121,600) than in December 2014 (120,900).[9]** Unlike some previous quarters – in which there were significant fluctuations in the CLF – *the number of people seeking work in December was fairly similar* (128,600 in 2015, compared to 128,300 the year before).[10] That same month **there were 1,200 more Lucas County residents working (198,400) than there were a year earlier (197,200),** while the number of county job-seekers had grown slightly (208,900 in 2015, compared to 208,300 in 2014).[11]

Looking closer at the statistics, Toledo saw its December 2015 CLF grow by only 0.23% from the prior year, while its employment level increased by 0.58%. At the same time, Lucas County's CLF went up by 0.29%, while its employment level grew by 0.61%. The area's job market has no doubt improved since the end of the recession and the unemployment rate has consistently declined, but why and to what extent have often been subjects for debate. The narrowing of the CLF to Employment ratio in the fourth quarter suggests that ***the improvement in local jobless rates is still being driven by job gains, rather than people dropping out of the work force – but there may be very little slack remaining in the local job market.***

Turning to the issue of wages, our local payroll withholding survey data showed a year-over-year fourth quarter gain of 2.48% and a year-to-date advance of 2.72%.[12] When combined with the positive local employment news, the data suggest that our local job market is healthy and improving, with all signs pointing to continued moderate wage growth in 2016.

The employment-cost index, a broad measure of workers' wages and benefits, rose by a seasonally adjusted 0.6% in the fourth quarter.[13] **And in the twelve months ending in December, the index showed total wages were ahead by 2.0%, a moderate gain, but keeping ahead of inflation.[14]**



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 the local economy.

Unlike the modest gains posted in the third stanza, local consumers made purchases at a torrid pace during the year's final three months. As a result, **fourth quarter taxes collected on sales in Lucas County increased by a healthy 8.83% from a year ago (a gain of $1,726,168.53).[15]** And after posting four consecutive quarterly gains, **the county's sales tax receipts were up by 7.53% for 2015 (an increase of $6,024,717.73).[16]**

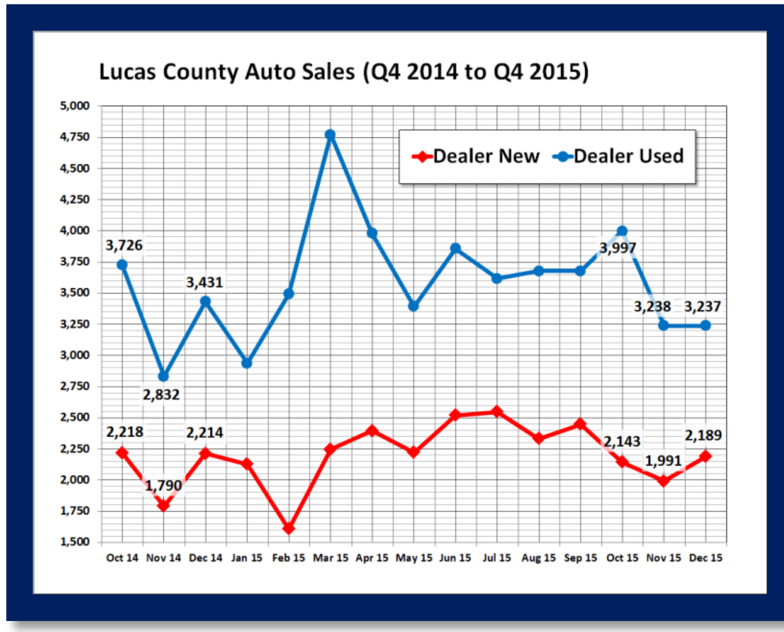
As I noted in my last report, despite the county's recent 0.25% increase in its sales tax rate, the third quarter 2015 data has been adjusted accordingly (to not include post-increase revenue) in order to achieve a more accurate year-over-year comparison.

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, **Lucas County auto dealers posted a 1.62% year-over-year gain in fourth quarter new car sales.** Area dealers saw their pre-owned car sales expand by 4.84% during the same period.

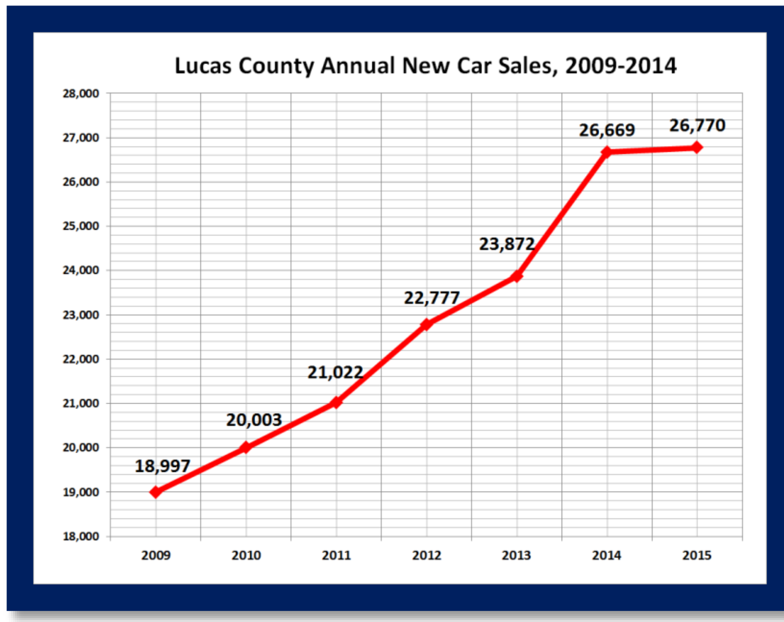
Year-end data show that **2015 new vehicle sales edged up by a narrow 0.38%,** while pre-owned car sales grew by a sturdy 6.45% from prior year totals. Given that 2014 sales figures were the best in a decade, the 2015 gains confirm both the underlying durability of the auto sales sector and the strong consumer confidence among local buyers.

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



In a similarly encouraging development at the national level, **U.S. new vehicle sales reached a record-high 17.47 million in 2015, topping the previous mark of 17.35 million set in 2000.**[19] As I stated in my last report, it's worth noting that at the worst point of the Great Recession in 2009 U.S. auto sales dropped to only 10.4million.[20]

Table 3 *(Source: Lucas County Clerk of Courts)*[18]



Of particular interest to our region, **Fiat-Chrysler's 7.0% sales increase in 2015 was led primarily by its Jeep unit – which set an annual U.S. sales record with 865,028 deliveries.**[21] General Motors continued to overcome recall costs, reporting total 2015 vehicle sales of 3.1 million, up 5% from 2014.[22] Likewise, despite Ford's transition of its popular F-150 truck line to aluminum body construction, it reported annual sales of 2.6 million vehicles, a 5% increase from 2014 figures.[23]

Analysts attributed the record sales in 2015 to the continued improvement of the nation's job market, as well as low fuel costs, historically low interest rates, and higher consumer confidence. With those trends expected to continue, sales are forecasted to exceed 17.5 million in 2016.[24]

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 4* shows, **new residential construction data remained robust during fourth quarter 2014,** bringing a solid end to an impressive year. Permits were drawn for new residential construction projects with a combined estimated value of $23,812,587. **The fourth quarter gain ($9,031,302) marked a 61.10% improvement over the 2014 total.**

For the first time this year, **residential additions and alterations activity increased during the fourth quarter.** Permits were drawn for a combined estimated value of $8,328,313. **The gain ($423,786) was a 5.36% increase from the previous year.**

On the other hand, **new commercial construction permit activity slowed substantially during fourth quarter 2014.** Permits were drawn for a combined estimated value of $28,659,009. **The drop (-$19,027,358) was a steep 39.90% decline from the 2014 total.**

Last, **the commercial adds/alterations category posted its first quarterly gain in the fourth quarter.** Permits were drawn for a combined estimated value of $33,526,658. **The gain ($8,823,887) was a huge 35.72% upturn from the prior year figure.**

As I hinted earlier, *Table 5* shows that **new residential construction permit activity posted solid gains in 2015.** Permits drawn for new residential construction projects had a combined estimated value of $88,154,506. **The advance ($10,685,202) marked a 13.79% gain over 2014 totals.**

Despite a strong fourth quarter, **residential additions and alterations activity dipped slightly in 2015.** Permits were drawn for a combined estimated value of $31,396125. **The decline (-$1,478,928) was a 4.50% decrease from the prior year.**

Conversely, despite a year-end dip, **new commercial construction activity climbed sharply in 2015.** Permits were drawn for a combined estimated value of $169,706,830. **The increase ($57,395,577) outpaced the 2014 totals by a sturdy 51.10%.**

Likewise, a solid fourth quarter couldn't turn the tide, as **commercial adds/alterations activity dropped substantially in 2015.** Permits were drawn for a combined estimated value of $83,177,624. **The drop (-$49,465,181) was a disappointing 37.29% decrease from 2014 totals.**

Table 4 **Q4/15 Permits (vs. Q4/14)**[25]

Residential New	
Permits: 145	Est: $23,812,587
31 (27.19%)	$9,031,302 (61.10%)
Residential Add/Alt	
Permits: 960	Est: $8,328,313
56 (6.19%)	$423,786 (5.36%)
Commercial New	
Permits: 65	Est: $28,659,009
-21 (24.42%)	-$19,027,358 (-39.90%)
Commercial Add/Alt	
Permits: 248	Est: $33,526,658
-11 (-4.25%)	$8,823,887 (35.72%)

Table 5 **2015 Permits (vs. 2014)**[26]

Residential New	
Permits: 590	Est: $88,154,506
40 (7.27%)	$10,685,202 (13.79%)
Residential Add/Alt	
Permits: 3,731	Est: $31,396,125
108 (2.98%)	-$1,478,928 (-4.50%)
Commercial New	
Permits: 270	Est: $169,706,830
-138 (-33.82%)	$57,395,577 (51.10%)
Commercial Add/Alt	
Permits: 1,060	Est: $83,177,624
-37 (-3.37%)	-$49,465,181 (-37.29%)

All told, fourth quarter data showed year-over-year gains in three of the four categories this report tracks. Yet the **year-end data was decidedly mixed, suggesting that the local construction sector continues its uneven recovery.** While the new residential and commercial groups posted particularly strong numbers, residential adds/alterations activity lagged just below 2014 figures throughout most of the year and finished 2015 down 4.50%. And a strong fourth quarter showing couldn't prevent the commercial adds/alterations segment from finishing down more than 35% for the year.

While the national housing market has yet to fully recover to pre-recession levels, the construction and sales data showed strong gains throughout 2015. **Total housing starts grew to 1.11 million for the year, an increase of 10.8% from 2014.[27]** The advances were fairly broad-based, as single-family starts were up 10.4% to 715,300 and multifamily starts were up 11.4% to 396,000.[28] And **the strengthening labor market helped propel sales of newly built single-family homes to 501,000 units in 2015, an increase of 14.5% and the highest level since 2007.[29]** Existing home sales spiked by 14.7% in December, a result of both unseasonably warm weather and buyers anticipating higher mortgage rates in coming months.[30] As a result, **the 5.26 million existing home sales in 2015 marked a 7.7% increase from 2014 and the highest total since 2006.[31]**

Turning to the local real estate market, the fourth quarter data were mixed. The Toledo Board of Realtors reported that fourth quarter total home sales in Lucas County were down 1% from 2014 figures (from 1,118 in 2014 to 1,105 in 2015).[32] But the average sale price rose by 8% (from $109,284 in 2014 to $117,696 in 2015).[33] And, due in part to declining foreclosure rates, new listings fell by 4% (from 1,511 in 2014 to 1,452 in 2015), and the average days on market grew by 3% (from 104 in 2014 to 107 in 2015).[34] **However, year-end totals posted gains in nearly every category.** Total home sales in Lucas County were up 5% from 2014 figures (from 4,566 in 2014 to 4,788 in 2015).[35] The average sale price rose by 8% (from $111,794 in 2014 to $122,536 in 2015).[36] New listings fell by 1%* (from 8,062 in 2014 to 7,954 in 2015. *2015 total listings included first quarter data from the combined Lucas and upper-Wood area), but the average days on market dropped by 1% (from 108 in 2014 to 107 in 2015).[37]

As I mentioned in the introduction, there is little doubt that economic growth slowed in the fourth quarter of 2015. The combination of the early-year stock market plunge and the sustained headwinds caused by the global economic downturn prompted some economists to forecast a recession within the next year. Others are second-guessing whether the Fed should have raised the federal funds rate last December (its first increase since June 2006). But does the recent data really point to an end to nearly seven years of economic recovery? With that question in mind, I'll now assess the third quarter 2015.

Summary: An Assessment of Fourth Quarter 2015 and Year-End Review

As I contended in my last report, I believe that the nation's economy in fourth quarter 2015 was healthier than the headlines suggested. And as we move further into the year, **my read of the data leads me to conclude that both the local and national economies are on firm footing and should continue their moderate, but sustained expansion throughout 2016.**

To be sure, the bears are right to be concerned about the economic ramifications caused by the slowing of foreign markets, especially that of China. And the strong dollar has no doubt tilted the playing field against U.S. exports. **Net exports declined in by 2.5% in the final three months of last year, and are estimated to have shaved 0.6% from GDP growth over the past four quarters.[38]** And a decline in drilling investment and oil exports was the result of low prices and weakening foreign demand.

Yet the global downturn has yet to stop the slow but steady growth of our economy. In fact, some economists have likened the dynamic to the old World War Two term, "Fortress America."[39]

In particular, the ongoing improvement of the job market has been the principal bulwark against a potential recession. **With unemployment recently falling to 4.9% and wages growing at at their fastest pace in over a year, it would appear that the nation's employers are betting on growth in 2016.** In an encouraging development, the labor force participation rate has increased in recent months, with the share of "prime-age workers" (those between the ages of 25 and 54) jumping in January to its highest level since 2008.[40] **And with the labor market tightening, earnings data at the end of January showed a year-over-year increase of 2.5%.[41]**

As I mentioned earlier, the combination of job growth, higher wages, and low interest rates pushed new vehicle sales to a record-high 17.47 million in 2015.[42] Auto industry analysts are expecting that number to rise in 2016, and are forecasting vehicle sales to reach 17.5 million to 18 million.[43]

The housing market is likely headed higher in 2016, as well. The National Association of Home Builders is forecasting 1.26 total housing starts in 2016, up 13.4% from 2015.[44] And the National Association of Realtors is projecting sales growth between 1% to 2% this year (the relatively modest projected increase being the result of caution about the rate of economic expansion and the possible impact of rising mortgage rates).[45]

Finally, there can be no denying that the early-year stock market "correction" delivered a very real setback to pensions and investments. Less tangible, of course, is the psychological impact and the effect it could have on the economy. It's no surprise that the recent Wall Street volatility has prompted some to infer that the end is nigh for nearly seven years of recovery. But history has shown little empirical correlation between the performance of the stock market and the national GDP.

As Paul Samuelson, the Nobel Prize winning economist once famously said, "…commentators quote economic studies alleging that market downturns predicted four out of the last five recessions. That is an understatement. *Wall Street indexes predicted nine out of the last five recessions!* And its mistakes were beauties."[46]

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