Wade Wire Q2 2016

A Quarterly Assessment of Key Local Economic Indicators in Lucas County

Second Quarter 2016 Report

When the fourth quarter 2015 data showed GDP growth of only 1.4%, it was clear that the pace of economic expansion had slowed in the year's final three months.[1] Then first quarter 2016 GDP checked in at a disappointing 0.8% (revised).[2]

But economists had grown accustomed to weak first quarter numbers, chalking them up to "residual seasonality," despite the best efforts of the Bureau of Economic Analysis to revise its measurement methodology. Similarly, nearly all analysts expected what had become a hallmark of the recovery - a healthy rebound in the second quarter data, this time with most projections ranging from 2.2% to 2.6%.[3]

But few analysts expected the BEA's Advance Estimate to report that **GDP only grew by a paltry 1.2% in second quarter 2016.[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

Even before the government's release of the GDP data, one Deutsche Bank economic forecasting model had signaled a 55% chance of a U.S. recession within the next 12 months, reportedly the highest probability the bank's analysis had seen so far during the recovery.[5] In rare unanimity, nearly all analysts now support the Federal Reserve Board's decision to not raise rates at its June Open Market Committee meeting. As its meeting minutes acknowledged, recent data had sent incredibly mixed signals, including job growth volatility, lower-than-desired inflation, robust household spending, but soft business fixed investment.[6]

At the national level, several national economic indicators were decidedly mixed in first quarter 2016. For instance, **although there were nearly 450,000 new jobs added in the second quarter, the month-by-month figures were remarkably uneven, with only 24,000 new hires reported in May – but a staggering 292,000 in June.[7]** Likewise, **U.S. construction spending in June remained ahead of last year's figures, but the data also suggest that market uncertainty and continued low fuel prices have hurt business infrastructure investment.[8]** On the bright side, **auto sales remained strong and ahead of last year's record sales pace.[9]**

Our local economic indicator data were similarly mixed. **Lucas County auto sales were down in second quarter 2016, but year-to-date figures remain ahead of 2015 totals.** Likewise, local consumer spending grew modestly in the second quarter, but was still considerably ahead of 2015 mid-year totals. **And both Toledo and Lucas County again saw significant drops in their unemployment rates, although the rate of improvement may be leveling off as the labor market continues to tighten.**

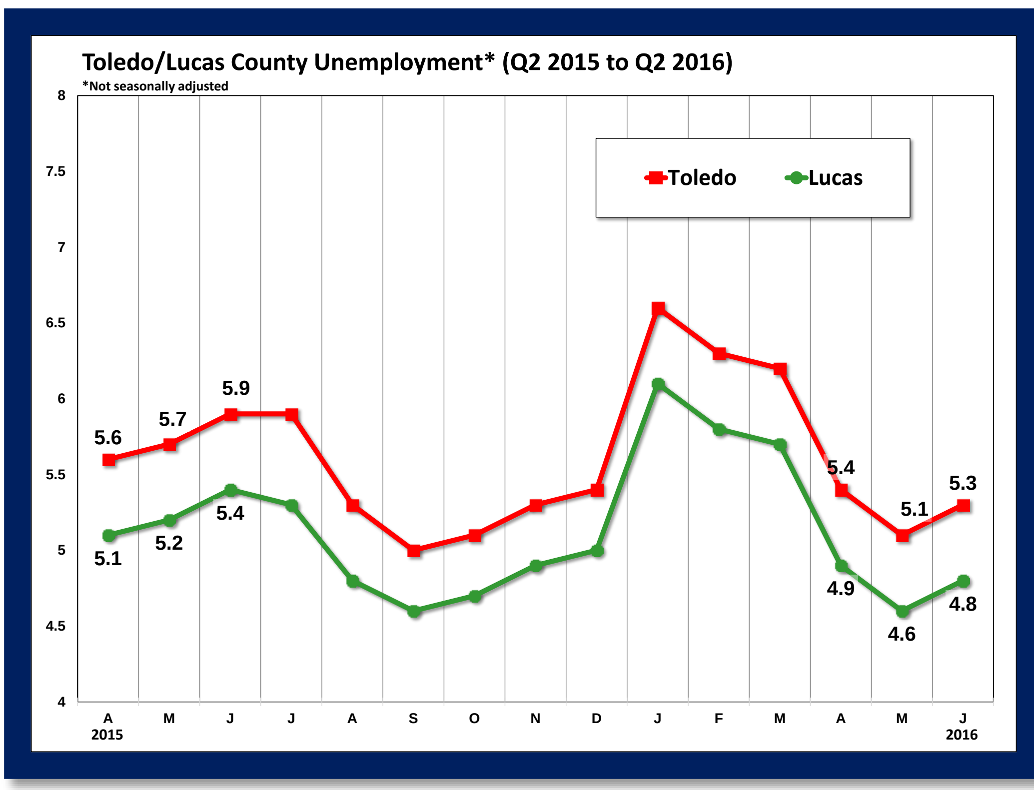
In a potentially troubling development, **second quarter local construction sector data posted permit activity gains in the new residential category, but trailed 2015 figures in the residential adds/alterations, new commercial, and commercial adds/alterations segments.** On the bright side, **however, year-to-date totals are ahead of last year's figures for all four categories.** 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.).

The second quarter 2016 national and local economic indicators were, no doubt, decidedly mixed. And economists are rightfully divided regarding what the rest of the year will bring. For now, however, let's take a look at our Key Local Economic Indicators.

Are People Working?

While job growth has been among the steadiest of economic indicators throughout the entire recovery, the second quarter data were among the most volatile in history. **The U.S. Department of Labor announced revised first quarter job gains of 144,000 jobs in April, a paltry 24,000 in May, and then a stunning 292,000 in June.**[10] However, our local job market continued to steadily improve, with both Toledo and Lucas County once again posting sizable drops in their year-over-year jobless rates.

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



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 April 2016 jobless rate was at 4.9%, a modest improvement from the 5.1% of the prior year. However, the May rate of 4.6% marked a solid gain from the 5.2% posted a year earlier.

Lucas County ended the quarter in June with a jobless rate of 4.8%, a healthy 0.6% lower than the previous year (5.4%).

Similarly, **the Toledo job market also made respectable gains in the second quarter.** Its April 2016 jobless rate improved to 5.4% from 5.6% a year earlier. In May, it dropped to 5.1% from 5.7% in 2015. **Toledo finished the quarter strongly by posting a June jobless rate of 5.3%, besting the previous year's mark (5.9%) by a 0.6% 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. 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 2016, when the year-over-year unemployment rate in fell by only 0.6% in both Toledo and Lucas County.

The city's non-seasonally adjusted data showed that **there were 5,000 more Toledoans working in June 2016 (126,000) than in June 2015 (121,000).[12]** Unlike some previous quarters – in which a dramatic improvement in the unemployment rate could be attributed, in part, to a drop in the CLF – *the number of people seeking work in June increased sizably* (133,000 in 2016, compared to 128,600 the year before).[13] That same month **there were 8,200 more Lucas County residents working (206,000) than there were a year earlier (197,800),** while the number of county job-seekers had also grown substantially (216,500 in 2016, compared to 209,000 in 2015).[14]

A closer look at the statistics shows that Toledo's June 2016 CLF grew by 3.42% from the prior year, while its employment level increased by 4.13%. At the same time, Lucas County's CLF went up by 3.59%, while its employment level grew by 4.15%. As in my last report, the increase in both the CLF and number of people working suggests that the year-over-year job market advances were likely greater than the 0.6% unemployment rate gain would indicate. Once again, ***the improvement in local jobless rates is still being driven by job growth, rather than people dropping out of the work force – but there may be very little slack remaining in the local job market.***

Turning to wages, our local payroll withholding survey data showed a strong year-over-year second quarter gain of 9.57%.[15] Taken together, the employment and payroll data suggest that our local job market remains healthy, with all signs pointing to continued upward wage growth in 2016.

The nation's employment-cost index, a broad measure of workers' wages and benefits, rose by a seasonally adjusted 0.6% in the second quarter.[16] **And in the twelve months ending in June 2016, the index showed civilian worker wages were ahead by 2.3%, keeping paycheck growth ahead of inflation.[17]**

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.

Unlike the national data, local consumer spending was only lukewarm in the second quarter, as **taxes collected on sales in Lucas County increased by 1.52% from a year ago (a gain of $310,173.07).[18] However, year-to-date totals are still up by a sturdy 3.30%.[19]** *As I noted in my last report, despite the county's recent 0.25% increase in its sales tax rate, the first quarter 2016 data has been adjusted accordingly (to not include post-increase revenue) in order to achieve a more accurate year-over-year comparison.*

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.

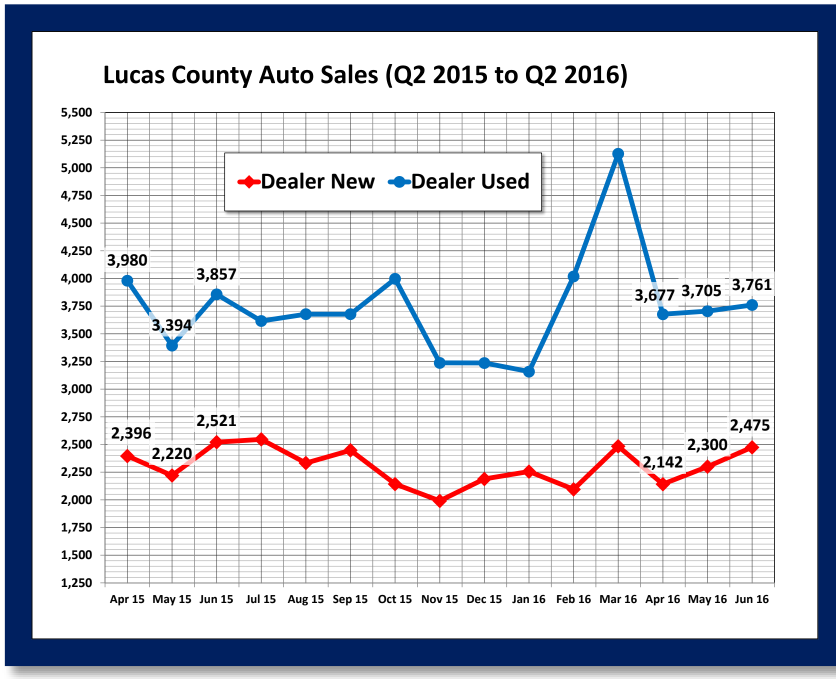
As *Table 2* indicates, **Lucas County auto dealers saw second quarter new car sales drop 3.08% from last year's record figures**. Area dealers' used car sales dipped by 0.78% during the same period.

This marks only the second time that a quarter's sales data failed to top the prior year's figures in the seven years since the end of the Great Recession.

However, year-to-date, area new car sales remain 4.83% ahead of 2015 totals.

Halfway through 2016, the nation's auto industry appears to be on pace for a second straight year of record sales – although there is evidence that growth is slowing.[21] New vehicle sales were up 1.5% through June, with light-duty trucks, SUVs and crossovers accounting for 58% of all sales (up 4% from the first half of 2015).[22] However, passenger cars continue to be an industry soft spot, as sales were down 7.5% through June.[23]

Table 2 *(Source: Lucas County Clerk of Courts)[20]*



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, the area's **new residential construction permit activity registered strong gains in the second quarter of 2016.** Permits were drawn for an estimated value of $32,043,627. **The increase ($14,908,155) marked a robust 87.00% improvement from 2015 figures.**

As *Table 4* shows, **the new residential category is $20,490,930 ahead of 2015 figures year-to-date.**

Table 3 **Q2/16 Permits (vs. Q2/15)[24]**

Residential New	
Permits: 156	**Est: $32,043,627**
1 (0.65%)	$14,908,155 (87.00%)
Residential Add/Alt	
Permits: 622	**Est: $7,838,545**
-452(-42.09%)	-$549,162 (-6.55%)
Commercial New	
Permits: 134	**Est: $48,380,134**
29 (27.62%)	-$21,003,037 (-30.27%)
Commercial Add/Alt	
Permits: 137	**Est: $17,082,111**
-164 (-54.36%)	-$1,475,229 (-7.95%)

However, second quarter **residential additions and alterations permit activity lagged the previous year's tallies.** Permits were drawn for a combined estimated value of $7,838,545. **The shortfall (-$549,162) was a 6.55% dip from 2015 totals.**

Year-to-date, the number of permits drawn has decreased, but **the value (as reported) of addition/alteration projects is still ahead of 2015 figures by $2,061,494.**

New commercial construction activity slowed substantially during second quarter 2016. Permits were drawn for a combined estimated value of $48,380,134. **The decrease (-$21,003,037) marked a 30.27% drop from 2015 totals.**

But year-to-date, the number of permits drawn has increased, and **the reported value of new commercial projects is still ahead of 2015 figures by a sturdy $57,194,063.**

Last, **commercial adds/alterations activity slowed in second quarter 2016.** Permits were drawn for a combined estimated value of $17,082,111. **The drop (-$1,475,229) is a 7.95% decrease from 2015 figures.**

However, **the year-to-date estimated value for commercial adds/alterations projects is still ahead of 2015 totals by $27,758,505 (a stunning 89.22% increase).**

Table 4 **2016 YTD Permits (vs. 2015)**[25]

Residential New	
Permits: 290	Est: $59,593,707
20 (7.41%)	$20,490,930 (52.40%)
Residential Add/Alt	
Permits: 1185	Est: $14,748,759
-398(-25.14%)	$2,061,494 (16.25%)
Commercial New	
Permits: 177	Est: $180,635,934
37 (26.43%)	$57,194,063 (46.33%)
Commercial Add/Alt	
Permits: 352	Est: $58,871,909
-157 (-30.77%)	$27,758,505 (89.22%)

In all, the second quarter permit numbers painted a murky picture of the local construction sector. While three of four categories trailed for the quarter, the year-to-date data showed all segments substantially ahead of 2015 figures. Most notably, commercial adds/alterations projects stand at nearly double the estimated value last year's undertakings.

On the national level, the second quarter data was somewhat mixed, as well. For example, **privately-owned housing starts in June were at a seasonally adjusted rate of 1,189,000 – a healthy 4.8% above the revised May estimate of 1,135,00 but 2% below the June 2015 estimate of 1,213,000.**[26] The country's total construction spending (including nonresidential projects) in June posted a year-over-year gain of 0.3%, pushing first half 2016 figures to a 6.2% increase over the previous year.[27] And continuing to benefit from the improving economy, **June 2016 sales of newly built single-family homes rose to 592,000 units, an increase of 25.4% from the June 2015 estimate of 472,000.**[28]

Locally, **The Toledo Board of Realtors reported that total home sales were unchanged in the second quarter of 2016 (1,376 sales in both 2015 and 2016).**[29] The average sale price rose to $137,517 (an increase of 7%).[30] However, new listings dropped by 7%, although the average days on the market also dipped by 5%.[31]

As I mentioned in my last report, the U.S. GDP had slowed at the end of 2015, and then nearly stalled in the first quarter for the third consecutive year. But unlike previous years, initial data suggests that the nation's economy didn't rebound much in the second quarter. Midway through 2016, it's hardly surprising that economists as divided as ever over the meaning of the recent economic indicators.

Summary: An Assessment of Second Quarter 2016

Second quarter 2016 local and national indicators were more probably more mixed than any I have encountered in the three years that I have been writing this report. **Local unemployment rates continued to improve, wages grew, and consumer spending continued to top year-over-year figures. Yet new car sales dipped below 2015 figures for only the second time since the end of the Great Recession. And area building permit activity slowed in three of the four categories this report tracks.**

But the picture appears brighter from a year-to-date standpoint, as local auto sales are still up from last year, and all four of the building permit segments are substantially ahead midway through 2016.

At the national level, however, there is rightfully concern about three consecutive quarters with GDP growth near one percent. Moreover, job growth nearly halted in May when there were only 24,000 new hires – but then spiked at 292,000 in June. **While Wall Street has seen its major indices reach record-high levels in July and August, the recent domestic and international (i.e., Brexit) economic turbulence can only increase the likelihood of more "corrections" like those we experienced earlier this year.**

Yet the disappointing second quarter GDP report did include some encouraging data, perhaps suggesting that the economy could still be stronger than it appears. For example, an increase in disposable income helped fuel consumer spending, which increased at a robust 4.2% rate – the fastest since the fourth quarter of 2014.[32] Notwithstanding some indications that the pace may be slowing, as of June, U.S. auto sales checked in ahead of last year's record totals.[33] And despite the strong dollar and weak global demand, a rise in exports narrowed the trade deficit and added 0.23% to GDP growth.[34]

The biggest drag on economic expansion in the second quarter was a steep drop in inventory investment, which is estimated to have shaved 1.16% from GDP growth.[35] Excluding inventories, the economy grew at a 2.4% rate, and the likelihood business restocking their shelves will probably provide a boost in the second half of 2016.[36]

As a result, six months into this volatile year, I'm not yet ready to join the growing ranks of analysts predicting an imminent recession. Rather, I still remain convinced that job growth will continue, and the ever-tightening labor market will drive wages upward throughout the rest of the year. With some luck, it may just be enough to help our economy overcome the many headwinds of 2016.

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