Wade Wire Q3 2013

A Quarterly Assessment of Key Local Economic Indicators in Lucas County

Third Quarter 2013 Report

With relatively few and intermittent exceptions, the local economic indicators we've tracked for both Third Quarter 2013 (Q3/13) and throughout the year suggest that **our current economy, taken as a whole, is better off now than it was a year ago.** In particular, despite the negative impact the 2013 payroll tax hike may have had on middle and lower income earnings this year, we can still detect a prolonged positive trend in retail sales and encouraging evidence of growing consumer confidence – the former contention by comparing this year's sales tax figures to last year's numbers, and the latter is supported by the continued robust strength of county auto sales.

Yet not all of our indicators have shown clear improvement in the intervening year. For example, because the Q3/13 unemployment numbers are *currently* headed in the right direction, but the jobless rate is approximately half a point higher than Q3/12, we will take up the debate about the relative strength of both those numbers and the local job market. Last, we will assess both some encouraging developments regarding local construction activity as well as some stubborn lingering effects of the foreclosure crisis still holding back our local economy. For now, however, let's take a look at our Key Local Economic Indicators.

What is the Wade Wire?

As a public information service, ***The Wade Wire*** will be 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

Are People Working?

Most people would agree that the employment of Lucas County's workforce is the most critical of local economic indicators, because all sectors of a local economy depend upon the household incomes and purchasing power of the people within a community. However, experts routinely disagree about how best to measure unemployment and wages (and how to weigh factors like discouraged workers, part-time or underemployed workers, unreported legal or illegal employment, etc.). While we will often address these variables in the *Third Quarter Assessment* section, the economic indicators we chose for the "Are People Working?" unit were the Ohio Department of Job and Family Services (ODJFS) Unemployment Rate Report as well as the monthly Payroll Tax Withholding data reported to various jurisdictions within Lucas County. First, let's look at local unemployment. (Note: Due to the federal government shutdown, the ODJFS is postponing release of September data until November. For this report, we will include the months June through August of 2013.)

Lucas County Unemployment Rate*
(*ODJFS, non-seasonally adjusted)

Month	2013	2012
August	**8.1%**	**7.6%**
July	**8.5%**	**8.4%**
June	**8.6%**	**8.3%**

Toledo Unemployment Rate*
(*ODJFS, non-seasonally adjusted)

Month	2013	2012
August	**8.7%**	**8.3%**
July	**9.3%**	**9.2%**
June	**9.3%**	**8.9%**

The present downward trend in the unemployment rate should, no doubt, be considered a positive development within the local economy. As the chart above indicates, the county's unemployment rate dropped only slightly (0.1%) from June to July this year, but much more substantially – by almost a half percentage point from July (8.5%) to August (8.1%). A nearly identical trend occurred in Toledo as well – with the jobless rate holding steady at 9.3% in both June and July, but then plummeting to 8.7% in August. **Yet one can't help but compare these current numbers with those from 2012 and note an increase in the unemployment rate.** After all, that is this report's primary "measuring stick." But should we conclude that the local jobs market is deteriorating?

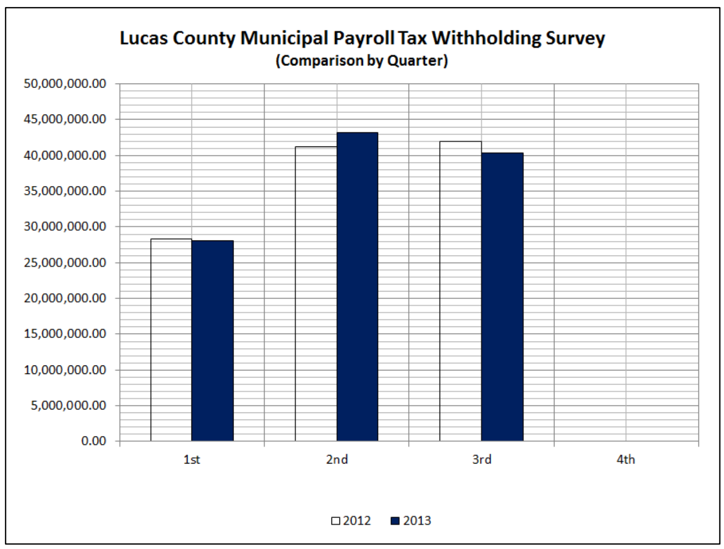
While our local, state, and national economy has recovered considerably since the depths of the "Great Recession," unemployment and wages have probably been among the nation's economic indicators slowest to rebound. Without question, the current unemployment rates for Lucas County and Toledo are dramatically better than those in the ODJFS report of May 2009, when the county jobless rate was 12.8% and Toledo's was 13.4%. The problem for many, however, is that both our state and county made rapid progress in lowering unemployment and regaining/adding jobs (especially in manufacturing) by November 2011 – when the numbers had dropped to 8.4% in the county and 9.1% in Toledo. Since then, however, it seems that our local economy has somewhat paralleled that of the state and even the nation, in that we have seen slow, mostly steady growth, but with occasional doldrums or even minor upticks in the unemployment numbers.

But it's the relative pace of this growth, as well as the encouragement and/or discouragement of both job-seekers and employers that drives both the fluctuating unemployment rates and the debate about the relative health of the economy and the job market. For these and countless other reasons, the area's unemployment rate is likely to remain the most complicated of our key local economic indicators. We'll discuss this later in the *Third Quarter Assessment* section. Before we do, a look at the Q3/13 local payroll tax withholding data is in order.

Payroll tax withholding data has long been considered a reliable concurrent/coincident economic indicator, virtually a real-time snapshot of both the employment and wage environment. By comparing the 2013 and 2012 local payroll tax withholding data (Our survey included payroll data reported to Maumee, Oregon, Sylvania, and Toledo – see Table 1.) we may be able to add some supplemental value to our unemployment information.

Q3/13 payroll withholding data shows a 3.9% *decrease* in the amount of money withheld compared to the same period in 2012. Yet, year to date (YTD) totals still show a modest 0.17% *increase*. Again, the purpose of measuring this indicator is merely to compare current data to the same period one year prior.

Table 1



Are People Spending?

It's been said that the best way to take the pulse and temperature of a local economy is to track the current spending of the community's consumers. As we mentioned earlier, 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. *This report will focus on two key concurrent indicators of consumer spending – the sales tax generated by purchases made in Lucas County and also the motor vehicle sales sector of our local economy.*

While both of these data sets are considered concurrent economic indicators, certain types of purchases ("big-ticket"/luxury items) can point to growing consumer confidence and/or optimism, and economists will often interpret a string of consecutive months of strong consumer activity as having "leading" or predictive implications.

First a note on the report of tax collected on sales in Lucas County. Due to convoluted business filing requirements, there is roughly a three-month reporting lag. In other words, sales tax collected from January transactions isn't reported until April. However, the auto sales data we get from the Lucas County Clerk of Courts Bernie Quilter is tabulated monthly and is considered "real time." In addition, the historical reliability of these two reports as concurrent indicators is confirmed when observing both auto sales and sales tax figures over the last several years. In both cases, especially the sales tax revenues, the data almost mirror both the trajectory and pace of the "Great Recession" as well as the ensuing recovery (see Table 2).

Table 3 *(Source: Office of Management and Budget, Lucas County)*

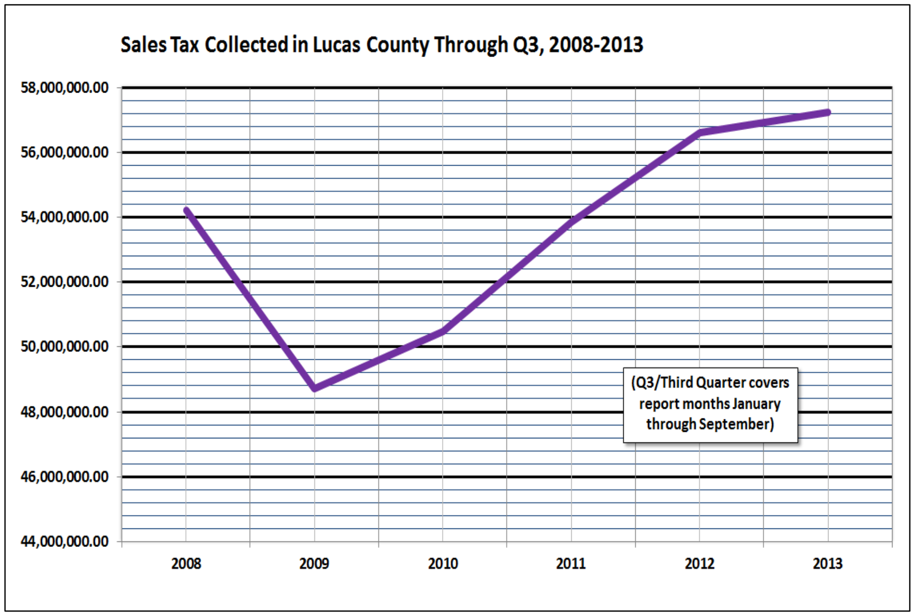
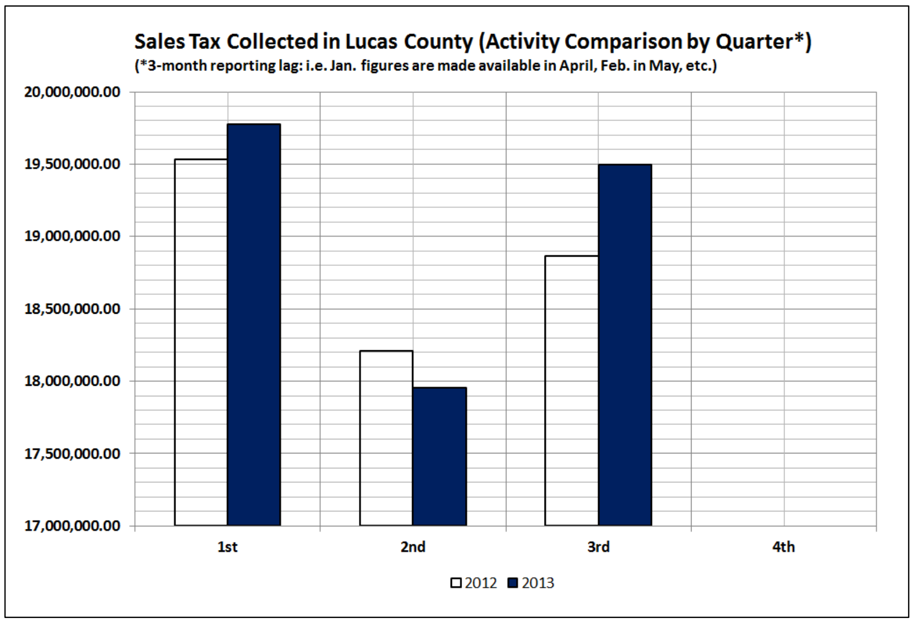


Table 2 *(Source: Office of Management and Budget, Lucas County)*



Regarding taxes collected on sales in Lucas County, Q3/13 saw a 3.35% ($632,289.07) *increase* over Q3/12. And the YTD sales tax collected remains ahead of this time last year, though by a much more modest 1.11%.

But this requires a closer look. The 2013 YTD total of $57,230,596.17 does, indeed, top the 2012 YTD total of $56,604,154.18. But the total YTD overage of $626,441.99 was only made possible by the strong consumer purchasing activity in the third quarter.

Here is where we have to remember both the three-month lag effect and the end of the federal payroll tax cut. Looking at Table 3, the Q1/13 report numbers actually reflect taxes collected from retail sales in October, November, and December of 2012 – wherein we saw a roughly 1.25% increase in sales activity over the prior year, as well as a revenue increase of just over $245,000. However, the drop in the Q2/13 figures cover January through March of 2013 – the first three months after the payroll tax increase. The decrease of almost $251,000 (-1.38%) more than negated the gains of the first quarter. However, the disappointing second quarter may have merely been a temporary setback. The positive Q3/13 numbers (April, May, and June) suggest that the initial shock of the payroll tax hike has worn off and that the generally positive momentum of retail consumer activity has resumed[1].

Turning to auto sales activity, Lucas County Clerk of Courts Bernie Quilter has been arduously tracking monthly and yearly title transaction activity since taking office, and his numbers closely parallel those that we see in the sales tax figures – both historically and in "real time." During the deepest parts of the recent recession, local auto dealerships saw both their new and used car sales decline steeply, as people either bought cars from other citizens or tried to prolong the lives of their aging vehicles. Table 4 illustrates the trajectory of local auto sales and demonstrates how closely that economic sector has mirrored the national recovery from the recession – especially at the dealerships. By most accounts, the recovery began in the summer of 2009, gained steam until late 2011, and has tapered to a shallow upward arc since then. In fact, **the most robust of all of our local economic indicators continues to be auto sales.** It's the one statistic that offers the most evidence of growing economic confidence, and it may even have some "leading" (predictive) indicator aspects. **Since 2009, every category of auto sales (dealer new, dealer used, and "casual" or private seller used) has steadily risen, and 2013**

appears well on the way to being the fifth consecutive year of steadily improving numbers. Historically, people tend to buy "big ticket" items like cars when they have some economically essential critical mass combination of income, credit, and/or optimism about their current or future job and income prospects.

Table 4 *(Source: Lucas County Clerk of Courts Auto Title Division)*

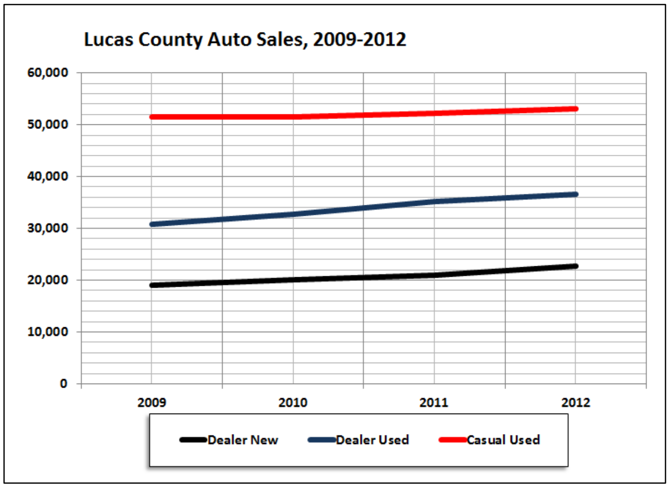
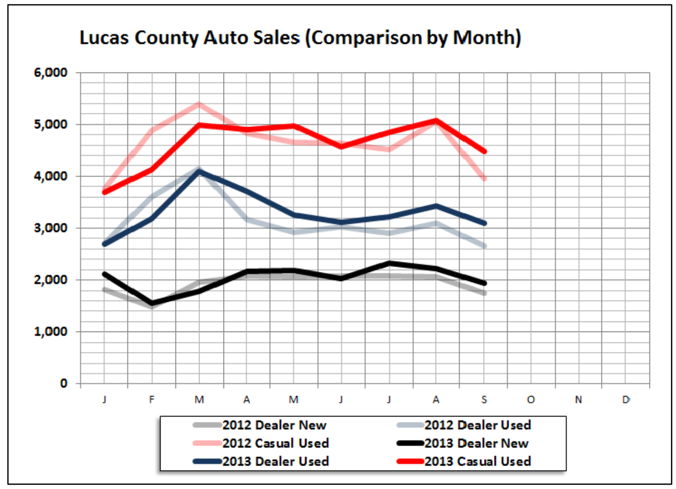


Table 5 *(Source: Lucas County Clerk of Courts Auto Title Division)*



The auto sales sector of our local economy had a particularly strong Q3/13, clocking in with a 9.94% increase in new car sales, a 12.54% jump in used car sales at dealerships, and a sturdy 6.34% hike in casual used car sales. YTD numbers are recovering from a slow start to the year, are up across the board for the second straight quarter, and currently stand at new cars up 5.50% so far, dealer used vehicles up 5.60%, and casual used transactions roughly flat at -0.06%.

But Table 5 also reinforces our contention that the federal payroll tax increase probably slowed the spending of middle and lower income households, at least for the first quarter of 2013. A closer look at the first quarter shows a 3.64% increase in new car sales, but a trend-defying 4.62% *decline* in dealer used car purchases and an even steeper 8.76% plunge in casual transactions – again suggesting that the hit to the wallet caused by the payroll tax increase likely had its greatest impact on the spending and consumption by middle and lower income households. But like the pattern we see in the retail sales tax report, it would seem that consumers endured the initial shock and have resumed somewhat stronger purchasing activity than in 2012.

Are People Building?

Building permit activity has long been considered the gold standard of economic indicators. In fact, investors and economists have often looked to new residential construction permits as a tried and true "leading" or predictive indicator for an economy's future direction. The industry is inherently forward-looking and relies a great deal on confidence and optimism – in the sense that each project often takes many months to progress through the stages of planning, investment, construction, sales, etc. Further, the construction industry is well known for its "multiplier effect," generating spin-off manufacturing, retail, and transportation jobs and profit.

Sadly, the construction industry has suffered greatly since the "housing bubble burst," wherein prices and values peaked in roughly 2006, plunged by 2008, and continued to decline until 2012. Time will tell if we've yet reached the bottom and stabilized. The industry was further hampered by the simultaneous and/or subsequent rise in foreclosures, which pushed a glut of housing stock into the market, simultaneously causing market-wide loss of value and equity (making mortgage and home improvement loans more difficult to secure). Needless to say, "Industrial Midwest" communities like Lucas County and especially cities like Toledo were particularly hard hit by these developments and the subsequent/simultaneous "Great Recession." Hence, it should come as no surprise that the residential and commercial construction sector of our local economy is still seeing only a fraction of the activity it had enjoyed prior to the downturn.

Before we try to measure the current health of the construction sector of our local economy, a couple of notes about the permit data and our methodology are in order. We collected building permit activity and project cost estimate reports from the cities of Toledo, Oregon, Maumee (which also oversees inspections for the Villages of Holland and Whitehouse), and the Lucas County Building Regulations Department (which covers all areas not previously mentioned, with the exception of the Village of Berkey). For what it's worth, one should take the project cost estimate figure submitted at the start of the permit application with a grain of salt. Some applicants don't initially list a figure (hence a project permit may have a "$0.00" cost entry), some are considerably low, others too high, etc. Nonetheless, the same dynamics endure year after year, and we are most interested in tracking *change* from one time period to another. Further, we broke down the dozens of different permit and structure classifications into four basic categories – Residential New, Residential Adds or Alterations, Commercial New, and Commercial Adds or Alterations. Last, we chose to ignore public works/utilities projects and HVAC, plumbing, and electrical permits deemed more in the field of maintenance, choosing instead to focus on improvements and new construction.

Second, for a better "apples-to-apples" comparison of 2012 and 2013 construction activity, we have chosen to set aside two large-scale projects from the 2012 data that we think would unduly skew any fair evaluation. The first is the $125 million permit for the Hollywood Casino building, and the second is for LMHA's $51 million 65-unit Collingwood Green Senior's Apartment complex. Make no mistake, both of these endeavors infused millions of dollars into the local economy, but including a once-in-a-generation fixture like a casino or a large-scale and dynamic public works undertaking would make for an unrealistic and unsustainable benchmark. However, those provisos aside, let's see where the building permits are heading.

By and large, Q3/13 continued the YTD rebound for the construction sector of our local economy. With over a 50% increase in new residential construction permits, and a near doubling of the estimated cost of projects in the works this year versus last year, this can only be interpreted as positive news for area builders.

The upward trend continued in the commercial construction arena as well, with Q3/13 new commercial permits exceeding the previous year's mark by almost 40%, and an 80% increase in project cost estimates ($18.5 million in 2013; $10.25 million in 2012). And what appears to be a negative trend – the third quarter decrease of $8 million in commercial adds/alts – is somewhat misleading. A couple of ambitious hospital expansion projects in late 2012 somewhat inflated the Q3/12 figures. As a result, Q3/13 for adds/alts was the only reporting period under either commercial category that did not exceed 2012 totals. And YTD, the 2013 commercial adds/alts are still 16.2% ahead in permits and up almost $19.5 million in estimated project costs (an increase of 26.66%).

However, one 2013 stat that demands closer inspection is residential adds/alts. Q3/13 saw a decrease of only 3.44% in permit activity compared to Q3/12, but an estimated project cost plunge of almost $3.2 million, or 27.03%. In fact, the category has been down each of the first three reporting periods and YTD is lagging 2012 totals by 9.18% in permits and just over $5.5 million in construction cost estimates (-19.56%). In fact, **with the exception of a single instance, every quarter for each of our four reporting building inspection jurisdictions has seen lower activity in 2013.** Only the first quarter 2013 data for the Lucas County Building Regulations Department showed a project cost estimate upturn. Even then, the increase of $166,316 was somewhat modest, and the department still saw a quarterly decrease in the number of permits drawn – suggesting that like the rest of the county, their jurisdiction saw less activity – but probably had one or two larger scale remodeling or

Table 6 Q3/13 Lucas County Totals

Residential New	
Permits: 161	**Est: $25,051,276**
(v. Q3/12)	
+56 (53.33%)	+$11,988,660 (91.78%)
Residential Add/Alt	
Permits: 1066	**Est: $8,616,102**
(v. Q3/12)	
-38 (-3.44%)	-$3,191,003 (-27.03%)
Commercial New	
Permits: 74	**Est: $18,476,696**
(v. Q3/12)	
+21 (39.62%)	+$8,216,791 (80.09%)
Commercial Add/Alt	
Permits: 418	**Est: $17,736,893**
(v. Q3/12)	
+41 (10.88%)	-$8,023,934 (-31.15%)

Table 7: 2013 YTD Lucas County Totals

Residential New	
Permits: 437	**Est: $65,404,678**
(v. Q3/12)	
+172 (64.91%)	+$27,190,846 (71.15%)
Residential Add/Alt	
Permits: 2692	**Est: $22,746,632**
(v. Q3/12)	
-272 (-9.18%)	-$5,532,094 (-19.56%)
Commercial New	
Permits: 176	**Est: $55,320,723**
(v. Q3/12)	
+62 (54.39%)	+$27,914,910 (101.86%)
Commercial Add/Alt	
Permits: 1126	**Est: $91,929,581**
(v. Q3/12)	
+157 (16.20%)	+$19,347,183 (+26.66%)

addition projects that skewed their overall cost estimate comparisons to 2012.

I cannot help but be encouraged by the current direction of the construction sector of our local economy, based on the building permit and construction activity data we have gathered for this report. And for that matter, *most of our key local economic indicators are heading in the right direction*. But how do we explain the precipitous drop in spending on residential additions and alterations? And as we noted earlier in addressing local unemployment, the strength of the current job market is open to debate. I would be remiss if our report merely gave data without context or an explanation. With that in mind, I will offer my comprehensive take on Third Quarter 2013.

Summary: An Assessment of Third Quarter 2013

On balance, our local economy appears to be on sturdier footing in Third Quarter 2013 than it was a year ago. As a result, I'm cautiously optimistic that our local economy will continue to see progress among most of our local economic sectors into the next quarter and the beginning of 2014.

But, as promised, let's take up the issue of the unemployment rate and the state of the local jobs market. At the time of this report's release, the ODJFS was unable to release its September unemployment rate information (due to the recent federal government shutdown). We don't need those numbers to address the core of the debate. As stated earlier, the unemployment rate went in the right direction over the last few months locally, dropping from 8.6% to 8.1% in Lucas County from June to August this year, and from 9.3% to 8.7% in Toledo during the same period. The question is whether those rates, being almost half a percent higher than the same period in 2012, represent a substantial deterioration of the job market.

Ohio and Toledo unemployment rates have differed considerably from national figures throughout both the recession and recovery, and now are once again above the national average. But just as some economists have suspected that unemployment rates have sometimes dropped "for the wrong reason" – discouraged job-seekers giving up the search (and no longer showing up as "unemployed/looking"), there seems to be some evidence, at least locally, that employers are hiring/posting jobs again, and job-seekers are regaining enthusiasm and reentering the job market[2]. However, the economy just doesn't seem to be expanding fast enough to absorb enough of those seeking work to actually lower the unemployment rate.

In other words, we may be seeing higher rates than we would like "for the right reason," if there is such a thing. I'm basing my cautious optimism on two things. First, comparing ODJFS reports for June-August 2013 with the same period from the previous year, we can see that Toledo added 200 net new jobs, but saw the Civilian Labor Force (job-seekers) grow by an additional 800 people. Similarly, Lucas County (which includes the Toledo numbers) saw a net job increase of 300, but the workforce expand by 1,400. I found further evidence of local employer optimism in a new report I was shown by Mike Veh, the Director of Workforce Development at the Source of Northwest Ohio. The report by Wanted Analytics™ lets him track employer online help wanted ads in Lucas County, using appropriate filters to avoid duplications and scam postings. In the three reports we were shown (July, August, and September of 2013), we've seen the postings for those months register 7,570, 8,205, and 8,223 respectively. While we've only started to collect this data, and we'll need to learn more about the report's querying tools, we are going to add it to our list of indicators and start building a history going forward.

Likewise, although the Wanted Analytics™ report does include some classifications of job postings, it reminds us that we must find an effective way to gauge the movement of local earnings and wages as well. Employment and unemployment only offer a partial picture of our economy's vitality. For instance, a recently released PNC Bank "3rd Quarter 2013 Toledo Market Outlook" report noted that, due to the recession, median income in Toledo dropped to 10% below the national average, and by 2011 it had fallen to 16% behind – and was at 2005 local wage levels[3].

Moving on, rather than dedicating any more time and space to analyzing spending, I think we need to look deeper into the positive and negative forces at play in both the construction and real estate sectors of our economy, especially since they are so interrelated, and because they are so critical to our community's long term economic outlook. There is near universal consensus that the "housing bubble burst" (circa 2006-2007) was the primary cause for the recession of 2007-2009, due to the cascading effects of the sudden loss of value, equity, and credit. We all remember the other dominoes falling – investment bank failures, record foreclosures, real estate markets flattened by REOs and vacant or abandoned properties, etc.

The impact on our local residential and commercial construction industry was devastating – especially to the city of Toledo. And despite the aforementioned positive numbers countywide regarding the YTD estimated $65.4 million in new housing starts, it's important to note that only $6 million of that share is in Toledo. The bulk of the groundbreaking is happening in suburbs like Maumee ($4.7 million), Oregon ($4.2 million), and the rest of Lucas County ($50.4 million). This is not meant to disparage this important economic activity, but rather to draw attention to how badly the bubble burst/foreclosure crisis continues to hamstring nearly all things related to real estate in Toledo. There simply isn't much demand for new residential construction in Toledo due to continued population loss, an abundance of affordable homes (due to lost value), a glut of post-foreclosure properties, and a high number of poorly maintained or vacant/abandoned structures making many parts of the city less desirable for home buyers or builders.

As mentioned earlier, **the only consistently negative number among the 2013 construction figures fell under the category of residential additions or alterations.** Although this downturn can be seen across all communities and throughout the entire year, again, the lion's share of the decline can be found in Toledo – which accounted for approximately $4.3 million of the county's total net decrease of $5.5 million. Historically, discretionary improvements (like home remodeling and additions) are deferred during economic downturns, but needed maintenance spending (leaky roofs, heating system replacement, etc.) remains generally consistent, in both owner-occupied and rental properties[4]. Further, foreclosures often lead to remodeling and repair investment. However, there is mounting evidence that rental property owners reduced their maintenance spending by roughly 25% from 2007-2011, and the pattern may be worse in cities like Toledo, with low median home values and incomes.[5] With little income to make improvements and little incentive or likelihood to get a profitable return on their improvement investment, these properties often fall into what the U.S. Dept. of Housing and Urban Development categorize as "Inadequate Housing" (lacking completely functioning kitchens, baths, or have significant leaks, holes, or broken plumbing or heating systems).[6]

It is my firm belief that our neighborhoods are the strength of our community, and too many of them – *and our economy, for that matter* – are still being held back by the aftershocks of the housing bubble/recession/foreclosure crisis. You don't need to live in one of the hardest hit neighborhoods to have lost equity in your home, or to understand the importance of stabilizing and restoring all of our property values. But I am convinced that real estate values still hold the key to our prosperity. Until our next report, we'll continue to monitor this important part of our economy as well as our other key local indicators, and we will welcome your feedback on these matters.

Wade Kapszukiewicz
Lucas County Treasurer

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- Della Smith, Lucas County Building Regulations Department
- Pat Donohue, Division of Inspection and Zoning, City of Maumee
- Lee Scheanwald, Building and Zoning Inspection Department, City of Oregon

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