Wade Wire Q4 2013

A Quarterly Assessment of Key Local Economic Indicators in Lucas County

Fourth Quarter 2013 Report

Buoyed by the sustained strength of the automotive sector, steady consumer spending, and an emerging homebuilding and construction trend, **our local and national economies continued to improve through the fourth quarter of 2013.**

In retrospect, much the same could be said of 2013 as a whole. Despite considerable negative external factors (to be discussed later), most of the local economic indicators we tracked during the fourth quarter (Q4/13) and throughout 2013 outperformed their markers from the previous year – suggesting that the economy is starting to gain some steam as we begin the new year.

Yet some of our indicators continue to hold back the local economy. As was the case in my Q3/13 report three months ago, the biggest cause for concern remains the sluggish recovery of jobs and wages at the local level. Although both the national and local *unemployment rates* dropped throughout 2013, local *employment and wages* continued to lag well behind the pace of overall growth. Whether the economy's current momentum will generate significant job and/or wage growth in 2014 remains to be seen, but it will likely determine the extent and sustainability of our rebound from the Great Recession. 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*** 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

Are People Working?

For the most part, the nation's economic recovery has been defined by modest but steady growth at rates lower than historical averages. Further, until this year, the unemployment rate has remained stubbornly high. However, encouraged by a growing list of positive developments – particularly in the areas of manufacturing, construction, and consumer spending – U.S. employers advertised more job openings in October and November than they had in over five years.[1]

The fourth quarter U.S. job market registered gains of 200,000 in October and 203,000 in November.[2] And despite a disappointing December Jobs Report, the U.S. added 2.2 million jobs in 2013 and unemployment dropped to a seasonally-adjusted 6.7% at year's end.[3] Although much of the decline in the nation's December rate can be attributed to people dropping out of the labor force, perhaps giving up their search for work, more employers seem to be hiring, preparing to hire, and/or laying off fewer people as we move into 2014.[4]

While we can see evidence of positive signs mounting, **for now the data suggests that our local labor market still lags well behind Ohio and the U.S. in terms of the speed with which we are regaining employment and wages lost in the recession.**

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

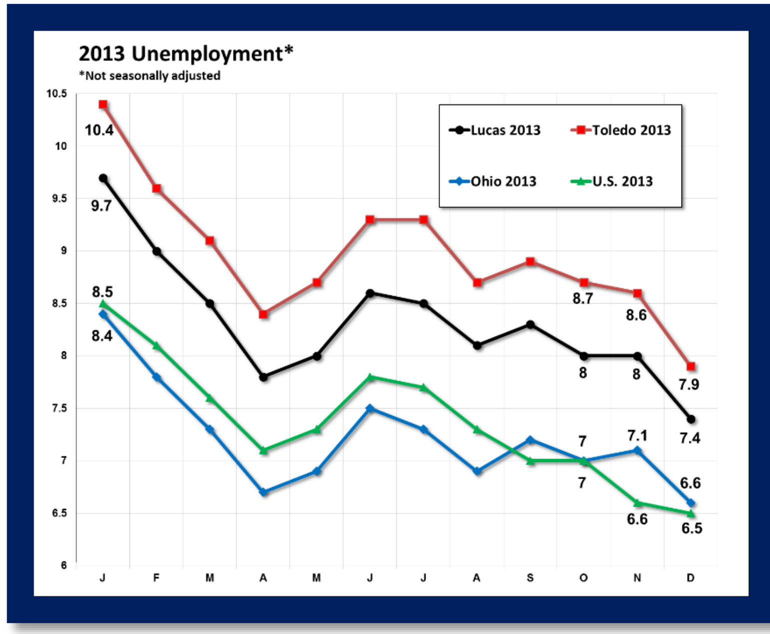
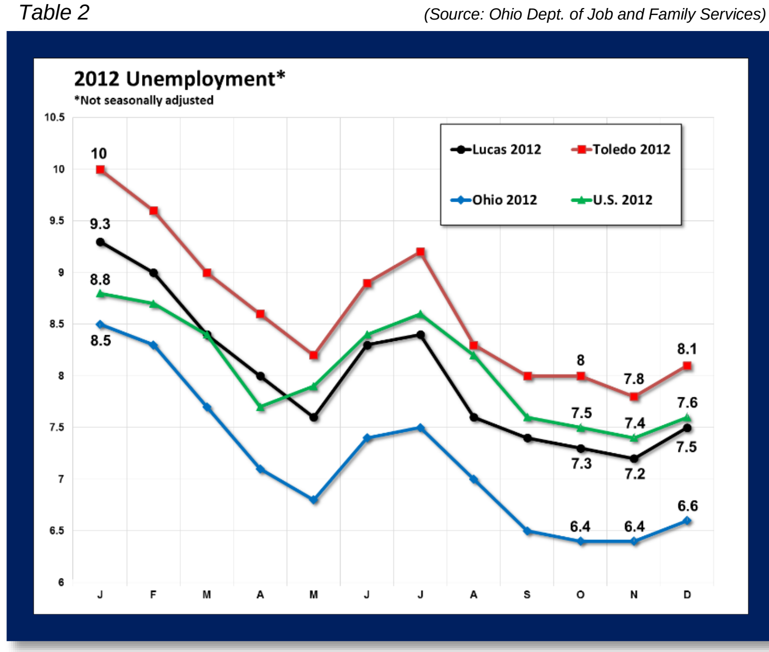


Table 2 *(Source: Ohio Dept. of Job and Family Services)*



As the tables to the right indicate, Lucas County's October 2013 unemployment rate of 8.0% was a drop of 0.3% from September, but remained higher than October of 2012 (7.3%). Likewise, November 2013 (8.0%) was still up from the previous year (7.2%).

A similar pattern appears in Toledo's data, with the October 2013 jobless rate at 8.7% representing a drop of 0.2% from September, but remaining higher than October 2012 (8.0%). The November 2013 rate improved to 8.6%, but was still quite a bit higher than the prior year (7.8%).

But both saw a precipitous rate drop in December, with Lucas County's plummeting to 7.4% and Toledo's to 7.9% – both lower than a year earlier. (Lucas County ended 2012 at 7.5%, while Toledo checked in at 8.1%.)

As I wrote in my last report, local unemployment rates likely tracked higher throughout 2013 due to a combination of those seeking jobs becoming more encouraged by their prospects and actual hiring not keeping pace with their aspirations. This time, however, **we can attribute most of the steep dip in the local jobless rate to a larger than normal decline in the Civilian Labor Force** (CLF, the U.S. Department of Labor term for the sum of those people either working or seeking work). Despite the local unemployment rates looking dramatically better, there were actually *600 people less* working in Lucas County in December 2013 than one year earlier (192,800 in 2013 vs. 193,400 in 2012).[5] The rate still dropped, nonetheless, because the CLF was only 208,200 in December 2013, compared to 209,200 in December 2012.[6]

The same dynamic holds true for Toledo as well: there were 400 fewer people working in December 2013 than a year earlier (119,700 in 2013 vs. 120,100 in 2012), but the CLF dropped to 130,000 in December 2013, from 130,800 the year prior.[7]

Yet the December numbers should be viewed with some caution, given that several regions of the country (ours included) suffered what are assumed to be temporary economic setbacks due to abnormally harsh weather. **It's also worth noting that although the area job market is still far from pre-recession levels, the yearly *average employment* figures (those working) for Toledo and Lucas County have gradually risen over the last few years.** On average, Lucas County's employment level was 192,600 in

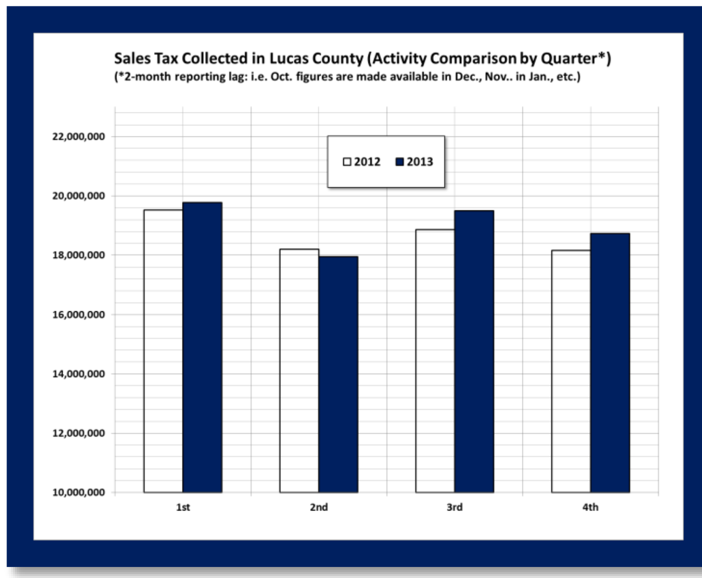
2013, compared to 190,600 in 2011. Similarly, Toledo's average improved to 119,600 in 2013, from 118,400 two years earlier.

Turning to wages, the Department of Labor estimates that average hourly wages rose nationally to $24.15, a modest increase of 2% for 2013, but keeping gains ahead of inflation (0.9%).[8] Locally, our Q4/13 payroll withholding survey showed a 4.3% increase in the amount of money withheld compared to the same period in last year. 2013 year-end totals showed a 1.21% increase. Again, our purpose for measuring this indicator is merely to track and compare current data to the same period one year prior, but it's worth noting that cash-strapped local governments depend on payroll withholdings as a vital source of revenue.

Are People Spending?

As I mentioned in my last report, 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. For the purpose of this report, we will again 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.

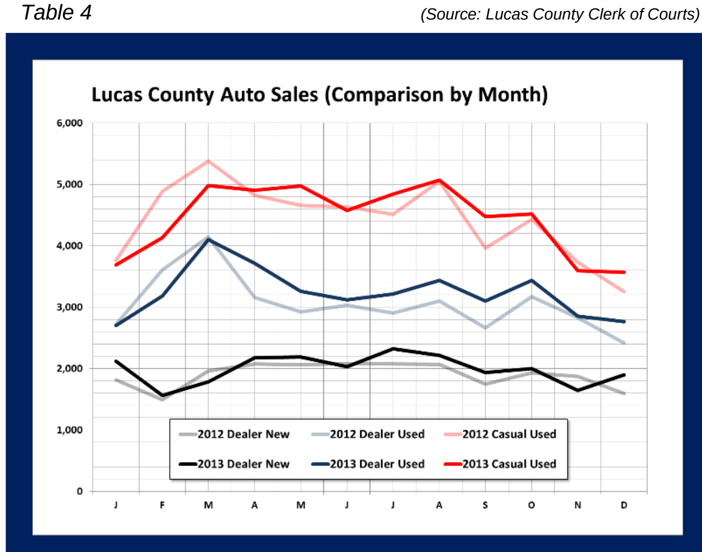
Table 3 *(Source: Ohio Dept. of Taxation)*



Turning first to **taxes collected on sales in Lucas County**, the fourth quarter of 2013 topped the previous year's figures by 3.13% (a gain of $569,253.45). And the year-end total of $75,963,131.60 was up 1.6% from the 2012 mark of $74,767,436.16.

Although the 2013 increase of 1.6% might not seem dramatic, what makes it remarkable is that revenues were almost exactly flat at mid-year. After two quarters, the 2013 YTD total of $37,733,367.59 was actually $5,847.08 behind the 2012 midpoint marker. **The year's net gain was due entirely to a particularly robust third quarter and a surprisingly strong final three months, particularly in October and November.**

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



As further evidence of sustained consumer confidence fueling a broad spectrum of spending, we can look to area auto sales data. Despite a pause in November, strong October figures and better-than-expected December sales led to across-the-board increases in Dealer New (2.59%), Dealer Used (7.62%), and Casual Used (2.43%) car sales in fourth quarter 2013.

2013 year-end figures show that total auto sales increased by 3.17% over the previous year and, as was the case in Q4/13, we saw growth in all three categories: Dealer New (4.81%), Dealer Used (6.06%), and Casual Used (0.48%).

Since 2009, every category of auto sales (dealer new, dealer used, and "casual" or private seller used) has consistently increased, and 2013 marked the fifth consecutive year of growth. As I mentioned in the previous report, 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.

Are People Building?

Building permit activity has always been considered the gold standard of economic indicators. Because 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. – 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. More importantly, however, the construction industry is well known for its "multiplier effect," generating spin-off manufacturing, retail, and transportation jobs and profit.

Table 5 **Q4/13 Permits (vs. 2012)**

Residential New	
Permits: 129	Est.: $20,613,152
8 (6.61%)	$2,975,176 (16.87%)
Residential Add/Alt	
Permits: 842	Est.: $7,815,182
-61 (-6.76%)	$581,884 (8.04%)
Commercial New	
Permits: 60	Est.: $26,180,850
12 (25.00%)	$18,333,026 (233.61%)
Commercial Add/Alt	
Permits: 262	Est.: $21,790,806
-66 (-20.12%)	$-3,888,036 (-15.14%)

If you read my previous report, you may recall that I detailed the devasting impact that the foreclosure crisis has had on our regional economy. It should therefore come as no surprise that the residential and commercial construction sector of our local economy has yet to return to pre-recession levels. However, I'm encouraged as of late by the data we've gathered from area inspection departments.

Before moving forward, however, a couple of notes about the permit data and methodology are in order. 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.

Table 6 **2013 Permits (vs. 2012)**

Residential New	
Permits: 566	Est.: $86,017,830
180 (46.63%)	$30,166,022 (54.01%)
Residential Add/Alt	
Permits: 3,534	Est.: $30,561,814
-333 (-8.61%)	-$4,950,210 (-13.94%)
Commercial New	
Permits: 236	Est.: $81,501,573
75 (46.58%)	$46,247,936 (131.19%)
Commercial Add/Alt	
Permits: 1,388	Est.: $113,720,387
91 (7.02%)	$15,459,147 (15.73%)

The rebound of the construction sector of our local economy continued in the fourth quarter of 2013. As Table 6 indicates, the estimated value of Q4/13 Residential New construction projects increased by almost 17%. Much more dramatic was the spike in the Commercial New category (up 233%). While the fourth quarter cost estimate of Commercial Adds/Alts was lower than a year ago, the 2013 year-end total of $113,720,387 marked a 15.73% gain since 2012. And in a data set I'm watching closely, the Q4/13 estimated investment in Residential Adds/Alts was up 13.94% from 2012 – the first time the category improved on the previous year's levels.

In a sign that the sector is gaining momentum, 2013 residential and commercial new construction projects outperformed 2012 figures, often substantially, in all four quarters.

It's also noteworthy that an increasing amount of the building activity is now happening within the City of Toledo. There the estimated value of Fourth Quarter 2013 Residential New construction projects jumped from $580,000 in 2012 to almost $2.6 million in 2013. In fact, the 2013 figures grew throughout the year, finishing at an estimated $8.65 million, compared to only $3.2 million in 2012. Similarly, the Commercial New class saw a steep improvement when comparing fourth quarters – growing from an estimated $1.3 million last year to over $5.6 million in 2013. And year-end totals for the category improved to $38.5 million from roughly $21.6 million in 2012.

These trends have reinforced my growing optimism about the construction sector of our local economy. And for that matter, *most of our key local economic indicators are still heading in the right direction*. With that in mind, I will elaborate in my comprehensive take on Fourth Quarter 2013.

Summary: An Assessment of Fourth Quarter 2013

By most every measure, Lucas County's economy was considerably better in the fourth quarter of 2013 than the last three months of 2012. As a result, I'm increasingly confident that our local economy will continue to improve into 2014, at an accelerated pace, and will likely bring an overdue improvement in terms of local jobs and wages.

There was plenty to like in the fourth quarter 2013 data. Auto sales kept churning ahead of 2012 sales figures. (Last year's record production and sales of Toledo-built Jeep Cherokees is indicative of the nation's demand for new car purchases.) As the previous section detailed, there was also surprisingly sturdy construction sector data, especially from development within the City of Toledo. Finally, the employment market seems ready to expand as the new year begins.

Lest we forget, both the local and national economies overcame a number of significant setbacks in 2013 to continue on their upward trajectories. Sadly, some of the most formidable threats to the fledgling recovery stemmed from federal budget battles. The payroll tax increase in January and sequestration cuts in March likely hobbled the retail sales sector. The government shutdown in the fall is said to have depressed consumer and employer confidence, and is estimated to have sapped fourth quarter GDP growth by as much as 0.6%.[8] Last, as I mentioned earlier, some regions and economic sectors had to face a final year-end obstacle in crippling weather conditions.

And, despite these obstacles to progress, the country's Real Gross Domestic Product growth measured 4.1% in the third quarter and a sturdy 3.2% in the fourth.[9]

Absent any one or more of these or similar self-inflicted impediments, many economists foresee GDP growth returning to a conventional level just over 3% in 2014.[10] Similarly, there's evidence that employers envision fewer layoffs and more hiring,[11] and the National Association of Home Builders recently reported that its Builder Sentiment Index has polled over 50 for seven straight months, after tracking negative from May 2006 to May 2013.[12] (A score over 50 suggests that sales and building conditions are good, rather than poor.)[13]

Given the preponderance of positive developments seen in both our local economic indicators and the national data, I fall in with the assertions of some recent regional economic forecasts that Lucas County is poised for growth.[14] The consensus holds that these forces have been building and are expected to be unleashed early in 2014. Additional hiring in construction, manufacturing, and retail sectors could lead to upward pressure on wages, increased consumer spending, and further growth.

Despite my overall optimism as we pivot into 2014, I'd be remiss if I concluded without noting my concern about the recent termination of unemployment benefits to approximately 1.3 million jobless Americans. There can be little doubt of the immediate hardship it will cause for those long-term unemployed people directly affected. For example, the Congressional Joint Economic Committee released a report in January which concluded that unemployment insurance kept approximately 900,000 people in California and Texas out of poverty each year, of whom over 250,000 were children.[15]

Even worse, the nonpartisan Congressional Budget Office (CBO) estimates that cutting unemployment insurance will hurt the still-recovering economy by 0.2% and would *reduce employment* by 200,000 by the end of 2014.[16]

At the end of the day, despite numerous signs pointing to growth, further Congressional attempts to cut unemployment benefits risk stalling or reversing an economic momentum that's taken months, perhaps years, to build.

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