

# The Economic Barometer

## *A Quarterly Economic Report*

Produced: March 31, 2009

4<sup>th</sup> Quarter 2008

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### EDITOR'S NOTE

*This issue marks the first issue of the Economic Barometer Report produced by the City of Lawrence. We will continue to provide timely economic information on the City of Lawrence and Douglas County, but we will do so in a new layout format that we hope our readers will enjoy.*

*First, in each issue we'll have a table of contents so that people who are interested in a certain subject will know where to find that material. Second, there will be a summary at the very beginning for those who just want a synopsis. We have placed a greater emphasis on text for those readers who prefer narrative over charts. Finally, there will now be a "Focus On" section at the end of the report. Once a year, highlight a certain aspect of the Lawrence economy. In the 4<sup>th</sup> Quarter, for example, we will spotlight Tourism and Downtown in Lawrence.*

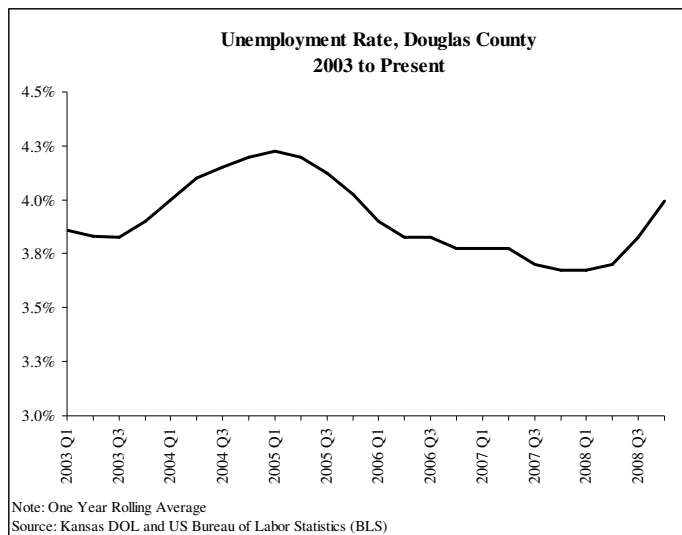
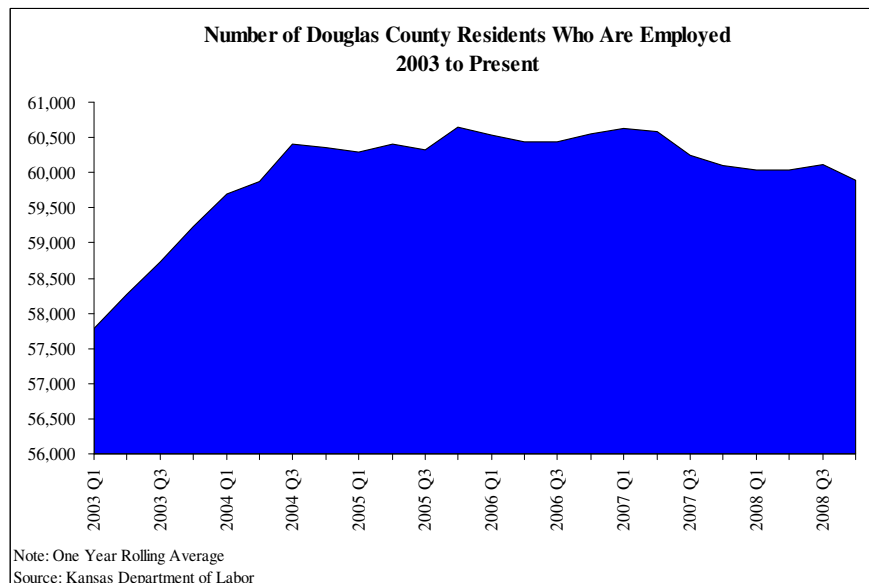
*We hope you enjoy the new Report, and we welcome any feedback you might have. If there's any information you think should be added or you have suggestions on how to improve the layout, we'd be glad to hear from you. Thanks, and enjoy!*

### SUMMARY

- **Key Changes from the Third Quarter:** Employment (down), Building Permits (down), Home Values (up), Taxable Retail Sales (up), Inflation (down)
- The unemployment rate increased to 4% in Douglas County, nearly 20% higher than a year ago, but still well below the national average;
- Both the number and value of building permits continues to fall. The value of building permits is down substantially due to a decline in non-residential permitting;
- Median home values increased in the 4th Quarter; and
- Quarterly taxable retail sales were down slightly from a year ago, while inflation-adjusted annual taxable retail sales were flat.

## EMPLOYMENT IN LAWRENCE AND DOUGLAS COUNTY

The number of Lawrence and Douglas County residents employed rose steadily from 2003 to late 2004. This number remained stable through 2006, before declining in early and mid 2007. Little changed from the middle of 2007 until the 4th Quarter of 2008. As of the 4th Quarter, just over 60,000 people (on a yearly average) were employed in Douglas County. This is a roughly a 1% decline from the 4th Quarter of 2007.



The unemployment rate has also been increasing. By the 4th Quarter of 2008, unemployment had returned to 4%. This is a 19% increase from the 4th Quarter of 2007. Readers may note that the unemployment rate was higher in 2004 and 2005, which is the same time the number of residents employed was peaking. The higher unemployment rate was likely caused by residents entering or returning to the labor force due to economic growth, resulting in an uptick in both unemployment rates and total employment.

Unemployment has been rising more slowly in Lawrence than in either Kansas or nationally. Also, compared to both the national and state unemployment averages, Lawrence's 4% local unemployment rate remains below average.

### Fourth Quarter 2008 Unemployment Data

	Civilian Employment	Unemployment Rate	Change vs. 1 Year Ago
U.S. (thousands)	144,540	6.6%	43%
Kansas	1,430,637	4.6%	23%
Kansas City, KS MSA	417,369	5.4%	24%
Lawrence MSA	60,208	4.0%	19%
Topeka MSA	115,823	5.4%	23%
Wichita MSA	305,252	4.7%	28%

Source: US Bureau of Labor Service

## REAL ESTATE

There was a general decline in the number of building permits issued from the 4<sup>th</sup> Quarter of 2007 to the 4<sup>th</sup> Quarter of 2008. While the number of permits issued fell by 15%, the value of the permits fell by about 57%. A large portion of this can be attributed to Lawrence Memorial Hospital, which received approval for its \$11 million expansion in December of last year.

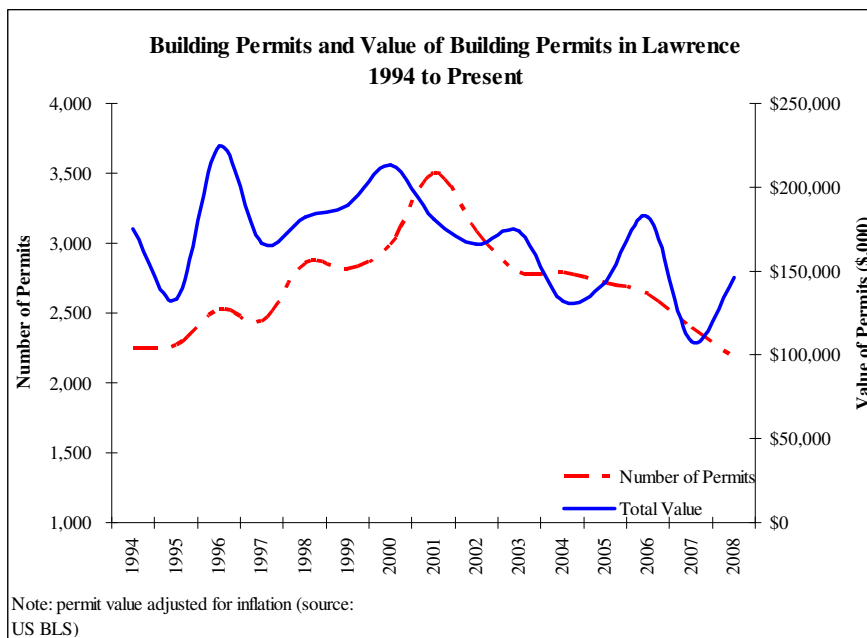
There were also several multi-family constructions that began in the 4<sup>th</sup> Quarter of 2007, and none in the 4<sup>th</sup> Quarter of 2008. Multi-family is listed as Non-Residential by the City. A large majority of the decline in permit value is explained by these two factors.

### Fourth Quarter Building Permits in Lawrence

	Q4 2007	Q4 2008	% Change 2007-2008
<b>TOTAL</b>			
Number	598	511	-15%
Valuation	\$42,427,720	\$18,318,749	-57%
<b>RESIDENTIAL</b>			
Number	52	31	-40%
Valuation	\$11,652,562	\$11,393,941	-2%
<b>NON-RESIDENTIAL</b>			
Number	43	39	-9%
Valuation	\$26,197,495	\$4,106,377	-84%

Source: City of Lawrence, Neighborhood Resources Department  
Valuation of Building Permits

The number of building permits peaked in 2002 and generally declined since then. In fact, the number of building permits issued in 2008 was the lowest number of building permits issued in the last 15 years. However, the value of building permits in 2008 was higher than in 2007. Permit values increased to \$146 million from about \$104 million in 2007.



These permit values are adjusted for inflation. Without this adjustment, the data would show that the greatest dollar value of permits was issued in 2006. However, accounting for inflation, the highest value of permits issued was in 1996, followed by the year 2000.

Some of the decline in permit value is due to the reduction in permits issued. However, there has also been a decline in value per permit as well. Adjusted for inflation, values per permit fell from roughly \$73,000 in the late 1990s to about \$54,000 in the 2001 to 2004 period. This was likely driven by the recession in the early part of the decade. Values have returned to almost \$60,000 per permit, but remain below the permit values of the late 1990s:

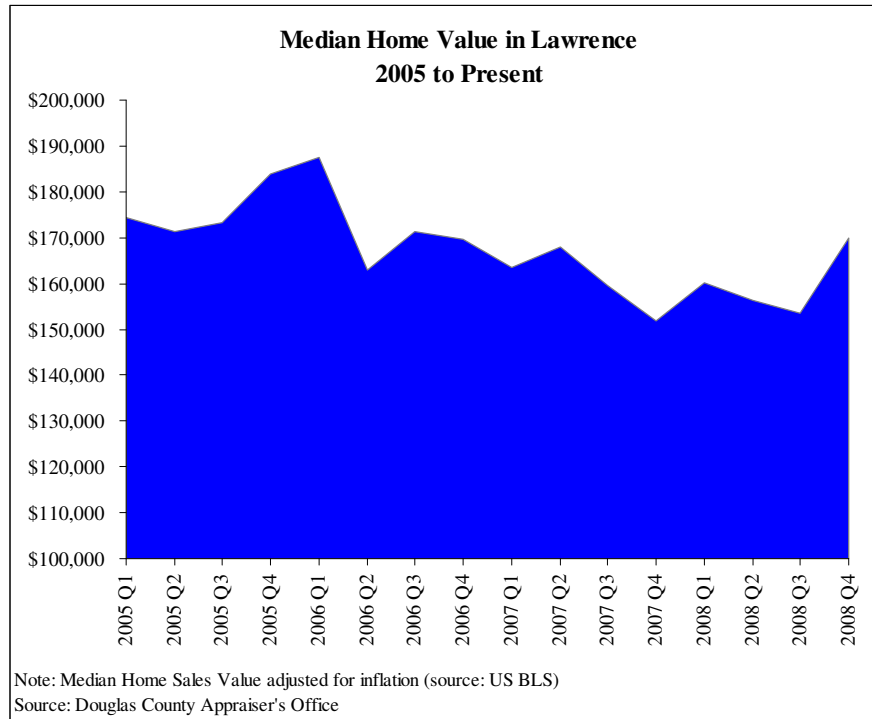
**Value per Permit over a Four Year Average, Lawrence**

Period	1994-1997	1995-1998	1996-1999	1997-2000	1998-2001	1999-2002	2000-2003	2001-2004	2002-2005	2003-2006	2004-2007	2005-2008
Value per Permit	\$73,561	\$69,993	\$72,100	\$67,712	\$63,544	\$61,077	\$59,824	\$53,842	\$54,108	\$57,934	\$53,665	\$58,589

Source: City of Lawrence, Neighborhood Resources Department

The 4<sup>th</sup> Quarter of 2008 saw an increase in the median home sale value in Lawrence. The increase from \$160,000 in the Third Quarter to \$170,000 in the 4th Quarter represents a jump of over 6%. Median home sale values are also up from the 4<sup>th</sup> Quarter of 2007, when the price was below \$160,000.

The change in home values in the 4<sup>th</sup> Quarter of 2008 represents the sharpest increase in housing prices in the last 4 years. Because this increase in median home sales price is only one quarter old, it is difficult to say whether this trend will continue. However, early 2009 data from the County assessors' office suggests that the 4<sup>th</sup> Quarter price trend may be temporary.



## RETAIL SALES

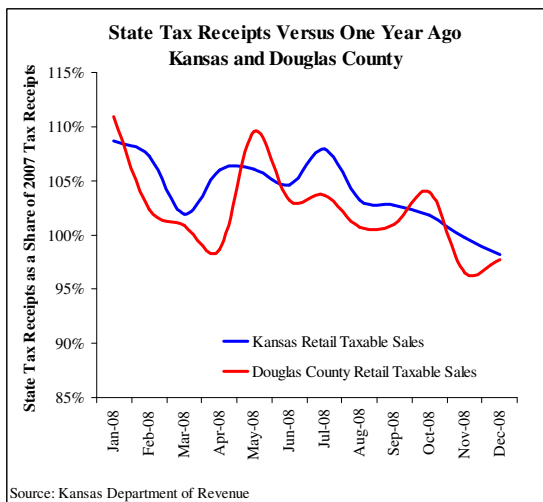
Retail sales decreased slightly in Douglas County. From the 4<sup>th</sup> Quarter of 2007 to the 4<sup>th</sup> Quarter of 2008, taxable retail sales fell by about .7%. In contrast, most other counties—including adjacent Johnson and Shawnee Counties—saw more than a 2% decrease in taxable retail sales since last year.

Statewide, 4<sup>th</sup> Quarter retail sales were down by about .4%, slightly less than in Douglas County.

### State Tax Receipts by Location

County	4th Quarter 2007	4th Quarter 2008	Change (%)
Douglas	\$17,707,990	\$17,578,853	-0.7%
Johnson	\$133,184,044	\$129,439,546	-2.8%
Wyandotte (Kansas City, KS)	\$25,764,495	\$25,206,384	-2.2%
Shawnee (Topeka)	\$35,313,064	\$34,474,843	-2.4%
Sedgwick (Wichita)	\$101,313,198	\$100,369,100	-0.9%
Total, State of Kansas	\$512,068,024	\$510,071,021	-0.4%

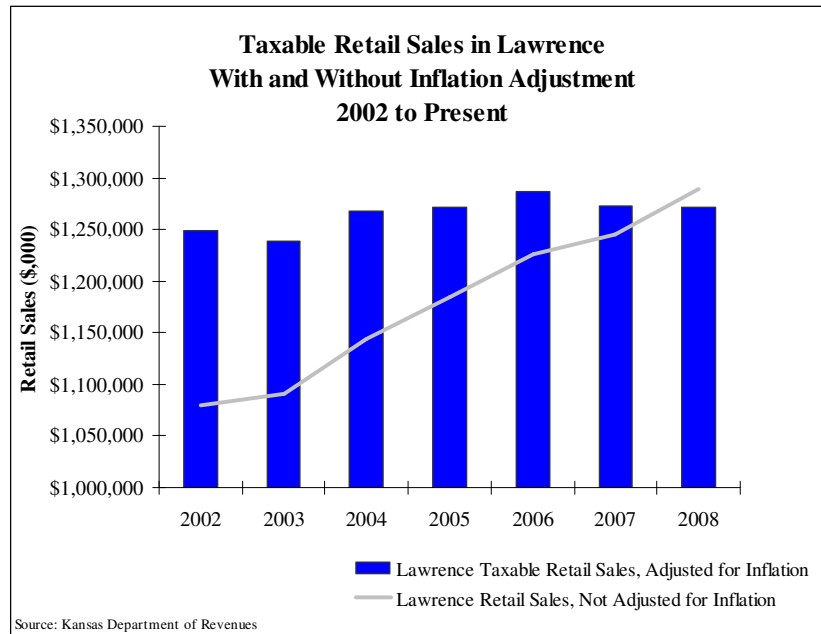
Source: Kansas Department of Revenue



An analysis of statewide sales taxes shows that, compared to 2007, sales tax growth was generally strong through the first half of the year. It was after July that sales taxes began to consistently weaken, falling below 2007 totals late in the year. In general, Douglas County exhibited a similar but slightly lower trend. Here, taxable retail sales declined more in the late winter than the overall statewide average, and peaked earlier in the spring as well.

The importance of adjusting for inflation is amply demonstrated when reviewing taxable retail sales in Lawrence. If one simply looked at taxable retail sales, it would appear that retail sales had been growing steadily since 2002, rising from about \$1.08

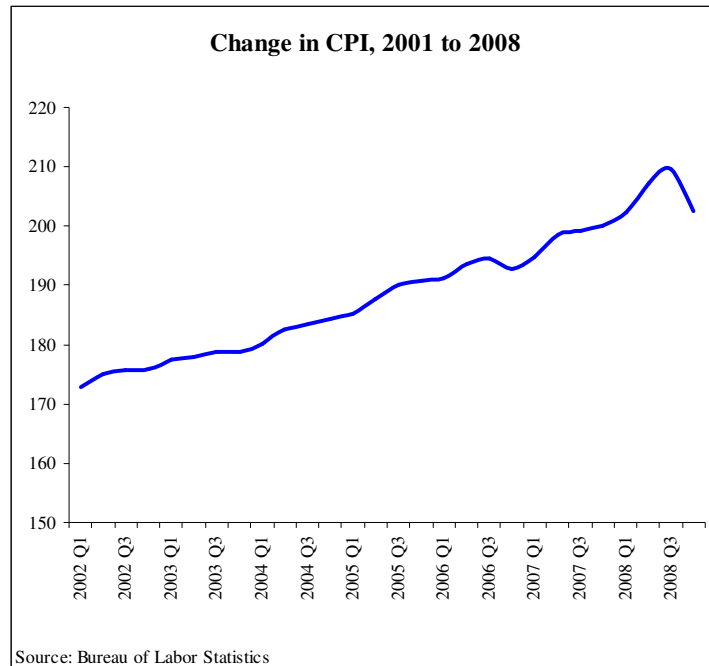
billion to \$1.29 billion in 2008. This would represent an increase of about 19%. Adjusting for inflation, however, taxable retail sales in Lawrence have barely changed in the last seven years. The change from \$1.25 billion in 2002 to \$1.27 billion in 2008 is about 1.8% over the period. This is roughly 1/10<sup>th</sup> the increase of taxable retail sales not adjusted for inflation. This suggests that about 90% of the increase in value of taxable retail sales over the last seven years in Lawrence is nominal, not real.



## INFLATION AND THE COST OF LIVING

Throughout most of the decade, inflation has been moderate and consistent. This changed in 2008. Inflation rose sharply in the first half of the year, only to fall off in the second half of the year. By the end of the year, price levels were about the same as if the trend for the first part of the decade had been continued.

A large part of the increase and decrease in inflation was likely caused by large changes in commodity prices. By mid-2008 many commodities, most notably for commuters oil, had risen to record high prices. Food was also being affected. As the recession became stronger, however, commodity prices weakened considerably and thus reduced inflation in the latter half of the year.



The cost of living relative to the United States increased in Lawrence in 2008. In general, the relative cost of living in Kansas increased somewhat slightly, with a slight rise in cost of living reported in Manhattan and Topeka as well. Among the peer cities surveyed, however, Lawrence

### Annual Average

#### Comparative Cost of Living Index

	2007	2008	Change (%)
<b>US Average</b>	<b>100.0</b>	<b>100.0</b>	
Lawrence, KS	92.3	93.4	1.2%
Manhattan, KS	97.6	97.9	0.3%
Topeka, KS	89.5	89.6	0.1%
Ames, IA	96.8	93.0	-3.9%
Champaign, IL	98.2	96.7	-1.5%
Columbia, MO	91.2	91.0	-0.2%
Fort Collins, CO	93.9	95.3	1.5%

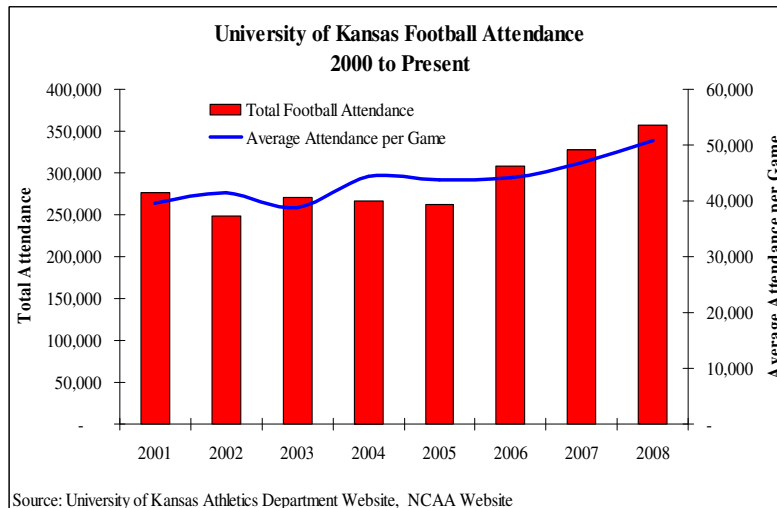
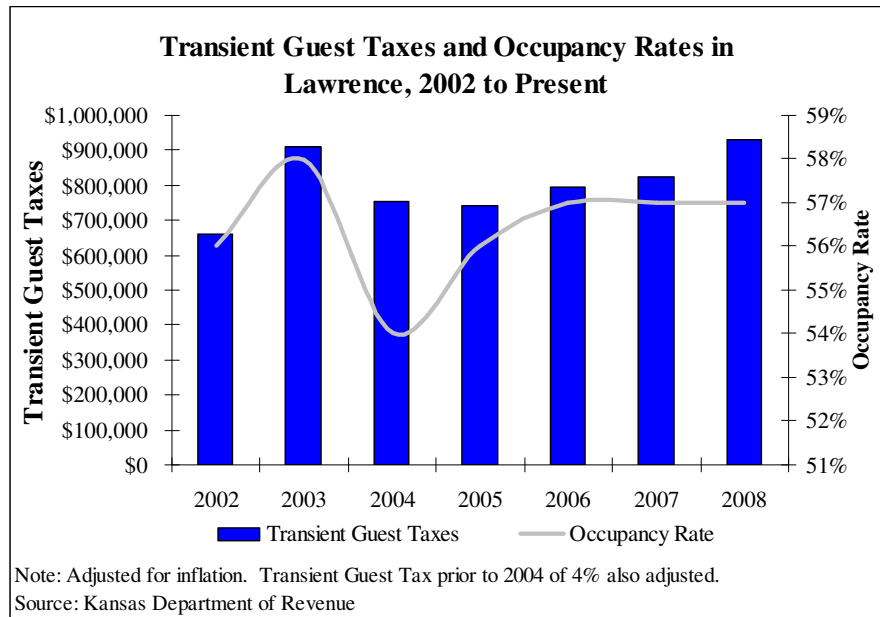
Source: ACCRA

saw the second largest increase in relative cost of living, behind only Fort Collins, Colorado. In contrast, the relative cost of living in other Midwest cities such as Champaign, Illinois and Ames, Iowa appears to have declined over the last year. The slight increase in relative cost of living here in Kansas may have occurred because, in general, the economy remained healthier in Kansas through most of 2008 than it did elsewhere in the United States.

### FOCUS ON... *Downtown and Tourism*

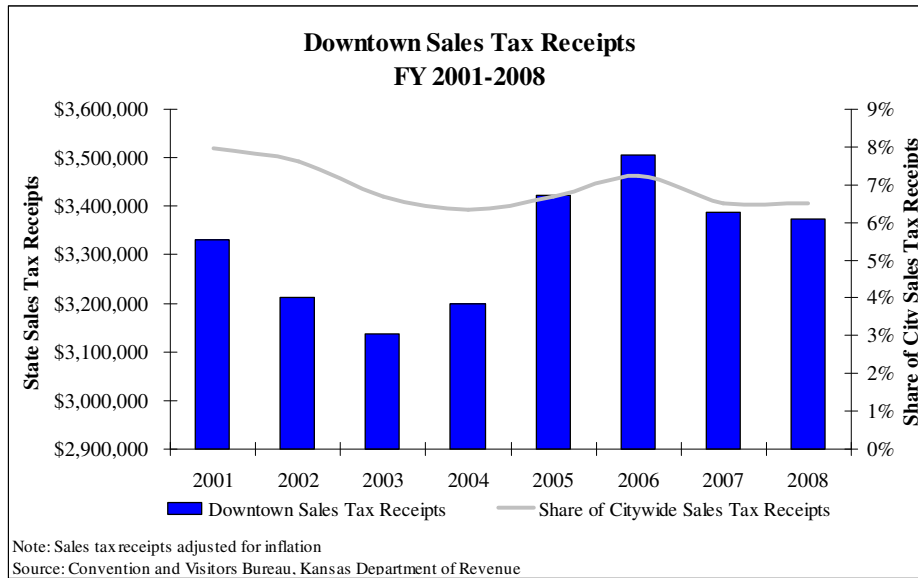
Lawrence prides itself on its history, high quality amenities and university life. Because of this, tourism and the vibrancy of downtown play key roles in the local economy. This “Focus On” section spotlights these two features of the Lawrence economy and how they have performed over the last several years.

As in many areas of the country, tourism suffered in Lawrence in the wake of the September 11<sup>th</sup> terrorist attacks. Indeed, both occupancy rates and transient guest taxes fell from 2003 to fiscal year 2004. However, both recovered quickly to more traditional norms. Occupancy rates for hotel rooms have stayed fairly constant at about 57%. It is particularly noteworthy that occupancy rates have not fallen, even as more lodging options in western Wyandotte County have become available for tourism. Transient guest taxes have also been increasing through this time period, indicating that people are willing to pay more to stay in Lawrence. Transient guest taxes in 2008 were the highest they have been this decade, reaching almost \$940,000.



While basketball has long been a well-known draw for University of Kansas athletics, football is becoming more important as well. Total football attendance has risen this decade and received a strong boost after the Orange Bowl victory in January of 2008. This year, average attendance per home game for the KU Jayhawks topped 50,000 for the first time ever. This helped propel total

attendance to over 350,000 for the season. Since Memorial Stadium seats roughly 53,000 people, capacity per game is now close to 95%.



In contrast to tourism, Downtown has seen more level trends in recent years. Sales tax receipts in Downtown for retail, restaurants and bars suffered in the early part of the decade. From Fiscal Year 2001 (July 1, 2000 to June 30, 2001) to Fiscal Year 2003, sales tax receipts fell from \$3.3 million to \$3.1

million or about 6 percent. They rose strongly through 2006, before falling again in the last two years. As a share of retail, restaurant and bar receipts throughout the City, downtown sales tax receipts have fallen from over 8% in the early part of the decade to about 6.5% in 2008. Downtown sales in these categories have been between 6.3% and 7.2% of the City as a whole since Fiscal Year 2002.

Occupied space in Downtown and the immediate vicinity has decreased slightly from 2007 to 2008. This is consistent with an increase in vacancy throughout Lawrence, and is likely driven by softening economic conditions. Most notably, industrial vacancy-

primarily along Delaware Street east of the main downtown core- has more than doubled. Retail vacancy downtown decreased slightly, but may be rising at this time as several stores closed in the beginning of 2009. Downtown office space continues to have very high vacancy rates. At almost 20%, this represents one of the highest localized vacancy rates for office space in the City. Overall, these trends have resulted in an almost 5% increase in vacancy rates Downtown since last year.

#### Vacancy Rate by Use Type, Downtown Lawrence

Use Type	Total Square Feet	Change		
		2007	2008	(%)
Retail	1,278,000	8.0%	4.9%	-38.8%
Office	832,300	18.5%	19.9%	7.6%
Industrial	581,000	5.8%	12.1%	108.6%
Total	2,691,300	10.6%	11.1%	4.5%

source: Grubb and Ellis 2008 and 2009 Forecast Reports

Questions? Comments? Please contact Roger Zalneraitis at [rzalneraitis@ci.lawrence.ks.us](mailto:rzalneraitis@ci.lawrence.ks.us)