

The Economic Barometer

A Quarterly Economic Report

Produced: September 30, 2009

2nd Quarter 2009

IN THIS ISSUE

PAGE

Summary	1
Employment	2
Real Estate	3 - 4
Retail Sales	4 - 5
Inflation and the Cost of Living	6
<i>Focus On.... Industries and Wages</i>	7 - 8

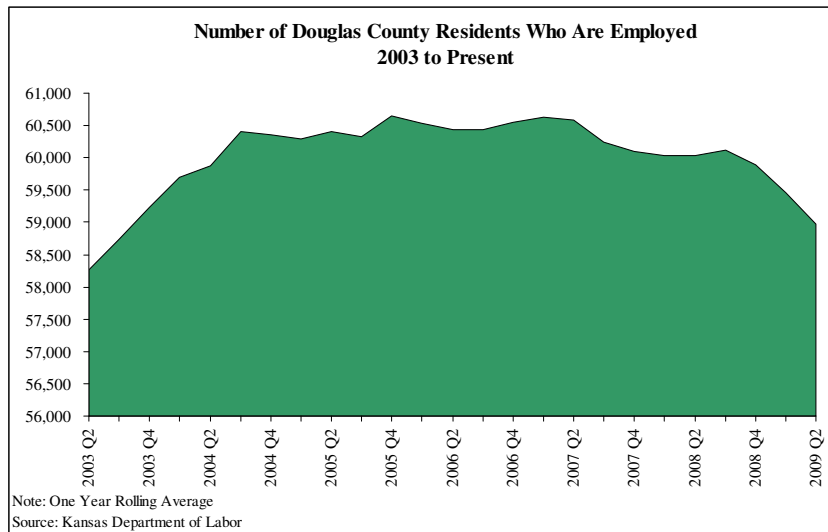
SUMMARY

Key Changes from the Previous Quarter	
Indicator	Improve (+), Worsen (-), No Change (o)
<i>Employment</i>	o
<i>Building Permits</i>	+
<i>Home Values</i>	+
<i>Taxable Retail Sales</i>	-
<i>Inflation</i>	-

- The unemployment rate remained unchanged at 5.5 percent in Douglas County. Although higher than a year ago, it was still well below the national average of 9.1 percent;
- The number of building permits increased from the previous quarter, but the value of building permits fell. Building permits and permit value are down from a year ago;
- Median home values rebounded from the 1st Quarter and were up slightly from the same quarter last year; and
- Taxable retail sales decreased both compared to last quarter and to the 2nd Quarter of 2008.

EMPLOYMENT IN LAWRENCE AND DOUGLAS COUNTY

The recession is affecting employment in Lawrence and Douglas County. The four quarter average of residents who are employed has fallen to under 59,000 for the first time since 2005. The total number of employed residents did increase slightly from the 1st Quarter to the 2nd Quarter. However, there are fewer employed residents year-over-year. The number of residents in Douglas County who are employed has fallen by more than 3 percent since last year.



Second Quarter 2009 Unemployment Data

	Civilian Employment	Unemployment Rate	Change vs. 1 Year Ago
U.S. (thousands)	140,592	9.1%	75%
Kansas	1,424,389	6.7%	68%
Kansas City, KS MSA	421,165	7.1%	55%
Lawrence MSA	58,486	5.5%	46%
Topeka MSA	116,497	6.4%	38%
Wichita MSA	305,882	8.0%	98%

Source: US Bureau of Labor Service

Despite the declining number of employed residents, the unemployment rate in Douglas County remained unchanged from the 1st to 2nd Quarter of 2009. In fact, unemployment rates remained about the same through much of northeast

Kansas. However, unemployment is still up substantially from last year. In Wichita, for example, the unemployment rate has almost doubled since a year ago.

One reason unemployment remains low in Lawrence is the decrease in labor force. Lawrence is one of the few jurisdictions in Kansas where the labor force participation rate fell from a year ago. Data from the Bureau of Labor Statistics shows that nationally, labor force participation has dropped the most among people between 16 and 24 years old. Here in Lawrence there is a larger than normal share of people in this age range because of the Universities. This group may be contributing to the declining labor force participation rate. If labor force participation had stayed the same or increased at a rate similar to the state, the unemployment rate in Lawrence and Douglas County would be between 7 and 8.5 percent instead of 5.5 percent.

Second Quarter 2009 Labor Force Data

	Civilian Labor Force	Change vs. 1 Year Ago
U.S. (thousands)	154,697	0.3%
Kansas	1,527,022	1.8%
Kansas City, KS MSA	453,404	2.3%
Lawrence MSA	61,892	-1.5%
Topeka MSA	124,437	2.9%
Wichita MSA	332,504	5.4%

Source: US Bureau of Labor Service

REAL ESTATE

The second quarter saw a decrease in both the number and value of building permits issued in Lawrence from a year ago. The number of residential building permits fell by more than 30 percent, while the number of commercial (non-residential) building permits fell by over 50 percent. The change in permit values was even larger. In the 2nd Quarter of 2009, total permit value

Second Quarter Building Permits in Lawrence

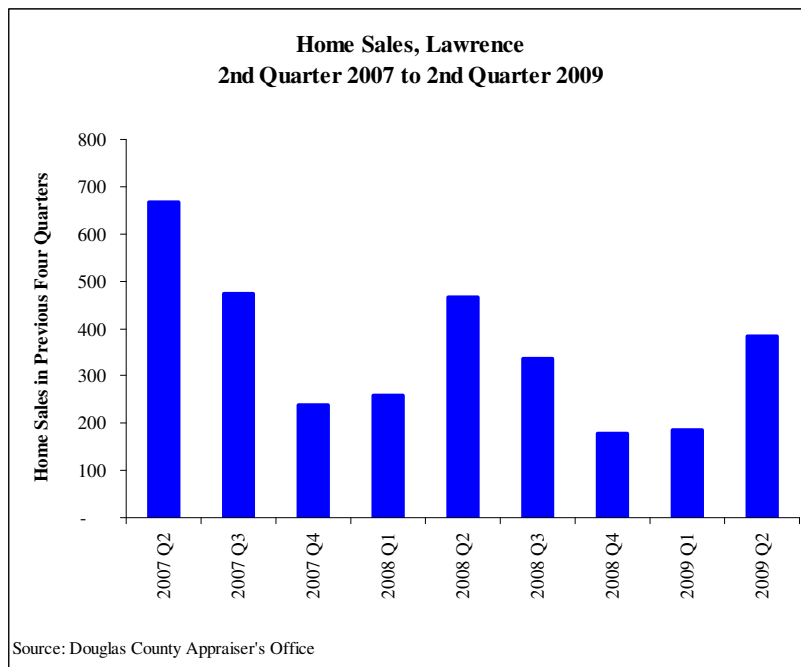
	2nd Quarter 2008	2nd Quarter 2009	% Change 2008-2009
TOTAL			
Number	577	494	-14%
Valuation	\$51,868,677	\$16,937,454	-67%
RESIDENTIAL			
Number	36	25	-31%
Valuation	\$7,941,784	\$6,004,384	-24%
NON-RESIDENTIAL			
Number	42	18	-57%
Valuation	\$35,581,438	\$3,473,544	-90%

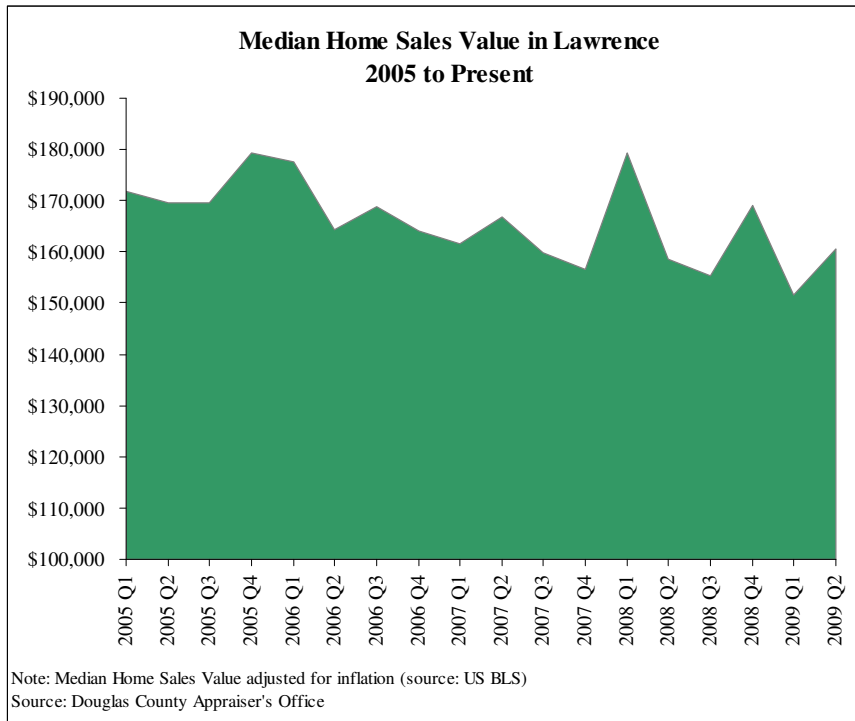
Source: City of Lawrence, Neighborhood Resources Department
Valuation of Building Permits

was under \$17 million. This is about two-thirds lower than the value of permits issued in the 2nd Quarter of 2008. Non-residential permit value fell from \$35 million to \$3.5 million, a drop of about 90 percent. Part of the reason for this decline in non-residential value is because both Oread and Wal-Mart began in the 2nd Quarter of last year, accounting for \$28 million of permit value. Nonetheless, even excluding these two projects, the \$3.5 million in commercial permits in the 2nd Quarter was the lowest total in two years.

Home sales increased from the 1st Quarter to the 2nd Quarter. From April to June 2009 there were almost 400 home sales in Lawrence. However, this period typically produces the highest number of home sales in the City. In the 2nd Quarter of 2008, there were almost 500 home sales, and in 2007 there were close to 700 home sales. Therefore there was over 100 fewer home sales than the year prior, and almost 300 fewer home sales since the 2nd Quarter of 2007. More generally, since 2007 every quarter has

seen a fall in home sales compared to the same quarter the year before. Thus despite a rebound in home sales on a quarterly basis, the local real estate market appears to continue to weaken year-over-year.





Home sale prices appeared to rebound in the 2nd Quarter. In the 1st Quarter of 2009, the median home sales price was around \$150,000. This rose to almost \$160,000 in the 2nd Quarter. Adjusting for inflation, the median sales price for homes in Lawrence was roughly the same as the sales price at the same time last year. Inflation adjusted sales prices in the 2nd Quarter of 2007 were higher than this year, however.

Nationally, the first-time homebuyer tax credit appears to have produced an increase in home sales over the spring and summertime. This may have contributed to some of the home price increase this spring. It will be interesting to see if a similar effect occurred in Lawrence in the 3rd Quarter.

RETAIL SALES

Retail sales taxes declined throughout the state in the 2nd Quarter of 2009. Taxable retail sales in Kansas fell by more than 8 percent since the same time last year. Although

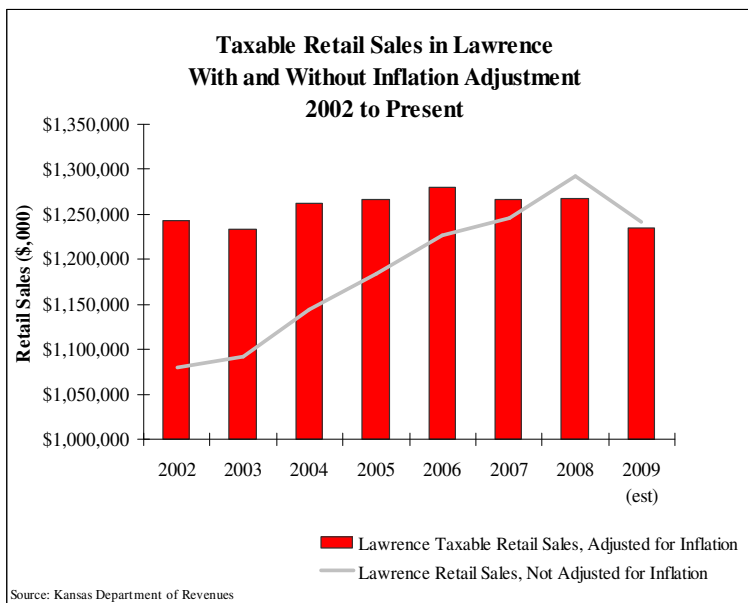
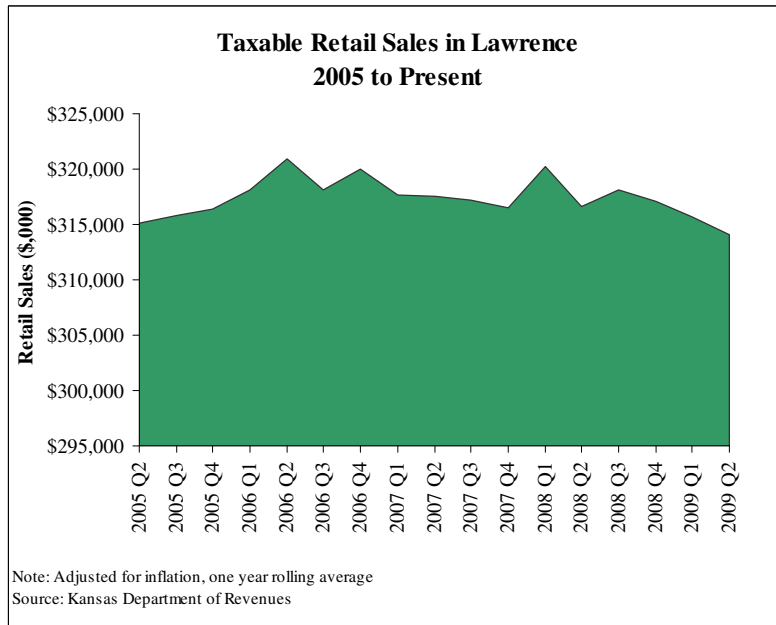
County Tax Receipts

County	Tax Rate	2nd Quarter 2008	2nd Quarter 2009	Change (%)
Douglas	1.0%	\$3,326,403	\$3,160,628	-5.0%
Johnson	1.1%	\$27,010,897	\$24,497,443	-9.3%
Wyandotte (Kansas City, KS)	1.0%	\$5,151,254	\$4,757,533	-7.6%
Shawnee (Topeka)	1.15%	\$7,984,269	\$7,009,468	-12.2%
Sedgwick (Wichita)	1.0%	\$19,390,739	\$17,652,879	-9.0%
Total, State of Kansas		\$171,232,755	\$157,270,007	-8.2%

Source: Kansas Department of Revenue

sales fell in Douglas County, the 5 percent decrease was more modest than the statewide decrease. Other nearby counties experienced larger declines in sales tax receipts. Johnson County, for example, had a 9.3 percent decrease in sales tax receipts, and Shawnee County saw their receipts fall by more than 12 percent. The change in tax receipts does not include the new .55 percent sales tax for public transit and infrastructure in the City of Lawrence, so that is not skewing the data in favor of Douglas County.

The decline in second quarter sales locally continues a longer term trend of taxable retail sales decline in Lawrence. Adjusting for inflation, taxable sales are now lower than they were in much of 2005. Taxable retail sales in Lawrence have averaged less than \$315 million per quarter for the last four quarters. There were some increases in these sales in early 2008 as well as toward the end of the year. It appears that these may have been temporary changes. Since 2007, there has been a downward trend in taxable retail sales and the recession of 2009 appears to be continuing this trend.

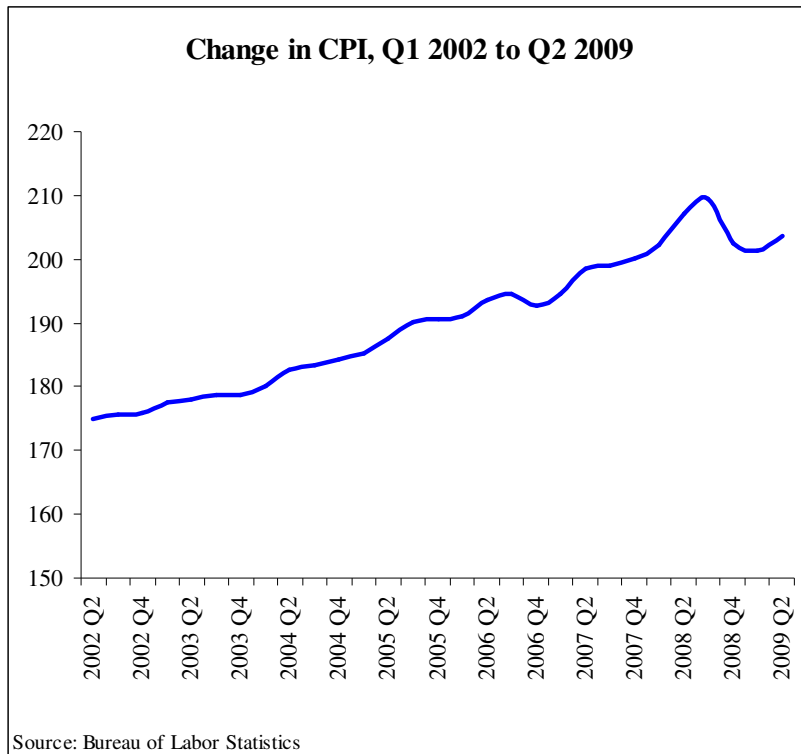


If taxable retail sales continue their current trend for the remainder of the year, total sales may be among the lowest this decade. Adjusting for inflation, 2009 is on pace to match 2003 as the lowest level of sales in eight years. The current 2009 trend would also result in nominal taxable retail sales (these are total sales without adjusting for inflation) falling for the first time in the last eight years. The change in nominal retail sales suggests that residents and visitors may have cut back on spending as a result of the recession.

Similar to the County comparisons, none of these retail sales trends include the new .55 percent sales tax for public transit and infrastructure initiated on April 1st, 2009 in Lawrence. Preliminary data suggests that the new tax has resulted in about a half million dollars of new revenue each month to the City.

INFLATION AND THE COST OF LIVING

Inflation appears to have resumed its upward trend. Prior to 2008, the annualized inflation rate was around 2.3 percent. The commodity driven inflation of early 2008 caused the annual inflation rate to rise to about 2.6 percent. The change in inflation from the first to second quarter of 2009 is the equivalent to about a 4.4 percent annualized inflation rate. Although this is higher than the long-term average, it is by no means out of the ordinary for a quarter-to-quarter change. Nonetheless, this could be the beginning of higher inflation in the future. The next several months will give us a better sense of long term trends.



Annual Average

Comparative Cost of Living Index

	Q2 2008	Q2 2009	Change (%)
US Average	100.0	100.0	
Lawrence, KS	92.7	92.2	-0.5%
Manhattan, KS	96.6	96.8	0.2%
Topeka, KS	89.1	92.6	3.9%
Ames, IA	91.3	97.1	6.4%
Champaign, IL	95.3	97.8	2.6%
Columbia, MO	90.3	91.7	1.6%
Fort Collins, CO	94.3	94.0	-0.3%

Source: ACCRA

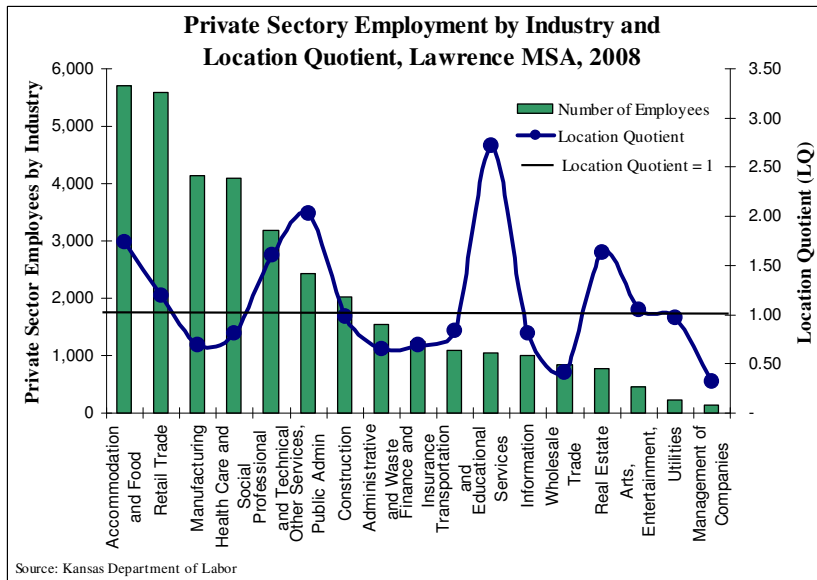
It is important to remember that this cost of living report, ACCRA, compares prices in each city to an overall national average. When the cost of living “falls” in a region, it means it has become slightly less expensive in that community compared to the other communities in the country where ACCRA measures the cost of living. The fact that many of Lawrence’s comparison cities generally saw an increase in their cost of living could mean that prices either did not fall as much in those cities as they did elsewhere in the nation, or prices in these cities increased more quickly than they did elsewhere.

The cost of living in Lawrence fell slightly relative to the rest of the nation. In contrast, other comparable Midwest cities generally saw an increase in their relative cost of living. By comparison, the 1st Quarter report showed very little upward or downward change in prices in most of these communities.

FOCUS ON... Industries and Wages

This Quarter's "Focus On" looks at wages and employment by industry in Lawrence. It finds that recent job losses were driven by retail sales and accommodations. This suggests changes in tourism and disposable income were responsible for much of the economic weakness in 2008.

The Lawrence MSA's three largest industries for private sector employment are Accommodations, Retail Trade, and Manufacturing. These three industries account for almost 45

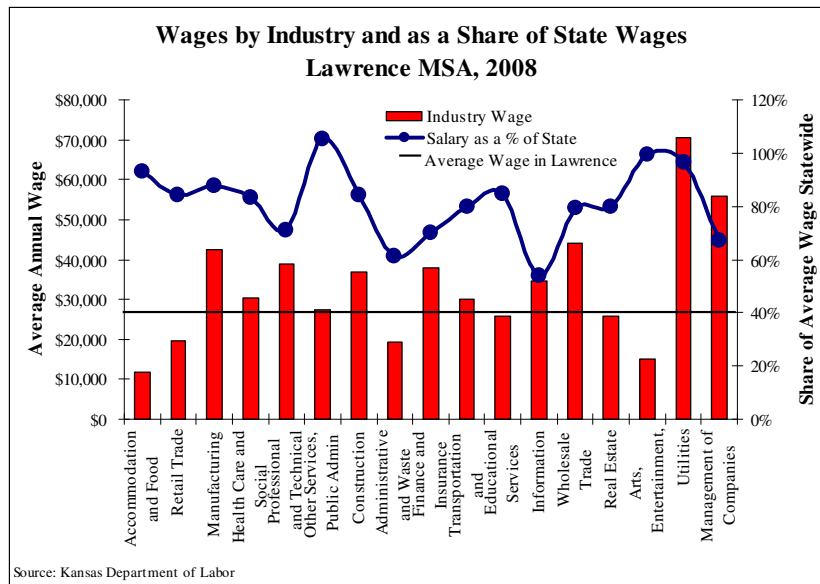


percent of all private sector employment. The large concentration of employment in Accommodation and Retail Trade is likely caused by tourism associated with the universities and disposable income likely found among students and young adults. The Universities' contribution to the local economy is further supported by the Location Quotients (LQ). The Location

Quotient tells you whether there are more or fewer jobs in an industry than expected. A LQ greater than 1 suggests there are more jobs locally than expected. Not only are Accommodation and Retail Trade greater than 1, but Educational Services has a LQ of almost 3. Other industries with a strong presence in Lawrence include Professional and Technical Services, and Other Professional Services (such as non-profits). Both generally require advanced degrees, and may benefit from the presence of the University of Kansas and Haskell Indian Nations University.

The two largest industries in Lawrence—Accommodations and Retail Trade—pay significantly

less than the local average private sector wage of about \$28,000 annually. Some of the highest wages can be found in Utilities and Company Management, the two smallest industries locally. Many local industries also have lower average wages than can be found statewide. The industries that are closest to the statewide average wage tend to be at or below the average Lawrence private sector wage, such as Accommodations, Other



Professional Services, and Arts and Entertainment. Overall, the average wage for private sector employment across all industries is about 83% of the statewide average.

From 2001-2007, overall job growth in the Lawrence MSA was only .3 percent less than the

**Job Growth Statewide and in the Lawrence MSA
2001-2007**

Industry	Total New Jobs	Total New Jobs, Lawrence	Difference in the Rate of Growth Between Lawrence and Kansas
Total, All Industries	36,719	1,154	-0.3%
Health Care and Social Assistance	18,184	411	-2.0%
Administrative and Waste Services	11,673	210	-2.3%
Accommodation and Food Services	7,019	1,007	11.5%
Professional and Technical Services	6,749	152	-7.7%
Finance and Insurance	5,645	479	46.7%
Educational Services	1,868	398	40.6%
Transportation and Warehousing	1,551	464	64.2%
Construction	1,396	(363)	-16.6%
Wholesale Trade	(2)	(31)	-3.9%
Real Estate and Rental and Leasing	(20)	5	0.8%
Arts, Entertainment, and Recreation	(250)	(90)	-15.1%
Other Services, Public Admin	(252)	(10)	0.2%
Management of Companies	(988)	(99)	-38.7%
Retail Trade	(7,964)	(551)	-3.6%
Manufacturing	(8,959)	(565)	-7.0%
Information	(10,795)	(614)	-17.8%
Other*	3,113	-	N/A

* Mining, Agriculture, and Utilities. These provided no job growth in Lawrence and Douglas County.

Source: Kansas Department of Labor

Over the last year, the Lawrence MSA job market shrank by 2.7%, erasing almost all of 1,154 jobs created from 2001 to 2007. The industries that experienced the greatest job losses were Accommodations and Retail Trade. These are the two largest industries in the City and County and constituted almost two-thirds of the total job loss. Losses in these industries may have been caused by weakening tourism and declining disposable income. Indeed, if young adults are exiting the workforce and losing purchasing power as a result, industries they may frequent would be likely to lose jobs. The data also shows that Construction and Manufacturing accounted for less than a quarter of the job losses in the last year. Among industries increasing in size, the largest job gains could be found in Health Care and Wholesale Trade. These two industries accounted for over half of the total job gains over the last year, and both pay average wages higher than the private sector overall.

**Job Gains and Losses by Industry in Lawrence
2007-2008**

Industry	Jobs Gained (Loss)	Share of Job Gains (Losses)
Total	(1,066)	
Accommodation and Food Services	(658)	-50.2%
Retail Trade	(220)	-16.8%
Manufacturing	(180)	-13.7%
Construction	(120)	-9.2%
Finance and Insurance	(58)	-4.4%
Transportation and Warehousing	(47)	-3.6%
Information	(26)	-2.0%
Educational Services	(2)	-0.2%
Sub-Total, Industries with Job Losses	(1,311)	-100.0%
Arts, Entertainment, and Recreation	6	2.4%
Administrative and Waste Services	10	4.1%
Other Services, Ex. Public Admin	18	7.3%
Real Estate and Rental and Leasing	21	8.6%
Professional and Technical Services	24	9.8%
Management of Companies and Enterprises	27	11.0%
Health Care and Social Assistance	59	24.1%
Wholesale Trade	80	32.7%
Sub-Total, Industries with Job Gains	245	100.0%

Source: Kansas Department of Labor

Questions? Please contact Roger Zalneraitis at rzalneraitis@ci.lawrence.ks.us or 785-832-3400