

# The Economic Barometer

## *A Quarterly Economic Report*

Produced: January 4, 2010

3<sup>rd</sup> Quarter 2009

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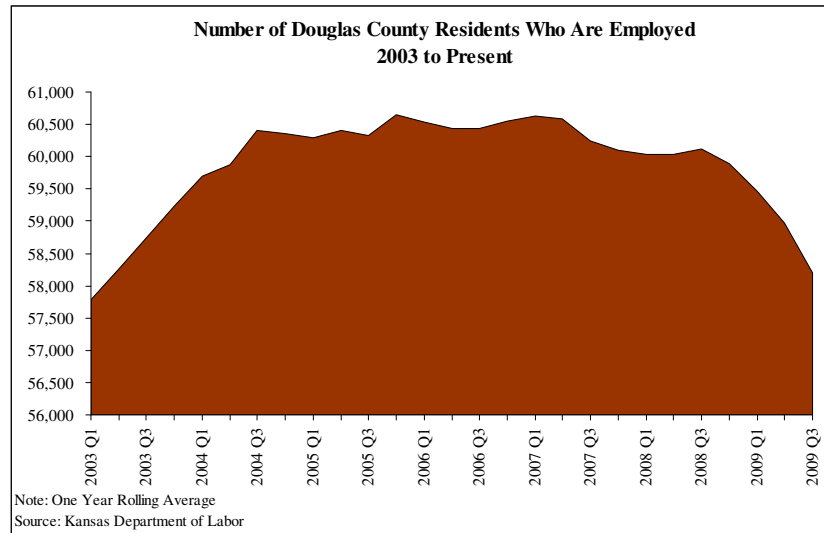
### SUMMARY

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

- The unemployment rate increased to 6.0 percent in Douglas County. Although higher than a year ago, it rose more slowly than the national average;
- The number of building permits increased from the previous quarter, but the value of building permits fell. Commercial building continues to show particular weakness;
- The median sales price for homes decreased from the 2<sup>nd</sup> Quarter and were down about 5.0 percent from last year; and
- Taxable retail sales were up from last quarter, but down from a year ago at this time.

## EMPLOYMENT IN LAWRENCE AND DOUGLAS COUNTY

The number of residents with jobs continues to fall rapidly. The average number of residents employed over the last year has fallen to about 58,000. This is almost the same as the one year average at beginning of 2003, when there were just under 58,000 people in the County working. On a quarterly basis, the number of employed residents in Douglas County was just over



56,000. This is the lowest number of employed residents in over seven years. This drop in employed residents is also occurring at a time when the County population continues to grow. This suggests that the percentage of residents who are employed is likely to be unusually low.

### Third Quarter 2009 Unemployment Data

	Civilian Employment	Unemployment Rate	Change in Unemp Rate vs. 1 Year Ago	Change in Civilian Emp vs. 1 Yr Ago
U.S. (thousands)	140,069	9.6%	60%	-3.7%
Kansas	1,423,103	7.3%	54%	-0.8%
Kansas City, KS MSA	424,534	7.5%	37%	-0.1%
Lawrence MSA	56,179	6.0%	38%	-5.2%
Topeka MSA	117,146	6.8%	28%	0.8%
Wichita MSA	302,956	9.2%	95%	0.6%

Source: US Bureau of Labor Service

The unemployment rate increased to 6 percent in Douglas County. This is still significantly below both the state and national average. Unemployment is also increasing more slowly than elsewhere.

However, the decrease in civilian employment is well above the national average. Civilian employment has fallen by over 5 percent, while nationally it has fallen by under 4 percent.

The only way for the unemployment rate to rise slowly while employment falls is for the number of people in the labor force to decline. That is what is happening in Douglas County. While national labor force participation has fallen slightly as a result of the recession, the labor force in Kansas has generally increased. Typically, one would expect the labor force to fall when job growth is stagnant or declining. Douglas County has seen a decrease in labor force participation, but at a significantly higher rate than the nation. If labor force participation rates had remained unchanged from a year, Lawrence's unemployment rate would be about 9.5 percent, and it would be the highest in Kansas.

### Third Quarter 2009 Labor Force Data

	Civilian Labor Force	Change vs. 1 Year Ago
U.S. (thousands)	154,923	-0.3%
Kansas	1,534,410	1.9%
Kansas City, KS MSA	458,838	2.2%
Lawrence MSA	59,750	-3.5%
Topeka MSA	125,709	2.4%
Wichita MSA	333,619	5.5%

Source: US Bureau of Labor Service

## REAL ESTATE

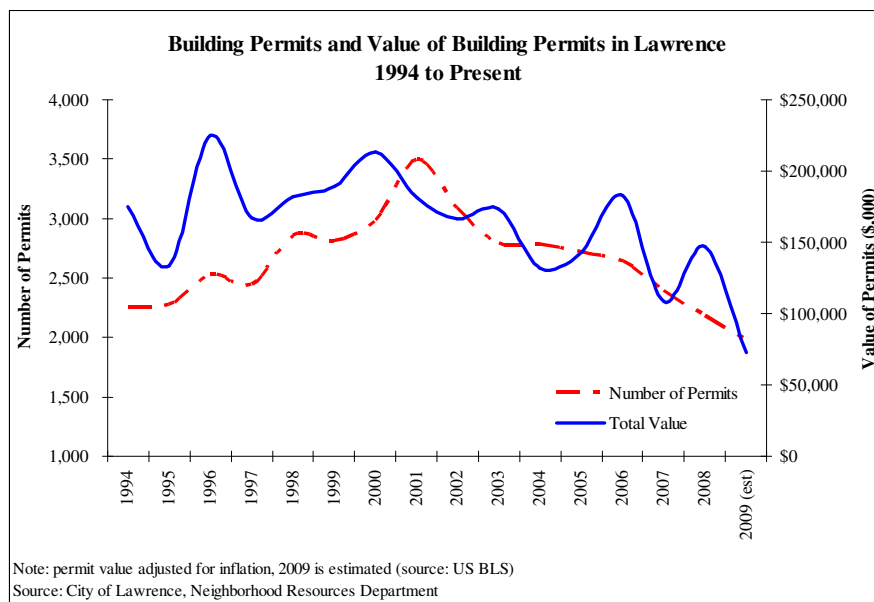
Building permits and permit values declined from the same time as last year. This was driven in part by a lack of large projects. The 3<sup>rd</sup> Quarter of 2008 saw approval of The Exchange, a new \$20 million apartment complex at 31<sup>st</sup> and Ousdahl. There was no comparable apartment construction in this quarter.

### Third Quarter Building Permits in Lawrence

	3rd Quarter 2008	3rd Quarter 2009	% Change 2008-2009
<b>TOTAL</b>			
Number	655	597	-9%
Valuation	\$51,159,881	\$15,512,884	-70%
<b>RESIDENTIAL</b>			
Number	59	47	-20%
Valuation	\$29,600,271	\$9,124,928	-69%
<b>NON-RESIDENTIAL</b>			
Number	36	28	-22%
Valuation	\$17,907,354	\$2,680,057	-85%

Source: City of Lawrence, Neighborhood Resources Department

However, the number of single family residential building permits increased, as did the value of these permits. In fact, the number of residential building permits issued in July was the highest number of permits issued in two years. The larger problem appears to be non-residential permitting. There have been no new commercial permits issued in five months, and the value of non-residential permits is the lowest it has been in almost three years.

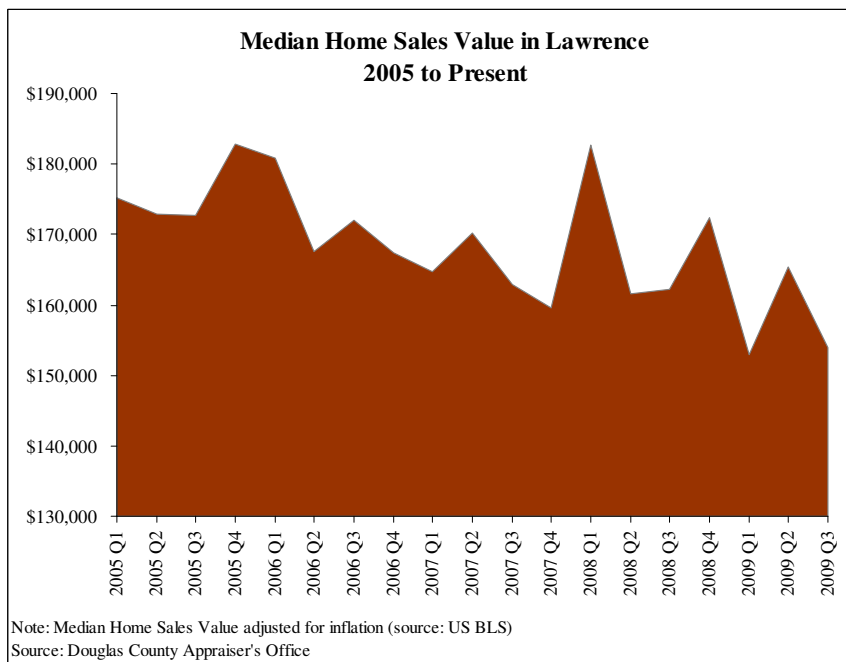
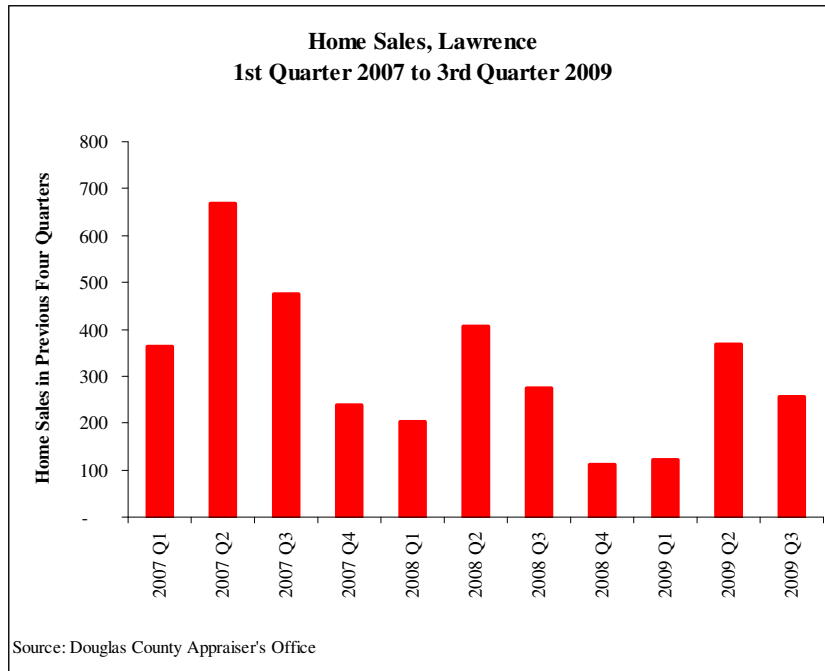


Building permits are currently on pace to register their lowest total in over 15 years. Adjusting for inflation, building permit value peaked in Lawrence early this decade and has fallen by more than 50 percent since then. The number of building permits issued saw its highest total in 1995, with over 3,500 permits issued that year. The

number of building permits is currently on target to be less than 2,000, and the value of building permits may be below \$100 million for the first time in almost two decades.

As noted, not all the new permit news was bad: single family building permits increased slightly from last year. Similarly, existing home sales appear to have stabilized, at least temporarily. Third Quarter sales of existing homes were virtually the same as the 3<sup>rd</sup> Quarter last year. This is the first time year-over-year sales of existing homes have not decreased since 2007. This may have been the result of the first-time homebuyer credit. This

was a federally-approved \$8,000 tax credit for most first time homebuyers, and it may have helped increase home purchases nationally.



Home sale prices did fall, however, from the 3<sup>rd</sup> Quarter of last year. Home sale prices were about \$154,000. In contrast, home sale prices in the 3<sup>rd</sup> Quarter of 2008 were about \$165,000. This is a five percent decrease year – over – year. Overall, home prices have continued to decline since 2005. That said, the lowest average home sales prices occurred in the 1<sup>st</sup> Quarter of this year. Home sale prices this quarter

were still slightly higher than the 1<sup>st</sup> Quarter.

## RETAIL SALES

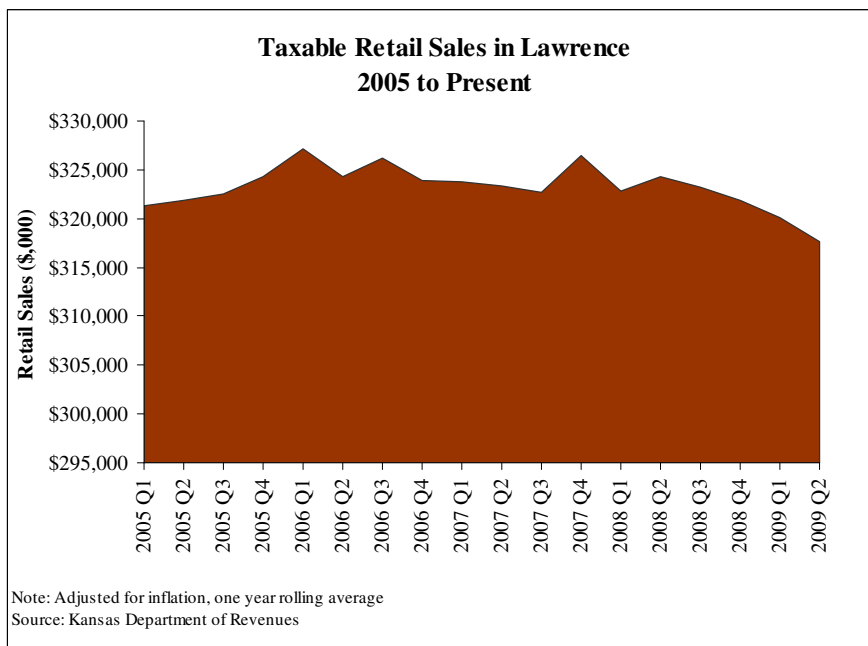
The decline in taxable retail sales moderated in the 3<sup>rd</sup> Quarter. Although most areas continued to see a fall in retail sales year-over-year, the declines were more modest than the previous quarter.

In the 2<sup>nd</sup> Quarter, taxable retail sales fell by more than 8 percent statewide, whereas in this Quarter they fell by less than 3 percent. The 3.4

### County Tax Receipts

County	Tax Rate	3rd Quarter 2008	3rd Quarter 2009	Change (%)
Douglas	1.0%	\$3,570,439	\$3,450,357	-3.4%
Johnson	1.1%	\$27,645,927	\$29,017,844	5.0%
Wyandotte (Kansas City, KS)	1.0%	\$5,254,981	\$5,047,588	-3.9%
Shawnee (Topeka)	1.15%	\$8,062,037	\$7,425,231	-7.9%
Sedgwick (Wichita)	1.0%	\$19,390,739	\$19,112,476	-1.4%
Total, State of Kansas		\$180,178,462	\$175,393,329	-2.7%

percent decline in Douglas County was less than last quarter as well. Every County surveyed saw an improvement in performance over the 2<sup>nd</sup> Quarter. Johnson County had strong performance in the 3<sup>rd</sup> Quarter, with year-over-year growth in tax receipts of 5 percent. The change in tax receipts for Douglas County does not include the new .55 percent sales tax for public transit and infrastructure in the City of Lawrence.



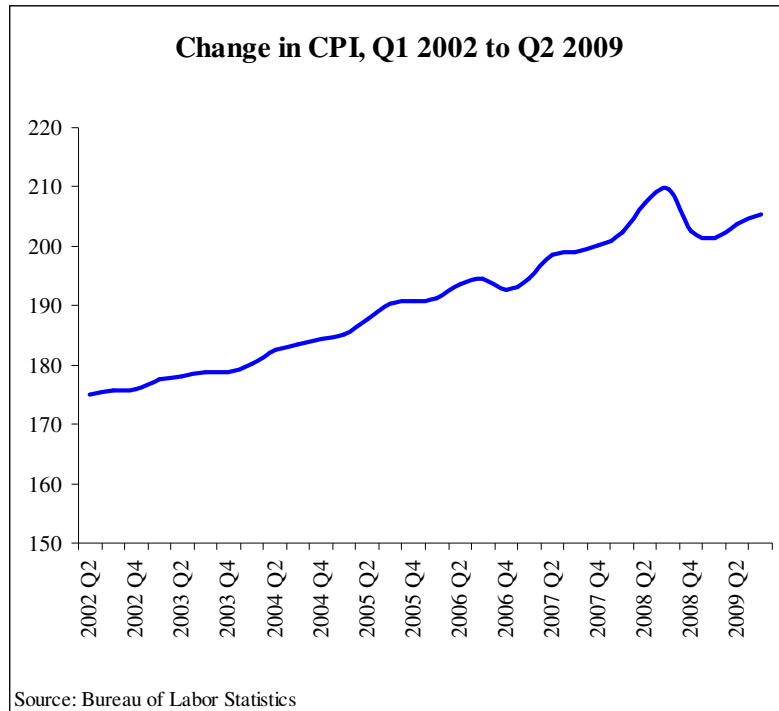
Inflation – adjusted taxable retail sales in Lawrence continue to fall over the long-term. The chart on the left looks at the average quarterly sales over the last four quarters, adjusted for inflation. As you can see, the average as of the most recent period is the lowest it has been since the beginning of 2005. The last time taxable retail sales were this low was

in 2003. Interestingly, the change in taxable retail sales appears to mirror the change in the number of employed County residents.

The City has obtained taxable retail sales by industry from 2003 to the end of the 3<sup>rd</sup> Quarter of 2009. Based on a preliminary analysis, it appears that the stagnant taxable retail sales are attributable in part to declining sales—both taxable and exempt—in manufacturing. A more complete analysis of industry-by-industry sales will be available in next Quarter’s “Focus On” section, which covers tourism and trade in Lawrence.

## INFLATION AND THE COST OF LIVING

Inflation appears to have resumed its modest, long-term trend. There was a spike in inflation in 2008 due to increases in commodity prices. As energy prices waned, inflation fell so much that, nationally, worries arose over possible deflation. That fear appears to be, at least so far, unfounded. Prior to 2008, the annualized inflation rate was around 2.5 percent. Although inflation was a little higher in early 2009, it was almost flat in the 3<sup>rd</sup> Quarter. As a result, the inflation rate for 2009 is very close to the long-term average dating back almost 20 years, and is lower than the inflation in the 2<sup>nd</sup> Quarter as well. Caution is still warranted, but at the moment inflation looks to be in check.



### Annual Average

#### Comparative Cost of Living Index

	Q3 2008	Q3 2009	Change (%)
<b>US Average</b>	<b>100.0</b>	<b>100.0</b>	
Lawrence, KS	94.4	91.4	-3.2%
Manhattan, KS	101.4	95.7	-5.6%
Topeka, KS	89.6	91.7	2.3%
Ames, IA	93.5	95.7	2.4%
Champaign, IL	95.4	97.6	2.3%
Columbia, MO	90.3	90.6	0.3%
Fort Collins, CO	94.8	92.3	-2.6%

Source: ACCRA

Compared to the United States overall, the cost of living in Midwestern cities was mixed for the 3<sup>rd</sup> Quarter. In contrast, the results of the 2<sup>nd</sup> Quarter were more constant: the relative cost of living was generally higher across all the comparison cities. This quarter, Lawrence and some other cities saw a decrease in the relative cost of living, while other cities such as Topeka and Ames, Iowa saw modest increases in their relative costs of living. Housing prices are a large component of the weighting in these measurements. Therefore, the decline in home prices in Lawrence may be a reason that the cost to live here relative to the rest of the nation fell slightly year-over-year.

### FOCUS ON... *Similar Cities*

It is always important to understand the local economy in context. Comparing Lawrence to cities that are *similar* is perhaps the best way to understand whether we are performing better or worse than we ought to expect. This Quarter's "Focus On" compares Lawrence to other Big 12 cities and a group of 15 cities that are similar demographically. This group is called the "Sim 15" and comes from an analysis conducted by the City Auditor. The data below shows that while Lawrence has a lower unemployment rate than average, it has weaker job growth and labor force participation, and has among the lowest wages of all the cities reviewed. A breakout of all the cities as well as their comparative statistics is available in the Appendix.

#### Labor Force

In terms of unemployment, Lawrence compares favorably to other similar cities. Overall, Lawrence's unemployment rate is similar to Big 12 cities, and lower than the average "Sim 15" city. This may be due to the geographic diversity of the list, as it appears that Midwestern cities (represented here by the Big 12) generally have lower

unemployment rates than other places in the nation. Lawrence's unemployment rate has also increased more modestly than the average comparison city, rising just over 40 percent. The comparison cities, in contrast, saw increases closer to 60 percent in their unemployment rates.

#### Unemployment Rates

Area	Jan-Oct 2009	2008	Change since 2008
Lawrence	5.6%	3.9%	43.6%
Big 12	6.0%	3.8%	56.8%
"Sim 15"	7.8%	4.9%	57.9%

Source: Bureau of Labor Statistics

#### Labor Force

Area	Jan-Oct 2009	2008	Change since 2008	Change Since 2001
Lawrence	61,049	62,042	-1.6%	3.0%
Big 12	146,552	144,551	1.4%	10.1%
"Sim 15"	97,867	97,798	0.1%	12.5%

Labor Force for Big 12 and Sim 15 represents average size

Source: Bureau of Labor Statistics

contributed to the more rapid increase in unemployment, as new labor force participants were entering a stagnant or decaying job market.

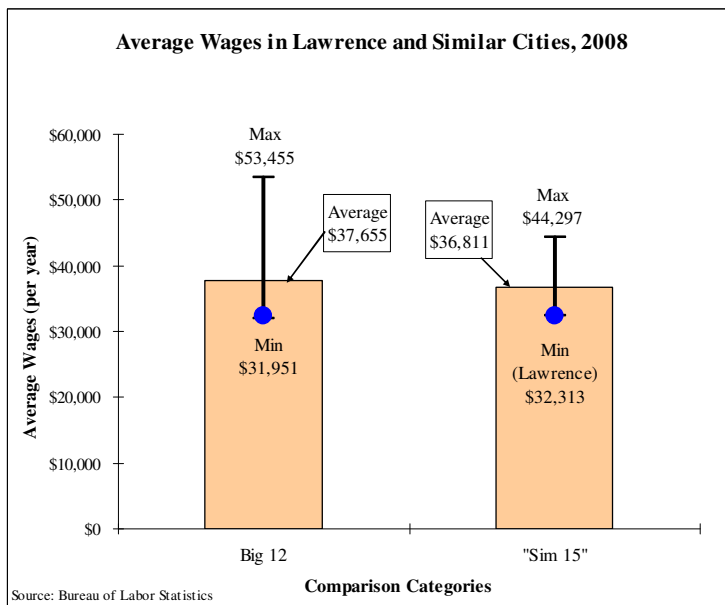
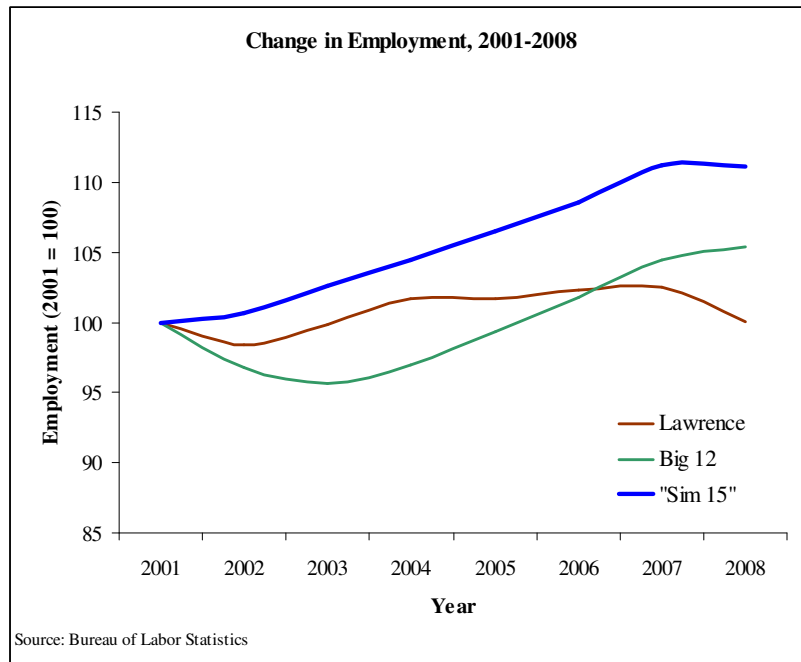
Lawrence has experienced a loss of people in the labor force, which differs from other comparison cities. In both the Big 12 and the "Sim 15", the average city saw a small increase in their labor force from 2008 to the first three quarters of 2009, whereas Lawrence saw a decrease of 1.6 percent. The increase in the labor force elsewhere likely

The labor force has also been growing more quickly in comparable cities throughout this decade. The size of the labor force has increased by more than 10 percent for both the average Big 12 and the average "Sim 15" city. In contrast, Lawrence's labor force increased this decade by about 3 percent. Including the first three quarters of 2009, only 2 cities (Waco, Texas and Missoula, Montana) had a smaller increase in their labor force this decade than did Lawrence.

Although not shown, Lawrence's labor force has shrunk every year since 2005. This is the only city analyzed where the labor force has declined for four straight years. The labor force has shrunk even as the population of Lawrence and Douglas County has grown. This suggests that in Lawrence, residents are either exiting the job market, or that the people who are moving into the region tend to be less likely to participate in the job market than the people who are moving out of the region. A similar pattern is not as readily apparent in the other comparison cities.

### Local Employment and Wages

Lawrence has also seen below average growth in local jobs this decade. In general, Lawrence was not impacted by the recession in the early years of this decade. This is true also of the average “Sim 15” comparison city, but not true of the average Big 12 community. However as many other Big 12 job markets began to grow in 2004, Lawrence’s job market stagnated. As the nation entered a new recession at the end of 2008, the local job markets had generally grown in cities similar to Lawrence, but here the number of jobs was about the same as they were in 2001.



Finally, local wages tend to be well below average. In 2008, the average wage in Big 12 Cities was about \$37,600, while in the comparison “Sim 15” cities wages averaged close to \$37,000 per year (these include both public and private sector wages). However, the average wage in Lawrence was just over \$32,000 per year. Among Big 12 cities, this was the second lowest wage of any community, and it was the lowest wage among the “Sim 15” cities, making it the second lowest wage in all 25 cities evaluated.

The appendix contains data on unemployment, wages, labor force, and local jobs for each City. When comparing the rank in these categories, Lawrence was the second-lowest performing city from 2001-2008. Unemployment was generally good, but in almost all other categories Lawrence was below or well-below average performance.

*Questions? Please contact Roger Zalneraitis at [rzalneraitis@ci.lawrence.ks.us](mailto:rzalneraitis@ci.lawrence.ks.us) or 785-832-3400*



**APPENDIX**  
**LAWRENCE AND SIMILAR CITIES, ECONOMIC DATA**

City	Category	Unemployment Rate, 2008 (%)	Labor Force, 2008	Change in Labor Force, 2001-2008 (%)	Local Wages, 2008	Change in Wages 2001- 2008 (%)	Local Jobs	Change in Jobs, 2001- 2008 (%)	Overall Rank
Grand Junction, CO	Sim 15	3.9	82,111	36.0	\$39,246	43.1	64,504	26.7	1
Charlottesville, VA	Sim 15	3.3	106,822	19.6	\$44,297	29.5	49,944	29.1	2
Iowa City, IA	Sim 15	2.9	78,714	13.7	\$40,230	27.1	75,260	13.3	3
Bellingham, WA	Sim 15	5.0	109,177	24.5	\$35,864	29.4	83,184	20.8	4
College Station, TX	Big 12	4.0	106,653	12.5	\$33,876	31.5	84,483	12.5	5
Gainesville, FL	Sim 15	4.2	131,660	11.7	\$37,469	39.2	122,391	2.7	6
Ames, IA	Big 12	3.0	48,704	4.4	\$38,558	30.9	42,831	4.9	7
Manhattan, KS	Big 12	3.4	61,663	20.8	\$31,951	22.1	29,273	19.6	8
Athens, GA	Sim 15	4.9	109,233	20.8	\$36,626	23.2	67,684	10.6	9
Davis, CA	Sim 15	7.4	99,504	12.6	\$43,251	22.3	101,456	15.3	10
Austin, TX	Big 12	4.2	543,352	10.3	\$49,805	19.4	578,961	8.2	11
Norman, OK	Both	3.5	119,098	4.3	\$32,587	33.2	72,253	17.8	12
Lincoln, NE	Big 12	3.1	159,943	5.0	\$35,992	22.6	157,705	6.4	13
Boulder, CO	Big 12	4.2	179,179	10.2	\$53,455	20.6	162,252	(12.2)	14
Lubbock, TX	Big 12	3.8	138,273	5.5	\$33,885	27.5	124,259	5.3	15
Waco, TX	Big 12	4.6	111,016	6.9	\$35,698	26.4	103,290	5.7	16
Columbia, MO	Both	4.3	86,374	7.9	\$34,663	21.7	82,557	8.8	17
Missoula, MT	Sim 15	4.5	57,571	4.3	\$33,414	27.6	55,503	12.9	18
Stillwater, OK	Big 12	4.0	35,805	2.1	\$33,739	52.7	32,527	(5.0)	19
Chico, CA	Sim 15	8.4	104,323	9.6	\$34,310	29.5	75,845	5.3	20
Champaign, IL	Sim 15	5.7	105,980	6.2	\$38,025	24.7	92,382	2.0	21
St. Cloud, MN	Sim 15	5.7	107,168	5.5	\$35,350	24.0	81,861	7.6	22
Johnson City, TN	Sim 15	5.9	99,880	9.5	\$33,171	24.2	61,432	8.5	23
<b>Lawrence, KS</b>	<b>Both</b>	<b>3.9</b>	<b>61,049</b>	<b>4.7</b>	<b>\$32,313</b>	<b>24.6</b>	<b>47,049</b>	<b>0.0</b>	<b>24</b>
Bloomington, IN	Sim 15	4.5	69,353	6.8	\$33,656	20.1	62,117	6.4	25

Note: "Overall Rank" is based on the rankings for unemployment, change in labor force, local wages, change in local wages, and change in local jobs

Source: Bureau of Labor Statistics