

# The Economic Barometer

## *A Quarterly Economic Report*

Produced: April 1, 2010

4<sup>th</sup> Quarter 2009

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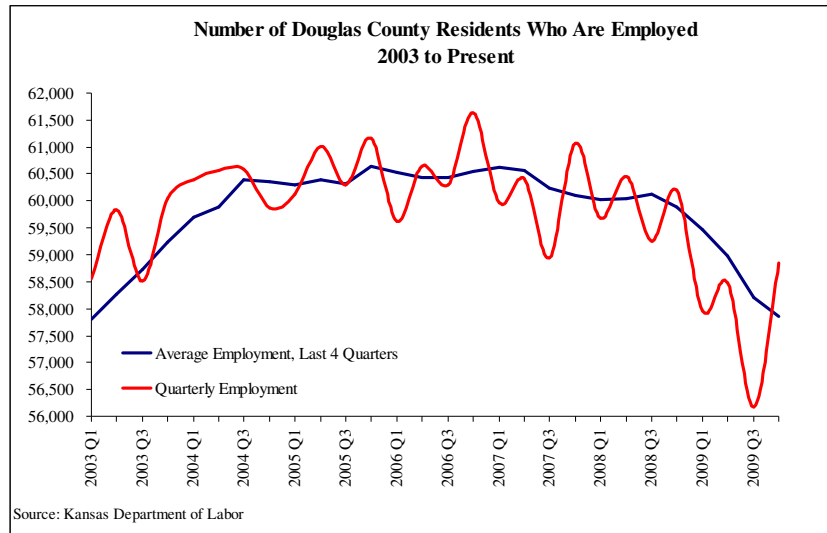
### SUMMARY

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

- The unemployment rate was 4.7 percent in Douglas County. This is a decrease from the last quarter but a slight increase from a year ago;
- The number of building permits decreased from the previous quarter, but the value of building permits rose. Commercial accounted for much of this increase;
- The median sales price for homes was about the same as the 3<sup>rd</sup> Quarter but down almost 10.0 percent from the same time period last year; and
- Taxable retail sales were up from last quarter, and up from a year ago at the same time as well.

## EMPLOYMENT IN LAWRENCE AND DOUGLAS COUNTY

The number of residents employed over the last four quarters continued to decline. However, there was a large increase in the number of residents employed from the 3<sup>rd</sup> to the 4<sup>th</sup> Quarter. Over the year, the average number of residents with jobs was under 58,000. This is the lowest one year average since 2002. On a quarterly basis, however, the number of employed residents in Douglas County rose from 56,000 to almost 59,000. Typically, employment increases in Douglas County in the 4<sup>th</sup> Quarter, but this appears to be a much larger than average increase.



### Fourth 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)	138,724	9.5%	44%	-4.0%
Kansas	1,417,738	6.3%	36%	-0.9%
Kansas City, KS MSA	421,722	6.8%	26%	1.0%
Lawrence MSA	58,854	4.7%	18%	-2.2%
Topeka MSA	116,898	6.0%	12%	0.9%
Wichita MSA	301,761	7.8%	65%	-1.1%

Source: US Bureau of Labor Statistics

The unemployment rate decreased to 4.7 percent in Douglas County from 6.0 percent in the 3<sup>rd</sup> Quarter. This unemployment rate is significantly below both the state and national averages. Lawrence's

increase in unemployment from the same quarter one year ago is also well below the increase statewide and nationally. It is also important to note that the decrease in civilian employment is lower than the national average. For the past two quarters, Lawrence's change in civilian employment was above this rate. It now appears to be declining more slowly than the nation overall, though it is still declining more quickly than the State of Kansas.

Lawrence has seen its unemployment decline since last quarter while also seeing labor force participation rise. As noted last quarter, one reason that Lawrence has continued to see below-average unemployment is due to an above-average decline in labor force participation. While we continue to see a decline in year-over-year labor force counts, the labor force locally increased from the 3<sup>rd</sup> Quarter. This is significantly different than other cities in Kansas and the nation as a whole, and points to a positive trend in local labor markets at the end of the year.

### Fourth Quarter 2009 Labor Force Data

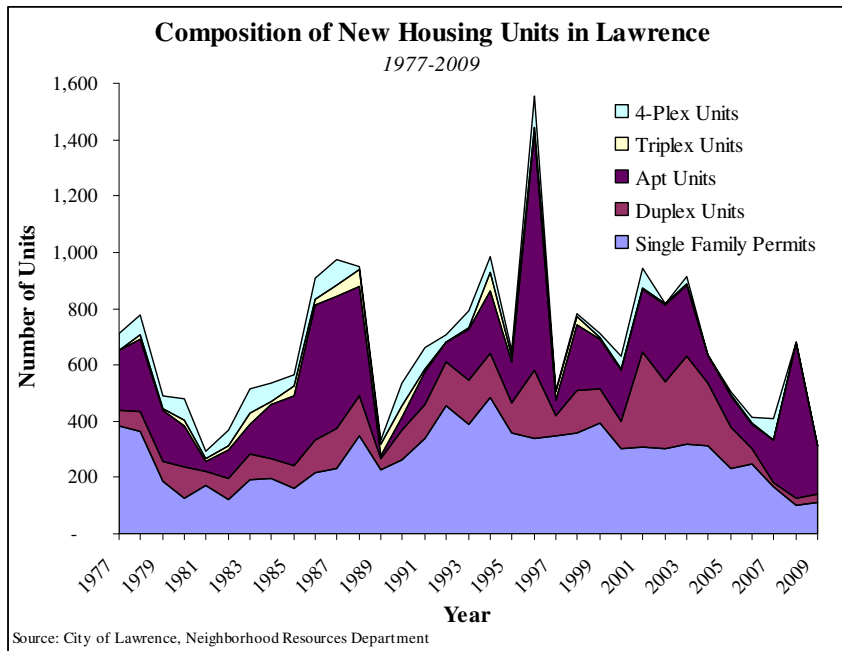
	Civilian Labor Force	Change vs. 1 Year Ago	Change vs. 1 Qtr Ago
U.S. (thousands)	153,289	-0.9%	-1.1%
Kansas	1,513,269	0.9%	-1.4%
Kansas City, KS MSA	452,419	2.5%	-1.4%
Lawrence MSA	61,785	-1.5%	3.4%
Topeka MSA	124,391	1.6%	-1.0%
Wichita MSA	327,277	2.2%	-1.9%

Source: US Bureau of Labor Statistics

## REAL ESTATE

Building permits remain unchanged from last year, while building permit values increased. Overall permit values went up almost 15 percent. This was largely driven by commercial (or non-residential) permitting. Although the number of non-residential permits fell, the value of the permits more than doubled. The Bioscience and Technology Business Center, the new incubator on the West Campus of Kansas University, accounted for \$5.5 million, or more than half, of the non-residential permitting. The value of residential permits fell, though their total number was up. This indicates that there was increased residential construction activity at the end of the year.

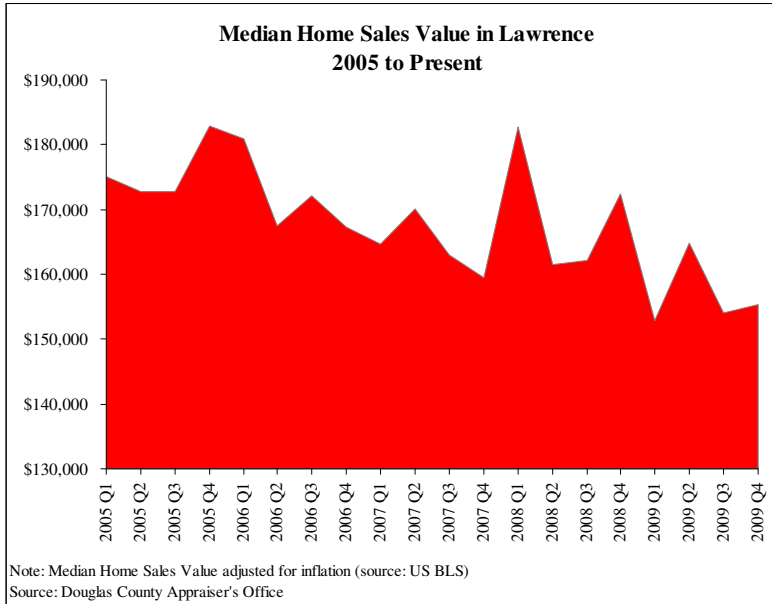
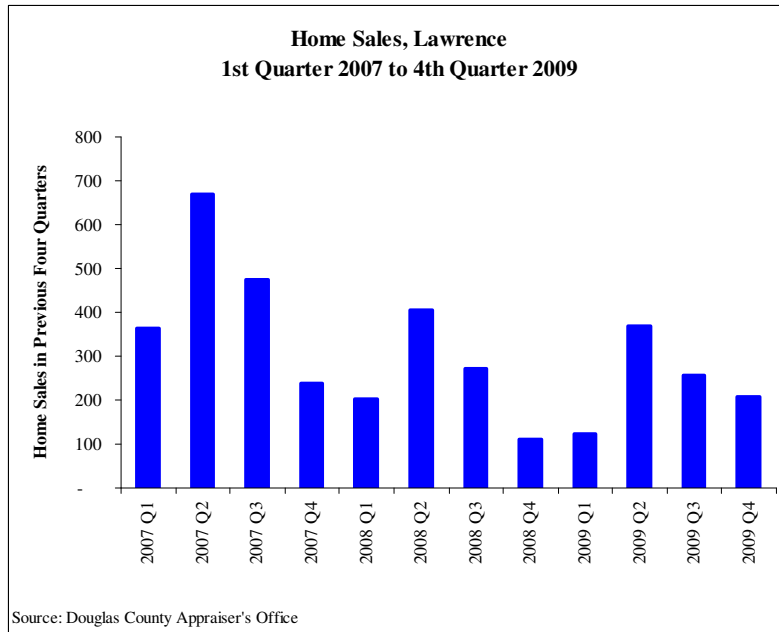
Fourth Quarter Building Permits in Lawrence			
	4th Quarter 2008	4th Quarter 2009	% Change 2008-2009
<b>TOTAL</b>			
Number	511	511	0%
Valuation	\$18,318,749	\$21,152,176	15%
<b>RESIDENTIAL</b>			
Number	31	47	52%
Valuation	\$11,393,941	\$7,584,264	-33%
<b>NON-RESIDENTIAL</b>			
Number	39	28	-28%
Valuation	\$4,106,377	\$9,642,799	135%
Source: City of Lawrence, Neighborhood Resources Department Valuation of Building Permits			



A review of residential permitting in Lawrence shows that building permits in 2009 were among their lowest in 30 years. Since 1977, about 650 units of housing are added to the Lawrence market each year. This has been as high as 1,600 units in 1996 and as low as 295 units in 1981. In 2009, 314 new units of housing were permitted. This is the second lowest since 1977. Single family and duplex

units typically comprise the majority of new units each year, but single family permits have been falling steadily since the late 1990s, and duplex permits have been falling since 2003. Apartment construction has filled some of this gap. However, new apartment unit totals are volatile. On average, about 200 new apartment units are built each year, but this can vary by up to 180 units each year. The construction of triplex units has all but stopped, and 4-plex units appear to be a less substantial portion of new construction than they were in the 1980s and early 1990s.

Home sales in Lawrence were down slightly from the 3<sup>rd</sup> Quarter, but were up from the 4<sup>th</sup> Quarter of the previous year. This is the first year-over-year increase in home sales in over four years. It should also be noted that home sales in the 3<sup>rd</sup> Quarter were almost flat year-over-year. This suggests that the housing market in Lawrence may be stabilizing as we enter the new year. There has been speculation that the national homeowner market has been partially sustained by the \$8,000 tax credit for first time homebuyers. This tax credit is currently scheduled to continue through April of 2010, which may have a positive impact on early year home sales both here and nationally.

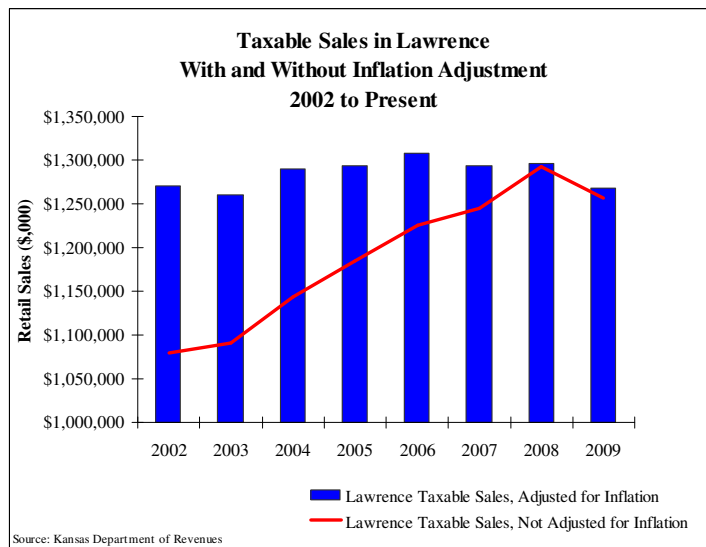


Despite the increase in housing sales, home sale prices continued to fall year-over-year. Home sale prices in the 4<sup>th</sup> Quarter were about \$155,000. In contrast, home sale prices in the 4<sup>th</sup> Quarter of 2008 were about \$172,000. This is about a 10 percent decrease year-over-year. However, home sale prices did increase slightly from the 3<sup>rd</sup> Quarter. The home prices three months ago were around \$154,000. Overall, home sale price continue to exhibit a multi-year, downward trend.

## RETAIL SALES

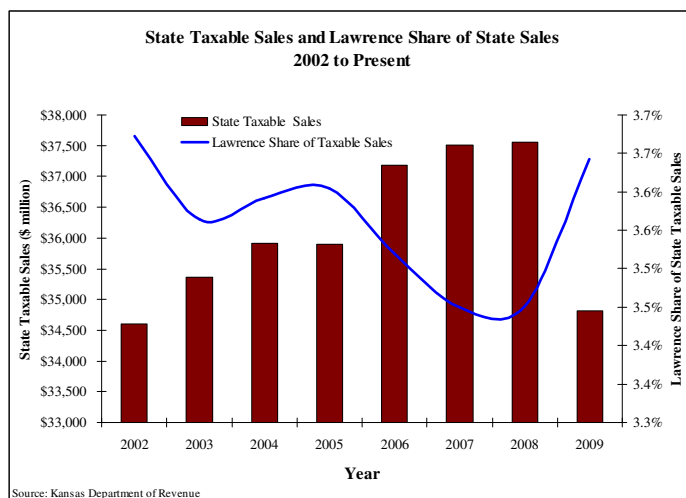
Retail sales taxes generally increased locally and throughout the state in the 4<sup>th</sup> Quarter. Lawrence and Douglas County experienced a modest gain in retail sales taxes of about 0.7 percent year-over-year. This figure does not include the new 0.55 percent sales tax for public transit and infrastructure in Lawrence. State-wide, retail sales taxes increased about 2 percent, with larger gains in Johnson, Shawnee, and Sedgwick Counties. Only Wyandotte continued to see a decrease in sales taxes. Thus there appears to have been a modest, statewide rebound in sales taxes at the end of the year.

County Tax Receipts				
County	Tax Rate	4th Quarter 2008	4th Quarter 2009	Change (%)
Douglas	1.0%	\$3,541,530	\$3,565,063	0.7%
Johnson	1.1%	\$26,964,061	\$28,505,524	5.7%
Wyandotte (Kansas City, KS)	1.0%	\$5,402,228	\$5,069,720	-6.2%
Shawnee (Topeka)	1.15%	\$7,574,170	\$7,814,605	3.2%
Sedgwick (Wichita)	1.0%	\$19,017,077	\$19,525,604	2.7%
Total, State of Kansas		\$175,273,629	\$178,734,498	2.0%



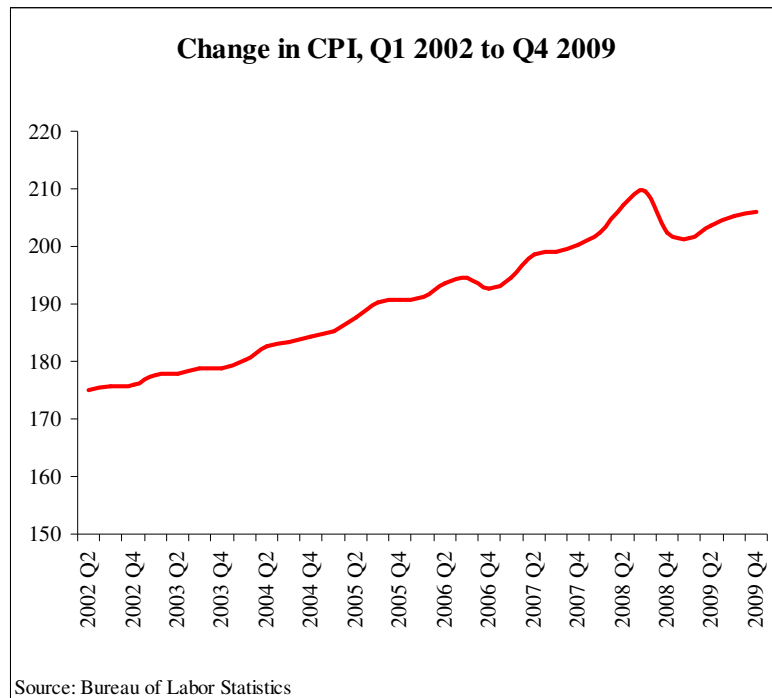
Taxable sales fell in Lawrence both in nominal and real terms. Nominal taxable sales are sales values not adjusted for inflation. Typically, nominal sales taxes have risen every year since the end of the last recession (2002). However, in 2009 nominal taxable sales fell. Inflation-adjusted sales, or *real* taxable sales, also fell. The decline in real taxable sales is not unusual for the decade. In fact, real taxable sales have been flat since 2002.

In 2009, nominal taxable sales fell by about 2 percent in Lawrence. However throughout Kansas, nominal taxable sales fell by over 7 percent. Thus although it appears from local data that Lawrence struggled with taxable sales in 2009, the region outperformed the State. Prior to 2009, real statewide taxable sales were outperforming Lawrence, resulting in a declining share of statewide taxable sales in Lawrence. However, the decline in taxable sales in 2009 caused inflation-adjusted taxable sales to be roughly where they were seven years ago for both the State and Lawrence.



## INFLATION AND THE COST OF LIVING

Inflation continues to be mild. After a spike in inflation in 2008 due to increases in commodity prices, inflation largely leveled off in 2009. In fact, inflation in the 4<sup>th</sup> Quarter appears to have softened somewhat. Prices remained virtually unchanged over the last three months of the year. Overall, inflation in 2009 was almost identical to the long run average. Prior to 2008, the annualized inflation rate was around 2.5 percent. The inflation rate for 2009 was about 2.6 percent. There remains very little indication in the Midwest that inflation rates are beginning to increase.



### Annual Average

### Comparative Cost of Living Index

	2008	2009	Change (%)
<b>US Average</b>	<b>100.0</b>	<b>100.0</b>	
Lawrence, KS	93.4	92.2	-1.3%
Manhattan, KS	97.9	95.9	-2.0%
Topeka, KS	89.6	90.9	1.5%
Ames, IA	93.0	96.6	3.9%
Champaign, IL	96.7	98.1	1.4%
Columbia, MO	91.0	91.1	0.1%
Fort Collins, CO	95.3	92.7	-2.7%

Source: ACCRA

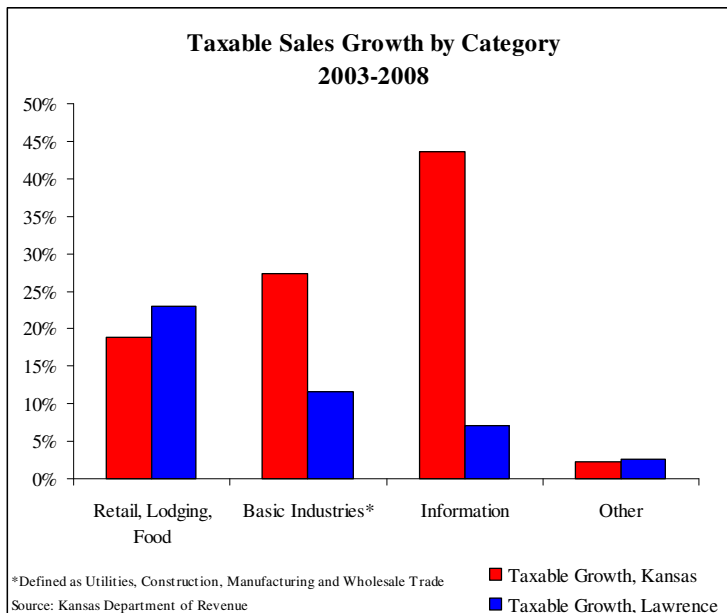
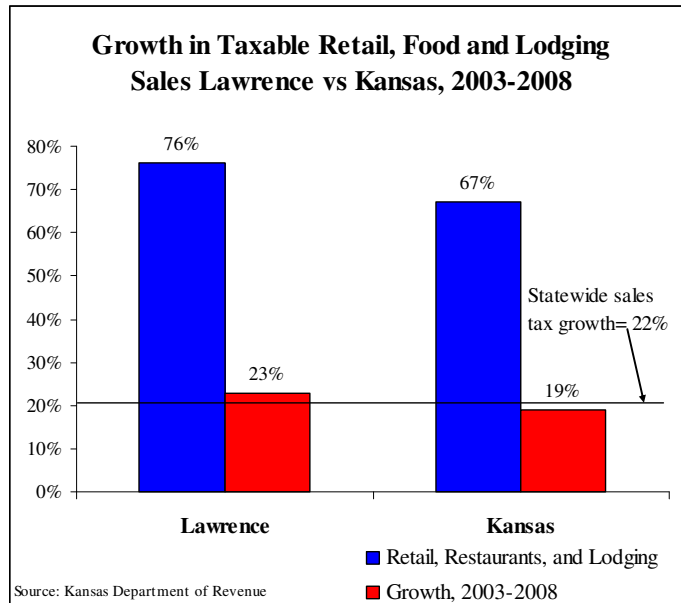
Kansas and Fort Collins, Colorado also saw a decline in the cost of living from last year compared to the United States as a whole.

The cost of living in Lawrence and the Midwest remained below the national average in 2009. However, several of the cities surveyed saw a relative gain in the cost of living over the year. This was not the case in Lawrence, where the cost of living relative to the United States fell slightly from 2008. Manhattan,

### FOCUS ON... Taxable Sales and Downtown

People often equate “taxable sales” with “retail sales.” There is certainly some justification for this. Statewide, taxable sales attributable to retail, lodging, and restaurants—the categories often most associated with taxable retail sales—make up about two-thirds of total taxable sales. Retail sales are an even greater contributor to taxable sales in Lawrence, comprising more than three-quarters of all citywide taxable sales.

However, if taxable sales from retail were the only source of sales tax, Lawrence would be outperforming the State. Statewide sales tax growth from 2003-2008 was about 22 percent, compared to about 21 percent in Lawrence (these growth rates are not adjusted for inflation). In Lawrence, sales tax growth from retail sales was 23 percent. Statewide, sales tax growth from these retail categories was only 19 percent. Taxable retail sales in Lawrence thus grew faster than retail sales statewide, as well as taxable sales in the City overall. Yet through 2008, taxable sales in Lawrence grew slower than those statewide. If not retail sales, what caused this gap?



The reason appears to be taxable sales in certain key industries. Basic industries—defined here as Utilities, Manufacturing, Construction, and Wholesale Trade—comprise about 14 percent of all statewide taxable sales. These industries saw about 27 percent growth in taxable sales from 2003-2008. In Lawrence, in contrast, taxable sales growth in these industries was 12 percent, or less than half the State average. Even more pronounced was the gap in the Information industry. Information comprises 9 percent of taxable sales statewide. This industry saw taxable sales

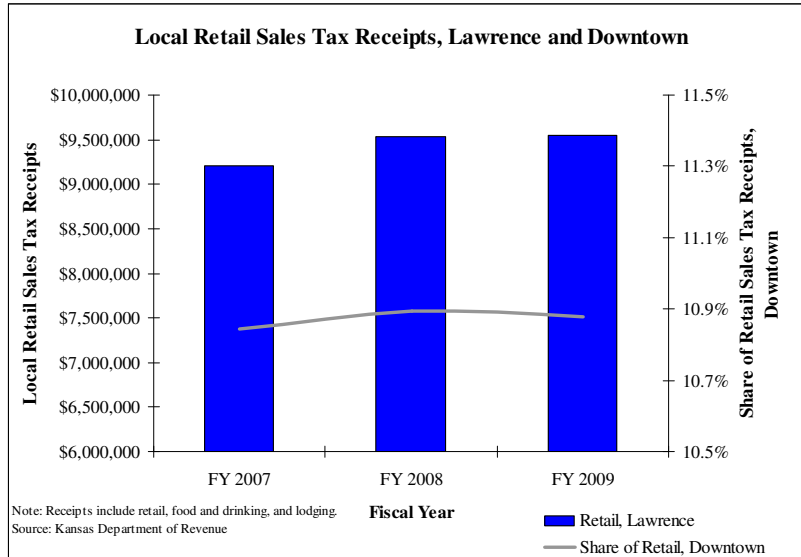
growth of about 45 percent from 2003 to 2008. Lawrence's growth rate in taxable sales in Information was 6 percent, which is one-eighth the statewide average.

Together, these industries comprise the main reason for below-average sales tax growth in Lawrence. As shown in the 2<sup>nd</sup> Quarter Barometer Report, these industries also performed better in job growth statewide than they did in Lawrence. This suggests that below average sales tax

growth in Lawrence prior to the recession was caused largely by poor economic performance in industries often thought of as “base employers”, and not retail categories.

Sales in downtown Lawrence are more retail-oriented than the City as a whole. Recent data from the Department of Revenue provides some insight into retail trends in the Downtown area.

Over the last three Fiscal Years, Downtown Lawrence has maintained a steady share of City retail sales. In fact, the share of retail, lodging, and restaurant sales may have increased slightly from Fiscal Year 2007 (July 1, 2006 to June 30, 2007) to Fiscal Year 2009. The City is currently working with the Department of Revenue to try to obtain additional historic data to see if this steady share of retail is consistent across a longer period of time.



As many might suspect, the predominance of sales in Downtown Lawrence comes from Bars and Restaurants. In Fiscal Year 2009, almost half of all downtown sales were from this category. Sport, Books, Music and Hobby stores (herein “Hobby Stores”) made up the next largest retail sales category, followed by Clothing. These three categories accounted for almost 90% of all taxable retail sales Downtown.

Overall, retail sales taxes in Downtown grew by 4 percent from Fiscal Year 2007 to Fiscal Year 2009. Growth rates were above average for Bars and Restaurants, as well as Hobby Stores. The highest growth in taxable retail sales Downtown occurred in the Hobby Store category. Clothing experienced the largest sales decline.

Composition of Downtown Retail, Lawrence			
Retail Category	Share of Receipts, FY2009	Growth of Sales Tax Receipts	Per-Store Growth of Sales Tax Receipts
Bars and Restaurants	49%	7.1%	-3.0%
Sport, Books, and Music	19%	10.3%	10.3%
Clothing	19%	-6.6%	-2.7%
Other Retail	13%	1.2%	6.5%
<i>Total</i>		4.0%	2.3%

Note: Growth is measured from Fiscal Year 2007 to Fiscal Year 2009  
source: Kansas Department of Revenue

Data confirms anecdotal evidence that there has been an increase in the number of bars and restaurants in Downtown. However, the growth in the number of bars and restaurants has exceeded sales in these stores. That is, the taxable retail sales in the average Downtown bar or restaurant has declined over the last three fiscal years. This suggests that there may be some cannibalization of sales occurring between bars and restaurants downtown. In contrast, the other three retail categories saw per-store taxable retail sales exceed overall performance. This implies that for some types of retailers- particularly Hobby Stores- the value of locating Downtown may be increasing, while for restaurants and bars, it may be decreasing.

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