

Retail Services in the Lawrence Economy

A Report Prepared for the Retail Task Force

by

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EXECUTIVE SUMMARY

The Lawrence retail sector is a significant component of the local economy. While retail has experienced job losses in Lawrence, it has fared better here than in many other communities and weathered the growth of Kansas City, Kansas' retail sector better than most nearby cities. Restaurants and grocery stores are particularly strong sectors in Lawrence, while general merchandise stores may have underperformed this decade.

Key findings of this study include:

Retail Services Nationally, Statewide, and Locally:

- *Retail services constitute about 9 percent of the national GDP and 23 percent of all private sector jobs. They make up a larger share of the Lawrence economy, where retail services comprise over 11 percent of local GDP and over 30 percent of all private sector jobs. In both the nation as a whole and Lawrence, growth has been flat to negative in traditional retail this decade, and positive for food and lodging. Job loss was particularly steep in Lawrence in 2008, largely as a result of a decrease in employment in food and lodging.*

Retail Services at the County Level:

- *Lawrence and Douglas County's patterns in retail services over the last several years appear consistent with other counties in Kansas. Douglas County has a high number of retail service jobs, which is similar to many other counties in the state that contain a large city. Like most counties, it lost jobs in retail services from 2001 to 2008. Finally, like other counties in northeast Kansas it may have been affected by retail growth in Wyandotte County (Kansas City, Kansas).*

Retail Services in Lawrence and its Peer Cities:

- *Compared to its peer communities, Lawrence receives a similar share of its taxable sales from retail services. Although taxable retail sales fell in Lawrence from 2003 to 2009, they fell less than most other peer cities. Lawrence also appears to have been less affected by new "category killer" stores in Kansas City than other cities in Northeast Kansas. While Lawrence has a lower-than-average retail service pull factor, its pull factor increases when accounting for per capita income. In fact, when controlling for income, Lawrence was one of only three peer cities to see an increase in its pull factor from 2003 to 2009.*

Retail Sectors within Lawrence:

- *General Merchandise stores like Walmart and JCPenny are the largest source of taxable retail sales in Lawrence. However, there are fewer General Merchandise sales in Lawrence than in peer communities, and its taxable sales declined from 2003 to 2009. Taxable sales in restaurants, grocery stores and health supplies were key sources of growth in this same time period. Western Lawrence has seen a large growth in both population and retail sales over the decade. The center of retail activity in Lawrence appears to be South Iowa and East 23rd Streets.*

RETAIL SERVICES NATIONALLY, STATEWIDE, AND LOCALLY

Retail trade is traditionally thought of as the sale of goods for consumption (or use). This consumption can occur immediately or over time. For example, some goods immediately consumed include a dinner purchased at a restaurant, or a room to lodge in for the night. Goods consumed over time can include automobiles and furniture. In the North American Industrial Classification System (NAICS), retail trade is captured in two categories. The first is “Retail Trade,” or NAICS 44-45, while the second is “Accommodations and Food Services,” or NAICS 72. In this report retail trade that encompasses both NAICS 44-45 and NAICS 72 will be referred to as “retail services”.

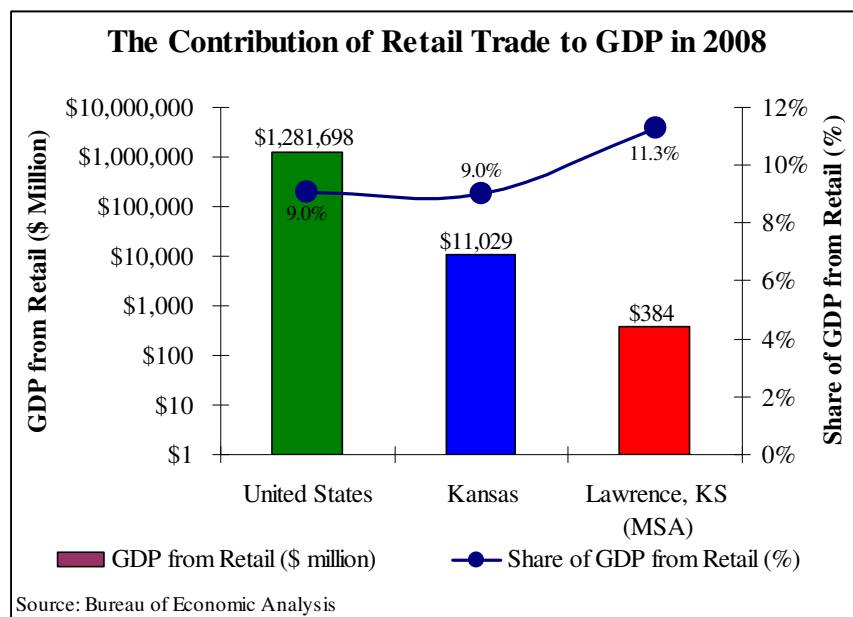
Retail Services and the Economy

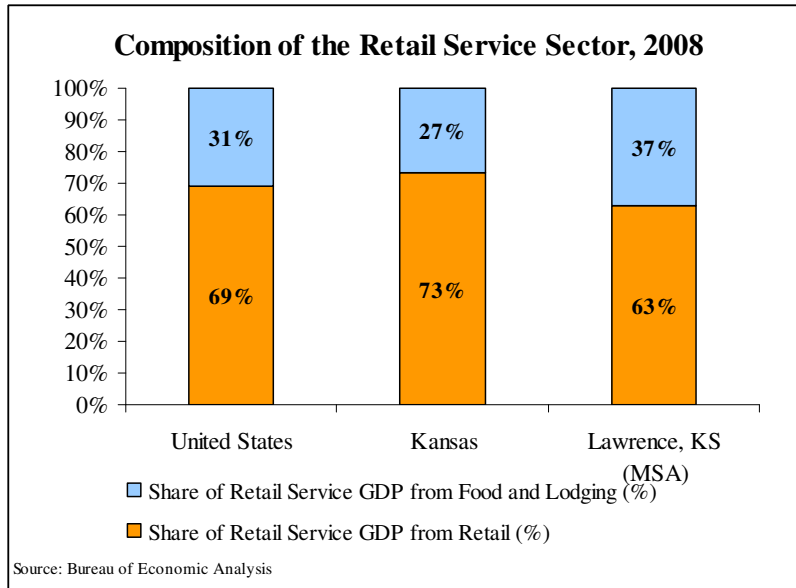
Understanding the role retail services play in the national economy can help place the sector in context here in Lawrence. Typically, the economy is measured in Gross Domestic Product, or GDP. GDP is a calculation of the value created by the public and private sector. In 2008, the GDP of the United States was approximately 14.2 trillion dollars. About 9 percent—or \$1.3 trillion—of GDP was derived from retail services. NAICS 44-45 (“Retail trade”) made up about 70 percent of all retail trade, or \$885 billion of GDP. The balance—about \$400 billion—of retail service GDP was derived from NAICS 72 (“lodging and restaurants”).

The GDP of retail services in Kansas was about \$11 billion in 2008. Consistent with the nationwide average, retail services comprised about 9 percent of the total statewide GDP (approximately

\$122 billion) in that year. In the Lawrence MSA—which consists solely of Douglas County and will be referred to herein as “Lawrence”—retail service GDP was about \$384 million, out of a total GDP of about \$3.4 billion. However, unlike the state or the nation as a whole, this sector was about 11.3

percent of the local GDP. This is about 25 percent higher in Lawrence than the state or the nation as a whole.

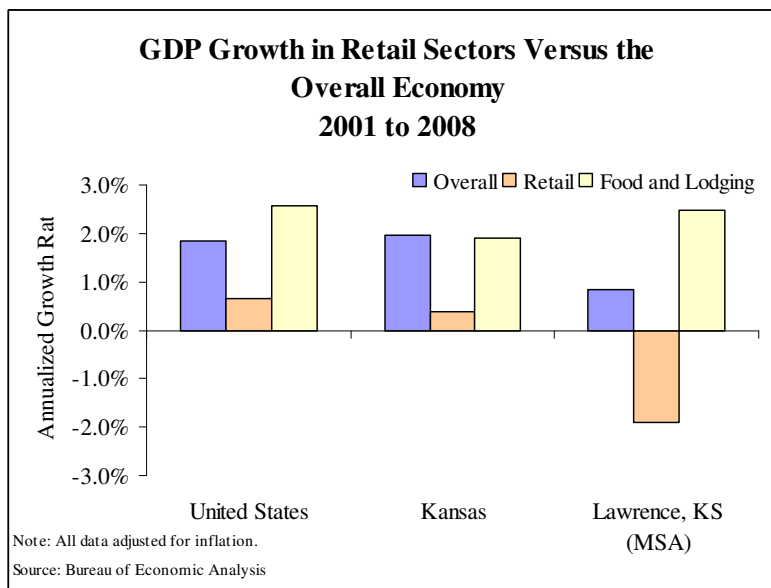




The share of retail trade coming from lodging and restaurants was also higher in Lawrence than either the state or national averages. Nationally, a little less than a third of retail services is derived from food and lodging. This is higher than in Kansas, where a little over a quarter of GDP comes from food and lodging. In Lawrence, however, food and lodging comprises 37

percent of the retail service sector. Since retail services is a larger portion of the local GDP than it is in the nation or even the state, this suggests that food and lodging also plays a larger-than-average role in Lawrence than either the state or the nation as a whole.

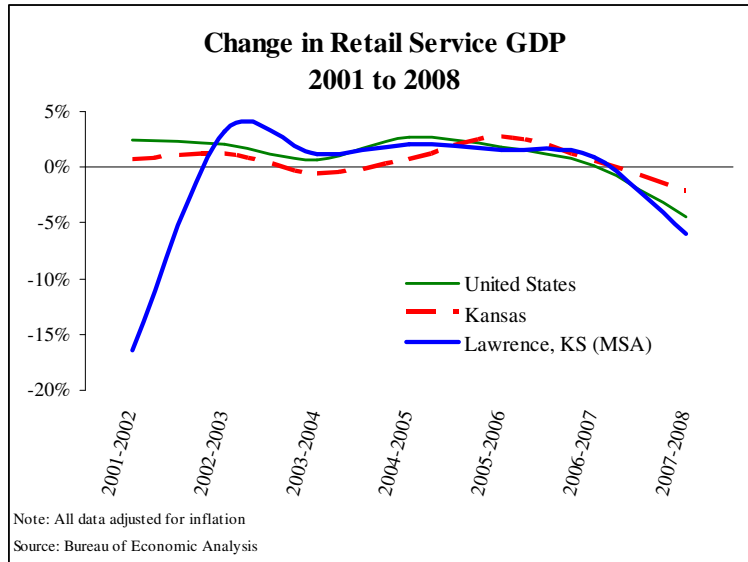
Since 2001, retail GDP has generally lagged the overall economic growth rate, while food and lodging has exceeded the overall economic growth rate. Nationally, the economy grew a little less than 2 percent per year from 2001 to 2008. Retail grew at less



than half of this rate, while food and lodging grew by about 2.5 percent. A similar trend can be seen in Kansas, except that retail growth statewide was lower than the national average. In Lawrence, however, overall GDP growth was less than 1 percent per year from 2001 to 2008. Retail growth itself was negative, while GDP growth in food and lodging was close to the national average.

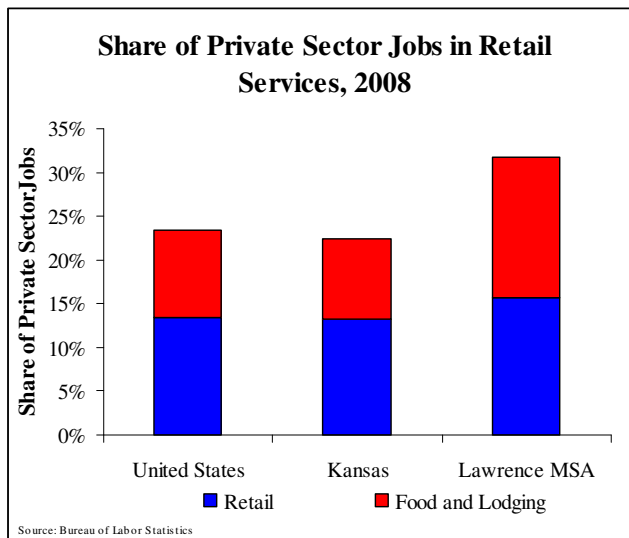
Looking at performance from year-to-year, Lawrence's retail service GDP displays greater volatility than state and national retail services. In particular, Lawrence retail

appears sensitive to recessions. The retail service sector declined greatly from 2001 to 2002. It also declined more rapidly than either the nation or Kansas from 2007 to 2008. This may have occurred because the recession began earlier in Lawrence than it did in Kansas and many other parts of the country. However, Lawrence's retail service growth generally outperformed the state and the nation from 2003 to 2007. In that period, the retail service sector grew about 7.5 percent nationwide, and about 4.6 percent in Kansas. In Lawrence, however, the retail service sector grew by almost 9 percent. This larger-than-average growth was caused by a healthy rebound in retail activity from 2002 to 2004.



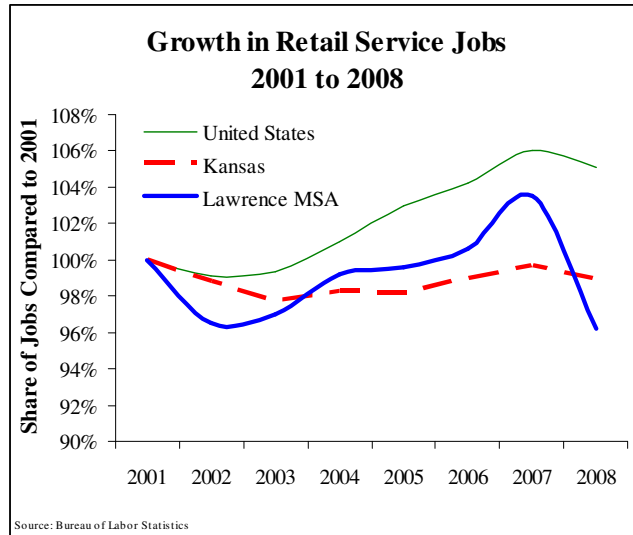
Jobs in Retail Services

As of 2008, there were roughly 114 million private sector jobs in the United States. Approximately 1.1 million of these private sector jobs were in Kansas, and a little less than 36,000 of the private sector jobs in Kansas were found in the Lawrence MSA.



Nationally, retail service jobs make up almost one-quarter of all private sector jobs. This is a little bit more than in Kansas, where they make up about 23 percent of all private sector jobs. However, in Lawrence, over 30 percent of all private sector jobs are found in retail services. The main cause of this is food and lodging. While there is a slightly greater share of private sector employees in retail trade than there are either statewide or nationwide, the share of employees in food and lodging is almost twice as high as it is in Kansas or the U.S.

Job growth in retail services was steady until 2008. There was a slight decline in retail service jobs nationally early in the decade, likely as a result of the recession. By 2003, however, retail service jobs began to grow, and continued growing nationally at a steady pace. This ended in 2008, as the first signs of a recession began to take hold. Underlying these trends has been a general growth in food and lodging, and steady levels of employment in retail trade.



The story was different in Kansas. Job growth in retail services was slightly negative. There were about 1,000 fewer retail service jobs in the State in 2008 than there were in 2001. This has largely been caused by a decline in retail trade jobs. Statistics show that whereas retail trade was steady nationwide, in Kansas about 8,000 jobs were lost in this category during between 2001 and 2008. However, food and lodging has been growing statewide. There was a gain of about 7,000 jobs in this category. This was not quite enough to offset job losses in other retail businesses.

Lawrence Job Loss in Retail 2007 to 2008			
	2007	2008	Change
Retail	5,808	5,584	(224)
Food and Lodging	6,344	5,705	(639)
Total, Retail Services	12,152	11,289	(863)

source: Bureau of Labor Statistics

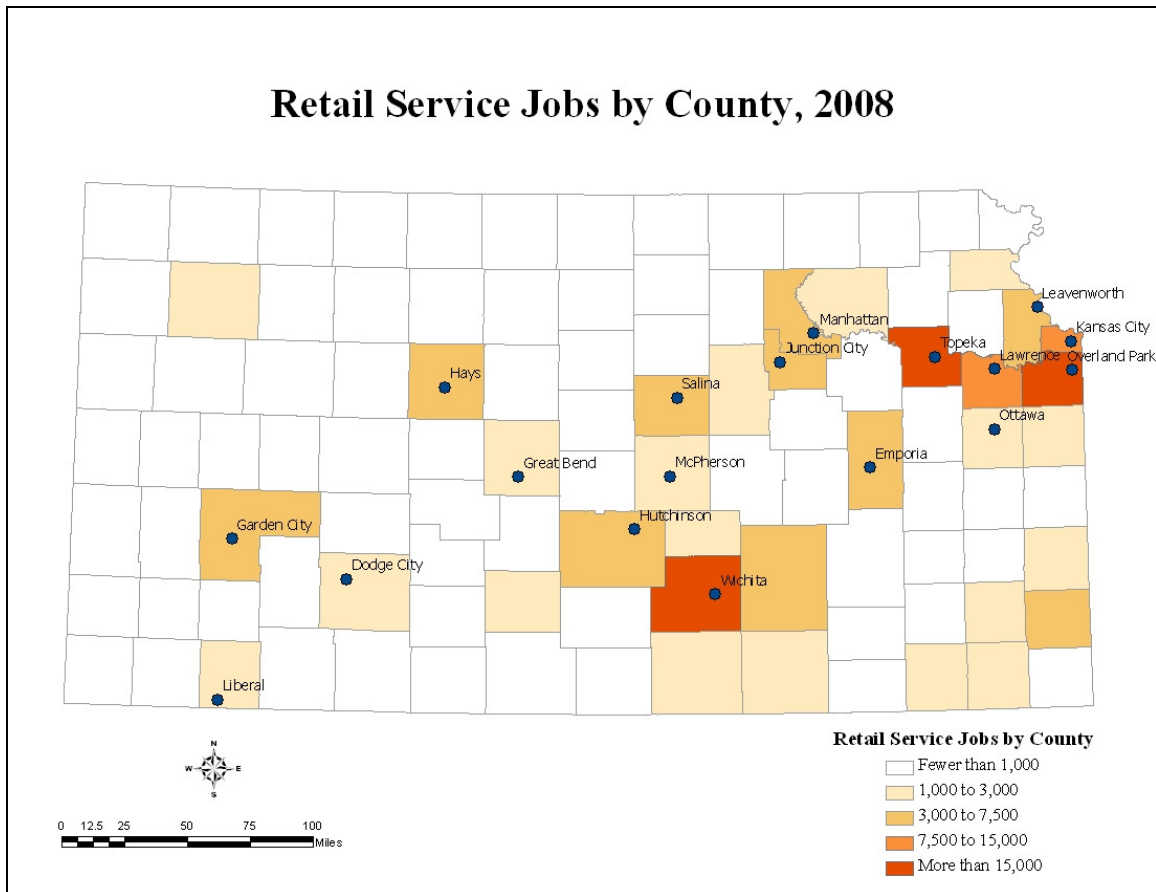
Lawrence has seen job growth through much of the decade that more closely resembles the national average. Similar to Statewide trends, Lawrence lost jobs in retail trade while gaining jobs in food and lodging. However, through 2007 the growth rate in food and lodging contributed to a net gain in retail services. This changed in 2008, when Lawrence

lost more than 600 food and lodging jobs. This was equivalent to almost 10% of the food and lodging workforce, and accounted for about 75% of all the retail job loss that year. As a result, there were fewer jobs in Lawrence in retail services at the end of 2008 than there were in 2001.

In summary, retail services constitute about 9 percent of the national GDP and 23 percent of all private sector jobs. They make up a larger share of the Lawrence economy, where retail services comprise over 11 percent of local GDP and over 30 percent of all private sector jobs. Growth has been flat to negative in traditional retail this decade, and positive for food and lodging. This is true in Lawrence as well as the nation as a whole. Job loss was particularly steep in Lawrence in 2008, largely as a result of a decrease in employment in food and lodging.

RETAIL SERVICES AT THE COUNTY LEVEL

Retail services comprise about 9 percent of the Kansas economy, and over 20 percent of the jobs. The following map shows the location of these jobs in Kansas:

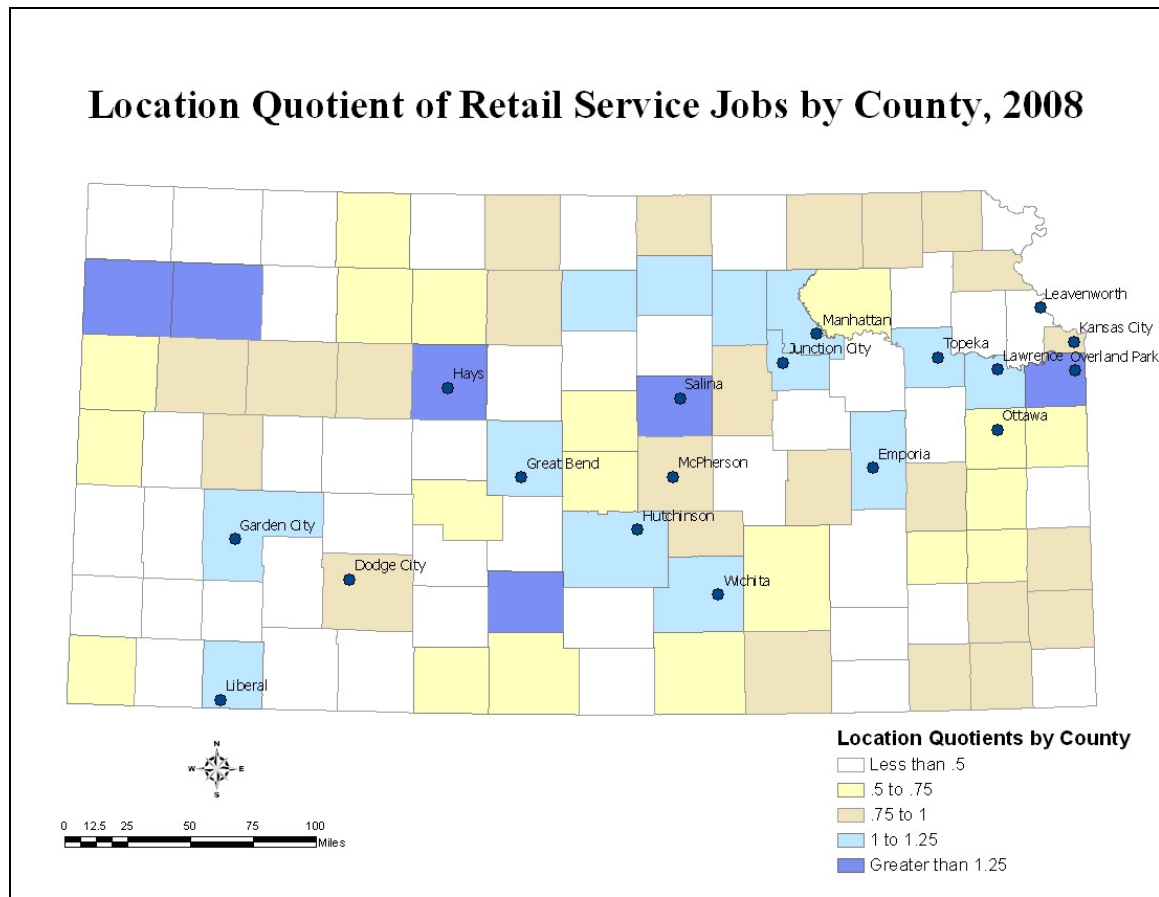


Source: Bureau of Labor Statistics

Unsurprisingly, most of the retail service jobs in the state can be found near cities. The vast majority of rural counties have fewer than 1,000 retail jobs each. In contrast, the three most populated counties—Johnson (on the map above, Overland Park), Shawnee (Topeka) and Sedgwick (Wichita)—have more than 15,000 retail jobs each. Lawrence and Douglas County have about 12,000 total retail service jobs. This is a comparable number to Wyandotte County (Kansas City).

A more useful way to look at the concentration of jobs in a given industry is to look at the “location quotient” for these jobs. The location quotient measures the local number of jobs in a particular industry per capita against the number of jobs in that industry in the state per capita. In other words, the location quotient controls for population.

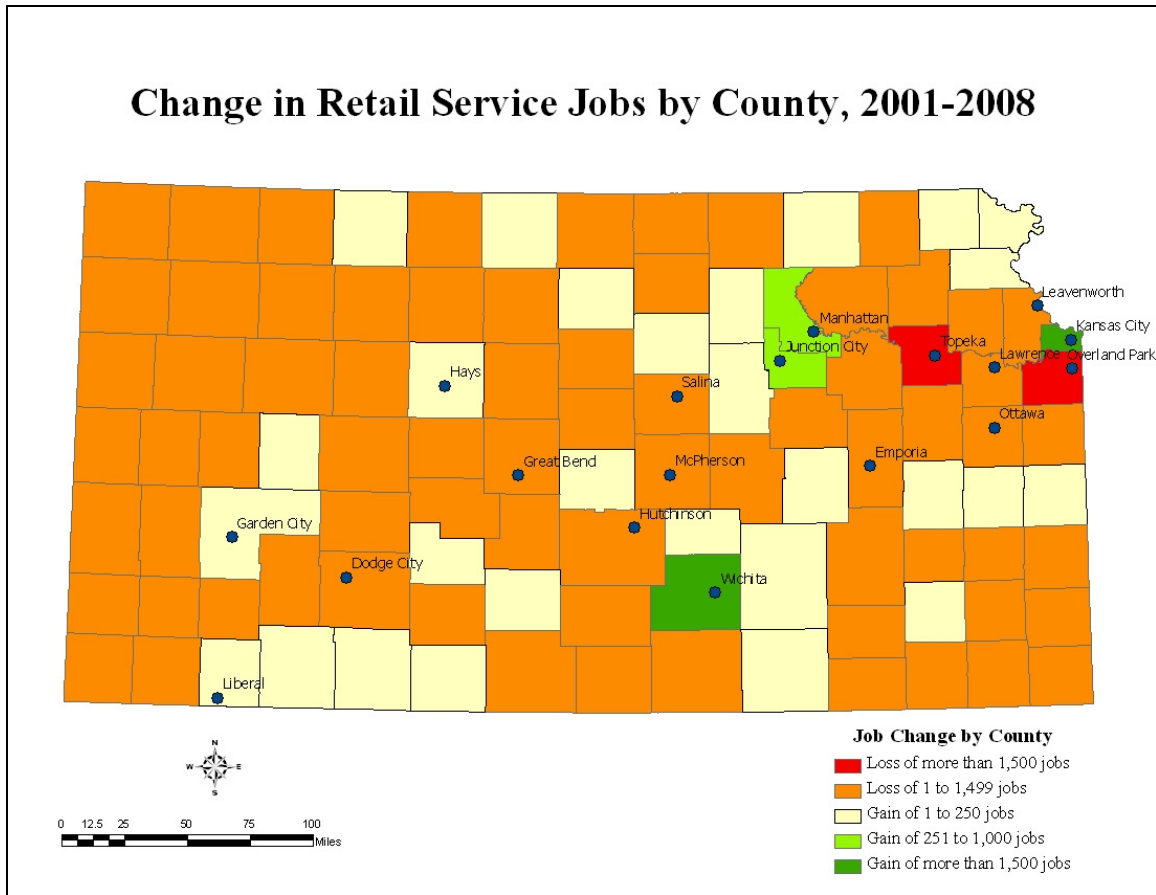
The following map shows the location quotient for retail service jobs by county for Kansas as of 2008:



Source: Bureau of Labor Statistics

Counties that appear in a shade of blue have more retail service jobs than would be expected (which is a location quotient greater than 1), while those that are yellow or white have fewer retail service jobs than would be expected (that is, a location quotient less than 1). Even controlling for population, most counties with large towns or cities have a larger-than-expected share of retail service jobs. The exceptions to this are Ford (Dodge City), McPherson (McPherson), Franklin (Ottawa) and Wyandotte (Kansas City) Counties. Lawrence and Douglas County also have more retail service jobs than one would expect. However, the concentration of retail jobs in Douglas County is comparable with Shawnee (Topeka), Sedgwick (Wichita) and Finney Counties (Garden City), among others. The three urban counties with the greatest concentration of retail service jobs are Johnson (Overland Park), Saline (Salina), and Ellis (Hays).

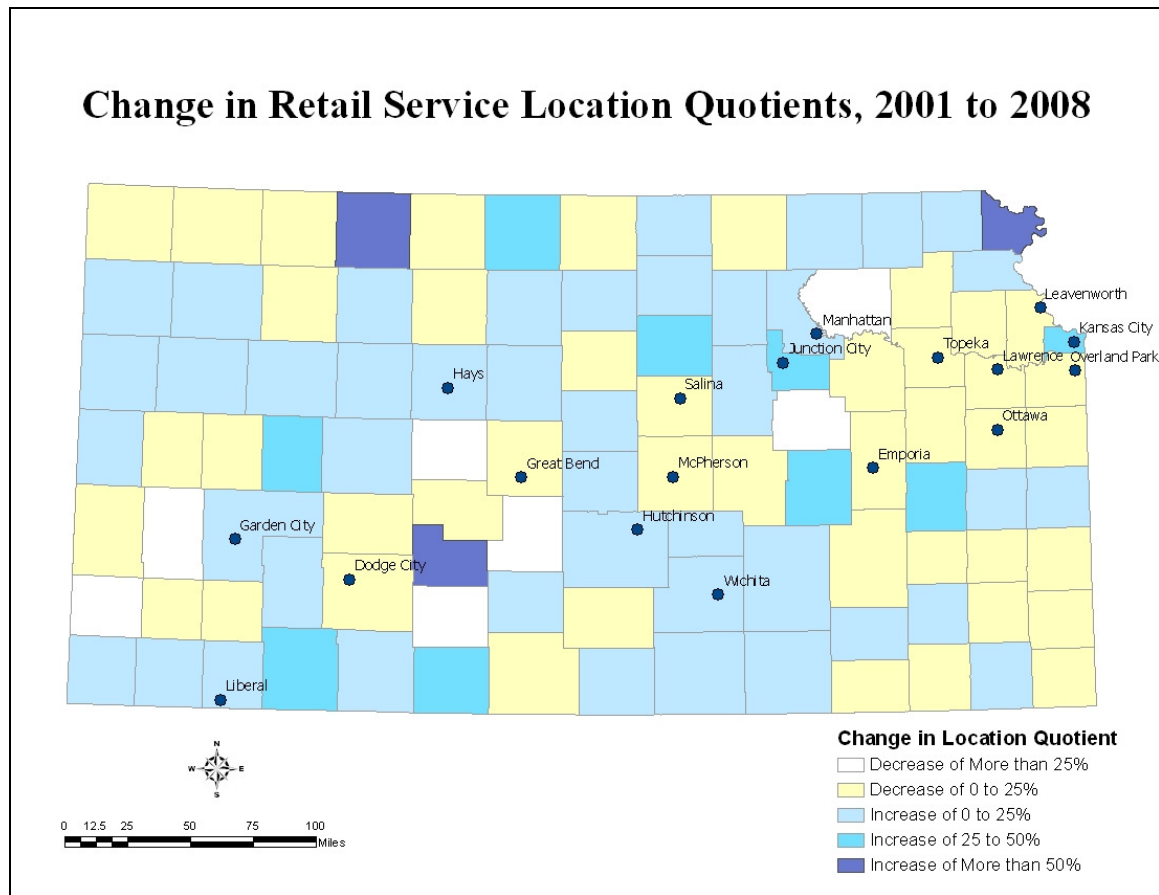
The previous section found that retail service jobs remained largely unchanged statewide from 2001 to 2008. The following map shows the job change in retail services by county in Kansas over the same period:



Source: Bureau of Labor Statistics

This map shows that the majority of counties in Kansas lost between 1 and 1,499 jobs from 2001 to 2008. Retail service job losses experienced by Lawrence and Douglas County were consistent with the majority of counties. Shawnee (Topeka) and Johnson (Overland Park) Counties recorded the largest number of job losses in retail services. While some rural counties with large towns gained jobs, some did not. For example, Finney (Garden City) and Ellis (Hays) Counties gained a modest number of retail service jobs, but Ford (Dodge City), Saline (Salina) and Lyon (Emporia) counties all lost jobs in this sector. The most significant job gains occurred in Wyandotte (Kansas City), Riley (Manhattan), Geary (Junction City), and Sedgwick (Wichita) Counties. Excluding these four counties, retail service job growth for Kansas was likely negative between 2001 and 2008.

This job change resulted in a shift in location quotients as well:



Source: Bureau of Labor Statistics

Counties shaded in blue saw an increase in their location quotient for retail service jobs, while counties shaded in yellow or white saw a decrease. There are three things to note on this map. First, some rural counties that lost retail service jobs also saw an increase in their location quotient. This occurred because the population for those counties fell more than the retail service jobs. Second, in northeast Kansas, almost all of the more populated counties saw a decrease in their location quotient. The one exception to this was Wyandotte County (Kansas City). In Wyandotte, the Village West retail center came online in this time period, and may have affected retail service jobs elsewhere in the region. Third, the change in location quotients for counties with cities outside of Northeast Kansas is largely consistent with the change in retail service jobs. For example, Finney County (Garden City) saw an increase in retail service jobs, and an increase in its location quotient. In contrast, Ford County (Dodge City) saw a decrease in both its location quotient and jobs.

In summary, Lawrence and Douglas County's patterns in retail services over the last several years appear consistent with other counties in Kansas. Douglas County has a high number of retail service jobs, which is similar to many other counties in the state that contain a large city. Like most counties, it lost jobs in retail services from 2001 to 2008. Finally, like other counties in northeast Kansas it may have been affected by retail growth in Wyandotte County (Kansas City, Kansas).

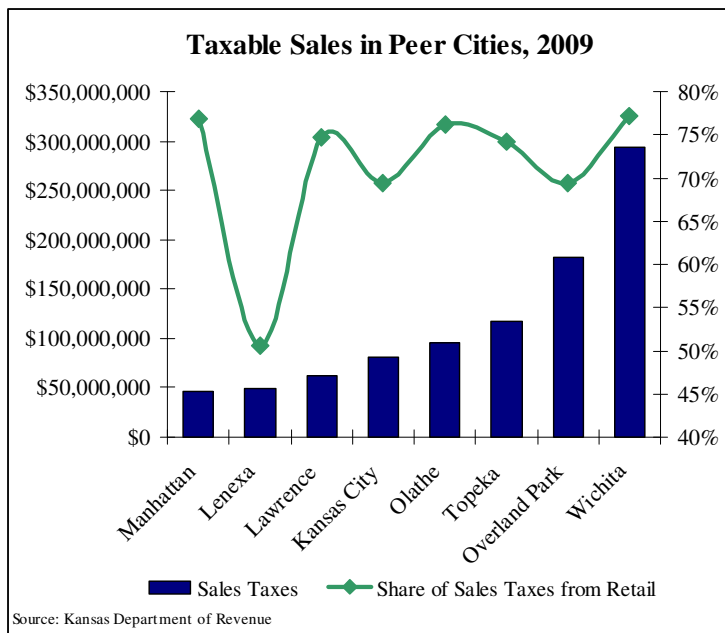
RETAIL SERVICES IN LAWRENCE AND ITS PEER CITIES

As noted earlier, Lawrence has a larger share of retail services than either the nation or the state of Kansas as a whole. It is important to look at Lawrence against similar cities as well. This comparison helps explain whether the trends in the local economy are consistent with trends that one would expect to find in the community.

This analysis treats peer cities as Kansas cities that had more than \$50 million in state sales tax collections in Fiscal Year 2008. This time period was chosen because it was the most recent time period that the state of Kansas assessed “pull factors” at the city level. The pull factor measures the share of local sales taxes collected against the average statewide. In Fiscal Year 2008, only seven cities had \$50 million or more in state sales tax collections: Kansas City, Lawrence, Lenexa, Olathe, Overland Park, Topeka, and Wichita. Additionally, Manhattan with \$46 million in state sales tax collections was added in order to assess retail performance in another “college town.”

It is also important to note that taxable sales can come from more than just retail. Businesses that make final sales of a product also report taxable sales. Typically, however, retail services make up about two-thirds of all statewide sales taxes.

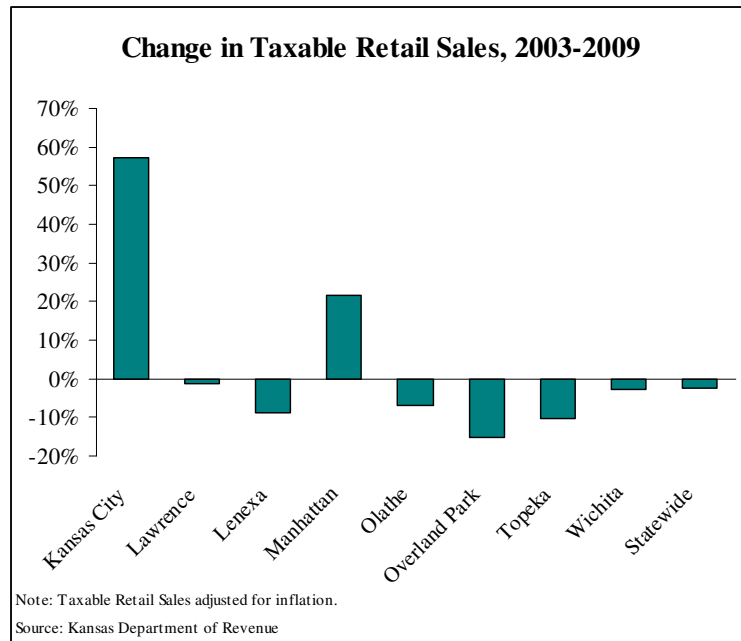
Sales Taxes in Peer Cities



For the eight peer cities surveyed, retail services on average comprise more than 70 percent of all taxable sales. This suggests that retail services are a more important source of sales tax for these cities than the state as a whole. In 2009, the share of taxable sales from retail services in Lawrence was about 75 percent. Only one city—Lenexa—saw retail services make up less than about 70 percent of total taxable sales. Apart from Lenexa, only two cities had a lower share of taxable sales

from retail services than Lawrence: Kansas City, and Overland Park. The two cities with the largest share of taxable sales from retail services were Manhattan and Wichita.

After adjusting for inflation, taxable retail sales fell statewide from 2003 to 2009 by about 2.5 percent¹. Taxable retail sales also fell in most of Lawrence's peer cities. On average, taxable retail sales fell in the eight peer cities by about 3 percent. This is a larger decline than the state as a whole. Only two cities saw taxable retail sales grow: Kansas City, and Manhattan. Among the six peer cities that saw a decline in taxable retail sales, Lawrence saw the smallest decline, at a little over 1 percent. This was half the rate of the statewide decline, and almost two-thirds less than the peer cities overall.



A closer look at the source of the very large growth (almost 60%) in taxable retail sales in Kansas City, Kansas suggests that certain stores—often dubbed “category killers”, as they may draw in sales from other nearby stores of a similar type—may have been both the cause of growth there and the cause of decline elsewhere in Northeast Kansas. The following chart shows the categories where growth in Kansas City exceeded 100 percent:

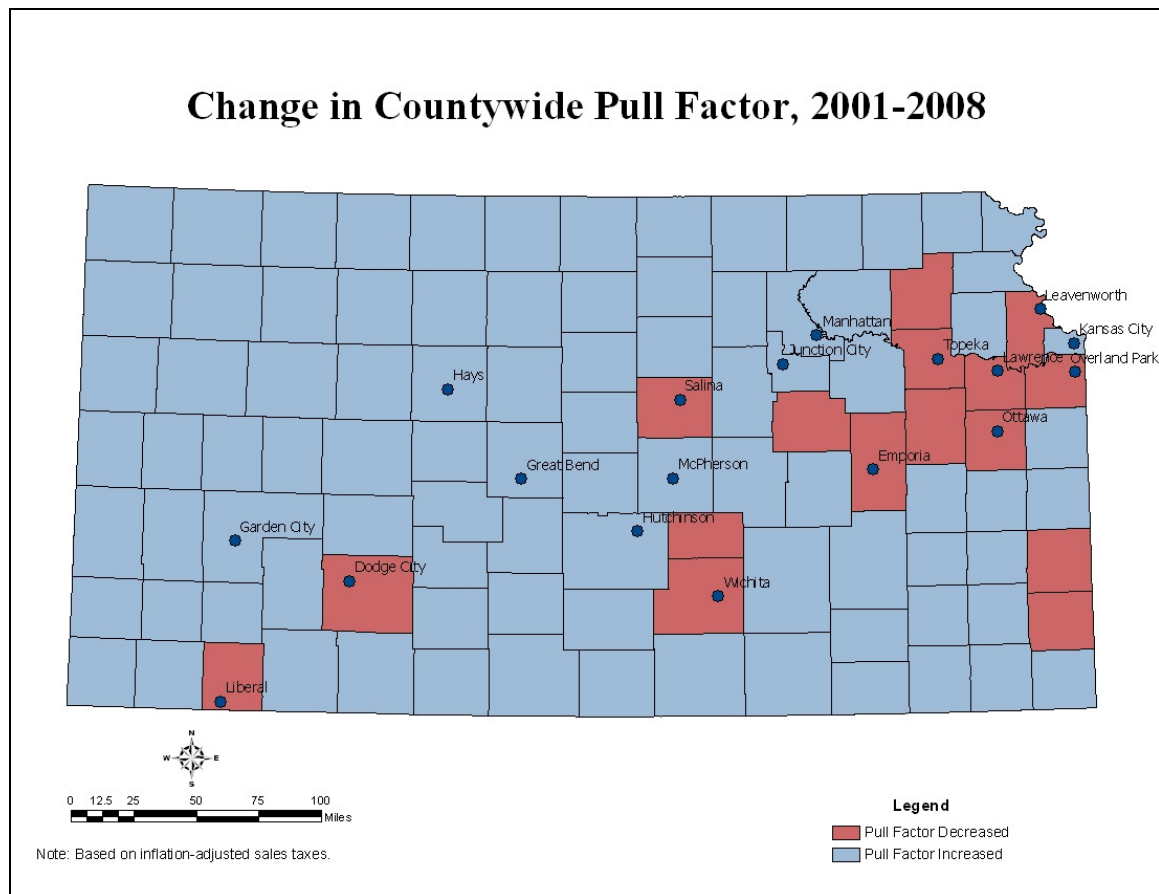
A Closer Look: Kansas City and Northeast Kansas <i>Growth in Taxable Retail Sales, 2003-2009</i>				
Category	Kansas City	Average of Northeast Cities* Lawrence	Statewide	
Furniture and Home Furnishings	844%	-36%	-9%	-2%
Electronics and Appliances	127%	-37%	-6%	-20%
Clothing and Accessories	656%	-13%	0%	1%
Sporting Goods, Hobbies, Books and Music	1078%	-12%	-13%	-9%
Accommodation	271%	-7%	-6%	6%
Total, Retail Services	57%	-10%	-1%	-2%
Northeast Cities: Lawrence, Lenexa, Olathe, Overland Park, and Topeka Note: Adjusted for Inflation Source: Kansas Department of Revenue				

¹ For changes in taxable sales across time periods, the years 2003 and 2009 were used. The reason for this is that in 2002 the state switched from identifying industries by the Standard Industrial Classification (“SIC”) code and began instead using the new North American Industrial Classification System, or NAICS. State representatives recommended starting with 2003 since there were still problems with the data tabulations by industry in 2002.

Kansas City saw greater than 100 percent taxable sales growth in five retail categories: Furniture, Electronics, Clothing, Sporting Goods, and Accommodation. In each of these categories, the growth rate in other Northeast Kansas cities was below the statewide average. The decline in these categories for Northeast Kansas cities also tended to be greater than the decline in retail services in these cities overall. For example, Furniture sales grew by over 800 percent in Kansas City, likely because of the new Nebraska Furniture Mart built at Village West. In contrast, Northeast Kansas cities saw a 36 percent decline in Furniture sales, compared to a 10 percent decline in retail sales overall. Lawrence does not appear to have been as adversely affected in these categories as other Northeast cities. For instance, Furniture sales declined by only 9 percent in Lawrence, which is four times less than the decline elsewhere in Northeast Kansas.

The Pull Factor for Retail Services

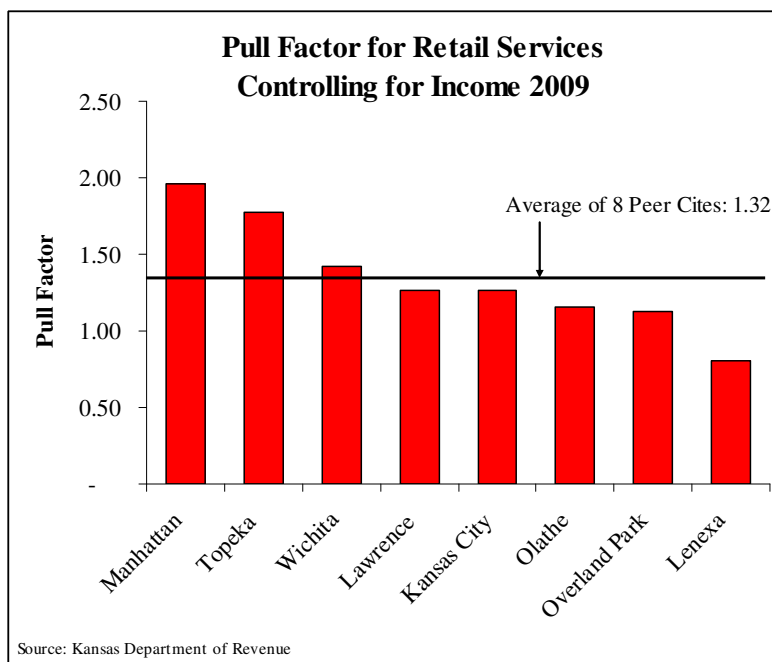
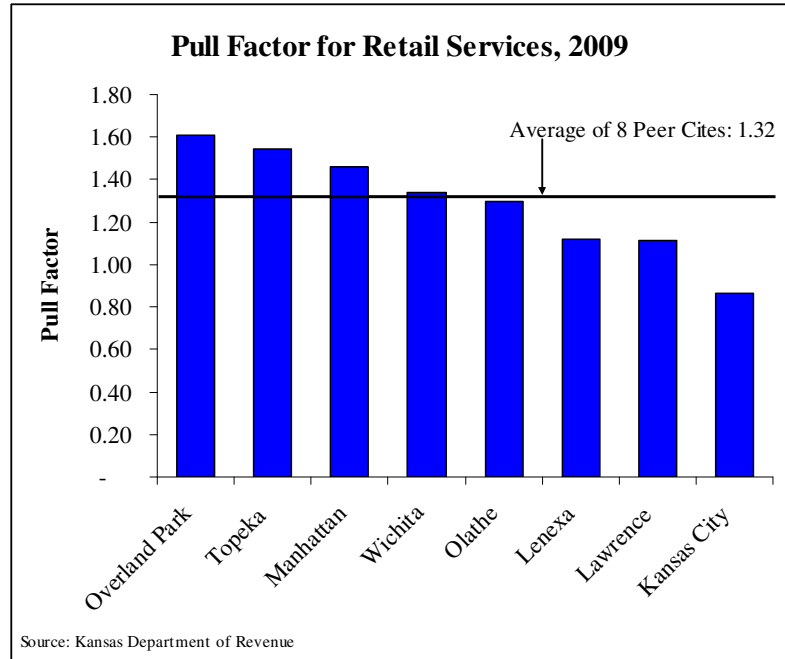
Another method often used to assess the health of retail in a local economy is the pull factor. The pull factor measures the sales per person compared to the statewide sales per person. A pull factor greater than one indicates higher sales per person than statewide, and a pull factor less than one indicates the opposite. Typically, a pull factor less than one or a pull factor that is declining over time suggests a weakening retail market. However, the pull factor measures all taxable sales, not just retail. This is important because statewide, pull factors increased in many counties that have little retail:



Source: Kansas Department of Revenue

As can be seen, a number of counties with large towns or cities saw a decrease in pull factors from 2001 to 2008. In contrast, many rural counties saw an increase in their pull factor. The reason for this increase may be due to the strong economic performance of commodity-based industries such as agriculture and natural resources. Although these industries make up a small portion of the state economic base and an even smaller proportion of statewide sales taxes, they likely make up a larger share of sales taxes in these rural counties. Therefore, strong economic growth in these industries can contribute to an above-average increase in taxable sales, resulting in a higher pull factor.

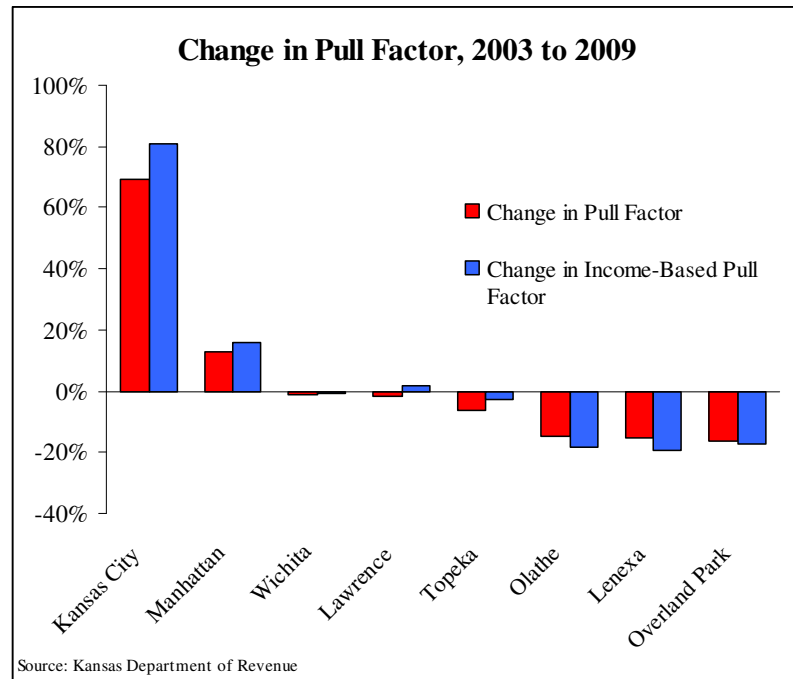
In order to assess retail services, the following looks only at the pull factor for retail sales. The data supporting this analysis can be found in the appendix. In 2009, seven of the eight peer cities had retail service pull factors greater than one. Only Kansas City had a pull factor less than one (.9). Overland Park had the highest retail service pull factor of almost 1.6. The average of the eight cities was just over 1.3. At 1.1, Lawrence had the second lowest pull factor, ahead of only Kansas City.



A key variable that is not accounted for in the pull factor is income. A community with very little income should not reasonably be expected to buy as many goods as a community with very high income. Controlling for income yields a different result for the pull factor. Using an estimate for 2009 per capita income, the city with the largest retail service pull factor appears to be Manhattan (1.97). Lawrence may have the

fourth highest pull factor (1.26), leading other cities such as Olathe (1.16) and Overland Park (1.11), and about the same as Kansas City. However, even controlling for income, Lawrence still lags the average retail service pull factor for the eight cities.

The change in the retail service pull factor is generally consistent whether or not one controls for income. Lawrence is the exception. From 2003 to 2009, six of the eight peer cities saw a decline in the population-based retail service pull factor. Only Kansas City and Manhattan saw an increase. Lawrence's retail service pull factor decreased, but it decreased less than all other cities save Wichita. However, when per capita income is accounted for, Lawrence's retail service pull factor may have increased slightly. It appears to be the only city whose change in pull factor goes from negative to positive—or vice-versa—when controlling for income. Therefore, it may be more important in Lawrence than other cities to consider per capita income as well as population when evaluating retail service performance.



In summary, compared to its peer communities, Lawrence receives a similar share of its taxable sales from retail services. Although taxable retail sales fell in Lawrence from 2003 to 2009, they fell less than most other peer cities. Lawrence also appears to have been less affected by new “category killer” stores in Kansas City than other cities in Northeast Kansas. While Lawrence has a lower-than-average retail service pull factor, its pull factor increases when accounting for per capita income. In fact, when controlling for income, Lawrence was one of only three peer cities to see an increase in its pull factor from 2003 to 2009.

RETAIL SECTORS WITHIN LAWRENCE

Retail Service by Category

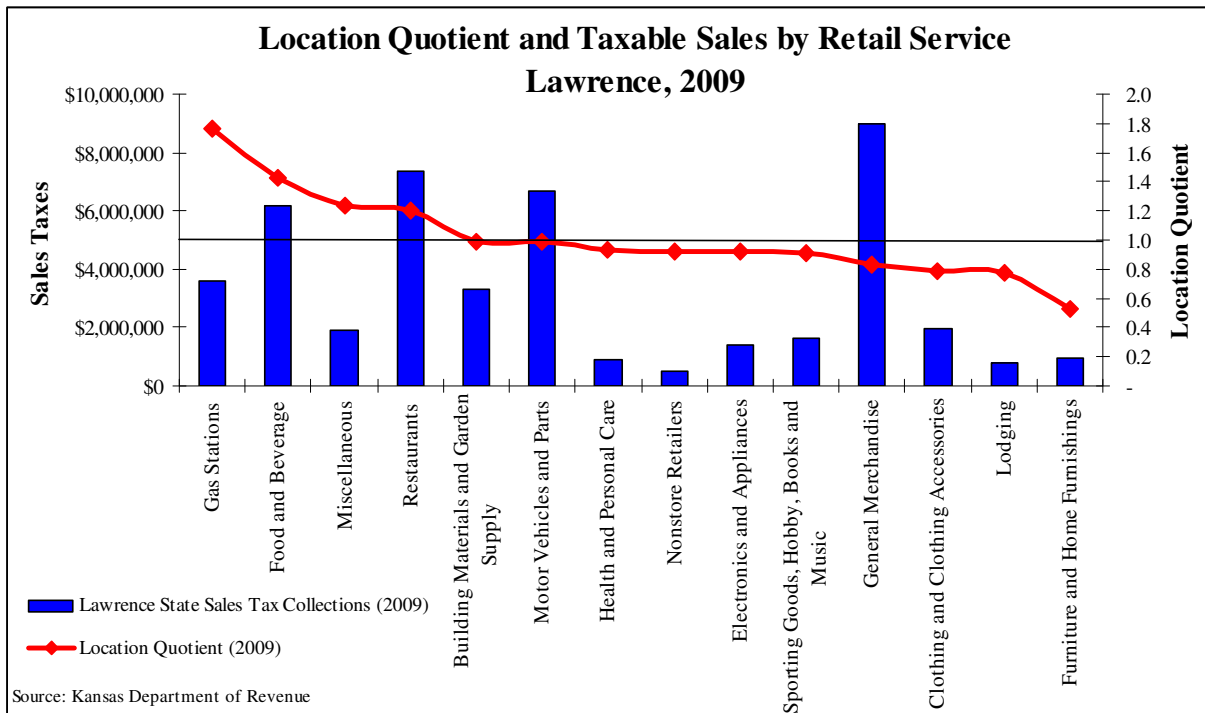
Approximately three-fourths of all taxable sales in Lawrence come from retail services. The following table shows the sources of taxable sales by category within retail services:

Retail Sales Taxes by Category Lawrence 2009		
Retail Service	State Sales Taxes Collected, 2009	Share of Sales Taxes (%)
General Merchandise	\$8,987,882	19.5%
Restaurants	\$7,354,624	16.0%
Motor Vehicles and Parts	\$6,660,954	14.4%
Food and Beverage	\$6,170,165	13.4%
Gas Stations	\$3,570,510	7.7%
Building Materials and Garden Supply	\$3,298,391	7.2%
Clothing and Clothing Accessories	\$1,960,826	4.3%
Miscellaneous	\$1,896,302	4.1%
Sporting Goods, Hobby, Books and Music	\$1,635,732	3.5%
Electronics and Appliances	\$1,410,713	3.1%
Furniture and Home Furnishings	\$949,571	2.1%
Health and Personal Care	\$883,776	1.9%
Lodging	\$793,499	1.7%
Nonstore Retailers	\$529,892	1.1%
Total, Retail Services	\$46,102,837	100.0%
source: Kansas Department of Revenue		

General Merchandise includes stores like JCPenny, Costco, and Walmart. These types of stores make up almost one-fifth of all retail service taxable sales in Lawrence. In fact, the top four categories—General Merchandise, Restaurants, Motor Vehicles, and Food and Beverage (grocery stores)—account for close to two-thirds of all retail service taxable sales in Lawrence. Gas Stations are also an important source of sales taxes. Since gasoline is not subject to a sales tax, this suggests that there is a large volume of sales associated with convenience or other stores at gas stations.

An important question is whether the source of sales taxes by category is unusual in any way. A location quotient can be used to help answer this question. We have already seen that cities in general tend to have a higher concentration of retail than the state as a whole. Evaluating Lawrence against statewide averages might therefore yield results that are not as meaningful as evaluating Lawrence against a more comparable geography. For

this reason, this analysis evaluates retail sales in Lawrence against the peer cities used in the last section to assess retail sale performance.



The above chart shows the retail categories in Lawrence from those with the highest location quotient to those with the lowest. In general, the retail categories that provide the highest sales tax collections also display a location quotient greater than one. This includes Food and Beverage (“Grocery stores”), Restaurants, and Motor Vehicles. Other retail with an above-average location quotient includes Gas Stations and Building Supply stores. Conversely, Lawrence appears to lag its peer cities in key categories such as General Merchandise, Lodging, Furniture, and Clothing. Furniture may be affected by Lawrence’s proximity to Nebraska Furniture Mart at Village West. General Merchandise may be a particular concern, as this is the largest source of sales taxes among retail categories.

Another way to think about a location quotient is to consider it as an indicator of whether the community is receiving more or less sales tax in each category than average. A category that has a location quotient greater than one may be generating a “surplus” of taxable sales. Conversely, a location quotient less than one suggests a possible “deficit” of taxable sales. The following table (next page) uses the total taxable sales and location quotients to identify surpluses and deficits of state sales tax collections by category.

Compared to its peer cities, Lawrence generates over a million dollars more in state sales taxes than would be expected. However, these surplus sales are found in just four retail categories: Food and Beverage (Grocery stores), Gas Stations, Restaurants, and Miscellaneous (uncategorized).

Lawrence could obtain 1.8 million dollars in additional state sales taxes from General Merchandise if it performed similar

to its peer cities. This equates to about three-quarters of a million dollars in citywide sales tax collections. Furniture, Clothing, and Lodging are also generating fewer sales taxes than would be expected based on peer city performance.

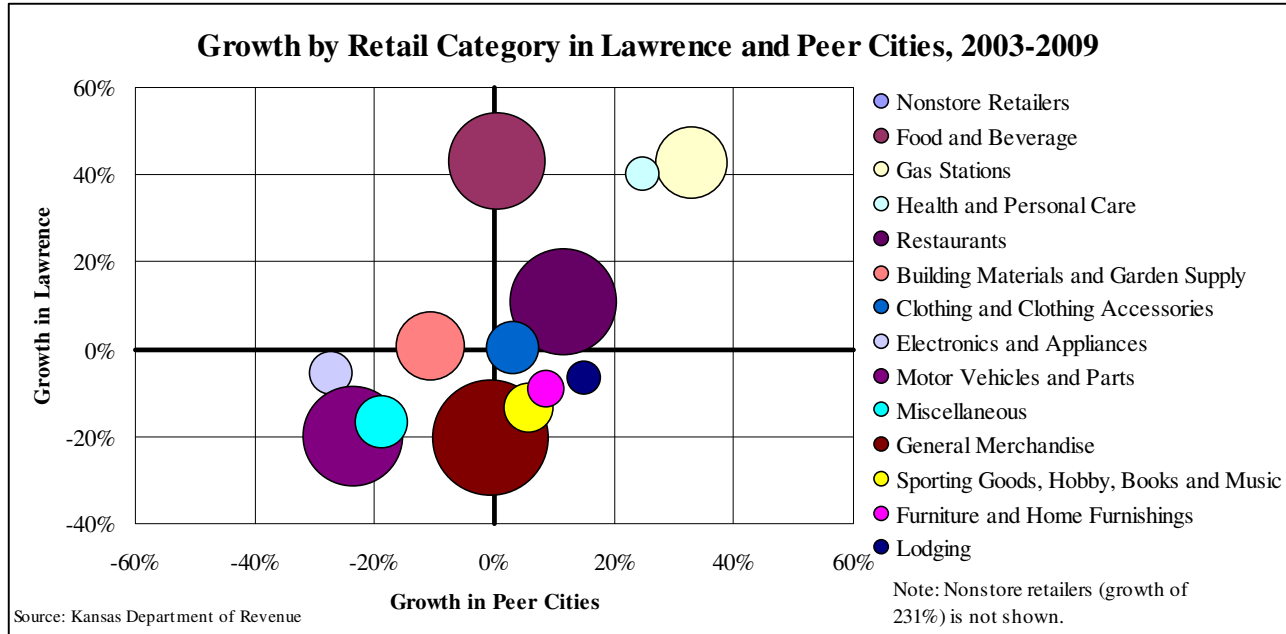
Retail Sales Tax Surpluses and Deficits by Category Lawrence, 2009		
Category	Lawrence State Sales Tax Collections (2009)	Surplus (Deficit)
Food and Beverage	\$6,170,165	\$1,858,813
Gas Stations	\$3,570,510	\$1,541,933
Restaurants	\$7,354,624	\$1,262,986
Miscellaneous	\$1,896,302	\$355,389
Building Materials and Garden Supply	\$3,298,391	(\$22,684)
Nonstore Retailers	\$529,892	(\$42,744)
Health and Personal Care	\$883,776	(\$66,678)
Motor Vehicles and Parts	\$6,660,954	(\$70,212)
Electronics and Appliances	\$1,410,713	(\$129,571)
Sporting Goods, Hobby, Books and Music	\$1,635,732	(\$151,637)
Lodging	\$793,499	(\$223,419)
Clothing and Clothing Accessories	\$1,960,826	(\$536,282)
Furniture and Home Furnishings	\$949,571	(\$867,081)
General Merchandise	\$8,987,882	(\$1,844,609)
sub-total, Retail Services	\$46,102,837	\$1,064,204
source: Kansas Department of Revenue		

Growth of Retail Services in Lawrence 2003-2009		
Retail Service	Growth, 2003- 2009	Lawrence State Sales Taxes, 2009
Nonstore Retailers	231.8%	\$529,892
Food and Beverage	43.0%	\$6,170,165
Gas Stations	42.6%	\$3,570,510
Health and Personal Care	40.2%	\$883,776
Restaurants	10.8%	\$7,354,624
Building Materials and Garden Supply	0.5%	\$3,298,391
Clothing and Clothing Accessories	0.0%	\$1,960,826
Electronics and Appliances	-5.5%	\$1,410,713
Lodging	-6.5%	\$793,499
Furniture and Home Furnishings	-9.2%	\$949,571
Sporting Goods, Hobby, Books and Music	-13.4%	\$1,635,732
Miscellaneous	-16.9%	\$1,896,302
Motor Vehicles and Parts	-20.0%	\$6,660,954
General Merchandise	-20.5%	\$8,987,882
Total, Retail Services	-1.2%	\$46,102,837
Note: 2003 Sales adjusted for inflation. Source: Kansas Department of Revenue		

Since 2003, the highest growth in retail services has primarily been in food related categories (Restaurants and Grocery stores), Nonstore sales, and Gas Stations. Nonstore sales have led growth, but they comprise a small portion of the overall retail economy in Lawrence and thus have had only a small impact on the change in sales taxes during this time period. Health and personal care has also performed well. On the other hand, key sources of sales taxes such as Motor

Vehicles and General Merchandise have performed poorly during this time period.

The following chart compares the performance of different retail services in Lawrence from 2003 to 2009 against the performance of these same categories in peer cities:



Each bubble is a retail category. It is sized according to the state sales taxes collected in Lawrence. Bubbles on the right hand side of the chart are retail categories that grew in Lawrence's peer cities, while bubbles on the upper half of the chart are retail categories that grew in Lawrence.

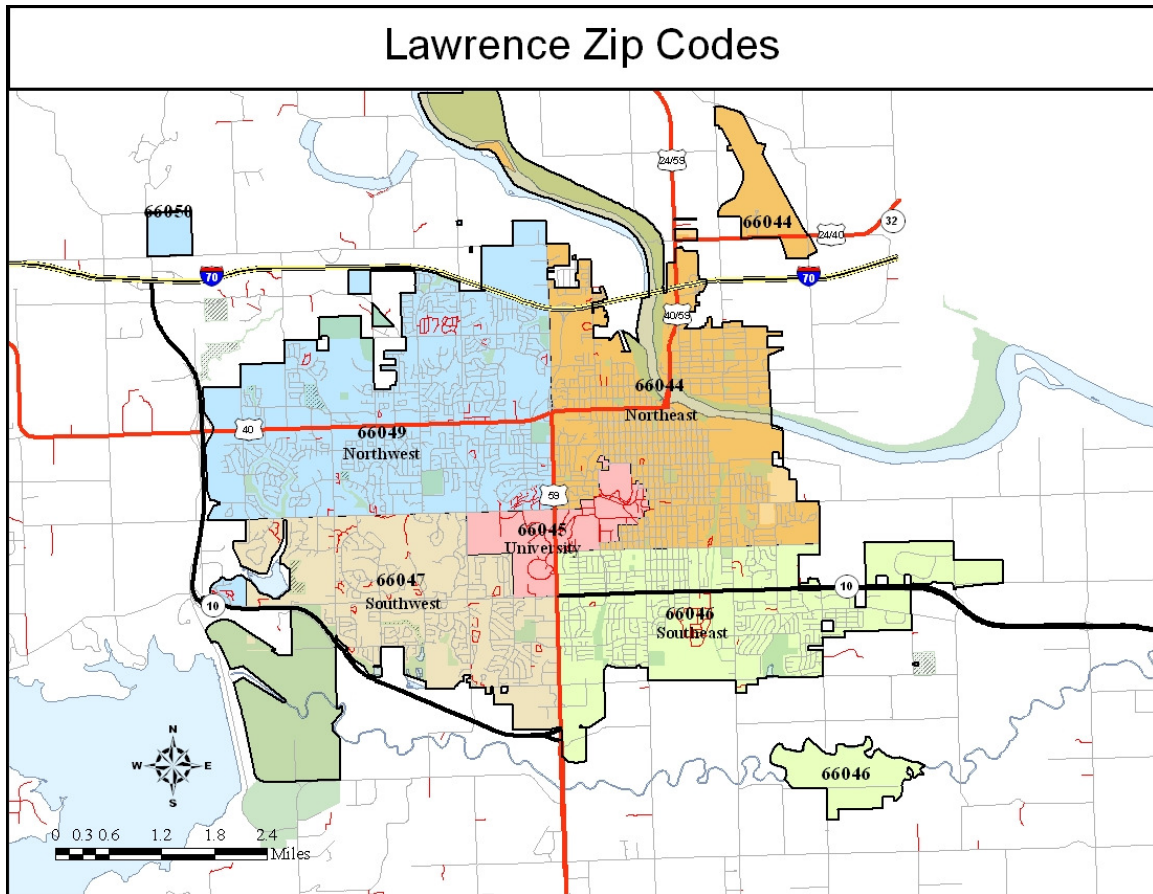
Retail sectors that displayed growth in both Lawrence and its peer cities are in the upper right hand corner, and include Gas Stations, Health and Personal Care, and Restaurants. These industries appeared to be strong in all cities. Two retail categories in the upper left hand corner—Food and Beverage (grocery stores) and Building Materials—appear to have grown in Lawrence but not in the peer cities. This suggests that Lawrence may have benefited more from these retail services than might have been expected. Industries in the lower right hand corner contracted in Lawrence and grew elsewhere. These included Lodging, Furniture, and Sporting Goods. Additionally, General Merchandise showed flat growth in most cities, but a decline in Lawrence. This suggests that within these retail categories, Lawrence may have missed out on some growth during this time period. Finally, retail services in the lower left hand corner were weak in both Lawrence and its peer cities. These industries include Motor Vehicles and Electronics.

It should also be noted that Nonstore retailers—which includes internet sales—is not shown on this chart for sizing purposes. Although it comprised only about 500 thousand dollars of state sales tax in 2009, it has grown by more than 200 percent in Lawrence since 2003. In comparison, Nonstore retailers has grown by about 100 percent in peer cities. This rapid growth suggests that Lawrence may have a locational advantage for

retailers who sell their products through the internet and other nonstore delivery mechanisms. If these channels continue to grow in retail importance, this may benefit the City.

Retail Service by Geography

Finally, we turn to retail services within different geographies of Lawrence. The geographies used herein are zip codes. Lawrence is effectively divided into four areas, with the University of Kansas serving as a pivot point:



Since it is often easier for people to remember names than numbers, the zip codes are noted by their geographic location on this map. For example, zip code 66044 accounts for Downtown, North Lawrence and the historic area of the community north of 19th Street and east of the University. It is referred to as “Northeast”. As the map also shows, Lawrence is divided East/West by Iowa Street (US 59) and in two different areas North/South. In the eastern half of the City, 19th Street serves as the North/South divider whereas in the western half of the City, 15th Street demarcates the North/South boundary.

The following table summarizes key demographic data that may drive retail sales and purchasing power, as well as retail sales data, by zip code:

Demographics and Retail Sales in Lawrence by Zip Code				
	66044	66046	66049	66047
	Northeast	Southeast	Northwest	Southwest
Population, 2009*	25,585	17,706	23,078	17,144
Median Per Capita Income, 2009	\$19,518	\$22,670	\$30,543	\$28,065
Retail Sales Taxes, 2009	\$11,708,189	\$20,723,895	\$9,294,548	\$4,067,100
Retail Jobs, 2007	3,942	3,568	3,225	818
Change in Population Since 2000	5.7%	7.7%	22.7%	19.3%
Change in Per Capita Income Since 2000**	28.0%	32.2%	16.2%	11.1%
Change in Retail Jobs, 2001 to 2007	-11.3%	8.9%	25.7%	16.7%
Largest Taxable Retail Category	Restaurants	General Merchandise	Grocery Stores	General Merchandise
Notes:				
*Excludes the population, jobs and sales at the University of Kansas (zip code 66045)				
**Income data not adjusted for inflation				
Sources:				
Population and Per Capita Income: ESRI Business Analyst Online				
Sales Taxes: Kansas Department of Revenue				
Retail Jobs: U.S. Census County Business Patterns				

This table shows that the northern zip codes of Lawrence are more populated than the southern ones. However, incomes tend to be higher in the western zip codes of the City than the eastern ones. Despite the southeast area of the city containing relatively low population and income figures, it also contains the highest concentration of taxable retail sales. Southeast Lawrence accounted for over \$20 million of state taxable retail sales collections in 2009. This suggests that South Iowa Street and East 23rd Street are likely the center of retail activity in the City. The lowest retail sales are in Southwest Lawrence.

The data also shows that population growth has been fastest in the western half of the City. It appears that retail growth has followed this population growth, as retail jobs also performed well in the western portion of the City. On the other hand, per capita income growth has been faster in the eastern half of the City. This suggests that the retail purchasing power of eastern Lawrence may have been increasing over much of the past decade. Despite the growth in income, eastern Lawrence lags western Lawrence in retail growth. In fact, northeast Lawrence was the only area of the City that saw a decline in retail jobs through the end of 2007.

In summary, General Merchandise stores like Walmart and JCPenny are the largest source of taxable retail sales in Lawrence. However, there are fewer General Merchandise sales in Lawrence than in peer communities, and its taxable sales declined from 2003 to 2009. Taxable sales in restaurants, grocery stores and health supplies were key sources of growth in this same time period. Western Lawrence has seen a large growth in both population and retail sales over the decade. However, the center of retail activity in Lawrence appears to be South Iowa and East 23rd Streets.

CONCLUSION

Retail services are a larger and hence more important component of the Lawrence economy than for either the United States as a whole or the state of Kansas. Over 11 percent of the local GDP is derived from retail services, compared to about 9 percent both nationally and statewide. Lawrence benefits from a much larger food and lodging component than either the state or the nation. Lawrence's retail services are also more sensitive to economic changes, particularly recessions. Food and lodging was particularly weak in Lawrence in 2008, accounting for about 75% of the retail job losses and contributing to negative growth in jobs for retail services this decade.

Most retail service jobs can be found in Kansas counties that have a large town or city. Even controlling for population, many of these locations have a higher number of retail service jobs than one would expect. However, very few counties statewide saw any growth in retail services this decade. In fact, job growth in retail services from 2001 to 2008 was confined largely to just 4 of the 105 counties in the state: Geary (Junction City), Riley (Manhattan), Sedgwick (Wichita), and Wyandotte (Kansas City). More than half of the counties statewide—including Douglas County—lost between 1 and 1,499 retail service jobs in this time period.

Lawrence receives about 75 percent of all its taxable sales from retail. This is similar to other peer cities and greater than the statewide average. Like many other cities, Lawrence has seen a decline in inflation-adjusted taxable retail sales from 2003 to 2009, though Lawrence's decline is less than many of its peer cities. Cities in the northeast region of the state were likely affected by new "category killer" retail in Kansas City, Kansas. However, Lawrence appears less affected than other locations such as Overland Park and Olathe. Lawrence's pull factor has decreased, but not as much as the pull factor in other cities. In fact, when adjusting for income, Lawrence's pull factor actually increased. This is the only city where adjusting for income affected the change in pull factor.

Almost two-thirds of all taxable retail sales in Lawrence come from General Merchandise, Restaurants, Motor Vehicles and Food and Beverage (grocery stores). Restaurants and grocery stores have both grown in Lawrence over the decade, but General Merchandise and Motor Vehicles have contracted. Motor Vehicles have contracted throughout the region, but General Merchandise decline has been particular to Lawrence. Within the City, most of the population growth this decade has been in the western half of the community, while per capita income growth has been faster in the eastern half. Retail jobs appear to be following the growth in population. The center of retail activity in Lawrence appears to be South Iowa Street and East 23rd Street, which together accounted for more than \$20 million of retail state sales tax collections in 2009.

APPENDIX

Retail Tax, Population, and Income Data for Peer Cities

State Sales Tax Collections

City	Retail Services, 2003	Total, 2003	Retail Services, 2009	Total, 2009	Population, 2003	Population Estimate, 2009	Per Capita Income, 2003	Per Capita Income Estimate, 2009	Per Capita Retail Sales Tax Collected, 2003	Per Capita Retail Sales Tax Collected, 2009
Lawrence	\$46,684,395	\$63,471,794	\$46,102,837	\$61,763,965	85,339	90,979	\$20,814	\$23,252	\$547.05	\$506.74
Kansas City	\$35,832,671	\$67,922,070	\$56,317,918	\$81,168,132	144,909	142,439	\$16,714	\$18,182	\$247.28	\$395.38
Lenexa	\$27,007,898	\$52,111,231	\$24,683,806	\$48,778,822	42,051	48,221	\$30,210	\$36,809	\$642.27	\$511.89
Manhattan	\$29,278,367	\$37,940,108	\$35,600,662	\$46,313,924	46,803	53,506	\$17,379	\$19,617	\$625.57	\$665.36
Olathe	\$77,729,738	\$105,877,124	\$72,448,174	\$95,094,014	105,486	122,350	\$24,497	\$29,610	\$736.87	\$592.14
Overland Park	\$148,904,373	\$191,576,584	\$126,443,057	\$182,174,985	160,529	172,561	\$32,068	\$37,617	\$927.59	\$732.74
Topeka	\$97,181,012	\$130,086,551	\$87,274,737	\$117,471,871	122,448	124,235	\$20,504	\$22,979	\$793.65	\$702.50
Wichita	\$232,850,117	\$312,671,568	\$226,278,584	\$293,104,467	354,693	370,403	\$21,523	\$24,850	\$656.48	\$610.90
<i>Sub-Total, Peer Cities</i>	<i>\$695,468,570</i>	<i>\$961,657,029</i>	<i>\$675,149,774</i>	<i>\$925,870,180</i>	<i>1,062,258</i>	<i>1,124,694</i>	<i>\$22,743</i>	<i>\$26,410</i>	<i>\$654.71</i>	<i>\$600.30</i>
Statewide	\$1,314,169,652	\$1,896,873,148	\$1,284,597,420	\$1,866,223,078	2,721,955	2,818,747	\$21,344	\$25,356	\$482.80	\$455.73

Note: 2003 taxes and income adjusted for inflation

Sources:

Tax data: Kansas Department of Revenue

Population and Income: Bureau of Economic Analysis