

The Economic Barometer

A Quarterly Economic Report

Produced: July 1, 2010

1st Quarter 2010

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Editor's Note- Due to the importance of tourism to Lawrence, the Barometer Report will now start tracking tourism information on a quarterly basis. This will be included with Retail Sales. This quarter, tourism information can be found on page 5.

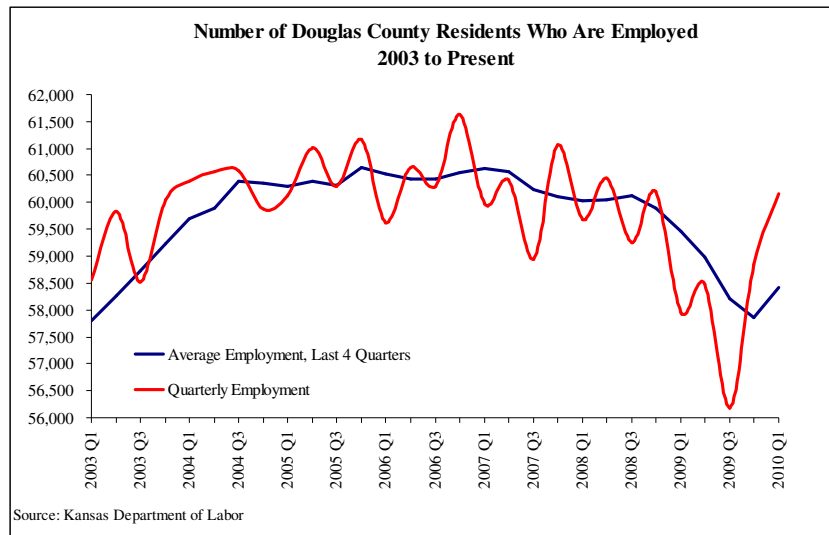
SUMMARY

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

- The unemployment rate was 5.7 percent in Douglas County. Although this is an increase, it may be because discouraged workers are re-entering the labor market;
- The number of building permits decreased from the previous quarter, but increased from a year before. The value of building permits continues to fall;
- The median sales price for homes was down both from the previous quarter and a year ago at this time; and
- Taxable retail sales were down from both last quarter and the same time last year.

EMPLOYMENT IN LAWRENCE AND DOUGLAS COUNTY

The number of residents employed over the last year began to rebound. This has been caused by two quarters of growth in the number of residents employed. Over the year, the average number of residents with jobs rose back above 58,000. On a quarterly basis, the number of employed residents in Douglas County rose by over 1,000 people, from



59,000 to just over 60,000. This is the first time there has been two consecutive quarters of growth in employed residents since early 2005.

First Quarter 2010 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) | 137,332 | 10.4% | 18.2% | -2.0% |
| Kansas | 1,403,833 | 7.0% | 10.0% | -6.6% |
| Kansas City, KS MSA | 404,737 | 7.5% | 0.4% | -8.8% |
| Lawrence MSA | 60,165 | 5.7% | 4.3% | -1.8% |
| Topeka MSA | 114,561 | 7.1% | 7.1% | -6.6% |
| Wichita MSA | 288,996 | 8.3% | 32.6% | -10.5% |

Source: US Bureau of Labor Statistics

The unemployment rate increased to 5.7 percent in Douglas County from 4.7 percent in the 4th Quarter, and 5.5 percent in the 1st Quarter of last year. The unemployment rate remains significantly below both

the state and national average. Lawrence also saw a relatively modest increase in unemployment from the same quarter one year ago. Although civilian employment remains lower than at this time last year, it has declined less than either the state or national averages. It has also declined less than other MSAs in Kansas.

The reason that unemployment is rising despite an increasing number of residents who are employed is because the size of the workforce is increasing. Lawrence has seen a larger increase in its workforce than any other MSA in the state. It has also outpaced labor market growth in the state and the nation as a whole. Generally, the labor force

First Quarter 2010 Labor Force Data

| | Civilian Labor Force | Change vs. 1 Year Ago | Change vs. 1 Qtr Ago |
|---------------------|----------------------|-----------------------|----------------------|
| U.S. (thousands) | 153,271 | -0.3% | 0.0% |
| Kansas | 1,508,515 | 0.4% | -0.3% |
| Kansas City, KS MSA | 437,358 | -1.5% | -3.3% |
| Lawrence MSA | 63,806 | 4.1% | 3.3% |
| Topeka MSA | 123,264 | 0.5% | -0.9% |
| Wichita MSA | 315,055 | -2.4% | -3.7% |

Source: US Bureau of Labor Statistics

begins to rise as recessions end. People who were discouraged from looking for a job begin to look again. In Lawrence’s case, the increasing unemployment rate may be a sign of residents becoming more positive about the job market in the 1st Quarter of this year.

REAL ESTATE

Building permits increased from last year, but the value of these building permit values fell. Both residential and non-residential building permits saw healthy growth from the beginning of 2009. Both were up about 70

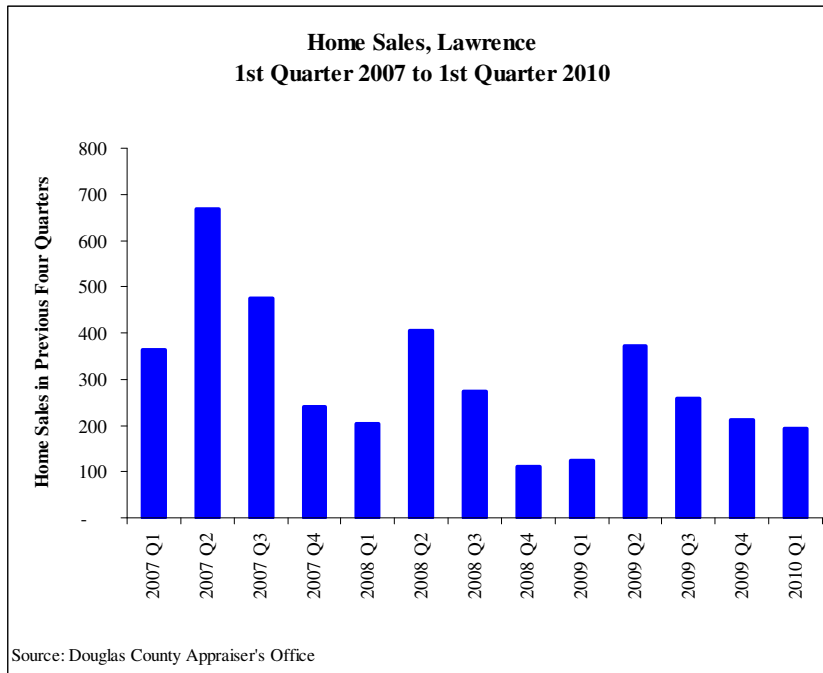
percent. However, the value of both types of permits fell. The reason for this was a lack of new apartments and new commercial buildings. Last year at this time, about \$10 million of multifamily was permitted, and five new commercial projects totaling over \$4 million also began. In contrast, there were no new apartments permitted in the first quarter, and only one new commercial construction project. These larger projects may have been slowed down due the unusually snowy and cold winter experienced in eastern Kansas.

First Quarter Building Permits in Lawrence

| | 1st Quarter 2009 | 1st Quarter 2010 | % Change 2009-2010 |
|------------------------|---------------------|---------------------|-----------------------|
| TOTAL | | | |
| Number | 397 | 452 | 14% |
| Valuation | \$21,201,130 | \$14,449,146 | -32% |
| RESIDENTIAL | | | |
| Number | 28 | 48 | 71% |
| Valuation | \$13,788,813 | \$9,774,503 | -29% |
| NON-RESIDENTIAL | | | |
| Number | 21 | 35 | 67% |
| Valuation | \$6,006,008 | \$3,337,896 | -44% |

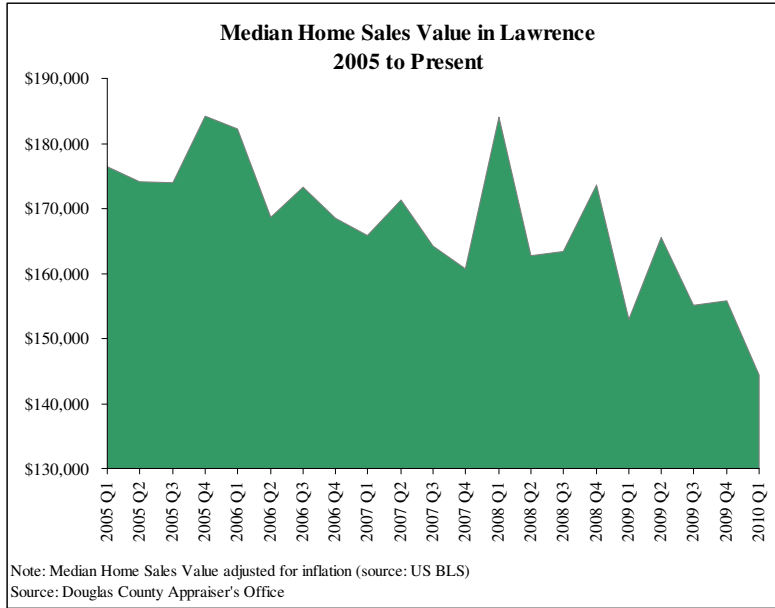
Source: City of Lawrence, Neighborhood Resources Department
Valuation of Building Permits

There were no new apartments permitted in the first quarter, and only one new commercial construction project. These larger projects may have been slowed down due the unusually snowy and cold winter experienced in eastern Kansas.



Home sales were down slightly from the 4th Quarter of 2009. However, home sales were up from the 1st Quarter of 2009. This is the second consecutive quarter of year-over-year increases in home sales. It should also be noted that home sales in the 3rd Quarter of 2009 were almost flat year-over-year. This suggests that the housing market may be starting to see a sustainable increase in activity. There has been speculation that the national homeowner

market has been partially sustained by the \$8,000 tax credit for first time homebuyers. The tax credit expired in April of 2010. If the tax credit has had an impact on sales, there may be an adverse affect in the data in the 2nd or 3rd Quarter reports later this year.



Despite the continued increase in home sales, home sale prices continued to fall year-over-year. The median home sale price in the 1st Quarter was about \$144,000, compared to \$153,000 a year ago at this time. This is about a 3 percent decrease year-over-year. This decrease is much less than the 10 percent year-over-year decrease in the 4th Quarter of 2009. This suggests that home prices may be firming up somewhat.

RETAIL SALES AND TOURISM

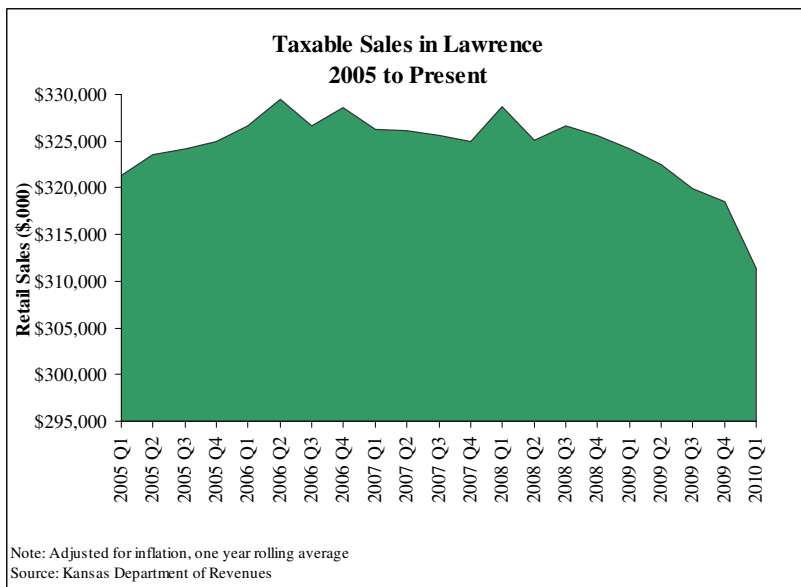
Retail sales taxes generally declined locally and throughout the state in the 1st Quarter. Lawrence and Douglas County experienced a decline in retail sales taxes of

County Tax Receipts

| County | Tax Rate | 1st Quarter 2009 | 1st Quarter 2010 | Change (%) |
|-----------------------------|----------|------------------|------------------|------------|
| Douglas | 1.0% | \$3,580,208 | \$3,378,181 | -5.6% |
| Johnson | 1.1% | \$28,345,480 | \$29,260,499 | 3.2% |
| Wyandotte (Kansas City, KS) | 1.0% | \$5,492,171 | \$5,054,971 | -8.0% |
| Shawnee (Topeka) | 1.15% | \$8,085,139 | \$7,677,534 | -5.0% |
| Sedgwick (Wichita) | 1.0% | \$20,908,807 | \$19,253,867 | -7.9% |
| Total, State of Kansas | | \$184,655,315 | \$180,639,934 | -2.2% |

about 5.6 percent year-over-year. State-wide, retail sales taxes decreased just over 2 percent. Similar to construction, the weather this winter may have been a factor affecting taxable sales. Only Johnson County saw an increase in taxable sales, with about a 3 percent increase year-over-year.

Taxable sales have declined in Lawrence for several years. As a result, annualized retail sales have largely been falling too. Adjusted for inflation, in the last five years taxable retail sales in Lawrence peaked at the beginning of 2006. There was an increase in annualized sales in late 2007, but this was short-lived. Retail sales fell throughout 2009, and in



the 1st Quarter of 2010 were at their lowest point in 5 years.

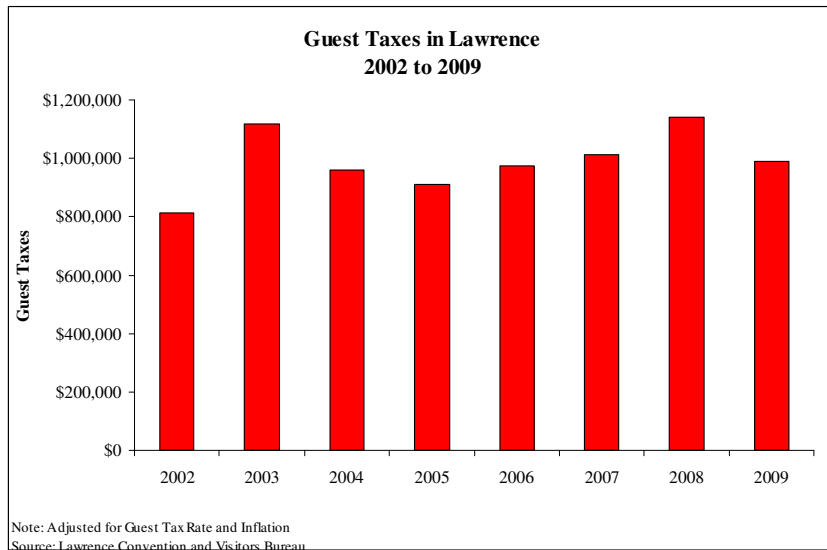
Guest tax receipts are indicative of demand for hotels and lodging. Due to the importance of tourism in Lawrence, the Barometer Report will now start covering this information each quarter.

| Guest Tax Receipts, First Quarter 2010 | | | |
|---|-----------------------|-------------------------------------|------------------------------------|
| | Transient Guest Taxes | Change in Guest Taxes vs. 1 Qtr Ago | Change in Guest Taxes vs. 1 Yr Ago |
| Kansas | \$5,717,760 | -22.6% | -5.2% |
| Lawrence | \$165,570 | -36.0% | -9.0% |
| Kansas City | \$450,641 | -5.2% | -10.6% |
| Manhattan | \$187,251 | -15.1% | 19.5% |
| Overland Park | \$1,303,159 | -24.7% | -10.9% |
| Topeka | \$341,695 | -20.6% | 0.9% |
| Wichita | \$1,183,628 | -18.2% | -8.2% |

In the 1st Quarter of 2010, Guest Taxes were down throughout the state from the previous quarter. Some of this change may be seasonal, and may also have been driven by the weather reducing travel. However, guest tax receipts declined in many locations from a year ago as well.

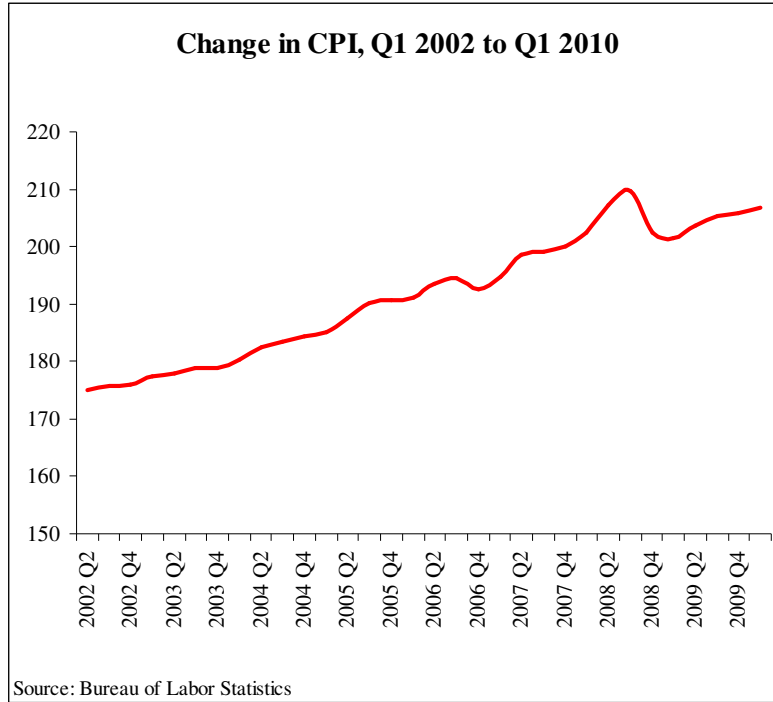
Overall, they were down over five percent in the State. Guest Taxes in Lawrence were down about 9 percent. This was similar to other cities in Northeast Kansas. Elsewhere in the state, both Manhattan and Topeka saw increases in Guest Taxes from last winter.

In general, Guest Taxes have been increasing in Lawrence. Controlling both for inflation and the change in the Guest Tax Rate, guest taxes have modestly increased since 2002. They rose steadily from 2005 to a peak in 2008. The high collection in 2008 was likely driven in part by sports. Kansas victories in both the Orange Bowl in college football and the NCAA Tournament in



basketball likely increased visits to the community. Consistent with the downturn in the economy, guest taxes fell in 2009, but are still higher than they were earlier in the decade. This stands in contrast both to long-term retail and home sales price trends (both of these price trends can be found on page 4 of this report).

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. Inflation in the 1st Quarter appears to have increased slightly from the 4th Quarter. However, the inflation rate is lower than it was a year ago at this time. Overall, inflation continues to proceed at a similar rate to its average since 2002. This long-run rate is about 2.5 percent per year. At this time, there remains very little indication in the Midwest that inflation rates are beginning to increase.

Lawrence and most other Midwestern cities surveyed saw an increase in their cost of living relative to the rest of the nation. Overall, these cities remained below the national average, but

the almost uniform increase in the relative cost of living suggests that prices in the Midwest are either rising more rapidly or not falling as quickly as in other parts of the country. This may be because of the nature of the current recession. Many cities in the Midwest are experiencing a milder economic slowdown than other regions in the country. In areas that are harder hit, prices may be falling, or rising less, than they are in areas that are not being affected as severely.

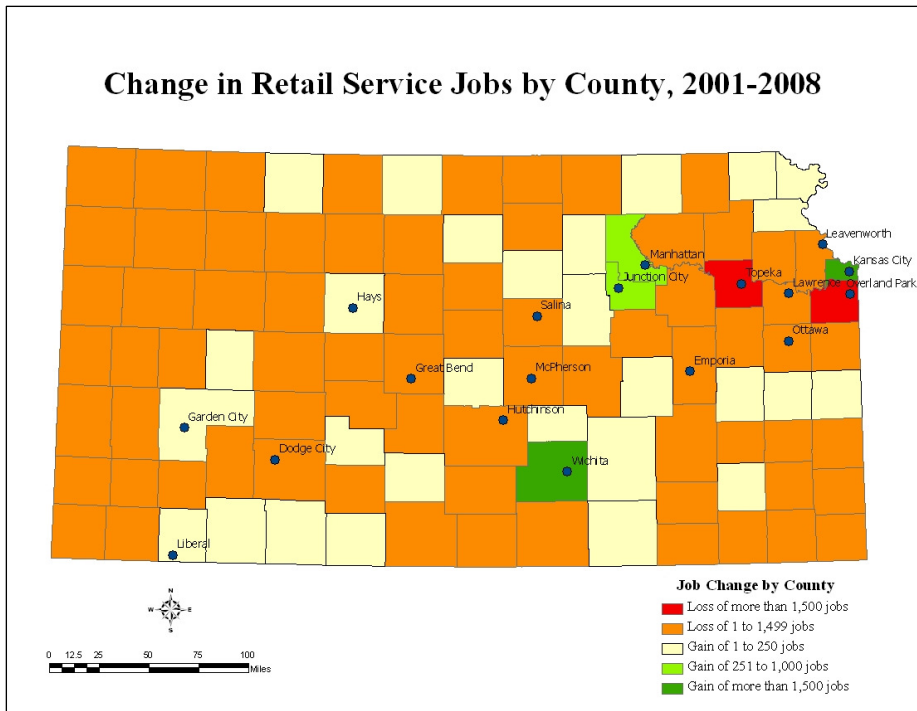
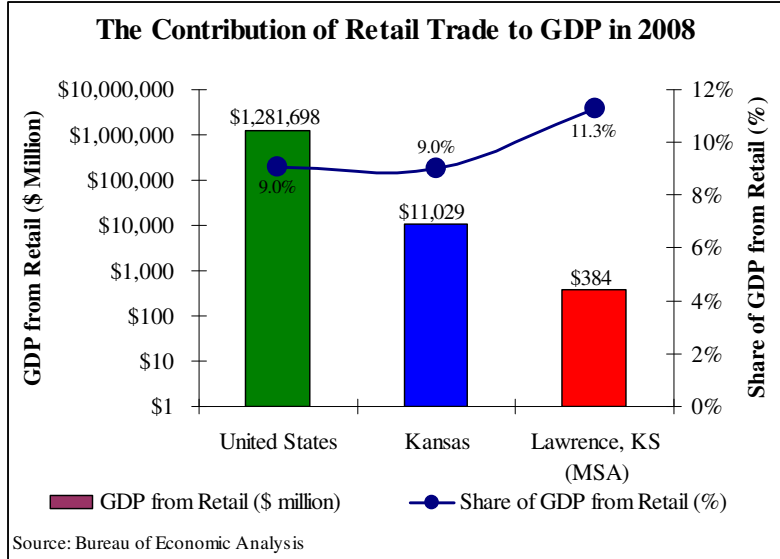
| Annual Average Comparative Cost of Living Index | | | |
|--|--------------|--------------|------------|
| | Q1 2009 | Q1 2010 | Change (%) |
| US Average | 100.0 | 100.0 | |
| Lawrence, KS | 93.1 | 93.8 | 0.8% |
| Manhattan, KS | 95.7 | 96.3 | 0.6% |
| Topeka, KS | 88.8 | 89.1 | 0.3% |
| Ames, IA | 97.7 | 99.3 | 1.6% |
| Champaign, IL | 98.3 | 98.3 | 0.0% |
| Columbia, MO | 91.0 | 93.9 | 3.2% |
| Fort Collins, CO | 91.5 | 90.5 | -1.1% |

Source: ACCRA

FOCUS ON... The Retail Economy in Lawrence

This quarter’s Focus On provides a closer look at retail trends in both Lawrence and statewide. It is extracted from a report prepared for the Retail Task Force. The full report is available at <http://www.lawrenceks.org/system/files/Retail-Analysis-of-Lawrence.pdf>.

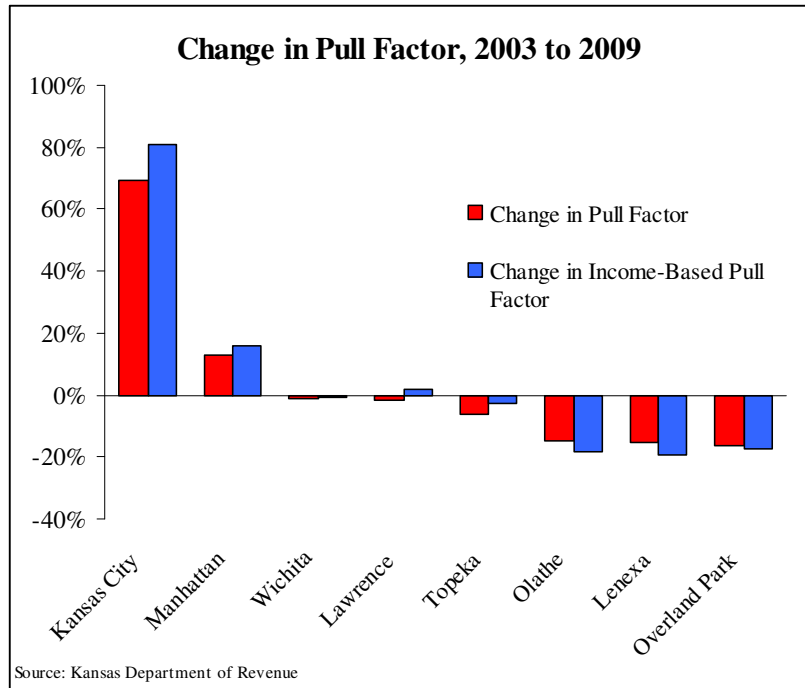
Retail- which includes a range of activities such as grocery stores, car dealerships, clothing stores, restaurants, and hotels- is a significant component of the Lawrence economy. Nationally, retail tends to make up about 9 percent of total economic activity, but here in Lawrence it makes up over 11 percent of economic activity. However, retail growth has been slow this decade. Nationally, the number of retail jobs increased slightly from 2001 to 2008. In Lawrence, job growth in retail declined over this time period.



The decline in retail jobs was not unique to Lawrence. This map shows that the majority of counties in Kansas saw a decline in retail jobs this past decade. In fact, significant job growth in retail was confined to just four of the 105 counties in the state. Wyandotte County was one of these counties. Their efforts to develop retail at Village

West appears to have been successful, and it also appears to have impacted nearby counties. The other three counties in the state that saw good growth in retail jobs may have done so because of good overall economic performance in these regions.

The State tracks the “pull factor,” which measures whether a locality has more or less retail than one would expect. However, the pull factor accounts for all taxable sales, not just retail. Even controlling for taxable retail sales alone, Lawrence’s pull factor is lower than many other large cities around the state. But the pull factor has not been declining as rapidly as it has in other communities. From 2003 to 2009, only Kansas City and Manhattan saw an unambiguous increase in their retail pull factor. The other six cities surveyed saw a decrease. Lawrence’s decreasing pull factor was among the smallest of the other six cities. In fact, controlling for income suggests that Lawrence’s pull factor may have *increased* slightly during this time period.



| 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

The largest categories of retail in Lawrence are General Merchandise (eg, Walmart), Restaurants, Car Sales, and Food and Beverage (Grocery Stores). The sales in four categories—Food and Beverage, Gas Stations, Restaurants, and Miscellaneous retail—are higher than expected relative to other large communities in Kansas. In 2009, these four categories helped generate a “surplus” of state sales tax collections in Lawrence of more than \$1 million. However, some sales categories have lagged the performance in other Kansas communities. Most notable is General Merchandise.

General Merchandise had a surplus of sales in Lawrence in 2003. While sales in this category have generally been stagnant in many cities, they fell significantly in Lawrence from 2003 to 2009. As a result, Lawrence is generating over \$1.8 million less in state sales taxes in General Merchandise than one would expect looking at similar cities.

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