

Wichita 2012 Review
2013 Forecast

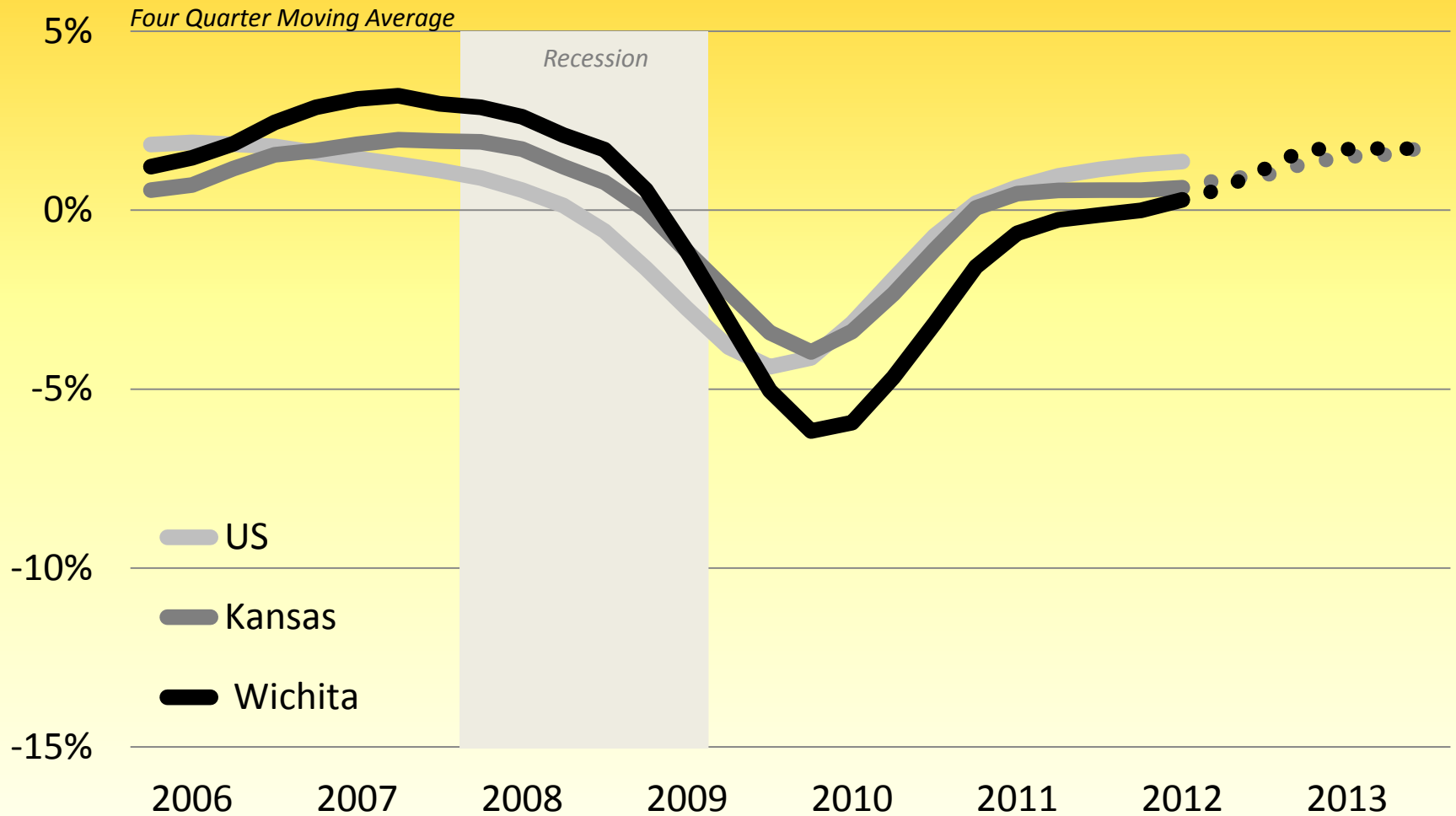
**Center for Economic Development and
Business Research**

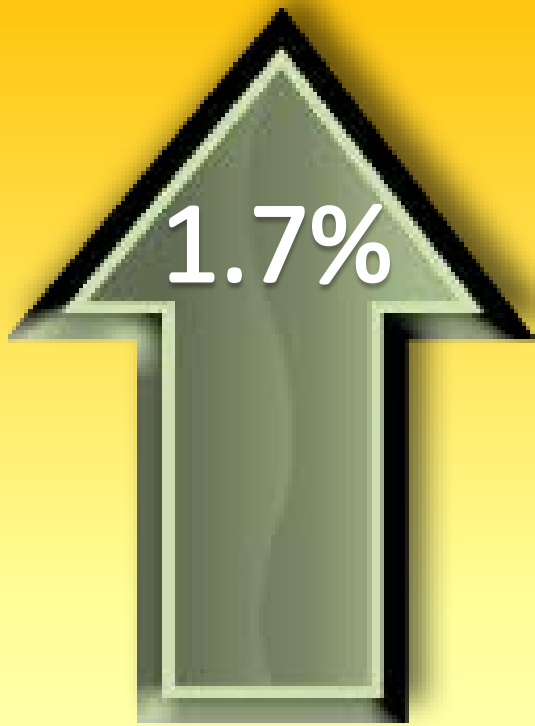
W. Frank Barton School of Business

Wichita State University

October 2012

Employment





Employment in Wichita and the United States, as a whole, has stabilized. Total nonfarm employment grew 1.4 percent nationally, when comparing the first half of 2011 to the first half of 2012. At the same time, Wichita total nonfarm employment grew 0.8 percent. After exhibiting growth in the first half of the year, Wichita and the United States are poised to grow throughout the remainder of 2012.

Four long years ago the economy began a downward spiral. Although the economy has since found its footing, exceptional, or even moderate growth, is not anticipated. Instead, slow growth defines our outlook. These modest expectations are due to the sheer volume of uncertainty that exists in the market place. Over the next 24 months, the nation will elect a president, confront the fiscal cliff, face economic challenges abroad and implement sweeping new regulations in finance and health care.

Wichita total nonfarm employment is expected to increase 1.7 percent in 2013, for a total gain of approximately 4,885 jobs. Manufacturing will grow modestly. Durable goods employment will increase by 0.4 percent, while non-durable goods manufacturing is expected to increase 2.2 percent, for a combined increase in manufacturing employment of 0.7 percent. The production sector, as a whole, will gain 745 jobs, or 1.1 percent. Trade, transportation and utilities are forecasted to increase by 820 jobs, or 1.6 percent. The service sectors are forecasted to increase 2.5 percent in 2013, while the government sector is expected to grow a mere 0.1 percent.

Wichita Economic Outlook

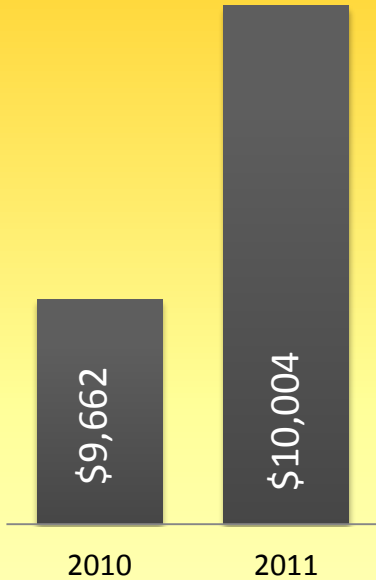
A decrease in per capita personal income of 3.2 percent in 2009 triggered a decline in consumer spending in the Wichita MSA. This was evident in the decline of nominal taxable retail sales of 5.5 percent in 2009 and 0.2 percent in 2010. Retail sales did increase 4.3 percent in 2011 after a 2.3 percent increase in per capita personal income in 2010 and a 3.8 percent increase in 2011. As the Wichita economy continues to recover, retail sales are forecasted to increase 2.3 percent in 2012 and 1.3 percent in 2013.

In August, the national Index of Consumer Confidence and the Index of Consumer Expectations both dropped to their lowest level since November of last year. However, the average values for both indices for the first eight months of this year are somewhat higher than the same period last year.

	August 2011 Year-to-Date Average	August 2012 Year-to-Date Average
Index of Consumer Confidence	61.3	65.6
Index of Consumer Expectations	78.1	78.5

Source: The Conference Board. Copyright (C) 2012. All rights reserved. No claim to orig. U.S. Govt. works pursuant to U.S. Contract No. 52-SABA-5-00128. --DISCLAIMER--The BCI data is provided with no guarantees or warranties of any kind. While The Conference Board tries to ensure that the information it provides is accurate when it is obtained directly from the source agencies, The Conference Board cannot be held responsible for mistakes or misinterpretations.

■ Total Wages Paid In Millions of Dollars

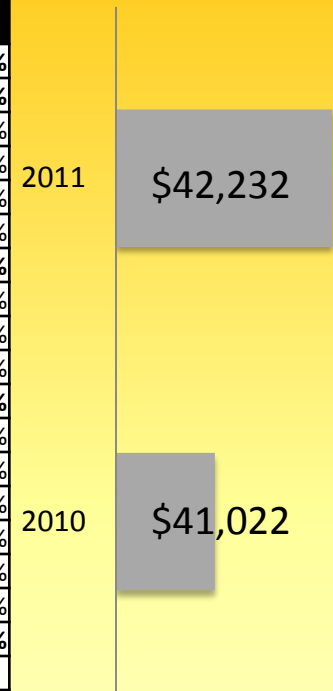


Wichita MSA Employment by Industry Summary*

	2012 (e)	2013 (f)	2012-2013 Level Change	2012-2013
				Percent Change
Total Nonfarm	286,025	290,910	4,885	1.7%
Production Sectors	66,760	67,505	745	1.1%
Natural Resources, Mining & Cons.	14,585	14,990	405	2.8%
Manufacturing	52,175	52,515	340	0.7%
Durable Goods	44,590	44,760	170	0.4%
Non-Durable Goods	7,585	7,755	170	2.2%
Trade, Transportation & Utilities	50,010	50,830	820	1.6%
Wholesale Trade	10,780	10,820	40	0.4%
Retail Trade	31,380	32,050	670	2.1%
Transportation & Utilities	7,850	7,960	110	1.4%
Service Sectors	131,670	134,940	3,270	2.5%
Information	4,180	4,040	-140	-3.3%
Financial Activities	10,465	10,430	-35	-0.3%
Professional & Business Services	34,065	35,920	1,855	5.4%
Education & Health Services	44,250	45,040	790	1.8%
Leisure & Hospitality	28,100	28,770	670	2.4%
Other Services	10,610	10,740	130	1.2%
Government	37,585	37,635	50	0.1%

*Annual values are derived from average quarterly observations and projections.
(e) estimated (f) forecasted

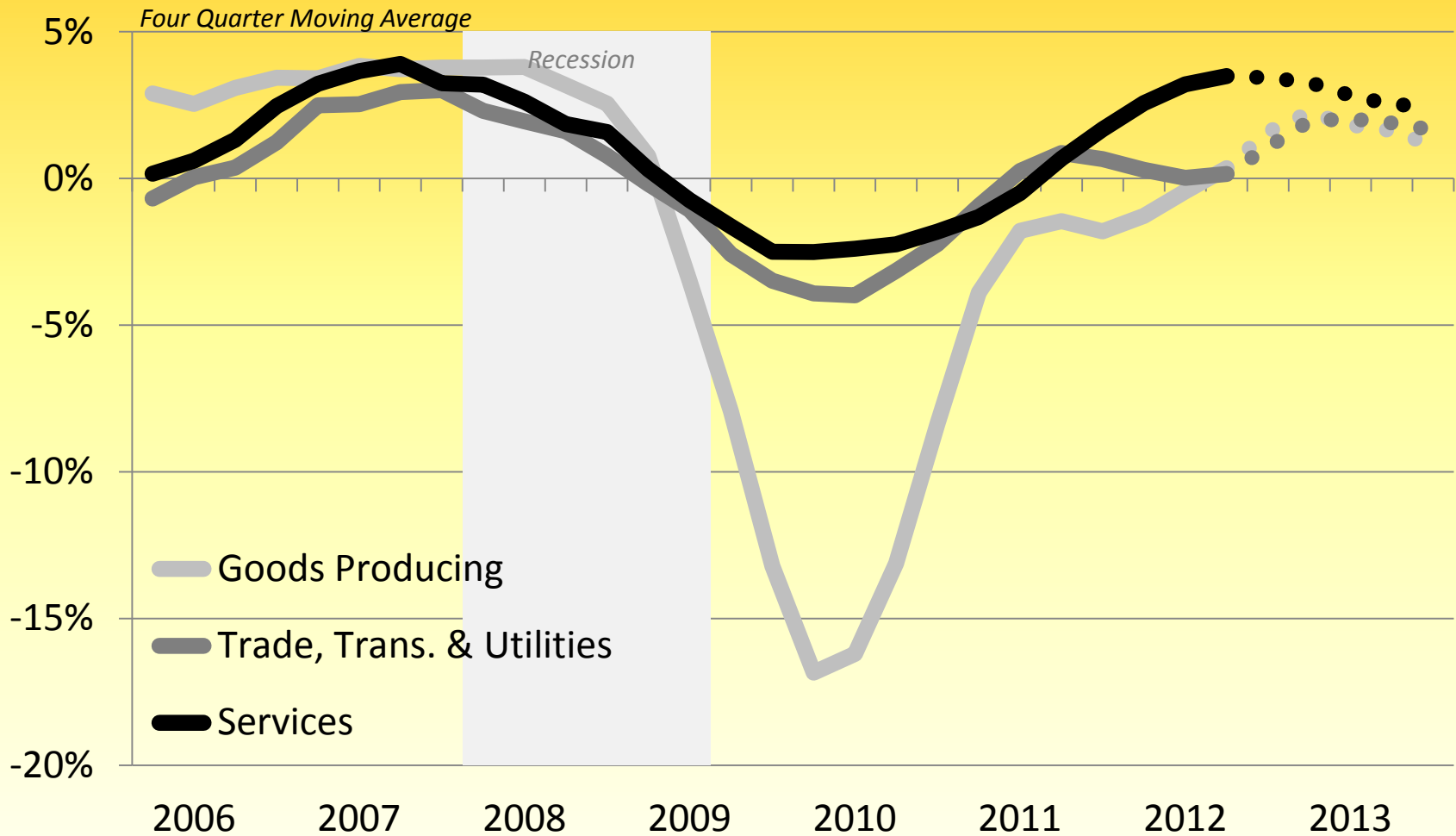
■ Average Annual Wage

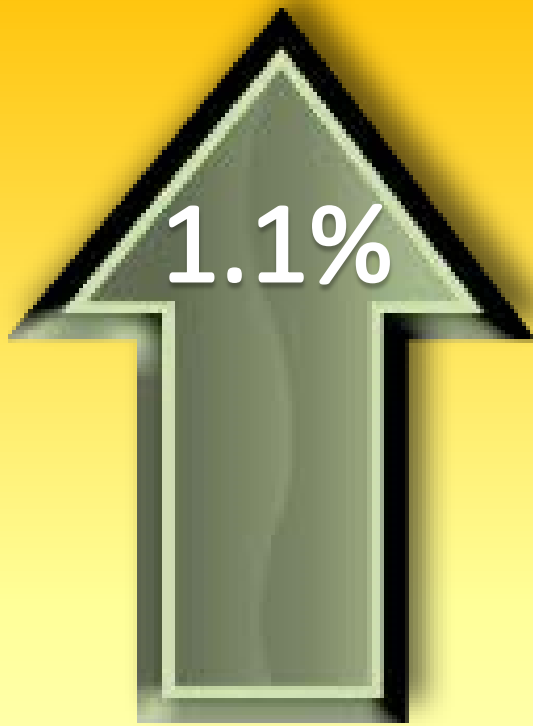


The trough that ended the December 2007 recession occurred in June 2009. That year total wages in the Wichita MSA dropped 7 percent, followed by a 2.1 percent decline in 2010. As the recovery began to take hold in 2011, total wages increased 3.5 percent in the Wichita MSA.

Average annual wages followed a similar pattern, but rebounded sooner than total wages. From 2008 to 2009, average annual wages declined 1.1 percent. That loss was followed by gains in 2010 and 2011 of 1.7 percent and 2.9 percent, respectively.

Wichita Employment





2.8% Natural Resources & Construction



0.4% Durable Goods



2.2% Non-Durable Goods

Goods Production Employment Forecast

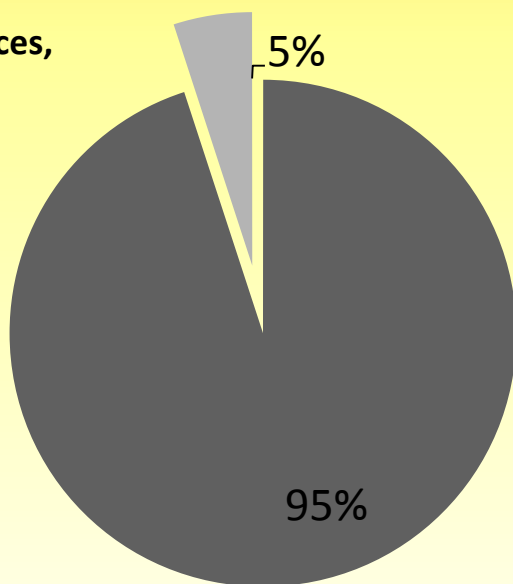
Due to the recession, Wichita's value of residential and nonresidential building permits declined from 2009 to 2010, losing 15.3 percent and 20.7 percent, respectively. In 2011, the value of permits rebounded, with residential permits increasing 2.8 percent and nonresidential increasing 4.3 percent. Despite these increases, 2011 values remained below pre-recession levels. So far in 2012, the data are sending mixed signals. The value of residential building permits were 22.3 percent higher in the first half of this year, compared to the first half of 2011. On the other hand, nonresidential permits were 72.9 percent lower.

USD 259 bond issue construction and continuing construction at the Kansas Star Casino in Mulvane will

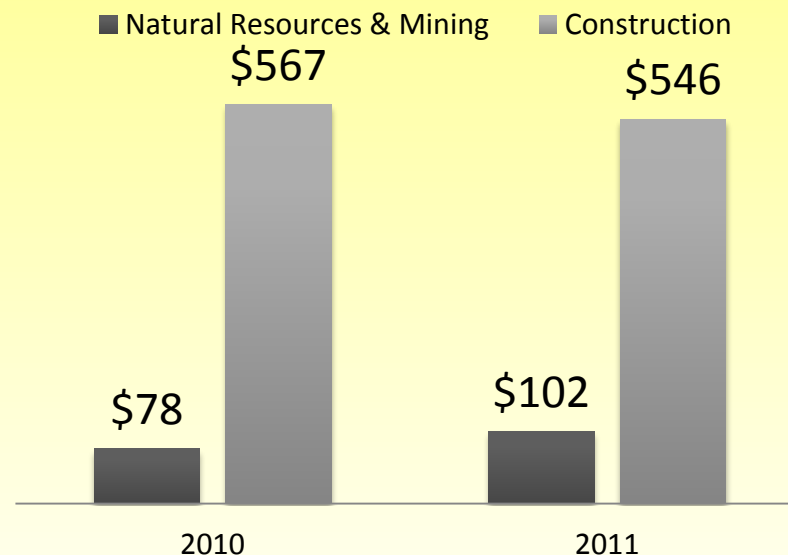
provide jobs for construction workers into 2013. Other current nonresidential construction projects include expansions at local aircraft manufacturing companies, new medical and nursing facilities and new car dealerships. Nonresidential development also continues in the downtown and WaterWalk areas of the city, including a new YMCA, a parking garage, and additional office and retail space.

New residential construction projects include Watercress Village in Maize and The Courtyards at Elk Creek in Bel Aire. Each development will eventually consist of 80 to 100 new homes. Numerous renovations and building projects in downtown Wichita will provide additional apartments by the end of 2013.

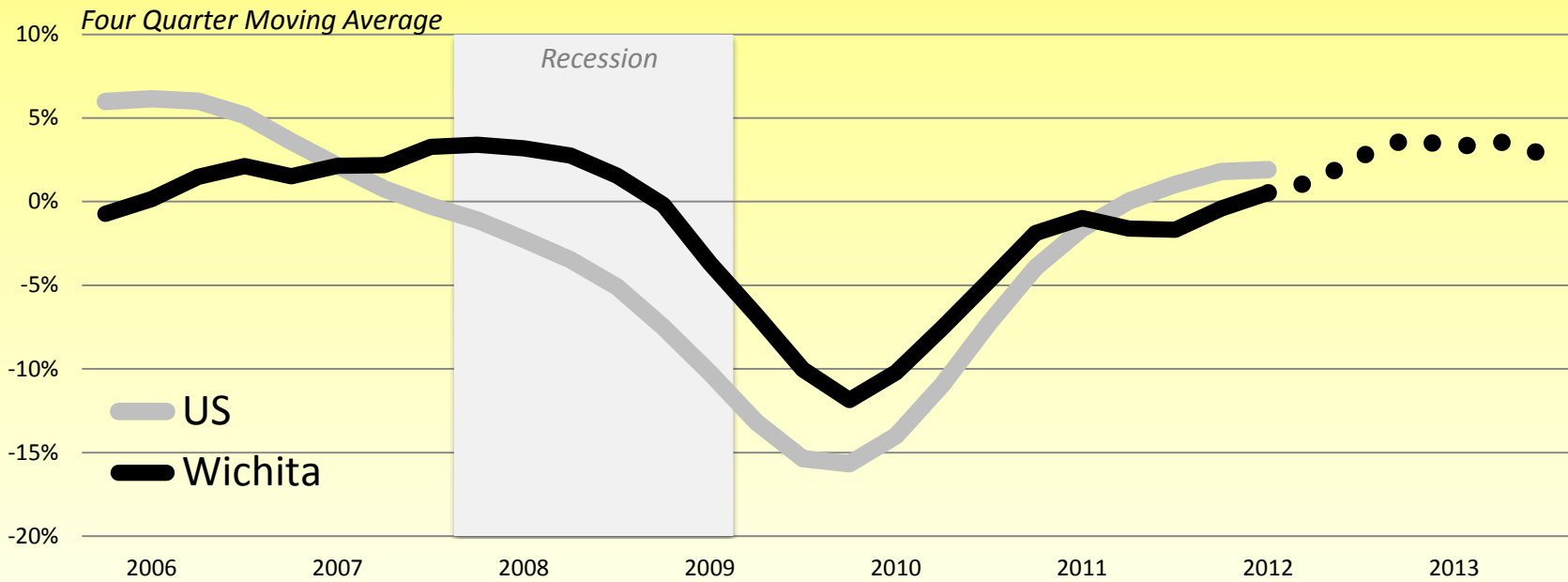
Natural Resources, Mining and Construction Employment



Total Wages Paid In Millions of Dollars



Overall, natural resources, mining and construction employment is expected to increase 2.7 percent, or 385 jobs in 2012. The industry will continue to grow in 2013, with a 2.8 percent increase, or 405 jobs.

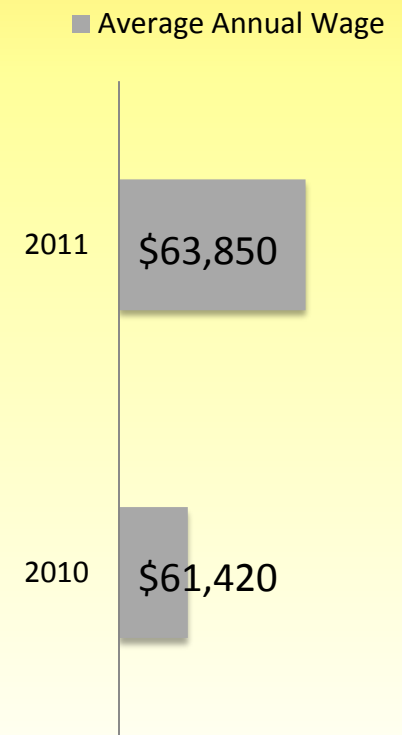
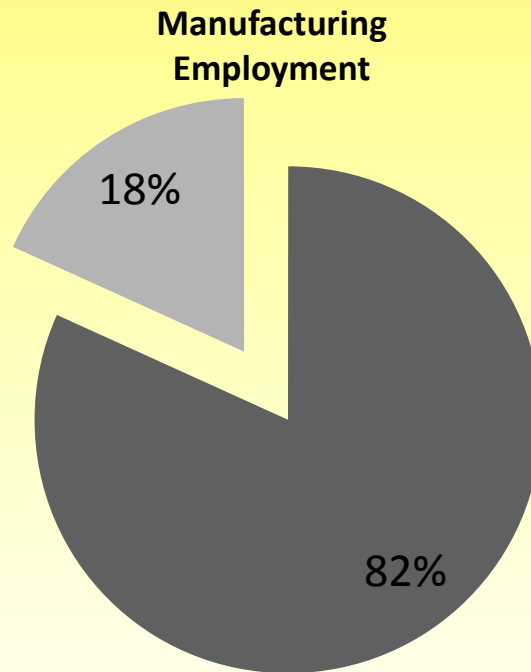
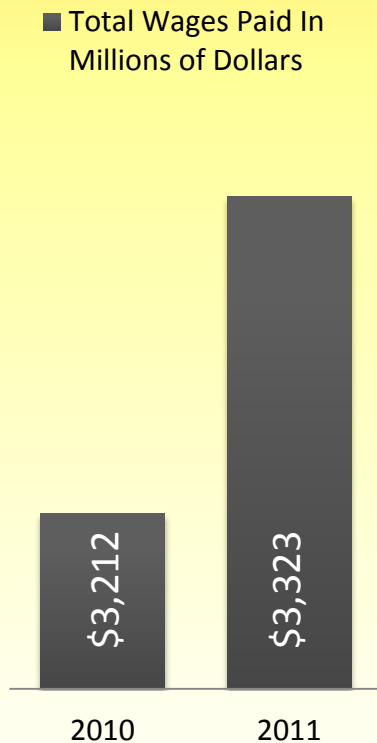


More workers are employed in the manufacturing sector than any other sector in the Wichita MSA. Approximately 85.5 percent of those workers manufacture durable goods, with aerospace products and parts being the largest component of the durable goods manufactured. Aerospace products and parts jobs represent about 57 percent of all manufacturing jobs in the Wichita area.

The manufacturing sector took its hardest hit, both nationally and locally, in 2009 when U.S. manufacturing employment dropped 11.6 percent and Wichita MSA employment dropped 14 percent. Wichita manufacturing employment has been slower to rebound than the nation, as a whole. In 2011, national manufacturing

employment increased 1.8 percent, while Wichita's dropped another 1.9 percent.

Manufacturing news has been mixed in Wichita the past year. Challenges include the closing of The Boeing Wichita facility in 2013, Hawker Beechcraft filing for Chapter 11 bankruptcy protection and damage to Spirit AeroSystems by an EF-3 tornado in April. However, there has been significant good news, as well – production rate increases, facility expansions, new aircraft orders and hiring announcements. Consequently, the Center for Economic Development and Business Research is expecting employment increases in this sector in 2012 and 2013.



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The General Aviation Manufacturers Association data below suggests new stability and growth in general aviation. According to GAMA's president and CEO, Pete Bunce, "We are starting to see positive signs in the 2012 shipment data. When coupled with the positive trend we are seeing in the used market, we may finally be witnessing the start of our recovery. However, significant impediments remain in our member companies' ability to bring new, innovative and safety enhancing products to our customers. While we have seen positive steps by FAA's leadership to improve the effectiveness and efficiency of the certification process, much work remains to be done to take full advantage of the opportunities offered by improving and emerging markets."

Selected Good News for Local General Aviation:

- B&B Airparts, a local aircraft supplier, began expansion in 2011 to manufacture parts for Honda Aircraft. Additional expansion is expected to occur.
- The U.S. Air Force awarded a \$12.4 million contract for four C-208B aircraft to Cessna Aircraft . The contract includes training for 16 pilots and 14 maintenance personnel.
- Because of planned production rate increases, Cessna Aircraft announced, in April, that it would recall and hire approximately 150 people.
- In May, Hawker Beechcraft received more than \$120 million in orders at the European Business Aviation Convention and Exhibition in Geneva, Switzerland.
- Together, Cessna Aircraft and Bombardier received orders from NetJets for up to 425 new business jets. This order is valued at \$9.6 billion.

Shipments of Airplanes Manufactured Worldwide

	First Half 2011	First Half 2012	Change
Pistons	387	381	-1.6%
Turboprops	220	243	10.5%
Business Jets	260	294	13.1%
Total Shipments	867	918	5.9%
Total Billings	\$7.2 billion	\$8.2 billion	13.2%

Source: General Aviation Manufacturers Association, *GAMA Issues Second Quarter Shipment Report, Signs of Stability and Growth Across Segments*, <http://www.gama.aero/media-center/press-releases/content/gama-issues-second-quarter-shipment-report-signs-stability-and-g>.

In his July 2012 brief, Tony Tyler, Director General and CEO of the International Air Transport Association, had this to say about the airline industry, “We continue to expect net post-tax profits for the whole industry to fall from \$7.9 billion in 2011 to \$3 billion in 2012, which is just 0.5 percent of revenues. The regional composition of the forecast has changed significantly, with U.S. and Latin American airlines expected to generate more profit this year, offset by larger losses in Europe and smaller profits in Asia-Pacific.”

Because jet fuel prices have fallen, IATA has revised its Brent crude oil price forecast for 2012 downward from \$115/barrel to \$110/barrel. Tyler states, “Oil prices are weaker because of concerns about the Eurozone. We now base our forecast on the market’s view that the Eurozone sovereign debt crisis will intensify, weakening economic growth in the region further in the second half of this year.” However, risks to oil prices from supply disruptions in the Middle East cannot be dismissed.

Tyler closes his brief with these statements: “Capacity will ... be largely determined by the regional contexts. In the U.S., it will grow very little in 2012. Despite a sluggish and mature U.S. market this will allow a further improvement in load factors, supporting improved profitability. By contrast growth for European airlines is expected to slow to one-third of the 2011 pace, as many of Europe’s economies fall deeper into recession.”

Boeing Commercial Orders and Production

	2006	2007	2008	2009	2010	2011
Net Aircraft Orders	975	1,214	598	263	625	921
Percent Change	-1%	25%	-51%	-56%	138%	47%
Aircraft Deliveries	398	441	375	481	462	477
Percent Change	37%	11%	-15%	28%	-4%	3%

Source: The Boeing Company, *Orders and Deliveries*,

<http://active.boeing.com/commercial/orders/index.cfm?content=timeperiodselection.cfm&pageid=m15523>.

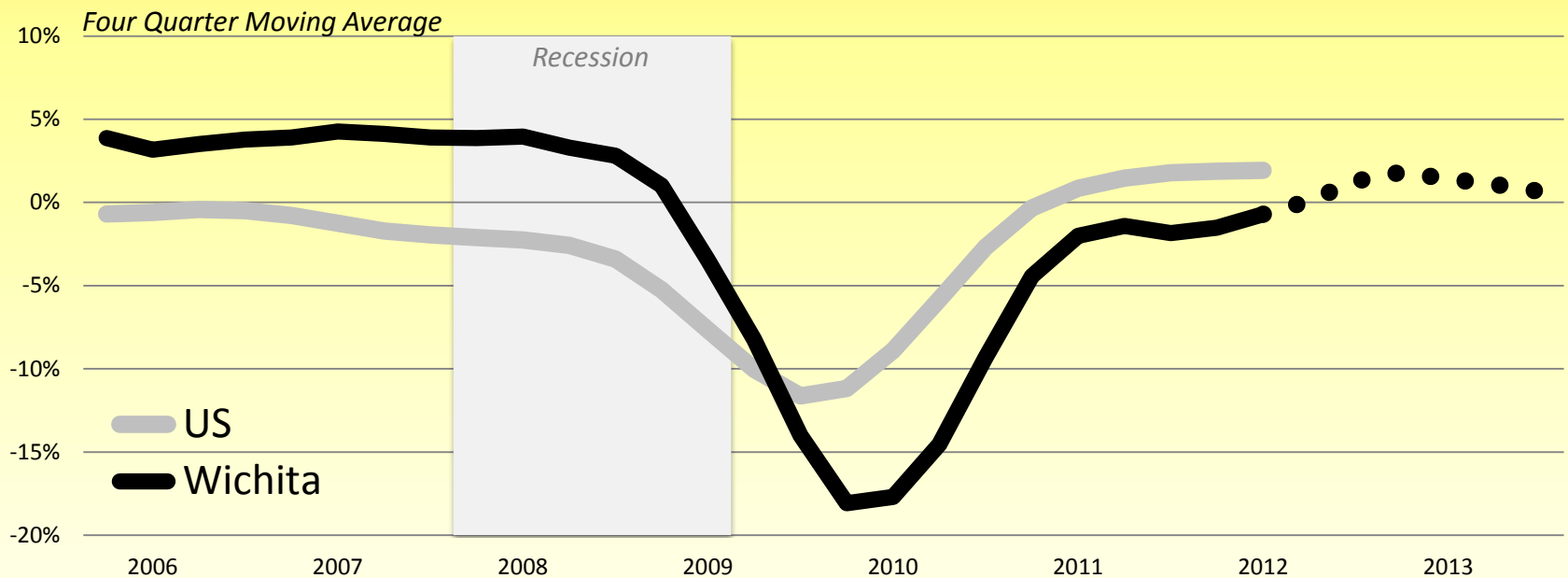
Airbus Orders and Production

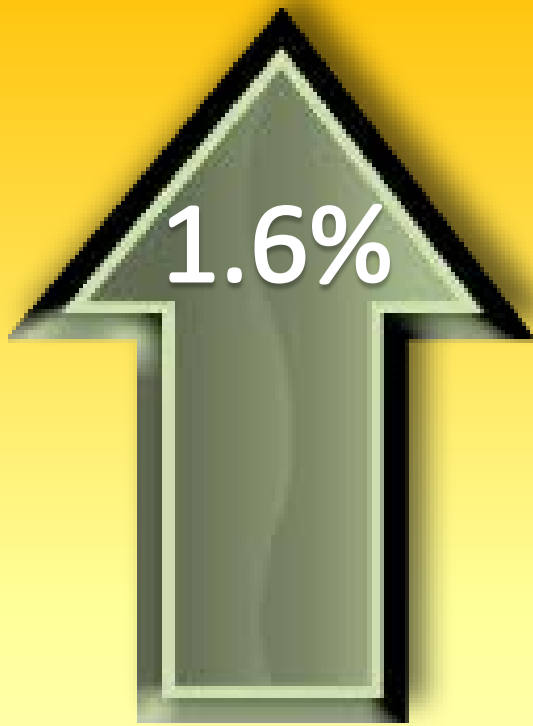
	2006	2007	2008	2009	2010	2011
Net Aircraft Orders	824	1,458	900	310	644	1,419
Percent Change	-26%	77%	-38%	-66%	108%	120%
Aircraft Deliveries	434	453	483	498	510	534
Percent Change	15%	4%	7%	3%	2%	5%

Source: Airbus, *Airbus Summary Historical Orders Deliveries, 1989-2011*,

http://www.airbus.com/company/market/orders-deliveries/?eID=dam_frontend_push&docID=14855.

Overall, manufacturing is expected to increase 1.3 percent, or 658 jobs in 2012, followed by a 0.7 percent increase, or 340 jobs, in 2013.





0.4% Wholesale Trade



2.1% Retail Trade



1.4% Transportation & Utilities

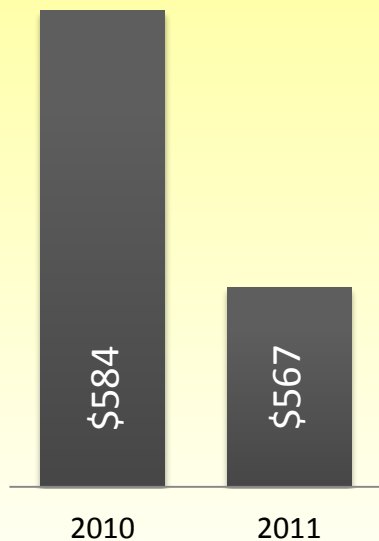
Trade, Transportation and Utilities Employment Forecast

Wholesale Trade Subsectors

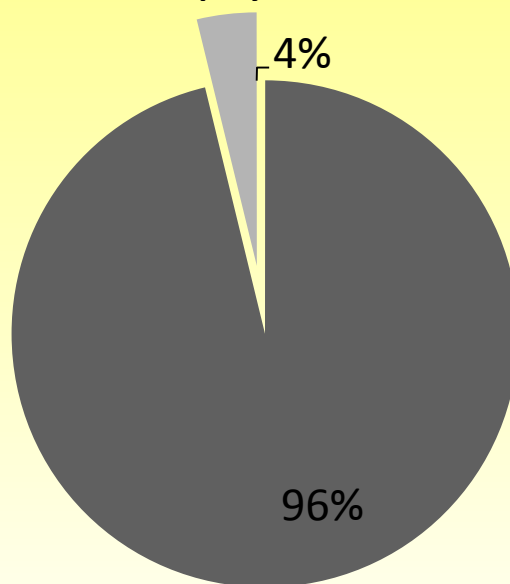
	No. of Employees	No. of Establishments	Total Wages (in millions)	Average Annual Pay
Merchant Wholesalers, Durable Goods	5,824	493	\$288	\$49,432
Merchant Wholesalers, Nondurable Goods	3,394	189	\$190	\$55,900
Electronic Markets and Agents and Brokers	1,549	435	\$90	\$57,863

Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages, 2011.

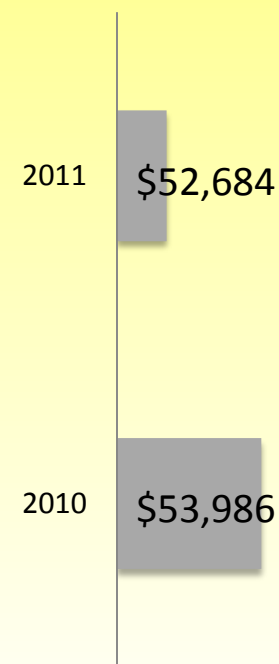
■ Total Wages Paid In Millions of Dollars



Wholesale Trade Employment



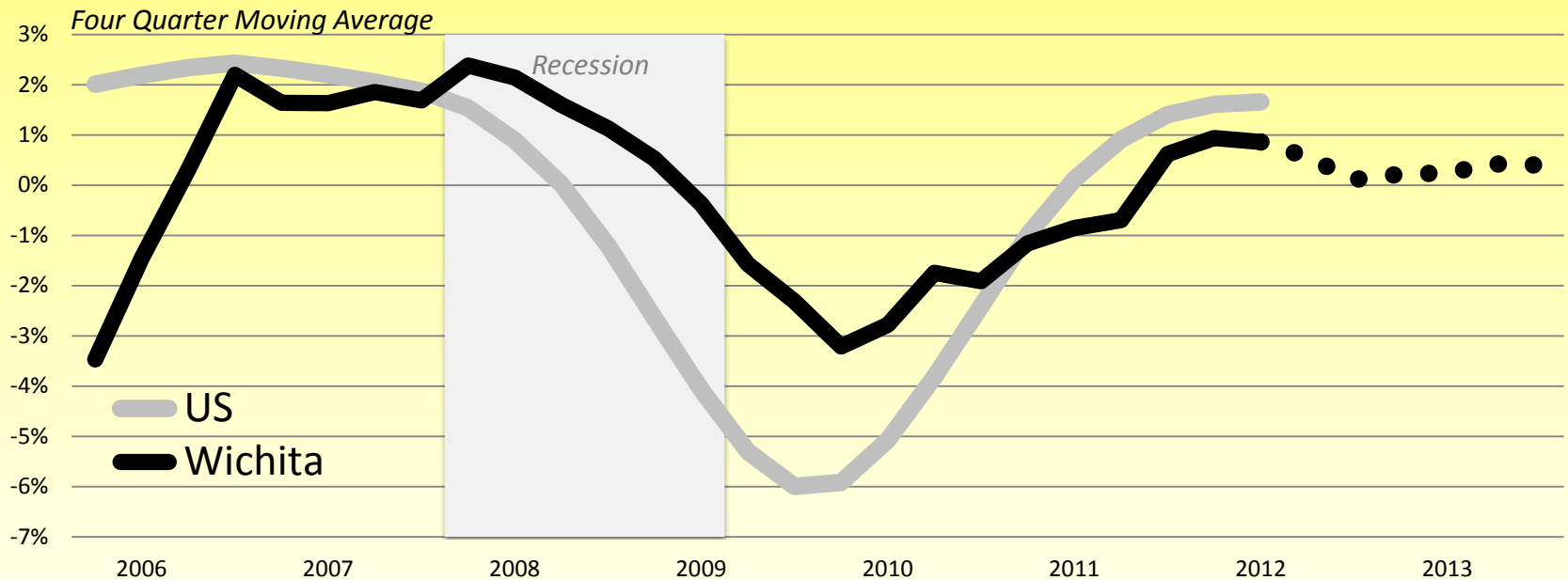
■ Average Annual Wage



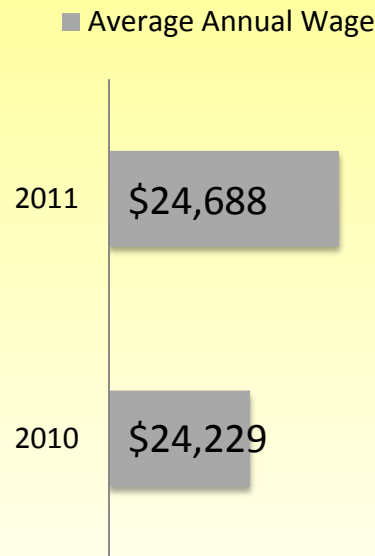
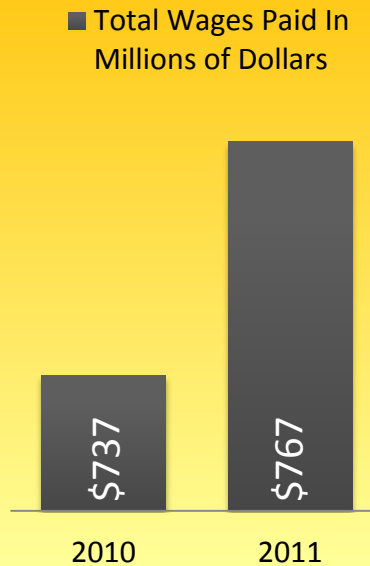
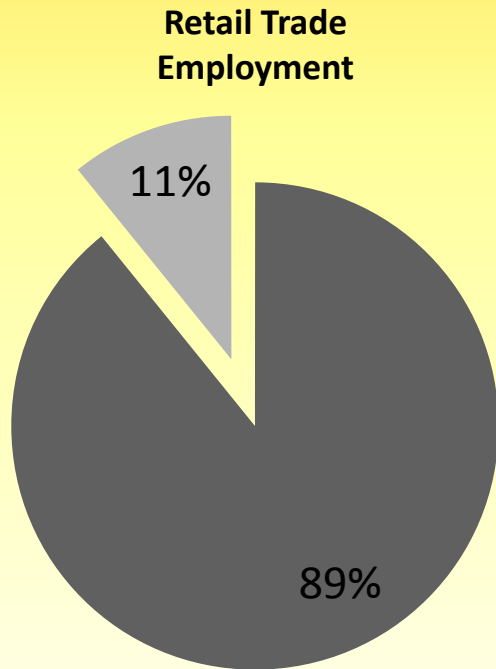
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Overall, wholesale trade is expected to increase 0.1 percent, or 13 jobs, in 2012, followed by a 0.4 percent increase, or 40 jobs, in 2013.



Retail trade employment peaked in 2007 with 32,400 employees. By 2010, the industry had lost 2,000 workers. Since then, however, there has been a moderate upward employment trend in the Wichita MSA. That upward trend has coincided with significant retail activity in the Wichita area.



Selected Retail Expansions and New Businesses

Car dealerships

- **Davis Moore Auto Group** opened a new Nissan store.
- **Scholfield Auto Plaza** will build a new luxury dealership facility.
- **Eddy's Toyota** opened a new 60,000-square-foot facility in May.

Grocers

- **The Fresh Market**, an upscale grocery, opened in Bradley Fair.
- **Walmart** opened six Neighborhood Markets in the Wichita area.
- A **Natural Grocers** by Vitamin Cottage opened on North Rock Road.

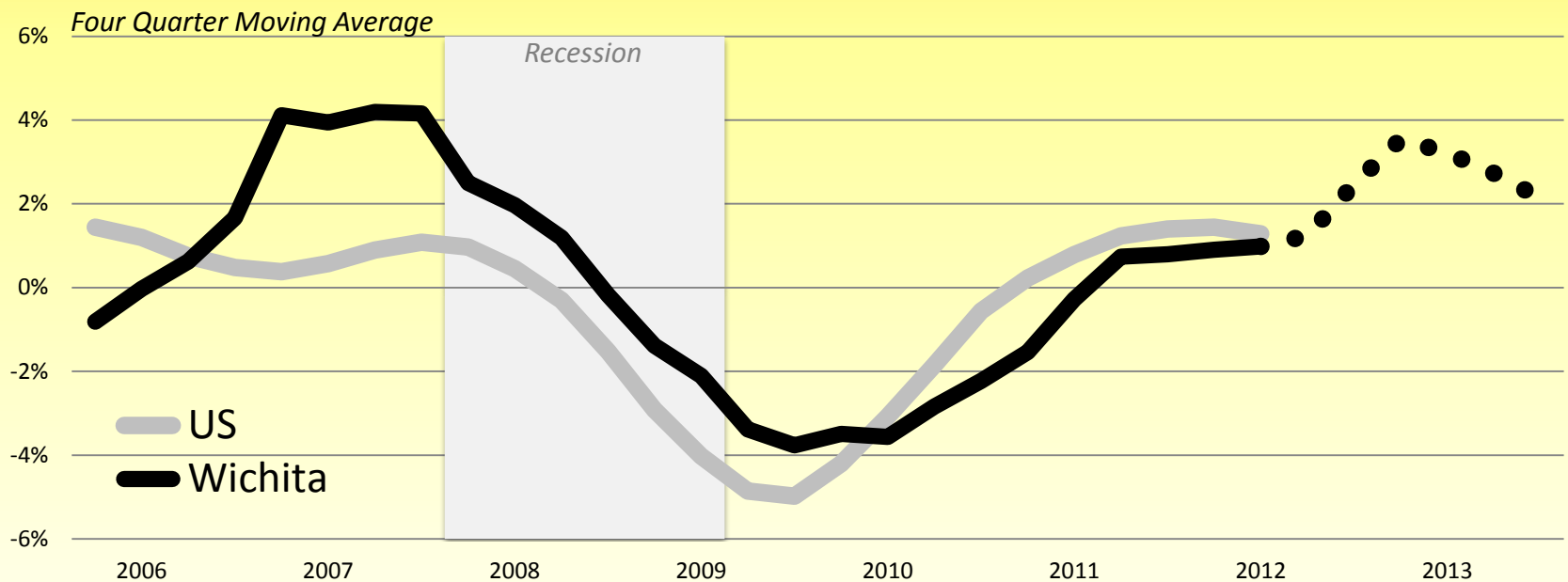
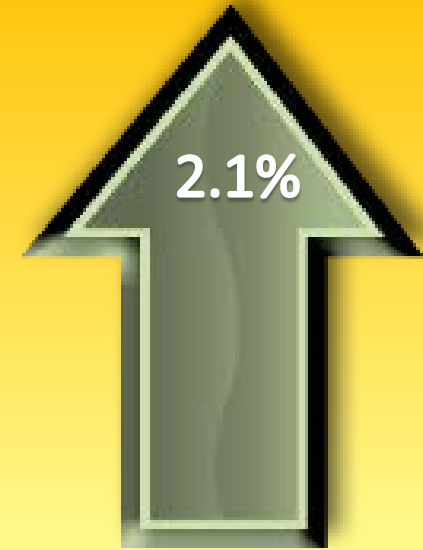
Outdoor sporting stores

- **Cabela's** opened in Regency Lakes Shopping Center.
- **Academy Sports & Outdoors** will open near 29th and Maize Road.

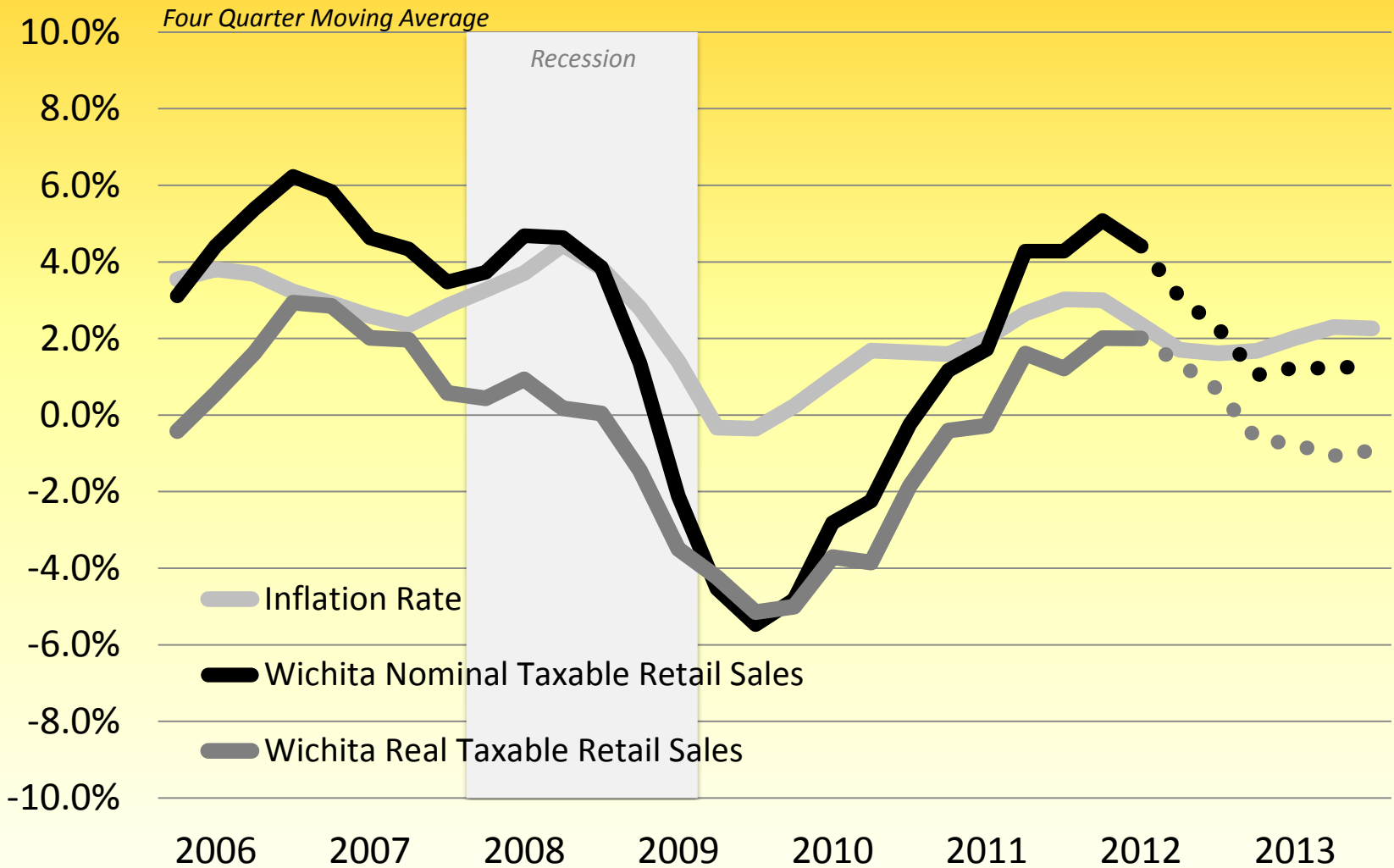
Clothing stores

- **Ross Dress For Less** entered the Wichita market with two stores.
- **Carter's** and **Men's Warehouse** opened in NewMarket Square.

Overall, retail trade is expected to increase 2.5 percent, or 755 jobs, in 2012, followed by a 2.1 percent increase, or 670 jobs, in 2013.



Retail Sales

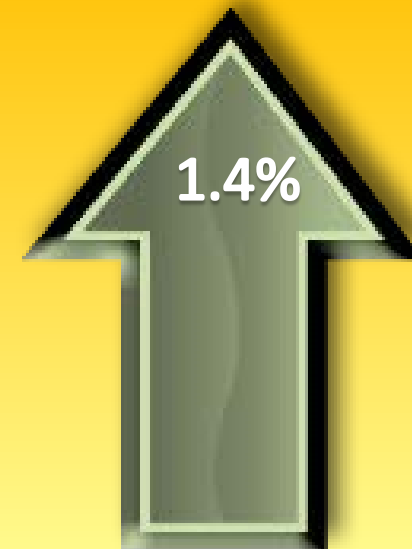


Source: Kansas Department of Revenue, CEDBR

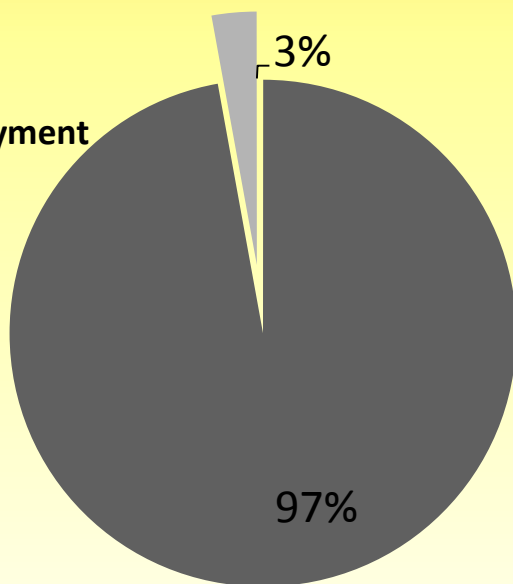
Transportation, warehousing and utilities industry employment peaked in 2008 with 8,600 filled positions. By the end of 2011, that number had dropped to 8,100. Overall, the industry is expected to decrease 3 percent, or 242 jobs, in 2012, followed by a 1.4 percent increase, or 110 jobs, in 2013.

According to the Grubb & Ellis, Martens Commercial Group, LLC 2012 Prospectus, warehouse and distribution space has a vacancy rate of 6.5 percent and an asking rental rate of \$3.60 per-square-foot in the Wichita area. Shortages of large, high ceiling warehouses are expected; however, Hawker Beechcraft and The Boeing Co. might have excess property that could be sold or leased in the market. New construction is currently restrained, but as the economy improves so may the need for newer, more modern facilities to replace the older, more obsolete properties in the area.

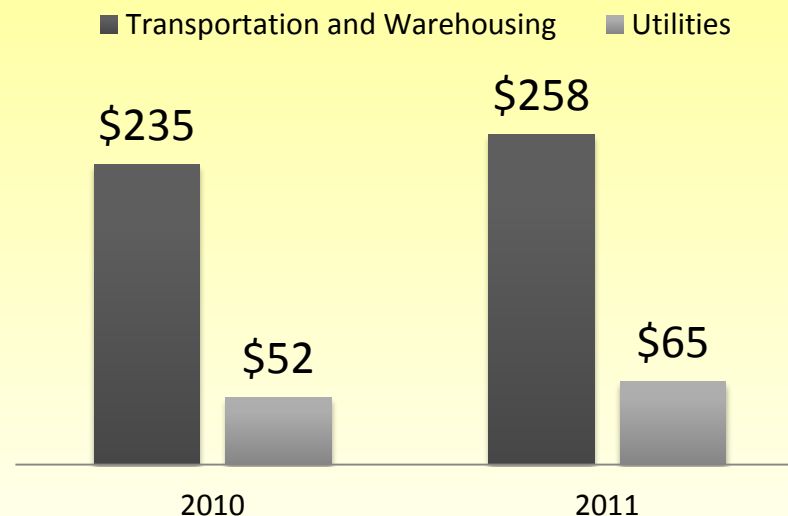
Leasing, rather than purchasing warehouse facilities, is a current trend in Wichita. Nationwide, providing value-added services, such as custom labeling, sub-assembly, and contract packing, have also been a developing trend.

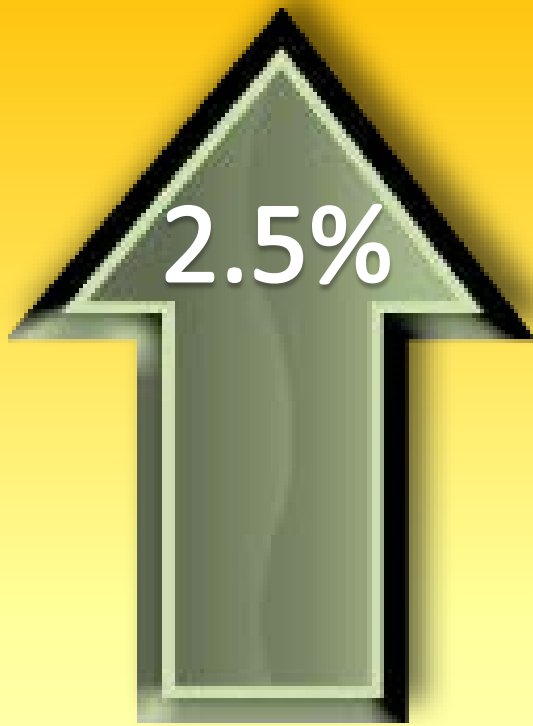


**Transportation,
Warehousing &
Utilities Employment**



**Total Wages Paid
In Millions of Dollars**





-3.3% Information



-0.3% Financial Activities



5.4% Professional and Business Services



1.8% Education and Health Services



2.4% Leisure and Hospitality

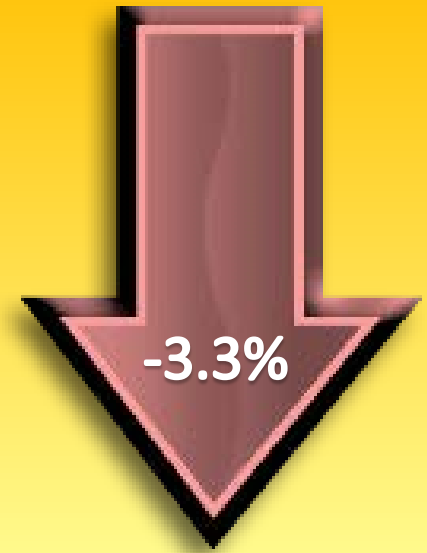


1.2% Other

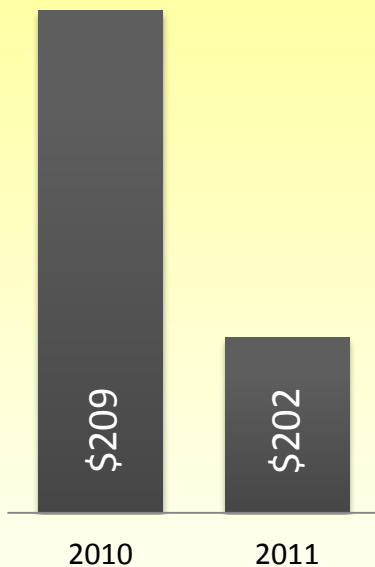
Services Employment Forecast

In 2002, the information sector in Wichita hit a peak of 7,000 employees. It has been in a predominantly downward trend since, with employment expected to drop again in 2012 by another 303 jobs, or 6.8 percent. That decline will be followed by another in 2013 of 140 jobs, or 3.3 percent, bringing the level of employment to 4,040 filled positions.

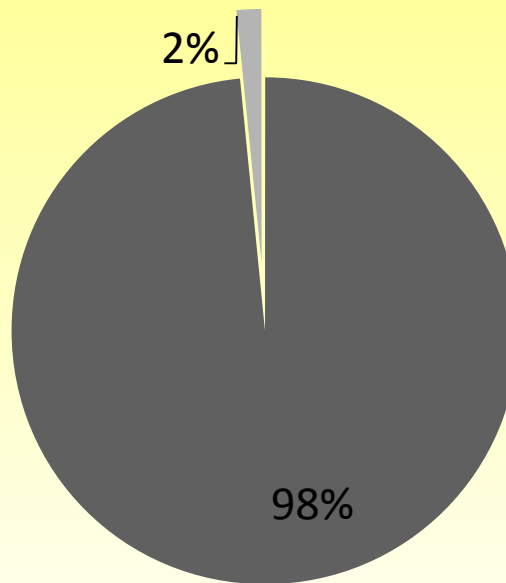
Despite the forecasted employment declines, a recent news report revealed a bright spot in the local information sector. NetApp, a leading provider of storage and data management solutions, plans to hire more than 400 additional workers at its Wichita facility over the next five years, eventually bringing its total employment to more than 850 workers. The average annual wage of these new jobs will be \$73,000.



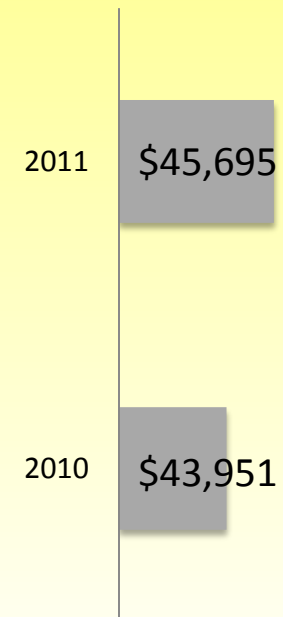
■ Total Wages Paid In
Millions of Dollars



Information Employment



■ Average Annual Wage



In 2001, the financial sector reached peak employment of 13,000 workers. By the end of 2011, employment had decreased by 2,400 jobs, for an 18.5 percent loss.

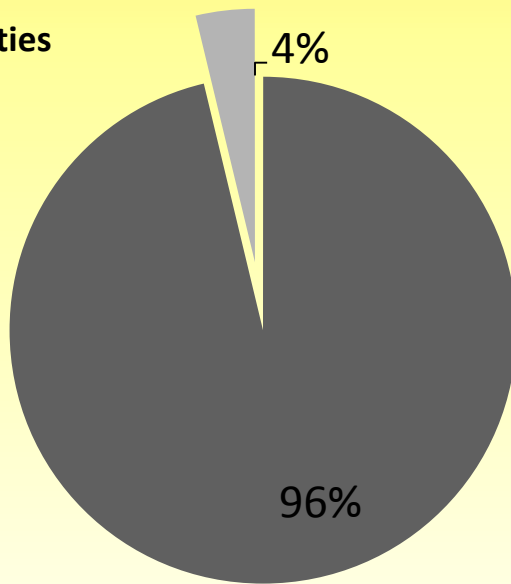
For some time the banking industry has been challenged by the need to understand and comply with new federal regulations. That challenge continues as the banking environment becomes more complex. Revised capital requirements (Basel III), rules for executive compensation and new taxation practices are just a few of the continuing regulatory changes that must be addressed by banking institutions.

Since the housing bubble burst, mortgage lending

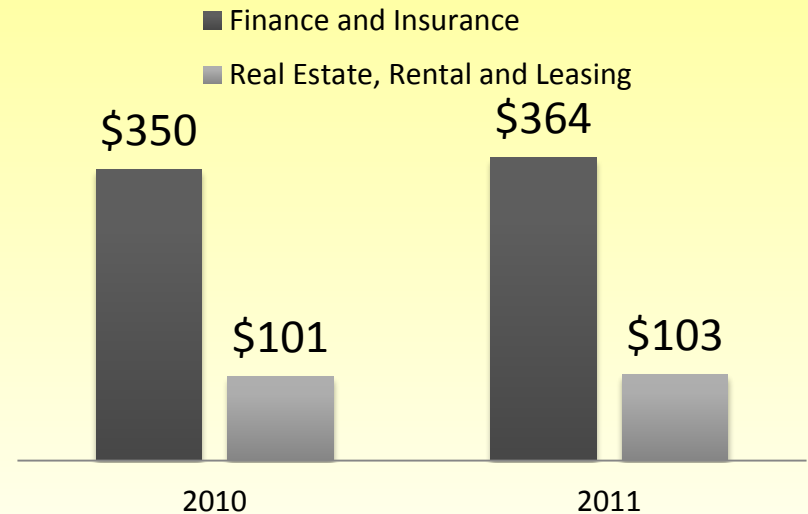
practices have also been under scrutiny. As a result, the Consumer Financial Protection Bureau has been working on rules to regulate mortgage servicing, with some of those rules being required by the Dodd-Frank Act. These new rules could prove to be challenging for mortgage lenders and consumers alike.

During the first six months of 2012, 3,807 homes were sold in the Wichita area. This was an 8 percent increase from the first six months of 2011. However, the number of new residential building permits decreased by 12.5 percent during the same time period.

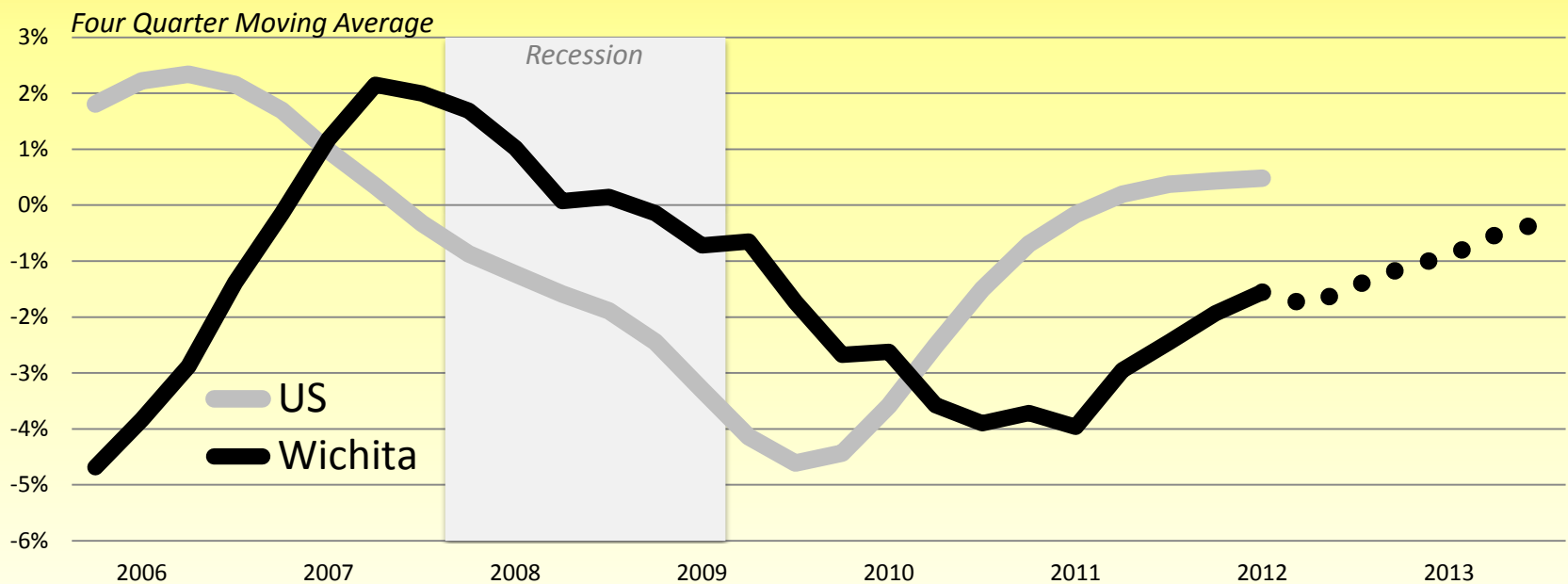
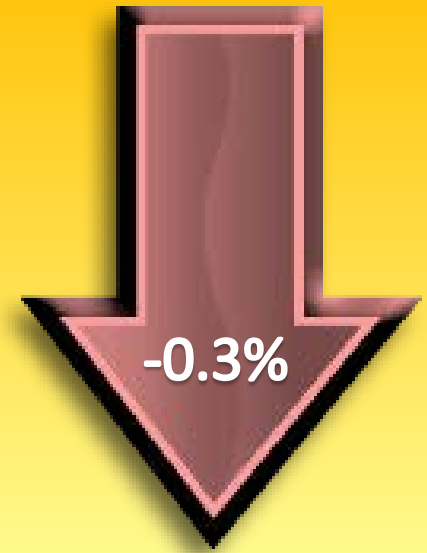
**Financial Activities
Employment**



**Total Wages Paid
In Millions of Dollars**

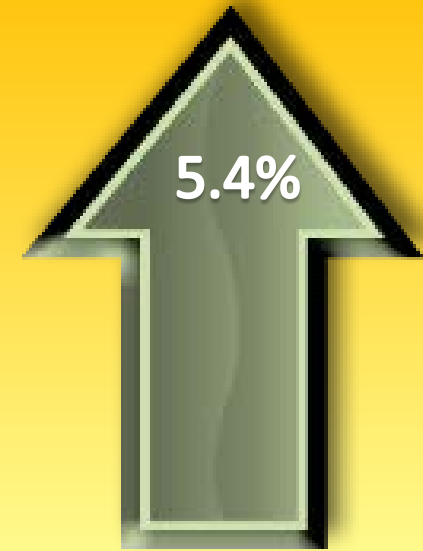


Overall, financial activities employment is expected to decrease 1.4 percent, or 152 jobs, in 2012, followed by a 0.3 percent decline, or 35 jobs, in 2013.

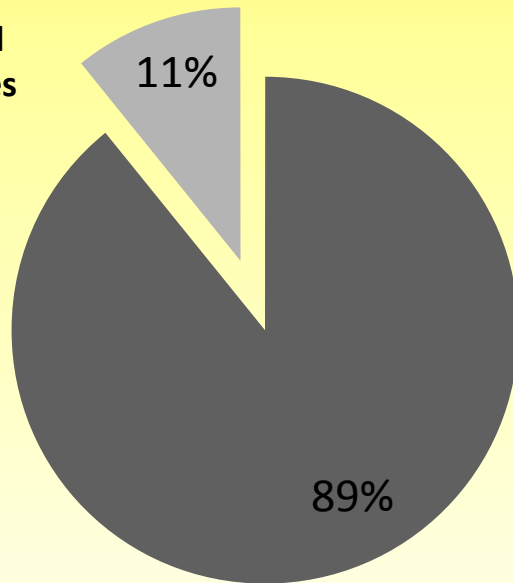


In the Wichita area, there are more than 2,700 firms in the professional and business services sector, most of which have fewer than 10 employees. The sector reached an employment peak of 31,300 employees in 2008, followed by an 8.3 percent dip in 2009. By the end of 2011, the employment level was back up within 700 jobs of the 2008 peak. A gain of 3,842 jobs is expected in 2012, for an 11.4 percent increase. Another 5.4 percent increase is expected in 2013, for a gain of 1,855 new jobs.

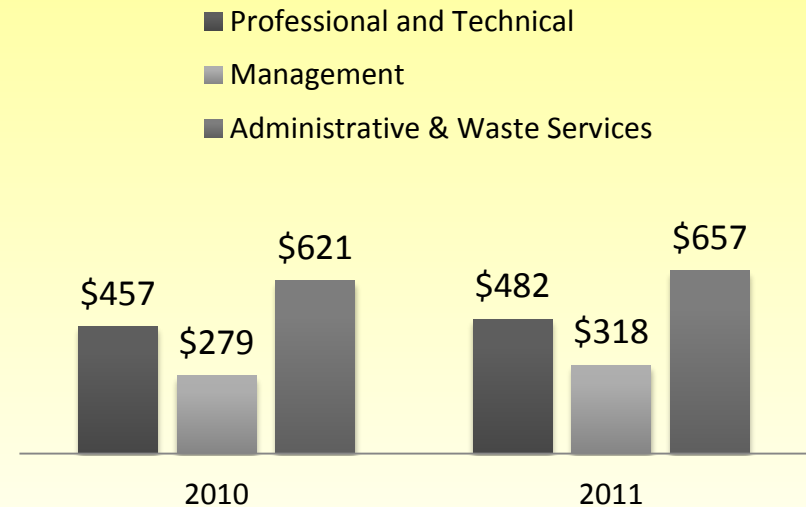
Professional and business services have done well, nationally, also. The sector added 81,000 jobs in August, and since February 2012, has added an average of 85,000 jobs per month.



Professional and Business Services Employment



Total Wages Paid In Millions of Dollars



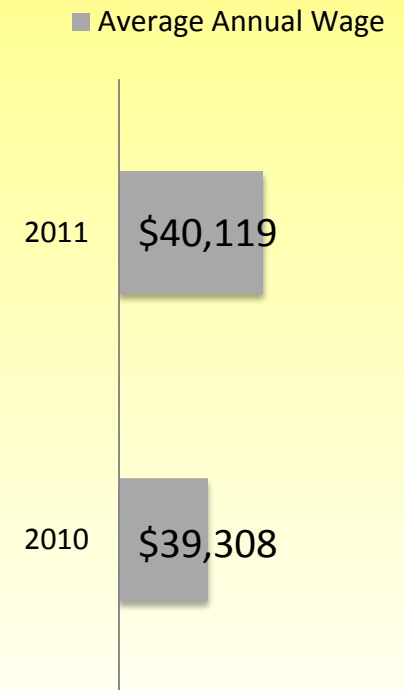
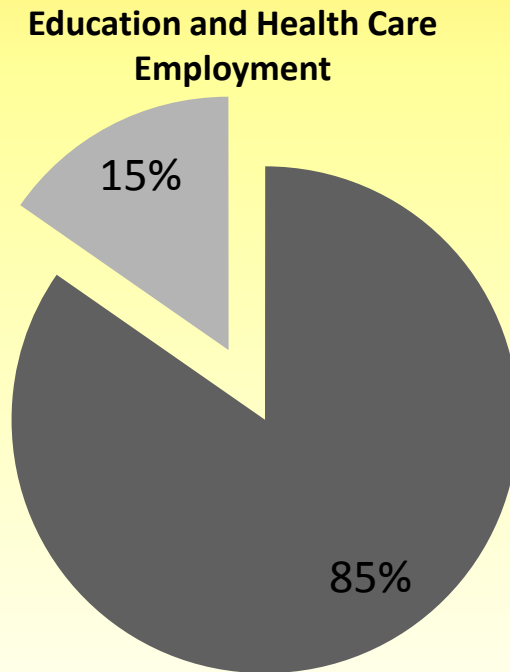
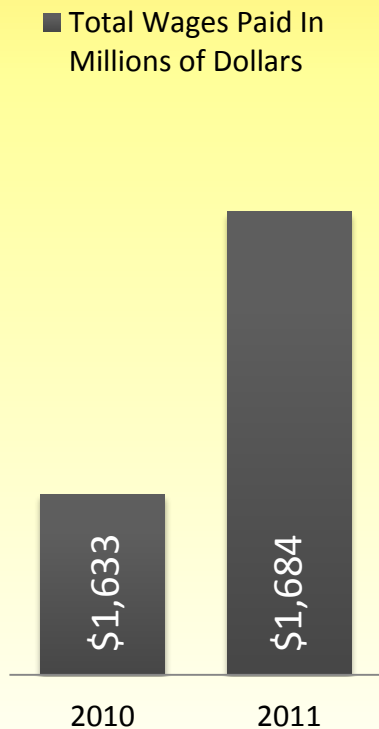
Education employment represents 13 percent of the education and health care industry, while health care employment composes the other 87 percent. Of the health care employment, 30 percent is in the hospital industry.

From 2000 through 2011, Wichita employment grew 21.6 percent in this industry. This growth can be attributed, to some degree, to continued population growth in the Wichita MSA, which totaled a 9.5 percent increase from 2000 through 2011.

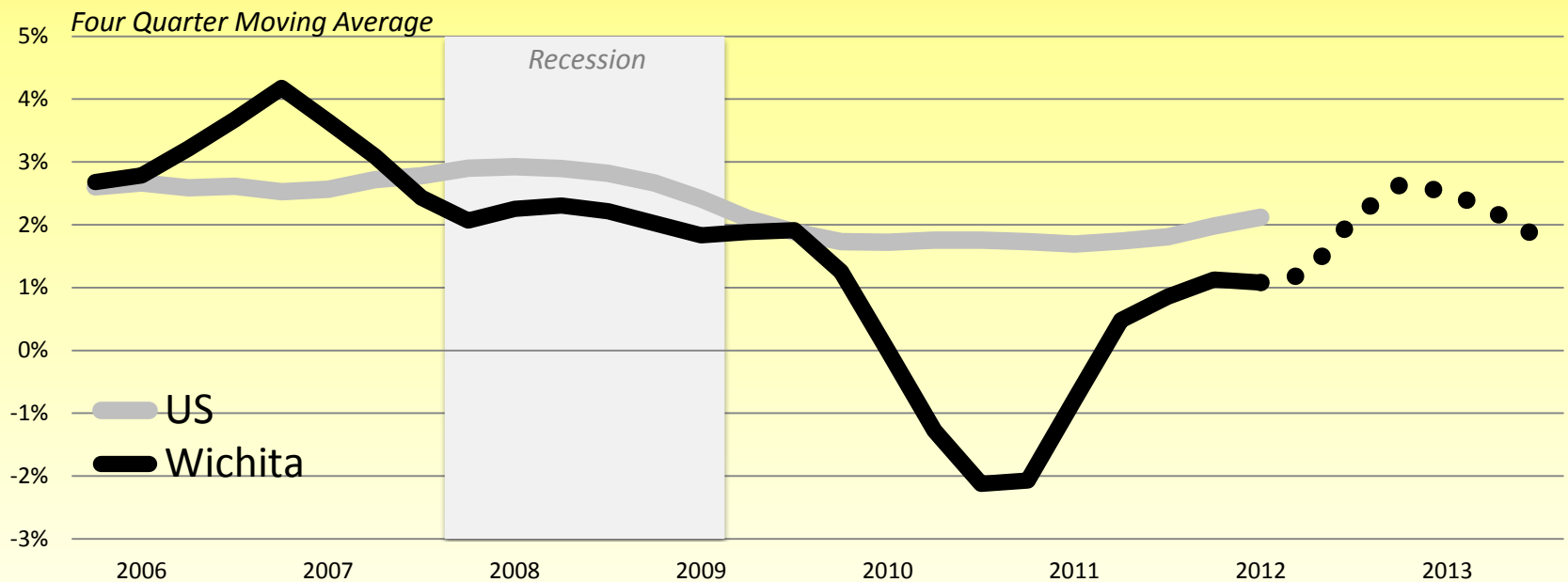
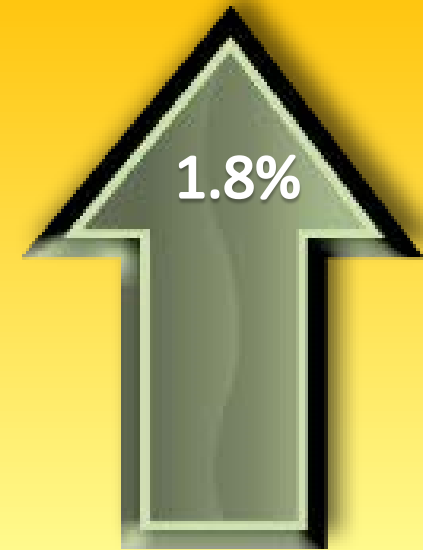
The current issue in health care across the nation is uncertainty. A lot depends on the November 2012 election. The highly polarized politics of this election make it

impossible to get a clear understanding of what national health policy will be until the dust settles and each new elected official takes office. Even then, achieving consensus on health care issues may be difficult to achieve. Unknowns in regard to the future of Medicaid expansion, health insurance exchanges and entitlement reform will continue to be issues. It seems the one thing the industry can count on will be change, whether it comes as a result of policy, the economy, or demographics.

Locally, two trends have become evident over the last year or so – consolidation of health care services through mergers and expansion of health care facilities, especially the building of new senior living and skilled nursing facilities.



Overall, education and health care employment is expected to increase 2.1 percent, or 917 jobs, in 2012, followed by a 1.8 percent increase, or 790 jobs, in 2013.

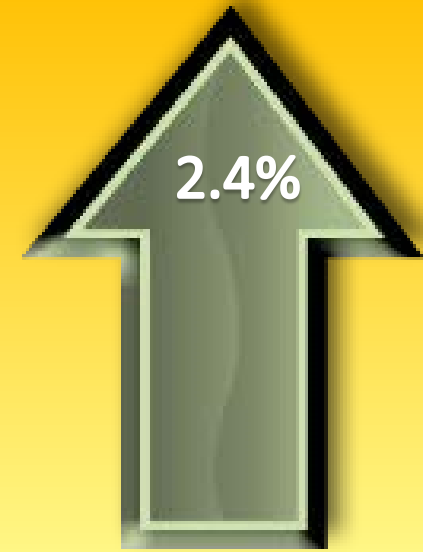


Tourism indicators, 12 months ending June 2011 compared to 12 months ending June 2012:

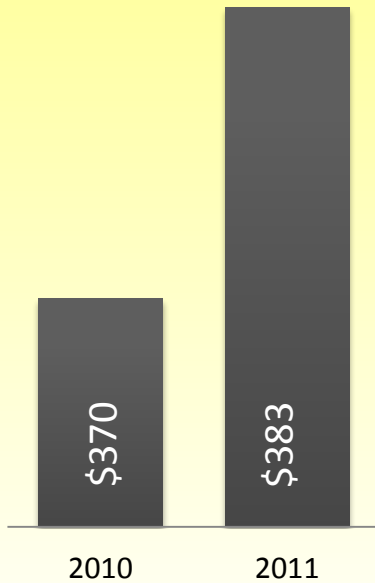
- Outbound passengers at Mid-Continent Airport decreased 0.4 percent
- Wichita hotel occupancy rate decreased 0.9 percentage points
- Transient guest tax collections increased 3.7 percent

The new Kansas Star Casino in Mulvane has been averaging more than \$15 million in monthly revenue this year, which puts it on track to exceed \$180 million in 2012. The permanent casino is expected to open no later than January 2013. Revenues are expected to rise at that time. An attached Hampton Inn and Suites is set to open with 150 rooms in mid-October. So far, through August, the casino has given \$28.5 million to Kansas and \$1.3 million each to the city of Mulvane and Sumner and Sedgwick counties.

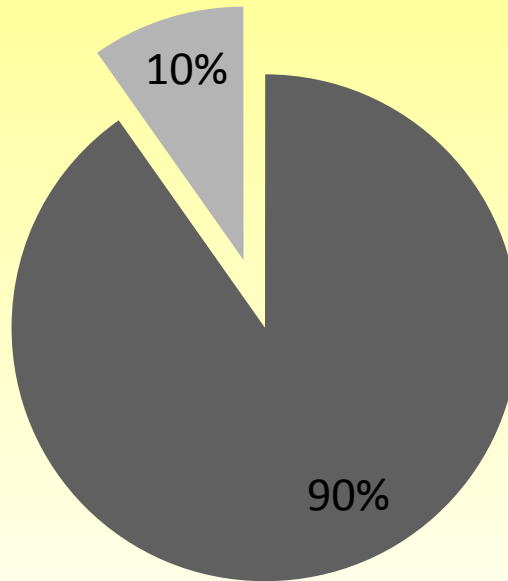
Overall, leisure and hospitality employment is expected to increase 1.6 percent, or 442 jobs, in 2012, followed by a 2.4 percent increase, or 670 jobs, in 2013.



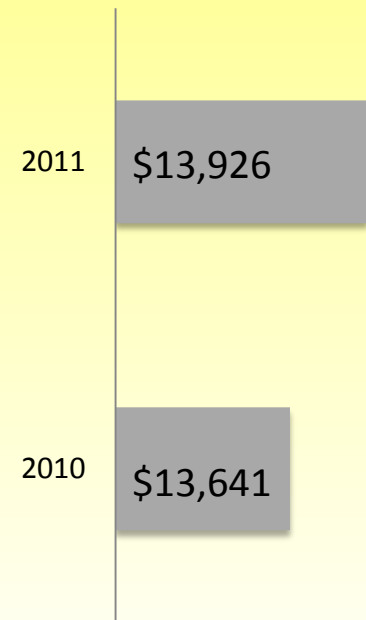
■ Total Wages Paid In
Millions of Dollars



Leisure and Hospitality
Employment



■ Average Annual Wage

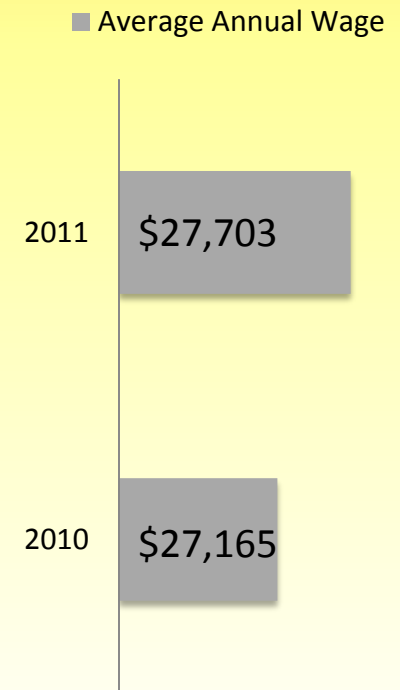
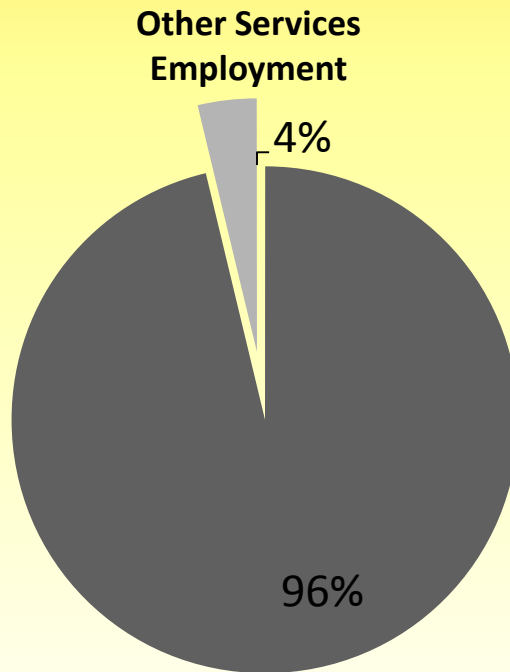
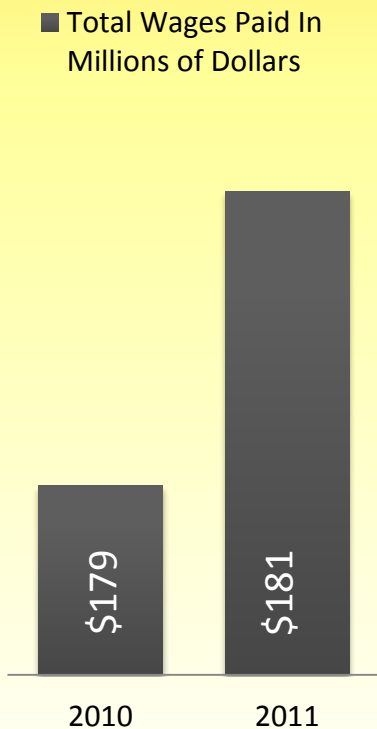
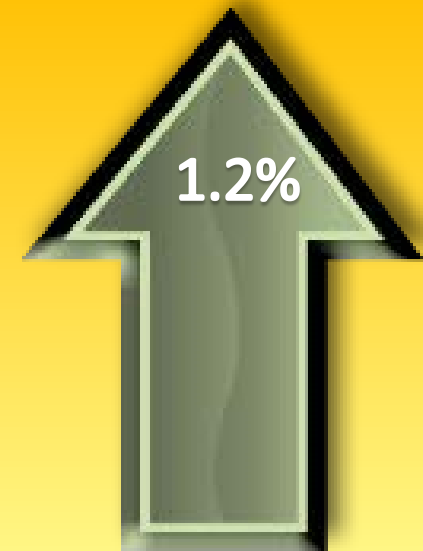


Employment in other services reached a peak of 12,000 workers in 2004. By the end of 2011, the industry had lost 1,400 jobs, for an 11.7 percent decline. Employment is expected to remain stable in 2012, losing only 15 jobs, for a 0.1 percent decline. However, in 2013 this sector is expected to grow by 130 jobs, for a 1.2 percent increase.

Subsectors of Other Services:

- Repair and maintenance
- Personal and laundry services
- Religious, grantmaking, civic, professional and similar organizations
- Private Households

There are more automotive repair and maintenance companies, 332, in the Wichita MSA than any other type of service company that falls within this sector.



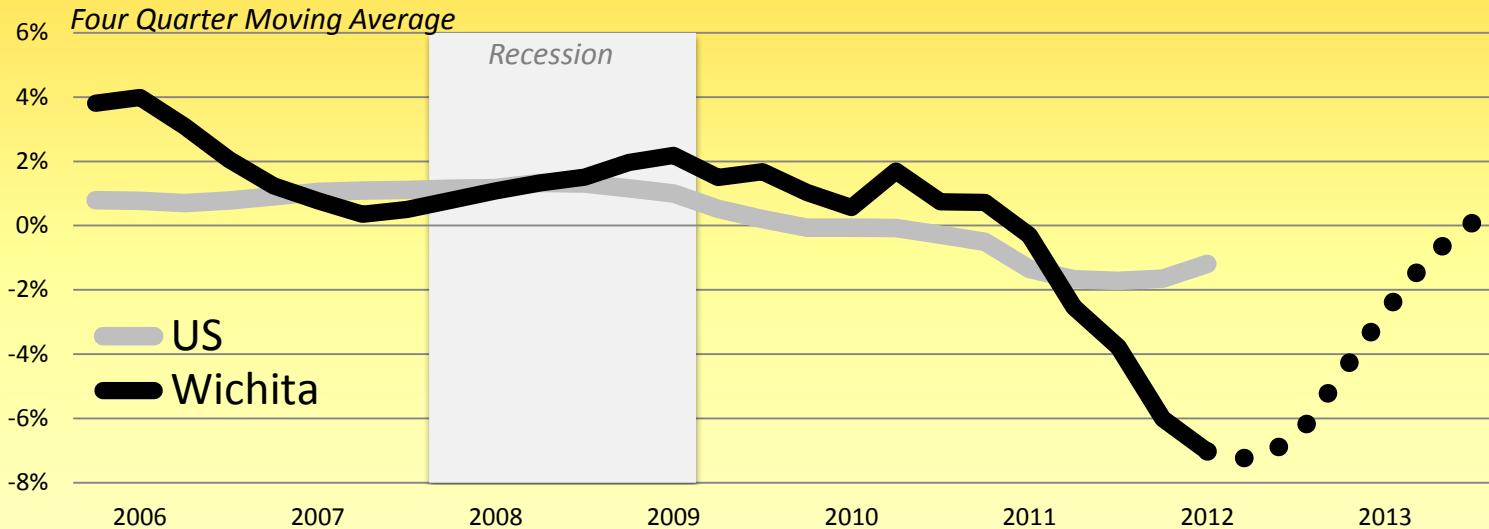
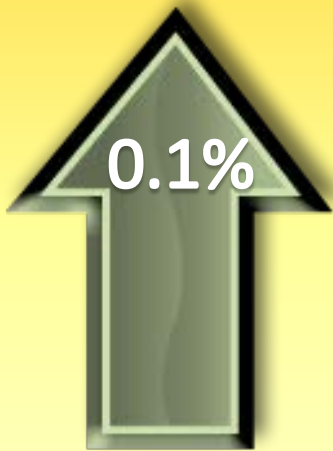
Aside from agricultural employment, the government sector employment is the most difficult economic variable to predict, since employment decisions often rely on variables other than economic relationships.

Government employment reached a peak of 41,800 workers in 2010, followed by a 3.6 percent decrease, or 1,500 jobs, in 2011. In 2012, CEDBR expects government to lose another

2,673 jobs, or 6.6 percent. The employment forecast for 2013 is an increase of 50 jobs, for a 0.1 percent gain.

Wichita MSA government employment (2011)

- Federal, 14.6 percent of total
- State, 14.1 percent of total
- Local, 71.2 percent of total



Government Employment Forecast