e-connection

Center for Economic Development and Business Research

Comparing Misery: 2010Q4

Introduction

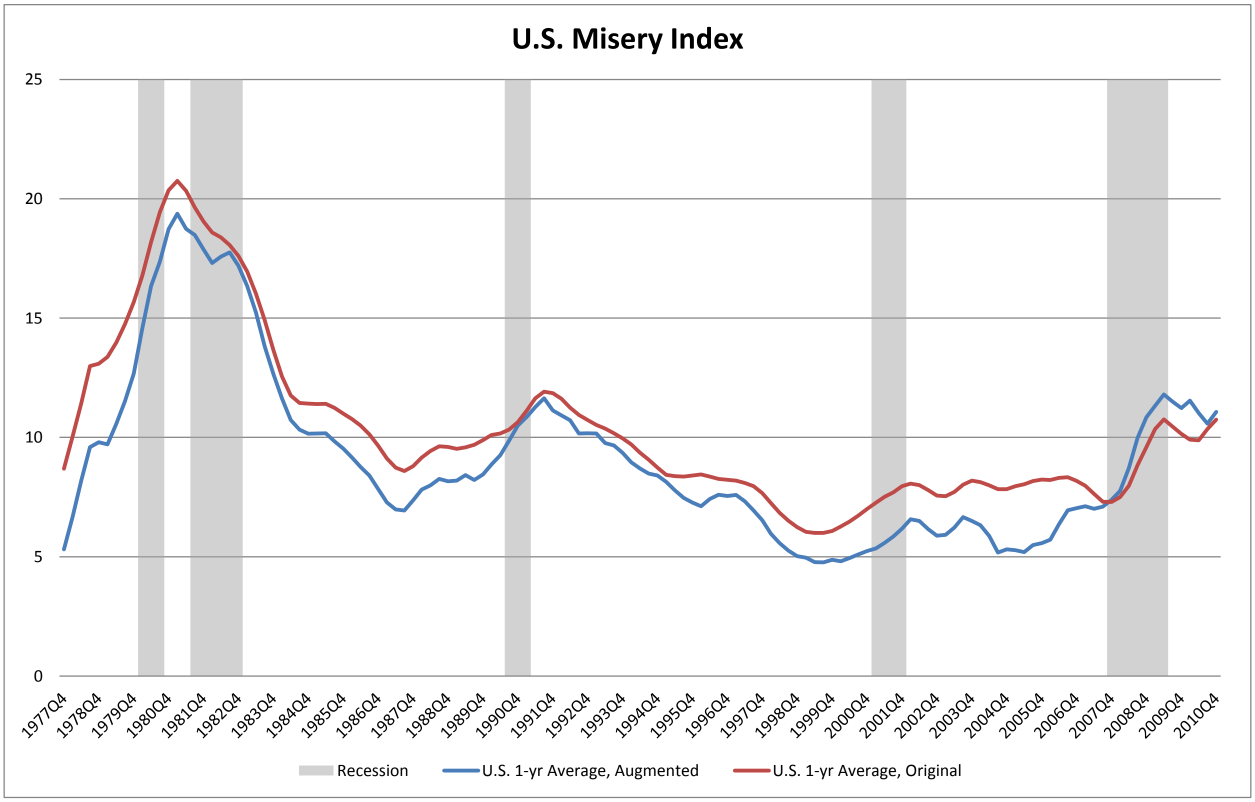
The National Bureau of Economic Research declared the official end to the Great Recession in June 2009, but the effects of the Great Recession are still impacting people today. Continuing negative impacts create a need for a tool to assess the local economic situation of people. The Misery Index measures the impact to people, not the macro economy, and provides CEDBR with a valuable tool for analyzing the current, local economic situation.

Indices are macroeconomic measurements of conditions over time. The Consumer Price Index measures the change in prices. The University of Michigan's Consumer Sentiment Index measures consumer's attitudes toward spending, personal finance and the business climate. The Conference Board issues the Leading Economic Index for the U.S., which signals peaks in the business cycle. It is difficult to replicate these indices for smaller geographies due to the lack of available data.

The Misery Index was created by Arthur Okun in the 1970s. It was designed to measure the misery of people by combining the unemployment rate and the inflation rate. In general, a higher value reflects a more miserable society.

In 2008, Hufbauer, Kim and Rosen[1] validated the Misery Index by comparing index values over time to presidential approval ratings and the University of Michigan's Consumer Sentiment Index. The authors found that, post 1986, the original index should be expanded to include the housing price index, in order to accurately reflect the "misery" of people. The housing price index adds value because today's Americans hold more wealth in homes than previous generations.

[1] Hufbauer, Gary, Jisun Kim and Howard Rosen. The Augmented Misery Index, 3 November, 2008. http://www.iie.com/publications/papers/hufbauer1008.pdf



Methodology

The Misery Index calculated by the Center for Economic Development and Business Research (CEDBR) includes the following information:

- The Consumer Price Index (CPI) from the Bureau of Labor Statistics[2]
- House Price Index (HPI) from the Federal Housing Finance Agency[3]
- Unemployment Rates (UR) from the Bureau of Labor Statistics[4]

Not seasonally adjusted, monthly data values for the Consumer Price Index – All Urban Consumers, U.S. city average, with a base year of 1982-84, were used to calculate the quarterly inflation rate of the United States. Original, monthly data values for the Consumer Price Index – All Midwest Urban Consumers, with a base year of 1982-1984, were used to calculate the quarterly inflation rate of Kansas, Kansas metropolitan areas and peer metropolitan areas. The CPI, or calculated inflation rate, is a negative indicator for consumers. Therefore, if the CPI is increasing, the Misery Index will increase as well.

The HPI is a measure of single family home prices within specific areas. This series is used because the index is produced for a wide range of geographic areas. The CEDBR used the "All-Transactions Indexes" values for each respective area. The percentage change from the previous quarter was used in the

[2] http://www.bls.gov/cpi/ Data accessed March 8, 2011.
[3] http://www.fhfa.gov/Default.aspx?Page=87 Data accessed March 8, 2011.
[4] http://www.bls.gov/bls/unemployment.htm Data accessed between March 8, and March 9, 2011.

Misery Index. The HPI is a positive indicator for consumers. Therefore, if the HPI is increasing, the Misery Index will decline.

There are multiple measures of unemployment. The Bureau of Labor Statistics[5] identifies the following six:

- U-1, persons unemployed 15 weeks or longer, as a percent of the civilian labor force;
- U-2, job losers and persons who completed temporary jobs, as a percent of the civilian labor force;
- U-3, total unemployed, as a percent of the civilian labor force (this is the definition used for the official unemployment rate);
- U-4, total unemployed plus discouraged workers, as a percent of the civilian labor force plus discouraged workers;
- U-5, total unemployed, plus discouraged workers, plus all other marginally attached workers, as a percent of the civilian labor force plus all marginally attached workers; and
- U-6, total unemployed, plus all marginally attached workers, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all marginally attached workers.

The Misery Index varies greatly depending on what unemployment rate is used. If one uses the most conservative unemployment rate, U-1, the Misery Index is relatively low compared to the all-inclusive unemployment rate, U-6. The CEDBR used not seasonally adjusted, area specific, U-3 data, the official unemployment rate, to calculate the Misery Index. The unemployment rate is a negative indicator for consumers. Therefore, if the unemployment rate is increasing, the Misery Index will also increase.

U.S. Misery Rates - Definition of Unemployment*								
	Quarterly Average Example Unemployment Rates					*Misery Index - Using Example Unemployment Rates*		
	A	**B**	C	D	E			
	U-1	**U-3**	U-6	CPI	HPI	*A+D-E*	***B+D-E***	*C+D-E*
2009Q4	5.57	**9.53**	16.60	-0.36	-0.46	5.67	**9.64**	16.71
2010Q1	6.07	**10.40**	17.80	0.24	-1.25	7.55	**11.88**	19.28
2010Q2	5.93	**9.47**	16.47	0.97	-0.33	7.23	**10.77**	17.77
2010Q3	5.37	**9.47**	16.47	1.68	1.12	5.93	**10.03**	17.03
2010Q4	5.47	**9.13**	16.27	1.64	-0.80	7.91	**11.58**	18.71
*Values are impacted by rounding.								

[5] http://www.bls.gov/lau/stalt.htm Data accessed March 9, 2011.

Comparing Misery

Misery Index: Wichita, Kansas & the United States

People in the United States, as a whole, are far more miserable than people in Kansas or Wichita. Kansas and Wichita misery levels were similar in fourth quarter 2010. That being said, Kansas misery increased in the fourth quarter 2010, while Wichita's misery declined.

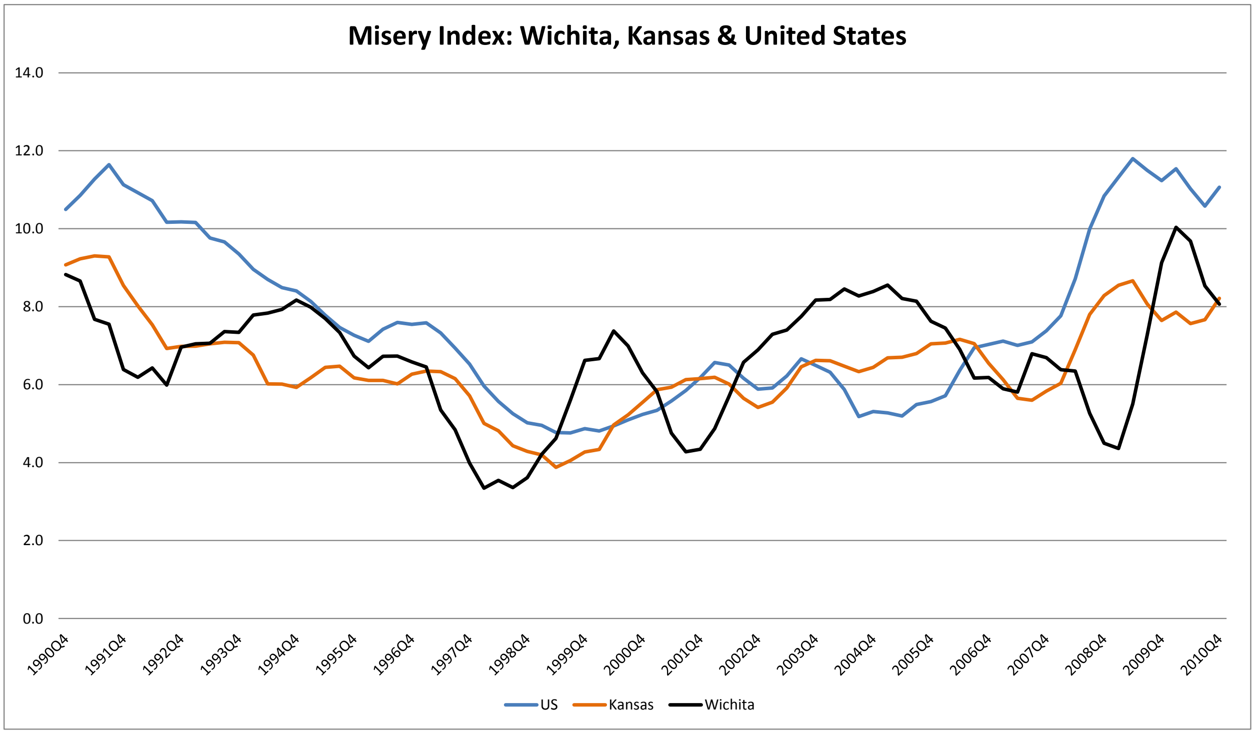
Misery Index: Kansas & Kansas Metropolitan Areas

People living in Kansas City are more miserable than those living in other metropolitan areas in Kansas. Lawrence appears to be the metropolitan winner in the state, exhibiting the lowest average misery rate over time and the lowest misery rate in fourth quarter 2010.

Misery Index: Peer Metropolitan Areas

Stable home values and low unemployment rates have benefited the Nebraska metropolitan areas. Lincoln and Omaha exhibited the lowest average misery rates since 1990 and the lowest rates in fourth quarter 2010. St. Louis and Kansas City exhibited the highest historical misery rates and the highest rates in fourth quarter 2010. All the metropolitan areas in this analysis exhibit declining rates of misery in the fourth quarter 2010 compared to the previous quarter and year. It should also be noted that U.S. misery rates were higher in fourth quarter 2010 than the misery rates of the peer metropolitan areas.

Misery Rates*						
	US	**Kansas**	**Wichita**	**Kansas City**	**Topeka**	**Lawrence**
Average ANNUAL Misery Rate - Since 1990Q4	7.66	6.50	6.68	6.74	6.71	5.72
2009 Q4	11.23	7.64	9.13	10.31	7.98	7.27
2010 Q3	10.58	7.67	8.54	9.29	6.90	6.24
2010 Q4	11.06	8.22	8.07	8.92	6.62	5.88
Year-over-Year Percent Change	-1.50%	7.46%	-11.60%	-13.44%	-16.99%	-19.12%
Quarter-over-Quarter Percent Change	4.57%	7.15%	-5.50%	-3.99%	-4.04%	-5.74%
	Wichita	**Omaha**	**Lincoln**	**St. Louis**	**Ok. City**	**Tulsa**
Average ANNUAL Misery Rate - Since 1990Q4	6.68	5.00	4.39	7.18	5.80	6.31
2009 Q4	9.13	6.44	5.94	12.01	7.06	7.61
2010 Q3	8.54	5.64	4.59	10.58	6.54	7.78
2010 Q4	8.07	5.27	3.95	10.03	6.16	7.63
Year-over-Year Percent Change	-11.60%	-18.09%	-33.48%	-16.45%	-12.77%	0.21%
Quarter-over-Quarter Percent Change	-5.50%	-6.57%	-13.97%	-5.20%	-5.71%	-1.94%
*Values are impacted by rounding.						



Misery Index: Wichita, Kansas & United States
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US
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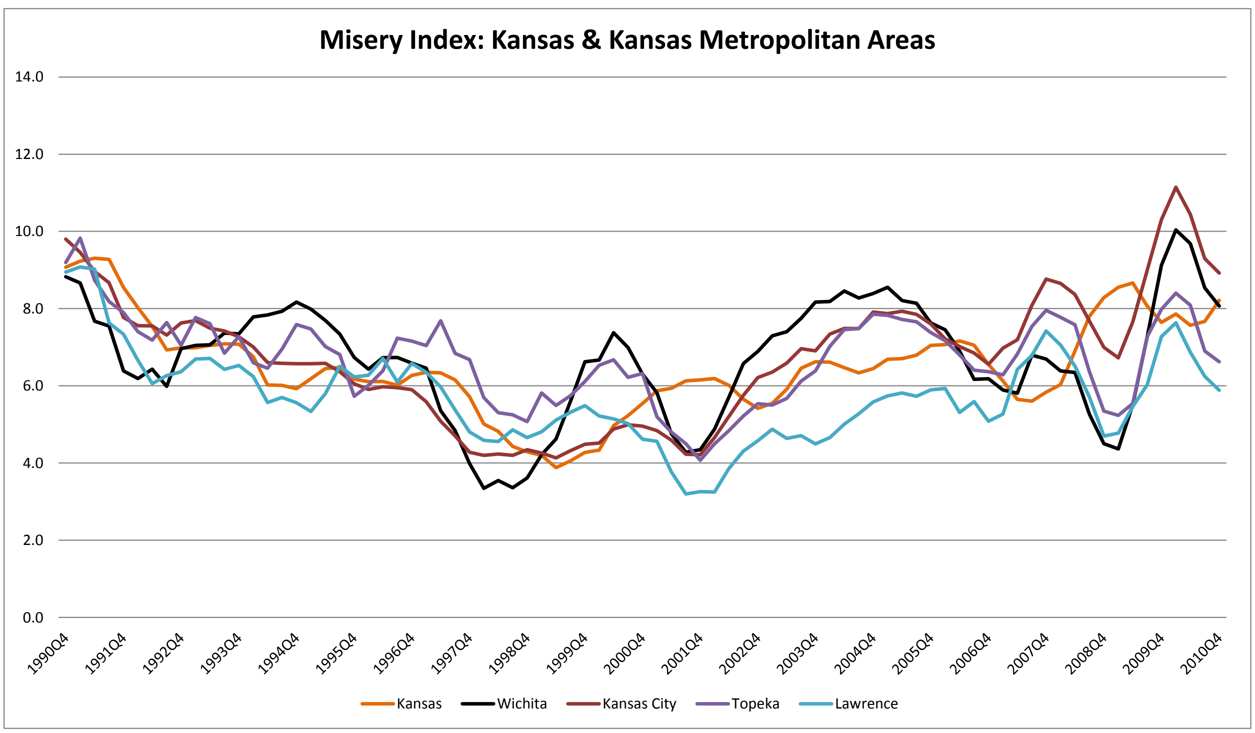
Wichita



Misery Index: Kansas & Kansas Metropolitan Areas
14.0
12.0
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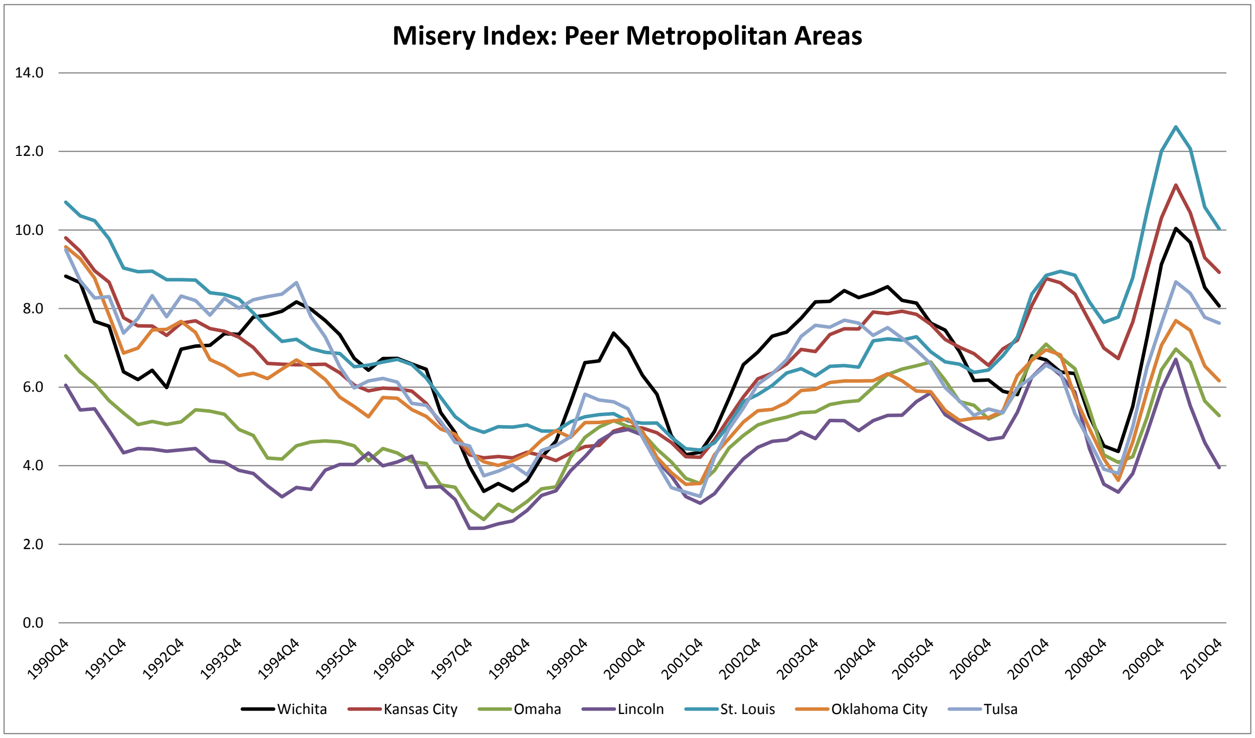
Kansas
Wichita
Kansas City
Topeka
Lawrence


Misery Index: Peer Metropolitan Areas
14.0
12.0
10.0
8.0
6.0
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Wichita
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Tulsa