

LAFAYETTE

Economic Performance Index



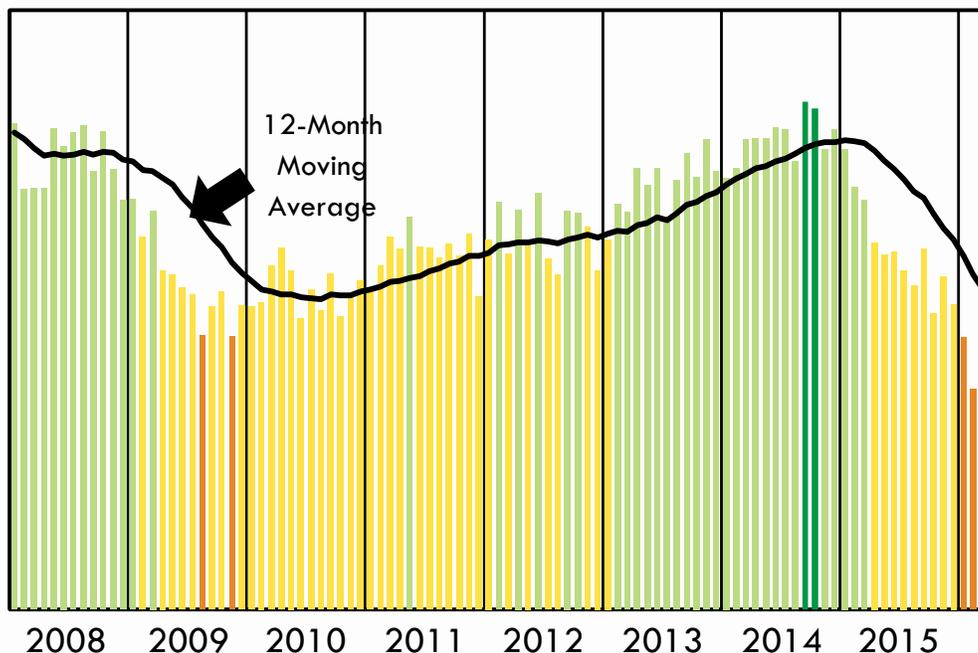
March: 99.3

FIRST QUARTER 2016

The Lafayette Economic Performance Index (EPI) tracks the pulse of the local economy. Like any index, it combines multiple data points into a single score that can be tracked and compared over time. This particular index monitors 16,000 data points and 16 local statistics that together illustrate a unified story about how the Lafayette economy is performing. A few new indicators were added this year: average weekly wage, new business starts, and foreclosure rate. These additions come in the absence of unemployment insurance data that is currently unavailable from the Louisiana Workforce Commission.

The index is the most accurate reflection of the economy because it is seasonally and inflation adjusted, meaning movement in the index is based on actual changes, not those caused by changes in periodic variation or time. The EPI is also retroactively adjusted to allow for a more accurate comparison between present and past performance of the economy. This allows for an “apples to apples” comparison of where we are and where we have been.

The March 2016 Index is 99.3, down 16.5 percent compared to the September 2014 high soon after oil prices first dropped. For perspective, the EPI dropped 13.5% in only one year during the Great Recession. As seen in Figure 1, the EPI has been lower than the 12-month moving average for 15 consecutive months, indicating a sustained trend in overall economic momentum.



HIGHLIGHT

For 15 consecutive months, the EPI has been lower than the 12-month moving average, meaning there is a sustained trend in downward economic momentum.

LAFAYETTE Economic Performance Index

Despite tougher economic times for certain industries in Lafayette, there are still opportunities for investment. Many recent projects that reflect of our economic strength and diversification. In March, ATC Group Services, an environmental consulting firm, announced the re-establishment of its corporate headquarters in Lafayette and creating 50 new jobs. The company has more than 13 hundred employees across 37 state— making ATC one of the largest companies headquartered in Lafayette. Next month, Ambassador Town Center will complete construction on their \$130 million 60-acre retail project anchored by Costco, consisting of 430,000+ square feet. The development also includes Dick's

Sporting Goods, Field & Stream, Marshall's, Home Goods, and Nordstrom Rack, along with supporting small shops and multiple restaurants.

Historically, Acadiana has been a hub for energy production and services in the southeastern U.S. and the Gulf of Mexico. Today, Lafayette has diversified by positioning itself as a medical, education, transportation, entertainment, and retail hub. Because of this economic diversification and political conditions, the current downturn in oil prices

	Economic Performance Index	Previous Month Change	Month Change-Prev. Year	12-Month Moving Average*
Mar-15	112.30	-0.7%	-3.5%	116.10
Apr-15	109.46	-2.5%	-6.0%	115.57
May-15	108.66	-0.7%	-6.6%	114.97
Jun-15	108.85	0.2%	-7.1%	114.39
Jul-15	107.62	-1.1%	-8.0%	113.66
Aug-15	106.59	-1.0%	-7.2%	112.86
Sep-15	109.06	2.3%	-8.3%	112.41
Oct-15	104.76	-3.9%	-11.6%	111.33
Nov-15	107.17	2.3%	-7.3%	110.46
Dec-15	105.35	-1.7%	-10.0%	109.67
Jan-16	103.14	-2.1%	-10.9%	108.60
Feb-16	99.71	-3.3%	-11.9%	107.37
Mar-16	99.31	-0.4%	-11.6%	106.31

*Green indicated the EPI is above the 12-month moving average while red indicates the EPI is below the 12-month moving average.

should not be a repeat of the situation seen in the 1980s. Along with overall economic diversification, diversification within the energy industry will help to mitigate the impact.

While the local economy has diversified its industries, we are not immune to sustained pressures to a predominate industry—like we are experiencing now with the drop in oil prices. Normally it would be difficult to get a clear picture of the impact on the local economy. This is why the EPI is so important, because it's an objective view of the economy as a whole, not just a piece of the economy. The index will help us identify changes in the economy and quantify the impact.

When looking at all 15 indicators as a whole, the first quarter of 2016 shows continued declines in many areas of the economy with no sign of relief in sight. When all three categories of indicators—leading, current, and lagging—move in the same direction it means that the local economy will continue on that track. The leading and lagging indicators still look sluggish and have dropped even more since last year. Though the current indicators seem to be performing better than others, the overall group's performance is declining like the leading and lagging indicators. This indicates the strong

LAFAYETTE Economic Performance Index

downward economic pressures on the Lafayette economy. It will be imperative to see how the current indicators perform the rest of this year.

LEADING INDICATORS

Leading indicators—those that change three to six months prior to the overall economy—are continuing to show signs of decline. The drop in oil prices in 2014 began to impact all leading indicators during the fourth quarter 2014; and the trend has continued through to the first quarter of 2016. Moving forward, we will watch for improvement in these leading indicators as the first sign of a pick-up in the economy. However, improvement isn't expected until there is substantial and sustained increase in oil prices.

New Lafayette Parish business filings is a recent addition to the index. It replaces Lafayette Average Weekly Initial Unemployment Insurance Claims due to the temporary discontinuance of data. First quarter new businesses decreased 9.0% over first quarter 2015—decreasing from 625 new businesses to 569. Lafayette Parish saw 2,503 new business filings in 2014 and 2,176 in 2015. Given the downward two-year trend, Lafayette Parish can expect closer to 1,900 new business filings in 2016.

The Lafayette Stock Index hit an all-time high in the second quarter of 2014; however, soon after there was a sharp decline. Because four of the eight companies included in the index are in the oil and gas industry, the index has responded accordingly to the decline in oil prices. Since June 2014, the index has fallen 38% to 177 in March 2016. However, the index is still 48% higher than February 2009 when it hit a 10-year low. Though the overall stock index has declined, local non-energy stocks are performing very well.

Louisiana Average Manufacturing Weekly Hours totaled 40.2 hours worked a week in the first quarter—less than the first quarter of 2015, when the average was 44.6 hours. November and December 2014 saw average weekly manufacturing hours reach a nine-year high of 45.7. Economists consider anything above 40 hours per week ideal, and average hours worked in February this year were exactly at that mark. Fewer hours worked signal fewer orders to fulfill. The large, rapid decline

since the end of 2015 is mirroring the decline seen during the recession in 2009. Fewer manufacturing hours worked coupled with an increase in manufacturing unemployment claimants should not be taken lightly.

Residential building permits in Lafayette, Broussard, Youngsville and unincorporated areas of the parish saw a 24% decrease from 370 permits in first quarter 2015 to 282 in first quarter 2016. Permits in 2014 were the highest ever besides the post-Katrina boom in 2006, totaling 1,592. Looking at the 12-month moving



Third Quarter Leading Indicators

LAFAYETTE Economic Performance Index

average, it's easy to see the trend for permits has been declining for the past year. The recent decline hasn't happened in one place, permits have been down in almost all locations in the Parish.

In the first quarter 2016, the Bureau of Safety and Environment Enforcement (BSEE) approved 24 drilling permits in the Gulf of Mexico (GOM)— fewer than the 33 permits issued during the same quarter in 2014 yet more than the 15 permits issued in the first quarter of 2015. Year-to-date Louisiana drilling permits are down 50%— 118 permits in first quarter 2016 compared to 234 in 2015. Record-low permits on top of continued low oil and gas prices definitely present challenges to local companies. Most oil and gas companies have made the necessary cutbacks to CAPEX and OPEX to combat the lower prices. Gulf of Mexico and Louisiana permits are expected to remain lower until prices show meaningful and sustained upward movement.

CURRENT INDICATORS

Current indicators— those that change at the same time that the overall economy— are slowly softening. The performance of the current indicators is suggestive of the confidence and resiliency of local consumers and businesses. We will continue to closely monitor current indicators for signs of adjustment similar to those seen in the leading and lagging indicators.

Retail Sales remains a key economic indicator because it illustrates the level of consumer spending and confidence in a community. Retail sales in the first quarter are 7% lower than in the first quarter of 2015. It is likely retail sales will end this year 7% lower than 2015. Seeing both big-ticket items and inexpensive durable goods performing poorly clearly indicates a shift in the consumer confidence and buying power. Monthly sales have been below the 12-month moving average for 15 months in a row, indicating sales have downward momentum and will most likely remain low going forward.

Lafayette Parish Hotel/Motel Receipts in the first quarter of this year are 9% lower than in the first quarter of 2015. Through March receipts totaled \$19.0 million, compared to \$20.9 million in 2015. Without the aid of LAGCOE, the second largest oil and gas expo in the nation, this year, expect hotel/motel receipts to drop this year.

Non-Farm Employment in the Lafayette MSA continued its six-quarter downward trend in the first quarter of this year. The new, larger MSA (Lafayette, St. Martin, Iberia, Acadia, and Vermilion Parishes) had 208,400 jobs in March. This is 9,300 jobs fewer than in March 2015 and 12,700 fewer than in March 2014. The Mining industry, which is primarily oil and gas, showed a 4,900 job loss over the past year. Declines in the mining industry have impacted other industries like manufacturing (-3,800 jobs), wholesale trade (-800 jobs), financial services (-800 jobs) and other



Third Quarter Current Indicators

LAFAYETTE Economic Performance Index

services (-900 jobs). However, job gains in other industries have counteracted against some of those losses. Construction has increased by 900 jobs, and health care has added 500 jobs in the past year. Government and leisure & hospitality have both increased by 300 jobs each, while retail added 200 jobs. It will be important to watch industry employment trends to see how much the oil and gas downturn has penetrated other markets.

Lafayette Regional Airport Enplanements in the first quarter were markedly lower than any first quarter in the past six years. First quarter enplanements totaled 47,347, 18.0% lower than enplanements in the first quarter of 2015. Hopefully, enplanements can improve since the airport is in the midst of planning and developing a new terminal— financing has been completed.

The Average Home Sale Price of single family homes in the Lafayette area in the first quarter was \$194,564— 3.5% lower than the 2015 first quarter average price, \$201,682. Despite the current local economic pressures, the housing market is still quite busy and steady with the number of home sold nearly equal to last year. The 12-month moving average has also been climbing since late 2012, reinforcing the upward trend.

Another new economic indicator recently added to the index is Lafayette MSA Average Weekly Wages. An economy as dependent upon consumer spending can't remain strong if wages aren't growing. Wages account for a substantial part of income and are closely linked to the economic cycle. The four years prior to the downturn, average weekly wages in Lafayette increased by almost 200 dollars. Following the downturn, we've seen weekly pay decline for the first time since the national recession. Average weekly wages in the first quarter equaled \$850, lower than the average of \$854 in the first quarter of 2015.

LAGGING INDICATORS

The lagging indicators— those changing three to six months after the overall economy adjusts— have continued their decline after reaching a tipping point in the first quarter of last year. Downward pressures have impacted rig counts, unemployment rate greatly. Given the changes to the leading indicators as well, it is anticipated that the lagging indicators will continue to decline and perhaps start to impact long-term financial indicators like bankruptcies and foreclosures.

Lafayette Parish's non-seasonally adjusted unemployment rate in March was 6.2%, higher than both the state and US rate. The first quarter average unemployment rate is 6.0%, higher than the 5.5% recorded in first quarter 2015. The increase in unemployment is not a surprise given the decrease in non-farm jobs that have continued into this year.

When it comes to major financial well-being, the Lafayette area doesn't seem to be as hard hit as you would think. Bankruptcy filings in the Western District of Louisiana have remained low. Bankruptcies in the first quarter 2016 totaled 2,167— nearly the same as first quarter of 2015 (2,162 bankruptcies). In addition, the rate of Lafayette Parish foreclosures in the first quarter this year was lower than the rate of foreclosure in the first quarter 2015. One out of ever 1,812 houses was in foreclosure during the first quarter 2016 compared to one out of ever 1,458 houses being in foreclosure during the first quarter of 2015.

LAFAYETTE Economic Performance Index

There were 49 rigs on and offshore in Louisiana in March of this year, down from the 86 rigs in March 2015 and more than 53% down from 105 rigs in March 2014. The rig count shows oil and gas producers' long-term confidence. When prices decline as they have and stay low, the money to spend on exploration is almost nonexistent. Rig counts are slower to respond to oil prices because rigs must complete contracted jobs before decisions are made to cease operations and company executives are waiting to see if price declines are short or long-term impediments. With that being said, rig counts noticeably decreased in March last year and have decreased even more.



Third Quarter Lagging Indicators

a lot of very smart people trying to make it more efficient. I can't tell you when the recovery is going to come, but it's out there." The reality is, it's taken nearly two years for us to get where we are now. It will take at least that same amount of time for us to recoup the ground we've lost.

Lafayette's economy will continue to mirror the price of oil. The CEO of National Oilwell Varco, Clay Williams, made a great point recently when he noted there are 400 discoveries offshore awaiting development. He went on to say, "there's

Although the information in this report has been obtained from sources that we believe to be reliable, we do not guarantee its accuracy. Data is adjusted for inflation using the Consumer Price Index and for seasonality using Brown's LES (Linear Exponential Smoothing) model which uses two different smoothed series that are centered at different points in time. Again, LEDA does not guarantee the accuracy of the forecasts; unforeseeable events i.e. natural disasters and government policies can alter our local economy quickly and drastically. The index itself is a composite index that is calculated using month-to-month changes, component volatility, symmetric percent change, and a final rebase to the start year of 1997. Questions about methodology should be sent to information@lafayette.org.

LAFAYETTE Economic Performance Index

STAT TRACKER

The Stat Tracker provides raw data for each of the 16 indicators used to create the Economic Performance Index. Local indicators are very volatile from month-to-month and changes should not be taken at face value. For example, retail sales will always decrease from December to January because of the increased holiday shopping in December. The index itself, along with the data represented in the graphs, is adjusted for inflation and seasonality in order to have the data be comparable over time.

Leading Indicators: change 3-6 months before the overall economy shows any signs of adjustment

Current Indicators: change about the same time as the overall economy shows signs of adjustment

Lagging Indicators: change 3-6 months after the overall economy shows signs of adjustment

	Mar-16	Feb-16	Feb-Mar Difference	Mar-15	Mar-Mar Difference	
LEADING	New Residential Permits	77	96	-19.8%	151	-49.0%
	Laf. Stock Index	176.95	169.04	4.7%	236.84	-25.3%
	New Business Starts	205	159	28.9%	236	-13.1%
	LA Mfg Avg Weekly Hours	40.2	40.0	0.5%	42.5	-5.4%
	LA Drilling Permits	22	39	-43.6%	116	-81.0%
	GOM Drilling Permits	6	8	-25.0%	7	-14.3%
CURRENT	Laf. Parish Retail Sales	\$519,524,462	\$438,356,790	18.5%	\$555,630,664	-6.5%
	Laf. Parish Hotel Receipts	\$6,770,448	\$6,711,956	0.9%	\$7,888,450	-14.2%
	Acadiana Avg Home Price	\$205,624	\$190,224	8.1%	\$201,438	2.1%
	Average Weekly Wage	\$844.12	\$839.62	0.5%	\$840.27	0.5%
	Laf. MSA Non-Farm Emp	208,400	208,200	0.1%	217,700	-4.3%
	LFT Airport Enplanements	17,242	16,596	3.9%	19,661	-12.3%
LAGGING	Laf. Parish Unemp Rate	6.2%	5.7%	8.8%	5.5%	12.7%
	Louisiana Rig Count	49	47	4.3%	86	-43.0%
	W. LA District Bankruptcies	801	706	13.5%	887	-9.7%
	Foreclosure Rate	0.061%	0.059%	3.4%	0.066%	-7.6%

INTERPRETING DATA

Interpreting economic indicators may seem confusing especially when dealing with local indicators that tend to be highly volatile. The month-to-month changes may not represent true changes in economic conditions. Looking at data month by month, it is clear that there have been many brief declines that have nothing to do with cyclical downturns in the economy. Indeed, if economists took every one- or two-month decline seriously, they would be forecasting a recession several times each year.

One should apply the three Ds principle in interpreting economic indicators. The three Ds are: duration (how persistent the change has been), diffusion (how widespread the change is) and depth (how large the change is). The longer the weakness continues, the deeper it gets, and the more widespread it becomes; the more likely a recession will occur.

The Stat Tracker reports raw data, unadjusted for seasonality and inflation. With that being said, an increase in the unemployment rate from December to January does not mean much because every year it increases due to the loss of seasonal holiday employment. In the same way, a home sold for \$200,000 in 2003 is not the same as one sold for the identical amount in 2014 because of inflation. For this reason, the index itself along with the graphs in this report reflects data that has been adjusted for seasonality and inflation. Doing so enables autonomous comparison over time.

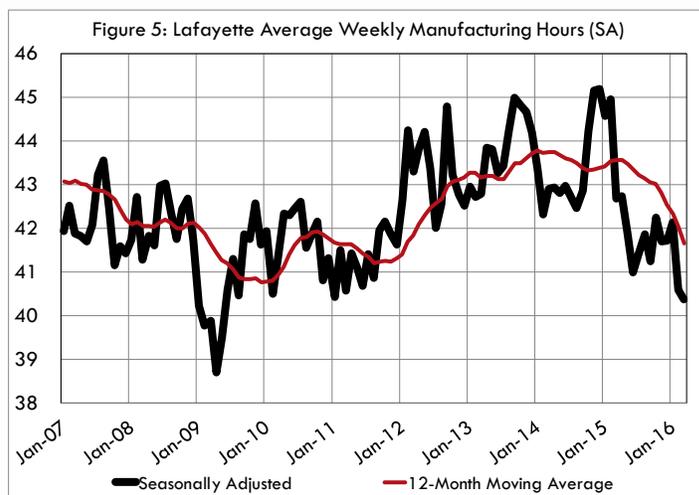
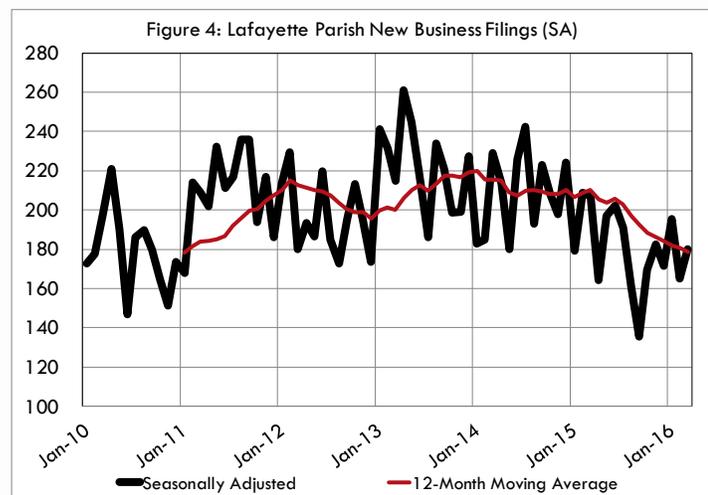
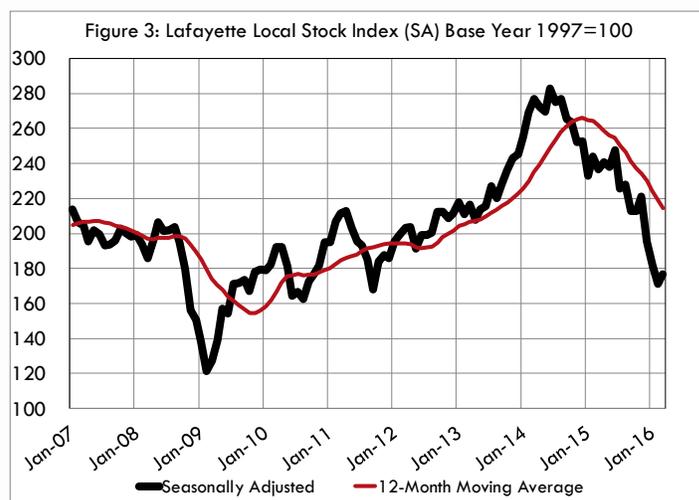
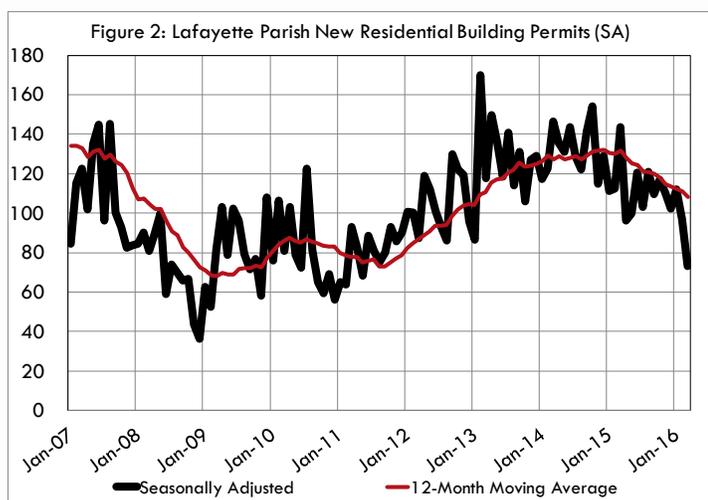
Each data point has its own significance in determining the economic performance index and below describes their importance and how to interpret the changes:

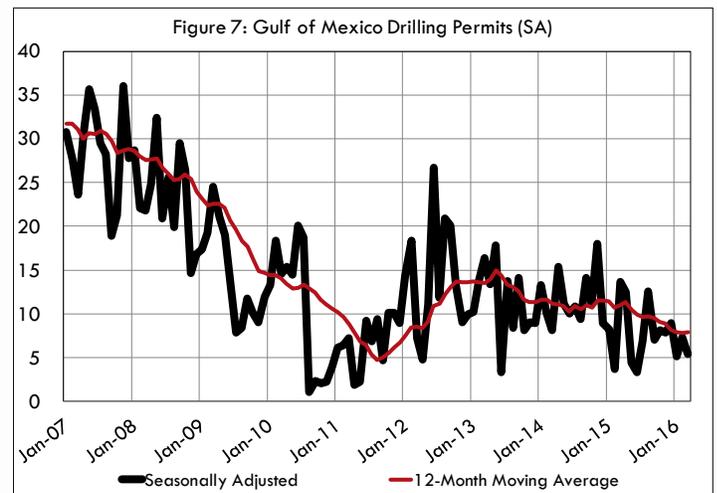
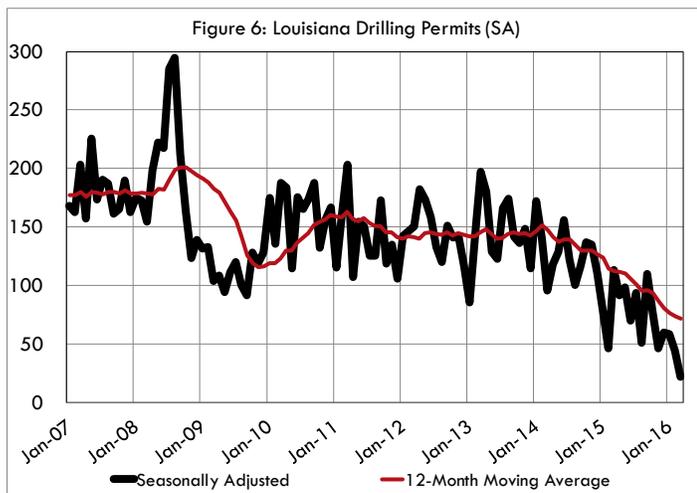
LEADING INDICATORS

- **New Residential Building Permits:** Building permits mean future construction; and construction moves ahead of other types of production, making this a leading indicator. Also, people buying new homes tend to spend money on other consumer goods such as furniture, lawn and garden supplies and home appliances. According to the Census Bureau, investors should look past often-volatile month to month results and study more closely the forming patterns.
- **Lafayette Stock Index:** Considered a leading indicator because changes in stock prices reflect investor's expectations for the future of the economy. The eight companies tracked for the index (LHC Group, Home Bancorp, Iberia Bank, PHI, MidSouth Bancorp, Petroquest Energy, Frank's International and Stone Energy) represent some of the largest economic drivers in the community that add hundreds of millions of dollars to parish GDP.
- **Lafayette Parish New Business Starts:** This is gathered from newly incorporated businesses through the Louisiana Secretary of State's office. New businesses increase employment and investment in equipment and structures. Increases in startup firms reflect rising business confidence and willingness to take financial risks in pursuit of profits. Business startups are associated with the vitality of industry and of the entrepreneurial spirit.

LAFAYETTE Economic Performance Index

- **Louisiana Manufacturing Average Weekly Hours:** If demand for production rises, employers ask their workers to work more hours and put off hiring additional workers until they are sure the increased demand is long-term. If demand for production holds up, businesses will be forced to hire more workers, signaling a growing economy. Conversely, if demand for production slows, employers ask workers to log fewer hours before laying them off.
- **Drilling Permits:** Much like residential building permits, this is a leading indicator because it represents future production, jobs and income. Because the energy industry plays such a large role in the overall performance of the local economy, it is important to track a statistic that will help predict future economic growth or contraction.





CURRENT INDICATORS

- **Lafayette Parish Retail Sales:** Historically, retail sales are 40% of Personal Consumption Expenditures, which in turn make up two-thirds of the Gross Domestic Product (GDP). Retail sales are an indication of consumer spending and confidence.
- **Lafayette Parish Hotel Receipts:** Like retail sales this is a coincident indicator, in that activity reflects the current state of the economy. The importance of hotel receipts comes from tracking outside visitors to the area and the money they bring with them whether it's an individual business traveler, leisure traveler or a group.
- **Lafayette Parish Average Home Price:** Measures of home price are used in identifying housing bubbles. Month-to-month changes are not significant, but continuing trends over many months can symbolize a change in the housing market.
- **Lafayette MSA Average Weekly Wage:** An economy as dependent upon consumer spending can't remain strong if wages aren't growing. Wages account for a substantial part of income and are closely linked to the economic cycle.
- **Lafayette MSA Non-Farm Employment:** It is the benchmark labor statistic used to determine the health of the job market because of its large sample size and historical significance in relation to accurately predicting business cycles.
- **Lafayette Regional Airport Enplanements:** Changes in the number of passengers coming into LFT Airport reflect the local and national economy and people's willingness to spend money on an expensive form of travel. Increases to enplanements can also signal more infrastructure, flights, or airlines which show the strength of the local and non-local demand for flights.

LAFAYETTE Economic Performance Index

Figure 8: Lafayette Parish Retail Sales (SA, IA)

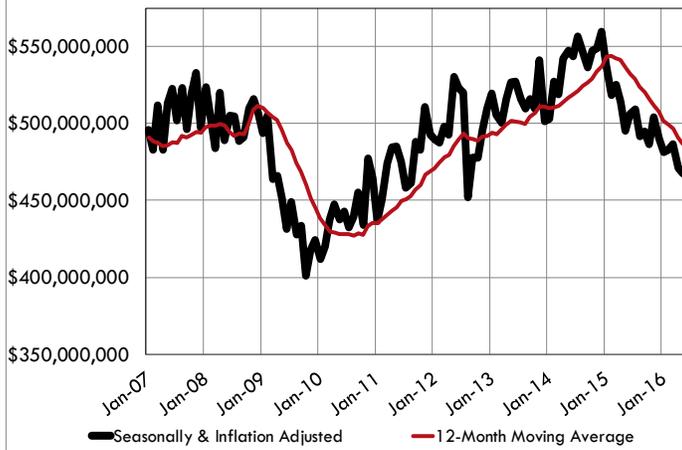


Figure 9: Lafayette Parish Hotel/Motel Receipts (SA, IA)

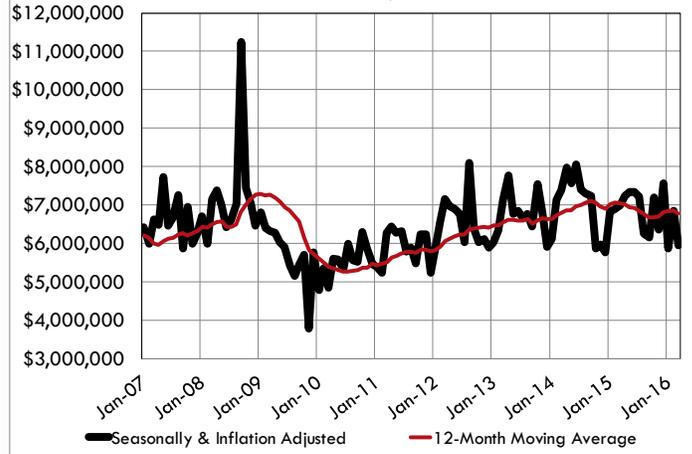


Figure 10: Acadiana Avg. Sales Price of a Single Family Home (SA, IA)

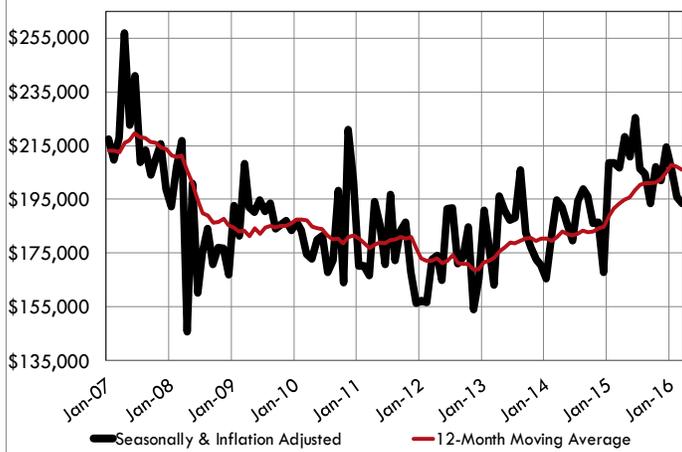


Figure 11: Average Weekly Wage Private Sector for MSA (SA, IA)



Figure 12: Lafayette MSA Non-Farm Employment (SA)

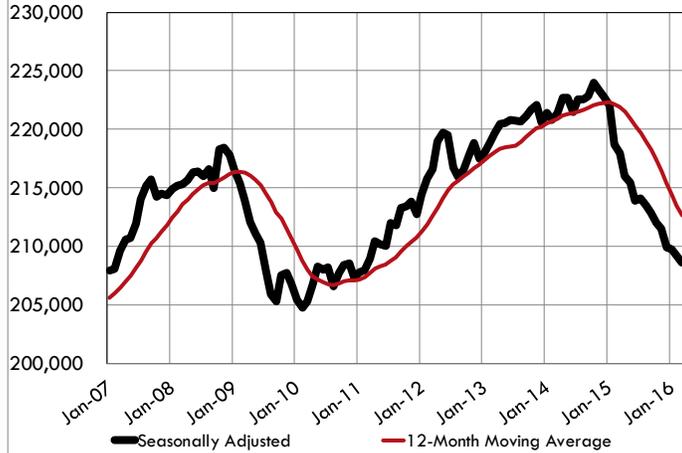
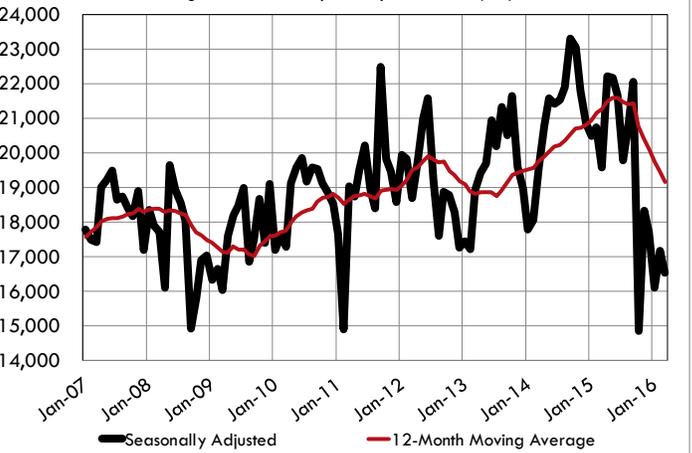


Figure 13: LFT Airport Enplanements (SA)



LAFAYETTE Economic Performance Index

LAGGING INDICATORS

- **Lafayette Parish Unemployment Rate:** Considered a lagging indicator, as people tend to be out of work when problems in the economy have already manifested themselves.
- **Rig Counts:** Rig counts are considered a lagging indicator because they change 3-6 months after the overall economy shows signs of adjustment. Decisions about rigs are made in response to economic conditions, government policies, and other variables such as prices. In a business where one rig could signify thousands of jobs and tens, if not hundreds, or millions of dollars in capital investment, rig counts are a great indicator to follow.
- **Lafayette Parish Foreclosure Rate:** The foreclosure rate measures the percentage of households that started the foreclosure process in that particular month. This is a lagging indicator for a couple reasons. One, because food and shelter are necessities and are the last two things people neglect. Two, because it takes many months of missed payments before the foreclosure process is started.
- **Western Louisiana District Bankruptcies:** This is a lagging indicator because individuals and businesses tend to file for bankruptcy after a prolonged period of indebtedness.

