



Colorado Economic Chronicle

A Research Newsletter

Legislative Council
Denver, Colorado

Nancy J. McCallin
Chief Economist

Tom Dunn
Economist

Henry Sobanet
Economist

September 8, 1998

U.S. Economy

While the U.S. economy continues to grow, economic problems in Asia and in Russia have affected financial markets around the world. In the United States, the Dow Jones Industrial Average retreated by as much as 19.2% from its record high. Meanwhile, long-term interest rates continued to drop; the yield on the 30-year U.S. treasury bond dipped to a record low. Although there are problems abroad and the stock market has retreated, most sectors of the national economy are performing well and the general economic situation is sound.

"While the U.S. economy continues to grow, economic problems in Asia and in Russia have affected financial markets around the world."

The **consumer sector** was mixed, but mostly positive. In August, U.S. payrolls added 365,000 jobs. The unemployment rate was unchanged at 4.5%. The increase in jobs, which includes the return of striking General Motors workers, was spread among many sectors such as services (135,000), construction (16,000), government (57,000), and transportation and public utilities (24,000). The manufacturing sector, which is suffering the most from the Asian economic crisis, would have lost jobs were it not for the returning strike workers. The Commerce Department reported that Americans' personal income rose 0.5% in July, but overall consumer spending fell 0.2%. Also in July, retail sales fell 0.4%. The weak consumption figures reflect the impact of reduced auto sales caused by the General Motors strikes. Separately, the Conference Board reported that its index of consumer confidence fell in August.

The **manufacturing sector** was mostly weak in July. The Federal Reserve Board reported that industrial production (output from mines, factories, and utilities) fell 0.6%, which reflected the impact of the striking auto workers. The capacity utilization rate dipped to 80.5% for the month. The National Association of Purchasing Management reported that the manufacturing industry continued to contract in July, but the contraction was less severe than earlier in the summer. Meanwhile, orders for durable goods (those intended to last three years or more) rose 1.9% in July. Separately, the U.S. Department of Labor reported that worker productivity, as measured by the amount of output per hour worked, grew at an annual rate of just 0.1% in the second quarter of 1998. The increase was the smallest since the third quarter of 1996.

The **housing and construction sectors** continued to benefit from a strong employment situation and low interest rates. Sales of *existing* homes surged 4.0% in July to a record high, but sales of *new* homes fell 1.6% in the month. On the construction side, total construction spending in the U.S. increased 0.4% in July, reaching a record level. The increase in construction spending was led by strength in the residential sector. Separately, the *number* of new homes under construction increased 5.7% in July.

Price increases were minimal in July. At both the consumer and producer levels, prices rose 0.2%. Through July 1998, consumer prices were 1.6% above the same January through July period in 1997. Producer prices were 2.2% *below* their year-ago level.

The Legislative Council is the research arm of the Colorado General Assembly.
The Council provides non-partisan information services and staff support to the Colorado Legislature.

Representative Chuck Berry, Speaker of the House
Representative Norma Anderson, Majority Leader of the House
Representative Carol Snyder, Minority Leader of the House
Charles Brown, Director of Legislative Council Staff

Senator Tom Norton, President of the Senate
Senator Jeff Wells, Majority Leader of the Senate
Senator Michael Feeley, Minority Leader of the Senate

National economic activity was slower in the second quarter of 1998, but the economy continues to grow and the employment situation remains extremely favorable. The Asian and Russian economic crises have dampened stock and other commodity prices, but

it remains to be seen whether these influences are more than temporary. The manufacturing sector has been weakened by the international situation, but low inflation and interest rates are bolstering the construction sector.

Colorado Economy

Most economic indicators show that the Colorado economy is healthy. The unemployment rate in July was 3.3%, while nonfarm employment increased 3.6%. The Denver-Boulder inflation rate was only 2.2% through the first half of 1998, the lowest rate in nine years. Retail trade sales increased 7.2% through May. There was no growth in residential construction permits through July 1998. The value of nonresidential construction declined 34.9% through the first seven months of 1998 and is the only negative indicator for the state.

Employment

Colorado's nonfarm employment increased 3.6% through July 1998. The state's unemployment rate for July dipped to 3.3%. The unemployment rate through July averaged a low 3.2%, compared with 3.4% for all of last year. Thus far in 1998, the national unemployment rate averaged 4.5%. Colorado's unemployment rate has been below 4.0% since January 1997.

There were three significant job gains announced in August. One of four Coors Ceramics Co. facilities in Colorado will be the beneficiary of a plant closure in

Tennessee. An unknown number of the 175 affected positions in Tennessee will be moved to Colorado. T. Rowe Price Associates Inc. will locate a customer service center in Colorado Springs and create more than 700 jobs in the next five years. Whole Foods Market will relocate 350 jobs from its Boulder and Longmont operations to Thornton and plans to increase its work force to 1,000 by 2000.

"The unemployment rate through July averaged a low 3.2% . . . Colorado's unemployment rate has been below 4.0% since January 1997."

There were several announcements of job reductions in August. Although Coors Ceramics Co. will be adding jobs, Coors Brewing Co. will offer a voluntary severance package to its employees in an effort to stay competitive. The company expects at least 200 employees to take advantage of the offer. Merix Corp. will close a circuit board plant and eliminate 370 jobs in Loveland. Advanced Energy Industries reduced its Fort Collins work force by 128. Meanwhile, Englewood-based Primestar Inc. announced plans to cut 275 positions nationwide. Information on these job announcements is found elsewhere in the *Chronicle*.

Colorado's Economy at a Glance

<i>Key Indicators</i>	<i>Direction</i>	<i>Assessment</i>
Nonfarm Employment Growth	↑	Good
Unemployment Rate	↓	Good
Mortgage Rates	↓	Good
Retail Trade Sales	↑	Good
Home Resales	↑	Good
Nonresidential Construction	↓	Bad
Colorado Inflation Rate	↓	Good
Overall Rating	↑	Good

Population

Among the country's largest 25 cities, the Denver-Boulder region has the nation's highest percentage of population in the 35- to 54-year-old age group, according to the U.S. Census Bureau. About one-third of the area's population falls into the category. This age group characteristically has high average incomes and spending, thus partly explaining the state's excellent economic performance of recent years.

Inflation

The Denver-Boulder inflation rate was a mere 2.2% through the first half of 1998. Local inflation has not been this low since 1989, when the state was emerging from a severe recession. Most notably, the state is experiencing robust economic activity amid low inflation, a phenomenon unparalleled in a generation. The housing component posted the highest inflation rate in the first half of the year, 4.1%, followed by medical care costs at 3.6%. Apparel and upkeep costs fell 6.8% from a year ago, while the inflation rate in the transportation category posted a small 0.8% gain. An inflation rate is not calculated for the entire state, therefore the Denver-Boulder rate is often used as a proxy for the state.

"The Denver-Boulder inflation rate was a mere 2.2% through the first half of 1998. Local inflation has not been this low since 1989, when the state was emerging from a severe recession."

Residential Construction

Residential construction permits were flat through July, compared with last year, according to F.W. Dodge. Single-family housing permits increased 11.8%, but were offset by a 34.3% decline in permits for apartment buildings.

According to Perry & Butler, Inc., the average price of an existing single-family home in the metro-Denver area was 9.2% higher through the first eight months of 1998 compared with the same period last year. While the average price of an existing single-family home hit a record of \$194,145 in August, 44% of the single-family home resales this year were priced below \$150,000, while 70% were priced below \$200,000. Meanwhile, condominium prices surged 16.1% over last year. The prospects of a buoyant state economy and continued low mortgage rates are fueling the residential housing market's strength.

The state's strong economy has pushed home prices beyond the ability of many families to qualify for mortgage loans. Fannie Mae, the nation's biggest source of mortgage funds, committed \$15 billion over the next five years to provide affordable housing to more than 135,000 families in Colorado. Fannie Mae

offers 17 different programs, such as low down payment and down payment and closing cost assistance programs, that will help low-, moderate-, and middle-income families qualify for mortgages.

Development at the former Lowry Air Force Base will eventually encompass 4,000 homes, 2 million square feet of office and retail space, 800 acres of parks and open space, and a college campus. A developer announced plans for three redevelopment projects at the former base. The residential development includes a hybrid of lofts and townhomes and both rental and owner-occupied properties.

Nonresidential Construction

"The nonresidential construction market slowed markedly this year. Through July 1998 . . . the value of nonresidential construction declined 34.9% from one year ago."

The nonresidential construction market slowed markedly this year. Through July 1998, F.W. Dodge reports that the value of nonresidential construction declined 34.9% from one year ago. All major categories showed a decrease in activity. Construction of manufacturing facilities fell 84.1%, dormitory construction was down 90.8%, and construction of public buildings declined 75.8%. Construction of commercial buildings fared the best, dropping only 2.7%. However, many major construction projects were announced recently. Details on these projects are discussed in the regional sections of the *Chronicle*.

Ross Research Services reported that the metro-Denver vacancy rate for *office* buildings fell to 8.3% at mid-year 1998, from 9.3% at year-end 1997. New construction during the first half of the year totaled 627,000 square feet, and occurred all in the southeast suburban market. Lease rates were still climbing in downtown Denver, while they were beginning to taper in the suburban markets. Ross also reported that the *industrial* vacancy rate fell from 6.4% at year-end 1997, to 6.1% at mid-year 1998. The industrial vacancy rate is expected to rise during the remainder of the year because many speculative projects without signed tenants will enter the market soon. The *retail* vacancy rate declined to 5.5% in mid-1998, from 6.1% at year-end 1997.

Meanwhile, vacancy rates in Boulder County are very low. The office vacancy rate was 5.2%, the industrial vacancy rate was 4.0%, and retail vacancy stood at a very low 2.3% in mid-1998.

Retail Trade

Several new stores opened in August at the expanded Cherry Creek shopping center. By December, the center will have 12 new stores and restaurants, encompassing over 200,000 square feet. The Cherry Creek shopping mall averages more than \$450 of sales per square foot, ranking it in the top 10% of malls nationwide. By comparison, Park Meadows' sales averages \$420 per square foot.

Tourism

Tourism indicators at many of the state's attractions showed gains through late August. Year-to-date attendance is up 4% at Mesa Verde National Park and up 6% at the Royal Gorge bridge. July attendance at Rocky Mountain National Park was up 2.6% over last year. Meanwhile, six of the ten busiest traffic days ever at the Eisenhower Tunnel occurred during the past two months.

"Tourism indicators at many of the state's attractions showed gains through late August."

Most tourism indicators in the metro-Denver region increased during the first half of 1998, according to a survey of more than 150 businesses compiled by the Adams Group. Notable increases included selected attractions, up 9%; passenger boardings at Denver International Airport, up 9.4%; consumer spending, up 10.2%; and gaming in Gilpin County, up 10.5%.

Gaming

The Colorado Division of Gaming announced that its gaming tax and fee revenues for the state's fiscal year 1997-98 increased 13.1%, to a record \$67.0 million. Despite increased visitation to the state's three gaming cities, some casinos struggle in a competitive market. The first casino to open in Black

Hawk announced that it will cut back operations and lay off 60 employees. The Gold Mine casino said that it could not compete with the larger casinos that have more desirable locations. Ownership for the Gold Mine said that it plans to expand another one of its casinos.

Transportation

United Airlines plans to add up to 12 new gates with 100 new flights from Denver International Airport by 2002. The move would expand the number of United's flights by one-third.

Union Pacific Railroad decided not to abandon railroad tracks over Tennessee Pass on the Western Slope. The tracks have not been used since August 1997. There are no immediate plans to resume service on the tracks. However, train traffic through the Moffat tunnel is running at capacity, thus Union Pacific may need to reopen the Tennessee Pass route.

International Business

"Many of the world's economies are suffering from recession, thus impacting Colorado's export sector. Colorado's exports to Japan, the state's top trade market, fell 25% in the first quarter of 1998."

Many of the world's economies are suffering from recession, thus impacting Colorado's export sector. Colorado's exports to Japan, the state's top trade market, fell 25% in the first quarter of 1998. However, economic troubles in Russia will not severely impact the state's overall export market. Russia accounted for 0.5 percent, or \$27 million, of Colorado exports last year.

On the heels of daily nonstop flights between London and Denver, two British advanced-technology consulting firms will establish their U.S. headquarters in Denver. Selling Technology will open an office in downtown Denver with five employees and plans to create additional positions. Baptie & Co. will start with eight employees and expects to grow to 25 employees by the end of 1999.

Agriculture

This is a banner year for Colorado crop production. Ideal growing conditions are contributing to bountiful harvests of Colorado apples and peaches. This year's anticipated apple production of 80 million pounds is more than double last year's total. Meanwhile, the peach crop is forecast to be 20 million pounds, a nearly three-fold increase from last year. In early August however, fruit growers reported difficulty hiring enough workers to harvest the fruit.

"This is a banner year for Colorado crop production."

Winter wheat production is expected to increase by 18% from last year, to 107.3 million bushels. The average yield per acre is expected to match the record years of 1983 and 1985. However, mid-August wheat prices declined 33% from one year ago. Corn production may reach a record high this year, with an expected harvest of nearly 152 million bushels, while corn prices were 20% lower in mid-August than one year ago.

A fungus that affects potatoes was found in the San Luis Valley. It is not expected to affect this year's potato crop but could impact future production. Special fungicides were immediately applied to the potato fields and the health of the crops will be monitored continually. The potato business in the San Luis Valley generates between \$45 million and \$150 million annually, depending on production and prices.

Biotechnology

Amgen, a biotechnology company in Boulder, is seeking approval to add 251,000 square feet of space to its existing facility. The company expects that several of the drugs that are currently in human trials will be clinically successful, thus the firm will need additional manufacturing space. Amgen reduced its work force by 280 employees in two rounds of layoffs last December and April.

Education

Two Colorado universities are among the top 25 public universities in the nation, according to *U.S. News and*

World Report's annual college ratings. The Colorado School of Mines in Golden was tied for 21st and the University of Colorado in Boulder was 25th. The rankings are based on academic reputation, competitiveness, financial and faculty resources, student retention, alumni giving, and graduation rates.

Denver-Metro Region

Through the first seven months of 1998, metro-Denver nonfarm employment increased 3.5%, while the area's unemployment rate for July was a low 2.8%. Metro-Denver employers continue to have a difficult time finding qualified workers because of the low unemployment rate. Meanwhile, Whole Foods Market will relocate from Boulder and Longmont to **Thornton**. Whole Foods will occupy the site vacated in July by Gerry Baby Products. The company expects to expand on 35 acres of undeveloped land at the Thornton location and to increase its work force from its current level of 350 to 1,000 by 2000.

Total housing permits issued in metro Denver fell 1.7% through July 1998, compared with the same period last year. Single-family permits increased 9.9%, while permits for apartment units fell 23.7%. As noted previously, local prices for existing homes continue to climb. Through August 1998, the average price of an existing single-family home in metro Denver is 82% higher than the average price during 1989.

A number of new nonresidential construction announcements were made recently. The Meridian International Business Center in northern **Douglas County** landed several new tenants over the past several years. Meridian will expand south across Lincoln Avenue with the acquisition of 200 acres that will eventually house a \$300 million office and retail business park.

"Meridian will expand south across Lincoln Avenue with the acquisition of 200 acres that will eventually house a \$300 million office and retail business park."

A \$30 million office campus in **Louisville** is under construction. Construction on two buildings with a combined space of 127,000 square feet is underway, while construction on a third building of 75,000 square feet is anticipated to begin later in 1998.

The first, full-service hotel in the extreme southwest metro-Denver area is scheduled for a September ground breaking and will open in July 1999. The 120-room Hilton Garden Inn, located at Colorado 470 and Ken Caryl Avenue in **southeast Jefferson County**, is expected to serve the growing Ken Caryl Business Center and Lockheed Martin. A limited-service Holiday Inn is slated for the same intersection.

Southern Region

Nonfarm employment increased 2.0% in the Colorado Springs area through July, compared with the same period last year. Meanwhile, the unemployment rate in the area was 4.0%, somewhat above the statewide average of 3.3%. There was a significant employment announcement during the month. More than 700 jobs will be created in **Colorado Springs** during the next five years when T. Rowe Price locates a customer service center there. The average salary for the positions will be \$31,000, while the typical employee will be a college graduate and a licensed securities broker-dealer.

The apartment vacancy rate in Colorado Springs during the second quarter was 5.4%, while the average monthly apartment rent increased to \$572 from \$568 in the first quarter. The low vacancy rate is spurring additional apartment construction in the city. The Colorado Springs City Council gave unanimous preliminary approval for a 395-unit apartment complex, called the Echelon in Briargate. Average rents for the new luxury apartments have not been set, however, according to the developer, they will be one of the most expensive in Colorado Springs.

"More than 700 jobs will be created in Colorado Springs during the next five years when T. Rowe Price locates a customer service center there."

Pueblo nonfarm employment gained 2.6% through July. Meanwhile, the U.S. Secretary of Labor approved a grant of up to \$6.2 million for retraining 450 former CF&I Steel Corp. workers who were replaced with permanent workers during last year's strike. The goal is to help the workers achieve a wage at least equal to 90% of their previous pay, which was more than \$15 an hour.

New federal and state prisons in Cañon City and Florence are leading to the construction of a 54-unit

apartment complex in **Cañon City**. The complex will have three buildings. Thirty-six of the units will be leased at affordable rates; to qualify for the affordable rates, renters must have income less than 60% of the area's median income.

Northern Region

Employment growth rates in Fort Collins and Greeley are above the state average. Through July, employment increased 5.1% in Fort Collins and 5.7% in Greeley. The northern region will experience job layoffs, however. Advanced Energy Industries of **Fort Collins** laid off 128 employees, or 14% of its work force. Earlier this year, the company imposed three weeks of unpaid leave on all employees and instituted a 10% pay cut for company executives. The company had lower sales due to the slumping semiconductor industry. The company also shut two of its six buildings in Fort Collins.

"Employment growth rates in Fort Collins and Greeley are above the state average. Through July, employment increased 5.1% in Fort Collins and 5.7% in Greeley."

Merix Corp. will close its plant in **Loveland** and lay off 370 workers in late October in an effort to improve company-wide profitability. The firm manufactures circuit boards and other electronic components. Some of the employees will be offered positions at the company's Oregon facility.

Eastern Plains Region

Coleman National Meats opened a meatpacking plant with 40 employees in **Limon** last spring. New retail and service development are now taking place in the town. A 48-room Holiday Inn Express opened in July and tenants began to occupy a 12,000-square-foot shopping mall in August. Additionally, 230 acres north of Limon are under contract for a private prison. Limon currently houses a 953-bed, state-run correctional facility.

Prowers County employment increased 6.9% through July. Employment at new hog farms spurred the increase. Wages at the hog farms are above the county average wage.

Colorado Indicators
Year-to-Date Growth Rates

Indicator	July 1998	June 1998	1997 Annual Average
Nonfarm Employment * Growth	3.6%	3.7%	4.0%
Unemployment Rate ∇ * (Seasonally adjusted)	3.3	3.4	3.3
Housing Permit Growth §	0.0	3.7	-0.5
Single-Family	11.8	10.4	4.7
Apartments	-34.3	-19.1	-13.6
Growth in Value of			
Nonresidential Construction §	-34.9	-38.5	22.3
Retail	-28.5	-21.1	-11.7
Offices	-18.1	-27.7	43.6
Factories	-84.1	-69.9	20.2

∇ Actual level, not growth rate.

§ F.W. Dodge data.

* Colorado Department of Labor and Employment data.

Note: An inflation rate is not calculated for the state. The Denver-Boulder inflation rate is often used as a proxy for Colorado's inflation rate. The Denver-Boulder inflation rate was 2.2% through the first half of 1998, following a 3.3% rate in 1997.

Regional Growth
Cumulative Year-to-Date Growth Rates

	Alamosa	Boulder	Colorado Springs	Metro Denver	Durango	Fort Collins	Grand Junction	Greeley	Lamar	Montrose	Pueblo	Ski Counties (Eagle, Pitkin, and Summit)	Steamboat Springs	Sterling
Employment Growth ◆ (through July 1998)	7.0	§ 4.0	§ 2.0	§ 3.5	7.3	5.1	5.7	5.7	6.9	5.4	§ 2.6	4.6	2.5	1.9
Unemployment Rate ⊗ ◆ (not seasonally adjusted) (in July 1998)	5.6	3.1	4.0	2.8	4.0	3.3	4.2	4.0	3.8	5.0	6.4	2.1	2.7	5.3
Retail Trade Sales Growth ∇ (through May 1998)	7.8	6.9	6.7	8.7	11.1	8.0	6.5	11.9	3.3	5.5	5.9	4.6	13.8	-2.6
Housing Permit Growth * (through July 1998)	@	-5	3	-2	-28	-11	23	71	47	7	18	-21	-51	19
Growth in Value of Non-residential Construction * (through July 1998)	-86	-54	-19	-36	-80	-23	-36	-21	♣	-20	-40	-59	◇	-97

§ Nonfarm Employment Growth.

⊗ Actual level not growth rate.

◆ Colorado Department of Labor and Employment data.

* F.W. Dodge data.

∇ Colorado Department of Revenue data.

@ 46 units were permitted through July 1998, while 17 were permitted through the same period in 1997.

♣ \$4.5 million was contracted through July 1998, while \$700,000 was contracted through the same period in 1997.

◇ \$63 million was contracted through July 1998, while \$2.8 million was contracted through the same period in 1997.