



Colorado Economic Chronicle

A Research Newsletter

*Legislative Council
Denver, Colorado*

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August 6, 1996

Note to our readers: We are currently exploring avenues which will enable us to place this report on the Internet. Doing so will allow you to receive the Chronicle as soon as it is completed, and we will be able to reduce our postage expenses. If you have any questions or comments, please send them by electronic mail to lcsecon@rmii.com.

National Economy

The national economy recorded strong gains in May and June. Inflation-adjusted gross domestic product advanced at a 4.2% annual rate in the second quarter, more than double the first quarter's rate. The strong growth was broad-based, with notable strength in consumer spending, home construction, and inventory investment. In less positive news, the U. S. trade deficit (the difference between what the nation sells to and buys from the rest of the world) surged in May despite some export growth. Imports soared, however, as American consumers continued to purchase foreign cars, toys, and computer equipment.

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Strong job and income growth aided the **consumer sector** in 1996. The economy added 193,000 payroll jobs in July, below June's 220,000 level. Although July's job gain was weaker than June's, the nation has created jobs at a rapid clip in 1996: through July, the economy added a hefty 1.9 million jobs compared with just 386,000 for all of 1995. Much of the July employment gains occurred in the retail trade (89,000) and construction (25,000) sectors, while services

added 28,000 jobs. The unemployment rate rose to 5.4%. Meanwhile, total personal income increased a robust 0.9% in June. The strong income gains and low unemployment rate pushed the Conference Board's index of consumer confidence to a six-year high in June. Despite overall solid second quarter gains, consumer spending and retail sales slipped in June. Separately, consumer debt rose at a modest 4.9% annual rate in May. Although debt growth slowed in May, consumer installment debt was still 11.8% higher through May 1996 than through the same period in 1995 because of strong debt growth earlier this year.

The **manufacturing** sector posted solid gains. Orders for durable goods, those intended to last more than three years, fell slightly in June. However, when the erratic defense and aircraft components are excluded, orders increased 1.3%. The National Association of Purchasing Managers reported that its index remained above the 50% level in July, indicating expansion in the industry. Matching May's increase, production from the nation's mines, factories, and utilities increased 0.5% in June. Additionally, U.S. industry operated at 83.2% of capacity, suggesting that businesses have some room to boost output without significant increases in costs.

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.

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The housing and construction sectors performed well in May and June. Despite higher mortgage rates, housing starts rose 1.3% in June because of strength in single-family home building. The Commerce Department reported that spending on new construction rose 1.2% in June, following a 1% drop in May. Much of June's rise was concentrated in nonresidential construction.

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Prices displayed continued stability. The consumer price index rose a scant 0.1% in June, while producer

prices rose 0.2%. Another measure of inflation, the implicit price deflator, rose at only a 1.8% annualized rate in the second quarter. Meanwhile, labor costs (as measured by wages, salaries, and benefits) increased a meager 0.8% in each of the first two quarters of 1996. Slow growth in labor costs helps keep inflation subdued.

The second quarter was quite positive for the national economy. The pace of growth accelerated, but price increases remained modest. Employment growth has been robust, and confident consumers continued to spend. However, a large portion of the second quarter's consumption gains were from durable goods, which are not purchased on a recurring basis. Thus, the economy may slow somewhat in the second half of 1996.

Colorado Economy

Each year, the Corporation for Enterprise Development (CED) assesses the strengths and weaknesses of state economies, as well as their prospects for growth. The CED gave Colorado and Utah the nation's top rank in 1996 and Colorado earned straight *As* in three broad measurement categories for the fourth consecutive year. Colorado received *As* in economic performance (employment strength, earnings and job quality, income equity), in business vitality (competitiveness, new business growth, diversification), and in development capacity (human, technological, financial, and infrastructure resources). However, the report did note that the state's earnings growth slowed relative to the nation as a whole.

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	↑	Good
U.S. Inflation Rate	→	Good
Overall Rating	↑	Good

Employment

Total nonfarm employment increased 4.3% through June 1996. This pace is slightly below 1995's advance, but is robust nonetheless. The strong job growth was reflected in the state's low 4.1% unemployment rate. Through June 1996, the state's unemployment rate was 1.2 percentage points below that of the nation.

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Since the last *Chronicle*, several job gains and losses have been announced. Proposed job additions included 100 workers at an expanded United Airlines training center and 200 employees at Teleport Communications Group. In Colorado Springs, Advanta Corporation plans to hire 150 workers, and Cablevision and US WEST will employ an additional 350 customer service representatives. Atmel Corp., Ashland Chemical, and Vitesse Semiconductor Corp. all plan to build new plants and ultimately expect to add 1,000, 130, and 140 jobs, respectively. Choice Hotels added 100 new employees in Grand Junction. And, Intermountain Forest Products will reopen its 100-worker plant near Montrose.

Announced job cuts include 126 mechanics at Continental Airlines and 368 Rocky Flats employees. These cuts, along with other changes in employment are discussed in further detail throughout the *Chronicle*.

Residential Construction

The residential construction market surged 37.2% through June 1996, relative to the same period in 1995. The construction of apartment units led the growth, according to F.W. Dodge data.

“The residential construction market surged 37.2% through June 1996 . . .”

Based on properties closed, Perry and Butler reports that existing home sales in metro Denver increased 11.0% through July 1996, compared with the same period last year. July resales were at a record level. The average price of a single-family home sold through July 1996 was \$157,807, or 5.6% higher than the same period in 1995. Additionally, the number of homes for sale in July 1996 was 18.5% higher than one year earlier.

The Fox Hill Country Club near Longmont plans to build 700 to 900 high-end homes and a new 9-hole golf course during the next five to seven years. The club will also undergo \$3 million in capital improvements as part of the \$162 million project.

Nonresidential Construction

The value of nonresidential construction increased 15.7% through June 1996, relative to the same period in 1995, according to F.W. Dodge. The strength was led by the construction of manufacturing facilities, government buildings, and education and science buildings.

El Paso County’s vacancy rates for industrial, office, and retail space remained low during the second quarter of 1996, according to Turner Commercial Research. The vacancy rate for industrial space was 5.9% in the second quarter, slightly above the first quarter’s rate. Office buildings were 7.6% vacant in the second quarter of 1996, up slightly from the first quarter, but down from 9.0% one year earlier. Meanwhile, the shopping center vacancy rate

remained at 6.8% in the second quarter of 1996, down slightly from the same period in 1995. During the last year, average rental rates for industrial space climbed 10.7%; rents for retail space jumped 10.1%; and lease rates for office space edged up 3.6%.

Atmel Corp., a Colorado Springs semiconductor manufacturer, will construct a new \$750 million fabrication plant, increasing its Colorado Springs employment by 1,000 to 3,000 workers. This project is in addition to \$500 million invested in the area by the company since 1989.

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A new \$300 million office park in Douglas County at Lincoln and Interstate 25 is under construction. The new complex will include an IMAX theater and 320,000 square feet of office space. Separately, a new entertainment complex is planned for Parker. The \$35 million mall planned for the intersection of Parker Road and E-470 will include a 24-screen movie complex and over 150,000 square feet of restaurant and retail space. Construction is expected to be finished by the end of 1997.

A 442-acre parcel of land was purchased near Denver International Airport for construction of a mixed-use, \$100 million project to include housing, office, industrial, and retail space. The owner has already contacted a number of Denver-area hotels regarding building at the site.

Aviation

Colorado Springs is planning to expand its airport at a cost of \$90 million. The expansion would add 15 gates, doubling the size of the current airport. The new terminal, which would be located east of the existing terminal, would be occupied by Western Pacific Airlines. Regulatory approval for the plan is expected by October. Meanwhile, Western Pacific will build a 5-gate, temporary terminal with a commuter air pad. Passengers will be shuttled between the main terminal and the satellite terminal. The temporary terminal is expected to be completed by December.

United Airlines may undergo a \$100 million expansion of its flight training center at the former Stapleton International Airport. The new 100,000-square-foot building would add 100 highly paid workers. The site currently employs approximately 850 people in 300,000 square feet of space. In addition, United will increase its passenger capacity on flights to Colorado's ski resorts by 21,500 seats per week starting in December.

Continental Airlines is closing its maintenance base at Denver International Airport (DIA), eliminating 126 mechanic positions. The employees will be offered out-of-state transfers. Frontier Airlines, however, will need to hire 30 mechanics at DIA to take over the work that Continental's employees were doing for Frontier on a contract basis. As noted in previous *Chronicles*, Continental's maintenance base at Stapleton, which closed when DIA opened, employed 1,800 as recently as 1993.

Business

Colorado women fare better in business in than women in much of the nation, according to a study by The Center for Policy Alternatives. Women own 37.6% of Colorado's businesses, the third highest ownership rate in the nation. In addition, the state has the fourth highest percentage of college-educated women and ranks 30th in the percentage of women living in poverty.

Health Care

University Hospital received a portion of the federal government's \$2.3 billion Civilian Health and Medical Program for the Uniformed Services. The contract allows University Hospital and 13 health care partners in a 16-state region to provide services to the dependents of active-duty military personnel and retirees. Approximately 132,000 Coloradans are eligible to participate in the program, earning the partnership over \$130 million.

Mercy Hospital, which closed in 1995, will be renamed City Park Center for Healthcare and will be leased to interested medical groups. Centura Health will operate services at the site, including pathology and radiology. The hospital's surgical suites and orthopedic floor will reopen, and the medical office building is expected to be leased.

Tourism

Pending government approval, Vail Associates Inc. announced plans to buy the Breckenridge, Keystone, and Arapahoe Basin ski areas from Ralcorp Holdings. Currently, the resorts represent 47% of the state's skier visits, or roughly 5.4 million skier-days a year. Vail Associates already owns the Vail, Beaver Creek, and Arrowhead ski areas. In addition, Vail is spending \$150 million in capital improvements at its ski areas. A new base area and high-speed chair will be added at Goldenpeak, and a high-speed gondola is under construction at Lionshead. Meanwhile a new lift will connect the Beaver Creek and Arrowhead resorts, and a ski village will be built at Beaver Creek.

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Agriculture

Colorado winter wheat production is projected to total 71.3 million bushels in 1996, down 31% from 1995's level. A severe drought in southeastern plains contributed to the decline. For farmers unaffected by the drought, wheat prices rose 18.8% above year earlier levels in July.

Beef prices increased 4.7% during July compared to one year earlier, but continued to be at relatively low levels. The combination of low beef prices and high feed costs because of the drought caused ranchers to increase slaughter.

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Two hail storms in Weld County during early July destroyed approximately \$1 million worth of barley. More than 5,000 acres of barley were affected, with 2,600 acres totally destroyed. In addition, 6,700 acres of sugar beets were affected by the storm, with 25% receiving heavy damage. Sugar beets, however, are not harvested until October and should be able to replenish themselves by then. A storm near Pueblo caused \$250,000 in crop damage on 3,850 acres of farmland.

Metro Denver Region

Two redevelopment projects in **Denver** received federal grants at the beginning of July. The Colorado Community College and Occupational Education System received \$2.75 million to redevelop a training center at the former Lowry Air Force Base. In addition, the City itself received a \$300,000 grant for a feasibility study on the creation of an environmental business center at the former Stapleton International Airport.

Federal budget cuts will result in the dismissal of 368 Rocky Flats employees in **Jefferson County** over the next few months. In addition to the cuts, 582 workers have left the company voluntarily this year. Meanwhile, Meridian Oil Co. is closing its **Denver** offices, eliminating 120 local jobs.

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Teleport Communications Group will hire 200 employees at a new site in **Arapahoe County**. The company is locating its customer service and order management center at the site. The firm provides services which allow clients to access long-distance phone service without connecting to US WEST.

Northern Region

Rocky Mountain Flour Milling LLC is building a \$5 million organic flour mill in **Platteville**, which is located in Weld County. The mill will be the first of its kind in the world, capable of producing 200,000 pounds of organic flour daily.

The Town of **Firestone** in southwestern Weld County will double in size during the next decade, according to plans preliminarily approved by the town board. A newly approved 108-acre development will include 425 residential units.

Southern Region

Advanta Corp. is opening a new customer service center in **Colorado Springs**. The company, which is

the ninth largest credit card issuer in the country, will initially hire 150 people at the site, and expects to expand to 1,000 employees within four years. In addition, Cablevision and US WEST Communications will hire a combined 350 customer service employees in Colorado Springs this year. Vitesse Semiconductor Corp. is moving to Colorado Springs and building a \$75 million factory. The 70,000-square-foot factory will be used to manufacture integrated circuits. The plant will be completed in the latter half of 1998 and will initially employ 140 people. Sixteen motel construction projects since May 1995 will add 1,208 rooms to the Colorado Springs market by Spring 1997. The building spree is in response to a 39% increase in tourism visits between 1990 and 1995.

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Penrose-St. Francis Health Services will double the size of its **Woodland Park** medical center due to growth in Teller County. The \$500,000 expansion will include 3,900 square feet of new space to accommodate increased patient visits and 1,200 square feet of satellite offices for rehabilitation and mental health care.

Ashland Chemical will build a new \$50 million plant in **Pueblo** that will manufacture super-clean chemicals for use in the semiconductor industry. The new plant will employ 130 workers, many in high-paying positions, when completed in 1998.

Cotter Corporation, a **Canon City** uranium producer, will reopen its Lincoln Park uranium mill at a cost of \$1.5 million. The mill will employ 43 new workers and produce up to one million pounds of yellowcake uranium per year. The plant was closed in 1987 when the uranium market experienced a downturn. Further west of Canon City, the **Cotapaxi** School is being remodeled and expanded at a cost of \$1.6 million. The school will receive seven new secondary classrooms, four new elementary classrooms, new high school classrooms, and a gymnasium.

Western Region

Maverick Airways Corp. will begin flights between Denver and **Grand Junction** in September. The

airline plans to make Grand Junction an integral part of its network and perform maintenance operations there. Also, Choice Hotels hired 100 new employees in Grand Junction to run a second reservations center there. The center will handle 1.2 million calls per year.

Intermountain Forest Products plans to reopen the Blue Mesa Forest Products lumber mill that closed in January near Montrose. The plant employs about 100 people, including loggers and haulers. Intermountain

will buy the rights to log 20 million board-feet of timber in western slope forests.

Eastern Plains

Mesa Air won a court battle that will allow it to discontinue service to Lamar as the result of a cut in federal subsidies for flying to the city. After Mesa Air stops service, Lamar will no longer have any airline serving the city. Mesa Air is also decreasing service from Denver to Fort Collins, Pueblo, and Alamosa.

Colorado Indicators
Year-to-Date Growth Rates

Indicator	June 1996 Increase	May 1996 Increase	1995 Annual Average
Nonfarm Employment * Growth	4.3%	4.6%	4.7%
Unemployment Rate ∇ * (seasonally adjusted)	4.1	41.9	4.2
Housing Growth §	37.2	4.9	-5.2
Single-Family	31.9	34.5	-7.9
Apartments	60.2	78.4	4.6
Growth in Value of			
Nonresidential Construction §	15.7	12.0	16.2
Retail	-32.1	-52.3	50.5
Offices	48.2	40.1	11.4
Factories	50.0	29.9	-11.7

∇ 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 4.3% in 1995, following a 4.4% rate in 1994.

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 June 1996)	3.8	§ 3.1	§ 7.1	§ 3.5	6.0	4.2	3.3	5.8	5.1	5.1	§ 1.0	3.5	3.9	0.3
Unemployment Rate ⊗ ◆ (seasonally adjusted) (in June 1996)	6.1	4.1	6.6	4.2	5.1	4.0	5.3	4.9	4.8	6.3	6.6	3.8	4.6	3.9
Retail Trade Sales Growth ∇ (through May 1996)	-0.4	5.6	5.8	6.9	12.9	9.2	11.9	13.0	-0.7	6.4	5.5	8.3	6.7	18.8
Housing Permit Growth * (through June 1996)	-14	80	48	36	3	66	17	61	⊕	6	13	-1	-23	41
Growth in Value of Non-residential Construction * (through June 1996)	-80	66	26	8	97	-52	46	25	0	●	57	87	⌘	-91

§ Non Farm Employment Growth

⊗ Actual level, not growth rate.

◆ Colorado Department of Labor and Employment data.

* F.W. Dodge data.

∇ Colorado Department of Revenue data.

⊕ Fifty residential units have been contracted thus far in 1996, while 16 were contracted during the same period in 1995.

Φ Nothing has been contracted thus far in 1996, while \$251,000 was contracted during the same period in 1995.

● \$3.4 million has been contracted thus far in 1996, while nothing was contracted during the same period in 1995.

⌘ \$4.9 million has been contracted thus far in 1996, while \$415,000 was contracted during the same period in 1995.