



Colorado Economic Chronicle

A Research Newsletter

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National Economy

The national economy continued its healthy expansion in the third quarter of 1997. Inflation-adjusted gross domestic product increased at a 3.5% annual rate during the third quarter, slightly better than the previous quarter's growth. The third quarter's growth came from strong gains in consumer purchases of both goods and services and robust business investment. Government spending increased at a 1.0% rate. Meanwhile, late October was an unsettling time for the stock market as the Dow Jones Industrial Average posted dramatic losses and gains. The market gyrations were largely in response to currency and stock market turmoil in Asia. Still, through November 3, the Dow Jones Industrial Average was up 19.0% since December 31, 1996, and was 27.0% higher than on November 3, 1996.

"Inflation-adjusted gross domestic product increased at a 3.5% annual rate during the third quarter . . ."

The **consumer sector**, which accounts for 68% of the nation's economic output, was strong in September and October. The September unemployment rate stood at 4.9%, near historical lows. Low unemployment and a strong job market buoyed consumption spending in September. Overall consumption rose 0.2%, while retail sales (a narrower measure of consumption since it excludes services), rose 0.3% in the month. Americans' personal incomes increased a healthy 0.4% in September. Separately, the Conference Board reported that its index of

consumer confidence declined in October. However, it is unclear whether the confidence decline is permanent or temporary. To the extent that consumer confidence and spending were linked to a rising stock market earlier in the year, such confidence and spending may wane in the wake of recent uncertainty in the stock market. But, the solid employment situation should somewhat counter this impact.

"Sales of new homes fell slightly, but existing home sales rose to record levels . . ."

The **housing and construction** sectors were mixed in September. Sales of *new* homes fell slightly, but *existing* home sales rose to record levels in the month. Median housing prices were higher in September than one year ago. The median price of a new home was \$142,000 (up 2.2%), while the median price of an existing home was \$125,600 (up 6.6%). Construction of new homes surged 7.9% in September; the gain reflected strength in both single-family and apartment construction. However, the Commerce Department reported that overall construction spending fell 1.1% in September, depressed by declines in nonresidential and government construction.

The **manufacturing** sector was mostly positive. The National Association of Purchasing Management reported that its index rose in October and continued to indicate expansion in the industry. Output from the nation's mines, factories, and utilities jumped 0.7% in September. Much of the increase came from a 4.4%

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rebound in utility output, which had decreased in August. Mining production fell 0.5%, while manufacturing output posted a 0.4% increase. Meanwhile, orders for durable goods eked out a 0.1% gain in September, after reaching record levels in August.

Inflation remained in check. Prices at the consumer level increased 0.2% in September, while producer prices increased 0.5%. Through the first nine months of 1997, consumer price inflation was 2.5% on an annualized basis, while producer price inflation was just 0.2%. Separately, employment costs, which

measure both wages and benefits paid to workers, rose 0.8% in the third quarter, matching the second quarter's increase. Since employment costs comprise the bulk of a product's cost, small increases bode well for overall inflation.

Economic activity remained robust, with few signs of higher inflation in spite of a low unemployment rate. Consumer spending was strong, housing was mixed, and manufacturing performed well. It appears that the third longest post-World War II national economic expansion will continue for the foreseeable future.

Colorado Economy

Colorado's economy continued its slow, steady growth path during October, however the generally positive climate was tempered by a powerful winter storm that devastated the eastern plains cattle industry and a shortage of cement that may slow the construction industry during the fourth quarter. While most sectors of the economy have slowed from the robust growth experienced during the last several years, positive, but slower, growth will continue in the state throughout 1998.

from a 4.5% pace in 1995 to a 3.4% advance in 1996, before reaching the current 2.5% rate this year. The unemployment rate has also fallen, however, suggesting that the slower job growth may be the result of tight labor markets rather than a faltering economy. Although the unemployment rate increased from 3.2% in August to 3.4% in September, it was still well below the state's average 4.2% rate recorded during 1996, and well below the national unemployment rate of 4.9%.

Colorado's Economy at a Glance

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

"Employment growth has slowed significantly during the last two years, falling from a 4.5% pace in 1995 to a 3.4% advance in 1996, before reaching the current 2.5% rate this year."

Employment

Colorado's nonfarm employment increased 2.5% through September 1997. Employment growth has slowed significantly during the last two years, falling

A few job additions were announced during October. Approximately 400 workers will be needed for construction of a natural gas pipeline across the western slope; Advanced Energy Industries Inc. will add 131 workers in Fort Collins; a new Circuit City outlet in Fort Collins will employ 110 workers; and Electronic Manufacturing Systems in Longmont will add 100 new employees.

Job cuts were also announced. The Air Force's Space Command will eliminate 250 workers in Colorado Springs and Aurora; Exabyte will cut 150 positions in Boulder; and Kodak will terminate 50 jobs in Windsor. Meanwhile, 1,100 workers are on strike at the CF&I steel plant in Pueblo.

Residential Construction

Existing home sales in metro Denver increased 7.1% through October 1997, compared with the same period in 1996, according to Perry & Butler Realty, Inc. The average price of a single-family home during that period increased 6.1%, to 168,679. Despite the stronger sales, there were 4.3% more unsold homes on the market during October 1997 than in October 1996.

The metro-Denver apartment vacancy rate fell from 5.1% in 1997's second quarter to 4.6% in the third quarter. The vacancy rate was 3.4% for those apartments with monthly rents under \$500 and 3.8% for those renting between \$501 and \$600 per month. The vacancy rate was highest in the luxury apartment market, where significant construction has kept vacancy rates above 6%.

Residential construction declined 9.7% in Colorado through the first nine months of 1997, compared with the same period in 1996. The downturn was caused by a 37.5% decrease in apartment construction, however single-family home construction increased 1.2%, according to F.W. Dodge.

Nonresidential Construction

Public Service Company of Colorado is planning two construction projects in the metro area during the next two years. The first will be a seven-story water plant at 15th Street and Glenarm Street in downtown Denver. The plant will be used to send chilled water for air conditioning to downtown businesses. The plant is expected to reduce the cost of air conditioning, and will replace systems that currently produce ozone-reducing chlorofluorocarbons. The second project, which must receive regulatory and legislative approval, would add \$211 million of pollution-control equipment to the company's Denver and Boulder coal-fired power plants.

"Construction on the \$165 million Pepsi Center . . . could begin in November . . ."

Construction on the \$165 million Pepsi Center, a new arena that would house the Colorado Avalanche hockey team, the Denver Nugget basketball team, and other large events, could begin in November under an agreement reached between the City of Denver and

Ascent Entertainment. The Denver City Council recently approved the rezoning necessary for construction.

A new five-anchor mall will be built in Broomfield on 170 acres at 96th Street and U.S. 36. The mall, to be called FlatIron Crossing, will include Nordstrom and Dillard's as two of its anchors, an oversized REI outdoor-equipment store, a man-made lake for winter ice skating, an amphitheater, a Sundance movie theater, and an outdoor shopping village. The mall is scheduled to open in the fall 2000.

The former Security Life Building across from the Denver Pavilions on the 16th Street Mall in downtown Denver will be renovated into a 540-room hotel. The \$69.5 million hotel will include meeting space, a 208-seat restaurant, and 4,000 square feet of retail space. In total, approximately 900 hotel rooms are being added to the downtown Denver market.

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Redevelopment of the former Lowry Air Force Base will include 800 acres of park space. The additional parks will increase the total amount of park space in the City of Denver by 20% and will cost between \$22 million and \$26 million to construct. Included in the parks will be a three-diamond youth baseball complex modeled after Coors Field, to be completed by September 1998. Nine multi-use fields for soccer, rugby, and lacrosse will be built and another area will be available for basketball, roller hockey, and sand volleyball. The park system will also include a lawn about the size of the lawn in Washington Park, a wetlands area with wildlife viewing, and a trail system that links into the regional trail system. In addition, the 18-hole golf course on the base will be renovated and expanded to a 45-hole complex. The city also announced the construction of \$14 million in new homes on the base.

Equipment failures and sustained demand from years of strong construction activity created a shortage of cement in the state. All types of construction have been delayed by the shortage, including highways, retail openings, and office space. Still, nonresidential construction in Colorado increased 11.4% through September 1997, relative to the same period in 1996, according to F.W. Dodge. The increase was led by a

significant gain in the construction of manufacturing plants, amusement centers, office and bank buildings, and hospital and health treatment facilities. Significant decreases were experienced in the construction of dormitories, hotel and motels, and garages and service stations.

Advanced Technology

Exabyte Corp. will cut 150 employees in Boulder as the result of a corporate restructuring to eliminate losses. The cuts will come from headquarters staff. The company, which produces computer server backup systems, will still employ 1,100 people in Boulder after cutting staff and streamlining product offerings.

Advanced Energy Industries Inc., a Fort Collins manufacturer of power delivery systems for advanced-technology manufacturing companies, is planning to construct three new buildings on its local campus. Combined, the buildings will total 80,000 square feet. Furthermore, the company plans to hire 131 new workers by the end of the year in addition to the approximately 100 workers hired during the past two months.

Electronic Manufacturing Systems, a Longmont producer of steel cabinets, cables, and electronic gear for the computer, semiconductor, telecommunications, and medical industries, will hire 100 new employees at its Longmont headquarters. The headquarters currently employs 510 of the company's 1,300-person U.S. work force.

Energy

" A pipeline running from Rio Blanco County to New Mexico will be completed in September 1998 . . . Almost 400 workers will be required for construction of the pipeline . . . "

A pipeline running from Rio Blanco County to New Mexico will be completed in September 1998, according to the TransColorado Gas Transmission Company. Once completed, the 22-inch pipeline will move 300 million cubic feet of natural gas per day. Almost 400 workers will be required for construction of the pipeline, which is expected to start in June 1998. The pipeline will employ 20 workers after construction.

Manufacturing

Approximately 1,100 CF&I steel workers in Pueblo went on strike in early October, limiting production at the facility there. Oregon Steel, the steel plant's owner, has hired 200 replacement workers and is continuing limited production levels with these workers and managers. Pueblo's economy will be slowed for the duration of the strike, as the plant produces less output and employees receive less compensation.

Transportation

Western Pacific Airlines filed for bankruptcy protection in early October, but was able to continue flying. The airline is attempting to secure new financing. Western Pacific has been losing millions of dollars each month and has very little available cash. The airline's assets are worth more than its debts, however, giving it a chance to come through bankruptcy proceedings intact.

The E-470 board of directors approved more than \$6 million in engineering and environmental work for the last section of the toll road which will connect 120th Avenue to Interstate-25 near 160th Avenue. The last section of the road is expected to open in 2003. Currently, construction is underway on two sections of the highway that will open in June 1998. These sections will connect 120th Avenue to 56th Avenue in the northern tier of the city and Smoky Hill Road to Parker Road in the southern tier. Another segment, expected to open in March 1999, will connect the above two segments. In total, the E-470 Authority sold \$654 million in bonds to construct the phase of the toll way that connects the northern and southern tiers of the city. The first phase of the road, connecting Interstate-25 to Parker Road on the south end of the metro area, opened in 1991.

Government Spending

According to a Harvard University study, Colorado paid more in federal taxes than it received in federal benefits such as defense contracts, social programs, and public works projects during federal fiscal year 1996. The state received 97 cents in benefits for every tax dollar paid to the federal government, the second consecutive year that the state has paid more than it received. From 1986 through 1994, however, the state

enjoyed a surplus of revenues coming from the federal government. The study noted that both federal spending and federal tax collections in Colorado exceeded the national average.

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Exports

After three consecutive years of double-digit growth, Colorado's export growth of manufactured products to other nations slowed to 1.7% in 1996 and 1.2% during the first half of 1997. The weakness is primarily the result of declines in exports of industrial and commercial machinery and computer equipment, the state's largest export sector, which declined 14.8% in 1996, according to the Massachusetts Institute of Social and Economic Research. Exports to Japan and Canada, our top two export countries, also declined.

Welfare

“The number of welfare caseloads in Colorado reached its lowest level in more than a decade at the end of September.”

The number of welfare caseloads in Colorado reached its lowest level in more than a decade at the end of September. The drop in caseloads resulted from the combination of a booming state economy and welfare programs that require participants to either be working or in job training within two years. All recipients were required to meet with career counselors to assess their work skills and to get help finding jobs. The number of families receiving welfare benefits dropped to 25,830 in September from an average of over 42,000 during the 1992-93 fiscal year. Even before welfare reform, strength in the state's economy had significantly reduced the welfare rolls in Colorado, with an average monthly caseload of 31,900 during FY 1996-97.

Tourism

Vail Resorts, which owns six ski resorts in Colorado, has proposed a 135-acre expansion of the Keystone ski area and a 120- to 140-acre expansion of the

Breckenridge ski area. The Keystone expansion would include three new lifts. The Breckenridge expansion would add intermediate terrain on the lower part of Peak 7. A high-speed quad chairlift would serve the new terrain and a beginner lift would be built on Peak 9. The Breckenridge expansion also includes a 600-seat restaurant and increased snow making capacity. Vail Resorts is also planning a 450,000-square-foot residential and commercial development near Lionshead at the Vail ski resort. The plans include 40 condominiums, a hotel with 127 rooms, 45,000 square feet of retail space and a parking garage. The company would also demolish and rebuild two existing buildings at the site.

Tourism indicators improved during the first nine months of 1997, compared with the same period in 1996, according to the Adams Group. Five of the seven tourism indicators increased during the period. Gains were led by lodging nights, up 5.8%, gambling, up 5.2%, and airline boardings, up 4.3%.

Visits to National Parks in Colorado declined 0.9% through September 1997, relative to the same period in 1996, according to the National Park Service. The declines were greatest at the Colorado National Monument and at Dinosaur National Monument. Rocky Mountain National Park, the state's most visited site, experienced a slight increase in visitors during the same period.

Adjusted gross proceeds (AGP), the amount of gaming money taken in minus winnings paid out, at Colorado's casinos fell slightly in September 1997, compared with September 1996, according to the Colorado Division of Gaming. In addition, September 1997's AGP declined 12% from its August record high level of \$42.5 million. August marked the second consecutive record AGP month, however, before the decline in September. While collections slowed in September, Colorado casinos still had the highest AGP year in Colorado gaming history in 1997. The gaming year runs from October 1, through September 30.

Agriculture

At least 15,000 cows and calves were killed on Colorado's eastern plains as the result of a massive winter storm that hit the area October 24th. The death toll is expected to rise as many additional animals were unaccounted for. The cost of the

cattle loss is estimated at \$7.5 million. In addition, many of the surviving animals lost about 10% of their weight.

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Most crop prices declined over the last year, with the October 1997 price for wheat 24.2% below the October 1996 price and the price for corn 9.9% lower than one year earlier. Colorado's corn for grain production is estimated to be 14% above the same period in 1996. The average yield increased 4.2% over last year, accounting for a portion of the production increase. Hay production is expected to increase 9.6% in 1997, as both the yield and the harvested acres will be higher this year.

Cattle prices generally increased during the year, aside from October 1997's steer and heifer price, which declined slightly from October 1996. Cow prices increased 16.4% during the same period and calf prices increased 44.6%. The number of cattle and calves on feed for the slaughter market in Colorado increased 9% during October 1997, compared with October 1996. Meanwhile, 23% more cattle were marketed in Colorado during October than one year earlier.

Metro-Denver Region

Cinamerica/Mann Theatres will recreate the Chinese Theatre facade from its world-famous Hollywood, California location at Arapahoe Crossings in **Arapahoe County**. The new 4,000-seat, stadium style theater will duplicate the appearance of the Hollywood theatre where movie stars leave their hand and foot prints on the sidewalk. Meanwhile, Electronic Manufacturing Systems of **Longmont** will add 100 employees to its current work force of 510 in Boulder County.

Northern Region

Construction is beginning on the Community Choices capital improvement projects in **Fort Collins**. The 20 projects were approved by voters at a total cost of \$124 million, and include \$27 million for acquisition and maintenance of natural areas, a \$5.5 million transportation corridor, a \$2 million Community Horticulture Center, and a \$3 million truck route. The first project under construction is the widening of Shields Street from Horsetooth Road to Troutman Parkway. Meanwhile, Advanced Energy is expanding its Fort Collins campus with up to three new buildings covering 80,000 square feet of space and will add 131 new workers by the end of 1998. These new workers are in addition to approximately 100 workers that were hired by the firm during the last two months. In southern Fort Collins, Circuit City will open a new store near the end of November that will employ 110 workers. The \$1.25 million super store will cover 28,000 square feet of space.

Kodak, which manufactures film and photographic paper in **Windsor**, will eliminate 200 managers worldwide, including 50 workers in Windsor. The company currently employs 2,300 workers there and the layoffs are the result of an anticipated 25% drop in profits during the third quarter of 1997.

Southern Region

The Air Force's Space Command will eliminate 10% of its work force, or 470 jobs nationwide. Among the layoffs will be 250 civilian Air Force employees in Colorado at four bases — Peterson Air Force Base, Falcon Air Force Base, the Cheyenne Mountain complex (all in **Colorado Springs**), and Buckley Air National Guard Base in Aurora. The cuts will be made during the next three years.

Colorado Indicators
Year-to-Date Growth Rates

Indicator	September 1997 Increase	August 1997 Increase	1996 Annual Average
Nonfarm Employment * Growth	2.5%	2.5%	3.4%
Unemployment Rate ∇ * (seasonally adjusted)	3.4%	3.2%	4.2%
Housing Permit Growth §	-9.7	-11.2	15.6
Single-Family	1.2	-0.6	12.0
Apartments	-37.5	-37.3	30.3
Growth in Value of Nonresidential Construction §	11.4	13.3	27.3
Retail	-14.1	-12.3	-4.2
Offices	33.9	23.9	22.3
Factories	62.0	64.7	23.6

∇ 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 3.4% through the first half of 1997, following a 3.5% rate in 1996.

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 August 1997)	2.3	§ 3.2	§ 3.4	§ 1.8	3.7	4.6	5.0	3.4	1.7	2.0	§ 4.9	5.3	2.7	0.3
Unemployment Rate ⊗ ◆ (not seasonally adjusted) (in August 1997)	4.7	2.8	3.5	2.7	3.9	2.9	3.8	3.5	2.6	4.9	4.1	2.4	2.8	3.0
Retail Trade Sales Growth ∇ (through August 1997)	1.9	8.1	5.6	6.0	0.9	5.5	6.0	3.4	2.3	4.0	9.7	8.7	10.5	6.9
Housing Permit Growth * (through September 1997)	71	-30	-26	-4	-2	-19	-14	-12	-32	-1	1	-19	49	-33
Growth in Value of Non-residential Construction * (through September 1997)	28	9	-35	13	-30	108	72	11	@	-71	-3	-50	-76	⌘

§ Nonfarm Employment Growth.

⊗ Actual level not growth rate.

◆ Colorado Department of Labor and Employment data.

* F.W. Dodge data.

∇ Colorado Department of Revenue data.

@ \$700,000 was contracted through September 1997, while nothing was contracted through the same period in 1996.

⌘ \$83.6 million was contracted through September 1997, while \$250,000 was contracted through the same period in 1996.