



# Colorado Economic Chronicle

*A Research Newsletter*

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## National Economy

**I**nflation-adjusted **gross domestic product** surged at a revised 6.0% annual pace in the last quarter of 1998. This is the largest increase in nearly 15 years, despite a record trade deficit due to the global economic recession. This created a 1998 annual GDP growth rate of 3.9%. Several indicators point to a continuation of this growth trend beyond the first quarter of 1999, extending this expansion to an unprecedented ninth year. However, the Department of Commerce recently reported that estimated corporate profits decreased 2.2% in 1998. This was the first annual profits decrease since a 4.8% drop in 1989.

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***"The March unemployment rate is the lowest rate in 29 years."***

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The **unemployment rate** dipped to 4.2% in March, down from 4.4% in February, and 4.3% in January. The March unemployment rate is the lowest rate in 29 years. Meanwhile, average hourly (non-farm non-supervisory) wages rose \$0.03 or 0.2% in March. This was a 3.6% increase from a year ago. For all of 1998, wages and benefits rose 3.4%, up from 3.3% in 1997, 2.9% in 1996, and 2.7% in 1995.

**Personal income** increased 0.5% in February, down slightly from 0.6% in January. **Consumer spending** rose 0.7% in February, up from a 0.4% increase in January. The savings rate was in negative territory again in February at -0.2%. This was the fifth month in the previous six months that the savings rate was zero or less. Meanwhile, consumer confidence — an

indicator of future consumption — rose in March for the fifth straight month.

While the global economic crisis created a wave of cheaper commodities and kept U.S. inflation low, **net exports** continued to contribute to record trade deficits. In January, the deficit hit a monthly record of \$17 billion. That month, the value of exports decreased 1.4% to \$76.8 billion, the smallest figure in five months, and imports increased 2.0% to \$93.8 billion. The U.S. trade deficit was \$169.3 billion in 1998 and \$110.2 billion in 1997.

Weak foreign demand and low import prices continued to hit an ailing **manufacturing** sector. In February, factory orders dropped 2.5% from January. This was the first decrease in the last four months and the greatest in almost four years. The demand for durable goods also tumbled, decreasing 5.0% in February after increasing a revised 3.3% in January and a similar 3.4% in December. The volatile aircraft industry was partly responsible for the low orders figure. Excluding aircraft orders, demand for durable goods fell 3.4% in February and 0.2% in January. On a more positive note for the manufacturing sector, the National Association of Purchasing Management reported that its index of business activity represented an expansion for the second month after eight months of contraction. The index was at 54.3 in March and 52.4 in February, up from 49.5 in January and 45.3 in December. An index above 50 indicates that the economy is expanding. National production of durable goods also rose in February as output increased 0.5%, up from 0.2% in January.

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The **construction** sector remained robust as spending rose 2.2% in February, up from 1.7% in January and 1.4% in December. This was the fourth consecutive month of spending increases and the biggest jump since a 2.4% increase in June of 1998. Residential construction spending, responsible for around half of all construction, increased 0.8% in February, down from 1.3% in January. Within the residential market, both single-family and multi-family home construction spending rose 1.5% in February. While housing starts also increased 1.1% in February, new home sales continued a three-month declining trend and dropped another 2.0%. Existing home sales also decreased 0.4% in February, the first decrease in five months. Average 30-year mortgage rates steadily increased from 6.79% in January to 6.81% in February to 7.04% in March.

The **inflation** rate, based on the change of the consumer price index, edged up 0.1% in February, maintaining the same rate since December. For the first two months of 1999, seasonally-adjusted inflation

increased 1.1%. Consumer prices increased 1.6% for all of 1998. The producer price index fell 0.4% in February, almost canceling out a 0.5% increase in January, the biggest one-month jump since October 1996. The core producer price index, which excludes the volatile food and energy sectors, remained unchanged in February.

Economic growth continued through the first quarter of 1999, extending this boom into a ninth year – the longest growth cycle on record. While unemployment remained at its lowest level in almost three decades, inflation remained low, due in part to inexpensive foreign goods. As income continued to rise, consumers chose to maintain high spending and low savings. Strong housing starts and healthy residential construction spending outweighed the dip in home sales to extend the construction sector boom. The manufacturing sector returned to a trend of weak demand in factory orders after a short spurt of gains. The global economic crisis continued to swell a record-high trade deficit.

## Colorado Economy

Colorado's economy maintained a healthy growth path through February. While inflation remained low, the unemployment rate fell to 2.7%, a record low since the Colorado Department of Labor and Employment started recording the rate. New residential units under construction are still increasing, with a potential recovery in the construction of apartment buildings underway. Nonresidential construction declined 12.6% through February compared to the same time period a year ago.

Large job gains and losses were announced in March, indicating significant churning in Colorado's labor market. Explosives manufacturer Orica Inc. will hire 120 people to staff a new complex on the former Lowry Bombing Range; Kodak will net an increase of 15 employees as a result of its new production line for motion picture film. Other job gains include the newly created City and County of Broomfield, which expects to hire 100 people; the Caribou Mine near Nederland, which should eventually employ 50 people; StarTek, a company that provides value-added services to businesses, will eventually employ 500 people to staff a

### Employment

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***"The seasonally adjusted unemployment rate hit a record low at 2.7% in February . . ."***

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Colorado's nonfarm employment increased 3.3% though February 1999 compared with the same period in 1998. The seasonally adjusted unemployment rate hit a record low at 2.7% in February, down from 3.1% in January and well below February's national unemployment rate of 4.4%.

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### Colorado's Economy at a Glance

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

new facility in Grand Junction, and Cosmair Beauty Products Inc., which will hire 80 people to staff a new distribution center near Denver International Airport. In addition, U.S. West plans to hire 150 people through 2005 after its relocation to two Lakewood buildings.

Job losses were concentrated in the advanced technology sector. Lockheed Martin Astronautics will lay off 1,200 people from its facility in Jefferson County, and Medtronic Inc., a high-technology surgery equipment manufacturer in Parker, will relocate 280 employees out of state. MediaOne was purchased, causing a loss of 1,700 jobs nationwide and an unknown number of job losses in Colorado. Foundation Health Systems will lay off nearly 600 people when it closes its QualMed Service Center in Pueblo. The Colorado Springs District 11 school district will eliminate 103 positions in an effort to cut its budget. Finally, Oxbow Mining temporarily laid off 101 people at the Sanborn Creek coal mine in Gunnison county.

According to an analysis by the U.S. Bureau of Economic Analysis, Colorado's payrolls rely more on the transportation and utilities sector than any other state except Alaska, with 10% of personal earnings paid in the state. Other industrial sectors in which Colorado ranks high among other states include construction (10<sup>th</sup>), with 7.6% of all personal earnings in the state; finance and real estate (12<sup>th</sup>), with 8.1% of personal earnings; mining (12<sup>th</sup>), with 1.8% of personal earnings; and services (14<sup>th</sup>), with 32.4% of personal earnings.

## Residential Construction

The residential real estate market in Colorado remains robust. According to Perry and Butler Realty, Inc., the average resale price of a single-family home in metro Denver declined 2.8% to \$195,378 in March from its record high of \$201,134 in February, but was still 9.6% higher than in February 1998. The year-to-date average sales price of a metro-Denver home increased 9.0% through February compared with the same time a year ago. Furthermore, the number of metro-Denver properties closed in March increased 8.3% over March 1998. Meanwhile, according to the Pikes Peak Association of Realtors, the average resale price of a single-family home in the Pikes Peak region was \$147,877 in February, up 8.8% since a year earlier, while sales of existing homes in the Pikes Peak region grew 14.8% in February over February 1998.

The number of residential units under construction in Colorado decreased 16.3% through February compared to the same time a year ago, according to F.W. Dodge. While the number of single-family homes and dual-family homes under construction increased 9.5% and 60.0%, respectively, the number of apartment units under construction declined 71.3%, causing an overall decline in the number of residential units under construction.

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Although the construction of apartment buildings has been declining since June 1998, a report by Apartment Appraisers & Consultants in Denver indicates that a recovery may be imminent in this market. While 4,400 units were built in 1998, they expect between 7,500 and 8,000 units to be built in 1999, and a total of 12,800 in the next few years.

## Nonresidential Construction

According to F. W. Dodge, the value of nonresidential construction declined 12.6% through February compared to the same time a year ago. Major sectors that experienced a decline include the commercial sector (down 45.5%), the manufacturing sector (down 25.1%), and the public buildings sector (down 92.2%). Major sectors that experienced an increase include the education and science sector (up 72.2%), the hospital and health treatment sector (up 14.7%), and the dormitories, religious, and amusement sectors.

Ross Research Services reported that the metro-Denver vacancy rate for *office* buildings fell to 7.7% at year-end 1998, down from 9.1% at year-end 1997. New construction totaled 1.3 million square-feet, of which 1.04 million occurred within the southeast suburban market. Lease rates continued to increase, with the fastest growth in downtown Denver and slower growth rates in suburban markets. The *industrial* vacancy rate increased to 6.9% at year-end 1998, up from 6.6% in 1997. The higher vacancy rate is primarily due to the record 4.3 million square feet of new construction in 1998, 34% more than in 1997. The *retail* vacancy rate declined slightly from 6.2% in 1997 to 6.0% at year-end 1998.

Meanwhile, new construction in Boulder County surged while vacancy rates remained very low. New construction in the office, industrial, and retail sectors totaled 3.9 million square feet and was located primarily along the U.S. 36 corridor. The office vacancy rate fell to 4.1% in 1998 compared to 4.5% in 1997, the retail vacancy rate fell to 2.4% compared to 3.4% in 1997, and the industrial vacancy rate increased to 6.3% compared to 5.4% in 1997.

Orica Inc., an explosives manufacturer for the mining and construction industries, announced plans to build a 463-acre, \$15 million office complex on the former Lowry bombing range northeast of Aurora Reservoir. Orica, with a current Denver workforce of 80 people, plans to eventually employ 200 people in Denver.

Plans were announced to build two office buildings in the Lowry Business Park, located on the former Lowry Air Force Base. Copic Cos., a health-care service company, announced plans to build a 100,000-square-foot headquarters building that will allow Copic to consolidate its 150 employees by the first quarter of 2000. Nearby, construction began in late March on a 140,000-square-foot speculative office building.

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***"The remaining 10-mile portion of E-470 linking Smoky Hill Road and 56<sup>th</sup> Avenue will open two months ahead of schedule, on May 3."***

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Software firm J.D. Edwards announced plans to build a 450,000-square-foot, 22-story office building on its Denver Technological Center campus. The \$75 million tower is expected to be completed in 2002, and will house 1,700 of the company's current employees.

The remaining 10-mile portion of E-470 linking Smoky Hill Road and 56<sup>th</sup> Avenue will open two months ahead of schedule, on May 3. The toll road already ran from I-25 south of Denver to Smoky Hill Road, and from East 120<sup>th</sup> Avenue to East 56<sup>th</sup> Avenue. The remaining portion of E-470 between East 120<sup>th</sup> and I-25 north of Denver is expected to be completed in 2002.

## **Advanced Technology**

Lockheed Martin Astronautics will sell its Deer Creek Canyon headquarters and lay off 1,200 people by

November, primarily from its Waterton Canyon facility in Jefferson County. The rocket and space technology system developer currently employs 7,100 in metro-Denver. With about 30% of the layoffs expected to occur among management, Lockheed claims the restructuring is required to meet competitive pressures.

High-technology surgery equipment manufacturer Medtronic, Inc. announced plans to close part of its Parker plant and, over the next two years, relocate most of its 280 employees to Washington state.

Canadian-based Information Technology Institute (ITI) announced plans to open its United States headquarters and a campus offering an intensive information technology postgraduate training course in downtown Denver. The new institute is expected to help ease the shortage of labor in the information technology field.

## **Biotechnology**

Denver-based biotechnology firm Molecular Innovations was awarded a \$650,000 Department of Defense contract to develop a test to detect *Yersinia pestis* (bubonic plague) on the battlefield. The company hopes to develop tests for the detection of 12 different germ warfare pathogens within the next two years.

## **Exports**

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***"Exports to Canada grew 8.7%, eclipsing Japan as Colorado's top export market."***

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According to the Colorado International Trade Office, nonagricultural exports from Colorado to the rest of the world increased 3.4% in 1998. Exports to Canada grew 8.7%, eclipsing Japan as Colorado's top export market. While Colorado's exports to all of Asia increased 3.3%, exports to Japan fell 17.5%. Furthermore, exports from Colorado to Brazil, which was also affected by the Asian economic crisis, fell 19.0%. Exports to Brazil comprised only 0.8 percent of all exports from Colorado. Finally, exports from Colorado to Western Europe increased 3.2%. Nonagricultural exports from the United States to the rest of the world decreased 0.3 percent in 1998.

## Agriculture

The number of cattle and calves on feed for the slaughter market in Colorado as of March 1, 1999, was 10% higher than a year earlier, but down 0.9% from the record high of 1,140,000 head as of February 1, 1999. Meanwhile, although calf prices as of March 15, 1999, were 5.1% higher than mid-February prices, they were still 6.4% lower than mid-March 1998 prices. Steer and heifer prices increased 4.0% over mid-February and 4.2% over mid-March 1998. Finally, while still 2.7% lower than mid-March 1998 levels, cow prices increased 2.3% over mid-February levels.

Wheat, corn, and dry bean prices continue to fall in March, while potato prices increased slightly. Mid-March wheat and corn prices were 7.9% and 4.0% below mid-February levels, respectively. Compared to a year earlier, mid-March wheat and corn prices were 24.6% and 27.1% lower, respectively.

## Gaming

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***"The state's gaming towns reported total adjusted gross proceeds of \$42.5 million in February, up 18.4% over February 1998."***

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The state's gaming towns reported total adjusted gross proceeds of \$42.5 million in February, up 18.4% over February 1998. Black Hawk reported \$27.1 million, Cripple Creek \$9.1 million, and Central City \$6.2 million. Furthermore, total adjusted gross proceeds for the first eight months of FY 1998-99 grew 14.4% compared to the first eight months of FY 1997-98.

## Retail Trade

Statewide retail trade sales grew 6.6% in 1998 compared to 1997, and 7.6% in metro-Denver. The highest growth rates occurred in the building materials and general merchandise sectors.

## Tourism

According to Colorado Ski Country USA, skier visits to Colorado ski resorts declined 5.5% through February compared to the same period a year ago.

Although down statewide, visits to destination resorts such as Vail and Steamboat Springs declined more than visits to resorts closer to the Front Range, such as Breckenridge and Winter Park. Due to more consistent snowfall in the southern portion of the state, skier visits to Telluride increased 5.0%.

## Mining

Oxbow Mining Co. temporarily laid off 101 workers from the Sanborn Creek Mine in Somerset. A fire rendered the coal mine inoperable on January 26. Oxbow will retain 70 workers to repair the mine's ventilation system. The laid-off workers are expected to be back to work in late April.

Plans were announced, pending approval by Boulder County Commissioners, to reopen the old Caribou mine near Nederland to mine gold. Expected to open in approximately five years, the mine will eventually employ 50 people.

## Metropolitan Denver

The City and County of Broomfield expects to hire 100 people to staff, among other things, a new library and a new \$10.5 million, 72-bed jail. A location has not been decided upon for either building. Formation of the new local city and county was approved by the state's voters in November 1998. The city and county will begin operations on November 15, 2001.

The Douglas County Board of Education approved \$14 million of projects including a new elementary school to be built in 2001, the renovation of a stadium in Castle Rock, construction of a stadium in Highlands Ranch, and technology upgrades. The projects will be funded with \$2.8 million from the Douglas County Trust Fund, \$3.2 million from Coca-Cola, and the remainder from the sale and interest earnings of bonds.

Cosmair Beauty Products Inc. announced plans to build a \$10 million, 280,000-square-foot distribution center near Denver International Airport. Cosmair expects to hire 80 people to staff the building.

Cable company Comcast Corp. announced plans to purchase MediaOne Group, causing the loss of 1,700 jobs nationwide and the loss of a yet unknown number of jobs in metro Denver. Although the company's

headquarters will be relocated out of state, the company's offices in Arapahoe County, where 1,000 people currently work, will remain open.

U.S. West Inc. will relocate 850 of its current employees to two buildings in Lakewood, where they hope to eventually hire an additional 150 people by 2005.

## Northern Region

Kodak will lay off 85 people by June from its Windsor plant's manufacturing administrative staff and hire 100 people to staff its new production line for motion picture film. Kodak currently employs 2,100 people at its Windsor plant in Weld County.

## Western and Mountain Region

The Grand Junction City Council endorsed a \$2 million bond issue. Proceeds will be used to expand and renovate the Two Rivers Convention Center, build a multi-level parking structure downtown, renovate the building which houses the Dinosaur Valley Museum, improve Seventh Street and Colorado Avenue, develop Las Colonias Park, restore the Avalon Theater, develop a 60- to 70-room hotel, and upgrade lighting and power downtown.

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***"StarTek, Inc. will open a 46,000-square-foot call center in Grand Junction in April, and expects to eventually hire 500 new employees to staff the center."***

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Construction began on an outpatient surgery center at St. Mary's Hospital in Grand Junction. The 32,865-square-foot, \$7.6 million building is expected to be completed this fall.

StarTek, Inc. will open a 46,000-square-foot call center in Grand Junction in April, and expects to eventually hire 500 new employees to staff the center. StarTek, Inc. is an international provider of integrated, value-added outsourced services.

Vail Resorts Inc. announced plans for further development at the base of Peaks 7 and 8 of the Breckenridge Ski Resort. Plans include an 18,000-

square-foot conference center, a movie theater, 58,000 square feet of retail and restaurant space, a gondola from the town, and 850 residential units. The project requires the approval from the Town of Breckenridge, Summit County, the U.S. Environmental Protection Agency, the Corps of Engineers, and the U.S. Forest Service.

## Southern Region

According to the Pueblo Economic Development Corp., 770 new jobs were created in Pueblo in 1998. Furthermore, housing starts in Pueblo grew 7% through March compared with the same time period a year ago, according to the Pueblo Regional Building Department. F.W. Dodge reported that housing permits in Pueblo County grew 8.5% through February compared to the same time period last year, from 82 housing permits through February 1998 to 89 housing permits through February 1999. However, nonresidential construction in Pueblo County declined 66.5% through February compared to the same time last year.

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***"Foundation Health Systems announced plans to sell its QualMed subsidiary and close its service center in Pueblo, laying off 589 people by the end of the year."***

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Foundation Health Systems announced plans to sell its QualMed subsidiary and close its service center in Pueblo, laying off 589 people by the end of the year. QualMed was founded in 1985, while the service center opened in 1995.

Construction will begin in April on "The Business Center at Northgate", a seven-building, 360,000-square-foot, \$30 million office complex in north Colorado Springs. The office park is expected to be completed in five years. Construction began nearby on the \$11.4 million privately funded Interstate 25 interchange at InterQuest Parkway (Stout Allen Road). The interchange is expected to be completed in 2002.

The Colorado Springs District 11 school district will eliminate 43 teaching positions and 60 non-teaching positions in an effort to cut its budget by \$4.8 million. The teaching positions will be eliminated through attrition.

**Colorado Indicators  
Year-to-Date Growth Rates**

Indicator	February 1999	1998 Annual Average	1997 Annual Average
Nonfarm Employment * Growth	3.3%	3.6%	4.2%
Unemployment Rate ∇ * (Seasonally adjusted)	2.7	3.8	3.3
Housing Permit Growth §	-16.3	-0.5	-0.5
Single-Family	9.5	26.6	4.7
Apartments	-71.3	-42.5	-13.6
Growth in Value of Nonresidential Construction §			
Retail	-12.6	-22.0	22.3
Offices	-40.6	-15.3	-11.7
Factories	-64.4	9.5	43.6
Factories	-60.9	-70.5	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 2.4% in 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 February 1999)	2.9	§ 3.3	§ 2.7	§ 3.4	4.6	5.0	4.4	-0.5	3.2	5.2	§ 2.5	0.5	-0.3	0.3
Unemployment Rate ⊗ ◆ (not seasonally adjusted) (in February 1999)	5.6	2.4	3.1	2.3	3.8	3.1	4.1	3.5	2.9	6.0	4.8	1.7	2.0	3.3
Retail Trade Sales Growth ∇ (through December 1998)	3.4	4.7	6.3	7.6	12.5	6.4	6.7	6.8	-2.6	5.8	5.6	6.2	8.7	-3.1
Housing Permit Growth * (through February 1999)	75.0	-19.9	3.7	-25.8	♠	-3.3	12.1	6.3	25.0	-5.7	-2.8	93.6	-18-2	10.0
Growth in Value of Non-residential Construction * (through February 1999)	Ψ	-39.0	6.0	-15.7	■	-81.4	-38.8	♣	Ψ	Ψ	-66.5	-4.0	Ψ	❖

§ Nonfarm Employment Growth.

⊗ Actual level not growth rate.

◆ Colorado Department of Labor and Employment data.

\* F.W. Dodge data.

∇ Colorado Department of Revenue data.

♠ 73 units were permitted through February 1999, while 24 units were permitted through February 1998.

Ψ Nothing was contracted through February 1999 nor through February 1998.

■ \$5.4 million was contracted through February 1999, while \$2.1 million was permitted through February 1998.

♣ \$26.9 million was contracted through February 1999, while \$1.3 million was contracted through February 1998.

❖ Nothing was contracted through February 1999, while \$2.3 million was contracted through February 1998.