



Colorado Economic Chronicle

A Research Newsletter

Legislative Council
Denver, Colorado

Nancy J. McCallin
Chief Economist

Michael R. Mauer
Economist

Julie Hart
Economist

July 2, 1998

National Economy

Growth in the U.S. economy continued on a faster-than-expected pace during the first quarter of 1998. Inflation-adjusted **gross domestic product** (GDP) for the first quarter grew at a revised 5.4% annual rate. Increased business investment in new equipment, higher consumer purchases, and a buildup in inventories caused the upward revision. Consumer spending for the first quarter of 1998 increased at a robust 6.1% annual pace, the strongest rate in six years. However, not all GDP news was positive. A decline in government spending, a decrease in commercial construction, and a further deterioration of the trade balance negatively impacted GDP growth. The U.S. trade deficit increased 9.5% in April to a record \$14.5 billion. Meanwhile, increased inventories in the first quarter will cause weaker future GDP growth as future inventory investment tapers off.

“Inflation-adjusted gross domestic product (GDP) for the first quarter grew at a revised 5.4% annual rate. Increased business investment in new equipment, higher consumer purchases, and a buildup in inventories caused the upward revision.”

Continued growth in the labor market and personal income bolstered growth in **consumer** spending. Consumer spending increased 0.6% in May. For the second consecutive month, the unemployment rate remained at a 28-year low of 4.3% in May. Overall, non-farm payroll jobs increased 296,000 in May, with the largest gains in retail sales and services. Monthly job gains for the first five months of 1998 averaged

244,600, down 14.1% from the average monthly job gain of 284,800 for the first five months of 1997. The manufacturing sector cut 26,000 jobs in May, which may be attributed to Asia's economic problems. After-tax personal income increased 0.5% in May. However, spending increased at a faster pace, causing a decrease in the national savings rate. The May savings rate fell to 3.5%, a ten-month low. The Conference Board reported that consumer confidence remained strong in June, increasing to a 29-year high.

The **manufacturing** sector reported mixed news in May. Industrial production increased 0.5% in May. Factory orders rose 1.2% in April, the largest increase in five months. However, orders for durable goods (goods that last more than 3 years) decreased 2.6% in May after posting a slight increase in April. Finally, the Labor Department reported an annual rate of productivity growth of 1.1% for the first quarter of 1998, much higher than the previous estimate of 0.2%. Productivity gains are important because they allow the economy to expand without inflationary risks.

The **construction** sector posted generally positive results in May. *New* home sales reached a record high in May and the median price of a new home increased to \$149,900, 6.3% higher than in May 1997. *Existing* home sales increased 1.0% from April's level, and the median price of an existing home reached \$162,400. Meanwhile, housing starts decreased in May for the third consecutive month. However, for the first five months of 1998, housing starts are still 6.4% higher than through the first five months in 1997.

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

Inflation has been mild during the first five months of 1998, increasing at a 1.5% annual rate. However, consumer prices rose 0.3% in May, the largest gain in 17 months, fueled by increases in tobacco, lettuce, gasoline, and prescription drugs. Wholesale prices posted an increase of 0.2% in May, primarily because of increases in the price of prescription drugs and energy costs.

“Inflation has been mild during the first five months of 1998, increasing at a 1.5% annual rate. However, consumer prices rose 0.3% in May.”

The national economy maintained its robust growth with mild inflation in the first half of 1998. GDP grew at a faster-than-expected pace during the first quarter of 1998, and inflation remained under 2%. Employment increased robustly in May, led by gains in the retail and services sectors. However, manufacturing employment was weak. The housing and construction sectors were positive, but the manufacturing sector posted mixed results in May. The problems existing in overseas economies are the primary risk to future growth in the U.S. economy, but are also the likely factors keeping price pressures low and allowing our economy to sustain its growth path.

Colorado Economy

Economic activity in Colorado remained robust through the first half of 1998. The unemployment rate is extremely low, indicating that most people who want a job have one, and the employment outlook remains positive. While nonresidential construction has slowed this year, residential construction remains buoyant and nonresidential activity is still at high levels with many new projects in the planning stages.

Employment

Nonagricultural employment in Colorado increased 3.8% through the first five months of 1998, compared with the same period in 1997. This strong growth follows a 4.0% increase for all of 1997. The state’s unemployment rate fell from a revised 3.4% in April to 3.2% in May. Colorado’s unemployment rate now stands 1.1 percentage points below the national rate, which is at a 28-year low.

Two major job losses were reported during June. Citibank will eliminate 800 positions in Englewood as the result of a consolidation in its credit card division, and Samsonite, a Denver luggage manufacturer, dismissed 211 workers this year and will offer early retirement incentives to additional employees. On the positive side, American Soda will build a new mine and processing plant in Rio Blanco and Garfield counties that will employ 140 workers, and Frontier Airlines will hire an additional 100 workers for ramp services. Some of these positions will be lost at the current contractor who provides these services to Frontier, however.

Residential Construction

The number of existing home sales in metro-Denver increased 14.6% through June 1998, according to data on properties closed from Perry & Butler Realty, Inc. The average price of a single-family home increased 8.7% during the same period to \$180,557. The average price of a condominium increased even more dramatically, climbing 18.4% to \$116,097 during the period.

The number of residential construction permits increased 13.5% through the first five months of 1998, compared with the same period in 1997, according to F.W. Dodge. The construction of apartment buildings jumped 24.6%, and single-family home construction climbed 10.4%. Meanwhile, the *value* of residential construction soared 21.4% during the same period.

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	-	Neutral
Colorado Inflation Rate	-	Good
Overall Rating	-	Good

Denver fell from the 6th most affordable housing market in 1997 to 20th in mid-1998, according to a survey of 75 major housing markets conducted by E&Y Kenneth Leventhal Real Estate Group. The study reported that it takes 20.9% of household income to buy a home in Denver, compared with 17.4% of household income required in the most affordable market, Oklahoma City. The most expensive city in which to buy a home is New York, which requires 43.5% of household income for home ownership.

“Denver fell from the 6th most affordable housing market in 1997 to 20th in mid-1998 . . .”

Two new residential developments were announced last month. First, the Hampden Town Center, a 47-acre project in Aurora just west of Denver’s Kennedy Municipal Golf Course, will be developed into a new residential community. The \$125 million project will include 1,200 high-end rental units, a supermarket-anchored retail center, and office space.

Second, Wonderland Homes will redevelop the former site of Elitch Gardens Amusement Park in northwest Denver. The builder will erect 40 single-family homes and eight townhomes in the first phase of construction, with the first homes to be sold in summer 1999. The \$40 million project will also include a 60-unit senior housing center as well as small retail and office buildings on its 30 acres. Contrary to more recent residential projects which have been built in the suburbs, both of these projects are closer to the core city.

Nonresidential Construction

The value of nonresidential construction declined 31.4% through May, with broad-based weakness among almost every sector of the market. The largest declines were in the manufacturing and public buildings sectors, according to F.W. Dodge. The retail and office construction sectors showed smaller declines of 13.2% and 2.0% respectively.

Demolition of the Northglenn Mall began in June. The site will be redeveloped into a 650,000-square-foot outdoor shopping mall with free-standing stores anchored by the existing Mervyn’s California store. The \$50 million project will also include a 131,000-

square-foot Eagle Hardware store, a Radio Shack, a 16-screen movie complex, a sporting goods store, and numerous restaurants and variety stores.

Westin Hotels received approval from the Denver City Council’s Airport Committee to build an \$87 million, 500-room hotel southeast of the main terminal at Denver International Airport. The hotel is expected to employ 300 workers initially, and could expand to 1,000 rooms if there is demand.

“Westin Hotels received approval from the Denver City Council’s Airport Committee to build an \$87 million, 500-room hotel southeast of the main terminal at Denver International Airport.”

Sage Hospitality Resources will build eight extended-stay hotels along the front range. Each hotel, called TownePlace Suites by Marriott, will accommodate travelers who anticipate spending more than the average amount of time in their hotels. The suites will include sitting rooms and full kitchens. The total cost of the hotels will be \$62 million, and they will be built in Denver, Boulder, Colorado Springs, and Longmont.

Two sections of the E-470 toll road opened July 1, and will be toll-free for one month. The toll road already ran from I-25 south of Denver to Parker Road. The first new section extends the tollway from Parker Road to Smoky Hill Road. The other new section runs from East 56th Avenue to East 120th Avenue. In approximately one year, these two sections of the road will be connected to each other.

A \$23 million speculative industrial project is planned for the Centennial Airport Center in Arapahoe County. The buildings will range in size from 18,000 to 48,000 square feet and will be sold directly to end users rather than leased as is usually the case. The 21.4-acre development will include a total of 275,000 square feet of industrial space.

Manufacturing

Samsonite Corp., a Denver luggage manufacturer, recently fired 62 workers and has laid off 211 workers this year. Samsonite has 805 workers remaining in its Denver plant, but will offer early retirement options to workers in order to further reduce its work force.

Education

The University of Colorado announced a plan to raise and spend an additional \$2 billion during the next seven years. The proposal includes \$150 million in technology upgrades and \$120 million for additional faculty salaries in order to allow the university to attract and keep the highest quality professors. The plan also includes \$1.1 billion in one-time capital expenditures. The university anticipates having over 50,000 students in its system by 2005, versus 45,000 today.

“The University of Colorado announced a plan to raise and spend an additional \$2 billion during the next seven years.”

Transportation

A study completed for the Colorado Department of Transportation by Smith Associates estimates the economic impact of commercial airport services in Colorado at \$13.7 billion. In addition, the study estimates that 238,034 jobs are created by the industry, or 10.8% of the state’s work force. Of the \$13.7 billion, approximately \$4.5 billion is spent on wages for those employed by the industry. According to the study, commercial aviation in Colorado accounts for 6.5% of the state’s gross state product. Denver International Airport accounts for \$8.85 billion of the impact and 148,786 of the jobs, while the Colorado Springs Airport creates \$3.22 billion of economic impact and employs 56,864 Coloradans. Meanwhile, concession income at Denver International Airport increased by 17% in 1997, helping to bolster operating income at the airport by 6.6%. Parking revenues were also very strong in 1997.

“United Airlines plans to expand from its current level of 305 flights per day at Denver International Airport (DIA) to 400 flights per day in 2002.”

United Airlines plans to expand from its current level of 305 flights per day at Denver International Airport (DIA) to 400 flights per day in 2002. In order to accommodate these flights, the airline may add up to 12 gates to its concourse at the airport. United currently has 45 gates at DIA. The construction,

which could start as soon as 2000, would cost between \$50 million and \$100 million. United also has 219 daily commuter flights at DIA run by Air Wisconsin and Great Lakes Aviation.

Frontier Airlines will hire 100 new employees at Denver International Airport and take over its own baggage handling and other ramp services beginning in September. Currently, the airline uses outside sources for those services; therefore, some jobs at the contracting company may be lost by the switch. As of June, Frontier employed 735 workers in Denver.

Mining

American Soda submitted plans to the U.S. Bureau of Land Management (BLM) to build a \$400 million soda ash mining, transportation, and processing plant near Parachute in Garfield County. The plant would process nahcolite, also known as baking soda. The mineral would be transported by a 44-mile underground pipeline from a 2,000-acre mining area on federal land managed by the BLM in Rio Blanco County. The nahcolite would be processed at the plant into soda ash, which is used in glass manufacturing. The mine would originally produce 1 million tons of soda ash and sodium bicarbonate per year and could expand to as much as 1.7 million tons in the future, employing 140 workers. Mining could begin as soon as 2001, if an environmental review is passed.

“American Soda submitted plans to the U.S. Bureau of Land Management (BLM) to build a \$400 million soda ash mining, transportation, and processing plant near Parachute in Garfield County.”

The Cripple Creek and Victor Gold Mining Company will increase its gold mining capacity from 35 million tons to 50 million tons of ore if government approval is given. The gold mine, which extracts microscopic gold pieces by applying cyanide to ore, would remain open through 2008 under the new plan.

Tourism

In 1997, tourists visiting Colorado spent \$7.1 billion at tourism-related businesses such as hotels and restaurants in the state, according to a study by Longwoods International. The study estimates that

the industry supported 112,000 jobs with \$1.5 billion in salaries in 1997 and created \$388 million in state and local tax revenue. Most of the benefit was enjoyed by the state's mountain resorts and the Denver area, with \$2.6 billion and \$2.1 billion of tourism spending, respectively.

Colorado Ski Country USA reports that skier visits to Colorado resorts increased 1.4% during the 1997-98 ski season to a record of just over 12 million visits. One ticket sold or given away for any part of a day represents one skier visit. The strongest growth in skier visits occurred at resorts that cater to one-day visits from Colorado residents. Skiers from Colorado's front range increased their visits by 8% during the season. Accordingly, Powderhorn, Telluride, and Ski Cooper led the state with over 20% growth in visits, while Eldora increased 16.0% and Silver Creek jumped 12.6%. Vail, the state's busiest resort, experienced a 5.3% decline in visits.

“Colorado Ski Country USA reports that skier visits to Colorado resorts increased 1.4% during the 1997-98 ski season to a record of just over 12 million visits.”

Seven ski industry companies announced plans to collaborate on a \$57 million advertising plan that would begin in 1999 and would last three years. The companies hope to market to a new generation of potential skiers and snowboarders.

Rocky Mountain National Park will spend \$5.5 million on maintenance and repairs over summer. The money will be spent to repair campgrounds, restrooms, and trails that have deteriorated from normal use. The park has a maintenance backlog of \$74 million, but under a federal program instituted in 1997 the park now gets 80% of its entrance and camping fees for repairs.

Agriculture

Colorado had 3% fewer cattle and calves on feed for the slaughter market on June 1, 1998, than one year earlier. Meanwhile, red meat production in the state declined 8% during the first five months of 1998, compared with the same period in 1997. The decline in production was partially related to falling prices for livestock products. The price of beef cattle in

Colorado declined 2.4% during the last year, while the price of cows dropped 9.4% during the same period.

Denver-Metro Region

Residential construction in the five-county Denver-metro region increased 27.6% through May 1998, compared with the same period in 1997, according to F.W. Dodge. Explosive growth in the construction of apartments and multi-family projects led the construction gains. Nonresidential construction, meanwhile, declined 37.2% during the same period. The manufacturing, education and science, and public buildings sectors led the declines.

Boulder County experienced an 11.9% decline in residential construction through May, according to F.W. Dodge. Significant declines in the construction of apartments outweighed gains in both multi-family and single-family home construction. In fact, the Genesis Group reported that sales of new homes in Boulder County increased 87% during the first quarter of 1998, compared with the first quarter of 1997. Nonresidential construction in Boulder experienced large declines during the period, falling 24.3%.

“Citibank announced that its Diners Club credit card operations in Englewood will be closed within a year, eliminating 800 positions.”

Citibank announced that its Diners Club credit card operations in **Englewood** will be closed within a year, eliminating 800 positions. The workers will have a choice between a severance package or applying for relocation, primarily to Jacksonville, Florida.

King Soopers will anchor a 100,000-square-foot retail center in **Golden** called the Golden Town Center. The project will cost \$14 million to complete. Safeway, Golden's only other major grocery store, is undergoing a 10,500-square-foot expansion to prepare for the new competition.

Ultramar Diamond Shamrock announced nationwide cutbacks during June that will impact the company's Colorado Retail Division in Denver and will result in some store closures. The specific impact on Colorado has yet to be determined, but the company

currently operates 120 Diamond Shamrock and 100 Total gasoline and convenience stores in the state. Meanwhile, Levitz Furniture Corp. will close its three Colorado furniture outlets which are located in Lakewood, Denver, and Colorado Springs. The stores will begin liquidating merchandise in July. The first 20 custom home lots at the former Lowry Air Force Base in Denver were offered for sale to the public in June. The lots cost between \$90,000 and \$139,000 each. In addition, 36 lots were sold directly to approved builders. Lowry will also see construction of a \$30 million to \$50 million speculative office complex. The 350,000-square-foot complex will encompass 22 acres at the northeast corner of Quebec Street and Lowry Boulevard.

Northern Region

Residential construction in **Larimer County** declined 16.3% through May 1998, according to F.W. Dodge. While single-family and multi-family home construction increased, large declines in the construction of apartment buildings led to the overall decline in the industry. Nonresidential construction in Larimer County increased by 11.7%, however, as strong growth in the construction of commercial and public buildings outweighed declines in manufacturing and hospitals. Larimer County is one of the few areas of the state experiencing growth in nonresidential building.

“Larimer County is one of the few areas of the state experiencing growth in nonresidential building.”

Weld County experienced strong gains in residential construction through May 1998, according to F.W. Dodge. Single-family home construction increased 68.6% during the period. Nonresidential construction declined dramatically, however, as the construction of manufacturing facilities and public buildings was reduced.

Applied Films Corp., a film-coated glass maker, will move its 300 local workers from Boulder to **Del Camino** in Weld County near the end of the year. The company’s glass is used in flat-panel and liquid-crystal displays. The new facility is a 127,000-square-foot plant that will allow the company to consolidate its operations.

Southern Region

Residential and nonresidential construction in **El Paso County** increased during the first five months of 1998, when compared with the same period in 1997. Residential construction jumped 15.3% during the period, and nonresidential construction rose 8.0% with broad-based increases, according to F.W. Dodge.

Colorado Indicators
Year-to-Date Growth Rates

Indicator	May 1998	April 1998	1997 Annual Average
Nonfarm Employment * Growth	3.8%	4.0%	4.0%
Unemployment Rate Ñ * (Seasonally adjusted)	3.2	3.4	3.3
Housing Permit Growth §	13.5	19.2	-0.5
Single-Family	10.4	10.5	4.7
Apartments	24.6	60.6	-13.6
Growth in Value of Nonresidential Construction §	-31.4	-32.5	22.3
Retail	-13.2	-29.7	-11.7
Offices	-2.0	-3.2	43.6
Factories	-71.3	-68.7	20.2

Ñ 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 3.3% in 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 May 1998)	7.6	§ 4.6	§ 1.7	§ 3.6	8.9	6.1	5.8	6.4	7.7	6.3	§ 2.6	5.4	1.9	1.9
Unemployment Rate ¨ ♦ (not seasonally adjusted) (in May 1998)	5.5	2.7	3.7	2.6	4.2	3.0	4.0	3.6	2.9	5.3	6.5	6.3	6.1	5.3
Retail Trade Sales Growth Ñ (through March 1998)	11.8	6.4	6.6	9.4	12.5	7.7	3.9	13.0	0.7	6.3	7.9	3.2	12.5	-1.7
Housing Permit Growth * (through May 1998)	.	-12	15	28	-38	-16	24	69	30	-2	10	19	-62	16
Growth in Value of Non-residential Construction * (through May 1998)	@	-24	8	-37	-70	12	46	-39	§	-20	-60	-51	7	-97

§ Nonfarm Employment Growth.

¨ Actual level not growth rate.

♦ Colorado Department of Labor and Employment data.

* F.W. Dodge data.

Ñ Colorado Department of Revenue data.

.

\$11.6 million was contracted through May 1998, while \$314,000 was contracted through the same period in 1997.

@ 28 units were permitted through May 1998, while 5 were permitted through the same period in 1997.

§ \$3.5 million was contracted through May 1998, while \$700,000 was contracted through the same period in 1997.

