



Colorado Economic Chronicle

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National Economy

The national economy posted surprisingly strong growth in the third quarter. Inflation-adjusted gross domestic product (GDP) increased 7.2%, the fastest growth rate since 1984. Aided by federal tax cuts and still-low interest rates, consumer spending rose at a 6.6% annualized pace. Business investment surged to an 11.1% gain and has increased in three of the past four quarters, following two years of declines. Meanwhile, residential investment posted a 20.4% increase. Aided by a weak dollar, exports increased 9.3%. The strong growth in output indicates that the economy is clearly on the rebound. While this growth rate is not sustainable, the economy will likely show very healthy gains in upcoming quarters.

“Employment news is increasingly positive.”

Employment news is increasingly positive. The strong growth in economic output during the third quarter led to increased hiring. Revisions of employment data led to a switch from a reported job loss in August to a gain of 35,000 jobs and September's preliminary reported gain was more than doubled to 125,000 jobs. The nation's employment increased by 126,000 in October. Meanwhile, the unemployment rate declined from 6.1% to 6.0%. Initial claims for unemployment insurance dropped below 400,000 in October. Initial claims took a large drop to 353,000 in the week ending November 1, the lowest level since January 2001. Although claims for the following week rose to 366,000, a downward trend is

clearly taking shape. Finally, the strong growth in the economy in the third quarter and ongoing positive economic news will likely lead to more bullish employment news during the upcoming months.

Personal income increased 0.3% in September and is 3.2% ahead of a year ago. Disposable income fell 1% in September, however. The decline was attributed to the end of tax rebate checks in the previous month. Consequently, *consumer spending* fell 0.3%, following gains of 1% or more in July and August. The University of Michigan Consumer Sentiment Index rose nearly 2 points in October. Consumers were more optimistic about both present and future economic conditions. The index of consumer confidence has been in a narrow range for the past six months.

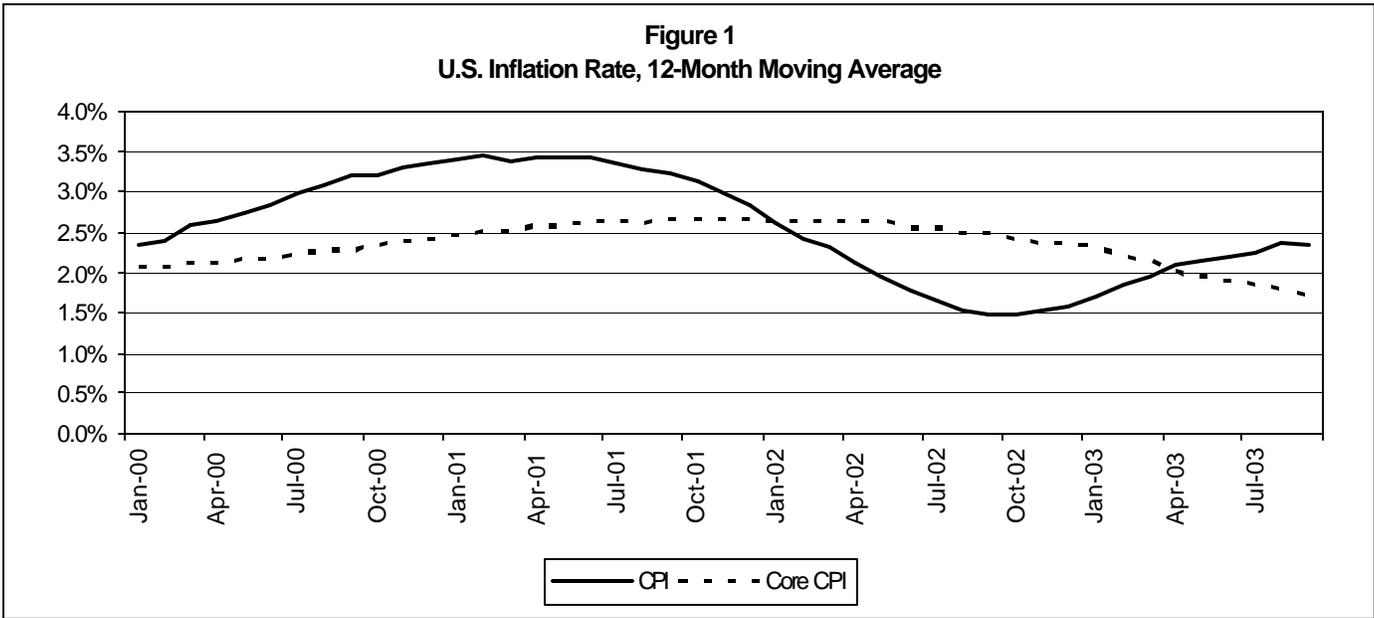
The **manufacturing sector** continues to improve. The *Institute of Supply Management Index* rose to 57.0 in October, the highest level in nearly four years. This marks the fourth consecutive month above 50, the level that indicates expansion for the sector. Separate indices for new orders and production were well above 60, while improvement in the inventories and employment indices was also recorded. *Durable goods orders* increased 0.8% in September, while the *industrial production index* increased by 0.4. The low level of inventories during the recent sectoral gains will be a positive for manufacturing. Production will increase even further as supply will have to catch up to increasing demand.

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Figure 1
U.S. Inflation Rate, 12-Month Moving Average



The **housing sector** remained strong in September. Low mortgage rates fueled the strength. *Sales of existing homes* set yet another record at an annualized pace of 6.69 million units. *Sales of new homes* fell back somewhat in September, but remain at a high level. The sector continued to outperform expectations and will likely fall back in upcoming months when interest rates begin to rise.

Inflation remains low and is leveling off. The consumer price index increased 0.3% in September. Over the past 12 months, inflation averaged 2.3% over the previous comparable period. Figure 1 shows the trend for national inflation over the past four years. As indicated by the chart, food and energy prices are responsible for much of the volatility in inflation. The core inflation rate has been in a

relatively narrow band since 2000. The lack of inflationary pressure will enable the Federal Reserve Board to adhere to an expansionary policy for the short term.

When assessing the state of the economy, one can clearly say that the glass is now more than half full. Economic output rose at its highest rate in nearly 20 years. Economic growth has provided a kick start to jobs growth as employment has increased for three consecutive months. The manufacturing sector, which started the recession nearly three years ago, is rebounding. Inflation remains low. While the economy may see a few bumps along the way and is always susceptible to a sudden shock, the current economic outlook is rosy.

Colorado Economy

The sizable increase in GDP as well as increases in national employment will likely provide an upward impetus to Colorado's economy in upcoming months. While the state economy has still not taken a permanent turn for the better as measured by employment, other indicators show that a change may already be taking place. The state's withholding tax increased 1.6% through the first four months of the fiscal year. Sales taxes increased 1.8% over the same period. (The sales tax data has not been corrected for additional revenue

Colorado's Economy at a Glance

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

to the state because of a reduced allowance kept by businesses, but the percentage change would still be in positive territory.) This is heartening news after both indicators declined in the previous two years. Still, we believe that Colorado's rebound will be slow by historical standards, just as the state recession has been much longer than usual.

Employment

According to the Colorado Department of Labor and Employment, Colorado lost 6,600 jobs in September. Employment is now at its cyclical low, 90,000 jobs or 4.0% below the peak in December 2000. Employment conditions have deteriorated over the past four months. After gaining nearly 20,000 jobs in April and May, the gain was completely erased during the following four months. Over the past year, the state lost 22,700 jobs (Figure 2). The manufacturing and construction industries had the largest job losses, while the financial activities sector had the biggest gain.

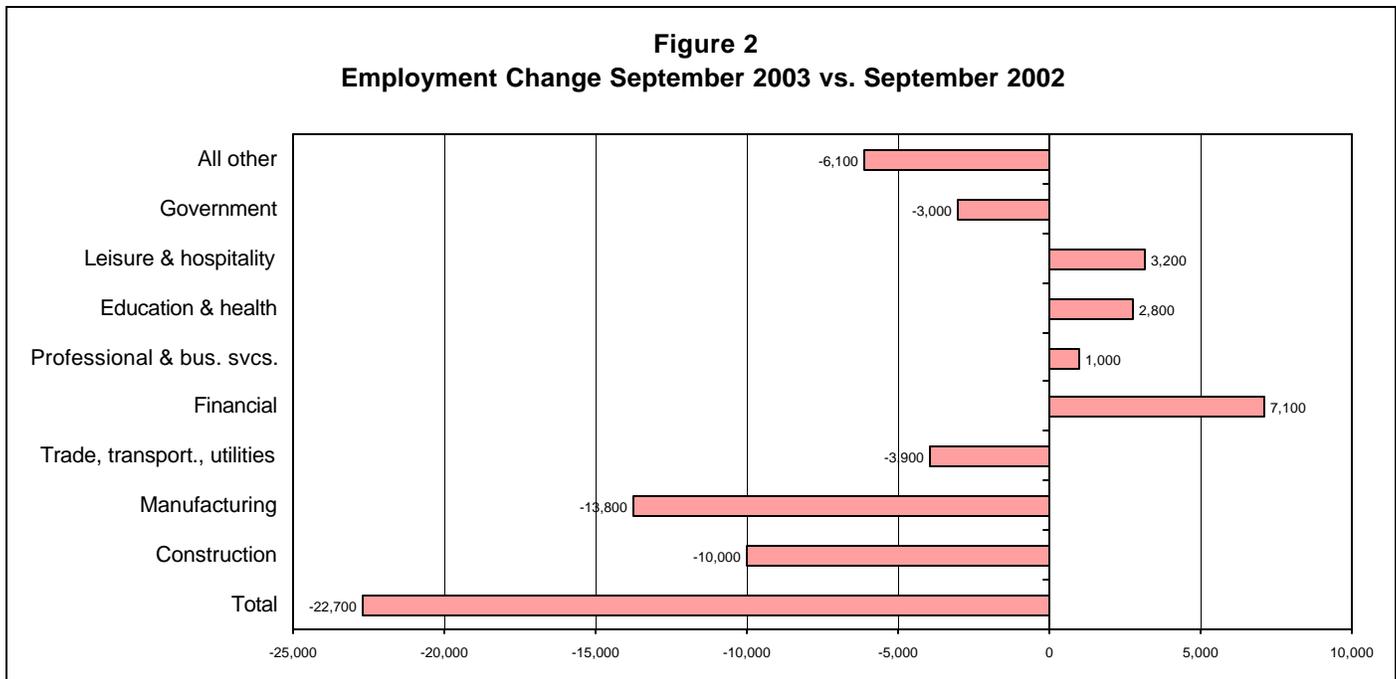
The state's unemployment rate declined to 5.6% in September from 5.7% in the previous month. The rate has averaged 5.7% in 2003.

Residential Real Estate

According to the U.S. Census Bureau, permits for residential houses declined 19.3% through September. Permits for single-family homes have remained relatively robust considering the lack of job growth this year. They declined only 8.2%, while the number of permits for multi-family housing dropped 52.3%. The apartment market has been characterized by high vacancy rates and falling rents. In fact, the "economic rent" earned by building owners has dropped precipitously. According to the Apartment Association of Metropolitan Denver, the effective rent after adjustment for discounts and free periods of rent is \$697, compared with an average nominal rent of \$815. Meanwhile, the vacancy rate dropped by two percentage points to 11.1% during the third quarter.

“Final closing prices are approximately 4.0% lower than the initial asking price by sellers, an indication of the tough real estate market.”

The median and average resale prices in October for single-family homes and condominiums in the metro-Denver area declined from the previous month. However, this is a typical seasonal pattern.



October's median price of \$229,000 for a single-family home was 2.5% higher than a year earlier, while the median price for a condo rose 3.0%. Final closing prices are approximately 4.0% lower than the initial asking price by sellers, an indication of the tough real estate market.

A 487-unit apartment complex will be built at the former Fitzsimons Army Hospital site. The complex will be the only housing on the site because of space limitations. It will be complete in 2006. The Fitzsimons redevelopment is comprised primarily of life- and bio-science facilities and is the site for the University Hospital relocation. An estimated 30,000 workers will eventually be employed there.

Nonresidential Construction

According to F.W. Dodge, nonresidential construction declined by 11.3% through September. The weak state of nonresidential construction activity is masked somewhat by the Denver convention center hotel, which adds 6.4 percentage points to growth. More indicative of the weakness are declines of 20.9% for retail stores, 30.7% for office buildings, 12.9% for manufacturing plants, and 93% for warehouse space.

Trammel Crow Co. reported that the metro-Denver office vacancy rate dropped from 22.5% at the end of June to 21.8% at the end of September. The primary

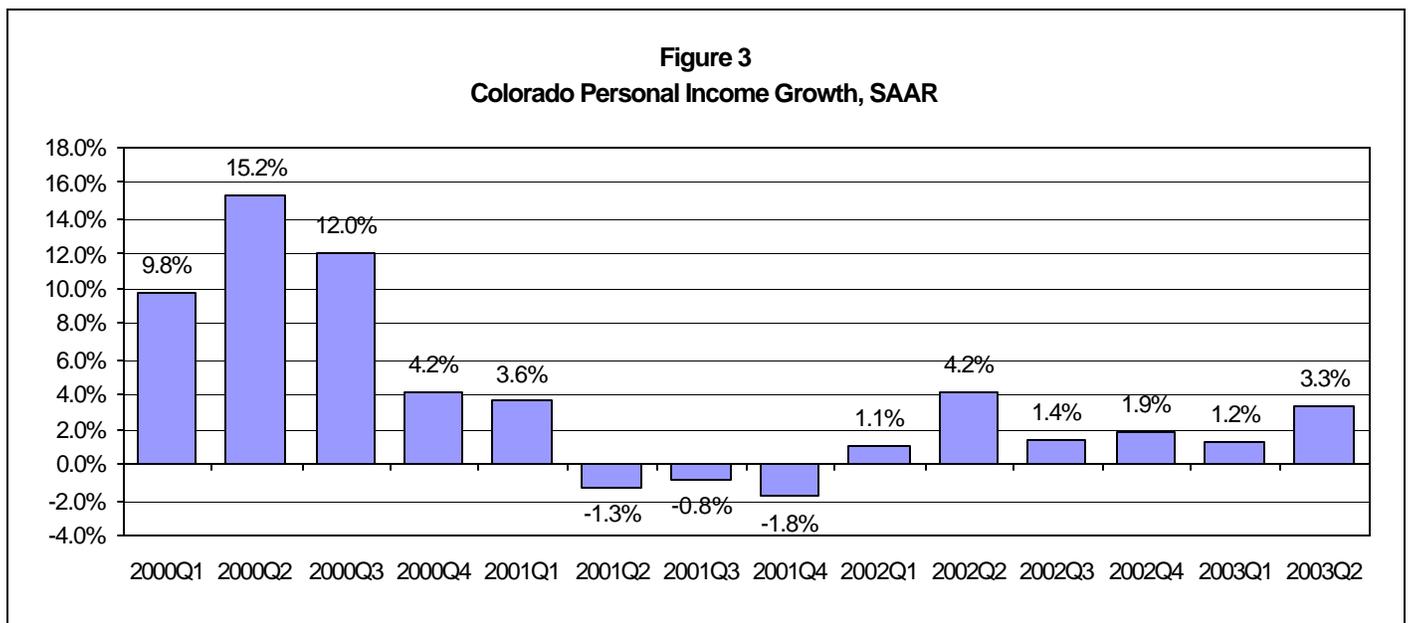
improvement came in the north end of the Denver Tech Center.

Elbert County has evolved into a bedroom community for the metro-Denver area. As of yet, commercial development has not been a significant force in the county. Only 8.0% of the county's assessed value is attributable to commercial property. However, construction started on a business park in October between the towns of Kiowa and Elizabeth. The 48-acre development will contain 16 commercial lots ranging from 1.8 to 5.4 acres.

Personal Income

Personal income in Colorado increased 2.1% through June 2003, compared with the same period last year. The state's growth rate ranked 47th in the nation. Wages and salaries increased only 0.4%. Other labor income increased 6.5%, while proprietors' income grew 6.3%. Income from interest, dividends, and rent increased 0.7%. Transfer payments grew by 6.8%, led by an 11.8% increase for unemployment benefits.

Figure 3 indicates the recent trend for personal income. While 2000 was a high point for income gains, the state recession clearly had a toll on income. Annualized growth during the second quarter of 2003 was the strongest in a year and the second strongest in just over two years. The growth in the second quarter corresponded with a jobs increase. The outlook for



growth in the third quarter is mixed. While employment conditions deteriorated, the state's withholding tax on wages increased 1.8%. This was the first quarterly gain in more than two years.

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Business Conditions

Several indices that measure the health of Colorado's economy yield a mixed picture. The VectraBank Colorado Small Business Index declined in September, largely a result of a decline in jobs. A survey by the Business School at the University of Colorado at Denver indicated that the state's service sector was contracting for the third consecutive month. The state's relative dependence on technology and telecommunications could be responsible for the weakness in the service sector, according to the survey's preparer.

Meanwhile, there was more positive news for Colorado's manufacturing industry. The Front Range Purchasing Managers Index was above the critical 50 mark for the third consecutive month in October. The October index was 55.2, compared with 51.4 in September. The employment sub-index took the biggest jump, increasing from 39.5 in September to 51.4 in October.

“Drought continues to affect growing conditions for winter wheat.”

Agriculture

According to the Colorado Agricultural Statistics Service, the corn for grain crop is expected to be 24% higher than last year's drought-affected crop. Ninety percent of the winter wheat crop has emerged, slightly below the five-year average of 95%. Thirty-one percent of the crop was in either poor or very poor condition, while 36% was in fair condition. Drought continues to affect growing conditions for winter wheat.

The number of cattle and calves for the slaughter market in feed lots was 8% lower on October 1 compared with a year earlier. However, price conditions were favorable. The price per hundred-weight was more than 25% higher than a year ago.

Metro Denver

According to the Colorado Department of Labor and Employment, the number of jobs (not seasonally adjusted) in the metro-Denver area fell by 1,600 in September. The private sector lost jobs during the month, while the state and local education sector gained 6,000 workers as schools across the area started up. The leisure and hospitality sector lost 2,000 jobs as the summer tourism season wound down in September. Construction jobs also declined by 2,000. Employment in the professional and business services dropped by 1,400 jobs. A comparison of jobs in the metro-Denver area to a year ago is not meaningful because of the addition of Broomfield to the metro area statistics.

A number of job announcements were made in the past month. Wild Oats grocery store opened a new store in southeast **Jefferson County** on November 12. 140 workers were hired to staff the store. The Wild Oats store is part of a new shopping area at the corner of Chatfield and Kipling Avenues.

The grocery supermarket competition will lose a chain in the metro-Denver area in November when nine Cub Food stores shut down. Approximately 1,000 workers will lose their jobs. King Soopers is expected to utilize four or five of Cub's locations and pick up some of the chain's warehouse and distribution space.

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Dex Media, the publisher of Qwest's phone books, recently cut 27 jobs in Colorado. The reductions were an effort to improve efficiency. ACT Teleconferencing cut 10 jobs in **Golden**. The company

provides audio, video, and Web-based conferencing services.

Catholic Health Initiatives will open its National Information Technology Center in **Englewood** in January. The nonprofit health-care system will hire 200 workers over the next two years to staff the center. Forty workers will relocate from other company locations in Washington and Pennsylvania.

According to the U.S. Census Bureau, the number of housing permits fell 25.0% in the metro-Denver area through September. Permits for single-family homes declined by 10.1%, while permits for multi-family homes declined nearly 56%. Three small-scale housing developments were announced in the past month. A residential, commercial, and retail project was started in early October in **Aurora**. The \$32.9 million Florence Square development will include 200 residential units, as well as 18,000 square feet of commercial and retail space. The Hyatt Corp. will start construction on a retirement community in **Highlands Ranch** in 2005. The company plans to build 250 residences. Prices will start in the mid- to high-\$200,000 range and monthly fees will start around \$2,750. The continuing care community will include nursing care, assisted living, and Alzheimer's care. Finally, the Denver Housing Authority will build a 91-unit work force housing development in the **Globeville** area of Denver. The development will include rental and for sale homes.

According to F.W. Dodge, the value of nonresidential construction declined 16.5% through September, compared with a year ago. The aforementioned contract for the convention center hotel in downtown Denver provided a 14.3% boost for commercial buildings. Most other categories were down significantly.

Boulder Region

According to the Colorado Department of Labor and Employment, the number of jobs (not seasonally adjusted) in the Boulder area climbed by 3,200 in September from the prior month. The gain was attributable to a 4,000 gain in the state and local education work forces at the start of the school year. Changes

in other sectors were small and mostly offset each other.

The number of building permits fell by 22.7% through September, according to the U.S. Census Bureau. The decline was concentrated in the multi-family category. New home construction will begin in the next two months for nearly 450 homes in **Lafayette**. The housing mix will include 88 single-family homes, 48 duplexes, and 311 townhomes. Lafayette's zoning for new projects requires affordable housing to constitute 30 percent of new homes. The project will also include 22,000 square feet of commercial space and 26 acres of open space.

“New home construction will begin in the next two months for nearly 450 homes in Lafayette.”

The value of nonresidential construction declined by 21.3% through September, according to F.W. Dodge. Positive highlights were in two categories. Construction of manufacturing facilities climbed from zero a year ago to \$14.5 million this year. Construction of education and science buildings rose 63.3%.

Northern Region

Kodak will transfer 60 jobs from its plant in **Windsor** to Mexico. However, work from other Kodak facilities will be moved to Windsor. The eventual number of jobs will be higher than the 60 jobs moved out of the country. However, the transfers to Windsor will not be immediate.

Six full-time workers and three interns were laid off in **Fort Collins** when New Belgium Brewing Co. finished a two-year expansion project. The third major expansion since 1995 added 60,000 square feet to the brewery. Fifty workers were added during the past two years.

“A new prototype Target store opened in Greeley in October.”

A new prototype Target store opened in **Greeley** in October. The new store is 50 percent larger than the

closed Target store in Greeley and will employ 50 additional workers. The store is the first to employ a new layout and will utilize new marketing and advertising techniques, color schemes, and specialized department signs and designs.

A new Foley's store will open in **Loveland** in 2005. Construction on the 140,000-square-foot, two-story building will begin next summer. Foley's will anchor the new 700,000-square-foot lifestyle center at the northeast corner of Interstate-25 and U.S. Highway-34. Other major tenants will include Galyan's sporting goods store and Barnes and Noble Booksellers.

El Paso County

According to the Colorado Department of Labor, employment in the Colorado Springs metro area declined by 0.9% through September. September's unemployment rate of 5.8% was unchanged from the previous month, but was down from 6.4% from the previous year.

The combination of lower employment and the troop deployment from Fort Carson to Iraq caused a decline in Colorado Springs sales tax collections. Through October, tax collections declined 1.2%. The city's use tax collections declined by more than 27%, compared with a year ago.

The number of housing permits fell by over 1,400 units, or 25.9%, through September. As in most of the state, multi-family housing was responsible for the decline. Single-family permits were even with a year ago. Positive developments occurred in the multi-family sector, however. According to Doug Carter LLC, a Colorado Springs apartment brokerage, the vacancy rate for apartments was 11.3% in the third quarter, compared with 14.0% in the second quarter.

“...the recent meeting of the NATO defense ministers brought \$1 million of spending to the Colorado Springs area.”

According to the Colorado Springs Convention and Visitor's Bureau, the recent meeting of the NATO

defense ministers brought \$1 million of spending to the Colorado Springs area. The bureau believes that the exposure could eventually bring \$10 million of new spending to the area.

Southern and Eastern Plains Regions

Pueblo's employment increased 1.1% through September, according to the Colorado Department of Labor and Employment. The area's unemployment of 6.3% in September was lower than August's 6.6% rate and the previous year's rate of 6.5%.

“...employment in the remainder of the southern region (the San Luis Valley and Huerfano and Las Animas counties) increased 4.1% this year.”

The department also estimated that employment in the remainder of the southern region (the San Luis Valley and Huerfano and Las Animas counties) increased 4.1% this year. The region's unemployment rate through September was 6.2%, compared with 6.8% through September in 2002. Employment in the eastern plains region increased 4.3%, while its unemployment rate was 4.1% through September.

The cyclical nature of the beef industry has the supply of cattle on the down side this year. This led to a 20% reduction in the work week at the Excel packing plant in **Fort Morgan**. The cutback will lead to payroll reductions of \$1 million per month. The plant employs roughly 2,000 workers.

Mountain and Western Regions

Through September this year, compared with a year ago, employment in the Mountain and Western regions increased 1.2% and 2.8%, respectively. Their unemployment rates averaged 4.5% and 5.1%, slight increases from the first nine months in 2002.

Rapid growth in the Roaring Fork valley area will mean a larger hospital in **Glenwood Springs**. Local voters approved the expansion in 2002 and groundbreaking took place in October. The expansion will add 160,000 square feet and should be complete in two years. Larger operating rooms, 100 additional

private rooms, and additional birthplace facilities are part of the expansion.

“...the cost of living in Glenwood Springs was 22% higher than the national average in the second quarter...”

Rapid growth in the area has also driven the cost of living higher. ACCRA (formerly the American Chamber of Commerce Research Association) reported that the cost of living in Glenwood Springs was 22% higher than the national average in the second quarter, compared with 16% higher a year earlier. Housing was 41% more expensive, while utilities were 19% higher. Groceries and transportation costs were 15% and 14% more expensive, respectively.

Tourism bounced back strongly this summer in Glenwood Springs, following the fire-affected tourism season in 2002. Accommodation taxes increased 9.1% for the June through August period. However, these taxes were 0.5% below the level in 2001. Despite the strong summer season, accommodation taxes for all of 2003 were down slightly.

A new Wal-Mart Supercenter opened in **Rifle** in late October. The 157,000-square-foot store will employ 340 workers.

Centura Health will start construction next spring on a new hospital in **Frisco**. The \$40 million facility will include 25 beds, an outpatient surgery center, and a trauma center. Summit County donated 19 acres for the facility and surrounding medical offices. The full-service hospital will be the first in the county and will replace the Summit Medical Center. Approximately 30 additional health-care workers will be employed at the facility upon its completion, while more than 200 workers will be involved in its construction.

The American Soda plant will eliminate 32 positions in November at its facility near **Parachute**. Houston-based Solvay America bought the plant from Williams Production. The plant had employed 109 workers prior to the layoffs. Solvay operates another soda ash plant in Utah at a lower cost.

Regional Overview 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 September 2003)	3.3	-14.1	-0.9	0.8	2.4	1.6	4.1	3.1	-0.4	3.4	1.1	0.2	3.6	3.2
Unemployment Rate ◇◆ (not seasonally adjusted) (September 2003)	6.4	5.5	6.1	5.9	4.5	5.3	5.4	6.5	4.8	5.5	6.9	4.3	3.5	3.7
Retail Trade Sales Growth ▼ (through August 2003)	2.8	1.8	0.6	1.5	9.8	1.4	0.8	4.3	1.1	4.8	1.9	0.4	-0.1	-2.0
Growth in Value of Non-residential Construction* (through September 2003)	-94.0	-26.2	15.4	-16.5	115.0	-53.2	-44.2	13.2	①	-29.4	39.6	-46.0	-38.1	-97.8
Housing Permit Growth ° (through September 2003)	2.3	-22.7	-25.9	-25.0	47.1	-7.9	17.8	-10.0	40.0	2.5	-1.6	29.2	49.6	-9.3

◇ Actual level not growth rate.

◆ Colorado Department of Labor and Employment data. Boulder and metro Denver are affected by the move of Broomfield to metro Denver.

* F.W. Dodge data.

° F.W. Dodge & U.S. Census Bureau

▼ Colorado Department of Revenue data.

① \$6.8 million was contracted through September, while nothing was contracted in 2002.

Colorado Indicators Year-to-Date Growth Rates

Indicator	September 2003 Average	2002 Annual Average
Nonfarm Employment Growth ☐	-0.8%	1.9%
Unemployment Rate ☐ ‡ (seasonally adjusted)	5.6	5.7
Housing Permit Growth ~ Single family	-19.3	-12.2
Apartments	-8.2	-2.6
	-52.3	-31.4
Growth in Value of		
Nonresidential Construction §	-11.3	-20.9
Retail	-20.9	-8.3
Offices	-30.7	-43.8
Factories	-12.9	-77.3

☐ Colorado Department of Labor and Employment data.

‡ Actual level, not growth rate.

~ U.S. Census Bureau data.

§ F.W. Dodge data.

Note: An inflation rate is not calculated for the state. The Denver-Boulder-Greeley inflation rate is often used as a proxy for Colorado's inflation rate. The Denver-Boulder-Greeley inflation rate was 1.7% through the first half of 2003, following a 1.9% rate in 2002.