



# Colorado Economic Chronicle

*A Research Newsletter*

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## National Economy

The U.S. economy continued on a strong growth path through the first quarter of 1998. Inflation-adjusted **gross domestic product** (GDP) increased at a 4.2% annual rate during the first quarter of 1998, up from a 3.7% pace for the first quarter of 1997. Exceptionally strong growth in consumer spending contributed to the surge in GDP growth. Inflation-adjusted consumer spending increased at a 5.7% annual rate in the first quarter, up from the 2.5% annualized pace in the fourth quarter of 1997. International trade continues to be a drag on economic activity, and the U.S. trade deficit reached an all-time high of \$13 billion in March. Meanwhile, there was a 2.0% drop in government spending and a decrease in business spending on goods held in inventory in 1998's first quarter.

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The **consumer** sector registered robust growth thus far in 1998, as job prospects and income growth were positive. The unemployment rate fell to 4.3% in April, a 28-year low. The number of nonfarm payroll jobs increased 262,000, with strong gains in the construction and retail sectors. The April increase came after a decline of 24,000 jobs in March, the first decline in over two years. After-tax personal income increased 0.8% in January and slowed slightly to 0.6% in February. After-tax personal income grew faster than spending, resulting in an increase in the savings

rate, to 4.3%, in February. The healthy job market and strong income growth bolstered consumer confidence to a 29-year high in April.

The **manufacturing** sector registered mixed news in March. Orders for big-ticket manufactured goods rebounded 0.3% in March after a large drop in February. However, there continues to be a dampening effect in orders for durable goods from the continued slump in demand for aircraft. Output at U.S. factories, mines, and utilities increased only 0.1% in April after increasing 0.3% in March. The National Association of Purchasing Management reported a decline in its index in April to 52.9. Although the index declined, it remained above 50, indicating that the manufacturing sector is still expanding, just at a slower rate. Additionally, the Labor Department reported a slowing of productivity growth for the first quarter of 1998 to 0.2%.

The **construction** sector also posted mixed results in March. While there was a 2.5% surge in *existing* home sales, *new* home sales decreased 5.0%. However, new home sales were still 3.8% higher in the first quarter of 1998 than in the first quarter of 1997. The median price of a new home increased 4.0% in March from one year earlier, to \$153,900. Housing starts declined for a second consecutive month in April, but remained 6.0% higher through the first four months of 1998 than during the same period in 1997. The declines in both new home sales and housing starts came on the heels of record-high months in the beginning of the year due

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to mild winter weather and low mortgage rates. Construction spending fell 0.5% in March, mainly the result of a decline in spending on apartments, offices, and government projects.

Although **inflation** remains low, price increases are accelerating somewhat. Consumer prices increased a meager 0.2% in April, but this was still the largest increase in six months. The higher consumer prices

resulted from increases in tobacco, lettuce, and hotel charges. Similarly, prices at the wholesale level registered their biggest gain in seven months, up 0.2%.

Overall, the national economy performed well during the first quarter of 1998. GDP growth was robust, inflation was low, and the unemployment rate continued to decline. We expect growth to continue during the remainder of the year, but at a somewhat slower pace.

## Colorado Economy

**T**he Colorado economy continued on a positive growth path during the first part of 1998, with employment growing a robust 3.9% during the first four months of the year. Residential construction and existing home sales also remained strong.

### Employment

Nonagricultural employment increased 3.9% through April 1998, when compared with the same period in 1997. The strong growth in 1998 comes on the heels of 4.0% job growth in 1997 and 3.6% job growth in 1996. In addition, the state's unemployment rate was 3.3% in April and averaged a low 3.1% through the first four months of 1998, indicating that Colorado's labor market remained very tight.

Since the last *Chronicle*, a number of job gains have been announced. First Data Corp. will add 600 employees as it consolidates space into a new office campus in Douglas County. Colorado Springs had

several job gain announcements, the largest of which is Millenia Graphics that will employ 100 in its publishing company.

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Two firms announced job losses. Amgen, Inc. closed its research and development office, and 200 jobs were eliminated or transferred out of state. Samsonite announced job reductions of 80 positions at its Denver manufacturing facility. These job gains and losses are discussed in greater detail throughout the *Chronicle*.

### Personal Income

Colorado's per capita personal income increased 5.1% in 1997, to \$27,051. The state's per capita income ranked ninth in the nation last year, its highest rank since 1984. Colorado ranked eighth in the nation from 1982 to 1984, before falling to a low of 19th in 1989 following the state's mid-1980s' recession.

### Residential Construction

The number of *existing* home sales in metro-Denver increased 13.4% through May 1998, based on the number of properties closed. The average price of an existing single-family home increased 8.8%, to

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#### Colorado's Economy at a Glance

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<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

\$178,614, during the first five months of 1998, when compared with the same period in 1997. The average condominium price, meanwhile, increased 20.6% during the same period, to \$116,779.

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In terms of *new* homes, sales increased 32% during the first quarter of 1998. Meanwhile, the average price of a new single-family home in the metro-Denver and Boulder region increased 6.9%, to \$191,950, during the first quarter of 1998, when compared with the same period in 1997.

Eagle County had the state’s tightest apartment market in the first quarter of 1998 with a vacancy rate of 1.2%, according to a study released by the Colorado Division of Housing. The highest vacancy rates were experienced in Colorado Springs, 5.8%, and Pueblo, 5.5%. The average vacancy rate among the areas surveyed was 5.1% and the average rent was \$615 per month. Separately, the Denver Metro Apartment Vacancy and Rent Survey reported that the metro-Denver vacancy rate was unchanged in the first quarter of 1998, at 4.6%. This marks the third consecutive quarter that the area’s vacancy rate remained at 4.6%. According to the survey, the average rent for an apartment in metro Denver was \$652 during the first quarter. Rental rates were highest in Douglas County, at \$936 per month, and lowest in the City and County of Denver, at \$603 per month.

Construction will begin on a 300-unit luxury apartment complex in Colorado Springs later this year. Monthly rents at the new complex will run as high as \$1,200. The first apartments will be completed in summer 1999, and the entire complex will be built by early 2000. Another apartment complex broke ground in April at Stroh Ranch in Parker. The \$51 million Ironstone complex will include 372 units, a clubhouse and recreation center, a health club, a swimming pool, and a business center.

The number of residential units under construction in Colorado increased 19.2% through April 1998, according to F.W. Dodge. The construction growth is being led by the apartment market, which experienced a 60.6% increase in the number of units under

construction during the first four months. This strong growth follows a 13.6% drop in apartment building in 1997. Meanwhile, construction of single-family homes increased 10.5% through April 1998.

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## **Nonresidential Construction**

The value of nonresidential construction declined 32.5% through April 1998, compared with the same period in 1997, according to F.W. Dodge. The declines were concentrated in the construction of factories and public, amusement, education and science, and retail facilities. On the positive side, the construction of non-manufacturing warehouses and gasoline stations experienced strong gains.

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***“Recently, several projects began construction along the U.S.-36 Corridor between Denver and Boulder.”***

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Recently, several projects began construction along the **U.S.-36 Corridor** between Denver and Boulder. Ground was broken in April for Flatiron Crossing, a new mall in Broomfield that will include Colorado’s second Lord & Taylor store, as well as the Foley’s, Dillard’s, and Nordstrom department stores. The design of the mall allows for a fifth anchor to be added. The mall will be located at the interchange of U.S.-36 and 96th Street. The project will encompass 1.5 million square feet of space and is expected to open in spring 2000. Construction on two luxury hotels along the corridor began recently as well. The Westin Hotel in Westminster and the Omni Hotel in Broomfield are both expected to serve Interlocken Business Park, which will experience rapid employment growth during the next two years. Both Sun Microsystems and Level 3 Communications are locating facilities at Interlocken. The additional rooms at the two hotels will increase the lodging capacity along the U.S.-36 corridor by more than 25%.

Two speculative office buildings are being planned in the Highlands Ranch Business Park in **Douglas County**, creating 175,000 square feet of leasable space. Developers envision that the office park will

eventually contain 4.5 million square feet of space on 505 acres near C-470 and Highlands Ranch Boulevard. Another office park will be constructed near Lincoln Avenue and Interstate-25 in Douglas County. Construction will begin this year on a 165,000-square-foot speculative office building that will be the first of six buildings in the development. The building is scheduled to open in April 1999 and will be followed by two additional buildings that will encompass 209,000 square feet.

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***“First Data Corp. . . . announced plans for a one-million-square-foot office campus in the Meridian International Business Center in Douglas County.”***

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First Data Corp. and its subsidiary, Western Union Financial Services Inc., announced plans for a one-million-square-foot office campus in the Meridian International Business Center in Douglas County. The first phase of the project is a 166,000-square-foot building that is scheduled to open in mid-1999. The company expects to increase its current local work force of 2,000 by 600 employees.

The **Gateway area near Denver International Airport** continues to bustle with new construction activity. Gateway Business Park will break ground during the next month on its second office building. Like the first, the new building will have 80,000 square feet of space. Gateway is also preparing to construct two industrial buildings that will total 279,000 square feet. Outrigger Resort Hotels will build a 157-room hotel in Gateway Park near Denver International Airport with room rates ranging from \$80 to \$95 per night. Meanwhile, the first major speculative industrial building project is under construction at the former site of Stapleton Airport. Construction of two buildings will add 453,000 square feet of industrial space.

Construction on the first new office building in **downtown Denver** in 12 years is scheduled to begin during the summer. The building will be one block from Coors Field and will contain 170,000 square feet within nine stories. In addition, KDVR-Channel 31 is constructing a 70,000-square-foot broadcasting facility at Speer Boulevard and Lincoln Street near downtown Denver. The station is expected to add 60 employees when the multimillion dollar facility opens in summer 1999.

Meanwhile, downtown Denver’s office vacancy rate increased to 10.1% during the first quarter of 1998, from 9.6% in 1997’s fourth quarter. Much of the vacancy increase was the result of consolidation in the oil industry. At the same time, rents increased \$1.00 per square foot to \$16.80 per square foot, according to Cushman & Wakefield.

## **Advanced Technology**

According to a study by the American Electronics Association, Colorado added the third highest number of advanced technology jobs among the states between 1990 and 1996. Colorado had 78 advanced technology jobs out of every 1,000 private sector jobs in 1996, ranking second in the country behind New Hampshire. The advanced technology industry includes the manufacture of computers and office equipment, electronic components, broadcast equipment, and software and cable television services.

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## **Exports**

Colorado exported 5% more goods during 1997 than in 1996, as exports to Mexico increased 51%. Mexico became Colorado’s fifth largest export destination in 1997. Japan remained the largest export market for Colorado goods in 1997, despite a 6% decrease. Canada was the second-largest export market in 1997, followed by Germany and the United Kingdom. Colorado’s top five export products are industrial machinery, electronic equipment, medical, optical, and photographic equipment, food and kindred products, and transportation equipment.

## **Agriculture**

The state’s agricultural sector is experiencing low prices in 1998. Crop and livestock prices in Colorado averaged lower in April 1998 than in April 1997, except for potato, dry bean, calf, and milk prices. Wheat prices declined 29.9%, and corn prices declined

14.4% during the period, according to the Colorado Agricultural Statistics Service. The steer and heifer price fell 3.2%, and the prices of cows fell 11.0%.

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Colorado experienced an 8% decline in the number of cattle and calves on feed for the slaughter market in May 1998, compared with the same month in 1997. The state's beef industry marketed 11% fewer cattle during March than they did the prior year.

## Transportation

Direct air service between Denver International Airport (DIA) and London has been postponed until at least August 1. Originally scheduled to begin June 1, the flights have not yet been approved by the U.S. Department of Transportation. Meanwhile, passenger traffic at DIA increased 7.7% in February compared with the same period last year.

Congress approved a six-year transportation plan that includes a 52% increase over current funding levels for the state's highway and transit projects. The state will receive \$1.8 billion over the six years.

## Metro-Denver Region

Amgen, Inc. closed its **Boulder** research and development operation at the end of April. Two hundred employees had their jobs eliminated or transferred out of state. Samsonite will reduce its Denver luggage manufacturing employment by 80 during the next two months. Fuji Chemical Industry Co. will open a research center in Denver's northwest suburbs to research new chemical compounds. The center will initially employ eight scientists from around the world.

The Army Corp of Engineers will spend \$11 million to clean up the unexploded bombs from an old bombing range near the Aurora Reservoir. The two areas closest to the reservoir — a 20mm range and a bombing target area — will be cleared to a depth of one foot by fall 1998.

*Residential construction* in the **five-county metro region** continued to show strength, increasing 40.1% during the first four months of 1998, when compared with the same period in 1997. The growth was almost entirely due to increased construction of apartments, as single-family home construction increased only 6.3%. **Boulder County**, meanwhile, experienced a 20.3% decline in new residential construction contracts due to a large drop in apartment building. Meanwhile, the Genesis Group reported that sales of new homes in Boulder County increased 87% in the first quarter compared with the previous year. New home sales activity was strong in Longmont, Superior, and Erie.

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*Nonresidential construction* in the five-county metro region declined 43.6% during the first four months of 1998. Construction in the retail, manufacturing, and public sectors led the decline. Meanwhile, in Boulder County, nonresidential construction fell 25.7% during the same period. While construction at schools and colleges registered more than a ten-fold increase, construction of commercial, manufacturing, health, and amusement facilities declined.

## Colorado Springs

Nonagricultural employment increased a slow 1.7% in the Colorado Springs area through April, compared to the same period last year. The unemployment rate during April was 3.5%, indicating that despite relatively slow job growth, there is tightness in the local labor market. Several Colorado Springs employers have expressed concern about the availability of qualified workers.

The Boeing Co. will add about 12 employees to its local work force as part of a \$240 million contract to develop and demonstrate an anti-missile program. The Colorado Springs work force would be responsible for the command and control aspects of the overall program. Millenia Graphics, a start-up publishing company, leased the building that formerly housed

Shepard's, a law book publisher. The new company plans to build its work force to 100 during the next two years.

Colorado Springs will have another customer service call center in June. The Armed Forces Benefits Association is bringing its customer service operations from South Carolina to Colorado Springs and will eventually employ 35 at the center.

***"A 75,000-square-foot office building is planned for the north side of Colorado Springs."***

Overall, the value of *nonresidential construction* contracts was flat in Colorado Springs through the first four months of 1998. However, there were significant increases in the commercial, manufacturing, education, and hospital sectors. A 75,000-square-foot office building is planned for the north side of Colorado Springs. A software developer has signed a lease for about one-half of the new space. The three-story building is the first phase of a 200,000-square-foot complex. Residential construction in El Paso County increased 17.9% through April.

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

Indicator	April 1998	1997 Annual Average	1996 Annual Average
Nonfarm Employment * Growth	3.9%	4.0%	3.6%
Unemployment Rate in April ▽ * (Seasonally adjusted)	3.3%	3.3%	4.2%
Housing Permit Growth §	19.2	-0.5	18.8
Single-Family	10.5	4.7	12.5
Apartments	60.6	-13.6	42.9
Growth in Value of Nonresidential Construction §			
Retail	-32.5	22.3	30.0
Offices	-29.7	-11.7	-4.0
Factories	-3.2	43.6	28.4
	-68.7	20.2	34.2

▽ 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 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 April 1998)	8.3	§ 4.9	§ 1.7	§ 3.7	9.6	6.7	6.1	6.9	8.6	7.1	§ 2.7	5.4	1.2	2.3
Unemployment Rate ⊗ ◆ (not seasonally adjusted) (in April 1998)	5.2	2.4	3.5	2.5	4.2	2.8	3.7	3.3	3.1	7.2	6.1	2.4	4.1	4.8
Housing Permit Growth * (through April 1998)	400	-20	18	40	-6	-13	17	69	6	-2	15	35	-64	18
Growth in Value of Non-residential Construction * (through April 1998)	-90	-26	0	-44	-70	12	-19	-76	♣	-20	-47	-28	-11	-93

§ Nonfarm Employment Growth.

⊗ Actual level not growth rate.

◆ Colorado Department of Labor and Employment data.

\* F.W. Dodge data.

♣ \$3.5 million was contracted through April 1998, while nothing was contracted through the same period in 1997.

**Note:** Retail trade sales for the first quarter of 1998 will be published in the July *Chronicle*.