



Colorado Economic Chronicle

Legislative Council
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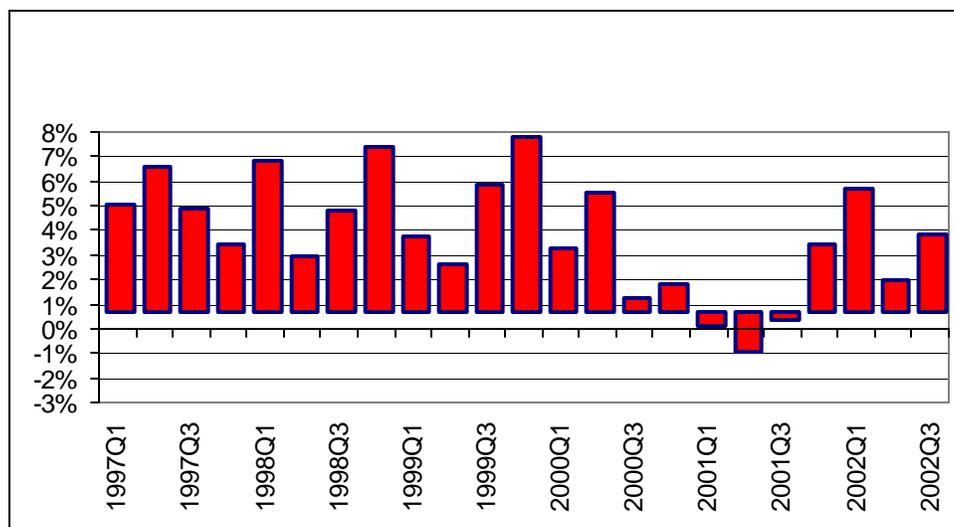
November 8, 2002

National Economy

Despite the relatively strong growth in gross domestic product (GDP) during the third quarter and a significant increase in stock prices during the past several weeks, most economic data released during the last month was negative. The continuing stagnation in the national economy led the Federal Reserve Board to reduce key interest by 50 basis points on November 6. The first Fed action this year is an attempt to push the recovery in a positive direction. The Fed hopes that the move will encourage the business community to take advantage of favorable rates and reignite investment, thus giving the economy another leg to stand on. While inflation-

adjusted **GDP** increased 3.1% in the third quarter, a level that is certainly contradictory to the usual definition of a stagnant economy, it was below analysts' estimates. Inventory growth was weak, indicating that businesses are wary of the possibility of poor sales in the future. Additionally, most of the economic growth during the third quarter occurred in July and August. Consumption was once again the primary driver of growth during the quarter. Consumption was led by strong auto sales, however, which have since slowed significantly and which have been powered by price declines and cut-rate financing offers for over a year.

Figure 1. GDP Growth, SAAR



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“Labor markets have stagnated as the economy searches for direction.”

Labor markets have stagnated as the economy searches for direction. There was mixed news in the labor markets in early November. The nation dropped 5,000 nonfarm jobs during October, but the September decline in jobs was reduced from 43,000 to only 13,000. The unemployment rate ticked up one-tenth of a percentage point during October to 5.7%, but remains below the 6.0% rate of April. 410,000 people filed initial jobless claims during the week ending October 26th, an increase from the prior week, but the four-week moving average of initial claims fell by 3,000.

The **manufacturing** sector continues to show significant weakness and exhibits the most risk for possibly leading the economy back into recession. The *Institute of Supply Management (ISM) Index* was below the key level of 50 for the second consecutive month. A mark below 50 indicates that the manufacturing sector is in recession. *Factory orders* declined 2.3% during September, following a 0.4% decline in August. A large drop in orders for durable goods caused the decline. In fact, excluding the volatile transportation sector, orders increased 0.6%. Accordingly, vehicle sales fell significantly during October, to the lowest annual pace since April 1998 despite the fact that many manufacturers continue using large incentives. *Industrial production* declined for the second consecutive month during September. The only major category to increase production was construction supplies and materials. This reflects the surprising strength that the construction markets have maintained throughout the current economic downturn.

“Spending on nonresidential construction declined for the 5th consecutive month...”

News in the **construction** sector was generally positive during the past month. The construction sector has provided a much needed upbeat force during the tough economic times. *Construction spending* in-

creased by 0.6% during September after declining 0.8% in August. The increase was led by the construction of residential units and public facilities. Spending on nonresidential construction declined for the 5th consecutive month with both the construction of offices and industrial properties continuing to see big declines in spending. Commercial construction spending is 19% below its pace of a year ago. Public construction spending increased for the third straight month. *New home sales* increased 0.4% in September, following an upwardly revised 6.8% gain in August. Interestingly, while the median home price increased, the average price declined, providing continuing evidence that the upper end of the market has weakened. *Existing home sales* also increased in September.

“...the University of Michigan Consumer Sentiment Index fell to its lowest level since 1993...”

While **consumers** have provided the support for the recovery, they are facing difficult times as debt levels increase, confidence falls, and available revenue sources are depleted. Consumers increased their debt levels by only \$4.2 billion during August, the lowest increase of the year. While *personal income* rose 0.4% in September, consumers increased savings and decreased spending. *Personal consumption expenditures* showed weakness in all areas. Because businesses are afraid to hire new workers, the workweek has been expanding for those workers with jobs. Wage and salary income increased 0.6%, but much of the gain was related to increased overtime. During October, the University of Michigan Consumer Sentiment Index fell to its lowest level since 1993. The index has declined for five consecutive months, with the largest decline occurring in October. The expectations component of the index experienced the largest drop, signaling that consumers are tiring of driving the economy. Consumers also reported the largest declines in their wealth since the index was started 50 years ago. It is likely that recent stock market gains will work to reverse that trend, however. Accordingly, September's *retail sales* fell 1.2%.

Both the producer price index and the consumer price index remained low during September. **Infla-**

tion has consistently been one of the few bright spots in the economic picture over the past two years and has allowed the Federal Reserve Board significant leeway in making policy decisions. While deflationary fears are arising in some sectors, we do not see this as a problem during the current recovery. Producer prices increased 0.1% during September and are up 0.8% for the year, reversing direction from last year's decline. The inflation rate for core intermediate goods increased 2.7% through the first three quarters of the year, however. Increases in intermediate goods prices are often a signal of coming inflation for consumer goods. Consumer prices increased a moderate 0.2% in September.

As consumer balance sheets finally begin to weaken, the economy will continue to wobble unless the busi-

ness sector begins to provide some support. Consumers can only maintain high levels of spending without a base of jobs to provide income for so long. Residential construction will take a hit if consumers pull back spending, and if businesses do not increase demand for nonresidential space, the economy could lose both of its current supports (consumer spending and construction) simultaneously. The Federal Reserve Board will continue to try and provide money to businesses and consumers through low interest rates. As it has throughout the slowdown, inflation will remain subdued giving the Fed freedom to work with interest rates. However, with rates this low, the Fed is losing room to maneuver and the manufacturing sector which started off last year's recession is weakening again.

Colorado Economy

The Colorado economy remains anemic. Seasonally adjusted employment in September was only 4,900 above the nadir in July and was 1.8% below a year ago. Consumer and business spending, as indicated by the state's sales tax collections, remains in negative territory. Construction is well below last year's levels for both the residential and nonresidential sectors. The state's economy is still in search of a direction to turn. It is unlikely to rebound significantly until the national economy shows a turnaround in employment trends.

Employment

Seasonally adjusted employment increased a mere 100 jobs in September. The employment situation has likely reached the bottom point of the contraction. Employment gains, albeit small, have been recorded in four of the past six months.

The unemployment rate was 5.2% in September, a slight increase from 5.1% in the previous month. The unemployment rate averaged 5.3% through September.

Announced job losses continue to exceed announced job gains. Job losses over the past month

totaled 2,182, while job gains were 360. Details on these job announcements can be found in the regional sections of the *Chronicle*.

Residential Construction

The metro-Denver area apartment vacancy rate increased to 9.4% in the third quarter, up from 6.8% in the third quarter of 2001. The rate is now the highest since 1990. High vacancy rates are causing the average rent to decline. Average rents were down to \$808 per month from \$827 a year ago. While the decline may seem small, it is on top of other incentives being offered to renters such as one to three months free rent at many locations.

Colorado's Economy at a Glance

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

“Home prices continue to escalate despite significant inventory available on the market.”

The average price of an existing home in metro-Denver increased 4.8% in October 2002 relative to October 2001, to \$266,954. The average price was slightly below September's price. Home prices continue to escalate despite significant inventory available on the market. In October, 23,769 homes were for sale, a 23% increase over October 2001, according to Coldwell Banker Residential Brokerage.

Nonresidential Construction

According to F.W. Dodge, the value of nonresidential construction in Colorado declined 20.1% through September, compared with the same period in 2001. Construction was down in most categories, with manufacturing plants, public buildings, educational laboratories, libraries and museums, and non-manufacturing warehouses all dropping more than 50%. The amusement, dormitories, and manufacturing-owned warehouse sectors provided the only bright spots in nonresidential construction.

For the second quarter in a row, Moody's Investor Service ranked the commercial market in Denver as the worst metropolitan market in the country. While Denver's market remained in the stressed category, it did score significantly better than during the prior quarter.

While the Colorado Springs office market continues to struggle during the slow economy, slight improvement was seen during the third quarter. The vacancy rate fell to 8.9% during the quarter, down from 9.5% in the second quarter. When subleased space is taken into account, however, the vacancy rate reached its highest levels in nearly 10 years.

Business

Venture capital investors are still exceedingly cautious, with inflows to Colorado businesses continuing to fall during the third quarter. According to the PricewaterhouseCoopers/National Venture Capital

Association/Venture Economics MoneyTree survey, 13 companies in Colorado raised \$45 million during the third quarter of 2002, down from \$364 million raised during the third quarter of 2001. Year-to-date through the third quarter, Colorado companies have raised \$445 million, down from \$1.4 billion during the first three quarters of 2001.

“Venture capital investors are still exceedingly cautious...”

Manufacturing

While the national manufacturing index declined for the second consecutive month, Colorado's manufacturing economy expanded for the second straight month in October. According to the Front Range Purchasing Managers Index, the state manufacturing sector rose 1.1% in October and 6.9% in September. Since March, Colorado manufacturing has expanded every month except August.

Gaming

Colorado's gaming industry netted \$62.6 million in adjusted gross proceeds (total amount wagered less payouts to winners) during September, down slightly from the record amount of \$64.6 million netted in both July and August. Adjusted gross proceeds have grown 7.9% year-to-date through September, compared with the first nine months of 2001. Among Colorado's three gaming towns, Black Hawk dominates the industry, with 20 casinos ringing up 71% of September's adjusted gross proceeds. Cripple Creek, with 17 casinos, brought in 21.1%, with the remaining 7.9% having been lost by gamblers in Central City.

Transportation

Airline traffic at Denver International Airport (DIA) through September was 27.15 million passengers, down 5% from the first nine months of 2001. September's traffic increased 37% above the level posted

last September when the terrorist attacks shut down the nation's air traffic and caused reluctance for many would-be fliers. The year-to-date statistics will likely show improvement during the remaining months of 2002 because of the comparisons to last year's extraordinary low traffic in the last quarter. Traffic at the Colorado Springs Airport declined 1.6% through September.

“The severe drought suffered in Colorado this summer reduced the state's wheat crop to 45% of the ten-year average.”

Agriculture

The severe drought suffered in Colorado this summer reduced the state's wheat crop to 45% of the ten-year average. It was the worst wheat crop in 34 years as farmers did not have enough irrigation water to get through the summer. Barley output in Colorado was also reduced by the drought and the state's production of oats was about one-quarter of last year's level. Colorado's sugar beet production is expected to be the lowest in seven years, but it will have a higher-than-average sugar content because of the lack of moisture in the beets.

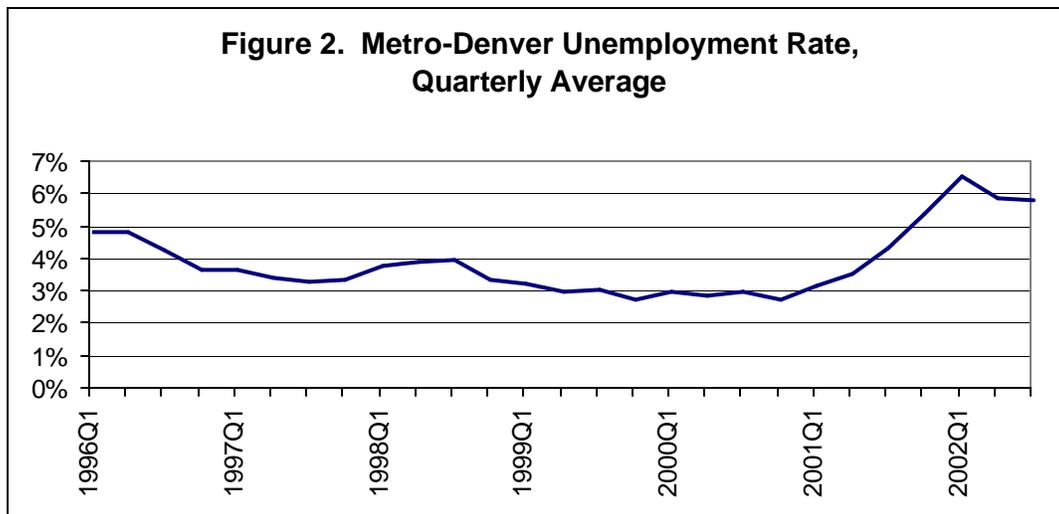
Metro Denver

Nonagricultural employment in the metro-Denver area was 2.5% lower through September, compared

with the same period last year. The employment level in September was 22,000 lower than in September 2001. With the exception of an increase of 200 in the mining sector and 4,000 in government, all sectors showed a loss of jobs over the past year. The transportation, communications, and utilities sector had the largest job loss (6,800) and the largest percentage loss (6.7%).

Job layoffs continued in the metro area over the past month and were larger than announced job gains. Two cable television companies with Colorado headquarters announced layoffs in October. Crown Media Holdings, a provider of family-oriented programming, laid off 80 workers at its Greenwood Village headquarters in response to weak demand for its services in Asia and Latin America. Meanwhile, AT&T Broadband announced the first 675 of an anticipated 1,700 layoffs. The job reduction will be largely in the company's administrative functions, as the headquarters will move to Philadelphia after a merger with Comcast.

Titanium Metals Corp., another Denver-based headquarters, will lay off 15 workers by the end of 2002. The company supplies titanium products used in the airline industry, which has suffered since the terrorist attacks last year. Berger Financial Group LLC will layoff all 120 at its Denver headquarters because of its parent company's merger with Janus Capital Management, another Denver-based mutual fund. Many of the Berger workers will be hired at Janus. Westminster-based



Requisite Technology, which manages online catalog content for Internet firms, laid off 17 workers at its headquarters.

A new Mercedes dealership will open in Westminster next summer. The dealership will employ 100 workers. San Diego-based American Mortgage Network opened a regional office at the Meridian office park with plans to hire 15 workers.

According to the U.S. Census Bureau, the number of building permits in the metro-Denver area declined by 27.7% through September. Permits for single-family homes dropped by 8.4%, while the high vacancy rate for apartments contributed to a 49.7% decline in multi-family construction permits.

Plans were announced for a 290-unit apartment complex in the Golden Triangle neighborhood near downtown Denver. The area has been popular for high-rise condominium development in recent years.

According to F.W. Dodge, the value of nonresidential construction in the metro-Denver area is down 26.9% through September, compared with one year ago. The high vacancy rates in office property, as well as the economic slowdown, are responsible for the decline. It likely will be at least several quarters before nonresidential construction shows a significant increase.

“Construction began last month on two buildings in the Gateway Park area ...”

Construction began last month on two buildings in the Gateway Park area near Interstate-70 and Peña Boulevard. The speculative project encompasses a 63,000-square-foot office building and a 140,000-square-foot warehouse. Speculative projects are started without signed leases by prospective tenants. The buildings are intended to attract tenants who need nearby access to Denver International Airport, the Fitzsimons bioscience campus, and Buckley Air Force Base.

El Paso County

Nonagricultural employment in El Paso County was

0.7% lower through September, compared with one year ago. The unemployment rate was 5.7% in September; one year ago, it was 5.1%.

While the area has seen many layoffs in the past two years, particularly in the high-tech sector, Colorado Springs will see positive news in the next few months. The Greater Colorado Springs Economic Development Corporation is expected to announce soon that several national firms will bring 2,000 jobs to the area. The jobs will be in addition to Pavestone Company's announcement of a new manufacturing facility in Fountain. The facility will produce interlocking concrete paving stones and segmental retaining walls. Groundbreaking on the new plant will be in 2003 and 50 employees will be hired at production startup. At full capacity, the plant will employ 100 workers. The expected average salary for the workers is \$40,000.

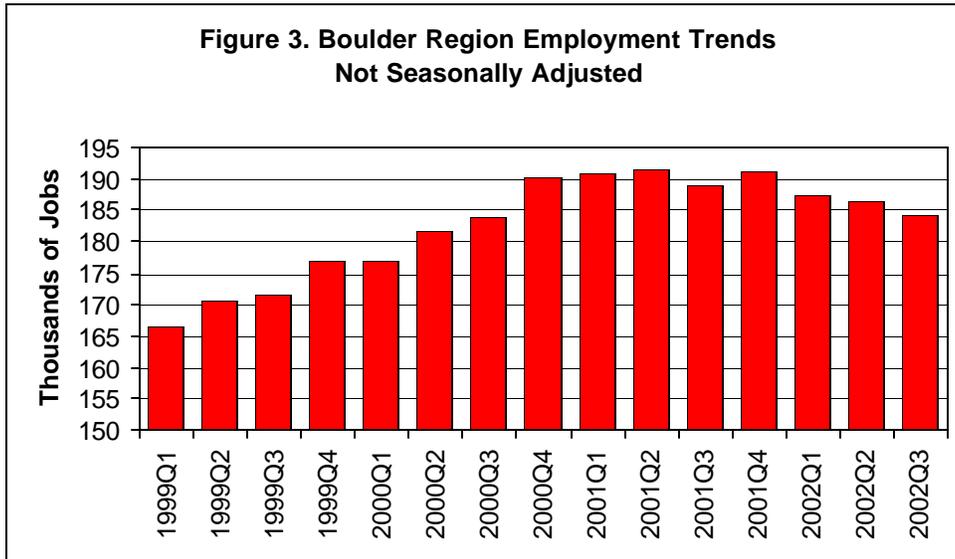
“The high vacancy rate will likely slow apartment construction in Colorado Springs.”

According to the U.S. Bureau of the Census, the number of building permits in the Colorado Springs metro area increased 0.6% through September, compared with one year ago. Permits for single-family homes decreased by 8.6%, while multi-family permits increased by 33.3%. However, the apartment vacancy rate was 9.1% in September, according to the Denver Area Apartment Vacancy and Rent Study, more than twice the rate of a year ago. The high vacancy rate will likely slow apartment construction in Colorado Springs. Meanwhile, the number of homes for resale is at a 12-year high and the number of foreclosures is at an 11-year peak.

Boulder Region

Nonagricultural employment in Boulder County declined 2.3% through September. Layoffs, particularly in the technology sector, continue to hurt the local economy. According to the U.S. Census Bureau, the number of permits for residential construction in the Boulder region declined 25.0% through September, compared with the same time period in 2001. Foreclosures in Boulder County numbered

**Figure 3. Boulder Region Employment Trends
Not Seasonally Adjusted**



210 year-to-date through September, up 22.1% from the same time period in 2001. In addition, the rental vacancy rate in Boulder was 14.2% during the third quarter, up from 3.6% a year before, according to the Denver Area Apartment Vacancy and Rent Study.

Three technology manufacturers announced layoffs in October. California-based Sun Microsystems Inc. announced that they would lay off 4,400 people, or 11%, of its worldwide workforce. An undisclosed number of layoffs will occur at its **Broomfield** location at Interlocken. The computer and software manufacturer employs 3,300 people in Broomfield. **Boulder**-based Carrier Access Corp. announced that it would close some of its operations and lay off 70 people in October in an effort to cut costs. The manufacturer of telecommunications equipment employed 362 people prior to the layoffs. Finally, Boulder-based DataPlay Inc. laid off its remaining 80 employees in October and may be closing up shop. The manufacturer of digital discs and disc players employed 240 people as recently as July. The move came when the company failed to raise the venture capital required to continue operating.

“...Transgenomic Inc. opened a research and manufacturing plant in Boulder in October with 30 employees...”

Nebraska-based biotech firm Transgenomic Inc. opened a research and manufacturing plant in Boul-

der in October with 30 employees and expects to hire an additional 60 people within a year. The plant will develop and manufacture DNA- and RNA-based ingredients to sell to pharmaceutical companies. Transgenomic employs 325 people worldwide.

Northern Region

Through September, both Larimer and Weld counties showed decreases in residential units permitted over last year's pace. Larimer's decline was 11.8%, while Weld County had a more modest decline of 3.8%. In nonresidential building, both counties appear headed in the other direction, as Larimer and Weld counties experienced declines in nonresidential permit values of 14.1% and 32.8%, respectively.

Construction on the \$25 million to \$30 million expansion of Loveland's reservoir should begin early next year. When completed, the reservoir will hold 6,000 acre-feet of water, expanding the city's emergency water supply from six days to at least 60 days.

Southern Region

Pueblo saw a decline in both residential and nonresidential construction through September compared with the same period a year ago. Residential units permitted were off 5.8% from 2001 levels, while nonresidential construction values saw a similar decline of 21.4% over the nine-month period.

Construction continues at Sumo Golf Village in **Florence**, as developers hope to open the community's championship golf course next fall. Upon full build out, the development will include 3,500 housing units. The three current model homes range in size from 3,000 to 4,354 square feet and are priced at \$169,900 to \$199,900. Beginning in 2003, permanent model homes, condominiums, one apartment building, and some commercial construction will round out the first phase of construction.

“...the average wage for available jobs in Pueblo is \$8.70 per hour...”

A newly released Department of Labor and employment survey reports that more than half of the job vacancies in Pueblo are at larger businesses and corporations. Furthermore, the average wage for available jobs in Pueblo is \$8.70 per hour, and are located largely in the retail and services sectors. Higher wage job openings, the survey stated, can be found mostly in the health care industry as demand for nurses continues to increase.

Pueblo Diversified Industries agreed to a new contract to remanufacture receivers for Colorado Springs-based Minco Manufacturing. The contract is expected to gross about \$250,000 a year and will spur construction of a nearly 12,000-square-foot addition to its Granada Boulevard plant. PDI expects to add between 10 to 15 new jobs.

Mountain and Western Region

A power plant north of **Silverton** will be turned into an \$863,000 small business incubator. Repairs will be made to the power plant and a neighboring barn and eleven acres will be developed into a business park. Two small businesses have already occupied part of the plant. Incubators tend to aid businesses for several years before the businesses branch out into the regular business world.

Schlumberger Oilfield Services will build a new facility on 5.5 acres in **Grand Junction** and hire between 30 and 40 workers when it is completed next year. The jobs will be relatively well paying for the

area and most of the positions will be new hires.

Mixed news was released by ski resorts during the last month. On the positive side, Breckenridge resort has asked the U.S. Forest Service for permission to build a mid-mountain restaurant, a midway station on its high speed chairlift, a water treatment plant, and 19 acres of increased snowmaking on its beginner runs. Meanwhile, Vail Resorts, the owner of Vail, Breckenridge, Keystone, and Beaver Creek resorts, will cut 100 positions and undertake other cost-cutting measures.

CWA Development plans to build a fractional-ownership condominium complex in **Aspen** at the base of Aspen Mountain. The 31-unit ski-in, ski-out lodge would include rooms that can be locked-off to allow for up to 60 separate guests rooms. The 1.25-acre site will also include a restaurant/bar, commercial space, a deck, and underground parking.

Nonresidential construction in the central ski counties (Eagle, Pitkin, and Summit) followed statewide trends through September, dropping 26.6%, according to F.W. Dodge. However, unlike the state, where declines have occurred across the board, strong construction gains for retail, office, hotels, and manufacturing were more than offset by steep declines in the construction of education and science facilities and amusement facilities. Residential construction declined 12.8%, according to the U.S. Census Bureau.

Mesa County experienced a 10.3% decline in nonresidential construction through September 2002. Like the central ski areas, growth occurred in the commercial sectors but falling construction of amusement facilities, as well as hospital and health treatment centers, led to the overall decline. Residential construction rose 5.5%, however.

La Plata County has seen a significant increase in nonresidential construction across the board this year. The gains run counter to the experience of most of the state. Commercial, education, public buildings, and amusement facilities have all seen a dramatic rise in construction. Residential construction in La Plata County is running about even with last year, however.

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 September 2002)	4.8	-2.3	-0.7	-2.5	3.5	3.7	4.2	5.5	-0.1	3.9	1.3	3.2	5.8	5.8
Unemployment Rate ◇◆ (not seasonally adjusted) (in September 2002)	5.6	5.1	5.7	5.2	3.8	4.5	3.9	5.2	3.3	3.9	6.0	2.9	2.5	3.3
Retail Trade Sales Growth ▼△ (through August 2002)	2.1	-17.5	2.2	-1.9	-2.8	2.1	5.3	8.3	-13.5	0.3	2.6	-5.5	-1.3	-1.6
Growth in Value of Non-residential Construction* (through September 2002)	-41.3	-18.5	31.0	-26.9	①	-14.1	-10.3	-32.8	②	70.9	-21.4	-26.6	-63.1	③
Housing Permit Growth ° (through September 2002)	-14.0	-25.0	0.6	-27.7	0.9	-11.8	5.5	-3.8	-91.7	-0.8	-5.8	-12.8	30.5	-53.4

◇ Actual level not growth rate.

◆ Colorado Department of Labor and Employment data.

* F.W. Dodge data.

° F.W. Dodge & U.S. Census Bureau

▼ Colorado Department of Revenue data.

△ Boulder retail trade excludes Broomfield City and County since November 2001.

① \$14.6 million was contracted in 2002, while \$2.3 million was contracted in 2001.

② Nothing was contracted in 2002, while \$994,000 was contracted in 2001.

③ \$13.7 million was contracted in 2002, while \$2.7 million was contracted in 2001.

Colorado Indicators Year-to-Date Growth Rates

Indicator	September 2002	August 2002	2001 Annual Average
Nonfarm Employment Growth ✎	-2.1	-2.1	0.9%
Unemployment Rate ✎ ‡ (seasonally adjusted)	5.2	5.1	3.7
Housing Permit Growth ~			
Single family	-16.5	-17.5	1.5
Apartments	-7.1	-8.3	-3.2
	-35.6	-38.5	12.5
Growth in Value of			
Nonresidential Construction §	-20.1	-15.9	-0.6
Retail	-13.8	-10.7	12.8
Offices	-47.8	-49.5	-34.9
Factories	-79.8	-79.7	194.4

✎ 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 2.2% through the first half of 2002, following a 4.7% rate in 2001.