



# Colorado Economic Chronicle

*A Research Newsletter*

Legislative Council  
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**Note: The next publication of the Colorado Economic Chronicle will be in February 1998.**

## National Economy

The third longest post-World War II expansion of the national economy was undeterred in the late fall months. The final revision to inflation-adjusted **gross domestic product** (GDP) indicated that the national economy expanded at a 3.3% annual rate in the third quarter of 1997. For 1997, GDP growth will likely average 3.8%, much stronger than the 2.8% rate posted in 1996. Separately, as the stock market recovered most of the ground it gave up in late October, the interest rate on the 30-year bond dipped below 6.0% for the first time since January 1996.

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The **consumer** sector performed well in October and November. In November, the nation’s payrolls expanded by a stunning 404,000 jobs. The sharp increase pushed the U.S. unemployment rate down to 4.6%, the lowest rate in 24 years. Employment gains were spread among most categories, including retail trade (105,000), services (180,000), manufacturing (44,000), and construction (29,000). The only sector to decline was government employment, which fell by 5,000. Low unemployment and a healthy job market translated into both strong income and spending gains

in October. The Commerce Department reported that both personal incomes and consumption spending posted increases of 0.5% in the month. Given the income and employment gains, it was not surprising that the Conference Board reported that its index of consumer confidence increased in November.

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The **manufacturing** sector was mostly positive in October and November. The Federal Reserve reported that output from the nation’s mines, factories, and utilities jumped 0.8% in November. Production of computer equipment and automobiles led the broad-based increase in output. The Commerce Department reported that orders for durable goods dipped 0.1% in October. Meanwhile, nonfarm business productivity, which measures output per hour worked, increased at a robust 4.1% annual rate in the third quarter. Increases in productivity are important because they typically lead to non-inflationary wage increases, which in turn raise living standards. Meanwhile, the National Association of Purchasing Management reported that its index declined in November, but that the index still indicated expansion in the industry.

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The **housing and construction** sectors performed generally well in October. Overall construction spending increased a slight 0.1% in the month, led by a solid increase in residential construction spending (the number of new home starts also increased). Nonresidential construction spending declined 1.2%, and government construction spending increased 0.6%. The October housing market was mixed, sales of *existing* homes reached record levels in October, but *new* home sales were down somewhat.

Despite the gains in income, employment, and production in 1997, **price inflation** has remained low. Prices at the consumer level increased just 0.1% in November, the smallest increase in five months. Prices at the wholesale/producer level fell 0.2% in the month. Through November, consumer price inflation was 2.4% on an annualized basis, while producer price inflation was a mere 0.1%.

The national economy continues to grow at a healthy pace. Through November 1997, the current expansion was 80 months old, and showed no signs of slowing.

## Colorado Economy

Colorado's economy remains on a steady growth path as 1997 nears an end. The unemployment rate remains low, while employment growth is steady. However, Colorado employers continue to have an increasingly difficult time hiring employees, especially in the service and advanced technology industries. Venture capital funds continue to pour into Denver, increasing 16.0% in the third quarter compared to one year ago. The sector benefitting most from venture capital funds is the communications industry, which garnered 63.0% of the total funds, followed by the software and information technology industry, which received 21.6% of the funds. Denver was rated the 2nd most improved city for business for the second year by *Fortune Magazine*. The magazine cites the downtown convention center, Denver International Airport, and

redevelopment of lower downtown as recent developments that improved both the business climate and the quality of life in Denver.

### Employment

Employment growth continued in October 1997, although at a slower pace than in 1996. Through October 1997, employment growth was 2.5%, relative to 1996 job growth of 3.4%. Statewide, the unemployment rate was 3.1% in October, well below the national unemployment rate of 4.7%. The October unemployment rate matched July's rate, which was a 24-year low. Moreover, in Denver, the October unemployment rate fell to 2.4%. As the labor market continues to tighten, there will be upward pressure on wages. A survey by Mountain States Employers Council reports that Colorado employers expect to increase average salaries by 4.3% in 1998, relative to 4.1% pay increases in 1997.

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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	→	Neutral
Unemployment Rate	↓	Good
Mortgage Rates	↓	Good
Retail Trade Sales	↑	Good
Home Resales	↑	Good
Nonresidential Construction	↑	Good
Colorado Inflation Rate	↓	Good
Overall Rating	↑	Good

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A few job cuts were announced in November. Kodak announced plans to decrease its Windsor work force by 60; MKE Quantum Corp. decreased its work force by 500 in Louisville and 230 in Colorado Springs; and Rader Railcar dismissed 115 employees in late November.

## Residential Construction

The sale of existing homes in metropolitan Denver increased 5.5% through November 1997, compared with the same period in 1996, from 35,478 to 37,437. The average price of a single-family existing home through October, increased 6.2%, to \$169,034. Finally, the number of unsold homes on the market is 2.2 percent higher thus far in 1997, relative to the same period in 1996.

Overall, residential construction fell 4.0% through October 1997 compared with the same period in 1996, according to F.W. Dodge. While the construction of single-family residences remained stable, there was an 18.0% decrease in apartment construction. The Fort Collins-Loveland area was ranked ninth in the nation for residential construction, while Greeley placed eighteenth in a survey by U.S. Housing Markets. The ranking is based on the number of residential building permits issued per capita between October 1996 and September 1997.

A major new apartment development, Jefferson at Lowry, will be built at the former Lowry Air Force Base. The \$37 million project will include a 414-unit apartment complex, a movie theater, a 24-hour concierge service, a putting green, bike rentals, swimming pools, and a health club. Touted as the most luxurious apartment complex in the Denver area, rents are expected to be between \$650 and \$1,500. Ground breaking is scheduled in December 1997.

## Nonresidential Construction

According to F.W. Dodge, nonresidential construction increased 19.0% year-to-date through October 1997 compared with the same period in 1996. The increase was bolstered by strong gains in most of the nonresidential sectors: manufacturing, up 27.0%; office, up 37.0%; hospital and health treatment facilities, up 37.0%; public building, up 12.0%; and education and science facilities, up 15.0%. The only major sector reporting a decline was retail, down 13.0%.

Construction on the \$170 million Pepsi Center began in November, with completion of the facility scheduled for October 1999. J.D. Edwards broke ground on a second building in the Denver

Technological Center (DTC). The six-story, 200,000-square-foot building is estimated to be completed in December 1998, at the cost of \$28 million. Another project also broke ground in the DTC during November. The Metropoint II, an upscale office building, will cost between \$22 and \$25 million to build and will encompass 150,000 square feet. The building currently is not pre-leased, and is expected to command some of the highest lease rates in the DTC area. Meanwhile, Amoco announced plans to vacate its downtown Denver building, freeing up 160,000 square feet of office space.

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A number of planned, nonresidential construction projects were announced for western metropolitan Denver. Construction began on a \$10 million, 3-story office building for the corporate offices of KN Energy, Inc. Construction of the first speculative office building in 10 years was announced for the west Denver area, with construction beginning in spring 1998. In Westminster, the Westmoor Technology Park was approved. The park covers 325 acres, with 170 acres available for development. The park includes an 18-hole golf course, a 30,000-square-foot recreational facility, and nature trails.

Many new, nonresidential projects planned for the northern region were also announced during November. Fort Collins approved the Market Center, an \$18 million, 200,000-square-foot retail center. In Loveland, the Rocky Mountain Marketplace, a \$26 million shopping center, was proposed. The development will cover 325,000 square feet and be anchored by Target. A new development in Windsor was proposed, the Windsor Commons, which consists of 22,000 square feet of retail space and 40,000 square feet of self-storage space.

## Manufacturing

MKE Quantum Corporation will close its Louisville manufacturing plant, a move which will affect 500 employees. The firm manufactures parts for computer disk drives. Flexi-Rock Inc. announced that it will build a \$1.5-million manufacturing facility in

Montezuma County. The firm manufactures building products and will build a 43,000-square-foot plant on four acres. The new facility is expected to bring 25 new jobs to the area. Finally, the strike by CF&I employees continues in Pueblo. The strike affects 1,100 steel workers and shows no sign of resolution. The company maintains that it has filled most of the jobs vacated by striking workers, but the union disagrees.

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## Transportation

A bankruptcy court ruling kept Western Pacific Airlines from closing its doors earlier this month. The ruling approved a \$10 million loan to the airline from Smith Management Company for overdue payments on 18 leased aircrafts. Moreover, the airline will receive an additional \$20 million after December 20 for operating costs. Mountain Air Express, partially owned by Western Pacific, also filed for Chapter 11 bankruptcy protection in November. The company cited a cash shortage as its reason for bankruptcy.

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***“Through September 1997, airline traffic at DIA increased almost 14% . . .”***

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The current trend for airline bankruptcy filings is not the result of lack of passengers at Denver International Airport (DIA). The airport recorded a single-day record for passenger traffic on November 30, when 136,000 passengers used the facility. Through September 1997, airline traffic at DIA increased almost 14%, compared with the same time period in 1996. DIA also announced plans to build new check-in counters and baggage conveyors in the east terminal by December 1998.

## Government Spending

The Defense Department announced that it awarded a joint contract to Lockheed Martin and Boeing Co. to develop and build rockets for the U.S. Air Force. The two companies will share the \$1.3 billion award. Most of the Lockheed Martin work on the contract will take

place at its Waterton Canyon facility in Jefferson County. The Air Force Academy Hospital in Colorado Springs is targeted for downsizing to outpatient clinics in a cost-cutting measure that would be phased in over a four-year period.

## Tourism

The U. S. Forest Service rejected an appeal from environmental groups and approved an 885-acre expansion on Vail Mountain by Vail Associates. The expansion will open several new north-facing bowls and increase terrain on Vail Mountain by 12.0%. The area will be serviced by four high-speed quad chairlifts and will house two new ski patrol huts. Development is planned to begin the summer of 1998 and be completed by the 1999-2000 season. Vail Associates, which owns five ski resorts in Colorado, spent \$18 million at Breckenridge for improvements in 1997, including two high-speed quad chairlifts, and \$17 million at Keystone for improvements. Other proposed development projects for Keystone include creating 125 acres of immediate and advanced terrain and adding three new chairlifts.

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***“Winter Park finalized a deal to sell land at the base of the mountain for development of a \$300 million base village.”***

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Winter Park finalized a deal to sell land at the base of the mountain for development of a \$300 million base village. The village includes 200 ski-in/ski-out condominiums and 35,000 square feet of restaurants, shops, and ski service. The development will add 1,100 beds to the area.

Sunlight Mountain Resort, near Glenwood Springs, announced a major investment plan that adds high-speed chairlifts, more ski runs, on-mountain restaurants, and a base village. The addition of 10 new chairlifts will increase skier capacity by 264% and triple the usable terrain. Development on the project is planned to begin in 1999 and is expected to last 20 years.

Three casino towns in Colorado, Cripple Creek, Blackhawk, and Central City, reported record earnings of \$410 million through September 1997. While earnings through September were 4.4% higher

than the previous year, earnings growth slowed considerably from the double-digit growth of the past few years.

## Agriculture

The total cost for the late October blizzard is now estimated to be \$20 million. This includes the loss of 30,000 cattle, 1,540 swine, 1,027 sheep, 29 horses, and 300 goats. Cattle on feed in Colorado reached record numbers as of November 1997 and were 6.0% higher than one year ago.

## Metro-Denver Region

November witnessed many announcements of firms relocating to metropolitan Denver. Symbios Inc. (formerly Symbios Logic Inc.) announced plans to move its headquarters from Fort Collins to Denver in 1998. The move will add 50 jobs in Denver. The move is precipitated by the company's desire to have its headquarters equidistant between its Colorado Springs and Fort Collins facilities and to be closer to DIA.

Worldbridge Inc. plans to move its operations to the Denver area. The company provides technical outsourcing services to the cable industry and will employ 15.

The largest sightseeing bus tour company in the country, Grayline Worldwide, moved its headquarters to Denver from Dallas. The company has 10 administrative employees and annual sales near \$950 million.

Texaco announced plans to add 80 Star Mart outlets in the Denver area during the next two years. Each outlet is approximately 3,000 square feet and will cost between \$2 million and \$3 million to build. The addition of the outlets is expected to increase Texaco's employment in the area by up to 2,000 employees.

Three new tenants signed leases with the Pavilions, a downtown Denver retail project, located on the 16th Street Mall. Victoria's Secret will lease 5,000 square feet, Bath and Body Works will lease 3,100 square feet, and Express will lease 7,600 square feet. With

the addition of these tenants, the project is now 75% leased. The Pavilions is expected to open in November 1998.

## Boulder

Electric Manufacturing Systems, Inc. of Longmont purchased two companies located outside of Colorado: Bemac Engineering Ltd. and Talus Corp. Currently, the company employs 500 in Colorado and designs, manufactures, and assembles steel cabinets, cables, and electrical gear for the computer semiconductor, telecommunications, and medical technology industries. The company plans to add 329,000 square feet to its Longmont manufacturing plant.

## Northern Region

A nationwide move by Kodak to lay off 10,000 employees will affect approximately 60 employees at its **Windsor** plant. However, Kodak hopes the majority of the cuts can be accommodated through early retirement packages. Meanwhile, an ice arena has been planned for Windsor. The 36,000-square-foot, \$2.5 million arena will be the only of its kind in the northern region. Construction is planned to begin in 1998.

Symbios Inc. announced plans to build a new engineering facility in **Fort Collins**. The 115,000-square-foot facility will be built on land already owned by the company. Fort Collins also gave preliminary approval to annex 435 acres on the east side of town. Symbios Inc. also announced plans to relocate its headquarters to Denver, decreasing employment by approximately 50 in the Fort Collins area.

Rader Railcar in **Fort Lupton** suspended operations at the end of November. A major customer of the luxury railcar manufacturer defaulted on payments due to Rader Railcar. The firm dismissed 115 employees until it can line up new work.

## Southern Region

Foundation Health Systems, the parent company of QualMed, moved most of its operations to **Pueblo**. The office will be the headquarters for the western and

eastern regions and provide customer service to approximately 1.9 million members. Foundation Health Systems has begun hiring new employees and will eventually employ 2,000 in Pueblo with an average annual salary of \$42,000. American Furniture Warehouse broke ground on a new, 90,000-square-foot store in north Pueblo. The store will employ 30 upon completion.

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Quantum laid off 230 temporary workers at its **Colorado Springs** location. The company plans to streamline its manufacturing operations and no longer needs the temporary employees.

### Eastern Plains

**La Junta**, in Otero County, continues to experience a housing shortage. In hopes of ending the housing shortage, a proposal was made to give a 28-acre Air Force base to the city. The base, vacant since 1996, has 50 houses, a dormitory, and administrative buildings. The city would then sell the dormitory and 13 houses to Otero Junior College and rent the remaining houses to people with moderate incomes.

The Excel packing plant closed in Sterling. Historically, the plant had been the second largest employer in the area, with more than 300 workers, but could no longer acquire enough dairy cows necessary for production.

Colorado Indicators  
Year-to-Date Growth Rates

Indicator	October 1997 Increase	September 1997 Increase	1996 Annual Average
Nonfarm Employment * Growth	2.5%	2.5%	3.4%
Unemployment Rate ∇ * (Seasonally adjusted)	3.1%	3.4%	4.2%
Housing Permit Growth § Single-Family	-4.0	-9.7	15.6
Apartments	1.5	1.2	12.0
Growth in Value of Nonresidential Construction §	-18.2	-37.5	30.3
Retail	18.6	11.4	27.3
Offices	-12.9	-14.1	-4.2
Factories	36.9	33.9	22.3
	26.7	62.0	23.6

∇ 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 3.4% through the first half of 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 October 1997)	2.5	§ 3.2	§ 3.4	§ 1.8	4.3	4.6	5.2	3.7	2.0	4.4	§ 4.6	5.5	3.3	0.6
Unemployment Rate ⊗ ◆ (not seasonally adjusted) (in October 1997)	3.7	2.4	3.1	2.4	3.3	2.5	3.7	3.7	2.5	4.4	6.1	4.4	3.9	2.8
Retail Trade Sales Growth ∇ (through October 1997)	1.6	8.0	6.1	6.1	3.4	5.9	4.9	5.0	3.8	5.4	8.1	8.9	11.6	5.7
Housing Permit Growth * (through October 1997)	94	-28	-22	6	4	-16	-11	-8	-32	-3	1	-14	41	-30
Growth in Value of Non-residential Construction * (through October 1997)	19	14	-23	20	-28	121	101	8	@	-70	-3	-7	-27	⊠

§ Nonfarm Employment Growth.

⊗ Actual level not growth rate.

◆ Colorado Department of Labor and Employment data.

\* F.W. Dodge data.

∇ Colorado Department of Revenue data.

@ \$700,000 was contracted through October 1997, while nothing was contracted through the same period in 1996.

⊠ \$83.6 million was contracted through October 1997, while \$250,000 was contracted through the same period in 1996.