



Colorado Economic Chronicle

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National Economy

National economic growth slowed in the second quarter of 1998, as the General Motors strike hampered industrial production and weakness in Asia reduced American exports to those countries. For the second quarter, **inflation-adjusted gross domestic product** (GDP) grew at a 1.4% annual rate. While growth was weaker than during the first quarter, several aspects of the GDP report were positive. Consumer spending increased at a robust 5.8% annual pace, and business investment and housing construction were strong. Meanwhile, higher military spending caused overall government spending to increase in the quarter.

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The **consumer sector** was mixed in June and July due to the effects of the Asian economic crisis and the General Motors strike. In July, a 176,000 drop in manufacturing employment (mostly related to the strike) left the economy with a net gain of just 66,000 jobs. For July, the unemployment rate remained steady at 4.5%. Separately, consumer spending increased a healthy 0.6% in June, even with just a 0.2% increase in personal income. Retail sales (a narrower measure of spending because it excludes services) increased 0.1% in the month. In July, the Conference Board reported that its index of consumer confidence dipped as Americans expressed concerns about the strength of the economy and job availability.

Still, the overall level of confidence measured by the index remained high.

The **manufacturing sector** was weak in recent months. Output from the nation's mines, factories, and utilities fell 0.6% in June, mostly because of a sharp decline in car production related to the General Motors strike. Excluding the automotive component, output rose 0.1%. In the month, U.S. industry operated at 81.6% of capacity, the lowest level in five years. The lower capacity utilization bodes well for inflation because firms are able to expand production using existing resources. Orders for durable goods (those intended to last three years or more) dipped 0.1% in June after a steep decrease in May. Weak foreign demand and competition from inexpensive Asian products are the reasons for the drop in orders. Meanwhile, the National Association of Purchasing Managers reported that its index fell in July after dropping below the critical 50% level in June for the first time in nearly two years. A reading below 50% indicates contraction in the industry, while a reading above 50% indicates expansion.

The **housing and construction** sectors turned in mostly solid results in recent months. Sales of *new* homes surged 3.8%, to a record high in June, but *existing* home sales fell 2.3%. The median price of a new home was \$145,000 (unchanged from one year earlier), while the median price of an existing home was \$134,600 (5.8% higher than one year earlier). Separately, spending on new construction increased 1.7% in June, while the number of new homes under construction increased 5.6% in the month.

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Price increases remained under control. The consumer price index increased just 0.1% in June, while the producer price index fell by the same amount. Through the first six months of 1998, consumer prices are 1.5% above the same period in 1997. Producer prices are 2.3% *below* their year-ago level.

The nation's economy experienced some negative effects from the Asian economic crisis in recent months. Furthermore, the recently settled strike at General Motors also dampened employment and GDP growth. However, the domestic economy continues to draw strength from low interest rates and benign inflation. Employment growth and consumer spending are steady, and home construction is robust.

Colorado Economy

Colorado's economy continued on a healthy growth path through June 1998, albeit at a somewhat slower pace than in 1997. While the unemployment rate increased slightly during June, it was still well below the national unemployment rate. Job growth thus far in 1998 is similar to its 1997 pace. Growth in residential construction permits is registering a faster pace in 1998 than 1997, up 3.7% through June 1998 compared with a 0.5% decline for 1997. The value of nonresidential construction declined through the first six months of 1998. However, numerous residential and nonresidential projects are planned for the next year.

3.4% in June, but still remained well below the nation's unemployment rate of 4.5%.

Various job announcements occurred during July. Gateway 2000, Inc. will open a facility in Lakewood with 300 employees. North Face will move its operations to Carbondale, adding 90 to 100 workers to the local work force. Tanning Technology Corp. is moving to the Denver Technological Center, where it will employ 150 people. Ball Corp. announced plans to move 68 employees to its new facility in Broomfield from Indiana.

"Colorado's economy continued on a healthy growth path through June 1998, albeit at a somewhat slower pace than in 1997."

Job reductions were also announced, however. OEA Inc. will reduce its work force by 150 employees. Twenty employees will be laid off at Lakewood-based MoneyGram Payment Systems, Inc. In Grand Junction, Rocky Mountain Health Maintenance Corp. let 13 employees go and in Colorado Springs, Atmel Corp. plans to reduce its work force.

Employment

Colorado's nonfarm employment increased 3.7% through June 1998, compared with the same period in 1997. The state's unemployment rate rose slightly, to

Population

The Colorado State Demographer's office released revised population projections that anticipate a 1.5 million increase in the state's population, to 5.5 million, by the year 2020. In the near term, population growth is expected to average 2.0% per year, a rate almost twice the national average.

Colorado's Economy at a Glance

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

Residential Real Estate

The residential housing market continues to thrive during the summer months of 1998, as existing home sales posted new record highs. According to Perry & Butler Realty, Inc., the number of existing single-

family homes sold in metropolitan Denver during July 1998 increased 17.0% from July 1997. Meanwhile, the average price of an existing single-family residence increased 8.7%, to \$182,730, through July 1998. The average price of a condominium increased even faster, 16.9%, during the same period.

“The residential housing market continues to thrive during the summer months of 1998, as existing home sales posted new record highs.”

Residential construction permits increased 3.7% through the first half of 1998, according to F.W. Dodge. Single-family housing permits increased 10.4%, while permits for apartment buildings declined 19.1% through June 1998, compared with the same period in 1997. The value of residential construction soared 16.4% through June 1998.

For the fourth consecutive quarter, apartment vacancy rates in metro Denver remained at 4.6% in 1998's second quarter. The vacancy rates remained stable despite the addition of 4,703 units during the year. This suggests that the rental market is absorbing the new supply as quickly as it becomes available. The stability in the vacancy rates has been coupled with a 1.2% increase in rental rates for the metropolitan communities since the third quarter of 1997.

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A new, high-end apartment complex is scheduled to be built at the Meridian International Business Center in Douglas County. The complex, Jefferson at Meridian, will be a 1,500-unit complex with rental rates ranging from \$668 to \$1,427 per month.

Ground was broken on a retirement community that will be built by U.S. Homes in south Aurora. The \$500 million retirement community, situated on 1,000 acres, will be the site of 1,435 homes, an 18-hole golf course, and a 35,000-square-foot club house and community center. The project is expected to open in early 2000.

Nonresidential Construction

The nonresidential construction market shows signs of slowing during 1998. Through June 1998, F.W. Dodge reports that the value of nonresidential construction declined 5.9% from one year ago. The decline is broad-based, with the largest declines occurring in manufacturing, public buildings, and dormitories. The only increases in the value of nonresidential construction were in the garage and service stations and warehouses sectors.

Plans for several new developments were announced during July. Construction began on the first new high-rise office building in the Denver Technological Center since the 1980s. The building, scheduled to open in August 1999, will be 13 floors and will cover 296,000 square feet. The first tenant, Tanning Technology Corp., will lease 65,000 square feet and will employ 150 people.

American Family Insurance broke ground on an 18-acre office complex in the Meridian International Business Center. The first phase, scheduled to open in October 1999, will encompass 150,000 square feet of office space. An additional 150,000 square feet of office space will be added later.

A former Army warehouse, which has been vacant since 1993, is slated for redevelopment in northeast Denver. The 38-acre site will be developed into a \$16 million commercial center and will include warehouses, a business-assistance office, a medical/dental clinic, and a day care center. The project is expected to be completed in three years.

“Lucent Technologies announced plans to build two new facilities in the Denver metropolitan area . . .”

Lucent Technologies announced plans to build two new facilities in the Denver metropolitan area in order to consolidate its current metro-Denver work force and to build state-of-the-art facilities. The first development, a 600,000-square-foot campus, will be built in the south metro-Denver area and will consolidate 3,200 employees from 12 other metro-Denver office sites into the new campus. The second building will be a research and development facility on a site adjacent to its current laboratory in Westminster and is slated to open in 2000.

Many new *retail* building projects have been announced near the Park Meadows mall in Douglas County. The area's first Club Disney is planned for the entertainment district near the mall. Club Disney offers children's entertainment, including theme birthday parties, participation in fashion shows, CD-Rom interaction, and a restaurant. Club Disney is scheduled to open in winter 1999. Other projects on the entertainment district site include a 169-room, extended-stay hotel, 350,000 square feet of office buildings, an ice arena with two ice-skating rinks, a bowling alley, a covered baseball training facility, and 150,000 square feet of space for the University of Phoenix.

"The City of Denver reached an agreement with Westin Hotels to build a 17-story, 526-room hotel adjacent to the airport."

Construction activity near Denver International Airport (DIA) is robust. The City of Denver reached an agreement with Westin Hotels to build a 17-story, 526-room hotel adjacent to the airport. The \$87 million hotel will be connected to the airport by a skybridge and is scheduled to open in 2001. The hotel will have the potential to expand to 1,000 rooms. In addition, Graebel Companies Inc. broke ground on its new headquarters at Gateway Park near DIA this month. The new site will be approximately 400,000 square feet, triple the size of its Aurora location, and will cost close to \$20 million.

There are four new commercial projects planned or underway in the Town of Avon. Chapel Square, currently under construction, will offer 150,000 square feet of retail and office space and 67 condominiums. Adjacent to Chapel Square will be the Village at Avon, which will include 750,000 square feet of office and retail space, 2,400 housing units, a 30-acre park, an ice arena, a community recreational center, an outdoor amphitheater, and a 7.5-acre school site. The Village at Avon development is long term, however, taking an estimated 20 years to complete. Vail Resorts Inc. also plans to develop land near the Town of Avon. The Vail Resorts Inc. project would include a hotel, condominiums, employee housing, a tram serving Beaver Creek and Bachelor Gulch, and 400 parking spaces. The final development, also planned by Vail Resorts Inc., includes condominiums and a 150-room hotel in the Town of Avon.

International Trade

Due to the turmoil in Japan's economy, exports from Colorado to Japan decreased 6% in 1997. Japan is Colorado's largest export market and accounted for 15.6% of Colorado's exports in 1997. Advanced technology products, environmental control and measuring devices, and agricultural products account for the bulk of Colorado's exports to Japan. Even though Colorado's exports to Japan have declined recently, the country still plans to open a consulate in Denver in 1999. The Japanese consulate, one of 15 in the United States, will encourage trade, gather information about business opportunities, and arrange exchanges and cultural performances between Colorado and Japan.

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Education

The U.S. Census Bureau released a report ranking Coloradans as some of the best-educated people in America. The state ranked fourth in the nation in the percentage of residents with a bachelor's degree and eighth in the percentage of residents 25 years of age or older with a high school diploma.

Transportation

E-470, the tollway that will link the eastern metro area from the north to the south, opened 17 more miles of highway during July. Two sections were opened, a seven-mile section from Parker Road to Smoky Hill Road on the south end and a ten-mile stretch from 56th Avenue to 120th Avenue in the northern part of metro Denver. The new portions of the tollway will eventually access Denver International Airport when another segment of the tollway opens in the summer of 1999.

Agriculture

The number of cattle and calves on feed for the slaughter market in Colorado as of July 1, 1998 was 10% below the number on feed for slaughter on

June 1, 1998, and 4% below the number of one year ago. The total cattle inventory as of July 1, 1998 was 2% below level of one year ago. Meanwhile, cow prices have declined 11.8% from June 1997. The winter wheat crop is expected to produce a harvest 12% above 1997 production levels, while mid-July wheat prices have declined 16.9% from one year ago.

Mining

The Gold Hill Mill, a gold mine in Boulder County, was recently purchased after being inoperable for the past six years. The new owner has purchased the mill, 50 acres of land, and the rights to clean up the mine waste on 700 other acres. The owner plans to extract gold from the low-grade ore left behind when the mill was closed. After extraction, the site will be reclaimed and will either be sold for residential and commercial development or be used for agricultural purposes.

Denver-Metro Region

The former Merrill Lynch site in Lakewood was leased by Gateway 2000, Inc. to house a software design operation and data center. The computer manufacturer expects to create 300 jobs over the next four years at the facility.

Plans to move the headquarters of Ball Corp. from Indiana to Broomfield were announced in July. Ball Corp., a plastic and metal container manufacturer, will move 68 employees from Indiana to Broomfield this year.

Leasetec announced plans to move its facility from Boulder to Superior early next year. The move will create an extra 20,000 square feet for its facility. Moreover, the expansion will lead to an increase in staff from 8% to 10% per year.

“OEA Inc., a manufacturer of air-bag inflation devices, reported that it will cut its work force by 150 employees at its Denver production facility.”

OEA Inc., a manufacturer of air-bag inflation devices, reported that it will cut its work force by 150 employees at its Denver production facility. After

being bought out by Viad Corp. of Phoenix, MoneyGram Payment Systems, Inc., a Lakewood-based company, announced plans to lay off 20 employees.

The first phase of the Cherry Creek mall expansion is scheduled to open in August. Stores in the initial stage of the 176,000-square-foot expansion include Rainforest Café, Tiffany & Co., Restoration Hardware, and Banana Republic. The entire expansion project is expected to be completed this winter and in total will add 16 new stores.

Kohl’s Department stores announced plans to open five stores in the next year in the metropolitan-Denver area. The stores will be opened in Westminster, Lone Tree, Louisville, Thornton, and Aurora.

Arapahoe County commissioners approved the construction of a \$2 million, 90-bed community corrections facility. The facility is scheduled to open in October 1998.

Skyline Park, a 3.2-acre park situated between 15th and 18th streets along Arapahoe in downtown Denver, may be receiving an \$8 million renovation. The renovation would lower the park to street level and add grassy areas and lighting.

Western Region

Carbondale recently was named the site for the new headquarters of North Face, a manufacturer of outdoor clothing and gear. The company will relocate 60 to 70 employees with salaries ranging from \$70,000 to \$120,000 to Carbondale and will hire an additional 30 employees. Currently, the company’s headquarters are in California.

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Rocky Mountain Health Maintenance Corp. laid off 13 employees in its Grand Junction office during July. The company, the manager of Rocky Mountain HMO, faced lower-than-expected revenue.

Southern Region

Atmel Corp., located in Colorado Springs, announced plans to shrink its work force nationally by 10% over the next six months. The maker of specialty memory chips, did not state how many workers would be let go from its Colorado Springs location, which currently employs 2,000.

T. Rowe Price is considering Colorado Springs for a new customer service center. If located in Colorado Springs, the center would employ 750 people in the next five years. Currently, Colorado Springs has numerous call centers.

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A new 30-acre park is being developed in downtown Colorado Springs. The park will be situated west of downtown where Monument and Fountain creeks meet. The park will hold special events, open-air markets, and concerts.

Colorado Indicators Year-to-Date Growth Rates

Indicator	June 1998	May 1998	1997 Annual Average
Nonfarm Employment * Growth	3.7%	3.8%	4.0%
Unemployment Rate ∇ * (Seasonally adjusted)	3.4	3.2	3.3
Housing Permit Growth §	3.7	13.5	-0.5
Single-Family	10.4	10.4	4.7
Apartments	-19.1	24.6	-13.6
Growth in Value of			
Nonresidential Construction §	-5.9	-31.4	22.3
Retail	-21.1	-13.2	-11.7
Offices	-27.7	-2.0	43.6
Factories	-69.9	-71.3	20.2

∇ 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.

NOTE: The next publication of the Chronicle will be on October 1, 1998.

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 June 1998)	7.3	§ 4.4	§ 1.8	§ 3.5	8.1	5.8	5.9	6.1	7.4	5.8	§ 2.6	5.4	2.3	1.9
Unemployment Rate ⊗ ◆ (not seasonally adjusted) (in June 1998)	7.3	3.6	4.7	3.2	5.1	3.8	5.0	4.6	4.2	5.9	8.6	4.0	3.9	6.4
Retail Trade Sales Growth ∇ (through April 1998)	8.9	6.0	6.9	8.8	12.6	7.3	5.2	13.6	1.5	4.6	5.7	4.8	12.4	-4.1
Housing Permit Growth * (through June 1998)	@	-9	20	5	-32	-15	16	64	28	-20	12	-3	-53	13
Growth in Value of Non-residential Construction * (through June 1998)	-86	-35	9	-80	-77	-19	-37	-39	♣	1	-45	-52	7	-97

§ Nonfarm Employment Growth.

⊗ Actual level not growth rate.

◆ Colorado Department of Labor and Employment data.

* F.W. Dodge data.

∇ Colorado Department of Revenue data.

@ 37 units were permitted through June 1998, while 11 were permitted through the same period in 1997.

♣ \$4.5 million was contracted through June 1998, while \$700,000 was contracted through the same period in 1997.