



Colorado Economic Chronicle

A Research Newsletter

Legislative Council
Denver, Colorado

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October 27, 1998

National Economy

While the U.S. economic expansion is nearing the second-longest expansion in post-World War II history, the pace of growth is definitely slowing. The impacts of the strike at General Motors and the global economic malaise slowed second quarter **inflation-adjusted gross domestic product** growth to a 1.8% annual rate, the slowest pace in three years. While the strike was temporary and will also have a negative impact on third-quarter GDP, the global economic slowdown will have a longer-lasting impact on the national economy. Many of the recent national economic statistics are perhaps beginning to reflect the impact of the worldwide economic slowdown. For example, the U.S. trade deficit jumped to a record high in August. The trade deficit is on pace to exceed last year's by 50%.

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In an effort to stimulate the economy amid signs that the national economy is slowing, the Federal Reserve Board reduced the federal funds interest rate on September 29 and again on October 15. The Federal Reserve Board also lowered the largely ceremonial discount rate by one-quarter percentage point. The federal funds rate is the rate at which banks lend one another money overnight, while the discount rate is the rate at which the Federal Reserve Board loans money to other banks. The two one-quarter percentage point reductions, to 5.00%, were the first cuts in the rate

since January 1996. Many commercial banks followed with reductions in their prime lending rates. Meanwhile, the interest rate on the 30-year Treasury bond dropped below 5% in late September, and mortgage interest rates recently reached a 30-year low.

National **employment** increased by only 69,000 jobs in September, the weakest growth since January 1996, when a blizzard crippled employment in the Northeast. Manufacturing employment suffered its fifth decline in the last six months. A weak export market and a price-competitive import market are hurting domestic manufacturers. Construction payrolls fell by 20,000 jobs despite the fact that the lowest mortgage interest rates in 30 years should be helping the construction industry. Services employment increased by 24,000, only one-fifth of its pace of recent months.

There are signs that the **consumer sector** is weakening. The slowdown in the international economies, the retreat of the U.S. stock market, and weaker employment growth were reflected in lower consumer confidence in September, marking the third consecutive month of eroding consumer confidence. In spite of weakening consumer confidence, consumer spending has been strong, up 0.6% in August. Spending on durable goods — items intended to last three years or longer — surged 1.1%, while spending on nondurable goods and services increased 0.2% and 0.7%, respectively.

The consumers' outlook is having an impact on the national sales of existing and new homes. Sales in August of existing homes and new homes fell 3.7%

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and 4.4%, respectively. While sales slowed in August, they remain on a strong pace for the year because of robust growth earlier in the year. Meanwhile, **construction spending** increased a weak 0.1 percent in August. Government outlays for new construction offset small declines in the residential and nonresidential sectors. Lenders are tightening the terms on which loans are made to customers. Banks are becoming wary of lending to businesses with increased credit risks, such as the construction industry.

While industrial production in the **manufacturing sector** surged 1.7% in August, most of the increase was due to increased automobile production following the end of the General Motors strike. Excluding autos and auto parts, industrial production (output from mines, factories, and utilities) increased only 0.1% in August, less than the comparable increase of 0.2% in July. The relative weakness of industrial production is also reflected in the National Association of

Purchasing Management index. While the index was steady at 49.4 in September, it marked the fourth consecutive month below 50. An index reading below 50 generally indicates a contraction in the manufacturing sector.

Inflation remained under control. The consumer price index was unchanged in September. Consumer inflation is running at a 1.3% annual rate this year, its lowest level since 1965. Meanwhile, producer prices increased 0.3% in September. Still, producer prices have *fallen* at a 2.3% annual rate through September.

The worldwide economic slowdown is exerting a negative influence on the U.S. economy. Many economic indicators are weakening. Actions by the Federal Reserve Board and attempts to shore up economic activity in slumping countries will determine the near-term course of the national economy.

Colorado Economy

The Colorado economy continued to post relatively good numbers in September and October, but the impacts of the Asian crisis manifested themselves in the advanced technology sector. On the plus side, inflation remained low as did the unemployment rate. Additionally, nonfarm employment is increasing at a healthy rate in Colorado.

the recent economic turmoil in Asia has resulted in several job loss announcements. Notably, LSI Logic will reduce its work force by 205, Rockwell International Corp. will reduce its work force in Colorado Springs by 175, EFTC Corp. laid off 130 workers in Greeley, and Electronic Data Systems laid off 97 people in Louisville. These and other job gains and losses are discussed in greater detail throughout the *Chronicle*.

Employment

Colorado's nonfarm employment growth remained steady at 3.6% through August 1998. The unemployment rate was also unchanged at 3.3% for the month. Through August, the unemployment rate averaged 3.2%, well below the national average of 4.5%.

There were few job gain announcements in recent months. T. Rowe Price Associates will hire 120 people for a new Colorado Springs call center, while Morrison Knudsen will hire 60 additional people over two years in Jefferson County. On the negative side,

Colorado's Economy at a Glance

<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

Residential Construction

Through August, the *number* of residential permits under contract was down 2.0% in Colorado compared with the same period in 1997, according to F.W. Dodge. However, the *value* of residential construction under contract was up 14.5% in the same period, thus more expensive homes are being built.

A solid employment situation and low interest rates continue to fuel home sales. Perry and Butler reported that the average price of an existing single-family home sold in metro Denver through September was \$184,962, 9.7% above the same period in 1997. The average condominium price of \$115,183 was 17.4% above the average through the first nine months of 1997. Additionally, the number of properties closed through September was 14.3% above the number closed through September 1997.

A study by U. S. Housing Markets, a Michigan-based research company, ranked Colorado as the third most expensive state for housing. The firm estimates that Coloradans spent 36.3% of their income on housing in 1997, after California and Massachusetts.

Officials in Brighton broke ground on Bromley Park, a new 1,500-acre residential development that will have 8,700 new homes, with prices starting in the low \$120,000s.

Nonresidential Construction

F.W. Dodge reported that the value of nonresidential construction was down 25.7% through August 1998, compared with the same period in 1997. With the exception of the commercial sector, most major categories registered declines. It is worth noting, however, that nonresidential construction activity surged in 1996 and 1997 (up a total of 56.1% during the two-year period), and the reduced activity in 1998 represents a natural slowing from that level.

Plans for construction of four power plants to be located near Denver International Airport were unveiled in early October. The plan represents a joint venture by North American Power Group and a local real estate developer. The plants could be operational by January, but that starting date is contingent on a commitment to purchase the power by Public Service Company, which will not decide

on the issue until later this year. Without the commitment, the company will build the plants at a slower pace.

Koll Development Co., a California developer, plans to build a \$23 million, 592,400-square-foot industrial development near Denver International Airport. Initial construction on the Koll Peoria Center will include over 420,000 square feet between two buildings. The two buildings are expected to be completed in March. The company expects the remainder of the project to be completed late in 2001. Meanwhile, Great-West Life & Annuity Insurance company will build a \$33.5 million office tower in the Denver Technological Center and Morrison Knudsen will build a new \$10 million building in Jefferson County.

Advanced Technology

The advanced technology sector has been negatively affected by the economic crisis in Asia. As a result of slumping electronics business and the absorption of Symbios Inc., **LSI Logic**, a computer chip manufacturer, will reduce its Colorado staff of 1,490 by 205. About three-fourths of the reduction will occur at its Fort Collins plant and the remainder will occur at its Colorado Springs plant. About 45% of the displaced workers will be offered transfers to other LSI operations. Weak sales and profit concerns led **Hewlett-Packard** to delay construction on a new 315,000-square-foot plant in Ft. Collins. The plant would have employed 200 to 300 new employees. Additionally, the company will offer severance packages to 230 of its 9,000 Colorado employees.

"The advanced technology sector has been negatively affected by the economic crisis in Asia."

Rockwell International Corp. will reduce its Colorado Springs work force by 175 as part of a company-wide reduction in its Semiconductor Systems division. The company plans to shut down its Colorado Springs operations and sell the buildings it owns there. The layoffs are the result of the company's plans to spin-off the division in December 1998 and a general slowdown in the computer industry. **Electronic Data Systems** laid off 97 people from its Louisville-based Centrobe division in

September. The layoffs were the result of combining four previously separate companies under the Centrobe name. Centrobe employs approximately 2,500 people in Boulder County.

The United States Air Force recently awarded \$3 billion of contracts to Boeing Corp. and Lockheed Martin, with the latter receiving about \$1.2 billion of the total. The contracts are to build the new Evolved Expendable Launch Vehicle program, which will replace the current rocket launch program that includes Lockheed Martin's Atlas and Titan rockets, and Boeing's Delta rockets. Rocket design is one function performed at the Lockheed Martin Jefferson County facility.

Finance

Problems in the stock market led Merrill Lynch & Co. to delay its expansion plans in Douglas County. The company announced in 1994 that it would build an eight-building, \$100 million complex that would employ 5,000 by the end of the decade. Thus far, two buildings have been constructed that house 1,600 workers. Of these, approximately 1,400 were transferred from the company's Lakewood operations.

Manufacturing

The Colorado Purchasing Managers Index fell in September, but still indicated that the sector was expanding in Colorado, just at a slower pace. The index is compiled by the University of Colorado at Denver and the Denver chapter of National Association of Purchasing Managers.

Exports

According to statistics compiled by the Colorado International Trade Office, exports from Colorado to the rest of the world increased 2% in the first half of 1998, compared with the first half of 1997. The increase in exports resulted from strong trade between Colorado and Canada and Europe. However, exports to Asia were down 5%, with exports to Japan alone falling 20%.

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Income

The U. S. Census Bureau reported that the median household income in Colorado was \$44,664, giving Colorado the sixth highest ranking in the nation. The national median was \$36,399. The median means that half of the households earn more than that and half earn less.

Population

A recent report from the U.S. Census Bureau indicated that from 1990 to 1997, Colorado's population increased 17.8% to 3,892,644. This represents an average annual increase of nearly 2.4%. The report also highlighted population increases by race. From 1990 to 1997, the Asian population (2.3% of the total Colorado population) increased 43.1%, the Hispanic population (14.3% of the total Colorado population) increased 30.7%, the black population (4.3% of the total Colorado population) increased 16.3%, and the white population (79.0% of the total Colorado population) increased 15.6%.

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Women-Owned Business

Colorado ranked third in the nation in the share of businesses owned by women in 1996. Forty percent of Colorado's private businesses are owned by women, according to the Center for Policy Alternatives. Only New Mexico and Arizona ranked higher.

Tourism

A recent report by the Colorado Business Committee for the Arts and Deloitte & Touche LLP estimated that the economic impact of cultural attractions in metro Denver such as museums, concerts, plays, etc. was \$646 million. This figure includes direct and indirect expenditures related to the arts.

Both Water World and Elitch Gardens reported strong attendance in summer of 1998. Water World's attendance jumped nearly 18%. While Elitch's total attendance is likely to increase only slightly over

1997's high levels, the park expects to have served over 1 million customers by the end of the 1998 season.

A recent report by the Colorado Tourism Board reported that tourism activity increased throughout Colorado from 1992 to 1997, but the increases were not uniform in all areas of the state. Tourism activity (as measured by lodging, restaurant, and retail sales) increased 7.2% along the Front Range, but only 2.3% on the Western Slope.

The Colorado State Fair turned in a strong performance in 1998, with 26,500 more attendees and an operating profit of nearly \$900,000. Meanwhile, 1998 ridership on the Durango-Silverton train is expected to exceed 1997's level.

Agriculture

Prices of agricultural commodities from wheat to cattle have tumbled in recent months. Reasons for the declines include weak demand from Asian markets and domestic oversupply. For example, wheat prices in mid-September were 34.4% below the September 1997 level, while mid-September steer and heifer prices were 13.3% below the September 1997 price.

Metropolitan Denver

Plans were recently presented for a \$26 million, two-building luxury condominium project near the Denver Country Club. The buildings will have a total of 80 units priced from \$179,000 to \$425,000.

The Broomfield City Council recently voted to restrict the number of new homes that may be built each year to 300. However, some proposed developments already proposed (one with 3,700 homes) were excluded from the cap. The vote came as a result of concern that growth in high-technology employment in the area would unduly strain the city's infrastructure.

Morrison Knudsen Corp., the large construction concern, plans to hire 60 additional employees over the next two years at its new regional headquarters in Jefferson County near South Kipling Parkway and C-470. The new \$10 million, 72,000-square-foot building will have approximately 300 new and existing employees.

Great-West Life & Annuity Insurance Co. is planning to construct a third office tower at its campus at Orchard Road and Interstate-25. The new 10-story, 235,000-square-foot structure is expected to cost \$33.5 million.

El Paso County

T. Rowe Price Associates, a mutual fund company based in Baltimore, MD, will hire 120 people to staff a new call center in Colorado Springs. The company's five-year plan is to eventually employ up to 750 staffers at the plant.

"T. Rowe Price Associates . . . will hire 120 people to staff a new call center in Colorado Springs."

To be closer to one of its major clients, Trimm Technologies plans to begin production of computer tape-drive casings for Quantum Corporation in Colorado Springs. The plant will initially employ 20 people and produce 60,000 units annually.

Southern Region

The Durango Planning Commission recently gave unanimous approval for a new residential development comprised of 399 single- and multi-family units on 450 acres. The development, SkyRidge Village and Estates, will be the biggest housing development in Durango in 15 years.

The Sunshine Mining Company of Idaho is renovating the 118-year-old Revenue Virginius silver mine near Ouray. The company expects annual production of 2.5 million to 3.0 million ounces of silver to begin in 2000. The mine has been inactive since 1912.

Western Slope and Mountain Region

Ground was broken in **Steamboat Springs** on a 65-room hotel which will sit on 2.3 acres along U.S. 40. The new hotel will be affiliated with the Marriott/Fairfield Inn. A new Federal Express center at Walker Field Airport in **Grand Junction** opened recently with 25 new employees. The center will

help Federal Express to serve western Colorado and eastern Utah. Meanwhile, the North Face clothing company plans to expand its **Carbondale** campus over the next 10 to 15 years and hopes to employ some 300 workers there.

Northern Region

In Greeley, EFTC Corp., a maker of medical, avionic, industrial, and communication products, laid off 130 workers, more than half its work force, in October. The company cited slumping revenues along with the Asian crisis.

Atrix Laboratories, a Fort Collins-based biotechnology firm, recently received approval from the U.S. Food and Drug Administration to market its new method of painlessly treating gum disease.

Officials in Brighton broke ground on Bromley Park, a new 1,500-acre residential development that will have 8,700 new homes, with prices starting in the low \$120,000s.

Colorado Indicators Year-to-Date Growth Rates

Indicator	August 1998	July 1998	1997 Annual Average
Nonfarm Employment * Growth	3.6%	3.6%	4.0%
Unemployment Rate ∇ * (Seasonally adjusted)	3.3	3.3	3.3
Housing Permit Growth § Single-Family	-2.0	0.0	-0.5
Apartments	12.4	11.8	4.7
Growth in Value of Nonresidential Construction §	-41.6	-34.3	-13.6
Retail	-25.7	-34.9	22.3
Offices	-27.3	-28.5	-11.7
Factories	7.8	-18.1	43.6
	-80.3	-84.1	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 2.2% through the first half of 1998, following a 3.3% rate in 1997.

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 August 1998)	7.1	§ 3.8	§ 2.1	§ 3.5	7.0	4.8	5.7	5.7	6.8	5.4	§ 2.8	4.3	2.6	2.0
Unemployment Rate ⊗ ◆ (not seasonally adjusted) (in August 1998)	5.7	3.1	3.9	2.7	4.1	3.3	4.0	4.1	4.0	4.1	6.3	1.9	2.4	4.8
Retail Trade Sales Growth ∇ (through July 1998)	6.3	6.1	7.7	8.6	11.6	7.5	5.6	10.5	3.7	6.2	6.2	6.8	9.4	-2.4
Housing Permit Growth * (through August 1998)	@	-28	-6	-3	14	-7	23	64	57	16	22	-15	-42	18
Growth in Value of Non-residential Construction * (through August 1998)	-85	-23	-25	-25	-80	-26	-59	22	♣	-20	-52	-50	⊠	-96

§ Nonfarm Employment Growth.

⊗ Actual level not growth rate.

◆ Colorado Department of Labor and Employment data.

* F.W. Dodge data.

∇ Colorado Department of Revenue data.

@ 53 units were permitted through August 1998, while 23 were permitted through the same period in 1997.

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

⊠ \$64.3 million was contracted through August 1998, while \$2.8 million was contracted through the same period in 1997.

NOTE: The next publication of the Chronicle will be in December 1998.