



Colorado Economic Chronicle

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National Economy

Inflation-adjusted **gross domestic product** (GDP) for the last quarter grew at a 5.6% annual rate, a faster-than-expected pace. For the 1998 calendar year, GDP increased 3.9% from 1997. The growth in 1998 followed a 3.8% increase in 1997 and 3.4% rise in 1996, making the three-year period the economy's most robust run of growth since 1984–86. The surge in growth in the last quarter of 1998 was influenced in part by an 80.7% jump in automobile output, reflecting the return to production after summer strikes at General Motors.

***"The 1998 mark was the lowest
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1957, when the rate averaged 4.3%."***

Holiday-related hiring reduced the nation's **unemployment** rate to 4.3% in December. In 1998, unemployment averaged 4.5%, the lowest since 3.5% in 1969 during the Vietnam War. The 1998 mark was the lowest peacetime unemployment rate since 1957, when the rate averaged 4.3%. For the year, employers added 2.9 million jobs, compared with 3.4 million in 1997. That growth was achieved despite 234,000 job losses in manufacturing and 35,000 in mining, principally oil-drilling, reflecting slowing world demand and low oil prices.

Continued growth in the labor market, low interest rates, and increases in personal income stimulated strong **consumer spending** this past year, which rose 4.8% in 1998, the most in 14 years. Robust economic growth in 1998 pushed up Americans' real wages and benefits by 3.4%, the largest change in five years. The

gain marked the fourth consecutive year of increases. Wages and benefits rose 3.3% in 1997, 2.9% in 1996, and 2.7% in 1995. Personal income jumped 0.5% in December, the highest gain in 10 months. However, consumption also increased by 0.8% in December, bolstered by last-minute holiday shopping and a rebound in auto sales following summer strikes.

Because Americans spent more than they earned, the national savings rate – savings as a percentage of after-tax income – decreased from 2.1% in 1997 to 0.5% in 1998, the lowest since 1933. The low savings rate is attributed to increased wealth from record highs in stock-market gains, low inflation, and low mortgage rates for home refinancing. The U.S. trade deficit also deteriorated in 1998, with imports increasing by 10.8% and exports growing a mere 1.5%. This represented the weakest net export performance in 15 years and was partly attributable to the Asian economic crisis.

The **manufacturing** sector showed signs of slowing in 1998. Factory orders increased 2.1% in 1998, compared with a 5.4% gain in 1997. Meanwhile, last year's increase was the weakest since 1991. The Federal Reserve Board reported that industrial production increased 3.7% in 1998, the weakest growth in five years. U.S. manufacturers were hurt by the loss of export sales to Asian countries. However, industrial production was significantly stronger in the fourth quarter of 1998 relative to the third quarter. The National Association of Purchasing Management reported that its monthly index of business activity rose to 49.5% in January from 45.3% in December. An index below 50% is a sign of contraction in the industrial sector.

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In 1998, the **construction** sector posted record gains due to low mortgage rates, record unemployment, and a booming economy. Construction spending rose a larger-than-expected 1.7% in December, following a 1.0% increase in November. In 1998, construction spending increased 6.3%, up from 5.9% in 1997. Construction starts of single-family homes rose 12.0% to 1.27 million, while starts of apartments increased 1.7% to 346,000. For the entire year, Americans bought 888,000 new homes, up 10.4% from 1997, and the highest annual total since the tracking of new home sales began in 1963. The median price of a *new* home, meaning half sold for more and half for less, was \$151,600 in 1998, up 3.8% from a year earlier. Meanwhile, sales of *existing* homes soared 13.5% in 1998 to 4.78 million. The median price of an existing home in 1998 was \$130,600, up 5.2% from 1997. Mortgage rates were below 7% for much of the second half of 1998, the lowest sustained level since the 1960s.

Consumer **inflation** rose just 1.6% in 1998. A big drop in the cost of gasoline and other petroleum products helped counter the increases in prices of other

goods. Combined with the 1997 inflation gain of 1.7%, the past two years yielded the lowest gains in consumer prices since the mid-1960s. The 1.6% rise last year was the best one-year showing since a 1.1% rise in 1986, a year in which energy prices plummeted by 19.7%.

The low inflation rate in large part reflects the financial crises that began in Asia in 1997, in which recessions sharply cut demand and lowered prices for many commodities, including energy products. This has been good for U.S. consumers, although domestic manufacturers are suffering a profit squeeze from the loss of export markets and the inability to raise domestic prices.

In 1998, the national economy maintained strong growth with low inflation. Due in part to increased wealth (both perceived and real), consumer spending increased while the national savings rate decreased. Unemployment remained low at 4.5%. Strong fourth quarter growth in the national economy will likely boost growth prospects in early 1999.

Colorado Economy

Colorado's economy was robust in 1998. Despite significant repercussions of the Asian economic crisis on the advanced technology, agricultural, mining, and oil and gas sectors, employment grew 3.5% and unemployment remained low at 3.3%. Colorado's population grew faster than all but two states in the nation, and Colorado's personal income growth was also strong. Amid low mortgage interest rates, home sales set a new record in 1998. Despite these facts, the inflation rate remained low. The declining value of nonresidential construction in Colorado remains the solitary negative indicator, although it must be noted that the value is declining from a very high level.

Employment

Colorado's nonfarm employment grew 3.5% in 1998. Although slower than 1997's growth rate of 4.0% and 1996's growth rate of 3.6%, it was still robust. The seasonally adjusted unemployment rate fell from 3.7% in October to 3.4% in November, and finally to 3.3% in December. Colorado's annual average unemployment rate in 1998 was unchanged from

1997's rate of 3.3%. The national annual average unemployment rate was 4.5% in 1998.

“Colorado's nonfarm employment grew 3.5% in 1998.”

Large job gains were announced in December and January. Frontier Airlines will hire 105 machinists to begin performing its own heavy maintenance operations on Frontier aircraft. American Soda will mine soda ash southwest of Meeker, eventually employing 140. TIAA-CREF, a pension fund firm,

Colorado's Economy at a Glance		
Key Indicators	Direction	Assessment
Nonfarm Employment Growth	↑	Good
Unemployment Rate	↓	Good
Mortgage Rates	↓	Good
Retail Trade Sales	↑	Good
Home Resales	↑	Good
Nonresidential Construction	↓	Bad
Colorado Inflation Rate	→	Neutral

will double its Denver staff, hiring 800 people over the next three years. Lamar bus manufacturer Neoplan USA will hire 200 employees by fall 1999. Also in Lamar, air conditioner manufacturer Sutrak plans to hire 25 employees, and trailer manufacturer Ranch Manufacturing will hire 25 employees. In Florence, Holman Inc. will hire between 10 and 20 workers to staff an expansion of their cement plant.

The Asian economic crisis caused further repercussions on Colorado's advanced technology and metal mining sectors. Lockheed Martin announced pending layoffs in their astronautics division. Lockheed Martin employs 7,136 people in their astronautics division in Jefferson and Arapahoe counties. ICG Communications Inc. laid off 30 people in the Denver area, and MCI WorldCom Inc. will lay off 55 Colorado workers. Leadville's last operating mine, Asarco's Black Cloud mine, closed down, laying off 100 people. Gambro AB will lay off 250 people when they move their dialysis machine factory out of Colorado. Corporate Express will lay off 100 people from their Broomfield and Aurora locations.

Personal Income

Personal income in Colorado grew 1.7% between the second and third quarters of 1998. Colorado's personal income growth was the second fastest in the nation. The strong growth is attributable to increases in high-wage jobs in the state's metropolitan areas. Personal income growth was weaker in Colorado's rural areas, however, due to low commodity prices in the agricultural, mining, and energy sectors.

Population

According to the U.S. Census Bureau, Colorado's population reached 3.971 million people as of July 1, 1998. The third fastest-growing state in the nation in 1998, Colorado's 2% growth rate was twice as large as the national growth rate. The state demographer's office predicts that by 2020 the state's population will increase by over 1.5 million people.

Residential Construction

Fueled by low mortgage interest rates, a strong economy, and a growing population, the real estate market had a healthy 1998 in Colorado, and is expected to remain healthy in 1999. According to Perry and Butler Realty Inc., the dollar value of existing home sales in the metro-Denver area set a new record at \$7.7 billion for 1998, eclipsing 1997's \$6.2 billion record. The dollar value of existing home sales benefitted from rising prices as well as increases in the number of home closings. The year-to-date average price of a single-family home sold was \$185,785 in 1998, up 9.6% compared to 1997. In addition, 14.3% more home closings occurred in 1998 than in 1997. According to the Genesis Group, sales of new homes in metro-Denver were up 17% in 1998 over 1997 levels, and the average price of a new home rose 7% in 1998 to \$195,287.

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The boom in home sales shows signs of continuing in 1999. According to Perry and Butler Realty, Inc., the average price of a single-family home rose to an all-time high in January 1999, to \$198,799, and 16.7% more home sales were closed in January 1999 than in January 1998.

According to F.W. Dodge, the *number* of residential units under construction increased 11.5% in 1998. The *value* of residential construction increased at a 14.5% pace, indicating that more expensive homes were built. In addition, while the *number* of apartment buildings under construction decreased 60.9%, the *value* of apartment buildings under construction decreased by only 32.5%, which indicates that relatively more luxury apartments were built.

Demolition began on the 27-acre former site of Elitch's Amusement Park. Construction on its redevelopment is expected to begin in April and last three to five years. The proposed redevelopment includes 70 townhomes, 60 single-family homes, 160 apartments, and 90,000 square feet of office and retail space.

Plans were announced to develop a mix of single-family homes and rental units on 23 acres in the Central Platte Valley. The development will be surrounded by Six Flags Elitch Gardens, the Pepsi Center, and Coors Field. Construction is expected to begin in approximately two years. Meanwhile, plans were announced for the construction of 1,640 single-family homes and 23.9 acres of commercial projects on 430 acres west of Tower road near DIA.

The Federal Housing Administration (FHA) increased the mortgage-insurance ceiling, effective January 1, 1999. The FHA will now insure loans of up to \$204,155 in Boulder County, \$198,550 in Adams, Arapahoe, Denver, Douglas, and Jefferson counties, \$151,905 in Larimer County, and \$115,200 in Pueblo County.

Nonresidential Construction

According to F.W. Dodge, the value of nonresidential construction declined 22.0% in 1998. Most major sectors experienced a decline in construction activity. The manufacturing sector declined 70.5%. The amusement, dormitories, public buildings, and education and science sectors also experienced substantial declines in construction activity. The commercial sector, buoyed by increases in construction of office/bank buildings and garages/service stations, declined only 0.7%.

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Three identical speculative office towers are planned next to Fiddler's Green Amphitheater. The first of the \$45 million, 207,000-square-foot buildings will open this fall. Construction on the second building is expected to begin in April, and construction on the third building is planned to begin after one-half of the second building is leased. Construction will begin in March on Peakview Office Plaza, a \$30 million, four-story, 100,000-square-foot office building at Greenwood Plaza in Arapahoe County.

Plans were announced to develop Spiral Distribution Center, an industrial center with one 64,000-square-foot building and two 32,000-square-foot buildings in

Englewood. Other industrial development planned for the metro-Denver area include a 54,000-square-foot development at West Hampden Avenue and Kipling Street, a 150,000-square-foot development in Highlands Ranch, and a 365,000-square-foot development at East 64th Avenue and Downing Street. In addition, ProLogis is building a 227,000-square-foot distribution facility for Rocky Mountain Bottle Co. in Golden.

WorldPort Center, a large commercial development, is proposed for 1,500 acres west of DIA and east of Tower Road. The development would include a 4 million-square-foot shopping center, a 1 million-square-foot western theme park, 5,000 hotel rooms, 300,000 square feet of conference space, 2 million square feet of office space, 4 million square feet of warehouse/industrial space, 1 million square feet of research and development space, 2,100 residential units, and 370 acres of golf courses and parks. In addition, Denver officials announced a \$13 million plan to widen Tower Road and part of East 56th Avenue in order to improve access to DIA.

Advanced Technology

MCI WorldCom Inc. laid off 40 people in Colorado Springs and 15 people in the Denver area in December. The layoffs were part of a 2,000 company-wide reduction and a result of efforts to cut \$2.5 billion in 1999. In February, 115 employees will be laid off. MCI WorldCom Inc. has 7,865 employees and contractors in Colorado.

ICG Communications Inc., an Englewood-based telecommunications carrier, laid off 98 people, including 30 people in the Denver area. ICG, in an effort to restructure, will focus on business customers and eliminate some internet services to residential customers. ICG employs 3,000 people nationwide.

Lockheed Martin announced pending layoffs amid restructuring and possible consolidation in their astronautics division. Lockheed Martin Astronautics employs 7,136 people in Jefferson and Arapahoe counties. Lockheed was recently outbid on a large satellite launching contract.

Tourism

Visits to Colorado's national parks fell by 0.7% during 1998 compared to 1997 levels. However, visits to Rocky Mountain National Park, Colorado's largest national park, increased by 2.4%.

Ski resorts in southwestern Colorado experienced increases in the number of skier visits during the holiday season, due largely to strong snowfall in that area. According to Colorado Ski Country USA, however, the number of skier visits to all of Colorado's ski resorts between October and December fell nearly 11% compared to the same period in 1997. The drop is attributed to unseasonably warm weather and low snowfall in the central and northern mountains.

Gaming

According to the Colorado Division of Gaming, Colorado's gambling casinos in Black Hawk, Central City, and Cripple Creek netted a new record of \$479.2 million in adjusted gross proceeds during 1998, 11% higher than 1997's adjusted gross proceeds. Black Hawk's casinos netted \$272.0 million, Cripple Creek's casinos netted \$133.2 million, and Central City's casinos netted \$94.0 million.

Transportation

The Colorado Transportation Commission accelerated funding for construction on several segments of the I-25 corridor, increasing funding to the highway by \$342 million over the next five years. Originally considered a 40-year project, it is now expected to be completed in 2006.

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The Regional Transportation District approved a \$2 million study for a potential 1.8-mile light-rail spur that would run through the Central Platte Valley. It would serve various sports and entertainment venues

such as Coors Field, the Pepsi Center, the Broncos, Elitch Gardens, and the Colorado Ocean Journey aquarium.

Denver-based Frontier Airlines will hire 105 machinists to begin performing its own heavy maintenance operations on Frontier aircraft. According to Frontier, 60% of the new hires will come from mechanics laid off last year by Western Pacific Airlines and furloughed by Continental Airlines. Meanwhile, total Denver International Airport passenger traffic rose 5.2% in October.

Mining

Low prices have hurt the Colorado minerals industry. Gold prices in Colorado fell due to declining demand in Asia. In addition, many central banks worldwide have dumped their gold on the market, causing an oversupply.

The state gave approval to the expansion of the Cripple Creek & Victor Gold Mining Co.'s Cresson Mine near Victor. The approval is conditional on a \$26 million bond that the company must post to ensure reclamation work.

"A 140-year era came to a close and 100 jobs were lost when Leadville's last operating mine, Asarco's Black Cloud mine, closed down at the end of January."

Baking soda manufacturer American Soda plans to break ground this spring on a \$200 million mine and pipeline in the Piceance Creek Basin southwest of Meeker. The mine would extract nahcolite, a naturally occurring sodium bicarbonate mineral found in oil shale pockets. Nahcolite is used to make baking soda, antacids, detergents, paper pulp, and glass. The mine would employ 140 people and contribute \$1.5 million in property taxes to Garfield and Rio Blanco counties.

A 140-year era came to a close and 100 jobs were lost when Leadville's last operating mine, Asarco's Black Cloud mine, closed down at the end of January. The Black Cloud mine, contributing \$6 million annually to the local economy, was the largest private employer in Leadville. The closure was a result of a nearly

exhausted ore body and declining metals prices. In cooperation with the Environmental Protection Agency, the company will continue cleanup efforts in Leadville, a Superfund site. In addition, Asarco will retain 20 employees for maintenance and exploration purposes. Mining employment in Lake County has been declining since the early 1980s, when 3,000 people were employed in the industry.

Agriculture

The number of cattle and calves on feed for the slaughter market in Colorado as of January 1, 1999, fell after hitting a record high on December 1, 1998. The inventory was 2% higher than a year earlier and 4% lower than on December 1, 1998. Meanwhile, wheat production in Colorado was 15% higher in 1998 than in 1997 and rye production for 1998 was 56% higher than in 1997. Oat and barley production in 1998 were slightly higher than 1997 production levels. Although wheat prices are rising slowly, the mid-December price was still 17% lower than in mid-December 1997. Falling once again, mid-December corn prices registered 24% lower than in mid-December 1997. Potato, dry bean, steer, and cow prices continue to decline, while barley, calf, and milk prices are on the rise.

Metro-Denver Region

New York-based P.O.V. magazine ranked Denver the fourth-best city for young entrepreneurs to start a business, after Seattle, Austin, and Las Vegas. P.O.V. found Denver especially attractive for entrepreneurs wanting to open a business in high technology, biotechnology, or tourism.

Plans were announced to build "16 Market Square" on the 16th Street Mall between Market and Blake streets. The \$48 million building will include 185,000 square feet of office space on five floors, retail space on the ground floor, underground parking, and 25 penthouses on the top two floors. It is expected to open in August 2000.

The Teatro Hotel opened in the remodeled Tramway Tower building across the street from the Denver Performing Arts Complex. The \$18.5 million, 117-room luxury hotel's rates run from \$205 to \$1,250 a night.

Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF), a nonprofit pension-fund managing firm, plans to double its 800-employee Denver workforce over the next three years. TIAA-CREF owns more than \$700 million in mortgages and direct real estate investments in Colorado and controls nearly \$1.1 billion worth of stock in Colorado-headquartered companies within a \$235 billion portfolio.

"Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF), a nonprofit pension-fund managing firm, plans to double its 800-employee Denver workforce over the next three years."

Sweden-based dialysis machine manufacturer Gambro AB will move its Lakewood factory to Sweden. Before the end of 2000, 250 people will be laid off. Between their health services unit, Gambro Healthcare, and their blood-components technology business, COBE BCT, Gambro will maintain 1,100 employees in Lakewood.

Colorado Indicators Annual Growth Rates

Indicator	1998 Annual Average	1997 Annual Average
Nonfarm Employment * Growth	3.5%	4.0%
Unemployment Rate ▽ * (Seasonally adjusted)	3.3%	3.3%
Housing Permit Growth § Single-Family	-0.5	-0.5
Apartment	26.6	4.7
	-42.5	-13.6
Growth in Value of Nonresidential Construction §	-22.0	22.3
Retail	-15.3	-11.7
Offices	9.5	43.6
Factories	-70.5	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% in through the first half of 1998, following a 3.3% rate in 1997.

Broomfield-based Corporate Express will lay off 1,700 people worldwide, including 100 people from their Broomfield and Aurora locations. The layoffs are a result of low earnings by the company.

Western and Mountain Regions

The U.S. Postal Service is doubling the Grand Junction Mail Processing Facility. The \$2 million project will add 23,000 square feet and is expected to be completed in June. The expansion is a result of a 28% increase in Grand Junction's mail since 1992.

Mesa County Commissioners approved splitting 160 acres of agricultural land near the Colorado River into 15 luxury home lots in January. Residential development on the lots are still in the early planning stages.

Garfield County Commissioners announced plans to build a \$10-\$15 million, 200-bed jail near Rifle in January. They expect to begin construction in June. The city of Delta announced plans to build a \$2.1 million museum to house 25 vintage vehicles donated to them last year. The city expects the museum to draw more visitors to the area.

The town of Silverton reopened its ski area on Kendall Mountain, rebuilt almost entirely with volunteer labor. The ski area includes three runs, a nearby ice skating rink, and a warming hut. Silverton plans to build a 3,300-square-foot community center and a concrete base for the ice skating rink.

"Eagle County is the site of several proposed large developments."

The first ten units of a \$12 million, 60-unit townhome development in Winter Park are expected to be completed in July. The entire development is expected to be completed in three years.

Eagle County is the site of several proposed large developments. Plans were announced in December for the Adam's Rib development, which would nearly triple the size of the city of Eagle. The proposed development would be located just south of Eagle in the Brush Creek valley and include five golf courses, a 120-room hotel, and more than 1,600 houses, townhomes, and condominiums. Approval has been given to a development in Dotsero which includes 280 mobile homes, 100 condominiums, and 60,000 square feet of commercial space. Approximately 1,000 luxury homes are being built in Edwards, and developers have won approval for 2,400 homes and 700,000 square feet of commercial space at the Village at Avon.

Southern Region

Two cement companies announced plans that are expected to help ease cement shortages in Colorado and other western states. Grupo Cementos de Chihuahua SA (GCC), Mexico's fourth-largest cement producer, will begin construction on a \$155 million cement plant south of Pueblo early this year. Holman Inc. announced plans to build a \$200 million addition to its Florence cement plant and will hire between 10 and 20 new employees. Holman currently employs 140 people.

Eastern Plains Region

Employment is growing in Lamar. Bus manufacturer Neoplan USA would like to hire 200 employees by fall 1999, air conditioner manufacturer Suttrak would like to hire 25 employees, and trailer manufacturer Ranch Manufacturing would like to hire 25 employees. Recruitment and retention of employees in all three companies are suffering from a lack of affordable housing.

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 December 1998)	5.4	§ 3.0	§ 2.6	§ 3.5	2.8	4.2	5.1	5.3	5.0	4.8	§ 2.9	3.8	2.8	1.2
Unemployment Rate ⊗ ♦ (not seasonally adjusted) (in December 1998)	5.7	2.5	3.4	2.4	3.7	3.3	4.2	3.6	3.2	4.8	5.6	1.8	1.8	3.9
Retail Trade Sales Growth ∇ (through September 1998)	3.6	4.7	5.9	7.4	11.0	6.4	7.4	8.2	3.1	5.5	6.4	6.3	10.5	-3.2
Housing Permit Growth * (through December 1998)	86.4	-11.6	1.9	-3.2	13.1	-5.0	14.0	27.5	72.7	12.1	24.2	-5.4	-27.7	17.6
Growth in Value of Non-residential Construction * (through December 1998)	-24.9	-15.0	-30.1	-21.9	-67.7	-28.8	-37.0	29.5	♣	-38.6	-45.0	-42.0	Ψ	-72.9

- § Nonfarm Employment Growth.
- ⊗ Actual level not growth rate.
- ♦ Colorado Department of Labor and Employment data.
- * F.W. Dodge data.
- ∇ Colorado Department of Revenue data.
- ♣ \$4.5 million was contracted in 1998, while \$0.7 million was contracted 1997.
- Ψ \$88.2 million was contracted in 1998, while \$6.6 million was contracted in 1997.