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National Economy

Inflation-adjusted **gross domestic product** surged at a 6.1% annual pace in the last quarter of 1998, larger than the estimated 5.6% released a month ago. This is the largest increase in nearly 15 years, despite a record trade deficit due to the global economic recession. The 1998 annual growth rate for GDP was unchanged at 3.9%. Several indicators, including increases in durable goods orders and home sales, amidst continued low unemployment and inflation, point to a continuation of this growth trend through the first quarter of 1999, extending an eight-year boom. If this growth continues to expand through 1999, the national economy will produce its longest expansion period on record.

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Strong growth maintained December's low **unemployment** rate of 4.3% through January of 1999. This rate is the lowest in 28 years. Unemployment rose slightly to 4.4% in February. Federal Reserve chairman Alan Greenspan recently commented that if labor shortages continue, wage pressures could drive up inflation. However, at their most recent meeting, the Fed decided not to change interest rates. Meanwhile, average hourly (nonsupervisory) wages rose $0.06 or 0.5% in January. This was the largest monthly increase since August 1998 and continued the surge in real wages and benefits that increased 3.4% in 1998, the largest increase in five years.

Personal income jumped 0.6% in January, up from a revised 0.1% decline in December. While **consumer spending** increased 0.7% in December, this consumption rate rose just 0.3% in January. Whereas consumers spent more than they saved toward the end of 1998, yielding a national savings rate of -0.3% in December, the January savings rate rebounded to 0.1%. These trends represent a recovery from holiday spending to increased savings of personal income. Meanwhile, consumer confidence – an indicator of future consumption – rose in February for the fourth straight month.

Gross domestic product growth was hindered in 1998 by **net exports**. The U.S. trade deficit changed from $110.2 billion in 1997 to a new record low of $168.6 billion in 1998, an increase of 53%. Farmers suffered their worst export year in 10 years and steel manufacturers faced similar pressures as low import prices created a flood of lower-priced goods. While the global crisis has also created a wave of cheaper crude and intermediate goods to drive down the price of domestic production, domestic wages have kept production costs high relative to foreign firms.

Although last year the **manufacturing** sector posted the smallest gain in orders since 1991, February showed signs of recovery. The National Association of Purchasing Management reported that its index of business activity represented an expansion for the first time in eight months. The index was at 52.4 in February, up from 49.5 in January and 45.3 in December. An index above 50 indicates that the economy is expanding. The demand for durable goods drove up factory orders 3.9% in January, following a 3.4% increase in December.

The **construction** sector extended its boom cycle as spending rose 1.6% in January, following a revised 1.4% increase in December. This was the biggest jump since a 2.4% increase in June. Residential construction, the primary contributor to national construction, increased 1.3% in January. Construction of single-family homes was responsible for the residential construction increase, rising 1.3% (the eighth consecutive monthly increase), while multi-family construction remained unchanged. Average 30-year mortgage rates steadily increased from 6.72% in December, to 6.79% in January, and to 6.81% in February. Meanwhile, spending on non-residential commercial projects fell 1.1% and spending on government-sponsored construction increased 5.9%, propelled by the highest spending on federal highways and streets in the last 23 years.

The **inflation** rate, based on the change of the consumer price index, continued to remain low at 0.1% in January, the same rate as December. However, the producer price index increased 0.5% in January, the biggest one-month jump since October 1996. The core producer price index, which excludes the volatile food and energy sectors, actually decreased 0.1% in January.

Economic growth continued through early 1999 and is expected to continue through the first quarter, extending this boom to an eighth year – the longest growth cycle on record. While unemployment remained at its lowest level in almost three decades, inflation remained low. Personal income increased, representing year-end cost of living increases in salaries and benefits. The savings rate increased while consumer spending decreased from December figures, representing a recovery from holiday spending. The construction sector remained strong and the manufacturing sector recovered from a trend of weak gains in factory orders. However, the global economic crisis created an all-time high trade deficit.

Colorado Economy

Colorado had a strong 1998, in which the average unemployment rate was lower than the peacetime record-low national rate. Inflation rates were also at their lowest point in 9 years. Residential construction increased to meet the growth of Colorado in 1998, with the third highest population growth in the country. Nonresidential construction and the unemployment rate were the only negatives for the Colorado economy in 1998. However, nonresidential construction remained above the historical norm, while the unemployment rate moved up from a very low rate in 1997. The strong economy accommodated an expanding labor force as employment increased. Jobs were created in the telecommunications and health care sectors. Layoffs were prevalent in the manufacturing, energy, and mining sectors.

Employment

The Colorado total seasonally adjusted unemployment rate in 1998 was revised to 3.8%, still well below the national average of 4.3% for the year. The 1998 average growth rate for nonagricultural employment was revised up to 3.6%. Meanwhile, January wage and salary employment increased by 71,500, or 3.6%, over one year ago.

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Several job announcements were made in the past month. StarTek, Inc. announced it would hire up to

Colorado's Economy at a Glance

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

500 people in Grand Junction to operate a technical support service center. HealthSouth Corporation in Colorado Springs may double its workforce to staff a new acute care hospital. The merger of KN Energy of Lakewood and Sempra Energy of San Diego could cost 300 jobs between the two company headquarters. In Denver, Gates Rubber Corporation announced it will lay off 170 employees by the end of March and Gulf Canada announced it was closing its headquarters, laying off 30 employees. In Colorado Springs, Ford Microelectronics, Inc. announced plans to close an automotive part plant, laying off 220 employees by the end of the year. Less than a month after the announcement that the Black Cloud Mine in Leadville will close, CoZinCo chemical plant in Salida, a zinc sulfate refinery, announced that it will close by June, laying off 30 workers. Texaco laid off 126 employees at the Denver Tech Center office. These and other job gains and losses are discussed in greater detail later in the *Chronicle.*

Inflation

The average Denver-Boulder inflation rate in 1998 was 2.4%, the lowest rate since 1989 when inflation was 1.8%. Apparel costs fell 3.3% during the year, while transportation costs rose a modest 0.5%, primarily because of falling gasoline prices. Housing and medical costs rose faster than the overall rate, at 4.5% and 3.5%, respectively. The cost index for food and beverages matched the overall rate of 2.4%.

Residential Construction

According to estimates from F.W. Dodge, the *number of residential construction permits* in 1998 decreased 0.5%. Single-family homes posted a 13.5% gain, while construction of apartment units fell 42.5%.

The average resale *price* of a single-family home in metro-Denver reached a record mark of $201,134 in February, up 1.2% from January and 10.6% from a year ago, according to the monthly report of Perry & Butler Realty. Because this figure represents an average price, the relatively small number of expensive homes may pull up that average. A report from Chicago Title Corporation found that metro-Denver's *median* home price of $151,300 in 1998 was $16,600 less than the national median home price of $167,900. This ranked Denver ninth among 20 U.S. metropolitan areas in median home price. The report also revealed that Denver's median household income of $63,200 is less than the national median household income of $70,600. The *number of home sales* has also steadily increased in the last 12 months. The number of sales closed in February was up 8.5% from the number closed a year ago. Meanwhile, average 30-year mortgage rates steadily increased from 6.72% in December, to 6.79% in January, to 6.81% in February, and topped 7.0% in early March.

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A continued flow of new residents kept the metro-Denver apartment vacancy rate close to 4.5% for 1998. That enabled the average rent to increase 6.9% to $695 a month. The highest monthly rents were along the U.S. 36 corridor ($1,084) while the lowest monthly rents were in Denver between Broadway and Colorado Boulevard and between I-70 and Colfax Avenue ($407).

Nonresidential Construction

Nonresidential construction experienced a slowdown in 1998 after experiencing a significant amount of activity in 1997, particularly in the commercial and manufacturing sectors. F.W. Dodge reported that the *value* of nonresidential construction under contract in 1998 decreased 22.0% from 1997. In 1997, the value of construction under contract increased 22.3% from 1996.

Along the E-470 corridor, east of Centennial Airport, developers announced plans for 600,000 square feet of office space and 300,000 square feet of retail space at Gartrell Road. The E-470 toll road will connect the area to Denver International Airport by mid-1999. Estimated completed value of this development is between $135 and $150 million.

Manufacturing

In Colorado Springs, Ford Microelectronics, Inc. plans to close an automotive part plant, laying off 220 employees by the end of the year. The plant manufactures automobile air bag sensors. Ford Motor

Company, the plant owner, will buy the parts from a Massachusetts company instead. Ford Microelectronics was created by Ford in 1982 to design and create computer chips. Ford will keep another plant open in Colorado Springs that makes integrated circuits and employs 80 people.

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In Denver, Gates Rubber Corporation announced it will lay off 170 employees, or 14% of its Denver work force of 1,220, by the end of March. This move was a result of slow sales in industrial U.S. markets, particularly firms that demand rubber hoses and belts for agricultural and construction machinery. To a smaller extent, these layoffs were a result of decreased sales in Asia.

On the heels of the news that the Black Cloud Mine in Lake County closed, CoZinCo, a smaller chemical refining plant in Salida, announced it would close in April. A Texas-based company purchased CoZinCo and plans to only use its production equipment. CoZinCo opened in 1970 and employed around 30 residents.

Telecommunications

StarTek, Inc. announced it would hire up to 500 people in Grand Junction to operate a telephone service center providing technical support service for a range of technologies (e.g. the Internet and/or communication software programs) as well as taking orders for consumer goods. While most new employees will receive calls and provide direct service, an estimated 20 will serve in management.

Energy

KN Energy of Lakewood announced its acquisition by San Diego-based Sempra Energy. The merger could cost 300 jobs between the two companies.

The oil and gas sector still suffers from falling prices. Gulf Canada announced it was moving its headquarters from Denver to Calgary due in part to plunging oil prices, eliminating 50 positions. The move came just less than two years after Gulf moved its executive offices from Canada to Denver. Meanwhile, Texaco eliminated 126 of its 419 positions at its Denver Tech Center office. Late last year, Texaco announced it would cut as many as 1,000 jobs in its worldwide operation.

Gaming

The Bullwhackers Casino in Central City closed in February. While most of the 50 employees will be transferred to the Black Hawk Bullwhackers Casino, the closure will have an impact upon city revenues. With the loss of 300 slot machines and tables at an annual tax of $1,265 each, Central City stands to lose $379,500 a year. As a result, Central City officials abandoned plans to hire two new police officers and acknowledged they may reduce public transportation services.

In other gaming news, the Colorado Division of Gaming reported that state casinos collected $42.3 million in adjusted gross proceeds in January. This was a 21.4% increase from the $34.8 million reported in December and a 13.4% increase from the $37.2 million reported in January 1998. The January 1999 figure was the fourth strongest month on record.

Health Care

HealthSouth Corporation announced plans to build a 40-80 bed acute care hospital in Colorado Springs. The new complex would primarily provide outpatient services, such as rehabilitation, medical imaging, and a pharmacy. Construction is estimated to be completed by mid-2000 and will cost between $7 and $15 million. HealthSouth reported its local employment could expand by 50%.

Agriculture

The number of cattle and calves on feed for the slaughter market in Colorado was estimated at 1,140,000 head as of February 1999, 4% percent more than February 1998. However, a recent trend of cattle shortages have pushed up prices. The prices of calves were up 4.3% from a month ago, but down 0.5% from a year ago. The prices of cattle were up 6.8% from a month ago, but down 1.6% from a year ago. Steer and heifer prices saw slight price increases in February, up 0.6% from a month ago and up 3.5% from a year ago.

". . . a recent trend of cattle shortages have pushed up prices."

While some crop prices remained unchanged, others declined in February. The prices of corn and potatoes remained stable since January. However potato prices decreased 14.8% from a year ago and corn prices decreased 26.1% from a year ago. Prices of wheat decreased 11.6% from January and 23.3% from a year ago. The price of barley decreased 9.4% from a month ago and 22.9% from a year ago. Prices of dry beans and alfalfa also experienced declines from a year ago.

Crop price decreases were caused in part by increases in inventory from a year ago. For instance, the alfalfa crop had a record inventory in February. The Asian economic crisis sharply reduced demand for U.S. exports, particularly grain and livestock, driving prices down.

Tourism

Colorado Ski Country USA, a resort marketing group, reported that Colorado skier visits decreased 11% through the end of 1998, compared to 1997. In early February, Steamboat Springs offered severance incentives to encourage some of its 1,400 employees to leave. However, ski resorts tend not to base employment decisions on attendance rates from the early season. According to Ski Country, 30% of resort patrons live in Colorado.

Metropolitan Denver

According to F.W. Dodge, the number of residential building permits in metro-Denver fell by 3.2%. The overall weakness is attributable to a drop of 33.5% in apartment construction, while single-family building permits increased 12.7%. Meanwhile the value of nonresidential construction declined 21.9% in 1998. For the year, metro-Denver nonfarm employment grew an average of 3.7% over 1997 employment figures.

Taking advantage of the current economic boom, developers in Douglas County's Castle Pines Village, announced a plan to construct 700 homes in an 800-acre area. Most homes will be priced between $700,000 and $750,000, with a few homes priced as high as $2.5 million.

"For the year, metro-Denver nonfarm employment grew an average of 3.7% over 1997 employment figures."

The metro-area residential development boom will extend to the Denver Technological Center (DTC). Local developer D.H. Friedman Properties announced a $40 million construction plan for a condominium complex, the VillaRosso Residences. Reportedly, this is the first condominium complex in the DTC. Construction will begin on a 70-unit, seven-story complex once 28 units are pre-sold. A second construction phase will add another 32-unit building. Condo prices will range from $180,000 to $400,000.

El Paso County

El Paso County residential development in 1998 increased, while nonresidential construction decreased from 1997. According to F.W. Dodge, the number of residential permits increased 1.9%. An increase in single-family permits outweighed a decrease in apartment permits. Meanwhile the value of nonresidential construction declined 30.1% in 1998. In 1998, Colorado Springs area nonfarm employment grew 3.3% over 1997.

Cinemark, USA, Inc. announced plans to build a 75,000 square foot 3,500-seat theater. The $15 million cinema will feature 16 screens and the first three-dimensional projection IMAX theater in Colorado. A grocery store, restaurants, and other retail stores will accompany the theater.

Northern Region

According to F.W. Dodge, there was a 27.8% increase in the number of residential building permits in 1998. The value of the nonresidential construction also increased 29.5% in 1998. In 1998, Greeley area employment grew 4.9% over 1997. Meanwhile in Larimer County, residential building permits fell 5.0% in 1998, and the value of the nonresidential construction decreased 28.8% last year. In the Fort Collins-Loveland area, employment grew 4.9% in 1998.

Western Slope and Mountain Region

The number of residential construction permits issued in Mesa County increased 14.0% in 1998, while the value of nonresidential construction fell 37.0% according to F.W. Dodge. In 1998, the Grand Junction area employment grew 4.2% over 1997.

Grand Junction, the largest city between Salt Lake City and Denver, exceeded the 100,000 population mark in 1998. Last year, Grand Junction witnessed the arrival of big name retail stores such as Home Depot, Barnes and Noble, PetsMart, and Circuit City, among others. A regional tourism study found that one-third of Mesa County sales tax revenues come from tourism. The study also found that tourism is responsible for 16% of the jobs in Mesa County.

In the ski-area counties (Eagle, Pitkin, and Summit), the number of residential construction permits issued fell 5.4% in 1998, while nonresidential construction value fell 42.0%. In 1998, employment in these counties grew 2.6% over 1997.

"Breckenridge ski resort officials released plans to develop some or all of the 283 acres adjacent to the ski area."

Breckenridge ski resort officials released plans to develop some or all of the 283 acres adjacent to the ski area. The development will include resort condominiums, additional recreational facilities, commercial office space, and a gondola to the ski areas.

In Eagle County, construction will begin later this year on a 400-unit housing development between Glenwood Springs and Gypsum. Of the 400 units, 300 will be detached homes and 100 will be condominiums, with price ranges between $90,000 and $150,000 each.

The number of residential construction permits issued in La Plata County increased 13.1% in 1998, according to F.W. Dodge. After posting strong growth years in construction projects in 1996 and 1997, the value of commercial construction fell 67.7% in 1998. In 1998, county employment grew 2.9% over 1997.

Colorado Indicators
Annual Growth Rates

Indicator	1998 Annual Average	1997 Annual Average
Nonfarm Employment ❋		
Growth	3.6%	4.2%
Unemployment Rate ∇ ❋		
(Seasonally adjusted)	3.8%	3.3%
Housing Permit Growth §	-0.5	-0.5
Single-Family	26.6	4.7
Apartments	-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 2.4% in 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 December 1998)	2.0	§ 3.8	§ 3.3	§ 3.7	2.9	4.9	4.2	4.9	5.2	1.9	§ 2.8	2.6	4.9	0.4
Unemployment Rate ⊗ ◆ (not seasonally adjusted) (in December 1998)	6.9	3.3	4.5	3.2	5.1	3.8	5.0	4.5	3.9	6.6	7.6	3.4	3.7	5.9
Retail Trade Sales Growth ∇ (through December 1998)	2.6	5.1	6.4	6.4	12.4	6.5	6.9	7.3	-2.9	5.8	5.3	5.4	5.0	-4.6
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.