



# Colorado Economic Chronicle

A Research Newsletter

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## National Economy

Fueled by strong consumer spending, inflation-adjusted **gross domestic product** (GDP) grew at a robust pace of 4.8% during the third quarter of 1999, the fastest growth since the fourth quarter of 1998, when GDP surged 5.9%. Consumer spending grew 4.3% in the third quarter, slightly slower than its second quarter growth rate of 5.1%. Businesses increased their inventories by \$14.1 billion during the third quarter, helping fuel strong growth. Meanwhile, the burgeoning trade deficit continued to be a drag on growth; imports grew 17.2%, substantially outpacing a strong growth rate of 12.7% in exports.

*"... gross domestic product (GDP) grew at a robust pace of 4.8% during the third quarter of 1999, the fastest growth since the fourth quarter of 1998, when GDP surged 5.9%."*

The Bureau of Economic Analysis (BEA) revised the way GDP is calculated in three ways. First, purchases of computer software by businesses or government will now be recognized as investment rather than an intermediate good. This change will increase real and nominal GDP. The average annual growth rate of GDP between 1991 and the second quarter of 1999

was 3.1% before the change, and 3.5% after the change. As a result of this revision, second quarter growth increased from 1.6% to 1.9%, first quarter growth decreased from 4.3% to 3.7%, and 1998 growth increased from 3.9% to 4.3%. Second, government employee retirement plans and gift/estate taxes will now be counted as personal savings rather than government savings. Although GDP and national savings will be unchanged, the personal saving rate will increase. The personal saving rate for 1998 increased from 0.5% prior to these revisions to 3.7% after these revisions. Finally, the BEA changed the base year for prices from 1992 to 1996.

*"The unemployment rate dropped to 4.1% in October, the lowest level since January 1970."*

The consumer sector remains robust despite signs of cooling. **Consumer spending** grew 0.4% in September, slower than the 0.8% rise in August. Spending on nondurable goods rose 0.8% in September, but was offset by a 0.4% decline in spending on durable goods. **Personal income** was unchanged in September after rising 0.4% in August. Meanwhile, the saving rate was 1.6% in September,

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down from 2.3% in August. **Consumer confidence** fell for the fourth month in a row in October, but remains at a very high level historically.

The **unemployment rate** dropped to 4.1% in October, the lowest level since January 1970. The low unemployment rate occurred despite a significant increase in the labor force; the share of the population age 16 and older that is employed hit a near record high of 64.2%. Payroll jobs increased by 310,000 in October, substantially more than the weather-affected September increase of 41,000. Regardless of tight labor markets, wage pressures remained docile. Average hourly wages rose by only one cent in October, while the employment cost index, a measure of U.S. wages, salaries, and benefits, increased 0.8% in the third quarter of 1999, a lower rate than had been expected. The index rose 3.1% for the 12 months ending in September 1999, compared with a 3.7% increase in the previous 12 month period. The employment cost index did show, however, that while wage pressures are tame, benefit costs have been growing. The index grew 1.1% in the second quarter.

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The number of **manufacturing** jobs fell by 15,000 in October. Manufacturing was the hardest-hit sector in late 1998 and early 1999 as a result of the global economic crisis, and despite increased activity throughout much of this year, the job losses continue. Nonetheless, the pace of job losses in manufacturing is slowing; manufacturing lost an average of 12,000 jobs each month thus far during the second half of 1999, compared with an average of 36,000 jobs per month during the first half of 1999. Furthermore, the National Association of Purchasing Management reported a ninth consecutive month of expansion, although its index of business activity dropped from 57.8 in September to 56.6 in October. An index above 50 indicates an expanding industrial economy. Meanwhile, orders for durable goods fell 1.3% and factory orders fell 0.9% in September, after five consecutive months of increases in both indicators. The declines came as a result of weaker demand for airplanes and cars. In addition, industrial output fell 0.3% in September, after rising 0.4% in August. The decline was partially blamed on Hurricane Floyd.

The **construction** sector registered mixed news in September. Construction spending increased 0.5% in September, a result of a \$5 billion jump in government projects that offset a decline in commercial construction projects. The jump in government construction spending was a result of school construction leading up to the school year and highway and street development. Mortgage rates climbed to above 8% in August, but had dropped back to 7.76% by the end of September. Meanwhile, *new home sales* fell 12.8% in September, to the lowest level since December 1997, while *existing home sales* fell 2.1%. The average price for a new home sold set a record at \$196,900 in September, up from \$192,400 in August.

**Inflation** showed new signs of accelerating in September. Consumer prices rose 0.4% in September, the biggest increase in five months. Prices have increased at a 2.8% annual rate so far this year, substantially higher than the 1.6% increase in 1998. The core consumer price index, which excludes food and energy prices, rose 0.3% in September, after increasing 0.1% in August. Meanwhile, producer prices rose 1.1% in September, the biggest increase in nine years. This increase was caused by spikes in the prices of cars and cigarettes; however, producer prices declined 0.1% in October. Still, this represents a 2.9% annual rate so far this year, compared to no change for all of 1998. Much of the increase in 1999 is attributable to rising energy prices. The core producer price index rose 0.3% in October after climbing 0.8% in September.

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Overall, the national economy remained healthy through the third quarter of 1999, although signs of cooling began to be more apparent. GDP surged in the third quarter as a result of strong consumer spending, but there are signs that consumer spending may slow in the future. The unemployment rate hit a 30-year low accompanied by minimal wage pressures, but consumer and producer prices are hinting at a slight acceleration. Meanwhile, the trade deficit remains at record levels, and home sales, housing starts, and commercial construction spending are slowing due to rising interest rates.

## Colorado Economy

Economic news released during October confirmed that the state's economy continued to grow at a strong pace during the first three quarters of 1999, continuing a decade-long boom. Several economic indicators show that the state's robust growth may be moderating, however. Employment growth has slowed throughout the year and the manufacturing sector is expanding at a slower pace. On the positive side, the construction industry, which has led the growth throughout the decade, continues to grow significantly from already high levels.

### 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	↑	Good
Colorado Inflation Rate	→	Good
Overall Rating	↑	Good

### Employment

Colorado's nonfarm employment increased 2.3% through September 1999 compared with the same time period a year ago. This growth, although healthy, has been steadily slowing throughout 1999. Colorado's nonfarm employment increased 3.6% in 1998, 3.1% through March compared with the first three months in 1998, and 2.6% through June compared with the first half of 1998. Some of the slowdown in growth has been caused by a tight labor market. Employers are unable to find the numbers of workers that they require. The seasonally adjusted unemployment rate remained very low at 2.8% in September, unchanged from August. The unemployment rate averaged 2.9% through September.

Job announcements during the last month were primarily positive. Agilent Technologies hired 250 people over the last two months in Colorado Springs, Airwalk International is moving to Genesee with 65 jobs, and Ion Tech Inc. added 40 employees since January to its Fort Collins workforce. Northwest of Fort Collins, the Kelsey Lake diamond mine will

reopen early next year with 30 to 35 employees. On the negative side, Communications Systems International eliminated over 50 positions in Colorado Springs during the last year.

### Residential Construction

Residential construction increased 13.9% through September, compared with the same period in 1998. The growth was primarily in apartment construction, which increased 36.1% during the period. Single-family home construction increased 8.3 percent. While home construction continues to show strong growth, recent moves by the Federal Reserve to raise interest rates will have a slowing effect on the construction industry in the future.

*"Despite two interest rate increases by the Federal Reserve in the last few months and the end of the summer buying season, the housing market in metro Denver remained robust through October."*

Despite two interest rate increases by the Federal Reserve in the last few months and the end of the summer buying season, the housing market in metro Denver remained robust through October. The average price of an existing single-family home sold in metro Denver through October increased 12.0 percent, to \$215,558. Year to date, 2.8% more homes were sold in the area than in 1998. The number of homes currently under contract is significantly below one year ago, indicating that the market may finally be slowing as a result of the higher interest rates.

The apartment vacancy rate in metro Denver fell to 3.7% in the third quarter, the lowest rate in five years. During the third quarter of 1998, the vacancy rate was 3.9%. Low vacancy rates and continued construction of high-end apartments caused the average rent for an apartment to rise \$40 per month during the last year to \$725. The decrease in the vacancy rate comes despite significant apartment construction over the last several years and indicates that the region has probably not yet overbuilt apartments as it did during the 1980s. Building permits for new apartments in the metro-Denver region increased 14.3% through September

1999, compared with the same period in 1998, according to F.W. Dodge.

The first phase of redevelopment at Stapleton International Airport will include 700 homes and 900 apartments. The project, to be built over the next three years, will encompass 275 acres and have a value of \$250 million. Model homes are expected to open in the spring of 2001 with occupied homes following that summer. The development will also include a 200,000-square-foot retail center, a community recreation center, an elementary school, and a church.

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High-end condominiums will be built on a 1.9-acre parcel south of Denver's Cherry Creek Mall. The project will include 115 units that will range in price from \$200,000 to \$2 million. In addition, 12 single-family homes ranging in price from \$800,000 to \$1.2 million will be built south of the condominiums.

A \$50 million development will be built at the base of the Steamboat ski resort. The project will consist of 35 condominiums and 49 townhomes with prices starting above \$300,000. There will also be a 13,000-square-foot building with retail shops and restaurants.

## **Nonresidential Construction**

The Vance Street Promenade in Lakewood will include a grocery store, a movie theater, and residential projects. In total, the project will have 350,000 square feet of retail space and 140 housing units. The \$70 million project at the corner of Colfax Avenue and Wadsworth Boulevard will encompass 30 acres of space that currently holds a number of deteriorating and under-utilized buildings. The project should be completed in 2002.

Construction is underway on the Mack-Cali DTC Tower in the Denver Technological Center. The office building will cost \$38 million to construct and will have 190,000 square feet of space in its six stories. Half of the building has already been leased to Woodward-Clyde/URS Greiner Corp., an engineering firm.

Construction is underway in the Highlands Ranch Business Park on a 72,000-square-foot office building. The \$11 million building will be completed next summer and will be followed by an 80,000-square-foot building. The buildings are located next to the new building under construction for Lucent Technology.

Nonresidential construction increased 21.6% through September 1999, according to F.W. Dodge. The growth was strongest in educational, science, and public buildings. Declines were experienced in the construction of religious buildings, commercial facilities, and manufacturing plants.

## **Advanced Technology**

Level 3 Communications opened its world headquarters in Broomfield. The \$34 billion company already has approximately 1,800 employees in Colorado. The company is working with higher education institutions to continue its employment growth in the state. Approximately 15% of Level 3's Colorado employees graduated from the University of Colorado. The headquarters is located on 43 acres of space in the Interlocken Business Park. The \$200 million project will eventually include 825,000 square feet of space. Meanwhile, Storage Technology Corp. will cut over 1,500 employees worldwide. The company did not announce how many of the cuts would be in Colorado, but with 3,500 of its 8,700 employees in the state, it is likely many of the cuts will take place here.

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***"Level 3 Communications opened its world headquarters in Broomfield."***

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## **Manufacturing**

Colorado's manufacturing sector continued to grow in October, according to the National Association of Purchasing Management. The Colorado Manufacturing Index was at 53.3% in October. A reading over 50.0% indicates that the state's manufacturing sector is expanding. A drop in new orders and a fall in the general index from 66.0% a few months ago may be signaling that growth is slowing in the sector, however.

## Mining

The Kelsey Lake diamond mine northwest of Fort Collins will be the only operational diamond mine in the United States when it reopens next year. The mine will employ 30 to 35 workers. The mine produced the fifth largest diamond ever found in North America, 28.3 carats, in 1996.

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## Tourism

Recreational visits to national parks in Colorado increased 5.4% through September 1999, compared with the same period in 1998. The growth was led by Hovenweep National Monument, Curecanti National Recreation Area, and Colorado National Monument. Meanwhile, Bent's Old Fort National Historical Site, Dinosaur National Monument, and Florissant Fossil Beds National Monument had fewer visits this year.

Through August, passenger traffic at Denver International Airport increased 4.2%. If this growth continues throughout the remainder of the year it will mark the third consecutive annual increase at the airport. A robust state economy, coupled with a strong national economy, are pushing the trend. Colorado is an excellent tourist destination and growth in disposable income throughout the nation allows people to take more vacations. Also, growing businesses and consolidating industries have resulted in more business travel to and from the state.

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***"Denver voters approved a \$268 million expansion of the Denver Convention Center that will nearly double the size of the facility."***

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Denver voters approved a \$268 million expansion of the **Denver Convention Center** that will nearly double the size of the facility. The center will expand its exhibition space to 584,000 square feet, add 60,000 square feet of meeting space, build a 5,000-seat auditorium, and add a 1,000-space parking garage. The new facilities, coupled with the 1,100-room Marriott Hotel project across the street, will allow the

city to contend for much bigger conventions than it does currently.

## Metro-Denver Region

Park Meadows Town Center officials announced plans to annex **Park Meadows** into the Regional Transportation District (RTD). The annexation is estimated to create additional revenues of \$4 million per year for RTD, which will be used to build a light-rail station adjacent to the mall property complete with a pedestrian bridge from the shopping mall and a parking garage. Park Ridge Corporate Center, a 75-acre business campus near the mall, will also annex itself into the RTD.

Interlocken Business Park has created new demand for development at the Jefferson County Airport in **Broomfield**. Denver Air began construction on an 84,000-square-foot development north of the terminal, which will include 23,000 square feet of office space, an upscale restaurant, hangar, and retail space. Level 3 Communications is finishing up construction on its own hangar near the airport, which will hold between two and four planes.

New lofts are being constructed a block from Coors Field in **Denver**. The \$14.5 million project will include 18 lofts, 210 parking spaces, and retail space in its 145,000 square feet. Also, two builders will put 115 homes along the southeast corner of Park Hill Golf Course in Denver. The homes will range in price from \$120,000 to \$200,000.

Airwalk International, a footwear, snowboarding, and biking company, will move its headquarters from Pennsylvania to **Genesee** during November and December. The company will relocate 30 workers from Pennsylvania and hire an additional 35 locally.

## Southern Region

Hewlett-Packard spinoff Agilent Technologies Inc. began doing business under its own name in November, after hiring 250 people during the last two months. Agilent, which currently employs 1,800 people in **Colorado Springs**, manufactures test and measurement equipment, and will remain a Hewlett-Packard subsidiary until next year. Meanwhile,

Communications Systems International, also of Colorado Springs, filed for bankruptcy after a failed stock sale. The failure of the company caused the elimination of 54 positions over the last year.

Small businesses in **El Paso County** received 111 loans for a record \$38.9 million from the Small Business Administration during the federal fiscal year that ended September 30, 1999, up 28.4% from the previous fiscal year. Statewide, 946 loans were guaranteed for a total of \$290 million. The agency estimates that these loans created more than 8,300 jobs in Colorado.

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Fabric dealer Wyman/Empire opened a new showroom in **La Junta** and hired 12 people to staff it. They expect to expand the showroom and hire between 8 and 18 additional employees in the near future.

## Western and Mountain Region

Colorado Mountain College proposed building affordable housing on 172 acres at its Spring Valley Campus in **Glenwood Springs**. The proposal includes 21 acres of wetlands, a recreation center, a college annex, retail space, and 450 single-family homes, 92 of which would have a \$40,000 subsidy per home from the college to help with affordability. Construction began on 550 high-end homes nearby, with house-sizes ranging up to 25,000 square feet. Garfield County also approved plans to begin construction at two other developments near the college: Los Amigos Ranch, with 409 homes, and Lake Springs Ranch, with 198 homes. In addition, a proposal to build the Western Pines subdivision in Glenwood Springs was revised to include only 13 single-family homes on 7.7 acres.

Plans were announced to build an 87-unit affordable housing development in **Carbondale**. Blair Ranch Commons would include a park and be located on 5.6

acres along Highway 133. Pending approval by the town of Carbondale, the housing would be subsidized by the state. The housing would be targeted at those earning 80% or less of the median income in Carbondale.

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Many projects are under construction on Chambers Avenue in **Eagle**. They include the 14,000-square-foot Beasley Center and the eight-unit, 5,900-square-foot office/retail Capitol Street Building.

## Northern Region

Advanced technology manufacturer Ion Tech Inc. will become a division of New York-based Veeco Instruments Inc., allowing it to continue expanding its business in **Fort Collins**. Ion Tech has nearly doubled the number of people it employs from 60 people in January to more than 100 now, and expects to hire at least another 100 people within the next five years.

### Colorado Indicators Year-to-Date Growth Rates

Indicator	September 1999	August 1999	1998 Annual Average
Nonfarm Employment * Growth	2.3%	2.5%	3.6%
Unemployment Rate ▽ * (Seasonally adjusted)	2.8	2.8	3.8
Housing Permit Growth §	13.9	13.7	-0.5
Single-Family	8.3	8.2	26.6
Apartments	36.1	32.7	-42.5
Growth in Value of Nonresidential Construction §	21.6	21.7	-22.0
Retail	4.2	2.6	-15.3
Offices	1.5	-2.1	9.5
Factories	-53.2	-53.9	-70.5

▽ Actual level, not growth rate.

§ F.W. Dodge data.

\* Colorado Department of Labor and Employment data.

**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 September 1999)	0.5	2.6	2.2	2.7	1.5	2.6	1.5	-0.4	3.2	2.9	1.5	2.4	2.4	0.6
Unemployment Rate ⊗ ♦ (not seasonally adjusted) (in September 1999)	4.4	2.7	3.2	2.4	3.3	2.9	3.1	3.6	2.4	3.7	4.4	2.0	2.4	3.0
Retail Trade Sales Growth ▽ (through August 1999)	-0.1	8.9	6.2	7.8	7.3	6.0	5.7	0.5	8.3	4.4	4.3	0.0	6.4	-5.8
Housing Permit Growth * (through September 1999)	15.0	-17.9	24.7	14.2	-21.4	41.9	49.7	19.9	20.9	36.9	8.6	28.0	32.1	92.7
Growth in Value of Non-residential Construction * (through September 1999)	35.9	35.5	23.5	37.6	♣	46.2	88.4	-22.6	♠	-79.6	-10.1	15.1	-90.5	-80.4

§ Nonfarm Employment Growth.

⊗ Actual level not growth rate.

♦ Colorado Department of Labor and Employment data.

\* F.W. Dodge data.

▽ Colorado Department of Revenue data.

♠ Nothing was contracted through September 1999, while \$4.5 million was contracted through September 1998.

♣ \$16.1 million was contracted through September 1999, while \$4.1 million was contracted through September 1998.

