



Colorado Economic Chronicle

A Research Newsletter

Legislative Council
Denver, Colorado

Tom Dunn
Chief Economist

Natalie Mullis
Economist

John Butler
Economist

January 10, 2000

National Economy

The national economy maintained its robust health through November and December. Growth in inflation-adjusted Gross Domestic Product (GDP) during the third quarter of 1999 was revised up to 5.7% from the previous estimate of 5.5%, primarily due to upward revisions to the consumption of services and business inventories. Fueling this growth, personal consumption expenditures grew 4.6%, nonresidential fixed investment grew 13.3%, and net exports grew 14.6% in the third quarter. While imports continued to be a drag on growth, the trade deficit hit a new record in October at \$25.9 billion. Meanwhile, growth in corporate profits was also revised, to an increase of \$3.7 billion, down from a previously estimated \$8.2 billion during the third quarter. Because Hurricane Floyd served to diminish corporate profits, this still represents healthy growth.

"... consumer spending, responsible for fueling what in February will become the longest expansion in U.S. history, shows no signs of slowing."

Accompanied by high consumer confidence levels, **consumer spending**, responsible for fueling what in February will become the longest expansion in U.S. history, shows no signs of slowing. Propelled by strong sales in durable goods, consumer spending grew at a robust pace of 0.5% in November and has grown every month since April 1997. **Personal income** grew at a still strong rate of 0.4% after soaring 1.3% in October, while the saving rate declined

slightly to 2.2% in November from 2.3% in October. Soaring stock values and real estate equity gains, neither of which are incorporated into the saving rate, have increased wealth and allowed many households to spend more than they earn. Meanwhile, the consumer confidence index hit its highest level since 1968 in December at 141.4, with consumers optimistic about both the present and the future.

"In December, the unemployment rate remained at 4.1% for a third month in a row, its lowest level since January 1970, ..."

The national economy added 315,000 new jobs in December, a much stronger gain than the average of 215,000 for the first eleven months of the year. Although job gains occurred across all industries, they were propelled by strong hiring in retail trade and local governments. The **unemployment rate** averaged 4.2% in 1999, down from 4.5% in 1998 and 4.9% in 1997. In December, the unemployment rate remained at 4.1% for a third month in a row, its lowest level since January 1970, while the percentage of the population employed hit a record high at 64.4%. With an increasingly tight labor force, wage pressures are mounting. Average hourly earnings rose 0.4% in December, slightly faster than during the first 11 months of the year. However, the average wage rose 3.7% in 1999, still slower than the 3.8% growth rate of the average wage during 1998.

The Legislative Council is the research arm of the Colorado General Assembly.
The Council provides non-partisan information services and staff support to the Colorado Legislature.

Representative Russell George, Speaker of the House
Representative Doug Dean, Majority Leader of the House
Representative Ken Gordon, Minority Leader of the House
Charles Brown, Director of Legislative Council Staff

Senator Ray Powers, President of the Senate
Senator Tom Blickensderfer, Majority Leader of the Senate
Senator Michael Feeley, Minority Leader of the Senate

The **manufacturing** industry continued its recovery in November, although at a slightly slower rate. While the National Association of Purchasing Managers manufacturing index declined slightly in November to 55.5%, it remains well above the 50% level that indicates expansion in the industry. Despite a decline of 1,000 jobs in the manufacturing sector, the employment index also rose in December, indicating that the outlook for manufacturing payrolls is positive. Manufacturing payrolls were revised up to a gain of 8,000 jobs for November from a previously estimated decline. After declining for two months, both overall factory orders and orders for durable goods grew 1.2% in November. This growth was partially fueled by a sharp rise in orders for electronic and electrical equipment caused by a pause in supply that resulted from October's earthquake in Taiwan. Meanwhile, the largest risks facing the manufacturing industry continue to be labor shortages and indications of rising costs. The manufacturing industry is the only industry in which wage gains outpaced productivity gains in November.

The **construction** sector posted mixed news in November and December. While sales of *existing* homes grew 6.0% in November, sales of *new* homes fell 7.1% and the construction of new homes and apartments fell 2.3%. The median price of all homes sold rose 0.9% in November to \$133,700. Construction spending grew at much stronger than expected rate of 2.6% in November, aided by good weather and fueled by an 11.5% increase in highway building and a 5.6% increase in educational buildings. According to the Federal Reserve, the conventional fixed 30-year mortgage rate was at 7.96% at the end of October, fell to 7.84% at the end of November, but had crept up to over 8% by the end of December.

Colorado Economy

Colorado's economy continued its torrid pace at year-end 1999. Many reports summarized the performance of the Colorado economy in the last year. Indicators of a strong economy include increased retail sales during the holiday period in 1999 over 1998, population growth in Colorado that ranked among the highest in the country, low vacancy rates for commercial real estate, and continued residential and nonresidential construction growth. However, there are several indications that the rate of expansion in the state's economy will begin to slow. These include a lack of affordable housing, not only in the resort communities

"Productivity growth outpaced wage growth . . . and overall labor costs per unit of output consequently fell 0.2%."

Inflation was benign in November. After rising 0.2% in October, consumer prices rose only 0.1% in November and are up 2.1% over the last twelve months. The core index, which excludes the volatile energy and food prices, increased 0.2% in November. Meanwhile, the producer price index rose 0.2% in November after declining 0.1% in October, and is up only 0.2% over the last 12 months. The core producer price index, however, was unchanged from its October level. While wage pressures remain imminent, they have yet to materialize in higher prices. This is partially a result of increased productivity. Productivity growth was revised up from the earlier estimate of 4.2% to 4.9% for the third quarter of 1999, the fastest growth rate in seven years. Productivity growth outpaced wage growth in all industries but manufacturing, and overall labor costs per unit of output consequently fell 0.2%.

The national economy continued to expand at a healthy rate through November and December. Consumer spending remains the primary impetus for growth and, with consumer confidence at a 30-year high, it shows no signs of cooling. The manufacturing industry continued its recovery. While labor markets remained extremely tight, inflation remained modest while productivity gains outpaced wage gains. Construction spending and demand for existing homes continue to rise, although rising interest rates have begun to affect housing starts and demand for new homes.

but also in the metro-Denver area, as well as a tight labor market.

Employment

Nonfarm employment in Colorado was 2.3% higher through November 1999 than through the same period in 1998. Colorado continues to experience a tight labor market with the unemployment rate decreasing to 2.8% in November from 3.0% in October. Through November, the unemployment rate in Colorado has averaged 2.9% in 1999.

The tight labor market makes it especially difficult for employers to attract employees to unskilled positions. A study conducted by the Colorado Department of Labor and the Arapahoe/Douglas Works! Workforce Center showed that there were 46,000 job openings in the Denver area in September 1999. Of these openings, 59% required no high school degree and no experience. The services or retail trade sectors had 71% of the openings.

There were only a few job announcements at year end. Several significant layoffs occurred or were announced in the manufacturing industry. Dynamic Details Inc. announced they will lay off 275 workers in Colorado Springs, 80 employees of Trimm Technologies Inc. in Colorado Springs lost their jobs, and Robertshaw Controls Co. has moved 40 manufacturing positions to Mexico from Ft. Collins over the past six months. Other layoffs include the announced layoffs of 110 workers at the Henderson Mine near Empire and 19 employees of AccessAir in Colorado Springs. Job gains included 15 positions at The Right Move in their new office in Ft. Collins.

Population

The U.S. Bureau of the Census estimates that Colorado's population grew by 87,166 residents between July 1998 and July 1999. Colorado's population grew by 2.2% which would rank Colorado third in the country last year. The Census Bureau placed Colorado's population at 4,056,133 as of July 1999.

"Colorado's population grew by 2.2% which would rank Colorado third in the country last year."

Residential Construction

According to F.W. Dodge, the number of residential construction permits in Colorado through November 1999 increased by 13.7% over the same period in 1998. Much of the growth in residential construction was in apartment buildings which increased by 3,575 units, or 37.9%, through November 1999. Single-family units increased by 2,190 units, or 7.0%, while two-family units, a small portion of residential construction, decreased slightly.

Housing costs continue to climb in metro-Denver as well as all of Colorado. Perry & Butler reported that the average price of a single-family home in the metro-Denver area hit a record \$219,200 in December 1999. For all of 1999, the average price of single-family homes in Denver increased 12.1% over 1998 to \$208,300. Demand for housing increased by 1.7% in 1999 over 1998 while the number of homes on the market decreased by 21.8% in December 1999 over December 1998. Continued strong demand for housing combined with a lower supply will lead to continued strong price increases.

"The availability of affordable housing will be one of the deciding factors on whether the growth in the state's economy will continue."

The availability of affordable housing will be one of the deciding factors on whether the growth in the state's economy will continue. People obviously want to live and work in Colorado and companies continue to move operations into the state or expand existing operations. However, several areas, such as Boulder County, are experiencing a lack of housing for local workers. One study found that the City of Boulder had a population of 95,000 people, 94,000 jobs but only 44,000 housing units. Thus, many people must commute into Boulder.

Nonresidential Construction

According to F.W. Dodge, the value of nonresidential construction increased 25.7% through November 1999 as compared with the same period in 1998. Nonresidential construction levels have returned to the high levels seen in 1997 after dropping significantly in

Colorado's Economy at a Glance

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

1998. Nonresidential construction gains through November 1999 were led by strong increases in the construction of manufacturing plants, education buildings, hospitals, public buildings, and amusement projects. These gains are tempered somewhat by a slight decrease in commercial construction.

Several nonresidential construction projects were announced recently. In the metro-Denver area, CarrAmerica began construction of its second office park in the area. The Dry Creek Corporate Center, located in the southeast part of the metro area, will be a \$120 million center that will include nine buildings that total 830,000 square feet. The first three-story, 94,000-square-foot building is currently under construction. Plans call for the building to open in the summer of 2000.

In the northern part of the metro area, McData announced they will relocate their offices from Interlocken to the new Westmoor Technology Park. The corporate headquarters will initially include a 175,000-square-foot building with enough space to add two more buildings that will add an additional 325,000 square feet. The headquarters cost is estimated at \$75 million and will employ 860 people, 500 more than McData currently employs. McData hopes to move into the first building by early 2001.

“Two significant commercial construction projects are planned on the north side of Colorado Springs . . .”

Xilnix also announced plans to develop an office campus in Longmont. The first phase is calling for 138,000 square feet of space to be built by 2001. Xilnix currently employs 150 people and could expand to 460 employees with the first phase of development.

Two significant commercial construction projects are planned on the north side of Colorado Springs and are located within several miles of each other. The Rampart Office Campus would include four buildings that are 180,000 square feet each, for a total of 720,000 square feet. Construction on the first phase of the development could begin in spring 2000. The other project also would include four buildings but would total only 260,800 square feet. Construction on the second project could begin in February 2000.

Retail Sales

Retail sales in Colorado experienced significant gains through the holiday season. By some estimates, retail sales during the two-month holiday season of November and December increased 6% to 7% in 1999 compared with the same period in 1998. The continued strong economy and high consumer confidence led to strong retail sales as well as some increased sales due to stockpiling of goods caused by Y2K fears.

Mergers and Acquisitions

Colorado ranked second among all states in mergers in 1999. Colorado, whose mergers totaled \$133 billion in value, had over 10% of all mergers in the United States in 1999. 72 Colorado-based companies entered into agreements to merge with another company. Some of the larger companies in Colorado that entered merger agreements in 1999 include MediaOne Group, Qwest Communications, New Century Energies, Cyprus Amax, KN Energy, and Corporate Express.

Manufacturing

Colorado's manufacturing sector on the Front Range grew for the eleventh month in a row in December 1999. The National Association of Purchasing Management reported that the purchasing managers index for Colorado's manufacturing sector was 54.8 in December, down slightly from November's value of 55.8. An index value over 50.0 indicates a growing manufacturing sector. Colorado's index value was also just slightly lower than the index value of 55.5 for the United States.

Agriculture

“The cattle industry in Colorado will have experienced one of its best years in 1999 in over a decade.”

The cattle industry in Colorado will have experienced one of its best years in 1999 in over a decade. In 1999, per-capita consumption of beef increased to 69.2 pounds in the United States, a one pound increase over 1998. This level of consumption is the highest for

beef since 1989 and helped drive up prices. Wholesale cattle prices were almost 10% higher in 1999 than 1998 while some cuts of beef saw price increases of as much as 12%. In 1999, the price per hundredweight for cattle was \$87 which compares to a price in 1996 of \$63 per hundredweight. Another factor that has led to increased profits in the cattle industry is the drop in crop prices. Corn production was at an all-time high in Colorado in 1999 which caused a drop in prices.

Mining

The Henderson Mine, owned by Phelps Dodge, announced that they will lay off 110 workers, or approximately 20% of the mines' workforce. The mine is being forced to lay off employees as they scale back production due to low prices for molybdenum. In 2000, the mine anticipates producing 25 million pounds of molybdenum, which is a decrease of 5 million pounds from earlier estimates.

In related mining news, Phelps Dodge completed the closure of the headquarters of Cyprus Amax, which Phelps Dodge purchased in November 1999. Forty former Cyprus Amax employees were left without positions, although some were offered transfers to Phelps' headquarters in Tempe, Arizona.

Oil and Gas

BP Amoco announced that they will ask the Colorado Oil and Gas Conservation Commission for approval to add 550 coal-bed methane gas wells in La Plata County. The increase in wells will double the density in the Fruitland coal formation to two wells per 320 acres. BP Amoco anticipates they would drill 370 of the wells with other companies making up the difference. The new wells would come on line over the next five to ten years.

"The increase in wells will double the density in the Fruitland coal formation to two wells per 320 acres."

Metropolitan Denver

The commercial real estate market, like many other industries, saw a record year in 1999. Fuller and Co., which tracks the commercial property market, reported

that the vacancy rate for Class A office space in the metro area was 8.18% and lease rates averaged between \$23 and \$25 per square foot. Downtown Denver's current vacancy rate is 5.1% with lease rates ranging between \$25 to \$32 per square foot. Other sectors of commercial property and industrial space also are seeing low vacancy rates which is leading to continued development. In fact, downtown Denver expects to open three new buildings in 2000 that are currently under construction.

Two residential construction projects were announced for downtown Denver. These include 100 loft units at the corner of 21st and Welton. Construction on this development, which includes a theater complex, retail and office space, and a restaurant, is expected to begin in June 2000. A 334-unit apartment building is also planned for the corner of Broadway and Walnut in downtown. This five-story building will include one-, two-, and three-bedroom apartments.

The current site of Bandimere Speedway in **Morrison** could be developed into a \$100 million office, retail, and entertainment center. Bandimere Speedway is looking to relocate to another site within the metro area to build a larger facility. Construction of the commercial property at the current Bandimere location would be done over the next five to seven years.

Colorado Springs

Two manufacturing companies announced closures in the **Colorado Springs** area. Dynamic Details Inc., a maker of circuit boards, will close its Colorado Springs plant in early March. Dynamic Details employs 275 workers in the area and some of these workers will be offered transfers to Dallas to work at similar operations there.

"Two manufacturing companies announced closures in the Colorado Springs area."

Also closing manufacturing operations in the Colorado Springs area is Trimm Technologies Inc. Trimm's Colorado Springs operation was initially devoted to making tape drive shells for Quantum Corp. However, Quantum's use of Trimm's shells never reached the goal and Trimm was forced to move the operation to its Las Vegas plant. At the time of the layoffs, Trimm

employed 27 people and hired 53 contract workers in the Colorado Springs area.

In transportation news, AccessAir filed for Chapter 11 bankruptcy in early December. AccessAir, a discount air carrier, ran six flights daily from Colorado Springs. AccessAir gave no warning that they were about to shut down operations and have indicated that they intend to recommence operations at a later date. However, some industry observers believe that AccessAir will never return to service.

Impact Confections will move their corporate headquarters to Colorado Springs from Roswell, New Mexico. The company will hire 20 employees to perform marketing and accounting functions. Impact Confections' manufacturing operations will remain in New Mexico.

"Impact Confections will move their corporate headquarters to Colorado Springs from Roswell, New Mexico."

Northern Region

Plans were announced to develop a 1.5 million-square-foot technology business center at the intersection of Highway 60 and Interstate-25 which is just west of **Johnstown**. The center will include commercial and industrial space as well as a hotel, meeting center, and retail space. This development and the Global Technology Center, a 1,500 acre business park that is four miles north on I-25, are indicative of the anticipated growth that will occur along the I-25 corridor north of the metro-Denver area.

TD Machine Inc., a manufacturer of oil-field equipment, will move its production facility to **Fort Lupton** from Commerce City. The move comes for several reasons, including a desire to locate close to Production Control Service Inc. which accounts for approximately 80% of TD Machine's business. Another reason for the relocation is an attempt to hire employees who will remain with the company over the long term. In the metro-Denver area, TD Machine experiences high employee turnover, a product of the tight labor market. TD Machine employs 18 workers and anticipates having to fill most positions once the move is complete.

Other manufacturing news in northern Colorado includes the loss of 40 jobs at Robertshaw Controls Co. in **Fort Collins**. The positions have been moved to Mexico over the past six months. Robertshaw Controls, who manufactures an electronic ignition system for gas appliances, has moved all of their production facilities to Mexico. However, the company plans to continue to employ 20 individuals at its design facility that will remain in Fort Collins.

The Right Move, which began moving operations in Erie a little over a decade ago, opened an office in Fort Collins. The company will employ 15 people at the Fort Collins location.

"Plans to start a rookie baseball league in 2000 have been shelved temporarily."

Plans to start a rookie baseball league in 2000 have been shelved temporarily. Some of the cities that were interested in having a team include Fort Collins, Greeley, Windsor, Grand Junction, and Pueblo in Colorado, and Laramie and Cheyenne in Wyoming. Cities had difficulties completing the applications to Major League Baseball in time that would allow for the league to start in the summer of 2000. However, the league is only delayed and plans will continue to start the league in 2001.

Mountain Region

Plans were unveiled for a new development along Highway 145 near **Telluride**. The 857-acre development would include residential property, a golf course, a hotel, and a gondola link to Telluride Mountain Village. Plans call for the development, which faces many rounds of public comment and county commissioner approval, to begin construction in the next three to five years.

Other mountain region developments include the relocation of The North Face corporate headquarters to San Leandro, California from its **Carbondale** location. The North Face opened its Carbondale office 18 months ago in an attempt to cut costs which did not materialize. Community impact was not significant because the company had not hired many local employees. However, indications were that over the long term, The North Face would have hired 50 to 60 employees from the area.

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 November 1999)	0.5	\$2.7	\$2.2	\$2.6	1.3	2.6	1.5	-0.3	3.5	2.5	0.5	2.4	2.7	1.0
Unemployment Rate ⊗ ♦ (not seasonally adjusted) (in November 1999)	4.1	2.4	3.0	2.2	3.2	2.7	3.1	3.2	2.6	4.2	4.4	3.3	3.1	2.9
Retail Trade Sales Growth ∇ (through September 1999)	0.4	9.7	7.4	9.0	8.2	7.4	6.1	2.2	8.8	5.3	4.2	0.8	6.8	-3.7
Housing Permit Growth * (through November 1999)	4.0	2.9	27.9	11.0	-20.1	35.1	41.6	24.1	5.8	19.3	5.7	16.5	55.0	73.1
Growth in Value of Non-residential Construction * (through November 1999)	-17.6	52.1	50.6	26.1	♣	50.4	43.5	-28.7	♠	21.3	-8.8	-14.6	-83.8	-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 November 1999, while \$4.5 million was contracted through November 1998.

♣ \$30.4 million was contracted through November 1999, while \$7.1 million was contracted through November 1998.

Colorado Indicators Year-to-Date Growth Rates

Indicator	November 1999	October 1999	1998 Annual Average
Nonfarm Employment * Growth	2.3%	2.3%	3.6%
Unemployment Rate ∇ * (Seasonally adjusted)	2.8	3.0	3.8
Housing Permit Growth §	13.7	13.2	-0.5
Single-Family	7.0	7.5	26.6
Apartments	37.9	35.0	-42.5
Growth in Value of Nonresidential Construction §	25.7	26.0	-22.0
Retail	19.8	20.0	-15.3
Offices	-2.1	6.1	9.5
Factories	162.7	157.6	-70.5

∇ 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-Greeley inflation rate is often used as a proxy for Colorado's inflation rate. The Denver-Boulder-Greeley inflation rate was 2.9% through the first half of 1999, following a 2.4% rate in 1998.