Colorado
Legislative
Council
Staff

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MEMORANDUM

September 20, 2007

TO: Members of the General Assembly

FROM: The Economics Staff, (303) 866-3521

SUBJECT: *Focus Colorado: Economic and Revenue Forecast, 2007-2012*

This memorandum presents the current budget outlook based on the **September 2007 General Fund and cash fund revenue forecasts.** Table 1 presents the General Fund overview based on current law.

Executive Summary

Revenue Forecast

The forecast for total revenue subject to TABOR was largely unchanged relative to the June forecast. Most of the turbulence currently being experienced in the economy had already been incorporated into expectations for the June forecast. The forecast for TABOR revenue was increased by a total of $117.0 million (or 0.27 percent) over the four-year period between FY 2007-08 and FY 2010-11.

- **General Fund revenue** came in $21.1 million above the June forecast and accruals added an additional $32.6 million for a total increase of $53.7 million (or 0.71 percent) above the June forecast in FY 2006-07. Most of the increase for FY 2006-07 was as a result of higher-than-expected income taxes. The forecast for General Fund revenue over the forecast period was, essentially, unchanged relative to June; it was increased $10.7 million, or only 0.03 percent, during the four-year period between FY 2007-08 and FY 2010-11. Under current law, the increases in General Fund revenue will accrue to highways and capital construction. It is important to note that the five-year forecast period extends two years beyond the five-year timeout period under Referendum C. The forecast for General Fund revenue will allow the state to fully fund the six percent appropriations limit and the SB 97-1 diversion over the entire forecast period.

- **Cash fund revenue** subject to TABOR came in $5.0 million (or 0.24 percent) higher in FY 2006-07 than had been expected in the June forecast. The forecast was increased over the

Table 1
September 2007 General Fund Overview
(Dollars in Millions)

		Preliminary FY 2006-07	Estimate FY 2007-08	Estimate FY 2008-09	Estimate FY 2009-10	Estimate FY 2010-11	Estimate FY 2011-12
1	Beginning Reserve	$688.5	$536.7	$346.8	$388.0	$384.2	$395.8
2	General Fund Nonexempt Revenue	6,250.9	6,605.3	6,899.0	7,235.5	7,904.7	8,507.5
3	General Fund Exempt Revenue	1,311.6	1,107.0	1,237.0	1,362.6	1,188.6	1,146.2
4	Senate Bill 97-1 Diversion to the HUTF	-230.6	-240.9	-251.9	-264.3	-278.3	-293.0
5	Sales Taxes to Older Coloradans Fund and OASMCF	-3.8	-5.8	-5.8	-5.8	-5.8	-5.8
6	Total Funds Available	$8,016.7	$8,002.5	$8,225.1	$8,716.0	$9,193.5	$9,750.7
	APPROPRIATIONS AND OBLIGATIONS:						
7	**Allowable General Fund Appropriations***	$6,675.6	$7,087.5	$7,519.3	$7,970.4	$8,448.7	$8,955.6
8	Exceptions From the Appropriations Limit	10.8	6.1	0.0	0.0	0.0	0.0
9	Rebates and Expenditures	160.8	169.2	168.9	174.3	182.9	199.0
10	Reimbursement for Senior and Disabled Veterans Property Tax Cut	74.2	76.2	77.2	78.5	79.2	79.9
11	Funds in Prior Year Excess Reserve to HUTF	291.2	179.8	42.2	58.2	43.6	38.6
12	Funds in Prior Year Excess Reserve to Capital Construction	145.6	89.9	21.1	29.1	21.8	19.3
13	Capital Construction Transfer	145.9	47.0	8.5	21.3	21.6	19.8
14	Accounting Adjustments	-24.1	NE	NE	NE	NE	NE
15	Total Obligations	$7,480.0	$7,655.7	$7,837.1	$8,331.8	$8,797.7	$9,312.1
16	**YEAR-END GENERAL FUND RESERVE**	**$536.7**	**$346.8**	**$388.0**	**$384.2**	**$395.8**	**$438.6**
17	**STATUTORY RESERVE: 4.0% OF APPROPRIATIONS**	**267.0**	**283.5**	**300.8**	**318.8**	**337.9**	**358.2**
18	**GENERAL FUND EXCESS RESERVE**	**$269.7**	**$63.3**	**$87.2**	**$65.4**	**$57.8**	**$80.4**
	TABOR RESERVE REQUIREMENT:						
19	General & Cash Fund Emergency Reserve Requirement	$289.4	$296.9	$313.4	$331.0	$341.2	$356.4
20	Appropriations Growth	$388.7	$407.3	$425.6	$451.2	$478.2	$506.9
21	Appropriations Growth Rate	6.17%	6.09%	6.00%	6.00%	6.00%	6.00%
22	Addendum: Amount Directed to State Education Fund	$395.1	$403.7	$428.7	$455.4	$484.1	$516.4

Totals may not sum due to rounding.

June forecast by a total of $125.3 million (or 1.1%) over the four year period between FY 2007-08 and FY 2010-Most of this increase came from higher expectations for severance taxes.

- **Severance taxes**, including interest earnings, fell 38.1 percent to a total of $145.1 million in FY 2006-07. In the next two years, severance taxes are expected to rebound, reaching a level of $171.1 million in FY 2007-08 and $200.0 million in FY 2008-09. Declining severance tax credits and higher natural gas prices due to the opening of the Rockies Express pipeline account for the change.

- The current estimate for the amount of revenue that will be retained by the state during the **Referendum C time-out period** is $6.1 billion, up from the $5.9 billion estimated in June. The forecast for TABOR revenue was increased during this period by $171.1 million, or 42 one hundredth's of a percent of the June forecast. In addition, lower expectations for inflation over the forecast period reduced the forecast for the TABOR limit, thus increasing the amount retained over that limit by a total of $80.4 million. Table 2 presents the history and forecast for revenue retained by Referendum C.

Table 2
History and Projections of
Revenue Retained by Referendum C
(millions of dollars)

Actual	
2005-06	$1,116.1
2006-07	$1,311.6
Projections	
2007-08	$1,107.0
2008-09	$1,237.0
2009-10	$1,362.6
2010-11	$1,188.6
2011-12	$1,146.2

- The current five-year forecast period extends two years beyond the time-out period associated with Referendum C. We currently are not projecting a **TABOR refund** for the first two years after the end of the Referendum C time-out period. While we expect General Fund revenue to grow at a faster rate than inflation plus population, the current forecast for the volatile Unemployment Insurance Trust Fund includes a significant decline in revenue during those two years. This results from an expectation that the unemployment insurance solvency tax will be in place through the end of the time-out period and then will no longer be necessary, decreasing collections. Because growth in the economy, and, therefore, state revenue, outpaces inflation plus population over time, we do anticipate that the state will have TABOR refunds in the future. In fact, when the solvency tax goes back into effect as expected in 2013, revenue will grow at a much faster pace than inflation plus population and significant refunds could result.

- The **Highway Users Tax Fund** (HUTF) **and capital construction** will share $354.2 million during the next five years under the provisions of **House Bill 02-1310**, which requires all revenue in excess of the statutory reserve requirement to be transferred two-thirds to the HUTF and one-third to capital construction. The HUTF will receive $1,328.4 million through the Senate Bill 97-1 diversion and $236.1 million through the House Bill 02-1310 mechanism between FY 2007-08 and FY 2011-12. Capital construction will receive $118.1 million from the House Bill 02-1310 mechanism during the same period. In addition, the HUTF and capital construction will receive additional money because of an increase in the General Fund excess reserve in FY 2006-07. Higher cash collections, accrual adjustments, and end-of-the-year accounting changes added $81.1 million in FY 2006-07.

National Economy

The national economy expanded by 4.0 percent in the second quarter of 2007, following a relatively stagnant first quarter in which the economy grew by 0.6 percent. The higher growth was attributed to a reduction in imports and increased federal government spending. The outlook is for moderate growth to prevail in the second half of 2007 and 2008. The national economy is expected to expand by 2.3 percent in 2007 and 2.9 percent in 2008.

Colorado Economy

As expected, Colorado's economy grew at a slower pace through the first half of 2007, following a solid year in 2006. Employment increased 2.0 percent through July of 2007, lower than the 2.4 percent growth posted in 2006. On the positive side, employment in Colorado's major job sectors continues to grow and wage and salary growth remains solid. Further, consumers have continued to be undeterred by the faltering housing market and higher energy prices. However, the negative factors affecting consumers will likely lead to diminished spending in the future. Also, the single-family housing market's contraction and the banking industry's tightening credit policies may have a negative effect on growth well into 2008.

While the slowdown in the housing market is expected to diminish growth in the labor market, job growth is expected to continue in the next two years. Employment is expected to increase 1.8 percent in 2007 and slow to 1.5 percent in 2008 before rebounding to healthier levels over the remainder of the forecast period. Personal income is poised to increase 5.6 percent in 2007 and 5.4 percent in 2008. Inflation is forecast to be 2.9 percent and remain in the 3.0 to 3.5 percent range during the remainder of the forecast period. Retail sales are expected to increase 5.5 percent in 2007 and slow to 4.6 percent in 2008.

General Fund Revenue

This section presents the Legislative Council Staff forecast for General Fund revenue. Table 3 illustrates revenue collections for FY 2006-07 and projections for FY 2007-08 through FY 2011-12. The economy has slowed thus far in 2007 due to difficulties in the housing and financial sectors, but consumers have remained resilient, the oil and gas industry has provided strength, and corporate profits have been on a solid growth path. While Colorado's economic expansion is now quite mature, it seems poised to show continued slow growth for the next two years. If the positive aspects of the economy can pull the state through the housing correction the current expansion could set another record for length, surpassing the record expansion of the 1990s.

The forecast for General Fund revenue increased by just 11.4 million (or 0.15 percent) for FY 2007-08, and remained essentially unchanged during the rest of the forecast period. The increase was attributable to faster than anticipated growth in sales tax revenue.

Individual income taxes will increase 2.2 percent in FY 2007-08 after increasing 11.3 percent in FY 2006-07 and 17.9 percent in FY 2005-06. The strong growth over the last two years was the result of healthy job creation, robust capital gains, and strong growth in oil and gas royalty payments. Higher interest rates and slower economic growth will reduce growth in individual income taxes in FY 2007-08. The forecast for individual income taxes was largely unchanged compared with June; the forecast was reduced by a total of $34.3 million (or 0.16 percent) during the four-year period between FY 2007-08 and FY 2009-11.

In FY 2006-07, **corporate income taxes** came in higher than expected, at $498 million. The June forecast expected corporate income taxes to be $467 million in FY 2006-07. The increase was due to higher collections in May and June and accounting adjustments at the end of the year. Despite this upward revision, the short-term forecast for corporate income taxes was revised downward because of the expectation that the rate of growth of corporate profits will begin to slow. In FY 2007-08, corporate income taxes are expected to reach $457 million, which represents a decrease in the forecast of $9 million from June, or 1.9 percent. It also represents a year-over-year reduction in corporate income taxes of more than 8 percent. The year-over-year drop is primarily due to the expiration of a federal tax break, which allowed corporations to repatriate foreign-source income at a reduced federal income tax rate. The expiration of this incentive will reduce federal taxable income and the amount apportioned to Colorado by multinational companies. Corporate income taxes are projected to increase 2.9 percent in FY 2008-09 and 4.2 percent in FY 2009-10, reaching $470 million and $490 million, respectively.

The **State Education Fund** receives one-third of one percent of taxable income from state income tax returns. This fund will see a growth pattern of revenue similar to income taxes. After receiving $395.1 million in FY 2006-07, it will receive $403.7 million in FY 2007-08 and $428.7 million in FY 2008-09.

Consumers continue to remain resilient as steady employment and wage gains appear to be offsetting continuing problems in the housing market, increased fuel prices, and high consumer debt levels. **Sales tax** collections were $3.1 million above the June forecast in FY 2006-07. Though we expect consumer spending to temper somewhat in the future, sales tax revenue will increase 5.0 percent in FY 2007-08. However, after a strong start to the year, sales tax revenue will taper off as the fiscal year transpires. This slower growth will also impact the first part of FY 2008-09, when we expect a 4.6 percent increase overall in sales tax revenue.

The forecast for **use tax** revenue in FY 2007-08 was revised downward as the home construction market continues to falter and because a softer economy will result in weaker business spending. After strong gains in the past few fiscal years, we expect use tax revenue to experience a pullback and decrease 4.8 percent in the current year. However, use tax revenue will rebound in FY 2008-09 growing 4.8 percent as the home construction market begins to improve.

Table 3
September 2007 General Fund Revenue Estimates
(Dollars in Millions)

Category	Preliminary FY 2006-07	Percent Change	Estimate FY 2007-08	Percent Change	Estimate FY 2008-09	Percent Change	Estimate FY 2009-10	Percent Change	Estimate FY 2010-11	Percent Change	Estimate FY 2011-12	Percent Change
Sales	$2,050.7	4.8	$2,153.0	5.0	$2,251.6	4.6	$2,362.8	4.9	$2,488.0	5.3	$2,619.9	5.3
Use	181.6	9.4	172.9	-4.8	181.2	4.8	189.7	4.7	199.4	5.2	210.1	5.3
Cigarette	47.1	-2.4	45.6	-3.1	44.4	-2.6	43.5	-2.0	42.7	-1.8	42.0	-1.7
Tobacco Products	13.0	15.5	11.0	-15.4	13.9	26.5	14.4	4.0	15.1	4.2	15.6	3.5
Liquor	34.0	3.5	34.7	2.2	35.8	3.1	36.8	2.8	37.8	2.7	38.8	2.7
TOTAL EXCISE	$2,326.3	5.0	$2,417.2	3.9	$2,526.9	4.5	$2,647.2	4.8	$2,783.0	5.1	$2,926.3	5.1
Net Individual Income	$4,870.9	11.3	$4,975.6	2.2	$5,301.7	6.6	$5,644.5	6.5	$6,008.8	6.5	$6,423.5	6.9
Net Corporate Income	497.9	11.3	457.2	-8.2	470.3	2.9	490.0	4.2	516.4	5.4	541.8	4.9
TOTAL INCOME TAXES	$5,368.8	11.3	$5,432.8	1.2	$5,772.1	6.2	$6,134.4	6.3	$6,525.3	6.4	$6,965.3	6.7
Less: Portion diverted to the State Education Fund	-395.1	10.6	-403.7	2.2	-428.7	6.2	-455.4	6.2	-484.1	6.3	-516.4	6.7
INCOME TAXES TO GENERAL FUND	$4,973.7	11.4	$5,029.1	1.1	$5,343.4	6.2	$5,679.1	6.3	$6,041.2	6.4	$6,448.9	6.7
Insurance	179.4	2.4	188.3	4.9	195.2	3.7	202.3	3.6	209.4	3.5	217.1	3.7
Pari-Mutuel	3.0	-12.8	2.6	-11.4	2.5	-6.3	2.4	-3.5	2.3	-3.6	2.2	-3.7
Investment Income	28.2	-15.3	31.7	12.5	32.6	3.0	36.4	11.5	39.2	7.9	40.4	3.0
Court Receipts	28.7	5.0	26.3	-8.6	17.8	-32.2	12.7	-28.5	0.3	-97.9	0.3	4.7
Gaming	6.5	-62.7	0.0	-100.0	0.0	NA	0.0	NA	0.0	NA	0.0	NA
Other Income	16.7	-13.6	17.0	2.2	17.6	3.4	18.1	2.6	17.9	-0.9	18.5	2.9
TOTAL OTHER	$262.5	-7.2	$265.9	1.3	$265.7	-0.1	$271.8	2.3	$269.1	-1.0	$278.5	3.5
GROSS GENERAL FUND	**$7,562.5**	**8.6**	**$7,712.3**	**2.0**	**$8,136.0**	**5.5**	**$8,598.1**	**5.7**	**$9,093.3**	**5.8**	**$9,653.7**	**6.2**
REBATES & EXPENDITURES:												
Cigarette Rebate	$13.2	-6.3	$13.3	1.0	$13.0	-2.6	$12.7	-2.0	$12.5	-1.8	$12.3	-1.7
Old-Age Pension Fund	89.9	3.2	92.1	2.5	98.0	6.4	104.5	6.7	111.7	6.9	118.8	6.3
Aged Property Tax & Heating Credit	8.4	-14.3	14.0	67.1	17.3	23.4	15.2	-12.1	15.8	3.9	16.4	3.7
Interest Payments for School Loans	10.6	-6.2	11.0	3.3	11.3	3.0	12.6	11.5	13.6	7.9	14.0	3.0
Fire/Police Pensions	38.8	33.3	38.8	0.1	29.3	-24.4	29.3	0.0	29.3	0.0	37.6	28.4
TOTAL REBATES & EXPENDITURES	$160.8	6.3	$169.2	5.2	$168.9	-0.2	$174.3	3.2	$182.9	4.9	$199.0	8.8

Totals may not sum due to rounding.

Cash Fund Revenue

Table 4 summarizes the forecast for revenue to cash funds subject to the TABOR spending limit. Total revenue will increase 5.1 percent in FY 2007-08 after a 5.8 percent decrease in FY 2006-07. The decrease in FY 2006-07 was due to declining unemployment insurance and severance taxes. Unemployment insurance (UI) tax rates fell because the UI Trust Fund began to recover from the recession. Severance taxes fell because of lower oil and natural gas prices in 2006 and 2007. Revenue will increase at an annual average rate of 1.2 percent through FY 2011-12.

Cash fund revenue subject to TABOR came in $5.0 million (or 0.24%) higher in FY 2006-07 than had been expected in the June forecast. Higher-than-expected collections of motor fuel and unemployment insurance taxes were offset by lower-than-expected collections of severance and gaming taxes. The forecast was increased over the June forecast by a total of $125.3 million (or 1.1%) over the four year period between FY 2007-08 and FY 2010-11. Of this increase, $91.5 million came as a result of higher expectations relative to the June forecast for severance taxes, with smaller increases in expectations for motor vehicle registration fees and unemployment insurance taxes.

Revenue to the ***transportation-related*** cash funds, which include the Highway Users Tax Fund, the State Highway Fund, and several smaller cash funds, will increase 1.2 percent in FY 2007-08 after increasing 1.7 percent last year and will grow at a fairly modest average annual rate of 1.5 percent over the five-year forecast period. After decreasing 2.5 percent in FY 2006-07, motor fuel taxes will be almost flat in FY 2007-08, increasing 0.3 percent. High gasoline prices and increased usage of fuel-efficient vehicles are suppressing growth in gasoline taxes. Registration fee revenue increased at a healthy rate of 5.4 percent in FY 2006-07. Rising interest rates and tighter credit will dampen demand for new vehicles this year; registration fees will increase at a still healthy, although slower rate of 2.8 percent in FY 2007-08.

The forecast for revenue to the transportation-related cash funds was increased by $5.4 million for FY 2007-08 and a total of 14.8 million during the four-year period between FY 2007-08 and FY 2009-10. Higher expectations for motor vehicle registration fees and interest earnings in the State Highway Fund were partially offset by lower expectations for motor fuel taxes.

Total ***unemployment insurance*** (UI) revenue, which includes UI taxes and interest earnings, will increase 3.0 percent in FY 2007-08 after decreasing by double-digit rates during the last four years. UI tax rates increased in 2004 and again in 2005 because of a substantial draw-down of the fund's reserves during the recession. Tax rates are currently decreasing gradually each year as the fund balance rebuilds. The solvency tax, which has been in effect since 2004 and is levied when the fund balance falls below 0.9 percent of total private wages, will continue to be in effect through 2010. The solvency tax will generate $1.27 billion over the six-year period. After decreasing 19.9 percent in FY 2006-07, all UI taxes will increase 1.0 percent in FY 2007-08 and then increase at double-digit rates in FY 2008-09 and FY 2009-10 before decreasing in FY 2010-11, as the solvency tax ceases to be collected.

The forecast for UI revenue was largely unchanged for FY 2007-08 relative to the June forecast, and was increased by a total of $17.6 million (or 0.9 percent) during the four year period between FY 2007-08 and FY 2010-11. Increased expectations for benefits paid to UI claimants resulted in slightly higher expectations for UI tax rates in 2009 and 2010, relative to the June forecast.

Table 4
Cash Fund Revenue Estimates by Category, September 2007
(Dollars in Millions)

	Preliminary FY 06-07	Estimate FY 07-08	Estimate FY 08-09	Estimate FY 09-10	Estimate FY 10-11	Estimate FY 11-12	FY 06-07 to FY 11-12 CAAGR *
Transportation-Related	**$884.6**	**$895.4**	**$887.3**	**$906.8**	**$921.5**	**$939.1**	
% Change	1.7%	1.2%	-0.9%	2.2%	1.6%	1.9%	**1.2%**
Unemployment Insurance	**$425.2**	**$437.9**	**$509.5**	**$584.2**	**$355.8**	**$280.8**	
% Change	-17.5%	3.0%	16.4%	14.7%	-39.1%	-21.1%	**-8.0%**
Employment Support Fund	**$22.3**	**$24.3**	**$25.3**	**$26.3**	**$27.3**	**$28.5**	
% Change	-0.2%	8.9%	3.8%	3.9%	4.1%	4.1%	**5.0%**
Severance Tax	**$145.1**	**$171.1**	**$200.0**	**$195.5**	**$203.2**	**$201.1**	
% Change	-38.1%	17.9%	16.9%	-2.2%	3.9%	-1.0%	**6.8%**
Limited Gaming Fund	**$117.9**	**$124.5**	**$130.9**	**$138.2**	**$146.6**	**$155.2**	
% Change	6.3%	5.6%	5.2%	5.6%	6.0%	5.9%	**5.7%**
Insurance-Related	**$66.2**	**$69.4**	**$72.6**	**$76.0**	**$79.7**	**$83.7**	
% Change	3.5%	4.9%	4.5%	4.7%	4.9%	5.0%	**4.8%**
Regulatory Agencies	**$50.8**	**$54.4**	**$53.5**	**$54.9**	**$58.0**	**$59.3**	
% Change	3.3%	7.1%	-1.6%	2.5%	5.7%	2.3%	**3.2%**
Capital Construction - Interest	**$14.9**	**$18.5**	**$10.6**	**$6.4**	**$4.0**	**$2.7**	
% Change	45.7%	23.9%	-42.8%	-39.3%	-37.4%	-33.3%	**-29.1%**
Other Cash Funds	**$363.6**	**$402.2**	**$436.2**	**$461.7**	**$497.2**	**$489.9**	
% Change	6.0%	10.6%	8.5%	5.8%	7.7%	-1.5%	**6.1%**
Total Cash Fund Revenues	**$2,090.7**	**$2,197.7**	**$2,325.8**	**$2,449.9**	**$2,293.3**	**$2,240.4**	
Subject to the TABOR Limit	**-5.8%**	**5.1%**	**5.8%**	**5.3%**	**-6.4%**	**-2.3%**	**1.4%**

Totals may not sum due to rounding.
* CAAGR: Compound Average Annual Growth Rate.
/A Includes interest earnings to the Capital Construction Fund and the Controlled Maintenance Trust Fund.

Severance tax collections, including interest earnings, fell 38.1 percent in FY 2006-07, to $145.1 million. The reduction in severance tax revenue was caused by a drop in natural gas prices and the claiming of higher severance tax credits. However, severance taxes are expected to rebound and grow by 17.9 percent this year and 16.9 percent next year. Severance taxes, including interest, will total $171.1 million in FY 2007-08 and $200.0 million in FY 2008-09. The increase in FY 2007-08 is mostly due to an anticipated reduction in severance tax credits. In FY 2008-09, the gain is because of an expected increase in natural gas prices in Colorado. Although national prices are not expected to advance and may decline slightly in the coming years, the opening of the Rockies Express pipeline in 2008 is projected to reduce the price differential that currently exists between natural gas produced in Colorado compared with the rest of the country. As a result, natural gas prices in Colorado are expected to rise and slowly converge toward national price levels.

Another factor contributing to the increase in the forecast for severance taxes is a recent opinion of the Colorado Attorney General regarding coal severance tax rates. Before passage of TABOR in 1992, coal severance tax rates were adjusted upward or downward based on the change in the producers' price index. Following passage of TABOR, the Department of Revenue fixed the coal severance tax rate at its November 1992 level of 54 cents per ton. In the Attorney General's opinion, the coal severance tax rate was erroneously fixed at 54 cents per ton and should have increased in accordance with the producers' price index. Consequently, the current forecast assumes that the coal severance tax rate will increase to 74.2 cents per ton, beginning in January 2008. By 2012, the coal severance tax rate is expected to reach almost 82 cents per ton. The forecast also assumes that the Department of Revenue will not retroactively apply the coal severance tax rate.

In addition, included in the severance tax forecast is the impact associated with **HB 07-1309**. This bill changed the collection of oil and gas severance taxes from quarterly to monthly, resulting in additional interest earnings for the state. Effective July 1, 2007, this is expected to generate about $500,000 in new interest earnings annually.

Compared with the June forecast, projected severance tax collections in FY 2007-08 were largely unchanged. However, in subsequent fiscal years, the forecast was raised because of the expectation of higher natural gas prices for Colorado producers and the increase in coal severance tax rates.

Total ***gaming*** revenue, which includes taxes, fees, and interest earnings, will increase 5.6 percent in FY 2007-08 and 5.2 percent in FY 2008-09. In FY 2006-07, total gaming revenue increased 6.3 percent, amounting to $117.9 million. Gaming revenue is expected to grow at slightly slower rates over the next few years because of slower personal income growth.

All ***other cash fund revenue*** will increase 9.9 percent in FY 2007-08 and at an annual rate of 4.2 percent over the forecast period. This robust growth rate is partially the result of legislation passed during the 2007 session. A total of $96.0 million of revenue to these funds between FY 2007-08 and FY 2010-11 is the result of 26 bills from the 2007 session that either created or increased fees. Another $56.1 million of this revenue is court-related revenue that will be diverted away from the General Fund to the Judicial Stabilization Cash Fund beginning in FY 2008-09 pursuant to **HB 07-1054** and **SB 07-55**.

Federal Mineral Leasing Revenue

SB 07-253, which was signed by the Governor on June 1, 2007, requires the Legislative Council Staff to prepare a quarterly forecast of federal mineral leasing (FML) revenue. The first FML revenue forecast was prepared in June. Table 5 presents the September forecast in comparison with June. Since FML revenue is not deposited into the General Fund and is exempt from the TABOR amendment to the State Constitution, the forecast is presented separately from other sources of state revenue.

Table 5
Federal Mineral Leasing Revenue Distributions
(*millions of dollars*)

Year	Sep-07	% Chg.	Jun-07	% Chg. from June
FY 2001-02*	$44.6	-26.5%	$44.6	
FY 2002-03*	$50.0	12.1%	$50.0	
FY 2003-04*	$79.4	58.7%	$79.4	
FY 2004-05*	$101.0	27.2%	$101.0	
FY 2005-06*	$143.4	41.9%	$143.4	
FY 2006-07*	$123.0	-14.3%	$126.1	-2.5%
FY 2007-08	$139.0	13.1%	$148.5	-6.4%
FY 2008-09	$168.7	21.3%	$168.2	0.3%
FY 2009-10	$196.8	16.7%	$191.1	3.0%
FY 2010-11	$224.5	14.1%	$217.5	3.2%
FY 2011-12	$249.2	11.0%		

*Actual revenue distributed.

As indicated in Table 5, FML revenue has grown from $50.0 million in FY 2002-03 to more than $143.4 million in FY 2005-06. In the most recent fiscal year, FML revenue fell by 14.3 percent, to $123.0 million. A near 20.0 percent drop in natural gas prices accounted for the reduction.

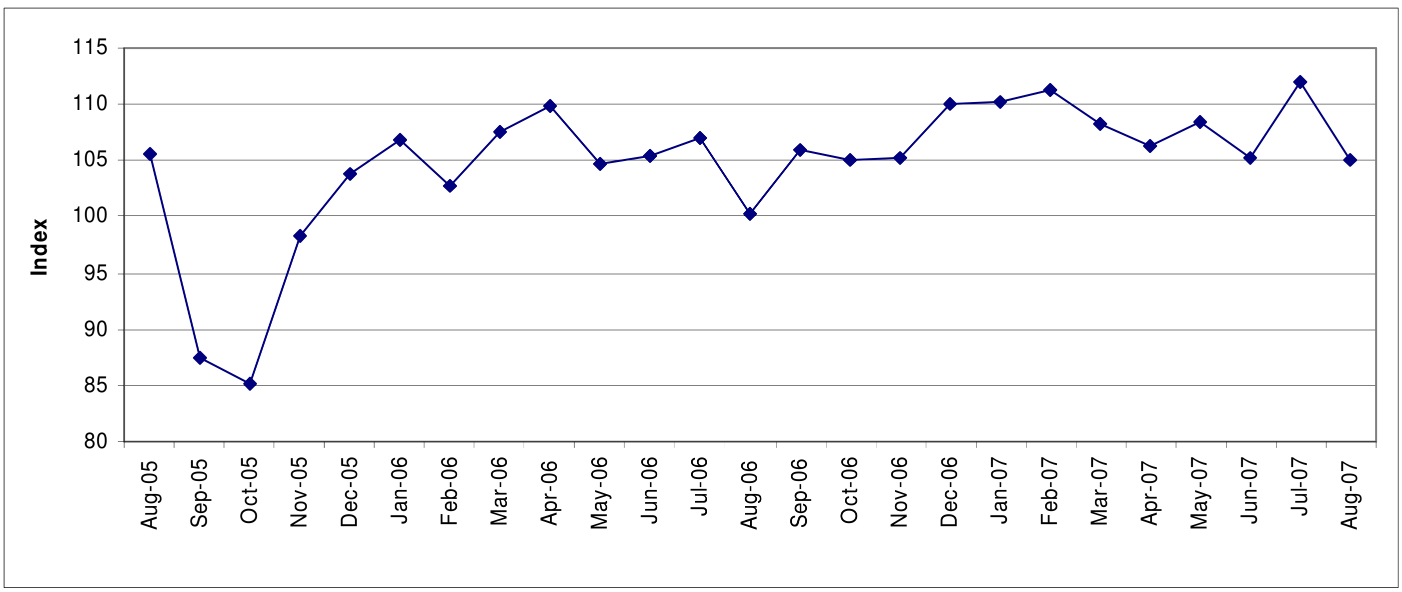
The forecast for FML revenue is expected to rebound in FY 2007-08, reaching $139 million. While natural gas prices are expected to decline slightly in 2007, production increases on federal lands will account for the revenue gain. However, the September forecast for FY 2007-08 is still $9.5 million less than the June forecast. In subsequent fiscal years, FML revenue is expected to continue to grow strongly, reaching $168.7 million in FY 2008-09 and $196.8 million in FY 2009-10. The opening of the Rockies Express pipeline in 2008 will allow Colorado producers to realize higher prices for natural gas and continuing production gains will cause FML revenue to increase 21.3 percent in FY 2008-09 and 16.7 percent in FY 2009-10.

National Economy

Growth in real **gross domestic product** (GDP) for the second quarter of 2007 was revised upward from 3.4 percent to 4.0 percent by the Bureau of Economic Analysis. Revised second quarter growth reflected more complete data than was available when preliminary estimates were released. In the first quarter, GDP increased an anemic 0.6 percent. After a strong second quarter, GDP growth will slow throughout the rest of the year as the credit crunch in the mortgage market and increased uncertainty in corporate and consumer markets leads to a general slowdown in the economy.

Personal consumption expenditures weakened in the second quarter growing at 1.4 percent compared to an increase of 3.7 percent in the first quarter. Residential fixed investment also experienced continued declines. The rapid acceleration in second quarter GDP growth was fueled by a downturn in imports and increased federal investment and spending.

Chart 1
Consumer Confidence Index



A softening in business and labor market conditions along with continued concerns about the housing market dampened consumer spirits in August. The Conference Board's **consumer confidence** index declined from 111.9 in July to 105.0 in August. Consumers were less upbeat and were taking a more cautious short-term outlook as they viewed jobs as harder to find. In addition, after grappling with high oil prices in early summer followed by a moderate decline in gasoline prices, consumers may have to adjust to higher oil prices caused by temporary refinery shortages in the fall. Despite the less favorable economic conditions, consumer confidence remained high since hitting a low in October of 2005 (Chart 1).

The August decline in consumer confidence is a reflection of the lack of growth in real inflation-adjusted income and concerns over the housing market and wealth. These factors cause consumers to curb spending. **Consumer debt** remains high and may become more of a factor in spending as interest rates increase through the close of 2007. The Federal Reserve reported that consumer credit increased at an annual rate of 3.7 percent, totaling nearly $2.5 trillion in July. Of this increase, revolving credit increased at an annual rate of 6.7 percent and non-revolving credit increased at an annual rate of 1.9 percent. In reaction to these issues and the slowing economy, the **Federal Open Market Committee** cut the federal funds and discount rate by 50 basis points each at its last meeting. It is likely that consumers will not see the bulk of the savings, however, because of weakness in the balance sheets of financial institutions.

As the housing market continues to falter and housing price appreciation slows or reverses in 2008, consumers may take on less debt as they have less equity in their homes to borrow against. This impact, combined with higher fuel prices, is already evident in the automobile market as light vehicle sales were 15.2 million units in July, the least number of units sold in nine years.

Nonfarm **employment** decreased by 4,000 jobs in August. The August decline followed slow job growth in June and July as revised data showed that 137,000 jobs were created in the two-month period. Manufacturing employment declined by 46,000 jobs in August and the industry lost 215,000 jobs over the past year. Construction employment declined by 22,000 jobs in August, with most of the loss occurring among residential specialty trade contractors. Since its most recent peak in September 2006, construction employment has fallen by 96,000 jobs. Health care employment continued to grow in August by 35,000 jobs and the industry added 396,000 jobs over the year. Within leisure and hospitality, 24,000 jobs were added. Employment in retail trade was little changed in August.

The **unemployment rate**, meanwhile, remained relatively stable at 4.6 percent — almost unchanged from a year earlier. For persons who are high school graduates, the unemployment rate was relatively low in August at 4.3 percent. But for persons with some college or an associates degree, the rate was even lower at 3.7 percent. For persons with a Bachelor's degree and higher, the rate was very low — 2.0 percent in August.

The **manufacturing** sector is beginning to strengthen after weakness in 2006. New orders for manufactured goods were up in July, increasing 3.7 percent. This was the highest level since the series was first stated on a NAICS basis in 1992. New orders for manufactured durable goods increased $13.1 billion in July, or 6.0 percent, to $230.7 billion. New orders for manufactured nondurable goods increased 1.3 percent. Manufacturing also saw increases in shipments, unfilled orders, and inventories for manufactured durable goods.

The residential **construction** sector continues to be the weakest part of the nation's economy. New and existing home sales have declined significantly from their expansionary peaks and the weakness in the markets will remain for some time. The recent mortgage market turmoil may result in a continuing housing slowdown that extends well into 2008.

New residential construction has slowed considerably and the volume of existing homes for sale has increased dramatically. Privately-owned housing units authorized by building permits in July were 1.373 million, down 2.8 percent from June and down 22.6 percent from 2006. Single-family permits in July were 1.003 million, 1.6 percent lower than the June permit level.

The rate of **inflation** for both consumers and producers has steadily decelerated over the past year. Both the headline and core (excluding food and energy) consumer price indexes increased 2.4 percent year-to-date through August compared with the first eight months in 2006. Prices paid by manufacturers for raw goods, as measured by the producer price index, increased 3.5 percent year-to-date through August. Prices declined in August over July: consumer prices decreased 0.1 percent and producer prices were down 1.4 percent. The slowing inflation data has temporarily relieved the **Federal Open Market Committee's** concerns about rising inflation in the short term, allowing them to reduce the benchmark federal funds rate in an effort to sustain the expansion despite the nation's housing contraction.

The National Economic Outlook. This section presents the forecast and risks for the national economy. The detailed forecast can be found in Table 6.

- The nation's economy, as measured by real **gross domestic product**, grew at an accelerated pace of 4.0 percent during the second quarter of 2007. In the first quarter, GDP increased 0.6 percent after increasing 2.9 percent in 2006. After dipping to 2.3 percent in 2007, GDP will steady off at around 3.0 percent for the rest of the forecast period.

- The consumer **inflation rate** will remain near or below the 3.0 percent mark for the next several years. In 2007, slack demand for durable consumer goods and light vehicles will somewhat offset the affect of rising energy prices and wage pressure. Inflation will be 2.7 percent in 2007 after coming in at 3.2 percent in 2006.

- **Personal income** growth will slow from the 6.6 percent growth rate experienced in 2006 to around 6 percent growth during the forecast period. Wage and salary growth will be aided by a tight labor market and strong foreign economies that should buttress U.S. exports, but may slow slightly over the next several years due to general economic weakness domestically.

- The **unemployment rate** remained relatively stable at 4.6 percent — almost unchanged from a year earlier and may decrease as employment continues to grow. But growth will meet some resistance as shortages of potential qualified employees occur in some sectors. We anticipate that employment will slow from the 1.9 percent growth in 2006 and continue to grow at a little over 1.0 percent per year during the forecast period. The unemployment rate will remain low and may show little change during 2007 and 2008.

Risks to the Forecast. A number of factors have increased the risks to the forecast. In particular, the turmoil in the financial markets and the continued contraction of the housing market is creating additional economic uncertainty.

The banking industry's **tightening credit policies** in the mortgage market are largely in response to the sub-prime mortgage market's effect on financial markets. The credit crunch and more stringent lending policies may extend the housing contraction into 2008 as fewer buyers qualify for mortgage loans. Tighter lending policies have also been responsible for fewer home closings. Realtor associations are reporting that one in five home mortgages have not closed due to the tighter lending policies during the past several months. In addition, the Mortgage Bankers Association reports that as many as 2 million adjustable-rate mortgages will reset in the next year. Some homeowners who have adjustable-rate mortgages may find it difficult to repay loans at higher interest rates and may have trouble refinancing if their credit rating is not good or their homes are worth less than their mortgage balance.

Consumer spending may decline in the short-term if energy prices remain high. The rapid increase in oil futures from $69 a barrel less than a month ago to over $80 per barrel in September has been propelled by falling domestic oil inventories, concerns about growing demand, instability in some oil producing areas, and speculative buying by large investment funds. The high oil prices coupled with rising home heating fuel costs in the upcoming months may add risk to an economy that has been reacting to a credit crunch and slump in the housing market.

Rising fuel and energy costs may affect retail spending during the holiday season as consumers are left will less money to spend on gifts, non-essential goods, and big-ticket purchases such as light vehicles and durable goods. Another factor that may dampen consumer spending in the upcoming months is the increased cost of consumer credit as credit card rates are rising.

Although August **employment** data showed a decline of 4,000 jobs, the labor market should remain stable through the end of the year despite the slowdown in housing construction and mortgage lending. More than 100,000 people in the financial sector have lost their jobs this year, according to Chicago-based outplacement firm Challenger, Gray and Christmas. The vast majority are mortgage-industry jobs.

Finally, global factors such as terrorism, war, nuclear proliferation, and economic and monetary policy in growing economies in the European Union, India, and China can create a risk to the domestic economy. Actions by other governments can have significant impacts on the national economy. If foreign investors reduce the amount of capital they make available to our domestic markets or make other monetary policy changes, such as devaluing their currencies or changing market regulations, there can be large impacts on the U.S. economy in a short period of time.

Table 6
National Economic Indicators, September 2007 Forecast
(Dollars in Billions)

	2001	2002	2003	2004	2005	2006	Forecast 2007	Forecast 2008	Forecast 2009	Forecast 2010	Forecast 2011
Inflation-adjusted GDP	$9,890.7	$10,048.8	$10,301.0	$10,675.8	$11,003.4	$11,319.4	$11,579.7	$11,915.6	$12,296.9	$12,678.1	$13,045.7
percent change	0.8%	1.6%	2.5%	3.6%	3.1%	2.9%	2.3%	2.9%	3.2%	3.1%	2.9%
Nonagricultural Employment (millions)	131.8	130.3	130.0	131.4	133.7	136.2	138.1	139.8	141.9	144.2	146.4
percent change	0.0%	-1.1%	-0.2%	1.1%	1.7%	1.9%	1.4%	1.3%	1.5%	1.6%	1.5%
Unemployment Rate	4.7%	5.8%	6.0%	5.5%	5.1%	4.6%	4.6%	4.7%	4.5%	4.5%	4.6%
Personal Income	$8,724.1	$8,881.9	$9,163.6	$9,727.2	$10,301.1	$10,983.4	$11,686.0	$12,390.0	$13,135.0	$13,878.0	$14,633.0
percent change	3.5%	1.8%	3.2%	6.2%	5.9%	6.6%	6.4%	6.0%	6.0%	5.7%	5.4%
Wage and Salary Income	$4,942.8	$4,980.9	$5,112.7	$5,394.5	$5,667.9	$6,018.2	$6,409.0	$6,785.0	$7,193.0	$7,599.0	$8,039.7
percent change	2.4%	0.8%	2.6%	5.5%	5.1%	6.2%	6.5%	5.9%	6.0%	5.6%	5.8%
Inflation (Consumer Price Index)	2.8%	1.6%	2.3%	2.7%	3.4%	3.2%	2.7%	2.8%	2.9%	2.8%	2.7%

Colorado Economy

As expected, Colorado's economy grew at a slower pace through the second quarter of 2007, following a solid year of growth in 2006. Employment increased 2.0 percent through July of 2007, lower than the 2.4 percent growth posted in 2006. The single-family housing market's contraction and the banking industry's tightening credit policies may continue to affect growth well into 2008. Table 7 shows annual economic indicators for the state and displays the forecast for the next five years.

Although high energy prices tend to be cited as risks to growth, Colorado's economy benefits greatly from them. Much of the growth in Colorado's economy thus far this year has been driven by the **oil and gas industry**. Consumer spending, as measured by retail sales, increased 13.2 percent in the western region of the state and 7.5 percent in Weld County year-to-date through June, both substantially higher than the 4.2 percent increase experienced in Metro Denver. Employment increased 5.0 percent in Mesa County and 3.4 percent in Weld County year-to-date through July, compared with a 1.8 percent rate in Metro Denver. The oil and gas industry in Colorado should get another boost in January, when the Rockies Express pipeline is expected to open. Should the national economy slide into recession, Colorado will be in a relatively advantageous position to weather the storm because of the oil and gas industry.

Nonfarm employment increased 2.0 percent through July of this year compared with the same period in 2006. Colorado's **unemployment rate** edged up to 3.8 percent in July from 3.5 percent in June. The state's unemployment rate had dropped steadily from 4.1 percent in January. The annual unemployment rate has declined each year since it hit a high of 6.2 percent in 2003. Last year, the unemployment rate averaged 4.3 percent.

Employment gains and losses were spread unevenly across industries in the state through July. By far, the largest job gains were seen in the natural resources and mining sector, which grew 19.8 percent compared with the same period in 2006. Other sectors, such as professional and business services, education and health services, and leisure and hospitality, saw healthy employment growth between 3.4 percent and 4.2 percent. On the downside, jobs related to the housing market and the manufacturing sector declined through July — construction employment declined 1.1 percent and manufacturing jobs fell 1.4 percent. The tourism sector has been healthy in 2007.

While the slowdown in the housing market is expected to diminish growth in the labor market, job growth is expected to continue in the next two years.

- Nonfarm employment is expected to increase 1.8 percent in 2007 and slow to 1.5 percent in 2008 before seeing increased growth in 2009.

- Colorado's unemployment rate is expected to average 3.6 percent in 2007 and edge upward to 3.8 percent in 2008 and 4.0 percent in 2009.

Given the slowdown in employment growth, **personal income** is expected to grow at a slower pace in the next two years. After increasing 6.5 percent in 2006, personal income in Colorado is poised to increase 5.6 percent in 2007 and 5.4 percent in 2008.

Personal income increased 5.2 percent in Colorado and 5.8 percent nationwide during the first quarter of 2007 compared with the first quarter of 2006. Colorado's growth in personal income ranked thirty sixth among the states; Wyoming experienced the fastest growth at 11.1 percent.

Colorado's per capita income as reported by the Bureau of Economic Analysis for 2007 is estimated at $40,749, about 9 percent higher than the national average of $37,345. **Wages and salaries** – which comprise roughly 60 percent of personal income – increased 7.4 percent in 2006 but are expected to slow to 5.6 percent in 2007.

Consumer spending, as measured by **retail trade sales,** increased 5.3 percent through June compared with the first half of 2006, after increasing 5.5 percent in 2006. Retail sales are growing at double-digit rates in the mountain and western regions of the state, where tourism and the oil and gas industry are fueling substantial economic growth. Meanwhile, retail sales are growing at the state's lowest rates in the eastern plains and along the Front Range.

In 2008, retail sales are expected to continue to grow at moderately slow rates along the Front Range and slow somewhat from the double-digit growth experienced thus far in the mountain and western regions of the state. Higher energy prices for gasoline and home-heating fuels may slow household spending on other goods. Consumers may feel less wealthy due to weaker home values and may have fewer chances to use home equity to fuel spending. Further, some consumers with poor credit may be spending more to repay debt as the banking industry increases interest rates on credit cards.

- Retail sales are expected to increase 5.5 percent in 2007 and 4.6 percent in 2008.

Inflation in the Denver-Boulder-Greeley area was 3.6 percent for 2006, the highest mark since 2001. The core index – which excludes the more volatile food and energy prices – was even higher, posting a 4.0 percent increase in 2006. The housing component, which is based on the local rental market and makes up over 40 percent of the index, increased after experiencing declines since 2003. A sharp 25 percent jump in gasoline prices in the first half of 2006 also contributed to the rise.

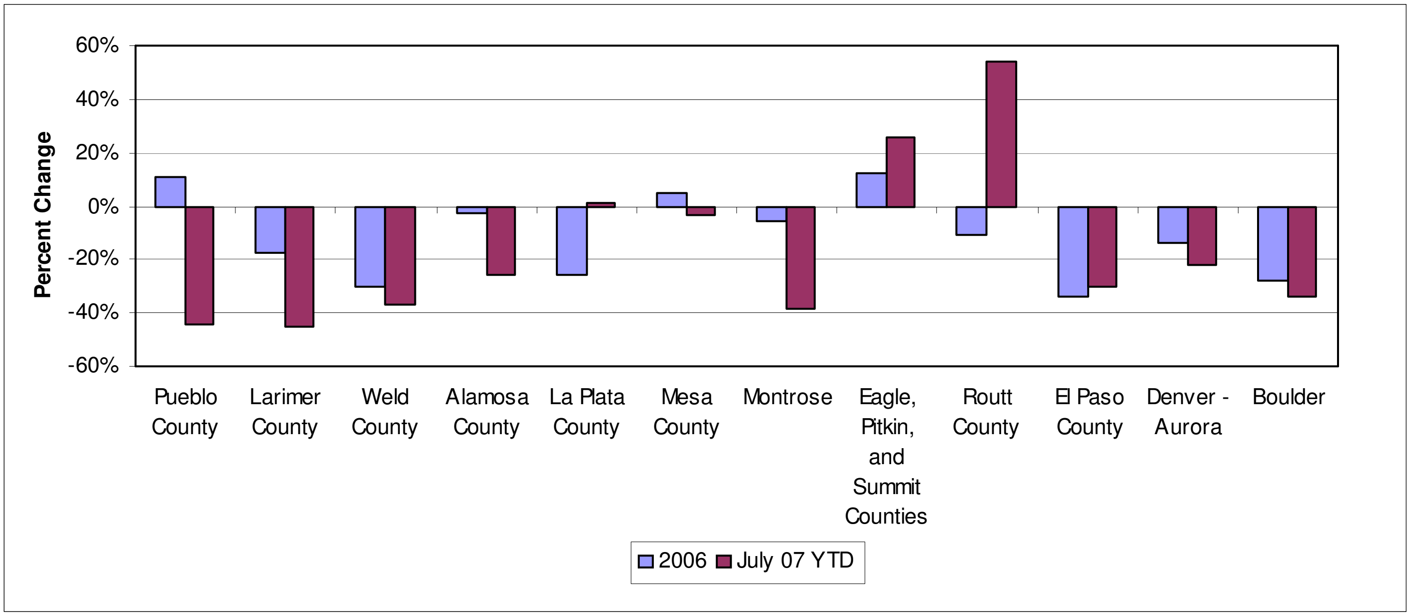
- Inflation in 2007 is expected to increase 2.9 percent and remain in the low 3 percent range during the forecast period.

The number of **housing permits** issued in the state continued a downward trend that started at the beginning of 2006 – an indicator of the housing market's contraction in Colorado. New privately-owned housing unit permits were down 25.9 percent through July 2007 compared with the same period in 2006. Total housing permits are expected to decline by 20.3 percent in 2007, and see a slow recovery in 2008. Statewide, housing permit growth will grow 9 percent in 2008.

Although statewide housing permit growth continues to decline in 2007, two regions in the central and northern mountains are seeing significant growth. After permit growth declined 10.5 percent in Routt County in 2006, housing permits are up 54.4 percent through July 2007. Another mountain region consisting of Eagle, Pitkin, and Summit counties saw housing permit growth of 25.9 percent through the same period. The area that saw the largest decline in home building permits was Larimer County, posting a 45.3 percent decline in permits through July. Mesa County, which saw permit growth in 2006 of 4.6 percent, is now experiencing a decrease in housing permits. Chart 2 shows housing permit growth in selected regions in Colorado.

Similarly, sales of existing homes in Colorado were down 4.8 percent in the second quarter of 2007 compared with the same period in 2006. However, this decline in sales was not as steep as in some other states, such as Arizona (-23.4 percent), California (-19.8 percent), Florida (-41.3 percent), Nevada (-37.5 percent), and Tennessee (-21.5 percent). Nationally, sales of existing homes declined 10.8 percent and the

Chart 2
Housing Permit Growth



western region of the United States posted the largest decline in sales at 16.9 percent. When looking at nationwide statistics, Colorado is above the national average in terms of sales of existing homes.

Given the weakness in the housing market, the median sales price of single-family homes declined slightly in the metro-Denver area in the first quarter of 2007. However, the median sales price increased to $255,200 in the second quarter of 2007, but was unchanged compared with the second quarter of 2006, as reported by the National Association of Realtors.

Adding to the concern surrounding the housing market is the high foreclosure rate in the state. The Colorado housing market is on pace to see a 27 percent increase in foreclosure filings this year, with 19,460 being filed in the first six months of the year, according to a recent state Division of Housing report. The division anticipates more than 36,000 defaults this year.

The high rate of foreclosures is being driven in part by rising interest rates on adjustable-rate mortgages (ARMs) and other similar types of mortgages. Many of the problems are in the "sub-prime" housing market, which offers loans with higher interest rates for riskier borrowers. Many sub-prime loans are also structured so that interest rates rise after a period of time. Because many of these loans have yet to require higher interest payments from borrowers, the high foreclosure rate will likely continue. A high rate of foreclosure increases the inventory of homes on the market, resulting in further downward pressure on housing prices.

- Overall, the single-family housing market is expected to remain sluggish this year, while the multi-family market will grow. Single family permits will drop 22.8 percent in 2007, but start to expand in 2008. Multi-family permits will increase 4.3 percent and 9.1 percent in 2007 and 2008, respectively.

The value of **nonresidential construction** activity decreased 0.6 percent through July 2007 after increasing 2.1 percent in 2006 and 30.4 percent in 2005. The small decline was mostly caused by a reduction in manufacturing plant projects, schools and colleges, and certain commercial construction. Offsetting these declines were construction contracts for office, bank, and certain manufacturing facilities.

- The value of nonresidential construction activity is expected to increase moderately in 2007 and 2008, growing 5.2 percent and 7.4 percent, respectively, before declining during the remainder of the forecast period.

The third quarter **Colorado Business Leaders Confidence Index** (BLCI) edged upward on the strength of expectations for stronger sales, solid hiring, and capital spending. The forward-looking third quarter index, which measures expectations for the upcoming quarter, moved from 54.9 to 55.6. A score above 50 indicates an expectation of economic expansion. In contrast, business leaders were more skeptical about the outlook for the national economy.

In summary, the state's economy is expected to post slower overall growth in 2007 than in 2006. Employment in Colorado's major job sectors continues to grow and wage and salary growth remains solid. The moderate and steady growth experienced in employment and personal income should be strong enough to override the downturn in the housing market and the turmoil in the banking industry that is resulting in tighter lending policies.

There are risks to this assessment, however. Declines in industries related to the housing market, such as the recent layoffs in the mortgage lending industry, construction sector, financial services industry, and the real estate market, could ripple through the overall economy. The August decline in the Consumer Confidence Index and slowing retail trade sales could portend the beginning of a negative trend in consumer spending. Moreover, a softening national economy could spillover into Colorado and trigger a mild downturn. But at this time, these factors are not expected to push the state's economy into recession.

Table 7
Colorado Economic Indicators, September 2007 Forecast

(Calendar Years)

	2001	2002	2003	2004	2005	2006	Forecast 2007	Forecast 2008	Forecast 2009	Forecast 2010	Forecast 2011
Population (thousands), July 1	4,428.6	4,500.1	4,546.0	4,598.5	4,663.3	4,753.4	4,843.7	4,935.7	5,034.4	5,130.1	5,227.6
percent change /A	2.3%	1.6%	1.0%	1.2%	1.4%	1.9%	1.9%	1.9%	2.0%	1.9%	1.9%
Nonagricultural Employment (thousands)	2,226.8	2,184.1	2,152.8	2,179.6	2,226.0	2,278.8	2,322.1	2,361.5	2,415.8	2,476.2	2,538.1
percent change	0.6%	-1.9%	-1.4%	1.2%	2.1%	2.4%	1.8%	1.5%	2.3%	2.6%	2.5%
Unemployment Rate	3.8	5.7	6.1	5.6	5.1	4.3	3.6	3.8	4.0	4.2	4.0
Personal Income (millions)	$152,700	$153,066	$154,829	$164,673	$174,919	$186,266	$196,697	$207,318	$220,172	$234,043	$248,788
percent change	5.8%	0.2%	1.2%	6.4%	6.2%	6.5%	5.6%	5.4%	6.2%	6.3%	6.3%
Wage and Salary Income (millions)	$88,297	$86,938	$88,008	$92,060	$97,265	$104,416	$110,264	$115,777	$123,314	$131,576	$140,365
percent change	2.8%	-1.5%	1.2%	4.6%	5.7%	7.4%	5.6%	5.0%	6.5%	6.7%	6.7%
Retail Trade Sales (millions)	$59,014	$58,852	$58,689	$62,288	$65,447	$69,174	$72,979	$76,336	$80,611	$85,286	$90,233
percent change	1.8%	-0.3%	-0.3%	6.1%	5.1%	5.5%	5.5%	4.6%	5.6%	5.8%	5.8%
Home Permits (thousands)	55.0	47.9	39.6	46.5	45.9	38.3	30.5	33.3	37.0	39.2	40.6
percent change	0.8%	-13.0%	-17.3%	17.5%	-1.3%	-16.6%	-20.3%	9.0%	11.2%	6.0%	3.4%
Nonresidential Building (millions)	$3,500	$2,787	$2,713	$3,291	$4,221	$4,310	$4,534	$4,870	$5,038	$5,219	$5,402
percent change	0.7%	-20.4%	-2.7%	21.3%	28.3%	2.0%	5.2%	7.4%	3.5%	3.6%	3.5%
Denver-Boulder Inflation Rate	4.7%	1.9%	1.1%	0.1%	2.1%	3.6%	2.9%	3.1%	3.3%	3.5%	3.1%

Personal income and wage and salary income for 2006 are estimates. All other data for 2006 are actuals.

Colorado Economic Regions

Metro Denver
Colorado Springs
Pueblo
San Luis Valley and Southwest
Western
Mountain
Northern
Eastern Plains

Metro Denver

The metro Denver region drives much of the economic activity for the state and the economic health of the state depends greatly on the area. Economic indicators were mixed through July in the region, as shown in Table 8.

Table 8
Metro-Denver Region Economic Indicators
Broomfield, Boulder, Denver, Adams, Arapahoe, Douglas, & Jefferson counties

	2005	2006	YTD thru July 2007
Employment Growth /1	1.9%	2.0%	1.8%
Unemployment Rate (2007 figure is for July)	5.1%	4.4%	3.8%
Housing Permit Growth /2	-4.3%	-14.5%	-22.6%
Growth in Value of Nonresidential Const. /3	6.8%	-13.4%	2.0%
Retail Trade Sales Growth /4	3.7%	4.1%	4.2%

NA = Not Available.
1/ U.S. Department of Labor, Bureau of Labor Statistics. Data through 2006 are from the QCEW program. 2007 data are from the CES survey.
2/ U.S. Census. Housing permit data represents the total number of housing units (single-family units and units in multi-family structures) authorized for construction.
3/ F.W. Dodge; excludes Broomfield County.
4/ Colorado Department of Revenue; data through June 2007.

The unemployment rate was a low 3.8 percent in July, down from 4.4 percent in 2006. Nonfarm employment increased 1.8 percent through July. The fastest growing sectors were professional and business services, leisure and hospitality, and education and health services. The construction and manufacturing industries continued to show declines through July.

New home permits fell 22.6 percent through July, reflecting the nationwide and statewide housing slump. Meanwhile, the value of nonresidential construction increased a modest 2.0 percent through July. Though Boulder saw a 41.3 percent decrease in the value of nonresidential constructional growth, the rest of the metro Denver area pulled up the total with a 8.8 percent increase through July. Finally, retail trade sales were up 4.2 percent in the metro-Denver area, similar to the 4.1 percent growth recorded in 2006.

Recent Economic News:

- On the housing front, median selling prices for single-family homes increased to $257,500 in August, from $255,000 in July and $252,900 in August 2006. Average selling prices also increased. Single-family prices rose to $329,783 on average in August, from $316,024 last month and $320,092 a year earlier.

- The Boulder Daily Camera will lay off 19 employees in the production and press room when it moves part if its printing operations to the Denver Newspaper Agency. This decision was made because of the high cost expected to refurbish the Boulder location and the lure of new technology in Denver. The move will enable the company to invest in web operations, niche publications, and targeted editorial products.

- Montreal-based Intertape Polymer Group will reopen its manufacturing facility in Brighton on October 1. The company will need 25 employees to run its film line operation, which produces the polypropylene film used in making adhesive tape. The company discovered that it was cheaper to manufacture the tape than to outsource it.

- United Launch Alliance, a rocket joint venture between Lockheed Martin and Boeing, has remodeled the old Rythms NetConnections Inc. location in Centennial to be its headquarters. The 160,000-square-foot building can now house nearly 600 employees. Combining the capacity of the company's Centennial and Waterton campuses, the company can house 1,900 employees in the Denver Metro area and is expected to have a $414 million economic impact on the Denver area each year.

- Countrywide Financial Corporation, the country's largest home lender, laid of 60 workers in the Denver Technology Center. These jobs were eliminated from the sub-prime operations area.

- Biotechnology company Amgen Inc. will lay off up to 2,600 employees worldwide, some of which will be in Boulder and Longmont. The job cuts are a result of restructuring due to lower expected sales of its anemia drug Aranesp. The company's current operations in Boulder and Longmont employ 1,250 workers.

- A Colorado Springs developer is planning a $175 million project just north of Union Station in downtown Denver's Central Platte Valley that will include offices, shops, restaurants, and a boutique hotel. Sunshine Development Company's plans include a 450,000-square-foot office building, up to 70,000 square feet of shops and restaurants, and a 150-room hotel. Construction should begin by the first quarter of 2009.

- The airline industry plans to add more than 1,000 new positions by spring in the Denver area. The industry is hiring customer service representatives, ramp workers, pilots, and executive-level positions.

- Idaho General Mines Inc. has moved its headquarters to Lakewood from Spokane, Washington. The molybdenum producer looks forward to the wide talent pool available in the area. The company plans to hire up to 15 people.

- The Federal Reserve will cut 41 percent of its Denver workforce. The decision was a result of the diminishing use of checks and the increased use of debit and credit cards.

- Three Denver-area hospitals have announced job cuts and plans to outsource work. St. Joseph Hospital will cut 70 jobs, Children's hospital will restructure 41 full- and part-time inpatient positions, and Centura Health will outsource the majority of its transcription work to MedQuist, affecting 100 Centura employees.

Colorado Springs Region

Colorado Springs has experienced a significant slowdown in construction and employment so far in 2007. The slowdown, however, does not appear to be spreading to all sectors of the economy and seems likely to end without a local recession. Table 9 displays current economic indicators for the region.

Table 9
Colorado Springs Region Economic Indicators
El Paso County

	2005	2006	YTD thru July 2007
Employment Growth /1	1.7%	2.3%	0.8%
Unemployment Rate (2007 figure is for July)	5.3%	4.6%	4.3%
Housing Permit Growth /2	3.6%	-34.3%	-30.5%
Growth in Value of Nonresidential Const. /3	141.5%	-49.0%	-20.1%
Retail Trade Sales Growth /4	5.2%	5.1%	3.8%

NA = Not available

1/ Colorado Department of Labor and Employment. Data through 2006 are from the QCEW program. 2007 data are from the CES survey.

2/ U.S. Census. Housing permit data represents the total number of housing units (single-family units and units in multi-family structures) authorized for construction in the Colorado Springs metropolitan area.

3/ F.W. Dodge.

4/ Colorado Department of Revenue; data through June 2007.

Nonfarm employment in the region increased by only 0.8 percent in the first seven months of 2007, down significantly from the 2.3 percent growth rate recorded in 2006. The unemployment rate, however, declined from an average of 4.6 percent in 2006 to 4.3 percent in July 2007. The economy has been hurt by the housing and credit issues confronting the entire nation, as well as by instability in the important military influence on the region due to troop movements with the wars in Afghanistan and Iraq and the constantly evolving plans for troop relocations. Ultimately, however, an increase in the number of troops located in the area will help moderate the slowdown.

Construction indicators were negative in the first seven months of 2007. Permits for housing units decreased 30.5 percent in Colorado Springs. The value of nonresidential construction permits decreased 20.1 percent during the same time period. Construction will be stabilized slightly during the next few years by ongoing military construction projects. The weakness in the housing sector will continue to be a problem through 2008, however.

Consumer spending maintained a moderate growth rate despite the sharp declines in construction and the very slow growth in employment, signaling that consumers are not leaving the market as a group and will continue to help support the economy. Consumer spending increased 3.8 so far in 2007, following growth rates of just over 5.0 percent the past two years.

Recent Economic News:

- Photo Stencil, a Colorado Springs based toolmaker for high tech manufacturing, has been purchased by an investment group that intends to expand operations and hire an additional 17 workers.

- SkyWest Airlines moved into a new maintenance hanger earlier this year. The company has a staff of 80 at the facility and performs maintenance on 10 jets per night. The $20 million hanger provides 124,000 square feet of operating space.

- A Wal-Mart Supercenter opened in Falcon in July. The 184,000-square-foot building will be operated by 350 employees. Also in July, a SuperTarget opened in north Colorado Springs.

- The apartment vacancy rate fell to 9.6 percent during the second quarter 2007 in Colorado Springs from 11.4 percent in the first quarter.

Despite the drop in vacancies, the average rental rate also declined. It is expected that as soldiers are transferred into Colorado Springs military bases and as troops return from Iraq over the next couple of years that demand will peak and rental rates will increase.

- The credit crunch and housing slowdown are causing layoffs at Wells Fargo Equity Direct in Colorado Springs. The company is closing its customer service facility and the initial layoff will eliminate 76 positions. The facility will close completely by the end of the year. Colorado Springs also saw positive news for its customer service industry, however. PRC will add an additional 400 jobs at its new call center. The center opened in February with 550 employees.

- Passenger traffic increased 4.2 percent at the Colorado Springs Airport in July, the fastest growth in almost two years. Numbers were boosted by two new airlines that began flying out of the airport this year, ExpressJet and Midwest Airlines. Several other airlines have increased flights in recent months as well.

Pueblo Region

Economic indicators for the Pueblo region continued to show a mixed economic picture through July. Pueblo County – the county within the region with the largest population and amount of economic activity – experienced strong employment and retail sales growth. However, its residential construction market finally turned negative after countering the national trend of a faltering housing market throughout 2006. The rest of the region had weaker employment growth and retail sales overall. Table 10 shows the economic indicators for the Pueblo region for 2005, 2006, and the first seven months of 2007.

Table 10
Pueblo Region Economic Indicators
Pueblo, Fremont, Custer, Huerfano, and Las Animas counties

	2005	2006	YTD thru July 2007
Employment Growth /1 Pueblo MSA Only	1.1%	2.6%	3.3%
Unemployment Rate (2007 figure is for July)	6.5%	5.5%	4.7%
Housing Permit Growth /2 Pueblo County Only	-3.4%	10.6%	-44.2%
Growth in Value of Nonresidential Const. /3 Pueblo County Only	-46.6%	632.3%	-73.2%
Retail Trade Sales Growth /4	5.3%	6.0%	3.4%

1/ U.S. Department of Labor, Bureau of Labor Statistics. Data through 2006 are from the QCES program. 2007 data are from the CES survey.

2/ U.S. Census. Housing permit data represents the total number of housing units (single-family units and units in multi-family structures) authorized for construction.

3/ F.W. Dodge.

4/ Colorado Department of Revenue; data through June 2007.

Nonfarm employment increased 3.3 percent in the Pueblo area through July based on the state labor department's survey of business establishments. Employment in the broad professional and business services sector – a sector with high wage levels overall – posted notably robust growth, with a 15.4 percent increase through July. Employment gains in the natural resources, mining, and construction sector were also strong, posting a 10.9 percent increase. However, job losses occurred in two sectors important to Pueblo's economy – retail trade (-1.0 percent) and trade, transportation, and utilities (-0.5 percent). For the rest of the region, job growth was weak. Based on the household survey, employment in the other parts of the region only increased 1.0 percent through July.

The unemployment rate for the entire region was 4.7 percent in July, up from earlier in the year, though it was still lower than the 2006 average of 5.5 percent. Within the region, Pueblo and Fremont counties had an unemployment rate of 4.8 percent. These counties contain nearly 90 percent of the region's labor force. Las Animas County, one of the largest natural gas and coal producing counties in the state, had an unemployment rate of 3.9 percent. Custer County had the region's lowest unemployment rate of 3.8 percent.

The number of new housing units authorized for construction was down 44.2 percent in Pueblo County through July 2007, after an increase of 10.6 percent in 2006 that was fueled by strong job growth in the area. Nonresidential construction was healthy through July, despite a 73.2 percent decrease. The reduction is because of a large increase in 2006 that was entirely due to a single, large construction project for a manufacturing facility. Excluding this manufacturing facility, the value of nonresidential construction increased 44.8 percent through July of this year, with robust growth in the value of permits for stores and food service facility projects, garages and service stations, and hospital and health treatment facilities.

The region as a whole continues to experience retail sales growth lower than the statewide average, with sales growing 3.4 percent through June. However, Pueblo County, which comprises close to three-quarters of the region's retail sales, grew a strong 7.0 percent. Fremont County's sales, which represent the next largest portion of the region's sales at about 16 percent of the total, were flat. Custer County reported a 13.6 percent increase in retail sales, while Las Animas County saw a 19.2 percent decline.

Recent Economic News:

- Pueblo County had one of the highest foreclosure rates in the state through June, according to the Colorado Division of Housing. Pueblo County ranked fifth among the Front Range counties for foreclosure filings with one foreclosure filing for every 78 homes in the county. Adams County ranked first in the state with one foreclosure for every 45 homes. By the end of the year, the Division of Housing estimates that Pueblo could see a 20 percent increase in foreclosures. In 2006, the county had 1,174 foreclosures.

- Construction will begin this fall on Colorado State Penitentiary II, a 948-bed maximum-security prison, in Canon City. The prison is expected to be completed in early 2010.

- The Pueblo City Council has approved an annexation for the construction of a 6,000-seat, $10 million football stadium for Colorado State University-Pueblo's new team. The team will be part of the Division II Rocky Mountain Athletic Conference. CSU-Pueblo's home opener is scheduled for September 6, 2008. The school has not had a football team since 1985.

- Construction began on "Cambria Suites," a hotel in downtown Pueblo near the Marriott Hotel and the Pueblo Convention Center. The new upscale hotel, scheduled to open next June, will have 105 suites and employ around 40 people in full- and part-time jobs. Pueblo officials indicated that a second hotel was necessary to provide more rooms for events at the city's convention center.

- Attendance at the Colorado State Fair increased in 2007 over the prior two years. According to attendance figures, this year's daily average was 43,814 – an increase from 41,092 the previous year and 42,022 in 2005. A recent study by Colorado State University-Pueblo estimated the local economic impact of the Colorado State Fair at $27 million.

San Luis Valley and Southwest Region

The San Luis Valley and southwest region's economic performance was mixed through July. Job growth was slow, retail sales were modest, and there were declines in single-family housing permits for construction. However, on the positive side, the region continues to have a low unemployment rate and nonresidential construction in La Plata County was robust. Table 11 displays key economic indicators for the region.

Table 11

San Luis and Southwest Region Economic Indicators

Alamosa, Archuleta, Conejos, Costilla, Dolores, Hinsdale, La Plata, Mineral, Montezuma, Rio Grande, Saguache, and San Juan counties

	2005	2006	YTD thru July 2007
Employment Growth /1	1.4%	3.3%	1.7%
Unemployment Rate (2007 figure is for July)	5.1%	4.3%	3.6%
Statewide Crop Price Changes /2			
Barley (U.S. average)	1.1%	24.2%	24.4%
Alfalfa Hay	18.8%	37.3%	0.0%
Potatoes	78.7%	-8.0%	-16.9%
Fall Potato Production (Cwt) /2	-6.4%	-1.0%	-29.0%
Housing Permit Growth /3			
Alamosa County	-39.4%	-2.5%	-39.1%
La Plata County	-1.4%	-25.5%	0.8%
Growth in Value of Nonresidential Const. /3			
Alamosa County	-44.1%	-22.4%	-100.0%
La Plata County	-82.8%	74.4%	595.6%
Retail Trade Sales Growth /4	7.3%	9.8%	4.8%

NA = Not available.

1/ Colorado Department of Labor and Employment. Data through 2006 are from the QCEW program. 2007 data are from the LAUS (household) survey.

2/ Colorado Agricultural Statistics Service. Compares July 2007 to July 2006.

3/ F.W. Dodge. Housing permit data represents the total number of housing units (single-family units and units in multi-family structures) contracted for construction.

4/ Colorado Department of Revenue; data through June 2007.

Employment increased 1.7 percent through July, compared with 3.3 percent growth in 2006. La Plata County, which has over 40 percent of the region's labor force, registered positive job growth of 4.1 percent through July based on a survey of households by the state labor department. On the negative side, the other two counties that comprise a large portion of the region's labor force – Alamosa and Montezuma counties – had flat job growth. However, the region's unemployment rate for July was a low 3.6 percent, down from an average of 4.3 percent in 2006 and 5.1 percent in 2005. The unemployment rate in La Plata County was especially low in July at 2.7 percent. Costilla County had the region's highest unemployment rate at 8.1 percent.

After a strong start to the year, retail sales have tapered off, growing 4.8 percent through June. This is below the state's average growth rate of 5.3 percent. La Plata County's retail sales, which represent almost half of the entire region's sales, grew only 3.7 percent. However, the two other large contributors to the region's retail sales, Alamosa and Montezuma counties, saw more solid growth at 10.0 percent and 5.6 percent, respectively.

The region's single-family housing trend mirrors most other parts of the state as the number of housing units contracted for construction declined 39.1 percent in Alamosa County and 25.2 percent in La Plata County according to F.W. Dodge data. However, La Plata County's decline in single-family housing units was offset by a substantial increase (123.4 percent) in the number of apartment units contracted, resulting in a slight gain (0.8 percent) in the number of housing units contracted through July. After a slow start to the year, the growth in the value of nonresidential construction rocketed in La Plata County through July, led by construction contracts for offices and bank buildings, libraries and museums, and public buildings. Alamosa County reported no contracts for nonresidential construction through July.

Recent Economic News:

- The Durango office of Verint Systems Inc., a high-tech security company, has closed. The office started as a home-grown company created by two Fort Lewis College graduates that was later bought by Verint Systems. The company grew to be considered a pioneer in the development of digital identification cards and video-surveillance systems. At one time the Durango office provided over 100 high-wage jobs. However, the office has been impacted by Verint Systems' downsizing efforts in recent years. Some of the 35 workers affected by the closing will move to the company's Denver office and the others will be given severance packages.

- The San Luis & Rio Grande Railroad based in Alamosa is investing money in its operations and facilities in an effort to increase its ridership. Revenue from the railroad's passenger service doubled over last season. In addition to its passenger service, the railroad is expanding its freight business. With the railroad's increased success, it is working together with Alamosa on the town's revitalization efforts to draw more visitors to the area.

- The region's first biodiesel plant broke ground September 8th in Dove Creek, which is about 80 miles northwest of Durango. The company building the plant, San Juan Bioenergy, will employ 24 employees at full production. The plant is expected to produce 5 million gallons of sunflower oil annually. Initially, the plant will produce sunflower oil for human consumption, however, the plant will gradually focus on the production of automotive fuel as the price of diesel fuel is projected to rise.

- Home Depot, the second largest retailer in the country, plans to build a 102,000 square-foot store in Alamosa. The store is scheduled to open in October of 2008.

Western Region

The western region continues to be one of the fastest growing regions in the state based on employment, retail trade sales, and nonresidential construction. Table 12 displays economic indicators for the region.

Table 12

Western Region Economic Indicators

Moffat, Rio Blanco, Garfield, Mesa, Delta, Montrose, San Miguel, Ouray, and Gunnison counties

	2005	2006	YTD thru July 2007
Employment Growth /1	4.9%	5.9%	4.6%
Mesa County 1/	2.8%	4.4%	5.0%
Unemployment Rate (2007 figure is for July)	4.4%	3.6%	3.0%
Housing Permit Growth			
Mesa County 2/	-3.0%	4.6%	-3.7%
Montrose County 3/	22.4%	-5.3%	-38.4%
Growth in Value of Nonresidential Const. /3			
Mesa County	287.8%	-70.1%	423.1%
Montrose County	-54.9%	-23.5%	22.1%
Retail Trade Sales Growth /4	10.5%	14.2%	13.2%

NA = Not Available

1/ Colorado Department of Labor and Employment. 2005 and 2006 data are from the QCEW program. 2007 data is from the CES survey.

2/ U.S. Census. Housing permit data represents the total number of housing units (single-family units and units in multi-family structures) authorized for construction.

3/ F.W. Dodge. Housing permit data represents the total number of housing units (single-family units and units in multi-family structures) contracted for construction.

4/ Colorado Department of Revenue; data through June 2007.

Nonfarm employment in the region expanded by 4.6 percent in the first seven months of 2007, which was slower than the 5.9 percent growth recorded in 2006, but still a healthy pace that exceeded statewide gains. In Mesa County, employment increased 5.0 percent through July, compared with 4.4 percent growth in all of 2006. The region's unemployment rate dropped to 3.0 percent in July, down from an average of 3.6 percent in 2006. Fueled by natural gas drilling and production, Rio Blanco and Garfield counties experienced the fastest job growth in the region at 11.3 percent and 8.5 percent, respectively. Employment declined in two counties in the region: Ouray County saw a reduction of 1.0 percent and San Miguel County saw a drop of 0.1 percent.

Construction indicators were mixed in the first seven months of 2007. In Mesa County, permits for housing units decreased 3.7 percent. In Montrose County, permits for housing units decreased 38.4 percent. However, the value of nonresidential construction permits is up in 2007. In Mesa County, nonresidential construction permits were $252 million in the first seven months of the year. This compares with $48 million in the same period of 2006. In Montrose County, nonresidential construction permits were up 22 percent.

Consumer spending in the region continues to grow strongly, as measured by retail trade sales. Through June, retail sales were up 13.2 percent, more than double the 5.3 percent statewide average growth rate. Every county in the region except Montrose, Moffat, San Miguel, and Gunnison experienced double-digit growth. Montrose County had the lowest growth rate at 5.0 percent, which was just below the statewide average.

Recent Economic News:

- In contrast to other parts of the country and state, the energy boom in western Colorado is causing housing values to rise. The median value of a single-family home in Grand Junction increased nearly 16 percent in the first three months of 2007, rising from $173,500 to $201,000. The energy boom is also causing median rents to increase.

- A Texas company that provides well fracturing services for the oil and gas industry is planning to build a 25,000-square-foot office building and a 11,250-square-foot warehouse west of Parachute on I-70. Frac Tech Services, LLC intends to hire 32 workers once the facility is completed, and could expand to 120 employees in the future.

- JCPenney opened a new store in Montrose in August at the new River Landing shopping center. The store employs 130 people.

- Leitner-Poma of America is planning to expand its operations in Grand Junction. The company is planning to construct new facilities near the Grand Junction Regional Airport, measuring about 90,000 square feet. The company manufactures cable transportation systems for ski lifts, gondolas, and aerial tramways. Construction is expected to be completed by November 2008, and the company expects to add 100 employees in the coming years.

- A new $8 million, 80-room hotel is planning to open in Palisade, called the Wine County Inn. The facility will feature wine-tasting areas, catering, meeting rooms, a health club, and an outdoor pool.

Mountain Region

Economic indicators for the mountain region reflect a healthy economy. Table 13 displays the major economic indicators for the mountain region.

Table 13
Mountain Region Economic Indicators
Routt, Jackson, Grand, Eagle, Summit, Pitkin, Lake, Park, Teller, Clear Creek, Gilpin, and Chaffee counties

	2005	2006	2007
Employment Growth /1	3.2%	3.5%	2.3%
Unemployment Rate (2007 figure is for July)	4.3%	3.6%	2.9%
Housing Permit Growth /3			
Eagle, Pitkin, & Summit counties 3/	20.9%	12.4%	25.9%
Routt County 3/	34.0%	-10.5%	54.2%
Growth in Value of Nonresidential Const. /3			
Eagle, Pitkin, & Summit counties	11.2%	25.4%	8.3%
Routt County	-10.3%	95.9%	67.2%
Retail Trade Sales Growth /4	8.8%	12.6%	10.1%

1/ Colorado Department of Labor and Employment. Data through 2006 are from the QCEW program. 2007 data are from the LAUS (household) survey.
3/ F.W. Dodge. Housing permit data represents the total number of housing units (single-family units and units in multi-family structures) contracted for construction.
4/ Colorado Department of Revenue; data through June 2007.

Employment expanded 2.3 percent through July compared with the same period in 2006. However, this was less than the 3.5 percent growth recorded for all of 2006. The region's unemployment rate dropped to 2.9 percent in July, lower than the 3.6 percent rate recorded in 2006 and less than the statewide average unemployment rate.

Construction activity within the region is showing strong growth. In Eagle, Pitkin, and Summit counties, growth in the value of nonresidential construction permits was 8.3 percent while Routt County had an increase of 67.2 percent. On the residential side, housing units contracted for construction increased 25.9 percent through July in Eagle, Pitkin, and Summit counties. Routt County had a substantial 54.2 percent growth of housing units contracted for construction.

In the first six months of 2007, retail trade improved in each county within the region with the exception of Gilpin County, which experienced a substantial 31.7 percent decrease. Park and Eagle counties saw the largest increases in retail trade sales growth at 18.3 and 15.6 percent, respectively.

Recent Economic News:

- Steamboat Ski and Resort Corporation negotiated direct flights with five airlines from 10 major airports to Yampa Valley Regional Airport to begin this upcoming ski season. The season will be the biggest in the history of nonstop flights into Steamboat Springs and is expected to create increased economic activity for the area as visitors ski, shop, and dine.

- Several Colorado ski resorts are investing in vast improvement projects and employee housing ventures. Hundreds of millions of dollars are being spent as four ski resorts install new chairlifts and other skier amenities. Several affordable housing projects for employees are beginning that will help retain workers in the ski industry and preserve the spin-off jobs in restaurants and shopping facilities.

- Coca-Cola recently broke ground on what will become a 26,000-square-foot warehouse and distribution center in the Valley View Business Park in Hayden. This Steamboat Springs facility will employ 20 people upon its completion in February 2008. The park has twelve 2,300-square-foot live and work units under construction that will be completed this fall. The park is also working on several warehouses and an automotive restoration center.

- Two new high-end hotels are under construction in Aspen that will require 150 employees when completed. Competition for qualified employees has led to the offering of an occupational training program in the hospitality industry for high school students who want to make a career in Aspen.

Northern Region

The economy in the Northern region continues to expand, with healthy growth in employment and retail trade. The residential construction sector is into its third year of a contraction, while indicators for the nonresidential construction sector are mixed. Table 14 shows key economic indicators for the region since 2005.

Table14
Northern Region Economic Indicators
Weld and Larimer counties

	2005	2006	YTD thru July 2007
Employment Growth /1			
Larimer County	2.1%	1.9%	1.9%
Weld County	2.9%	4.4%	3.4%
Unemployment Rate (2007 figure is for July)			
Larimer County	4.4%	3.9%	3.3%
Weld County	5.1%	4.6%	4.0%
State Cattle and Calf Inventory Growth /2	6.0%	-4.1%	-4.1%
Housing Permit Growth /3			
Larimer County	-14.8%	-17.5%	-45.3%
Weld County	-2.2%	-30.3%	-36.7%
Growth in Value of Nonresidential Const. /4			
Larimer County	-56.4%	72.7%	-11.9%
Weld County	-35.8%	-17.6%	25.9%
Retail Trade Sales Growth /5			
Larimer County	5.7%	5.2%	5.7%
Weld County	8.9%	7.0%	7.5%

NA = Not available

1/ U.S. Department of Labor, Bureau of Labor Statistics. Data through 2006 are from the QCEW program. 2007 data are from the CES survey.

2/ Colorado Agricultural Statistics Service. Compares July 2007 to July 2006.

3/ U.S. Census. Housing permit data represents the total number of housing units (single-family units and units in multi-family structures) authorized for construction.

4/ F.W. Dodge.

5/ Colorado Department of Revenue; data through June 2007.

Employment growth remained healthy in the region, increasing 1.9 percent through July in Larimer County and 3.4 percent in Weld County. In July, Larimer County reported a 3.3 percent unemployment rate and Weld County reported a slightly higher 4.0 unemployment rate.

Growth in the value of nonresidential construction was down 11.9 percent in Larimer County and up 25.9 percent in Weld County. More specifically, Larimer County had a significant 91.0 percent decline in nonresidential contracts for hospital and health treatment facilities, while contracts for laboratories saw a 72 percent increase. Weld County had a 91.0 percent decrease in nonresidential contracts for warehouses and an 88 percent decrease for amusement related projects, while contracts for hospital and health treatment facilities increased 37 percent. Last year, the overall picture was reversed as Larimer County recorded gains in the value of nonresidential construction and Weld County recorded losses.

The Northern region is in the third year of a substantial correction in the residential construction sector. Rising interest rates, high levels of construction during the last decade, and high rates of foreclosures were joined over the last few months with tightening in the credit markets to dampen activity in the sector. Residential real estate sales through July continued to languish in both Northern counties. Larimer County recorded a 45.3 percent decrease in housing units authorized for construction and Weld County recorded a 36.7 percent decrease. Each year since 2004, housing units authorized for construction in the northern region have continued to worsen.

Consumer spending, measured by retail trade sales, continued to show steady growth. Larimer County recorded a 5.7 percent increase in retail trade sales through June, while Weld County saw a 7.5 percent increase.

Recent Economic News:

- Denmark-based Vestas Wind Systems broke ground in Windsor on its first North American manufacturing plant in June. Vestas Wind Systems is expected to produce about 1,200 wind turbine blades per year when it opens next year. The company is currently looking to fill 400 positions on the management team and in the production departments.

- English Language International/China (ELIC) will move its headquarters to Fort Collins next year, bringing with it up to 75 jobs. ELIC, one of the largest providers of English teachers to China, will begin its relocation next summer and is expected to take a year to fully transition from California. The relocation decision was made because of the value placed on education at Colorado State University that may supply teachers to ELIC, good local school district performance, and the safety of the community.

- LSI Logic is laying off 30 people in Fort Collins. The semiconductor manufacturer merged with Agere Systems earlier this year in hopes of generating cost savings, but those savings have not been realized to date. The layoffs are part of a company wide strategy to trim its nonproduction work force and focus on sustainable competitive advantages.

- Rancho Liborio, a grocery store catering to the Latino population, will open a store in Greeley by the end this year. The Latino supermarket will move into the abandoned Albertsons on 23rd Avenue and is expected to begin hiring in November.

- A 263-suite Embassy Suites Hotel and an adjoining 75,000-square-foot convention center will be built near the Ranch in Loveland. Upon completion by March 2009, the hotel is expected to be the largest north of Denver in the state.

- JBS-Swift plans to hire 1,300 additional workers at its meatpacking plant in Greeley, which could bring millions to the Weld County economy. Before the announcement of additional jobs, the company was expected to have an $80 million economic impact in the region. The impact may now well exceed that number.

- Dako, a Denmark-based cancer diagnostic company, will layoff 30 employees and shut down its Fort Collins project. The decision was made to shut down the location after the company missed its goal to boost lab productivity and process at least 128 slides every eight hours.

- Center Partners, a call center company, is looking to fill 100 jobs in Fort Collins for a new banking client. The new employees will serve as inbound sales consultants and help customers with credit card or account questions.

- The Fort Collins Coloradoan laid off 10 employees due to less print advertising demand as advertisers shift spending to online media.

Eastern Plains

Economic indicators shown in Table 15 display a mixed economic picture for the Eastern Plains. Though unemployment was a low 3.6 percent in July, employment growth saw a 3.0 percent decline for the first seven months of the year. The unemployment rate has improved from last year when it was 4.2 percent; however, employment growth has worsened since 2006 when it decreased 1.0 percent.

Table 15
Eastern Region Economic Indicators
Logan, Sedgwick, Phillips, Morgan, Washington, Yuma, Elbert, Lincoln, Kit Carson, Cheyenne, Crowley, Kiowa, Otero, Bent, Prowers, and Baca counties

	2005	2006	YTD thru July 2007
Employment Growth /1	0.4%	-1.0%	-3.0%
Unemployment Rate	4.6%	4.2%	3.6%
(2007 figure is for July)			
Crop Price Changes /2			
Winter Wheat	3.1%	15.1%	23.4%
Corn for Grain	0.9%	32.7%	41.4%
Alfalfa Hay	16.3%	37.3%	0.0%
Dry Beans	32.9%	32.1%	30.0%
State Crop Production Growth /2			
Sorghum production	-36.9%	0.9%	98.8%
Corn	0.1%	-4.6%	17.4%
Winter Wheat	NA	-24.4%	119.9%
Sugar Beets	-0.6%	NA	-20.9%
2006 is estimated production for the year.			
State Cattle and Calf Inventory Growth /2	6.0%	0.0%	-4.1%
Retail Trade Sales Growth /3	5.4%	6.7%	3.7%

NA = Not Available

1/ Colorado Department of Labor and Employment. Data through 2006 are from the QCEW program. 2007 data are from the LAUS (household) survey.

2/ Colorado Agricultural Statistics Service. Compares May 2007 to May 2006.
Crop production based on projections for 2007 compared to actual 2006 production.

3/ Colorado Department of Revenue; data through June 2007.

Consumer spending in the Eastern Plains, measured by retail trade sales, was up 3.7 percent through July, though spending continues to lag behind other areas of the state. The area recorded an increase of 6.7 percent in 2006. Although more than half of the counties in the Eastern plains recorded gains in retail trade, Washington county recorded double-digit declines, pulling down the regional average.

Ranchers were experiencing losses to their livestock herds as a result of two significant storms in the winter that swept through the state and hit especially hard in the region. The state inventory of all cattle and calves in Colorado feedlots was down 4.1 percent through May 2007. Crop prices were up for winter wheat, corn, and dry beans, while the price of alfalfa remained flat. State crop production growth accelerated dramatically as winter wheat, sorghum, and corn were all up — 119.9 percent, 98.8 percent, and 17.4 percent, respectively. Meanwhile, sugar beet production declined 20.9 percent.

Recent Economic News:

- Dragon Products, a manufacturing company based in Beaumont, Texas, will open a facility in Lamar and hire 100 employees next year. The plant will produce industrial and environmental products.

- Due to higher than average turnover and difficulties recruiting staff, Safe Auto Call Center eliminated 60 jobs and closed its operation in Sterling.

- Delta Oilfield Tank Company will open two new manufacturing buildings at the eastern edge of Fort Morgan. The company expects to hire 50-60 employees, many of which will be welders for the production process.

- A bumper wheat crop has caused a crisis for Colorado grain elevator operators. The substantial supply of wheat production coupled with the limited availability of trucking and rail carrier services has forced the grain industry to store the wheat for lengthening periods of time, risking spoilage. The problem is significant enough that Governor Ritter declared a disaster emergency for Colorado wheat farmers and grain elevator operators.

Appendix A
Historical Data

National Economic Indicators
(Dollar amounts in billions)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Gross Domestic Product	$6,337.7	$6,657.4	$7,072.2	$7,397.7	$7,816.9	$8,304.3	$8,747.0	$9,268.4	$9,817.0	$10,128.0	$10,469.6	$10,960.8	$11,685.9	$12,433.9	$13,194.7
percent change	5.7%	5.0%	6.2%	4.6%	5.7%	6.2%	5.3%	6.0%	5.9%	3.2%	3.4%	4.7%	6.6%	6.4%	6.1%
Real Gross Domestic Product (inflation-adjusted, chained to 2000)	$7,336.6	$7,532.7	$7,835.5	$8,031.7	$8,328.9	$8,703.5	$9,066.9	$9,470.3	$9,817.0	$9,890.7	$10,048.8	$10,301.0	$10,675.8	$11,003.4	$11,319.4
percent change	3.3%	2.7%	4.0%	2.5%	3.7%	4.5%	4.2%	4.4%	3.7%	0.8%	1.6%	2.5%	3.6%	3.1%	2.9%
Unemployment Rate	7.5%	6.9%	6.1%	5.6%	5.4%	4.9%	4.5%	4.2%	4.0%	4.7%	5.8%	6.0%	5.5%	5.1%	4.6%
Inflation (Consumer Price Index)	3.0%	3.0%	2.6%	2.8%	3.0%	2.3%	1.6%	2.2%	3.4%	2.8%	1.6%	2.3%	2.7%	3.4%	3.2%
10-Year Treasury Note	7.0%	5.9%	7.1%	6.6%	6.4%	6.4%	5.3%	5.7%	6.0%	5.0%	4.6%	4.0%	4.3%	4.3%	4.8%
Personal Income	$5,362.0	$5,558.5	$5,842.5	$6,152.3	$6,520.6	$6,915.1	$7,423.0	$7,802.4	$8,429.7	$8,724.1	$8,881.9	$9,163.6	$9,727.2	$10,301.1	$10,983.4
percent change	6.2%	3.7%	5.1%	5.3%	6.0%	6.1%	7.3%	5.1%	8.0%	3.5%	1.8%	3.2%	6.2%	5.9%	6.6%
Wage and Salary Income	$2,980.3	$3,082.7	$3,232.1	$3,419.3	$3,619.6	$3,877.6	$4,183.4	$4,466.3	$4,829.2	$4,942.8	$4,980.9	$5,112.7	$5,394.5	$5,667.9	$6,018.2
percent change	5.6%	3.4%	4.8%	5.8%	5.9%	7.1%	7.9%	6.8%	8.1%	2.4%	0.8%	2.6%	5.5%	5.1%	6.2%
Nonfarm Wage and Salary Employment (millions)	108.7	110.8	114.3	117.3	119.7	122.8	125.9	129.0	131.8	131.8	130.3	130.0	131.4	133.7	136.2
percent change	0.3%	1.9%	3.2%	2.6%	2.0%	2.6%	2.5%	2.5%	2.2%	0.0%	-1.1%	-0.2%	1.1%	1.8%	1.9%

Sources: U.S. Department of Commerce Bureau of Economic Analysis, U.S. Department of Labor Bureau of Labor Statistics, Federal Reserve Board.

Colorado Economic Indicators
(Dollar amounts in millions)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Nonagricultural Employment (thous.)	1,544.9	1,596.8	1,670.5	1,755.9	1,834.7	1,900.9	1,980.1	2,057.5	2,132.5	2,213.6	2,226.8	2,184.1	2,152.8	2,179.6	2,226.0	2,278.8
percent change	1.6%	3.4%	4.6%	5.1%	4.5%	3.6%	4.2%	3.9%	3.6%	3.8%	0.6%	-1.9%	-1.4%	1.2%	2.1%	2.4%
Unemployment Rate	5.1%	6.0%	5.3%	4.2%	4.0%	4.2%	3.4%	3.5%	3.1%	2.7%	3.8%	5.7%	6.1%	5.6%	5.1%	4.3%
Personal Income	$68,283	$73,794	$79,697	$85,671	$92,704	$100,233	$107,873	$118,493	$128,860	$144,394	$152,700	$153,066	$154,829	$164,673	$174,919	$186,266
percent change	5.5%	8.1%	8.0%	7.5%	8.2%	8.1%	7.6%	9.8%	8.7%	12.1%	5.8%	0.2%	1.2%	6.4%	6.2%	6.5%
Per Capita Income	$20,160	$21,109	$22,054	$23,004	$24,226	$25,570	$26,846	$28,784	$30,492	$33,367	$34,481	$34,014	$34,059	$35,810	$37,510	$39,186
percent change	3.0%	4.7%	4.5%	4.3%	5.3%	5.5%	5.0%	7.2%	5.9%	9.4%	3.3%	-1.4%	0.1%	5.1%	4.7%	4.5%
Wage and Salary Income	$39,548	$42,678	$45,736	$48,912	$52,782	$57,091	$62,364	$69,462	$76,283	$85,909	$88,297	$86,938	$88,008	$92,060	$97,265	$104,416
percent change	6.5%	7.9%	7.2%	6.9%	7.9%	8.2%	9.2%	11.4%	9.8%	12.6%	2.8%	-1.5%	1.2%	4.6%	5.7%	7.4%
Retail Trade Sales	$28,932	$31,298	$34,178	$38,100	$39,919	$42,629	$45,142	$48,173	$52,609	$57,955	$59,014	$58,852	$58,689	$62,288	$65,447	$69,174
percent change	5.0%	8.2%	9.2%	11.5%	4.8%	6.8%	5.9%	6.7%	9.2%	10.2%	1.8%	-0.3%	-0.3%	6.1%	5.1%	5.5%
Housing Permits	14,071	23,484	29,913	37,229	38,622	41,135	43,053	51,156	49,313	54,596	55,007	47,871	39,569	46,360	46,262	39,314
percent change	18.3%	66.9%	27.4%	24.5%	3.7%	6.5%	4.7%	18.8%	-3.6%	10.7%	0.8%	-13.0%	-17.3%	17.2%	-0.2%	-15.0%
Nonresidential Construction	$1,610	$1,539	$1,578	$1,581	$1,841	$2,367	$3,274	$2,880	$3,783	$3,476	$3,500	$2,787	$2,713	3,291.0	4,221.0	4,310.0
percent change	71.4%	-4.4%	2.6%	0.2%	16.4%	28.6%	38.3%	-12.0%	31.4%	-8.1%	0.7%	-20.4%	-2.7%	21.3%	28.3%	2.0%
Denver-Boulder Inflation Rate	3.9%	3.7%	4.2%	4.4%	4.3%	3.5%	3.3%	2.4%	2.9%	4.0%	4.7%	1.9%	1.1%	0.1%	2.1%	3.6%
Population (thousands, July 1)	3,387.1	3,495.9	3,613.7	3,724.2	3,826.7	3,920.0	4,018.3	4,116.6	4,226.0	4,327.4	4,428.6	4,500.1	4,546.0	4,598.5	4,663.3	4,753.4
percent change	2.4%	3.2%	3.4%	2.7%	2.8%	2.0%	2.0%	2.0%	2.0%	2.4%	2.3%	1.6%	1.0%	1.2%	1.4%	1.9%

Sources: Colorado Department of Labor and Employment, U.S. Department of Commerce, Colorado Department of Revenue, U.S. Bureau of the Census, U.S. Bureau of Labor Statistics, F.W. Dodge.
NA = Not Available