



# COLORADO CLOSE-UP

An Economic Newsletter  
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## THE NATIONAL ECONOMY

Thus far in 2003, most of the preconditions for a sustained national economic recovery appear to be in place. Indeed, inventories are at very low levels, so increased demand will translate into increased production rather than a reduction in inventory. Furthermore, low interest rates and inflation, the weaker dollar, and federal fiscal stimulus will prod the economic recovery along.

However, slower consumer spending in fourth quarter 2002 offset these increases. Consumer spending, which accounts for more than two-thirds of economic activity, grew only 1.0% in the fourth quarter, its slowest pace in a decade. Spending on cars and other big-ticket items suffered a 7.3% drop in fourth quarter 2002 in stark contrast to the 22.8% rise in third quarter 2002.

**"In 2002, inflation-adjusted gross domestic product growth averaged 1.6%."**

### National Economic Statistics

	Annual Average 2002	Annual Average 2001
Inflation-Adjusted Annual GDP Growth	2.4%	0.3%
Consumer Spending	3.1%	2.5%
Nonresidential Fixed Investment	-5.8%	-5.2%
Residential Fixed Investment	3.8%	0.3%
Exports	-1.3%	-5.4%
Imports	3.5%	-2.9%
Federal Government	7.4%	4.8%
State and Local Governments	2.9%	3.1%
Inflation	1.6%	2.8%
Retail Sales	3.5%	3.8%
Nonfarm Employment Growth	-0.9%	0.2%
Unemployment Rate	5.8%	4.8%
Housing Permit Growth	7.3%	2.8%
Growth in the Value of Nonresidential Construction	-6.8%	1.1%

Source: U.S. Bureau of Labor Statistics, U.S. Bureau of the Census and U.S. Bureau of Economic Analysis.

Employment growth is computed from wage and salary employment data by place of work.

In 2002, inflation-adjusted gross domestic product (GDP) growth averaged 1.6%. Fourth quarter 2002 GDP growth slowed to a 0.7% pace, down from a healthy 4.0% rate in third quarter 2002. Business investments rose 1.5% in fourth quarter 2002 — the first increase in two years — as business spending for equipment and software accelerated 5% and spending for structures fell less quickly. Meanwhile, federal government spending rose 10.1% in fourth quarter 2002, following an 11.2% rise in the third quarter.

Consumers took advantage of automobile incentives to boost total retail sales 4.6% in December 2002 compared with December 2001, the strongest gain since 1999. Yet when total sales are measured for the entire calendar year, they rose only 3.4%, the weakest gain since 1993. In 2002, retail sales growth varied significantly among merchants. Sales at drugstores and electronic and appliance stores jumped 8.0% and 6.3%, respectively, compared with 2001 and sporting-goods shops and furniture outlets sales rose more than 4%. However, department store sales were down 1.9%.

**"In 2002, U.S. productivity posted its biggest gain since 1950."**

In 2002, U.S. productivity posted its biggest gain since 1950 as computers and improved technology helped companies generate more goods with fewer employees. The measure of how much an employee generates for each hour worked rose 4.5% in 2002, almost twice the average gain of 2.5% from 1996 through 2000. However, fourth quarter 2002 productivity declined 0.2% because firms couldn't cut labor fast enough to match the sharp slowing in sales. Meanwhile, the cost in wages and benefits of producing a constant amount of goods or services surged 4.8% in 2002.

The Institute for Supply Management index of business activity was 53.9 in January 2003, following a 55.2

reading in December 2002 and 50.5 in November 2002. The manufacturing sector has expanded for 11 of the past 12 months.

***“The manufacturing sector has expanded for 11 of the past 12 months.”***

U.S. factory orders rose 0.4% in December 2002 compared with November 2002, a marked improvement from November’s 0.8% fall compared with October. The December 2002 factory-orders report showed that nondurable-goods orders rose 1.1% after falling 0.4% in November. Defense capital-goods orders jumped 16.6% in December after soaring nearly 40% in November. Orders for computers and electronic equipment gained 3.2% in December 2002 compared with November 2002. Overall transportation orders fell 2.7% from November, including a 9.6% drop in car orders. Meanwhile, non-defense aircraft orders surged 22.2%.

***“The U.S. Department of Commerce reported that 2002 residential construction activity rose 6.4%.”***

The U.S. Department of Commerce reported that residential home starts rose 7.3% in 2002. The number of new home and apartment starts in 2002 was the largest since 1986 and the number of single-family home starts was the largest since 1978. Activity in 2002 was propelled by the lowest mortgage rates since the early 1960s. Furthermore, home buyers took advantage of exceptionally low mortgage rates to buy a record number of previously owned homes in 2002, eclipsing the previous record set in 2001. The national median home price in 2002 was \$158,300, up 7.1% compared with 2001, the biggest jump in prices since 1980.

The consumer price index shows the two dominant sectors in the economy — services and goods — are diverging. Prices for services rose 3.2% in December 2002 compared with December 2001. This is a result of rising medical-care costs, college tuition, homeowner’s insurance, and charges for routine services such as trash collection and auto repair. Meanwhile, prices for manufactured goods, excluding the food and energy sectors, fell 1.5% in December 2002 compared with December 2001. These year-over-year declines were the largest since 1958. Wholesale prices other than food and energy fell 0.4% in 2002, the biggest drop since 1973.

According to the U.S. Department of Labor, the national seasonally adjusted jobless rate was 5.7% in January

2003, down from 6.0% in December and November 2002. Nonfarm payroll employment increased by 143,000 in January 2003, reversing the 156,000 decline in jobs posted in December 2002. The January increase was the largest since 2000. The manufacturing sector eliminated jobs for the 30th consecutive month but by the smallest number since summer 2002.

Falling prices for products like cars and computers, in addition to lower tax rates, have contributed to household purchasing power. In 2002, real disposable personal income — income after taxes and adjusted for inflation — rose 4.5% compared with 2001. By contrast, in 2001 real disposable income rose only 1.8%.

The Federal Reserve reported that outstanding credit-card debt plunged \$8.4 billion in December, the largest monthly decline since tracking began in 1968. In 2002, credit-card debt rose just 1.6%, a sharp change from 5.0% growth in 2001 and 11.5% growth in 2000. This reflects a shift from high-interest-rate revolving credit toward lower-rate home-equity financing. This shift has pushed total household debt higher, but makes the debt easier to service because home-equity financing carries lower interest rates than credit cards. According to Freddie Mac, about 23% of borrowers who refinanced their mortgage loans in fourth quarter 2002 reduced their loan balances; 41% pulled cash out of their homes and ended up with bigger mortgages. By contrast, in second quarter 2000, only 8% reduced their loan balance, while 81% extracted equity. On average, Americans devote 14% of their disposable personal income to service their debt.

***“... outstanding credit-card debt plunged \$8.4 billion in December.”***

The Conference Board Consumer Confidence Index continued to fall in January 2003, dropping to 79.0 compared with 80.7 in December 2002. The January index is the lowest in over nine years and the index has fallen in seven of the past eight months. The present situation index rose to 75.4 in January 2003 from 69.6 in December 2002, while the index for expectations for the future declined to 81.4 from 88.1.

## **THE COLORADO ECONOMY**

The Colorado economy is slowly climbing out of its current economic recession, ending 2002 with four consecutive months of diminishing employment declines. Colorado home prices are rising, but the

inventory of unsold homes is also trending upward. Vacancy rates — both residential and nonresidential — continue to hover at near record highs in many areas. Meanwhile, improving business conditions are yet to indicate that the Colorado manufacturing sector is growing.

According to a monthly survey compiled by the Business School at the University of Colorado at Denver, Colorado's service economy contracted for the sixth consecutive month in January 2003. The index was 36.7 in January, a drop from 39.9 in December. Any score below 50 indicates that the service economy is shrinking; a score above 50 indicates growth. The survey showed companies struggling with slow production levels and weaknesses in both the number of new orders received and the backlog of orders.

### Colorado Economic Statistics

	Annual Average 2002	Annual Average 2001
Nonfarm Employment Growth	-2.0%	0.9%
Unemployment Rate	5.5%	5.1%
Housing Permit Growth	-12.9%	0.8%
Single-Family	-2.5%	-5.6%
Multi-Family	-33.3%	16.0%
Growth in the Value of Nonresidential Construction	-22.5%	1.0%
Retail	-8.3%	12.7%
Offices	-43.8%	-35.0%
Factories	-54.1%	119.6%
Retail Trade Sales*	-1.3%	2.5%

\* Year-to-date through November 2002.

Source: Colorado Department of Labor and Employment, Colorado Department of Revenue, F.W. Dodge, and U.S. Bureau of the Census. Employment growth is computed from wage and salary employment data by place of work.

## Colorado Economic Indicators

### Employment

Colorado's seasonally adjusted unemployment rate rose to 5.5% in December 2002. Retail employment received a boost of 4,100 jobs during the month, in part due to seasonal hiring for the holidays. Overall, the annual unemployment rate for 2002 was 5.3% compared with 3.7% in 2001.

**“... 56% of Colorado information technology companies reported pay reductions compared with 67% nationally.”**

According to a survey by Access Data Consulting Corp., 45% of Colorado information technology

employers laid off workers in 2002, compared with 43% in the Rocky Mountain region and 38% nationally. However, Colorado information technology workers fared better with regards to wage cuts; 56% of Colorado information technology companies reported pay reductions compared with 67% nationally.

Adelphia Communications plans to establish its corporate headquarters in the Denver area by mid-2003 if a U.S. Bankruptcy Court judge approves the appointment of two new executives. The move will establish 150 new jobs, primarily high-paying senior management positions.

Recent announcements of layoffs in Colorado include:

- Kmart Corp. will close 326 stores — including six in Colorado — and lay off as many as 37,000 workers nationwide. Approximately 600 employees will be affected in Colorado.
- WorldCom Inc. will cut 5,000 jobs worldwide or 8.3% of its workforce. The second-largest U.S. long-distance carrier has 6,000 employees in Colorado. Representatives declined to say how many jobs would be cut from the local workforce.
- Douglas County based TeleTech Holdings Inc. announced up to 600 layoffs in their customer care center. The announcement comes after the company lost its contract with the U.S. Postal Service.
- Level 3 Communications will lay off 150 employees nationwide, including 50 at its Broomfield location. The company employs 2,200 people in Colorado.
- Golden-based CoorsTek laid off 55 Colorado workers in response to the downturn in the semiconductor industry. The company employs 2,635 worldwide, including 1,075 in Colorado.
- Scaled Technology Works, a Montrose-based aerospace company, will close its doors and its 48 employees will lose their jobs.
- A phone subsidiary of Montana Power Co., Touch America Inc., will cut 45 jobs in Denver, leaving 80 employees at the company's Colorado office.
- The Western Sugar Cooperative in Greeley will lay off 38 workers. The layoffs are the result of decreasing sugar beet production in Colorado because of drought conditions.

## ***Inflation***

Recently released U.S. Bureau of the Census data for the Denver, Boulder, and Greeley area indicates that prices for consumer goods rose 81.3% in the past two decades, compared with a 77.1% increase nationally. The area's housing costs grew 81.4% in the past 20 years, only slightly faster than the national pace of 76.4%. By contrast, the state's drug, hospital care, and insurance costs soared 220.6% over this period while the corresponding national costs rose 172.8%.

## **Colorado Construction Activity**

### ***Residential Construction***

Despite the sluggish economy, January 2003 was the best sales month ever in terms of dollar volume for previously owned homes in the Denver area. January 2003 saw \$856 million in house closings, up 28.0% compared with \$665 million in January 2002. The average price of a condominium reached a record high \$173,839, rising 5.1% compared with January 2002. The median price of a single-family home in January 2003 increased 4.4%, to \$224,500 compared with \$214,950 in January 2002. Meanwhile, the Denver area inventory of unsold homes rose 31.4% between January 2002 and January 2003.

***“. . . January 2003 was the best sales month ever in terms of dollar volume for previously owned homes in the Denver area.”***

In 2002, the number of building permits issued for single-family homes fell 2.5% and the number of multi-family permits issued fell 33.3%. Combined, the number of residential building permits issued declined 12.9% in 2002.

The Denver-area apartment market vacancy rate was 11.7% in fourth quarter 2002; in fourth quarter 2001, the vacancy rate was 8.7%. Average rent declined 1.0%, to \$814 in fourth quarter 2002 compared with \$822 in fourth quarter 2001. In Colorado Springs, apartment vacancy rates in fourth quarter 2002 rose to 11.8% compared with an 8.9% rate in fourth quarter 2001 and a 3.1% rate in fourth quarter 2000. Despite the rise in vacancies, the Colorado Springs average monthly rental rate remained unchanged at \$675.

There have been several noteworthy new residential construction projects recently announced:

- A development group began selling lots in the Saddleback Mountain housing community.

Located in Clear Creek County, the 1,600-acre, \$400 million development is expected to have 240 homes with lots ranging from 4.5 acres to 11.5 acres.

- In Weld County, 153 acres of farmland were annexed for a subdivision. About one-third of the acreage will be used for 334 homes while the remaining two-thirds will be kept as open space. Homes will sell from \$150,000 to \$300,000.
- In Loveland, financing was provided to build a \$15 million, 13-acre affordable housing project. The 164-unit Waterford Place II will feature 46 townhomes and 118 apartment units.
- Construction began on 80 low- to moderate-income homes in the Stapleton housing development. Home prices will range from \$123,000 to \$176,000 and be reserved for families who earn up to 80% of the area median income.

### ***Nonresidential Construction***

F.W. Dodge reports that the value of nonresidential construction declined 22.5% in 2002 compared with 2001. The value of *factory* construction fell more than 54%, while *office space* construction declined 43.8% and *retail* construction was down 8.3%.

Office vacancy rates along the northwest corridor improved during the year, ending 2002 with an overall vacancy rate of 52% compared with a vacancy rate of 61% in 2001. However, the Denver-area office market ended 2002 with an 18.4% vacancy rate, the highest in 10 years. In Fort Collins, 10.2% of office space was vacant in 2002. The Loveland office vacancy rate was 14.9%, Greeley's rate was 10.7%, Boulder's rate was 24.6%, and Longmont's rate was 23.4%. Nationwide, 12.9% of office space was vacant at the end of 2002.

***“Office vacancy rates along the northwest corridor improved during the year . . .”***

Although the nonresidential construction market has slowed, new projects continue to be announced:

- A \$22 million, 126,000-square-foot shopping center, The Village at Castle Pines, will house 25 tenants.
- Florida-based Eckerd Corp. plans to build 45 new drugstores in Colorado by 2006. Each location will occupy 14,000 square feet and employ 15 people.

- Wal-Mart has signed a contract to build a 206,000 square-foot SuperCenter in Broomfield. The discount retail facility will be spread over 20 acres and include a grocery store, garden center, and 1,000 parking places. It is scheduled to open in early 2004.
- In Greeley, construction is underway on a 125,000-square-foot Target store, expected to open in October 2003.

## Colorado Industries

### Agriculture

Prices received by Colorado farmers in December 2002 were higher for wheat, corn, steers and heifers, and calves. The December 2002 price of winter wheat rose 41.8% compared with December 2001. Meanwhile, corn prices increased 25.0%. Steer and heifer prices rose 20.4% during this period, while the price of calves remained relatively flat, increasing only 0.3%.

***“Prices received by Colorado farmers in December 2002 were higher for wheat, corn, steers and heifers, and calves.”***

According to the National Agricultural Statistics Board, Colorado’s cattle herd declined 13% in 2002. The state’s drought is forcing many cattle ranchers to either quit or send their cattle to “greener pastures” in the East. Colorado’s mountain snow pack, the primary source of its summer water supply, is 25% less than normal through January 2003, but 25% more than this time last year.

More than 10,000 acres of Front Range farmland will be dry this summer as farmers sell their water leases to Front Range cities. Cities are offering farmers \$300 per acre-foot and more for the use of farmers’ water. Farmers typically pay about \$10 to \$20 to lease an acre-foot of water. The sale of farmers’ water to cities represents a financial lifeline for farmers, but the fallow acreage will exacerbate the economic losses of seed dealers and others who rely on farmers’ business for their livelihood.

### Manufacturing

The Denver Manufacturing Business Survey Conditions purchasing manufacturers’ index (PMI) for business conditions rose 1.9 points in January, to 47.3 from 45.4 in December 2002. By contrast, the Institute for Supply Management’s national PMI was 53.9 in January, a decrease of 1.3 points compared with December. An

index below 50 indicates the majority of survey respondents reported a decline in business conditions from the previous month; the further the index is below 50, the greater the number of respondents reporting a decline. Conversely, an index over 50 indicates growth or improvement in business conditions.

***“The purchasing manufacturers’ index for business conditions rose 1.9 points in January.”***

### Tourism

Denver International Airport (DIA) received top honors as the number one airport for business travelers. The study measured the 50 busiest airports in the country and their ability to serve business travelers. DIA’s punctuality contributed to this ranking. According to a U.S. Department of Transportation report, DIA had the highest percentage of on-time arrivals among major U.S. airports in 2002. The total number of travelers at DIA in 2002 was 35.6 million, down only 1.2% compared with 2001.

Colorado’s ski resorts are on track for a record-breaking year as early season visits for 2002-2003 climbed 18% over early season visits from the 2001-2002 season. Healthy snowfall and sales of season passes have been credited for the 2.9 million visitors through December 2002. However, anecdotal evidence supports a less-than-robust President’s Day weekend at Colorado ski resorts; war jitters, terrorism alerts, and a tough economy reduced traffic through the Eisenhower Tunnel — an indicator of skiers heading to the slopes — by 9.6%.

The state’s rafting industry witnessed a 39% decline in commercial visits in 2002, the first decline in Colorado’s rafting industry since 1988. Rafting is the state’s biggest summer tourism draw. The estimated economic impact from rafting was \$126 million in 2001.

The Denver-area hotel occupancy rate hit a 12-year low of 60.3% in 2002. Annual hotel occupancy rates peaked in 1997 with 72% of rooms filled. In 1990, the occupancy rate was 60.1%.

### Venture Capital

In 2002, Colorado companies received the lowest amount of venture capital funding since 1997. The state received \$547.4 million in 77 deals in 2002, compared with \$1.39 billion in 126 deals in 2001. Compared with 19 regions nation wide, Colorado received the 11th highest amount of venture capital in 2002.