COLORADO CLOSE-UP

An Economic Newsletter

Bill Owens, Governor

Nancy J. McCallin
Director

Janet Rogers
Research Economist

Maria Coe
Economist

Office of State Planning and Budgeting — *June 12, 2003*

THE NATIONAL ECONOMY

While the war in Iraq is over, the economy has not yet gained the momentum many expected after successful conclusion of the conflict. The manufacturing sector continues to contract, employment is still declining, and new unemployment claims remain high. However, in April 2003, the Conference Board consumer confidence index increased to 83.8, more than 20 points above the March reading, which was the lowest since October 1993. The April value indicates consumer confidence has improved since the war with Iraq ended.

> ***". . . consumer confidence index increased to 83.8, more than 20 points above the March reading . . . ."***

The small January 2003 increase in seasonally adjusted non-farm payroll employment was followed by three months of declines; year-to-date April 2003 employment is down 0.2% compared with year-to-date 2002 as losses in the manufacturing, retail trade, and transportation sectors were only partially offset by gains in construction, financial services, and government payrolls. Furthermore, manufacturing shed 95,000 jobs in April 2003, the largest decline in this beleaguered sector in 15 months. The only sources of consistent job growth at present are in non-cyclical industries, such as health, social, and educational services.

According to the U.S. Department of Labor, the national seasonally adjusted jobless rate was 6.0% in April 2003, up slightly from the first three months of 2003 but not nearly as high as in past recessions. The relatively steady unemployment rate is explained in part by a decline in labor force participation, as workers stop looking for a job and pursue other activities instead. Unemployed persons who are not looking for work are not technically counted as unemployed.

The U.S. Bureau of the Census reports that the number of Americans 65 years of age and older either working or looking for jobs grew 50.0% since 1980. In 1980, about 3 million people — 12.6% of the 24.2 million residents 65 or older — were in the labor force. The share of older workers declined to 11.9% in 1990, before climbing to almost 4.5 million, or 13.2 percent of the 65-and-older population in 2002. Experts give several reasons for the increase, including concerns that savings, Social Security, and other benefits will not cover retirement needs.

National Economic Statistics

	April 2003	April 2002	Annual Avg 2002	Annual Avg 2001
Inflation-Adjusted Annual GDP Growth*	1.9%	5.0%	2.4%	0.3%
Consumer Spending	2.0%	3.1%	3.1%	2.5%
Nonresidential Fixed Investment	-4.8%	-5.8%	7.3%	6.0%
Residential Fixed Investment	11.0%	14.3%	3.2%	2.0%
Exports	-1.4%	3.5%	2.2%	2.0%
Imports	-7.1%	8.5%	1.0%	-10.7%
Federal Government	0.9%	7.4%	-3.1%	-3.8%
State and Local Governments	-0.1%	4.6%	-5.7%	-5.2%
Inflation**	2.7%	4.8%	1.6%	2.8%
Nonfarm Employment Growth**	-0.2%	-1.2%	-0.9%	0.2%
Unemployment Rate	6.0%	6.0%	5.8%	4.8%
Housing Permit Growth**	4.1%	3.0%	5.6%	2.8%
Single-Family	4.1%	5.7%	6.9%	3.1%
Multi-Family	3.9%	-5.6%	1.6%	1.8%
Growth in the Value of Nonresidential Construction**	-7.1%	-6.5%	-7.0%	1.1%
Retail	-10.0%	-2.1%	-7.2%	-0.1%
Offices	-20.7%	-28.0%	-27.0%	-6.4%
Factories	-27.6%	-42.2%	-44.1%	-8.7%
Retail Sales***	3.7%	3.1%	3.4%	3.8%

*First quarter 2003.
**Year-to-date.
*** Year-to-date through March 2003.
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.

First quarter 2003 inflation-adjusted gross domestic product (GDP) growth was revised upward to 1.9%, 0.5 points above the 1.4% fourth quarter 2002 pace. GDP growth was marginally faster in first quarter 2003 primarily because imports fell 7.1%, more than five times the rate at which exports fell. Consumer spending and residential investment also contributed to GDP growth during first quarter 2003. Consumer spending grew 2.0%, compared with 1.7% growth in fourth quarter 2002. Consumers spent less on durable goods, but more on non-durable goods and services than they did in fourth quarter 2002. Nonresidential fixed investment was also lower as equipment and software spending posted its first decline in four quarters. However, investment in nonresidential structures increased for the first time since first quarter 2001, albeit by only 0.2%. Federal defense spending also fell, but federal non-defense spending surged 9.3%.

The Institute for Supply Management index of business activity was 49.4 in April 2003, higher than expected but still indicating that manufacturing activity is contracting. Indeed, the manufacturing sector has lost jobs each month since July 2001.

". . . residential home starts rose 4.1% year-to-date through April 2003 . . . ."

The U.S. Department of Commerce reports residential home starts rose 4.1% year-to-date through April 2003 compared with the same period in 2002. Single-family home starts rose 4.1% while multi-family home starts rose 3.9%. Meanwhile, the year-to-date value of nonresidential building construction fell 6.3%. The value of *retail* construction fell 8.0%, the value of *office* construction fell 20.0%, and *factory* construction fell almost 30.0%.

Aside from energy prices, inflation is virtually non-existent. Core inflation, which excludes food and energy costs, measured just 1.4% in April 2003 compared with April 2002. Indeed, the soft economy is slowing the rise in prices for shelter and medical care services and commodities. Meanwhile, energy prices, which soared 19.5% in first quarter 2003 compared with first quarter 2002, fell 4.6% in April 2003 compared with March 2003. Overall, prices rose 2.7% year-to-date through April 2003 compared with year-to-date April 2002.

For the third time in three years, Congress passed a major tax cut package, the third largest in U.S. history. The $350 billion "Jobs and Growth Tax Relief Reconciliation Act of 2003" was signed into law by the President on May 28. The Act accelerates some benefits initiated in the previous two stimulus packages, augments others, and also provides new measures. Income taxes are lowered through significant rate reductions for ordinary income, capital gains, and dividends. Rebates will be sent out this summer as a result of the retroactive increase in the child tax credit. The new law also includes marriage penalty relief and a temporary respite from higher alternative minimum tax liability. The Act quadruples small businesses' expensing deduction and raises the bonus first-year depreciation allowance to 50.0% from 30.0%.

THE COLORADO ECONOMY

"Colorado per capita income — $33,276 — is ninth highest in the nation."

Colorado economic activity continues to be constrained by the weak national economy. State employment is still contracting and the unemployment rate is inching upward. However, not all the news is bad. Colorado per capita income — $33,276 — is ninth highest in the nation. Furthermore, Denver ranked first and Colorado ranked second in a study designed to provide a "robust and comprehensive" assessment of where cities and states do well and where they do poorly. The study examined over 2,000 separately conducted studies of states and cities. Denver ranked ahead of San Diego, Austin, Boston, and 176 other cities nationwide. Colorado ranked behind Massachusetts, but ahead of Minnesota, Virginia, and Washington among the top five states.

Colorado Economic Statistics

	April 2003	April 2002	Annual Avg 2002	Annual Avg 2001
Nonfarm Employment Growth*	-0.8%	-2.7%	-1.9%	0.6%
Unemployment Rate	6.0%	5.7%	5.7%	3.7%
Housing Permit Growth*	-18.1%	-2.9%	-12.9%	0.8%
Single-Family	-8.8%	6.8%	-2.5%	-5.6%
Multi-Family	-46.4%	-26.4%	-33.3%	16.0%
Growth in the Value of Nonresidential Construction*	-46.7%	-0.2%	-22.5%	1.0%
Retail	-28.6%	25.1%	-8.3%	12.7%
Offices	-43.2%	-32.0%	-43.8%	-35.0%
Factories	-76.7%	-66.9%	-54.1%	119.6%
Retail Trade Sales**	-0.6%	-2.6%	-0.7%	2.0%

*Year-to-date.
** Year-to-date through March 2003.
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 increased to 6.0% in April compared with 5.7% in April 2002. The pace of hiring has not begun to pick up yet — employment growth declined 0.8% through year-to-date April 2003. However, this is an improvement as year-to-date April 2002 employment declined 2.7% compared with year-to-date April 2001.

According to a survey by the Mountain States Employers Council of 400 Colorado companies, many employers are extending employee benefits for those on military duty beyond federal requirements. Of the 400 companies surveyed, 40.0% continued full health coverage for an extended period, and 6.0% give continued full health coverage for an unlimited period. Three percent give full pay for the length of deployment, nine percent give full pay for an average of 50 days, while 28.0% pay the difference between civilian and military salaries for an average of 136 days.

> ***". . . hourly wages in the Denver-Boulder-Greeley area were $20.82 in 2002 compared to $19.48 in 2001 — a 6.9% increase."***

Despite a large number layoffs, overall hourly wages were up in 2002. According to the U.S. Bureau of Labor Statistics, hourly wages in the Denver-Boulder-Greeley area were $20.82 in 2002 compared with $19.48 in 2001 — a 6.9% increase. White-collar workers make up 64.0% of the area workforce, blue-collar workers make up 22.0%, and employees in the service sector make up the remaining 12.0%.

Recent announcements of new hiring in Colorado include:

- United Airlines announced plans to recall 1,500 furloughed flight attendants this summer and also placed ads for temporary and permanent workers. The number of employees the airliner will hire was not disclosed. However, 12,000 United Airlines employees are eligible for retirement this year, and it is expected that a large share of retiring employees will be replaced.

- Pharmaceutical giant Pfizer will open regional headquarters in the Denver Tech Center this summer. The move from Chicago will add 75 to 100 highly-paid executive level positions to the Colorado workforce.

Recent announcements of layoffs in Colorado include:

- Agilent Technologies Inc. will cut 800 employees in Colorado: 500 from its Fort Collins and Loveland facilities and 300 from its Douglas County and Colorado Springs facilities. Agilent currently employs 3,800 people in Colorado. The cuts in Colorado are one-fifth of Agilent's worldwide reductions.

- Denver International Airport and Colorado Springs Municipal Airport will cut 258 security-screening positions. The Transportation Security Administration will eliminate 6,000 screening positions nationwide due to budget cuts.

- Kaiser-Hill, the company overseeing the Rocky Flats cleanup, will layoff 100 security staff later this year because less security is required at the site as the cleanup progresses. The cleanup of the contaminated buildings and soil currently involves 4,000 employees and is expected to be completed by 2006.

- Carlson Wagonlit Travel closed its customer-service call center in Arapahoe County, leaving 75 workers without jobs.

- Exabyte Corp. laid off 61 of its 262 employees in an effort to cut costs and return to profitability. In March 2003, the data-storage company laid off 40 employees.

- Boulder-based Network Photonics laid off 50 of its 66 employees. The maker of telecommunications equipment is shutting its doors after four years.

Personal Income

In 2002, Colorado's per-capita personal income ranked ninth highest in the nation. The Bureau of Economic Analysis reports Colorado per-capita income was $33,276 in 2002, 7.5% higher than the national average of $30,941. In 2001, the state's average was $33,455. The 0.5% drop in per-capita personal income Colorado experienced in 2002 is the first decline since 1958. Per-capita income, calculated by dividing the state's total population by the amount of personal income earned in the state, is considered a measure of the economic health of the state. Colorado's per-capita income declined because population grew 1.7% while 2002 state personal income grew only 1.2%.

Bankruptcies

During the first part of 2003, bankruptcy filings reached 5,259, a 21.6% increase compared with 4,325 filings during the same period last year. In 2002, Coloradoans filed 21,261 bankruptcies. Individual filings accounted for 98% of the total.

Home foreclosures in the Denver area increased for the first three months of 2003. Public trustees recorded 1,974 foreclosures for first quarter 2003 — a 38% increase compared with 1,433 during first quarter 2002. During 2002, 6,574 foreclosures were filed, accounting for 1.1% of the homes on the market. While last year's recorded foreclosures were 55.7% higher than the 4,222 recorded in 2001, they were well below the record high 17,122 foreclosures recorded in 1988. In 1988, foreclosures accounted for 3.8% of the homes on the market.

Colorado Construction Activity

Residential Construction

Through April 2003, total housing permits issued fell 18.1% compared to year-to-date April 2002. Single-family home permits fell 8.8%, while multi-family home permits declined 46.4%.

> ***". . . the April 2003 median price of a previously owned single-family home increased 4.0% . . . ."***

Compared with April 2002, the April 2003 median price of a previously owned single-family home increased 4.0% to $227,037, while the April 2003 median price of a condominium increased 5.5% to $153,000. On average, the year-to-date price of a single-family home was $275,214 in April 2003, 6.0% higher than April 2002. The average price of a condominium rose to $170,624, a 2.7% increase compared with April 2002. Meanwhile, there are 28.9% more homes on the market in April 2003 than there were one year ago.

Apartment vacancies continue to rise, reaching 11.6% in first quarter 2003 compared with an 8.6% vacancy rate during first quarter 2002. Despite the increase in vacancies, the first quarter 2003 average rental price fell only 1.0%, to $773.

Nonresidential Construction

F.W. Dodge reports that the value of Colorado nonresidential building construction declined 46.7% through April 2003 compared with year-to-date April 2002. The value of *factory* construction dropped 76.7%, while *office space* construction declined 43.2% and *retail* construction fell 28.6%.

Golf course construction in the state is experiencing a slow down. Between 1998 and 2002, 40 new golf courses opened in Colorado, but thus far in 2003 there has only been one opening — privately owned Vista Ridge in Erie. The slow down is attributed to the flagging economy, drought, and war, as well as market saturation — Colorado has over 230 golf courses but has seen little increase in the number of players over the last decade.

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

- Construction began on the St. Julien hotel in Boulder. After nearly two decades of planning, developers broke ground on the $24 million, 200-room hotel. The project includes a $12 million parking garage with 650 spaces underneath the hotel. Construction will be completed in December 2004.
- Denver Seminary is building a new campus in Littleton to accommodate its increasing student population. The $18 million center is located on 20 acres and will accommodate up to 1,400 students.
- The Stapleton East 29th Avenue Town Center will consist of 200,000 square feet of retail space surrounded by residencies. The space will be anchored by a 58,000-square-foot King Soopers. All but 38,000 square feet of the remaining space has been leased by 16 restaurants and retailers.

Colorado Industries

Agriculture

> ***"Prices received by Colorado farmers in mid-April 2003 were higher for wheat and corn, steers and heifers, and calves."***

Prices received by Colorado farmers in mid-April 2003 were higher for wheat and corn, steers and heifers, and calves. The mid-April 2003 price of winter wheat rose 17.3% compared with mid-April 2002. Meanwhile, corn prices increased 31.4%. Steer and heifer prices increased 2.0% during this period and the price of calves rose 2.8%.

Colorado farmers abandoned 400,000 acres of winter wheat, leaving 2.2 million acres to be harvested in July. The 15.0% share of cropland that has been abandoned in 2003 is an improvement compared with last year when farmers abandoned 700,000 acres or 30.0% of their crop because of drought and freezes.

According to a study by the Colorado State University, the University of Colorado at Boulder, and the University of Michigan, the amount of irrigated cropland in Colorado increased 73.0% from 1950 to 1997. Harvested acreage across the eastern Colorado plains grew 19.0% over this period. The study found the increase in harvested acreage is primarily attributable to the use of irrigation on formerly dry land.

Energy

Colorado energy firms received the largest share of venture capital during first quarter 2003. The state's energy sector accounted for 28.2% of all venture capital funding or $43 million. The remaining portion of the state's venture capital was split primarily between advanced technology and biotechnology firms.

> ***"Colorado energy firms received the largest share of venture capital during first quarter 2003."***

General Electric will place 108 turbines on an isolated ranch in Prowers County later this year, thereby making Colorado home to the fifth-largest wind farm in the country. The power created from this new wind farm will be enough to serve 75,000 homes annually. Two wind farms — 44 turbines in Weld County and 33 in Sterling — are already operating in Colorado. Colorado is ranked "11th windiest" in the country and receives 1.0% of its power supply from these two wind farms.

Manufacturing

Colorado's manufacturing sector declined in March 2003, after increasing slightly in February. According to the Front Range Purchasing Managers Index, Colorado's score fell to 47.0 in March after rising to 53.7 in February. A score above 50 indicates an increase in economic activity, while a score below 50 indicates a decline. March's decline reflects the national trend but is attributed in part to the snowstorm that crippled the state for several days in March 2003.

Oil and Gas

The opening of a $1.3 billion expansion to the Kern River pipeline sent Rocky Mountain natural gas prices soaring. The expanded pipeline allows Colorado to ship its natural gas from Wyoming through Utah and Nevada, and finally California. For several years, Colorado's natural gas producers have received below-market prices as more gas was discovered than could be transported out of the state due to lack of available pipeline.

> ***"The opening of a $1.3 billion expansion to the Kern River pipeline sent Rocky Mountain natural gas prices soaring."***

According to AAA, regular unleaded gasoline prices dropped in April 2003 to $1.49 a gallon, the lowest per gallon price since January. Gas prices have fallen 22 cents since their March high of $1.71 per gallon. The price drop seen at gasoline pumps across the nation is a reflection of the decline in crude oil prices, which fell from $40 per barrel before the war in Iraq to $25 per barrel in recent weeks.

Retail Sales

While Colorado retail sales declined 4.0% in 2002, restaurant sales tax collections increased 23.0% in downtown Denver. In 2002, the city collected $13.8 million in restaurant sales tax compared with $11.3 million in 2001. According to the Downtown Denver Partnership, combined restaurant and retail sales led to an overall 11.0% increase in collected sales taxes for the area, or $22.3 million in tax revenue in 2002 compared with $20.1 million in 2001.

Tourism

> ***"Delta Airlines and United Airlines announced plans to restore a combined 275 domestic and international flights . . . ."***

Delta Airlines and United Airlines announced plans to restore a combined 275 domestic and international flights in June, including flights to over a dozen cities from Denver International Airport. The restored flights were originally trimmed in April and May of this year in response to reduced demand due to the Iraq war. United Airlines will recall 1,500 furloughed flight attendants as it reinstates 165 flights. The number of Denver-based flight attendants affected was not disclosed.

In April 2003, revenue collected by Colorado's 43 gaming casinos fell to $57 million compared with $59.9 million in April 2002. This was the third consecutive month that revenues were below those of the corresponding month in 2002. Likewise, Colorado only collected $9.7 million in gaming taxes in April 2003 compared with $10.7 million collected during April 2002. The drop is attributed to the March blizzard and continued construction on Colorado Highway 119, the primary road to Blackhawk and Central City.

The state's gaming casinos were not the only industry to see April attendance decline. According to the Rocky Mountain Lodging Report, in April 2003, Colorado hotel occupancy fell to a 15-year low of 48.6% compared with 56.6% in April 2002.

Venture Capital

According to a survey by PricewaterhouseCoopers, Colorado venture capital investments in first quarter 2003 totaled $152 million, a 31.0% increase from fourth quarter 2002. Among the states that received venture capital in first quarter 2003, Colorado received the fourth largest amount. Colorado venture capital investments declined 61.0% in 2002. Companies received $547 million in 2002 compared with $1.4 billion in 2001.

". . . Colorado venture capital investments in first quarter 2003 totaled $152 million, a 31.0% increase . . . ."

During first quarter 2003, 14 Colorado companies received financing. Bill Barrett Corp., an oil and gas exploration company, received $25 million, the largest amount awarded to a single company during the quarter.