COLORADO CLOSE-UP

An Economic Newsletter

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THE NATIONAL ECONOMY

According to the National Bureau of Economic Research (NBER), the 2001 recession — the country's first in a decade — ended in November 2001, just eight months after it began in March 2001. The 2001 downturn was slightly shorter than average for recessions since World War II. The NBER determines the start and end of recessions by examining a variety of economic indicators. The end of a recession does not necessarily signify that economic conditions have become favorable or that the economy has returned to normal activity. Rather, it simply means that overall economic conditions are no longer declining. Indeed, year-to-date June 2003 employment is down 0.3% 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.

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The only sources of consistent job growth at present are in non-cyclical industries, such as health, social, and educational services. Furthermore, according to the U.S. Department of Labor, the national unemployment rate rose to 6.4% in June 2003, the highest level since April 1994. Total jobs (excluding agriculture) fell for the fourth consecutive month. However, the factory workweek lengthened slightly, to 40.2 hours from 40.1 hours, and temporary employment rose by 58,000. This is encouraging because it could be a signal of improving business conditions: firms often extend existing employees' hours and hire temporary workers until they are sure that an upturn will last.

The U.S. Department of Commerce revised its estimate of first quarter 2003 inflation-adjusted gross domestic product (GDP) growth downward to 1.4%, well below the 3.0% pace considered to represent a healthy gain. Business investment fell in first quarter 2003, even after an upward revision to equipment and software spending. Meanwhile, inventory growth remains sluggish, suggesting businesses are nervous about the strength of future demand. However, corporate profits continue to improve. Rising corporate profits, along with increased cash flow, are necessary conditions for consistent growth in business spending.

". . . corporate profits continue to improve."

Personal income growth remains strong. Furthermore, reduced withholdings from paychecks as a result of the 2003 federal tax cuts will increase disposable income. Household cash flow is also improved by the recent wave of mortgage refinancing. However, concern remains over the levels of household debt.

National Economic Statistics

	June 2003	June 2002	Annual Avg 2002	Annual Avg 2001
Inflation-Adjusted Annual GDP Growth*	1.4%	5.0%	2.4%	0.3%
Consumer Spending	2.0%	3.1%	3.1%	2.5%
Nonresidential Fixed Investment	-4.4%	-5.8%	7.3%	6.0%
Residential Fixed Investment	10.1%	14.3%	3.2%	2.0%
Exports	-1.3%	3.5%	2.2%	2.0%
Imports	-6.2%	8.5%	1.0%	-10.7%
Federal Government	0.7%	7.4%	-3.1%	-3.8%
State and Local Governments	0.2%	4.6%	-5.7%	-5.2%
Inflation***	2.6%	4.8%	1.6%	2.8%
Nonfarm Employment Growth**	-0.3%	-1.4%	-1.1%	0.0%
Unemployment Rate	6.4%	5.8%	5.8%	4.8%
Housing Permit Growth***	4.6%	2.6%	6.8%	2.8%
Single-Family	4.3%	5.0%	7.9%	3.1%
Multi-Family	5.6%	-5.1%	3.5%	1.8%
Growth in the Value of Nonresidential Construction***	-6.1%	-9.2%	-8.3%	0.1%
Retail	-8.7%	-4.2%	-8.0%	0.6%
Offices	-16.6%	-31.0%	-28.1%	-6.0%
Factories	-28.0%	-42.3%	-43.8%	-7.2%
Retail Sales***	3.6%	3.1%	3.4%	3.8%

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

Consumer spending maintained a modest 2.2% pace in first quarter 2003. Indeed, since the current recession began in March 2001, inflation-adjusted consumer spending has grown at no less than a 1.4% annual pace, making this the first recession since 1949 without at least one quarter wherein consumer spending fell. Clearly, low interest rates, which boosted spending on autos and home-related goods, significantly contributed to maintaining the pace of consumer spending. By contrast, spending on services has been weak.

> ***". . . this [is] the first recession since 1949 without at least one quarter wherein consumer spending fell."***

The Conference Board consumer confidence index was virtually unchanged between May and June: consumers continue to expect a brighter economic future, even as they downgrade their outlook of current conditions. However, according to the Institute for Supply Management, services — the largest sector of the economy — improved in May. The institute's index for retailing, financial services, construction, and other non-manufacturing companies rose to 54.5 compared with 50.7 in April. The increase between April and May is the biggest since May 2002. Meanwhile, the Institute for Supply Management's manufacturing index remained below 50 in June. The manufacturing sector has contracted for four consecutive months.

The U.S. Department of Commerce reports residential home starts rose 4.6% year-to-date through May 2003 compared with the same period in 2002. Single-family home starts rose 4.3% and multi-family home starts rose 5.6%. Meanwhile, the year-to-date value of nonresidential building construction fell 6.1%. The value of *retail* construction fell 8.7%, the value of *office* construction fell 16.6%, and the value of *factory* construction fell 28.0%.

> ***". . . residential home starts rose 4.6% year-to-date through May 2003 . . . ."***

In June, the Federal Reserve cut short-term interest rates from 1.25% to 1.0%, their lowest level since 1958. The Federal Reserve has cut rates 13 times since the beginning of 2001. Low interest rates encourage borrowing for items like homes and cars. Low interest rates also discourage savings, thereby further prompting consumers to spend. However, despite low interest rates, inflation through May 2003 was only 2.6% compared with 4.8% in May 2002. The year-over-year core inflation rate, which excludes food and energy prices, was 1.4% in April and 1.5% in May. Goods prices have fallen for two years and price growth for many services is also beginning to slow. Rents are falling — although home prices are rising — as a consequence of record low mortgage rates.

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While overall inflation remains low, the price of natural gas nearly doubled over the past year, peaking at more than $6.00 per million British thermal units (BTUs) compared with $3.65 per million BTUs one year earlier. Meanwhile, stored supplies of natural gas fell to their lowest level since the government began keeping records in 1976. Current levels are about 30% below the average for the past five years. Overall, about 23% of the nation's energy needs are met by natural gas. The United States is the world's second largest producer of natural gas and 85% of the gas used by the U.S. is produced from domestic wells.

THE COLORADO ECONOMY

Colorado Economic Statistics

	May 2003	May 2002	Annual Avg 2002	Annual Avg 2001
Nonfarm Employment Growth*	-0.7%	-2.5%	-1.9%	0.6%
Unemployment Rate	5.8%	5.5%	5.7%	3.7%
Housing Permit Growth*	-21.1%	5.4%	-12.9%	0.8%
Single-Family	-11.0%	8.3%	-2.5%	-5.6%
Multi-Family	-52.4%	-2.4%	-33.3%	16.0%
Growth in the Value of Nonresidential Construction*	-31.0%	-6.4%	-22.5%	1.0%
Retail	-11.0%	25.1%	-8.3%	12.7%
Offices	-32.3%	-40.7%	-43.8%	-35.0%
Factories	-47.4%	-60.3%	-54.1%	119.6%
Retail Trade Sales**	-0.6%	-1.7%	-0.7%	2.0%

*Year-to-date.

**Year-to-date through April 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's economy remains weak. However, the Denver Manufacturing Business Conditions Purchasing Managers Index was 53.0 in June, indicating the majority of respondents reported improving conditions.

The index for manufacturing prices increased in all sectors except computers and capital goods, which showed a decline and no change, respectively.

> ***"The U.S. Tax Foundation ranked . . . Colorado's tax system the fourth most 'business friendly'."***

The U.S. Tax Foundation, an independent, nonprofit educational organization based in Washington, D.C, ranked Colorado's tax system the fourth most "business-friendly." The study used a "tax climate index" that takes into consideration percentage of income taken by taxes, sales tax, and the state's fiscal balance. Wyoming's tax system was identified as the most "business-friendly," followed by New Hampshire and Nevada.

Colorado Economic Indicators

Employment

Colorado's seasonally adjusted unemployment rate decreased to 5.8% in May compared with 5.9% in April 2003. Employment gains continue to be hindered by slow economic growth at both the national and state levels. Job creation was focused in three sectors — business services, construction, and government.

> ***"Job creation was focused in three sectors – business services, construction and government."***

Recent announcements of new hiring in Colorado include:

- Raytheon Co. will add 200 systems engineers, software developers, and computer scientists to its Aurora campus. The aerospace company currently employs 1,950 people in Colorado.
- Sirenza Microdevices Inc. will move its headquarters from California to Broomfield, adding 260 jobs to the area. The technology firm is a maker of components for wireless phone equipment.

Recent announcements of layoffs in Colorado include:

- Ciber Inc., a technology consulting firm, halved its Denver workforce, cutting 220 jobs.
- Denver Health Medical Center laid off 122 employees and placed 1,271 employees on voluntary furloughs. The cuts include clerical, high-tech equipment operators, administrative, management, and service positions.
- Party Warehouse Inc. closed eight stores in Colorado, affecting 60 workers. The party-goods retailer will continue to operate seven corporate-owned stores in the state.
- Shoe manufacturer Tare7 cut 32 jobs from its Golden office.

Foreclosures

Home foreclosures in the five-county Denver area continued to climb during the first six months of 2003. Public trustees recorded 1,825 foreclosures in second quarter 2003. Year-to-date, 3,799 foreclosures have been recorded — a 20.8% increase compared with the same period last year. Boulder County saw the highest percentage increase, recording 128 foreclosures during second quarter 2003 compared with 74 during second quarter 2002. Adams County followed, increasing 60.1% to 501 foreclosures in second quarter 2003 compared with 313 recorded during second quarter 2002. Denver County foreclosures increased 30.0% to 622 foreclosures recorded during second quarter 2003 compared with 479 during the same period a year ago.

Colorado Construction Activity

Residential Construction

Through May 2003, total housing permits issued fell 21.1% compared with year-to-date May 2002. Single-family home permits fell 11.0%, while multi-family home permits declined 52.4%.

> ***". . . the median price of a previously owned single-family home increased 4.9% . . . ."***

Compared with May 2002, the median price of a previously owned single-family home increased 4.9% to $228,600 in May 2003. Furthermore, the median price of a condominium increased 4.7% to $152,750 in May 2003 compared with May 2002. On average, the year-to-date price of a single-family home was $275,835 in May 2003, 2.6% higher than through May 2002. The average price of a condominium rose to $172,969, a 2.6% increase compared with year-to-date May 2002. Meanwhile, there are 28.0% more homes on the market in May 2003 than there were one year ago.

Low mortgage rates continue to make home purchases affordable to first time buyers. Consequently, landlords are suffering from high vacancy rates. Denver-area apartments continue to feel the pinch of high vacancy rates, which rose to 13.7% in first quarter 2003 compared with 11.7% in fourth quarter 2002. According to a new report from the University of Denver, single-family home, condominium, and townhome rentals in the six-county Denver area have vacancy rates of 7.5% for first quarter 2003 compared with 5.6% in fourth quarter 2002.

Several noteworthy new residential construction projects were recently announced:

- SheaHomes is developing the 2,500-acre Reunion community in Commerce City. The project will be completed over 20 years with the first phase of homes ready for occupancy in fall 2003. At completion, the $3.5 billion community will have 12,000 homes.
- A 6.9-acre, mixed-use development that includes 250,000 square feet of apartments will take advantage of Denver's planned light rail extension at East Hampden Avenue and Interstate 25.
- The Pauls Corp. plans to build 487 apartments in the Fitzsimons Commons. Upon completion in 2005, the $57 million project will include 465,000 square feet of living space.
- Construction began on a $29 million luxury loft project, The Delgany, along Cherry Creek in Denver. The 44 units will range in size from 1,200 square feet to 2,400 square feet and prices will range from $475,000 to $1.1 million. The Delgany is the third phase of the $1 billion Riverfront Park development in the Central Platte Valley.
- The Denver Housing Authority will break ground on a new affordable housing project in fall 2003. The development will include 68 rental apartments and 23 for-sale homes ranging in price from $165,000 to $195,000.

Nonresidential Construction

F.W. Dodge reports that the value of Colorado nonresidential building construction declined 31.0% through May 2003 compared with year-to-date May 2002. The value of *factory* construction dropped 47.4%, while *office space* construction declined 32.3% and *retail* construction fell 11.0%.

Office vacancy rates remain high in the Denver area. Cushman and Wakefield report 21.8% — 22 million square feet — of metro-Denver office space is vacant and available for lease. Industrial landlords are in a slightly better situation, with vacancy rates at 7.0% compared with 5.4% at the end of 2001. Average office rent, which peaked in 2000 at $20.79 per square-foot, has dropped to $17.16 per square-foot.

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

- The Reunion community, developed by SheaHomes in Commerce City, includes two million square feet of retail space.
- The $55 million mixed-use project at East Hampden Avenue and Interstate 25 will include 16,500 square feet of shops and restaurants.
- Bear Rock Franchise Systems Inc. will build 30 Bear Rock Cafés in Colorado over the next five years. The quick-service, fresh-food chain did not disclose the value of the additions.
- Construction began on a 53-acre warehouse park in Aurora. The first phase of the Airways Business Center includes two buildings totaling 425,000 square feet. The Center will contain up to one million square feet of warehouse space upon completion.
- A public school and recreational facility is under construction in Green Valley Ranch, a residential development in Denver. The $20 million construction costs will be shared by the City of Denver, Denver's Parks Department, Denver Public Schools, and Oakwood Homes.

Colorado's Industrial Sectors

Agriculture

Prices received by Colorado farmers in mid-June 2003 were higher for wheat and corn, steers and heifers, and calves. The mid-June 2003 price of winter wheat rose 2.7% compared with mid-June 2002. Meanwhile, corn prices increased 22.9%. Steer and heifer prices increased 11.7% during this period and the price of calves rose 19.5%.

> ***"Prices received by Colorado farmers in mid-June 2003 were higher . . . ."***

Manufacturing

In June 2003, Colorado's manufacturing sector expanded for the third consecutive month. According to the Front Range Purchasing Managers Index, Colorado's score dipped only slightly in June to 53.0 compared with 53.2 in May. A score above 50 indicates an increase in economic activity, while a score below 50 indicates a decline. June's slight dip reflects lower production levels and a decline in the backlog of orders compared with May 2003 levels.

Tourism

Denver International Airport (DIA) has completed its sixth runway, the longest in North America. The 16,000-foot, $165 million runway will allow DIA to accommodate international flights that require longer runways for takeoff.

> ***". . . the 2002-2003 ski season was one of Colorado's busiest."***

The state's mountain resorts report the 2002-2003 ski season was one of Colorado's busiest. Skier visits reached 11.6 million, a 4.3% increase over the 2001-2002 season but shy of the 1997-1998 record of nearly 12 million skiers. Early snowfall boosted attendance, which later slowed as a result of the Iraqi situation and the March blizzard that closed Interstate 70, the primary road to the resorts.