



# COLORADO CLOSE-UP

An Economic Newsletter  
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## THE NATIONAL ECONOMY

A healthy, self-sustaining national economic recovery appears to be finally underway. The U.S. Department of Commerce reported that third quarter inflation-adjusted gross domestic product (GDP) surged 7.2%, the fastest pace since first quarter 1984. Furthermore, falling inventories during the quarter mean that inflation adjusted final sales — economic activity excluding inventories — rose 7.8%. Meanwhile, second quarter 2003 GDP growth was revised upward to 3.3%.

**“A healthy, self-sustaining national economic recovery appears to be finally underway.”**

Second quarter 2003 productivity was revised upward by more than one percentage point, to 6.8%. In the manufacturing sector, a decline in hours outpaced a decline in output, making productivity gains possible. Meanwhile, unit labor costs were revised downward. Unit labor costs have declined in six of the last eight quarters, despite modest gains in real hourly compensation. The steady erosion of unit labor costs indicates that labor is becoming a better value and this should encourage businesses to hire new employees.

**“... business investment — a key requirement for a healthy recovery — soared 11.1% . . . .”**

In third quarter 2003, personal consumption, business investment, and net exports led GDP growth, supported by tax relief and low inflation. Business investment — a key requirement for a healthy recovery — soared 11.1% and residential investment jumped 20.4%. Meanwhile, personal consumption continued to provide healthy support to the economy, rising a strong 6.6%, mainly due to purchases of motor vehicle and nondurable goods. Government spending grew only 1.3% during the quarter and thus contributed little to the rise in GDP.

## National Economic Statistics

	Sept-03	Sept-02	2002 Annual Average	2001 Annual Average
Inflation-Adjusted Annual GDP Growth*	7.2%	3.3%	2.4%	0.3%
Consumer Spending	6.6%	3.8%	3.1%	2.5%
Nonresidential Fixed Investment	11.1%	7.3%	7.3%	6.0%
Residential Fixed Investment	20.4%	6.6%	3.2%	2.0%
Exports	9.3%	-1.0%	2.2%	2.0%
Imports	0.1%	8.8%	1.0%	-10.7%
Federal Government	1.3%	25.5%	-3.1%	-3.8%
State and Local Governments	1.3%	-0.2%	-5.7%	-5.2%
Inflation**	2.4%	4.6%	1.6%	2.8%
Nonfarm Employment Growth**	-0.3%	-1.3%	-1.1%	0.0%
Unemployment Rate	6.1%	5.7%	5.8%	4.8%
Housing Permit Growth***	7.5%	5.0%	6.8%	2.8%
Single-Family	9.0%	6.1%	7.9%	3.1%
Multi-Family	2.7%	1.4%	3.5%	1.8%
Growth in the Value of Nonresidential Construction***	-2.9%	-9.4%	-8.5%	0.1%
Retail	-9.8%	-3.4%	-4.2%	0.6%
Offices	-19.1%	-34.9%	-32.7%	-6.0%
Factories	-22.1%	-43.3%	-42.8%	-7.2%
Retail Sales***	4.0%	3.6%	3.4%	3.8%

\*Third quarter 2003 and second quarter 2003.

\*\*Year-to-date.

\*\*\*Year-to-date through August 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.

The Conference Board consumer confidence index rose to 81.1 in October from 76.8 in September. Consumers upgraded both their assessment of the current situation and their expectations for the future. While October consumer confidence reversed most of the decline posted between August and September, the index remains in a tight range near 80 for the seventh consecutive month. Consumers remain concerned about weak labor markets, high debt levels, and high energy prices. Consumers are also increasingly concerned about their incomes. The share of consumers who expect an increase in their income over the next six months remains near a decade-long low and consumers' views of the current job market is nearly the worst since

the end of 1993. However, overall confidence remains above its pre-Iraq-war lows and has not fallen as low as it did during and following the 1990-1991 recession.

September 2003 national employment rose compared with August 2003, the first month-over-month increase in eight months. Temporary help companies, retail trade establishments, other professional and business services, and construction contractors all reported net employment gains during the month. However, year-to-date employment remains below year-to-date September 2002 and, for the first time since 1989, average hourly earnings fell, albeit only by one cent. Furthermore, the manufacturing sector reported its 37th consecutive month-over-month decline in employment.

The unemployment rate was 6.1% in September 2003, unchanged from August 2003. The median duration of unemployment rose to 10.1 weeks, while the share of unemployed workers who have been out of work more than 27 weeks rose to 23.2%, matching the peak reached in 1992.

The Institute for Supply Management (ISM) *manufacturing index* was 53.7 in September 2003, above the important 50-point mark for the third consecutive month and indicating that the manufacturing sector in the U.S. continues to expand. The September manufacturing index also contained positive implications for the October index value. New orders increased at a faster pace in September, as did the backlog of orders. Additionally, inventories remain low, all of which point to higher production in the near future.

***“The September manufacturing index also contained positive implications for the October index value.”***

Service-providing industries continue to be on the vanguard of the U.S. economic recovery. The ISM *non-manufacturing index* remained above 60 for the fourth consecutive month and very near the record high set in July and August 2003. The September 2003 non-manufacturing index value — 63.3 — indicates that purchasing and supply managers in the U.S. service-producing industries continue to report expanding business activity and to remain confident about growth prospects for the national economy.

The U.S. Department of Commerce reports residential home permits issued year-to-date through August 2003

rose 7.5% compared with the same period in 2002. Single-family home permits issued rose 9.0% and multi-family home permits issued rose 2.7%. Meanwhile, the year-to-date value of all nonresidential building construction only fell 2.9% due to 11.7% growth in health-care related construction and 6.4% growth in water supply related construction. The value of *retail* construction fell 9.8%, the value of *office* construction fell 19.1%, and the value of *factory* construction fell 22.1%.

## THE COLORADO ECONOMY

Colorado’s economy continues to show encouraging signs of a rebound. Although state employment growth has deteriorated slightly over the past few months, the unemployment rate is beginning to inch downward and new claims for unemployment benefits are slowly declining.

***“Colorado’s economy continues to show encouraging signs of a rebound.”***

The Denver Manufacturing Business Conditions Purchasing Managers Index increased slightly to 51.4 in September 2003 from 51.0 in August 2003, indicating the majority of respondents reported an improvement in conditions. Meanwhile, the index for manufacturing prices increased in all sectors except computers, which showed no change. Respondents have reported positive trends in all months but one since April 2003.

### Colorado Economic Statistics

	Sept-03	Sep-02	Annual Avg 2002	Annual Avg 2001
Nonfarm Employment Growth*	-0.8%	-2.2%	-1.9%	0.6%
Unemployment Rate	5.6%	5.8%	5.7%	3.7%
Housing Permit Growth**	-17.7%	7.4%	-12.9%	0.8%
Single-Family	-9.5%	5.8%	-2.5%	-5.6%
Multi-Family	-45.8%	11.2%	-33.3%	16.0%
Growth in the Value of Nonresidential Construction*	-16.5%	-20.3%	-22.5%	1.0%
Retail	-20.9%	-12.0%	-8.3%	12.7%
Offices	-30.7%	-44.6%	-43.8%	-35.0%
Factories	-61.1%	-47.5%	-54.1%	119.6%
Retail Trade Sales**	0.7%	-1.1%	-0.7%	2.0%

\*Year-to-date.

\*\*Year-to-date through August 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 remained unchanged at 5.6% in September 2003, 0.3 percentage points below the high reached in April 2003. However, the number of jobs year-to-date through September slipped a bit and employment is now 0.8% below year-to-date September 2002.

While employment gains continue to be hindered by slow economic growth at the state level, Colorado's beleaguered advanced technology sector is beginning to show signs of stabilization. An informal survey conducted by the Rocky Mountain News shows companies in the software, data-storage, cable-TV, aerospace, and Internet industries have been slowly hiring since April 2003. While layoffs are expected to continue in the industry, the recent labor market activity lends support to the idea that Colorado technology-related businesses are beginning stabilize.

***"Colorado's beleaguered advanced technology sector is beginning to show signs of stabilization."***

Recent announcements of new hiring in Colorado include:

- Wild Oats grocery will hire 450 people for three new stores located in Colorado Springs, Littleton, and Superior.
- Owens-Illinois Inc., one of the world's largest glass-bottle manufacturers, will open their 25th North American plant in Weld County. The Windsor plant will hire a minimum 150 workers and be fully operational by 2005.
- DigitalGlobe will hire 100 people over the next two years in order to build a government intelligence satellite.
- United Airlines will hire 109 part-time ramp-service workers in Denver. Eighty-four positions are permanent and 25 positions are temporary de-icing jobs that will last through the winter.

Recent announcements of layoffs in Colorado include:

- American Century will transfer 145 financial-service jobs from Denver to Missouri. The mutual

fund company will close its Denver office over the next 18 months.

- Global Crossing cut 100 positions, one-third of its Denver workforce. The bankrupt telecommunications company transferred 30 positions to Arizona and will eliminate 70 positions in fourth quarter 2003.
- Stewart Lodges, a cabin manufacturer, closed its Delta factory, leaving 80 people jobless.
- American Skandia, the country's largest distributor of variable annuities, will eliminate 70 financial positions as a result of its merger with Prudential Financial Inc.
- Pension plan manager TIAA-CREF laid off 70 people from its 1,200 workforce in Denver.
- Marathon Oil, the nation's fourth-largest petroleum company, will close its Denver office. The 51 employees affected will be offered transfers to Houston.
- IBM has announced it will layoff less than 1% of its 4,800-person software division in Boulder.

### Bankruptcies

Consumer and business bankruptcies have increased for three consecutive quarters. Bankruptcies increased 17% in third quarter 2003 compared with third quarter 2002. Through third quarter 2003, 19,480 bankruptcy petitions have been filed in Colorado, a 24% increase over the same period last year.

### Foreclosures

Home foreclosures in the seven-county Denver area continued to climb during the first nine months of 2003. Public trustees recorded 2,372 foreclosures in third quarter 2003. Through September, 6,171 foreclosures have been recorded — a 32.3% increase compared with the same period last year. Boulder County saw the highest percentage increase, recording 143 foreclosures during third quarter 2003 compared with 72 foreclosures during third quarter 2002. Douglas County followed, increasing 92.0%, to 167 foreclosures in third quarter 2003 compared with 87 recorded during third quarter 2002. Denver County foreclosures increased 41.2%, to 524 foreclosures recorded during third quarter 2003 compared with 371 during the same period a year ago. The highest annual number of metro-area foreclosures — 17,122 — was recorded in 1988.

## Colorado Construction Activity

### Residential Construction

The U.S. Bureau of the Census reported the total number of housing permits issued in Colorado through August 2003 fell 17.7% compared with year-to-date August 2002. Year-to-date single-family home permits fell 9.5%, while multi-family home permits declined 45.8%.

**“... the median price of a previously owned single-family home increased 8.4% . . . .”**

Compared with August 2002, the median price of a previously owned single-family home increased 8.4%, to \$238,500 in August 2003. Meanwhile, the median price of a condominium increased 4.0%, to \$155,000 in August 2003 compared with August 2002. On average, the year-to-date price of a single-family home was \$288,423 in August 2003, 5.0% higher than the average through August 2002. The average price of a condominium rose to \$171,574, a 0.8% increase compared with year-to-date August 2002. There were 17.7% more homes on the market in August 2003 than there were one year ago.

According to the U.S. Bureau of the Census, Colorado ranks second in the nation for the “mobility” of its residents. Between 1995 and 2000, nearly 56% of the state’s population moved to a different home — 13.5% of the population moved within the state and 23% moved within the same county. On average, 45.9% of Americans moved to a different home during the same period. Nevada had the highest “mobility,” with 62.6% of its residents moving between 1995 and 2000.

Several noteworthy new residential construction projects were recently announced:

- AscentPointe Development will build SunMarke, a mixed-use community, on 5,000 acres of land southwest of Parker. When completed, the development will include a 27-hole public golf course, offices, shops, 1,000 acres of open space, and 6,300 homes. The \$2 billion project will take 15 years to complete.
- The Lowry Redevelopment Authority recently broke ground on the development’s first affordable-housing complex. The Maple Park Townhome complex will include 68 units available to buyers earning 80% or less of the area’s median income. Units will range in size from 1,200 square feet

to 1,600 square feet and cost from \$135,000 to \$145,000.

- A Chicago-based developer will build a 13-story, 143-unit high-rise in Denver’s Uptown neighborhood. Units will range in size from 712 square feet to 1,792 square feet. The majority of the units are priced under \$300,000. The community will open in late 2004 and include four levels of parking.
- East West Partners will develop 16 new brownstones in downtown Denver’s \$1 billion-plus Riverfront Park. Each unit will have its own garage and will range in size from 2,200 square feet to 4,600 square feet. Prices will range between \$975,000 and \$2.6 million.
- A new project at the Stapleton redevelopment site includes two-story townhomes and lofts. The 37 townhomes will be 1,400 square feet and priced in the low \$300,000s. A like number of lofts ranging in size from 600 to 800 square feet are priced in the mid-\$100,000s.

### Nonresidential Construction

F.W. Dodge reports that the value of Colorado nonresidential building construction declined 16.5% through September 2003 compared with year-to-date September 2002. The value of *factory* construction dropped 61.1%, while *office space* construction declined 30.7% and *retail* construction fell 20.9%.

**“For the first time in two years, the Denver office vacancy rate declined.”**

For the first time in two years, the Denver office vacancy rate declined. Third quarter 2003 office vacancy in the Denver area was 21.8% compared with 22.5% in second quarter 2003. The vacancy report by Trammell Crow Co. also shows unrented office space fell by 564,350 square feet compared with a gain of 252,866 square feet of unrented space in second quarter 2003. The majority of leasing activity came from the Denver Technological Center.

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

- In October 2003, construction began on the \$250 million Southland mall in Aurora. Upon completion within the next four years, the regional

mall will include 1.5 million square feet of retail space, 1,100 residential units, and 250,000 square feet of office space.

- Construction will begin this fall on three of six office buildings to be built at Lowry. To date, 241,500 square feet of the 322,500-square-foot, \$51 million Power House Project is under construction or occupied. The remaining three structures will be built in fall 2004.
- Delta will receive its first new multi-tenant construction since 1999. The Delta Center will add 40,000 square feet of multi-tenant retail space in addition to an automotive parts store and bank. The multi-tenant space will be completed in the spring of 2004. To date, 30% of the space is tentatively leased.
- Loveland Medical Enterprises will begin construction this fall on a \$21 million, 76,462-square-foot medical facility. To be completed in fall 2004, this will be the first phase of an 115,000-square-foot development.
- TA Associates Realty will build a \$6 million warehouse in Aurora to replace a warehouse that burned in December 2002.
- A 28,000-square-foot, \$4 million office building will be built in the Denver International Business Center. The High Plains Office Building will open in March 2004.

## Colorado's Industrial Sectors

### Agriculture

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

Prices received by Colorado farmers in mid-September 2003 were higher for steers and heifers and calves, but were lower for wheat and corn. The mid-September 2003 price of winter wheat fell 28.3% compared with mid-September 2002 while the price of corn fell 20.4% during the same period. Meanwhile, steer and heifer prices increased 23.8% during this period and the price of calves rose 17.8%.

### Manufacturing

In September 2003, Colorado's manufacturing sector expanded for the fifth time in six months. According to the Front Range Purchasing Managers Index, Colorado's score rose in September 2003 to 51.4 compared with 50.9 in August. A score above 50 indicates an increase in economic activity, while a score below 50 indicates a decline. September's expansion reflects an increase in new orders received compared with August 2003 levels.

Owens-Illinois Inc. will build a new glass-container manufacturing plant in Weld County. The new Windsor plant will hire more than 150 employees with average annual salaries of \$50,000 over the next three years. The company selected Windsor for location of their 25th North American plant based on a combination of rail access, power, natural gas, road transportation, workforce, and terrain.

### Oil and Gas

AAA Colorado reported the state's average retail gasoline price is trending downward, dropping 9.5 cents during the three weeks following the Labor Day weekend. The recent decrease in gasoline prices is primarily attributable to East Coast refineries, which avoided significant disruptions in production during Hurricane Isabel, and to lower prices for crude oil.

***"... natural gas producers in the Rocky Mountain region are receiving more than double what they did last fall."***

While crude oil prices are declining, natural gas producers in the Rocky Mountain region are receiving more than double what they did last fall. Currently, producers in the region are receiving \$4.40 per thousand cubic feet of gas compared with \$2.00 per thousand cubic feet in 2002. The recent price surge is the result of the new Kern River pipeline that allows producers to ship their product from Wyoming to California, where they receive a higher price. The higher profitability of natural gas in the region has led to acceleration in gas drilling and higher prices for Colorado consumers. In the past, Colorado natural gas producers were unable to move their product out of the state, thus increasing

Colorado's supply and allowing state consumers to enjoy lower priced natural gas.

### **Tourism**

Colorado gained recognition at the National Trust for Historic Preservation conference in Denver.

Colorado received four out of 21 awards selected from 100 sites nominated nationwide. In the 25-year history of the preservation awards, no state has ever won four awards in the same year. Colorado received awards for the 1886 Beaumont Hotel in Ouray, the 1878 Central City Opera House and historic district, the 1905 Kit Carson Carousel in Stratton, and the 13th-century Ute Indian Porcupine House at the Ute Mountain Tribal Park in Towaoc.

The state's tourism industry rebounded this year after suffering through last summer's drought and wildfires. Hotel occupancy rates in Aspen were 74.0% in July 2003 compared with 71.0% in July 2002 and Vail had a 250% increase in reservations for its annual Prima celebration, also in July.

***"The state's tourism industry rebounded this year . . . ."***

Passenger traffic at Denver International Airport (DIA) increased to 3.6 million passengers in August 2003, a 1.8% increase compared with August 2002. JetBlue Airways announced plans to launch nonstop service between Denver and Boston in 2004. The new flight will be the second at DIA for the carrier.

Ski resort towns are teaming up with airline carriers this season in an effort to bring more skiers to the slopes. Crested Butte arranged for Delta to fly one nonstop daily flight and three nonstop Saturday flights from Dallas to Gunnison and Continental will fly a nonstop Saturday flight from New Jersey to Gunnison. The new routes will begin in December and end in late March. Vail Resorts and Frontier Airlines also teamed up to create the "Ultimate Season Pass" for the 2003-2004 ski season. For \$3,300, skiers across the country will be able to take unlimited round-trip flights from any of the 40 cities served by Frontier into Denver and ski with a season pass good at Vail, Beaver Creek, Breckenridge, and Keystone.

In August 2003, Colorado's 44 casinos generated a record \$65.8 million in revenue. According to the Colorado Division of Gaming, the August revenue figure is a 1.8% increase in revenue compared with August 2002. However, part of the increase is attributed to a fifth weekend in August 2003.

The Colorado state park system and the U.S. Army Corps of Engineers will contribute \$40 million to Chatfield, Cherry Creek, and Trinidad Lake state parks over the next ten years. The funds will be used for smoother roads, additional trails, improved restrooms, and other "creature comforts." These three parks receive three million visitors annually, more than one quarter of the 11 million visitors received by Colorado state parks each year.