



# COLORADO CLOSE-UP

An Economic Newsletter  
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## THE NATIONAL ECONOMY

The national economic recovery has gained momentum. Demand and production growth are strong, profits are up, financial markets are steady, and the global economy is strengthening. However, labor markets remain soft.

On average, inflation-adjusted gross domestic product (GDP) growth was 3.1% in 2003, the fastest pace since 2000. Fourth quarter 2003 GDP growth was revised upward to 4.1%. This is higher than the economy's long-term potential of 3% to 3.5% growth, but not by enough to push employment demand significantly higher. The faster pace of GDP growth was due to stronger business equipment and software spending, more inventory investment, stronger exports, and higher nondurable goods consumption. Furthermore, businesses built up inventories for the first time in three quarters, suggesting improving business confidence. Equipment and software spending rose 15.1% in fourth quarter 2003, offsetting a 7.1% decline in nonresidential structures. However, investment in non-transportation related capital equipment slowed, indicating that investment is still being driven by replacement demand for relatively short-lived information technology products.

**"Fourth quarter 2003 GDP growth was revised upward to 4.1%."**

National employment gains have been disappointing. On net, the labor market created only 21,000 jobs in February 2004 and 97,000 jobs in January 2004. Meanwhile, in December 2003, employment increased by only 8,000 jobs. The February 2004 unemployment rate is 5.6%, unchanged compared with January 2004. The weak employment report reflected minimal job creation in the service providing industries, declining construction, and flat wholesale trade. Over the past six months, the national economy has created on average

fewer than 61,000 jobs per month — less than half of the number needed to absorb the natural increase in the labor force.

## National Economic Statistics

	2003 Q4	2002 Q4	2003 Annual Average	2002 Annual Average
Inflation-Adjusted Annual GDP Growth	4.1%	1.3%	3.1%	2.2%
Consumer Spending	2.7%	2.2%	3.1%	3.4%
Nonresidential Fixed Investment	9.6%	-0.1%	7.3%	6.5%
Structures	-7.0%	-5.5%	3.8%	3.0%
Equipment and Software	15.1%	1.7%	2.0%	3.0%
Residential Fixed Investment	8.6%	6.8%	3.8%	3.0%
Exports	21.0%	-3.8%	2.0%	3.0%
Imports	16.4%	8.2%	4.3%	-1.2%
Federal Government	1.6%	18.2%	4.4%	-3.7%
State and Local Governments	0.4%	1.5%	2.9%	-7.2%

  

	Feb-04	Feb-03	2003 Annual Average	2002 Annual Average
Inflation*	1.8%	2.8%	2.3%	1.6%
Nonfarm Employment Growth*	0.0%	-0.3%	-0.3%	-1.1%
Unemployment Rate	5.6%	5.9%	6.0%	5.8%
Housing Permit Growth**	5.0%	5.6%	7.7%	6.8%
Single-Family	3.7%	8.5%	9.3%	7.9%
Multi-Family	9.8%	-3.7%	2.8%	3.5%
Growth in the Value of Nonresidential Construction**	-2.7%	-6.4%	-1.9%	-8.5%
Retail	-3.4%	-10.0%	-3.0%	-4.2%
Offices	-5.7%	-22.6%	-15.3%	-32.7%
Factories	-2.3%	-35.0%	-16.8%	-42.8%
Retail Sales**	10.6%	2.5%	3.4%	3.8%

\*Year-to-date.

\*\*Year-to-date through January 2004.

NA: Not Available

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.

From the beginning of the recession in early 2001 until employment bottomed out in August 2003, the economy shed 2.7 million jobs. The economy has recovered 13% of these lost jobs in the six months since August 2003. Job creation remains weak because new technologies and better work arrangements have improved productivity. Cheap capital enables

employers to mechanize jobs, thereby permanently reducing the number of workers needed.

Annual average productivity rose 4.4% in 2003. Fourth quarter 2003 posted productivity growth of 2.6%, well below the torrid 9.4% pace posted in the third quarter but still above historical averages. Meanwhile, unit labor costs have posted declines in six of the past eight quarters.

The Conference Board consumer confidence index fell to 87.3 in February 2004 from 96.4 in January 2004. However, February 2004 consumer confidence is higher than in February 2003. In February 2004, consumers lowered their assessment of the present situation, their expectations for the future, and their opinion of business conditions. Consumers also expressed more concern about the job market. Plans to buy major appliances fell sharply, to their lowest value since late 1997. However, plans for automobile purchases fell only slightly while plans to buy homes improved slightly.

The Institute for Supply Management (ISM) *manufacturing index* was 61.4 in February 2004, down slightly from January's 63.6 reading but above the important 50-point mark for the eighth consecutive month and above 60 for the fourth consecutive month. Prior to November 2003, the index had not exceeded 60 since 1987. The new orders and production components of the index declined. However, the employment component of the ISM manufacturing index is the highest it has been since February 2000.

***“The employment component of the ISM manufacturing index is the highest it has been since February 2000.”***

Service-providing industry activity slowed in February 2004 compared with January 2004. However, the February 2004 ISM *non-manufacturing index* was 60.8, indicating that purchasing and supply managers in the U.S. service-producing industries continue to report robust growth in demand. Mining, transportation, retail trade, and insurance industries reported the highest growth, while construction, entertainment, and financial services industries reported a contraction in business activity.

At the national level, January 2004 residential construction was 5.0% higher compared with January 2003, although housing starts were down compared

with the record high number posted in December 2003. A year-end 2003 dip in fixed mortgage interest rates to 5.5% produced a surge in mortgage applications in January, pointing to strong demand in the near term and leading to low inventories and solid builder optimism. Meanwhile, nonresidential building activity remains weak, falling 2.7% in January 2004 compared with January 2003. The value of new office construction fell 5.7% and commercial construction value fell 3.4%.

## THE COLORADO ECONOMY

Colorado's economic indicators continue to point to a rebound. In 2003, merger and acquisitions activity increased for the first time since 2000, signaling increased spending on new equipment, new plant openings, and hiring of additional people as businesses begin to grow. Additionally, exports from the state increased in 2003 for the first time in two years. Furthermore, Denver International Airport maintained its position as fifth-busiest airport in the nation.

***“. . . Exports increased in 2003 for the first time in two years.”***

### Colorado Economic Statistics

	Jan 2004	Jan 2003	2003 Annual Average	2002 Annual Average
Nonfarm Employment Growth*	-1.6%	-0.8%	-1.5%	-1.9%
Unemployment Rate	5.9%	5.9%	5.8%	3.7%
Housing Permit Growth*	-8.4%	-3.3%	-17.7%	-12.9%
Single-Family	15.0%	11.1%	-5.9%	-2.5%
Multi-Family	-45.9%	-28.1%	-51.4%	-33.3%
Growth in the Value of Nonresidential Construction*	-24.3%	-38.8%	-22.5%	1.0%
Retail	41.2%	-38.9%	-8.3%	12.7%
Offices	-50.4%	-42.6%	-43.8%	-35.0%
Factories	-85.4%	85.2%	-54.1%	119.6%
Retail Trade Sales**	0.0%	-0.7%	-0.7%	2.0%

\*Year-to-date.

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

The Denver Manufacturing Business Conditions Purchasing Managers Index increased to 49.4 in January 2004 from 45.6 in December 2003. Meanwhile, the index for manufacturing prices increased in all sectors except capital goods and computers.

## Colorado Economic Indicators

### Employment

Since the beginning of the year, Colorado employment news has been mostly positive. Recent announcements of new hiring in Colorado include:

- Double-Click will add 600 jobs at its Thornton location over the next four years. The online marketer will add 300 jobs in software development and engineering departments, while the remaining 300 jobs will be in administrative, sales, and accounting departments.
- In-Situ Inc. will relocate from Wyoming to Fort Collins in August 2004, bringing 150 new jobs to the area over the next five years. The environmental technology company manufactures water-quality and -level monitoring instruments.
- Grand Junction Steel will add 50 to 75 new jobs at the company's Grand Junction manufacturing plant. The expansion is due to new work awarded to the company from a Texas highway project.

Recent announcements of layoffs in Colorado include:

- KB Toys Inc. will close 375 stores nationwide, including 13 of its 16 Colorado stores. The number of jobs lost was not disclosed.

### Exports

In 2003, Colorado exports grew 10.6% to \$6.1 billion, the first increase in two years. The top five export products were semiconductors, computer parts, office machines, fresh beef, and medical tools. In total, 43% of all Colorado exports were computer-related. Colorado's top five export markets were Canada, Mexico, Japan, South Korea, and China.

## Colorado Construction Activity

### Residential Construction

The U.S. Bureau of the Census reported the total number of housing permits issued in Colorado during 2003 fell 17.7% compared with 2002 — single-family home permits fell 5.9% while multi-family home permits declined 51.4%.

The median price of a previously owned single-family home increased 0.4% to \$225,500 in January 2004 compared with January 2003. Meanwhile, the median price of a condominium increased 4.2% to \$160,000. On average, the year-to-date price of a single-family home was \$284,154 in January 2004, 6.7% higher than through January 2003. The average price of a condominium rose to \$189,208, a 2.8% increase compared with year-to-date January 2003. Meanwhile, the number of homes on the market in January 2004 is about the same as in January 2003.

Denver apartment vacancies declined during the last six months of 2003. In fourth quarter 2003, the vacancy rate was 10.9% compared with 11.7% in fourth quarter 2002 and 11.1% in third quarter 2003. Helping the decline were falling rent, "free-rent" deals, and a 60.7% decrease in apartment construction in 2003 compared with 2002.

According to a study of second-home ownership by the Northwest Colorado Council of Governments, 60% of the housing units in Eagle, Grand, Pitkin, and Summit counties are second homes. The leading reason for purchasing a second home in the mountains is "recreational amenities," followed by skiing, and scenery. The study also showed that nearly 50% of the second-home owners have an annual income of over \$150,000 and 40% are in the 55-to-64 age range.

***"... 60% of the housing units in Eagle, Grand, Pitkin, and Summit counties are second homes."***

Several noteworthy new residential construction projects were recently announced:

- Construction started on a \$20 million, 91-unit condominium development in Boulder. Upon completion in November 2004, the Vistoso Condominiums will include four buildings totaling 100,000 square feet and underground parking. Units will start in the high \$200,000s and include one-, two-, and three-bedroom units ranging from 896 to 1,764 square feet.
- In Fort Morgan, 72 homes are being built on 20 acres of former city land. The \$12 million Riverview Commons will provide affordable housing with prices ranging from \$140,000 to

\$200,000. A community center and retail area are also planned for the development.

- The Denver Housing Authority broke ground on a large-scale workforce housing development in northeast Denver. The 91 townhomes will include affordable rental housing and for-sale, market-rate units.
- The town of New Castle received \$2.2 million in federal grants to build a new 24-unit, low-income housing complex for senior citizens. Construction will begin in October 2004 and be completed by Fall 2005.

### ***Nonresidential Construction***

F.W. Dodge reports that the value of Colorado nonresidential building construction declined 24.3% in January 2004 compared with January 2003. *Retail* construction rose 41.2%. However, the value of *factory* construction dropped 85.4% and *office space* construction declined 50.4%.

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

- Cameronbutcher Commercial Real Estate will build a three-building, 30,000-square-foot office and warehouse facility on four acres in Colorado Spring's Northgate Corporate Village. The three buildings will be completed in June 2004.
- In Fort Collins, Dohn Construction will begin work on the \$2.7 million, 30,000-square-foot In-Situ headquarters. Upon completion in August 2004, the new building will house the environmental technology company's 65-employee workforce.
- Centura Health received approval to build a new, 25-bed community hospital that will be part of a \$51 million medical campus. The new hospital will serve Summit County and the surrounding area.

## **Colorado's Industrial Sectors**

### ***Agriculture***

Prices received by Colorado farmers in mid-January 2004 were higher for wheat and corn, steers and heifers and calves. The mid-January 2004 price of winter wheat rose 8.9% compared with mid-January 2003 and

the price of corn increased 3.6% during the same period. Steer and heifer prices increased 11.7% during this period and the price of calves rose 20.0%.

***"Prices received by Colorado farmers in mid-January 2004 were higher for wheat and corn, steers, heifers and calves."***

### ***Energy***

In 2003, Colorado coal production reached a record level of 36 million tons. Coal is the largest component of Colorado's mining industry and Colorado is the eighth-largest coal producer in the nation.

***"... Colorado is the eight-largest coal producer in the nation."***

### ***Manufacturing***

Colorado's manufacturing sector expanded in January 2004. According to the Front Range Purchasing Managers Index, Colorado's score rose in January 2004 to 50.1 compared with 45.6 in December 2003. A score above 50 indicates an increase in economic activity, while a score below 50 indicates a decline. January's increase reflects a rise in manufacturing production and new orders received compared with December 2003.

### ***Tourism***

Denver Zoo attendance fell 9%, to 1.39 visitors in 2003 from 1.53 million visitors in 2002. Annual memberships decreased 11.6% during the same period. The decline was attributed to a slow economy, construction at the zoo as it expands, and \$2.00 entrance fee increases. The first phase of the expansion, which includes a new entryway and an African wildlife reserve, will be completed in spring 2004.

***"... Denver International Airport remained the nation's fifth-busiest airport."***

For the third consecutive year, general and special event attendance at the Denver Botanic Gardens set a new record. In 2003, 549,681 people visited the gardens compared with 2002's previous record of 508,694. The continued increase in visitation is attributed to new garden openings throughout the year.

In 2003, Denver International Airport (DIA) remained the nation's fifth-busiest airport. In December 2003, a record 3.3 million passengers traveled through DIA pushing the 2003 total to 37.5 million passengers, a 5.2% increase compared with 2002. The busiest year at DIA was in 2000 when 37.8 million passengers used the airport. Additionally, in a separate report issued by J.D. Power and Associates, DIA ranked second in customer satisfaction in a survey of large airports worldwide. Frankfurt International Airport in Germany ranked first.

Frontier Airlines announced plans to introduce late-night service to New York's LaGuardia Airport in March 2004, the airliner's seventh late-night

destination from DIA. Frontier Airlines is DIA's second largest carrier, bested only by United Airlines.

***“. . . Denver International Airport ranked second in customer satisfaction in a survey of large airports worldwide.”***

Denver International Airport's 117 retail vendors reported record revenues of \$145.3 million in 2003. The amount equals \$7.76 per passenger, among the highest per passenger amounts within the nation's five-busiest airports. The 8.9% increase compared with 2002 is attributed to a 5.2% rise in passenger traffic in 2003.