



COLORADO CLOSE-UP

An Economic Newsletter
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THE NATIONAL ECONOMY

A long-awaited strengthening of the nation's labor market is signaling that the economic recovery is securely in place. Domestic output is increasing at an above average pace, employment is rising by more than enough to accommodate the natural increase in job-seekers, and manufacturing activity and capacity utilization are improving.

Inflation-adjusted gross domestic product (GDP) growth was 4.4% in first quarter 2004, a solid gain from the 4.1% growth posted in fourth quarter 2003. This pace is above the long-term potential of 3% to 3.5%, and thus should lead to rising capacity utilization rates and greater employment demand. Consumer spending growth was 3.9% — higher than fourth quarter 2003's 3.2% pace. Business equipment investment rose at the fastest pace since second quarter 2000, and investment in equipment and software combined increased 9.8%. However, investment in nonresidential structures declined 7.1%.

"During the eight months since employment bottomed out in August 2003, the nation has added 1.1 million jobs. . . ."

The pace of job creation has accelerated since December 2003. In December 2003 and January 2004, the number of jobs was essentially unchanged from the same month one year earlier. However, in February, March, and April 2004, the year-over-year change was 0.2%, 0.5%, and 0.8%, respectively. During the eight months since employment bottomed out in August 2003, the nation has added 1.1 million jobs with more than half of these positions created in March and April. Most of the new jobs are in business and professional services. However, even the manufacturing sector, which posted job losses for 42 consecutive months, began adding new positions in February 2004. Most of the manufacturing gains were in durable goods production, reflecting stronger business spending.

The national unemployment rate was 5.6% in April 2004 and it has remained between 5.6% and 5.7% since December 2003. However, despite strong job gains in March and April, the national labor market is still 1.6 million jobs lower than the peak reached in March 2001.

National Economic Statistics

	2004 Q1	2003 Q4	2003 Annual Average	2002 Annual Average
Inflation-Adjusted Annual GDP Growth	4.4%	4.1%	3.1%	2.2%
Consumer Spending	3.9%	3.2%	3.1%	3.4%
Nonresidential Fixed Investment	5.8%	10.9%	7.3%	6.5%
Structures	-7.1%	-1.3%	3.8%	3.0%
Equipment and Software	9.8%	14.9%	2.0%	3.0%
Residential Fixed Investment	3.8%	7.9%	3.8%	3.0%
Exports	4.9%	20.5%	2.0%	3.0%
Imports	5.9%	16.4%	4.2%	-1.2%
Federal Government	9.1%	0.7%	4.4%	-3.7%
State and Local Governments	-0.7%	-0.5%	3.0%	-7.2%
Productivity	3.5%	2.5%	4.4%	5.0%

	April 2004	April 2003	2003 Annual Average	2002 Annual Average
Inflation*	1.9%	2.7%	2.3%	1.6%
Nonfarm Employment Growth*	0.4%	-0.3%	-0.3%	-1.1%
Unemployment Rate	5.6%	6.0%	6.0%	5.8%
Housing Permit Growth**	13.6%	3.9%	8.1%	6.8%
Single-Family	15.9%	3.8%	9.6%	7.9%
Multi-Family	5.7%	4.2%	3.2%	3.5%
Growth in the Value of Nonresidential Construction**	-1.2%	-6.0%	-2.0%	-8.5%
Retail	-1.1%	-9.9%	-3.1%	-4.2%
Offices	3.1%	-21.0%	-14.4%	-32.7%
Factories	-4.3%	-30.8%	-16.6%	-42.8%
Retail Sales**	11.0%	3.1%	3.4%	3.8%

*Year-to-date.

**Year-to-date through March 2004.

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.

Productivity increased 3.5% in first quarter 2004, well above historical averages and ahead of the 2.5% growth posted in fourth quarter 2003. Manufacturing productivity advanced 3.1%, primarily because of a 5.9% increase in durable goods. Nondurable goods

manufacturing productivity rose a mere 0.1%. Meanwhile, unit labor costs in the nonfarm business sector rose 0.5%, the first increase since first quarter 2003. Unit labor costs are currently 1.3% lower than one year ago. Muted unit labor costs have been a key restraint on overall inflation over the past year.

The Conference Board consumer confidence index was 93.2 in May 2004, virtually unchanged compared with April 2004. Respondents' assessment of the present situation fell, but this was offset by rising expectations about the future. The current assessment of the employment situation weakened, but greater optimism was expressed for the future employment outlook. However, consumers are expressing pessimism regarding the outlook for their incomes. Meanwhile, rising energy prices, interest rates, inflation, as well as terrorism concerns dampen overall confidence.

The Institute for Supply Management (ISM) *manufacturing index* was 62.4 in April 2004, essentially unchanged from March. The ISM manufacturing index was above the important 50-point mark for the 10th consecutive month and above 60 for the sixth consecutive month. Values above 50 indicate expanding activity. Prior to November 2003, the index had not exceeded 60 since 1987. Manufacturing inventories are still declining, suggesting that manufacturing activity will remain robust in the months ahead.

“The ISM manufacturing index was above the important 50-point mark for the 10th consecutive month.”

The ISM *service-providing industry* index set a new record in April 2004, rising to 68.4 compared with 65.8 in March 2004. The survey indicates the national economic expansion is broadening as well as strengthening, as no industry reported a contraction in business activity. Finance and banking, transportation, and retail trade were among the leaders.

At the national level, March 2004 residential permits issued increased 13.6% compared with March 2003, led by a 15.9% surge in single family home permits. Permit activity remains near an all-time high, indicating a strong residential construction pipeline. The same economic factors that are raising mortgage interest rates will also increase household wealth and improve consumer confidence. However, demand for new housing in the coming months will likely diminish with rising interest rates as most consumers have already

satisfied near-term demand during the period of almost record low interest rates that is now coming to an end. Private nonresidential construction fell slightly in March, as an increase in office construction was more than offset by declines in retail and factory construction.

THE COLORADO ECONOMY

Colorado's economic indicators continue to point to a rebound. Employment gains continue to be positive and the unemployment rate is declining. Additionally, construction is showing healthy activity, and traffic through Denver International Airport remains strong.

“Colorado is home to eight Fortune 500 companies.”

In 2003, Colorado was home to eight companies on the Fortune 500 List, up from six companies on the 2002 list. The list is considered a barometer of the corporate weight a city or region holds. Qwest Communications, with \$14.9 billion in revenue, ranked 136th, the highest among Colorado companies.

Colorado Economic Statistics

	April 2004	April 2003	2003 Annual Average	2002 Annual Average
Nonfarm Employment Growth*	-0.7%	-1.3%	-1.5%	-1.9%
Unemployment Rate	5.1%	6.2%	5.8%	3.7%
Housing Permit Growth**	19.2%	-2.9%	-17.7%	-12.9%
Single-Family	19.6%	6.8%	-5.9%	-2.5%
Multi-Family	17.0%	-26.4%	-51.4%	-33.3%
Growth in the Value of Nonresidential Construction*	54.5%	-42.2%	-11.2%	-21.8%
Retail	-7.2%	-14.5%	-13.4%	-8.7%
Offices	-40.1%	-40.7%	-32.3%	-42.2%
Factories	-23.2%	-76.7%	-62.9%	-53.2%
Retail Trade Sales***	2.0%	2.0%	0.0%	-0.7%

*Year-to-date.

**Year-to-date through March 2004.

***Year-to-date through February 2004.

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.

Four Colorado counties — Douglas, Gilpin, El Paso, and Larimer — received an A+ rating in The State of the Rockies Report Card and Conference Project. The study by the Colorado College compared 280 counties in the Rocky Mountain Region — Idaho, Montana, Utah,

Wyoming, Arizona, Nevada, New Mexico, and Colorado — by looking at 15 different indices, including unemployment, poverty rates, and small business growth.

According to a report from the U.S. Bureau of Economic Analysis, in 2003, Colorado had the eighth highest personal income in the nation — up from ninth highest in 2002. Personal income includes earnings from work, investment interest earnings, and other income, but does not include capital gains. The fastest growing wages in Colorado were in the financial services sector with 9.8% growth, followed by natural resources with 7.2% growth, and education and health services with 6.1% growth.

Colorado Economic Indicators

Employment

Since the beginning of the year, Colorado employment news has been mostly positive. The April 2004 unemployment rate was 5.1% compared with 6.2% in April 2003. A net increase of 17,700 jobs — 0.7% — was reported in April 2004 compared with March 2004. This was the third fastest growth in the nation.

Recent announcements of new hiring in Colorado include:

- About 500 construction jobs were created when work began on the Poudre Valley Health System and regional West Medical Center. Upon completion in fall 2006, the facility will employ more than 1,000 people.
- The new Kohl's retail store in Greeley recently hired 187 employees for its April opening.
- Group Publishing Inc. will add 120 jobs as part of an expansion of its Loveland facility.
- Check printing company Deluxe Corp. will move 100 jobs from their Alabama plant to their Colorado Springs facility in an effort to consolidate operations.
- Kodak Colorado announced plans to add 60 new positions at its Windsor plant after winning a \$30 million digital imaging expansion project.

Recent announcements of layoffs in Colorado include:

- Telecommunications giant MCI will close its Denver call center and reduce staff at the Colorado Springs facility. The Denver closure will affect 950

employees. An undisclosed number of employees will be affected in Colorado Springs.

- Double B Foods announced plans to close its Pueblo operation, eliminating 111 jobs.
- Storage Technology Corp. will cut 70 to 80 jobs in Colorado, primarily at its Louisville site. At the end of 2003, the data storage maker employed 2,000 people in Colorado.
- Computer maker Gateway Inc. will eliminate 2,500 jobs, 40% of its retail workforce. The number of employees affected at the four Colorado stores was not disclosed.

Bankruptcies

The number of Coloradans filing for bankruptcy during the first quarter of 2004 continues to increase. Through March 22, 2004, 5,580 cases were filed, a 15% increase compared with the same period last year. In 2003, the bankruptcy court recorded 25,776 cases, up 21.3% compared with 21,260 cases recorded in 2002.

Foreclosures

Home foreclosures in the Denver area rose 67% during the first quarter of 2004. Through March 2004, public trustees recorded 3,217 foreclosures compared with 1,928 foreclosures recorded during the same period last year. The highest annual number of metro-area foreclosures — 17,122 — was recorded in 1988.

Population

According to the Bureau of the Census, Douglas County remains the fastest growing county in Colorado. Between 2002 and 2003, Douglas County grew 5.6%, adding nearly 12,000 residents. Between 2000 and 2003, Douglas County grew 27.1%, ranking third in the nation according to the same report. Statewide, population gains in 2003 were primarily in the suburban areas away from the foothills and along the I-25 corridor. Overall, Colorado population grew 1.1% in 2003.

Colorado Construction Activity

Residential Construction

The U.S. Bureau of the Census reported that the total number of housing permits issued through March 2004 rose 19.2% compared with the same period in 2003. Single-family home permits increased 19.6% while multi-family home permits grew 17.0%.

The median price of a previously owned single-family home increased 1.1%, to \$229,500 in April 2004 compared with April 2003. Meanwhile, the median price of a condominium increased 3.2% to \$157,900. On average, the year-to-date price of a single-family home was \$281,267 in April 2004, 4.8% higher than through April 2003. The average price of a condominium rose to \$182,486, a 2.8% increase compared with year-to-date April 2003. Meanwhile, the number of homes on the market in April 2004 was 3.3% higher compared with April 2003. However, the inventory of available homes has been decreasing since February 2004.

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Apartment vacancies in the Denver area dropped slightly during first quarter 2004, to 10.5% compared with 10.9% in fourth quarter 2003. Additionally, median monthly rents (not including rental discounts and concessions) increased 2.8%, to \$777 in first quarter 2004 compared with \$756 in fourth quarter 2003.

There have been no new residential construction project announcements over the past month.

Nonresidential Construction

F.W. Dodge reports that the total value of Colorado nonresidential building construction grew 54.5% in April 2004 compared with April 2003, primarily due to construction on hospital and health treatment centers. However, *retail* construction declined 7.2%, *office space* construction decreased 40.1%, and the value of *factory* construction dropped 23.2%.

According to a report by Frederick Ross Company, Denver office vacancies increased slightly, to 22.9% during first quarter 2004 compared with 22.7% in 2003. Vacancies in the Central Business District, Denver's second largest submarket, declined slightly to 18.8% from 18.9%, reflecting positive absorption of 26,000 square feet. Meanwhile, Denver's largest submarket, Southeast Suburban, saw negative absorption of 85,000 square feet, leading to an increased vacancy rate of 26.9% compared with 26.6% in 2003.

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

- Home Depot will build a second store in Fort Collins. Construction on the 121,619-square-foot store will be completed by spring 2005.
- Group Publishing Inc. announced plans to build a three-story, 47,000-square-foot building at its Loveland facility. The \$6 million expansion will be completed in October 2005.

Colorado's Industrial Sectors

Advanced Technology

Three Colorado advanced technology companies — Ciber, First Data, and Qwest Communications International — were included in Business 2.0 magazine's 2004 list of fastest growing technology companies. Out of the 100 companies listed, Qwest ranked 50, Ciber ranked 60, and First Data ranked 97.

Agriculture

Prices received by Colorado farmers in mid-April 2004 were higher for wheat, corn, steers, heifers, and calves. The mid-April 2004 price of winter wheat rose 17.3% compared with mid-April 2003 and the price of corn increased 15.9% during the same period. Steer and heifer prices increased 18.3% during this period and the price of calves rose 21.4%.

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Energy

In 2004, Colorado has approximately 26,500 active wells — predominantly natural gas — making Colorado the sixth leading producer in the country. According to the Community Office for Resource Efficiency, Colorado and Wyoming combined satisfy seven percent of national demand for natural gas, and Colorado is one of only seven states in the nation that exports more natural gas than it consumes.

Two Texas-based companies will build and expand natural gas pipelines through Colorado. El Paso Corp.

will build the Cheyenne Plains gas pipeline, which will run through Colorado to Kansas, and Kinder Morgan Inc. will expand the TransColorado pipeline that runs from Rio Blanco County to New Mexico. The 380-mile Cheyenne Plains pipeline will carry 730 million cubic feet of gas per day and capacity on the TransColorado pipeline will be increased to 425 million cubic feet per day from the current capacity of 300 million cubic feet per day.

“Colorado is the fastest-growing coal-producing state in the nation.”

Colorado is the fastest-growing coal-producing state in the nation. Through March 20, 2004, coal production increased 16.9% compared with an increase of 11% in Texas and 5.5% in Wyoming. Colorado is the sixth largest producer among coal producing states. In 2003, Colorado ranked seventh and produced a record 35.9 million tons of coal.

Manufacturing

According to the Front Range Purchasing Managers Index, Colorado’s manufacturing sector expanded in April 2004, scoring 57.7. A score above 50 indicates an increase in economic activity, while a score below 50 indicates a decline. The recent growth in the manufacturing industry has been fueled by a surge in foreign orders.

Tourism

Passenger traffic at Denver International Airport (DIA) increased 20.2% in March 2004, setting a monthly record for the fourth month in a row. Year-to-date, passenger traffic is up 15% in first quarter 2004 compared with the same period last year. The busiest year at DIA was in 2000 when 37.8 million passengers used the airport.

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DIA was awarded three of six new flights into Reagan National Airport, the closest airport to Washington, D.C. This is the first expansion in four years at Reagan National Airport.

According to a report commissioned by Colorado Ski Country USA, a trade group for ski resorts, the state’s ski industry accounted for 30,890 jobs — 14% of total tourism employment — and generated \$2 billion to \$2.5 billion in revenues during the 2001-2002 ski season. Of the total revenue, resorts accounted for \$935 million, while lodging, restaurants, retail stores, and other support businesses accounted for approximately \$1.7 billion. From the 2000-2001 ski season through the 2002-2003 season, ski resorts spent \$169 million on upgrades, expansions, and capital expenditures.