



COLORADO CLOSE-UP

An Economic Newsletter
Bill Owens, Governor

Henry Sobanet
 Director
Janet Rogers
 Senior Economist
Maria Coe
 Economist

Office of State Planning and Budgeting

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THE NATIONAL ECONOMY

Recent indicators showed the national economic recovery gaining footing. Most measures showed stronger economic activity at the end of the third quarter compared with the slowdown witnessed during the second quarter. Consumer spending accelerated and business investment was strong. Nonetheless, consumer confidence has faltered.

Inflation-adjusted gross domestic product (GDP) growth was 3.9% in third quarter 2004, up from 3.3% growth in second quarter 2004. The third quarter pace increased primarily because consumer spending increased 5.1% compared with 1.6% growth posted during second quarter 2004. Consumer spending increased 17.2% on durable goods and 4.8% on nondurable goods, offsetting a more moderate 2.9% increase in spending on services.

“During third quarter 2004, business investment rose a solid 12.9% . . .”

During third quarter 2004, business investment rose a solid 12.9%, more than three times the gain posted in first quarter 2004. Business spending on structures fell 0.3%, but investment in equipment and software increased 17.2%. Meanwhile, residential fixed investments increased 1.7%, and government spending increased 1.2%. The trade deficit was slightly higher than in second quarter 2004.

Job gains made a stellar comeback during October 2004, registering their strongest performance in seven months. However, November job gains were disappointing. In November, payrolls increased by only 112,000, a 63% decline compared with the 303,000 jobs added in October. Nonetheless, employment increased 1.6% in November 2004 compared with November 2003 and year-to-date through November 2004, national employment has increased 1.0%, a gain of nearly

1.3 million jobs. Meanwhile, the November 2004 unemployment rate was 5.4%, down 0.1 percentage points from the October 2004 rate.

National Economic Statistics

	Third Quarter 2004	Second Quarter 2004	2003 Annual Average	2002 Annual Average
Inflation-Adjusted Annual GDP Growth ¹	3.9%	3.3%	3.0%	1.9%
Consumer Spending	5.1%	1.6%	3.3%	3.1%
Nonresidential Fixed Investment	12.9%	12.5%	3.3%	-8.9%
Structures	-0.3%	6.9%	-5.6%	-17.8%
Equipment and Software	17.2%	14.2%	6.4%	-5.5%
Residential Fixed Investment	1.7%	16.5%	8.8%	4.8%
Exports	6.3%	7.3%	1.9%	-2.3%
Imports	6.0%	12.6%	4.4%	3.4%
Government	1.2%	2.2%	2.8%	4.4%
Federal Government	4.7%	2.7%	6.6%	7.5%
State and Local Governments	-0.8%	1.9%	0.7%	2.8%
Productivity ¹	1.9%	3.9%	4.4%	4.4%
	Nov. 2004	Nov. 2003	2003 Annual Average	2002 Annual Average
Inflation ³	2.5%	2.4%	2.3%	1.6%
Nonfarm Employment Growth ²	1.0%	-0.3%	-0.3%	-1.1%
Unemployment Rate	5.4%	5.9%	6.0%	5.8%
Housing Permit Growth ³	8.0%	8.0%	8.1%	6.8%
Single-Family	8.9%	9.2%	9.6%	7.9%
Multi-Family	5.0%	4.2%	3.2%	3.5%
Growth in the Value of Nonresidential Construction ³	3.3%	-1.7%	-2.2%	-6.7%
Retail	6.3%	-7.9%	-7.2%	-18.9%
Offices	6.7%	-16.1%	-14.4%	-29.3%
Factories	-0.7%	-14.9%	-15.8%	-43.8%
Retail Sales ⁴	7.2%	4.5%	4.9%	3.3%

¹Annualized growth compared with preceding quarter.

²Year-to-date.

³Year-to-date through October 2004.

⁴Year-to-date through September 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.

In October, the Conference Board consumer confidence index fell for the third straight month to 92.8, its lowest level since March 2004. Recent jumps in energy prices, slow employment growth, and a tepid stock market appear to have had a significant negative impact on the index. Overall, consumers' assessment of the present situation is subdued as are their expectations for the future.

The Institute for Supply Management (ISM) *manufacturing index* was 56.8 in October 2004, down 1.7 points compared with September. The ISM manufacturing index has been above the important 50-point mark that indicates expanding activity for 19 consecutive months. Additionally, the ISM *service-providing industry* index was 59.8 in October 2004, up from 56.7 in September and also indicative of expanding activity. Out of 17 service industries included in the survey, only one — the “other services” sector — reported a contraction in business activity.

“The ISM manufacturing index has been above the important 50-point mark that indicates expanding activity for 19 consecutive months.”

THE COLORADO ECONOMY

There are growing signs that Colorado economic activity is gaining momentum and the state is on a solid growth path. Reasons for optimism include an expanding labor market, increases in personal income, healthy construction activity, and rising retail sales.

“. . . retail sales are rebounding.”

According to the Colorado Department of Revenue, retail sales are rebounding. Through September 2004, retail sales totaled \$45.2 billion, a 4.6% increase compared with \$43.2 billion collected through September 2003. During the same period, net retail sales tax revenues also increased 4.6%.

Colorado Economic Statistics

	October 2004	October 2003	2003 Annual Average	2002 Annual Average
Nonfarm Employment Growth ¹	0.4%	-1.5%	-1.5%	-1.9%
Unemployment Rate	5.0%	5.9%	6.1%	5.8%
Housing Permit Growth ¹	15.5%	-16.0%	-17.3%	-13.0%
Single-Family	14.8%	-5.7%	-3.3%	-4.0%
Multi-Family	19.1%	-47.8%	-55.5%	-30.7%
Growth in the Value of Nonresidential Construction ¹	16.1%	-8.2%	-11.2%	-21.8%
Retail	-0.9%	-11.0%	-13.4%	-8.7%
Offices	-5.0%	-24.7%	-32.3%	-42.2%
Factories	129.3%	-49.7%	-62.9%	-53.2%
Retail Trade Sales ²	4.6%	0.7%	0.0%	-0.7%

¹Year-to-date.

²Year-to-date through September 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.

Colorado Economic Indicators

Employment

The October 2004 Colorado unemployment rate dropped to 5.0%, down 0.9 percentage points from the 5.9% rate posted in the state in October 2003 and 0.5 percentage points below the October 2004 national unemployment rate. Meanwhile, Colorado nonfarm payrolls increased 0.4% year-to-date through October 2004 compared with year-to-date October 2003. Furthermore, beginning in April 2004, state employment has posted year-over-year gains, the first such increases since July 2001. Key industries registering job gains are the government, retail trade, educational services, and health services sectors.

According to a report released by the Colorado Office of Economic Development, the state’s biosciences industry employs 14,300 people. Of the 270 Colorado companies comprising this industry, half specialize in biomedical devices. The other firms work in medicinal research, fertilizers, pesticides, genetically modified crops, and other biotechnology products. Bio-industry employment grew one percent between 2002 and 2003 and wages in that field increased 11% to an average \$63,800.

Recent announcements of new hiring in Colorado include:

- Upon completion in the summer of 2005, the Northern Colorado Rehabilitation Hospital will add 150 jobs in Johnstown.
- North America’s largest printing company, RR Donnelley & Sons Co., will add 50 high-wage jobs as part of an expansion in Greeley.
- Progressive Corp. will add 40 software developers, programmers, and other information technology workers to its existing staff in Colorado Springs upon completion of its new 150,000-square-foot building in 2006.

Recent announcements of layoffs in Colorado include:

- Cendant Corp. announced plans to move its CheapTickets.com division from the Denver Technology Center to Chicago, affecting 300 employees through cuts and job relocations.

- Hamilton Sundstrand will close its Grand Junction plant by early 2006 when it transfers operations to Singapore. The closure will affect 240 employees.
- Advanced Energy Industries Inc., based in Fort Collins, will lay off 200 employees through June 2005. The layoffs affect approximately 23% of the semiconductor equipment maker's workforce.
- Agilent Technologies Inc. cut 100 jobs at its Fort Collins semiconductor plant.
- Hewlett-Packard Co. laid off 45 employees at its Fort Collins facilities.

Bankruptcies and Foreclosures

The number of Coloradans filing for bankruptcy through the third quarter of 2004 increased compared with third quarter 2003. As of September 2004, 21,257 cases were filed, a 10.5% 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. Meanwhile, home foreclosures in the six-county Denver area rose 36% during third quarter 2004. Through September 2004, public trustees recorded 8,773 foreclosures compared with 6,438 foreclosures recorded during the same period last year. The highest annual number of metro-area foreclosures — 17,122 — was recorded in 1988.

Gasoline

A new natural gas pipeline is under construction in Colorado. The Cheyenne Plains pipeline will move natural gas from production fields in Colorado and Wyoming to a Kansas hub for distribution. The \$393 million pipeline will move 560 million cubic feet per day with the potential to move up to 1.7 billion cubic feet per day.

According to AAA, the statewide average price of regular unleaded gasoline rose to \$1.97 per gallon in mid-October 2004, the highest it has been since the record \$2.03 per gallon set in May 2004. The price increases at gasoline pumps across the nation are a reflection of crude oil prices, which rose to over \$50 per barrel in recent weeks. The increase was due to political uncertainty in the Middle East and Nigeria, and production losses in the Gulf of Mexico due to Hurricane Ivan.

Colorado Construction Activity

Residential Construction

The U.S. Bureau of the Census reported that the total number of Colorado housing permits issued through October 2004 rose 15.5% compared with the same period in 2003. Single-family home permits increased 14.8% while multi-family home permits grew 19.1%.

“... the year-to-date price of a single-family home was \$290,171 in October 2004, 4.6% higher than through October 2003.”

On average, the year-to-date price of a single-family home was \$290,171 in October 2004, 4.6% higher than through October 2003. The average price of a condominium rose to \$181,364, a 3.1% increase compared with year-to-date October 2003. Meanwhile, the number of homes on the market in October 2004 fell 3.5% compared with October 2003.

Several noteworthy new residential construction projects were recently announced:

- Intrawest, the operator of Winter Park, released plans for a \$70 million, 150-acre redevelopment of the ski resort's base. Included in the 15-year project are 1,500 residential units, 42,000 square feet of commercial space, and consolidated parking lots. The residential units will range in size from 450 to 1,500 square feet. Construction on the first phase of the new units will be completed in 2008.
- In Pueblo, work is nearing completion on The Villas at ParkWest. The 148-unit apartment complex targets middle-income households with rents ranging from \$600 to \$1,100 per month for units with one to three bedrooms.
- Plans were unveiled for 23 luxury townhomes in the Riverfront development in Denver. Ranging in size from 1,800 to 2,400 square feet, the three story townhomes are priced from \$615,000 to \$1.1 million.
- Construction began on a 27-unit, \$14 million project in Downtown Denver. The Diamond Lofts will offer units ranging from 800 to 2,200 square feet and priced from \$200,000 to \$600,000.

Nonresidential Construction

F.W. Dodge reports that the total value of Colorado nonresidential building construction grew 16.1% year-to-date through October 2004 compared with year-to-date October 2003. However, *retail* construction declined 0.9% and *office* construction decreased 5.0%. Meanwhile, the value of *factory* construction rose 129.3% as a result of activity in Weld County on the Owens-Illinois bottling plant and Eastman Kodak's thermal media and inkjet plant.

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

- Rose Medical Center is working on several construction projects at its Denver facilities. The hospital broke ground on a 60,000-square-foot, \$40 million patient care tower devoted to women's health, a \$13 million parking structure, and a 129,688-square-foot, \$15 million medical office building.
- In Lone Tree, construction began on West Village, the first phase of the 3,500-acre RidgeGate development. A 175,000-square-foot SuperTarget and 25,000-square-foot multi-tenant building will be completed by October 2005 and the first homes will be finished in spring 2005. Upon completion in 50 years, the project will include 23 million square feet of retail and commercial space and 12,000 homes.
- In Thornton, construction began on the first phase of Larkridge, a "pedestrian-friendly" retail center. Tenants include Office Max, Good Times Burgers, Sears Grand, Circuit City, and The Home Depot. The first phase will open in October 2005.
- In Downtown Denver, construction began on the 11-story new home of the Rocky Mountain News, The Denver Post, the Denver Newspaper Agency, and MediaNews Group. The 318,400-square-foot, \$86 million building will open in two years.
- Construction began on the \$10 million, 40-bed Northern Colorado Rehabilitation Hospital in Johnstown. The 48,000-square-foot building will open in the summer of 2005.
- In Mesa County, construction began on the Long Family Memorial Park. Upon completion, the \$5 million, 40-acre park will include, among other

amenities, a softball diamond, skate park, six large multi-purpose fields, basketball courts, and a built-in amphitheater.

Colorado's Industrial Sectors

Agriculture

Prices received by Colorado farmers in mid-October 2004 were higher for wheat, corn, steers, heifers, and calves. The mid-October 2004 price of winter wheat rose 3.3% compared with mid-October 2003 while the price of corn increased 8.8% during the same period. Steer and heifer prices increased 9.9% during this period and the price of calves rose 13.0%.

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

As a result of the prolonged drought and other weather-related conditions, Colorado's 2004 winter wheat production is the second smallest farmers have produced since 1969. Estimated at 47.3 million bushels, production dropped nearly 40% compared with the 10-year average crop of 78.6 million bushels. The Colorado Association of Wheat Growers estimates the loss to producers at \$67 million.

Manufacturing

According to the Front Range Purchasing Managers Index, Colorado's manufacturing sector expanded for the eighth consecutive month in October 2004. The Index has expanded in ten out of the most recent 12 months. Growth in the manufacturing industry has been fueled by a surge in new orders and imports.

Tourism

In September 2004, the Great Sand Dunes in the San Luis Valley officially became Colorado's fourth national park. Located near the Sangre de Cristo Mountains, the park consists of more than 30 square miles of North America's tallest sand dunes. Colorado's three other national parks are Rocky Mountain, Mesa Verde, and Black Canyon of the Gunnison.

According to Ski Magazine, Colorado has 11 of the top 20 ski resorts in North America. In the magazine's annual ranking, Vail placed first for the third year in a

row, a position it has now occupied 13 out of 17 years. In addition to Vail, Colorado resorts dominated the top ten rankings with Snowmass ranked third, Beaver Creek fourth, Breckenridge sixth, Aspen seventh, and Steamboat tenth.

***“Through September 2004,
passenger traffic is up 15%.”***

For the first six months of 2004, Denver International Airport (DIA) was the nation’s fifth-busiest airport. During the same period last year, DIA ranked sixth. Through September 2004, passenger traffic is up 15% compared with year-to-date September 2003. Increases in passenger traffic are attributed to low fares, a stronger U.S. economy, and increased flights by Frontier Airlines. Lufthansa Airlines announced plans to offer service on its Airbus A340-600, the world’s

longest jetliner, from Denver to Frankfurt, Germany beginning in December 2004. Denver is one of the first U.S. markets in which the new plane is being deployed.

Venture Capital

According to a report from Ernst and Young, venture capital investment in Colorado is rebounding. During third quarter 2004, 12 companies attracted \$95 million in venture funding, a 23% increase compared with \$77 million raised in third quarter 2003. Year-to-date, 30 Colorado companies have raised \$272 million in venture capital, a 9% increase compared with \$250 million raised by 33 companies during the same period one year ago. Longmont-based Copan Systems, a data-storage company, received the largest amount of funding by a Colorado company in the third quarter, \$25 million.