



COLORADO CLOSE-UP

An Economic Newsletter
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THE NATIONAL ECONOMY

Recent economic indicators reveal that the national economic recovery continues to move forward. Domestic output is increasing at an above average pace and employment is rising to accommodate the natural increase in job seekers. Furthermore, the value of nonresidential construction and housing permit growth continue to post positive gains.

“... inflation-adjusted gross domestic product (GDP) grew 3.8% over the previous quarter...”

First quarter inflation-adjusted gross domestic product (GDP) grew 3.8% over the previous quarter as personal consumption expenditures, exports, and residential fixed investments increased. Additionally, corporate profits are showing improvement in response to the weaker dollar, increased inflation, and rising interest rates. Overall, business investment rose 4.1%—investment in equipment and software increased 6.1%, while investment in nonresidential structures declined 2.4%. Meanwhile, consumer spending growth was 3.6%—lower than fourth quarter 2004’s 4.2% pace—as a result of rising energy prices and growing household debt.

National employment increased in June 2005, rising 1.7% year-to-date compared with 0.7% through June 2004. Moreover, the unemployment rate in June decreased to 5.0% compared with 5.6% in June 2004.

In June 2005, the Conference Board consumer confidence index rose to 105.8 compared with 103.1 in May 2005. June’s three-year high reflects an improvement in expectations toward a recovering job market, improving business conditions, and steady consumer spending. Meanwhile, rising energy prices, interest rates, and inflation concerns continue to dampen overall confidence.

The Institute for Supply Management (ISM) *manufacturing index* was 53.8 in June 2005, up 2.4 points compared with May 2005 suggesting that a weaker U.S. dollar is having only a moderate effect on manufacturing activity. An increase in the new orders index was responsible for most of the improvement in the overall index. The ISM manufacturing index has been at or above the important 50-point mark that indicates expanding activity for over two years now. Meanwhile, the ISM *non-manufacturing index* increased to 62.2 in June 2005 compared with 58.5 in May 2005 as a result of expanding business activity.

National Economic Statistics

	First Quarter 2005	Fourth Quarter 2004	2004 Annual Average	2003 Annual Average
Inflation-Adjusted Annual GDP Growth ¹	3.8%	3.8%	4.4%	3.0%
Consumer Spending	3.6%	4.2%	3.8%	3.3%
Nonresidential Fixed Investment	4.1%	14.5%	10.6%	3.3%
Structures	-2.4%	2.1%	1.4%	-5.6%
Equipment and Software	6.1%	18.4%	13.6%	6.4%
Residential Fixed Investment	11.5%	3.4%	9.7%	8.8%
Exports	8.9%	3.2%	8.6%	1.9%
Imports	9.6%	11.4%	9.9%	4.4%
Government	0.2%	0.9%	1.9%	2.8%
Federal Government	0.6%	1.2%	4.7%	6.6%
State and Local Governments	-0.1%	0.6%	0.4%	0.7%
Productivity	2.1%	1.3%	4.0%	4.4%
	May 2005	May 2004	2004 Annual Average	2003 Annual Average
Inflation ²	3.1%	2.1%	2.7%	2.3%
Nonfarm Employment Growth ³	1.7%	0.7%	1.1%	-0.3%
Unemployment Rate ³	5.0%	5.6%	5.5%	6.0%
Housing Permit Growth ²	5.1%	10.9%	7.1%	8.1%
Single-Family	4.9%	12.7%	7.6%	9.6%
Multi-Family	5.8%	4.6%	5.5%	3.2%
Growth in the Value of Nonresidential Construction ²	7.1%	5.7%	7.3%	-1.3%
Retail	9.1%	5.2%	8.4%	-6.6%
Offices	4.0%	12.3%	8.9%	-13.8%
Factories	28.7%	55.7%	65.2%	-13.2%
Retail Sales ⁴	6.6%	4.2%	3.2%	4.9%

¹Annualized growth compared with preceding quarter.

²Year-to-date.

³Year-to-date through June 2005.

⁴Year-to-date through April 2005.

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 U.S. Department of Commerce reported residential home permits issued year-to-date through May 2005 rose 5.1% compared with the same period in 2004. Single-family home permits issued rose 4.9% and multi-family home permits issued rose 5.8%. Furthermore, the year-to-date value of nonresidential building construction rose 7.1%. The value of *retail* construction rose 9.1%, *office* construction rose 4.0%, and *factory* construction rose 28.7%.

“... residential home permits issued year-to-date through May 2005 rose 5.1% compared with the same period in 2004.”

THE COLORADO ECONOMY

Colorado Economic Statistics

	May 2005	May 2004	2004 Annual Average	2003 Annual Average
Nonfarm Employment Growth ¹	2.4%	0.5%	1.3%	-1.4%
Unemployment Rate	5.3%	6.0%	5.9%	6.4%
Housing Permit Growth ¹	0.1%	21.9%	15.2%	-17.3%
Single-Family	3.4%	21.8%	12.8%	-3.3%
Multi-Family	-19.1%	22.1%	29.5%	-55.5%
Growth in the Value of Nonresidential Construction ¹	-8.4%	31.6%	26.3%	-7.7%
Retail	2.3%	9.0%	5.5%	-10.0%
Offices	63.2%	-35.2%	21.1%	-28.2%
Factories	-91.0%	151.3%	144.2%	-53.0%
Retail Trade Sales ²	6.4%	4.7%	6.2%	-0.7%

¹Year-to-date.

²Year-to-date through April 2005.

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 continues to show signs of expansion. Since March 2004, payrolls have been expanding and the unemployment rate is improving. Additionally, residential construction is demonstrating healthy activity and traffic through Denver International Airport remains strong.

“Colorado's economy continues to show signs of expansion.”

The Denver Manufacturing Business Conditions Purchasing Managers Index decreased slightly to 54.7 in June 2005 from 55.3 in May 2005, indicating the majority of respondents reported a decline in

conditions. Meanwhile, the index for manufacturing prices increased in all sectors except raw materials and computers, which showed a decline and no change, respectively. Respondents have reported positive trends for the past seven months.

Colorado Economic Indicators

Employment

Year-to-date May 2005, Colorado employment climbed 2.4%, the eighth fastest growth in the nation. The employment increase represents an additional 44,500 positions and brings the state's total payroll to over 2.2 million. Since March 2005, the state has consistently recorded payrolls of greater than 2.2 million — employment numbers the state has not experienced since December 2001. Meanwhile, the unemployment rate remained unchanged at 5.3% compared with April 2005. The static unemployment rate is a result of an increasing number of workers re-entering the marketplace to find employment.

Recent announcements of new hiring in Colorado include:

- United Airlines' flight center located near former Stapleton International Airport announced plans to add 100 engineers, technicians, and maintenance workers.
- In July 2006, Ballyneal golf and hunting club will open an 18-hole course in Holyoke, located 175 miles northeast of downtown Denver. The \$3 million 8,000-acre facility will create 75 new jobs.
- Henderson Molybdenum Mine near Empire, Colorado will add 40 mechanic, electrician, and equipment operator positions. The mine currently employs 500 people.

Bankruptcies and Foreclosures

The number of Coloradoans filing for bankruptcy during second quarter 2005 increased compared with second quarter 2004. As of June 2005, public trustees recorded 9,032 cases, a 17.4% increase compared with the same period last year. Meanwhile, home foreclosures in six of the seven metro counties rose 15.4% in second quarter 2005 compared with the same period last year. The six counties — Adams, Arapahoe, Broomfield, Boulder, Denver, and Jefferson — have a total of 3,090 foreclosures, compared with 2,677 in

June 2004. Both Adams and Jefferson counties display the largest foreclosure climbs, increasing 34.6% and 32.0%, respectively. The highest annual number of metro-area foreclosures — 17,122 — was recorded in 1988.

Energy

The East Cherry Creek Valley Water and Sanitation District Northern Pipeline is nearing completion. The \$130 million Northern Water Project, H2'06, will provide renewable water to the southern and eastern portions of the metro area, which depend on nonrenewable water sources. The 28-mile Northern Pipeline is scheduled to be completed by 2006.

The 102-mile Raton Basin natural gas pipeline is under construction in south-central Colorado. The \$61 million expansion will move an additional 104,600 million cubic feet per day from production fields. The project is scheduled to be completed by October 2005.

Colorado ranked third among 38 states receiving royalties from drilling and mining, following New Mexico and Wyoming. Both Colorado schools and local governments are among the entities receiving more than \$100 million from the royalties. During first quarter, Colorado received \$42 million, an increase of \$7.4 million compared with the same period last year. The record level royalties are a result of high gas prices and increased demand.

According to the Colorado Oil and Gas Conservation Commission, in May 2005 Colorado produced 64,000 barrels of oil per day, a 4% increase compared with the same period last year. The report also states that Colorado natural gas production is 3.1 billion cubic feet per day, a 5% increase compared with 2004. Currently, producers in the region are receiving \$6.53 per thousand cubic feet of gas compared with \$5.16 per thousand cubic feet in 2004. The higher profitability of natural gas in the region has led to acceleration in gas drilling and elevated prices for Colorado consumers.

The Bureau of Land Management announced it will accept proposals for 160-acre research projects to extract oil from shale formations in western Colorado, Wyoming, and the Utah region. According to U.S. Geological Society estimates, approximately one trillion barrels of oil are currently locked in shale formations. Common products made from shale oil include fuel, kerosene, ammonium sulfate, and paraffin.

Population

According to the U.S. Bureau of the Census, seven of the fastest-growing Colorado cities are in Weld County. Firestone, Frederick, Severance, and Milliken — all farm and mining towns within Weld County — have grown by double digits since the 2000 Census. Between 2000 and 2004, Weld County grew 21.2%, adding nearly 38,400 residents. Overall, between 2003 and 2004, Colorado population grew 3.5% with population gains primarily in suburban areas.

Colorado Construction Activity

Residential Construction

The U.S. Bureau of the Census reported that the total number of Colorado housing permits issued through May 2005 was flat compared with May 2004. Single-family home permits increased 3.4% while multi-family home permits decreased 19.1%.

“ . . . the total number of Colorado housing permits issued through May 2005 was flat compared with May 2004.”

On average, the year-to-date price of a single-family home in metro Denver was \$276,968 in June 2005, 3.3% lower than through June 2004. The average price of a condominium rose to \$189,170, a 4.1% increase compared with year-to-date June 2004. Meanwhile, the number of homes on the market in June 2005 fell 7.9% compared with June 2004.

Several noteworthy new residential construction projects were recently announced:

- Vail Resorts and the Ritz-Carlton Hotel Company will build a 108-room, 195,000-square-foot luxury condominium development in Lionshead Village. The units will begin selling in late 2005 and early 2006. The project will also include a four-person chairlift.
- Littleton unveiled plans for an \$18 million complex. The Littleton Station will include twelve town homes ranging between 2,000 and 2,200 square feet, 23 loft units ranging between 1,500 and 1,800 square feet, and 10 office condominiums located on the ground floor ranging between 1,000 and 1,500 square feet.

Nonresidential Construction

F.W. Dodge reports that the value of Colorado nonresidential building construction fell 13.0% in May 2005 compared with year-to-date May 2004. The value of *factory* construction declined 5.0%, *retail* construction decreased by 7.0%, and *other* construction – amusement, education, and public buildings – fell by 18.4%. Meanwhile, the value of *office space* construction increased by 28.3%.

Office vacancy rates remain unchanged from the previous quarter in the Denver area. In first quarter 2005, CB Richard Ellis Company reported a 17.1% office vacancy rate in the metropolitan area, a 0.1 percentage point drop from first quarter 2004. The industrial market in the Denver area saw a modest improvement, with vacancy rates declining to 8.5% in first quarter 2005 compared with 8.6% in first quarter 2004. Furthermore, according to Cushman & Wakefield Company, rental rates for the office market declined nearly 0.6 percentage points in first quarter 2005 compared with fourth quarter 2004.

Nonresidential construction projects announced over the past month include:

- Avon unveiled plans for a \$300 million luxury hotel and spa. The complex will include a 200-room hotel, 130 condominiums, and 100 fractional-ownership residences in addition to a retail plaza. The hotel will be built near the Beaver Creek ski resort.
- In early 2007, St. Mary's Hospital will begin a \$200 million expansion in Denver. The 350,000-square-foot building will be completed by 2010.
- Westcor Development Partners recently broke ground on the Twenty Ninth Street development, previously Boulder's Crossroads Mall. The \$130 million, 62-acre plan will generate \$4.5 million in sales tax revenue by 2007 and is scheduled to be completed by Fall 2006.
- Wal-Mart will build a 209,000-square-foot Supercenter in Westminster. The new store will be completed in early 2007.
- Crested Butte Mountain Resort is undergoing a \$57.3 million expansion. The first phase will be completed during the 2006-2007 ski season and will include 93 resort condominiums, a spa and fitness center, and retail and restaurant amenities.

- An eight-story condominium project will be built in Cherry Creek North. The \$20 million Grant Park development will include 112 units that will cost between \$180,000 and \$300,000.
- At the Medical Center of Aurora, a \$10 million office building will be built. The 68,000-square-foot building will open in early 2006.
- The University of Denver's Franklin L. Burn School of Real Estate announced plans to build a three-story, 30,000-square-foot building. The \$9 million project will house four centers focusing on research, industry, and international and residential real estate.

Colorado's Industrial Sectors

Advanced Technology

According to the 2005 Intel Corp. survey of wireless access in the nation's 100 largest metro areas, Colorado ranks seventh, compared with 10th in 2004. Denver currently has 318 wireless Internet areas, an increase of 141 from a year ago. These areas include a number of privately owned coffee shops, college campuses, Starbucks, and the Colorado Convention Center. Seattle, San Francisco, and Austin, Texas were the top three cities offering wireless hot spots.

Agriculture

Prices received by Colorado farmers in mid-June 2005 were lower for wheat and corn, and higher for steers, heifers, and calves. The mid-June price of winter wheat fell 10.7% compared with mid-June 2004 while the price of corn fell 29.5% during the same period. Steer and heifer prices increased 10.9% during this period and the price of calves rose 3.8%.

"Prices received by Colorado farmers in mid-June 2005 . . . were higher for steers, heifers, and calves."

Manufacturing

In June 2005, Colorado's manufacturing sector saw slower growth. According to the Front Range Purchasing Managers Index, Colorado's score was 54.7 compared with 55.3 in May 2005. A score above 50 indicates an increase in economic activity, while a score below 50 indicates a decline. June's score

reflects a decrease in computer prices compared with May 2005. Meanwhile, new orders received increased in June 2005 compared with the May 2005 levels.

Tourism

The state's tourism industry is accelerating. According to the Rocky Mountain Lodging Report, average occupancy and hotel rates are increasing. In May 2005, hotels posted a 56.1% occupancy rate compared with 53.9% in May 2004 and the average room rate rose to \$91.57 from \$84.46 during the same period. The increase in both the average room rate and hotel occupancy rate is attributed to ongoing demand from summer vacation travelers.

Since the November 2004 opening of the four-lane Central City Parkway connecting Central City with Interstate 70, the town's gaming revenues have increased nearly 44%. Through April 2005, Central City reported a 64% increase in sales tax revenues compared with the same period in 2004. Moreover, the reopening of two casinos in Central City is attributed to the new highway. In May 2005, Blackhawk reported \$46.6 million in gross revenues and Cripple Creek reported \$12.9 million — a slight decline for both gaming towns compared with May 2004.

Through May 2005, year-to-date passenger traffic at Denver International Airport (DIA) increased 4.1% compared with the same period last year. The increase in the number of passengers is a new record for the month of May at DIA. Year-to-date, 16.9 million passengers have traveled through DIA, a 1.4% increase compared with 16.7 million passengers through May 2004.

“Through May 2005, year-to-date passenger traffic at Denver International Airport (DIA) increased 4.1% compared with the same period last year.”

During the 2004-2005 ski season, the number of visits to Colorado ski resorts climbed 5.0%. According to Colorado Ski Country USA, the 11.8 million Colorado ski visits was an increase of more than 550,000 compared with the 2003-2004 ski season. Colorado saw an influx of European skiers due to the weakening of the dollar and an increase in international advertising. Additionally, the state experienced a 6.0% gain in skier visits from other states. All total, destination ski resorts—Winter Park, Copper Mountain, and Vail—reported an increase of 350,000 skier visits compared with last year.