



COLORADO CLOSE-UP

An Economic Newsletter
 Bill Owens, Governor

Henry Sobanet
 Director
 Maria Coe
 Senior Economist
 Lisa Strunk
 Economist

Office of State Planning and Budgeting

Spring 2005

THE NATIONAL ECONOMY

The national economic recovery continues to gain momentum. Although the labor market remains volatile, the strong housing market, continued consumer spending, and a more stable trade balance provided underlying strength during the first half of the year. Indeed, first quarter gross domestic product was revised upwards primarily as the result of a downward revision to imports. While personal consumption is currently leading the economy, business investment continues to gain ground and is expected to lead growth in the near term.

Inflation-adjusted gross domestic product (GDP) grew 3.5% during first quarter 2005, bolstered by a more stable trade balance. However, consumers and investors are beginning to rein in their spending as they feel the pinch of higher fuel costs and an uneven stock market. Consumer spending posted a 3.6% increase during first quarter 2005, a deceleration from the 4.2% gain posted during fourth quarter 2004. Meanwhile, business investment rose 3.5%, after surging 14.5% in fourth quarter 2004 as businesses made equipment and software purchases that would qualify under the 50 percent bonus depreciation and increased small business expensing provisions of the federal Jobs and Growth Tax Relief Reconciliation Act of 2003, which expired at the end of 2004. Additionally, business investment in structures fell 3.3%.

"Inflation-adjusted gross domestic product (GDP) grew 3.5% during first quarter 2005. . ."

Employment gains in April 2005 — 274,000 jobs — were above expectations. Furthermore, the unemployment rate in April remained unchanged at 5.2% compared with March 2005.

The service producing industries led job growth with leisure and hospitality contributing 58,000 jobs,

professional and business services creating 36,000 jobs, and retail trade creating 24,000. The construction industry added 47,000 jobs. Manufacturing payrolls fell by 7,000 jobs.

National Economic Statistics

	First Quarter 2005	Fourth Quarter 2004	2004 Annual Average	2003 Annual Average
Inflation-Adjusted Annual GDP Growth ¹	3.5%	3.8%	4.4%	3.0%
Consumer Spending	3.6%	4.2%	3.8%	3.3%
Nonresidential Fixed Investment	3.5%	14.5%	10.6%	3.3%
Structures	-3.3%	2.1%	1.4%	-5.6%
Equipment and Software	5.6%	18.4%	13.6%	6.4%
Residential Fixed Investment	8.8%	3.4%	9.7%	8.8%
Exports	7.2%	3.2%	8.6%	1.9%
Imports	9.1%	11.4%	9.9%	4.4%
Government	-0.2%	0.9%	1.9%	2.8%
Federal Government	0.4%	1.2%	4.7%	6.6%
State and Local Governments	-0.5%	0.6%	0.4%	0.7%
Productivity	2.1%	1.3%	4.0%	4.4%
	March 2005	March 2004	2004 Annual Average	2003 Annual Average
Inflation ²	3.0%	1.8%	2.7%	2.3%
Nonfarm Employment Growth ²	1.7%	0.3%	1.1%	-0.3%
Unemployment Rate ³	5.2%	5.7%	5.5%	6.0%
Housing Permit Growth ²	7.0%	11.6%	7.1%	8.1%
Single-Family	5.4%	14.2%	7.6%	9.6%
Multi-Family	12.7%	2.9%	5.5%	3.2%
Growth in the Value of Nonresidential Construction ²	5.5%	1.9%	3.9%	-1.3%
Retail	8.5%	2.7%	7.1%	-6.6%
Offices	5.3%	5.1%	5.8%	-13.8%
Factories	31.1%	0.3%	3.6%	-13.2%
Retail Sales ²	-10.8%	4.4%	3.2%	4.9%

¹Annualized growth compared with preceding quarter.

²Year-to-date.

³Year-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.

In May 2005, the Conference Board consumer confidence index rose to 102.2 compared with 97.5 in April 2005. The improving labor market and declines in gasoline prices are affecting consumers' assessment of the present situation. Expectations for the future also increased as consumers feel more confident with the stock market and recent employment gains.

The Institute for Supply Management (ISM) *manufacturing index* was 53.3 in April 2005, down nearly two points compared with March. A decline in the new orders index was responsible for most of the decline in the overall index. Similarly, the ISM manufacturing index has been at or above the important 50-point mark that indicates expanding activity for nearly two years. Additionally, the ISM *service-providing industry index* was 61.7 in April 2005, down from 63.1 in March but still indicative of a healthy expansion in the nation's service-producing industries. Out of 17 service industries included in the survey, 16 reported increasing or steady business activity, with Entertainment the only sector to report declining activity.

“The ISM manufacturing index has been at or above the important 50-point mark that indicates expanding activity for nearly two years.”

THE COLORADO ECONOMY

Colorado Economic Statistics

	April 2005	April 2004	2004 Annual Average	2003 Annual Average
Nonfarm Employment Growth ¹	2.4%	0.4%	1.3%	-1.4%
Unemployment Rate	5.2%	6.0%	6.1%	6.5%
Housing Permit Growth ¹	21.8%	14.2%	15.2%	-17.3%
Single-Family	28.4%	15.6%	12.8%	-3.3%
Multi-Family	-10.6%	7.0%	29.5%	-55.5%
Growth in the Value of Nonresidential Construction ¹	-24.9%	77.8%	26.3%	-7.7%
Retail	17.8%	6.1%	5.5%	-10.0%
Offices	38.9%	-34.9%	21.1%	-28.2%
Factories	-66.8%	-4.6%	144.2%	-53.0%
Retail Trade Sales ²	6.2%	5.1%	6.2%	-0.7%

¹Year-to-date.

²Year-to-date through March 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 economic indicators continue to point towards a rebound — the state is posting steady job gains, venture capital is expanding, and new construction projects are breaking ground. Furthermore, Colorado is home to ten companies on the 2004 Fortune 500 List up from eight in 2003. The list is considered a barometer of the corporate weight a city or region holds. Qwest Communications, with \$13.8 billion in revenue, ranked 154th, the highest

among Colorado companies. The addition of Liberty Media and M.D.C. Holdings ranks Colorado 17th in the nation — New York, with 54 companies, ranked first.

“Colorado is home to ten companies on the 2004 Fortune 500 List.”

Colorado Economic Indicators

Employment

Year-to-date through April 2005, Colorado employment growth is ranked 8th in the nation. During the first four months of the year, employment gains have averaged 2.4% and payrolls have expanded by 14,500 employees. Meanwhile, the April 2005 Colorado unemployment rate was 5.2%, unchanged from March 2005 as an increasing number of workers are re-entering the marketplace to find employment.

According to the Bureau of Labor Statistics, employment in Colorado's mining and natural resources sector is bucking a national trend. A survey of the 25 largest U.S. oil and natural gas companies found a 4.1% decline in employment, the 20th such decline in 23 years. Furthermore, Colorado's mining and natural resources employment sector had gains of 12.9% in fourth quarter 2004 compared with fourth quarter 2003 — the fastest growth in the nation.

Recent announcements of new hiring in Colorado include:

- In mid-2006, upon completion of its new Wheat Ridge facility, Cabela's hunting and fishing superstore will hire 450 employees.
- Automobile finance company Centrix Financial LLC announced plans to add 300 to 400 new jobs in the Denver area in 2005.
- DirecTECH Holding Company Inc. announced plans to hire up to 150 people over the next year as its headquarters are relocated to Fort Collins.
- Aerospace and defense giant Raytheon Co. will add 150 new employees to its expanded Aurora campus in 2005. At the end of 2004, Raytheon employed 2,650 employees at the Aurora campus.
- Great Western Ethanol announced plans to hire 50 employees upon completion of its new ethanol

plant in Weld County. The jobs are expected to pay \$40,000 per year.

Recent announcements of layoffs in Colorado include:

- Swift & Co. laid off 800 employees at the company's Greeley plant. The meatpacking plant attributed the slowdown in business to the mad-cow scare of 2003.
- Electronics manufacturer Celestica Inc. announced plans to close its Fort Collins plant in 2006. The closure will affect 800 employees.
- In Colorado Springs, Amtel Corp. laid off 150 people at its electronic chip making plant.
- Denver-based Neoplan USA Corp. will lay off 100 people at its Lamar plant. The layoffs represent 20% of the bus manufacturer's staff.
- Charles Schwab Corp. announced plans to reduce its Denver-area workforce by 10%. The dismissal of 98 employees is part of an effort to "reduce overall capacity and simplify operations."
- Denver Public Schools will cut 90 positions beginning in Fall 2005. The positions will be eliminated through attrition, and reflect a decline in enrollment and budget issues.

Bankruptcies and Foreclosures

The number of Coloradans filing for bankruptcy during first quarter 2005 increased compared with the same period last year. Public trustees recorded 6,682 bankruptcies during first quarter 2005, a 3.1% increase compared with 6,483 bankruptcies recorded in first quarter 2004. Meanwhile, home foreclosures in the seven-county Denver area rose 14.5% during the first three months of 2005, a modest increase compared with the 67% hike recorded during first quarter 2004. In 2004, public trustees recorded 12,147 foreclosures compared with 9,333 foreclosures recorded in 2003. The highest annual number of metro-area foreclosures — 17,122 — was recorded in 1988.

Energy

For the fourth year in a row, Colorado produced record amounts of coal. In 2004, the state produced 40.1 million tons of coal with an estimated value of \$1.1 billion, a 12% increase compared with 35.8 million tons produced in 2003. These record

levels of production moved Colorado from seventh place in 2003 to sixth place in 2004. Among coal producing states, Wyoming produced the largest amount of coal in the nation — 393.7 million tons in 2004 — followed by West Virginia, which produced 148.9 million.

During first quarter 2005, oil and gas drilling permits increased 31%, driven primarily by the 450 permits issued to EnCana Corp. to drill oil and gas wells in western Colorado's Piceance Basin. In 2004, according to the Colorado Oil and Gas Conservation Commission, Colorado issued a record number of permits — 2,917 — to drill oil and gas wells. Additionally, in 2004, the state had a record number of active wells — 26,968. The previous record for number of permits issued was set in 1981 when 2,378 oil and gas wells were drilled.

In Pueblo, state regulators approved construction of a \$1.35 billion coal-fired plant to be built at Xcel Energy's Comanche site beginning in early 2006. The coal-fired plant will produce 750-megawatts (one megawatt serves 400 to 900 houses) and be the first facility of its kind built in over 20 years in Colorado.

The metal Molybdenum is making a comeback in Colorado. Henderson, the world's largest molybdenum mine and located in Clear Creek County, is increasing production to keep pace with surging global demand. The metal improves the strength of steel at high temperatures and is used for nuclear energy, missile, and aircraft applications. In 2001, when prices were \$2.36 per pound, Henderson produced 19 million pounds, a record low. In 2004, with prices hovering between \$33 to \$36 per pound, the mine produced 28 million pounds, a 27% increase compared with 22 million pounds produced in 2003. Furthermore, the mine hired 115 employees over the past year, became a 24-hour operation, and plans to add 30 more employees over the next several months.

In southwest Colorado, three uranium mines reopened after closing in the mid-1980s. The resurgence of uranium mining is led by skyrocketing prices that have tripled since 2001 — the result of soaring global demand as rising oil prices force European and Asian countries to move to nuclear reactors for power generation.

Exports

In 2004, Colorado exports set a new record of \$6.7 billion, a 9.8% increase compared with \$6.1 billion recorded in 2003. According to the Governor's Office

of Economic Development and International Trade, growth was fueled by strong foreign currencies and a surging demand for advanced technology products. However, the state's agricultural export of beef fell \$200 million as a result of the mad cow disease scare in late 2003 that carried over into 2004. The state's top three export markets are Canada, Mexico, and Japan.

Colorado Construction Activity

Residential Construction

The U.S. Bureau of the Census reported that the total number of Colorado housing permits issued through April 2005 rose 21.3% compared with April 2004. Single-family home permits increased 28.1% while multi-family home permits decreased 14.3%.

"... the price of a single-family home was \$296,486 in April 2005, 5.4% higher than through April 2004."

On average, the year-to-date price of a single-family home was \$283,773 in May 2005, 0.2% lower than through April 2004. The average price of a condominium rose to \$188,189, a 3.1% increase compared with year-to-date April 2004. Meanwhile, the number of homes on the market in May 2005 fell 9.3% compared with May 2004.

According to the 2004 economic impact data released from Buckley Air Force Base, the 3,200-acre military facility contributed \$1.2 billion to the economy of Aurora and surrounding areas. Included in the figures is a \$548 million payroll for Department of Defense personnel, \$189 million payroll for contractors and civilians, and \$41 million in construction activity for a second troop dormitory, a fitness center, and expansion of an existing building on the base. Additionally, the report found that Buckley Air Force Base indirectly created 7,989 new jobs in the local community, adding \$337 million to the economy in 2004. In 2005, the Air Force announced plans to build 353 new homes at Buckley Air Force Base.

According to the Apartment Association of Metro Denver, the Denver-area rental market is improving. In first quarter 2005, the vacancy rate declined to 9.3% compared with 10.0% in fourth quarter 2004. Additionally, first quarter average rent increased to \$833.51 compared with \$821.68 in fourth quarter 2004.

The first quarter average rent was the metro-area's highest since averaging \$827 in third quarter 2001. The improving rental market is attributed to job growth and increased concessions and marketing efforts.

Several noteworthy new residential construction projects were recently announced:

- Del Webb and Pulte Homes will build two developments on a 2,648-acre site in Broomfield. Anthem Ranch will be an "active-adult" community for people 55 years of age and older, and will include 1,500 homes priced in the low- to mid-\$300,000s. The site will also include a 34,000-square-foot recreation center. Anthem Highlands will have no age restrictions and consist of 1,600 homes priced in the mid-\$200,000s to \$400,000. The combined projects are valued at \$1 billion and will be completed in five to seven years, with the first phase of homes completed in October 2005.
- Development company MacKenzie House LLC announced plans to build three senior living projects. The first, located in Littleton, will be an 85-unit assisted living facility worth \$15 million. In Colorado Springs, a 240 home "continuing care campus" will be built for \$55 million. Finally, in Fort Collins, a 235-unit "continuing care campus" will be built for \$49 million. Construction on the Littleton project will begin in late 2005, while both the Colorado Springs and Fort Collins projects will break ground in 2006.
- East West Partners-Denver broke ground on a \$125 million project in Denver's Riverfront Park area. The two building, 23-story complex named Glass House will include 389 condominiums priced from the mid-\$100,000s to \$600,000. Construction will be completed in 2006.
- Eagle County and Vail are partners in an affordable housing project. Miller Ranch outside Edwards will include 69 single-family homes, 64 duplexes, 49 row houses, and 100 loft apartments. Appreciation on the units is capped at 3% per year.
- In May 2005, construction will begin on a \$30 million residential development in Winter Park. Located two miles from the Winter Park ski resort, the seven-acre Bear Crossing project will include 56 townhomes. The units will be priced from \$399,000 to the mid-\$600,000s and range in size from 1,950 square feet to 2,500 square feet.

- In Aspen, Burlingame Ranch is being built for \$34 million to provide 236 homes for local workers.

Nonresidential Construction

F.W. Dodge reports that the value of Colorado nonresidential building construction fell 24.9% in April 2005. *Retail* and office construction rose 17.8% and 38.9%, respectively. Meanwhile, the value of *factory* construction fell 66.8%, while the value of *other* construction — amusement, education, and public buildings — fell 37%.

According to Denver-based Northstar Commercial Properties, the value of offices, retail, and industrial properties sold in 2004 was the second largest on record. Investors paid \$2.1 billion for 218 buildings, double the number of buildings and dollar value of sales in 2003. The largest recorded amount investors have paid was 1998, when investors bought 165 commercial properties valued at \$2.36 billion.

Nonresidential construction projects announced over the past several months include:

- The 2,648-acre Anthem development planned in Broomfield will include 12 million square feet of commercial space for offices, retail, a town center, and hotels. The project is valued at \$1 billion and will be completed in five to seven years.
- A 50-story Four Seasons Hotel will be built in downtown Denver. The \$350 million, five-star hotel will include 120 hotel rooms that will cost \$300 per night and 140 condominiums starting at \$700 per square foot. The hotel will also include meeting rooms and a spa.
- In Brighton, construction began on the \$138 million Platte Valley Medical Center. The 98-bed facility will open in 2007.
- Commerce City unveiled plans for the \$131 million Prairie Gateway center. The complex will include 600,000 square feet of commercial and retail space, and a 20,000-seat stadium for the Colorado Rapids soccer team.
- Great Western Ethanol announced plans to build an \$83 million ethanol plant in Weld County. The plant will occupy 40 acres and create 50 new jobs.
- Bass Pro Shops started construction on its first Colorado retail shop. Located in Denver's Stapleton neighborhood, the 180,000-square-foot superstore will open in November 2005.
- RE/MAX International will begin construction in the fall on its company world headquarters in the Denver Technological Center. The \$50 million, 250,000-square-foot tower will have 11 stories of office space, six stories of parking, a steak house, and a sandwich shop. Construction will be completed in late 2006.
- Cabela's Inc. will build its first Colorado store in Wheat Ridge. The 200,000-square-foot store will employ up to 450 people and cost between \$45 million and \$70 million to build. The sporting-goods megastore expects to draw three to four million visitors annually. Construction will be completed in mid-2006.
- Front Range Energy LLC announced plans to build a \$54 million ethanol plant in Windsor. The second facility of its kind in Weld County, the plant will employ 30-35 full-time employees upon completion and up to 150 construction workers during the term of the project.
- A \$35 million, 12-story Hilton Garden Inn will be built in downtown Denver, next to the Colorado Convention Center. Construction will begin on the 220-room hotel in second quarter 2005 and the hotel will open in fourth quarter 2006. Daily room rates will range from \$135 to \$185.
- In early 2008, Wings Over the Rockies military aviation museum will open a \$35 million aerospace museum at the Centennial Airport. The 100,000-square-foot museum will occupy 23 acres and include a working hangar, an IMAX theater, and a restaurant.
- In mid-2006, GEO Group Inc. will finish construction on a new \$15 million private prison in Pueblo. Located on 34 acres in Pueblo's Airport Industrial Park, the 700- to 1,000-bed facility will begin accepting inmates in Autumn 2006.
- Plans were unveiled for a 20-acre upscale banking and retail center in Westminster. The \$15 million Country Club Village project will be anchored by the FirstTier Bank Financial Center.

- Town residents approved a plan to modernize the Snowmass Village base area. The renovation will include 65,000 square feet of commercial space and over 600 hotel rooms and condominiums.

Colorado's Industrial Sectors

Advanced Technology

At the end of 2004, three Colorado companies were awarded U.S. Department of Defense contracts. Lockheed Martin Commercial Space Systems Co. in Denver was awarded a \$7.5 million contract related to the Titan program. Evergreen-based TEAM Integrated Engineering Inc. and three other companies will share an \$850 million contract for the Air Force Center for Environmental Excellence's mission. Finally, Denver construction company PCL Construction Services Inc. was awarded a \$5.3 million contract to construct the Chapel Center at Buckley Air Force Base.

According to a report by Lux Research, Colorado ranks third in the nation for nanotechnology research. Nanotechnology is the manipulation of matter at the atomic and molecular level. The report attributed the state's rank to low taxes, few regulatory hurdles, high concentration of advanced technology companies and workers, venture capital, and the "heavy concentration of university and federal research labs in the Denver/Boulder area." Massachusetts and California ranked first and second, respectively.

Agriculture

Prices received by Colorado farmers in mid-May 2005 were lower for wheat and corn, and higher for steers, heifers, and calves. The mid-May 2005 price of winter wheat fell 16.8% compared with mid-May 2004 while the price of corn fell 33.9% during the same period. Steer and heifer prices increased 9.8% during this period and the price of calves rose 15.7%.

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

According to Colorado State University, Colorado ranks 16th nationally in dairy production and third in milk production per cow. The state's growing dairy industry is led by the 90 dairies in Weld County, which

produce 62% of Colorado's milk. Colorado dairies produce enough milk to satisfy total Colorado consumption — 478 pounds of milk per capita.

Manufacturing

Colorado's manufacturing sector saw slower growth in May 2005. According to the Front Range Purchasing Managers Index, Colorado's score was 55.3 compared with 60.1 in April 2005. A score above 50 indicates an increase in economic activity, while a score below 50 indicates a decline. May's score reflects an increase in new orders and raw materials inventories compared with April 2005.

Tourism

In 2004, revenues at Colorado's mountain casinos increased 4%, to \$725.9 million compared with \$697.8 million in 2003. The gain in revenue is attributed to an improving economy, increased interest in poker, and the opening of the four-lane Central City Parkway, an 8.4-mile road connecting Central City with Interstate 70.

Black Hawk approved construction of a \$90 million, nine-story hotel. Ameristar Casinos Inc. will upgrade the Mountain High Casino by expanding the gaming facilities and adding a 300-room hotel. The renovated hotel will be renamed the Ameristar Black Hawk and will open in mid-2007.

"In 2004, more than 42.4 million people traveled through Denver International Airport (DIA), a 13.1% increase . . ."

Through April 2005, year-to-date passenger traffic at Denver International Airport (DIA) was down 3.7% compared with the same period last year. In 2004, more than 42.4 million people traveled through DIA, a 13.1% increase compared with 37.5 million people in 2003. The record-breaking passenger traffic was 9.3% greater than the previous record set in 2000 when 38.8 million people passed through DIA. Moreover, in 2004, DIA ranked fifth in undelayed takeoffs and arrivals among the nation's largest airports.

As a result of increased traffic to Mexico, DIA will spend \$13.9 million to expand the international arrival area. The expansion will include a third baggage

carousel and 5,000 square feet of office space. Frontier Airlines announced plans to expand service to Mexico, the Midwest, and Florida from its Denver hub in 2005.

Venture Capital

According to the MoneyTree survey, first quarter 2005 venture capital investment in Colorado soared to its highest levels since 2003. Seventeen Colorado

companies closed venture capital deals totaling \$163.8 million during first quarter 2005, a 40.4% increase compared with fourteen companies raising \$116.8 million in first quarter 2004. The report also shows Colorado ranks fifth most active in the nation for venture financing, led by California, Massachusetts, Texas, and New York. Boulder-based Webroot Software Inc., received \$108 million in financing, the largest deal in the nation during the quarter.