



COLORADO CLOSE-UP

An Economic Newsletter
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THE NATIONAL ECONOMY

The national economy continues on a path of expansion. While some indicators such as consumer spending and business investment show signs of decelerating, these are offset by robust performance in other areas such as imports, nondurable goods orders, and nondefense federal spending. Employment remains steady, domestic output is increasing at an above average pace, and manufacturing activity and capacity utilization are constant. The Federal Reserve appears satisfied that its recent interest rate hikes have had the desired effect of slowing the economy.

Fourth quarter inflation-adjusted gross domestic product (GDP) slowed to 1.1%, well below the 3.0% pace considered to represent a healthy gain. The fourth quarter pace decreased as a result of a widening trade deficit due to Hurricanes Katrina and Rita, damping domestic production. Business investment fell to 2.8%, reflecting a drop in transportation-equipment purchases, and investment in equipment and software contracted 3.5%. Consumer spending growth decelerated to a 1.1% pace during the quarter, compared with the 4.1% pace posted in third quarter 2005. The decline in consumer spending is attributed to weak automobile sales and rising prices.

“Fourth quarter inflation-adjusted gross domestic product (GDP) slowed to 1.1% . . .”

National employment increased in January 2006, rising 3.2% year-to-date compared with 0.1% through January 2004. Payrolls increased by 193,000 jobs in January 2006 as a result of consistent job growth in several sectors. During the past month, construction added 46,000 jobs; health care and social assistance added 38,000 while food services

added 31,000 positions. The sectors registering job losses include the retail trade sector with a decrease of 2,000 positions and the government sector with a loss of 1,000 jobs. Overall, the unemployment rate decreased to 4.7% in January 2006 from 4.9% in December 2005.

National Economic Statistics

	Fourth Quarter 2005	Fourth Quarter 2004	2004 Annual Average	2003 Annual Average
Inflation-Adjusted Annual GDP Growth ¹	1.1%	4.1%	3.3%	3.8%
Consumer Spending	1.1%	4.1%	3.4%	3.5%
Nonresidential Fixed Investment	2.8%	8.5%	8.8%	5.7%
Residential Fixed Investment	3.5%	7.3%	10.8%	9.5%
Exports	2.4%	2.5%	10.7%	7.5%
Imports	9.1%	2.4%	-0.3%	7.4%
Federal Government	-7.0%	7.4%	2.4%	2.4%
State and Local Governments	0.4%	0.2%	2.6%	1.6%
	Jan 2006	Jan 2005	2004 Annual Average	2003 Annual Average
Inflation ³	3.4%	2.7%	2.7%	2.3%
Nonfarm Employment Growth ²	3.2%	0.1%	1.1%	1.1%
Unemployment Rate ²	4.7%	5.7%	5.5%	5.5%
Housing Permit Growth ³	6.1%	7.1%	7.1%	8.1%
Growth in the Value of Nonresidential Construction ³	6.4%	7.3%	7.3%	-1.3%
Retail Sales ⁴	7.7%	2.9%	2.9%	4.7%

¹Annualized growth compared with preceding quarter.

²Year-to-date.

³Year-to-date through December 2005.

⁴Year-to-date through November 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 Conference Board consumer confidence index rose in January 2006 to 106.3, up 2.5 points from its 103.8 posting in December 2005 as the improving labor market and declines in gasoline prices boost consumers’ assessment of the present situation. However, the increase in the improving labor market was offset by respondents’ weaker assessment toward improving business conditions. Furthermore, consumers are expressing pessimism regarding the

outlook for their incomes. Meanwhile, rising energy prices, interest rates, and inflation concerns continue to dampen overall confidence.

The Federal Reserve Bank increased short-term interest rates from 4.25 in December 2005 to 4.50 in January 2005 in response to rising inflationary pressures. The Federal Reserve has increased interest rates 14 times since June 2004. Additionally, commercial banks raised their prime lending rates from 7.25% in December 2005 to 7.50% in January 2005 in response to the interest rate increase.

The Institute for Supply Management (ISM) *manufacturing index* was 54.8 in January 2006, down 0.8 points from the 55.6 posted in December 2005. Despite the slowdown, the index has been above the 50-point mark for nearly three years, indicating that the manufacturing sector in the U.S. continues to expand.

A decline in new orders and production was responsible for the overall slowdown in the index. Meanwhile, rising prices and energy costs are causing overall concern in the manufacturing sector. Additionally, the ISM *service-providing industry index* was 56.8 in January 2006, down from 61.0 in December. January's score reflects a decrease in new orders and business activity. Out of 16 service industries included in the survey, 11 reported increasing or steady business activity.

“... residential home permits issued year-to-date through December 2005 rose 6.1% compared with the same period in 2004.”

The U.S. Department of Commerce reported residential home permits issued year-to-date December 2005 rose 6.1% compared with the same period in 2004. Single-family home permits issued rose 6.9% and multi-family home permits issued rose 3.3%. Meanwhile, the year-to-date value of all nonresidential building construction rose 6.4%. The value of *retail* construction rose 7.3%, *office* construction rose 6.3%, and *factory* construction rose 20.7%.

THE COLORADO ECONOMY

Colorado Economic Statistics

	December 2005	December 2004	2004 Annual Average	2003 Annual Average
Nonfarm Employment Growth ¹	2.1%	1.3%	1.3%	-1.4%
Unemployment Rate	4.6%	5.4%	5.5%	6.2%
Housing Permit Growth ¹	-0.2%	17.5%	17.5%	-17.3%
Single-Family	3.3%	17.3%	20.6%	-3.3%
Multi-Family	-19.2%	19.0%	-0.5%	-55.5%
Growth in the Value of Nonresidential Construction ¹	8.7%	29.6%	29.6%	-7.7%
Retail	7.6%	9.0%	9.0%	-10.0%
Offices	26.7%	10.7%	10.7%	-28.2%
Factories	668.6%	145.9%	145.9%	-53.0%
Retail Trade Sales ²	5.1%	5.8%	6.2%	-0.7%

¹Year-to-date.

²Year-to-date through November 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 continued to expand during fourth quarter 2005. The state is posting steady employment gains, personal income and consumer spending are increasing, and venture capital is expanding. Additionally, construction activity remains positive and Colorado's tourism industry is growing.

“Colorado's economy continued to expand during fourth quarter 2005.”

Colorado Economic Indicators

Employment

Through December 2005, Colorado employment rose 2.1% compared with 1.3% growth through December 2004. Key industries registering job gains include trade, transportation, utilities, and retail trade. Meanwhile, the December 2005 Colorado unemployment rate dropped to 4.6%, down 0.8 percentage points from the rate posted in December 2004.

Recent announcements of new hiring in Colorado include:

- Corporate Express Inc. chose Aurora for its new customer-service call center. The call center plans to hire 600 customer service personnel within the next year, bringing their local work force up to 1,800 people.
- Safe Auto Insurance Inc. will open a new call center by January 2006. The Sterling-based call center will be staffed with 250 customer service representatives and insurance sales employees. The jobs are expected to pay \$32,500 annually.
- Western Forge Corp. will add 150 jobs by next year in an effort to consolidate manufacturing operations at its Colorado Springs facility.
- Global Healthcare Exchange announced plans to buy Neoforma Inc. and create 125 positions at the company's Westminster headquarters in early 2006.
- Sleep diagnostic equipment company Medicare will move 100 jobs from their New York plant to their new global headquarters in Denver by February 2006.
- Southwest Airlines will add 40 full-time positions to its operations at Denver International Airport when it begins flights in Denver in January 2006.

Recent announcements of layoffs in Colorado include:

- Denver-based Neoplan USA announced plans to close its bus and trolley manufacturing plant by January 2006 in Lamar. The plant closure will affect 305 employees.
- Norgren Inc. will eliminate 275 positions at its Littleton facility 55% of its retail workforce within the next 12 months. The manufacturing facility attributed the layoffs to competition from abroad.
- Cenveo Inc. will close its Envelope Plant in Denver and move its headquarters out of Colorado by February 2006, affecting

171 workers. The commercial printing company will continue its operations in Connecticut.

- Bay Valley Foods announced plans to close its La Junta pickle and relish plant and distribution center, eliminating 153 jobs by June 2006.
- Media Play will close five of its Colorado stores by January 2006 affecting 150 employees.
- Federated Department Stores, Inc. will close its Aurora distribution center eliminating 150 employees by August 2006.
- Mile High Capital Group dismissed 100 employees during September 2005 in Englewood due to slowing demand for building permits.
- The National Renewable Energy Laboratory plans to eliminate 100 scientists and researchers in January 2006 at its Golden location. The facility currently employs 930 people and 170 contractors.
- In September, Cotter Corp. closed six uranium mines in southwestern Colorado, cutting 50 uranium miners and support staff and giving notice to 78 additional workers at the company's ore processing plant in Canon City.
- Raytheon Co. plans to cut 50 engineering and information-technology positions by November 2005 due to changes to a classified government defense contract.

Bankruptcies and Foreclosures

The number of Coloradans filing for bankruptcy in 2005 increased compared with the same period last year. Public trustees recorded over 43,000 bankruptcies in 2005, a 54% increase compared with 27,993 bankruptcies recorded in 2004. Meanwhile, home foreclosures in the seven-county Denver area rose 17% in 2005, the second-highest recorded foreclosures in Colorado's history. In 2005, public trustees recorded 16,047 foreclosures compared with 13,685 recorded in 2004. The highest annual number of metro-area foreclosures — 17,122 — was recorded in 1988.

Energy

Xcel Energy and the National Renewable Energy Laboratory announced plans to develop one of the nation's first pilot programs in renewable energy. The \$1.75 million pilot program will utilize wind power to generate nonpolluting hydrogen fuel. The program is expected to produce enough electricity to power approximately 25 homes.

Through December 2005, oil and gas drilling permits increased 50% compared with the same period last year, driven by increasing demand and rising energy prices around the state. According to the Colorado Oil and Gas Conservation Commission, Colorado issued a record number of permits — 4,363 — to drill oil and gas wells compared with 2,917 permits issued through December 2004. Additionally, the state had a record number of active wells — 28,944 — as of December 2005.

Kinder Morgan Energy Partners, L.P. and Sempra Pipelines & Storage announced plans for a 1,500-mile natural gas pipeline connecting the Rocky Mountain region to the Midwest and Eastern United States. The \$3 billion pipeline will move up to two billion cubic feet per day from production fields beginning in 2008.

Denver-based Bioenergy announced plans to acquire a \$1 million facility near the National Western Stock Show complex to increase its biodiesel production. Colorado's largest biodiesel producer is expected to increase production from 10 million to 15 million gallons of biodiesel. Biodiesel is a clean burning alternative fuel produced from both renewable and domestic resources.

Xcel Energy broke ground on a \$1.35 billion coal-fired power plant at its Comanche Generating Station in Pueblo. The project will more than double electric capacity from its current 660-megawatt capacity to 1410 megawatts. Furthermore, the 750-megawatt plant is expected to serve 675,000 households and will feature a mix of coal, wind, and natural gas products. The plant will begin carrying electricity in late 2009.

Colorado Construction Activity

Residential Construction

The U.S. Bureau of the Census reported that the total number of Colorado housing permits issued through December 2005 decreased 0.2% compared with the same period in 2004. The number of single-family home permits increased 3.3% compared with December 2004, while multi-family home permits decreased 19.2%.

On average, the year-to-date price of a single-family home in metro Denver was \$307,754 in December 2005, 6.1% higher than year-to-date December 2004. The average price of a condominium rose to \$192,686, a 6.0% increase compared with year-to-date December 2004. Meanwhile, the number of homes on the market in December 2005 fell 4.2% compared with December 2004.

“ . . . the year-to-date price of a single-family home in metro Denver was \$307,754 in December 2005, 6.1% higher than year-to-date December 2004.”

Several noteworthy new residential construction projects were recently announced:

- Clearwater Development Inc. broke ground on a \$950 million gated community in Gypsum. Brightwater Club Village will include 535 homes, a 18-hole golf course, and 27 acres of lakes, trout streams, a wellness center and spa, and a clubhouse. The project will be complete over three years with the first phase of homes ready for occupancy in 2007.
- In Denver, construction began on the \$142 million second-to-last phase of redevelopment at the former Lowry Airforce Base. The Lowry Town Center will include mixed-use and commercial buildings in addition to 243 residential units. The project is scheduled to be complete in late 2007.

- Esprit Homes began construction on a 28-acre, \$100 million project in Denver's Tech Center. One Cherry Lane will feature 79 homes ranging in price from \$990,000 and \$1.625 million and range in size from 2,780 square feet to 4,000 square feet.
- Denver-based Western Development Group broke ground on a six-story, \$100 million mixed-use project in Denver's Cherry Creek District. NorthCreek will include 26 condominiums, retail stores, and a 240-space parking garage. The units will be priced from \$800,000 and are scheduled to be complete by spring 2007.
- RedPeak Properties unveiled plans incorporating \$4 million worth of additions and renovations to The Arboretum in Cheeseman Park. The project will include 58 condominiums and four penthouse units priced from \$170,000 to \$399,000 and range in size from 770 square feet to 1,200 square feet. Construction will be complete by April 2006.

Nonresidential Construction

F.W. Dodge reports that the value of Colorado nonresidential building construction rose 8.7% in December 2005 compared with year-to-date December 2004. Retail and office space construction rose 7.6% and 26.7%, respectively. Meanwhile, the value of factory construction rose 668.6% due to the construction of the new desalination plant in El Paso County, which began in September 2005. The value of other construction — amusement, education, and public buildings — fell 17.2%.

According to a report from CB Richard Ellis, Denver absorbed 293,171 square feet of vacant office space in third quarter 2005 compared with a absorption increase of only 124,094 square feet during second quarter 2005. Indeed, the Denver office market posted a 16.3% vacancy rate in third quarter 2005 compared with 17.3% during second quarter 2005. However, the northwest Denver market continues to struggle, posting a 26% vacancy rate during third quarter.

Nonresidential construction projects announced during the past month include:

- The Four Seasons Resort and Residences began construction on a \$200 million, 2.7-acre project in Vail. The development will feature 120 hotel rooms, 19 fractional units, and 16 private residences, a grand ballroom, a spa, a restaurant, and four retail shops. The facility is scheduled to open in June 2008.
- Construction began on a \$142 million, pedestrian-friendly, redevelopment at the former Lowry Airforce Base. The second-to-last phase of the Lowry Town Center will include shops, dining facilities, 243 residential units, an 18-hole golf course, ice arena, historic aviation museum, ball park, and a number of outdoor parks. The development is scheduled to be complete in late 2007.
- A \$45 million sports and entertainment center broke ground in Broomfield. The 180,000 square foot Broomfield Event Center will include 6,000 seats, a separate basketball facility, a restaurant, and two club lounges. The arena is scheduled to be complete by fall 2006.
- Colorado State University started construction on its bio-hazard and infectious diseases laboratory. The \$22 million laboratory, to open in 2007, will include specialized ventilation systems and a restricted entrance.
- Lighthouse Properties LLC announced plans for a \$20 million development across from the Fitzsimons campus in Aurora. The project will include a 140-room Hilton Garden Inn, shopping center, and restaurants. The first phase of construction is scheduled to be complete by mid-2007.
- Shaw Construction broke ground on a \$10 million, 100,000 square foot jet facility at Centennial Airport. The XJet Club will have three hangars, a restaurant, and a clubhouse. The project is scheduled to be complete by November 2006.

- Construction began on a \$5.2 million pedestrian and bicycle-bridge over Interstate 25. The 320 foot long and 70 foot high bridge will connect Denver's Highland neighborhood to Central Platte Valley and Commons Park. The project will be complete by mid-2006.

Colorado's Industrial Sectors

Advanced Technology

Greenwood Village-based Merlin Technical Solutions was ranked second on the list of the nation's 500 fastest-growing private companies. According to Inc. magazine, the information technology company helps private and federal agencies implement computer applications and comprehensive solutions to improve efficiency and productivity.

According to USA Today, four of Colorado's 25 counties were among the most tech-savvy counties in the nation. Broomfield was ranked number one in the nation with 56.9% households most likely to adopt technologies; Boulder was ranked fourth at 51.1%; Arapahoe was ranked fifth at 50.7%; and Jefferson County was ranked 19 at 47.7%. The rankings were based on replacing land-lines with cell phones, using Wireless Fidelity networks, and purchasing advanced technologies.

Agriculture

Prices received by Colorado farmers in mid-January 2006 were higher for wheat, corn, steers, heifers, and calves. The mid-January 2006 price of winter wheat rose 7.4% compared with mid-January 2005 while the price of corn rose 9.0% during the same period. Steer and heifer prices increased 10.2% during this period and the price of calves rose 10.3%.

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Manufacturing

In January 2006, Colorado's manufacturing sector saw faster growth compared with December 2005.

According to the Front Range Purchasing Managers Index, Colorado's score was 53.1 compared with 46.9 in December 2005. A score above 50 indicates an increase in economic activity, while a score below 50 indicates a decline. January's expansion reflects a increase in production and new orders compared with December 2005.

Tourism

In November 2005, approximately 3.4 million people traveled through Denver International Airport (DIA), setting a new record as the busiest November in the airport's history. The 5.6% increase brings the total year-to-date passenger total to 39.8 million. According to a report released by Business Traveler magazine, DIA was ranked as the best airport in North America for business travel. The ranking was based on customer and baggage service, ambience, and on-time performance.

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Southwest Airlines returned to Denver in January 2006. The Dallas-based airlines will offer 13 daily nonstop flights including four to Chicago, five to Las Vegas, and four to Phoenix. Beginning in March 2006, the airlines will add seven more flights including one to Baltimore, four to Salt Lake City, and one additional flight to both Las Vegas and Phoenix. As a result, DIA is expected to have 1.5 million more travelers through the airport in 2006. The airline will offer connecting or direct service to 36 alternate destinations and will hire approximately 40 local employees. Additionally, Air Canada announced plans to fly from Denver to Montreal in June 2006 as a result of increased business and leisure travel. Currently, the airline operates three flights to Toronto from Denver.

Colorado's tourism industry continues to accelerate. According to Horwath Horizon Hospitality Advisors LLC/Montgomery & Associates, average occupancy and hotel rates are increasing. In 2005, hotels posted a 64.8% occupancy rate compared with 63.1% in 2004 and the average room rate rose to \$94 from \$87.25 during the same period. The increase in both

the average room rate and hotel occupancy rate is attributed to the holiday season, the National Western Stock Show, and the American Football Conference championship game. Additionally, the 2005 Hotwire.com survey ranked Denver the nation's best bargain destination, followed by Greenville-Spartanburg, South Carolina and Raleigh-Durham, North Carolina. The Hotwire Travel Value Index was based on Denver's affordable accommodations, low-priced destinations, and access to natural beauty.

According to a report commissioned by Colorado Ski County USA, the state's ski season is off to a record start between October 2005 and December 2005. Skier visits reached 3.1 million, a 5.6% increase over the 2004-05 ski season and 10.9% above the five-year average. Additionally, Colorado's Front Range destination ski areas — Beaver Creek, Breckenridge, Copper Mountain, Keystone, Vail, and Winter Park — increased 10.4%, or 1.9 million skiers compared with the 2004-05 ski season as a result of record snowfall and remarkable ski conditions.

During the 2005-06 ski season, six ski areas — Aspen Highlands, Breckenridge, Monarch, Keystone, Powderhorn, and Silverton — announced plans to

expand their expert terrain or open new ski lifts as a result of increased demand by snowboarders. Breckenridge opened a new high-speed Imperial Express Superchair in January 2005, taking expert skiers to 12,840 feet. In addition, the ski resort opened over 400 acres of previously accessible expert terrain. Meanwhile, Aspen Highlands, Monarch, Keystone, Powderhorn, and Silverton added over 1,200 acres of new advanced or expert terrain.

Venture Capital

According to the MoneyTree survey, 19 Colorado companies closed venture capital deals totaling \$168.1 million during third quarter 2005, a 45.2% revenue increase compared with \$115.8 million in venture financing secured during third quarter 2004. Biotechnology soared to a new record with companies capturing \$73.5 million, while software received \$38 million. The two companies receiving the largest amount of venture capital were Replidyne, Inc. (\$62.5 million), a pharmaceutical company based in Louisville, and Lefthand Networks, Inc. (\$25 million), a Boulder-based storage area network solutions company.