



COLORADO CLOSE-UP

An Economic Newsletter

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THE NATIONAL ECONOMY

The nation's economy continued to expand in the first quarter of 2006. Domestic output increased at an above average pace, employment rose to accommodate the natural increase in job seekers, and manufacturing activity and capacity utilization expanded. Furthermore, imports and nondefense federal spending are showing signs of improvement and the Federal Reserve appears satisfied that recent interest rate hikes have had the desired effect of dampening inflationary pressures.

In 2005, inflation-adjusted gross domestic product (GDP) grew 3.5%. Business investment rose 8.6%, reflecting an increase in investment in equipment and software. Meanwhile, consumer spending growth decelerated to a 3.5% pace during 2005, compared with the 3.9% pace posted in 2004. The decline in consumer spending is attributed to weak automobile sales and rising prices.

"In 2005, inflation-adjusted gross domestic product (GDP) grew 3.5%."

The pace of job creation has accelerated thus far into 2006. Employment gains in March 2006 — 211,000 — increased 3.2% year-to-date compared with 0.3% through March 2005. During the past month, professional and business services gained 52,000 jobs, leisure and hospitality added 42,000 jobs, education and health services added 33,000 jobs, and retail trade added 29,000 positions. The sectors registering flat growth include the manufacturing and wholesale trade sectors. Overall, the unemployment rate decreased to 4.7% in March 2006 from 5.7% in March 2005.

National Economic Statistics

	Fourth Quarter 2005	Fourth Quarter 2004	2005 Annual Average	2004 Annual Average
Inflation-Adjusted Annual GDP Growth ¹	1.7%	4.1%	3.5%	4.2%
Consumer Spending	0.9%	4.1%	3.5%	3.9%
Nonresidential Fixed Investment	4.5%	8.5%	8.6%	9.4%
Residential Fixed Investment	2.8%	7.3%	7.1%	10.3%
Exports	5.1%	2.5%	6.9%	8.4%
Imports	12.1%	2.4%	6.3%	10.7%
Federal Government	-2.6%	7.4%	2.3%	5.2%
State and Local Governments	0.2%	0.2%	1.5%	0.4%
	March 2006	March 2005	2005 Annual Average	2004 Annual Average
Inflation ²	3.6%	3.0%	3.4%	2.7%
Nonfarm Employment Growth ²	3.2%	0.3%	1.1%	1.1%
Unemployment Rate ²	4.7%	5.7%	5.5%	5.5%
Housing Permit Growth ²	4.4%	7.0%	6.1%	7.1%
Growth in the Value of Nonresidential Construction ³	10.9%	8.4%	6.4%	7.3%
Retail Sales ³	6.8%	7.8%	7.6%	2.9%

¹Annualized growth compared with preceding quarter.

²Year-to-date.

³Year-to-date through February 2006.

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 April 2006, the Conference Board consumer confidence index reached a four-year high. The index rose to 109.6, up 2.1 points from 107.5 in March 2006. The increase reflects consumer's upgraded assessment of the improving labor market, their assessment of their current situation, their expectations for the future, and their opinion of business conditions. Meanwhile, rising energy prices, interest rates, and inflation concerns continue to dampen overall confidence.

The Federal Reserve increased short-term interest rates to 4.75 in March 2006 from 4.50 in January 2006 in response to rising inflationary pressures. The Federal Reserve has increased interest rates 15 times since June 2004. Additionally, commercial banks raised their prime lending rates to 7.75% in

March 2006 from 7.50% in January 2006 in response to the interest rate increase. Meanwhile, through February 2006, inflation was 3.8% compared with 3.0% in February 2005.

The Institute for Supply Management (ISM) *manufacturing index* was 55.2 in March 2006, down 1.5 points from the 56.7 posted in February 2006. 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 employment 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 60.5 in March 2006, up from 60.1 in February. March's score reflects an increase in new orders and supplier deliveries. Out of 17 service industries included in the survey, 15 reported increasing or steady business activity.

“ . . . residential home permits issued year-to-date through March 2006 rose 4.4% compared with the same period in 2005.”

The U.S. Department of Commerce reported residential home permits issued year-to-date through March 2006 rose 4.4% compared with the same period in 2005. Single-family home permits issued rose 1.4% and multi-family home permits issued rose 14.9%. Meanwhile, the year-to-date value of all nonresidential building construction increased 10.9%. The value of *retail* construction rose 13.6%, the value of *office* construction rose 17.9%, and the value of *factory* construction rose 19.6%.

THE COLORADO ECONOMY

Colorado's economy remains strong. The state is posting steady employment gains, personal income and consumer spending are increasing, and the tourism industry continues to expand.

“Colorado's economy remains strong.”

Additionally, construction activity remains positive and traffic through Denver International Airport is setting new records.

Colorado Economic Statistics

	March 2006	March 2005	2005 Annual Average	2004 Annual Average
Nonfarm Employment Growth ¹	2.3%	2.1%	2.1%	1.2%
Unemployment Rate	4.3%	5.7%	5.0%	5.6%
Housing Permit Growth ²	1.7%	4.0%	-0.5%	17.5%
Single-Family	-7.9%	5.5%	-0.8%	20.6%
Multi-Family	69.9%	-5.3%	1.4%	-0.5%
Growth in the Value of Nonresidential Construction ¹	18.1%	65.3%	8.7%	29.6%
Retail	-0.6%	47.7%	7.6%	9.0%
Offices	2.2%	23.8%	26.7%	10.7%
Factories	920.1%	-85.8%	668.6%	145.9%
Retail Trade Sales ³	7.8%	5.5%	4.9%	6.2%

¹Year-to-date.

²Year-to-date through March 2006.

³Year-to-date through January 2006.

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

Through March 2006, Colorado employment rose 2.3% compared with 2.1% growth through March 2005. Key industries registering job gains include state and local government, education and health services, and professional and business services. Meanwhile, the March 2006 Colorado unemployment rate dropped to 4.3%, down 1.4 percentage points from the 5.7% rate posted in March 2005.

According to the Bureau of Labor Statistics, Douglas County was the fastest growing employment county in Colorado. Between 2000 and 2005, Douglas County grew 20.6%, adding nearly 21,000 positions. Furthermore, between 1990 and 2005, the total number of jobs in Douglas County increased 263%. Employment gains in the county from 2000 to 2005 were a result of new homes and hospitals, shopping areas, and restaurants. Weld County had the second-

highest employment growth in the state increasing 15.6% during this time period.

Recent announcements of new hiring in Colorado include:

- Walmart will open a new Supercenter in April 2006. The Pueblo West store will be staffed with 400 supervisory personnel, cashiers, docking staff, and stock associates.
- Medical technology company Gambro announced plans to add 300 engineering, production, and science positions at its Lakewood facility by 2007.
- By 2009, Climax molybdenum mine will add 300 positions to its Leadville mine after closing the mine in the late 1980's.
- United Airlines will hire approximately 200 positions in Denver by December 2006. The carrier will hire 100 seasonal workers, 50 part-time ramp workers, 30 furloughed customer service employees, and 10 airport operations supervisors.
- The National Renewable Energy Laboratory will rehire 32 research and support positions at its Golden facility in 2006. The positions were originally eliminated due to the laboratory's budget shortfall in February 2006.

Recent announcements of layoffs in Colorado include:

- Swift & Co. announced plans to eliminate 185 positions in April 2006. The Greeley-based beef processing plant attributed the layoffs to rising cattle prices, new equipment, and the Japanese ban on beef imports.
- Raytheon Co. plans to cut 130 engineering and administrative positions at its Aurora facility by March 2006 due to government program restructuring.

Bankruptcies and Foreclosures

The number of Coloradans filing for bankruptcy in first quarter 2006 decreased compared with the same period last year. Public trustees recorded 1,406

bankruptcies in first quarter 2006, a 79.6% decrease compared with 6,904 bankruptcies recorded in first quarter 2005. The rise in 2005 bankruptcies was attributed to new federal legislation — The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 — which became effective October 17, 2005. Meanwhile, home foreclosures in the seven-county Denver area continued to climb during the first three months of 2006. Through March 2006, 4,764 foreclosures have been recorded, a 31.5% increase compared with the same period last year. The two-year high is a reflection of increasing home inventories and rising interest rates in the Denver area. 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

According to the Colorado Geological Survey, Colorado ranked seventh among the nation's coal-producing states. In 2005, the state produced 38 million tons of coal, a 5.0% decrease compared with 40.1 million tons produced in 2004. The decrease in Colorado coal production is attributed to dangerous gas buildup in the Somerset West Elk mine and a unstable roof in the Elk Creek mine, both of which slowed production throughout the year. 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.

“... Colorado ranked seventh among the nation's coal-producing states.”

In 2007, Rio Tinto Minerals will relocate its world headquarters to Denver from London. The \$52 billion company will bring three industrial mineral divisions together: Luzenac, Rio Tinto Borax, and Dampier Salt Ltd. Luzenac supplies 25.0% of the world's talc market and employs 1,500 people worldwide. Rio Tinto Borax employs approximately 1,400 in California's Mojave Desert and supplies 43.0% of the world's refined borates. Dampier Salt Ltd., the world's largest salt exporter, exports nearly 8.5 million tons of salt and one million tons of gypsum to the Middle East and Asia.

Suncor Energy announced plans to upgrade two oil refineries in Commerce City to begin production of ultra-low sulfur diesel and gasoline by June 2006. The \$470 million makeover is expected to produce 90,000 barrels of low sulfur diesel and process tar-like oil sands and crude oil from the Rocky Mountain Region and Canada. The refineries supply approximately 40.0% of Colorado's diesel and gasoline requirements. In 2001, the U.S. Environmental Protection Agency passed new federally-mandated regulations allowing ultra-low sulfur diesel to be phased into production beginning in 2006 as a replacement fuel for low-sulfur diesel.

"The refineries supply approximately 40.0% of Colorado's diesel and gasoline requirements."

In Leadville, Phelps Dodge Corp. revealed plans to reopen the Climax molybdenum mine after closing in 1987. During the late 1950's, the Climax mine produced over half of the world's molybdenum. Over time, the mine excavated approximately 946,000 tons of molybdenum, totaling \$4 billion. The mine will employ approximately 300 people and produce up to 30 million pounds of molybdenum per year.

Xcel Energy will build Colorado's first solar-powered generating plant in the San Luis Valley. The \$60 million plant will provide 13,700 megawatt hours of electricity, serving approximately 1,800 homes. The photovoltaic facility is expected to be completed by the end of 2007.

Exports

In 2005, Colorado exports set a new record of \$6.78 billion, a 2.0% increase compared with the \$6.65 billion recorded in 2004. According to the Governor's Office of Economic Development and International Trade, growth was fueled by computer-related and electronic products and surging demand for semiconductor products. The state's top three export markets are Canada, Mexico, and China.

"In 2005, Colorado exports set a new record of \$6.78 billion"

Colorado Construction Activity

Residential Construction

The U.S. Bureau of the Census reported that the total number of Colorado housing permits issued through March 2006 increased 1.7% compared with the same period in 2005. The number of single-family home permits decreased 7.9% compared with March 2005, while multi-family home permits increased 69.9%.

On average, the year-to-date price of a single-family home in metro Denver was \$309,035 in March 2006, 10.5% higher than year-to-date March 2005. The average price of a condominium rose to \$183,169, a 0.5% increase compared with year-to-date March 2005. Meanwhile, the number of homes on the market in March 2006 rose 9.1% compared with March 2005.

" . . . the [March 2006] price of a single-family home in metro Denver was . . . 10.5% higher than year-to-date March 2005."

According to University of Denver's Gordon Von Stroh, Denver-area small property vacancies declined to 5.3% in 2005 compared with 7.0% in 2004. In 2003, the Denver-area experienced the highest small property vacancy rate of 12.4%. Additionally, the average rents for single-family, duplexes, triplexes, four-plexes, condominiums, and townhomes in the six-county Denver area fell to \$912.54, a 1.7% decrease compared with \$927.88 in 2004.

Two noteworthy new residential construction projects were recently announced:

- Osborn Development Corp. broke ground on a \$140 million project in Denver's Central Business District. The 32-story complex named One Lincoln Park will include 187 condominiums, secured parking, a seventh-floor rooftop pool, park area, and a fitness center. The units will be priced from the low \$300,000's to \$3 million and range in size from 800 square feet to 7,500 square feet. Construction will be completed in early 2008.

- In Ft. Collins, construction began on the \$8 million Urban Living Lofts project near Old Town. The development will feature 18 units ranging in price from \$320,000 to \$700,000 and range in size from 1,100 square feet to 2,000 square feet. The lofts will be completed in early 2007.

Nonresidential Construction

F.W. Dodge reports that the value of Colorado nonresidential building construction rose 18.1% through March 2006 compared with year-to-date March 2005. The value of *retail* construction decreased 0.6% while the value of *office* space construction increased 2.2%. Meanwhile, the value of *factory* construction rose 920.1% due to the renovation of the concrete fabrication plant in Mesa County, which began in early 2006. The value of *other* construction — amusement, education, and public buildings — rose 25.0%.

According to a report from CB Richard Ellis, Denver absorbed 766,868 square feet of vacant office space in fourth quarter 2005 — the highest level since 2002 — compared with an absorption increase of 293,171 square feet during third quarter 2005. Indeed, the Denver office market posted a 15.3% vacancy rate in fourth quarter 2005 compared with 16.3% during third quarter 2005. However, the northwest Denver market continues to struggle, posting a 23.5% vacancy rate during fourth quarter.

Nonresidential construction projects announced during the past month include:

- Drahota Construction broke ground on a \$17 million, 89,000 square foot long-term care and rehabilitation facility in Ft. Collins. The two-story Lemay Avenue Health & Rehab Facility, LLC will have 131-beds, seven sun rooms, two dining rooms, two courtyards, and walking paths. The project will be completed by May 2007.
- Lowe's Companies, Inc. announced plans for a 19-acre, \$10 million flatbed distribution center in Henderson. The center will receive lumber shipments and building materials from suppliers and service stores throughout Colorado, Utah, Idaho, New Mexico, Montana, Wyoming, and South Dakota. The new distribution center will be completed by July 2006.

- Construction began on a \$4.3 million addition to Lafayette's Good Samaritan Hospital. The 30-bed addition to the existing 174-bed facility will serve up to 130 patients a day. The project will be completed by August 2006.

Colorado's Industrial Sectors

Advanced Technology

According to a survey by the Metro Denver Economic Development Corp., Colorado ranks third in aerospace employment. In 2005, Colorado had 24,577 aerospace employees, a 10.7% increase compared with 22,200 employees in 2004. Among the six aerospace employers, Lockheed Martin employs approximately 10,300 people in Colorado, followed by Ball Aerospace and Technologies Corp. with 3,800 employees, Raytheon with 2,500 employees, Northrop Grumman with 2,900 employees, Boeing with 2,300 employees, and ITT Industries Inc. Systems Divisions with 1,000 employees. Additionally, Colorado aerospace employment grew 19.8% between 2000 and 2005 outpacing the nation's 2.0% aerospace employment growth during the same period. California has the highest concentration of aerospace employees with 66,100 followed by Texas with 32,600 employees.

Agriculture

Prices received by Colorado farmers in mid-March 2006 were higher for wheat and corn and lower for steers, heifers, and calves. The mid-March 2006 price of winter wheat rose 17.7% compared with mid-March 2005, while the price of corn rose 5.8% during the same period. Steer and heifer prices decreased 0.9% during this period and the price of calves declined 0.7%.

"Prices received by Colorado farmers in mid-March 2006 were higher for wheat and corn and lower for steers, heifers, and calves."

Manufacturing

In March 2006, Colorado's manufacturing sector expanded for the third consecutive month. According to the Front Range Purchasing Managers Index, Colorado's score was 56.8 in March 2006

compared with 57.7 in February 2006. A score above 50 indicates an increase in economic activity, while a score below 50 indicates a decline. March's expansion reflects an increase in production and new orders compared with February 2006.

Tourism

Through January 2006, year-to-date passenger traffic at Denver International Airport (DIA) was up 8.3% compared with the same period last year. The increase in the number of passengers is a new record for the month of January at DIA as a result of Southwest Airlines starting service in Denver and increased flights by Frontier Airlines. According to a report released by the Bureau of Transportation Statistics, DIA was ranked as the sixth-busiest airport in North America followed by Hartsfield-Jackson Atlanta, Chicago-O'Hare, Dallas-Ft. Worth, Los Angeles International, and Las Vegas McCarran.

"Through January 2006, year-to-date passenger traffic at Denver International Airport (DIA) was up 8.3%"

As a result of increased traffic, a number of airlines announced plans to grow in Denver. Southwest Airlines announced plans to add 40 nonstop flights and United Airlines will add 32 more flights from DIA over the next few months. Currently, Southwest Airlines launches 20 daily flights and United Airlines launches 423 daily flights from Denver. Frontier Airlines announced plans to fly from Denver to Calgary, Alberta beginning May 2006 as a result of increased business and leisure travel. The airline will offer two daily flights from Denver to Calgary.

Additionally, Delta Airlines announced plans to offer one flight daily from Salt Lake City to Aspen from June 2006 through early September 2006.

Approximately 64,000 passengers fly in and out of the Aspen/Pitkin Airport during the summer months.

The Permian Basin Railways announced plans to offer railway service from Alamosa to La Veta, Colorado. The four passenger railcars are expected to transport 150 people per day and will operate from May 2006 through September 2006, offering connections to the Cumbres & Toltec railroad.

According to the National Park Service, approximately 6.0 million people visited Colorado's state parks in 2005, a 0.2% increase compared with 5.9 million visitors in the 2004 season. Colorado's Rocky Mountain National Park attracted the largest number of visitors (2.9 million) followed by Curecanti National Recreation Area (1.0 million).

Venture Capital

According to the MoneyTree survey, 18 Colorado companies closed venture capital deals totaling \$116.7 million during fourth quarter 2005, a 17.2% revenue increase compared with \$99.6 million in venture financing secured during fourth quarter 2005. Computers and peripherals captured \$55 million in venture capital financing, while software received \$35 million. The two companies receiving the largest amount of venture capital were Cornice, Inc. (\$55 million), a personal storage device company based in Longmont, and Intelliden, Inc. (\$11 million), a Colorado Springs-based network and software solutions company.