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Travel Industry Faces Uncertain Future

Gary Horvath

In the keynote presentation at the 2002 Colorado Business Economic Outlook Forum, William Hannigan, president, chairman, and chief executive officer of Sabre, indicated that the travel industry will face some uncertain times in the months ahead. The industry, which accounts for about 11.6% of the U.S. GDP, began softening in the second quarter of 2001. For example, second quarter air bookings were down 2.8%, while North America air bookings fell 5.0%.

The primary benefactors of the U.S. travel industry are the airlines and hotels. About 55.0% of the industry revenue is attributable to airlines and 31.0% is attributable to hotels. During 2001 profitability for both airlines and travel agencies had weakened substantially. Pre-September 11 estimates from Goldman Sachs predicted that the airline industry would lose $3.4 billion in 2001.

The events of September 11 caused an immediate drop of about 30.0% in U.S. revenue passenger miles. This compares to a decrease of less than 5.0% in revenue passenger miles at the start of the Gulf War and the WTC bombing in the early 1990s. The recent decrease in U.S. travel is substantially lower than decreases in other parts of the world, in particular Asia.

Consumer fears have had a major impact on the travel industry as airlines and hotels have obviously been hit the hardest. Nationwide, the airline industry has experienced layoffs of 110,000 employees, compared to about 360,000 for the hotel industry and 13,000 for the rental car industry.

On a more positive note, a recovery is in process and the recovery has been quicker than anticipated. However, this is still not good news for those in the travel industry. Americans have returned to the airways in part because of reduced airfares. The Thanksgiving and Christmas holidays have also presented consumers with a reason to travel.

While reduced fares have enticed Americans to travel, they have had a negative impact on the bottom line for many of the airlines. To illustrate this point, Hannigan mentioned that one airline said that it would need to have approximately 95.0% of seats filled at the current rates for it to be profitable. This goal is obviously unattainable.

In addition to reduced fares, other implications on the travel industry are that travelers are expected to stay closer to home. They are expected to drive more frequently and use alternate forms of transportation, such as bus and rail. International travelers are also anticipated to stay closer to home as Europeans, Japanese, and Koreans are expected to remain cautious about international travel.

Travelers are also expected to seek out smaller more intimate accommodations, which bodes well for inns and bed and breakfast properties. They are also likely to focus on local events, with less attention being given to big-name attractions. This negatively impacts attractions such as Universal Studios and national parks, at least on a short-term basis.

A good way to understand the magnitude of the U.S. travel industry is to

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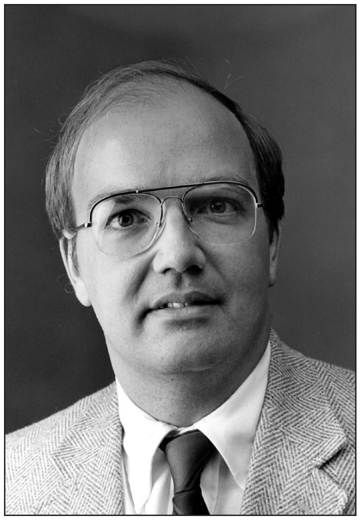
From the editor . . .

This issue focuses on the 2002 Colorado Business Outlook Forum, which was held in Denver on December 17. Highlights of the keynote address and panel sessions are provided, along with a summary of the 2002 forecast. Please contact me at 303-492-1147 with your comments and suggestions of topic areas for future issue of the *CBR*.

Richard L. Wobbekind

2002 Colorado Business Economic Outlook Forum

Richard L. Wobbekind



Employment. The goods-producing sectors of the economy will remain stagnant or decline in 2002. These declines will be offset by growth in the service-producing sectors. All service-producing sectors are expected to increase in 2002 except Transportation, Communications, and Public Utilities. In 2002, 10,500 new jobs are expected to be added overall.

Agriculture. Uncertainty overlies the Agriculture Sector. A decline in exports is due to the softening of our major trading partners' economies, coupled with international concerns over livestock diseases. For most of Colorado's major commodities, growth is not expected in 2002.

Oil, Gas, and Mining. The Oil, Gas, and Mining Sector is expected to experience strong growth in 2001, leveling out at 13,600 employees in 2002. Growth will be in the production of coal and natural gas, while declines are expected in crude oil and carbon dioxide.

Construction. The curtailing of construction activity in 2002 will result in a drop in the average employment level to 153,000 workers, a 6.1% decline from the average during 2001. While not a trivial adjustment, this will still place the 2002 job level above that for 1999 and earlier years.

Manufacturing. The Manufacturing Sector failed to recover in 2001. Following a 1.4% decline in employment in 1999, the sector added 1,000 jobs in 2000 to record a 0.5% growth rate. However, the deterioration in national and international economic conditions in 2001 made employment expansion impossible. The Manufacturing Sector will lose 4,700 jobs in 2001, the largest decline in employment since 1991. Sector performance is expected to improve in 2002, but will still suffer some additional job loss.

Transportation, Communications, and Public Utilities. Slower economic conditions have hurt the Transportation, Communications, and Public Utilities (TCPU) Sector. The telecommunications boom of the 1990s has fizzled, and the air and trucking subsectors have also experienced a downturn. This situation has been exacerbated by the events of September 11. TCPU employment is estimated to be 138,900 in 2001, down 4.3% from 145,200 in 2000. This loss of 6,300 jobs in 2001 represents the largest recorded decrease for the sector. More job losses in the telecommunications and transportation subsectors are anticipated in 2002, while other subsectors are expected to see only modest changes in employment.

Finance, Insurance, and Real Estate. The Finance, Insurance, and Real Estate (FIRE) Sector accounts for only 6.3% of total Colorado employment in 2000; however, it contributes 8.9% of total wages. In 2001 the FIRE sector was the sixth largest, moving ahead of the TCPU Sector. Overall, sector employment has been stagnant; however, employment during 2002 is expected to increase moderately by 1.4%, or 2,000 jobs.

Wholesale Trade and Retail Trade. The Trade Sector will continue to be a driver of the economy in 2002, adding 5,400 jobs, an increase of 1.0%. This lower rate of growth is a function of decreased consumer confidence and lower in-migration. Retail trade sales are projected to increase in 2002 by 3.9%.

Services. Employment growth in the Services Sector has been strong over the past decade as total sector growth has increased at an annualized rate of 4.8%. The stock market bubble has burst, high-tech businesses are laying off employees, and tourism has been devastated, which has resulted in much slower growth particularly in business and software services. The Services Sector is expected to add 12,700 jobs in 2002, or increase at a rate of 1.8%.

Tourism, Outdoor Recreation, and Conventions. The terrorist attacks of September 11 have negatively impacted tourism, both nationally and in Colorado. The tourism industry will recover slowly throughout 2002. However, we do not anticipate overall activity in tourism to reach prior highs until 2003.

Government. For the past 10 years, government employment grew 2.1%, well below the Colorado annual average growth rate for total nonagricultural employment. Growth in the Government Sector will increase by 1.6% in 2002, driven by an increase in local government employment.

International Trade. The global economic downturn, evident throughout the first eight months of 2001, was compounded by the events of September 11. Total Colorado exports are expected to remain flat, at $6.4 billion, in 2002. The lone bright spot for exports in 2002 will be agriculture.

Richard Wobbekind is associate dean of external relations and director of the Business Research Division (BRD) in the Leeds School of Business at CU-Boulder. A more detailed look at the 2002 forecast is available from the BRD for $5.00. Call 303-492-8227 to order a copy.

Colorado Population, Labor Force, Employment, and Revenue in 2001

Diane Dimeff

David Larson, Colorado Department of Labor and Employment, moderated the forum breakout session on "Colorado Population, Labor Force, Employment, and Revenue in 2001." Mr. Larson was joined by colleagues William Anderson, Colorado Department of Labor and Employment; Richard Lin, Colorado Division of Local Government; and Jim Westcott, Colorado Division of Local Government.

Larson supported the position put forth at the forum's general session that the recent economic slowdown probably began in late 2000 and was well underway prior to the events of September 11. During this past year, unemployment increased by 40,000 people and will continue to climb over the next few months. The Colorado tourism and construction industries were hit hard by the economic slowdown, resulting in significant job losses for individuals employed in those industries. The slowdown has also had a significant impact on workers known as "commuters," individuals who work temporarily in the state, such as consultants, contractors, and migrant workers. Opportunities for these individuals, which were once abundant, are limited.

With this economic downturn, the state's population trends have changed as well. Statistics indicate that many individuals have moved out of the state to seek family support and job opportunities, and fewer people are moving to Colorado for employment. Those who are moving out of Colorado tend to be in the low-income bracket, whereas those moving into the state are generally in the high-income bracket. Thus, net migration has experienced a moderate slowdown as of July 1, 2001, and should continue to slow until the economy strengthens.

However, Larson was optimistic about the future of the economy. For example, the automobile industry sold 1.2 million autos in October of 2001 compared to 900,000 a year earlier. Each time a dollar is spent in the auto industry it is recycled through the economy three times each year. Fuel costs have decreased, so heating bills are lower and gas prices have gone down. Although the semiconductor industry has been hit hard in this downturn, there are signs that the industry has bottomed out and will begin to turn around.

The current slowdown compares positively to the downturns in 1973, 1980, and 1990 in which key indicators were significantly weaker. For example, in 1990, consumer confidence was at 62.6 compared to 86.6 in 2001; college graduates earned on average $32,000 in 1990 compared to $41,000 in 2001; and the capital/asset ratio was 6.5% in 1990 and 8.8% in 2001. Additionally, after the Gulf War, it took the S&P 131 days to regain its previous trading levels, whereas after the events of 9-11 the S&P recovered in 19 days. Thus, while comparable to other downturns experienced in the past 30 years, this one appears milder. Therefore, the economy should improve by the middle of 2002.

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Energy and Security

Cindy DiPersio

The issue of energy and security became increasingly important in the wake of the terrorist attacks on September 11. For this reason, John Tobin, Energy Literacy Project, organized a forum industry discussion session on this topic featuring participants Tom Petrie of Petrie, Parkman and Company; Dorothea El Mallakh with the International Research Center for Energy and Economic Development; and Stanley Bull from the National Renewable Energy Laboratory. The speakers focused their comments in three areas: diversity of supply, alternative sources, and decentralization.

Diversity of Supply

The current structure of the oil production and supply system is based on the relationship between OPEC and non-OPEC producers. The percentage of oil produced by non-OPEC suppliers has diminished in the last couple of years, but is still showing strong growth. Oil production and supply play a large role in price per barrel, which in turn affects whether alternative suppliers and forms of energy are explored. Currently, the price per barrel is low; therefore, other potential sources and forms are not being explored to a great extent. In addition, consumers and businesses do not see the need to conserve and find more efficient, less wasteful ways to produce energy. The panelists all agreed there is a need for a greater diversity of supply, which would help in terms of security as well.

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The Effect of Growth on City and County Stability

Megan Potochniak

Growth and growth management is an important topic in Colorado, a state whose resident population growth has doubled the national average for the past 10 years. Representatives from education, government, and industry discussed this subject during a breakout session at the 2002 Business Economic Outlook Forum. John Shaw of Opus Northwest moderated the panel.

Jim Jacobs, director of finance for the Colorado Commission on Higher Education, discussed his perspective on the structure of state and local government in Colorado and where these governments get their revenue. After a declining population in the mid-1980s, the past 15 years brought measurable growth to Colorado. Colorado ranked seventh nationally in per capita income in 2000.

In addition, Colorado is now the seventh wealthiest state in the nation. Its revenue in past years has mainly come from income and sales taxes at the state level, and property and sales taxes at the local level. Colorado ranks fifth in the nation in dependence on income taxes for revenue. Colorado's sales taxes, slightly above the national average, also contribute to the state, while property taxes play an important role in local government income. Housing prices have recently risen in most urban areas of Colorado. The state's dependence on taxes is a concern due to the recent national decline in consumer spending and worker layoffs.

Jim Schenck, mayor of the City of Golden, covered the topic of growth and growth management in Golden and other Colorado cities. Mayor Schenck was elected to the Golden City Council in 1987, when Golden was experiencing a period of low population and slow growth. Enrollment at the Colorado School of Mines was down, the oil industry was undergoing a slow period, and up to 45% of the city's retail space was vacant.

How do you turn a bedroom community into a place where citizens want to live, work, shop, and stay? Schenck and his council planned to raise the sales tax, set aside one cent on every dollar for capital improvements such as sidewalks and streets, and bring more businesses into Golden. Things started to improve in 1992, and in 1995 citizens voted in a 1% growth cap. This cap, which slows growth in Golden to half the normal rate, raised home prices almost overnight. In the past six years, home prices have doubled in Golden. New businesses also began coming to the area, leading to a 20% increase in sales tax revenues. This funding has been used to improve infrastructure and provide facilities that will support growth in the area. A water plant expansion and future improvements such as a new golf course and aquatics park continue to make Golden a desirable place to live.

> ***"How do you turn a bedroom community into a place where citizens want to live, work, shop, and stay?"***

Kevin Stonebridge, planning director of the City and County of Broomfield, focused on funding city and county activities and services. As a city, Broomfield funds projects with sales tax revenue, but as a county it is much more dependent on the annual $28 million brought in from property taxes. One quarter of its 3.75% sales tax is devoted to open space, another quarter to county government, and 1% to capital improvements. Broomfield's growth and development is the result of a master plan of what residents wanted and needed. FlatIron Crossing was developed, Interlocken grew, and the residents gained a new recreation center, library, auditorium, and sense of community. Stonebridge attributes the success of Broomfield's growth to its approach — don't build just to build. It is important to hire planners and consultants who understand long-term development needs. Stonebridge also indicated that the best time to plan for periods of growth is when resources are available.

The session concluded with Q&A and a discussion of some of the problems and solutions of growth in Colorado. The panelists discussed such issues as transportation, the housing shortage for students in Golden, the hold put on capital projects for higher education, and the difficulties of raising revenue under the TABOR amendment. Some solutions suggested were revenue sharing between Colorado cities, a statewide sales tax collected by communities, a better regional transportation system, and the importance of management in times of growth.

The panelists agreed that the most important issue in times of growth is good management. Growth is not going away in Colorado, and citizens need to know that their government is aware of it and is doing something about it.

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Betting on Biotech

Karen Eye

This forum session explored investments in the biotechnology industry and the potential return on investment from the perspectives of state governments, investors, and companies. Karen Eye, director of the CU Business Advancement Center, introduced the session with an overview of the industry nationally. The biotechnology industry doubled in size between 1993 and 1999 according to an Ernest & Young report released May 2000. This report, "The Economic Contributions of the Biotechnology Industry to the U.S. Economy," attributed 151,000 direct new jobs and 287,000 indirect new jobs to the U.S. biotechnology industry in 1999. In addition, biotechnology produced annual revenues of $20 billion and generated $10 billion in tax revenues. In addition to economic development benefits, other benefits such as improved public health and quality of life are attributed to biotechnology.

Because of these perceived public benefits, many states are "investing" in the industry through a variety of strategies outlined in "State Government Initiatives in Biotechnology," released by the Biotechnology Industry Organization (BIO) (www.bio.org). These strategies include:

- Biotechnology strategic plans or biotechnology included in the state's economic development plan;
- Using tobacco settlement funds for basic bioscience research;
- Publicly supported pre-seed and seed stage venture funds;
- Research parks that include or are specific to biotechnology research;
- Business incubators that include biotechnology or are specific to biotechnology start-up firms;
- Biotechnology industry associations;
- Tax incentives;
- Commercialization and business assistance; and
- Industry-oriented bioscience education.

Robert Olson, executive director of the Fitzsimons Redevelopment Authority cited a KPMG survey of 300 U.S. biotech CEOs (1995) that ranked the site selection factors of importance to biotechnology companies. The highest-ranking factors were proximity to founding research or key academic institutions (74%) and the ability to expand at the same site (60%). Other important factors were the availability of R&D space with financing for lab fit-up. A study by the Colorado Biotechnology Council (March 2001) identified Colorado's strengths to include highly ranked life-science research institutions, recent increases in venture investments in state companies, the concentration of federal labs, and the development of Fitzsimons.

On the other hand, weaknesses were also identified. These led to the development of some core initiatives:

- Centralize activities and initiatives for growth;
- Enact additional tax incentives;
- Provide state economic development funds to market the state as a location for the industry;
- Improve tech-transfer programs and increase academic-industry collaboration;
- Recruit additional "world-class" scientists to key academic institutions;
- Support the development and operation of biotech incubators; and
- Support biotech workforce development, including skill sets for convergence with information technology.

Growing a biotechnology company in Colorado is "tough" according to Jack Wheeler, CEO and member of the Colorado Biotechnology Council. It's also "rewarding!" The CEO of a biotech firm has the unique ability to bring potentially life saving products through development to actual use. Furthermore, a biotech company offers sustainable returns to investments that far exceed most other commercial ventures. In Colorado, however, there are some real difficulties. Some problems stem from the still limited number of biotechnology companies located here. In addition, the industry is overshadowed by other industries, making it difficult to receive attention from policymakers and investors. It is hard to attract a highly capable and experienced CEO, and there is limited access to experienced management. While some states have actively developed "clusters" that draw suppliers and services that support biotech firms, the concept has not been promoted in Colorado.

Mr. Wheeler cited recent changes that are improving the state environment for the industry. These include the development of the Bioscience Park Center (business incubator) at Fitzsimons; the governor's support and creation of the Colorado Biotechnology Council, a renewed industry association; and some increasing investor interest in financing Colorado biotechnology companies.

Kyle Lefkoff of Boulder Ventures stated that financing is available for successful, well-managed companies. He stressed the importance of university basic research as the engine producing new bioscience technologies, products, and companies in the state.

Karen Eye is the director of the CU Business Advancement Center (CUBAC). CUBAC supports the growth of technology industries in Colorado through research consulting, information, and networking services to businesses and organizations. Karen can be reached at 303-554-9493.

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look at the most recent data, which are from 2000. During that year, there were approximately 8.9 million domestic airline departures, or an average of about 24,525 U.S. domestic flights per day. These flights accommodated about 638.9 million domestic enplaned passengers in 2000.

During 2000 U.S. travelers occupied about 2.6 million hotel rooms per day. In addition, there were about 1.83 million rentals cars in service, and approximately 80.0% were in use daily. In the United States, the industry supports about 8 million direct jobs and 9 million additional indirect jobs.

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Alternative Sources

Renewable energy sources were also discussed in the session. Wind, geothermal, biomass, and solar vary in their use across the country. Programs such as Xcel's Windsource program, where customers in Colorado and New Mexico decide how much wind energy they want to buy, help support the development of renewable energy sources.

Energy options currently being developed include hybrid electric vehicles, such as Toyota's Prius and Honda's Insight, and zero-energy buildings, which are buildings that over the course of a year "make" as much electricity (through the use of cells and so forth) as the amount of energy consumed. These buildings have a zero-energy balance.

Decentralization

The country's heat and power generation system is aging. This system primarily depends on large generating facilities, which may be targets for terrorists. Replacing these facilities presents an opportunity to supply power in the future according to our current business, social, and political climate. A decentralized system of power generation will reduce vulnerability and increase reliability.

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