

COLORADO BUSINESS REVIEW

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Colorado Economic Sector-by-Sector Updates
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Colorado: Then and Now

	Rate		Rank	
	2000	2003 ^a	2000	2003 ^a
Population growth	2.4%	1.1%	3	16
Employment growth	3.8	-1.5	2	48
Unemployment	2.8	6.0	6	33
Wage and salary growth (2002)	12.9	-2.0	2	49
Personal income growth	12.1	2.8	1	45
Per capita personal income growth	9.4	1.7	3	46
Gross state product growth (2001)	11.2	2.6	3	23

^a All data 2003, except wage and salary growth and gross state product growth.

Note: Rankings out of 51, District of Columbia included. Gross state product lags behind other statistics.

Source: Bureau of Labor Statistics, Bureau of Economic Analysis.

U.S. Economic Outlook

Output

A stronger economy, with prospects for continued growth in the second half of the year, has caused the Colorado Business Economic Outlook Forum Committee to increase its forecast for U.S. economic growth for 2004 from 4.2% to 4.6%. The GDP deflator will increase from 1.2% to 1.6%. As a point of reference, the annual rate of growth in real GDP for the year is expected to be stronger than the period between 1996 and 2000, when the GDP varied between 3.6% and 4.5%.

Consumption

Modest growth in consumption is expected in 2004. This growth will be driven primarily by an increase in personal disposable income, but will also be fueled by rising consumer optimism and the rising wealth effect of a modestly appreciating stock market. The Conference Board's Consumer Confidence Survey is expected to continue its upward movement in 2004. The index bottomed out at 80.7 in 2002, but reached 101.9 in midyear 2004.

Nationally, retail sales are expected to show only a slight increase in 2004. Light truck and auto sales are expected to remain flat or show a slight decrease in 2004, which will prevent stronger overall retail growth.

Investment

Business investments are slightly stronger than anticipated in the original forecast. Investment growth will approach 10.0% in 2004, driven by continued replacement investment and augmented by increased demand for expansionary investment.

In partial response to this increased investment, industrial production will rise about 5.3% in 2004, after experiencing negligible growth in 2003 and negative growth in the two previous years. Business inventories are expected to increase by more than \$41 billion in 2004, the highest level since 2000.

Nationally, expectations are that in 2004 housing starts will be lower than in 2003 as mortgage rates increase. Still, the housing market is expected to be better than it was in the

1999–2002 period. This optimism is fueled by favorable mortgage rates and increased employment levels.

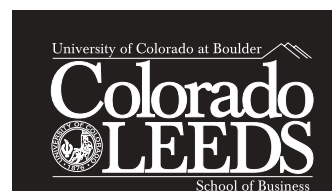
Government Spending

Government expenditures are expected to continue to expand in 2004 in response to greater spending in such areas as homeland security and defense. The federal budget deficit is expected to increase by about \$100 billion, to \$460 billion, in 2004.

Net Exports

The U.S. trade deficit will grow from \$509 billion in 2003 to \$520 billion in 2004. The

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Think Broadly.
Act Boldly.



by Richard Wobbekind

Colorado Economy 2004 Midyear Update: Sector Highlights

From the Editor

This issue of the *Colorado Business Review* presents a midyear update of the Colorado economy. The article on page 1 presents a snapshot of the national economy. An update for all sectors of the Colorado economy starts on this page

We are interested in your suggestions for topics of future issues of this newsletter.

Please contact me at

303-492-1147.

—Richard L. Wobbekind



Population, Labor Force, and Personal Income

The population growth rate in Colorado has declined steadily since 1999. The state's population grew an estimated 1.2% last year. A similar growth rate is forecast for 2004.

Economists are becoming optimistic

about employment in Colorado again. After falling 1.9% in 2002 and 1.5% in 2003, employment was down again for the first three months of 2004. However, April and May posted employment gains over last year, and this trend is expected to continue. Overall, the year should end with employment somewhere between the 2002 and 2003 levels.

In 2004, the unemployment rate is expected to fall. The state average for 2003 was 6.0%; the most recent data available for 2004 indicates the unemployment rate for May was 4.6%.

Per capita income is also expected to recover. In 2003, Colorado's per capita income fell slightly; this year it is expected to increase to some extent.

The Denver/Boulder/Greeley Consumer Price Index (CPI) is expected to remain below the national average for the next couple of years. Major factors determining the movement of the CPI in Colorado include housing prices and health-care costs.

Agriculture

The outlook for Colorado's agriculture industry in 2004 is largely positive. Profitability of companies in the sector should be high. Wheat production is being hit hard this year, due to the large number of acres abandoned from the drought. However, on the positive side, wheat prices are strong. The state's cattle sector is doing well, and the demand for beef remains strong. While cattle prices are down, milk prices are at a record high. The drought is negatively affecting sugar beets. Several large plants around the state have closed in the past two years, and more are in jeopardy. The fruit sector has benefited from the lack of major frosts this year, but potatoes have struggled in the past year. In the future, one area that could have a huge impact on the state's agriculture industry is plant-made pharmaceuticals—PMPs. This technology is still very much in its growth stage, but there is already a small presence in Colorado. With the strong concentration of the high-tech sector in the state, Colorado is well positioned to capitalize on this market.

Natural Resources and Mining

Colorado's Natural Resources and Mining Supersector, while relatively small in terms of employment, is still a very important part of the overall state economy. The supersector has added jobs each of the last three years, gaining 175 in 2003. Through May 2004, employment was about 2% above last year's pace. Experts anticipate the remainder of the year will follow a similar pattern.

Several factors are driving the strength of the supersector. The Rocky Mountain region, particularly the Piceance Basin in western Colorado and the San Juan Basin in the southern part of the state, is receiving attention for its natural gas resources. Gas and oil prices have been strong, and are expected to remain so through the rest of 2004. Improvements in oil-recovery technology are helping to spur growth in the industry. A number of mergers have taken place, and this consolidation should help to bolster the sector. The strength of Colorado's coal mining has also been a large contributor to the growth of the Natural Resources and Mining Supersector. This should continue to be the case as long as coal remains a primary source of energy. Overall, the outlook for the supersector is bright.

Construction

Colorado's Construction Supersector has struggled in recent years. In 2002, employment in the sector fell by 4.3%, a loss of more than 7,000 jobs. In 2003, the sector got hit even harder, declining 6.6% and losing roughly 10,600 jobs. So far this year, the story has been much the same. Through May, the employment in the sector is down 4.1%. This is expected to hold for the remainder of the year.

While employment in the sector has fallen off, activity in the sector has not. Building permits and valuation are way up in 2004. Through May, the number of residential building permits in Colorado increased 22% from last year's pace, and the value of these permits is up nearly 37%. Interest rates, although on the rise, are still relatively low. This is contributing to the strength of the residential construction sector. In the nonresidential sector, the number of permits is slightly below last year, but the value of these permits is up 24%. Nonresidential construction is being driven largely by hospitals. Four new hospitals are under construction in the Denver metro area.

Manufacturing

Manufacturing has been one of the hardest hit supersectors of the economy during the recent recession. After falling roughly 5% in 2001 and nearly 9% in 2002, manufacturing employment in Colorado declined an additional 6% last year. Through May, total manufacturing employment was still 2.7% below

2003, but the gap appears to be closing. Experts are optimistic about the sector in the second half of 2004, hoping for a net gain in jobs.

Many of the larger Colorado manufacturers have announced hiring plans in 2004, and several other firms have relocated to Colorado. The issue of outsourcing continues to dominate the manufacturing supersector. While Colorado has lost a number of jobs to outsourcing, the state has also added a number of higher-skill, higher-wage jobs in the process. Overall, the future of Colorado's manufacturing industry appears positive.

Trade, Transportation, and Utilities

Retail and Wholesale Trade

Growth for 2003 was weaker than forecast in all major employment categories and in retail sales. Recent statistics are more promising. If Colorado labor markets continue to strengthen, a sales forecast of 3.5% for the year looks reasonable.

Electricity and

Natural Gas

Electricity and natural gas utilities have been adding jobs in 2004, and electricity consumption has been growing at a 3.0% annual pace. To date, natural gas consumption is down more than 5%.

Aviation

Passenger numbers are up 19% through April at DIA. Similarly, operations have increased 13% and cargo 3%.

Outlook

With the possible exception of air transportation, these sectors depend on the overall strength of the economy. The U.S. economy seems to be enjoying solid growth, and Colorado is finally catching up with the national recovery. However, a number of developments, including high gasoline and home heating prices and rising interest rates, could derail the state or national economies.

Information

The Information Supersector has been hit hard by the recent economic downturn. Overall employment in the supersector fell 13.5% in 2002 and 8.5% in 2003. Through May of 2004, employment is down 3.1% from last year. Employment in publishing industries has begun to pick up this year, but the telecom and software sectors continue to lose jobs. Industry profitability remains low not only in Colorado, but throughout the nation. However, there are some positive signs that point to a possible recovery. Capacity utilization is very high, advertising revenues are up, and investment is growing.

After the large number of layoffs in the past couple of years, firms are lean and poised for a recovery. Overall, the outlook is hopeful, but Colorado may not see job gains in the Information Supersector this year.

Financial Activities

Colorado's Financial Activities Supersector experienced strong growth in 2003, gaining roughly 4,700 jobs. The finance and insurance subsector was up about 3.4%, adding a total of 3,500 jobs, while the real estate and rental and leasing subsector grew by 1,200 jobs, about 2.6% growth.

Overall, the sector is expected to remain strong in 2004, although it is unlikely that growth will occur on a similar scale. Through May, sector employment is up approximately 1%. Recapitalization has greatly increased loan

Through the first five months of 2004, average employment in the supersector is about 6,800 jobs greater than for the same period last year. The private education sector has increased by approximately 600 jobs, while around 6,200 jobs have been added in health care. Currently, both sectors are showing strong growth, but at a declining rate.

Although the conditions that have caused job growth in private education have not changed, it is unlikely that 1,200 new jobs will be added in 2004. It seems reasonable that the health-care sector will continue to be strong and at least 6,500 jobs will be added in 2004.

Leisure and Hospitality

Positives

There is an overall improvement in the U.S. economy in the past six months, with airlines,

A MEETING OF COLORADO BUSINESS ECONOMIC OUTLOOK FORUM SECTOR CHAIRS AND REPRESENTATIVES WAS HELD IN JUNE TO REVIEW 2004 FORECASTS MADE IN DECEMBER. THESE PARAGRAPHS BRIEFLY SUMMARIZE THE OUTLOOK FOR THE STATE.

demand and is fueling the banking industry. With no major mergers or acquisitions on the horizon, employment should remain fairly steady for the remainder of 2004.

Professional and Business Services

The Professional and Business Services Supersector in Colorado has been in a significant downward slide since 2000, but it appears to be poised to turn the corner. After losing more than 16,000 jobs in 2002, it lost an additional 5,800 in 2003.

However, employment growth is expected to renew in 2004. Early data appear to support this optimism. Through May, the supersector has gained 2,300 jobs, roughly 1% above last year's numbers. Subsectors showing notable employment gains this year include administrative and support services, legal services, architectural and engineering services, and management of companies and enterprises. The computer systems design subsector continues to struggle, but overall the outlook for the supersector is optimistic.

In the long run, the Professional and Business Services Supersector in Colorado will be primarily affected by three factors: business costs (such as health care and energy), outsourcing, and the strength of higher education.

Educational and Health Services

In 2003, a total of 5,000 new jobs were added in this supersector, an increase of 2.4%. The health-care sector added 4,500 jobs, while the private education sector grew by 500 jobs.

cruise lines, tour operators, car rental companies, and travel agents reporting that sales are climbing back to pre 9/11 levels.

International travel is showing double-digit increases for the months of February and March 2004 compared to the same period a year ago (Tourism Industries).

Summer leisure travel is expected to increase 3.2% in 2004 (Travel Industry Association [TIA]). Colorado ranked fifth in terms of states travelers would most like to visit this summer, up from eighth in 2003 (TIA).

The 2005 USA Snowboard Association National Championships will be hosted by Copper Mountain.

Negatives

Gas prices are making air and auto travel more expensive.

Preliminary statistics show that 2003-04 skier visits were 11,212,364, down 3.4% from last season. On the positive side, out-of-state business at Colorado's destination resorts increased 1.74% (Colorado Ski Country USA).

Concerns about security continue to weigh on the industry.

Government

After a very slight increase in 2003, government employment in Colorado is expected to remain relatively flat in 2004. Early data support this, showing that through May, employment is even with last year's pace. At the federal and

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U.S. ECONOMIC OUTLOOK, CONTINUED FROM PAGE 1

strength of the global marketplace is especially important to Colorado's export-dependent sectors, such as agriculture, international tourism, and manufacturing.

Prices

Concerns about inflation were raised during the first half of the year as a result of strong price increases in energy, transportation, and food. These fears have subsided somewhat, and the CPI is expected to increase by 2.2% in 2004, higher than the 1.5% rate originally forecast, but very moderate nonetheless.

Increased costs for energy and transportation have caused the committee to raise its projections

for producer prices, as measured by the Producer Price Index (PPI), from 0.4% to 2.5%.

Employment cost increases for 2004 are expected to remain at their 2003 level, 3.6%. Slow wage appreciation will help keep the costs down, although they will be offset by increasing benefit and medical costs.

Employment and Population

The committee's forecast for 2004 national employment remains unchanged. The unemployment rate is expected to be 5.9% in 2004 as overall labor conditions improve. Monthly employment gains averaged 211,000 jobs for the first half of the year and are expected to remain

at that level for the second half of the year. Increased hiring will be somewhat offset by workers reentering the workforce. This rise in labor force participation, while welcomed, will keep the unemployment number high.

For the remainder of 2004, job creation at the national level is expected to be broad based, with most sectors experiencing growth. Throughout the year, the service-providing subsectors are expected to continue to grow more rapidly than the goods-producing sectors.

Finally, there have been no changes to expectations for population growth. Nationally, population is expected to show growth of 0.9% in 2004. ☐

SECTOR HIGHLIGHTS, CONTINUED FROM PAGE 3

state levels the budget is looking better and possible hiring could occur in human resource-related areas. Homeland-security activity is also expected to increase during 2004. At the local government level, budgets remain tight in 2004. Local government employment could pick up slightly during the second half of the year, but noticeable employment gains are not anticipated.

International Trade

International trade has been stronger than expected in 2004. Last year, total value of exports from Colorado increased 10.6%. Through April 2004, exports are up again—16.3% above the same period in 2003. Experts anticipate this

pace of growth will continue for the remainder of 2004.

Canada remains the top export market for Colorado, followed by Mexico, Malaysia, Korea, and China. Thus far in 2004, all the major markets, except Korea and Japan, have shown increases. Growth has been particularly strong in Mexico, Malaysia, China, and the Philippines.

In terms of the products being exported from Colorado, industrial machinery (including computers) still ranks first in terms of total dollar value, although electric machinery, sound equipment, television equipment, and related parts is close behind. Rounding out the top five are optical, photo, medical and surgical

instruments; aircraft, spacecraft, and related parts; and photographic or cinematographic goods. Through April, the aircraft, spacecraft, and related parts sector, along with the electric machinery sector, have shown major growth.

The major issues affecting international trade right now are the relative weakness of the dollar internationally and offshoring. These two factors should continue to have a large impact on the quantity and value of Colorado's exports. ☐

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