UNIVERSITY OF COLORADO AT BOULDER LEEDS SCHOOL OF BUSINESS

COLORADO BUSINESS REVIEW

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Inside: A Review of 2004 on this page. Colorado Economic Sector-by-Sector Updates start on page 2. Summaries of Industry Discussion Sessions from the Colorado Business Economic Outlook 2005 Forum appear throughout.

Colorado Outlook Forum Director and CU Leeds School of Business Associate Dean Richard Wobbekind, left, and Professor Emeritus John Lymberopoulos present the 40th annual University of Colorado economic forecast in December. Lymberopoulos served on the finance committee of the initial forecast in 1965.

Forum Keynote Address:
A Year to Remember

Brendan Hickey

The 40th annual Colorado Business Economic Outlook Forum featured a keynote address by John Caldwell, Chief Investment Strategist and Department Director of McDonald Financial Group. Caldwell also serves as chairman of the group's Investment Policy Committee, and provides market and economic commentary for several internal and external newsletters. After a brief overview of financial market performance in 2004, Caldwell looked ahead to 2005.

The economy recovered from the recession at a slower rate than most had hoped last year. While consumer spending dropped off, capital spending carried the day. During 2004, the stock market showed sporadic growth. After a strong beginning, financial markets were sluggish during the middle of the year. Caldwell noted that the conclusion of the presidential election should give the markets a boost. He explained that closure is good for investor confidence, and that the Bush victory increases the probability of future tax cuts, an encouraging sign for consumers.

Caldwell is generally optimistic about 2005, although he pointed out several potential challenges facing the U.S. economy. Breaking GDP into its components, Caldwell has positive forecasts for personal consumption, business investment, and inventory investment; neutral forecasts for government spending and net exports; and a negative forecast for residential investment. He anticipates business spending to experience stronger growth than personal consumption. Caldwell identified the weak dollar, rising interest rates, high energy costs, and inflationary risks as some of the major issues affecting the rate of GDP growth next year.

After a general economic forecast, Caldwell addressed the financial markets. He suggested that we are at the end of an era. He pointed out that due to a disinflationary environment, the period 1982-2000 was the greatest bull market ever, and he cautioned that investors will not experience returns at these levels in the future.

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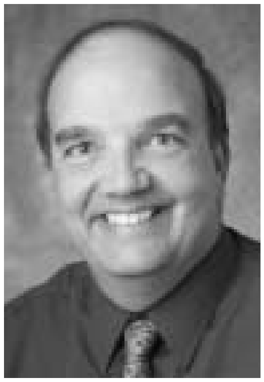
BUSINESS RESEARCH DIVISION
Think Broadly.
Act Boldly.

by Richard Wobbekind

2005 Colorado Business Economic Outlook: Sector Highlights



Gross Domestic Product (GDP)—The GDP is expected to register 3.6% growth in 2005, a rate comparable to the growth of the late 1990s. This represents a drop from 4.0% in 2004. The GDP deflator will remain stable, registering 2.0% growth in 2004 and 1.9% in 2005.

Consumption— Nationally, growth will be driven by a 3.1% rise in real personal consumption and an increase of 5.2% in retail sales. Light truck and auto sales, a major component of retail sales, will remain flat as a result of "spent-up" demand from creative financing programs over the last three years.

Investment—Strong real business investment is expected to continue in 2005, at a rate of 8.9%, as replacement investment and expansionary investment drive growth. This increased investment, at least in part, will result in higher industrial production rates, about 8.9%.

Government Spending—The federal deficit is expected to drop from $425 billion to $369 billion in 2005. The annual deficit represents just 3.0% of the GDP, and adds to the total U.S. federal debt, which will total $7.8 trillion at end of 2005.

Net Exports—The trade deficit is expected to increase slightly in 2005, from –$575 billion to –$577 billion. A weaker dollar will lead to an increase in the demand for U.S. goods and services in markets throughout the world.

Prices—Moving into 2005, neither inflation nor deflation appear to be a concern. Nationally, the change in the CPI is expected to be 2.7% in 2004 and fall slightly, to 2.4%, in 2005. Inflation rates for Colorado are projected to be 0.1% in 2004, even with increased energy prices, and grow, to 1.6%, in 2005. Producer prices, as measured by the Producer Price Index, are expected to increase only 1.8% in 2005 as energy prices stabilize or decrease slightly. Employment (average wage and salary levels) costs grew at a rate of 3.8% in 2004 and are forecast to remain at that level in 2005.

Population—Nationally, the population will continue to grow at a rate of 1.0%, while the growth of the state will slow to 1.1% in 2004 and increase to 1.2% the following year. Net migration will decrease to 10,000 people in 2004 and increase to 20,000 in 2005.

Labor Force and Unemployment—In 2005, the labor force will rise at a stronger rate than the rate of population growth because of a 3.3% increase in labor force participation. At the same time, the Colorado yearly rate of unemployment is expected to drop, to 4.8%, in 2005, returning to the level of natural unemployment. The national unemployment rate for 2005 is expected to measure 5.2%.

Personal and Per Capita Income—After rising at a rate similar to that of the United States between 2000 and 2004, the outlook for income growth is brighter in 2005 as total personal income is projected to increase 5.2% in Colorado, compared to 4.3% in the United States. Once again, the gap between Colorado per capita income and U.S. per capita income is expected to widen as annual averages will be $36,350 for Colorado and $32,431 nationally.

Employment—About 3,400 goods-producing jobs will be added in 2005 as all goods-producing sectors are expected to record job growth. Similarly, all service-producing sectors are expected to increase, for a total of 39,700 jobs. In 2005, overall employment will increase by 2.0%, or 43,100 total jobs, within Colorado. This employment growth further demonstrates the recovery and strengthening of the state economy.

Agriculture—High but volatile cattle prices, low cattle numbers, and rising fuel and fertilizer costs will be the driving forces behind profitability in Colorado's agricultural industry in 2005. Total livestock sales in Colorado will reach nearly $3.5 billion in 2005, the state's third-highest sales level. After bumper crops of corn and wheat in 2004, total crop sales should increase slightly in 2005. Total farm and ranching production is expected to reach a new high of $4.9 billion in 2005, resulting in an increase in net farm income of 5.5%, or $868 million.

Natural Resources and Mining—Colorado's energy sector is experiencing a boom, despite increased volatility in the marketplace. Increased demand for energy products, which is expected to continue in most energy areas through 2005, has resulted in growth in employment, output, and total sales. Seven hundred workers will be added in 2005, for a total of 14,700 jobs. This growth will be driven primarily by increased production of natural gas. Crude oil is expected to show a slight rise, and coal production will remain at 40 million tons, with output growth constrained by limitations in Colorado's rail infrastructure.

Construction—After losing about 20,600 jobs between 2001 and 2004, the Construction Sector will add 900 jobs in 2005. Total valuation of construction is expected to increase by 3.0% on the strength of residential and nonresidential construction. Gains in these areas will be offset by decreases in nonbuilding construction.

From the Editor

We begin a new year with a summary of our Fortieth Annual Colorado Business Economic Outlook Forum, our annual forecast that was presented on December 6 at the Marriott City Center in Denver. You can find out how the economy will fare in 2005 by reading the sector highlights, summaries of the break-out discussion sessions, and a summary of John Caldwell's keynote address. For additional details, visit our web site at http://leeds.colorado.edu/brd/ or call me at 303-492-1147.

—Richard L. Wobbekind

Manufacturing—Colorado manufacturers lost 37,300 jobs between 2000 and 2004, but are expected to add 1,800 jobs in 2005. This growth is spurred by increased business equipment and overseas demand for the types of goods manufactured in the state. Nondurable goods employment is anticipated to increase by 200 positions, while 1,600 durable goods jobs will be added in 2005. About 500 of these jobs will be in the manufacture of transportation equipment (i.e., aerospace). Anecdotal evidence suggests that this growth is limited by the ability of companies to find appropriately trained engineers.

Trade, Transportation, and Utilities—Between 1994 and 2003, the TTU Supersector grew by a total of 60,700 jobs, with 43,500 added in Retail Trade. In 2005, Retail Trade is expected to increase by another 4,900 jobs. This employment growth is based on projected retail sales growth of 5.7%. In addition, Wholesale Trade will gain 1,200 jobs. With an improving economy and record traffic at DIA, 600 new jobs will be added in the Transportation Sector. The final sector, Utilities, is expected to grow by 200 jobs. Overall, the TTU Supersector will increase by 1.7%, or 6,900 positions.

IN 2005, OVERALL EMPLOYMENT WILL INCREASE BY 2.0%, OR 43,100 TOTAL JOBS, WITHIN COLORADO. THIS EMPLOYMENT GROWTH FURTHER DEMONSTRATES THE RECOVERY AND STRENGTHENING OF THE STATE ECONOMY.

Information—Employment in telecommunications, the primary sector within this supersector, decreased from 46,800 to 32,300 jobs between 2001 and 2004. The good news is that it appears job losses will bottom out in 2005, when only 200 jobs will be cut. The second largest sector, Publishing, will increase by 1,300 jobs in 2005. About 1,000 jobs will be added in software publishing and related sectors, while growth in other smaller Information sectors will offset the losses in telecommunications. Overall, Information employment will post a 1.6% gain, or 1,300 jobs.

Financial Activities—Between 1994 and 2003, approximately 33,200 jobs were added in the Financial Activities Supersector. The majority of recent growth has occurred in the Credit Intermediation Sector. In 2005, about 800 jobs will be added in the Finance and Insurance Sector, along with 400 jobs in the Real Estate and Rental and Leasing Sector.

Professional and Business Services—Pent-up demand and growing confidence in the economy will increase the need for such services as engineering, computer systems design, and other professional or technical business services. In 2005, 6,500 jobs will be added in Professional and Technical Services, Administrative and Support Services will grow by 7,400 positions, and Management of Companies and Enterprises will gain 900 jobs. This supersector will lead Colorado employment growth, with an increase of 4.8%, or 14,800 jobs, in 2005.

Educational and Health Services—This supersector added a total of 56,100 jobs between 1994 and 2003, driven primarily by growth in the health-care industry. Declines in public education budgets should boost demand for services provided by private education organizations, increasing education employment by about 300 jobs in 2004. The larger Health-Care Sector is expected to add 4,300 jobs, in 2005. Employment growth will continue to be limited by the supply of quality labor. Overall, the supersector will post a 2.1% gain, or 4,600 jobs.

Leisure and Hospitality—A number of indicators point to a recovery in the Colorado tourism industry. It is difficult to secure reliable data for many areas in the industry. For areas where data are available, such as casino revenues, ski lift tickets, park visits, and DIA enplanements, growth is projected for the upcoming months. From an employment perspective, this supersector is expected to add 5,200 jobs in 2005, an increase of 2.0%. About 4,400 of these jobs will be in food services.

Other Services—This supersector is composed of private businesses that provide personal services, such as auto repair shops, laundromats, and beauty salons. Because they fulfill many basic needs, growth is often contingent on population growth and the state of the economy. As a result, this supersector experienced slower rates of growth during the recent economic downturn. Improved economic conditions will result in the addition of 2,500 jobs in 2005.

Government—As the state's population increases, so does the need for government services. Consequently, all sectors of the government are expected to grow in 2005. About 300 federal jobs will be added, along with 1,200 state jobs. As has been the case in the past, the largest growth—approximately 1,700 jobs—will occur at the local level. Most of that growth will be in the K–12 education sector.

International Trade—An improved global economy has led to increased U.S. and Colorado exports. In the new year, a weaker U.S. dollar is expected to contribute to growing demand for U.S. goods and services. Total Colorado exports are expected to show a 9.8% increase in 2004, with strong, but slightly lower growth of 7.0% the following year. Canada, Mexico, the Pacific Rim, and Western Europe will continue to be our top trading partners. The outlook is favorable for both agricultural and manufactured products.

Across the West—Despite improved economic conditions in Colorado, the state is expected to rank 9th in population growth out of 10 western states, ahead of only Washington. Similarly, it will finish in a three-way tie for 8th place in terms of employment growth for 2005.

Around the State

- **La Plata County—**In recent years, such events as the 9/11 terrorist attacks, forest fires, and the drought have negatively impacted LaPlata County's economy. The effect of these events has been partially offset by increases in construction and industrial activity, particularly in the energy sector. Throughout the downturn, LaPlata County had a lower unemployment rate than Colorado and the United States. Per capita income in the county is about 86% of the state level; however, it should be noted that the gap is closing between the county and the U.S. averages.
- **Mesa County—**This area has felt the impact of the recent downturn less than other parts of the state because of its diverse economy. A stable rate of growth is expected to continue into 2005. Positive year-to-year growth has occurred in retail sales, construction, real estate, vehicle registrations, and population. With the passing of time, the structure of the economy has evolved to more emphasis on services and less focus on manufacturing, mining, and agriculture.
- **Northern Colorado—**This part of the state lost more than 2,000 technology jobs between 2001 and 2003, and layoffs continued into 2004. Nevertheless, the Fort Collins/Loveland/Greeley MSA added about 2,500 new jobs between July 2003 and July 2004. The outlook is bright for the future as approximately five million square feet of new commercial, industrial, and mixed-use construction projects are under way in the region.
- **Pueblo County—**For the first nine months of 2004, Pueblo's unemployment rate averaged 6.9%, down from 7.3% for the same period in the prior year. Job growth for the Pueblo

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Creating Tomorrow's Innovative Workers Today: Challenges in K–12, Higher Education, and Workforce Training

IT IS CRITICAL TO OFFER PROPER TRAINING, RETRAINING, AND EDUCATIONAL OPPORTUNITIES TO MAINTAIN A WORLD-CLASS WORKFORCE.

Gary Horvath and Cindy DiPersio

Employment, education, and economic development are three closely interrelated components of growth for the U.S. and state economy. The performance of Colorado's economy hinges on the state's ability to eliminate the gap between employers who are looking for workers with certain skill sets and job seekers who may or may not have the skills to meet those needs. In situations where workers lack the knowledge, it is critical to offer proper training, retraining, and educational opportunities to maintain a world-class workforce.

An outlook forum discussion session took an in-depth look at the education and workforce training challenges facing the state's educational system and business and government communities. Moderator Anne Heinz, Division of Continuing Education at the University of Colorado at Boulder, and panelists Linda Bowman, Aurora Community College, and Booker T. Graves, Colorado Office of Workforce Development, reviewed efforts being made to identify and relieve skill shortages in a rapidly changing labor market.

In a discussion of these issues, Graves addressed the following workforce-related issues:

- Identify skill shortages and provide educational opportunities to fill those gaps.
- Increase the business community's satisfaction with education and training systems.
- Respond with agility to increased churning in the labor market.
- Address the lack of trained individuals to fill certain skilled positions. Despite the recent economic downturn and loss of jobs due to offshoring, a shortage exists of workers with skills required in the knowledge-based economy.
- Engage the state's students in pursuing additional training and degrees following high school. Although Colorado has one of the country's most highly educated workforces, many of these degrees are "imported."

These issues can most successfully be addressed by strengthening the partnership between government, K–12 education, higher education, private-sector education, and business and industry.

Heinz and Bowman reviewed some of the trends and challenges facing higher education as they strive to train workers. Key points include:

- Higher education is confronted with declining state resources.
- The United States is falling behind in college participation rates compared to other countries, particularly in science and math.
- Meeting the needs of Colorado's industry clusters is a fiscal challenge because skill- and science-based training is more expensive than liberal arts training.
- The demographics of the "average" student have changed; this is especially true at the community college level. For example, at the Community College of Aurora 87.0% of students are enrolled part-time, 80.0% work, and minorities compose 45.0% of total enrollment.
- About 46.0% of high school students delay starting college. In Colorado, 31.0% of students in the 18–24 age category are enrolled in college; this percentage is as high as 48.0% in other states.
- Although everyone is not suited for college, higher education leads to higher lifetime earnings.
- The education of parents is often a good predictor of whether their children will enroll in college.
- As baby boomers begin to retire, certain industries, such as aerospace, will face huge vacuums. The country's engineering schools are not producing enough workers to fill this void.
- Information technology dominates the top 10 fastest-growing, best-paying jobs.
- Continuing education and distance learning are growing in popularity to meet changing workforce needs. Teacher education is the number one training program at CU.
- Investment in higher education should be matched with an equally strong investment in K–12 education.
- Degree-based programs are being unbundled and presented as certificate programs as a means of providing a coherent sequence of courses that is easier for students to manage.
- Society's perception of higher education is transforming from thinking that the system provides a public good to one that provides a private good. In other words, it was formerly thought that higher education benefited society as a whole; today, more people believe that the individual is the primary benefactor of higher education.

For more information on topics discussed in this session, visit the following panel members' web sites:

Colorado Workforce Development Council,
http://dola.colorado.gov/wdc/index.htm;

Community College of Aurora,
http://www.ccaurora.edu/; and

University of Colorado at Boulder Division of Continuing Education,
http://www.colorado.edu/ContinuingEducation/.

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From Well, Mine, and Lab to Burner Tip, Outlet, Gas Tank, and Beyond

Julie Arnett

COLORADO RANKS NUMBER THREE IN UNTAPPED ENERGY EFFICIENCY, WHICH INDICATES THE GREAT POTENTIAL FOR ADDITIONAL RESOURCES.

With the adoption of Amendment 37, Colorado residents are beginning to see the many possibilities for energy production available right here in our own state. The outlook forum discussion session “From Well, Mine, and Lab to Burner Tip, Outlet, Gas Tank, and Beyond” took an in-depth look at the natural resources industry in Colorado and examined the possibilities for the industry’s future. The session was moderated by John Tobin of the Energy Literacy Project. Panelists included Steve Enger, Petrie Parkman & Co.; Tim Carter, Xcel Energy; and Carol Tombari, National Renewable Energy Laboratory.

Since late 2003 a number of world and U.S. events, including Hurricane Ivan, have affected the supply and price of energy resources in the United States, especially oil prices. Enger explained that although oil prices are currently at pre-war levels, the uncertainty of the situation in Iraq continues to be a main concern in the industry.

Presently, natural gas is at high levels of storage, with prices higher than expected. The liquid natural gas (LNG) market is growing rapidly and will continue to increase over the long term. It is expected that LNG import capacity will be at least 9 Bcf/d by 2008, compared to 3 Bcf/d in 2005. Future development of LNG pipelines from Alaska pose a huge opportunity for increases in natural gas availability by 2015; however, with the lengthy lead time for the construction of these lines, this project is a long-term goal.

As the fourth-largest electric and gas company in the United States, Xcel Energy provides energy for 75.0% of Colorado’s population and employs 3,478 workers in the state. Carter outlined the possible options for generating electricity in Colorado, which include coal, wind, hydro, and solar. A new coal-fired generating unit has been proposed at the Comanche Generating Station near Pueblo that could potentially double the electric capacity of the station, to 1,410 megawatts. Wind power presents a clean alternative for power generation and currently accounts for 1% of the energy capacity in the state. The use of hydro is limited, and while solar is the cleanest option, it is expensive and weather dependent. Carter estimates that coal production in the future will decrease, while gas and wind will become more prevalent.

Carol Tombari of the National Renewable Energy Laboratory described two areas that greatly affect the nation’s energy production, including the amount of waste in production and the need for diversity in energy resources. Inefficiencies and waste make a tremendous difference in the amount of energy that is produced and how much it costs. The diversification of energy resources would benefit not only the producers, but also consumers throughout the state. Colorado ranks number three in untapped energy efficiency, which indicates the great potential for additional resources. Moreover, the state is currently ranked sixth in solar production and ninth in wind production, both resources that the state could expand even further because of the state’s weather. The cost of power generated by wind will decrease as technology develops, while coal production costs will continue to increase due to the declining amount of resources available for consumption.

This session illustrated how important it is for the state to have a variety of energy resources available. While wind and solar power are cleaner options, the state could not survive alone on these resources. A diverse number of options are necessary to accommodate and serve the population.

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SECTOR HIGHLIGHTS, CONTINUED FROM PAGE 3

MSA is expected to be 2.0% in 2004, indicating that further improvement is expected in the months ahead. Growth has occurred and is expected to continue as a result of the construction of several significant chain retail facilities, St. Mary Corwin Hospital, and the proposed Xcel Comanche power-generating facility. The housing market remains robust, with the median sales price of existing homes under $120,000.

- Southern Colorado (El Paso County)— Aggregate and specific economic evidence points to March–April 2003 as the turning point in El Paso County’s economic recovery from a two-year downturn. The average unemployment rate for the county has dropped from 6.4% in 2003 to 5.7% in 2004. A modest improvement—5.5%—is expected in 2005. Additional gains in employment are expected as the economy continues to strengthen, particularly among technology-based, primary employers. In 2005, gains are also anticipated in finance, health care, retail, and construction.

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International Markets Fuel Economic Growth

EXPORTS FROM COLORADO TO CHINA HAVE INCREASED MORE THAN 90.0% THIS YEAR, CAUSING CHINA TO JUMP FROM #12 ALL THE WAY TO #3 ON THE LIST OF COLORADO'S TOP EXPORT DESTINATIONS. OTHER LARGE GROWTH MARKETS INCLUDE THE PHILIPPINES, INDIA, AND SOUTH AFRICA.

Brendan Hickey

In recent years, economic globalization has received a huge amount of negative attention. This is largely directed at two of the by-products of globalization, outsourcing and offshoring, both of which can cause a loss of jobs in the United States. This issue was one of the hottest debates in the recent election, and there is no shortage of opinions on what, if anything, should be done to stem the flow of jobs out of the United States. The Fortieth Annual Colorado Business Economic Outlook Forum featured a break-out session that discussed globalization and Colorado. "International Markets Fuel Colorado Growth" was moderated by Jim Reis, World Trade Center Denver, and included a two-member panel with Tom Snyder, Gates Corporation, and Arnie Clarke, Laser Technology, Inc.

Reis opened the session with a brief overview of international trade in Colorado. According to data from the Census Bureau, Colorado exports are up 13.1% through September 2004, and are on pace for a record year. Exports should pick up even more when Japan and Korea begin to open their markets to U.S. beef exports as fears over mad cow disease subside. Agriculture is a major component of Colorado exports, but 9 of the top 10 Colorado exports are tech-related. Topping the list is electronic integrated circuits, microassemblies, and parts—a category that includes semiconductors. This is followed by the data storage category. The top destinations for Colorado exports are Canada, Mexico, China, Japan, and Korea. In 2004, the state has experienced very strong growth in China. Exports from Colorado to China have increased more than 90% through Q3 this year, causing China to jump from #12 all the way to #3 on the list of Colorado's top export destinations. Other large growth markets include the Philippines, India, and South Africa.

After presenting the hard data, the session turned to anecdotal evidence to further illustrate the benefits of internationalization. Two very different Colorado companies—the multinational, multibillion-dollar Gates Corporation, and Laser Technology, Inc., a small, growing, high-tech firm—offered two very different experiences in the international market. Despite the firms' differences, the two have one thing in common—globalization has greatly benefited both companies.

First to offer his experience was Tom Snyder, Director of Asia Operations for the Gates Corporation. Gates, one of the world's leading manufacturers of belts, hoses, and hydraulics, has been in Colorado for nearly a century, and the company has had international operations since 1954. Today, it has manufacturing facilities on four continents. Roughly 44.0% of their sales come from outside of the United States. Internationalization has benefited Gates in a number of ways. First, it has brought growth, market leadership, and standardization of products, processes, and approaches via best practices. Second, it has helped the company avoid and balance economic and business cycles. By having a global presence, the company is still able to thrive even when the U.S. economy is in the doldrums. International operations have also led to vast improvements in customer service. Obviously, a large portion of the company's customers are located outside of the United States. In order to best serve these customers, service centers need to be located around the world. Finally, globalization has led to organization depth and diversity, which provide invaluable benefits. As Snyder said, in this day and age "isolation is impossible."

For Arnie Clarke and Laser Tech, reaching global markets was a much more difficult process. There were times along the way when it seemed like internationalization was impossible. It wasn't until the late 90s that Laser Tech really started to pursue international markets, and even then, Clarke's directive was to expand by "spending as little as possible." Two of the major hardships for small businesses trying to expand internationally are the travel requirements and the language barriers. With hard work and perseverance, Laser Tech was able to overcome these obstacles, and today it has more than $6 million in sales to 52 different countries.

As far as the alleged job losses caused by globalization, the panel had several responses. First, they pointed out that contrary to what many are led to believe, the loss of jobs in manufacturing has primarily been due to productivity increases, not to outsourcing. Second, in the case of companies operating internationally, the jobs sent overseas are lower-wage manufacturing jobs, which allows for the hiring of higher-wage engineering and designing jobs domestically. Finally, Reis pointed out that globalization is a two-way street. While some Colorado companies have transferred jobs out of the state, a number of international companies have moved into the state, creating jobs here. The panel reached a consensus that economic globalization and international trade are benefiting Colorado. In addition, they agreed that globalization is the inevitable next step for growing and evolving Colorado companies, and for a growing and evolving Colorado economy. Moreover, they believe it is a necessary step. Colorado companies must reach for new international markets in order to remain competitive in today's global economy. Reis put it simply, saying "if you have a product to sell, then you can sell it internationally."

Brendan Hickey is a student research assistant in the Business Research Division in the Leeds School of Business at CU-Boulder.

The Evolution of Colorado's Economy

Jeff Romine

Colorado's economy is undergoing an evolution—perhaps a revolution—in the types of job activities, characteristics of workers, and even where future workers come from today and the countries they will come from tomorrow. In this forum discussion session, panelists Jim Chivers and Joseph Winter, both from the Colorado Department of Labor and Employment, and Richard Lin and Jim Westkott, from the Colorado Division of Local Government, discussed preparing today's business leaders for the realities facing them in the global economy. Arguably, the way of doing business has undergone a revolutionary change during recent times. Just 20 years ago, most businesses had a small number of computers, or even purchased computer access time. Now, many businesses have more computers than people. The conditions and patterns affecting Colorado companies will continue to undergo major changes in the future.

Chivers framed the discussion by reviewing the current patterns of job growth in the state. Colorado's economic recovery began in March 2004; until that point, businesses in Colorado had lost more than 160,000 jobs since December 2000 (the high point of employment in Colorado). This is the longest period of job loss in Colorado since before World War II. Chivers posed the question, "Was this job loss just an economic recession, or in fact a major change in the Colorado economy?"

One answer may lie in the business community's response to the competitive environment. Recently, offshoring (a substitution of foreign-based workers for domestic workers) has become a reality in Colorado. The effects of offshoring are felt in two ways: first, through the transfer of jobs to foreign locations; and second, through increased competition among domestic employees, forcing down wage and salary levels.

Chivers presented the results of a long-range employment projection based on employment growth patterns over the last six years (1997–2003). This modeled data suggest that changes in the Colorado economy, due in part to offshoring, are important not only to state and local leaders, but also to national economic and government leaders.

Westkott and Lin continued the discussion by examining the question of tomorrow's economy from another perspective. Where are the new Colorado employees (and population) coming from, both now and in the future? During the economic growth period 1990–2000, Colorado businesses created about 800,000 new jobs. Almost one-quarter were filled by immigrants to the United States who settled in the state.

These new residents, with a wide range of educational and skill levels, took jobs with varying degrees of responsibility in all economic sectors. Yet overall, immigrants tended to take lower paying and lower skill positions. Westkott pointed out that during this period, Colorado's per capita income levels rose considerably, and the unemployment rate fell from 5.1% to 2.8%. He suggested that immigrants to Colorado did not take jobs from the resident population, but in fact helped Colorado to grow and all residents to prosper. In addition, Colorado's colleges and universities also experienced significant increases in the number of international students, which contributed both intellectually and culturally to the total educational experience and made Colorado education a major export.

Finally, Westkott reviewed the impacts these new immigrants are having on Colorado's businesses. A growing share of the labor force, the largest number of these immigrants settle along the Front Range, but the fastest growth is occurring in the resort communities in the mountains and in the agricultural communities on the Eastern Plains.

Lin outlined future demographic projections. Looking ahead to 2005, net Colorado population growth can be accounted for by natural increases (births minus deaths) and international migration. The 2005 population growth is expected to be about 57,600, with around 20,000 people moving to Colorado from outside the United States. The net effect of domestic migration is estimated to be nil in 2005.

Lin reviewed the primary source countries and makeup of this new population. Over the past three years, about 18.0% of all immigrants to the United States came from Mexico, with countries in Central America and the Caribbean combining to form another 17.0%. Most immigrants are married, female, do not work, and enter the country based on their status as relatives of U.S. citizens. Immigrants working at the time of emigration are trained and are employed in professional, technical, or managerial occupations.

Winter concluded the session by discussing the changes in two of the critical indicators used by business leaders, economists, and policy leaders in their quest to understand the current conditions in the Colorado economy. He reviewed how the Current Employment Statistics will change, primarily through expanding both the number and parts of the metro areas that are included. This change will produce a more complete coverage of the state as monthly data will be compiled for Colorado as a whole and seven metro areas around the state.

Winter also reviewed the changes in the Local Area Unemployment Statistics. The changes are being introduced nationwide to allow greater consistency between local and state estimates and national unemployment statistics. He suggested this new method for calculating unemployment, which will become effective in 2005, will lead to an upward revision of about 0.2–0.3%.

Jeff Romine is a research economist with the Leeds School of Business, Business Research Division.

THE LARGEST NUMBER OF IMIGRANTS SETTLE ALONG THE FRONT RANGE, BUT THE FASTEST GROWTH HAS OCCURRED IN THE RESORT COMMUNITIES IN THE MOUNTAINS AND IN THE AGRICULTURAL COMMUNITIES ON THE EASTERN PLAINS.

COLORADO BUSINESS REVIEW

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A YEAR TO REMEMBER,

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Essentially, inflation is about as low as it can get. Rising inflation, combined with slower earnings growth and lower dividends, will greatly reduce future returns for both stocks and bonds. Investors need to be aware of this, and should not expect the 10–15% annual returns that they enjoyed during the past two decades.

All in all, Caldwell predicts that the financial markets in 2005 will look very similar to those in 2004. In order to succeed in the likely lower-return environment, he stressed the importance of industry and company valuation, dividend analysis, more active trading, and expansion into international markets. While 2005 may be another bumpy ride, Caldwell pointed out that bumpy rides usually aren't all that bad.

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The following chart provides a comparison of prices over the past four decades.

QUICK COMPARISON OF 1965 AND 2004

Measures	1965	1965 Prices Adjusted to Today	2004
U.S. Per Capita Income	$2,566[a]	$15,282	$32,431
Percentage of Colorado Population with College Degree	9.4	—	32.7
U.S. GDP ($ billions)	$663.9[a]	$3,953.9	$11,664.0
Stock Market (Dow high)	969	5,771	10,795
U.S. Inflation (Percentage)	1.6	—	2.7
Automobile (Ford Mustang)	$3,334	$19,856	$18,785
Average New Home	$21,500	$128,044	$255,100
First Class Postage	$0.05	$0.30	$0.37
Regular Gas (Gallon)	$0.31	$1.85	$1.92
Movie Ticket	$0.85	$5.06	$7.50
Milk (Gallon)	$0.95	$5.66	$4.25

[a]1964 data.