

COLORADO BUSINESS REVIEW

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List of midyear economic roundtable meeting participants on page 4.

Percentage Change of Employment in Colorado

Supersector	2006-2007 Percentage Change Forecast	Midyear Employment Percentage Change ^a
Natural Resources and Mining	11.1%	19.8%
Construction	1.8	-0.8
Manufacturing	-0.1	-1.0
Trade, Transportation, and Utilities	1.4	0.9
Information	0.4	0.1
Financial Activities	1.4	0.5
Professional and Business Services	4.2	4.1
Educational and Health Services	2.0	3.9
Leisure and Hospitality	1.7	3.3
Other Services	1.3	2.3
Government	1.2	2.0
Total	1.9%	2.0%

^a Average employment for the first six months of 2007 as compared to the average employment for the first six months of 2006.

Source: Colorado Department of Labor and Employment and Colorado Business Economic Outlook Committee.

Colorado Economy 2007 Midyear Update

Sector Highlights

Richard Wobbekind

Population, Labor Force, and Personal Income

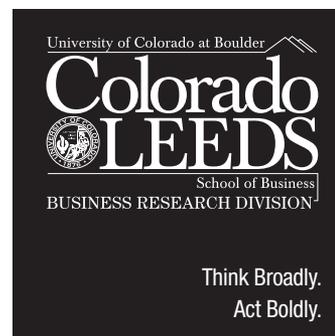
Midyear data suggest that Colorado will continue sustained growth in 2007. Employment in all but three sectors has reached the levels attained in 2001, and the population and labor force continue to expand. Colorado per capita income exceeded the national average in 2006 by 9%, and should surpass \$40,000 this year.

Recently, the Department of Local Affairs revised upward the 2006 change in population, to 93,000. The increase was the largest in six years. The current population of the state is 4.9 million. Growth is expected to continue at approximately 2% for 2007, bringing the total to 5 million in Q1 2008.

Colorado's nonfarm employment has grown steadily for the past three years, and 2007 will follow suit. Total employment for the year will exceed 2.3 million. Fort Collins and Greeley are the steadiest performers on the Front Range, currently employing a total

of more than 215,000. In April, a *USA Today* article ranked Greeley second in the nation in overall population growth, climbing 31%

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SECTOR HIGHLIGHTS, CONTINUED FROM PAGE 1

From the Editor

A midyear update of the overall Colorado economy and individual sectors is presented in this issue of the *CBR*. It is compiled from remarks made by Colorado Business Economic Outlook Estimating Group chairs or their representatives at a roundtable meeting in June. The analysis compares the current economic position of industry sectors to our forecast presented last December. The key factors influencing recent economic trends are also highlighted. We greatly appreciate the time and input from the individuals who participated in the meeting. For a complete list of contributors, please see page 4. BRD staff members provided additional data collection and analysis for this report.

As always, we are interested in your suggestions for topics of future issues. Please contact me at 303-492-1147.

Richard Wobbekind

since 2000. Labor shortages are also a factor impacting regions in Colorado. The growth in Natural Resources and Mining on the Western Slope is creating competition for workers, including those in leisure and hospitality who previously worked in the mountain resort areas.

Natural Resources and Mining

During the past six years, Natural Resources and Mining has been the state's fastest-growing sector in terms of relative, or percentage, growth. Since 2001, employment in the sector has more than doubled and currently exceeds 24,000. In addition, the industry's production volume and dollar value have significantly increased from five years ago.

The combined value of oil, natural gas, and CO₂ production totaled \$8.8 billion in 2006. This value decreased from the prior year due, primarily, to the unexpectedly low price of natural gas. Preliminary projections for 2007 indicate that the value will increase to \$9.4 billion.

In addition, production numbers show growth across the board for oil, gas, and coal in 2007. Oil is expected to increase from 23.4 million barrels to 24 million. Natural gas production is anticipated to climb from 1,209 Bcf last year to 1,300 Bcf in 2007. To top it off, coal production is forecast to rise from 35.4 million tons to 38 million tons. It is too early to determine how oil shale prospects will pan out. Shell pulled its federal lease permit for oil shale development due to technical difficulties and to conduct further research. Challenges surfaced while drilling for the wells needed for the freeze-wall process, which protects groundwater during extraction.

Coal valuation exceeded expectations, reaching \$970 million in 2006. Early estimates project growth for coal up to \$1.0 billion this year, with production at about 38 million short tons. The limiting factor is Colorado's rail and transportation system, which currently makes it difficult for production to exceed 40 million short tons.

The broad, multicomponent minerals sector is experiencing growth as well, climbing to \$2.0 billion from \$1.7 billion a year ago. Gains are attributed primarily to price rather than volume increases. Molybdenum prices have grown from about \$26 per pound in 2006 to approximately \$35 per pound. Similarly, gold prices have risen about 10%, from the low \$600s to around \$650 per ounce, and the pace of uranium mining is stepping up. Old mines are being refurbished, and exploration activity is surging. Currently, though, no uranium mills are operating in Colorado or the surrounding area, so

companies are not able to extract the product for processing yet. However, the bustle for permits is an encouraging sign for increased production.

The production of drywall and aggregates, as well as crushed stone, sand, and gravel, is an important link between the mining and construction sectors. Many of these firms are maintaining high levels of production, despite local and regional signs from the construction side that work is slowing.

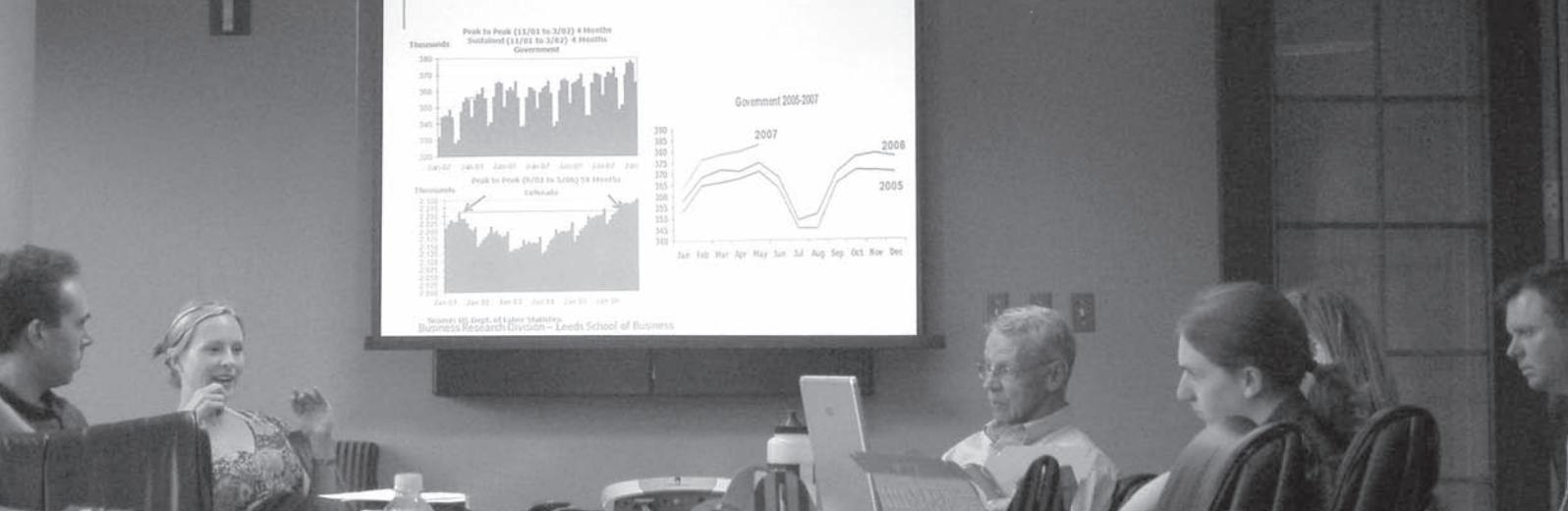
Overall, total production for the sector, valued at \$12.5 billion in 2007, continues to grow. Natural Resources and Mining remains one of Colorado's leading growth industries.

Construction

As one of the industries that depends heavily on immigrant workers, the Construction Sector is having difficulty finding laborers, given the current immigration debate. Estimates are that 20% of construction workers are immigrants, with an unknown number working illegally. So far this year construction has shed 1,320 jobs, most of which were in the specialty trade area.

However, due to the nature of construction employment, this downward trend is no reason for panic. Of much greater concern to the industry are the volume and value figures. In the 2007 forecast, single-family residential permits were predicted to decrease 18%; however, through May the number has slid 37%. Multifamily dwelling construction is down 26% through May compared to the same period a year ago, but value is actually up 20%. With the combination of cautious lenders, high inventories, steady (not declining) interest rates, and the concern about high foreclosure rates, residential construction has tapered off. Permits and valuation will continue their downward trend in 2007, although at a diminishing rate.

The nonresidential building subsector, which includes offices, warehouses, education buildings, and so forth, is slowing as well. Numerous large projects were completed in 2006 and few have started so far this year. In Denver, construction of the \$150 million Four Seasons hotel has been pushed to the fall, and \$120 million Spire condominium project has also been delayed. This is not the case, however, in every part of the state. Work is beginning in late July on a \$115 million project to create 80 luxury condominiums and a public plaza in Steamboat Springs. Hospitality and resort building is doing well throughout the state, particularly in places such as Black Hawk and Telluride. Building is continuing in educational and public facilities due to bond issue funding.



Colorado Business Economic Outlook Steering Committee members discuss midyear economic trends.

Employment in the nonbuilding subsector, which includes the construction of roads, pipelines, and transmission lines, appears stable. Projects in this category include roadwork along I-70 and in the southeast part of the state, as well as the pipeline being constructed in northwest Colorado.

The magnitude of the residential declines seen in early 2007 may be attributable to the harsh winter weather during the first quarter. Though permits and value are both down for the year, the average value of projects has been increasing. Fewer homes are being constructed, but homes that are being built are more expensive. Specifically, the slowdown is being felt in entry level or first move-up housing sales.

Overall construction employment is down 0.8% through May from the same period in 2006.

Manufacturing

The manufacturing story hasn't changed since 1998. Jobs have been consistently shed, and it is the same in 2007. Productivity gains, outsourcing, and a general transformation of the Colorado economy from manufacturing to services have contributed to the slump. The Outlook Forum last December forecast a modest decrease of 0.1%, but employment for the year to date has declined 1%, or 1,500 jobs. Durable goods fell 1%, and nondurable goods dropped a similar 0.9%. The computer and electronics manufacturing subsector slid a significant 9%. Intel has already cut about 200 positions from its plant in Colorado Springs, and may close the whole facility by August, losing another 800.

Despite this somber news, there are a couple of much-needed bright spots in the industry. Transportation equipment manufacturing, which is mainly comprised of aerospace, has increased 1.7% in 2007.

Boeing and Lockheed Martin combined their expendable launch vehicle businesses, forming a joint venture called United Launch Alliance, LLC, which will merge production, engineering, test, and launch operations.

With the addition of the New Belgium Brewery's facility in Fort Collins, the beverage manufacturing subsector is up 0.4%. This facility is furnished with recycled goods, uses solar lighting, purchases wind energy, and produces energy from its wastewater. For the manufacturing industry, this is a welcome step in a green direction.

In terms of revenue and production, the picture is more positive. Productivity and efficiency gains have offset much of the employment losses, so manufacturing value figures are less dramatic than employment decreases. Between 2001 and 2006 Colorado manufacturing GDP increased at an annualized rate of 2.6%, while employment dropped at an annualized rate of 3.6%. During this period, state manufacturing GDP per employee increased at a higher rate than the total GDP per employee.

Outsourcing, offshoring, and finding skilled workers continue to be issues facing manufacturers across the country.

Trade, Transportation, and Utilities

Trade, Transportation, and Utilities (TTU), Colorado's largest employment sector, reached 418,000 workers in May, up nearly a full percent from last year. Retail trade, the largest component of the TTU sector, employs 10% of the entire Colorado workforce. Since the economy emerged from the recession, retail employment has climbed 4.7% and retail sales have increased about 4.5% annually. This trend is expected to continue in 2007, with sales growth of 5.5%.

Utilities is the smallest subsector of TTU, with year-end projected employment

of 8,400 workers, up 1.4% from last year. Coloradans continue to benefit from some of the lowest utility prices in the country, with natural gas as low as \$0.68 per MMBtu, compared to the national price of \$7.35. A natural gas pipeline scheduled for completion in 2009 will export Colorado's natural gas to other states and narrow this price differential. Also, as Amendment 37 begins to regulate energy production in favor of renewable energy, low-price utilities could be replaced by higher prices to account for the more expensive renewable resources. However, to meet demand the new \$1.3 billion Xcel Energy coal power plant being built in Pueblo will be completed by the end of 2009.

After a 9.1% increase in total passengers in 2006, DIA is officially the 10th busiest airport in the world. It is on pace for another record year, with more than 48 million passengers. Additions to the RTD light rail system have exceeded ridership expectations, running at capacity this year. Plans for 100 additional miles of FasTracks line to accommodate the unexpected high demand are in the process of being approved by local governments. With increased activity at DIA and RTD light rail, projected 2007 transportation employment will be 67,500 workers.

Information

One of the most pleasant surprises of the midyear review is the uptick in the Information Sector. On a year-to-date basis, renewed strength in computer programming has resulted in a net increase of several hundred jobs. The series of mergers and acquisitions that contributed to the downward spiral appear to have finally worked themselves out, and the industry is eliminating the kinks and imbalances associated with M&A. Between 2001 and 2006 Information employment slid at an annualized rate of 6.8%.

Nevertheless, output as measured by GDP for the state increased at an annualized rate of 1.9%. Because the Information Sector interacts so closely with other sectors in Colorado and across the nation, future trends will most likely track the national information economy more than the state economy. Although many information companies have outsourced jobs to India, the country's rapid wage growth may make it less cost effective to do so in the future.

The film industry is small in Colorado, but doing well. On May 24 Governor Ritter signed a bill to increase Colorado's Film Incentive Fund from \$500,000 to \$600,000 annually.

Consolidations continue to affect the publishing sector, as do impacts from e-publishing and "open access" issues.

If the aforementioned trends continue for the remainder of the year, the overall outlook for the Information Sector will be in positive territory for the first time since 2000.

Financial Activities

The Financial Activities Supersector is showing weak employment growth in all sectors, gaining only about 1,000 workers over last year. While financial markets and insurance sectors continue to perform well, sharp decreases at lending institutions is restricting growth in the sector.

The success of second homes in mountain resort areas have been a bright spot, and vacancy rates in the Western Slope are in the single digits. However, the rest of state is suffering with large inventories and an expected 37,000 foreclosures this year.

Indications of upcoming troubles in relation to the consumer are also apparent—if they will be able to continue their rate of spending. Credit card balances and overdrafts have been on an upward swing, hinting that the current rate of consumer spending may soon fall. If this and similar trends continue, the Financial Activities Supersector may begin to deteriorate, led by the overbuilt real estate markets.

Professional and Business Services

The Professional and Business Services (PBS) Sector is the second largest and arguably most diverse group of companies. More than 13,000 jobs have been added over the past calendar year to total 350,000.

The Professional, Scientific, and Technical Services (PST) subsector grew 3.8% in the early part of the year, which is not as robust as last year, but well above the state average. Strong gains in this category are critical to the economy because they offset the high-paying jobs lost in

other sectors. With 61% higher wages than the state average that contribute valuable economic activity, this subsector is quietly becoming an anchor point for the rest of the economy.

Administrative and Support and Waste Management employment includes many B2B service providers. Although this subsector is slightly smaller than the Professional, Scientific, and Technical Services subsector and pays wages below the state average, projected growth is similar to that of the PST category.

The final PBS subsector is Management of Companies and Enterprises. While it is small in size, it plays an important role in the state economy because of its extremely high wages and the extrinsic value added by corporate headquarters.

In addition to providing strong employment, the three subsectors of PBS have made significant contributions to state GDP. Between 2001 and 2006, Administrative and Support and Waste Management output expanded at a rate slightly below the annualized state rate, while the PST category grew at slightly higher pace. The Management of Companies and Enterprises subsector increased at an annualized rate over twice that of the state economy.

Overall, the PBS sector is on track to record 4.1% employment growth this year.

Educational and Health Services

The employment picture for the Educational and Health Services Sector (EHS) continues to be vibrant, with the addition of 44,000 jobs since 2001. Total employment through May reached 240,000, which represents average growth of 3.9%, or 8,900 jobs, compared to the same period in 2006.

On the healthcare side, considerable consolidation has occurred in health-plan providers and hospitals. Last year, United Health bought PacifiCare and has continued to purchase other providers such as SierraRx and Ingenix. In Colorado Springs, two new hospitals have been completed, Penrose St. Francis and Memorial. Children's Hospital is expanding its network of care, currently with 12 locations. It will open a new pediatric facility at Exempla Saint Joseph Hospital in September. With Children's moving to Fitzsimons, there may be room for others to move in, fueling development and construction. Exempla has already purchased the land from Children's and will most likely develop the site in the future.

Over time, EHS has lagged other sectors in adopting IT. Increased capital expenditures for updating IT infrastructure should bring about

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greater efficiencies, as well as indirect benefit to companies in the PBS and Information sectors.

Premiums are skyrocketing, recording a 10% increase over last year, clearly outpacing CPI, GDP, and wage growth. From 2000 to 2005, premiums rose 86%, compared to only 12% for wages.

Although labor growth in the sector has been significant in the past six years, hospitals continue to face a shortage of physicians. The problem is compounded by the recent shortfall in nurses and the aging population of hospital workers.

The state's Blue Ribbon Commission for Health Care Reform, comprised of 65 individuals from across the state, is examining ways to increase coverage and decrease the cost of healthcare in Colorado. The commission is charged with making its recommendations by January 2008.



Joe Winter

Leisure and Hospitality

As summer comes into full swing, this large, diversified, and seasonal sector is poised to outperform its 2006 record year. Through the first two quarters of 2007, employment is just above 260,000. At the end of year, the sector is expected to finish higher than the projected 267,000 mark, boosted by solid summer and winter seasonal employment.

This year will be the first full year that the Colorado Tourism Office has had the opportunity to work with its \$19 million budget. The marketing campaign promoting the state as a vacation destination may be a key factor in the sector's success in 2007.

As always, skiing will contribute greatly to the L&H sector's performance as the industry continues to reach record levels, recording 12.6 million skier visits for the 2006-07 season. With increased tourism marketing and decent snowfall, the number of skier visits for the upcoming season could cross the 13 million threshold.

Transportation will continue to feel the pressure of high gasoline prices, which may be the only setback for the sector, especially in the



Ron New and Tim Sheesley

summer travel season. According to the U.S. Energy Information Administration, the average price for gasoline in the state is \$3.01 a gallon, which is up 2.1% from last summer. Despite the negative effects this has on the airline industry, it may positively impact the regional drive-in market.

Other Services

The Other Services Sector is comprised of a wide range of companies and service providers in various industries. Because many of these companies offer personal services such as repair or maintenance, the sector is largely driven by population growth and is fairly downturn resistant. It has grown at a higher-than-expected rate through May, climbing 2.3%, or 2,100 jobs. After the harsh winter and seemingly infinite potholes, an increase in the Repair and Maintenance subsector was initially expected for alignment issues and other car troubles. However, that subsector experienced flat growth through May, while the Religious, Grantmaking, Civic, Professional, and Similar Organizations subsector rose 3.4% and Personal and Laundry Services grew 2.6%.

Government

More than 380,000 workers are employed in one of the three levels of government employment: federal, state, and local. Over the past decade the sector has grown at an annualized rate of 2%. During this period most of the growth has occurred at the local level.

The federal sector is the smallest by far, employing about 52,000 workers. It has remained near this level for the past 10 years. A recent study conducted by the BRD shows that federal employees, including military, in the Denver MSA accounted for approximately \$8.4 billion in economic activity in 2006.

Approximately 87,000 employees work for the state, including the



Left to right: Rich Wobbekind, Natalie Mullis, and Jim Westkott

higher education system. Over the past 10 years total state employment has increased at an annualized rate of about 1.1%, far below the rate of total employment growth. It is on track to expand by about 1.5% this year.

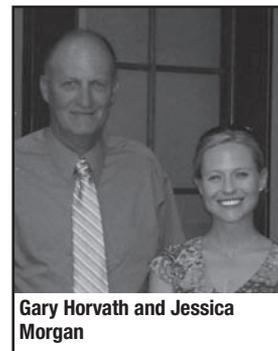
Local government employs more than 242,000 workers, including public school teachers, administrators, and staff. Over the past decade, as the population has swelled, demand for local government services, ranging from water and police to schools, has increased. As a result, local employment has grown at an annualized rate of 2.7% between 1997 and 2006, and is expected to continue at that rate through 2007.

International Trade

Colorado international trade had a record-breaking year in 2006, with just under \$8 billion in exports and a 17% increase. So far in 2007 exports are slightly underperforming 2006, down 0.5% through April. Total Colorado exports as of April are at \$2.5 billion.

NAFTA trading partners Canada and Mexico are still the number one and two importers of Colorado goods. In 2006, Colorado exported \$1.8 billion to Canada and more than \$1 billion to Mexico. Through April, exports to Canada are down 3% from 2006.

China has quickly become an important importer of Colorado goods, and is now Colorado's fourth export market. For the first part of the year, exports to China have increased 1.8%, and exports to Taiwan are up 5.4%. Growth in silicon wafer exports to China is bolstering that market. Other high-tech exports are also strong to China and Taiwan. However, exports to Japan through the month of April fell 21%.



Gary Horvath and Jessica Morgan

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SECTOR HIGHLIGHTS, CONTINUED FROM PAGE 5

The top commodity export markets as of April are electronic integrated circuits and microassemblies (\$176.5 million); processors and controllers (\$110.4 million); medical devices (\$110.4 million); and parts and accessories (ADP machines) (\$109.7 million). Medical instruments exports are up almost 120%.

Based on the Consensus Forecast World Economic Activity summary, GDP growth for all countries is anticipated to be 3.3% in 2007. Consumer prices are expected to climb 2.5% through 2007. The state's leading importer, Canada, is forecast to have GDP

Colorado international trade had a record-breaking year in 2006, with just under \$8 billion in exports and a 17% increase.

growth of 2.4%, and Colorado's second leading importer, Mexico, 3.3%. China's economy is expected to grow in the double digits. This may present an opportunity for Colorado exports to increase, especially in the high-technology fields that are needed for rapid development. 

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