

# COLORADO BUSINESS REVIEW

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## This issue:

**Midyear Colorado economic update begins on this page.**

**List of midyear economic roundtable meeting participants on page 4.**

## New Jobs Created in Nonagricultural Wage and Salary Employment Sectors

(2007 vs. 2008 YTD and Forecast)

Industry	2007 <sup>a</sup>	2008 Forecast <sup>b</sup>	Five Months Avg 2008 <sup>c</sup>	Monthly Trend <sup>d</sup>
Natural Resources and Mining	4,100	5,000	3,200	flat
Construction	-600	-1,000	-1,200	down
Manufacturing	-2,700	-4,000	-2,800	down
Trade, Transportation, and Utilities	10,400	5,400	7,900	down
Information	800	900	-100	down
Financial Activities	-800	400	-2,100	up
Professional and Business Services	16,200	15,500	9,100	flat
Educational and Health Services	8,800	8,000	9,000	up
Leisure and Hospitality	5,400	6,000	8,100	down
Other Services	2,000	2,000	2,200	flat
Government	7,600	5,100	9,800	flat
<b>Total</b>	<b>51,200</b>	<b>43,300</b>	<b>43,100</b>	<b>down</b>

<sup>a</sup> Colorado Department of Labor year-end employment changes by sector.

<sup>b</sup> BEOF Committees' forecasted employment changes for year 2007 vs. 2008.

<sup>c</sup> Colorado Department of Labor average employment changes for January–May 2008 vs. the same period in 2007.

<sup>d</sup> Trend is based on the first five months of 2008.

## Colorado Economy 2008 Midyear Update

### Sector Highlights

Richard Wobbekind

#### Population and Employment

A look at the Colorado economy midway through the year indicates that the original forecast of 1.9% employment growth prepared by the BRD last December may be slightly optimistic. On a positive note, it is

likely that the Trade, Transportation, and Utilities; Educational and Health Services; Leisure and Hospitality; Other Services; and Government Sectors will record higher than projected growth. Both the Natural Resources and Mining, and Professional and Business Services Sectors will post strong employment

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Think Broadly.  
Act Boldly.



## SECTOR HIGHLIGHTS, CONTINUED FROM PAGE 1

### From the Editor

In this issue we present a midyear update of the overall Colorado economy and individual sectors. It is compiled from observations 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 the forecast presented last December.

Key factors shaping recent economic trends are also noted. We greatly appreciate the time and input from the individuals who participated in the meeting.

A list of contributors is presented on page 4.

As always, we are interested in your suggestions for topics of future issues.

Please contact me at 303-492-1147.

Richard Wobbekind

gains this year; however, those increases will be well below the levels projected in December. Job losses are anticipated for Construction, Manufacturing, Information, and Financial Activities.

According to the Colorado Department of Local Affairs, Colorado's population in 2008 is estimated to increase 1.9%, or by about 95,000 people, for a total of 5.0 million. This is slightly lower than the 2.0% that was forecast last December, due to the slower than anticipated arrival of troops and their families to El Paso County. Mesa and Garfield counties continue to exhibit strong growth, even though some employees of energy extraction firms may not be counted in population totals as they are often based in another state. The population in Front Range counties is also still growing, especially southern Weld County.

### Agriculture

The Agriculture Sector is taking on an unusually high profile as abnormally high food commodity prices are felt throughout the market. Corn ended June at more than \$7.14 per bushel, while wheat and soy beans topped \$8.49 and \$16.10 per bushel, respectively. Intuitively, record prices should lead to a boon for the industry; however, across-the-board cost increases and drought conditions in southeast Colorado are pinching ag producers. Colorado can expect to record higher revenues in 2008 with less output and lower profits.

Diesel prices have topped \$5.00 per gallon in some parts of Colorado this year, affecting the production and delivery of agricultural products. With an average price in June of \$4.67 in the Rocky Mountain region, prices are nearly 44% higher than at the start of 2008 and 59% higher than in June 2007. Aside from fuel, oil prices directly impact fertilizers and other chemicals used as inputs in crop production.

Unlike the grains sector, the livestock sector has not experienced a run up in market prices. However, surging feed and fuel costs have severely hurt the profitability of livestock producers and feeders. Going forward, livestock prices will need to trend higher or we will continue to see a shrinking of capacity in the industry. Longmont's Butterball factory serves as a prime example, announcing layoffs in June.

### Natural Resources and Mining

While the unprecedented oil and gas price increases in 2008 have been a drag on the Colorado economy, they have led to a boom in drilling and

pipeline infrastructure on Colorado's Western Slope. Oil ended June at \$140 per barrel (WTI), 50.7% higher than 2007 year-end and 93.2% higher than June 2007. Natural gas, which represents two-thirds of the revenue generated in the sector, has increased 69.5% over year-end.

Inflationary concerns are easily visible in the oil and gas markets as the commodities are sold on spot markets. However, other minerals, such as coal, are sold in long-term contracts, and inflation will be priced into new contracts as the old ones expire. Prices of Colorado's Uinta Basin coal are up 89.8% for the year, while Central Appalachia coal has soared 138%.

Freeport-McMoRan announced it will reopen the Climax mine, increasing Colorado's production of molybdenum. A milling bottleneck will continue to hold up uranium mining in the state until more capacity is created.

### Construction

The construction industry will finish the year slightly below the 11% growth expectations, boosted by gains in the nonresidential and nonbuilding sectors. Resort areas and schooling institutions are showing notable strength, while medical facility construction is generally on hold. Residential construction unsurprisingly is a drag on the industry in 2008, despite Colorado faring better than many other states in home price depreciation.

Colorado is on pace to see 13,000–14,000 new single-family homes in 2008, falling short of the initial expectation of 19,000 and well below the 40,000 built in 2004 and 2005. The average time on market is over six months (8.5 months for new homes). Multifamily typically comprises a minority of total units constructed in the state, but this trend is expected to reverse.

While banks appear to have funds available for investment, financing will continue to be a concern for new developments in 2008 due to greater due diligence requirements. On the employment front, while there has been a slowdown in hiring, the state has not experienced large layoffs in the industry.

### Manufacturing

Colorado's Manufacturing Supersector continues to shed jobs, which is consistent with the trend across the nation. The good news is that it appears the sector will register a 1.8% decline by year-end, better than the expected 3% decline for the year.

Employment in the state's largest durable goods sector, computer and electronics products, has



Participants at the midyear Colorado Business Economic Outlook roundtable meeting discuss economic trends.

contracted by roughly 1,900 jobs. Although the assembly work for many companies has moved off-shore, opportunities exist for facilities to retool to an R&D focus.

In the nondurable area, the merger of beer producers Molson Coors and SABMiller may affect employment. The new firm, MillerCoors, became operational July 1, and the integration into a single entity is expected to take between 18 and 24 months. Once complete, Coors, which has traditionally been brewed in Colorado, will be brewed at facilities across the nation, and Miller will be brewed in Colorado.

In other nondurable goods, food producers are expressing concern about the effects of ethanol production and the high cost of ingredients. A case in point is the recent loss of just over 200 positions at the Butterball facility in Longmont due to the increases in feed costs. The eliminated positions include related contractors.

The chemical manufacturing sector includes petro-chemical manufacturing, industrial gases, biotechnology, pharmaceuticals, household chemicals, and related industries. Employment growth in the biotech area has been solid. It was recently announced that Colorado's medical research industry will benefit from a \$40 million grant from the Webb-Waring Institute, the University of Colorado, and the Boettcher Foundation.

Firms in the defense and aerospace manufacturing industry, which are classified in the transportation sector, have been doing

well. However, a classification shift in this area has resulted in an apparent 9% loss in employment.

### **Trade, Transportation, and Utilities**

The TTU Sector is faring better than expected in 2008, with employment expected to end the year at or slightly above the forecast.

Retail sales are expected to end the year at 4.5% compared to the projected 4.0%, primarily attributable to gas station and food inflation. Tourism numbers are strong in the first half of 2008, but the impact of the costs of gasoline and aviation fuel could drag down the industry.

While Colorado's consumer confidence is tracking the national trend, the state's consumers are more optimistic than the nation. Transportation employment will likely take a hit in the second half of 2008 due to airline cutbacks at DIA.

### **Information**

Annual employment in the Information Sector peaked at 108,400 jobs in 2000 and fell off sharply, to 75,400 jobs, in 2007. The forecast for this year projected 900 additional jobs in the sector after remaining fairly flat since 2005. After five months, average employment is about 100 fewer jobs than the same period a year ago. Midway through the year it appears that the initial forecast is overly optimistic and a best-case scenario

will see little change in total employment this year.

Approximately one-third of the workers are employed in the publishing subsector. Through the first five months of the year, the subsector is down 700 jobs, of which 600 are in printed publishing and 100 are in software publishing. Declining advertising revenues have caused newspapers to reduce costs as a means of maintaining profitability. Given this scenario, it remains to be seen how long Denver will have two major newspapers.

About one-third of the Information employees are classified in the "other" subsector. This category includes a variety of groups ranging from internet service providers to motion picture producers. After five months, employment in the subsector remains flat.

The final one-third of employees work in the telecommunications subsector. In early 2001 telecommunications workers in Colorado totaled almost 50,000. That number had declined to fewer than 30,000 by 2005, followed by a slight increase two years later. Through May of this year the subsector is about 600 jobs ahead of the same period last year.

Overall, it will be necessary for gains in telecommunications in the first half of the year to hold up during the second half to offset the losses in publishing. This most likely scenario will result in flat employment for 2008.

## Financial Activities

After shedding 800 jobs in 2007, the Financial Activities Sector is down an additional 2,100 jobs through the first five months of 2008. Employment losses in the sector are likely to climb in 2008.

Approximately 2,200 jobs have been lost in the banking and mortgage subsector, presumably as a result of the fallout from the credit crunch and the housing slump. Similarly, the insurance subsector has declined by about 600 jobs.

On a positive note, the real estate and rental and leasing subsector has expanded by approximately 200 jobs. The sector includes workers in the real estate industry who receive wages, as well as businesses that rent or lease property or goods. While housing price appreciation remains an issue in many parts of the country, the most recent release of OFHEO data shows that Colorado home prices advanced 2.3% from Q1 2007 to Q1 2008. Grand Junction and Boulder increased 9.1% and 4.1%, respectively, while Pueblo and Greeley lost 1.3% and 2.5%. The Denver, Colorado Springs, and Fort Collins-Loveland MSAs home prices increased marginally, up 0.9%, 0.3%, and 0.9%, respectively. Despite the slight uptick in the Denver MSA, Tom Thibodeau, Real Estate Professor at the Leeds School of Business, analyzed a broader set of sales data than OFHEO for the Denver Metro region for Q1 2007 through Q4 2007 and found great disparities among neighborhoods. Littleton, for example, recorded 11% appreciation in one ZIP code. Neighborhood house price changes for the Denver metro area ranged from -16% to +9%, depending on the ZIP code.

In addition, growth in the commodity markets has led to increased employment in the securities markets. Through five months, about 600 workers have been added.

It appears that the sector incurred its heaviest declines in the first quarter and will end the year with losses between 1,500 and 1,800.

## Professional and Business Services

The PBS Supersector is on tap to finish the year with employment growth of 3%–3.5%, down slightly from the nearly 4.5% forecast in December. Employment in companies that provide services to government, environmental, and administrative support firms is increasing. Similarly, companies doing business with energy and energy transmission firms, including those

in the solar and wind areas, are doing well. On the other hand, employment growth is flat in legal, engineering, and accounting services, and employment services is declining. A significant drop projected in the Colorado Department of Transportation's 2008–09 budget will negatively affect engineering and related firms.

## Educational and Health Services

Between 1990 and 2007 the EHS Sector registered employment gains ranging from 2.2% to 5.8%. An increase of 3.3%, or 8,000 jobs, was projected for 2008. After the first five months, 2008 employment in the sector is up 3.7%, or almost 1,000 jobs. Employment is poised to increase by 1,000–1,200 for a year-end average of 9,000–9,200 workers.

Despite shortages in key medical positions, such as nurses and doctors, roughly 5,200 total jobs will be added in the ambulatory care and hospital subsectors. In addition, employment in nursing care facilities will climb by a total of 600 jobs, and over 2,000 jobs social assistance positions will be added. The private education subsector will gain at least 1,200 jobs.

## Leisure and Hospitality

The outlook for tourism in 2008 is positive. About 12.5 million skiers enjoyed record snow on Colorado's slopes this past ski season. The runoff from the snow should in turn provide for a strong summer rafting season.

At this point in the summer it does not appear that the high gas prices, above \$4 per gallon, will dampen Colorado's appeal as a drive market for neighboring states. In addition, the Democratic National Convention, along with two other conferences, are scheduled to bring 75,000–100,000 visitors to conventions in Denver during a three-week period from mid-August through the first week in September.

DIA continues to post record enplanements. However, this may change as airlines cut service and increase prices. A rash of airlines, including Frontier, United, and American, have announced cuts in service beginning this fall. In addition, airlines have been adding fuel surcharges to the price of tickets, and began charging for checked luggage. Frontier also may renegotiate its contract with DIA, giving up some of its 22 gates in an attempt to save money.

# Participants of the Midyear Economic Roundtable Meeting

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Gaming revenue is declining. This is attributed to a recent change in the laws that ban smoking in casinos.

Overall, tourism employment through the first five months is higher than the same period last year by about 3.0% or 8,100 jobs. Employment gains are expected to taper off slightly, but finish the year well above the original forecast of 6,000 jobs.

## Other Services

Historically, the growth in the Other Services Sector parallels the state's population growth. This is intuitive since the sector contains consumer-related business.

Each of the three subsectors has shown growth. The first group, repair and maintenance, has added 300 jobs in the first five months, showing a gain of 1.2%. A slower than average growth rate occurred in this sector because the combination of technological improvements and "disposable products" has reduced demand for such workers as automobile and electronics repair staff.

The second major subsector, personal and laundry services, has risen 2.1%, or by 500 jobs. This rate of growth is slightly higher than the population growth rate.

The final subsector, religious, grant-making, civic, professional, and similar organizations, increased by about 1,400 workers, or 3.0%.

Based on the strength of the growth of the sector through the first five months, job increases may exceed 2,200.

## Government

The Government Supersector is comprised of three sectors: federal, state, and local. Employment in the largest employer in the federal area, the postal service, is typically driven by increases or decreases in population. Despite the state's growing population, no employment increase is expected in this sector due to higher usage of electronic mail.

Similar to the federal government, state government employment generally follows population trends. State employment growth is expected to slow with the economy, impacted by contracting tax revenues. However, state employment will be buoyed by growth in the correctional system.

## International Trade

While other states' exports have benefited from the devaluation of the dollar, Colorado




Meeting participants Jackie Driscoll with Centura Health; Penn Pfiffner of Construction Economics, LLC; and Richard Wobbekind with the University of Colorado at Boulder.

did not receive the expected bump in exports as forecasted. Through April 2008, Colorado exports are up 0.8%, which is in line with the 1.5% increase forecasted in December. After a decline in the export of electronic integrated circuits and computers and data storage devices last year, these product categories dropped between 40% and 60% through the first four months of 2008. If these two product categories were removed, total Colorado exports would have risen approximately 5% in 2007, compared to the actual 1.8% increase.

On a brighter note, Colorado exports of natural resources, particularly molybdenum, are up as China's consumption of metals increases. Production at the Climax

molybdenum mine in Leadville in 2010 will be approximately 30 million pounds annually.

Anecdotal evidence suggests that foreign investment in the state is on the rise, particularly in the natural resources, renewable energy, and medical products manufacturing sectors. 

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# COLORADO BUSINESS ECONOMIC OUTLOOK FORUM

December 8, 2008 • Grand Hyatt Hotel, Denver

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