

COLORADO BUSINESS REVIEW

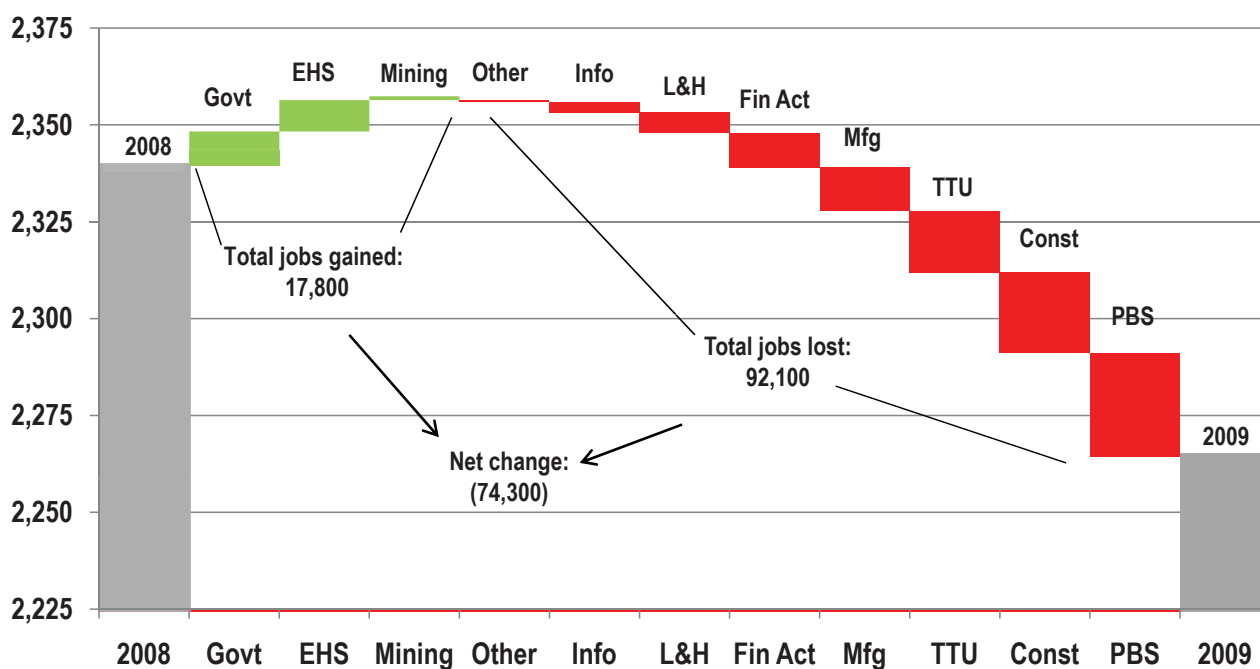
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Midyear Colorado economic update begins on this page.

List of midyear economic roundtable meeting participants on page 5.

Change in Colorado Average Employment (2008 vs. 2009 January through May)



Source: Colorado Labor Market Information.

Colorado Economy 2009 Midyear Update Sector Highlights

Richard Wobbekind

Population and Employment

While the 2008 projected change in population, 98,100, came in close to the actual number, the 2009 figure has been revised down to 76,000. The revision takes into account the 6,000 troops and their families who will be

arriving in El Paso County as part of the base realignment. In 2009, net migration is expected to be 35,000, and the natural increase, 41,200. In terms of percentage change, growth was 1.8% for 2008, and is projected to be 1.4% in 2009 and 1.8% next year.

Total employment in Colorado is currently at the level it was in 2001. Dramatic

CONTINUED ON PAGE 2



Think Broadly.
Act Boldly.



SECTOR HIGHLIGHTS, CONTINUED FROM PAGE 1

From the Editor

In this issue we take a midyear look at the overall Colorado economy and individual sectors, 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 early 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. See page 5 for a list of contributors. As always, we are interested in your suggestions for topics of future issues.

Please contact me at 303-492-1147.

Richard Wobbekind

employment and retail sales drop offs have put pressure on social support organizations and state and local government. Average monthly employment through May is down 3.1% year over year. May is the first month that Colorado experienced a higher monthly job loss percentage wise than the nation—4.4% compared to 4.1%, bringing into question whether the state will lead or follow the national recovery.

Government

Government in Colorado, and across the nation, has been very active on all three levels: local, state, and federal. Employment in the supersector is up 1.7% from this time last year, and it has been one of the few “industries” to perform well as a whole in the current harsh economic environment.

With the federal government’s stimulus spending and impending decennial Census, employment in the federal sector will increase slightly in the next year.

Despite the hiring freeze, the state has continued to add jobs. June budget estimates for the State of Colorado came in worse than expected due to retail sales tax declines, and more furloughs and layoffs are expected in state government.

While local governments recorded a small increase in employment during the first five months of the year, the budget situation will likely take a toll on jobs. The loss of revenue from retail sales is impacting municipalities across the state, and towns that depend heavily on tourism and mining have been hit especially hard. One bright spot in this sector is K-12 education, which is growing.

International Trade

International trade around the globe has largely been reined in over the past year with the economic downturn, and Colorado has been no exception. Exports from the state in 2008 were very close to expectations, increasing 4.3% for the year; however, Colorado is already recording a 23% decline in 2009 (through April). NAFTA trading partners Canada and Mexico are down 27% and 37%, respectively, and China is reporting a loss of 8%. Aside from the generally dismal economic conditions, exports are being impacted by the value of the dollar and decreased demand for Colorado’s agricultural products (e.g., milk). On a positive note, medical supplies and pharmaceuticals are performing well.

Agriculture

There is good news and bad news in Colorado’s Agriculture Sector. The state has had a lot of moisture, and wheat producers say it will be a very good

year—provided there are no major hailstorms. For the most part, corn producers are looking at a good crop. Early runoff has caused a few concerns, and irrigation may have to go on a little longer than usual. Total Colorado receipts will be lower this year due to lower commodity prices than 2008.

The livestock sector continues to be under a lot of pressure, dealing with high input costs and swine flu that dampened demand for some pork products. Dairy prices are down 25–35%, partially attributable to a decrease in the international consumption of dry milk. The biggest issue, however, has been the financial meltdown in Weld County precipitated by the failure of New Frontier Bank. New Frontier was aggressively trying to grow its agriculture portfolio, which was driven by the dairy industry, and made loans that other banks might not have. It is projected that only 1 out of every 10 dairy producers will be able to refinance, resulting in greater consolidation in the industry in the short term. Typically, before the FDIC takes over, other banks will pick up some loans. This is not the case with the New Frontier loans. However, as dairy prices improve in a year to 18 months, these dairy farms will be purchased. Additional dollars are also available through the Farm Services Administration.

Organic milk is an important component of the dairy industry, with organic alfalfa a key input. Reduced demand for organic milk will affect hay and alfalfa producers. They will not receive the same prices this year as they did in 2008, even though the state has experienced great growing conditions in the first half of 2009.

The labor situation is not as constricted as it has been in past years. The weak economy has provided producers with a wider domestic labor pool, enabling them to find the temporary and short-term labor they need without having to look to the H-2A program and other markets.

With energy prices down, ethanol plants are idling, thus impacting corn prices. Despite commodity prices well below their 2008 peak, production is doing fairly well in the state.

Financial Activities

News surrounding this sector is dominated by headlines over bank closures and continually dry credit wells. Significant reverberations of bank closures are evident with the demise of New Frontier Bank in Greeley and the subsequent impact on farmers and agriculture industry in the region. Indeed, across the state, loans that would have been a “slam dunk” 18 months ago are being denied. The economy may be showing signs



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

of strengthening, but the consensus is that lending institutions are taking time to put their house in order before turning their attention to others.

In the real estate market, commercial vacancies are on the rise and retail space is in low demand. Activity in the residential sector has picked up, and tax incentives and low mortgage rates are spurring some buying despite increased caution by lenders. Most recently, the S&P/Case-Shiller Home Price Index reported Denver metropolitan home price declines of 4.9% in April, year over year, while the Federal Housing Finance Agency observed a 1.7% drop in Q1 year over year. This may indicate that the Colorado housing markets have already begun bottoming out. Colorado recorded smaller losses than most of the nation, buffered by modest appreciation during the real estate boom.

Construction

After the steeper-than-expected declines in construction jobs over the past year, concern in the sector is focused on the lack of projects in the pipeline. So far, the industry has been propped up by commercial projects that were started before 2009, and these will finish the year at \$2.8 billion in value. The expected construction replacement for next year is small in comparison, ranging between \$600-\$700 million in new starts. Of this, only \$32 million (roughly 4.6%) are private endeavors; the rest are government starts.

The reasons for these activity letdowns are largely due to project delays, difficult financing, cancellations, and hesitancy to break new ground. High-profile projects like ConocoPhillips and Vestas are proceeding more slowly than originally projected. Resort construction is concentrated on renovations rather than new projects.

Optimists expect residential development to lead the construction rebound, but large inventories will likely inhibit growth in this area for quite some time, and many of the major builders have left the state. The inventory of new multifamily space is projected at 20+ months, while existing single-family and multifamily inventories are 5½ months and 6½ months, respectively, and five years for upper-end homes valued at more than \$1 million. Developed lot inventory is estimated at 80 to 120 months. Residential permits were down 67% in May, year over year.

Professional and Business Services

Just as the Professional and Business Services Supersector pulled the state out of the 2001 recession, it is now the source of the largest employment losses in the current downturn. Some of the most traditionally secure jobs, such as attorneys, engineers, and temporary professional workers, have experienced losses.

Sometimes viewed as a leading indicator in the construction pipeline, engineers and architects are faced with less work. The stimulus funds apportioned to infrastructure projects in the state were slated for “shovel-ready” projects,

meaning that the architectural and engineering work had already been completed.

Even with the high level of layoffs, anecdotal evidence suggests a shortage of skilled science and engineering workers in select fields. Optimism surrounds growth in the number of “green jobs” in the state; however, this is tempered by some major projects coming online more slowly than expected (e.g., Vestas, ConocoPhillips).

Natural Resources and Mining

Mineral and energy production is declining in 2009 due to deflated prices and weak demand linked to mild weather and the economy. Infrastructure is limiting exports of natural gas out of the state; therefore, prices have remained depressed. Utility consumption has decreased, which, in turn, has resulted in reduced coal production. Arch Coal reports business is down.

Two of the biggest Front Range aggregate quarries are seeing a 55% decrease in business compared to last year, and they are laying off employees. Demand is slow for clay, brick, and gypsum because the construction industry has stalled.

On a positive note, Colorado started mining uranium for the first time in many years, although output is restricted by milling capacity. Molybdenum is doing over a billion dollars in production a year. In 2008, the price fell from \$33.50 to \$12 per pound in two weeks, and the reopening of the Climax Mine went

back on hold. Goldman Sachs forecasts an increase in the molybdenum industry. Most of Colorado's molybdenum is exported to China to support its thriving construction industry.

Colorado has two potential world-class molybdenum sites in addition to Henderson and Climax. The sites are located in Dolores County and on Mount Emmons, near Crested Butte. Decision makers in both areas are currently opposed to further mining development.

At around \$950 an ounce, gold is in high demand. With higher prices, operations are mining ore that is otherwise not feasible given the amount of product per ton.

Oil prices are increasing, but Colorado will not benefit because the state is not a big oil producer. Additionally, oil shale technology is not advanced enough for the state to benefit from oil-shale production. Oil companies have purchased water rights in northwest Colorado in anticipation of future development opportunities.

In the future, this sector could help the state move out of the recession as mining provides well-paying blue- and white-collar jobs.

Educational and Health Services

The Educational and Health Services (EHS) Sector is a bright spot for the Colorado economy in 2009, with projections of employment gains. The increasing number of elderly citizens who are becoming eligible for Social Security and Medicare benefits are a likely cause behind the sector's relative insulation from the downturn. With the dismal economy, the number of uninsured persons is rising, as well as healthcare premiums. As national attention stays riveted to healthcare reform in Washington, EHS professionals across the board are paying close attention to the potential consequences of the various proposals on the table.



Meeting participants Jim Burnell, Colorado Geological Survey, and Allyson Hathaway, Colorado Department of Labor and Employment.

Bill Kendall, Center for Business and Economic Forecasting, and Tom Lipetzky, Colorado Department of Agriculture, at the midyear roundtable.



As expected with the current economic situation, charity care has increased significantly. Hospital construction has all but stopped due to difficulties accessing capital and overbuilding in some locations. If layoffs in the sector should occur, they will be on the administration side.

Manufacturing

Manufacturing employment continues to contract in Colorado. For the first five months of 2009, the sector is down 8%—similar to the 2002-03 decrease.

Colorado's largest durable goods sector, computer and electronic products, remains in the doldrums, declining significantly. The nondurable goods sector, which is comprised of goods that generally last less than a year, is faring better—perhaps because food manufacturing is in this sector.

Not surprisingly, with the overall sluggish economy the renewable energy industry has been slow to develop. Last December, it was believed that with the Obama administration's renewable energy initiatives, a wave of new, albeit small, companies would be formed. This has not been the case, although the sector is

poised to develop once the economy begins to pick up.

Manufacturing's shining star is in the aerospace cluster—up 2%, or 200 jobs. Aerospace operations are classified in many manufacturing and service industries; however, a large portion of employment is reported in transportation equipment.

Trade, Transportation, and Utilities

Employment in the utilities sector is up slightly for the first five months of 2009. Construction on Unit 3 of the Comanche plant in Pueblo is continuing, with service scheduled to begin this fall. Capacity has been boosted at the Fort St. Vrain Power Plant in Platteville. Xcel Energy is currently spending \$60-\$70 million on renewable energy. Tri State and Xcel Energy are jointly pursuing the construction of the San Luis Valley-Calumet-Comanche Transmission Project. A Certificate of Public Convenience and Need was filed with the Colorado Public Utilities Commission in May.

Air passenger traffic across the nation is down approximately 10%. DIA is faring slightly better, sliding 5.3% for the first five months of the year. Diesel prices that plagued over-the-road transportation last summer are not expected to climb back to record-high levels this year.

The trade sector has been hit hard. Calendar year sales taxes fell 1.4% in the state in 2008, and the contraction is expected to be much greater this year (5%-7%), resulting in severe budget constraints for state and local governments.

Key areas of decline include auto sales and high-end retailers. At the other end of the spectrum, discounters, including Wal-Mart, are doing well. Vacant retail space is widely available.

The trade sector is anticipating a loss of 5,000 wholesale and 4,000 retail jobs in 2009.

Leisure and Hospitality

Tourism revenues have contracted sharply in the first part of 2009, hurting tourism communities. Skier visits held their own in the winter of 2008-09, buoyed by Colorado skiers. Resort occupancy rates are down. Denver area hotels have been maintaining occupancy by reducing room rates by as much as 25%.

Despite a decrease in 2009 air traffic, DIA is faring better than other airports in the nation. Frontier Airlines has reported operating profits, is anticipated to emerge from bankruptcy protection, and will likely become a subsidiary of Republic Airlines.

The Colorado Travel Year Study 2008, conducted by Longwoods International, revealed that domestic visitation to the state was up by 2% compared to the previous year, but revenue fell 2%. Last year was strong in convention business, highlighted by the hosting of the DNC. This helped Denver set a record—\$940 million—for business travel spending. However, as a result of higher energy costs, tours and tour bus operator business profits are down significantly.

Colorado tourism will look to locals taking “staycations” to help buoy the industry.

Information

The 2008 annual gains in employment were buoyed by growth early in the year, which peaked in February and steadily declined through the end of the year. This continues an overall trend from the peak of 108,400 jobs in 2000. Job losses are expected for 2009, but not as deep as forecasted in December.

With the “paper flight” from printed publications and the closure of the *Rocky Mountain News*, job losses in the publishing subsector were expected heading into 2009. As of May, publishing alone has lost roughly 1,500 jobs year over year—the highest absolute loss within the Information Sector.



Gary Horvath, Business Research Division, talks with Bill Kendall, Center for Business and Economic Forecasting, at the economic roundtable.


The telecommunications subsector has shed about 400 jobs (five-month average). Major telecommunication players Qwest and Comcast have performed slightly better than expected. Earnings for these companies are doing fairly well, largely due to early layoffs that have now slowed, and cutbacks on capital expenditures.

As for the state’s film industry, activity for the second half of 2009 will likely be in micro and low budget films. Film activity is down in Colorado and is not expected to pick up quickly as aggressive film incentive legislation failed to pass this past session. However, the Colorado Film Commission has been refolded under the State and will be relocated to the Office of Economic Development and International Trade.

Other Services

This supersector, which is largely comprised of personal services businesses and nonprofit and social services organizations, showed growth through 2008, but has dropped off sharply in the first four months of 2009. Nonprofits are in an unusual situation in that there is increased demand for their services, but less money to work with. It appears the sector will show no employment growth this year.

Summary

Job losses through the first half of 2009 have been broad based and deep, with only Government and Educational and Health Services gaining jobs. This rate of job loss is expected to slow during the third quarter and possibly turn positive in Q4. If that scenario unfolds, overall job loss will still be in the 3% range, or 60,000 positions. 

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Save the date and watch for more information!

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COLORADO BUSINESS ECONOMIC OUTLOOK FORUM

December 7, 2009
Grand Hyatt Hotel, Denver

Sponsored by

the University of Colorado at Boulder, Leeds School of Business, and BBVA Compass

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