Four Corners Economic Quarterly

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Office of Business and Economic Research, School of Business
Fort Lewis College, Durango Colorado

Table of Contents

Second Quarter Comparisons for La Plata County

By: Dr. Deborah Walker

La Plata County's economy is still feeling some of the negative effects of the national downturn. When compared to the nation, the County looks better than the nation as a whole according to most indicators. Here's a look at the local data available for the second quarter of 2009 in comparison to the second quarter of 2008.

Employment numbers for La Plata County show a slowdown in job growth for the second quarter of 2009

The unemployment rates for April, May and June 2009 were 5.3, 5.5 and 5.7 percent respectively. That's an average of 5.5. The unemployment rates for April, May and June 2008 were 3.2, 3.3, and 3.7 respectively. That's an average of 3.4 (a quarterly increase of just over 2 percentage points). During the same time frame (the second quarter of 2008 as compared to the second quarter of 2009), the average unemployment rate for the Colorado went from 4.6% to 7.5% (a quarterly increase of almost three percentage points) and the average unemployment rate for the United States went from 5.3 to 9.3 (a quarterly increase of four percentage points).

Employment numbers for La Plata County show a slowdown in job growth for the second quarter of 2009 (compared to the same quarter in 2008). The average number employed in the second quarter of 2008 was 30,294. The same average in 2009 was 28,884 (a decrease of 4.8%). Comparing the same time frame, employment numbers for the United States declined by about 3.7% from quarter to quarter.

Tourist activity is one of the main drivers of the local economy. Passengers deplaning at the Durango–La Plata County Airport remained almost the same, decreasing by 0.3% in the second quarter. Visitors to Mesa Verde declined by about 2.2%. Interestingly, according to the National Park Service, recreation visits to all national parks during the second quarter increased by about 3.2% from 2008 to 2009.

Agriculture still remains an important contributor to the local economy. Unadjusted average alfalfa hay prices decreased from the second quarter of 2008 to the second quarter of 2009 by 21.1%. Adjusted prices decreased by about the same (20.2%). Calf prices also fell by 4.8% (adjusted) or by 5.9% (unadjusted). Industrial kilowatt hours used in the County during the second quarter increased by 4.2%. This is an indicator of industrial activity, including compression of natural gas through pipelines. Natural gas extraction remains an important part of the local economy.

The End?

By: Dr. Robert Sonora

As you've probably heard, the Great Recession is either over, or will be over by the end of the year.

Then the Labor Department comes out with the statistic that unemployment has just hit a high of 9.7%, a rate not seen since 1983. And many economists think it will continue to rise to over 10%. So are we in a recession or aren't we? It depends on what your definition of recession is. In economics textbooks a recession is commonly defined as "two consecutive quarters of negative GDP growth." Well, that's not really true.

We could also compare the current level of GDP to the level of GDP the economy potentially produces. Periods when GDP falls below potential, are considered contractionary. But, that's not really it either.

No, what determines the exact timing of a recession is an institution called the "Business Cycle Dating Committee" housed at the National Bureau of Economic Research (NBER). This group meets to discuss a variety of economic indicators which they believe signal the ups and downs of the business cycle -- including: GDP, personal income, sales, industrial production and employment.

And generally, they don't announce a recession until we are well into the recession or, in some cases, after it came and went. Hence, the formal announcement of the Great Recession wasn't made until we'd been in it for eleven months!

But at the end of the day, who cares if we know the exact timing of a recession when unemployment rate is continuing to rise? What gives?

Well, unemployment "lags" output. Firms continue to shed workers even as they increase output.

My main concern is not so much that unemployment will continue to rise – though that is a concern too, obviously – but that the post-recovery economy will have a fundamentally different, and higher, unemployment rate.

I foresee a structurally different economy with a higher "normal" unemployment rate. Over the past twenty years or so, we've become accustomed to unemployment in the 3-5% range. But, there's no reason to expect those rates to continue to be the norm – remember the seventies and eighties when we had have been happy with six or seven percent unemployment?

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The stimulus packages has – make no mistake – prevented the recession from being much worse. It's compensated for the decrease in household spending and helped buoy labor markets. But there is still a bunch of money in banks seemingly going nowhere. Why? Well, no one's really sure. My guess is that overall the banking industry views economy wide systematic and idiosyncratic default risk as too high.

The economy's likely tepid recovery does not breed confidence. Nor does a high loan/credit default rate. Moreover, weak labor markets – mean duration of unemployment is up to 25 weeks – loan demand is also lower. Couple this with complicated lending rules and you have little cash flowing into financial markets.

As I've stated before, the recession may be over, but we will relive a "jobless" recovery. In Colorado, the 2001 recession lived on well after the country moved on, and evidence suggests that this one will be no different

Will the Colorado Economy Outperform the National One?

By: Dr. Robert Sonora

Over the course of the Great Recession, a lot of attention has been paid to the US economy as a whole, however, it is necessary to see what is going on in the local Colorado economy as well. Overall, the Colorado economy is doing better than the national average on several fronts. In this article I spend a little attention on the current situation in the Colorado economy as compared to the US economy.

We begin with a discussion of the aggregate labor market, Next we discuss personal income in Colorado; this is followed by a short discussion of inflation. The next section summarizes the housing market. Finally, given the importance of natural gas extraction in the Colorado state budget, and we finish with short discussion of gas prices.

Employment

In terms of the unemployment rate in Colorado, the state's 7.3% unemployment rate is well below the national average 9.8%. In Figure 1, we can see the sharp rise in unemployment rate in the US began in the first quarter of 2008, and the state's sharp rise followed in roughly the third quarter. Colorado's delayed reaction to the recession behind the US is a frequent theme. Though the National Bureau of Economic Research's Business Cycle Dating Committee (NBER) believes we entered a recession in December, 2007 it is likely Colorado entered slightly behind the country as a whole.

Figure 2 shows the year to year change in the unemployment rate in Colorado and the US. As the graph clearly shows, unemployment in the state and the nation is accelerating, but Colorado's a little easier on the gas pedal.

Moreover, compared with the US, an index of employed workers, with 2000=100, the number of employed in the Colorado is about seven percent higher than in the US as a whole. This is a marked change from the 1990s when the number of employed in the Colorado were significantly lower versus the US. And in both, the rate of acceleration is slowing, with Colorado's unemployment rate rising about 1% less than the US average.

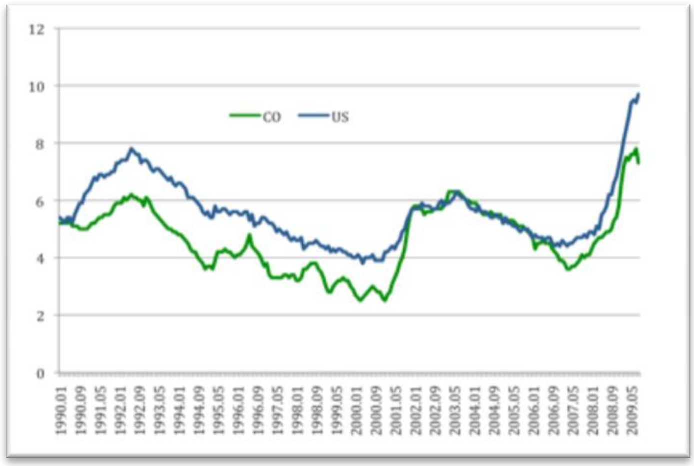

Figure 1. Unemployment Rate in US and Colorado

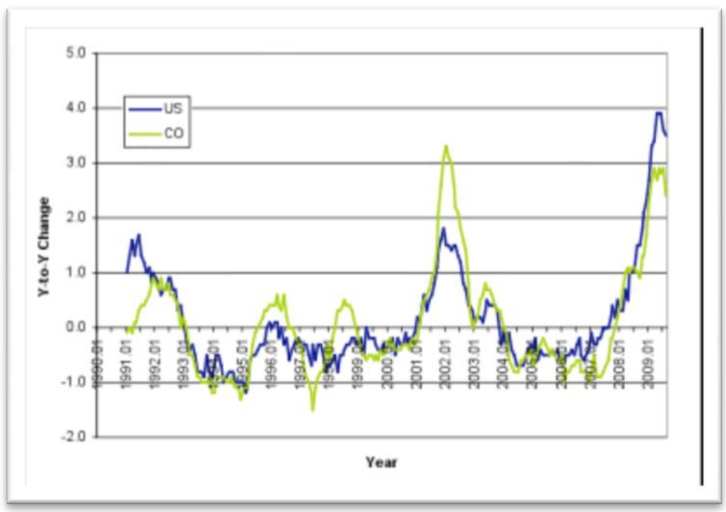

Figure 2. Annual Change in Unemployment Rate in the US and CO (Source: Bureau of Labor Statistics)

Figure 3 shows county unemployment rates in the state. As can be seen there is quite a bit of difference in unemployment rates around the state. Dolores county has the unenviable position as the highest unemployment rate in the state at 13.4% while Cheyenne county, in eastern Colorado has the lowest (2.3%).

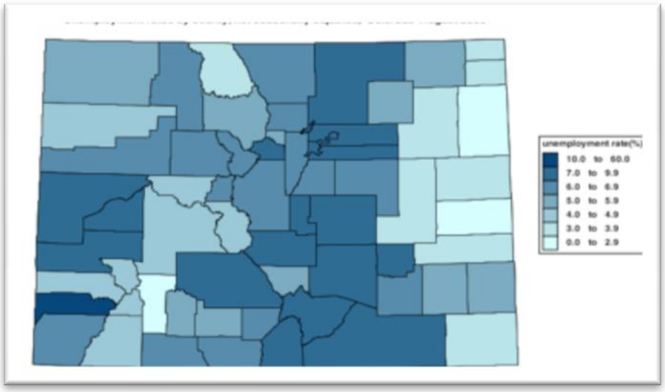

Figure 3. Colorado County Unemployment Rate (Source: Bureau of Labor Statistics, map generated from www.bls.gov/lau)

Though statewide unemployment is below the national average, a potential concern for the state in the medium term is the growth of employment in Colorado. Figure 4 presents an employment "index" for the US and Colorado (2000=100). Comparing apples to apples we see employment here rising faster than the national average over the past 10 years or so, moreover, the diversity of work has also increased (see below). As mentioned above, the Colorado labor market did not begin to decline as early as in the country, however, once it began to fall, it accelerated quickly. Of note, in 2009 employment growth has fallen faster than it did during the 2001 recession, see Figure 5, which will not bode well for employment over the next 12-18 months. The "jobless recovery" will be a lot more jobless than recovery until the end of 2010.

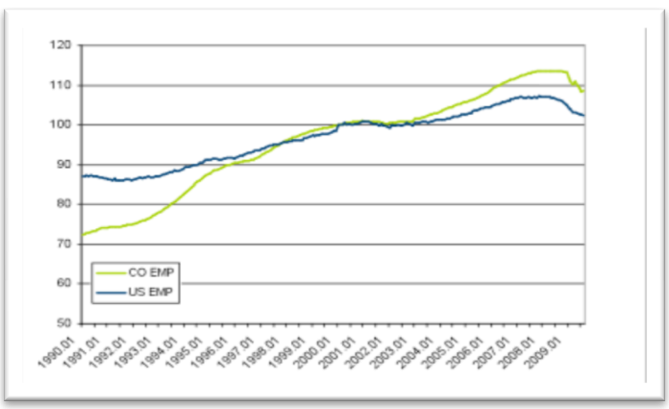

Figure 4. Employment Index in US and CO (2000=100) (Source: Bureau of Labor Statistics)

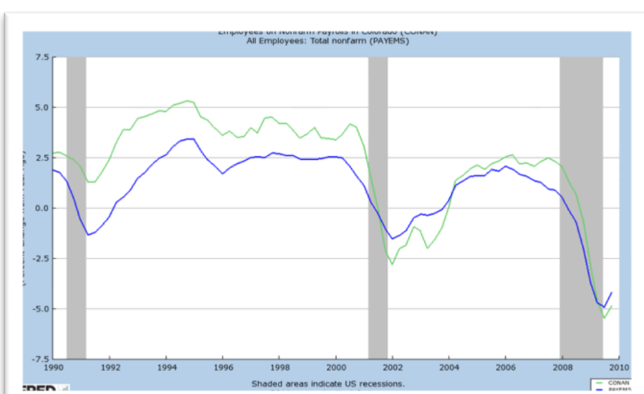

Figure 5. Non-Farm Employment Growth in the US and CO (Source: Bureau of Labor Statistics)

Personal Income

While employment growth is slowing considerably, in personal income is still higher in Colorado, about $42,000 per year in 2008, than the national average, $39,000, through 2008, the latest data available, see Figure 6. Though income shrank in 2002, Figure 7 shows personal income growth, it has since recovered. However, though income was growing at the end of 2008, it was slowing significantly, while average income growth in the US was negative. Given the more recent data on employment growth, it is hard to see that personal income growth will remain positive this year. Again, we see that Colorado is lagging the rest of the country by a quarter or so.

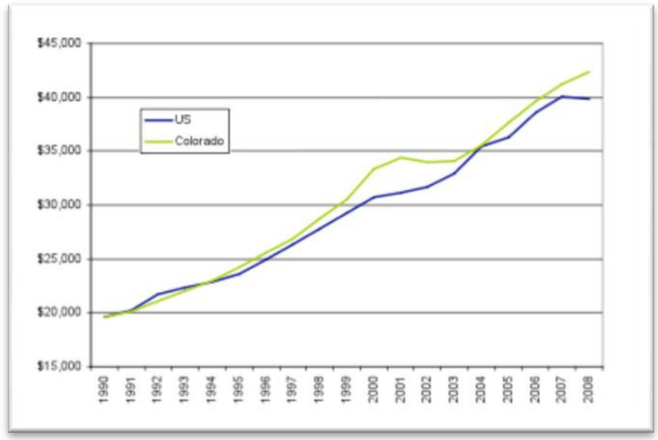

Figure 6. US and Colorado Per Capita Personal Income (Source: Bureau of Economic Analysis)

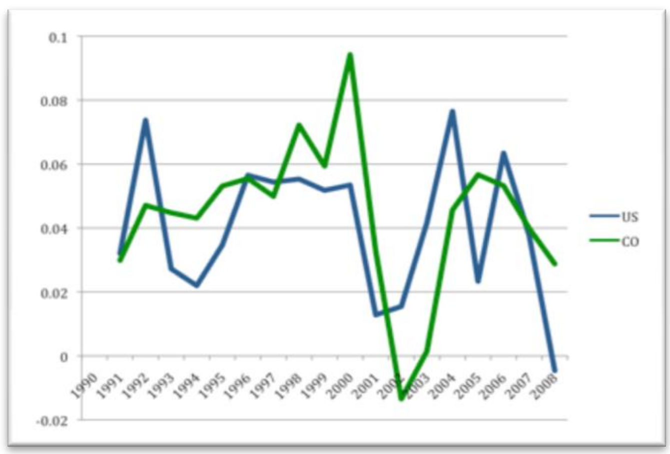

Figure 7. US and Colorado Per Capita Personal Income Growth (Source: Bureau of Economic Analysis)

Consider the data in Figure 8 which shows average sector income growth from 1990-2009. Overall personal income growth in Colorado was about 1.5%. All non-farm income experienced positive income growth over the period. The sectors with the fastest average income growth between 1990-2009 were education (about 2.3%), management (2.3%), information (2.3%), arts and recreation (2%), professional services (2.0%) and mining (1.75%). Though, some of these sectors began with relatively low income levels to begin with which explain some of the high pace of their growth, for example, the arts and recreation. The biggest loser were farm earnings which shrank -0.1%.

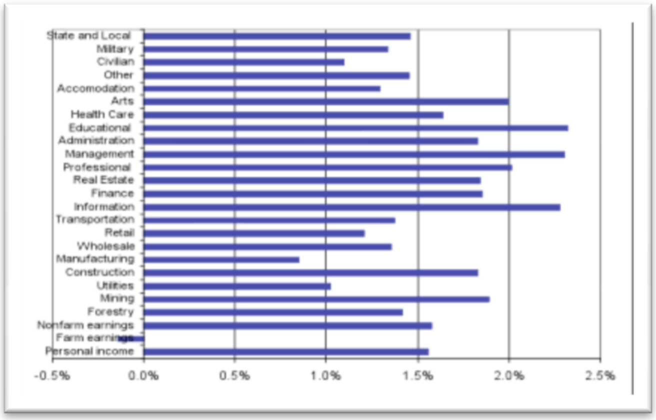

Figure 8. Overall and Sectoral Average Income Growth (1990 - 2009)
(Source: Bureau of Economic Analysis)

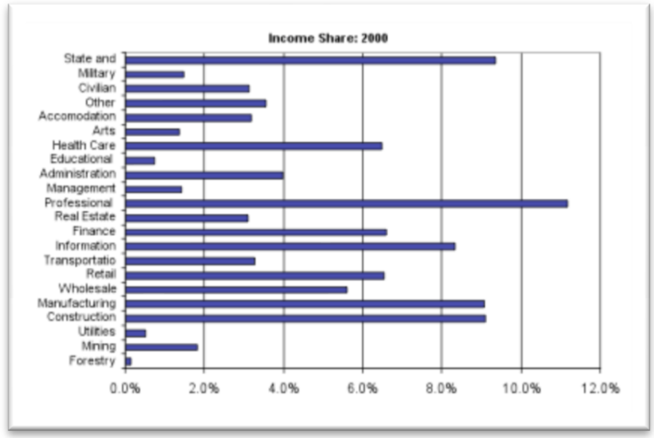

Figure 9. Sector Income Shares by Year in Colorado
(Source: Bureau of Economic Analysis)

Since the recessions of the 1970s when Colorado's economy was dominated by energy and agriculture, the state's economy has become increasingly diversified: this year, the largest income shares belong to state and local government, professional services, and health care, all commanding over 8% of total income. But there are an additional seven sectors with share over 6%. This should buffer the state economy from sector specific problems. The four figures in Figure 9 show the share of total income for each of the sectors across the state.

In the 1990s manufacturing, retail, professional services, health care and state and local government (State and) dominated the other sectors in terms of income share. At the turn of the century, the economy diversified into more construction and manufacturing. By 2009, these sectors have shrank back, and once again the economy appears less diverse with state and local government, health care and professional services once again commanding large share of total income. It should be noted that declines in state and local tax revenues will, and has, reduced employment in state and local governments which will reduce these shares.

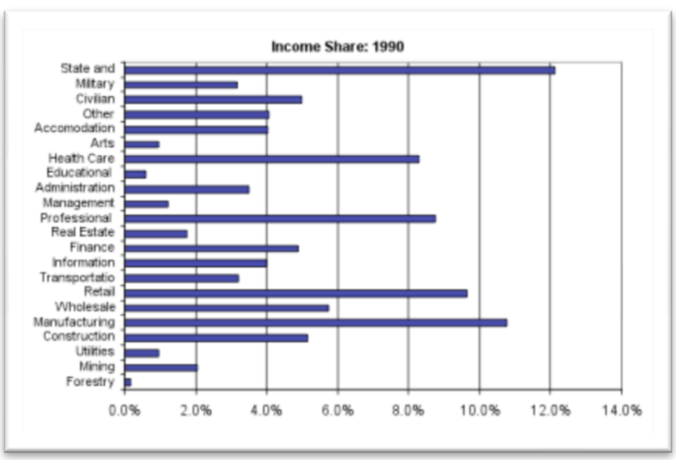

Figure 10. Isolates select sectors and looks at their income shares have changed over the past twenty years or so. As can be seen manufacturing has been consistently dropping off while professional services, education, and administration have consistently grown. The other "large" sectors have ups and down.

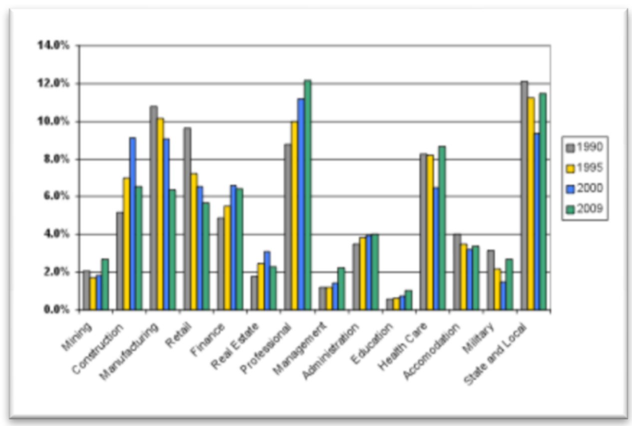

Figure 10. Income Shares for Select Sectors: 1990-2009
(Source: Bureau of Labor Statistics)

Inflation

Over the past five years, inflation has, more or less, followed the national average. As of the first half of this year deflation in both the US and Denver-Boulder-Greeley was about -1%, see Figure 11. As with employment, Colorado price seem to lag the national by a couple of quarters. Most of the decline in prices has been due to declines in energy prices. And continue declines in the producer price index (a measure of production costs) will keep inflationary pressures at bay for the foreseeable future. One worry with respect to inflation will be the huge inventory of money which has accumulated in banks over the past year and the possibility for yet another spike in energy prices due to commodity speculation.

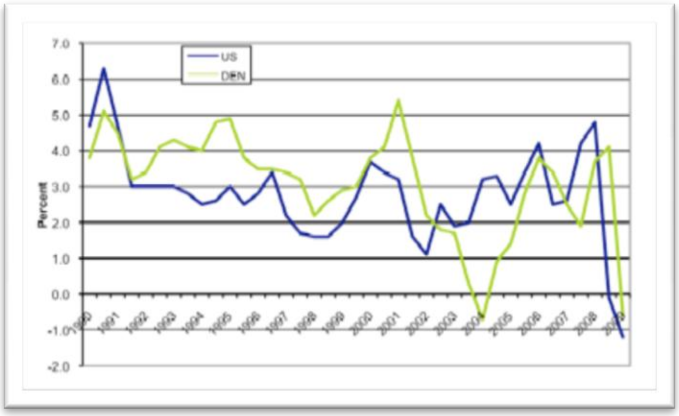

Figure 11. Inflation in Denver and US (Source: Bureau of Economic Analysis)

Housing

One of the features of the Colorado housing market is that the real estate bubble so heavily discussed in the media never really happened in Colorado. However, as Figure 12 shows, home ownership in Colorado leap frogged the national average in 2000 to about 68%. As the figure shows ownership peaked at just over 71% in 2003. In 2008 has fell back to 69%, which may still be too high, if we take the national average as a metric.

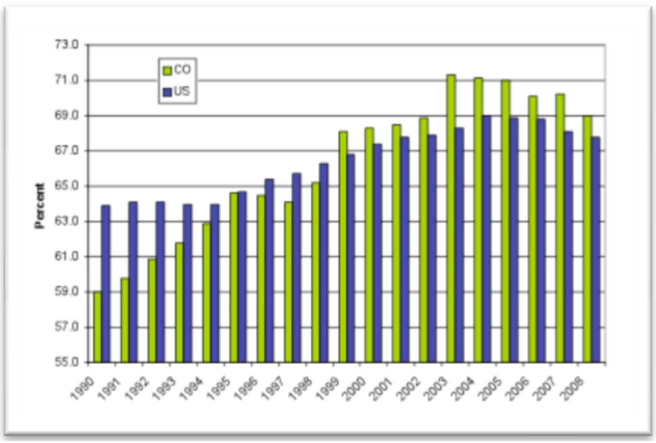

Figure 12. Home Ownership Rate (Source: US Census Bureau)

Figures 13 and 14 present the housing market and employment data. Figure 13 shows the number of statewide single family housing starts (blue) and the employment in the construction sector. As the figure shows, housing starts have fallen off precipitously since 2006 to levels not seen since 1990. The recent uptick in housing starts appears to be a seasonal increase and does not, yet, represent a trend in housing starts. There is still a surplus of housing on the market – about 12-15 months in the nation as a whole, so it may be some time before new house construction begins in a big way.

> … but if history is any lesson, while the adverse effects will be smaller, we may be stuck in a very slow recovery.

With the decline in housing starts we also see a sharp decline in construction employment. With 2-3 million foreclosures occurring in 2009 nationwide and the rising vacancy rates in commercial real estate as well, we should see this trend continue.

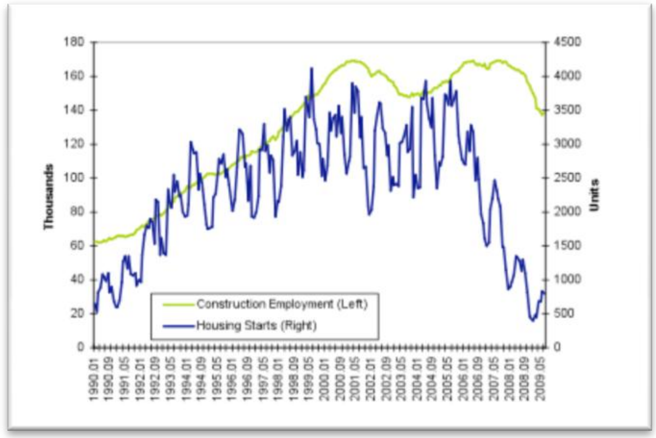

Figure 13. Construction Employment and Housing Starts (Source: Bureau of Labor Statistics and US Census Bureau)

Figure 14 shows the statewide housing price index. The green line is the index and the blue line is the growth rate of the housing price index. As is clear, the now familiar "hump" shaped price index of the Case-Shiller index we see in Los Angeles, Las Vegas, and other cities, never happened in Colorado. The largest growth of home prices were in the mid-1990s and early 2000s. However, since 2001 home price growth has been slowing. And the most recent data shows prices are shrinking from a year ago.

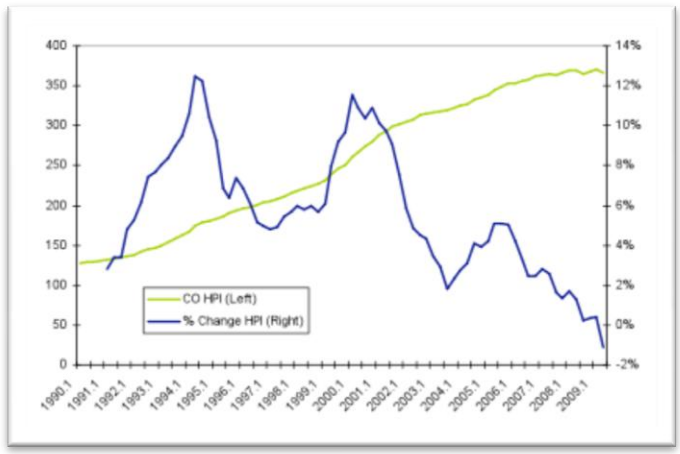

Figure 14. Colorado Housing Price Index and Price Change (Source: Federal Housing Finance Agency)

Natural Gas

Given the importance of natural gas, particularly in state tax revenues and grants, we should consider prices. Adjusted for inflation, the price of natural gas is now the same as it was in mid-2001, about $2 per million BTU. Just as we must be concerned what will help pay for county services here, so too must the state, what will taxes do if the current trend continues.

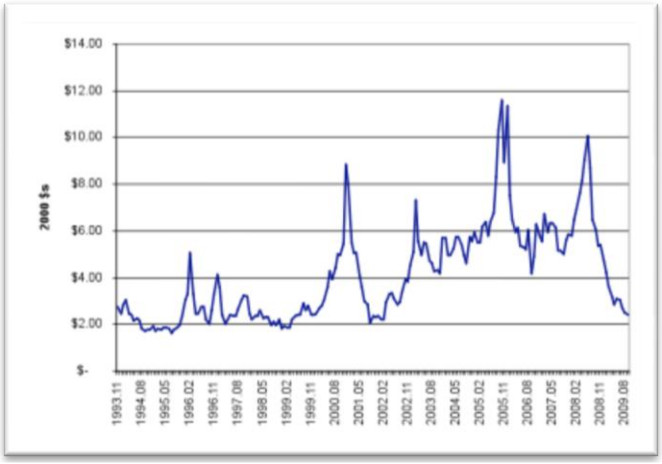

Figure 15. Natural Gas Prices Adjusted for Inflation, 2000 Dollars per Million BTU (Source: Wall Street Journal)

Overall

Currently, the Colorado seems to be in better shape than the rest of the country. However, the data suggests that the state entered the recession after the nation. It appears that, given unemployment will remain lower and income will stay higher than in the US, but if history is any lesson, while the adverse effects will be smaller, we may be stuck in a very slow recovery. And if gas prices and incomes remain low, state and local governments will find it difficult to raise the revenues necessary to finance public services and goods.

The *Four Corners Economic Quarterly* is a newsletter on economic indicators of Southwest Colorado published by the Office of Economic Analysis and Business Research in the Fort Lewis College School of Business Administration and Region 9 Development District of Southwest Colorado, Inc.

For contact information:

Dr. Luke Miller, Director
Email: Miller_L@fortlewis.edu
Phone: (970) 247-7060

Dr. Robert (Tino) Sonora, Director
E-mail: sonora_t@fortlewis.edu
Phone: (970) 247-7296

Office of Economic Analysis & Business Research
School of Business Administration

Fort Lewis College
1000 Rim Drive
Durango, Colorado 81301

Web Address: www2.fortlewis.edu/ober

Region 9 Economic Development District of Southwest CO, Inc.
(970) 247-9621
www.scan.org