

Econometer

**A Newsletter of Economic Indicators in Southwest Colorado
from the Fort Lewis College School of Business Administration
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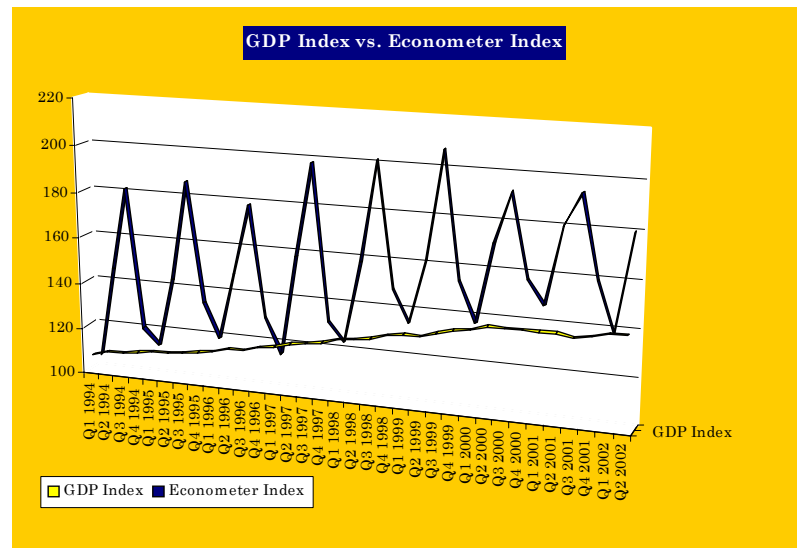
LOCAL ECONOMY STABLE DURING SECOND QUARTER

The La Plata County economy held its own during the second quarter of 2002. The Econometer Index, which includes several sectors of the local economy, declined by only 0.5 percent for the period April through June compared to the same period for the previous year. The stable second quarter followed a six percent year-to-year decline during the first quarter of 2002.

The national economy experienced slow growth during the second quarter of 2002, growing at an annual rate of approximately one percent. Business investment spending continued to be weak. Imports grew more rapidly than exports, increasing the nation's trade deficit. Consumer spending, which accounts for two-thirds of the national output, continued to grow. The unemployment rate of the U.S. labor force was 5.9 percent in June 2002. The unemployment rate ranged between 5.5-6.0 percent during the first half of the year. Consumer prices increased by only 1.1 percent during the twelve months ending in June 2002. Interest rates remained low during the second quarter, providing favorable conditions for investment.

The Colorado economy did not perform well during the second quarter of 2002. Non-farm employment fell in June, while the unemployment rate was 5.0 percent. The value of both residential and non-residential construction in the state through June was down as compared to the first half of 2001. Retail sales were weak during the second quarter. The drought and wildfires were affecting not only tourism and agriculture but also other sectors of the economy. The Colorado Economic Chronicle of the Colorado Legislative Council gave the state economy an overall rating of "bad" during the second quarter of 2002.

The graph that compares the Econometer Index of the local economy with the Gross Domestic Product (GDP) of the United States shows the seasonal change of the local economy from the first to the second quarters of 2002. The year-to-year stability of the local economy during the second quarter can be seen by comparing the Econometer Index for the second quarter of 2002 to the Econometer Index for the second quarter of 2001. The graph of the GDP Index shows the weak growth of the national economy during the second quarter of 2002. Both the Econometer Index and the GDP Index are based on 1990, with an average of 100 for that year.



On an annual, or year-to-year, basis the local economy had a few declining sectors that were counter-balanced by improving or stable sectors during the second quarter of 2002. Sectors that were improved on an annual basis were the financial sector, industrial activity, college enrollment, population, employment, and construction. Virtually unchanged were real estate and retail sales. Declining on an annual basis were energy prices, agricultural prices, and tourism.

The La Plata County economy is highly seasonal, so that some sectors of the local economy vary significantly during the course of the year. Sectors of the local economy which expanded from the first to the second quarters of the year included tourism, construction, energy prices, retail sales, employment, industrial activity, and finance. Population was stable. Declining on a seasonal basis were college enrollment, real estate prices, and agricultural prices.

Economic Indicators

Tourism

Tourism experienced a seasonal upturn from the first to the second quarter of 2002. On a year-to-year basis tourism indicators declined by more than five percent. An exception to the overall trend in tourism was the Durango-La Plata County airport, which experienced a significant increase in passenger enplanements. The overall annual decline is probably associated with the drought and wildfires that were emerging as a problem during the second quarter. The weak state economy also contributed to slowness in tourism.

Retailing

Retail sales, after adjustment for inflation, increased by more than fourteen percent from the first to the second quarters of the year. On an annual basis, retail sales were virtually unchanged from year-earlier levels.

Employment

Employment in La Plata County is estimated by the Colorado Department of Labor and Employment. These estimates are subject to significant revisions. According to state estimates, employment in La Plata County increased by 4.5 percent from quarter to quarter and also increased by 0.7 percent from year to year.

Agriculture

Calf prices fell by more than six percent on a seasonal basis, and also fell by more than nineteen percent year over year. Alfalfa hay prices fell by ten percent seasonally and by more than seven percent from year to year.

Tourism Indicators Second Quarter 2002		
Indicator	Number	Percentage Change from Previous Year
Mesa Verde Nat'l Park	161,632	-7.3%
Durango & Silverton Narrow Gauge Railroad	40,900	-23.0%
Durango-La Plata County Airport	23,754	27.9%

Industrial Activity

Industrial kilowatt-hours used increased by four percent from the first to the second quarters of 2002. Also, usage increased by 3.5 percent year over year. Most industrial use of electricity in La Plata County is to compress natural gas for transmission through gas pipelines.

Population

The number of residential electric meters increased by 0.3 percent from quarter to quarter. The number of meters also increased by 2.8 percent on an annual basis. The annual increase in the number of residential electric meters suggests that the population of La Plata County was continuing to grow through the second quarter of 2002.

Finance

After adjustment for inflation, bank deposits in La Plata County increased by 2.9 percent from quarter to quarter. Bank deposits also increased very strongly, by 7.5 percent, on an annual basis. Bank deposits are an important indicator of the economic health of a community as well as an indicator of the ability of local banks to make loans.

Fort Lewis College

Enrollment at Fort Lewis College showed a normal seasonal decline as the Winter term ended and Summer sessions began. On a year-to-year basis, enrollment increased by 2.9

percent. Several studies have shown that the college is responsible for about ten percent of the economic activity in La Plata County.

Construction

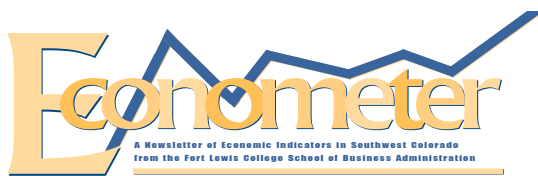
Construction activity showed a sharp seasonal increase during the second quarter. On an annual basis, construction increased over the high levels of the previous year by 0.7 percent.

Energy Prices

The federal government's energy price index increased by 28.5 percent from the first to the second quarter of 2002, but were down by 23.6 percent from the levels of the second quarter of 2001. Energy prices are notable for their instability. Energy prices are important to La Plata County because the county is a major producer of natural gas. Rents and royalties, as well as property tax revenues associated with natural gas production, are very important to the local economy.

Real Estate

The median price of residential real estate in La Plata County, after adjustment for inflation, decreased by 13.3 percent from quarter to quarter, but was virtually unchanged from year-earlier levels.



The Econometer 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. For information, contact:

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Summer Lessons

By Peter Butler, PhD

Fire and water. Too much of one and not enough of the other. As our community becomes more urban and our economy more global, we tend to forget how dependent we are on our environment. But this year, mother nature is getting our attention. As of this writing, the fire season is over and the mud flows have begun. The economic impacts of this summer are detailed in other parts of this newsletter. But what else can be learned from this summer?

Perhaps the first lesson is that extreme natural events happen. Generally, they aren't given much thought. Information on temperature and precipitation are averaged and those averages are called a "normal" year. It is the easiest way to handle a lot of data. But as any farmer or rancher can tell you, "normal" years are actually quite rare. We need to move toward a mindset of expecting a range of variability in our environment and periodically, some extreme deviations.

The most difficult aspect of extreme natural events is their unpredictability. Natural systems are highly complex. Even experts in natural resource fields are hesitant to predict extreme events. Forest firefighters with decades of experience were surprised by some of the erratic behavior of the Missionary Ridge fire. Certainly the dearth of rain and snow could not have been predicted.

Flow data on the Animas River gives a good perspective of this year's extreme lack of precipitation. The low flows in the Animas this summer were unprecedented during the past ninety some years that data has been collected. The peak runoff flow of the Animas never reached 1,000 cubic feet per second (cfs) and during July and August, the flow was at record low levels, varying between 100 and 150 cfs.

For a "normal" year, the peak flow would be around 4,000 to 5,000 cfs, and July and August flows would vary between 1,500 and 500 cfs.

At the other extreme, the flow of the Animas hit 25,000 cfs in October 1911. The river has not reached half of that high level since 1949. As a result, few people think of the consequences of extreme flood events because very small number of current residents have personally seen this amount of flooding.

The only way to anticipate future events is to look to the past. But in light of this year's behavior, the past can be a poor predictor. It may be even less helpful if global warming is indeed changing our climate.

So how does a community prepare for unpredictable, extreme natural events? One important lesson is knowing what to expect in the way of outside help. Every year some part of the country suffers floods, hurricanes, tornadoes, earthquakes, drought, or fires. Federal agencies and programs exist to help communities suffering because of extreme natural events.

The federal agencies brought in a tremendous amount of resources (\$40.6 million and counting) to fight the Missionary Ridge fire. They have or will reimburse local governments for many of their expenses associated with the fire and approved \$4.5 million in low interest loans to homeowners and businesses directly affected by the fire.

The U.S. Forest Service is spending \$4-\$5 million in emergency restoration and will spend millions more for long-term restoration. During this process, they will need equipment, labor, seed, and other resources. They should be pushed to use local suppliers as much as possible.

The federal government will not cover many of the losses suffered by businesses and members of the community. It is not an insurance agency. Thus, individually and/or collectively, preventive measures need to be taken to reduce the potential damage of fires.

La Plata County already requires a number of preventive measures for certain extreme events. Building codes are designed to protect new buildings from high winds and heavy snowloads.

The county enforces what are essentially federal rules regarding construction in the floodways and floodplains of our rivers and streams. Without this enforcement, property owners would be unable to obtain federal flood insurance.

The main preventative measures to minimize losses from forest fires are to purchase insurance, clear a defensible space around the structure, build with non-flammable materials especially on the roof, and not build on steep, forested slopes. The amount of insurance to buy depends upon a person's understanding of the risk, understanding of potential losses, and tolerance to risk. Of course, sometimes lenders will prescribe how much insurance is needed to cover their potential losses. The other preventative measures are currently voluntary although there may be efforts to make some of them mandatory for new construction.

The drought, of course, set the stage for the fires, and while less imposing than the smoke and flames, the drought is a more difficult extreme event to handle. Agriculture in particular suffered from the lack of water. Rafting businesses were clearly down. Potentially, gas production may be curtailed because of the almost non-existent flow in the Florida River.

(Continued on page 4)

Summer Lessons

The lesson the drought has taught us is that we live in a high desert climate. The largest user of water in the area – agriculture – is simply not going to have enough water during extreme conditions. Vallecito and Lemon reservoirs were nearly empty by July. Given the subsidies needed, it is highly unlikely that any funding will be available developing new, large water supply options for agriculture.

Probably the biggest lesson to be learned this year is the importance of diversity in businesses and in the local economy. This summer's events have made for a terrible year for agriculture and tourism. Other sectors of the economy lost revenue, but didn't have a bad summer. Some businesses quietly thrived. Water haulers, well drillers, contractors who clear defensible spaces, and heavy equipment operators all been extremely busy. There will be more opportunities for those involved in rebuilding and restoring.

For a small, Rocky Mountain community, our economy is unusually diversified. Few comparable communities can boast about having so many viable economic engines: tourism, real estate, construction, agriculture, oil and gas, a college, a financially sound Native American tribe, numerous federal government offices and some light manufacturing. Although the economic base could be further broadened, our current level of diversity and community spirit made this summer bearable.

If the drought does not continue and there are no large scale national economic changes, our local economy should bounce back next year. Hopefully, the firefighters who were given such a heartfelt community reception will come back with family and friends as tourists. Unfortunately, mud slides will continue to plague some property owners and cause headaches to water providers. Those problems will be reminders of what we've experienced and the need to prepare for other extreme natural events through preventative measures and diversifying to minimize losses.

References:

<http://www.fema.gov/>

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ABOUT THE AUTHOR

Peter Butler teaches Environmental Economics at the School of Business, Fort Lewis College. He holds a B.A. in Physics from the Colorado College, an M.A. in Economics from the University of Colorado in Boulder, and a Ph.D. in Natural Resource Policy from the University of Michigan in Ann Arbor. He is also a former commissioner on the Colorado Water Quality Control Commission.

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Methodology

The base period for the Econometer Index is 1990. Data is developed on a quarterly basis, usually from monthly sources. Monetary data are adjusted to the 1990 price level so that analysis may be done in real terms. Weights used in the Index are: Tourism(.325), Retail Sales(.25), Employment(.05), Agriculture(.05), Industrial Kilowatt Hours(.025), FLC Enrollment(.10), Building Permits(.075), Energy Prices(.025), Residential Real Estate Prices(.025), Residential Electric meters(.025), Bank Deposits(.05).

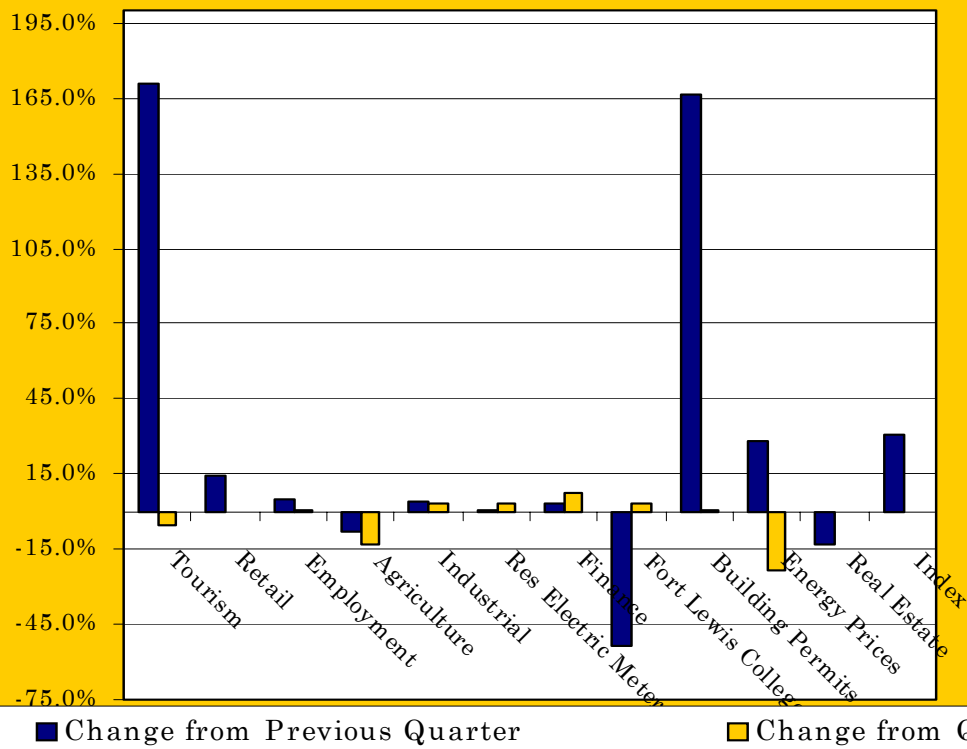
Tourism includes train ridership, Mesa Verde visitors, and airport passenger activity. Agriculture includes calf and alfalfa hay prices.

The index is revised periodically to ensure that it accurately reflects the developing economy of Southwest Colorado.

Growth in Economic Indicators

Indicator	Change from Previous Quarter	Change from Q2 2001
Tourism	171.0%	-5.5%
Retail	14.3%	0.0%
Employment	4.5%	0.7%
Agriculture	-8.3%	-13.2%
Industrial	4.0%	3.5%
Residential Electric Meters	0.3%	2.8%
Finance	2.9%	7.5%
Fort Lewis College	-53.8%	2.9%
Building Permits	166.6%	0.7%
Energy Prices	28.5%	-23.6%
Real Estate	-13.3%	0.1%
Index	30.5%	-0.5%

Growth in Economic Indicators



The fires are out. We are getting rain. There are tourists in town. School has started. The campus is beautiful. Life in Durango just got a lot better again. This was indeed a tough summer. But it could have been much worse. As you noticed from reading the Econometer indexes and Dr. Butler's excellent article on national disasters and the impacts on our economy, things could have been much, much worse. We enjoy the benefits of a diversified economy and that in itself is a lot to be thankful for. Clearly, there are going to be individuals, families, and businesses who suffered significantly this summer. I personally know families who lost their homes and I am sure you do too. But it certainly has been heartwarming to watch the community rally so much to help those in need. On the College front I can report to you that our early indications are that enrollment appears to have held steady overall for this year. And for the moment it seems that out-of-state enrollment might be down just a bit, but in-state enrollment is up. It was one of our goals to enhance our in-state enrollment since our long-term state funding is based on in-state student enrollments. Fort Lewis College enrollments are very important to our local economy because we account for roughly ten percent of the local economy.

As I write this column our new board is meeting across campus. Certainly everyone reading the Econometer is aware that Fort Lewis College is now an independent state entity with its own separate board. I can tell you on both a personal level and from the many others that I have spoken with that the campus perception of the new board is overwhelmingly positive. The majority of the board members are either alumni of Fort Lewis College or has significant ties to the institution. The board has every reason to support us and make absolutely certain that we are successful as an educational

institution. The mood on campus is extremely positive for many reasons. I believe that the resolution of the uncertainty regarding how we would be governed in the future is a major reason for the positive attitude.

In summary, both the La Plata County community and the college seem to be stable and healthy. We have some sectors that are down but our diversification has saved us from economic disaster, and the future continues to look bright.

Dean's Corner

**By Skip Cave, Dean
School of Business
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