Econometer

A Newsletter of Economic Indicators in Southwest Colorado
from the Fort Lewis College School of Business Administration
Volume 14, Number 1 • Winter 2004

STRONG RECOVERY IN LOCAL ECONOMY DURING THIRD QUARTER

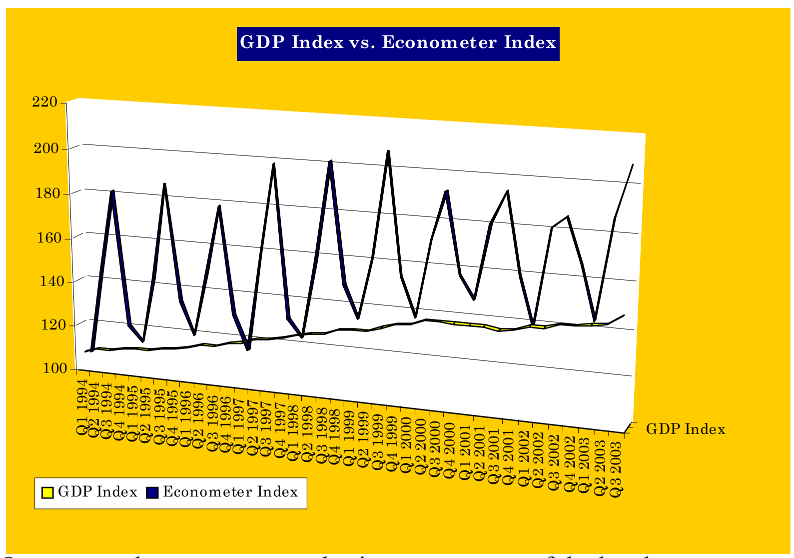
The La Plata County economy grew rapidly during the third quarter of 2003 following moderate growth during the preceding three quarters.
The Econometer Index, which includes several sectors of the local economy, increased by 12.4 percent over the third quarter of 2002. The local economy was adversely affected by drought and wildfires during 2002 but has been recovering since the fourth quarter of 2002.

The national economy also grew rapidly during the third quarter of 2003. Inflation-adjusted Gross Domestic Product (GDP) increased at an annual rate of 8.2 percent during July, August, and September. Both consumer and investment spending increased, as did exports. The unemployment rate of the nation's labor force was 6.1 percent in September. An unemployment rate of 5.0 percent is widely believed to be desirable and attainable. If rapid growth in output continues then the unemployment rate is likely to fall over the next several quarters. The Consumer Price Index, the most widely followed measure of inflation at the retail level, increased by 2.3 percent during the twelve months ending in September, 2003. The relatively low inflation rate, the relatively high unemployment rate, and the presence of excess capacity in the manufacturing sector make it likely that the federal government and the Federal Reserve (the nation's central bank) will continue to try to stimulate the national economy through budget and monetary policy.

The Colorado economy can be expected to benefit from improvements in the national economy. However, through the third quarter of 2003 the performance of the state economy was mixed, with no clear trend of improvement in evidence. The state lost jobs in September. The state's unemployment rate was 5.4 percent in September. Non-residential construction continued to be weak. The Colorado Economic Chronicle of the Colorado Legislative Council gave the state economy an overall rating of "weak" during the third quarter of 2003.

The graph that compares the Econometer Index of the local economy with the GDP of the United States shows the seasonal change of the local economy from the second to the third quarters of the year. The year-to-year change of the local economy may be seen by comparing the index for the third quarter of 2003 to the index for the third quarter of 2002.

The graph of the GDP Index shows the recovery of the national economy from the recession of 2001. Both the Econometer Index and the GDP Index are based on 1990, with an average value of 100 for that year.



On an annual, or year-to-year basis, most sectors of the local economy were improved during the third quarter of 2003. Sectors that were stronger on an annual basis included energy, construction, tourism, bank deposits, residential real estate, employment, industrial activity, retail trade, calf prices, and population. Decreased on an annual basis were alfalfa hay prices and college enrollment.

The La Plata County economy is very seasonal, so that some sectors of the local economy fluctuate significantly during the course of the year. Sectors of the local economy that expanded from the second to the third quarters of the year included tourism, residential real estate prices, retail sales, employment, bank deposits, industrial activity, calf prices, and population. Declining seasonally were college enrollment, construction, energy prices, and alfalfa hay prices.

Economic Indicators

Tourism

Tourism measures increased seasonally from the second to the third quarter of 2003. Year over year train ridership on the Durango & Silverton Narrow Gauge Railroad increased substantially as did visitation at Mesa Verde National Park. Passenger enplanements at Durango-La Plata County airport deceased on an annual basis.

Retailing

Retail sales, after adjustment for inflation, increased seasonally from the second to the third quarters. Also, comparing the third quarter of 2003 to the third quarter of 2002 retail sales increased by 4.1 percent.

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 during the third quarter of 2003 increased by 6.5 percent from quarter to quarter and also increased by 8.1 percent from year to year. The unemployment rate of the labor force in La Plata County was estimated to be 4.0 percent in September, 2003, well below the state's estimated rate of 5.4 percent.

Agriculture

Agricultural prices were mixed during the third quarter of 2003. Calf prices, after adjustment for inflation, increased by 6.6 percent from the second to the third quarters of 2003, and also increased by 15.8 percent as compared to the third quarter of 2002. In contrast, alfalfa hay prices fell by 13.0 percent from the second to the third quarters of 2003 and fell by 29.7 percent as compared to the third quarter of 2002.

Econometer

A Newsletter of Economic Indicators in Southwest Colorado from the Fort Lewis College School of Business Administration

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:

Dr. Deborah Walker, Interim Director
Office of Economic Analysis & Business Research
E-mail: walker_d@fortlewis.edu

Fort Lewis College
School of Business Administration
1000 Rim Drive, EBH Building
Durango, Colorado 81301-3999
Web Address: soba.fortlewis.edu
Phone: (970)-247-7624

Tourism Indicators
Third Quarter 2003

Indicator	Number	Percentage Change from Previous Year
Mesa Verde Nat'l Park	226,609	25.0%
Durango & Silverton Narrow Gauge Railroad	91,961	46.6%
Durango-La Plata County Airport	24,567	-14.7%

Industrial Activity

Industrial kilowatt-hours used increased by 3.8 percent from quarter to quarter and also increased by 5.7 percent from the third quarter of 2002 to the third quarter of 2003. Most industrial usage of electricity in La Plata County is to compress natural gas for transmission through gas pipelines.

Population

The number of residential electric meters in La Plata County increased by 0.8 percent on a quarterly basis and also increased by 2.6 percent from the third quarter of 2002 to the third quarter of 2003. The annual increase in the number of residential electric meters suggests that the population of La Plata County is continuing to grow. The population of La Plata County was estimated to be 46,297 in July, 2002.

Finance

After adjustment for inflation, bank deposits in La Plata County increased by 4.8 percent from the second to the third quarters of 2003 and also increased by 10.1 percent from the third quarter of 2002 to the third quarter of 2003. Bank deposits are an important indicator of the economic health of the community as well as an indicator of the ability of local banks to make loans to consumers and business borrowers.

Fort Lewis College

Enrollment at Fort Lewis College showed a seasonal decline during the third quarter, which is dominated by the summer months. Enrollment also decreased on an annual basis, probably due to a gradual improvement in admissions standards. Several studies have shown that the college is responsible for about ten percent of the economic activity in La Plata County. The college also stabilizes the local economy on a seasonal basis because most spending by students occurs during the September through April time frame while tourism activity peaks during the summer months.

Construction

Construction activity, after adjustment for inflation, decreased from the second to the third quarters of 2003 but increased by more than thirty percent from the third quarter of 2002 to the third quarter of 2003. The very strong activity in the construction sector in recent years has helped to protect the local economy somewhat from the recession of 2001 and lack of growth in the tourism sector.

Energy Prices

The federal government's energy price index decreased slightly, by 2.4 percent from quarter to quarter. On an annual basis the energy price index increased by 41.5 percent. Energy prices are highly volatile. Energy prices are very 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 significant sources of income to La Plata County.

Development and Job Creation

By Deborah Walker
Assistant Professor of Economics
Fort Lewis College

When one mentions the word "development" all kinds of issues and concerns come out of the woodwork. These issues range from infrastructure and traffic congestion to environmental quality and the impact on wildlife. There are no easy answers to most of these concerns, all involve trade-offs of one kind or another. Instead of "taking sides" on any of these issues, this article deals with a question that is sometimes heard when development is discussed. As a community grows, or as people move into an area, where will they work? Where will the jobs come from?

Real job creation is often misunderstood. It is sometimes thought that governments create jobs; after all, politicians certainly like to take credit for job growth. We hear it from the media all of the time that such and such number of jobs were created or destroyed under any given president. This leads people to think that job growth comes from the government. The only grain of truth in this idea is that what government can do to foster job creation is to get out of the way of those who actually do create jobs. If governments don't create jobs, then where do they come from?

The best way to explain how a new job is created is to observe a man shipwrecked on an island who is surviving by eating fish he catches from the sea. Unfortunately for him, he doesn't have any tools to help him catch fish. He is therefore spending eight hours per day catching fish with his hands; and his catch is just enough to keep him alive. He is so exhausted after his eight hours of fishing that he simply rests for the remainder of the day.

After a few days of this routine, however, our shipwrecked fisherman decides he cannot continue with this mundane life. Being somewhat bright, he decides that he will forego eating one day and instead of fishing he will make a net by tying together some plant fibers he has discovered on the island. Low and behold the next day, by using the net, he is able to double his fish production.

At this point, let's step back and see what our fisherman has done. He was devoting eight hours per day (or eight hours of a scarce resource – his time) to fishing. By building a new technology (the net) he was able to double his productivity. This increase in productivity, therefore, has freed up four hours of his time. He can choose to produce something else during that time (such as pick bananas) or he can choose to use that additional time for long naps on the beach. Either way, his life is better off because of the additional productivity.

So how does all of this relate to job creation? At this point let's say another unfortunate shipwrecked fellow washes up on shore. Our original fisherman then thinks to himself, "With my new net, if I fish for eight hours, or fish for four and pick bananas for four, I will have enough food for two people." He then approaches the new islander with a deal, "I will pay you enough fish for you to survive if you build me a shelter." In other words, the fisherman's increase in productivity has given him enough wealth to pay another, thereby creating a job.

New jobs, therefore, are created by using resources that are not productive and making them productive; or by making productive resources even more productive. But how is productivity defined? One is not "productive" or "efficient" unless they are producing something that someone values. Using resources to make something or to provide a service is not *necessarily* productive in and of itself. This is why so many businesses fail. Those businesses that do not fail, those that continue to create new jobs, are those that produce goods and services that are *valuable to others*. Job creation, therefore, comes about because of the entrepreneurial spirit of those who are able to be truly productive. In our modern monetary economy, our entrepreneurial fisherman would have been able to sell his "extra" fish for dollars, which he could then use to pay someone to build him a new house.

But doesn't government provide goods and services that people value? If so, aren't new jobs created? The answer here lies in remembering where governments get their resources. They do not earn dollars by being productive, as our fisherman did, they receive their resources or revenue through taxation. In other words, if our fisherman turned over some of his productivity to the government, the government could then perhaps provide something some people value, such as road repairs – thereby providing jobs to those who repair the road. But had the fisherman kept his productivity, he might have hired someone to paint his new house, or spent the money at the local coffee shop – providing jobs for painters and coffee shop employees. The trade-off is obvious. The government road jobs have replaced the painter or coffee shop jobs. Either way, whether the job goes to the road repairers or the painters/coffee shop employees, it was our fisherman's productivity that created the wealth that pays for these jobs and makes them possible; not the government.

The only way by which government bureaus could actually create new jobs, then, would be if they used resources more productivity than private sector entrepreneurs do. Although not impossible, this is not likely. Economist Dennis Mueller found that after doing a survey of 50 studies comparing public and private provision, "in only 2 . . . were public firms found to be more efficient than their private counterparts . . . The evidence is that public provision of a service reduces the efficiency of its provision seems overwhelming." The reason for this is not that everyone who works for the government is by definition lazy; it is because private entrepreneurs face different constraints – if they are not productive, they don't stay in business. This

(Continued on page 4)

Development and Job Creation

provides the incentive for productivity. Those in government are not faced with the same constraints.

In summary, new development and job creation go hand in hand. When a newcomer moves into town, opens a business in an existing building and with hard work and foresight, manages to be productive by providing goods and/or services that people value – they will create new jobs for others who move into town. Whether it's turning an old building into a thriving restaurant or a piece of land into a private animal sanctuary, it's all a matter of turning resources, including one's time, into wealth, i.e., anything that people value.

Reference:

Dennis C. Mueller, *Public Choice II* (Cambridge: Cambridge University Press, 1989), pp. 261, 266.

ABOUT THE AUTHOR

Deborah Walker is an Assistant Professor of Economics in the School of the Business Administration at Fort Lewis College. After attending Arizona State University for her undergraduate degree in economics and a Masters in Business Administration, she received her Ph.D. in economics from George Mason University. She spent most of her academic career teaching at Loyola University New Orleans; with a brief stint in Washington, D.C. as a public policy analyst. Wanting to return to the mountains of Southwestern Colorado (having been born and mostly raised in Cortez) she enthusiastically accepted a position at Fort Lewis College last year.

Visit the Econometer on the web at
http://soba.fortlewis.edu/soba/pub/econo.htm

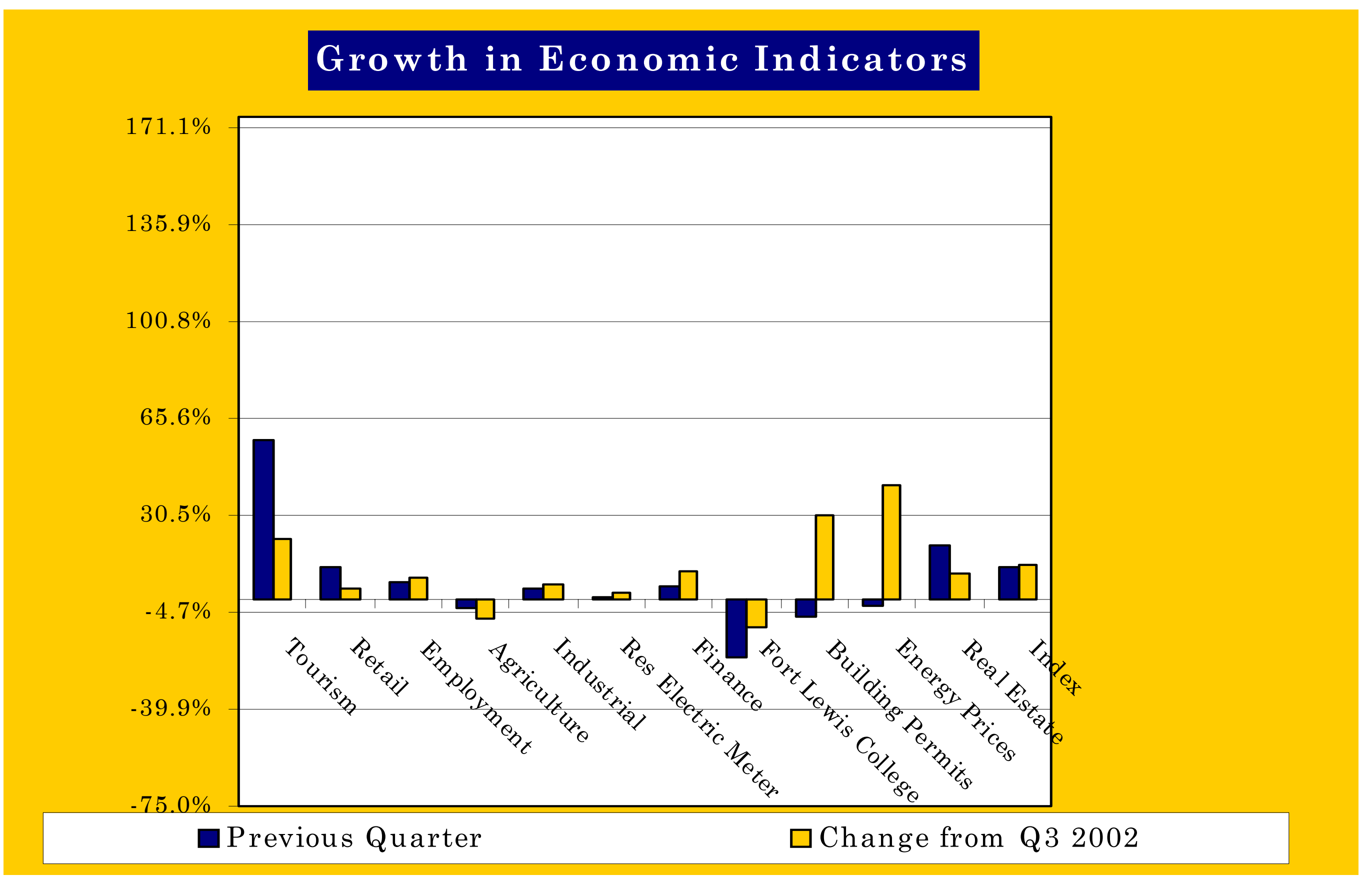
Methodology

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.

Indicator	Previous Quarter	Change from Q3 2002
Tourism	57.5%	21.7%
Retail	11.8%	4.1%
Employment	6.5%	8.1%
Agriculture	-3.2%	-7.0%
Industrial	3.8%	5.7%
Res Electric Meter	0.8%	2.6%
Finance	4.8%	10.1%
Fort Lewis College	-21.3%	-10.4%
Building Permits	-5.9%	30.5%
Energy Prices	-2.4%	41.5%
Real Estate	19.3%	9.1%
Index	11.6%	12.4%



Dean's Corner

By Skip Cave, Dean
School of Business Administration

There is quite a bit of news to discuss in this corner of the Econometer. First, over 150 of you attended our Twelfth Annual Southwest Business Forum sponsored by Wells Fargo Banks Durango and Ignacio. This is right up there with last year's record number. Dr. Roy Cook did a superb job of filling in for Dr. Vern Lynch. Dr. Rich Wobbekind did his usual terrific job. This is Rich's twelfth annual forum as well. Dr. Scott Anderson did a great job of introducing us to all the national and international macro factors that ultimately impact our economy. Anyone that was there certainly got their money's worth. My thanks to Patty Burkholder, President of Wells Fargo Bank, for her continuing support and sponsorship of this program. Be sure to thank Patty in person when you see her. For those of you that really plan in advance mark your calendars for the Thirteenth Annual Forum to be held at the same place, on the Fort Lewis College campus Thursday, January 6, 2005.

I assume that you have already read the Econometer and were impressed by the strength of our local economy even though the state has yet to show substantial indications of recovery. All but two of our Econometer indicators were up on an annual basis. The continuing infusion of bank deposits along with growth in employment, retail trade, and tourism were especially encouraging since those factors are so critical to the success of our local economy. Only two factors were down and they were down just slightly. When Rich Wobbekind made his presentation at the forum, I think he was surprised at how strong our economy was and in some ways I believe envious. We are very fortunate to have a strong well-diversified economy.

There is some exciting news at the College as well. We have been extremely fortunate to hire Dr. Brad Bartel from Florida Gulf Coast University as the new President of Fort Lewis College. We are excited about his upcoming leadership. Some of you know that I will be retiring this summer and we are well under way in a search for my replacement. It is my understanding that the candidate pool is very strong and that bodes well for both the School and the College. I hope you believe, along with me, that the College is poised on the brink of a superb transition into the future. All the elements are in place. With strong leadership on board many wonderful things will happen. If you see Dr. Robert Dolphin, our current president, please extend your gratitude to him for the wonderful leadership he has provided over these many years.

As a final note, the snow pack continues to look good. There is snow predicted again tomorrow. Not only is that good news for our ski industry, which also helps the retail trade and lodging as well as our restaurants, but it is also the "white gold" that gives us our water supply which supports the health of our forests, our drinking water, and our irrigation for next summer.

We are truly blessed to live in such a beautiful part of the world. My best to all of you in 2004. If you happen to be on campus be sure to stop by my office and say hello.

Fort Lewis College
School of Business Administration
1000 Rim Drive
Durango, Colorado 81301-3999

Return Service Requested

Non-Profit
U.S. Postage
PAID
Fort Lewis College
Durango, Colorado
Permit No. 78