

Econometer

**A Newsletter of Economic Indicators in Southwest Colorado
from the Fort Lewis College School of Business Administration
Volume 14, Number 3 • Summer 2004**

FIRST QUARTER OF 2004 SHOWS 7.3% GROWTH OVER FIRST QUARTER OF 2003

The La Plata County economy continued growing during the first quarter of 2004. The Econometer Index, which includes several sectors of the local economy, increased by 7.3 percent over the first quarter of 2003. Although there was a seasonal decline of 20.2 percent in growth from the fourth quarter of 2003, the index still indicates year-to-year growth for La Plata County.

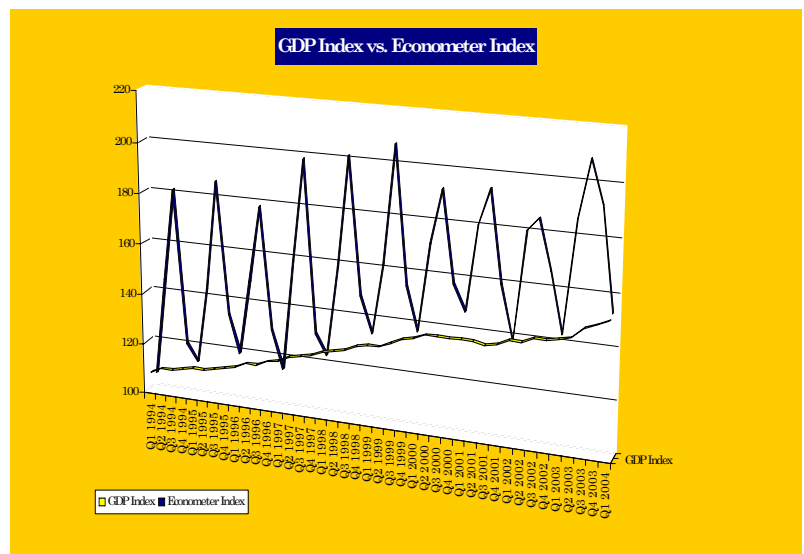
The national economy continued to grow during the first quarter of 2004. Real or inflation-adjusted Gross Domestic Product (GDP) increased at an annual rate of 3.9 percent in the first quarter of 2004. This is a slight decrease from the last quarter of 2003. The Bureau of Economic Analysis now estimates that the overall growth rate for GDP in 2003 was 3.1 percent, up from the 2.2 percent rate reported for 2002. The unemployment rate of the nation's labor force was 5.6 percent in June 2004 (the most recent statistic available from the Bureau of Labor Statistics). The nation's unemployment rate remained fairly steady for the first few months of 2004. The annual average unemployment rate for the U.S. in 2003 was 6.0 percent, so there has been a drop in unemployment thus far this year. An unemployment rate of 5.0 percent is widely believed to be desirable and attainable. If growth in output continues then the unemployment rate is likely to fall, or at least remain steady, over the next several quarters. The Consumer Price Index (CPI), the most widely followed measure of inflation at the retail level, increased by 1.3 percent during the first quarter of 2004 and increased by 1.4 percent in the second quarter of 2004. Due to this increase in prices, the Federal Reserve increased the target for the federal funds rate (the rate banks charge one another for short-term loans) a quarter of a percent June 30. This is designed to pull in credit expansion and therefore keep inflation from continuing upward.

If the national economy continues to improve, Colorado's economic climate should follow suit. Colorado's economic indicators did not show much change in the first quarter

of 2004; indicating that the economy could be leveling off after a three-year downturn. The state's unemployment rate was 5.6 percent in January 2004. However, the most recent (June 2004) unemployment rate for the state of Colorado was reported to be 5.2 percent. Most economic indicators show modest growth for the state of Colorado this year.

The following graph compares the Econometer Index of the local economy with the GDP of the United States. The graph clearly illustrates the seasonal change of the local economy from quarter to quarter. The year-to-year change of the local economy may be seen by comparing the index for the first quarter of 2004 to the index for the first quarter of 2003.

Both the Econometer Index and the GDP Index are based on 1990, with an average value of 100 for that year.



On a year-to-year basis (compared to the first quarter of 2003), most of the sectors of the local economy were improved during the first quarter of 2004. Sectors that were stronger on an annual basis included retail sales, employment, calf prices, industrial activity, population, residential real estate prices, and construction. Decreased on an annual basis were tourism, alfalfa hay prices, college enrollment, bank deposits and energy prices. Although the overall tourism indicator decreased from year to year, train ridership and visits to Mesa Verde both increased on an annual basis.

GRAPH ECONOMETER INDEX (cont) _____

The La Plata County economy is very seasonal, so that some sectors of the local economy fluctuate significantly during the course of the year. This is especially true of tourism and college enrollment. Sectors of the local economy that expanded from the fourth quarter of 2003 to the first quarter of 2004 included employment, population, residential real estate prices and energy prices. Declining seasonally were tourism, retail sales, calf prices, industrial activity, college enrollment, bank deposits and construction. Alfalfa hay prices remained steady from quarter to quarter.

ECONOMIC INDICATORS _____**Tourism**

As expected, tourism measures decreased seasonally from the fourth quarter of 2003 to the first quarter of 2004. Although the last quarter of 2003 is considered a slow tourist season compared to the summer months, the holiday season does stimulate some tourist activity. The good news, however, is that on a year to year basis, ridership on the Durango & Silverton Narrow Gauge Railroad and visitors to Mesa Verde National Park increased. Ridership on the Railroad increased 9.3% over the first quarter of 2003 and visitors to Mesa Verde increased 6.8% over the first quarter of 2003. Passenger enplanements at Durango-La Plata County airport continued to decrease (16.8 percent from the first quarter of 2003 to the first quarter of 2004).

Tourism Indicators First Quarter 2004		
Indicator	Number	% Change from Previous Year's First Quarter
Mesa Verde Nat'l Park	23,701	6.8%
Durango & Silverton Narrow Gauge Railroad	8,097	9.3%
Durango-La Plata County Airport	20,709	-16.8%

Retailing

Retail sales, after adjustment for inflation, decreased seasonally from the fourth quarter of 2003 to the first quarter of 2004 by 3.7 percent. However, comparing the first quarter of 2003 to the first quarter of 2004, retail sales increased by 12.5 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 first quarter of 2004 increased by .3 percent from the fourth quarter of 2003 and increased by 4.6 percent from year to year. The unemployment rate of the labor force in La Plata County was estimated to be 4.2 percent in June 2004. This rate is below the state's estimated rate of 5.2 percent.

Agriculture

Agricultural prices were once again mixed during the first quarter of 2004. Calf prices, after adjustment for inflation, decreased slightly (1 percent) from the fourth quarter of 2003. However, they increased 21% from the first quarter of 2003. Although alfalfa hay prices remained constant from the fourth quarter of 2003 to the first quarter of 2004, they fell by 25.2 percent as compared to the first quarter of 2003.

Industrial Activity

Industrial kilowatt-hours used decreased by 2.2 percent from quarter to quarter but increased by 12 percent from the first quarter of 2003 to the first quarter of 2004. Most industrial usage of electricity in La Plata County is for natural gas transmission through gas pipelines.

Fort Lewis College

Enrollment at Fort Lewis College showed a decrease during the first quarter of 2004 (from the fall trimester to the winter trimester) of 7.3 percent. Enrollment also decreased on an annual basis by 2



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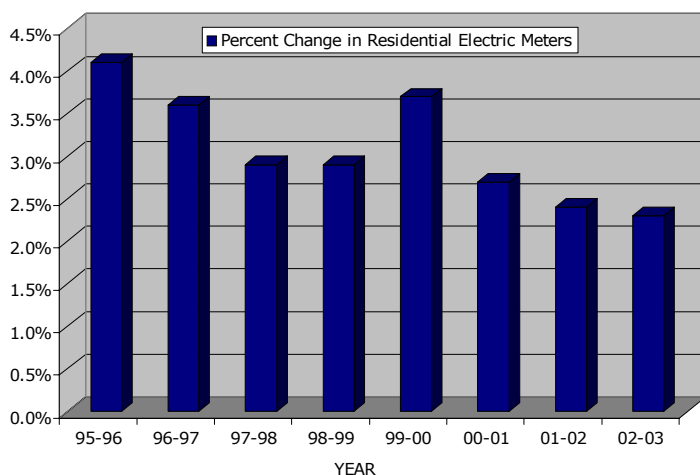
ECONOMIC INDICATORS (cont)

percent. This decrease is most likely 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.

Population

The number of residential electric meters in La Plata County increased by 1 percent on a quarterly basis and increased by 3.2 percent from the first quarter of 2003 to the first quarter of 2004. The annual increase in the number of residential electric meters suggests that the population of La Plata County is continuing to grow. The average growth rate for the past 8 years (1995-2003), as estimated by the installation of new residential electric meters, is 3.07 percent. This steady increase is shown in the graph below. The population of La Plata County was estimated to be 46,281 in July, 2002 (the most recent number available). The Colorado Department of Local Affairs estimates that La Plata County will have a population of 54,881 by 2010 and of 68,385 by 2020.

Residential Electric Meters By Year (1995 - 2003)



Finance

After adjustment for inflation, bank deposits in La Plata County decreased by only .2 percent from the fourth quarter of 2003 to the first quarter of 2004 and decreased by 10.9 percent from the first quarter of 2003 to the first quarter of 2004. 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.

Construction

Construction activity in La Plata County continues to remain somewhat strong. Although, after adjustment for inflation, construction decreased from the fourth quarter of 2003 to the first quarter of 2004 by 60 percent, it increased by 15.7 percent from the first quarter of 2003 to the first quarter of 2004. The strong activity in the construction sector in recent years has helped to boost the local economy and has helped to offset the decline in tourism. Although construction activity in the state of Colorado in general has seen a steady decline in recent years, La Plata County has seen steady growth.

Energy Prices

Due to the increase in petroleum prices, the federal government's energy price index increased by 12.9 percent from quarter to quarter. On an annual basis the energy price index decreased by 8.7 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.

Real Estate

The median price of residential real estate in La Plata County, after adjustment for inflation, increased by 12.1 percent from the fourth quarter of 2003 to the first quarter of 2004 and also increased by 32.9 percent from the first quarter of 2003 to the first quarter of 2004.

Economic Policy and The Presidential Candidates

by Mike Sarti

With the upcoming election a great economic debate is afoot. Incumbent Republican President George W. Bush will face his opposition from the Democratic Party, John F. Kerry. The two camps have distinct proposals to continue national economic growth. Who is right when it comes to these issues is a question not to be taken at face value. The positions candidates take on taxation and the budget deficit are particularly important to United States citizens because their positions hit in a very sensitive spot: the pocket book.

The policy implications are not always apparent and need some analysis. The economic schools of thought that have worked to provide tools for understanding policy implications are our best resource. What must first be understood about these schools of thought is that they operate from foundational assumptions and work out logical syntheses from these.

Today, two main economic ideas lead the discussion and establish arguments for very different policy pursuits. In general they are tied to the two political parties. It cannot be overlooked that there are many schools of thought, but they are undeniable responses to the work of the original schools. It boils down to the supply-side/demand-side perspectives, which are usually associated with the Republican and Democratic Parties respectively. The supply-side argument is traceable to the Classical school, fostered by Adam Smith and the 18th and 19th century cast of characters who believed in Say's Law. Say's Law says that supply creates its own demand. Here, it is supply that is held to be the economic instigator. Demand-side thought is attributable to John Maynard Keynes of the early 20th century. Hansen's Law is this group's defining assumption. It says that demand creates its own supply and is thus the originator of economic activity.

Before we get into policy implications, it must be said that politicians are politicians and economists are economists. Each group has completely different incentives for their words and actions. Economists act to gain favor amongst their colleagues in the field of economics. Politicians act to gain favor among the voting public. This is where things get a little shifty with the politicians. A little incongruity here and there in policy proposals won't be caught by the vast majority of voters, especially those who vote along party lines. An economist on the other hand won't make it far without

clear and concise logic. While our political leaders may believe more in one economic principle or another, in the end it comes down to trying to maximize votes.

It seems clear that President Bush takes a supply-side plan of action when it comes to domestic economics. His tax cuts are a clear indicator. The Bush tax cuts will yield the most significant relief to those paying the greatest amount in taxes, i.e. the wealthy. These measures are intended to be for the long term. This is why Bush wants to make them permanent (1). Both of these economic tactics assume the wealthy will be more likely to invest the income they keep. To the supply-sider, private investment is the more efficient and effective way to spur growth in the domestic economy. It's a way to fire the continual entrepreneurial spirit of the American business person. This avenue to economic success is based on a wholly different assumption than that of the Kerry camp, which believes economic success comes by government spending coupled with consumer spending.

On the issue of taxation, Senator Kerry seeks to maintain the middle class tax cut from the 2001 tax relief, but proposes to cut the relief for those that earn over \$200,000 back to Clinton era rates (2). Kerry appears to follow a demand-side course of action. This being the case, it is likely the tax cuts Kerry proposes will not be intended for permanent status. They will instead be focused on short term growth stimulus. This is because he will be targeting a different part of the equation for the Gross Domestic Product (GDP). To review, the GDP is an economic growth indicator, is the summation of consumer spending, investment spending, government spending and net exports (exports – imports).

Where President Bush targets investment from the wealthy, Kerry will target consumer spending and government spending. The middle class tax cuts will not, and are not intended to, increase investment spending because in general that is not what the middle class does with their income. They do not have the financial resources to greatly affect investment growth. Instead, they are expected to purchase consumer goods and help create growth by increasing demand.

Economic Policy and the Presidential Candidates

Spending is the other vital issue in this economic debate. Senator Kerry wants to cut the deficit in half in his first term as president. Senator Kerry also proposes to increase government expenditures on healthcare and education among other spending measures (2). Combined, these two notions make for some difficult to understand arithmetic. The spending will be funded through the increase in tax revenue from the tax rate hike for the top 5% earners. The deficit reduction is supposed to be enabled by spending caps and government trimming (2), but much of what Kerry proposes in spending programs is not congruous with deficit reduction. From the demand-side Keynesian perspective, these spending measures are a good thing. Government expenditure will increase the government spending variable of the GDP equation. This increases demand, which could possibly positively affect growth in the short term; but not necessarily in the long term.

President Bush is also proposing deficit reduction in the years to come (1). However, it is not completely clear as to how this would be accomplished. The supply-sider in President Bush will surely seek to trim the fat of government spending because from this perspective less government is more efficient. Furthermore tax cuts can increase tax revenue by expanding the tax base (more people paying taxes due to the expansion of productivity created by the tax cuts). The confounding variable in the President's proposal is that he is no stranger to spending. If he maintains his course of soaring deficits, it will be difficult to accomplish this reduction. Fortunately, for both sides and for politics in general, we have Alan Greenspan, chairman of the Federal Reserve Board, saying that large deficits and the debt they create are not a problem because our economy is foundationally strong (3). He is the expert, but we have to realize that at some point the large government debt will have to be confronted (after all, the debt now stands at over seven trillion dollars - \$7,322,642,427,927.32 or about \$24,916.23 per U.S. citizen) (4).

It sounds good, doesn't it? Both sides are offering lower taxes, increased spending and deficit reduction. This sounds like the too-good-to-be-true diet plan: eat all you want, lose weight and pay

nothing for it. Both candidates are offering much to voters, and it has been hard to tell what the candidates' economic motivations truly are. A good further investigation might be to study politicians as economists study people in general; with the understanding that politicians are like everyone else: they act in their own self interest.



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ABOUT THE AUTHOR

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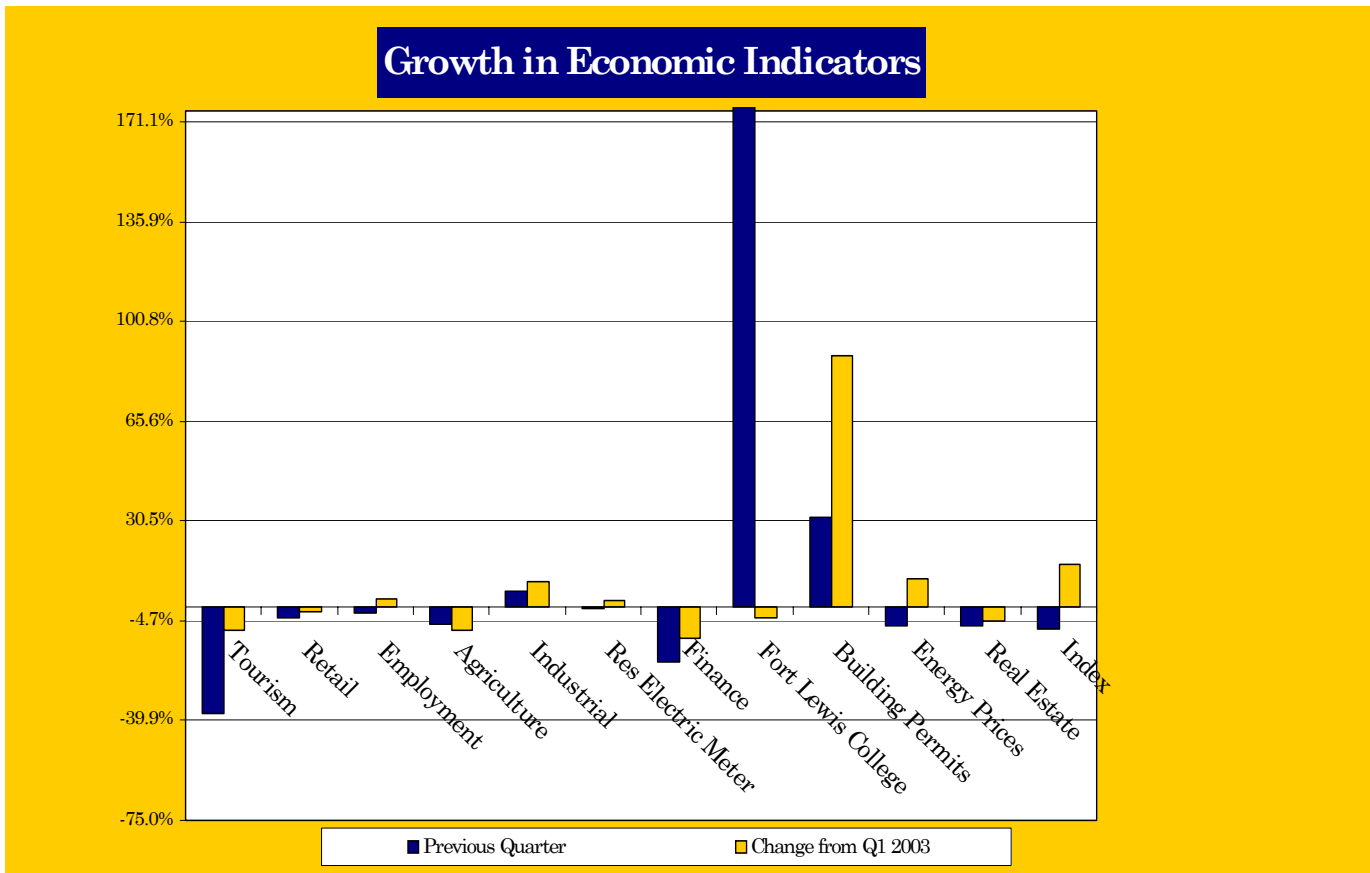
Methodology

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.

Indicator	Previous Quarter	Change from Q1 2003
Tourism	-37.5%	-8.0%
Retail	-3.7%	12.5%
Employment	0.3%	4.6%
Agriculture	-1.0%	-4.2%
Industrial	-2.2%	12.0%
Res Electric Meter	1.0%	3.2%
Finance	-0.2%	-10.9%
Fort Lewis College	-7.3%	-2.0%
Building Permits	-60.0%	15.7%
Energy Prices	12.9%	-8.7%
Real Estate	12.1%	32.9%
Index	-20.2%	7.3%



It is my great honor to join the School of Business Administration student, faculty, staff and community team at Fort Lewis College. In my first month, I discovered faculty who are committed to student-focused learning experiences that prepare graduates for a dynamic global environment. Some of these experiences include engaging students in actual business planning, consulting and research projects. I watched with pride as students in our Senior Seminar in Strategic Management and Marketing Research classes presented results of summer semester course-based projects to La Plata County-based business clients.

I also had the chance to learn about community partnership opportunities for the economic development of La Plata County and the larger Four Corners Region. So far this year, our Small Business Development Center has been actively engaged in providing over 150 business assistance consultations; presenting 22 courses, workshops and seminars; and assisting clients to access more than \$1.1 in capital formation for business creation, expansion and job growth. These opportunities also include providing economic information and analysis through our Office of Economic Analysis and Business Research, now under the able leadership of Dr. Deb Walker. Dr. Walker is dedicated to building on the excellent work of Dr. Vern Lynch as she prepares and analyzes the components of the *Econometer* Index, co-sponsors the annual Southwest Business Forum, and tackles some exciting business research projects with the help of faculty colleagues and student research assistants.

As the new Dean of the School of Business Administration, I am dedicated to continuing a vision of aspiring to excellence through teamwork focused on student engagement. Our short-term objectives include preparation for reaffirmation of our business accreditation by the Association to Advance Colleges and Schools of Business International in 2005. We remain only one of three public liberal arts based undergraduate institutions in the world accredited by the AACSB – most of the schools are major research state and private universities. This achievement attests to the quality of our students, faculty and academic programs. Over the longer term, we plan to

welcome alumni and corporate partners in a vision-funding strategic plan to ensure we can continue to recruit and retrain the best faculty and students, provide student research assistanceships, and provide for faculty development and endowed professor-ships. We also plan to continue and expand our contribution to the economic development of La Plata County and the Four Corners Region through the work



of our Office of Economic Analysis and Business Research, Small Business Development Center, and student business assistance and service learning programs.

The *Econometer* is one such outreach program we look forward to publishing each quarter. This edition points to a strong economy with construction, employment, and population growth driving the annual 7.3% increase in the first quarter of 2004. While tourism and college enrollment showed declines, I believe there is short and longer-term optimism for both. Concerning enrollment, Dr. Brad Bartel, our College President, envisions an enrollment target of 5,000. He plans to make this target a college-wide study during the next academic year. The target will require a significant increase in four-year scholarships, as well as new degree programs funded through public-private partnerships in the initial years.

In closing, I want to thank Dean Skip Cave for many wonderful years of service as Dean of the School of Business Administration. Skip was instrumental in developing programs of excellence such as the SBDC and Office of Economic Analysis and Business Research, maintaining credible quality programs, and ensuring everything we did was student-focused.



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