

# Econometer

**A Newsletter of Economic Indicators in Southwest Colorado  
from the Fort Lewis College School of Business Administration  
Volume 15, Number 1 • Winter 2005**

## THIRD QUARTER OF 2004 SHOWS CONTINUED GROWTH FOR LA PLATA COUNTY

The La Plata County economy continued its growth trend in the third quarter of 2004. The Econometer Index, which includes several sectors of the local economy, increased by 26.1 percent over the third quarter of 2003. There was also a seasonal increase of 24.9 percent in growth from the second quarter of 2004.

### The National Economy

The national economy, measured by the inflation-adjusted Gross Domestic Product, also continued to grow during the third quarter of 2004 at an annual rate of 3.7 percent, up from the prior quarter but well below forecasts from Wall Street economists (the average forecast being 4.3 percent). This is an increase from the second quarter growth rate of 3.3 percent. The unemployment rate of the nation's labor force was 5.4 percent in December 2004 (the most recent statistic available from the Bureau of Labor Statistics). The annual average unemployment rate for the U.S. in 2003 was 6.0 percent, so there was a drop in unemployment during 2004. 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 continue falling, or at least remain pretty steady, over the next several quarters. Consumer prices increased at a seasonally adjusted annual rate of 0.6 percent in the third quarter of 2004, following increases in the first and second quarters at annual rates of 5.1 and 4.8 percent, respectively. This brings the year-to-date annual rate to 3.5 percent and compares with an increase of 1.9 percent in all of 2003.

### Colorado's Economy

The state's preliminary unemployment rate for December, 2004 was 5.0 percent. This compares to a rate of 5.7 percent in December, 2003. Colorado's economic climate is improving, with employment and construction finally seeing a rebound. If the national economy continues to improve, Colorado's economy should follow suit.

### National, State, and Local Comparisons

When comparing La Plata County with the national and Colorado economies with respect to unemployment and personal income, the local economy fares very well. La Plata County's unemployment rate (4.5% for December) is below both the national and the state's rates (see Table 1).

**TABLE 1 – Comparison of Unemployment Rates – National, State, Local**

Area	2003 Annual Average Unemployment Rate	December, 2004 Unemployment Rate (Preliminary)
United States	6.00%	5.40%
Colorado	6.00%	5.00%
La Plata County	4.70%	4.50%

Sources: U.S. Department of Labor, Bureau of Labor Statistics and Colorado Department of Labor and Employment, Labor Market Information

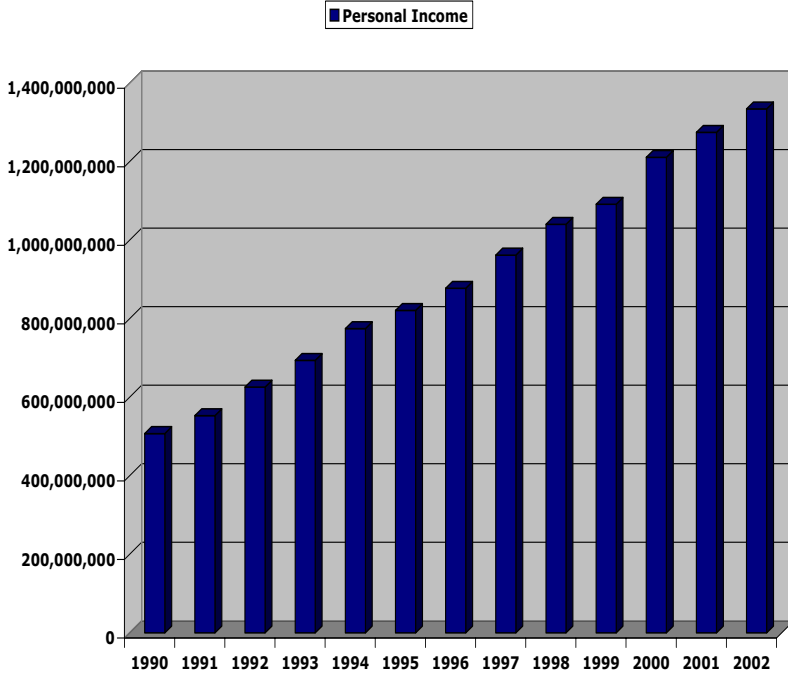
Although La Plata County's per capita personal income is below the national and state's level, it has been steadily growing (see Table 2 and Graph 1). Per capita personal income is a standard measure of economic well-being. Using this measure, therefore, the economic welfare of the population of La Plata County, on average, is improving.

**TABLE 2 – Comparison of Per Capita Personal Income – National, State, Local, 2002**

Area	Per Capita Personal Income
United States	\$30,906
Colorado	\$33,723
La Plata County	\$29,127

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System

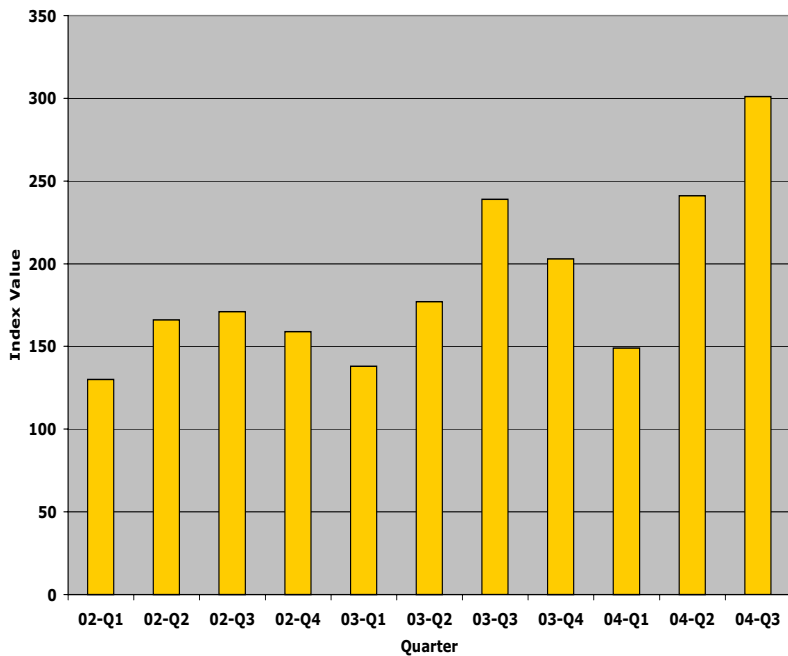
**GRAPH 1 – La Plata County Total Personal Income 1990-2002**



**THE ECONOMETER INDEX**

Graph 2 illustrates the changes in the quarterly Econometer Index from quarter one of 2002 to quarter three of 2004. The graph clearly illustrates the seasonal change of the local economy from quarter to quarter. It also shows the overall upward trend in the local economy in the past three years.

**GRAPH 2 – Quarterly Econometer Index, Quarter 1, 2002 – Quarter 3, 2004**



The Econometer Index uses 1990 as its base year, meaning that the index equals 100 for that year. Changes in the statistics used are compared to the statistics of 1990 in determining the index. All dollar values are put in 1990 dollars, adjusting for overall price changes.

**Recent Updates**

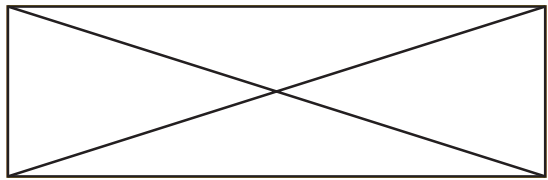
The Econometer Index is adjusted when trends indicate a change in the overall structure of the local economy. Due to trends in tourism, industrial activity, and construction, the weights in the index have been changed. The tourism index was adjusted downward, from a 32.5% contribution to the local economy to 27.5%. Both industrial activity and the construction industry have demonstrated growth in recent years. Therefore, each of these sector’s contributions to the index (and to the local economy) were increased by 2.5% to 5% and 10% respectively.

Another important change that begins with this issue of the Econometer is the inclusion of lodger’s tax revenue as an indication of tourism activity in the local economy. This will now be included in the tourism index, along with airport passenger activity, train passenger activity, and visits to Mesa Verde National Park, to determine the contribution of tourism to the local economy. In order to make comparisons with earlier quarterly and yearly activity, data on lodger’s tax revenue were incorporated into the determination of earlier index values.

**Quarter Three 2004 Index**


On a year-to-year basis (compared to the third quarter of 2003), all but one of the sectors of the local economy were improved during the third quarter of 2004. Sectors that were stronger on an annual basis included tourism, retail sales, employment, calf prices, alfalfa hay prices, industrial activity, population, energy prices, college enrollment, construction, and residential real estate prices. Bank deposits decreased on an annual basis.

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. All but three of the sectors of the local economy expanded from the second quarter of 2004 to the third quarter of 2004. Those that expanded include tourism, retail sales, employment, calf prices, population, construction, residential real estate prices, bank deposits and energy prices. Declining seasonally were college enrollment, alfalfa hay prices, and industrial activity.



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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## ECONOMIC INDICATORS

### Tourism

**Quarter to Quarter** - Tourism measures increased on a seasonal basis from the second to the third quarter of 2004 by 84.4%. All four sectors of the tourist industry increased on a quarter to quarter basis. Ridership on the Durango & Silverton Narrow Gauge Railroad increased by 97.5%, enplanements at the Durango-La Plata County airport increased by 34.8%, visitors to Mesa Verde increased by 57.7%, and lodger's tax revenue increased by 145.6%.

**Year to Year** - On a year-to-year basis, the tourism index increased slightly by 3.4%. Ridership on the Railroad increased 0.8% over the third quarter of 2003, enplanements increased 19% over the third quarter of 2003, and visitors to Mesa Verde National Park increased by 6.6% over the third quarter of 2003. Lodger's tax revenue decreased on an annual basis by 1.4%.

Tourism Indicators Third Quarter 2004		
Indicator	Number	% Change from Previous Year's Third Quarter
Mesa Verde Nat'l Park	241,365	6.60%
Durango & Silverton Narrow Gauge Railroad	92,700	0.80%
Durango - La Plata County Airport	29,241	19%
Lodger's Tax Revenue (Adjusted for Inflation)	\$227,903.00	-1.40%

### Retailing

**Quarter to Quarter** - Retail sales, after adjustment for inflation, increased from the second quarter of 2004 to the third quarter of 2004 by 5.6%.

**Year to Year** - Comparing the third quarter of 2003 to the third quarter of 2004, retail sales increased by 9.1%.

### Employment

**Quarter to Quarter** - 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 2004 increased by 4% from the second quarter of 2004.

**Year to Year** - Employment also increased by 3.3% from year to year. As noted earlier, the preliminary unemployment rate of the labor force in La Plata County was estimated to be 4.5% in December, 2004. This rate is below the state's estimated rate of 5.0%.

### Agriculture

**Quarter to Quarter** - Agricultural prices were mixed during the third quarter of 2004. Calf prices, after adjustment for inflation, increased 5.4% from the second quarter of 2004 while alfalfa hay priced decreased 6.2% during the same time frame.

**Year to Year** - On an annual basis, both calf and alfalfa hay prices increased. Calf prices increased by 15.3% and alfalfa hay prices increased by 8.7%.

### Industrial Activity

**Quarter to Quarter** - Industrial kilowatt-hours used decreased by 2.5% from the second quarter of 2004 to the third quarter of 2004.

**Year to Year** - On an annual basis, industrial kilowatt-hours used increased by 4.5%. Most industrial usage of electricity in La Plata County is to compress natural gas for transmission through gas pipelines.

### Population

**Quarter to Quarter** - The number of residential electric meters in La Plata County increased by 1.3% from the second quarter of 2004 to the third quarter of 2004.

**Year to Year** - On an annual basis the number of residential electric meters increased by 3.5%. 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 years 1995 to 2003, as estimated by the installation of new residential electric meters, is 3.07 percent. 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.

### Finance

**Quarter to Quarter** - After adjustment for inflation, bank deposits in La Plata County increased by 4.8% from the second quarter of 2004 to the third quarter of 2004.

**Year to Year** - On an annual basis, bank deposits decreased by 16.8% from the third quarter of 2003 to the third 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.

### Fort Lewis College

**Quarter to Quarter** - Enrollment at Fort Lewis College showed a seasonal decrease during the third quarter of 2004 (two months of the third quarter include summer enrollment, which is considerably lower than fall or winter enrollments). The quarter to quarter decline in enrollment was 15.2%.

## ECONOMIC INDICATORS (cont)

**Year to Year** - However, enrollment on an annual basis increased by 3.5%. This increase is most likely due to an improvement in retention at the college, as well as improvements in outreach efforts to potential students. The college 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

**Quarter to Quarter** - Construction activity in La Plata County continues to remain strong. After adjustment for inflation, construction increased from the second quarter of 2004 to the third quarter of 2004 by 73%.

**Year to Year** - On an annual basis, construction activity increased by 79% (comparing the third quarter of 2003 to the third quarter of 2004). Part of this large increase for quarter three, 2004 is due to the high value of the permit issued for the construction of the new Mercy Medical Center. 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.

### Energy Prices

**Quarter to Quarter** - The federal government's energy price index (adjusted for inflation) increased by 1.8% from quarter to quarter.

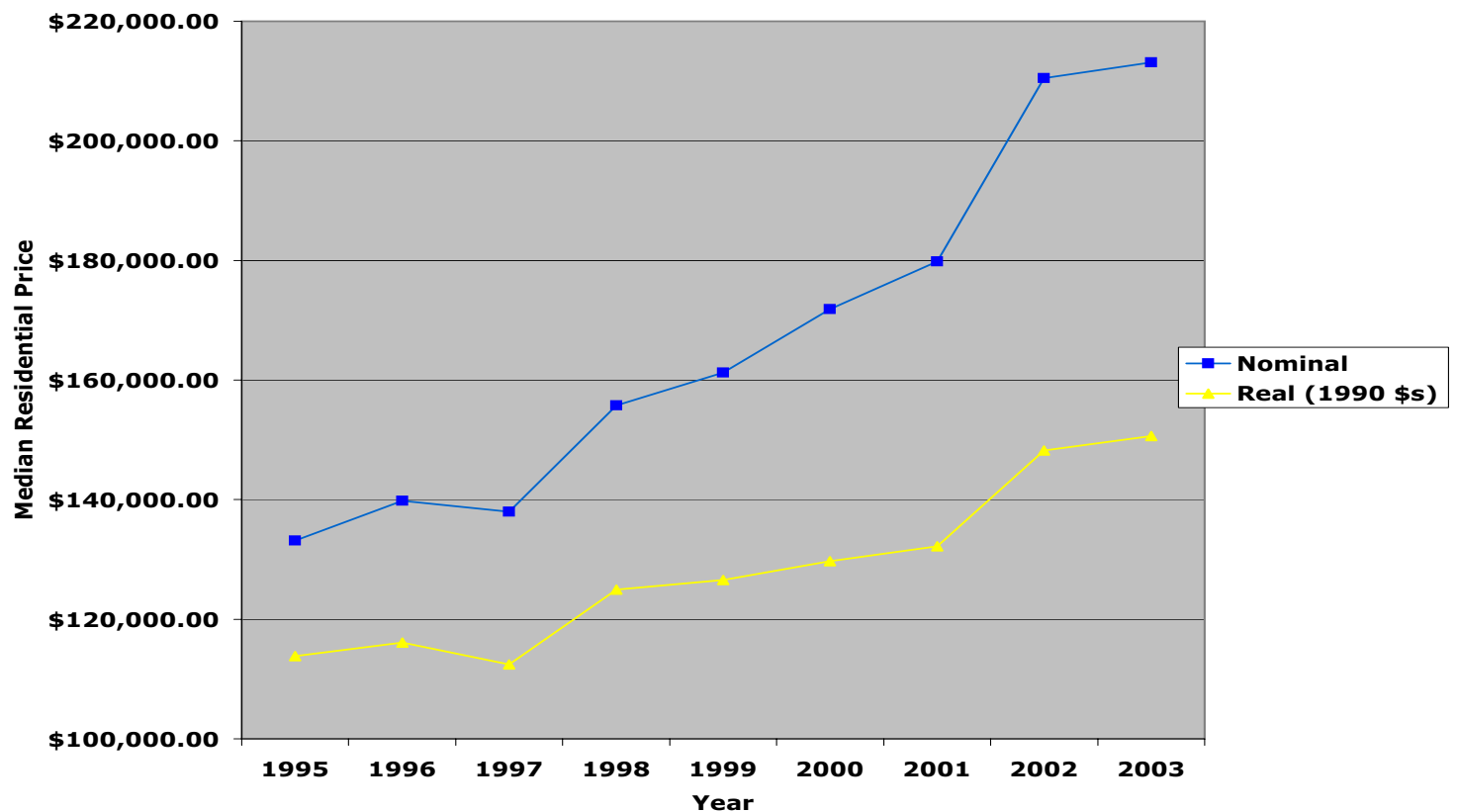
**Year to Year** - On an annual basis the energy price index increased by 15.6%. Energy prices are highly volatile. Energy prices are very important to La Plata County because the county is a major producer of natural gas. Rents and royalties, as well as property tax revenues associated with natural gas production, are significant sources of income to La Plata County.

### Real Estate

**Quarter to Quarter** - The median price of residential real estate in La Plata County, after adjustment for inflation, increased by 1.2% from the second quarter of 2004 to the third quarter of 2004.

**Year to Year** - The annual increase in the median residential real estate price (adjusted for inflation) in La Plata County was 6.9%, from \$169,368.00 in the third quarter of 2003 to \$180,969.00 in the third quarter of 2004. In the absence of adjusting these prices to 1990 dollars, the median residential real estate price in the third quarter of 2004 was \$268,500.00, in the third quarter of 2003 it was \$240,000.00. Graph 3 below shows the growth in the median residential real estate price in La Plata County since 1995, in both non-adjusted (nominal) prices and in adjusted (real) 1990 prices.

**GRAPH 3 – Median Residential Real Estate Prices in La Plata County 1995-2003 (Non-Adjusted and Inflation Adjusted 1990 Prices)**



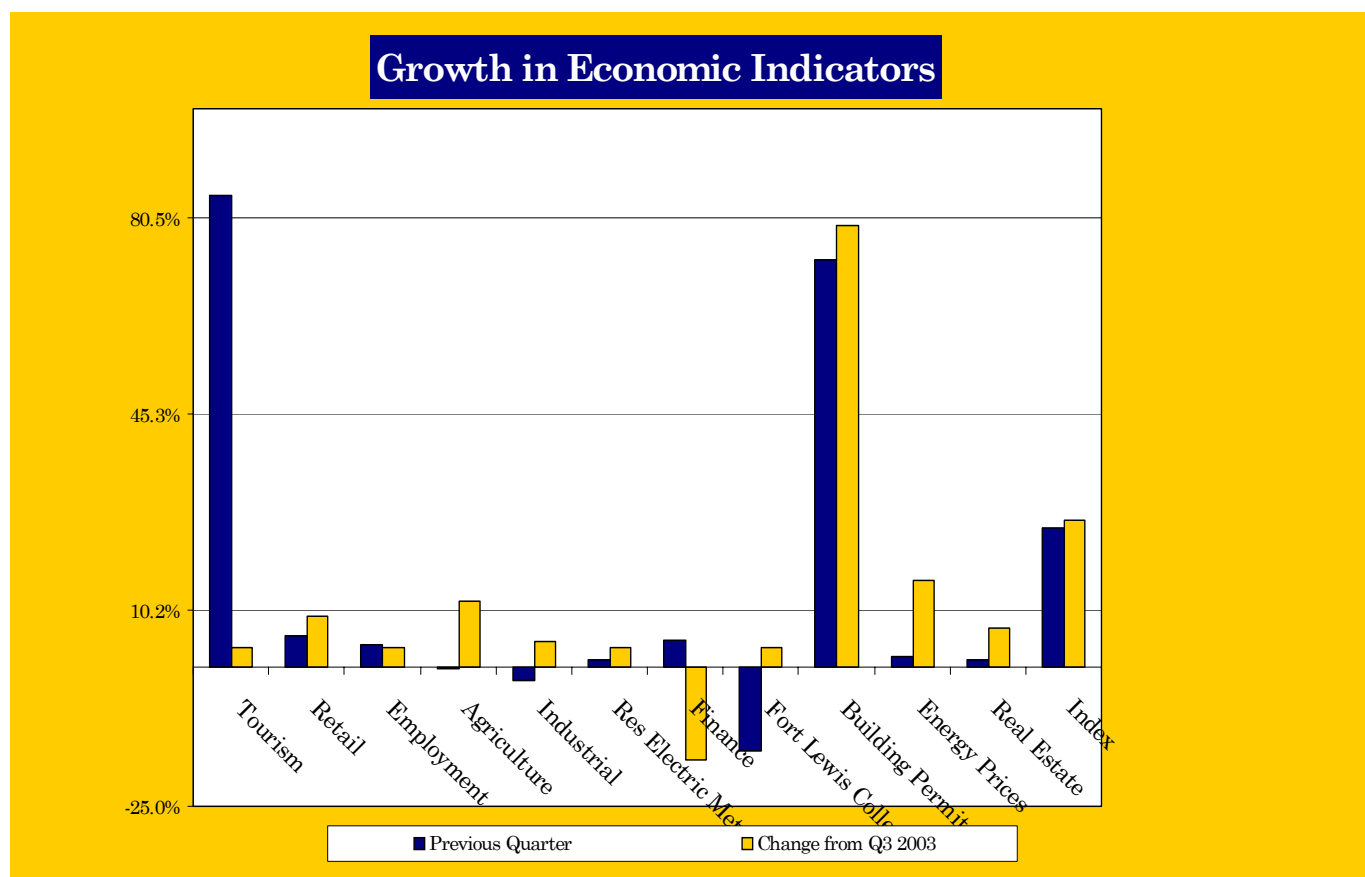
## Methodology

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(.275), Retail Sales(.25), Employment(.05), Agriculture(.05), Industrial Kilowatt Hours(.05), FLC Enrollment(.10), Building Permits(.10), Energy Prices(.025), Residential Real Estate Prices(.025), Residential Electric meters(.025), Bank Deposits(.05).

Tourism includes train ridership, Mesa Verde visitors, airport passenger activity and lodger's tax revenue. 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	Previous Quarter	Change from Q3 2003
Tourism	84.4%	3.4%
Retail	5.6%	9.1%
Employment	4.0%	3.3%
Agriculture	-0.4%	11.8%
Industrial	-2.5%	4.5%
Res Electric Meter	1.3%	3.5%
Finance	4.8%	-16.8%
Fort Lewis College	-15.2%	3.5%
Building Permits	73.0%	79.0%
Energy Prices	1.8%	15.6%
Real Estate	1.2%	6.9%
Index	24.9%	26.1%



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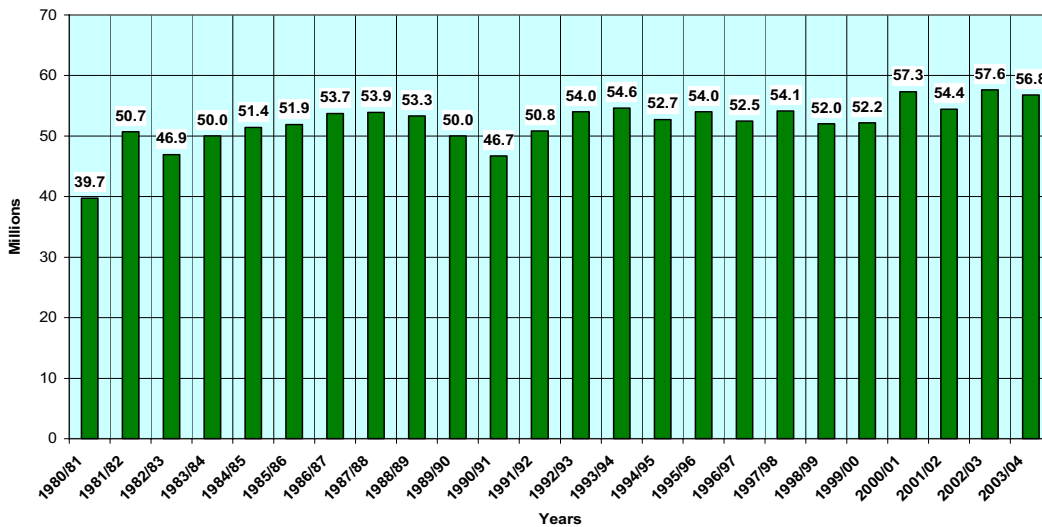
## SNOWSPORT RESORTS: THE STATE OF THE INDUSTRY

By Terence M. Tannehill, Visiting Instructor of Management, Fort Lewis College

The \$12 billion North American snowsports industry serves alpine skiers, nordic skiers and snowboarders with uphill lifts and other amenities so it's paying customers can enjoy the thrill and challenge of descending mountain slopes and trails. For the recently completed winter of 2003/2004, total skier/snowboarder visits totaled 56.8 million. Snowboarder visits comprise 30.8% of total skier/rider visits.

Since 2000, skier/snowboarder visits in North America have averaged 56.5 million visits, an increase of 10.2% over the average of the 1980s and 1990s. These are remarkable results in light of the tragedy of 9/11/2001 and the less than favorable US economy that followed. Exhibit 1 charts skier/snowboarder visits since 1980/1981.

**Exhibit 1**  
**Skier/Snowboarder Visits**  
**1980/1981-2003/2004**



### INDUSTRY STRUCTURE: IS THERE STILL ROOM FOR THE LITTLE GUY?

In 1983/1984 there were 735 ski areas operating in the United States. In 2002/2003 the number had declined by 33% to 490.

The 1990s saw the emergence of the corporate ski resort. Intrawest, a Canadian corporation, is the largest with revenues of over \$1 billion annually. Vail Resorts reports annual revenues of over \$600 million. The American Ski Company has annual revenues of \$265 million. The other major player, Booth Creek Holdings, is a privately held corporation. These "Big Four" control over 25% of annual skier/snowboarder visits.

There is concern in the industry that these large corporate ski resorts will lessen the value of the on-mountain skiing experience, undermine the quality of ski town life, and ultimately force out the small ski entrepreneur/operator.

### INDUSTRY ECONOMICS: CAUGHT IN A HIGH COST TRAP

As industry competition increased and annual skier visits

flattened, ski resorts responded with expanded snow making, improved snow grooming, high speed detachable quad chairlifts, and increased skiing and snowboarding terrain. All of these improvements have come at very high capital costs, often reaching into the hundreds of millions of dollars.

Colorado ski resorts announced a record \$233 million in capital investments in 1999. The expansion by Telluride Ski and Golf Company (Telski) into Prospect Bowl in 2001 is a good example of the high capital cost incurred by just one ski resort. Over \$17 million was invested to open up Prospect Bowl, with 733 new acres and three new detachable quad chairlifts.

These enormous capital investments have boxed the ski industry into a high-cost corner. These increased costs are passed on to consumers in the form of lift ticket prices, which generally run from \$50 to over \$70 for a single-day ticket. A single-day lift ticket at Vail Mountain, Colorado the winter of 2003/2004 was \$78.

Skiing is fast becoming a sport mostly for the upper-middle and upper income groups. In 1984 more than 80% of skiers earned less than \$50,000 annually. In 1999 only 30% earned less than \$70,000. This means that there is a shrinking pool of potential skiers and snowboarders who probably can afford snowsports activities than in the past.

### WHO ARE THE SKIERS AND WHO ARE THE SNOWBOARDERS?

Combined, skiers and snowboarders account for only 5.1% of the total US population (skiers 7.4 mil., boarders 5.6 mil.). Skiers are on average older and have higher incomes than snowboarders. Though both market segments average almost the same number of days on the slopes. Skiers bring along their children. In addition,

females account for a greater portion of the larger skiing segment than they do in the smaller boarder segment. Snowboarders, with almost 68% under age 25, are primarily the trend-setting, thrill-seeking Echo Boomers (ages 10-27).

### WHEN IT COMES TO VACATIONS, WHO IS THE COMPETITION?

The snowsports industry competes with other substitute activities

on which consumers can spend their disposable income and leisure time. The percent of increase in skier visits in the later part of the 20<sup>th</sup> century does not compare favorably with growth in a significant number of other leisure and recreational activities. Exhibit 2 shows the growth trends from 1980 to 1998 of travel and recreation activities with which the snowsports

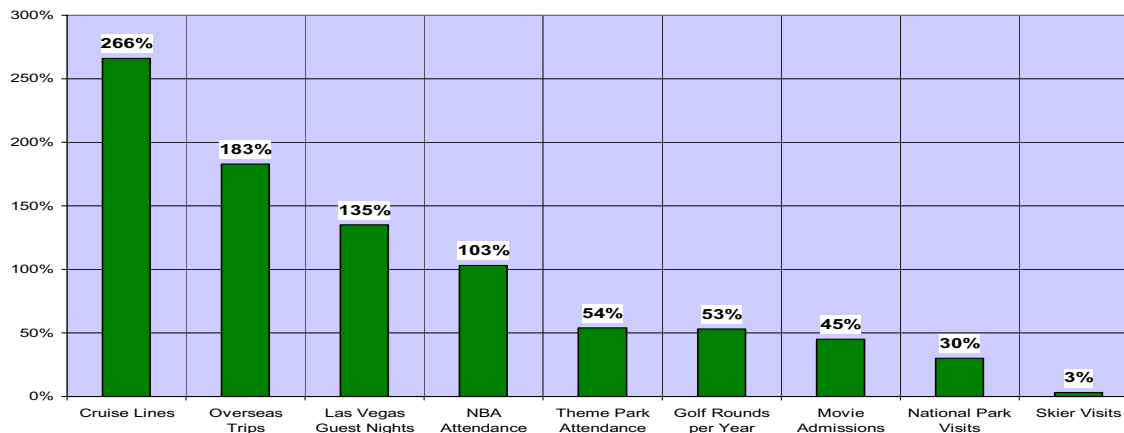
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## SNOWSPORT RESORTS (cont)

industry competes. The snowsports industry appears to be at a competitive disadvantage.

changes in customer demographics have major implications for the snowsports industry. The Echo Boomers represent a significant market opportunity. This is the next generation of skiers and snowboarders. The industry needs to develop a marketing campaign directed and designed to meet their specific needs. This segment looks for thrills, challenges, affordability, and a variety of experiences.

**Exhibit 3**  
**Growth Trends in Selected Travel/Recreation Activities**  
**1980-1998**



### IT'S NOT EASY BEING GREEN

Environmental issues are also buffeting the industry. One hundred and forty-six ski areas in the US are situated on leased federal land. These areas represent 50%-55% of total skier/rider days, and pay between \$17 million and \$19 million annually in lease payments to the US Forest Service. Unfortunately, snowsports activities on much of this leased land disrupts the winter habitat and spring calving grounds for a wide variety of wildlife including elk, deer, and the Canada lynx. Ski resort development and expansion is being closely scrutinized by proactive environmental groups.

Recently, ski resort owners and operators have begun to take a more proactive environmental stance through the National Ski Area Association's Sustainable Slopes Program. The program's Vision Statement emphasizes their "...commitment to environmental protection and stewardship."

### DEALING WITH CHANGE

The industry needs to overcome some major challenges if it expects to continue its recent growth trends. Also, environmental challenges will not only continue, but they will also more than likely intensify.

It appears that industry consolidation will continue. In 2004 Okemo Mountain in Vermont, which also owns Sunapee Mountain in New Hampshire, purchased Crested Butte in Colorado and Telluride Ski and Golf Company changed owners. As more and more ski resorts become part of public companies, there is the real danger that they will be operated based on profitability, while customer service and environmental needs may be minimized.

Unfortunately, high capital investments are a way of life for snowsports resorts. The market will probably continue to resist price increases for lift ticket and greens fees, which along with real estate activities have been the main revenue generators for these resorts. The industry needs to find new avenues to attract both cold and warm-weather guests. Future

accomplishments over the past several years have been significant. They have attracted more customers, both winter and summer, while expanding operations that have the approval of the environmental community. Tamarack Resort, the first new all season ski and golf resort since Deer Valley, Utah in 1983, is being developed 100 miles north of Boise, Idaho. Tamarack Resort received unanimous approval from the Idaho State Legislature for a 49 year lease to operate on 2,500 acres of state land. Tamarack accomplished this by developing a year round long range plan that met the approval of both environmentalists and the local community. Other snowsports resorts need to learn from these and other successful examples which combine savvy customer marketing, astute financial planning, and incorporation of the needs of environmentalists and the local communities.

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### ABOUT THE AUTHOR

Terence M. Tannehill is a Visiting Instructor of Management in the School of Business Administration at Fort Lewis College. He spent twenty-five years in management and executive positions in the corporate arena. He was the President & CEO of Hunter Fan Company during the resurgence of the ceiling fan industry. For ten years he and his family owned and operated Whitneys' Inn, an award winning country inn in Jackson, NH. He was Chairman of Black Mountain Ski Resort in Jackson. In the 1990's he served as Executive Director of Friends of Conservation, a nonprofit organization that conducted wildlife conservation programs in East Africa. He joined Fort Lewis College in August, 2002 where he teaches management and business courses.

### GOOD EXAMPLES

These challenges facing the snowsports industry are not insurmountable. Intrawest's

My editor said, "keep it short to keep within page production limits"! As you can see, we have a packed Econometer with an interesting industry analysis by Terry Tannehill and expanded information and data analysis from our economist, Deb Walker.

We got the Winter Semester off to a great start with record attendance at the 13<sup>th</sup> Annual Southwest Business Forum sponsored by the Wells Fargo Bank and driven by the tremendous energy of Patty Burkholder, Durango and Ignacio Wells Fargo Bank President. Thanks to Dr. Scott Anderson who gave the national economic picture, Dr. Richard Wobbekind who presented the Colorado forecast, and our own Dr. Deb Walker who gave a positive projection for the region, especially in employment, construction and industrial activity. Because of the success of the forum, look for expanded regional coverage next January!

Our next visitor was Joseph Donovan, Jr., Director for the Office of Chinese and Mongolian Affairs, Bureau of East Asia and Pacific Affairs at the U.S. Department of State. He spoke to students in our International Business Class, Global Topics class, and Senior Seminar in Strategic Management on the topic, "The Impact of China's Development on the Global Economy." He gave that same talk at a Lifelong Learning Series lecture for the public. Not only did we learn about the economic impact of the 2<sup>nd</sup> largest consumer of petroleum and a country which

creates 2 million jobs a month, but also about how to do business in China with relationship building and the need to integrate China into the rules based global community.

Business faculty and students also visited with Professional Associates Chap Peterson, John Lyons, Ali Sabeti, Gary Masner, Jack Silton, and Tom Jones in January. We came up with plans to better match the course resource needs of the faculty and club needs of the students with the business expertise of this wonderful group of Fort Lewis College professional volunteers.

Thank you for an exciting first six months at the Fort Lewis College School of Business Administration. I truly value the partnerships we have to enhance the learning experiences of our students.

# Dean's Corner

By Tom Harrington  
Dean, School of Business Administration



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