Colorado Economy Issues and Trends

By Elizabeth Garner

Colorado is experiencing its worst economic slump in 15 years. The trends of the 1990s have halted and state economists continue to extend the date when they think the recovery may begin. The information presented in this paper is primarily based on two documents produced by the Colorado Legislative Council and the Center for Business and Economic Forecasting listed in the endnotes.

The state of Colorado is very diverse in its landscape as well as in its economy. Eighty percent of Colorado's jobs are in the Front Range. Therefore, state economic overviews focus on the aggregate and tend to overlook regional economies, which often differ significantly in character and outlook from the Front Range. Colorado's regions have diverse economies because economic activities and geographic characteristics do not follow geo-political boundaries. In an attempt to describe the state, attached as Appendix A, is a map of the state highlighted with different colors to show what drives or impacts that region. When possible in this summary, the different economic regions of Colorado will be mentioned.

It is no secret that the economic boom of the 90s is over for both the state and the nation. The state economy is the weakest in 15 years and was more adversely impacted from the downturn than the US as a whole. Since the year-end 2000 Colorado has had a net job loss of almost 80,000 or 3.5% compared to 1.1% for the US.[1] The state unemployment rate has doubled and county rates range from .9 to 9.7, [2]. Net state sales tax collected are down 4% (almost $69 million) between fiscal year 2001 and 2002.[3] Homebuilding has declined by over 20% and income growth was almost cut by two-thirds. However, job losses have slowed and look to have ended by late summer.

The job loss in Colorado was concentrated in five industrial sectors. The construction industry has lost over ten thousand jobs (5%) hurt by softening markets. Technology firms have lost over 30,000 jobs (13%) suffering from weak business spending and exports. The communications industry hit by excess capacity has lost over ten thousand jobs (15%). Travel and tourism hurt by a weak economy, terrorist attacks and drought and fire, has also lost over ten thousand jobs. The Green Industry reports an estimated loss of 15,000 jobs. Cutbacks at temporary employment firms by over 20 thousand show weakness in all areas. Temporary employment firms are an area to watch for signs of recovery since they are typically the first to gain or lose and currently they are not showing signs of gains.

Why is Colorado's economy so weak?

Colorado's current recession followed the national recession lead by manufacturing. Colorado has been ranked top 7th or 8th in US as the most impacted by the September 11th attacks due to its dependence on tourism and airline industry. Tourism accounts for 8% of Colorado's employment and its estimated that travel spending dropped as much as 20% after the terrorist attacks.[4] The drought and summer wildfires also hit the tourism industry. During the mid to late 1990s, the real estate and construction industries were gaining over ten thousand employees a year. It is now starting to lose jobs due to the slowdown in residential construction, overcapacity of multifamily and commercial units and cancellation of several government contracts financed by taxes. Weak business spending has been a major feature of this recession, and has had a particularly strong impact on Metro Denver that benefited from the extraordinary levels of business investment in the 90s. Denver Metro's exposure to the telecom industry was twice the national average, so the industry's collapse severely impacted Metro Denver and Colorado Springs. Finally, many areas of Colorado have lost their comparative advantage for attracting new business due to rising costs. Colorado's recovery will depend in part on the recovery of the U.S.

The U.S. economy is rebounding slowly with the recovery being supported by the housing and automobile markets, both buoyed by historically low interest rates, and by the federal government through defense spending. The uncertainty about possible war with Iraq is a burden for financial markets, consumers and businesses and one of the principle factors for the weak recovery. Productivity has been increasing which in the short term is not a good sign for new jobs. Longer term however, it supports non-inflationary wage rate increases.

Confidence indexes have hit new lows indicating that consumers are losing steam. Low business spending is still a problem caused by excess capacity and falling stock prices, but equipment and software outlays have begun to rebound. Personal and business debt levels are at record highs. The outlook is that the recovery will gradually gather strength through 2003 and into 2004.

Strengths for Colorado's Economy
The U.S. economy is recovering. The travel and tourism industry should rebound after the weak summer. The ski industry is optimistic about the upcoming season, with two nationally televised football games during snowstorms and above average snowfall for the month of October and November. Defense spending has increased, aiding technology firms. Business spending in Colorado is finally starting to pick up. The third quarter of 2002 was the first time in two years that there has been an increase.[5] The single family housing market has held up well. Colorado has historically had more access to venture capital and business incubators that help support new business development. Colorado also employs a higher percent of people in small businesses than the US and has a higher rate of entrepreneurship, which tend to respond more quickly to downturns and upturns in the economy. High vacancy rates have forced office space prices to fall significantly. Once the recovery starts to take hold, facilities will already exist at more affordable price levels. Colorado has a highly educated workforce, especially in terms of in its percentage of college graduates, but also in its numbers of customized job training programs, workforce centers, and school-to-career programs.[6]

Weaknesses in Colorado's Economy
Apartments are overbuilt with 9.4% vacancy rates, the highest since 1990. Commercial real estate is depressed with vacancy rates as high as 40% in the northwest Front Range and in Colorado Springs and values declining 20% through September, compared with the same period in 2001.[7] Residential housing market is expected to be flat for the next year. Public construction projects have been cut as state and local government budget cutbacks resonate throughout the economy. The telecommunications industry remains "in the tank". The drought and fires hurt summer tourism and destroyed the agricultural

industry in some areas. Almost one third of Colorado's counties depend on the agricultural sector for 20% or more of their income. Job losses are leading to a significant rise in home foreclosures. Data through September 2002 indicated a 55% rise in foreclosures and are at an 11-year peak, which could eventually place downward pressure on housing prices. In terms of personal debt, 15,860 bankruptcies were filed in Colorado through September 2002. Colorado is on track to break its record of 19,075 filings in 1997.[8]

Colorado Forecast

Colorado's economy is estimated to start to slowly grow in late 2002 or early 2003. 2002 will show a net job loss of 50,000 jobs in Colorado. This is the highest loss ever since records have been collected and 3rd weakest rate of job growth in Nation. Nonresidential real estate market will not recover until 2003 or 2004. Growth in retail sales have been falling since the second half of 2000 and have been negative since early 2001. It is expected that they will pick up the end of 2002 and grow to 2% or 3% by mid 2003. Technology firms will begin to recover by the beginning of 2003 but telecommunications will remain depressed through 2004. 2003 will see a return to positive economic growth but at lower levels than during the 1990s.[9]

Retirees and Prisons

Retirees and prisons will continue to grow as important base industries in various counties. Retirees bring savings, pensions etc. to a community and require various services. Mesa, Delta, Montrose and parts of Gunnison have and will continue to experience an influx of retirees. Other areas include many of the scenic counties in the central mountains like Chaffee and in the southwest corner like La Plata. Prisons have long been as source of economic growth in Fremont. During the 1990s the prison population almost tripled in the state with new facilities in Logan, Kit Carson, Crowley, Lincoln, Huerfano, Bent, and Fremont. Prison inmate growth will impact these rural communities with new jobs, demands on housing markets, and new industries.

Cost of Living and Incomes

Colorado is ranked 10th in the nation for least affordable housing.[10] The cost of living by county in Colorado ranges by 88% from the lowest to highest cost county. Attached, as Appendix B is a map and table listing the results from the recent cost of living study produced by Cooperative Extension. Housing prices increased from 1990-1999 by more than 90%. The greatest increase, 150%, was found in Summit County. Denver County was a close second at 149%. Average annual wages, on the other hand, saw increases ranging from 34% in Prowers and Mesa counties to 74% in Boulder. Two thirds of the counties in Colorado had wages increase by 50% or less.[11] An analysis of income inequality in Colorado showed 20 counties marked by extreme income disparity, low levels of education and high numbers in poverty.

Growth

Migration into Colorado has been largely job related and will continue. During the nineties Colorado was gaining on average 70,000 people each year. Estimates for 2002 indicate migration has fallen to 20,000 and the forecast for the next 3 to 5 years has it increasing slowing to 40,000 reflecting slower job growth. From 1980 to 2000 the counties in the Front Range and mountain resorts saw the fastest job growth. Job growth through 2025 is forecast to slow in the Front Range and grow faster in outlying counties near metro areas or resort areas like: Eagle, Lake, Summit, Morgan, Logan, southern Weld, Mesa, Alamosa, Pueblo and Custer.

Local Public Finance

The Gallagher Amendment of 1982 and the Taxpayers Bill of Rights of 1992 (TABOR) separately and interactively have led to the decrease in local government property tax revenue, flexibility in financing local services and an increase in confusion in an already complicated local tax system. Although the total taxable value of property has increased for the state as a whole in each year following the enactment of TABOR, it declined in 2,678 local entities resulting in a loss of nearly $70 million dollars in property tax revenues primarily in small, rural counties, and fire protection districts. TABOR contains some unclear language, which may be causing some of the property tax revenue problem. Impacted local officials are cautious about their actions realizing it will likely take a lawsuit to challenge the common interpretation of TABOR or a great deal of time and effort to explain a complicated tax system to local voters in an election campaign. The current downturn in the economy may finally force the state and local governments to search for solutions to this issue.[12]

Challenges

A solid or sustainable economy is not just based on jobs. Understanding the interaction between the economic drivers, their employees, the housing and service needs of the employees and the secondary economic impacts is crucial. During the late nineties too much growth (caused by job growth) was an issue that most people were concerned with. Even though there has been a downturn in the economy, growth will continue to be an issue in Colorado although not at the rates reported in the 1990s. This lull gives local governments and decision makers more time to better understand how the state and its regions work economically, and make important choices regarding the future character of Colorado. This slow down also forces the state and especially local governments to look at their system of public finance and taxation and better understand the risks and returns by depending on the various taxing mechanisms.

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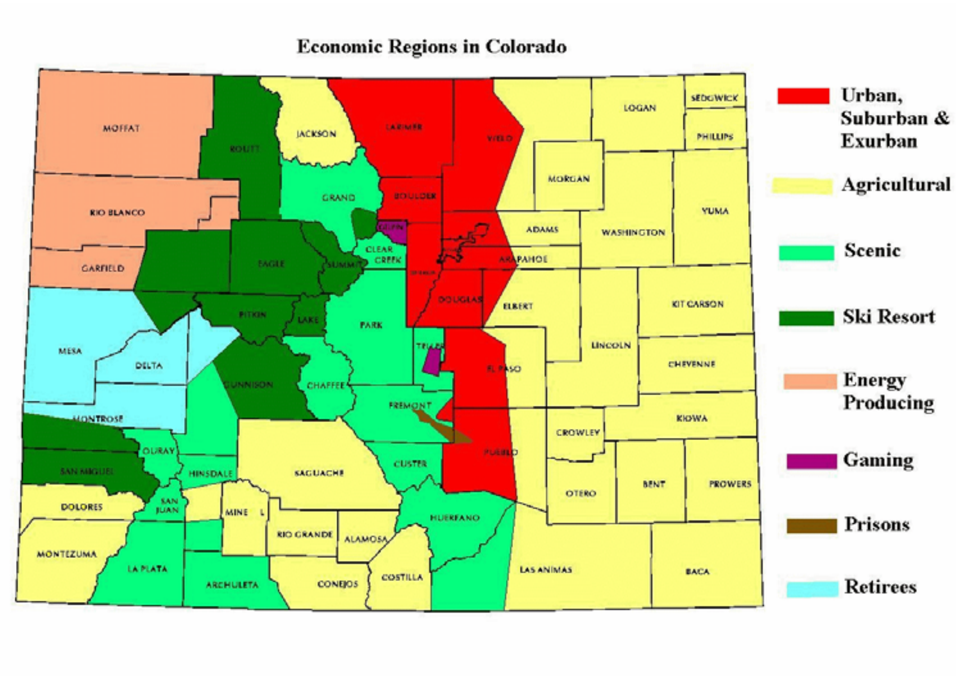
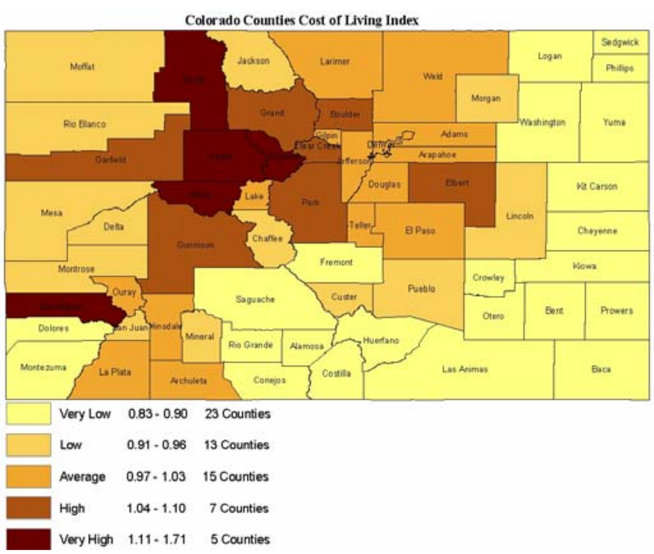
1. Center for Business and Economic Forecasting, Inc., *Colorado Economic Outlook*, November 15, 2002.
2. Colorado Department of Labor and Employment, Labor Force Data, October 2002.
3. Colorado Department of Revenue, State Sales Tax Collected in Colorado, 7/01 to 6/02 and 7/00 to 6/01.
4. Center for Business and Economic Forecasting, Inc., *Colorado Economic Outlook*, November 15, 2002.
5. Center for Business and Economic Forecasting, Inc., *Colorado Economic Outlook*, November 15, 2002.
6. The Colorado Center for Healthy Communities, *The Colorado Index*, 2001, p. 15.
7. Legislative Council, *Colorado Economic Chronicle*, November 2002.
8. Legislative Council, *Colorado Economic Chronicle*, November 2002.
9. Center for Business and Economic Forecasting, Inc., *Colorado Economic Outlook*, November 15, 2002.
10. National Low Income Housing Coalition, *Out of Reach 2002*, http://www.nlihc.org/oor2002/index.htm
11. Colorado Housing and Finance Authority, *Colorado Status of Housing 200.*
12. Colorado Division of Local Government, *TABOR, Gallagher and Mill Levies*, 2001.


Economic Regions in Colorado
MOFFAT
JACKSON
LARIMER
WELD
LOGAN
SEDGWICK
PHILLIPS
ROUTT
RIO BLANCO
GRAND
BOULDER
MORGAN
YUMA
ADAMS
WASHINGTON
GARFIELD
EAGLE
SUMMIT
CLEAR CREEK
ARAPAHOE
DOUGLAS
ELBERT
KIT CARSON
PITKIN
LAKE
PARK
MESA
DELTA
LINCOLN
CHEYENNE
GUNNISON
CHAFFEE
EL PASO
FREMONT
KIOWA
MONTROSE
CROWLEY
OURAY
PUEBLO
SAN MIGUEL
HINSDALE
SAGUACHE
CUSTER
OTERO
BENT
PROWERS
DOLORES
SAN JUAN
HUERFANO
RIO GRANDE
ALAMOSA
MONTEZUMA
LA PLATA
ARCHULETA
CONEJOS
COSTILLA
LAS ANIMAS
BACA
Urban, Suburban & Exurban
Agricultural
Scenic
Ski Resort
Energy Producing
Gaming
Prisons
Retirees


Colorado Counties Cost of Living Index
Moffat
Jackson
Larimer
Weld
Logan
Sedgwick
Phillips
Morgan
Rio Blanco
Grand
Boulder
Washington
Yuma
Gilpin
Clear Creek
Adams
Garfield
Jefferson
Arapahoe
Douglas
Elbert
Kit Carson
Mesa
Lake
Park
Delta
Lincoln
Teller
El Paso
Cheyenne
Gunnison
Chaffee
Fremont
Kiowa
Montrose
Crowley
Ouray
Custer
Pueblo
Saguache
Bent
Prowers
Otero
Dolores
San Juan
Hinsdale
Mineral
Rio Grande
Alamosa
Huerfano
Montezuma
La Plata
Archuleta
Conejos
Costilla
Las Animas
Baca
Very Low 0.83 - 0.90 23 Counties
Low 0.91 - 0.96 13 Counties
Average 0.97 - 1.03 15 Counties
High 1.04 - 1.10 7 Counties
Very High 1.11 - 1.71 5 Counties