



State of the Colorado Economy

Adams County Education Consortium

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October 19, 2011

- In the Fall of 2008
- Webkinz Economists Predict the Recession
-



“Dad is there something wrong with the economy?”



National Economy

GDP, Employment, Unemployment

Real US GDP Growth

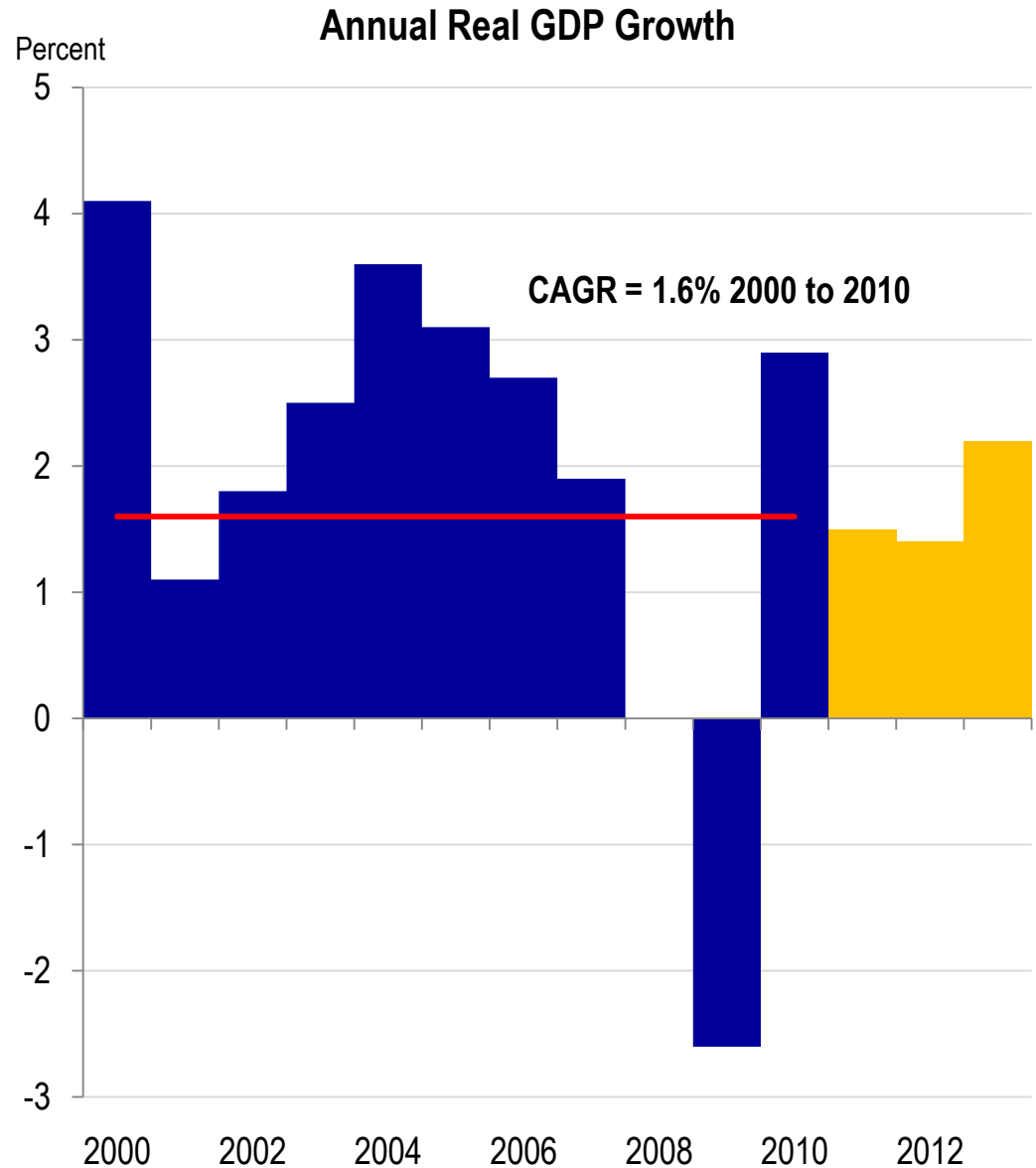
Annual

- 2000 was the last year of strong growth, without federal stimulus.

- Annualized Real GDP growth for 2000 to 2010 1.6% (red line).

- Projected Real GDP for 2011 will be about 1.5% with slightly lower growth in 2012. Improved output growth will not occur until 2013.

- Greater reliance on consumer, weaning ourselves off federal assistance, lower business investment, trade deficit has improved.

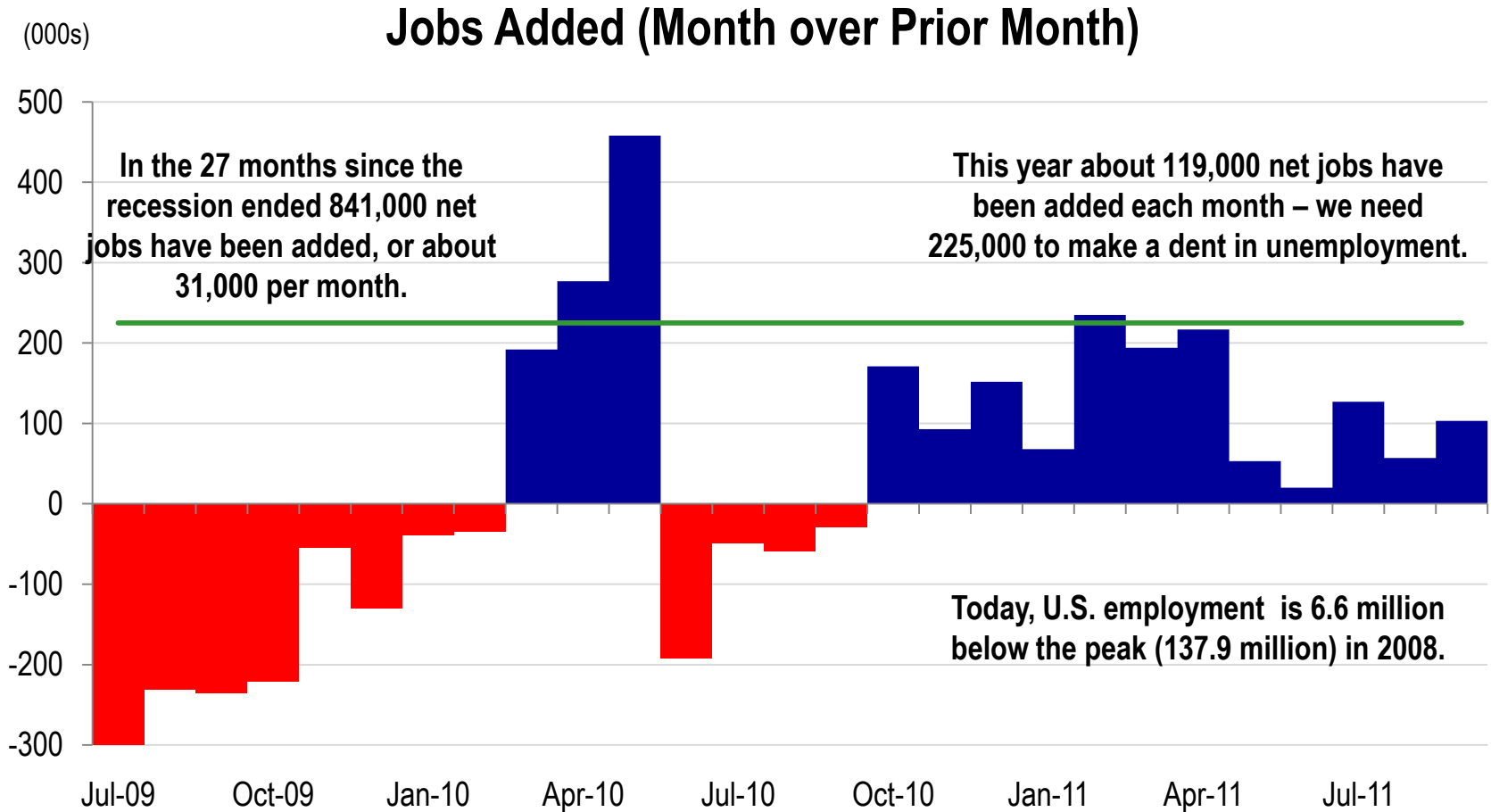


Overview of the Economic Landscape and Prospects for a Recession

This presentation is an abbreviated analysis of the national and state economies.

- Employment growth is slow.
- Lack of job growth and wage increases will constrain consumer spending
- In turn, business investment will be limited and exports will remain weak.
- Projected output growth remains positive, but very weak.
- Low interest rates benefit those borrowing money and are a detriment to those who had planned to live off the interest income from their savings account.
- The equity markets have experienced volatility.
- Consumer and business confidence is weakened by the above factors, as well as talk about another recession.
- The Conference Board chances of a recession
 - July 1-in-6
 - August 1-in-3
 - September 45%
 - October 50%
 - The good news is that the economy has been so bad that there is little room for further decline; the recession will be short and shallow.

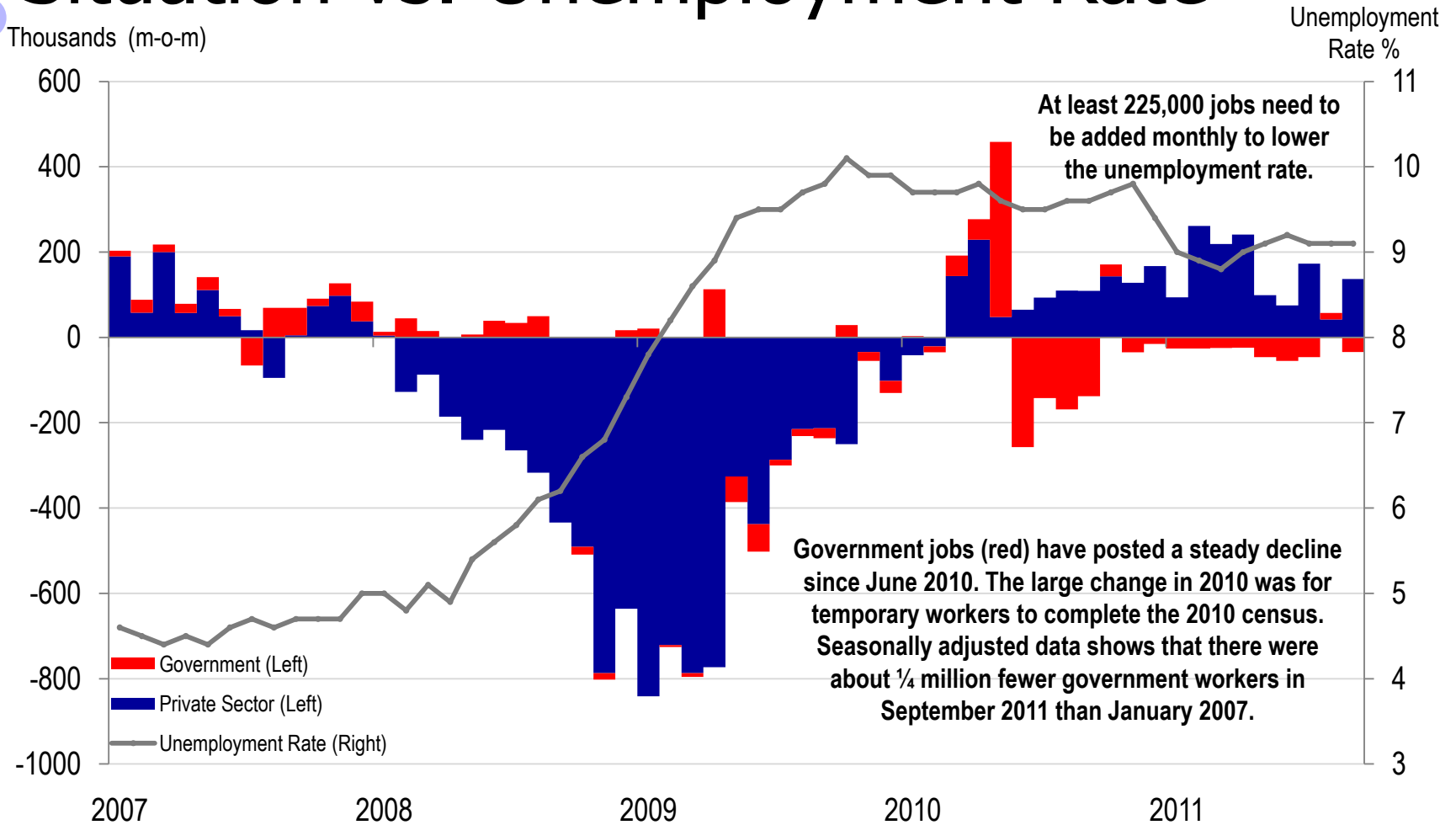
U.S. Employment Situation From End of Recession to Current



Source: Bureau of Labor Statistics, SA.

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U.S. Public and Private Employment Situation vs. Unemployment Rate



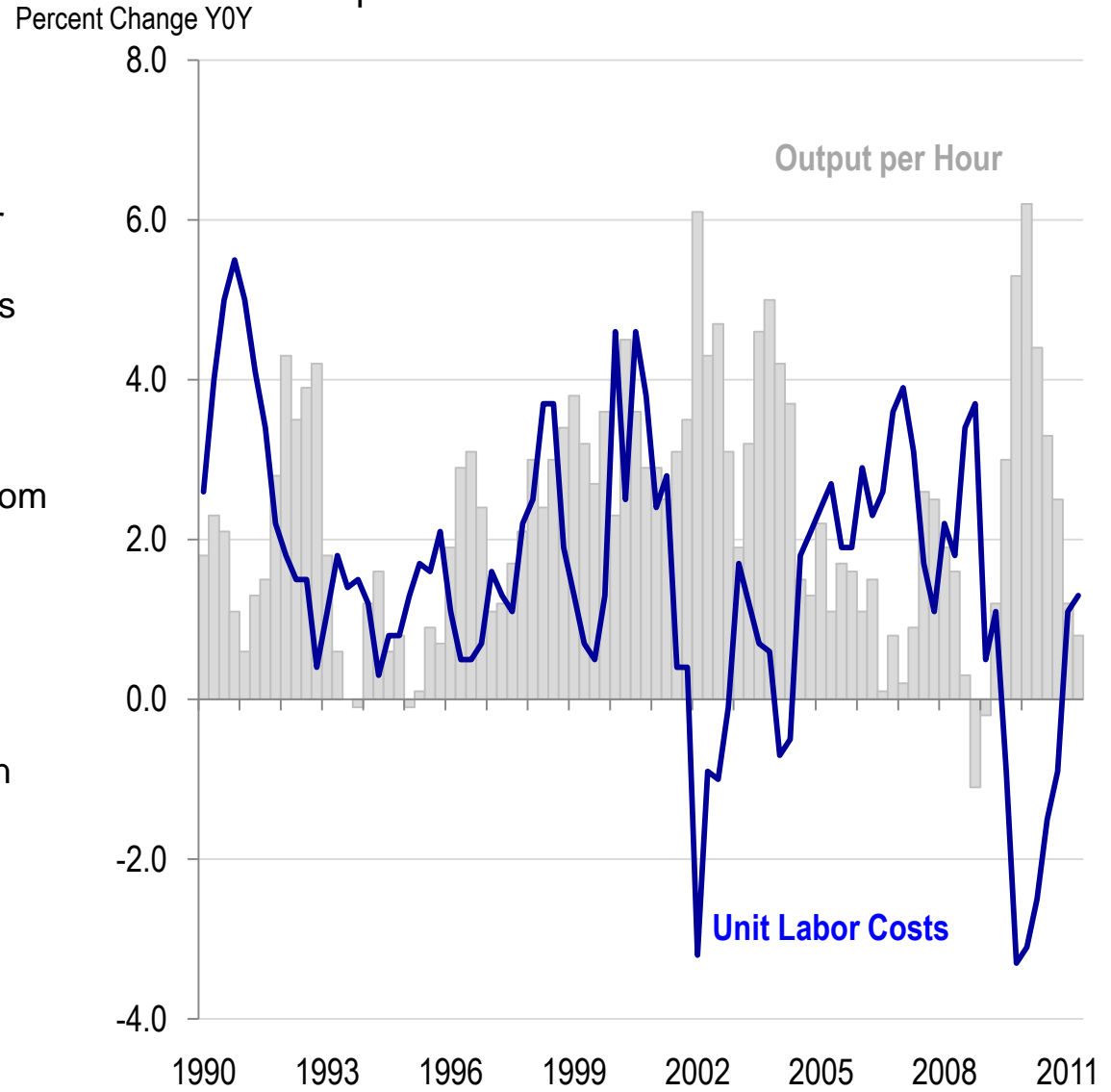


Productivity Gains Benefit Companies



- Companies have maintained or improved productivity with investments in capital or process improvements.
- Productivity gains have helped companies strengthen their bottom line. These gains have not necessarily improved the employment situation.
- The outlook for increased productivity gains will diminish in 2011 as employment increases.

Output Per Hour vs. Unit Labor Costs





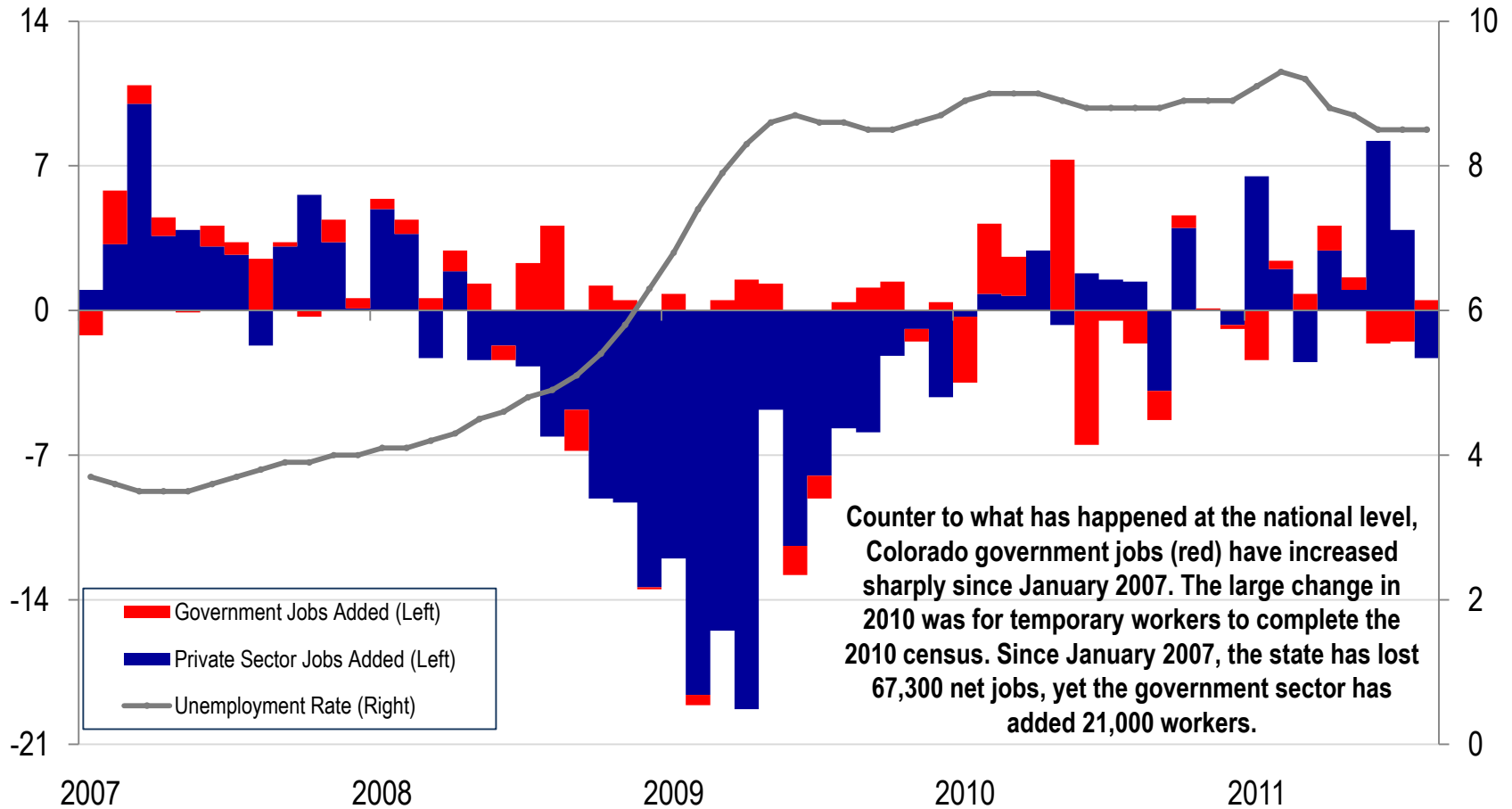
Colorado Outlook

Unemployment and Employment

Colorado Public and Private Jobs Added vs. Unemployment Rate

Thousands (m-o-m)

Percent



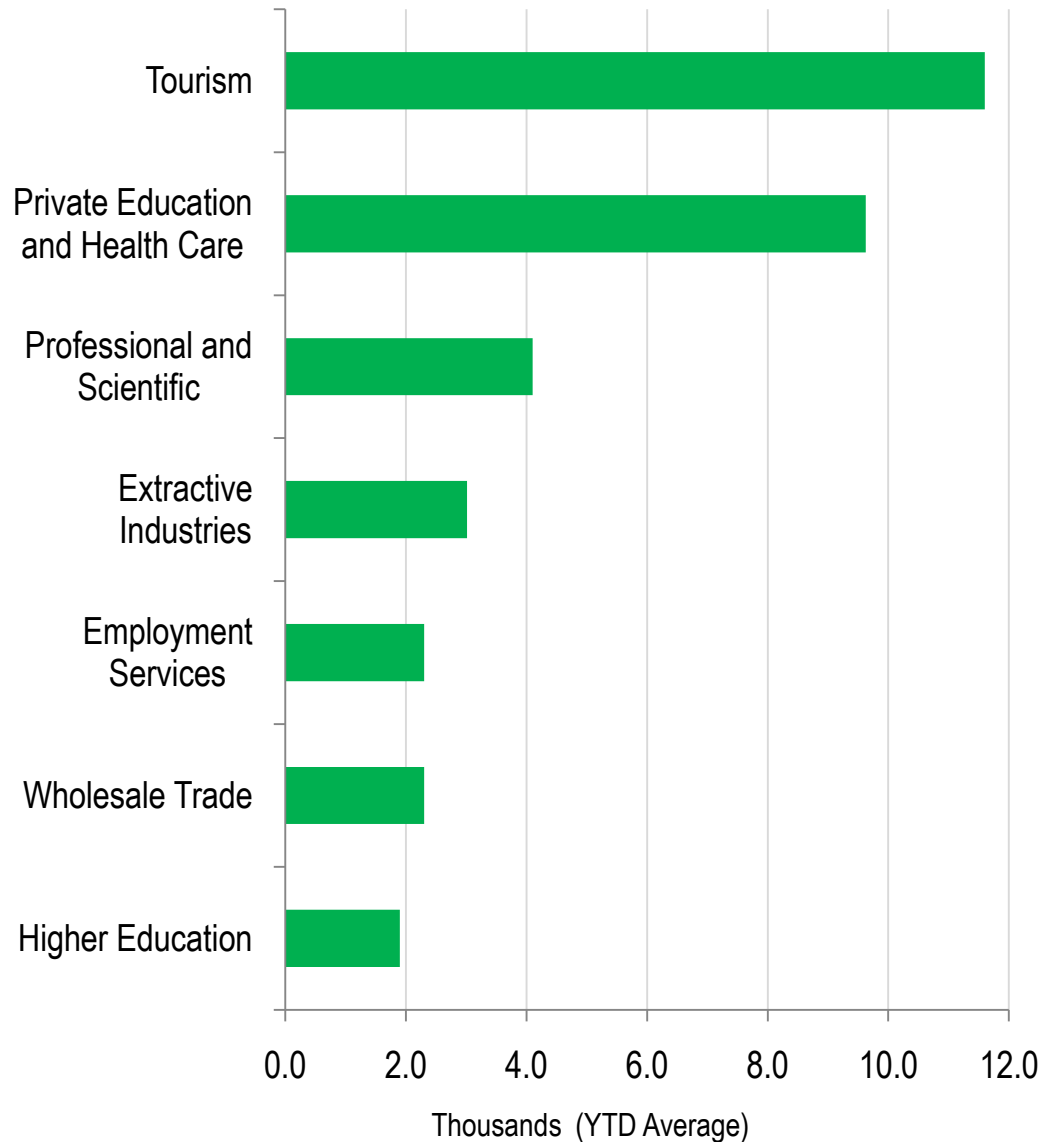
Jobs Added Through Eight Months

Gainers

- On average, this group of industries added 34,900 jobs through the first 8 months, compared to the same period last year.

- The sectors that are showing gains account for 40.6% of total employees.

2011 Prognosis - These sectors are likely to show job gains for the year.



Source: Bureau of Labor Statistics.

Colorado-based Business and Economic Research



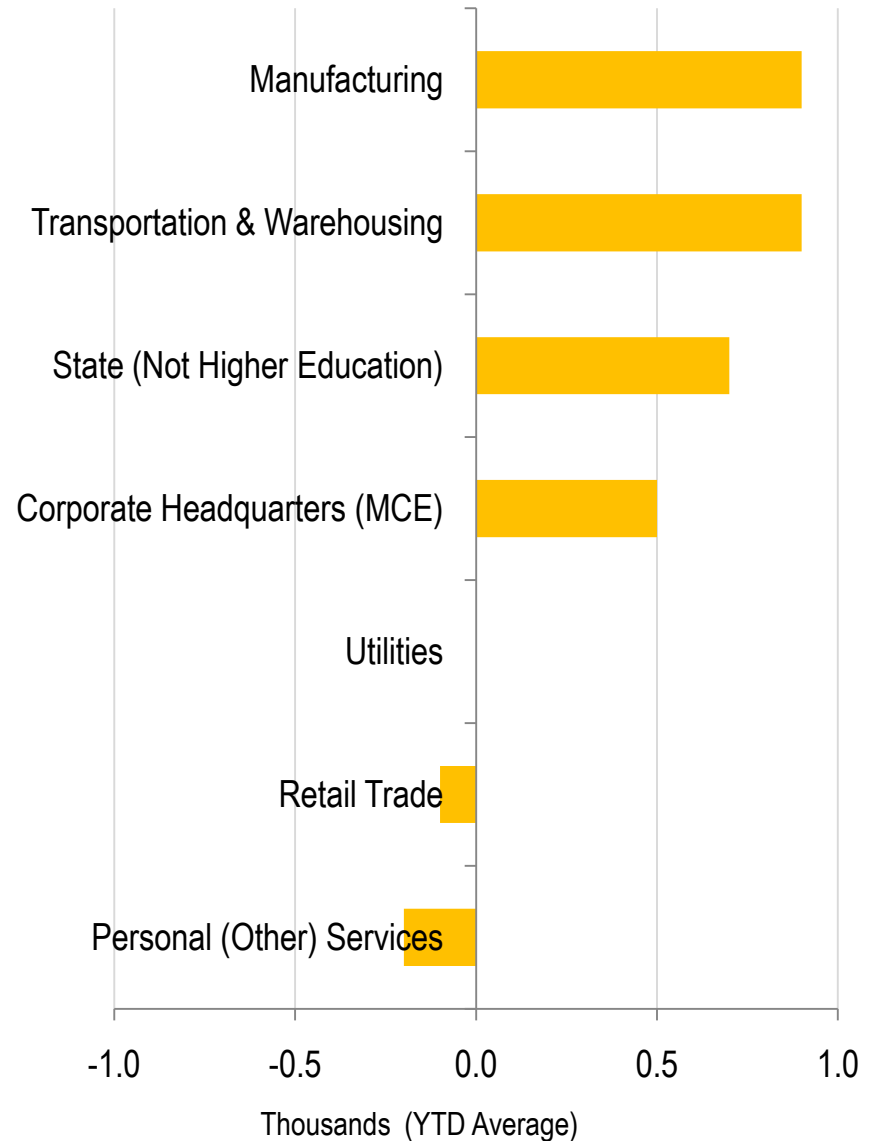
Flat

•On average, this group of industries added 2,700 jobs through the first 8 months, compared to the same period last year.

•The sectors that are flat, or show minimal gains or losses, account for 26.4% of total employees.

2011 prognosis - These sectors are likely to show minimal changes in employment for the year.

Jobs Added Through Eight Months



Source: Bureau of Labor Statistics.

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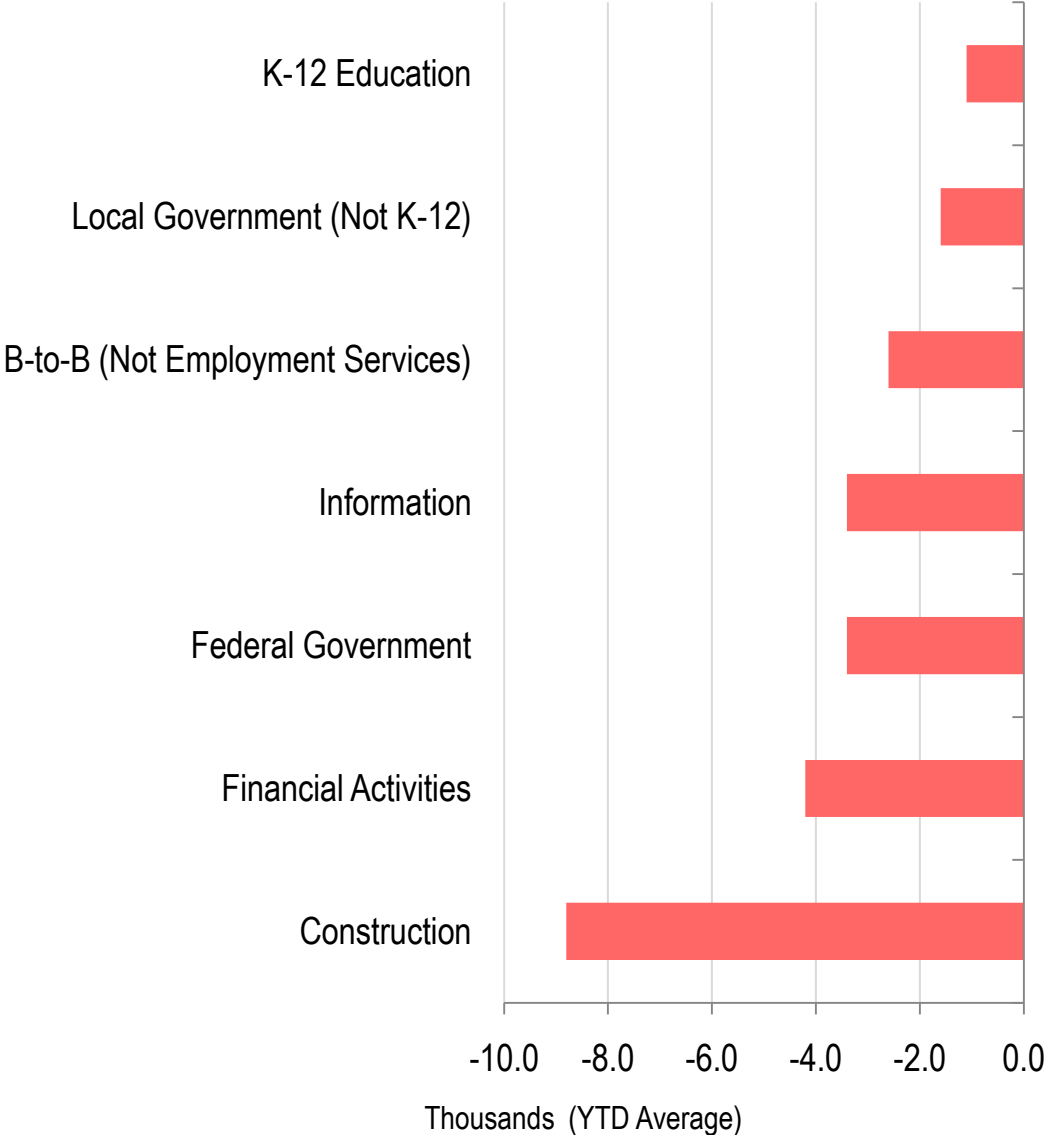
Jobs Lost Through Eight Months

Losers

•On average, this group of industries lost 25,000 jobs through the first 8 months, compared to the same period last year.

•The sectors that are showing losses account for 33.1% of total employees.

2011 prognosis - These sectors are likely to show job losses for the year.



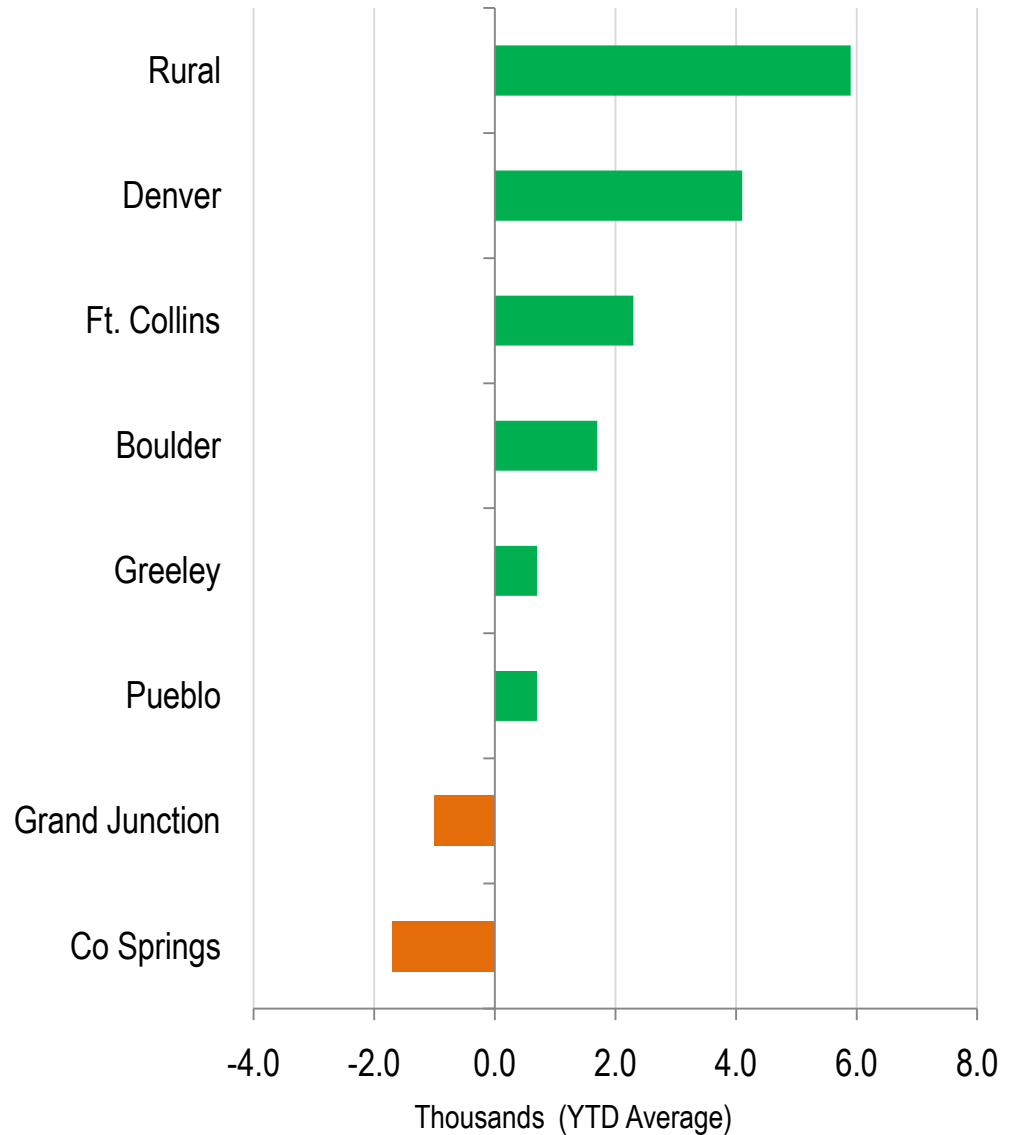
Metro Areas

- The leading geographic areas of employment growth are rural Colorado and Denver. (Rural Colorado includes the 47 counties that are not part of the MSAs.)

- A total of 15,300 net jobs were added in geographic areas that have posted gains.

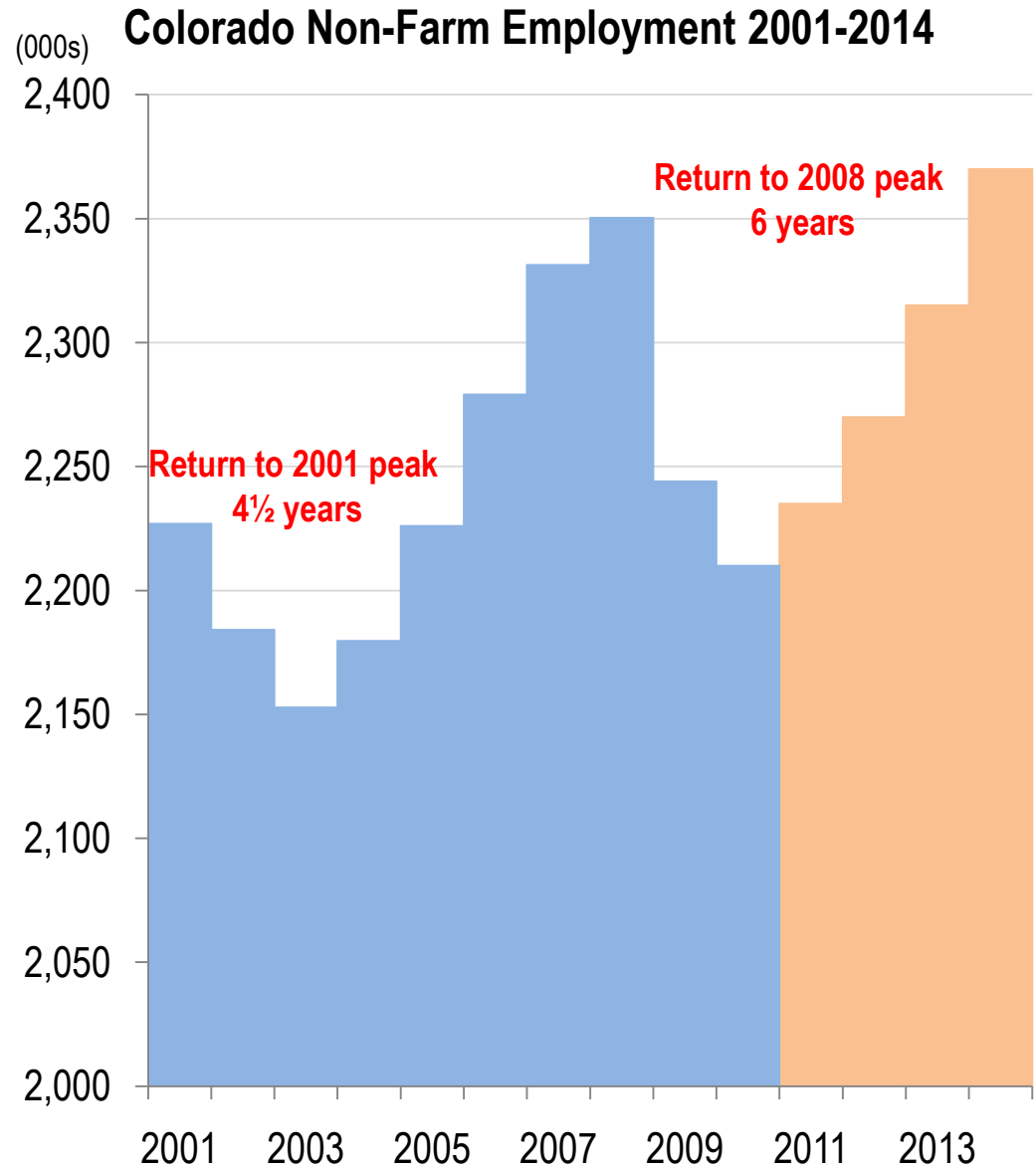
- A total of 2,700 net jobs were lost in the geographic areas that incurred net job losses.

Jobs Added Through Eight Months



Colorado Employment The Lost Decade

- It took 4½ years for employment to return to the 2001 peak after the 2001 recession.
- Colorado employment posted moderate gains from 2004 through 2008.
- After peaking in 2008, approximately 150,000 jobs were shed in 2009 and 2010.
- Today, Colorado employment is below the peak in 2001. It should again exceed that level in 2011.
- If Colorado employment increases by about 1.0% in 2011 and 1.5% to 2.0% for the next 3 years, it will reach 2008 peak employment in 2014.





Colorado Outlook

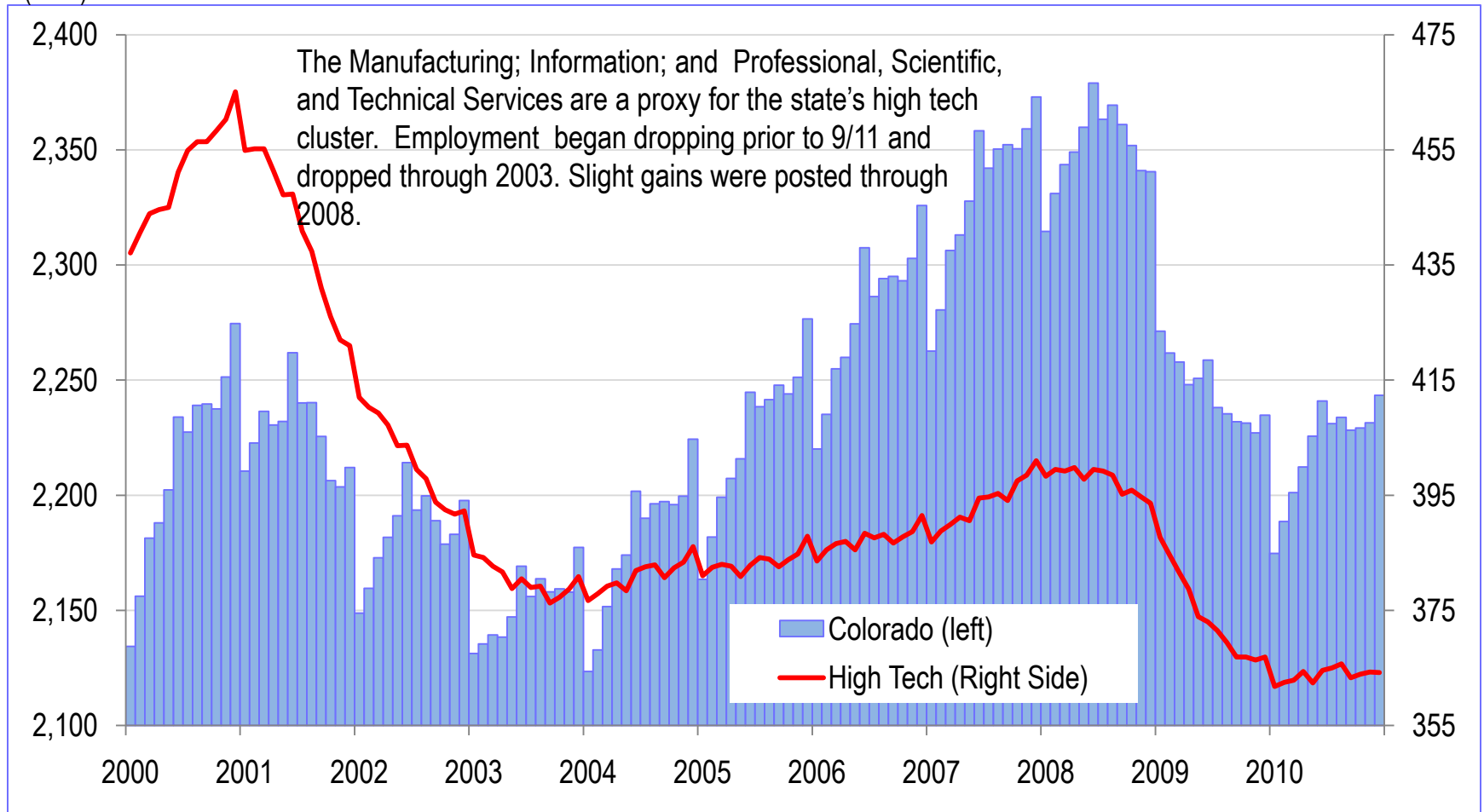
The Challenges

High Tech
Construction and Real Estate
Financial Activities
Retail
Education

Colorado Employment vs. High Tech Employment

(000s) Colorado

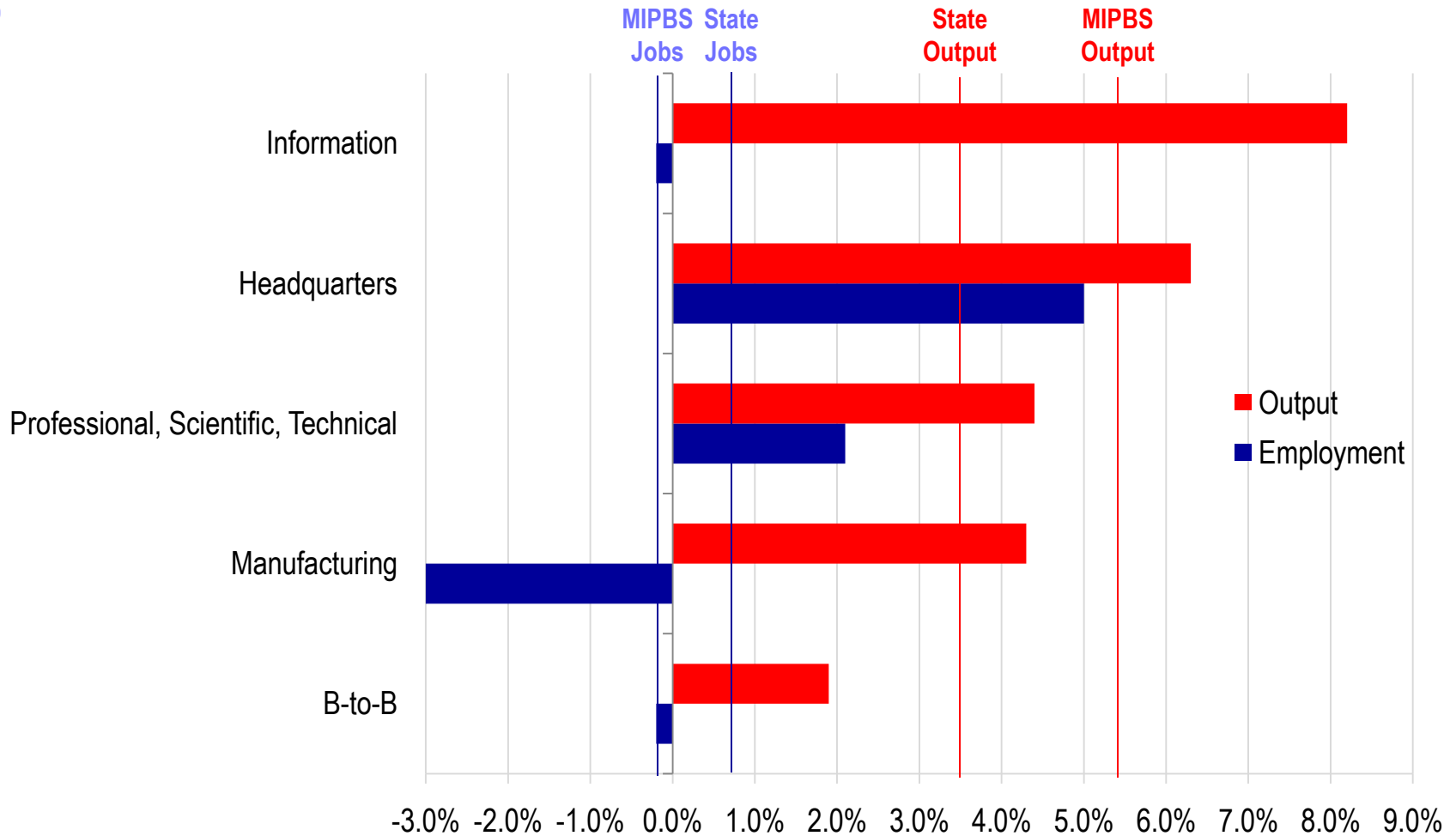
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Source: LMI.

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Annualized Growth of Colorado Output and Employment (1997 to 2010) - MIPBS



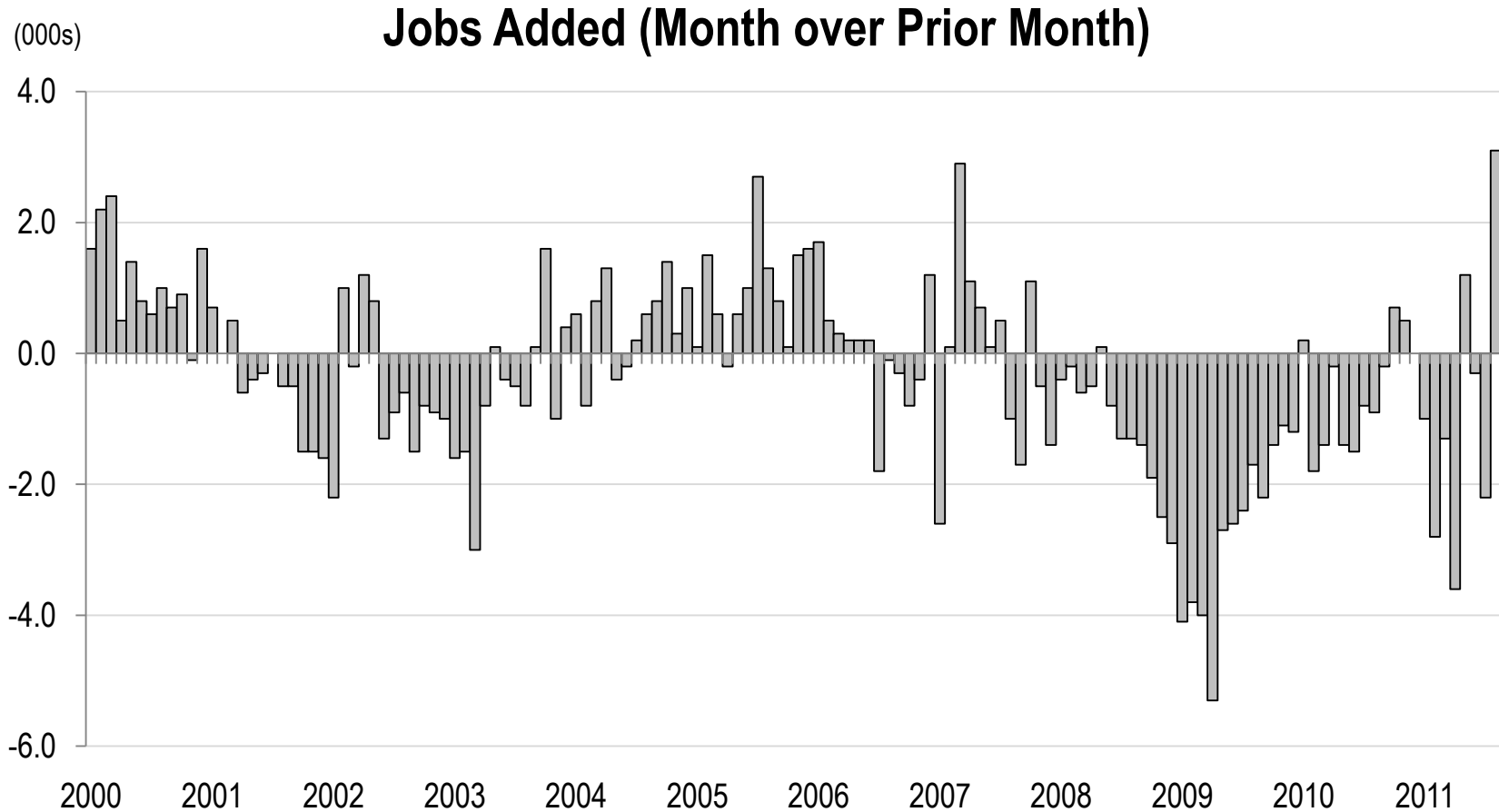
Source: Bureau of Labor Statistics, Bureau of Economic Analysis.
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High Tech/MIPBS Questions

- Has Colorado lost its critical mass of high tech companies and employees?
- Has Colorado lost the supply chain associated with these companies?
- Increased productivity has produced output gains, but reduced demand for labor? What will be the impact on future labor demand? How much longer can we lose jobs and increase output at a rate greater than the state average?
- How will Colorado meet the changing needs of MIPBS companies and workers?
- What is being done to retain and attract high tech companies and their workforce?

Manufacturing, Information, and Professional Business Services (MIPBS)

Colorado Construction Employment Situation



Source: Bureau of Labor Statistics, SA.
Colorado-based Business and Economic Research

Concentration of State Construction Workers Declining

Because it is difficult for geographically large states to develop distinctive competencies in construction, the location quotient should be near 1.0.

During the 1980s, the Colorado single family market was drastically overbuilt.

As a result, its location quotient for construction workers was below 1.0 through mid-1991. The concentration of construction workers increased for the next 10 years (2001) to about 1.5 in 2001.

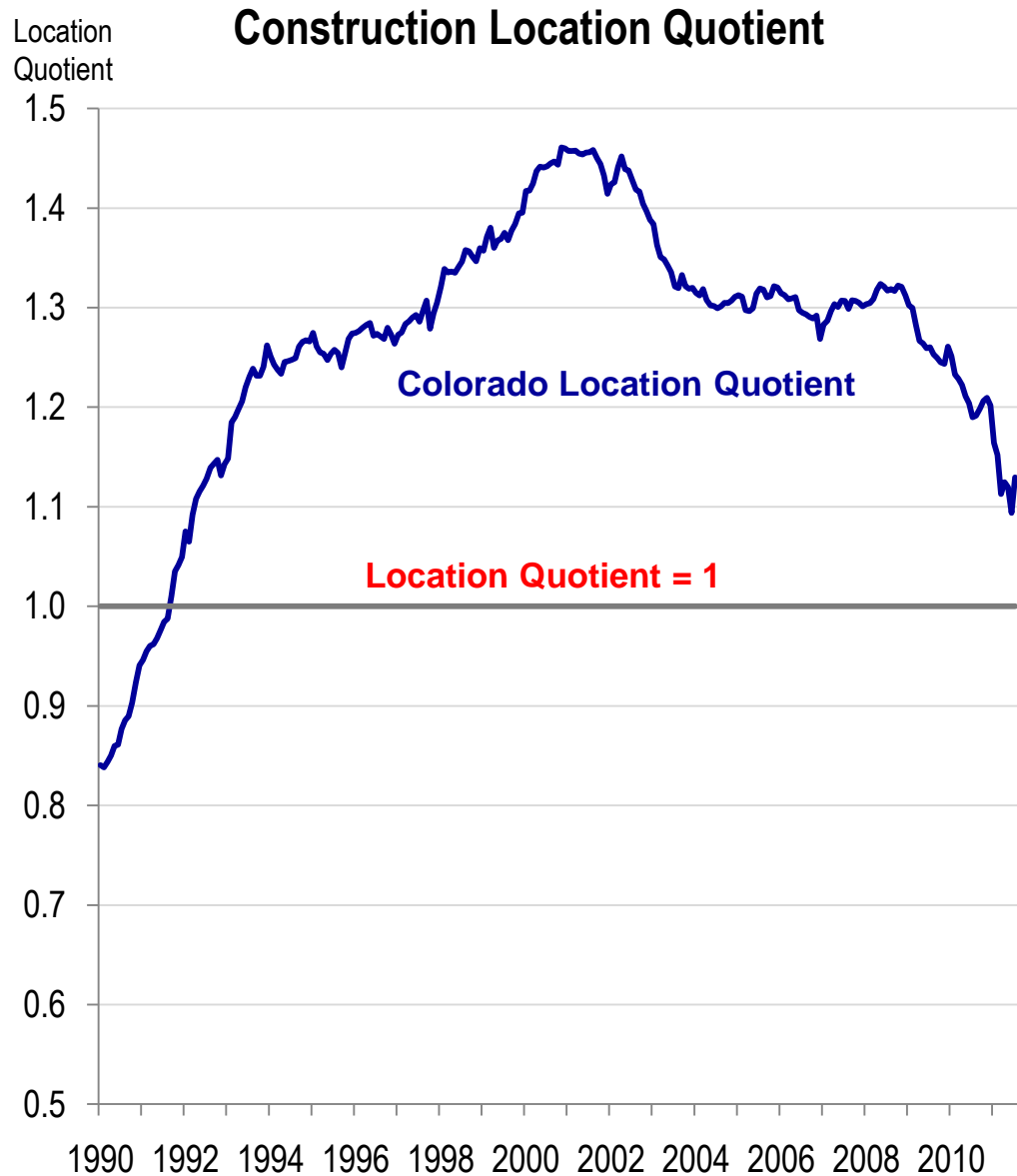
In early 2001, the location quotient began declining and dropped off sharply for three years (2004). It leveled off for five years, then plummeted again in 2009.

Construction is an industry that has a strong presence in a number of Colorado's counties.

Note: Location quotient based on all wage and salary workers.

Source: Bureau of Labor Statistics, SA.

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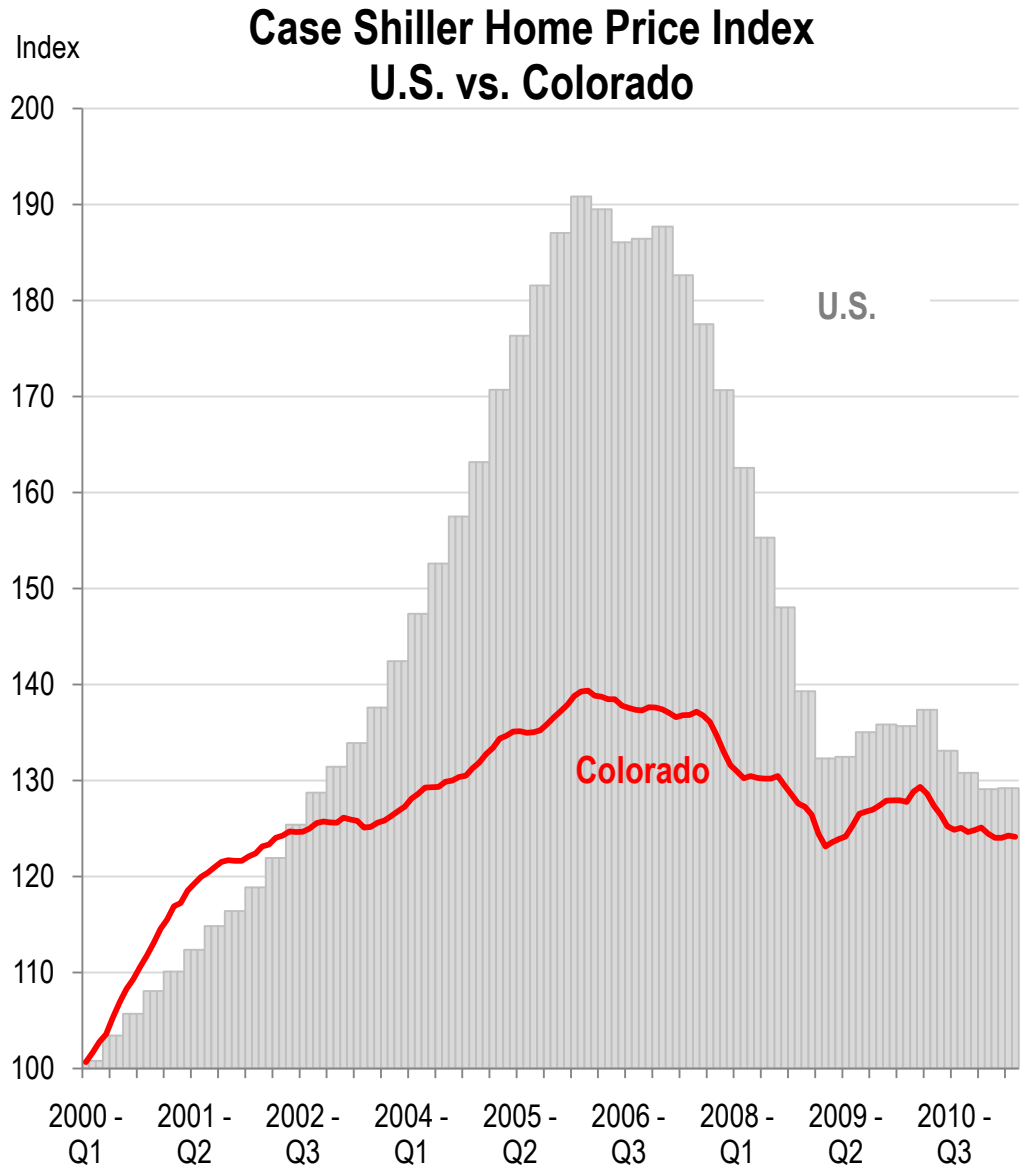


Colorado Housing Prices Remain Flat



Over the past decade Colorado housing prices did not accelerate at the same rate as the nation.

For the most part, the lack of steep appreciation during the first half of the decade has been to the state's benefit during and after the recession. Colorado housing prices have been less volatile than other parts of the country.



Source: Case-Shiller, SA.

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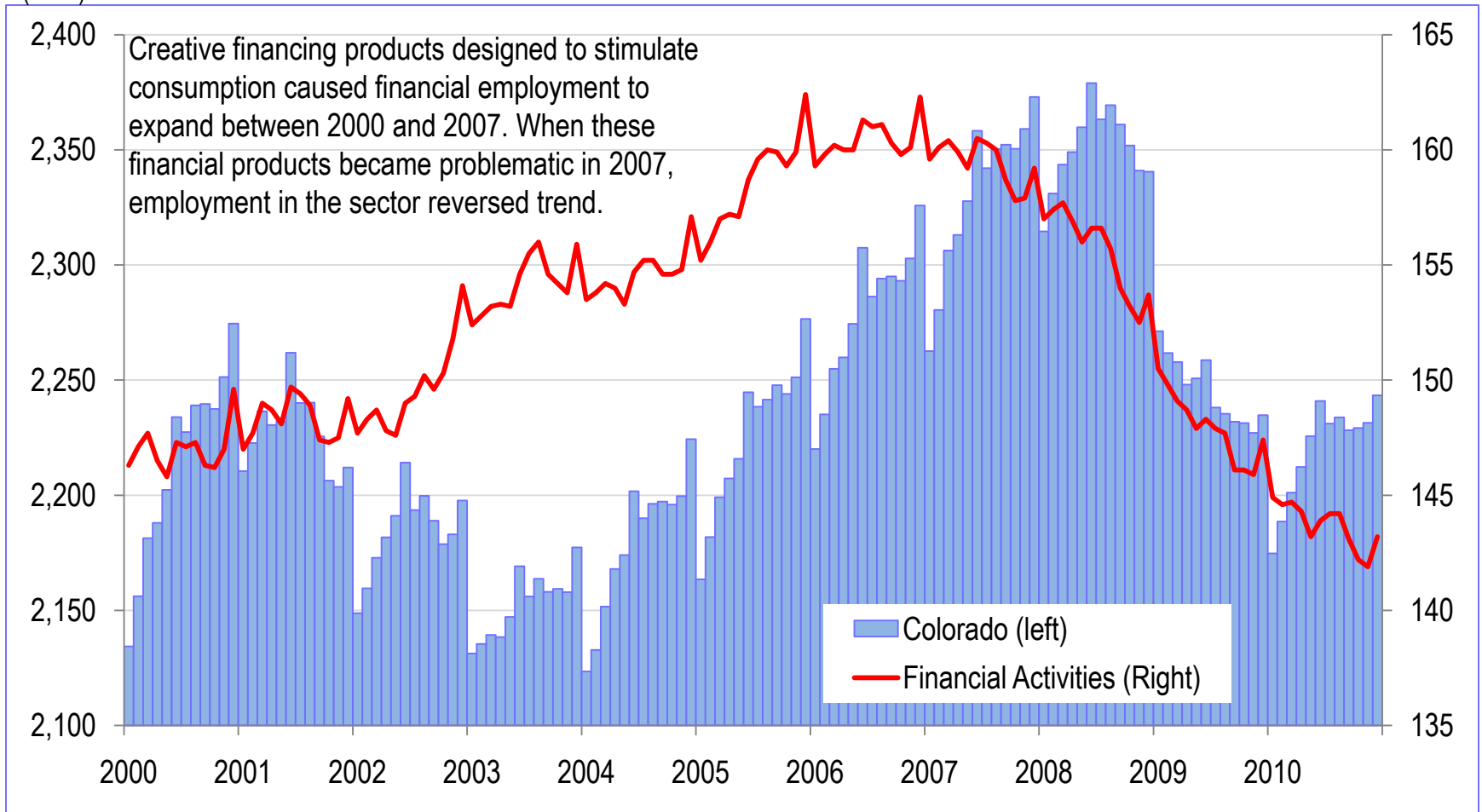
Construction Questions

- When will the Construction Sector recover?
- Is inflation going to make the matters worse by raising the cost of construction?
- What is the impact of multifamily construction on single family construction?
- Is it realistic to think that every American should own their home?

Colorado Employment vs. Financial Activities Employment

(000s) Colorado

(000s)



Source: Bureau of Labor Statistics.

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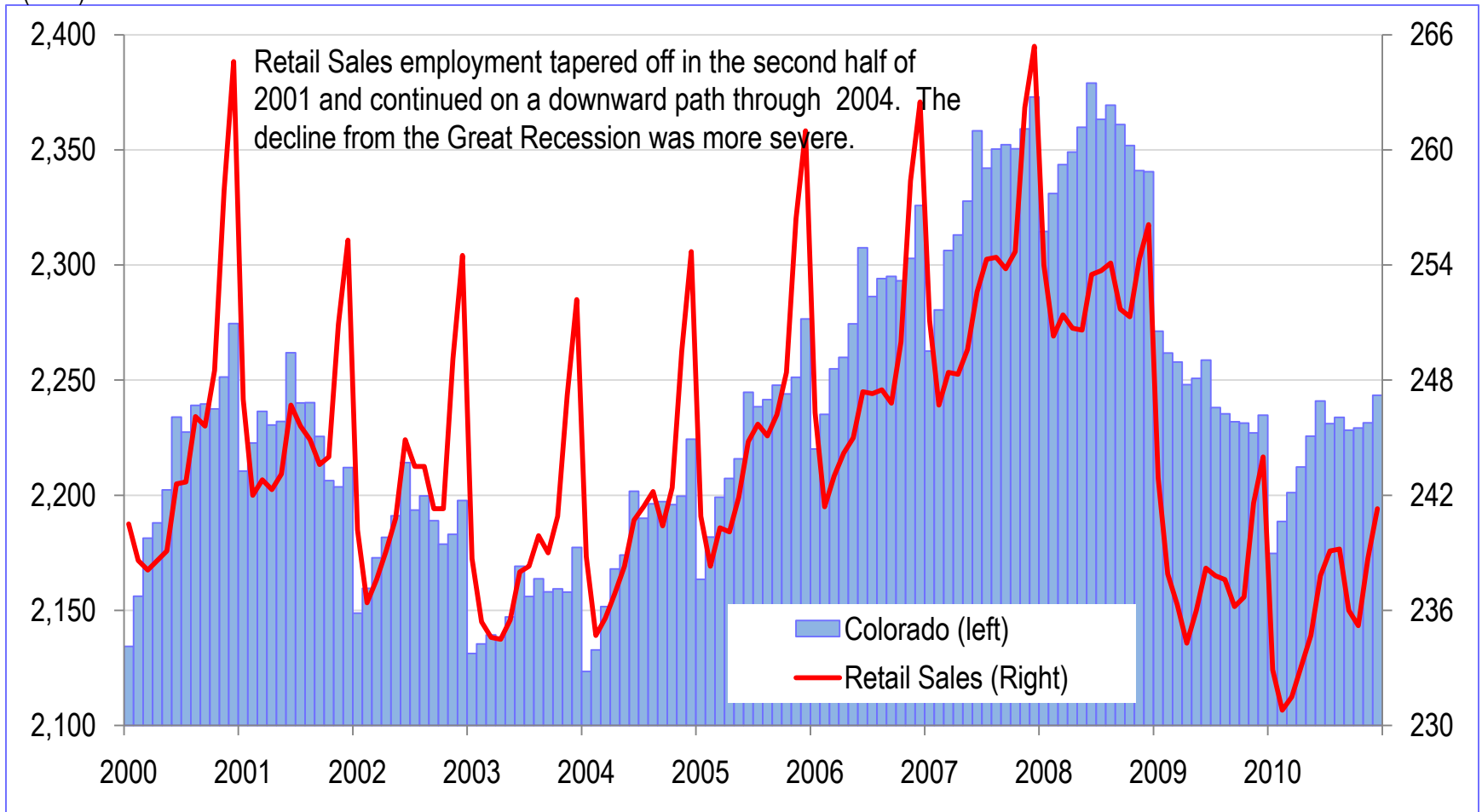
Financial Activities Questions

- When will the consumer become sufficiently deleveraged?
- How much more restructuring in the financial sector is going to happen (bank closures, foreclosures, etc.)?
- Are the banks lending?
- Do companies really need to borrow money when they can currently manage the demand for their goods and services?
- There are many companies who are performing well. Some are stockpiling their money. Is that appropriate? What are they going to do with it when economic times improve?
- Does Colorado have enough venture capital?

Colorado Employment vs. Retail Sales Employment

(000s) Colorado

(000s)





Colorado Retail Trade Sales



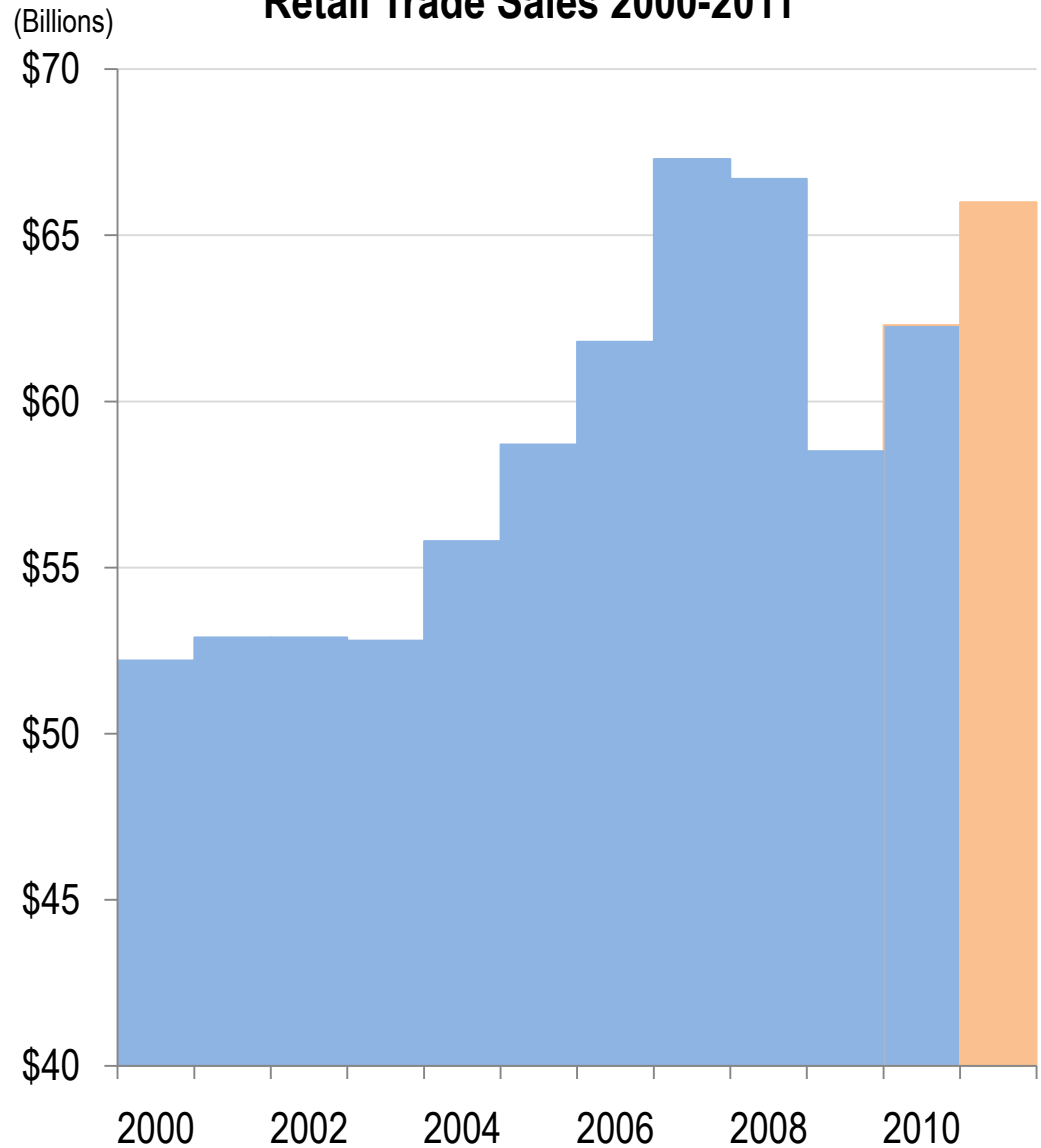
- Retail Trade Sales increased from \$52.2 billion in 2000 to \$66.0 billion in 2011.


- The annualized increase in sales for this period is about 2.2%.

- The annualized increase in the CPI for this period is about 1.8%.

- In 2012 we might reach the 2007 peak for sales (not adjusted for inflation).

Retail Trade Sales 2000-2011



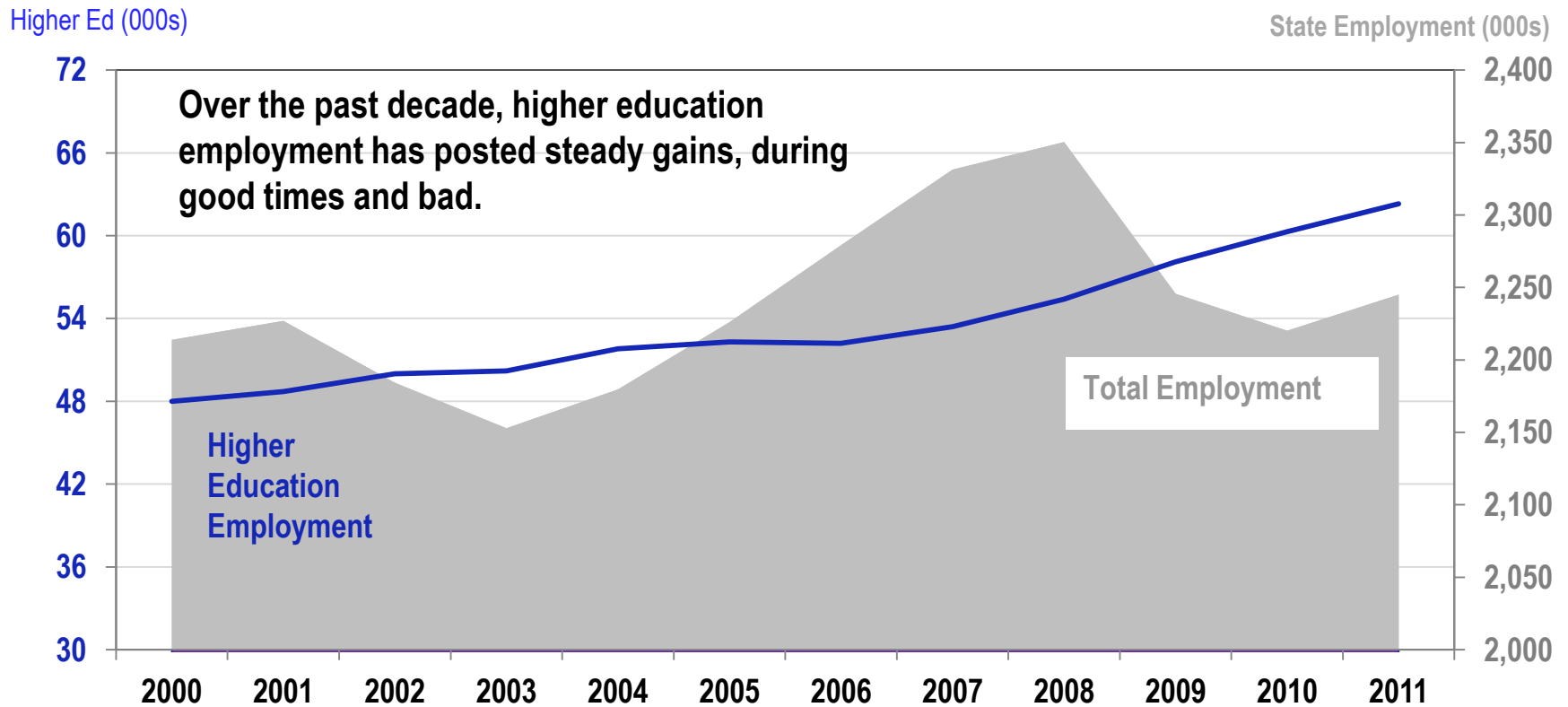


Retail Questions

- Is the Colorado retail market saturated?
- How have Colorado retailers stayed in business over the past decade?
- How have Colorado retailers increased productivity?
- How much are holiday sales going to increase this season?
- What are governments, that are dependent on retail sales taxes, going to do to diversify their revenue streams?

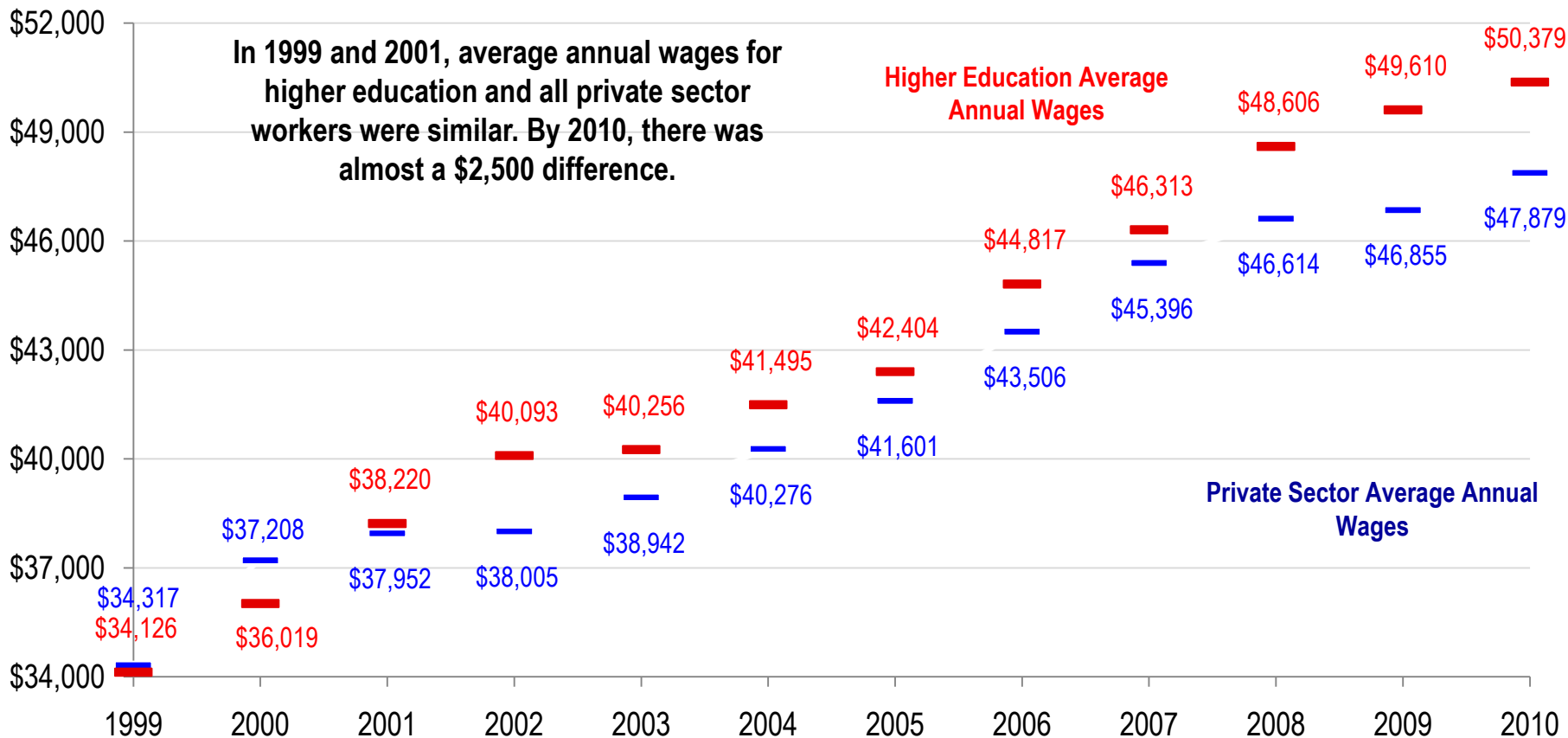
Colorado Higher Education Posted Steady Job Growth During Recessions

Colorado State Education Employment (Higher Education)



State Education (Higher Education) vs. Colorado Average Annual Wages (Private)

\$ Avg. Annual Wages

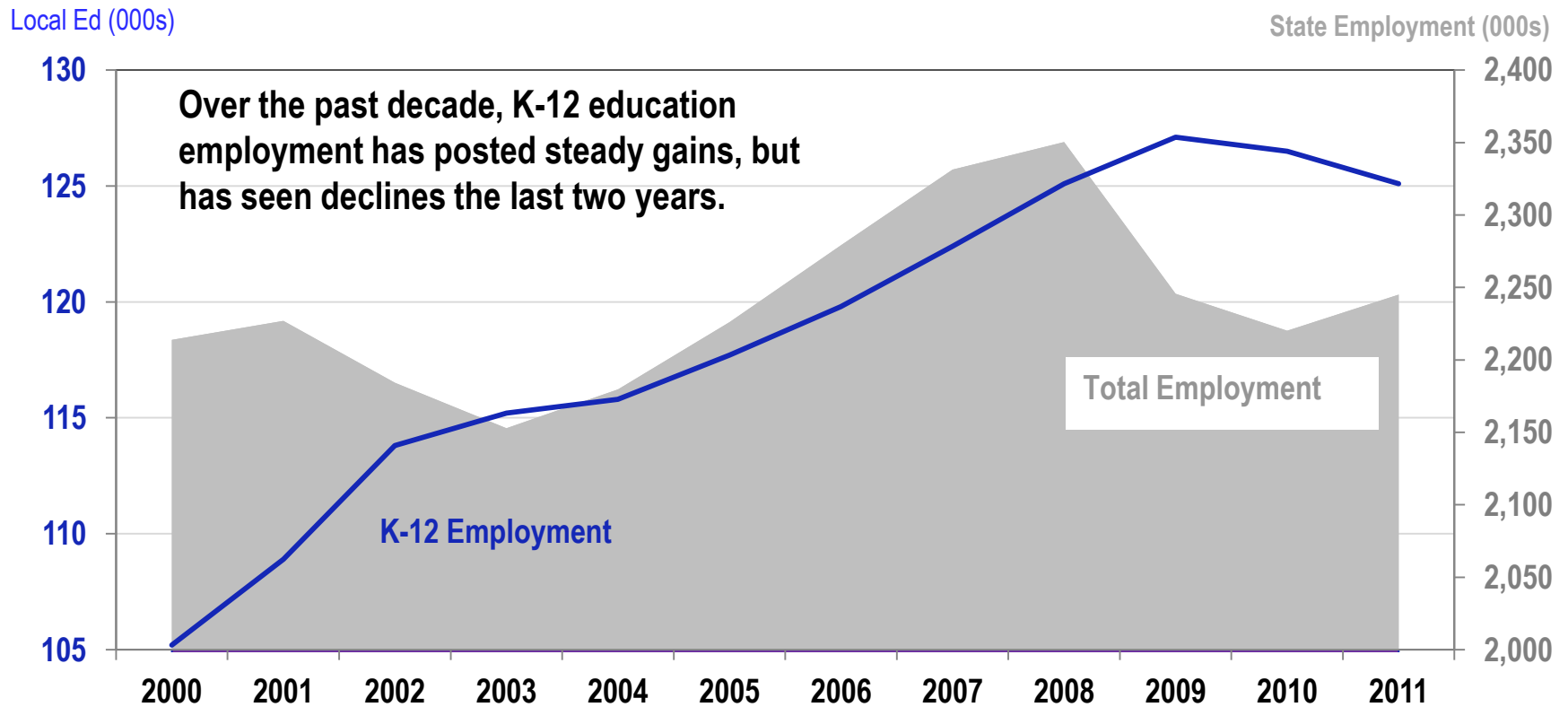


Source: Bureau of Labor Statistics.

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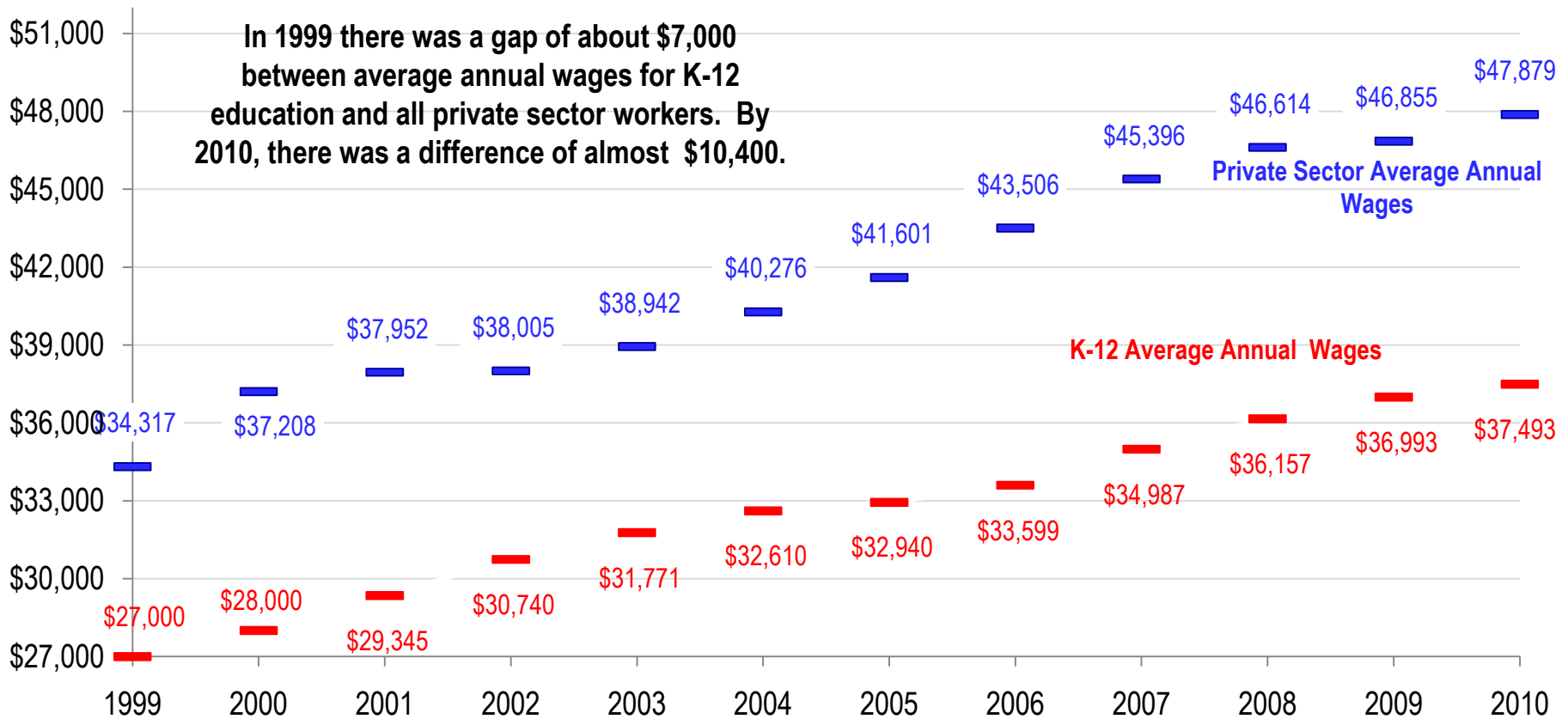
Colorado K-12 Education Posted Steady Job Growth During Recessions

Colorado Local Education Employment (K-12 Education)



State Education (K-12 Education) vs. Colorado Average Annual Wages (Private)

\$ Avg. Annual Wages



Education Questions

- How are we going to pay for education?
- How can PK-20 work more closely with the private sector and workforce training programs?
- How can the universities more effectively transfer technology?
- What is the role of accountability in education, particularly higher education?



Colorado Outlook



2011 Colorado Outlook

A year ago, I projected that there would be real GDP growth (U.S.) of 2.4% to 2.9%, with the addition of 15,000 to 24,999 Colorado jobs in 2011.

GDP growth was too optimistic.

Current data suggests the that employment growth will be at the lower end of that range; however, it is believed that the BLS data model has underestimated job growth for 2011 and it will be at the upper end of that range when the data is updated in March 2012.

2012 Colorado Outlook

Reason for Optimism

Even though a slight downturn or continued sluggish growth is on tap, there is reason for optimism!

- Sectors employing about 41% of the state's workers will add jobs in 2011.
- Sectors employing about 26% of the state's workers will see little or no change this year.
- Sectors employing about 33% of the state's workers will post losses this year. If these sectors have bottomed out in 2011, they are likely to be flat or record slight gains in 2012.

Because the economy has been so weak, further deterioration in key sectors is unlikely if not impossible. Moderate employment growth of 30,000 to 35,000 workers is possible for 2012.



Colorado Economic Analysis and Outlook Through August 2011

This analysis is for informational purposes only. Any opinions or interpretations of data are those of the presenter. As such, they do not represent the viewpoints of any group or particular organization.

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Factors that will Affect the Economy in in the Second Half of 2011

National and International

Positive

- Sustained output growth, although it is weak.
- Employment gains will eventually lower unemployment rates.
- Overall stronger manufacturing activity.
- Revenues are improving for state and local governments.

Concerns

- Debt and Deficits – U.S. and abroad!
- Mixed consumer confidence.
- No recovery for the housing market this year.
- Wage gains remain meager.
- Revenue increases may not be keeping up with costs; state and local government budgets are being cut – the easy cuts have been made.
- Rising inflation and the fear of inflation.
- The 2012 presidential campaign has begun.

Colorado

Positive

- Jobs are slowly being added and the unemployment rate (a lagging indicator) has peaked.
- The largest job gains will be seen in the Professional Business Services, Health Care, Tourism, and the extractive industries.
- Retail sales will post modest gains.

Concerns

- Fewer firms are being created; possible loss of innovation.
- Fewer primary jobs.
- Net job gains are a result of weak gross jobs added and a sharp decline in gross job losses.
- Sectors that will be a drag on the economy:
 - Construction
 - Financial Activities
 - Information
 - Advanced Technology
 - PK-12 Education