



Colorado Economic Analysis and Outlook Through August 2011

Prepared by Colorado-based Business and Economic Research

September 18, 2011



National Economy

GDP, Employment, Unemployment

Overview of the Economic Landscape

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

- In short, 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.
- On August 11, the Conference Board indicated the chances of a recession are less than 1-in-3. They has since raised the odds to 45%.

Real US GDP Growth

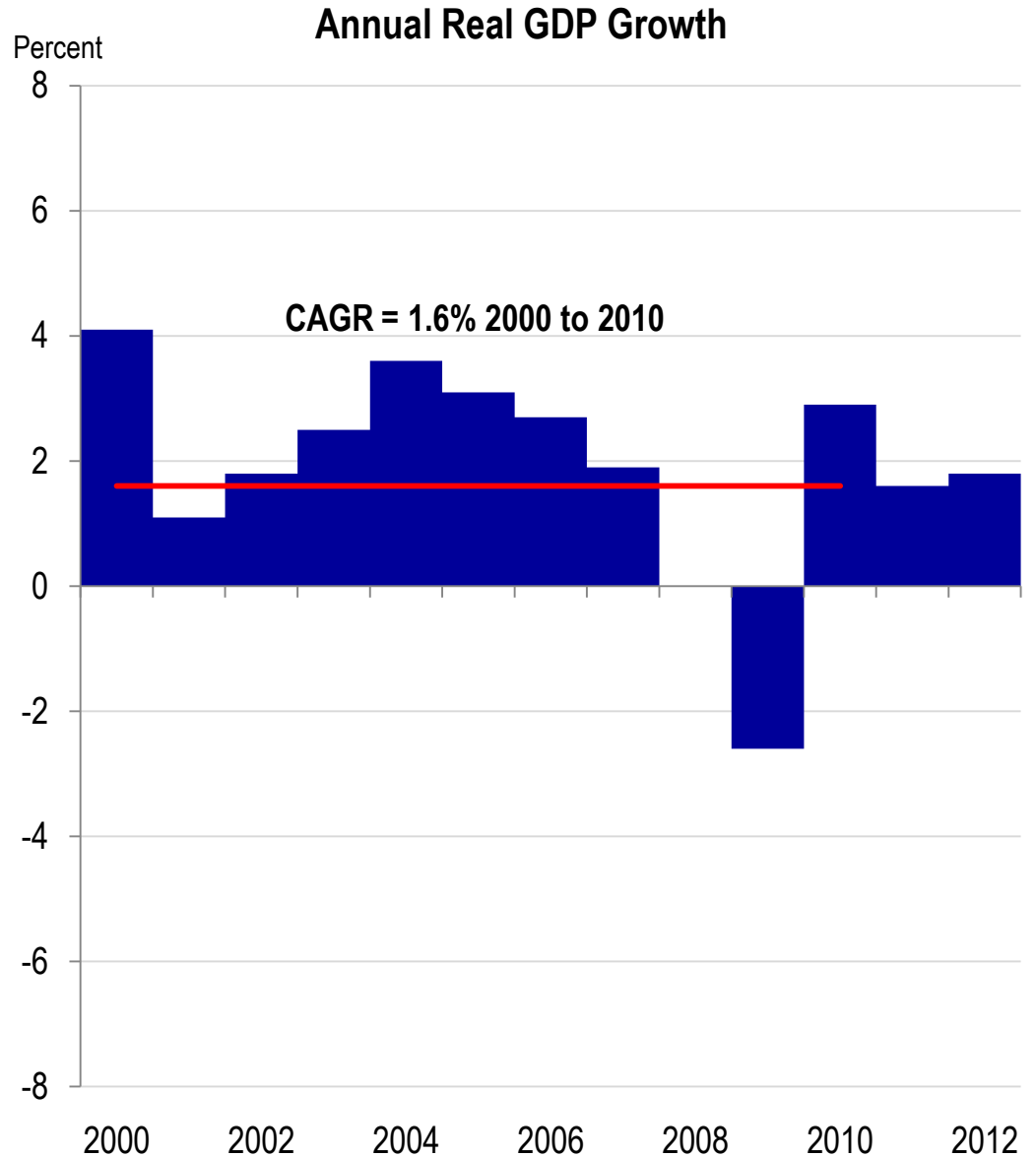
Annual

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

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

- The Federal Reserve's recent announcement that interest rates will remain low suggests slow growth through at least 2012.

- Projected Real GDP for 2011 will be less than 2.0%, with slightly improved growth in 2012.



Ho Hum... Another Month of Weak Performance

On September 16, 2011 the Bureau of Labor Statistics commented on the performance of employment at the national level:

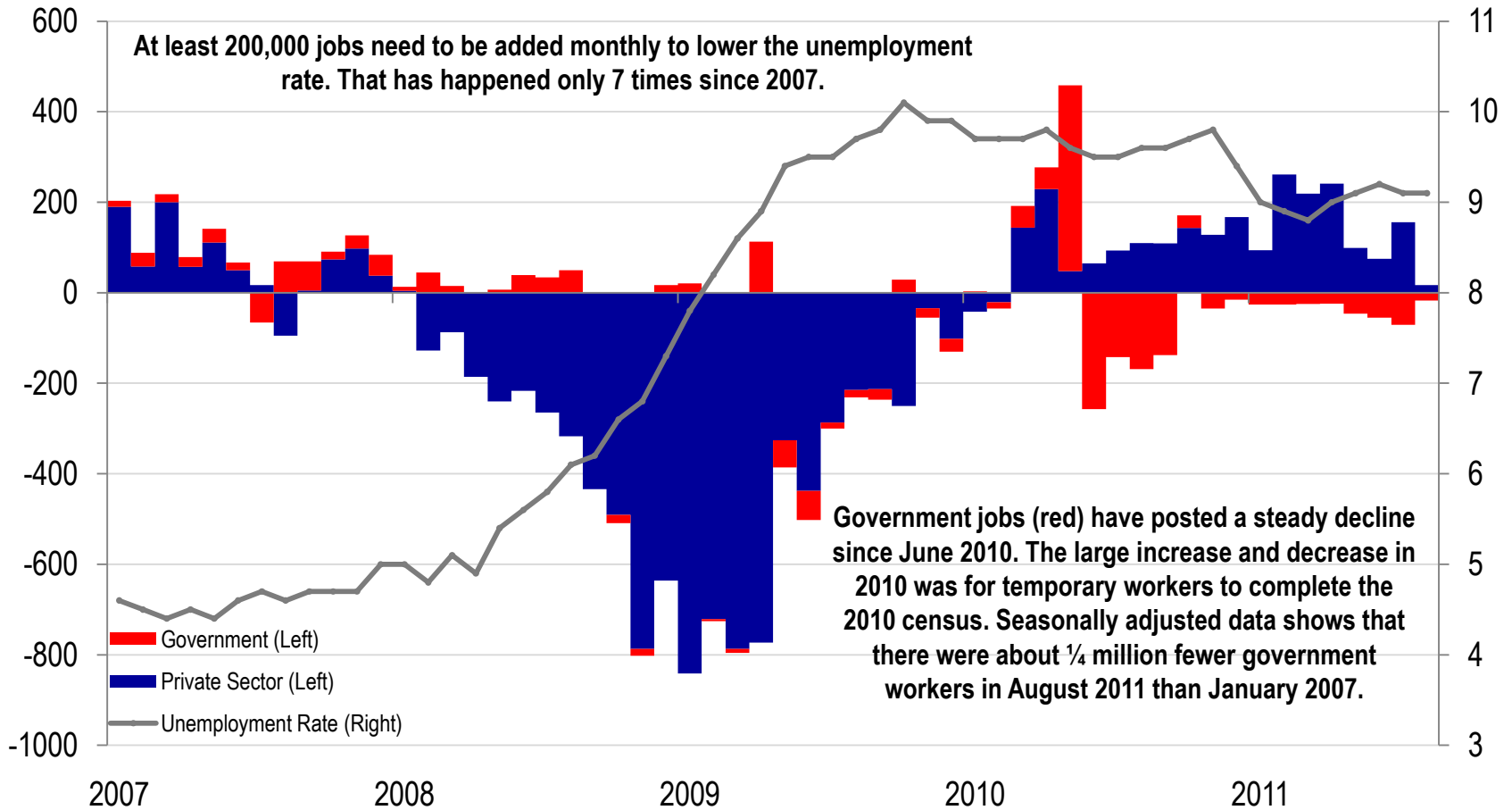
“Regional and state unemployment rates were generally little changed in August. Twenty-six states and the District of Columbia reported unemployment rate increases, 12 states recorded rate decreases, and 12 states had no rate change. Thirty-seven states registered unemployment rate decreases from a year earlier, 11 states and the District of Columbia had increases, and 2 states experienced no change. The national jobless rate was unchanged at 9.1 percent but was 0.5 percentage point lower than a year earlier.”

“In August, nonfarm payroll employment decreased in 30 states and the District of Columbia and increased in 20 states.”

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

Thousands (m-o-m)

Unemployment Rate %





Colorado Economy

Colorado Employment Data Sources
and Review Methodology

Employment Data Sources

The Bureau of Labor Statistics (BLS), Bureau of Economic Analysis (BEA), and U.S. Census Bureau produce various employment databases. In addition, the Colorado Office of the State Demographer compiles employment data for Colorado.

The BLS produces several data series (LAUS, QCEW, CES). The Current Employment Survey (CES), or nonfarm database, measures wage and salary employment. It is produced monthly, provides sector employment levels and is most frequently cited data series.

About three weeks after a month ends, the BLS releases preliminary data for that month, plus revised data for the previous month. For example, around September 20th, preliminary state employment numbers are released for August and data for July is revised.

In March of each year, additional updates are made to the prior year and “final” updates are made to the previous year. For example, in March of 2011, the 2010 data was revised and the 2009 data was “finalized.” All final data is subject to change; however, such changes happen infrequently.



CES Projections

Within the past year the methodology for calculating the CES or nonfarm series was changed.

It is believed that the newly adopted model produces data that is valid over longer periods of time and for larger data sets. The new model may introduce volatility, that may not actually exist, over shorter periods of time and for smaller sectors or MSAs.

This is a long way of saying that a portion of the volatility reflected in the 2011 data may be attributable to the model used to produce the data.

Despite any possible errors associated with the model, the data series accurately reflect the fact that employment in the state is subpar.

This review attempts to analyze the data in a manner that reduces the impact of the changes in the BLS projection methodology.

Changes in employment - 2011

There are many ways to look at changes in employment using CES data. They are all acceptable, but may tell a slightly different story.

Not Seasonally Adjusted (NSA)

- Find the difference between the most current month and the same month in the prior year. ($2,239,900 - 2,222,700 = 17,200$); 17,200 jobs have been added over the past year.
- Find the difference between the most current month and the end of the past year. ($2,239,900 - 2,221,200 = 18,700$); 18,700 jobs have been added during the first eight months of the year. Jobs have been added in six of these months.

Seasonally Adjusted (SA)

- Average employment for the first eight months of 2011 vs. average employment for the first eight months of 2010. ($2,226,200 - 2,213,600 = 12,600$); average employment for the first eight months of 2011 is 12,600 greater than the same period in 2010.

The results for each of these methods of analyses is slightly different; however, they all indicate that there is weak employment growth for the first eight months of 2011.



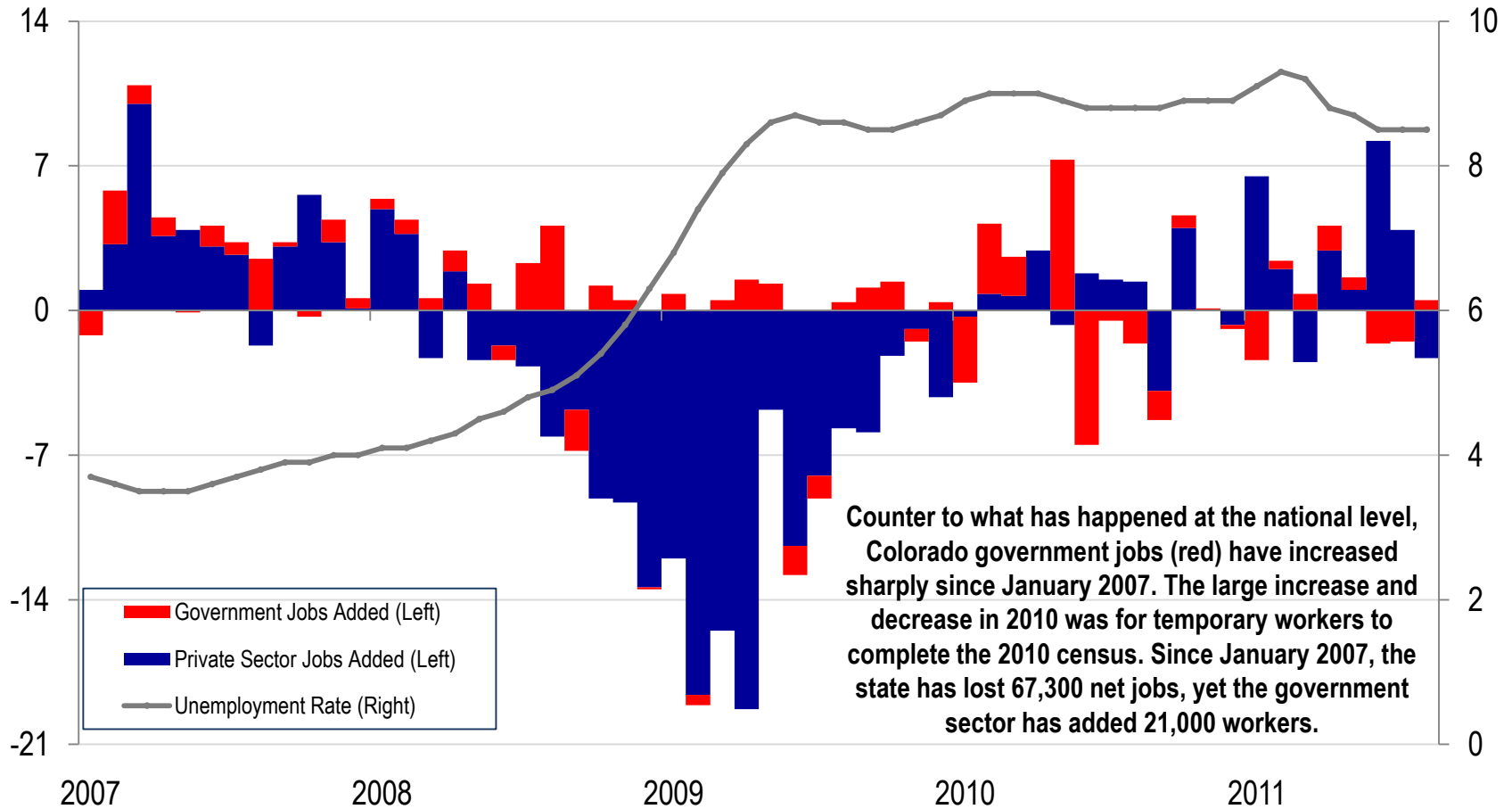
Colorado Economy

Unemployment and Employment (Gainers, No Growth, and Losers)

Colorado Public and Private Jobs Added vs. Unemployment Rate

Thousands (m-o-m)

Percent



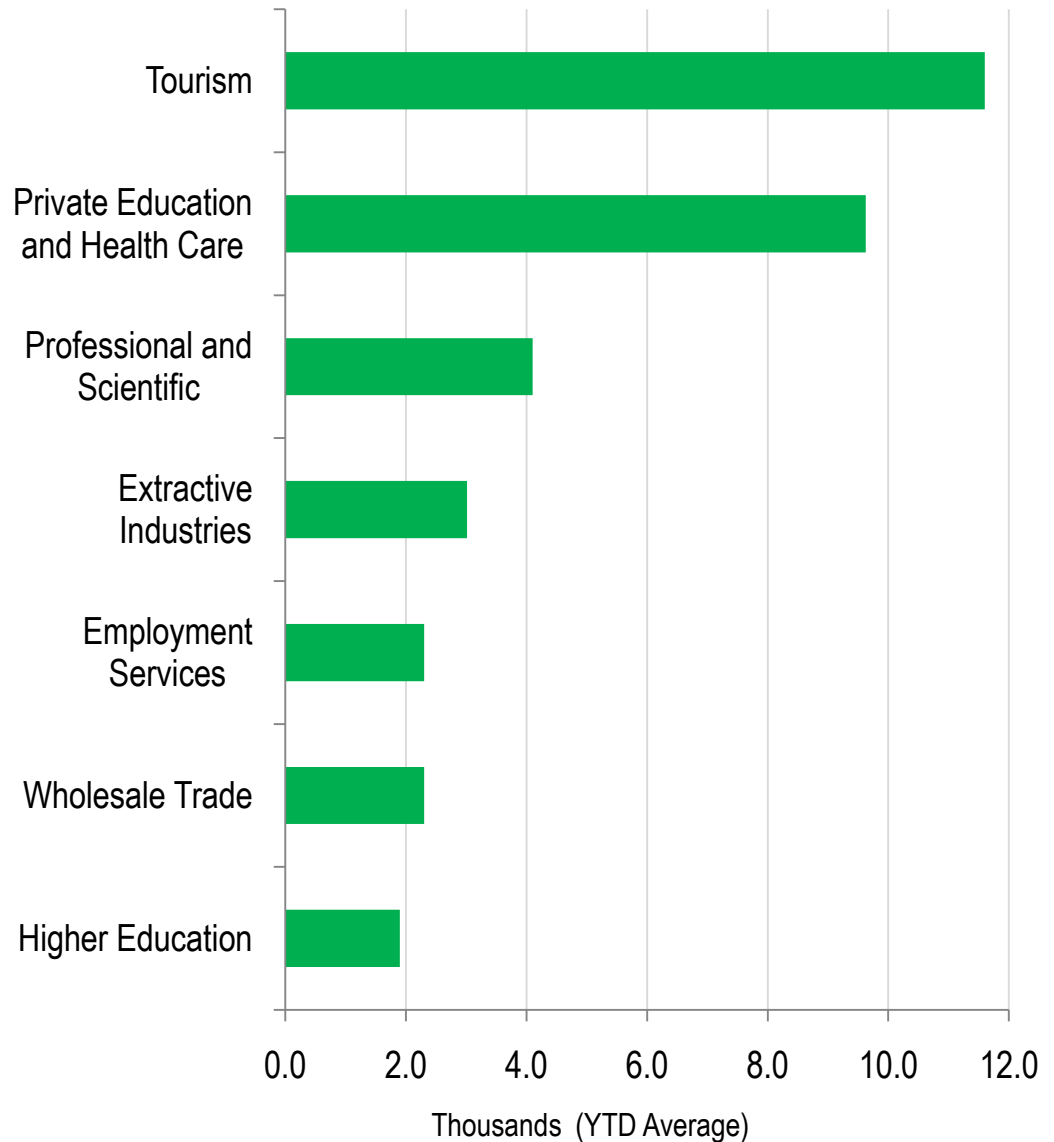
Jobs Added Through Eight Months

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.

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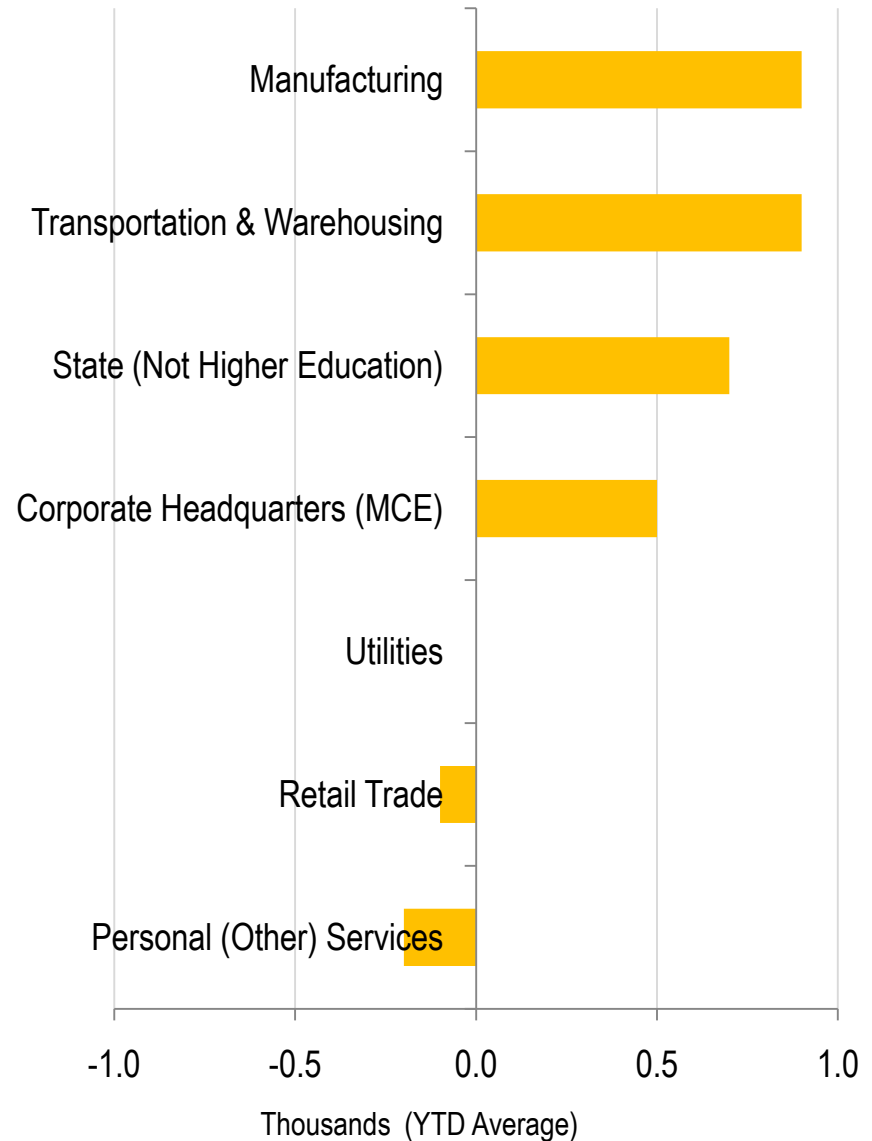
Flat

•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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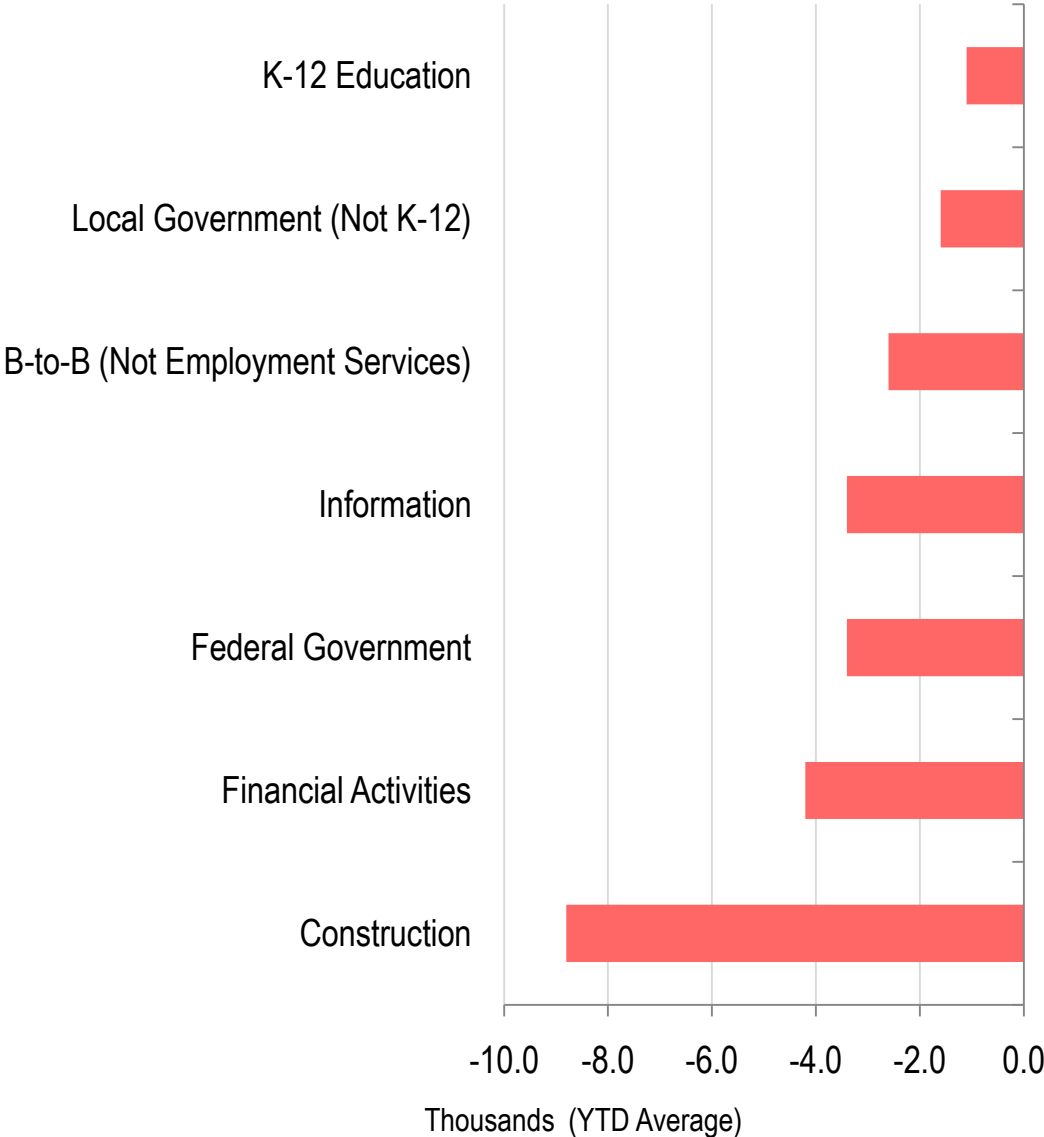
Jobs Lost Through Eight Months

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.

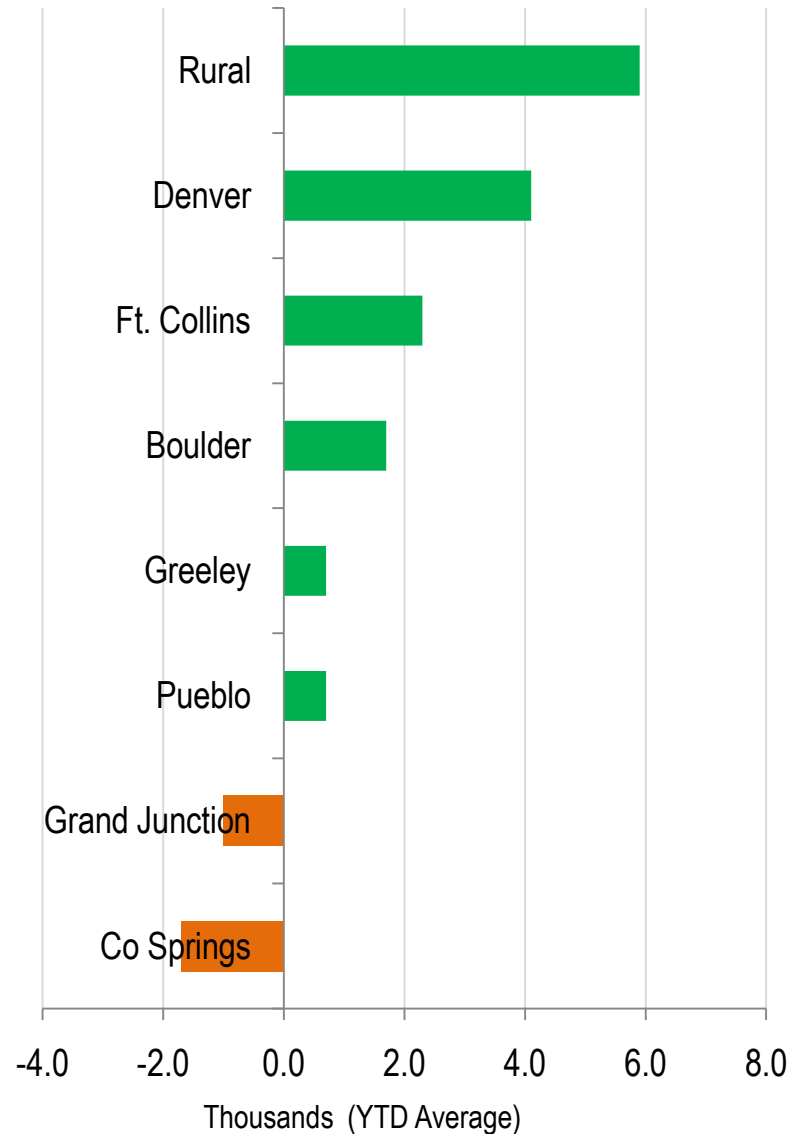
2011 prognosis - These sectors are likely to show job losses for the year.



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 Outlook



2011 Outlook

In October 2010 Broomfield-based Business and Economic research evaluated three scenarios and 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. This was the most-likely scenario.

At that time it seemed that expansion would be at the lower end of the most-likely ranges (real GDP growth of 2.4% and +15,000 Colorado employees). While the base of employment growth has expanded to more sectors and geographic regions in recent months, slower output growth, increased volatility in the equities markets, and concerns about debt will drive consumer and business confidence lower. In turn these will likely have a negative impact on sustained employment growth.

With chances of a recession increasing on a daily basis, there are increased chances that the “most-likely” scenario, stated above, is too optimistic.

- Pessimistic scenario
Real GDP 1.9% to 2.3%
Flat to 14,999 jobs.
- Hell will freeze over scenario
Real GDP less than 1.9%
Job losses for the third consecutive year.

Colorado Summary

The slight employment loss in August does not constitute a downward trend in employment for the state. In fact, it may simply represent excess volatility in the BLS projections model. Several months of downward movement would constitute a negative trend.

There is reason to be optimistic:

- 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.

The recent announcement by The Conference Board suggests that a recession is imminent within the next 12 months.



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