



Review of Colorado Economy First Ten Months of 2013

Colorado-based Business and Economic Research

November 25, 2013



Overview

This analysis reviews the performance of the U.S. and Colorado economies through the first ten months of 2013.

Nationally, about 186,300 jobs have been added on a monthly basis. The rate of job growth is slightly greater than it was in 2012.

In Colorado, job growth continues to be solid. On average 56,400 jobs have been added through the first ten months compared to the same period in 2012.

It is unlikely the current level of job growth can be sustained without greater creation of primary jobs.

This brief analysis is divided into the following sections.

- U.S. Economy
- Colorado Economy
- Questions and Answers
- Summary

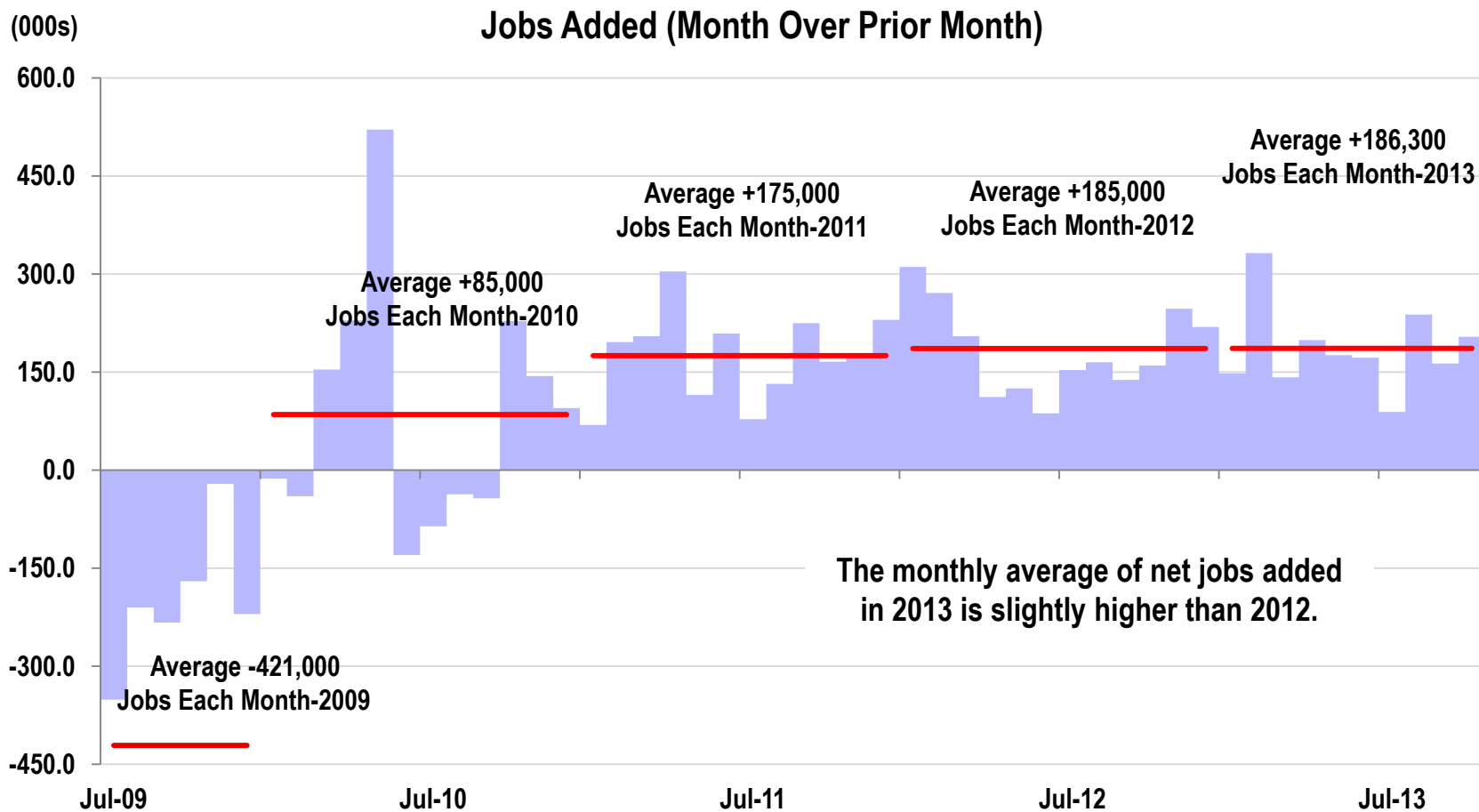
The 2013 CBER forecast can be found at <http://cber.co/CBEReconomy.html>.



United States Economy

U.S. Employment Situation

From End of Recession to Current



Source: Bureau of Labor Statistics, SA.

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U.S. Unemployment Rate and Number of Unemployed

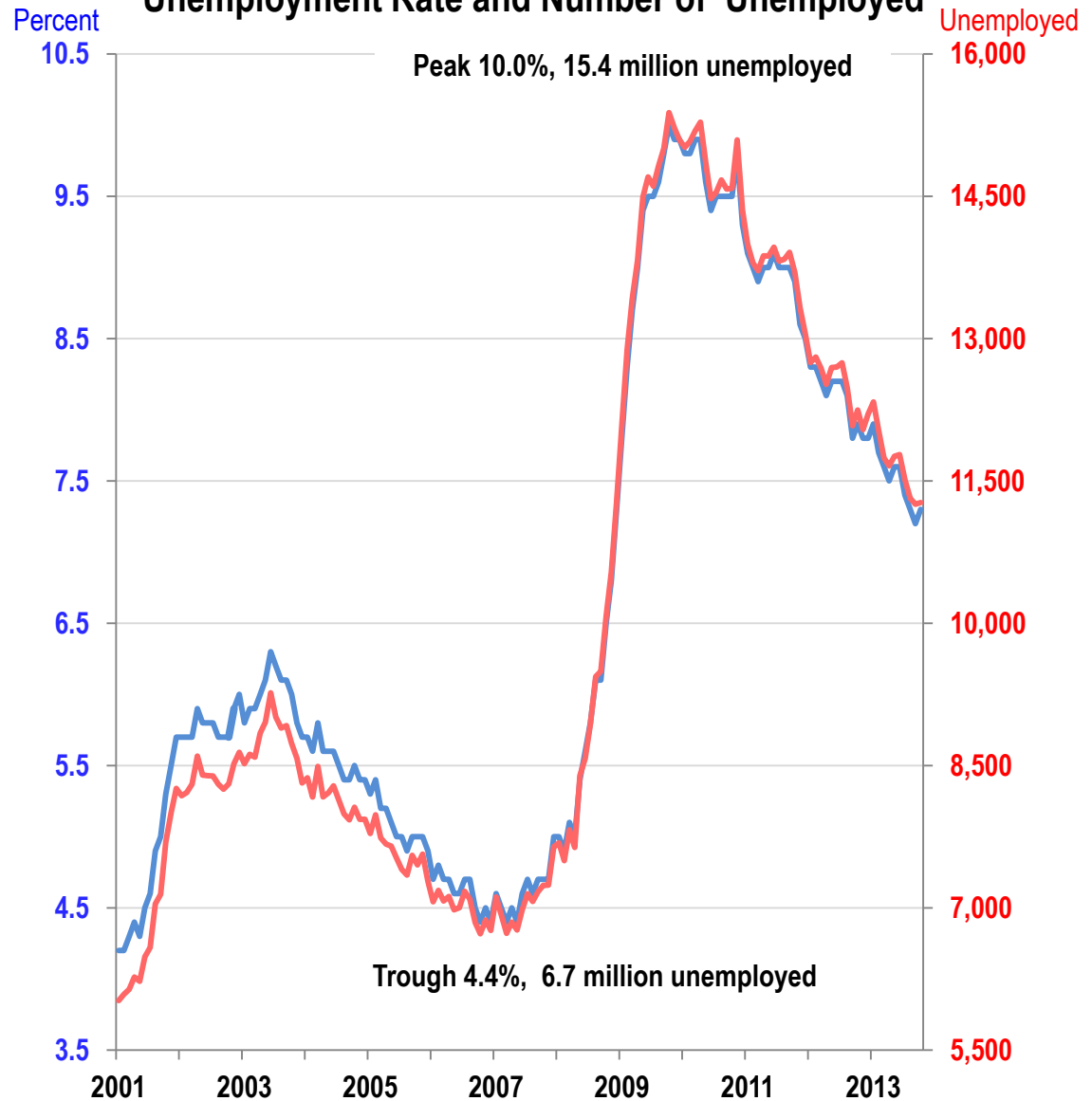
Both the unemployment rate and number of unemployed have slowly trended downward since peaking in late 2010.

At the end of October 2013, the unemployment rate (blue) was 7.3%.

The total number of unemployed (red) ticked up, but remained below 11.3 million. This is 4.4 million above the low point in 2007, but only 4.1 million below the high point in 2009.

Given weak GDP growth, does this drop in the unemployment rate overstate the strength of the U.S. economy? Does this decline understate the difficulty some industries are having finding qualified workers?

Unemployment Rate and Number of Unemployed

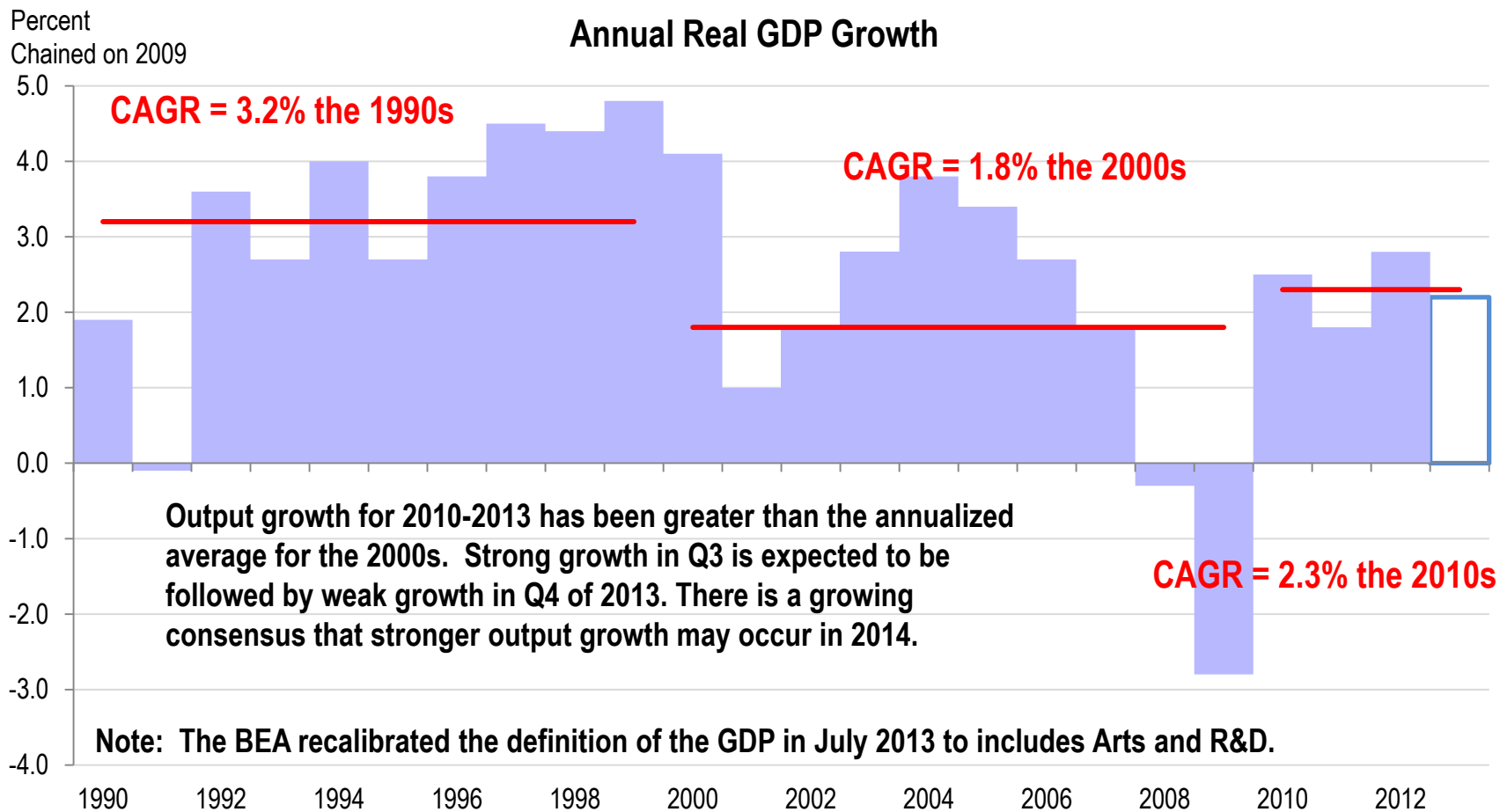


Source: Bureau of Labor Statistics, SA, CBER.

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Real US GDP Growth

Annual



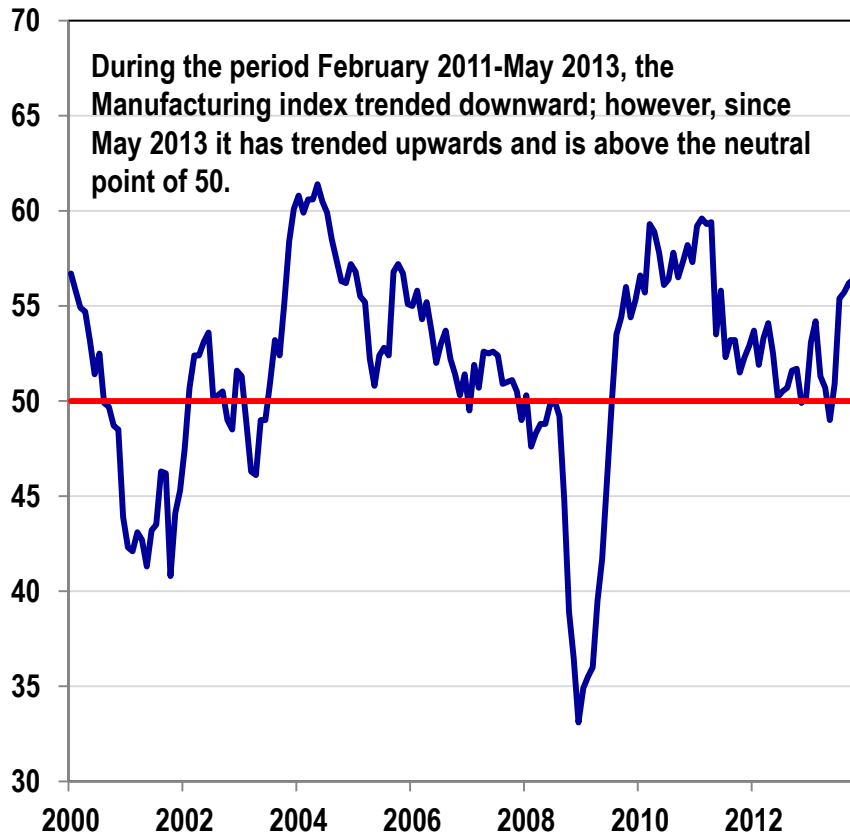
Source: Bureau of Economic Analysis, The Conference Board, CBER.

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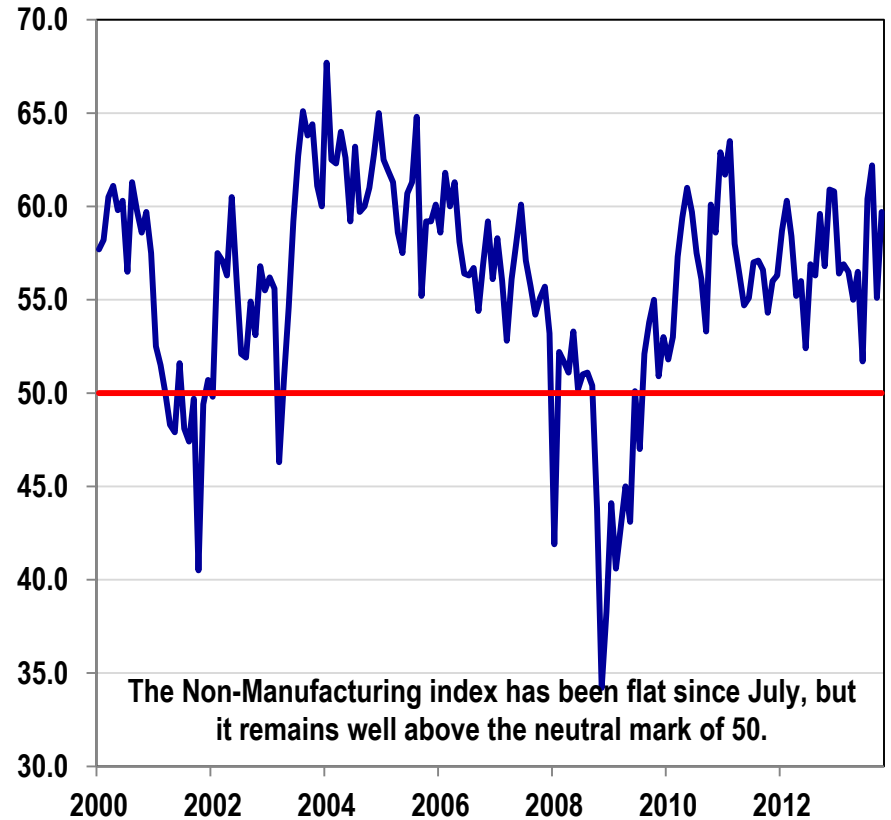
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ISM Indices

ISM Manufacturing Composite Index



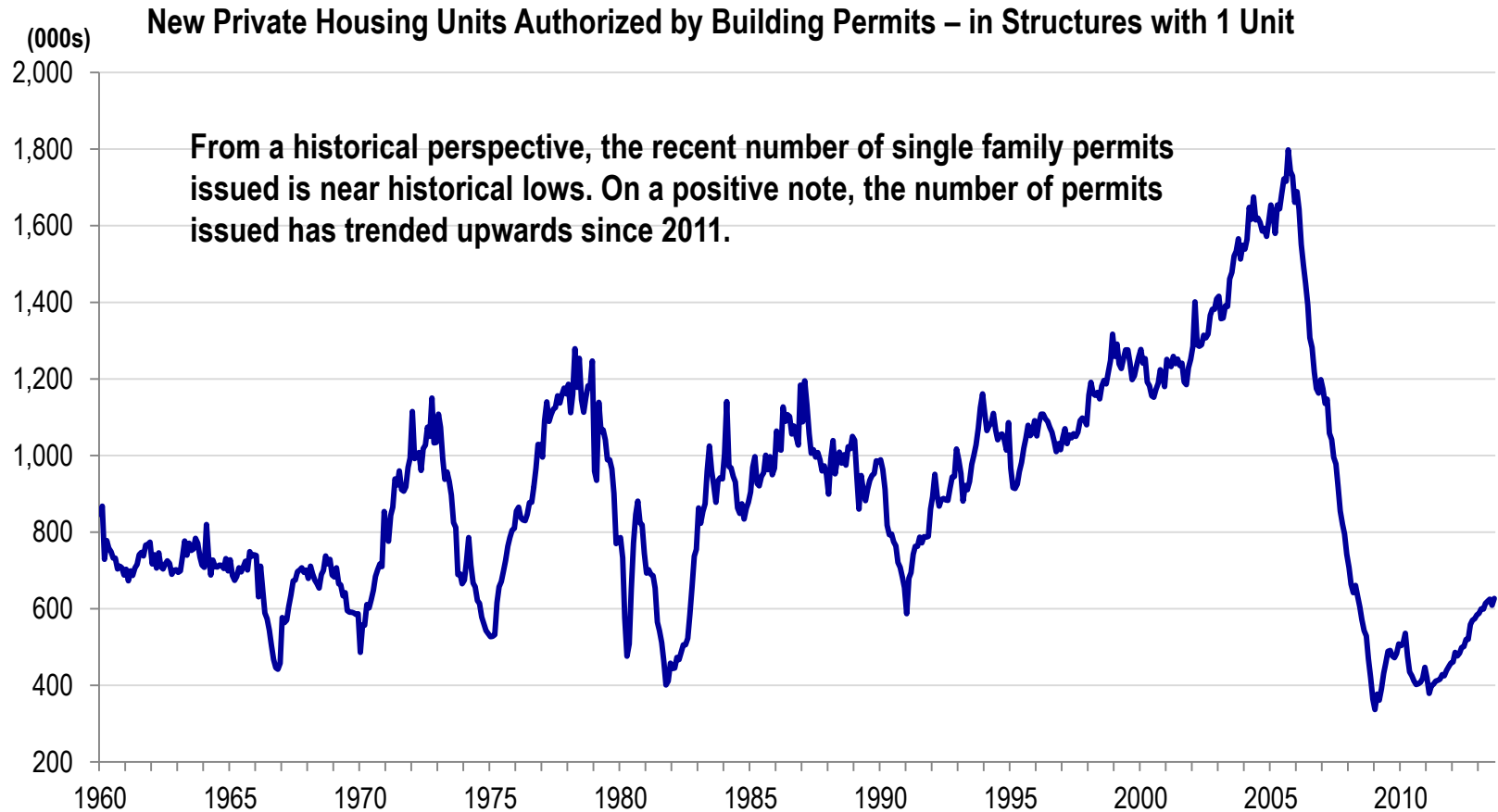
ISM Non-Manufacturing Index-Business Activity



Sources: Institute for Supply Management (ISM), FRED.

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Single Family Housing Permits

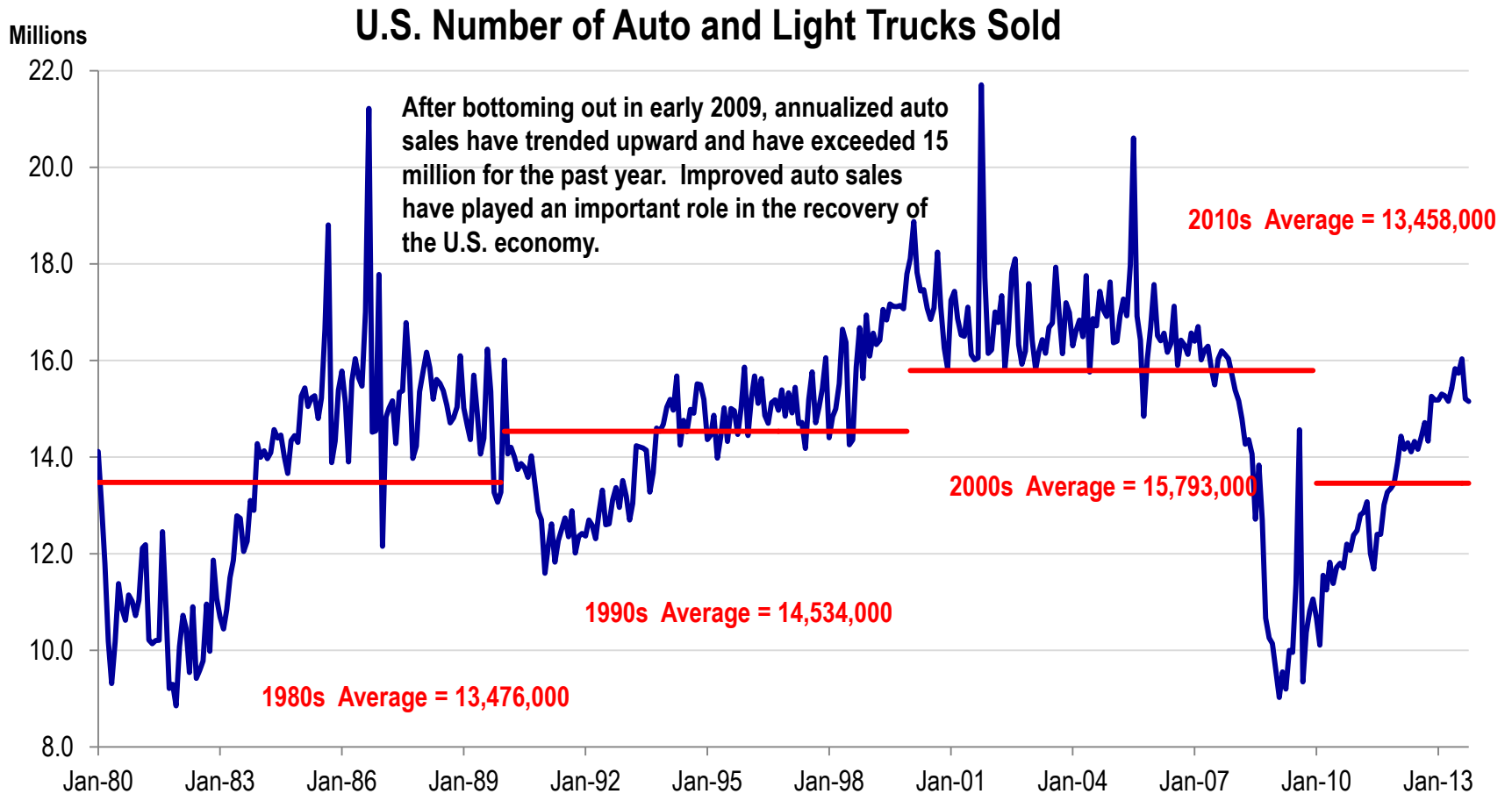


Source: FRED, Department of Commerce.

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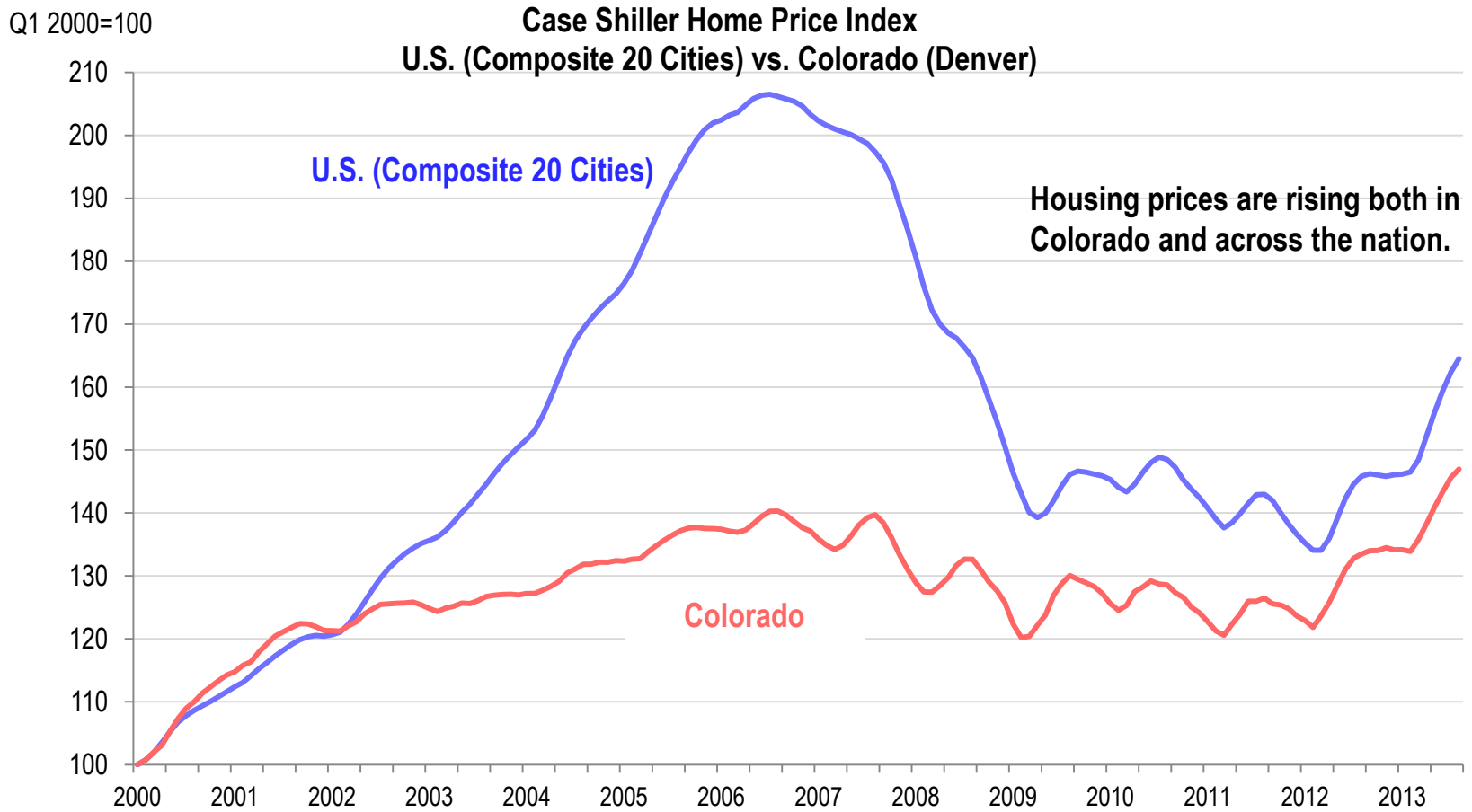
Weekly Auto and Light Truck Sales



Source: FRED, Department of Commerce.

Housing Prices – Case Shiller

U.S. vs. Denver



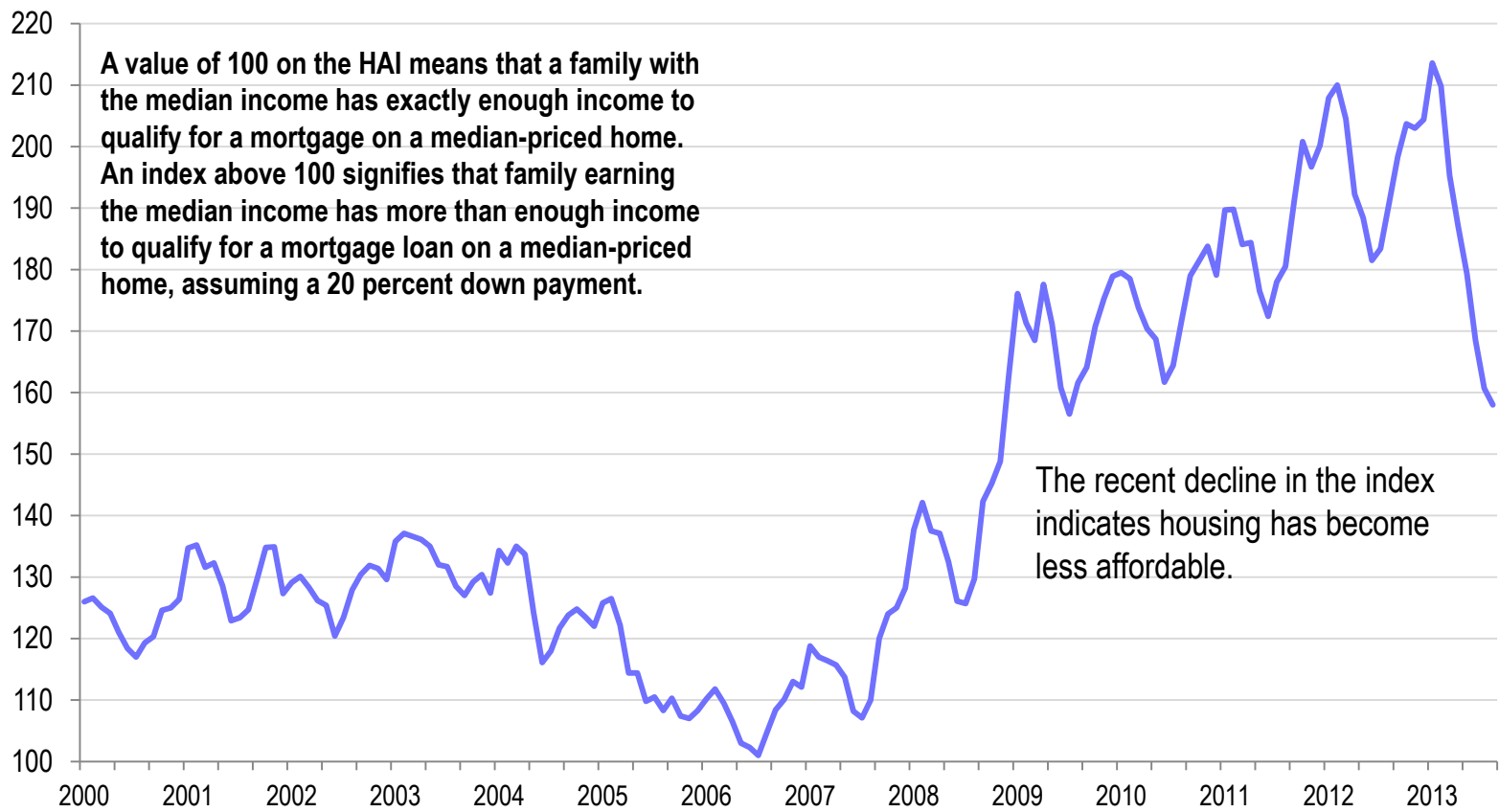
Source: S&P Case-Shiller.

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Housing Affordability Index

U.S. Housing Affordability Index (Composite)



Source: FRED, NAR, NSA.



Summary of the U.S. Economy

The U.S. economy has added about 186,300 jobs a month through October of this year.

The Good News

- After a decline in August, the equities markets have bounced back and reached record highs.
- The construction and automotive industries have provided a foundation for growth in the economy.
- Q4 output growth is expected to be weak.
- Output and job growth will continue to be subpar; however, they are positive. Most economists believe that 2014 will be stronger than 2013 for both.
- In the next 18 months, output growth will be driven by improved housing starts, consumer spending, and capital expenditures.

The Challenges

- It now looks like the Federal Reserve will begin to taper their bond buying program in Q1 2014 – at the earliest. Time will tell whether this will have a positive or negative impact on the economy.
- Rising interest rates and increased real estate values may dampen new and existing home sales.
- Companies will be challenged to find new ways to increase productivity.
- The 2013 Real GDP will be less than 2.0% - Ugh!
- The roll out of the Affordable Care Act and the budget/debt ceiling debacle helped push approval ratings for many political leaders to record lows.
- Holiday sales are expected to be weaker than last year – sales will increase by 3.0% to 3.4% over last year.



Colorado Economy

Colorado Unemployment Rate and Number of Unemployed

Both the unemployment rate and number of unemployed workers have trended downward since late 2010.

At the end of October 2013, the unemployment rate (blue) was 6.8%. Since March the rate has varied between 6.8% and 7.1%. This is lower than the U.S. rate, but the difference is not statistically significant.

In October 2013, the total number of unemployed workers (red) declined slightly. The total number of unemployed is about twice as many as June 2007, the low point.

Between June 2007 and the peak in October 2010, the number of unemployed workers increased by 153,192. In the 36 months since the peak, the number of unemployed workers has declined by only 61,421.

Unemployment Rate and Number Unemployed



Source: Bureau of Labor Statistics, CBER.

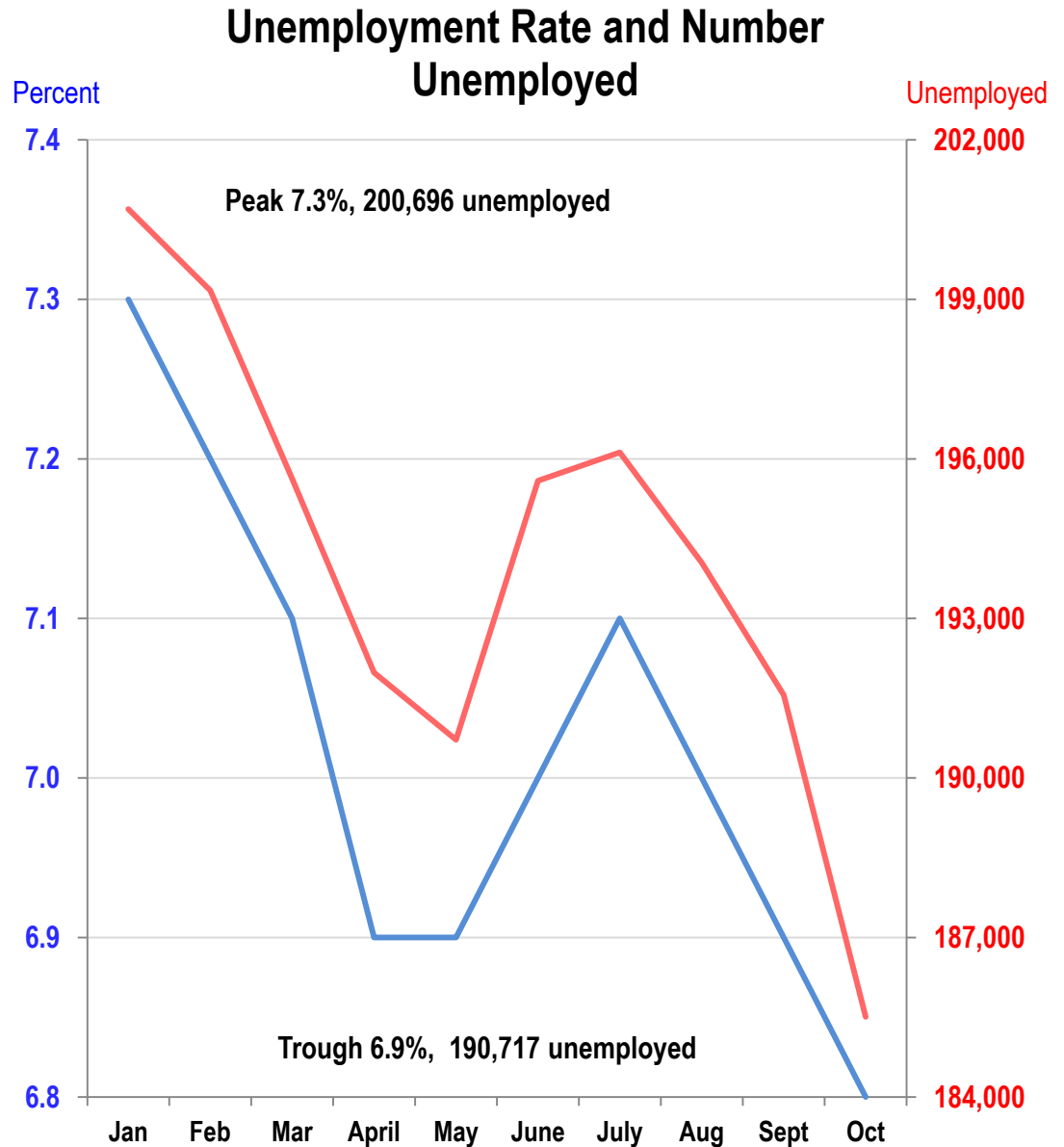
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Colorado Unemployment Rate and Number of Unemployed 2013

This chart focuses on 2013.

There was a decline in unemployment from 7.3% in January to 7.1% in March. Since then the rate has moved within the range of 6.8% and 7.1% (blue), but has trended downward. The Colorado rate is lower than the rate for the U.S., but the BLS states the difference is not statistically significant.

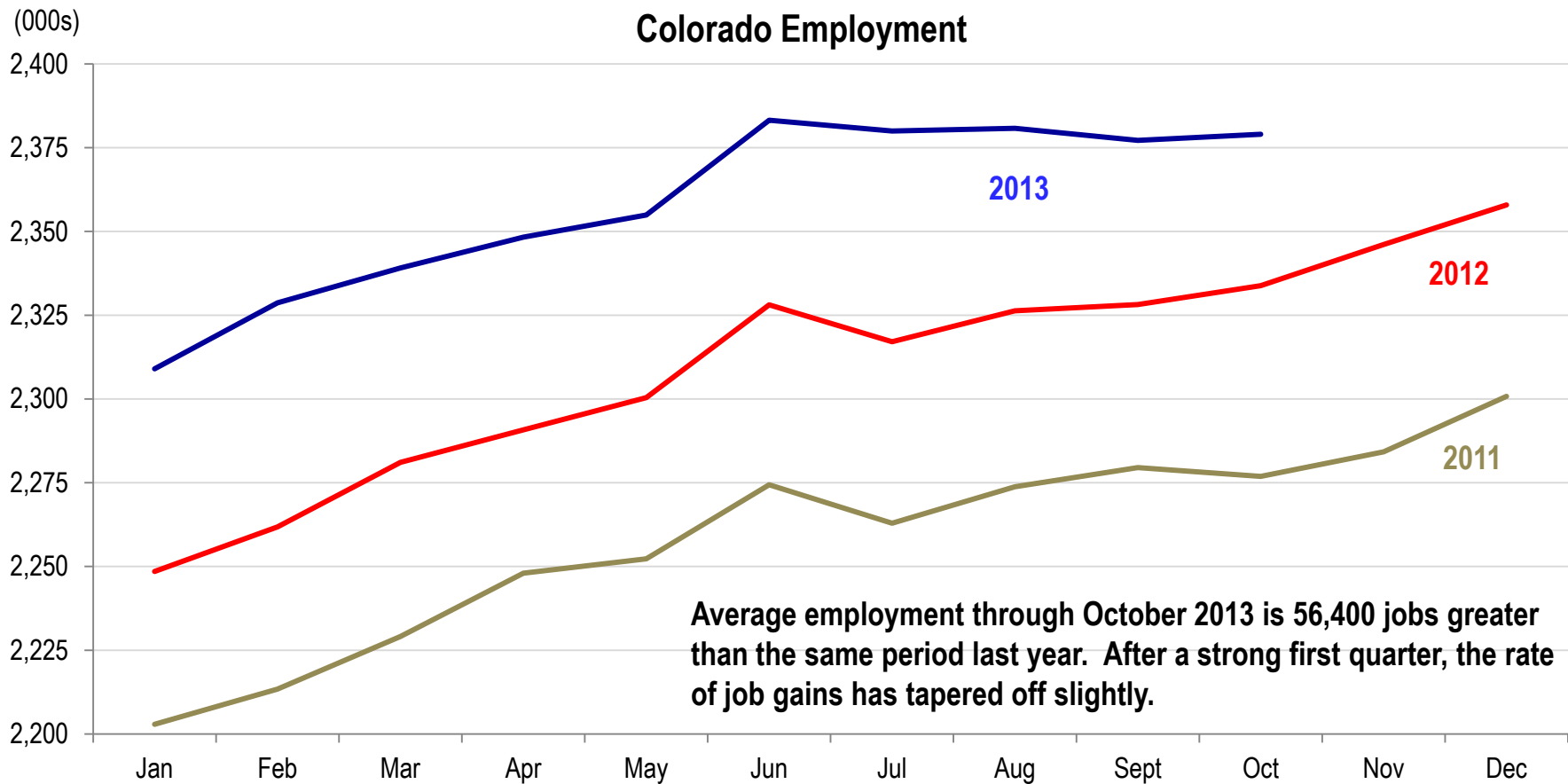
Despite solid gains in wage and salary employment, the number of unemployed workers declined by 15,189 between January and October. From May to October the number of unemployed has declined by only 5,210.



Source: Bureau of Labor Statistics.

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Colorado Wage and Salary Employment



Source: Bureau of Labor Statistics, NSA.

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Annual Employment Situation for Strong Growth Sectors

Over the past two decades the following sectors have been the foundation for consistent growth in Colorado employment.

- Professional and Scientific
- Management of Companies and Enterprises
- Business to Business (Not Employment Services)
- Private Education
- Health Care
- Arts, Entertainment, and Recreation
- Other Services.

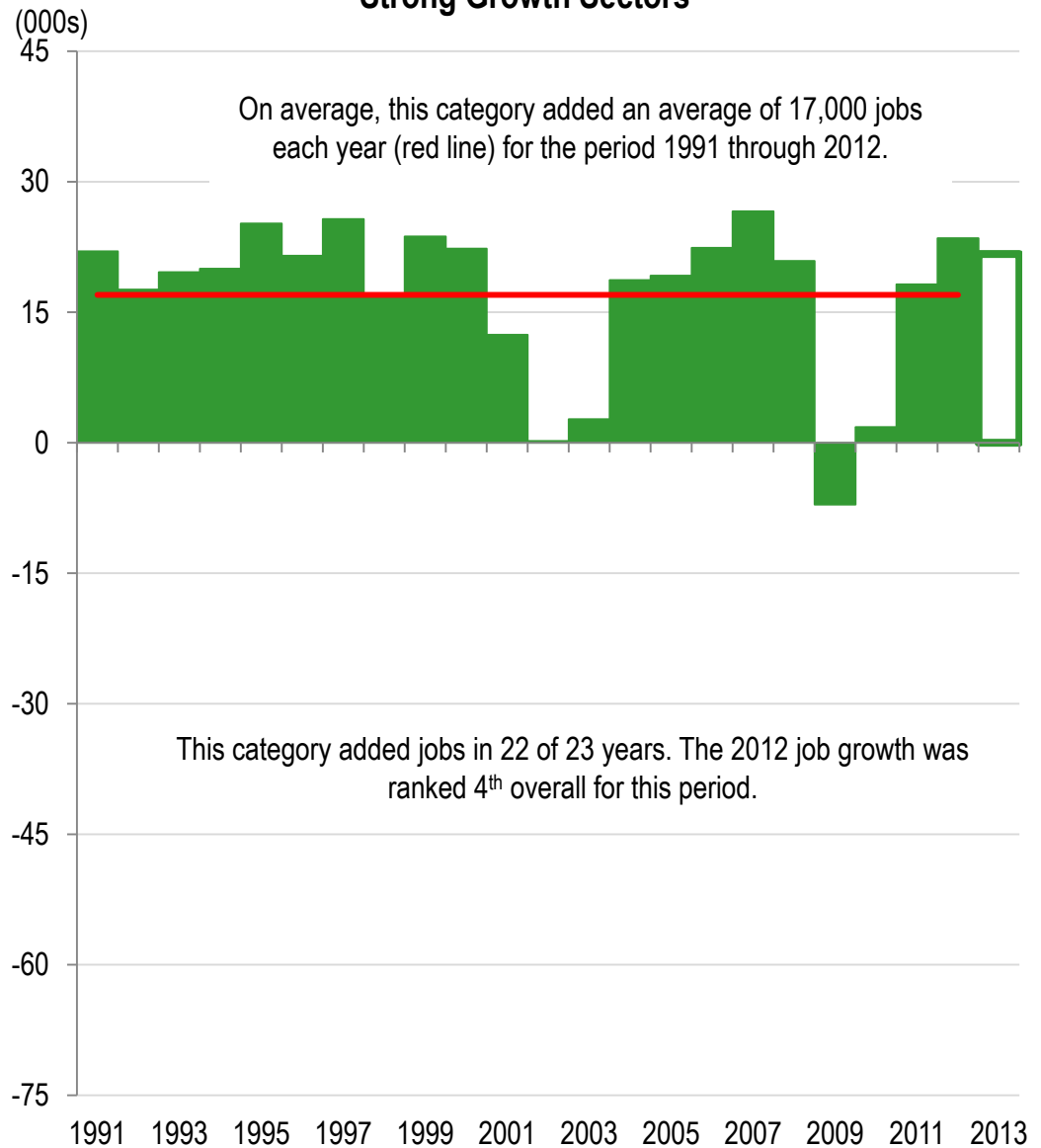
Total employment for this category was:

1992 404,900 workers, 25.4% of total employment
 2002 592,400 workers, 27.1% of total employment
 2012 739,300 workers, 32.0% of total employment.

Growth of this category in 2013 will be comparable to most years during the past two decades.

Between 19,000 and 25,000 workers will be added in 2013, most likely at the higher end of that range.

Strong Growth Sectors



Source: Bureau of Labor Statistics, CBER.

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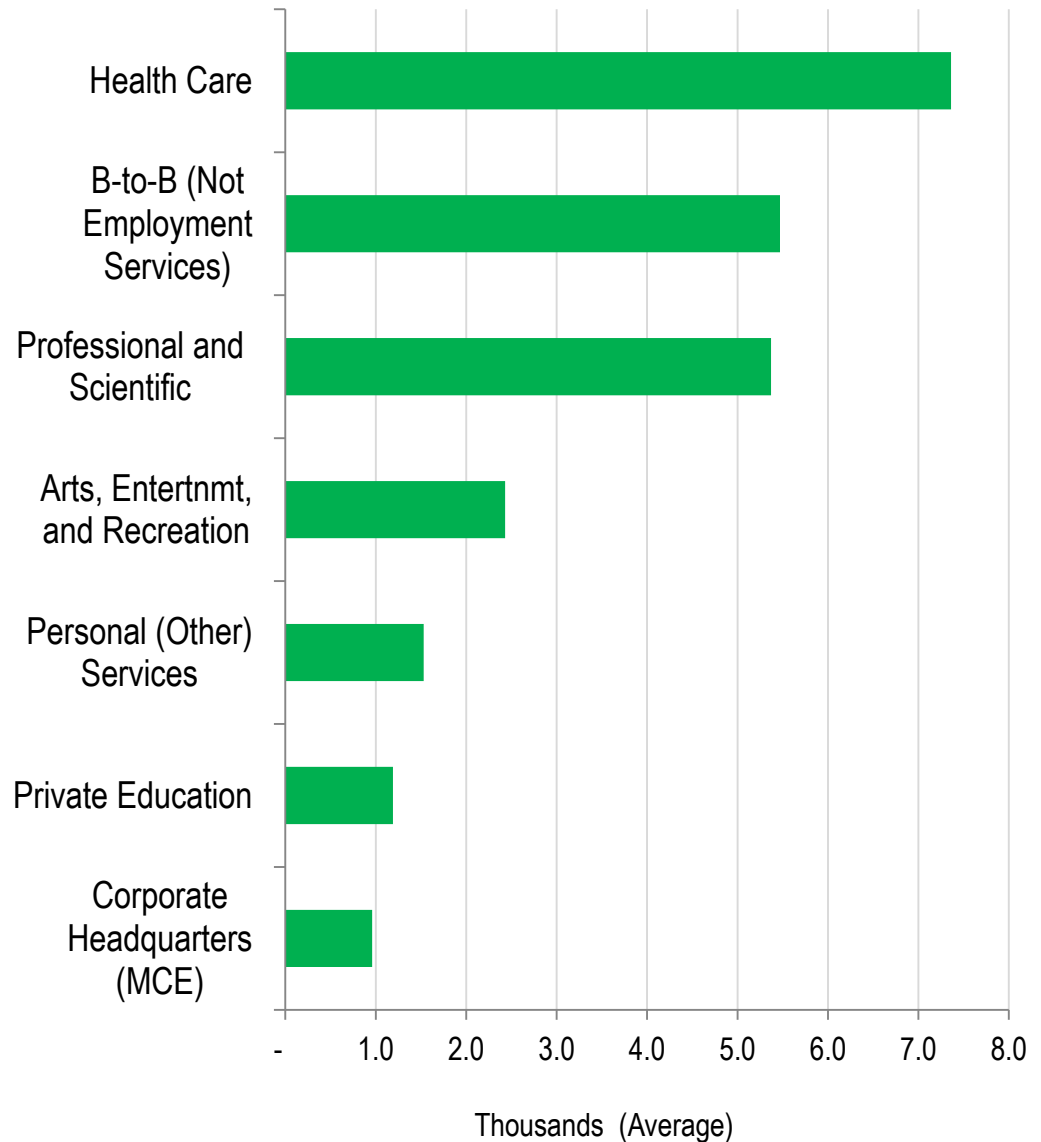
Job Change in 2013

Solid Growth Sectors

- Average employment for the solid growth sectors through ten months is 24,300 greater than the same period in 2012.

- These sectors account for 32.3% of total employment. They have accounted for 42.7% of job growth in 2013.

- These sectors were forecasted to add 19,000 to 25,000 jobs in 2013.



Source: Bureau of Labor Statistics.

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Annual Employment Situation for Solid Growth Sectors

Over the past two decades the following sectors usually added jobs. As a group their job gains were stronger during the 1990s than the 2000s.

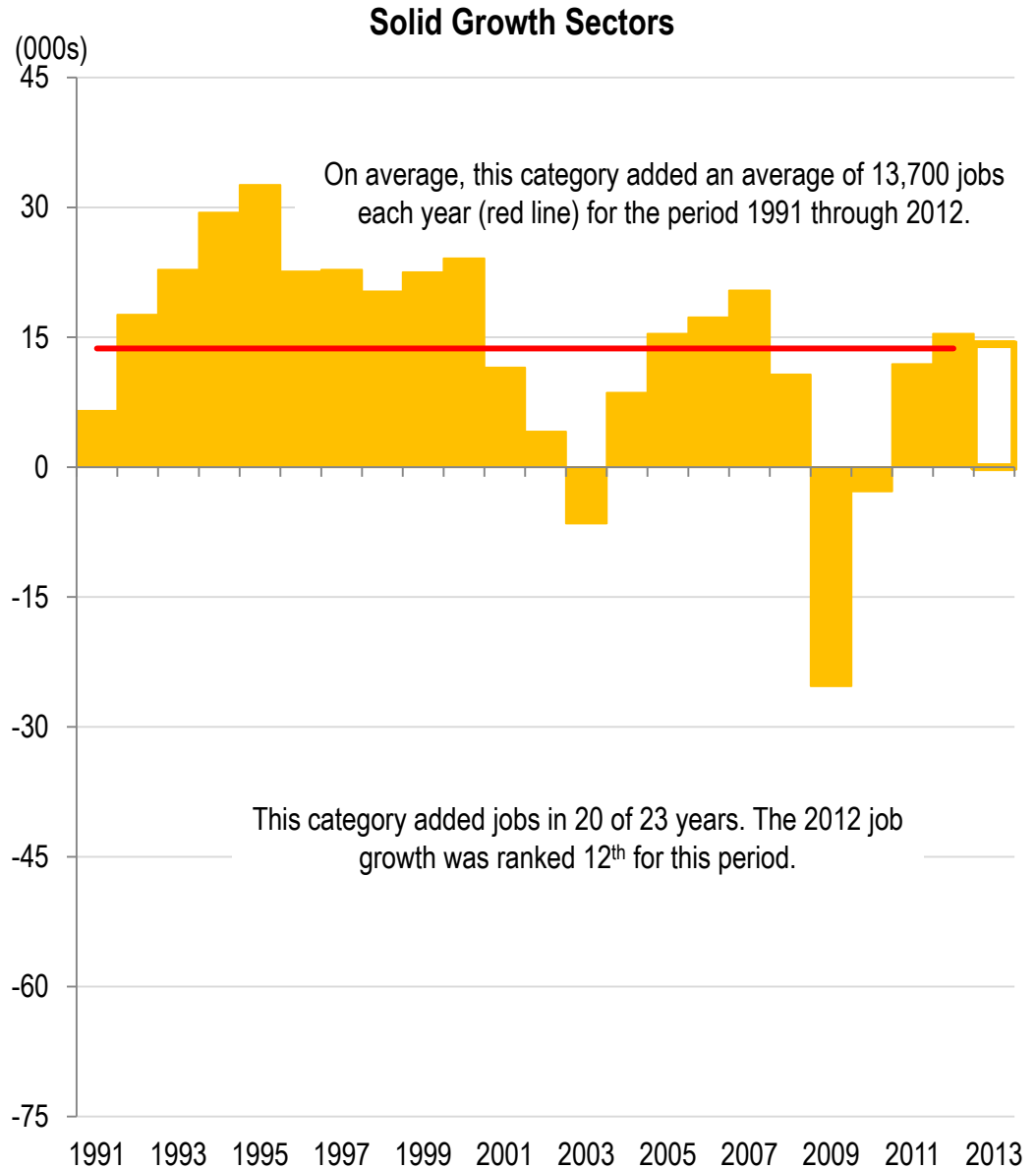
- Wholesale Trade
- Retail Trade
- State (Not Higher Education)
- Higher Education
- Local (Not K-12 Education)
- K-12 Education
- Accommodations and Food Services

Employment in some of these sectors has remained flat during most of the past decade.

Total employment for this category was:

1992 633,200 workers, 39.6% of total employment
 2002 845,900 workers, 38.7% of total employment
 2012 911,000 workers, 39.4% of total employment

Growth of this category in 2013 will be about average for the past two decades. Between 12,000 and 16,000 jobs will be added.



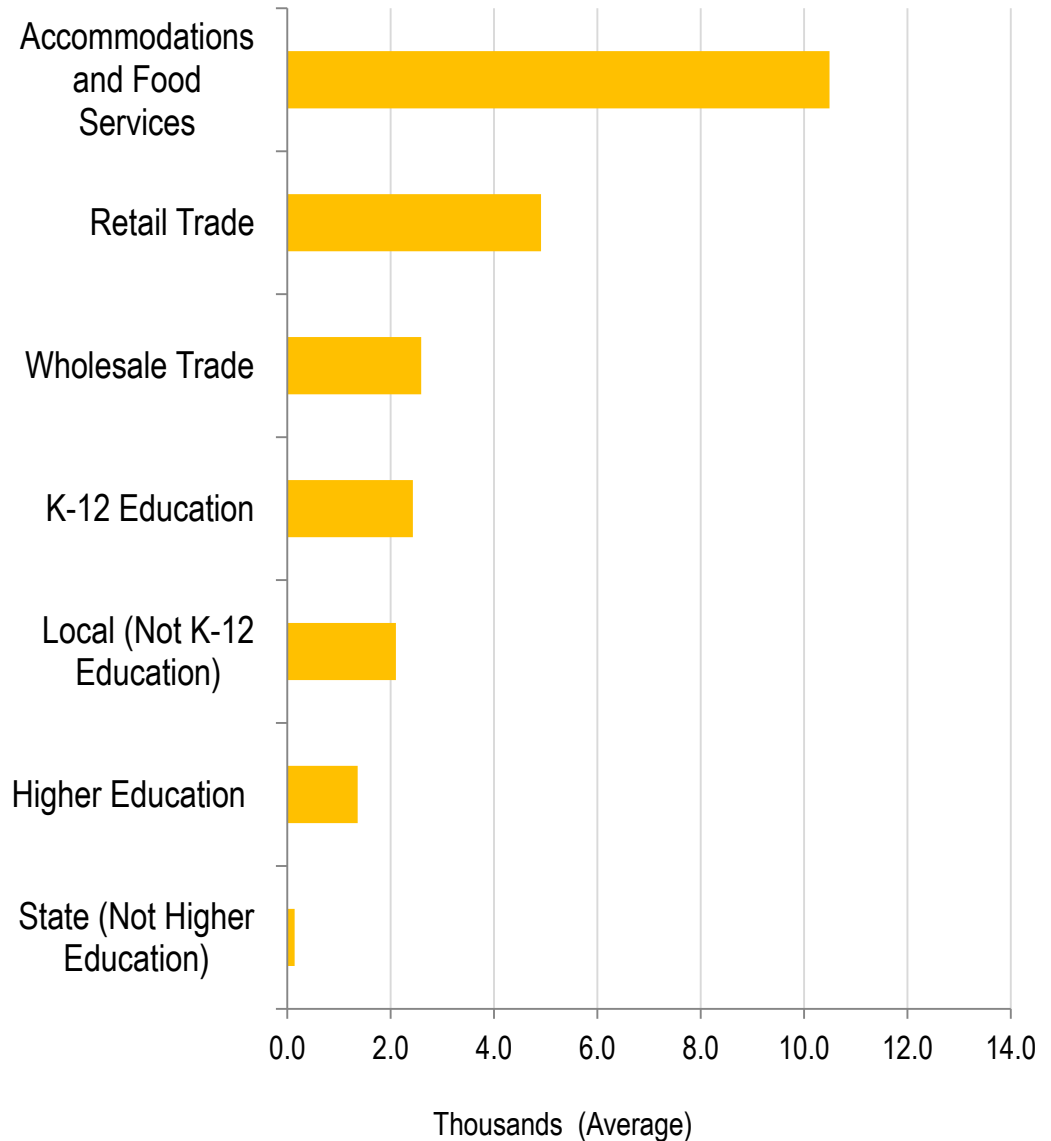
Source: Bureau of Labor Statistics, CBER.

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Limited Growth Sectors

- Average employment for the limited growth sectors through ten months is 24,000 greater than the same period in 2012.
- These sectors are 39.4% of total employment. They have accounted for 42.6% of job growth in 2013.
- These sectors were forecasted to add 12,000 to 16,000 jobs in 2013.

Job Change in 2013



Source: Bureau of Labor Statistics.

Annual Employment Situation for Volatile Growth Sectors

Over the past two decades the sectors listed below were the source of volatility.

The sectors are:

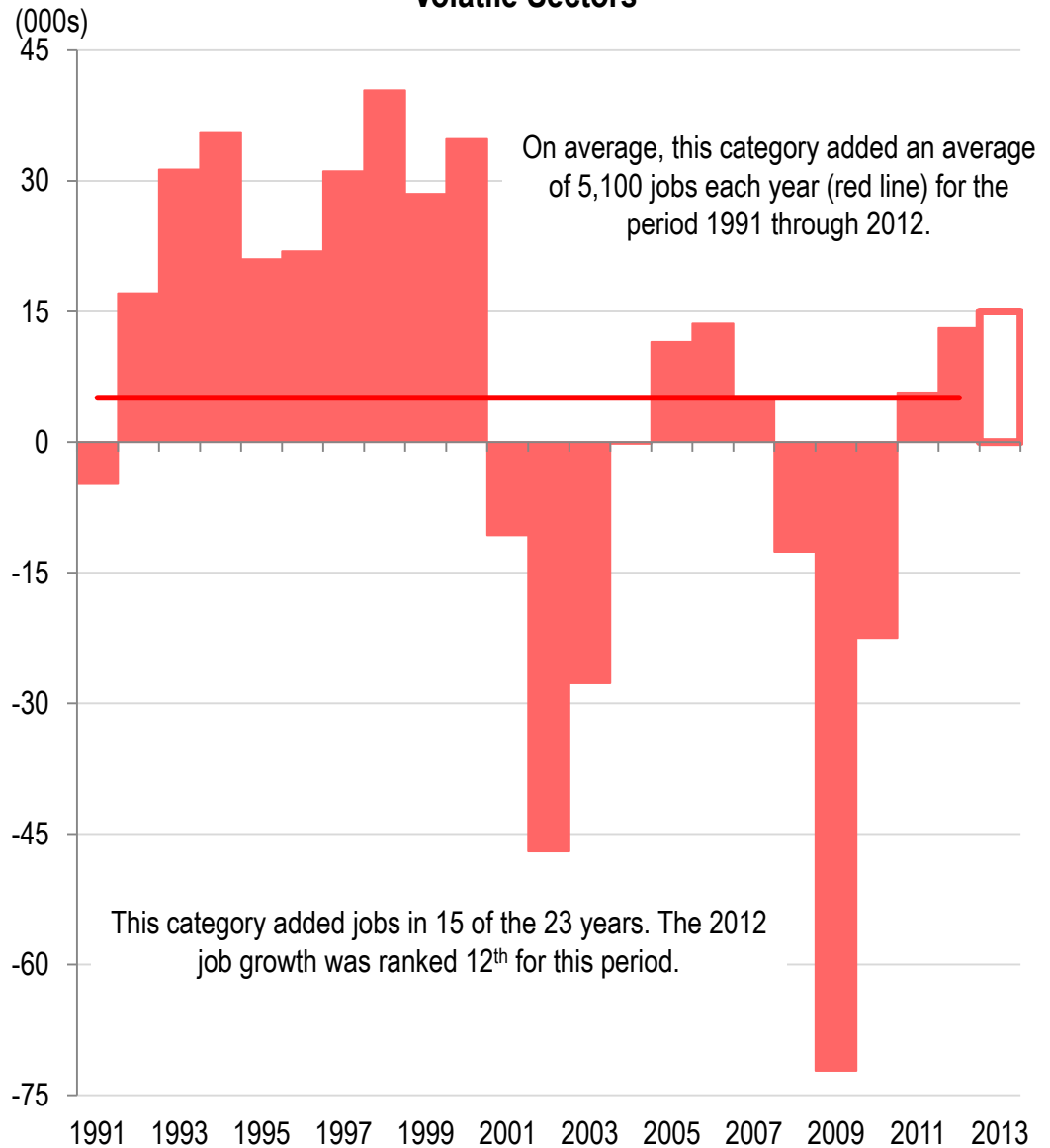
- Natural Resources and Mining
- Construction
- Manufacturing
- Transportation, Warehousing, and Utilities
- Employment Services
- Financial Activities
- Information
- Federal Government

Total employment for this category was:

1992 559,100 workers, 35.0% of total employment
 2002 746,000 workers, 34.2% of total employment
 2012 659,900 workers, 28.6% of total employment.

In 2013 this category will add between 13,000 and 17,000 jobs . Growth in this category will be above the annual average.

Volatile Sectors



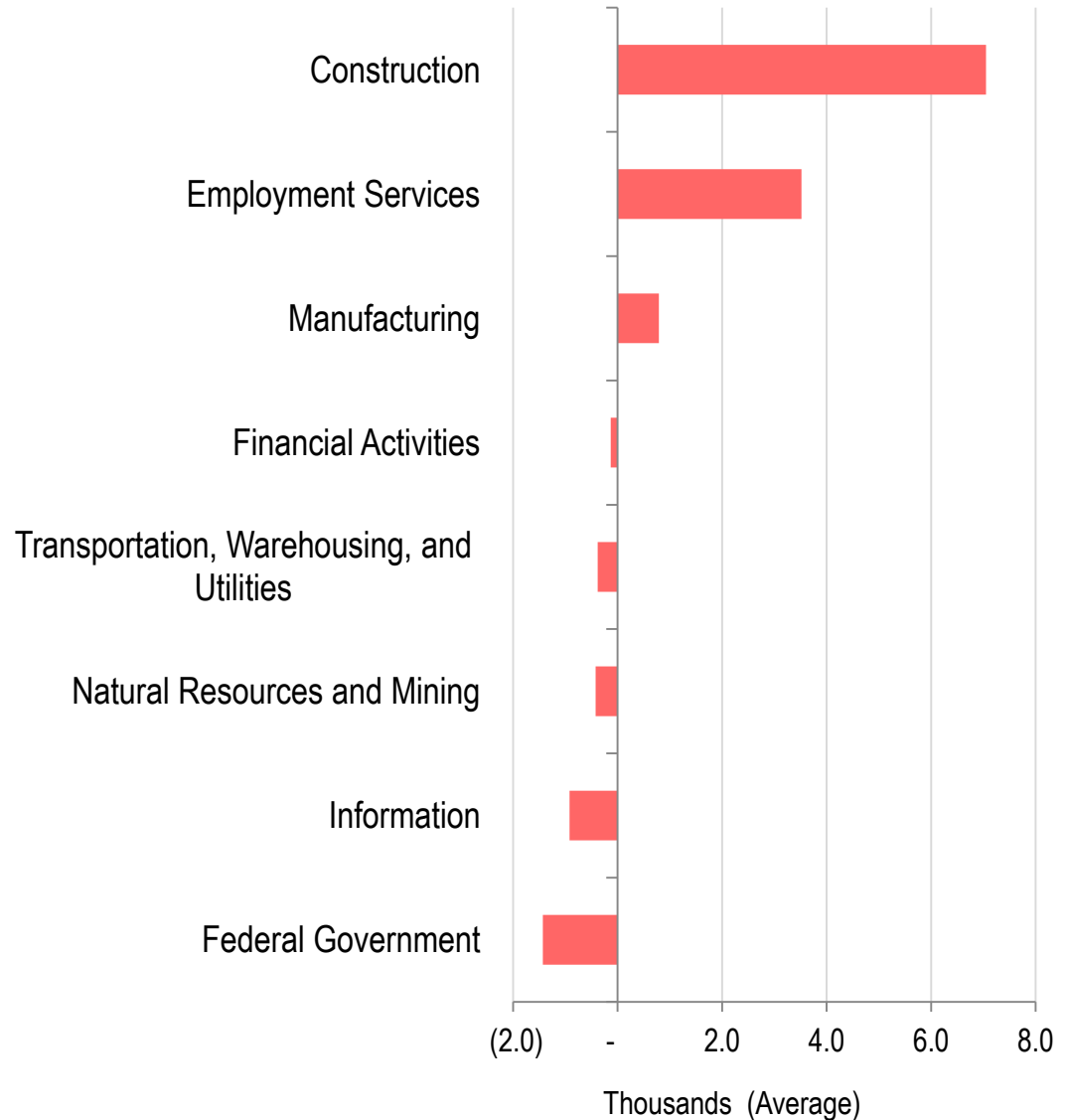
Source: Bureau of Labor Statistics, CBER.

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Job Change in 2013

Volatile Sectors

- Average employment for the limited growth sectors through ten months is 8,100 greater than the same period in 2012.
- These sectors are 28.2% of total employment. They have accounted for 14.7% of job growth in 2013.
- These sectors were forecasted to add 13,000 to 17,000 jobs in 2013.



Source: Bureau of Labor Statistics.



Questions and Answers



Question and Answers

The next series of slides address the following questions:

- Are gas prices really headed down?
- How volatile has the stock market been?
- How is the Construction sector doing?
- How does 2013 job growth compare to previous years?

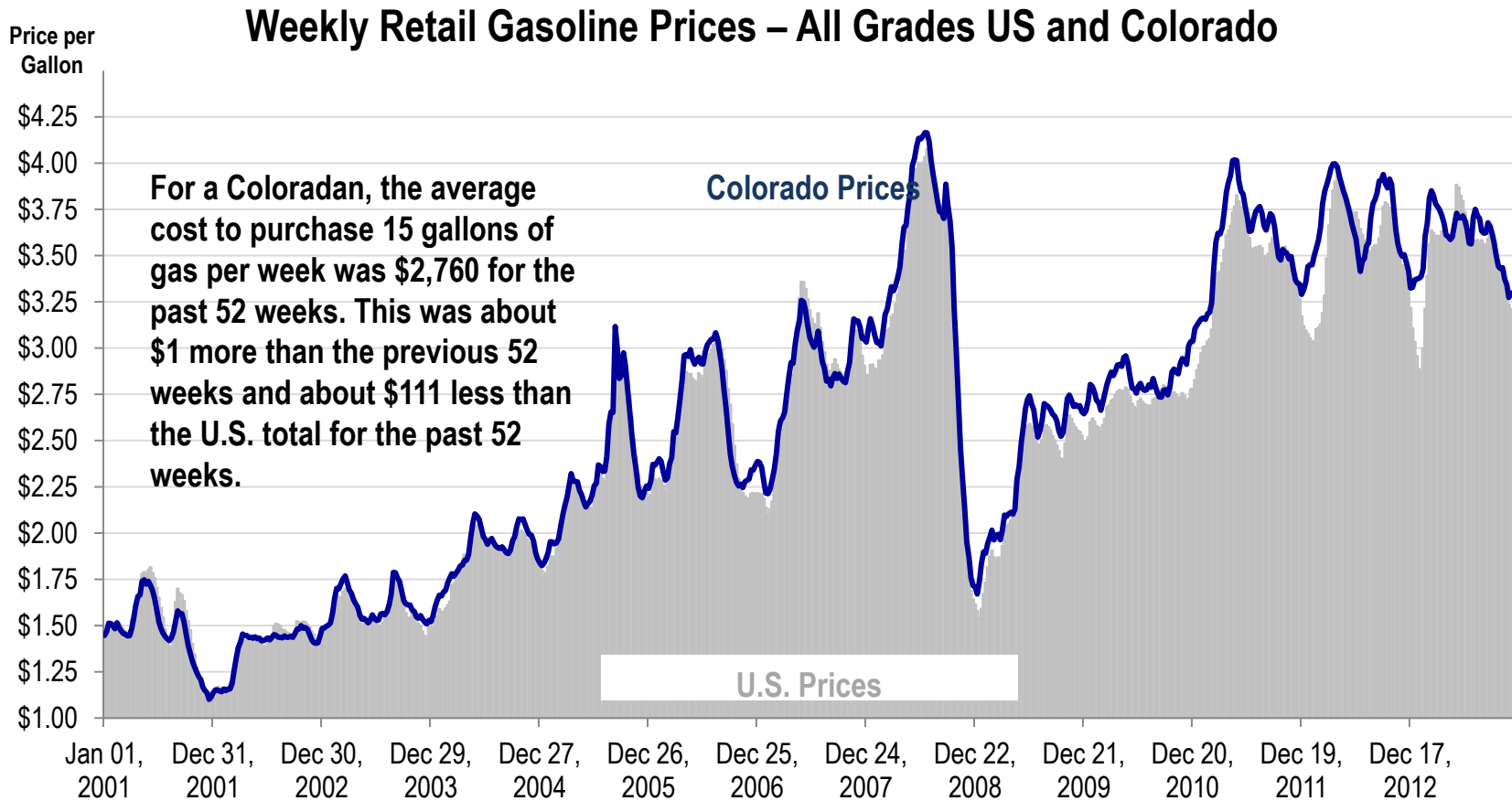
Questions and Answers

Are Gas Prices Really Headed Down?

Over the past year, it seems that gasoline prices have been fairly flat. In recent weeks, they have been near \$3.00 per gallon in some parts of the Denver Metro area.

Are gas prices really headed down?

Weekly Gas Prices



Source: EIA.

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Questions and Answers

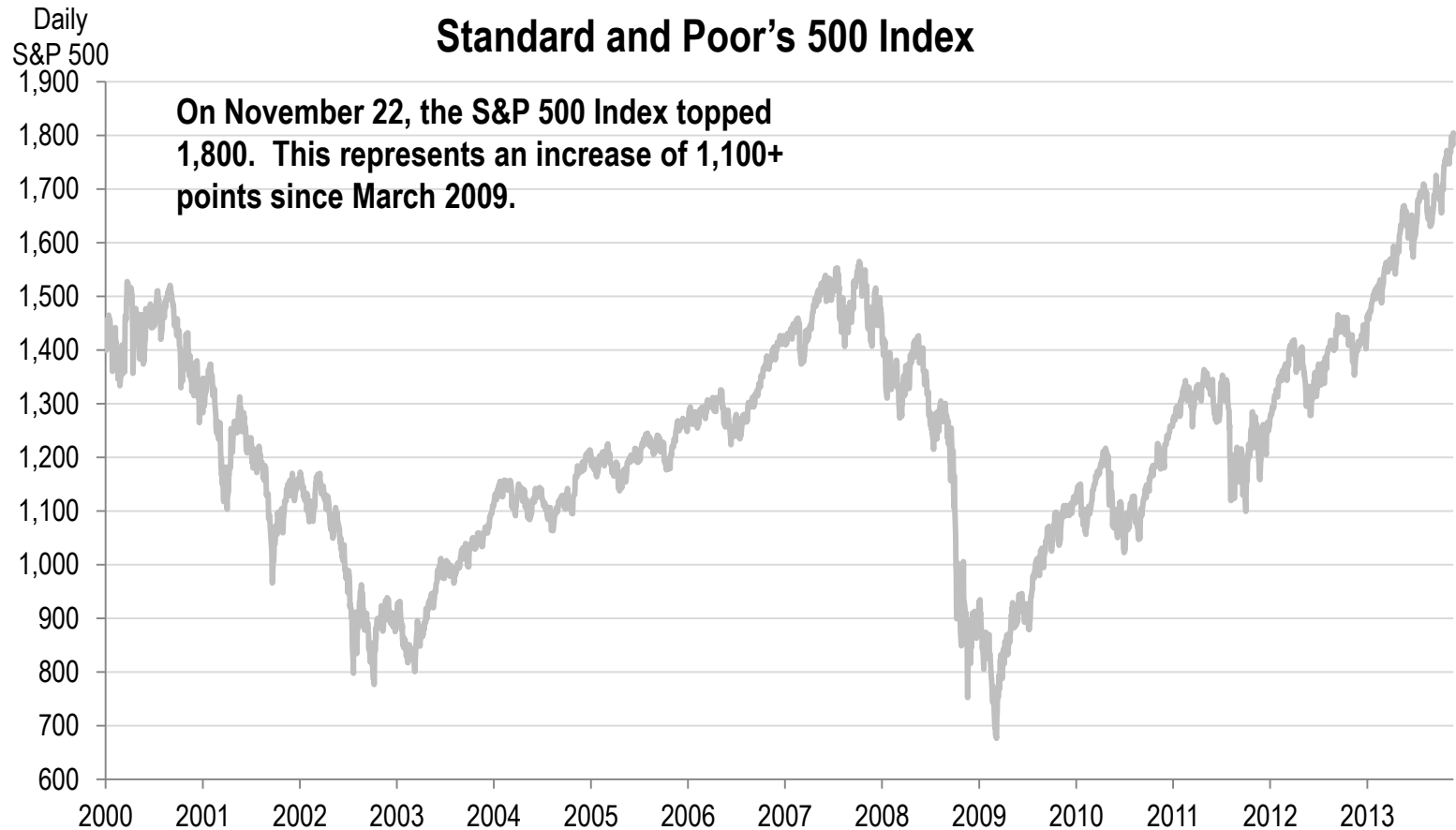
How Volatile has the Stock Market Been?

In August the equity markets declined, but reached record highs in November.

Recently, there has been turmoil that had the potential to create volatility in the markets. (Syrian chemical crisis, NSA, Benghazi, Iran nuclear pact, tapering, selection of the new Federal Reserve chair, Congress playing chicken with the budget, etc.)

How much have these factors actually affected the volatility of the stock market?

Equities Standard and Poor's 500 Index



Source: FRED, S&P 500.

● CBOE Volatility Index

● VIX (VIXCLS)



Source: FRED, CBOE.



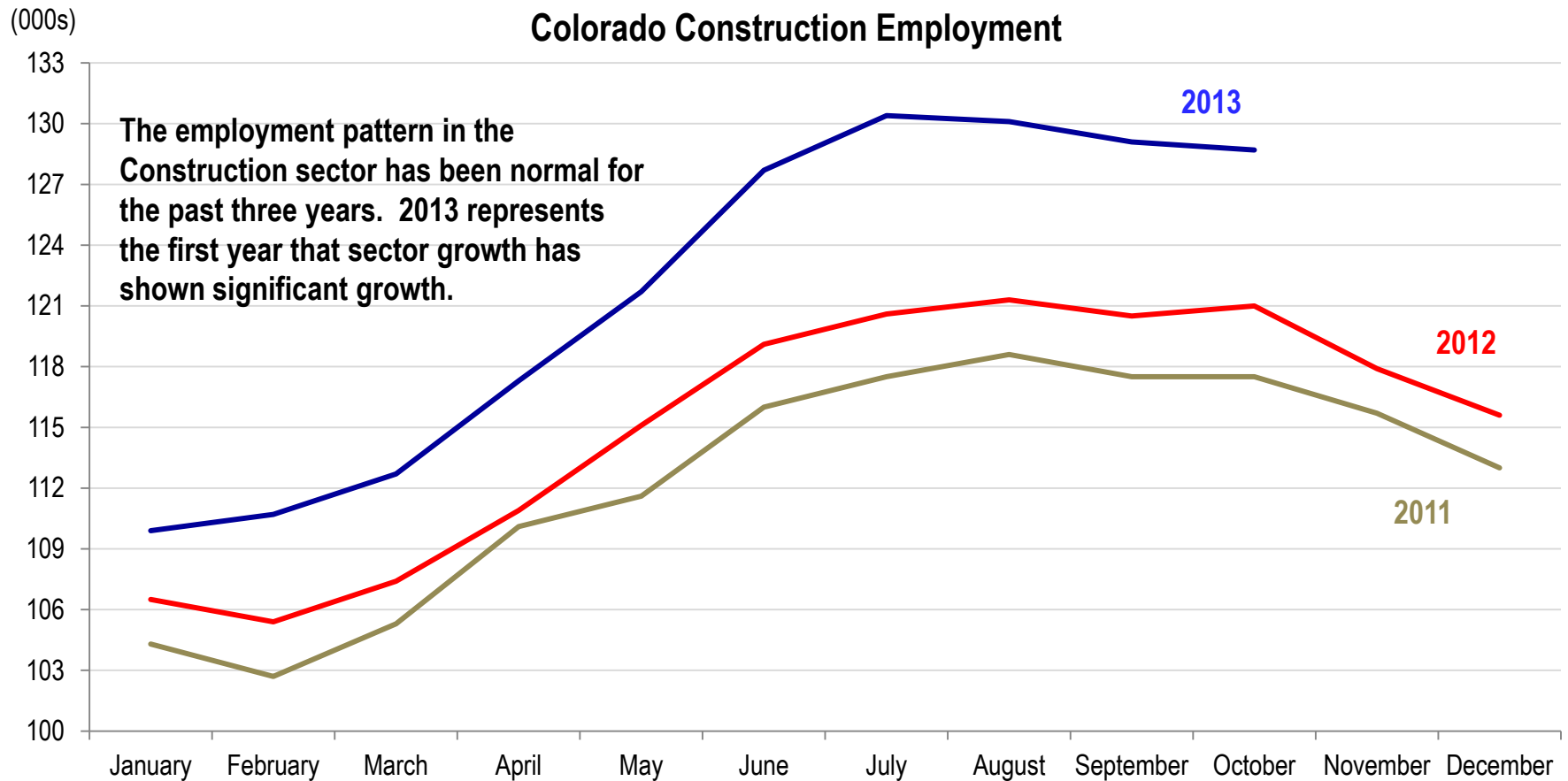
Questions and Answers

How is the Construction Sector Doing?

The Colorado Construction sector has experienced surprisingly strong job growth in 2013.

How does this growth compare to past growth?

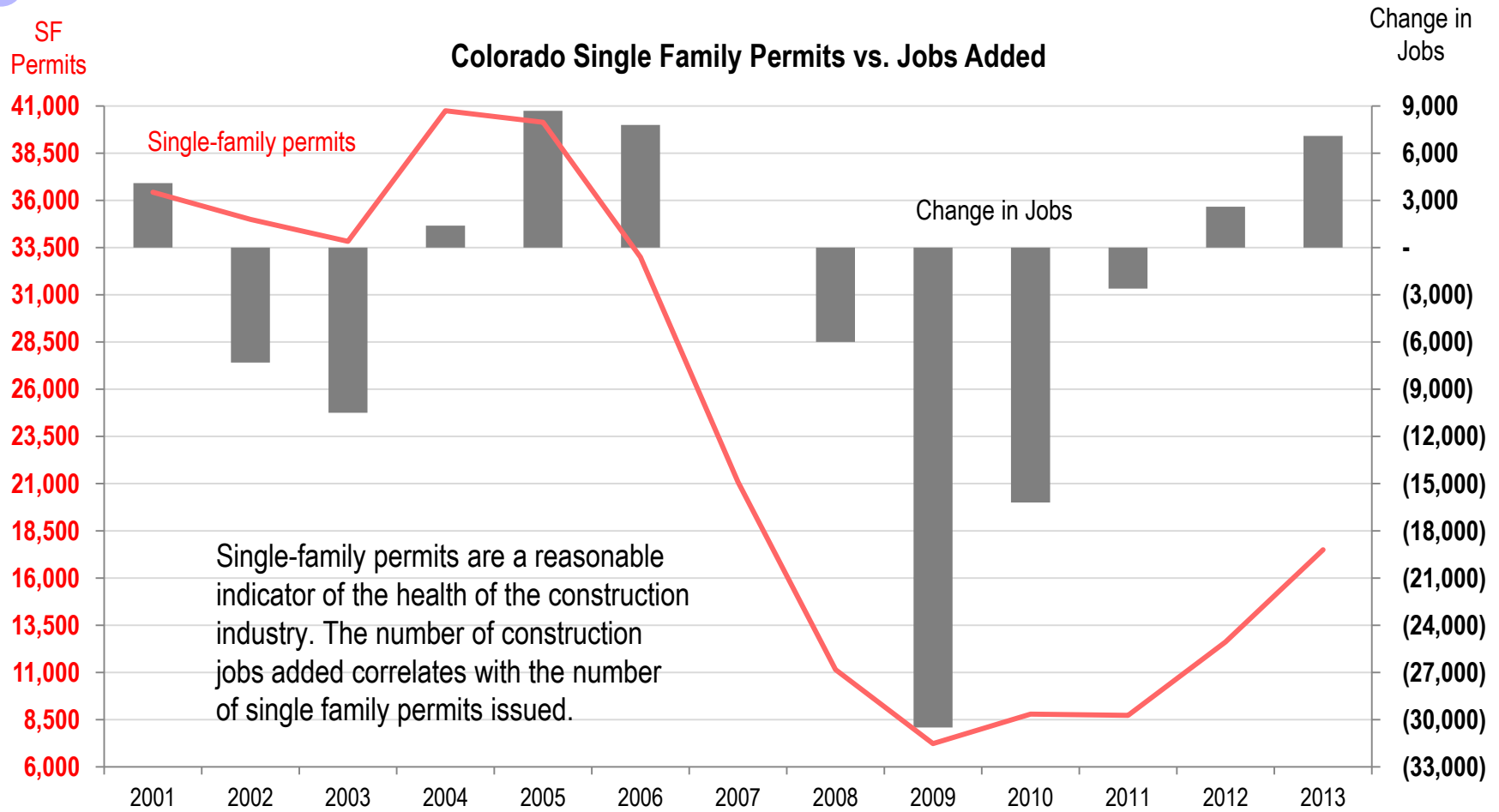
Colorado Construction Wage and Salary Employment



Source: Bureau of Labor Statistics, NSA.

Colorado Construction

Single Family Permits vs. Construction Jobs Added



Source: BLS, NSA.

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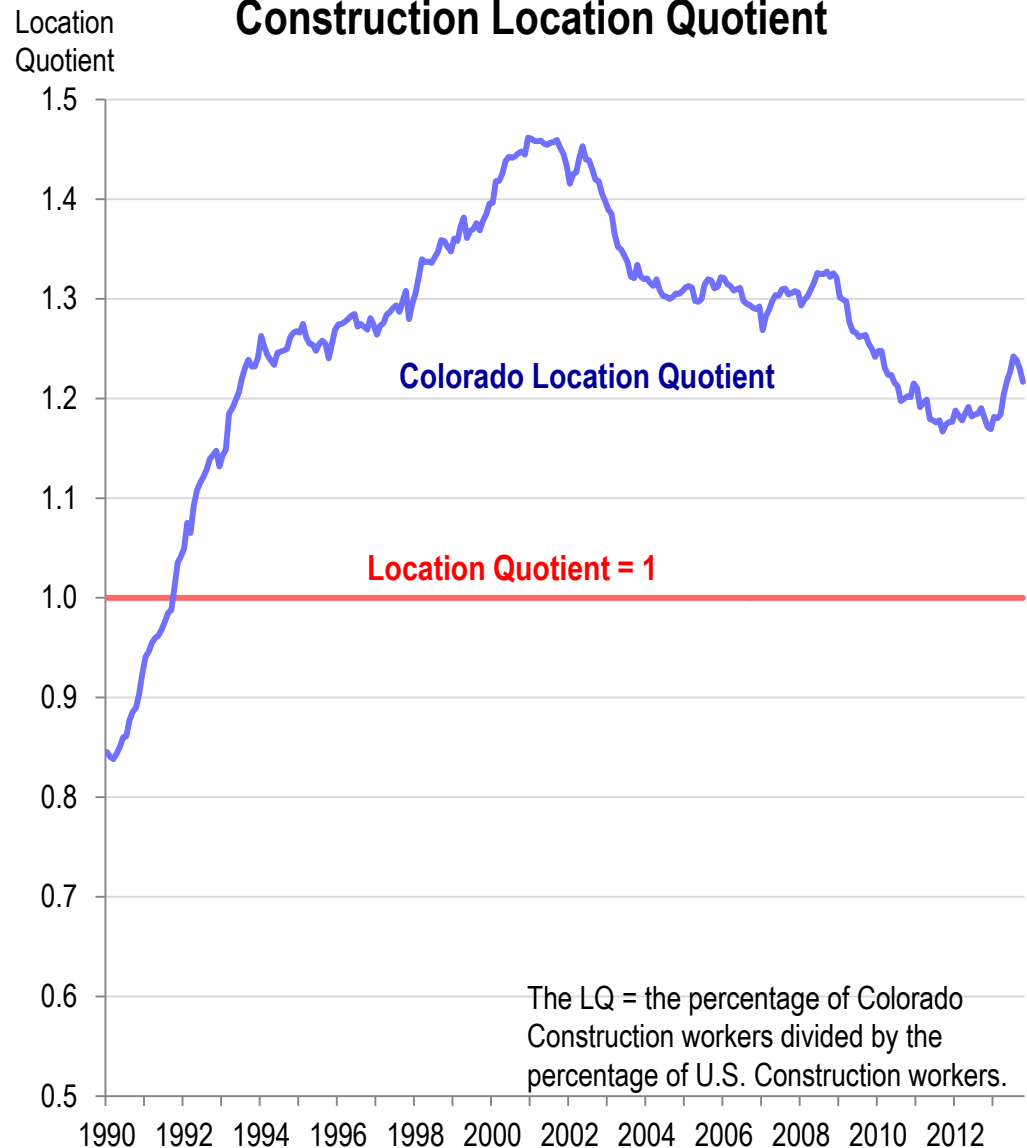
How Has the Construction Sector Performed Relative to the Nation?

It is difficult for geographically large states to develop distinctive competencies in construction. In other words, the location quotient (LQ), or concentration relative to other industries should be near 1.0.

During the late 1980s, the Colorado single family market was overbuilt. As a result, the industry LQ was below 1.0 through mid-1991. Over the next 10 years the LQ increased to about 1.5 in 2001.

In early 2001, the LQ began declining and dropped off sharply for three years (2004). It leveled off for five years, then plummeted again in 2009. It bottomed out in mid-2011 and was flat until 2013. A spike in construction jobs occurred this year.

Construction Location Quotient



Note: Location quotient based on all wage and salary workers.
Source: BLS, SA.

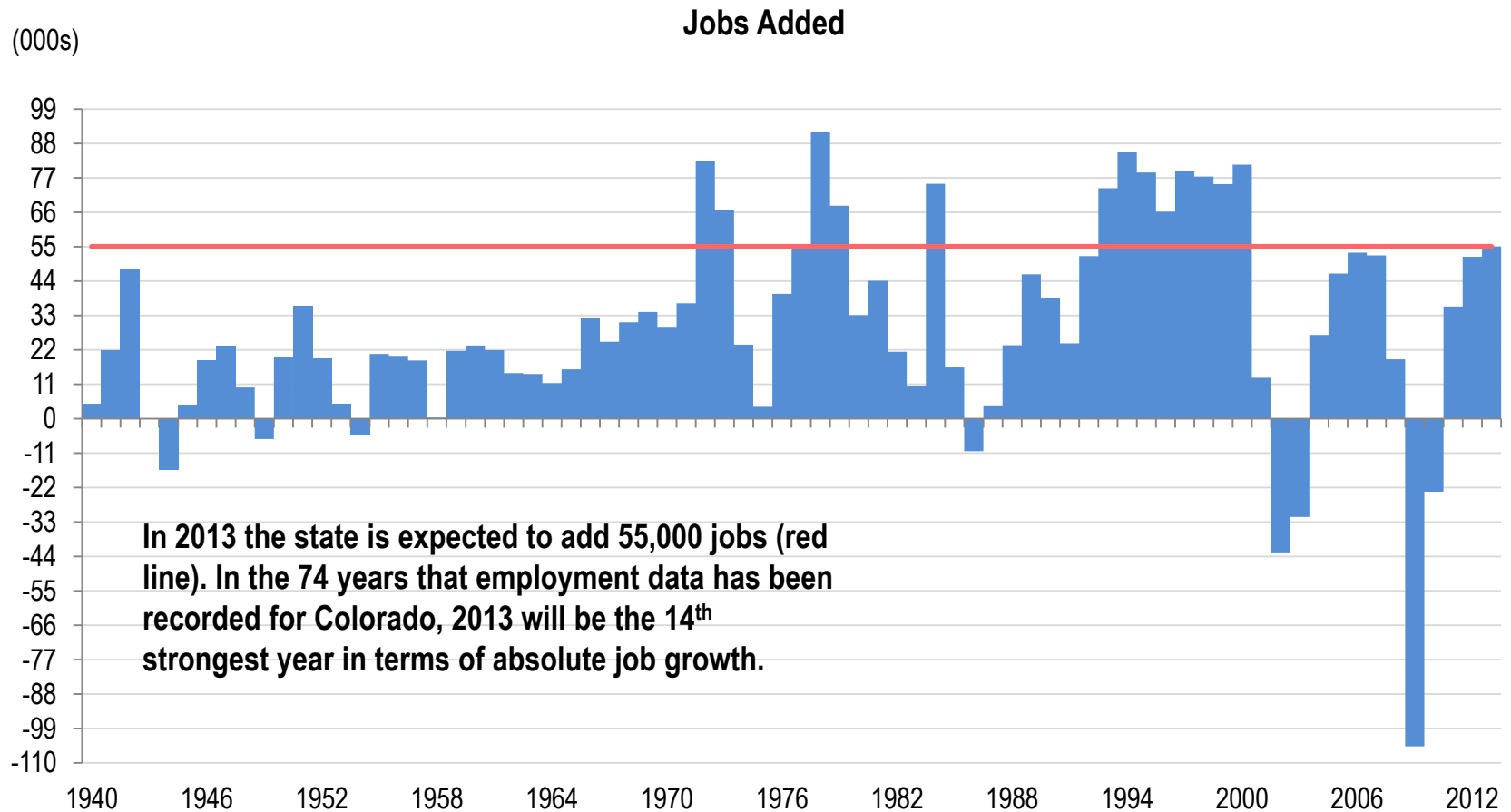
Questions and Answers

How Does 2013 Job Growth Compare to Previous Years?

Preliminary projections indicate the state will add 55,000 net jobs in 2013. This is an increase of 2.3% compared to 2012.

How does that compare to previous years?

How Does 55,000 Jobs Compare to Previous Years?

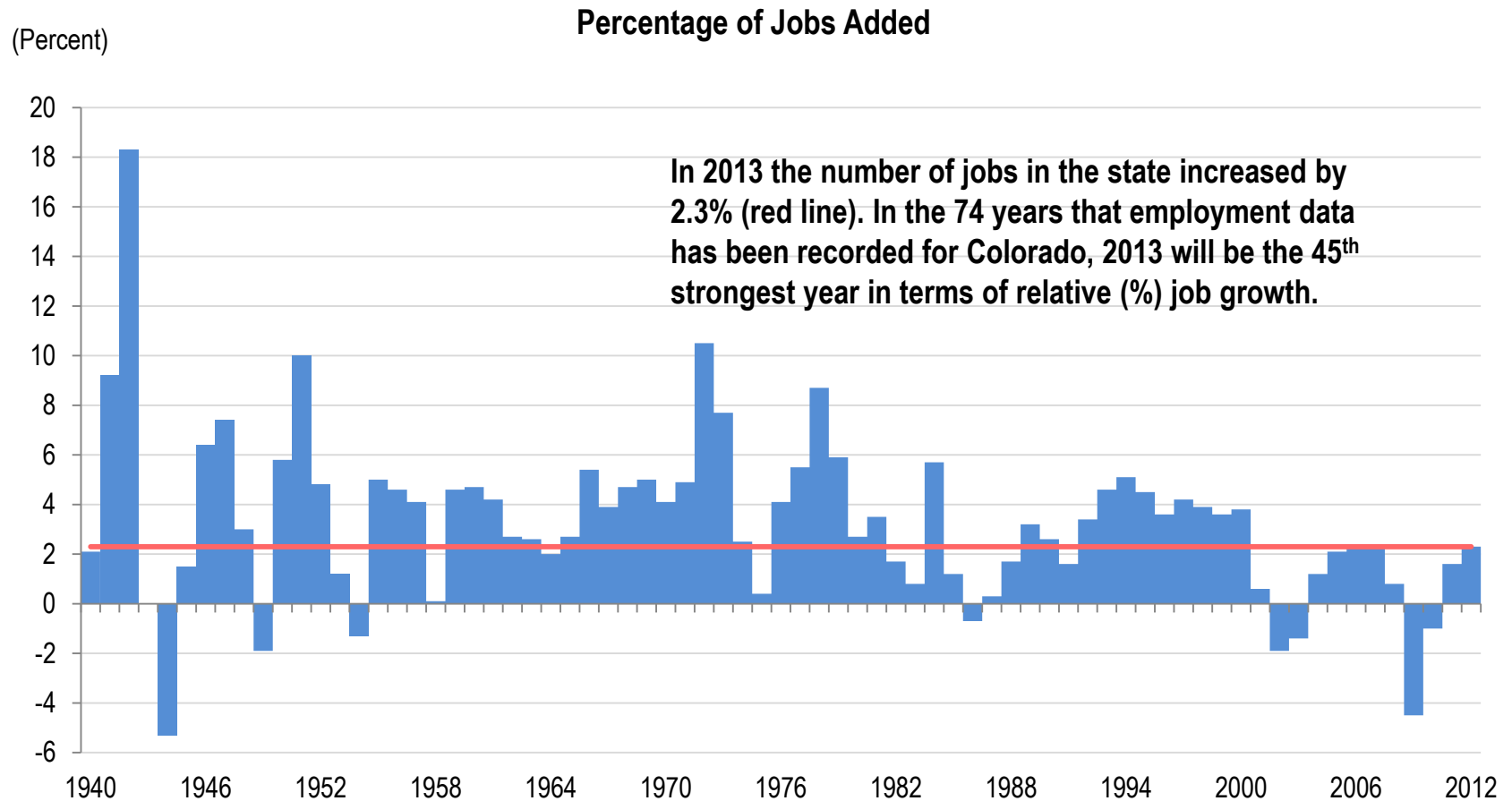


Source: Bureau of Labor Statistics, NSA.

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● How Does 2.3% Job Growth Compare to Previous Years?



Source: Bureau of Labor Statistics, NSA.

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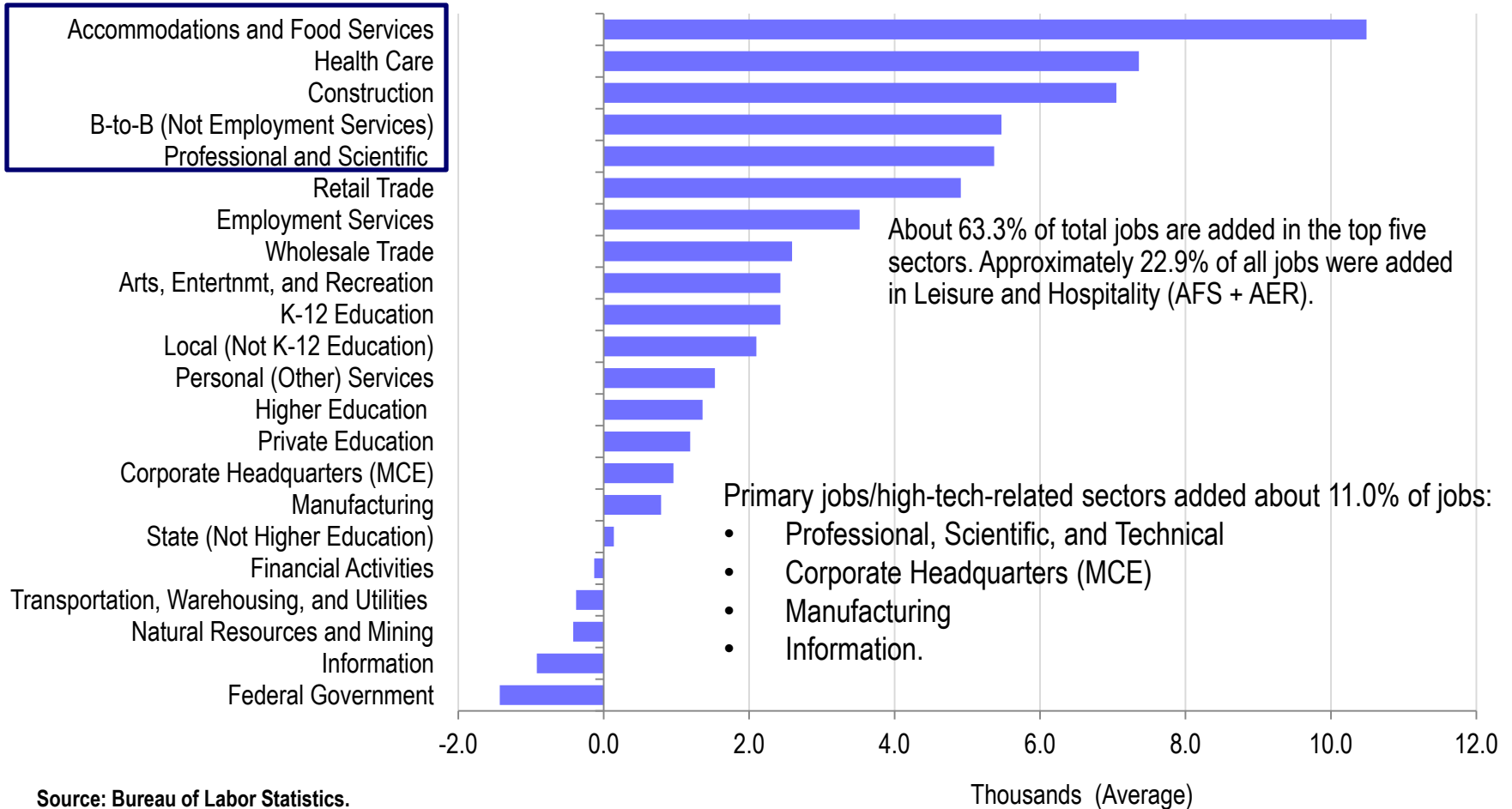


Summary

Job Change All Sectors

First 10 Months 2013

Job Change All Sectors



Source: Bureau of Labor Statistics.

Summary of the Colorado Economy

The state is poised to add about 55,000 jobs in 2013.

The 2013 CBER forecast and monthly updates can be found at <http://cber.co/>.

Good News

- The September rains and flooding finally can to an end. Progress has been made in repairing roads and infrastructure! It is impossible to measure the tangible and intangible damage and loss of personal wealth. Despite government assistance, there will be a loss of small businesses in flooded areas
- The state continues to add jobs at a steady rate and job growth is broad-based.
- There has been continued improvement in real estate prices – which is mixed news. This is good news for property owners, but may be bad news for newcomers to the state or people trying to get into their first home.
- Revenue streams have improved for state and local governments.
- The state's universities have reported record levels of donations and they have added jobs steadily since 1991.
- Legislation has been approved for support of the Advanced Industries (Aerospace, photonics, biosciences, etc.). These are critical sectors for the creation of primary jobs.

Challenges

- Given the damage to the infrastructure caused by the floods and the overwhelming defeat of Amendment 66, this is a time for state leaders to re-evaluate its priorities (K-12 education, transportation, higher education, prisons, economic development, social programs, health care, etc.).
- There should be greater concern about the limited number of primary jobs that are being added (economic development groups are aware of this and addressing it).
- The country has reached a point where it will learn about the unintended and unplanned impacts of the Affordable Care Act (these impacts may be positive or negative).
- Colorado Springs may be approaching bankruptcy.
- The state has developed a strategic plan that focuses on the recruitment and retention of millennials. Is this a strategy that will be effective on a long-term basis?



Review of Colorado Economy First Ten Months of 2013

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