



Review of Colorado Economy First Eight Months of 2013

Colorado-based Business and Economic Research

September 24, 2013



Overview

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

Nationally, about 180,000 jobs are being added on a monthly basis. In Colorado, job growth continues to be solid. On average 58,500 jobs have been added through the first eight 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.

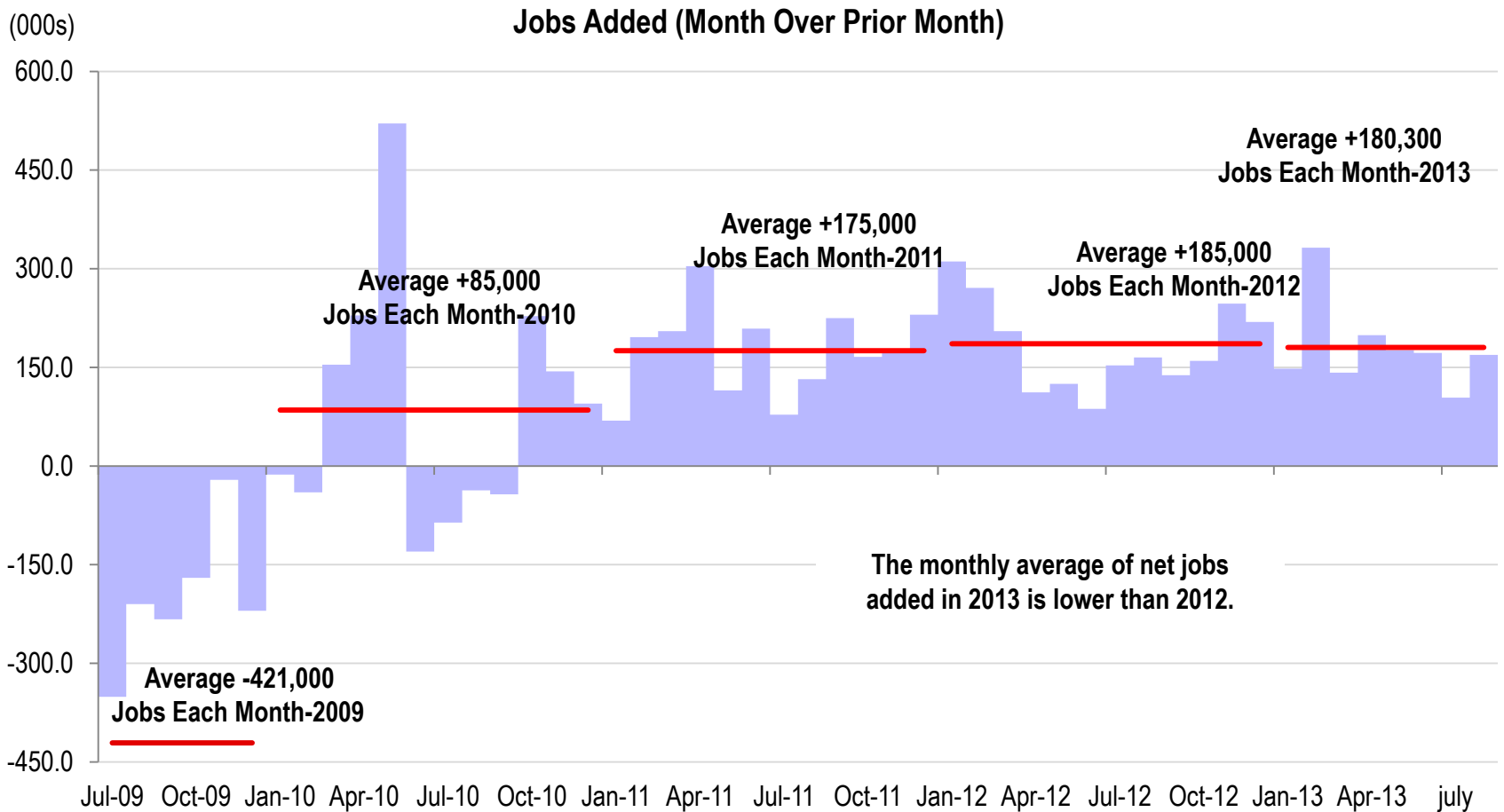
- U.S. Economy
- Colorado Economy
- Questions and Answers
- Summary

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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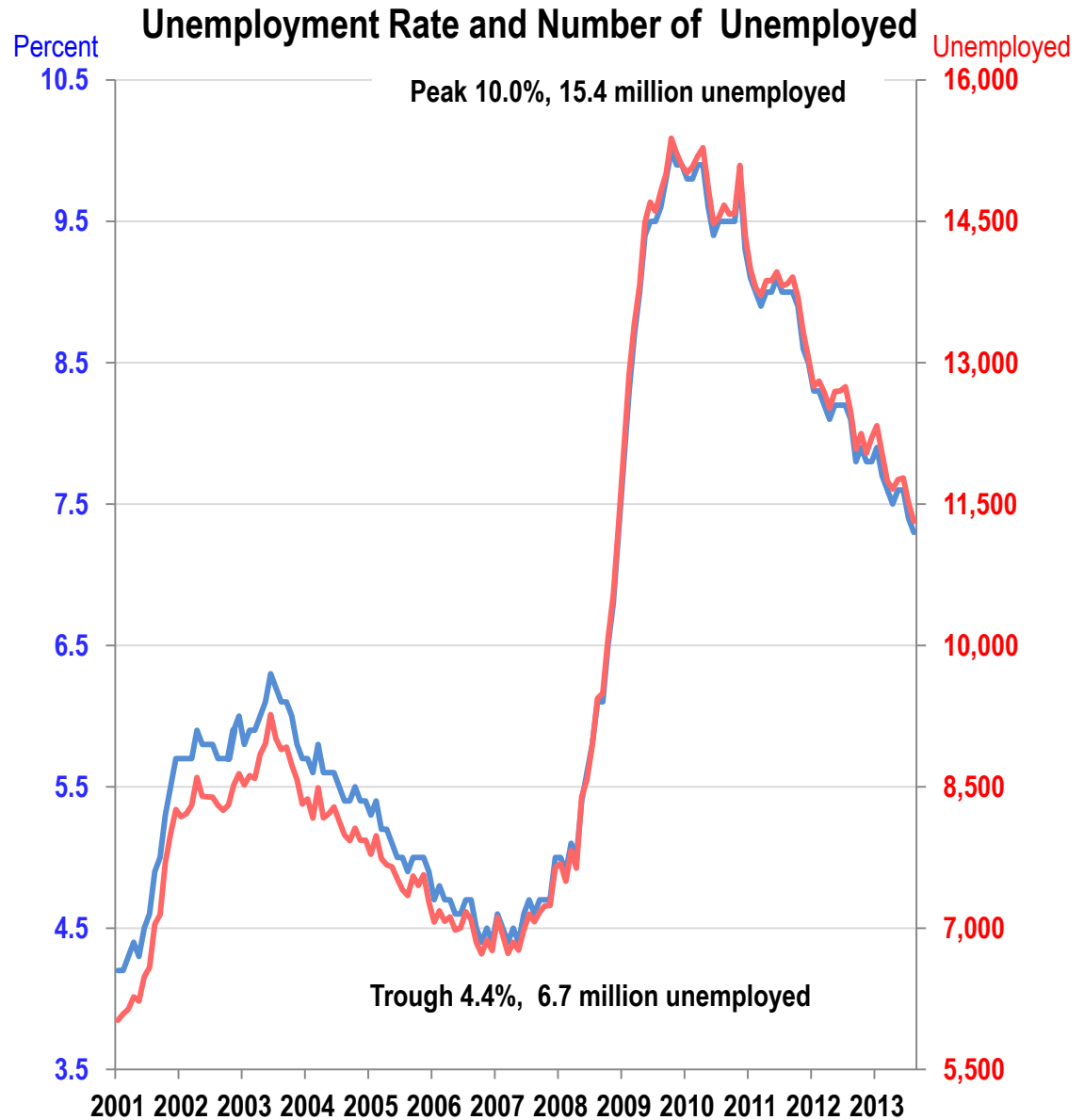
U.S. Unemployment Rate and Number of Unemployed

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

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

The total number of unemployed (red) dropped below 11.3 million. This is 4.6 million above the low point in 2007, but only 4.1 million below the high point in 2009.

Given weak GDP growth, does this sharp decline 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?



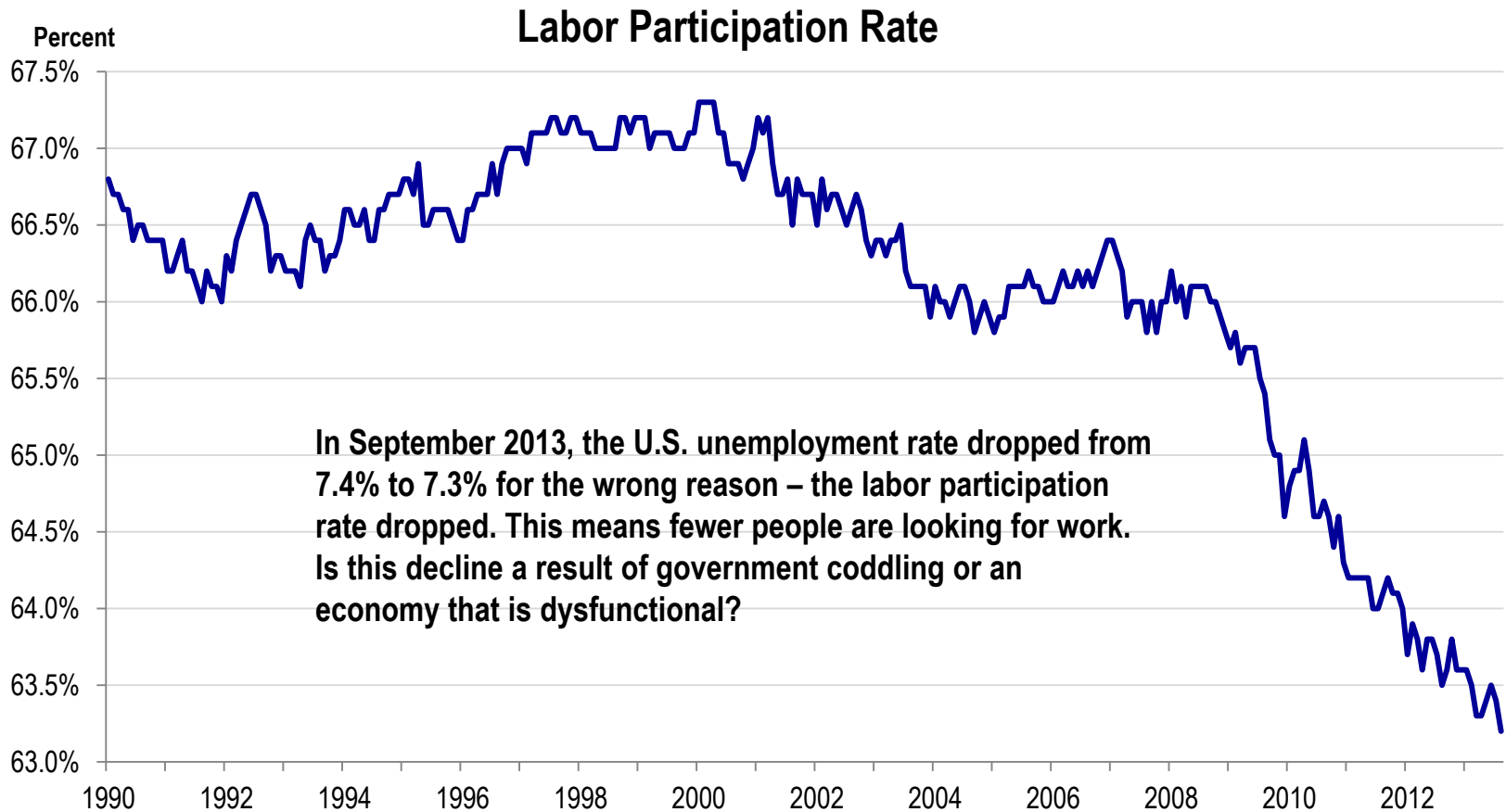
Source: Bureau of Labor Statistics, SA, CBER.

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Labor Participation Rate

The Decline in the Rate of People Looking for a Job



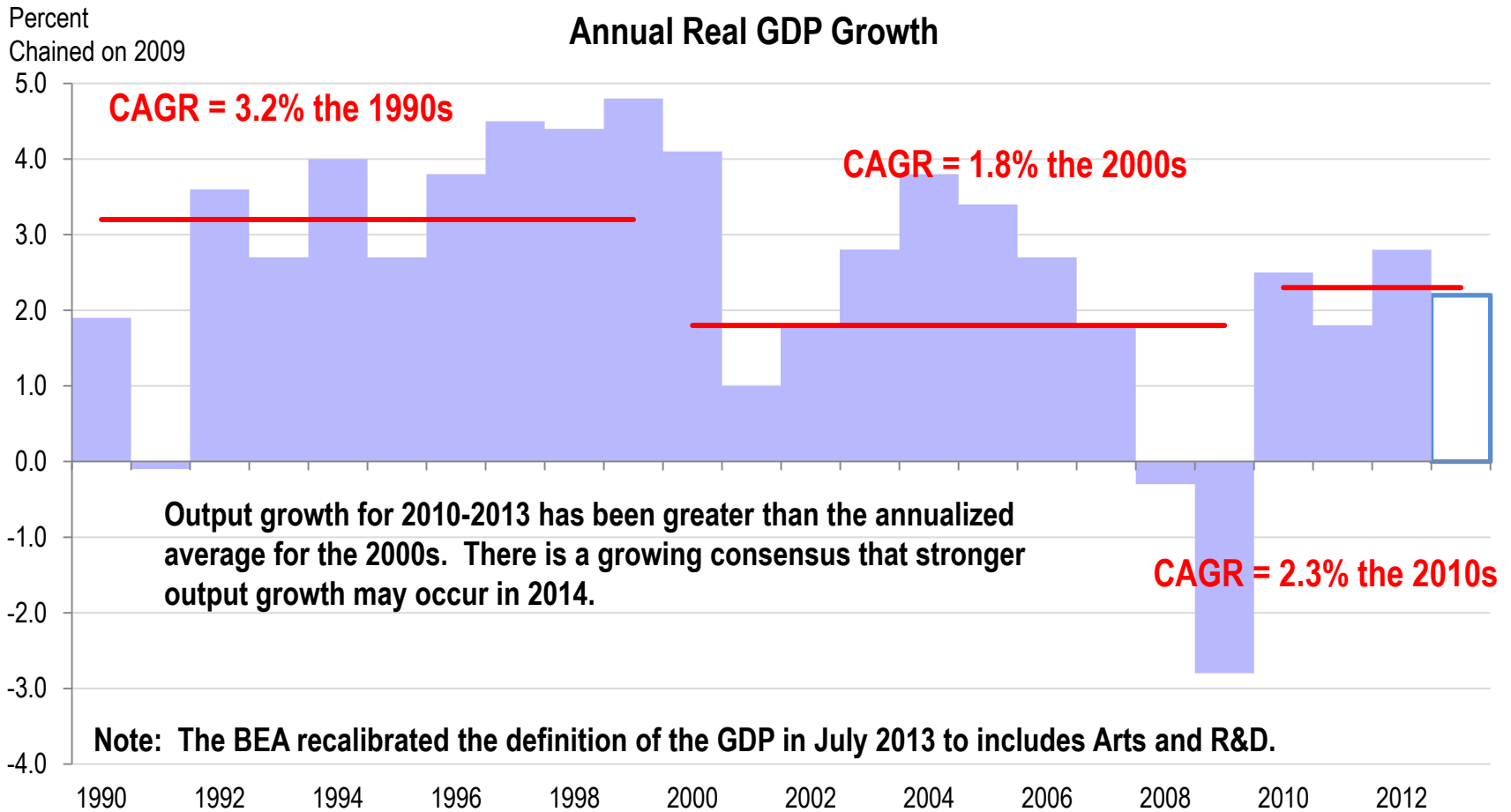
Source: BLS.

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Real US GDP Growth

Annual



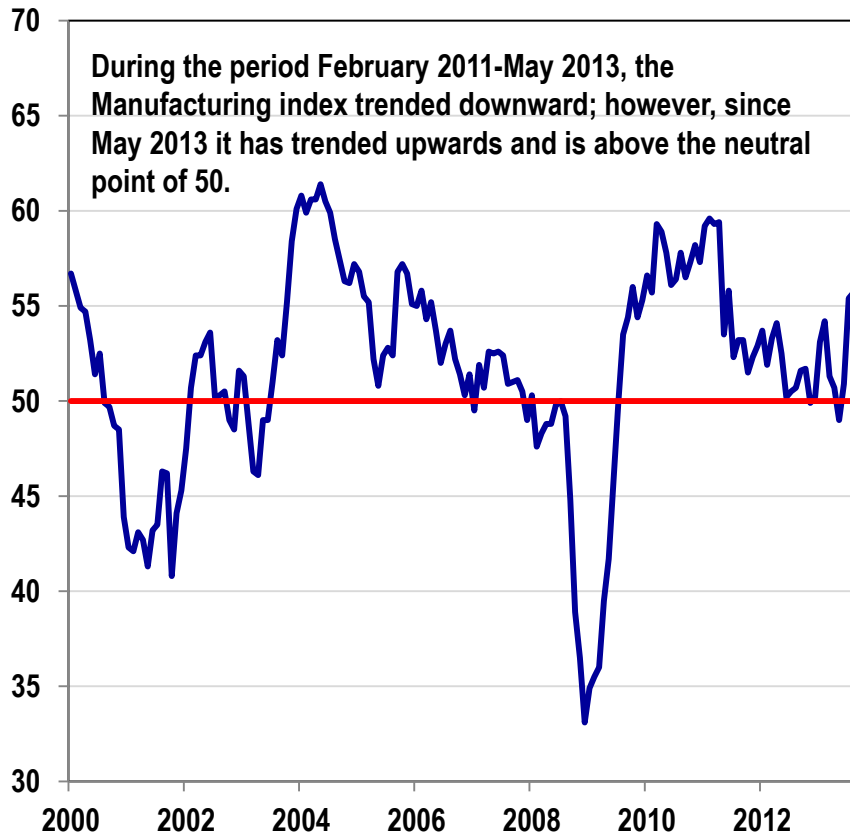
Source: Bureau of Economic Analysis, HIS, The Conference Board, CBER.

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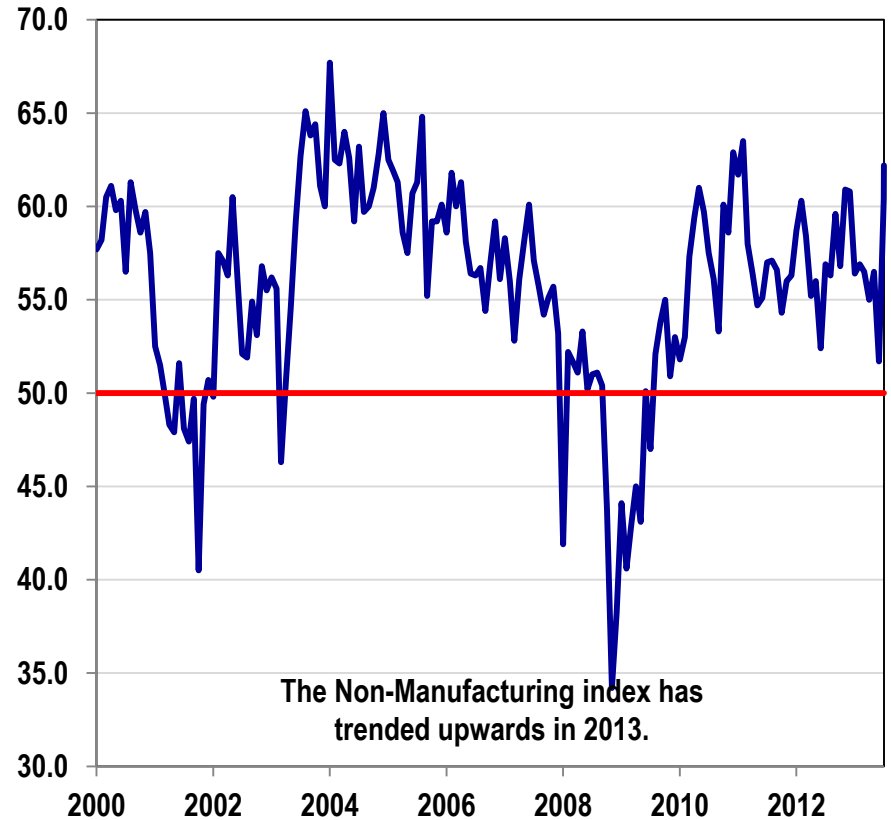
<http://cber.co>

ISM Indices

ISM Manufacturing Index



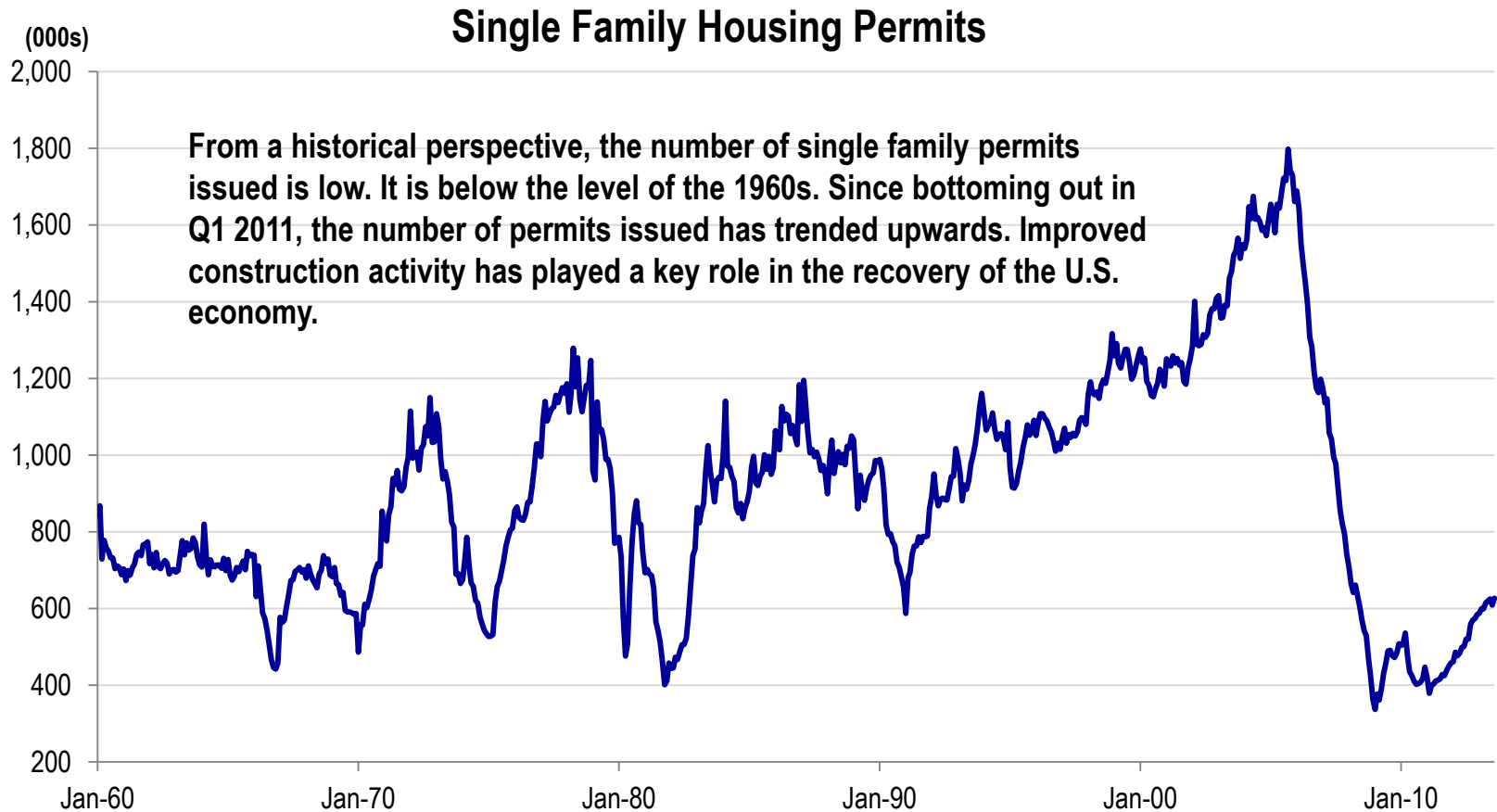
ISM Non-Manufacturing Index-Business Activity



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

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Single Family Housing Permits



Source: FRED, BEA.

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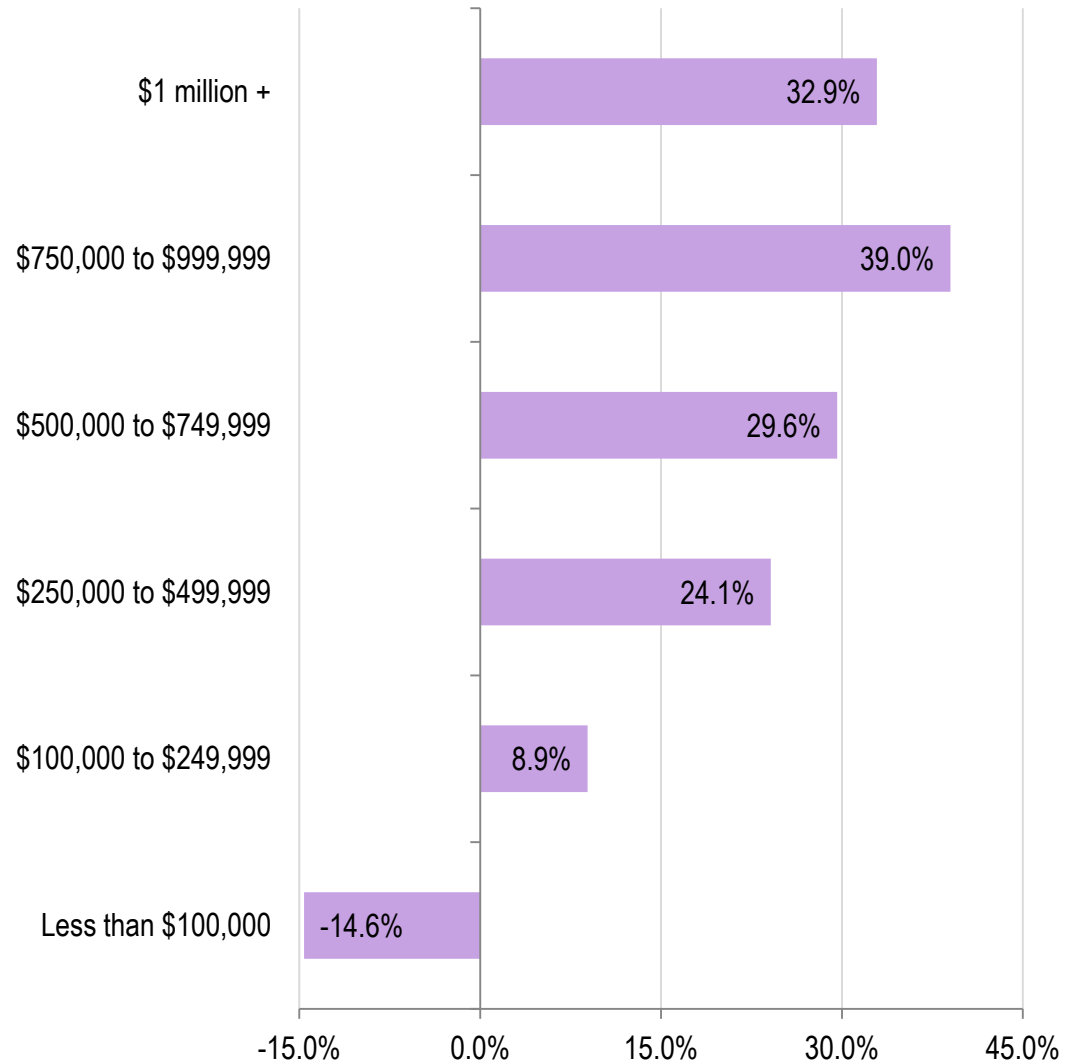
Existing Home Sales

The sale of existing homes reached a 6-1/2 year high in August 2013. This was driven by buyers taking advantage of low interest rates before they rise. Thirty-year fixed rates have risen almost a point since May.

Compared to a year ago, there were strong sales gains in all price categories except \$<100,000.

There are concerns that the recent influx of sales may subside because of the higher interest rates mentioned above. NAR also reports there is low inventory in some markets, which may constrain existing sales in the near term.

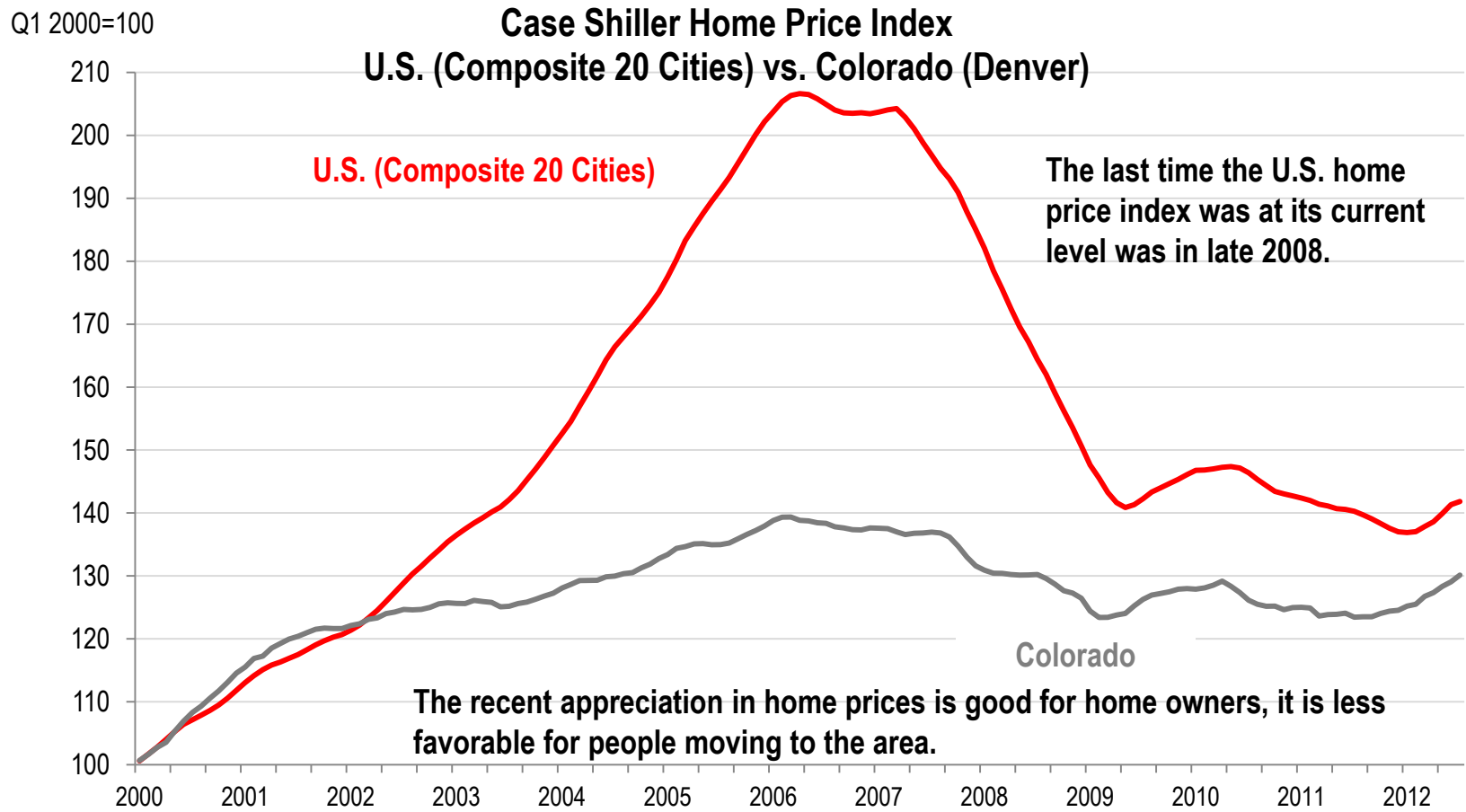
Percent Change in Existing Home Sales by Price Category Compared to a Year Ago



Source: National Association of Realtors.

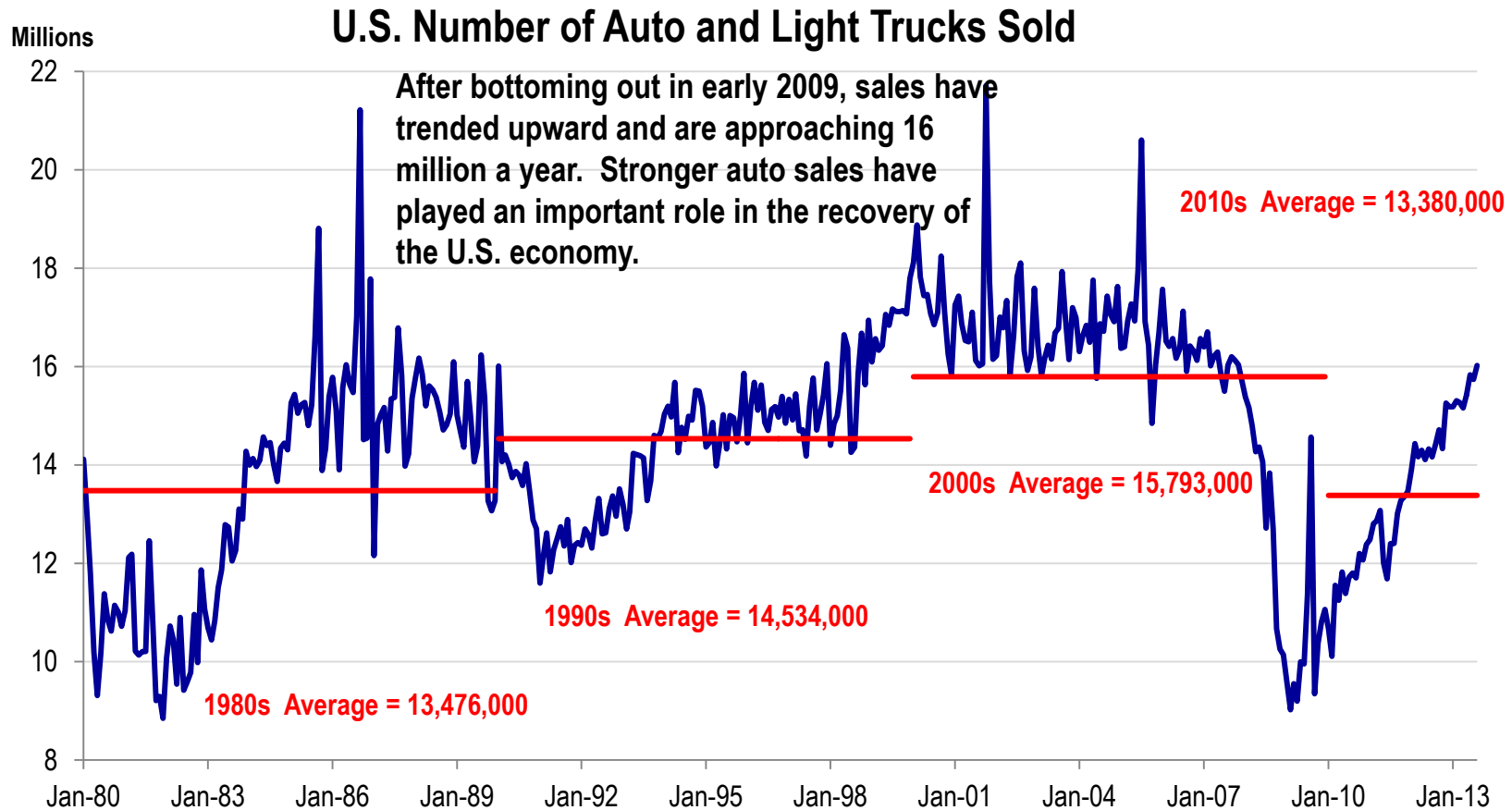
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Housing Prices – Case Shiller



Source: FRED, Case-Shiller, SA.

Weekly Auto and Light Truck Sales



Source: FRED, BEA.

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Summary of U.S. Economy

The Challenges

- The reasons the Federal Reserve decided to delay tapering of QE3 are not a good sign. It suggests one of two things, either Chairman Bernanke has decided to pass the decision onto his successor or the economy is not as strong as the Fed had hoped.
- Over the past six months long-term interest rates have risen by a point. This will slow existing home sales and new construction.
- Job gains for the summer months were subpar, on average 148,300 jobs were added for June, July, and August.
- Real GDP for Q2 was revised upwards from 1.7% to 2.5%, a positive sign. There was no change in the September revision to the GDP. Momentum has been lost. Many economists believe the Q3 GDP will be less than 2.0%.
- Although the unemployment rate is dropping steadily, the number of unemployed workers remains high, about 11.3 million. The most recent decline in the rate was for the wrong reasons, another decline in the participation rate.
- Political leaders are perceived as ineffective because of partisanship and “scandals”. Congress is poised to play another game of “chicken” with the federal budget.
- Foreign policy.
- The Affordable Care Act.

The Good News

- After a decline in August, the equities markets bounced back in September.
- The construction and automotive industries have provided a foundation for growth in the economy.
- Increased output will be driven by increased consumption and pent-up demand.
- Exporters should benefit from improvement in the European economy.
- Output and job growth continue to be subpar; however, they are positive. Most economists believe that 2014 will be stronger than 2013.
- In the next 18 months, solid growth is expected for housing starts, consumer spending, and capital expenditures.
- 2013 Output for the global economy is projected to grow by 2.9%; 1.2% for advanced economies and 5.0% for advancing economies.



Colorado Economy

Colorado Unemployment Rate and Number of Unemployed

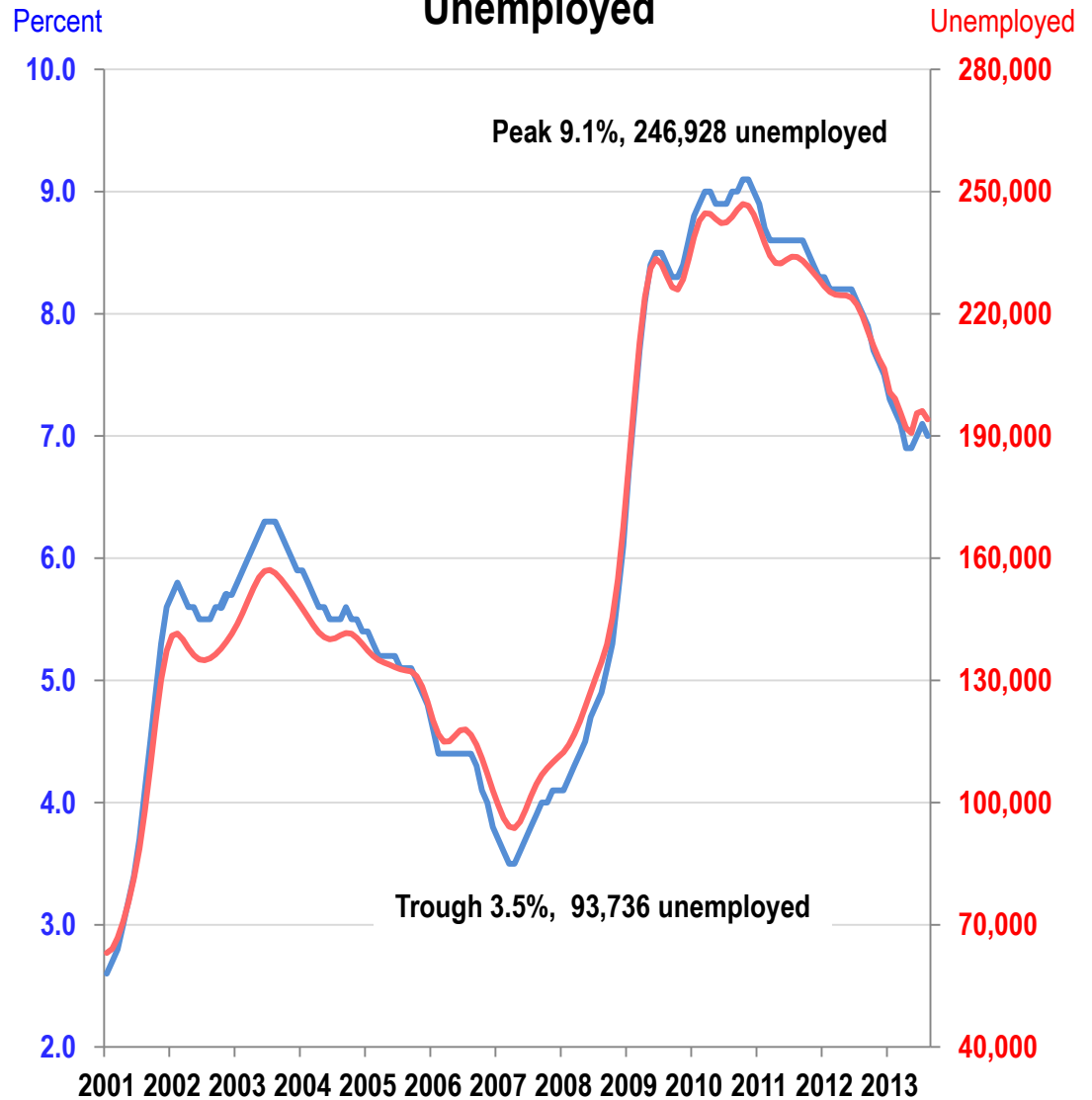
Both the unemployment rate and number of unemployed workers have trended downward since late 2010.

At the end of August 2013, the unemployment rate (blue) was 7.0%. Since March the rate has varied between 6.9% and 7.1%. This is lower than the U.S. rate.

In August 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 35 months since the peak, the number of unemployed workers has declined by only 52,860.

Unemployment Rate and Number Unemployed



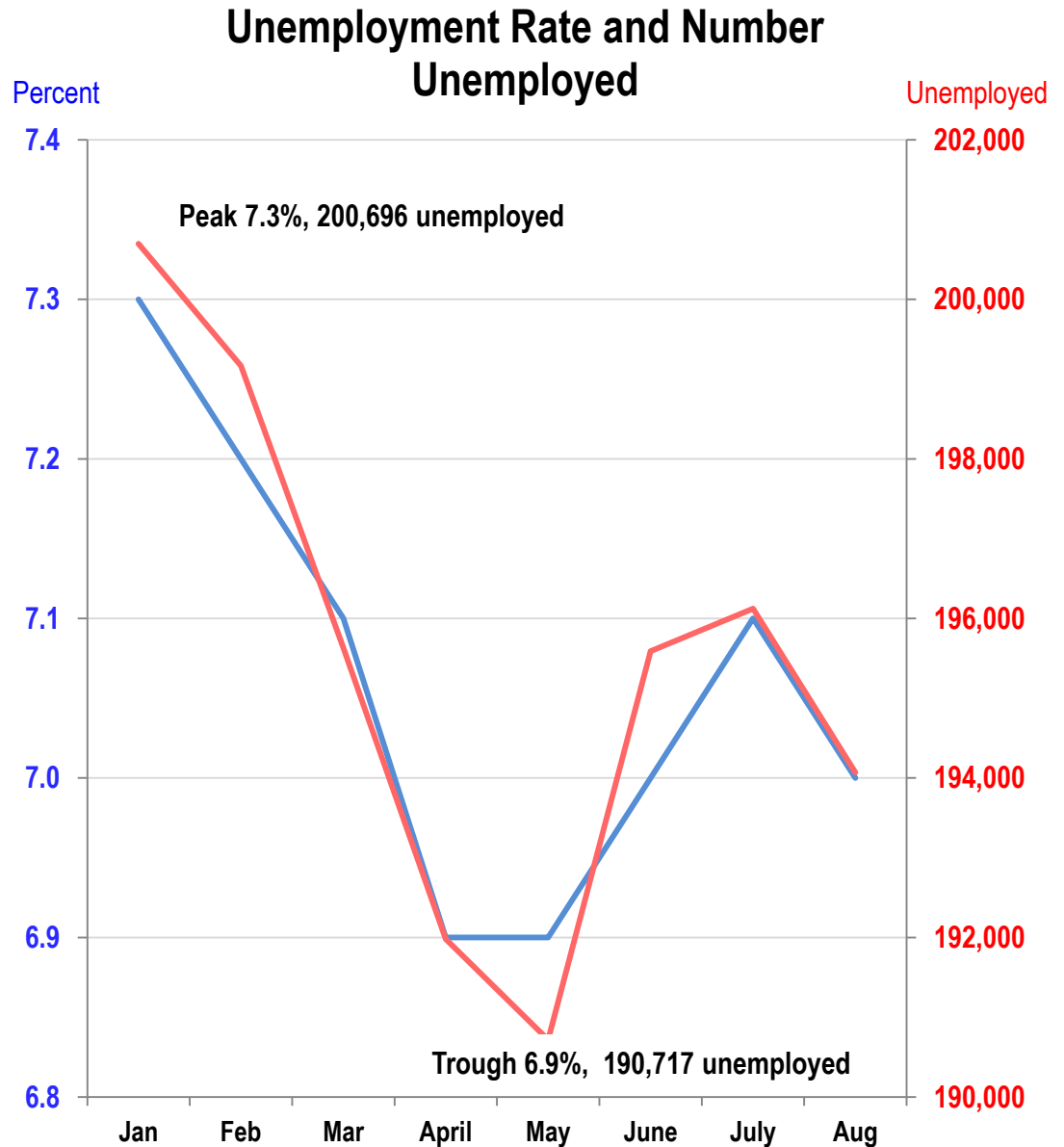
Source: Bureau of Labor Statistics, CBER.

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Colorado Unemployment Rate and Number of Unemployed 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 6.9% and 7.1% (blue) for the past six months. These changes are not significant.

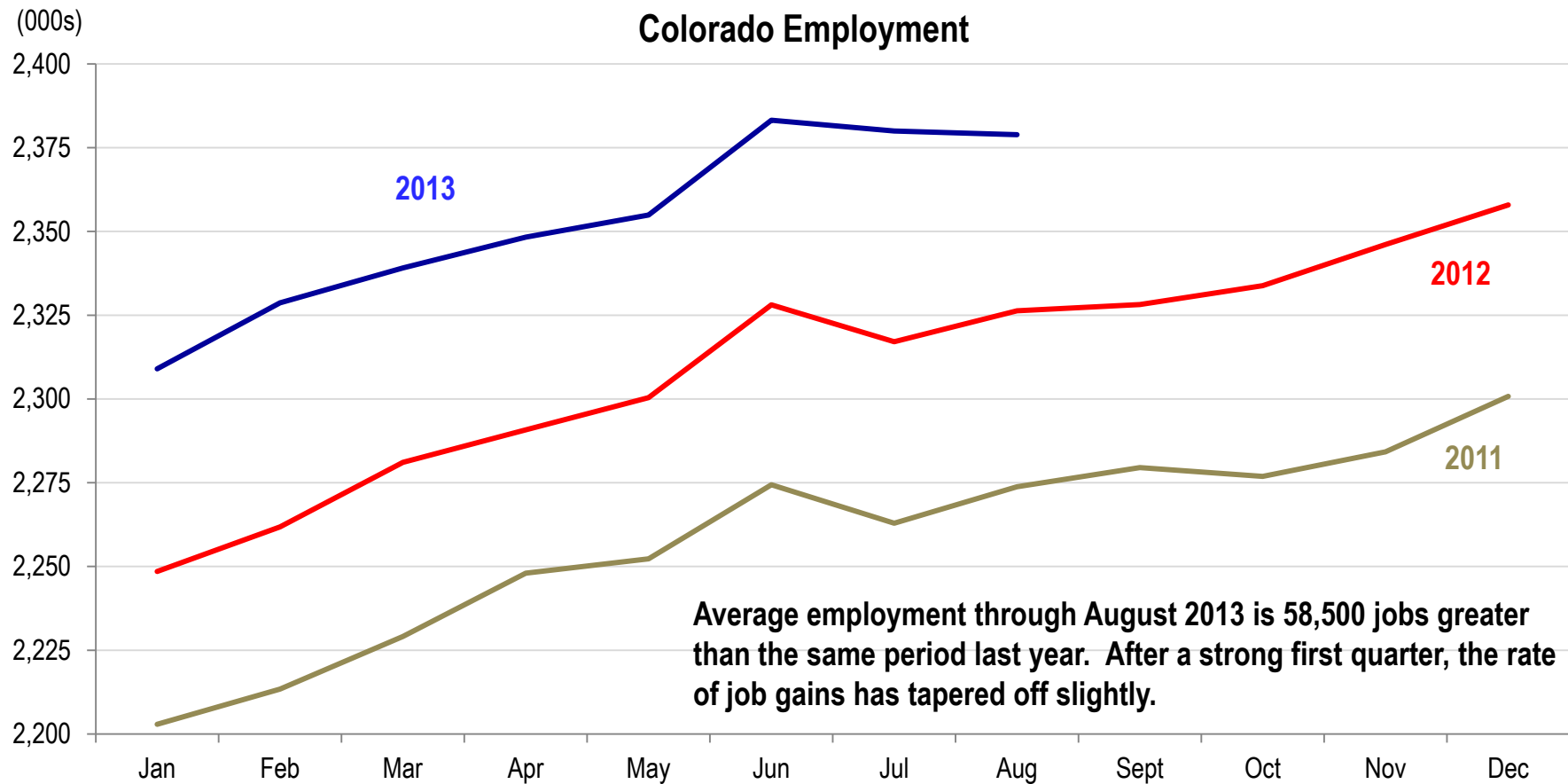
Despite solid gains in wage and salary employment, the number of unemployed workers declined by 6,628 between January and August. The decline from March to August has only been 1,561.



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.

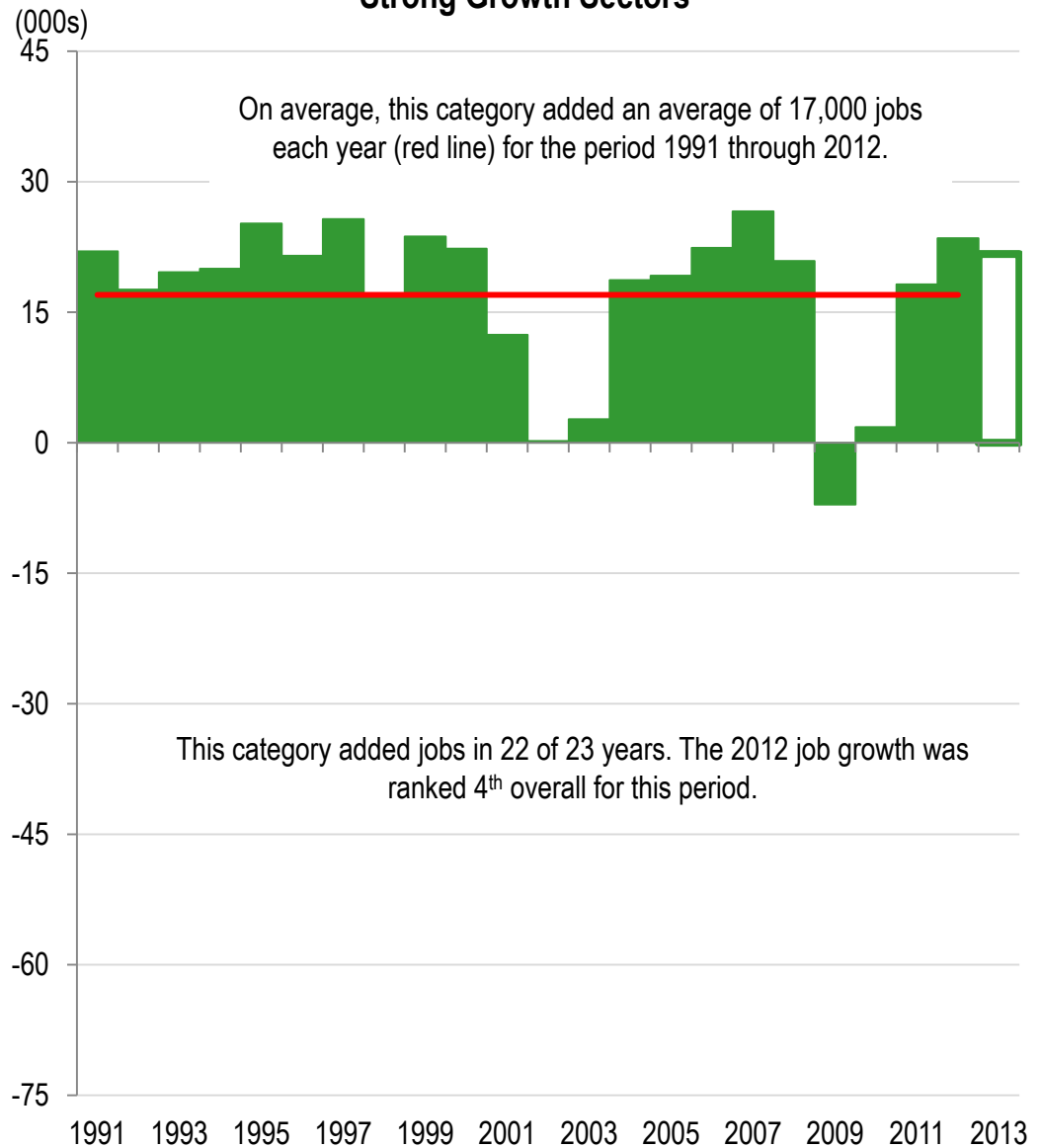
Total employment for this category was:

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



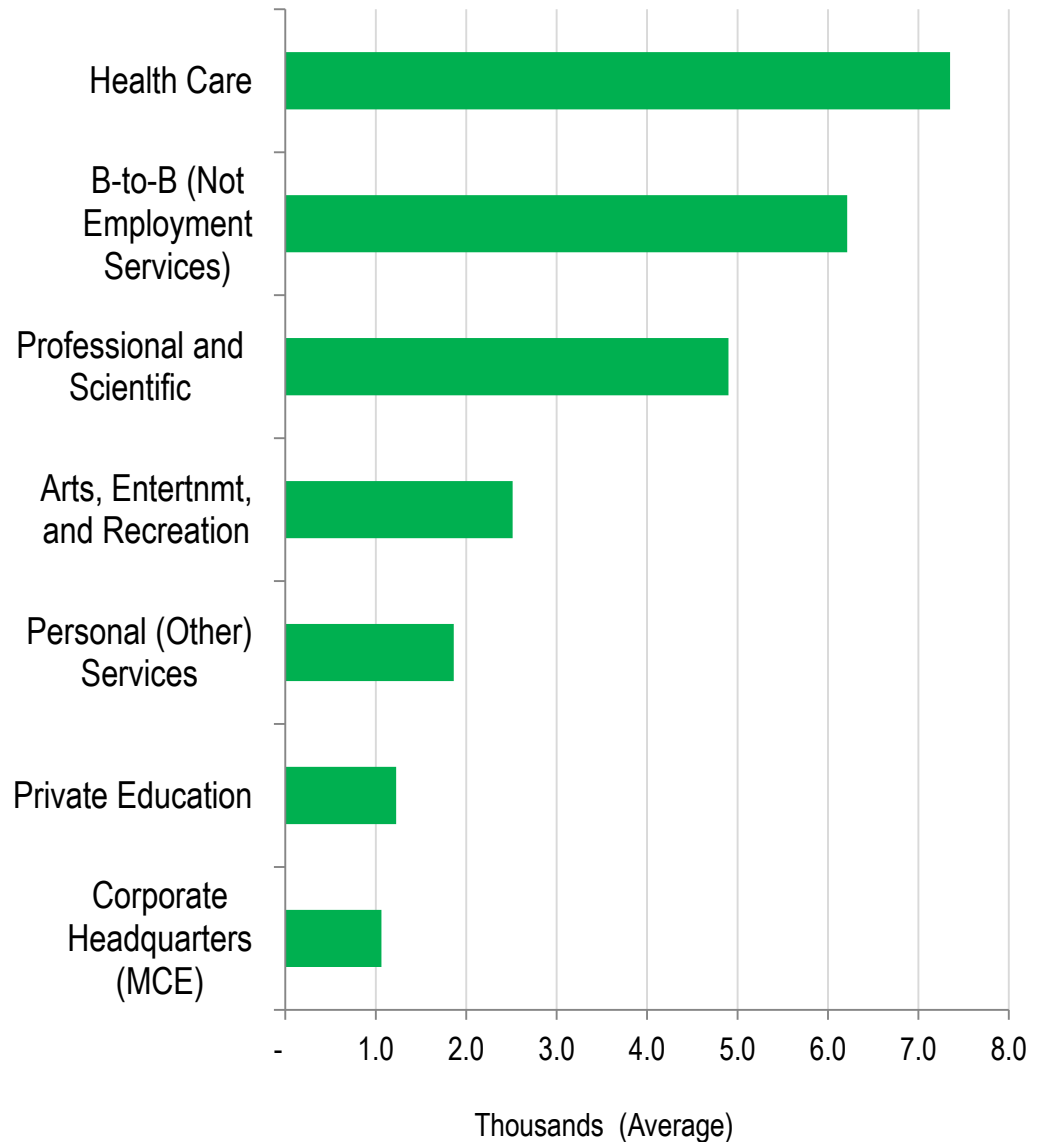
Source: Bureau of Labor Statistics, CBER.

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Job Change in 2013

Solid Growth Sectors

- Average employment for the solid growth sectors through eight months is 25,100 greater than the same period in 2012.
- These sectors account for 32.3% of total employment. They have accounted for 42.9% 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.

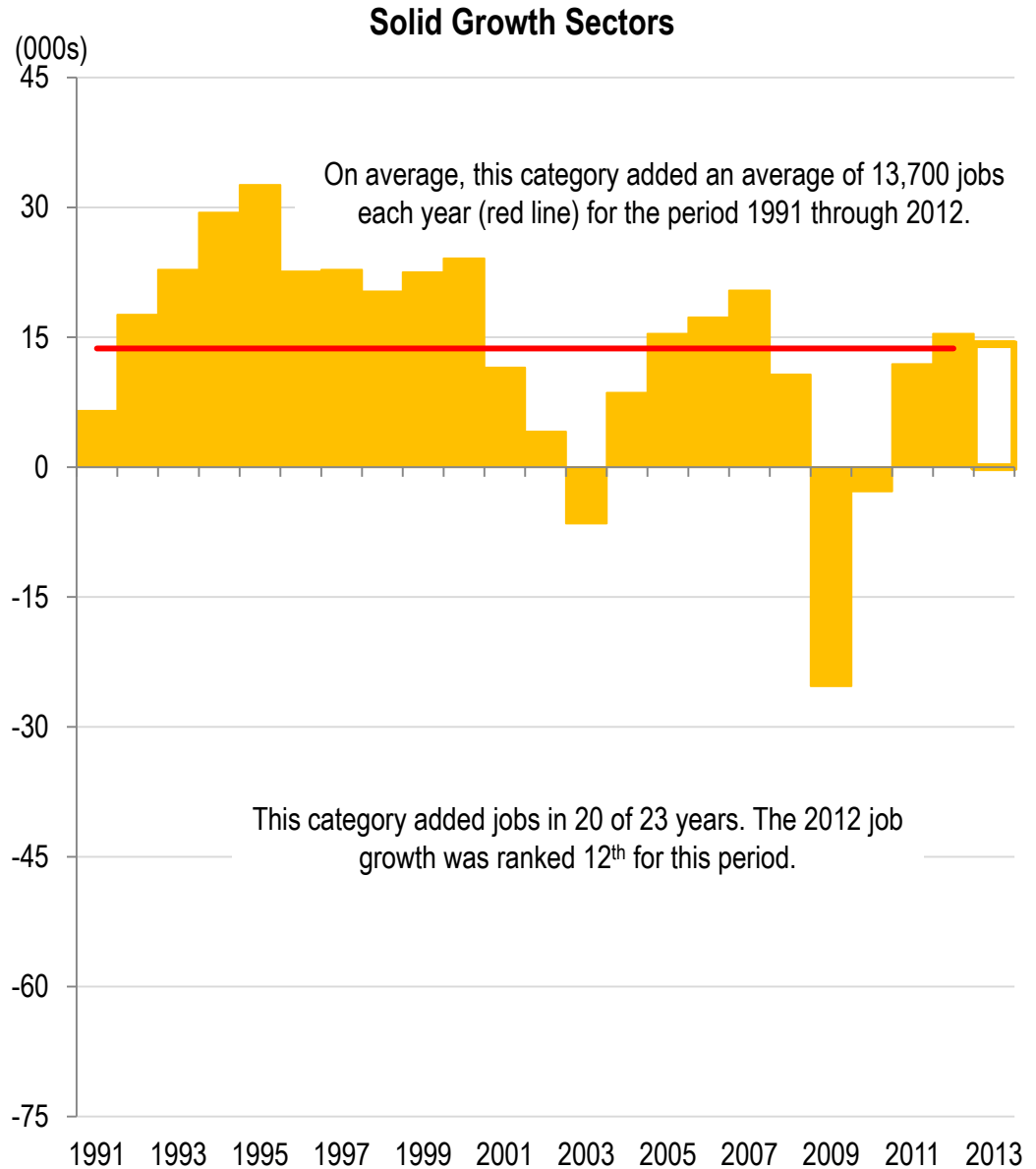
- Wholesale Trade
- Retail Trade
- State (Not Higher Education)
- Higher Education
- Local (Not K-12 Education)
- K-12 Education
- Accommodations and Food Services

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.

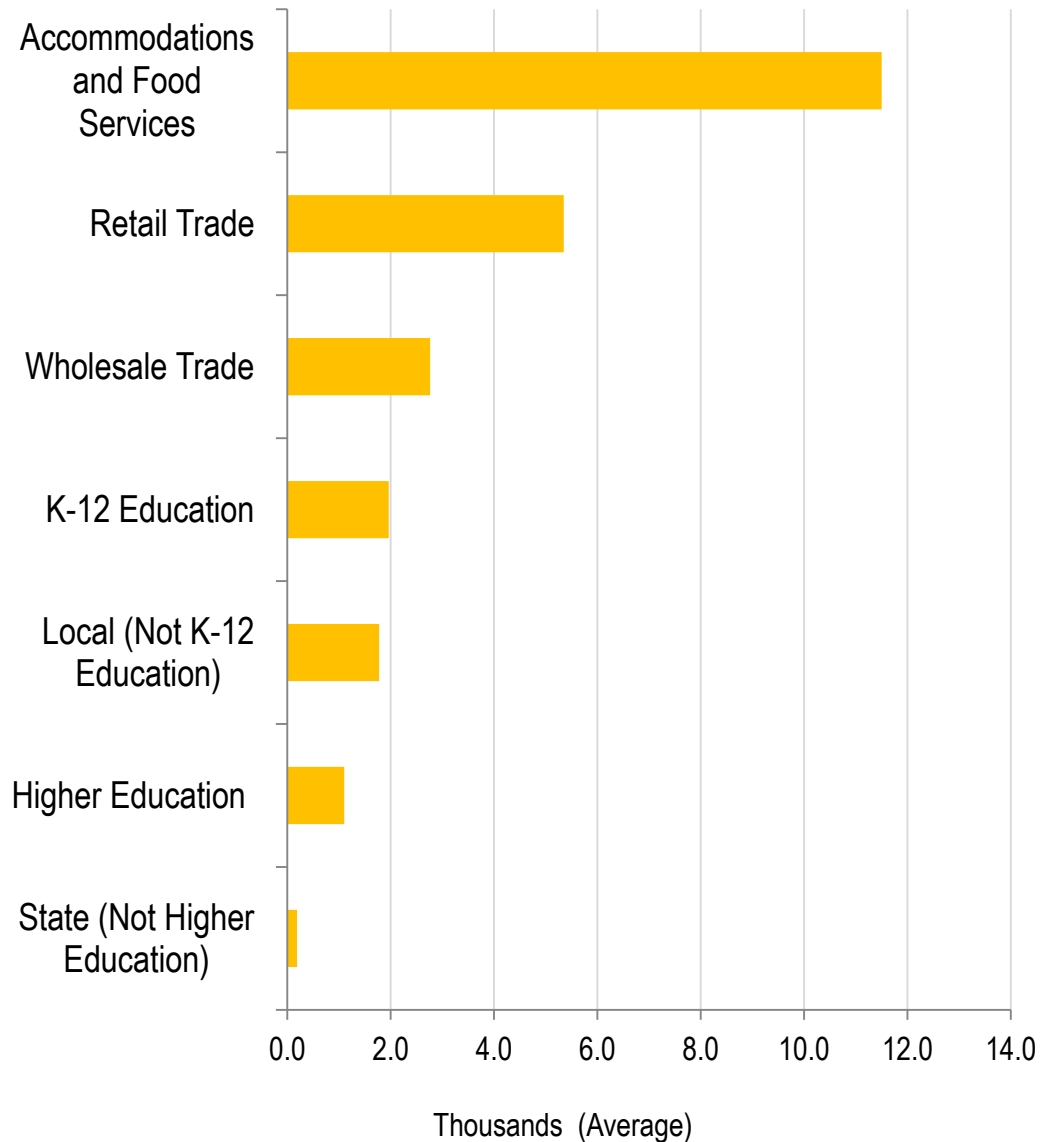
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Limited Growth Sectors

- Average employment for the limited growth sectors through eight months is 24,700 greater than the same period in 2012.
- These sectors are 39.4% of total employment. They have accounted for 42.1% 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.

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Annual Employment Situation for Volatile Growth Sectors

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

The sectors are:

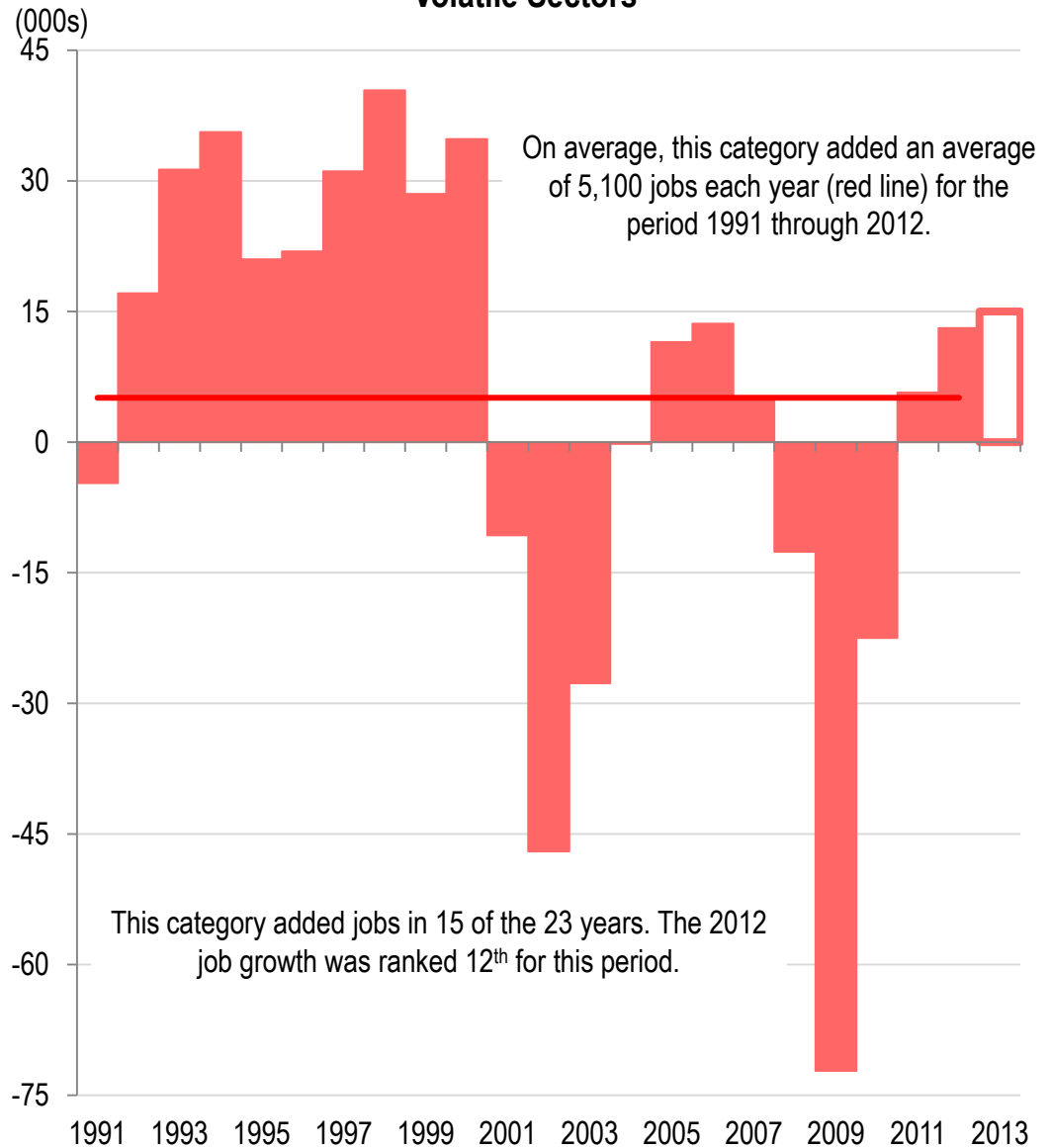
- Natural Resources and Mining
- Construction
- Manufacturing
- Transportation, Warehousing, and Utilities
- Employment Services
- Financial Activities
- Information
- Federal Government

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



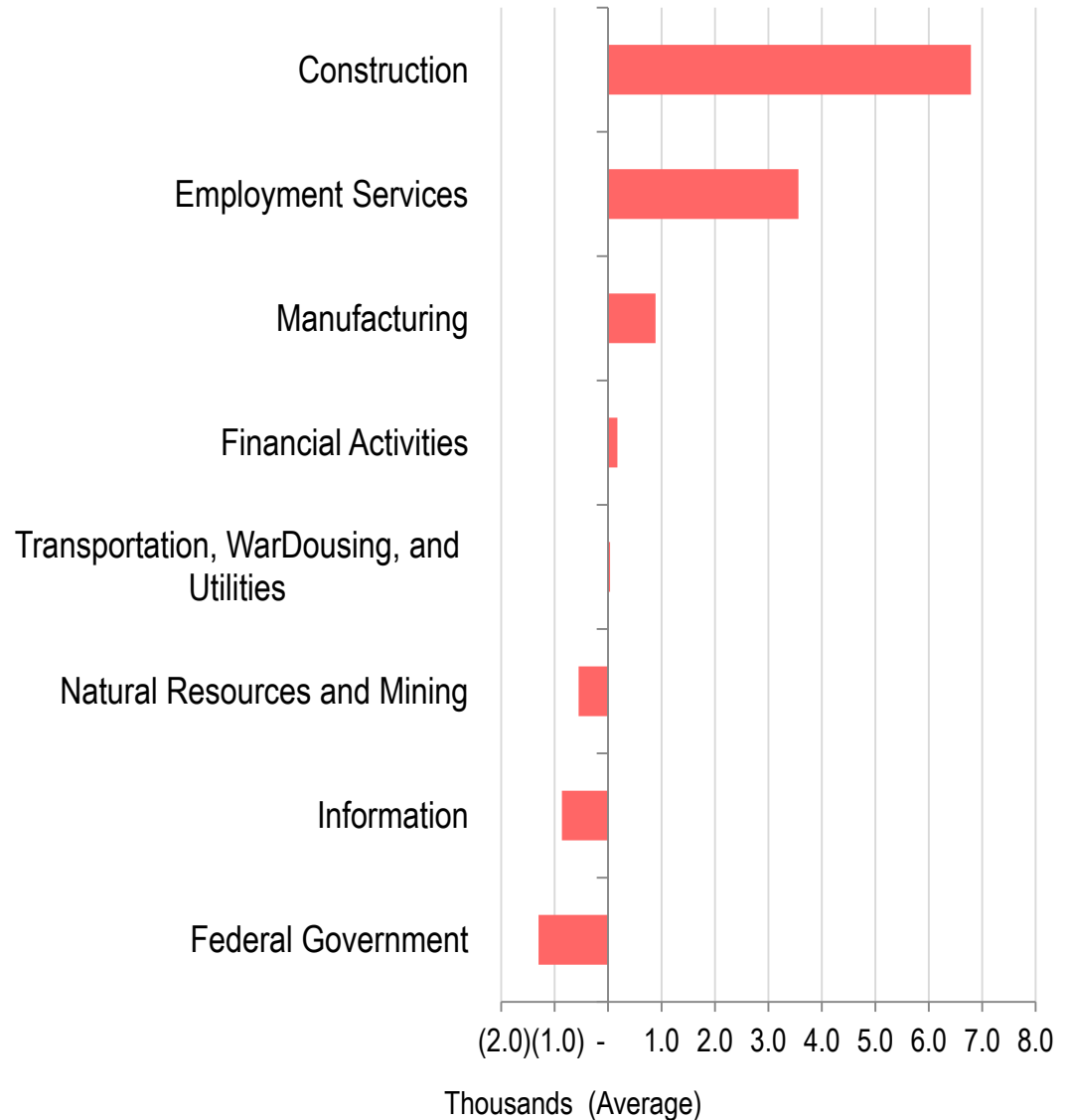
Source: Bureau of Labor Statistics, CBER.

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Job Change in 2013

Volatile Sectors

- Average employment for the limited growth sectors through eight months is 8,700 greater than the same period in 2012.
- These sectors are 28.2% of total employment. They have accounted for 14.9% of job growth in 2013.
- These sectors were forecasted to add 13,000 to 17,000 jobs in 2013.



Source: Bureau of Labor Statistics.

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<http://cber.co>



Questions and Answers



Question and Answers

The next series of slides address the following questions:

- How strong are Colorado households?
- How volatile has the stock market been?
- What are the pros and cons of Amendment 66?
- What are others saying about the state economy?

Questions and Answers

How Strong are Colorado Households?

The Credability Consumer Distress Index measures the health of households based on employment, housing, credit, household budgets, and net worth.

How is this metric trending for Coloradans?

Both the Colorado economy and the financial condition of consumers have improved; however, the financial condition of Colorado consumers remains at risk in 2013.

Colorado Households Remain at Risk

The Index is a quarterly comprehensive picture of the average American household's financial condition. It converts a complex set of factors into a single, easy to understand number. Financial distress is measured on a 100 point scale and a score under 70 indicates financial distress.

The index measures five categories of personal finance that reflect or lead to a secure, stable financial life—**Employment, Housing, Credit, Household Budget and Net Worth**. Each category has equal weighting.

90 and Above Excellent / Secure

80 – 89 Good / Stable

70 – 79 Weakening / At-Risk

60 – 69 Distressed / Unstable

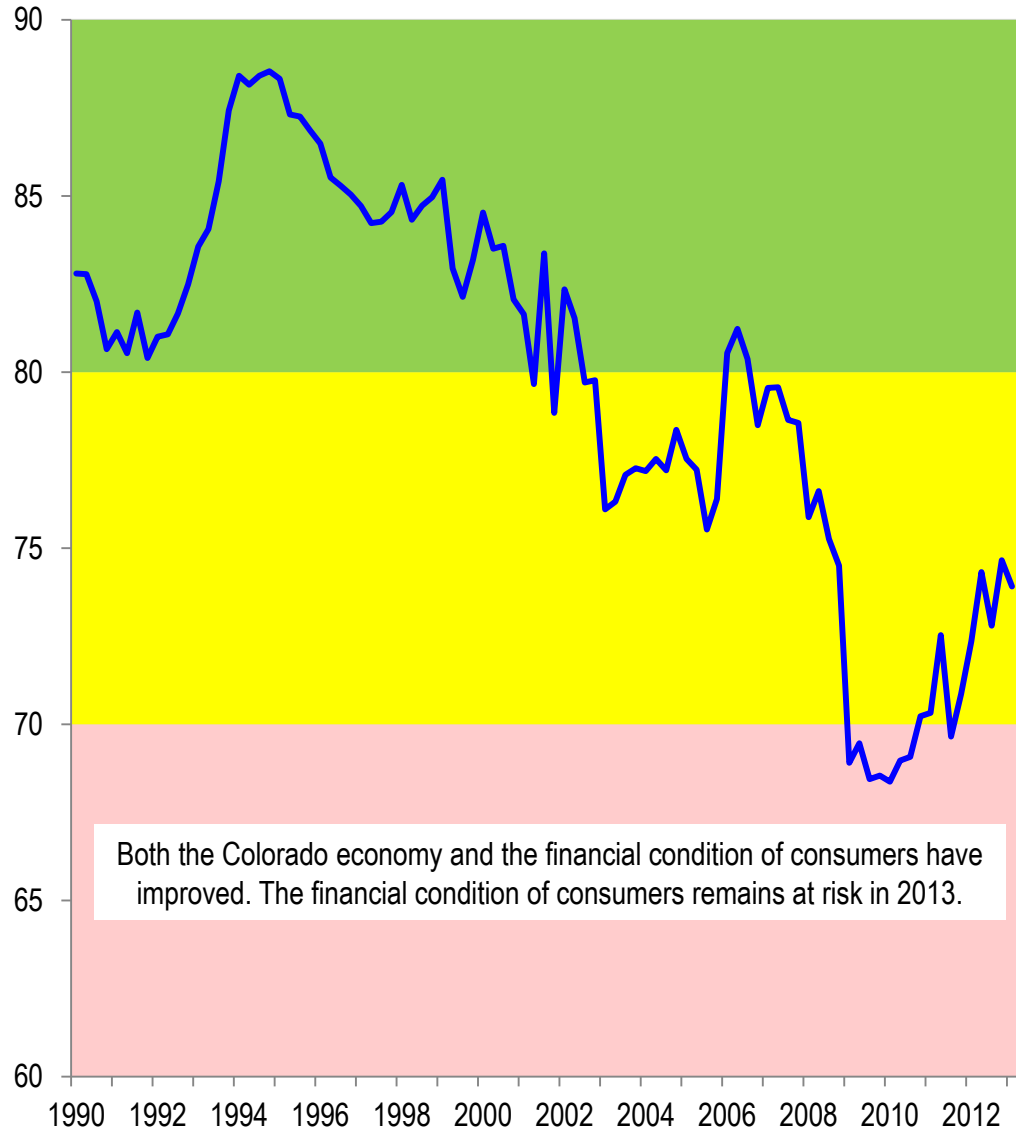
Less than 60 Emergency / Crisis

From 1990 through 2002 the index was above 80; household finances were thought to be stable.

From 2003 to 2008 the index dropped into the At Risk category. For seven quarters beginning in Q1 2009 the CCDI was in the unstable category.

Since Q4 2011 the CCDI has been in the At Risk category. Coloradans fare better than the U.S. on the CCDI.

Colorado CredAbility Consumer Distress Index



Source: Credability Nonprofit Credit and Counseling Education, FRED.

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<http://cber.co>

Questions and Answers

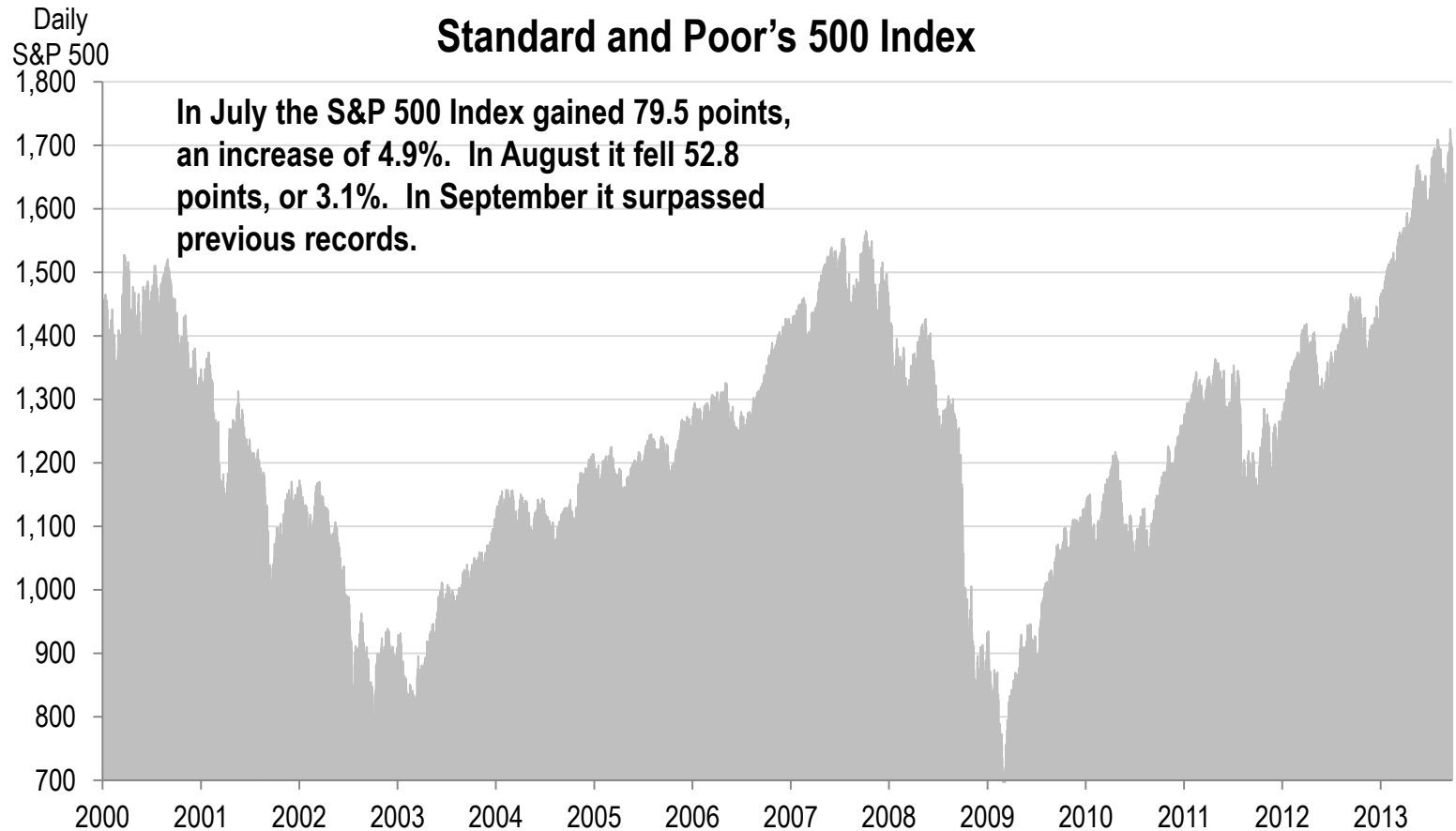
How Volatile has the Stock Market Been?

Recently, there has been turmoil that has had an impact on equity prices. Did Syria use chemical weapons? Is the Federal Reserve going to begin to taper off on bond purchases? Who is going to chair the Fed? Is Congress going to play “chicken” with the Federal budget? Are output and job growth increasing at a diminishing rate?

In August the S&P 500 dropped 800 points, but it reached record highs in September.

How much have these factors 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

What are the Pros and Cons of Amendment 66?

Amendment 66 proposes that the Colorado Constitution and the Colorado Statutes be amended to change how the state funds public preschool through twelfth grade (P-12) education by raising taxes by almost \$1 billion.

The next slides include highlights from the Colorado Blue Book on this topic. This document will be mailed to voters and is available on line.

Questions and Answers

How Much are Individual Taxes Increased?

Based on the examples analyzed by the Colorado Legislative Council, households that have gross income of \$100,000 or less would see their income tax liability increase by 8%.

Households with gross income of \$150,000 will see an increase of 14% for their state income tax liability.

Finally, households with gross income of \$200,000 will experience an increase of 18% in their tax liability.

For most households, these are significant increases.

Examples of Tax Liability Under Current and Proposed Amendment

Gross Income	Colorado Taxable Income	Current Law State Income Tax Liability	Amendment 66 State Income Tax Liability	Amount of Annual Increase	Percent Annual Increase
\$50,000	\$26,300	\$1,218	\$1,315	\$97	8%
\$100,000	\$65,600	\$3,037	\$3,280	\$243	8%
\$150,000	\$109,900	\$5,088	\$5,809	\$721	14%
\$200,000	\$154,000	\$7,130	\$8,411	\$1,281	18%

Note: In 2011, Colorado's Median Gross Household Income was \$55,000.

Note: Taxable income may vary based on actual household.

Source: 2013 State Ballot Information Booklet

Source: CLC.

Questions and Answers

Justifications For and Against

The following points summarize the pros and cons of Amendment 66 from the Blue Book, <http://www.colorado.gov/cs/Satellite/CGA-LegislativeCouncil/CLC/1200536134742>.

Justifications for Amendment

- The additional funding will allow local boards of education to target areas where research suggests investments are likely to produce improved student outcomes.
- Restoring recent funding shortfalls benefits the state's schools and communities and it provides a positive signal to companies looking to relocate or to expand in Colorado.
- The measure will restore funding to public schools and provide taxpayers with improved accountability by measuring how the ROI of the investment.

Justifications against Amendment

- This tax increase of nearly \$1 billion may reduce money that households have to spend or save, thus jeopardizing growth of the state's economy.
- This measure does not provide significant educational reform or accountability and does not guarantee increased academic achievement.
- Taxpayers in some school districts will pay more in new taxes than these districts will receive in new revenue.

Questions and Answers

Questions For and Against

The basic premise of Amendment 66 is to improve the quality of education for the youth of Colorado. It is hard to believe that anyone is opposed to that concept. At the same time there are other concerns or questions about the proposed amendment. Some of these are listed below.

1. The 2011 median household income for Colorado was \$55,000. In other words, half the households in the state have an income less than \$55,000. The number of unemployed workers remains high, wage increases are low, and inflation is expected to increase at a faster rate in the near-term. There are many families in Colorado who cannot afford the increase in taxes to support Amendment 66.
2. Have the Colorado Education Association and other teacher's unions acted in good faith regarding the amendment? Editorials in the state's leading newspapers have expressed concern that unions will support the amendment then work to work around it once it is put in place.
3. Is the amendment a payback to teacher's unions for their support in previous elections or is it an attempt to get the unions under control?
4. How will the amendment strengthen the education system in all 64 counties?
5. Will the amendment produce an education system that teaches students personal skills and critical thinking? Will it provide students with skills that will prepares them for the workforce?
6. If the amendment passes, the size of the educational bureaucracy will increase. Are there assurances that the focus will remain on benefitting the students, rather than increasing the number of administrators?
7. The state has had difficulty managing and enforcing regulations for immigration, unemployment insurance, and the medical marijuana industry. Given this track record, will they be able to do a better job holding the education system accountable, i.e. realistically measuring the ROI on something as intangible as education.
8. On average, the state has more than 125,000 local public education employees. Between 1991 and 2012 sector employment grew at an annualized rate of 1.97% compared to 1.92% for total employment. Local public education added jobs during the 2001 recession and only saw slight job losses during the Great Recession. Local public education employment has fared well compared to most other industries. Has local public education been sufficiently served by Amendment 23?
9. Amendment 23 was passed to reduce the chance that local public education would be hurt by budget cuts. While the amendment has positively impacted local public education funding and employment, it has forced funding reductions in other key services. Will Amendment 66 eliminate Amendment 23 or alter the restrictions it places on the state budget?
10. Will the amendment produce an education system that improves graduation rates and reduces the need for remediation for students who plan to attend college?

Questions and Answers

What are the Most Compelling Reasons for Supporting and Opposing Amendment 66?

The most compelling reason to support Amendment 66 is the additional funding may improve some aspects of the local public education system.

Given the state of the economy for the past 12 years, the most compelling reason for opposing Amendment 66 is that the increase in taxes may be too high for many Colorado households.

Questions and Answers

What Are Others Saying About the Colorado Economy?

On September 20, the Colorado Legislative Council (CLC) and the Governor's Office of State Planning and Budgeting (OSPB) released their quarterly economic updates for Colorado. The recent updates for both groups were much more optimistic than their December 2012 reports.

The following slides highlight key economic indicators provided by both groups for Colorado.

Questions and Answers

What is CLC Saying About the Colorado Economy?

On September 20, 2013 CLC released its quarterly economic update for Colorado. It was much more optimistic than the December 2012 outlook.

December 20, 2012 Outlook

CLC projected that in 2013:

- The unemployment rate will remain relatively unchanged (7.8%).
- 23,000 wage and salary jobs will be added.
- Retail trade sales will increase by 4.1%.
- 25,300 home building permits will be issued.
- Inflation will increase by 2.1%.

September 20, 2013 Outlook

CLC projected that in 2013:

- The unemployment rate will drop to 7.2%.
- 55,400 wage and salary jobs will be added.
- Retail trade sales will increase by 3.4%.
- 29,900 home building permits will be issued.
- Inflation will increase by 2.9%.

The economy has been stronger than CLC anticipated in December, particularly in the areas of job growth and construction. Consumers have remained more cautious than expected as retail trade sales increased by only 3.4%. Inflation grew at a faster rate than anticipated.

Source: CLC.

Questions and Answers

What is OSPB Saying About the Colorado Economy?

On September 20, 2013 OSPB released its quarterly economic update for Colorado. It was much more optimistic than the December 2012 outlook.

December 20, 2012 Outlook

OSPB projected that in 2013:

- The unemployment rate will remain relatively unchanged (7.9%).
- 28,200 wage and salary jobs will be added.
- Retail trade sales will increase by 3.8%.
- 26,300 home building permits will be issued.
- Inflation will increase by 2.9%.

September 20, 2013 Outlook

OSPB projected that in 2013:

- The unemployment rate will fall to 6.9%.
- 60,700 wage and salary jobs will be added.
- Retail trade sales will increase by 4.8%.
- 29,600 home building permits will be issued.
- Inflation will increase by 2.6%.

The economy has been stronger than OSPB anticipated in the areas of job growth and retail sales. Construction has grown as expected and inflation will increase at a slightly lower rate than anticipated.

Source: OSPB.

Questions and Answers

What do CLC and OSPB Say About the Colorado Economy in 2014?

Both CLC and OSPB are optimistic about the outlook for 2014. Their projections will be updated every quarter. Check back on December 20th.

CLC September 20, 2013 Outlook for 2014

- The unemployment rate will drop to 6.9%.
- 55,400 wage and salary jobs will be added.
- Retail trade sales will increase by 5.4%.
- 35,400 home building permits will be issued.
- Inflation will increase by 3.2%.

The economy will continue to add jobs at a similar rate as in 2013, but unemployment will not decline substantially. Retail trade sales will show strong growth. The housing market will continue to support growth in the economy. Inflation may become an issue.

OSPB September 20, 2013 Outlook for 2014

- The unemployment rate will decline to 6.5%.
- 57,500 wage and salary jobs will be added.
- Retail trade sales will increase by 5.4%.
- 37,300 home building permits will be issued.
- Inflation will increase by 2.4%.

The economy will continue to add jobs at a similar rate as in 2013, but unemployment will not decline significantly. Consumers will be less cautious and retail trade sales will show strong growth. The housing market will continue to support growth in the economy. Inflation will remain in check.

Source: CLC and OSPB.

Questions and Answers

Where can CLC and OPSG Economic Updates be Found?

CLC and OSPB produce comprehensive quarterly updates about the state economy. They are released around the 20th of the month in March, June, September, and December. The updates include discussions about state funding as well as regional and industry updates.

Google “Colorado Legislative Council” to find the reports or go to:

<http://www.colorado.gov/cs/Satellite/CGA-LegislativeCouncil/CLC/1200536133919>.

Google “OSPB Colorado” or go to:

<http://www.colorado.gov/cs/Satellite/OSPB/GOVR/1218709343298>

The reports produced by both groups are “must read” material for anyone interested in the state economy.

Source: CLC and OSPB.

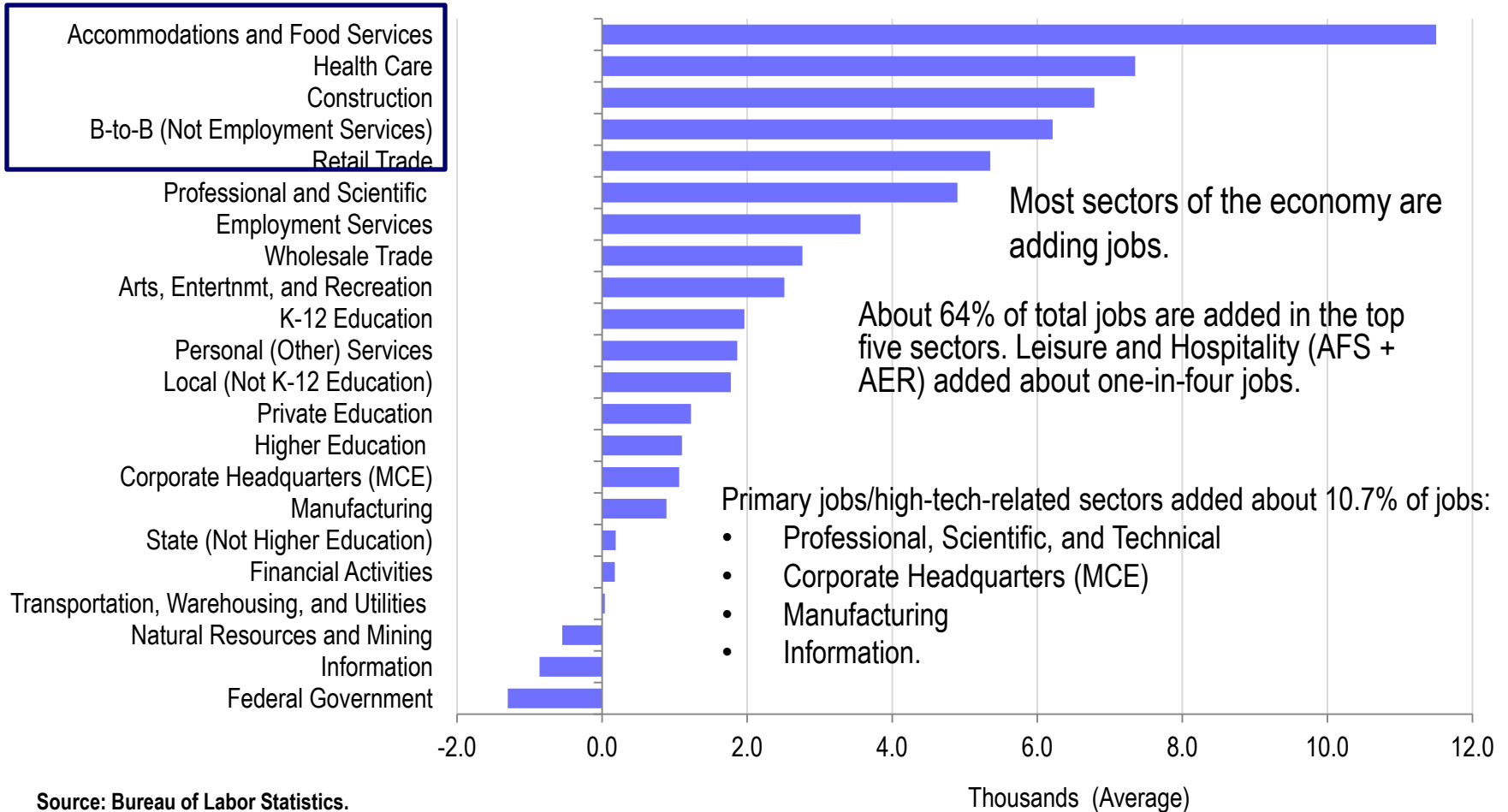


Summary

Job Change All Sectors

First Eight Months 2013

Job Change All Sectors



Source: Bureau of Labor Statistics.

Colorado-based Business and Economic Research
<http://cber.co>



Summary of the Colorado Economy

Good News

- Not much has changed!
- The state continues to add jobs at a steady rate and job growth is broad-based.
- There has been continued improvement in real estate markets – which is mixed news. This is good news for property owners, but may be bad news for newcomers to the state or people getting 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

- The flood. It is impossible to measure the tangible and intangible damage and loss of personal wealth from the flood.
- There will be a loss of small businesses in flooded areas. Some people will not be able to re-open their businesses.
- Government assistance and insurance will cover only a portion of the damage from the flood.
- Given the damage to the infrastructure this is a time for state leaders to re-evaluate its priorities and put transportation at the top of the list.
- There should be greater concern about the limited number of primary jobs that are being added.
- The unknown impacts of the Affordable Care Act (these impacts may be positive or negative).
- Over the past six months the unemployment rate for Colorado has remained unchanged and the number of unemployed workers has not declined significantly.

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



Review of Colorado Economy First Eight Months of 2013

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