

INDEX OF LEADING ECONOMIC INDICATORS

No credit, no construction; region's economy slows

Employment growth looks like it's 1999 in Northern Colorado

The Northern Colorado Business Report Index of Leading Indicators continues its decline. I thought the 2006-07 decrease in the growth rate would define the bottom of the current slowdown in the Northern Colorado economy, but it looks like I will be decisively proven wrong. Through July, May was the only month in 2008 that showed an increase over 2007 levels of economic activity. The outlook for the rest of 2008 does not look promising, given the decreases in discretionary consumer spending and continuing weakness in the homebuilding and financial sectors.

About the only sector keeping the U.S. economy from negative recessionary growth is exports. And Colorado, buried deep in the interior, is not benefiting greatly from the dollar's weakness and the resulting competitiveness of U.S. products in foreign markets. Transportation fuel costs are too great to overcome. In addition, the recent strength of the dollar is reducing the competitiveness of U.S. products while making energy imports cheaper.

Employment

Employment growth in Northern Colorado is weakening. The summer boost to employment was below the trend line in all months through July, the first time this has happened since 1999. Layoffs are occurring in Northern Colorado, but they are not well publicized.

Firms in the financial and service sectors are reducing their workforces, but only in twos and threes, not the type of news worthy of headlines.

However, the unemployment rate is only about 5 percent, compared to over 6 percent at the national level. But the unemployment rate in Northern Colorado was below 3.5 percent in early 2007. These differences are a portrait of what's happening to the local economy; it's slowing from recent levels but not as rapidly as the U.S. economy.

Construction

The total value of construction put in place increased strongly in May, the only encouraging month so far in 2008 and the sole cause of the May increase in the Index

of Leading Indicators.

June and July were much weaker than the same months in 2007. The fall and winter months are typically much weaker in the construction industry and I think construction will pull the Index to new lows, especially if we experience an early, cold, snowy winter. I think the gloom, by spring, will be widespread.

Construction will be pulled down by lack of credit. The federal bailout of Fannie Mae and Freddie Mac will not be a big help to the housing market because getting the credit to consumers is an entirely different step in the financing process.

The federal government is watching the banks and other lenders very closely these days, making them toe the line in evaluating credit worthiness. Thus, lenders are using the new availability of money to improve their balance sheets rather than aggressively increasing the amount of credit available. No credit; no construction; growth slows.

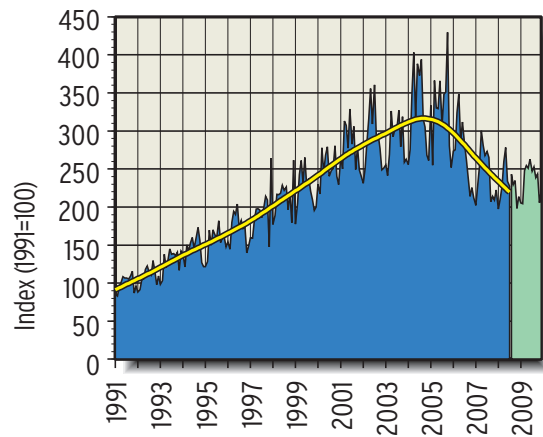


ECONOMIC INDICATORS

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Growth Index

The summer peak was lower than in 2007 and it appears the winter slowdown will be lower than in 2007.



The number of single-family housing permits being pulled hits new century lows nearly every month. Builders have no desire to pull a permit and build a new house when the inventory of unsold homes is so great, prices are coming down, and job and credit uncertainties are so great. Single-family detached permits are now at 1988-90 levels, which is especially ominous when one considers the greater population numbers in Northern Colorado. The rebound will be strong but probably will not happen

until at least 2010.

Car registrations, sales tax accounts

Motor vehicle registrations are slightly stronger than 2007 but weaker than 2005 and 2006. Sales of used SUVs and big pickups (at greatly reduced prices) and purchases of fuel-efficient vehicles are probably making the difference.

New sales tax accounts issued in Northern Colorado have fallen back to 2005-2007 levels after very strong increases in the first four months of the year. Entrepreneurs are currently proceeding very cautiously as they evaluate the outlook for the national and local economies over the next year. Availability of credit is probably also an issue for new businesses.

Retail, bankruptcies

Christmas sales (data is now available) during the 2007 season were very strong, up over 13 percent from a year earlier. Since then, increases in monthly sales, while positive, have been lower than in recent years, in the 1-4 percent range rather than double that. It's beginning to

look like the Christmas buying season of 2008 will be flat.

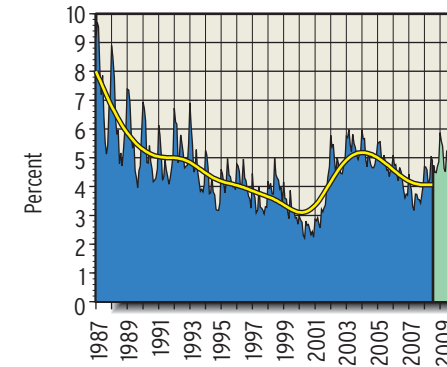
Bankruptcies in Northern Colorado have taken another jump as many foreclosures work their way through to bankruptcy. We're now at 2003 levels, right before debate began on the Bankruptcy Act of 2005. It's beginning to look like that Act had no permanent effect on the number of bankruptcies, simply adding more hoops to jump through before one can declare bankruptcy.

The Dow Jones 30 Industrials, the blue chips of American industry and an unreliable indicator of future U.S. economic activity, continue to decline. It appears that the credit crunch is not over and that there may be more bad financial news to come. Neither the U.S. economy nor the Northern Colorado economy is out of the woods yet.

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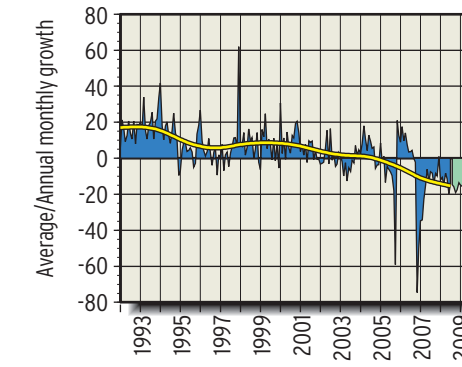
Unemployment rate

Hidden layoffs and slower employment growth have caused the unemployment rate to jump.



Growth in the region

Growth in NoCo continues to slow, with retail trade, housing permits, construction pulling down the trend.



KEY
These economic indicators are provided by U.S. Dept. of Agriculture economist John Green.

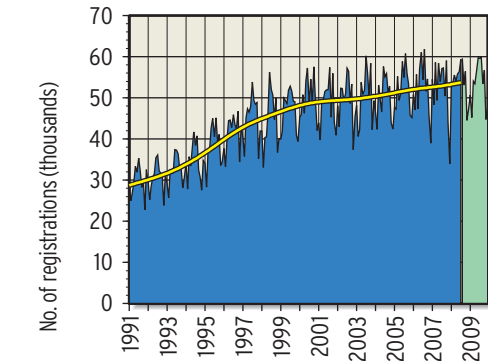
Historic

Forecast

Trend

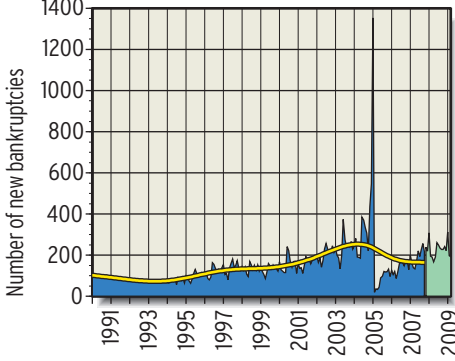
Motor-vehicle registrations

Registrations are slightly stronger than 2007 but weaker than 2006, the peak year in Northern Colorado.



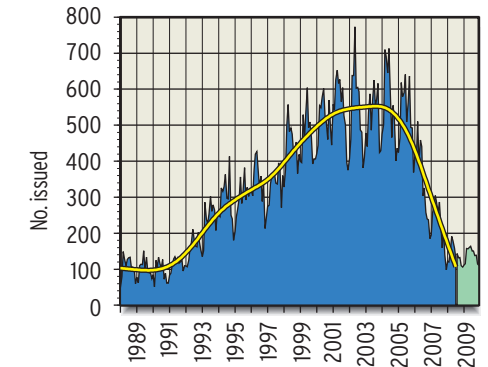
New bankruptcies

Bankruptcies took another jump upward. They're now back to 2003 levels.



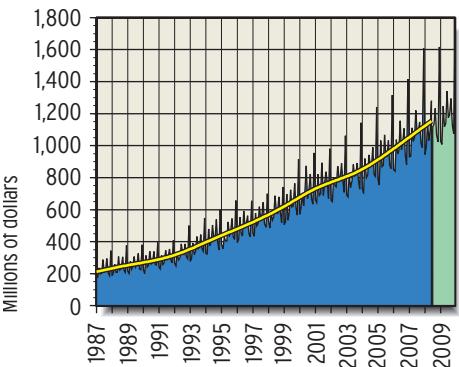
Single-family permits

The number of permits issued bounced a little in the summer but is now headed back down.



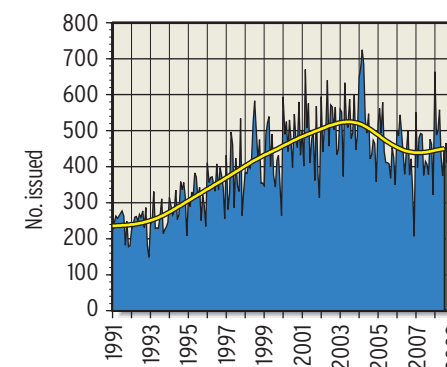
Retail sales

Up-to-date retail data shows the Christmas seasons' sales were very strong and summer sales are holding.



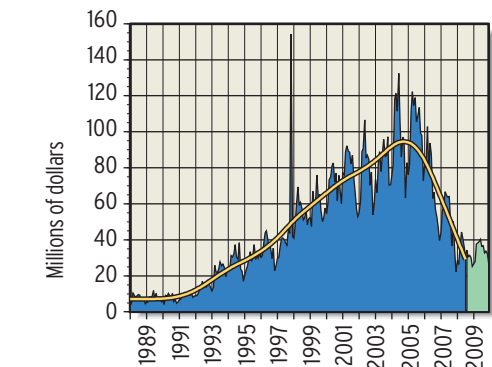
New sales-tax accounts

New sales-tax accounts in June and July slowed to 2005-07 levels, backing off growth earlier in the year.



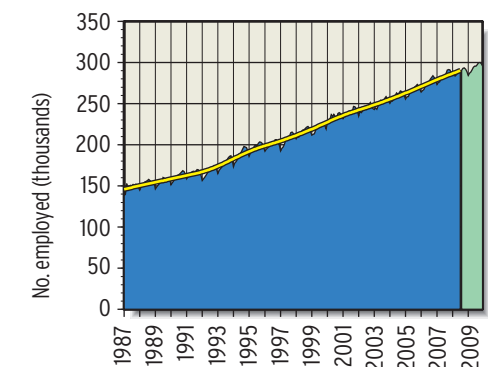
Single-family permit value

Single family housing construction is adding only \$30 to \$40 million to the NoCo economy each month.



Employment

Summer employment growth in 2008 has been weaker than any year since 1999.



Total construction value

The index has spent eight of the last 10 months below the trend, and has not begun a sustained recovery.

