June 29, 2012

Economics Group

Special Commentary

Scott Anderson, Senior Economist
scott.a.anderson@wellsfargo.com • 612.667.9281
Ed Kashmarek, Economist
ed.kashmarek@wellsfargo.com • 612.667.0479

Colorado Outlook: June 2012

Colorado Economy Continues to Improve, but Challenges Lie Ahead

Colorado's labor market is in better shape than the nation's. A budding housing recovery is driving strong construction job growth and helping the financial services industry to regain its footing. On the other hand, industry consolidation continues to weigh on the important information services industry, while weakening national and global economic growth has led to a slowdown in high-tech job growth. The rebound in oil prices has supported robust mining and natural resources job growth in some areas, while other areas are suffering from falling natural gas prices. The state is also battling intense wildfires, which is hindering the tourism industry. Export growth rebounded in the first quarter, but exports to the Eurozone were down from a year ago. The state budget is in better shape than the last few years but remains a challenge to balance.

Colorado's job growth has improved and the housing market is healing.

Colorado Labor Market in Better Shape than that of the Nation

Job growth in Colorado is slightly better than seen at the national level. Employment was up 1.8 percent year over year in May compared to 1.4 percent for the nation (Figure 1). After trailing national job growth coming out of the recession, Colorado leaped ahead of the national pace at the beginning of 2011 and has outpaced the nation ever since. In our previous reports, we have stated that Colorado's employment growth was lagging the nation's. However, revisions show that job growth was better than previously estimated over the past couple years.

Over the past year, the biggest difference in growth has come in the construction industry (Figure 2). Employment in construction was up 6.3 percent from a year ago in May in Colorado compared to just 0.3 percent in the United States. As we have mentioned in previous reports, Colorado saw much less home building during the boom than the nation and by far the least in the West. Thus, with inventories lean, record-low mortgage rates are having an outsized impact on Colorado's construction industry. We will discuss the housing market in greater detail later in this report.

Figure 1

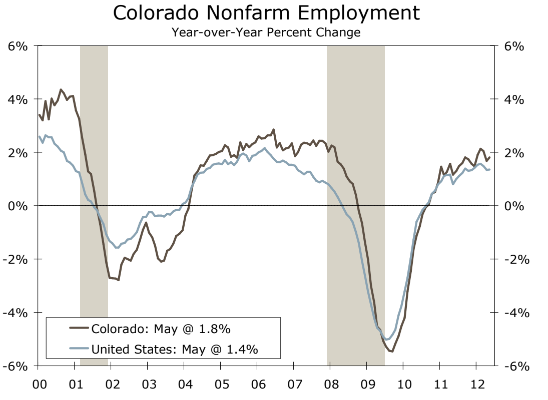
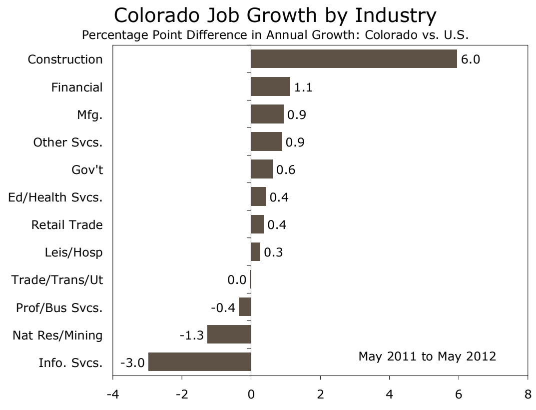


Figure 2



Source: U.S. Department of Labor and Wells Fargo Securities, LLC

This report is available on wellsfargo.com/research and on Bloomberg WFEC

Another industry in Colorado seeing noticeably stronger growth than the nation is financial services, where employment was up 1.5 percent from a year ago in Colorado versus 0.4 percent for the nation. The industry has seen fairly consistent job growth recently, having added jobs in seven of the past nine months. However, most of the job gains came in just two months, September 2011 and May 2012, so the volume of jobs added has been much less consistent. With a housing market in better shape than most states, the financial industry has benefitted more than average from low mortgage rates. Still, there are some smaller banks that are shedding staff due to difficulty in adapting and conforming to new financial regulations.

Construction and financial services are doing better than average, while information services continue to struggle.

Unfortunately, the information services industry, which employs a larger share of the labor force in Colorado (3.2 percent) than at the national level (2.0 percent), is doing much worse than average. In Colorado, this industry has seen employment contract by 4.6 percent year over year compared to a 1.6 percent decline in the United States. Within information systems, the telecommunications industry has seen the most job losses as well as the biggest percentage decline over the past year. A lot of this weakness is due to downsizing at CenturyLink, as the company tries to position itself to better compete with AT&T and Verizon. This is a double-whammy to the state economy because not only does the state have a greater concentration of information services jobs, but also because this industry generally garners the highest salaries in the entire economy. Thus, these job losses are having a greater impact on Colorado's economy.

Professional and business services have created the most jobs over the past year.

As far as which industries are creating the most jobs, that distinction belongs to professional and business services (Figure 3). This industry - which includes occupations such as legal services, accounting services, administrative support and waste management – has added 8,900 positions in the past year, more than a fifth of the 41,000 jobs the state has created. Within this industry, employment services, which includes temporary help services, has added the most jobs, filling 3,600 positions in the past year. At 9.6 percent, employment services has also seen the strongest percentage change in this industry. Strong growth in employment services is good news, as it suggests there is increased demand for labor. But it is also bad news, as it suggests that companies are still uncertain of the sustainability of the economic recovery and are choosing to rely on cheaper temporary workers rather than full-time employees to meet current demand. Education and healthcare services are also doing very well, adding 7,800 jobs over the past year. This industry has only lost jobs in three months since the beginning of the Great Recession. Although education services saw a bigger percentage change over the past year, healthcare services have added the bulk of the jobs in this industry, with most jobs coming in ambulatory services. Education services have added jobs for several years running as people have gone back to school to improve their skills and marketability in an ultra-competitive labor market. Construction and leisure and hospitality services are also creating a lot of jobs. The rebounding housing market is fueling demand for construction workers, primarily specialty trade contractors. Decent tourism activity has benefited leisure and hospitality services, but wildfires are threatening the industry.

Figure 3

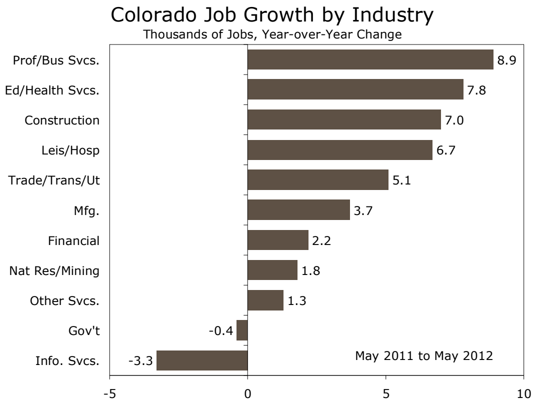
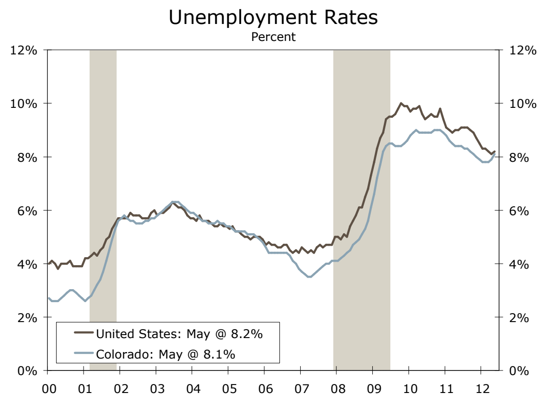


Figure 4



Source: U.S. Department of Labor and Wells Fargo Securities, LLC

The unemployment rate has edged up over the past couple months.

In addition to stronger job growth, Colorado has had a lower unemployment rate than the United States for the past six years (Figure 4). As mentioned in previous reports, a major reason is the state's high educational attainment. Among the population 25 years and older, 36.4 percent have a bachelor's degree or higher, best in the West and much better than the national 28.2 percent. Since the peak in November 2010, the unemployment rate has dropped from 9.0 percent to 8.1 percent as household employment has grown more than twice as fast as the labor force. If the unemployment rate is falling when the labor force is expanding, that is the best of all scenarios, since it suggests that both businesses and job seekers are becoming more confident. However, over the past two months, the unemployment rate has rebounded slightly as household employment has contracted while the labor force has expanded further.

High-Tech Starting to Sputter

High-tech job growth has slowed as computer systems design and telecom have weakened.

For the better part of the past year, high-tech employment was growing faster than overall employment in Colorado (Figure 5). However, not only has job growth in high-tech industries slowed noticeably from 3.0 percent year over year in October to just 1.0 percent in May, it has also dipped below the growth of total employment. It is clear that the weakness is coming from telecommunications and computer systems design (Figure 6). As previously mentioned, competition in telecom is leading to layoffs, prolonging the slump the industry has been in for the past two years. Meanwhile, computer systems design has flat-lined in May. The recent weakness in this industry may be partly explained by the sharp drop in venture capital financing for IT services, which fell from $33.4 million in the second quarter of 2011 to just $4.0 million in the first quarter of this year (Figure 8).

Figure 5

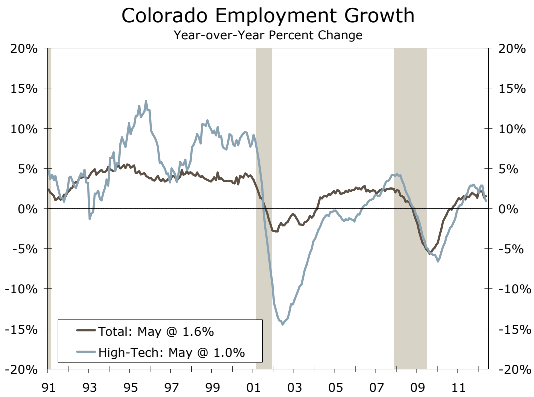
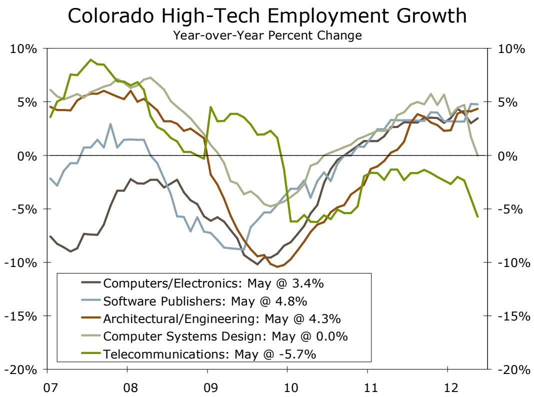


Figure 6



Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Meanwhile, software publishing is leading the way in high-tech job growth, up 4.8 percent from a year ago in May. It is no coincidence that this comes at a time when venture capital financing for software publishing companies is at a six-year high, having attracted $57 million in the first quarter. The hope is that the recent strength in software publishing, architectural and engineering services and computer and electronics manufacturing can continue. The high wages these jobs pay help to stimulate the overall economy. However, with the global economy slowing recently, these industries could be vulnerable to a pullback. Colorado's above-average concentration in these highly cyclical industries leaves the state more vulnerable to business cycles. Although high-tech employment didn't fall nearly as much in the Great Recession as it did in the 2001 recession, it is clear that the downturn in high-tech industries was a major factor in the state's below-average job growth during the Great Recession. Thus, the most recent slowdown is cause for concern, as it suggests Colorado may be in for another soft patch in the near to medium term.

Figure 7

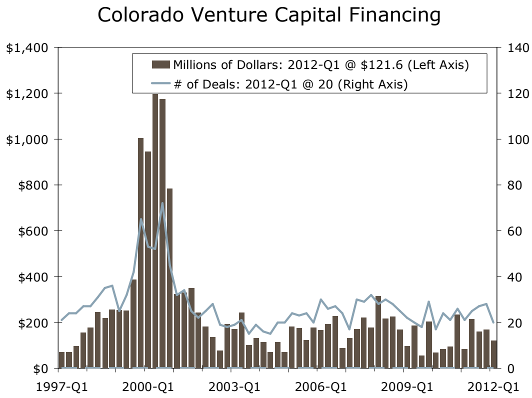
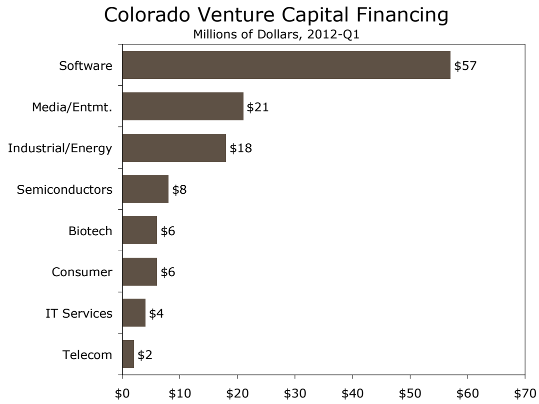


Figure 8



Source: MoneyTree and Wells Fargo Securities, LLC

Signs of Life in Housing

Low mortgage rates, low prices and lean inventories are fueling a recovery in housing.

The housing market is showing signs of a turnaround in Colorado. During the housing boom, while national home prices were soaring, Colorado home prices were rising only modestly as population growth slowed following the tech bust, leaving supply more in balance with demand than seen at the national level (Figure 9). As a result, during the boom, housing starts rose the least in the West and at only half the national pace. The fact that prices didn't rise nearly as much during the boom, and the fact that the market was not as oversupplied when the crash hit, helped to limit price declines during the bust. According to CoreLogic, home prices in Colorado fell 15 percent from the peak, less than half the 33 percent national decline. Better yet, prices in Colorado bottomed in March of last year, whereas prices only bottomed a couple months ago for the nation. In April, prices were up 4.5 percent from a year ago in Colorado versus just 1.1 percent for the nation (Figure 10) thanks to better job growth, a more balanced market and a lower foreclosure rate, which has limited the inventory of cheap distressed homes on the market.

Since the National Association of Realtors no longer tracks state home sales, we must turn to the Colorado Association of Realtors for sales data. According to them, single-family home sales were up 11 percent in the first quarter from a year ago as improving job growth and record-low mortgage rates have stoked demand. Sales of condos and townhomes were also up 8 percent. With demand rising, housing starts have picked up as well and were up 31 percent from a year ago in the first quarter, the fourth straight quarterly increase and well above the national pace.

Figure 9

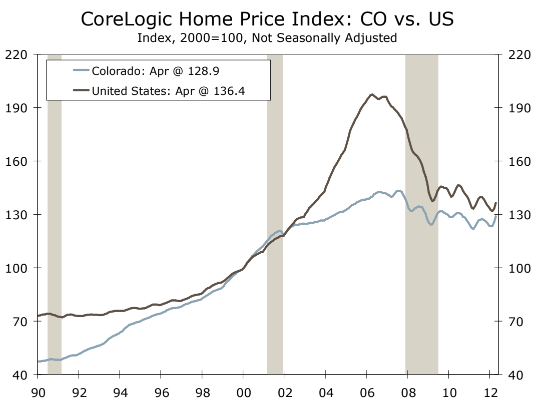
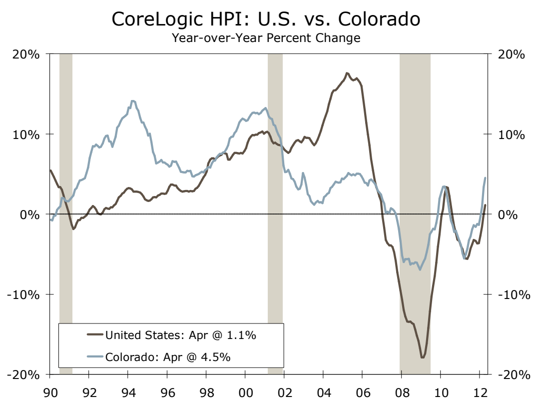


Figure 10



Source: CoreLogic and Wells Fargo Securities, LLC

Of course, there are differences in home price growth among the metro areas. Some of the strongest price growth is in the tech centers of Fort Collins, Denver and Boulder (Figure 11). It is no coincidence that these metros have seen some of the strongest employment growth over the past year as well (Figure 12). On the other end of the spectrum, home price growth is much slower in Colorado Springs and Pueblo, where job growth has been very weak. Price growth in Grand Junction and Greeley, however, appears at to be odds with job growth. Grand Junction has seen some of the smallest home price increases, even though employment growth is the best in the state. Unfortunately, Grand Junction has among the highest share of sales in distressed properties in the state. Thus, even though demand has strengthened as job growth has ramped up, the unfavorable mix of homes for sale has kept price growth contained. In Greeley, home prices were up 5.4 percent in April, the most of the major metros and five times the national appreciation, even though job growth was the weakest. Home sales have also not been particularly strong in Greeley recently. In addition, Greeley also has a very high distressed sales ratio. So with all of these factors weighing against the market, what could account for the strong price appreciation? The most likely explanation is that the distressed sales ratio fell much more in Greeley than in any other major Colorado metro over the past year. Indeed, distressed sales accounted for 48.8 percent of all sales in March 2011 compared to just 31.6 percent in March 2012. This 17.2 percentage point decline was the biggest in the state. The bigger change in the mix toward higher-priced, non-distressed sales likely helped to lift prices far more in Greeley than in other Colorado metros, despite anemic job growth. As for what is behind the large decline in the distressed sales ratio in Greeley, all we can really say is that the distressed sales ratio of 48.8 percent in March 2011 was the highest in the state. Thus, when foreclosure filings slowed during the process investigations, there was a much bigger impact in Greeley. Now, Greeley's distressed sales ratio is only the third highest, behind Pueblo and Grand Junction.

Job growth and the distressed sales ratio are the main drivers of home price appreciation.

Figure 11

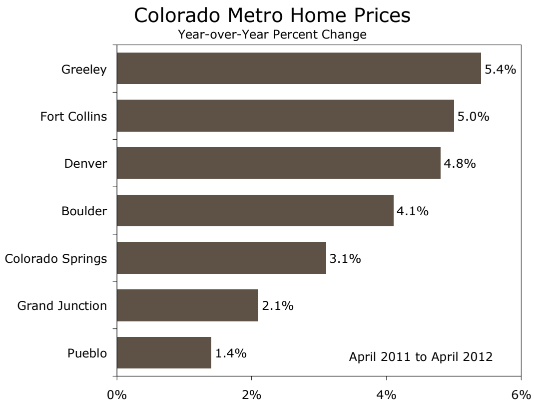
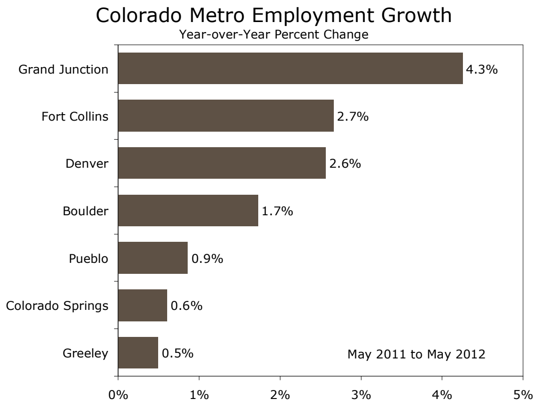


Figure 12



Source: CoreLogic, U.S. Department of Labor and Wells Fargo Securities, LLC

Energy and Machinery Drive Export Rebound

Colorado's export growth rebounded in the first quarter to 17.9 percent year over year, more than triple the fourth quarter's 5.5 percent rise and better than the national 8.5 percent increase (Figure 13). Although exports rose from the prior quarter, the rebound in the year-ago increase was largely due to a big drop in exports in the first quarter of 2011, making for a more favorable year over year comparison. At any rate, the biggest percentage increase in exports from a year ago came from petroleum and coal products, which soared 675.0 percent over the past year (Figure 15). Again, this came from very low levels in the first quarter of last year. However, the first quarter pace of petroleum and coal exports was running at four times the average quarterly pace seen over the past two years. Rounding out the top five product categories in terms of growth were beverages and tobacco products, oil and gas, textiles and fabrics, and agricultural products. But most of the dollar growth in exports over the past year came from machinery, the state's third

Exports rebounded in the first quarter, but exports to the Eurozone declined.

biggest export, accounting for a third of the overall increase. Colorado's biggest export, computer and electronic products, saw minimal growth, while the second biggest export, food manufactures, accounted for about a sixth of overall growth. Meanwhile, the biggest percentage declines over the past year were seen in nonmetallic mineral products, paper, wood products, newspapers and books, and fish and marine products (Figure 16).

Figure 13

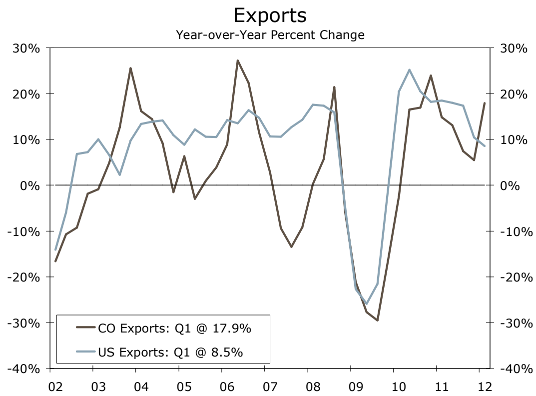
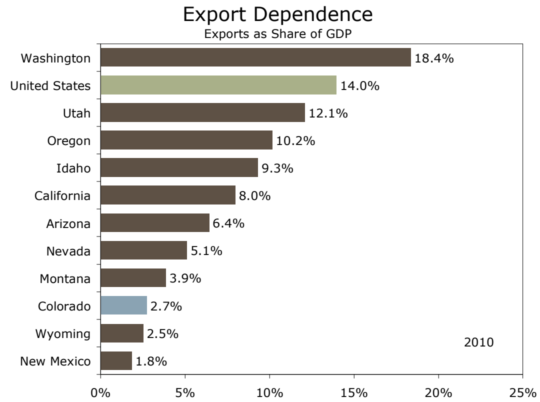


Figure 14



Source: U.S. Bureau of Economic Analysis, U.S. Census Bureau and Wells Fargo Securities, LLC

Weakness in Europe and China is affecting exports, but trade is only a small part of Colorado's economy.

It is clear that the debt crisis in the Eurozone, the destination for an eighth of the state's exports, is having an impact. While exports to the world excluding the Eurozone were up 23.0 percent in the first quarter, exports to the Eurozone were down 8.0 percent. Exports to 10 of the 17 Eurozone countries were down in the first quarter, led by a 75.0 percent plunge in demand from Portugal. Exports to Germany, Italy and Spain were also lower, but exports to France were up marginally. Malta, Estonia, Luxembourg, Ireland and Slovakia saw the biggest increases. The only good news is that exports account for a very small share of Colorado's gross state product (Figure 14). Therefore, the impact on the overall economy from the Eurozone crisis should be fairly benign relative to the United States and other Western neighbors. But China is also a concern, as exports to that country rose just 6.0 percent from the prior year, far below the overall 17.9 percent growth rate. Still, exports to Canada and Mexico, the state's two biggest trading partners, rose strongly, helping to offset the softness from China and the Eurozone.

Figure 15

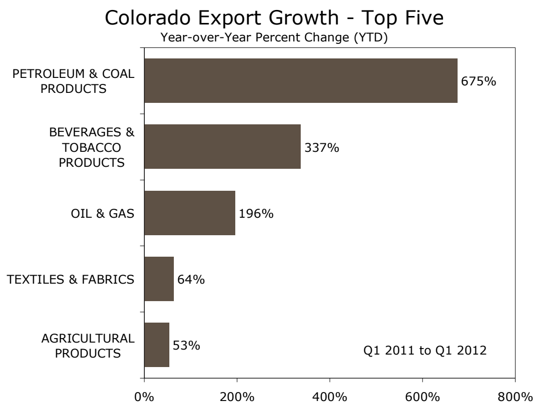
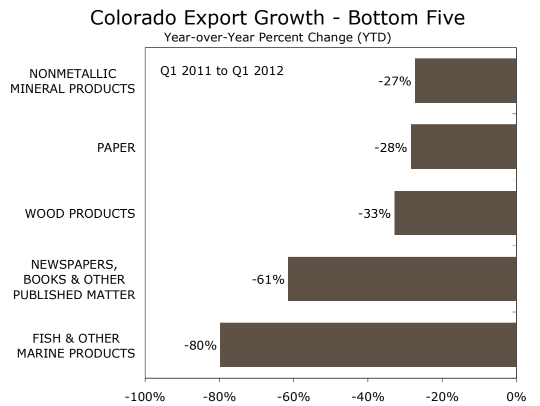


Figure 16



Source: U.S. Census Bureau and Wells Fargo Securities, LLC

Energy Industry Mixed at Present, but Poised for Solid Long-term Growth

The energy industry in Colorado is currently mixed. Until recently, oil prices remained elevated, helping to spur production and job growth. Drilling has rapidly expanded around Denver and Boulder, so much that Boulder recently instituted a moratorium on additional drilling through February 2013. The moratorium, along with the recent rapid decline in oil prices, could put a damper on mining job growth in these metros. This is also a major concern in Grand Junction, as mining and natural resources accounts for nearly six times the national share of total employment. The mining industry has helped Grand Junction to attain some of the strongest job growth in the state recently, despite having very low educational attainment.

Meanwhile, over in Greeley, where natural gas is mined and produced, plunging prices have led to a pullback in production and could lead to layoffs if the slump continues. Due to a flurry of production across the country, natural gas prices have eroded precipitously from a little over $10 per million BTU at the height of the energy boom in 2008 to just under $3 per million BTU as of June. In addition to the increase in supply, prices have also been weighed down by a lack of demand as the country just experienced one of the warmest winters on record, reducing the need to fire up the furnace to heat one's home.

The oil industry is roaring, while the natural gas industry is slumping amid very low prices.

Colorado is also a national leader in renewable energy production. The state is home to several wind farms and biodiesel plants, as well as the second largest solar plant in the country. In addition, Vestas Blades employs about 650 people in Greeley producing wind turbines. However, many jobs are at risk if the production tax credit is not extended after 2012. Thus, Greeley will be watching intently as the fiscal cliff approaches at the end of this year.

Looking ahead, rampant development around the world will continue to support an upward trend for oil prices. Natural gas could also see a rebound if the United States focuses more on natural gas as an alternative to oil to meet its energy needs in the coming decades. Renewable energy demand will likely continue to increase, but production and usage growth may only be gradual due to the politics surrounding renewable energy as well as federal budget cuts, which could hinder research and development in the renewable energy arena. But overall, Colorado is poised to benefit from continued global economic development and rising demand for all types of energy for decades to come. The high wages these energy and mining jobs garner will support strong demand for services throughout the state and will help Colorado to remain a star performer in the West for the foreseeable future.

Strengthening Economy Improves Budget, but Outlook Rife with Uncertainty

Thanks to improved individual and corporate income tax collections amid an improving economy, Colorado's budget improved as well. For FY 2011-12, General Fund revenue is projected to be 3.2 percent higher than forecast in March, and is expected to be 7.8 percent higher than in FY 2010-11. Individual income tax collections are expected to rise 10.2 percent from the prior fiscal year, while corporate income tax collections should rise 14.0 percent. Excise tax collections are forecast to increase 2.9 percent, helped by a nearly 20.0 percent increase in tobacco tax collections and a 2.4 percent increase in sales tax collections. For FY 2011-12, spending is projected to rise 4.0 percent.

The budget is in better shape than in recent years, but education continues to take the brunt of cuts.

The outlook for FY 2012-13, however, is a bit less optimistic. Before the budget was passed in May, the state was staring at a $610.0 million budget deficit. In the February budget proposal, General Funds available were forecast to rise 2.6 percent from the prior fiscal year, while expenditures were expected to jump 10.8 percent. In order to close the gap, the government again relied primarily on budget cuts, with little in the way of revenue increases. Once again, the bulk of the expenditure reductions came from education, mostly in K-12 spending.

General Fund revenue is only expected to rise 1.0 percent from FY 2011-12. The government forecasts a 0.6 percent decline in individual income tax collections and a much smaller increase of only 3.2 percent in corporate income tax collections over the next fiscal year as job growth and economic activity slow. In addition, capital gains on investments are likely to be less than the prior fiscal year, while falling energy prices will weigh on oil and gas royalties. Still, thanks to a larger beginning reserve, total general funds available for expenditure are forecast to be 5.6 percent higher than in FY 2011-12.

Tight budgets are forcing the state to choose between healthcare and education.

Spending in FY 2012-13 is forecast to increase 7.3 percent. While healthcare spending is expected to rise, K-12 education spending is expected to remain flat, while higher education obligations are forecast to fall. Thus, the strains on the budget are pitting rising healthcare needs, due to an aging population and a still fragile economy, against the state's education needs. This is not good news as a strong education system is a major competitive advantage for Colorado, which boasts the highest educational attainment in the West. The state relies on its colleges and universities both for enrollment as well as for brainpower in research and employment in the state's high-paying, high-tech industries. Thus, the pullback in higher education funding is a concern as it impacts the entire state economy in one way or another.

The budget has some good news though. After several years of suspension, the Homestead Exemption for seniors will be reinstated, but it will add nearly $100 million to state expenditures. The Department of Human Services will receive $4.9 million to provide services for people with developmental disabilities. The Economic Development Council will receive $5.0 million with the goal of attracting 2,300 new jobs, while more funds will be available to allow the state to promote its tourism industry. There will also be enough money left above the required reserve to allow for a transfer of $59.0 million into the State Education Fund, but that is less than the $221.4 million that was transferred after the prior fiscal year.

Raging Wildfires Threaten Important Tourism Industry

The 2011 tourism season brought $10.8 billion into the state, an increase of 6.0 percent over 2010. Overnight visitor spending rose 6.0 percent to $9.4 billion, while day trip spending rose 4.0 percent to $1.4 billion. Spending by business travelers also rose 1.0 percent. Marketable leisure trips rose by 4.0 percent, setting a new record of 14.3 million visitors, while business visitors also rose 4.0 percent. Transportation saw the biggest increase in expenditures, rising 13.0 percent from the prior year as car rental rates and gas prices rose. Lodging saw a 7.0 percent increase on higher occupancy levels and room rates. In addition, retail purchases by travelers rose 4.0 percent, food and beverage expenditures rose 3.0 percent and spending on recreation, sightseeing and attractions rose by 3.0 percent. The most popular types of trips are ski trips in the winter and touring trips in the summer. While touring trips rose 2.0 percent, ski trips fell almost 10.0 percent, continuing the backslide in ski trips to the state over the last few years.

Raging wildfires are hindering the tourism industry, but visitors will be back soon.

Unfortunately, high hopes for an even better tourism season this year have been dashed by the outbreak of ferocious wildfires over the last few weeks. It all started with a lightning strike on June 9 that sparked the High Park fire near Fort Collins. As of this writing, the fire has already torched over 83,000 acres and destroyed over 200 homes. Other smaller fires arose before the Waldo Canyon fire ignited on June 23. While much smaller than the High Park fire at just 6,200 acres, this fire is much closer to a heavily populated area, leading to the evacuation of 32,000 people in and around Colorado Springs. There are a number of other fires burning as well, but they are not as big or as close to populated areas. The fires are the result of a perfect storm of dead trees killed by mountain pine beetles combined with low humidity and 100 degree temperatures.

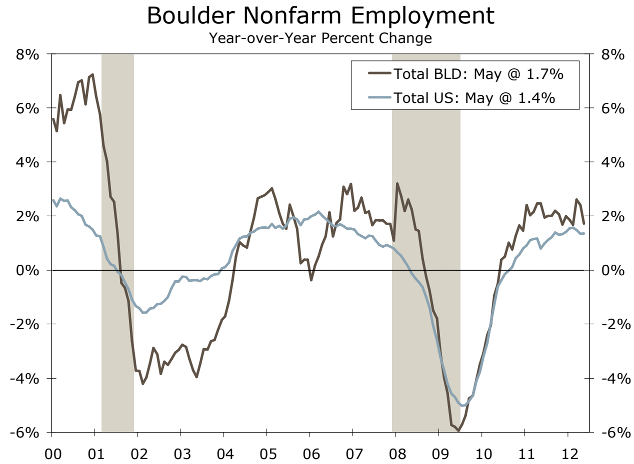
It is estimated that nearly half of the country's entire airborne fire suppression equipment is currently being used to fight the blazes. So far, upwards of $30 million has been spent fighting the fires, forcing the state to tap reserve funds. Federal aid is also being channeled to the state through the Federal Emergency Management Agency (FEMA). Besides the cost to fight the fires, the tourism industry stands to lose money and possibly even some jobs as ranch operators, fishing guides, river rafting companies and state parks are being impacted by the state's worst natural disaster in decades. Some of the state's most popular attractions are feeling the impact, including Rocky Mountain National Park, Pike's Peak, Garden of the Gods and Cave of the Winds.

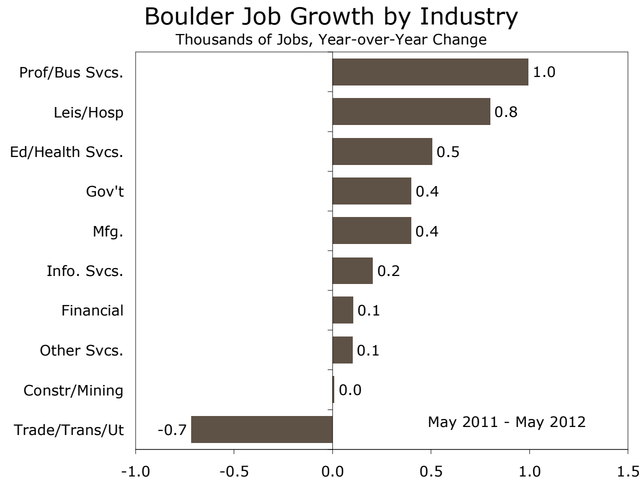
Conclusion

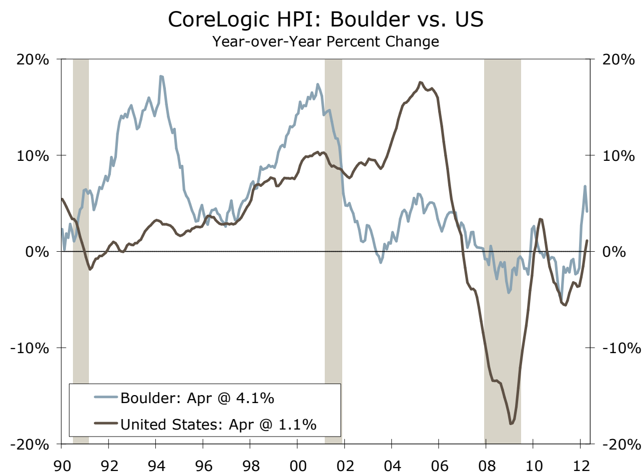
At present, Colorado's tourism industry is being somewhat hindered by the fires, the high-paying high-tech industry appears to be slowing and the state budget remains tight. The housing market is recovering though. In the long-term, the state's high educational attainment, high wages, robust energy industry and diverse tourist attractions will keep Colorado a growth leader.

Boulder

- Boulder's job growth continues to outpace that of the nation, rising 1.7 percent year over year in May versus 1.4 percent for the nation. Job growth in Boulder has been stronger than average for 26 consecutive months. This has helped the city to get closer to peak employment. Boulder employment is down just 2.4 percent from its peak in April 2008, whereas national employment is down 3.6 percent from its peak in January 2008.
- Nearly every industry in Boulder is seeing stronger job growth compared to national trends. The biggest positive difference is in information services, where May employment was up 2.3 percent year over year in Boulder but down 1.6 percent at the national level. This is good news as the industry's share of the labor force in Boulder is nearly triple the national share. Also, these are among the highest paid jobs in the entire economy, helping to give the rest of Boulder's economy a big lift. Boulder's combination of high educational attainment and wages continues to attract top talent, which might explain why the industry is thriving in Boulder but languishing elsewhere, as other cities find it difficult to compete for such talent.
- That being said, information services account for only 3 percent of the city's job growth since the end of the recession. The city has added 6,900 jobs over the past three years, with 40 percent coming from professional and business services. The remainder has largely come from leisure and hospitality services and government.
- On the other hand, the biggest negative difference is in retail, where employment is down 5.3 percent over the past year in Boulder but up 0.9 percent for the nation. This is rather surprising given that overall job growth is stronger than average and incomes are higher than average in Boulder, which should help to support retail jobs. In addition, the weakness has been fairly persistent over the past year, suggesting large-scale layoffs are not to blame.
- Boulder's housing market is on the mend. Prices were up 4.1 percent from a year ago in April, much better than the national 1.1 percent increase, according to CoreLogic. Housing starts have soared recently, but with starts down 80 percent from the peak, supply still appears to be a bit behind fast-growing demand.



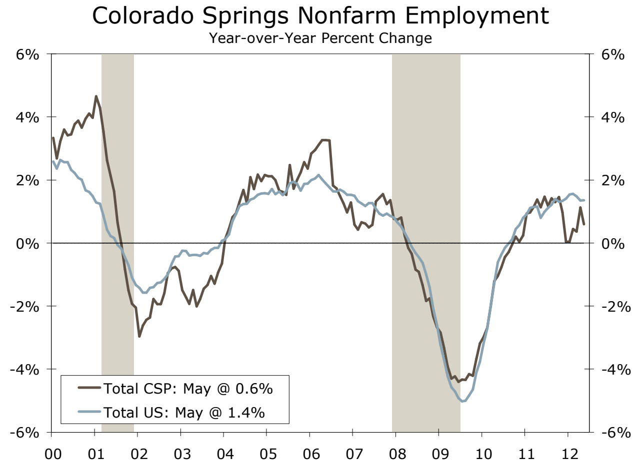


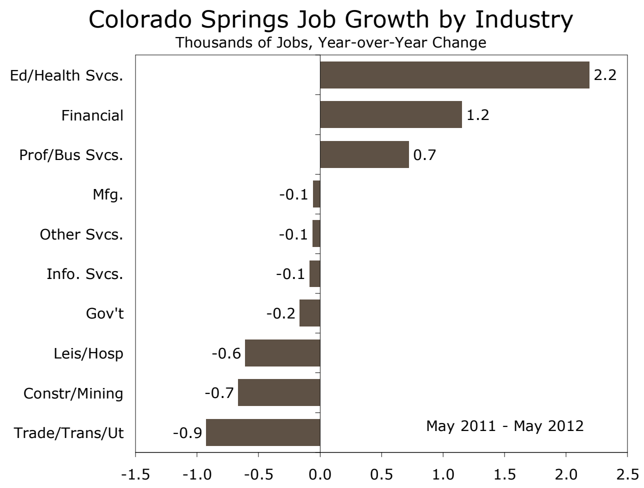


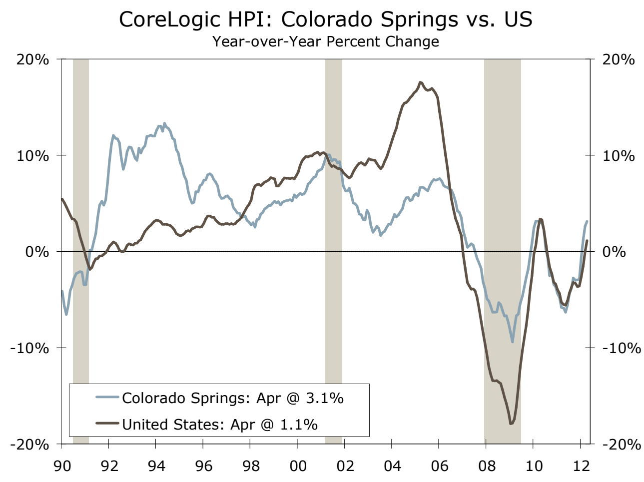
Source: CoreLogic, U.S. Department of Labor and Wells Fargo Securities, LLC

Colorado Springs

- Colorado Springs is not faring nearly as well as its high-tech brethren. Employment growth has been below the U.S. average for seven straight months. After largely following national trends, employment growth came to a screeching halt at the end of last year. The economy lost 1,300 jobs in November, with over half of the losses coming from retail. In December, nearly half of the 2,000 jobs lost came from leisure and hospitality services, which has really struggled of late due to abnormal weather patterns. Over the next four months, the economy added 5,300 jobs, with almost half coming from education and healthcare services. But May was a rough month as the city lost 1,700 jobs, with only professional and business services adding staff.
- Over the past year, most of the major industries have seen more months with job losses than job gains, so the weakness in the economy has been fairly broad-based. But since the end of the recession, the construction industry has been the weakest by far, having lost 2,700 jobs. Unfortunately, things haven't gotten much better over the past year.
- Despite a heavy concentration of high-tech businesses in the area, the unemployment rate is among the highest in the state, coming in at 9.3 percent in May. Since the peak in November 2010, the unemployment rate has fallen due more to a decline in the labor force than rising employment. But over the last four months, the unemployment rate has risen as employment has contracted while the labor force has expanded. The good thing is folks are coming back to the labor force, a sign of optimism among job seekers. The bad thing is they are not finding enough jobs.
- Colorado Springs has a major military presence, accounting for about 12.0 percent of overall employment and contributing $1.7 billion to the economy, about 6.0 percent of the metro economy. While things are looking fine for now, pending federal budget cuts, which could slice defense spending, are a big worry for the city.
- The housing market is improving. Home prices were up 3.1 percent from a year ago in April, better than the national increase of 1.1 percent. Colorado Springs saw the strongest building activity during the boom, so housing starts have grown a bit slower than the national pace lately.



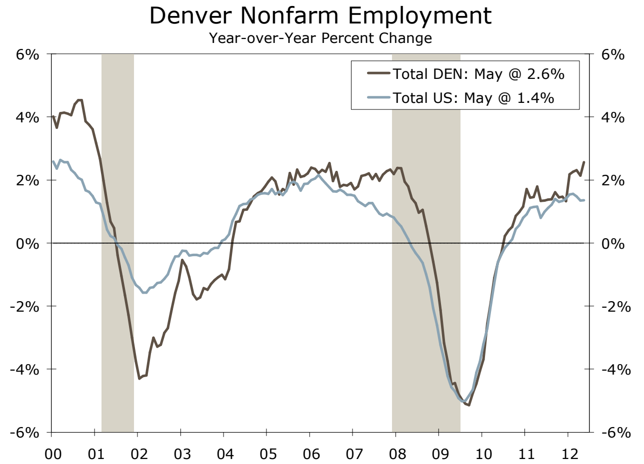


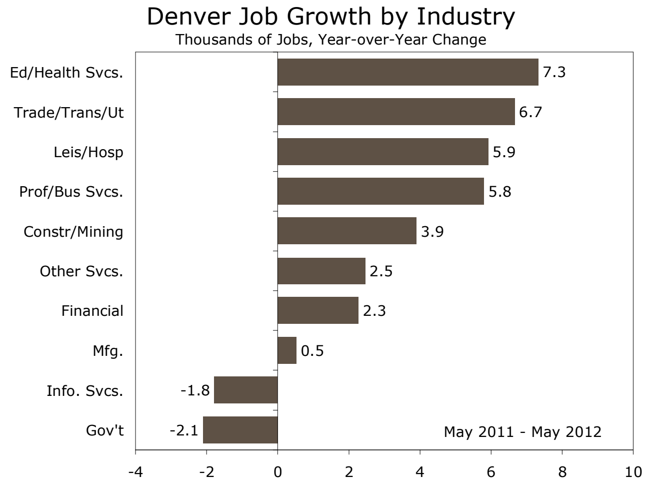


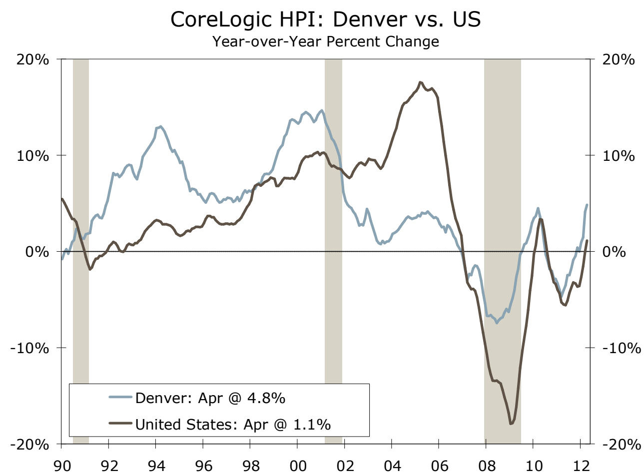
Source: CoreLogic, U.S. Department of Labor and Wells Fargo Securities, LLC

Denver

- Denver's job growth has been stronger than the national average for the better part of the past two years. Employment was up 2.6 percent from a year ago in May versus 1.4 percent for the nation. The majority of industries in Denver are enjoying better job growth than at the national level. The biggest positive difference is in construction/mining, where employment is up 5.7 percent on a year-ago basis compared to just 0.3 percent nationally. An improving housing market and a number of large public works projects are fueling demand for construction workers. Meanwhile, high oil prices have lifted natural resources/mining employment. There is also a big difference in retail, where employment is up 5.7 percent from a year ago compared to just 0.9 percent for the U.S. Improving job growth in high-wage construction and financial services is helping to underpin sales and employment in retail.
- On the other side of the coin, information services employment is down 1.6 percent nationally but 4.0 percent in Denver. The industry is struggling in Denver, having lost jobs on a fairly consistent basis over the past year. Many of the job cuts have come from CenturyLink, as the company tries to position itself to better compete with AT&T and Verizon. The weakness in this sector is not good news considering Denver has a greater concentration of jobs than the nation in information services, as well as the fact that these are very high-paying jobs. Thankfully, other industries are taking up the slack to keep the economy strong.
- Over the last few months, record-low interest rates have helped to spur a revival in financial services, where job concentration is also higher than average. However, this heavy concentration could work against the city if the new restrictions and regulations in the industry take a heavy toll as expected.
- Denver's housing market has turned the corner. Prices were up 4.8 percent in April, far above the nation's 1.1 percent growth. Building activity in Denver during the boom was among the weakest in the state. This, combined with falling distressed inventories, has helped to support prices. Lean supplies and low mortgage rates have lifted single-family starts, but the strongest growth has come from multi-family dwellings.



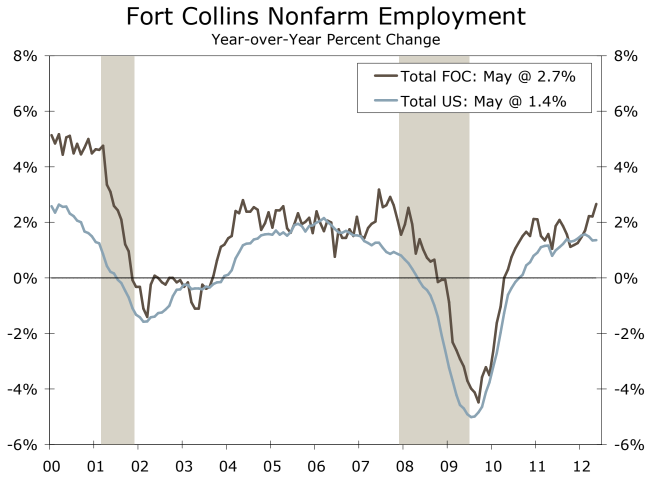


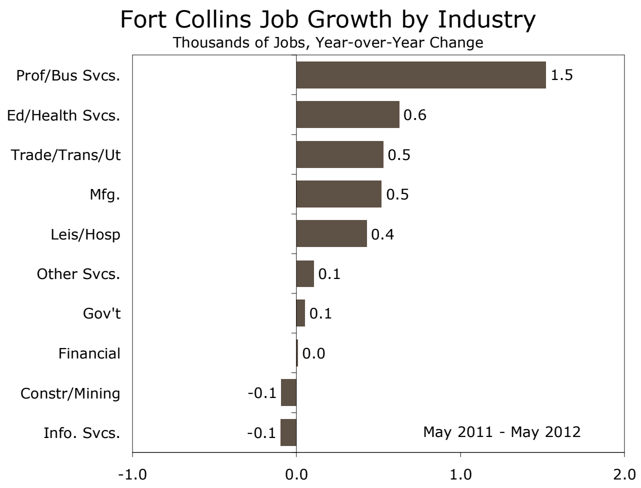


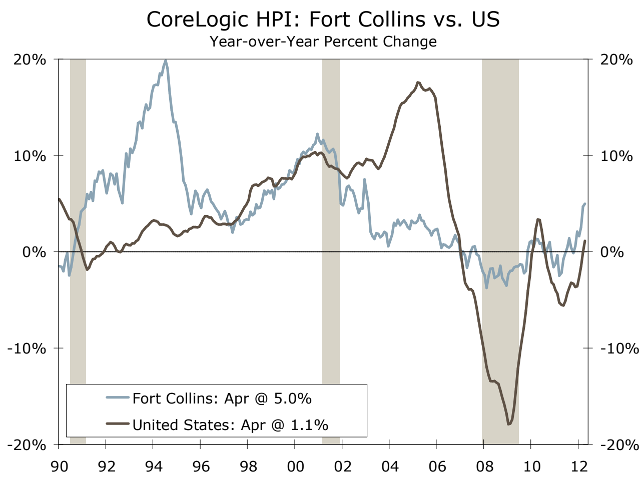
Source: CoreLogic, U.S. Department of Labor and Wells Fargo Securities, LLC

Fort Collins

- Fort Collins, another high-tech center, has seen robust job growth recently. Employment was up 2.7 percent in May from a year ago, nearly twice the national rate of growth. Professional and business services, which include high-tech industries such as architectural and engineering services and computer systems design, have led the way in both level growth and percentage growth. Since the end of the recession, half of the jobs created have been in professional and business services, with most of the rest coming from education and healthcare services. These high-tech jobs bring high salaries, helping to spur demand for other goods and services throughout the economy. As such, nearly every industry is growing faster in Fort Collins than at the national level.
- The biggest difference is, again, in professional and business services, where employment was up a whopping 8.6 percent from a year ago in May in Fort Collins versus just a 3.0 percent increase nationally. The other big difference is in manufacturing, where employment was up 4.8 percent in Fort Collins compared to national growth of just 1.9 percent. Intel has benefitted over the past year as tax incentives have driven strong growth in business equipment production, fueling demand for semiconductors. But with those tax incentives set to expire, business equipment investment could slow, leaving Intel and Fort Collins vulnerable to part of the 2013 fiscal cliff.
- Despite the strong growth in venture capital financing recently, much of which has gone to software firms, employment in information services has struggled. The industry has the biggest negative job growth gap in the city, with employment down 1.6 percent nationally but 3.8 percent in Fort Collins. The good news is things appear to be turning around, as the industry has only lost jobs in one of the past five months.
- The huge High Park forest fire is leading to lost business for the area's tourism industry. This could put further downward pressure on leisure and hospitality employment, which was already retrenching before the fire was ignited June 9.
- Thanks to strong job growth and record-low mortgage rates, the housing market is perking up. Prices were up 5.0 percent from a year ago in April, fives times the national rate of growth.



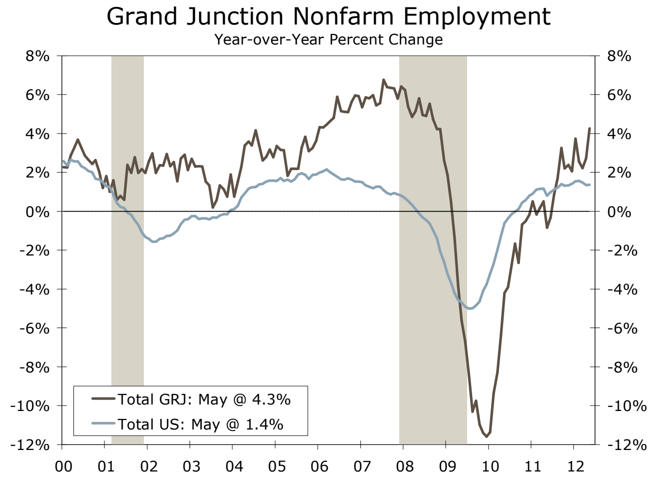


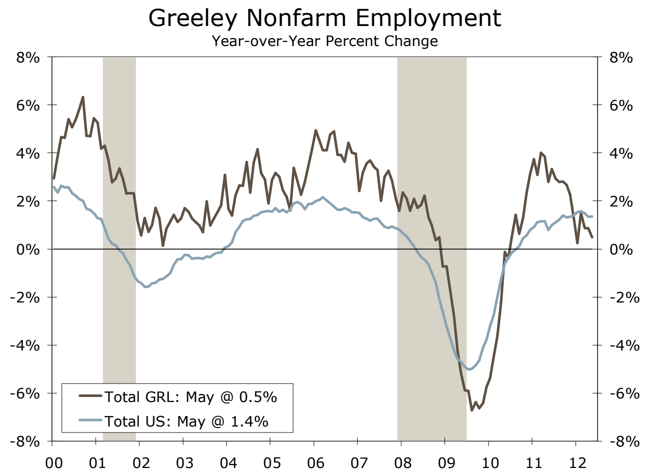


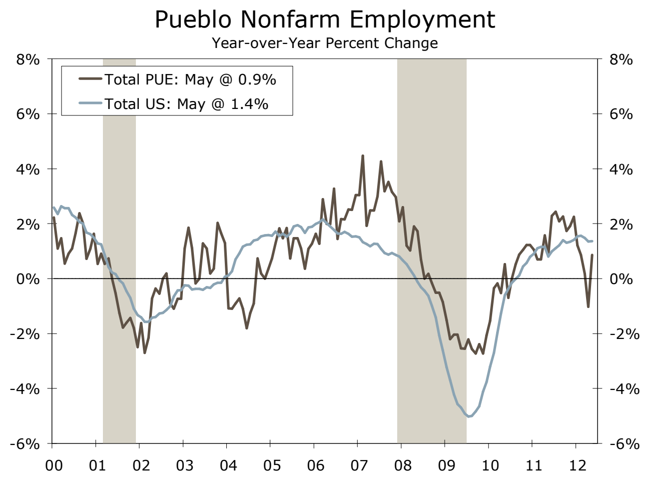
Source: CoreLogic, U.S. Department of Labor and Wells Fargo Securities, LLC

Grand Junction-Greeley-Pueblo

- Job growth in Grand Junction has been stronger than average for most of the past year, coming in at 4.3 percent year over year in May versus 1.4 percent for the nation. Strong growth in construction/mining has been the biggest difference, as employment was up 6.6 percent over the past year, compared to just 0.3 percent for the nation. The run-up in oil prices through February spurred hiring in mining, which accounts for six times the national share of employment. Another big difference has been strong growth in government jobs, which were up 5.7 percent in Grand Junction in May but down 0.7 percent for the nation. Improving tax receipts have helped to staunch teacher layoffs across the state. Better job growth, along with lean inventories, has helped to lift house prices.
- It's a different story in Greeley, where plummeting natural gas prices have roiled the mining industry. Overall employment growth in the city is only about a third of the national pace. The biggest difference in growth is in trade, transportation and utilities, where employment was down 2.1 percent in May in Greeley but up 1.3 percent for the nation. Most of the recent job losses have come in utilities, likely due to warm weather reducing demand for natural gas. Leisure and hospitality services are also lagging, with employment flat over the past year versus up 2.2 percent at the national level. Despite weak job growth, home prices have risen five times faster than the national pace over the past year due to a big decline in the distressed sales ratio. Multi-family building has jumped amid rising demand for rental units.
- Things were looking up in Pueblo before job growth plunged into negative territory at the turn of the year. Over the past five months, much of the weakness has come in leisure and hospitality services, largely due to the mild winter. Financial services have also shed staff recently as smaller banks are struggling with new regulations. In turn, professional and business services and retail have seen less demand and have shed staff as well. Very strong home building during the boom has kept current home building activity subdued. Weak job growth and a high ratio of distressed sales to total sales has kept home price growth the weakest in the state.







Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research & Economics	(704) 715-8437 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 374-7034	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 383-5635	mark.vitner@wellsfargo.com
Jay Bryson, Ph.D.	Global Economist	(704) 383-3518	jay.bryson@wellsfargo.com
Scott Anderson, Ph.D.	Senior Economist	(612) 667-9281	scott.a.anderson@wellsfargo.com
Eugenio Aleman, Ph.D.	Senior Economist	(704) 715-0314	eugenio.j.aleman@wellsfargo.com
Sam Bullard	Senior Economist	(704) 383-7372	sam.bullard@wellsfargo.com
Anika Khan	Senior Economist	(704) 715-0575	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 383-6805	azhar.iqbal@wellsfargo.com
Tim Quinlan	Economist	(704) 374-4407	tim.quinlan@wellsfargo.com
Ed Kashmarek	Economist	(612) 667-0479	ed.kashmarek@wellsfargo.com
Michael A. Brown	Economist	(704) 715-0569	michael.a.brown@wellsfargo.com
Joe Seydl	Economic Analyst	(704) 715-1488	joseph.seydl@wellsfargo.com
Sarah Watt	Economic Analyst	(704) 374-7142	sarah.watt@wellsfargo.com
Kaylyn Swankoski	Economic Analyst	(704) 715-0526	kaylyn.swankoski@wellsfargo.com