

Issue Brief



December 2008

Will Colorado Have a Second Recession in This Decade?

Summary

A stunning loss of jobs in October, a sharp rise in the unemployment rate and sagging sales tax revenue are signs that Colorado's economy is in a recession.

Introduction

Colorado has had only two definitive recessions during the past 25 years, including one that lasted two years earlier this decade. At the end of September, Moody's Economy.com listed Colorado as one of only six states with an expanding economy. Four of the six have economies with strong ties to oil and gas production. By the end of October, however, the economic forecasting firm believed that Colorado was at risk of falling into the recession that had started in 30 states. Colorado's job growth of 1.5 percent through September had ranked third-highest in the country and the state had not yet recorded losses on a month-to-month basis. But revised employment data for September show a slight decline for that month and the preliminary estimate for October indicates a stunning loss of jobs and a sharp rise in Colorado's unemployment rate.

Technical benchmarks to determine recessions for states do not exist. However, employment and state sales tax collections give an accurate indication of the health of the economy. This issue brief by the *Center for Colorado's Economic Future* examines these economic indicators and whether they por-

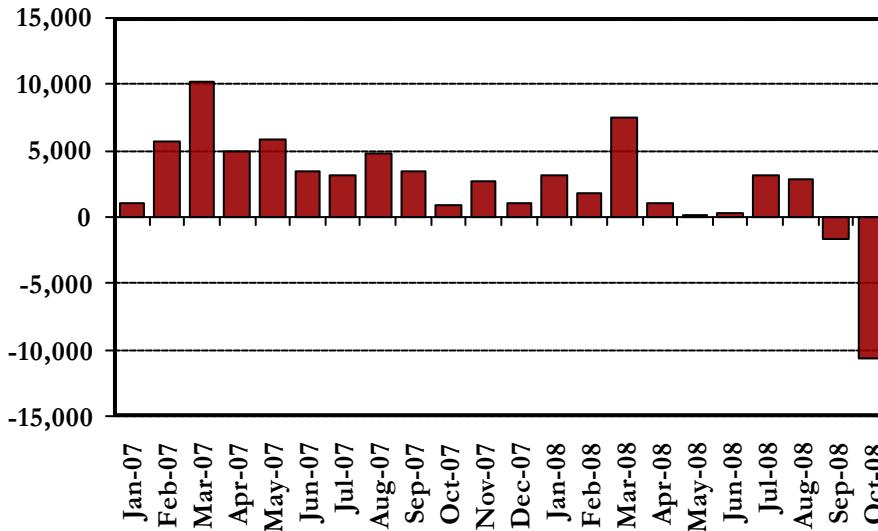
tend a recession for the state.

Employment

Job creation in Colorado has slowed significantly during 2008. After averaging gains of 3,900 jobs per month in 2007, an average of only 2,500 per month were added through August 2008. The second quarter averaged only 500 additional jobs per month, and the state was clearly on a slower growth path. Job growth picked up in July and August, perhaps due to a hiring binge brought about by the Democratic National Convention in Denver. While preliminary data for September still showed job growth, a revision now indicates that Colorado has joined most other states in losing employment. Following the 1,700 decline in September, payroll employment fell by 10,600 in October. To put this into perspective, only one month during the decade's earlier two-year long recession showed as steep a decline.

The unemployment rate increased from 5.2 percent in September to 5.7 percent in October. This is the second 0.5 percentage point increase in the rate this year from one month to the next. In contrast, the unemployment rate a year ago was 3.9 percent. Nearly 50,000 more people are unem-

Monthly Job Changes in Colorado 2007-08



Source: U.S. Bureau of Labor Statistics

employed, and Colorado seems clearly at risk to continue losing jobs in upcoming months as the national recession is predicted to deepen and last longer than recent recessions. The state has lost jobs this year in the construction and finance sectors because of the housing collapse and credit market crunch. These sectors are more likely to get worse before they get better.

Weakening natural gas prices over the past three months and a strong natural gas supply for the upcoming winter will likely lead to a softening in the mining sector, a key strength over the past few years. The long-term job losses in the manufacturing sector will worsen as the domestic and international economies post GDP (Gross Domestic Product) losses. Consumer spending decreased in the last quarter and, combined with sharp drops in consumer confidence, will lead to eventual job declines in the trade sec-

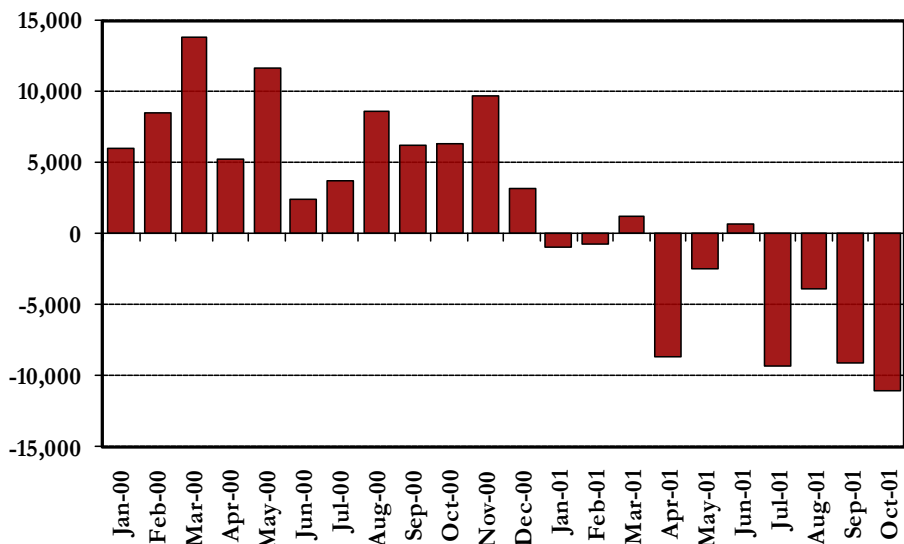
tor.

Two stalwart sectors will not be immune from the slowdown. Job creation in the professional and business services sector boomed over the past four years, with growth exceeding 4 percent annually. However, the sector has added only 2,700 jobs since last December in comparison with 13,800 jobs created from December 2006 to December 2007. State and local government employment

gains will soften as their revenue streams suffer during the recession.

What appeared to be a soft landing through the first three quarters will turn out to be bumpier than anticipated by most observers. Colorado had a hard landing in its last recession. Job growth was robust throughout 2000 and turned sharply negative as the dot-com bubble burst wide open in early 2001 (see chart below). Whether the recession affects Colorado deeply will depend on how quickly credit markets loosen and consumer confi-

Monthly Job Changes in Colorado 2000-01

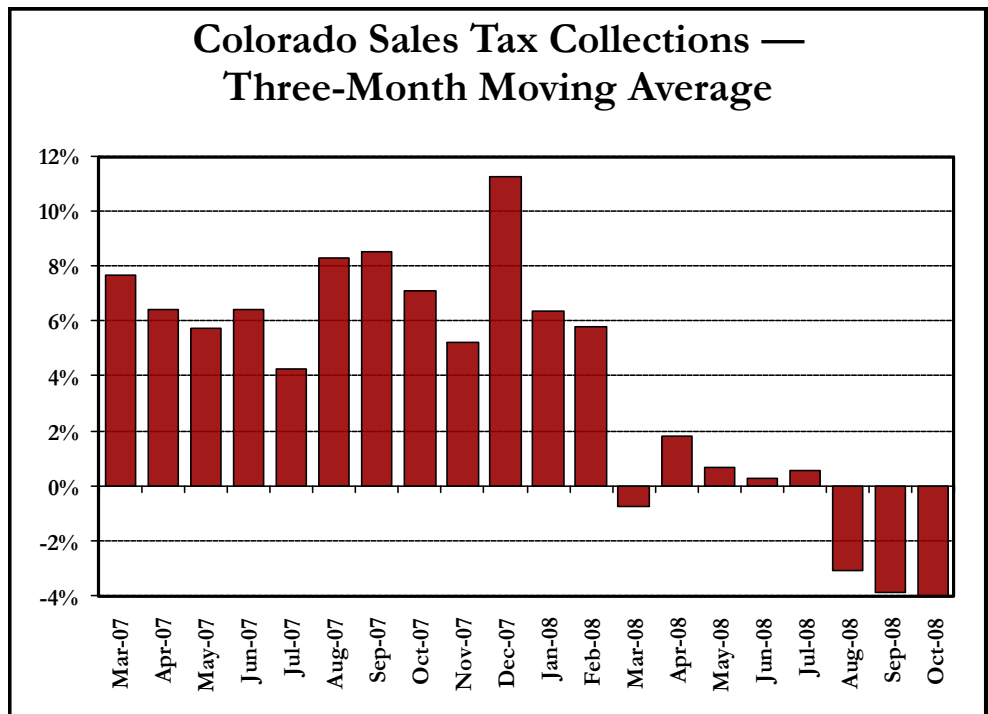


Source: U.S. Bureau of Labor Statistics

dence rebounds.

State Sales Tax Collections

This economic indicator is used as a substitute for consumer spending and gives a clear picture of consumer confidence in the economy. It also encompasses some business spending. Sales tax collections act as a barometer of recessions in Colorado. They declined during the recessions of late 1985 through mid-1987 and from 2001 through 2003.



Source: Colorado State Controller's Office

Other than when the tax rate was reduced, these are the only prolonged periods of decline in sales tax collections. The declines correspond with long periods of job losses.

The chart on this page shows a three-month moving average of the percentage change in sales tax collections. The moving average is used to smooth anomalies in collection patterns that occur periodically. Weakness developed suddenly in April 2008 and became more problematic over the past three months.¹ The weakness in Colorado spending trends corresponds with a sharp third-quarter drop in inflation-adjusted consumption expenditures nationally. These expenditures declined 3.1 percent at an annual rate.

Consumers were faced with higher prices for energy and food, items that are not subject to the state sales tax. When prices for these relatively inelastic goods are higher, consumers have less to spend for other areas of their budgets. As a result, consumer confidence waned during this period. The credit crunch also curtailed consumer spending. Another factor affecting sales tax collections: As energy prices surged, some consumers switched from low-mileage, high-priced vehicles to higher-mileage,

lower-priced vehicles. Of course, sales taxes are lower on the latter vehicles.

Conclusion

It appears that Colorado's economy is entering a recession. Monthly sales tax revenue has declined on a year-over-year basis for four consecutive months. When this has occurred in the past, Colorado entered a recessionary period. Employment growth weakened in the second quarter, declined in the past two months, and will likely show losses in upcoming months. The sharp rise in the unemployment rate has presaged recessionary periods for Colorado in every other instance when it occurred.

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The Center for Colorado's Economic Future at the University of Denver is an independent, nonpartisan organization that conducts research on matters related to Colorado's fiscal health, trends affecting the state's economy and proposed legislation relating to taxation and public spending.

¹ The apparent weakness in March 2008 is partially attributable to processing delays in December 2006 that pushed collections into the following month. It also accounts for the large spike in December 2007.