

Picking Up The Pieces



**Metro Denver
2009 Economic Update
August 2009**



“Pieces” of the Economy... Each Affected by Recession

Consumption (70%)

Household spending on goods and services.

Investment (16%)

Residential real estate + business spending on software, equipment, & real estate.

Government Spending (19%)

Goods and services, debt service, transfer payments/social programs.

International Trade (-5%)

Global demand for US goods, US import activity.

Consumer Activity

Income

Wealth

Prices

Borrowing Costs

**Consumer
Confidence**



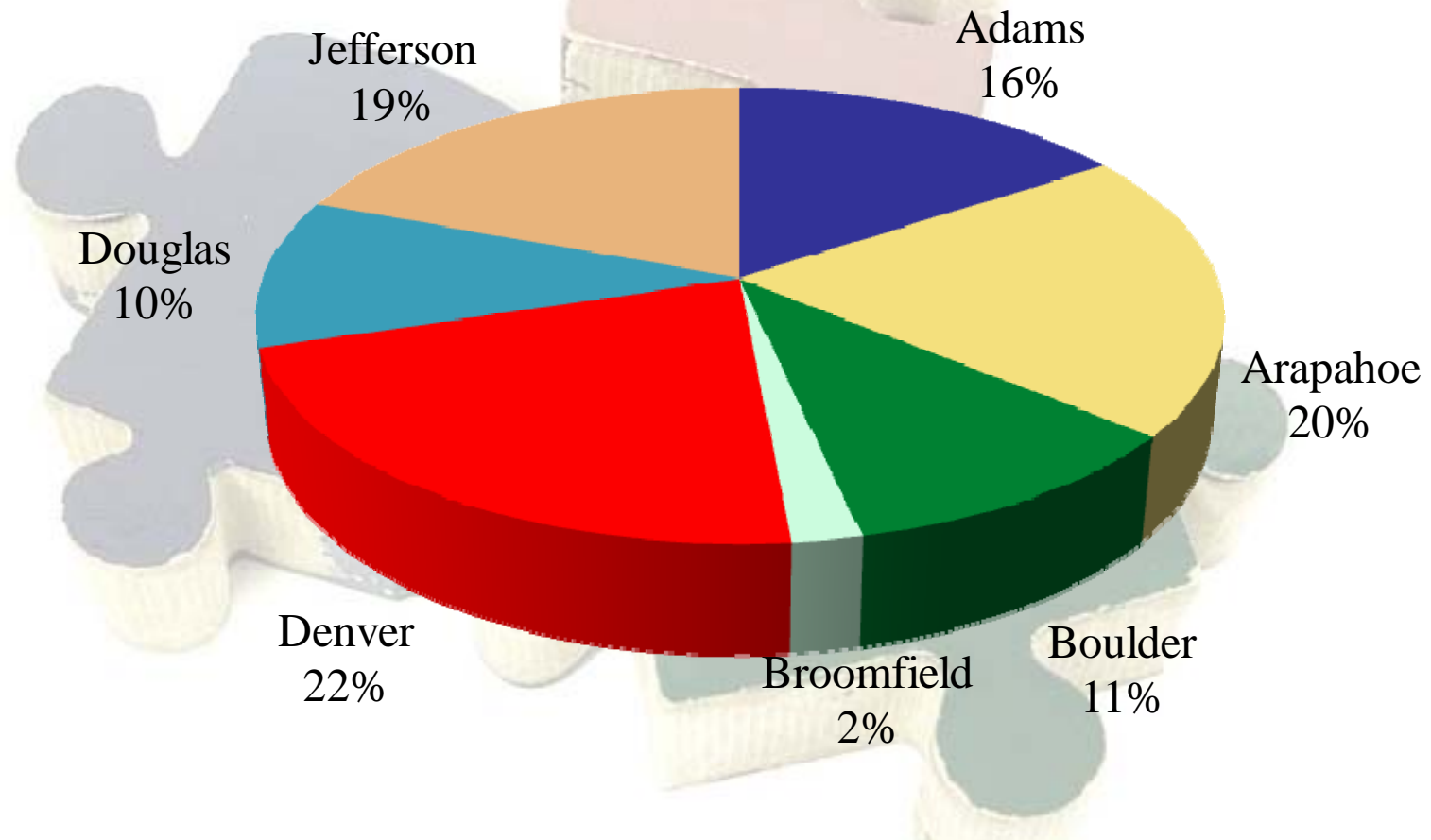
Retail Activity

Housing Sales

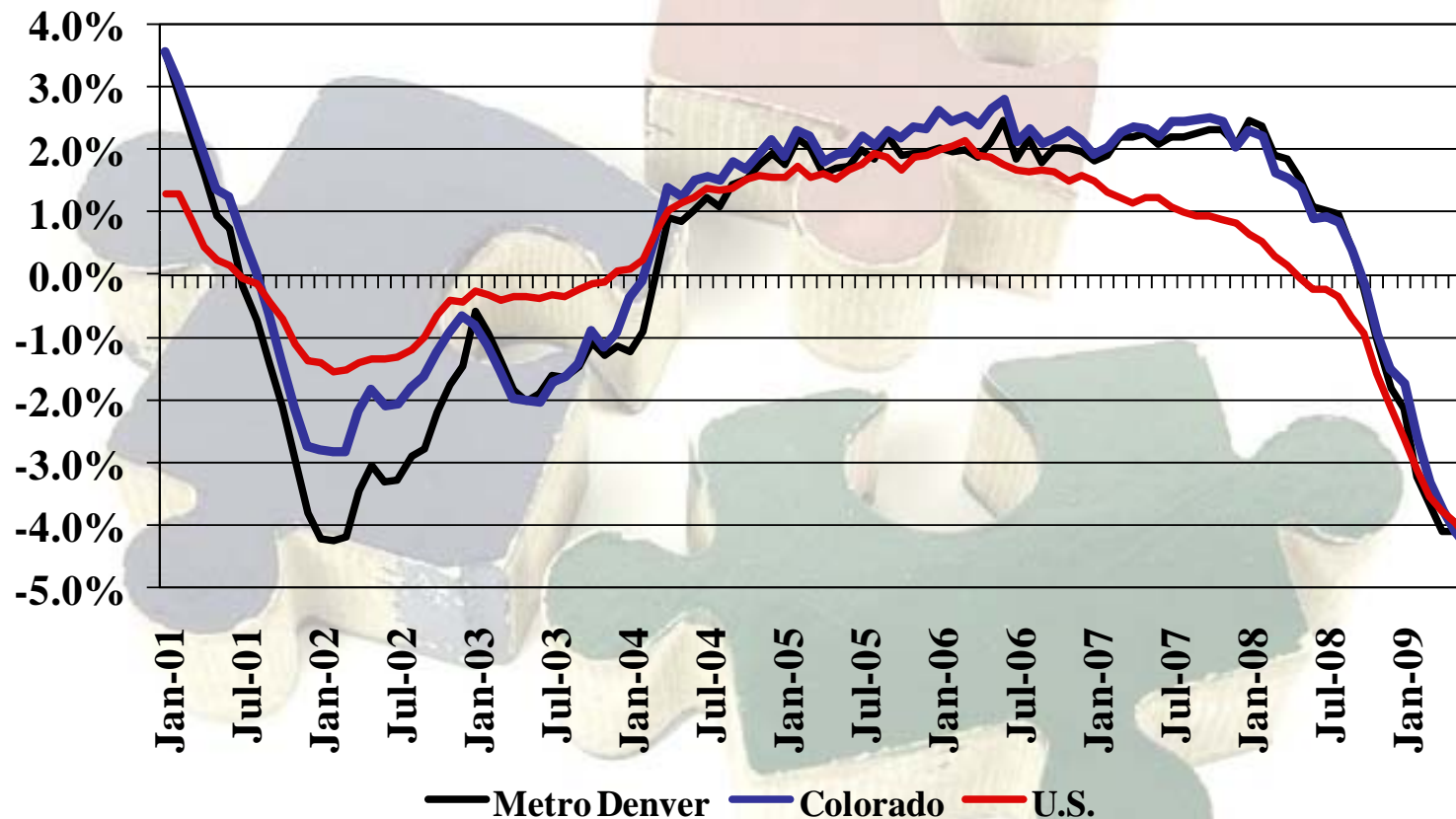
Savings Rate

Population by County

2009 Population = 2.83 million



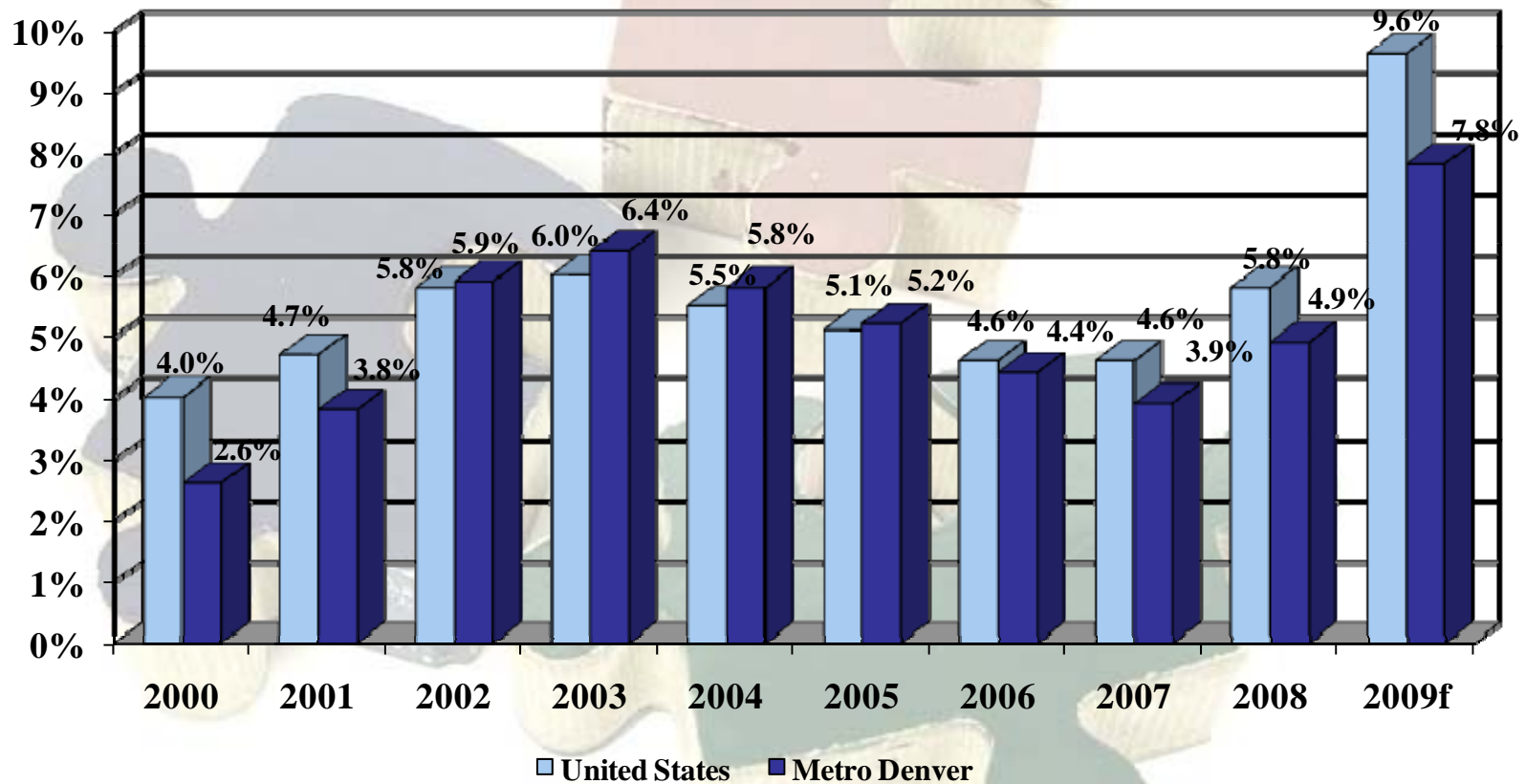
Over-the-Year Employment Growth Rates by Month



Sources: U.S. Bureau of Labor Statistics; CO Dept. of Labor & Employment.

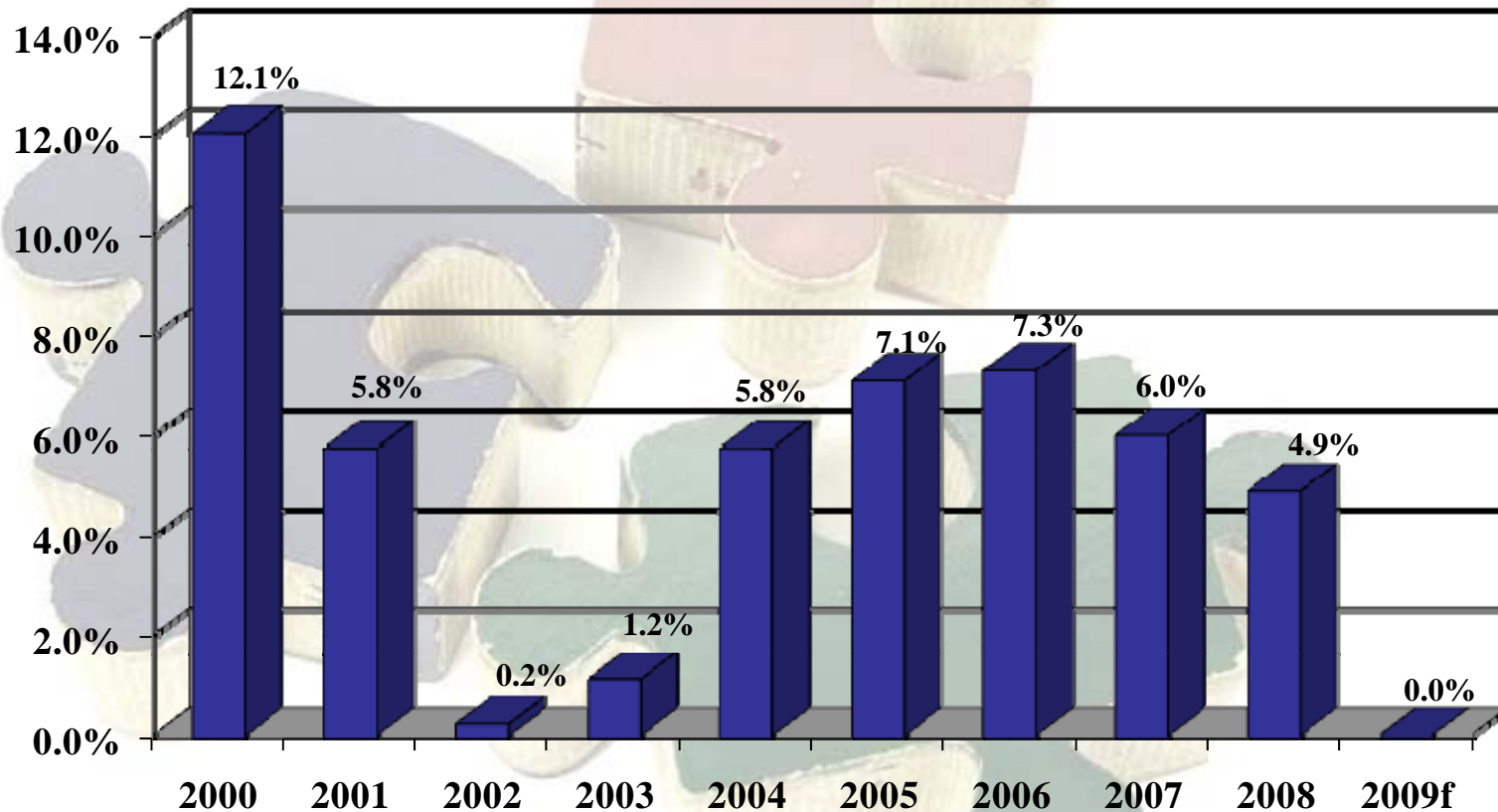
Unemployment Rates

Metro Denver Total Labor Force = 1.5 million



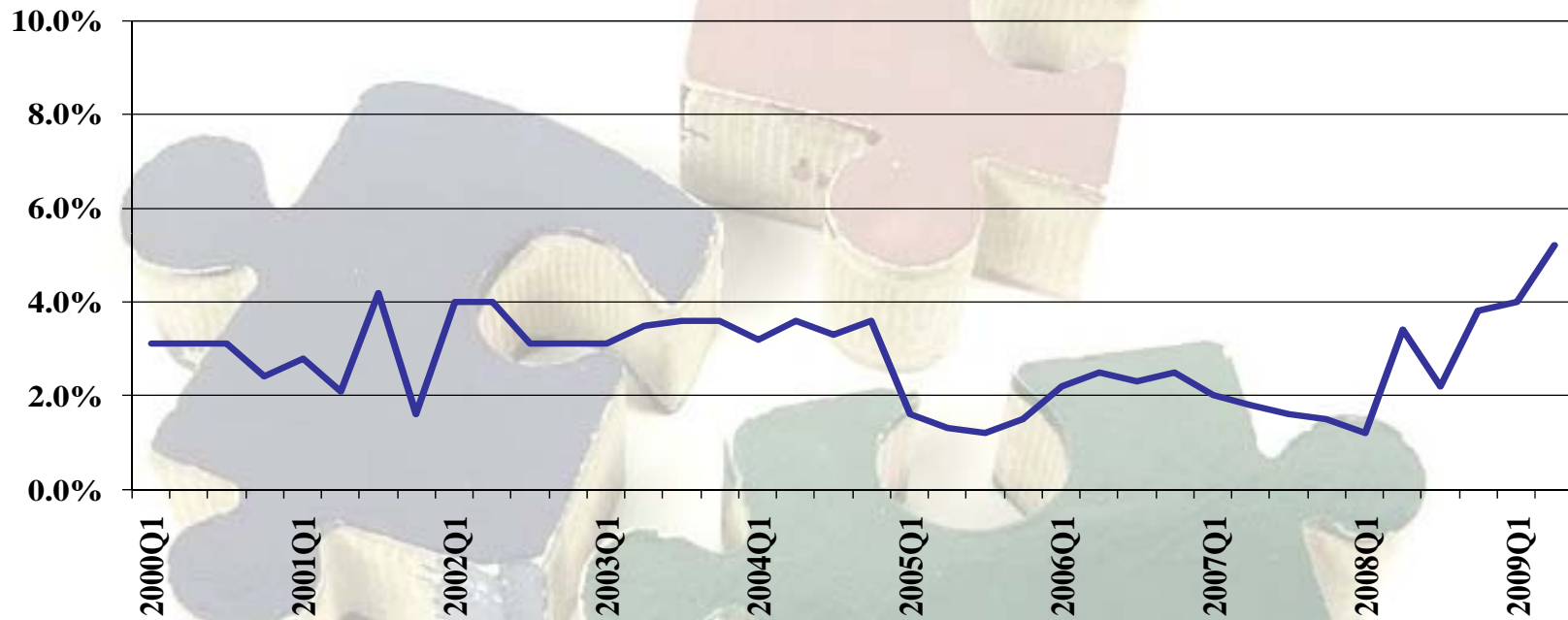
Sources: U.S. Bureau of Labor Statistics; CO Dept. of Labor & Employment.

Colorado Personal Income Growth Rate



Sources: U.S. Bureau of Economic Analysis.

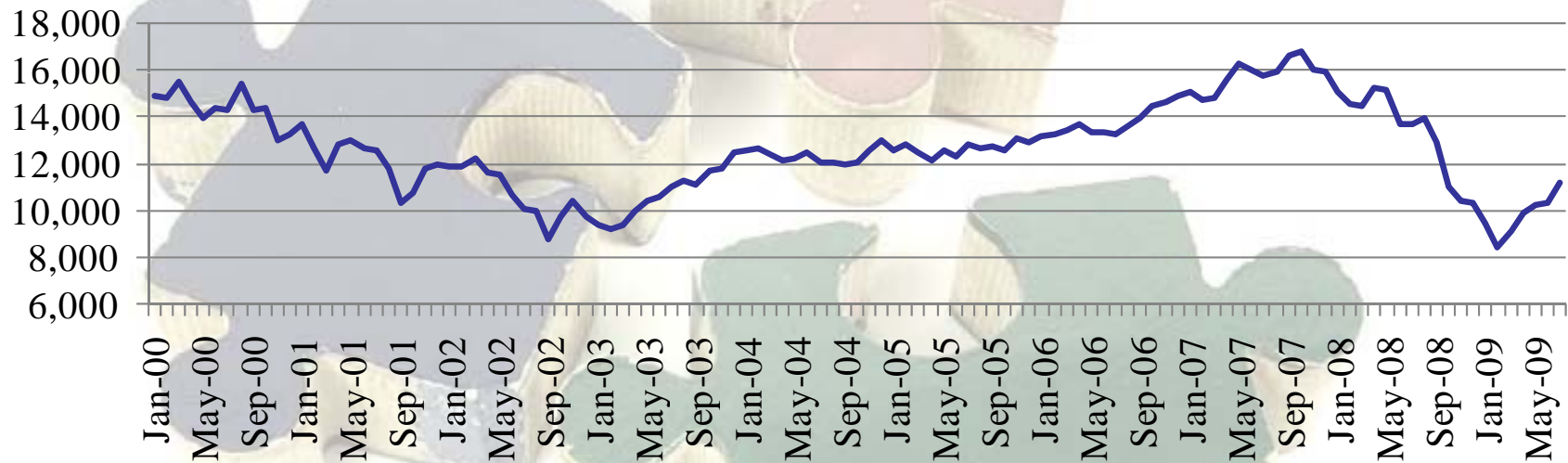
U.S. Personal Savings Rate



Source: U.S. Bureau of Economic Analysis.

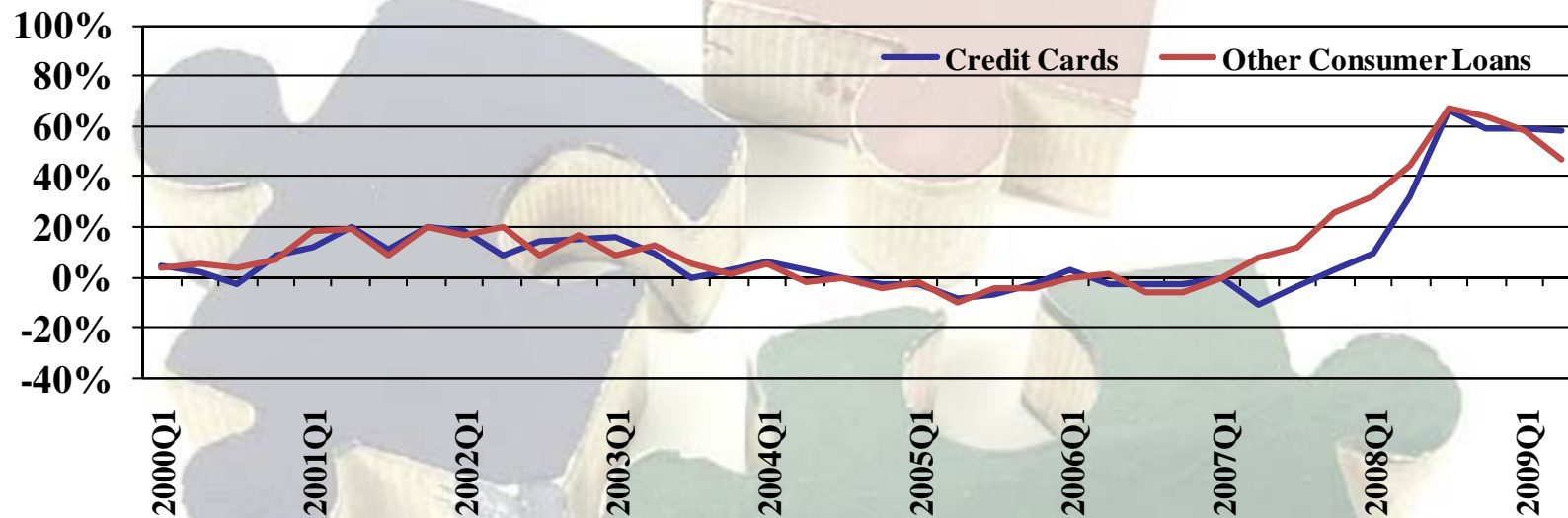
Dow Jones Industrial Average

2007: 18% of U.S. families have stocks; 53% have retirement accounts



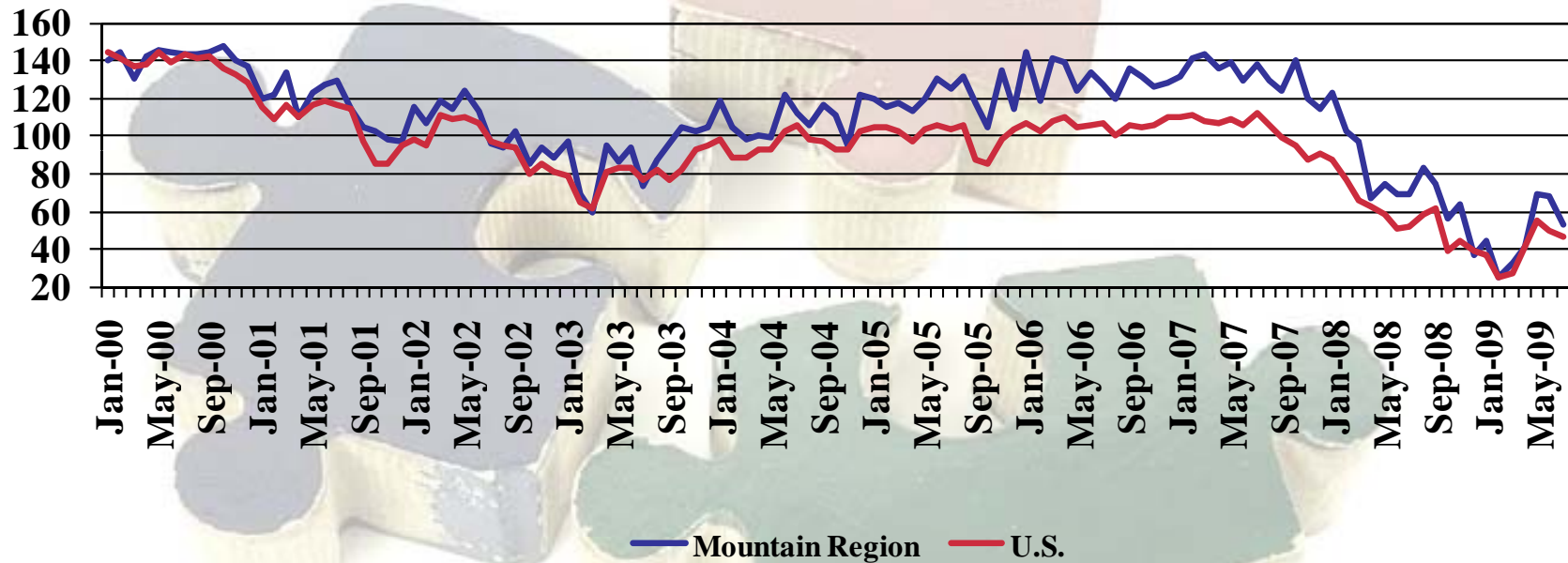
Source: Yahoo! Finance.

Share of Banks Tightening Consumer Lending Standards



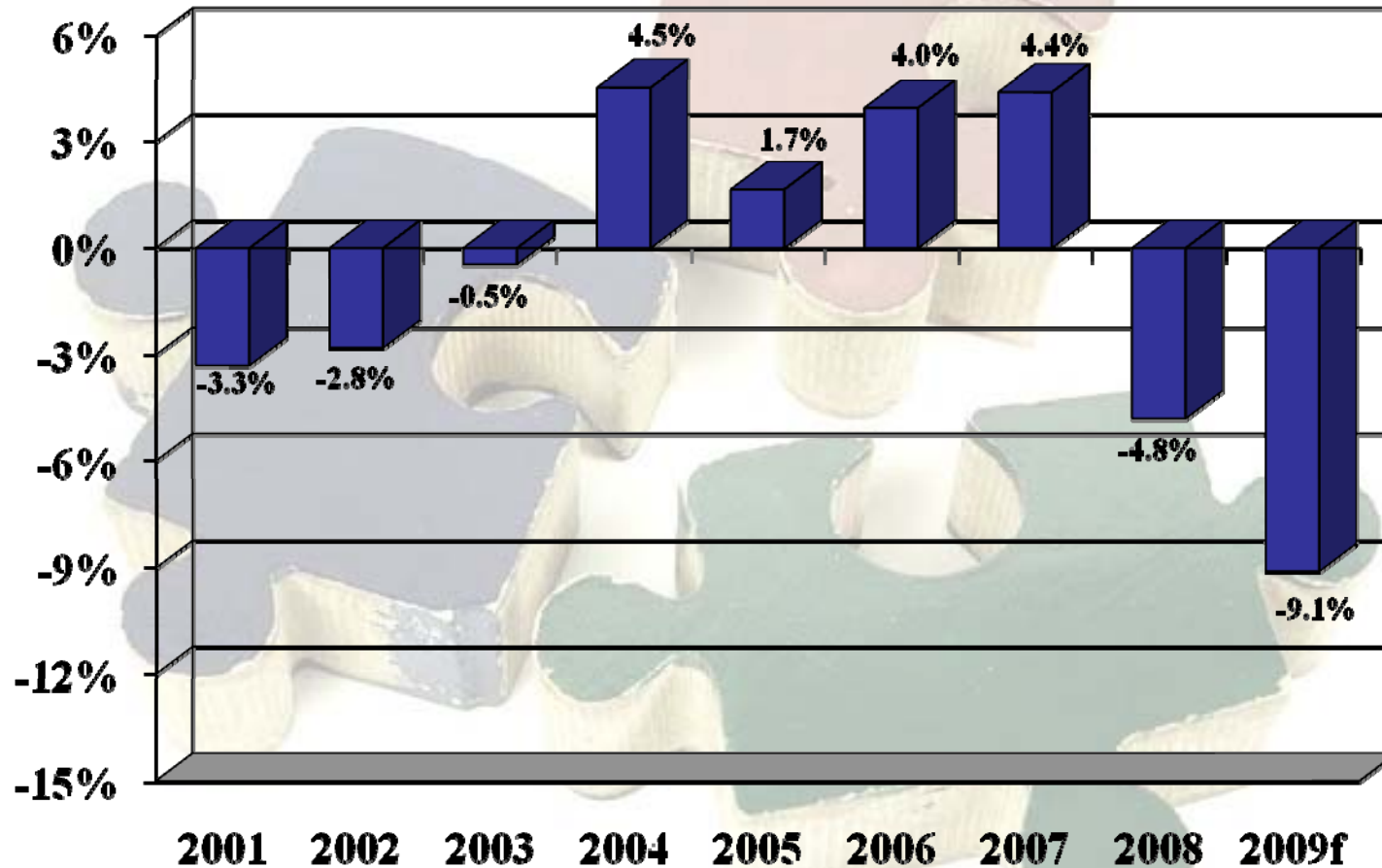
Source: The Federal Reserve Board, Senior Loan Officer Opinion Survey on Bank Lending Practices.

Consumer Confidence Index



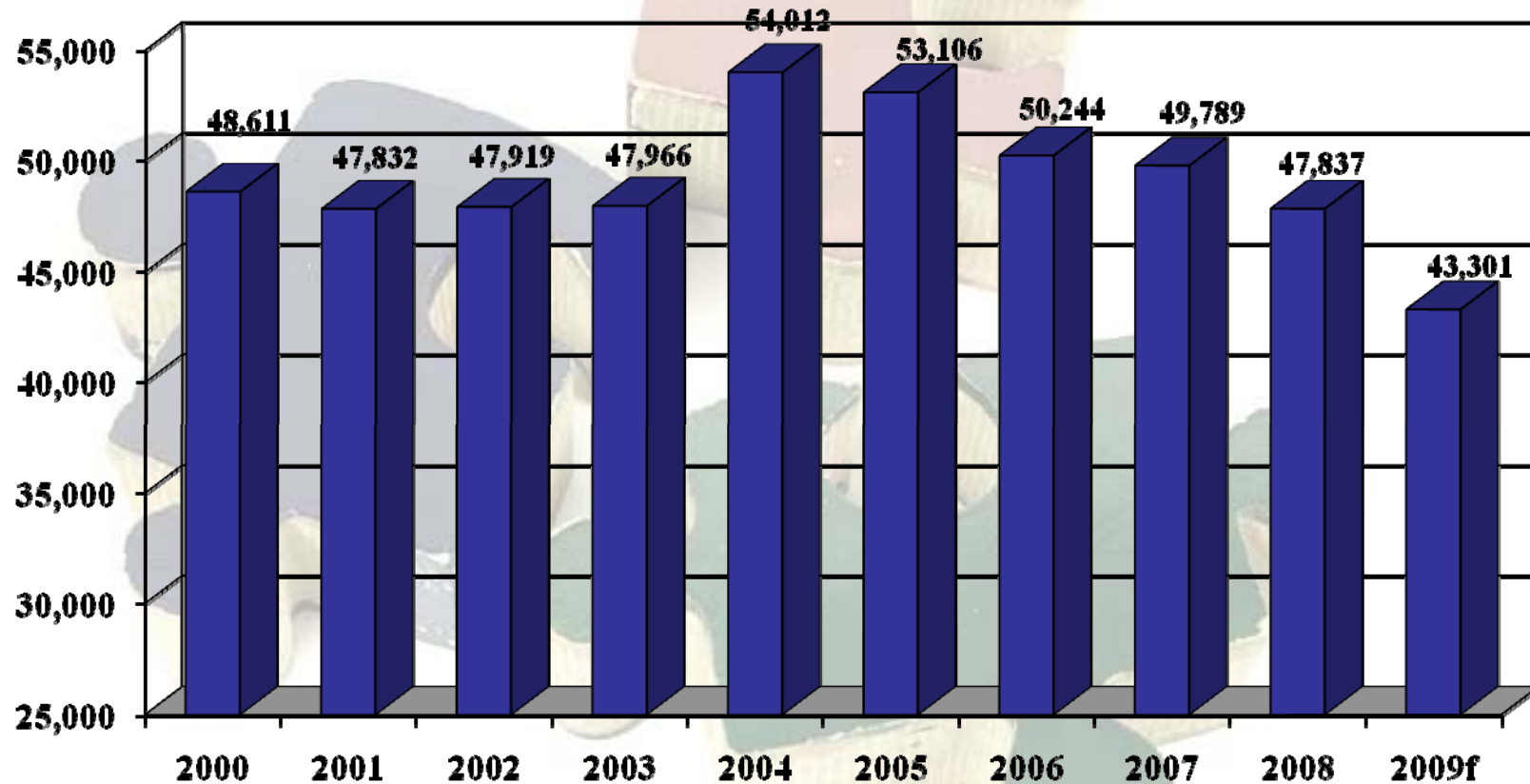
Source: The Conference Board.

Metro Denver Real Retail Trade Sales Growth Rates



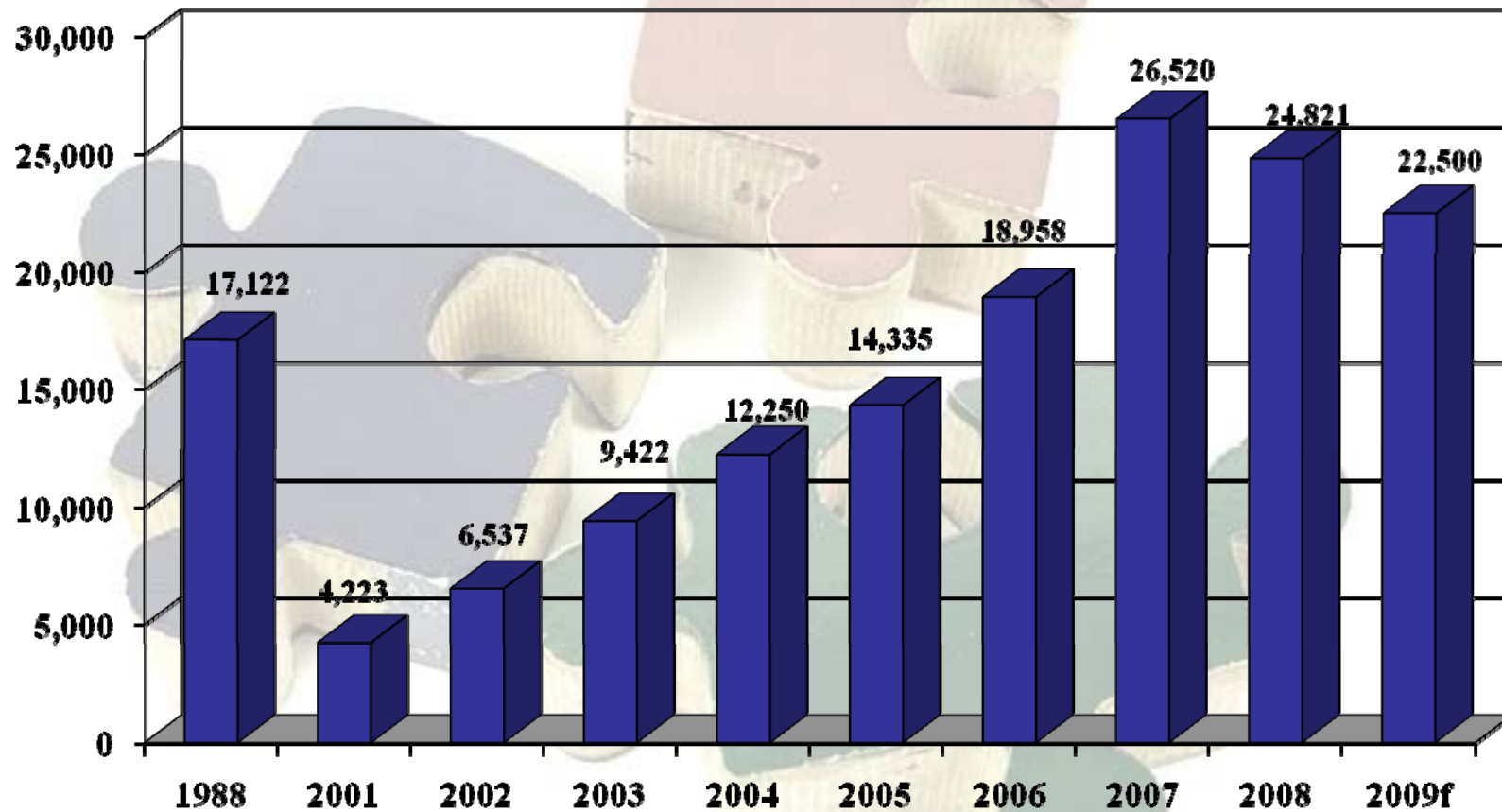
Source: Colorado Department of Revenue.

Metro Denver Existing Home Sales



Source: Metrolist, Inc.

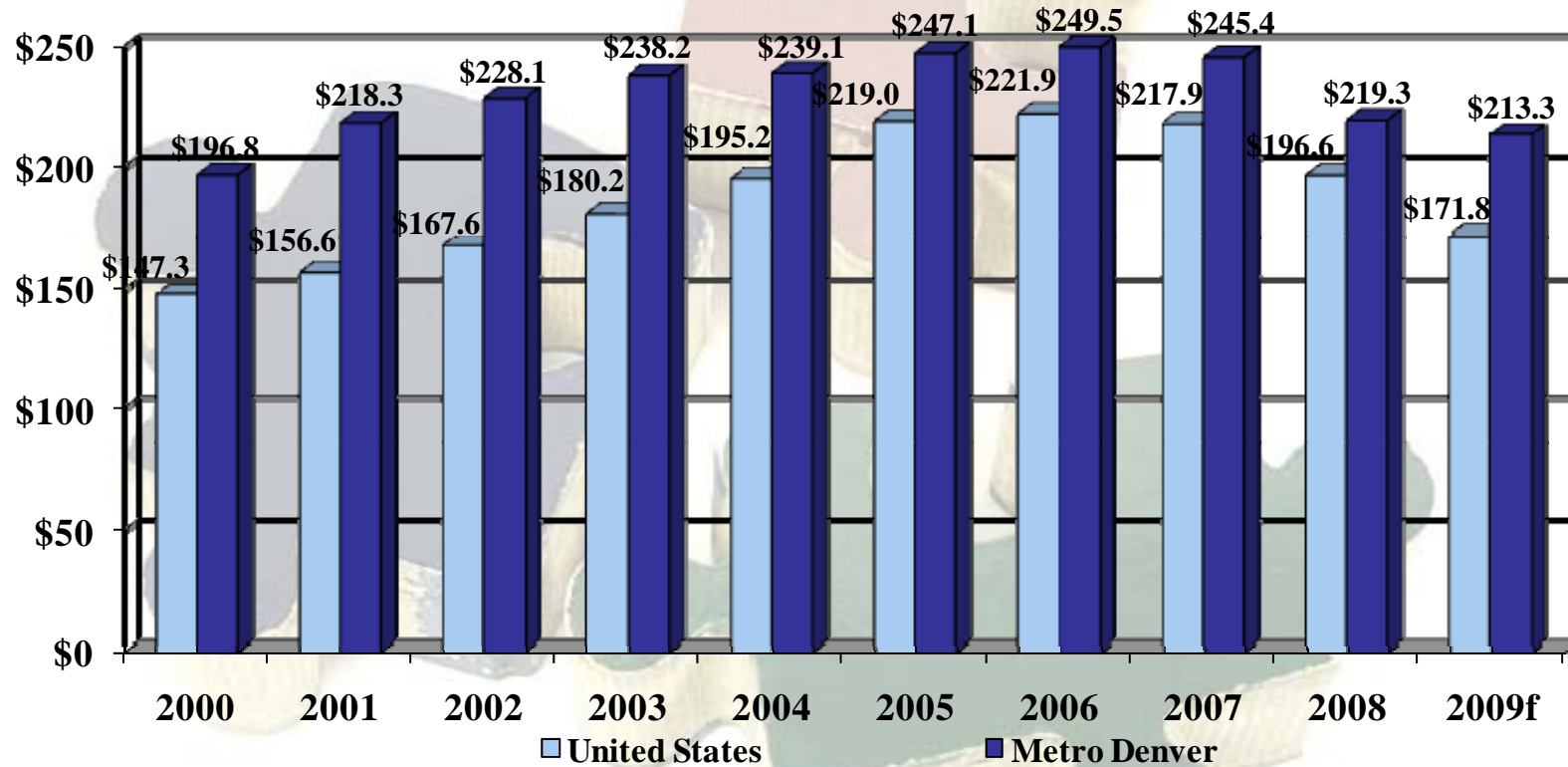
Metro Denver Foreclosures



Sources: CB Richard Ellis; County Public Trustees.

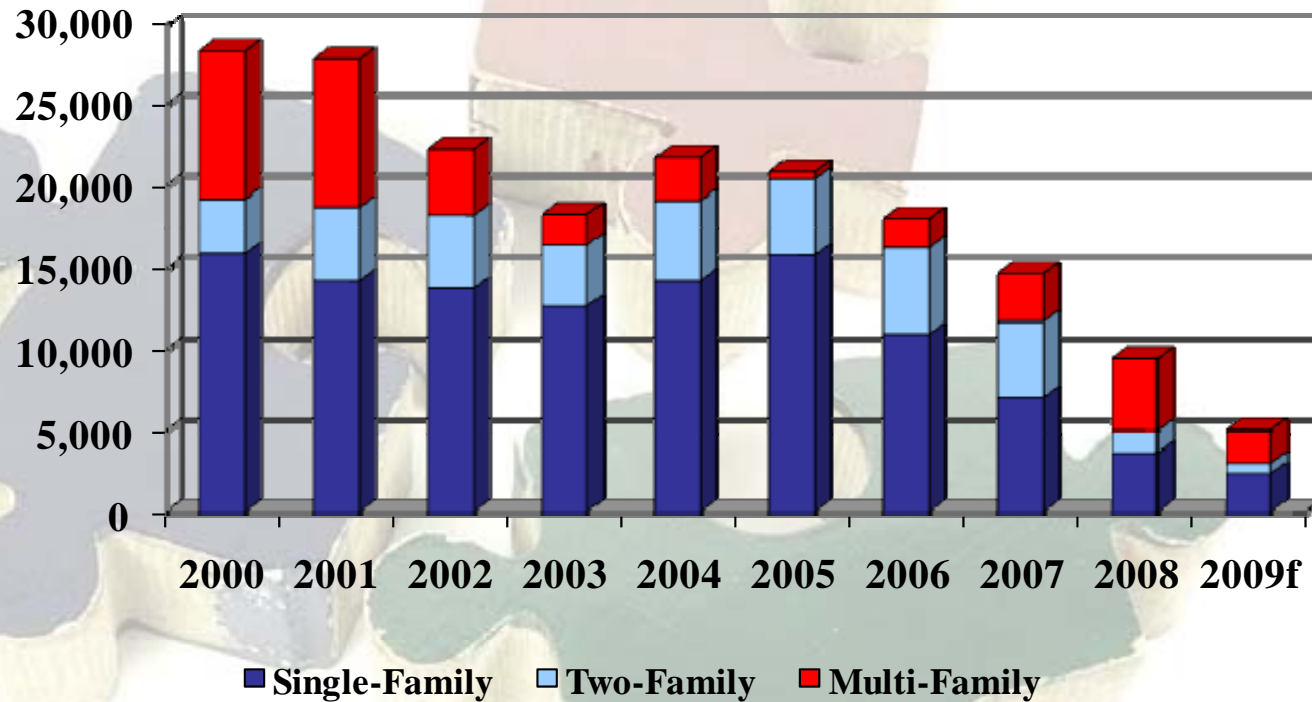
Median Home Price

(in thousands)



Source: National Association of REALTORS.

Metro Denver Building Permits



Source: Home Builders Association of Metropolitan Denver.

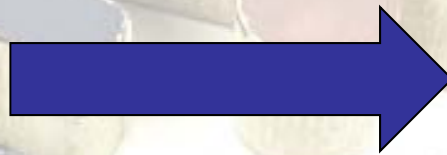
Business Activity

**Sales
Expectations**

**Profit
Expectations**

Interest Rates

**Other Borrowing
Costs**

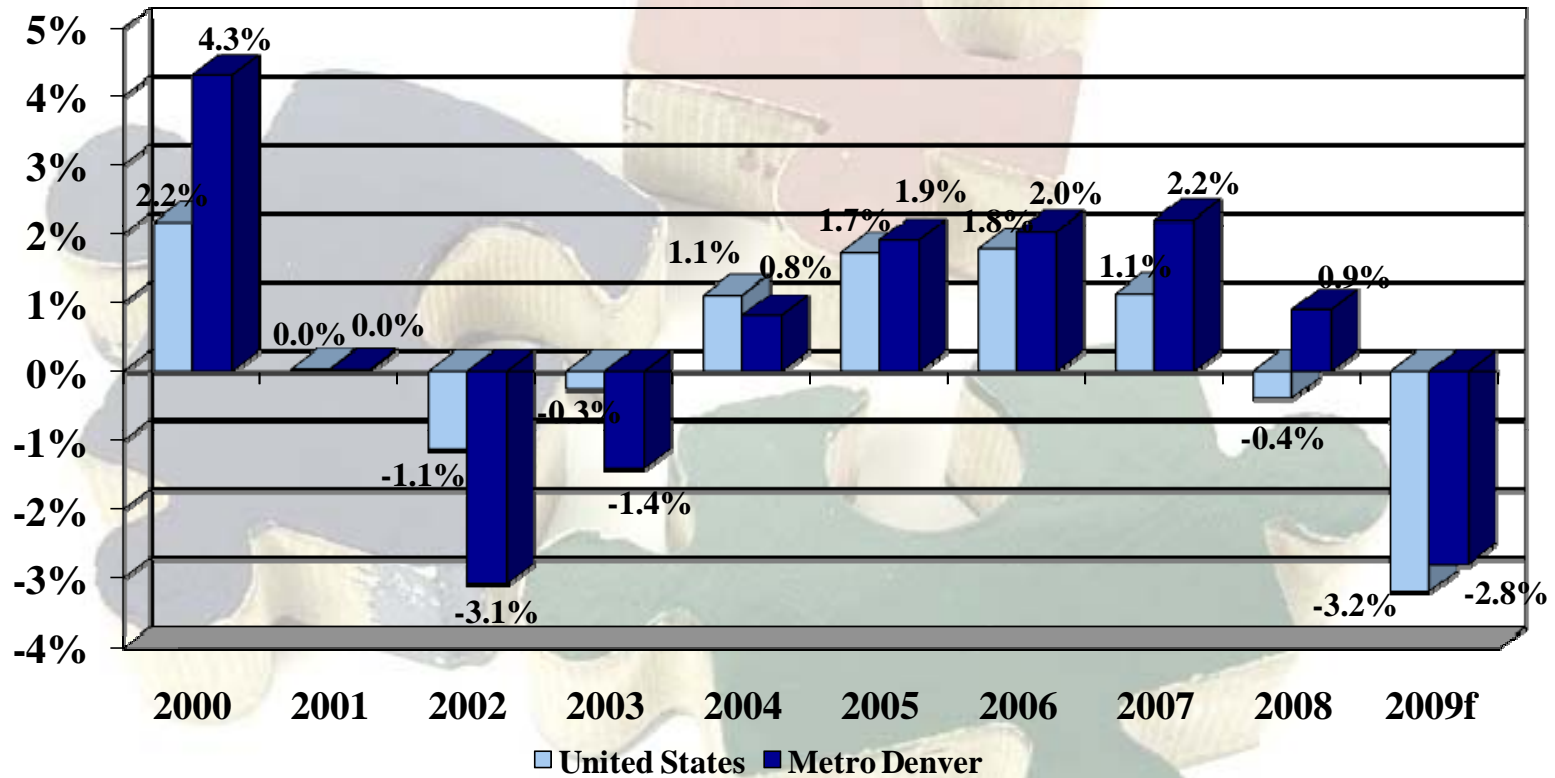


**Human
Resources**

**Software,
Equipment
Purchases**

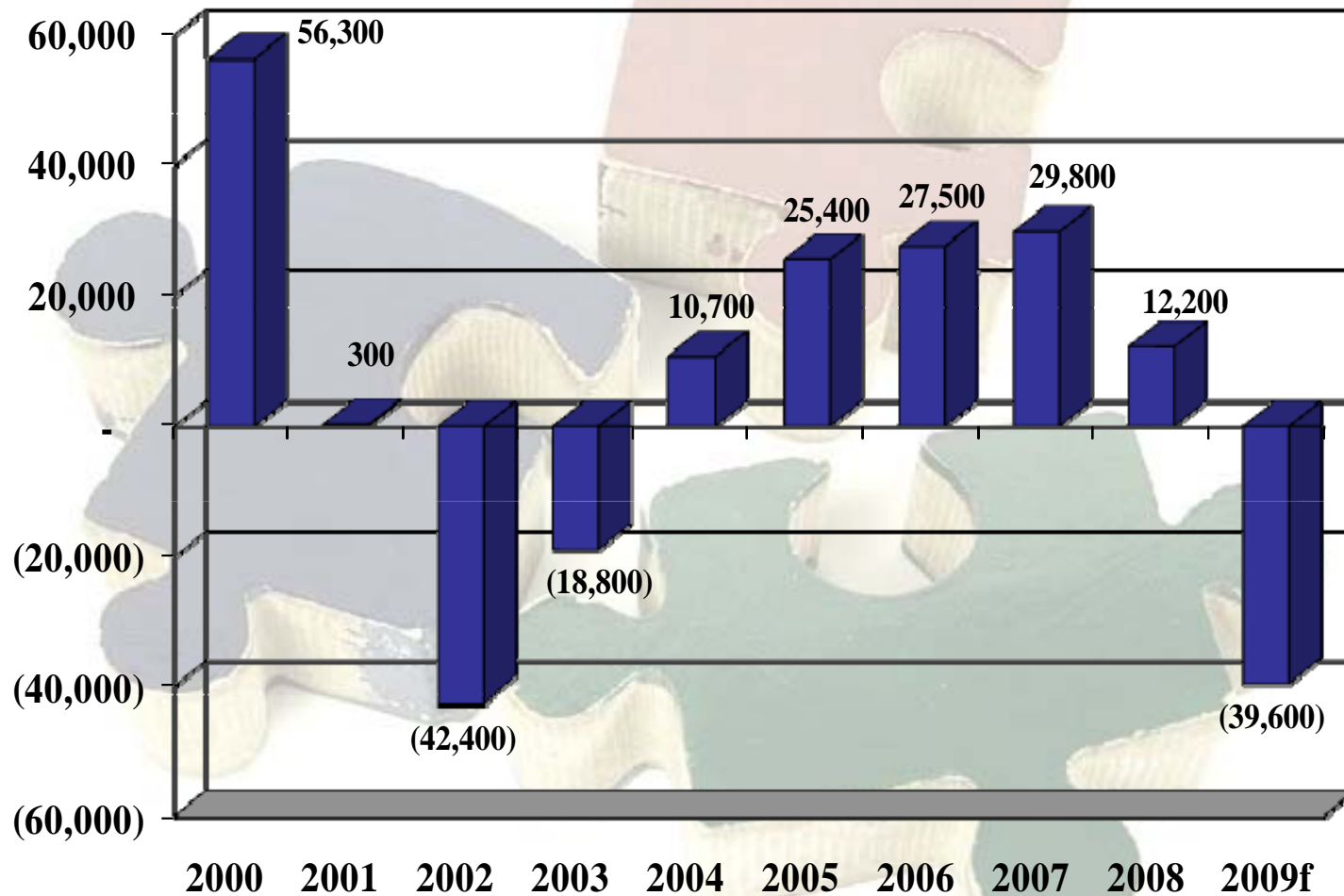
**Commercial Real
Estate**

Nonfarm Job Growth Rates



Sources: U.S. Bureau of Labor Statistics; CO Dept. of Labor & Employment.

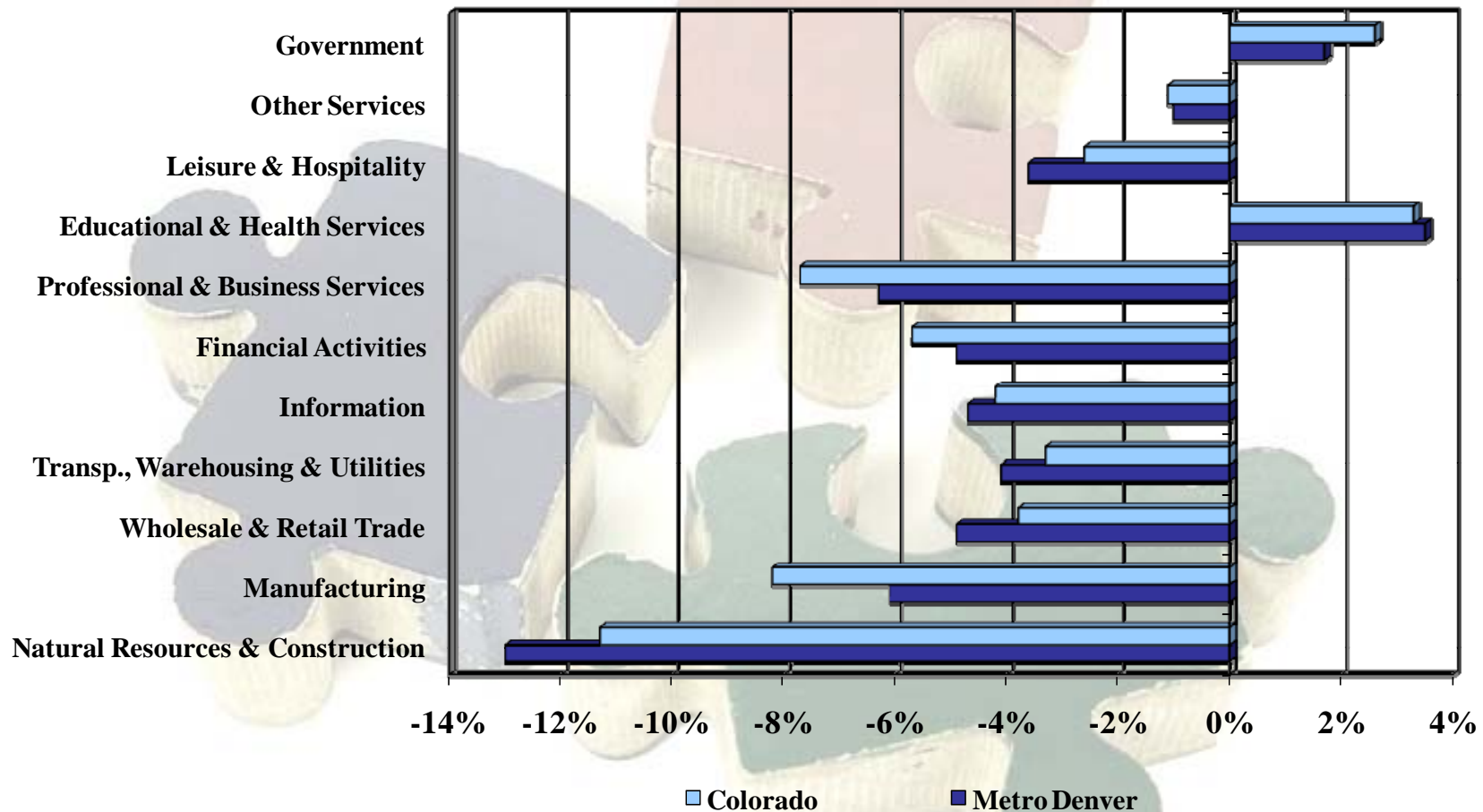
Metro Denver Net New Jobs



Source: CO Dept. of Labor & Employment.

Employment Growth by Industry

June 2009 YTD

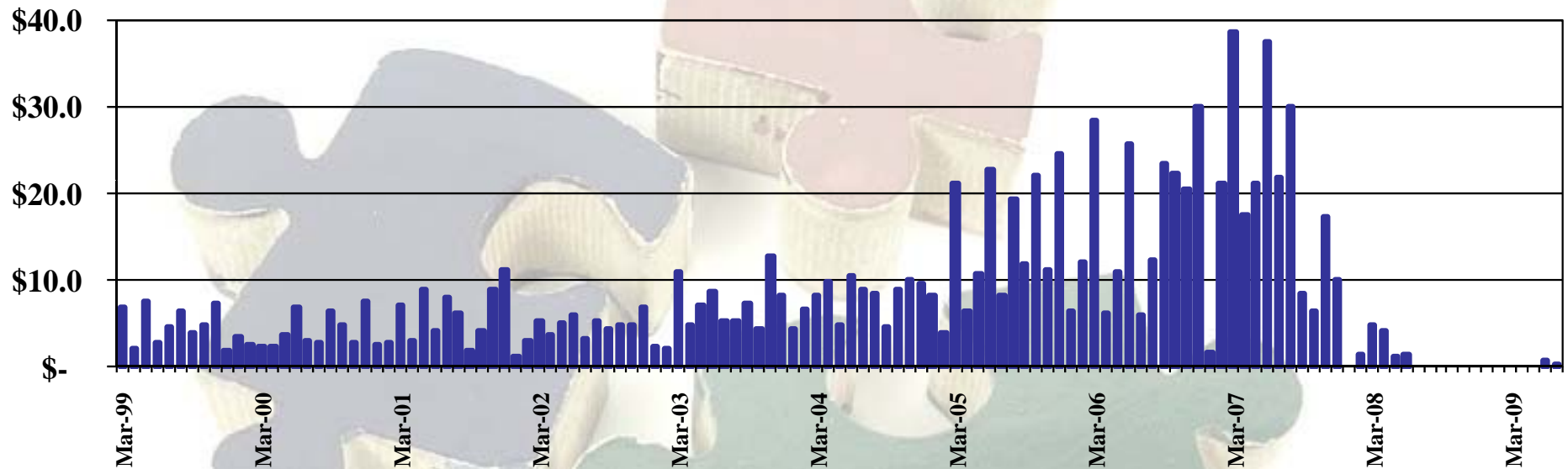


Source: U.S. Bureau of Labor Statistics; CO Dept. of Labor & Employment.

Key Metro Denver Industry Clusters

| | Employment | 2008 Job Growth | Absolute Ranking (50 largest metros) |
|--|------------|-----------------|--------------------------------------|
| Aerospace | 20,600 | 1.1% | 1 |
| Aviation | 15,300 | -1.2% | 12 |
| Bioscience | | | |
| Pharmaceuticals & Biotechnology | 5,400 | -4.2% | 16 |
| Medical Devices & Instruments | 9,500 | 5.6% | 7 |
| Broadcasting & Telecommunications | 40,000 | -1.1% | 8 |
| Energy | | | |
| Fossil Energy | 15,000 | 8.8% | 3 |
| Renewable Energy & Energy Research | 15,000 | 12.4% | 4 |
| Financial Services | | | |
| Banking & Finance | 44,500 | -4.7% | 8 |
| Investments | 22,600 | -0.7% | 9 |
| Insurance | 27,800 | -1.4% | 11 |
| IT/Software | 42,300 | -2.5% | 12 |

Issuance of U.S. Commercial Mortgage-Backed Securities (\$bil)



Source: Commercial Mortgage Alert.

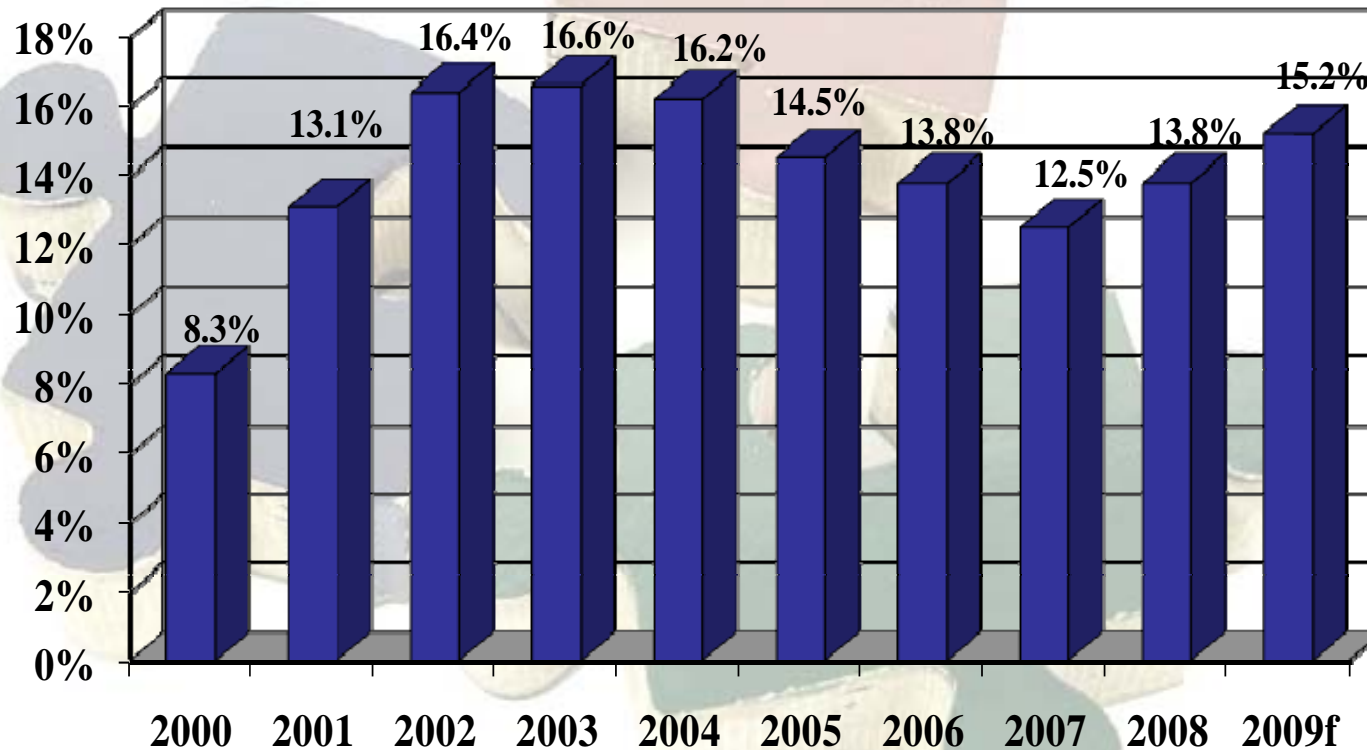
Until recently, the CMBS market was the primary means of financing for **30 percent** of loan originations. (Federal Reserve Chairman Ben Bernanke)

Metro Denver Office Vacancy Rates

(with sublet)

Existing Square Feet = 161.3 million

Completed YTD = 0.7 MSF; Under Construction = 1.9 MSF



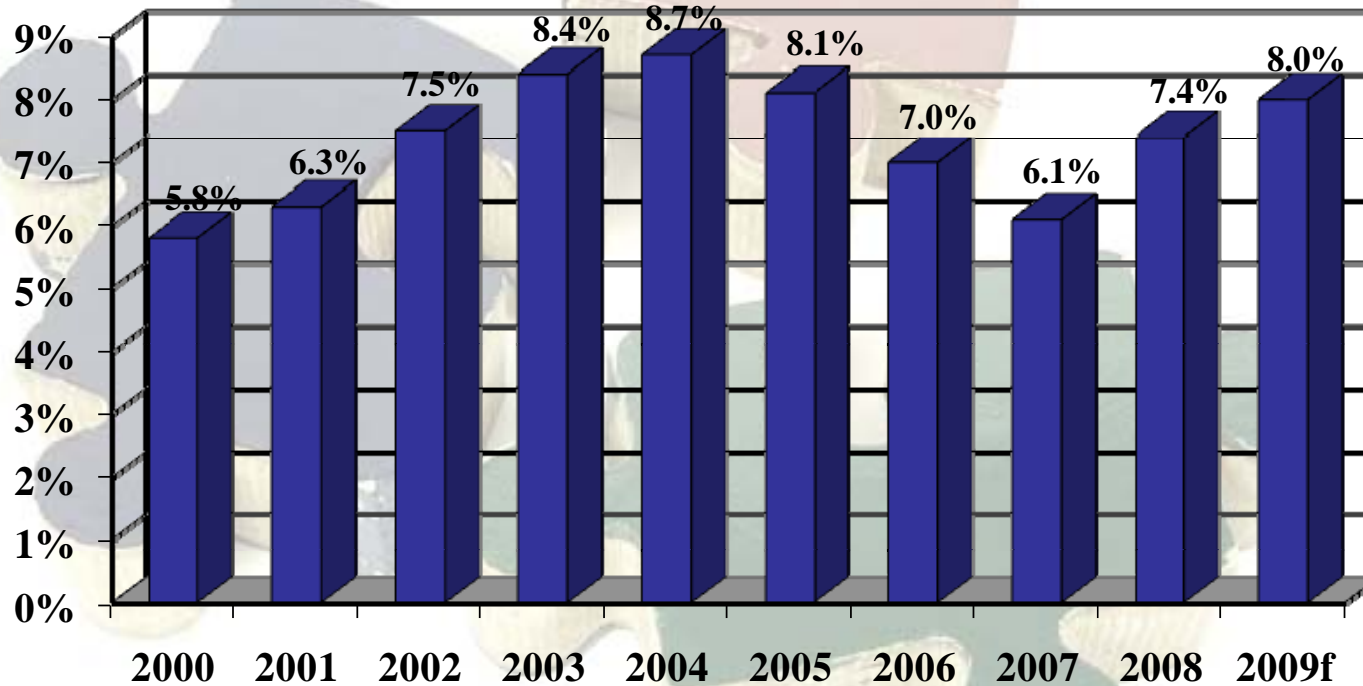
Source: CoStar Realty Information, Inc.

Metro Denver Industrial Vacancy Rates

(with sublet)

Existing Square Feet = 212.6 million

Completed YTD = 0.2 MSF; Under Construction = 0 MSF



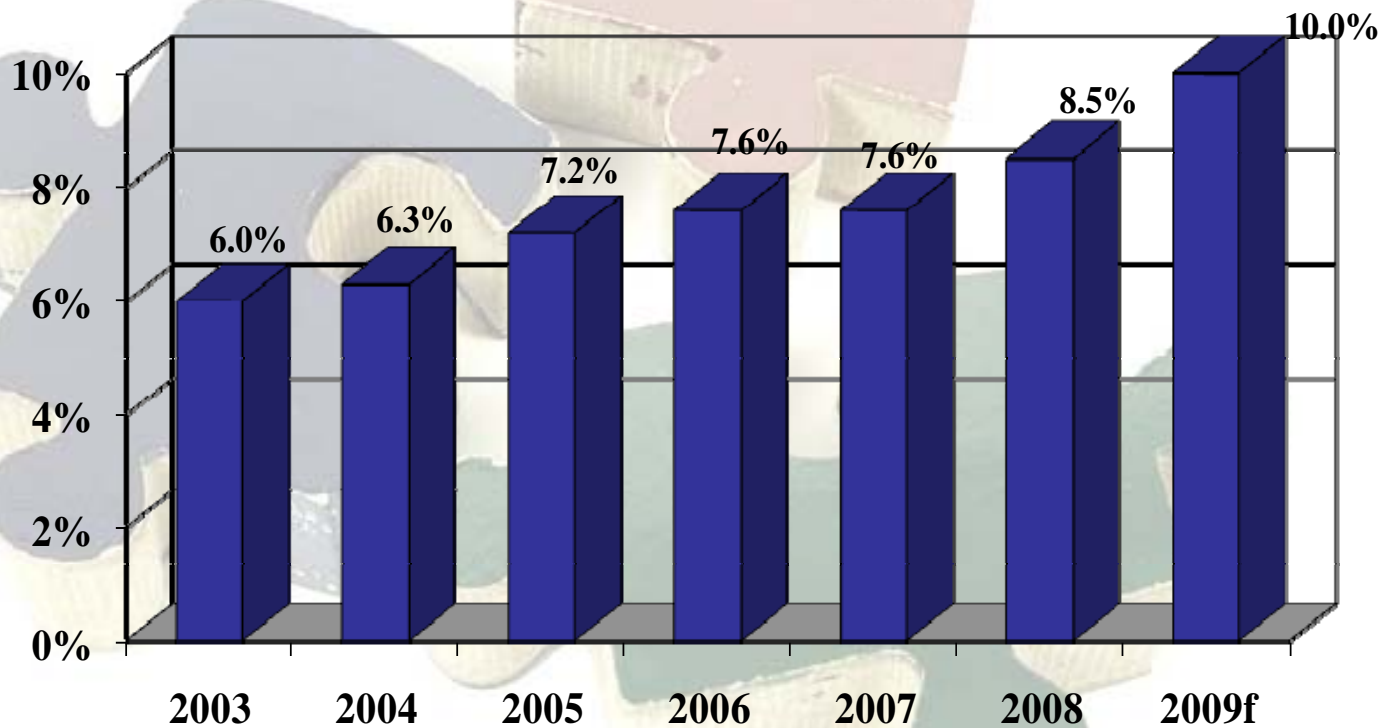
Source: CoStar Realty Information, Inc.

Metro Denver Retail Vacancy Rates

(with sublet)

Existing Square Feet = 148.1 million

Completed YTD = 1.1 MSF; Under Construction = 0.6 MSF



Source: CoStar Realty Information, Inc.

Government Activity

National Security

**Overall Economic
Health**

Tax Collections

**Political
Leadership**



Fiscal Policy

**Monetary Policy/
Interest Rates**

**Regulatory
Reforms**

Economic Stimulus Highlights

- ◆ **\$787 billion American Recovery & Reinvestment Act (ARRA, February 2009)**

Tax Relief (37%), State & Local Fiscal Relief (18%), Infrastructure & Science (14%), Protecting the Vulnerable (10%), Health Care (7%), Education & Training (7%), Energy (6%), Other (1%)

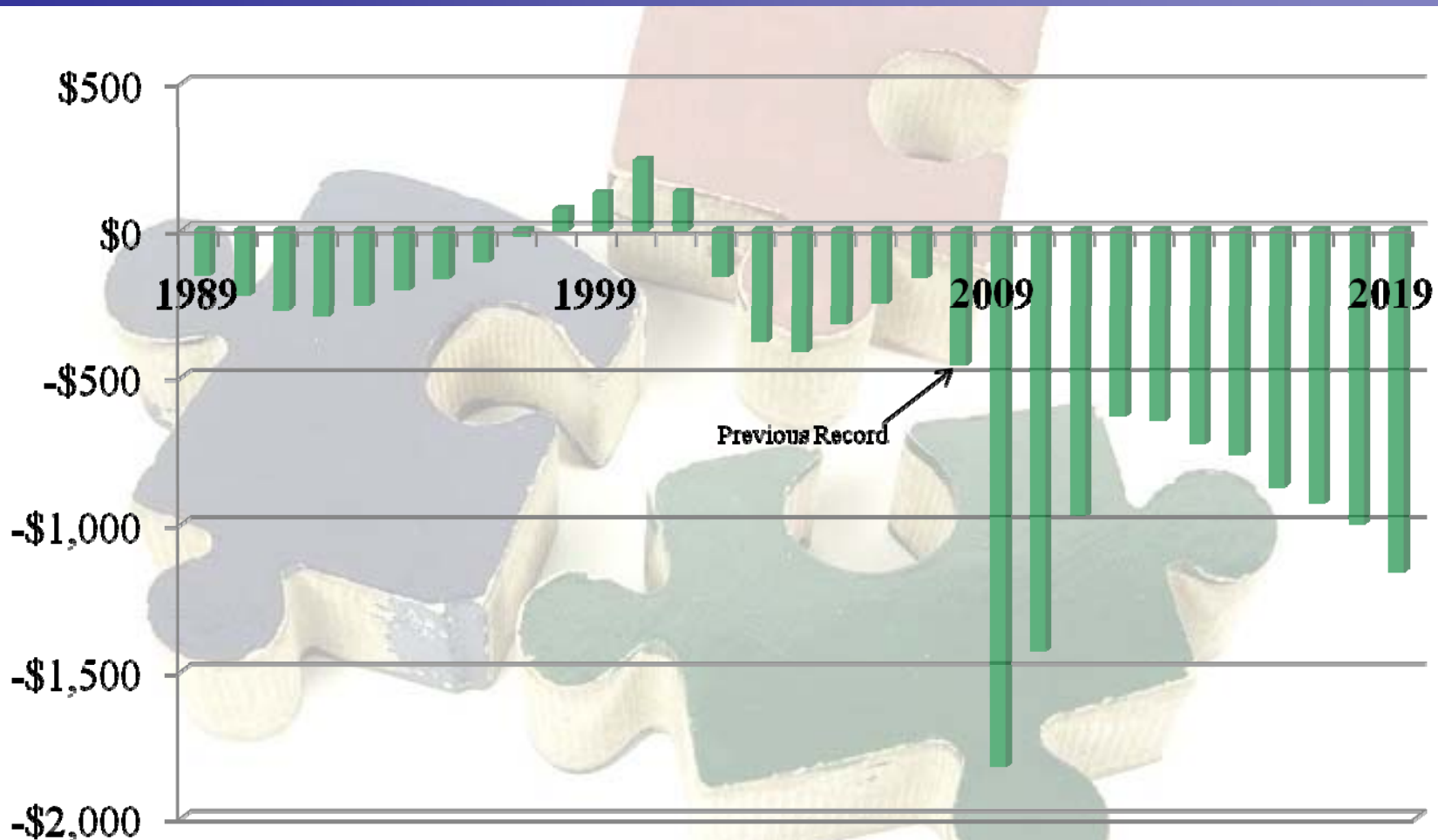
- ◆ **\$700 billion Emergency Economic Stabilization Act (EESA, October 2008)**

Created TARP, which led to the Financial Stability Plan, which includes CPP, CBLI, CAP, TALF, AGP, TIP, SSFI, etc.

- ◆ **Federal Reserve maintains 0 – 0.25% target federal funds rate**

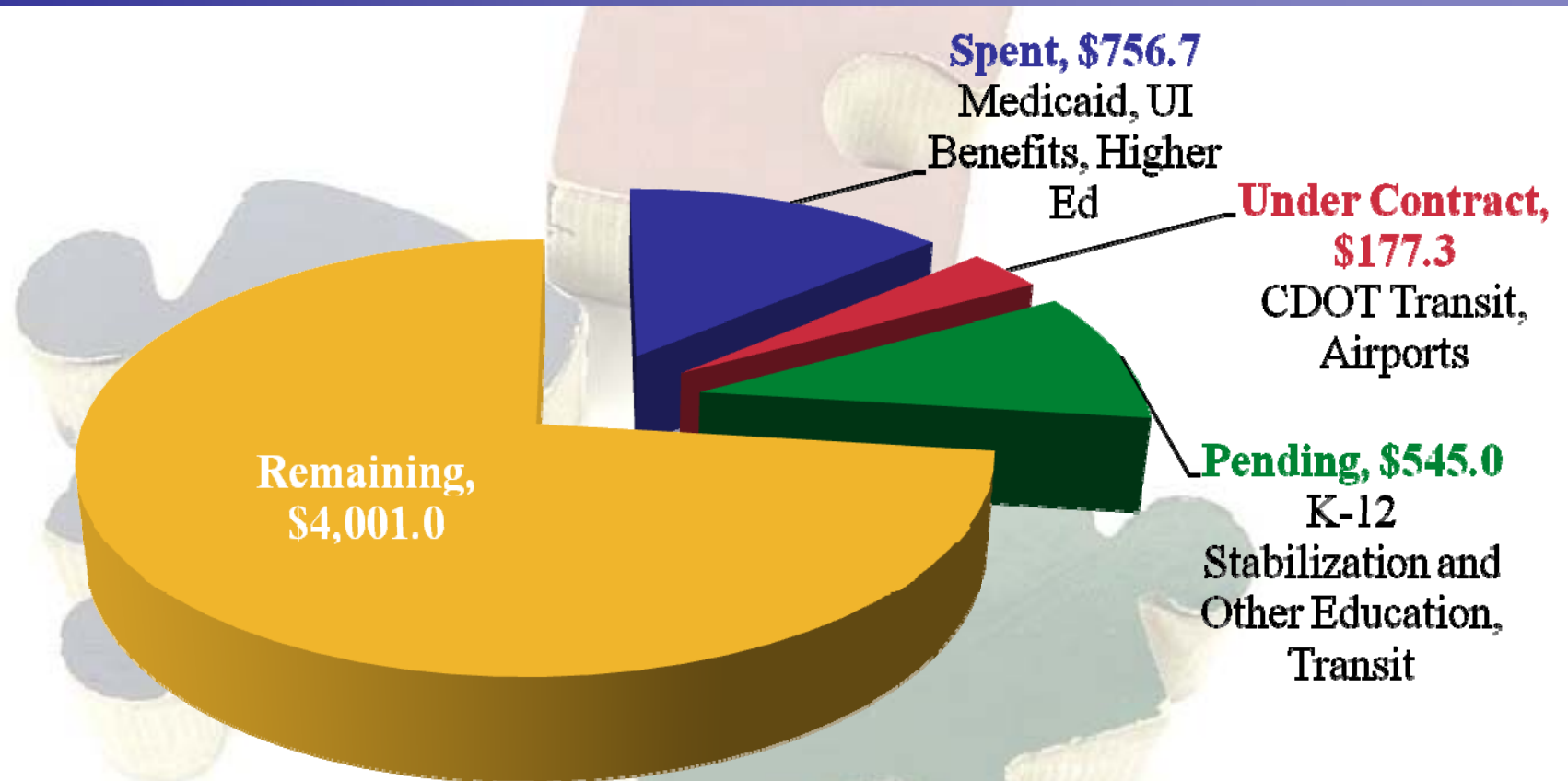
- ◆ **Other monetary policy actions**

U.S. Historic and Projected Budget Deficits by Fiscal Year (\$bil)



Source: Congressional Budget Office.

Colorado Stimulus Breakdown July 2009 (\$mil)



Total Expected Allocation: \$5.48 billion in three years

Source: Colorado Governor's Economy Recovery Team.

Colorado Budget Concerns

- ◆ **\$1.5 billion in cuts addressed during 2009 session**
- ◆ **Additional \$320 million in cuts just enacted**
 - **\$261.2 million General Fund program reductions**
 - **\$39.8 million Cash Fund program reductions.**
 - **\$6.1 million revenue from change in cost of living adjustment**
 - **\$12.9 million reserve changes and procurement bonus.**
- ◆ **But what about the “budget tsunami” – public school funding, medicaid, replacing one-time money?**

International Activity

**Relative Quality,
Price of Goods**

**Value of the
Dollar**

**Financial
Markets**

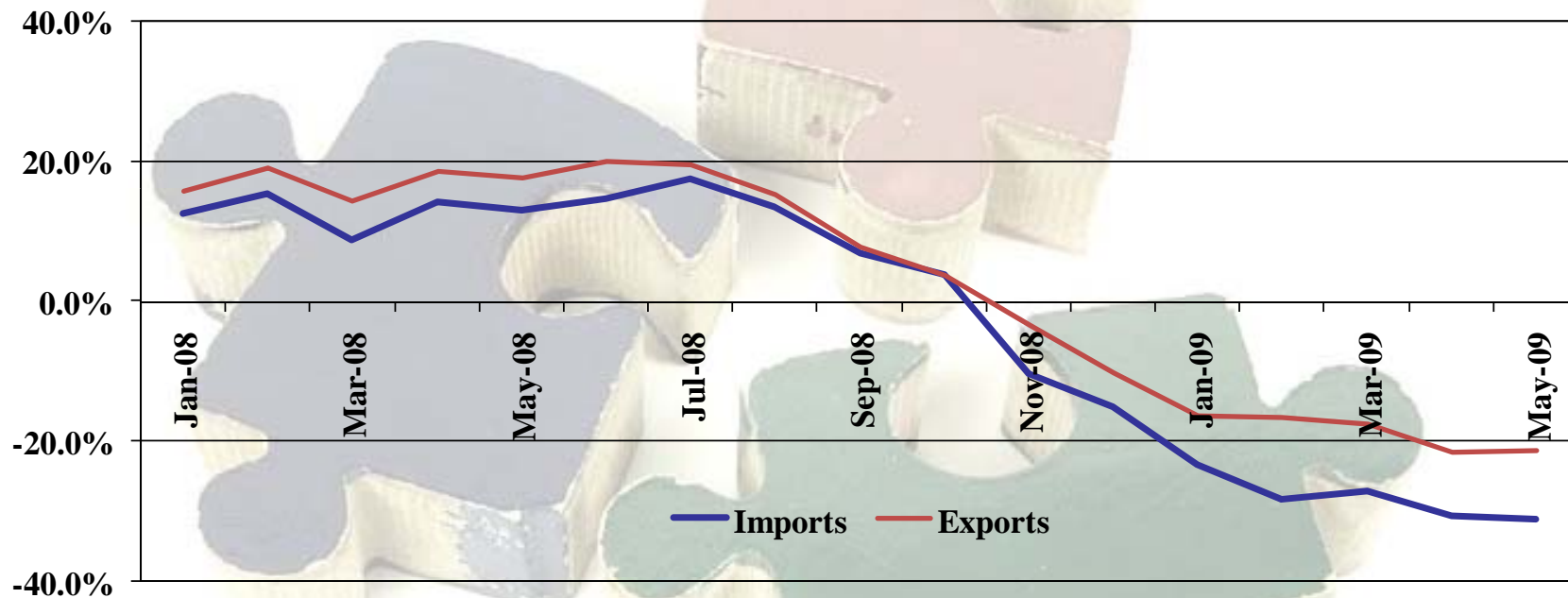
Trade Policies



**Exports: Sales of
U.S. Goods and
Services**

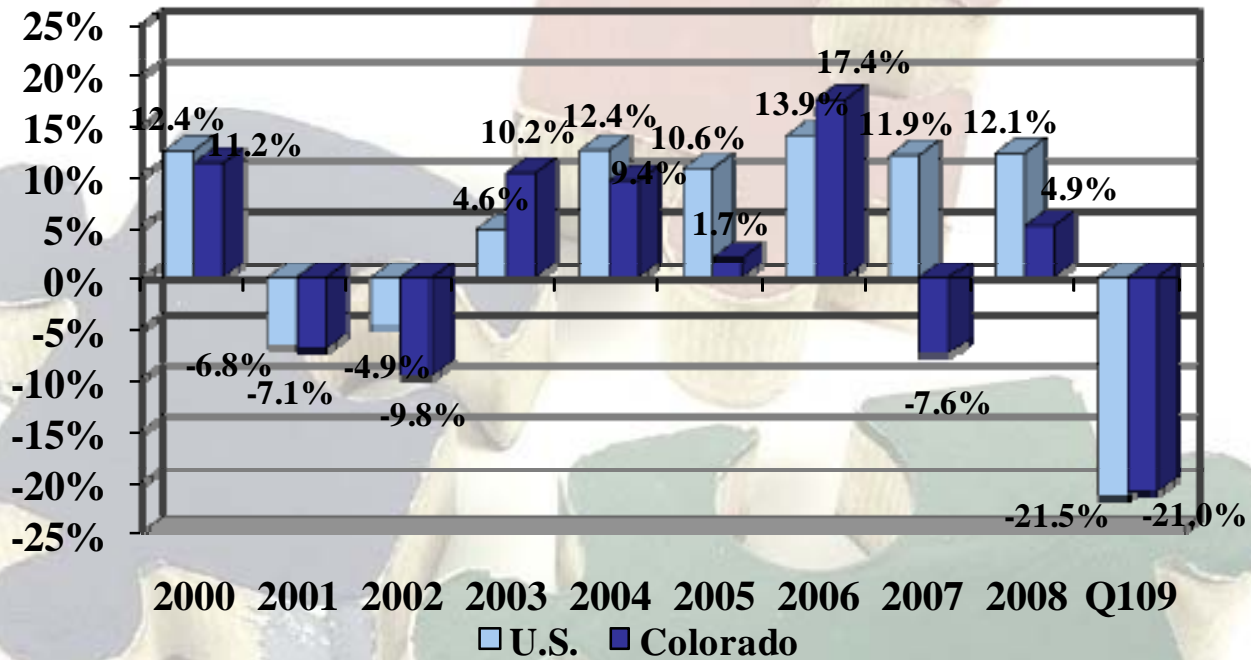
**Imports:
Purchases of
Foreign Goods
and Services**

Year-Over-Year Growth in U.S. Imports and Exports



Source: U.S. Department of Commerce.

Year-Over-Year Growth in Exports



Source: U.S. Department of Commerce, International Trade Administration.

Key Colorado Trading Partners: Canada, Mexico, China, the Netherlands, Japan
Key Products: Computers and electronics, processed foods, chemicals, machinery

Some “Pieces” Still Out of Place...

Commercial Real Estate.

Funding a major challenge for maturing loans, new development. Demand for space may be slow to rebound.

Fiscal Health.

Tax revenues down sharply and are likely to lag economic recovery.

Inflation.

Monetary easing, other stimulus policies could fan inflation in coming years. Potential to dampen recovery.

Engine of Growth?

Not consumers. What will support and sustain recovery?

...But Other “Pieces” Starting to Fit

Consumer Confidence Rebounding.

Confidence still fragile, but improved wealth prospects (homes, stocks) helping.

Residential Real Estate Improving.

Home prices more solid, foreclosures down, sales activity picking up.

Employment Stabilizing.

Pace of job losses slowing, but unemployment may still rise.

Stimulus Dollars Flowing

Federal dollars helping to thwart state budget cuts while offering some job opportunities.

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