

Economic Summary

Consumer confidence vs. spending will complicate quick recovery

Many analysts agree that recovery from the recession in coming quarters will be slower than recoveries from previous downturns, partly because consumer spending seems unlikely to rebound quickly, according to data collected by the Metro Denver Economic Development Corporation (Metro Denver EDC) in its Monthly Economic Summary for September 2009.

Improvement in the Mountain Region Consumer Confidence Index suggests local consumers have an increasingly positive economic outlook, although survey respondents are still voicing concern over uncertain job prospects and less-than-stellar income growth.

“Consumers are largely anticipating better conditions, but that optimism has yet to change their willingness to spend,” stated Patty Silverstein, chief economist for the Metro Denver EDC and president of Development Research Partners. “This will hold recovery back, as consumer spending drives 70 percent of U.S. economic activity.”

Consumers’ ability to spend is also in question as the economy recovers, because consumer wealth and access to credit has declined significantly. These factors are certainly weighing on Metro Denver retail sales, which were down more than 13 percent year-to-date through May.

Metro Denver employers cut 9,400 jobs between June and July, but seasonally adjusted data suggest the loss was smaller than expected for this time of year. Year-to-date growth rates remained negative in July for each of the 11 Metro Denver industry supersectors except education, health services, and government, with

the largest percentage declines in natural resources and construction, manufacturing, and professional and business services. Still, recent monthly increases in professional and business services employment could indicate a stabilizing job market. The industry includes temporary and contract worker employment, and an increase in these jobs tends to foretell a better labor market.

Metro Denver’s unemployment rate was 7.8 percent in both June and July. Despite recent increases, Metro Denver’s current unemployment rate is roughly two percentage points lower than the nationwide rate.

The decline in residential real estate seems to be slowing. According to the National Association of Realtors (NAR), a 7.2 percent increase in U.S. existing home sales between June and July was the largest reported gain dating back to 1999.

Metro Denver existing home sales increased more than 6 percent between June and July but remained 13.3 percent below sales from July 2008. The region’s average home prices—while still below the prior year’s levels—are beginning to firm as home sales accelerate.

Looking ahead, consumer behavior indicators and other economic drivers are likely to show mixed signals. Slow improvement from one month or quarter to the next will likely still result in weakened trends from prior years, at least until positive labor market prospects and improved financial markets give consumers and businesses the resources they need for growth.

Economic indicators for Metro Denver are currently showing this mixed behavior.

Eleven of the 18 indicators moved in a positive direction for the month, while only three indicators moved in a positive annual direction. In last month's report, seven indicators moved in a positive monthly direction and three indicators moved in a positive annual direction.

The Monthly Economic Summary provides a snapshot of metro area economic activity, as well as its relationship to national and regional economic trends. Key highlights include:

Consumer Sector

The Mountain Region Consumer Confidence Index rose in August as respondents' assessments of present conditions and their near-term outlooks improved.

Data available through May show the decline in Metro Denver retail sales accelerating through early summer. Specifically, retail sales across all industries in Metro Denver were down almost 20 percent over the year in May, and statewide sales were down almost 19 percent.

The stock market continued to rise in August. The Dow Jones Industrial Average and NASDAQ posted year-to-date returns of 8.2 percent and 27.4 percent, respectively, and the year-to-date return on the Bloomberg Colorado Index reached an even higher 27.9 percent.

Residential Real Estate

Metro Denver foreclosure filings increased roughly five percent between June and July. Despite moderate increases in foreclosure activity over the past several months, foreclosure filings have declined on a year-to-date basis in each of the seven Metro Denver counties except Boulder County, the City and County of Broomfield, and Douglas County.

Metro Denver residential permit activity increased slightly between May and June as builders began more detached and attached single-family projects. Permits pulled through June for all types of residential buildings fell 68 percent from the number pulled in the first six months of last year.

Commercial Real Estate

According to CoStar Realty Information, Inc., Metro Denver's direct office market vacancy rate for the second quarter of 2009 did not change from the first quarter at 13.6 percent. Average second quarter lease rates were also flat over the quarter at \$21.04 per square foot, and office market construction activity rose slightly from the first quarter. Compared to construction volume in the second quarter of 2008, however, the second quarter 2009 volume was down more than 45 percent.

According to CoStar data, Metro Denver's direct industrial market vacancy rate rose in the second quarter of 2009 to 7.2 percent. Average industrial market lease rates declined slightly to \$5 per square foot in the second quarter, and industrial construction halted.

Trends in Metro Denver's flex market were flat between the first and second quarters of 2009, according to CoStar. The region's direct flex market vacancy rate was unchanged between the first and second quarter at 14.5 percent, and average lease rates declined slightly to \$9.52 per square foot.

Vacancy and lease rates in Metro Denver's retail market weakened further in the second quarter of 2009, according to CoStar. The direct retail vacancy rate rose in the second quarter to 9.2 percent, or a rate roughly one-percentage point above last year's level. Average lease rates fell to \$17.05 per square foot in the second quarter from \$17.11 per square foot in the first quarter and are now down \$0.88 per square foot from last year.

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