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Memorandum

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TO: Interested Persons

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SUBJECT: Leading Economic Indicators Update

Summary

This memorandum provides a summary of leading economic indicators to inform the General Assembly of the current state of the Colorado and U.S. economies. Available data through December suggest that the pace of recovery remained subdued or even reversed course in recent months as coronavirus cases surged and the effects of federal stimulus dissipated. Most indicators remain below pre-pandemic levels. The course of the recovery remains highly dependent on the course of the virus, and now, on the course of the vaccine rollout. As of January 28, 2021, 6.8 percent of Coloradans have received their first dose of a vaccine. Additional federal stimulus passed in late December 2020 will provide another round of direct economic impact stimulus payments, extended unemployment benefits, and small business assistance, and is expected to buoy economic activity through the spring.[1] Once the pandemic is firmly under control, recent indicators suggest a strong economic rebound will ensue.

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Business Activity

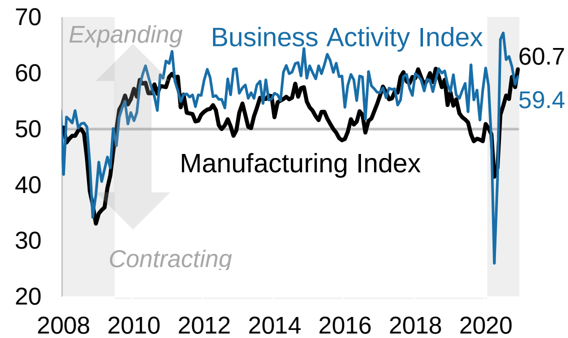
Though economic activity has improved, U.S. and Colorado businesses remain constrained by COVID-19-related restrictions. Business activity has rebounded from the lows of April 2020. However, activity remains below pre-recession levels across most industries. The Institute for Supply Management's (ISM) index of U.S. manufacturing activity registered 60.7 in December (Figure 1), up 6 percent from November, representing continued expansion of economic activity in this segment of the economy. An index reading of more than 50 indicates expansion, while a reading below 50

[1] For further information on this and other federal stimulus measures to address the pandemic, see the Legislative Council Staff memo, "Summary of Federal Legislation Passed in Response to COVID-19" available at https://leg.colorado.gov/sites/default/files/january_update_-_summary_of_federal_covid_relief_legislation_issue_brief.pdf

suggests a contraction. Of the 18 manufacturing industries in the index, 16 reported growth in December. Manufacturers of apparel, furniture, wood products, and fabricated metal products reported the fastest growth in the sector.

The U.S. services industry picked up pace in July as restrictions loosened for some businesses. However, colder weather and increased pandemic-related restrictions have slowed this sector in recent months. The ISM's nonmanufacturing business activity index registered 59.4 in December, part of a continued slowdown in expansion that started in August (Figure 1). In December, the arts, entertainment and recreation, and accommodation and food services industry activity contracted most over the previous month, while management services, and wholesale and retail trade reported the strongest growth from the previous month. Many businesses, particularly service industries, are concerned with the impacts of heightened COVID-19-related restrictions reimposed across the U.S and Colorado. In mid-January, 60 of 64 counties in Colorado were considered at high or severe risk with respect to COVID-19, resulting in 25 percent capacity restrictions for retail stores and restaurants.

Figure 1
Institute for Supply Management Indices
Diffusion Index

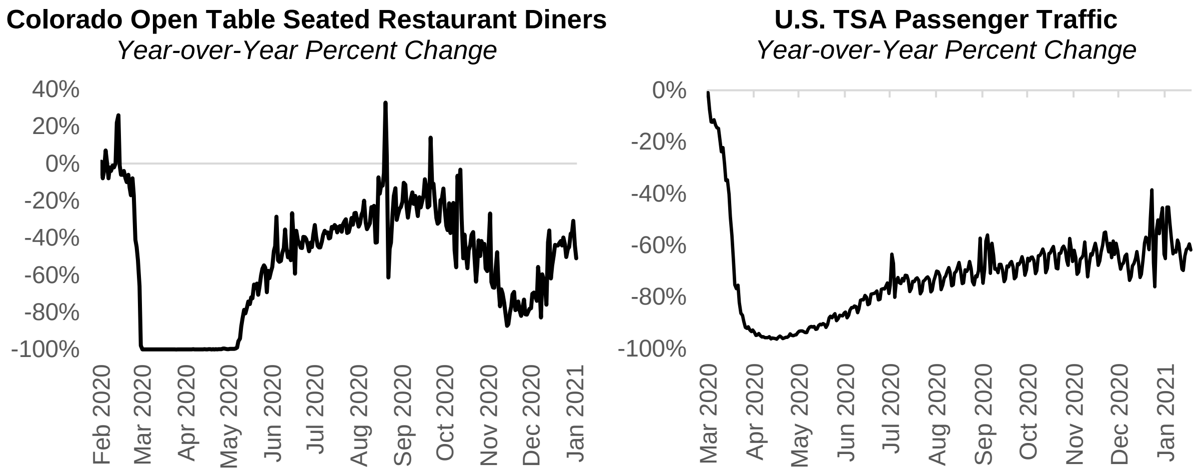


Source: Institute for Supply Management.
Data through December 2020.

Data from the leading provider of online restaurant reservations, OpenTable, shows that the restaurant industry gained momentum in Colorado after the reopening of many establishments in late May. More recent figures demonstrate that capacity restrictions and consumer unease continue to limit the industry (Figure 2, left). The number of online reservations for the week of January 19, 2021 was down 51 percent over the same week last year. Importantly, the OpenTable statistics only account for restaurants that are and were open this year and last. Therefore, they understate the full impact of restaurants that have closed temporarily or permanently.

Finally, though the number of daily airline passengers screened at Transportation Security Administration (TSA) checkpoints has been gradually improving since late May, overall activity is still well below pre-COVID-19 levels. Broad-based tourist activity is expected to remain depressed through at least the first half of 2021 (Figure 2, right).

Figure 2
Select Indicators of Service Sector Activity



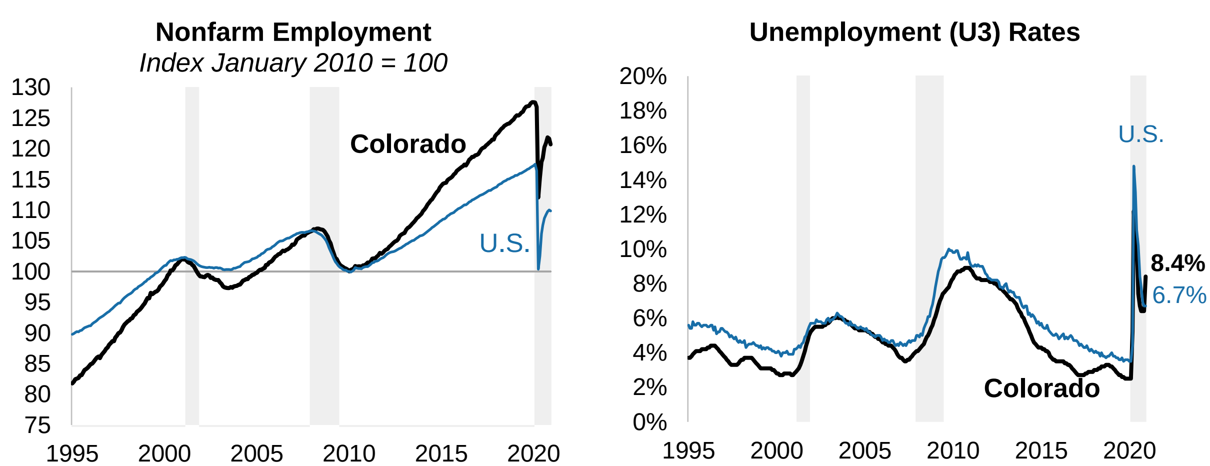
Source: OpenTable.

Source: U.S. Transportation Security Administration.

Employment

The labor market recovery, already stalled since late summer, reversed in December amidst a holiday surge in coronavirus infections, renewed restrictions on businesses, and an impasse on further federal stimulus. Colorado's unemployment rate held steady at 6.4 percent from September through November, before jumping to 8.4 percent in December, its highest level since June 2020 (Figure 3, right). While it remains far below the 12.2 percent reached in April, it remains over three times the December 2019 unemployment rate of 2.5 percent and just under the maximum unemployment rate of 8.9 percent reached as a result of the Great Recession. Colorado nonfarm employment declined for the second straight month in December, with the loss of 20,300 jobs relative to November levels (Figure 3, left).

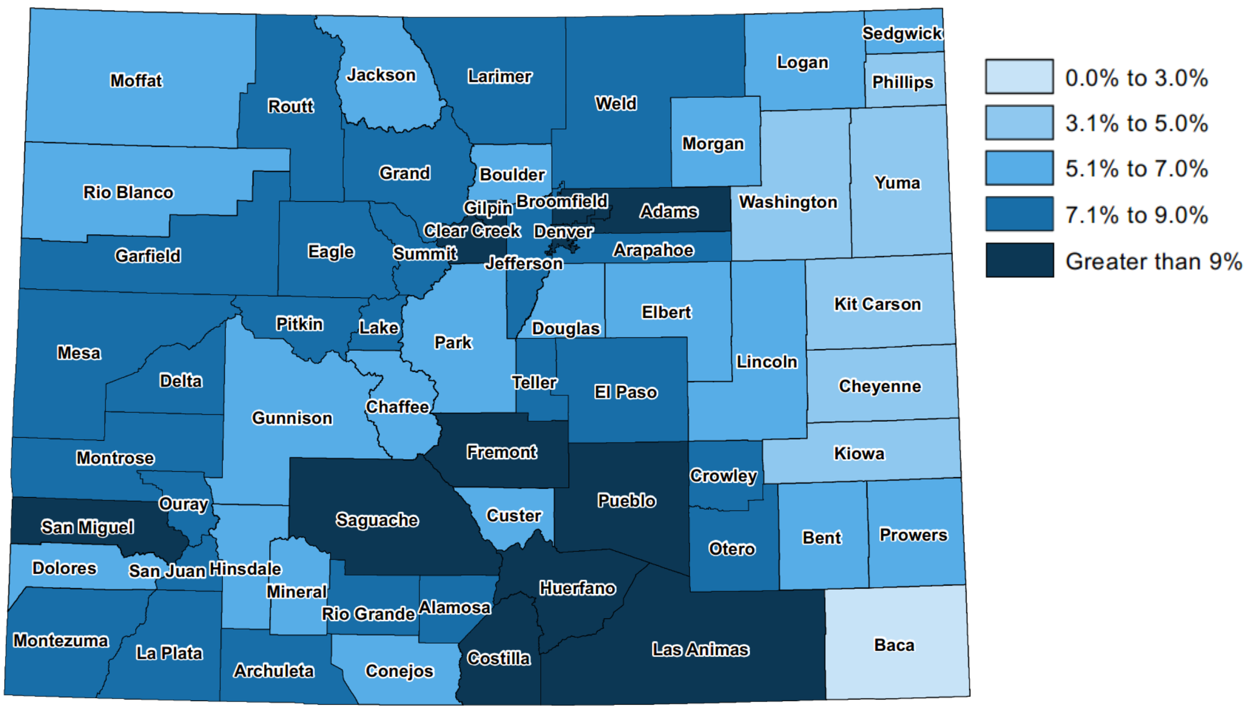
Figure 3
Selected U.S. and Colorado Labor Market Indicators



Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted. Data are through December 2020.

Some Colorado counties saw a return to double-digit unemployment rates, including Pueblo (11.3 percent), Huerfano (11.0 percent), Gilpin (10.6 percent), and Costilla (10.1 percent) counties. While some mountain counties are still among the hardest-hit, as they were early on in the pandemic, counties in the south and metro Denver areas have been slower to recover and are still experiencing relatively high rates of unemployment among the state's 64 counties (Figure 4).

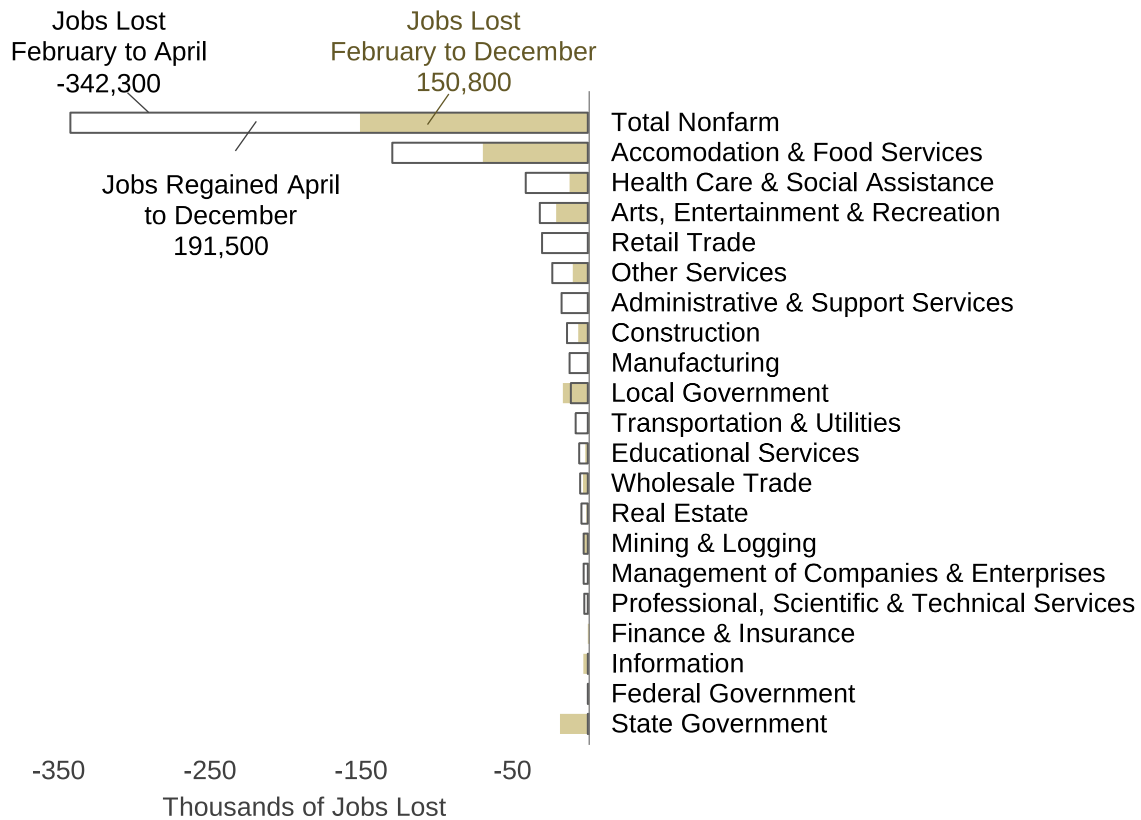
Figure 4
Colorado Unemployment Rates by County, December 2020



Source: U.S. Bureau of Labor Statistics.

Colorado has gained back 191,500 of the 342,300 jobs lost since the pandemic began, for a job recovery rate of 55.9 percent, down from 63.4 percent in October 2020 (Figure 5). December job losses were heavily concentrated in the leisure and hospitality sector (-36,100), suggesting that labor markets cannot fully recover until the pandemic is under control, but may rebound quickly as vaccines become more widespread. Other sectors continued to add jobs, including trade, transportation, and utilities (10,200), professional and business services (5,100), education and health services (1,100), and construction (1,000).

Figure 5
Colorado Job Losses in 2020



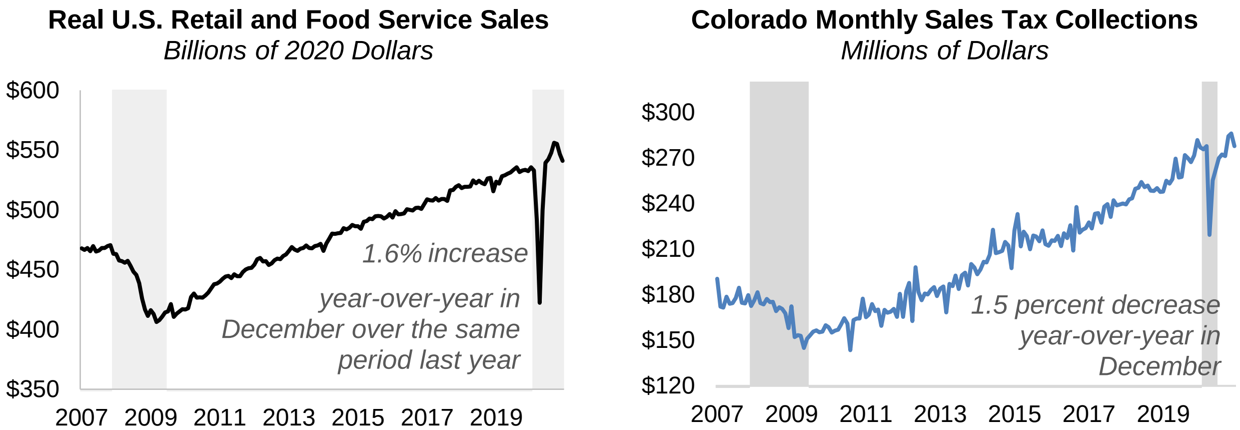
Source: U.S. Bureau of Labor Statistics with Legislative Council Staff calculations. Data are seasonally adjusted.

Consumer Activity

Consumer activity in the U.S. continued to recover in the fourth quarter. Advance estimates of real gross domestic product (GDP) indicate that personal consumption expenditures in the U.S. increased at a 2.5 percent seasonally adjusted annual rate. In the fourth quarter, personal consumption expenditures were boosted by household spending on services, aided by recovery in health care spending. Other service categories, such as food services and accommodations and transportation services, contracted in the fourth quarter due to pandemic-related restrictions and rising COVID-19 cases. While personal consumption expenditures on goods rapidly recovered in the third quarter, spending contracted slightly in the fourth quarter. Growth in spending on services more than offset the contraction in goods. However, for the year, data indicate personal consumption expenditures fell 3.9 percent in 2020, with gains in spending on goods more than offset by a contraction in services.

After rising as high as 4.6 percent year-over-year in September, growth in inflation-adjusted (real) U.S. retail and food service sales slowed in the fourth quarter (Figure 6, left). Several categories of retail continue to struggle, including electronics and appliances, clothing, department stores, and food and drinking services. For the year, advance estimates from the U.S. Census Bureau indicate that inflation-adjusted retail and food services sales fell 0.8 percent in 2020. Ecommerce continues to shape consumer activity, and the economic recovery has been uneven for many brick-and-mortar retail establishments. In the third quarter of 2020, ecommerce comprised 14.3 percent of total retail sales, up from 11.8 percent in the first quarter. Notably, with non-store retail sales – a category that includes ecommerce –excluded, inflation-adjusted sales were up just 0.1 percent year-to-date in November.

Figure 6
Selected Consumer Activity Indicators



Source: U.S. Census Bureau. Adjusted for inflation using the CPI-U index for all U.S. urban areas. Seasonally adjusted data through December.

Source: Colorado Department of Revenue. Seasonally adjusted data through December. Not adjusted for inflation.

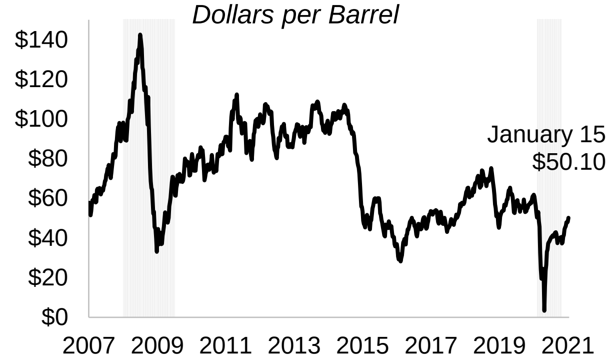
Encouragingly, the outlook for household spending over the next year continues to improve. The Federal Reserve Bank of New York's December 2020 *Survey of Consumer Expectations (SCE) Household Spending Survey* found that expected household spending increased across most education and income groups relative to August 2020 and year-ago levels. Households expected increased spending on both essential and non-essential services, large purchases, and for items such as clothing, food, recreation, and transportation. Once pandemic conditions ease and consumer confidence rebounds, households could quickly increase the pace of spending activity. In aggregate, personal savings rates remain elevated, and debt levels have fallen with stimulus payments and as consumers hold back on purchases under heightened uncertainty and with limited service spending options.

In Colorado, sales tax collections rose 2.2 percent in 2020 (Figure 6, right). Sales tax collections rebounded strongly over the latter half of the year, but collections slowed in December. Reduced travel and entertainment spending continue to weigh on Colorado's sales tax collections. However, data from the Colorado Department of Revenue indicate that sales for several retail trade categories in the state remained strong over the past year. Through November, retail trade and food service sales were up 5 percent year-to-date, supported by strong growth in building and garden, food and beverage, health and personal care, and general merchandise. Notably, non-store retail sales (which include ecommerce) more than doubled compared with the same period in 2019. Excluding non-store retail and food services sales, retail trade was up 3.2 percent year-to-date through November.

Energy Sector

Crude oil prices remained steady, around $40 per barrel through most of the summer and into October, before beginning to rise in late November and December (Figure 7). At $50 per barrel in mid-January, oil prices are near the average break-even price for most Colorado producers. The active drilling rig count in Colorado remains at historic lows, despite rising from four active rigs for much of October and November to eight in early January (Figure 8, left).

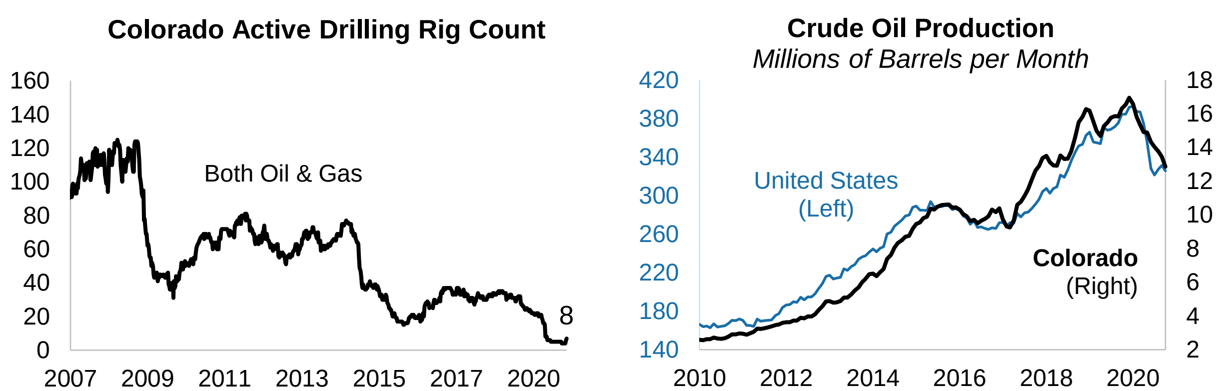
Figure 7
Crude Oil Price, West Texas Intermediate
Dollars per Barrel



Source: U.S. Energy Information Administration. Weekly average prices. Data are not seasonally adjusted.

Oil production in both the U.S. and Colorado began declining in December 2019. Colorado production has remained on a downward trend as of October 2020, while U.S. production experienced a temporary uptick in July (Figure 8, right). The recent increase in the price of oil to $50 per barrel may spur additional production. Crude oil stocks in the U.S. peaked in July and have since moderated; however, stocks remain elevated in comparison to the previous year. Crude oil demand is expected to remain depressed in 2021 until COVID-19 vaccinations become more widespread, spurring additional transit and travel activity. Natural gas production in Colorado fell by 3.6 percent between April 2020 and October 2020 on lower demand and lower prices. At-home natural gas consumption is expected to pick up this winter with many people still working from home.

Figure 8
Selected Indicators of Energy Activity



Source: Baker Hughes. Data are not seasonally adjusted. Data through January 2021.

Source: U.S. Energy Information Administration. Three-month moving average. Data through October 2020.