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DECEMBER 2008

e-News: NCEDC Investor Exclusive

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Investor Spotlight

Coming in 2009 we will have a monthly spotlight on one of our investors.

Upcoming Events

NCBR's 2009 Economic Forecast Luncheon

Regional economists John Green and Martin Shields will each present his view on the who, what, where, when and how of our economy.

January 15th, 2009
11:30 a.m. to 1:30 p.m.

Location:
Univercity Center Ballroom
2045 10th St.
Greeley, CO
Phone: 970-221-5400, ext. 202
Fee or Admission Price:
\$35.00

International Trade Roundtable

Dear Noelle,

As a benefit of being one of our valued investors, we are sending you this exclusive e-news from our very own Regional Economist, Dr. Martin Shields.

You will read it here first.

Every other month you can expect to see exclusive information on our regional economy, new research trends, economic indicators and a spotlight on one your associate investors.

Federal Stimulus Package should Focus on Investment

Martin Shields

Well, it's official. The National Bureau of Economic Research (NBER) has formally recognized the recession that most American's have been feeling for quite some time. But that was really an issue of semantics. The real question is "what now?"

The cure for a typical recession is to somehow boost economic activity. Over the past 40 years the Federal Reserve Bank has played the lead role in countering downturns, using what economists refer to as monetary policy. This means that they manipulate interest rates to stimulate the economy.

Here's how it works. In times of a slow down, the Fed increases the supply of money, lowering its price (i.e., the interest rate). When interest rates decline, businesses borrow more to invest in things such as equipment, and households borrow more to finance purchases such as cars and houses. This creates jobs and the economy bounces back.

But we are not living a typical recession. Detroit's automakers are teetering on the brink of bankruptcy. The housing market has tanked. The financial services industry is in disarray. Besides, the Federal Reserve Bank can barely reduce short-term interest rates much further, they are already nearly zero.

And this brings me to the point of this comment. In circumstances where monetary policy has little remaining potential, the only real alternative course of action is fiscal policy.

Simply put, the government is going to have to help us spend our way out of the current recession. This can happen either directly, through programs such as federal works programs, or indirectly, such as giving money to households through tax rebates or extended unemployment benefits.

Unfortunately, we cannot expect our normally reliable consumers to lead this charge. The uncertain future households face due to rising unemployment and reduced work hours is causing many of them to cut back on their spending.

And the fact that so many people are already tapped out means that frugality is becoming more prevalent (though perhaps not by choice). Thus, putting money directly in consumers' pockets might have only a limited effect.

Accordingly, the US government itself is going to have to adopt an aggressive spending agenda. One non-trivial implication is that this means continuing to rack up large budget deficits and growing the national debt.

For many, a rising sea of red ink is disturbing. Currently the national debt totals a staggering \$10.6 trillion, or about \$37,300 per person. There are scores of economists among those who worry that we are simply passing on our responsibilities to our children's children.

But increased spending does not have to mean the economy will be further weighed down by debt. The federal government can target its spending on programs that will strengthen the nation's long term competitiveness in the global economy. Obvious candidates include helping state and local governments repair deteriorating infrastructure, increasing investments in education and workforce development, and jump starting the new

Loveland Chamber of Commerce & Visitor Center
1:00-2:00 PM,
Monday, January 12, 2009

The State of Colorado Office of Economic Development and International Trade (OEDIT) designated representative to Mexico, Luis Doménech, will be meeting/learning about area businesses who have existing or potential capability for expanding their market with Mexico. This event will include an informal roundtable discussion and time for networking with OEDIT representatives, other export businesses, and related support agencies.

By reservation only, RSVP to Scot Lee, Loveland Chamber of Commerce 970-667-6311 slee@loveland.org

Farewell Eric Berglund

It is with true beneficence that we are saying farewell to one of our own. Eric Berglund, Director of Investor Development at NCEDC, has chosen to take the position of Vice President - Finance at our fellow ED organization in Weld County, Upstate Colorado.

This is a chance for Eric to get back to his financial roots and is an advancement of his professional career in the area of banking and economic development.

In the almost 2 years of service to NCEDC, Eric has built a strong foundation for investor development as well as taking on other roles in marketing and finance.

We are very thankful for all his hard work and look forward to working with him through Upstate Colorado on our regional efforts.

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energy economy.

The challenge, of course, is getting government to carefully invest in those areas that offer the highest return, rather than pork barrel projects. I am cautiously optimistic it will.

This commentary originally appeared in the online edition of the Denver Post. An intriguing outline of an infrastructure stimulus package written by 26 national experts can be found here <http://www.america2050.org/>.

Key Trends

Despite a persistent national housing downturn, 2008's third quarter saw the first local decline in home prices since 1988. With regional supply tightening due to a marked slowdown in housing starts and simultaneous decrease in home inventory part of the stage is set for increasing values. Yet economic uncertainty, waning consumer confidence, and slow employment growth will continue to suppress demand.

While Larimer County unemployment rates are increasing, the local joblessness rate remains lower than the state and nation. The county has not witnessed net job losses--preliminary figures suggest employment levels are flat over the past 12 months--but the labor force continues to grow due to in-migration and deferred retirement.

With the economic slowdown recent price increases along the Front Range over the first half of 2008 (3.7 percent inflation) will likely not continue in to the second half of 2008 or first half of 2009. Indeed, the much more closely monitored national Consumer Price Index showed price decreases - deflation - nationally in November. Deflation is a great concern because it is yet another obstacle clogging up already sluggish lending. Consumers and businesses will postpone purchases if they expect prices to continue to fall and banks will not want to loan if they believe the item the borrower bought may end up worth less than the amount of the loan.

Local Economic Indicators

	Most recent data	One year prior
Employment (October preliminary estimate)	132,000	132,055
Unemployment (Larimer County - November)	8,600 (4.9 %)	6,400 (3.6 %)
Unemployment (Colorado - November)	160,800 (5.8 %)	108,700 (4.0 %)
Single Family Residential Housing Starts (2008 through October)	659	1,011
Single Family Home Inventory (2 nd Quarter)	2,737	2,979
House value change (3 rd quarter 2008 from 3 rd quarter 2007)	-0.51 %	0.99 %
Residential Vacancy Rates	4.1 %	5.0 %
Per capita income (inflation adjusted 2007 dollars)	\$36,956	\$36,713
Inflation (first half of 2007 to first half of 2008 for Denver-Boulder-Greeley)	3.7 %	2.5 %
Colorado Business Leaders Confidence Index (4 th Quarter: index above 50 equals expansion) https://www.blci.com/colorado/start.jsp	44.1	55.6

National Economic Indicators

	Most recent data	One year prior
Unemployment (November)	10.3 million (6.7 %)	7.2 million (4.7%)
US Consumer Confidence Index (October: 1985=100)	44.9	87.3
3 Month Treasury Bill Yield	0.03 %	2.88 %
10 Year Treasury Note Yield	2.53 %	4.24 %
Federal Funds Rate	0.25 %	4.25 %
Average rate for a 30 year fixed mortgage	5.47 %	6.10 %

Sources: Bureau of Labor Statistics, Colorado Department of Labor and Employment, US Census, Office of Federal Housing Enterprise Oversight, Colorado Division of Housing, Bureau of Economic Analysis, The Conference Board, The Business Leaders Confidence Index, US Treasury, US Federal Reserve, Freddie Mac

National Housing Market May Hurt Larimer County Employers Recruiting Knowledge Workers

Larimer County employers seeking to fill specialized positions that rely on a national labor force could encounter difficulties as a result of struggling housing markets. Research by NBER economists Fernando Ferreira, Joseph Gyourko, and Joseph Tracy follows the impact of previous downward movement of housing values on mobility. Among their findings is that homeowners who are "upside-down" in their mortgages are 50% less likely to move than those whose homes are worth more than they owe their bank.

This may affect employers' efforts in recruiting talent to northern Colorado. US Census records indicate that Colorado is a "brain gain" state, drawing in a greater number of educated workers from around the country than leave.

Link to report: http://www.newyorkfed.org/research/staff_reports/sr350.pdf

Thank you for taking an interest in your regional economy's future.

Sincerely,

NCEDC Staff
Martin Shields, Regional Economist,
and David Keyser
Colorado State University

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