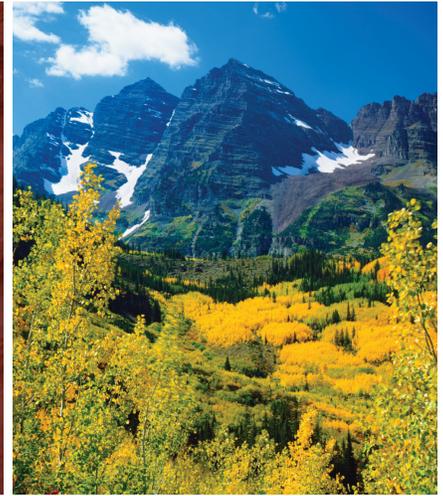


THE *Rocky Mountain* ECONOMIST:

Economic information for Colorado, New Mexico and Wyoming



2nd QUARTER 2012

FEDERAL RESERVE BANK of KANSAS CITY - DENVER BRANCH

Is the Construction Constraint Easing?

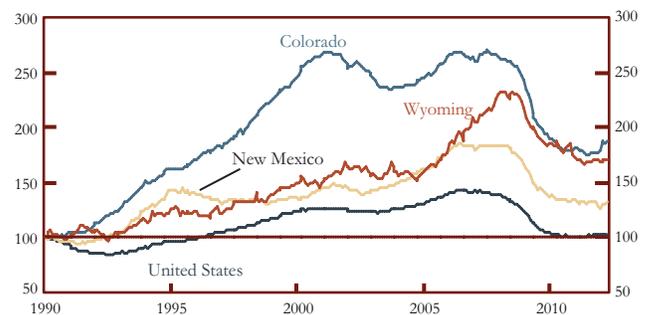
by Kate Watkins, Assistant Economist

Across the nation, more than one in four construction jobs were lost in the wake of the housing bust and 2007-09 recession. The construction industry was one of the hardest hit and has been one of the slowest to add jobs in the recovery, acting as a drag on total job growth. This issue of the *Rocky Mountain Economist* explores the recent impact of construction employment trends on job growth in the mountain states of Colorado, New Mexico, and Wyoming. These states have a higher share of total employment in the construction industry than the nation as a whole. The higher industry concentration served as a strong contributor to job growth during the construction booms of the past two decades. Yet, in the recent cycle, bigger construction booms gave way to steeper and more protracted drags on total job growth (*Chart 1*).

In the early months of 2012, construction activity has diverged across the mountain states. Colorado appears to have entered a new cycle of growth, again enjoying a familiar boost in total job growth from the construction industry. In Wyoming and New Mexico, the construction constraint has eased, but industry activity has yet to play a significant role in job growth.

CHART I
Construction Employment

(Seasonally Adjusted; January 1990 = 100.0)



Source: Bureau of Labor Statistics

BIGGER BOOMS AND BUSTS IN THE MOUNTAIN STATES

States with strong population growth—such as Colorado, New Mexico, and Wyoming—often have a high concentration of jobs in the construction industry due to higher demands for new housing, business space, and infrastructure (*Chart 2*). At the peak of the recent construction boom, about one in every 18 jobs in the nation was in the construction industry. In Colorado, the share was closer to one in 13 jobs; in New Mexico, one in



14; and in Wyoming, one in 10. With a higher share of total jobs, the construction industry was a particularly strong contributor to total job growth when construction activity was strong in the mountain states. Yet, as the recent downturn demonstrates, bigger construction booms can lead to bigger busts in high population growth states.

In the recent recession, the construction industry dominated job losses in Colorado, New Mexico, and Wyoming (*Chart 3*). In Colorado and New Mexico, construction was the single largest drag on job growth during the recession. Two decades of strong residential and nonresidential building gave way to large losses in these states. In Wyoming, construction job losses were second only to mining and logging jobs, reflecting the strong influence of oil and gas activity on state employment trends. Oil and gas activity drove the state's construction trends in the years preceding the recession. The state's growing energy industry fostered demand for oil and gas pipeline construction as well as new housing and nonresidential buildings for energy employees and companies.

In the recent downturn construction was a smaller player nationwide in job losses relative to manufacturing and professional and business services industries. Nationwide, the construction industry also started to recover earlier than the mountain states. The nation's construction industry bottomed at the start of 2011, followed by Colorado in mid-2011. Construction employment in Wyoming and New Mexico has stabilized but has yet to show sizable gains.

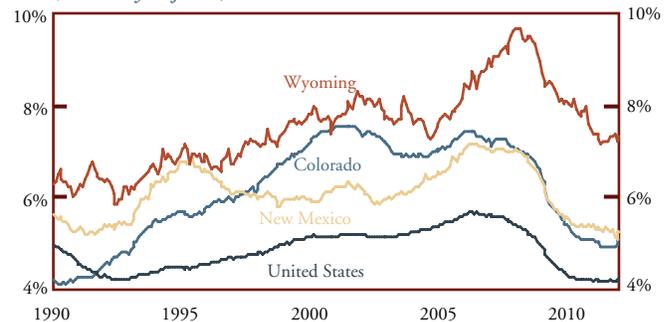
MOUNTAIN STATE CONSTRUCTION CYCLES

The construction cycles unique to each of the mountain states provide context for the recent rise and fall of construction activity. For Colorado, construction activity was fueled by strong population and broad-based industry growth dating back to the 1990s. In Wyoming, building cycles were dominated by oil and

CHART 2

Construction Employment as a Share of Total Nonfarm Employment

(Seasonally Adjusted)

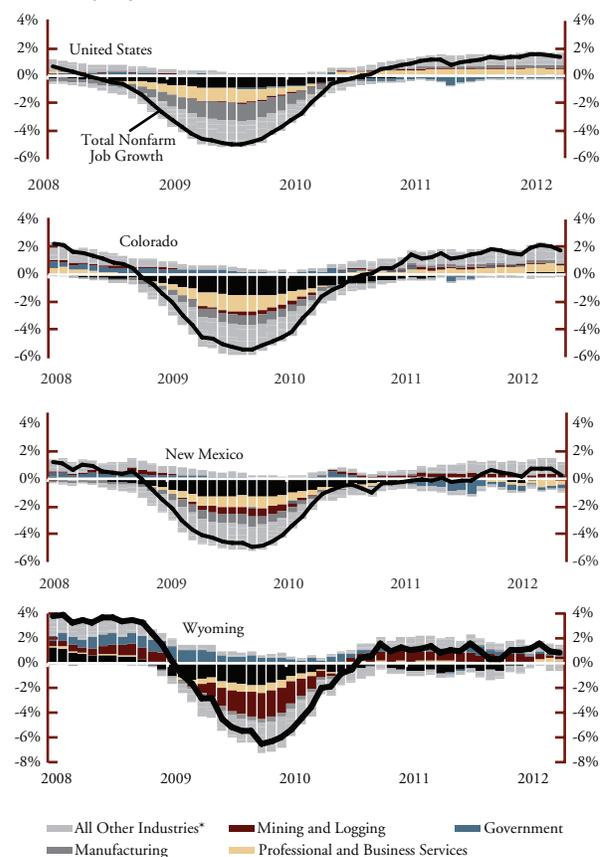


Source: Bureau of Labor Statistics

CHART 3

Industry Contribution to Total Nonfarm Job Growth

(Seasonally Adjusted)



Source: Bureau of Labor Statistics *Industries include wholesale and retail trade, transportation and utilities, education and health services, leisure and hospitality, financial activities, information, and other services sectors.



gas activity. And for New Mexico, both demographic trends and oil and gas industry volatility influenced construction activity in recent building cycles.

Colorado experienced two prominent boom and bust cycles over the past two decades. During the 1990s, the state's population grew the third fastest of all 50 states, adding 1 million new residents (*Table 1*). Population growth fueled demand for new homes, business space, and infrastructure, which continued into the 2000s. Yet, the Colorado construction boom was interrupted by the

TABLE 1
Population Growth and 50-State Ranking

	1990 to 2000		2000 to 2010	
	Growth	Rank	Growth	Rank
Colorado	30.6%	3rd	16.9%	9th
New Mexico	20.1%	12th	13.2%	15th
Wyoming	8.9%	32nd	14.1%	12th
United States	13.2%		9.7%	

Source: Census Bureau

2001 recession, which hit Colorado particularly hard.

By 2001, the state had developed a large concentration of technology jobs in dot-com and telecommunications fields, which suffered large losses at the start of the 21st century. Residential building slowed in the wake of the downturn, but nonresidential building was hardest hit, reflecting the severity of the downturn on Colorado businesses. After three consecutive years of construction job losses, nonresidential construction picked up again and the state enjoyed a second boom. Colorado construction employment peaked at 170,100 jobs in July 2007, more than a year after the nationwide peak. From the peak to trough in the 2007-09 recession, 59,700 of these jobs were lost, more than one in every three jobs.

In **New Mexico**, construction employment grew

rapidly at the start of the 1990s. The state's population grew 20.1 percent during the decade, with particularly strong growth in the state's retired community. More than half of the counties in the state were "retirement destinations" in the 1990s, where the number of residents over the age of 60 grew by 15 percent or more.¹ The New Mexico economy slowed in the mid-1990s, with employment growth falling from 6 percent to about 2 percent per year. The surge in construction activity at the start of the decade gave way to more than a year of construction job losses toward the end of the decade.

Construction industry ups and downs accompanied slower job growth from the late 1990s through the 2001 recession. During this period, volatility in oil and gas activity and manufacturing job losses coincided with slower construction activity. After the 2001 recession, residential construction boomed, consistent with nationwide trends. Strong employment and population growth supported a housing boom and a pickup in nonresidential activity. The state's construction employment peaked with the nation in the second quarter of 2006 at 59,600 jobs. In the downturn, 18,800 of these jobs were lost, nearly one in every three.

In **Wyoming**, oil and gas activity has driven construction trends over the past several decades. Following the boom and bust of the energy industry in the 1980s, Wyoming's population growth was relatively slow in the 1990s. Growth accelerated between 2000 and 2010 as oil and gas activity picked up with rising energy prices. This fueled demand for new oil and gas infrastructure. Oil and gas pipeline construction ranged between 11 percent and 20 percent of total construction jobs in the state in the 2000s, compared to 1 percent and 2 percent for the nation and Colorado, and 3 percent to 4 percent for New Mexico.

Between 2005 and 2008, construction was particularly



strong with a rise in residential and nonresidential construction projects and large oil and gas infrastructure projects such as the Rocky Express Pipeline. In 2008, the nationwide housing slowdown, oil and gas price collapse, and completion of the new pipeline led to the rapid drop in construction employment. The state lost 8,100 of its 28,600 construction jobs from peak to trough in the recent cycle, a 28.3 percent decline over the course of three and a half years.

CONTRIBUTOR OR CONSTRAINT IN 2012?

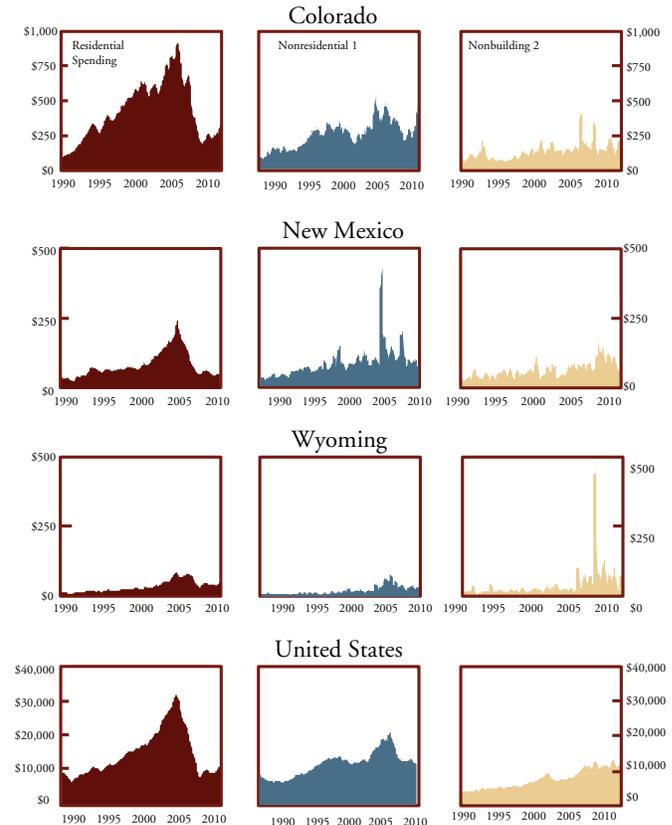
In the early months of 2012, construction activity has diverged across the mountain states. Nationally, construction activity is inching upward. The nation has added 102,000 construction jobs (or 1.9 percent) from industry lows, and as of April 2012 was adding construction jobs at a rate of 1.1 percent annually. In the first three months of the year, permits and spending for residential construction were up 28.3 percent and 22.2 percent, respectively, relative to the same period last year (*Chart 4*). Offsetting residential gains, spending on nonresidential construction continues to fall. Spending on infrastructure projects has held steady with support from federal stimulus dollars. Office and residential vacancy rates have been ticking downward on average across the nation for close to two years, signaling rising demand for new building.

With broad-based industry growth and a stabilizing housing market, **Colorado** has entered a new cycle of construction activity. While Colorado lagged the nation in adding construction jobs, the state has outpaced the nation in job growth and activity since the start of 2012. In April, the state had added 7,500 new construction jobs since the lows of mid-2011 and was growing at a rate of 4.2 percent over year-ago levels. In the first three months of the year, both residential and nonresidential construction spending were up more than 50 percent, and permits for residential

CHART 4

Monthly Construction Spending

Seasonally Adjusted, Six-Month Moving Averages (Millions of Dollars)



Source: McGraw-Hill/F.W. Dodge

¹Nonresidential construction includes offices, warehouses, and other nonresidential buildings.

²Nonbuilding construction includes infrastructure projects such as sewer systems and oil and gas pipelines.

building were up 38.8 percent. Home, office, and industrial vacancies in the state continue to fall, and rising rental prices are providing a greater incentive to buy a home in the area.

For **Wyoming** and **New Mexico**, the construction constraint has eased, though activity remains slow. Both states have particularly high industry concentrations in the energy and government sectors. Low natural gas prices and state and local government budget constraints have strained these mountain state economies in recent months.



In Wyoming, residential construction activity is up, while nonresidential and nonbuilding activity has weakened in recent months. Low natural gas prices will likely dampen demand for construction of new oil and gas infrastructure. Residential construction activity may provide some reprieve for construction employment through the remainder of the year. Homeowner vacancies remain low and in the first three months of the year, residential permits were up 36 percent; spending on residential construction was up 41.8 percent.

In New Mexico, economic recovery has yet to firmly take hold, keeping construction activity subdued.

Residential construction has picked up some in recent months, leading to modest gains in construction employment. Through April, 1,800 jobs have been added since industry lows. Residential spending is up 24.8 percent, and residential permits are up 58.1 percent in the first three months of the year. Yet, spending on nonresidential building and nonbuilding construction was down in the first quarter of the year. Office and industrial vacancy rates continue to rise in the state, indicating weak business demand for new nonresidential building.

ENDNOTE

¹U.S. Department of Agriculture, Economic Research Service
<http://www.ers.usda.gov/briefing/rurality/typology/maps/Retirement.htm>



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