

# Economics Group

## Special Commentary

**Mark Vitner, Senior Economist**  
[mark.vitner@wellsfargo.com](mailto:mark.vitner@wellsfargo.com) • (704) 410-3277  
**Charlie Dougherty, Economist**  
[charles.dougherty@wellsfargo.com](mailto:charles.dougherty@wellsfargo.com) • (704) 410-6542  
**Matthew Honnold, Economic Analyst**  
[matthew.honnold@wellsfargo.com](mailto:matthew.honnold@wellsfargo.com) • (704) 410-3059

# Colorado Economy Takes Some Hits

## Shutdowns Combined With Lower Energy Prices Weigh on Growth

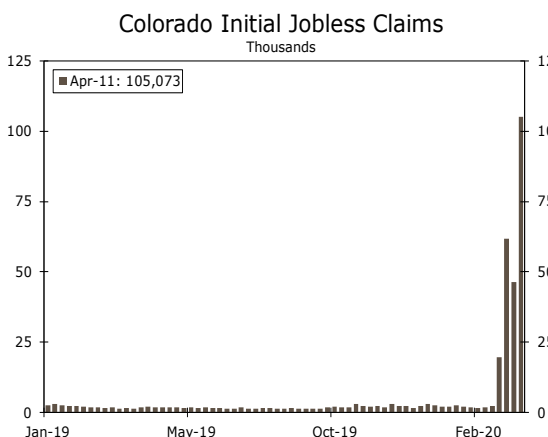
Colorado’s economy had strong momentum in the first quarter before COVID-19. The state ordered the closure of ski resorts in mid-March, followed by bars and restaurants, schools and assemblies of more than 10 people. The full stay-at-home order took effect on March 26 and will be in place until April 26. Governor Jared Polis said has said real estate, barbershops and dental offices will then be allowed to operate, followed by retail on May 1 and commercial offices—at 50% capacity—on May 4. He expects restaurants to be closed until mid-May.

Colorado’s economy expanded at a 2.6% annualized pace in Q4, tied for the fifth highest of any state, but that is old news. The most relevant data now are the state’s initial jobless claims, which provide insight into the extent and breadth of layoffs. Claims started to pick up the week ended March 21, rising to 20,000 from an average of just 2,200 per week in 2020. They then exploded to 62,000 the following week, eight times higher than the Great Recession peak, then totaled 150,000 the following two weeks. The cumulative 233,000 layoffs imply the unemployment rate is already around 10% (assuming the labor force remains roughly constant).

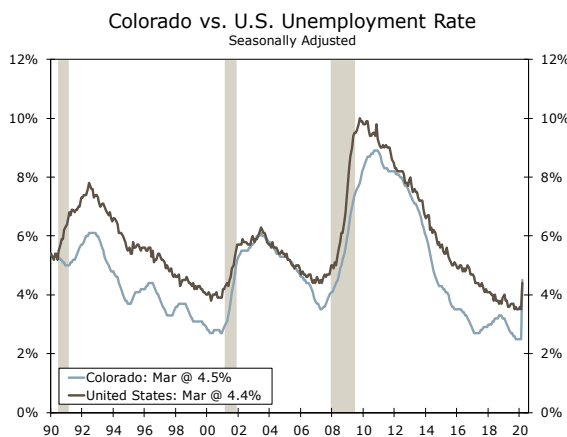
**Colorado’s economy was strong prior to the outbreak.**

Nationally, we expect over 20 million job losses and an unemployment rate of at least 15%. We currently estimate Colorado will lose 189,000 jobs this year, the vast majority of which will occur during the second quarter. Hourly wage earners account for the bulk of workers losing jobs, with leisure & hospitality, ambulatory health services, retailing and administrative services accounting for the bulk of the drop. Although many of these loses will be temporary, the hit to income will be lasting. The state’s unemployment rate was tied for third lowest of any state as recently as February before jumping two percentage points to 4.5% in March. Unfortunately, the jobless rate is surely headed much higher given the surge in initial unemployment claims this past month.

**Figure 1**



**Figure 2**



Source: U.S. Department of Labor and Wells Fargo Securities

Together we’ll go far



**Colorado has outsized exposure to leisure & hospitality.**

One of the reasons employment is falling so hard in Colorado is that the state’s economy has outsized exposure to the travel & leisure and energy sectors, two of the most negatively impacted areas from COVID-19. The 345,000 jobs at hotel, bars, restaurants and entertainment venues represented more than 12% of statewide employment prior to the outbreak, which is well above the national share of 10.8%. The sector has also accounted for a disproportionate share of the state’s growth, with its 85,000 new jobs since 2010 comprising 14% of the 610,000 total jobs added. This was due partly to the influx of tech seeking relief from the San Francisco Bay Area’s spiraling costs. As Silicon Valley and surrounding areas overheated, the Denver area was on the receiving end of an inland affordability migration. This influx in turn drove property prices rapidly higher and fueled growth in the leisure & hospitality sector, which has now virtually ground to a halt.

The rapid influx of new residents and resulting pressure on home prices also ate away at the region’s affordability, causing domestic migration to peak in 2015. Population growth has since diffused to neighboring areas such as Colorado Springs and Fort Collins, as well as other states like Arizona, Utah and Idaho. The underbuilding of single-family housing in the Denver area, as well as the massive tide of Millennials entering prime home buying years, suggest home construction might be one of the sectors that leads Colorado’s recovery from COVID-19.

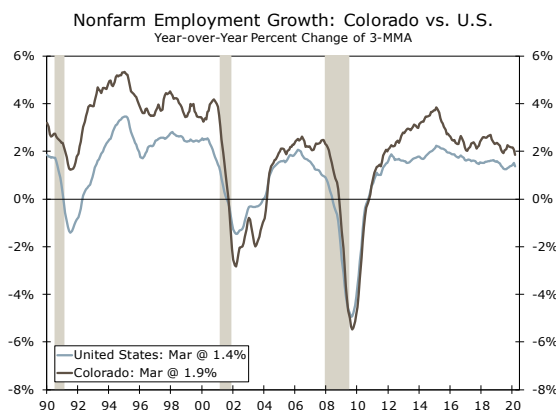
Another silver lining is that the rapidly growing tech and professional & business services sectors are much more capable of continuing operations from home, mitigating the need for layoffs. Colorado has one of the highest proportions of college-educated adults of any state, suggesting more of its workforce can comfortably work remotely. Colorado is also on the receiving end of significant, and less cyclical, federal research and defense spending—much directed towards the Colorado Springs area—which should be relatively insulated. One notable exception is healthcare, which has been crushed as hospitals and doctors offices are forced to cancel the elective operations that comprise the bulk of their profit margins. The wider adoption of telemedicine may also slow the recovery in healthcare employment. Retail trade of course is another weak spot, as stay-at-home orders have likely spurred even those hesitant to try online shopping to do so.

The plunge in oil prices is yet another blow to Colorado. The energy sector was already shedding jobs—down 2,200 since peaking in early 2019—but this will likely accelerate as the rig count falls and energy firms slash their capex plans even further. Natural resources & mining only directly accounts for 27,000 jobs out of 2.8 million total, meaning Colorado is much less exposed than other energy states Texas, New Mexico or North Dakota. The industry is highly concentrated in the Northeast part of the state and also supports financial and professional services in Denver.

**Plunging oil prices are another blow.**

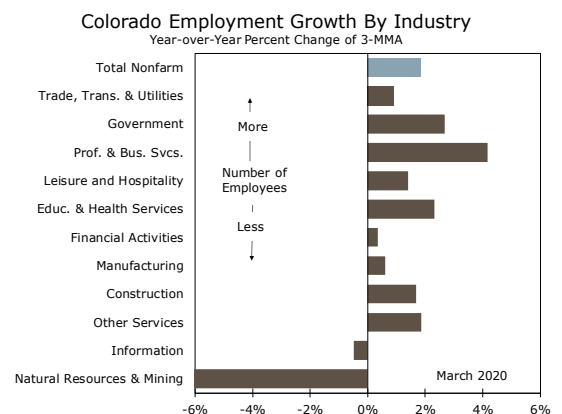
Despite innovations such as curbside meal pickup, online shopping and telemedicine, Colorado’s leisure & hospitality, retail and healthcare sectors are largely at the mercy of the virus. While the state’s economy should begin to reopen in May, economic activity will likely remain well below its pre-recession pace until a vaccine is developed. Businesses will face major challenges restarting, and consumers will likely remain cautious. The state’s tech and construction sectors are better positioned to ride out the storm and should help lead the recovery.

**Figure 3**

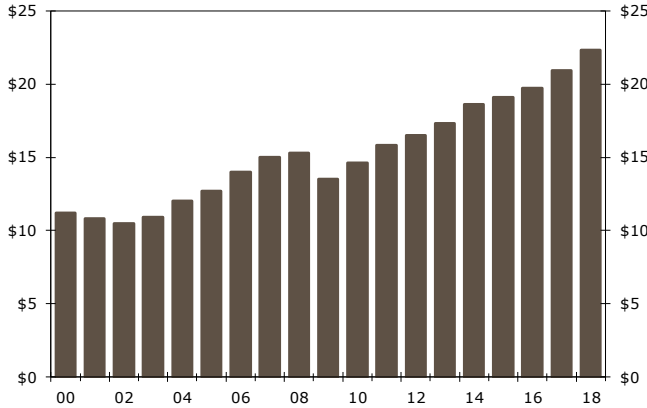


Source: U.S. Department of Labor and Wells Fargo Securities

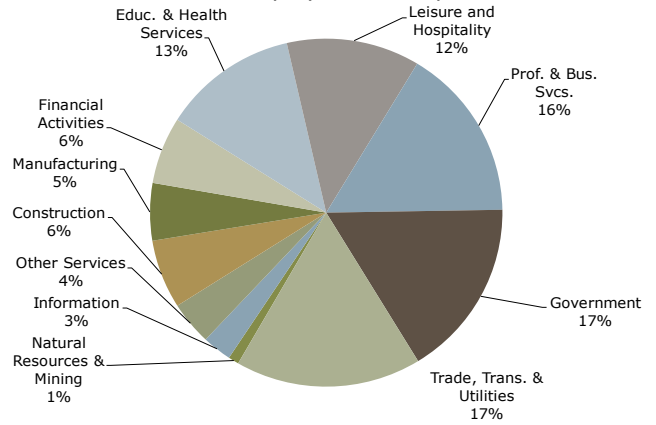
**Figure 4**



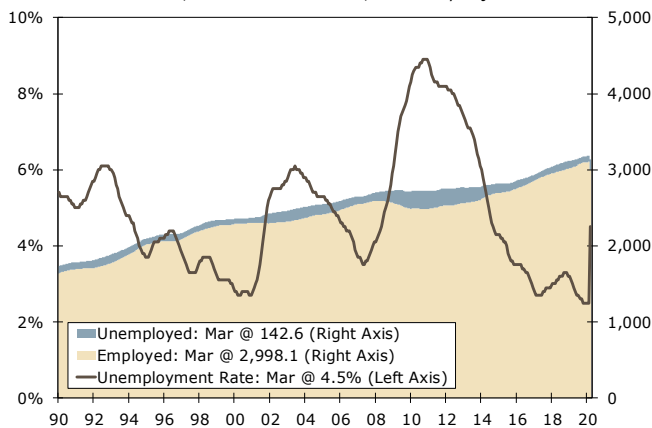
**Colorado Direct Travel Spending**  
 Billions of Dollars



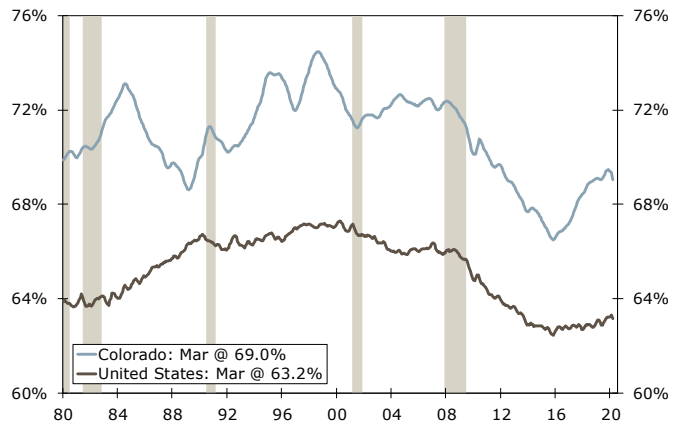
**Colorado Employment Composition**



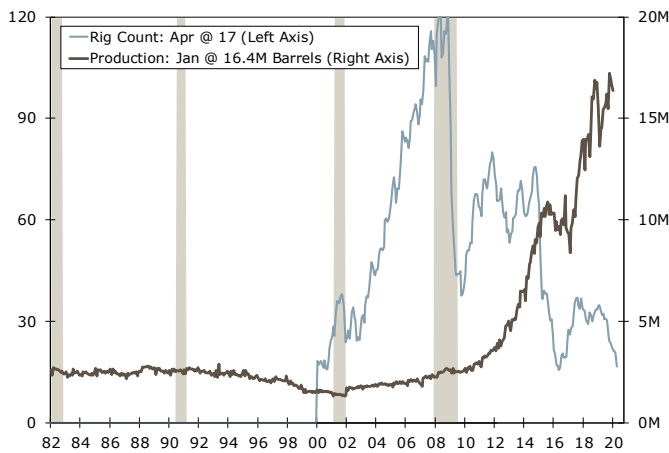
**Colorado Unemployment & Labor Force**  
 Percent, Thousands of Workers, Seasonally Adjusted



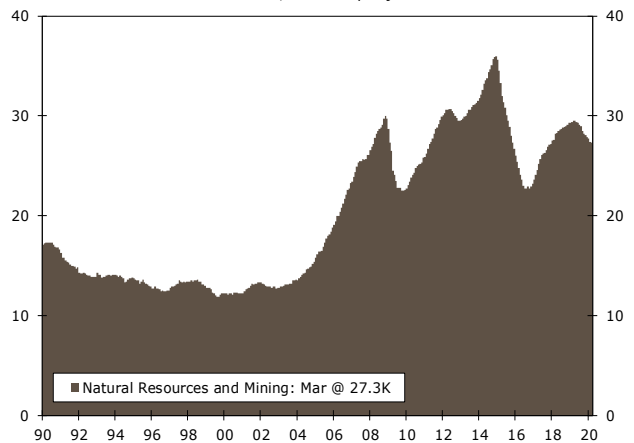
**Labor Force Participation Rate**  
 3-Month Moving Averages, Seasonally Adjusted



**Colorado Oil**

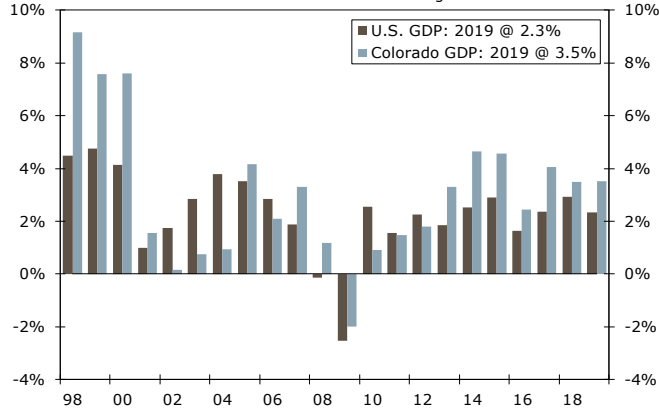


**Colorado Natural Resources & Mining Employment**  
 Thousands, Seasonally Adjusted

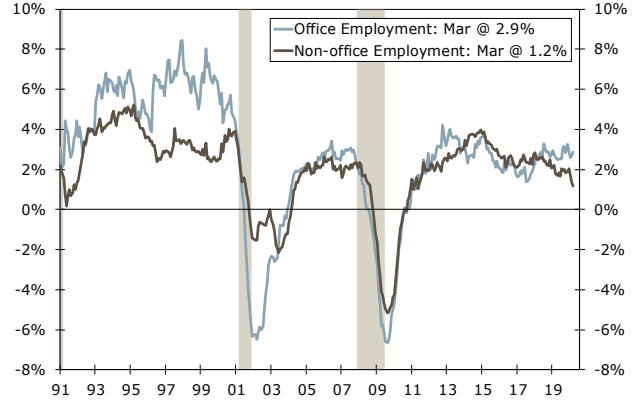


**Source: U.S. Department of Labor, U.S. Department of Commerce, Baker Hughes, U.S. EIA, Colorado Tourism Office and Wells Fargo Securities**

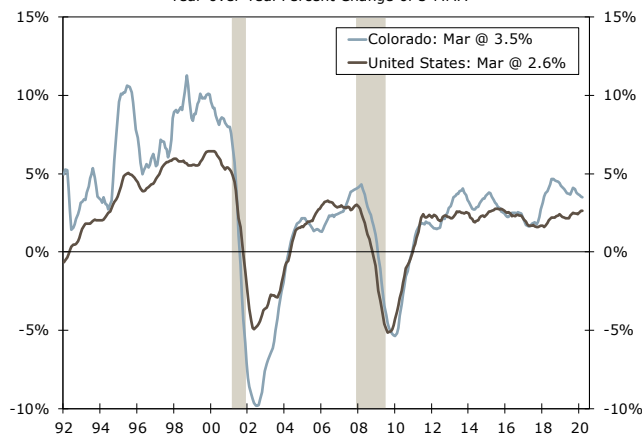
**Colorado Gross State Product & U.S. GDP**  
 Year-over-Year Percent Change



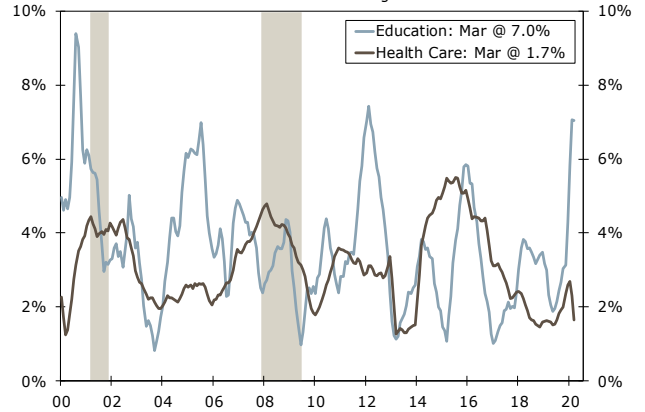
**Colorado Office Employment Growth**  
 Year-over-Year Percent Change



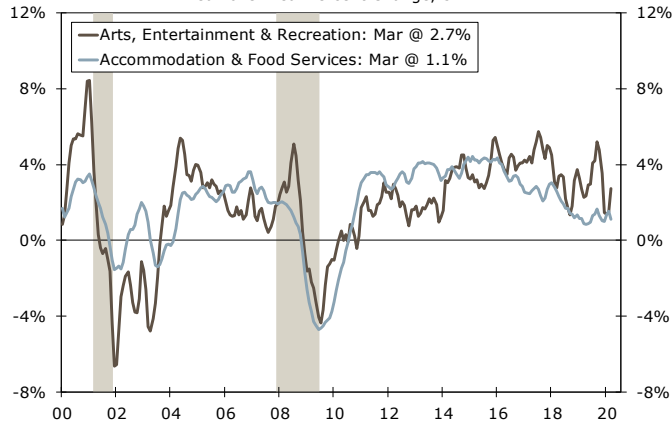
**Colorado High-Tech Employment**  
 Year-over-Year Percent Change of 3-MMA



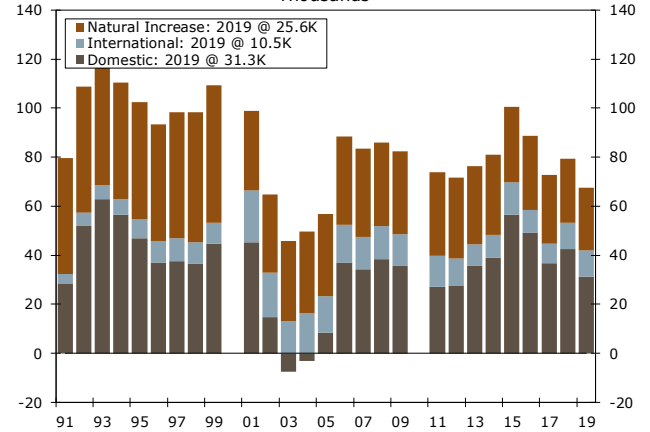
**Colorado Employment: Educ. & Health Svcs.**  
 Year-over-Year Percent Change of 3-MMA



**Colorado Employment: Leisure & Hospitality**  
 Year-over-Year Percent Change, 3-MMA



**Colorado Population Growth**  
 Thousands



**Source: U.S. Department of Labor, U.S. Department of Commerce and Wells Fargo Securities**

## Wells Fargo Securities Economics Group

Jay H. Bryson, Ph.D.	Acting Chief Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Macro Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Azhar Iqbal	Econometrician	(212) 214-2029	azhar.iqbal@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Brendan McKenna	Macro Strategist	(212) 214-5637	brendan.mckenna@wellsfargo.com
Shannon Seery	Economic Analyst	(704) 410-1681	shannon.seery@wellsfargo.com
Matthew Honnold	Economic Analyst	(704) 410-3059	matthew.honnold@wellsfargo.com
Jen Licis	Economic Analyst	(704) 410-1309	jennifer.licis@wellsfargo.com
Hop Mathews	Economic Analyst	(704) 383-5312	hop.mathews@wellsfargo.com
Coren Burton	Administrative Assistant	(704) 410-6010	coren.burton@wellsfargo.com

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