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OCTOBER 2008

Dear Noelle,

In light of the recent economic times we thought it was important to hear from our Regional Economist regarding the effect of the global markets on Northern Colorado. Below is a letter from Dr. Martin Shields to you in it's entirety: *Please foward this to anyone you know that is concerned about our current economy.*

Letter from Regional Economist: Current effects of the global markets and their impact on Northern Colorado

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Martin Shields - 8 October 2008
The current financial market problems are making people very nervous about the national, state and regional economies. Over the past few weeks we have witnessed failures of venerable financial institutions such as Lehman Brothers and Merrill Lynch, government takeovers of Fannie Mae, Freddie Mac and AIG, and a $700 billion federal bailout plan. Reflecting the upheavel, the stock market is declining (as I write this-October 8th-- the Dow is at a 4 year low).

The troubles are not limited to the US, as many European countries are dealing with similar problems. And this is contagious, as stock markets of countries not even indirectly tied to the mortgage crisis are dropping, including Russia, Indonesia and the Middle East.
As a result, there is an increasing concern of a global recession. Yesterday Fed Chairman Ben Bernanke offered a sober assessment of the economy, calling the financial crisis "a problem of historic dimensions."

The main problem is a freeze in the global credit markets. Big banks are just not making loans to each other, as they are unsure about the underlying quality of the assets (ie, collateral).

As I have noted before, credit is the grease of our economic engine. In the long-term businesses need credit to make necessary investments in equipment, buildings and the like. In the short-term, many need credit to meet their payroll and finance their inventory. At the same time consumers rely on credit to purchase homes and automobiles. Without credit, economic activity slows down.
The recent federal bailout package was designed to address this credit crunch by injecting new money into the system. Essentially, the government-through the Treasury Department--is putting forward money the private sector will not.

Despite being a flawed bill, the bailout package was met with relief. But it did not completely assuage fears.

Sensing more action was needed just this morning central banks throughout the world made a coordinated cut in interest rates. For example, the US Federal Reserve Bank reduced the targeted federal funds rate from 2.0 percent to 1.5 percent. The hope is that lower rates will encourage investment.

One point that needs to be clarified is that until only very recently there was a general feeling among central bankers in the US and Europe that the financial market problem was not going to lead to dramatic economic problems. Indeed, fighting inflation was more of a concern to the Fed than was a notable growth slowdown. But the inability of the bailout package and other Treasury efforts to halt the slide spurred concern that prompted the recent interest rate reductions.

So what does this mean in northern Colorado?

Northern Colorado will be affected by this. We are too integrated with the national and global economies not to be. Yet we remain confident that the region will weather this storm better than many other places, and we forecast about 4,000 net new jobs in the Larimer and Weld Counties in 2009. This is a

1.9 percent increase in employment, about the same as 2008.

Despite an increase in jobs, we also expect the unemployment rate to creep up. This is due to the fact that the labor force will increase slightly faster than the rate of job creation. That said, we expect regional unemployment to remain relatively lower than the US and state averages.

Why the confidence?

First, the growth in the labor force means new people are moving into the region. And as people move into northern Colorado, they demand basic services such as health care, retail and education. We expect these sectors to continue to grow.

Second, the region's most important economic anchor-Colorado State University-is stable, providing about 6700 jobs. While the university has recently initiated a partial hiring freeze, the likelihood of significant job reductions at CSU is remote. And because CSU continues to have record freshman enrollment, the surrounding economy-such as food and retail--should remain vibrant.

Third, the region is small enough where recently announced projects like Vestas and AVA Solar have significant economic impacts. Over all, the companies have announced plans to employ more than 2000 workers in northern Colorado. These job gains can help smooth some of the losses in other sectors, such as residential construction. And the region's skilled and educated workforce remains a valuable asset for marketing the region.

Fourth, Larimer County's housing market has not tanked like it did in many other places of the country. Although sales are down significantly, prices remain fairly stable. As a result, we have not seen the surges in foreclosures and tremendous losses in home equity that have hit others so hard.

Finally, many of the region's businesses are just not that tied into the commercial paper market that is the most afflicted by these problems. My conversations with a few regional bankers suggest that the local banks are still able to meet the local lending needs for most businesses.

Any reasons for pessimism?
Certainly.

First, a national and global recession will undoubtedly hurt northern Colorado. Some of the region's primary employers rely on growing international markets, and a global recession will certainly affect the region's export sector. Layoffs at some companies are expected.

Second, although the commercial paper market may not affect the region as adversely as other places, lenders will more carefully scrutinize deals. And even good projects might not get funded. One potential effect is a slowdown in commercial construction.

Third, waning consumer confidence and increased uncertainty about job security will likely reduce household expenditures on discretionary goods, ranging from automobiles to take out dinners.

Fourth, our local governments that rely on sales and use taxes might see a slowdown in revenue, potentially affecting their ability to meet existing and emerging service and infrastructure needs. And declining or stagnant property values could affect the local property tax revenues critical to funding county government and schools.

Over all, the next 6 months or more are going to be a bumpy ride. And real people are going to be hurt by this. Retirement nest eggs have shrunk. Some are going to lose their jobs. Some will lose their homes. But the fundamental strengths of the regional economy remain, and my long-term perspective is optimistic. Hang in there.

To find out more about the future of our economy, please join us at our 2008 Annual Meeting on October 22nd. You can register at www.regonline.com/08NCEDCLuncheon.

Sincerely,

Your friends at
Northern Colorado Economic Development Corporation