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BUSINESS INVESTMENT REBOUNDS
Spending bodes well for state

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For the first time in years the economy is firing on all cylinders, with the government, consumers and businesses spending strongly.
Gross domestic product numbers released last week showed the economy expanded at a rate of 7.2 percent during the third quarter, a pace unseen since the heady days of the mid to late '90s.

In particular the return of business investment, which grew 11.1 percent during the third quarter, should bring better days for Colorado, economists said. "The numbers are consistent with the word on the street," said Richard Wobbekind, director of the Business Research Division at Leeds School of Business at the University of Colorado at Boulder. "Service companies are seeing a pickup in orders." Because the 2001 recession was largely driven by a cutback in business or capital spending, Colorado's economy, dependent on technology and telecom jobs tied to business spending, suffered more than most.

Spending on software and equipment, the largest piece within capital spending, rose 15.4 percent during the quarter, up from 8.3 percent in the second quarter and the strongest pace since early 2000. After declining for six straight quarters, capital spending has enjoyed its fifth consecutive and largest gain.

"Different members are telling us that people are starting to buy more and spend more now rather than waiting until the first quarter," said Su Hawk, president of the Colorado Software and Internet Association. "The feeling is that the worst is over and they are gaining a greater foothold." PeopleSoft Inc., which acquired Colorado's largest software firm J.D. Edwards last summer, added 177 new customers during the third quarter, the most the company has attracted in one quarter since 1998, spokesman Steve Swasey said.

"We had a very strong quarter," Swasey said. "Our revenues exceeded our expectations on all fronts." The merger boosted the company's new-customer numbers, but improved market conditions also played a role, he said.
"The economy is showing signs of better health," Swasey said.

Louisville-based Storage Technology Corp. also benefited from the rebound in capital spending, reflected by an increase in its third-quarter net income to $31 million from $19 million during the same period a year ago.

While more software and tech spending does help, Colorado really needs to see job growth and investments in telecommunications, said John Rutledge, an economist and private equity investor with Rutledge Capital in Greenwich, Conn.

The United States uses only about 75 percent of its manufacturing capacity, Wobbekind said. When it comes to telecommunications, slightly less than half the capacity sits unused, he said.

Colorado companies like Qwest Communications International and Level 3 Communications invested heavily to build high-speed national data networks. But the telecom bust came before homes and small businesses could get connected. Wi-fi, short for wireless fidelity, and fiber optics to the home represent on-ramps that can connect people to the vast and underused telecommunications network.

"If you can unleash capital spending in telecom and bring fiber and wi-fi to homes and small business, Colorado would be right in the eye of that," Rutledge said. Connecting homes and small businesses would in turn boost efficiency or productivity, allowing the economy to create more goods and services with fewer workers.

While good for Colorado, that could exacerbate a delicate balancing act the economy has faced. Despite the most robust quarter of economic growth since 1984, the country failed to create jobs.

"For the average guy out on the street the question is 'Where is the beef?"' Rutledge said. "He got the tax refund, but he isn't getting a new job out of this."

Even PeopleSoft, which employs 2,500 of its 12,000 workers in Denver, moved forward with plans to cut 7 percent of its workforce recently despite the bump in new customers and sales.

Businesses will likely need to be certain of higher demand and profits before they feel confident enough to put out the help-wanted signs, Wobbekind said. "They want to make sure demand is there before they do heavy-duty investment and bring the people back in," Wobbekind said.

And most economists don't expect a 7 percent-plus growth rate going forward once the stimulus of tax cuts wears off and the drag of higher interest rates on home and auto spending weighs in. "Economic growth during the October-December quarter and beyond won't be as robust," said Sung Won Sohn, chief economist at Wells Fargo & Co.

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