

Quarterly Updates and Estimates

Volume 1, Number 1, July 2002
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Introduction

This marks the inaugural issue of the Southern Colorado Economic Forum's *Quarterly Updates and Estimates (QUE)*. *QUE* will be published approximately the first week in April, July and January. In October, we publish the annual *Southern Colorado Economic Forum*. *QUE* will primarily report and analyze timely economic issues in the local economy, the Colorado Springs Metropolitan Statistical Area. Where appropriate, local data are analyzed along with comparable state and national economic data and trends. In most cases, national and state level data are reported on a seasonally adjusted. The Southern Colorado Economic Forum seasonally adjusts the data, where appropriate, with the same procedures used by the Federal Government. This enables unbiased comparisons and analysis between Colorado Springs and state and/or national data.

QUE will report on a series of economic indicators developed by the Southern Colorado Economic Forum. Two new indicators being reported for the first time are the Colorado Springs Business Conditions Index (BCI) and the Information Technology Index (ITI). These are explained in more detail below.

Update on the Economy

The Colorado Springs economy is slowly recovering from the short recession that began late last year. Major indicators for our region systemically point to a bottoming out last December-January. The slow pace of the national recovery has contributed to a slower rebound in the local economy. Some of our indicators suggest that the Colorado Springs economy and Colorado in general will lag the national recovery. Stay tuned!

Two new measures of our local economy are Lodging and Auto Rental Taxes (LART) and the Business Conditions Index (BCI).

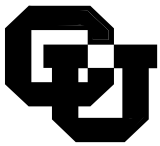
Business Conditions Index. *QUE* has developed a Business Conditions Index (BCI) for the Colorado Springs Economy. It is anticipated that BCI will prove to be a leading economic indicator for the Colorado Springs economy. The Business Conditions Index (BCI) is currently constructed as an equally-weighted geometric mean of six economic series:

- *Single-family housing permits in El Paso County*
- *Colorado Springs sales and use tax collections*
- *New car sales in El Paso County*

- *Employment rate in El Paso County*
- *Colorado purchasing managers index*
- *National consumer sentiment index*

All measures are seasonally adjusted except for consumer sentiment. A three-month moving average of the series is indexed around March 2001, the month the national economy peaked. A geometric average of these indices is used to illustrate trends in the local economy.

Given the available data, it appears the Colorado Springs economy peaked around October 2000 with a value of 105.97. The BCI began a steady decline through July-August 2001. Initially, it appeared the local economy would reverse its downward trend at this point. The national economic indicators echoed a similar pattern. Unfortunately, the events of September 11 reversed a slight up-trend and further aggravated an ailing economy. The BCI continued to drop and appears to have bottomed in November 2001 at a value of 91.73. By January-February of this year, BCI's emerging trend indicated our economy was recovering. The trend continues today.



During the recent downturn and recovery, BCI correctly pointed to both turns in the economy. BCI will be monitored in the future and enhanced with the inclusion of additional local economic measures.

Colorado Springs Business Conditions Index (BCI: March 2001 = 100)



Tourism. Another important economic segment of the local economy is tourism. Based on reported sales tax collections for lodging and auto rentals (LART) in Colorado Springs, tourism peaked in December 2000. LART followed a downward trend through most of 2001. After correcting for seasonality, it appears LART bottomed in November 2001. Since then, this sector has demonstrated an upward trend but is still 8.5% below year ago levels – April 2002 vs. April 2001.

Three factors may hurt the region’s tourism industry this year:

- A weak national economy
- The Colorado drought and fires
- Aversion to travel caused by last year’s terrorist attacks.

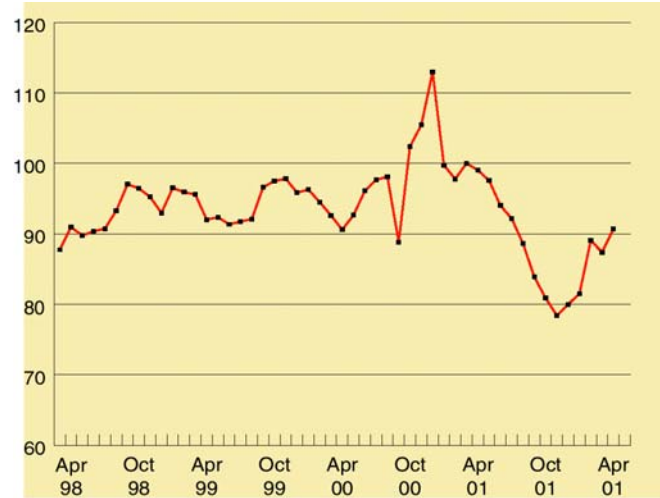
Tourist expenditures are discretionary in nature. People may not spend money on tourist activities if their personal financial reserves were depleted during the downturn. Fire dangers and drought concerns have reduced access to Colorado forest areas which is after all, one of the reasons

people visit our state. The concerns are likely to outweigh curiosity. Tourism activity will most likely finish 2002 below the totals for 2001.

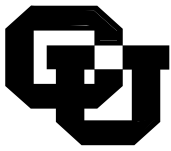
Single-Family Permits. Single-Family Building permits declined dramatically after September 11. The decline continued until December 2001.

An identifiable upward trend was visible by March 2002. Exceptionally strong permit activity in April and May added further support for the premise the Colorado Springs economy was no longer in a downturn. At the current rate, single-family homes are expected to total approximately 4,200-4,400 units for 2002. This would be a decline of approximately 20% from last year’s torrid level of activity.

Colorado Springs Lodging & Rental Tax (LART) Three Month Moving Average Seasonally Adjusted (March 2001=100)



Single-family construction is not uniformly strong. Homes that finish in the \$175,000 to \$250,000 are doing well. Resistance increases quickly for homes with prices of \$300,000 and up. Permit numbers, square footage, permit value and the Housing Amenity/Price Index (HAPI) are summarized in Table 1. The HAPI is an unweighted geometric index of permit value, square footage, and construction cost per square foot indexed to their respective averages.



The areas of Powers (Constitution to Woodman), North Academy (Austin Bluffs to Woodman), Falcon and Briargate lay claim to 52.37% of all single-family permits in the region.

Excluding areas with fewer than five permits, the largest homes are being built in Black Forest, Rockrimmon, Elbert, Gleneagle and Monument. Based on permit value, the most expensive homes are being built in Black Forest, Rockrimmon, Old Colorado City/Mesa, Southwest and Manitou. The three least expensive areas are Security-Widefield, Yoder and the Southeast.

Single Family Permits in El Paso County Seasonally Adjusted



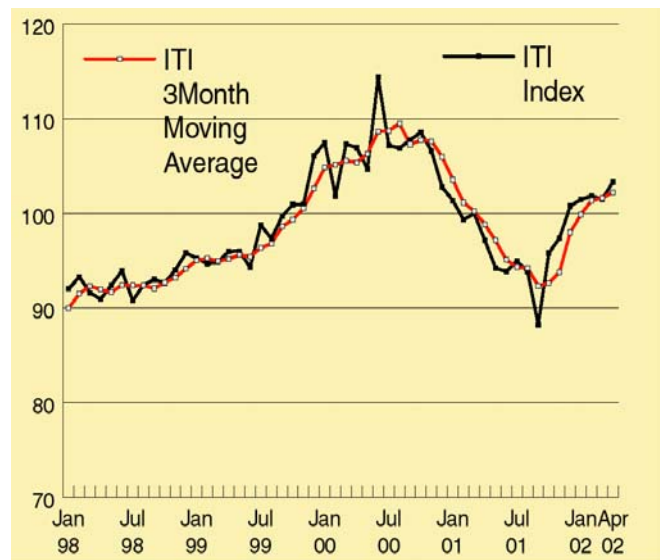
Multifamily and Commercial. Multifamily housing occupancy and new construction are soft. Vacancies averaged 8.9% in the first quarter. The Northeast and Northwest areas had vacancies in the 10-14% range. Despite this softness, average rents are \$31 more per month. The only area with a lower average rent is the Northeast (\$654 in 2002 vs. \$685 in 2001). During the first quarter, commercial rent activity was slow.

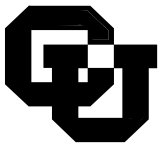
Market	Vacancy	Rent (sq. ft. triple net)
Office	12.1%	12.29nnn
Industrial	7.8%	8.06nnn
Retail	7.5%	11.00nnn

Office space is strong in downtown and the west side. All other areas are weak. Industrial space is higher than average in the East, Northeast and Northwest areas. Retail vacancies are generally low except in the Southeast and Southwest.

National Good News. The technology industry plays a significant role in Colorado Springs. Local data on key measures do not exist. However, national data on inventory levels, new orders, value of shipments and back orders provide reasonable indicators of activity in this important component of our local economy. These measures were combined into a geometric index (March 2001 = 100). The Information Technology Index (ITI) pointed to the downturn in technology before industry outsiders were aware of the developing trend. ITI has increased every month since September and suggests an imminent improvement in this important sector of the local economy. Technology appears to be poised for a recovery although it is too soon to say precisely when the local technology sector will join the recovery. Our favorable outlook will be somewhat dampened as the fallout from the Worldcom accounting scandal is better understood. A large scale lay-off at the local Worldcom operations would greatly undermine a local technology recovery.

Information Technology Index (ITI: March 2001=100)





In addition to ITI, several macro indicators point to an economic recovery. These include:

- Capacity utilization (up 1.5%)
- Consumer sentiment (up 9.1%)
- Industrial production (up 1.9%)
- Inventory/sales ratio (down 2.9%)
- Purchasing managers index (up 15.8%)

The percentage change is since December. A declining (-2.9%) Inventory/sale ratio suggests business will have to increase inventory levels soon if it is to have merchandise to sell. It is in this context the indicator is seen as holding the expectations of recovery. Together with the increase in the purchasing managers index (up 15.8%), we can expect to see increases in business orders in the future.

Concerns about oil prices, unemployment, terrorist threats and actions, and the need to restore confidence in financial reporting and the stock market are contributing factors keeping the national economy from recovering more quickly. However, barring a severe terrorist attack, these are not expected to overshadow the current recovery phase of the economy. The Colorado and Colorado Springs economy will lag the national recovery because of the slow recovery in technology and telecommunications. Further, the tourist industry will suffer because of the drought and the negative effects of national news coverage of the Colorado forest fires.

Expectations

Economists are generally predicting a slow recovery from recession. The local area economy will recover slowly over the next several months and into 2003. We anticipate the recovery in Colorado and El Paso county will take longer than the U.S. recovery.

National	2002	2003
GDP (growth)	2.7%	3.4%
Inflation (change)	2.2%	2.5%
Crude Oil (bbl)	\$24.5	\$23.50
Unemployment (rate)	5.8%	5.5%
Medical/Benefits (change)	20-50%	

The Southern Colorado Economic Forum is just around the corner. This year's event will be held on October 16, 2002 at the Antlers Adam's Mark Hotel. Registration is \$25.00 per attendee. Groups rates and sponsorships are available. Contact Cassandra Flanagan at 262-3433 for registration information and Richard Blair at 262-3524 for sponsorship opportunities.

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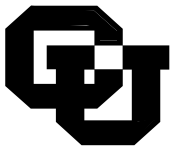


Table 1: Single Family Permit Activity in El Paso County (1/1/02 through 6/18/02)

Zip	Area	Total Permits	Average Square Feet	Average Permit Value	Housing Amenity/ Price Index
80106	Elbert	17	4,085	135,647	1.01
80132	Monument	130	4,033	164,708	1.15
80133	Palmer Lake	1	3,742	180,000	1.22
80808	Calhan	18	2,384	114,917	0.90
80809	Cascade	1	2,744	120,000	0.93
80817	Fountain	120	2,167	79,275	0.71
80819	Chipita Park	1	5,129	200,000	1.31
80829	Manitou	6	1,838	195,667	1.29
80831	Falcon	178	3,389	96,795	0.81
80832	Ramah	2	1,624	105,000	0.85
80833	Rush	3	2,277	64,667	0.62
80864	Yoder	9	1,804	76,556	0.69
80903	Downtown	2	2,477	105,000	0.85
80904	Old Colorado City/Mesa	28	3,756	230,589	1.44
80906	Southwest	86	3,154	227,667	1.43
80908	Black Forest	52	4,996	258,279	1.55
80909	Core E/NE	2	2,322	90,000	0.77
80910	Core SW	12	1,812	43,708	0.47
80911	Security/Widfield	86	2,469	74,560	0.68
80915	Constitution/East	68	2,264	84,103	0.73
80916	Peterson	123	2,386	83,625	0.73
80917	Carefree	51	2,930	97,431	0.81
91918	Austin Bluffs/Woodmen	313	3,247	121,084	0.94
80919	Rockrimmon	23	4,102	236,880	1.46
80920	Briargate	144	3,557	132,897	1.00
80921	Gleneagle	100	4,055	123,246	0.95
80922	Powers/Constitution/Woodman	468	2,889	90,093	0.77
80925	Security/Widefield - East	36	2,851	97,111	0.81
80926	West of Ft. Carson	2	4,557	316,500	1.78
80928	Southeast	13	1,821	77,538	0.69
80929	East	3	3,415	120,167	0.93
80930	Schriever	4	4,762	250,000	1.52
81008	Pueblo	4	1,779	43,750	0.47



Table 2: Selected Economic Indicators

	Jun-01	Jul-01	Aug-01	Sep-01	Oct-01	Nov-01	Dec-01	Jan-02	Feb-02	Mar-02	Apr-02	May-02	vs May/Q1 2001
National Quarterly Data													
GDP Real Annual Growth (Chained SA)	0.31%			-1.33%			1.65%			5.58%			1.5%
e-Sales NSA (\$billions)	8.25			8.24			11.18			9.85			19.3%
e-Sales as % of Retail Sales NSA	1.00%			1.10%			1.30%			1.30%			18.2%
Employment Cost - Benefits	162.5			164.7			166.8			168.6			4.9%
Employment Cost - Compensation	154.3			155.7			157.3			158.7			3.9%
National Monthly Data													
Capacity Utilization (all industry) SA	76.7	76.7	76.4	75.5	75	74.7	74.4	74.8	75	75.3	75.4	75.5	-2.6%
Car and Lt Truck Sales Annualized SA	17.11	16.35	16.24	15.76	21.16	17.86	16.34	15.7	16.56	16.82	17.21	15.55	-4.8%
Industrial Production	140.3	140.4	140.0	138.5	137.7	137.2	136.7	137.6	138.1	138.7	139.1	139.3	-1.6%
Inventory/Sales Ratio	1.44	1.42	1.42	1.45	1.39	1.39	1.39	1.38	1.39	1.38	1.35	na	-6.2%
Consumer Sentiment	92.6	92.4	91.5	81.8	82.7	83.9	88.8	93.0	90.7	95.7	93.0	96.9	5.3%
CPI-U (1982-84 = 100)	177.8	177.3	177.4	178.1	177.6	177.5	177.3	177.6	178	178.6	179.5	na	1.2%
Discount Rate (%)	3.47	3.25	3.16	2.77	2.02	1.58	1.33	1.25	1.25	1.25	1.25	1.25	-248 basis pts
Mortgage Rate 30 Year Conventional (%)	7.16	7.13	6.95	6.82	6.62	6.66	7.07	7.00	6.89	7.01	6.99	6.81	-4.7%
Prime Rate (%)	6.98	6.75	6.67	6.28	5.53	5.10	4.84	4.75	4.75	4.75	4.75	4.75	-249 basis pts
Purchasing Managers Index	44.3	43.9	47.9	46.2	39.5	44.7	48.1	49.9	54.7	55.6	53.9	55.7	31.7%
Retail Sales SA (billions)	290	290	291	285	303	295	295	295	296	296	300	297	2.2%
Technology Index SA (Mar 2001 = 100)	93.8	94.9	93.9	88.2	95.8	97.4	100.8	101.5	101.8	101.5	103.3	na	9.7%
West Texas Oil (Spot Price bbl)	27.6	26.5	27.5	25.9	22.2	19.7	19.3	19.7	20.7	24.4	26.3	27.0	-5.7%
Colorado Data													
Colorado Purchasing Mgr Index	58.9	48.1	35.4	40.9	44.8	36.3	47.2	57.3	68.7	65.6	61.9	na	25.3%
Labor Force NSA (000's)	2,320	2,322	2,329	2,329	2,329	2,332	2,318	2,347	2,347	2,347	2,334	2,344	2.9%
Employment NSA (000's)	2,230	2,235	2,241	2,237	2,228	2,219	2,206	2,208	2,210	2,212	2,211	2,230	0.6%
Unemployment Rate NSA (%)	3.9	3.7	3.8	3.9	4.3	4.8	4.9	5.9	5.8	5.8	5.2	4.9	up 1.9
Unemployment Rate SA (%)	3.4	3.7	3.8	4.1	4.5	4.9	5.1	5.6	5.7	5.6	5.3	5.2	up 1.9
Colorado Springs Data													
Business Conditions Index SA	98.5	99.6	99.4	95.8	93.9	91.7	92.3	93.3	95.7	98.0	100.8	na	2.7%
Single Family Permits SA	438	458	537	391	355	372	349	342	381	356	524	440	-12.0%
Sales and Use Tax for Month SA (000's)	8,848	8,403	8,340	8,451	8,370	8,359	8,196	7,978	7,969	8,249	8,463	na	-0.3%
New Car Sales SA	1,928	2,368	2,505	1,985	2,542	2,683	2,073	2,294	2,213	2,093	2,654	2,079	0.4%
Labor Force NSA (000's)	267.1	266.4	267.1	266.5	268.9	269.8	269.3	272.7	271.9	271.2	269.1	271.0	3.3%
Employment NSA (000's)	254.2	254.0	254.3	253.0	255.1	254.5	254.2	254.4	254.0	253.4	253.1	256.1	0.7%
Unemployment Rate NSA (%)	4.8	4.7	4.8	5.1	5.1	5.7	5.6	6.7	6.6	6.5	6.0	5.5	up 2.0
Unemployment Rate SA (%)	4.0	4.3	4.6	5.0	5.5	5.9	6.5	6.7	6.7	6.4	6.2	6.1	up 2.2