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Quarterly Updates and Estimates

Volume 7, Number 1, July 2008

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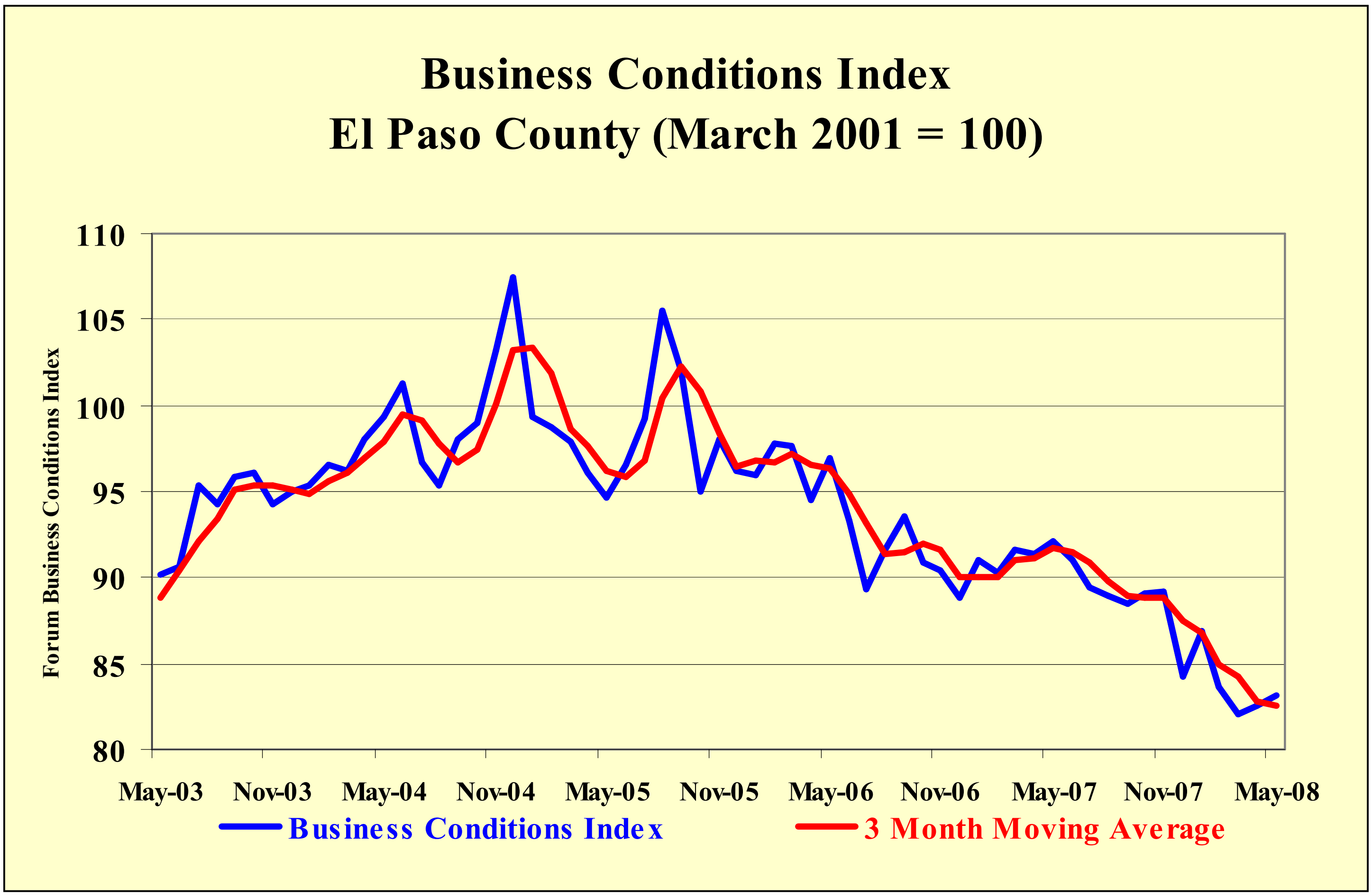
Update on the El Paso County Economy

The Business Conditions Index (BCI) has been revised. The Manufacturing Index for Colorado is no longer available. An alternative manufacturing index being developed.[1]

The revised BCI for March 2008 was 82.04. At the time of the last publication of the *QUE*, the Forum speculated the BCI would "tread water for the next three to six months before increasing gradually during the last four months of the year." The expectation appears to be holding true. The May BCI is 83.12, a nominal increase over the March value of 82.04.



[1] The Business Conditions Index (BCI) is a geometric index of ten seasonally adjusted data series. The El Paso County data are single family and town home permits, new car sales, employment rate, foreclosures, ES202 employment and ES202 wages and salaries. Colorado Springs data are sales and use tax collections and airport enplanements. University of Michigan's Consumer Sentiment is the sole non-local indicator in the BCI. The BCI is indexed to March 2001 = 100. All raw series are seasonally adjusted by UCCS Southern Colorado Economic Forum using the Department of Commerce X12 adjustment process.

Table 1: Business Conditions Index Components - All Values Indexed to Mar 2001 = 100

	COS Enplane-ments	El Paso County SF & TH Permits	U Of Mich Con Sent	Creighton CO PMI	El Paso *Employ-ment* Rate	Colorado Springs 2% Sales & Use Tax	El Paso County Car Sales	El Paso County Fore-closures	El Paso County Employed	El Paso County Real Wages	BCI
Feb-07	82.03	46.23	99.37	138.15	99.12	104.46	92.35	98.70	110.31	102.02	90.33
Mar-07	82.39	55.41	96.37	147.18	99.25	105.24	88.19	98.48	110.78	102.42	91.57
Apr-07	84.37	50.23	96.72	163.19	99.43	110.12	88.99	98.40	110.60	101.84	91.34
May-07	88.47	53.01	100.90	146.42	99.38	99.92	91.78	98.52	110.42	102.18	92.15
Jun-07	89.10	54.43	91.62	126.17	99.26	106.98	81.28	98.51	110.95	101.93	90.98
Jul-07	85.46	48.38	96.40	150.68	99.16	104.24	80.09	98.12	110.70	101.93	89.42
Aug-07	92.45	41.14	93.15	169.79	99.11	104.82	85.03	98.31	110.81	101.85	88.91
Sep-07	95.26	41.21	93.38	155.76	98.97	104.86	77.19	98.46	111.77	102.25	88.42
Oct-07	96.78	39.50	90.93	164.92	98.89	104.85	87.92	98.27	110.42	102.27	89.04
Nov-07	99.82	40.61	85.06	158.44	98.79	118.64	78.16	98.33	111.55	103.02	89.18
Dec-07	86.56	31.12	82.31	160.75	98.33	107.58	81.07	97.75	111.41	103.77	84.29
Jan-08	93.20	35.03	81.01	185.15	98.33	107.79	87.40	98.11	112.85	103.94	86.88
Feb-08	93.12	30.85	77.06	150.85	98.14	99.40	80.71	97.19	112.97	104.66	83.64
Mar-08	90.14	28.74	75.77	119.23	97.96	104.12	72.64	97.35	113.08	105.19	82.04
Apr-08	87.24	28.47	68.75	na	98.05	101.79	93.43	97.43	112.65	102.35	82.59
May-08	93.34	36.69	65.54	na	97.75	101.78	75.98	97.89	111.47	102.32	83.12
May 2008 Compared to:											
Apr-08	6.99%	28.89%	-4.66%	na	-0.31%	-0.02%	-18.67%	0.47%	-1.05%	-0.03%	0.64%
Feb-08	0.23%	18.94%	-14.94%	na	-0.39%	2.39%	-5.86%	0.71%	-1.33%	-2.23%	-0.62%
Nov-07	-6.49%	-9.64%	-22.94%	na	-1.05%	-14.22%	-2.78%	-0.45%	-0.07%	-0.68%	-6.80%
May-07	5.51%	-30.78%	-35.04%	na	-1.64%	1.86%	-17.21%	-0.64%	0.95%	0.14%	-9.80%

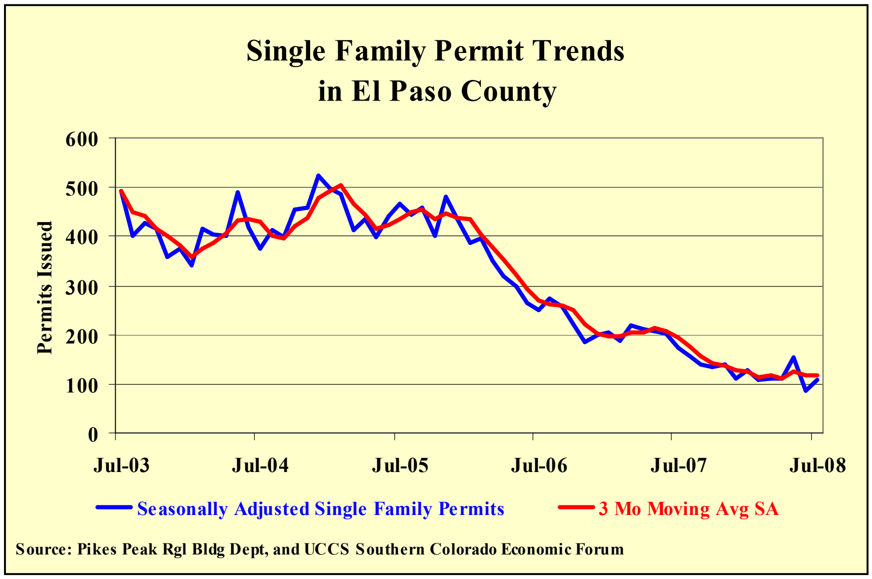
Most indicators demonstrated continued weakness. Five of the nine indicators are below their year ago and quarter ago comparative values. Arguably, the most important indicators of the local economy's health are employment and wages. Both are higher than a year ago. Despite these gains, the employment rate has declined slightly. The reason for this is people are entering the labor force looking for work at a faster rate than job growth can accommodate them. The effect is an increase in the unemployment rate. This is characteristic of a slowing economy. Despite this trend, it should be noted that the local economy has yet to have a single month of job losses reported in 2008 while the national economy just reported its seventh consecutive month of job losses in 2008.

One strong point in the local economy is airport enplanement activity. Compared to a year ago, enplanements are up five percent. Unfortunately, the price of fuel, declining consumer discretionary income, and the loss of two regional carriers will lead to year-end enplanement activity that may equal or be slightly below levels in 2007.

Consumer sentiment and the local housing market are showing signs of bottoming. The Colorado Springs economy should rebound in 12-18 months if job growth and income gains remain positive and Fort Carson's troops arrive in the middle of 2009.

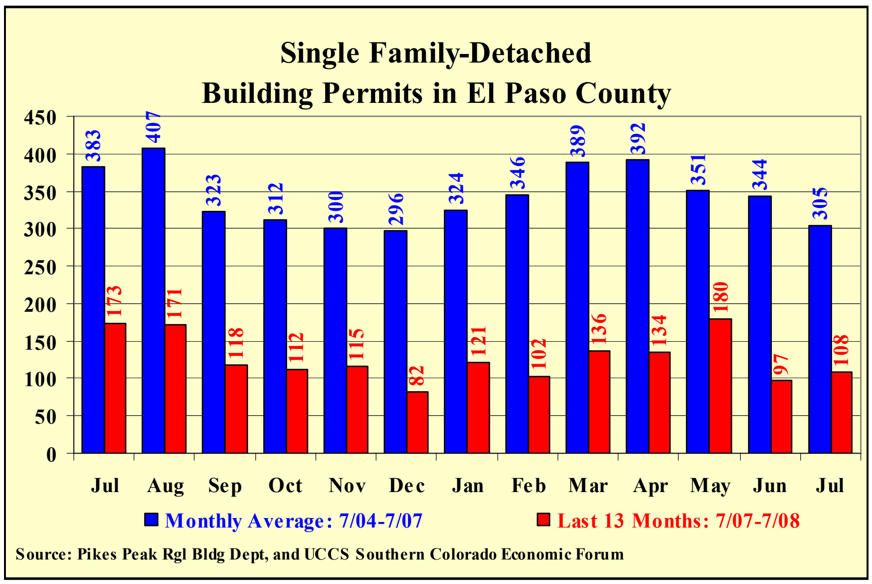
Analysis of the El Paso County Residential Housing Market

Single family permit activity peaked in early 2005. Modest declines began in March 2005. A sharper decline in permit activity began in March 2006. Disappointing permit activity through the first quarter of this year led the Forum to lower its expectation for 2008. Nothing in the housing market has changed to lead the Forum to alter its expectation that 1,650 single family permits will be taken out in 2008.

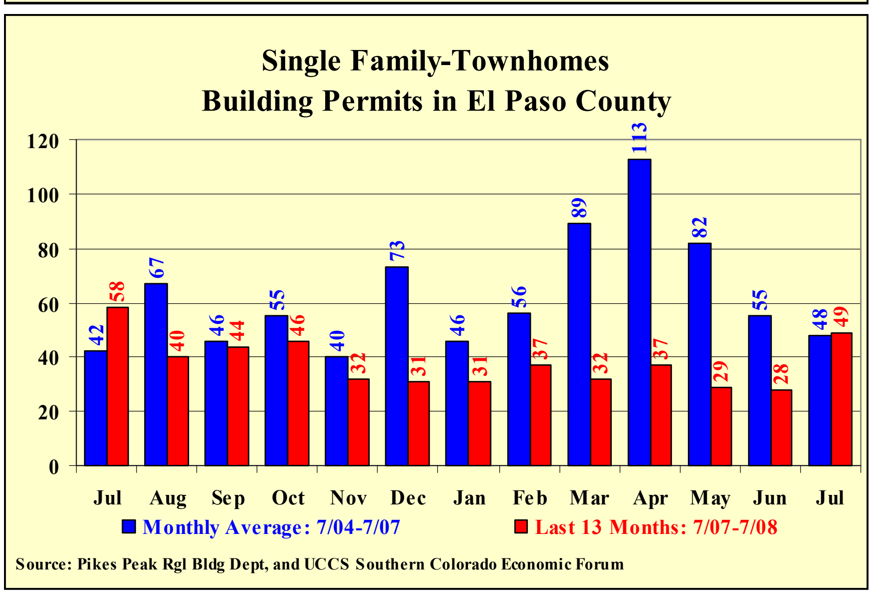


Permit activity normally accelerates sharply by April. The increase has not materialized in 2008. This is despite the best Housing Affordability Index for the area in recent years. The HAI is now 123 vs. 101 in 2005.

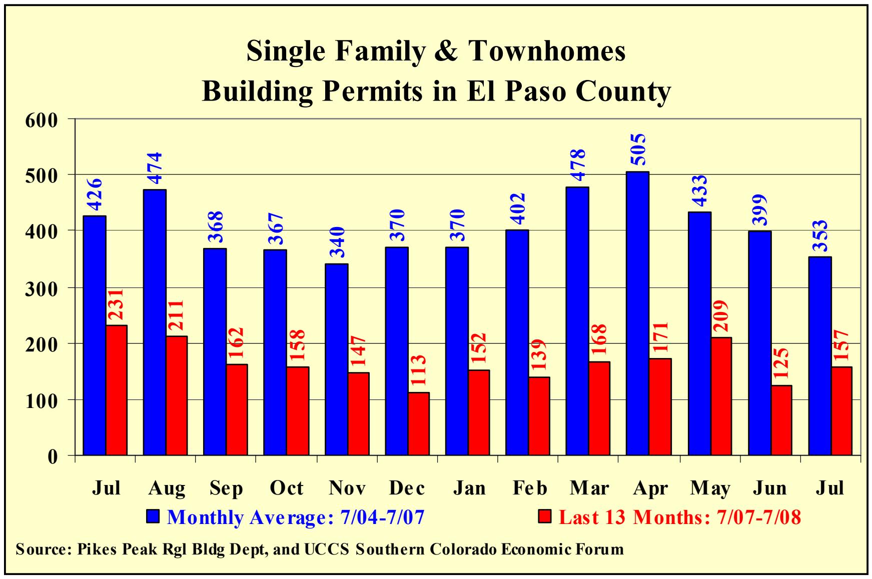
Persistent foreclosure problems, low consumer sentiment and a reluctance of lenders to extend mortgages continue to weigh down on the housing market.



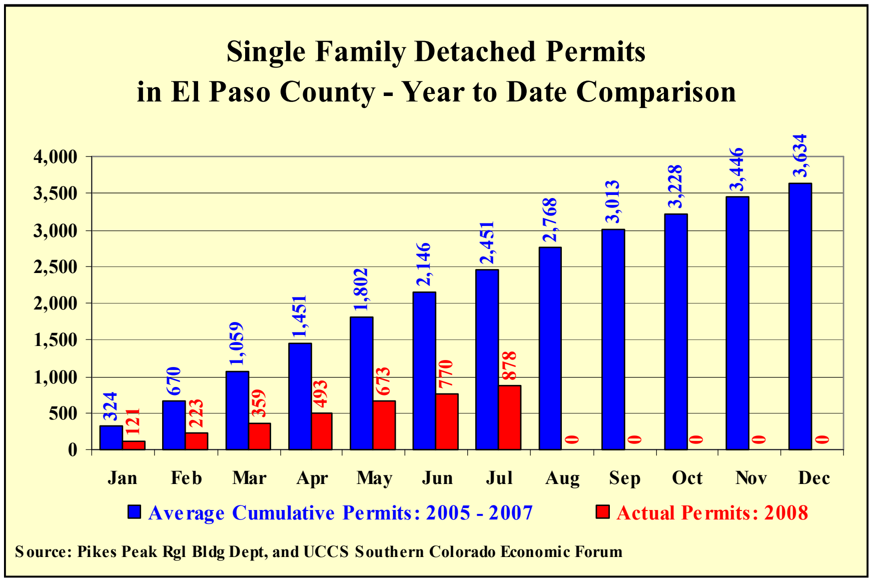
Townhome permit activity mirrored the slow down in single family, detached permits. The latest month of July 2008 showed a significant increase in permit activity for townhomes. The Forum will monitor this to see if is part of an emerging trend or a one time spike. The next quarter's data should indicate if this is part of a new trend or not.



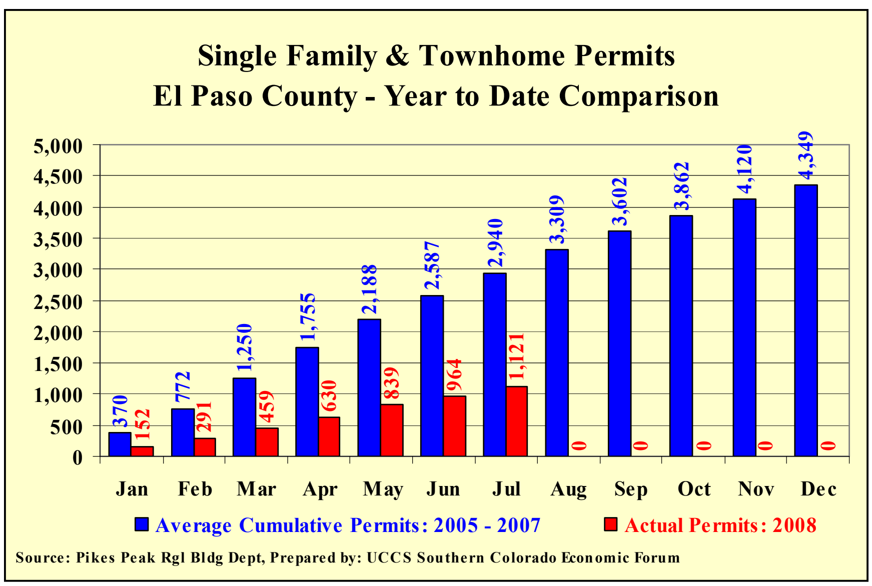
Compared to the last several years, the most recent thirteen months of private residential building activity have remained weak. The normal rise in activity in the late spring to early summer has not materialized this year. It is possible The Housing and Economic Recovery Act of 2008 (HERA) may help to stimulate residential building over the next seventeen months. This is especially true for first time home buyers with the $7,500 available tax credit (see text of HERA).



Single family permit activity is currently running 64 percent below comparable year to date figures for the last few years. This is a modest improvement compared to being 66 percent below the average reported in April. One quarter may not be enough to identify an emerging improvement pattern. However, several modest improvements in the single family market are being observed.



The combined single family and townhome permit activity is currently running 62.7 percent below the normal year to date figures over from the last three years. This is a modest improvement compared to 64 percent below the normal pace which was reported in April.



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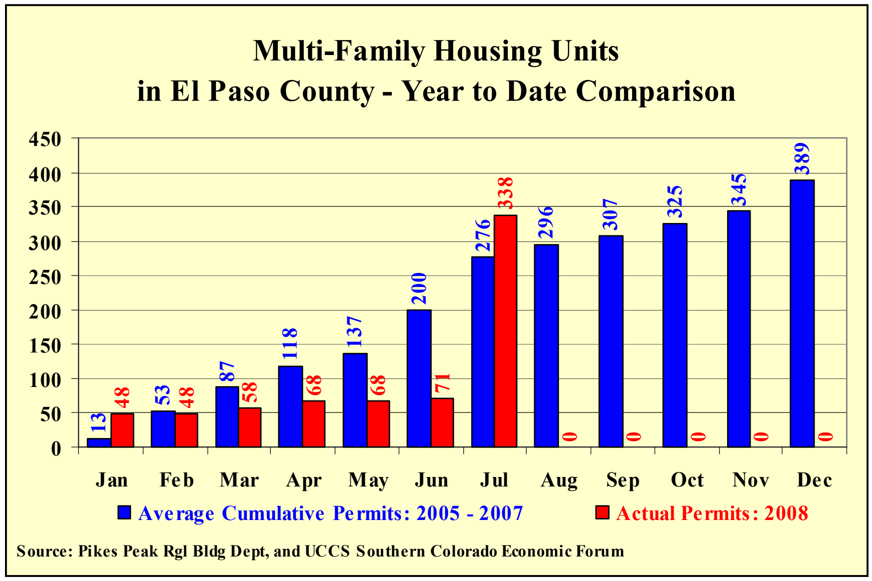
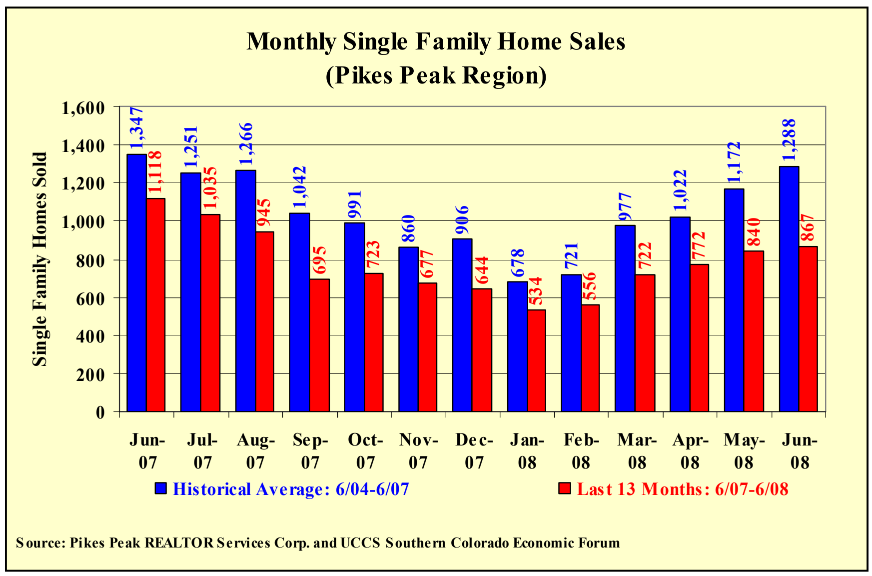
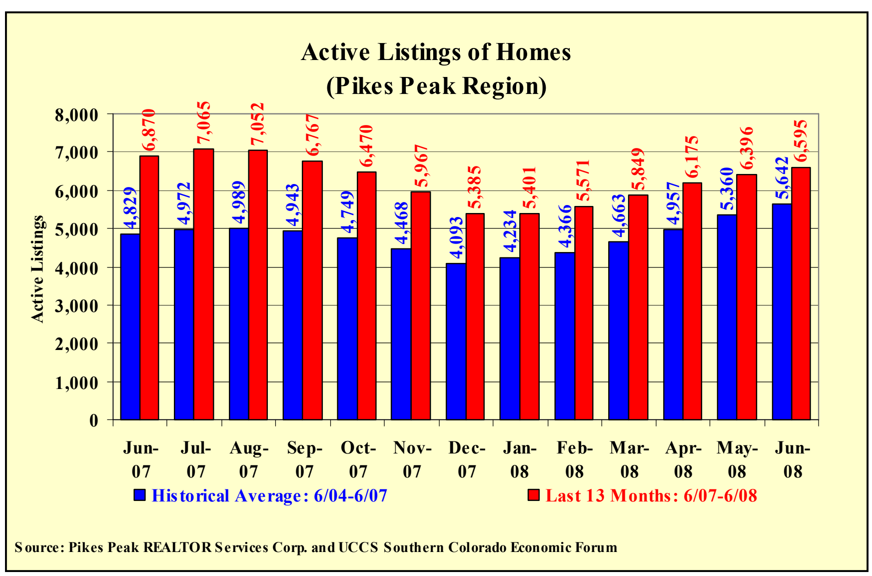
The Forum anticipated an increase in multi-family housing unit building activity in the second half of 2008. Multi-family housing unit permit activity not only caught up but actually surpassed the three year average. In fact, the number of units is now ahead of the normal number of units we would expect to see by November. Virtually all of the permits have been in the 80920 Zip Code (north of Woodmen). Additional multi-family permit activity is likely closer to the Fountain/ Security-Widefield area by the end of 2008 as BRAC05 troop arrival in 2009 approaches.



Single family home sales in the Pikes Peak Region continue to show a lack of strength relative to recent years. Part of this problem can be tied to the high level of foreclosures. Bargain shopping by prospective home buyers drove many to seek a foreclosed property. The effect was to diminish, somewhat, the role the MLS service plays in the number of real estate transactions.



The number of active listings in the region is now running below the year ago figures. It is not clear if this is the result of a stabilizing market or frustrated sellers pulling their homes off the market due to the lack of buyers in the housing market.



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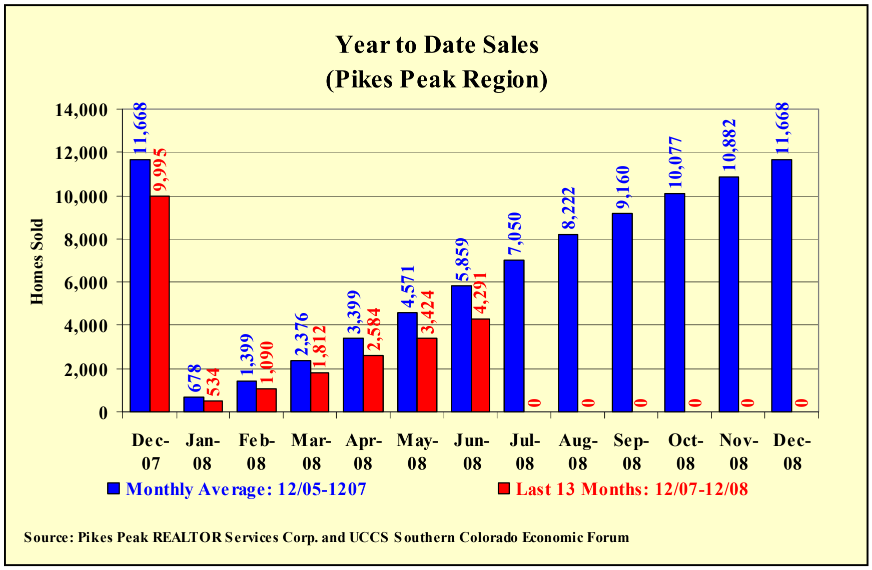
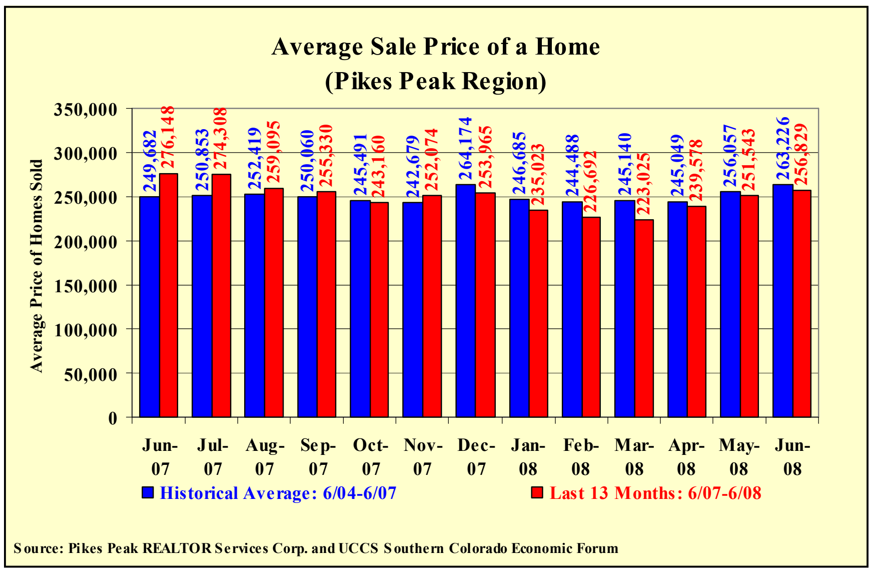
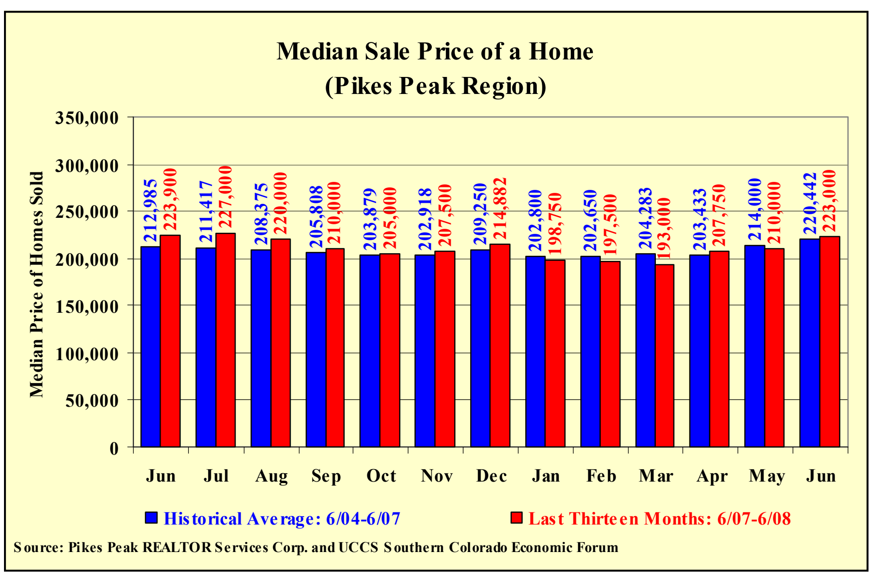
Despite lower mortgage rates, higher household income and the highest local housing affordability index in seven years, home sales are sluggish. Year to date residential sales ended 2007 well below the recent historical average (14% below). Weakness continued through June 2008 (down 27%). Strength in home sales may not return until consumer sentiment increases and concerns of job security in the current uncertain economy are abated.



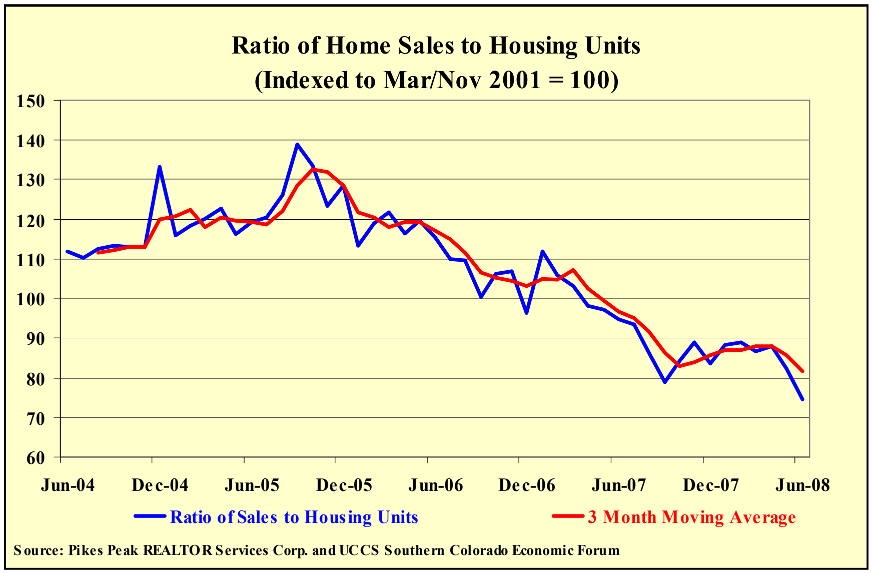
The average price of homes sold in El Paso County through the MLS service might be showing signs of improvement. The average price of homes sold (June 2007 to June 2008) declined 7 percent. This is a notable difference from the 12.5 Local same house sale prices continue to appreciate according the Office of Federal Housing Enterprise Oversight (OFHEO). Through March 2008, same house sale prices were up 0.3 percent compared to March 2007. OFHEO reported same house sale prices declined nationally by 3.1 percent over the same period.



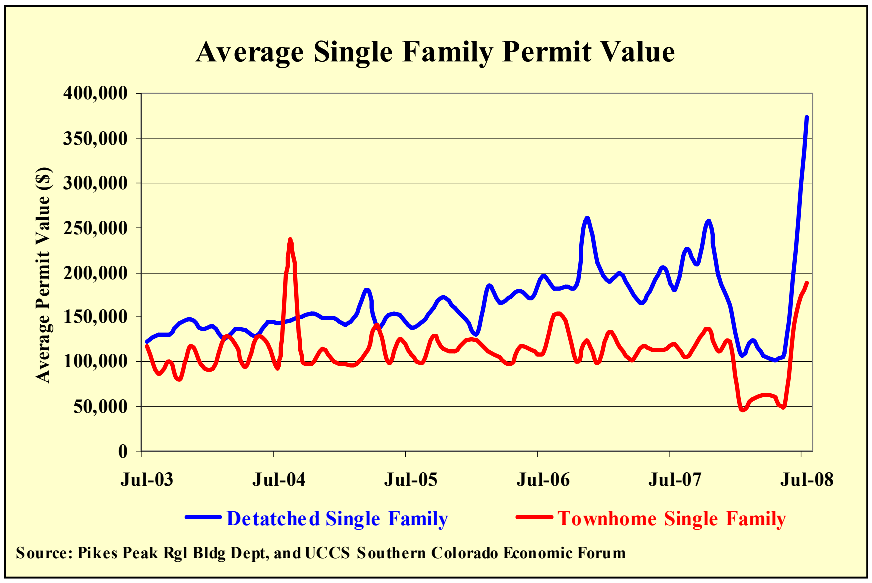
The median price of MLS facilitated home sales in the region was unchanged compared to a year ago. This is an improvement from the 7.2 percent decline from March 2007 to March 2008. Median sales prices have been trending down for several months. Difficulty obtaining jumbo mortgages contributed to softening housing prices. The Housing and Economic Recovery Act's higher conforming loan limit of $625,000 (up from $417,000) may help move median housing prices higher.



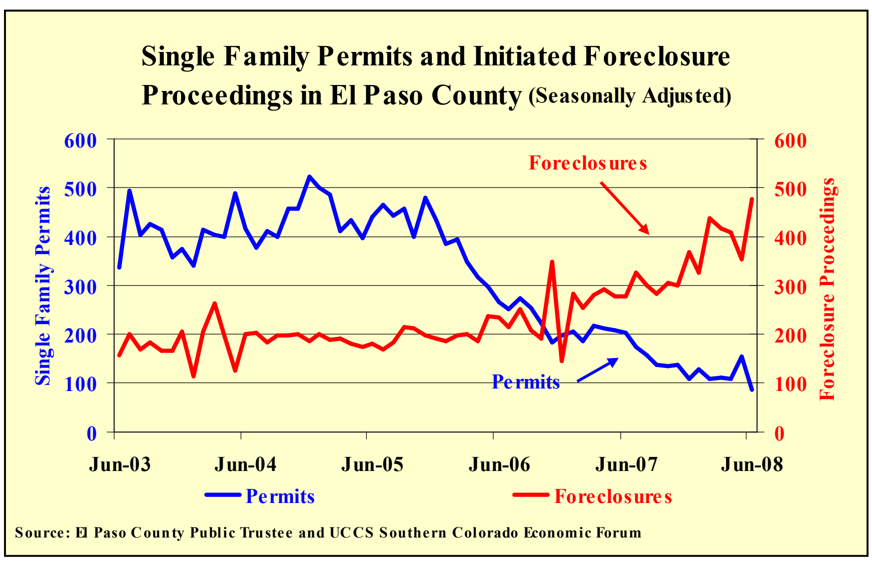
The Forum's index of home sales to total single family housing units appeared to have bottomed out in September 2007 at a value of 79. Gains had been made until the last couple of months. The June 2008 value is fell sharply 75 from its April value of 88. The index describes a buyer's market when its values is less than 100 and a seller's market when the value is greater than 100. The Forum believes it is a buyer's market. The false improvement in the index suggests the local housing market may struggle in the coming months. Equilibrium is expected to take 18-24 months to achieve.



Significant declines in permit values preceded the July 2008 sharp increase in permit values. According to data from Pikes Peak Regional Building, the average single family permit value for July 2008 was $373,195. A review of the data indicates square footage is similar (3,934 sq. ft. for July vs. 3,803 sq. ft. January-June). The data appear to have underlying errors which are not apparent to the Forum.



The Forum first pointed to the inverse relation between foreclosures and new single family permits at its 11th Annual Southern Colorado Economic Forum in October 2007. Evidence of the relationship continued through June 2008. Until the problem in foreclosures is resolved, single family construction is not expected to rebound significantly.



Multi-family Market

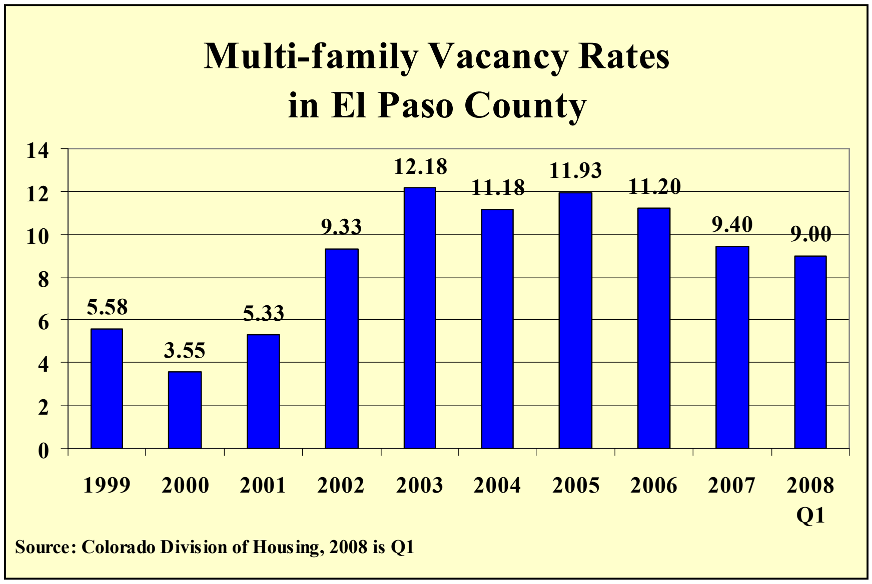
Multi-family vacancy rates continued their downward trend as of March 31, 2008. Vacancy rates are now running 9 percent.

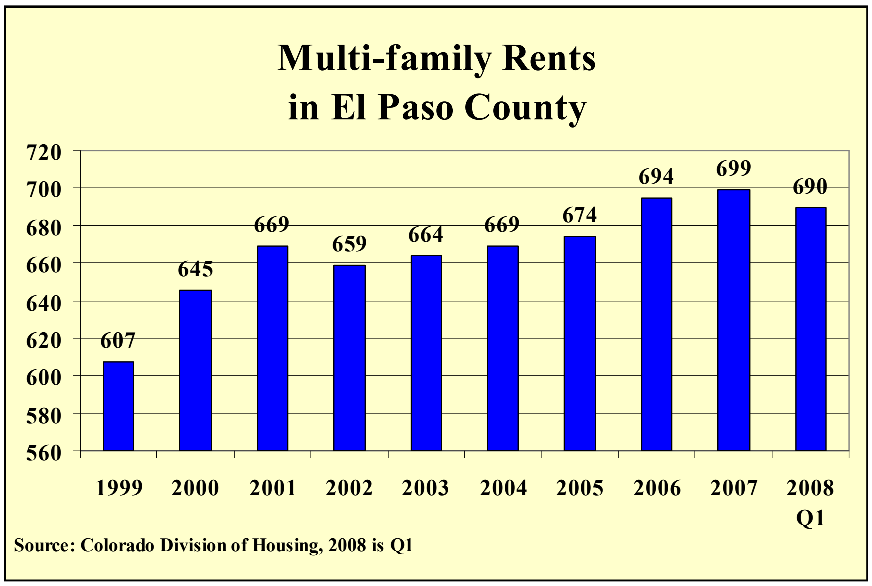
The market for multi-family housing in El Paso County began to show strength in 2005, despite the deployment of troops from fort Carson and the surge in home ownership that lasted into 2006. Recent decreases in the vacancy rate are believed to be a result of the growth in population, increase in foreclosures and only a modest increase in the number of multi-family units in the region.

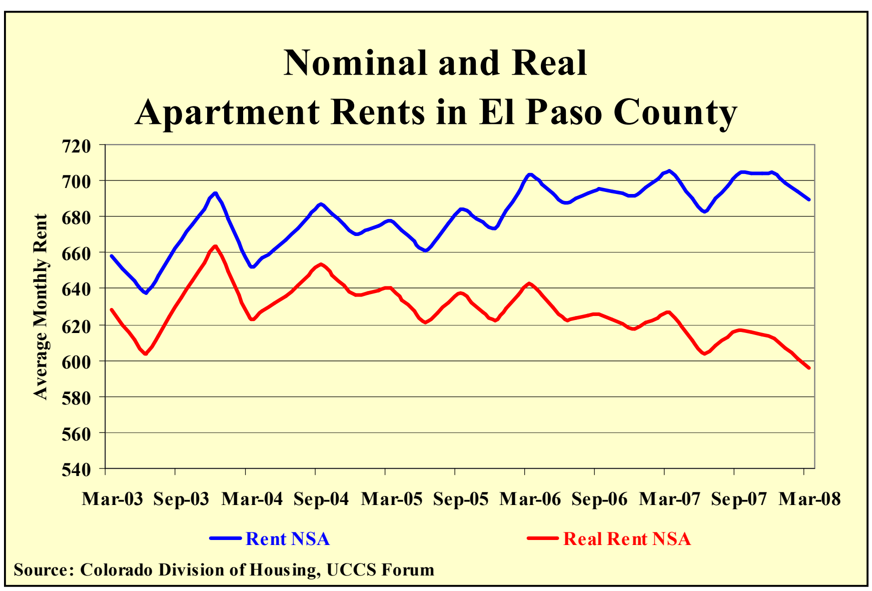
Rents in the region have been rising steadily since 2002. The 2007 average rent of $609 was just under the Forum's projection of $702 for 2007.

Despite the increase in nominal rents, real apartment rents were estimated to be $596 in March 2008 compared to $685 in September 2001. Alternatively stated, landlords are collecting 13 percent less real revenue per rented apartment than they did six years earlier.

The increase in new multi-family units and the modest increases in occupancy rates suggest real rents for multi-family units will remain weak through the next 6 to 9 months.





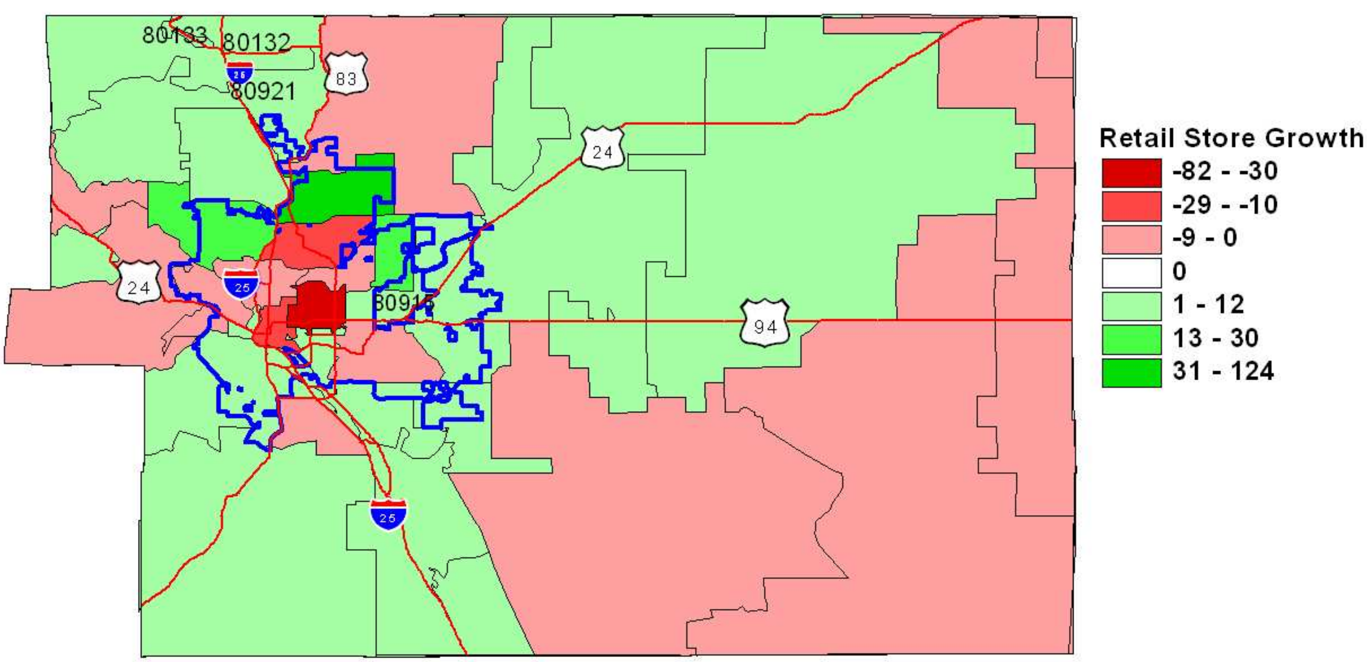


Commercial Activity

The Forum reported concerns about commercial occupancy activity for 2008. Consistent with that expectation, the June 2008 *Commercial Availability Report,* by Turner Commercial Research, reported total absorption decreased 162,690 square feet in the second quarter of 2008. Turner reports vacancy rates increased in every category compared to the same time a year ago. Somewhat paradoxically, rents increased in every category. As economic activity continues to slow, additional declines in commercial activity are expected over the balance of 2008. Rents are likely to peak and perhaps decline.

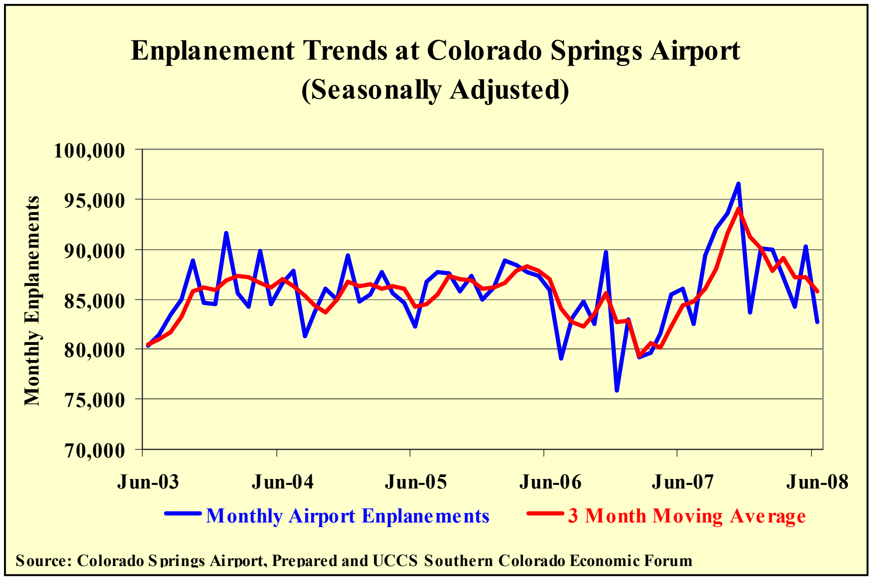
	Vacancy Rates			**Asking Rent (Sq Ft, nnn)**		
	June 2007	June 2008	Change	June 2007	June 2008	Change
CBD Office	7.8%	8.2%	0.4%	$12.02	$12.80	$0.78
CBD Class A Office	7.8%	8.3%	0.5%	$14.79	$15.89	$1.10
Metro Office	7.7%	10.1%	2.4%	$11.03	$11.38	$0.35
Metro Class A Office	11.6%	13.1%	1.5%	$13.80	$14.50	$0.70
Medical Office	6.2%	8.1%	1.9%	$12.19	$12.75	$0.56
Industrial Space	6.7%	9.7%	3.0%	$ 7.00	$ 7.09	$0.09
Shopping Centers	7.0%	7.4%	0.4%	$13.61	$13.81	$0.20

Growth in Retail Stores by Zip Code: 1998-2005

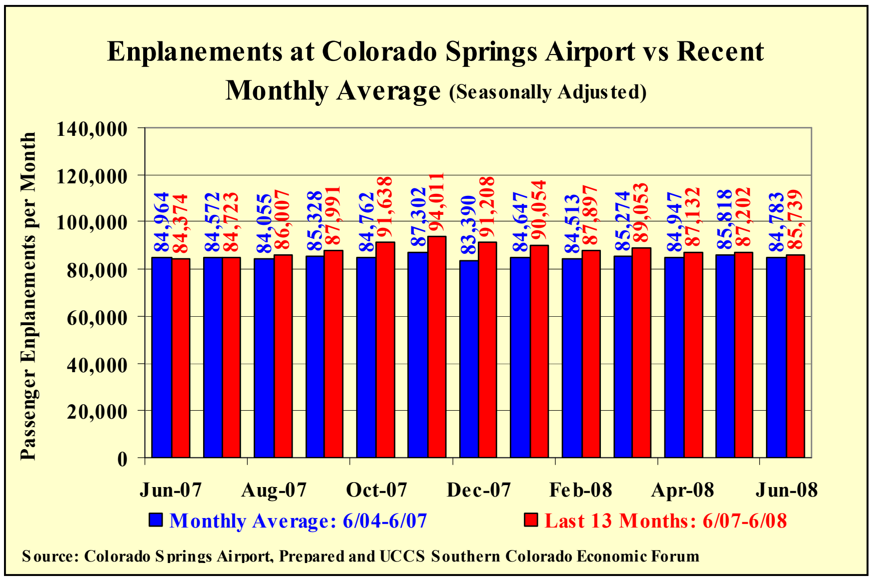


Colorado Springs Airport Trends

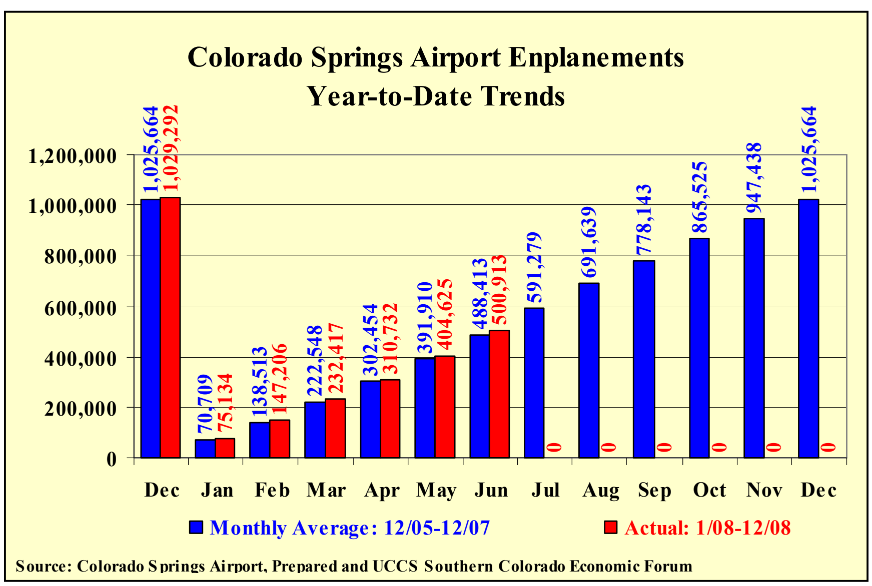
Recent weakness in the economy, higher effective airline ticket prices, declining discretionary income and decline in business activity have led to a recent decline in the number of enplanements at the airport. This is expected to deteriorate further in 2008 as some major carriers decrease flights in and out of Colorado Springs.



Monthly enplanement activity has been ahead of its respective, historical monthly activity since July 2007. The coincides with added service and completed runway repairs at the airport. Current economic indicators point to a general slowing in the economy. This is expected to affect the airport.



Airport enplanements in 2007 were about 3,600 higher than the recent historical average. Through June 2008, enplanements are about 12,000 higher than the recent average for the first half of the year. Increases in fares, declining consumer sentiment, and the general slowing of the economy are expected to contribute to a brief hiatus from the recent enplanement growth at the airport. Enplanements are not expected to growth in 2008. It is possible that enplanements will decline slightly later in the year if tourism declines in the economy and/or general busi-

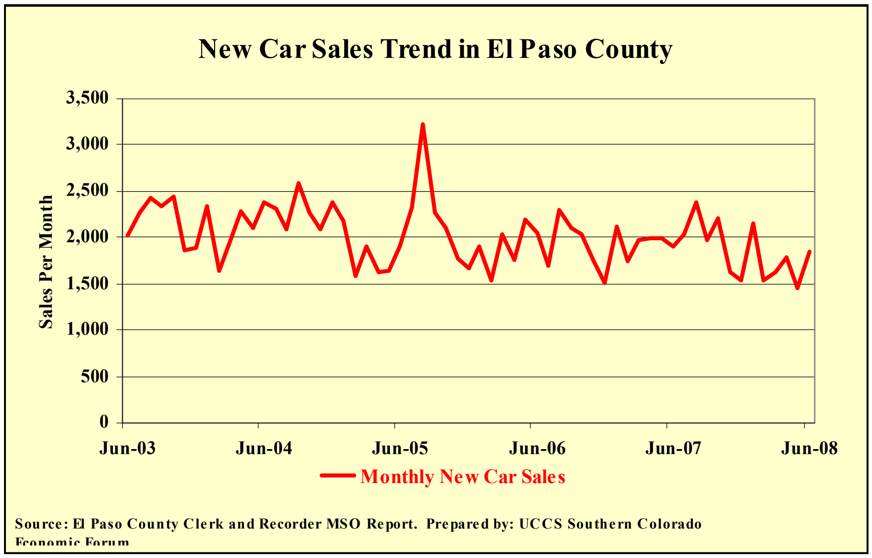


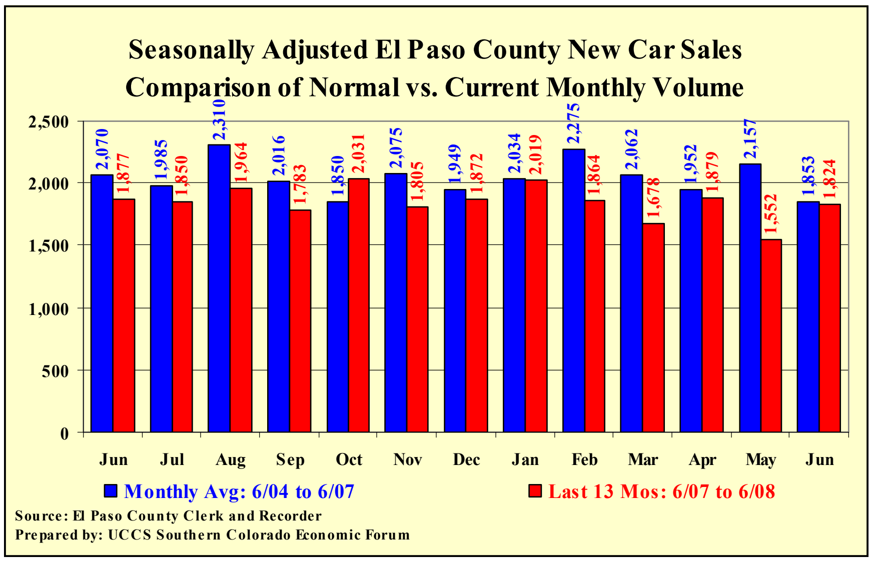
New Car Sales Trends

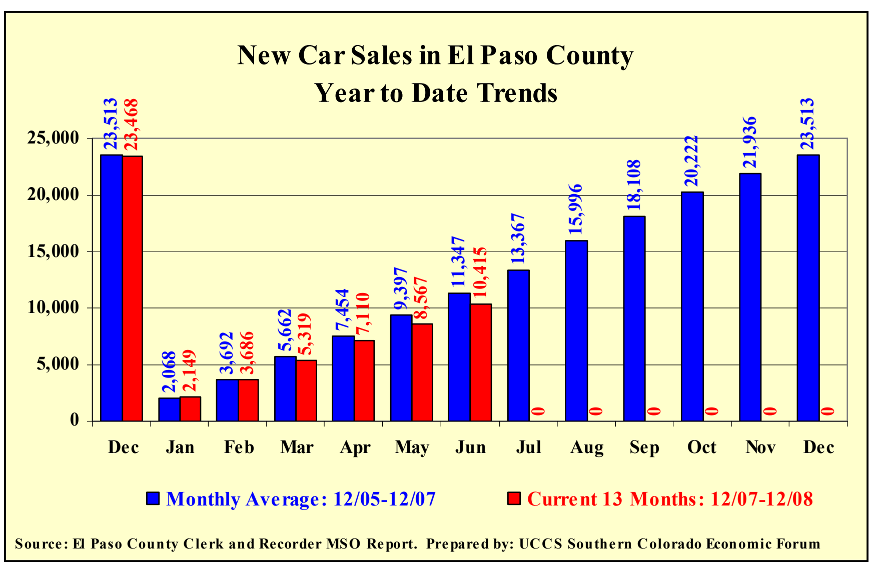
New car and light truck (car) sales and registrations in El Paso County have been declining. On an annualized basis, local sales and registrations for June indicate new car sales are expected to be about 26,700 units in 2008. This is approximately 1,500 fewer sales than in 2000, the last year before the recession. The Forum believes new car sales may fall even more in the last half of 2008 for two reasons. First, auto dealers are offering significant rebates and gasoline subsidies to new car buyers. These incentives are not expected to continue much longer. Second, the rapid rise of gasoline prices to approximately $4 a gallon in El Paso County as of July 15 will continue to deteriorate consumer sentiment and disposable income. Approximately 20 percent of the decline in sales is attributable to the deployment of troops from Fort Carson, rising gasoline prices, concerns about a recession and low consumer sentiment.

The second and third charts on this page compare the most recent thirteen months of car sales with their respective recent monthly average and year to date sales. Twelve of the thirteen months had sales lower than their respective monthly average. Aggressive rebates and incentives in June improved sales but failed to generate a current month that was higher than the average June sales for the last three years.

This vital sector of the local economy is not expected to show signs of improvement until the concerns about the economy are alleviated, Fort Carson's troops are no longer on extended deployments and the price of gasoline stabilizes. Demand for oil and gasoline in China and India will probably sustain high gasoline prices. Consumer sentiment will improve





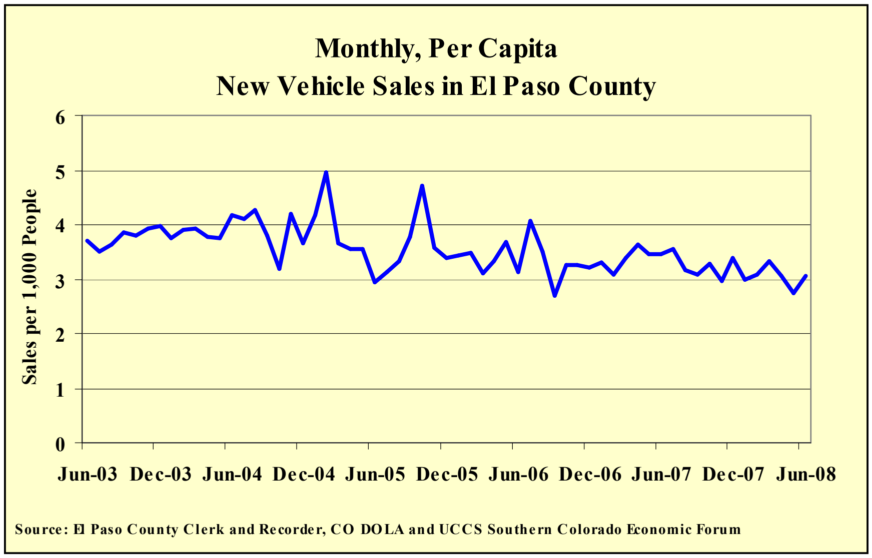


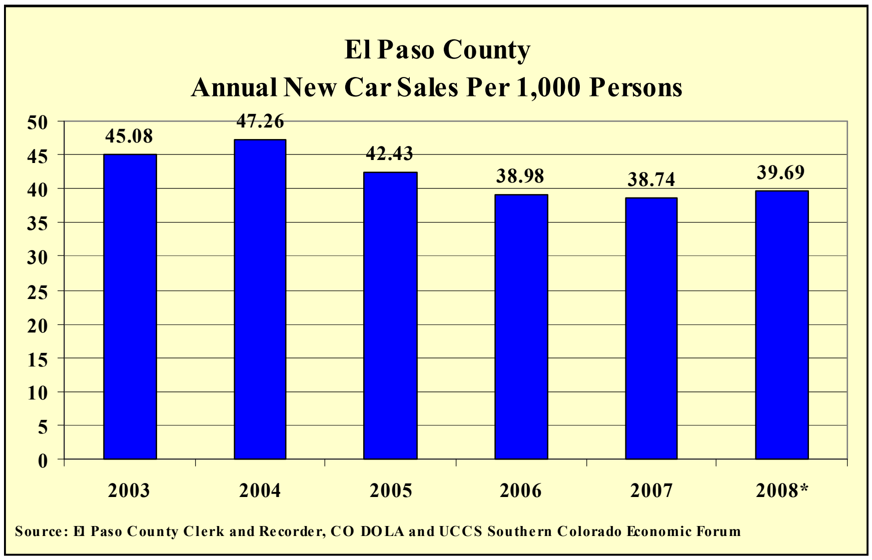
when trends in the national economy improve. Some improving trends are expected within nine months. A positive characteristic about Fort Carson is the expected arrival of about 10,000 more troops in 2009.

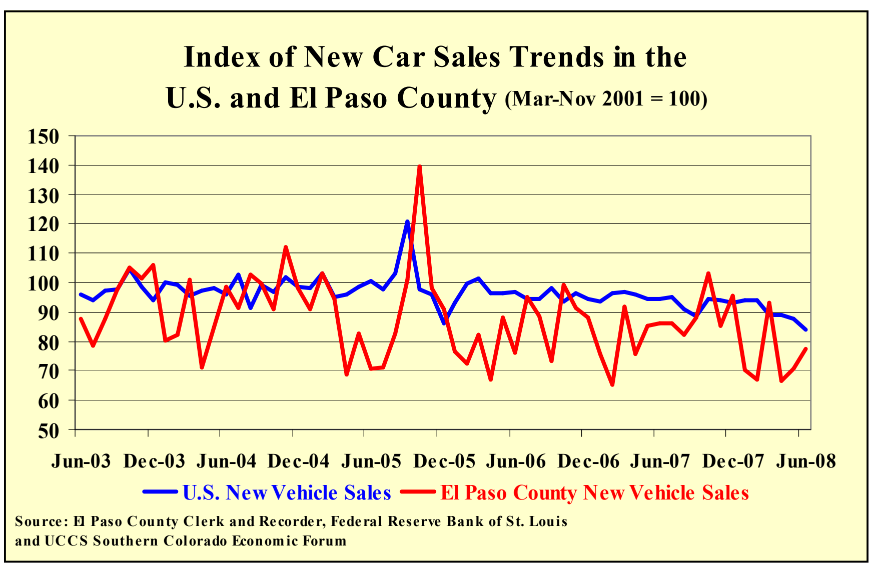
Per capita new vehicle sales have declined since 2004, roughly coincidental with the start of the deployment rotations from Fort Carson. On a monthly basis, per capita car sales are approximately 25 percent below their 2004 averages.

Annual, per capita new car sales in 2008 are expected to be approximately 16-20 percent below their recent peak of 47.26 in 2004.

The bottom chart shows the trend in new car sales in El Paso County is similar to the U.S. The saying used to be: “as goes GM, so goes the national economy.” Let’s hope that’s not true anymore.







Colorado Springs Sales Taxes The Forum's Perspective

The City of Colorado Springs sales tax collections appear to have peaked in 2007 after remaining ahead of 2006 revenues by less than 2 percent.

Sales tax collections for 2008 are running approximately 2.1 percent behind collections in 2007 (year to date).

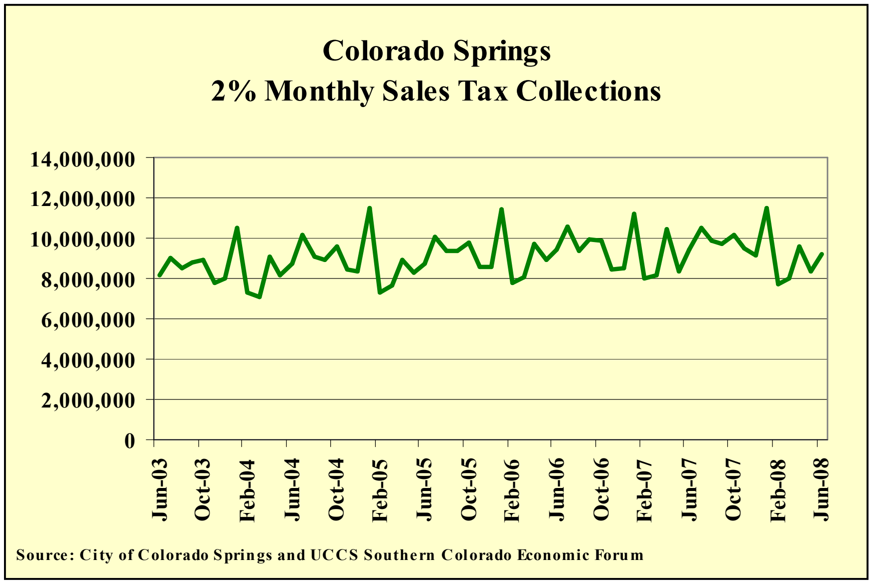
Monthly comparisons with the current and the average for the same month over the previous three years indicates sales tax collections for Colorado Springs has barely kept up with the monthly averages since January. Normal sales tax collections in the current year should be noticeably higher than the average of the prior three years.

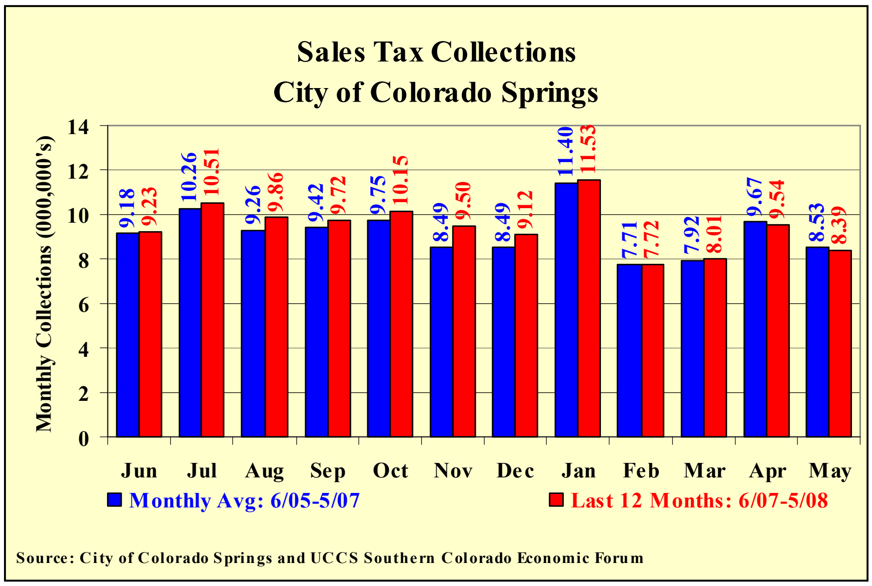
The bottom chart on this page shows annual per capital, sales tax collections, adjusted for inflation. The information has been indexed to 1998 = 100. This chart gives a better insight to the City's financial problem. Adjusting for inflation and population, the City's sales tax collections are 30.9 percent lower than they were in 1998.

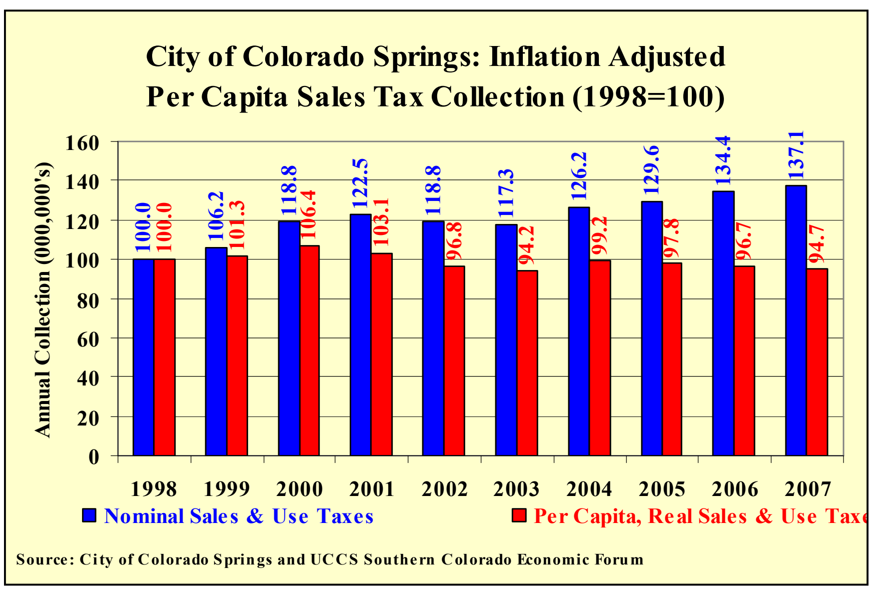
Four factors are contributing to the current problem. First, the economy has slowed.

Second, big box retailers have opened up for business in the "suburbs." Monument, Falcon, Fountain and Woodland Park host several new big box retailers such as Wal-Mart, Lowes, Kohl's and Home Depot. More are schedule to open in the suburbs soon. In addition to the big box retailers, numerous satellite retailers have opened near the big box stores.

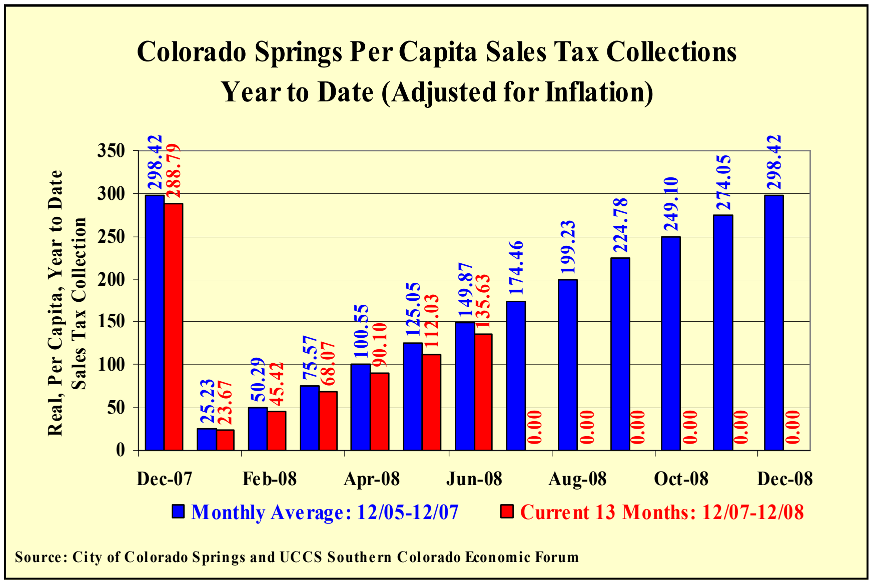
Third, the economic base in Colorado







Springs has lost numerous, high paying jobs. The replacement jobs brought more stable employment but pay lower wages.



Fourth, the internet's share of retail activity has grown steadily. Currently, it is about 3.5% of all retail sales. Barring a physical presence in a community, retail purchases made from out of state retailers, are not subject to local sales tax. This is not likely to change given the 5th Amendment landmark case of Quill v North Dakota (1992).

The Forum has repeatedly stated it believes the City will experience a TABOR ratchet down effect in 2008. At the current trend, it is very possible that the City will experience a ratchet down effect in 2009. If the City wants to prevent a further deterioration in its tax base, it needs to do three things. First, it needs to decrease its dependence on the extremely volatile sales tax revenue.

Second, more tax revenues need to be raised from other sources including property or local income taxes. If structured correctly, real, per capita tax collections would be revenue neutral for the City—i.e. the local citizens would not pay any more taxes. Total amounts paid through property or income taxes would be in lieu of sales taxes. Seniors on limited incomes could be protected through homesteading statutes. In an effort to control the local tax burden, TABOR inadvertently increased the Federal tax burden. The table to the right provides a comparison between the current tax structure and an alternative if all sales taxes were eliminated and replaced with a fully deductible, federal 1040 Schedule A tax such as property or local income tax. Assuming 150,000 households file in these manner, ***the example shows that the Colorado Springs residents may pay $75 million more in Federal taxes per year than necessary.***

	Current	Alternative
Income	40,000	40,000
Local deductible taxes	0	2,000
Taxable income	40,000	38,000
Federal Taxes (25%)	10,000	9,500
Local sales tax	2,000	0
Income after taxes	28,000	28,500
Bottom line advantage		500
Number of households		150,000
Total annual advantage		75,000,000

Third, the City needs to operate efficiently and develop a strategic plan to diversify and strengthen its economic base. The economic base must support stable job growth, provide good living wages and generate the tax revenues which are needed to maintain appropriate delivery of essential services. Recently, the Forum's staff finished a study using Colorado data in which they examined how a revised economic base might affect stable employment growth, increase income and not violate TABOR. The study incorporated the work of Wassily Leontief, 1973 recipient of the Nobel Prize in Economics, and Harry Markowitz, 1990 co-recipient of the Nobel Prize in Economics. The results indicate an optimal economic development policy could increase wages, provide stable job growth and maintain a tax base that would be less likely to experience a ratchet. All of this could be done without any violations to TABOR.

Under TABOR, no changes in the taxing mechanisms are permitted without voter approval. Local voting patterns suggest changes to the tax code have a better chance of being adopted if they have a sunset feature. Sunset statutes should be considered, when possible.

National Expectations

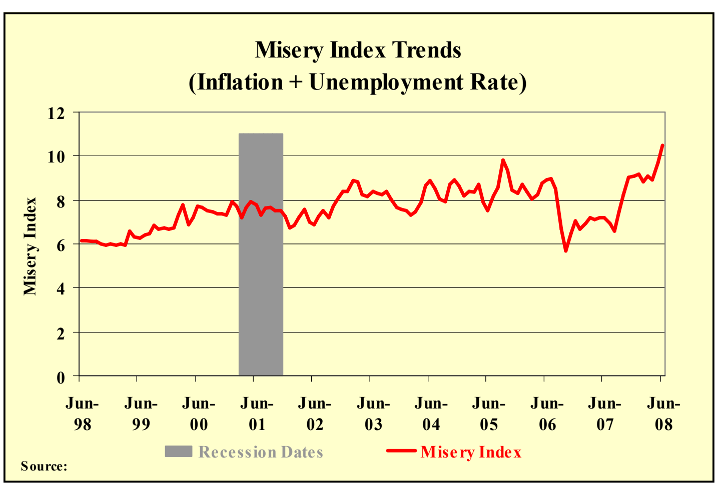
The Federal Reserve Bank of Philadelphia May 2008 *Survey of Professional Economists* turned significantly more pessimistic compared to the February 2008 survey. Real GDP growth is more conservative. The respondents overestimated nonfarm payroll employment in the first two quarters.

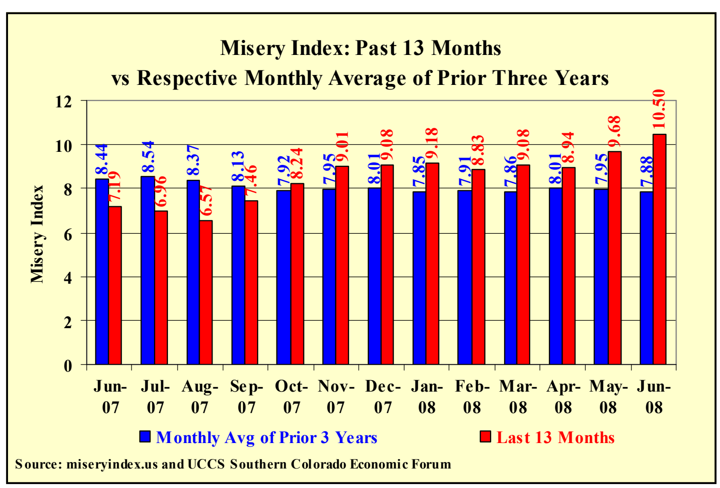
Other signs of weakness include higher inflation expectations, rising unemployment rates, extended weak to declining housing starts, modest gains in industrial production and nonfarm employment gains that reflect a weak economy throughout all of 2008. The weakness was accompanied by an increase in the likelihood of a recession in 2008.

Annualized Rate for					
	Q2-08	Q3-08	Q4-08	Q1-09	Q2-09
10-Year T-Bond Rate	3.7	3.8	3.8	3.9	4.1
3-Month T-Bill Rate	2.0	1.5	1.7	1.8	1.9
AAA Corp Bond Rate	5.5	5.5	5.4	5.5	5.6
Housing Starts Annualized Growth Rate %	-27.4	-2.3	5.9	15.9	30.8
Industrial Production Index	112.0	112.3	112.8	113.6	114.3
Inflation Rate %	3.5	3.2	2.5	2.6	2.4
Real GDP Growth %	0.2	1.7	1.8	2.3	2.5
Unemployment %	5.1	5.4	5.5	5.5	5.5
Employment Growth in Thousands					
Nonfarm Payroll Employment Growth (000's)	-45.0	-4.8	26.5	55.5	79.3
Nonfarm Payroll Employment Growth Percent Change	-0.4%	0.0%	0.2%	0.5%	0.7%
Recession Liklihood					
Median Probability of a Decline in Real GDP	50.0%	25.0%	30.0%	20.0%	20.0%
Mean Probability of a Decline in Real GDP	49.1%	28.7%	29.9%	24.3%	18.8%

Misery Index

The Misery Index, a consumer economic wellness measure, (www.miseryindex.us), defines consumer discontent as the sum of the rate of unemployment and the rate of inflation. The lower left figure illustrates the historical values for the last ten years through June 2008. Historically, the Misery Index tends to increase prior to a recession. With the exception of a rise in the Misery Index suring 1951, it correctly marked all recessions since World War II. The latest values of the Misery Index suggest the possibility of a recession. The current upward trend is similar to the rise in the Misery Index during the 1954 and 1990 recessions. The Misery Index trend suggest we may have begun a national recession in late summer to early fall of 2007. Remember, misery loves company





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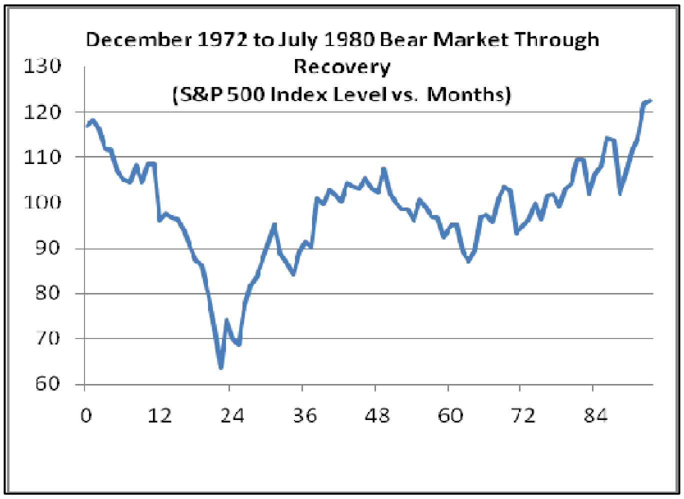
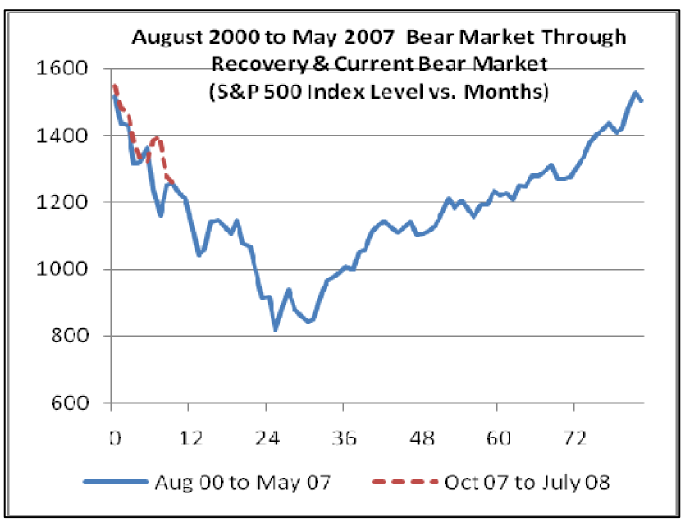
Bear Markets, Past and Present
By Tom Zwirlein, Director
Southern Colorado Economic Forum
(Note: This article first appeared in the Gazette on August 3, 2008)

What can we learn from past bear markets? A bear market occurred in 1973 and 1974 as a result of the 1973-74 Arab oil embargo (see monthly chart). During that time the middle-east OPEC countries agreed to embargo crude oil sales to Western nations. The S&P 500 began to decline slowly in December of 1972 and lost 10% alone in October 1973 when the embargo began. The market continued its fall until it reached 93.98 in March 1974 for a 20% decline, which is considered a bear market. The market declined more over the next 6 months to 63.54 for a total loss of 46% over the 21 month period. The market slowly recovered over the next 70 months until July 1980 when it was back to the December 1972 levels. The total duration from the start of the decline through a full recovery lasted 91 months or over 7.5 years.



The period covered a recession, a quadrupling of gas prices from 25 cents to more than a dollar per gallon, high inflation and high unemployment. During this time there was a push by Congress and the President for more energy exploration, the institution of motor vehicle gas mileage (CAFE) standards and the implementation of energy tax credits for developing or installing energy efficient devices. Automobile manufacturers began building smaller more fuel efficient cars. Remember the Chevy Vega and Ford Pinto? Households turned down thermostats and business reduced energy consumption. There was a push to alternative sources of energy such as wind and solar, more energy efficient appliances were introduced and other structural changes took place throughout the national economy. Do any of these reactions sound similar to today after seeing oil prices double over the last year?

A more recent bear market began in September 2000 after the S&P 500 hit its high of 1,517.68 (see second monthly chart). The market began a steady decline over the next 11 months until July 2001 when it was down 20%. The market continued to decline for the next 13 months until it reached a low of 815.28 in September 2002 for total decline of 46% over the 25 months. The market slowly recovered, taking 56 months through May 2007, before it was back above the September 2000 level. The total duration of the cycle from top to top was 81 months or 6.75 years. The causes of the drop during this market cycle include the dot com bubble, numerous accounting scandals, corporate greed and the attack on the World Trade Center.



Like most bear markets, the current bear market is the result of a continual barrage of bad news. The bad news included problems in the residential housing market in certain areas of the country, the overuse of exotic mortgages combined with loose credit standards which led to the subprime crisis, the resultant rise in mortgage defaults and foreclosures, the rise of energy prices, floods in the Midwest, credit tightening and the decline in consumer confidence and spending.

Inflation is an issue again especially in foods and energy. Economic activity has slowed, job losses are increasing and so is unemployment. A number of airlines are bankrupt or near bankruptcy. Discussions are occurring about reducing reliance on oil and switching to alternative energies. Plans to explore and develop more domestic supplies are being hotly debated. Congress, the President and business are considering opening more off-shore drilling areas, the Alaskan National Wildlife Refuge and other areas that were previously off limits. Individuals are rapidly switching to more energy efficient cars. How long will it take Detroit to respond?

The markets will continue to react to the structural shifts taking place in the American economy. If the past is any indicator, the market will continue to fall, perhaps for the next 6 to 18 months until the macro economy adjusts to the changes taking place and equilibrium is restored (see chart). The market will rebound but it may be a slow up-hill climb until the S&P 500 regains the 1,500 level. Ultimately, the economy will be better off. New technologies will develop to reduce our reliance on fossil fuels, business, government and individuals will learn to use energy more efficiently. We may even reduce greenhouse gas emissions in the process. Now is the time for investors to examine their portfolios with an eye towards the future. What will American business look like as the market rebounds? What companies stand to benefit after all of the turmoil in the market recedes? Are there good buying opportunities in the market right now in certain sectors of the economy? These are questions investors should be asking themselves.

Tom Zwirlein
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A Message from the Director

Certainly it's no secret that the regional economy slowed over 2007. Since our annual forum in October, many of the indicators we watch and report in this volume of the *QUE* suggest the economy slowed more in the first quarter of the year. We intend to watch the economy closely this year and will provide readers of the *QUE* with timely updates of the changing economy as it evolves. Stay tuned.

The Twelfth Annual Southern Colorado Economic Forum will be held on Friday, October 10, 2008 in the Antlers Hilton Hotel. Be sure to mark our calendar and plan to attend. Jim Paulsen of Wells Fargo is our keynote economist. Jim will cover the global and national economy while Fred and I take on the economy in the local area. Scott Smith, La Plata Communities and Fred Veitch, Norwood Development will join our panel to comment on the residential and commercial real estate market.

The forum partners are currently finalizing the program. This year the Holland & Hart Business Symposium panels will cover two important topics: 1) Colorado's Tax Policy, and 2) How to Create Better Public-Private Partnerships in the Pikes Peak Region.

To state that Colorado's tax policy is complex would an understatement. This year we have invited State Treasurer, Cary Kennedy and Chuck Berry, President of the Colorado Association of Commerce & Industry (CACI) and Alan Poe, CACI Board Chair and Holland & Hart to discuss these issues with our audience. I don't think you will want to miss this discussion.

Public-Private partnerships between local government and industry is not a new idea. However, some cities and some organizations seem to make it work better. An example of a recent successful public-private partnership in Colorado Springs is the combined public-private bid to keep USOC headquarters in the city. This year we have invited Denver Mayor John Hickenlooper, Bill Hybl of El Pomar Foundation and Bruce Benson, President of the University of Colorado to discuss how these partnerships can be developed and used to foster a stronger, more vibrant economy that will benefit citizens living in the Pikes Peak region.

We are also working on fund raising goals for the year. The Forum receives limited support from the University and relies heavily on its business partners to support salaries, events, equipment, data acquisition, marketing and research expense. When you think about it, the Forum is another example of a great public-private-partnership. If you are interested in supporting the Forum, we have a number of sponsorship levels ranging from a sustaining level of $1,000 through the platinum level at $10,000. We are proud of the fact that our sponsors stick with us and continue to partner year after year. They see the benefit of supporting our activities and realize their support of the Forum also supports the university and the business community. I have to thank our partners this year for helping to put together an outstanding program.

If you enjoy our annual Forum and the *Quarterly Updates and Estimates,* consider joining the partnership we have established between the College of Business and the greater business community. We are holding a reception for our partners on August 19th from 4:30 to 6:30 PM on the UCCS campus in Dwire Hall 204. If you are interested in hearing more about the benefits of a Forum partnership please plan to attend the reception. Just drop me a line at (tzwirlei@uccs.edu), provide a name and state you plan to attend the reception. I look forward to hearing from you.

Tom Zwirlein, Ph.D.
Faculty Director of the Southern Colorado Economic Forum
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Table 2: Selected Economic Indicators

National Quarterly Data			2007 Q3			2007 Q4			2008 Q1			2008 Q2	Vs Year Ago
Ttl Loans/Lease Charge-off Rate			0.61			0.75			0.97			na	0.47
Loan Delinquency Rate			2.13			2.47			2.83			na	1.10
Benefit Costs SA 2005=100			105.0			105.9			106.4			na	3.30
Compensation Costs SA 2005=100			105.6			106.4			107.3			na	3.40
Retail Sales SA (billions)			1012.1			1072.2			965.5			na	34.84
e-Sales SA (billions)			30.2			39.0			32.4			na	3.82
e-Sales as % of Retail Sales SA			3.0%			3.6%			3.4%			na	0.28%
GDP Real % Growth (Chained) SA			4.9%			0.6%			0.6%			na	0.00%
Consumer Debt to Disposable Inc			14.3%			14.3%			14.1%			na	-0.14%
National Monthly Data	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Vs Year Ago
Capacity Utilization SA	81.4	81.2	81.3	80.8	81.1	81.0	81.0	80.3	80.3	79.6	79.4	na	-1.60
Car & Lt Trk Sales Millions SA	15.2	16.2	16.2	16.0	16.1	16.2	15.3	15.3	15.0	14.4	14.3	13.6	-2.05
Consumer Sentiment (1966=100) SA	90.4	83.4	83.4	80.9	76.1	75.5	78.4	70.8	69.5	62.6	59.8	56.4	-28.90
CPI-U 1982-84=100 SA	207.7	207.7	208.5	209.1	210.9	211.7	212.5	212.6	213.3	213.7	215.1	na	3.81%
Federal Funds Rate (Effective)	5.26%	5.02%	4.94%	4.76%	4.49%	4.24%	3.94%	2.98%	2.61%	2.28%	1.98%	2.00%	-3.25%
Industrial Production (1997=100) SA	112.0	112.0	112.3	111.8	112.3	112.4	112.5	111.8	111.9	111.1	110.9	na	-0.45
Inventory/Sales Ratio SA	1.26	1.27	1.27	1.26	1.24	1.26	1.26	1.28	1.26	1.25	0.00	na	-1.27
30 Year Convential Mtg Rate NSA	6.70%	6.57%	6.38%	6.38%	6.21%	6.10%	5.76%	5.92%	5.97%	5.92%	6.04%	6.32%	-0.34%
Prime Rate (%) NSA	8.25	8.25	8.03	7.74	7.50	7.33	6.98	6.00	5.66	5.24	5.00	5.00	-3.25
Purch Mgr Index SA	52.30	51.20	50.50	50.40	50.00	48.40	50.70	48.30	48.60	48.60	49.60	50.20	-3.20
Real Rtl/Food Svc Sales SA (billions)	179.88	180.19	180.72	180.24	180.76	178.53	178.82	177.87	178.16	178.52	179.17	na	-0.46
S&P500	1,455	1,474	1,527	1,549	1,481	1,468	1,379	1,331	1,323	1,386	1,400	1,280	-223.35
Tech Index SA - Mar 2001 = 100	116.6	116.7	117.0	112.7	112.5	115.0	112.9	112.9	111.0	110.6	113.6	na	1.86
Trade Weighted Dollar	77.5	77.5	75.9	73.9	72.2	73.7	73.1	72.6	70.3	70.5	70.7	71.4	-7.51
West Texas Oil Spot Price NSA	74.2	72.4	79.9	86.2	94.6	91.7	93.0	95.4	105.6	112.6	125.4	133.9	$66.45
Colorado Data	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Vs Year Ago
Denver-Boulder CPI SA	-	-	-	-	-	204.38	-	-	-	-	-	207.55	3.12%
Colorado Purch Mgr Index SA	66.7	75.2	69.0	73.0	70.1	71.2	82.0	66.8	52.8	na	na	na	na
Labor Force NSA (000's)	2,731	2,723	2,740	2,740	2,745	2,741	2,743	2,739	2,745	2,743	2,746	na	75.56
Labor Force SA (000's)	2,709	2,715	2,724	2,729	2,735	2,739	2,760	2,758	2,767	2,766	2,766	na	72.39
Employment NSA (000's)	2,626	2,622	2,637	2,640	2,637	2,624	2,614	2,609	2,615	2,626	2,618	na	36.68
Employment SA (000's)	2,606	2,611	2,616	2,622	2,627	2,630	2,644	2,637	2,646	2,646	2,631	na	36.52
Unemployment Rate % NSA	3.8%	3.7%	3.8%	3.6%	3.9%	4.3%	4.7%	4.7%	4.7%	4.3%	4.7%	na	1.32%
Unemployment Rate % SA	3.8%	3.8%	4.0%	3.9%	4.0%	4.0%	4.2%	4.4%	4.4%	4.4%	4.9%	na	1.20%
Colorado Springs Data	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Vs Year Ago
Business Conditions Index SA	89.42	88.91	88.42	89.04	89.18	84.29	86.88	83.64	82.04	82.59	83.12	na	-13.39
Colorado Spgs Airport Boardings SA	82,582	89,339	92,053	93,524	96,455	83,643	90,063	89,985	87,110	84,300	90,195	82,722	-3,380
Foreclosures SA	325	301	284	307	299	369	326	437	418	409	353	477	200
New Car Sales SA	1,850	1,964	1,783	2,031	1,805	1,872	2,019	1,864	1,678	2,158	1,755	2,227	350
Sales & Use Tax SA (000's)	10,238	10,294	10,298	10,297	11,652	10,565	10,586	9,762	10,226	9,997	9,996	10,835	329
Single Family Permits SA	229	195	195	187	193	148	166	146	136	135	174	113	-145
Labor Force NSA (000's)	304.2	304.1	305.5	303.8	305.3	304.6	307.2	306.5	307.4	306.1	307.6	na	8.37
Employment NSA (000's)	288.1	288.3	290.9	287.4	290.3	289.9	293.7	294.0	294.3	293.1	290.1	na	2.84
Unemployment Rate NSA	5.3%	5.2%	4.8%	5.4%	4.9%	4.8%	4.4%	4.1%	4.3%	4.2%	5.7%	na	1.69%
Unemployment Rate SA	4.3%	4.3%	4.4%	4.5%	4.6%	5.1%	5.1%	5.3%	5.4%	5.3%	5.6%	na	1.57%

Estimates were made for the June 2008 Denver-Boulder CPI

About the Forum

The Southern Colorado Economic Forum (SCEF) is part of the College of Business outreach to the Colorado Springs Community. The Forum gathers, analyzes and disseminates information relevant to the economic health of the region. Through its efforts, the Forum has gathered a number of unique data sets. The Forum and its staff are available for fee-for-service work to analyze business situations, develop forecasts, conduct and analyze surveys and develop solutions to other business problems you may have. Examples of prior work include Small Area Forecast for the Pikes Peak Area Council of Governments, Colorado Springs Airport Passenger Survey, exit survey for La-Z-Boy, and a Community Audit for the Pikes Peak Workforce Center. If you would like additional information about how the Forum can assist you, contact Fred Crowley at (719) 262-3531 or e-mail at fcrowley@uccs.edu.

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Quarterly Updates and Estimates is a publication of the
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