



# Quarterly Updates and Estimates

Volume 1, Number 2, October 2002

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## Update on the Economy

The Colorado Springs economy appears to have turned sideways or slightly down from a stronger showing earlier this year. The local trend is consistent with the pattern in the national economy. Local good news has included a continued decline in unemployment and stronger than expected single-family housing construction. However, single-family construction is expected to decrease in the near term. New job announcements have been slow in coming and have not been at comparable wage and salary levels to the positions we lost over the last 18 months. Net in-migration is expected to be positive but perhaps only 50-60 percent of levels realized during the last ten years. Strong gains in new jobs are needed to help create the demand for new housing, be it trade-up ownership among local residents or new purchases by people moving to the area for employment opportunities. Mortgage rates are expected to rise in the near future. If rates rise, some entry-level homebuyers will not be able to afford the monthly payments and will be effectively priced out of the market. All-in-all, the short-term outlook for our economy is weak to slightly down for the next three to six months.

The economics of water rights and delivery are becoming real issues throughout the state. Despite having rights to water resources, Colorado Springs Utilities is having a difficult time arranging sufficient delivery to our growing region. It is estimated that delivery capacity is adequate for approximately five years of growth. After five years, growth may slow to a crawl due to an inadequate water delivery system. This problem may be aggravated if there is another below average snow-pack this winter. Insufficient water capacity may lead prospective firms to decide not to locate in El Paso County. The community is at a water management crossroads.

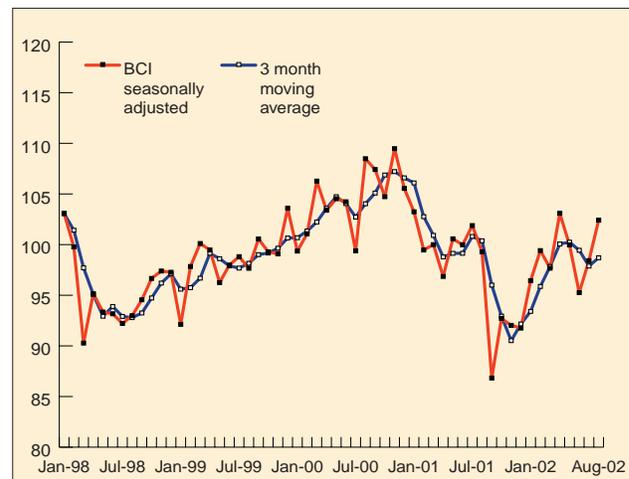
**Business Conditions Index.** The Business Conditions Index (BCI) has been expanded to include seven indicators. They are:

- Single-family and town home 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

- Enplanements at the Colorado Springs Airport
- Colorado Purchasing Managers Index
- National Consumer Sentiment Index

The BCI hit a bottom in December 2001 suggesting the recession was over in Colorado Springs. Strong growth across BCI's components drove the seasonally adjusted, moving average index up approximately 9 percent by May 2002. Since then, concerns about rising oil prices, a war with Iraq, increased pessimism among consumers, continued losses of high paying jobs in our area and accounting scandals that undermined pension values and investor confidence in the stock market have disrupted the recovery. Our economy has been drifting sideways to slightly down ever since. The Forum believes the economy and the BCI will continue to move slightly down over the next several months before we see a gradual and general improvement in mid 2003.

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



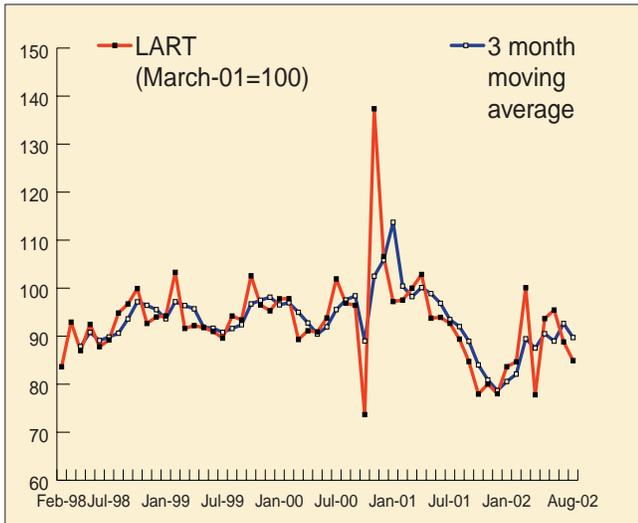
**Tourism.** The July issue of QUE predicted tourism for all of 2002 would be below 2001 levels. Regrettably, this appears to be holding true. Compared to a year ago, sales tax collections for lodging and auto rentals (LART) are down approximately 3%. Compared to the starting date of the recession (March 2001), LART is down approximately 10 percent. Tourism was hurt by visitor concerns about the drought and fears that "Colorado is on fire." The situation was further aggravated by macro concerns about oil prices, war with Iraq and a declining consumer confidence. As a result of





the stock market's anemic performance, people are realizing they will have to work longer before retiring. These concerns are not conducive to spending money on a vacation at this time.

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



**Single-Family Permits.** Not since the mid 1960's have mortgage rates been as low as they are today. Thirty year fixed mortgage rates of 6.25% have fueled demand for new entry-level housing in the area. Builders have responded to this demand and are producing homes at a pace that is expected to top 4,500 units this year. The Forum expects this bubble to burst for three reasons. First, mortgage rates are expected to increase which will reduce the demand for entry-level housing. Second, although the Economic Development Corporation reports much improved activity levels, significant numbers of new jobs are not expected in the short term. Net in-migration is slowing. Third, high apartment vacancy rates will drive rents down even more and will absorb short-run population increases at the expense of new residential housing. Based on the data, it appears that new single-family housing unit construction peaked and is likely to be heading down over the next several months and into early 2003.

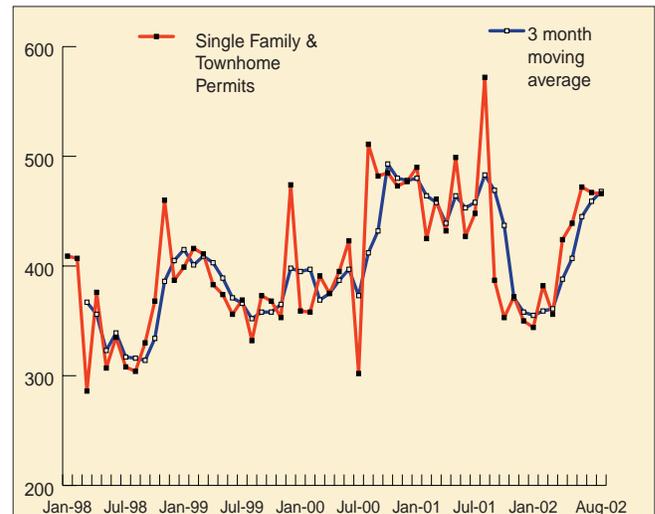
**Multi-Family and Commercial.** New multi-family housing construction has finally slowed. Vacancy rates among multi-family units are running 8-9 percent. The highest vacancies are in the northeast and northwest areas of Colorado Springs. Employment losses along the Garden of the Gods corridor suggest vacancies in the northwest will continue for some time to come. Vacancies in the northeast will continue due to relatively high rents in this area of the city, recent new multi-family construction and the general decline in

the region's economy. Gradual reductions in multi-family vacancies will take place as mortgage rates increase, new jobs are announced, and net in-migration to the area increases. Doug Carter's apartment survey reports area rents are down, on average, 7.2 percent compared to a year ago.

The commercial sector is not showing signs of recovery. Palmer McAllister reports office vacancies and rents are stable for the second quarter compared to the first quarter. Year to date, absorption is -59,242 square feet. Industrial vacancy rose to 9 percent in the second quarter. Shopping Center space continues to be stronger than Office or Industrial space with rents in the \$9-13 a square foot range.

Market	Year to Date Absorption	Vacancy	Rent (sq. ft. Triple net)
Office	-59,242	12.1%	\$12.29
Industrial	-400,457	9.0%	≈8.10
Retail	71,322	7.6%	≈11.00

**Single Family Permits in El Paso County  
 Seasonally Adjusted**

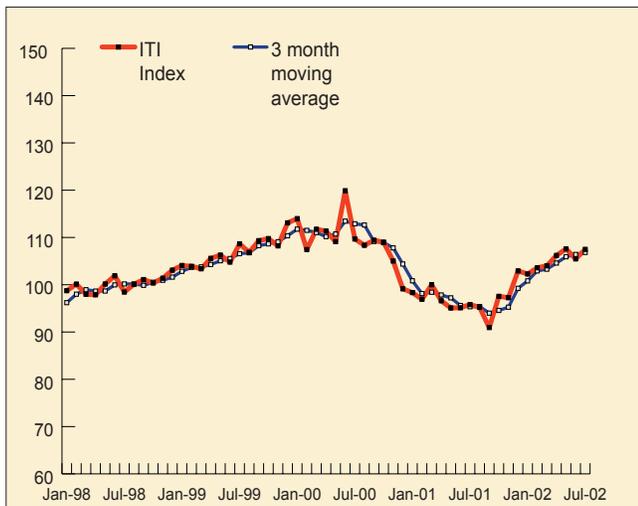


**Information Technology News.** The information technology industry began a strong recovery at the national level in December 2001. By July, the index was up approximately 7.7 percent. The most recent data suggests that technology may be pausing and possibly head down in the next several months. The recovery pattern has not been felt in Colorado Springs. Surplus capacity in chip manufacturing along with weak domestic and international demand for finished electronic components are preventing a recovery among local producers. Rising concerns about overseas incentives are cause for further trepidation about these valued technology employers.





**Information Technology Index**  
 (ITI: March 2001=100)



**Expectations**

Nationally, economists have turned slightly more conservative since the July QUE was published. Expectations have been lowered according to the Federal Reserve Bank of Philadelphia’s survey of professional forecasters.

	2002	2003
GDP (growth)	2.3%	3.0%
Inflation	2.3%	2.3%
Unemployment	5.9%	5.7%

Concerns were expressed in the July QUE that rising oil prices, unemployment levels, terrorist threats and actions, and the need to restore confidence in financial reporting and the stock market would hinder the national economy from recovering quickly. Will a slow national economy create a situation in Colorado Springs similar to the late 1980s? Circumstances are different in Colorado Springs than they were in the late 1980s when we experienced net out-migration and a decline in our housing values. This time, the entire nation is undergoing a crisis. The “As long as I am not working, I might as well not work in Colorado Springs” is preventing an exodus of a critical mass of highly educated workers. This may not hold if other regions experience a rapid recovery and we do not. Such a scenario would put pressure on sales of existing homes. The Colorado Springs recovery is expected to lag the national recovery. If there is a prolonged period without a recovery in our area, we might experience a loss of some very talented and well-educated workers. Beyond economic incentives, this may put us at a competitive disadvantage with other communities as we strive to reestablish a strong economic base.

**The QUE**

Did you enjoy this edition of the QUE? Are you interested in receiving future editions? If so, please send an e-mail to either Tom Zwirlein at [tzwirlei@uccs.edu](mailto:tzwirlei@uccs.edu) or Fred Crowley at [fcrowley@uccs.edu](mailto:fcrowley@uccs.edu). In your message, provide us with your name, place of employment, address, e-mail address, and phone number. We will put you on our e-mail list to receive future QUE’s electronically in PDF format.

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*Quarterly Updates and Estimates* is a publication of  
 The Southern Colorado Economic Forum  
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 College of Business and Administration and  
 Graduate School of Business Administration  
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 Colorado Springs, CO 80933-7150

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**Table 1: Selected Economic Indicators**

	Sep-01	Oct-01	Nov-01	Dec-01	Jan-02	Feb-02	Mar-02	Apr-02	May-02	Jun-02	Jul-02	Aug-02	vs July/Q2 2001
<b>National Quarterly Data</b>													
GDP Real Annual Growth (Chained SA)	-1.33%			1.65%			5.00%			1.10%			2.10%
e-Sales NSA (\$billions)	8.24			11.18			9.88			10.243			24.2%
e-Sales as % of Retail Sales NSA	1.10%			1.30%			1.30%			1.20%			20.0%
Employment Cost - Benefits	164.7			166.8			168.6			170.9			5.2%
Employment Cost - Compensation	155.7			157.3			158.7			160.4			4.0%
<b>National Monthly Data</b>													
Capacity Utilization (all industry) SA	75.50	75.00	74.70	74.40	74.80	75.00	75.20	75.30	75.60	76.00	72.60	76.00	-0.9%
Car & Lt Trk Sales Annualized SA	16.04	21.10	17.61	16.39	15.93	16.53	16.57	17.19	15.57	16.28	18.06	18.58	-0.5%
Consumer Sentiment SA (1966=100)	81.80	82.70	83.90	91.25	92.10	90.65	96.46	92.34	95.70	91.50	87.70	87.50	-1.0%
CPIU 1982-84=100	178.10	177.60	177.50	177.30	177.60	178.00	178.60	179.50	179.50	179.70	179.90	180.50	1.4%
Discount Rate (%)	2.77	2.02	1.58	1.33	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	down 2.0
Industrial Production	138.46	137.67	137.24	136.68	137.56	138.13	138.59	139.78	139.42	140.29	140.90	140.54	-0.1%
Inventory/Sales Ratio	1.45	1.39	1.39	1.39	1.38	1.39	1.38	1.35	1.36	1.36	1.35	na	-4.2%
Mortgage Rate 30 Year Conventional %	6.82	6.62	6.66	7.07	7.00	6.89	7.01	6.99	6.81	6.65	6.49	6.29	down 0.8
Prime Rate	6.28	5.53	5.10	4.84	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	down 2.0
Purch Mgr Index	46.20	39.50	44.70	48.10	49.90	54.70	55.60	53.90	55.70	56.20	50.50	50.50	28.0%
Retail & Food Service Sales SA (billions)	285.01	302.77	295.04	295.23	294.85	296.47	296.20	299.64	296.57	300.63	303.92	306.21	3.6%
Technology Index SA - Mar 2001 = 100)	90.95	97.55	97.26	102.92	102.27	103.59	104.00	106.19	107.58	105.47	107.48	na	10.1%
West Texas Oil Spot Price Barrel	25.88	22.21	19.67	19.33	19.67	20.74	24.42	26.27	27.02	25.52	26.94	28.28	-3.5%
<b>Colorado Data</b>													
Colorado Purchasing Mgr Index	40.94	44.76	36.33	47.22	57.00	66.74	63.77	60.26	54.32	43.05	47.42	58.60	-10.5%
Labor Force NSA (000's)	2,301.8	2,309.0	2,318.0	2,321.3	2,379.7	2,386.0	2,347.2	2,333.7	2,344.1	2,394.8	2,385.2	2,394.9	4.5%
Employment NSA (000's)	2,207.9	2,206.0	2,205.6	2,202.6	2,244.9	2,248.9	2,212.0	2,211.1	2,229.6	2,266.0	2,262.3	2,276.0	2.6%
Unemployment Rate NSA (%)	4.08	4.46	4.85	5.12	5.67	5.75	5.76	5.25	4.89	5.38	5.15	4.96	Up 1.3
Unemployment Rate SA (%)	4.10	4.50	4.90	5.10	5.60	5.70	5.60	5.30	5.20	5.00	5.20	5.10	Up 1.4
<b>Colorado Springs Data</b>													
Business Conditions Index SA	86.83	92.70	92.03	91.76	96.44	99.41	97.67	103.09	99.97	95.26	98.42	102.41	-6.5%
Colorado Springs Airport Enplanements	66,811	77,728	81,885	83,942	90,155	91,559	90,150	92,794	94,120	89,873	90,026	86,681	-5.1%
Single Family Permits SA	387	353	372	350	344	382	356	424	439	472	467	466	5.2%
Sales and Use Tax for Month SA (000's)	9,009	9,263	9,310	8,677	8,806	8,679	8,661	8,983	9,322	9,185	9,131	9,462	-12.9%
New Car Sales SA	1,981	2,543	2,661	2,070	2,289	2,212	2,094	2,651	2,097	1,938	2,350	2,527	-17.0%
Labor Force NSA (000's)	266.52	268.85	269.81	269.28	272.72	272.12	271.19	268.06	269.82	277.11	274.59	275.05	4.0%
Employment NSA (000's)	253.03	255.10	254.53	254.17	254.37	254.15	253.44	252.04	254.99	259.92	257.85	259.41	2.3%
Unemployment Rate NSA (%)	5.06	5.12	5.66	5.61	6.73	6.60	6.55	5.98	5.50	6.20	6.10	5.69	up 1.0
Unemployment Rate SA (%)	5.04	5.45	5.93	6.39	6.49	6.64	6.32	6.22	6.07	5.22	5.70	5.54	up 1.2

