



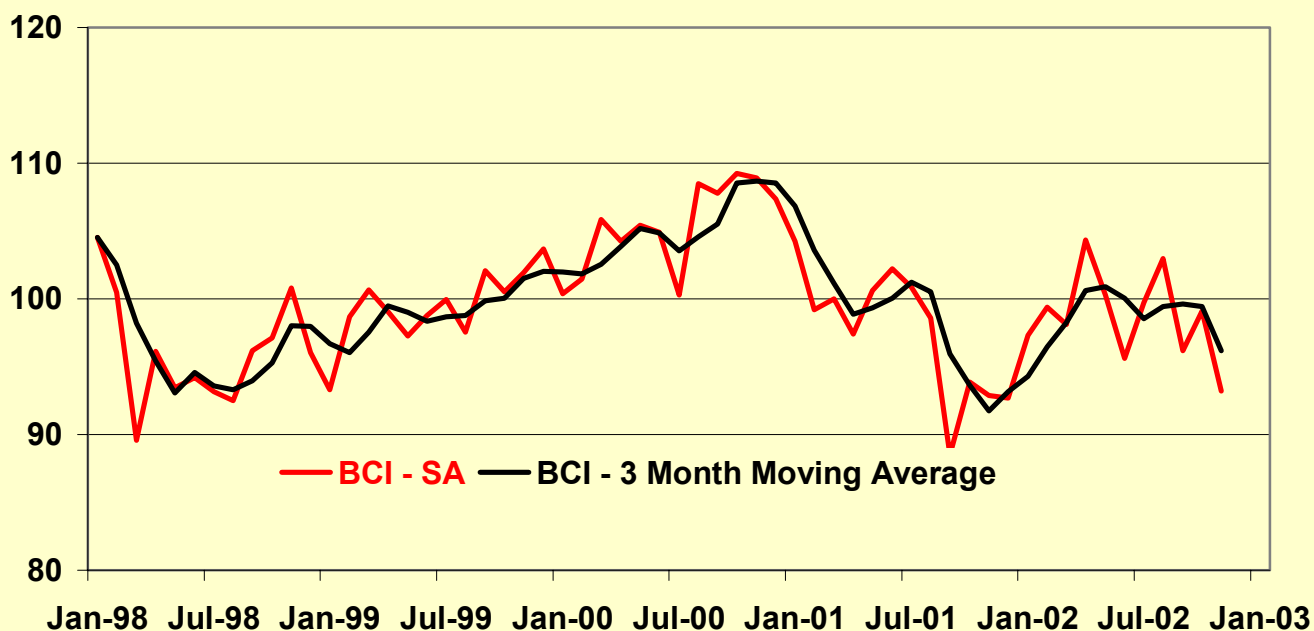
# Quarterly Updates and Estimates

Volume 1, Number 3, January 2003  
Fred Crowley - Senior Economist

## Update on the Economy

There appears to have been a downturn in the Colorado Springs economy in the last quarter of 2002. In our last report, we had expected the economy to remain somewhat flat and show some signs of bottoming in the final quarter of 2002. The Quarterly Updates and Estimates (QUE) Business Conditions Index (BCI) now stands at its lowest level since December 2001. The BCI as of the end of November stood at 93.19 (March 2001 = 100).<sup>1</sup> With the exception of the Colorado purchasing managers index, all inputs to BCI either declined or remained unchanged. For example, single-family permits and new car sales declined by 22.22% and 13.00%, respectively, in November.

**Figure 1: Colorado Springs Business Conditions Index (BCI: March 2001 = 100)**



<sup>1</sup> BCI is a geometric index of seven seasonally adjusted data series. The seven series are single-family and town home permits in El Paso County, Colorado Springs sales and use tax collections, El Paso County new car sales, El Paso County employment rate, Colorado Springs Airport enplanements, Creighton University's Purchasing Managers Index for Colorado, University of Michigan's Consumer Sentiment. BCI is indexed to March 2001 = 100. All series are seasonally adjusted by UCCS Southern Colorado Economic Forum using Department of Commerce X12 adjustment process.



**Business Conditions Index SA**  
**Components and Recent Trends (March 2001 = 100)**

	Enplanements	Single-family Permits	Consumer Sentiment	PMI	Employment Rate	2% Sales & Use Tax	New Car Sales	BCI
Nov-01	86.97	82.82	91.73	85.57	97.52	91.99	117.69	92.90
Dec-01	88.76	75.92	99.05	114.57	97.03	91.30	86.74	92.69
Jan-02	95.34	74.66	100.50	137.66	96.95	90.04	96.05	97.30
Feb-02	93.83	82.90	98.26	154.85	96.84	89.80	92.97	99.37
Mar-02	92.99	77.32	104.54	146.47	97.15	92.96	87.93	98.10
Apr-02	95.32	91.90	102.56	142.62	97.31	96.51	111.82	104.33
May-02	97.10	95.05	103.14	130.48	97.47	95.14	88.41	100.26
Jun-02	92.91	101.39	99.87	102.54	98.26	94.72	81.35	95.61
Jul-02	94.17	99.59	96.67	113.78	97.78	98.30	98.90	99.72
Aug-02	91.22	93.77	96.35	138.32	97.87	103.81	106.06	102.98
Sep-02	89.26	80.09	94.36	132.23	97.69	88.43	98.95	96.20
Oct-02	90.42	90.34	92.05	120.22	97.43	106.38	100.13	99.09
Nov-02	85.36	70.00	92.05	129.44	97.41	101.59	86.64	93.19

Enplanements and Sales & Use Tax Collections also declined in November, 5.6% and 3.8%, respectively. Consumer sentiment, although unchanged from October, has been on the decline since April 2002. Currently, employment appears to have stabilized somewhat. However, some end-of-year layoffs may negatively affect this component and the BCI in the next several months. The loss of 150 jobs at Agilent in November has yet to be felt in the economy. The loss of 500 WorldCom jobs in December has yet to be included in the unemployment data.

National concerns about war with Iraq, weak consumer sentiment, rising oil prices, higher unemployment rates have all contributed to a weak national economy. Our local primary employers need a strong national economy, and to some extent a strong international economy to drive them. Assuming we avoid further terrorism and a war with Iraq, it is anticipated we will see the start of another national recovery in six months. This was the Forum's position in October 2002.

Troop deployments from Fort Carson to the Gulf region, whether there is a war or not, will put a drag on the local economy. The Forum has made a preliminary, worst case estimate of the lost income

to our community for different deployment levels over a six-month period.<sup>2</sup>

Deployment	Lost Income
1,000	\$24,388,086
2,000	48,776,173
4,000	97,552,346
6,000	146,328,519

Local economic recovery will be slowed if there is a prolonged deployment. For instance, we expect apartment vacancies to increase in the southern part of the city since many of the soldiers do not live on base. Eating and drinking establishments, grocery, and other retail establishments will all suffer from a longer troop deployment.

### Housing

**Existing Home Sales.** Pikes Peak Association of Realtors reported 9,756 home sales in 2002. On average, the homes were on market for 54 days and sold at 98.1% of the listing price. Average and median prices for home sales over the period 1997 to 2002 are:

<sup>2</sup> An average salary of \$34,593 was assumed along with a local military final demand multiplier of 1.41. The Forum appreciates the help of Wayne Heilman and the Gazette for providing the raw data.



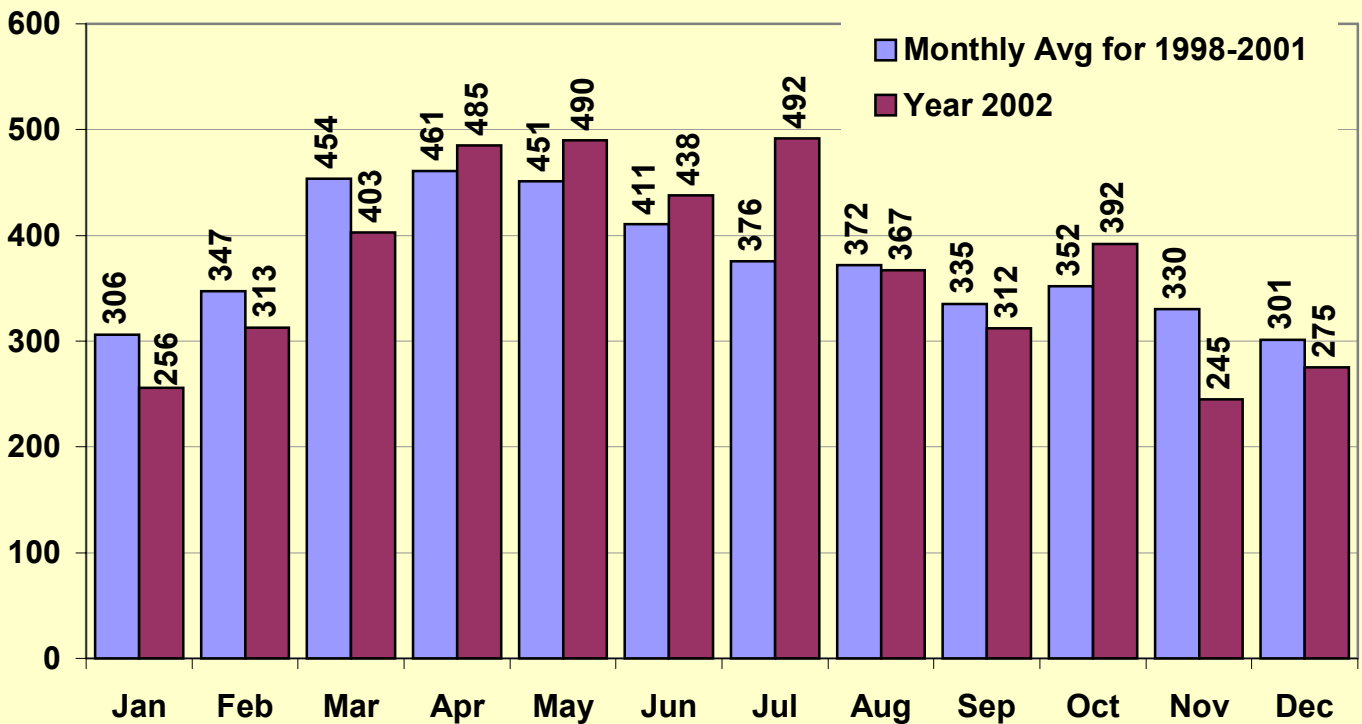
Year	Average Price	Median Price
2002	\$212,241	\$179,250
2001	200,747	173,000
2000	200,498	145,000
1999	180,589	134,000
1998	166,091	127,000
1997	145,534	122,500

Since 1997, the average and median compound housing price appreciation has been approximately 7.8% and 7.9%, respectively. During the same period, the S&P 500's compound annual rate of return was -1.94%. The compound annual return for the NASDAQ was -3.19%. The local housing market has significantly outperformed the stock market over the last several years. Many believe the continued strength and recent growth in housing prices has been driven mostly by the sub 6%, 30-year conventional mortgage rates we have seen

over the last year. An expected rise in mortgage rates beginning in the latter portion of 2003 will test the strength in both demand for housing and in housing prices over the next couple of years.

**Single-Family Permits.** Despite the losses in jobs and a significantly slowing net migration pattern to El Paso County, single-family construction exceeded our expectations for 2002. In Figure 2, single-family, monthly permits for 2002 are compared with the average monthly permits over 1998-2001. The lack of new job announcements, an expected decline in net in-migration and the potential for higher mortgage rates will all contribute to a material decline in single-family residential building permit activity in 2003. Based on the Forum's seasonally adjusted, annualized data for August 2002 through January 21, 2003, we have revised our projections of single-family permits for

**Figure 2: Monthly Single Family Permits for 2002 vs. Monthly Averages for 1998-2001**





2003 to a maximum of 3,596. This is a decline of approximately 20% from 2002 and approximately a 30% decline from 2001. Weak employment and new job growth may reduce single-family permit activity further to perhaps 2,800-3,000 for 2003.

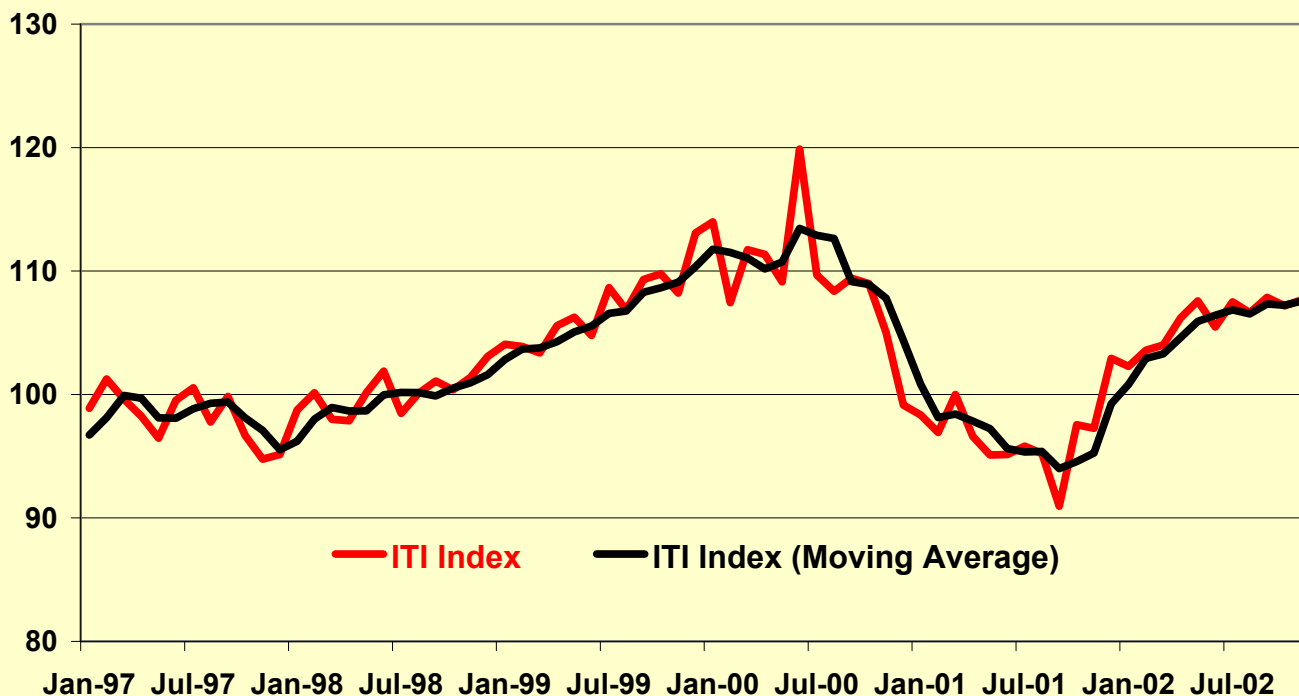
**Multifamily Permits.** Doug Carter, LLC reports multifamily vacancies for the 4<sup>th</sup> quarter 2002 have hit double digits. Depending on the area of the County, vacancies are upwards of 12-14%. Despite rising vacancies for the last 12-18 months, new multi-family permit activity continued throughout 2002 at an exceptionally strong rate. This activity level is not expected to continue in 2003. Few multi-family projects are in the development queue. There is little incentive to build more units given declining rents and high projected vacancy rates in the area. Foreclosures, particularly among smaller multi-family units, may be a concern.

## Information and Technology

**Information Technology News.** By now, we all know Microsoft's legal issues with the U.S. Government have been settled. Did you know Microsoft has a Product Life Cycle Policy that has DOS, Windows 3.X, Windows 95 and NT 3.5 at their respective end-of-life curves? That is, Microsoft will no longer support these formats. Windows 98 and 98/SE will meet their end-of-life cycles December 31, 2004. Windows ME will expire December 31, 2005 (will anyone care?).

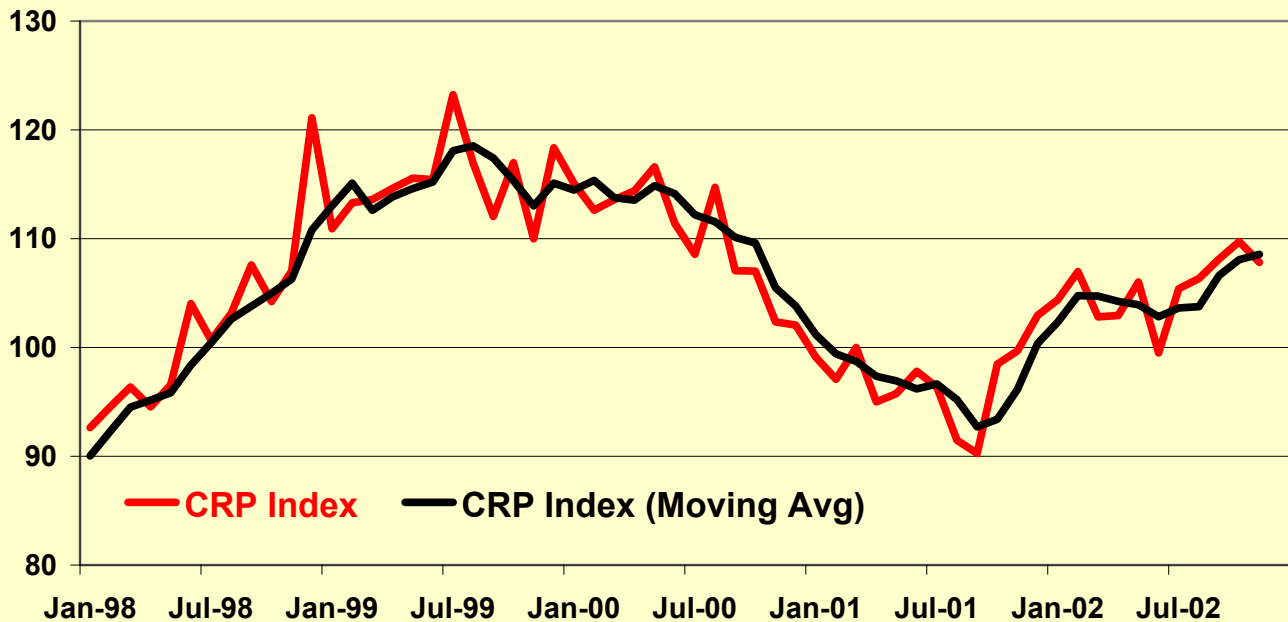
These announcements are part of Microsoft's desire to phase-out support for obsolete to near-obsolete software. New software development has not taken advantage of the current OS environment for several years. Windows 3.X lacks capacity and protection against hackers that XP offers. Windows 95/98/98SE have run their course. Windows XP/XP

**Figure 3: Information Technology Index  
(March 2001 = 100)**





### Figure 4: Computer & Related Products Index (March 2001 = 100)



Pro will soon be the only environment Microsoft will support.

Figures 3 and 4 illustrate trends of the Information Technology Index (ITI) and the Computer and Related Products Index (C&RP). ITI appears to be at the top of an upward trend that had been rising since October 2001. Despite the improvement, ITI is approximately 10% below its peak in 2000. C&RP is following a pattern similar to ITI's. C&RP peaked in the middle of 1999, much earlier than ITI did. C&RP is approximately 17% below its 1999 peak. These performance levels are disheartening to a technology-driven community like the Springs.

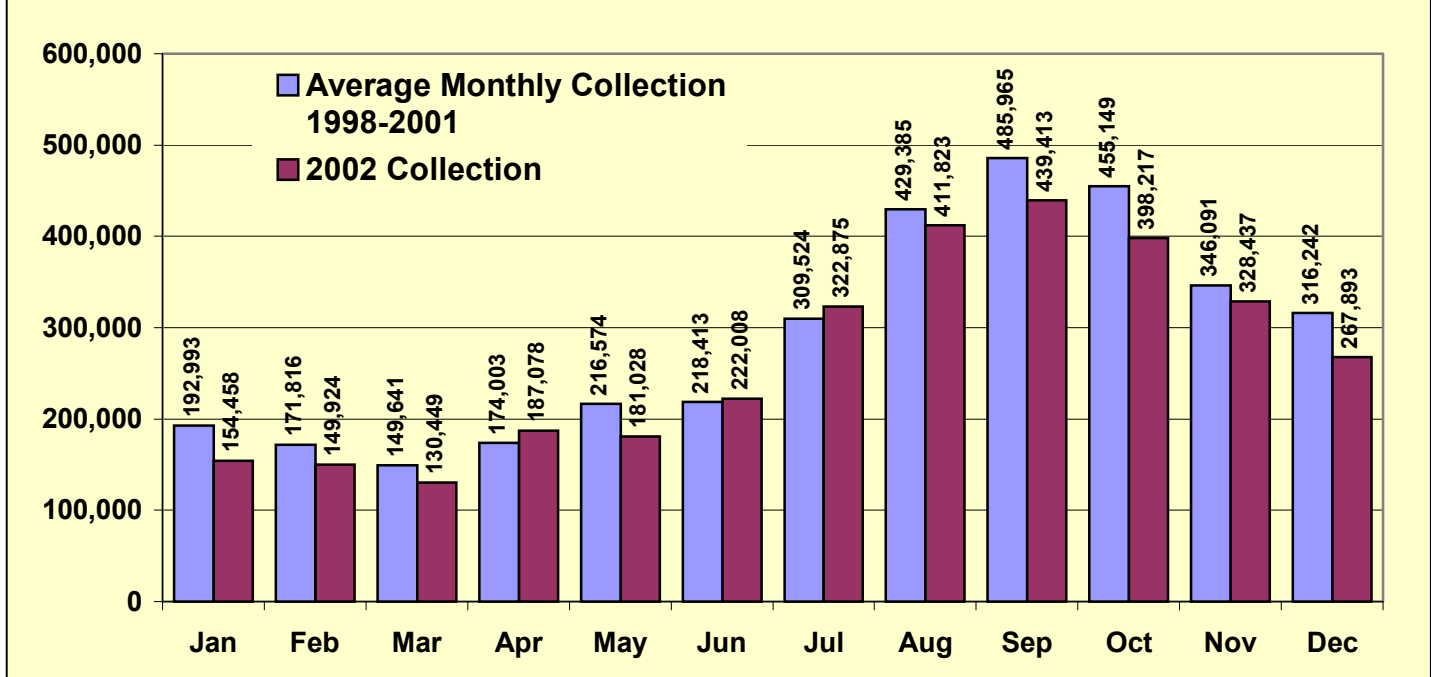
Information and technology, however defined, is a young industry. Young industries are characterized by volatility in firm and product survival rates. The technology arena appears to be hovering on an eighteen-month product life cycle. Successive products seem to be twice as good and cost half as much as their predecessors. Large-scale production focused on economies of scale appears

to be the only way to make a profit. Production facilities located in Asia based on incredible economies of scale, favorable tax rates and interest rate incentives from foreign host governments make it increasingly difficult for our community to host this young industry. The industry is also in a consolidation phase. When this ends and growth reemerges, the surviving firms will be those that have a long-term business plan. Firms that survive the next round of growth before the inevitable retrenchment will be those that make a product or service that meets a consumer's needs. Those who manufacture a new technology because it can be done but do not have a market for the technology will join the ranks of noncompetitive firms.

No doubt, a major technology is waiting development and application to meet consumer wants and needs. To some extent, Microsoft's decision to eliminate support for obsolete operating systems will motivate application developers to stop writing code that works on computers that are akin to Henry Ford's Model T. This next generation of



### Figure 5: Lodging and Auto Rental Tax Collections



software development will help drive new hardware requirements. The ITI and C&RP indices will rebound. Unfortunately, the large-scale production facilities for these new products will most likely be found overseas and not in El Paso County. It is sort of a Jeffersonian vs. Hamiltonian debate. Big government prevailed. Gone is the day of the gentleman farmer and village smith. In order to compete, small business will have to focus on innovative, start-up and niche markets. Otherwise, they won't survive against the industrial giants. The industrial revolution demonstrated this. With the exception of niche markets and entrepreneurial ambitions, big business will mark the future. The future of the local economy may rest in the development of specialized intellectual capital at the front end of the product life cycle. The time to explore these futures is now.

### Tourism and the Visitor Sector

**Tourism.** The tourism/visitor industry is doing poorly and reflects the overall decline in our local

and national economies. Figure 5 compares monthly Lodging and Auto Rental Tax (LART) for 2002 with average monthly collections for 1998 to 2001.

Nine of the twelve months for 2002 were below the average collection amounts for recent years. For the year 2002, LART collections for the City of Colorado Springs were 7.9% below average for 1998-2001. Part of this can be explained by bargain room rates available in the area. Combine this with the soft national and local economies, less business travel, large amounts of negative publicity about the drought and wildfires last summer and it is easy to see why 2002 will go down as a forgettable lodging and tourism year. 2003 may be a repeat of 2002, especially if we do not see significant snowfall in March and April, leaving concern for another year of drought and fire conditions.

There are 200 fewer people working in eating and drinking places in El Paso County than there were a year ago. It is very likely that LART will not recover until the economy begins to rebound significantly.



## National Expectations

The latest expectations of professional economists for 2003 are summarized below.<sup>3</sup>

	<u>Previous</u>	<u>Revised</u>
GDP growth	3.0%	2.6%
Inflation for	2.3%	2.2%
3-Month T-Bill	2.5%	1.6%
10-Year T-Bond	5.2%	4.4%
Unemployment	5.5%	5.7%
Probability of decline in real GDP over next 4 quarters	16.3%	17.9%

Inflation and interest rates are expected to remain low. A concern does exist that the economy will be very slow to rebound completely during 2003. Unemployment is projected to be higher in 2003 than in 2002. While consensus does not believe a decline will take place in real GDP over the next four quarters, there is a slight increase in the likelihood that a decline is possible. Uncertainty about war with Iraq, oil prices and a declining consumer sentiment support this concern. The good news is inflation does not appear to be a concern. Treasury interest rates are expected to remain low.

## About the Forum

The Southern Colorado Economic Forum (SCEF) hosts its Annual Review and Forecast for the Colorado Springs economy in October. This year's Forum will be held on October 15, 2003 at 4:00-6:00pm. A reception follows from 6:00-7:00pm. Contact Judi Lakin for information at 262-3433.

SCEF sponsorship is available at a number of levels and benefits. Contact Richard Blair at (719) 262-3524 or Richard.Blair@cufund.colorado.edu for information.

The Forum staff is available for contract work and analysis on issues affecting the local economy and the firms in the economy. Examples of current and

the firms in the economy. Examples of current and prior work included economic base analysis, population projections, survey analysis and labor force analysis. If you would like a presentation made to your group, contact Fred Crowley at (719) 262-3531 or fcrowley@uccs.edu for additional information and availability.

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<sup>3</sup> Federal Reserve Bank of Philadelphia.



### Selected Economic Indicators

	01-Dec	02-Jan	02-Feb	02-Mar	02-Apr	02-May	02-Jun	02-Jul	02-Aug	02-Sep	02-Oct	02-Nov	Nov 2002 vs. Nov/Q3 2001
<b>National Quarterly Data</b>													
GDP Real Annual Growth (Chained) SA	1.65%			5.00%			1.30%			4.00%			Up 5.33%
Retail Sales (billions) NSA	856.3			743.8			825.2			827.5			5.80%
e-Sales (billions) NSA	11.178			9.88			10.243			11.061			34.30%
e-Sales as % of Retail Sales NSA	1.31%			1.33%			1.24%			1.34%			26.94%
Employment Cost - Benefits 1986=100 SA	166.8			168.6			170.9			172.6			4.80%
Employment Cost - Compensation 1986=100 SA	157.3			158.7			160.4			161.4			3.66%
<b>National Monthly Data</b>													
Capacity Utilization (all industry) SA	74.4	74.8	75	75.2	75.3	75.6	76	72.6	76.1	76.1	75.5	75.6	1.20%
Car & Light Truck Sales Annualized SA	16.39	15.93	16.53	16.57	17.19	15.57	16.28	18.06	18.58	16.23	15.34	15.94	-9.48%
Consumer Sentiment (1966=100) SA	88.8	93	90.7	95.7	93	96.9	92.4	88.1	87.6	86.1	80.6	84.6	0.83%
CPI-U 1982-84=100 NSA	177.3	177.6	178	178.6	179.5	179.5	179.7	179.9	180.5	180.8	181.3	181.5	2.25%
Discount Rate % NSA	1.33	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	0.83	Down 0.75%
Industrial Production (1997=100) SA	108.3	109	109.2	109.6	110.1	110.4	110.8	111.6	111.3	111.3	110.7	110.8	1.79%
Inventory/Sales Ratio SA	1.39	1.38	1.39	1.38	1.35	1.36	1.36	1.35	1.35	1.37	1.36	1.36	-2.16%
Mortgage Rate 30 Year Conventional % NSA	7.07	7	6.89	7.01	6.99	6.81	6.65	6.49	6.29	6.09	6.11	6.07	Down 0.8
Prime Rate NSA	4.84	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.35	Down 2.0
Purchasing Managers Index SA	48.1	49.9	54.7	55.6	53.9	55.7	56.2	50.5	50.5	49.5	48.5	49.2	10.07%
Retail & Food Service Sales (billions) SA	295.2	294.9	296.5	296.2	299.6	296.6	300.6	304.2	305.6	301.2	301.4	302.5	2.54%
Technology Index (March 2001 = 100) SA	102.9	102.3	103.6	104	106.2	107.6	105.5	107.5	106.6	107.9	107.2	107.7	10.70%
West Texas Oil Spot Price Barrel NSA	19.33	19.67	20.74	24.42	26.27	27.02	25.52	26.94	28.28	29.67	28.85	26.27	33.55%
<b>Colorado Data</b>													
Colorado (Denver/Boulder CPI) NSA	181.08						184.6						
Colorado Purchasing Managers Index SA	48.1	57.8	65	61.5	59.9	54.8	43.1	47.8	58.1	55.5	50.5	54.3	Up 18.42
Labor Force (000's) NSA	2,318	2,347	2,347	2,347	2,333	2,344	2,395	2,385	2,393	2,394	2,389	2,372	1.71%
Employment (000's) NSA	2,206	2,208	2,210	2,212	2,211	2,230	2,266	2,262	2,274	2,275	2,270	2,249	1.34%
Unemployment Rate % NSA	4.86	5.92	5.84	5.76	5.25	4.89	5.38	5.15	4.97	5	5	5.19	Up 0.35%
Unemployment Rate % SA	5.12	5.64	5.74	5.61	5.34	5.18	4.96	5.17	5.12	5.19	5.22	5.2	Up 0.35%
<b>Colorado Springs MSA Data</b>													
Business Conditions Index SA	92.69	97.3	99.37	98.1	104.33	100.26	95.61	99.72	102.98	96.2	99.09	93.19	0.32%
Colorado Springs Airport Enplanements SA	83,942	90,155	91,559	90,150	92,794	94,120	89,873	90,026	86,681	82,363	83,253	75,539	-7.75%
Single Family Permits SA	262	268	342	433	539	522	530	525	432	335	412	262	-15.48%
Sales and Use Tax (000's) SA	8,877	8,810	8,689	8,666	8,970	9,313	9,180	9,140	9,485	10,017	8,533	10,265	12.80%
New Car Sales SA	2,798	2,062	2,284	2,210	2,091	2,659	2,102	1,934	2,351	2,522	2,352	2,381	-4.74%
Labor Force (000's) NSA	269.3	271.9	271.1	271.2	268.1	269.8	277.1	274.6	273.7	274.3	276.1	274.7	1.80%
Employment (000's) NSA	254.2	253.6	253.2	253.4	252	255	259.9	257.8	258	258.5	260.5	258.8	1.69%
Unemployment Rate (%) NSA	5.61	6.74	6.6	6.55	5.98	5.5	6.2	6.1	5.73	5.76	5.67	5.77	Up 0.1
Unemployment Rate (%) SA	6.42	6.5	6.6	6.3	6.15	5.99	5.24	5.69	5.61	5.79	6.03	6.05	Up 0.11