



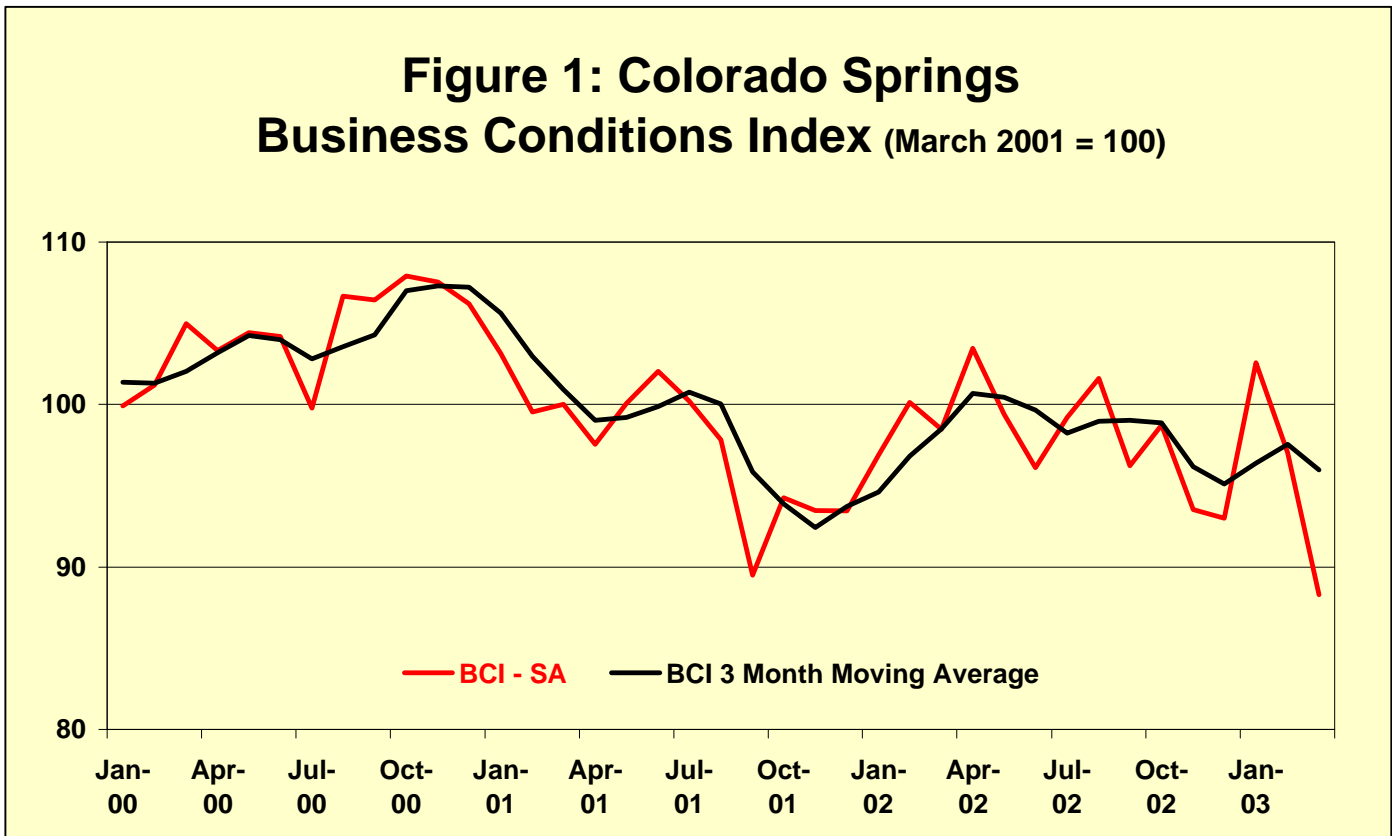
# Quarterly Updates and Estimates

Volume 1, Number 4, April 2003  
 Fred Crowley - Senior Economist

## Update on the Economy

A downward trend first reported in the January issue of the Quarterly Updates and Estimates (QUE) appears to have continued over the last three months. The March 2003 Business Conditions Index value (BCI) stands at 88.30, its lowest level ever. The 14.25 point decline since January is believed due to uncertainty about the economy and the war in Iraq. The Southern Colorado Economic Forum (Forum) believes the downward trend may not be over. Single-family permits are up modestly but are expected to decline in the coming months. Foreclosures and unemployment are also expected to decline modestly in the next several months. The Purchasing Managers Index will likely remain relatively stable.

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



<sup>1</sup> BCI is a geometric index of eight seasonally adjusted data series. The 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 and foreclosures in El Paso County. 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.



Table 1: Business Conditions Index  
Components and Recent Trends SA (March 2001 = 100)

	Enplanements	Single-family Permits	Consumer Sentiment	Colorado PMI	Employment Rate	2% Sales & Use Tax	New Car Sales	Fore-closures	BCI
Mar-02	92.97	77.49	104.47	147.28	96.67	93.05	88.66	99.99	98.47
Apr-02	95.33	92.88	102.31	140.82	96.68	96.24	110.54	99.99	103.45
May-02	97.02	91.54	102.89	128.03	96.79	94.80	88.81	99.99	99.40
Jun-02	92.82	100.47	99.68	102.13	97.65	94.33	83.34	99.98	96.12
Jul-02	93.88	97.45	96.30	114.03	96.95	97.74	98.42	99.98	99.19
Aug-02	91.25	91.01	96.27	139.89	96.99	102.79	101.95	99.98	101.61
Sep-02	89.85	80.79	94.42	129.73	96.87	89.43	95.62	99.98	96.25
Oct-02	91.94	92.23	92.58	116.28	96.73	105.97	96.50	99.98	98.73
Nov-02	84.90	69.21	93.49	129.06	96.87	100.31	84.98	99.97	93.52
Dec-02	97.90	89.17	93.52	130.78	96.12	65.39	83.59	99.97	93.02
Jan-03	100.06	91.81	92.75	122.26	97.22	132.63	91.12	99.97	102.55
Feb-03	97.53	87.08	91.06	125.02	97.32	89.58	93.30	99.97	97.04
Mar-03	88.13	87.29	84.71	127.38	97.37*	70.73	64.66	99.98	88.30

March 2003 level compared to:

1 mo ago	-9.64%	0.25%	-6.97%	1.89%	0.06%	-21.04%	-30.69%	0.01%	-9.00%
3 mo ago	-9.97%	-2.11%	-9.42%	-2.60%	1.30%	8.17%	-22.65%	0.02%	-5.08%
6 mo ago	-1.92%	8.05%	-10.28%	-1.81%	0.52%	-20.91%	-32.37%	0.00%	-8.26%
12 mo ago	-5.20%	12.64%	-18.91%	-13.51%	0.73%	-23.99%	-27.06%	-0.01%	-10.33%

\*based on projection by SCEF

Table 1 summarizes the recent trends in the BCI components. The weakness in the individual components that make up the BCI is apparent. Air travel continues to be weak and is not expected to recover in the near term given the economic situation and concerns over war and terrorism. Health concerns over SARS further reduce air travel. Tourism is expected to be weak. United and American Airlines are struggling just to survive

Consumer sentiment remains weak. Without strong consumer sentiment, purchasing managers will not order new items. Without new orders, employment gains will be difficult to muster. If jobs are not created, the local housing market will likely weaken further.

New car sales dropped precipitously in the first quarter. This drop along with weak consumer spending in other sectors effected city sales tax collections. Tax collections will remain weak until consumer sentiment revives.

### Interest Rate Expectations

The Forum is projecting higher interest rates in the coming months, especially for residential mortgages. If you have not refinanced your existing mortgage, it might not be too late to take advantage of low rates. Mortgage rates are expected to head up in the near future. This will hurt an already slowing residential building market.

There are several factors that point to rising interest rates. First, the Federal deficit in 2002 was \$317.5 billion. The 2003 deficit originally projected at \$300 billion before the war in Iraq, is now more in the range of \$400 billion or more. To put this into perspective, the Federal budget is approximately \$2.2 trillion. Thus, the deficit is about 15-20 percent of the current year operating budget. This money must be borrowed to balance the Federal budget.

Traditional sources of funds to the U.S. Government include U.S. businesses, individuals and overseas investors. Domestically, the slow economy has reduced individual investor desire and ability to buy



stocks and bonds. Internationally, the dollar has lost value against European and Asian currencies. The dollar lost approximately 15 percent of its value compared to the euro in the last year alone. Thus, market liquidity for treasury securities may be weak. This drives up yields. A recent study by Fed economist Thomas Laubach and reported in the *Wall Street Journal* (4/25/03) suggests that each \$100 billion increase in the budget deficit potentially raises long-term rates 25 basis points.

If the economy were to recover quickly, sufficient surplus funds might be generated by investors to fund the Federal deficit. This is highly unlikely. The most likely scenario is that the increased U.S. Government borrowing will crowd out smaller investors, including those applying for a mortgage. The decrease in supply of funds matched with an increase in the demand for funds will probably drive interest rates up over the course of the next 12 months. The 10 year Treasury Bond, a benchmark for mortgage rates, is expected to rise approximately 1 percent by this time next year. Mortgage rates can be expected to follow suit.

### Foreclosures

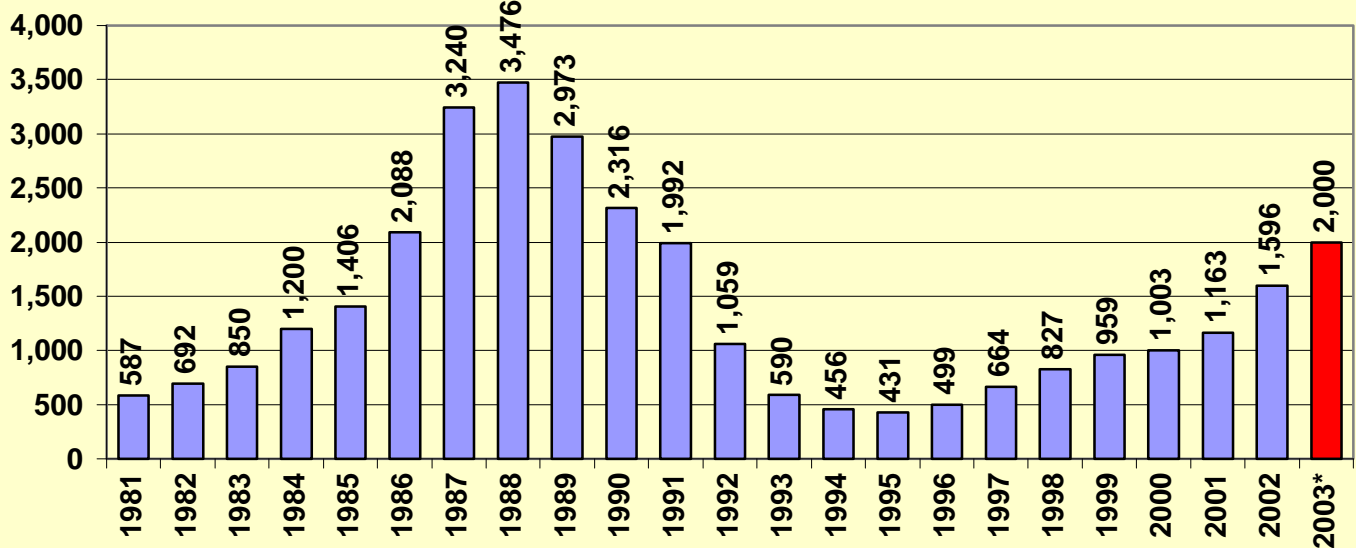
The Forum is now maintaining data on foreclosures in El Paso County. There were 1,596 foreclosures in 2002 (Figure 2). The Forum projects foreclosures for 2003 might hit as high as 2,000 combined residential and business foreclosures. This lack of a strong local recovery for the balance of 2003 is the main culprit in the rise in foreclosures.

### Fort Carson Deployments

Troops stationed at Fort Carson are now being deployed to Iraq. A full deployment is expected to involve 11,000 soldiers. Some statistics about the personnel at Fort Carson are:

Single:	46%
Married:	54%
Average wage:	\$38,527
Multiplier	1.41

### Figure 2: Foreclosures in El Paso County

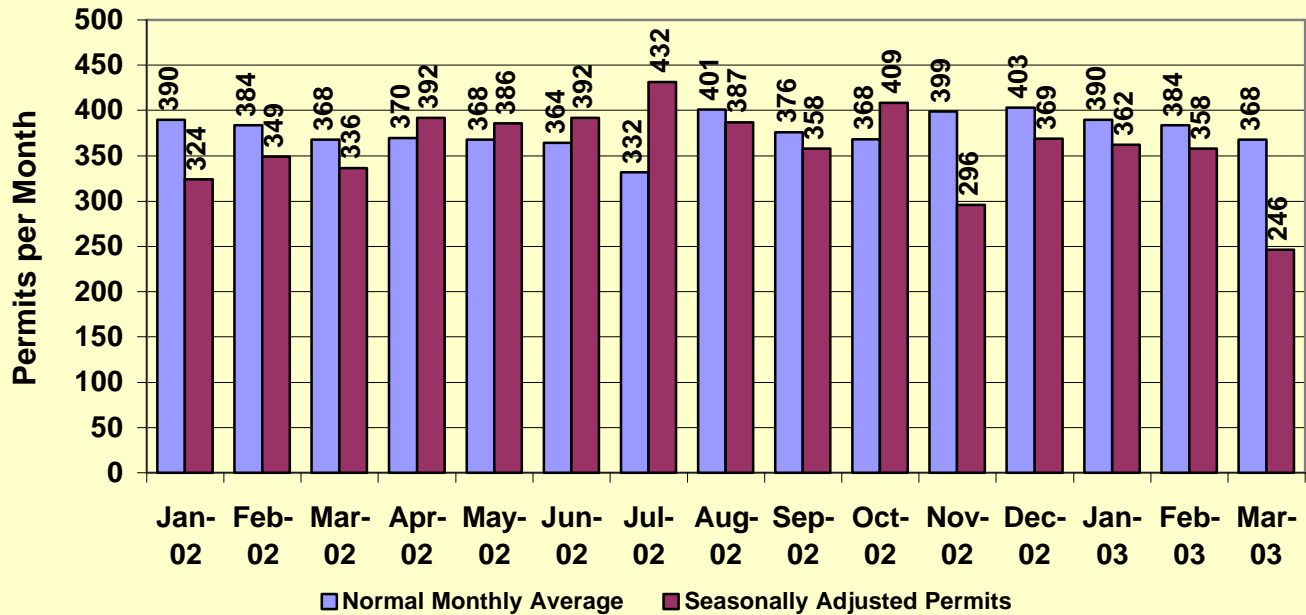


Source: El Paso County Public Trustee

\* 2003 is a projection by the Forum/QUE



**Figure 3: El Paso County  
 Single Family Building Permit Activity**



Unmarried soldiers who are deployed remove all income from the community. Spouses of soldiers who are deployed may stay in the area if they have children in school. It is estimated that as many as half of these households will leave the area and temporarily return to their families or friends in other states while waiting for their spouse to return from Iraq. The Department of Labor estimates a typical household of four spends 26.3% of its income on items that are subject to sales tax. Once these deployments are implemented, an estimated loss of income to the community might be as high as \$432,000,000 per year. The estimated maximum, annualized economic losses to the community are:

Income	\$432,000,000
City sales tax	\$1,532,000
County sales tax	\$613,000
State sales tax	\$1,780,000
Lost jobs	2,480

These losses assume the deployments last a year and that reservists stationed at Fort Carson spend

little of their money in El Paso County. Many reservists now stationed at Fort Carson are temporary and will send most of their income home to families to help with mortgages and other expenses. The magnitude of the impact may be debatable. The economics of our community will be negatively impacted by the deployment of Fort Carson troops.

### Housing

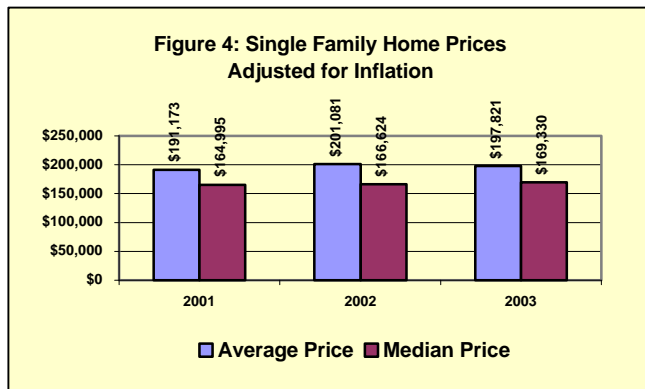
**Single-Family Permits.** Single-family permit activity was extremely strong for January and February of this year, running 11.6 percent ahead of 2002 levels. In March 359 permits were pulled compared to 560 in 2002, a decline of 35.9 percent. April is normally a very strong month for new single-family permit activity. The average number of new single-family and town home permits issued in April since 1998 is 505. Estimates indicate there will be approximately 20 percent fewer units this April compared to the average number of permits pulled



each April since 1998. Last October, the Forum made the case and suggested that residential construction would decline in 2003. Our January projection of 3,596 single-family units for 2003 may well be too high. We now expect single-family permits to be closer to 3,300 permits for all of 2003.

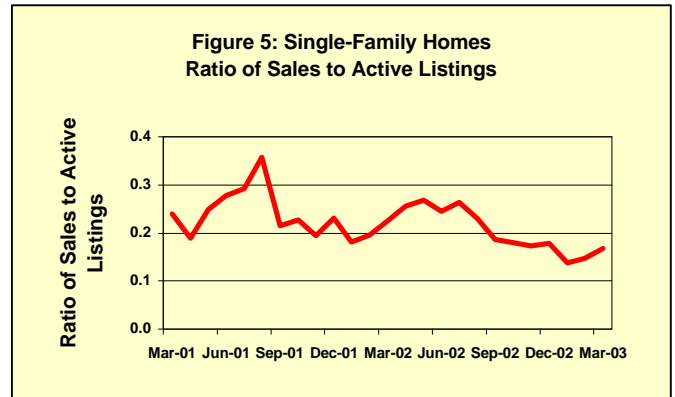
**Existing Home Sales.** Pikes Peak Association of Realtors reported 1,896 home sales in the first three months of 2003. The homes were on market in El Paso County for 58 days and sold at 97.91% of the listing price. The time it takes to sell a house is increasing. The slow-down in the economy is having a negative effect on housing values. **Net of inflation, the average price per home declined from 2002 to 2003.** Given the Gallagher Amendment and its mechanism for determining the relation between property and other taxes, state and local governments might expect some reductions in residential property tax collections the next time assessment rates are set.

First Three Months of	Homes Sold	Median Price	Average Price
2003	1,896	\$179,000	\$191,174
2002	1,931	173,000	201,081
2001	1,933	164,995	197,821



Our local governments have had a difficult time managing their budgets with the declines in sales tax collections they have experienced over the last few years. If property tax collections decline as a result of soft resale values and the interaction of the Gallagher/TABOR amendments, local tax revenues will not recover quickly. El Paso County stands to be more adversely affected by this than the City of Colorado Springs since the county is more dependent on the property tax. A decline in the property tax base will also negatively impact local

school districts. Fortunately, any drop in real property values is not expected to be a long-run trend.



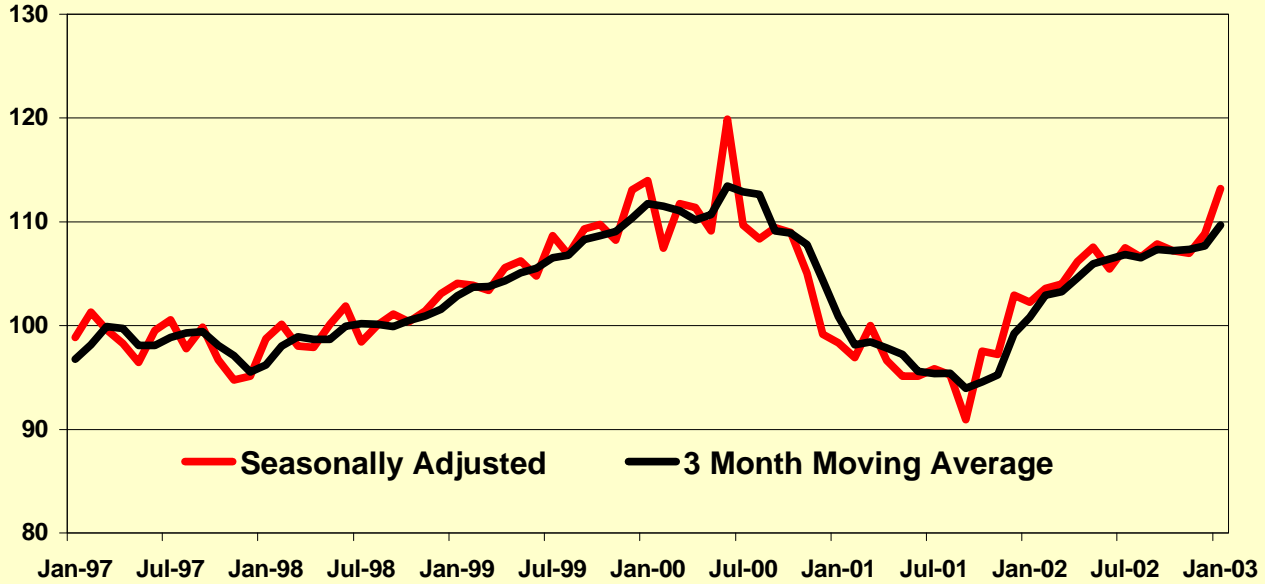
Another sign of a weakening market for existing homes is the ratio of Sales to Active Listings. This is shown in Figure 5. This is a demand/supply relation for the sale and purchase of existing housing stock. The pattern follows the trends in the economy that have been described in past issues of the *QUE*. The ratio was improving until September 2001. The economy showed signs of recovery during the summer of 2001 until September 11. The ratio then worsened until early 2002 after which all indicators pointed to an economic recovery in early 2002. Unfortunately, the accounting scandals of 2002 undermined consumer confidence. By mid-summer of 2002, the ratio began to decline, suggesting the number of homeowners wanting to sell their homes exceeds the number of prospective homebuyers. This has been aggravated by the low mortgage rates that have made newly built homes more attractively priced than existing homes. Softness in the housing market is expected over the next several months as mortgage rates rise and the soldiers at Fort Carson remain deployed.

## Information and Technology

The previous issue of *QUE* reported an upward trend that was possibly topping. Since then, ITI made a further move upward suggesting that nationally, technology appears to be on the road to recovery. ITI now stands at 113.19, up 13.19 from its base of 100 in March 2001.



**Figure 5: Information Technology Index  
 (March 2001 = 100)**



Although technology may be recovering nationally, the Forum does not have a local technology measure. It is believed our local firms will benefit from the improved business environment for technology. However, the extent of the benefit is not known.

### **Commercial Real Estate<sup>2</sup>**

The downturn in the local economy has taken its toll on commercial real estate activity and rents. Palmer McAllister reports negative absorption statistics for office (-91,538) and retail space (-24,936). Industrial space had a positive absorption (31,406). A significant increase in available sublease space contributed to the increase in office vacancies. Positive absorption in industrial space was due to the purchase of a large facility by an owner/user.

<sup>2</sup> The Forum thanks Palmer McAllister for sharing its analysis of the commercial market data.

Significant improvements in commercial space are not expected soon.

	Vacancy %		Rent \$	
	Q1'03	Q4 '02	Q1 '03	Q4 '02
Office	12.3	11.5	11.48	11.66
Industrial	10.9	10.9	7.47	7.67
Retail	8.4	8.2	11.88	na

### **National Expectations**

In general, long-run forecasts among economist have changed very little. Inflation and interest rates are expected to remain low. Despite expectations that interest rates will remain low, economists agree rates will be rising later this year. Treasury bill rates are now expected to rise from a current 1.25% to 2.3% by Q1, 2004. Similarly, ten-year Treasury Bonds are now expected to rise from a current 4 percent to 4.9% by Q1 2004. Concern continues to exist that the economy will be very slow to rebound during 2003. Unemployment continues to be projected higher in 2003 than in 2002. The latest



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

	Survey Date		
	Q3 '02	Q4 '02	Q1 '03
GDP growth	3.0%	2.6%	2.5%
Inflation for	2.3%	2.2%	2.2%
3-Month T-Bill	2.5%	1.6%	1.4%
10-Year T-Bond	5.2%	4.4%	4.3%
Unemployment	5.5%	5.7%	5.9%
Probability of decline in real GDP over next 4 quarters	16.3%	17.9%	16.3%

### From Our Partners

This issue of *QUE* introduces a new contributed column from one of our Forum partners. These articles will appear occasionally in the *QUE*. The following reprinted article is by Dave Uppinghouse, Senior Vice-President for Employee Benefits at Van Gilder Insurance Corporation.

### A Perfect Storm: Searching for Answers In the Healthcare Crisis



“The Centers for Medicare and Medicaid Services...projects that national healthcare spending – which grew by 8.7% to \$1.4 trillion in

2001 – will grow at an average annual rate of 7.3% during the next decade and slow to 6.7% by 2012.” Despite the falloff, though, the healthcare sector will still consume a growing portion of gross domestic product, reaching 18% or \$3.1 trillion by 2012.” (Wall Street Journal 2/7/03)

The current situation is exacerbated by 1) a sagging economy, 2) double-digit premium increases, and 3) insatiable demand for more and better healthcare services. During the latter half of the 80’s and first half of the 90’s Managed care offered some slowing in the rate

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

and pace of healthcare spending. But today we have neither discovered nor developed a “silver bullet” to ensure a reduction in the cost and upward spiral of healthcare spending.

Employers, bent on reducing their own expenses, are passing on (or at least sharing) increased health insurance premium costs with their employees. This same cost shifting is reflected in higher co-payments and out-of-pocket expenses for plan members. While these strategies do create some short-term reduction in plan costs they are not addressing the root problems. The aging of our population, longer life expectancy, lifestyle factors, marketing health services directly to the consumer, and technology advances (at a higher cost) all play a role. The hard fact is that no solution is on the horizon.

That said, several steps should be considered as possible approaches in dealing with the crisis. Employers need to revisit their strategy in offering and extending their employee benefit program. Are your goals realistic and sustainable in the face of the aforementioned challenges? A key is to build awareness with employees and their family members as to what the true costs of healthcare really are and how they can impact those costs. Help employees understand how lifestyle does impact the overall costs of healthcare and what they can do to favorably impact their health and minimize the spiral in overall costs. Employees and their dependents must be engaged in the decision process involving their need for and access to healthcare.

**If you would like more information about controlling employee benefit costs, please direct your calls to Jerry Peden, Senior Vice President, Van Gilder Insurance Corporation (719) 634-8807.**

### About the Forum

The Southern Colorado Economic Forum (SCEF) will host its Annual Review and Forecast for the Colorado Springs economy on October 8 at the Antlers. This year’s Forum will be from 3:00pm to 6:00pm. A reception follows from 6:00-7:00pm. Contact Judi Lakin for information at 262-3433.



Forum sponsorship is available at a number of levels and benefits. Contact Richard Blair at (719) 262-3524 or [Richard.Blair@cufund.colorado.edu](mailto: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 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](mailto:fcrowley@uccs.edu) for additional information and availability.

The **QUE** is available for free via an electronic subscription. If you would like to receive an electronic subscription to the **QUE**, please send an e-mail to [fcrowley@uccs.edu](mailto:fcrowley@uccs.edu) and have the word **SUBSCRIBE** as the subject.

*Quarterly Updates and Estimates* is a publication of  
The Southern Colorado Economic Forum  
University of Colorado at Colorado Springs  
College of Business and Administration  
1420 Austin Bluffs Parkway  
PO Box 7150  
Colorado Springs, CO 80933-7150

Dean: Joe Rallo, Ph.D.  
Faculty Director of Connections: Tom Zvirlein, Ph.D.  
Forum Economist: Fred Crowley, Ph.D.

Questions and comments are invited. Please direct them to:  
Fred Crowley: (719) 262-3531 - [fcrowley@uccs.edu](mailto:fcrowley@uccs.edu)  
Tom Zvirlein (719) 262-3241 - [tzvirlei@uccs.edu](mailto:tzvirlei@uccs.edu)

**A special thanks to the Forum's partners for their continuing financial support.**

**First Business Brokers, LTD. (six year partner)**  
**Fittje Brothers Printing (five year partner)**  
**BiggsKofford CPAs (four year partner)**  
**LaPlata Investments, LLC (four year partner)**  
**ADD STAFF, Inc. (three year partner)**  
**Van Gilder Insurance Corporation (three year partner)**  
**Skotty Consulting Group, Inc. (two year partner)**  
**Colorado Springs Utilities (two year partner)**  
**Colorado Classic Furniture and Design (two year partner)**  
**The Mail Room, Inc. (two year partner)**  
**LA-Z-Boy Furniture Galleries (one year partner)**  
**Front Range Solutions (one year partner)**  
**The Gazette (one year partner)**  
**ENT Federal Credit Union (one year partner)**

**Forum sponsorship is available at a number of levels and benefits. Contact Richard Blair at (719) 262-3524 or [Richard.Blair@cufund.colorado.edu](mailto:Richard.Blair@cufund.colorado.edu) for information.**

**We welcome our new partner LA-Z-Boy Furniture Galleries**





**Table 2: Selected Economic Indicators**

	Apr-02	May-02	Jun-02	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	Mar-03	vs. Last 12 Months
<b>National Quarterly Data</b>													
GDP Real Annual Growth (Chained) SA			1.30%			4.0%			1.40%				2.40%
Retail Sales (billions) NSA			825.2			827.5			869.6				1.55%
e-Sales (billions) NSA			10.243			11.061			14.334				28.23%
e-Sales as % of Retail Sales NSA			1.24%			1.34%			1.65%				26.27%
Employment Cost - Benefits 1986=100 SA			170.9			172.6			174.7				4.74%
Employment Cost - Compensation 1986=100 SA			160.4			161.4			162.5				3.31%
<b>National Monthly Data</b>													
Capacity Utilization (all industry) SA	75.6	75.7	75.9	76.4	76.1	76	75.5	75.6	74.9	75.4	75.3	74.8	-0.66%
Car & Light Truck Sales Annualized SA	17.19	15.57	16.28	18.06	18.58	16.23	15.34	15.94	18.21	16.1	15.35	16.07	-3.02%
Consumer Sentiment (1966=100) SA	93	96.9	92.4	88.1	87.6	86.1	80.6	84.2	86.7	82.4	79.9	77.6	-18.91%
CPI-U 1982-84=100 NSA	179.30	179.50	179.80	180.10	180.50	180.9	181.2	181.4	181.6	182.2	183.3		2.69%
Discount Rate % NSA	1.25	1.25	1.25	1.25	1.25	1.25	1.25	0.83	0.75	0.75	0.75	0.75	Down 0.5
Industrial Production (1997=100) SA	110.11	110.45	110.82	111.58	111.31	111.24	110.58	110.80	109.89	110.79	110.70	110.14	1.95
Inventory/Sales Ratio SA	1.35	1.36	1.36	1.35	1.35	1.37	1.36	1.36	1.36	1.37	1.38		Unchanged
Mortgage Rate 30 Year Conventional % NSA	6.99	6.81	6.65	6.49	6.29	6.09	6.11	6.07	6.05	5.92	5.84	5.75	Down 1.27
Prime Rate NSA	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.35	4.25	4.25	4.25	4.25	Down 0.5
Purchasing Managers Index SA	53.90	55.70	56.20	50.50	50.50	49.5	48.5	49.2	55.2	53.9	50.5	46.2	-9.17%
Retail & Food Service Sales (billions) SA	299.64	296.57	300.63	304.22	305.62	301.18	301.55	303.39	308.06	309.36	305.19	311.47	3.14%
Technology Index (March 2001 = 100) SA	104.59	105.92	106.41	106.85	106.53	107.33	107.22	107.34	107.66	109.67	111.05		7.51%
West Texas Oil Spot Price Barrel NSA	26.27	27.02	25.52	26.94	28.38	29.67	28.85	26.27	29.42	32.94	35.87	33.55	46.89%
<b>Colorado Data</b>													
Denver-Boulder CPI			184.6						185.1				
Colorado Purch Mgr Index SA	59.70	54.28	43.30	48.34	59.31	55.00	49.30	54.72	55.45	51.83	53.01	54.01	Down 8.5
Labor Force (000's) NSA	2,333.7	2,344.1	2,394.8	2,385.2	2,393.4	2,394.2	2,389.2	2,371.4	2,435.3	2,425.5	2,426.9		3.40%
Employment (000's) NSA	2,211.1	2,229.6	2,266.0	2,262.3	2,274.4	2,274.6	2,269.8	2,248.3	2,296.4	2,281.8	2,287.2		3.40%
Unemployment Rate % NSA	5.25	4.89	5.38	5.15	4.97	5.00	5.00	5.19	5.71	5.92	5.76		Unchanged
Unemployment Rate % SA	5.34	5.18	4.96	5.17	5.12	5.19	5.22	5.20	5.48	5.48	5.65		Up 0.03
<b>Colorado Springs MSA Data</b>													
Business Conditions Index SA	103.45	99.40	96.12	99.19	101.61	96.25	98.73	93.52	93.02	102.55	97.04	88.30	-10.3%
Colorado Springs Airport Enplanements SA	91,118	92,730	88,715	89,734	87,223	85,885	87,881	81,150	93,572	95,635	93,225	84,239	-5.2%
Foreclosures SA	131	125	130	109	137	140	141	156	179	126	128	126	28.724%
New Car Sales SA	2,644	2,124	1,993	2,354	2,438	2,287	2,308	2,032	1,999	2,179	2,231	1,546	-27.1%
Sales & Use Tax for Month (000's) SA	9,311	9,171	9,125	9,455	9,944	8,651	10,251	9,703	6,325	12,831	8,665	6,842	-24.0%
Single Family Permits SA	433	427	469	455	425	377	430	323	416	428	406	407	12.6%
Labor Force (000's) NSA	275.1	277.8	284.3	282.2	281.5	282.1	284.7	283.2	281.7	278.6	277.9		0.7%
Employment (000's) NSA	257.3	261.4	264.7	263.0	263.4	264.0	266.8	265.2	263.9	260.7	260.9		1.5%
Unemployment Rate % NSA	6.49	5.90	6.91	6.78	6.44	6.44	6.30	6.38	6.31	6.42	6.13		Down 0.9
Unemployment Rate % SA	6.69	6.58	5.75	6.43	6.39	6.50	6.65	6.51	7.23	6.17	6.07		Down 0.7