



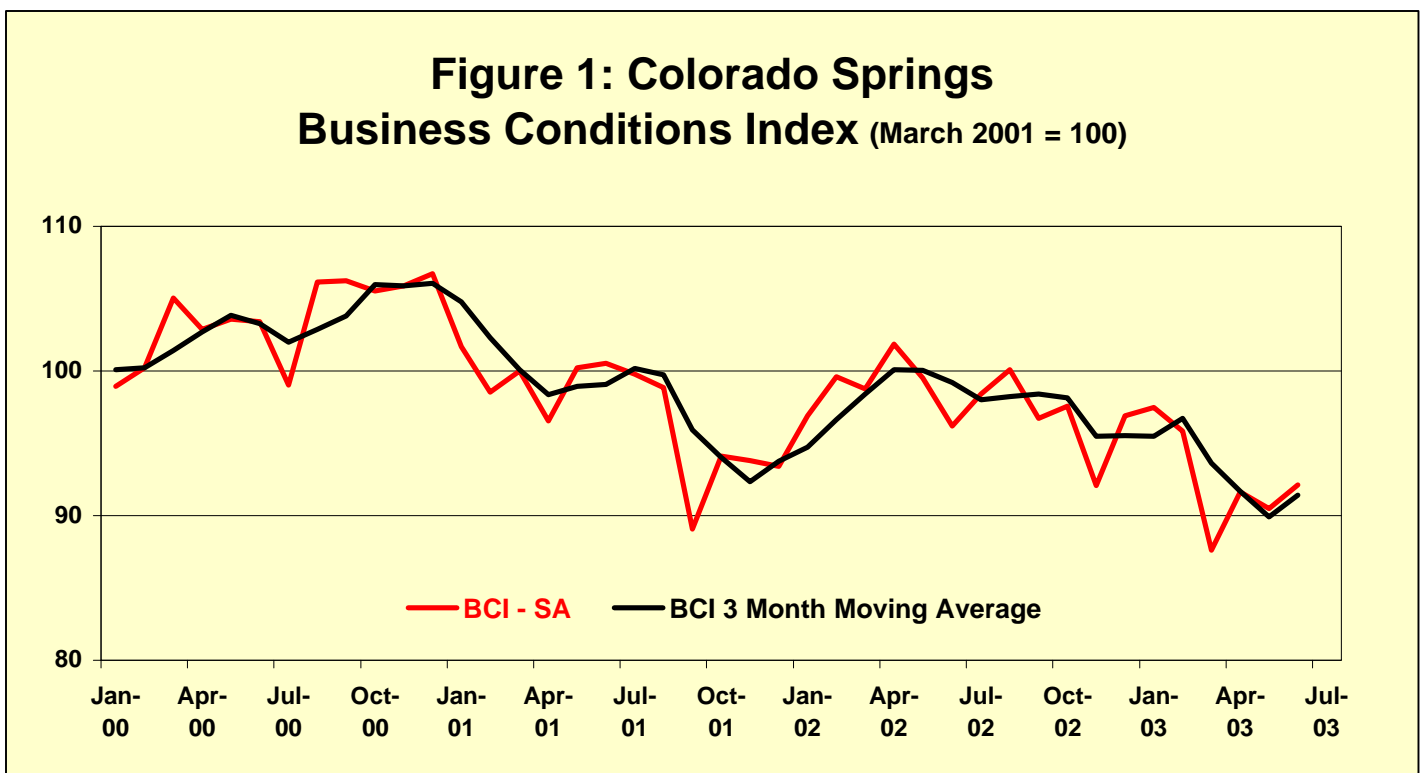
Quarterly Updates and Estimates

Volume 2, Number 1, July 2003
 Fred Crowley - Senior Economist

Update on the Economy

The Southern Colorado Economic Forum (Forum) first reported its expectation of a recovering economy in January 2003. The trend of recovery has continued through June 2003. The June Business Conditions Index (BCI) stands at 92.78, a marked improvement since March when it was 87.59.¹ The gain is attributed to a slow recovery in the national and local economies as well as an end to most of the military activity in Iraq. The recent upward trend is welcome but the underlying local economics have yet to materialize to support a sustained recovery in the El Paso County region. If the employment rate continues to improve and the number of jobs increases materially over the next several months, the Forum anticipates being able to look back at the current period as having marked the turning point in our local economy. Continued strengthening will be needed from single-family permits, the Colorado PMI, sales and use tax collections and new car sales.

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



¹ 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 raw 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
Jun-02	92.52	98.65	98.83	99.96	97.65	98.19	84.73	99.98	96.18
Jul-02	94.15	96.92	93.99	111.68	96.93	97.62	96.95	99.99	98.40
Aug-02	91.45	90.62	95.55	138.23	96.99	94.33	100.47	99.98	100.07
Sep-02	90.13	80.51	94.14	127.05	96.91	97.28	93.79	99.98	96.74
Oct-02	92.20	91.84	92.18	114.73	96.80	99.70	95.14	99.98	97.58
Nov-02	84.71	68.78	93.04	126.00	96.95	93.84	83.24	99.97	92.09
Dec-02	97.68	88.33	93.18	127.04	96.12	96.48	82.14	99.97	96.91
Jan-03	99.10	90.39	92.42	118.71	97.24	95.58	89.27	99.97	97.48
Feb-03	94.62	84.87	90.75	121.38	97.27	90.43	91.43	99.97	95.83
Mar-03	88.53	65.48	87.47	113.41	97.19	97.04	63.89	99.98	87.59
Apr-03	85.86	77.18	85.10	120.52	96.97	91.63	82.37	99.98	91.64
May-03	83.04	71.08	90.51	127.25	96.93	92.27	73.90	99.98	90.48
Jun-03	81.08	72.69	98.35	123.69	103.62	93.34	79.20	99.97	92.78
June 2003 level compared to:									
1 mo ago	-2.37%	2.27%	8.67%	-2.80%	6.91%	1.17%	7.18%	0.00%	2.54%
3 mo ago	-8.42%	11.00%	12.44%	9.06%	6.62%	-3.81%	23.96%	-0.01%	5.92%
6 mo ago	-17.00%	-17.71%	5.55%	-2.64%	7.80%	-3.25%	-3.57%	0.01%	-4.26%
12 mo ago	-12.37%	-26.32%	-0.48%	23.74%	6.11%	-4.94%	-6.52%	-0.01%	-3.54%

Table 1 summarizes the recent trends in the BCI components. Enplanements are trending downward whereas most other indicators have strengthened since March. Despite the gains, none are at a level equal to the reference period, March 2001, except for the Colorado PMI. The Colorado PMI can be volatile but suggests manufacturers in Colorado believe a strengthening of the economy is within sight.

Interest Rate Expectations

The Forum continues to project higher interest rates in the coming months, especially mortgage rates. The latest estimates for this year's federal deficit are worse than originally thought. It is now estimated the federal deficit will approach \$450 billion in 2003 and perhaps \$400 billion in 2004. The annual deficit is approximately 20% of the federal budget. The Treasury will most likely borrow using ten-year maturities to finance the deficit. The ten-year rate is expected to rise and this will have an impact on consumer mortgage rates. Given the overall

tendency of interest rates to move together, we can expect all loan durations to command higher interest rates in the coming months.

The Weakening Dollar

A contributing factor to a likely increase in interest rates is the weak dollar. A weak dollar can help make our goods and services more attractive to overseas buyers. However, most of our trading partners have economies that are faring only as well as our own, if that. As a result, the aggregate international demand for our goods and services is down. The attractiveness of the dollar as an investment security is also down. For example, the dollar lost approximately 22% of its value against the Euro and 4% against the Yen in the last twelve months. Compared to the weighted currency values of our major trading partners, the dollar lost 6.3% of its value in the last twelve months (Figure 2). Overseas investors are staying away from U.S. markets, in part, because of the weak dollar. This contributes to the expectation of higher interest rates over the next several months since the



Treasury will have to offer higher rates to attract foreign investment.

Foreclosures

The Forum's latest analysis suggests foreclosures in El Paso County are beginning to peak. Figure 3 summarizes the number of foreclosures per month since 1991 and includes a trend-line (in red). It appears there will be close to 1,800 foreclosures this year compared to the 1,596 we experienced in 2002. While higher foreclosures are never good news items, the outlook for a recovery looks a little better since the upward trend in vacancies has begun to slow down and is showing signs of peaking.

Figure 2:
Trade Weighted Value of the Dollar

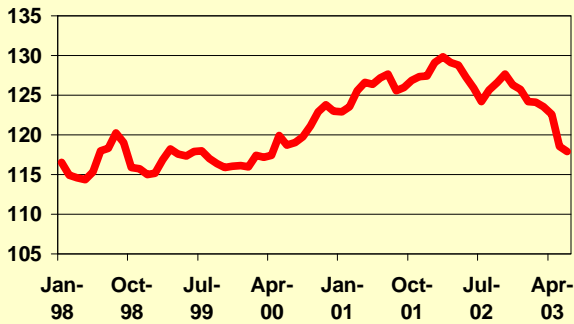
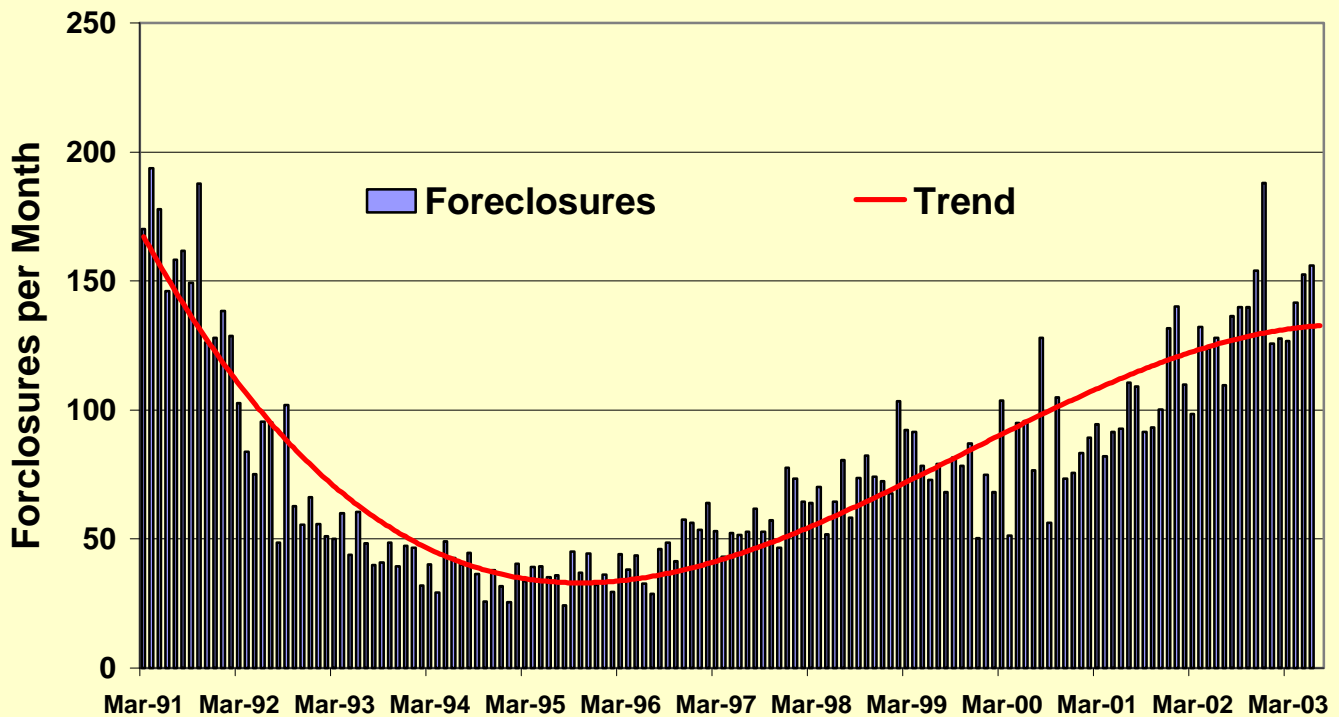


Figure 3: Foreclosures in El Paso County





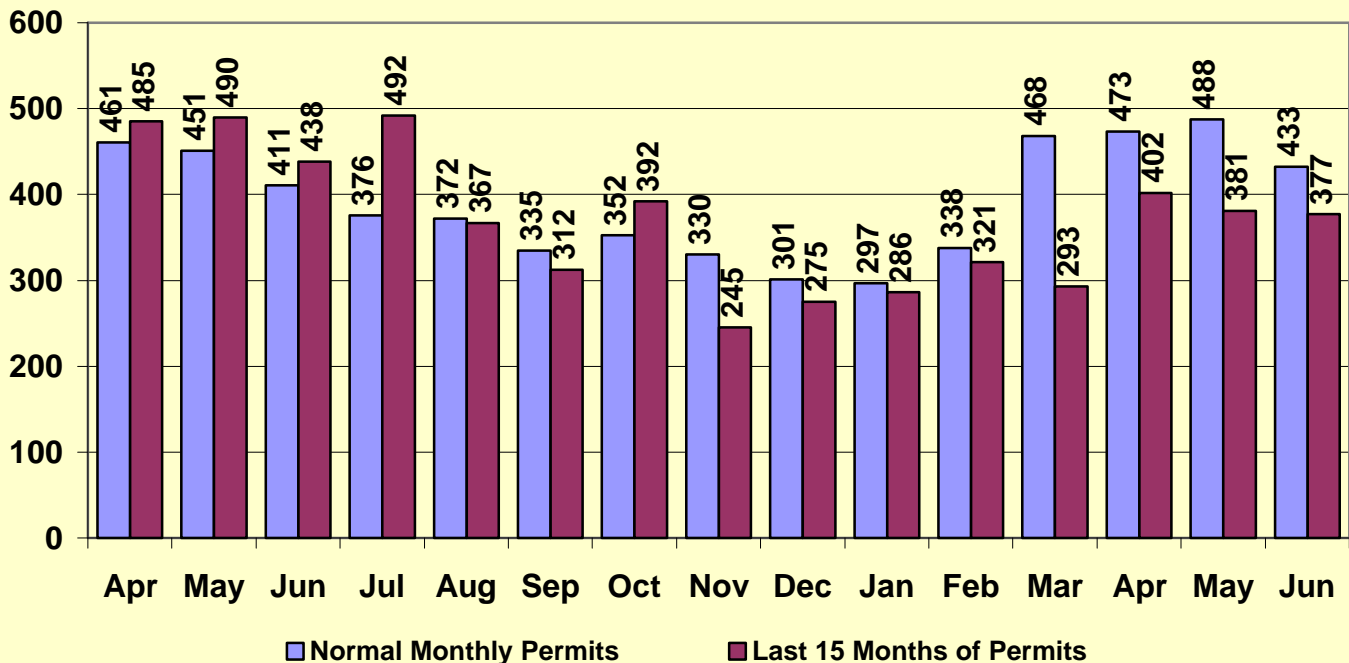
Housing

Single-Family Permits. Single-family building permit volume has held up remarkably well over the economic downturn. It is currently running approximately 13.93% behind last year's pace but is

Vacancies.

Doug Carter of Doug Carter, LLC released his vacancy report for the second quarter.² Carter reports vacancies among multi-family housing units are now 14% in the County. This is the highest vacancy rate we have seen since 1990. The continued deployment of troops from Fort Carson

"Normal" vs. Last 15 Months Single-Family Building Permits



still running at a pace of 3,500 to 4,000 units this year. Much of the support for new housing is believed to be tied to the record low mortgage rates we have seen this year. Nevertheless, the recent rise in 30-year mortgage rates to 6.15%, the lack of significant new job announcements and very modest net in-migration estimates to the area will contribute to some additional softening in residential construction. Single-family permit activity is expected to be slower in the second half of 2003 than it was in the first half.

will aggravate the high vacancy rates for at least another nine months. Based on the number of multi-family projects currently under construction and the lack of significant job announcements, the Forum believes it is likely we will see vacancy rates approaching 16-17% before the year is over.

Permits for approximately 355 multi-family units have been taken out this year compared to 971

² The Forum would like to thank Doug Carter for providing the information. For additional information, contact Doug Carter at (719) 520-1600 or Doug@DougCarterLLC.com.



units through June 2002. The high vacancy rate, lack of job growth and low rents will discourage additional permitting of new multi-family units. This sector of our economy is not expected to return to normal for some 18-24 months. The Forum estimates it will take this long to absorb the area's surplus of multi-family units.

Existing Home Sales. There are signs that the market for existing housing is soft. Pikes Peak Association of Realtors reported 4,805 home sales in the first six months of 2003, up slightly from 4,788 in 2002. The number of days a house in on the market (DOM) before it is sold is 61 days compared to 48 days in 2002. The sales price to list price (SP/LP) also declined compared to 2002 – 98% vs. 98.2%. Finally, the median sale price of a home rose to \$182,450 compared to \$175,900 in 2002. Adjusting for inflation, this is a real increase of just \$1,076 over 2002. The statistics are summarized below.

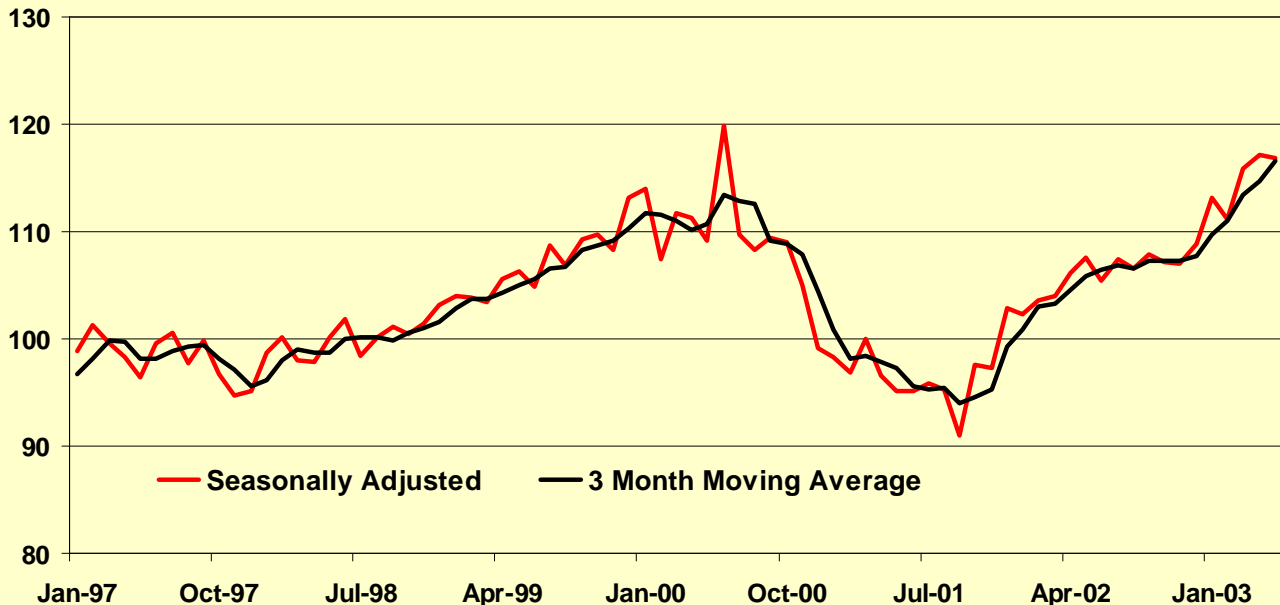
Year	YTD Sales	SP/LP	DOM	Median Price
2003	4,805	98.0	61	\$182,450
2002	4,788	98.2	48	\$175,900

Information and Technology

The previous issue of *QUE* reported that the Information and Technology Index (ITI) appeared to be at the top of an upward trend that had been rising since October 2001. Since then, ITI made a strong upward move. Technology appears to be well on the road to recovery. ITI now stands at 116.82, up 16.19 from its base of 100 in March 2001 and up 8.59% compared to May 2002.

The Forum does not have a local technology measure and cannot track how well the technology sector is doing in Colorado Springs. Changes in technology's manufacturing centers have shifted production to offshore locations. Intellectual property has also been moving offshore. While our remaining technology base will benefit from a recovering technology sector, the expected benefit will be decreased with successive layoffs and plant closures in the area.

Information Technology Index (March 2001 = 100)





National Expectations

The latest expectations of professional economists for the next four quarters are summarized below.³

	Annualized Rate for			
	Q3 '03	Q4 '03	Q1 '04	Q2 '04
GDP growth	3.4%	3.4%	4.0%	3.4%
Inflation for	2.3%	2.2%	2.2%	2.3%
3-Month T-Bill	1.2%	1.3%	1.4%	1.8%
10-Year T-Bond	4.2%	4.3%	4.5%	4.6%
Unemployment	6.0%	5.9%	5.8%	5.7%
Chance of decline in real GDP over next 4 quarters	14.0%	13.0%	11.0%	10.0%

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 over the next twelve months. As expected, 30 year, conventional mortgage have risen. A further increase is expected.

From Our Partners

The Forum wishes to thank Mr. Don Skotty, Skotty Consulting Group, Inc., for providing the *QUE* with this timely article on Customer Relations Management.

Customer Relations Management and Business Success



Everybody feels the pinch of a sagging economy. But, nobody feels it worse than

business owners. During these tough economic times, companies are constantly searching for new ways to

³ Federal Reserve Bank of Philadelphia.

remain competitive. It may surprise you that your biggest existing resource may be the key to your business not only surviving – but thriving. Take a look at your current customers. A recent study by Peppers & Rogers Group indicates that investments in customer relationships can keep companies competitive during a down economy.

The current economic climate has pushed the value of Customer Relationship Management (CRM) to the forefront of the minds of many business owners. According to Pricewaterhouse Coopers, 80 percent of the fastest growing U.S. companies initiated programs targeted at customer acquisition, retention and increased profitability over the last three years.

This statistic may seem surprising when a natural instinct is to generate new customer leads. However, when you take a close look at how effective CRM strategies work – you can easily see how it serves as protection against economic turbulence. But not all companies have recognized CRM’s value. According to a survey conducted by IDC, only 10 percent of mid-market companies are using a CRM solution. For companies that have not yet invested in CRM software, now is the time to get a solid understanding of its value.

How does CRM create a competitive advantage?

Managing customer relationships represents “cheap growth.”

According to Harvard Business Review, it is 6-7 times more expensive to gain a new customer than retain an existing customer. “Cheap growth” is the result of companies retaining more of their existing customers than acquiring new ones. Customers will pay more for a product or service if they have a long-standing relationship with a company that responds to their individual needs. Companies that truly know their most valuable customers can allocate more services to them, while expending fewer resources on unprofitable customers. This also improves marketing efficiency. Customer intimacy can significantly reduce total costs and increase sales with individual customers.

Investments in CRM can be made incrementally.

Investments in CRM do not have to be all-or-nothing technological upheavals. In fact, most existing CRM systems are underutilized. This is a perfect time for businesses, faced with a difficult economy, to optimize current IT capabilities or invest in small pieces of technology to address short-term business initiatives.



Test, learn, evolve and improve. This approach to customer investment can build a long-term strategic advantage.

Retaining valuable customer relationships is a strategic capability.

Companies that have intimate customer knowledge and can better detect and react to changing needs, preferences and expectations more efficiently than competitors. Customers stay satisfied and loyal, and companies are able to increase the average spending of each customer and/or recognize and deal appropriately with ‘at risk’ customers. Not surprisingly, the company’s value in the eyes of the customer increases. This is critical to weathering a poor economy.

Close, individual connections with customers should be a strategic priority for every company. Investing in CRM can provide financial stability, marketing efficiency and insulation from price competition. More and more businesses are realizing that investing in customer relationships is an easy way to protect the business until the economy improves.

You’re Not Just Buying a Product... You’re buying a Vendor Relationship

There is no question that CRM acts as a safeguard against the effects of a struggling economy and sets the stage for long-term growth. But, with so many CRM providers out there, selecting a vendor may feel like a daunting process. It doesn’t have to be.

Remember that while product and price are important factors to weigh when selecting a CRM provider, they only address half of the decision. According to a Gartner Group study, *service* is a critical criterion in differentiating CRM vendors and in assessing the potential success of a software package. Make sure you select a vendor that has a history of establishing long-term partnerships with its clients and views customer service as a priority. Keep in mind that while there might be numerous CRM software providers, you can narrow your search down based on the quality of service and support a vendor provides. Accept nothing less than exceptional service. After all, that is what *your* customers expect from you.

If you would like more information about Customer Relations Management, please contact Donald R. Skotty. Don Skotty, CPA, is president of Skotty Consulting Group, Inc. Skotty

Consulting Group is a custom solutions provider and support organization. The company provides service and support for Microsoft CRM and is the largest Microsoft Great Plains implementation and support organization in Colorado, Wyoming and New Mexico. For more information about the benefits of CRM, please call 719-576-9034.



Table 2: Selected Economic Indicators

	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	vs. June 2002
National Quarterly Data													
GDP Real Annual Growth (Chained) SA			4.0%			1.40%			1.40%			2.40%	2.30%
Retail Sales (billions) NSA			822.1			864.7			772.2				1.65%
e-Sales (billions) NSA			10.465			13.77			11.921				27.64%
e-Sales as % of Retail Sales NSA			1.34%			1.65%			1.65%				29.97%
Employment Cost - Benefits 1986=100 SA			172.6			174.7			178.9				4.74%
Employment Cost - Compensation 1986=100 SA			161.4			162.5			164.9				3.31%
National Monthly Data													
Capacity Utilization (all industry) SA	76.4	76.1	76	75.5	75.6	74.9	75.3	75.3	74.8	74.4	74.2	74.3	-2.11%
Car & Light Truck Sales Annualized SA	18.06	18.58	16.23	15.34	15.94	18.21	16.1	15.35	16.07	16.36	16.01	16.31	0.18%
Consumer Sentiment (1966=100) SA	88.1	87.6	86.1	80.6	84.2	86.7	82.4	79.9	77.6	86	92.1	89.7	-2.92%
CPI-U 1982-84=100 SA	180.10	180.50	180.9	181.2	181.4	181.6	182.2	183.3	183.9	183.3	183.3	183.6	2.11%
Industrial Production (1997=100) SA	111.58	111.31	111.24	110.58	110.80	109.89	110.79	110.70	110.08	109.52	109.58	109.08	1.95
Inventory/Sales Ratio SA	1.35	1.35	1.37	1.36	1.36	1.36	1.37	1.38	1.38	1.4	1.4	na	same
Federal Funds (Effective) % NSA	1.73	1.74	1.75	1.75	1.34	1.24	1.24	1.26	1.25	1.26	1.26	1.22	Down 0.53
Mortgage Rate 30 Year Conventional % NSA	6.49	6.29	6.09	6.11	6.07	6.05	5.92	5.84	5.75	5.81	5.48	5.23	-1.42
Prime Rate NSA	4.75	4.75	4.75	4.75	4.35	4.25	4.25	4.25	4.25	4.25	4.25	4.22	-0.53
Purchasing Managers Index SA	50.50	50.50	49.5	48.5	49.2	55.2	53.9	50.5	46.2	45.4	49.4	49.8	-11.39%
Retail & Food Service Sales (billions) SA	302.35	304.27	299.21	299.46	301.71	305.82	307.05	302.74	309.57	308.68	308.81	310.42	4.23%
Technology Index (March 2001 = 100) SA	107.50	106.62	107.86	107.18	106.97	108.84	113.19	111.12	115.83	117.20	116.82	na	9.60%
West Texas Oil Spot Price Barrel NSA	26.94	28.38	29.67	28.85	26.27	29.42	32.94	35.87	33.55	28.25	28.14	30.72	20.38%
Colorado Data													
Denver-Boulder CPI SA						185.1						na	
Colorado Purch Mgr Index SA	48.36	59.85	55.01	49.68	54.56	55.01	51.40	52.56	49.10	52.18	55.10	53.56	Down 14.7
Labor Force (000's) NSA	2,385.2	2,393.4	2,394.2	2,389.2	2,371.4	2,435.3	2,425.5	2,426.9	2,427.5	2,443.8	2,459.7	2,501.3	4.45%
Employment (000's) NSA	2,262.3	2,274.4	2,274.6	2,269.8	2,248.3	2,296.4	2,281.8	2,287.2	2,282.0	2,299.2	2,325.2	2,352.1	3.80%
Unemployment Rate % NSA	5.15	4.97	5.00	5.00	5.19	5.71	5.92	5.76	5.99	5.92	5.47	5.97	Down 0.1
Unemployment Rate % SA	5.72	5.74	5.77	5.79	5.78	5.84	5.48	5.50	5.73	5.95	5.78	5.74	Down 0.4
Colorado Springs MSA Data													
Business Conditions Index SA	98.40	100.07	96.74	97.58	92.09	96.91	97.48	95.83	87.59	91.64	90.48	92.78	-3.54%
Colorado Springs Airport Enplanements SA	89,734	87,223	85,885	87,881	81,150	93,572	94,880	90,586	84,759	82,201	79,502	77,621	-12.51%
Foreclosures SA	110	136	140	140	154	188	126	128	127	142	153	156	21.95%
New Car Sales SA	2,354	2,438	2,287	2,308	2,032	1,999	2,160	2,213	1,546	1,993	1,788	1,917	-3.82%
Sales & Use Tax for Month (000's) SA	9,455	9,944	8,651	10,251	9,703	6,325	8,211	7,769	8,337	7,871	7,927	8,019	-12.12%
Single Family Permits SA	455	425	377	430	323	416	425	399	308	363	334	342	-27.11%
Labor Force (000's) NSA	282.2	281.5	282.1	284.7	283.2	281.7	278.6	277.9	277.3	278.1	281.3	282.0	-0.81%
Employment (000's) NSA	263.0	263.4	264.0	266.8	265.2	263.9	260.7	260.9	259.6	260.7	265.3	263.6	-0.39%
Unemployment Rate % NSA	6.78	6.44	6.44	6.30	6.38	6.31	6.42	6.13	6.37	6.27	5.70	6.51	-0.40
Unemployment Rate % SA	6.43	6.39	6.50	6.65	6.51	7.23	6.13	6.11	6.19	6.40	6.42	5.59	-0.16



About the Forum

The Southern Colorado Economic Forum (SCEF) will host its Annual Review and Forecast for the Colorado Springs economy on October 8 in the Antlers. This year's Forum will be from 3:00pm to 6:00pm. A reception follows from 6:00-7:00pm. Contact Tom Zwirlein (262-3241) or Fred Crowley (262-3531) for information.

Forum sponsorship is available at a number of levels and benefits. Contact Tom Zwirlein at (719) 262-3241 or tzwirlei@uccs.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 for additional information and availability.

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