



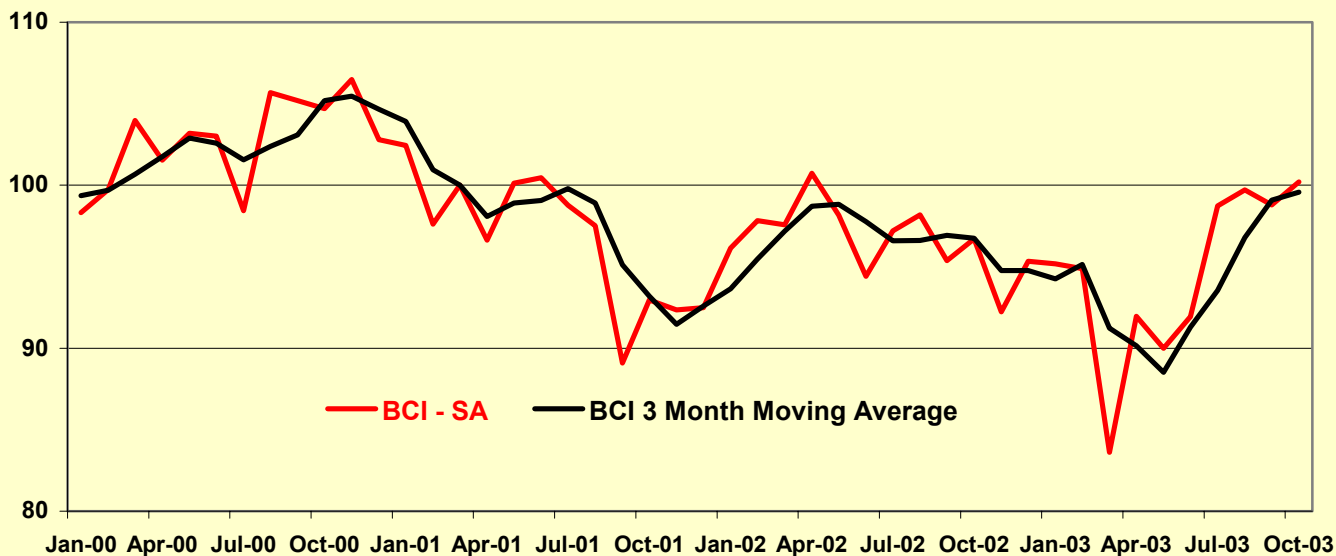
# Quarterly Updates and Estimates

Volume 2, Number 2, December 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 anticipated recovery is now showing signs of significant improvement. The October Business Conditions Index (BCI) stands at 100.56, a 19.83% improvement since March when it was 83.62.<sup>1</sup> The gain is attributed to a recovering national economy, low interest rates, a restoration of consumer confidence, federal tax cuts and the end to most of the military activity in Iraq. As would be expected, not all components of the BCI are doing equally well. Strength in new car sales, single family permits, and sales and use tax collections need to move in a positive direction. Much of the economic success for 2004 will depend on the Christmas retail season. Many firms have limited depth of inventory this year. They may experience a number of short sales that constrain their year-end results. The extent and pace at which retailers replace

**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 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)

	Enplane-ments	Single-family Permits	Consumer Sentiment	Colorado PMI	Employment Rate	2% Sales & Use Tax	New Car Sales	Fore-closures	BCI
Oct-02	92.20	93.37	91.77	114.73	96.80	93.36	93.37	99.98	96.70
Nov-02	84.71	70.67	92.30	126.00	96.95	93.77	82.78	99.97	92.23
Dec-02	97.68	80.82	96.60	127.04	96.12	89.87	81.54	99.97	95.33
Jan-03	99.10	79.68	90.24	118.71	97.24	92.41	88.61	99.97	95.18
Feb-03	94.62	79.16	89.61	121.38	97.27	88.97	93.18	99.97	94.88
Mar-03	88.53	54.93	84.54	113.41	97.19	83.09	63.49	99.98	83.62
Apr-03	85.86	73.09	94.12	120.52	96.97	87.95	84.20	99.98	91.95
May-03	83.04	68.85	96.66	127.25	96.93	84.97	74.24	99.98	89.99
Jun-03	81.08	77.44	95.90	123.69	97.83	85.86	81.56	99.97	91.93
Jul-03	84.80	103.96	97.94	139.80	97.43	86.67	88.64	99.96	98.73
Aug-03	86.02	94.05	98.01	159.12	97.55	90.08	88.15	99.96	99.71
Sep-03	88.99	94.73	97.50	142.79	97.61	85.60	92.54	99.95	98.79
Oct-03	98.08	89.57	102.27	141.09	103.62	89.60	86.38	99.96	100.20

October 2003 level compared to:

1 mo ago	10.22%	-5.44%	4.90%	-1.19%	6.16%	4.67%	-6.66%	0.01%	1.43%
3 mo ago	15.66%	-13.84%	4.43%	0.93%	6.36%	3.38%	-2.55%	0.00%	1.49%
6 mo ago	14.17%	22.55%	8.67%	16.63%	6.83%	1.87%	2.59%	-0.02%	8.91%
12 mo ago	6.18%	-4.07%	11.45%	14.17%	7.04%	-4.03%	-7.49%	-0.02%	2.64%

their depleted merchandise and expand inventory levels will influence manufacturers to gear-up production, make new investments in equipment and post help wanted signs to hire workers needed to increase production levels.

Table 1 summarizes the recent trends in the BCI components. **Many indicators are noticeably higher than a year ago**, especially enplanements, consumer sentiment, the Colorado PMI and employment rate.<sup>2</sup> Car sales, single-family permits and sales tax collections are still showing signs of weakness but are expected to improve in the coming months. 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

<sup>2</sup> The Forum defines the employment rate based on total labor force data and is not limited to ES202 data. ES202 data points are limited to employers who must file unemployment insurance. This excludes the self-employed, religious non-profits, railroad workers among others. Approximately 25,000 workers in El Paso County would be excluded if the employment rate were based on the narrowly defined ES202 standard.

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.** Monetary theory points to three reasons for rising interest rates. As consumer confidence increases, people will start to spend more. Much of the expenditures will be financed with personal loans. Businesses will borrow to invest in new inventory and plant capacity as the demand for goods exceeds current capacity. The aggregate demand for money can be satisfied with increases in the money supply by the Federal Reserve. At some point, inflationary concerns will emerge and the supply of money will be reduced. Aggravating this is the Federal Government's large deficit. It will also have to borrow from the credit markets. There is a limit to how much money exists without contributing to inflationary pressures. The current policies of the Federal Reserve do not include growing the money supply if inflation



becomes a concern. Monetary growth will be curtailed. **Interest rates will increase in 2004.**

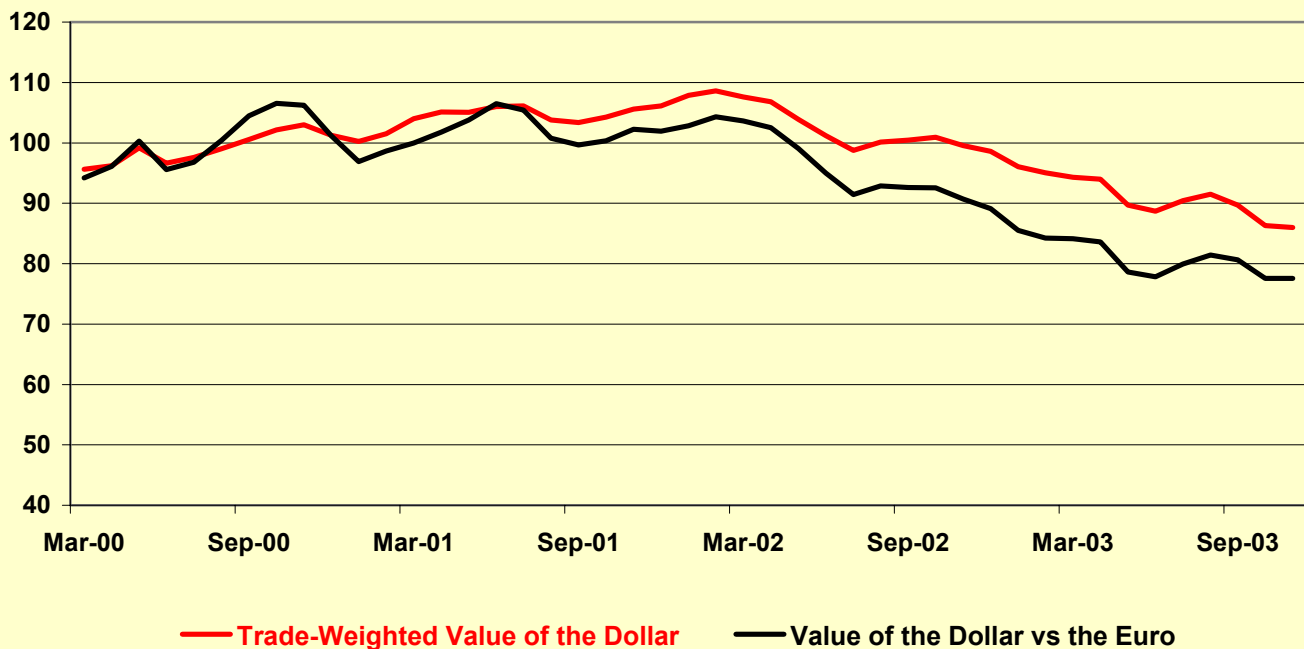
### The Weakening Dollar

The dollar has continued its decline in the world market. Compared to the Euro (€), the Dollar now stands at approximately \$1.17 to €1.00. This is a decline of approximately 17% in the last twelve months. This is shown in Figure 2 along with the trade-weighted value of the dollar. By either measure, the dollar has lost significant purchasing power in the world market.

which discretionary income is spent. A weak dollar does not help our agriculture sector. The demand for food items is relatively inelastic. A weak dollar is not expected to boost exports of grains, meats, and other food products.

By extension, a weak dollar decreases our ability to purchase inelastic demand items that we normally import. This would include oil. As the dollar declined over the last several years, what has happened to the price of oil? As we know, oil prices are quoted in dollars. If you have oil to sell on the world market and the purchasing power of the settlement currency is declining, you will most likely increase the price of oil to offset the declining value

## Figure 2: The Declining Dollar

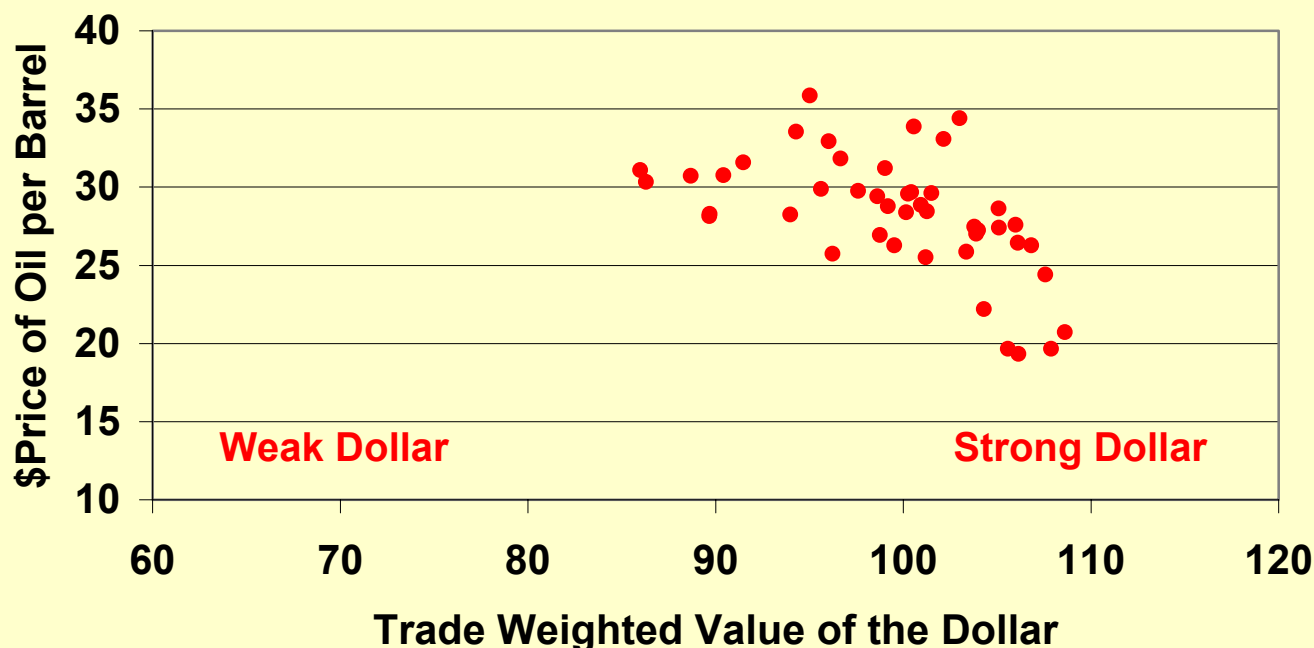


A weak dollar is generally thought to help our export business. This is not entirely correct. It assumes other countries want our finished goods and are in a position to purchase them. The other economies of the world are not doing so well that their consumers are looking for ways to spend their money. The aggregate demand for all goods produced in the world is down. This applies especially to items on

of the settlement currency. That is, the oil producing nations will raise prices to maintain their ability to purchase goods from other countries due to the decreased purchasing power of the dollar. The relation between the value of the dollar and the price of a barrel of oil over the last few years is illustrated in Figure 3.



**Fig 3: Oil Prices & the Dollar's Value**  
(Scatterplot Covers Mar 2000 thru Nov 2003)



**One consequence of the weak dollar seems to be a high price for oil.** The effect of this has been high gasoline prices, higher production costs for businesses that use oil to heat their buildings, produce their goods and transport their goods to stores to sell.

According to the Bureau of Economic Analysis, approximately 21% of the balance of trade deficit over the last three years can be attributed to net petroleum imports. **As long as the dollar remains weak, you should not expect significant decreases in oil prices.** Higher direct and indirect oil related prices have left the consumer with less money to spend on other items, including vacations in Colorado. While a local economic recovery is expected, tourism and expenditures on discretionary items by consumers may be a little slower than might otherwise be expected. As a result, gains in hotel occupancies, tourist expenditures and general sales tax collections might not be as strong as the general recovery the Forum expects for El Paso County in 2004.

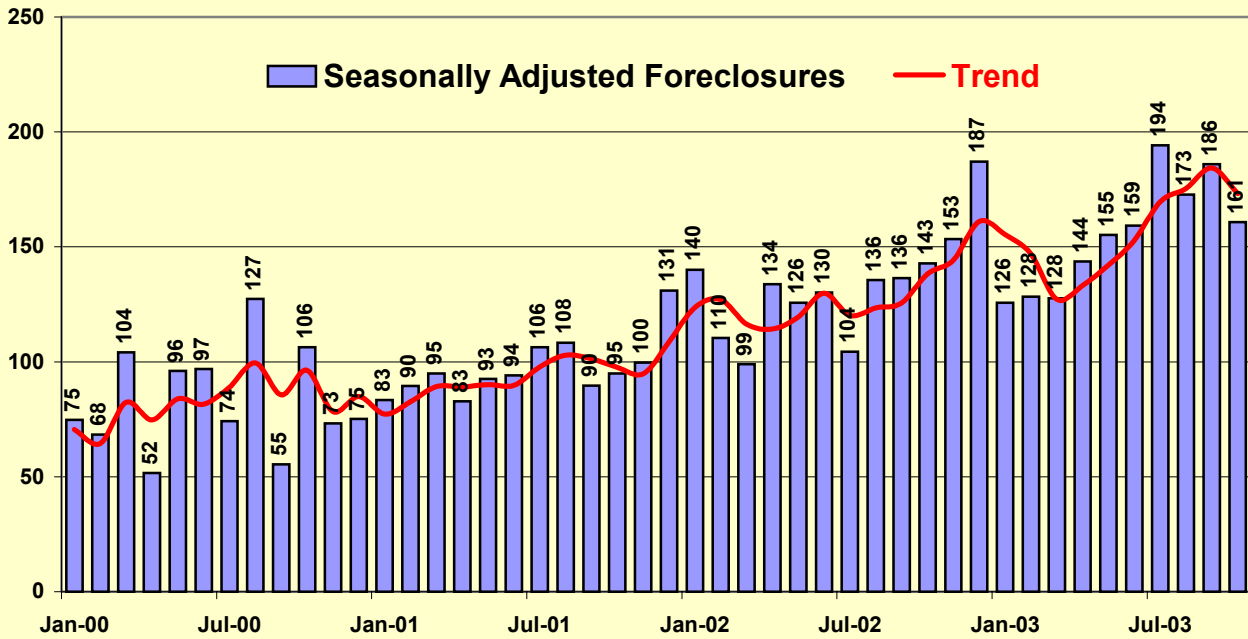
## Foreclosures

**The Forum's latest analysis supports its previous observations that foreclosures appear to have peaked in El Paso County.** The most recent data are summarized in Figure 4.

The 139 foreclosures in November 2003 were almost identical to the 136 in November 2002. **More importantly, a trend line fitted to the seasonally adjusted monthly data suggests strongly the worst of the foreclosures is behind us.** Fewer foreclosures translate to rising household incomes. Higher incomes will translate to increased business activity for local merchants over the coming year. They will need to hire more workers. Unemployment rates will continue to decline. Our local economy will continue to improve over the next twelve months.



Figure 4: Foreclosures in El Paso County



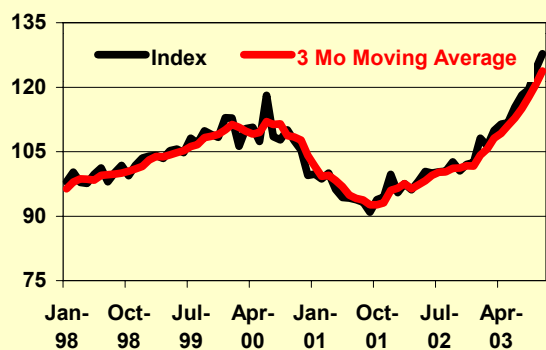
### Information and Technology

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 have moved well beyond recovery. ITI now stands at a record high of 127.77. This is 27.11% higher than it was a year ago in October 2002.

Based on the data on the ITI sector, the Forum believes the technology sector is ready for another boom over the next few years. Microsoft has discontinued support of Windows 95 and Windows 98. Users will have to migrate to Windows XP as new software arrives on the market and takes advantage of the enhancements in XP. New hardware will be purchased because the old hardware will prove to be too slow for the coming generation of software.

The extent of the technology impact on Colorado Springs is uncertain. We have lost a number of jobs and employers in the ITI sector. However, there are still several thousand positions in technology in the area. We will benefit from ITI's growth but at an unknown level at this time.

Fig 4: Information Technology Index March 2001 = 100





## National Expectations

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

	Annualized Rate for				
	Q4 '03	Q1 '04	Q2 '04	Q3 '04	Q4 '04
GDP growth	4.0%	3.9%	3.9%	3.7%	3.8%
Inflation for	2.2%	2.1%	2.0%	2.2%	2.2%
3-Month T-Bill	1.0%	1.0%	1.1%	1.3%	1.5%
10-Year T-Bond	4.4%	4.5%	4.6%	4.8%	4.9%
Unemployment	6.0%	5.9%	5.8%	5.8%	5.6%
Chance of decline in real GDP over next 4 quarters	4.0%	6.0%	8.0%	9.0%	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. Jerry Peden, Senior Vice-President, Van Gilder Insurance Company, for providing the *QUE* with this timely article on an unexpected potential liability for many businesses.

### **Food Fiiiiiiight!!!!!!!!!!**

First, there was asbestos. Then there was the big tobacco settlement. After that, well, asbestos came back. Now comes...*fast food*??!! Yep, that's what experts are prognosticating may be the next big pot of gold for trial lawyers...and insurers' next unanticipated nightmare.

You've heard the story. About two out of every three Americans are overweight or obese, and fat-related illnesses such as heart disease have become

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

the second greatest cause of preventable deaths in the country behind tobacco-related illnesses. Some say the fast-food and snack-food industries are to blame. In fact, a number of class action lawsuits have been filed against restaurants and snack-food makers, claiming they and the food manufacturers should be held liable for the consequences of the consumption of their products, which may contain high amounts of fat.

While insurance companies have not yet had to pay to defend or settle most of the myriad of cases facing the tobacco industry, insurers are keeping a close eye on what happens in these food cases. Steve Knutson, director of emerging issues for Zurich North America -- one of the largest insurers of food-related businesses -- singled out obesity as one of a handful of issues that could develop into a significant challenge for the industry. Conversely, it may represent a coverage opportunity. "From a liability insurance standpoint, this is new ground. Like with any emerging exposure, insurers will review underwriting and coverage implications." (*Best's Review, August 2003*)

From small, individually owned restaurants buying "package" policies that include general liability, product liability, liquor liability, and property coverage to larger operations that purchase stand-alone coverages, most policies are similar. Liabilities covered typically include premises (with claims such as vandalism, slip-and-fall) and Operations (with claims such as food spoilage, food poisoning, and damage from spilled food). Because the food industry is so entwined in the economy, the implications are significant. Stay tuned...we'll keep watching the lawsuits and industry reaction.

**If you would like more information about appropriate insurance coverage for your business, please contact:**

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## About the Forum

The Southern Colorado Economic Forum recently completed a Community Audit under a grant from the Department of Labor and the Small Area Forecast to year 2030 under a contract from Pikes Peak Area Council of Governments (PPACG).

The Community Audit performed an assessment of the local demand and supply of labor. The study demonstrated how a more diversified employment base could decrease unemployment in the community. A copy of the study is available from the Forum by contacting Fred Crowley at [fcrowley@uccs.edu](mailto:fcrowley@uccs.edu) and putting Community Audit as the Subject.

The Small Area Forecast made projections for population, housing, household incomes, employment, school enrollments and other socioeconomic variables in five year increments to the year 2030. The Small Area Forecast will be available for purchase from PPACG. You can learn more about this from Andy Firestine at PPACG (471-7080 ext 108).

Forum sponsorship is available at a number of levels and benefits. Contact Tom Zwirlein at (719) 262-3241 or [tzwirlei@uccs.edu](mailto: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. 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.

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**Table 2: Selected Economic Indicators**

<b>Table 2: Selected Economic Indicators</b>													
<b>National Quarterly Data</b>													
		2002 Q4			2003 Q1			2003 Q2			2003 Q3		vs. Year Ago
Consumer Debt/Disposable Income		13.29%			13.29%			13.30%			na		0.02%
Employment Cost - Benefits SA 1986=100		174.70			178.90			181.30			183.80		11.20
Employment Cost - Compensation SA 1986=100		166.30			164.90			166.30			168.00		6.50
e-Sales as % of Retail Sales NSA		1.59%			1.54%			1.45%			1.52%		0.18%
e-Sales NSA (billions)		13.77			11.928			12.464			13.291		2.83
GDP Real Annual Growth (Chained) SA		1.40%			2.00%			3.10%			8.20%		4.20%
Retail Sales NSA (billions)		864.7			772.2			858.8			872.5		50.38
<b>National Monthly Data</b>													
	Nov-02	Dec-02	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	vs. Year Ago
Capacity Utilization (all industry) SA	75.60	74.90	75.20	75.40	74.80	74.20	74.10	74.00	74.50	74.50	74.90	75.10	-0.40
Car & Light Truck Sales Annualized SA	15.94	18.21	16.10	15.35	16.07	16.36	16.01	16.31	17.21	18.86	16.59	15.50	0.16
Consumer Sentiment (1966=100) SA	84.26	88.18	82.37	81.80	77.17	85.92	88.24	87.55	89.40	89.47	89.00	93.36	9.59
CPI-U 1982-84=100 SA	181.40	181.60	182.20	183.30	183.90	183.30	183.30	183.70	183.90	184.50	185.00	185.00	2.10%
Industrial Production (1997=100) SA	1.34	1.24	1.24	1.26	1.25	1.26	1.26	1.22	1.01	1.03	1.01	1.01	-0.74
Inventory/Sales Ratio SA	111.16	110.61	111.16	111.58	110.77	110.09	110.02	109.99	110.83	110.86	111.49	111.94	0.82%
Federal Funds (Effective) % NSA	1.38	1.39	1.39	1.41	1.39	1.41	1.41	1.39	1.36	1.36	1.36	1.35	-0.03
Mortgage Rate 30 Year Conventional % NSA	6.07	6.05	5.92	5.84	5.75	5.81	5.48	5.23	5.63	6.26	6.15	5.95	-0.16
Prime Rate NSA	4.35	4.25	4.25	4.25	4.25	4.25	4.25	4.22	4.00	4.00	4.00	4.00	-0.75
Purchasing Managers Index SA	49.20	55.20	53.90	50.50	46.20	45.40	49.40	49.80	51.80	54.70	53.70	57.00	8.50
Retail & Food Service Sales (billions) SA	301.63	305.82	307.05	302.74	309.57	308.68	310.21	313.14	317.51	320.70	319.62	319.50	6.53%
Technology Index (March 2001 = 100) SA	102.00	102.50	108.12	106.33	109.88	111.44	111.69	115.37	118.18	119.48	124.12	127.77	27.25
West Texas Oil Spot Price Barrel NSA	26.27	29.42	32.94	35.87	33.55	28.25	28.14	30.72	30.76	31.59	28.29	30.33	1.48
<b>Colorado Data</b>													
Denver-Boulder CPI SA		185.1						187.8					1.73%
Colorado Purch Mgr Index SA	54.56	55.01	50.95	50.90	48.38	52.38	55.05	55.04	60.53	68.90	61.83	61.09	11.42
Labor Force NSA (000's)	2,371.4	2,435.3	2,425.5	2,426.9	2,427.5	2,443.8	2,459.7	2,501.3	2,505.9	2,514.1	2,509.5	2,495.2	4.45%
Labor Force SA (000's)	2,371.4	2,435.3	2,455.8	2,460.0	2,455.7	2,474.3	2,477.6	2,471.0	2,478.2	2,483.6	2,481.9	2,477.8	88.57
Employment NSA (000's)	2,248.3	2,296.4	2,281.8	2,287.2	2,282.0	2,299.2	2,325.2	2,352.1	2,364.2	2,375.9	2,374.2	2,364.6	94.83
Employment SA (000's)	2,302.9	2,299.1	2,321.3	2,324.7	2,315.0	2,327.1	2,334.4	2,329.1	2,336.7	2,342.2	2,342.9	2,342.7	37.39
Unemployment Rate % NSA	2.89	5.59	5.48	5.50	5.73	5.95	5.78	5.74	5.71	5.69	5.60	5.45	1.94
Unemployment Rate % SA	5.19	5.71	5.92	5.76	5.99	5.92	5.47	5.97	5.66	5.50	5.39	5.23	0.24
<b>Colorado Springs MSA Data</b>													
Business Conditions Index SA	92.67	95.70	95.37	94.79	83.73	92.33	90.39	92.75	99.08	100.06	99.13	99.82	1.88%
Colorado Springs Airport Enplanements SA	81,153	93,190	94,545	90,170	84,523	82,247	80,035	78,834	81,183	82,351	85,195	93,898	6.18%
Foreclosures SA	157	187	126	128	128	144	155	159	194	172	185	160	12.53%
New Car Sales SA	2,016	1,986	2,158	2,269	1,546	2,051	1,808	1,986	2,159	2,147	2,254	2,104	-7.49%
Sales & Use Tax for Month (000's) SA	9,371	8,982	9,236	8,891	8,304	8,790	8,492	8,581	8,662	9,003	8,555	8,955	-4.03%
Single Family Permits SA	316	362	357	354	246	327	308	347	465	421	424	401	-4.07%
Labor Force (000's) NSA	283.2	281.7	278.6	277.9	277.3	278.1	281.3	282.5	282.0	282.5	280.4	282.2	-0.89%
Employment (000's) NSA	265.2	263.9	260.7	260.9	259.6	260.7	265.3	264.1	264.5	266.0	264.2	266.6	-0.06%
Unemployment Rate % NSA	6.38	6.31	6.42	6.13	6.37	6.27	5.70	6.52	6.20	5.83	5.78	5.51	-0.39
Unemployment Rate % SA	6.43	7.25	6.12	6.08	6.16	6.36	6.34	5.55	5.99	5.88	5.82	5.71	-0.20