



Quarterly Updates and Estimates

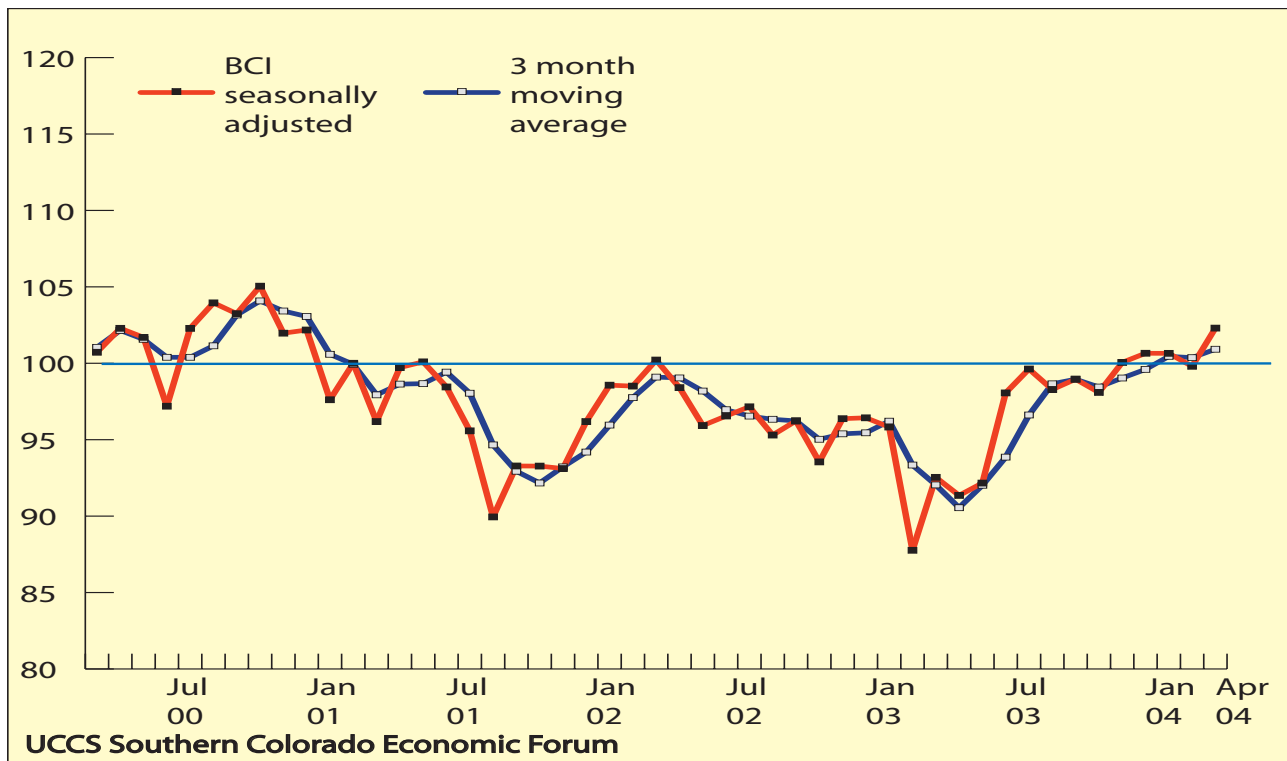
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Update on the Economy

The recovery is here and doing well. If anyone remains unsure about an economic recovery, rest assured the recovery is here, alive and doing well. The Southern Colorado Economic Forum's (Forum) Business Conditions Index (BCI) for April 2004 is now at 102.30.¹ An index value over 100 indicates the aggregate level of economic activity is greater than the reference period, March 2001 – the month the recession is said to have begun. The BCI is the highest it has been since November 2000 when it was 105.04. Currently, eight of the nine indicators in the BCI are higher than they were a year ago. The number of foreclosures compared to a year ago is the only indicator that is not doing better. The number of foreclosures is a lagging indicator and is expected to improve over the next several months as more people return to work, earn an income and extricate themselves from financial distress.

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



¹ BCI is a geometric index of nine seasonally adjusted data series. The El Paso County data are single-family and town home permits, new car sales, employment rate, foreclosures, ES202 employment. Colorado Springs data are sales and use tax collections and airport enplanements. Two non-regional sources are Creighton University's Purchasing Managers Index for Colorado and The University of Michigan's Consumer Sentiment. 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.



The number of enplanements at the Colorado Springs Airport was exceptionally strong in April. This is believed to be a blip and not indicative of greater strength at the airport. Fort Carson's troops returned from Iraq during the previous two months. They were given leaves to visit family and friends. A significant number of the troops are believed to have flown out of Colorado Springs to take their leaves. As a result, an "artificial" spike in the number of enplanements resulted for the month of April. The growth in April is not sustainable over the balance of the year. Improved enplanement activity is expected as tourism increases and the economy recovers. However, a small reduction in the airport's enplanement levels is expected before the sustainable growth is identified for the airport. The only BCI

component that is expected to be down this year is airport activity. Unless business travel increases and tourism is strong in 2004, enplanements at the Colorado Springs Airport are expected to be slightly lower in 2004 than they were in 2003.

The Colorado PMI is also exceptionally strong. The level of 144.12 indicates firms are expecting to increase production, employment and general levels of business over the coming months. The Forum believes the direction of movement in the PMI is correct but that it will slow down to a more sustainable 120-135 range over the next several months.

The rest of the indicators are doing about as expected and should continue to demonstrate additional gains over the course of the year. ***The BCI is projected to be approximately 104-105 by the end of year 2004.***

Table 1: Components of the BCI

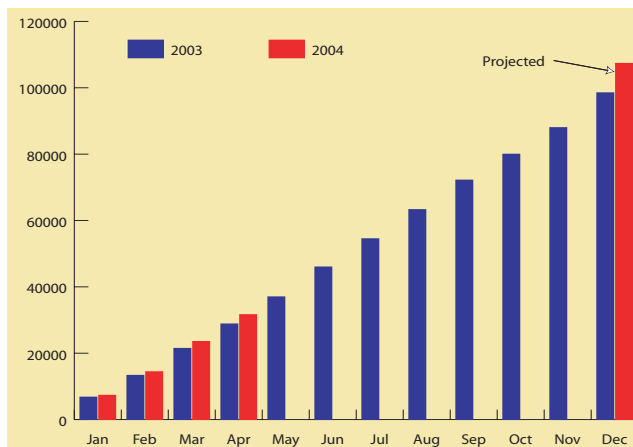
	COS Enplanements	El Paso SF & TH Permits	U of Mich Consumer Sentiment	CreightonU Colorado PMI	El Paso Employment Rate	Colorado Springs 2% Sales and Use Tax	El Paso New Car Sales	El Paso County Fore-closures	El Paso Employed	BCI
Apr-03	84.44	78.47	94.10	115.43	96.63	86.29	81.41	99.97	101.87	92.54
May-03	83.31	69.86	96.73	126.36	96.62	85.16	74.51	99.97	101.64	91.35
Jun-03	82.10	72.65	95.99	123.32	97.47	84.90	81.36	99.97	100.94	92.16
Jul-03	84.32	100.87	97.82	135.26	96.92	85.66	88.30	99.95	101.70	98.06
Aug-03	85.77	93.83	97.61	158.87	97.05	88.93	87.97	99.96	102.06	99.63
Sep-03	86.61	93.87	97.68	135.74	97.17	84.39	92.27	99.96	102.58	98.28
Oct-03	97.03	91.40	102.49	132.83	97.30	88.24	85.66	99.97	102.56	98.96
Nov-03	87.27	82.69	103.52	140.70	97.34	92.75	86.13	99.97	102.90	98.09
Dec-03	88.17	91.69	103.52	164.45	96.90	86.50	84.73	99.94	102.87	100.05
Jan-04	94.86	84.43	113.61	155.66	97.70	86.83	85.31	99.99	103.47	100.65
Feb-04	90.49	100.65	106.23	136.68	97.75	92.04	85.61	99.94	104.13	100.65
Mar-04	87.97	104.49	103.82	126.96	98.26	90.52	87.96	99.92	103.69	99.80
Apr-04	95.43	95.58	102.98	144.12	97.70	97.88	91.05	99.94	104.19	102.30
April 2004 Level Compared to:										
1 mo ago	8.48%	-8.53%	-0.81%	13.52%	-0.57%	8.13%	3.51%	0.02%	0.48%	2.51%
3 mo ago	0.60%	13.21%	-9.36%	-7.42%	0.00%	12.72%	6.73%	-0.05%	0.69%	1.64%
6 mo ago	-1.65%	4.58%	0.47%	8.50%	0.41%	10.92%	6.30%	-0.03%	1.59%	3.38%
12 mo ago	13.01%	21.81%	9.44%	24.86%	1.11%	13.43%	11.85%	-0.03%	2.27%	10.55%



Sales Tax Boom

The Forum indicated in the last issue of the *QUE* that it appeared the City of Colorado Springs would likely have a TABOR surplus in 2004. If the current trend in taxable retail sales continues for the balance of the year, the City will have a TABOR surplus of approximately \$8,000,000 to \$9,000,000 due to the strength in sales tax collections. This projection could vary

Figure 2: Cumulative Sales Tax Collections for Colorado Springs: 2003-04 (Actuals and Dec 2004 Projected)



over the coming months depending on how well the City's other revenue streams recover.

Interest Rate Expectations

The Forum continues to project higher interest rates in the coming months. Since the last issue of the *QUE*, all categories of interest bearing securities have seen increases in their yields. The following list is typical of the recent increases.²

90 day Treasuries	up 0.30%
1 year Treasuries	up 0.85%
10 year Treasuries	up 1.00%
30-year mortgage	up 0.85%
Aaa bonds	up 0.80%
Baa bonds	up 0.75%

The Federal Reserve Open Market Committee (OMC) is scheduled to meet June 29/30. Surveys among economists indicate they

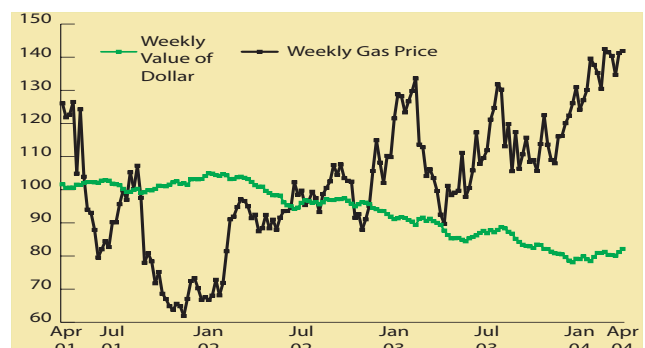
believe the OMC will increase the Discount Rate from 2.0% to 2.5%. This has been anticipated by financial markets for several months and is evidenced by the recent increases in yields across most securities. Small concerns exist about short-run inflationary pressures and an economy that may be growing too quickly. A preemptive interest rate increase under these circumstances is typical of what can be expected from the Federal Reserve.

If interest rates are not increased in June, the next opportunity the OMC will have to consider raising interest rates will be in August. The OMC does not meet in July. For this reason some believe a 0.75% increase in the Discount Rate will be announced in June. While possible, the Forum does not believe this is likely. **The Forum believes a 0.50% increase in the Discount Rate will be announced by the OMC after its June meeting.**

The Dollar and Gasoline Prices

The dollar remains relatively weak against many trading currencies. OPEC has increased its production of crude oil. Together, we have seen some moderation in the price of gasoline at the pump during the last few weeks. Regular,

Figure 3: Price of Gasoline and the Value of the Dollar (March 2001=100)



unleaded gasoline is now averaging \$1.85 to \$1.90 per gallon in the Colorado Springs market.

Nationally, the average price per gallon of gasoline hit \$2.05 at the end of May. Locally,

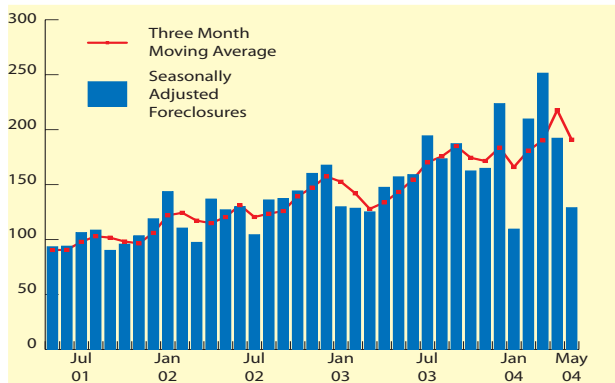


gasoline prices peaked at about \$1.99 per gallon. The Forum had projected a price ceiling of \$1.97 to \$2.11 per gallon. Significant additional price reductions are not expected this summer. The Forum believes Americans will have to budget a minimum of \$1.65 to \$1.75 per gallon in the fall when gasoline prices typically decline after Labor Day.

Foreclosures

There were 129 foreclosures in May 2004. This is a sharp decline from the 157 in May 2003. The Forum believes this is part of an emerging

Figure 4: Monthly Foreclosures in El Paso County



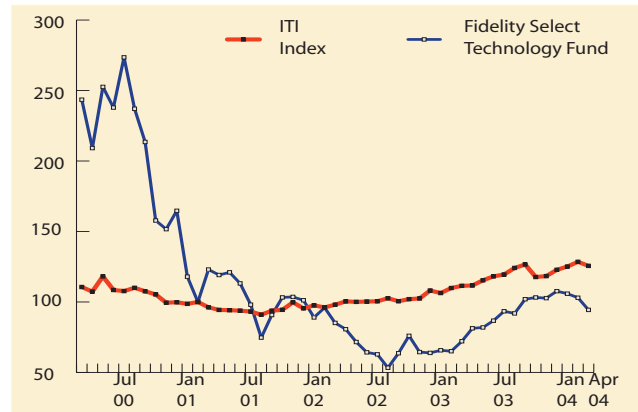
trend. Foreclosures are expected to decline by 100 to 150 fewer in 2004 compared to 2003.

Information and Technology

The Information and Technology Index (ITI) has moved slightly sideways over the last few months. At the same time, the Fidelity Select Technology Fund moved decidedly down (Figure 5). ITI remains strong. Its components point to backlogs in orders and near record low levels of inventories. New orders are also running at a very strong pace. This bodes well for our local technology employers. The most obvious of these might be Atmel and Intel. Strength in the technology sector should translate to increased business for our local chip manufacturers. In addition to gains in chips, strength in the software sector should

also be noticed. This is based on the belief that new chip designs will best be utilized by new software development. This will also benefit our local software developers. Employment in the

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

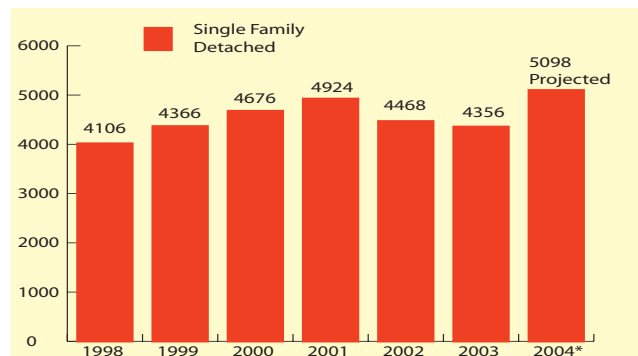


technology sector is expected to show improvement in the next three to six months.

Single Family Permits

Detached, single-family permits are running at near record levels. Based on data through May, the industry is expected to take out approximately 5,098 permits this year for detached single-family housing units. This is an increase of 742 units over 2003. Additional strength in single-family housing is seen in the number of town home permits taken out. Annualized data through May indicates 636 town home permits will be taken out in 2004.

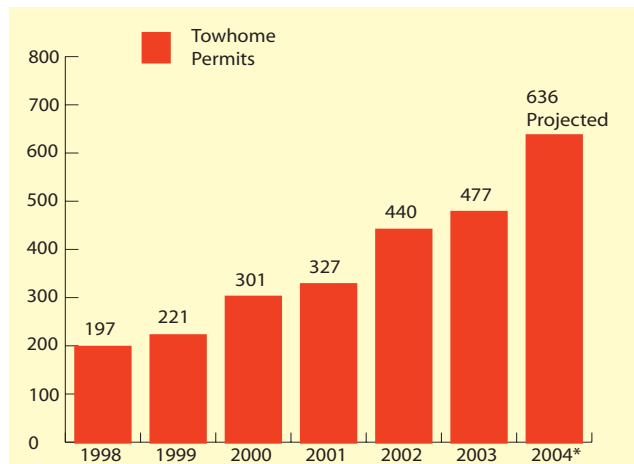
Figure 6: El Paso County Detached Single-Family Building Permits





The Forum normally reports the two categories together to be consistent with government

Figure 7: El Paso County Townhome Permits



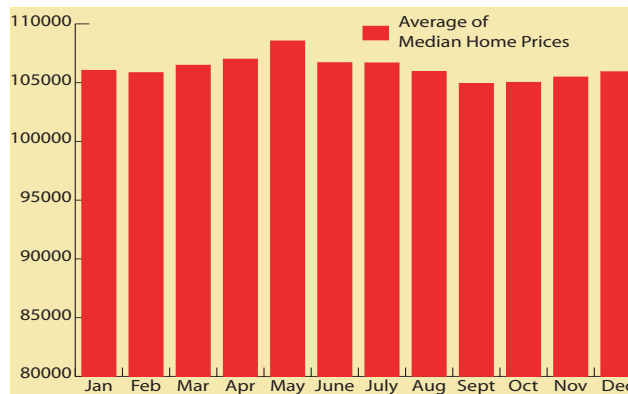
reporting standards. The combined number of single-family permits can be projected to be 5,734 units in 2004. The Forum believes a rise in interest rates will slow the housing market. A more likely range for single family and town home permits is 5,300 to 5,400 in 2004. This forecast will be studied carefully in the coming months and be revised as needed.

Seasonal Housing Prices

Recently, the Forum reviewed monthly housing prices in the region and found a significant, seasonal price pattern for homes sold in the area. The Forum obtained monthly house prices from the Pikes Peak Association of realtors and calculated the average of the monthly, median house prices from 1993 to May 2004. Prices were adjusted for inflation. The results are summarized in Figure 8. Prices peak in May and bottom-out in September. While other factors are at work, this matches moving dates for many families who try to minimize school enrollment conflicts for their children. Adjusting for inflation, there is approximately a \$3,500 difference in the price of a house between September and May. If inflation is ignored, on average, there is a difference of about \$8,000 in median prices between May and September. Between September 2003 and May

2004, the difference in the median price is approximately \$14,000.

Figure 8: Average of Median Single-Family Home Prices (Inflation Adjusted)



National Expectations

The latest expectations of professional economists for the next four quarters are summarized below.²

	Annualized Rate for				
	Q2-04	Q3-04	Q4-04	Q1-05	Q2-'05
Real GDP growth	4.5%	4.1%	4.0%	3.8%	4.0%
Inflation for	2.9%	2.2%	2.0%	2.1%	2.2%
3-Month T-Bill	1.0%	1.3%	1.6%	2.0%	2.4%
10-Year T-Bond	4.6%	4.8%	5.0%	5.2%	5.3%
AAA Corp Bond	5.9%	6.1%	6.3%	6.4%	6.6%
Unemployment	5.6%	5.5%	5.4%	5.4%	5.3%
Industrial Production	116	117	119	120	122
Chance of decline in real GDP over next 4 quarters	1.0%	4.0%	7.0%	10.0%	12.0%

In general, forecast expectations among economists continue to improve. Higher inflation rates are now projected for every quarter in the future than were projected in February. The consensus about inflation seems to be that it is expected to rise but it is not a material, long-run concern.

Nominal increases in inflation often reflect a healthy economy. It is believed the good health of the economy, and not inflationary pressures, will be responsible for the expectations of rising interest rates. All sectors of the economy are expected to increase their borrowing over the



coming months as consumers purchase more and businesses expand capacity to meet demand.

Mark your calendars to attend the Eighth Annual Southern Colorado Economic Forum on October 20 in the Antlers.

(Footnotes)

² These are approximate increases since March 2004.

³ Federal Reserve Bank of Philadelphia.

The eighth annual Southern Colorado Economic Forum will be held in the Antlers on October 20. It will provide a comprehensive review of the economy along with key projections for coming year.

The Forum will be enhanced this year to include a co-hosted EDC luncheon with a keynote speaker. The lunch will be followed by three concurrent panel sessions of interest to the business community. The main Economic Forum will follow the panel sessions and provide a comprehensive review and forecast of the economy and the quality of life in the Pikes Peak Region. More specific details will follow soon.

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

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TABLE 2: National Quarterly Data	2003 Q2			2003 Q3			2003 Q4			2004 Q1			Vs Year Ago
Banks, Charge-Off Rates % SA		0.90			0.83			0.74			0.73		-0.22
Banks, Delinquency Loan Rates % SA		2.42			2.21			2.18			1.95		-0.58
Employment Cost - Benefits SA 1986=100		181.10			183.80			186.30			191.20		16.50
Employment Cost - Compensation SA 1986=100		166.40			168.20			169.50			171.30		6.30
e-Sales as % of Retail Sales NSA		1.49			1.57			1.92			1.86		0.28
e-Sales NSA (billions)		12.72			13.65			17.51			15.52		3.40
GDP Real Annual Growth (Chained) SA		3.10			8.20			4.10			4.40		2.40
Retail Sales NSA (billions)		852.76			867.24			912.11			834.83		67.40
National Monthly Data	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03	Jan-04	Feb-04	Mar-04	Apr-04	Vs Year Ago
Capacity Utilization SA	74.10	74.00	74.50	74.50	74.90	75.00	75.70	75.60	76.20	76.70	76.60	77.10	2.90
Car & Lt Trk Sales Annualized Millions SA	16.01	16.31	17.21	18.36	17.00	15.92	16.93	17.69	16.07	16.34	16.61	16.37	0.01
Consumer Sentiment (1966=100) SA	92.10	89.70	90.90	89.30	87.70	89.60	93.70	92.60	103.80	94.40	95.80	94.20	8.20
CPI-U 1982-84=100 SA	183.30	183.50	183.80	184.50	185.10	184.90	184.60	184.90	185.80	186.30	187.20	187.60	4.20
Federal Funds % (Effective)	1.26	1.22	1.01	1.03	1.01	1.01	1.00	0.98	1.00	1.01	1.00	1.00	-0.26
Industrial Production (1997=100) SA	110.02	109.99	110.83	110.86	111.49	111.78	112.86	112.91	113.79	114.76	114.76	115.69	5.60
Inventory/Sales Ratio SA	1.41	1.39	1.36	1.36	1.36	1.35	1.34	1.33	1.33	1.33	1.30	1.30	-0.11
Mortgage Rate 30 Year Conventional % NSA	5.48	5.23	5.63	6.26	6.15	5.95	5.93	5.88	5.74	5.64	5.45	5.83	0.02
Prime Rate NSA	4.25	4.22	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	-0.25
Purch Mgr Index SA	50.00	50.40	52.60	55.00	54.70	57.10	61.30	63.40	63.60	61.40	62.50	62.40	16.20
Retail & Food Service Sales SA (billions)	308.64	311.53	315.37	318.94	317.46	318.06	321.80	322.34	323.92	327.00	333.82	331.94	24.54
S&P500	963.59	974.51	990.31	1,008.01	995.97	1,050.71	1,058.20	1,111.92	1,131.13	1,144.94	1,126.21	1,107.30	190.38
Technology Index SA - Mar 2001 = 100)	111.69	115.37	118.18	119.48	124.12	126.58	117.68	118.36	122.80	125.13	128.47	125.59	14.15
Trade Weighted Dollar	92.23	91.15	93.00	94.13	92.31	88.82	88.51	86.27	84.43	84.97	86.48	87.44	-9.26
West Texas Oil Spot Price Barrel NSA	28.14	30.72	30.76	31.59	28.29	30.33	31.09	32.15	34.27	34.74	36.76	36.69	8.44
Colorado Data													
Denver-Boulder CPI SA		187.8						185.7					0.6
Colorado Purch Mgr Index SA	61.8	56.4	63.9	76.3	59	56.1	59.3	66.1	64	58.3	53.2	70.3	14.2
Labor Force NSA (000's)	2,460.888	2,508.579	2,512.350	2,519.812	2,515.528	2,504.569	2,495.504	2,479.533	2,467.658	2,471.766	2,455.996	2,476.955	31.474
Labor Force SA (000's)	2,476.644	2,479.533	2,483.145	2,485.666	2,485.194	2,487.545	2,487.239	2,487.069	2,499.250	2,507.776	2,485.480	2,504.533	31.246
Employment NSA (000's)	2,316.044	2,348.051	2,358.291	2,371.238	2,371.432	2,365.868	2,351.418	2,338.421	2,319.180	2,329.682	2,327.368	2,348.415	56.945
Employment SA (000's)	2,324.311	2,327.096	2,329.939	2,334.197	2,336.592	2,340.624	2,341.379	2,340.225	2,359.894	2,370.030	2,364.308	2,377.295	57.085
Unemployment Rate % NSA	5.89	6.40	6.13	5.90	5.73	5.54	5.77	5.69	6.02	5.75	5.24	5.19	-1.11
Unemployment Rate % SA	6.15	6.15	6.17	6.09	5.98	5.91	5.86	5.90	5.58	5.49	4.88	5.08	-1.11
Colorado Springs Data													
Business Conditions Index SA	91.55	92.43	98.31	99.81	98.47	99.22	98.39	100.30	100.65	100.65	99.80	102.30	8.70
Colorado Springs Airport Enplanements SA	80,071.71	78,893.00	80,925.55	82,275.70	84,916.07	93,519.19	83,776.54	84,730.50	91,083.93	86,893.06	84,472.95	91,632.58	9,410.54
Foreclosures SA	155.24	159.09	194.01	172.97	186.76	162.60	165.50	226.08	109.54	209.72	251.40	192.22	48.36
New Car Sales SA	1,815.29	1,993.72	2,165.62	2,158.45	2,259.20	2,099.87	2,109.00	2,069.33	2,089.27	2,096.62	2,154.23	2,229.85	161.29
Sales & Use Tax for Month of SA (000's)	8,586.23	8,560.13	8,636.69	8,966.30	8,508.84	8,896.81	9,351.86	8,721.31	8,754.74	9,279.89	9,126.43	9,868.62	1,168.54
Single Family Permits SA	339.14	348.74	483.46	448.58	448.47	436.07	399.52	438.31	404.40	482.08	500.50	457.82	80.70
Labor Force NSA (000's)	282.92	285.94	285.54	285.43	286.39	286.74	286.38	283.85	280.89	282.77	280.50	283.86	3.22
Employment NSA (000's)	265.67	266.18	266.55	267.72	269.10	270.26	269.47	267.24	263.89	266.43	265.50	267.94	5.91
Unemployment Rate % NSA	6.10	6.91	6.65	6.20	6.04	5.75	5.90	5.85	6.05	5.78	5.35	5.61	-1.02
Unemployment Rate % SA	6.78	5.92	6.47	6.34	6.23	6.10	6.06	6.16	5.69	5.64	5.15	5.69	-1.06