



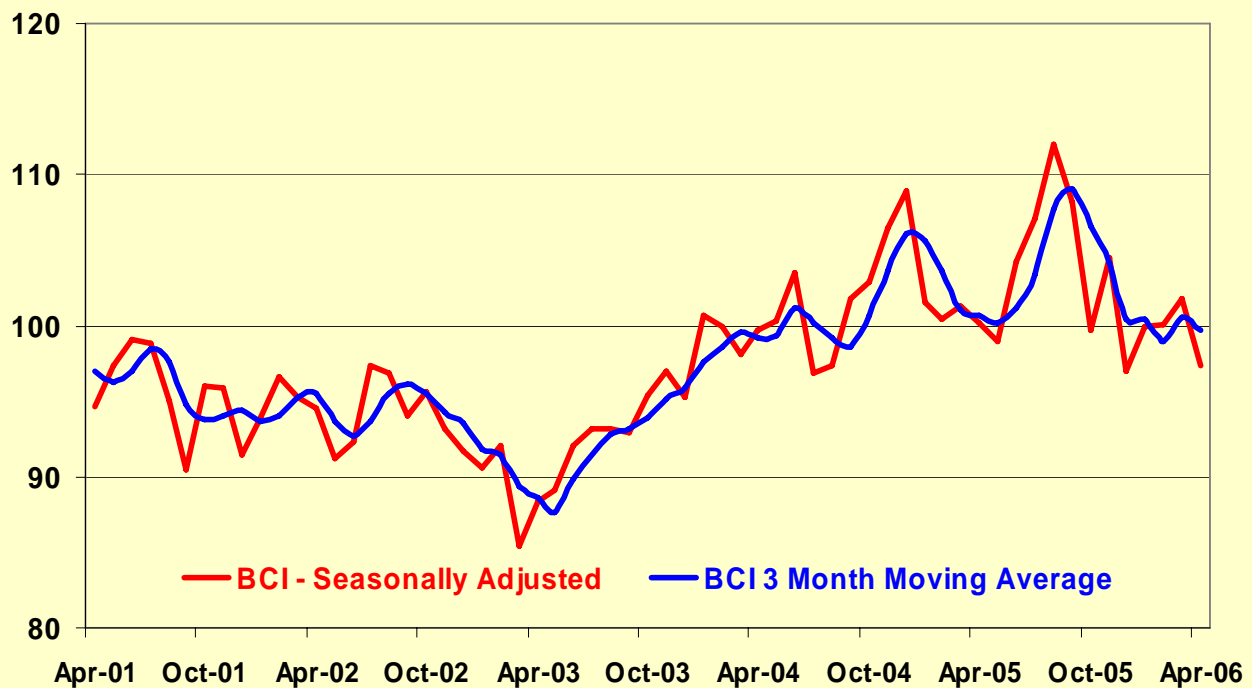
Quarterly Updates and Estimates

Volume 5, Number 1, June 2006
Fred Crowley - Senior Economist

Update on the Economy

Continued Expansion? The recent drop in the Business Conditions Index (BCI) suggests the expansion that began after the 2001 recession may be coming to an end. The April 2006 BCI value was 97.36, a drop of 2.9 percent compared to April 2005 and a drop of 4.4 percent compared to March 2006. There appears to be a downward trend.

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



A review of the components in the BCI indicates Enplanements, El Paso County Single Family/Town Home Permits (Permits), the Colorado Purchasing Managers Index (PMI), Colorado Springs Sales Tax Collections (Taxes), and El Paso County New Car Sales (Car Sales) have declined since March 2006. Declines in enplanements and taxes were nominal. The largest decline was in the PMI. However, it was expected since the



	COS Enplane- ments	El Paso SF & TH Permits	U Of Mich Con Sent	Creighton CO PMI	El Paso Employ- ment Rate	Colorado Springs 2% Sales & Use Tax	El Paso Car Sales	El Paso Fore- closures	El Paso Employed	El Paso Income	BCI
Jan-05	87.34	127.21	101.92	126.01	98.04	102.48	88.81	94.79	101.98	94.80	101.56
Feb-05	87.66	120.03	104.51	127.28	97.70	99.00	88.36	87.50	103.81	95.85	100.41
Mar-05	90.45	111.25	101.36	147.47	97.71	102.53	86.52	87.50	103.90	96.20	101.32
Apr-05	87.85	123.23	97.70	145.96	97.73	95.89	71.09	98.44	103.88	97.22	100.22
May-05	87.91	100.85	91.14	146.94	97.63	97.68	78.84	98.44	104.34	98.03	98.94
Jun-05	85.08	105.20	101.91	161.63	98.13	96.90	82.72	127.60	104.08	98.19	104.22
Jul-05	88.88	98.19	104.34	162.57	98.05	97.42	91.95	142.19	104.40	102.10	107.02
Aug-05	90.90	105.06	97.25	147.10	98.16	140.00	110.00	142.19	104.08	101.75	112.01
Sep-05	92.24	104.66	86.77	142.60	98.15	150.00	86.62	134.90	104.49	102.12	108.17
Oct-05	89.33	87.75	85.43	145.01	98.42	99.01	82.01	116.67	103.93	103.03	99.69
Nov-05	91.66	132.35	91.53	135.54	98.37	99.28	75.00	131.25	104.18	102.73	104.47
Dec-05	86.51	103.77	82.00	115.00	98.47	102.58	84.00	94.79	104.67	103.27	96.98
Jan-06	88.76	104.19	97.13	166.48	98.37	102.57	77.96	80.21	105.26	99.54	99.88
Feb-06	90.92	95.05	96.12	174.63	98.73	105.26	86.10	72.92	105.74	100.26	100.03
Mar-06	90.82	91.87	97.32	191.46	98.80	107.77	91.74	72.92	107.35	100.92	101.84
Apr-06	89.87	80.12	97.65	141.40	98.95	105.66	76.91	87.50	107.76	101.55	97.36
April 2006 Compared to:											
Mar-06	-1.0%	-12.8%	0.3%	-26.1%	0.2%	-2.0%	-16.2%	20.0%	0.4%	0.6%	-4.4%
Jan-06	1.2%	-23.1%	0.5%	-15.1%	0.6%	3.0%	-1.3%	9.1%	2.4%	2.0%	-2.5%
Oct-05	0.6%	-8.7%	14.3%	-2.5%	0.5%	6.7%	-6.2%	-25.0%	3.7%	-1.4%	-2.3%
Apr-05	2.3%	-35.0%	0.0%	-3.1%	1.2%	10.2%	8.2%	-11.1%	3.7%	4.5%	-2.9%

PMI was at an unsustainable level to a still very strong level of 141.40. Much of the decline in the BCI are attributable to the recorded drops in single family and town home permits and El Paso County new car sales.

Housing permits declined 12.8 percent from March to April and have declined 35 percent since April 2005. Auto sales decline 16.2 percent from March to April 2006. The drop in housing permits is tied to a number of factors, including interest rates, slow job growth and the recent consumer satiation of new housing demand. The decline in auto sales reflects higher energy prices, the number of troops deployed to Iraq and a general lack of consumer confidence.

None of the declines are thought to be long run concerns. Gasoline prices will eventually be factored into consumer budgets. The number of troops at Fort Carson is expected to increase within 18 months, even if several thousand of the troops are deployed overseas at any point. The arrival of the remaining Fort Carson BRAC05 troops is now expected to take place in late 2007 to the middle of 2008. Together with job announcements expected from the EDC, the new troops will increase the demand for housing, increase the demand for autos and take air flights to visit friends and family. Sales taxes are expected to increase as the new troops spend their incomes among local merchants. While there is a slightly bumpy road ahead, the Forum currently anticipates a stabilizing of the local economy and good growth over the next few years.



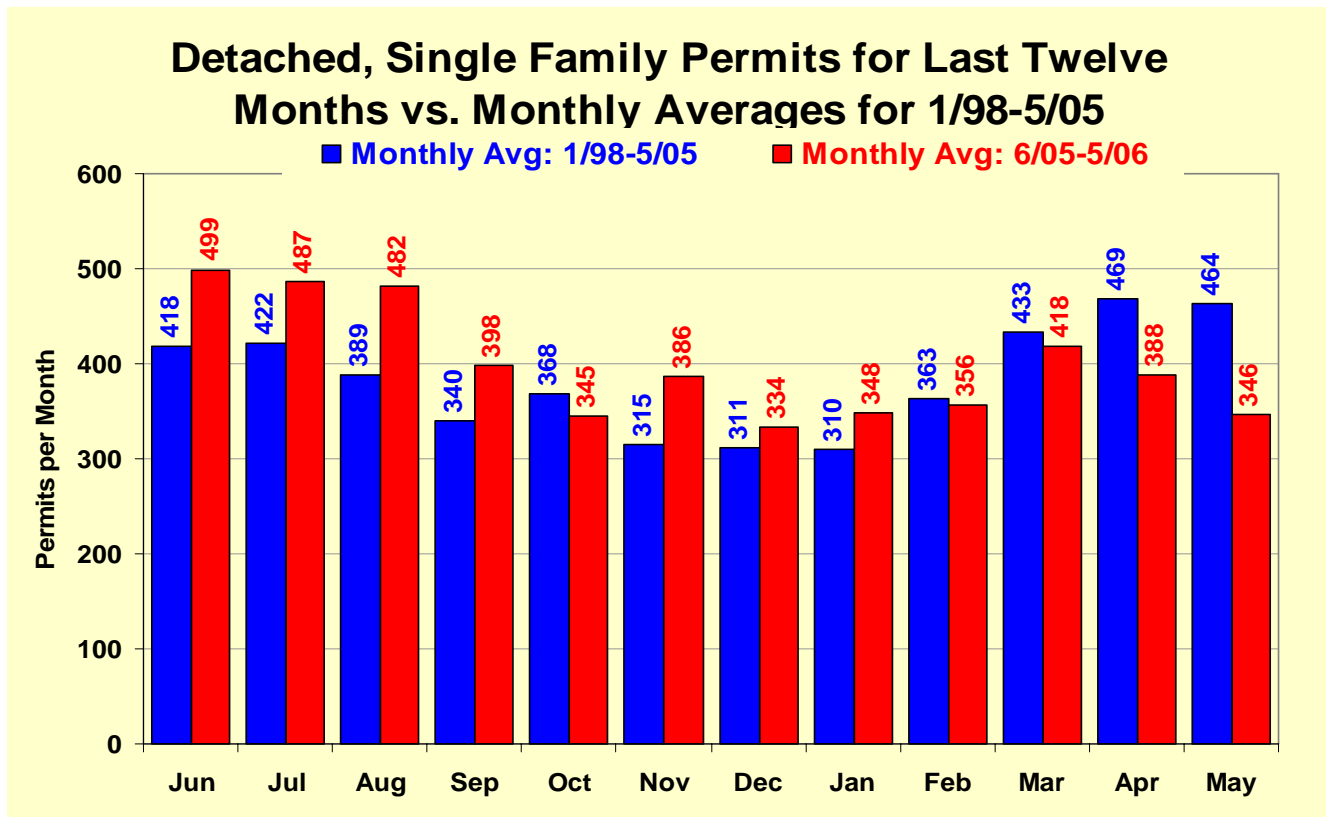
Single Family Permit Activity

Single family permit activity in 2006 has been significantly below the record levels in 2005. Detached permits are down 25 percent this year. Town home permits are down 21.8 percent. Higher interest rates are often cited as the culprit. This is not a convincing argument. For a \$200,000, 30 year, conventional mortgage the mortgage monthly payments would be:

Interest Rate	Payment
5.50%	\$1,135
6.75%	\$1,297

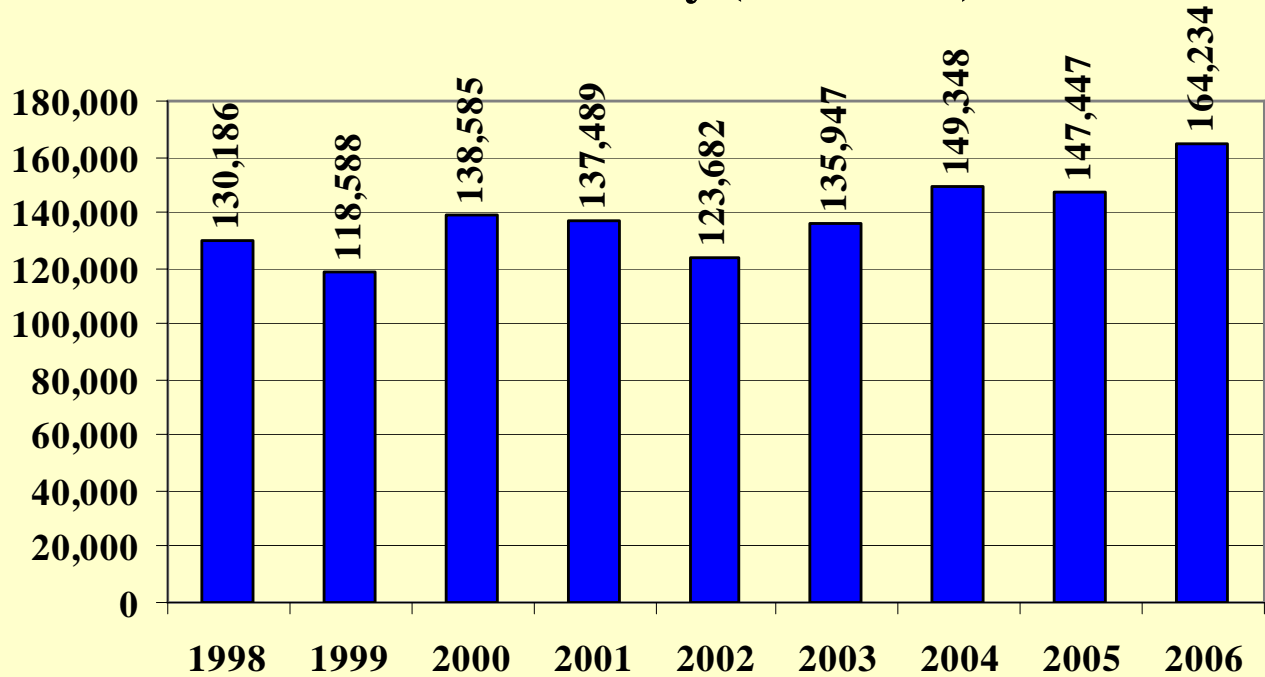
This is a difference of \$162 a month or \$1,944 a year. This is not believed to be a financial “reach” for anyone except the marginal house buyer. Inventory adjustments are also believed to be a factor in this year’s decline in permits.

Although permit activity is lower than it was in 2005, permit values are significantly higher in 2006 than they were in 2005. The average detached, single family permit value through May 2006 is \$164,234. This is over 11 percent higher than the average value in all of 2005. There is a possible explanation for this divergence. It may be the first time or marginal home buyer is buying fewer new homes in 2006. The remaining new home buyers appear to have strong financial means, given the value of the permits taken out through May 2006. Alternatively, permit values may be increasing due to higher material costs and development fees. The higher costs along with higher mortgage rates may be combining to push more buyers out of the market.





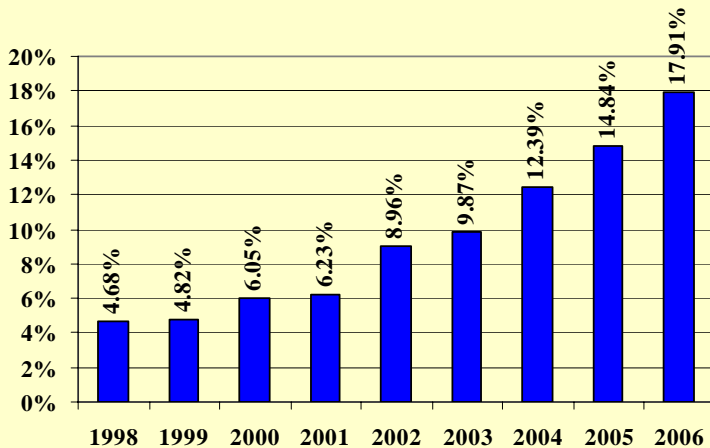
Average, Single Family Permit Value in El Paso County (Detached)



2006 is through May 2006

If the first time home buyer and/or marginal buyer are not purchasing detached single family homes, what are they buying? Based on the trends shown in the graph and table below, it may be town homes. It also appears there may be a bifurcated housing market.

Market Share of Town Home Permits to All Single Family Homes



Single Family Housing Trends in El Paso County

Year	Detached	Attached	Town Home Market Share
1998	4,016	197	4.68%
1999	4,366	221	4.82%
2000	4,676	301	6.05%
2001	4,924	327	6.23%
2002	4,468	440	8.96%
2003	4,356	477	9.87%
2004	5,062	716	12.39%
2005	5,319	927	14.84%
2006*	1,856	405	17.91%

* 2006 data are through May 2006.



Interest Rate Expectations

The Forum has systematically pointed to high and rising energy prices as a probable cause for inflation concerns. Inflation concerns would, invariably, bring about actions by the Federal Open Market Committee to raise interest rates. Federal Reserve Chairman Ben Bernanke participated in the International Monetary Conference on June 5, 2006 in which he made clear the Federal Reserve's concerns about the U.S. economy. Selected portions of his statement are provided below.

Consumer price inflation has been elevated so far this year, due in large part to increases in energy prices. Core inflation readings--that is, measures excluding the prices of food and energy--have also been higher in recent months. While monthly inflation data are volatile, core inflation measured over the past three to six months has reached a level that, if sustained, would be at or above the upper end of the range that many economists, including myself, would consider consistent with price stability and the promotion of maximum long-run growth. For example, at annual rates, core inflation as measured by the consumer price index excluding food and energy prices was 3.2 percent over the past three months and 2.8 percent over the past six months. For core inflation based on the price index for personal consumption expenditures, the corresponding three-month and six-month figures are 3.0 percent and 2.3 percent. These are unwelcome developments.

There is a strong consensus among the members of the Federal Open Market Committee that maintaining low and stable inflation is essential for achieving both parts of the dual mandate assigned to the Federal Reserve by the Congress. In particular, the evidence of recent decades, both from the United States and other countries, supports the conclusion that an environment of price stability promotes maximum sustainable growth in employment and output and a more stable real economy. Therefore, the Committee will be vigilant to ensure that the recent pattern of elevated monthly core inflation readings is not sustained.¹

Bernanke's comments reflect the statement by the Federal Open Market Committee after its May 2006 meeting. The committee noted *as yet, the run-up in the prices of energy and other commodities appears to have had only a modest effect on core inflation, ongoing productivity gains have helped to hold the growth of unit labor costs in check, and inflation expectations remain contained. Still, possible increases in resource utilization, in combination with the elevated prices of energy and other commodities, have the potential to add to inflation pressures.²*

The Forum's assessment of current economic conditions is we will see higher short term interest rates from the Federal Reserve in June as it endeavors to control inflation and reign economic growth to a more sustainable level of 3.00 to 3.25 percent.

Information and Technology

Aside from a sideways movement during the first ten months of 2004, the Forum's Information and Technology Index (ITI) has shown a strong upward trend. All components of the ITI have been improving since their low points in the spring of 2001. Much of the improvements ties to the industry's record levels. Unfilled orders, new orders and value of

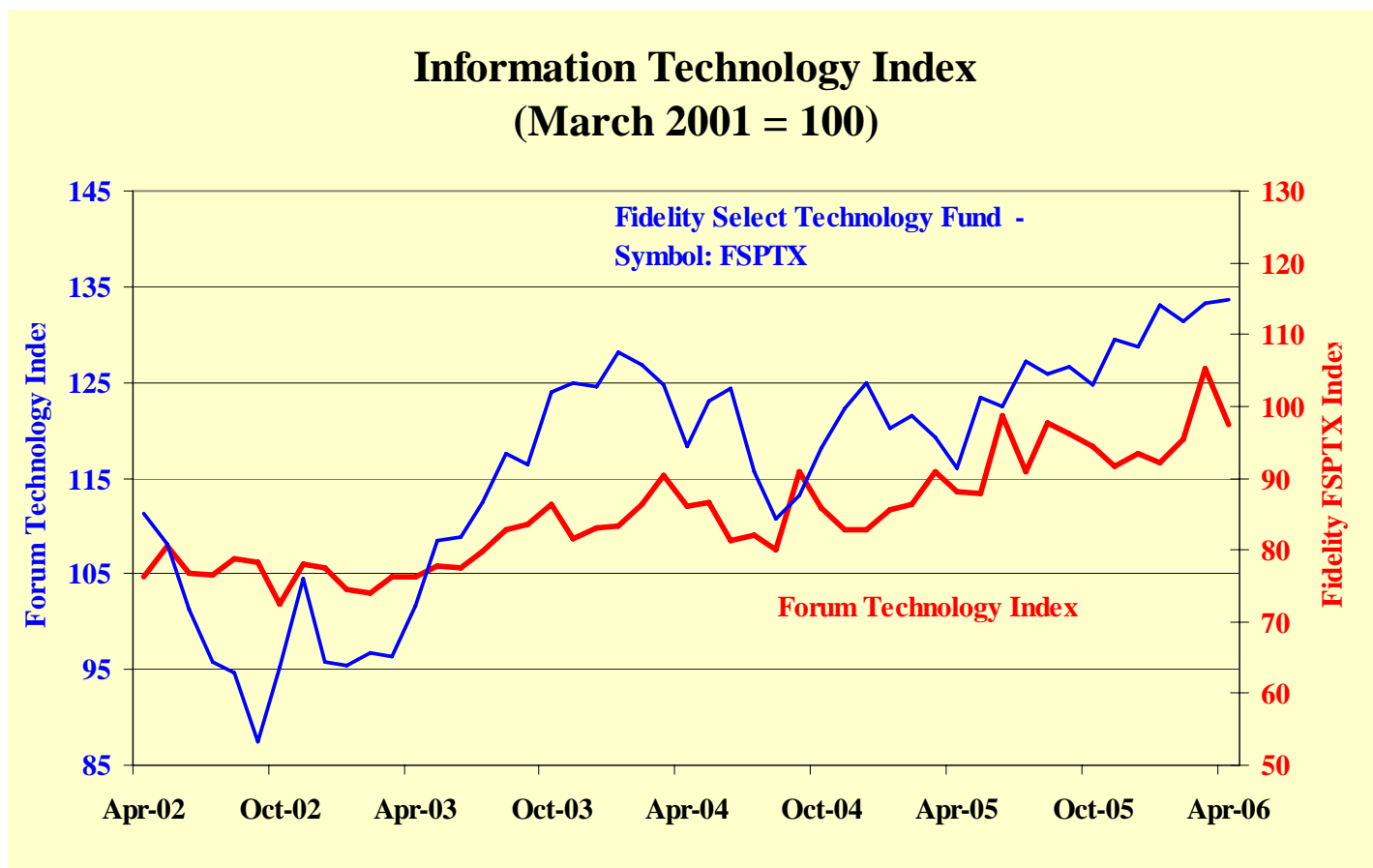
¹ Ben S. Bernanke, Panel Discussion: Comments on the Outlook for the U.S. Economy and Monetary Policy, International Monetary Conference, Washington, D.C., June 5, 2006.

² Federal Open Market Committee Press Release, May 10, 2006.



shipments are all at record high levels since the spring of 2001. Adjusting for sales volume, sales to inventory levels are at a record low level in the industry.

Given the collective strength of the industry's measures, the Forum does not anticipate deterioration in the industry in the near future. The continued strength of the industry is expected to continue to benefit our local technology manufacturers. Individual firm contracts aside, the local industry could be in for an increase in business.



National Expectations

June 2006, marks the 55th month of expansion that began in November 2001. Since World War II, the average expansion phase, coming out of a recession, has lasted approximately 57 months. Will we continue to see more growth or stall and go into a recession?

The Conference Board publishes some of the most respected economic indicators. The Index of Leading Economic Indicators had a value of 138.9 (1996 = 100). This was down 0.1 percent from March. Naturally, one month's change cannot determine a trend. Over the last six months, the index grew 1.5 percent.

Adding support to the implied strength of the LEI is the index of Coincident Economic Indicators (CEI). During the last six months, the CEI increased 1.7 percent. Finally, the index of lagging indicators continues to



lag, as expected. Evidence from The Conference Board suggests the economy is expanding, albeit a little slower than it has in the recent past. All Conference Board indicators point to growth.

A broader barometer of the economy is GDP. Initially, a 4.8% annualized real growth in GDP was reported for the first quarter of 2006. It was revised upward to 5.3%. This also points to strong growth. Federal Reserve Chair, Bernanke, has stated he does not believe this is sustainable and is concerned about inflationary pressures.

The consumer is responsible for about 2/3 of the U.S. economy. Unfortunately, the consumer is under a bit of financial distress. The savings rate in 2005 was negative. The April 2006 annualized savings rate is -1.6%. This is a concern.

Household finance charges are now 18.62% of income. Prime mortgage defaults have risen to a 0.76% rate. Sub-prime mortgage defaults have risen to 4.02%. Home equity loans are used by 47.79% of mortgagees. Depending on the area, upward of 40% to 50% of all mortgages are variable rate, interest only mortgages and are subject to interest rate increases as the Federal Reserve raises interest rates.

Consumer Sentiment has dropped 15% over the last two years. Energy prices are consuming disproportionate income amounts leaving less to spend on other items. The April Beige Book reported all Federal Reserve Districts now report inflationary pressures from rising oil prices.

Ben Bernanke, Chairman of the Federal Reserve, has made two points clear. First, inflation will not be tolerated. Second, the economy is showing signs of overheating. The result of these concerns is we can expect higher interest rates.

As interest rates rise, consumer finance charges will increase. This is especially true for mortgagees with variable rate loans. Consumer sentiment is likely to continue to decline. Aggregate demand for goods will decline. The economy will slow.

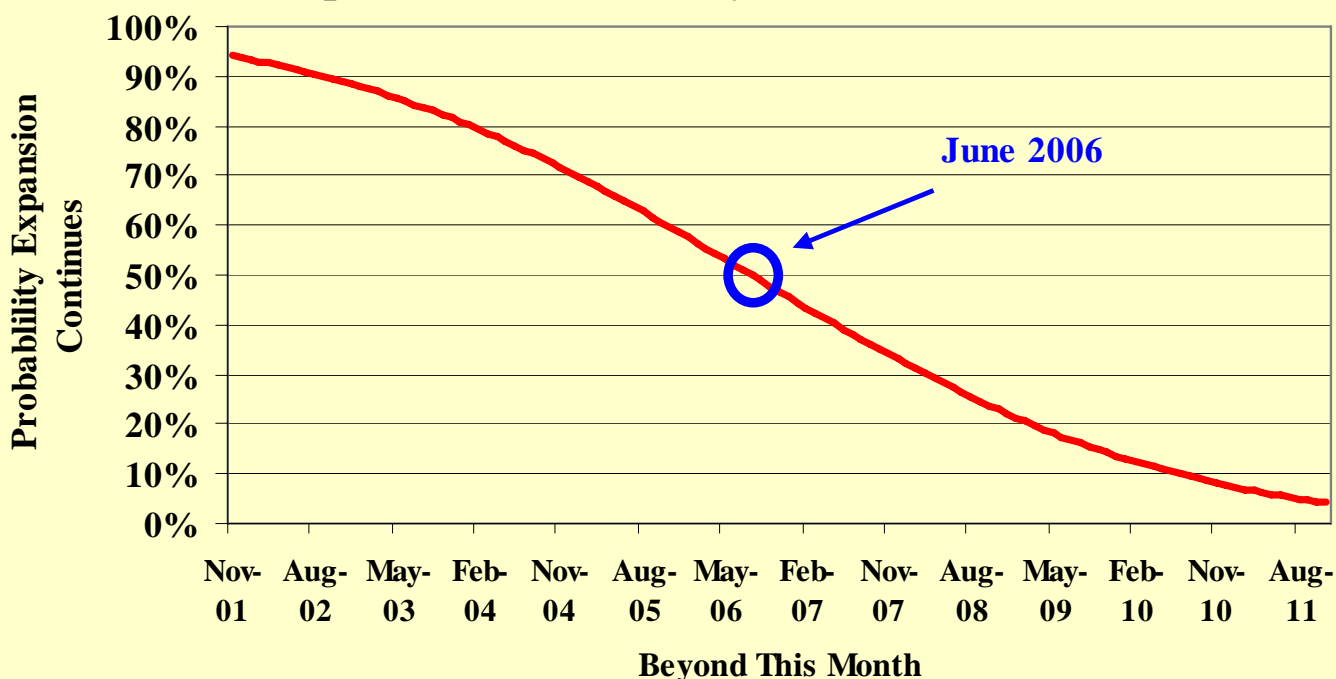
The Federal Reserve is trying to slow the economy. Unfortunately, this is very difficult to achieve. It is possible that the economy will be slowed into a recession.

Since World War II, the average post recession, growth duration is 57 months. We are two months away from the average. The accompanying figure summarizes the likelihood the current growth cycle will continue beyond a current date. For example, There is approximately a 40% chance growth will continue beyond June 2007. There is less than a 17% chance the economy will continue to expand beyond June 2009. These are not projections. They are statistical likelihoods based on historical behavior of previous business cycles.

Despite the increasing chance of a recession in the future, the El Paso County should fare reasonably well. About the same time the chance for a recession increases materially, we should be seeing the arrival of thousands of more troops at Fort Carson as part of BRAC05. The next recession, whenever it takes place, is not expected to affect us as badly as the 2001 recession affected us. [This section of the QUE first appeared in the June 12, 2006 Gazette Business Section]



Probability the Current Expansion Will Last Beyond a Given Date



Survey of Profession Economists

The latest expectations of professional economists from the Federal Reserve Bank of Philadelphia for the next four quarters are summarized below.³

	Annualized Rate for				
	Q2 '06	Q3 '06	Q4 '06	Q1 '07	Q2 '07
Real GDP growth	3.4%	3.1%	3.0%	2.9%	3.0%
Inflation for	3.4%	2.6%	2.4%	2.3%	2.3%
3-Month T-Bill	4.8%	5.0%	5.0%	5.0%	4.8%
10-Year T-Bond	5.1%	5.2%	5.3%	5.3%	5.2%
AAA Corp Bond	5.9%	6.1%	6.2%	6.2%	6.2%
Unemployment	4.7%	4.7%	4.8%	4.8%	4.8%
Industrial Production	112	113	114	115	116
Chance of decline in real GDP over next 4 quarters	3.0%	7.0%	11.0%	15.0%	17.0%

In general, forecast expectations among economists continue to improve. Inflation rates are projected to decrease, partly as a result of expected higher short term interest rates. Growth is expected to slow to 3 percent. Industrial production will increase slightly. However, there is, for the first time in a long while, the consensus belief that there is a rising chance of a recession in the next 12-18 months. This is consistent with the Forum's analysis pointing to an increasing likelihood of a decline in GDP.

³ Federal Reserve Bank of Philadelphia.



*Mark your calendars to attend the Tenth Annual Southern Colorado Economic Forum on
October 11, Antlers Hilton Hotel, Colorado Springs, Colorado*

The Tenth Annual Southern Colorado Economic Forum will be held at the Antlers Hilton Hotel on October 11, 2006. The Forum will provide a comprehensive economic review and key projections for the local economy over the next 12 to 18 months.

This year the Forum will combine with the Holland & Hart Business Symposium. The Forum and Business Symposium keynote speaker this year is James Paulsen, Wells Fargo Economist. Tom Zwirlein and Fred Crowley will present results on local economic and quality of life indicators. The Forum panelists this year are Pamela Shockley-Zalabak, Chancellor at the University of Colorado at Colorado Springs and General Robert Mixon, Commanding General, 7th Infantry Division, Fort Carson. The Holland and Hart Business Symposium will follow the Forum along with several real estate panels. More details will follow.

The Forum staff is available for contract work and analysis on issues affecting the local economy and the firms in the economy. You can contact Tom Zwirlein at (719) 262-3241 or Fred Crowley (719) 262-3531 for information.

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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Table 2: Selected Economic Indicators

National Quarterly Data		2005 Q2			2005 Q3			2005 Q4			2006 Q1		Vs Year Ago
Banks, Charge-Off Rates % SA		0.5			0.58			0.5			0.42		-0.08
Banks, Delinquency Loan Rates % SA		1.56			1.55			1.56			1.51		-0.05
Employment Cost - Benefits SA 2005=100		98.34			99.60			100.40			100.80		2.46
Employment Cost - Compensation SA 2005=100		98.73			99.50			100.20			100.80		2.07
Retail Sales NSA (billions)		937.78			947.84			994.45			906.46		-31.31
e-Sales NSA (billions)		20,141			21,276			27,080			24,521		4,380
e-Sales as % of Retail Sales NSA		2.15			2.24			2.72			2.71		0.56
GDP Real Annual % Growth (Chained) SA		3.3			4.1			1.7			5.3		2.00
National Monthly Data													
	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	Vs Year Ago
Capacity Utilization SA	78.10	78.20	78.20	78.40	77.80	79.10	79.60	79.70	80.20	79.90	80.10	80.50	2.50
Car & Lt Truck Sales Annualized Millions SA	16.64	17.82	20.68	16.75	16.34	14.70	15.70	17.15	17.58	16.55	16.54	16.69	-0.49
Consumer Sentiment (1966=100) SA	86.90	96.00	96.50	89.10	76.90	74.20	81.60	91.50	91.20	86.70	88.90	87.40	-0.30
CPI-U 1982-84=100 SA	194.00	193.90	195.10	196.20	198.60	199.10	197.80	197.70	199.00	199.10	199.80	201.00	6.90
Federal Funds % (Effective)	3.00	3.04	3.26	3.50	3.62	3.78	4.00	4.16	4.29	4.49	4.59	4.79	2.00
Industrial Production (1997=100) SA	107.43	108.29	108.27	108.59	107.16	108.38	109.39	110.43	110.35	110.75	111.41	112.26	5.08
Inventory/Sales Ratio SA	1.30	1.29	1.27	1.27	1.27	1.27	1.27	1.26	1.25	1.26	1.26	na	-0.04
30 Year Conventional Mortgage % NSA	5.72	5.58	5.70	5.82	5.77	6.07	6.33	6.27	6.15	6.25	6.32	6.51	0.65
Prime Rate NSA	5.98	6.01	6.25	6.44	6.59	6.75	7.00	7.15	7.26	7.50	7.53	7.75	2.00
Purch Mgr Index SA	51.40	53.80	56.20	58.60	61.00	63.40	57.30	55.60	54.80	56.70	55.20	57.30	4.00
Retail & Food Service Sales SA (billions)	338.58	342.98	351.45	345.11	346.55	347.44	349.63	351.07	361.74	358.68	360.92	362.68	22.42
S&P500	1191.5	1191.3	1234.2	1220.3	1228.8	1207.0	1249.5	1248.3	1280.1	1280.7	1294.9	1310.6	153.76
Technology Index SA - Mar 2001 = 100)	113.34	121.56	115.59	120.76	119.56	118.40	116.18	117.51	116.54	119.10	126.55	120.66	7.12
Trade Weighted Dollar	83.34	84.92	85.73	84.20	83.82	85.12	86.58	85.83	84.44	85.22	85.17	84.05	1.83
West Texas Oil Spot Price Barrel NSA	49.83	56.26	58.70	64.97	65.57	62.37	58.30	59.43	65.51	61.63	62.90	69.69	16.65
Colorado Data													
	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	Vs Year Ago
Denver-Boulder CPI SA		189.2						192.6					3.40
Colorado Purch Mgr Index SA	68.80	72.40	72.90	67.40	60.00	57.20	54.60	62.90	68.80	70.00	80.60	68.00	-2.10
Labor Force NSA (000's)	2,540.8	2,571.3	2,564.6	2,556.5	2,557.4	2,552.7	2,540.7	2,561.8	2,548.1	2,593.1	2,588.4	2,615.3	79.65
Labor Force SA (000's)	2,560.4	2,549.4	2,535.6	2,532.3	2,542.5	2,539.3	2,539.4	2,560.4	2,565.3	2,612.4	2,610.3	2,636.7	77.74
Employment NSA (000's)	2,413.3	2,438.3	2,432.0	2,434.4	2,429.8	2,434.8	2,418.4	2,447.1	2,416.7	2,472.9	2,465.8	2,505.3	101.44
Employment SA (000's)	2,425.2	2,422.7	2,402.3	2,405.1	2,409.2	2,413.7	2,413.3	2,437.8	2,445.3	2,500.3	2,498.8	2,523.7	99.09
Unemployment Rate % NSA	5.02	5.17	5.17	4.78	4.99	4.62	4.81	4.48	5.16	4.64	4.73	4.20	-0.99
Unemployment Rate % SA	5.28	4.97	5.26	5.02	5.24	4.95	4.97	4.79	4.68	4.29	4.27	4.29	-0.96
Colorado Springs Data													
	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	Vs Year Ago
Business Conditions Index SA	98.94	104.22	107.02	112.01	108.17	99.69	104.47	96.98	99.88	100.03	101.84	97.36	-2.86
Colorado Springs Airport Enplanements SA	85,038	82,296	85,978	87,926	89,224	86,413	88,670	83,683	85,856	87,951	87,849	86,929	1947.13
Foreclosures SA	181	185	177	193	203	202	189	189	181	200	205	180	3.63
New Car Sales SA	1,819	1,908	2,121	2,744	1,998	1,892	1,947	1,896	1,798	1,986	2,116	1,774	134.15
Sales & Use Tax for Month of SA (000's)	9,626	9,549	9,601	9,803	10,984	9,757	9,783	10,109	10,108	10,373	10,621	10,412	962.82
Single Family Permits SA	480	501	468	500	498	418	630	494	496	453	438	382	-205.34
Labor Force NSA (000's)	287.3	290.9	289.0	289.9	287.9	289.0	288.6	287.5	286.5	289.7	289.2	292.5	6.69
Employment NSA (000's)	271.2	272.0	271.2	272.3	270.8	271.4	272.7	274.3	275.5	279.7	280.8	281.6	9.73
Unemployment Rate % NSA	5.62	6.50	6.18	6.09	5.94	6.08	5.50	4.60	3.84	3.47	2.91	3.72	-1.15
Unemployment Rate % SA	5.75	5.27	5.35	5.23	5.25	4.99	5.04	4.94	5.04	4.69	4.62	4.48	-1.18