



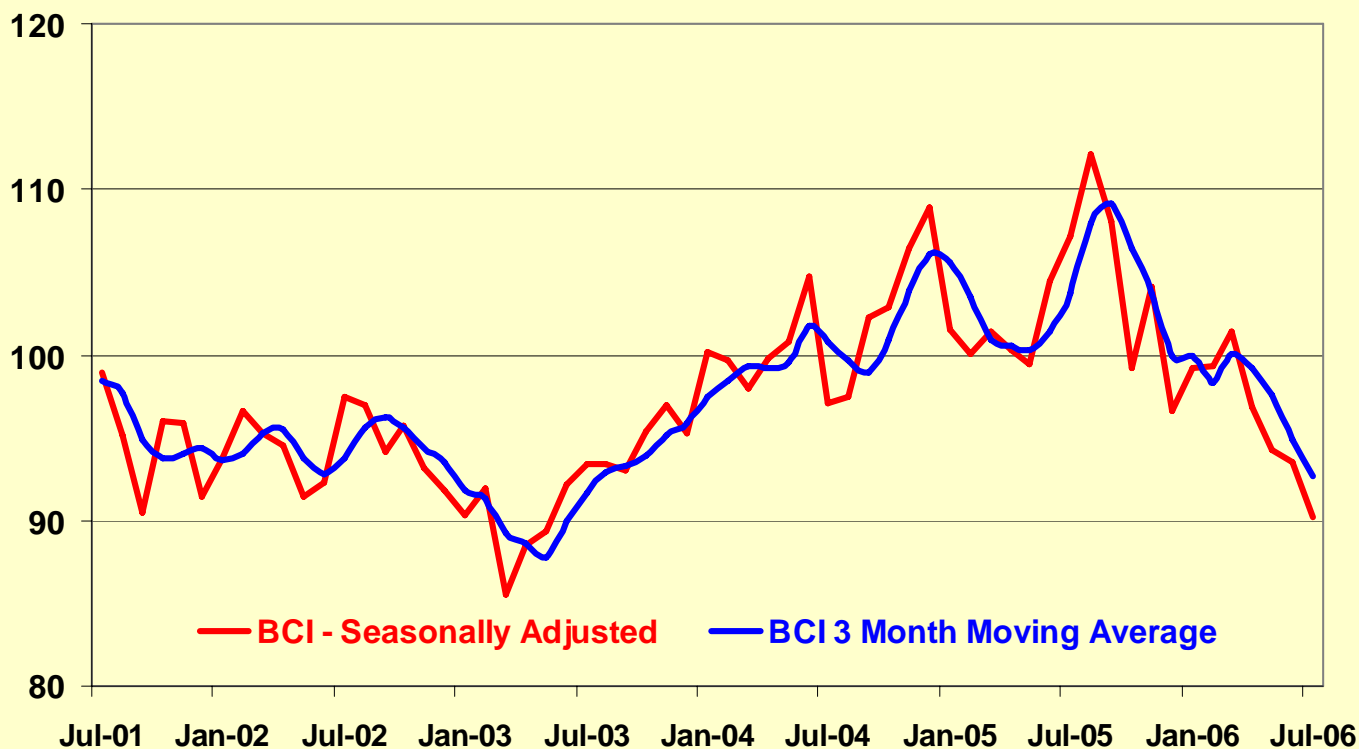
Quarterly Updates and Estimates

Volume 5, Number 2, September 2006
Fred Crowley - Senior Economist

Update on the Economy

Continued Expansion? The Business Conditions Index (BCI) continued its downward trend. The BCI stood at 90.21 in July, down 6.7 points since April. This suggests the local economy has slowed significantly. Key weak spots in the El Paso County economy are enplanements, residential permits, new car sales and residential foreclosures.

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



The Forum's analysis of the data suggests the weak spots share a common interest. Consumer Sentiment has declined on a near point for point basis as the decline in the BCI and its components. The indexed values of the BCI and its components are summarized in Table 1 on page 2.



Table 1: BCI Components (March 2001 = 100)

	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
Apr-05	87.69	122.69	96.46	147.17	97.68	95.64	72.01	98.44	104.33	97.37	100.27
May-05	87.98	97.00	98.46	150.87	97.74	97.70	77.83	98.44	104.19	97.89	99.45
Jun-05	85.89	107.90	101.83	162.76	98.09	96.80	81.66	127.60	104.32	98.35	104.54
Jul-05	88.94	104.64	103.27	158.71	98.06	97.66	91.38	142.19	104.10	101.08	107.16
Aug-05	90.87	105.74	97.34	147.90	98.17	140.00	110.00	142.19	104.48	101.33	112.15
Sep-05	92.02	104.86	86.67	143.70	98.15	150.00	86.28	134.90	103.97	101.57	108.08
Oct-05	89.15	86.82	85.41	146.26	98.43	99.09	81.76	116.67	104.24	98.75	99.23
Nov-05	91.55	130.89	91.68	136.29	98.37	99.33	75.00	131.25	104.75	98.77	104.07
Dec-05	86.43	104.07	82.00	115.00	98.47	102.60	84.00	94.79	105.25	98.45	96.59
Jan-06	88.33	102.01	97.58	163.52	98.36	102.59	78.11	80.21	105.76	95.83	99.18
Feb-06	90.89	94.50	95.63	168.53	98.73	105.36	86.49	72.92	107.35	96.39	99.38
Mar-06	90.75	91.51	96.12	194.72	98.79	107.63	92.16	72.92	107.79	96.48	101.45
Apr-06	89.66	79.66	96.21	142.79	98.89	105.34	78.02	87.50	108.05	97.00	96.92
May-06	91.08	81.56	90.31	139.94	98.72	106.51	104.42	51.04	107.96	97.84	94.30
Jun-06	89.77	69.21	89.90	143.72	98.66	106.21	87.15	65.63	108.66	97.84	93.51
Jul-06	80.69	64.03	90.39	156.50	98.46	104.80	66.32	65.63	108.27	100.45	90.21
July 2006 Compared to:											
Jun-06	-10.11%	-7.49%	0.55%	8.90%	-0.20%	-1.33%	-23.90%	0.00%	-0.35%	2.67%	-3.53%
Apr-06	-10.00%	-19.63%	-6.05%	9.60%	-0.44%	-0.51%	-14.99%	-25.00%	0.21%	3.56%	-6.92%
Jan-06	-8.65%	-37.24%	-7.37%	-4.29%	0.10%	2.15%	-15.08%	-18.18%	2.38%	4.83%	-9.04%

The key to a change in the national and local economies appears to be consumer sentiment. If consumer sentiment improves, the economy is expected to stabilize before a gradual recovery takes places in 2007.

Despite the weak areas in the local economy, several positive traits are noticeable. General sales tax collections are stable. Employment gains have been steady. Incomes in El Paso County have risen steadily. The most important indicator might be the strong Colorado Purchasing Managers Index (PMI).¹ The PMI is a leading indicator. A PMI of 156.5 suggests Colorado manufacturers are very confident about business expectations over the next three to nine months. At slight odds with the CO PMI is the national PMI. It is positive but noticeably lower than the CO PMI.

The timing of events through December 2006 could prove to be critical for what to expect in 2007. Interest rate increases appear to be over. Inflationary pressures appear to be easing. The world supply of oil is again exceeding the world demand for oil. September gasoline inventory levels are 214 million barrels. This is the highest level for any September going back to September 1991.

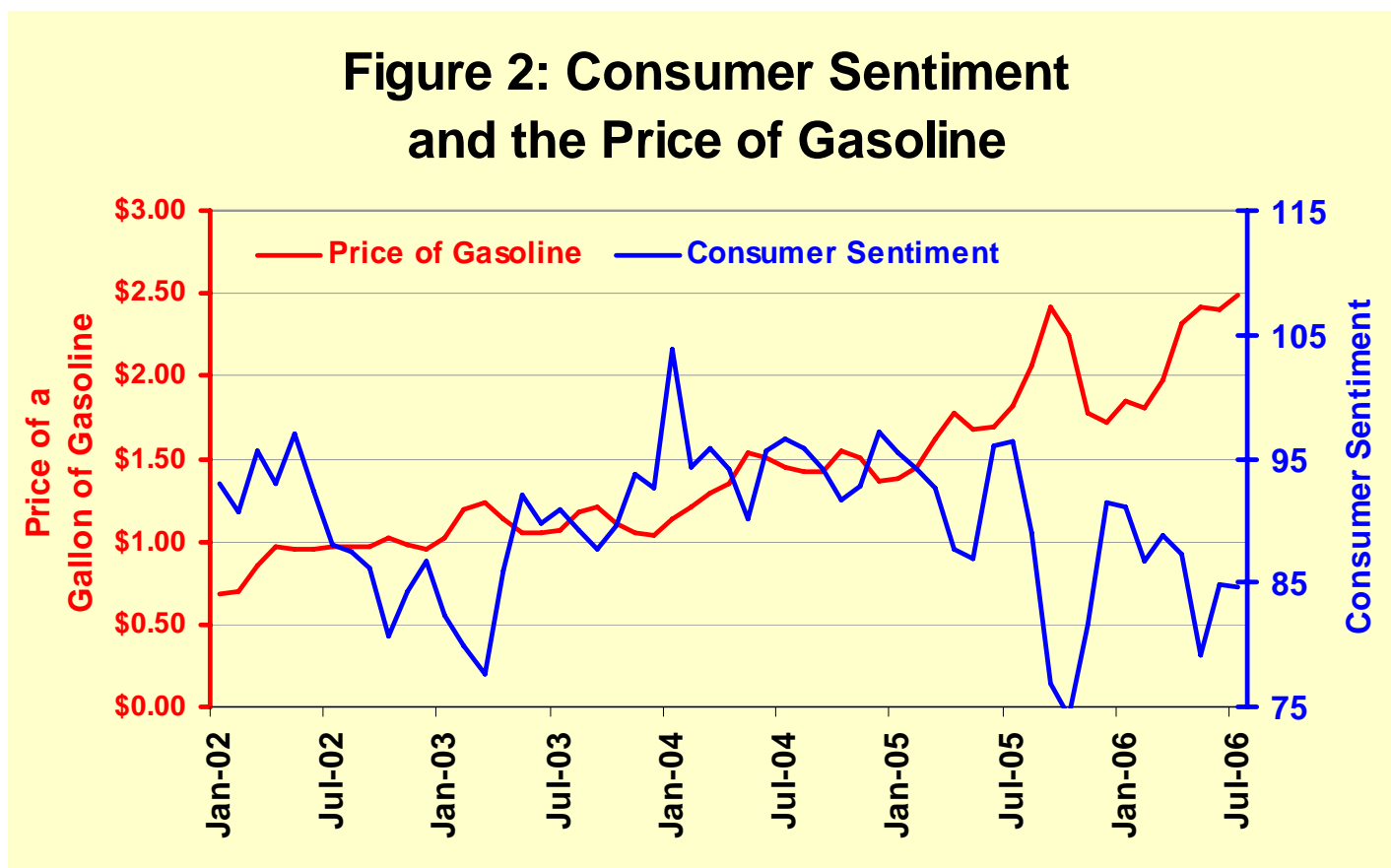
The Forum anticipates stable to lower interest rates in the next three to six months, reduced levels of inflation and lower gasoline prices will lead to an improved consumer sentiment. In turn, this should increase economic activity including car sales and residential construction. Sales tax collections should also improve. Lower interest rates should reduce the number of interest-rate sensitive foreclosures. These changes are expected to

¹ Data on the Colorado PMI are obtained from Creighton University. The data are seasonally adjusted by the Forum.



take place gradually over the next three to nine months. Significant political and/or economic shocks would have a negative effect on this scenario.

The consumer generates approximately two-thirds of the economy's economic activity. The performance of the economy will depend on what the consumer does over the next three to nine months. The Forum's analysis indicates a key factor that influences consumer sentiment is the price of a gallon of gasoline. The relation between consumer sentiment and the price of a gallon of gasoline is shown in Figure 2.



Consumer sentiment and gasoline prices were found to have a significant inverse relationship.² Since January 2005, there appears to be an almost perfect inverse relationship between the two. The decline in gasoline prices in September has seen a corresponding increase in consumer sentiment. Consumer sentiment for September is approximately 4 percent higher than it was in July 2006. Similar gains in consumer sentiment are expected in October.

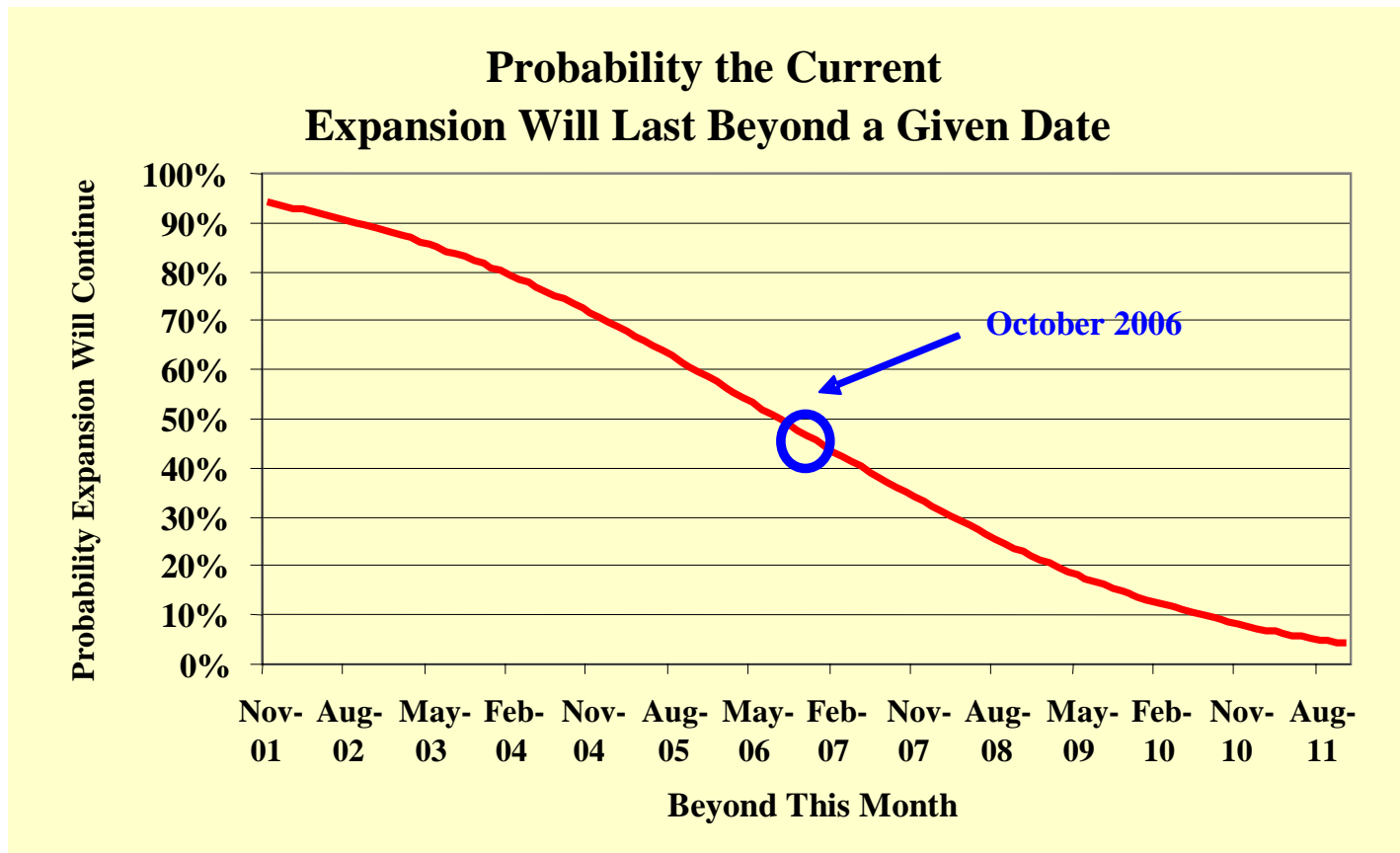
The expected improvement in the portfolio of economic indicators is expected to increase consumer sentiment. The Forum believes this will contribute to a gradually improved economic environment in 2007. If the economic trends do not persuade the consumer to return to a normal consumption pattern, the current slowing of the economy is not expected to reverse itself without interest rate reductions by the Federal Reserve.

² Correlation between consumer sentiment and gasoline prices over the period January 2002 through July 2006 was -0.33. This is significant at the .01 level of confidence.



National Expectations

October 2006, marks the 59th month of expansion since the end of the recession in November 2001. Based on the statistical properties of economic expansions, it is becoming increasingly difficult to extend the likelihood the economy will continue to grow. This does not mean a recession is around the corner. Based purely on the statistical properties of an economic expansion, there is a good likelihood the economy will continue to grow. Supporting this observation is the Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters. The results from the August 14, 2006 survey are summarized on page 5.





Survey of Professional Economists. The latest expectations of professional economists from the Federal Reserve Bank of Philadelphia through the next five quarters are summarized below.³

	Annualized Rate for				
	Q3 '06	Q4 '06	Q1 '07	Q2 '07	Q3 '07
Real GDP growth	2.7%	2.9%	2.9%	2.7%	3.0%
Inflation for	3.6%	2.8%	2.7%	2.5%	2.5%
3-Month T-Bill	5.1%	5.2%	5.2%	5.1%	5.0%
10-Year T-Bond	5.1%	5.2%	5.2%	5.2%	5.2%
AAA Corp Bond	6.0%	6.1%	6.2%	6.2%	6.2%
Unemployment	4.7%	4.8%	4.8%	4.9%	4.9%
Industrial Production	113.7	114.6	115.6	116.5	117.2
Chance of decline in real GDP over next 4 quarters	5.0%	10.0%	15.0%	20.0%	20.0%
Forum's Misery Index	8.3	7.6	7.5	7.4	7.4

In general, forecasts among economists point to slower growth and lower inflation over the next twelve months. T-Bill rates are expected to remain stable to a slight decrease next year. This is a positive characteristic that is supported by the expectation of declining rates of inflation. While the likelihood of a decline in the economy is becoming more of a concern among forecasters, it continues to remain a relatively minor consideration.

Finally, the Forum assembled a forecasted "Misery Index" through the third quarter of 2007. The Misery Index is defined as the rate of unemployment plus the rate of inflation. The Misery Index is expected to decline over the next twelve months. This lends further support to the Forum's analysis that a recession is unlikely to occur during the next year.

³ Federal Reserve Bank of Philadelphia, *Survey of Professional Forecasters*.



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

Register online at <http://www.southerncoloradoeconomicforum.com/>

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 Brigadier General Anne Macdonald, Deputy Commanding General, Division West, 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. A nominal speaker fee is requested.

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Table 2: Selected Economic Indicators

National Quarterly Data	2005 Q3			2005 Q4			2006 Q1			2006 Q2			Vs Year Ago level
Banks, Charge-Off Rates % SA	0.56			0.50			0.42			0.42			-0.14
Banks, Delinquency Loan Rates % SA	1.60			1.56			1.51			1.5			-0.10
Employment Cost - Benefits SA 2005=100	97.57			98.34			100.80			101.50			3.93
Employment Cost - Compensation SA 2005=100	98.12			98.73			100.80			101.60			3.48
Retail Sales NSA (billions)	839.1			937.8			906.5			1002.2			163.1
e-Sales NSA (billions)	19,529			20,141			24,521			24,762			5,233
e-Sales as % of Retail Sales NSA	0.02			0.02			0.03			0.02			0.00
GDP Real Annual % Growth (Chained) SA	3.40			3.3			5.6			2.6			-0.80

National Monthly Data	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Vs Year Ago level
Capacity Utilization SA	77.80	79.10	79.60	79.70	80.90	81.10	81.30	81.80	81.70	82.50	82.70	82.40	4.00
Car & Lt Truck Sales Annualized Millions SA	16.34	14.70	15.70	17.15	17.48	16.57	16.54	16.64	16.10	16.12	17.14	16.02	-0.73
Consumer Sentiment (1966=100) SA	78.84	77.68	83.34	91.06	88.65	86.83	87.26	87.43	82.07	81.75	82.34	81.23	-7.14
CPI-U 1982-84=100 SA	198.60	199.10	197.80	197.70	199.00	199.10	199.80	201.00	201.90	202.30	203.20	203.70	7.50
Federal Funds % (Effective)	3.62	3.78	4.00	4.16	4.29	4.49	4.59	4.79	4.94	4.99	5.24	5.25	1.75
Industrial Production (1997=100) SA	107.16	108.38	109.39	110.43	110.35	110.74	111.24	112.10	112.17	113.37	113.87	113.71	5.12
Inventory/Sales Ratio SA	1.27	1.27	1.27	1.26	1.25	1.26	1.26	1.26	1.25	1.26	1.26	1.26	-0.01
30 Year Conventional Mortgage % NSA	5.77	6.07	6.33	6.27	6.15	6.25	6.32	6.51	6.60	6.68	6.76	6.52	0.70
Prime Rate NSA	6.59	6.75	7.00	7.15	7.26	7.50	7.53	7.75	7.93	8.02	8.25	8.25	1.81
Purch Mgr Index SA	58.00	58.10	57.30	55.60	54.80	56.70	55.20	57.30	54.40	53.80	54.70	54.50	1.00
Retail & Food Service Sales SA (billions)	346.55	347.44	349.63	351.07	361.74	358.68	361.19	363.61	364.34	362.44	367.35	368.23	23.12
S&P500	1,228.8	1,207.0	1,249.5	1,248.3	1,280.1	1,280.7	1,294.9	1,310.6	1,270.1	1,270.2	1,276.7	1,303.8	83.49
Technology Index SA - Mar 2001 = 100)	119.56	118.40	116.18	117.51	116.54	119.10	126.55	119.78	119.68	122.15	124.08	122.28	1.52
Trade Weighted Dollar	83.82	85.12	86.58	85.83	84.44	85.22	85.17	84.05	80.78	81.67	82.09	81.33	-2.87
West Texas Oil Spot Price Barrel NSA	65.57	62.37	58.30	59.43	65.51	61.63	62.90	69.69	70.94	70.96	74.41	73.05	8.08

Colorado Data													
Denver-Boulder CPI SA				192.6						196.3			7.10
Colorado Purch Mgr Index SA	60.00	57.20	54.60	62.90	68.80	70.00	80.60	68.00	63.50	64.10	72.50	71.30	3.90
Labor Force NSA (000's)	2,557.4	2,552.7	2,540.7	2,561.8	2,548.1	2,593.1	2,588.4	2,615.3	2,604.6	2,655.1	2,650.2	2,668.0	111.43
Labor Force SA (000's)	2,542.5	2,539.3	2,539.4	2,560.4	2,565.3	2,612.4	2,610.3	2,636.7	2,622.6	2,630.4	2,621.1	2,643.7	111.40
Employment NSA (000's)	2,429.8	2,434.8	2,418.4	2,447.1	2,416.7	2,472.9	2,465.8	2,505.3	2,492.6	2,529.6	2,526.8	2,544.8	110.38
Employment SA (000's)	2,409.2	2,413.7	2,413.3	2,437.8	2,445.3	2,500.3	2,498.8	2,523.7	2,504.0	2,512.7	2,497.3	2,516.0	110.87
Unemployment Rate % NSA	4.99	4.62	4.81	4.48	5.16	4.64	4.73	4.20	4.30	4.72	4.66	4.62	-0.16
Unemployment Rate % SA	5.24	4.95	4.97	4.79	4.68	4.29	4.27	4.29	4.52	4.47	4.73	4.83	-0.19

Colorado Springs Data													
Business Conditions Index SA	108.08	99.23	104.07	96.59	99.18	99.38	101.45	96.92	94.30	93.51	90.21	na	-21.94
Colorado Springs Airport Enplanements SA	89,007	86,231	88,552	83,606	85,443	87,921	87,779	86,723	88,099	86,830	78,052	na	-9,850.06
Foreclosures SA	203	202	189	190	183	203	207	185	239	234	225	na	33.02
New Car Sales SA	1,992	1,888	1,945	1,898	1,803	1,997	2,128	1,802	2,411	2,012	1,531	na	-1,225.66
Sales & Use Tax for Month of SA (000's)	10,988	9,763	9,787	10,109	10,109	10,381	10,605	10,380	10,495	10,465	10,326	na	520.72
Single Family Permits SA	499	413	623	495	485	449	435	379	388	329	305	na	-198.40
Labor Force NSA (000's)	287.9	289.0	288.6	287.5	286.5	289.7	289.2	292.5	295.0	301.0	299.4	na	9.48
Employment NSA (000's)	273.2	275.5	274.7	273.8	271.1	275.6	275.0	279.4	281.7	285.7	284.2	na	8.97
Unemployment Rate % NSA	5.10	4.69	4.83	4.74	5.38	4.88	4.91	4.46	4.51	5.09	5.07	na	0.01
Unemployment Rate % SA	5.25	4.98	5.04	4.94	5.05	4.69	4.63	4.53	4.70	4.76	4.95	na	-0.28



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The Southern Colorado Economic Forum brings together local experts from the public, private, and academic sectors to report on our economy. Thought of by many as our region's economic "State of the Union," the Forum offers the community an annual snapshot of local economic activity and provides forecasts to help businesses plan for the upcoming year.

This valuable research about where our community has been and where we are headed is made possible through a cooperative effort between the College of Business and Administration at UCCS and local business sponsors.

Agenda

7:00 a.m. - 8:00 a.m. Registration and Breakfast

8:00 a.m. - 8:20 a.m. Keynote Speaker - Michael Swanson, PhD, Wells Fargo & Company

8:20 a.m. - 8:50 a.m. Forum Results - Tom Zwirlein, Ph.D. and Fred Crowley, Ph.D., College of Business and Administration

8:50 a.m. - 9:20 a.m. Main Panel Discussion with Pam Shockley-Zalabak, Chancellor, University of Colorado at Colorado Springs, and Brigadier General Anne Macdonald, Deputy Commanding General, Division West, Fort Carson

9:20 a.m. - 9:45 a.m. Questions and Answers

10:00 a.m. - 11:00 a.m. Panel Sessions

Session 1: Practical Tips on Doing Business with the Government:
Let's Not Lose Another Billion Dollars

Session 2: Ground Breaking Commercial Development Trends

11:00 a.m. - 12:00 p.m. Panel Sessions

Session 3: Successfully Attracting Private Equity Finance

Session 4: Strengths, Trends and Opportunities in the Pikes Peak Housing Market

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