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UNIVERSITY OF COLORADO AT COLORADO SPRINGS

Quarterly Updates and Estimates

Volume 8, Number 2, November 2009
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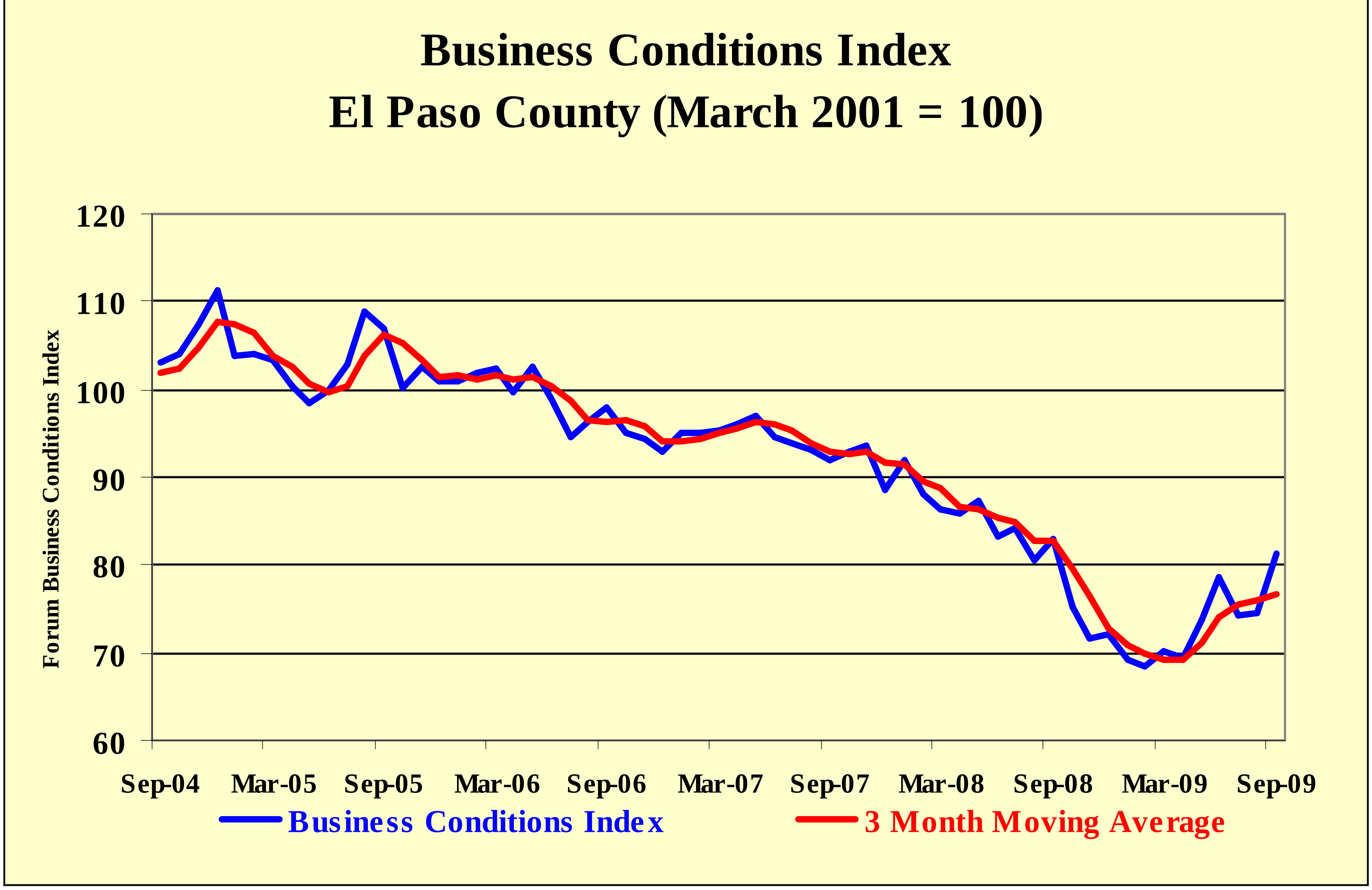
Update on the El Paso County Economy

The April 2009 *QUE* reported that the local economy bottomed out in the 4th quarter of 2008 and that the initial trend in the 1st quarter of 2009 appeared to suggest a recovery was beginning to emerge. Support for that initial observation has gained additional strength since the July *QUE*. The Business Conditions Index (BCI) now stands at 81.3, 18.8 percent higher than the February 2009 low of 68.4. The BCI is expected to remain in the high 70's to mid 80's through the first quarter of 2010.



[1] The Business Conditions Index (BCI) is a geometric index of ten seasonally adjusted data series. The El Paso County data are single family and town home permits, new car sales, employment rate, foreclosures, ES202 employment and ES202 wages and salaries. Colorado Springs data are sales and use tax collections and airport enplanements. University of Michigan's Consumer Sentiment and the Federal Reserve Bank of Kansas City Manufacturing Index are non-local indicator in the BCI. The BCI is indexed to March 2001 = 100. All raw series are seasonally adjusted by UCCS Southern Colorado Economic Forum using the Department of Commerce X12 adjustment process.

Table 1: Business Conditions Index Components - All Values Indexed to Mar 2001 = 100

	COS Enplane-ments	El Paso County SF & TH Permits	U Of Mich Con Sent	Kansas City Fed Mfg Index	El Paso *Employ-ment* Rate	Colorado Springs 2% Sales & Use Tax	El Paso County Car Sales	El Paso County Fore-closures	El Paso County Employed	El Paso County Real Wages	BCI
Jun-08	85.60	23.83	60.49	147.61	97.78	110.33	76.72	97.59	109.16	98.12	83.13
Jul-08	81.95	30.58	66.09	169.28	97.68	93.81	66.92	98.13	108.40	98.57	84.25
Aug-08	84.91	20.03	68.98	146.49	97.47	103.75	63.75	98.99	108.27	98.33	80.67
Sep-08	80.47	28.26	78.38	125.56	97.42	99.18	67.86	98.94	108.36	98.03	82.95
Oct-08	86.28	17.50	65.90	99.03	96.92	93.25	58.64	97.92	108.16	104.58	75.20
Nov-08	79.98	17.29	61.41	75.11	96.99	94.39	54.56	98.21	108.47	103.65	71.55
Dec-08	79.57	16.87	66.14	76.98	96.30	91.51	57.98	98.26	107.59	102.44	72.07
Jan-09	79.02	17.92	65.64	62.78	95.90	89.24	49.03	98.17	107.00	97.16	69.15
Feb-09	78.56	17.71	61.71	59.79	95.20	90.86	50.03	97.78	106.68	96.60	68.39
Mar-09	87.83	17.50	62.31	64.65	95.09	98.11	49.99	97.94	106.14	95.78	70.12
Apr-09	87.24	12.44	71.50	78.10	95.05	92.01	49.08	97.74	107.69	94.31	69.37
May-09	80.54	25.94	75.30	90.06	94.99	87.36	41.19	97.83	106.37	93.75	73.70
Jun-09	80.15	32.26	75.93	106.13	95.36	94.46	51.77	98.18	104.00	92.42	78.75
Jul-09	77.96	24.25	71.27	101.27	95.33	92.14	45.58	96.91	104.09	93.80	74.36
Aug-09	81.52	23.83	71.94	100.52	95.58	96.00	43.34	97.65	103.46	93.12	74.48
Sep-09	84.89	29.73	81.95	127.80	95.92	91.27	57.99	97.55	103.95	92.33	81.27
September 2009 Compared to:											
Aug-09	4.13%	24.78%	13.92%	27.14%	0.35%	-4.92%	33.81%	-0.10%	0.48%	-0.85%	9.11%
Jun-09	5.90%	-7.84%	7.93%	20.42%	0.58%	-3.37%	12.02%	-0.65%	-0.05%	-0.09%	3.20%
Mar-09	-3.35%	69.88%	31.53%	97.69%	0.87%	-6.97%	16.02%	-0.40%	-2.06%	-3.60%	15.89%
Sep-08	5.49%	5.22%	4.55%	1.79%	-1.54%	-7.97%	-14.54%	-1.41%	-4.07%	-5.81%	-2.03%

Real wages in El Paso County are estimated by the Forum for the period Apr '09 through Sep '09

U.S. Airways announced it will discontinue all flights out of Colorado Springs (27 scheduled departures a week). While other air carriers are expected to pick up some of the activity that would have been generated by US Airways, the Forum believes a significant reduction in enplanements will result in 2010. Enplanement activity will probably decline 3 to 5 percent in 2010. This will also moderate growth projections for the BCI.

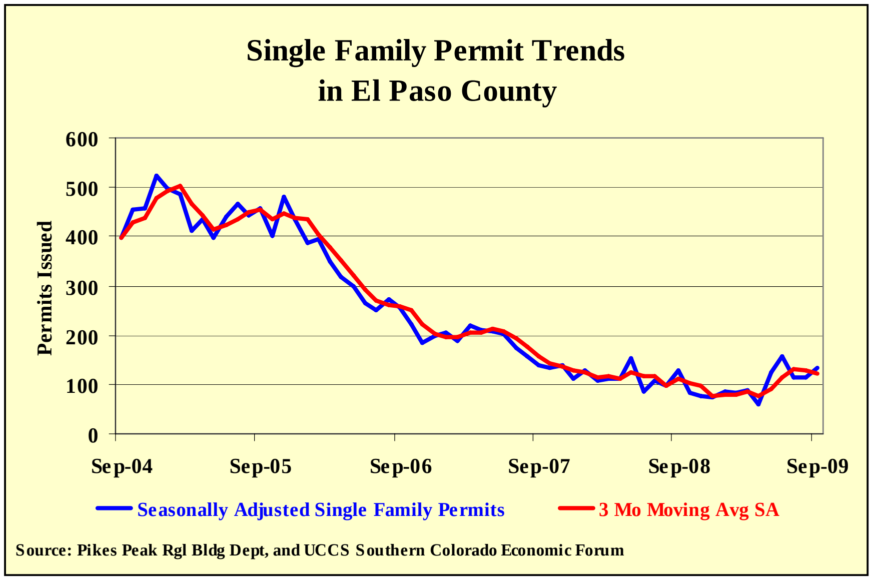
With the exception of sales tax collections in Colorado Springs, all other components of the BCI are expected to have good growth in 2010. Gains should be strongest in single family and town home permit activity. Employment and income gains are expected by the late second to mid third quarter of 2010. Retail sales are expected to increase slightly for Colorado Springs.

Foreclosures are expected to peak in 2009 and begin a slow decline in 2010 for three reasons. LIBOR rates, the basis for approximately 90 percent of adjustable mortgages, are no longer demonstrating significant higher deviations from alternative short term interest rates. Housing prices have stabilized and started to increase in the local market. Unemployment rates peaked and employment levels are starting to increase. These factors contributed to greater and a more stable capacity for home owners to carry a mortgage.

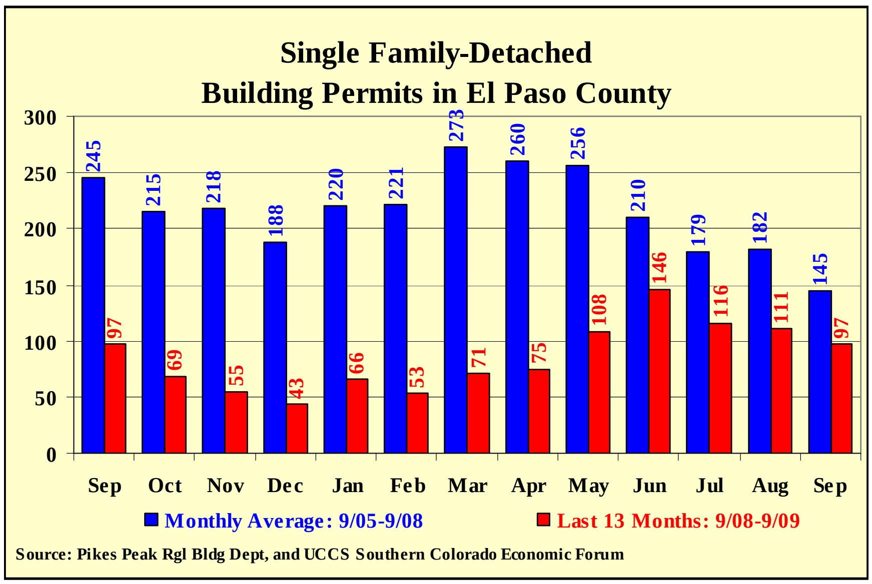
New car sales are expected to increase slightly above an absolutely dismal sales year in 2009. Consumer sentiment is improving along with the aggregate measures of the local economy. This should give consumers the confidence to increase their spending and encourage manufacturers to increase production.

Analysis of the El Paso County Residential Housing Market

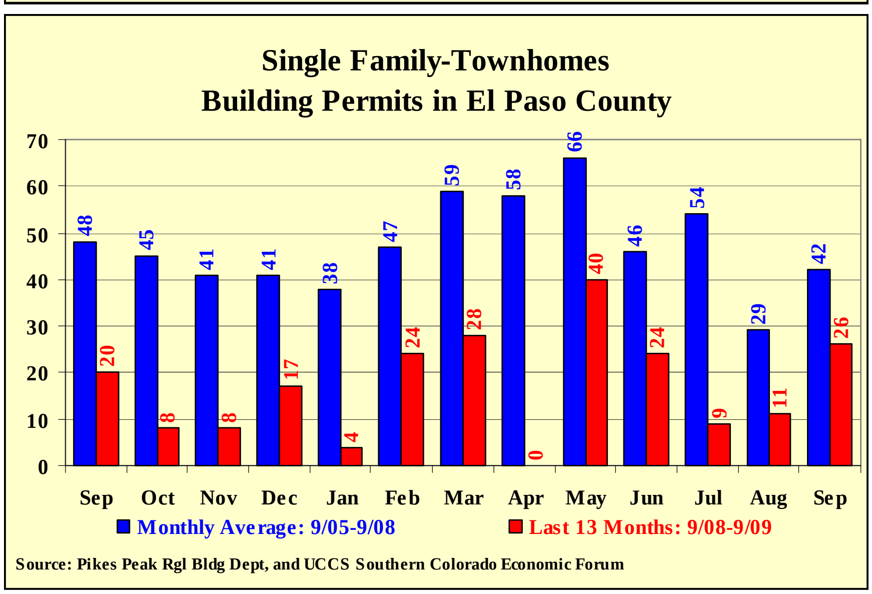
The Forum noted the near bottoming of single family permit activity from November 2008 through March 2009. Current evidence continues to support the earlier observations. Permit activity has increased noticeably. Additional gains are expected to be modest over the next six months.



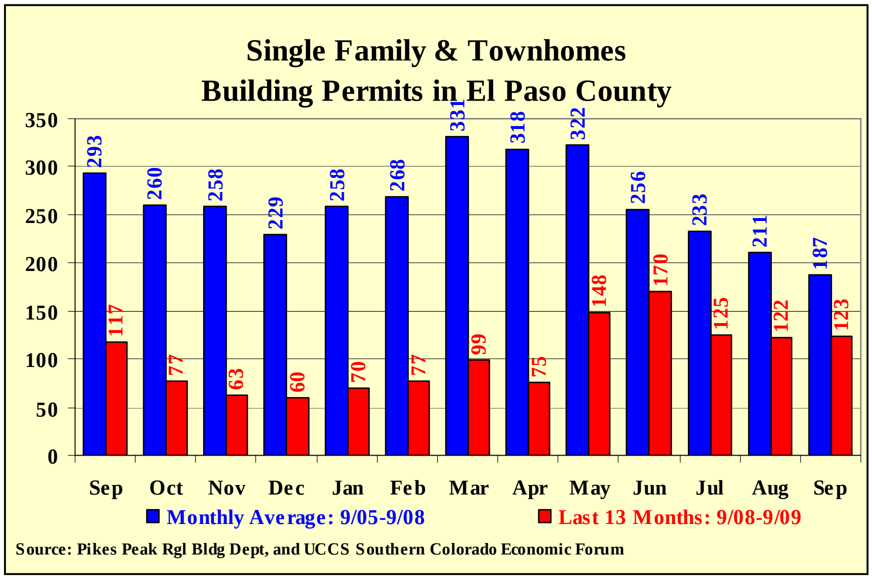
Permit activity declined since the June 2009 peak levels. As of September, permit activity is down a "modest" 33 percent compared to the September average over the prior three years. This compared very favorably to the approximately 75 percent difference that characterized the November 2008 through April 2009 compared to the three year monthly average for the period.



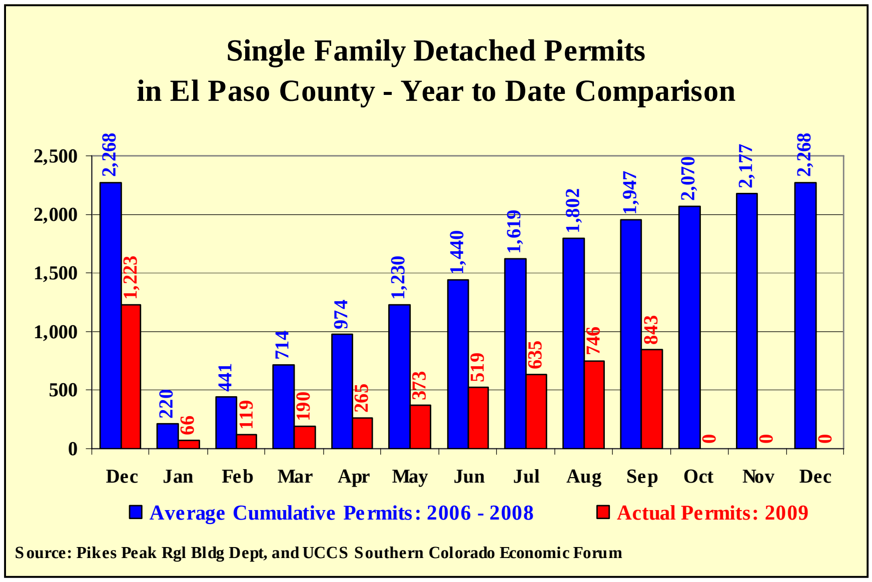
Townhome permit activity has tended to be more volatile than detached single family permits. Weakness in townhome permit activity continues to characterize this less expensive form of home ownership in the county. Volatility aside, townhome permit activity is expected to improve slightly over the next six months.



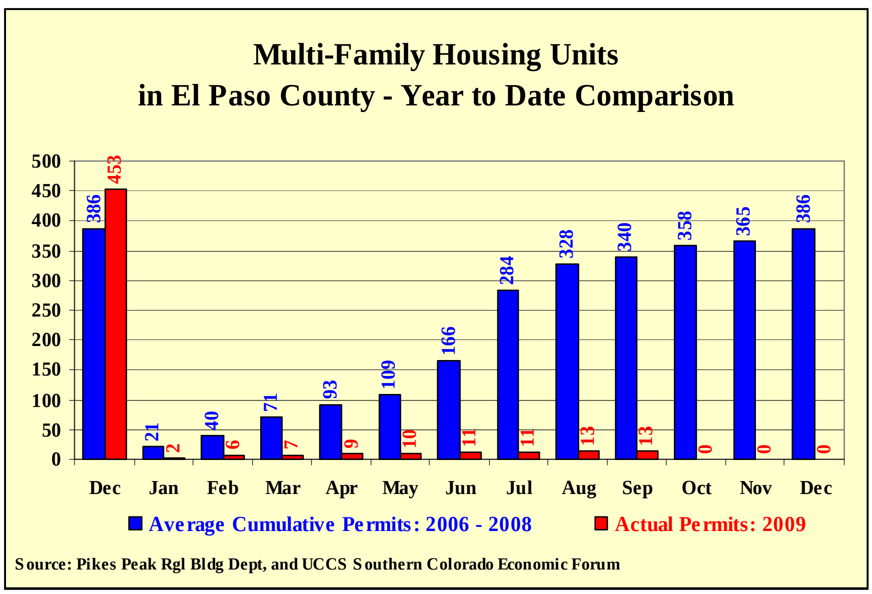
The most recent thirteen months of private residential building activity have been weak. A rise in activity in the late spring to early summer 2009 appears to have occurred. A modest non-seasonally adjusted upturn can be seen in the accompanying chart. Some of the improvement is probably due to the $8,000 first time home buyer credit. This helped reduce the inventory of downstream, entry level housing. This is reducing contingency clauses on some new home contracts. This benefit is expected to run its course by June 2010 due to the extension of the first time home buyer tax credit.



Compared to prior year to date levels, cumulative single family permits continue to be well below their past average. The anticipated improvements in the local housing market are expected to add strength to this indicator. Additional gains are expected to be modest through the first quarter of 2010.



The Forum noted in previous issues of the *QUE* that multi-family units were overbuilt. Vacancy rates in the region are the highest in Colorado. Real rents have declined steadily. Not even the additional troops at Fort Carson are sufficient to absorb the vacant units in the community. Sanity appears to be prevailing at this time. Multi-family permit activity has come to a market correcting halt through September 2009. Additional troops in the area and a recovering economy are expected to reduce vacancies over the next 6 to 12 months. The Forum does not anticipate the need for new multi-family permits for at least six months.

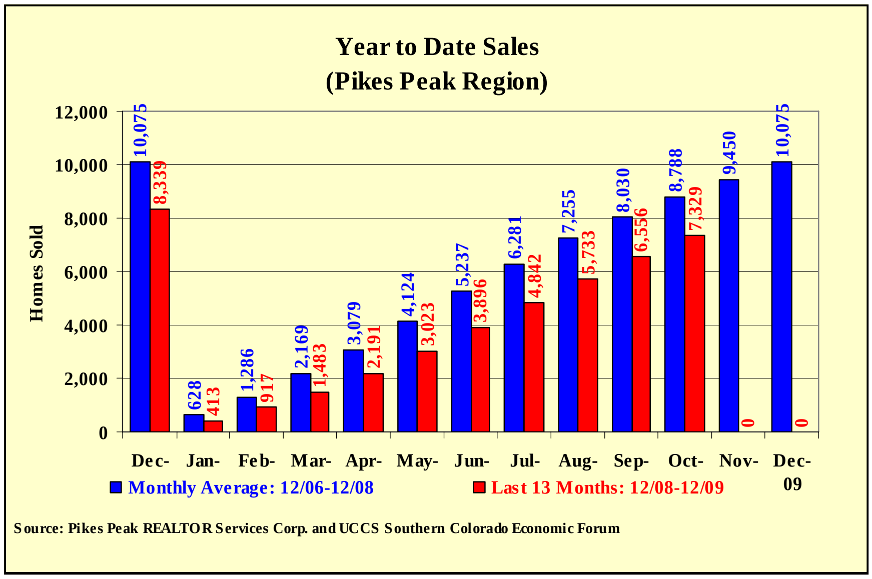


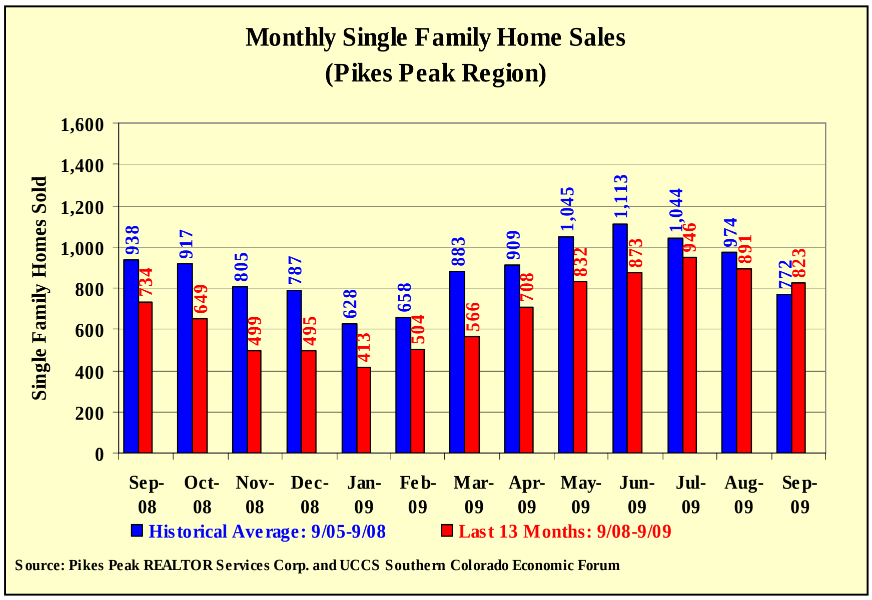
MLS Activity

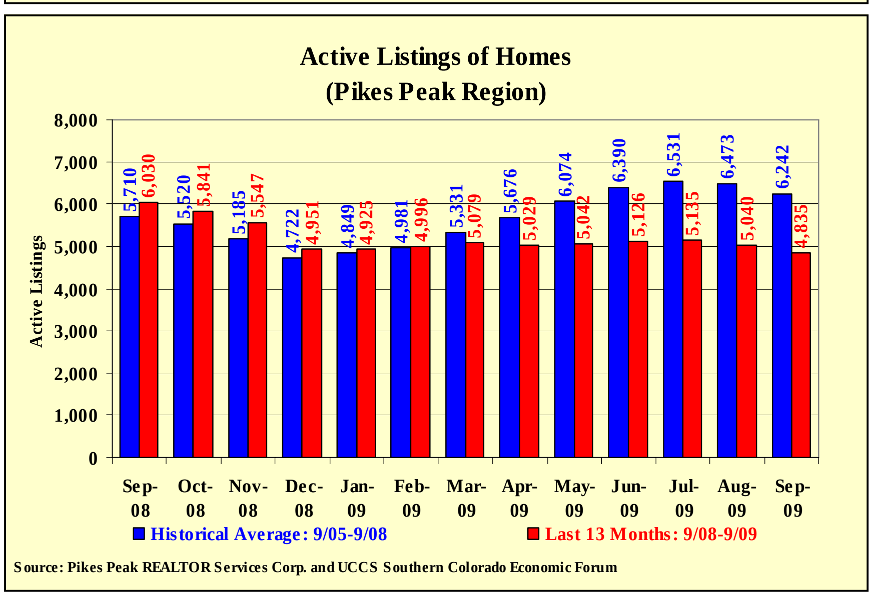
Single family home sales in the Pikes Peak Region were down 25.6 percent from year to date average for 2006-2008. Low interest rates and first time home buyer tax credits are believed to be contributing to the recent year to date sales trends. Low mortgage rates (5.5%), a high housing affordability index (134 in 2008 vs. 101 in 2006), improving consumer confidence (up 25% since last year) and expected declines in unemployment should improve home sales through 2009. The area needs 1,010 additional sales in 2009 to surpass the 8,339 sales in 2008.

Monthly home sales activity for September 2009, compared to the monthly average for 2005-2008, has improved significantly throughout 2009. In March, home sales activity was approximately 36 percent below the past average for March. As of June, home sales activity is just 21.6 percent behind the past average for June. September's sales are higher than the past average for the month. Low interest rates, a decline in the supply of homes for sale and first time home buyers taking advantage of the stimulus package tax credits are all believed to have contributed to the improvement in monthly home sales.

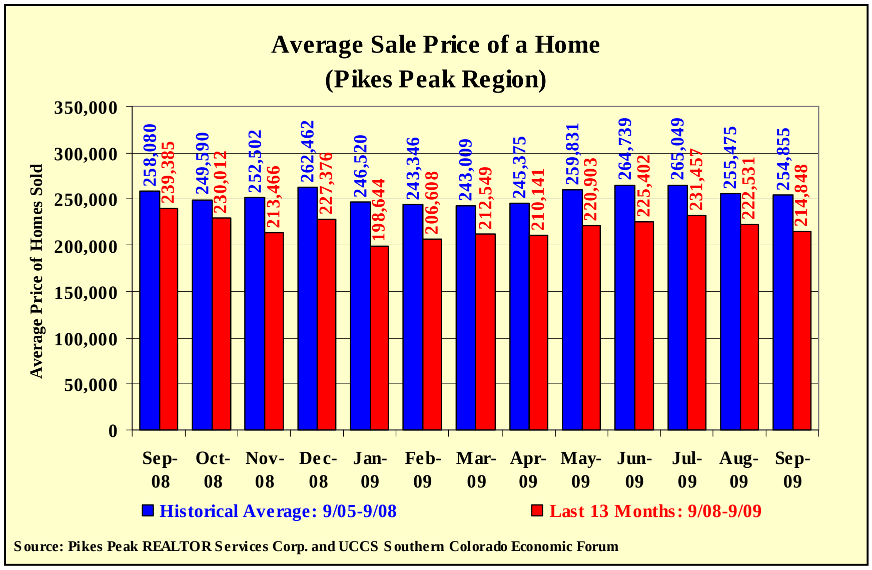
The supply of single family homes for sale in the Pikes Peak Region in September was 19.8 percent below September 2008 and 22.5 percent below the recent historical average for September. Allowing for traditional seasonality in home listings, the Forum expects an increase to 5,500 listings in the spring of 2010. This is not expected to dilute the recent gains in the average resale price of a home.



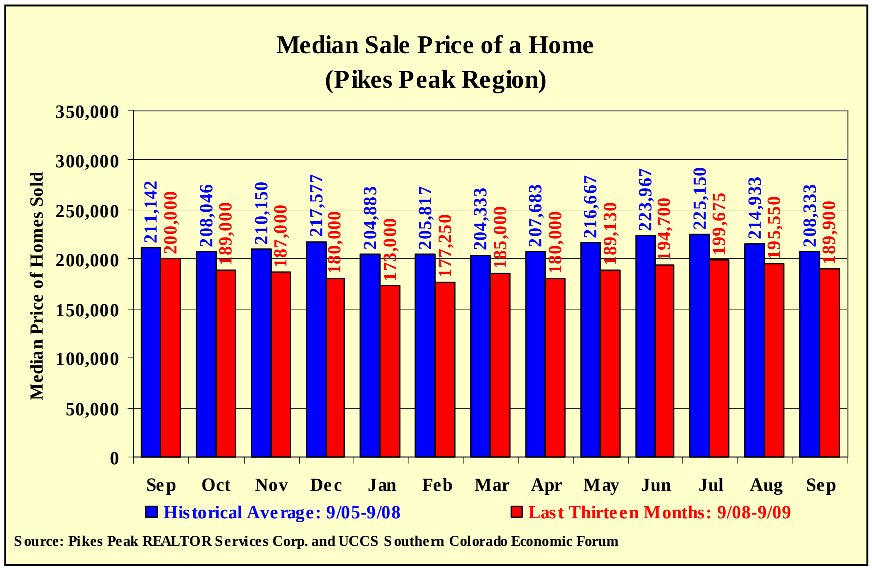




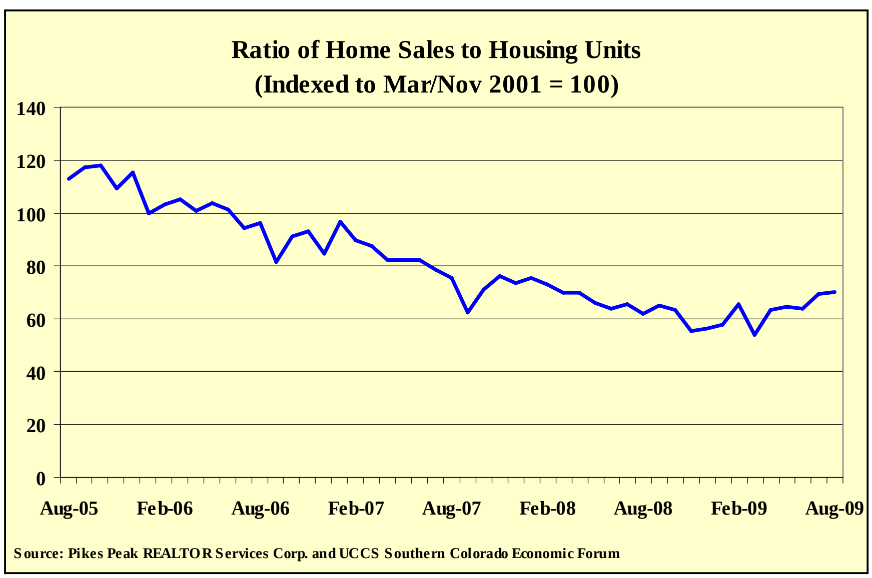
The average price of an MLS facilitated home sale has seen an increase in the last several months. Since January, the average price of homes sold has increased approximately 8.2 percent. This is about 5.7 percent higher than the seasonally adjusted trend would indicate. Housing prices appear to have stabilized and are beginning to appreciate. Appreciation usually peaks in December before leveling off in the first quarter of 2010.



Median sale prices were almost a mirror image of the average price trend. Median prices appear to have bottomed out in January. Since then, median prices have increased approximately 9.8 percent. This is approximately 8.2 percent higher than a seasonally adjusted trend expectation for the median house price. The seasonally adjusted increases in the average and median price of a home in the Pikes Peak Region support the observation that the home prices in local housing market are no longer declining.

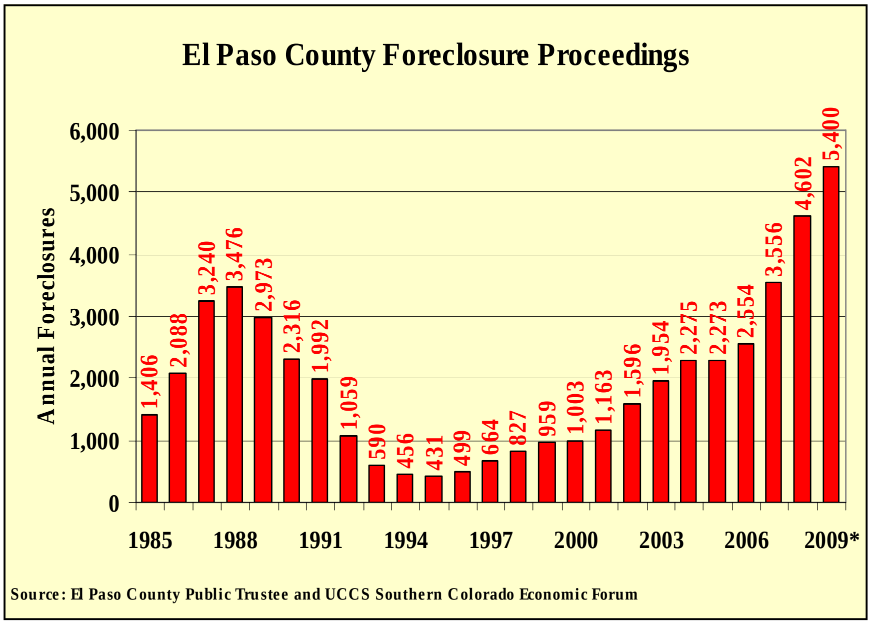


The Forum's ratio of home sales to total single family housing units is a proxy for the liquidity of the local single family housing market. The index remained in a steady range from October 2008 through March 2009. The tenuous upward trend appears to have solidified. This is additional support for the observation that the local housing sector is improving. The upward trend is expected to demonstrate some volatility during the next six months. While still a buyer's market, a more balanced supply/demand relationship in home transactions is emerging.

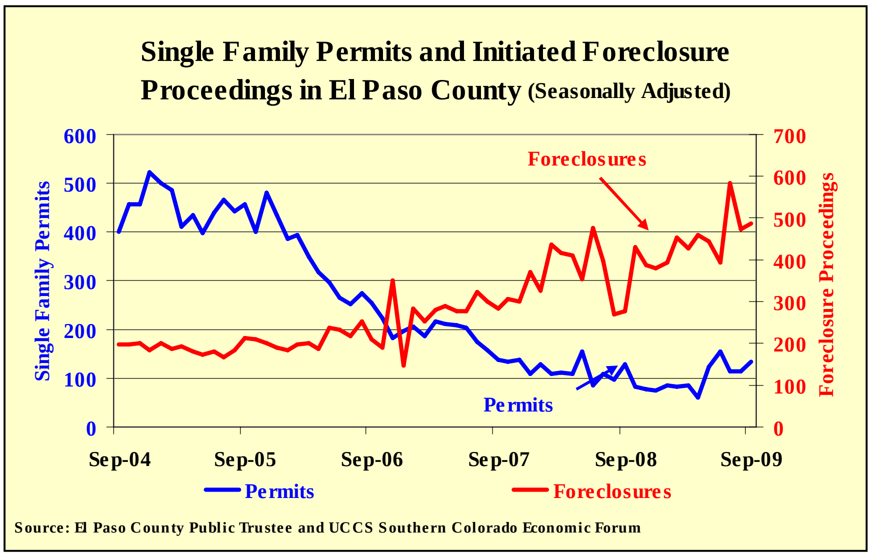


Foreclosures

The number of foreclosures increased sharply in 2008 as subprime and Alt A mortgage loans became more problematic. Record foreclosures are expected in 2009. Foreclosures are also hitting homeowners with second mortgages who are upside down on their mortgages. The last issue of the *QUE* cited rising unemployment as a factor affecting the number of foreclosures. The March, June and current BCI suggest the local economy and employment picture are improving. The Forum expects foreclosures will decline slightly by about 200 to 5,200 in 2009.



The Forum first pointed to the inverse relation between foreclosures and new single family permits at its 11th Annual Southern Colorado Economic Forum in October 2007. Evidence of the relationship continued through September 2009. The illustration to the right also suggests that foreclosures appear to have peaked and are beginning to decline.

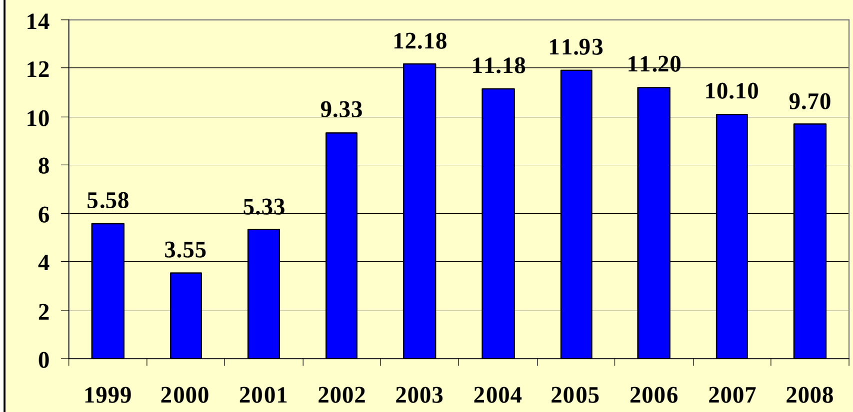


First time homebuyer tax credits have been extend into 2010. They now include up to $6,500 tax credit for trade-up buyers in addition to the $8,000 tax credit for first time home buyers (see the IRS website for specifics). These tax credits are increasing housing activity and have shifted the demand curve for housing to the right, a good thing. This should lead to increases in the price of a home. By extension, this should reduce the number of upside down mortgages and reduce foreclosures. A risk of the first time and trade-up homebuyer credits is we are discounting future sales as was observed with the "Cash for Clunkers" program.

Multi-family Market

The estimated annualized multi-family vacancy rate stood at 9.65 percent for 2008. Limited new construction, the lack of job growth and the sustained deployment of troops from Fort Carson contributed to this. Foreclosure victims who stayed in the area are believed to be renting. This helped stabilize vacancies.

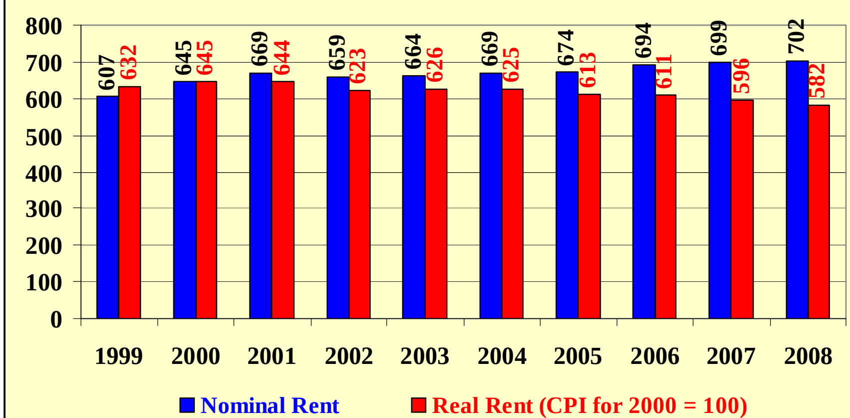
Multi-Family Vacancy Rates in El Paso County



Source: Colorado Division of Housing, *= Estimated Yearly Rate

Higher nominal rents are not expected until vacancies drop in the 8 percent range and a "normal" level of inflation returns as the economy begins to grow.

Annual Nominal & Real Multi-Family Rents in El Paso County

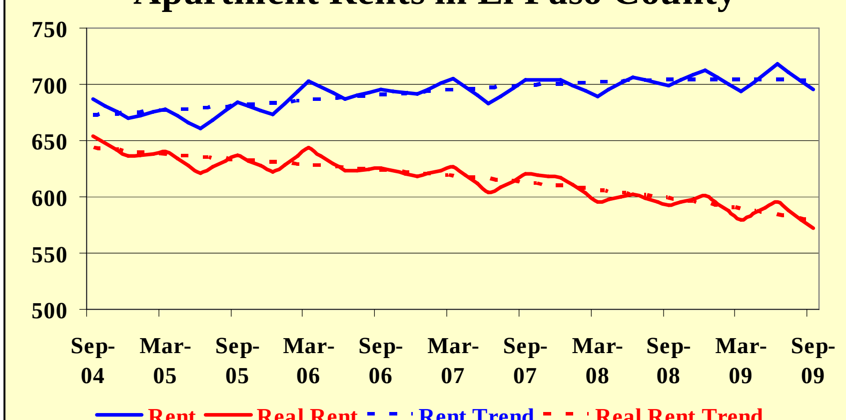


Source: Colorado Division of Housing

Apartment rents increased 6.5 percent since March 2004. Unfortunately, inflation increased 13.8 percent during the same period. This means, net of inflation, landlords are collecting 6.9 percent less real revenue per rented apartment than they did five years earlier.

The cessation of new multi-family permits, the decline in CPI and the expected increase in off-base housing needs of the additional troops at Fort Carson are expected to support a marginal increase in real rents over the next six to twelve

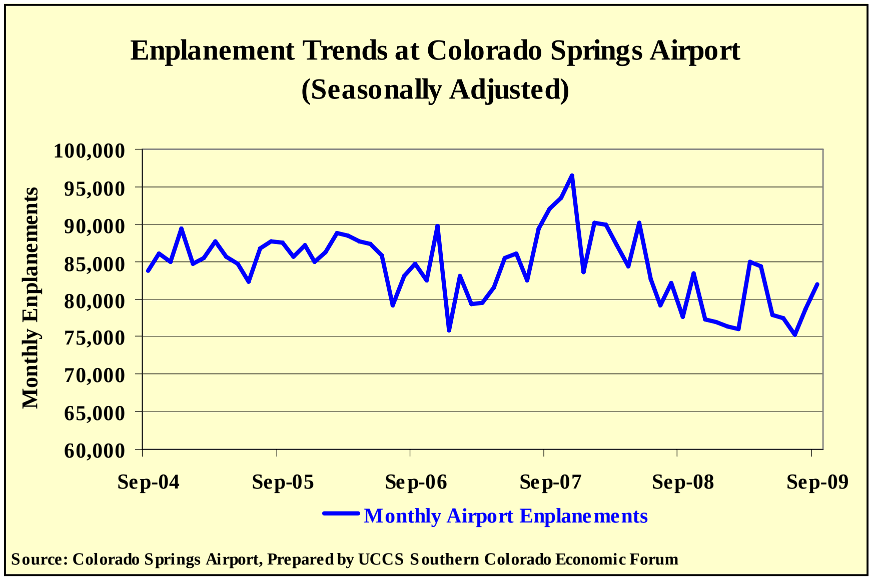
Monthly Nominal & Real Apartment Rents in El Paso County



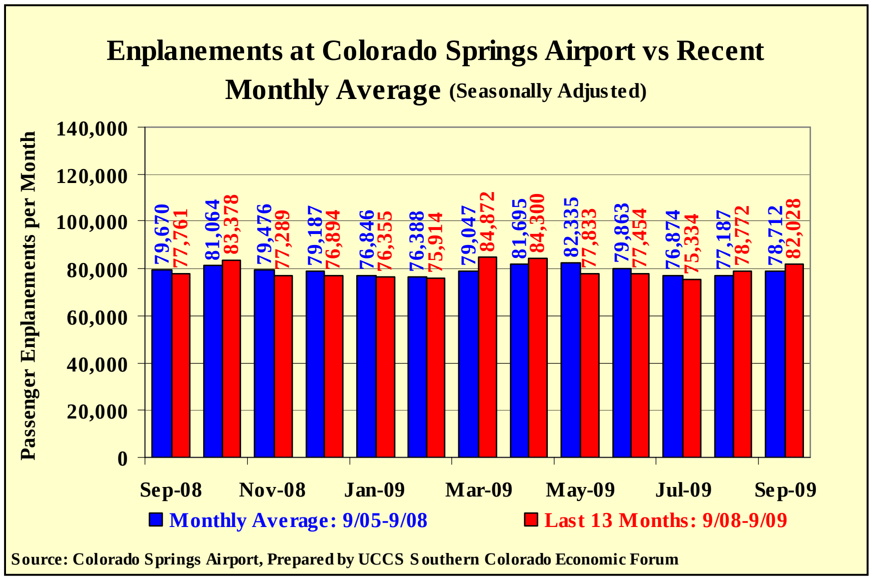
Source: Colorado Division of Housing, UCCS Forum

Colorado Springs Airport Trends

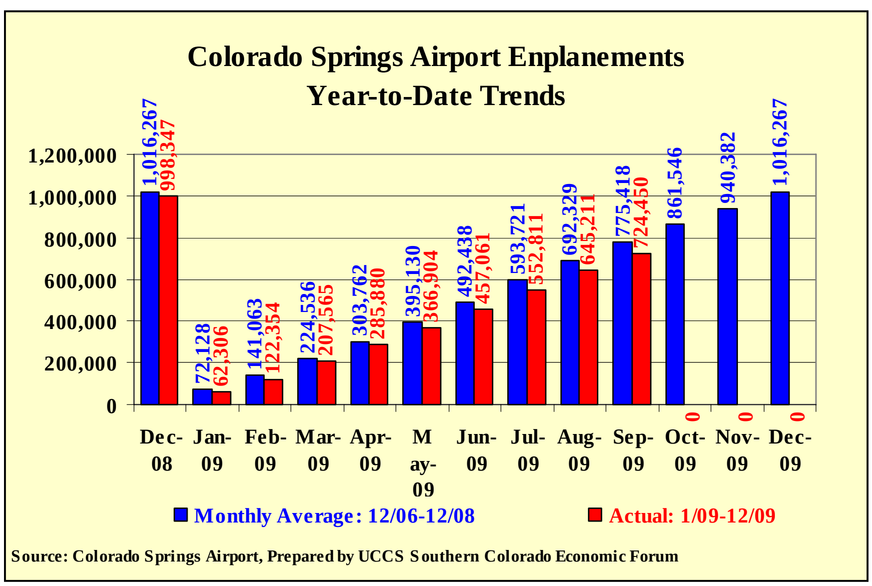
Enplanement activity increased slightly during the third quarter of 2009. US Airways announced plans to terminate all operations at the airport (27 flight departures a week). Enplanements at the airport are expected to decline 3 to 5 percent in 2010.



A comparison of current monthly enplanements vs. their historical monthly average reveals the downward trend in enplanements has been ongoing for most of the last 13 months. The spike in March's enplanements coincides with the large number of troops who returned to Fort Carson after an extended deployment. These troops are believed to have subsequently flown out of the airport to visit family and friends. The Forum expected this spike. Additional military related spikes were expected in 2009. The troop arrivals in the summer are believed to have contributed to the increase in enplanements in September.



The Forum repeats its expectation that monthly enplanements will continue to lag their recent past averages. At the current trend, enplanements in 2009 are expected to be about 8.5 percent below 2008 levels.



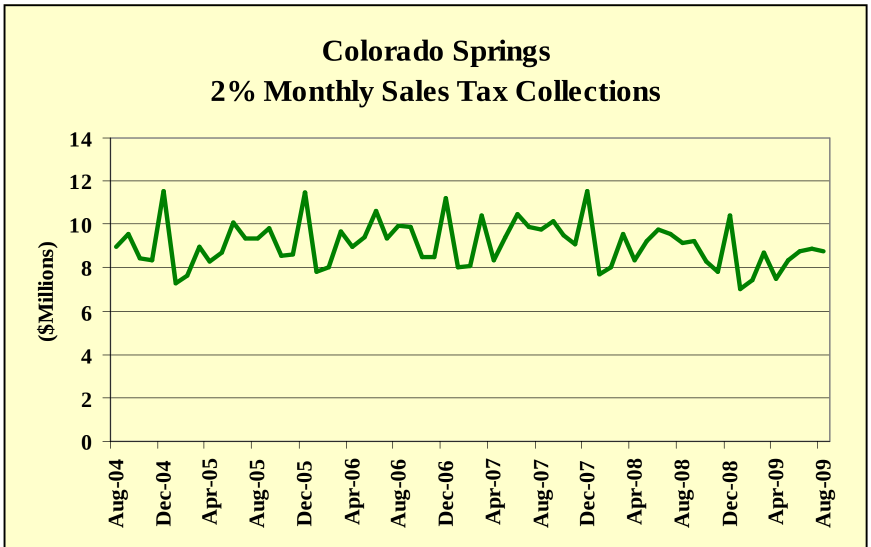
Colorado Springs Sales Taxes

The City of Colorado Springs sales tax collections peaked in 2007. The current decline reflects the recession and the on-going flight to suburbia. In order to see a correction to the tax revenue trend, the City of Colorado Springs needs to attract large dollar volume retailers that require population and income densities that are not found in the area's smaller, satellite communities. These retailers should locate along I25/Nevada or similar high traffic corridors.

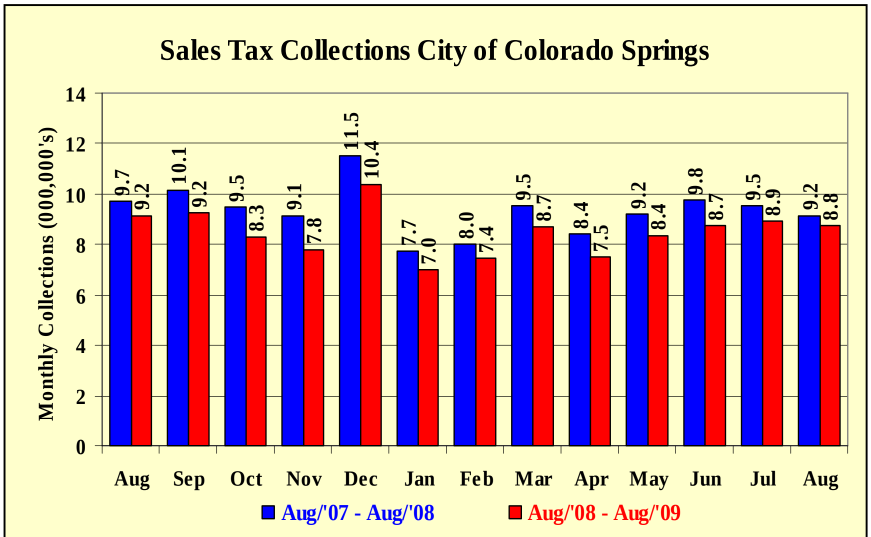
Monthly sales tax collection comparisons with the current and average for the same month over the previous three years indicate sales tax collections for Colorado Springs have declined steadily throughout 2008 and into 2009. Current conditions indicate the City and County will experience significant, consecutive TABOR ratchet down effects for 2009 and 2010.

Sales tax declines are tied to the flight to suburbia, internet purchases, the loss of high paying jobs since 2001 and the recession. Per capita, real sales tax collections have been on a downward trend for the City of Colorado Springs for several years. Per capita, real, sales tax collections fell 17 percent for the City from 1999 through 2008. Additional declines are anticipated by the Forum for 2009. As it stands now, per capita, real sales tax collections for the City of Colorado Springs in 2009 will probably be down at least 25 percent compared to 1999.

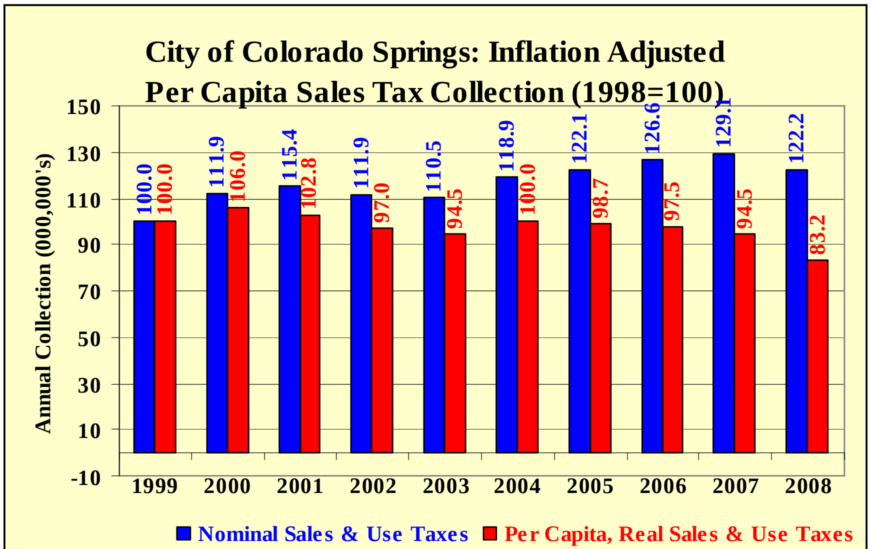
Redevelopment of blighted areas, infilling, revitalization and a more diversified economic base of the city are keys to remedying the decline in sales tax collections.



Source: City of Colorado Springs and UCCS Southern Colorado Economic Forum



Source: City of Colorado Springs and UCCS Southern Colorado Economic Forum



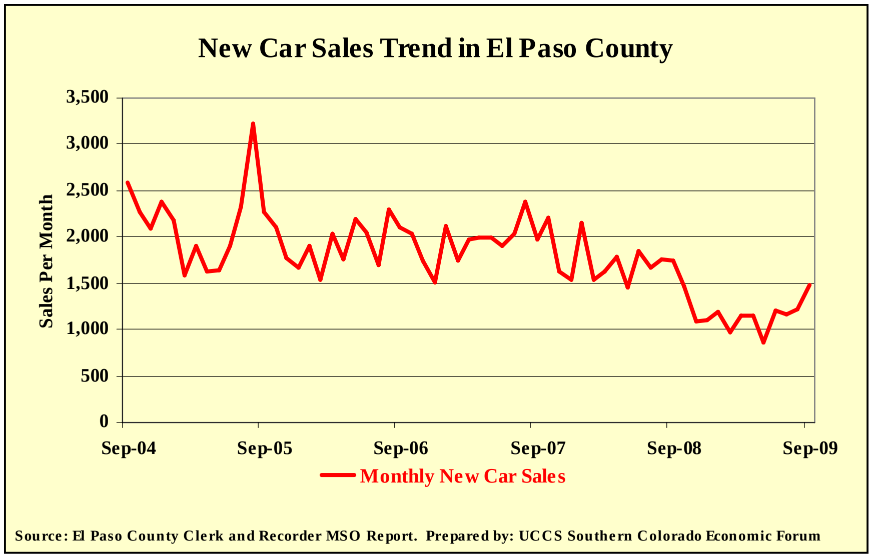
Source: City of Colorado Springs and UCCS Southern Colorado Economic Forum

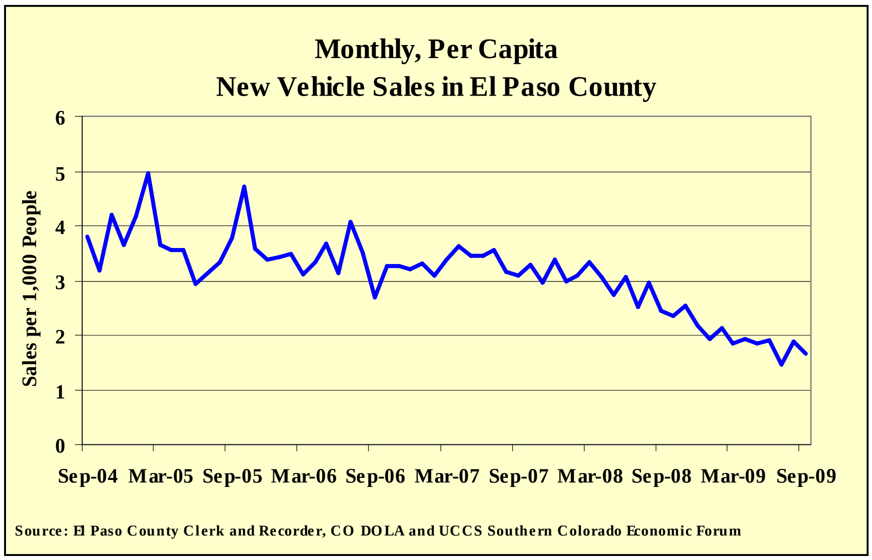
New Car Sales Trends

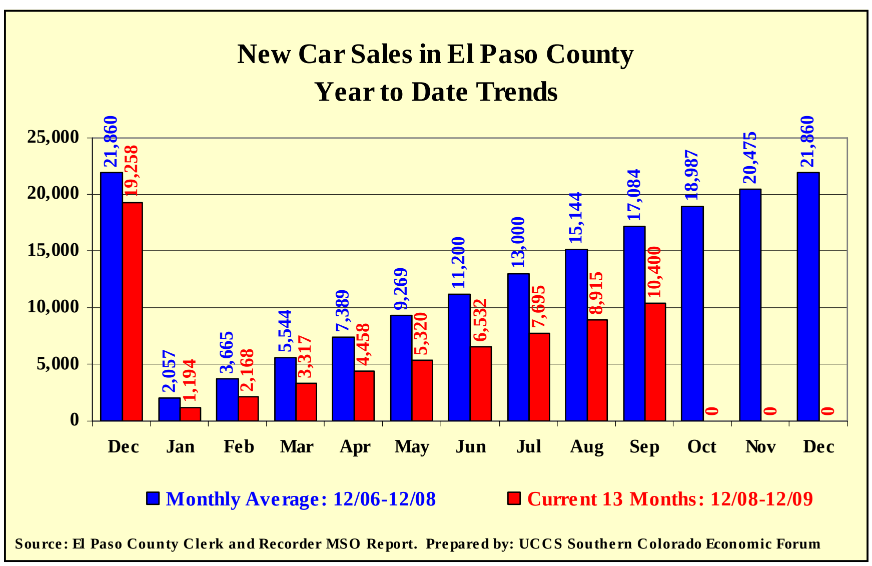
The downward trend in new automobile sales continued through the second quarter of 2009. New car sales in 2008 were approximately 22.4 percent below their sales levels in 2004 and 32 percent below their sales levels in 2001. As expected, the Cash for Clunkers program (CARS) provided a boost in car sales in July and August. Edmunds performed an incremental, seasonally adjusted sales analysis of the CARS program and found approximately 125,000 additional new car were sold beyond what would have been expected to sell. Effectively, this resulted in an incremental, taxpayer cost of $24,000 per incremental vehicle sold under the CARS program. Edmunds analysis supports the Forum's previous analysis that the CARS program would "steal" future vehicle sales and push them into July and August. The monthly, per capita new vehicle sales chart notes the increase in sales from CARS and the anticipated decline in September. Modest declines are expected in the balance of the year.

On a per capita basis, new car sales are doing worse than the absolute decline in car sales. Per capita new car sales have declined approximately 50 percent since September 2004. New car sales will probably not return to levels of the past for several reasons. Cars last longer. New CAFE standards will increase their costs, encouraging car owners to keep them longer before buying a new model. Aging demographic and employment shifts to the suburbs are expected to extend ownership lengths before trade-ins.

Despite the CARS program, year to date new car sales are 39.1 percent behind recent past norms. New car sales are expected to remain depressed for several years.







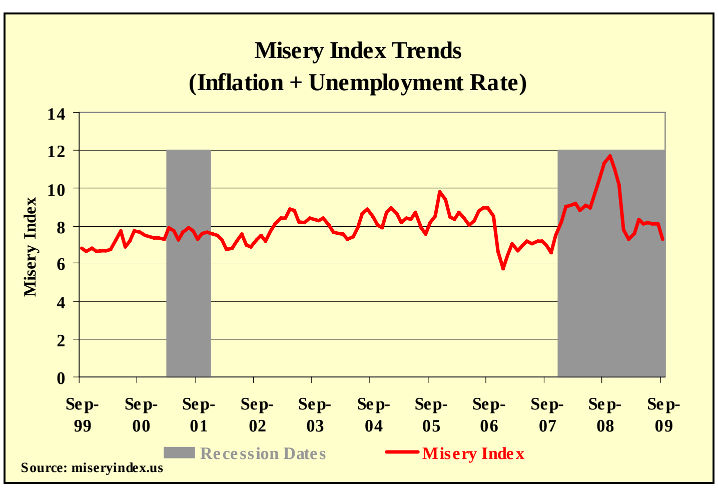
National Expectations

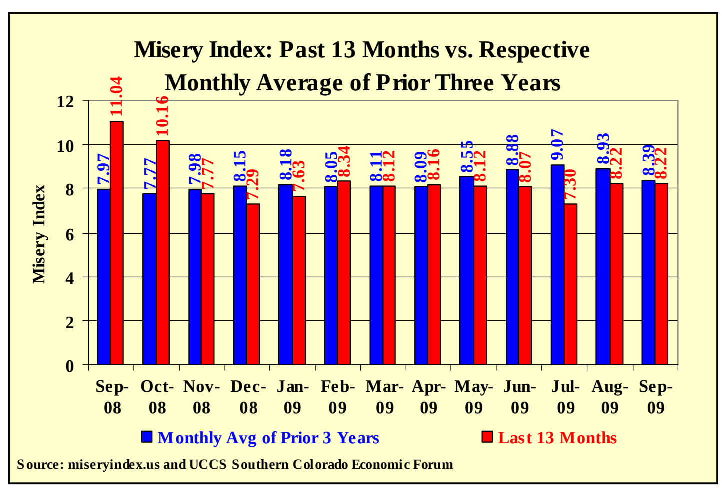
The Federal Reserve Bank of Philadelphia May 2009 *Survey of Professional Economists* moved toward a more optimistic future than their last survey. The consensus opinion of the 51 economists in the survey was the economy continues to improve. Real GDP growth is projected to be in the mid 2 percent range. Interest rates are expected to rise. Unemployment is expected to decline. There is little likelihood of a double dip recession.

Annualized Rate for					
	Q3-09	Q4-09	Q1-10	Q2-10	Q3-10
10-Year T-Bond Rate	3.6	3.8	3.9	4.0	4.1
3-Month T-Bill Rate	0.2	0.2	0.3	0.4	0.7
AAA Corp Bond Rate	5.5	5.5	5.6	5.6	5.6
New Private Housing Starts (Annualized Rate Millions)	0.6	0.6	0.7	0.7	0.8
Industrial Production Index	96.6	97.7	98.2	99.0	100.3
Inflation Rate %	2.4	1.6	1.7	1.9	2.0
Real GDP Growth %	2.4	2.2	2.5	2.8	2.6
Unemployment %	9.6	9.9	9.9	9.8	9.6
Employment Growth					
Nonfarm Payroll Employment Growth (000's)	-273.1	-81.0	51.5	61.5	90.8
Nonfarm Payroll Employment Growth (%)	-2.5	-0.7	0.5	0.6	0.8
Recession Likelihood					
Mean Probability of a Decline in Real GDP	25.9%	23.7%	17.8%	15.9%	13.5%

Misery Index

The Misery Index, a consumer economic wellness measure, (www.miseryindex.us), defines consumer discontent as the sum of the rate of unemployment and the rate of inflation. The lower left chart illustrates the historical values for the last ten years through September 2009. The rise in the Misery Index beginning in late 2007 identified the current recession correctly. The Misery Index is currently declining due to a decrease in inflation. The decline in inflation is attribute to falling energy and commodity prices. The current 10.2 percent national unemployment rate suggests it is too soon to begin feeling good. Inflation is expected to increase in the coming months due to rising energy and transportation costs. The combination of a rise in inflation and unemployment rates above 10 percent indicates, the Misery Index is expected to be in the 11-12 range later this year.





Anticipated Holiday Spending:

A Consumer Survey of Local Shoppers

By Sam White, Ph. D.

A Study sponsored by Southern Colorado Economic Forum, BiggsKofford, Colorado Springs Gazette, and the College of Business & Administration

Introduction

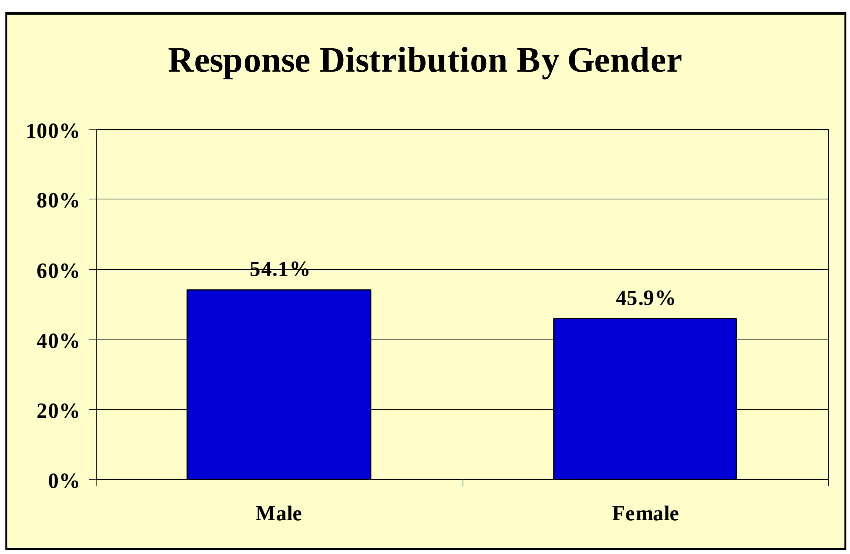
The lingering effects of the recession continue to dampen retail sales in the latest economic reports. Early October retail sales reports show, at best, marginal increases in consumer spending. Back-to-school sales in August were very weak. Consumers appear to be disinterested in resuming their consumptive retail patterns of the past. Consumers appear to be more interested in reducing debt and increasing savings. Although retail sales increased in October, much of the increase was the result of a gain in auto sales. Most economist anticipate that spending is not going to increase until well into the new year. The results of our local survey of consumers is consistent with this expectation. No matter how the numbers are viewed, this holiday season will be a challenge for many local merchants, especially those for whom the holiday shopping season is a make or break event.

This study was done to help determine anticipated levels of spending in the upcoming holiday season, and to gain insight into where consumers plan to shop in the Pikes Peak region and beyond. Both of these factors will be crucial to the economic health of our business community and the viability of our local retail centers.

Distribution of the Survey and Solicitation of Respondents

Respondents were invited via an electronic message to fill-out a short twelve-question survey posted on the internet. The estimated time required to provide all answers was approximately three and one-half minutes.

In order to solicit a wide range of participants, individuals from several subpopulations were invited to provide an anonymous response to a consumer-type survey. The invited groups included subscribers on the Southern Colorado Economic Forum's *QUE* list (sorry folks), faculty and staff at the University of Colorado at Colorado Springs, MBA students enrolled fall term in the resident program at UCCS, and MBA alumni who are members of the local chapter of the MBA Association. In addition, the site was referenced in an article in the Gazette. The Gazette's readers were encouraged to provide their responses.



Characteristics of Survey Participants

A total of 481 responses were collected over a 3-week period in September 2009. Participants provided estimates for how much they spent for Christmas gifts last year, how much would be spent this year, the primary factors influencing planned spending this year, the most likely type of stores for expenditures and the primary location planned for the holiday season shopping and purchasing activities.

The review of gender of respondents shows that the total sample consisted of 54.1% males and 45.9% females. The distribution of age among participants ranged from age 20 to age 60+.

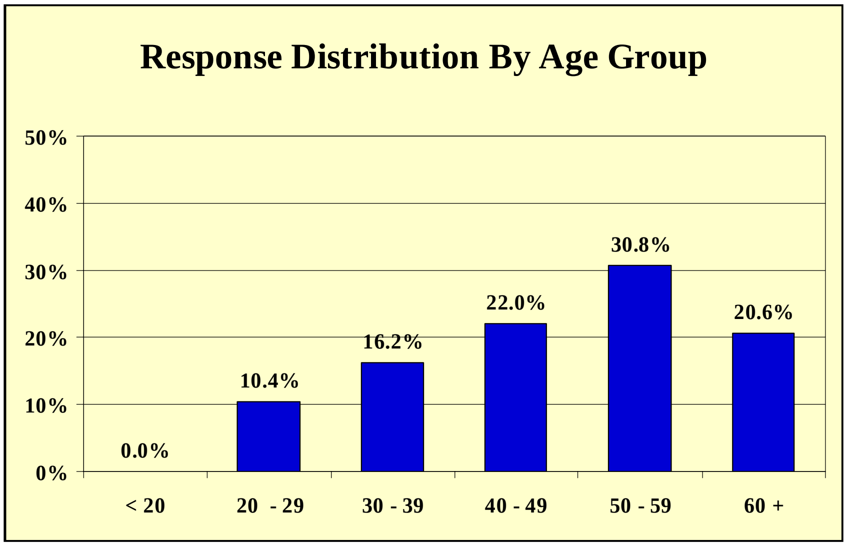
A closer look shows that the sample was skewed toward the older age categories with 54.4% over 50 years of age and only 10.4% were under 30. The largest group of respondents came from the 50 to 59 age group at 30.8%. None of the respondents were younger than 20.

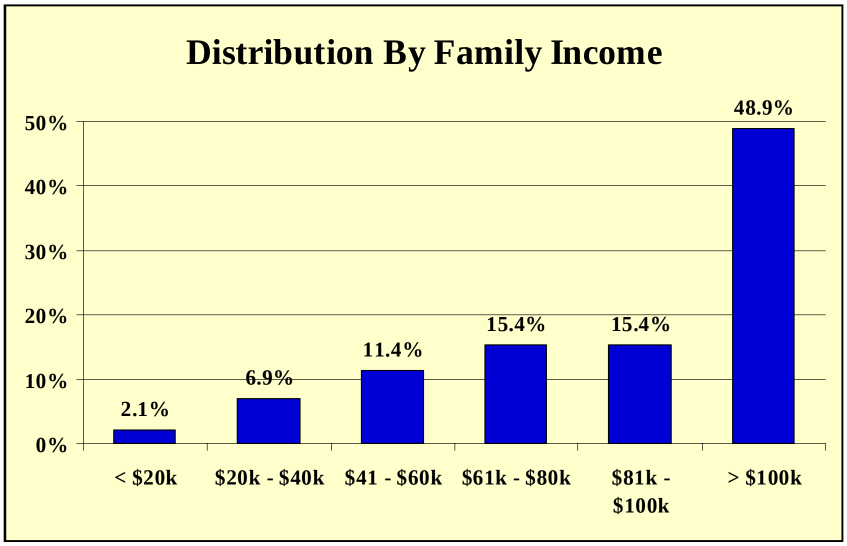
Participants were asked to categorize themselves according to family income. The responses indicate our sample is skewed toward the higher income categories with only 10 people (2.1%) indicating family income below $20,000 and 235 people (48.9%) indicating family income above $100,000. These results are consistent with the age distribution of the sample.

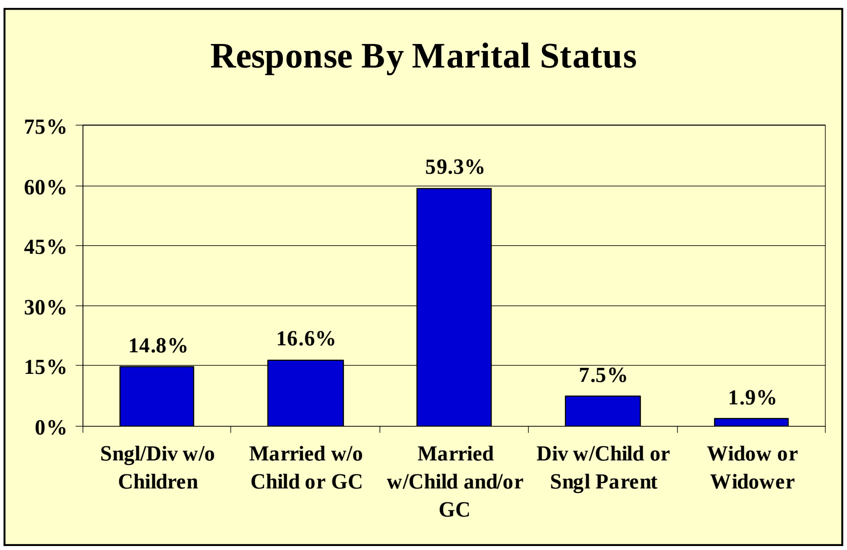
The final descriptive characteristic requested was "martial status." A majority of respondents (59.3%) indicated they were "married with children and/or grandchildren." Two other categories were less well represented but received a sufficient number of responses to provide a meaningful analysis. These were "single or divorced without children (14.8%) and "married without children or grandchildren" (16.6%).

Summary Results on Anticipated Spending

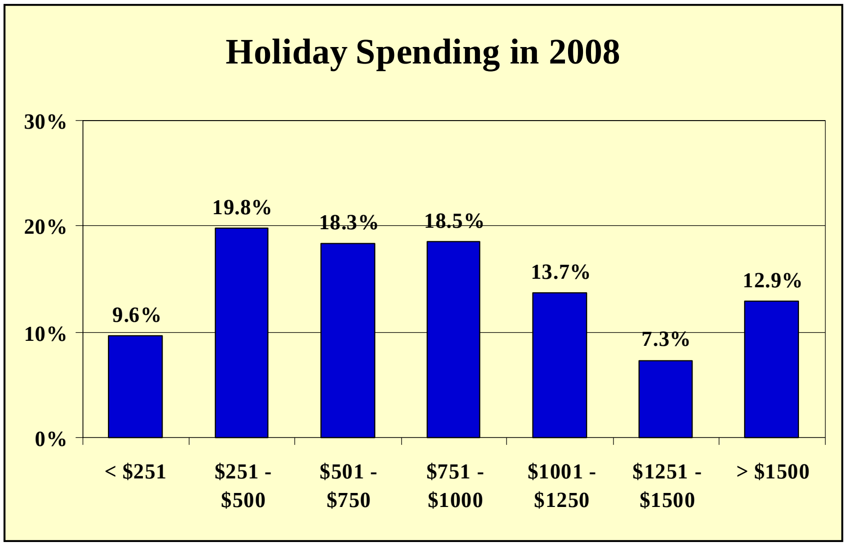
Respondents were first asked to estimate "how much they spent last year for holiday



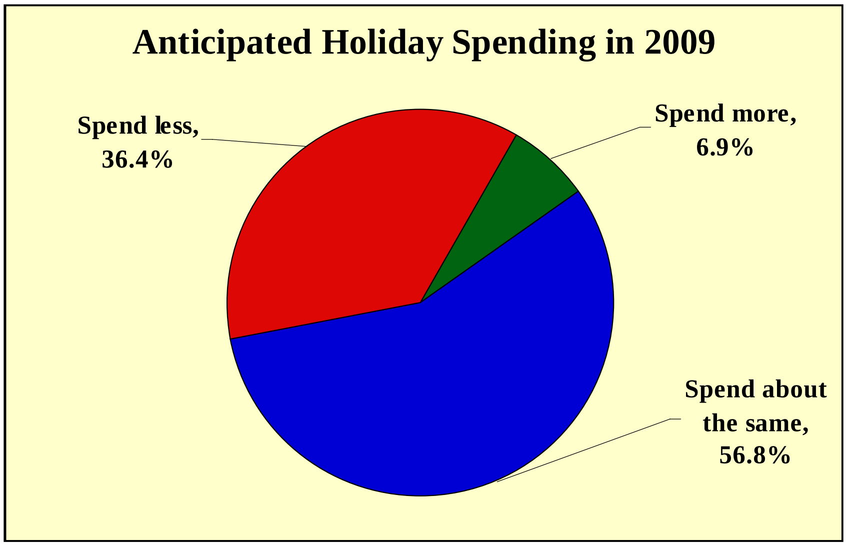




gifts?" Answers to this question established a base for spending to compare with anticipated spending this holiday season. A summary of responses shows that 29.3% of respondents spent $500 or less for gifts last year, 36.8% spent between $501 and $1,000 for gifts last year, and 21.0% between $1,001 and $1,500 for gifts last year. Interestingly, 12.9% estimated they spent more than $1,500 on gifts last year. The data confirm that holiday spending is a significant source of revenue for local retailers.



A two-way analysis separated age and estimated spending in 2008 into their respective categories. Not surprisingly, the results indicate that older individuals spent more than younger groups in 2008. Older individuals, those above 50, usually have more discretionary income, proportionately less debt and spend more for the holidays than younger age groups.



Participants were asked, compared to last year, "during this holiday season, do you anticipate spending (more, the same, less) on gifts?" The results indicate most people plan to spend about the same as last year (56.8%). Approximately one-third anticipate spending less than last year (36.4%). Very few respondents anticipate spending more than last year (6.9%).

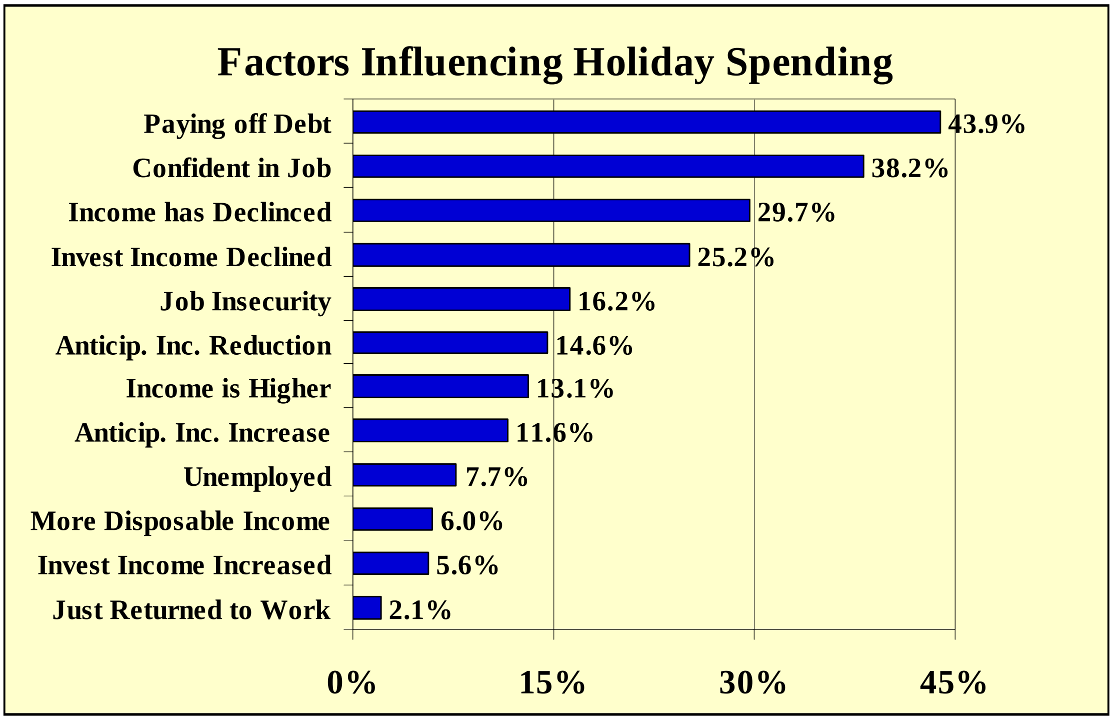
A first glance indicates local retailers will experience lower holiday sales in 2009 than in 2008. This is consistent with national projections for retail sales across the country and may have significant consequences for the health of our business community as well local sales tax collections. No significant differences were observed for planned spending when we controlled for income.

Previously, we found older individuals tended to spend more than younger individuals in 2008. We find just the opposite result when we perform a two-way analysis using age group and planned spending in 2009. Older individuals plan to spend the same or less in 2009 while younger individuals plan to spend more.

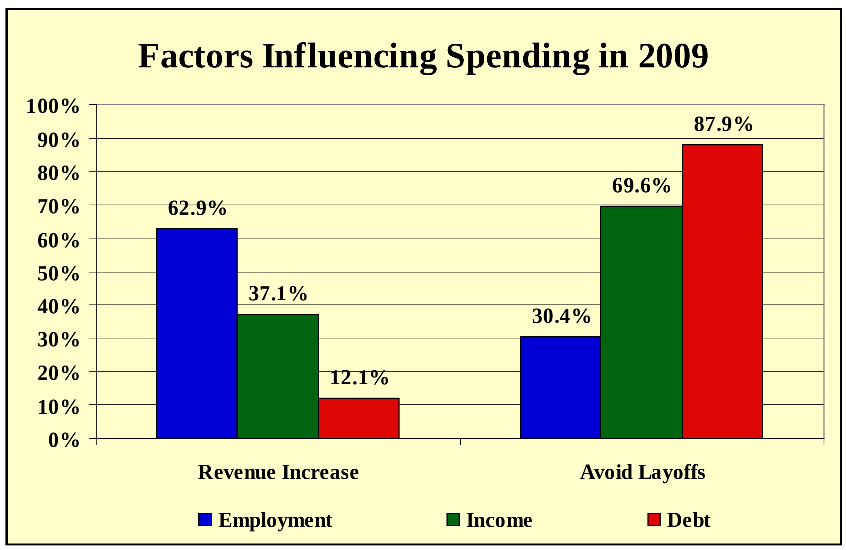
Underlying Influences Driving Holiday Plans

A number of reasons appear to influence anticipated holiday gift expenditures in 2009. The survey asked if employment status, income, and debt reduction were influencing planned holiday spending. The total number of responses recorded was 1,030 because respondents could record multiple responses.

Responses were consistent with household budget constraints. Concerns about income levels, jobs security and debt reduction were frequently cited as the most likely factors to influence holiday spending plans. A little more than twice as many people have experienced decreasing income over the past year when compared to those experiencing increasing income. Additionally, almost 9 out of 10 respondents are debt reduction.



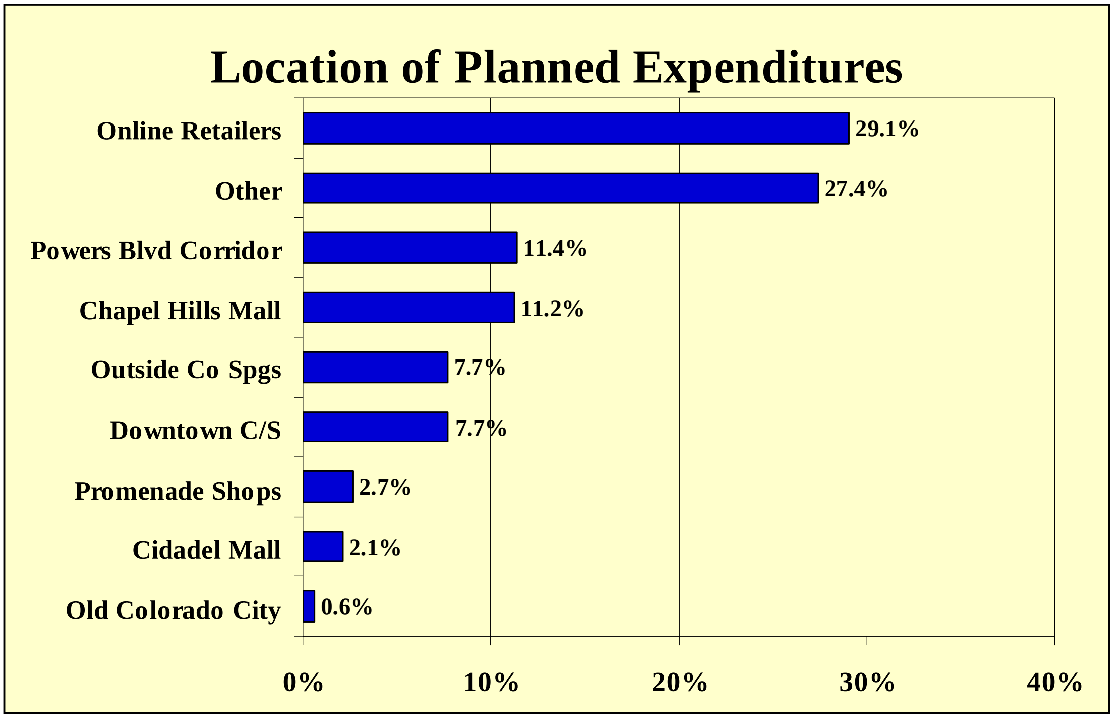
A two-way analysis of the data was used to examine the impact of positive and negative expectations on planned spending in 2009. Respondents who plan to spend less will do so because their wages decreased, their investment income decreased, they are paying off debt or a combination of the three. Respondents who plan to spend more in 2009 are influenced by higher income and employment security. Respondents planning to spend the same amount in 2009 are influenced by secure employment and shifting their focus toward paying-off debt. Reducing debt appears to be a concern regardless of income level.



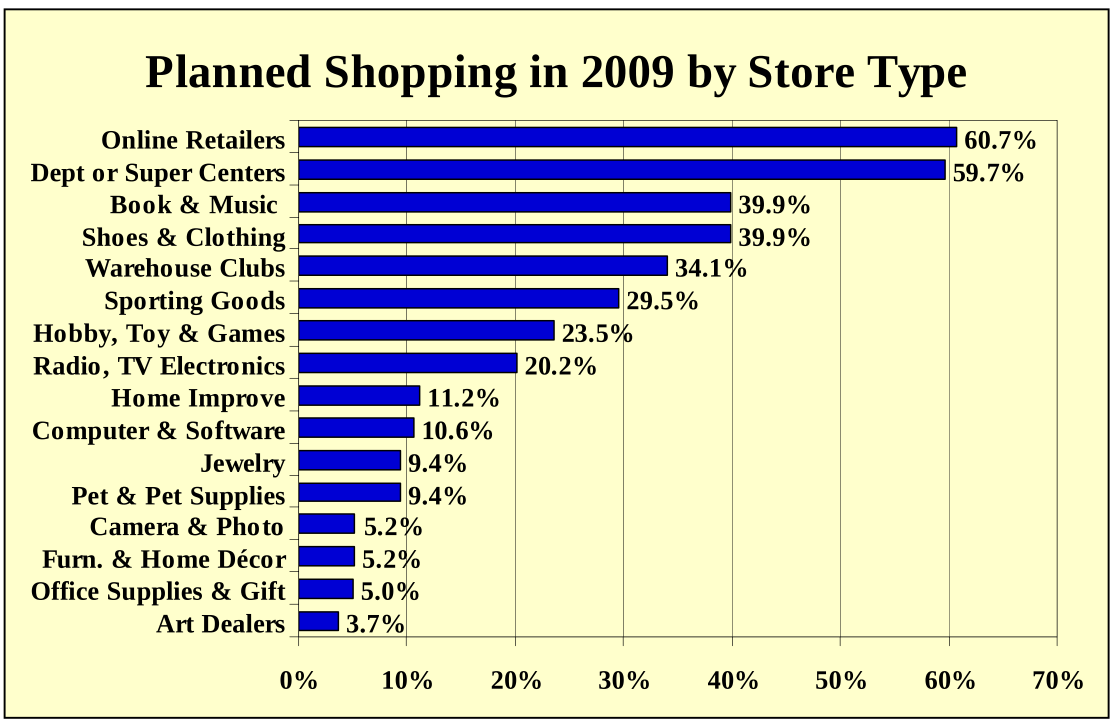
Where Will People Shop This Christmas?

Respondents were asked where they "plan to make the majority of holiday gift purchases?" The responses clearly indicate that the Chapel Hills Mall (11.2%), the Powers Boulevard corridor (11.4%), destinations other than those specified in the survey but inside the county or locations outside the city or county are the most likely shopping destinations (27.4%). Interestingly, close to one third of the respondents (29.1%) indicated they intend to make the majority of their holiday purchases online. Today's consumers are comfortable shopping online. Most likely, this comfort level will aggravate the declining trend in real, per capita sales tax revenues for the city and county.

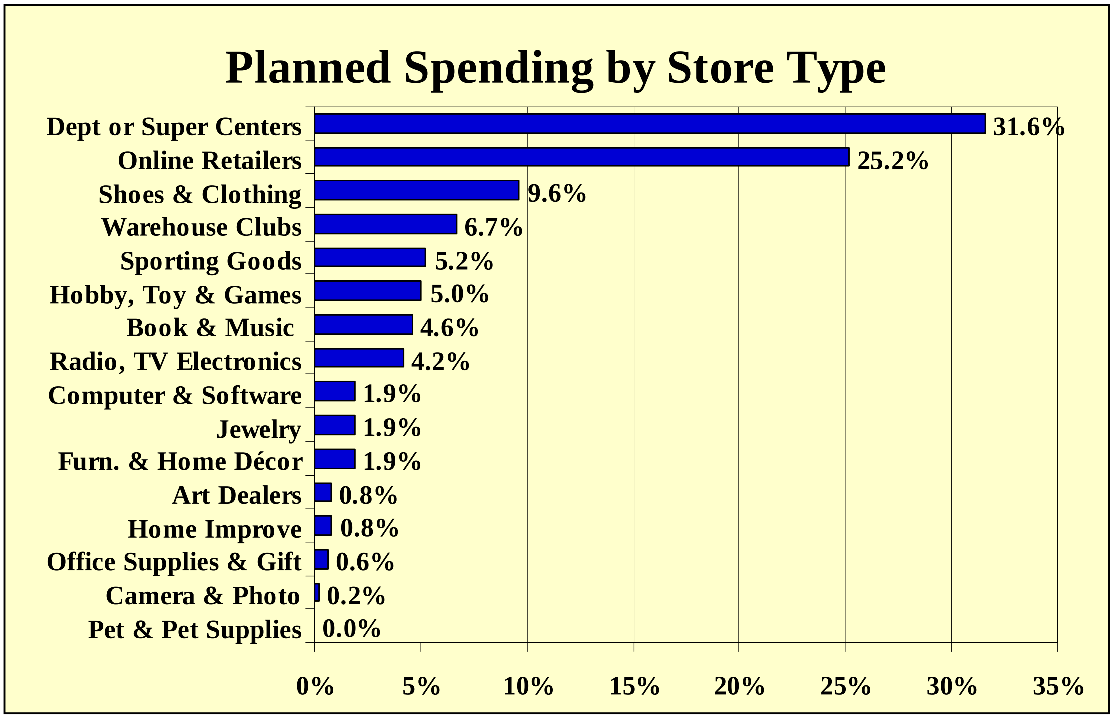
A striking observation from the survey is that just 2.1% of the respondents plan holiday expenditures at or near the Citadel Mall. Retailers in the Citadel would find this disheartening because it suggests their holiday shopping traffic will be much lower than other shopping areas in the city. If this is indeed the case, a number of retail establishments may have a difficult time surviving and may be forced to close after the holidays.

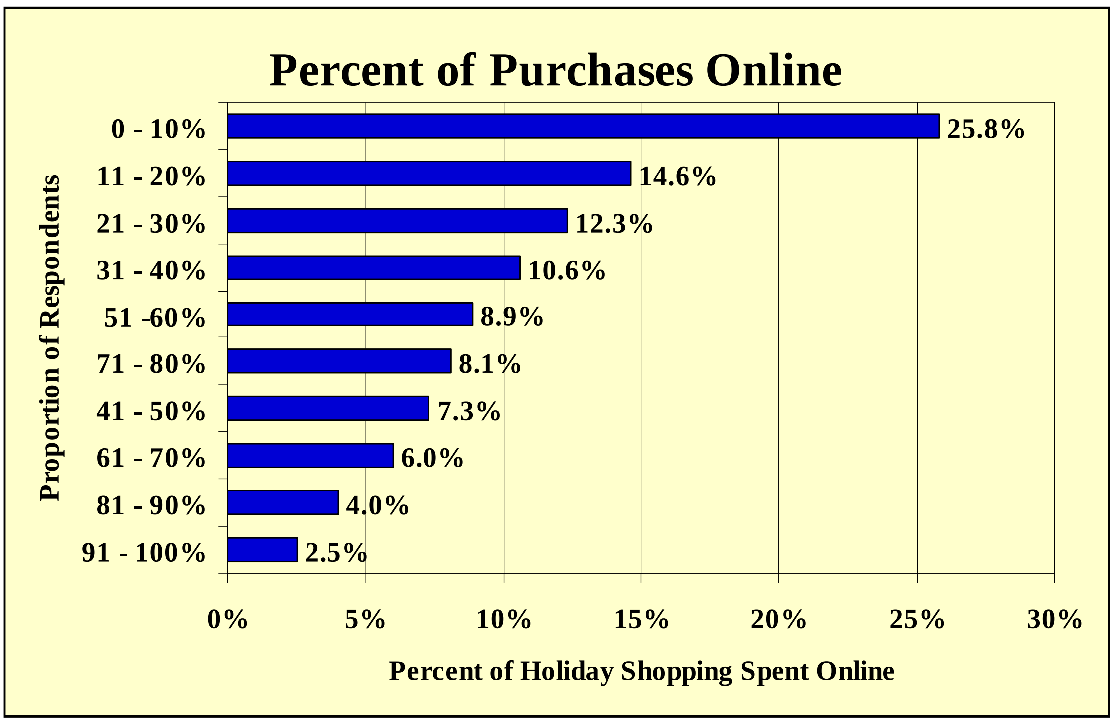


The type of store that consumers will patronize and the type of store they intend to spend a majority of their dollars helps determine how well particular retailers will do this season. When asked, "what type of shops and stores do you plan to patronize in buying holiday gifts?" respondents clearly indicated two types of stores they intend to patronize more than others. The clear winners are expected to be department or super center stores (16.3%) and online retailers (16.5%). Warehouse clubs (9.3%), sporting goods (8.0%), shoe, clothing & accessory (10.9%), and book & music stores (10.9%) will also see significant traffic this holiday season.



The store formats that respondents will patronize and where they will spend are highly correlated. When asked, "what type of store do you anticipate spending the largest share of your holiday gift monies?," respondents indicated department stores and super centers (31.6%) and online retailers (25.2%). A second tier of stores include warehouse clubs (6.7%), sporting goods (5.2%), shoe, clothing and accessories (9.6%), and hobby, toy & games (5.0%) but these trailed the first two by a wide margin.





Internet retailers are a viable and formidable competitor to local merchants. Respondents were ask, "what percentage of your holiday purchases do you anticipate buying online?" Almost all respondents plans to do some online shopping this year. The reluctance to purchase online just a few years ago appears to have disappeared. The most frequently chosen amount category is 0 – 10 percent (25.8%). However, almost one-half (47.4%) of all respondents indicate they plan to make 31% or more of their holiday gift purchases online. Almost thirty percent of all respondents (29.5%) plan to purchase more than one-half of all their holiday purchases online. This is consistent with the previous observation about where people plan to make the majority of their purchases – 29.5 percent versus 29.1 percent. Local retailers, regardless of size, would be advised to develop, maintain, and actively promote a convenient and comprehensive online presence.

An analysis of the results was done to examine the relationship between gender, age and family income with percent of planned purchases online. Young and old alike have adopted the internet as a viable source of goods and services. No significant differences were found among income levels and planned percent of purchases online. Higher and lower income groups have found the internet is a convenient channel to purchase goods and services. Males were found to be more likely than females to make purchases on the internet.

Observations and Conclusions

Given the information provided by the respondents, retailers should expect sales during the 2009 holiday season to be similar to or slightly less than those experienced in 2008. Overall, about one-third of all respondents plan to spend less than last year. People in older age groups with higher incomes plan to spend less in 2009 than they did in 2008.

There may be several indirect reasons for lower spending this year. Among our respondents, 29.7% have experienced reduced income, 16.2% are concerned about continued employment, and 25.2% have experience decreased investment income. Additionally, 14.6% are expecting reduced income in the future and 43.9% are now focused on paying-off debt. These factors indicate that a large proportion of shoppers will be bargain hunters and may be shopping for gifts considered "necessities" as opposed to more traditional gifts.
of the gift purchases may be more "necessity oriented" as opposed to "just for fun." Shoppers are closing their wallets in preparation for a potentially long and slow recovery.

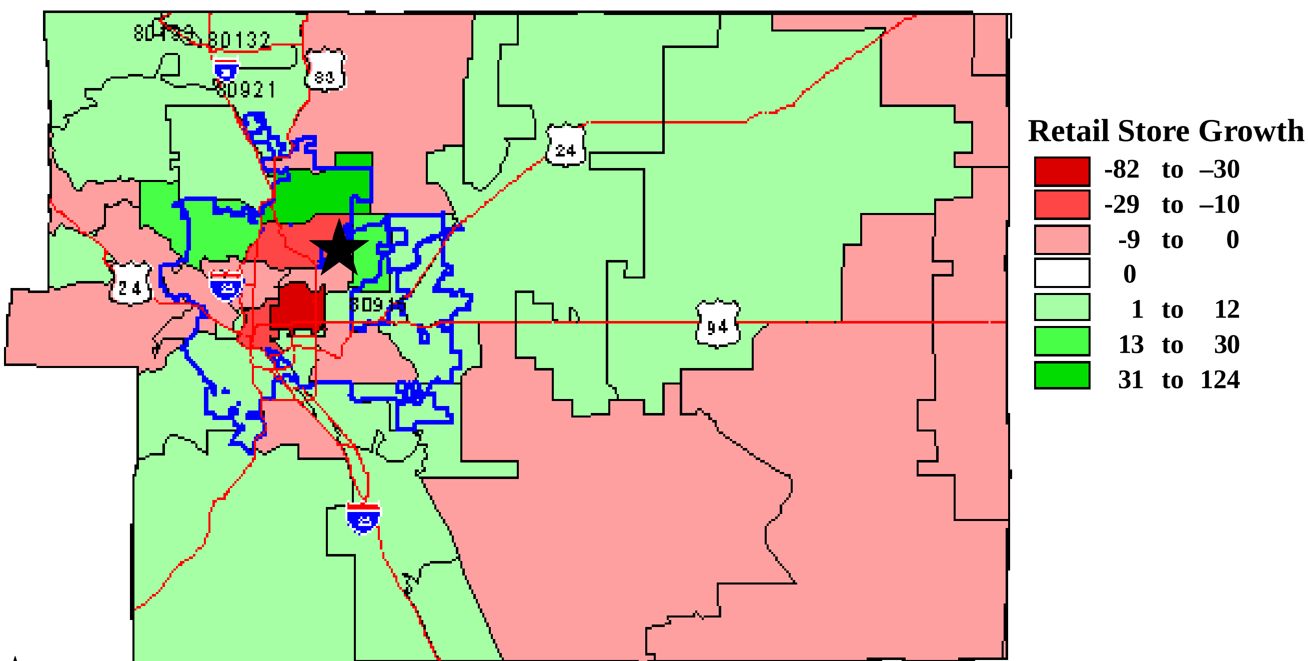
Another factor that does not bode well for local retailers is the number of shoppers who plan to shop online. Over twenty-five percent of our respondents indicate that they will make purchases from online retailers this holiday season. In addition, about one-third of the respondents indicate they plan to make a majority of their holiday purchases online. Regardless of whether this type of purchase is growing, as some people claim, removing this volume of sales from local stores will have a strong dampening effect on holiday sales and total annual revenues. Decreases in sales volume of this magnitude have important implications for city and county sales tax revenues. Unless this displacement is reversed, local governments will continue to struggle with budget shortfalls and lower levels of sales tax revenues.

Finally, the lack of planned patronage at the Citadel Mall should raise concerns for retailers located in the mall and for city officials. The shifting demographics in this area of the city should be acknowledged. Now is probably the time to begin plans to redevelop this once vital area of the community.

Retail Trends in El Paso County
Fred Crowley

The following map indicates areas which have lost retail businesses from 1998 through 2005. During the period 1998 through 2005, the Citadel Mall area (Zip Code 80909) lost 82 retailers. According to the latest data available from County Business Patterns, Zip Code 80909 lost 111 retailers from 1998 through 2007. During the 1998-2007 period, Zip Codes 80132 (Monument), 80832 (Falcon) and 80817 (Fountain) increased the number of retailers by 93. The flight to suburbia has been nibbling retail sales from Colorado Springs for years. Historical trends would suggest a decline in retail activity should be expected for the holiday shopping season in the Citadel Mall area. This is exactly what the survey found. The Forum has written about the flight to suburbia and the migration of retailers that would follow the new roof tops. The evidence of this ongoing trend appears to have achieved critical mass and the attention of the community. The population center has moved northeast from its original location near downtown Colorado Springs. The trend is expected to continue through 2035. John Hanson, Pikes Peak Area Council of Governments GIS Analyst, provided the Forum with a projection for the county's population center in 2035. The population center is expected to continue moving toward the intersection of Powers Boulevard and Carefree Circle N. This is shown as a "★" on the map. Commercial interests are expected to follow the trend. After all, it is all about location, location, and location.

Growth in Retail Stores by Zip Code: 1998-2005



★ Projected approximate population center, 2035

Source: County Business Patterns, Census ZCTA shape files
Area outlined by blue represents the approximate boundaries for the City of Colorado Springs

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Table 2: Selected Economic Indicators

National Quarterly Data			2008 Q4			2009 Q1			2009 Q2			2009 Q3	Vs Year Ago
Ttl Loans/Lease Charge-off Rate			1.89			2.04			2.65			na	1.38
Loan Delinquency Rate			4.59			5.60			6.49			na	3.13
Benefit Costs SA 2005=100			107.9			108.1			108.3			na	1.40
Compensation Costs SA 2005=100			109.1			109.3			109.5			na	1.60
Retail Sales SA (billions)			926			910			906			na	-142.7
e-Sales SA (billions)			31.5			31.7			32.4			na	-0.1
e-Sales as % of Retail Sales SA			3.4%			3.5%			3.6%			na	0.5%
GDP Real % Growth (Chained) SA			-5.4%			-6.4%			-0.7%			3.5%	-0.6%
Consumer Debt to Disposable Inc			13.6%			13.5%			13.1%			0.0%	-13.5%
National Monthly Data	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Vs Year Ago
Capacity Utilization SA	75.4	74.5	72.8	71.3	70.3	69.3	69.2	68.5	68.3	69.0	69.5	70.9	-3.60
Car & Lt Trk Sales Millions SA	10.5	10.1	10.3	9.5	9.1	9.8	9.2	9.8	9.7	11.2	14.1	9.2	-3.27
Consumer Sentiment (1966=100) SA	57.6	55.3	60.1	61.2	56.3	57.3	65.1	68.7	70.8	66.0	65.7	73.5	3.20
CPI-U 1982-84=100 SA	216.9	213.3	211.6	212.2	213.0	212.7	212.7	212.9	214.5	214.5	215.4	215.8	-1.32%
Federal Funds Rate (Effective)	0.97%	0.39%	0.16%	0.15%	0.22%	0.18%	0.15%	0.18%	0.21%	0.16%	0.16%	0.15%	-1.66%
Gasoline Price per Gal. of Regular	3.05	2.15	1.69	1.79	1.92	1.96	2.05	2.27	2.63	2.53	2.62	2.55	-1.15
Industrial Production (1997=100) SA	106.2	104.8	102.4	100.1	99.4	97.7	96.9	95.8	95.4	96.6	97.8	98.5	-6.37
Inventory/Sales Ratio SA	1.36	1.43	1.46	1.46	1.44	1.44	1.43	1.42	1.38	1.36	1.33	na	0.01
30 Year Convential Mtg Rate NSA	6.20%	6.09%	5.33%	5.06%	5.13%	5.00%	4.81%	4.86%	5.42%	5.22%	5.19%	5.06%	-0.98%
Prime Rate (%) NSA	4.56	4.00	3.61	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	-1.75
Purch Mgr Index SA	38.70	36.60	32.90	35.60	35.80	36.30	40.10	42.80	44.80	48.90	52.90	52.60	9.20
Real Rtl/Food Svc Sales SA (billions)	163.70	163.04	159.01	161.20	161.23	159.48	159.09	159.66	159.90	159.69	162.41	159.73	-7.37
S&P500	969	896	903	826	735	798	873	919	919	987	1,021	1,057	-107.66
Tech Index SA - Mar 2001 = 100	106.4	108.9	104.3	101.3	104.8	105.6	103.8	106.0	109.0	110.8	110.6	na	1.35
Trade Weighted Dollar	80.4	82.7	80.7	81.0	83.1	83.8	82.3	78.9	77.0	76.4	75.2	74.6	-0.88
West Texas Oil Spot Price NSA	76.7	57.4	41.0	41.7	39.2	48.0	49.8	59.2	69.7	64.1	71.1	69.5	-$34.44
Colorado Data	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Vs Year Ago
Denver-Boulder CPI SA	-	-	211.07	-	-	-	-	-	214.34	-	-	-	2.11%
Kansas City Fed Mfg Index	99.0	75.1	77.0	62.8	59.8	64.6	78.1	90.1	106.1	101.3	100.5	127.8	0.0
Labor Force NSA (000's)	2,752	2,736	2,732	2,723	2,714	2,706	2,715	2,702	2,724	2,719	2,704	2,683	-62.37
Labor Force SA (000's)	2,752	2,736	2,732	2,723	2,714	2,706	2,715	2,702	2,724	2,719	2,704	2,683	-62.37
Employment NSA (000's)	2,732	2,733	2,738	2,740	2,742	2,751	2,737	2,721	2,700	2,683	2,683	2,671	-60.33
Employment SA (000's)	2,612	2,588	2,567	2,527	2,508	2,493	2,516	2,502	2,511	2,509	2,512	2,503	-111.47
Unemployment Rate NSA	5.1%	5.4%	6.0%	7.2%	7.6%	7.9%	7.3%	7.4%	7.8%	7.7%	7.1%	6.7%	1.94%
Unemployment Rate SA	5.3%	5.4%	5.8%	6.6%	7.2%	7.5%	7.4%	7.6%	7.6%	7.3%	7.3%	7.0%	2.00%
Colorado Springs Data	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Vs Year Ago
Business Conditions Index SA	75.20	71.55	72.07	69.15	68.39	70.12	69.37	73.70	78.75	74.36	74.48	81.27	-1.68
Co Spgs Airport Boardings SA	83,378	77,289	76,894	76,355	75,914	84,872	84,300	77,833	77,454	75,334	78,772	82,028	4,267
Foreclosures SA	429	386	379	393	452	428	459	444	392	584	473	488	212
New Car Sales SA	1,355	1,261	1,340	1,133	1,156	1,155	1,134	952	1,196	1,053	1,002	1,340	-228
Sales & Use Tax SA (000's)	9,158	9,270	8,987	8,765	8,923	9,636	9,037	8,580	9,277	9,049	9,428	8,964	-776
Single Family Permits SA	83	82	80	85	84	83	59	123	153	115	113	141	7
Labor Force NSA (000's)	302.3	302.2	300.7	299.3	299.0	297.7	300.9	300.5	302.7	298.3	294.3	293.5	-7.55
Employment NSA (000's)	284.3	283.4	279.7	274.8	273.7	272.1	277.4	277.1	277.5	273.8	271.9	272.4	-11.56
Unemployment Rate NSA	6.0%	6.2%	7.0%	8.2%	8.4%	8.6%	7.8%	7.8%	8.3%	8.2%	7.6%	7.2%	1.51%

About the Forum

The Southern Colorado Economic Forum (SCEF) is part of the College of Business outreach to the Colorado Springs Community. The Forum gathers, analyzes and disseminates information relevant to the economic health of the region. Through its efforts, the Forum has gathered a number of unique data sets. The Forum and its staff are available for fee-for-service work to analyze business situations, develop forecasts, conduct and analyze surveys and develop solutions to other business problems you may have. Examples of prior work include Small Area Forecast for the Pikes Peak Area Council of Governments, Colorado Springs Airport Passenger Survey, exit survey for La-Z-Boy, a Community Audit for the Pikes Peak Workforce Center and the Data Mining Project for the Colorado Workforce Centers. If you would like additional information about how the Forum can assist you, contact Fred Crowley at (719) 255-3531 or e-mail at fcrowley@uccs.edu.

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