

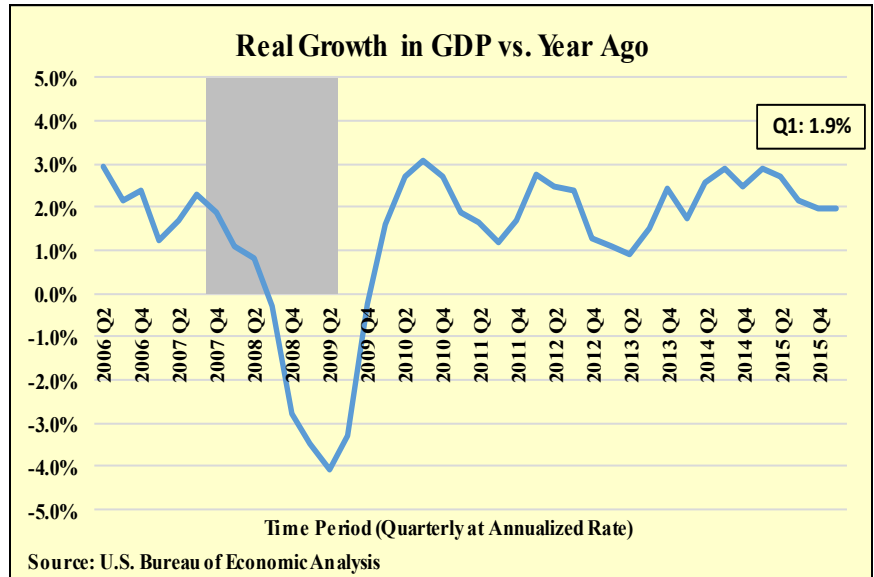
# Quarterly Economic Update

1st Quarter, 2016 Data  
 Posted May 2016  
 Tatiana Bailey - Director

## THE BIG PICTURE

### U.S. Quarterly GDP

GDP for the first quarter of 2016 compared to Q1 from a year ago is up 1.9%, based on the “advance” estimate released by the Bureau of Economic Analysis, which is subject to further revisions later in May and again in June. Growth in Q4 of 2015 was 2.0 comparing to Q4 of 2014. The growth in Q1 of this year is mostly due to increases in personal consumption expenditures (tied closely to consumer sentiment discussed below), increases in residential fixed investment, and increases in state and local government spending. These increases were partially offset by decelerations in nonresidential fixed investment (what businesses spend on equipment, software, buildings and intellectual property), private inventory investments, exports, and federal government spending. Imports increased as



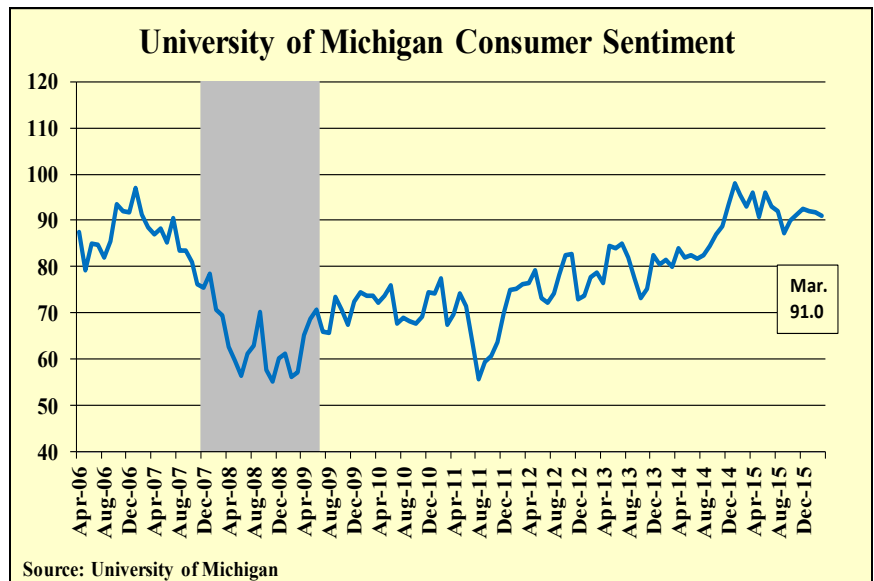
GDP: The monetary value of all of the finished goods and services produced within a country’s border in a specific time period. Figures are seasonally adjusted and annualized.

$$GDP = C + G + I + NX$$

where “C” is consumer spending, “G” is government spending, “I” is all business spending on capital and “NX” is net exports, which is exports minus imports.

### U.S. Consumer Sentiment

Consumer sentiment was fairly flat during Q1 of 2016, ending in March at 91.0. At the end of Q4, 2015 (December), consumer sentiment was a bit higher at 92.6. This index, which correlates very well with how the economy is doing overall, has been high and quite stable over the past year and a half. In fact, according to the University of Michigan it has been 10 years since consumers viewed their own personal finances this favorably. Inflation-adjusted income expectations are at their highest point for consumers since 2007, indicating a perception recovery since the Great Recession. The data indicate an expectation that personal consumption will increase 2.7% during 2016. This is good news for U.S. businesses that have U.S. residents as their primary market base. ➔

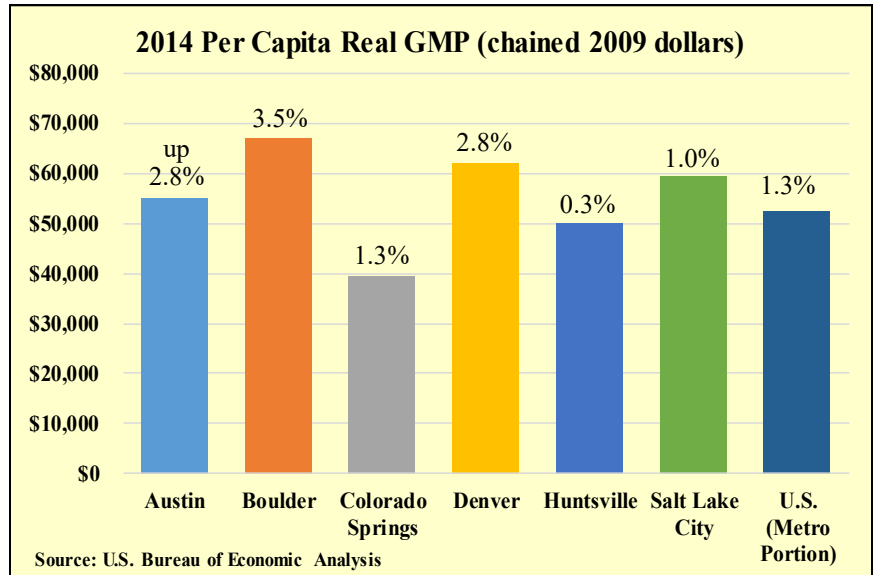


Consumers are generally expecting a slower pace of job growth and a gradual increase in gas prices during 2016, although neither of these expectations appear to be dampening consumer confidence and personal expenditures.

## THE BIG PICTURE (cont.)

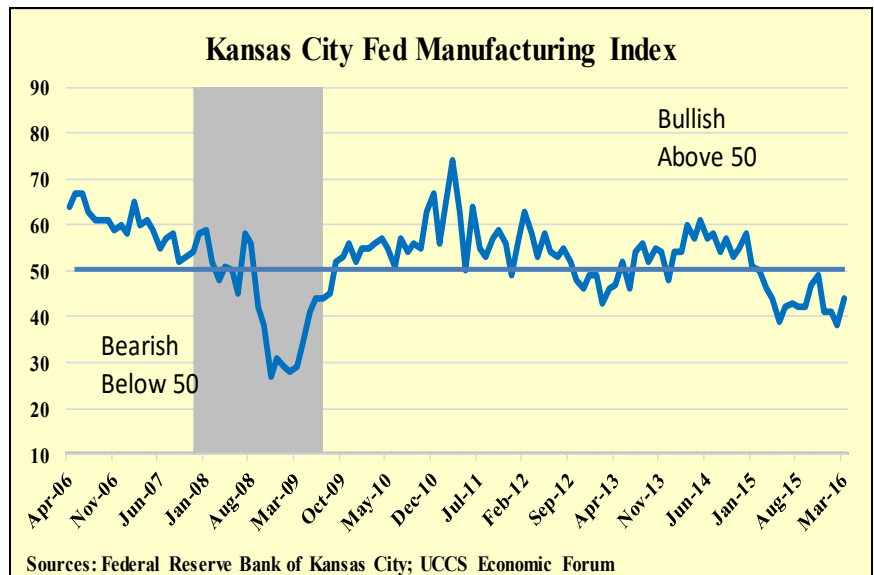
### Per Capita GMP

The Forum now tracks GMP, or gross metropolitan product and compares this metric to a few other cities. GMP is conceptually the same as GDP but for a (smaller) defined geographic region. The percentages in the boxes represent the incremental change in GMP from 2013 to 2014 (available data is lagged). As is shown, the greatest level of increase happened in Boulder (3.5%) and the lowest was Huntsville (0.3%). Colorado Springs had a 1.3% increase, which is exactly the same as the U.S. growth rate for the average change in GMP incorporating many cities.



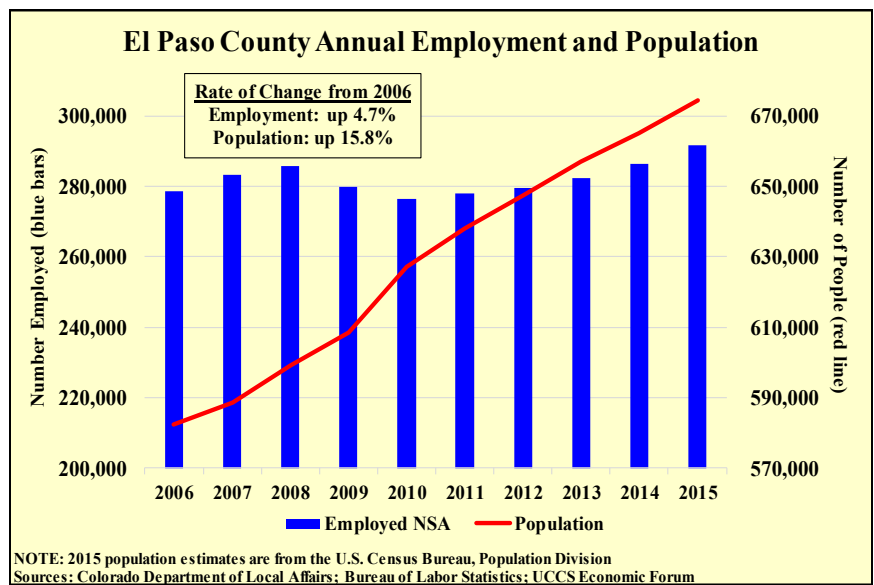
### Kansas City Fed Manufacturing

Since February of last year, the Kansas City Fed manufacturing index has been below 50 reflecting unfavorable survey results in manufacturers' responses about production and shipments, changes in prices of raw materials and finished products. In March, the index was at 44, up from 38 in February. This lackluster index level is primarily due to the strong dollar and the marked decline in oil and gas production although experts in manufacturing are prognosticating an increase in manufacturing later this year.



### Employment to Population

There is often discussion in the community about job growth (or lack thereof) in the region. The graph to the right shows that the number of people employed has been relatively stagnant if we look back to 2006 (left hand axis), while population has increased significantly (right hand axis). In fact, from 2006 to 2015, employment levels increased by 4.7%, but population increased by 15.8%. Some recent analyses by the Forum shows that this is likely due in part to a combination of a low civilian participation rate and a steady increase in the population ages 0-17 in El Paso County as well as the nation-wide aging trend.



## EMPLOYMENT & WAGES

The seasonally adjusted unemployment rate for El Paso County at the end of March was 3.8%, which is lower than the U.S. average (5.0%). Employment levels in El Paso County increased from 288,095 to 298,636 (up 0.5%) comparing March 2015 to March 2016. Although the low unemployment rate is favorable, it is important to remember that the unemployment rate takes into account the number of people who consider themselves part of the workforce. We have a low unemployment rate partially because employers are hiring, but also because there are fewer people in the “workforce,” although more recently, residents seem to finally be re-entering the region’s workforce. Over the past year, the local labor force also increased by 6,217 representing a 2.0% increase.

### Employment by Sector

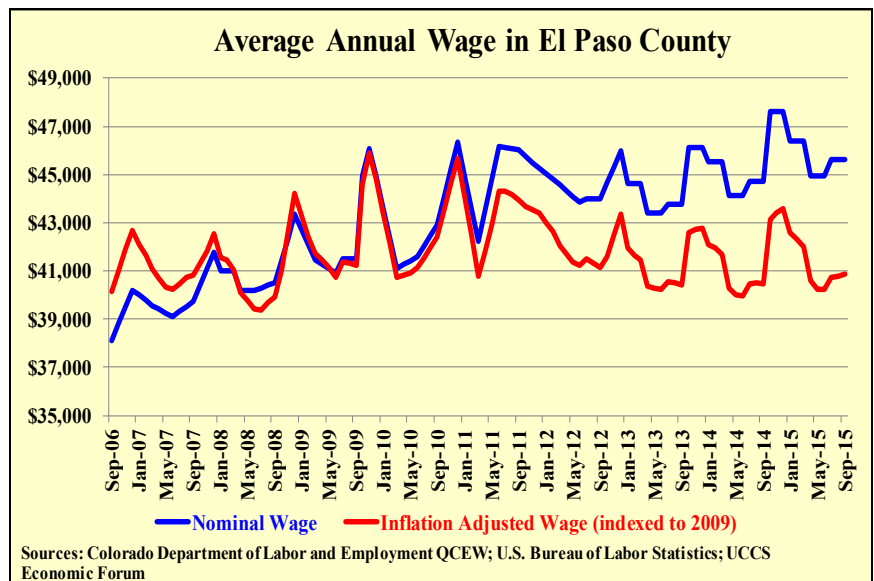
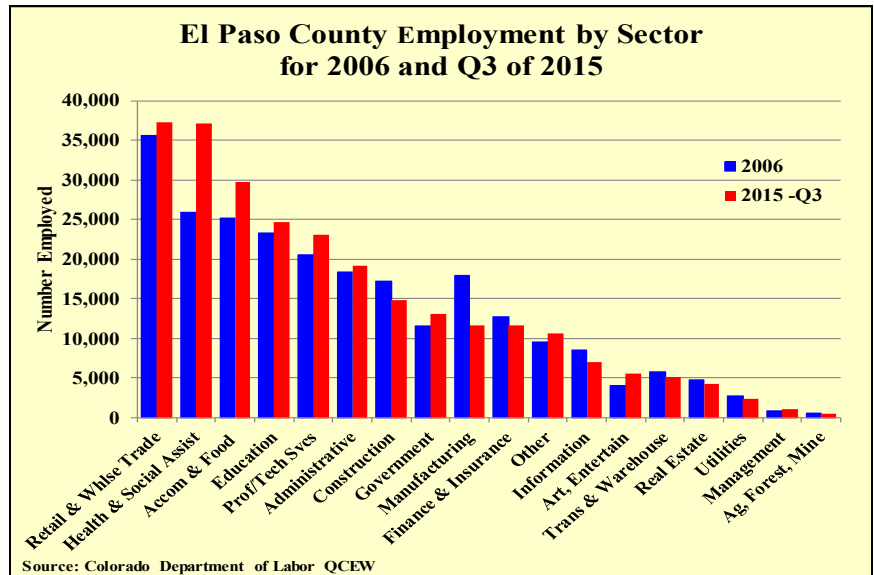
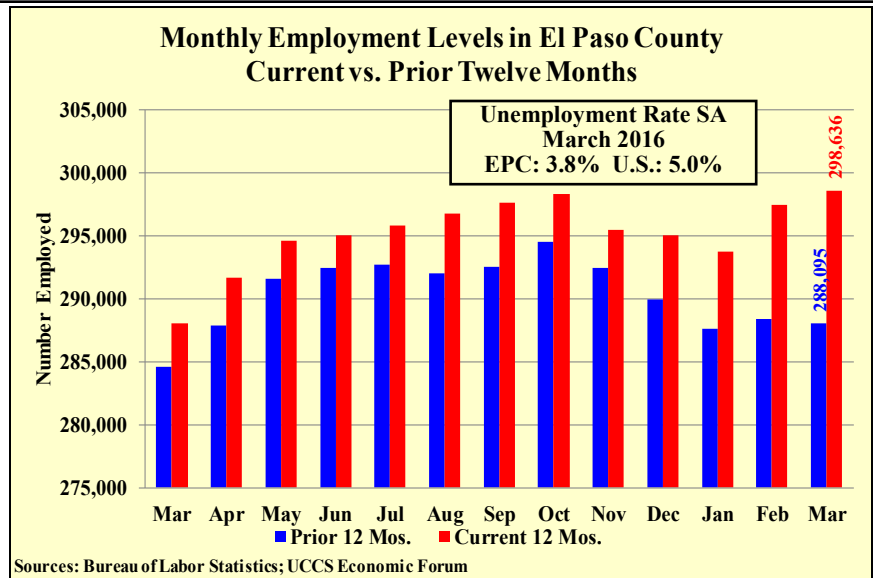
Note: As of the time of publication, the Colorado Department of Labor had not released Q4, 2015 data. Hence, this employment and wage information is the same as the information published in the last QEU.

From 2006 to Q3 2015, the largest increase in employment was in the health and social services sector. Significant increases have also occurred in accommodations and food services, education and professional/technical services. The largest declines were in manufacturing and construction.

### Wages (please see note above)

A tight labor market usually translates into higher wages although that has not happened to the extent expected, especially locally. Nationally, wages increased 2.5% in 2015, which is an improvement over the previous year. Real wages in El Paso County, however, have been relatively stagnant as the table below shows.

Average Real Annual Wages	
September 2006	September 2015
\$40,138	\$40,855



## HOUSING

### Single Family Permits

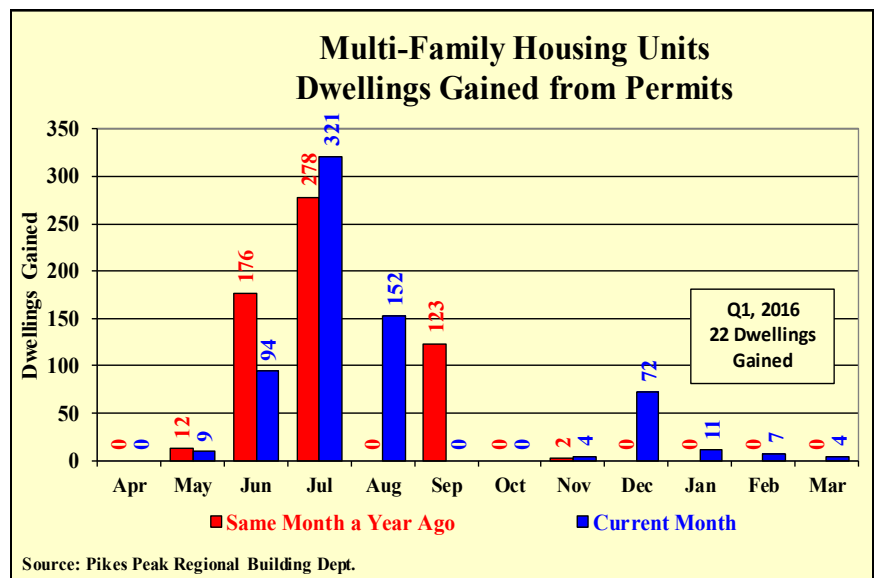
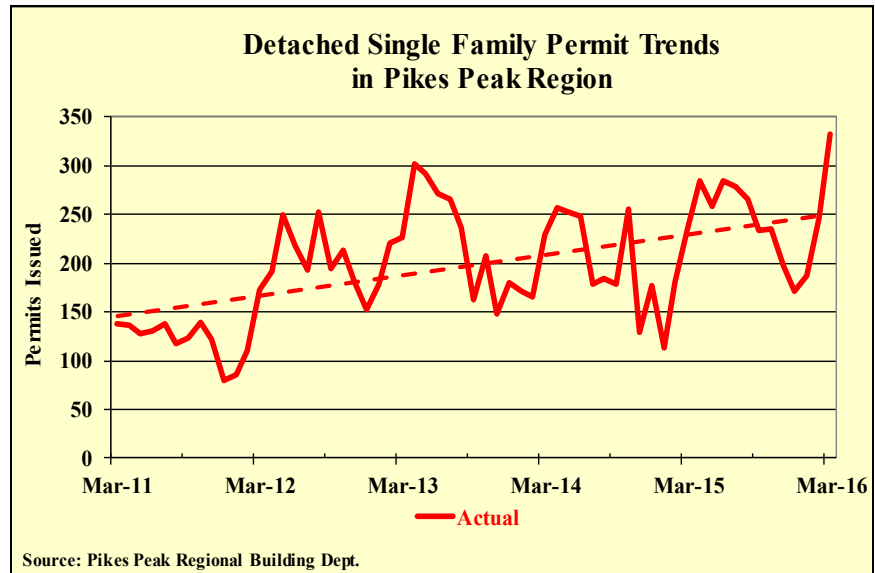
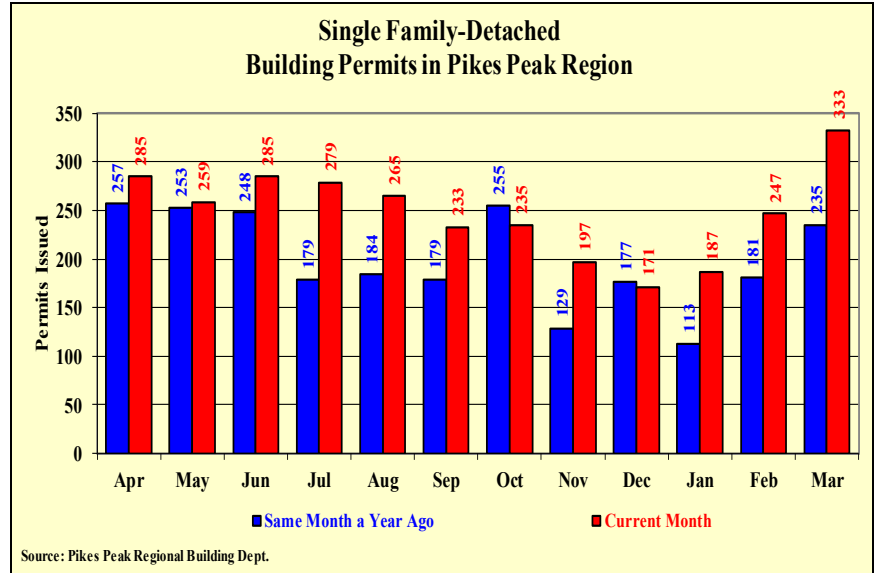
Single family building permits increased in the Pikes Peak region during Q1 of 2016. Compared to a year ago, March of this year had a 42% increase in building permits for single family, detached homes. This is not that surprising when you consider the sustained, strong increases in the number of employed people, the high consumer confidence (page 1) and the historically low interest rates. This alongside the pent-up demand from the Great Recession makes for a very robust construction industry nation wide. Colorado Springs also has the advantage that it is an affordable community, especially compared to the Denver and Boulder areas. At the end of 2015, Bloomberg listed Colorado Springs as one of the ten hottest housing markets for 2016 based on job growth, vacancies, affordability and demographics.

### Single Family Permit Trends

The figure to the right illustrates the trend in detached housing permits for the last five years. There has been a steady increase since 2010 with the expected seasonality of fewer permits during the winter months. Interestingly, the March 2016 values are the highest since May of 2006, which is definitely a positive trend for the construction industry. This industry is expected to be very strong nationwide. Kiplinger's is forecasting a 15% increase in single family home construction for 2016 in the U.S.

### Multi-Family Housing

Permits for multi-family housing units are typically zero or very low except for the spring and summer months. This trend has held in Q1 of 2016 with January through March having had a total of 22 dwellings gained from permits pulled whereas last year, Q1 had zero permits pulled.



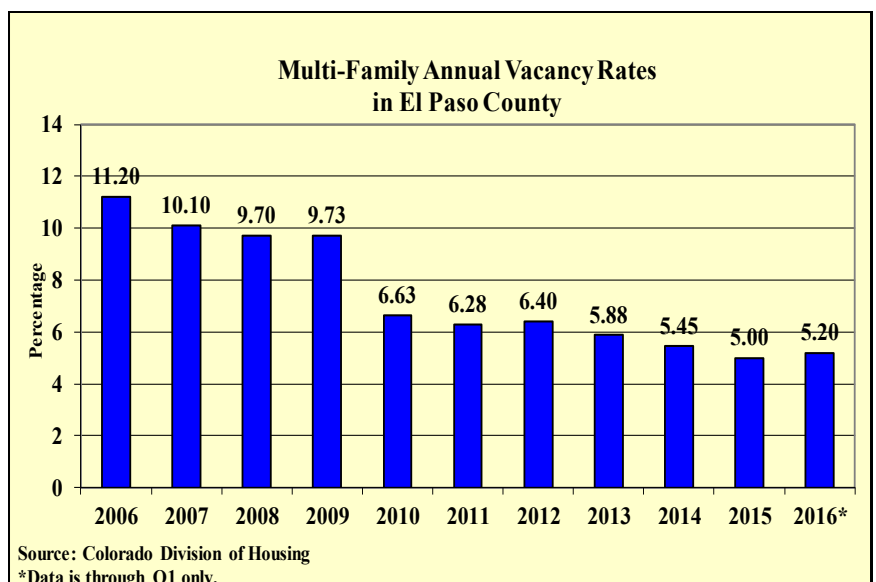
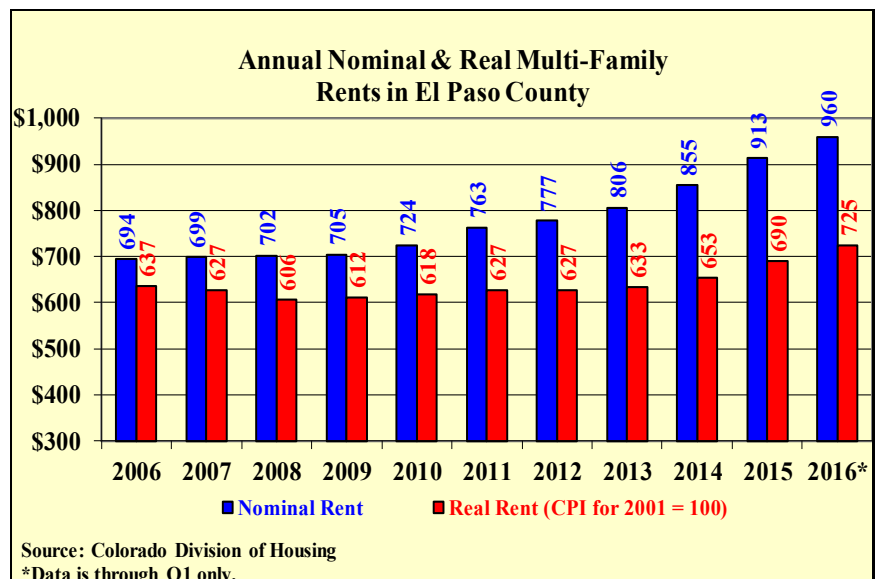
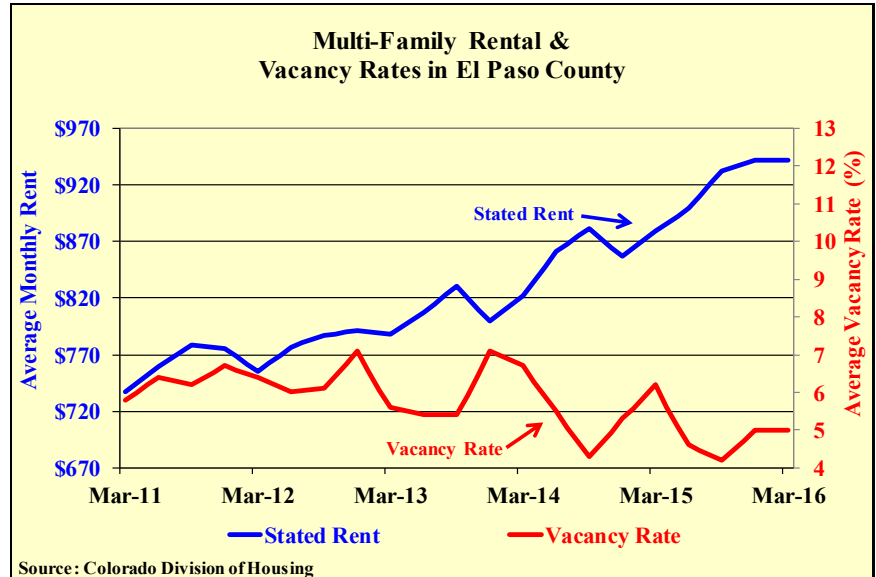
## HOUSING (continued)

### Multi-family Rental Market

The vacancy rate for Q1, 2016 was 5.2% compared to the previous rate of 5.0% in 2015 Q4. Since 2010, there has been a steady decrease in the multi-family vacancy rate, despite the small uptick in the first quarter of this year. Concomitantly, rental rates have increased with an average monthly rent in Q1, 2016 of \$960. A year ago (Q1, 2015), the average rent was \$879 per month, which represents a 9.22% increase in one year alone. In the U.S., rental rates increased approximately 3.3% in 2014 in nominal terms. The average rental rate in the U.S. in 2014 was higher (\$934) than the to the El Paso County rental rate in 2014 (\$855). The Colorado Division of Housing estimates that an “equilibrium” vacancy rate is around 5.0%. The lower vacancy rate in El Paso County is causing an increase in the number of units being built.

It is important to note that although nominal rental rates have increased, “real” rental rates adjusted for inflation have not increased quite as much.

Annual vacancy rates will continue to be a function of the local economy and consumer preferences. Both nationally and locally, there does seem to be a trend towards multi-family housing, which includes efficiency, one, two, and three bedroom apartments as well as all multi-family rentals, two units and up. The decrease in vacancy rates is happening even in the context of new construction in multi-family housing. It is also noteworthy that some of the multi-family housing boom, particularly in the northern parts of Colorado Springs, is emblematic of a nationwide trend. However, this surge in building seems to be happening a bit later in second tier cities whereas it was at its height in first tier cities at least a couple of years ago.



## HOUSING (continued)

### Year-to-Date Sales

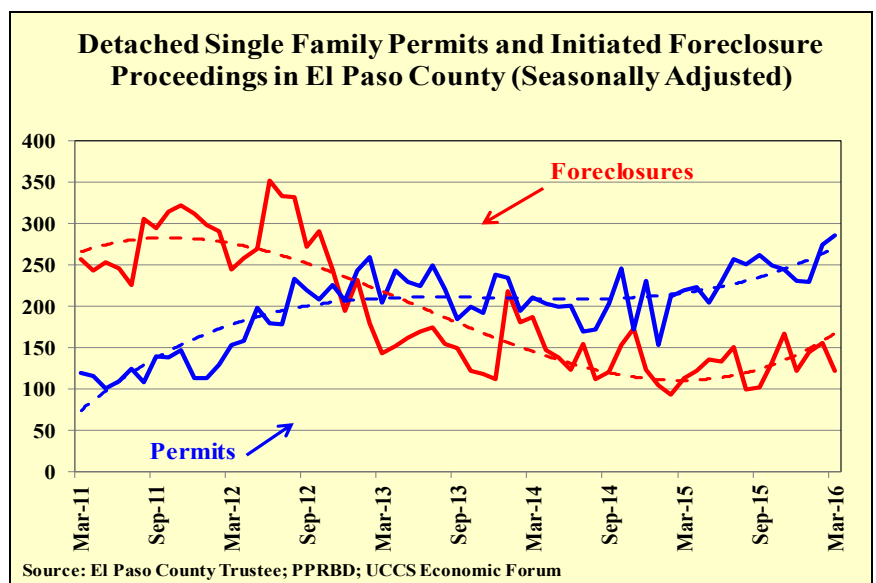
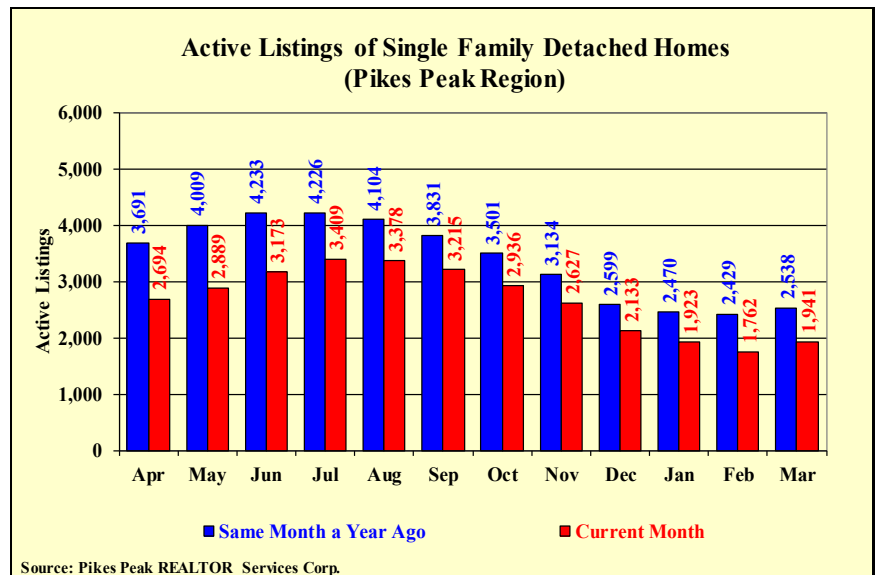
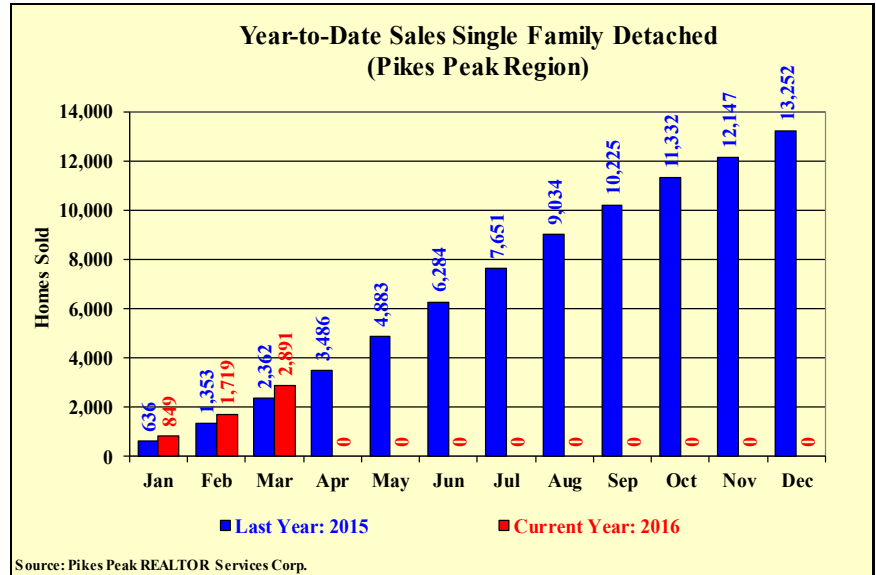
The trend in home sales continues to improve. In Q1 of 2016, there were 529 more homes sold than in 2015 Q1 representing a robust 22.4% increase. Looking just at March 2016, the median home price in the Pikes Peak region was \$239,500 whereas it was less at \$225,000 in March 2015. The residential real estate market is very strong although homes in the lower price ranges are selling more quickly than homes in the higher price ranges: 95% of all homes sold in El Paso County were under \$500,000 (Patterson Group). Housing experts are projecting that new home sales will increase as much as 20.0% nationally and existing home sales will increase at least 3.0% in 2016.

### Active Listings

Active listings were down 23.5% in March 2016 compared to March 2015. This relatively decreasing and low supply of listed homes is much of the reason there has been upward pressure on prices. Similarly, the average days on market was 36 in March 2016 and it was 99 in March of last year indicating that existing homes are selling more quickly.

### Foreclosures

There were 422 foreclosure proceedings in 2016 Q1, which is 35.5% higher than in 2015 Q1 (311 foreclosures). These numbers are seasonally adjusted. Usually, there is an inverse relationship between foreclosures and building permits although that does not appear to be the case in Q1 of 2016. It may be that foreclosures are happening in the segment of the population that is still unemployed or underemployed. It is also noteworthy that although many economic indicators are positive, the percentage of the population at or below the poverty line in 2014 was 2.3% points higher than in 2007, the year before the most recent "Great Recession." (U.S. Census Bureau)



## COMMERCIAL REAL ESTATE & AIRPORT

### Commercial Real Estate

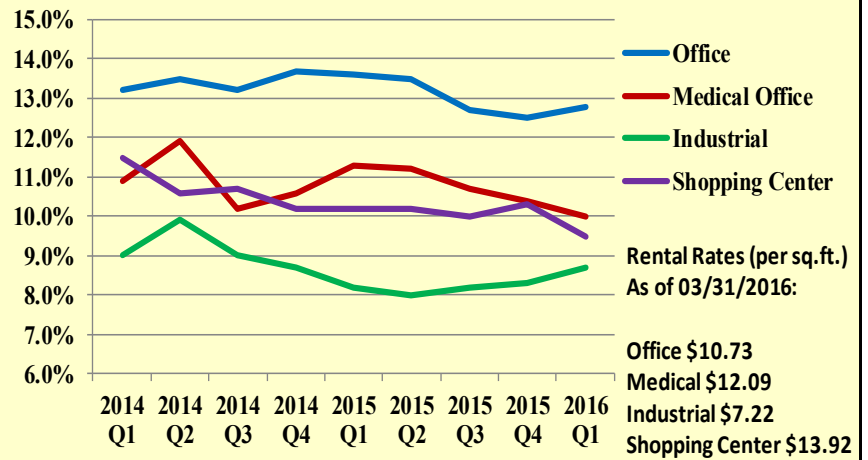
Commercial real estate vacancy rates have continued their downward trend in medical office and shopping center spaces while they have ticked up in industrial and regular office spaces. The strong economy has translated into a stronger, local commercial real estate market. This includes new leases in downtown Colorado Springs primarily for mixed use (retail and office). Also of note is the continued expansion of the medical office space. It is anecdotal, but some commercial leasing companies have noted an increase in customers from more expensive markets (e.g. Denver).

### Colorado Springs Airport Trends

Seasonally adjusted, enplanements were 44,346 in March 2016. This is 9.4% lower than March of last year (48,923 seasonally adjusted) and 21.9% lower than March 2014 (56,774 seasonally adjusted). There is hope and expectation that the recent investments in the local airport will increase activity. Some benefit came quickly in the positive announcement by Frontier over the summer that they were coming back to the region and offering daily flights to Las Vegas. The hope is that this will prove profitable for the carrier and they will expand service to other cities. In the past, it has been difficult for the local airport (COS) to compete with the price wars of the major carriers in Denver. The major airlines are competing for market share and are holding prices artificially low. This cannot be sustained in the long run, and depending upon how this all plays out, certain regional carriers like COS will either win or lose in the (profitable) routes chosen by the major carriers in the future, especially for connecting flights.

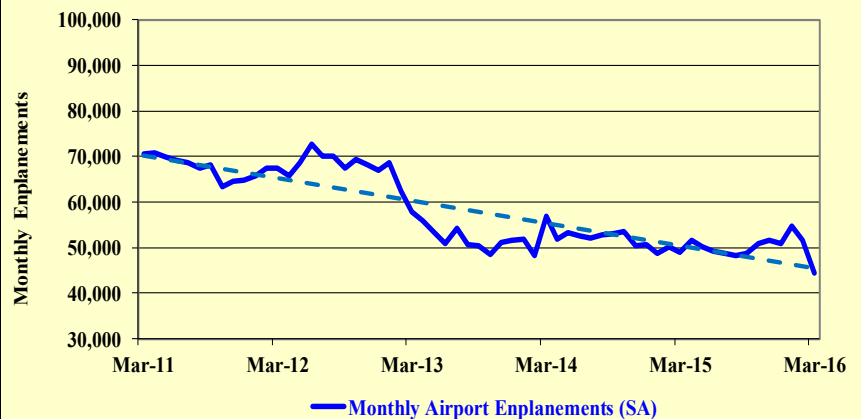
Note: Actual enplanements (not seasonally adjusted) for March 2016 were 44,213 or 2.1% lower than March 2015 (45,146) and 17.5% lower than March 2014 (53,587).

### Colorado Springs Quarterly Vacancy Rates



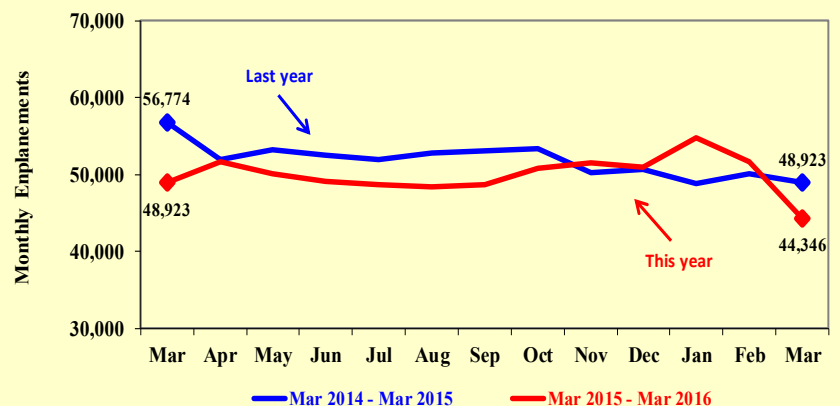
Source: Turner Report

### Enplanement Trends at Colorado Springs Airport (Seasonally Adjusted)



Source: Colorado Springs Airport; UCCS Economic Forum

### Colorado Springs Airport: Year over Year, Enplanement Comparison (Seasonally Adjusted)



Source: Colorado Springs Airport, Prepared by UCCS Economic Forum

## SALES TAX & CAR REGISTRATIONS

### Colorado Springs Sales & Use Taxes

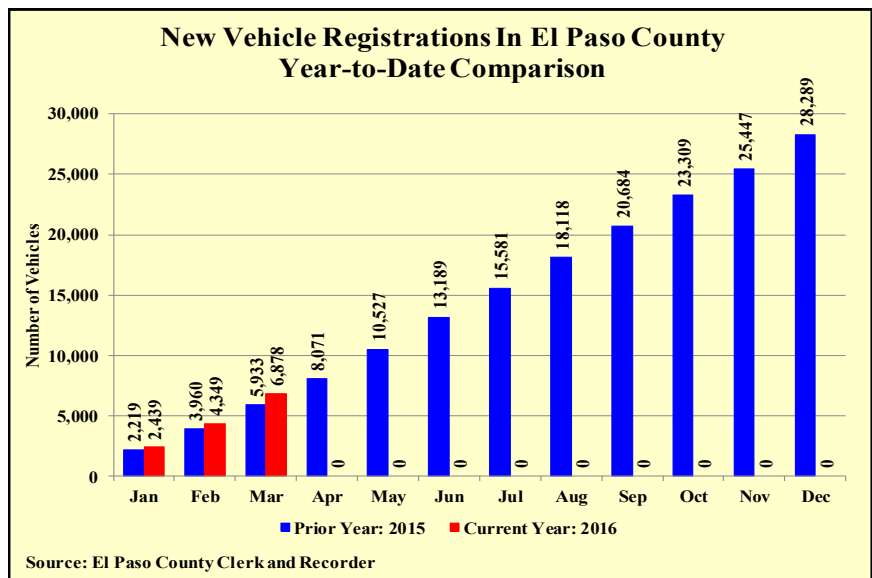
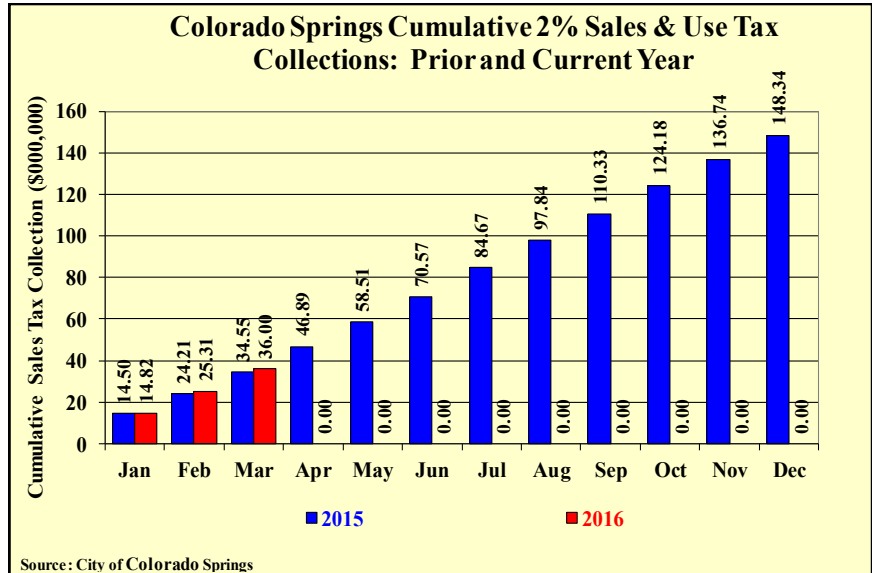
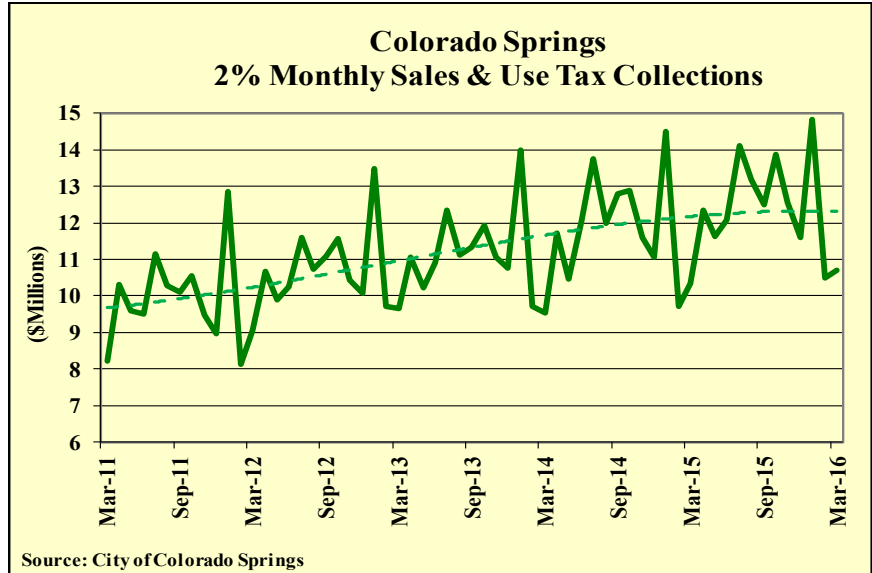
The strong national and local economies and, in particular, strong consumer sentiment (see page 1) have resulted in higher, local sales and use tax collections. The 2% sales and use tax collections for March 2016 (for February sales) were \$10,688,559. This represents a 3.4% increase from the same month last year. Cumulatively, sales and use tax collections were up from last year as well (second graph). In March 2016, the largest month-to-month percentage increases by major industries were in medical marijuana (33.9%), hotel/motel accommodations (28.8%), and grocery stores (15.9%).

A (cumulative) year-to-date comparison as of March 2016 indicates sales and use tax collections were 5.7% higher than March 2015. The largest percentage increases year to date were in medical marijuana (28.7%), hotel/motel accommodations (23.0%), grocery stores (16.9%), and clothing stores (10.2%). The marked increases in hotel accommodations and auto leases mirror the local data that tourism and vehicle registrations have both been very healthy sectors.

### New Vehicle Registrations

Vehicle registrations were up 15.9% in the year-to-date comparison, and have been increasing since 2010. In fact, as the table below shows, registrations are almost twice what they were in 2010 (up 87.5%). The Forum is now also separately tracking luxury utility registrations, which have increased 73% comparing March 2016 to March 2015. This can be a good indicator of economic "health" in the region.

New Vehicle Registrations	
<u>2010</u>	<u>2015</u>
15,087	28,289





Selected Economic Indicators													
<b>National Quarterly Data</b>			2015 Q2			2015 Q3			2015 Q4			2016 Q1	Change vs. Yr Ago
Total Retail Sales NSA (\$ billions)			1175.0			1185.3			1186.7			1183.9	\$25.47
e-Sales NSA (\$ billions)			78.8			81.0			108.2			86.3	\$11.35
e-Sales as % of Retail Sales			6.7%			6.8%			9.1%			7.3%	0.82%
GDP Real % Annual Growth SA (from prior year's same quarter)			2.7%			2.1%			2.0%			1.9%	*
GDP Real % Quarterly Growth SA (at annualized rate)			3.9%			2.0%			1.4%			0.5%	*
Household Debt Service Ratio			10.0%			10.0%			10.1%			na	0.06%
<b>National Monthly Data</b>	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Change vs. Yr Ago
Capacity Utilization SA	76.90	76.60	76.40	76.70	76.70	76.40	76.30	75.70	75.40	75.80	75.30	74.80	-2.50
Car & Lt Trk Sales Millions SA	16.70	17.63	16.95	17.47	17.73	18.07	18.13	18.06	17.22	17.45	17.43	16.46	-0.61
Cons Sent (1966=100) NSA	94.2	88.6	93.2	92.9	93.2	88.9	93.6	93.7	91.8	89.1	90.8	90.4	-1.9
CPI-U 1982-84=100 SA	236.20	236.88	237.42	237.73	237.70	237.49	237.95	238.30	238.04	238.11	237.71	237.92	2.06
Federal Funds Rate (Effective)	0.12%	0.12%	0.13%	0.13%	0.14%	0.14%	0.12%	0.12%	0.24%	0.34%	0.38%	0.36%	0.25%
Gasoline Price per Gal. of Regular	\$2.47	\$2.72	\$2.80	\$2.79	\$2.64	\$2.37	\$2.29	\$2.16	\$2.04	\$1.95	\$1.76	\$1.97	-\$0.50
Ind Production (1997=100) SA	105.27	105.03	104.86	105.48	105.58	105.31	105.16	104.49	104.04	104.59	104.37	103.47	-2.05
Inventory/Sales Ratio SA	1.37	1.36	1.37	1.37	1.38	1.38	1.38	1.39	1.40	1.41	1.41	1.41	0.04
Mtg Rate, 30 Yr Conventional NSA	3.67	3.84	3.98	4.05	3.91	3.89	3.80	3.94	3.96	3.87	3.66	3.69	-0.08
Prime Rate (%) NSA	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.37	3.50	3.50	3.50	0.25
Purch Mgr Index SA	51.60	53.10	53.10	51.90	51.00	50.00	49.40	48.40	48.00	48.20	49.50	51.80	-0.50
Real Rtl/Food Svc Sales SA (\$ billions)	440.25	444.52	444.89	447.56	446.97	447.21	447.07	448.45	450.45	448.04	449.29	447.81	\$7.35
S&P 500 (average)	2094.9	2111.9	2099.3	2094.1	2039.9	1944.4	2024.8	2080.6	2054.1	1918.6	1904.4	2022.0	-58.0
Tech Index SA - Mar 2001 = 100	114.3	114.2	114.8	116.0	117.2	117.9	118.0	119.3	119.0	120.7	120.4	119.3	1.6
Trade Weighted Dollar Index	90.9	89.2	89.7	91.7	91.9	91.7	91.3	93.9	94.1	95.3	93.2	91.5	-0.2
Crude Oil Price NSA (\$ per barrel)	54.45	59.27	59.82	50.90	42.87	45.48	46.22	42.44	37.19	31.68	30.32	37.55	-\$10.27
<b>CPI &amp; Employment Data</b>	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Change vs. Yr Ago
Western Region CPI	242.30	244.23	244.33	245.04	244.74	244.26	244.34	243.75	243.43	244.60	244.82	245.40	3.71
Colorado Labor Force SA (000's)	2,820	2,820	2,820	2,820	2,821	2,823	2,826	2,829	2,832	2,844	2,862	2,877	56.8
Colorado Employment SA (000's)	2,708	2,710	2,710	2,713	2,717	2,722	2,724	2,730	2,733	2,753	2,776	2,794	86.1
Colorado Unemployment Rate SA	4.0%	3.9%	3.9%	3.8%	3.7%	3.6%	3.6%	3.5%	3.5%	3.2%	3.0%	2.9%	-1.1%
El Paso County Unemployment Rate NSA	4.7%	4.6%	5.0%	4.7%	4.2%	3.8%	3.7%	3.9%	3.9%	3.8%	3.9%	4.0%	-1.5%
El Paso County Unemployment Rate SA	4.8%	4.8%	4.8%	4.6%	4.3%	4.1%	4.0%	4.1%	4.0%	3.5%	3.6%	3.8%	-1.4%

“na” data is not available as of publication; \* indicates an item that does not apply based on how data is calculated.

## About the Forum

The UCCS Economic Forum is part of the College of Business outreach to the Colorado Springs Community. The Forum gathers, analyzes and disseminates economic and business-related information with the goal of assisting economic development efforts. The Forum provides this information to help business leaders, government officials and other make better and more informed decisions. The Forum, as part of the College of Business, now provides further support to the community through contractual work.

If you would like additional information about how the Forum can assist you, contact Tatiana Bailey at (719) 255-3661 or e-mail at [tbailey6@uccs.edu](mailto:tbailey6@uccs.edu).

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Hoff & Leigh  
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Kirkpatrick Bank  
Legacy Bank  
Northstar Bank Colorado  
Northwestern Mutual Financial Network  
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