

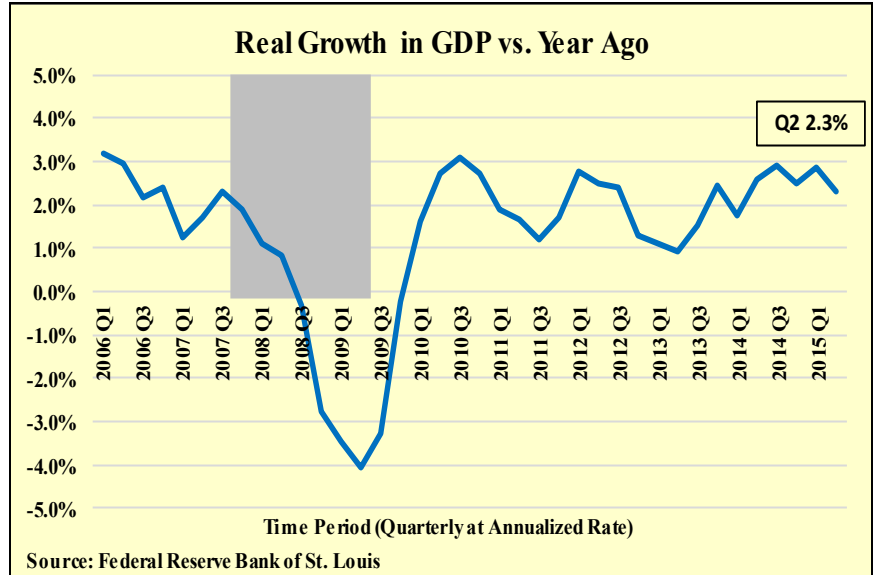
Quarterly Economic Update

2nd Quarter, 2015 Data
Posted August 2015
Tatiana Bailey - Director

THE BIG PICTURE¹

U.S. Quarterly GDP

GDP for the second quarter of 2015 compared to Q2 from a year ago is up 2.3%. Given the sharply negative GDP growth rate during the recession, a growth rate of 2.3% is quite favorable. This year started out slowly mostly due to a harsh winter, a strong dollar (hurting our exports), and a marked decline in domestic oil production as well as some global uncertainties. The slow start in early 2015 raised some concern about the robustness of the recovery, but economic activity picked up nicely in the spring. Most experts and the Forum believe that we will likely continue to see an uptick for the remaining quarters in GDP reaching into the 3% range and likely round out the year at an annual percentage increase of approximately 2.5%.



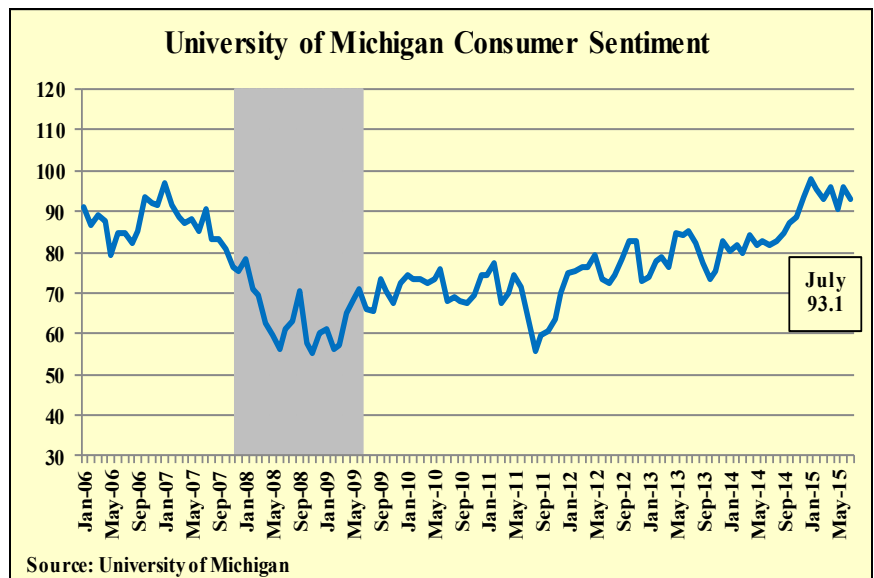
GDP: The monetary value of all of the finished goods and services produced within a country's border in a specific time period. Figures are seasonally adjusted and annualized.

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

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 is an important indicator because approximately 2/3 of all economic activity (as reflected by GDP) comes from consumer spending. The confidence of consumers drives this spending. There has been a steady increase since the end of the recession, most notably in the past few months. Last July, consumer sentiment was 81.8, which is significantly lower than this July's index of 93.1. This bodes well for home buying, the purchase of most other large ticket items and most goods and services. This healthy consumer sentiment is much of the reason the Forum is optimistic about economic performance for the remainder of the year.

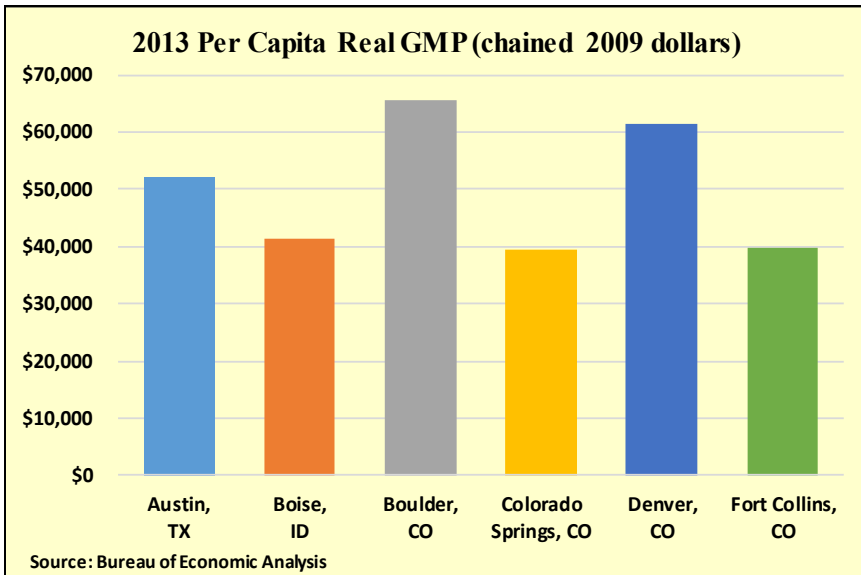


¹ The Forum is no longer publishing the BCI table because most of that data is already included in other sections of the quarterly updates in an easier-to-understand graphical format, which also includes a write-up. There were a few metrics that were not included separately, and those are now included in the same format as all other economic data (graph plus write-up).

THE BIG PICTURE (cont.)

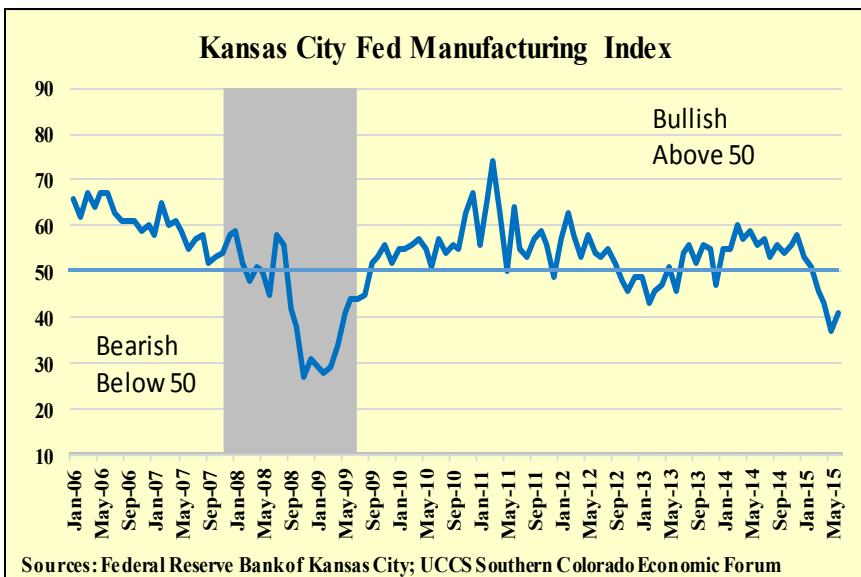
Per Capita GMP

The Forum is now tracking GMP, or gross metropolitan product. It is basically the same as GDP but for a defined geographic region. Including other metropolitan statistical areas, or MSAs, allows us to see that our city is comparable to Boise and Fort Collins in terms of economic activity per capita, but not as robust as Austin, Boulder or Denver. The U.S. MSA average GMP per capita declined from 2006 to 2013 by 0.1%. In Colorado Springs, it declined in that time period by 0.8%.



Kansas City Fed Manufacturing

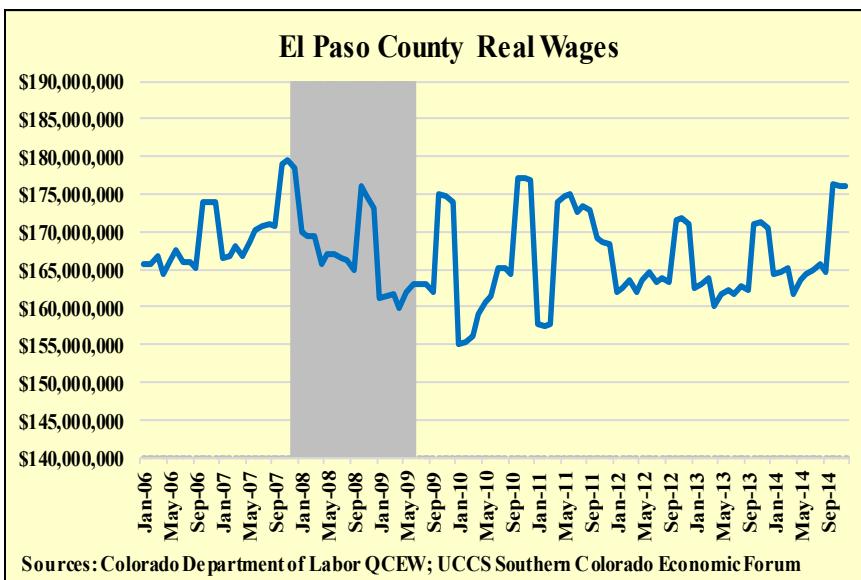
This index provides information on current manufacturing activity in the Tenth Federal Reserve District as reflected by a survey of manufacturers. Survey results reveal changes in several indicators of manufacturing activity, including production and shipments, changes in prices of raw materials and finished products. More recently, this index for the seven regions (CO, KS, NE, OK, WY, western MS and northern NM) has been declining mostly due to declines in oil and gas well drilling.



El Paso County Real Wages

Real wages have been slow to recover since the recession, which is part of the reason that the civilian participation rate has been anemic locally and nationwide. In El Paso County, real wages rose slightly in the past year from \$35,596 in December of 2013 to \$35,801 in December of 2014. More notable is that in January of 2006, the real wage in El Paso County was \$35,999 and roughly the same eight years later at \$35,801 (see table). Real wages are pegged to the 2001 Denver CPI.

Average Real Annual Wages	
January 2006	December 2014
\$35,999	\$35,801



EMPLOYMENT

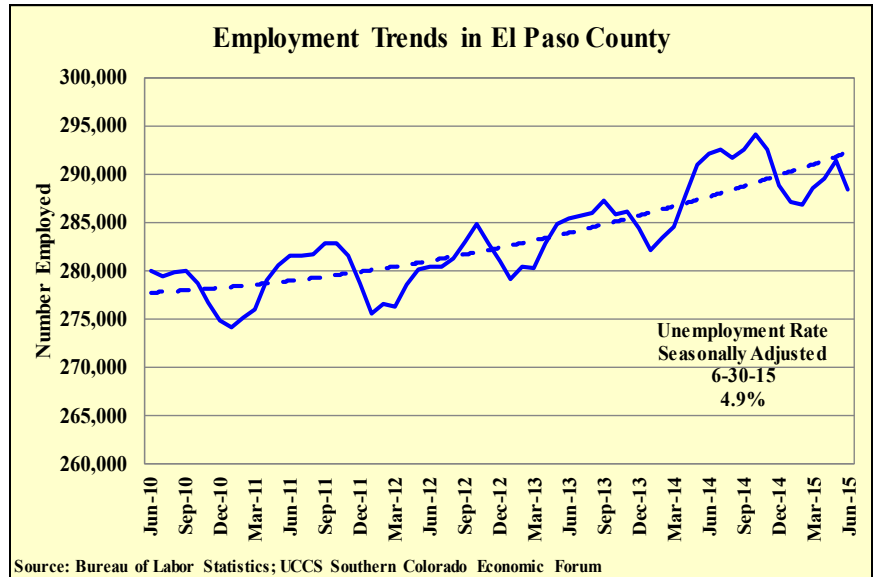
Employment Levels

Employment levels continue an upward trend in El Paso County. The seasonally adjusted unemployment rate for El Paso County is a reflection of that, and for June this rate was quite favorable at 4.9%. The local unemployment rate continues to fall since it peaked at 10.6% in 2010. By comparison, the seasonally adjusted unemployment rate in Colorado was 4.4% in March, down from 9.1% in 2010.

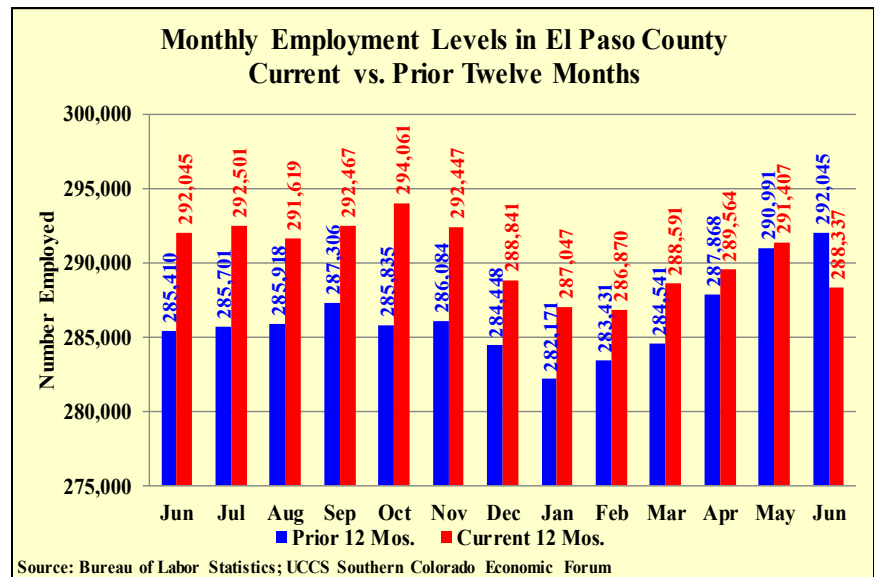
Comparing only the past year (June of 2015 to June 2014) we see that employment levels have fallen in El Paso County by 3,708. This represents a 1.3% decrease. This is not a trend in the right direction and the entire labor market is further compromised by the decrease in the total labor force. Over the past year, the local labor force decreased by 6,230 representing a 2.0% decrease. El Paso County is not alone; a decreasing labor participation rate is an endemic national problem. It is a structural issue which will likely take longer to address. The increasing number of baby boomers who are retiring seems to be pushing participation rates downward, along with other reasons such as the mismatch between existing skill sets and employer needs. The decreasing labor force makes the unemployment rate look better, but it masks the structural issue of why so many individuals are either leaving or staying removed from the labor market. Employment levels are calculated by the Forum using the BLS unemployment rate and the civilian labor force values.

Employment by Sector

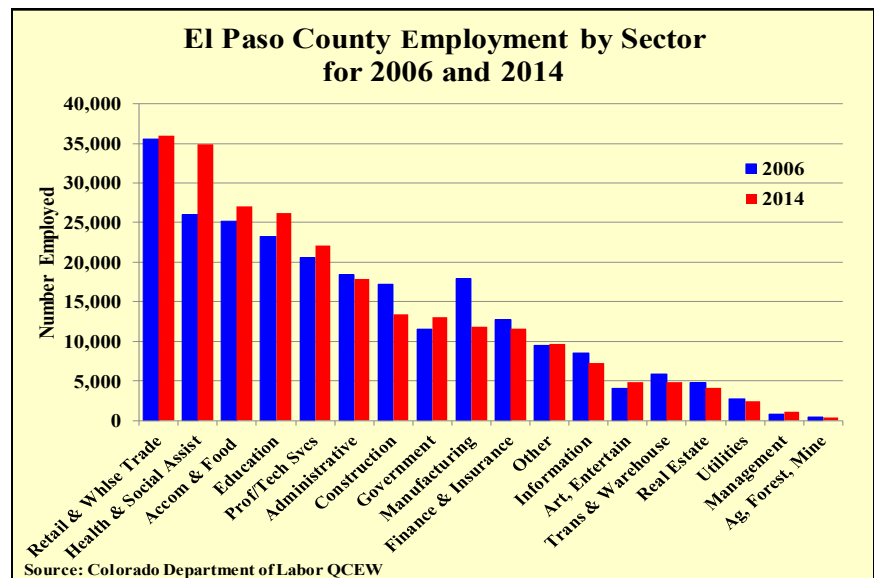
From 2006 to 2014, the largest increase in employment has been in the health and social services sector, which is true for the rest of the country. Increases have also occurred in accommodations and food services, education and professional/technical services. The largest decline has been in manufacturing. 2015 Q1 data was not yet available at the time of publication.



Source: Bureau of Labor Statistics; UCCS Southern Colorado Economic Forum



Source: Bureau of Labor Statistics; UCCS Southern Colorado Economic Forum



Source: Colorado Department of Labor QCEW

HOUSING

Single Family Permits

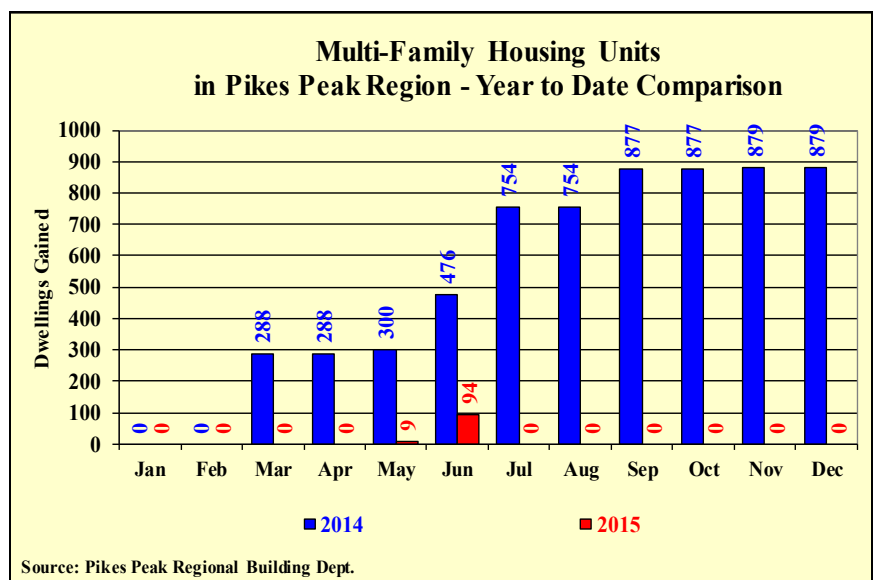
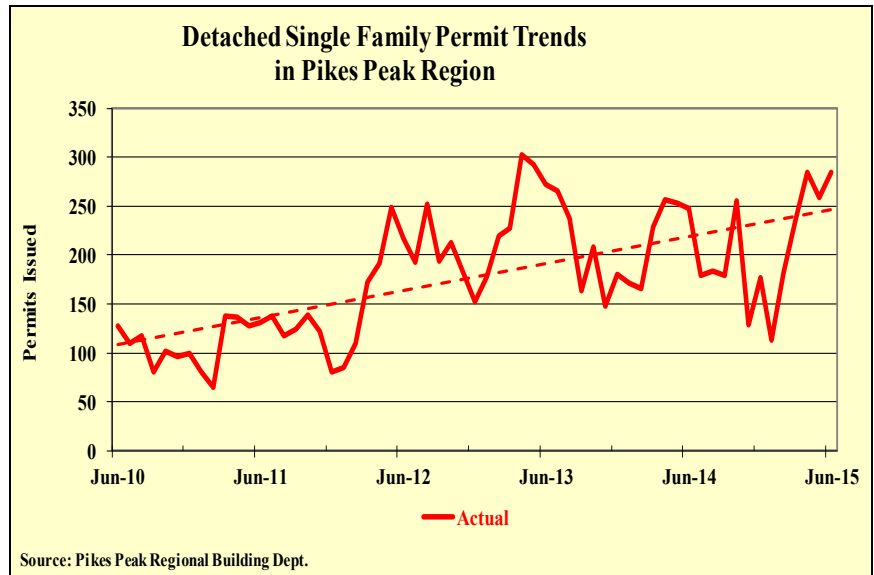
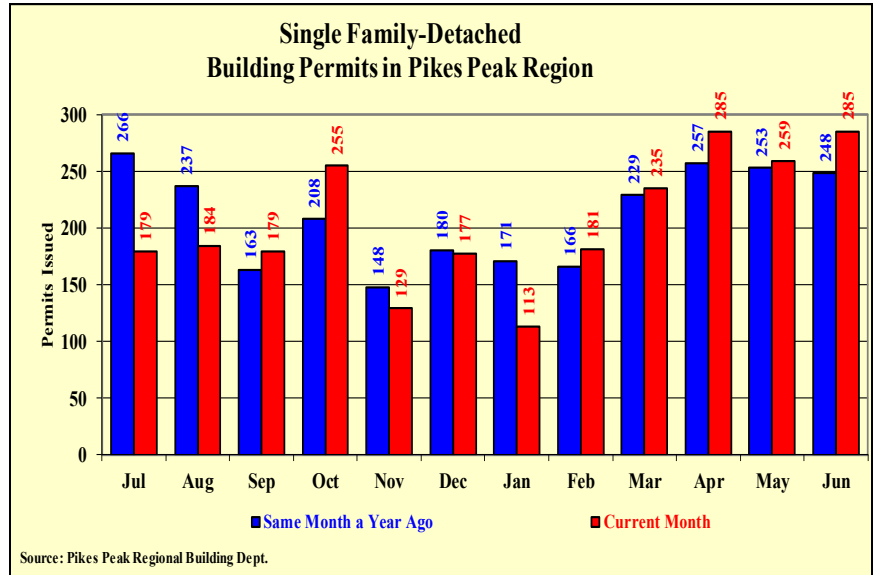
Single family building permits had a significant decline in January and then began to experience steady growth. In the five months after January, permits have been slightly higher than the same months after January. The Pikes Peak region has not seen the same rate of increase as other high-growth areas in Colorado, but that may work to our advantage as some individuals and businesses seem to be priced out of the Denver market. Anecdotally, local realtors are stating that there is an increase in the number of Denver-area customers. It is also noteworthy that across the nation, home building was very strong in April (the first month of Q2). U.S. home construction in April rose 20.2% over March to a seasonally adjusted annual rate of 1.135 million, the highest number since 2007 and the biggest percentage jump in almost 24 years.

Single Family Permit Trends

The figure to the right illustrates the trend in detached housing permits for the last five years. The overall, upward trend line over the five year period demonstrates that we have slowly been coming out of a rather severe recession. The peaks seen in 2012 and 2013 were largely driven by the rebuilding from fires. With the other favorable economic trends, it is likely that homebuilding in the area will continue at relatively high levels.

Multi-Family Housing

Multi-family housing data represent dwellings gained off of the permits pulled. This activity was strong in 2014 after a slow start with no permits pulled in January and February. In 2015, there were no multi-family permits pulled until May. Over the course of the past year, however, multi-family housing demand has been strong perhaps due to demand from baby boomers.



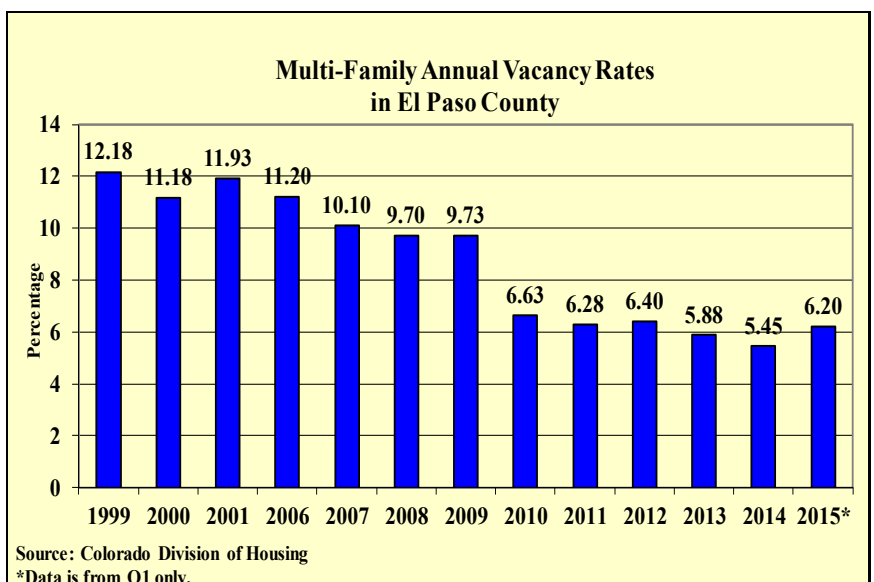
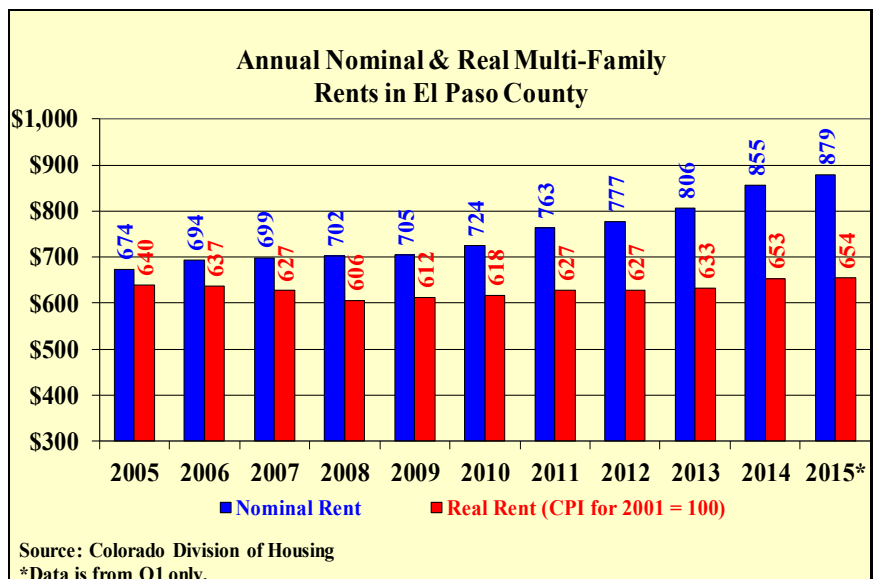
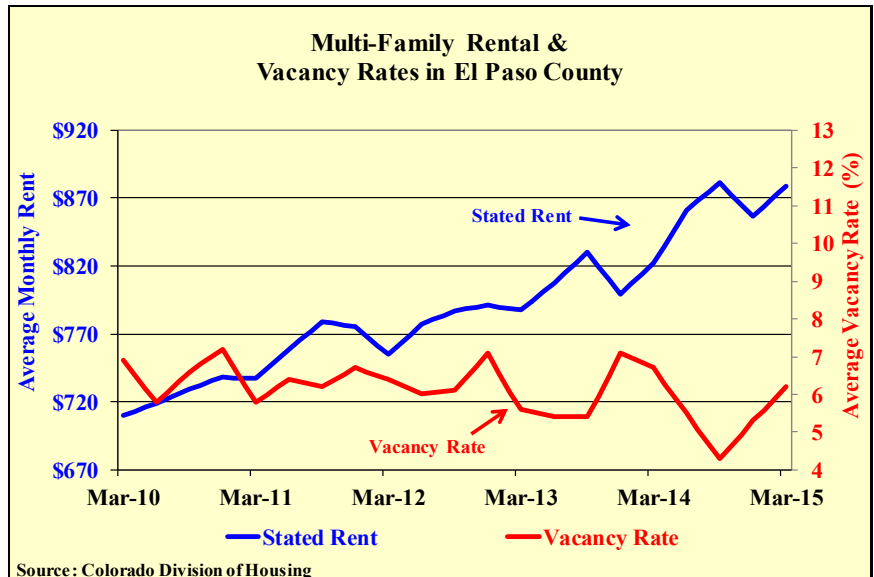
HOUSING (continued)

Multi-family Rental Market

The vacancy rate for Q1, the latest data available at the time of publication, was 6.2% compared to the previous rate of 5.3% in Q4. This can be seen in the graph to the right; there was an uptick in vacancy rates that began at the end of 2014. As vacancy rates improved during 2014, rental rates climbed with an average monthly rent in Q1 of \$879. A year ago, the average rent was \$822 per month. Current trends are creating pressure for additional multi-family units to be built. This trend of higher demand for apartments is not unique to Colorado Springs. Many municipalities across the country are seeing consistent growth in the demand for new and existing apartment units.

Average nominal and real rental rates for multi-family housing have continued to increase in El Paso County. When adjusted for inflation, however, real rental rates have been relatively steady if we only look at 2014 versus Q1 of 2015 (monthly rental rate of \$653 versus \$654). Nominal rental rates for multi-family housing went from \$855 per month in 2014 to \$879 per month in Q1 of 2015.

The annual vacancy rate in 2014 for multi-family housing was 5.45%, which is lower than the vacancy rate in 2013 of 5.88% although vacancy rates in Q1 of 2015 have again increased (to 6.2%). Annual vacancy rates will continue to be a function of the local economy and consumer preferences. As mentioned above, 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. Another factor will be the continued growth of UCCS since students are consumers of multi-family housing. The preliminary UCCS fall enrollment numbers, including on-campus and extension studies, is 11,626 students.



HOUSING (continued)

Year-to-Date Sales

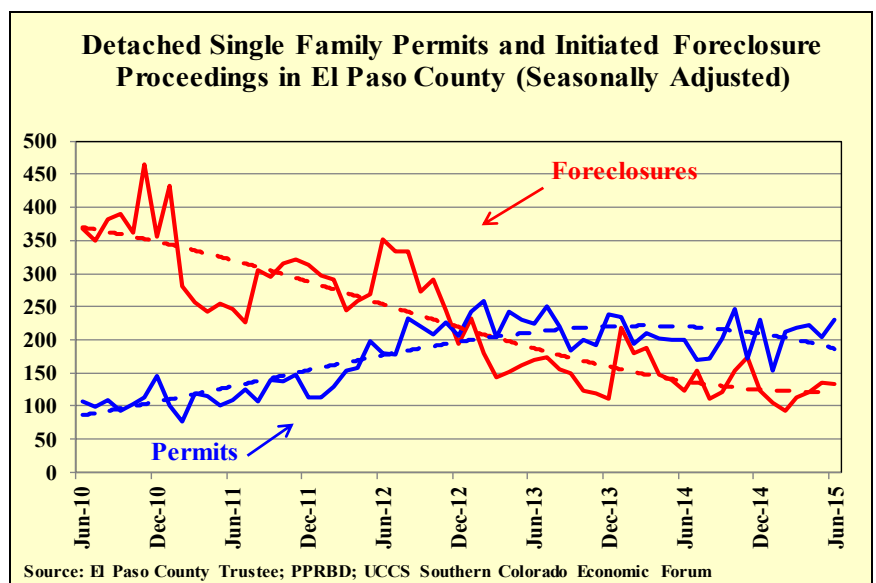
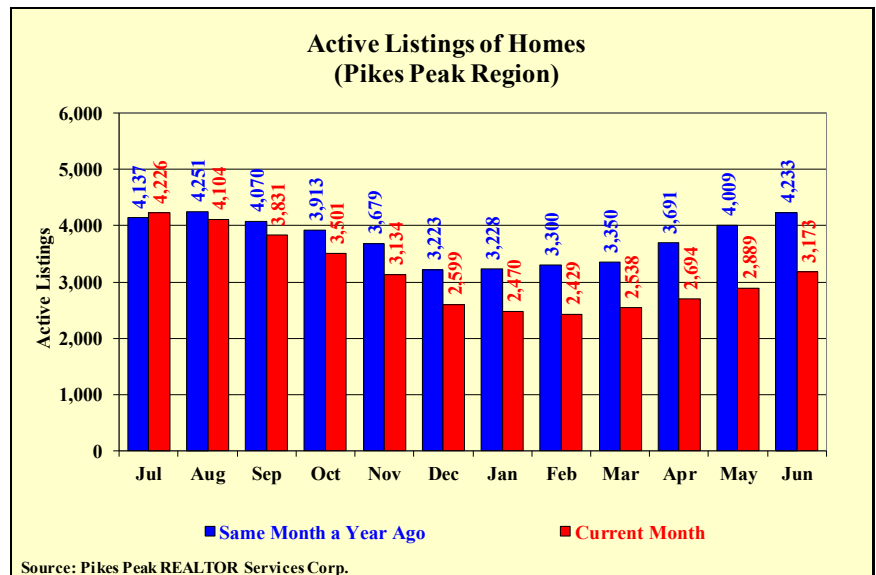
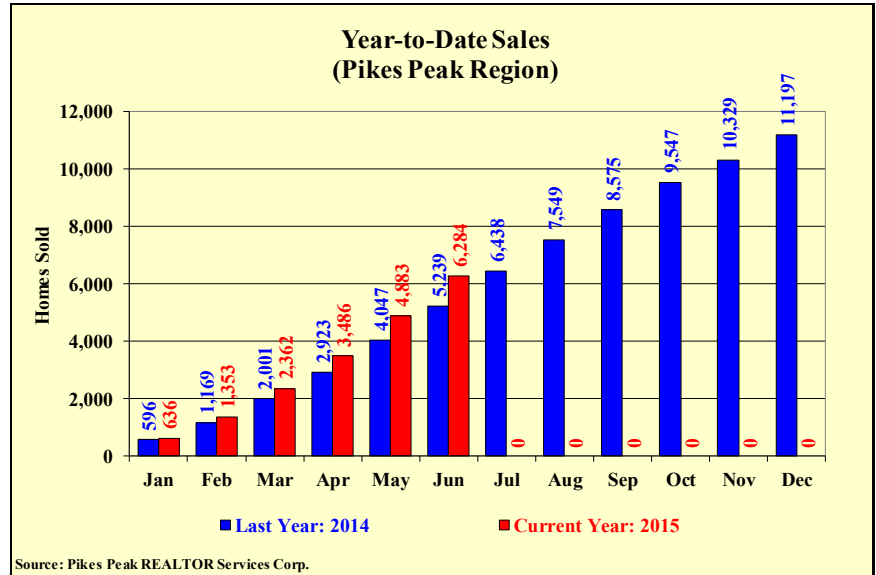
The trend in home sales continues to improve. Through June, there were 1,045 more homes sold than in 2014. This represents a very significant 19.9% increase. Overall, the residential real estate market is quite strong both for new and existing homes. Indicative of this stronger market is the increase in median home prices. In July 2015, the median home price in the Pikes Peak region was \$243,000 whereas it was significantly less at \$230,000 in July 2014. Economic experts across the country are very optimistic about home sales for the remainder of 2015 and into 2016.

Active Listings

The number of active listings in 2015 within the Pikes Peak region continues to be lower than it was in 2014. It was down 25.0% in June 2015 compared to June of 2014. 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 71 in June 2015 and it was 82 in June of last year indicating that existing homes are selling more quickly.

Foreclosures

As of June, there have been 702 foreclosure proceedings in 2015, which is 29.5% lower than in the same period last year (995 foreclosures). These numbers are seasonally adjusted. There is a historical, inverse relationship between foreclosures and detached single family building permits. The good news is that foreclosures and permits continue to be much closer in volume, which indicates that much of the needed adjustment in the housing market has occurred and the economy in general has improved.



COMMERCIAL REAL ESTATE & AIRPORT

Commercial Real Estate

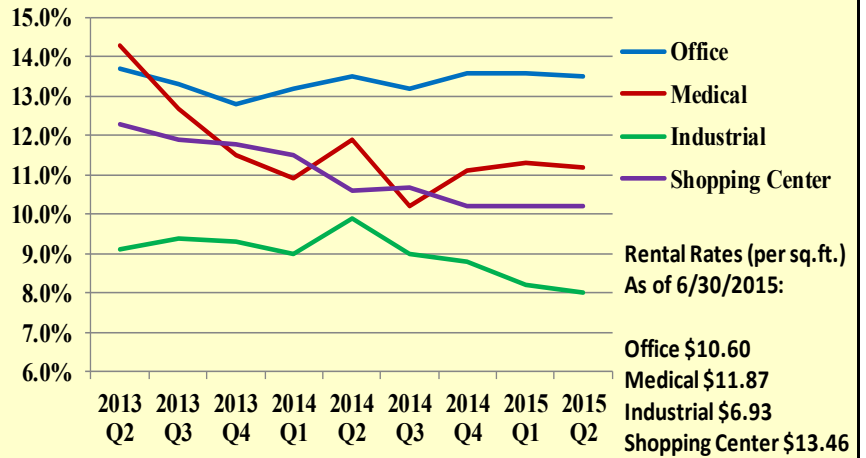
Commercial real estate has continued to improve in Colorado Springs. Most vacancy rates have been falling since Q2 of 2013. In particular, medical, shopping center and industrial rates have been falling, while office vacancy rates have been relatively steady. Of note is the marked fall in industrial space vacancy rates since Q2 of 2014, largely due to increased demand for medical marijuana space. The good news is that overall commercial real estate vacancy rates are reflective of the improved local, state and national economies.

Colorado Springs Airport Trends

Enplanements at the Colorado Springs Airport continued their downward trend. Seasonally adjusted, enplanements were 47,045 in June 2015. This is 9.2% lower than June of last year (51,831 seasonally adjusted) and 7.1% lower than June 2013 (50,657 seasonally adjusted). This significant decline is the result of decreasing demand for local flights alongside the decision of airlines to reduce or cancel service to Colorado Springs. Even during the tail end of the recession, enplanements were higher than they are currently as can be seen in the graph to the right. This has created a negative feedback cycle where it is more difficult for local companies to expand and more difficult to recruit new companies to the area if service to and from the local airport is limited or very costly. There is promise, however, that this may change with the increased activity that will occur starting in 2016 with Sierra Completions. This company will be building additional infrastructure at the airport and will increase the airport's activity bringing down marginal costs for the existing flights.

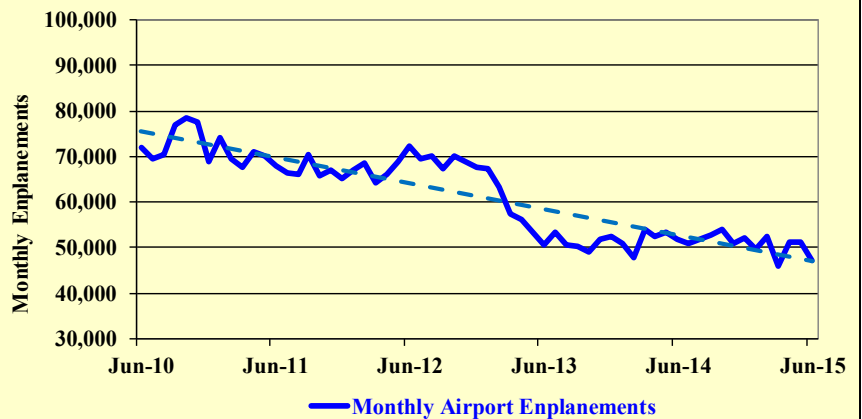
Note: Actual enplanements (not seasonally adjusted) for June 2015 were 54,102 or 6.8% lower than June 2014 (58,034) and 4.6% lower than June 2013 (56,702).

Colorado Springs Quarterly Vacancy Rates



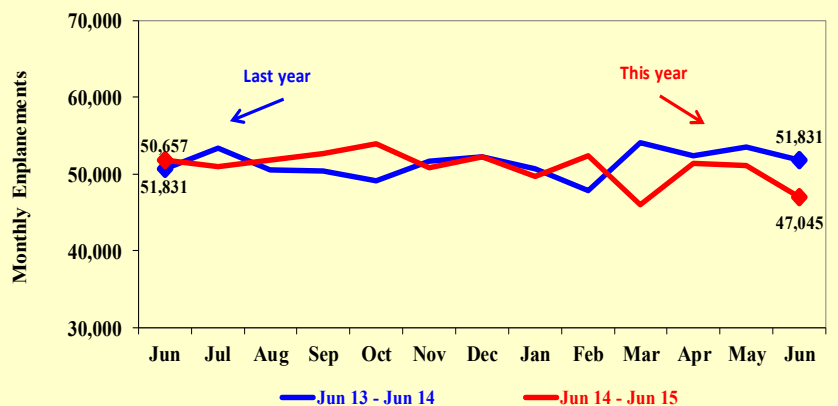
Source: Turner Report

Enplanement Trends at Colorado Springs Airport (Seasonally Adjusted)



Source: Colorado Springs Airport; UCCS Southern Colorado Economic Forum

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



Source: Colorado Springs Airport, Prepared by UCCS Southern Colorado Economic Forum

SALES TAX & CAR REGISTRATIONS

Colorado Springs Sales & Use Taxes

As mentioned previously, strong consumer sentiment favorably impacts consumption patterns. This can be seen in the sales and use tax collections for Colorado Springs. The 2% sales and use tax collections for June 2015 (reported in July 2015), were \$12,064,442. This represents a 1.4% decrease from the same month last year although cumulatively for the year thus far, sales and use tax collections are up from last year (second graph). In June 2015 alone, the largest month to month increases within each category were in business services (21.6%), medical marijuana (20.6%), and grocery stores (13.9%).

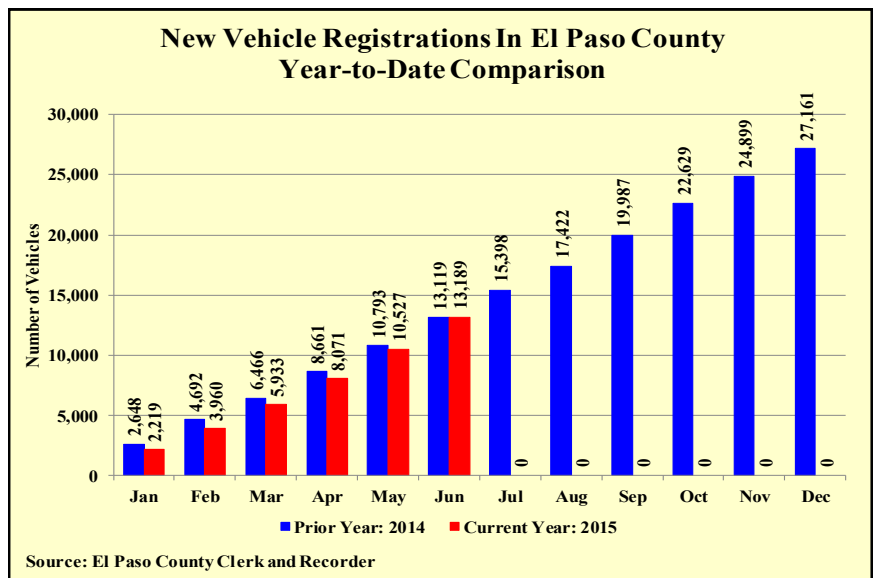
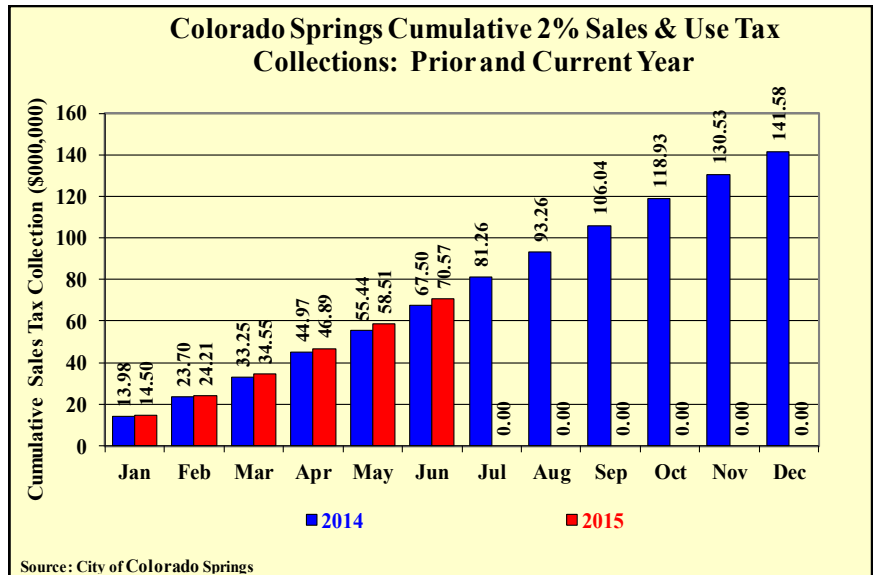
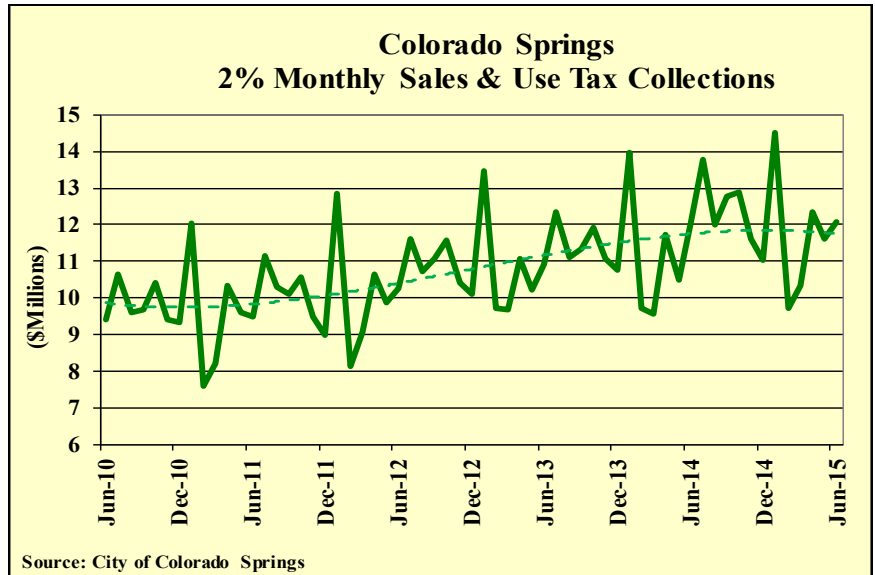
A year-to-date comparison as of June indicates sales and use tax collections are 4.6% higher than in 2014. The largest percentage increases year-to-date were in hotel/motel accommodations (21.0%), grocery stores (17.8%), medical marijuana (14.4%), and auto dealers (10.2%).

Please note that as of 2015, city data no longer includes audit revenue whereas in the past it was included. This does not impact totals in any meaningful way.

New Car Registrations

Through June, new vehicle registrations were almost the same as in 2014. New car registrations were up just 0.5% in the year-to-date comparison. However, in looking at a wider time span, new car registrations have been steadily increasing since 2010. Given the strong consumer sentiment and the falling unemployment level, it seems likely that 2015 will continue to have strong new car sales.

New Car Registrations	
June 2010	June 2015
1,296	2,662





Selected Economic Indicators													
National Quarterly Data													Change vs. Yr Ago
			2014 Q3			2014 Q4			2015 Q1			2015 Q2	
Total Retail Sales NSA (\$ billions)			1167.0			1168.6			1153.0			1169.4	\$9.83
e-Sales NSA (\$ billions)			70.4			93.5			74.9			78.7	\$9.88
e-Sales as % of Retail Sales			6.0%			8.0%			6.5%			6.7%	0.8%
GDP Real % Annual Growth SA (from prior year's same quarter)			2.9%			2.5%			2.9%			2.3%	*
GDP Real % Quarterly Growth SA (at annualized rate)			4.3%			2.1%			0.6%			2.3%	*
Household Debt Service Ratio			9.9%			9.9%			9.9%			na	-0.04%
National Monthly Data	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Change vs. Yr Ago
Capacity Utilization SA	78.30	78.20	78.50	78.50	79.00	79.00	78.70	78.50	78.30	78.00	77.70	77.80	-0.40
Car & Lt Trk Sales Millions SA	16.45	17.22	16.42	16.46	17.02	16.80	16.63	16.32	17.06	16.70	17.63	16.95	0.22
Cons Sent (1966=100) NSA	81.8	82.5	84.6	86.9	88.8	93.6	98.1	95.4	93.0	95.9	90.7	96.1	13.6
CPI-U 1982-84=100 SA	237.60	237.41	237.63	237.75	237.07	236.28	234.68	235.19	235.74	235.98	237.03	237.79	0.44
Federal Funds Rate (Effective)	0.09%	0.09%	0.09%	0.09%	0.09%	0.12%	0.11%	0.11%	0.11%	0.12%	0.12%	0.13%	0.03%
Gasoline Price per Gal. of Regular	\$3.61	\$3.49	\$3.41	\$3.17	\$2.91	\$2.54	\$2.12	\$2.22	\$2.46	\$2.47	\$2.72	\$2.80	-\$0.89
Ind Production (1997=100) SA	106.08	106.11	106.68	106.85	107.80	107.91	107.60	107.47	107.35	107.04	106.86	107.11	1.39
Inventory/Sales Ratio SA	1.29	1.30	1.31	1.31	1.32	1.33	1.36	1.37	1.36	1.36	1.36	1.37	0.07
Mtg Rate, 30 Yr Conventional NSA	4.13	4.12	4.16	4.04	4.00	3.86	3.71	3.71	3.77	3.67	3.84	3.98	-0.18
Prime Rate (%) NSA	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	0.00
Purch Mgr Index SA	56.40	58.10	56.10	57.90	57.60	55.10	53.50	52.90	51.50	51.50	52.80	53.50	-2.20
Real Rtl/Food Svc Sales SA (\$ billions)	436.18	438.71	437.31	439.19	441.44	437.59	434.23	431.92	438.57	438.72	443.24	442.03	\$6.05
S&P 500 (average)	1973.1	1961.5	1993.2	1937.3	2044.6	2054.3	2028.2	2082.2	2080.0	2094.9	2111.9	2099.3	152.2
Tech Index SA - Mar 2001 = 100	114.0	115.6	114.8	114.4	115.1	114.3	113.7	113.8	117.7	114.3	114.2	114.1	-1.8
Trade Weighted Dollar Index	76.3	77.6	79.6	80.8	82.8	84.2	87.4	89.1	91.7	90.9	89.2	89.7	13.3
Crude Oil Price NSA (\$ per barrel)	103.59	96.54	93.21	84.40	75.79	59.29	47.22	50.58	47.82	54.45	59.27	59.82	-\$45.97
CPI & Employment Data	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Change vs. Yr Ago
Denver-Boulder CPI SA (est)	236.22	236.71	237.20	237.69	238.18	238.66	239.46	240.26	241.05	241.85	242.64	243.44	7.70
Colorado Labor Force SA (000's)	2,818	2,820	2,821	2,822	2,824	2,824	2,828	2,831	2,833	2,829	2,829	2,823	7.5
Colorado Employment SA (000's)	2,683	2,690	2,694	2,698	2,702	2,706	2,709	2,712	2,714	2,711	2,707	2,699	24.1
Colorado Unemployment Rate SA	4.8%	4.6%	4.5%	4.4%	4.3%	4.2%	4.2%	4.2%	4.2%	4.2%	4.3%	4.4%	-0.6%
El Paso County Unemployment Rate NSA	6.0%	5.6%	5.0%	4.8%	5.0%	5.1%	5.7%	5.7%	5.4%	5.2%	5.0%	5.5%	-0.7%
El Paso County Unemployment Rate SA	5.9%	5.7%	5.3%	5.1%	5.3%	5.2%	5.3%	5.3%	5.1%	5.3%	5.2%	4.9%	-1.1%

“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 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 Tatiana Bailey at (719) 255-3661 or e-mail at tbailey6@uccs.edu.

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