

Quarterly Economic Update

3rd Quarter, 2015 Data
Posted November 2015
Tatiana Bailey - Director

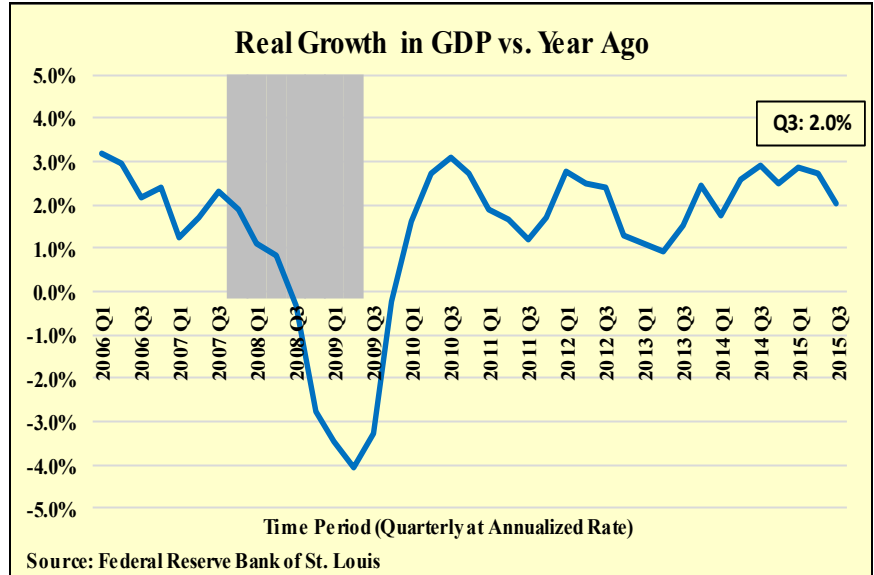
THE BIG PICTURE

U.S. Quarterly GDP

GDP for the third quarter of 2015 compared to Q3 from a year ago is up 2.0%. The 2.0% annualized rate compared to a year ago is down a bit from Q2 primarily because of inventory cutbacks by manufacturers. This, of course, is tied to the relatively strong dollar and the impact it is having on exports, which are directly correlated with manufacturing activity. The decline in mining activity also is playing a role. The impact of inventory cutbacks should be diminished in Q4, which will help overall GDP at the end of the year. Likewise, the holiday season and strong consumer confidence and spending will likely boost GDP in Q4. There was an upward revision GDP in Q2 from 2.3% to 2.7%, so it is likely we will complete the year at around a 2.5% GDP growth rate when comparing 2015 to 2014.

U.S. Consumer Sentiment

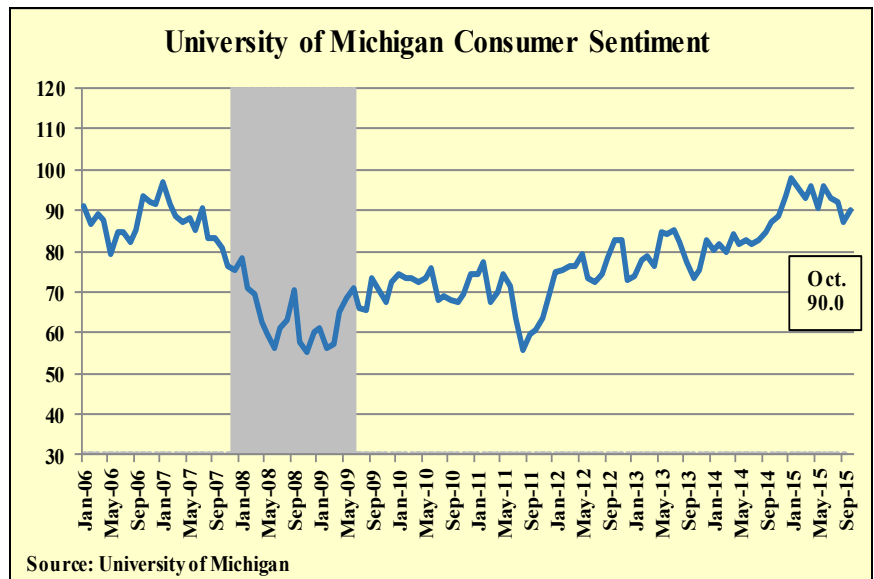
Consumer sentiment was up in October to 90 from 87.2 in September. Most of the October rebound was attributable to lower income households while confidence among higher income households was somewhat muted by concerns regarding volatile financial markets. Overall, consumer sentiment has been higher in 2015 than in any other year since 2004. The University of Michigan projects that the favorable consumer sentiment will keep the annual rate of growth in overall consumer spending at 2.9% in 2016. This is good news for U.S. businesses that cater to American consumers. Consumer sentiment is an important indicator because approximately 2/3 of all economic activity (as reflected by GDP) comes from consumer spending.



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.

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

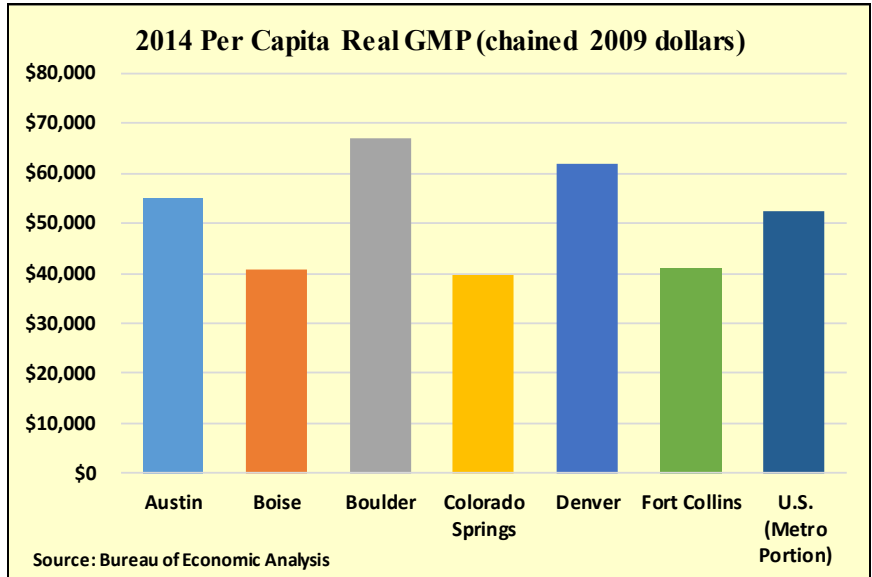
where "C" is consumer spending, "G" is government spending, "I" is all business spending on capital and "NX" is net exports, which is exports minus imports.



THE BIG PICTURE (cont.)

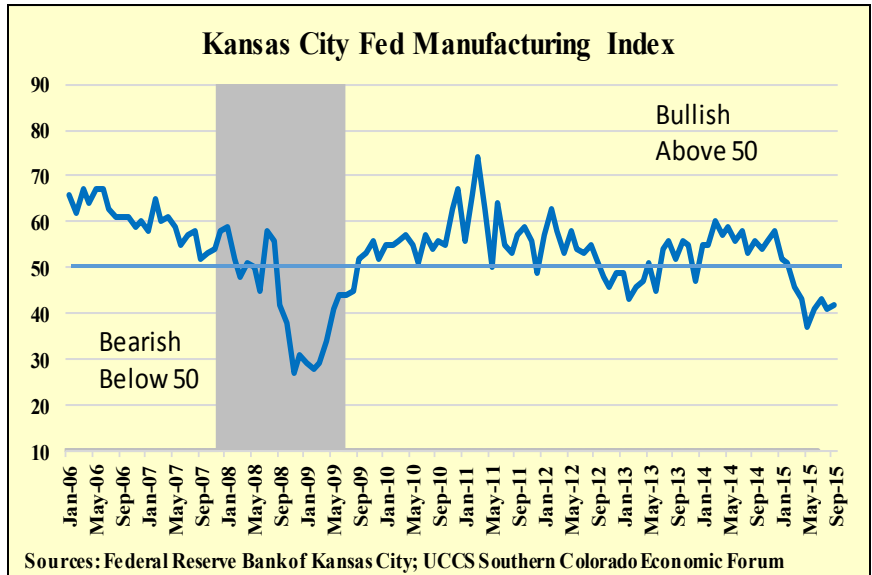
Per Capita GMP

The Forum is now tracking GMP, or gross metropolitan product. It is conceptually the same as GDP but for a (smaller) 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. Most notably, Colorado Springs real per capita GMP (\$39,489) is considerably lower than the U.S. metro average GMP (\$52,526).



Kansas City Fed Manufacturing

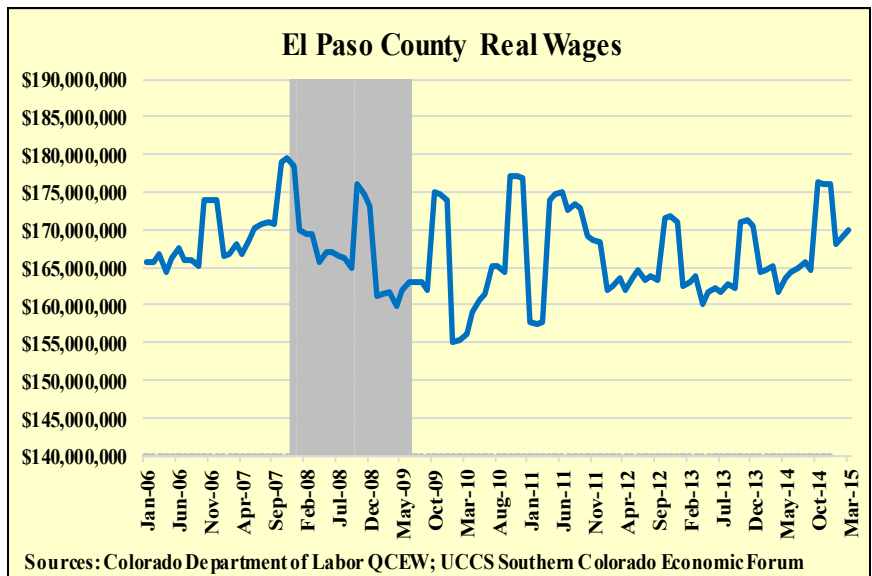
Since February of last year, the Kansas City Fed manufacturing index has been below 50 reflecting unfavorable survey results in responses about production and shipments, changes in prices of raw materials and finished products. Much of the lackluster performance in manufacturing in the seven regions (CO, KS, NE, OK, WY, western MS and northern NM) has been due to declines in oil and gas well drilling. As mentioned earlier in the information about GDP, the strong dollar is also hurting U.S.- manufactured exports.



El Paso County Real Wages

Real wages have been relatively stagnant in El Paso County. The graph shows an overall flat trend and the table below shows that in January 2006 real wages were almost \$36,000. In March of this year, real wages were just shy of \$35,000. Wages have been particularly sticky since the recession. Real wages are pegged to the 2001 Denver CPI.

Average Real Annual Wages	
January 2006	March 2015
\$35,999	\$34,905



EMPLOYMENT

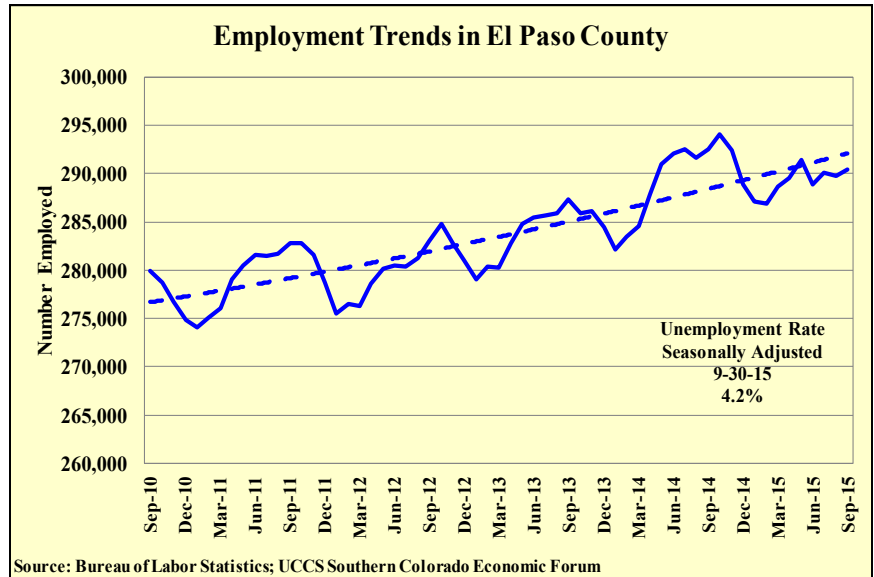
Employment Levels

The seasonally adjusted unemployment rate for El Paso County at the end of September was 4.2%, which most economists would consider to be below the “natural rate” of unemployment. This is definitely good news especially when considering the peak unemployment rate of 10.6% in 2010. It’s not all good news, however. We still have too many individuals leaving the workforce or choosing not to re-enter the workforce after the recession. This makes the total “pool” of individuals who comprise the labor force smaller, which is the denominator in the unemployment calculations. When the denominator shrinks, any increases in the numerator are exaggerated.

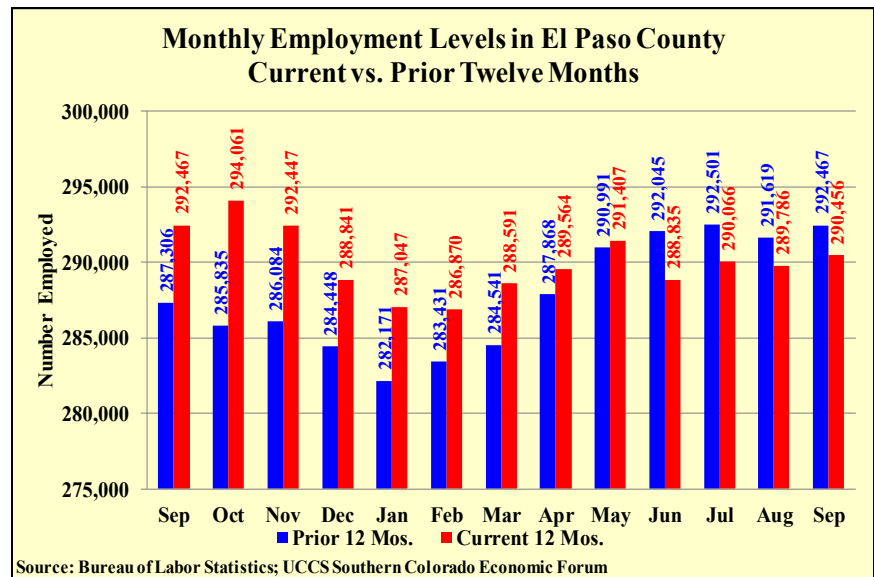
This can be seen by the second graph, which shows a decrease in employment levels from September of 2015 compared to September 2014: a decrease of 2,011 employed (down 0.7%). Over the past year, the local labor force decreased by 5,302 representing a 1.7% decrease. This is a structural issue which will likely take longer to address. The increasing number of baby boomers who are retiring seems to be pushing participation rates downward, along with other factors such as the mismatch between existing skill sets and employer needs. If you are interested in reading more about this, there is an increasing amount of literature available online. The Forum also produced a white paper entitled, “Workforce and the Skills Gap” and it is available in the 2015/16 Forum publication, which is on the website.

Employment by Sector

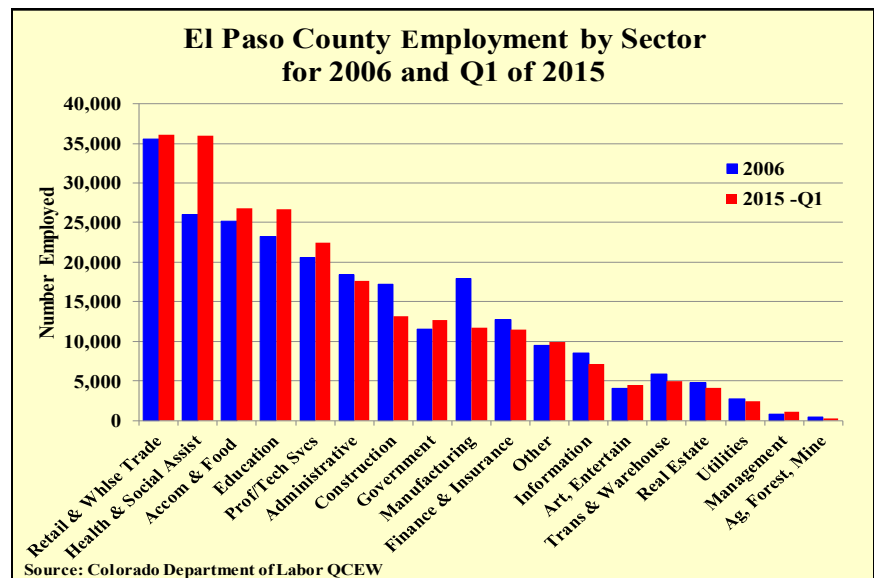
From 2006 to first quarter 2015, the largest increase in employment has been in the health and social services sector. Significant increases have also occurred in accommodations and food services, education and professional/technical services. The largest declines have been in manufacturing and construction. These local trends are very similar to the national trends.



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

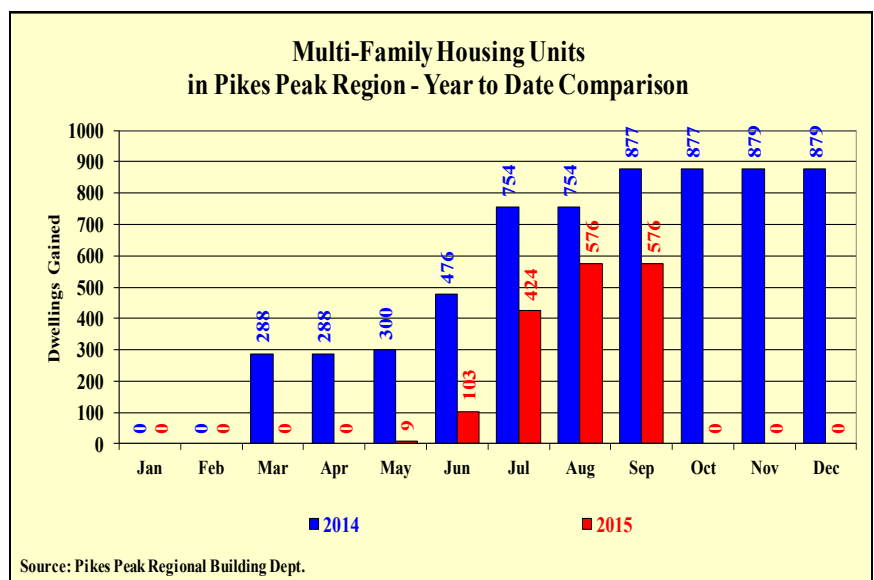
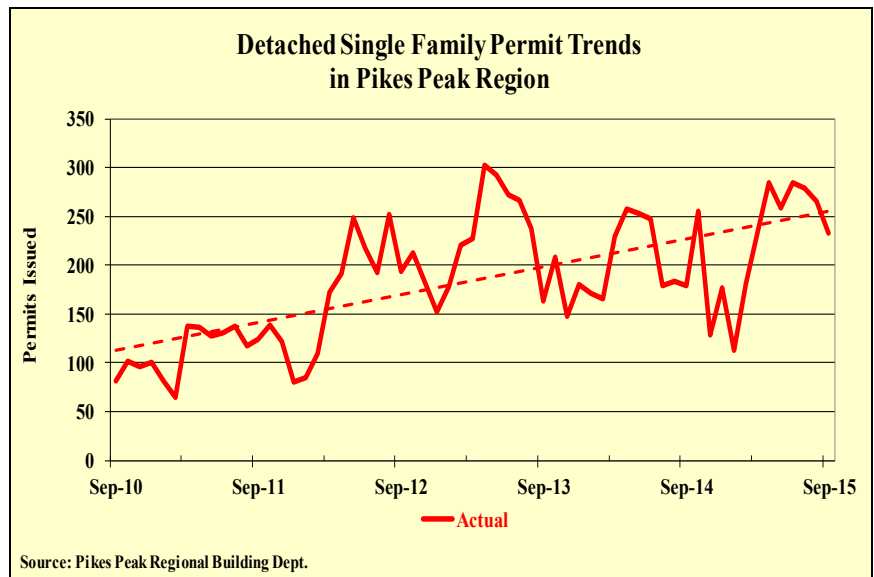
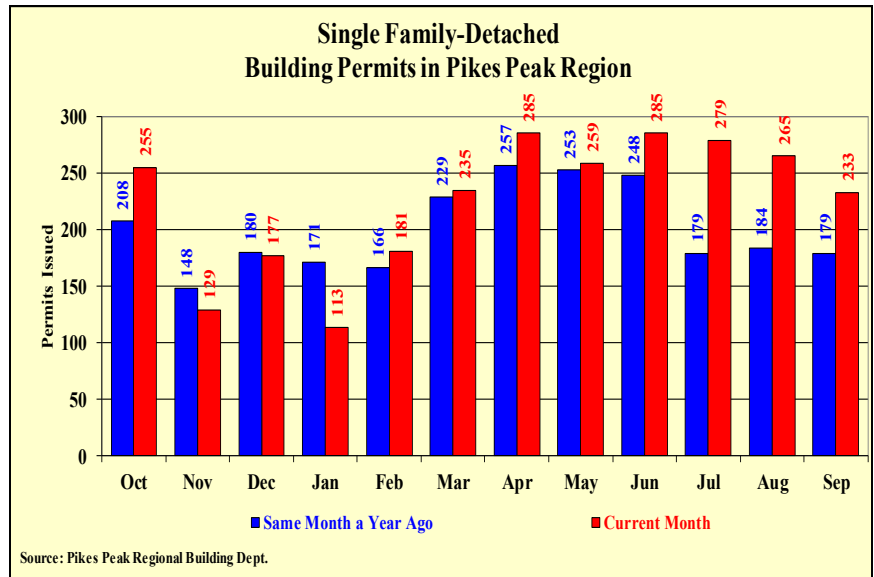
Single family building permits have had large increases in 2015 in the Pikes Peak region. Particularly large increases have been seen over a year ago during the summer and early fall of this year. There are several factors at play here. First, with a stronger U.S. economy, consumers are more confident about building a new home or upgrading to a different (existing) home. First time home purchases are especially high, which is a good indicator. Second, there is still pent up demand from the prolonged recession. Third, at least for our region, homes are still relatively affordable with interest rates at historical lows and this further incentivizes home purchases. Colorado Springs is an affordable community and that is working to our advantage especially with much higher home prices in the Denver/Boulder areas. All of this is creating some upward pressure on newly built and existing homes.

Single Family Permit Trends

The figure to the right illustrates the trend in detached housing permits for the last five years. The steady upward trend holds even accounting for the peaks in 2012 and 2013, which were largely driven by the fire-related rebuilding. Some economists predict that housing starts and home sales will cool when interest rates increase in December or early 2016, but it's also possible that a small, incremental increase in interest rates may tip some undecided consumers in the direction of buying before further increases occur.

Multi-Family Housing

Multi-family housing data represent dwellings gained off of the permits pulled. Activity through September has not been as strong as 2014, but nationally construction of multifamily housing is supposed to be the strongest in the last 30 years.



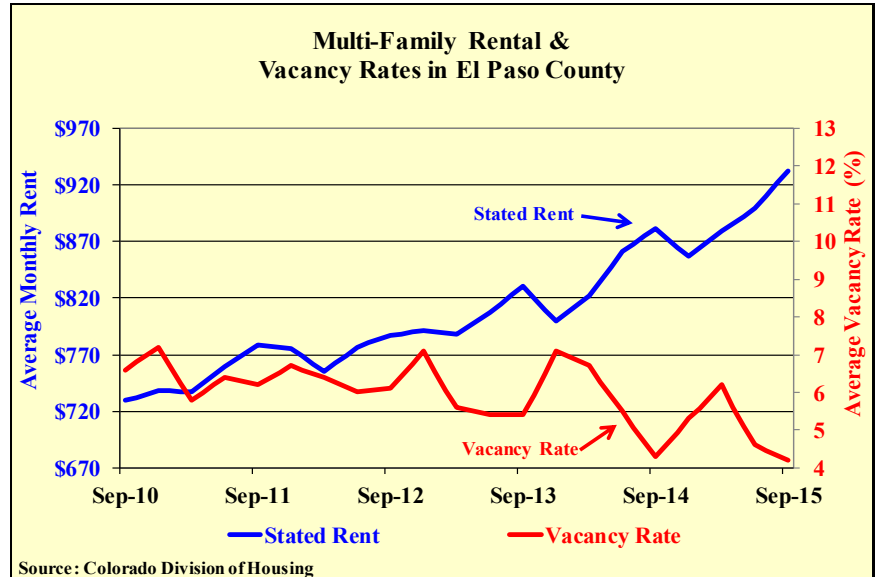
HOUSING (continued)

Multi-family Rental Market

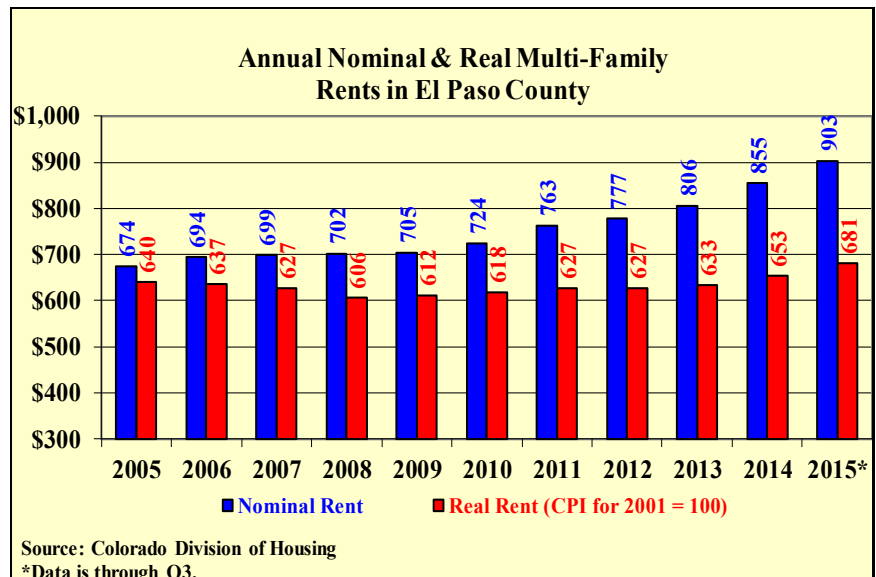
The multi-family rental market has two interesting stories going on. The first is that rental rates continue to climb rather steeply while vacancy rates fall: an expected correlation. The vacancy rate for Q3 was 4.2% compared to the previous rate of 4.6% in Q2. Since 2010, there has been a steady decrease in the multi-family vacancy rate, which is favorable. Concomitantly, rental rates have increased with an average monthly rent in Q3 of \$932. A year ago (Q3, 2014), the average rent was \$881 per month. 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. Investors, both locally and externally, are finding the Colorado Springs market attractive so it is likely that there will be more construction of new multi-family housing units.

The second story is that nominal rental rates have increased, as stated above, but when adjusting for inflation, “real” rental rates have not increased quite as much.

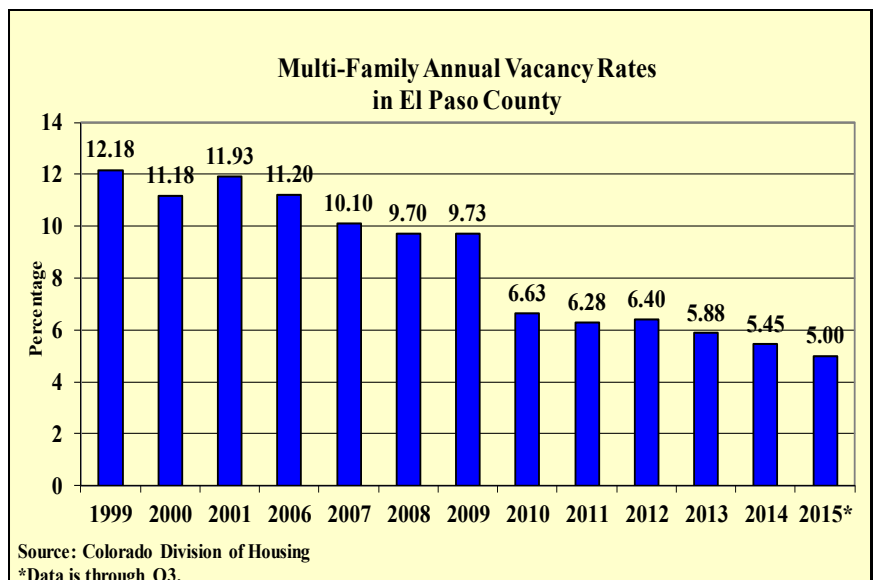
The average vacancy rate through Q3 of 2015 has decreased to 5.0%, which is significantly less than the 5.9% rate for all of 2013 and 5.5% for 2014. Annual vacancy rates will continue to be a function of the local economy and consumer preferences. Both nationally and locally, there does seem to be a 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. Another factor will be the continued growth of UCCS since students are consumers of multi-family housing. The UCCS 2015, fall enrollment number, including on-campus and extension studies, is 11,299 students. The decrease in vacancy rates is happening even in the context of new construction in multi-family housing.



Source: Colorado Division of Housing



Source: Colorado Division of Housing
*Data is through Q3.



Source: Colorado Division of Housing
*Data is through Q3.

HOUSING (continued)

Year-to-Date Sales

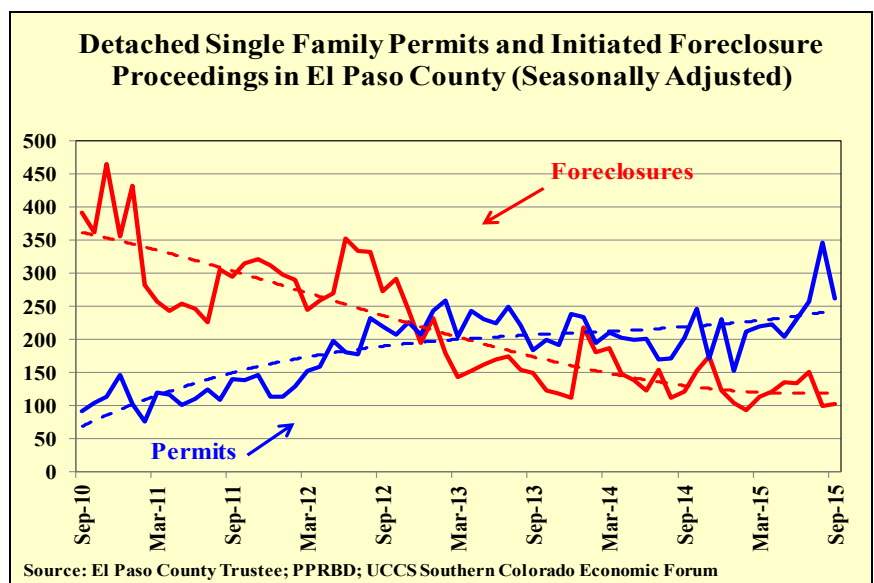
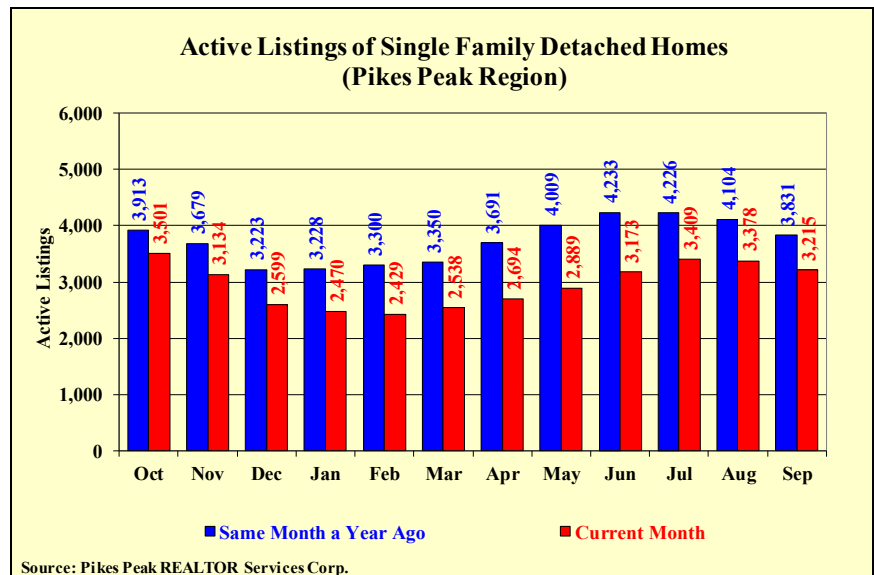
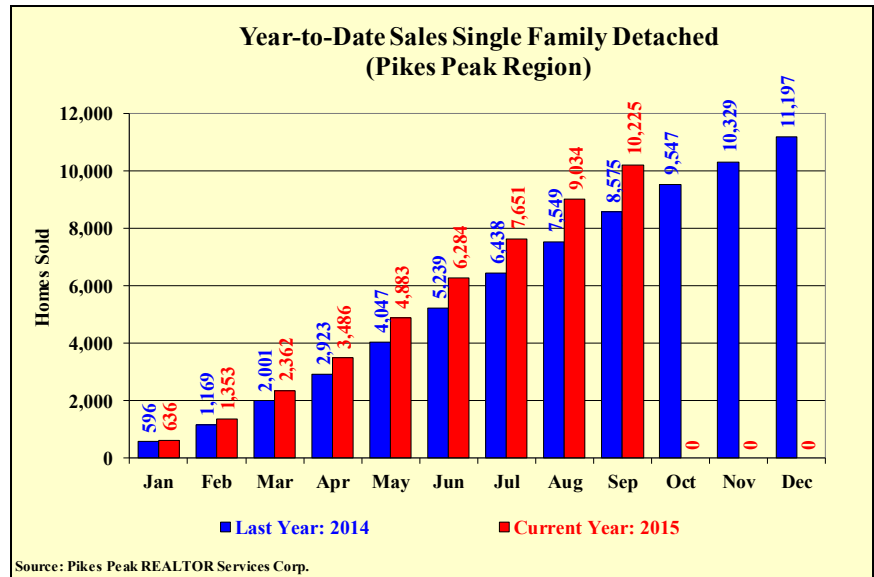
The trend in home sales continues to improve. Through September, there were 1,650 more homes sold than in 2014. This represents a very significant 19.2% increase. Overall, the residential real estate market is quite strong both for new and existing homes. Indicative of this stronger market is the increase in median home prices. In September 2015, the median home price in the Pikes Peak region was \$240,000 whereas it was significantly less at \$225,000 in September 2014. 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. A very healthy real estate market indeed.

Active Listings

Active listings were down 16.1% in September 2015 compared to September 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 70 in September 2015 and it was 82 in September of last year indicating that existing homes are selling more quickly.

Foreclosures

As of September, there have been 1,055 foreclosure proceedings in 2015, which is 23.6% lower than in the same period last year (1,382 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. 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. These are good trends that will hopefully continue. In the future, it may work to our advantage that rental rates per square foot are significantly lower locally than they are in Denver.

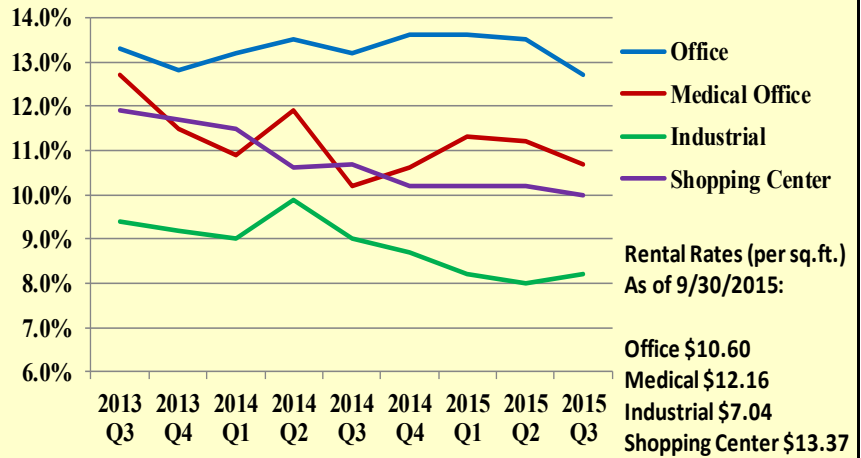
Colorado Springs Airport Trends

Enplanements at the Colorado Springs Airport continued their downward trend. Seasonally adjusted, enplanements were 49,494 in September 2015. This is 6.1% lower than September of last year (52,710 seasonally adjusted) and 1.8% lower than September 2013 (50,414 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. It is difficult for the local airport 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 so this downward trend in enplanements is likely to abate in the future.

It is also important to note that in the fall of this year, the City of Colorado Springs received \$6 million in funding from local foundations and an individual philanthropist to create the Aviation Enhancement Fund. The fund will help pay the costs of new air service to help bring down the up-front costs of new or expanding carriers.

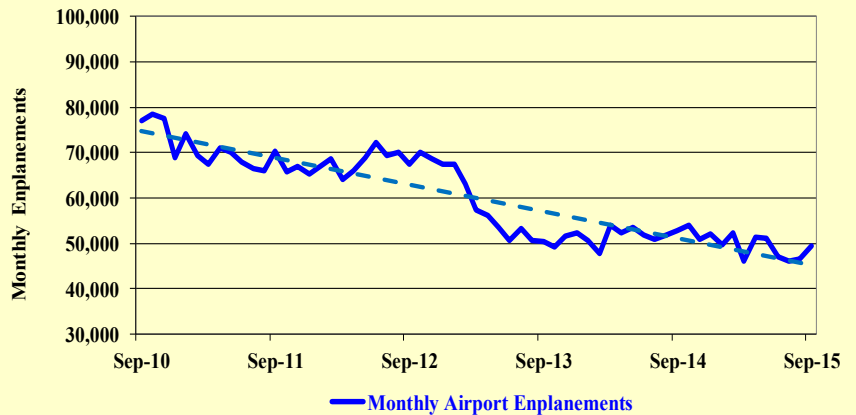
Note: Actual enplanements (not seasonally adjusted) for September 2015 were 48,702 or 8.5% lower than September 2014 (53,246) and 4.3% lower than September 2013 (50,909).

Colorado Springs Quarterly Vacancy Rates



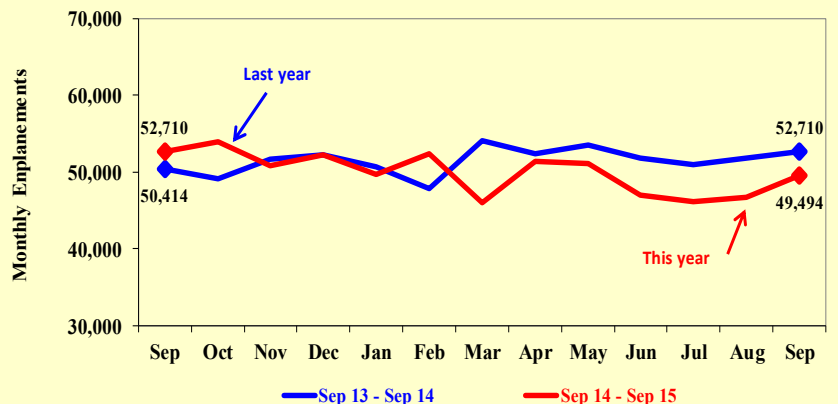
Source: Turner Report

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

The strong economy 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 September 2015 (for August sales) were \$12,487,802. This represents a 2.3% 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 September 2015, the largest month-to-month percentage increases by major industries were in medical marijuana (38.4%), grocery stores (14.5%), and building materials (7.2%).

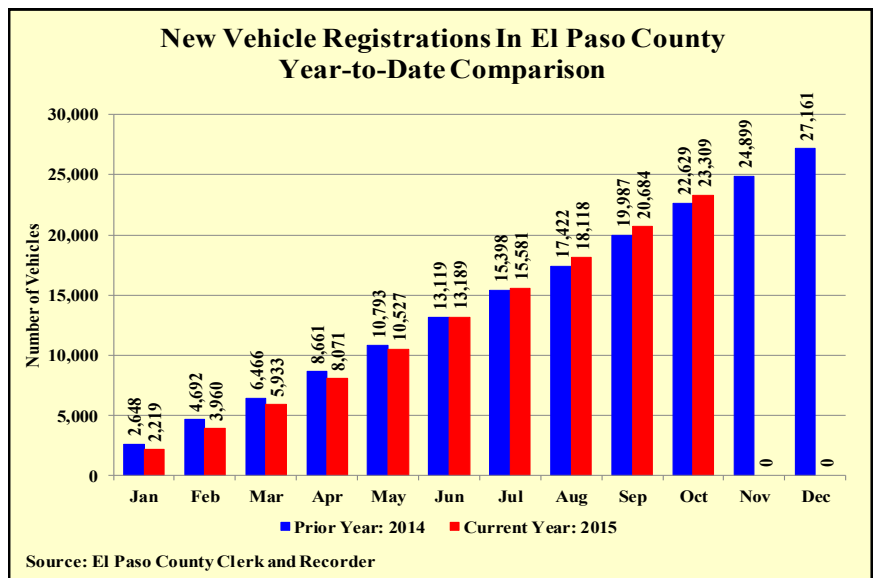
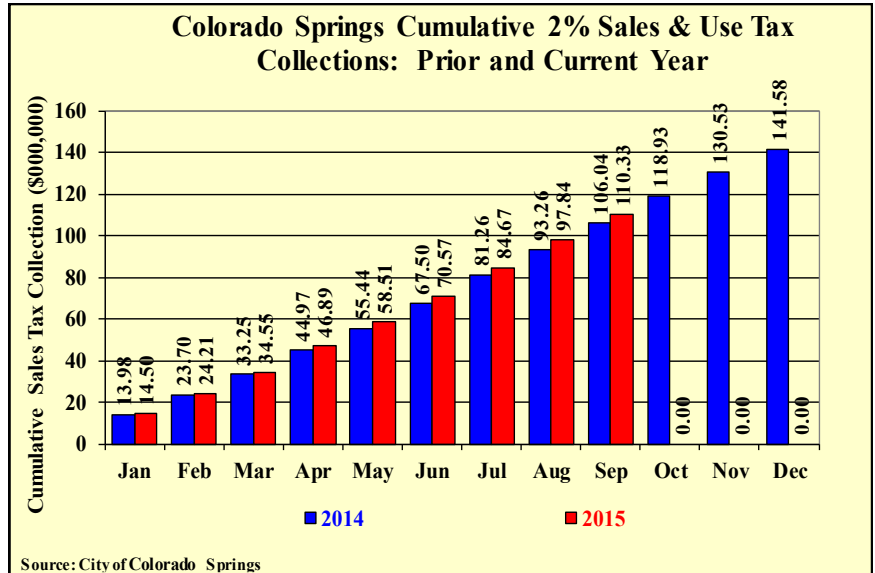
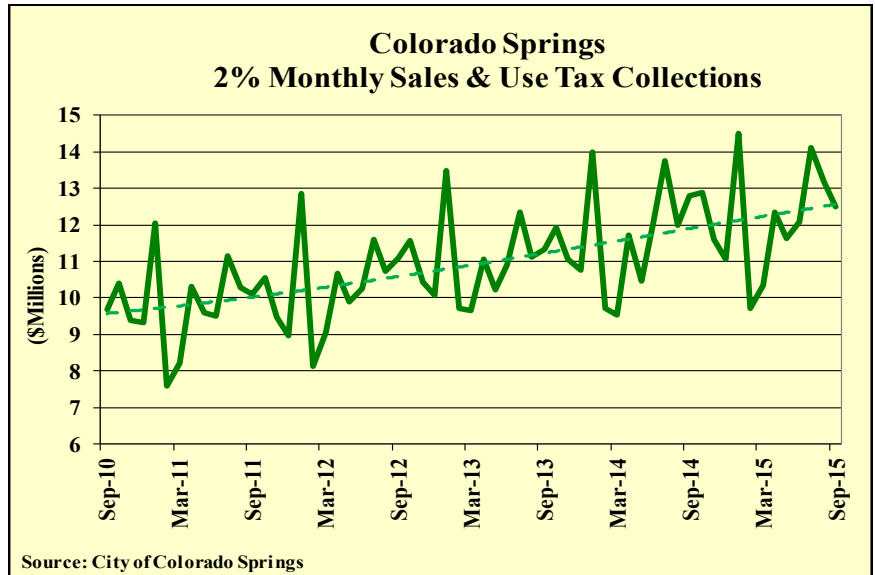
A year-to-date comparison as of September indicates sales and use tax collections are 4.0% higher than in 2014. The largest percentage increases year to date were in medical marijuana (24.2%), grocery stores (16.6%), hotel/motel accommodations (14.7%), and auto dealers (9.0%).

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 Vehicle Registrations

Vehicle registrations were up 3.0% in the year-to-date comparison. In looking at a wider time span, registrations have been steadily increasing since 2010. In fact, as the table below shows, registrations are more than double what they were in 2010 (up 105%). Given the strong consumer sentiment and the falling unemployment level, it seems likely that 2015 will continue to have strong new car sales.

New Vehicle Registrations	
October 2010	October 2015
1,279	2,625





Selected Economic Indicators													
National Quarterly Data													Change vs. Yr Ago
			2014 Q4			2015 Q1			2015 Q2			2015 Q3	
Total Retail Sales NSA (\$ billions)			1169.1			1153.0			1171.5			1185.0	\$19.05
e-Sales NSA (\$ billions)			93.5			74.9			78.8			81.1	\$10.70
e-Sales as % of Retail Sales			8.0%			6.5%			6.7%			6.8%	0.81%
GDP Real % Annual Growth SA (from prior year's same quarter)			2.5%			2.9%			2.7%			2.0%	*
GDP Real % Quarterly Growth SA (at annualized rate)			2.1%			0.6%			3.9%			1.5%	*
Household Debt Service Ratio			10.0%			10.1%			10.1%			na	0.02%
National Monthly Data	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Change vs. Yr Ago
Capacity Utilization SA	78.50	79.00	79.00	78.70	78.40	78.20	78.00	77.60	77.50	78.00	78.00	77.70	-0.80
Car & Lt Trk Sales Millions SA	16.46	17.02	16.80	16.63	16.32	17.06	16.70	17.63	16.95	17.47	17.73	18.06	1.64
Cons Sent (1966=100) NSA	86.9	88.8	93.6	98.1	95.4	93.0	95.9	90.7	96.1	93.1	91.9	87.2	2.6
CPI-U 1982-84=100 SA	237.75	237.07	236.28	234.68	235.19	235.74	235.98	237.03	237.79	238.10	237.93	237.57	-0.06
Federal Funds Rate (Effective)	0.09%	0.09%	0.12%	0.11%	0.11%	0.11%	0.12%	0.12%	0.13%	0.13%	0.14%	0.14%	0.05%
Gasoline Price per Gal. of Regular	\$3.17	\$2.91	\$2.54	\$2.12	\$2.22	\$2.46	\$2.47	\$2.72	\$2.80	\$2.79	\$2.64	\$2.37	-\$1.04
Ind Production (1997=100) SA	106.85	107.80	107.91	107.60	107.44	107.24	107.06	106.68	106.68	107.51	107.61	107.38	0.70
Inventory/Sales Ratio SA	1.31	1.32	1.33	1.36	1.37	1.36	1.36	1.36	1.36	1.36	1.37	1.38	0.07
Mtg Rate, 30 Yr Conventional NSA	4.04	4.00	3.86	3.71	3.71	3.77	3.67	3.84	3.98	4.05	3.91	3.89	-0.27
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	57.90	57.60	55.10	53.50	52.90	51.50	51.50	52.80	53.50	52.70	51.10	50.20	-5.90
Real Rtl/Food Svc Sales SA (\$ billions)	439.83	441.44	437.59	434.23	431.92	438.57	438.72	443.91	443.73	447.10	447.13	447.03	\$9.60
S&P 500 (average)	1937.3	2044.6	2054.3	2028.2	2082.2	2080.0	2094.9	2111.9	2099.3	2094.1	2039.9	1944.4	-48.8
Tech Index SA - Mar 2001 = 100	114.4	115.1	114.3	113.7	113.8	117.7	114.3	114.2	114.8	116.0	117.2	117.7	2.9
Trade Weighted Dollar Index	80.9	82.8	84.2	87.4	89.2	91.7	90.9	89.2	89.7	91.7	91.9	91.8	12.1
Crude Oil Price NSA (\$ per barrel)	84.40	75.79	59.29	47.22	50.58	47.82	54.45	59.27	59.82	50.90	42.87	45.48	-\$47.73
CPI & Employment Data	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Change vs. Yr Ago
Denver-Boulder CPI SA (est)	237.69	238.18	238.66	238.57	238.47	238.38	238.28	238.18	238.09	238.88	239.67	240.47	3.27
Colorado Labor Force SA (000's)	2,822	2,824	2,824	2,828	2,831	2,833	2,829	2,829	2,823	2,813	2,807	2,805	-15.9
Colorado Employment SA (000's)	2,698	2,702	2,706	2,709	2,712	2,714	2,711	2,707	2,699	2,692	2,689	2,693	-1.2
Colorado Unemployment Rate SA	4.4%	4.3%	4.2%	4.2%	4.2%	4.2%	4.2%	4.3%	4.4%	4.3%	4.2%	4.0%	-0.5%
El Paso County Unemployment Rate NSA	4.8%	5.0%	5.1%	5.7%	5.7%	5.4%	5.2%	5.0%	5.5%	4.9%	4.5%	4.0%	-1.0%
El Paso County Unemployment Rate SA	5.1%	5.3%	5.2%	5.3%	5.3%	5.1%	5.3%	5.2%	5.2%	4.8%	4.6%	4.2%	-1.1%

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



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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 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.

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