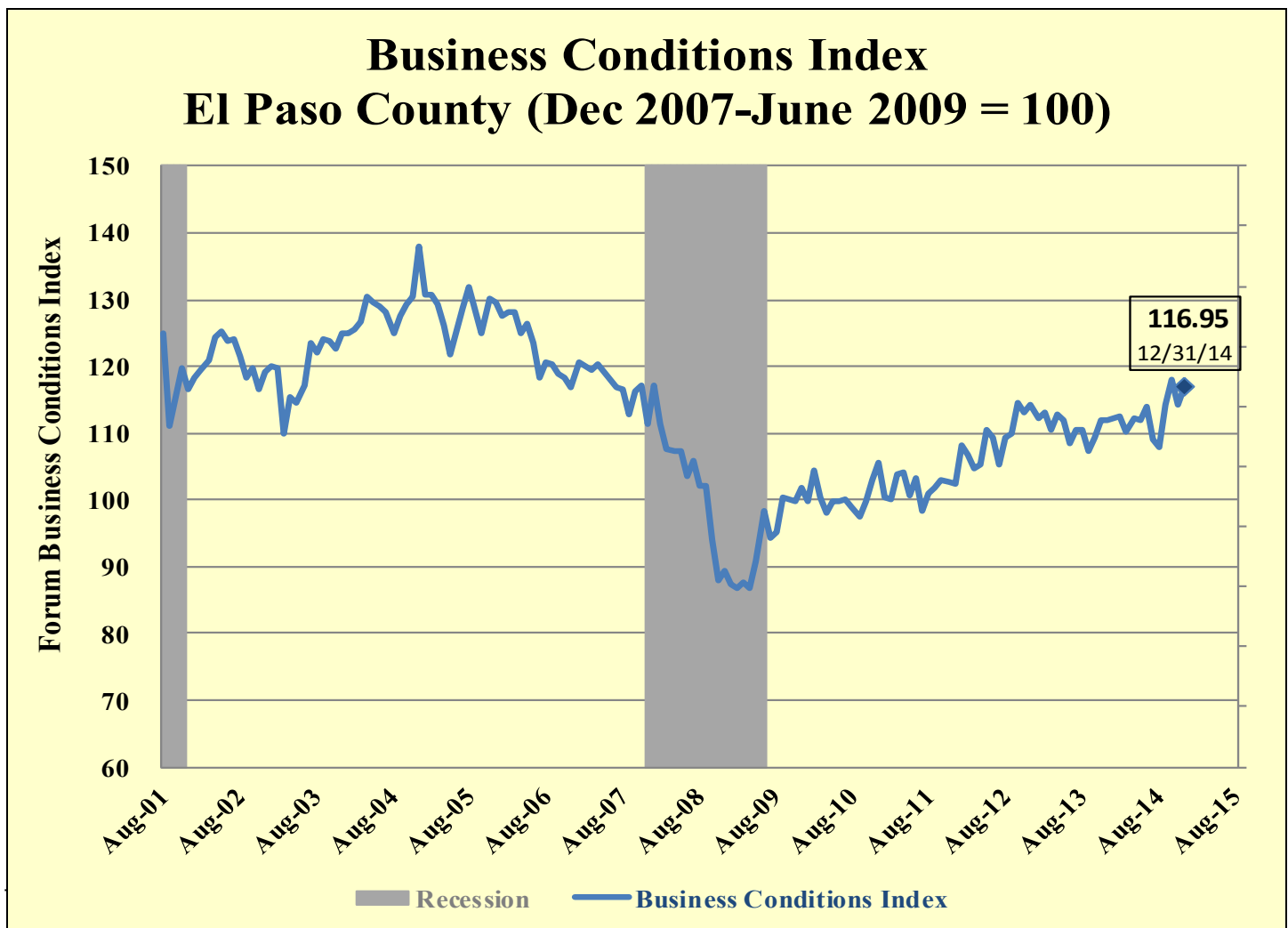


Quarterly Economic Update

4th Quarter, 2014 Data
Posted February 2015
Tatiana Bailey - Director

Business Conditions Index

The Business Condition Index, or BCI, is a compilation of ten economic indicators that gauge how the local economy is performing. These indicators are listed below the graph. Looking at the BCI, we can see that the local economy performed well during the fourth quarter, which mirrors the national trends. The BCI was 116.95 in December 2014, which is higher than it was in December of 2013 (111.92). Seven of the BCI's components are higher than one year ago with particularly strong increases in car registrations and consumer sentiment. Enplanements and real wages had declines. Many municipalities across the nation are seeing consistently stronger economic trends as the national GDP (gross domestic product) numbers continue to improve. Many of these improvements are driven by the rise in consumer sentiment. In fact, despite the stronger



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, QCEW employment and QCEW 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 indicators in the BCI. The BCI is indexed to December 2007—June 2009 = 100. All raw series are seasonally adjusted by UCCS Southern Colorado Economic Forum using the Department of Commerce X12 adjustment process.

Business Conditions Index Components - All Values Indexed: Dec 2007 - June 2009 = 100

	COS Enplane- ments	El Paso County SF & TH Permits	U Of Mich Con Sent	Kansas City Fed Mfg Index	El Paso <u>Employ- ment</u> Rate	CoSpgs 2% Sales & Use Tax	County New Car Registra- tions	El Paso County Fore- closures	El Paso County Employed	El Paso County Real Wages	BCI
Sep-13	61.45	160.98	120.71	109.12	98.55	116.08	140.10	101.74	98.21	96.63	107.26
Oct-13	59.90	183.43	114.01	116.14	98.49	116.64	143.27	101.88	97.83	101.78	109.28
Nov-13	62.99	159.21	116.97	115.68	98.69	120.71	188.84	101.93	97.83	101.99	112.00
Dec-13	63.75	221.63	128.49	99.21	99.17	122.07	139.71	101.92	97.85	101.53	111.92
Jan-14	61.84	191.35	125.22	112.09	98.79	119.08	169.07	101.39	97.56	97.83	112.32
Feb-14	58.31	189.98	127.09	111.20	98.67	126.53	169.42	101.44	98.26	97.96	112.45
Mar-14	65.88	192.90	124.60	118.48	98.62	116.33	126.23	101.19	98.55	98.30	110.29
Apr-14	63.92	191.27	130.99	116.34	99.13	118.23	152.23	101.56	98.41	96.23	112.32
May-14	65.21	173.92	127.56	121.15	99.62	119.40	150.30	101.67	98.57	97.38	111.82
Jun-14	63.17	195.93	128.49	118.35	100.20	131.84	150.19	101.92	99.09	97.82	113.95
Jul-14	62.05	137.63	127.40	116.66	99.98	128.21	151.01	101.66	99.49	96.50	109.14
Aug-14	63.25	156.91	128.49	109.45	100.40	123.75	124.57	101.94	98.91	97.28	107.80
Sep-14	64.24	171.47	131.76	115.12	101.30	136.49	168.00	101.89	98.81	96.97	114.25
Oct-14	65.72	244.35	135.35	108.69	101.64	135.09	165.44	101.67	98.71	97.40	118.03
Nov-14	61.98	166.29	138.31	112.19	101.26	136.86	171.33	101.55	99.11	97.83	114.10
Dec-14	63.61	225.10	145.78	111.96	101.36	125.38	162.65	101.88	99.90	97.33	116.95
December 2014 Compared to:											
Nov-14	2.6%	35.4%	5.4%	-0.2%	0.1%	-8.4%	-5.1%	0.3%	0.8%	-0.5%	2.5%
Sep-14	-1.0%	31.3%	10.6%	-2.7%	0.1%	-8.1%	-3.2%	0.0%	1.1%	0.4%	2.4%
Jun-14	0.7%	14.9%	13.5%	-5.4%	1.2%	-4.9%	8.3%	0.0%	0.8%	-0.5%	2.6%
Dec-13	-0.2%	1.6%	13.5%	12.9%	2.2%	2.7%	16.4%	0.0%	2.1%	-4.1%	4.5%

Real Wages in El Paso County were calculated by the UCCS Southern Colorado Economic Forum.

dollar, which hurts U.S. exports, and uncertainties in other developed economies, the U.S. consumer is driving much of the stability and modest growth in the U.S. Lower gas prices have also had a role in this improved consumer sentiment and demand.

In Q4, the GDP growth rate was 2.6%, when annualized and compared to one year ago. Although 2.6% is not nearly as strong as the mid-year growth rates (4.6% in Q2), this level of growth stands in strong contrast to the lowest comparable rate of -8.2% in Q4 of 2008. Where these trends will go in the future depends heavily on whether the U.S. consumer will still drive much of the demand for goods and services and also on the economic performance of many of our trade partners. Additionally, if the U.S. dollars stays strong relative to other currencies, there will continue to be downward pressure on GDP because there will be less demand for our exports and U.S. consumers will demand more imported goods since they are relatively cheaper. GDP is the sum of consumer spending, government spending, investment (business) spending and net exports (exports minus imports).

The national, state and local unemployment rates continue to fall, which is definitely good news and will also assist in the aforementioned, current scenario where consumers are heavily contributing to the stable economy. Locally, unemployment rates at the end of Q4 were 5.1% (or 5.2% seasonally adjusted). If more people are employed, more goods and services are being demanded and fewer transfer payments are going to the unemployed. Slowly but surely, some of the long-term unemployed are returning to the workforce although the issue of stagnant labor participation rates seems to be a more challenging one to solve locally.

HOUSING

Single Family Permits

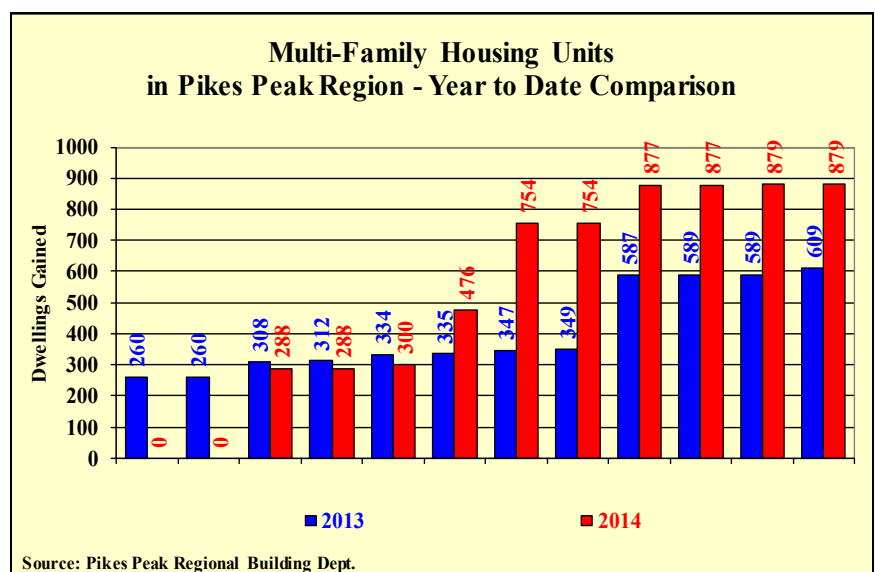
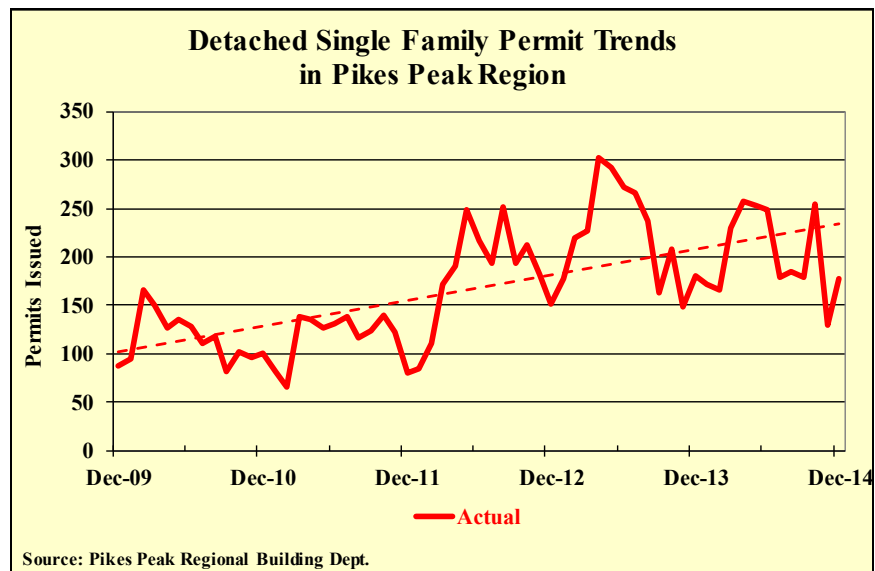
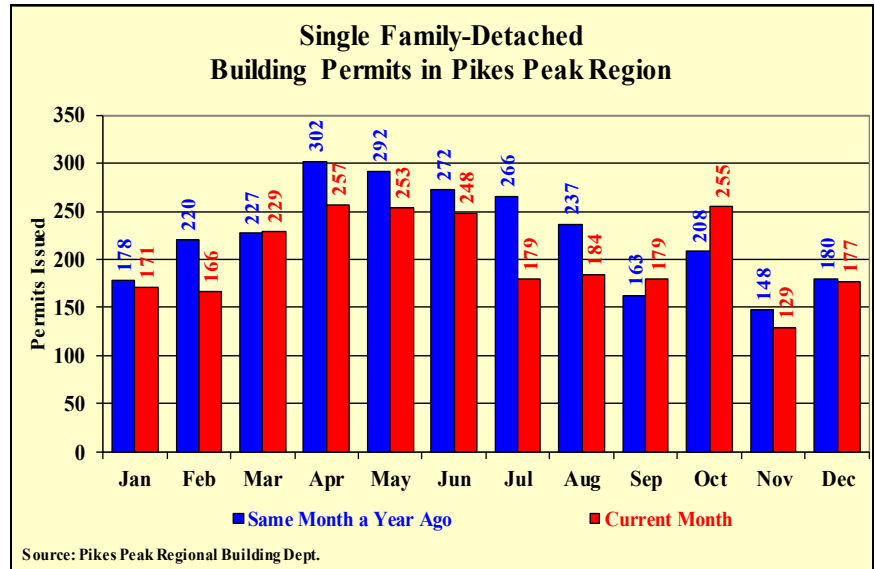
Single family building permits had a significant boost in October and then retreated to lower rates in November and December of 2014. In these two latter months of the quarter, permits have been lower than the same months compared to a year ago. The Pikes Peak region has not seen the tremendous boom in building that has happened in other areas of Colorado simply because the local economy is not quite as strong. The upside, however, is that slow, steady growth in housing can often be more desirable than the distortions caused by overbuilding.

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. More recently we have seen relatively steady rates in home building.

Multi-Family Housing

Multi-family housing has been particularly strong in 2014. These numbers represent dwellings gained off of the permits pulled. Of particular note is the consistent nature of this demand in the last four months of 2014. All four of those months had a average of 878 dwellings gained per month. There does seem to be a shift in consumer preferences towards multi-family housing and away from single home housing, which would impact the single family permit trends discussed above. Much of this multi-family housing demand may come from the local retirees.



HOUSING (continued)

Year-to-Date Sales

The trend in home sales continues to improve. Through December, there were 411 more homes sold than in 2013. This represents a 3.8% increase. When coupling this with the very modest home building, it seems that local home buyers are equally if not more interested in buying existing homes than in building new homes. Also noteworthy is the trend stated by Pikes Peak Area Realtors that homes around the local, median price (\$225,000 in December) are selling much more readily than higher end homes (\$500,000+).

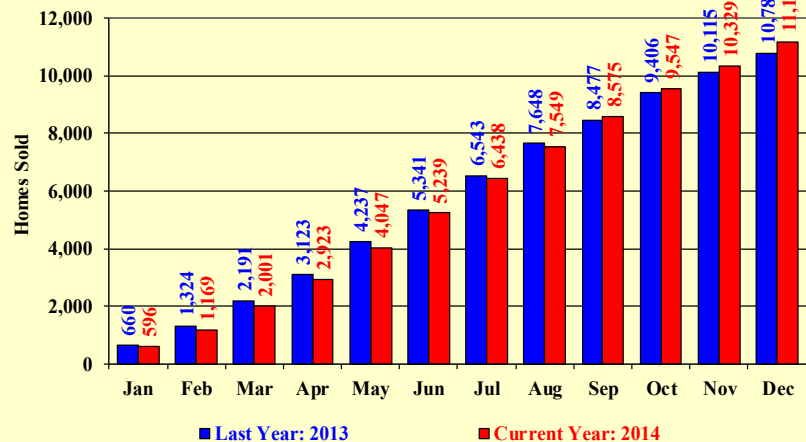
Active Listings

The number of active listings in December, 2014 within the Pikes Peak region was lower than it was in December of last year (-19.4%). The average price of a home sold in December 2014, however, was 7.3% higher than a year ago. The average price in December of 2014 was \$255,652 and in the same month a year ago, it was \$238,273. Housing will likely be impacted by the recent announcements regarding new company locations here (e.g. Sierra Completions bringing 2,100 new jobs).

Foreclosures

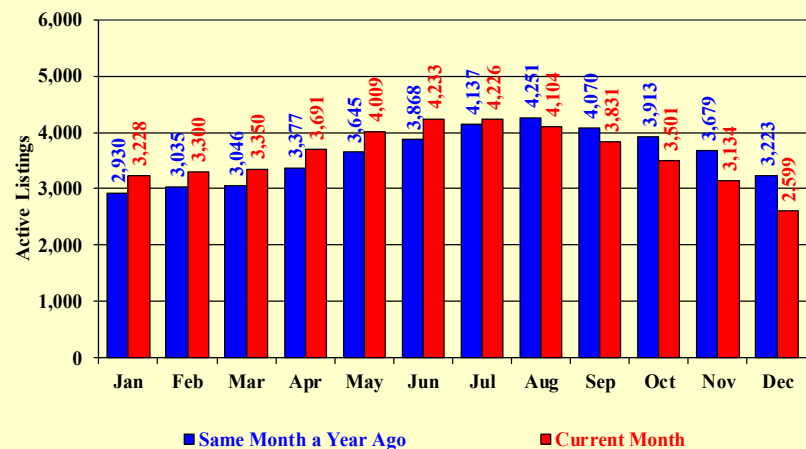
There were 1,825 foreclosure proceedings in 2014, which is almost identical to the number of foreclosures in 2013 (1,861 foreclosures). These are actual, year-end numbers and they are not seasonally adjusted. There is a historical, inverse relationship between foreclosures and detached single family building permits. The good news in 2014 is that foreclosures and permits are now 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.

Year-to-Date Sales
(Pikes Peak Region)



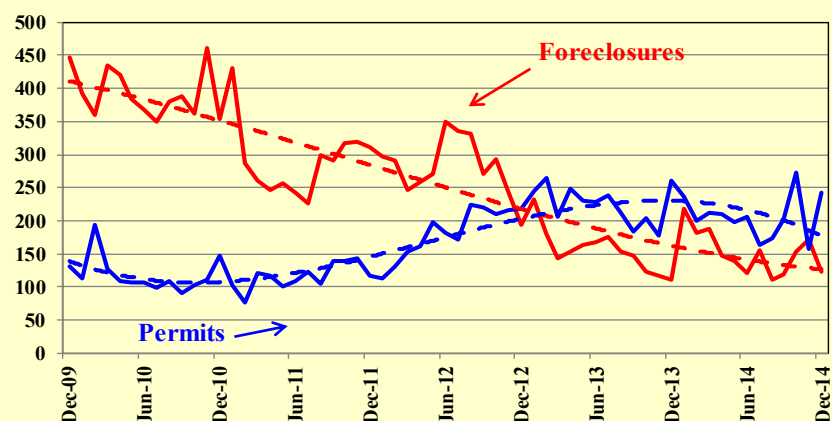
Source: Pikes Peak REALTOR Services Corp.

Active Listings of Homes
(Pikes Peak Region)



Source: Pikes Peak REALTOR Services Corp.

Detached Single Family Permits and Initiated Foreclosure Proceedings in El Paso County (Seasonally Adjusted)



Source: El Paso County Trustee; PPRBD; UCCS Southern Colorado Economic Forum

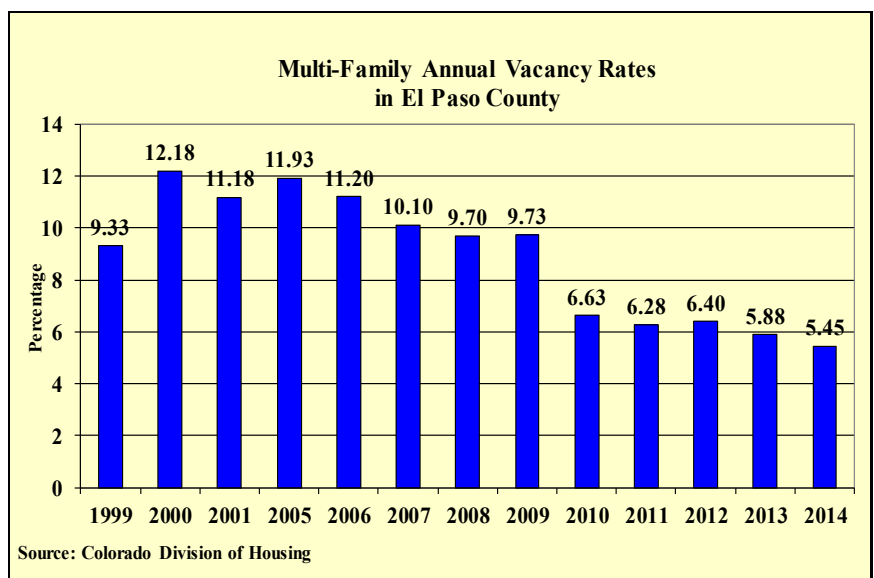
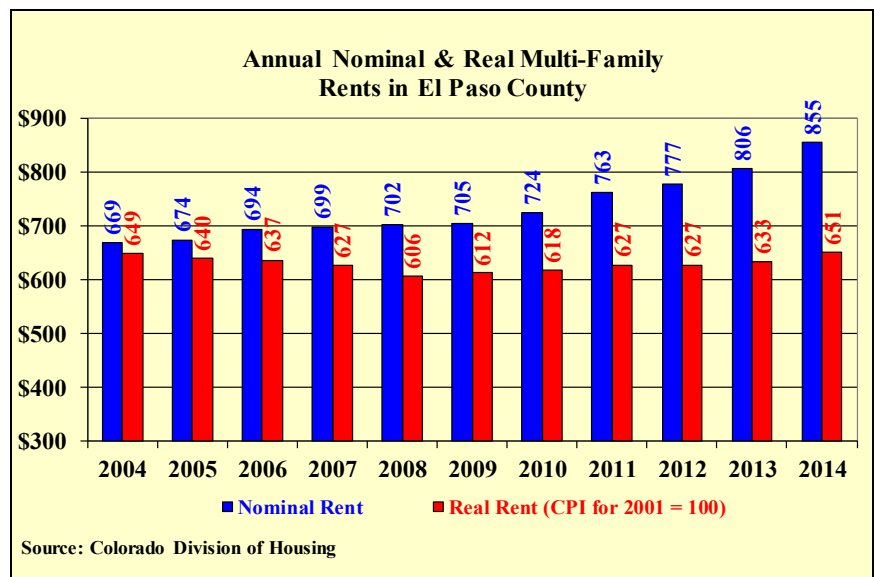
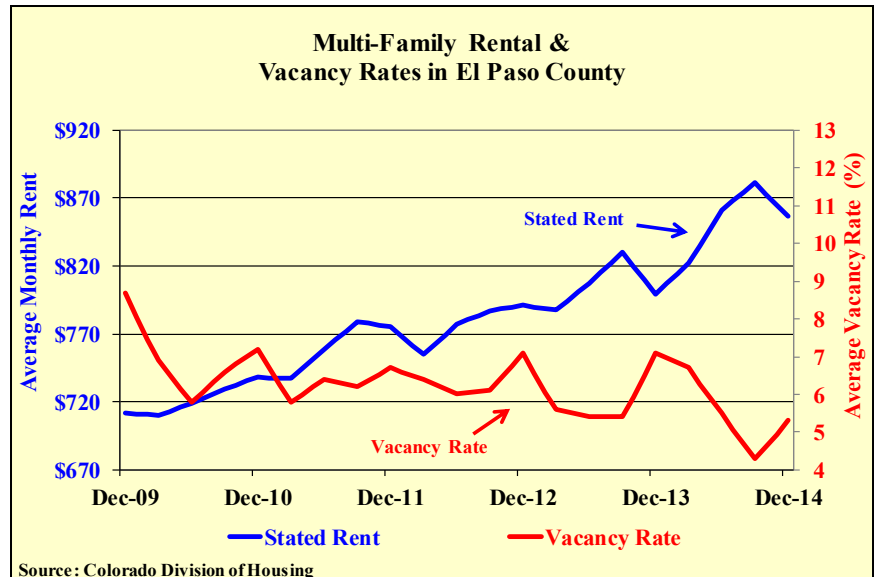
HOUSING (continued)

Multi-family Rental Market

The market for rental of multi-family housing continues to be quite strong. The vacancy rate for Q4 was 5.3% compared to the previous rate of 4.3% in Q3. This can be seen in the graph to the right; there was an uptick in vacancy rates at the very end of the year. As vacancy rates improved during 2014, rental rates climbed with an average monthly rent in Q4 of \$856. A year ago, the average rent was \$800 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. When adjusted for inflation, however, real rental rates have been relatively steady: last year real rental rates were \$633 per month and in 2014 they were \$651. This represents a modest increase of 2.8%. Nominal rental rates for multi-family housing went from \$806 per month in 2013 to \$855 per month in 2014.

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%. 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. UCCS surpassed all previous enrollment records with over 11,000 students enrolled in the fall of 2014.



COMMERCIAL REAL ESTATE & AIRPORT

Commercial Real Estate

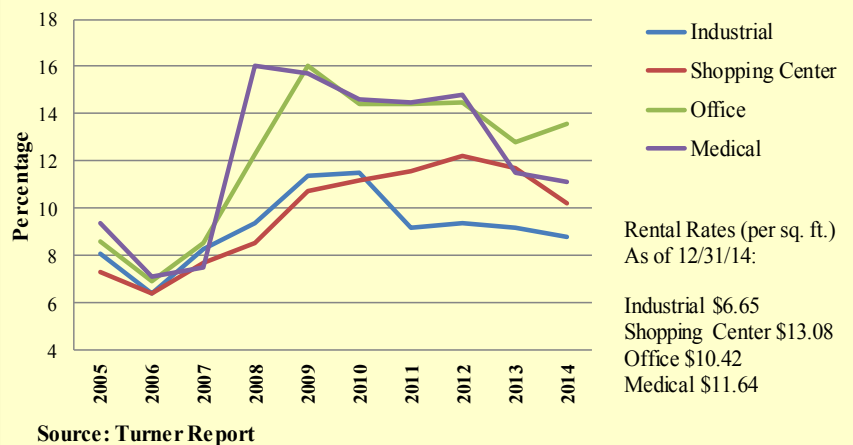
As the economy has continued to improve, commercial real estate vacancy rates have continued to fall. This is true for all categories except for office space. The office market has remained stagnant throughout the past year partially because of the over supply of office space in this region and partially because of the persistent unemployment. However, very recently there has been a welcomed increase in the demand for office space and vacancy rates will likely go down. Industrial space is being absorbed by the comeback of specialty trades, as well as the medical marijuana market.

Colorado Springs Airport Trends

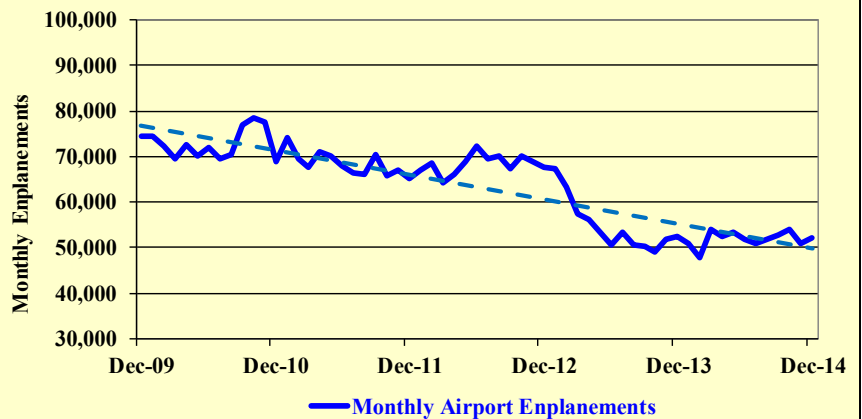
Enplanements at the Colorado Springs Airport continued their downward trend. Seasonally adjusted, enplanements were 52,190 in December 2014. This is 0.2% lower than December of last year (52,306 seasonally adjusted) but 23% lower than December 2012 (67,521 seasonally adjusted). This significant decline is the result of decreasing demand for local flights alongside the decision of airlines to reduce or cancel service to Colorado Springs. Enplanements are at their lowest monthly levels in the 16 years the Forum has monitored airport activity. This has created a negative feedback cycle that does not appear to have a solution in the near future. 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. 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 December 2014 were 50,833 or 1.5% lower than December 2013 (51,610) and 23% lower than December 2012 (66,314).

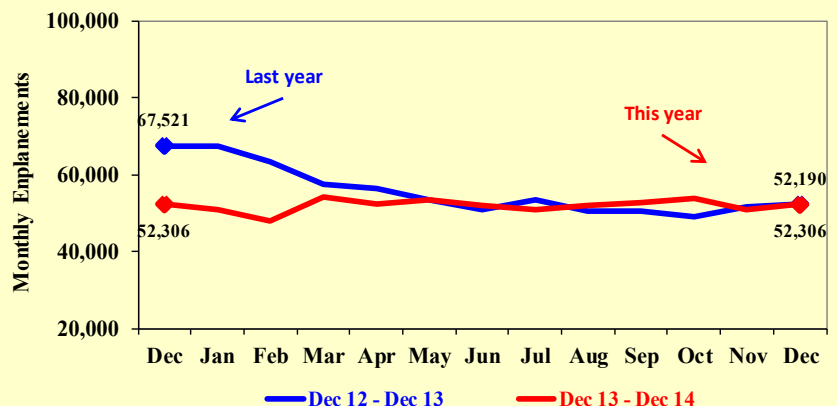
Colorado Springs Industrial, Shopping Center, Office and Medical Vacancy Rates



Enplanement Trends at Colorado Springs Airport (Seasonally Adjusted)



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



EMPLOYMENT

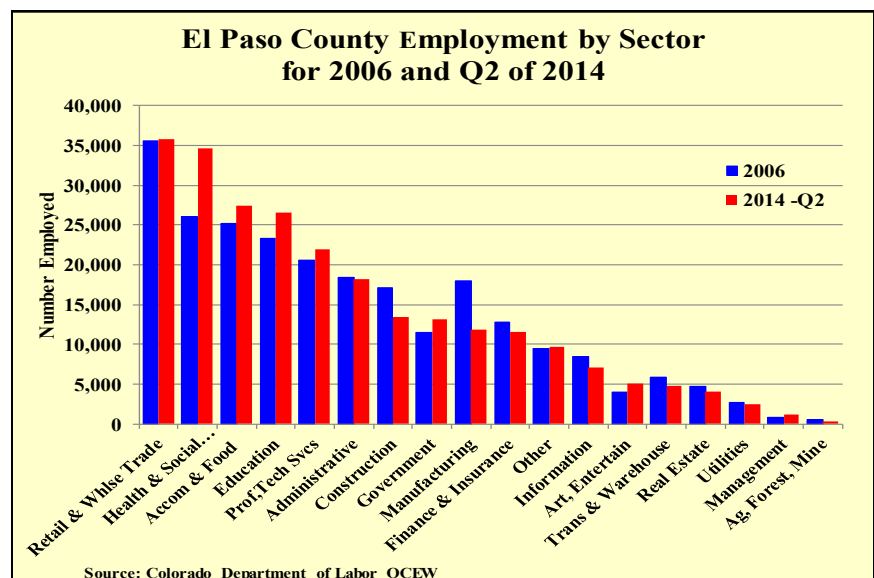
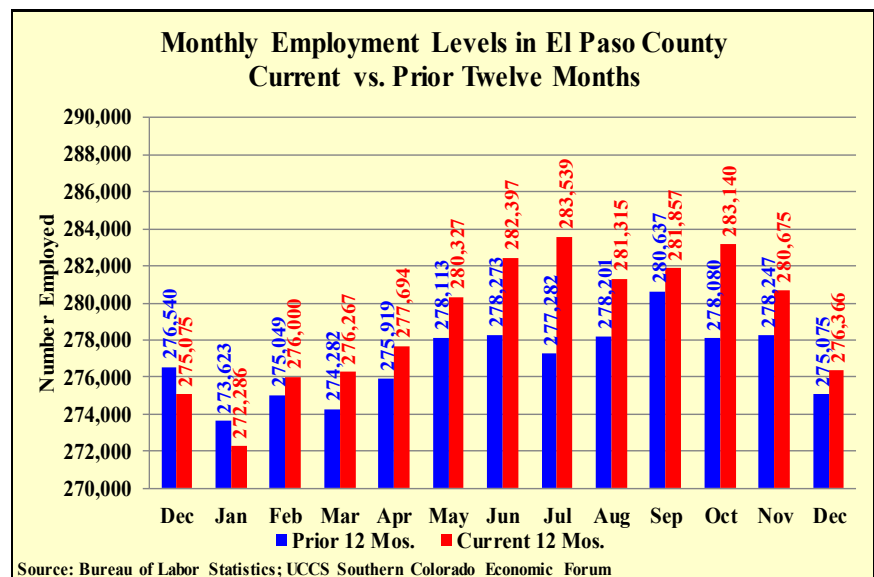
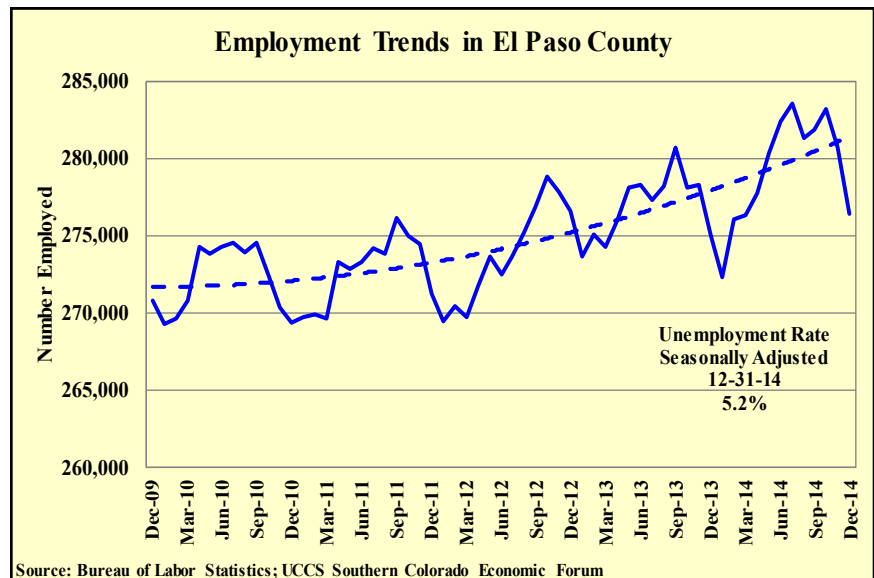
Employment Levels

The seasonally adjusted unemployment rate for December was 5.2%. It continues the downward trend taking place since the unemployment rate peaked at 10.6% in 2010. By comparison, the seasonally adjusted unemployment rate in Colorado was 4.0% in December, down from 9.1% in 2010.

The local labor force decreased by 5,199 (-1.8%) over the past year, which seems to be emblematic of the national trend. The Federal Reserve is now saying that the persistently low civilian participation rate appears to be not only cyclical (due to the discouraged workers during and after the recession), but also structural. The increasing number of baby boomers who are retiring seems to be pushing participation rates downward among other reasons such as the mismatch between existing skill sets and employer needs. Local employment increased slightly by 1,291 (0.5%) over the same month the previous year. Unemployment decreased by 6,490 workers (-30.4%) in comparing December, 2014 to 2013. While encouraging, the employment statistics for El Paso County continue to lag behind the 290,544 employed persons in September 2007. Employment levels are calculated by the Forum using the BLS unemployment rate and the civilian labor force values.

Employment by Sector

From 2006 to Q2, 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 declines have been seen in manufacturing and the finance/insurance sectors.



SALES TAX & CAR REGISTRATIONS

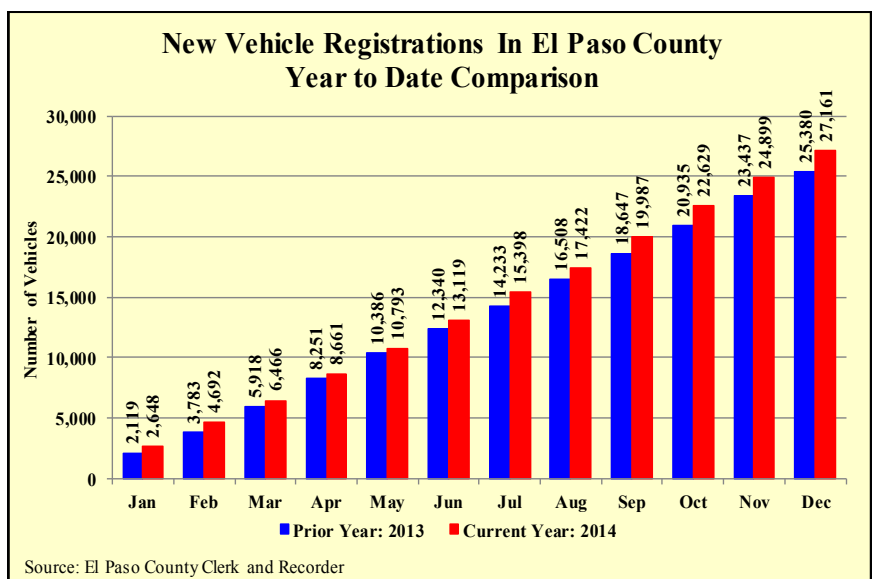
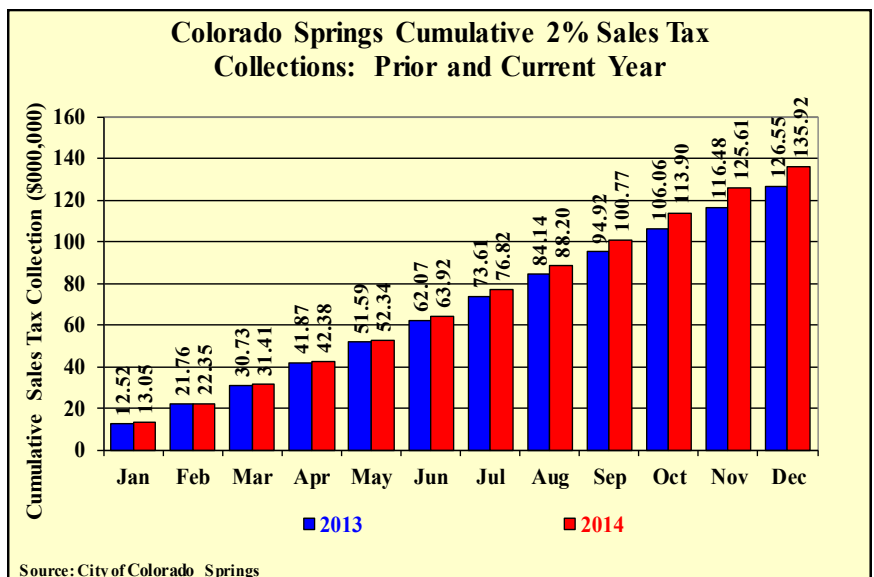
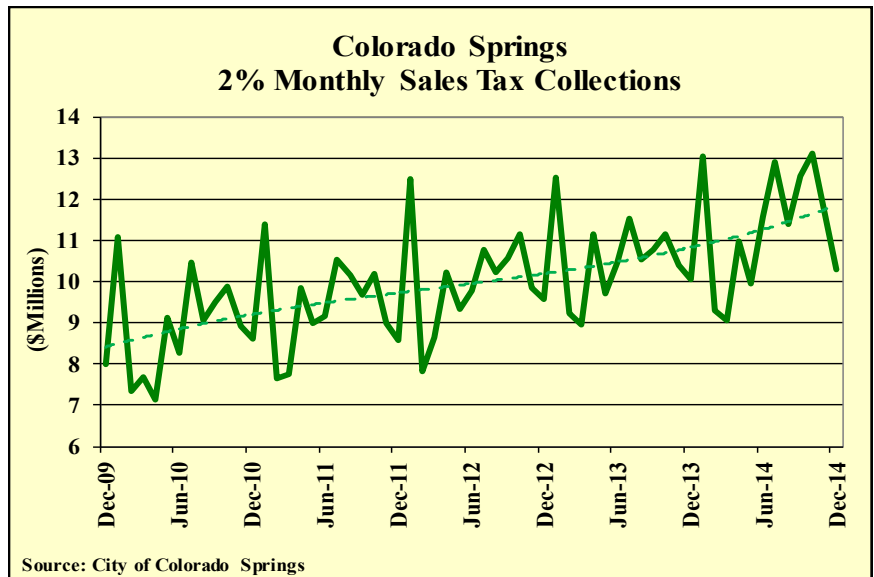
Colorado Springs Sales Taxes

As the national and local economy continues to improve, consumer sentiment also becomes more positive and this impacts consumption patterns. The 2% sales tax collections for December 2014 (reported in January 2015), were \$10,307,971. This represents a 2.4% increase over last year. The largest month to month increases within each category were in hotel/motel accommodations (15%), clothing stores (8%), auto dealers (4%), and restaurants (3%).

A year-to-date comparison indicates sales tax collections are 7.4% higher than in 2013. The largest percentage increases were in commercial machines (43%), grocery stores (12.5%), hotel/motel accommodations (11%), and building materials (7%).

New Car Registrations

New vehicle registrations for 2014 ran approximately 7.0% above 2013 registrations. This is again a reflection of the improved economy and higher consumer sentiment. Given that 2014 cumulative new vehicle registrations were consistently higher every month over the 2013 cumulative registrations, it is likely that this trend will continue. The average age of vehicles as of August 2013 in the U.S. as a whole was 11.4 years, which may indicate that there is still pent up demand as a remnant of the recession.





Selected Economic Indicators															
National Quarterly Data			2014 Q1			2014 Q2			2014 Q3			2014 Q4	Change vs. Yr Ago		
	Total Retail Sales NSA (\$ billions)			1147.3			1174.7			1185.8			1187.4	\$41.95	
	e-Sales NSA (\$ billions)			66.9			70.1			71.9			96.0	\$10.04	
	e-Sales as % of Retail Sales			5.8%			6.0%			6.1%			8.1%	0.62%	
	GDP Real % Annual Growth SA (from prior year's same quarter)			1.9%			2.6%			2.7%			2.5%	*	
GDP Real % Quarterly Growth SA (at annualized rate)			-2.1%			4.6%			5.0%			2.6%	*		
Household Debt Service Ratio			10.0%			9.9%			9.9%			na	-0.06%		
National Monthly Data	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Change vs. Yr Ago		
	Capacity Utilization SA	78.10	78.60	79.10	79.00	79.10	79.20	79.30	79.00	79.50	79.20	80.00	79.70	1.20	
	Car & Lt Trk Sales Millions SA	15.20	15.33	16.42	15.97	16.67	16.85	16.40	17.44	16.34	16.35	17.09	16.80	1.36	
	Cons Sent (1966=100) NSA	80.4	81.6	80.0	84.1	81.9	82.5	81.8	82.5	84.6	86.9	88.8	93.6	11.1	
	CPI-U 1982-84=100 SA	234.93	235.17	235.64	236.25	237.08	237.69	237.91	237.43	237.63	237.64	237.03	236.15	1.56	
	Federal Funds Rate (Effective)	0.07%	0.07%	0.08%	0.09%	0.09%	0.10%	0.09%	0.09%	0.09%	0.09%	0.09%	0.12%	0.03%	
	Gasoline Price per Gal. of Regular	3.31	3.36	3.53	3.66	3.67	3.69	3.61	3.49	3.41	3.17	2.91	2.54	-\$0.73	
	Ind Production (1997=100) SA	101.31	102.26	103.11	103.19	103.68	104.11	104.47	104.35	105.29	105.26	106.63	106.51	4.95	
	Inventory/Sales Ratio SA	1.31	1.30	1.29	1.29	1.29	1.29	1.29	1.30	1.30	1.31	1.31	1.33	0.03	
	Mtg Rate, 30 Yr Conventional NSA	4.43	4.30	4.34	4.34	4.19	4.16	4.13	4.12	4.16	4.04	4.00	3.86	-0.60	
	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	51.80	54.30	54.40	55.30	55.60	55.70	56.40	58.10	56.10	57.90	57.60	55.10	-1.40	
	Real Rtl/Food Svc Sales SA (\$ billions)	423.94	427.55	434.02	436.73	438.61	440.33	441.51	444.15	443.82	445.28	447.12	442.93	\$13.60	
	S&P 500 (average)	1822.4	1817.0	1863.5	1864.3	1889.8	1947.1	1973.1	1961.5	1993.2	1937.3	2044.6	2054.3	246.5	
	Tech Index SA - Mar 2001 = 100	106.9	105.6	110.1	109.8	108.0	111.2	109.2	111.5	110.1	110.0	109.9	109.0	3.2	
	Trade Weighted Dollar Index	77.1	77.0	76.6	76.4	76.2	76.5	76.3	77.6	79.6	80.8	82.8	84.2	8.0	
	Crude Oil Price NSA (\$ per barrel)	94.62	100.82	100.80	102.07	102.18	105.79	103.59	96.54	93.21	84.40	75.79	59.29	-\$38.34	
	CPI & Employment Data	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Change vs. Yr Ago	
		Denver-Boulder CPI SA (est)	232.99	233.54	234.09	234.64	235.19	235.74	236.52	237.31	238.09	238.88	239.66	240.45	8.01
		Colorado Labor Force SA (000's)	2,755	2,773	2,793	2,802	2,805	2,803	2,807	2,803	2,803	2,805	2,807	2,809	60.2
		Colorado Employment SA (000's)	2,587	2,604	2,620	2,634	2,642	2,649	2,658	2,660	2,671	2,684	2,692	2697	118.3
		Colorado Unemployment Rate SA	6.1%	6.1%	6.2%	6.0%	5.8%	5.5%	5.3%	5.1%	4.7%	4.3%	4.1%	4.0%	-2.2%
El Paso County Unemployment Rate NSA		8.1%	8.1%	8.1%	7.0%	6.7%	6.7%	6.7%	6.0%	5.1%	4.7%	5.1%	5.1%	-2.1%	
El Paso County Unemployment Rate SA		7.6%	7.7%	7.8%	7.3%	6.8%	6.3%	6.5%	6.1%	5.3%	5.0%	5.3%	5.2%	-2.0%	

“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.

The *QUE* is available free via an electronic subscription. If you would like a subscription, send an e-mail to tbailey6@uccs.edu and have the word SUBSCRIBE as the subject.

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Quarterly Updates and Estimates is a publication of the
Southern Colorado Economic Forum
University of Colorado at Colorado Springs
College of Business and Administration
1420 Austin Bluffs Parkway
Colorado Springs, CO 80918

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Classic Companies
Colorado Business Bank
Colorado Springs Regional Business Alliance
Financial Planning Association of Southern Colorado
GH Phipps Construction Companies
Hoff & Leigh
Integrity Bank and Trust
Kirkpatrick Bank
Legacy Bank
Northstar Bank Colorado
Peoples Bank
Pikes Peak Association of REALTORS
PSAV Presentation Services
TMR Direct
Transit Mix Concrete Company
University of Colorado Executive Programs
US Bank
Vectra Bank