

Quarterly Updates and Estimates

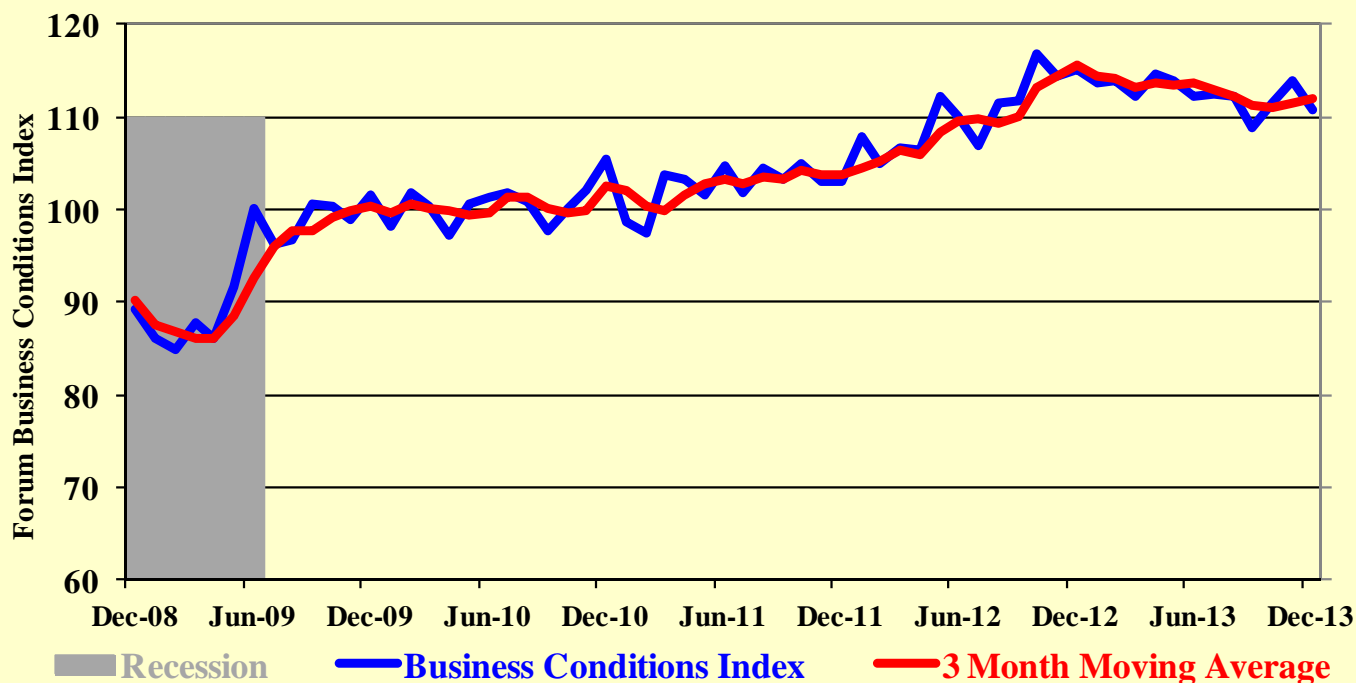
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Update on the El Paso County Economy

Uncertainties about the Federal Reserve's Quantitative Easing policy, possible increases in mortgage rates, the Affordable Care Act and the government shut down appear to have had an unsettling ripple effect on the local economy. Growth in the local economy turned negative over the last five months. The Business Conditions Index (BCI) declined 4.52 points since December 2012 with 3.20 of the points declining in December 2013. The largest declines are in enplanements (down 28.9%), regional manufacturing (down 8.2%), new car registrations (down 14.3%) and real wages (down 6.8%) vs. a year ago.

Business Conditions Index El Paso County (Dec 2007-June 2009 = 100)



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-</u> <u>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-12	84.16	188.45	121.95	126.83	97.37	114.40	115.69	100.99	97.01	97.24	111.66
Oct-12	87.08	208.39	128.65	121.29	97.32	115.04	149.19	100.90	97.42	102.08	116.85
Nov-12	85.54	193.95	128.81	116.61	97.54	113.73	139.03	101.25	97.31	102.24	114.49
Dec-12	85.22	199.77	113.54	123.56	97.54	115.35	152.81	101.37	97.64	101.76	115.25
Jan-13	84.36	214.86	114.94	120.77	98.07	113.38	133.92	101.22	97.92	96.74	113.64
Feb-13	78.97	233.09	120.86	108.52	97.99	119.34	136.27	101.38	98.21	97.03	114.03
Mar-13	70.31	186.69	122.42	111.83	98.06	117.67	156.81	101.50	97.82	97.55	112.16
Apr-13	69.25	222.69	118.99	115.23	98.01	125.00	160.50	101.46	97.44	95.37	114.64
May-13	67.85	211.45	131.61	117.93	98.27	115.94	151.29	101.51	98.40	96.21	113.94
Jun-13	74.25	202.97	130.99	113.85	97.71	121.33	123.38	101.56	98.12	96.64	112.21
Jul-13	65.73	207.90	132.54	129.82	98.20	114.39	128.29	101.61	97.60	96.13	112.44
Aug-13	62.94	193.33	127.87	135.04	98.28	114.18	140.02	101.77	97.93	96.50	112.25
Sep-13	63.71	153.69	120.71	124.37	98.15	117.06	145.39	101.77	98.24	96.08	108.96
Oct-13	61.52	195.65	114.01	135.37	98.56	117.39	147.32	101.92	97.55	95.23	111.61
Nov-13	60.44	183.28	116.97	134.08	98.80	119.01	189.47	101.99	97.96	95.32	113.93
Dec-13	60.63	212.39	128.49	113.40	99.17	120.74	131.03	101.89	97.48	94.82	110.73
December 2013 Compared to:											
Nov-13	0.3%	15.9%	9.9%	-15.4%	0.4%	1.5%	-30.8%	-0.1%	-0.5%	-0.5%	-2.8%
Sep-13	-4.8%	38.2%	6.5%	-8.8%	1.0%	3.1%	-9.9%	0.1%	-0.8%	-1.3%	1.6%
Jun-13	-18.4%	4.6%	-1.9%	-0.4%	1.5%	-0.5%	6.2%	0.3%	-0.7%	-1.9%	-1.3%
Dec-12	-28.9%	6.3%	13.2%	-8.2%	1.7%	4.7%	-14.3%	0.5%	-0.2%	-6.8%	-3.9%

Real wages in El Paso County were estimated by the Forum for Nov '13 - Dec '13. Enplanements for Nov and Dec were estimated by the Forum.

Uncertainty surrounding QE3 should be settled by now. Former Fed Chair Bernanke started tapering by reducing treasury and mortgage purchases by \$10 billion a month. Current Fed Chair Yellen announced the Fed will plan a total of \$55 billion in purchases of treasuries and mortgages, a reduction of \$30 billion a month. Future Fed policy seems to be contingent on target thresholds of unemployment (6.5%) and inflation (2.5%). Unemployment is likely to be below 6.5 percent by the next two quarters. Inflation seems to be at or below target. The Fed is fairly well convinced that it can taper its easy money policy without causing harm to the economy. While this is actually a good signal for the national economy, it is not as positive for the local economy. We are not having success growing the economy. If not for gains in housing, consumer sentiment and sales tax collections, you would have a hard time arguing that a recovery is under way in the region.

Single and Multi-family Housing in El Paso County

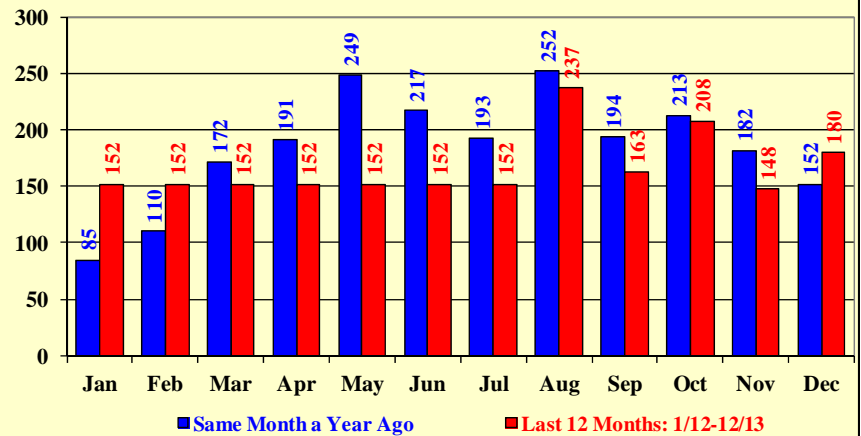
While at a strong level, detached, single family permit activity slowed noticeably after February 2013. This should not be a surprise. The initial wave of pent up demand was over and mortgage rates began to increase. Despite the slowing pace, 2013 proved to be a strong year, up approximately 21.4 percent (475 units). The year 2014 is expected to have a more modest gain of about 10 percent.

The figure to the right illustrates the trend in detached housing permits for the last five years. Part of the spike in 2013 was the rebuilding of fire damaged homes in Mountain Shadows. Most of that is finished.

Rebuilding in Black Forest after its fire in 2013 is not expected to have the same effect.. The fire destroyed the many trees in Black Forest, part of the area's Zen. Rebuilding will be a cultural challenge in addition to a financial/insurance challenge.

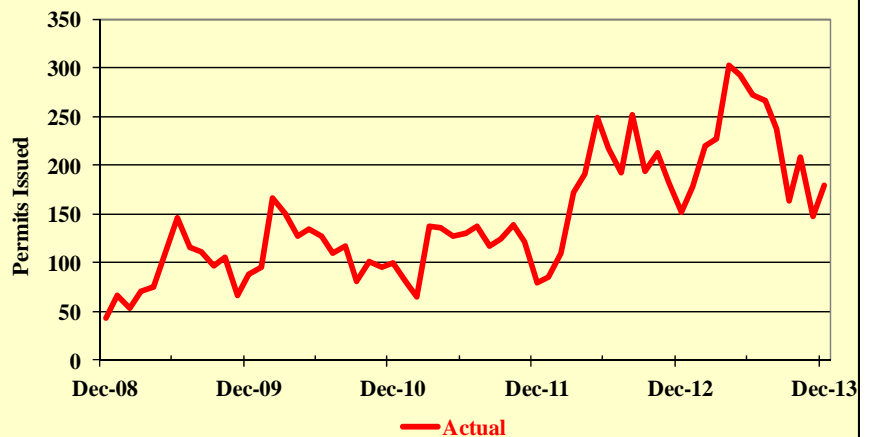
As anticipated, multi-family housing topped 600 units for the third consecutive year. This was driven by low vacancies, rising rents and a possible shortage of new multi-family housing. The trend is expected to continue in 2014, but at a slower pace.

Single Family-Detached
Building Permits in El Paso County



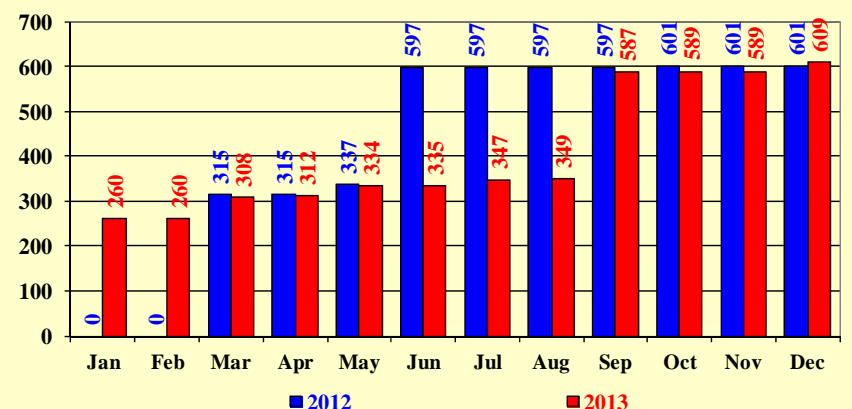
Source: Pikes Peak Rgl Bldg Dept, and UCCS Southern Colorado Economic Forum

Detached Single Family Permit Trends
in El Paso County



Source: Pikes Peak Regional Bldg Dept, and UCCS Southern Colorado Economic Forum

Multi-Family Housing Units
in El Paso County - Year to Date Comparison



Source: Pikes Peak Rgl Bldg Dept, and UCCS Southern Colorado Economic Forum

MLS Activity

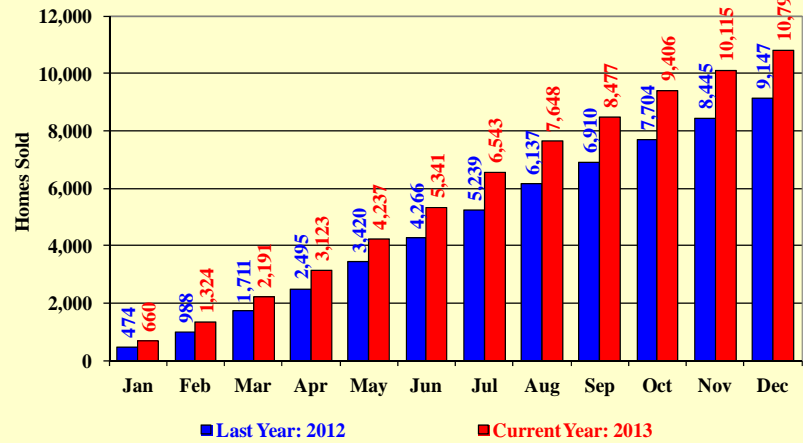
The trend in home sales continues to improve. Through December, there were 1,648 (18.2%) more homes sold than in 2012. While not a record pace, this is a significant departure from the weak sales trends over the last five years. Rising mortgage rates, low job growth and declining real income in El Paso County suggest it will be a challenge for home sales in 2014 to grow more than 5-10 percent.

The supply of homes available for sale in 2013 grew by 3.3 percent over 2012. Sales increased 18.3 percent. This suggests demand exceeded supply. The net effect was average prices increased by 7.1 percent in 2013.

Foreclosures

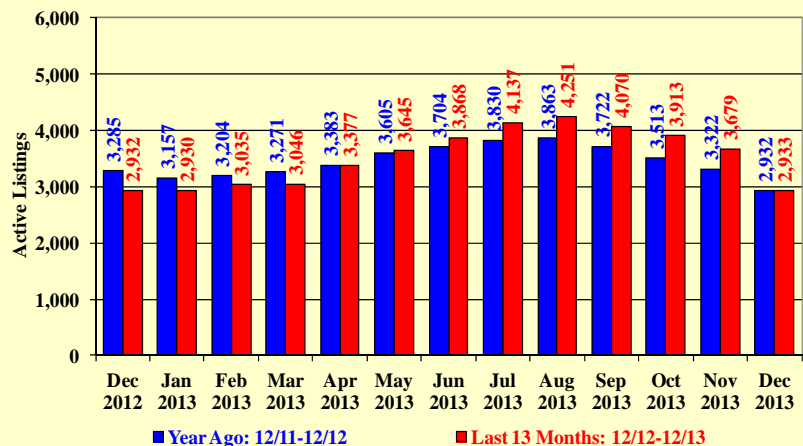
There were 1,861 foreclosure proceedings in 2013. This is well below the Forum's projected range of 2,000-2,400. The historical inverse relation between foreclosures and detached single family building permits continued throughout 2013. Additional declines in foreclosures are expected in 2014, perhaps to 1,500.

Year to Date Sales
(Pikes Peak Region)



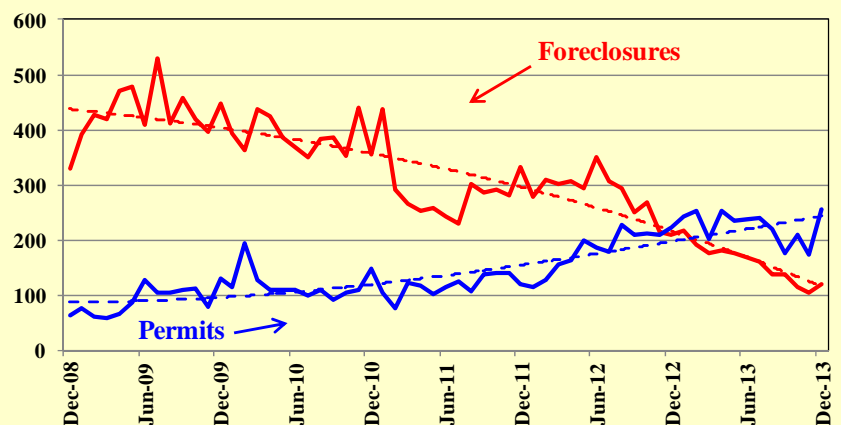
Source: Pikes Peak REALTOR Services Corp. and UCCS Southern Colorado Economic Forum

Active Listings of Homes
(Pikes Peak Region)



Source: Pikes Peak REALTOR Services Corp. and UCCS Southern Colorado Economic Forum

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



Source: El Paso County Trustee, PPRBD and UCCS Forum

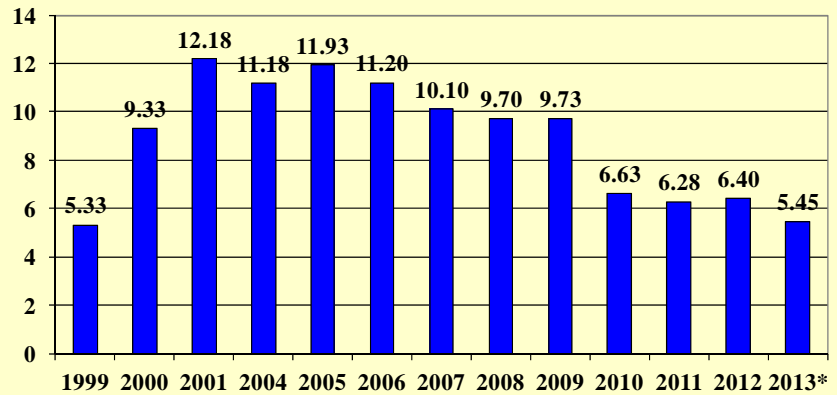
Multi-family Market

The market for multi-family housing remains tight. The third quarter vacancy report from the Colorado Division of Housing states that multi-family vacancy is 5.4 percent. This points to a shortage of available rental units. The increase in demand contributed to an increase in rents from \$787 a year ago to \$830 in the third quarter. Completion of recent and planned multi-family permit activity will alleviate some of the pressure on this market. However, it is not expected to offset the increase of troops at Fort Carson who will be at the base rather than being deployed in the middle east. The market for multi-family housing is expected to remain tight through 2013 and into 2014.

A large unknown about multi-family housing in 2013 is the effect federal budget cuts will have on the number of active military stationed at the region's bases. The Department of Defense examined a scenario in which troop levels at Fort Carson might be reduced by 8,000. Some cuts can be expected. If cuts do occur, they may take place over several years. Sequestration and BRAC 2016/17 are great unknowns at this time.

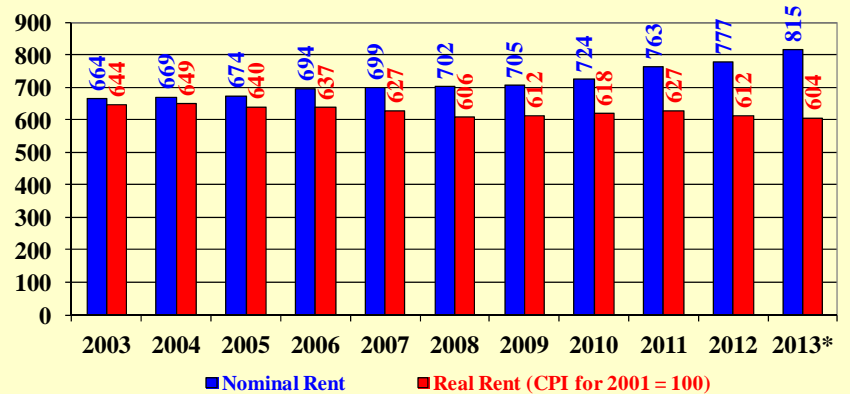
Alternatively, Fort Carson might see an increase of 3,000 troops as part of the sequestration process. This scenario was also considered by the Department of Defense. If this happens, the market for multi-family housing would be expected to tighten over the next nine months. Another factor that merits attention is the growth in student enrollments at UCCS. Enrollments in the fall 2013 semester were over 10,800 students. This affected apartment demand around the campus.

Multi-Family Annual Vacancy Rates in El Paso County



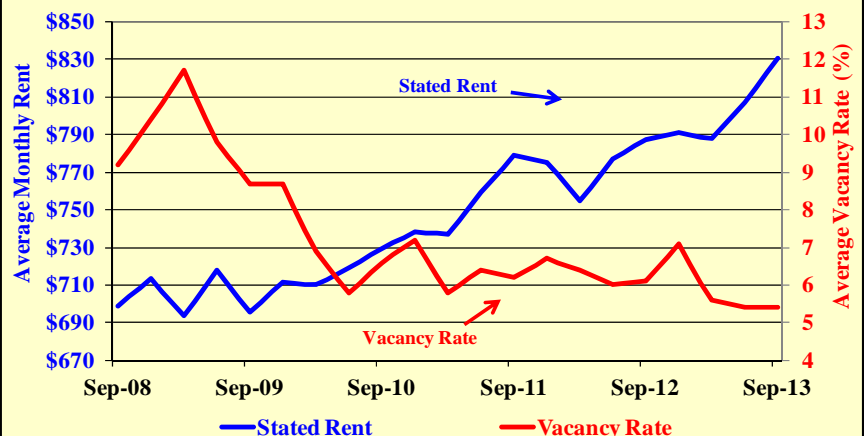
Source: Colorado Division of Housing
*Estimate by UCCS Forum

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



Source: Colorado Division of Housing
*Estimated by the Forum

Monthly Apartment Rents and Vacancy Rates in El Paso County

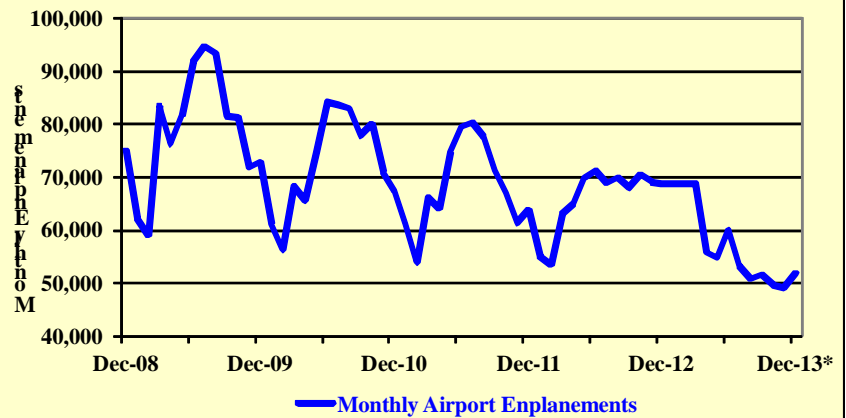


Source: Colorado Division of Housing, UCCS Forum estimated for latest quarter

Colorado Springs Airport Trends

Enplanements at the Colorado Springs Airport continued their downward trend. Enplanements declined by 161,479 (20.9%) in 2013. Frontier announced in January 2013 that it would cancel all but its Phoenix and Los Angeles routes. It has since terminated all service at the airport. Allegiant Airlines just announced it will provide two flights a week from Colorado Springs to Phoenix beginning May 15, 2014. While not enough to reverse the enplanement trend, it is a start at stabilizing passenger activity at the airport.

Enplanement Trends at Colorado Springs Airport (Seasonally Adjusted)



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

Colorado Springs Sales Taxes

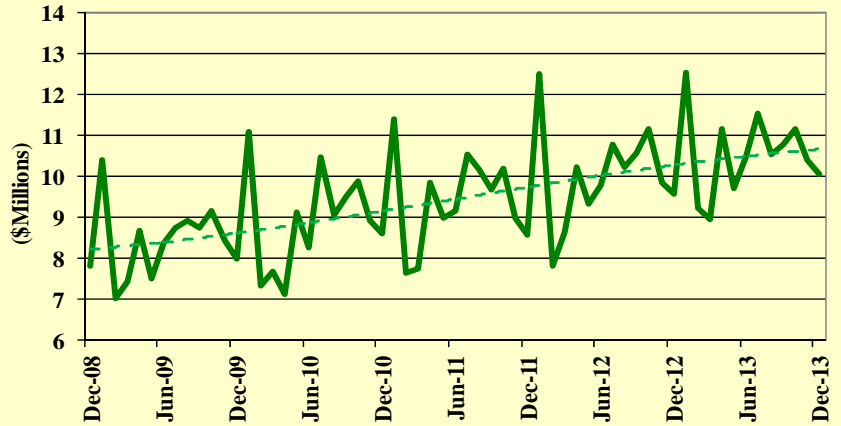
Despite the increase in payroll taxes that took effect in January 2013, consumers found ways to spend more of their money. The latest collection figures point to a general increase in sales tax collections across most categories that are reported by Colorado Springs. The largest percentage increases were in hotels, building materials—furniture, appliance and electronics, utilities and medical marijuana.

A year-to-date comparison indicates sales tax collections are 5 percent higher than in 2012. The caveat to this indicator is a large increase in sales tax collections came refurbishing and rebuilding homes that were damaged or destroyed in the recent fires in the area. These are not sustainable contributors to growth in sales tax collections. The Forum estimates there was about \$1,000,000 additional sales and use tax collections for the general fund from rebuilding and refurbishing homes in post wildfire Mountain Shadows during 2013. Without this, sales tax collections would have been closer to 4 percent in stead of 5 percent higher in 2013.

New Car Registration Trends

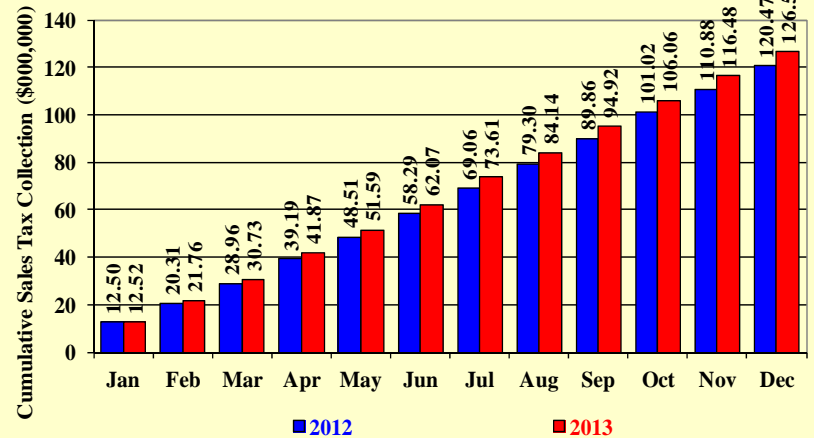
New vehicle registrations increased 15.4 percent in 2013. This mirrors the strong growth in consumer sentiment over the last year. Given an 11.4 years average age of vehicles on the road, purchases of new cars are expected to continue at a brisk pace for the next 12-18 months.

Colorado Springs
2% Monthly Sales Tax Collections



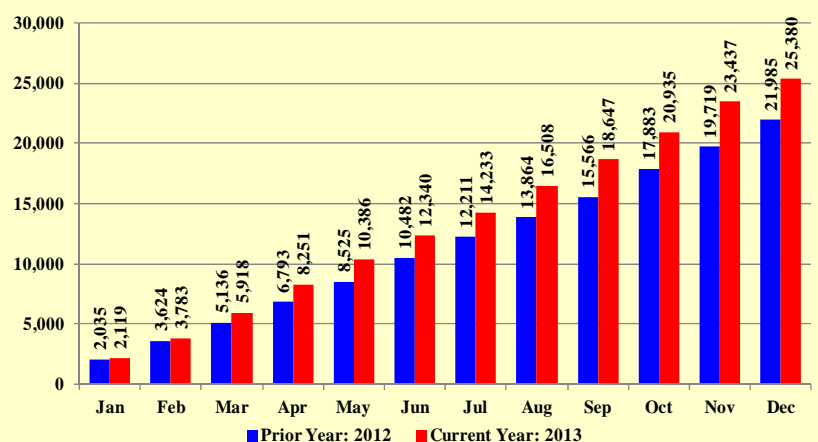
Source: City of Colorado Springs and UCCS Southern Colorado Economic Forum

Colorado Springs Cumulative Sales Tax Collections:
Prior and Current Year



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

New Vehicle Registrations In El Paso County
Year to Date Comparison

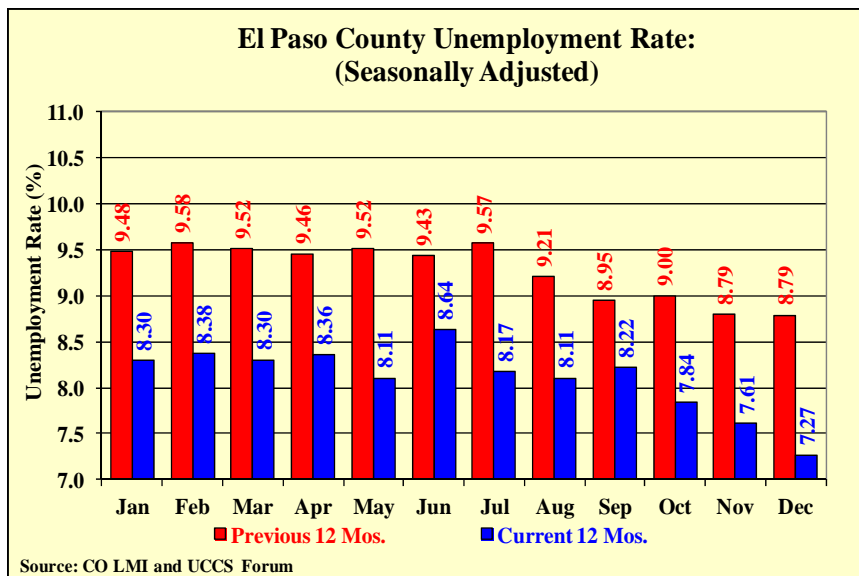


Source: El Paso County Clerk and Recorder and UCCS Southern Colorado Forum

Employment Trends and Wages

The seasonally adjusted unemployment rate for December was 7.27 percent. It continues the downward trend taking place since the unemployment rate peaked at 9.8 percent average in 2010. By comparison, the seasonally adjusted unemployment rate in Colorado was 6.2 percent in December, down from 9.0 percent in 2010.

The employment picture is less encouraging. Employment in El Paso County peaked at 290,544 in September 2007. The December employment level is 274,146, or 16,398 below the level in 2007.



Personal Thoughts about our Employment Base

Since 2000, population in El Paso County increased by 135,126 (26%). To have kept up with population growth, employment should have increased to 324,546. Actual employment for 2013 averaged 276,714. This means employment levels in the county fell short by 47,822 people.

There is the argument that the above projection fails to consider retiring baby boomers. A different perspective limits workforce designation to adults age 25 to 64. Based on this demographic, there were 276,987 people age 25 to 64 in the county in 2000. During 2000, there was an average of 257,576 people employed. This is a ratio of 92.99 percent. If this is applied to the 340,124 people in El Paso County in 2013 who are age 25 to 64, the county's employment level fell short by 40,524 people.

Why are we failing to generate 40,524 to 47,822 more jobs? The solution appears to be obvious. Our economic base has shifted to a lower employment multiplier base of firms. For example, we lost approximately 13,000 manufacturing jobs in the county since 2000. The jobs ranged from high tech to low tech. Most had employment multipliers in the 7 to 2.5 range. A low average employment multiplier of 3 suggests the loss of 13,000 lost manufacturing jobs contributed to the loss of 26,000 more jobs or a total of 39,000 jobs. By itself, the collapse of manufacturing explains almost all of the job loss, actual and potential, in the county since 2000.

It may not be possible to resurrect manufacturing employment to the levels we saw in 2000. However, it is possible to develop job growth that will raise the local employment multiplier. These jobs tend to pay above average wages and provide above average benefits. Why not look at the local economic base as a group of diversified stocks? The group of firms can be combined to promote job growth that is less sensitive to recessions while providing good wages and disposable incomes that generates tax revenues to support the fiscal needs of local governments. Any policy resulting from this effort would take at least five to ten years to realize significant benefits. My research on the topic indicates preferred business sectors for a region tend to be consistent for decades. Sectors that are good for us now are very likely to be good for us over the next twenty years. This seems to be true for new or established industries. Isn't it time we at least think about this approach?



Selected Economic Indicators													
National Quarterly Data			2013 Q1			2013 Q2			2013 Q3			2013 Q4	Change vs. Yr Ago
Ttl Loans/Lease Charge-off Rate %			0.87			0.74			0.61			0.52	-0.39
Loan Delinquency Rate %			4.41			4.14			3.78			3.52	-1.13
Benefit Costs SA 2005=100			119.1			119.6			120.3			120.9	2.30
Compensation Costs SA 2005=100			117.8			118.5			119.0			119.6	2.30
Total Retail Sales NSA (billions)			1118.3			1126.5			1141.1			1147.7	-8.75
e-Sales NSA (billions)			58.1			60.2			61.5			83.6	11.50
e-Sales as % of Retail Sales			5.2%			5.3%			5.4%			7.3%	0.010
GDP Real % Growth SA			1.1%			2.5%			4.1%			2.4%	0.023
Household Debt Service Ratio			10.1%			10.0%			9.9%			9.9%	0.04
National Monthly Data	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Change vs. Yr Ago
Capacity Utilization SA	77.70	78.10	78.20	77.90	77.90	77.90	77.70	78.00	78.40	78.40	78.80	78.90	1.10
Car & Lt Trk Sales Millions SA	15.18	15.30	15.27	15.16	15.42	15.83	15.74	16.03	15.21	15.15	16.31	15.31	0.12
Cons Sent (1966=100) SA	73.8	77.6	78.6	76.4	84.5	84.1	85.1	82.1	77.5	73.2	75.1	82.5	9.6
CPI-U 1982-84=100 SA	231.32	232.60	232.08	231.71	232.12	232.86	233.25	233.43	233.74	233.78	234.03	234.59	1.5%
Federal Funds Rate (Effective)	0.14%	0.15%	0.14%	0.15%	0.11%	0.09%	0.09%	0.08%	0.08%	0.09%	0.08%	0.09%	-0.07%
Gasoline Price per Gal. of Regular	3.32	3.67	3.71	3.57	3.62	3.63	3.59	3.57	3.53	3.34	3.24	3.28	-\$0.03
Ind Production (1997=100) SA	98.17	98.83	99.08	98.80	98.96	99.17	99.02	99.56	100.20	100.37	101.03	101.36	3.21
Inventory/Sales Ratio SA	1.30	1.29	1.30	1.30	1.29	1.29	1.29	1.29	1.29	1.29	1.29	1.30	0.01
Mtg Rate, 30 Yr Conventional NSA	3.41	3.53	3.57	3.45	3.54	4.07	4.37	4.46	4.49	4.19	4.26	4.46	1.11
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	53.10	54.20	51.30	50.70	49.00	50.90	55.40	55.70	56.20	56.40	57.30	56.50	6.30
Real Rtl/Food Svc Sales SA (billions)	417.11	419.51	418.23	418.97	421.02	423.84	425.47	426.36	426.80	429.00	430.10	429.59	15.03
S&P500	1462.4	1513.2	1518.2	1562.2	1582.7	1630.7	1615.0	1706.9	1633.0	1695.0	1761.6	1805.8	389.6
Tech Index SA - Mar 2001 = 100	105.5	105.4	105.61	108.35	109.97	109.51	106.57	105.96	108.34	109.14	108.88	105.51	-1.6
Trade Weighted Dollar	73.7	74.7	76.3	76.4	77.1	76.4	77.4	76.5	76.2	75.2	76.2	76.4	3.3
West Texas Oil Spot Price NSA	94.8	95.3	92.9	92.0	94.5	95.8	104.7	106.6	106.3	100.5	93.9	97.6	9.8
Colorado Data	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Change vs. Yr Ago
Denver-Boulder CPI SA (est)	233.81	233.81	233.81	233.81	233.81	233.81	233.81	233.81	233.81	233.81	233.81	233.81	0.00%
Kansas City Fed Mfg Index (NSA)	121.6	110.7	113.0	118.2	121.2	110.3	128.4	133.3	124.2	132.5	131.4	114.1	-9.8
Labor Force NSA (000's)	2,741	2,753	2,740	2,746	2,763	2,799	2,786	2,781	2,771	2,748	2,745	2,727	-14.7
Labor Force SA (000's)	2,754	2,762	2,763	2,767	2,775	2,777	2,771	2,765	2,761	2,747	2,742	2,736	-11.4
Employment NSA (000's)	2,533	2,544	2,540	2,559	2,575	2,586	2,594	2,595	2,591	2,577	2,577	2,566	30.0
Employment SA (000's)	2,552	2,563	2,567	2,576	2,583	2,583	2,574	2,572	2,570	2,561	2,563	2,566	25.0
Unemployment Rate NSA	7.6%	7.6%	7.3%	6.8%	6.8%	7.6%	6.9%	6.7%	6.5%	6.2%	6.1%	5.9%	-1.6%
Unemployment Rate SA	7.3%	7.2%	7.1%	6.9%	6.9%	7.0%	7.1%	7.0%	6.9%	6.8%	6.5%	6.2%	-1.3%
Colorado Springs Data	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Change vs. Yr Ago
Business Conditions Index SA	113.64	114.03	112.16	114.64	113.94	112.21	112.44	112.25	108.96	111.61	113.93	110.73	-4.5
Co Spgs Airport Boardings SA	68,109	63,759	56,762	55,908	54,777	59,948	53,066	50,813	51,436	49,672	48,793	48,947	-17,367
Foreclosures SA	214	180	155	173	165	162	166	154	138	128	100	126	-94
New Car Registrations SA	1,958	1,993	2,293	2,347	2,212	1,804	1,876	2,048	2,126	2,154	2,771	1,916	-319
Sales & Use Tax (\$million) SA	10.881	11.452	11.292	11.996	11.126	11.644	10.978	10.958	11.234	11.265	11.421	11.587	0.517
Single Family & TH Permits SA	253	275	220	262	249	239	245	228	181	231	216	250	15
Labor Force NSA (000's)	300.4	301.8	299.6	299.6	303.1	306.6	302.2	301.8	303.9	300.2	299.6	295.4	-5.15
Employment NSA (000's)	274.0	275.5	273.8	275.4	279.2	278.7	276.8	277.7	280.2	277.7	277.7	274.1	-0.27
Unemployment Rate NSA	8.8%	8.7%	8.6%	8.1%	7.9%	9.1%	8.4%	8.0%	7.8%	7.5%	7.3%	7.2%	-1.5%
Unemployment Rate SA	8.3%	8.4%	8.3%	8.4%	8.1%	8.6%	8.2%	8.1%	8.2%	7.8%	7.6%	7.3%	-1.5%



About the Forum

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

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