

# Quarterly Economic Update

2nd Quarter, 2016 Data

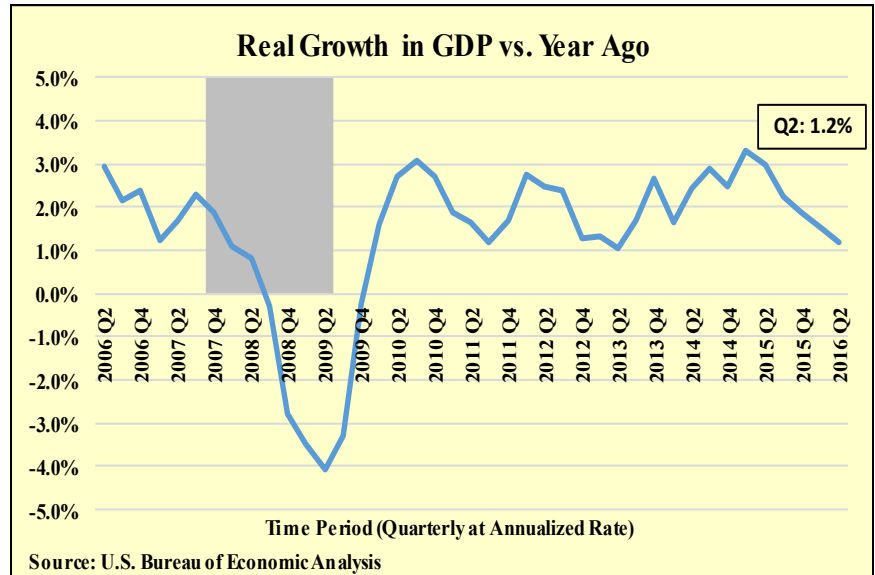
Posted August 2016

Tatiana Bailey - Director

## THE BIG PICTURE

### U.S. Quarterly GDP

GDP, or gross domestic product, for the second quarter of 2016 compared to Q2 from a year ago is up 1.2%, based on the “advanced” estimate released by the Bureau of Economic Analysis, which is subject to further revisions in September. This Q2, 2016 metric reflects growth in all finished goods and services over the past year (since Q2 of 2015). The box under the graph shows the components of GDP. The same metric for Q1 reflected a 1.57% increase in real GDP compared to the year prior. The growth in Q2 of this year is mostly due to increases in personal consumption expenditures as well as exports. Negative impacts on GDP emanated from private inventory investment, residential fixed investment, state and local government spending, nonresidential fixed investment and imports.



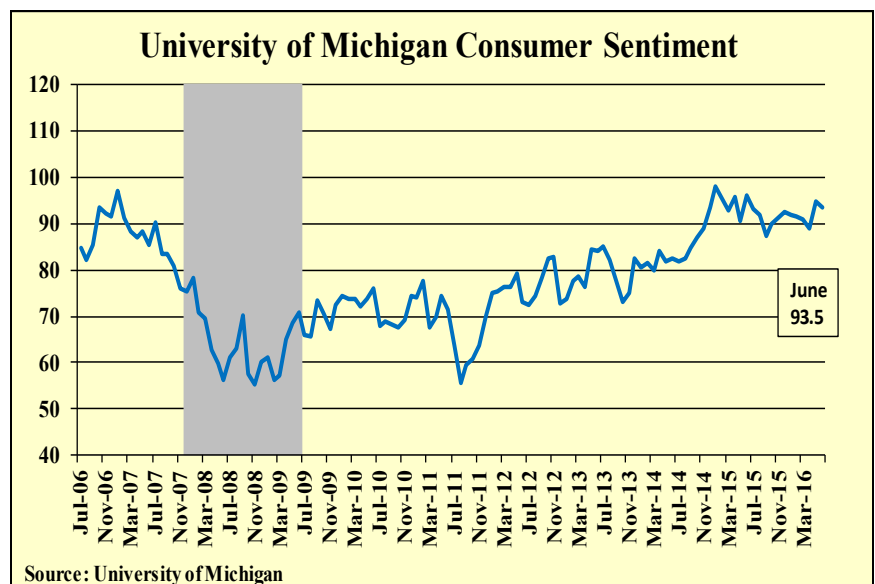
GDP: The monetary value of all of the finished goods and services produced within a country's border in a specific time period. Figures are seasonally adjusted and annualized.

$$\text{GDP} = \text{C} + \text{G} + \text{I} + \text{NX}$$

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 continues to fuel the national economy ending in June at 93.5. As the graph to the right shows, consumer sentiment has been hovering in the 90's range since the beginning of 2014. The University of Michigan (UM) has been tracking this data for decades with a large sample size, and it states that it has been 10 years since consumers viewed their own personal finances this favorably. Consumers voiced the most positive assessment of their finances since late 2000 due to optimistic expectations for income increases with very little concern for inflation. UM is expecting real consumer spending to rise by 2.5% in 2016 and 2.7% in 2017; all very good news for U.S. businesses that have U.S. residents as their primary market base. Consumers →



stated they have positive attitudes towards the purchase of large household durables and less positive attitudes about purchasing vehicles and homes. Higher income and middle-aged cohorts are the primary groups forecasted to still purchase vehicles.

## THE BIG PICTURE (cont.)

### Per Capita GMP

GMP is conceptually the same as GDP but for a (smaller) defined geographic region. The percentages in the boxes represent the incremental change in GMP from 2013 to 2014 (available data lags). The greatest level of increase happened in Boulder (3.5%) and the lowest was Huntsville (0.3%); Colorado Springs had a 1.3% increase, the same as the U.S. growth rate. Real GMP per capita could be higher for our region, but it is important to remember, that our younger median age will artificially pull down this metric.

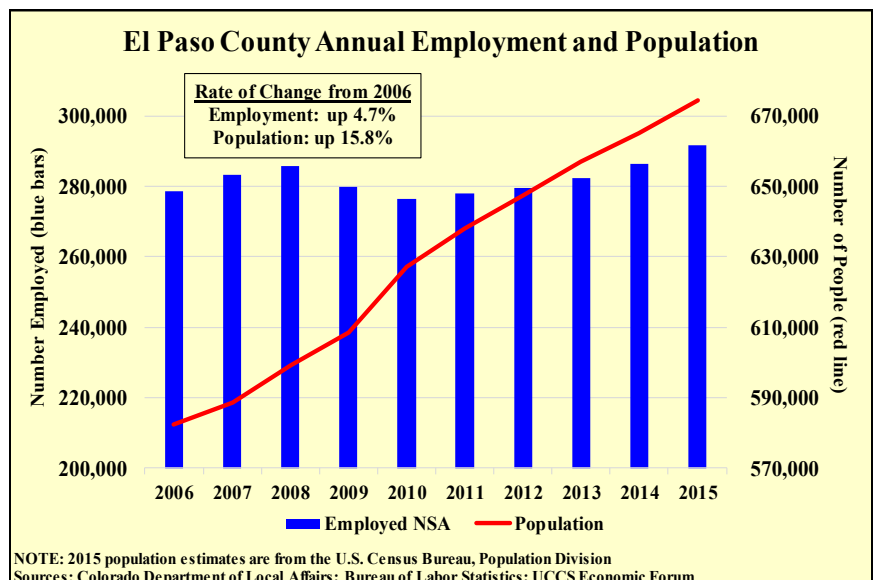
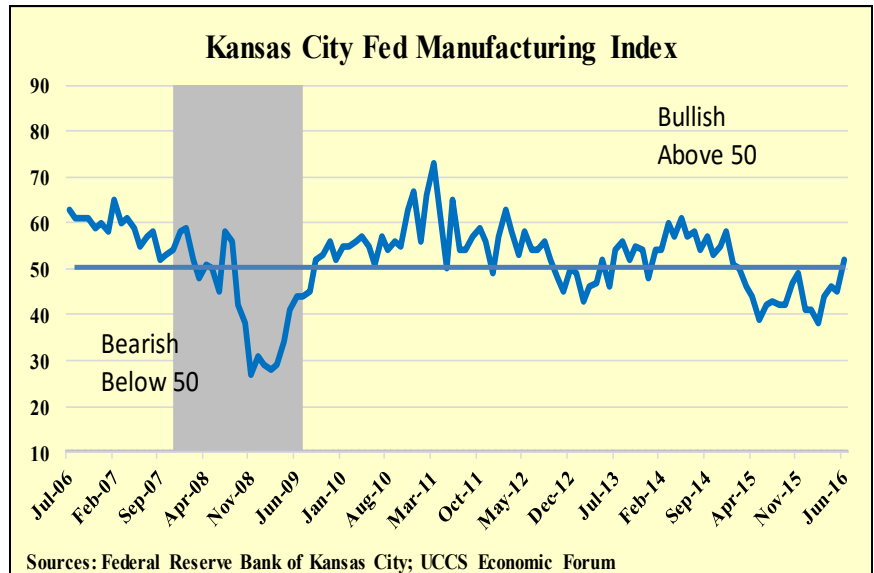
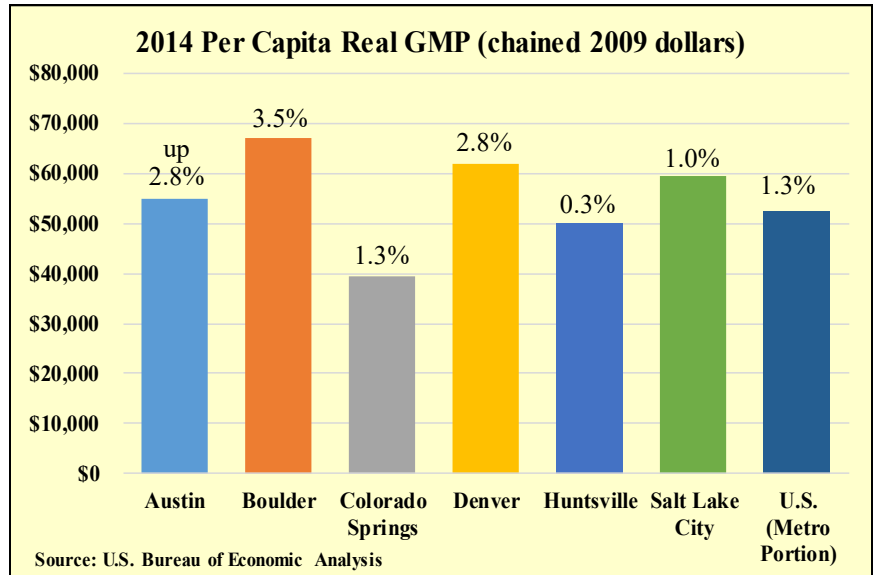
Median Age, 2014	
<u>El Paso County</u>	<u>United States</u>
33.8 years	37.7 years

### Kansas City Fed Manufacturing

Manufacturing in the nation has continued to struggle. In our region, as reflected by the Kansas City Fed manufacturing index, the measure was at 52 in June, up from 45 in May. The index reflects responses from a survey of manufacturers about production and shipments, changes in prices of raw materials and finished products. Suppression of gas and oil prices and the strong dollars are the two primary drivers of the lackluster manufacturing sector.

### Employment to Population

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



## EMPLOYMENT & WAGES

The seasonally adjusted unemployment rate for El Paso County at the end of June was 4.5%, which is lower than the U.S. average (4.9%). Employment levels in El Paso County increased from 295,032 to 301,369 (up 2.1%) comparing June 2015 to June 2016. Although the low unemployment rate is favorable, it is important to remember that the unemployment rate takes into account the number of people who consider themselves part of the workforce. We have a low unemployment rate partially because employers are hiring, but also because there are fewer people in the “workforce,” although more recently, residents seem to finally be re-entering the region’s workforce. Over the past year, the local labor force also increased by 5,672 representing a 1.8% increase; a much-needed and favorable trend.

### Employment by Sector

From 2006 Q1 to 2016 Q1, the largest increase in employment was in the health and social services sector. Significant increases have also occurred in accommodations and food services, education and professional/technical services. The largest declines were in manufacturing and construction. Increases in health and social assistance as well as in professional and technical services is particularly favorable because those sectors have higher average wages.

### Wages

Nationally, wages increased 3.9% in 2015, whereas they *decreased* 1.5% in El Paso County. This is not favorable in terms of GMP (page 1) and general economic growth in our region, hence, it deserves special attention as we work to improve the economic prospects of our community.

#### El Paso County Average Real Annualized Wages

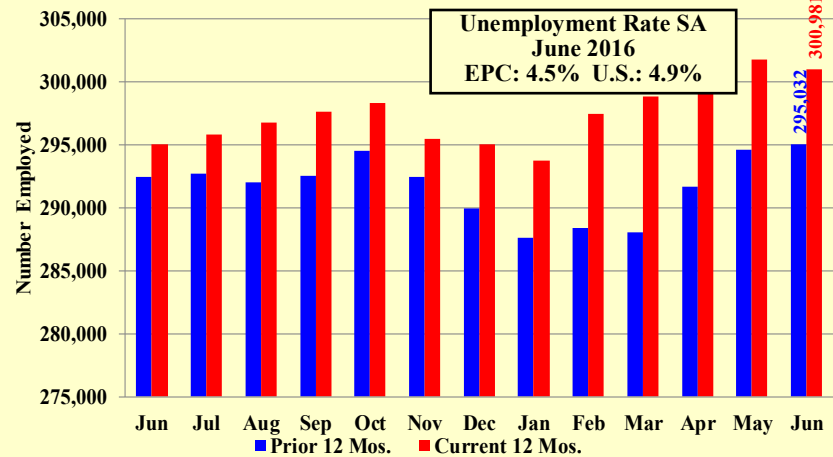
Q1 2006

\$41,365

Q1 2016

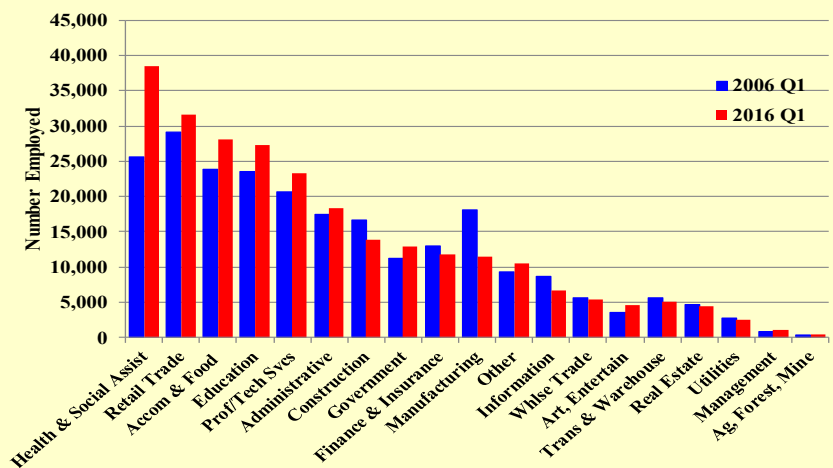
\$40,741

### Monthly Employment Levels in El Paso County Current vs. Prior Twelve Months



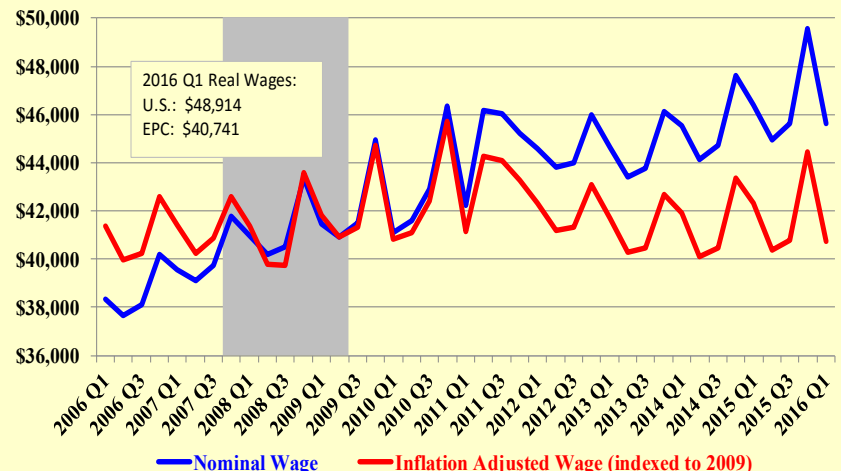
Sources: Bureau of Labor Statistics; UCCS Economic Forum

### El Paso County Employment by Sector for 2006 Q1 and 2016 Q1



Source: Colorado Department of Labor QCEW

### Average Annualized Wages in El Paso County



Sources: Colorado Department of Labor and Employment QCEW; U.S. Bureau of Labor Statistics; UCCS Economic Forum

## HOUSING

### Single Family Permits

Single family building permits increased in the Pikes Peak region during Q2 of 2016. Compared to a year ago, June of this year had a 27% increase in building permits for single family, detached homes. This is not surprising given the continued, favorable economic climate with job creation, strong consumer sentiment and continued historically low interest rates. Colorado Springs also has the advantage that it is an affordable community, especially compared to the Denver and Boulder areas. Estimates by the Forum show that the “ideal” number of permits based on our demographic composition for both single and multi-family units is approximately 4,500 dwellings, and we are projecting well below that target (3,900) in 2016. This makes it likely that the construction industry will continue to have high demand.

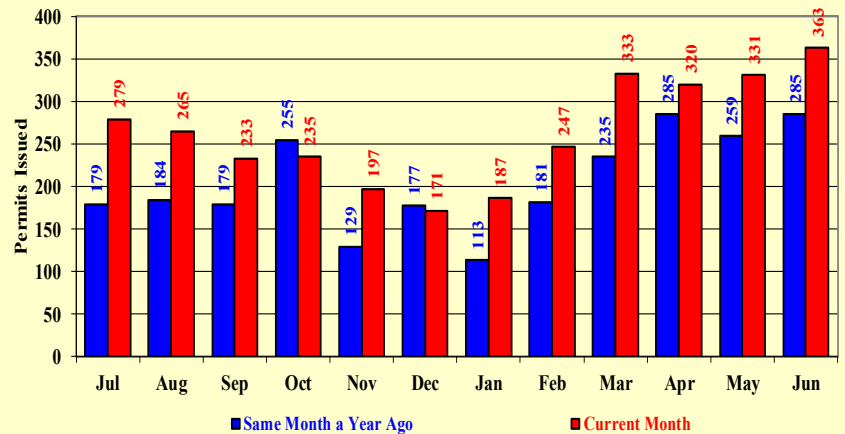
### Single Family Permit Trends

The figure to the right illustrates the trend in detached housing permits for the last five years. There has been a steady increase since 2010 with the expected seasonality of fewer permits during the winter months. The June 2016 values are the highest since April of 2006, which is definitely a positive trend for the construction industry. This industry is expected to be very strong nationwide. Kiplinger’s is forecasting a 10% increase in single family home construction for 2016 in the U.S., although they state it could be higher if financing were easier, there were more buildable lots and more skilled labor.

### Multi-Family Housing

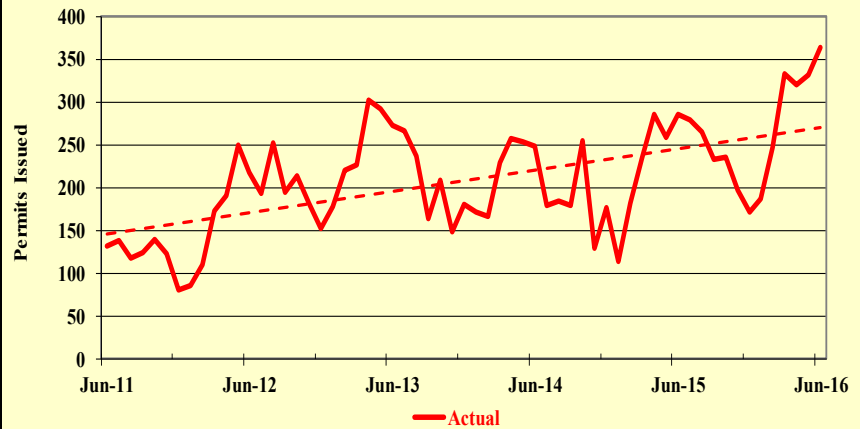
Permits for multi-family housing units are typically zero or very low except for the spring and summer months. This trend has held. Q2 of 2016 had a total of 397 dwellings gained from permits pulled whereas last year, Q2 had 103 permits pulled (a 285% increase).

Single Family-Detached  
Building Permits in Pikes Peak Region



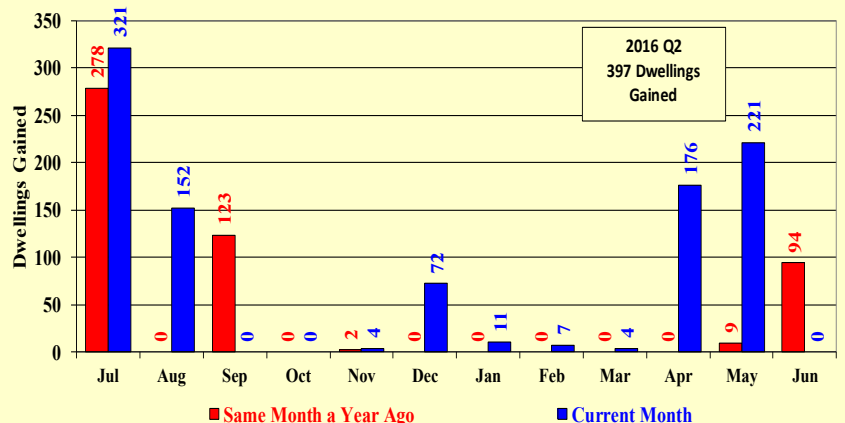
Source: Pikes Peak Regional Building Dept.

Detached Single Family Permit Trends  
in Pikes Peak Region



Source: Pikes Peak Regional Building Dept.

Multi-Family Housing Units  
Dwellings Gained from Permits



Source: Pikes Peak Regional Building Dept.



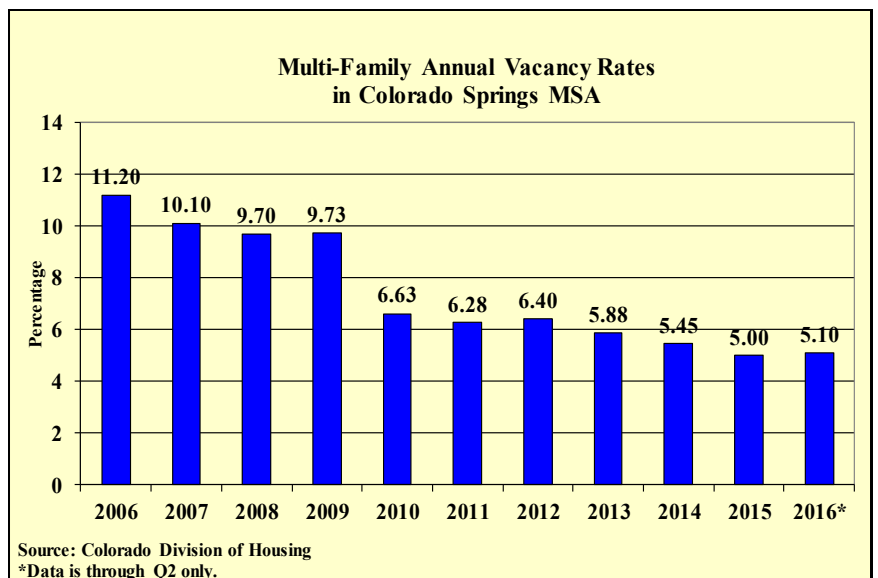
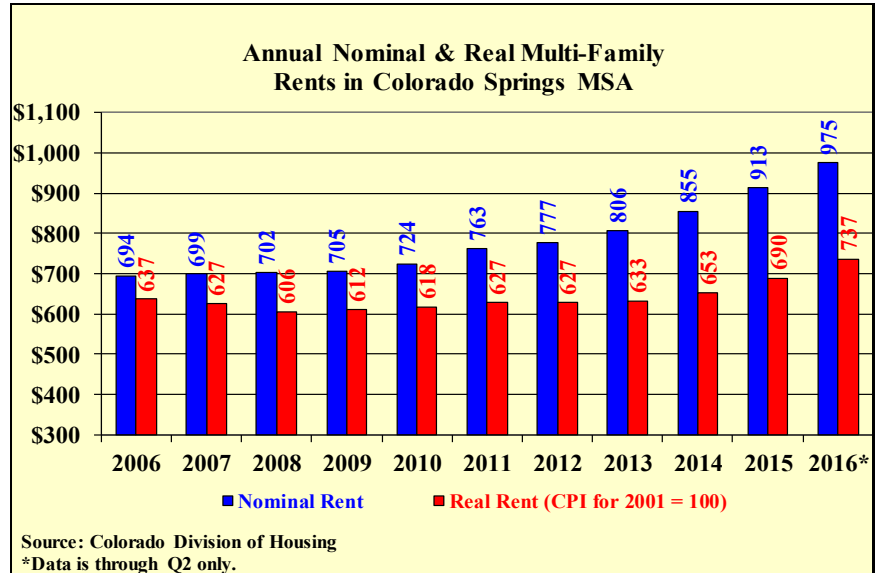
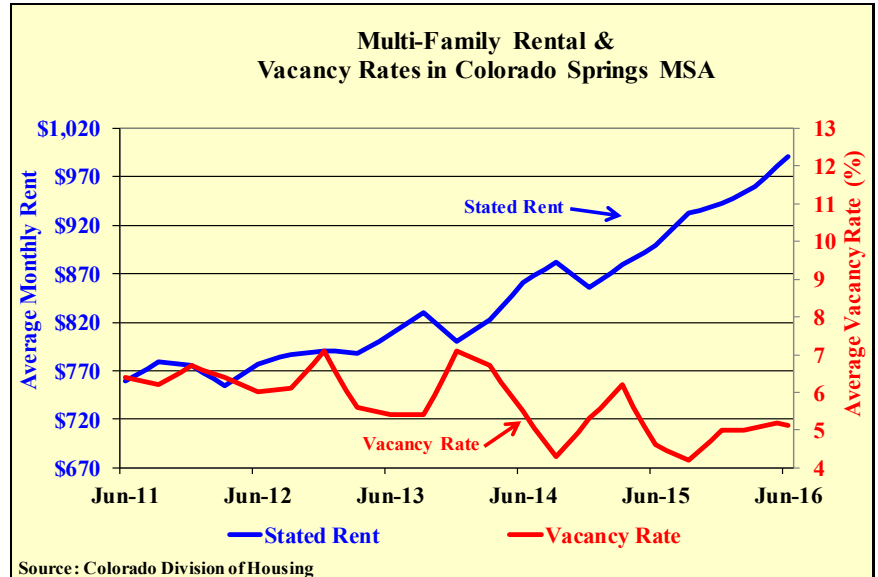
## HOUSING (continued)

### Multi-family Rental Market

The vacancy rate for multi-family housing for 2016 Q2 was 5.0% compared to the previous rate of 4.6% a year ago (2015 Q2). The Colorado Division of Housing estimates that an “equilibrium” vacancy rate is around 5.0%, putting our region squarely in that equilibrium range. The decreasing vacancy rate in El Paso County is causing an increase in the number of units being built with over 650 new units on the northern end of the city alone. As the graph shows, since 2010, there has been a steady decrease in the multi-family vacancy rate and this is a nation-wide trend.

Rental rates have increased in our region with an average monthly rent in 2016 Q2 of \$991. A year ago (2015 Q2), the average rent was \$899 per month, which represents a 10.2% increase in one year alone. The U.S. median rental price in August of this year was \$1,120 for a one bedroom apartment and \$1,300 for a two bedroom apartment. For renters, this makes our region relatively affordable. It is important to note that although nominal rental rates have increased, “real” rental rates adjusted for inflation have not increased quite as much (red bars on the right). The Forum uses the Western Region CPI to adjust nominal rents to “real” rental rates.

Annual vacancy rates will continue to be a function of the local economy and consumer preferences. Both nationally and locally, there does seem to be a trend towards multi-family housing, which includes efficiency, one, two, and three bedroom apartments as well as all multi-family rentals (two units and up). The decrease in vacancy rates is happening even in the context of new construction in multi-family housing. This demonstrates strong enough demand to not only pull down vacancy rates in existing apartment units, but also to justify new construction.



## HOUSING (continued)

### Year-to-Date Sales

Home sales in the Pikes Peak region have been increasing at double digit rates. In Q2 of 2016, there were 1,023 more homes sold than in 2015 Q2 representing a robust 16.3% increase. Looking just at June 2016, the median home price in the Pikes Peak region was \$262,500 whereas it was less at \$250,000 in June 2015. The residential real estate market is very strong, although homes in the lower price ranges are selling more quickly than homes in the higher price ranges: 95% of all homes sold in El Paso County were under \$500,000 (Patterson Group). Housing experts are projecting a continued strong market for 2016 and 2017 although low inventory is compromising the optimal movement of real estate.

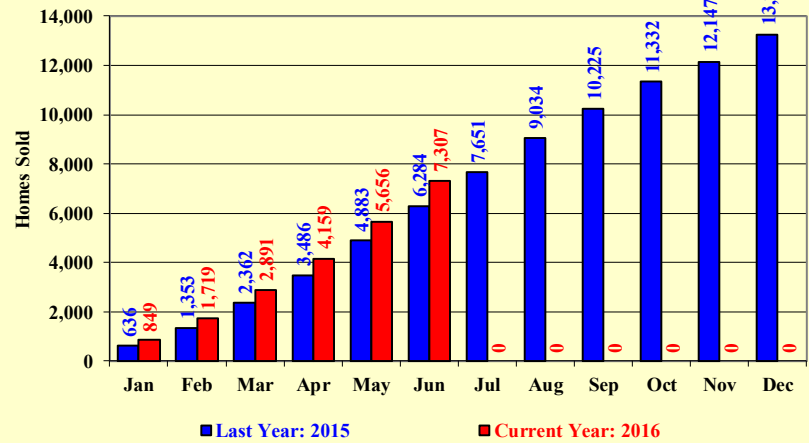
### Active Listings

Active listings were down 16.8% in June 2016 compared to June 2015. This relatively decreasing and low supply of listed homes is much of the reason there has been upward pressure on prices. Similarly, the average days on market was 31 in June 2016 and it was 71 in June of last year indicating that existing homes are selling more quickly.

### Foreclosures

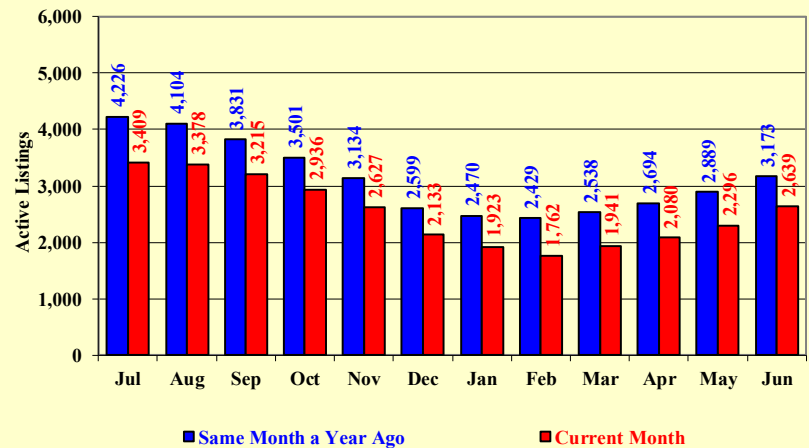
As of June, there have been 729 foreclosure proceedings in 2016, which is 3.8% higher than the same period last year (702 foreclosures). These numbers are seasonally adjusted. Foreclosures are still very low even compared to prior to the recession, which is favorable news for the region. On average, from 2005 to 2007, there were 233 foreclosures per month in El Paso County. As of August, there have been an average of 116 foreclosures per month in 2016.

Year-to-Date Sales Single Family Detached  
(Pikes Peak Region)



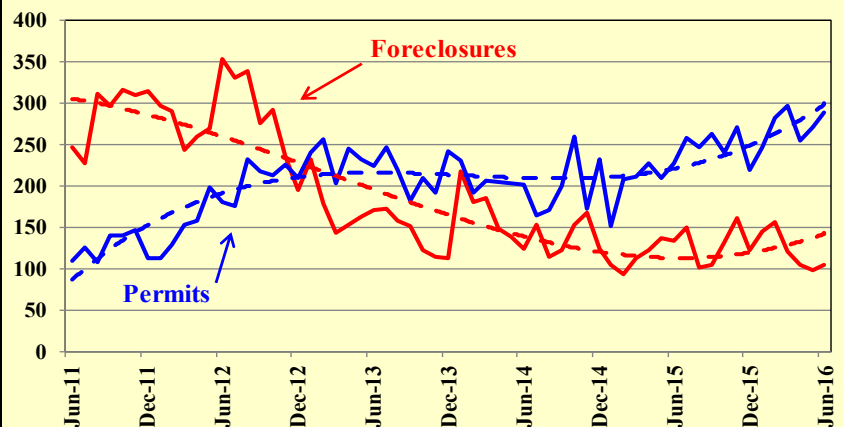
Source: Pikes Peak REALTOR Services Corp.

Active Listings of Single Family Detached 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 Economic Forum

## COMMERCIAL REAL ESTATE & AIRPORT

### Commercial Real Estate

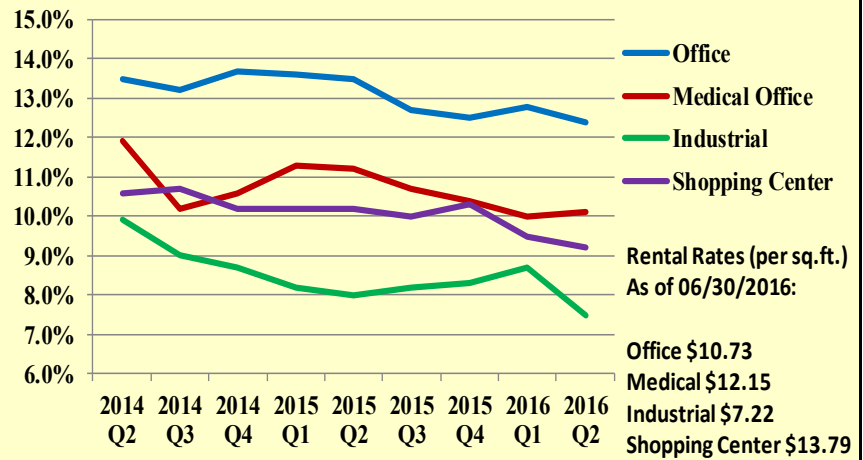
Commercial real estate vacancy rates have continued their downward trend in office, industrial and shopping center spaces while they have ticked up slightly in medical office spaces. The strong economy has translated into a stronger, local commercial real estate market although local experts are stating that the market appears to be at a critical pivot point. Particularly, a shortage of class A space is spurring construction of commercial-use buildings at a relatively high cost. This is likely to bring up average rental rates across the board for commercial real estate in the region.

### Colorado Springs Airport Trends

Seasonally adjusted, enplanements were 48,463 in June 2016. This is 1.4% lower than June of last year (49,133 seasonally adjusted) and 7.7% lower than June 2014 (52,533 seasonally adjusted). There is hope and expectation that the recent investments in the local airport will increase activity. Some benefit came quickly in the positive announcement by Frontier over the summer that they were coming back to the region and offering daily flights to Las Vegas. The hope is that this will prove profitable for the carrier and they will expand service to other cities. In the past, it has been difficult for the local airport (COS) to compete with the price wars of the major carriers in Denver. The major airlines are competing for market share and are holding prices artificially low. This cannot be sustained in the long run, and depending upon how this all plays out, certain regional carriers like COS will either win or lose in the (profitable) routes chosen by the major carriers in the future, especially for connecting flights.

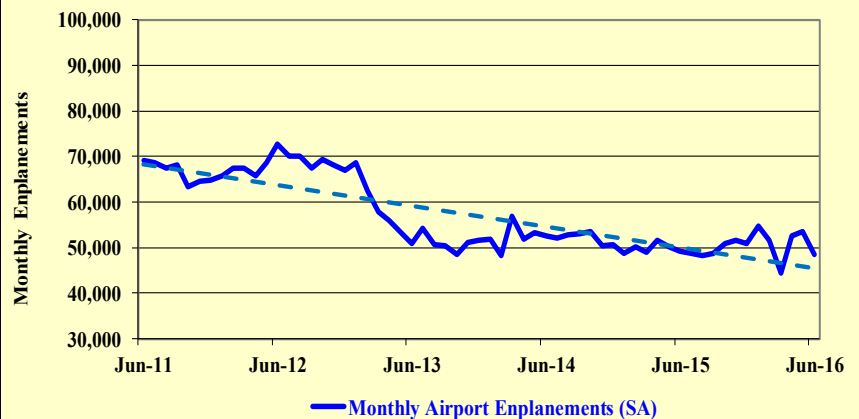
Note: Actual enplanements (not seasonally adjusted) for June 2016 were 55,539 or 3.0% higher than June 2015 (53,938) and 4.3% lower than June 2014 (58,034).

### Colorado Springs Quarterly Vacancy Rates



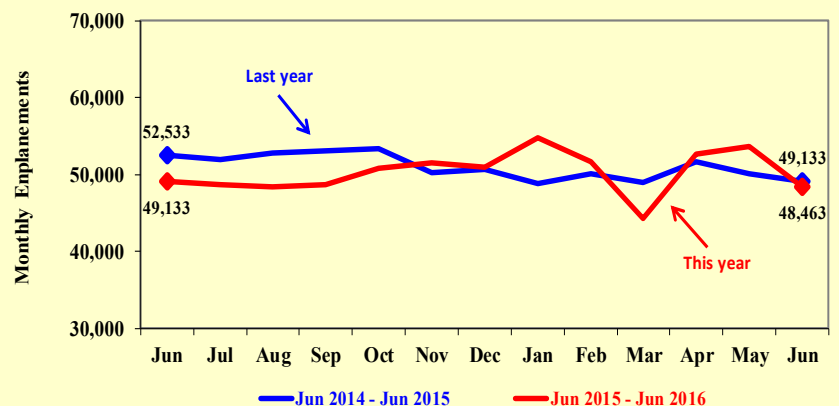
Source: Turner Report

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



Source: Colorado Springs Airport; UCCS Economic Forum

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



Source: Colorado Springs Airport, Prepared by UCCS Economic Forum

## SALES TAX & CAR REGISTRATIONS

### Colorado Springs Sales & Use Taxes

The strong national and local economies and, in particular, strong consumer sentiment (see page 1) have resulted in higher, local sales and use tax collections. The 2% sales and use tax collections for June 2016 (for May sales) were \$12,641,363. This represents a 4.8% increase from the same month last year. Cumulatively, sales and use tax collections were up from last year as well (second graph). In June 2016, the largest month-to-month percentage increases by major industries were in commercial machines (67.4%), medical marijuana (25.6%), and building materials (18.9%).

A (cumulative) year-to-date comparison as of June 2016 indicates sales and use tax collections were 4.5% higher than June 2015. The largest percentage increases year to date were in medical marijuana (26.9%), commercial machines (18.4%), grocery stores (17.6%), and hotel/motel accommodations (24.4%).

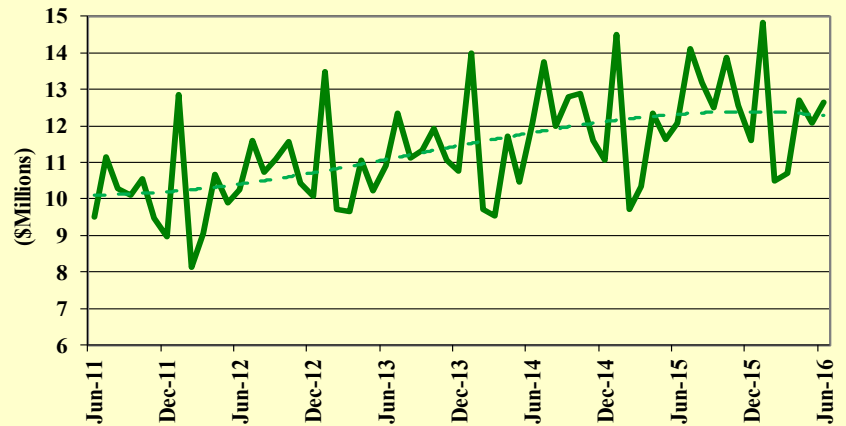
### New Vehicle Registrations

Vehicle registrations were down 0.6% in the year-to-date comparison, reflecting a nation-wide modest slowdown in vehicle sales. Having said that, this sector remains quite strong when compared to recessionary times. As the table below shows, new vehicle registrations are 70% higher in June of this year compared to June of 2010. Local, luxury utility registrations, which can be an indicator of consumer confidence, have increased 51% comparing June 2016 to June 2015, also indicating a strong local economic climate.

#### New Vehicle Registrations

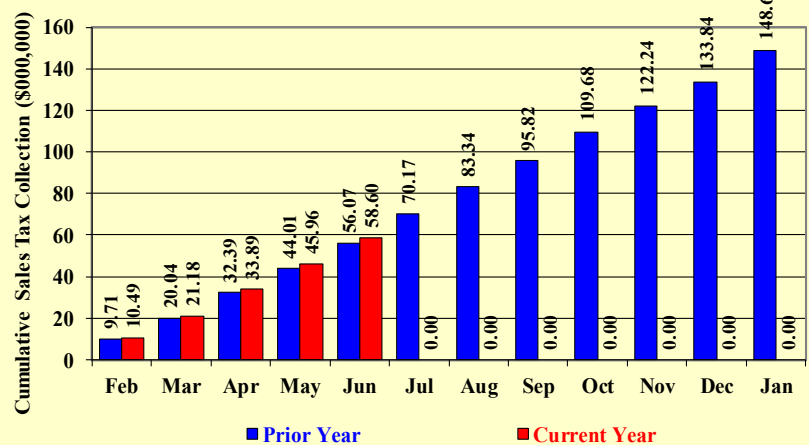
June 2010	June 2016
1,296	2,205

Colorado Springs  
2% Monthly Sales & Use Tax Collections



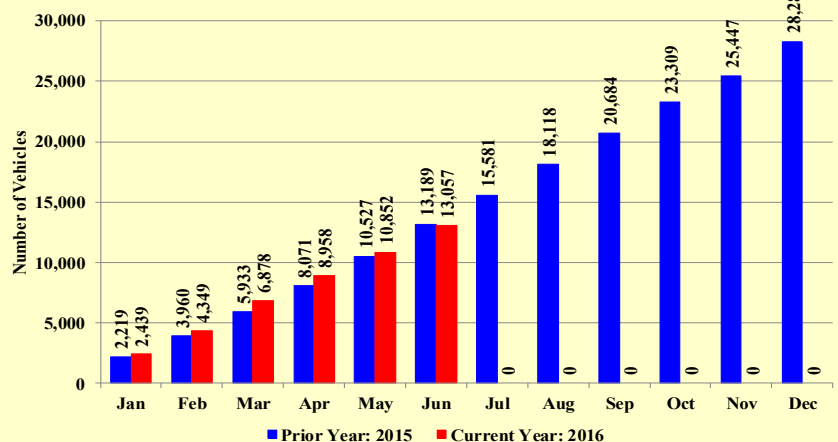
Source: City of Colorado Springs

Colorado Springs Cumulative 2% Sales & Use Tax Collections: Prior and Current Year



Note: Data is represented for February through January due to the fiscal cycle of the city.  
Source: City of Colorado Springs

New Vehicle Registrations In El Paso County  
Year-to-Date Comparison



Source: El Paso County Clerk and Recorder



Selected Economic Indicators														
National Quarterly Data													Change vs. Yr Ago	
			2015 Q3			2015 Q4			2016 Q1			2016 Q2		
	Total Retail Sales NSA (\$ billions)			1185.6			1186.7			1183.8			1201.3	\$26.42
	e-Sales NSA (\$ billions)			81.0			108.2			86.4			91.2	\$12.46
e-Sales as % of Retail Sales			6.8%			9.1%			7.3%			7.6%	0.89%	
GDP Real % Annual Growth SA (from prior year's same quarter)			2.2%			1.9%			1.6%			1.2%	*	
GDP Real % Quarterly Growth SA (at annualized rate)			2.0%			0.9%			0.8%			1.1%	*	
Household Debt Service Ratio			10.0%			10.1%			10.0%			na	-0.04%	
National Monthly Data	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Change vs. Yr Ago	
	Capacity Utilization SA	76.70	76.70	76.40	76.30	75.70	75.40	75.70	75.60	74.90	75.20	75.10	75.50	-0.90
	Car & Lt Trk Sales Millions SA	17.52	17.57	17.99	18.08	18.10	17.44	17.76	17.57	16.58	17.37	17.09	16.78	-0.31
	Cons Sent (1966=100) NSA	93.1	91.9	87.2	90.0	91.3	92.6	92.0	91.7	91.0	89.0	94.7	93.5	-2.6
CPI-U 1982-84=100 SA	237.73	237.70	237.49	237.95	238.30	238.04	238.11	237.71	237.92	238.89	239.41	239.93	2.50	
Federal Funds Rate (Effective)	0.13%	0.14%	0.14%	0.12%	0.12%	0.24%	0.34%	0.38%	0.36%	0.37%	0.37%	0.38%	0.25%	
Gasoline Price per Gal. of Regular	\$2.79	\$2.64	\$2.37	\$2.29	\$2.16	\$2.04	\$1.95	\$1.76	\$1.97	\$2.11	\$2.27	\$2.37	-\$0.44	
Ind Production (1997=100) SA	105.48	105.58	105.31	105.16	104.49	104.05	104.55	104.41	103.43	103.91	103.73	104.27	-0.59	
Inventory/Sales Ratio SA	1.37	1.38	1.39	1.39	1.39	1.40	1.41	1.41	1.41	1.40	1.40	1.39	0.02	
Mtg Rate, 30 Yr Conventional NSA	4.05	3.91	3.89	3.80	3.94	3.96	3.87	3.66	3.69	3.61	3.60	3.57	-0.41	
Prime Rate (%) NSA	3.25	3.25	3.25	3.25	3.25	3.37	3.50	3.50	3.50	3.50	3.50	3.50	0.25	
Purch Mgr Index SA	51.90	51.00	50.00	49.40	48.40	48.00	48.20	49.50	51.80	50.80	51.30	53.20	0.10	
Real Rtl/Food Svc Sales SA (\$ billions)	447.11	447.81	447.21	447.07	448.45	450.45	448.04	449.29	447.91	453.40	454.14	457.41	\$12.66	
S&P 500 (average)	2094.1	2039.9	1944.4	2024.8	2080.6	2054.1	1918.6	1904.4	2022.0	2075.5	2065.6	2083.9	-15.4	
Tech Index SA - Mar 2001 = 100	111.7	112.3	113.1	113.2	114.2	114.1	115.4	115.1	114.3	116.2	116.1	115.3	5.2	
Trade Weighted Dollar Index	91.7	91.9	91.7	91.3	93.9	94.1	95.3	93.2	91.5	89.4	89.8	89.6	-0.2	
Crude Oil Price NSA (\$ per barrel)	50.90	42.87	45.48	46.22	42.44	37.19	31.68	30.32	37.55	40.75	46.71	48.76	-\$11.06	
CPI & Employment Data	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Change vs. Yr Ago	
	Western Region CPI	245.04	244.74	244.26	244.34	243.75	243.43	244.60	244.82	245.40	246.59	247.89	248.27	3.94
	Colorado Labor Force SA (000's)	2,820	2,821	2,823	2,826	2,829	2,832	2,844	2,862	2,877	2,889	2,898	2,899	79.0
	Colorado Employment SA (000's)	2,713	2,717	2,722	2,724	2,730	2,733	2,753	2,776	2,794	2,799	2,802	2,791	81.7
Colorado Unemployment Rate SA	3.8%	3.7%	3.6%	3.6%	3.5%	3.5%	3.2%	3.0%	2.9%	3.1%	3.3%	3.7%	-0.2%	
El Paso County Unemployment Rate NSA	4.7%	4.2%	3.8%	3.7%	3.9%	3.9%	3.8%	3.9%	4.0%	4.1%	4.0%	4.7%	-0.3%	
El Paso County Unemployment Rate SA	4.6%	4.3%	4.1%	4.0%	4.1%	4.0%	3.5%	3.6%	3.8%	4.2%	4.3%	4.5%	-0.3%	

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

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**Pikes Peak Workforce Center**  
**Rocky Mountain Health Care Services**  
**Transit Mix Concrete Company**

### **Sustaining Level**

**Adams Bank and Trust**  
**ADD Staff, Inc.**  
**Apogee Valuation Services**  
**Aventa Credit Union**  
**Children's Hospital Colorado**  
**City of Fountain**  
**Classic Companies**  
**The Colomina Life Company**  
**Colorado Business Bank**  
**Colorado Springs Convention & Visitors Bureau**  
**Colorado Springs Health Partners**  
**Downtown Partnership of Colorado Springs**  
**dpiX, LLC**  
**Financial Planning Association of Southern Colorado**  
**GH Phipps Construction Companies**  
**Legacy Bank**  
**Northstar Bank Colorado**  
**Olive Real Estate Group, Inc.**  
**Peoples Bank**  
**Qualtek Manufacturing**  
**Salzman Real Estate Services, Ltd.**  
**Security Service FCU**  
**Strasbaugh Financial Advisory, Inc.**  
**TMR Direct**  
**University of Colorado Executive Programs**  
**U.S. Bank**  
**Vectra Bank**