

Quarterly Economic Update

3rd Quarter, 2016 Data

Posted November 2016

Tatiana Bailey - Director

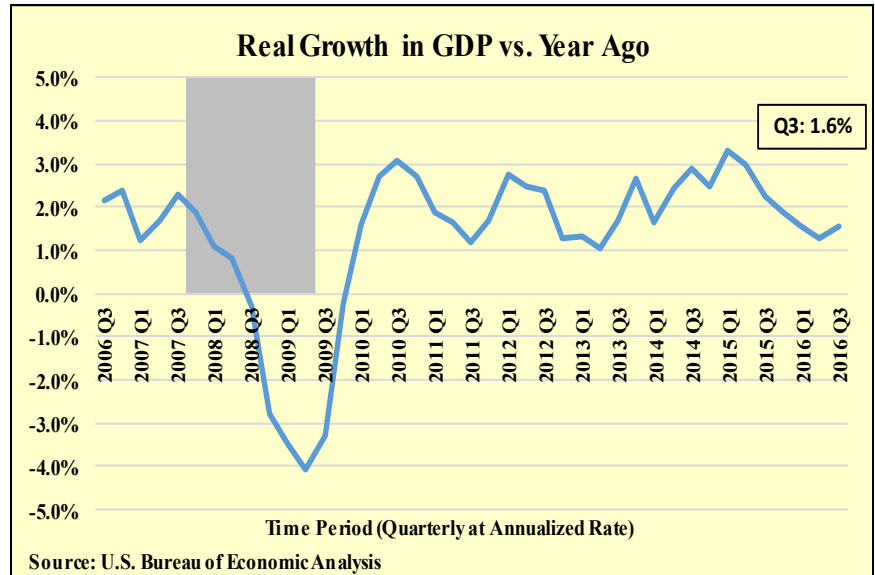
THE BIG PICTURE

U.S. Quarterly GDP

GDP, or gross domestic product, for the third quarter of 2016 compared to Q3 from a year ago is up 1.6%, based on the November estimate released by the Bureau of Economic Analysis, which is subject to further revisions in December. This Q3, 2016 metric reflects growth in all finished goods and services over the past year (since Q3 of 2015) and it is “real,” or adjusted for inflation. The box under the graph shows the components of GDP. The modest increase in real GDP reflects positive contributions from personal consumption expenditures, exports, private inventory investment and federal government spending. Positive contributions were partially offset by negative contributions from residential fixed investment, state and local government spending, as well as higher import levels.

U.S. Consumer Sentiment

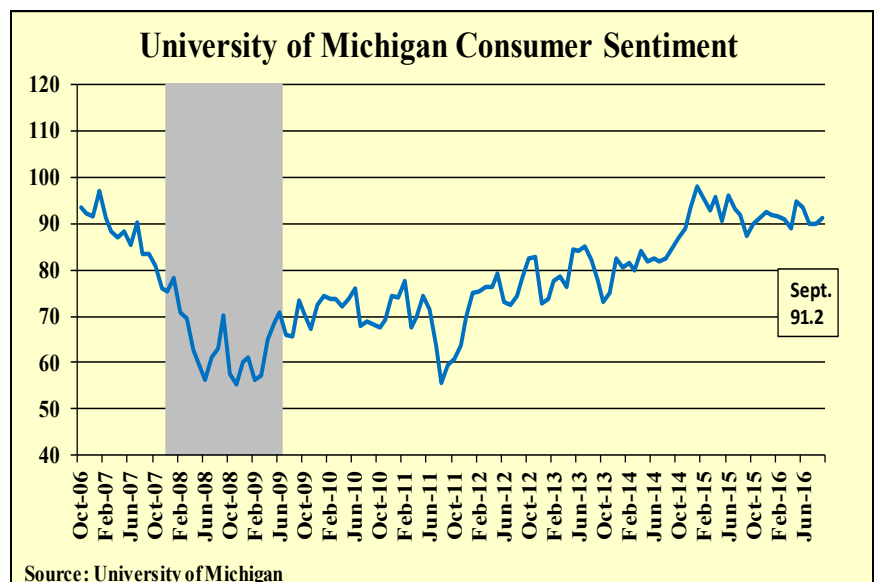
Consumer sentiment continued to fuel the national economy ending in September at 91.2. Consumer sentiment has been hovering in the 90's range since the beginning of 2014. The recent, modest gains were mostly driven by upper income households and partly due to their continued expectation that inflation will be held in check. All respondents to the survey also stated expectations that interest rates would rise, although that did not negatively impact their view of personal finances. This is because they believe interest rate hikes will be very modest. UM continues to expect healthy increases in real consumer spending: 2.7% through mid-2017. Buying expectations for vehicles and homes are impacted favorably by (low) interest rate expectations; however,



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.



consumers also state that they feel prices are not particularly attractive at this time. Sponsors can access monthly, post-election information through the UCCS Economic Forum dashboard.

THE BIG PICTURE (cont.)

Per Capita GMP

GMP is conceptually the same as GDP but for a (smaller) defined geographic region. The percentages above the bars represent the incremental change in GMP from 2014 to 2015. The greatest level of increase happened in Austin (2.0%) and the lowest was Colorado Springs (0.9%). 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.

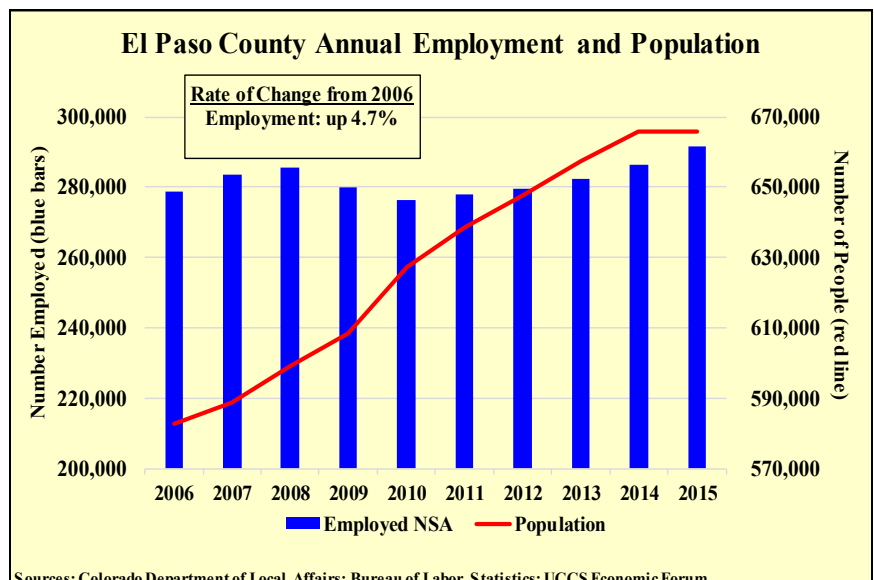
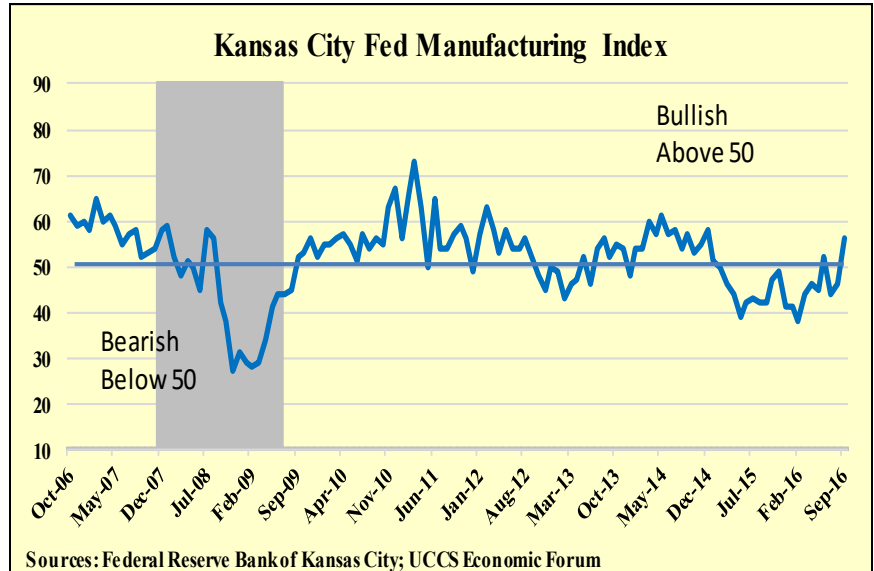
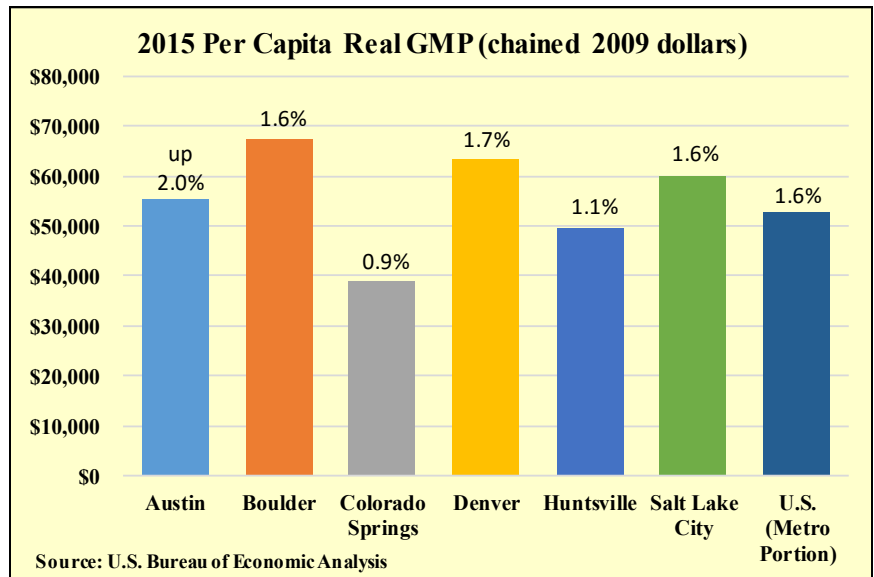
Median Age, 2015	
El Paso County	United States
33.8 years	37.8 years

Kansas City Fed Manufacturing

The Kansas City Fed manufacturing index reported a measure of 56 in September, up from 46 in August. This is a positive turn mostly driven by growth in durable goods, particularly for machinery and metals production. The index reflects responses from a survey of manufacturers about production, new orders, employment, supplier delivery time and raw materials inventory. An index reading above 50 translates to an expansion in the manufacturing industry, and below 50 translates to a contraction of the industry.

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 nationwide aging trend.



EMPLOYMENT & WAGES

The seasonally adjusted unemployment rate for El Paso County at the end of September was 3.7%, which is lower than the U.S. average (5.0%). Employment levels in El Paso County increased from 297,662 to 302,872 (up 1.8%) comparing September 2015 to September 2016. 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 increased by 4,437 representing a 1.4% increase; a much-needed and favorable trend.

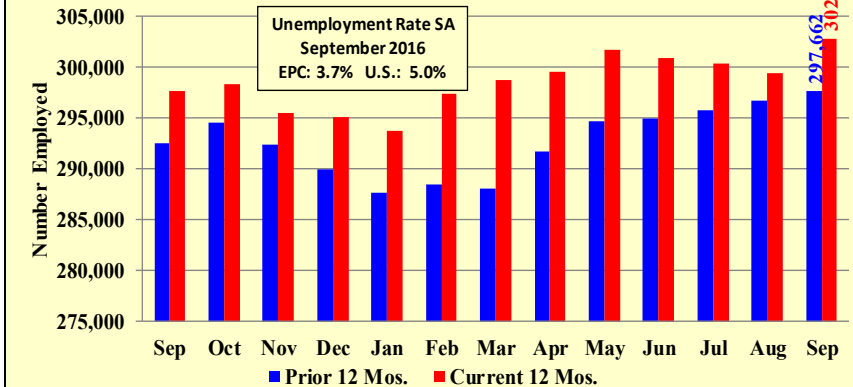
Employment by Sector

From 2006 Q2 to 2016 Q2, 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 construction, manufacturing, and information. Increases in health and social assistance, and in professional and technical services is favorable because these sectors have higher average wages.

New Jobs & Wages

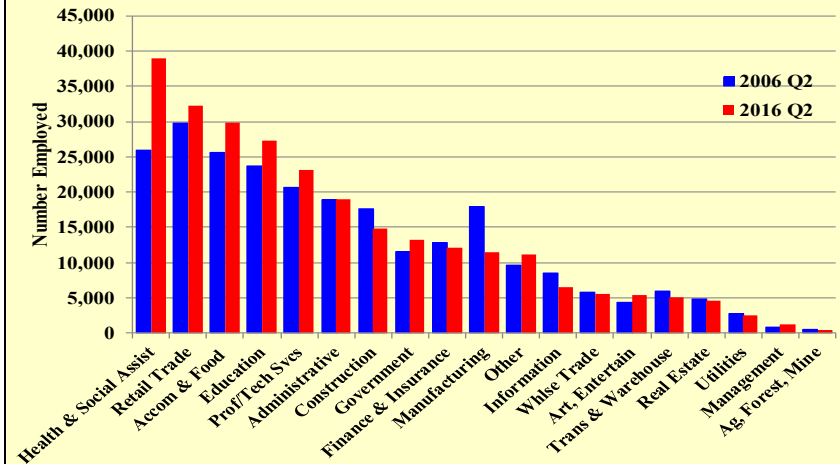
The graph shows new job growth or contraction going back to 2006. The dotted line marks the number of new jobs needed in our region to match population growth: about 5,400 new jobs per year. We met that target in 2013 and 2014, and since 2015, have been exceeding that target. Unfortunately, wages are on average significantly lower than the U.S. as a whole both in 2006 and 2016. Wages are typically, “sticky,” and take time to catch up to economic expansions. The hope is that the tight, local labor market will help bring wages more in line with national levels.

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



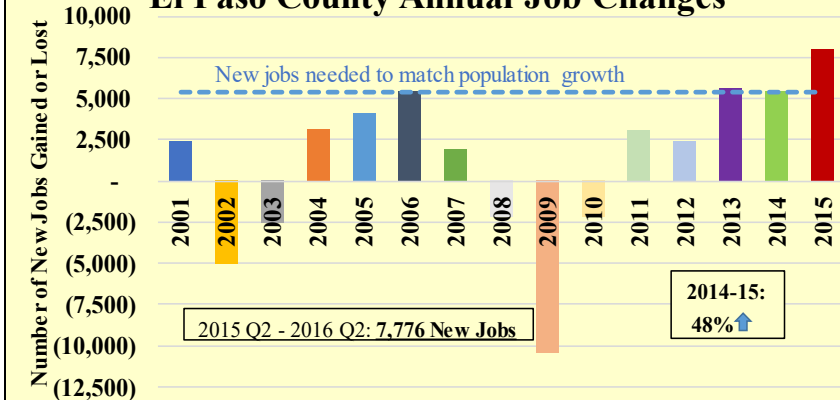
Sources: Bureau of Labor Statistics; UCCS Economic Forum

El Paso County Employment by Sector
for 2006 Q2 and 2016 Q2



Source: Colorado Department of Labor QCEW

El Paso County Annual Job Changes



Source: Colorado Department of Labor QCEW

Average Real Annual Wages (2009 Dollars)

	El Paso County	United States
2006 Q2	\$39,952	\$43,462
2016 Q2	\$40,356	\$46,091

HOUSING

Single Family Permits

Single family building permits continued to increase in the Pikes Peak region during 2016 as compared to 2015. Through September 2016, there was a 22% increase in building permits for single family, detached homes compared to the same period for 2015. 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 (3,970) in 2016. This makes it likely that the construction industry will continue to have high demand.

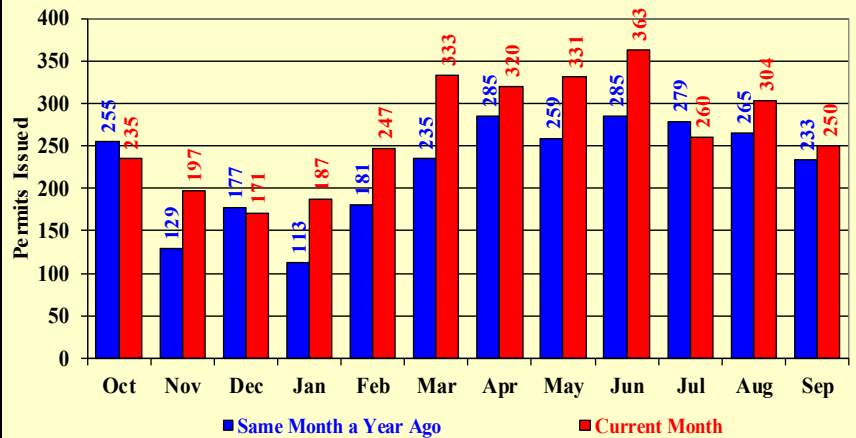
Single Family Permit Trends

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. Year-to-date, there has been a 22% increase in the number of permits pulled for single family homes in the Pikes Peak region; a robust increase. This industry is expected to be very strong nationwide. Kiplinger’s is forecasting an 11% increase in single family home construction for 2017 in the U.S. although demand is higher than supply in most MSAs.

Multi-Family Housing

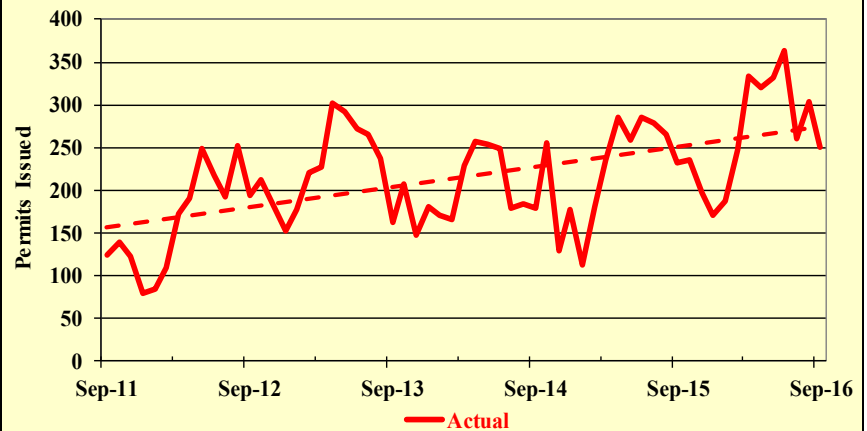
Permits for multi-family housing units are typically zero or very low except for the spring and summer months. This trend has held. Q3 of 2016 had a total of 333 dwellings gained from permits pulled whereas last year, Q3 had 473 permits pulled (a 30% decrease).

Single Family-Detached
Building Permits in Pikes Peak Region



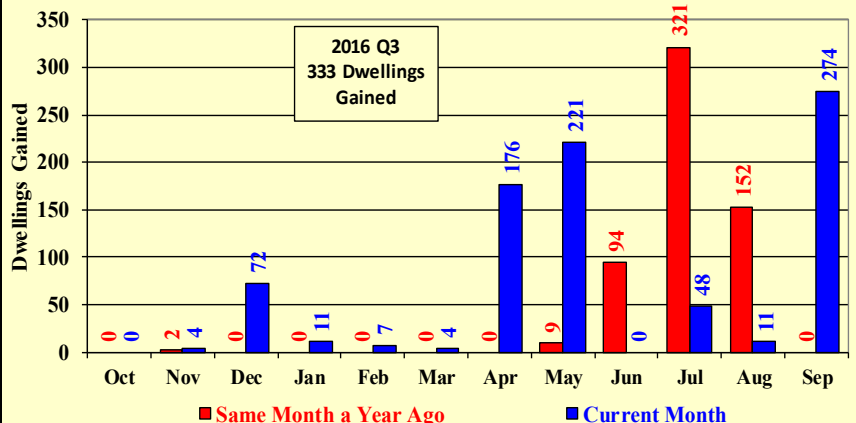
Source: Pikes Peak Regional Building Dept.

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.

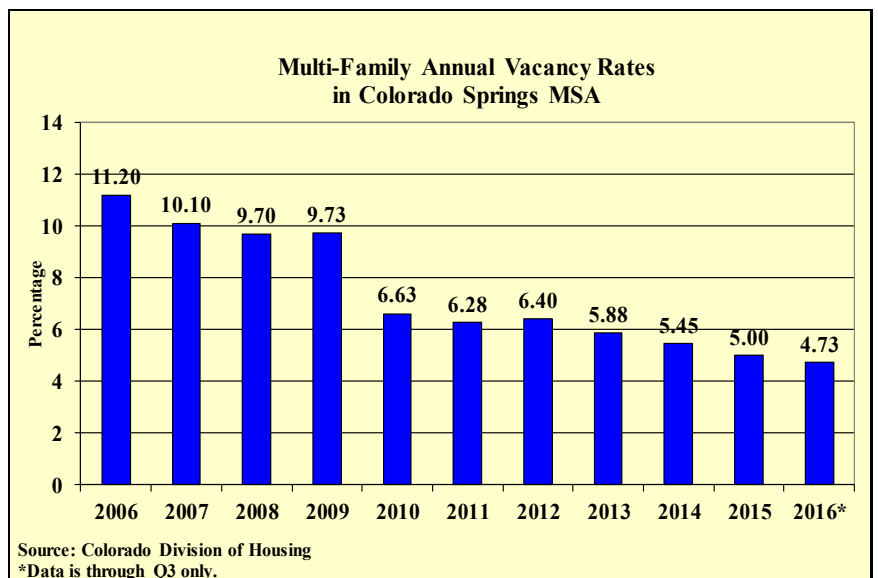
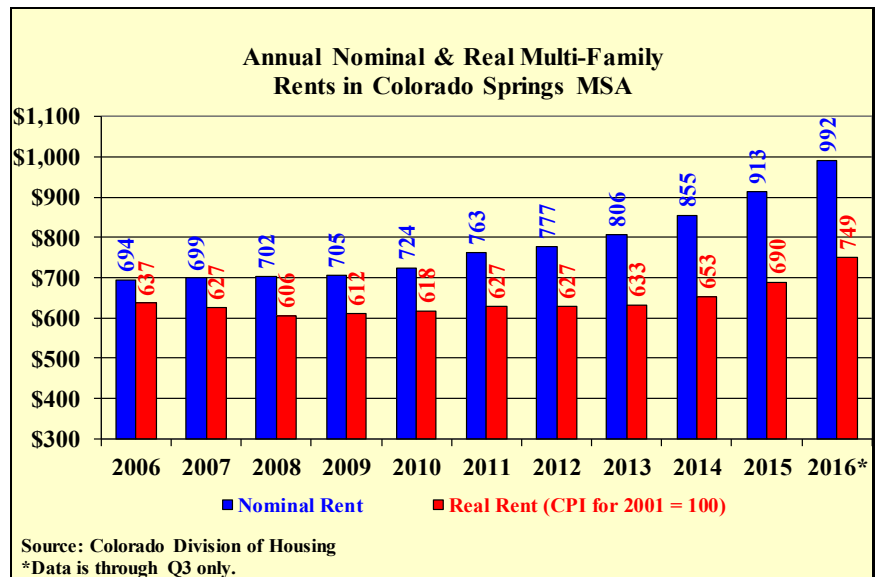
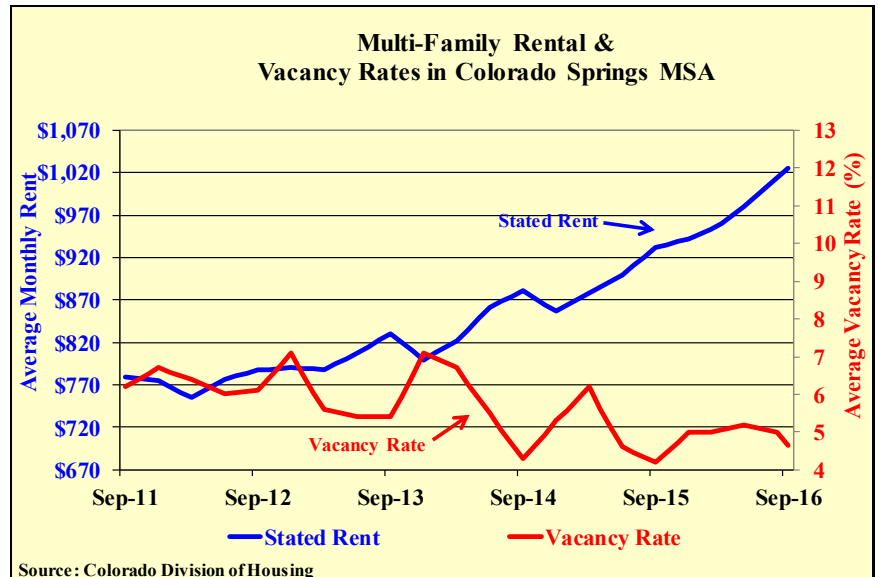
HOUSING (continued)

Multi-family Rental Market

The vacancy rate for multi-family housing for 2016 Q3 was 4.0% compared to the previous rate of 4.2% a year ago (2015 Q3). The Colorado Division of Housing estimates that an “equilibrium” vacancy rate is around 5.0%, putting our region below 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 nationwide trend.

Rental rates have increased in our region with an average monthly rent in 2016 Q3 of \$1,025. A year ago (2015 Q3), the average rent was \$932 per month, which represents a 10.0% increase in one year alone. The U.S. median rental price in 2015 according to Statista was \$1,381 making our region relatively more affordable than the U.S. as a whole. 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 Q3 of 2016, there were 1,400 more homes sold than in 2015 Q3 representing a robust 13.7% increase. Looking just at September 2016, the median home price in the Pikes Peak region was \$264,000 whereas it was less at \$240,000 in September 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, most likely correlated to the lower average wages in our region (see p. 3). Housing experts are projecting a continued strong market for 2016 and 2017, although low inventory is compromising the optimal movement of real estate.

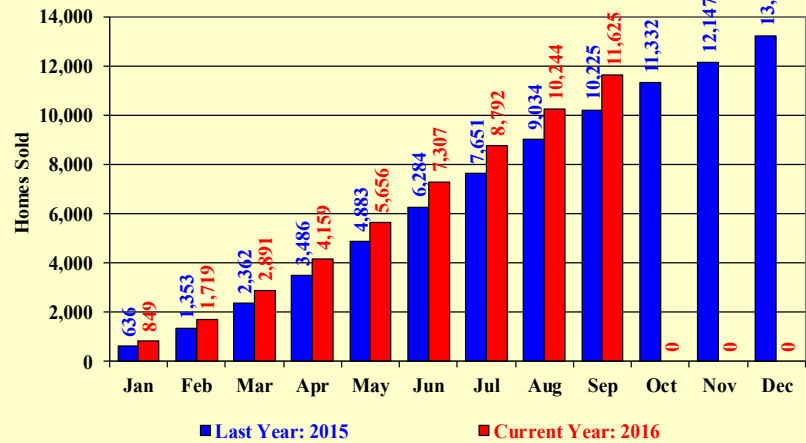
Active Listings

Active listings were down 24.0% in September 2016 compared to September 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 35 in September 2016, and it was 70 in September 2015 indicating that existing homes are selling more quickly.

Foreclosures

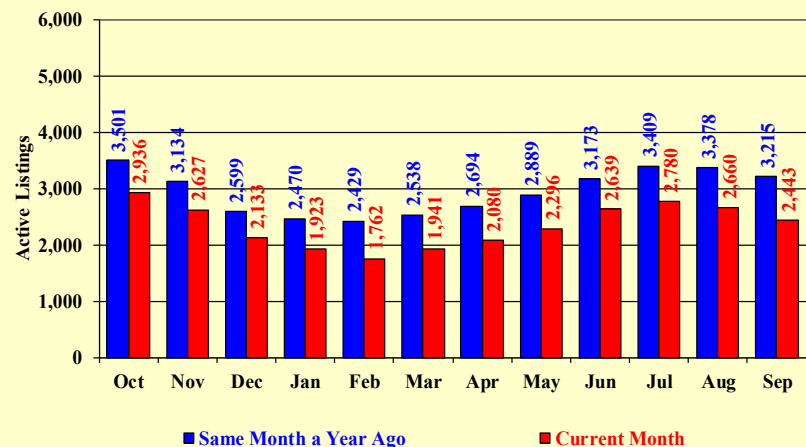
As of September, there have been 994 foreclosure proceedings in 2016, which is 5.9% lower than the same period last year (1,057 foreclosures). These numbers are seasonally adjusted. Foreclosures are still very low even compared to prior to the recession, which is favorable news for the region. On average, from 2005 to 2007, there were 233 foreclosures per month in El Paso County. As of October, there have been an average of 110 foreclosures per month in 2016.

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



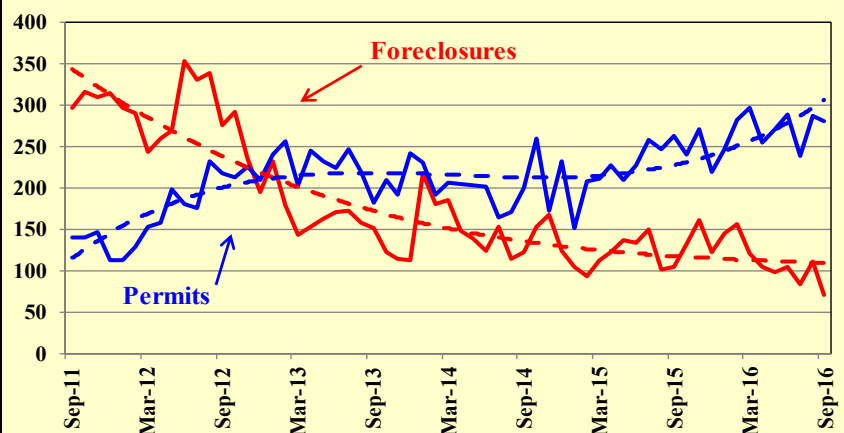
Source: Pikes Peak REALTOR Services Corp.

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 continued to fall in the industrial market, very slightly inched upwards in the office and shopping center markets, and increased in the medical market space. Local experts are stating that the industrial market appears to be at a critical pivot point. In particular, 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.

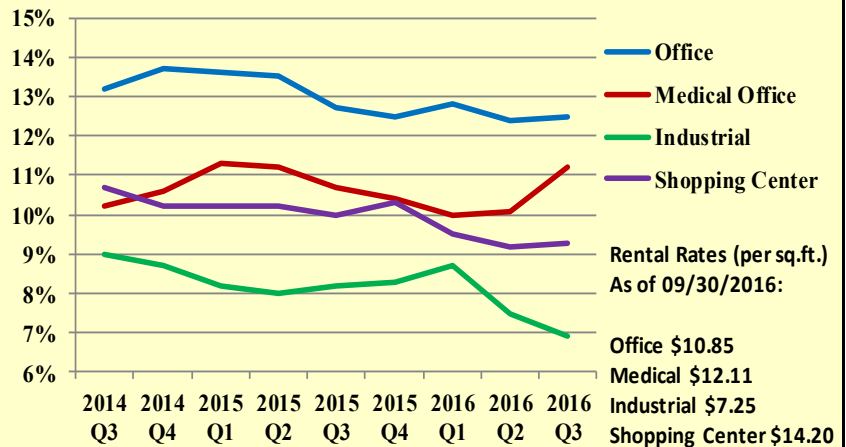
Colorado Springs Airport Trends

Seasonally adjusted, enplanements were 58,885 in September 2016. This is 21.0% higher than September of last year (48,662 seasonally adjusted) and 10.9% higher than September 2014 (53,112 seasonally adjusted). It appears that recent investments in the local airport are starting to pay off. Several additional flights are now offered, and 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.

COS direct flights include:
Atlanta, Chicago, Dallas/Ft. Worth, Denver,
Houston, Las Vegas, Los Angeles, Orlando,
Phoenix, Seattle, Salt Lake City

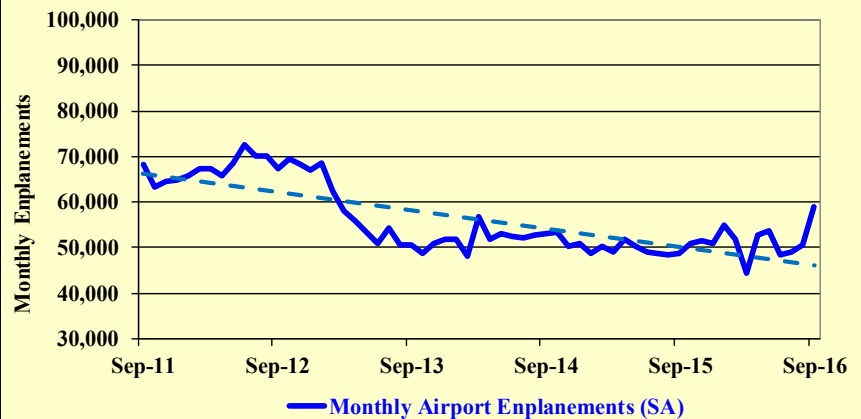
Note: Actual enplanements (not seasonally adjusted) for September 2016 were 58,002 or 20.4% higher than September 2015 (48,178) and 8.9% higher than September 2014 (53,246).

Colorado Springs Quarterly Vacancy Rates, All Classes



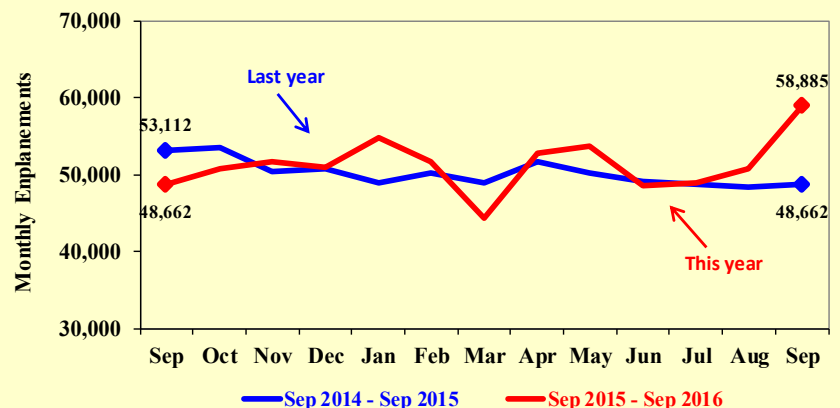
Source: Turner Report

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

Local 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 September 2016 (for August sales) were \$14,750,276. This represents an 18.1% increase from the same month last year. Cumulatively, sales and use tax collections were up from last year as well (second graph). In September 2016, the largest month-to-month percentage increases by major industries were in auto dealers (58.9%), commercial machines (40.5%), and building materials (23.2%).

A (cumulative) year-to-date comparison as of September 2016 indicates sales and use tax collections were 6.7% higher than September 2015. The largest percentage increases year to date were in business services (42.0%), medical marijuana (21.4%), hotels/motels (17.2%), and grocery stores (16.9%).

New Vehicle Registrations

Vehicle registrations were down 1.8% in the year-to-date comparison, similar to the nation. However, this sector remains quite strong when compared to recessionary times. As the table below shows, new vehicle registrations are 94% higher in September of this year compared to September of 2010. Local, luxury utility registrations, which can be an indicator of local consumer confidence, were down slightly in September and down 4.4% year-to-date compared to 2015, although October numbers (part of Q4) are up so we may round out the year with little overall change.

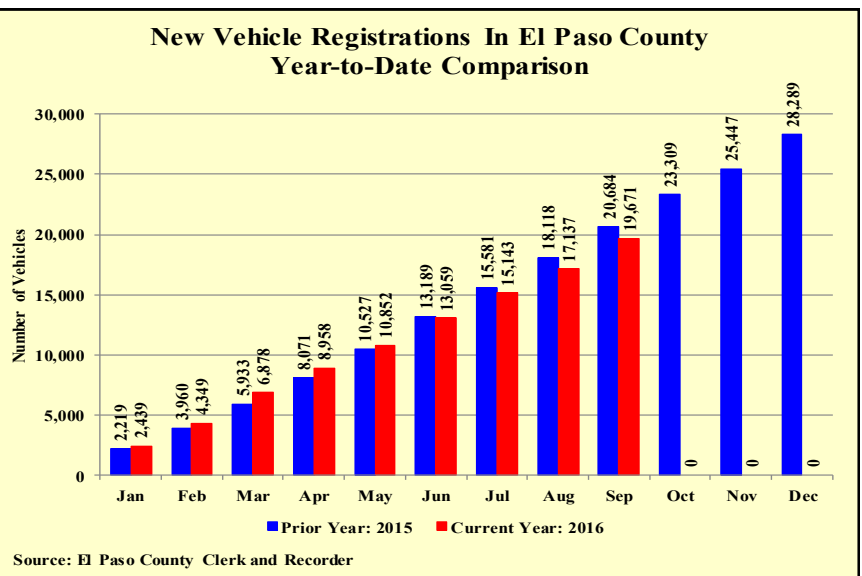
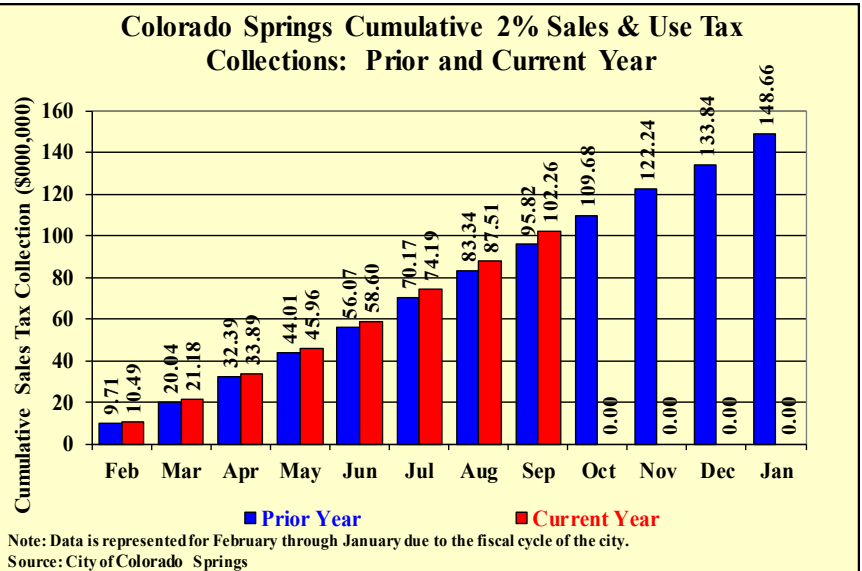
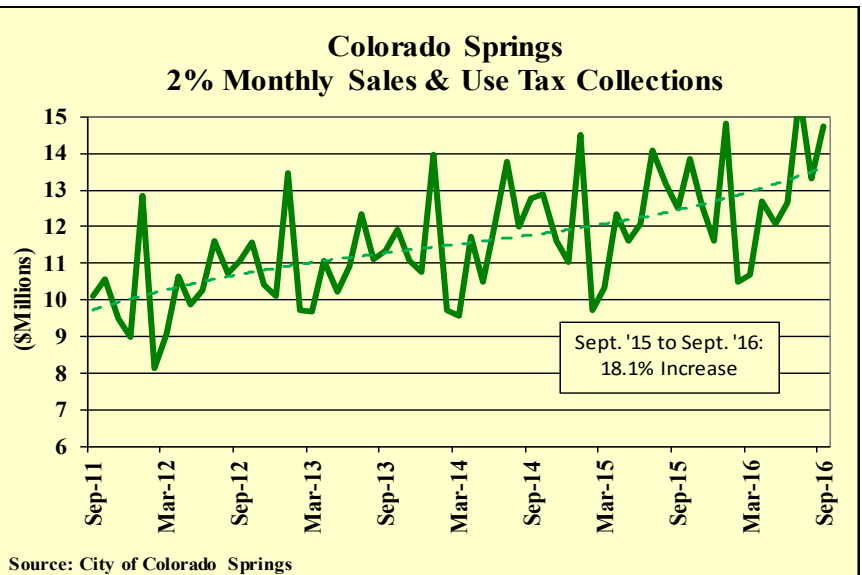
New Vehicle Registrations

Sept. 2010

Sept. 2016

1,309

2,534



Selected Economic Indicators														
National Quarterly Data													Change vs. Yr Ago	
			2015 Q4			2016 Q1			2016 Q2			2016 Q3		
	Total Retail Sales NSA (\$ billions)			1186.2			1183.8			1201.3			1212.5	\$26.61
	e-Sales NSA (\$ billions)			108.2			86.4			91.3			93.7	\$12.65
	e-Sales as % of Retail Sales			9.1%			7.3%			7.6%			7.7%	0.89%
	GDP Real % Annual Growth SA (from prior year's same quarter)			1.9%			1.6%			1.3%			1.6%	*
GDP Real % Quarterly Growth SA (at annualized rate)			0.9%			0.8%			1.4%			3.2%	*	
Household Debt Service Ratio			10.0%			10.0%			10.0%			na	0.05%	
National Monthly Data	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Change vs. Yr Ago	
	Capacity Utilization SA	76.30	75.70	75.40	75.70	75.60	74.90	75.20	75.10	75.40	75.70	75.60	75.40	-1.00
	Car & Lt Trk Sales Millions SA	18.05	18.13	17.41	17.76	17.60	16.58	17.34	17.12	16.76	17.80	16.91	17.66	-0.32
	Cons Sent (1966=100) NSA	90.0	91.3	92.6	92.0	91.7	91.0	89.0	94.7	93.5	90.0	89.8	91.2	4.0
	CPI-U 1982-84=100 SA	237.95	238.30	238.04	238.11	237.71	237.92	238.89	239.40	239.91	239.81	240.30	241.00	3.51
	Federal Funds Rate (Effective)	0.12%	0.12%	0.24%	0.34%	0.38%	0.36%	0.37%	0.37%	0.38%	0.39%	0.40%	0.40%	0.26%
	Gasoline Price per Gal. of Regular	\$2.29	\$2.16	\$2.04	\$1.95	\$1.76	\$1.97	\$2.11	\$2.27	\$2.37	\$2.24	\$2.18	\$2.22	-\$0.15
	Ind Production (1997=100) SA	105.16	104.49	104.05	104.55	104.41	103.43	103.84	103.69	104.23	104.59	104.47	104.22	-1.08
	Inventory/Sales Ratio SA	1.39	1.39	1.40	1.41	1.41	1.41	1.40	1.40	1.39	1.39	1.39	1.38	-0.01
	Mtg Rate, 30 Yr Conventional NSA	3.80	3.94	3.96	3.87	3.66	3.69	3.61	3.60	3.57	3.44	3.44	3.46	-0.43
	Prime Rate (%) NSA	3.25	3.25	3.37	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	0.25
	Purch Mgr Index SA	49.40	48.40	48.00	48.20	49.50	51.80	50.80	51.30	53.20	52.60	49.40	51.50	1.50
	Real Rtl/Food Svc Sales SA (\$ billions)	446.71	448.45	450.45	448.04	449.29	447.91	453.40	454.14	457.41	457.85	457.72	462.11	\$14.47
	S&P 500 (average)	2024.8	2080.6	2054.1	1918.6	1904.4	2022.0	2075.5	2065.6	2083.9	2148.9	2177.5	2157.7	213.3
	Tech Index SA - Mar 2001 = 100	113.2	114.2	114.1	115.4	115.1	114.3	116.2	116.1	115.7	116.9	116.9	115.6	2.5
	Trade Weighted Dollar Index	91.1	93.8	93.9	95.1	93.0	91.4	89.3	89.7	89.5	90.9	89.8	90.1	-1.4
	Crude Oil Price NSA (\$ per barrel)	46.22	42.44	37.19	31.68	30.32	37.55	40.75	46.71	48.76	44.65	44.72	45.18	-\$0.30
	CPI & Employment Data	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Change vs. Yr Ago
	Western Region CPI	244.34	243.75	243.43	244.60	244.82	245.40	246.59	247.86	248.23	248.38	248.50	249.23	4.98
	Colorado Labor Force SA (000's)	2,826	2,829	2,832	2,844	2,862	2,877	2,889	2,898	2,899	2,894	2,891	2,898	74.8
	Colorado Employment SA (000's)	2,724	2,730	2,733	2,753	2,776	2,794	2,799	2,802	2,791	2,784	2,781	2,794	72.1
Colorado Unemployment Rate SA	3.6%	3.5%	3.5%	3.2%	3.0%	2.9%	3.1%	3.3%	3.7%	3.8%	3.8%	3.6%	0.0%	
El Paso County Unemployment Rate NSA	3.7%	3.9%	3.9%	3.8%	3.9%	4.0%	4.1%	4.0%	4.7%	4.2%	3.9%	3.5%	-0.3%	
El Paso County Unemployment Rate SA	4.0%	4.1%	4.0%	3.5%	3.6%	3.8%	4.2%	4.3%	4.5%	4.1%	4.0%	3.7%	-0.4%	

“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 UCCS Economic Forum 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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