

Quarterly Economic Update

4th Quarter, 2016 Data
Posted February 2017
Tatiana Bailey - Director

THE BIG PICTURE

U.S. Quarterly GDP

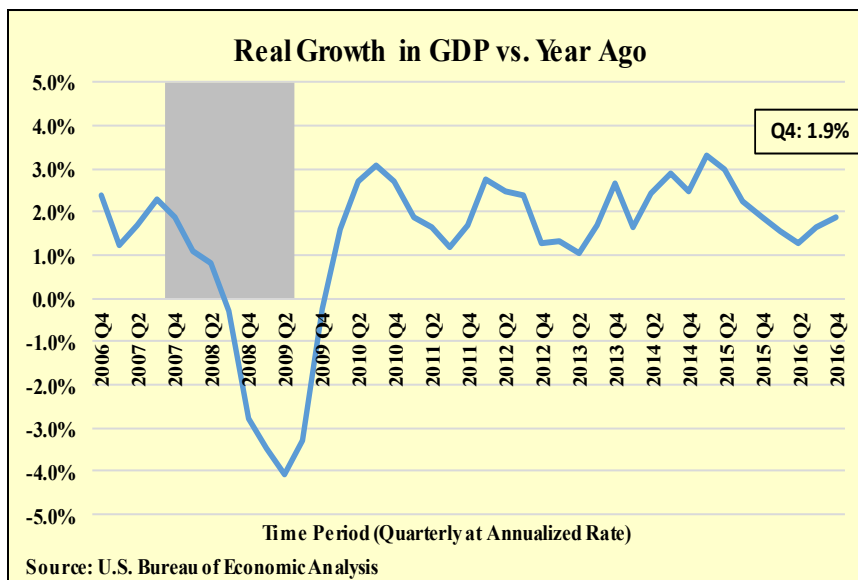
GDP, or gross domestic product, for the fourth quarter of 2016 compared to Q4 from a year ago is up 1.9%, based on the February estimate, which is subject to revisions in March. This Q4, 2016 metric reflects growth in all finished goods and services over the past year (since Q4 of 2015) and it is “real,” or adjusted for inflation.

The increase in real GDP in Q4 reflected positive contributions from personal consumption expenditures (PCE), private inventory investment, residential fixed investment, nonresidential fixed investment, and state and local government spending. Increases were partly offset by negative contributions from exports and federal government spending. Imports, which are a subtraction in the calculation of GDP, increased.

U.S. Consumer Sentiment

Consumer sentiment continued to fuel the national economy ending in December at 98.2. This was the highest level since January of 2004, and it represented a 12-year peak. Survey responses continue to stress that there are roughly an equal number of people who have a favorable outlook on the economy as there are who have an unfavorable outlook, and these opinions are highly correlated to political affiliation. Because it is too soon to tell exactly what policies will be enacted by the new administration, at the end of 2016 there was still a projected increase in consumer spending of 2.7% for 2017 (unchanged from previous forecasts).

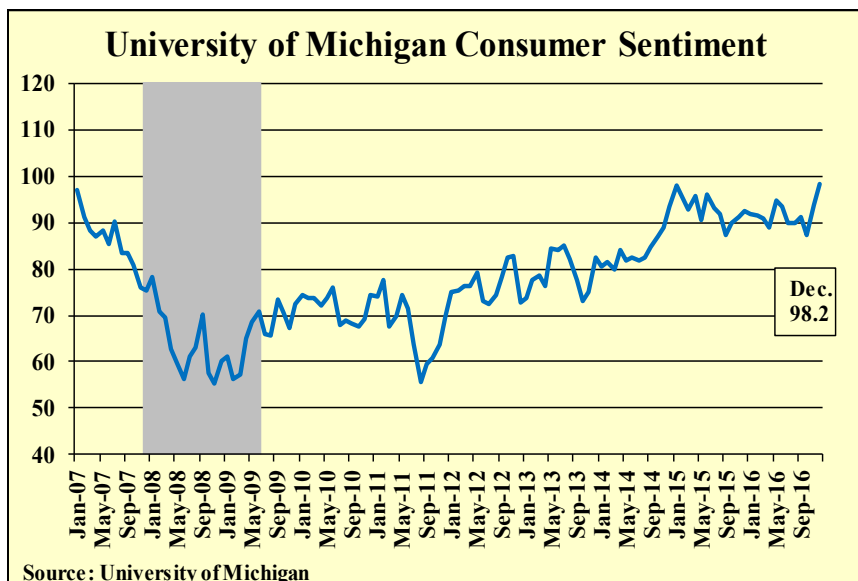
Most of the gains in consumer sentiment revolve around expectations for higher



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.



incomes (up 1.5% in 2017), low inflation rates (at 2.2%), and continued job growth. Since interest rates are expected to rise, the purchase of vehicles and homes moderated at the end of 2016.

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.

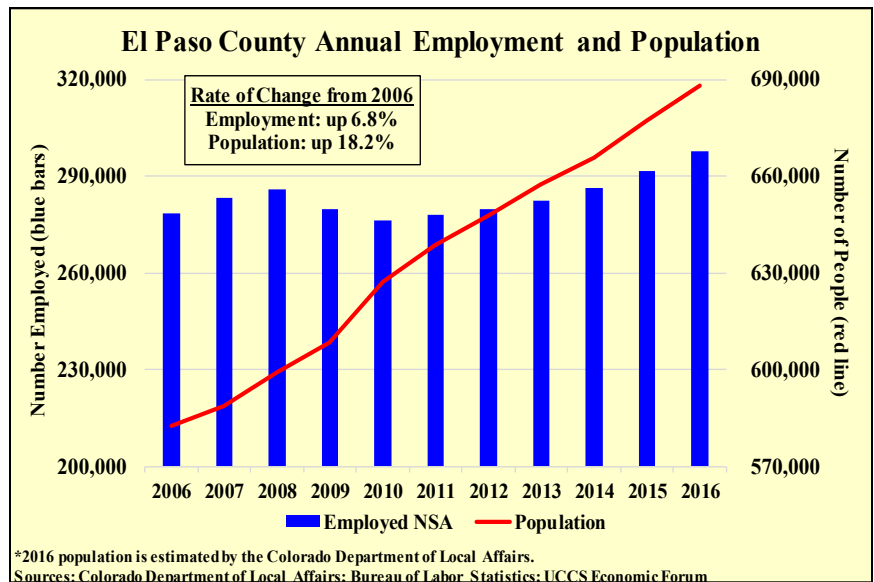
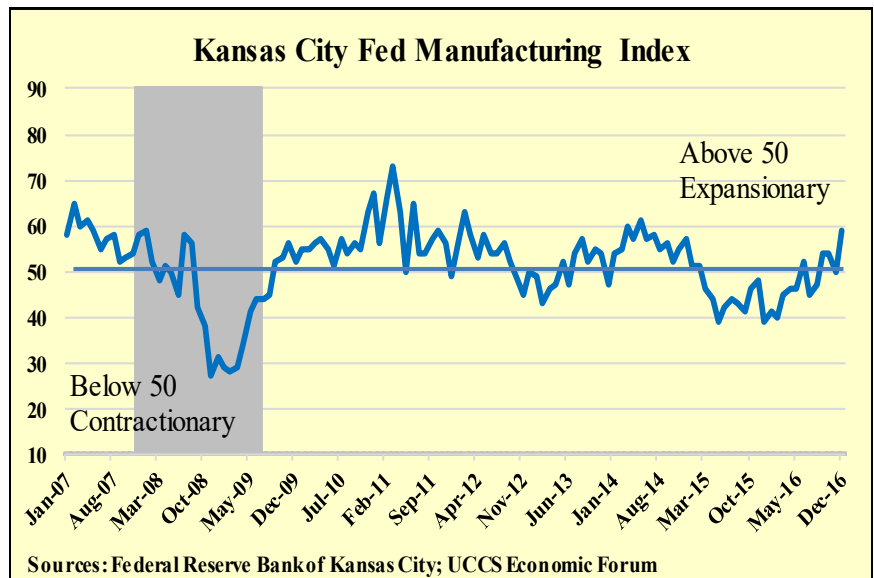
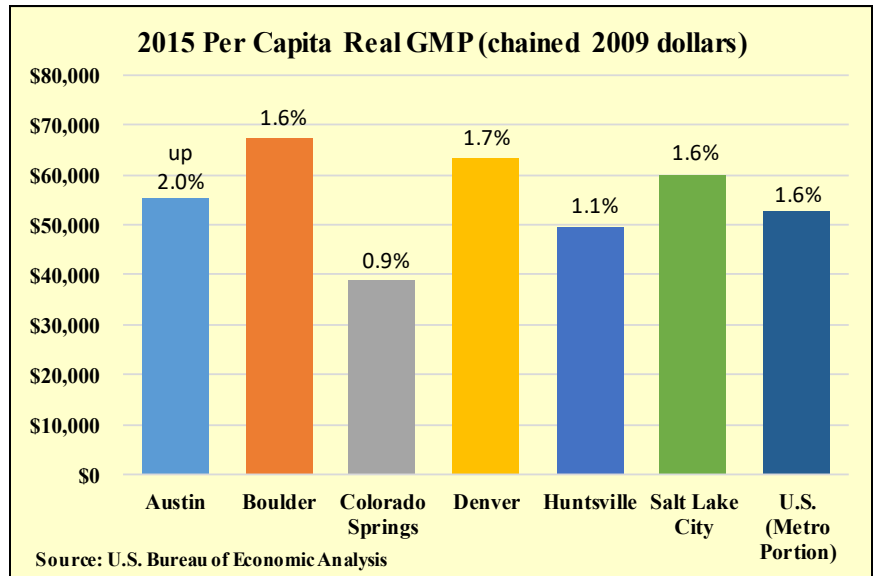
Median Age, 2015	
El Paso County	United States
33.8 years	37.8 years

Kansas City Fed Manufacturing

The Kansas City Fed manufacturing index reported a measure of 59 in December, up from 50 in November 2016. The composite index is an average of production, new orders, employment, delivery time and raw materials inventory. Activity in nondurable goods increased, particularly for food and plastics, while durable goods plants expanded at a slower rate. The production index, shipments, and new orders indices also rose. The employment index increased to its highest level since May 2014. The finished good and raw materials indices also rose.

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 declined during the recession and is now increasing again (left-hand axis). Meanwhile, 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%. Recent analyses by the Forum shows that this is likely due in part to 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 December was 3.3%, which was lower than the U.S. average (4.8%). Employment levels in El Paso County increased from 295,062 to 301,640 (up 2.2%) comparing December 2015 to December 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, both nationally and locally. Over the past year, the local labor force increased by 4,576 representing a 1.5% increase; a much-needed and favorable trend.

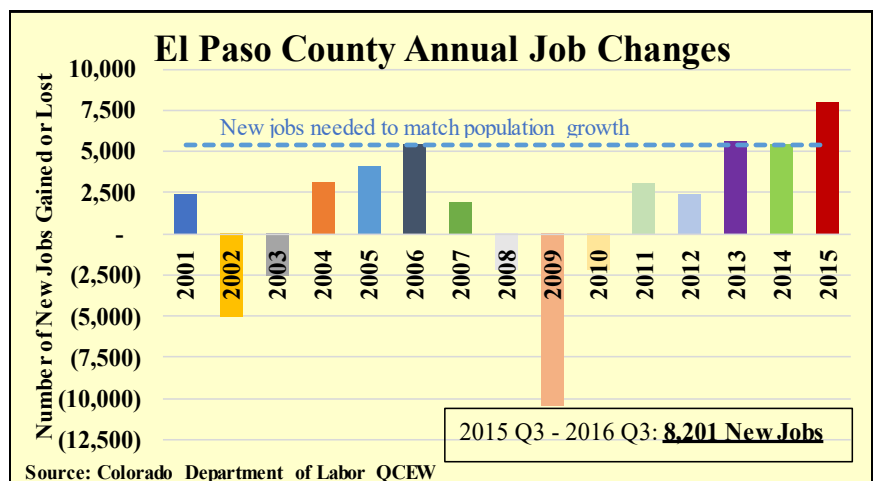
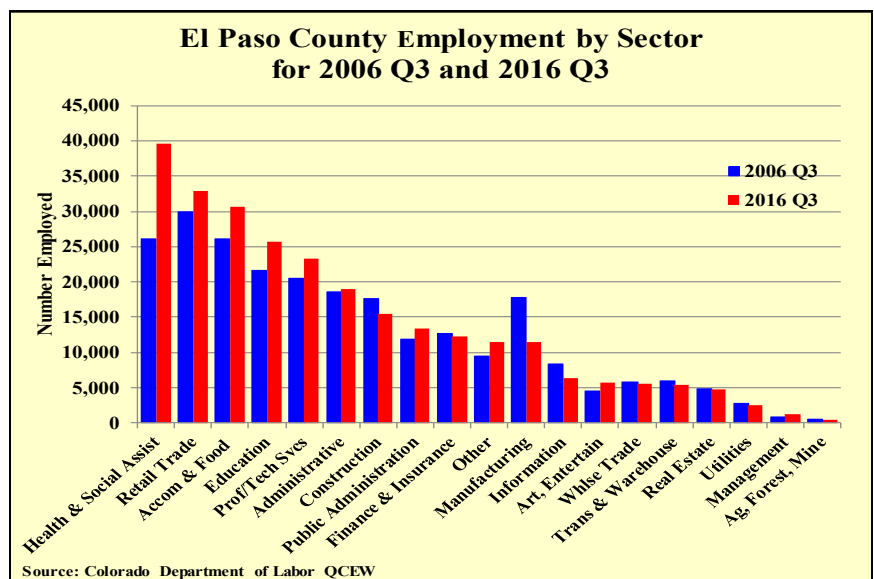
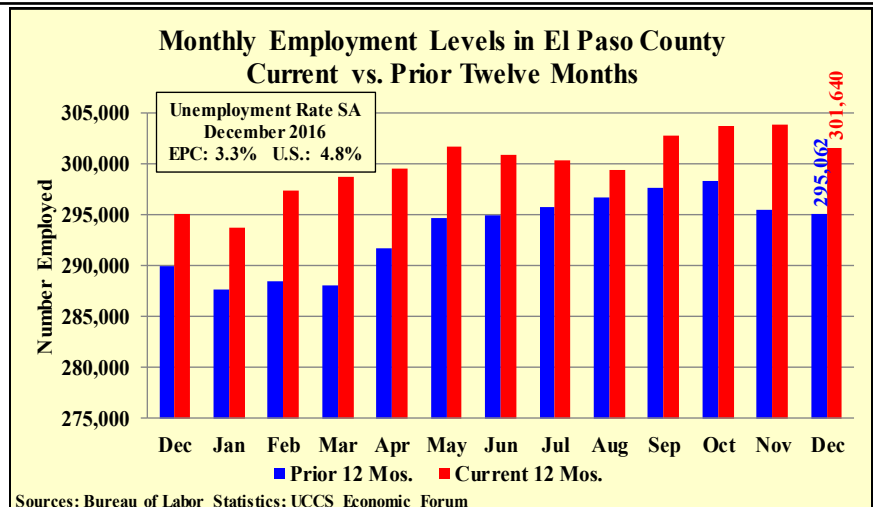
Employment by Sector

From 2006 Q3 to 2016 Q3, the largest increase in employment was in the health and social services sector. Significant increases have also occurred in accommodations and food services, education, professional/technical services, and retail trade. The largest declines were in manufacturing, construction, and information.

New Jobs & Wages

The graph to the right 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 given our age composition: about 5,400 new jobs per year. We met that target in 2013 and 2014, and since 2015, have been exceeding that target. This positive trend has held in 2016. From 2015 Q3 to 2016 Q3, El Paso County well exceeded the 5,400 target at a very healthy 8,201 new jobs.

Unfortunately, wages were lower in El Paso County 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.



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. From December 2015 to December 2016, there was an 18% increase in single family building permits. 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. For all of 2016, we slightly exceeded this “equilibrium” level of permits at 5,000 permits for single and multi-family dwellings.

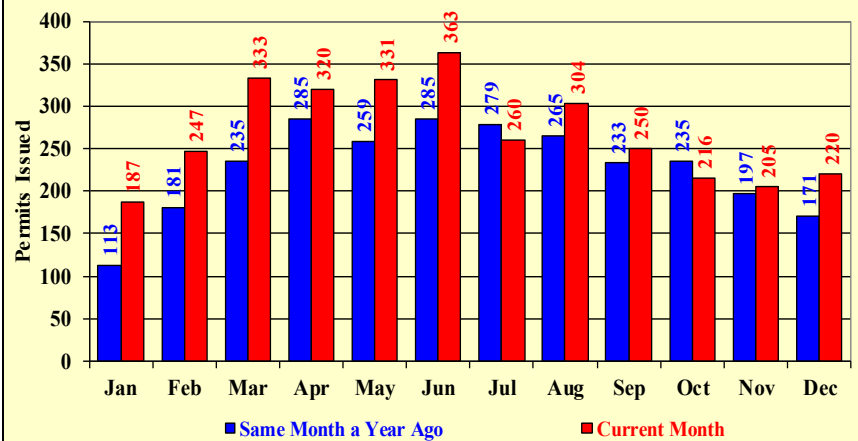
Single Family Permit Trends

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. As mentioned above, comparing 2016 to 2015, there was an 18% increase in the number of permits pulled for single family homes in the Pikes Peak region; a robust increase and consistent with what occurred across the country. Kiplinger’s is forecasting a 10% increase in single family home construction for 2017 in the U.S. although demand is higher than supply in most MSAs.

Multi-Family Housing

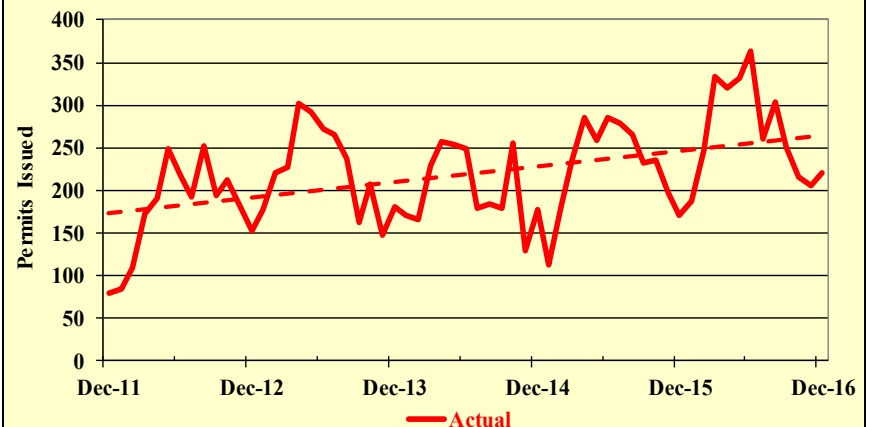
Permits for multi-family housing units are typically zero or very low except for the spring and summer months although the end of 2016 was different. Q4 of 2016 had a total of 768 dwellings gained from permits pulled. Last year, Q4 had only 76 permits pulled (a 911% increase!).

**Single Family-Detached
Building Permits in Pikes Peak Region**



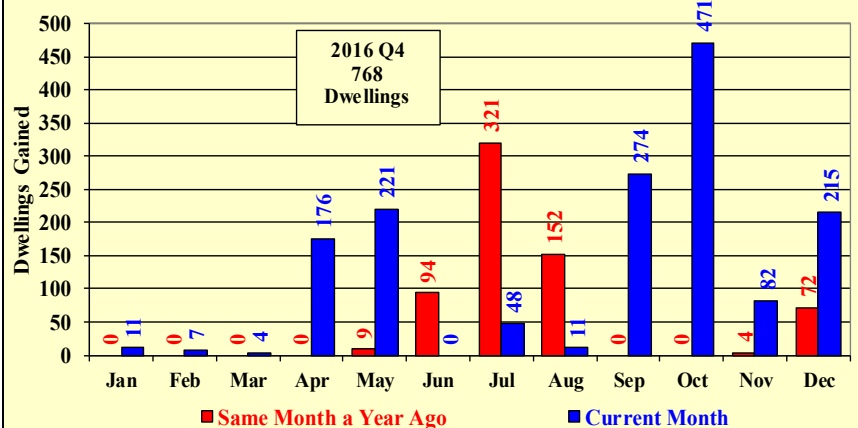
Source: Pikes Peak Regional Building Dept.

**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)

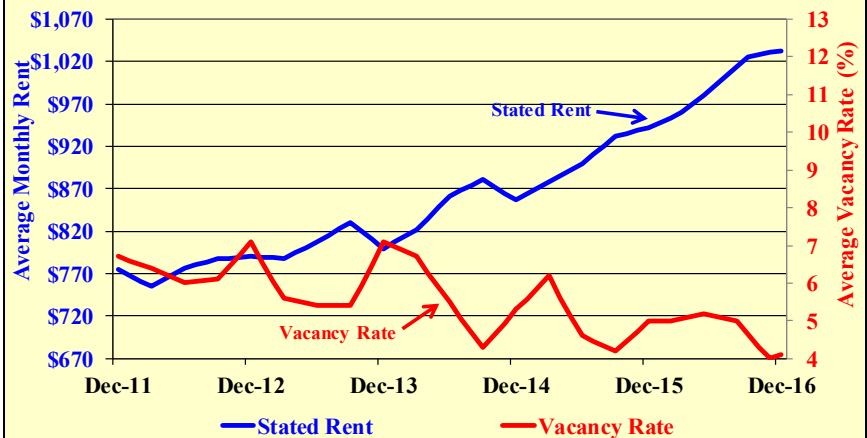
Multi-family Rental Market

The vacancy rate for multi-family housing for 2016 Q4 was 4.3% compared to the previous rate of 5.0% a year ago (2015 Q4). These percentages represent properties without “lease up” categories, which are new properties occupying residents for the first time. If we include “lease up” properties, the vacancy rate was 6.8% in Q4. 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. 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 Q4 of \$1,033. A year ago (2015 Q4), the average rent was \$942 per month, which represents a 9.7% increase in one year alone. 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.

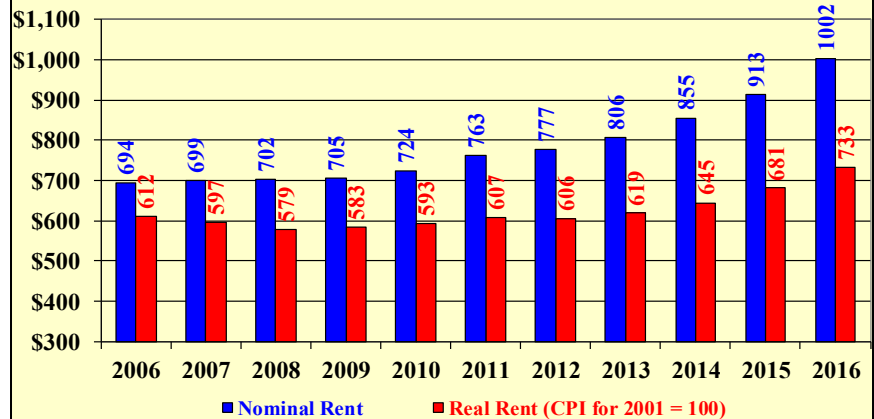
Annual vacancy rates will continue to be a function of the local economy and consumer preferences. Vacancy rates fell from 5.0% in 2015 to 4.6% in 2016 as the graph shows. Both nationally and locally, there does seem to be a trend towards multi-family housing, which includes efficiency, one, two, and 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.

Multi-Family Rental & Vacancy Rates in Colorado Springs MSA



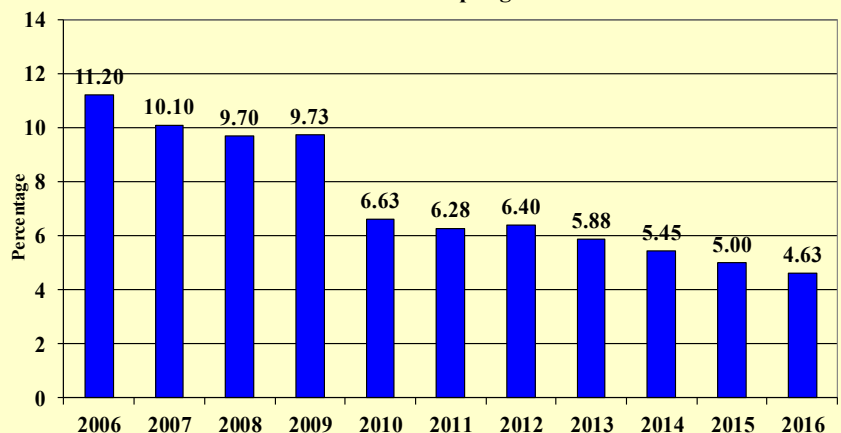
Source: Colorado Division of Housing

Annual Nominal & Real Multi-Family Rents in Colorado Springs MSA



Source: Colorado Division of Housing

Multi-Family Annual Vacancy Rates in Colorado Springs MSA



Source: Colorado Division of Housing

HOUSING (continued)

Year-to-Date Sales

Home sales in the Pikes Peak region have been increasing at double digit rates. In Q4 of 2016, there were 671 more homes sold than in 2015 Q4 representing a robust 22.2% increase. Over the entire year, home sales increased 15.6% from 2015 to 2016 (or 2,068 more homes sold). Looking just at December 2016, the median home price in the Pikes Peak region was \$255,000 whereas it was less at \$239,900 in December 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.

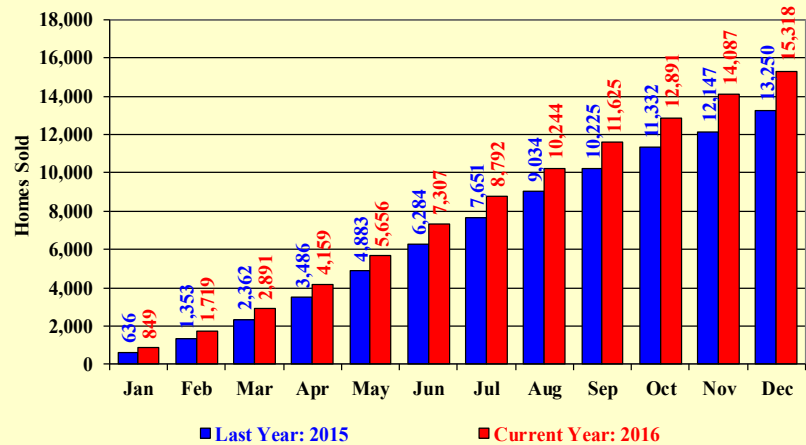
Active Listings

Active listings were down 28.0% in December 2016 compared to December 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 40 in December 2016, and it was 60 in December 2015 indicating that existing homes are selling more quickly.

Foreclosures

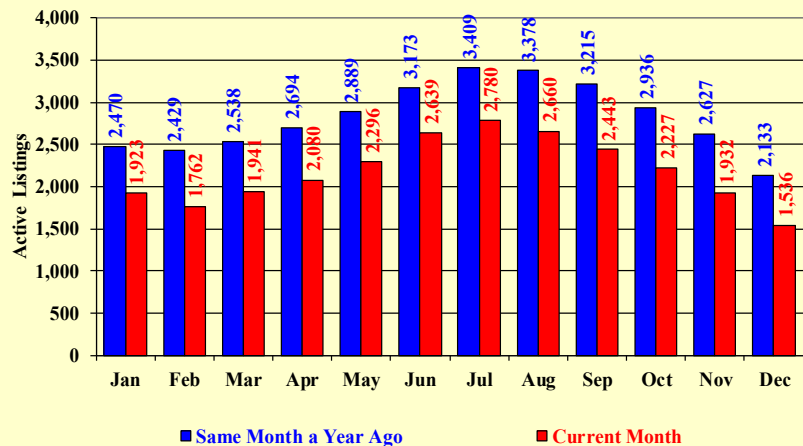
There were 1,286 foreclosure proceedings in 2016, which is 12.7% lower than the same period last year (1,472 foreclosures). These numbers are seasonally adjusted. Foreclosures are still very low even when compared to the pre-recessionary period, which is favorable news for the region. On average, from 2005 to 2007, there were 233 foreclosures per month in El Paso County. There were an average of 107 foreclosures per month in 2016.

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



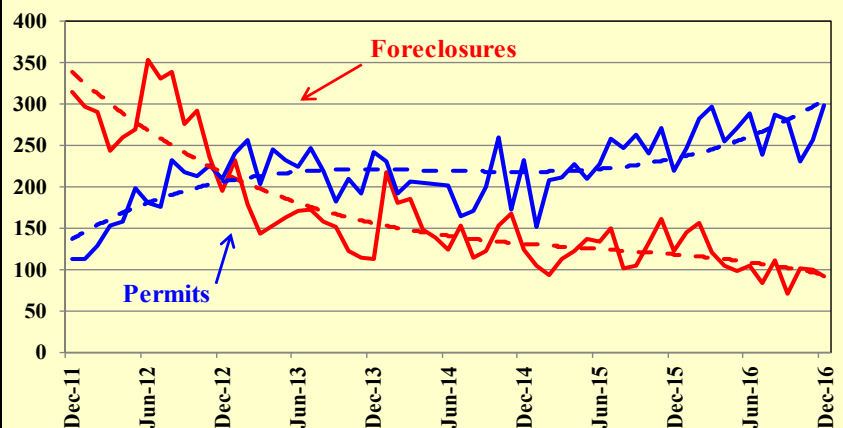
Source: Pikes Peak REALTOR Services Corp.

**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

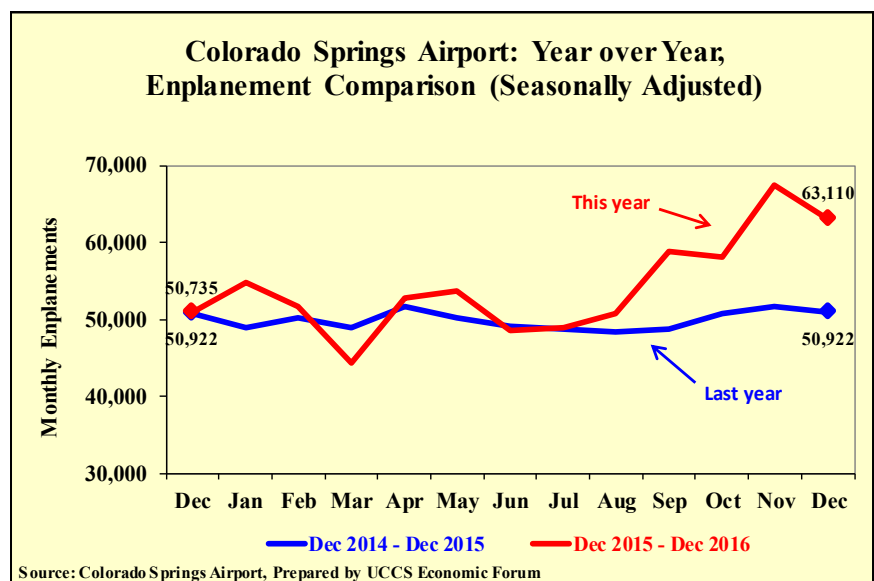
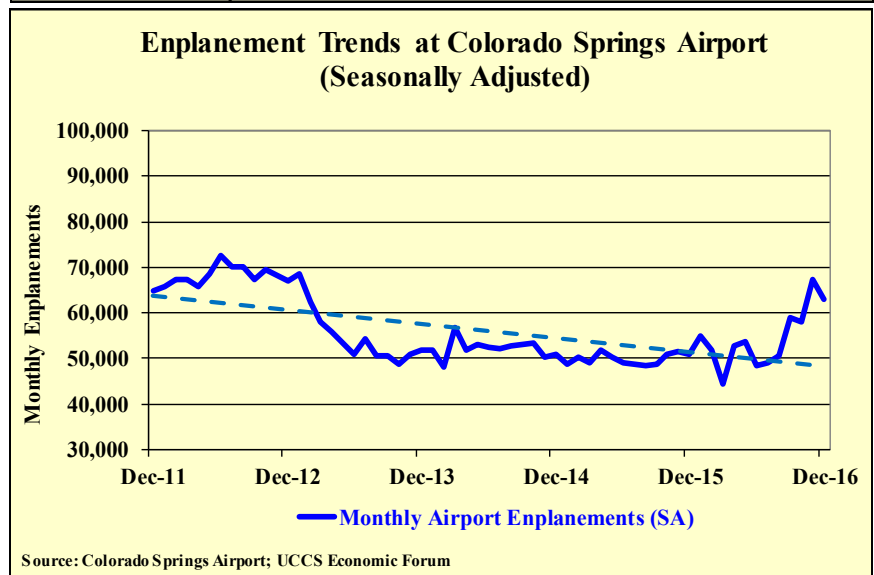
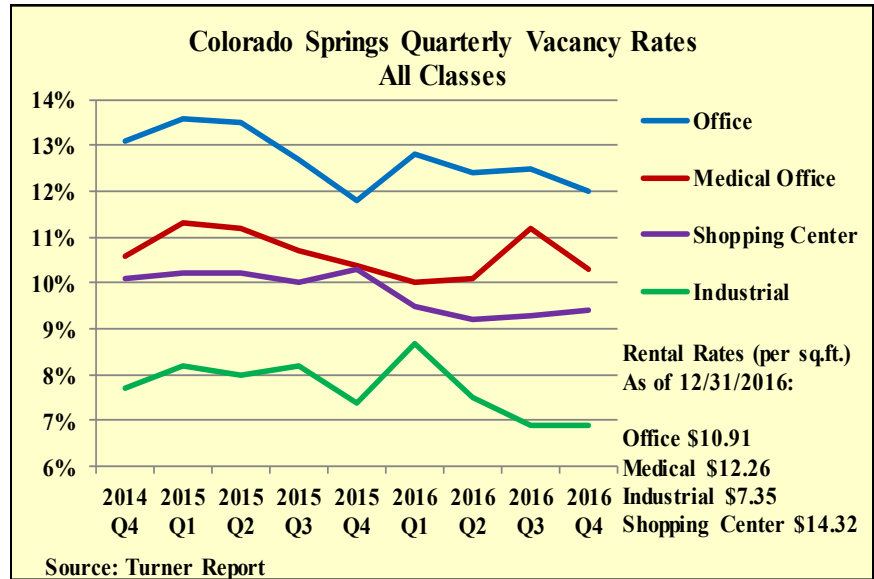
Commercial real estate vacancy rates stayed flat in the industrial market, increased for retail (shopping) space, and decreased for office and medical space. Local experts are stating that the industrial market appears to be at a critical pivot point. In particular, a shortage of class A space is spurring 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 63,110 in December 2016. This is 23.9% higher than December of last year (50,922 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 airports 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 December 2016 were 61,785 or 23.5% higher than December 2015 (50,034) and 21.2% higher than December 2014 (50,980).



SALES TAX & CAR REGISTRATIONS

Local Sales & Use Taxes

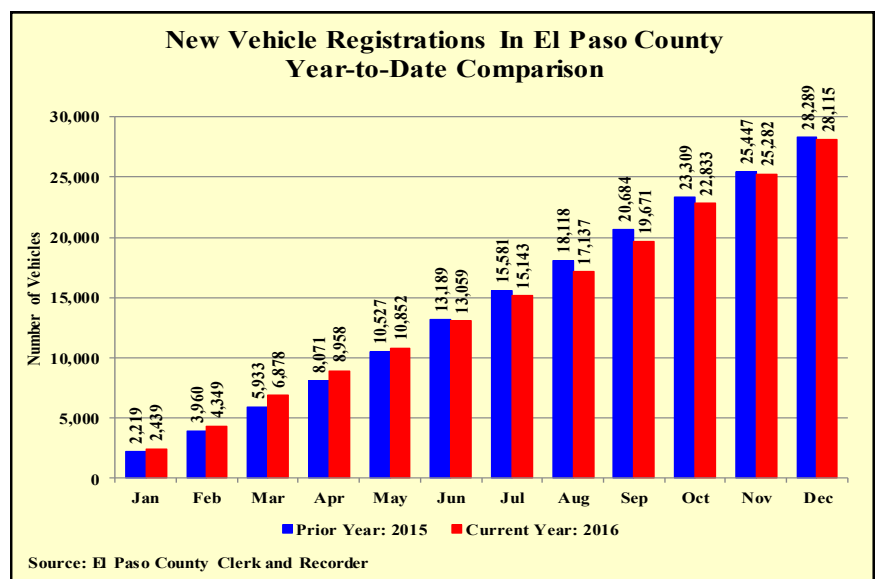
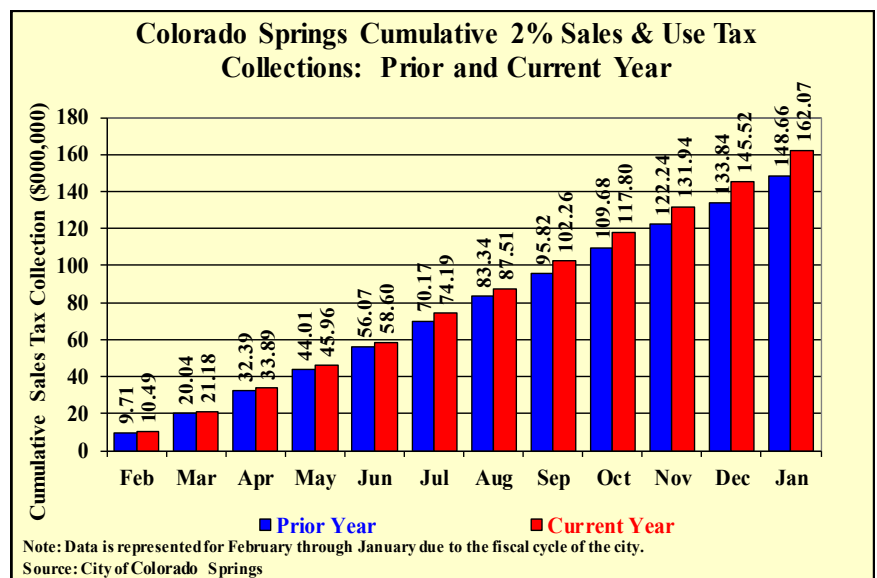
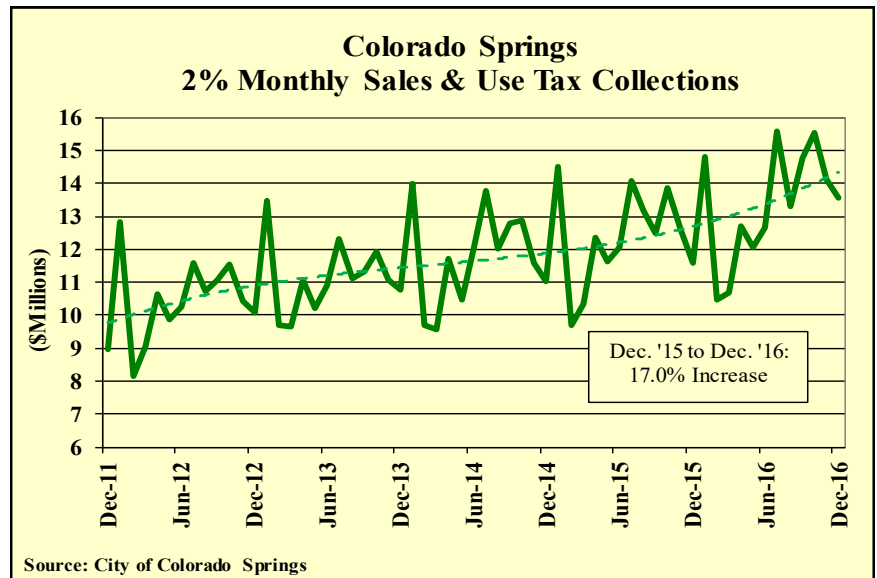
The strong national and local economies and, in particular, strong consumer sentiment (see page 1) have resulted in higher, local sales and use tax collections. The 2% sales and use tax collections for December 2016 (for November sales) were \$13,573,308. This represents a 17.0% increase from the same month last year. Cumulatively, sales and use tax collections were up from last year as well (second graph). In December 2016, the largest month-to-month percentage increases by major industries were in commercial machines (78.5%), building materials (43.6%), and medical marijuana (22.8%).

A (cumulative) year-to-date comparison as of December 2016 indicates sales and use tax collections were 8.7% higher than December 2015. The largest percentage increases year to date were in business services (25.7%), grocery stores (20.5%), medical marijuana (19.9%), building materials (17.7%), and commercial machines (17.4%).

New Vehicle Registrations

Vehicle registrations were down 0.3% in 2016 compared to 2015. However, this sector remains quite strong when compared to recessionary times. As the table below shows, new vehicle registrations were 110% higher in December 2016 compared to December of 2010. Local, luxury utility registrations, which can be an indicator of local consumer confidence, were up 25% in December 2016 compared to December 2015 and up 12.1% for all of 2016 compared to 2015.

New Vehicle Registrations	
Dec. 2010	Dec. 2016
1,351	2,833



Selected Economic Indicators															
National Quarterly Data													Change vs. Yr Ago		
			2016 Q1			2016 Q2			2016 Q3			2016 Q4			
	Total Retail Sales NSA (\$ billions)			1183.2			1201.3			1212.7			1235.5	\$49.02	
	e-Sales NSA (\$ billions)			86.4			91.3			93.6			123.6	\$15.44	
	e-Sales as % of Retail Sales			7.3%			7.6%			7.7%			10.0%	0.89%	
	GDP Real % Annual Growth SA (from prior year's same quarter)			1.6%			1.3%			1.7%			1.9%	*	
	GDP Real % Quarterly Growth SA (at annualized rate)			0.8%			1.4%			3.5%			1.9%	*	
	Household Debt Service Ratio			10.0%			10.0%			10.0%			na	0.04%	
National Monthly Data	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Change vs. Yr Ago		
	Capacity Utilization SA	75.70	75.60	74.90	75.20	75.10	75.40	75.60	75.50	75.30	75.50	75.20	75.60	0.20	
	Car & Lt Trk Sales Millions SA	17.76	17.60	16.58	17.34	17.12	16.77	17.80	16.91	17.68	17.94	17.72	18.32	0.91	
	Cons Sent (1966=100) NSA	92.0	91.7	91.0	89.0	94.7	93.5	90.0	89.8	91.2	87.2	93.8	98.2	5.6	
	CPI-U 1982-84=100 SA	238.11	237.81	238.08	238.91	239.36	239.84	239.90	240.39	241.01	241.69	242.20	242.82	4.97	
	Federal Funds Rate (Effective)	0.34%	0.38%	0.36%	0.37%	0.37%	0.38%	0.39%	0.40%	0.40%	0.40%	0.41%	0.54%	0.30%	
	Gasoline Price per Gal. of Regular	\$1.95	\$1.76	\$1.97	\$2.11	\$2.27	\$2.37	\$2.24	\$2.18	\$2.22	\$2.25	\$2.18	\$2.25	\$0.22	
	Ind Production (1997=100) SA	104.55	104.41	103.43	103.84	103.69	104.22	104.52	104.43	104.15	104.44	104.19	104.82	0.77	
	Inventory/Sales Ratio SA	1.41	1.41	1.41	1.40	1.40	1.39	1.39	1.39	1.38	1.37	1.38	1.35	-0.05	
	Mtg Rate, 30 Yr Conventional NSA	3.87	3.66	3.69	3.61	3.60	3.57	3.44	3.44	3.46	3.47	3.77	4.20	0.24	
	Prime Rate (%) NSA	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.64	0.27	
	Purch Mgr Index SA	48.2	49.7	51.7	50.7	51.0	52.8	52.3	49.4	51.7	52.0	53.5	54.5	6.5	
	Real Rtl/Food Svc Sales SA (\$ billions)	447.27	449.29	447.91	453.40	454.14	457.41	457.85	457.72	462.28	465.32	466.03	470.46	\$19.63	
	S&P 500 (average)	1918.6	1904.4	2022.0	2075.5	2065.6	2083.9	2148.9	2177.5	2157.7	2143.0	2165.0	2246.6	192.5	
	Tech Index SA - Mar 2001 = 100	115.4	115.1	114.3	116.2	116.1	115.7	116.9	116.9	115.8	116.9	118.0	119.0	5.0	
	Trade Weighted Dollar Index	95.1	93.0	91.4	89.3	89.7	89.5	90.9	89.8	90.1	91.9	93.7	95.4	1.5	
	Crude Oil Price NSA (\$ per barrel)	31.68	30.32	37.55	40.75	46.71	48.76	44.65	44.72	45.18	49.78	45.66	51.97	\$14.78	
	CPI & Employment Data	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Change vs. Yr Ago	
		Western Region CPI	244.60	244.82	245.40	246.59	247.86	248.23	248.38	248.50	249.23	249.90	249.45	249.52	6.08
		Colorado Labor Force SA (000's)	2,844	2,862	2,877	2,889	2,898	2,899	2,894	2,891	2,898	2,910	2,921	2,926	93.8
Colorado Employment SA (000's)		2,753	2,776	2,794	2,799	2,802	2,791	2,784	2,781	2,794	2,808	2,827	2,838	105.1	
Colorado Unemployment Rate SA		3.2%	3.0%	2.9%	3.1%	3.3%	3.7%	3.8%	3.8%	3.6%	3.5%	3.2%	3.0%	-0.5%	
El Paso County Unemployment Rate NSA		3.8%	3.9%	4.0%	4.1%	4.0%	4.7%	4.2%	3.9%	3.5%	3.5%	3.2%	3.2%	-0.7%	
El Paso County Unemployment Rate SA		3.5%	3.6%	3.8%	4.2%	4.3%	4.5%	4.1%	4.0%	3.7%	3.7%	3.3%	3.3%	-0.7%	

“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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The *Quarterly Economic Update* is a publication of the
UCCS Economic Forum
College of Business and Administration
1420 Austin Bluffs Parkway
Colorado Springs, CO 80918

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