Economic Forum
COLLEGE OF BUSINESS
UNIVERSITY OF COLORADO
COLORADO SPRINGS

College of Business and Administration
University of Colorado Colorado Springs
1420 Austin Bluffs Parkway, Colorado Springs, CO 80918

Quarterly Economic Update

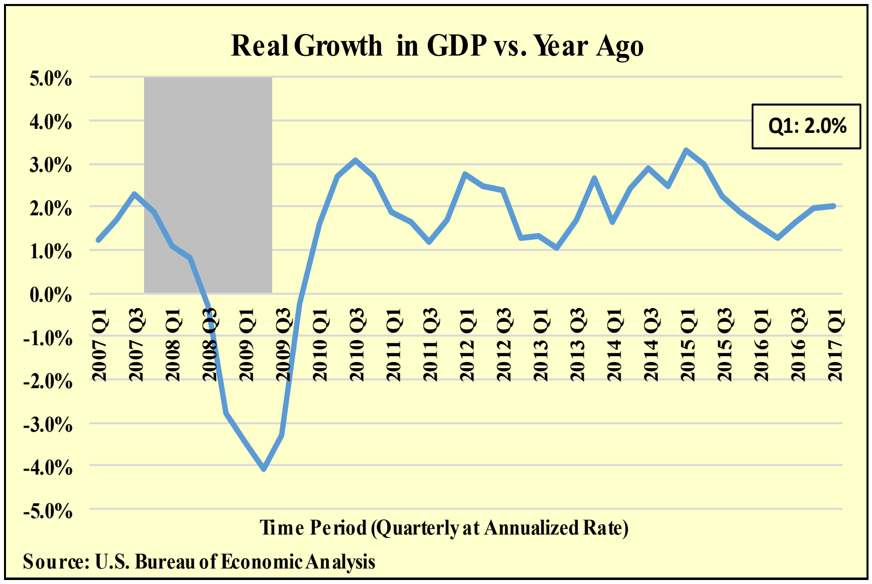
1st Quarter, 2017 Data
Posted May 2017
Tatiana Bailey - Director

THE BIG PICTURE

U.S. Quarterly GDP

GDP, or gross domestic product, for the first quarter of 2017 compared to Q1 from a year ago is up 2.0%, based on the May estimate, which is subject to revision in June. This 2017 Q1 metric reflects growth in all finished goods and services over the past year (since Q1 of 2016), and it is "real," or adjusted for inflation.

The increase in real GDP in Q1 emanated from increases in nonresidential fixed investment, exports, residential fixed investment, and personal consumption expenditures (PCE). These gains were offset somewhat by modest decreases in private inventory investment, federal, state and local government spending and an increase in imports.



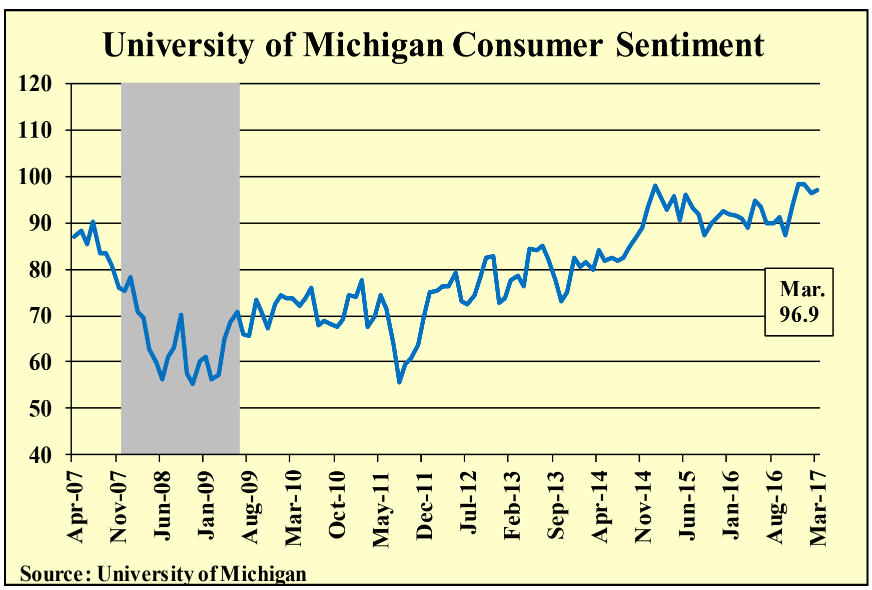
GDP: The monetary value of all of the finished goods and services produced within a country's border in a specific time period. Figures are seasonally adjusted and annualized.

GDP = C + G + I + 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 continued to fuel the national economy ending in March at 96.9. Much of the optimism is due to approximately 50% of respondents saying their personal finances had improved while 18% reported worsened finances. This is the best net financial assessment since 2000, hence the high consumer confidence. Wealth gains were especially strong for retirees due to increases in stock holdings and rising home values. Low gas prices and very modest inflation overall are also contributing to the strong consumer confidence.



Also noteworthy is the 13% of respondents who stated they are planning to buy a home in advance of rising prices and 19% who stated they are planning to buy in advance of rising mortgage rates. This will likely keep residential real estate strong in the next 12 months. The University of Michigan continued by the end of March to project an increase in consumer spending of 2.7% for 2017 (unchanged from previous forecasts).

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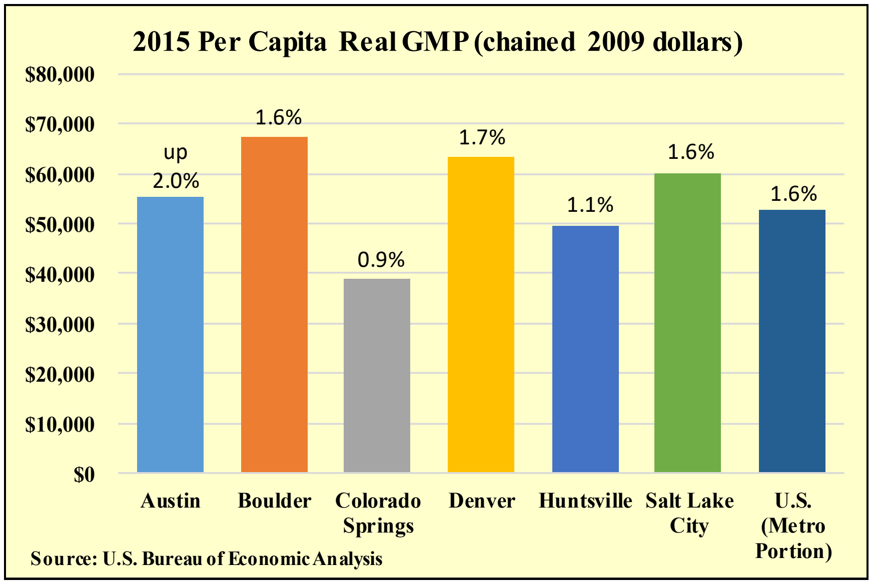
THE BIG PICTURE (cont.)

Per Capita GMP

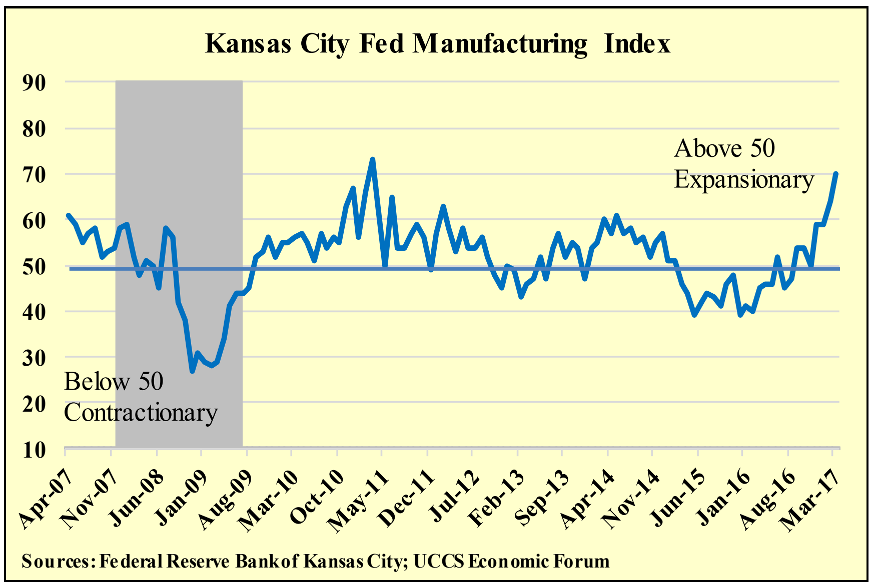
GMP is conceptually the same as GDP but for a (smaller) defined geographic region. The percentages above the bars represent the incremental change in GMP from 2014 to 2015. The greatest level of increase happened in Austin (2.0%) and the lowest was Colorado Springs (0.9%). Real GMP per capita could be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



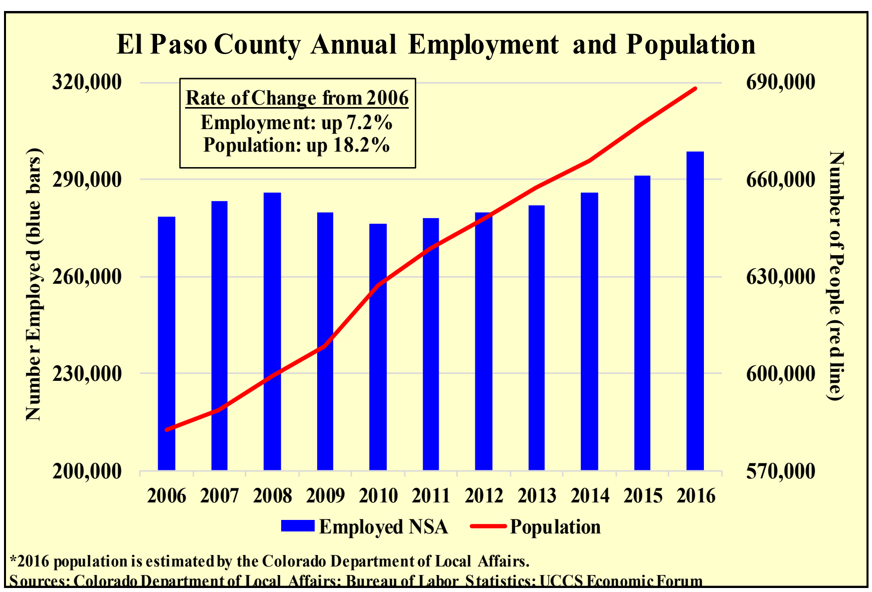
Kansas City Fed Manufacturing

The Kansas City Fed manufacturing index reported a measure of 70 in March, up from 64 in February 2017. Increases happened in every category of the index including (from greatest increase to least): production, shipments, new orders, prices paid for raw materials, backlog of orders, number of employees and employee hours, and prices received for finished products. In the nation, as of March 2017, there have been 7 consecutive months of increases in the manufacturing sector. The economy overall has been increasing for 94 months.



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 due to the recession and is now increasing again (left-hand axis). Meanwhile, population has increased significantly (right hand axis). In fact, from 2006 to 2016, employment levels increased by 7.2%, but population increased by 18.2%. 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.



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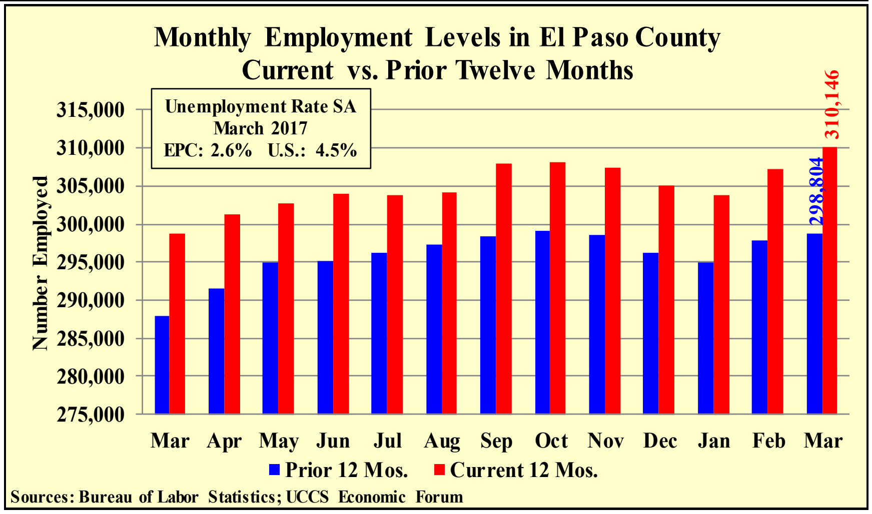
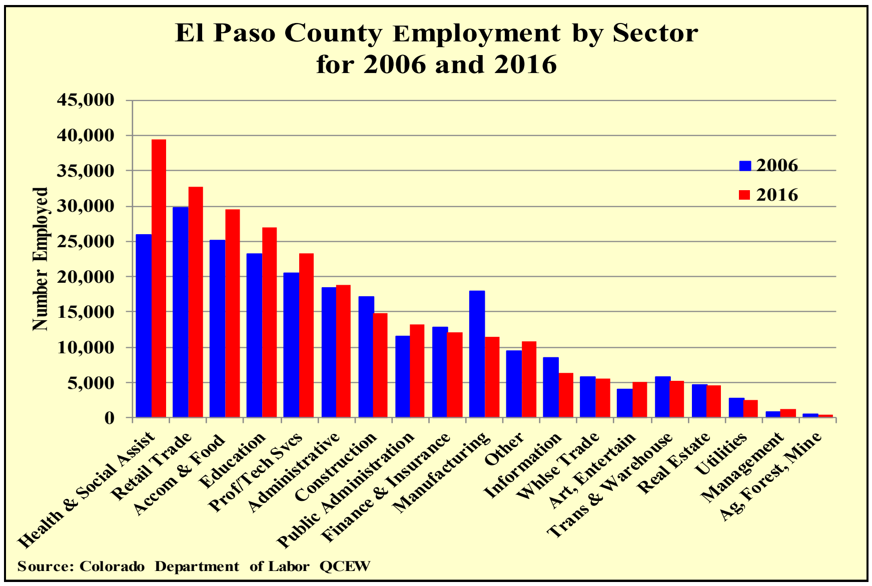
EMPLOYMENT & WAGES

The seasonally adjusted unemployment rate for El Paso County at the end of March was 2.6%, which was significantly lower than the U.S. average (4.5%). Employment levels in El Paso County increased from 298,804 to 310,146 (up 3.8%) comparing March 2016 to March 2017. Another additional piece of good news is that more people are simultaneously re-entering the workforce. Businesses are hiring these re-entrants or our unemployment rate would not be so low. Over the past year, the local labor force increased by 6,523 representing a 2.1% increase; a much-needed and favorable trend.



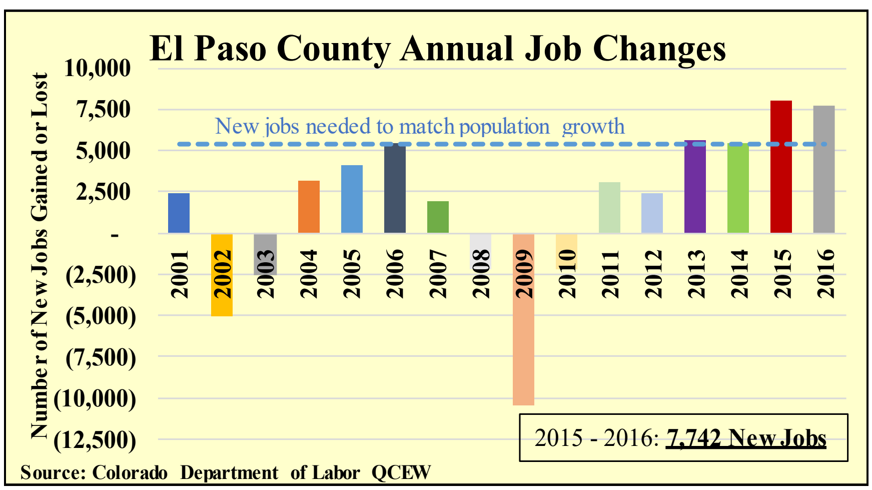
Employment by Sector

From 2006 to 2016, 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, although manufacturing and construction have rebounded in more recent years.



New Jobs & Wages

The graph to the right shows new job growth or contraction going back to 2001. 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 to 2016, El Paso County well exceeded the 5,400 target at a very healthy 7,742 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.

Average Real Annual Wages (2009 Dollars)		
	El Paso County	United States
2006	**$41,054**	**$45,280**
2016	**$41,716**	**$47,927**

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HOUSING

Single Family Permits

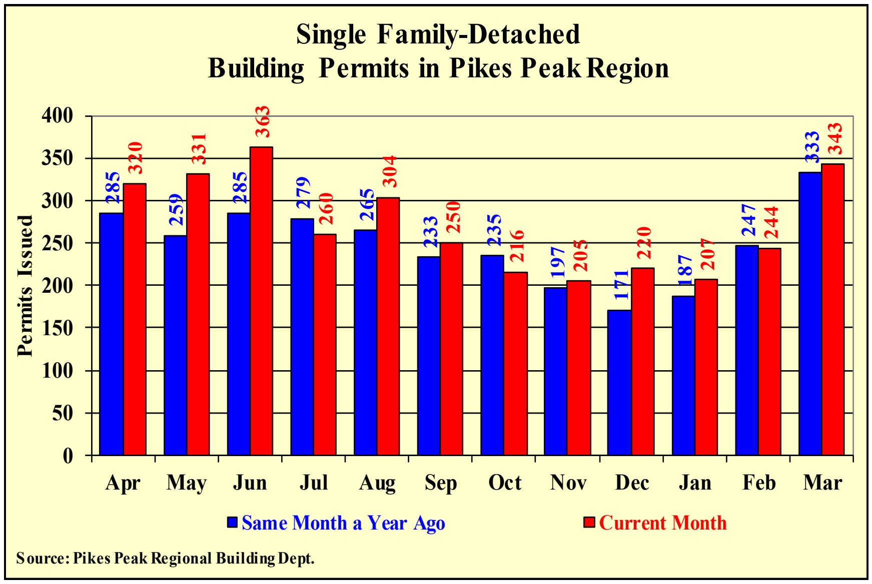
Single family building permits continued to increase in the Pikes Peak region. From March 2016 to March 2017, there was a 3% increase in single family building permits. This is not surprising given the continued, favorable economic climate with job creation, strong consumer sentiment and continued historically 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 about 5,000 permits for single and multi-family dwellings.

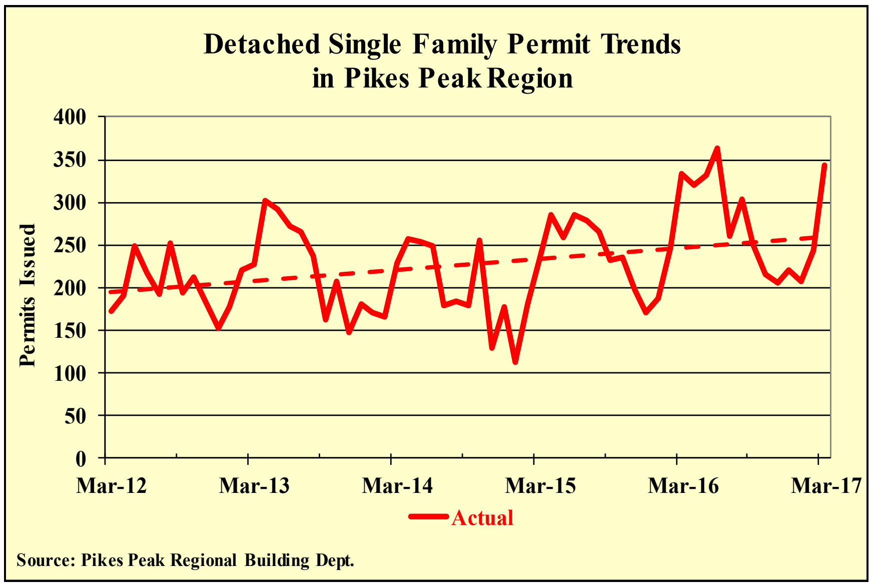
Single Family Permit Trends

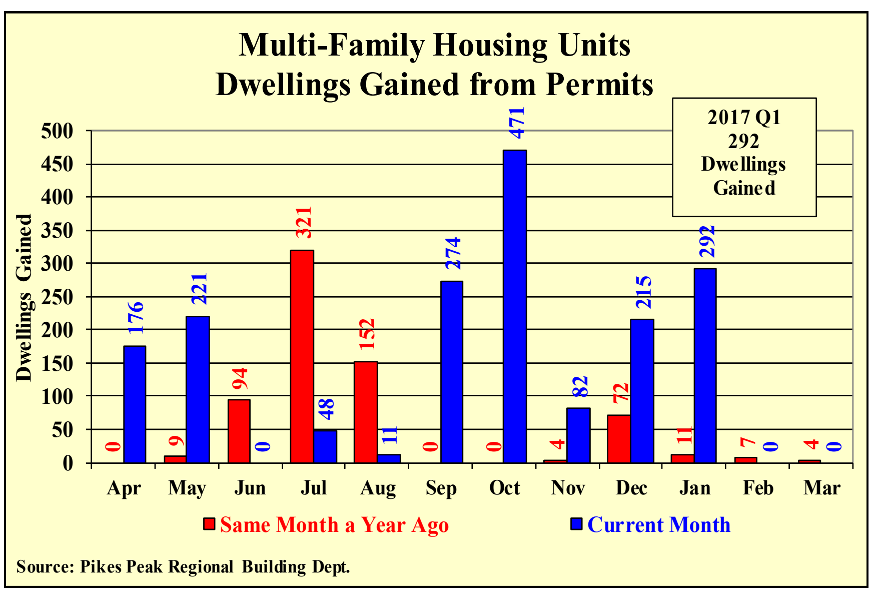
The figure to the right illustrates the trend in detached housing permits for the last five years. There has been a steady increase since 2010 with the expected seasonality of fewer permits during the winter months. The National Association of Home Builder's (NAHB) is forecasting a 9% increase in the U.S. in single family home construction for 2017, and a 3% decline in multi-family construction. NAHB is also predicting a 12.7% increase in new home sales and a 3.5% increase in existing home sales.

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. Q1 of 2017 had a total of 292 dwellings gained from permits pulled. Last year, Q1 had only 22 permits pulled (a 1,227% increase!).



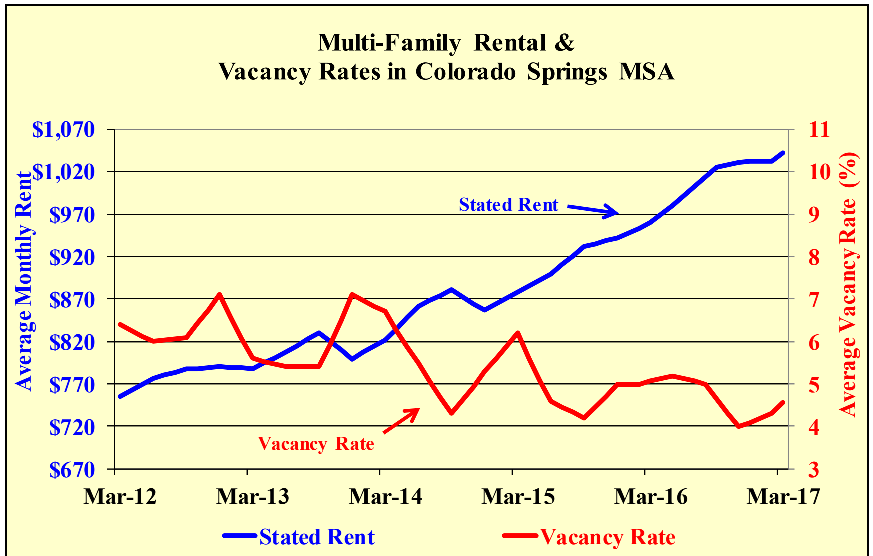




HOUSING (continued)

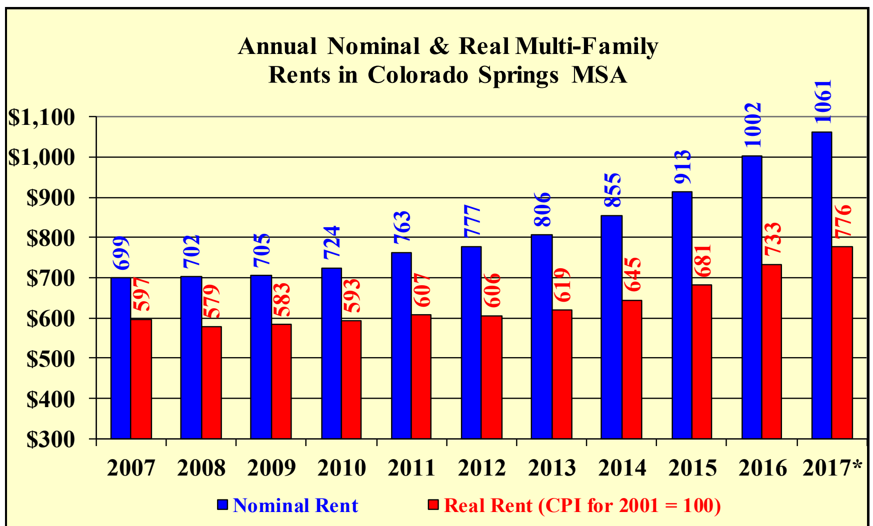
Multi-family Rental Market

The vacancy rate for multi-family housing for 2017 Q1 was 5.1% compared to the previous rate of 5.2% a year ago (2016 Q1). 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 7.4% in 2017 Q1. The Colorado Division of Housing estimates that an "equilibrium" vacancy rate is around 5.0%, putting our region close to the equilibrium range. The decreasing vacancy rate in El Paso County has caused an increase in the number of units being built.



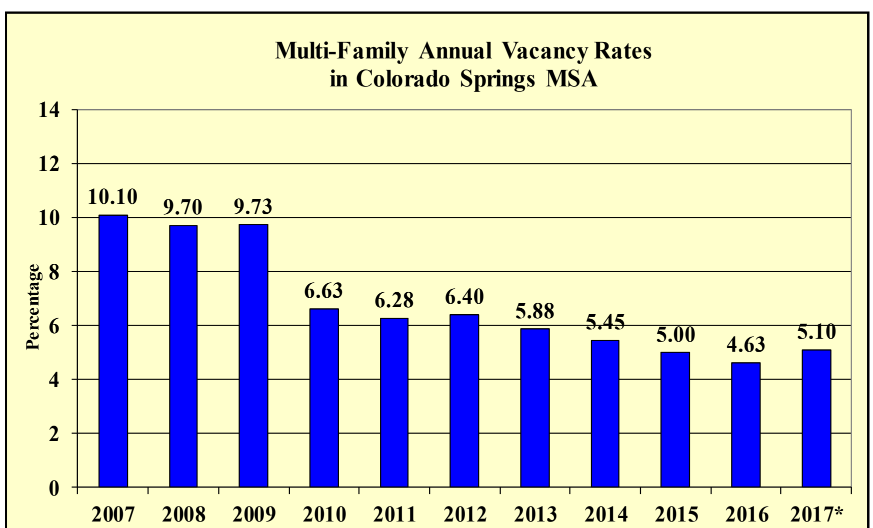
Source: Colorado Division of Housing

Rental rates have increased in our region with an average monthly rent in 2017 Q1 of $1,061. A year ago (2016 Q1), the average rent was $960 per month, which represents a 10.5% 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).



*Data is through Q1 only.
Source: Colorado Division of Housing

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 and back up to 5.1% in the first part of 2017 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 marked decrease in vacancy rates since 2009 has caused significant new apartment construction particularly in the northern part of Colorado Springs. It will be important to monitor the demand for this type of housing versus the (increasing) supply such that overbuilding does not occur. Ensuring a supply of affordable housing will also be important.



*Data is through Q1 only.
Source: Colorado Division of Housing

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HOUSING (continued)

Year-to-Date Sales

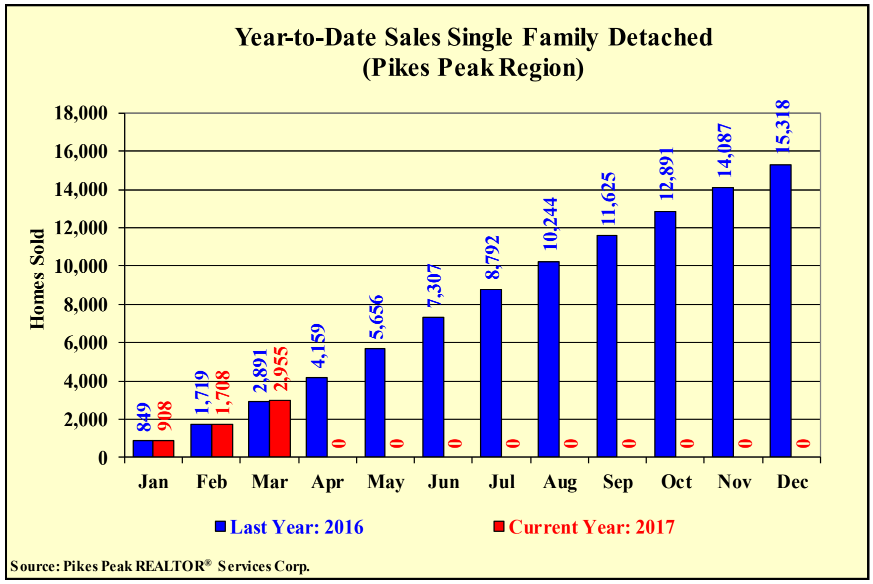
Home sales in the Pikes Peak region have increased modestly comparing Q1 of 2016 to Q1 of 2017. In Q1 of 2017, there were 64 more homes sold than in 2016 Q1 representing a 2.2% increase. Over the entire year, home sales increased 15.6% from 2015 to 2016 (or 2,068 more homes sold). Looking just at March 2017, the median home price in the Pikes Peak region was $268,000 whereas it was less at $239,500 in March 2016. 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 2017, although low inventory is compromising the optimal movement of real estate.

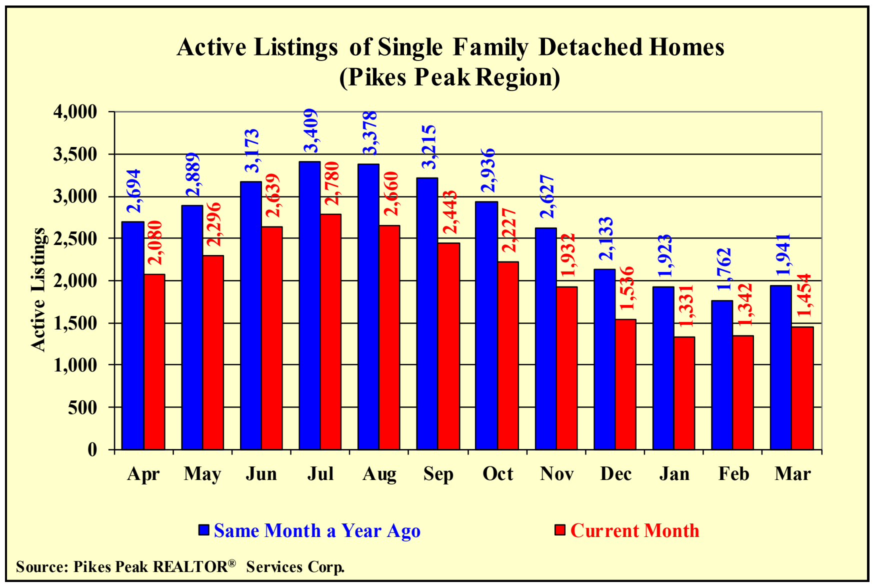
Active Listings

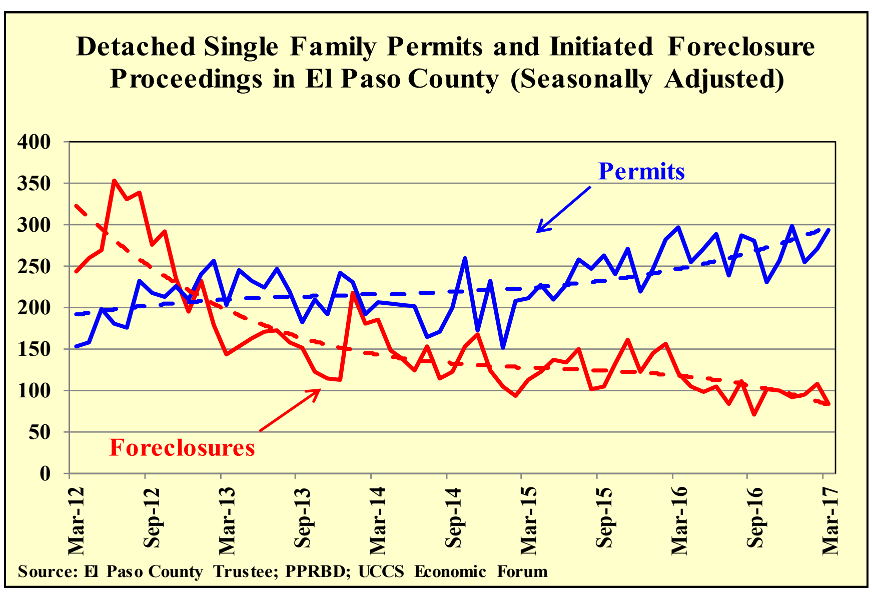
Active listings were down 25.1% in March 2017 compared to March 2016. This relatively decreasing and low supply of listed homes is much of the reason there has been upward pressure on prices. Similarly, the average days on market was 36 in March 2017, and it was 47 in March 2016 indicating that existing homes are selling more quickly.

Foreclosures

There were 286 foreclosure proceedings in 2017 Q1, which is 32.0% lower than the same period last year (420 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.







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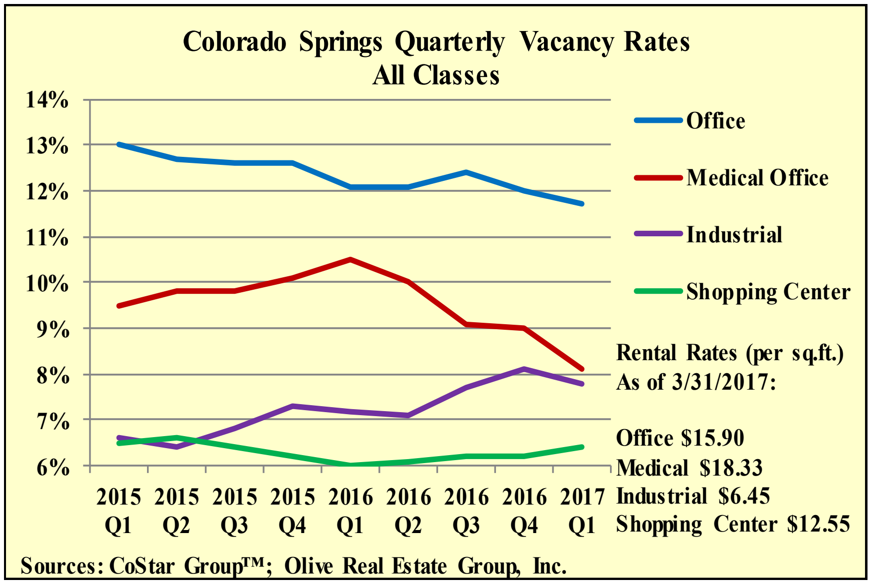
COMMERCIAL REAL ESTATE & AIRPORT

Commercial Real Estate

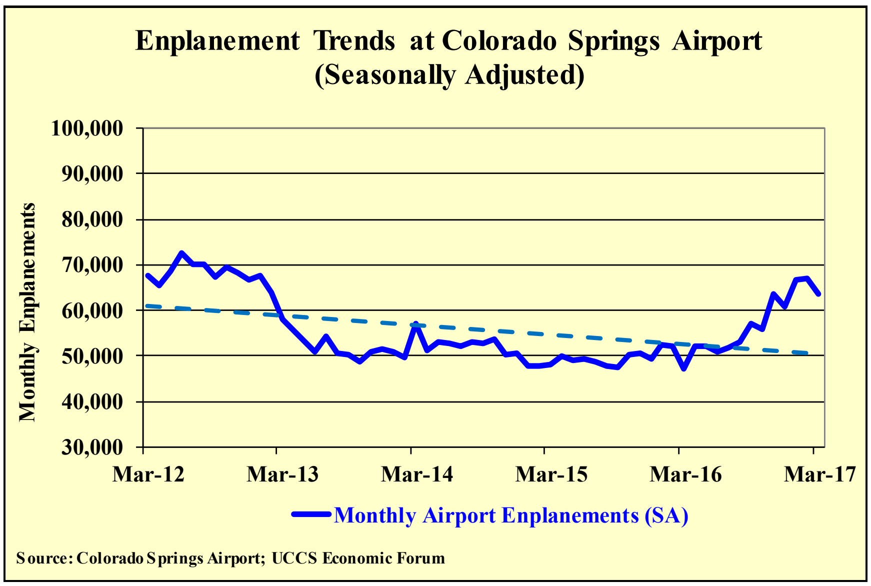
Office and medical office vacancy rates have been declining in the past year, while industrial vacancy rates have been increasing. Both the office and medical categories have been in high demand and some new construction has been occurring at the same time that vacancy rates continue to fall. However, that new construction is relatively expensive and local commercial real estate experts predict continued, upward pressure on lease rates over the long term for these categories.

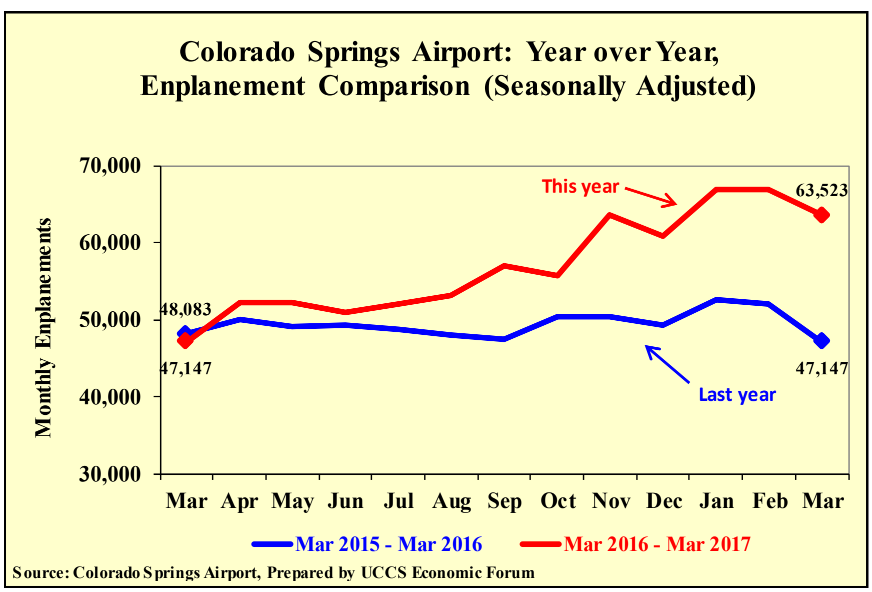


Colorado Springs Airport Trends

Seasonally adjusted, enplanements were 63,523 in March 2017. This is 34.7% higher than March of last year (47,147 seasonally adjusted) and 32.1% higher than March 2015 (48,083 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 carriers 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, making competition difficult for local airports. 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. High, local demand will be key so look before you book!

COS direct flights include:
Atlanta, Chicago, Dallas/Ft. Worth, Denver, Fort Myers (fall 2017) Houston, Las Vegas, Los Angeles, Mesa, Orlando, Phoenix, Salt Lake City, San Diego (July 2017) and San Francisco, Seattle, Tampa (fall 2017), Washington D.C. (July 2017)





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SALES TAX & CAR REGISTRATIONS

Local Sales & Use Taxes

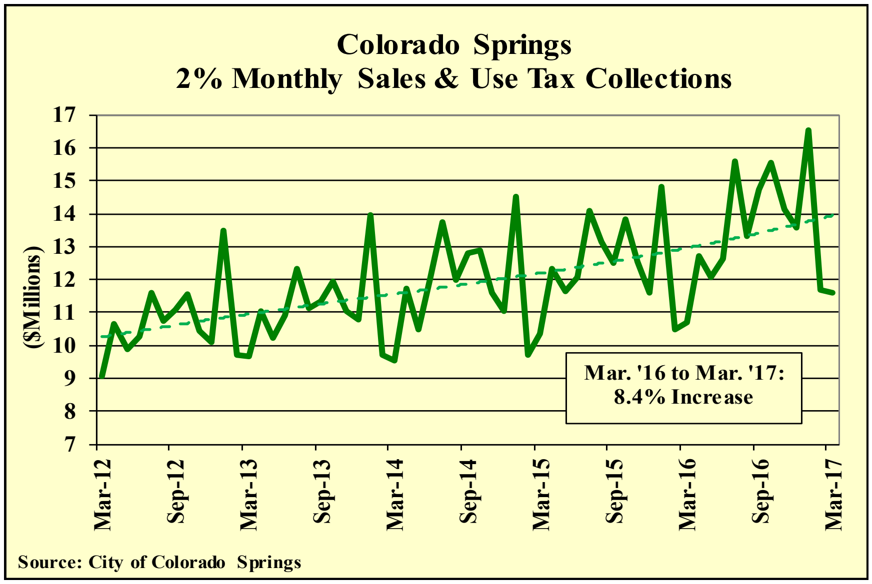
The strong national and local economies and, in particular, strong consumer sentiment (see page 1) have resulted in higher, local sales and use tax collections. The 2% sales and use tax collections for March 2017 (for February sales) were $11,586,037. This represents an 8.4% increase from the same month last year. Cumulatively, sales and use tax collections were up from last year as well (second graph). In March 2017, the largest month-to-month percentage increases by major industries were in building materials (52.6%), commercial machines (38.2%), and grocery stores (15.9%).

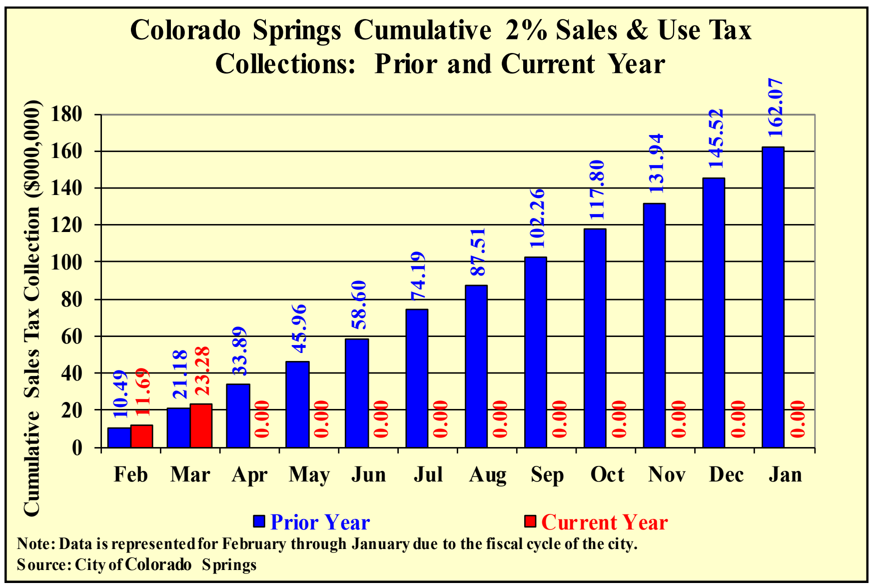
A (cumulative) year-to-date comparison as of March 2017 indicates sales and use tax collections were 9.9% higher than March 2016. The largest percentage increases year to date were in building materials (46.6%), commercial machines (24.0%), grocery stores (15.7%), miscellaneous retail (14.2%), and medical marijuana (13.8%).

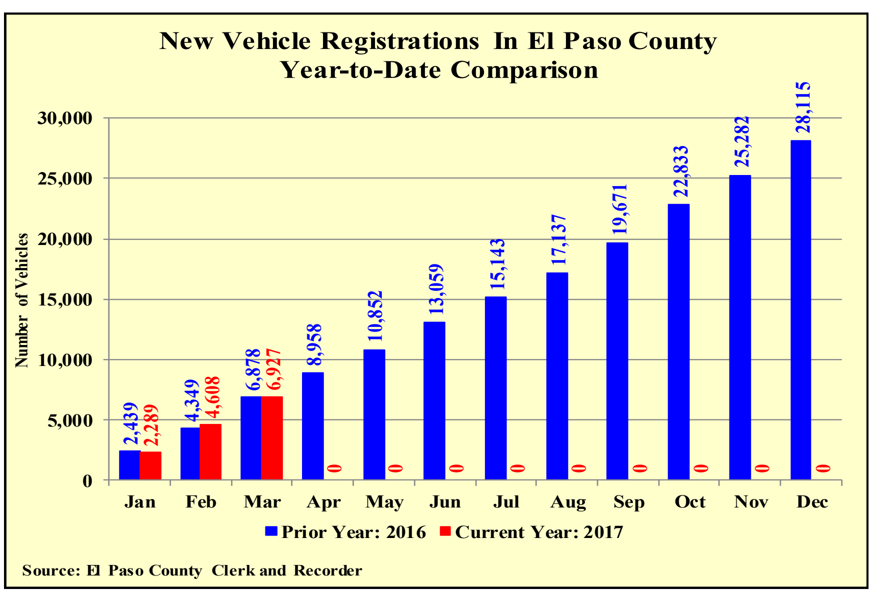
New Vehicle Registrations

Vehicle registrations were up 1.8% in 2017 Q1 compared to 2016 Q1. However, this sector remains quite strong when compared to recessionary times. As the table below shows, new vehicle registrations were 114% higher in March 2017 compared to March of 2010. Local, luxury utility registrations, which can be an indicator of local consumer confidence, were up 2.3% in 2017 Q1 compared to 2016 Q1 and up 42.3% when compared to 2015 Q1.

New Vehicle Registrations	
Mar. 2010	Mar. 2017
1,083	2,319







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Selected Economic Indicators

National Quarterly Data			2016 Q2			2016 Q3			2016 Q4			2017 Q1	Change vs. Yr Ago
Total Retail Sales NSA ($ billions)			1205.9			1216.9			1237.7			1250.1	**$60.79**
e-Sales NSA ($ billions)			90.4			92.6			122.5			98.1	**$12.63**
e-Sales as % of Retail Sales			7.5%			7.6%			9.9%			7.8%	**0.66%**
GDP Real % Annual Growth SA (from prior year's same quarter)			1.3%			1.7%			2.0%			1.9%	*
GDP Real % Quarterly Growth SA (at annualized rate)			1.4%			3.5%			2.1%			0.7%	*
Household Debt Service Ratio			10.0%			10.0%			10.0%			na	**-0.01%**

National Monthly Data	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Change vs. Yr Ago
Capacity Utilization SA	75.60	75.60	75.80	75.90	75.80	75.60	75.70	75.50	76.00	75.80	75.80	76.10	**0.70**
Car & Lt Trk Sales Millions SA	17.34	17.12	16.77	17.80	16.91	17.68	17.94	17.72	18.32	17.50	17.44	16.52	**-0.06**
Cons Sent (1966=100) NSA	89.0	94.7	93.5	90.0	89.8	91.2	87.2	93.8	98.2	98.5	96.3	96.9	**5.9**
CPI-U 1982-84=100 SA	238.91	239.36	239.84	239.90	240.39	241.01	241.69	242.20	242.82	244.16	244.46	243.75	**5.67**
Federal Funds Rate (Effective)	0.37%	0.37%	0.38%	0.39%	0.40%	0.40%	0.40%	0.41%	0.54%	0.65%	0.66%	0.79%	**0.43%**
Gasoline Price per Gal. of Regular	$2.11	$2.27	$2.37	$2.24	$2.18	$2.22	$2.25	$2.18	$2.25	$2.35	$2.30	$2.33	**$0.36**
Ind Production (1997=100) SA	102.87	102.76	103.12	103.22	103.15	102.99	103.17	102.95	103.78	103.50	103.68	104.10	**1.58**
Inventory/Sales Ratio SA	1.40	1.39	1.38	1.39	1.38	1.38	1.36	1.37	1.35	1.35	1.35	1.35	**-0.05**
Mtg Rate, 30 Yr Conventional NSA	3.61	3.60	3.57	3.44	3.44	3.46	3.47	3.77	4.20	4.15	4.17	4.20	**0.51**
Prime Rate (%) NSA	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.64	3.75	3.75	3.88	**0.38**
Purch Mgr Index SA	50.7	51.0	52.8	52.3	49.4	51.7	52.0	53.5	54.5	56.0	57.7	57.2	**5.5**
Real Rtl/Food Svc Sales SA ($ billions)	454.23	456.38	459.43	459.52	459.22	463.73	466.39	466.97	471.00	473.46	472.51	472.99	**$21.72**
S&P 500 (average)	2075.5	2065.6	2083.9	2148.9	2177.5	2157.7	2143.0	2165.0	2246.6	2275.1	2329.9	2366.8	**344.9**
Tech Index SA - Mar 2001 = 100	116.2	116.1	115.7	116.9	116.9	115.8	116.9	118.0	118.9	117.7	117.6	117.0	**2.6**
Trade Weighted Dollar Index	89.3	89.7	89.5	90.9	89.8	90.1	91.9	93.7	95.4	94.7	94.0	94.5	**3.1**
Crude Oil Price NSA ($ per barrel)	40.75	46.71	48.76	44.65	44.72	45.18	49.78	45.66	51.97	52.50	53.47	49.33	**$11.78**

CPI & Employment Data	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Change vs. Yr Ago
Western Region CPI	246.59	247.86	248.23	248.38	248.50	249.23	249.90	249.45	249.52	250.81	252.25	252.95	**7.55**
Colorado Labor Force SA (000's)	2,877	2,881	2,886	2,892	2,897	2,902	2,905	2,907	2,908	2,912	2,923	2,933	**59.1**
Colorado Employment SA (000's)	2,782	2,783	2,788	2,793	2,802	2,809	2,815	2,820	2,821	2,828	2,838	2,857	**77.7**
Colorado Unemployment Rate SA	3.3%	3.4%	3.4%	3.4%	3.3%	3.2%	3.1%	3.0%	3.0%	2.9%	2.9%	2.6%	**-0.7%**
El Paso County Unemployment Rate NSA	4.0%	3.6%	4.3%	3.9%	3.7%	3.3%	3.2%	3.0%	3.1%	3.7%	3.8%	2.8%	**-1.6%**
El Paso County Unemployment Rate SA	4.0%	3.8%	4.0%	3.9%	3.8%	3.7%	3.5%	3.2%	3.2%	3.4%	3.5%	2.6%	**-1.5%**

"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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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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