

El Paso County Economic & Workforce Progress Report (EPR)

Highlights - June 2023

There is more-than-the-usual uncertainty right now regarding a possible slowdown or (likely mild) recession. A couple of weeks ago I did a presentation in Salt Lake City for a national electrical association and the questions were indicative of how flummoxed business owners and managers are regarding the current environment. Their industry is of course more impacted by interest rates and their influence on commercial and residential real estate. For me the timing of the presentation was good because I feel like both commercial and residential real estate have highly unusual dynamics going on and for that reason, I will focus this discussion a bit more on the real estate industry.

One interesting dynamic in this (pandemic-induced) cycle is the divergence between what individuals say in surveys and what they do as consumers in society. The **University of Michigan {Page 3}** sentiment is somewhat indicative of this. June preliminary sentiment improved to 63.9 from 59.2 mostly driven by the resolution of the debt ceiling crisis and decreasing inflation rates. However, as the graph shows, sentiment is still well below pre-pandemic levels that hovered between 90 and 100, which is interesting given the persistently high levels of consumption and economic activity overall. For example, details from the survey show that only 18% of respondents say now is a good time to buy a house. And yet, while new home single and multi-family starts may be down 15.5% on a year-to-date basis, starts were up 21.7% in May compared to the previous month – the eighth largest monthly gain since 1959. Even existing home sales were up 0.2% during the month. Permits for new homes are also up, indicating that homebuilders are confident about their pipeline, and this is substantiated by the home builders index that surpassed expectations at 55 (above 50 is in expansion territory). Builders are seeing more traffic at model homes, and they are also finally seeing some reductions in prices with a Producer Price Index for new residential construction falling 7.3% year-over-year. While it's true that all residential sales are down from pre-rate-hike times, the more recent sales volume indicates that some consumers a) are getting used to the higher interest rates with the hope to refinance next year when rates come back down, and/or b) have to move to accommodate a life change and they are willing to bite the bullet despite higher prices and rates. As I've talked about before, there is a nation-wide and local shortage of housing and many existing homeowners are not willing to move with rates as high as they are, thus the relative health of the *new* residential construction subsector. This is exacerbated by the recent shift of more Millennials than Baby Boomers in absolute terms – and some of those Millennials are finally having kids. Simultaneously, many Boomers don't want to move due to the higher interest rates and precisely because they are Boomers who have a mindset of having worked harder than any other cohort for their achievements justifying keeping whatever assets they've accumulated. I am bold in saying this because my husband is a Boomer who just turned 60 so the kids and I never pass up a chance to poke at him. When they were young and would spill on the carpet, he would always say, "Look at what you are doing to *my* carpet!" And I would say, "Honey, it's *our* carpet – everyone's!"

Not surprisingly, the sustained demand for housing has pushed prices upward once more with the median existing single-family home price rising 2.8% in the U.S. to \$401,100 in May. That is still down 3.4% from a year ago, but May of this year marked the fourth consecutive month that existing single-family home prices increased. Those single-digit increases are closer to stable, longer-term trends and certainly not indicative of any "crash" in the housing market. Days on market in the U.S. also fell in May to 18 days from 22 days in April.

The elevated levels of consumption even for expensive homes and financing can be largely explained by the persistently strong labor market. After declining in February and March, **U.S. Job Openings {Page 3}** in April ticked back up to 10.1 million. As the graph shows, even with the downward trend that began in April of 2022, job openings are still high with roughly 40% more job openings than pre-pandemic levels. Correspondingly, the number of employed people increased in May by 339,000, also an elevated level. By way of context, from 2012 to 2020, the average number of new jobs was 147,000 per month so we are at more than double the "normal" job openings. The percentage of people in the labor force (those actively working or having looked for work over the past month) has very modestly improved (at 62.6%) but is still below pre-pandemic levels and very low compared to pre-Great Recession years. This too is keeping labor demand strong.

The **Unemployment Rate {Page 3}** for the U.S. did tick up to 3.4% in May from 3.1% in April, but last month's unemployment data was a bit contradictory in that the business survey showed higher levels of employment than the household survey did. Both are used in the unemployment rate calculation. Many economists seemed perplexed by this contradiction, but I believe it's probably due to a reduction in gig work, which is captured by the household survey, but not by the business survey. This makes sense to me because as the economy cools, fewer households and businesses are willing to pay for "extras" like yard work, website design and the like. The household data (and my personal theory) is also substantiated by the somewhat higher levels of unemployment claims, which are up around 264,000 over the past two weeks compared to the previous range of 225,000-250,00 earlier this year.

Nonetheless, it is still a largely employee's market and the average worker knows it. Thus, individuals and households may say they don't like inflation and feel uncertain about the future, but for now they don't think they will lose their job or have trouble finding a new job if they need one. And so, they continue to buy, and I believe even borrow if they are short on cash. There is likely some irrational buying behaviors or simply a household budget shortfall due to inflationary pressures as seen by the increase in revolving credit (e.g., credit cards), but I think more so there is a sentiment that job security is reasonably intact. This is in many ways a self-fulfilling prophecy. The more confident consumers are in their jobs and purchasing ability, the more they consume and fuel business growth, which in turn, helps keep busi-

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nesses healthy without a need to layoff workers or cut hours. So, ladies, by all means go out and buy those shoes, cute purses or outfits this 4th of July! For the country!

Traditionally, the Fed tries to dampen things by subduing the labor market, diminishing demand, and therefore reducing inflation when price increases are above the target 2%. Hence, it's a good thing that [Inflation {Page 3}](#) cooled in May to 4.0% from 4.9% in April. Clearly, our current rate of inflation is still double what the Fed wants, but the decline was significant enough for the Fed to opt for a "pause" to interest rate hikes during its recent June meeting. The bad news is that core inflation, which represents all goods minus food and energy, still increased by 0.4% month-over-month and was at 5.3% in May. Additionally, the nerds at the Fed know what I know: there were strong baseline effects pulling May's inflation read down. In other words, inflation hit its peak around this time last year so when you do year-over-year comparisons, this year is going to look a lot better than last year. I addressed this in last week's [Fox21 segment](#) and [Gazette article](#) focusing on why grocery prices still "feel" so high despite falling inflation levels. Nonetheless, the trend is moving in the right direction. The May NFIB small business survey showed the smallest percentage of firms raising prices since March 2021, albeit a still elevated 32%.

In that segment, I also mention that May was the first month that real average hourly earnings outpaced inflation across the U.S. It is true that some lower-wage industries had larger percentage increases in wages such as hospitality. But one of the primary reasons the Fed is dogged about bringing inflation down to roughly 2% and keeping it there is not only because inflation erodes living standards, but also because persistently high prices amp up the pressure on employers for higher wages – a vicious cycle. In that vein, I did another [local segment](#) and [article](#) on local wages and how they are still significantly lower than both national and state-wide wage levels. This pours cold water on the otherwise stellar news of [Local Job Growth {Page 4}](#) with a remarkable 10,480 new jobs in 2022 only outdone by the 10,974 new jobs we had in 2021 – more than any year on record and far exceeding the roughly 5,600 new jobs we need to match population growth. Yes, economists can occasionally deliver good news (job growth) although you can bet it's going to have caveats (lagging wages).

In fact, our local economy is a perfect microcosm of the odd relationship between higher inflation, persistent consumption, job security, and a resilient residential housing market. Regional [New Construction and Home Sales {Page 6}](#) are both holding up well considering the roughly 44% increase in the median home price since 2019 (which is roughly the same as the U.S.). In 2023 Q1 local [Median Existing Home Prices {Page 6}](#) increased 2.3% (to \$444,700) although the more recent monthly data that incorporates new and existing homes showed a median price of \$475,000 and average price of \$536,478. Despite those historically high prices, however, the pace of increases has slowed, and wages are higher (if not at par with the U.S. or CO). The higher wages and moderating prices brought the [Housing Opportunity Index {Page 6}](#) up to 30 in 2023 Q1 from an abysmal 18 in 2022 Q4. In the good ole days of 2019, the HOI was 71 (see footnotes below graph).

Commercial real estate (CRE) is not proving as resilient to higher interest rates and economic uncertainty. Property valuations and sales have both declined considerably. CRE transaction volumes are down 40% in 2023 Q1 – the lowest level since 2020. Credit conditions are also tighter with the Fed's Loan Officer Survey on bank lending showing 74% of banks tightening standards for construction and land development. The Mortgage Bankers Association shows that commercial and multifamily mortgage loan originations were 56% lower in 2023 Q1 compared to a year ago. Specifically, originations declined over the year for industrial properties (-72%), office (-67%), multifamily (-55%), and hotel and retail (both -8%). Office space is the one I am most worried about with a negative 20 million square feet of net absorption in the U.S. in Q1 of this year alongside high sublet activity in most major markets. During much of the pandemic epoch, the contraction in the office market was being mitigated by lower construction levels. However, in Q1 of this year, new office completions rose which exacerbates already high vacancy rates (with a worsening circumstance to come as leases expire). Thus far, delinquency rates for office space are about 1% higher than pre-pandemic, but still low at 3.4% of loans. I think that will likely change as leases expire and tenants don't renew while loan payments still need to be made.

I also worry a bit about U.S. multi-family construction with roughly one million units under construction in Q1 (or 5.6% of total apartment inventory). While it's true that we have a national and local housing shortage, I worry more about apartment construction because those projects take two years or more to get going and if we do hit a recession, more people will "double up" and demand for housing will cool a bit while investors are still in planning or building phases.

I will optimistically say that I am more confident about our local real estate market than I am about the U.S. market for all the good reasons I've stated before: hearty job growth since 2013 (minus 2020) across virtually all industries and especially professional/technical services, a younger demographic that can both work and have babies (ensuring a future workforce), the military installations as anchor employers and spillover demand for contractors, and ever growing [Tourism {Page 7}](#). The healthy local residential housing market is indicative of our economic growth, and although commercial real estate may sputter, our economic performance over the years has our local CRE market in less bad shape than many first-tier cities. Overall, still a positive picture despite the uncertainties, and I'll take that.

Tatiana & Rebecca

If you wish to unsubscribe from this monthly report, please email rwilder@ddestrategies.org or tbailey@ddestrategies.org.

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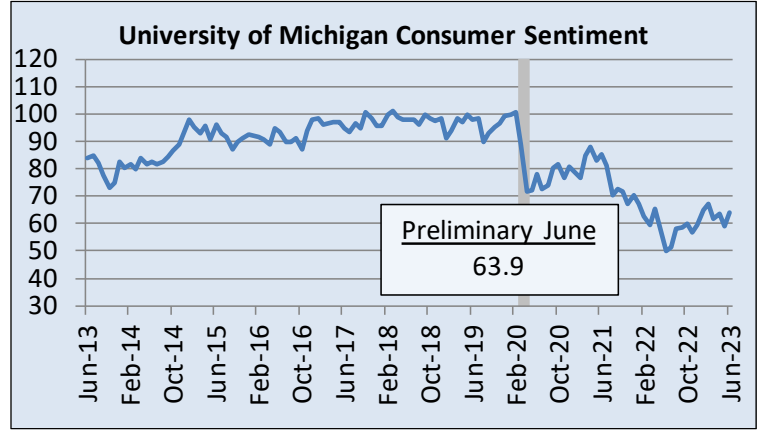
For past reports go to <https://www.ddestrategies.org/>.

El Paso County Economic & Workforce Progress Report (EPR)

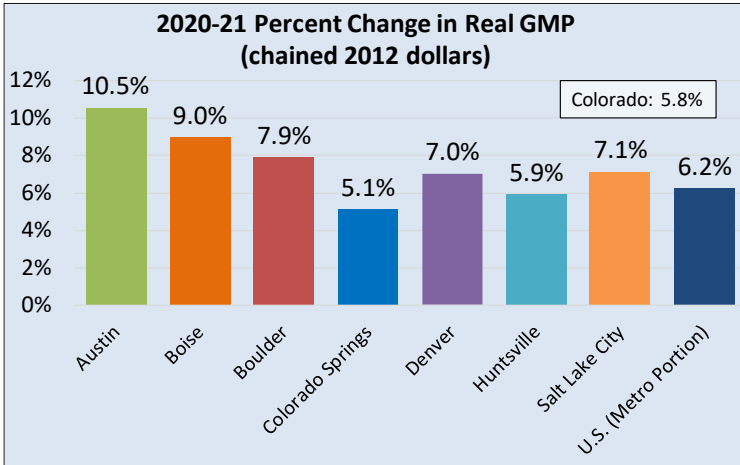
MACROECONOMIC "BIG PICTURE" (PAGE 3)



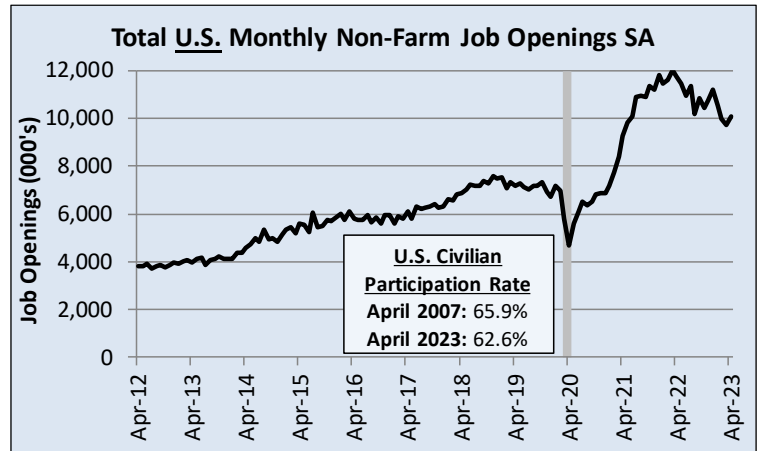
*Estimate of real GDP percent change from same quarter a year ago, SA
 **If quarterly changes were annualized over the year.
 Source: U.S. Bureau of Economic Analysis



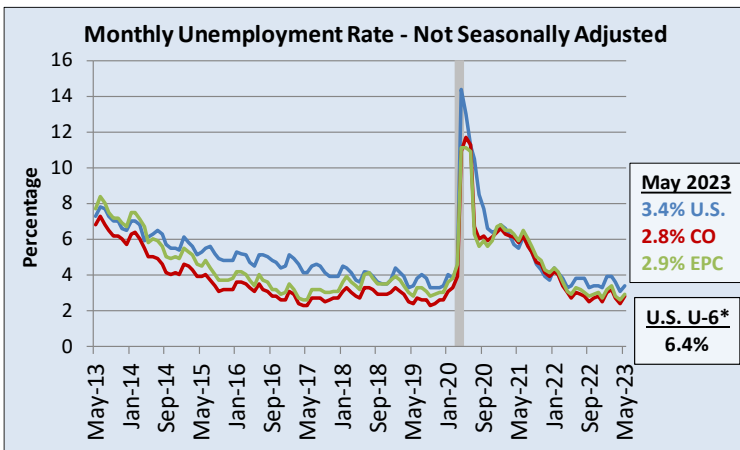
Source: University of Michigan



Note: Data includes military. Real GMP is adjusted for regional price parity (RPP). This regional data lags ~23 months.
 Source: U.S. Bureau of Economic Analysis



Source: U.S. Bureau of Labor Statistics; Job openings data lags.

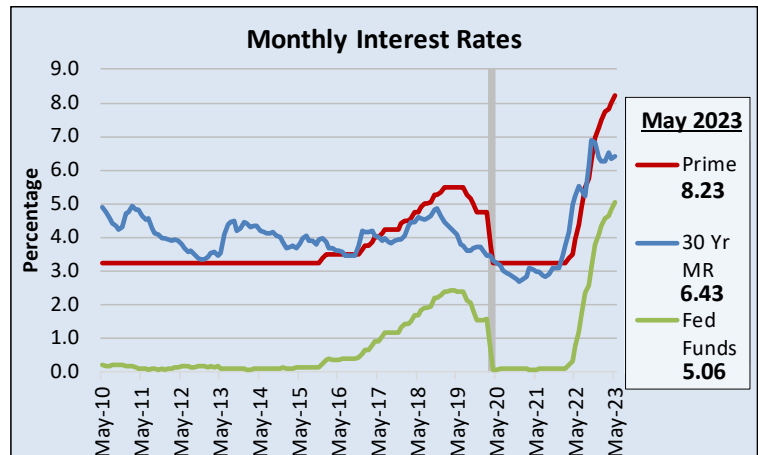


Note: Data not seasonally adjusted (NSA) to enable comparisons with counties.
 *U-6 includes unemployed, those marginally attached to the labor force, plus those employed part time who would prefer full-time work.
 Sources: U.S. Bureau of Labor Statistics; CO Dept. of Labor & Employment

U.S. Consumer Price Index - May 2023		
	All items	Less food & energy
Change from April to May 2023 (SA)	0.1%	0.4%
Last 12-months (NSA)	4.0%	5.3%

The 2023 Q1 cost of living in the Colorado Springs MSA was 108.5% the U.S. according to C2ER data provided by the CS Chamber & EDC.

Source: U.S. Bureau of Labor Statistics; all urban consumers (CPI-U)



Source: Board of Governors of the Federal Reserve System

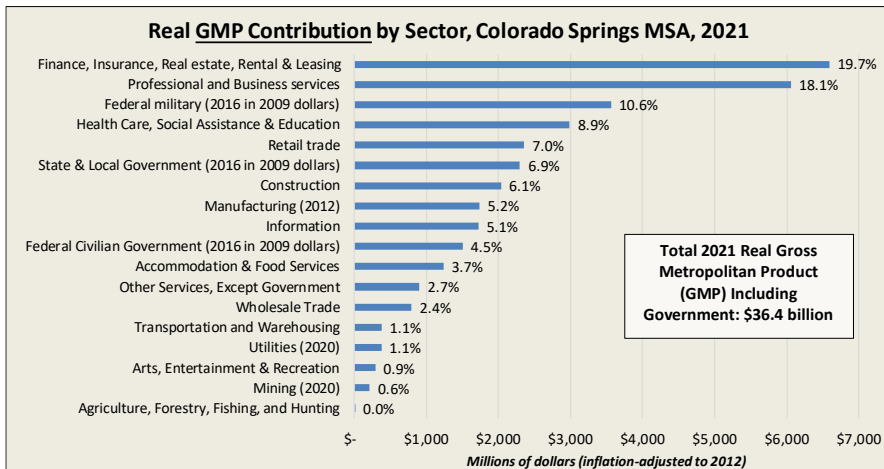
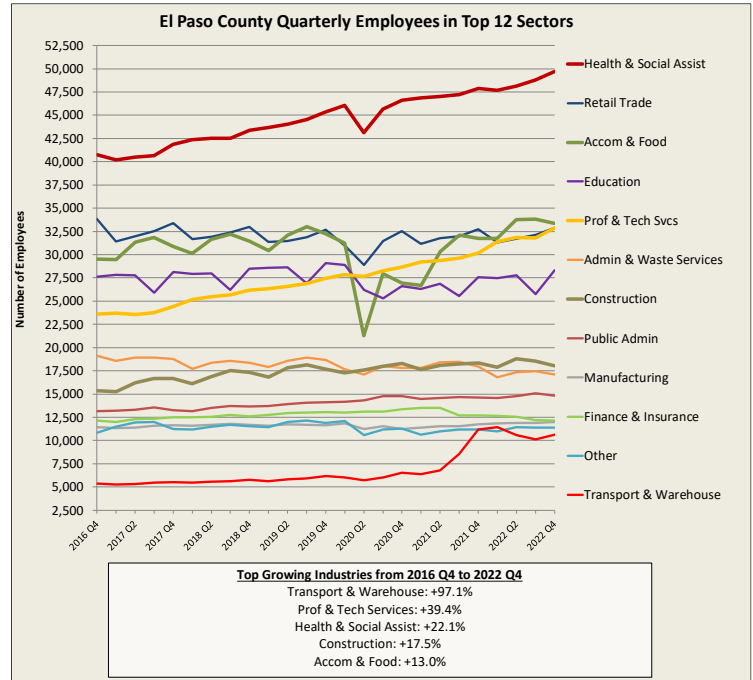
LOCAL LABOR MARKET (PAGE 4)

Top Job Openings, Colorado Springs MSA May 2023

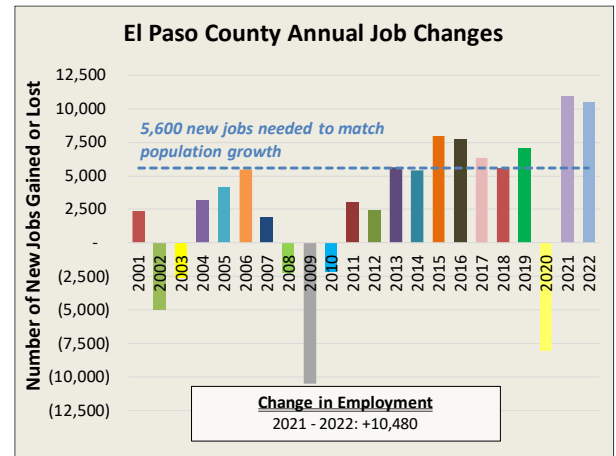
Top Job Titles	# of Job Postings	Median Advertised Salary
Registered Nurses (L)	2,073	\$87,808
Software Developers (L)	739	\$119,040
Retail Salespersons (M)	645	\$33,408
Computer Sys Engineers/Architects (L)	570	\$124,672
1st-Line Supervisors, Retail Sales (L)	501	\$46,464
Sales Reps, Wholesale & Mfg (M)	471	\$63,616
Customer Service Reps (M)	428	\$39,552
Maintenance & Repair Workers (H)	371	\$44,672
Managers (L)	354	\$89,344
Fast Food & Counter Workers (H)	350	\$32,128

Colorado Springs MSA, May 2023
TOTAL Job Openings: 25,738
TOTAL Unemployed: 11,067
Workers Available per Job Opening: 0.43

Risk of Automation: L = Low; M = Medium; H = High
 Sources: The Conference Board®-Lightcast® Help Wanted Online® via Pikes Peak Workforce Center; CO Dept. of Labor & Employment



Manufacturing data last disclosed in 2012. Utilities and Mining data last disclosed in 2020. Government data is no longer released by sector so data shown is for 2016 in 2009 dollars. GMP (local) data lags by approximately 23 months. GMP is the same as GDP for the nation but at the local level.
 Source: U.S. Bureau of Economic Analysis



An estimated 5,600 new jobs are needed based upon population growth and age composition. This QCEW data lags up to three quarters and includes public and private employment, but not military-related employees.
 Source: CO Dept. of Labor & Employment, Quarterly Census of Employment and Wages (QCEW)

Colorado Springs MSA Lowest & Highest High School Grad & Earnings, 2021

School District	H.S. Grad Rate	Median Earnings
Harrison D2	79.9%	\$38,307
Lewis-Palmer D38	95.1%	\$79,865
Colorado	81.7%	\$57,524

Sources: Colorado Department of Education; U.S. Census Bureau, American Community Survey 5-year estimates

2021 Federal Poverty Level (FPL)

	El Paso County	U.S.
% people at FPL or below	9.6%	12.8%

Note: FPL in 2021 was \$12,880 for an individual and \$26,500 for a family of four.

2022-23 Minimum Wage & Living Wage El Paso County

	Wage/Hr	Annualized
Minimum wage salary for full-time worker	\$13.65	\$28,392
Living wage: HHs with 1 adult, 2 children	\$49.16	\$102,253
Living wage: HHs with 2 adults (1 working), 2 children	\$41.02	\$85,322
Living wage: HHs with 2 adults* (2 working), 2 children	\$26.74	\$55,619

*Living wage is for each working adult. For specifics, go to livingwage.mit.edu.

2022 Average Annual Wages for All Industries

El Paso County wages are 11.4% lower than U.S. wages and 16.6% lower than CO wages.

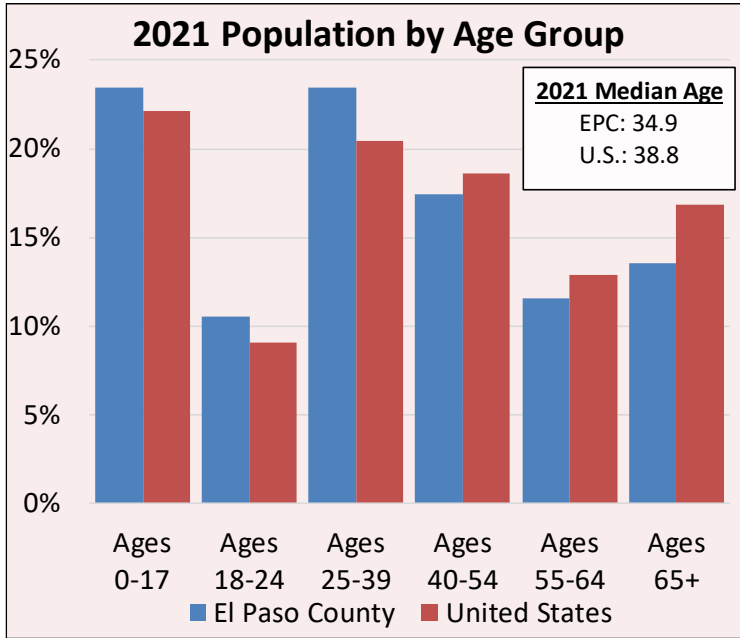
U.S.	Colorado	El Paso County
\$69,985	\$74,360	\$61,984

2022 El Paso County Total Employment (excluding military) 296,750

***Estimated military employment in 2021 (and % of total 2021 EPC who are military).** 61,489 (17.4%)

*QCEW data does not include military-related employees. Military employment includes USAFA, Schriever, Fort Carson, Peterson & Cheyenne Mountain. Data from the installations is delayed so this is still 2021 employment.
 Sources: U.S. Bureau of Labor Statistics and Colorado Department of Labor and Employment, QCEW; Local military installations; U.S. Census Bureau, American Community Survey 1-year estimates; U.S. Department of Health & Human Services; MIT Living Wage Calculator

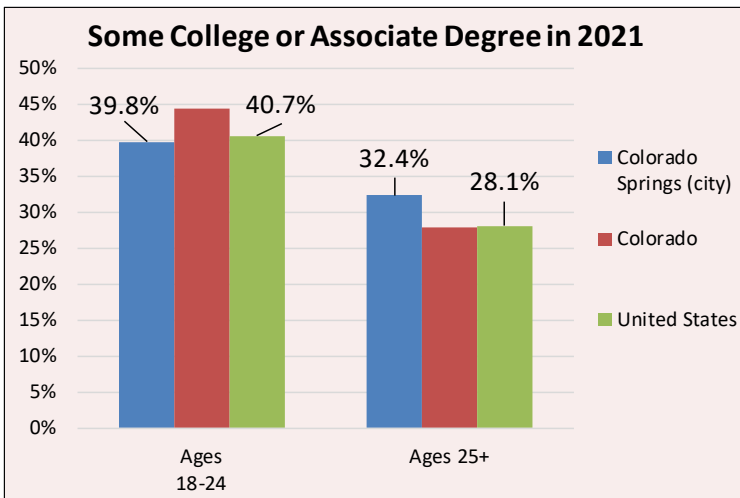
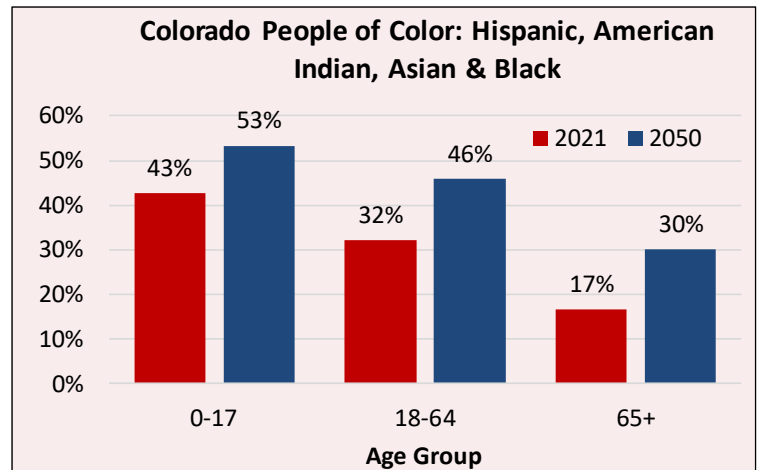
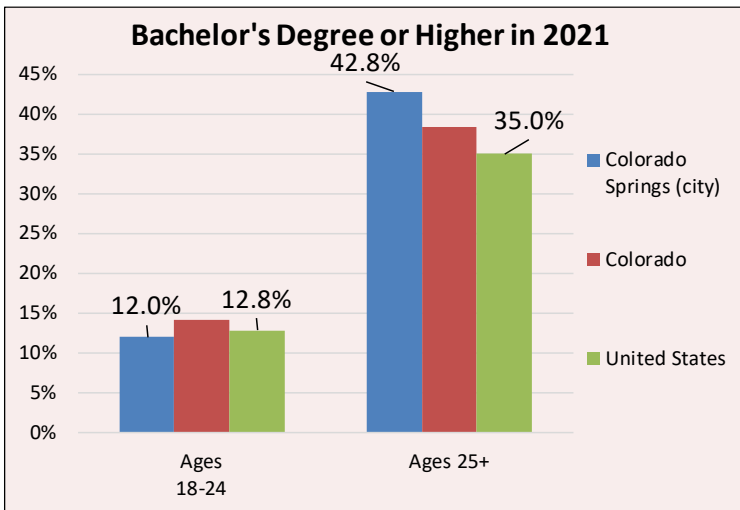
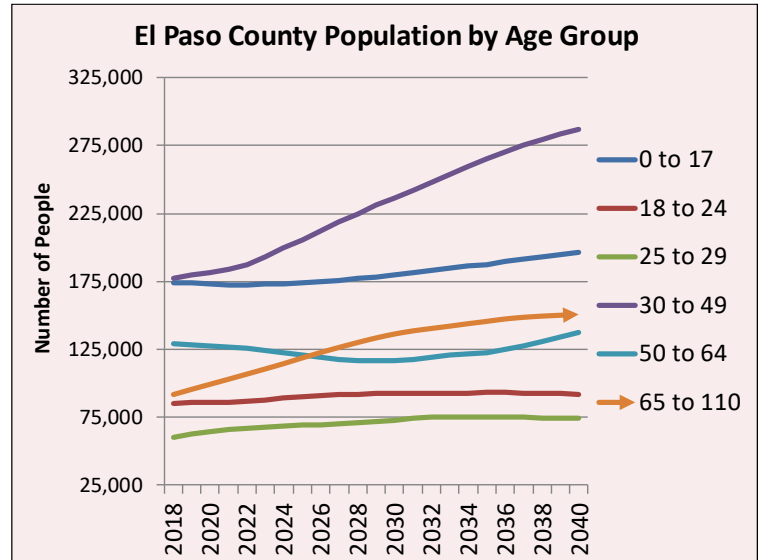
DEMOGRAPHICS (PAGE 5)



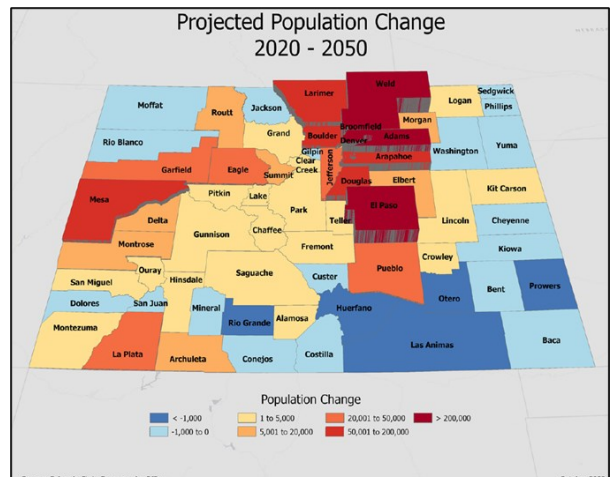
Sources: State Demography Office; U.S. Census Bureau, Population Division; Age groups from the U.S. Census Bureau's Population Estimates Program.

Population Estimates

	2021	2050
El Paso County	738,532	1,004,028
Colorado	5,814,707	7,486,286

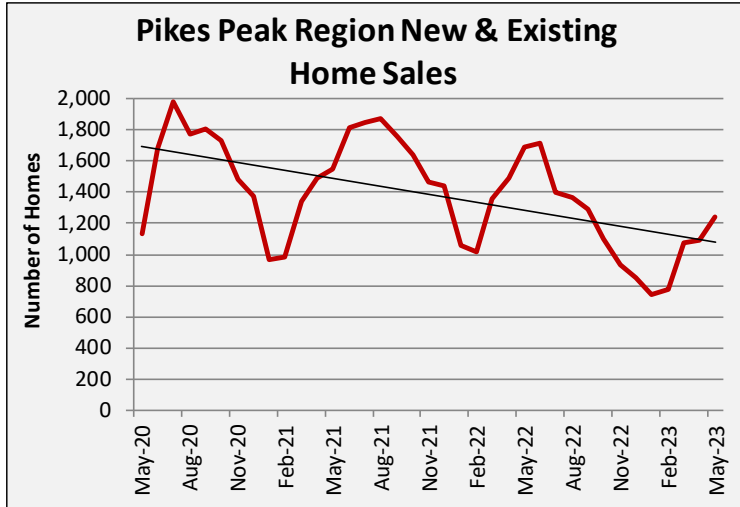


Source: U.S. Census Bureau, American Community Survey 1-year estimates

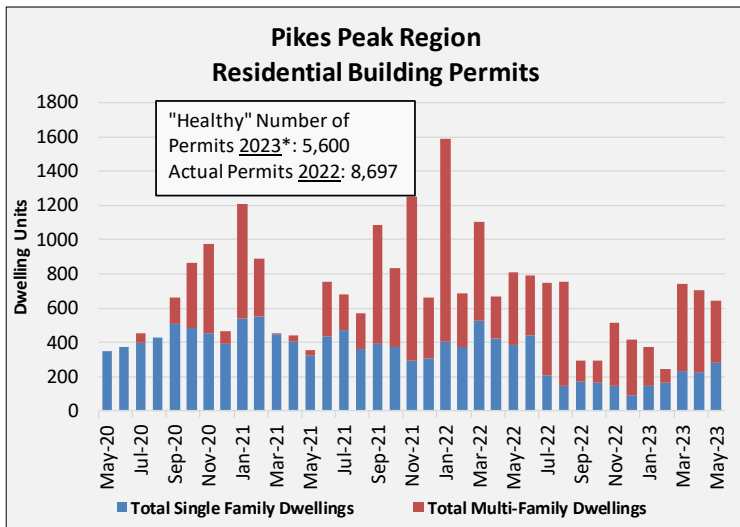


Source: Colorado State Demography Office

REAL ESTATE (PAGE 6)



Source: Pikes Peak REALTOR® Services Corp.

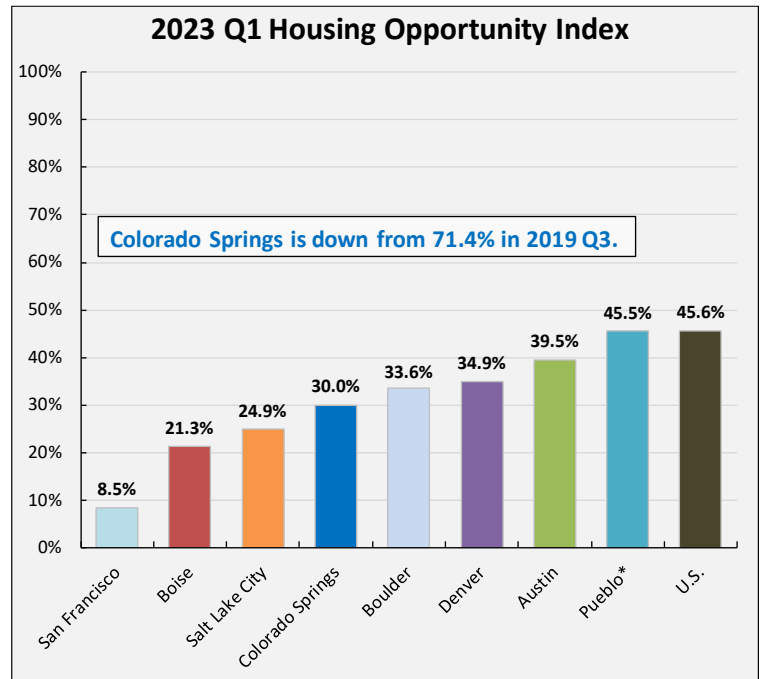


*"Healthy" permits was revised down in 2023 to 5,600 due to higher construction levels during pandemic period. The National Association of REALTORS® has calculated that the U.S. has underbuilt roughly 6.5 million homes since the Great Recession. Data-Driven Economic Strategies is reconsidering the local housing stock and possible shortage of homes. Source: Pikes Peak Regional Building Department

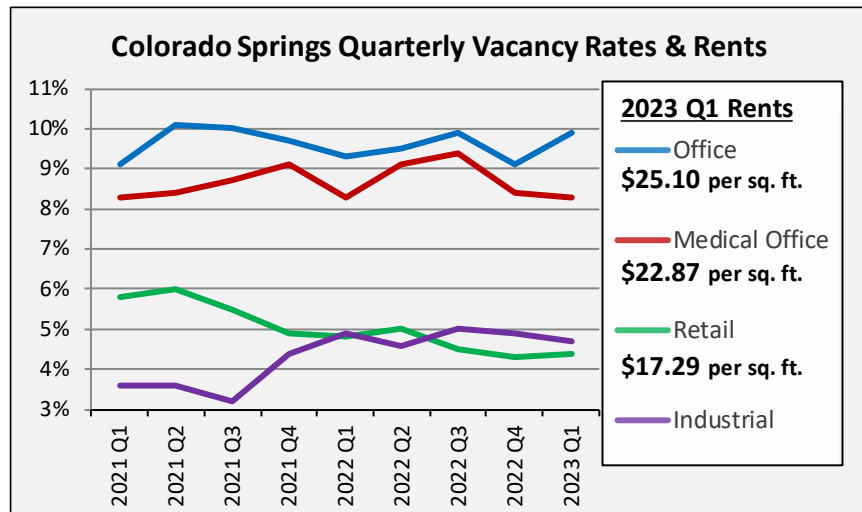
Median Existing Single-Family Home Price 2023 Q1

Location	Colorado Springs	Denver	Boise	United States
Price	\$444,700	\$636,100	\$440,700	\$371,200
1-year % Change	2.3% decrease	3.9% decrease	10.3% decrease	0.2% decrease
MSA Rank	39	16	42	n/a

Sources: National Association of REALTORS®



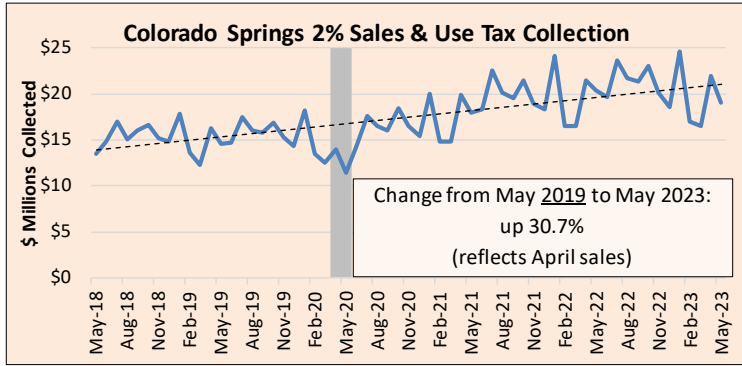
*Most recent Pueblo data is not available so Pueblo HOI above is still 2022 Q3. Notes: The Housing Opportunity Index (HOI) is defined as the share of homes sold in that area that are affordable to a family earning the local median income, based on standard mortgage underwriting criteria. It includes new and existing homes. Sources: National Association of Home Builders; Wells Fargo



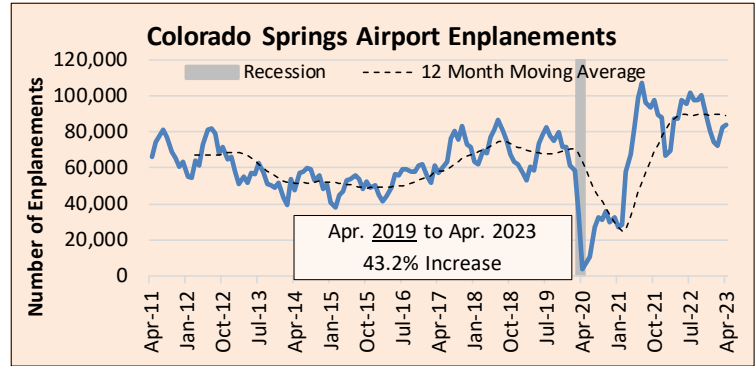
Sources: CoStar Group™; Olive Real Estate Group, Inc.

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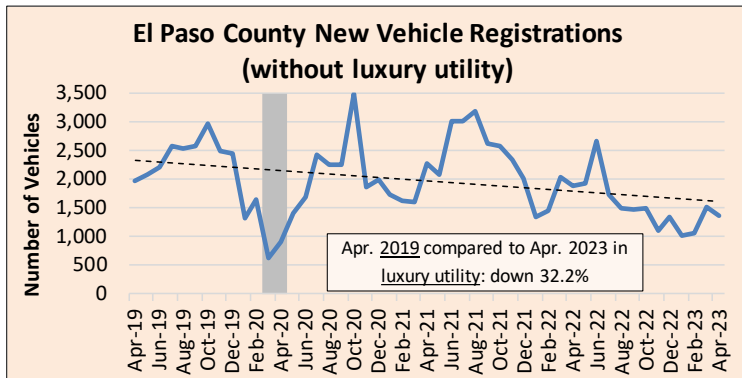
TAXATION, VEHICLE SALES, AIR QUALITY, AND TOURISM (PAGE 7)



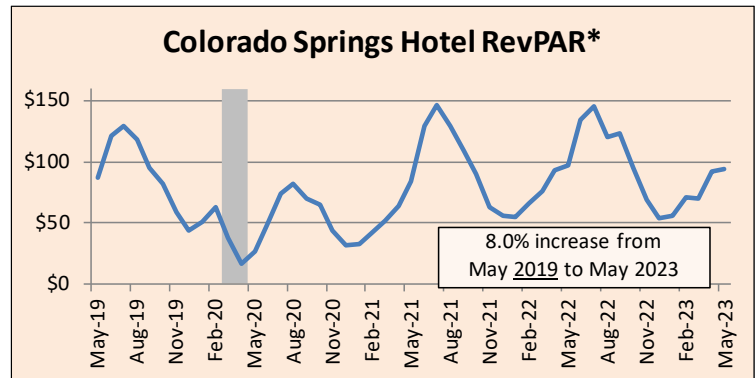
Source: City of Colorado Springs



Source: Colorado Springs Airport



Luxury utility categories (all terrain, camper trailer, trailer coach and trailer utility) are not included in graph line above, but % change in this category is noted in text box.
Source: Colorado Interactive LLC



Hotel Occupancy Rate May 2023		
Colorado Springs	Denver	Colorado
70.9%	74.0%	68.2%

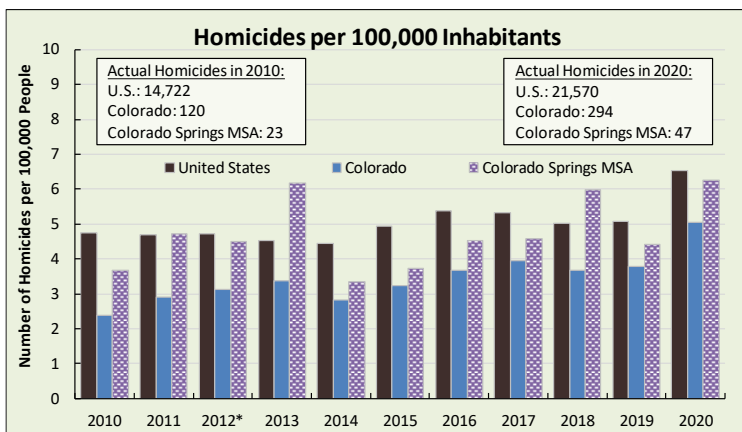
Hotel RevPAR May 2023		
Colorado Springs	Denver	Colorado
\$94.10	\$120.55	\$112.10

*RevPAR measures hotel revenue by taking the average room rate times hotel occupancy.
Source: Colorado Hotel & Lodging Assoc., Rocky Mountain Lodging Report

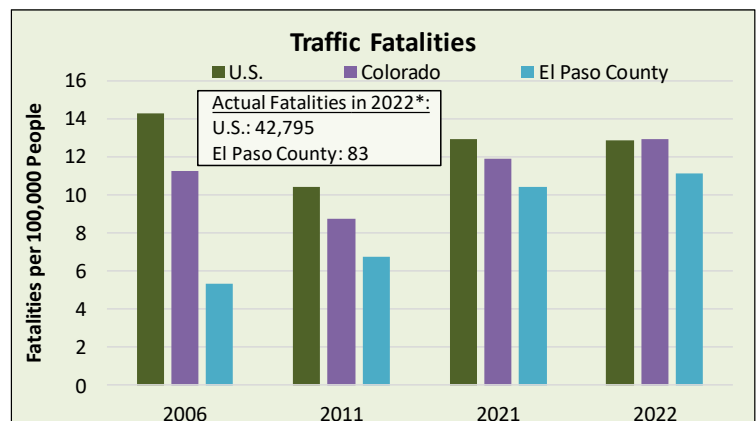
2022 Air Quality		
	Colorado Springs*	U.S. Standard
Carbon Monoxide (CO) Concentration (ppm)	0.9	9.0
Particulate Matter ($\mu\text{g}/\text{m}^3$)	4.50	12.00
Ozone (ppm) at USAFA	0.74	0.70
Ozone (ppm) at Manitou Springs	0.74	0.70
Sulfur Dioxide (SO_2) (ppb)	5.4	75.0

*Locations of measurements: CO at 690 W. Hwy 24; Particulate Matter at Colorado College; SO_2 at Hwy 24
Source: Colorado Department of Public Health & Environment

CRIME & SAFETY (PAGE 7)



*2012 data for the Colorado Springs MSA is from the Centers for Disease Control & Prevention.
Source: Federal Bureau of Investigation, Uniform Crime Report



Sources: National Highway Safety Administration; Colorado Department of Transportation; World Bank; U.S. Census Bureau; Colorado State Demography Offices; Data-Driven Economic Strategies

2021 Mortality Rates due to Homicide per 100,000 Population				
Canada	Germany	Italy	Japan	United States
2.1	0.8	0.5	0.2	6.8

Source: UN Office on Drug and Crime's International Homicide Statistics database through The World Bank and World Population Review

Note: "Each year when Crime in the United States is published, some entities use reported figures to compile rankings of cities and counties. These rough rankings provide no insight into the numerous variables that mold crime in a particular town, city, county, state, or region. Consequently, they lead to simplistic and/or incomplete analyses that often create misleading perceptions adversely affecting communities and their residents. Valid assessments are possible only with careful study and analysis of the range of unique conditions affecting each local law enforcement jurisdiction. The data user is, therefore, cautioned against comparing statistical data of individual reporting units from cities, metropolitan areas, states, or colleges or universities solely on the basis of their population coverage or student enrollment."
- Federal Bureau of Investigation

Sworn Police Officers Per 10,000 Inhabitants in 2022	
City of Colorado Springs	15.0
Colorado Springs MSA	7.1
Cities with Population 500,000-999,999	21.2

Sources: Federal Bureau of Investigation, Uniform Crime Report; U.S. Census Bureau, Population Division

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SUPPORTERS (PAGE 8)



THANK YOU!