

# DELTA COUNTY ECONOMIC UPDATE

First Quarter 2019



Provided by the Business Department  
of Colorado Mesa University

## Economic Summary

- After stagnating from 2010-2015, Delta County has had employment growth in 2016, 2017, and 2018.
- Newly released median household income data shows that Delta increased from \$41,789 (2016) to \$43,528 (2017).
- The two main industries that have driven employment and wage growth since late 2015 have been health care and the construction industry. Health care has contributed the most to wages, with construction coming in second. Health care and construction are responsible for 44% and 25% of new wages since 2015. These two industries have also been the biggest employment contributors.
- Delta County has still not recovered from the 2008 energy and real estate boom, and is down 1,397 jobs since 2008.

The Delta County Economic Update is provided by the Business Department of Colorado Mesa University and is published quarterly. Please direct all correspondence to Dr. Nathan Perry, Associate Professor of Economics, 970.248.1888, naperry@coloradomesa.edu.

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## LOCAL ECONOMIC INDICATORS

	Q4 2018	Q3 2018	Q4 2017	% change since last quarter	% change since last year (comparable quarters)
<b>Local Labor Market</b>					
Unemployment Rate Delta County- NSA	3.83%	3.50%	3.60%	0.33%	0.23%
Unemployment Rate Colorado - NSA	3.40%	3.20%	2.90%	0.20%	0.50%
Unemployment Rate U.S. - NSA	3.60%	3.90%	3.90%	-0.30%	-0.30%
Labor Force	15,388	15,336	14,744	0.34%	4.37%
Employed	14,799	14,800	14,212	-0.01%	4.13%
Unemployed	589	536	531	9.89%	10.85%
<b>Business Confidence</b>					
Leeds Colorado Business Confidence Index	50.1	54.6	59.5	-8.24%	-15.80%
<b>Sales/Use Taxes</b>					
City of Delta Sales/Use Taxes (Quarterly)	\$1,504,534	\$1,504,549	\$1,403,202	0.00%	7.22%
City of Delta Sales/Use Taxes (YTD)	\$5,821,891		\$5,487,537		6.09%
Delta County Sales Tax (Quarterly)	\$1,305,212	\$1,300,540	\$1,249,219	0.36%	4.48%
Delta County Sales Tax (YTD)	\$5,013,139		\$4,845,772		3.45%
Lodging Tax (Quarterly)	\$43,074	\$26,015	\$39,642	65.58%	8.66%
Lodging Tax (YTD)	\$104,467		\$86,888		20.23%

Yearly Indicators	2017	2016	2015	% change since 2016	% change from 2015
Median Household Income	\$43,528	\$41,798	\$42,586	4.14%	2.21%
Percent of Population Below Poverty Line	16.5%	16.8%	16.3%	-0.30%	0.20%
Population	30,568	30,346	29,902	0.73%	2.23%
Personal Income (in thousands)	\$1,145,549	\$1,019,053	\$1,016,121	12.41%	12.74%
Personal Income Per Capita	\$37,475	\$33,581	\$33,982	11.60%	10.28%

SOURCES IN ORDER OF LISTING: State and Local Unemployment rates: Bureau of Labor Statistics (LAUS); National Unemployment rate: Bureau of Labor Statistics; Labor Force, Employed, and Unemployed: Colorado Department of Labor and Employment; Leeds Colorado Business Confidence Index: Leeds School of Business; Sales/Use Tax information: City of Delta and Delta County; Population, poverty, and median household income: U.S. Census Bureau; Personal income: Bureau of Economic Analysis. Note that in all rows where percentages are presented the % change since last quarter and % change since last year represents the difference between the two percentages, not the actual percentage change.

## The Local Labor Market

Delta County's unemployment rate moved higher in Q4 from Q3, which is expected due to seasonal factors. It is still at a very low 3.8%. Unemployment picked up in many counties in Colorado in Q4, even adjusting for seasonal fluctuations. Employment numbers are unchanged from last quarter, but compared to Q4 of 2017 employment is up 587 people. After watching employment fall and then stagnate from 2008 to 2015, employment has risen every year since 2015, with 12,670 employed in 2015, 13,272 in 2016, 13,789 in 2017, and 14,381 in 2018 (see figures 1 and 3). For employment, 2016, 2017, and 2018 have all been strong years. This has been a trend on the Western Slope, with neighboring Mesa and Montrose counties mirroring the same uptick in economic activity the last two years. In fact, Delta's recovery started a few quarters earlier than Mesa and Montrose, although it has been a more shallow recovery. Although Delta County has not fully recovered from the 2008 energy and real estate bubble, employment for the first time in many years is on an upward trend. Figure 1 illustrates employment with a trend line since 1990. Employment is almost back at the long term trend line, and in fact, if the bubble years of 2007 and 2008 were taken out, Delta employment would be back at the long term trend of employment growth.

## Delta County Economic Performance

Several yearly indicators were just released for 2017 that all show positive news for Delta County. Median household income increased from \$41,978 in 2016 to \$43,528 in 2017. The trend in median household income in Delta, Montrose, and Mesa was that median household income fell in 2016, but significantly increased in 2017. 2016 in general was a down year for the Western Slope, with most measures of economic progress falling. Poverty rates fell slightly in 2017, while both personal income and personal income per capita increased substantially. In the absence of GDP estimates, personal income can be used as a measure of economic performance for the county for the year.

Table 1:

### 1, 5, and 10 Year Employment Comparison (Based on Yearly Data)

	Labor Force	Employed	Unemployed
<b>Annual</b>	585	583	2
<b>5-Year</b>	1,091	1,764	-673
<b>10-Year</b>	-1,558	-1,397	-162
<b>Annual %</b>	4.1%	4.2%	0.4%
<b>5-Year %</b>	7.9%	14.0%	-54.5%
<b>10-Year %</b>	-9.4%	-8.9%	-22.3%

The Bureau of Economic Analysis has recently begun a pilot program to calculate county level GDP. Mesa County GDP has been calculated since 2001 because they are considered a Metropolitan Statistical Area (MSA), but Delta thus far has never had a GDP calculation performed in the same way. The pilot estimates started with 2012-2015 so the data is not the most recent past, but the idea is that the BEA will start updating this dataset and at some point we will receive GDP estimates at the county level in a timely fashion.

Since three years of data is limited, personal income can be used as a proxy for county economic performance until full GDP estimates are conducted. It is important to point out that personal income growth is always much larger than GDP growth but will give an idea of the trend of economic performance. Figure 2 illustrates the percentage change in personal income for Delta County. Delta had a 12.41% growth rate in 2017, which is a personal income growth rate that is comparable to 2007. Figure 2 illustrates that after several years of personal income stagnation Delta County has seen strong growth in 2017.

Figure 1:  
Delta County Employment 2008-Present

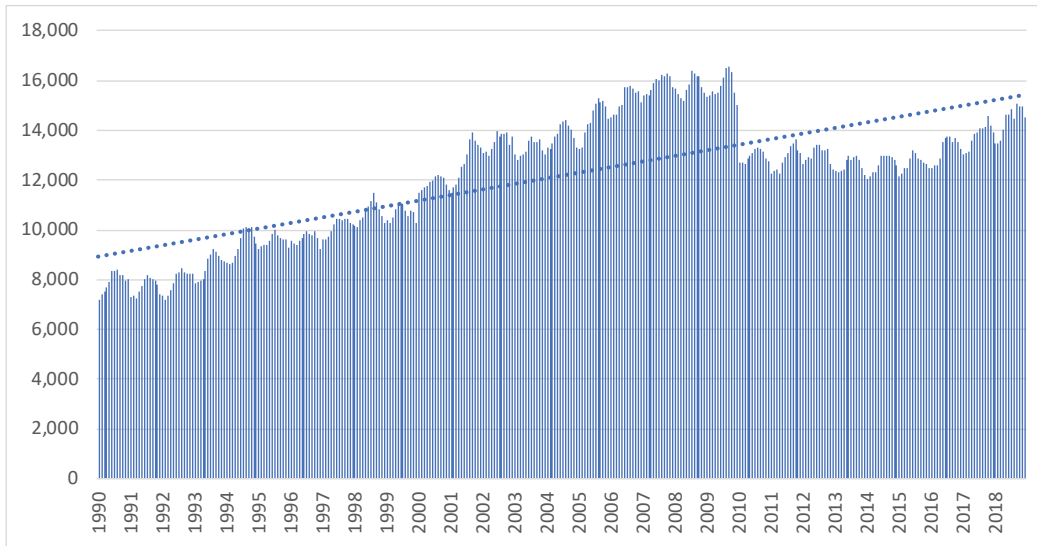


Figure 2:  
Delta County Personal Income Percentage Change 2002-2017

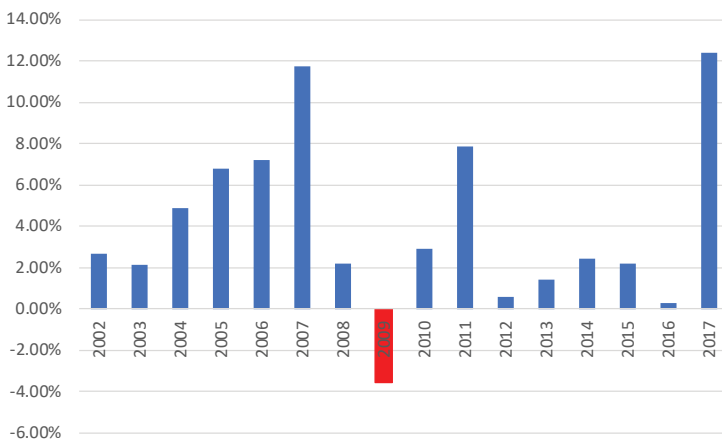
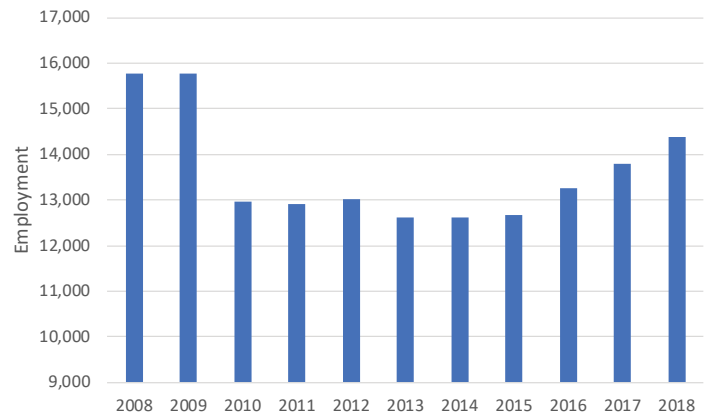


Figure 3:  
Delta County Yearly Employment



### Delta County Compared to Other Counties

There are several ways to measure the economic progress of Delta County. 1) Compared to the boom of 2008, 2) compared to the Front Range, 3) compared to surrounding counties, and 4) compared to the recent past. As discussed above, Delta has not yet recovered from the 2008 employment boom and is still approximately 1,400 jobs away from a full recovery. It is important to note that 2008 was a “double bubble” for Delta County as well as neighboring Mesa County. Coal prices pushed coal employment to its peak in 2008, coupled with a national and regional housing bubble Delta County had two bubbles to recover from. While Montrose has recovered and is up from 2008 employment, Mesa County (oil/gas) and Delta County (coal, and residual employment from Mesa oil/gas) have not yet recovered. Since 2008 was a bubble, perhaps it should not be used as the indicator of recovery.

Compared to the Front Range Delta County has drastically lagged behind, while compared to surrounding counties Delta County has only slightly lagged behind. Table 2, illustrates GDP comparisons, although Delta has only 3 years of GDP growth rates to compare. Figure 4 illustrates median household income over time and Delta has lagged behind everyone except for Pueblo. There is good news in that 2017 median household income increased, but it increased less than most other counties, especially neighboring Montrose. Table 3 shows the growth rate of personal income, with 2017 having a great year with a 12.3% increase, much larger than any other comparable county. This is good news for Delta County, as Delta has stagnated more than neighboring counties since 2008. Compared to the recent past, Delta has positive news for the first time in several years. Unemployment is low, personal income is rising, and poverty is now moving down. This trend of growth in 2017 and 2018 can be seen across the Western Slope.

Table 2:  
GDP Growth Rate % Comparison

	Grand Junction	Colorado Springs	Pueblo	Denver/Aurora/Lakewood	Montrose	Delta
2010	-5.4%	4.5%	0.4%	3.6%	N/A	N/A
2011	-2.1%	2.3%	0.3%	3.5%	N/A	N/A
2012	-0.1%	0.7%	2.5%	4.7%	N/A	N/A
2013	-1.6%	-0.1%	-2.3%	3.3%	-3.6%	1.1%
2014	1.8%	-1.9%	2.2%	7.7%	-0.3%	6%
2015	-2.6%	2.4%	1.6%	3.3%	3.6%	-0.3%
2016	-2.3%	1.9%	2.7%	2.4%	N/A	N/A
2017	4.2%	3.3%	2.8%	6.0%	N/A	N/A

Figure 4:  
Median Household Income

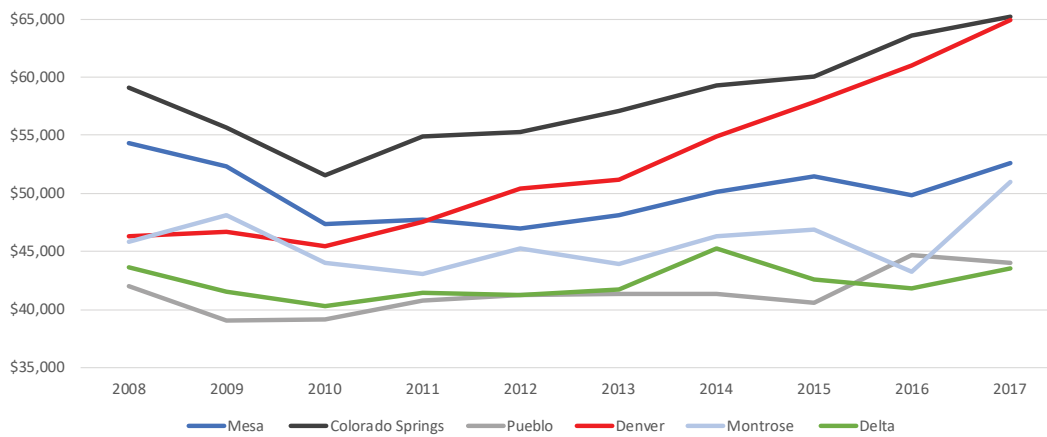


Table 3:  
Personal Income Growth Rate Comparison

	Delta	Denver	El Paso	Garfield	Mesa	Montrose
2008	2.2%	6.2%	3.9%	6.0%	10.5%	4.6%
2009	-3.5%	-11.4%	1.5%	-5.8%	-6.6%	-2.8%
2010	2.9%	6.6%	5.0%	-10.2%	-2.2%	-1.2%
2011	7.8%	13.8%	6.6%	7.9%	4.3%	2.2%
2012	0.6%	9.4%	4.1%	5.6%	4.8%	3.9%
2013	1.4%	9.1%	1.6%	7.8%	1.7%	1.0%
2014	2.4%	12.9%	6.1%	12.4%	6.1%	5.9%
2015	2.2%	1.1%	5.1%	12.4%	1.5%	4.6%
2016	0.3%	-2.7%	2.7%	-3.0%	0.1%	3.2%
2017	12.4%	10.7%	5.2%	4.4%	5.2%	5.2%
Average	2.9%	5.6%	4.2%	3.7%	2.5%	2.7%

## Employment Changes: 2008 to 2018

Table 4 illustrates Q3 2018 employment and wages compared to Q3 2008 employment and wages. Note that the QCEW only counts companies that participate in the unemployment insurance program, so sole proprietors and farm employment are generally undercounted. However, the QCEW is the best source on employment and wage data per industry. The table is sorted by total employment change, which makes it easy to determine which industries have decreased since the 2008 boom and which industries have grown. The largest positive employment changes have been in health care, with 361 jobs. The biggest losses in jobs over 10 years have been in mining (354), wholesale trade (132), and manufacturing (128). Note that this has not been adjusted for inflation so many of the wage gains are positive, despite some industries having employment loss.

Table 4:  
**Quarterly Census of Employment and Wages Q3 2008 Compared to Q3 2018**

Sector	Average Employment 2nd Quarter 2018	Total Quarterly Wages (Q3 2018)	Average Weekly Wage (Q3 2018)	Total Wage Change (Q3 2008 to Q3 2018)	Total Employment Change (Q3 2008 to Q3 2018)
Health Care and Social Assistance	1,903	\$19,656,840	\$795	\$7,770,201	361
Accommodation and Food Services	816	\$3,347,095	\$316	\$1,069,965	64
Agriculture, Forestry, Fishing & Hunting	402	\$3,119,858	\$597	\$1,010,486	57
Other Services, Ex. Public Admin	227	\$1,672,771	\$567	\$208,916	28
Management of Companies and Enterprises	22	\$256,524	\$897	\$139,851	15
Information	148	\$1,137,208	\$591	\$232,006	-5
Arts, Entertainment, and Recreation	48	\$180,648	\$290	-\$44,370	-14
Utilities	49	\$795,451	\$1,249	\$43,136	-14
Transportation and Warehousing	127	\$1,198,898	\$726	-\$380,898	-22
Public Administration	732	\$9,117,674	\$958	\$1,017,722	-25
Professional and Technical Services	188	\$1,793,149	\$734	\$261,322	-56
Administrative and Waste Services	216	\$1,526,885	\$544	-\$654,133	-86
Construction	497	\$5,932,997	\$918	\$1,163,348	-121
Retail Trade	1,228	\$8,258,718	\$517	\$710,848	-122
Manufacturing	496	\$4,681,249	\$726	-\$506,657	-128
Wholesale Trade	108	1,249,911	890	-\$851,760	-132
Mining	141	\$1,644,101	\$897	-\$5,510,834	-354

SOURCE: Colorado Department of Labor and Employment (QCEW). The most recent quarterly data available is reported.

Figure 5:  
**QCEW Employment Comparison Q3 2008 to Q3 2018**

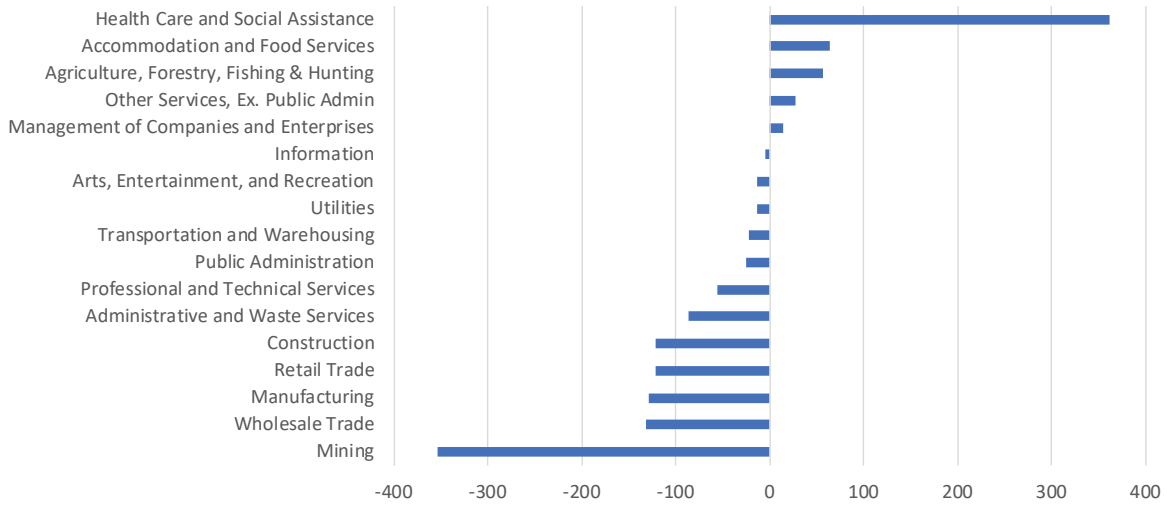
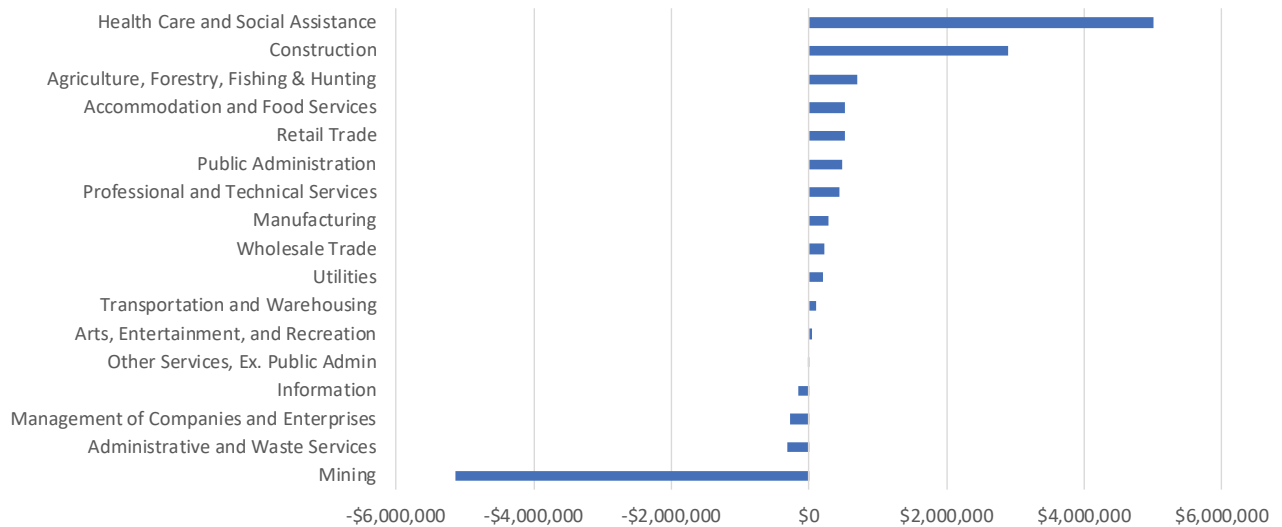


Figure 6:  
**QCEW Total Wage Comparison Q3 2015 to Q3 2018**



## Employment Changes: 2015 to 2018

Table 5 illustrates changes from Q3 of 2015 to Q3 2018 in order to see which industries have been responsible for the positive growth the county has experienced in 2017 and 2018. Q3 of 2015 was chosen because it is comparable to the most recent data (Q3 2018) but also because Delta's recovery started after coal mine jobs hit their bottom in 2015. The table is sorted not by employment, but by total wage change. Viewing by total wage change is a way of viewing which industry has had the biggest economic impact over the last two years. Some industries may employ many workers but have low wages, so looking at employment numbers is not always the best way to see which industry is most impactful. In terms of wage changes, health care leads the pack with \$5,006,072 in wage change since Q3 2015, with construction the second largest at \$2,903,751. During this time health care is responsible for 44% of new wages and construction responsible for 25% of new wages. Mining continues to have significant losses and is down \$5,138,510 over the last three years. In the energy section on page 11, figure 11 illustrates that mining jobs seem to have leveled off for now and have been less volatile since late 2015.

Table 5:  
**Quarterly Census of Employment and Wages Q3 2015 Compared to Q3 2018**

Sector	Average Employment 3rd Quarter 2018	Total Quarterly Wages (Q3 2018)	Average Weekly Wage (Q3 2018)	Total Wage Change (Q3 2015 to Q3 2018)	Total Employment Change (Q3 2015 to Q3 2018)
Health Care and Social Assistance	1,903	\$19,656,840	\$795	\$5,006,072	117
Construction	497	\$5,932,997	\$918	\$2,903,751	170
Agriculture, Forestry, Fishing & Hunting	402	\$3,119,858	\$597	\$695,840	69
Accommodation and Food Services	816	\$3,347,095	\$316	\$532,569	-14
Retail Trade	1,228	\$8,258,718	\$517	\$514,048	23
Public Administration	732	\$9,117,674	\$958	\$490,385	-11
Professional and Technical Services	188	\$1,793,149	\$734	\$442,558	43
Manufacturing	496	\$4,681,249	\$726	\$286,003	4
Wholesale Trade	108	\$1,249,911	\$890	\$218,022	2
Utilities	49	\$795,451	\$1,249	\$210,675	1
Transportation and Warehousing	127	\$1,198,898	\$726	\$95,442	15
Arts, Entertainment, and Recreation	48	\$180,648	\$290	\$44,789	2
Other Services, Ex. Public Admin	227	\$1,672,771	\$567	-\$22,142	15
Information	148	\$1,137,208	\$591	-\$147,914	-36
Management of Companies and Enterprises	22	\$256,524	\$897	-\$281,253	-7
Administrative and Waste Services	216	\$1,526,885	\$544	-\$314,013	-1
Mining	141	\$1,644,101	\$897	-\$5,138,510	-246

SOURCE: Colorado Department of Labor and Employment (QCEW). The most recent quarterly data available is reported.

## Farm Employment

Table 6 illustrates BEA estimates of farm employment for Delta County. Farm employment is virtually even from 2016, and down very slightly from 2015. As stated above QCEW tends to undercount farm employment, these Bureau of Economic Analysis numbers are more accurate to the year change in farm employment.

Table 6:  
**Farm Employment**

Agriculture	2017	2016	2015	% change since 2016	% change from 2015
Farm Employment	1,072	1,073	1,087	-0.1%	-1.4%

## Is the Growth of 2017 and 2018 Sustainable?

Since construction and health care are the two largest contributors to the economic success of 2017 and 2018, it is important to analyze the sustainability of these industries and their recent growth. Figure 7 illustrates construction industry employment from 2000 through 2018. As you can see, construction has both seasonal fluctuations and tends to fluctuate with the business cycle, with the tendency to peak at the top of business cycles and retreat during recessions (see the 2007 peak). Construction therefore has some downside risk due to the tendency to fluctuate with the business cycle. The majority of economists believe we are in the latter stages of the business cycle, where growth begins to slow after the peak. Many economists see either considerably slower growth in 2019 and especially 2020, or even recession in late 2019 or 2020. With this potential business cycle risk in mind, the employment growth in construction may be reaching its short term peak, with moderate downside risk over the next 1-2 years. Since there is no housing bubble that is pushing construction into a bubble, if and when the business cycle turns, construction will not be hit as hard as it was in 2008. Delta may have some countervailing factors such as retirees migrating to the area, but Delta is not immune from a national slowdown.

Health care has the opposite story, and is recession proof and moves based on technology and demographics. There is likely no risk to the growth in health care employment which will help to stabilize Delta County if construction and other industries do eventually slow.

Figure 7:  
**Construction Employment**

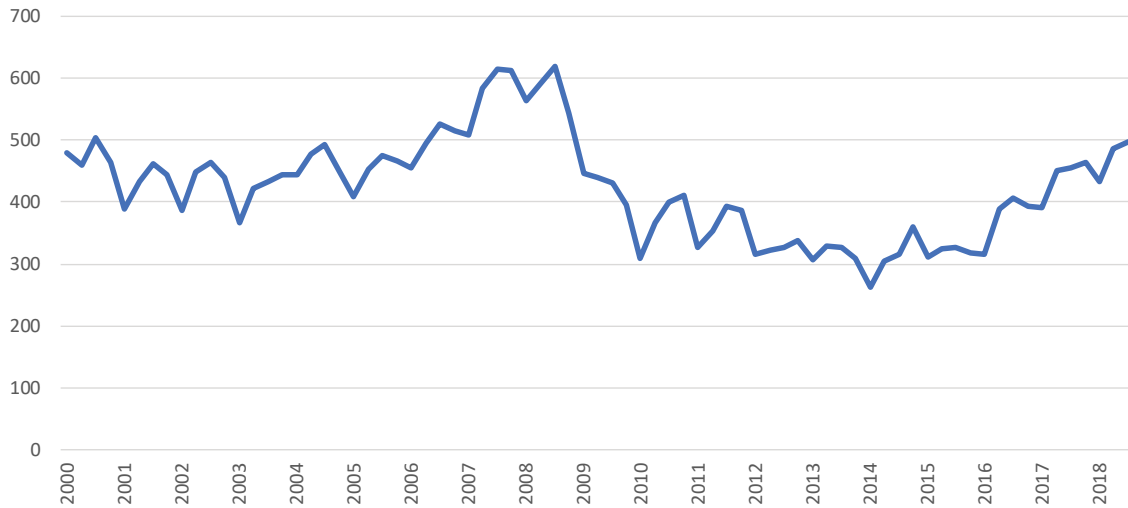
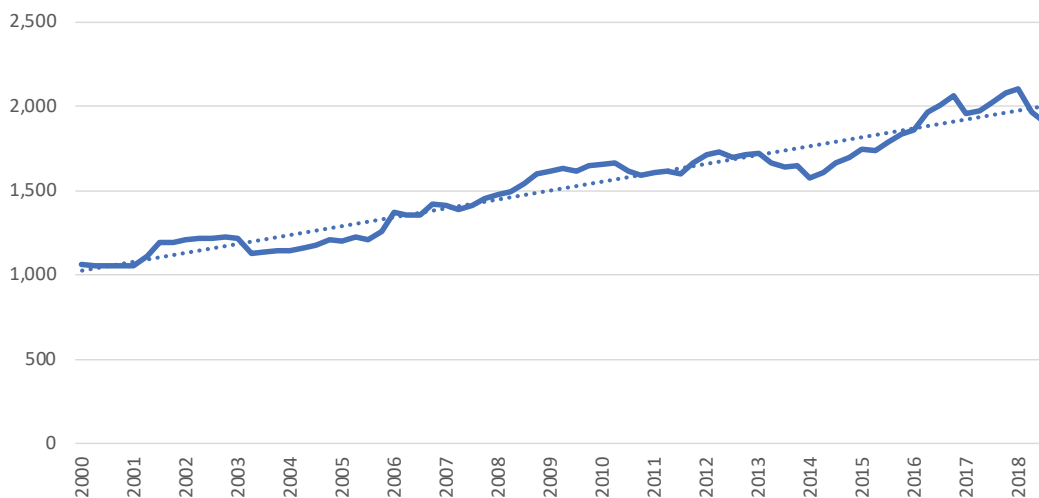


Figure 8:  
**Health care Employment**





## LOCAL REAL ESTATE

	Q4 2018	Q4 2017	% change since last year
<b>Real Estate</b>			
Current Residential Listings (3 month avg)	249	237	5.20%
New Residential listings (3 month total)	133	131	1.53%
Sold Residential Listings (3 month total)	132	141	-6.38%
Median Sales Price	\$224,083	\$187,417	19.56%
Average Sales Price	\$249,543	\$252,406	-1.13%
Days on Market	107.29	108.66	-1.26%
Months Supply of Inventory	5.05	4.54	11.20%
Total Building Permits	32	35	-8.57%
Total Building Permit Valuation	\$1,970,773	\$1,715,634	14.87%
Single Family Home Permits	7	6	16.67%
Single Family Home Permit Valuation	\$1,330,615	\$553,760	140.29%
<b>Foreclosures</b>			
Foreclosure Filings	13	23	-43.48%
Foreclosure Sales	8	15	-46.67%
<b>Mortgage Rates</b>			
15 Year Mortgage Rate	4.21%	3.29%	0.92%
30 Year Mortgage Rate	4.78%	3.92%	0.86%

SOURCES IN ORDER OF LISTING: Real Estate Data: Colorado Association of Realtors Market Trends Program through ShowingTime; Building Permits and Valuation: City of Delta and Orchard City totals; Foreclosure Filings and Sales: Delta County; Mortgage rates: Freddie Mac.

### Local Real Estate Indicators

The Delta real estate market shows some mixed signals. Median sales price has increased by 20%, while average sales price held steady. The difference between the average and median sales price indicates that several homes must have been sold at a very low price to keep the average low while the median is high. Months supply of inventory rose 5%, which means that more units are for sale than last year. The overall number of 5.05 still shows a slightly sellers market (the generic view is that anything below 6 is a sellers market). Days on market is almost unchanged, indicating that homes are selling at the same rate they were last year. Permit and valuation data is for the City of Delta and Orchard City combined.

Mortgage rates are up almost 1% since the same time last year, pushing up the costs of housing. There was a short pullback in housing demand when interest rates spiked in September and October, but since then demand seems unchanged. National housing economists believe home values can continue to climb due to extraordinarily high demand for housing and a real shortage of new housing units. Unlike 2008, these home value increases do seem to be based on economic fundamentals. However, most housing economists do not expect home values to continue to increase at this pace, instead slowing the pace of price appreciation to a more sustainable level. House prices have to stay in line with some measure of consumer income in the long term. There is some sign of housing slowing nationally in larger cities, but thus far Delta County seems unaffected.

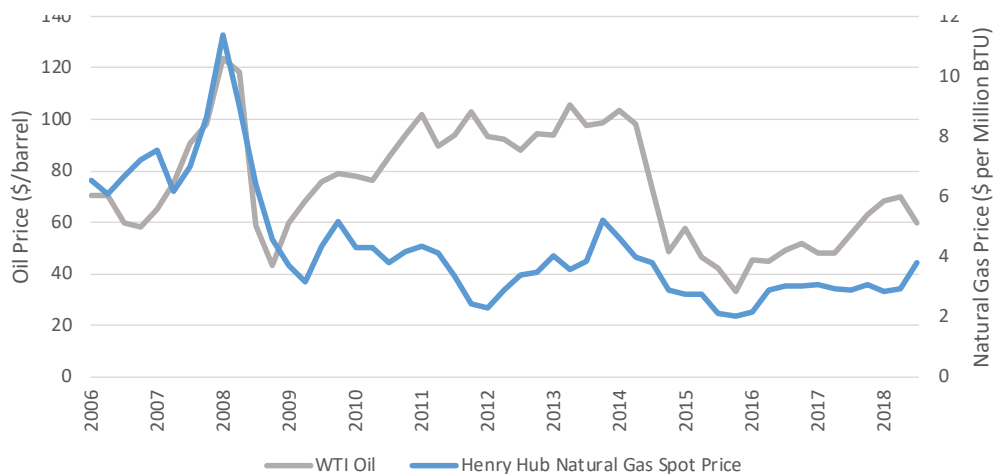
The Federal Reserve has recently reversed course on their promised interest rate increases, instead opting to hold steady on interest rates for the foreseeable future. This will help keep housing healthy, as further increasing rates may finally curb housing demand.

## REGIONAL ENERGY

	Q4 2018	Q3 2018	Q4 2017	% change since last quarter	% change since last year (comparable quarters)
<b>Energy Prices</b>					
WTI Crude Oil	\$59.97	\$69.69	\$55.27	-13.95%	8.50%
Henry Hub Natural gas	\$3.80	\$2.93	\$2.90	29.69%	31.03%
Retail Gasoline Price	\$2.54	\$2.77	\$2.43	-8.41%	4.32%
<b>Drilling Permits</b>					
	<b>2018 Total</b>	<b>2017 Total</b>	<b>% Change</b>		
Drilling Permits (Mesa County)	64	215	-70.23%		
Drilling Permits (Rio Blanco County)	83	118	-29.66%		
Drilling Permits (Garfield County)	702	612	14.71%		
Drilling Permits (Moffat County)	4	5	-20.00%		
Total Permits (Mesa, Rio Blanco, Garfield, Moffat)	853	950	-10.21%		
Total Permits (Colorado)	5,116	3,909	30.88%		
<b>Local Rig Count</b>					
	<b>Jan-19</b>	<b>Nov-18</b>			
Rig Count (Western Colorado, Mesa, Rio Blanco, Garfield, Moffat)	7	7			
<b>Delta/Gunnison Coal Industry</b>					
	<b>2018</b>	<b>2017</b>	<b>% Change</b>		
Delta/Gunnison Average Monthly Employment for Coal Mining	265.5	234.9	13.02%		
Delta/Gunnison Coal Production (tons)	4,643,374	4,860,780	-4.47%		

SOURCES: All energy prices: Energy Information Agency; All permit data from Colorado Oil and Gas Conservation Commission (COGCC); Local Rig Count: Baker Hughes Rig Count as of January, 2019; Coal: Colorado Division of Reclamation and Safety.

Figure 9:  
**Oil and Natural Gas Prices**



## Natural Gas Prices

The price of Henry Hub natural gas has been extremely volatile from October through January. In the month of October, the average price of natural gas was \$3.28. November prices skyrocketed, peaking at a price of \$4.70/MMBtu on 11/21. From late November to early January gas prices swung back down to a low of \$2.72/MMBtu on 1/3/19, and have quickly risen to a late January price of \$3.43/MMBtu (as of 1/22/19). Cold weather and low inventory resulted in the uptick in prices through early December. The second half of December had warmer than average temperatures, returning natural gas prices to their previous levels. The average price of natural gas in 2018 was \$3.15/MMBtu. The Energy Information Agency forecasts that Henry Hub natural gas prices will be lower in 2019 than in 2018, forecasting a price of \$2.89/MMBtu. The EIA expects that production growth keeps pace with demand and export growth and inventories build faster than the five year averages.

Source: <https://www.eia.gov/outlooks/steo/marketreview/natgas.php>

## Oil and Gasoline Prices

After hitting a recent peak of near \$77 per barrel of oil, the WTI price of oil fell drastically from October 3rd (\$76.40) to a bottom of \$44.48 on December 27th. Since the beginning of January, oil prices have moved up to the low 50's as of the end of January. Prices fell because of several concerns, including slowing global growth and the potential for reduced oil demand, and continued strong U.S. shale oil production raising inventories. The price of oil sparked a price reversal in January from late December lows as OPEC and Russia moved to cut production to increase prices. Oil prices are expected to be volatile for the next several months.

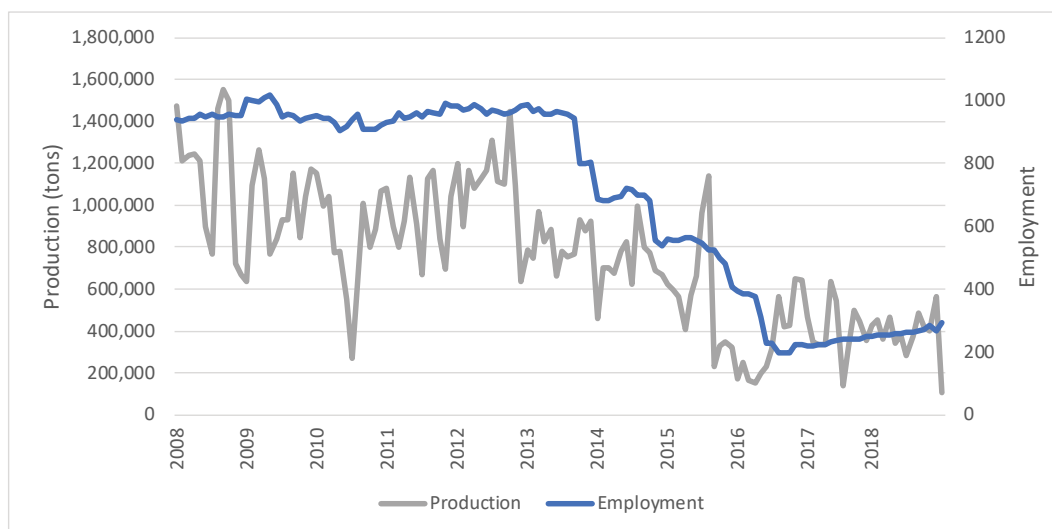
Gasoline prices averaged \$2.54 for Q4 of 2018, down from \$2.77 in Q3. The EIA expects gasoline prices to average \$2.30 per gallon during the first quarter of 2019, reflecting lower crude oil prices and lower refinery margins. Gasbuddy.com shows the late January average gas price in Delta County ranges between \$2.14 and \$2.28.

Source: <https://www.eia.gov/outlooks/steo/marketreview/crude.php>

## Coal Industry

Total production for Delta/Gunnison coal from the West Elk mine is down 4.5% from 4,860,780 tons of coal to 4,643,374 tons. Average monthly employment in the same time period is up 13% from 235 miners per month to 266 miners per month. Figure 9 illustrates the history of coal production and coal employment since 2008. Both coal production and coal employment seem to have reduced their volatility since 2016, as employment changes have been slow but positive.

Figure 10:  
**Delta/Gunnison Coal Production and Employment (2008-2018)**



## NATIONAL ECONOMIC INDICATORS

	Q4 2018	Q3 2018	Q4 2017	% change since last period	% change since last year (comparable quarters)
<b>Business Cycle Indicators</b>					
Real GDP	N/A*	3.40%	2.30%	N/A*	N/A*
Real Personal Consumption Expenditures (PCE)	N/A*	2.93%	2.70%	N/A*	N/A*
Private Fixed Investment	N/A*	8.16%	7.22%	N/A*	N/A*
National Consumer Confidence	98.1	98.1	98.4	0.00%	-0.30%
Industrial Production Index	109.6	108.5	105.3	0.93%	4.06%
Initial Weekly Unemployment Claims (4 week MA)	218,058	213,096	239,673	2.33%	-9.02%
Non Farm Payroll Change (in thousands)	2,650	2,541	2,164	4.28%	22.48%
<b>Unemployment</b>					
Unemployment Rate-U3-SA	3.80%	3.80%	4.10%	0.00%	-0.30%
Unemployment Rate-U6-SA	7.60%	7.50%	8.00%	0.10%	-0.40%
<b>Interest Rates</b>					
Federal Funds Rate	2.21%	1.91%	1.19%	0.30%	1.02%
10 Year U.S. Treasury	3.03%	2.93%	2.37%	0.10%	0.66%
30 Year U.S. Treasury	3.27%	3.06%	2.82%	0.21%	0.45%
<b>Inflation Measures</b>					
Inflation Rate (CPI)	2.23%	2.61%	2.12%	-0.39%	0.11%
Core Inflation Rate (All Items Less Food and Energy)	2.20%	2.23%	1.75%	-0.03%	0.45%
Inflation Rate (Shelter)	3.22%	3.39%	3.19%	-0.17%	0.03%
Producer Price Index (PPI)	3.54%	4.95%	4.62%	-1.40%	-1.07%
Employment Cost Index	2.89%	2.83%	2.66%	0.06%	0.24%
<b>Stock Prices</b>					
S&P 500	2,699	2,850	2,603	-5.29%	3.67%
Dow Jones Industrial Average	24,916	25,595	23,689	-2.65%	5.18%
<b>Exchange Rate</b>					
USD Exchange Rate (trade weighted)	128	125	120	2.17%	6.45%

SOURCES: GDP, Consumption, Investment, and Trade Balance: Bureau of Economic Analysis; Consumer Confidence: University of Michigan; Industrial Production, Interest Rates and USD Exchange Rate: Board of Governors of the Federal Reserve System; Weekly Unemployment Claims: U.S. Employment and Training Administration. Non-Farm Payroll, Unemployment Rates, Inflation Measures: Bureau of Labor Statistics; Stock Prices: S&P Dow Jones Indices, LLC;

Note: \* indicates that data release for Q4 2018 is delayed due to government shutdown.

Figure 11:  
Real GDP

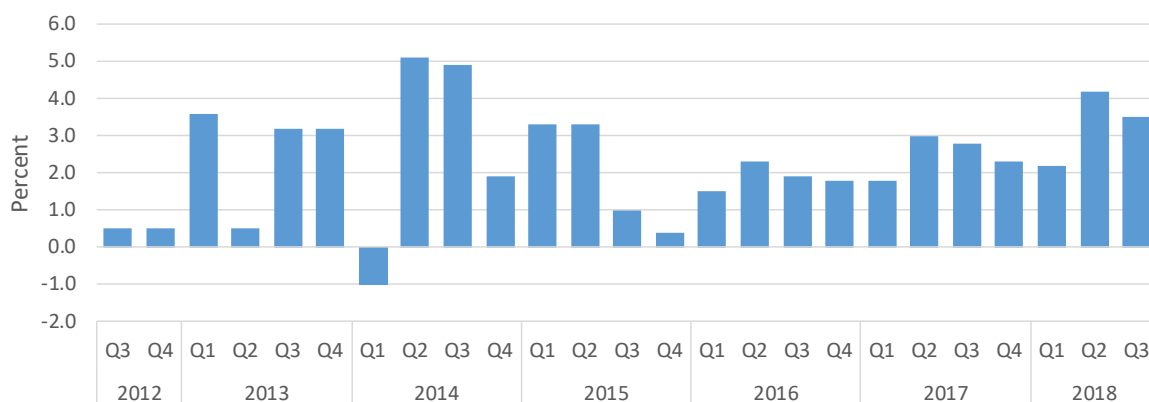
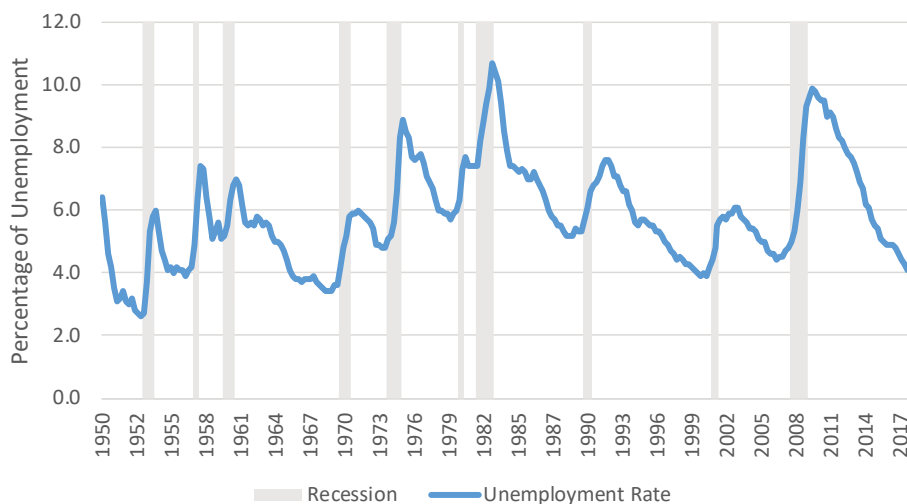


Figure 12:  
U.S. Unemployment: 1950-2018



### National Economic Performance

Quarter 4 GDP estimates have been delayed a full month due to the government shutdown. The Atlanta Federal Reserve GDP Now program forecasts a 2.5% growth rate for GDP in the 4th quarter of 2018. Growth is expected to be positive, but lower in 2019 as the effects of the fiscal stimulus wear off.

The national labor market continues to be strong, with very strong non-farm payrolls increase (figure 14). Non-farm payrolls had been trending down, fitting the narrative of the late stage business cycle slowdown, but the last two quarters have fought this narrative with an uptick in payroll numbers. Many economists believe that there is more room to run with employment because the labor force participation rate is low compared to pre-recession levels. The pre-recession peak of

labor force participation was approximately 67%, while we are currently at 63%. This means if we were to return to pre-recession norms, there are still people sitting on the sideline who have the capacity and potentially the will to work.

As expected with rising employment, unemployment claims are down year over year, falling 9%. National consumer confidence has held steady, while industrial production saw a modest increase from last quarter and last year. Seasonally adjusted unemployment remains at 3.8%, still at historical lows.

The consumer price index is still low, residing between 2-3 percent. This is likely one of the reasons the Federal Reserve has reversed course on interest rates. The employment cost index is continuing to increase, showing wage gains for workers, but its rate of increase is not much higher than the rate of inflation.

Figure 13:  
**Employment Cost Index**

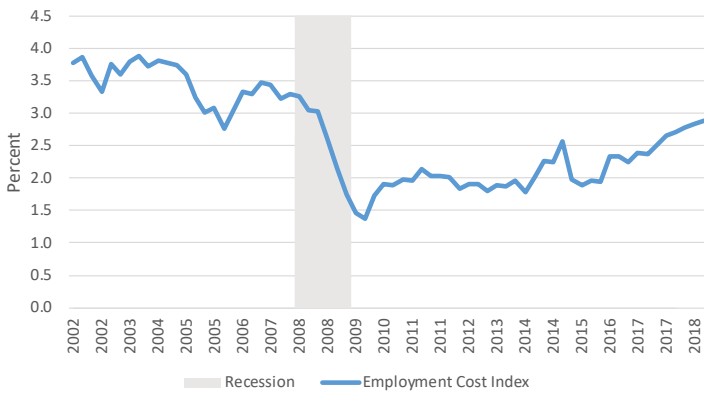
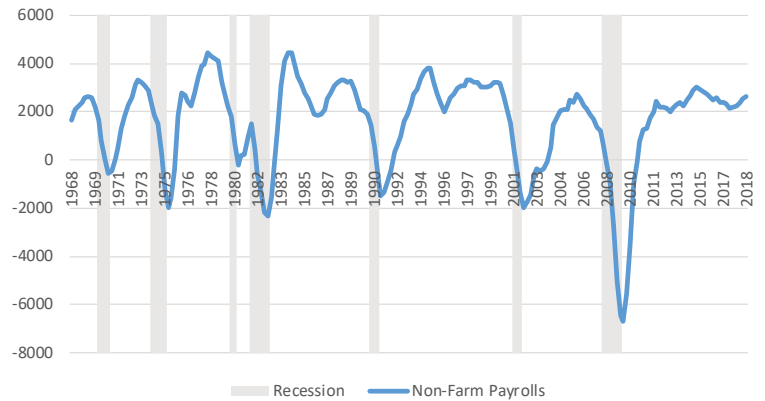


Figure 14:  
**Change in Non-Farm Payrolls**



## Federal Reserve Policy

The Federal Reserve has moved its target Federal Funds rate to 2.25-2.50%. The interest rate increases in the fall were worrisome because there was still little sign of inflation, but there have been some signs of financial fragility, slow international growth, and in larger cities a slowing housing market. Since late 2018, the Federal Reserve has reversed its view regarding raising rates. The Fed has now signalled that interest rate increases will be put on pause, causing many economists to speculate that we have seen the last interest rate increase for this business cycle. Not increasing rates will help the economy continue to build on its strong expansion by keeping interest rates relatively low. Factors that could change the Fed's decision in 2019 include increasing inflation (which there is no sign of), housing price bubble (housing prices are high but not in bubble territory), or signs of financial market bubbles.

## What to Expect in 2019?

At other points in history when at this spot at the top of the business cycle economists would be worried about inflation, oil, and commodity prices, rising wages, bubble territory for home prices, and the Fed would be raising interest rates to curb these problems. This expansion shows no signs of any of these problems yet. In the past, demand for oil in an expansion would push up energy prices, but with the U.S. producing so much shale oil the law of supply kicks in, and as prices increase oil producers can supply the market with a short lag time. Wages are rising but at historically low levels (post WW2). Home prices are rising but not yet in bubble territory. There are still threats to the current expansion in the form of slow global growth, trade war concerns, international political risk, but thus far the expansion seems to be moving forward in 2019, albeit at a slower growth rate.



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