

DELTA COUNTY ECONOMIC UPDATE

First Quarter, 2021



Provided by the Business Department
of Colorado Mesa University

Economic Summary

- The Delta County labor market improved drastically from the April lows in unemployment, falling from 10.5% to as low as 5.3% in October. Unemployment numbers across the Western Slope, Colorado, and the nation rose through the winter months as COVID numbers climbed and government restrictions tightened. Delta unemployment rates rose to 5.6% in November and 7.4% in December.
- Delta County median household income increased from 2018 to 2019 from \$46,486 to \$51,525, a 12% increase. This was lower than Mesa County (17%) but higher than Montrose County, which saw no increase in median household income. There is now a 3-year trend of increasing median household income, showing that strong economic data since 2017 is translating to a higher standard of living.
- Delta County and City sales taxes were very strong in 2020, increasing by 17.55% and 7% respectively.
- Q4 2020 annualized real GDP increased by 4%, ending the year at \$18.7 trillion compared to Q4 of 2019 at \$19.2 trillion. Potential GDP is at \$19.4 trillion, indicating a recessionary gap of \$700 billion.

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LOCAL ECONOMIC INDICATORS

| | Q4 2020 | Q3 2020 | Q4 2019 | change since last quarter | change since last year (comparable quarters) |
|---|-------------------|---------|-------------------|------------------------------|--|
| Local Labor Market | | | | | |
| Unemployment Rate Delta County- NSA | 6.10% | 5.87% | 2.67% | 0.23% | 3.43% |
| Unemployment Rate Colorado - NSA | 6.80% | 6.70% | 2.40% | 0.10% | 4.40% |
| Unemployment Rate U.S. - NSA | 6.50% | 8.90% | 3.30% | -2.40% | 3.20% |
| Labor Force | 14,649 | 13,589 | 14,943 | 1,060 | -294 |
| Employed | 13,756 | 12,788 | 14,542 | 968 | -786 |
| Unemployed | 893 | 801 | 401 | 92 | 492 |
| Business Confidence | | | | | |
| Leeds Colorado Business Confidence Index | 47.9 | 47.9 | 50.8 | 0.00% | -5.71% |
| Sales/Use Taxes | | | | | |
| City of Delta Sales/Use Taxes (YTD) | \$6,665,595 | | \$6,228,425 | | 7.02% |
| Delta County Sales/Use Tax (YTD) | \$6,693,612 | | \$5,694,109 | | 17.55% |
| Lodging Tax (YTD) | \$97,021 | | \$113,112 | | -14.23% |
| Business Filings | | | | | |
| | 2020 (YTD) | | 2019 (YTD) | | |
| Delta County New Business Entity Filings | 503 | | 436 | | 15.37% |

| Standard of Living and Growth | 2019 | 2018 | 2017 | % change since 2018 | % change from 2017 |
|--|-------------|-------------|-------------|----------------------------|---------------------------|
| Gross Domestic Product (GDP) | \$853,431 | \$809,730 | \$760,444 | 5.40% | 12.23% |
| Personal Income | \$1,225,876 | \$1,180,966 | \$1,130,438 | 3.80% | 8.44% |
| Personal Income Per Capita | \$39,339 | \$38,239 | \$37,040 | 2.88% | 6.21% |
| Population | 31,162 | 30,884 | 30,519 | 0.90% | 2.11% |
| Median Household Income | \$51,525 | \$46,786 | \$43,528 | 7.48% | 11.93% |
| | 2018 | 2017 | 2016 | % change since 2017 | % change from 2016 |
| Percent of Population Below Poverty Line | 17.6% | 16.5% | 16.8% | 1.10% | 0.80% |

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; Business Permits: Colorado Secretary of State's Office; 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

The Delta County labor market improved drastically from the April lows in unemployment, falling from 10.5% to as low as 5.3% in October. Unemployment numbers across the Western Slope, Colorado, and the nation rose through the winter months as COVID numbers climbed and government restrictions tightened. Delta unemployment rates rose to 5.6% in November and 7.4% in December. There is always a small uptick in unemployment numbers during winter months due to seasonal unemployment but generally not as high as 2%. As an example in 2019 unemployment increased from September to December by 0.4%. The 2% increase in 2020 is far beyond typical seasonal unemployment and is mostly related to COVID.

Employment numbers peaked in October of 2019 at 14,823, falling to a low of 11,318 in April, rising to 13,901 by December. Overall, Delta County lost 1,073 in employment from the 2019 average (figure 2). Unemployment bottomed in October 2019 at 377, rising to 1,324 in April, and falling to 776 in September, rising again in December to 1,104. Overall, Delta's performance during 2020 was comparatively better than other counties on the unemployment front, and especially the sales tax front.

For nine months I have written and presented on how initial and continued unemployment claims are a key data point in watching for economic recovery in the labor market. Due to unemployment fraud, the state has temporarily stopped tracking this data until they can get a better hold of the fraud situation. As of the last data point in December of 2020, initial claims were still rising, and it will be interesting to see how the data changes once it accounts for fraud.

Table 1:
1, 5, and 10 Year Employment Comparison (Yearly Comparison)

| | Labor Force | Employed | Unemployed |
|------------------|--------------------|-----------------|-------------------|
| Annual | -294 | -786 | 492 |
| 5-Year | 1,351 | 1,144 | 207 |
| 10-Year | 213 | 841 | -628 |
| Annual % | -2.0% | -5.4% | 122.7% |
| 5-Year % | 10.2% | 9.1% | 30.2% |
| 10-Year % | 1.5% | 6.5% | -41.3% |

Median Household Income

Last quarter this newsletter covered in detail the 2019 GDP numbers, but it is important to ask the question, "why do we want to see growth?" The goal of economic growth is not just to produce and consume more goods, but to increase the standard of living. One important measure of standard of living at the local level is median household income. Delta County median household income increased from 2018 to 2019 from \$46,486 to \$51,525, a 12% increase. This was lower than Mesa County (17%) but higher than Montrose, which saw no increase in median household income. There is now a 3-year trend of increasing median household income, showing that strong economic data since 2017 is translating to a higher standard of living.

Figure 1:
Median Household Income

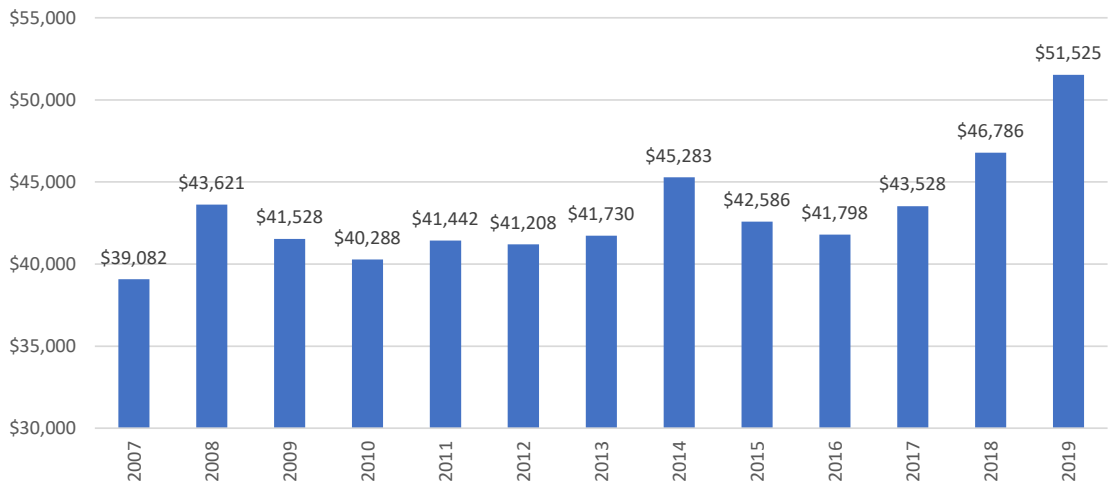


Figure 2:
Employment Oct 2019-Dec 2020

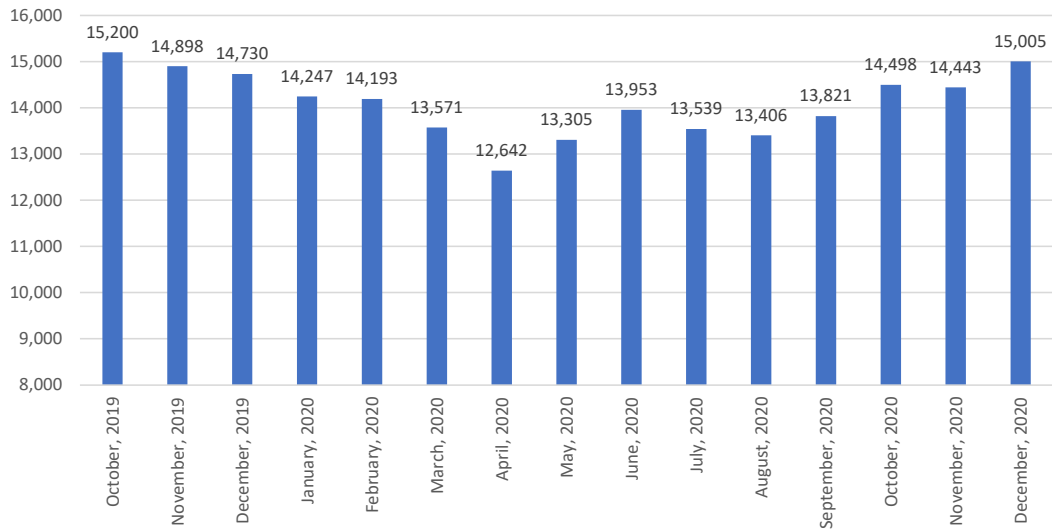
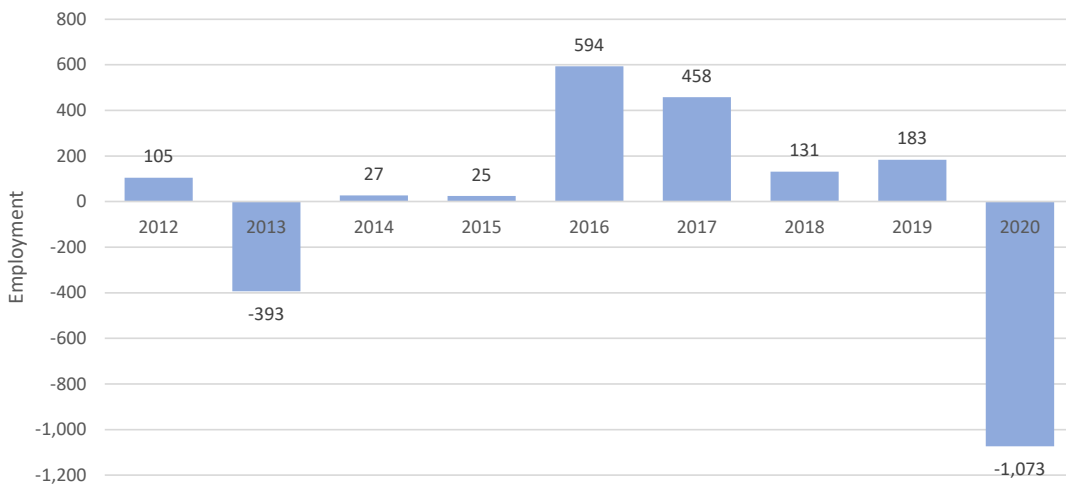


Figure 3:
Change in Yearly Employment Numbers



Population Forecasts

The Colorado State Demography Office tracks the population of Colorado and creates population forecasts for each county. These forecasts can help the state, counties, and municipalities plan for future growth. Although the most total population growth is expected to happen along the Front Range, much of the relative change in population is going to take place on parts of the Western Slope. Figure 4 illustrates relative population change, or percent population change. Red counties indicate large positive changes, blue indicates negative changes. Garfield, Mesa, and Montrose, and San Miguel are all expected to have strong population growth. Table 2 illustrates the population estimates for Mesa, Montrose, and Delta. Delta County is expected to rise in population from 31,141 to 33,175 by 2030, and 39,921 by 2050.

Population changes are the result of the birth rate, death rate, and migration rate. Figure 5 illustrates the birth rate. Mesa and Montrose have a slightly positive birth rate, while Delta has a negative birth rate. Figure 6 illustrates the death rate, with both Mesa, Montrose, and Delta, all with aging populations, all showing a high death rate. So if the natural rate of increase, or births minus deaths, is not the reason for the expected population growth, then what is the reason? The answer is the migration rate (figure 7). Mesa, Montrose, and Delta are all expected to have a large influx of migration, which is expected to be the key component to Western Slope population growth.

Source: All population heat maps and population data are from the Colorado State Demography Office.

Figure 4:
Percent Population Change 2019-2030

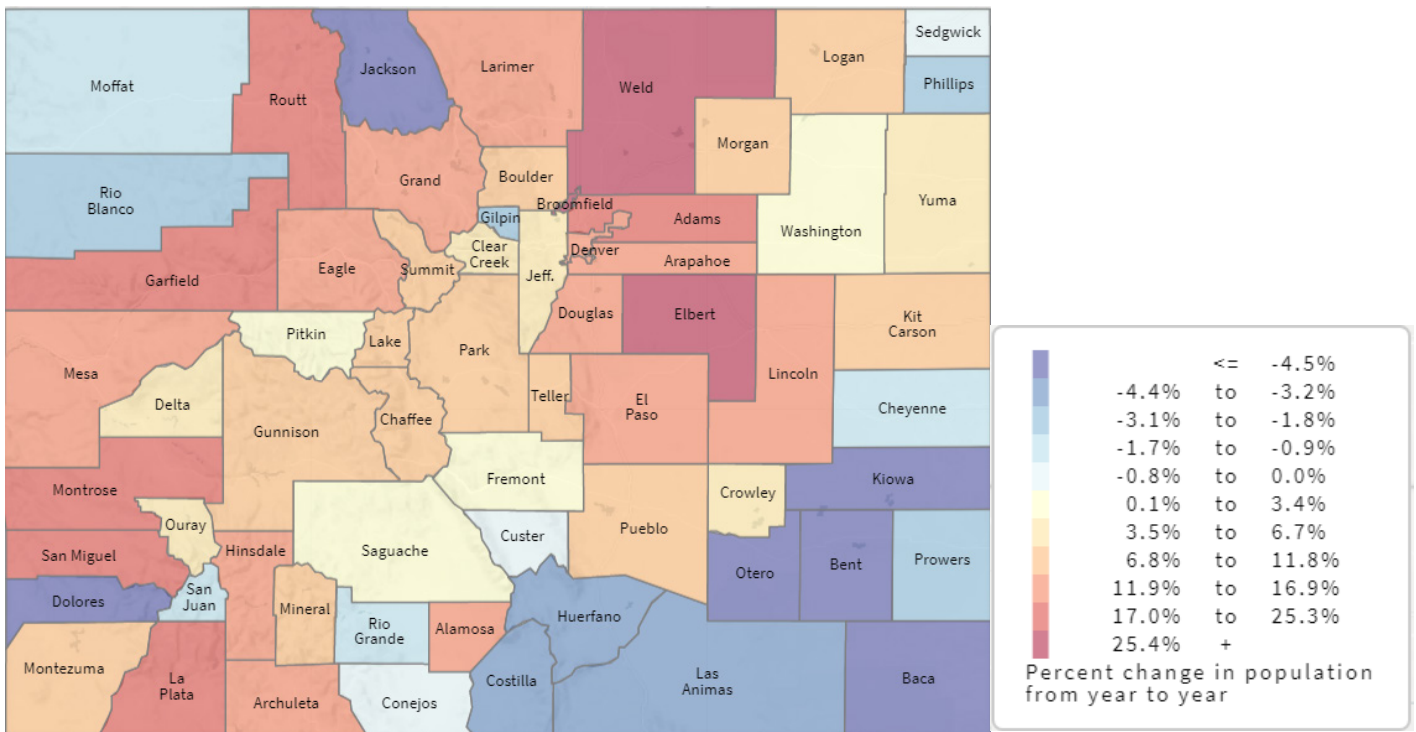


Figure 5:
Birth Rate 2019-2030

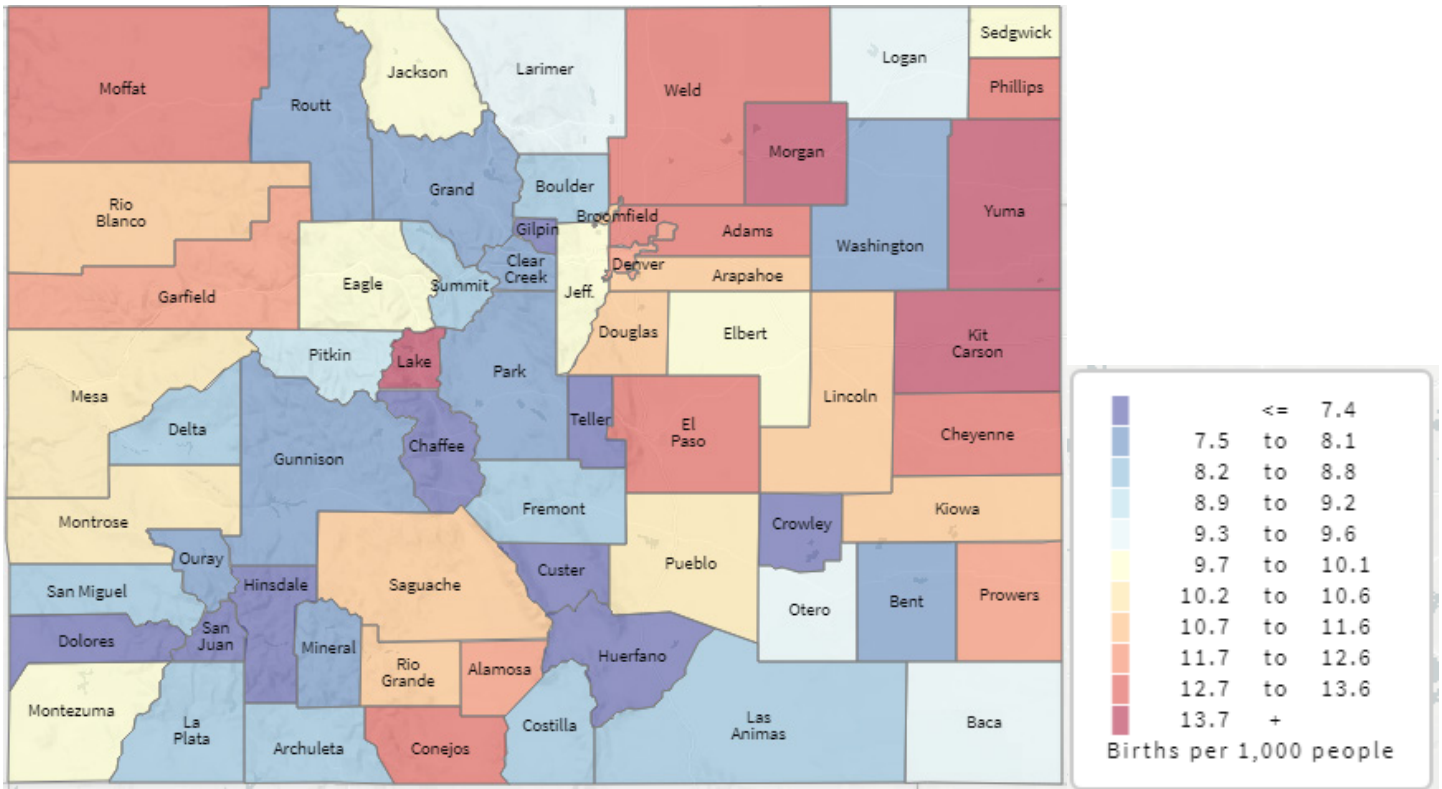


Figure 6:
Death Rate 2019-2030

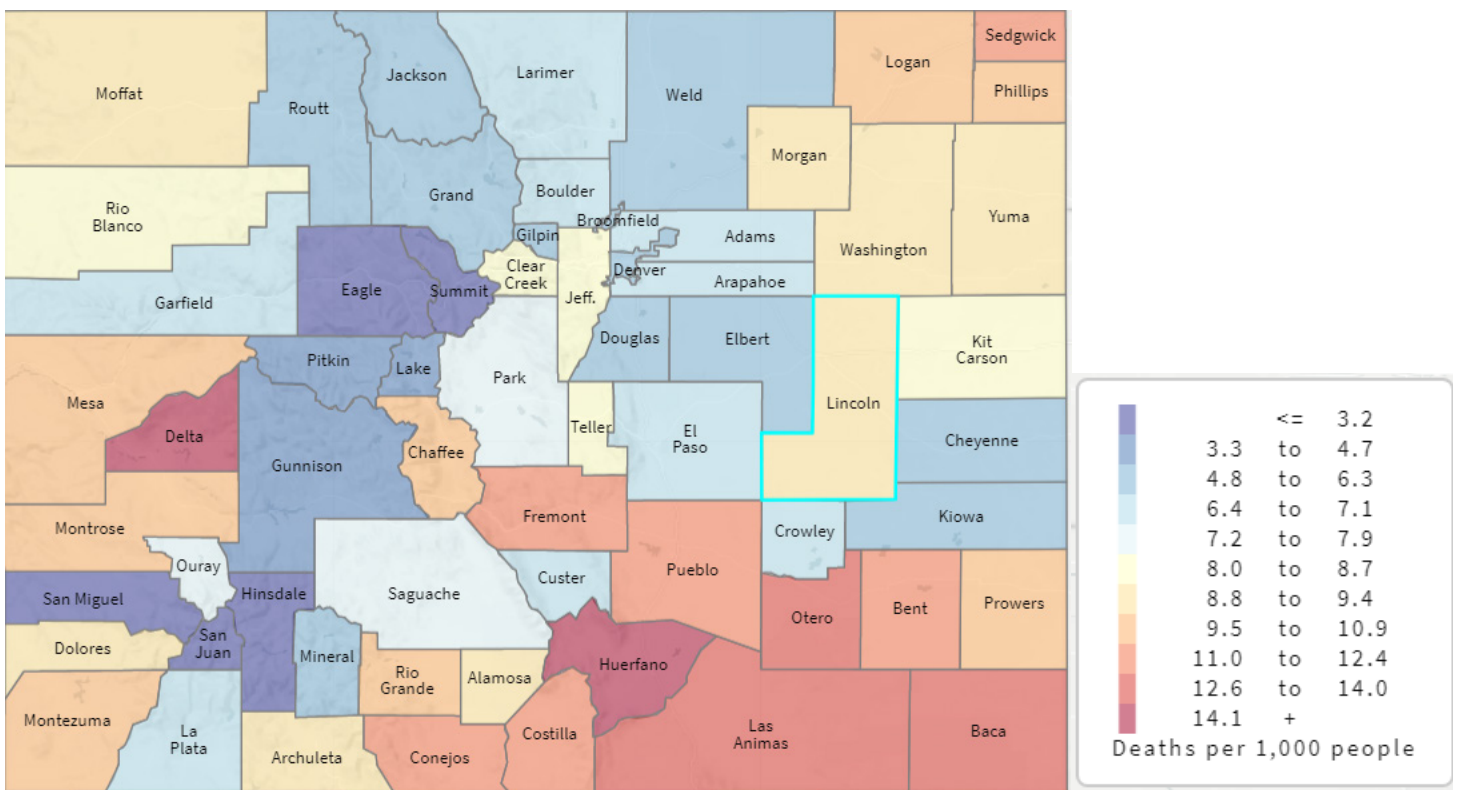


Figure 7:
Migration Rate 2019-2030

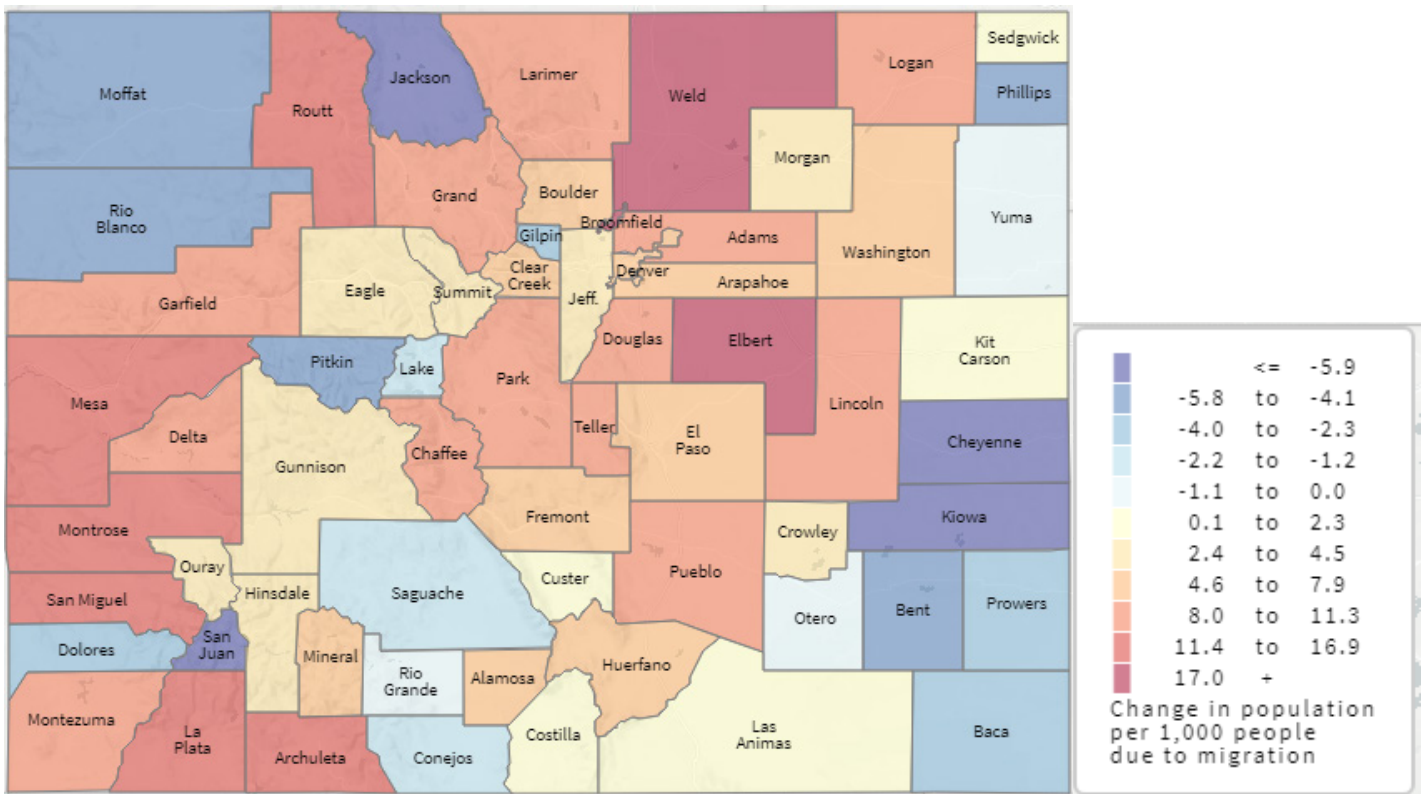


Table 2:
Population Forecasts (Colorado State Demography Office)

| | Montrose | Mesa | Delta |
|------|----------|---------|--------|
| 2020 | 43,242 | 155,738 | 31,141 |
| 2025 | 47,080 | 163,484 | 31,625 |
| 2030 | 51,933 | 178,297 | 33,175 |
| 2035 | 56,433 | 195,340 | 35,013 |
| 2040 | 60,730 | 212,055 | 36,775 |
| 2045 | 64,791 | 228,142 | 38,408 |
| 2050 | 68,640 | 238,172 | 39,921 |

Delta County Employment Trends

Third quarter QCEW data shows that Delta County lost 416 jobs, with 112 in healthcare, 124 in accomodation and food services. Net wages were slightly positive, with losses in mining, accomodation and food services, healthcare, real estate rental and leasing. Gains in wages were in construction, wholesale trade (which also added 62 jobs), followed by retail trade and public administration. Figure 8 illustrates wage gains and losses, while figure 9 illustrates what was mostly job losses. Q4 2020 is expected to have more positive data. Note that QCEW is industry level data that illustrates wages and employment by industry, but does not capture 100% of employment (sole proprietors and many farm employees are not counted in this dataset).

Table 3:
Quarterly Census of Employment and Wages (QCEW) Q3 2020 Compared to Q3 2019

| Sector | Average Employment Q3 2020 | Total Quarterly Wages (Q3 2020) | Average Weekly Wage (Q3 2020) | Total Employment Change (Q3 2019 to Q3 2020) | Total Wage Change (Q3 2019 to Q3 2020) |
|--|----------------------------|---------------------------------|-------------------------------|--|--|
| Total, All Industries | 8,385 | \$82,047,561 | \$753 | \$22,773 | -416 |
| Health Care and Social Assistance | 1,774 | \$19,947,387 | \$865 | -\$473,362 | -112 |
| Public Administration | 789 | \$9,991,907 | \$974 | \$232,405 | -7 |
| Retail Trade | 1,258 | \$9,362,448 | \$572 | \$253,736 | -13 |
| Construction | 494 | \$5,847,465 | \$911 | \$505,136 | 16 |
| Manufacturing | 501 | \$5,016,300 | \$770 | -\$51,071 | -26 |
| Agriculture, Forestry, Fishing & Hunting | 395 | \$3,609,608 | \$703 | \$69,476 | -33 |
| Real Estate and Rental and Leasing | 221 | \$3,233,985 | \$1,126 | -\$216,979 | -20 |
| Accommodation and Food Services | 646 | \$3,185,956 | \$379 | -\$351,928 | -124 |
| Finance and Insurance | 197 | \$2,244,980 | \$877 | \$16,007 | -22 |
| Administrative and Waste Services | 247 | \$1,907,973 | \$594 | -\$81,704 | -5 |
| Other Services, Ex. Public Admin | 219 | \$1,889,302 | \$664 | -\$16,213 | -4 |
| Professional and Technical Services | 167 | \$1,778,397 | \$819 | \$1,112 | -12 |
| Information | 139 | \$1,415,618 | \$783 | \$147,836 | -14 |
| Transportation and Warehousing | 122 | \$1,284,904 | \$810 | \$32,415 | -13 |
| Wholesale Trade | 110 | \$1,140,591 | \$798 | \$358,032 | 62 |
| Utilities | 56 | \$944,683 | \$1,298 | N/A | N/A |
| Mining | 66 | \$770,238 | \$898 | -\$577,067 | -34 |
| Arts, Entertainment, and Recreation | 56 | \$322,752 | \$443 | \$15,224 | -3 |
| Management of Companies and Enterprises | 15 | \$253,182 | \$1,298 | \$14,758 | -6 |

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

Table 4:
Farm and Sole Proprietor Employment

| BEA Data | 2019 | 2018 | 2017 | % change since 2018 | % change from 2017 |
|-----------------------------|-------|-------|-------|---------------------|--------------------|
| Farm Employment | 1,553 | 1,559 | 1,601 | -0.4% | -3.0% |
| Sole Proprietors (non-farm) | 5,732 | 5,574 | 5,438 | 2.8% | 5.4% |

Figure 8:
Total Wage Changes from Q3 2019 to Q3 2020

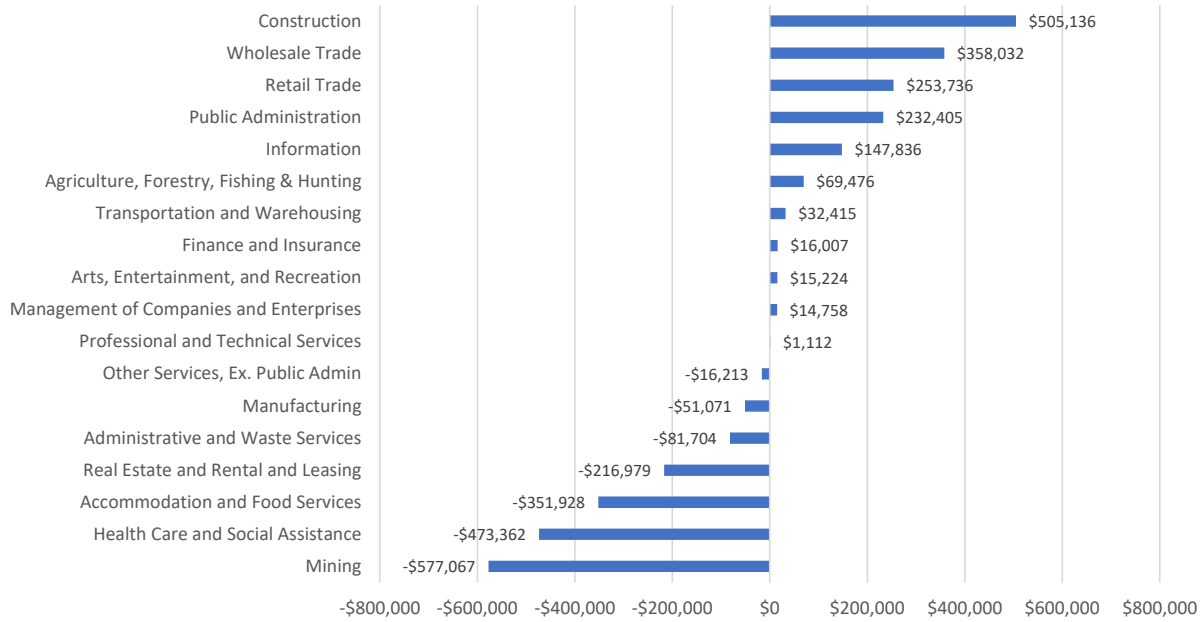
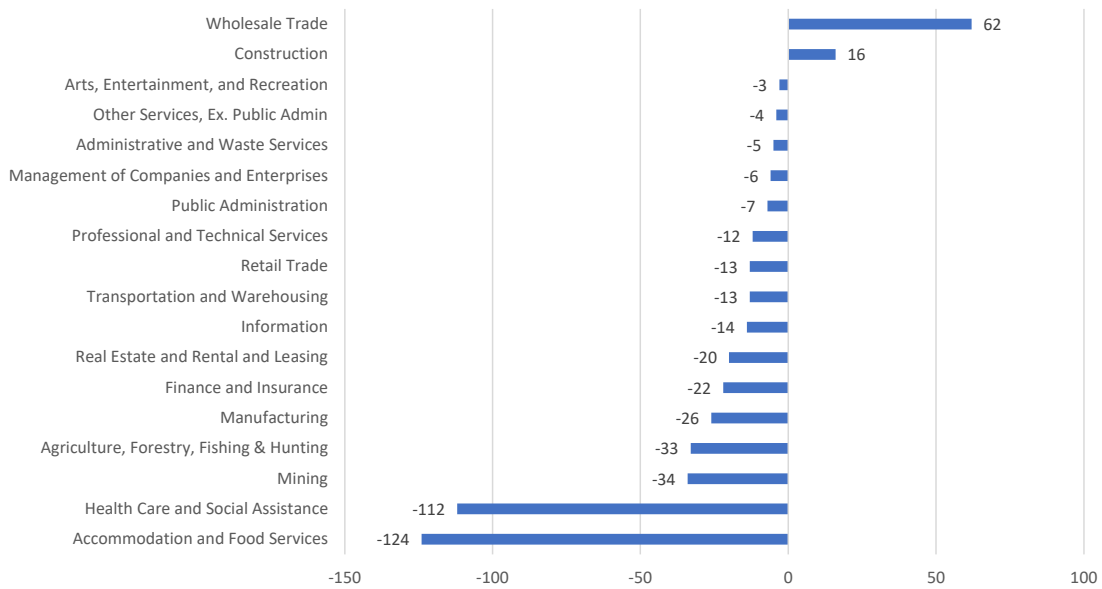


Figure 9:
Total Jobs Change from Q3 2019 to Q3 2020



LOCAL REAL ESTATE

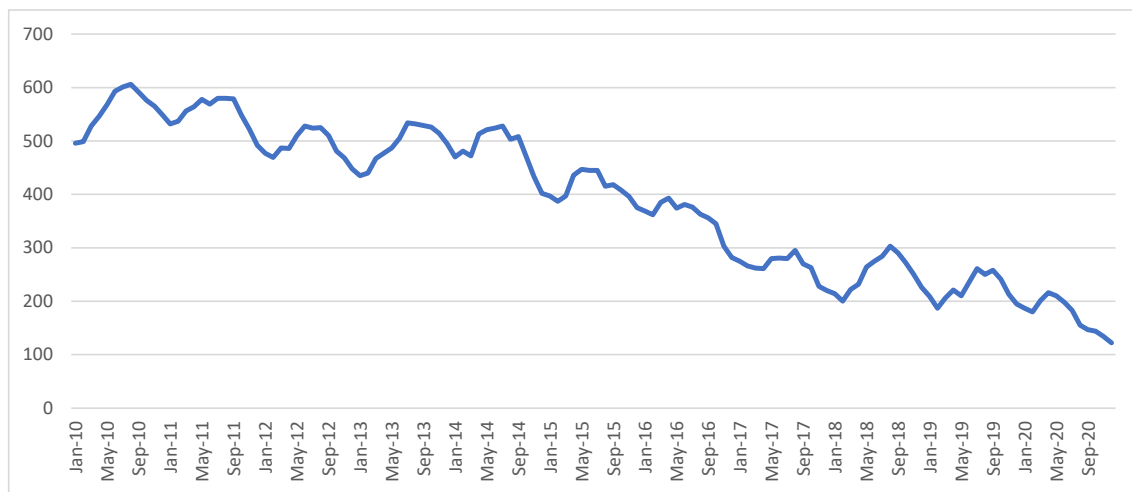
| | Q4 2020 | Q4 2019 | % change since last year |
|--|-----------|-----------|--------------------------|
| Real Estate | | | |
| Current Residential Listings (3 month avg) | 162 | 256 | -36.93% |
| New Residential listings (3 month total) | 214 | 220 | -2.73% |
| Sold Residential Listings (3 month total) | 232 | 140 | 65.71% |
| Median Sales Price | \$282,417 | \$225,917 | 25.01% |
| Average Sales Price | \$324,464 | \$267,408 | 21.34% |
| Days on Market | 118.33 | 119.00 | -0.56% |
| Months Supply of Inventory | 3.87 | 5.93 | -34.83% |
| Foreclosures | | | |
| Foreclosure Filings | 3 | 9 | -66.67% |
| Foreclosure Sales | 2 | 2 | 0.00% |
| Mortgage Rates | | | |
| 15 Year Mortgage Rate | 2.29% | 3.16% | -0.87% |
| 30 Year Mortgage Rate | 2.76% | 3.70% | -0.94% |

SOURCES IN ORDER OF LISTING: Real Estate Data: Colorado Association of Realtors; 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

Quarter 3 data shows that listings have fallen, sold properties have risen, and as a result of the shortened supply, both median and average prices have increased. Median prices rose by 3.46%, while average prices increased by 7.69%. As the market gets tighter, the number of days on market falls, while single family home permits and total permits have also fallen in Delta. This tight real estate market is the result of less selling, likely due to COVID, and extraordinarily low interest rates fueling demand. With inventory at lows and prices at all time highs, economists wonder how long this boom can go on. There is a distinct housing shortage right now, not just in Delta County and the Western Slope, but nationally. Rising rates may curb some demand, while falling COVID numbers may facilitate more activity. Despite this, economists forecast strong demand for housing. As housing prices rise and wages stagnate, housing affordability becomes a distinctive problem.

Figure 10:
Inventory of Active Listings



REGIONAL ENERGY

| | Q4 2020 | Q3 2020 | Q4 2019 | % change since last quarter | % change since last year (comparable quarters) |
|--|------------|------------|------------------------------------|-----------------------------|--|
| Energy Prices | | | | | |
| WTI Crude Oil | \$42.52 | \$40.89 | \$56.84 | 3.99% | -25.19% |
| Henry Hub Natural gas | \$2.53 | \$2.00 | \$2.40 | 26.50% | 5.42% |
| Retail Gasoline Price | \$2.06 | \$2.10 | \$2.48 | -1.53% | -16.84% |
| Drilling Permits | | | | | |
| | 2020 | 2019 | % Change since same time last year | | |
| Drilling Permits (Mesa County) | 1 | 0 | N/A | | |
| Drilling Permits (Rio Blanco County) | 33 | 59 | -44.07% | | |
| Drilling Permits (Garfield County) | 127 | 149 | -14.77% | | |
| Drilling Permits (Moffat County) | 1 | 7 | -85.71% | | |
| Total Permits (Mesa, Rio Blanco, Garfield, Moffat) | 162 | 215 | -24.65% | | |
| Total Permits (Colorado) | 1,543 | 2,032 | -24.06% | | |
| Local Rig Count | | | | | |
| | Feb-21 | Nov-20 | May-20 | | |
| Rig Count (Western Colorado, Mesa, Rio Blanco, Garfield, Moffat) | 1 | 1 | 1 | | |
| Delta/Gunnison Coal Industry | | | | | |
| | 2020 (YTD) | 2019 (YTD) | % Change | | |
| Delta/Gunnison Average Monthly Employment for Coal Mining | 284 | 266 | 7.00% | | |
| Delta/Gunnison Coal Production (tons) | 223,307 | 386,948 | -42.29% | | |

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; Coal: Colorado Division of Reclamation and Safety.

Figure 8:
Oil and Natural Gas Prices

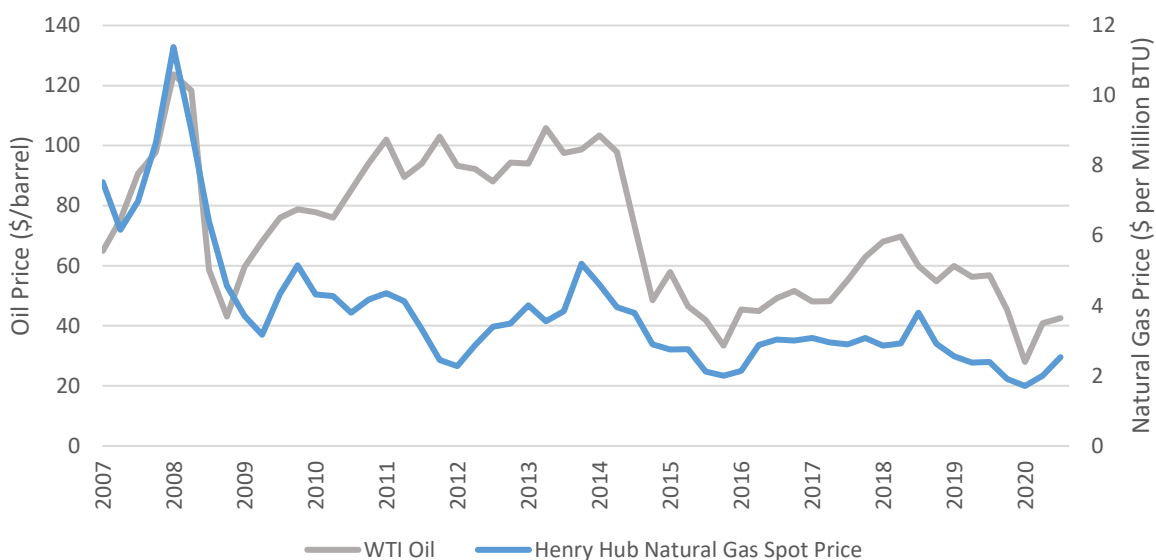


Figure 9:
Oil/Gas Drilling Permits and Oil/Gas Jobs

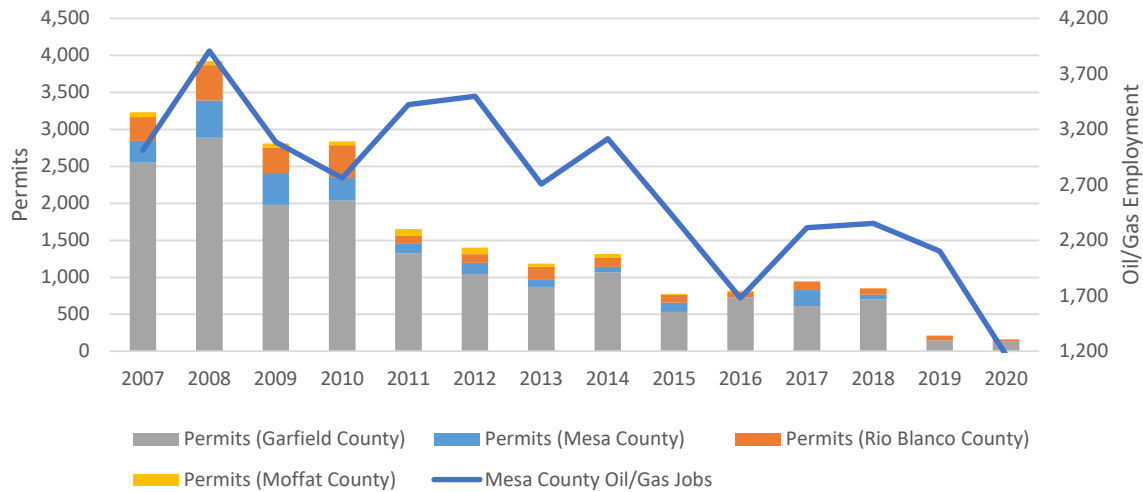
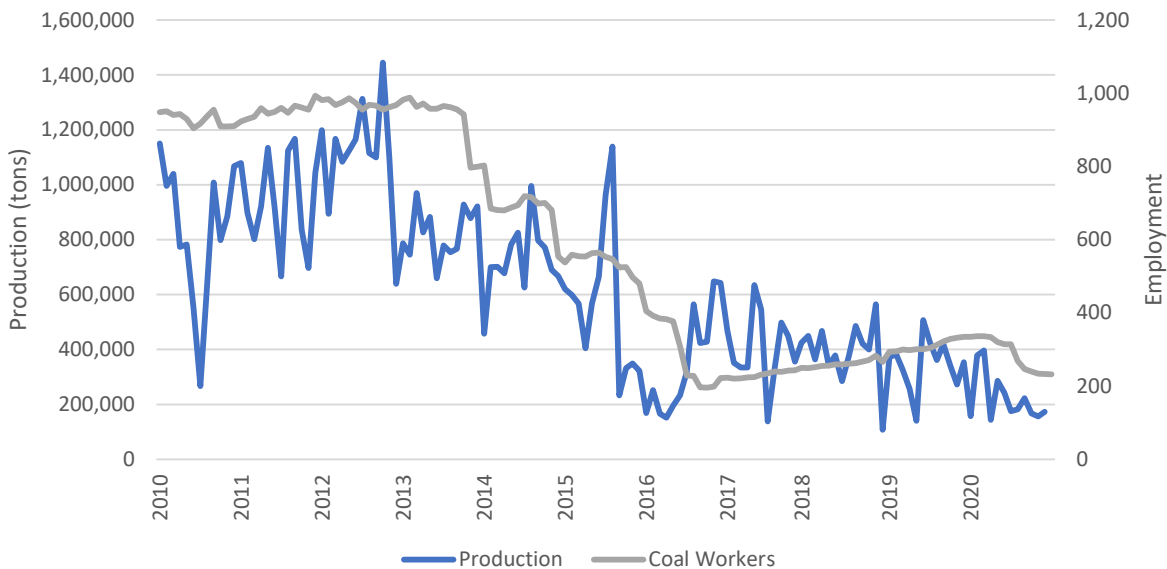


Figure 10:
Delta/Gunnison Coal Production and Employment



Delta/Gunnison Coal Production

West Elk mine coal production is down from 2019, falling 42%. Despite this, coal employment is up 7% from the same time last year. Although employment growth is stagnating in figure 10 and production is falling, rising coal prices may give the industry the bump it needs.

Western Slope Drilling Activity

Natural gas prices bottomed in 2020, rose sharply in mid-February 2021, and fell back in late February. The EIA's forecast for natural gas futures is \$3.14/MMBtu for 2021. After low prices and industry consolidation, an increase in economic activity in a post-COVID world has many economists expecting higher oil and gas prices. This may help the Piceance Basin recover from extremely low natural gas prices that pushed oil and gas employment and wages to their lowest level since 2005 (figure 13). Figure 12 illustrates total drilling permits, and shows a distinctive downward trend in both permits and oil/gas jobs. Rig counts are still at 1, and rising rig counts will indicate that rising employment in this industry will follow.

NATIONAL ECONOMIC INDICATORS

| | Q4 2020 | Q3 2020 | Q4 2019 | % change since last period | % change since last year (comparable quarters) |
|--|-----------|-----------|----------|----------------------------|--|
| Business Cycle Indicators | | | | | |
| Real GDP | 4.00% | 33.40% | 2.40% | -29.40% | 1.60% |
| Personal Consumption Expenditures | 2.50% | 41.00% | 1.60% | -38.50% | 0.90% |
| Gross Private Domestic Investment | 25.30% | 86.30% | -3.70% | -61.00% | 29.00% |
| National Consumer Confidence | 79.8 | 75.7 | 97.2 | 5.42% | -17.90% |
| Industrial Production Index | 105.0 | 102.5 | 109.6 | 2.41% | -4.17% |
| Initial Weekly Unemployment Claims (4 week MA) | 792,481 | 1,154,558 | 217,731 | -31.36% | 263.97% |
| Non Farm Payroll Change (in thousands) | 1,785,333 | 7,195,000 | 617,000 | -75.19% | 189.36% |
| Unemployment | | | | | |
| Unemployment Rate-U3-SA | 6.80% | 8.80% | 3.60% | -2.00% | 3.20% |
| Unemployment Rate-U6-SA | 11.90% | 14.50% | 6.90% | -2.60% | 5.00% |
| Interest Rates | | | | | |
| Federal Funds Rate | 0.09% | 0.09% | 1.66% | 0.00% | -1.57% |
| 10 Year U.S. Treasury | 0.86% | 0.65% | 1.79% | 0.21% | -0.93% |
| 30 Year U.S. Treasury | 1.62% | 1.36% | 2.25% | 0.26% | -0.63% |
| Inflation Measures | | | | | |
| Inflation Rate (CPI) | 1.21% | 1.26% | 2.03% | -0.05% | -0.82% |
| Core Inflation Rate (All Items Less Food and Energy) | 1.63% | 1.66% | 2.29% | -0.03% | -0.66% |
| Inflation Rate (Shelter) | 1.93% | 2.23% | 3.31% | -0.30% | -1.38% |
| Producer Price Index (PPI) | -0.32% | -2.59% | -1.86% | 2.27% | 1.54% |
| Employment Cost Index | 2.52% | 2.46% | 2.74% | 0.06% | -0.22% |
| Stock Prices | | | | | |
| S&P 500 | 3,555 | 3,320 | 3,083 | 7.07% | 15.30% |
| Dow Jones Industrial Average | 29,092 | 27,299 | 27,537 | 6.57% | 5.64% |
| Trade Balance and Debt | | | | | |
| Trade Balance (% of GDP) | -805.323 | -736.124 | -549.757 | 9.40% | 46.49% |
| Federal Debt (% of GDP)* | 127.3% | 103.3% | 105.5% | 24.0% | 21.8% |

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.; USD Exchange Rate: Board of Governors of the Federal Reserve; Trade Balance: BEA; Federal Debt: U.S. Office of Management and Budget. * indicates data is lagged by one quarter.

Figure 14:
Real GDP

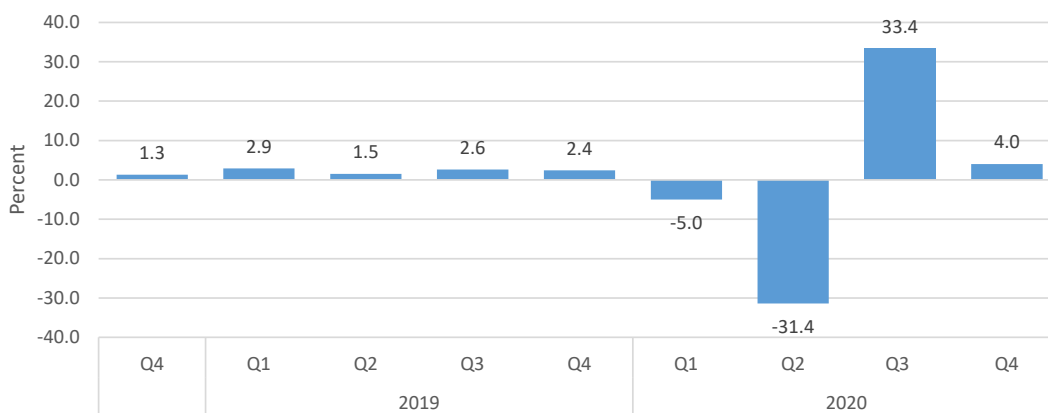
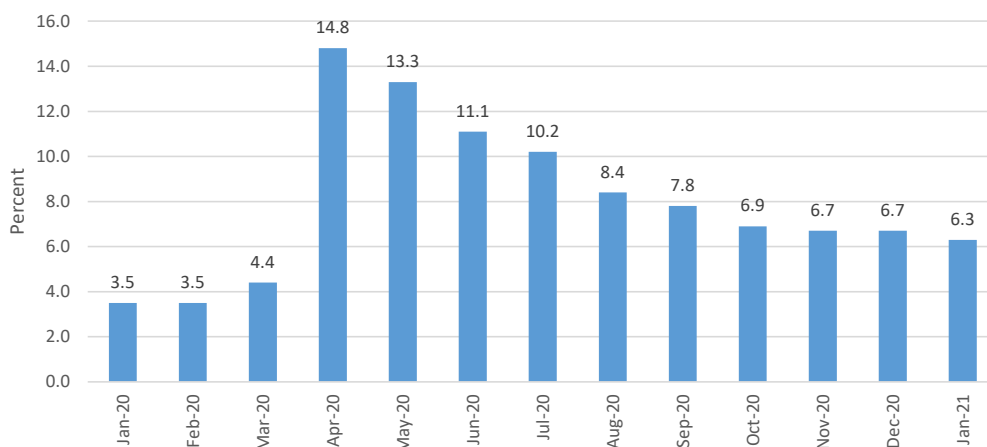


Figure 15:
U.S. Unemployment: January 2020 through January 2021



National Economic Performance

Although winter months have seen stagnation in the labor market, the expectations for the economy are very high heading into Spring. Rising COVID cases and state lockdowns deterred economic recovery November through January, but February COVID numbers and vaccination numbers indicate the worst is likely behind us, and a return to normalcy within our reach.

The national unemployment rate peaked in April at 14.7%, falling to 6.9% in October, and to 6.3% in January. Although the unemployment rate has fallen, employment fell in December and remained stagnant through January. The unemployment rate fell in part due to a fall in the labor force from December to January. A fall in the labor force is considered negative, as less people are working or trying to seek work.

Q4 2020 annualized real GDP increased by 4%, ending the year at \$18.7 trillion compared to Q4 of 2019 at \$19.2 trillion. Potential GDP is at \$19.4 trillion, indicating a recessionary gap of \$700 billion. The size of the GDP gap is key to understanding the debates surrounding the size of the pending 2021 fiscal stimulus bill, which as of writing is \$1.9 trillion in spending.

Monetary and Fiscal Policy

The Biden administration has proposed a \$1.9 trillion fiscal stimulus package, with \$1 trillion that includes stimulus checks, vaccine funding, expanded unemployment benefits, and money for states. Some form of this package is expected to be passed in March, with the expectation that it will boost consumer spending, create additional liquidity, and push economic growth forward.

Jerome Powell, Chairman of the Federal Reserve, recently reiterated the Fed's view that Federal Funds rate will be kept low. The Fed currently sees no threat of inflation, and believes that raising rates will not be necessary because there is no threat of inflation. The CPI remains low, at 1.21%, well below the Fed's target of 2%.

The big story in financial markets in February was the rise in the 10 year treasury bond. Figure 16 illustrates how the 10 year bond rate has risen from 0.52% in August to 1.34% in February. This rise in rates shows that investors believe that economic growth is on the horizon as well as inflation (likely due to stimulus). Rising rates can hurt the stock market, hurt mortgage rates and housing, and hurt discretionary consumer "big ticket" purchases.

Figure 16:
10 Year Treasury and FF Rate

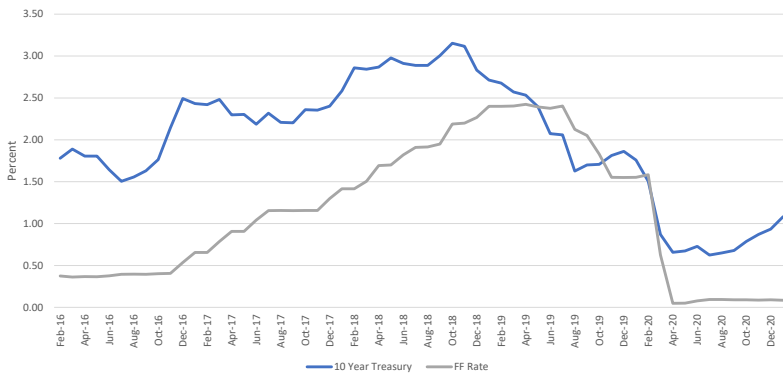
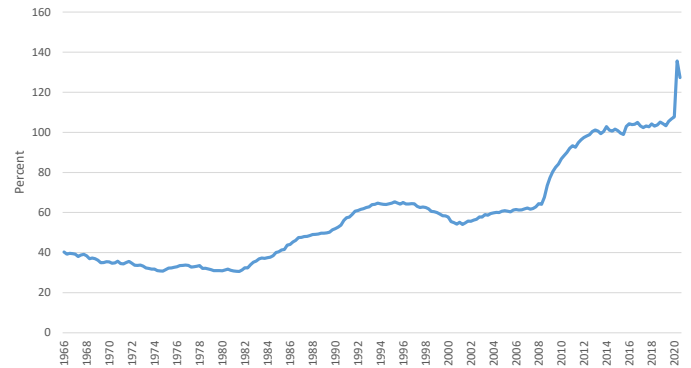


Figure 17:
Debt/GDP



U.S. Deficit and Debt

As a second fiscal policy package is being negotiated, the question of how we pay for it becomes an important one. The Federal government can pay for things in two ways, (1) through taxes, and (2) through debt (selling treasury bonds). Figure 15 illustrates the U.S. debt/GDP ratio, which is currently at 127%. There are many questions about whether the U.S. can continue to borrow for fiscal stimulus, especially after tax cuts reduced tax revenues. However, figure 14 illustrates the 10 year treasury bond yield, which is at historical lows. Shorter term bonds are astronomically low, and much like when purchasing a house, lower interest rates allow governments to borrow more while paying less to service the debt. A better way to measure the burden to government is to look at interest payments as a percentage of Federal spending. Because interest rates fell, and in part because expenditures increased, interest payments as a percentage of spending fell from 12.2% of the budget in 2019 to 8.6% of the budget in 2020. The total interest payments made fell from \$581 billion to \$556 billion from 2019 to 2020. Both of these data points illustrate that higher debt levels are sustainable if interest rates stay low. As a comparison, interest payments as a percent of federal spending during the 1980's, a decade with high interest rates, was higher than 20%. In fact, historically the interest payments as a percentage of spending is significantly lower than the historical average, measuring from 1948.

This tells us two things: (1) The U.S. can accrue more debt compared to the historical burden of interest rates, and (2) there will be significant pressure on the Fed to keep interest rates low until the debt burden is reduced. This is one of the reasons the Federal Reserve has signaled its desire to keep interest rates low for years to come. If interest rates were to drastically increase, it could hurt the ability of the U.S. government to issue new debt as it would increase the cost of servicing new debt, and rolling over old debt. Interest rates generally move for a few reasons: (1) They rise because inflation is rising, and (2) they rise because economic growth is strong and investors move out of bonds to more desirable equities. There is little evidence of significant inflation (although there are some signs such as energy prices and housing) and the Fed does not expect it. The return of a strong economy could push bond yields higher, despite the Fed's best attempts to keep them low, especially on the long end of the curve (the 10 year and 30 year treasury bonds).



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