

DELTA COUNTY ECONOMIC UPDATE



Provided by the Business Department
of Colorado Mesa University

Second Quarter, 2021

Economic Summary

- The Delta County labor market spiked in April, rising to 14,155 employed from 13,143 in March. The labor force similarly spiked to 15,039 in April from 14,072 in March.
- This newsletter discusses economic diversification of the county through use of the Hachman Index. Economic diversification is a complicated issue, but since 2011, the Hachman Index shows that Delta County has neither become more diverse, nor less diverse, trending sideways since 2011.
- Newly released data from the Census Department shows that the Delta County poverty rate estimate actually rose from 17.6% in 2018 to 18.3% in 2019. This is disappointing news, as Delta has had a strong economic performance from 2017-2019 that does not seem to have translated to a reduction in poverty like in Mesa and Montrose.
- U.S. GDP growth was 6.4% in Q1 2021, and the Atlanta Federal Reserve's GDP Now forecast for Q2 GDP growth is 9.3% as of mid-June. The national unemployment rate fell to 6.0% in March and 6.1% in April, with the U.S. economy adding 736,000 jobs.

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LOCAL ECONOMIC INDICATORS

	Q1 2021	Q4 2020	Q1 2020	change since last quarter	change since last year (comparable quarters)
Local Labor Market					
Unemployment Rate Delta County- NSA	6.93%	5.93%	5.20%	1.00%	1.73%
Unemployment Rate Colorado - NSA	6.70%	6.70%	3.60%	0.00%	3.10%
Unemployment Rate U.S. - NSA	6.50%	6.50%	4.10%	0.00%	2.40%
Labor Force	14,265	14,807	13,836	-542	430
Employed	13,276	13,929	13,121	-653	155
Unemployed	989	878	715	111	274
Business Confidence					
Leeds Colorado Business Confidence Index	64.4	47.9	29.7	34.45%	116.84%
Sales/Use Taxes					
City of Delta Sales/Use Taxes (YTD, May)	\$3,397,359		\$2,637,783		28.80%
Delta County Sales/Use Tax (YTD, Feb)	\$995,931		\$1,021,902		-2.54%
Lodging Tax (YTD, March)	\$23,079		\$22,862		0.95%
Business Filings					
	2021 (YTD)		2020 (YTD)		
Delta County New Business Entity Filings (as of May 31st)	305		178		71.35%

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%
Percent of Population Below Poverty Line	18.3%	17.6%	16.5%	0.70%	1.80%
Median Household Income	\$51,525	\$46,786	\$43,528	10.13%	18.37%
	2020	2019	2018	% change since 2019	% change from 2018
Population	31,067	31,021	30,835	0.15%	0.75%

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 spiked from 13,143 employed in March to 14,155 employed in April. The labor force similarly spiked from 14,072 in March to 15,039 in April. The difference between labor force and employed is the number of unemployed, which has remained steady since July 2020. Unemployment has ranged between 822 (October, 2020) to 1,026 (January, 2020), with the April 2021 number at 884. Before COVID, unemployment numbers at the end of 2019 ranged between 380 and 420, so despite employment rising unemployment numbers are still double from the peak of 2019. Delta's unemployment rate in Q1 2021 averaged 6.9%, but fell in April to 5.9% after spiking over winter.

The question as to how accurate the unemployment rate is during a time when anecdotally there are many companies having difficulty hiring is up for debate. Many argue that unemployment assistance programs during COVID have distorted incentives to work in certain segments of the job market, which would artificially increase the unemployment rate. As COVID-related unemployment insurance is terminated we will see where the labor market data lands. Both locally and nationally, the shortage of workers in certain segments of the workforce is pushing wages up, which is good for workers but can have inflationary effects as industry passes the costs of workers on in the form of higher prices.

Other Local Data

Sales and use tax number continue to impress, with the City of Delta seeing a 28.8% year-over-year increase in sales taxes as of May. Business entity filings are up 71%, and consumer confidence for the state is up 116% from last year, both positive signs.

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

	Labor Force	Employed	Unemployed
Annual	430	155	274
5-Year	869	656	213
10-Year	260	989	-730
Annual %	3.1%	1.2%	38.4%
5-Year %	6.5%	5.2%	27.4%
10-Year %	1.9%	8.1%	-42.4%

Newly released data from the Census Department shows that the Delta County poverty rate estimate actually rose from 17.6% in 2018 to 18.3% in 2019 (figure 4). Note this data point has a long lag from when it was released. This is disappointing news, as Delta has had a strong economic performance for the last three years. The hope was that growth from late 2016 through 2019 would translate to a lower poverty rate as it has in Montrose and Mesa, but there seems to be some disparity between employment increases and its ability to help families who are struggling. This disconnect warrants further investigation, as the poverty rate now has a distinctive upward trend. One of the main goals of economic growth is to improve the standard of living, and this particular measure shows that standard of living has gotten worse. Other measures, such as GDP, personal income, personal income per capita, and the median household income have all improved, but not the poverty rate.

Figure 1:
5 Year Employment

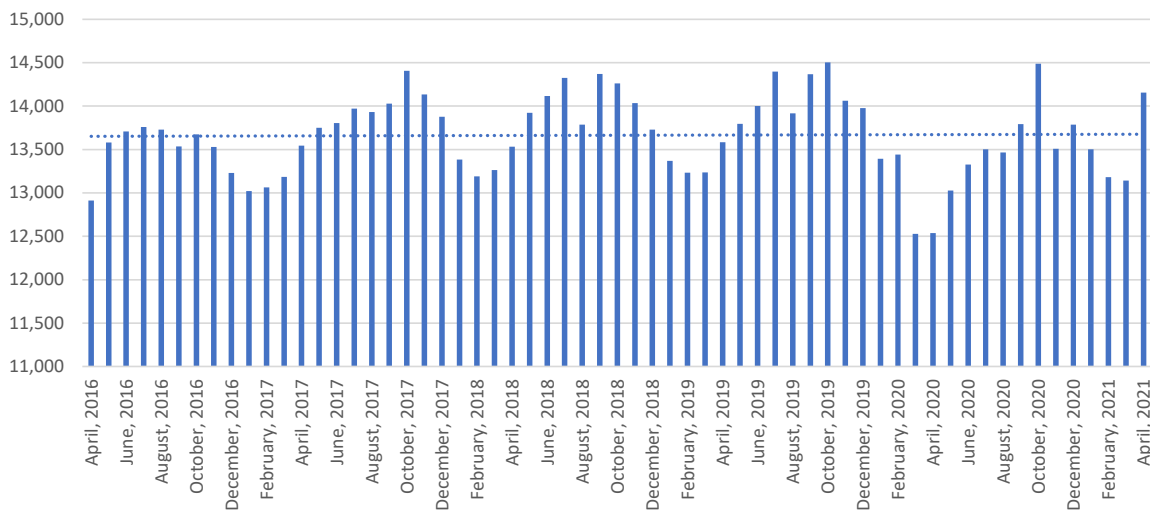


Figure 2:
Employment Feb 2020-April 2021

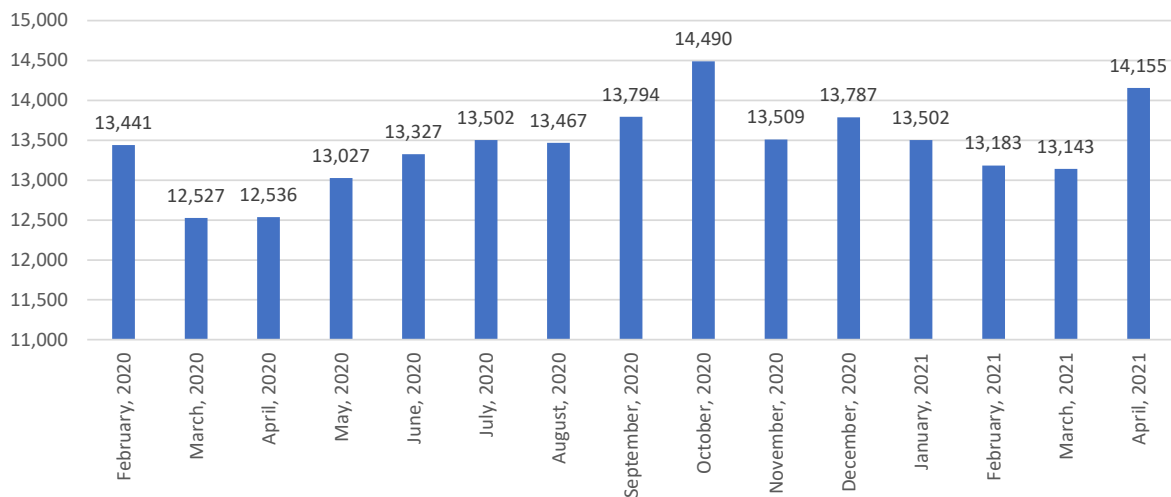


Figure 3:
Delta and Colorado Unemployment Rate

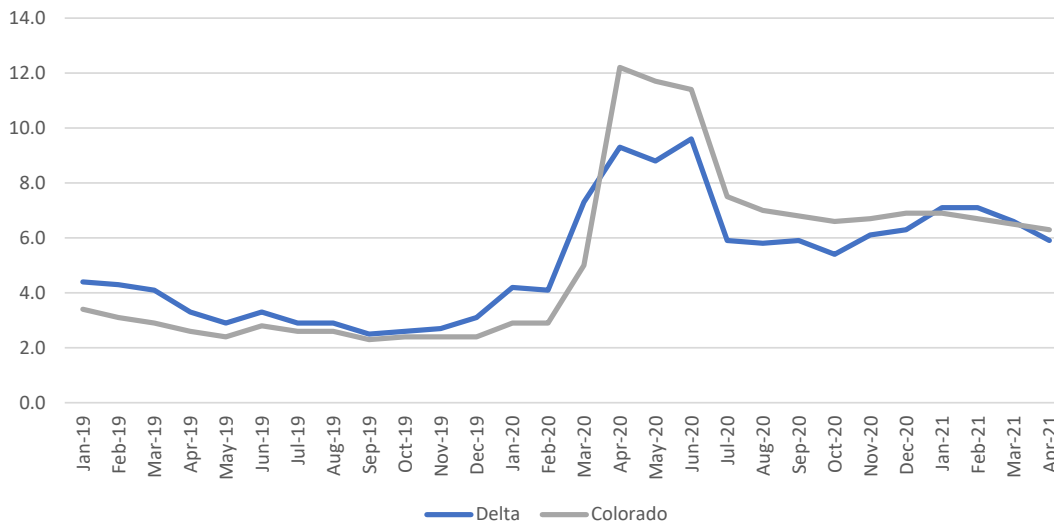
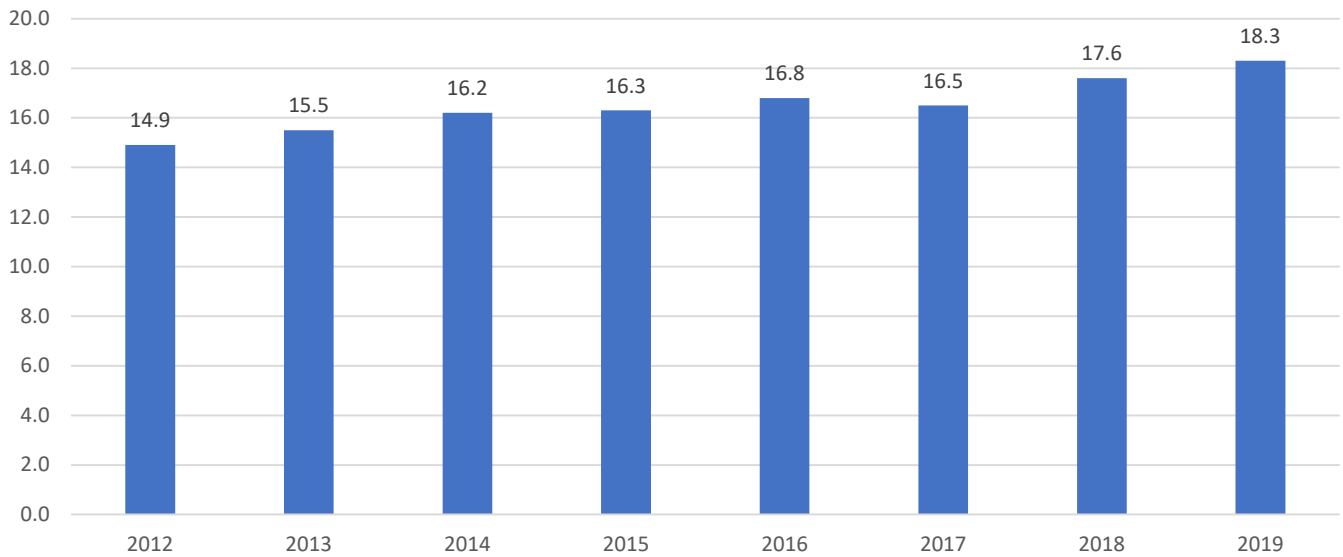


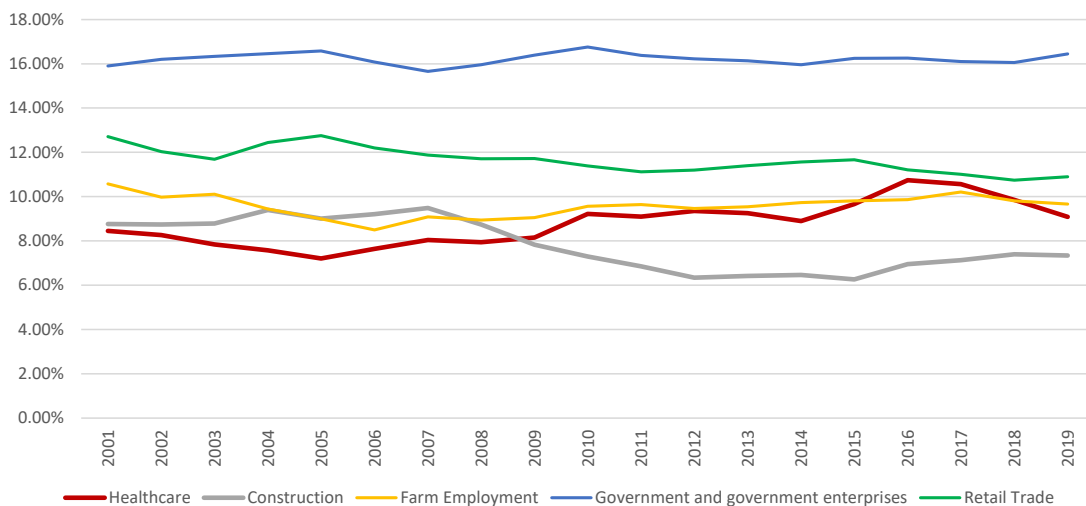
Figure 4:
Percentage of People Below the Poverty Line Delta County



Industrial Diversification

Economic diversification is an important issue for smaller counties, as having a diverse economy means being hedged against any industry swings that could hurt the entire county’s economy. This is especially important in counties that have extractive industries (such as Delta in the past with coal or Moffat County currently), tourism economies, or some other industry that dominates the area. Delta County 12 years ago could have qualified because of coal, but coal does not make up a large enough percentage of jobs for it to be considered an issue for diversification. Delta has a higher percentage of farm employment (9.67%), government (16.45%), and real estate, rental and leasing (9.15%) than the state does (table 3). The farm and government employment are significantly higher than Colorado, which means less diversification compared to Colorado. On the flip side, professional and technical services is an industry that Colorado is large and growing in that Mesa, Montrose, and Delta have a significantly smaller share. There are several ways to measure industrial diversification, but one of more more common ways is to use a Hachman Index.

Figure 5:
Key Industries Share of Jobs



Industrial Diversification Continued...

When thinking about industrial diversification, we need to ask ourselves: Is our economy diversified compared to what? In most cases, economists will measure industrial diversification compared to a larger area, in this case the state of Colorado. When looking at industrial diversification for a state, they will compare it to the nation. To do this, I calculated what is called the Hachman Index, which compares industrial concentration in Delta County to Colorado over time to see if Delta is more or less diverse compared to the industrial makeup of Colorado. Figure 16 illustrates the Hachman Index. For reference, the higher the Hachman Index, the more diverse, or more like Colorado the county is. The Hachman Index shows that since around 2011 Delta County has moved horizontal on the Hachman Index, indicating it is not increasing or decreasing its industrial diversification. For the Hachman Index, Mesa County shows an upward trend in diversification, while Montrose shows a similar trend to Delta moving horizontally since 2011.

Figure 6:
Hachman Index Delta

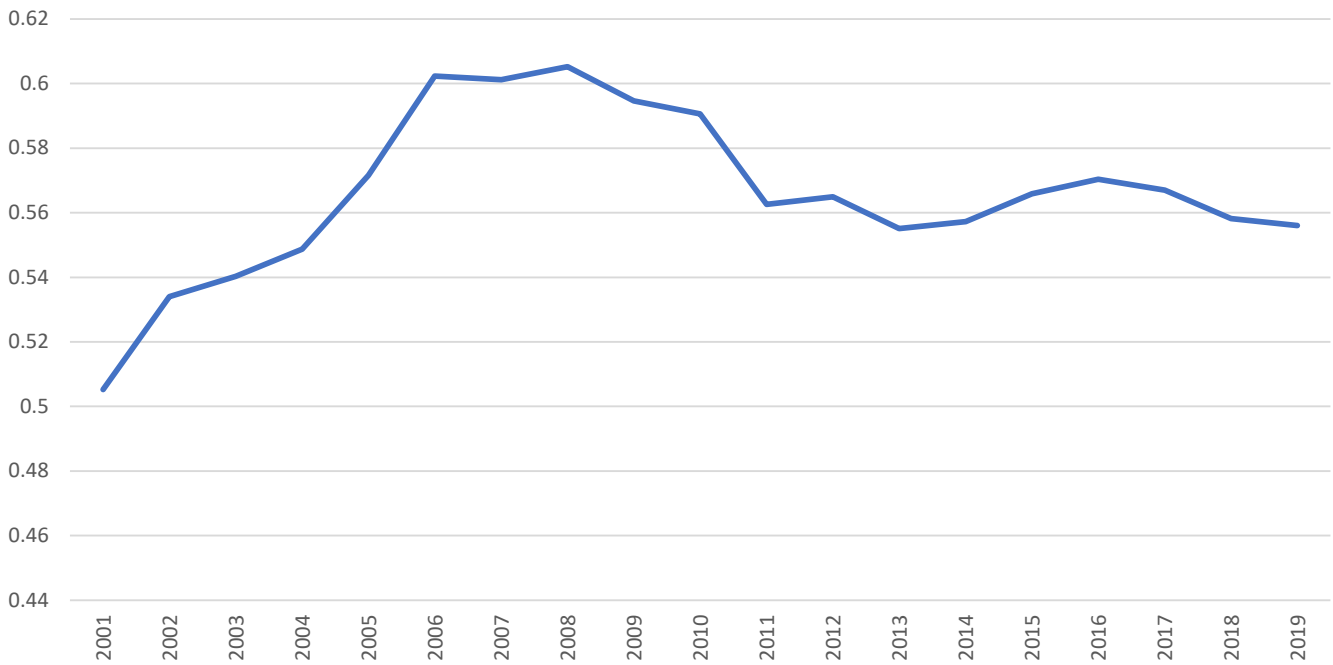


Table2:
Hachman Index Comparison

	Hachman Index
Mesa	0.88
Montrose	0.75
Delta	0.55

Table 3:
Percentage Share Jobs by Industry (2019 data)

Industry	Colorado	Montrose	Mesa	Delta
Forestry, fishing, and related activities	0.38%	1.35%	0.56%	2.04%
Mining, quarrying, and oil and gas extraction	1.23%	0.62%	3.06%	1.20%
Utilities	0.22%	0.82%	0.22%	0.29%
Construction	6.85%	10.60%	7.76%	7.34%
Manufacturing	4.27%	5.95%	3.82%	4.61%
Wholesale trade	3.09%	1.95%	3.03%	1.15%
Retail trade	8.65%	11.32%	11.08%	10.90%
Transportation and warehousing	3.88%	2.95%	3.58%	1.29%
Information	2.31%	0.89%	0.92%	1.15%
Finance and insurance	5.80%	3.34%	4.39%	3.12%
Real estate and rental and leasing	5.95%	6.72%	6.44%	9.15%
Professional, scientific, and technical services	9.36%	4.44%	4.91%	4.31%
Management of companies and enterprises	1.29%	0.74%	0.29%	0.49%
Administrative and support and waste management and remediation services	5.51%	4.21%	4.55%	3.27%
Educational services	1.99%	0.56%	1.11%	0.78%
Healthcare and social assistance	9.01%	9.87%	13.61%	9.08%
Art, entertainment, and recreation	2.92%	1.88%	2.30%	1.78%
Accommodation and food services	7.84%	6.59%	7.99%	5.87%
Other services (except government and government enterprises)	5.30%	6.02%	5.69%	6.06%
Government and government enterprises	12.93%	13.47%	11.72%	16.45%
Farm employment	1.22%	5.71%	2.96%	9.67%

Delta County Employment Trends

Fourth quarter QCEW data shows that Delta County lost 253 jobs, with 126 in accommodation and food services, 68 in healthcare, and 45 in mining. Despite job losses, net wages were positive, with losses in accommodation and food services, finance and insurance, and wholesale trade, and gain in healthcare, real estate, mining, and retail trade. Q4 2020 was expected to have slightly more positive data on the job front, but Q1 2021 may see the expected increase in jobs. Total wages rose 10.56% compared to Q4 2019, while jobs fell by 2.9%. 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 4:
Quarterly Census of Employment and Wages (QCEW) Q4 2020 Compared to Q4 2019

Sector	Average Employment Q4 2020	Total Quarterly Wages (Q4 2020)	Average Weekly Wage (Q4 2020)	Total Wage Change (Q4 2019 to Q4 2020)	Total Employment Change (Q4 2019 to Q4 2020)
Total, All Industries	8,349	\$90,645,552	\$835	\$8,656,662	-253
Health Care and Social Assistance	1,818	\$21,523,690	\$911	\$3,012,534	-68
Retail Trade	1,252	\$10,229,295	\$628	\$1,052,813	36
Public Administration	744	\$9,180,025	\$949	\$664,851	16
Construction	511	\$6,301,439	\$949	\$747,723	46
Manufacturing	513	\$5,615,976	\$842	\$208,164	-4
Real Estate and Rental and Leasing	233	\$5,464,794	\$1,804	\$1,269,738	-8
Agriculture, Forestry, Fishing & Hunting	338	\$3,353,115	\$763	\$165,866	-28
Accommodation and Food Services	600	\$2,963,071	\$380	-\$377,938	-126
Mining	55	\$2,939,549	\$4,111	\$1,091,484	-45
Finance and Insurance	191	\$2,417,828	\$974	-\$414,667	-28
Professional and Technical Services	177	\$2,218,137	\$964	\$90,677	-13
Other Services, Ex. Public Admin	230	\$2,169,058	\$725	\$62,385	-8
Administrative and Waste Services	222	\$1,889,911	\$655	-\$45,858	-5
Information	136	\$1,614,791	\$913	\$332,781	-5
Transportation and Warehousing	127	\$1,532,143	\$928	\$92,825	3
Wholesale Trade	117	\$1,347,674	\$886	-\$83,729	1
Utilities	53	\$897,960	\$1,303	\$163,586	8
Management of Companies and Enterprises	30	\$430,326	\$1,103	\$209,873	12
Arts, Entertainment, and Recreation	24	\$96,391	\$309	-\$48,548	1

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

Table 5:
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 7:
Total Wage Changes from Q4 2019 to Q4 2020

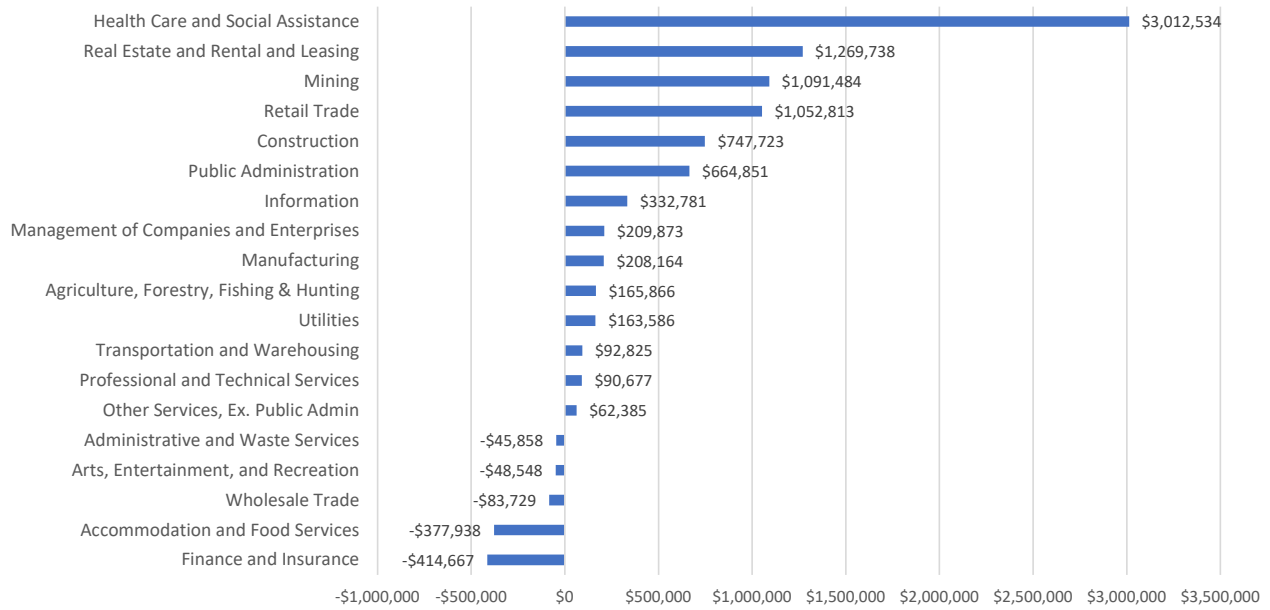
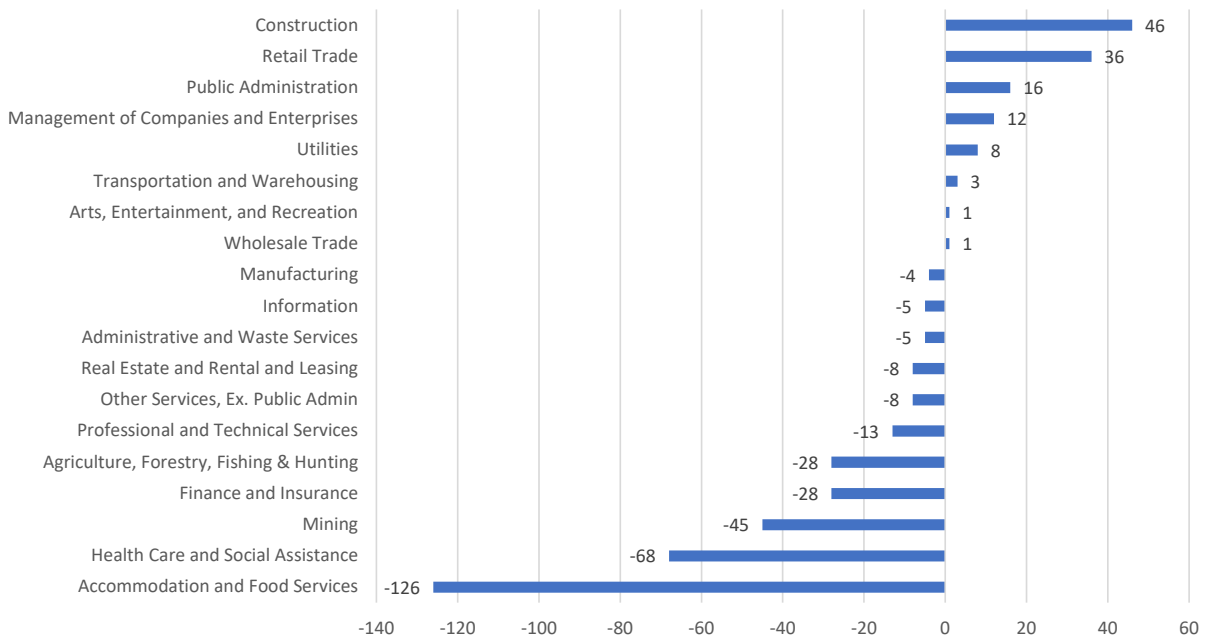


Figure 8:
Total Jobs Change from Q4 2019 to Q4 2020



LOCAL REAL ESTATE

	Q1 2021	Q1 2020	% change since last year
Real Estate			
Current Residential Listings (3 month avg)	91	189	-51.76%
New Residential listings (3 month total)	141	150	-6.00%
Sold Residential Listings (3 month total)	119	101	17.82%
Median Sales Price	\$308,417	\$261,667	17.87%
Average Sales Price	\$343,738	\$285,587	20.36%
Days on Market	117.00	128.00	-8.59%
Months Supply of Inventory	1.80	4.50	-60.00%
Foreclosures			
Foreclosure Filings	7	9	-22.22%
Foreclosure Sales	1	2	-50.00%
Mortgage Rates			
15 Year Mortgage Rate	2.28%	2.98%	-0.70%
30 Year Mortgage Rate	2.88%	3.52%	-0.64%

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 1 2020 real estate data shows an extremely tight real estate market, with current listings falling by 50%, the lack of inventory pushing prices higher in the form of a 17% increase in median sales price, and a 20% increase in average sales price. Months supply of inventory, which is defined by the National Association of Realtors as the numbers of months it would take for current inventory of homes to sell given the current sales pace, has fallen from 4.5 to 1.8, a 60% drop. Foreclosures remain inconsequential, while interest rates, although slightly higher than summer months, still remain near historical lows. The Fed is still committed to keeping interest rates low through 2021.

Figure 9:
Inventory of Active Listings



REGIONAL ENERGY

	Q1 2021	Q4 2020	Q1 2020	% 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					
	2021	2020	% 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					
	May-21	Nov-20	May-20		
Rig Count (Western Colorado, Mesa, Rio Blanco, Garfield, Moffat)	3	1	1		
Delta/Gunnison Coal Industry					
	2021 (YTD)	2020 (YTD)	% Change		
Delta/Gunnison Average Monthly Employment for Coal Mining	221	335	-34.00%		
Delta/Gunnison Coal Production (tons)	137,831	360,298	-61.75%		

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 10:
Oil and Natural Gas Prices

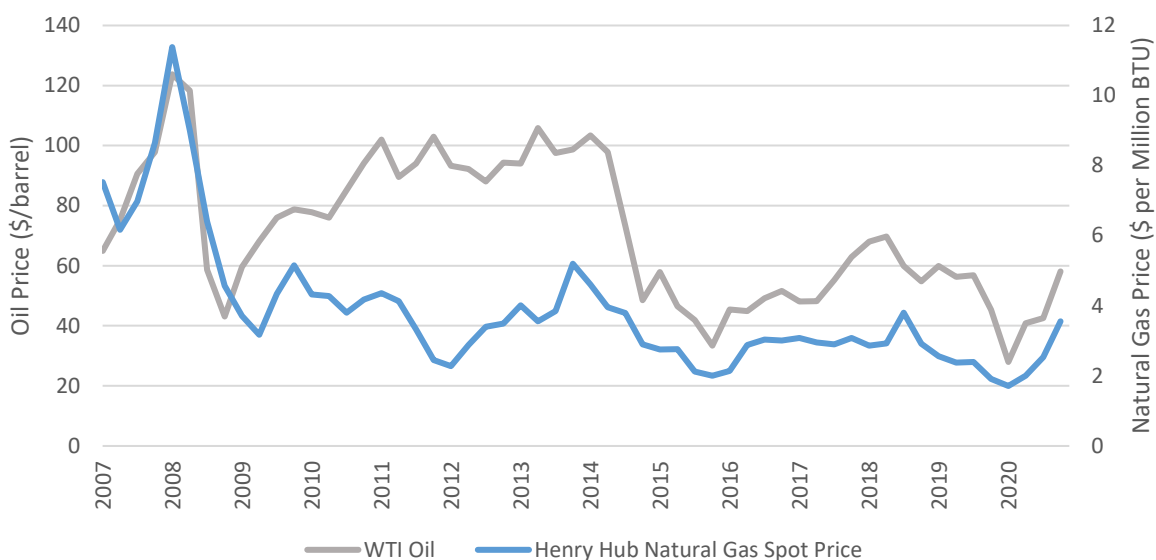


Figure 11:
Oil/Gas Drilling Permits and Oil/Gas Jobs

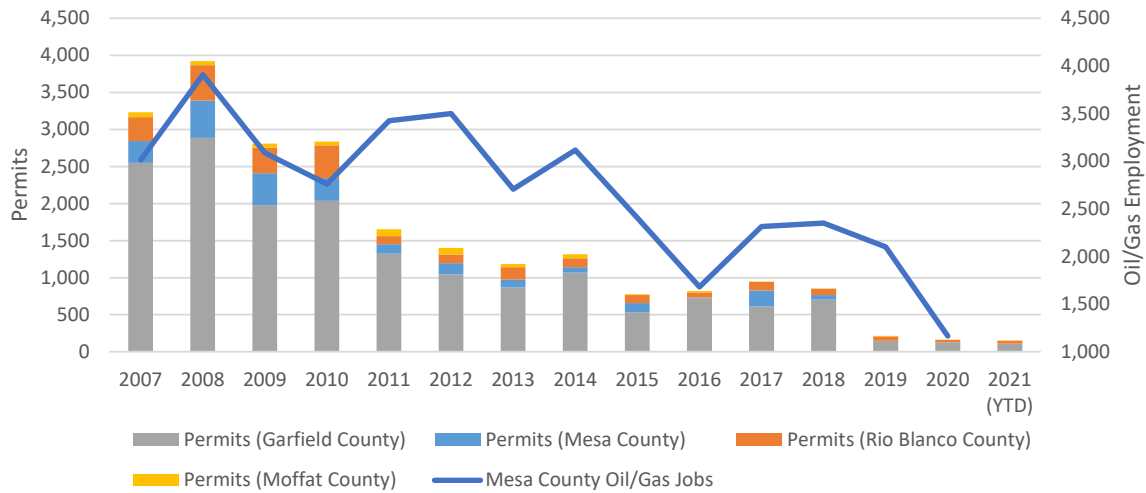
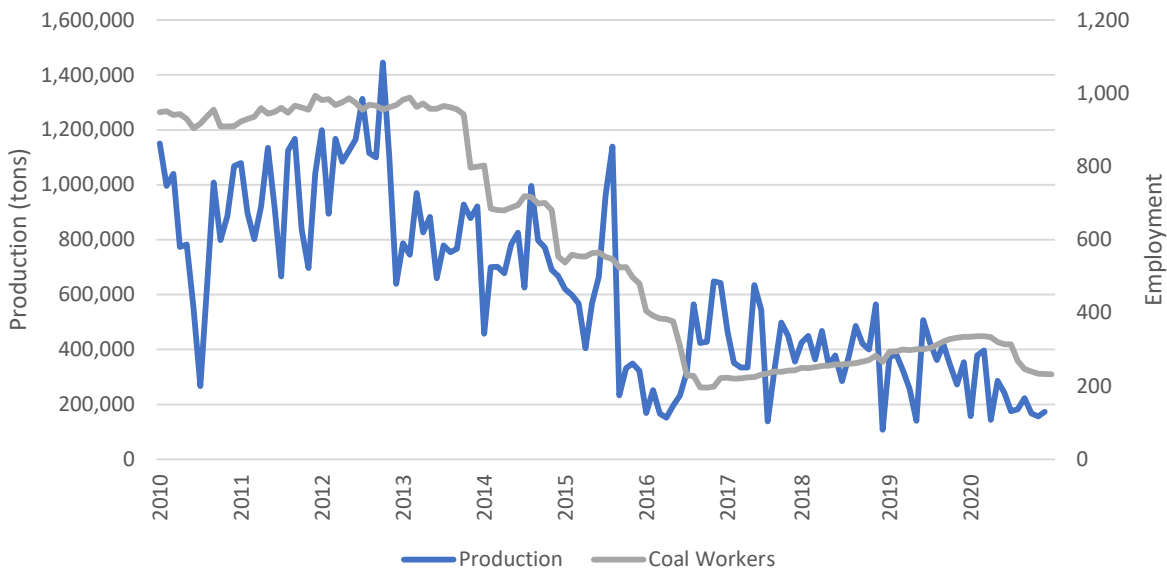


Figure 12:
Delta/Gunnison Coal Production and Employment



Delta/Gunnison Coal Production

West Elk mine coal production is down, falling 61% in a year over year comparison (as of May). Coal employment is also down 34%. There is a downward trend in coal production and jobs since early 2020 that has not seemed to form any sort of graphical bottom. Oil and gas has shown an uptick in jobs and production since the March/April 2020 lows but coal has continued to slide.

Western Slope Drilling Activity

Natural gas prices bottomed in June of 2020 and it appears that oil and gas jobs and wages bottomed shortly thereafter in Q3 2020. Q4 2020 shows a slight uptick in oil and gas activity, with rising permits year over year and an increase in rig count from 1 to 3. There are currently 2 oil rigs and 1 natural gas rig. The EIA's forecast for natural gas futures is \$3.05/MMBtu for the rest of 2021. A strong economy and a consolidated energy industry is expected to lead to higher energy prices in the short term, which should be positive news for the oil and gas industry. The EIA forecasts that Brent Crude oil will average \$61/barrel in the second quarter of 2021 as well as the second half of 2021.

NATIONAL ECONOMIC INDICATORS

	Q1 2021	Q4 2020	Q1 2020	% change since last period	% change since last year (comparable quarters)
Business Cycle Indicators					
Real GDP	6.40%	4.30%	2.90%	2.10%	3.50%
Personal Consumption Expenditures	11.30%	2.30%	1.80%	9.00%	9.50%
Gross Private Domestic Investment	-4.70%	27.80%	3.90%	-32.50%	-8.60%
National Consumer Confidence	80.2	79.8	96.6	0.50%	-16.98%
Industrial Production Index	98.1	97.4	100.0	0.70%	-1.89%
Initial Weekly Unemployment Claims (4 week MA)	805,615	787,250	430,538	2.33%	87.12%
Non Farm Payroll Change (in thousands)	736,000	1,759,000	132,000	-58.16%	457.58%
Unemployment					
Unemployment Rate-U3-SA	6.20%	6.80%	3.80%	-0.60%	2.40%
Unemployment Rate-U6-SA	11.00%	11.90%	7.60%	-0.90%	3.40%
Interest Rates					
Federal Funds Rate	0.08%	0.09%	1.35%	-0.01%	-1.27%
10 Year U.S. Treasury	1.32%	0.86%	1.38%	0.46%	-0.06%
30 Year U.S. Treasury	2.09%	1.62%	1.87%	0.47%	0.22%
Inflation Measures					
Inflation Rate (CPI)	1.89%	1.21%	2.10%	0.68%	-0.21%
Core Inflation Rate (All Items Less Food and Energy)	1.44%	1.63%	2.24%	-0.19%	-0.80%
Inflation Rate (Shelter)	1.59%	1.93%	3.21%	-0.34%	-1.62%
Producer Price Index (PPI)	6.79%	-0.22%	0.44%	7.01%	6.35%
Employment Cost Index	2.72%	2.52%	2.79%	0.20%	-0.08%
Stock Prices					
S&P 500	3,866	3,555	3,056	8.76%	26.50%
Dow Jones Industrial Average	31,551	29,092	26,554	8.45%	18.81%
Trade Balance and Debt					
Trade Balance (% of GDP)	-847.02	-847.02	-494.307	0.00%	71.36%
Federal Debt (% of GDP)*	129.1%	105.5%	106.7%	23.6%	22.4%

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 13:

Real GDP

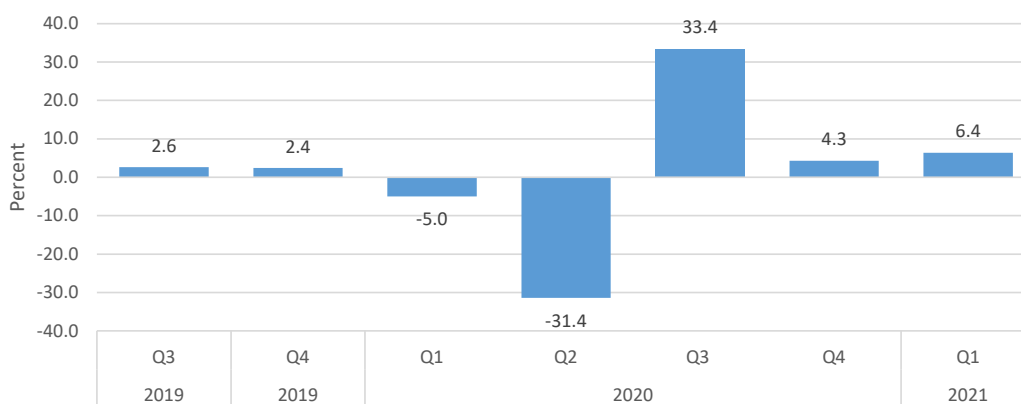
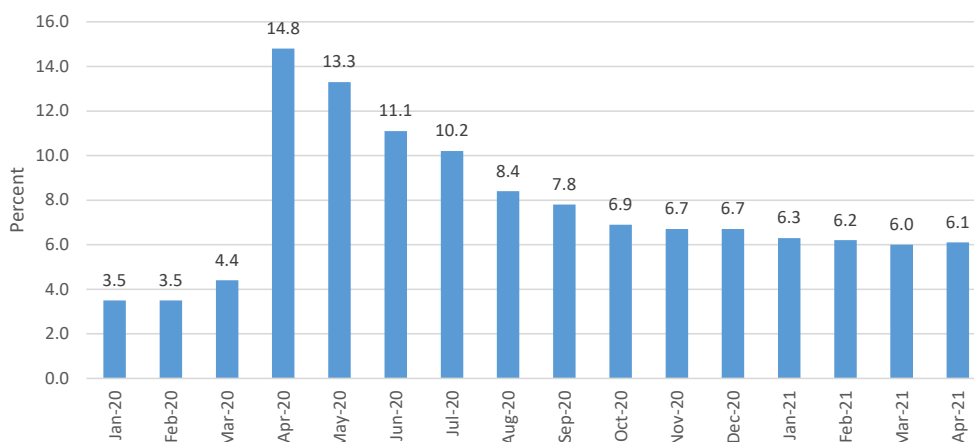


Figure 14:

U.S. Unemployment: January 2020 through April 2021



National Economic Performance

U.S. growth was expected to be strong coming out of the lag of winter months, and this expectation has turned out to be reality. U.S. GDP growth was 6.4% in Q1 2021, and the Atlanta Federal Reserve’s GDP Now forecast for Q2 GDP growth is 9.3% as of early June.

The national unemployment rate fell to 6.0% in March and 6.1% in April, with the U.S. economy adding 736,000 jobs. The GDP gap now stands at \$414.7 billion, up more than \$300 billion from last quarter. Figure 15 illustrates the GDP gap, and although growth has been strong recently, the national economy is still not to the level of potential GDP. This is the area that the Fed will target as full employment, and will not relax monetary policy until GDP is back to potential and the labor market is strong.

Inflation

There is an enormous amount of discussion in finance and economics regarding the potential for inflation. Inflation is not something that the United States has faced in almost 40 years (figure 17). Thus far there has been no evidence for inflation, but that has changed in the last few months. The first argument that we will see inflation is pent up demand, with consumers

eager to get out and spend. The Federal Reserve argues this may be transitory, and after a bump of spending, consumers will return to normal. The second argument is supply chain problems pushing prices up, including lumber shortages, semiconductor shortages, and other raw materials. This can be seen most clearly in housing, where the National Home Builders Association reports that builders are seeing shortages in almost all components of housing, from roofing materials to appliances (<https://nahbnow.com/2021/06/record-number-of-builders-report-material-shortages/>).

The third argument that we will see inflation is the tight labor market. As discussed earlier, there are some segments of the labor market that are choosing unemployment over work because of extended COVID unemployment benefits. This has helped caused a labor supply shortage, which is pushing up wages in some industries. Wages are a large determinant of future inflation, and stagnating wages are one of the reasons inflation has stayed low over the last few decades.

The fourth argument is rising energy costs. WTI oil has rising close to \$70 as of the writing of this newsletter. The EIA is expecting prices in the \$60 range, but if oil goes higher as some in the financial markets expect, it could create additional inflationary pressure.

Figure 15:
GDP Gap

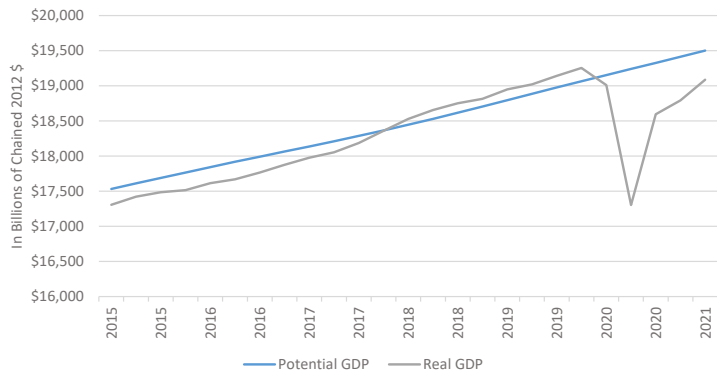


Figure 16:
Debt/GDP

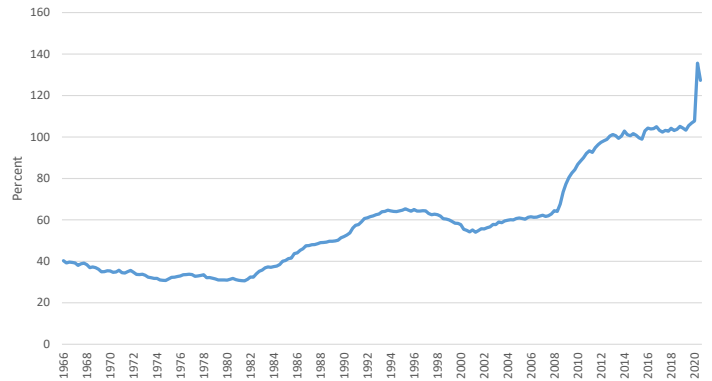
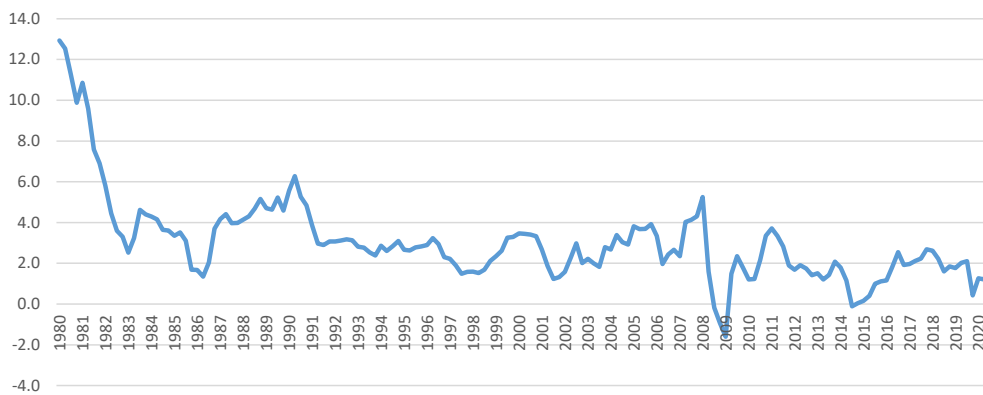


Figure 17:
Inflation Rate



Inflation Continued

There is reasonable evidence that we will see a temporary increase in inflation. But what does that mean, and when is inflation too high? We are so used to low inflation that a forecast of 3-4% inflation is causing panic in the financial markets. Despite these “high inflation” forecasts, there are some research firms that have an inflation forecast in the 2% range for core PCE, which is low. Ultimately supply chains will work themselves out, labor market incentives will return to normal, oil prices will cause the law of supply to kick in and production will increase, and consumers will return to their normal habits. The non-transitory inflation threat is twofold: First, wage increases tend to be permanent, economists think of wages as “sticky,” since generally they don’t come down. There is also what is called inflation expectations, the idea that current inflation creates a built-in expectation for inflation that then creates future inflation. How much of this inflation will be non-transitory remains to be seen, however the increase in wages empirically is connected to higher inflation, as firms pass on labor costs to the consumer.



The Delta County Economic Update is compiled and written by Dr. Nathan Perry, Associate Professor of Economics at Colorado Mesa University.

970.248.1888
 naperry@coloradomesa.edu



1100 North Avenue
 Grand Junction, Colorado 81501-3122
 970.248.1778 • 970.248.1138 (f)
 coloradomesa.edu