

MESA COUNTY ECONOMIC UPDATE

First Quarter 2018



Provided by the Business Department
of Colorado Mesa University

Economic Summary

- The Mesa County economy continues to perform well with a 3.8% unemployment rate, a growing labor force, and high levels of sales tax income.
- The real estate market in Mesa County is in a strong sellers market, with rising home values, falling inventory, and rising new building permit applications.
- Western Colorado drilling permit applications are up from 2016 with Mesa County permits drastically increasing. However energy prices and rig counts hold steady from previous quarters.
- The national economy is strong with a growth rate of 2.6%. Unemployment remains low and industrial production and consumer confidence are high.

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

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LOCAL ECONOMIC INDICATORS

	Q4 2017	Q3 2017	Q4 2016	% change since last quarter	% change since last year (comparable quarters)
Local Labor Market					
Unemployment Rate Mesa County - NSA	3.8%	3.2%	4.3%	0.6%	-0.5%
Unemployment Rate Colorado - NSA	2.8%	2.3%	2.7%	0.5%	0.1%
Unemployment Rate U.S. - NSA	3.9%	4.4%	4.5%	-0.5%	-0.6%
Labor Force	73,051	72,569	71,723	0.7%	1.9%
Employed	70,274	70,231	68,651	0.1%	2.4%
Unemployed	2,777	2,338	3,072	18.8%	-9.6%
Business Confidence					
Colorado Business Confidence Index	59.5	56.5	60.3	5.3%	-1.3%
Sales/Use Taxes					
City Sales/Use Taxes (Q4 total)	\$13,607,768	\$13,911,097	\$12,698,327	-2.2%	7.2%
City Sales/Use Taxes (Cumulative)	\$52,829,329		\$49,454,774		6.8%
Mesa County Sales/Use Tax (Q4 total)	\$8,624,148	\$9,027,282	\$8,089,793	-4.5%	6.6%
Mesa County Sales/Use Tax (Cumulative)	33,297,393		30,739,203		8.3%
City Lodging Tax Revenue (Q4 total)	\$378,964	\$500,327	\$356,802	-24.3%	6.2%
City Lodging Tax Revenue (Cumulative)	\$1,613,689		\$1,415,636		14.0%

Local Labor Market Yearly Indicators	2016	2015	2014	% change since 2015	% change from 2014
Median Household Income	\$51,449	\$50,106	\$48,108	2.7%	6.9%
Population	150,083	148,401	147,502	1.1%	1.7%

SOURCES IN ORDER OF LISTING: 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; Business Confidence: Leeds Business Confidence Index; Sales/Use/Lodging Taxes: City of Grand Junction, Mesa County; Local labor market yearly indicators: U.S. Bureau of the Census.

The Local Labor Market

The Mesa County economy continues its strong performance in Quarter 4 of 2017. The unemployment rate fell from 4.3% in Q4 of 2016 to 3.8% in Q4 of 2017. However, the unemployment rate has increased since the previous quarter (Q3 2017) rate of 3.2%, rising by 0.6%, with a total of 439 new unemployed. This spike in unemployment from the 3rd quarter to the 4th quarter should not be too alarming since it is normal to see seasonal unemployment increase in the 4th quarter. Compared to Colorado, the current Mesa County unemployment rate is 1% higher, but compared to the nation, unemployment is 0.1% lower. Mesa County has generally had a higher of unemployment than Colorado, but has been below the national rate for the past several quarters. Figure 6 illustrates the graphical comparison. Note that the three unemployment rates in the local labor market section are non-seasonally adjusted for comparison purposes.

The Mesa County labor force has risen almost 2% since Q4 of 2016 with a total of 73,051 people, an increase of 1,328 from the previous year. The Mesa County labor force numbers have declined since the fall in oil/gas prices and recession of 2009. The labor force leveled off in 2014 at around 73,000, but then the oil/gas price drop of 2015/2016 pushed labor force numbers down to a recent low of 70,493 in January 2017. Since January 2017, labor force numbers have been growing, peaking in Q3 of 2017 and holding steady through Q4 2017.

Over the last year, employment has risen by 2.4%, or 1,623 people. Employment has also increased since the previous quarter, increasing marginally by 0.1%, or 43 people. Unemployment numbers have fallen since last year, falling by 9.6%, a total reduction of 295 unemployed. Unemployment has also increased from 2,338 to 2,777, which is an increase of 18.8% since Q3 of 2017. As mentioned above, the increase in unemployed is mostly seasonal, but could also be the result of more people entering the workforce. Both labor force numbers and unemployment numbers increased, while employment stayed the same.

Table 1 illustrates the medium run view of employment changes, a comparison of Q4 to last year (2016), five years ago (2012), and ten years ago (2007). Compared to 10 years ago, the labor force is 6,777 smaller than it was, or 8.5% less. Employment is 7,102 less, or 9.2% less. Compared to 5 years ago, the labor force is 1,671 less, or 2.2% , while employment is 2,390 higher, or 3.5%. Unemployment is 4,061 lower than 5 years ago, or 59.4%, which is a drastic and positive change.

Table 1:
Medium Run View of Employment (Based on Q4, 2017)

	Labor Force	Employed	Unemployed
Annual	1,328	1,623	-295
5-Year	-1,671	2,390	-4,061
10-Year	-6,777	-7,102	326
Annual %	1.9%	2.4%	-9.6%
5-Year %	-2.2%	3.5%	-59.4%
10-Year %	-8.5%	-9.2%	13.3%

Figure 1:
Mesa County Population

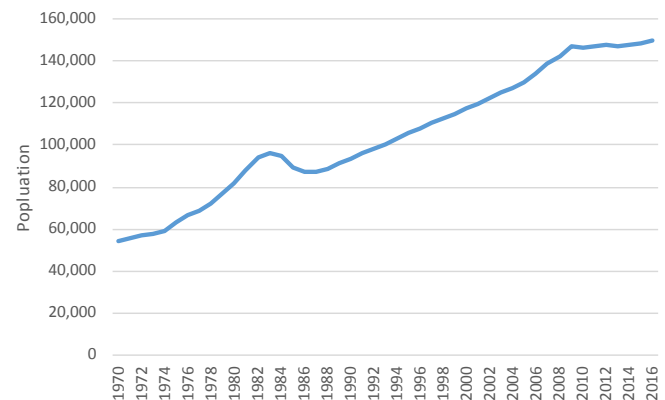
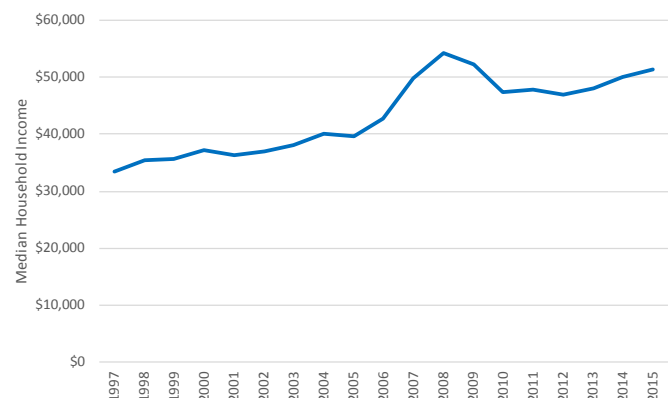


Figure 2:
Mesa County Median Household Income



SOURCE FOR FIGURES 1 AND 2: U.S. Bureau of the Census

Figure 3:
Mesa County Labor Force

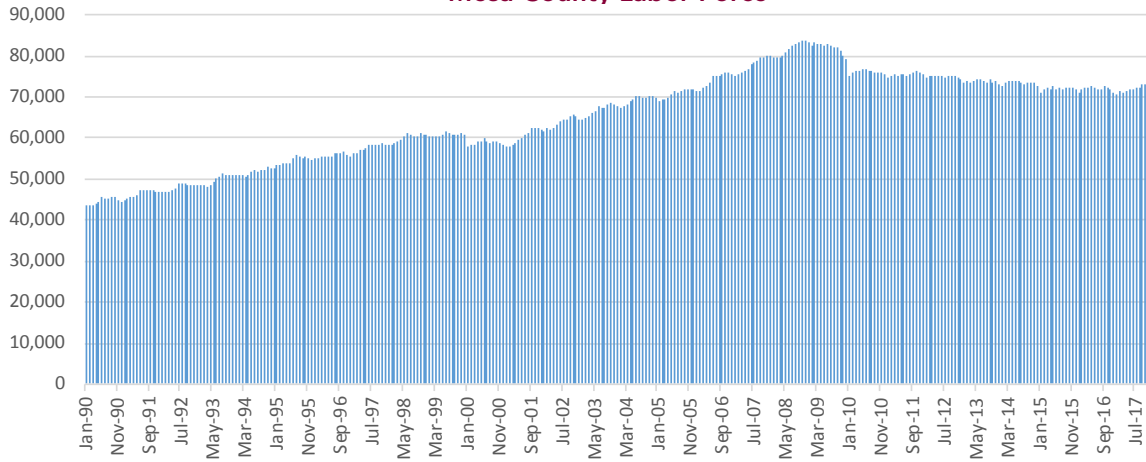


Figure 4:
Mesa County Employment

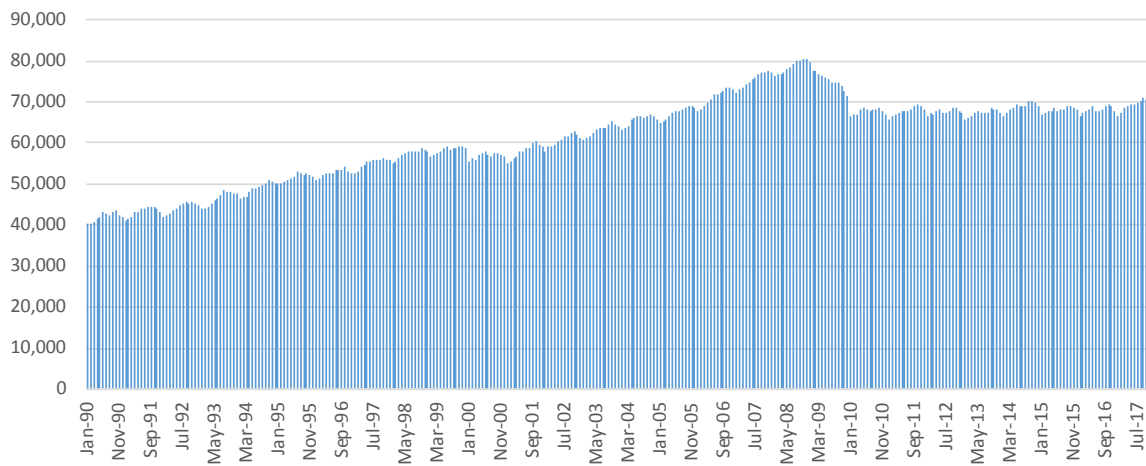
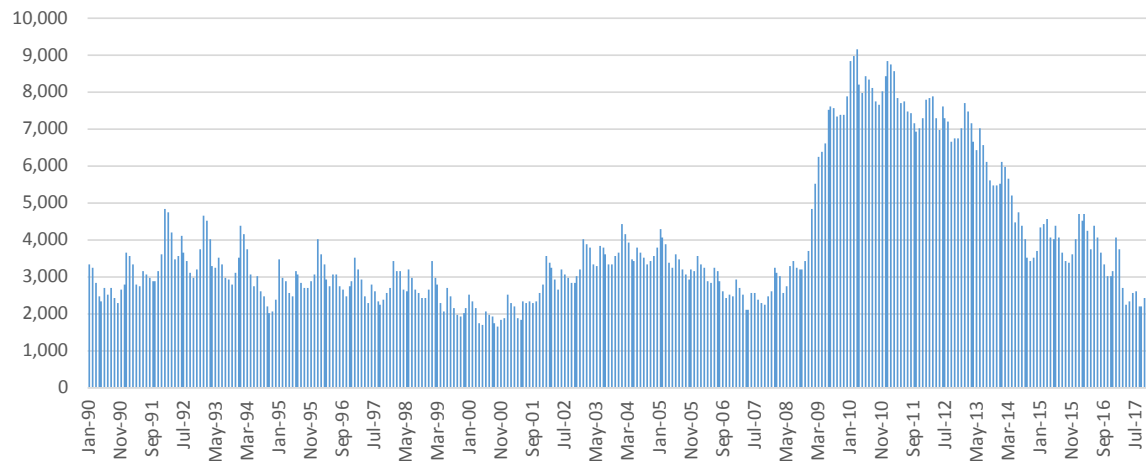


Figure 5:
Mesa County Unemployment



SOURCE: Figures 2 through 4, Colorado Department of Labor and Employment

Mesa County Employment Trends

Table 2 illustrates average employment, total quarterly wages, and average weekly wage for all major industries in Mesa County. The big change in employment is in the natural gas industry (mining, quarrying, and oil and gas extraction). The annual change in employment was a 39% increase, indicating that the industry began its recovery from lower oil and gas prices starting in early 2017. Wage gains in this industry were 7.7%, second only to management of companies and enterprises. Other industry gains included manufacturing (9.3% increase), arts and entertainment, and recreation (4.5% increase). Almost all industries had wage gains, with management of companies and enterprises and mining, oil, and gas leading the way with 17.4% and 7.7% wage gains respectively.

Table 2:
Quarterly Census of Employment and Wages for Q2 2017

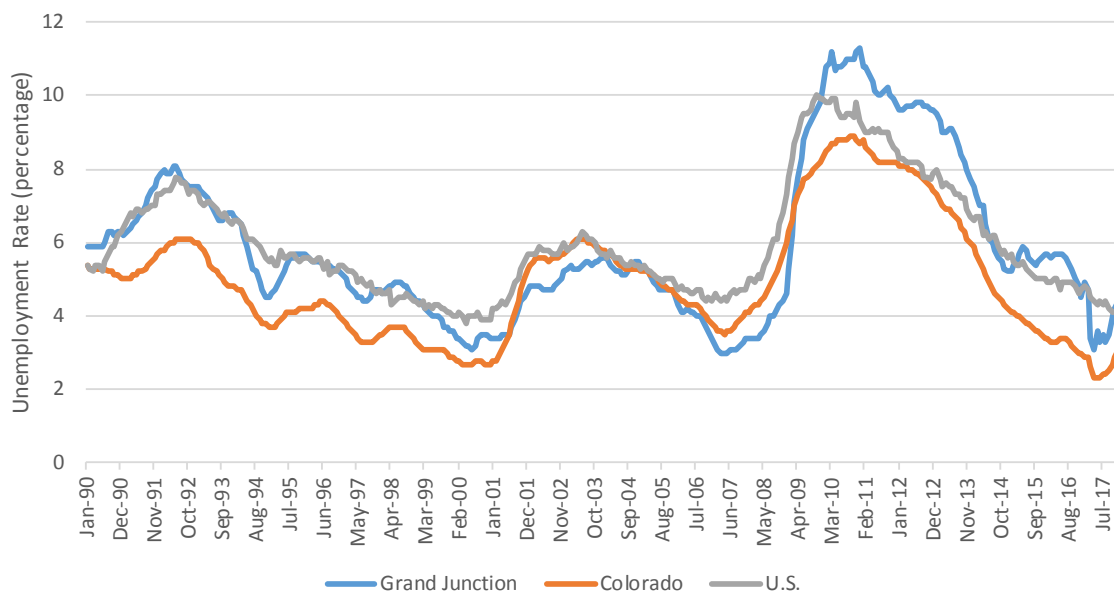
Sector	Average Employment 2nd Quarter 2017	Total Quarterly Wages	Average Weekly Wage	Annual Percent Change in Employment (Compared to Q2 2016)	Annual Percent Change in Average Weekly Wages (Compared to Q2 2016)
Total	61,201	\$626,345,823	\$787	2.2%	2.2%
Total Government	9,586	\$110,820,175	\$889	0.8%	0.7%
Total Private	51,615	\$515,525,648	\$768	2.5%	2.5%
Health care and social assistance	10,164	\$112,366,246	\$850	2.7%	-8.3%
Retail trade	8,034	\$57,696,662	\$552	-2.6%	4.9%
Construction	4,086	\$50,177,917	\$945	-1.0%	4.7%
Mining, quarrying, and oil and gas extraction	2,223	\$46,350,753	\$1,604	39.0%	7.7%
Wholesale trade	2,369	\$31,729,589	\$1,030	2.8%	2.6%
Finance and insurance	2,017	\$31,541,698	\$1,203	0.8%	6.7%
Accommodation and food services	6,825	\$31,303,000	\$353	-0.1%	7.3%
Manufacturing	3,065	\$30,601,082	\$768	9.3%	-1.0%
Professional and technical services	2,083	\$27,116,763	\$1,001	3.0%	3.7%
Transportation and warehousing	2,105	\$25,883,860	\$946	2.3%	3.7%
Administrative and waste services	3,020	\$24,133,113	\$615	-4.9%	1.3%
Other services, except public ad- ministration	1,870	\$13,515,041	\$556	13.9%	-4.8%
Real estate and rental and leasing	1,041	\$9,803,822	\$724	2.2%	5.7%
Information	664	\$7,271,871	\$843	3.0%	1.7%
Management of companies and enterprises	154	\$3,738,163	\$1,871	0.4%	17.4%
Utilities	196	\$3,691,556	\$1,446	-2.2%	-3.2%
Arts, entertainment, and recreation	918	\$3,581,972	\$300	4.5%	-2.3%
Agriculture, forestry, fishing and hunting	410	\$2,770,848	\$520	-5.6%	5.9%
Educational services	327	\$1,906,943	\$449	5.9%	-1.1%
Unclassified	46	\$344,749	\$581	124.6%	91.1%

SOURCE: U.S. Bureau of Labor Statistics (please note the significant lag time for QCEW data. Second quarter 2017 is the most recent data released as of the writing of this newsletter.)

Sales/Use/Lodging Taxes and Business Confidence

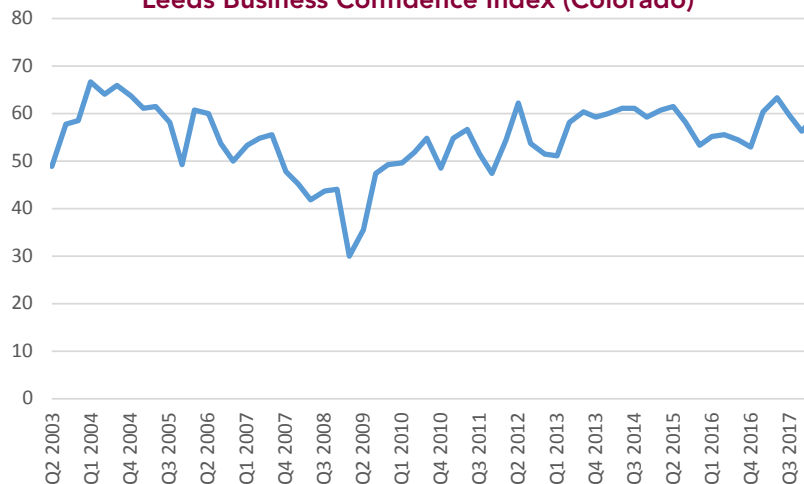
Sales and use tax numbers continue their solid growth, as consumers continue to spend in an economy performing on all cylinders. Grand Junction sales/use taxes totaled \$13,911,097, up 9.6% from Q4 2016. Mesa County sales/use taxes totaled \$9,027,282, up 11.6% from Q4 2016. City lodging tax revenue was \$378,964, up 6.2% from Q4 of 2016. Note that sales/use taxes and lodging taxes are seasonal, so comparing year over year is a more telling comparison than looking at the previous quarter. The Colorado Business Confidence Index produced by the Leeds school of business shows that business confidence in Colorado is still strong, rising 5.3% since Q3. Compared to Q4 of 2016, business confidence is down slightly by 1.3%. Figure 7 illustrates this graphically since 2003.

Figure 6:
Unemployment Rates



SOURCE: U.S. Bureau of Labor Statistics

Figure 7:
Leeds Business Confidence Index (Colorado)



SOURCE: Leeds Business Research Division

LOCAL REAL ESTATE

	Q4 2017	Q4 2016	% change since last year
Real Estate			
Current Residential Listings (3 month avg)	787	948	-17.0%
Sold Residential Listings	853	742	15.0%
Days on Market	66	80	-17.5%
Median Sales Price	\$218,400	\$209,000	4.5%
Single Family Home Sales	901	751	20.0%
Total Building Permits	997	950	4.9%
Single Family Permits Mesa County	171	141	21.3%
Foreclosures			
Foreclosure Filings	99	127	-22.0%
Foreclosure Sales	53	80	-33.8%
Freddie Mac House Price Index			
Grand Junction	176	159	10.5%
Colorado	191	174	9.8%
National	179	167	7.0%
Mortgage Rates			
30 Year Mortgage Rate	3.3%	3.8%	-0.5%
15 year Mortgage Rate	3.3%	3.1%	0.2%

SOURCES IN ORDER OF LISTING: Current and Sold Residential Listings, Days on Market: Bray Real Estate (from MLS); Median Sales Price, Single Family Home Sales, Permits: Mesa County Assessor's Office; Foreclosure Filings and Sales: Mesa County Public Trustee Office; Freddie Mac House Price Index and Mortgage rates: Freddie Mac.

Local Real Estate Indicators

The Mesa County real estate market continues to be in a strong sellers market, with falling inventories and rising sales leading to higher home values. With unemployment low, the labor force growing, and median household income increasing, real estate values continue to rise. There is a very low amount of inventory, and homes are selling at a fast rate measured by the number of days on the market at 66, compared to 80 the previous year, which represents a 17.5% decrease. Median home prices for Q4 have risen to \$218,400 from \$209,000 from the previous year, a 4.5% increase. Single family home sales are up by 20%, while foreclosure filings are down 22%. The Freddie Mac House Price Index shows that Grand Junction home values have risen faster than Colorado and national home values compared to Q4 of 2016, with a 10.5% increase in values.

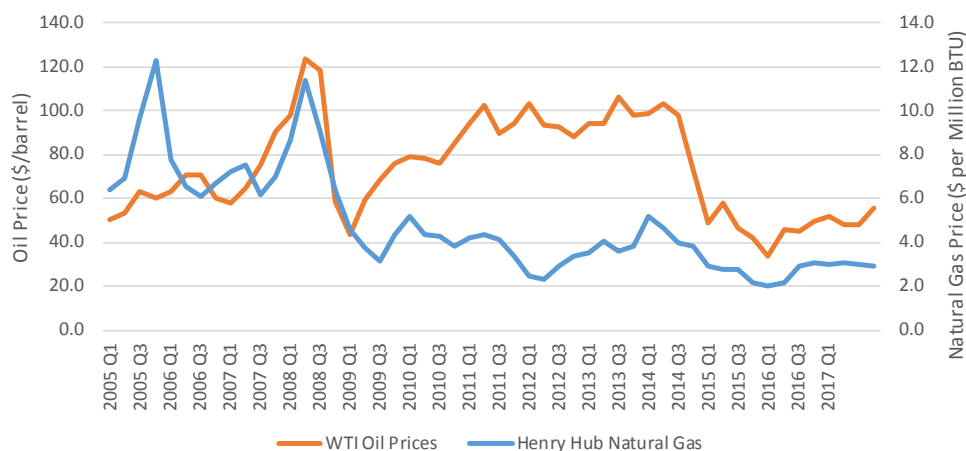
The 30 year mortgage rate is 50 basis points lower than last year, while the 15 year mortgage rate is 20 basis points higher. Total building permits have risen 4.9%, while single family permits have risen 21.3%. The jump in single family permits makes sense since home inventory is so low that buyers may want to build instead of buying existing inventory. High prices and high demand likely entice builders to build more.

LOCAL ENERGY

	Q4 2017	Q3 2017	Q4 2016	% change since last quarter	% change since last year (comparable quarters)
Energy Prices					
WTI Crude Oil	\$55.3	\$48.2	\$49.1	14.7%	12.6%
Brent Crude Oil	\$61.4	\$52.1	\$49.1	17.9%	25.1%
Henry Hub Natural gas	\$2.9	\$3.0	\$3.0	-3.3%	-3.3%
Retail Gasoline Price	\$2.4	\$2.4	\$2.2	0.0%	9.1%
Drilling Permits					
	2017 Total	2016 Total	% change since last year		
Drilling Permits (Mesa County)	215	7	N.A		
Drilling Permits (Rio Blanco County)	118	71	66.2%		
Drilling Permits (Garfield County)	612	724	-15.5%		
Drilling Permits (Moffat County)	5	17	-70.6%		
Total Permits (Mesa, Rio Blanco, Garfield, Moffat)	950	819	16.0%		
Total Permits (Colorado)	3,909	2835	37.9%		
Local Rig Count					
	Feb-18	Nov-17			
Rig Count (Western Colorado, Mesa, Rio Blanco, Garfield, Moffat)	8	8			

SOURCES IN ORDER OF LISTING: 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 February 25th, 2018.

Figure 8:
Oil and Gas Prices



SOURCE: Energy Information Agency

Natural Gas Prices

Natural gas prices settled lower in Q4 than in Q3, falling from \$3.0/MMBtu to \$2.9/MMBtu. This was due largely to a warmer than expected winter. This changed near the end of December when temperatures finally dropped, increasing natural gas spot price to 3.69/MMBtu by the end of January. Large natural gas reserve withdrawals due to cold weather contributed to this monthly spike in price. Continued cold weather is expected to push natural gas prices higher in early Q1. Through 2018 natural gas prices are expected to be higher than last year, but to fall from the Q1 2018 spike in cold weather prices. For 2018, the EIA forecasts the largest production of natural gas ever, with a forecast of 80.3 Bcf/d. This would be 6.7 Bcf/d higher than 2017. The EIA forecasts that natural gas prices will average 3.20/MMBtu for 2018.

Oil Prices

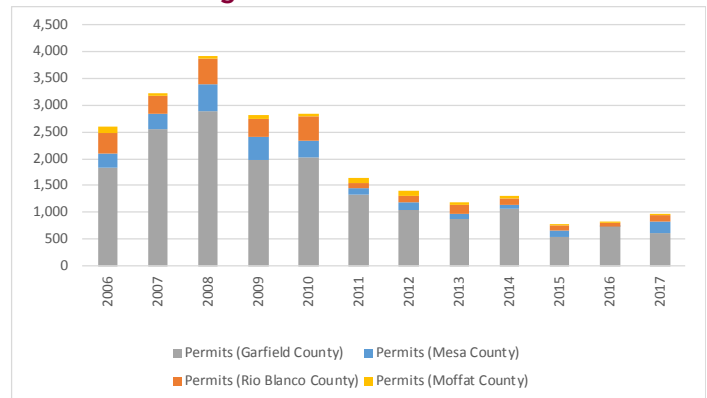
The price of WTI crude oil for Q4 was 55.3, 4.7% higher than Q3 and 12.6% higher than Q4 of 2016. Oil inventories across the world continue to fall, and crude oil is expected to move moderately higher. An OPEC agreement that has limited production to increase prices seems to have had the intended effect, and has the potential to be extended into 2018. Retail gasoline prices remain unchanged from last quarter, but are up by 9.1% from Q4 2016. As oil prices rise led by oil supply cuts and increased demand, gasoline prices will follow. The Energy Information Agency has increased its forecast for gasoline prices to \$2.62/gal in 2018.

Western Slope Drilling Activity

Western Slope drilling permits are up 16% from 2016, while State of Colorado drilling permits are up 37.9%. Mesa County had a huge increase of drilling permits from 2016's meager 7 permits, with 215 drilling permits issued. Rio Blanco drilling permits increased 66.2% from 2016. Rig counts have are holding steady at 8, but are expected to increase with more drilling permits being issued.

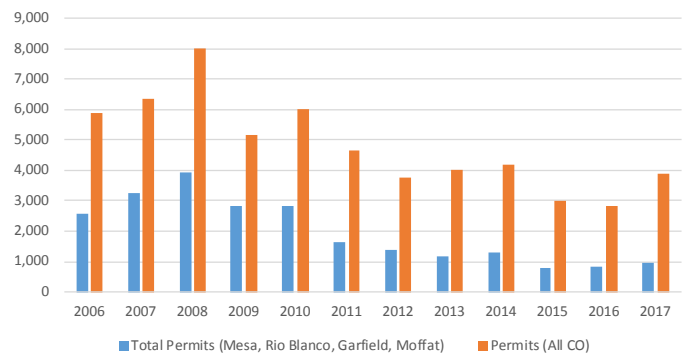
Sources for Energy Information: <https://www.eia.gov/outlooks/steo/report/natgas.php> Retrieved February 24th, 2017.
<https://www.eia.gov/outlooks/steo/marketreview/crude.php>. Retrieved February 24th, 2017.

Figure 9:
Drilling Permits Western Colorado



SOURCE: Colorado Oil and Gas Conservation Commission

Figure 10:
Total Drilling Permits: Western Colorado vs. Colorado



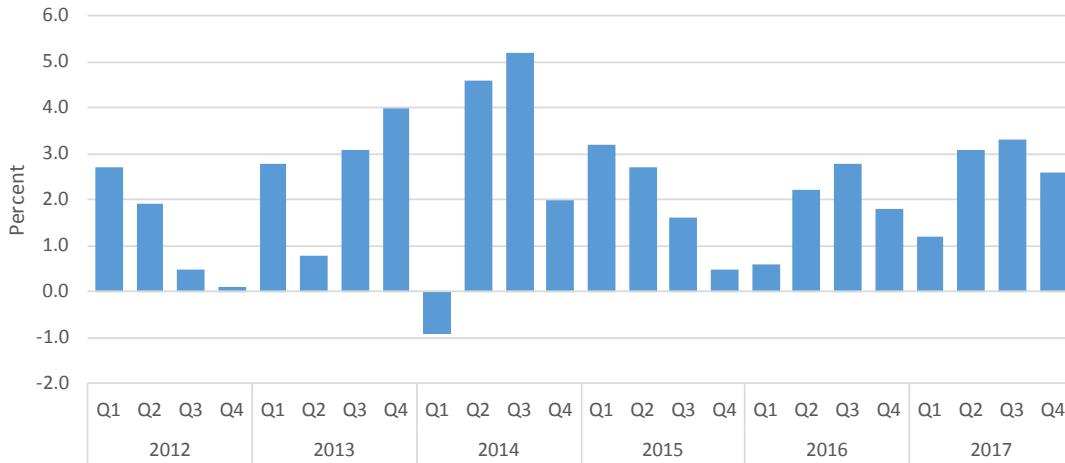
SOURCE: Colorado Oil and Gas Conservation Commission

NATIONAL ECONOMIC INDICATORS

	Q4 2017	Q3 2017	Q4 2016	% change since last period	% change since last year (comparable quarters)
Business Cycle Indicators					
Real GDP	2.6%	3.2%	1.8%	-0.6%	0.8%
Consumption	3.8%	2.2%	2.9%	1.6%	0.9%
Business Fixed Investment	6.8%	4.7%	0.2%	2.1%	6.6%
National Consumer Confidence	98.4	95.10	93.1	3.5%	5.7%
Industrial Production Index	106.9	104.8	103.3	2.0%	3.5%
Purchasing Managers Index	58.9	58.7	53.2	0.3%	10.7%
Unemployment					
Unemployment Rate	4.1%	4.3%	4.7%	-0.2%	-0.6%
Unemployment Rate-U6	8.0%	8.5%	9.3%	-0.5%	-1.3%
Interest Rates					
10 Year U.S. Treasury	2.4%	2.2%	2.1%	0.2%	0.3%
30 Year U.S. Treasury	2.8%	2.8%	2.8%	0.0%	0.0%
Federal Funds Rate	1.2%	1.2%	0.4%	0.0%	0.8%
Inflation Measures					
Inflation Rate	2.1%	2.0%	1.8%	0.1%	0.3%
Inflation Rate (All Items Less Food and Energy)	1.7%	1.7%	2.2%	0.0%	-0.5%
Inflation Rate (Shelter)	3.2%	3.2%	3.6%	0.0%	-0.4%
Employment Cost Index	2.7%	2.5%	2.2%	0.2%	0.5%
Stock Prices					
S&P 500	2,603	2,467	2,185	5.5%	19.1%
Dow Jones Industrial Average	23,689	21,891	18,865	8.2%	25.6%

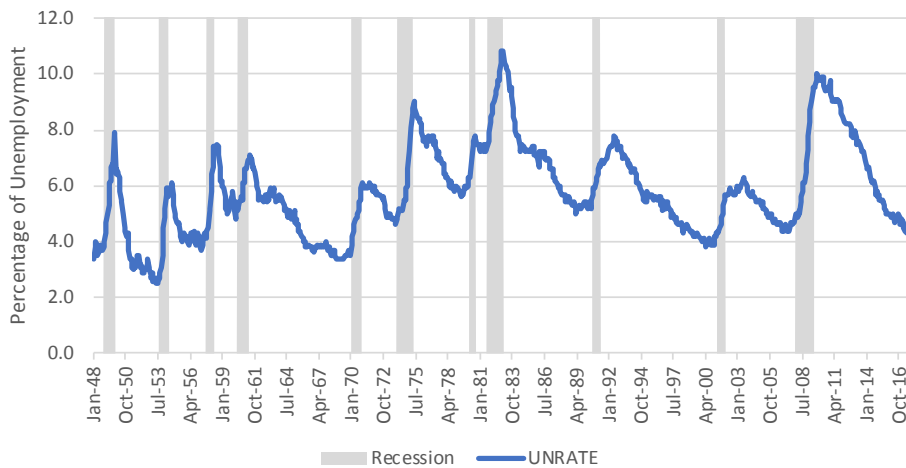
SOURCES IN ORDER OF LISTING: GDP, Consumption, and Investment: Bureau of Economic Analysis; Consumer Expectations: University of Michigan; Industrial Production: Board of Governors of the Federal Reserve System; PMI: Institute for Supply Management; Unemployment: Bureau of Labor Statistics; Inflation: Bureau of Labor Statistics; Stock Prices: S&P Dow Jones Indices, LLC.

Figure 11:
Real GDP



Source: Bureau of Economic Analysis

Figure 12:
U.S. Unemployment: 1948-2017



Source: Bureau of Labor Statistics

National Economic Performance

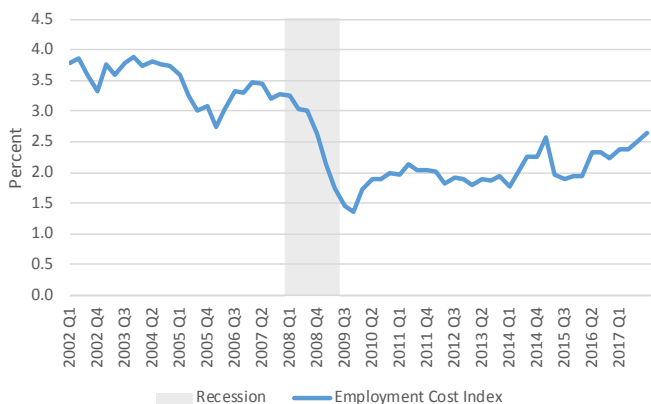
The national economy continues to sit atop the business cycle, with GDP growth at 2.6%, down from 3.2% in Q3 but up from 1.8% in Q4 2016 (figure 11). Consumption remains strong, increasing at 3.8%. Stock market gains were extraordinarily higher in 2017, likely leading to a wealth effect where consumers feel free to spend. Investment remains high at 6.8%, and with tax cuts that are intended to reduce the cost of investment, capital investment is expected to stay relatively high in the short term. Consumer confidence is at its highest level since the year 2000, up 3.5% since last quarter and 5.7% since last year. The purchasing managers index remains high at 58.9, while the industrial production index increased by 2% since last quarter.

U.S. seasonally adjusted unemployment continues to fall from 4.3% the previous quarter to 4.1% in Q4 (figure 12). U6, a

measure of unemployment that counts discouraged workers, fell from 8.5% in Q3 to 8% in Q4. Looking at figure 12, it is worth noting that historically speaking it is unlikely that unemployment gets much lower.

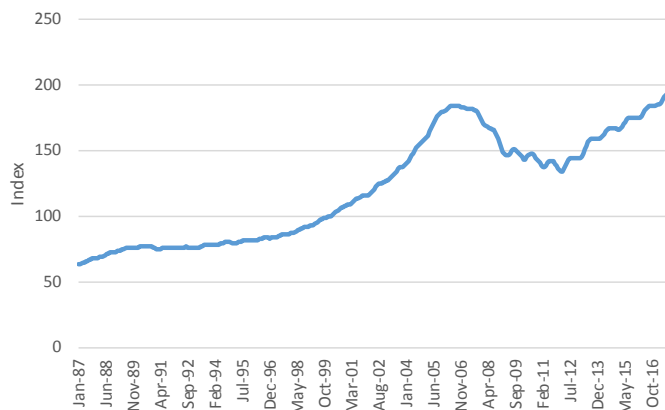
The financial markets had one of the best years on record, with the Dow Jones Industrial Average finishing at 23,689, 25.6% higher than 2016. The S&P finished 19.1% higher than last year. Most economists are warning that stock market growth cannot continue at this pace, with many of the recent tax cuts being priced in during the 2017 year. The Case Schiller home price index (figure 14) shows that home values are now surpassing the peak of 2008. All of this data combined indicate strongly that we are at peak economic performance.

Figure 13:
Employment Cost Index



Source: Bureau of Labor Statistics

Figure 14:
S&P/Case Schiller National Home Price Index



Source: S&P Dow Jones Indices LLC

Inflation and Interest Rates

Inflation is slowly inching up, a result of a hot economy with wages finally increasing. Inflation came in at 2.1%, which is still in safe territory and not a concern as of yet. The Federal Reserve aims for between 2-3% inflation. The inflation of housing is much higher than the CPI at 3.2%. This is due to rising home values and the associated rents. The employment cost index shows that business costs associated with employment are rising (figure 13). This is a large contributor to the actual inflation rate, but also a sign that the labor market is tight enough that workers can demand higher wages, which is positive.

The Federal Reserve is expected to raise the Federal Funds rate again in their next meeting. As long as growth remains strong and inflation creeps up, small interest rate increases are likely. It is important to point out that inflation numbers are not historically high, and until they increase more, it is unlikely that the Fed drastically increases rates. The 10 year treasury has risen from 2.2% to 2.4%, while the 30 year treasury remains unchanged from last year at 2.8%. The Federal Reserve moved the Federal Funds rate from 0.4% to 1.2% from Q4 2016 to Q4 2017. As a result of this mortgage rates only increased by a small amount, moving from 3.8% to 3.9%.



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