Mesa County Economic Update

First Quarter 2019

Colorado Mesa University

Provided by the Business Department of Colorado Mesa University

Economic Summary

- 2017 and 2018 were both strong years for the Mesa County economy.
- The biggest employment increases since 2016 have been in health care, but the largest total wage increases and hence economic impact have been in construction and oil/gas.
- Although recent economic news has been positive, Mesa County has still not recovered from the 2008 boom. Taking out construction and oil/gas jobs, Mesa County has actually seen employment growth since 2008 (approximately 1,300 jobs). Including the construction and oil/gas industries, Mesa County is still down approximately 5,800 jobs.
- The national economy is still strong, with the Federal Reserve pausing on interest rate hikes causing optimism in financial markets.

The Mesa 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)
Local Labor Market					
Unemployment Rate Mesa County -SA	4.20%	4.00%	3.90%	0.20%	0.30%
Unemployment Rate Mesa County -NSA	4.20%	3.80%	3.70%	0.40%	0.50%
Unemployment Rate Colorado -SA	3.30%	2.90%	3.00%	0.40%	0.30%
Unemployment Rate U.S. -SA	3.80%	3.80%	4.10%	0.00%	-0.30%
Labor Force	76,727	75,963	74,703	1.01%	2.71%
Employed	73,531	73,072	71,941	0.63%	2.21%
Unemployed	3,196	2,891	2,762	10.55%	15.71%
Business Confidence					
Leeds Colorado Business Confidence	50.1	54.6	59.5	-8.24%	-15.80%
Sales/Use Taxes					
City Sales/Use Taxes (Q4 total)	$14,441,023	$15,055,107	$13,607,768	-4.08%	6.12%
City Sales/Use Taxes (Cumulative)	$56,969,459		$52,829,329		7.84%
Mesa County Sales/Use Tax (Q4 total)	$9,102,141	$9,572,653	$8,624,148	-4.92%	5.54%
Mesa County Sales/Use Tax (Cumulative)	$36,202,899		$33,297,412		8.73%
City Lodging Tax Revenue (Q4 total)	$402,700	$548,052	$378,964	-26.52%	6.26%
City Lodging Tax Revenue (Cumulative)	$1,574,224		$1,464,703		7.48%

Grand Junction Regional Airport	Q4 2018	Q3 2018	Q4 2017	% change from last quarter	% change from last year
Scheduled Enplanements	62,758	64,873	60,153	-3.26%	4.33%
Yearly Local Indicators	**2017**	**2016**	**2015**	**% change since 2016**	**% change from 2015**
Median Household Income	$52,623	$49,825	$51,449	5.62%	2.28%
Percent of Population Below Poverty Line	16.00%	16.30%	15.60%	-0.30%	0.40%
Population	151,616	149,794	148,116	1.22%	2.36%
Mesa County Gross Regional Product (in millions)	$4,842	$4,649	$4,758	4.15%	1.77%

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; Scheduled Enplanements: Grand Junction Regional Airport; Median Household Income, Poverty Rate, and Population: U.S. Bureau of the Census; Gross Regional Product: 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.

Local Labor Market

The local labor market continues to be tight with a 4.2% unemployment rate for Q4. There was a slight uptick in monthly unemployment numbers moving from 3.9% in October to 4.2% in November, to 4.5% in December. The 4.5% December unemployment rate is the highest since January 2017. This is slightly concerning, and to see if this is going to be an actual problem the spring employment numbers should be watched carefully. Even if unemployments moves permanently into the 4% range it is still historically very low. Labor Force numbers are up 2,024 since Q4 of 2017, while the number of employed is up 1,590. Unemployment is up 434 from the same time last year.

Recently released data shows that Mesa County increased its median household income numbers to $52,623 from $49,825, for an increase of 5.62%. In line with this, the percentage of the population below the poverty line fell from 16.30% to 16%.

Economic Performance (Compared to the Past)

The Mesa County economy has three primary comparison points for judging economic performance: 1) Compared to the recent past 2) compared to the 2008 peak, and 3) compared to other counties.

2017 and 2018 have both been very positive years for Mesa County, as all economic indicators have risen. Table 1 shows 2018 employment data compared to 2017, 2013, and 2008 yearly numbers. In 2018 Mesa County added 1,787 jobs, increasing the labor force by 1,821. Almost all of these new additions to the labor force were able to find employment, with a change of only 34 unemployed for the year.

Compared to 5 years ago (2013), Mesa County has added 5,616 jobs. It is important to note that most of these job gains have been in 2017 and 2018, as the Mesa County labor market was largely stagnant for several years. There are 3,461 less unemployed since 2013, resulting in the county's low unemployment rate.

Table 1:

10, 5, and 1 Year Employment Comparison (Yearly comparisons)

	Labor Force	Employed	Unemployed
Annual	1,821	1,787	34
5-Year	2,155	5,616	-3,461
10-Year	-6,102	-5,894	-208
Annual %	2.46%	2.52%	1.15%
5-Year %	2.93%	8.37%	-53.78%
10-Year %	-7.46%	-7.50%	-6.53%

The 2008 to 2018 comparison is a different story, as Mesa County has not come close to recovering from the 2008 peak (or perhaps better framed, the 2008 bubble). Employment is still 5,894 people less than it was in 2008 at the peak of the energy and real estate bubbles. While the nation recovered from a housing bubble, Mesa County was left to recover from both a housing bubble and a massive energy bubble. It may take several more years to get back to the employment levels of 2008.

Since 2008 was a bubble, it may not be the best point of comparison when trying to determine the economic success of the county. A long run trend analysis may provide more insight based on historical data. Figure 1 illustrates employment since 1990 with a linear trend line. Employment growth is still below this trend line, indicating that Mesa County still has a bit more growth to recover to the trend. However, when the bubble employment numbers are taken out, then the graph shows that Mesa County would nearly be back at the trend line of employment growth.

Figure 1:

Mesa County Employment with Trend Line

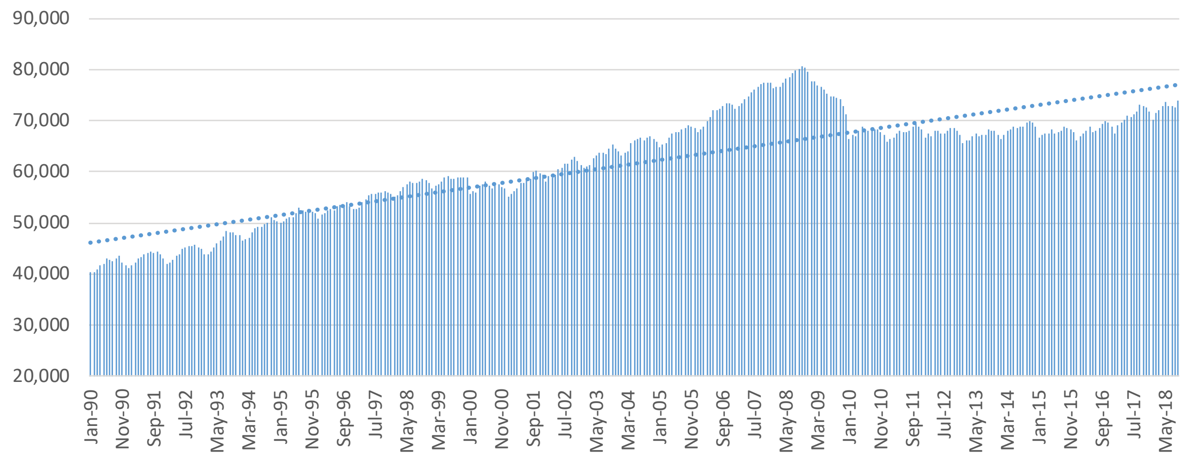
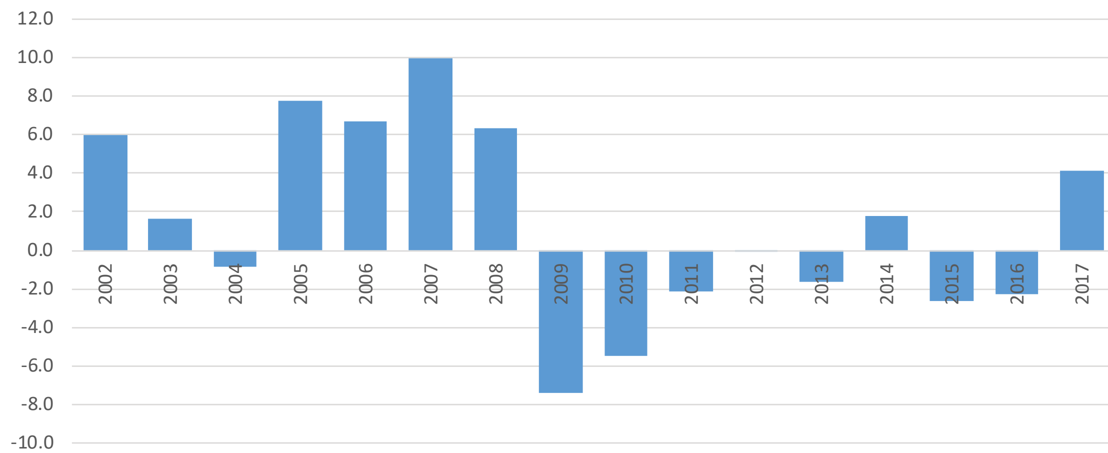


Figure 2:

Mesa County GDP Growth Rate



Mesa County Compared to Other Locations

Comparing Mesa County to other locations is another point of comparison for determining the economic success of Mesa County. In the subsequent graphs, Mesa County is compared to Colorado Springs, Pueblo, and the Denver area. For median household income, Montrose and Delta are added for more regional comparison. Table 2 illustrates GDP growth rates for 2014-2017 for 4 Metropolitan Statistical Areas (MSA's). Note that MSA GDP numbers for 2018 have not been released yet. Mesa County has had significantly lower growth than the other three comparable MSAs, with only 2017 standing out as a positive comparible number. Figure 4 illustrates unemployment rates, with Denver consistently having the lowest unemployment rate, followed by Colorado Springs. Pueblo and Grand Junction take turns moving to the highest rate, but in the last two years Grand Junction's rate has fallen lower than Pueblo's to match that of Colorado Springs. Figure 3 illustrates comparisons of median household income and includes Delta and Montrose. Both Mesa and Montrose had a large uptick in median household income in 2017 and are higher than Pueblo and Delta. Mesa County median household income now stands at $52,623 compared to Denver's $64,974.

Table 2:
Mesa County GDP Growth Rate

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

Figure 3:
Median Household Income

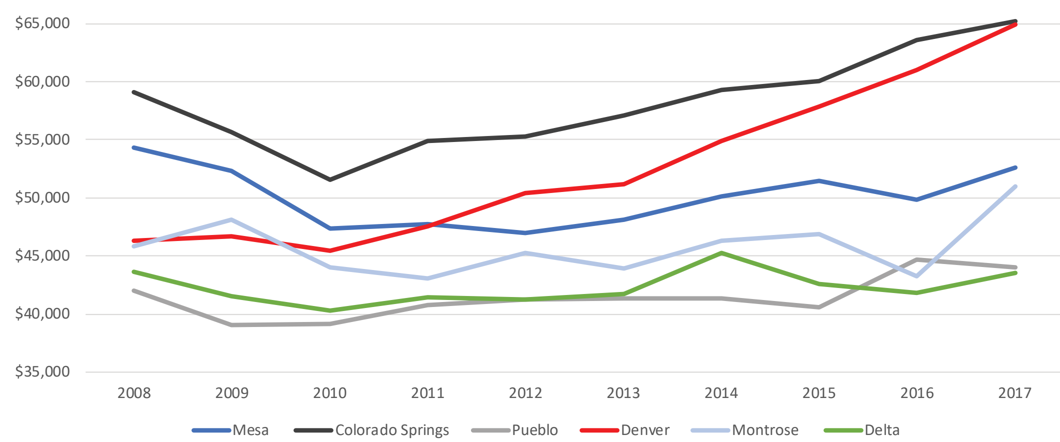
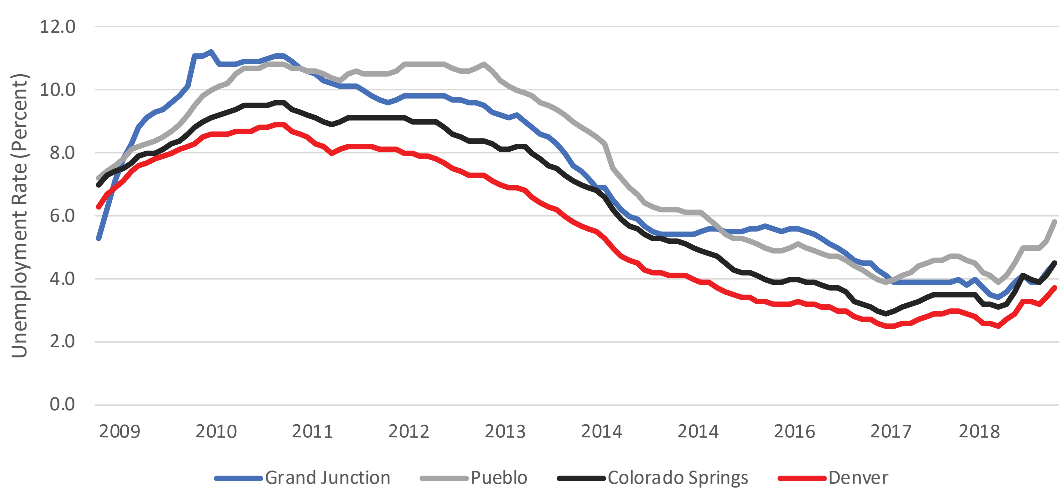


Figure 4:
Unemployment Rate Comparison



Employment Changes: 2008 to 2018

Table 3 illustrates Q2 2018 employment and wages compared to Q2 2008 employment and wages. Note that the QCEW program does not count sole proprietors, so the total employment numbers will not perfectly match that of the previous section. 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. Health care has grown by 2,338 jobs, with total government (594) and food services (346) next. After that most industries have actually shrunk since 2008, specifically the oil/gas industry and construction, which were both in unsustainable bubbles in 2008. If construction and oil/gas jobs are taken out, Mesa County has actually grown by 1,295 jobs since 2008 (and this would likely be higher if QCEW counted sole proprietors). See figure 5 for a graphical illustration of employment changes.

Table 3:

Quarterly Census of Employment and Wages Q2 2008 Compared to Q2 2018

Sector	Average Employment 2nd Quarter 2018	Total Quarterly Wages (Q2 2018)	Average Weekly Wage (Q2 2018)	Total Wage Change (Q2 2008 to Q2 2018)	Total Employment Change (Q2 2008 to Q2 2018)
Health Care and Social Assistance	10,736	$122,797,342	$880	$42,940,356	2338
Total Government	9,624	$114,581,244	$916	$16,972,886	594
Accommodation and Food Services	6,950	$34,060,484	$377	$9,354,630	346
Educational Services	334	$1,815,365	$418	$798,382	98
Management of Companies and Enterprises	167	$3,691,283	$1,700	$2,287,451	81
Agriculture	455	$3,365,386	$569	$283,872	0
Other Services, Ex. Public Admin	1,799	$14,305,636	$612	$843,593	-11
Arts, Entertainment, and Recreation	983	$4,050,197	$317	$844,903	-15
Utilities	188	$3,839,170	$1,571	$528,889	-41
Wholesale Trade	2,420	$32,459,408	$1,032	$4,179,806	-57
Transportation and Warehousing	2,173	$26,935,321	$953	$1,427,541	-99
Manufacturing	3,114	$32,811,576	$811	$643,259	-116
Professional and Technical Services	2,168	$28,874,550	$1,025	$2,440,468	-229
Finance and Insurance	1,980	$33,346,449	$1,296	$6,772,896	-246
Real Estate and Rental and Leasing	1,004	$9,689,769	$742	-$344,541	-248
Retail Trade	8,205	$61,957,761	$581	$5,445,585	-253
Information	627	$7,256,294	$890	-$2,176,728	-348
Administrative and Waste Services	3,015	$26,082,508	$665	$521,682	-499
Construction	4,590	$58,548,178	$981	-$7,397,088	-1385
Mining, Oil, and Gas Extraction	2,353	$50,789,054	$1,660	-$20,457,119	-1415

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

Figure 5:

QCEW Employment Comparison Q2 2008 to Q2 2018

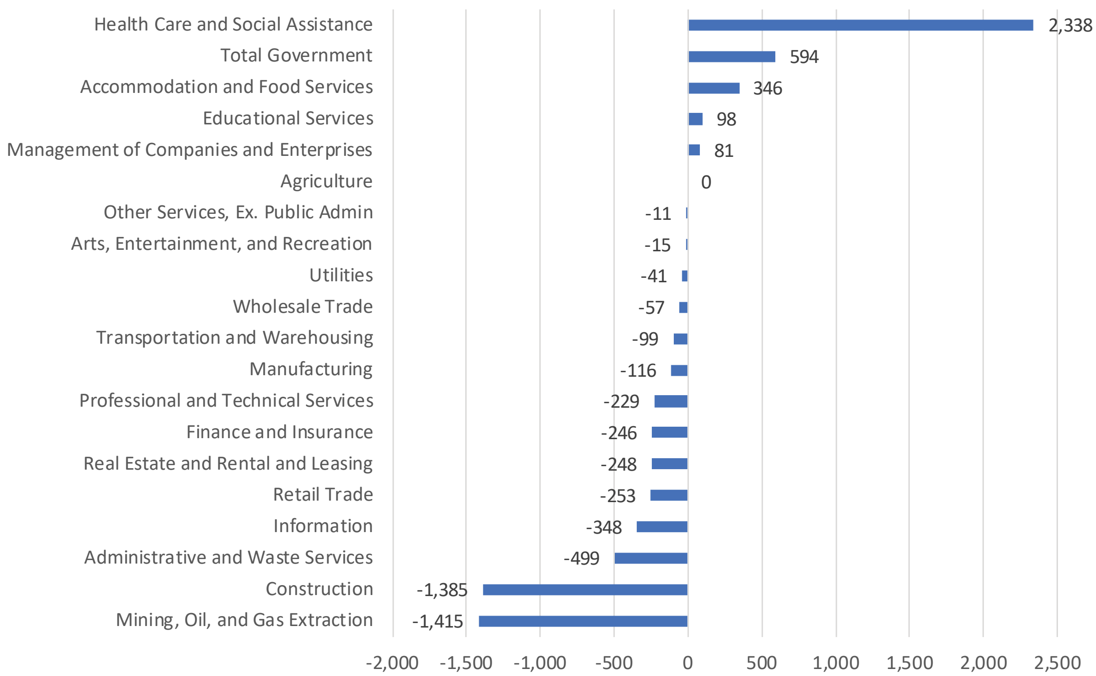
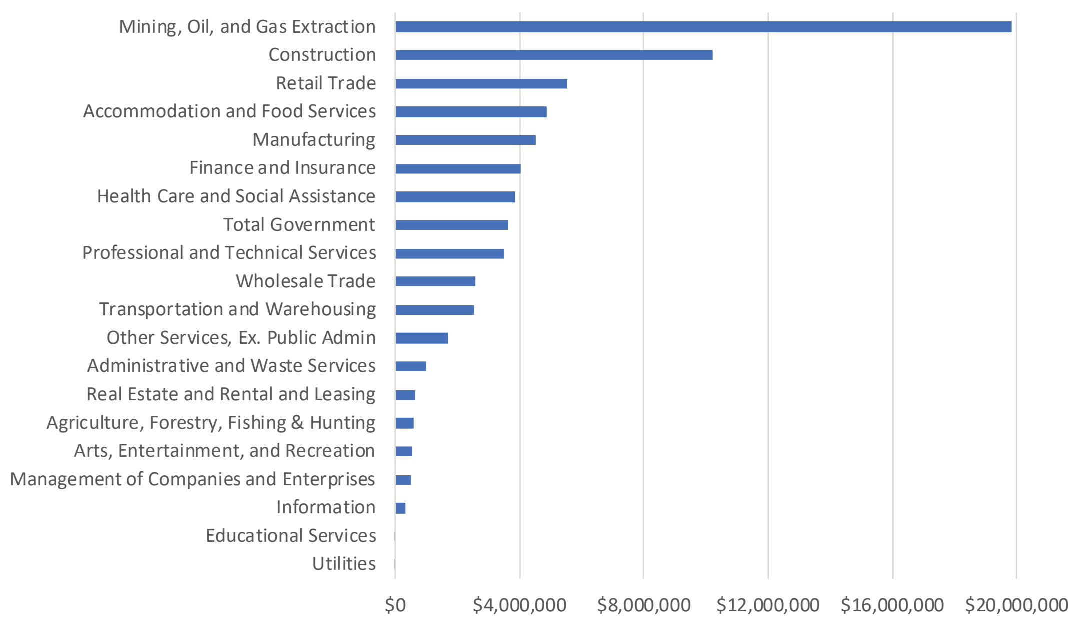


Figure 6:

QCEW Total Wage Comparison Q2 2016 to Q2 2018



Employment Changes: 2016 to 2018

Table 4 illustrates changes from the bottom of 2016 (which was a recession for Mesa County) to Q2 2018 in order to see which industries have been responsible for the recovery the county has experienced in 2017 and 2018. The table is sorted not by employment but by total wage change. The employment leader is health care, with 878 jobs since Q2 2016. Health care is the largest and most significant industry in Mesa County. The second largest job contributor is the oil/gas industry with 753 jobs. 2016 was a terrible year for the industry, with very low natural gas prices that forced many companies to lay off employees. Since this bottom, the industry has somewhat recovered. The important point regarding the oil/gas industry is the total wage change. Oil/gas jobs have a very high weekly wage ($1,660) and this has led to an increase in total wages of almost $20 million since 2016. This almost doubles the next wage contributor, construction ($10 million), which has also somewhat recovered due to real estate construction and economic growth causing more demand for other construction. From this data it is clear that the biggest contributors (in terms of changes from 2016) to the 2017 and 2018 economic upturn have been the oil/gas industry and construction industry. See figure 6 above for a graphical illustration of this data.

Table 4:

Quarterly Census of Employment and Wages Q2 2016 Compared to Q2 2018

Sector	Average Employment 2nd Quarter 2018	Total Quarterly Wages (Q2 2018)	Average Weekly Wage (Q2 2018)	Total Wage Change (Q2 2016 to Q2 2018)	Total Employment Change (Q2 2016 to Q2 2018)
Mining, Oil, and Gas Extraction	2,353	$50,789,054	$1,660	$19,832,899	753
Construction	4,590	$58,548,178	$981	$10,190,272	476
Retail Trade	8,205	$61,957,761	$581	$5,553,115	-47
Accommodation and Food Services	6,950	$34,060,484	$377	$4,865,622	121
Manufacturing	3,114	$32,811,576	$811	$4,511,341	309
Finance and Insurance	1,980	$33,346,449	$1,296	$4,031,922	-21
Health Care and Social Assistance	10,736	$122,797,342	$880	$3,867,143	878
Total Government	9,624	$114,581,244	$916	$3,625,730	118
Professional and Technical Services	2,168	$28,874,550	$1,025	$3,499,163	146
Wholesale Trade	2,420	$32,459,408	$1,032	$2,599,645	126
Transportation and Warehousing	2,173	$26,935,321	$953	$2,537,600	116
Other Services, Ex. Public Admin	1,799	$14,305,636	$612	$1,697,298	113
Administrative and Waste Services	3,015	$26,082,508	$665	$1,010,551	-161
Real Estate and Rental and Leasing	1,004	$9,689,769	$742	$620,826	-15
Agriculture, Forestry, Fishing & Hunting	455	$3,365,386	$569	$593,876	21
Arts, Entertainment, and Recreation	983	$4,050,197	$317	$548,192	107
Management of Companies and Enterprises	167	$3,691,283	$1,700	$520,946	14
Information	627	$7,256,294	$890	$310,354	-17
Educational Services	334	$1,815,365	$418	-$7,354	25
Utilities	188	$3,839,170	$1,571	-$57,647	-13

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

Is the Growth of 2017 and 2018 Sustainable?

Both construction and the oil/gas industry are known to be rather volatile. Since these two industries have contributed the most to Mesa County's positive growth in 2017 and 2018, the question is: how sustainable is this growth? The Energy Information Agency expects natural gas prices to average $2.89 for 2019, which is slightly lower than 2018. Figure 8 illustrates that oil/gas industry employment is very much related to changes in the price of natural gas. If the price of natural gas does end up averaging close to $3.00, then this employment level is likely sustainable. Many economists believe that with so much natural gas production, the price will stabilize in this range. The difference between $2.00 natural gas prices and $4.00 natural gas prices can result in a swing of hundreds and potentially thousands of jobs in Mesa County. It is impossible to forecast accurately, but there is likely more downside price risk than upside price risk due to the surplus of natural gas production currently in the U.S. For the construction industry, taking out seasonal fluctuations, construction has been growing every year since 2012. Construction generally peaks at the top of the business cycle, and if the economy slows, construction will slow. There is some downside risk with construction, but there is also not a bubble in housing like in 2008, so that risk may be capped. The logical conclusion from this is that there is low to moderate downside risk for these industries moving forward. The good news is that there is no sign of an oil/gas bubble or housing bubble so if the economy were to slow or gas prices were to drop these industries would not devastate the economy, they would likely just not contribute to growth the way they did in 2017 or 2018.

Figure 7:

Construction Employment

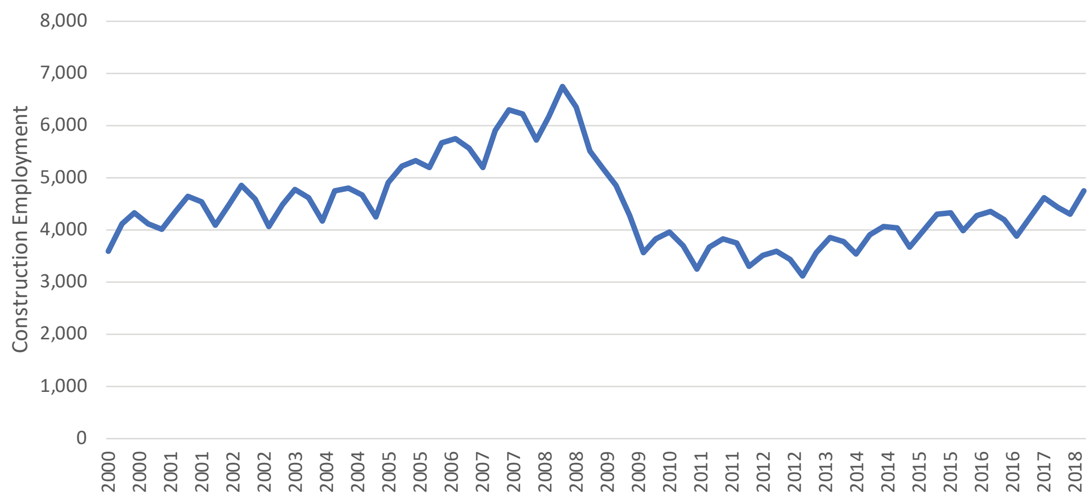
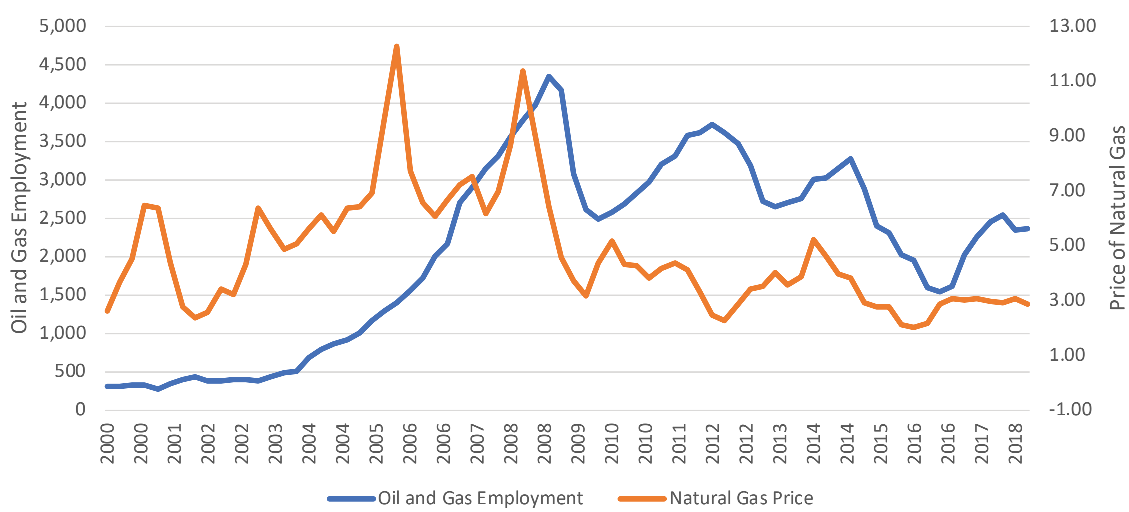


Figure 8:

Oil/Gas Employment and Natural Gas Price



Local Real Estate

	Q4 2018	Q4 2017	% change since last year
Real Estate			
Inventory of Homes for Sale (3 month avg)	718	733	-1.96%
New Residential listings (3 month total)	757	737	2.71%
Sold Residential Listings (3 month total)	715	790	-9.49%
Median Sales Price	$249,327	$222,600	12.01%
Average Sales Price	$279,655	$250,568	11.61%
Days on Market	86.18	90.18	-4.43%
Months Supply of Inventory	2.43	2.59	-6.03%
Total Building Permits	1,198	997	20.16%
Single Family Permits	160	171	-6.43%
Foreclosures			
Foreclosure Filings	64	99	-35.4%
Foreclosure Sales	25	53	-52.8%
Freddie Mac House Price Index			
Grand Junction	188.0	174.4	7.81%
Colorado	201.6	189.4	6.45%
National	188.8	179.5	5.15%
Mortgage Rates			
15 Year Mortgage Rate	4.21%	3.29%	0.92%
30 year Mortgage Rate	4.78%	3.92%	0.86%

SOURCES: Real Estate: Colorado Association fo Realtors Market Trends Program through ShowingTime. Note that real estate data is just single family homes; Permit data: Mesa County; 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 stay strong with increases of both median and average sales price, with both reaching double figures. This has been the trend from each yearly comparison since 2017. The Freddie Mac House Price Index compares Grand Junction, Colorado, and the national real estate market. Grand Junction continues to outpace both Colorado and the nation in terms of home price appreciation. Total building permits are up by 20% since last year, a sign of strong building and construction in the Grand Valley. Single family home permits are down slightly from last year. 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. As discussed in last quarter's economic update, 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 Mesa County seems unaffected.

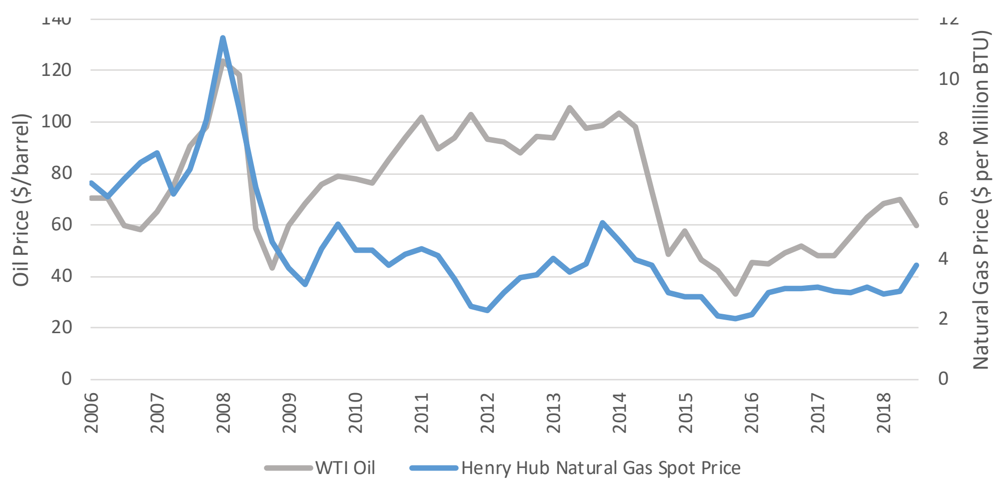
The Federal Reserve has recently reversed course on their promised interest rate increases, instead opting to hold steady on interest rates for the foreseeable future. This will help keep housing healthy, as further increasing rates may finally curb housing demand.

Regional Energy

	Q4 2018	Q3 2018	Q4 2017	% change since last quarter	% change since last year (comparable quarters)
Energy Prices					
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%
Drilling Permits	**2018 Total**	**2017 Total**	**% Change**		
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%		
Local Rig Count	**Jan-19**	**Nov-18**			
Rig Count (Western Colorado, Mesa, Rio Blanco, Garfield, Moffat)	7	7			

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 November 1st, 2018.

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 $2.72MMBtu 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 increases 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 Grand Junction ranges between $2.08 and $2.26.

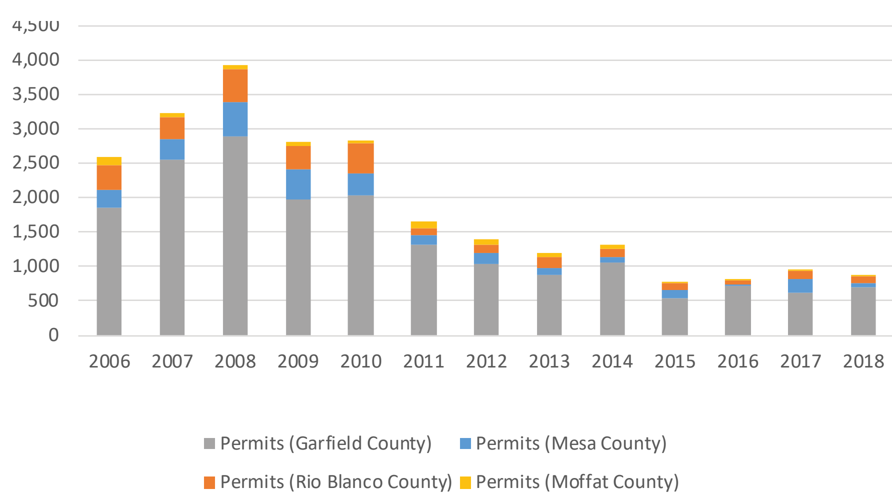
Source: https://www.eia.gov/outlooks/steo/marketreview/crude.php

Western Slope Drilling Activity

Drilling activity in the Western Slope has been constant, with 7 rigs in the Piceance for the entire year. Drilling permits were down 10.21% from last year for the Western Slope (853 in 2018 compared to 950 in 2017), while permit applications are up 30.88% for Colorado as a whole, primarily driven by Weld County. Mesa permits fell to 64 from 215 last year, while Garfield County had an increase to 702 in 2018 compared to 612 in 2017. Garfield was the only Piceance county that had permit applications increase year over year.

Figure 10:

Driling Permits: Western Colorado



National Economic Indicators

	Q4 2018	Q3 2018	Q4 2017	% change since last period	% change since last year (comparable quarters)
Business Cycle Indicators					
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%
Unemployment					
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%
Interest Rates					
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%
Inflation Measures					
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%
Stock Prices					
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%
Exchange Rate					
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

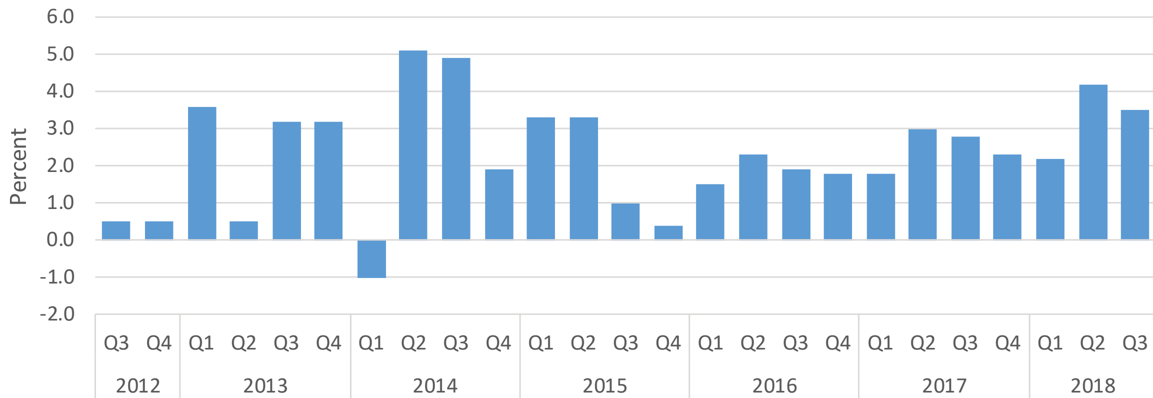
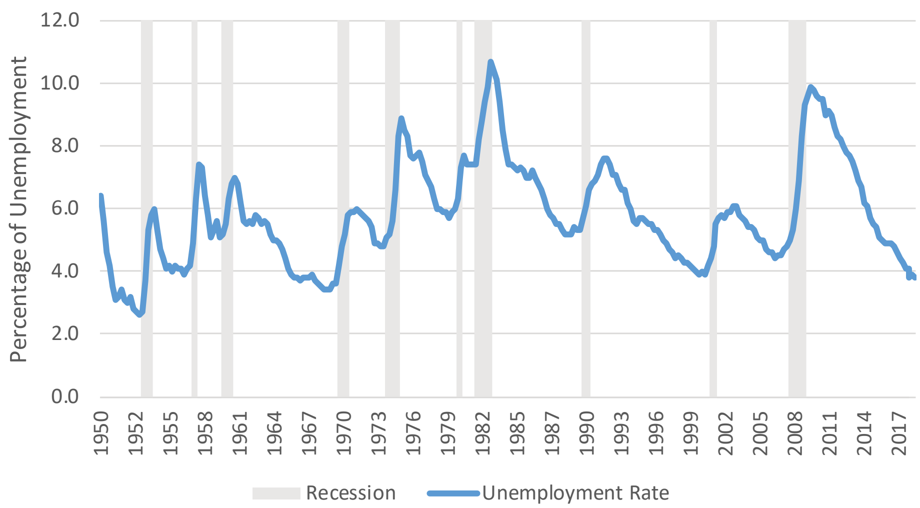


Figure 12:

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

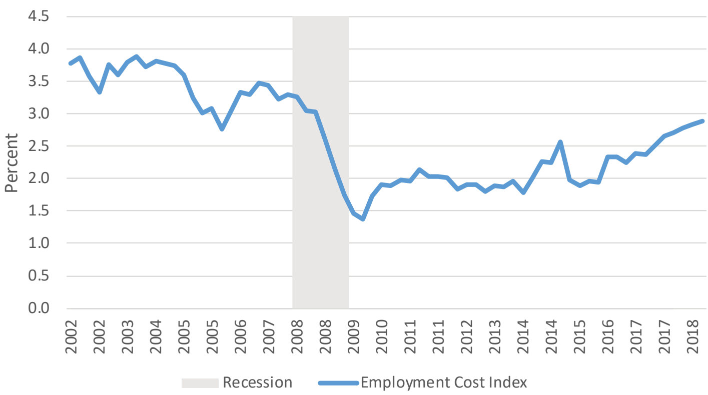
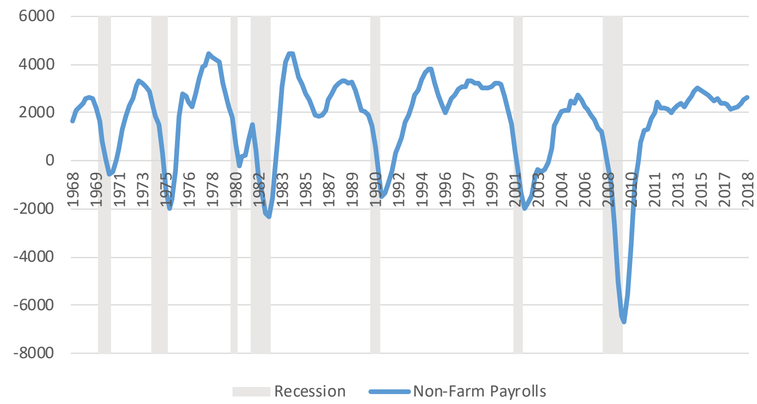


Figure 14:
Change in Non-Farm Payrolls



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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