

MESA COUNTY ECONOMIC UPDATE



Provided by the Business Department of Colorado Mesa University

Second Quarter 2020

Economic Summary

- From March 21 through May 2, Mesa County had 8,200 total people file for unemployment, equating to 11.8% of the March labor force numbers. The Unemployment rate went from 4.1% in February to 7% in March, to 12.6% in April.
- As of April 25th, 22.4% of the unemployment claims for Mesa County are in the leisure and hospitality industry. Trade, transportation, and utilities make up 19.2%, with education and health services (10.9%) and professional services (8%) coming in next. Mesa County new business entity filings fell 14.68%, while Colorado business confidence is down 42% from last quarter.
- The April national unemployment rate was a dismal 14.7%, with the U6 rate that counts discouraged workers and marginally attached workers at 22.8%. Part of this unemployment is temporary due to shutdowns, but some of it will persist due to what has been a massive demand shock, both locally and nationally. Mesa County may have an advantage in recovery due to low COVID-19 numbers and early re-opening.

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.

CONTENTS

Local Economic Indicators.....	1
The Local Labor Market	2
What Type of Recovery?.....	5
Mesa Industry Trends	7
Local Real Estate Indicators	9
Regional Energy.....	10
Drilling Permits and Gas Jobs	11
National Economic Indicators	11
National Economic Performance	12
National Growth Forecasts.....	14

LOCAL ECONOMIC INDICATORS

	Q1 2020	Q4 2019	Q1 2019	change since last quarter	change since last year (comparable quarters)
Local Labor Market					
Unemployment Rate Mesa County -SA	4.00%	3.10%	3.70%	0.90%	0.30%
Unemployment Rate Mesa County -NSA	4.80%	2.90%	4.40%	1.90%	0.40%
Unemployment Rate Colorado -SA	3.20%	2.50%	3.10%	0.70%	0.10%
Unemployment Rate U.S. -SA	3.80%	3.50%	3.90%	0.30%	-0.10%
Labor Force	75,949	77,903	77,135	-1,954	-1,186
Employed	72,276	75,612	73,480	-3,336	-1,203
Unemployed	3,672	2,291	3,655	1,382	17
Business Confidence					
Leeds Colorado Business Confidence	29.7	50.8	52.7	-41.54%	-43.64%
Sales/Use Taxes					
	2020		2019		
City Sales/Use Taxes (YTD)	\$12,519,376		\$13,004,429		-3.73%
Mesa County Sales/Use Tax (YTD)	\$8,582,079		\$8,477,207		1.24%
City Lodging Tax Revenue (YTD)	\$402,468		\$506,384		-20.52%
Business Filings					
	2020 (YTD)		2019 (YTD)		
Mesa County New Business Entity Filings (YTD)	500		586		-14.68%

Grand Junction Regional Airport	Q1 2020	Q4 2019	Q1 2010	% change from last quarter	% change from last year
Scheduled Enplanements	56,617	71,173	57,863	-20.45%	-2.15%
Standard of Living and Growth	2018	2017	2016	% change since 2017	% change from 2016
Mesa County Gross Regional Product (in millions)	\$6,253	\$5,970	\$5,695	4.74%	9.80%
Percent of Population Below Poverty Line	15.70%	16.00%	16.30%	-0.30%	-0.60%
Median Household Income	\$51,132	\$52,623	\$49,825	-2.83%	2.62%
Population	151,616	149,794	148,116	1.22%	2.36%
Personal Income	\$6,884,366	\$6,395,255	\$5,967,780	7.65%	15.36%
Personal Income Per Capita	\$44,935	\$42,239	\$39,828	6.38%	12.82%

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; Business Permits: Colorado Secretary of State's Office; Scheduled Enplanements: Grand Junction Regional Airport; Median Household Income, Poverty Rate, Population, and Personal Income: 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 Mesa County labor market is down sharply as a result of COVID-19, with March losses in employment pushing the Q1 employment numbers down by 1,203. The effects of COVID-19 began in early March. Table 2 illustrates the monthly unemployment rate for February through April. The Unemployment rate went from 4.1% in February to 7% in March, to 12.6% in April. Table 2 shows that the Western Slope unemployment is rising on level with the state, with the state of Colorado showing an 11.3% unemployment rate. The Mesa County labor force fell from 76,746 in February to 73,342 in April, with employment falling from 73,580 to 64,072. That is the lowest employment number since March 2004. Much of this is temporary as a result of COVID-19 fears and shutdowns, but some of it will persist, and the County, State, and U.S. will have to grow their way back to lower unemployment numbers.

What Industries Are Most Affected?

Data from the Colorado Department of Labor and Mesa County Workforce Center show which industries have been most affected. Table 4 illustrates unemployment claims by industry for Mesa County from March 21-April 4. As of April 25th, 22.4% of the unemployment claims are in the leisure and hospitality industry. Trade, transportation, and utilities makes up 19.2%, with education and health services (10.9%) and professional services (8%) coming in next.

Decline in elective surgeries, lack of emergency room visits, and COVID-19 worries in nursing homes have hurt healthcare since the pandemic began. Despite lower energy prices, oil/gas unemployment claims have not been large and are in line with the recent quarterly trend in that industry.

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

	Labor Force	Employed	Unemployed
Annual	-1,186	-1,203	17
5-Year	4,420	5,172	-752
10-Year	100	5,430	-5,330
Annual %	-1.54%	-1.64%	0.47%
5-Year %	6.18%	7.71%	-17.00%
10-Year %	0.13%	8.12%	-59.21%

Construction, the second largest industry ranked by total wage, has very few unemployment claims, which is good news for the County.

Table 5 illustrates unemployment claims by occupation for the state of Colorado. Note that occupation and industry classifications are different. Industry is the type of business the person works for. Occupation is the skill or task of the person. 22% of unemployment claims are food and serving related, with 14% sales, and 7.6% personal care and service.

New business entity filings are down 14.68%, while state business confidence fell by 41% since last quarter.

Although not COVID-19 related, a freeze has destroyed up to 90% of peach crops, which will hurt Mesa County agriculture. In addition to this, agriculture prices and demand across the board are down, setting agriculture up for a tough year.

Strengths and Weaknesses of a Mesa County Recovery

As of May 25, there are 53 documented cases of COVID-19 in Mesa County out of 151,616 people, which is a very low number. For this reason Mesa County has moved forward in trying to re-open faster than the state. Mesa County's unemployment rate sits just above Colorado's, but there may be some advantages that Mesa County has in heading towards economic recovery faster than other counties and the nation. The first advantage is low COVID-19 numbers and the push to re-open sectors of the economy that have been hurt by social distancing rules. It is important to note that just because restaurants (as an example) open up to the public does not mean that people will come. Low COVID-19 numbers have an affect on public perception but they are not the perception itself, and much of the population's decision to return to normal spending habits will depend on how safe they feel. With low COVID-19 numbers, healthy people may feel more comfortable here than in other locations going to places of business that are currently shut down. The countervailing factor to this is the high risk retirement community, which may choose to wait for a vaccine or better treatment before engaging in normal consumption patterns.

The tourism industry is important in Mesa County, and many people come to Mesa County for outdoor tourism. It is possible to social distance when recreating outside. As to the public's perception of its safety, and as to the demand of out of town visitors to visit during a pandemic, these are unknown. But as Orange County, California has to rely on tourism from theme parks, which squeeze together thousands of people, Mesa County's tourism draw is significantly safer, giving places like Mesa County an advantage.

Another advantage is Colorado Mesa University's decision to return to some form of in-person classes in the Fall. The University draws students from around the nation that come to the area, live, spend money, and have an enormous economic impact on the area. Other universities are going fully online, giving students the option to stay at home. Having students come to campus will avoid an additional demand shock of missing students for a semester.

As people in larger cities realize the danger of pandemics like COVID-19, and how they are correlated with population density, many people and businesses may be looking for different places to work and live. Mesa County has low COVID-19 numbers, has lots of open space, and has a community ready to embrace their economic contribution to the area. In addition to this, as businesses learn that workers can work from home, this creates the possibility of people in more expensive, dense areas of Colorado and the nation choosing to live somewhere like Mesa County and continuing to work from home.

Despite these advantages, make no mistake about it: It will take time to recover from this demand shock. Do not expect unemployment to fall to the level it was before COVID-19 immediately. Instead, expect a few more months of double digit unemployment, and at some point in the next few months unemployment to fall below 10% and start its downward march. This of course assumes no major winter issues with COVID-19, which may be a bad assumption. National estimates, shown later in the newsletter, are expecting economic recovery to take to the end of 2021. Economic recovery in this case is when GDP returns to the level before the demand shock. That means for the next year and a half, the economy will be working towards returning to the level of output that existed in February 2020. Recovery does not mean 4% unemployment, as even by late 2021 unemployment is expected to be much higher nationally.

Part of the problem is that COVID-19 has completely changed people's spending and consumption habits. Even if there were a vaccine this summer, which is highly unlikely, businesses will wait until they see demand return before they hire back a full staff. How quickly these jobs return depends on consumer demand, and consumer demand is dependent on risk factors and the perception of risk for COVID-19. This whole recovery will be a process. We have seen the worst of the unemployment claims, but it may be some time until the low unemployment rates of 2017-2019 return to not just Mesa County, but the U.S. and World.

This downturn is not expected to be as bad as the 2009 downturn for Mesa County. The double bubble of energy and real estate pushed Mesa County into a depression from 2009-2016 (with 2011 having slightly positive growth). This crisis is not expected to hurt Mesa County the way that the "double bubble" did, as Mesa County's economic growth has been structurally sound (unlike the bubble of 2008). While Mesa County's economy fared much worse after the financial crisis did than did the nation, Mesa County has a real opportunity to do better than the nation this time around.

The primary counterarguments for a quicker Mesa County recovery include the retirement population changing their consumption habits and staying extremely risk adverse, and the downturn in oil and gas. Later in the newsletter I show that Q4 2019 oil and gas lost 600 jobs in one quarter, not to mention the hundreds in the previous quarters. These losses could not have come at a worse time. The industry is not as large as it was in 2009, so that type of scenario should not happen, but this will hurt the Mesa County economy especially since it will be difficult to find new work currently.

Table 2:
Monthly Unemployment Rates

	February	March	April
Mesa	4.1%	7%	12.6%
Montrose	3.6%	7.5%	12%
Delta	4.2%	7.9%	10.2%
Garfield	3.3%	6%	13.4%
Colorado	2.9%	5.4%	12.0%

Table 3:
Weekly Initial Claims for Unemployment

	2019 Weekly Average	21-Mar-20	28-Mar-20	04-Apr-20	11-Apr-20	18-Apr-20	25-Apr-20	02-May-20	Total
Mesa	73	463	2,288	1,958	1,270	876	760	585	8,200
Montrose	22	116	596	493	333	238	218	178	2,172
Delta	15	60	305	239	181	126	129	79	1,119
Garfield	28	268	1,160	1,015	676	393	375	283	4,170
Colorado	2,044	25,760	86,500	80,445	55,859	40,479	36,899	28,445	354,387

Figure 1:
Employment (Jan-19-Apr-20)

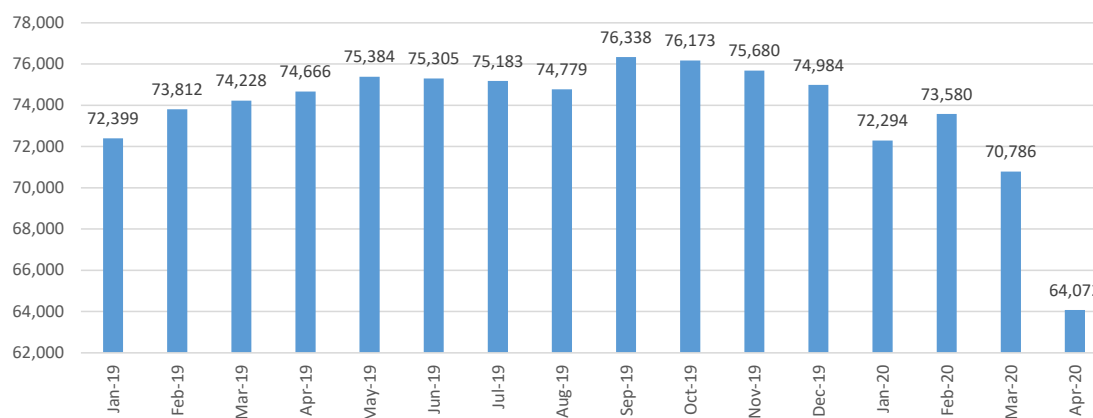


Table 4:
Mesa County Unemployment Claims by Industry (March 21-April 25th)

	21-Mar	28-Mar	4-Apr	11-Apr	18-Apr	25-Apr	Total	Percentage of Total
Construction	23	93	64	51	29	35	295	3.7%
Education and health services	33	257	278	127	89	84	868	10.9%
Financial activities	6	48	29	31	24	17	155	2.0%
Information	7	11	20	9	7	12	66	0.8%
Leisure and hospitality	233	707	370	212	151	106	1,779	22.4%
Manufacturing	11	136	110	60	32	17	366	4.6%
N/A	57	432	393	275	203	171	1,531	19.3%
Natural resources and mining	21	62	67	33	48	32	263	3.3%
Other services	15	173	87	55	42	26	398	5.0%
Professional and business services	50	226	144	90	64	57	631	8.0%
Public administration	2	6	21	16	7	7	59	0.7%
Trade, transportation, and utilities	67	432	363	303	174	187	1,526	19.2%
Total	525	2,583	1,946	1,262	870	751	7,937	100.0%

SOURCE: Colorado Department of Labor and Employment (QCEW), courtesy of the Mesa County Workforce Center.

What Type of Recovery?

Economists talk about several shapes of potential recovery, including a V-shaped, U-shaped, L-shaped, a “Nike Swoosh” shaped, and a square-root shaped recovery. A V-shaped recovery has a sharp downturn but an equally sharp upturn. A historical example would be the recession of 1953. A U-shaped recovery is where the recession lingers for a year or two until it starts to turn upwards, such as the 1973 recession. A W-shaped recession is where the economy turns quickly, recovers, but then turns downward again until it eventually recovers. 1980/1981 is an example, and this particular recession has this potential if COVID-19 problems return in the Fall/Winter. Then there is an L-shaped recession where the economy enters a recession and then stays in recession for a continued time. The Western Slope experienced an L-shaped recession (if not a depression) from 2009-2016. Then there is the Nike swoosh, which would be in between the V-shaped and U-shaped recovery. The recession lasts longer than the V but recovers more quickly than the U. Lastly, there is the square-root recession, that looks like a square-root sign from an algebra class. The economy turns downward, but then there is a partial recovery, but not a full recovery, and then the economy stagnates at that point for some time. Of all of these scenarios, the “swoosh” recovery or the square-root recovery seem the most probable. As businesses open there will be a quick increase in employment, but the levels will not return to 2019 levels for some time, as long as COVID-19 remains a risk, there will be parts of the population that change their consumption habits creating some structural unemployment. In addition to this, with such a loss of GDP over the last two months, economies will need to grow their way out of high unemployment to return to previous levels. Expect unemployment to fall out of double digits quickly but then take some time to fall to their most recent levels.

Table 5:
Colorado Unemployment Claims by Occupation (March 15-May 2)

Occupational Group	Total Initial Claims 3/15/20 - 5/2/20	Share of Total Initial Claims 3/15/20 - 5/2/20
Food Preparation and Serving Related	82,890	22.4%
Sales and Related	52,068	14.1%
Personal Care and Service	28,003	7.6%
Management	27,537	7.4%
Office and Administrative Support	20,512	5.5%
Healthcare Practitioners and Technical	19,975	5.4%
Transportation and Material Moving	17,574	4.8%
Healthcare Support	17,144	4.6%
Construction and Extraction	15,124	4.1%
Arts, Design, Entertainment, Sports, and Media	14,647	4.0%
Installation, Maintenance, and Repair	12,920	3.5%
Production	12,729	3.4%
Education, Training, and Library	11,823	3.2%
Business and Financial Operations	9,752	2.6%
Building and Grounds Cleaning and Maintenance	8,327	2.3%
Computer and Mathematical	4,120	1.1%
Life, Physical, and Social Science	3,524	1.0%
Community and Social Service	3,488	0.9%
Architecture and Engineering	2,805	0.8%
Protective Service	1,672	0.5%
Farming, Fishing, and Forestry	1,563	0.4%
Legal	1,551	0.4%

SOURCE: Colorado Department of Labor and Employment (QCEW).

Mesa County Employment Trends

This section covers Q4 2019 QCEW data, which is the most recent QCEW industry data available. This data does not cover the most recent months and the effects from COVID-19. 4th quarter QCEW data shows a total wage increase of \$26 million dollars and 322 new jobs. 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 included in this dataset). This is significantly down from the gains in Q3 2019, largely due to the losses in oil and gas (595 jobs). Construction also saw job losses of 122. This data shows that the last quarter of 2019 saw Mesa County start to slow, with high paying job losses mounting. Offsetting gains in healthcare (493), educational services (115), and agriculture (207, mostly hemp) kept Mesa County positive in the industry level job data. Figure 2 illustrates changes in wages from Q4 2018 to Q4 2019, and Figure 3 illustrates job changes from the same time period. Oil and gas jobs have been falling the last few quarters, and this was a huge drop, and it happened before oil/gas prices plunged in March. The oil/gas industry is not large enough to create a 2009 situation, but the high wages from this industry being lost will hurt Mesa County, and could be one of the countervailing factors that keep Mesa County from outperforming the nation during this recovery.

Table 6:

Quarterly Census of Employment and Wages (QCEW) Q4 2019 Compared to Q4 2018

Sector	Average Employment Q4 2019	Total Quarterly Wages (Q4 2019)	Average Weekly Wage (Q4 2019)	Total Employment Change (Q4 2018 to Q4 2019)	Total Wage Change (Q4 2018 to Q4 2019)
Total, All Industries	63,859	\$765,197,877	\$922	322	\$25,990,761
Health Care and Social Assistance	12,396	\$166,160,047	\$1,031	493	\$9,651,836
Construction	4,940	\$71,109,118	\$1,107	-122	-\$1,883,434
Retail Trade	8,411	\$70,835,544	\$648	76	\$4,616,164
Educational Services	5,084	\$50,677,570	\$767	115	\$2,112,559
Mining	1,796	\$49,148,089	\$2,105	-595	-\$5,679,847
Public Administration	3,351	\$47,260,419	\$1,085	50	\$1,647,738
Wholesale Trade	2,382	38,723,906	\$1,251	-80	\$459,372
Professional and Technical Services	2,331	\$38,474,812	\$1,270	42	\$166,584
Manufacturing	3,151	\$37,575,425	\$917	-10	\$910,715
Accommodation and Food Services	6,803	\$36,492,364	\$413	-75	\$1,394,967
Transportation and Warehousing	2,676	35,998,206	\$1,035	67	\$914,571
Finance and Insurance	1,944	\$35,608,061	\$1,409	4	\$2,969,224
Administrative and Waste Services	2,810	\$27,657,624	\$757	-9	\$2,654,569
Other Services, Ex. Public Admin	1,964	\$16,527,805	\$647	155	\$1,424,720
Real Estate and Rental and Leasing	1,076	\$12,678,108	\$906	56	\$1,262,301
Information	696	\$8,163,365	\$902	0	\$106,149
Utilities	338	6,834,032	\$1,555	3	\$560,507
Agriculture, Forestry, Fishing & Hunting	588	\$6,272,379	\$821	207	\$2,931,437
Arts, Entertainment, and Recreation	935	\$4,637,461	\$382	-36	\$219,160
Management of Companies and Enterprises	147	\$3,760,061	\$1,968	-22	-\$784,972

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

Table 7:

Farm and Sole Proprietor Employment

BEA Data	2018	2017	2016	% change since 2017	% change from 2016
Farm Employment	2,751	2,824	2,671	-2.6%	3.0%
Sole Proprietors (non-farm)	24,582	23,978	23,501	2.5%	4.6%

Figure 2:
Total Wage Changes from Q4 2018 to Q4 2019

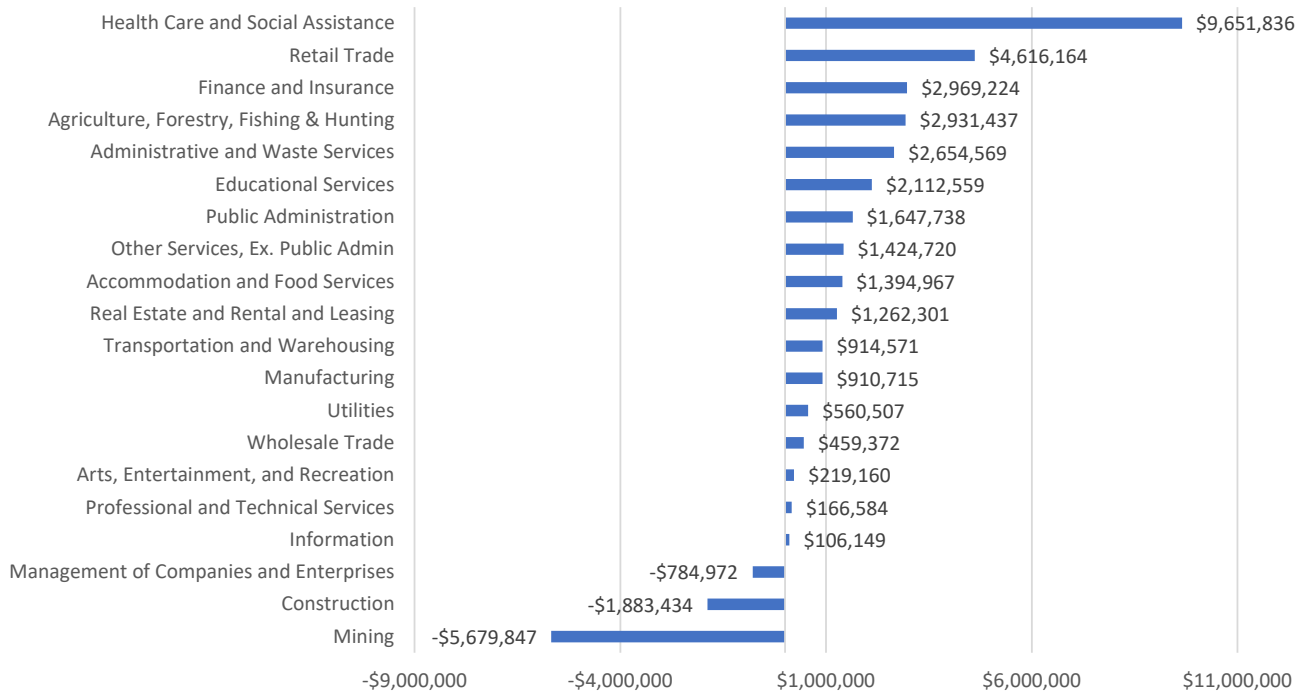
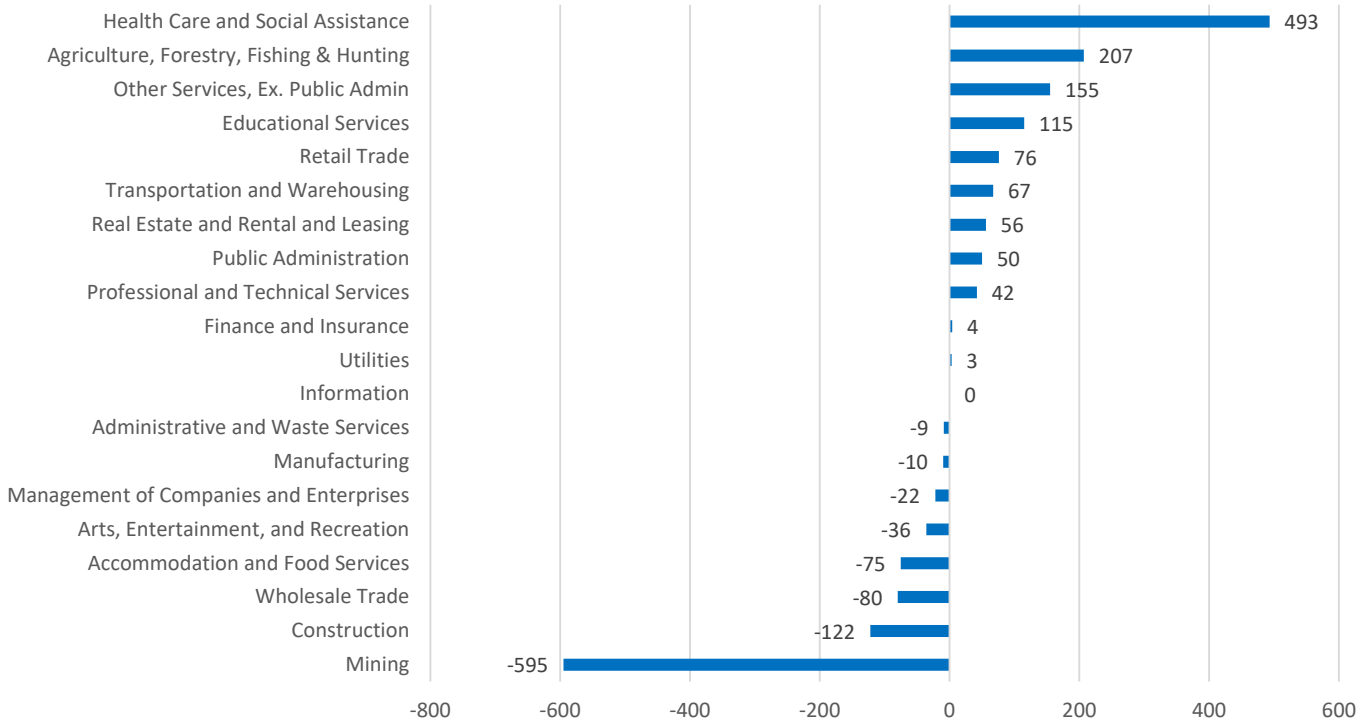


Figure 3:
Total Jobs Change from Q4 2018 to Q4 2019



LOCAL REAL ESTATE

	Q1 2020	Q1 2019	% change since last year
Real Estate			
Inventory of Homes for Sale (3 month avg)	574	617	-6.97%
New Residential listings (3 month total)	955	907	5.29%
Sold Residential Listings (3 month total)	686	621	10.47%
Median Sales Price	\$280,583	\$263,333	6.55%
Average Sales Price	\$304,243	\$291,902	4.23%
Days on Market	93.33	95.00	-1.75%
Months Supply of Inventory	1.93	2.13	-9.38%
Total Building Permits	1,023	950	7.68%
Single Family Permits	175	152	15.13%
Foreclosures			
Foreclosure Filings	59	60	-1.7%
Foreclosure Sales	16	27	-40.7%
Freddie Mac House Price Index			
Grand Junction	208.3	195.6	6.49%
Colorado	216.4	206.3	4.88%
National	198.5	189.5	4.74%
Mortgage Rates			
15 Year Mortgage Rate	2.98%	3.82%	-0.84%
30 year Mortgage Rate	3.52%	4.37%	-0.85%

SOURCES: Real Estate: Colorado Association of 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

Real estate seems to be unaffected by COVID-19 through March, although that is expected to change in the April and May data. Inventory is down by 7%, while the median price of homes is up 6.55%. COVID-19 will affect the real estate market in several potential ways. The first is the possibility of a short term spike in home values brought on by a decrease in inventory due to social distancing, and sellers delaying listing their house. After this and a few months into this recession as unemployment takes its toll, there will be selling pressure as more people cannot keep paying their mortgage payment, likely putting downward pressure on prices. One countervailing factor is extraordinarily low mortgage rates. Both the 15 and 30 year mortgage rates are 0.85% lower than they were a year ago, and home owners are refinancing at record rates to take advantage. Mortgage rates are expected to stay low as the Federal Reserve engages in unprecedented treasury buying.

At the national level, Zillow predicts a 3-4% drop in home values for 2020, while Fannie Mae predicts home sales will fall by 15%, with prices rising very slightly. New residential home permits are expected to fall as higher unemployment pushes new housing demand down. This will likely have an adverse affect on the construction industry, which was due for a softening this year without COVID-19. Although Mesa County home values may not appreciate as much as the last few years, home values are not expected lose value.

REGIONAL ENERGY

	Q1 2020	Q4 2019	Q1 2019	% change since last quarter	% change since last year (comparable quarters)
Energy Prices					
WTI Crude Oil	\$45.34	\$56.84	\$54.82	-20.23%	-17.29%
Henry Hub Natural gas	\$1.91	\$2.40	\$2.92	-20.42%	-34.59%
Retail Gasoline Price	\$2.31	\$2.48	\$2.27	-6.89%	1.81%

Drilling Permits	2020 (YTD, as of May)	2019 (YTD, May)	% Change since same time last year
Drilling Permits (Mesa County)	0	0	0
Drilling Permits (Rio Blanco County)	1	27	-96.30%
Drilling Permits (Garfield County)	24	67	-64.18%
Drilling Permits (Moffat County)	0	0	0
Total Permits (Mesa, Rio Blanco, Garfield, Moffat)	25	94	-73.40%
Total Permits (Colorado)	553	1,103	-49.86%

Local Rig Count	May-20	Feb-20	May-19
Rig Count (Western Colorado, Mesa, Rio Blanco, Garfield, Moffat)	1	3	4

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 September 1st, 2019. Note that drilling permits are from Q1 of 2019.

Figure 4:
Oil and Natural Gas Prices

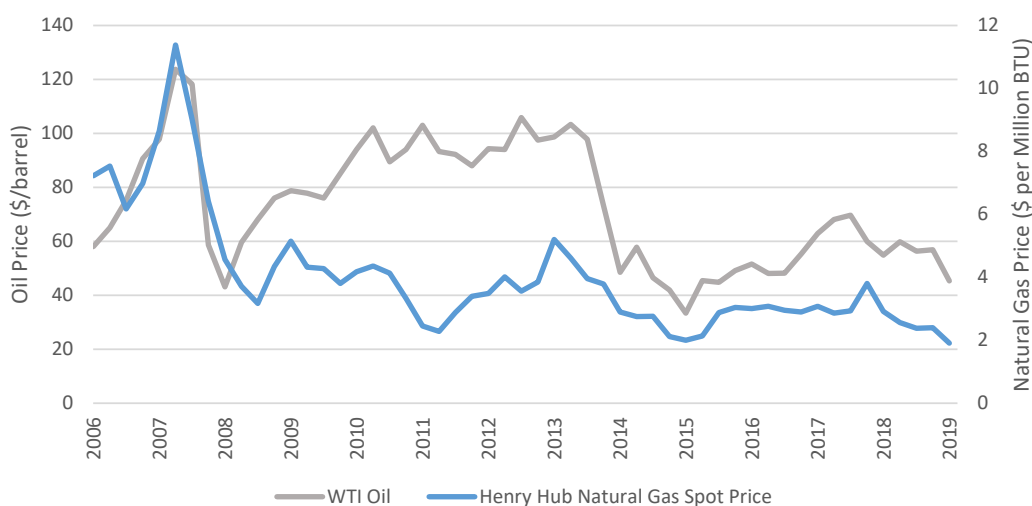
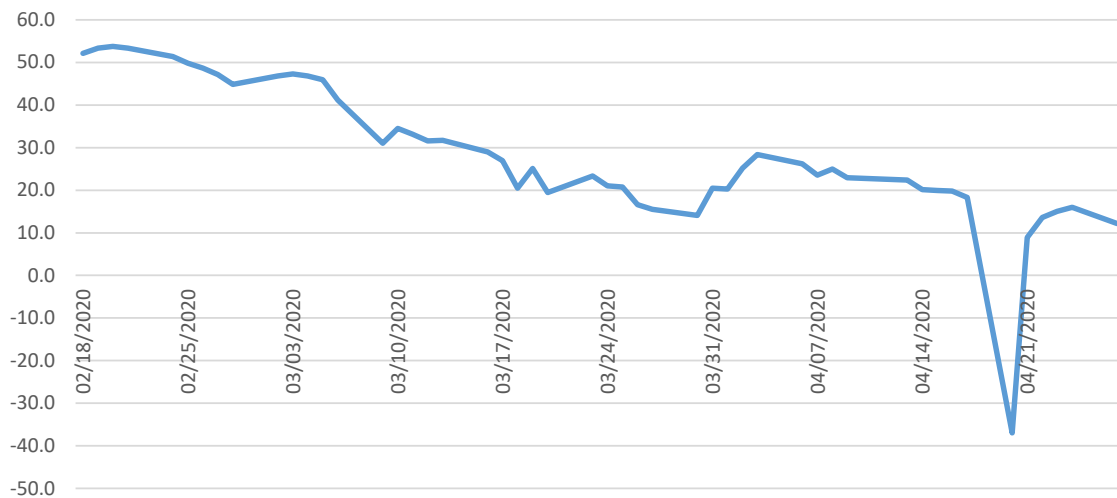


Figure 5:
Daily WTI Oil, February 18th-April 28th



Natural Gas Prices

The Henry Hub natural gas spot price averaged \$1.91/MMBtu for the first quarter of 2020, and hit a low of \$1.55/MMBtu on April 2. The previous year's production along with a mild winter have increased year over year inventory levels and pushed prices down. Natural gas power generation has been the largest source of natural gas demand for the past year. Natural gas power is forecast to increase in 2020, however U.S. electricity consumption in general is forecast to be lower.

The EIA forecasts that natural gas demand will decrease significantly due to the poor economic outlook for the next year. This lower demand may be offset by a drastic reduction in national rig count. The national rig count as of May 2020 is 408, down 582 from last year's count of 990. The EIA forecast for natural gas price in 2020 is \$2.11/MMBtu, while the 2021 forecast is \$2.98/MMBtu. The higher 2020 price is expected due to rig counts falling and production declining as a result.

Source: Energy Information Agency

Oil and Gasoline Prices

It has been a wild quarter for oil prices, with a perfect storm of COVID-19 and OPEC politics coming together. In mid-March it became clear that COVID-19 was going to change consumption patterns, hurt the economy, and force potential shelter-in-place policies, drastically reducing short-term demand for oil. At the same time, an OPEC plus agreement to cut production fell through, resulting in Saudi Arabia launching a price war by drastically increasing supply output to punish Russia for not agreeing to output cuts. The result was a simultaneous demand and supply shock that forced oil into negative territory. Crude oil futures hit -\$37 on April 20, as storage capacity was completely full, resulting in people being willing to pay to not receive physical barrels of oil. This has turned, and as of early May prices have returned to the low \$20 level. EIA forecasts that Brent crude oil prices will average \$33 for the rest of 2020. Note that WTI prices are generally lower than Brent prices.

As oil prices have fallen, gasoline prices have followed. Gas prices in Mesa County range between \$1.46 and \$1.81 according to GasBuddy.com (May 8th).

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

Western Slope Drilling Activity

Rig counts continue to fall in the Piceance, with rigs falling from 4 in May of 2019, to 3 in February of 2020, to 1 in May 2020. Drilling permit applications are drastically down in a year over year comparison, falling by 74% compared to the 50% fall for the state as a whole. The lower rig count number is not good for employment in this industry, but the potential good news is that as the national rig count falls, natural gas supplies hitting the market will fall, setting the stage for a potential bounce in natural gas prices in 2021, which would help the Piceance Basin.

NATIONAL ECONOMIC INDICATORS

	Q1 2020	Q4 2019	Q1 2019	% change since last period	% change since last year (comparable quarters)
Business Cycle Indicators					
Real GDP	-4.80%	2.10%	3.10%	-6.90%	-7.90%
Personal Consumption Expenditures	-7.60%	1.80%	1.10%	-9.40%	-8.70%
Gross Private Domestic Investment	-5.60%	-6.00%	6.20%	0.40%	-11.80%
National Consumer Confidence	96.6	97.2	94.5	-0.62%	2.22%
Industrial Production Index	107.4	109.6	109.8	-1.94%	-2.14%
Initial Weekly Unemployment Claims (4 week MA)	464,000	217,731	221,846	113.11%	109.15%
Non Farm Payroll Change (in thousands)	287,000	628,000	484,667	-54.30%	-40.78%
Unemployment					
Unemployment Rate-U3-SA	3.80%	3.50%	3.90%	0.30%	-0.10%
Unemployment Rate-U6-SA	7.50%	6.80%	7.50%	0.70%	0.00%
Interest Rates					
Federal Funds Rate	1.35%	1.66%	2.40%	-0.31%	-1.05%
10 Year U.S. Treasury	1.38%	1.79%	2.65%	-0.41%	-1.27%
30 Year U.S. Treasury	1.87%	2.25%	3.01%	-0.38%	-1.14%
Inflation Measures					
Inflation Rate (CPI)	2.11%	2.03%	1.62%	0.07%	0.48%
Core Inflation Rate (All Items Less Food and Energy)	2.24%	2.29%	2.09%	-0.05%	0.15%
Inflation Rate (Shelter)	3.21%	3.31%	3.33%	-0.09%	-0.11%
Producer Price Index (PPI)	-1.57%	-1.83%	0.44%	0.26%	-2.00%
Employment Cost Index	2.79%	2.74%	2.79%	0.05%	0.00%
Stock Prices					
S&P 500	3,056	3,083	2,721	-0.87%	12.31%
Dow Jones Industrial Average	26,554	27,537	25,147	-3.57%	5.60%
Trade Balance and Debt					
USD Exchange Rate (trade weighted)	N/A	130	127	N/A	N/A
Trade Balance (% of GDP)	-527.927	-577.867	-633.848	-8.64%	-16.71%
Federal Debt (% of GDP)*	106.8%	105.5%	105.2%	1.3%	1.6%

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 6:
Real GDP

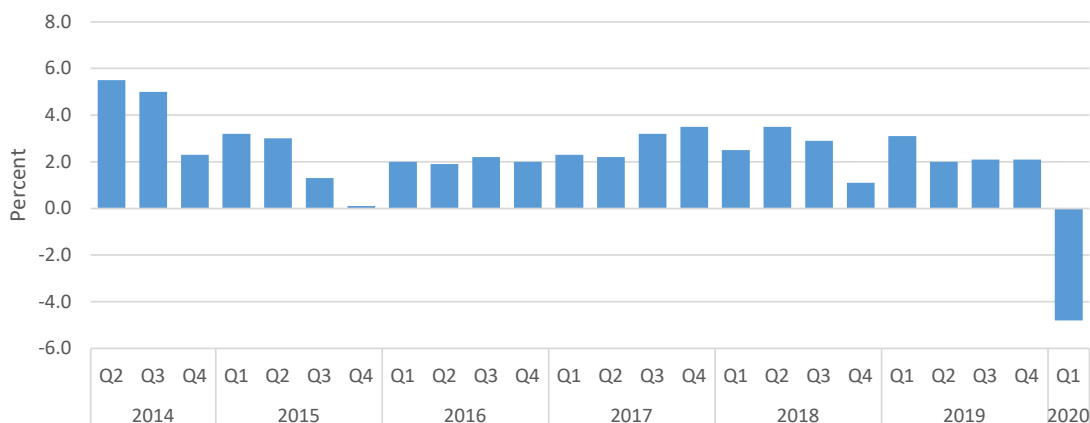
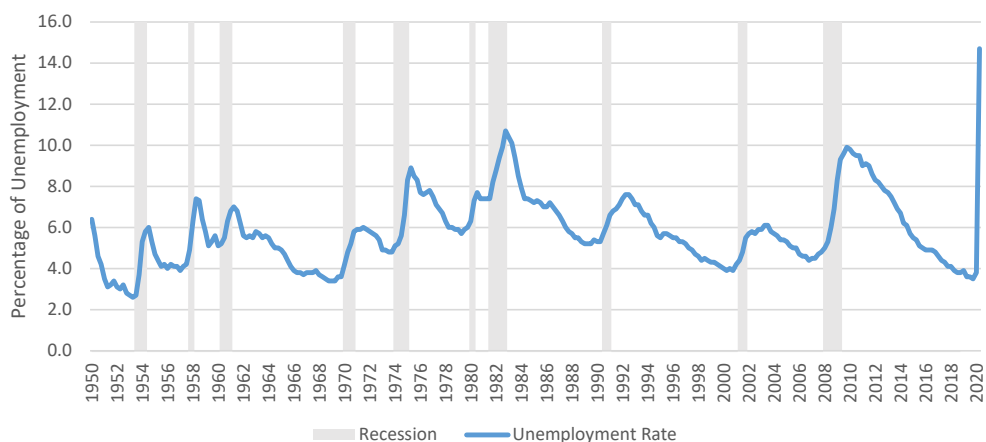


Figure 7:
U.S. Unemployment: 1950-April 2020



National Economic Performance

COVID-19 has created an unprecedented demand shock to the economy, pushing the U.S. into what will most certainly be defined as a recession. The only comparison would be the flu epidemic of 1918, however the nation did not collect data the way it does now, and what data we do have is distorted by WWI. The April Unemployment rate jumped to 14.7%, the highest level since the Great Depression. The quarterly rate for Q1 was 3.8%, with a January rate of 3.6%, a February rate of 3.5%, and a March rate of 4.4%. Most layoffs were in the second half of March, so the COVID-19 effects are very apparent in the April data. This is the case for almost every data point. The U6 unemployment rate, which counts so called discouraged workers/people marginally attached to the labor force rose from 7% in February, to 8.7% in March, to an incredible 22.8% in April. Many economists believe the U6 rate is a more accurate rate of unemployment.

Q1 seasonally adjusted real GDP fell by -4.8%, and is expected to fall in Q2 by -34.9% (annual rate, Atlanta Federal Reserve estimates, GDP Now).

Interest Rates and the Fed

Interest rates on the 10 year treasury bond fell from 1.88% in early January to 0.7% at the end of March, hitting 0.63% by early May. This rush into treasury bonds is a result of a) the Federal Reserve purchasing bonds b) investors seeking safety. The Federal Reserve lowered the Federal Funds rate from 1.5% in early March to 0% by mid March. The fall in the 10 year treasury has caused the 30 year treasury to fall from 3.75% in early January to 3.25% in early May.

In addition to lowering interest rates, the Federal Reserve has announced it will engage in buying corporate bonds (Secondary Market Corporate Credit Facility) to provide liquidity to companies that have been hit hardest by COVID-19. The Fed has re-opened 2008-09 era lending facilities to provide liquidity to banks, the commercial paper market, direct lending to corporate employers (Primary Market Corporate Credit Facility), and an assortment of other programs. The sheer scope of Federal Reserve action during this crisis has no historical comparison and vastly outweighs the response in 2008-09. Figure 11 illustrates the Federal Reserve's balance sheet (assets) increasing from \$4 trillion to almost \$7 trillion dollars (Figure 9).

Figure 8:
Initial and Continuing Unemployment Claims

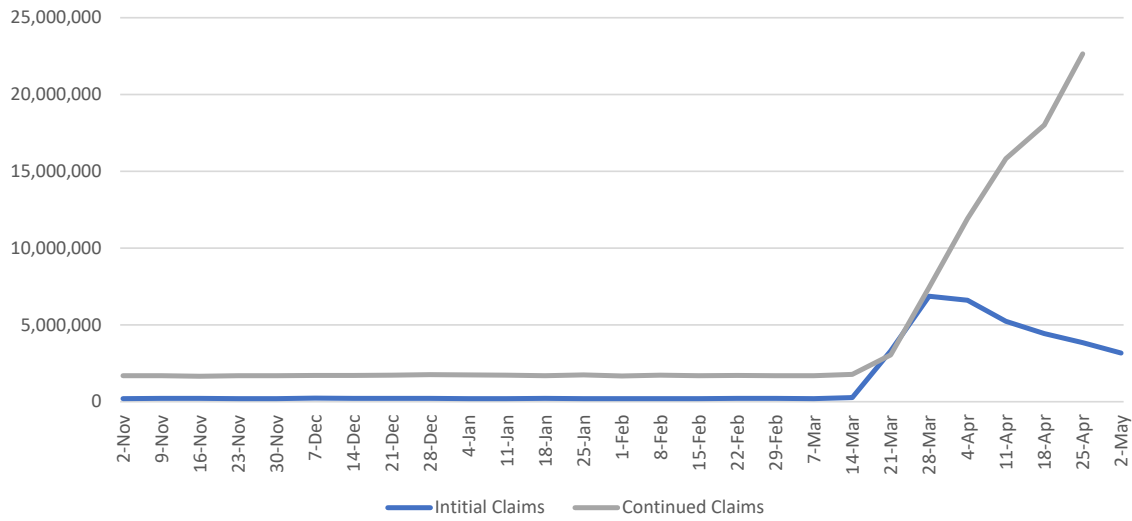


Figure 9:
Federal Reserve Assets

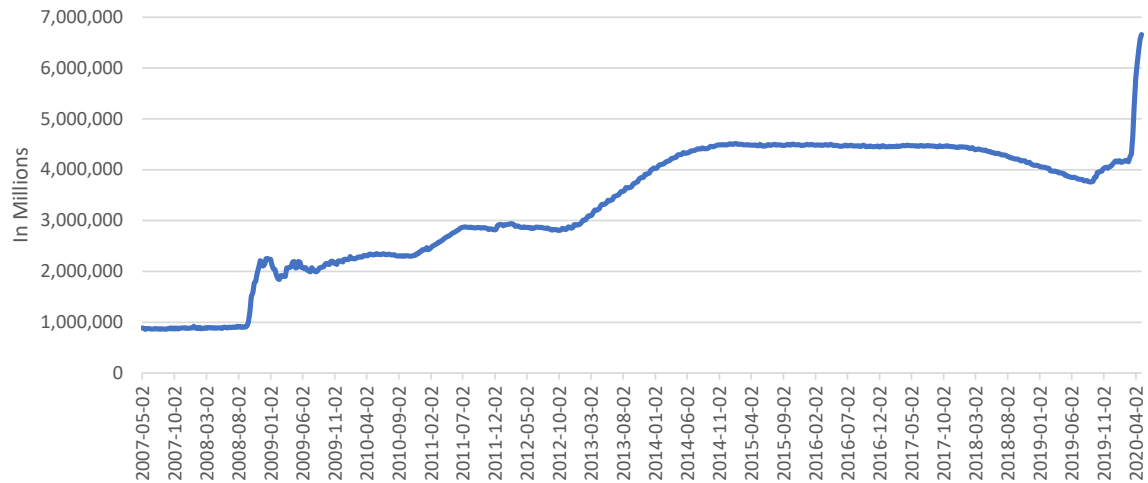


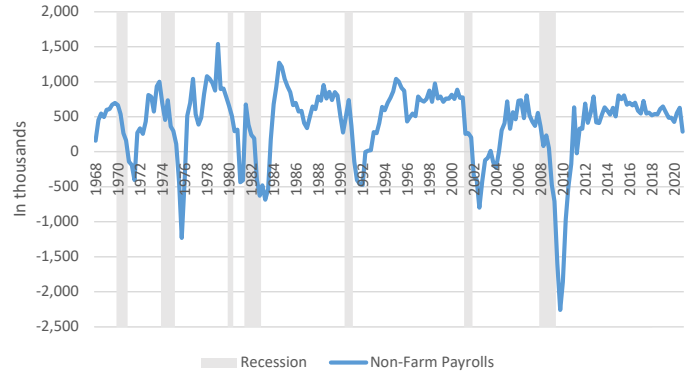
Table 7:
Congressional Budget Office Economic Forecast

	2020				Annual	
	Q1	Q2	Q3	Q4	2020	2021
Real GDP (annual rate)	-3.5%	-39.6%	23.5%	10.5%	-5.6%	2.8%
GDP (Trillions of dollars)	21.6	19.1	20.1	20.7	20.4	21.3
Unemployment Rate	3.8%	14.0%	16.0%	11.7%	11.4%	10.1%

Figure 10:
S&P 500 Stock Prices (Dec-19-May19)



Figure 11:
Change in Non-Farm Payrolls



Fiscal Policy

Congress and the treasury department have acted quickly in response to the economic devastation and enacted a few key programs that may help the the economy. The \$2 trillion fiscal stimulus bill included direct checks to Americans, expanded COVID-19 related unemployment insurance, and mortgage and student loan relief. In order to fund this and a potential new fiscal stimulus package, the treasury department issued new bonds (debt), which the Federal Reserve is buying (monetizing the debt). This brings up two important long term issues: 1) The increase in U.S. debt as a % of GDP and 2) the threat of inflation. Neither of these are likely a short term worry, as low interest rates will keep debt payments as a percentage of the Federal budget low, while the negative demand shock will outweigh the fiscal and monetary response, keeping inflation low in the short term. Rising food costs are the only potential threat to inflation, as the April CPI shows a 0.37% inflation rate, which means the U.S. should be more worried about deflation than inflation in the short term.

Growth Forecasts

Despite unprecedented Federal Reserve action and a large fiscal stimulus bill (with a second likely this summer), unemployment is expected to stay relatively high for the rest of the year. The congressional budget office forecasts -39.6% growth decline (annual rate), or GDP falling from \$21.6 trillion to \$19.1 trillion from Q1 to Q2. They forecast 14% unemployment for Q2, 16% unemployment for Q3, and 11.4% unemployment for Q4, with 10.1% unemployment for 2021. This forecast is likely a worst case scenario, and is drastically different than many people’s expectations, including the financial markets which have priced in a quick full recovery, known as a V-shaped recovery. It’s not as simple as states allowing people to go to work, as demand has been significantly altered until a COVID-19 treatment or vaccine is available, or we learn or perceive that risks are significantly lower than currently perceived. Employers will not hire back 100% of their workforce until they see demand return to normal. The U.S. will have to grow its way out of unemployment, and this could take some time. It is important to note that information about the risk of COVID-19 and the potential for better treatments change every week. Any economic forecast, such as the CBO forecast, are deeply impacted by the expected impacts of COVID-19. National forecasts are more dire than Western Slope and Colorado forecasts because U.S. data is driven by densely populated areas such as New York, L.A., and Seattle, whose population density make COVID-19 more devastating. However, even if the Western Slope is expected to outperform the nation, World and U.S. demand are lower than before COVID-19, and Western Slope businesses will feel these impacts.



The Mesa 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