# Mesa County Economic Update

Second Quarter 2021

Colorado Mesa University

Provided by the Business Department of Colorado Mesa University

## Economic Summary

- Mesa County employment numbers rose from 70,326 in March to 71,085 in April of 2021. For comparison, the April 2019 employment number was 73,533, showing a gap of almost 1,500 people. The April unemployment rate in Mesa County stands at 6.8%, compared to Colorado's rate of 6.4%.
- 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 Mesa County has trended towards more economic diversity.
- Newly released data from the Census Department shows that the Mesa County poverty rate estimate fell from 15.7% in 2018 to 14.20% in 2019. This is good news and shows that the strong economy of 2017-2019 had an impact on reducing poverty.
- 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.

## Contents



# Local Economic Indicators

| | Q1 2021 | Q4 2020 | Q1 2020 | change since last quarter | change since last year (comparable quarters) |
|---|---|---|---|---|---|
| **Local Labor Market** | | | | | |
| Unemployment Rate Mesa County -SA | 7.20% | 7.10% | 3.70% | 0.10% | 3.50% |
| Unemployment Rate Mesa County -NSA | 7.60% | 6.70% | 4.10% | 0.90% | 3.50% |
| Unemployment Rate Colorado -SA | 6.50% | 6.90% | 2.90% | -0.40% | 3.60% |
| Unemployment Rate U.S. -SA | 6.20% | 6.80% | 3.90% | -0.60% | 2.30% |
| Labor Force | 77,008 | 75,662 | 76,136 | 1346 | 872 |
| Employed | 71,835 | 70,517 | 73,875 | 1,318 | -2,040 |
| Unemployed | 5,173 | 5,145 | 2,261 | 28 | 2,913 |
| **Business Confidence** | | | | | |
| Leeds Colorado Business Confidence | 64.4 | 47.9 | 29.7 | 34.45% | 116.84% |
| **Sales/Use Taxes** | **2020** | | **2019** | | |
| City Sales/Use Taxes (YTD) | $21,214,935 | | $18,459,667 | | 14.93% |
| Mesa County Sales/Use Tax (YTD) | $14,608,293 | | $12,223,358 | | 19.51% |
| City Lodging Tax Revenue (YTD) | $634,774 | | $739,386 | | -14.15% |
| **Business Filings** | **2021 (YTD)** | | **2020 (YTD)** | | |
| Mesa County New Business Entity Filings (as of May31st, 2021) | 1,100 | | 787 | | 39.77% |

| Grand Junction Regional Airport | 2021 | | 2020 | | % change from last year |
|---|---|---|---|---|---|
| Scheduled Enplanements (through March 2021) | 38,097 | | 56,617 | | -32.71% |
| **Standard of Living and Growth** | **2019** | **2018** | **2017** | **% change since 2018** | **% change from 2017** |
| Regional GDP | $6,214,937 | $6,058,926 | $5,771,124 | 2.57% | 7.69% |
| Personal Income | $7,204,611 | $6,944,767 | $6,496,022 | 3.74% | 10.91% |
| Personal Income Per Capita | $46,719 | $45,405 | $42,972 | 2.89% | 8.72% |
| Median Household Income | $60,249 | $51,132 | $52,623 | 17.83% | 14.49% |
| Percent of Population Below Poverty Line | 14.20% | 15.70% | 16.00% | -1.50% | -1.80% |
| | **2020** | **2019** | **2018** | **% change since 2019** | **% change from 2018** |
| Population | 155,603 | 154,210 | 152,951 | 0.90% | 1.73% |

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

Mesa County employment numbers rose from 70,326 in March to 71,085 in April. The April 2019 (pre-COVID) employment number was 73,533, showing a gap of almost 1,500 people employed (figure 2). The labor force numbers also rose from 75,778 in March to 76,273 in April. The difference between labor force and employment is unemployment, which has fallen every month since January 2021, and currently stands at 5,188. The pre-COVID unemployment number at the economic peak (Fall 2019) was 2,173, showing a difference of approximately 3,000 unemployed. From the start of COVID in March 2020, Mesa County had a lower unemployment rate than the State of Colorado, but since the COVID spike in Mesa County in October 2020, the Mesa County unemployment rate has stayed higher than the Colorado rate, with Mesa County at a 6.8% unemployment rate and the state at a 6.4% rate.

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 cost of workers on in the form of higher prices.

Table 1:

### 10, 5, and 1 Year Employment Comparison (Yearly Comparisons)

| | Labor Force | Employed | Unemployed |
|---|---|---|---|
| **Annual** | 311 | -1,791 | 2,102 |
| **5-Year** | 4,543 | 3,062 | 1,481 |
| **10-Year** | 1,275 | 4,375 | -3,100 |
| | | | |
| **Annual %** | 0.41% | -2.49% | 57.21% |
| **5-Year %** | 6.35% | 4.56% | 34.46% |
| **10-Year %** | 1.71% | 6.64% | -34.92% |

## Other Local Data

Sales and use tax numbers from the city and county continue to be strong, with year-to-date numbers as of April 15% and 19.5% higher than 2020. Lodging taxes continue to lag but are trending up sharply in the last two months.

Mesa County business entity filings are up 40% from the same time last year, while business confidence for Colorado jumped 34.5% from last quarter.

Newly released data from the Census Department shows that the Mesa County poverty rate estimate fell, falling from 15.7% in 2018 to 14.20% in 2019. Note this data point has a long lag from when it was released. This is good news and shows that the strong economy of 2017-2019 had an impact on reducing poverty (figure 4).

Figure 1:

## 5-Year Employment (April-16 through April-21)

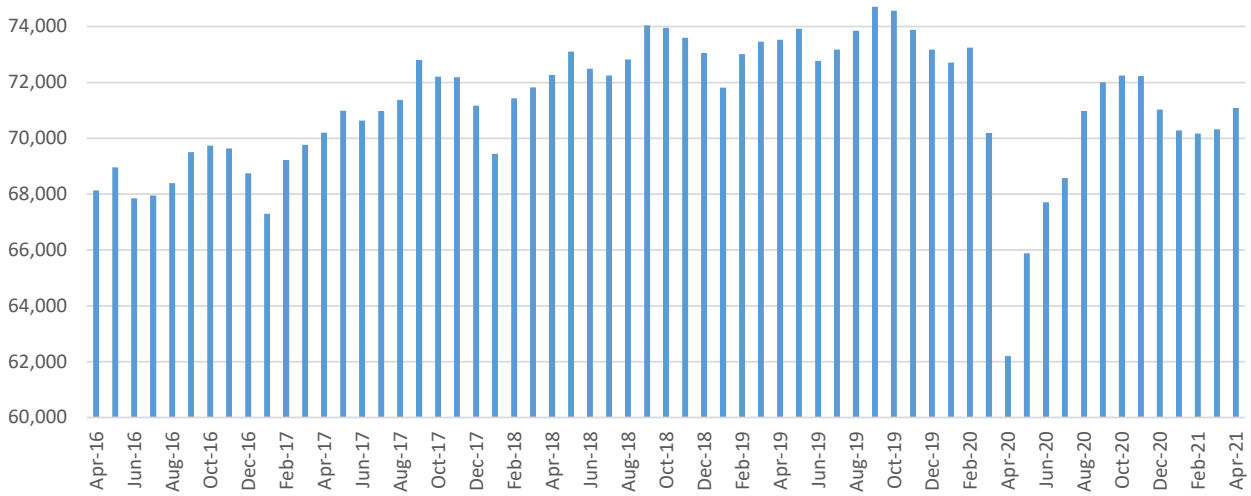



Figure 2:

## Employment (Nov-19 through April-21)

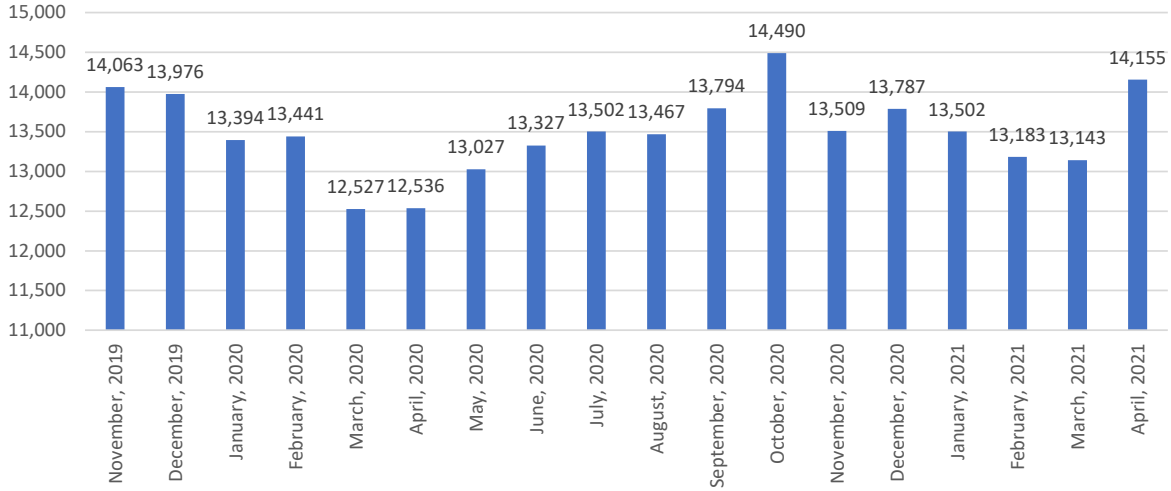



Figure 3:

## Mesa and Colorado Unemployment Rate

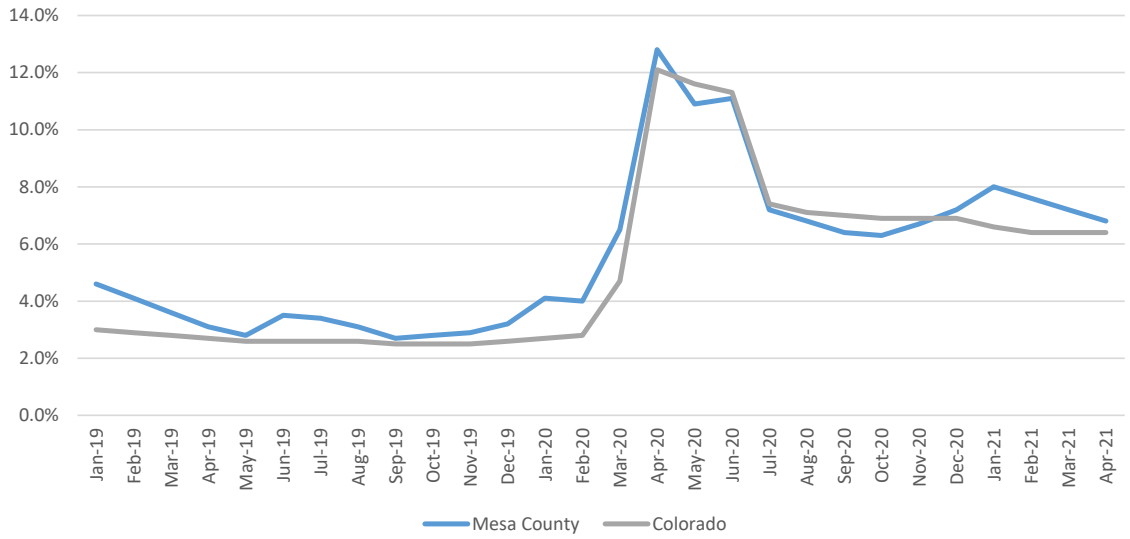
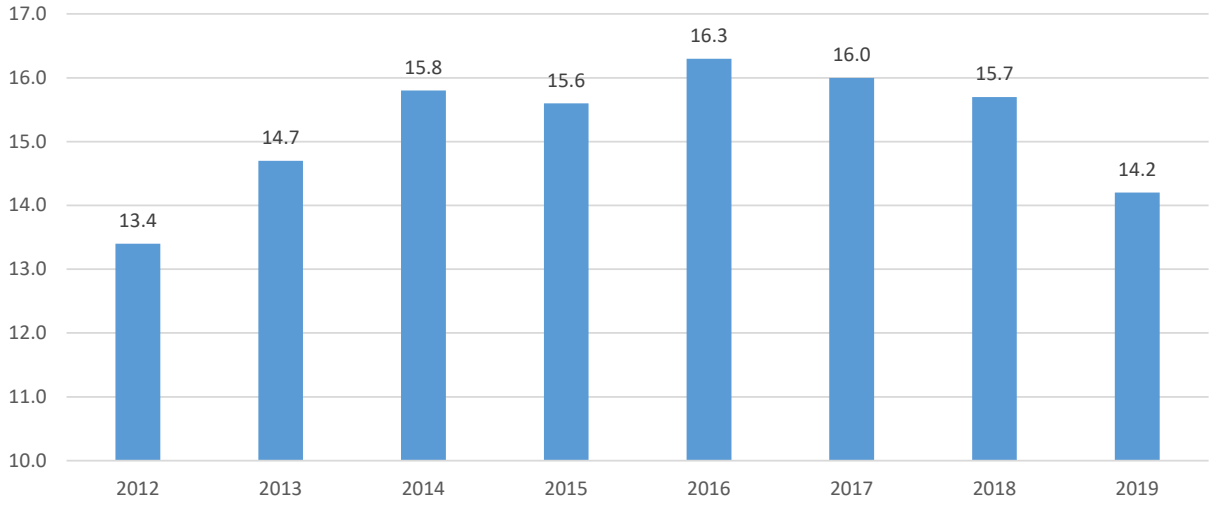


Figure 4:

**Percentage of People Below the Poverty Line Mesa County**




## Industrial Diversification

The question of industrial diversification is an important one for Mesa County and other areas that have had a primary industry that can cause businses cycle swings by itself. For Mesa County, this is the oil and gas industry, and in other counties it can be the tourism industry, the coal industry, etc. The question as to whether or not Mesa County has become more economically diverse is an important and complicated question. There are several ways to look at it, I will address 2 ways here: 1) Non-oil/gas job growth and 2) Hachman Index.

The first is the way most people view this questions is whether we have become less reliant on the oil and gas industry in Mesa County. Figure 5 illustrates the total number of oil and gas jobs overlapped with the total number of non-oil and gas jobs. Note that this is yearly data from the Bureau of Economic Analysis that looks at total jobs (which is different than employment, as an employed person can have two jobs). Since 2010, the number of non-oil and gas jobs have risen, while the number of oil and gas jobs have fluctuated but trended downward. The key point here is that non-oil and gas jobs have been consistently growing, which insulates Mesa County's employment against potential oil and gas fluctuations. So from this perspective, yes, Mesa County has become more economically diverse when compared to this single industry.

Figure 5:

**Oil and Gas Jobs vs. Non-oil and Gas Jobs**

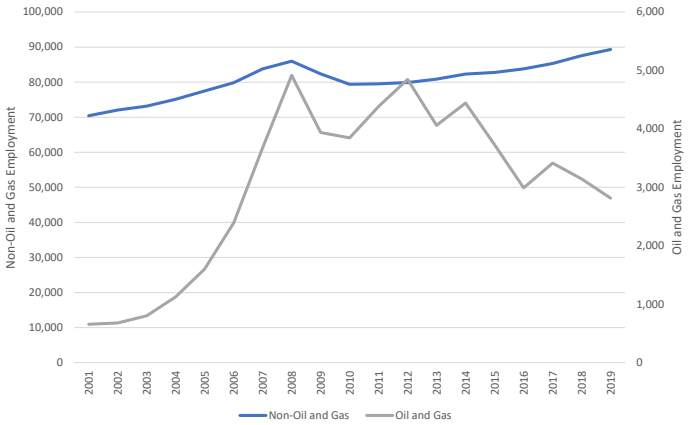
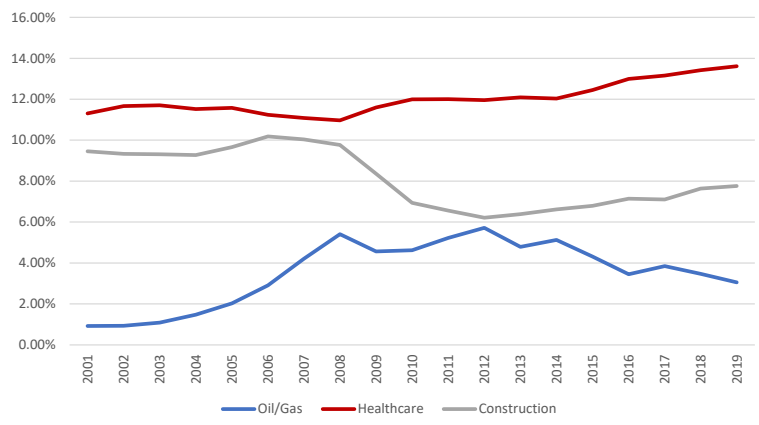



Figure 6:

**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 conentration in Mesa County to Colorado over time to see if Mesa County is more or less diverse compared to Colorado. Figure 7 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 Mesa County has been trending towards more economic diversification since 2011.

Overall, the evidence suggests that Mesa County is becoming a more diversified economy. Although large sectors like healthcare continue to become more concentrated compared to Colorado, Mesa County is trending towards more diversification in the Hachman Index, and there is steady non-oil and gas job growth that insulates the county from potential oil and gas swings. Note that this analysis is conducted with jobs. A similar analysis could be conducted using wages, in which case oil and gas would be weighted higher, as the wages in that industry are significantly higher than other industries. Industrial diversification indices are useful tools and I will continue to track them, but they should not be given too much weight and should not be considered a scorecard, since so much about long term industrial changes in a county and state are out of the hands of local policy makers, such as demographic trends, natural resources in the area, etc.

Figure 7:

**Hachman Index Mesa County**

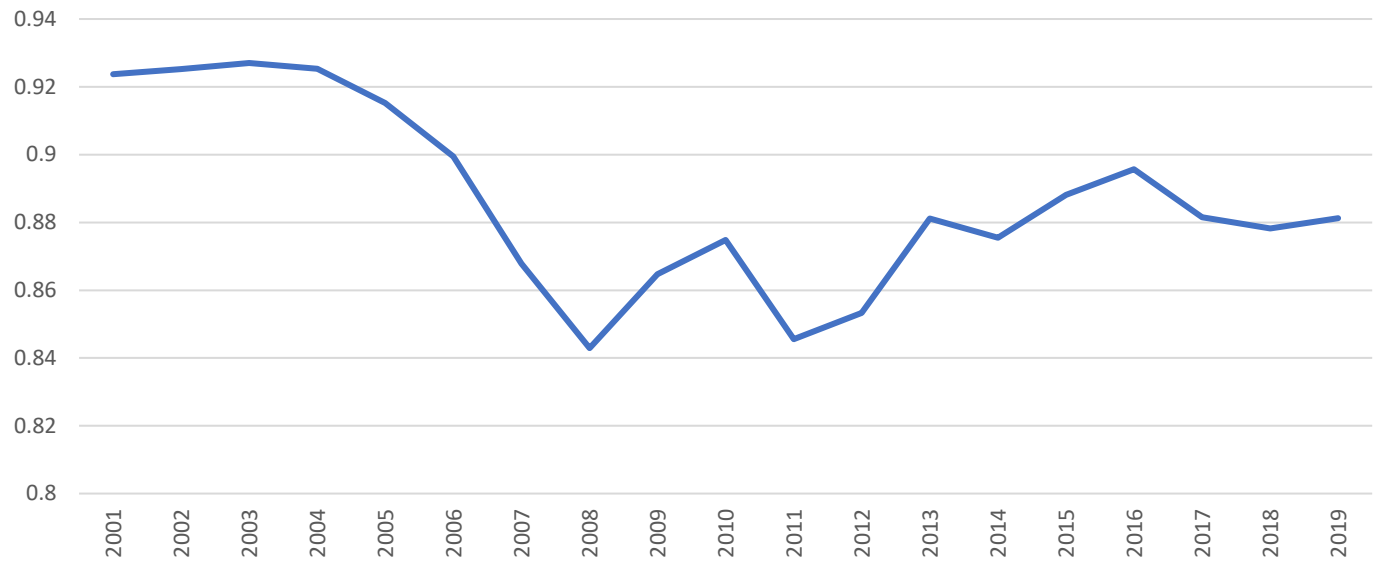



Table 2:

**Hachman Index Comparison**

| | Hachman Index |
|---|---|
| **Mesa** | 0.88 |
| **Montrose** | 0.75 |
| **Delta** | 0.55 |

Table 3:

## Percentage Share of 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% |
| Accomodation 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% |

## Mesa County Employment Trends

Q4 2020 QCEW data shows continued losses in oil and gas resulting from the drop in oil and gas prices in Q2 of 2020. Oil and gas wages and employment as of Q4 are at the lowest level since 2005. From Q4 of 2019 to Q4 of 2020, oil and gas lost $27,476,587 in wages and 816 in jobs. From Q3 to Q4 job numbers in oil and gas actually improved, growing from 956 to 980, with wages rising from $18,113,816 to $21,671,502. Figure 13 in the energy section shows wages and employment for oil and gas over time. Comparing Q4 2019 to Q4 2020, there is a difference of 559 accomodation and food service jobs, with 259 less administrative and waste service jobs, and 196 other services. These numbers were expected considering that Q4 2019 was the last pre-COVID quarter. Healthcare remains the top industry in terms of jobs, followed by retail trade, accomodation and food services, and educational services.

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 Employment Change (Q4 2019 to Q4 2020) | Total Wage Change (Q4 2019 to Q4 2020) |
|---|---|---|---|---|---|
| Total, All Industries | 61,592 | $795,953,685 | $994 | -2,267 | $30,755,808 |
| Health Care and Social Assistance | 12,576 | $190,812,881 | $1,167 | 180 | $24,652,834 |
| Retail Trade | 8,647 | $84,857,986 | $755 | 236 | $14,022,442 |
| Construction | 4,874 | $75,217,187 | $1,187 | -66 | $4,108,069 |
| Public Administration | 3,413 | $53,040,636 | $1,195 | 62 | $5,780,217 |
| Educational Services | 4,977 | $47,515,491 | $734 | -107 | -$3,162,079 |
| Finance and Insurance | 1,951 | $42,848,219 | $1,689 | 7 | $7,240,158 |
| Professional and Technical Services | 2,289 | $41,241,240 | $1,386 | -42 | $2,766,428 |
| Wholesale Trade | 2,176 | $39,351,942 | 1391 | -206 | $628,036 |
| Manufacturing | 3,110 | $38,768,361 | $959 | -41 | $1,192,936 |
| Transportation and Warehousing | 2,619 | $36,318,606 | $1,067 | -57 | $320,400 |
| Accommodation and Food Services | 6,244 | $35,679,455 | $440 | -559 | -$812,909 |
| Administrative and Waste Services | 2,551 | $29,162,606 | $879 | -259 | $1,504,982 |
| Mining | 980 | $21,671,502 | $1,701 | -816 | -$27,476,587 |
| Other Services, Ex. Public Admin | 1,768 | $16,455,711 | $716 | -196 | -$72,094 |
| Real Estate and Rental and Leasing | 1,027 | $12,345,508 | $925 | -49 | -$332,600 |
| Information | 633 | $8,993,837 | $1,093 | -63 | $830,472 |
| Utilities | 353 | $6,304,091 | $1,374 | 15 | -$529,941 |
| Management of Companies and Enterprises | 166 | $5,665,534 | $2,625 | 19 | $1,905,473 |
| Agriculture, Forestry, Fishing & Hunting | 475 | $5,351,586 | $867 | -113 | -$920,793 |
| Arts, Entertainment, and Recreation | 761 | $4,280,002 | $433 | -174 | -$357,459 |

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

Table 4:

### Farm and Sole Proprietor Employment

| BEA Data | 2019 | 2018 | 2017 | % change since 2018 | % change from 2017 |
|---|---|---|---|---|---|
| Farm Employment | 2,726 | 2,734 | 2,807 | -0.3% | -2.9% |
| Sole Proprietors (non-farm) | 24,818 | 24,236 | 23,771 | 2.4% | 4.4% |

Figure 8:

## Total Wage Changes from Q4 2019 to Q4 2020

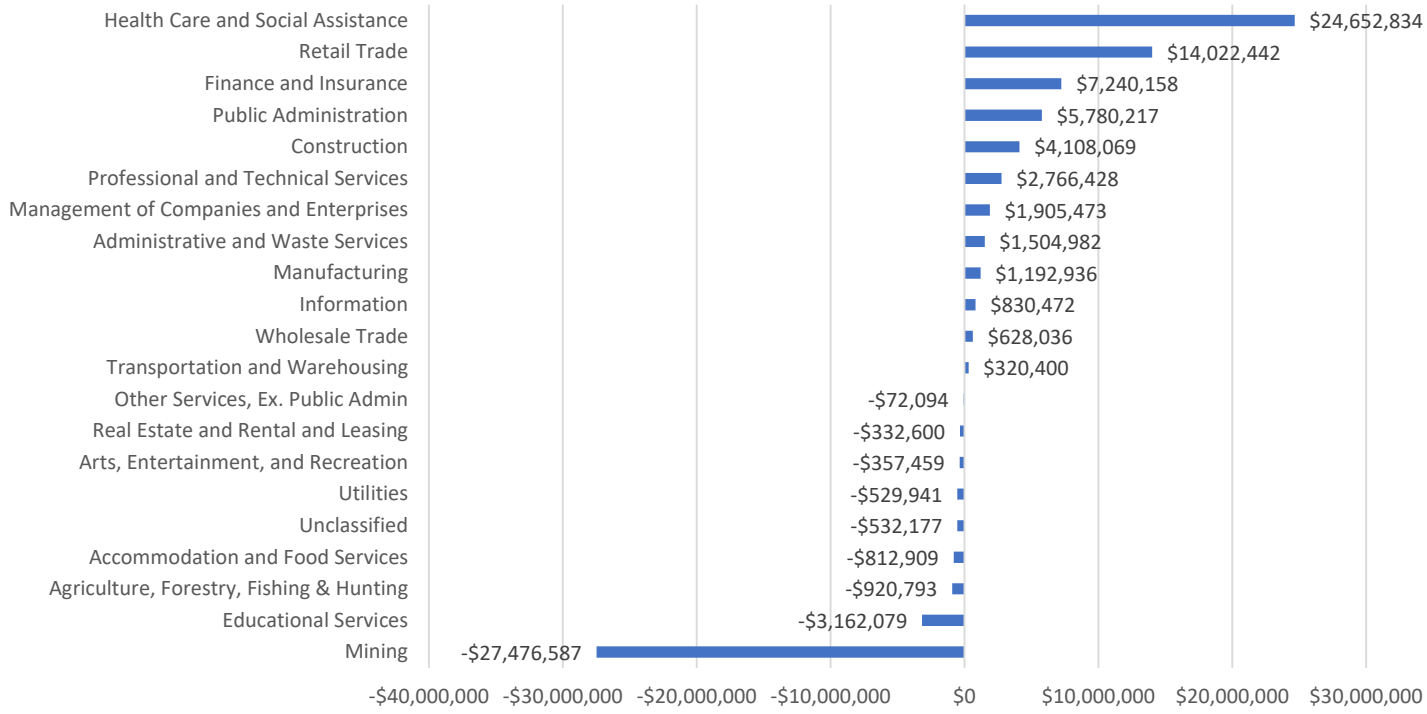
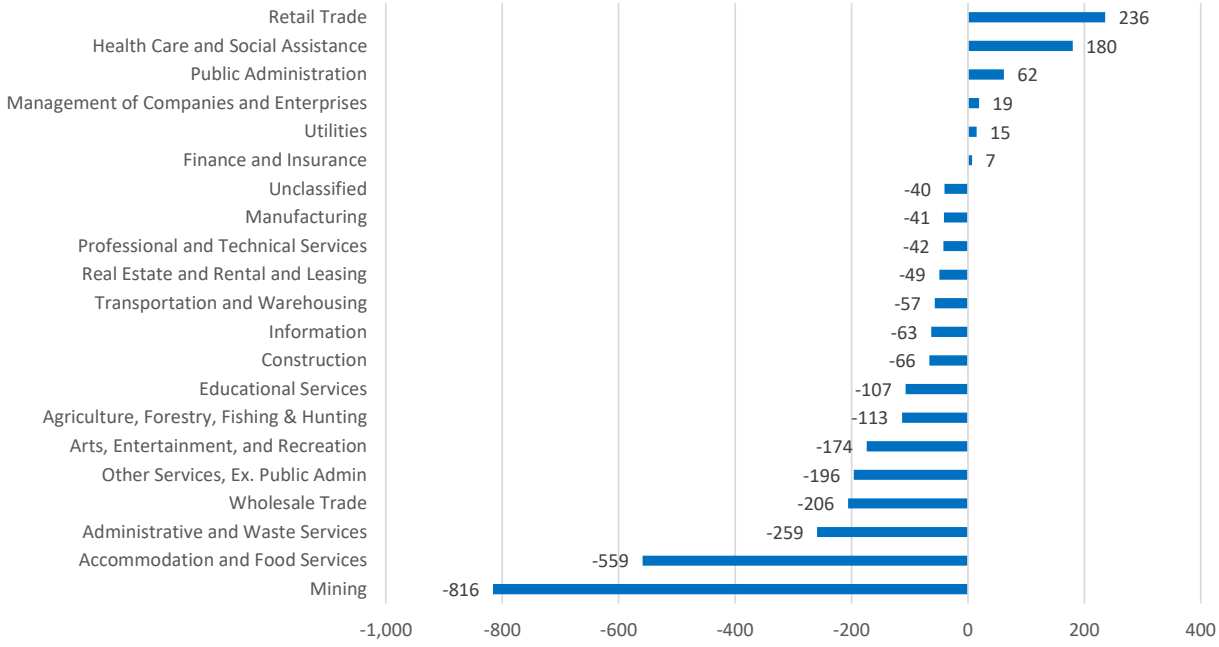



Figure 9:

## Total Jobs Change from Q4 2019 to Q4 2020



# Local Real Estate

| | Q1 2021 | Q1 2020 | % change since last year |
|---|---|---|---|
| **Real Estate** | | | |
| Inventory of Homes for Sale (3 month avg) | 364 | 664 | -45.13% |
| New Residential listings (3 month total) | 744 | 744 | 0.00% |
| Sold Residential Listings (3 month total) | 923 | 806 | 14.52% |
| Median Sales Price | $313,321 | $277,417 | 12.94% |
| Average Sales Price | $351,422 | $302,965 | 15.99% |
| Days on Market | 75.67 | 85.67 | -11.67% |
| Months Supply of Inventory | 1.23 | 2.33 | -47.14% |
| Total Building Permits (YTD through April) | 1,868 | 1,401 | 33.33% |
| Single Family Permits (YTD through April) | 358 | 227 | 57.71% |
| **Foreclosures** | | | |
| Foreclosure Filings | 2 | 59 | -96.6% |
| Foreclosure Sales | 8 | 16 | -50.0% |
| **Freddie Mac House Price Index** | | | |
| Grand Junction | 238.7 | 208.8 | 14.33% |
| Colorado | 242.6 | 214.6 | 13.05% |
| National | 223.5 | 198.2 | 12.77% |
| **Mortgage Rates** | | | |
| 15 Year Mortgage Rate | 2.28% | 2.98% | -0.70% |
| 30 year Mortgage Rate | 2.88% | 3.52% | -0.64% |

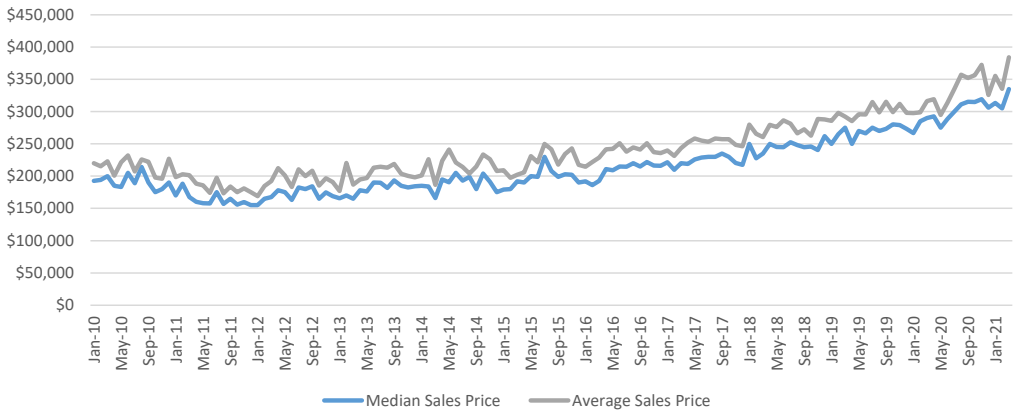
SOURCES: Real Estate: Colorado Association fo Realtors Market Trends Program through ShowingTime. Note that real estate data is just single family homes; Permit data: Mesa County; Foreclosure Filings and Sales: Mesa County Public Trustee Office; Freddie Mac House Price Index and Mortgage rates: Freddie Mac.

## Local Real Estate Indicators

The real estate market continues to be tight, with current active listings falling below the lows of 2012. Figure 10 illustrates the 11 year history of current active listings, showing that the current time period has the lowest number of current active listings. Because of high demand and lack of supply, median sales price increased 13% year-over-year. To meet the lack of housing supply, building permits are significantly higher in 2021 than in 2020, with a 33% increase year-to-date through April. The Freddie Mac house price index shows that it's not just Grand Junction that has house price appreciation, as Grand Junction, Colorado, and the nation all have double digit price increases year-over-year. There are marjor shortages for building materials such as lumber. The National Home Builders Association estimates that the surge in lumber prices is adding $35,872 to the price of a new single family home, and adding $12,966 to the price of an average new multi-family home.

Figure 10:

**Median and Average Sales Price**



# 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 |

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

Figure 11:

**Oil and Natural Gas Prices**

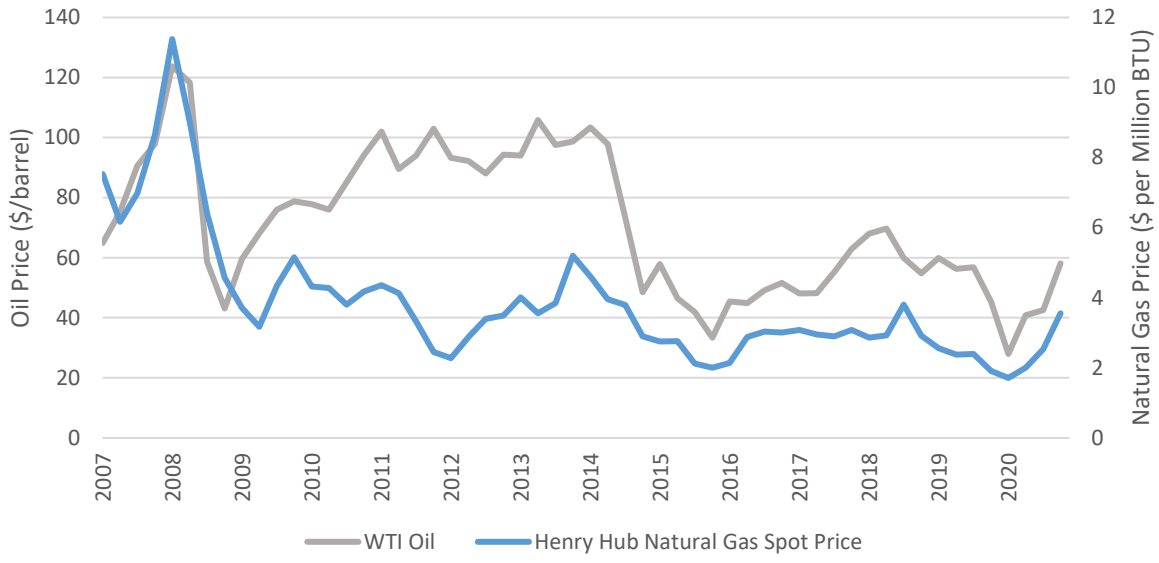


Figure 12:

## Oil/Gas Drilling Permits and Oil/Gas Jobs

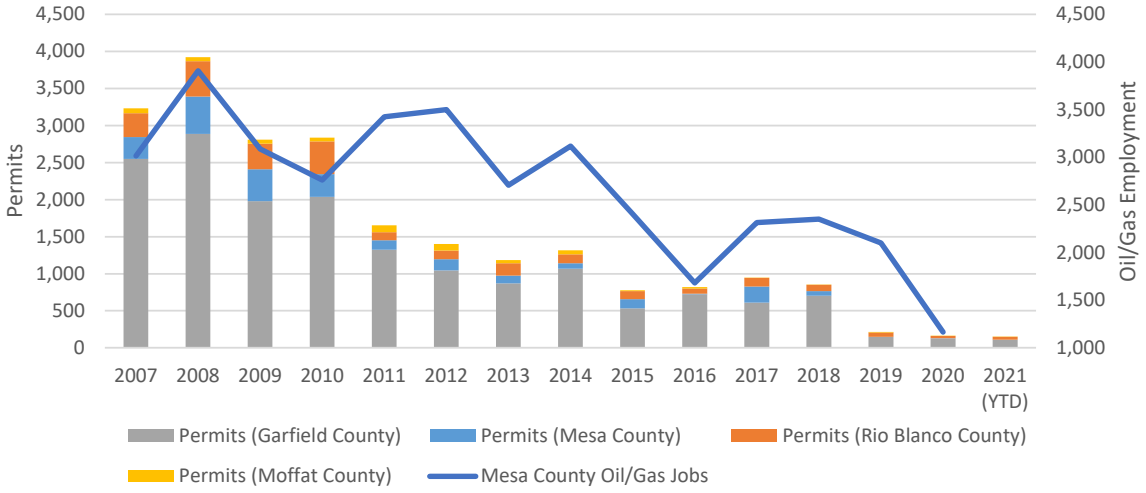
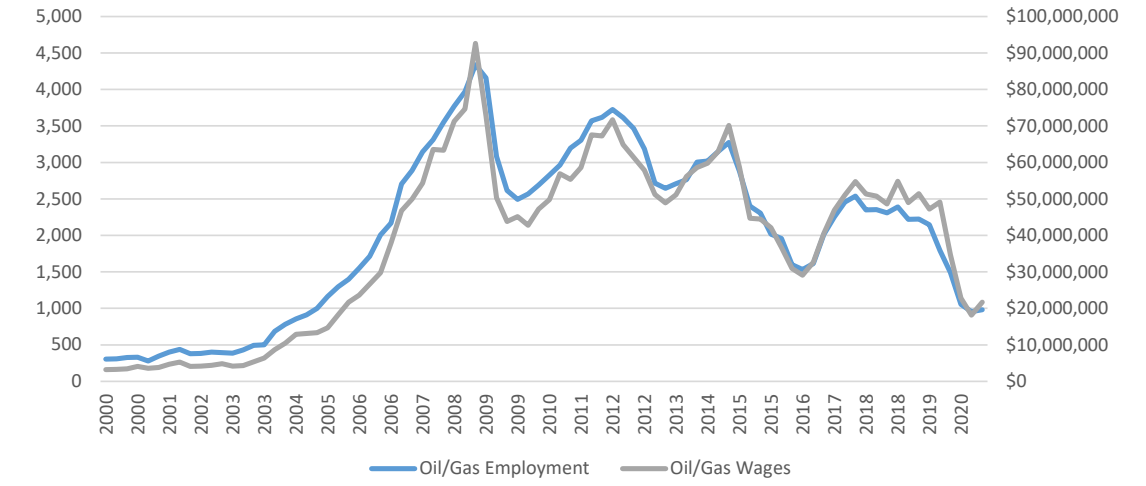



Figure 13:

## Oil/Gas Jobs and Wages (Mesa County, QCEW)




## 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. As of early June, there are two oil rigs and one 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. A recovery in oil and gas coupled with a return to normal for COVID-impacted industries like accomodation and food services could really create some economic strength for Mesa County in 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 14:

**Real GDP**

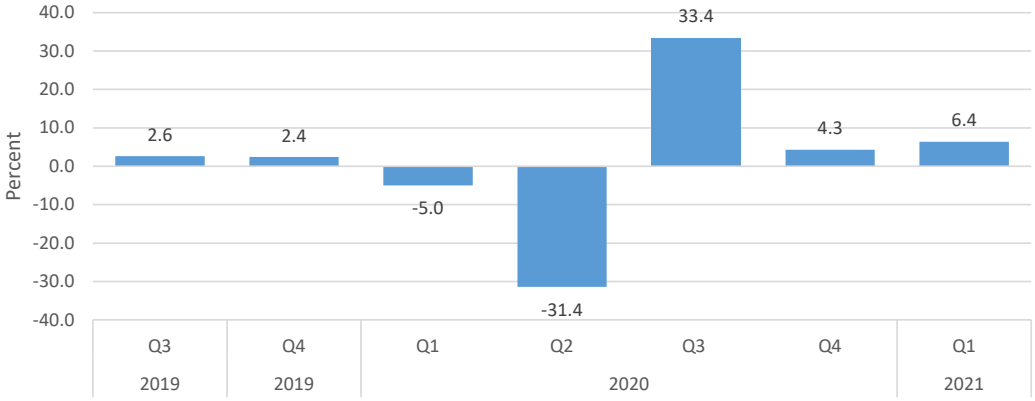
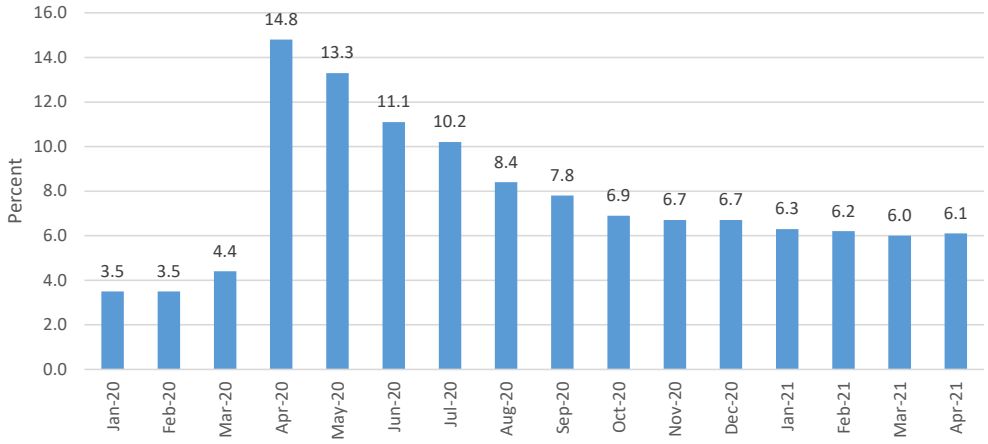



Figure 15:

**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 16 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 18). 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, semi-conductor 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 16:

**GDP Gap**

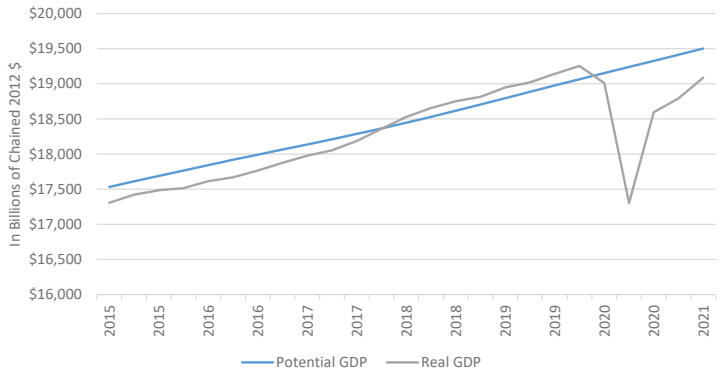



Figure 17:

**Debt/GDP**

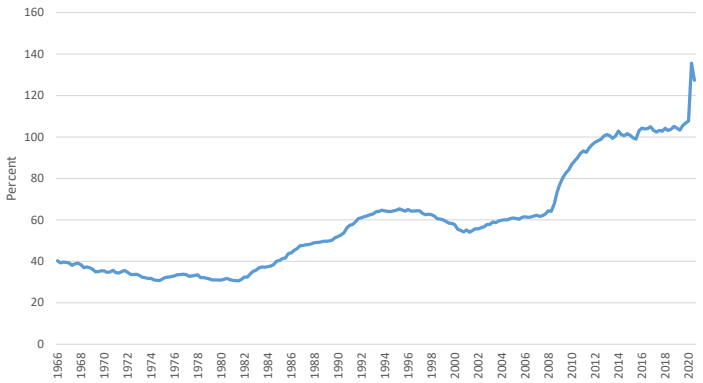
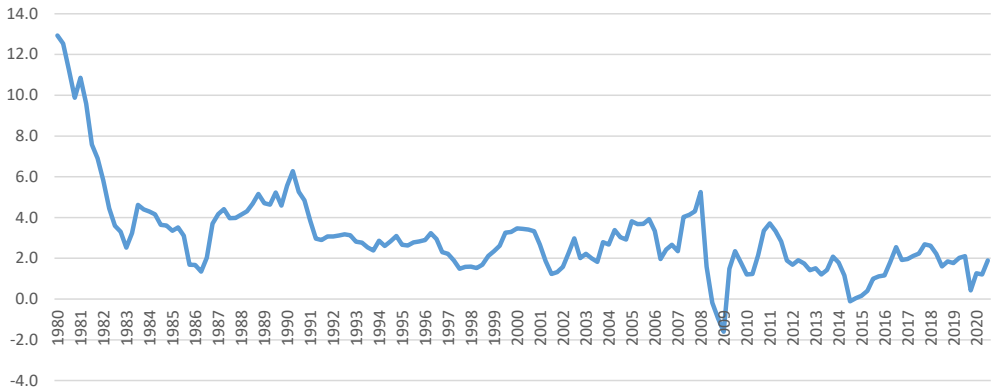



Figure 18:

**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 expection 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.

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