

MESA COUNTY ECONOMIC UPDATE

Third Quarter 2019



Provided by the Business Department
of Colorado Mesa University

Economic Summary

- Employment in Mesa County continues to expand, increasing by 2,071 people since Q2 of 2018. Seasonally adjusted unemployment is at 3.9% for the county, while newly released population numbers show that the population grew by 1,822 people from 2017 to 2018 to a total population of 151,616.
- Construction, healthcare, and educational services are leading the way in terms of new employment and wage contribution. Low natural gas prices have pushed the oil and gas industry into a small downturn but thus far a) there are not huge employment losses and b) there is enough employment growth in other industries to negate the losses in oil and gas.
- The national economy continues to look strong, with low unemployment and reasonable growth. Negative signs include slowing investment, an inverted yield curve, and slowing international growth.

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

	Q2 2019	Q1 2019	Q2 2018	% change since last quarter	% change since last year (comparable quarters)
Local Labor Market					
Unemployment Rate Mesa County -SA	3.90%	4.50%	3.90%	-0.60%	0.00%
Unemployment Rate Mesa County -NSA	3.30%	4.70%	3.70%	-1.40%	-0.40%
Unemployment Rate Colorado -SA	3.20%	3.60%	3.10%	-0.40%	0.10%
Unemployment Rate U.S. -SA	3.60%	3.90%	3.90%	-0.30%	-0.30%
Labor Force	77,656	77,135	75,847	0.68%	2.38%
Employed	75,113	73,480	73,042	2.22%	2.84%
Unemployed	2,542	3,655	2,805	-30.45%	-9.38%
Business Confidence					
Leeds Colorado Business Confidence	50.5	52.7	59.6	-4.17%	-15.27%
Sales/Use Taxes					
City Sales/Use Taxes (Q1 total)	\$14,628,469	\$14,070,621	\$14,203,936	3.96%	2.99%
City Sales/Use Taxes (Cumulative)	\$28,699,090		\$27,473,329		4.46%
Mesa County Sales/Use Tax (Q1 total)	\$9,631,206	\$8,687,554	\$9,146,030	10.86%	5.30%
Mesa County Sales/Use Tax (Cumulative)	\$18,318,760		\$17,528,105		4.51%
City Lodging Tax Revenue (Q1 total)	\$881,251	\$369,510	\$412,028	138.49%	113.88%
City Lodging Tax Revenue (Cumulative)	\$1,250,761		\$623,472		100.61%

Grand Junction Regional Airport	Q2 2019	Q1 2019	Q2 2018	% change from last quarter	% change from last year
Scheduled Enplanements	69,239	57,863	60,449	19.66%	14.54%
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%
Mesa County Gross Regional Product (in millions)	\$4,842	\$4,649	\$4,758	4.15%	1.77%
Personal Income (in millions)	\$6,292	\$5,979	\$5,974	5.23%	5.33%
Personal Income Per Capita	\$41,503	\$39,920	\$40,335	3.97%	2.90%
	2018	2017	2016	% change since 2017	% change from 2016
Population	151,616	149,794	148,116	1.22%	2.36%

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, 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

Quarterly unemployment remains low, with a seasonally adjusted (SA) unemployment rate of 3.9% for Mesa County and a 3.3% non-seasonally adjusted (NSA) rate. The seasonally adjusted rate is the same rate of unemployment in Q2 of 2018, while the non-seasonally adjusted rate is lower than the same time last year. The SA rate is higher than the State of Colorado (3.2%) and higher than the national unemployment rate of 3.6%.

Employment has risen 2,071 from Q2 of 2018, while the labor force has risen 1,808, for a decline in unemployed of 263. Since early 2017, Mesa County has been adding employment at a consistent rate (see Figure 1). Compared to five years ago, the number of employed is up 6,408.

Other Local Data

New population data for 2018 is now available, showing that Mesa County grew by 1,822 people. Figure 4 illustrates the last ten years of population growth. After several years of stagnation, population growth increased in 2016, 2017, and 2018. For context, Mesa County grew at a 1.22% rate while the state of Colorado grew at 1.4%.

The Leeds Colorado Business Confidence Index shows that businesses are losing confidence, with the index falling by 15% since last year.

City and County sales and use taxes continue to increase year over year, as does the lodging tax. Remember the lodging tax was increased, so for the next few quarters the percentage change since last year will seem large.

The GJ airport also continues its strong growth, increasing enplanements from last year by 14.54%.

Table 1:
10, 5, and 1 Year Employment Comparison
(Q2 Comparisons)

	Labor Force	Employed	Unemployed
Annual	1,808	2,071	-263
5-Year	4,169	6,408	-2,239
10-Year	-5,190	-883	-4,307
Annual %	2.38%	2.84%	-9.38%
5-Year %	5.67%	9.33%	-46.82%
10-Year %	-6.26%	-1.16%	-62.88%

Figure 1:
5 Year Employment

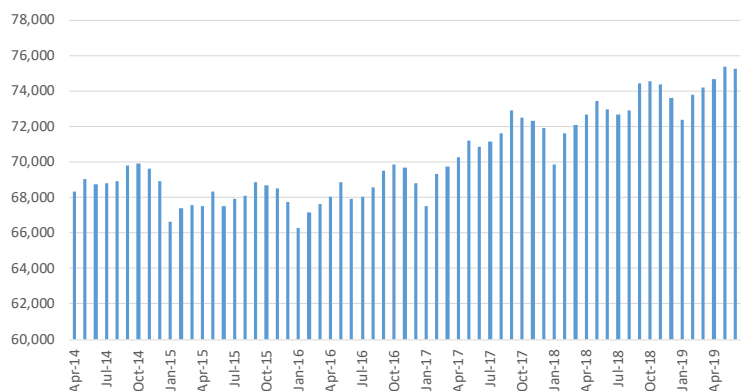


Figure 2:
Mesa County Median Household Income

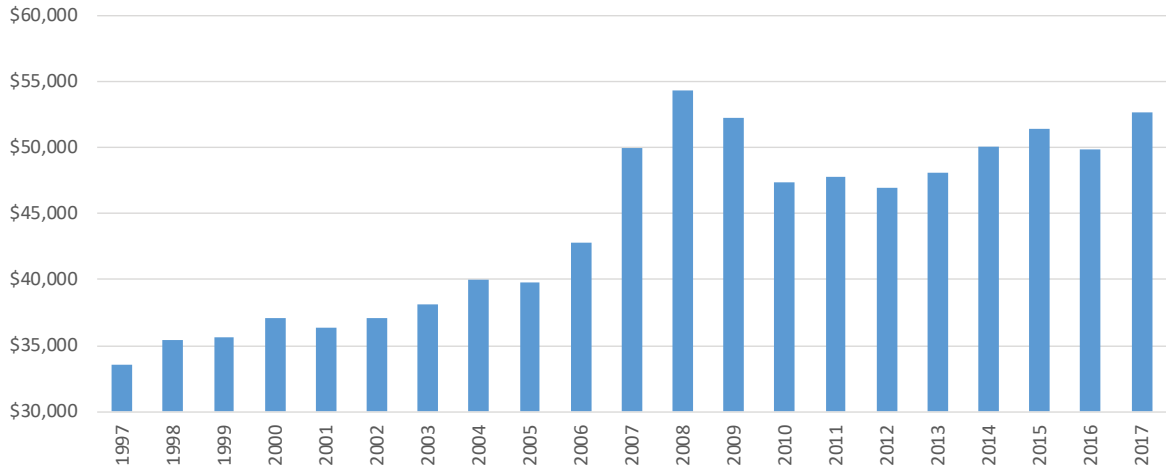


Figure 3:
Mesa County Population

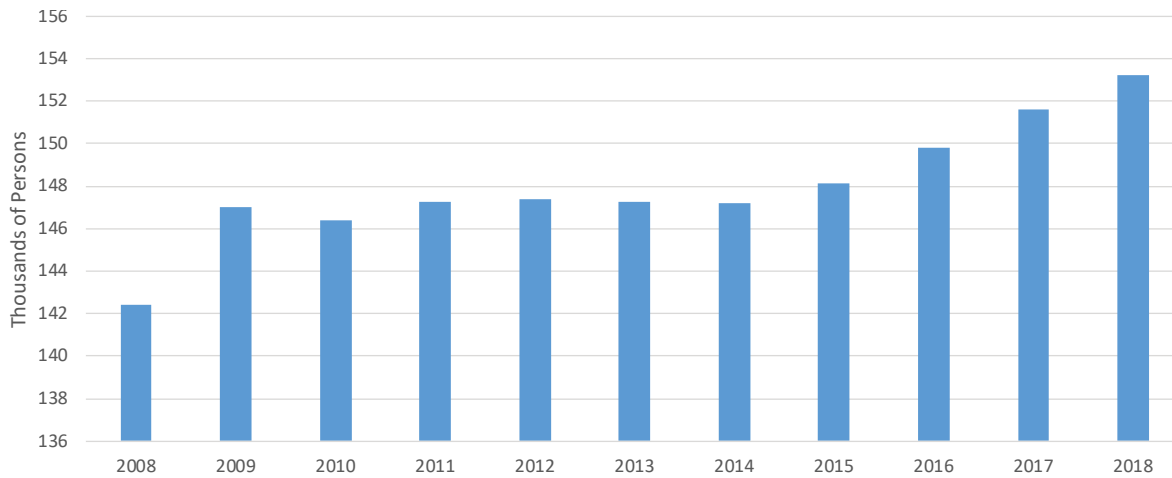
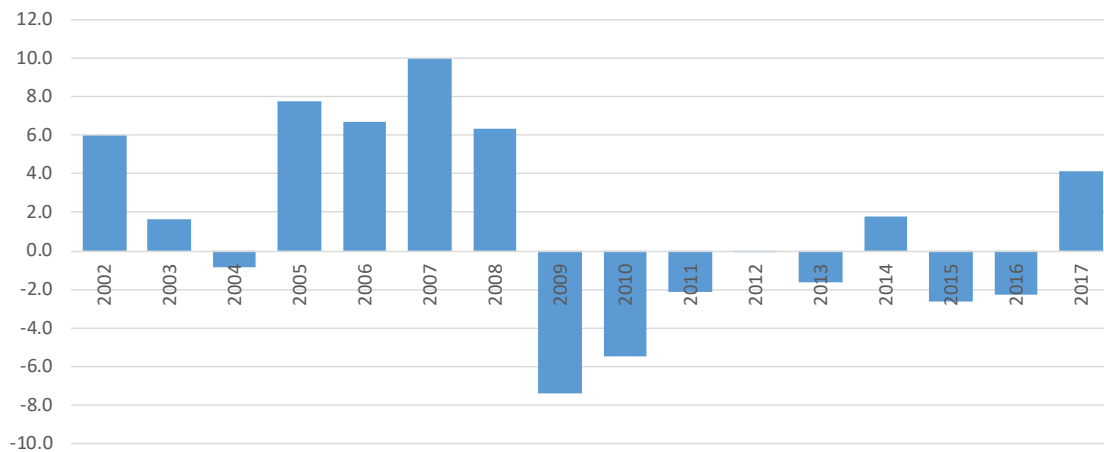


Figure 4:
Mesa County GDP Growth Rate



Mesa County Employment Trends

QCEW data shows positive news for almost all Mesa County industries. Construction is leading the increase in employment and growth over the last year, contributing 571 jobs and \$7,199,596 in wages. Healthcare continued its consistent growth and added 351 jobs, while educational services added 213 jobs. Oil and gas is down from Q1 of 2018, losing 131 jobs and \$2,355,632 in wages. Natural gas prices and rig counts are down, so reductions in this industry were expected. After a few more quarters of data we will see how the natural gas price decrease effects the local economy, but thus far there seems to be enough momentum in other industries that this slight downturn in the oil and gas industry has not put a damper on growth. The natural gas industry "jump started" the economy in early 2017, but since that employment/wage spike and subsequent industry slowdown, construction and healthcare have led the way in what has been a strong three years of employment gains for Mesa County.

Table 2:

Quarterly Census of Employment and Wages Q1 2019 Compared to Q1 2018

Sector	Average Employment Q1 2019	Total Quarterly Wages (Q1 2019)	Average Weekly Wage (Q1 2019)	Total Employment Change (Q1 2018 to Q1 2019)	Total Wage Change (Q1 2018 to Q1 2019)
Total, All Industries	62,343	\$695,306,426	\$858	1,517	\$25,626,399
Health Care and Social Assistance	12,012	\$144,141,666	\$923	351	\$2,145,683
Construction	4,867	\$67,425,815	\$1,066	571	\$7,199,596
Retail Trade	8,088	\$62,589,266	\$595	65	\$1,904,724
Mining, Oil, and Gas	2,219	\$48,980,897	\$1,698	-131	-\$2,355,632
Educational Services	5,040	\$48,164,601	\$735	213	\$2,796,046
Public Administration	3,216	\$46,134,522	\$1,103	169	\$1,505,546
Wholesale Trade	2,394	\$36,926,822	\$1,187	13	\$1,809,132
Manufacturing	3,051	\$35,040,724	\$883	67	-\$1,988,175
Finance and Insurance	1,945	\$33,872,171	\$1,340	-4	\$1,504,838
Transportation and Warehousing	2,576	\$33,318,029	\$995	100	\$2,054,707
Accommodation and Food Services	6,617	\$31,926,453	\$371	49	\$2,181,012
Professional and Technical Services	2,288	\$30,409,721	\$1,022	87	\$1,865,552
Administrative and Waste Services	2,484	\$23,833,354	\$738	-254	\$594,864
Other Services, Ex. Public Admin	1,836	\$15,128,470	\$634	61	\$1,154,020
Real Estate and Rental and Leasing	1,009	\$9,819,968	\$749	38	\$478,406
Information	698	\$8,410,893	\$927	-25	-\$218,369
Utilities	331	\$6,675,754	\$1,551	-4	\$508,399
Arts, Entertainment, and Recreation	1,050	\$4,770,544	\$349	27	\$523,184
Agriculture, Forestry, Fishing & Hunting	443	\$4,006,108	\$696	119	\$1,694,661
Management of Companies and Enterprises	143	\$3,455,079	\$1,859	-17	\$92,551

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

Table 3:

Farm and Sole Proprietor Employment

BEA Data	2017	2016	2015	% change since 2016	% change from 2015
Farm Employment	2,536	2,439	2,438	4.0%	4.0%
Sole Proprietors (non-farm)	21,779	21,300	20,801	2.2%	4.7%

LOCAL REAL ESTATE

	Q2 2019	Q2 2018	% change since last year
Real Estate			
Inventory of Homes for Sale (3 month avg)	724	711	1.92%
New Residential listings (3 month total)	1,316	1,309	0.53%
Sold Residential Listings (3 month total)	939	1,100	-14.64%
Median Sales Price	\$262,083	\$246,733	6.22%
Average Sales Price	\$292,119	\$280,628	4.09%
Days on Market	80.67	82.14	-1.79%
Months Supply of Inventory	2.57	2.39	7.49%
Total Building Permits	1,312	1,219	7.63%
Single Family Permits	210	225	-6.67%
Foreclosures			
Foreclosure Filings	53	64	-17.2%
Foreclosure Sales	17	29	-41.4%
Freddie Mac House Price Index			
Grand Junction	196.9	182.9	7.61%
Colorado	207.0	197.7	4.68%
National	192.1	185.2	3.73%
Mortgage Rates			
15 Year Mortgage Rate	3.46%	4.01%	-0.55%
30 year Mortgage Rate	4.01%	4.54%	-0.53%

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

The Mesa County real estate market continues to stay strong with almost all indicators at peak levels. Grand Junction home values are outpacing Colorado and the U.S., increasing 7.61% (Freddie Mac Index) since last year. This is slightly lower than the 8-10% price increases the market has experienced in the last two years. Despite the demand for housing and lack of inventory, single family home permits were slightly down from last year, falling by 15 for a -6.67% change. Interest rates are down 50 basis points due to a flight to safety in the bond market and the Federal Reserve indicating more cuts in the future. Figures 5, 6, and 7 illustrate three housing data points since 2010. The trend is clear: Housing data is very strong, almost all indicators show either a low or high point.

Recessions and Home Values

If the economy slows and does move into recession it is not necessarily true that housing prices will fall. The recession of 1991 saw home values decline -2.8% from the beginning of the recession to one month after the recession ended. The 2001 recession saw home values increase by 5.1%. In the recession of 2009 home values fell by 13%. Because of this variance, it is hard to predict based on history what will happen to home values if the economy slows to recession.

Figure 5:
Mesa County Average and Median Home Values

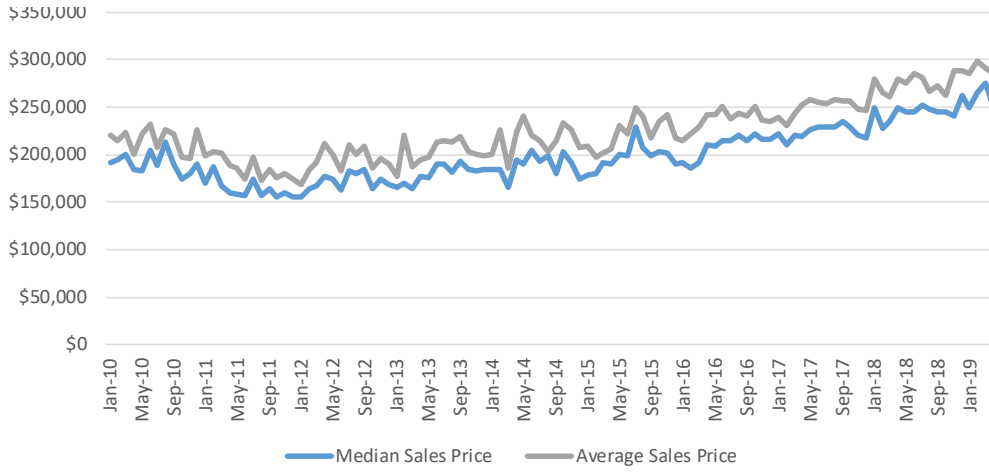
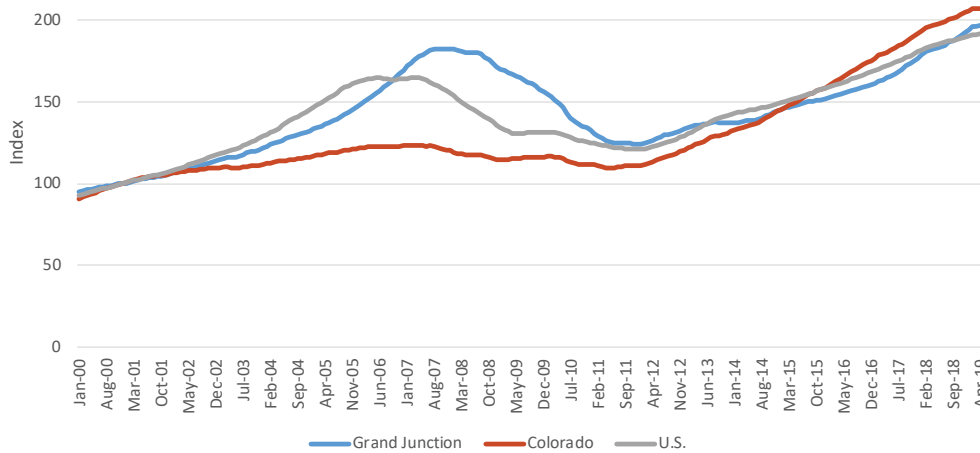


Figure 6:
Days on Market Until Sale



Figure 7:
Freddie Mac House Price Index



REGIONAL ENERGY

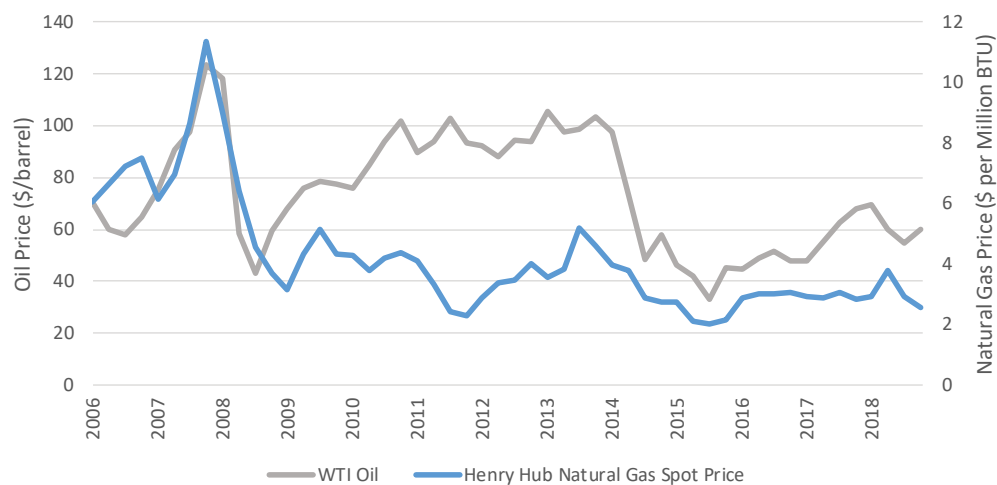
	Q2 2019	Q1 2019	Q2 2018	% change since last quarter	% change since last year (comparable quarters)
Energy Prices					
WTI Crude Oil	\$59.88	\$54.82	\$68.07	9.23%	-12.03%
Henry Hub Natural gas	\$2.56	\$2.92	\$2.86	-12.33%	-10.49%
Retail Gasoline Price	\$2.68	\$2.27	\$2.75	17.84%	-2.87%

Drilling Permits	2019 YTD	2018 YTD	2018 total	% Change since same time last year
Drilling Permits (Mesa County)	0	63	215	-100.00%
Drilling Permits (Rio Blanco County)	32	66	118	-51.52%
Drilling Permits (Garfield County)	105	440	612	-76.14%
Drilling Permits (Moffat County)	1	3	5	-66.67%
Total Permits (Mesa, Rio Blanco, Garfield, Moffat)	138	572	950	-75.87%
Total Permits (Colorado)	1,330	2,683	3,909	-50.43%

Local Rig Count	Aug-19	May-19	Aug-18
Rig Count (Western Colorado, Mesa, Rio Blanco, Garfield, Moffat)	5	4	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 September 1st, 2019. Note that drilling permits are from Q1 of 2019.

Figure 8:
Oil and Natural Gas Prices



Natural Gas Prices

The Henry Hub price of natural gas averaged \$2.56/MMBtu for Q2 2019, falling further by July to \$2.37/MMBtu. EIA lowered its 2nd half of 2019 forecast to \$2.36/MMBtu. However, EIA expects prices in 2020 to move towards their forecast of \$2.75/MMBtu. EIA forecasts that natural gas production will average 91 billion cubic feet per day in 2019, up 7.6 Bcf/d from 2018. EIA expects the monthly average of natural gas production to grow through 2019, decline slightly in early 2020 due to the effect of low prices in 2019, and then resume in the 2nd quarter of 2020. EIA forecasts natural gas production will average 92.5 Bcf/d.

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

Oil and Gasoline Prices

Crude oil prices averaged \$59.88 in Q2 2019, rising from Q1 but lower than Q2 2018. WTI oil has ranged between \$53 and \$59 throughout the summer months. The supply and demand issue for oil is interesting right now. The supply of oil is expected to fall as many Permian Basin wells are reaching the end of their life cycle. In addition to this, national rig counts are lower than last year. By itself this would put upward pressure on prices. However the demand picture is being driven by slower global growth, which by itself would reduce prices. So the question of where oil prices are going to go depends on which is stronger, the supply or demand effect. An attack on a Saudi Arabian oil facility is likely to push oil higher due to a need for an increased risk premium. This will likely have the effect of pushing up gasoline prices.

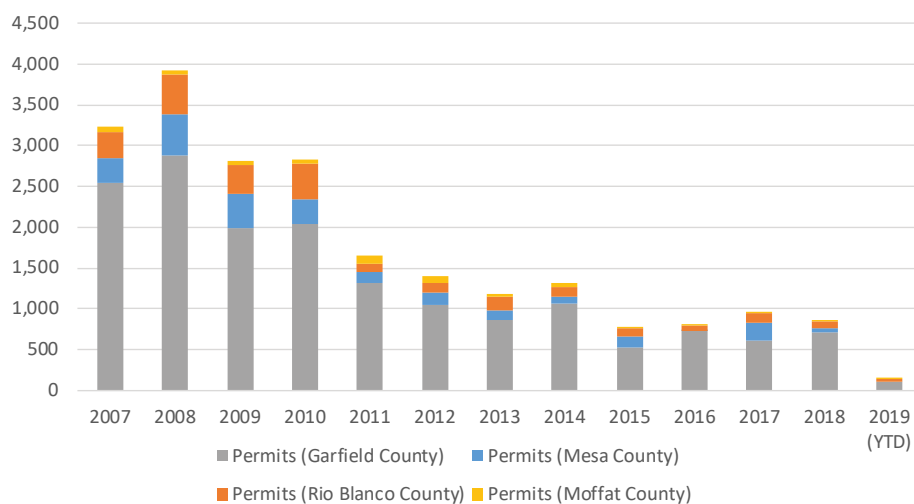
Gasoline prices averaged \$2.68 in Q2 of 2019, slightly lower than Q2 2018, but higher than Q1. Quarter 2 generally has higher gas prices due to the summer driving season. Gasbuddy.com shows that gas prices in Mesa County range from \$2.58 to \$2.76 as of early September.

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

Western Slope Drilling Activity

Over the last year, rig counts in the Piceance fell from 7 to 4, and increased to 5 in the most recent months. This reduction in rig counts can be explained by the falling price of natural gas. This increase from 4 to 5 rigs over the summer months despite low natural gas prices is encouraging for the industry. Drilling permits are significantly lower across the Western Slope compared to last year, with the Western Slope showing a 75% decrease in drilling permits from the same time last year.

Figure 9:
Drilling Permits: Western Colorado



NATIONAL ECONOMIC INDICATORS

	Q2 2019	Q1 2019	Q2 2018	% change since last period	% change since last year (comparable quarters)
Business Cycle Indicators					
Real GDP	2.10%	3.10%	3.50%	-1.00%	-1.40%
Personal Consumption Expenditures	4.30%	1.10%	4.00%	3.20%	0.30%
Gross Private Domestic Investment	-5.50%	6.20%	-1.80%	-11.70%	-3.70%
National Consumer Confidence	98.5	94.5	98.3	4.23%	0.20%
Industrial Production Index	109.2	109.8	107.9	-0.53%	1.19%
Initial Weekly Unemployment Claims (4 week MA)	215,904	222,442	220,462	-2.94%	-2.07%
Non Farm Payroll Change (in thousands)	442,333	617,000	694,667	-28.31%	-36.32%
Unemployment					
Unemployment Rate-U3-SA	3.60%	3.90%	3.90%	-0.30%	-0.30%
Unemployment Rate-U6-SA	7.20%	7.60%	7.80%	-0.40%	-0.60%
Interest Rates					
Federal Funds Rate	2.40%	2.40%	1.73%	0.00%	0.67%
10 Year U.S. Treasury	2.33%	2.65%	2.92%	-0.32%	-0.59%
30 Year U.S. Treasury	2.78%	3.01%	3.09%	-0.23%	-0.31%
Inflation Measures					
Inflation Rate (CPI)	1.82%	1.63%	2.67%	0.19%	-0.85%
Core Inflation Rate (All Items Less Food and Energy)	2.07%	2.09%	2.19%	-0.03%	-0.13%
Inflation Rate (Shelter)	3.43%	3.32%	3.41%	0.11%	0.02%
Producer Price Index (PPI)	-0.63%	0.44%	4.88%	-1.06%	-5.51%
Employment Cost Index	2.78%	2.87%	2.78%	-0.09%	0.00%
Stock Prices					
S&P 500	2,882	2,721	2,703	5.93%	6.63%
Dow Jones Industrial Average	26,096	25,147	24,556	3.77%	6.27%
Trade Balance and Debt					
USD Exchange Rate (trade weighted)	128	127	121	0.91%	6.06%
Trade Balance (% of GDP)	-661.749	-633.848	-568.391	4.40%	16.42%
Federal Debt (% of GDP)*	104.4%	105.2%	104.6%	-0.7%	-0.2%

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 10:
Real GDP

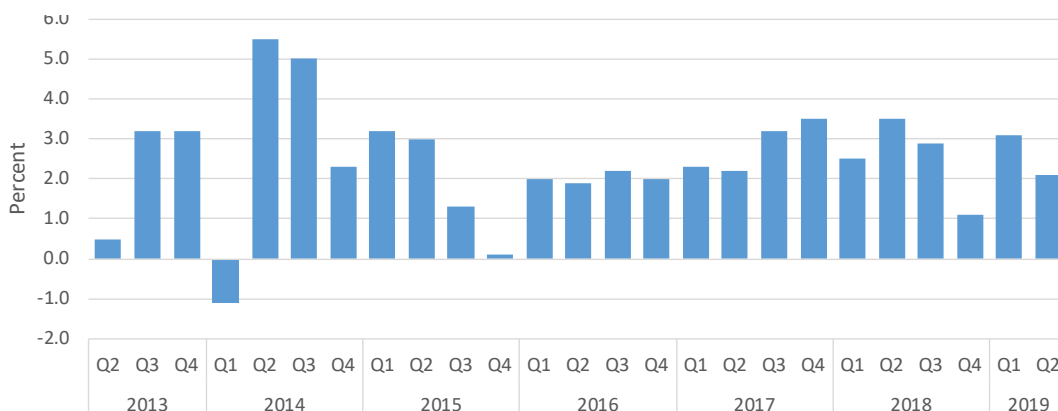
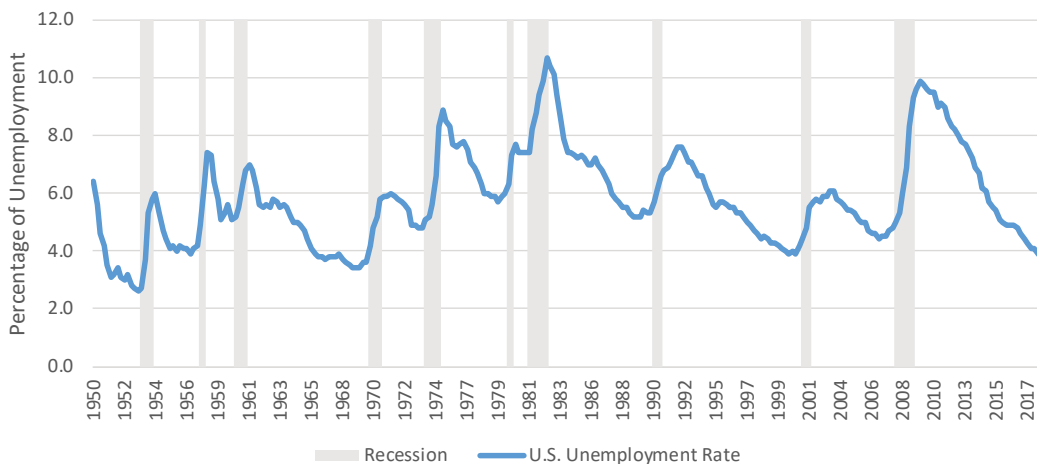


Figure 11:
U.S. Unemployment: 1950-Q1 2019



National Economic Performance

Q2 GDP came in at 2.1%, down from 3.1% the previous quarter and down from 3.5% at the same time last year (Figure 10). This is no surprise, as economists have been expecting positive but slower growth moving forward. Growth is being held up by the consumer, with consumption increasing by 4.3%. Investment is the big story, with investment slowing by 5.5%. Investment can swing quickly and is much more volatile than consumption.

The national unemployment rate remains extremely low at 3.6%. Non-farm payrolls fell to 442,333 from 617,000. Figure 13 illustrates non-farm payrolls. This is an important data point because its drop historically precedes recessions. The fall in non-farm payrolls means employment growth is starting to slow. To make a real determination we will need to see a few more quarters of falling numbers.

Inflation and Interest Rates

Inflation continues to be irrelevant, with an inflation rate of 1.82%. Core inflation, the measure the Federal Reserve uses as their target inflation rate which subtracts energy, food, and investment is 2.07%, which is at the low end of the Fed's 2-3% inflation target. Wages are growing at 2.78%, still relatively low for this point in the business cycle (compared to history), while the producer price index fell by -.63% from last quarter.

Interest rates remain low as international investors rush into treasury bonds. U.S. treasury bonds, despite having a historically low yield, have higher yields than the rest of the world. In fact, many countries have negative yielding bonds, meaning investors are paying to lose money. This only happens when investors see all other assets losing more value. The Federal Reserve is expected to lower the Federal Funds rate, both to stave off slow growth and prevent further inversion of the yield curve.

Figure 12:
U.S. Dollar Trade Weighted Index

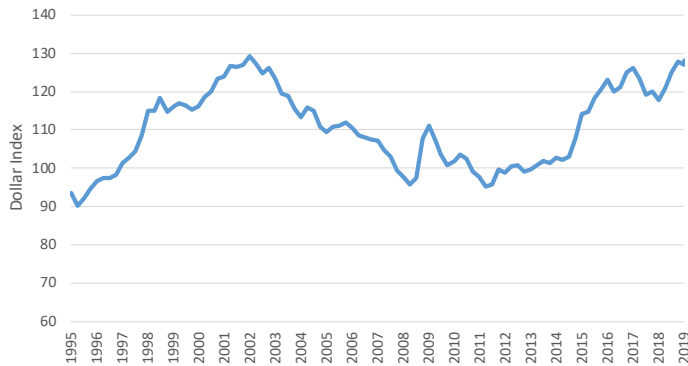
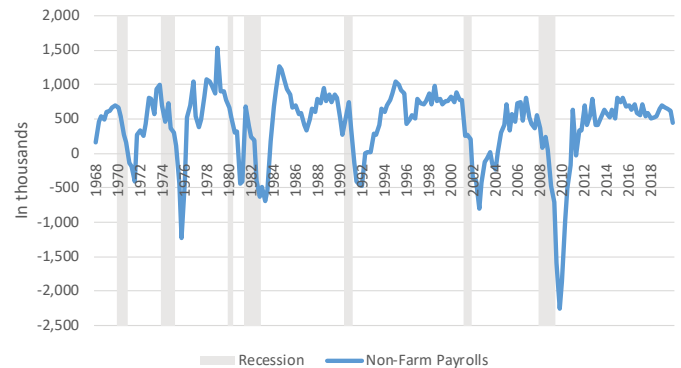


Figure 13:
Change in Non-Farm Payrolls



Trade Dispute, the White House, and the Fed

Aside from an inverted yield curve (where the 2 year treasury bond has a higher yield than the 10 year treasury bond), the other interesting happenings in monetary policy and the Federal Reserve involve the trade dispute with China, the U.S. dollar, and questions of Federal Reserve independence. The Trump administration is trying to exert pressure on China to renegotiate trade to reduce the massive trade deficit that exists between the U.S. and China (among other disputes). China has not been willing to negotiate to the Trump administration's demands, so the Trump administration has imposed tariffs, branded China as a currency manipulator, and is exerting pressure on U.S. companies to break their supply chain relationships with China. In a world without floating exchange rates, this would likely have helped to reduce the trade deficit, but because of the skyrocketing dollar, it has not.

One of the reasons the White House has been critical of the Federal Reserve is that the Fed's interest rate policy has kept interest rates higher in the U.S. than in other countries (say, Europe). The European Central Bank has already drastically lowered interest rates. With U.S. rates higher than the World's, international investors sell their domestic currency, say the Euro, to buy dollars in order to buy higher yielding U.S. treasury bonds. Because they are buying dollars, that increases the value of the dollar (see Figure 12). When the dollar increases in value, foreign imports get cheaper, which increases the trade deficit and makes the problem the White House is trying to address worse. This has led to deeper discussions among economists as to whether part of the Federal Reserve's policy goals should include the executive branch's foreign economic policy goals, such as trade policy. Ultimately, the Federal Reserve is expected to lower interest rates this quarter due to slowing U.S. and World growth. The hope is that this will facilitate investment which is starting to lag, and will most certainly help housing, which is now more expensive than the peak of the 2007 housing bubble. Lower rates may help housing but are unlikely to spur investment, as borrowing rates are already low. Investment is based less on interest rates and more on expected profitability which will be lower if the economy slows. Because interest rates are so low monetary policy is expected to be less useful through the next cycle.



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