Mesa County Economic Update

Third Quarter 2020

Colorado Mesa University

Provided by the Business Department of Colorado Mesa University

Economic Summary

- Although still recovering from a COVID induced national recession, Mesa County continues to outperform the nation and the state in this economic downturn and recovery. Mesa County's July unemployment rate was 6.9%, lower than Colorado (7.4%) and the United States (10.2%).
- Sales taxes are down from last year but not nearly as much as expected. Year to date Mesa County sales taxes are up 1.48%, while Grand Junction is down 7.7%, with the combined sales tax numbers down only 4%.
- Initial unemployment claims have fallen drastically from their April peak of 2,583 to a mid-August number of 159. However, continued claims are moving down more slowly, peaking at 5,801 in early May and falling to 3,462 in early August. Continuing claims is a very important metric for recovery. Both measures of claims are showing signs of recovery.
- The national economy continues its recovery with an 8.4% unemployment rate, falling from a peak of 14.7% in April. GDP fell 32.9% (annualized growth rate) in Q2, but is expected to jump 25.6% in Q3.

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 2020	Q1 2020	Q2 2019	change since last quarter	change since last year (comparable quarters)
Local Labor Market					
Unemployment Rate Mesa County -SA	10.50%	4.20%	3.50%	6.30%	7.00%
Unemployment Rate Mesa County -NSA	10.60%	5.10%	3.30%	5.50%	7.30%
Unemployment Rate Colorado -SA	11.00%	3.40%	2.80%	7.60%	8.20%
Unemployment Rate U.S. -SA	13.00%	3.80%	3.60%	9.20%	9.40%
Labor Force	76,403	76,079	76,458	324	-55
Employed	68,327	72,220	73,933	-3,893	-5,606
Unemployed	8,076	3,859	2,525	4,217	5,551
Business Confidence					
Leeds Colorado Business Confidence	44.3	29.7	50.5	49.16%	-12.28%
Sales/Use Taxes	**2020**		**2019**		
City Sales/Use Taxes (YTD)	$25,864,215		$28,021,713		-7.70%
Mesa County Sales/Use Tax (YTD)	$18,614,843		$18,343,923		1.48%
City Lodging Tax Revenue (YTD)	$865,368		$1,600,092		-45.92%
Business Filings	**2020 (YTD)**		**2019 (YTD)**		
Mesa County New Business Entity Filings (YTD, as of August)	958		1,033		-7.26%

Grand Junction Regional Airport	Q2 2020	Q1 2020	Q2 2019	% change from last quarter	% change from last year
Scheduled Enplanements	11,152	56,617	69,451	-80.30%	-83.94%
Standard of Living and Growth	**2019**	**2018**	**2017**	**% change since 2018**	**% change from 2017**
Population	154,210	152,951	151,170	0.82%	2.01%
	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%
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 quarter two seasonally adjusted unemployment rate for Mesa County rose to 10.5% in Q2, with monthly numbers peaking in April at 12.6%, and falling to 10.1% in June and 6.9% in July (table 2). The unemployment rate is calculated as the number of unemployed divided by the labor force, and the labor force numbers have been extraordinarily volatile. Pre-COVID labor force numbers in February showed 76,746 people in the labor force. This fell to 74,253 in April, and then shot up to 79,237 in June, and then fell again to 76,353 in July (figure 1). The drop in April can be explained by the COVID crisis. The sharp increase in June is due to State economists adjusting their labor force numbers upwards based on new data and information they had collected. Since state labor force numbers went up, Mesa County's numbers also increased. This is what is known as "noise" in the data, where there are random movements and statistical adjustments in time series data. Over time this stabilizes, but looking month-to-month it can be a bit volatile and may not perfectly reflect the actual changes occurring. The July numbers fell almost 2,900, which is partly responsible for the drop in the unemployment rate.

Although the unemployment rate falling is a positive sign for the economy, labor force numbers falling is not, as it means less people are trying to engage in work. Although we are certain the June numbers increase is a statistical anomaly, the drop in the July numbers may not be. People may be leaving the labor force due to lack of job opportunities, but we are only a few months into high unemployment, and it seems early to give up looking for a job. Another possibility is that many people are optionally leaving the labor force, perhaps to homeschool/online teach children, or other personal reasons that may be related to COVID.

Table 1:

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

	Labor Force	Employed	Unemployed
Annual	-85	-5,661	5,576
5-Year	4,529	589	3,940
10-Year	-173	-70	-103
Annual %	-0.11%	-7.66%	220.86%
5-Year %	6.30%	0.87%	94.70%
10-Year %	-0.23%	-0.10%	-1.25%

Employment numbers fell from 73,580 in February to 64,875 in April, and have risen sharply to 71,047 in July. Unemployment in February was at 3,166, rising to 9,378 in April, and falling to 5,306 in July. Although the labor market data is not good compared to the previous three years, thus far Mesa County numbers are "less bad" than the nation and the state. Considering the area's history of having much worse recessions than the state and the nation, this is good news.

Sales tax collection is down, but not nearly as much as should have been anticipated. Grand Junction sales tax collection is down 7% year to date, while Mesa County collections are up 1.5%. Combining the two there is only a decrease of sales tax collection of 4%. Note that this is measured in the time period between February and July, as sales taxes are collected the month after spending takes place. Tracking it this way reflects the actual month of spending. Note that even when measured starting in January, the percentages are very similar, with a total loss YTD of 4%.

Table 2:
Monthly Unemployment Rates

	February	March	April	May	June	July
Mesa	4.1%	7%	12.6%	9.1%	10.1%	6.9%
Montrose	3.6%	7.5%	12%	9.3%	10.4%	6.5%
Delta	4.2%	7.9%	10.2%	8%	9.7%	6.2%
Garfield	3.3%	6%	13.4%	10.1%	9.7%	6.2%
Colorado	2.9%	5.4%	12.0%	10%	10.7%	7.4%
U.S.	3.5%	4.4%	14.7%	13.3%	11.1%	10.2%

Figure 1:
Labor Force (Jan-20-July-20)

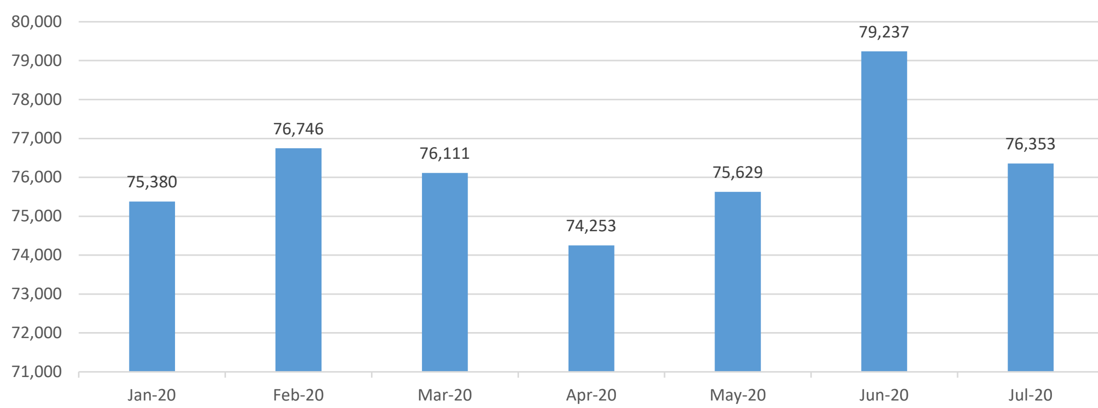
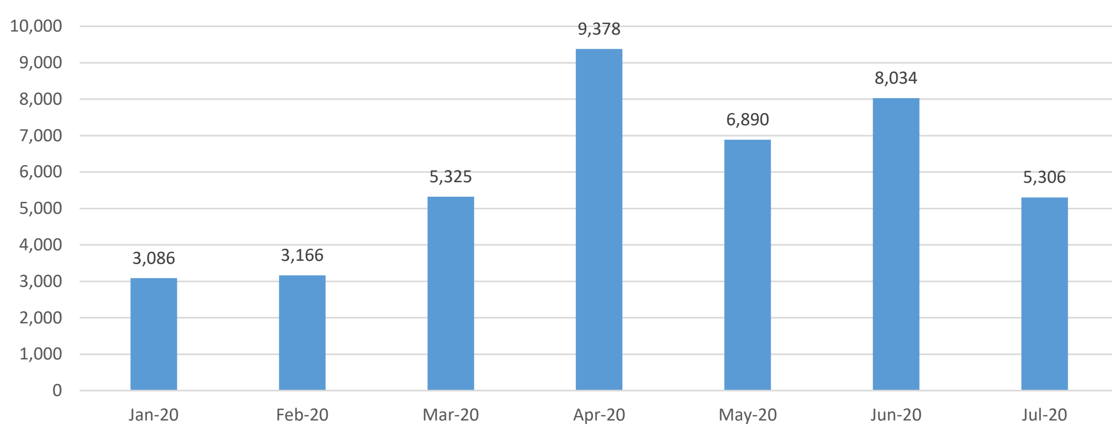


Figure 2:
Unemployment (Jan-20-July-20)



Mesa County Unemployment Claims

Unemployment insurance claims are perhaps the most important real time data point to measure the rate of change of employment losses during the COVID recession. Data from the Mesa County Workforce Center shows that Mesa County unemployment claims continue to fall, spiking in late March and early April, and falling to much lower levels as early as late May. Continued unemployment claims, which shows the number of people who continue to collect unemployment, is also falling, but more slowly. Continued claims peaked in early May at nearly 6,000, with recent numbers (as of early August) staying close to 4,000. To provide context on how high these are, the 2019 weekly average was 565. Since March 14th, 19% of unemployment claims have come from leisure and hospitality, and another 19% comes from trade, transportation, and utilities, where retail is a primary contributor.

Figure 3:

Initial and Continued Unemployment Claims March-August 2020

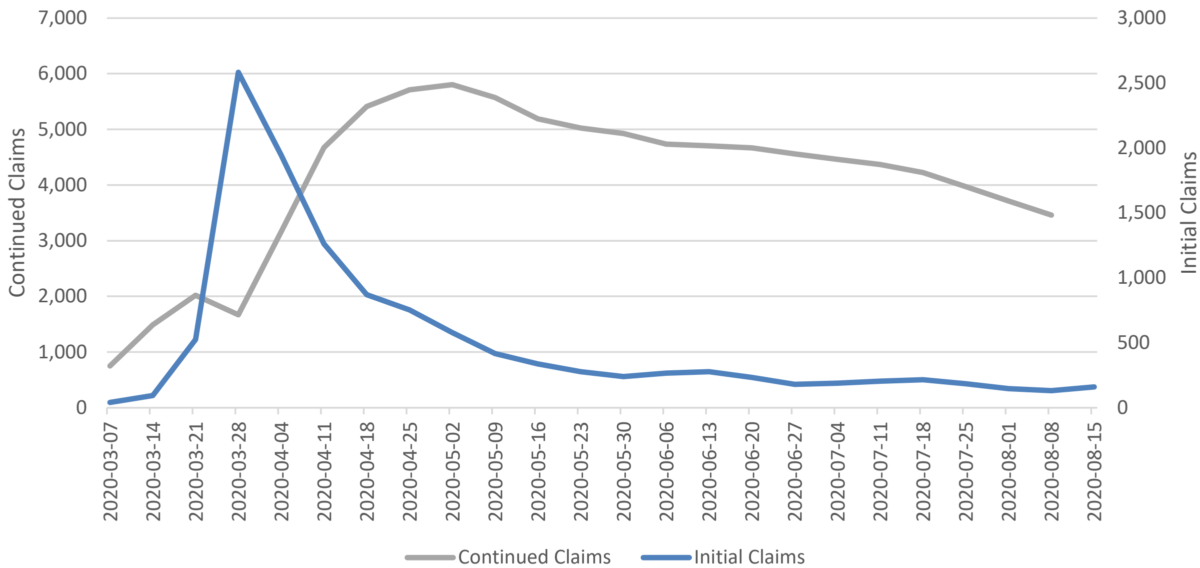
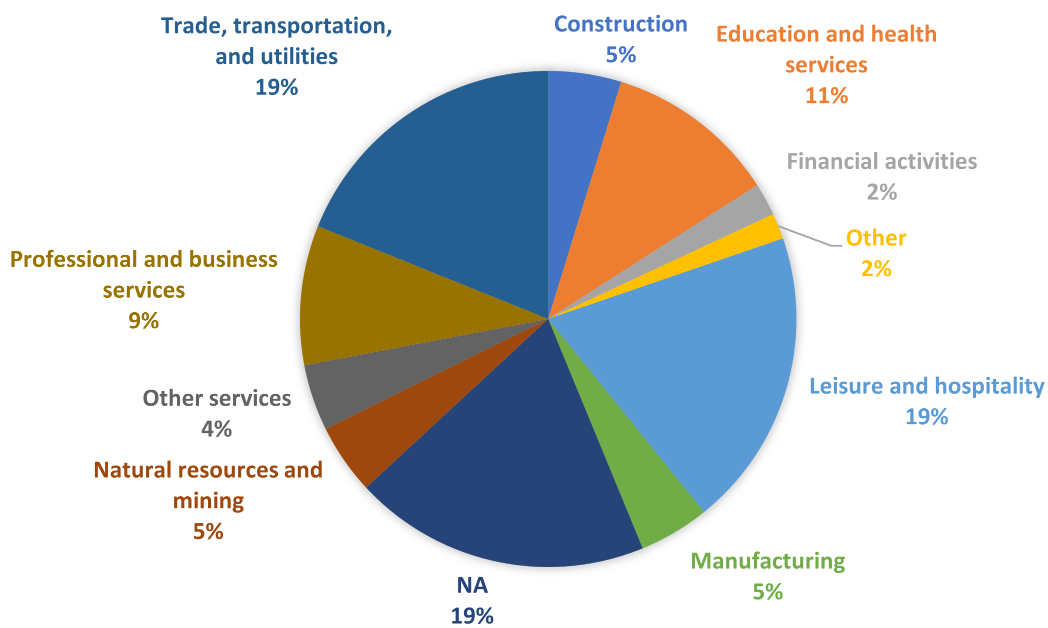


Figure 4:

% of UI Claims by Industry



Source for table 3 and figure 3: Mesa County Workforce Center

Mesa County Employment Trends

Q1 2020 QCEW data shows that Mesa County saw an increase (compared to Q1 2019) of $26,323,497 in wages, with most of these wages coming from the health care industry ($23,049,343). 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). The oil and gas industry continues to lose jobs and wages, losing 728 jobs in Q1 compared to the previous year, with a loss of $14,277,575 in wages. Oil and gas jobs have the highest weekly wage of all industries in Mesa County, so the last several quarters of losses are significant. Employment in this industry has fallen from a recent peak of 2,583 in Q4 of 2017 to 1,491 in Q1 2020. Most of the losses came in Q4 2019 and Q1 2020. Note that these numbers mostly reflect a pre-COVID economy, with only the last two weeks of March impacting this data. We know from more current datapoints that health care has had losses during the peak of the COVID crisis, so Q2 2020 data will be important to see exactly how that industry has been impacted, since it is Mesa County's largest industry.

Table 4:

Quarterly Census of Employment and Wages (QCEW) Q1 2020 Compared to Q1 2019

Sector	Average Employment Q1 2020	Total Quarterly Wages (Q1 2020)	Average Weekly Wage (Q1 2020)	Total Employment Change (Q1 2019 to Q1 2020)	Total Wage Change (Q1 2019 to Q1 2020)
Total, All Industries	62,418	721,629,923	$889	75	$26,323,497
Health Care and Social Assistance	12,516	167,191,009	$1,028	504	$23,049,343
Retail Trade	8,223	69,169,566	$647	135	$6,580,300
Construction	4,629	65,194,825	$1,083	-238	-$2,230,990
Educational Services	5,130	50,013,481	$750	90	$1,848,880
Public Administration	3,285	47,079,382	$1,102	69	$944,860
Finance and Insurance	1,921	36,582,901	$1,465	-24	$2,710,730
Manufacturing	3,093	35,502,953	$883	42	$462,229
Wholesale Trade	2,312	35,335,182	$1,176	-82	-$1,591,640
Mining/Oil/Gas	1,491	34,703,322	$1,790	-728	-$14,277,575
Transportation and Warehousing	2,626	33,826,038	$991	50	$508,009
Accommodation and Food Services	6,512	33,126,682	$391	-105	$1,200,229
Professional and Technical Services	2,358	32,069,768	$1,046	70	$1,660,047
Administrative and Waste Services	2,530	25,405,518	$772	46	$1,572,164
Other Services, Ex. Public Admin	1,956	16,118,579	$634	120	$990,109
Real Estate and Rental and Leasing	1,017	10,419,181	$788	8	$599,213
Information	719	9,195,418	$984	21	$784,525
Utilities	338	6,702,908	$1,525	7	$27,154
Agriculture, Forestry, Fishing & Hunting	543	5,686,810	$806	100	$1,680,702
Arts, Entertainment, and Recreation	1,061	4,941,077	$358	11	$170,533
Management of Companies and Enterprises	149	3,025,775	$1,562	6	-$429,304

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

Table 5:

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 5:
Total Wage Changes from Q1 2019 to Q1 2020

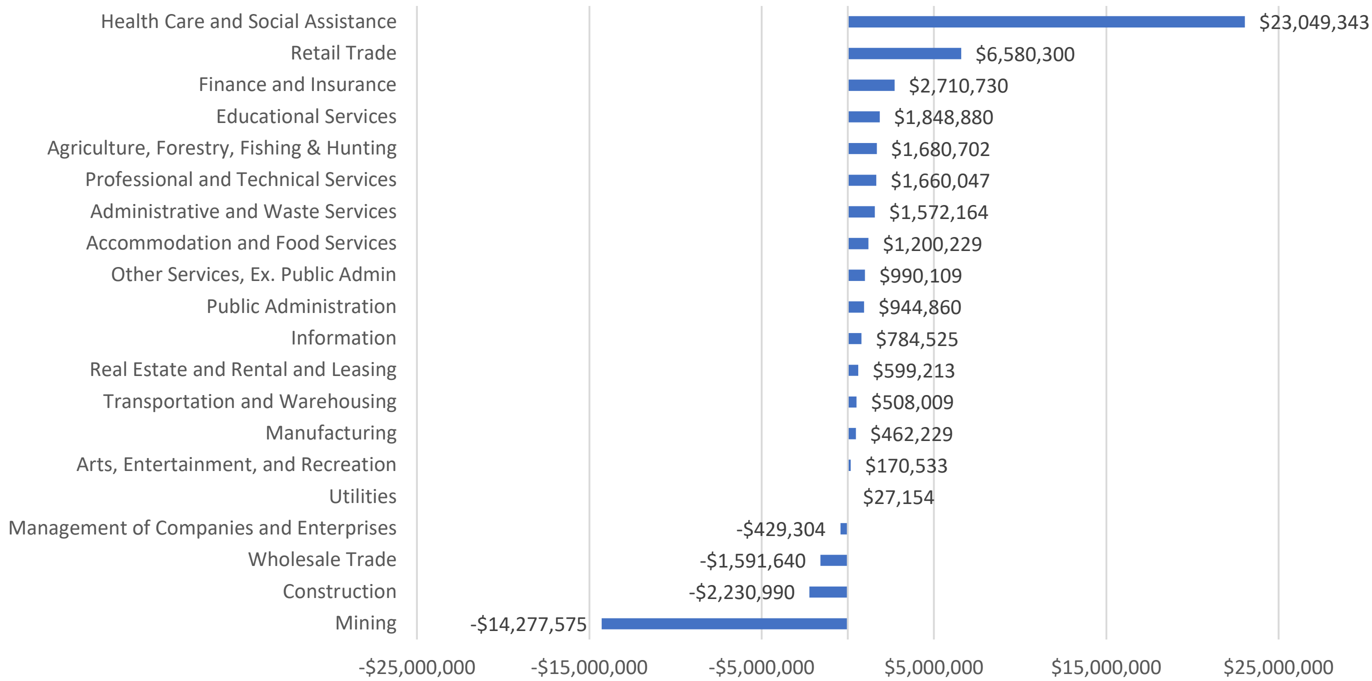
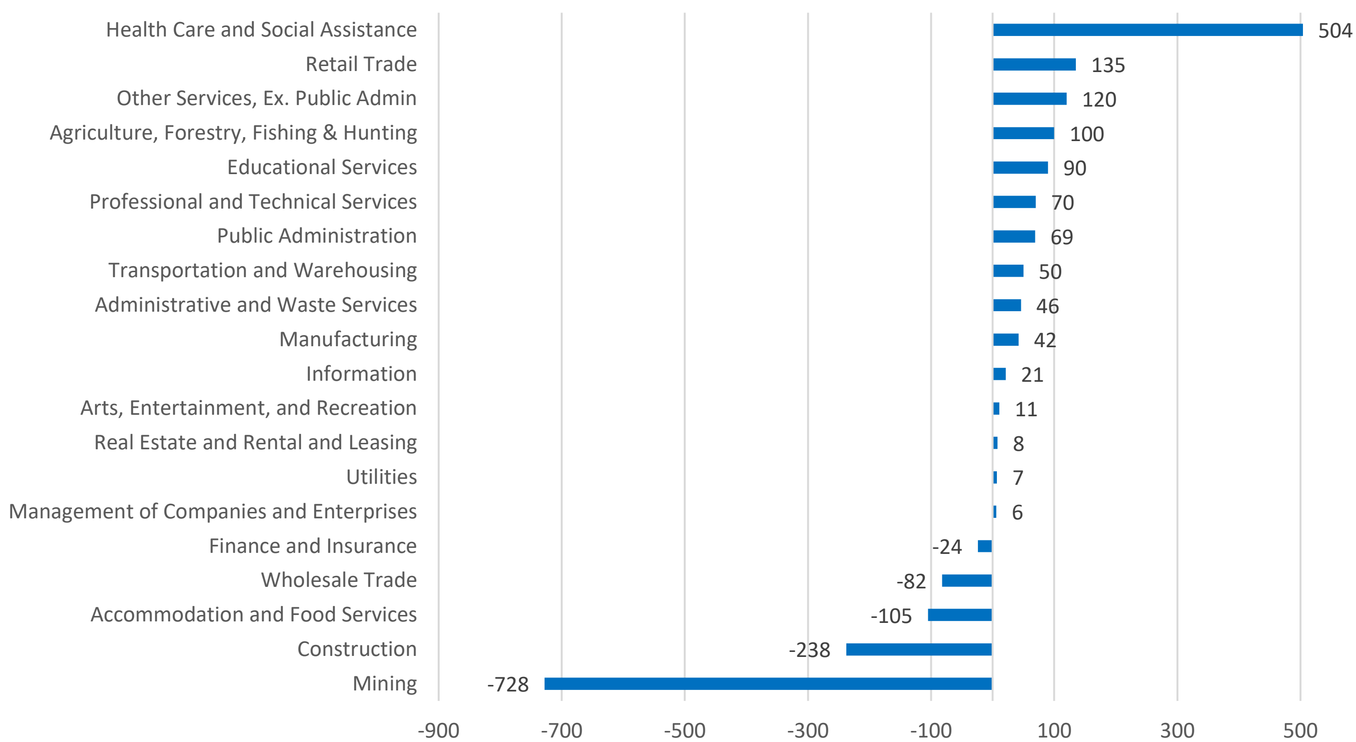


Figure 6:
Total Jobs Change from Q1 2019 to Q1 2020



Local Real Estate

	Q2 2020	Q2 2019	% change since last year
Real Estate			
Inventory of Homes for Sale (3 month avg)	548	724	-24.34%
New Residential listings (3 month total)	988	1,316	-24.92%
Sold Residential Listings (3 month total)	811	939	-13.63%
Median Sales Price	$285,317	$262,083	8.86%
Average Sales Price	$309,143	$292,119	5.83%
Days on Market	81.33	80.67	0.83%
Months Supply of Inventory	1.93	2.57	-24.68%
Total Building Permits	1,238	1,312	-5.64%
Single Family Permits	168	210	-20.00%
Foreclosures			
Foreclosure Filings	9	53	-83.0%
Foreclosure Sales	3	17	-82.4%
Freddie Mac House Price Index			
Grand Junction	212.5	200.4	6.06%
Colorado	219.0	210.0	4.31%
National	202.6	194.1	4.37%
Mortgage Rates			
15 Year Mortgage Rate	2.71%	3.46%	-0.75%
30 year Mortgage Rate	3.24%	4.01%	-0.77%

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

Quarter 2 data shows the impact of COVID on real estate, with the impact being significantly less inventory, less single family home permits, and higher prices as a result of this lower inventory. The median sales price rose by 8.86%, with the Freddie Mac house price index showing that Grand Junction home values increased faster than both the state and the nation, which has been the trend for the past three years. Foreclosures were down significantly due a State moratorium on evictions, and several programs that allowed homeowners to skip or delay payments due to COVID shutdowns. With an economy in a recession, unless there are further programs, foreclosures are expected to increase through late 2020 as unemployment translates to lack of income and missed home payments.

Even when foreclosures increase, home values may not fall. Record low interest rates have kept demand for housing extremely high, and foreclosed on homes will likely be purchased very quickly due to the shortage of inventory. In fact, real estate has been one of the leaders in the national economy, helping to push the economy out of recession. The housing market across the nation is strong, contradicting many economists who believed that real estate would experience slowing when the COVID shut downs began.

Regional Energy

	Q2 2020	Q1 2020	Q2 2019	% change since last quarter	% change since last year (comparable quarters)
Energy Prices					
WTI Crude Oil	$27.96	$45.34	$59.88	-38.33%	-53.31%
Henry Hub Natural gas	$1.71	$1.91	$2.56	-10.47%	-33.20%
Retail Gasoline Price	$1.83	$2.31	$2.68	-20.86%	-31.63%

Drilling Permits	**2020 (YTD, as of August)**	**2019 (YTD, August)**		**% Change since same time last year**	
Drilling Permits (Mesa County)	1	0		N/A	
Drilling Permits (Rio Blanco County)	1	32		-96.88%	
Drilling Permits (Garfield County)	85	105		-19.05%	
Drilling Permits (Moffat County)	1	1		0.00%	
Total Permits (Mesa, Rio Blanco, Garfield, Moffat)	88	138		-36.23%	
Total Permits (Colorado)	768	1,330		-42.26%	

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

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 7:
Oil and Natural Gas Prices

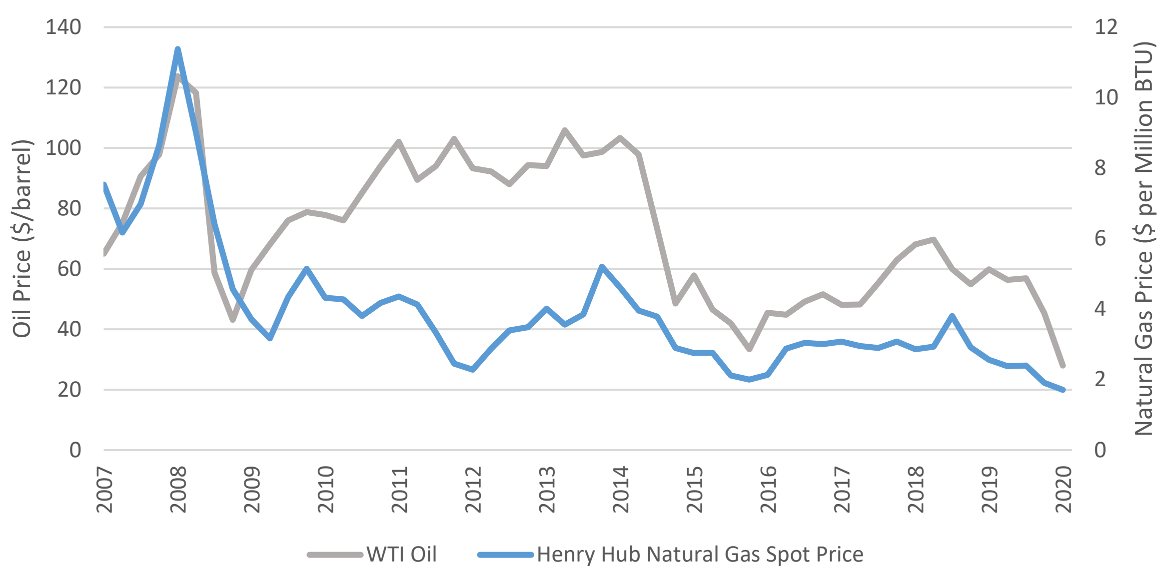
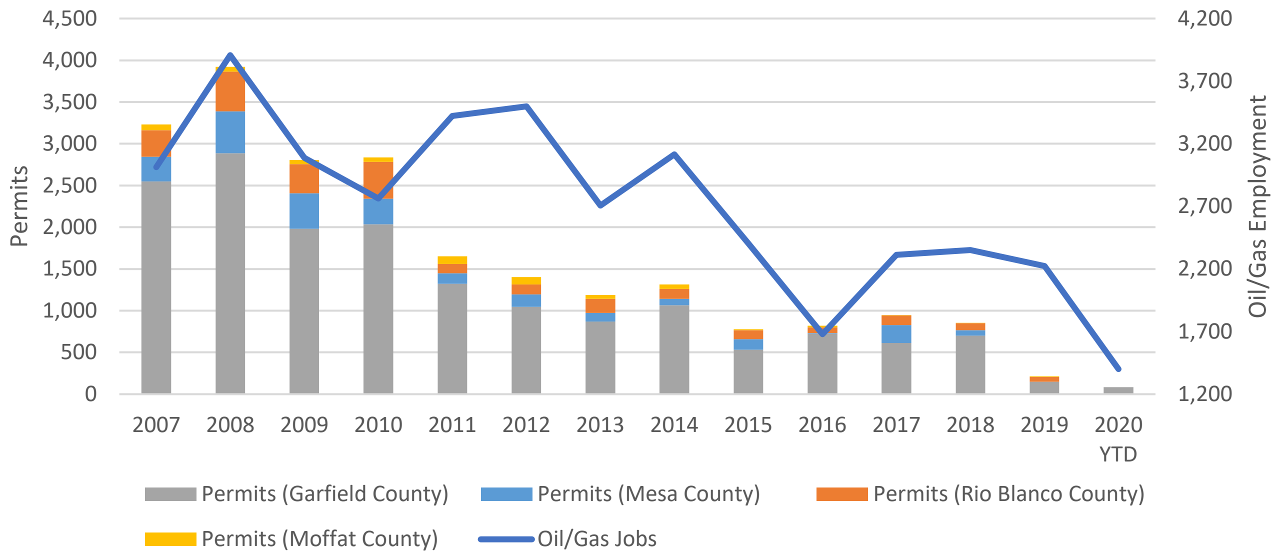


Figure 8:
Oil/Gas Drilling Permits and Oil/Gas Jobs



Natural Gas Prices

The Henry Hub natural gas spot price averaged $1.71/MMBtu for the second quarter of 2020, rising to $2.17/MMBtu in early August. Natural gas prices received support from strong demand for natural gas fired power generation. In fact, electric power generation in July increased to 43.6/Bcf per day, the highest month on record. Due to low prices, natural gas production has begun to decline, falling by 9.5 Bcf/d from the November highs to 86.8 Bcf/d.

Source: Energy Information Agency

Oil and Gasoline Prices

WTI oil averaged $27.96 in Q2, increasing to $40.71 per barrel in July. Brent crude oil prices reached $43 in July, and the EIA expects oil to average $43/barrel during the second half of 2020, rising to an average of $50/barrel in 2021. COVID demand issues have pushed oil prices down from previous prices, reducing traveling, flying, and some industrial production. The EIA estimates that the demand for global pretroleum and liquid fuels averaged 93.4 million b/d in July, down 9.1 million b/d from July of the previous year.

As oil prices have fallen, gasoline prices have followed. Gas prices averaged $1.83 in Q2, rising to $2.18 in August. Gas prices in Mesa County range between $2.23 and $2.40 according to GasBuddy.com (August 31st).

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

Western Slope Drilling Activity

Western Slope drilling activity is on pace for record low permitting, with the 2020 YTD numbers lagging the 2019 YTD numbers. Figure 8 illustrates drilling permit applications and oil and gas employment. OIl and gas jobs have fallen to almost 1,400, the lowest number since long before the run-up in oil and gas activity in 2008. With natural gas prices hovering just above $2, oil and gas permits and employment are not expected to pick up in the near future.

National Economic Indicators

	Q2 2020	Q1 2020	Q2 2019	% change since last period	% change since last year (comparable quarters)
Business Cycle Indicators					
Real GDP	-32.90%	-5.00%	1.50%	-27.90%	-34.40%
Personal Consumption Expenditures	-34.60%	-6.90%	3.70%	-27.70%	-38.30%
Gross Private Domestic Investment	-49.00%	-9.00%	-5.80%	-40.00%	-43.20%
National Consumer Confidence	74.1	96.6	98.5	-23.29%	-24.77%
Industrial Production Index	93.5	107.7	109.2	-13.20%	-14.37%
Initial Weekly Unemployment Claims (4 week MA)	3,321,404	464,000	217,481	615.82%	1427.22%
Non Farm Payroll Change (in thousands)	-18,205,000	133,333	425,667	-13753.75%	-4376.82%
Unemployment					
Unemployment Rate-U3-SA	13.00%	3.80%	3.60%	9.20%	9.40%
Unemployment Rate-U6-SA	20.70%	7.50%	7.20%	13.20%	13.50%
Interest Rates					
Federal Funds Rate	0.06%	1.35%	2.40%	-1.29%	-2.34%
10 Year U.S. Treasury	0.69%	1.38%	2.33%	-0.69%	-1.64%
30 Year U.S. Treasury	1.38%	1.87%	2.78%	-0.49%	-1.40%
Inflation Measures					
Inflation Rate (CPI)	0.44%	2.11%	1.83%	-1.66%	-1.39%
Core Inflation Rate (All Items Less Food and Energy)	1.29%	2.24%	2.07%	-0.95%	-0.78%
Inflation Rate (Shelter)	2.52%	3.21%	3.43%	-0.69%	-0.90%
Producer Price Index (PPI)	-6.22%	-1.67%	-0.59%	-4.55%	-5.63%
Employment Cost Index	2.70%	2.79%	2.70%	-0.09%	0.00%
Stock Prices					
S&P 500	2,932	3,056	2,882	-4.06%	1.71%
Dow Jones Industrial Average	24,571	26,554	26,096	-7.47%	-5.84%
Trade Balance and Debt					
Trade Balance (% of GDP)	-544.706	-494.307	-644.744	10.20%	-15.52%
Federal Debt (% of GDP)*	107.7%	106.7%	104.3%	1.0%	3.4%

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 9:
Real GDP

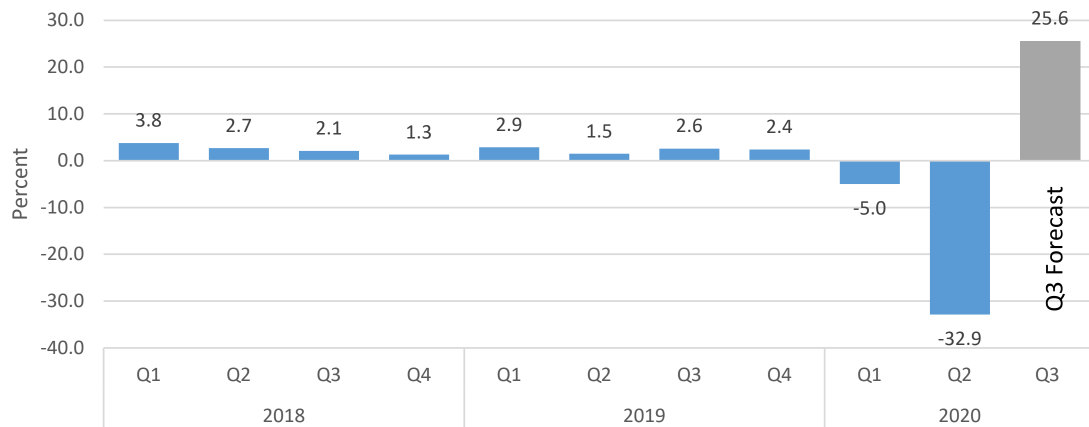
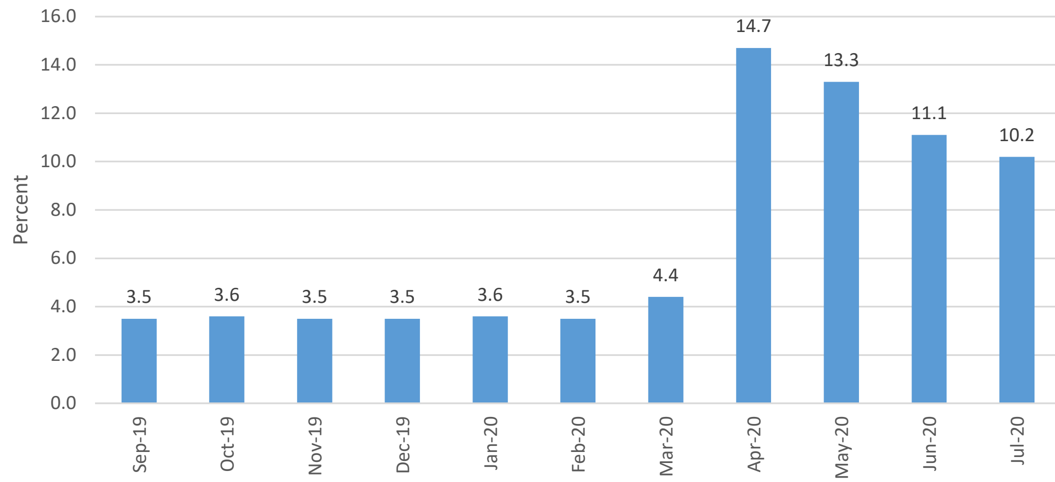


Figure 10:
U.S. Unemployment: Sept 2019 through June 2020



National Economic Performance

The national economy is recovering from the initial shock of COVID, and the induced shutdowns and shifted consumption resulting from the pandemic. Figure 10 shows unemployment hit a peak of 14.7% in April to 13.3% in May, to 11.1% in June, 10.2% in July, falling to 8.4% in August. The National Bureau of Economic Research (NBER) declared an official recession starting in late February. Figure 9 illustrates a massive 32.9% annualized decline in GDP, illustrating just how precipitous the drop in economic activity was. The Atlanta Federal Reserve's GDP Now forecast expects a 25.6% bounceback in quarter 3, still leaving a relatively large gap. To illustrate this gap further, figure 11 illustrates real GDP and potential GDP. Real GDP is our actual level of GDP, whereas potential GDP can be seen as the level of output produced if the economy were performing well and most of our industrial resources were being put to use. Potential GDP is where we want to be. The graph shows just how far below potential GDP actual output has fallen, and note how much further from the previous recession real GDP has fallen.

Interest Rates and the Fed

Interest rates remain incredibly low, with the 10 year treasury bond yielding between 0.50% and 0.75%. The Federal Reserve intends on keeping interest rates low, and the Federal Reserve has recently changed a policy that will allow them to keep interest rates low even longer. The Fed will now allow inflation to increase past 2%, instead putting more emphasis on labor market outcomes and less on inflation in their dual mandate. Lower interest rates means lower mortgage rates, which means real estate will likely continue its run as a economic recovery leader.

The intention of low interest rates is to spur both investment and consumption. The unintended consequence of a low interest rate policy can be increased asset prices, specifically stocks and real estate. Since bond yields are so incredibly low, many investors do not want to invest in them, so their other choice is to put money into the stock market, which is one of the reasons that stocks have rallied so much. Another financial asset that is desirable in a low interest rate environment is real estate, which continues to increase in price.

Figure 11:
Real and Potential GDP

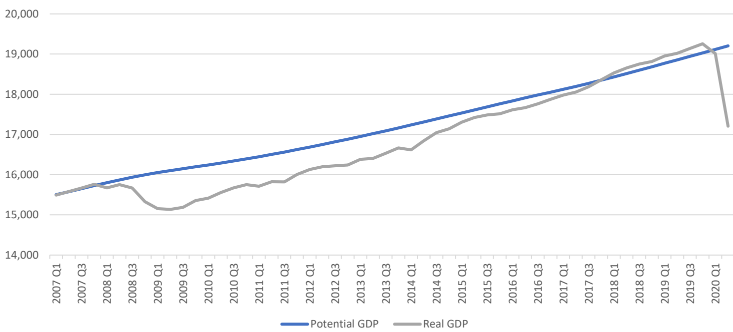
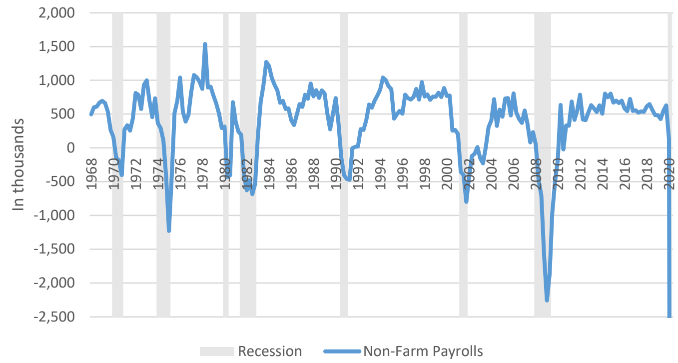


Figure 12:
Change in Non-Farm Payrolls



The Path to Economic Recovery

In the last economic newsletter, different types of recoveries were discussed. Thus far, there has been a sharp bounceback in several economic data points, indicating either a V shaped, "swoosh-shaped," or the "square root" shaped recovery. A V-shaped recovery may be optimistic, as there are still limitations on certain businesses for COVID safety reasons, but more importantly many consumers are still altering their consumption habits, which has created some structural unemployment. Fiscal policy was keeping many of these unemployed people afloat, but as stimulus wears out, savings run out and there will be negative consequences from so many people without jobs (i.e. negative multiplier effects). This is an argument for why we may be approaching the horizontal part of the square root recovery, as recovery from structural unemployment will take time. This can be seen with a slowing of job growth in the last jobs report. If COVID actual or perceived risks change drastically, and as a result of this government safety mandates are changed, and most importantly if consumers return to their previous consumption patterns, we could move towards more of a V-shaped recovery or perhaps a swoosh-shaped recovery.

Recovery will be reached when actual GDP returns to near potential GDP (figure 11). The previous newsletter showed a Congressional Budget Office (CBO) forecast that was extremely pessimistic. The CBO has since updated their forecast to show a total growth decline in 2020 of -5.9% , with an average unemployment of 10.6%. The CBO forecasts a 4.8% growth rate in 2021 with an average unemployment rate of 7.1%, with 2022 at 2.2% growth (an average growth rate) and unemployment at 6.3%. The CBO sees GDP recovering to its pre-pandemic level by the middle of 2022. Overall, the economy is recovering quicker than many economists predicted, but it will take multiple years to recover from the economic losses incurred.

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