Mesa County Economic Update

Fourth Quarter 2018

Colorado Mesa University

Provided by the Business Department of Colorado Mesa University

Economic Summary

- Recently released Mesa County GDP data shows 4.2% GDP growth for 2017, which is the strongest growth rate since 2008.
- Unemployment remains low at 4%, with strong sales tax collection and increased employment numbers.
- The local real estate market remains strong, however there are some signs of slowing both locally and nationally with rising inventory nationally and decreased sold listings locally.
- The national economy is very strong, with a high growth rate of 3.5%. Unemployment remains at levels not seen since the 1960's at 3.8%. Rising interest rates and the potential for slowing housing are the only potential threats.

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

	Q3 2018	Q2 2018	Q3 2017	% change since last quarter	% change since last year (comparable quarters)
Local Labor Market					
Unemployment Rate Mesa County -SA	4.00%	3.50%	3.90%	0.50%	0.10%
Unemployment Rate Mesa County -NSA	3.80%	3.30%	3.70%	0.50%	0.10%
Unemployment Rate Colorado -SA	2.90%	2.80%	2.90%	0.10%	0.00%
Unemployment Rate U.S. -SA	3.80%	3.90%	4.30%	-0.10%	-0.50%
Labor Force	75,884	75,555	74,703	0.44%	1.58%
Employed	72,992	73,083	71,941	-0.13%	1.46%
Unemployed	2,893	2,471	2,762	17.05%	4.72%
Business Confidence					
Leeds Colorado Business Confidence	56.5	59.6	56.5	-5.20%	0.00%
Sales/Use Taxes					
City Sales/Use Taxes (Q1 total)	$15,055,107	$14,203,936	$13,911,097	5.99%	8.22%
City Sales/Use Taxes (Cumulative)	$42,528,436		$39,221,561		8.43%
Mesa County Sales/Use Tax (Q1 total)	$9,572,653	$9,146,030	$9,027,301	4.66%	6.04%
Mesa County Sales/Use Tax (Cumulative)	$27,100,758		$24,673,264		9.84%
City Lodging Tax Revenue (Q1 total)	$548,052	$412,028	$500,327	33.01%	9.54%
City Lodging Tax Revenue (Cumulative)	$1,171,524		$1,085,739		7.90%

Yearly Local Indicators	2016	2015	2014	% change since 2015	% change from 2014
Median Household Income	$49,825	$51,499	$50,106	-3.25%	-0.56%
Percent of Population Below Poverty Line	16.30%	15.60%	15.80%	0.70%	0.50%
	2017	**2016**	**2015**	**% change since 2016**	**% change from 2015**
Population	151,616	149,794	148,116	1.22%	2.36%
Mesa County Gross Regional Product (in millions)	$4,842	$4,649	$4,758	4.15%	1.77%

SOURCES IN ORDER OF LISTING: Local Unemployment Rates: Bureau of Labor Statistics (LAUS); National Unemployment Rate: Bureau of Labor Statistics; Labor Force, Employed, and Unemployed: Colorado Department of Labor and Employment; Business Confidence: Leeds Business Confidence Index; Sales/Use/Lodging Taxes: City of Grand Junction, Mesa County; Median Household Income, Poverty Rate, and Population: U.S. Bureau of the Census; Gross Regional Product: Bureau of Economic Analysis. Note that in all rows where percentages are presented the % change since last quarter and % change since last year represents the difference between the two percentages, not the actual percentage change.

Local Business Cycle

The Bureau of Economic Analysis recently released its 2017 Gross Domestic Product (GDP) estimate for Mesa County. The estimate is very strong, showing 4.15% growth year over year increasing GDP from $4,649,000,000 to $4,842,000,000 (see Figure 1). This is the biggest percentage change increase in growth that Mesa County has seen since the run up in growth from 2004-2007. GDP is a lagging data point, but all of the leading indicators including labor market information, sales tax collection, real estate data, etc. were predictive of a strong year of GDP growth. 2017 was the strongest and most robust growth year since 2007. The good news is that 2018 leading indicators look even stronger, so we can expect another solid GDP number from the 2018 estimate. The national economy had a housing bubble/financial crisis to recover from, but the Western Slope had to recover from both a housing bubble/financial crisis and a commodity price bubble. The burst of both of these bubbles led to a fairly large contraction in the labor force and employment that led to contracting growth and economic stagnation. After several years of contracting growth numbers, it appears that Mesa County is finally growing at the rate of the state and national economy.

Local Labor Market

The Mesa County unemployment rate is low at 3.8%, up from 3.3% since last quarter but still very low by historical standards. Seasonally adjusted unemployment is slightly higher at 4%, still very low historically. Unemployment is currently at very similar levels to that of Q3 2008. Since January of 2017, Mesa County has added 6,146 jobs, which is a strong run. The September labor force numbers sit at their highest level since October of 2010 at 76,282. Mesa County is still well below the peak labor force and employment numbers of 2008, but compared to post 2010 numbers the growth in employment and labor force numbers is very positive.

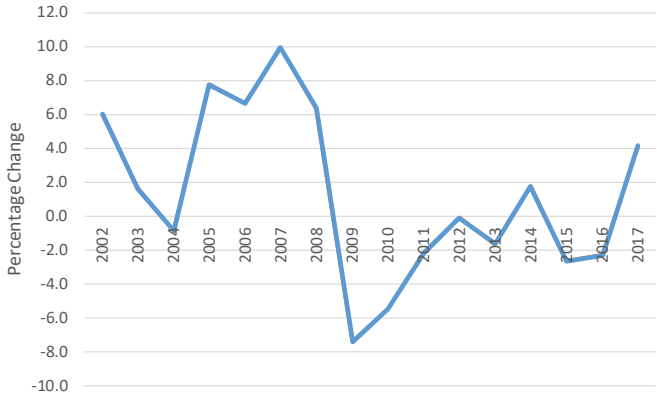
Table 1:

10, 5, and 1 Year Employment Comparison

	Labor Force	Employed	Unemployed
Annual	1,181	1,051	130
5-Year	2,303	5,486	-3,183
10-Year	-7,130	-6,748	-383
Annual %	1.58%	1.46%	4.72%
5-Year %	3.13%	8.13%	-52.39%
10-Year %	-8.59%	-8.46%	-11.68%

Figure 1:

Mesa County Business Cycle (% Change in Real GDP)



Compared to Q2 of 2018 labor force and employment numbers have stagnated, while unemployment numbers have increased. Mesa County has a seasonal employment pattern and this slowdown of employment matches previous seasonal swings. Only if this trend continues for the next 3 quarters should it be concerning.

Other Local Indicators

The Leeds Business School business confidence index is down from the previous quarter but up from the same time last year. Business confidence numbers are still at very high levels. City and County sales/use tax continue to grow year over year with year to date numbers up 8.4% and 9.8% respectively. In addition to this, the year to date lodging tax numbers are up 7.9%. The yearly indicator section lists percentage of people below the poverty line for Mesa County and the most recent data point is 16.3%. For a comparison, other county numbers include Larimer County (13.2%), Montrose County (18%), Delta County (16.8%), Jefferson County (8.1%), and Pueblo County (20.2%). 2015 had a lower poverty rate than 2016 (15.6% vs. 16.3%), but as previously discussed, 2016 was essentially a recession year for Mesa County. Given 2017 GDP numbers and 2017/2018 labor market numbers there is good reason to believe that poverty rates can fall from the 2016 numbers.

Figure 2:

Mesa County Employment

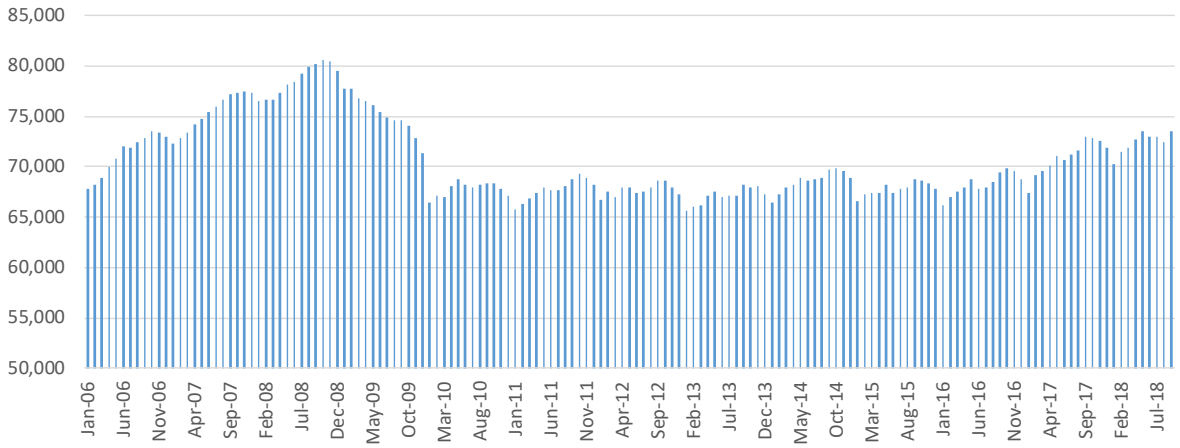
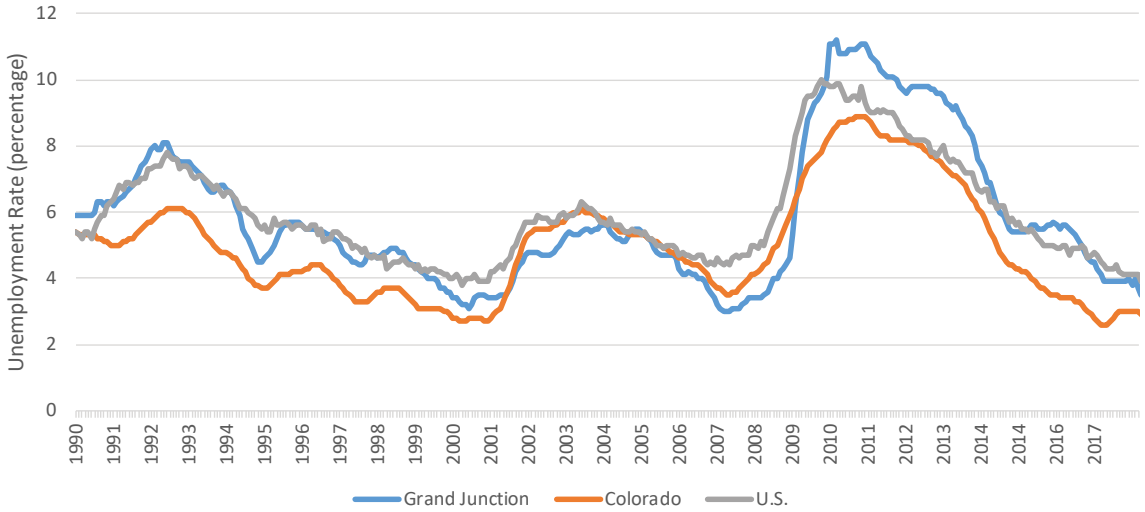


Figure 3:

Unemployment Rates



Mesa County Employment Trends

Table 2 illustrates average employment, total quarterly wages, and average weekly wage for all major industries in Mesa County. Mining, oil, and gas extraction increased its employment by 16.7%, continuing its strong hiring pace since natural gas prices hit lows in 2016. This marks five consecutive quarters of very strong employment growth from the natural gas industry. Construction also saw a large increse in employment gains, increasing by 10.8%, likely the result of a strong housing market and new building. Several industries experience wage gains year over year. As the labor market becomes tighter with low unemployment, wage gains should pick up as companies compete more and more for qualified workers.

Table 2:

Quarterly Census of Employment and Wages for Q1 2018

Sector	Average Employment 1st Quarter 2018	Total Quarterly Wages	Average Weekly Wage	Annual Percent Change in Employment (Compared to Q1 2017)	Annual Percent Change in Average Weekly Wages (Compared to Q1 2017)
Total	60,826	$669,680,027	$847	2.74%	5.22%
Total Government	9,387	$117,049,405	$959	0.19%	4.92%
Total Private	51,440	$552,630,622	$826	3.22%	5.36%
Health Care and Social Assistance	10,647	$124,806,161	$902	5.27%	2.04%
Retail Trade	8,023	$60,684,542	$582	0.35%	6.01%
Construction	4,126	$57,479,357	$1,072	10.82%	7.09%
Mining, Oil, and Gas Extraction	2,350	$51,336,529	$1,680	16.74%	8.46%
Manufacturing	2,984	$37,028,899	$955	5.44%	9.14%
Wholesale Trade	2,381	$35,117,690	$1,135	1.45%	7.58%
Finance and Insurance	1,949	$32,367,333	$1,277	-3.99%	-0.08%
Accommodation and Food Services	6,568	$29,745,441	$348	3.74%	4.82%
Professional and Technical Services	2,162	$27,681,564	$985	4.19%	3.25%
Transportation and Warehousing	2,155	$26,794,546	$956	2.81%	2.36%
Administrative and Waste Services	2,733	$23,169,866	$652	-4.31%	3.66%
Other Services, Ex. Public Admin	1,771	$13,948,397	$606	-0.90%	9.19%
Real Estate and Rental and Leasing	971	$9,341,562	$740	-2.80%	1.79%
Information	628	$7,821,631	$958	-7.24%	3.12%
Utilities	186	$4,079,033	$1,687	-5.58%	4.20%
Arts, Entertainment, and Recreation	994	$3,797,489	$294	5.30%	-4.55%
Management of Companies and Enterprises	160	$3,362,528	$1,617	5.96%	2.99%
Agriculture, Forestry, Fishing & Hunting	324	$2,311,447	$549	9.46%	10.24%
Educational Services	314	$1,656,692	$406	-8.72%	-4.25%

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

Local Real Estate

	Q3 2018	Q3 2017	% change since last year
Real Estate			
Inventory of Homes for Sale (3 month avg)	892	922	-3.25%
New Residential listings (3 month total)	1,281	1,306	-1.91%
Sold Residential Listings (3 month total)	1,074	1,079	-0.46%
Median Sales Price	$240,617	$223,983	7.43%
Average Sales Price	$264,383	$246,700	7.17%
Days on Market	77.43	79.53	-2.64%
Months Supply of Inventory	2.66	3.03	-12.27%
Total Building Permits	1,255	1,040	20.67%
Single Family Permits	214	174	22.99%
Foreclosures			
Foreclosure Filings	59	83	-28.9%
Foreclosure Sales	32	60	-46.7%
Freddie Mac House Price Index			
Grand Junction	186.4	173.1	7.73%
Colorado	203.9	188.4	8.20%
National	190.1	179.1	6.17%
Mortgage Rates			
15 Year Mortgage Rate	4.03%	3.17%	0.86%
30 year Mortgage Rate	4.57%	3.88%	0.69%

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

Local Real Estate Indicators

The local real estate market continues to be historically strong, although there are signs that higher interest rates and high prices may cause the market to slow moving forward. Current residential listings are down 3.3%, while new residential listings and sold residential listings are down 1.9% and 0.5% respectively. Median home value increased 7.4% from Q3 2017 to $240,617 from $223,983. Days on market continues to fall, as does monthly supply of inventory. Single family building permits are up to 214 from 174 (23%), an expected response from home builders in a booming economy with a tight home supply. Total building permits are up 20.7% from last year. Both building permit increases in part help explain the boom in the construction labor data from the QCEW. According to the Freddie Mac house price index, Grand Junction home prices increased more than the national average, but less than the Colorado average.

The quarterly real estate data and monthly data tell slightly different stories. When broken down by month, September sold listings changed from 303 in 2017 to 246 in 2018, showing a sharp 18.8% drop, with a rise in inventory of 6.3%. These numbers did not repeat themselves in October, as the October numbers were much more tempered (this is why I focus on quarterly data, not monthly data). Rising inventory is not just a local trend, but a national and state trend. More and more cities having rising inventory across the nation. This is a small but important piece of evidence that the real estate market may have topped in August, which is a common belief among economists regarding the national real estate market. To be clear, a top does not necessarily mean prices will fall or that there will be a crash, but the concensus is that the price growth we have seen the last few years is likely to start slowing.

The arguments for a slowing housing market are twofold: First, interest rates are rising, with the Federal Reserve committed to increasing rates to thwart potential inflation, asset price bubbles, and to make sure that if we enter a recession the Federal Reserve has a policy tool that they can use (more on this later). The Fed is expected to continue to increase rates. Figure 8 shows that since

2016, the Federal Funds rate has increased to 1.75%. The 30 year mortgage rate has increased approximately 1% during the same time period. If the Federal Reserve has four more rate hikes as many expect, assuming they increase rates by 25 basis points (0.25 percentage points) each time, that would push the Federal Funds rate to 2.75%, likely pushing the 10 year and 30 year mortgage rates up anywhere from 0.5% to 1%, increasing the 30 year mortgage rate from 4.8% to let's say 5.5%. As an example, a $200,000 mortgage for a buyer with good credit at an interest rate of 3.8% a year ago would have had a monthly payment of $932. Today the same home would cost $1,049 at 4.8% interest. If the Fed increases rates as many expect, a 5.5% mortgage rate would increase the house payment to $1,136. That is a total increase of almost $200 in the monthly payment, which is how most people view the cost of the home. This will hurt housing demand.

The second issue is that home values have increased faster than what most measures of household income can sustain. Figure 4 illustrates per capita income and the Case Shiller home price index. Notice that per capita income moves in a very linear fashion but home values swing up and down since 2000. Figure 5 uses a linear trend to show how the Case Shiller index is now above the linear trend. Both figures show that national home values are slightly overvalued compared to either the trend of per capita income or a simple linear trend.

Figure 4:

U.S. Per Capita Income and Case-Shiller Index (2008-Present)

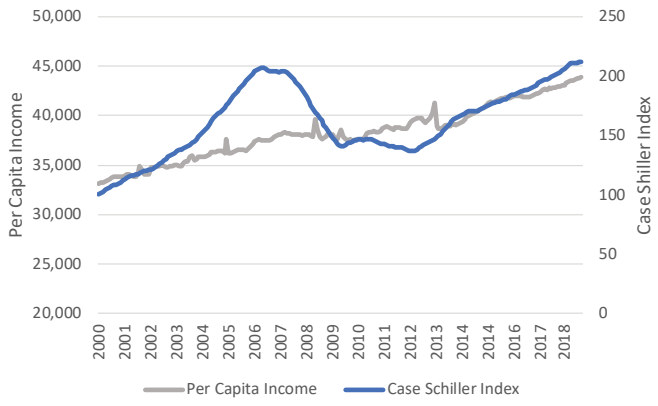


Figure 5:

Case Shiller Index and Linear Trend Line (1987-Present)

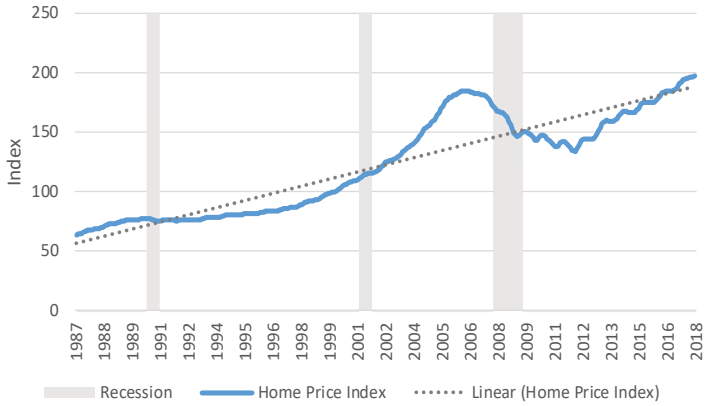
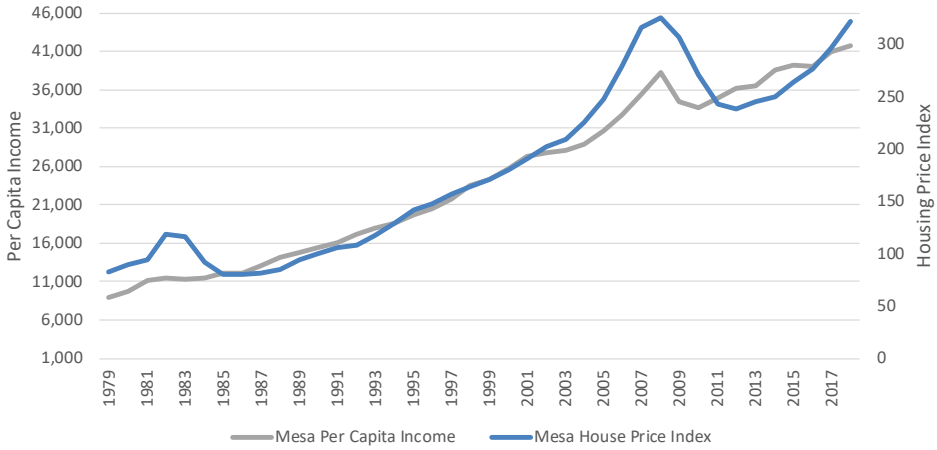


Figure 6:

Mesa County Per Capita Income and Mesa County House Price Index (1979-Present)



SOURCES: Case Shiller Home Price Index: S&P Dow Jones Indices LLC; Per capita income: Burea of Economic Analysis; FF rate and 10 year treasury: Federal Reserve; Local House Price Indices: Federal Housing Finance Agency. 2017 and 2018 per capita income numbers are calculated by the author using a regression forecasting technique. 2018 house price index number is calulated indexing the previous index to median household income numbers. These two procedures provide a complete dataset.

Figure 6 illustrates Mesa County per capita income, overlayed with a Mesa County house price index. The county level graph shows that the house price index has surpassed the per capita income level in a similar fashion to the national data. This is not a perfect analysis, as there is more to the consumer choice for housing than per capita income, but it does provide a baseline equilibrium and illustrates that Mesa County home values are following a similar trend to the nation. Although both national data and local data illustrate that homes are moving beyond their "equilibrium" value, notice that the gap between the current home price and per capita income is smaller than in the 2008 housing bubble. As of now, the inevitable slowing of the national housing market due to rising interest rates and rising home values is unlikely to cause a large housing downturn similar to what was witnessed 10 years ago. This could change as the broader economy changes.

Figure 7 illustrates Mesa, Montrose, Colorado, and the U.S. housing price indices from 1979 to the present. Both Mesa and Montrose witnessed a larger increase in house price appreciation during the bubble 10 years ago, and each county remains higher than the U.S. index. The Colorado Index has had a sharp upturn the last 5 years and has overtaken Mesa and Montrose counties.

Figure 7:

Local Home Price Indices

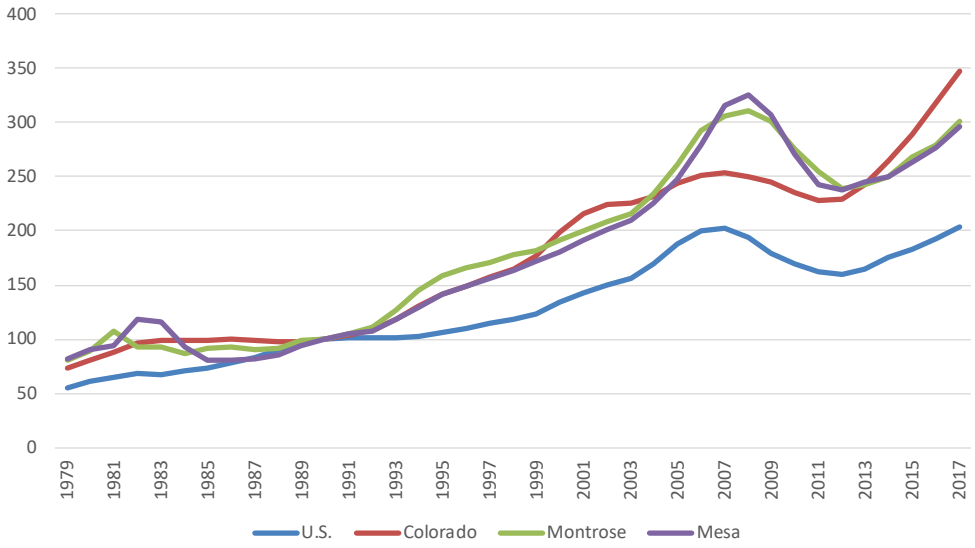
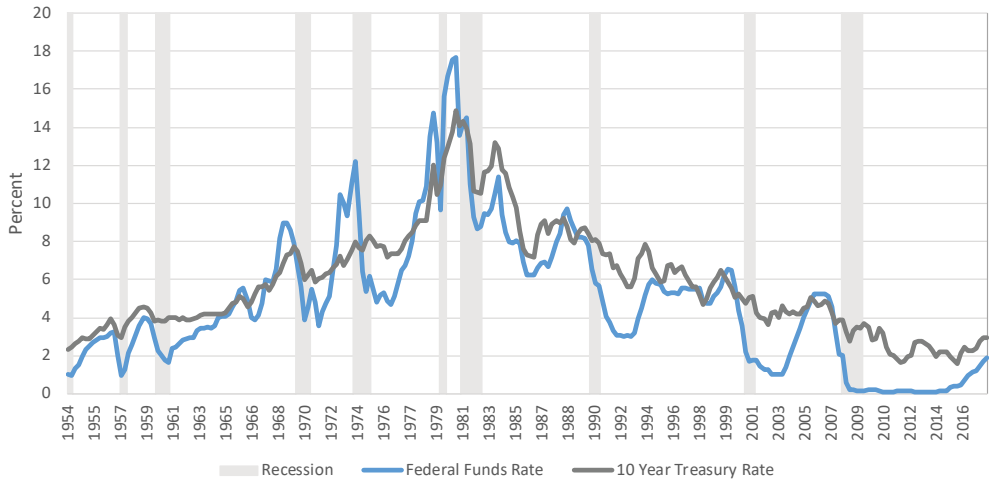


Figure 8:

Federal Funds Rate and 10 Year Treasury Rate



Regional Energy

	Q3 2018	Q2 2018	Q3 2017	% change since last quarter	% change since last year (comparable quarters)
Energy Prices					
WTI Crude Oil	$69.69	$68.07	$48.18	2.38%	44.65%
Henry Hub Natural gas	$2.93	$2.86	$2.95	2.45%	-0.68%
Retail Gasoline Price	$2.77	$2.75	$2.36	0.54%	17.38%

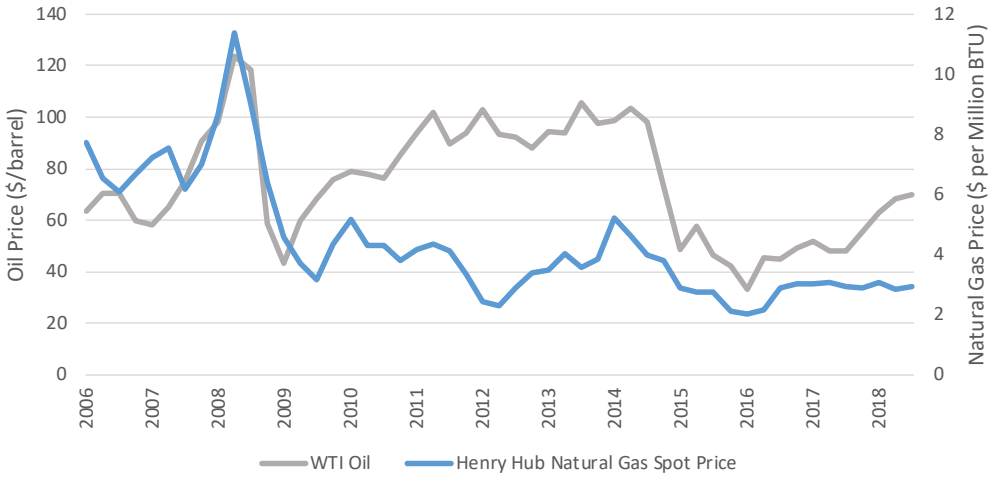
Drilling Permits	2018 YTD (as of Oct 1st)	2017 YTD (as of Oct 1st)	2017 Total	% Change since same time last year
Drilling Permits (Mesa County)	63	171	215	-63.16%
Drilling Permits (Rio Blanco County)	66	113	118	-41.59%
Drilling Permits (Garfield County)	525	442	612	18.78%
Drilling Permits (Moffat County)	4	4	5	0.00%
Total Permits (Mesa, Rio Blanco, Garfield, Moffat)	658	730	950	-9.86%
Total Permits (Colorado)	3,118	2,952	3,909	5.62%

Local Rig Count	**Nov-18**	**Aug-18**
Rig Count (Western Colorado, Mesa, Rio Blanco, Garfield, Moffat)	7	7

SOURCES: All energy prices: Energy Information Agency; All permit data from Colorado Oil and Gas Conservation Commission (COGCC); Local Rig Count: Baker Hughes Rig Count as of November 1st, 2018.

Figure 9:

Oil and Natural Gas Prices



Natural Gas Prices

Natural gas prices rose slightly in Q3 2018 to $2.93/MMBtu from $2.86/MMBtu in Q2. In early October, the price of natural gas has been steadily increasing, and as of October 30th sits at 3.23/MMBtu. Higher temperatures in the lower 48 states led to an increase in natural gas demand for power generation compared to supply inventory. This reduction puts inventories at 2,866 billion cubic feet (Bcf), which is 18% less than one year ago, and 17% less than the 5 year average of inventory. Although this reduction in inventory may be large it will likely not be met with a comparible increase in price due to the high level of natural gas production that the U.S. is experiencing. The Energy Information Agency forecasts that natural gas prices will average 2.99/MMBtu for the rest of 2018, increasing to 3.12/MMBtu for 2019.

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

Oil and Gasoline Prices

The West Texas Intermediate (WTI) price of oil hit a 4 year high on October 3rd reaching $76.4/barrel. Since this 4 year high, the price has fallen to $55.63/barrel (as of November 13th). Prices were rising due to the re-imposition of sanctions on Iran that will reduce Iranian exports of crude oil and thus world oil supply. In June OPEC met and decided to increase oil production, more than offsetting the reduction in Iranian and Venezuelan exports. The increase in price indicated that the market did not have faith that Saudi Arabia and other OPEC members can keep production as high as agreed upon. However, since this rise in oil a slowing economy, a reactive U.S. oil industry, and the rising dollar have caused the price of oil to plummet. The world economy has slowed considerably, which will reduce the global demand for oil in the near future. Oil is priced in dollars, and as the U.S. dollar continues to appreciate it makes it more expensive for foreign nations to purchase oil denominated in dollars, reducing the quantity demanded. The U.S. is now the largest producing oil country in the world, and as prices increase the law of supply kicks in and U.S. oil producers start producing more oil, flooding the market, and reducing the price. These mixed signals over the last 2 months make oil prices difficult to forecast.

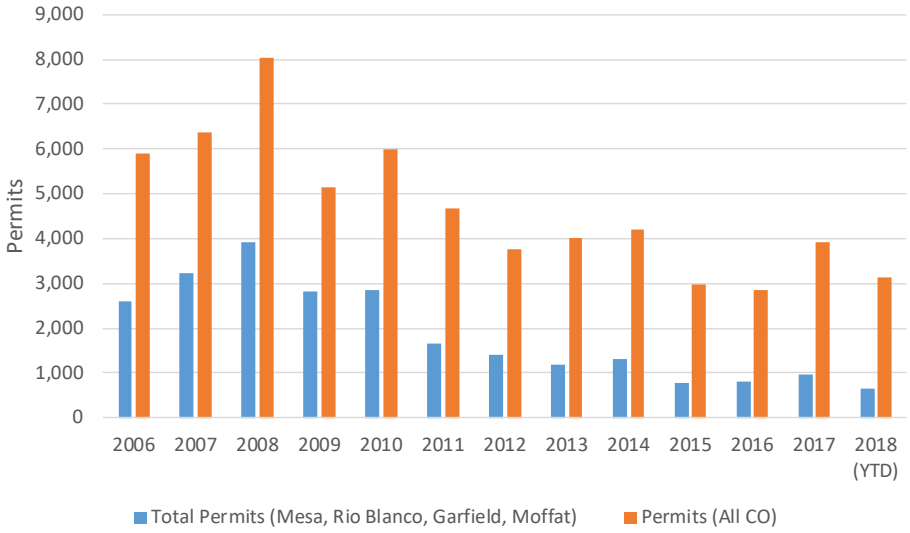
Gasoline prices remain constant from last quarter but are up 17.4% since last year. Thus far into November, gasoline prices have not fallen as a result of the falling price of oil.

Western Slope Drilling Activity

Western Slope drilling activity in Q3 of 2018 is unchanged from Q2, staying at 7 rigs. All rigs in the Piceance are currently engaged in natural gas drilling. Drilling permits for Mesa County and Rio Blanco County are down 63% and 41% respectively from the same time last year. Permits in Garfield County are up almost 19%. Piceance basin permits in total as are down approximately 10% from last year.

Figure 10:

Total Drilling Permits: Piceance vs. Colorado



National Economic Indicators

	Q3 2018	Q2 2018	Q3 2017	% change since last period	% change since last year (comparable quarters)
Business Cycle Indicators					
Real GDP	3.50%	4.20%	2.80%	-0.70%	0.70%
Real Personal Consumption Expenditures (PCE)	3.05%	2.61%	2.36%	0.44%	0.68%
Private Fixed Investment	7.69%	8.33%	6.04%	-0.65%	1.64%
National Consumer Confidence	98.1	98.3	95.1	-0.20%	3.15%
Industrial Production Index	108.5	107.3	103.3	1.16%	5.05%
Initial Weekly Unemployment Claims (4 week MA)	213,096	223,288	248,571	-4.56%	-14.27%
Non Farm Payroll Change (in thousands)	2,446	2,376	2,169	2.95%	12.75%
Unemployment					
Unemployment Rate-U3-SA	3.80%	3.90%	4.30%	-0.10%	-0.50%
Unemployment Rate-U6-SA	7.50%	7.70%	8.50%	-0.20%	-1.00%
Interest Rates					
Federal Funds Rate	1.91%	1.73%	1.16%	0.18%	0.75%
10 Year U.S. Treasury	2.93%	2.92%	2.24%	0.01%	0.69%
30 Year U.S. Treasury	3.06%	3.09%	2.82%	-0.03%	0.24%
Inflation Measures					
Inflation Rate (CPI)	2.61%	2.65%	1.97%	-0.03%	0.64%
Core Inflation Rate (All Items Less Food and Energy)	2.23%	2.19%	1.70%	0.04%	0.53%
Inflation Rate (Shelter)	3.39%	3.41%	3.24%	-0.03%	0.14%
Producer Price Index (PPI)	4.95%	4.88%	3.72%	0.06%	1.22%
Employment Cost Index	2.83%	2.78%	2.51%	0.06%	0.32%
Stock Prices					
S&P 500	2,850	2,703	2,467	5.42%	15.50%
Dow Jones Industrial Average	25,595	24,556	21,891	4.23%	16.92%
International and Debt					
USD Exchange Rate (trade weighted)	125	121	119	3.53%	4.96%
Trade Balance (% of GDP)	-646.487	-549.781	-557.269	17.59%	16.01%

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.;

Figure 11:

Real GDP

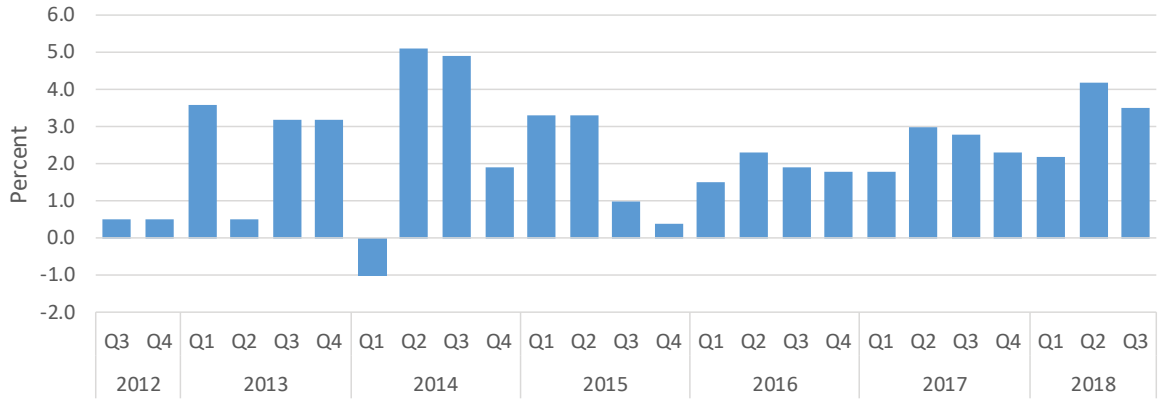
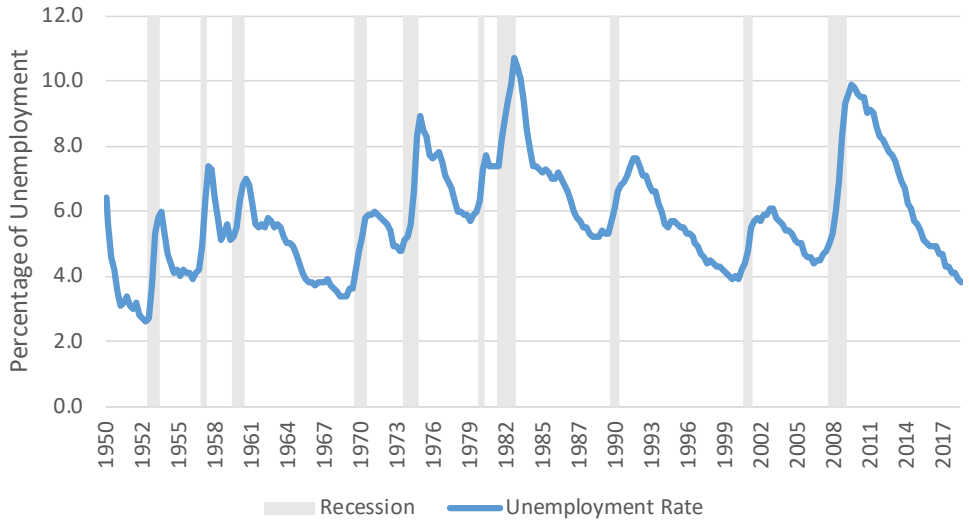


Figure 12:

U.S. Unemployment: 1950-2018



National Economic Performance

Quarter 3 GDP growth registered at 3.5%, which is a solid growth rate and means the economy continues its strong push forward (Figure 9). Real personal consumption expenditures increased from last quarter at 3%, up from 2.6%. Private fixed investment continues to be strong at 7.7%, while the industrial production index shows continued expantion of industrial production. National consumer confidence remains strong at 98.1. The last time consumer confidence remained this consistently high was in the late 1990's.

The national labor market continues to be strong, with weekly unemployment claims continuing to fall and non-farm payroll numbers increasing. Unemployment moved from 3.9% in Q2 to 3.8% in Q3. The U.S. has not seen unemployment at 3.8% since the late 1960's (Figure 10). Not even in the technology boom of the 1990's did unemployment get to 3.8%. The U6 measure of unemployment, that counts so called discouraged workers, has not been at 7.5% since 2001, right before the tech bubble burst.

Interest rates are the only bad news for the economy, and quite frankly they have not gone up very much by historical standards. The Federal Funds rate has increased from 1.2% to 1.9% the past year, or an increase of 70 basis points. In the same time period, the 10 year treasury rate has increased 2.2% to 2.9%, roughly the same amount. This has pushed mortgage rates higher and forced the housing market to cool. All measures of inflation have held constant from last quarter, although all measures are up from Q3 last year. Specifically, the producer price index is up 1.2% year over year, which is troubling because it is a leading indicator for the consumer price index.

Although the stock market shows gains from last quarter and from last year, the consensus from economists is that the fiscal policy impact from the recent tax cuts will begin to diminish soon, reducing corporate earnings, and tempering potential gains.

Figure 13:

Employment Cost Index

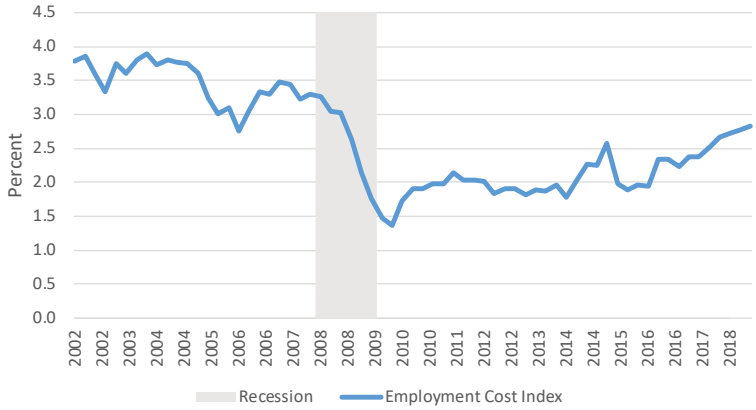
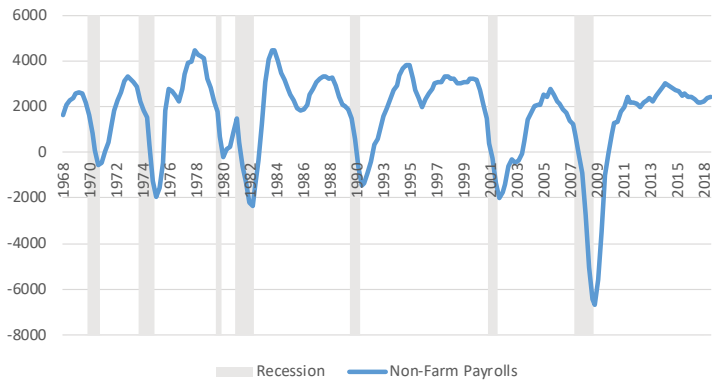


Figure 14:

Change in Non-Farm Payrolls



The Rise of the U.S. Dollar

The U.S. dollar exchange rate continues to rise primarily due to the strength of the U.S. economy compared to world economies and the Federal Reserve increasing rates, which makes U.S. treasury yields more attractive. Global growth is slowing, and investors prefer to be in U.S. stock and bonds vs. other countries' assets with lower GDP growth. This rise in the dollar has several effects internationally. The first is that it makes U.S. exports more expensive, and imports cheaper, widening the trade deficit. Second it has had the effect of making foreign debt denominated in U.S. dollars more expensive to service. This has caused financial turmoil in countries such as Argentina, Brazil, and Turkey. The third point is that a rising dollar also causes inflation in developing countries (called the exchange rate pass through effect), which can cause additional economic and political turmoil. As long as the Federal Reserve keeps raising rates and as long as U.S. growth remains strong relative to global growth, the U.S. dollar will likely remain strong.

Threats to Growth

The national economic data is strong, with only the potential cooling of the housing market and slowing global growth to report as threats for slower U.S. economic growth. Rising interest rates are hurting both the real estate market as well as the stock market. The Federal Reserve has a dual mandate of keeping inflation and unemployment low. Unemployment is very low by historical standards, so the Federal Reserve is choosing to focus on inflation. However, inflation numbers are within an acceptable range (2-3%), and there is a reasonable argument that the Federal Reserve is raising rates too fast or without a good reason to do so. One of the reasons the Federal Reserve may be raising rates is to ensure that during the next recession they have a policy tool by which to fight the recession. If interest rates are kept at zero and a recession hits, the Fed has very few tools to fight unemployment. Another reason may be to thwart a potential bubble forming in the housing market as well as the stock market. Both of these are smart reasons to raise rates, however, it may come at the cost of continued high growth rates.

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