

MONTROSE COUNTY ECONOMIC UPDATE



Provided by the Business Department
of Colorado Mesa University

First Quarter 2019

Economic Summary

- Montrose has seen very strong growth in 2017 and 2018. Newly released median household income data shows that Montrose increased from \$43,285 (2016) to \$51,031 (2017).
- Montrose has completely recovered from the 2008 real estate and energy bubble, with 1,211 more people employed than in 2008.
- The two main industries that have driven employment and wage growth since the bottom of 2016 have been construction and health care. Construction has added 323 jobs, while health care has added 209. In addition to jobs, these two industries have added the most in wages in this time horizon, accounting for 47% of new wages.
- The Bureau of Economic Analysis has started their county level GDP program, and early estimates are analyzed for Montrose County.

The Montrose County Economic Update is provided by the Business Department of Colorado Mesa University and is published quarterly. Please direct all correspondence to Dr. Nathan Perry, Associate Professor of Economics, 970.248.1888, naperry@coloradomesa.edu.

CONTENTS

Local Economic Indicators.....	1
The Local Labor Market	2
Montrose GDP Estimates.....	2
Montrose Compared to Others.....	3
Employment Changes From 2008.....	5
Employment Changes From 2016.....	7
Is Recent Growth Sustainable?	8
Local Real Estate Indicators	9
Local Energy	10
Oil/Natural Gas/Gasoline Prices	11
Western Slope Drilling Activity.....	11
National Economic Indicators	12
National Economic Performance	13
Federal Reserve Policy and 2019.....	14

LOCAL ECONOMIC INDICATORS

	Q4 2018	Q3 2018	Q4 2017	% change since last quarter	% change since last year (comparable quarters)
Local Labor Market					
Unemployment Rate Montrose County-NSA	3.57%	3.23%	3.07%	0.33%	0.50%
Unemployment Rate Colorado - NSA	3.40%	3.20%	2.90%	0.20%	0.50%
Unemployment Rate U.S. - NSA	3.60%	3.90%	3.90%	-0.30%	-0.30%
Labor Force	22,656	22,182	21,383	2.14%	5.95%
Employed	21,851	21,462	20,728	1.82%	5.42%
Unemployed	805	720	654	11.76%	22.98%
Business Confidence					
Leeds Colorado Business Confidence Index	50.1	54.6	59.5	-8.24%	-15.80%
Sales/Use Taxes					
City Sales/Use Taxes (Quarterly)	\$4,688,499	\$4,815,654	\$4,407,129	-2.64%	6.38%
City Sales/Use Taxes (YTD)	\$17,861,368		\$16,669,143		7.15%
County Sales/Use Tax (Quarterly)	\$3,306,305	\$3,481,635	\$3,067,389	-5.04%	7.79%
County Sales/Use Tax (YTD)	\$13,013,799		\$12,319,536		5.64%
Hotel and Restaurant Tax (Quarterly)	\$122,490	\$171,286	\$119,185	-28.49%	2.77%
Hotel and Restaurant Tax (YTD)	\$545,224		\$515,424		5.78%
Telluride Sales/Use Tax (Quarterly)	\$1,449,682	\$2,347,848	\$1,385,881	-38.25%	4.60%
Telluride Sales/Use Tax (YTD)	\$7,111,934		\$6,804,257		4.52%

Montrose Regional Airport	Q4 2018	Q2 20183	Q4 2017	% change since last quarter	% change since last year
Enplanements	23,357	36,461	21,890	-35.94%	6.70%
Yearly Indicators	2017	2016	2015	% change since 2016	% change from 2015
Median Household Income	\$51,031	\$43,285	\$46,860	17.90%	8.90%
Percent of Population Below Poverty Line	17.80%	18.00%	19.00%	-0.20%	-1.20%
Population	41,784	41,160	40,534	1.52%	3.08%
Personal Income (in thousands)	\$1,573,486	\$1,495,704	\$1,449,275	5.20%	8.57%
Per Capita Personal Income	\$37,658	\$36,339	\$35,755	3.63%	5.32%

SOURCES IN ORDER OF LISTING: State and 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; Leeds Colorado Business Confidence Index: Leeds School of Business; Sales/Use Tax information: City of Montrose, Montrose County, City of Telluride; Montrose Regional Airport enplanements/deplanements: Montrose Regional Airport; Population, poverty, and median household income: U.S. Census Bureau; Personal income: 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.

The Local Labor Market

The Montrose labor market continues to be strong, with a 3.57% unemployment rate for Q4. This is an incredibly low unemployment rate but is still higher than the Q4 2017 number of 3.07%. Employment is up 389 since last quarter and 1,123 since Q4 of 2017. That is a 5.42% increase for one year. Table 1 compares yearly averages for 2018 compared to 2017, 2013, and 2008. Compared to 2013, Montrose now has 3,734 more people employed. Compared to 2008, there are 1,479 more people employed. While neighboring Mesa County has not yet recovered from the boom/bust of 2008, Montrose has now far surpassed it.

Since 2016, Montrose has 1,970 more people employed, equating to a 9.29% increase in employment in 2 years. That is an impressive increase in such a short amount of time. Figure 1 illustrates employment in Montrose from 1990 to the present. Using a trend line as a relative indicator of the long term trend of employment growth, Montrose has now moved above the trend line.

Montrose County Economic Performance

The Bureau of Economic Analysis has recently begun a pilot program to calculate county level GDP. Mesa County GDP has been calculated since 2001 because they are considered a Metropolitan Statistical Area (MSA), but Montrose thus far has never had a GDP calculation performed in the same way. The pilot estimates started with 2012-2015, so the data is not the most recent past, but the idea is that the BEA will start updating this dataset and at some point we will receive GDP estimates at the county level in a timely fashion. Figure 2 illustrates Montrose County GDP, while figure 3 illustrates Montrose County GDP in terms of the percentage change from the last year, or

Table 1:

1, 5, and 10 Year Employment Comparison (Based on Yearly Data)

	Labor Force	Employed	Unemployed
Annual	1,053	973	79
5-Year	2,680	3,734	-1,053
10-Year	1,211	1,479	-269
Annual %	5.03%	4.81%	11.49%
5-Year %	13.89%	21.37%	-57.77%
10-Year %	5.83%	7.50%	-25.87%

the GDP growth rate. Montrose had a 3.6% growth rate in 2015, which was much larger than surrounding counties. It is however important to note that this county level GDP pilot program will likely be updated and the numbers may change as revisions take place.

Recently released yearly economic indicators for Montrose County show an abundance of good news. Median household income had what can only be described as an amazing jump from a 2016 number of \$43,285 to a 2017 number of \$51,031. That is an incredible increase for one year and reflective of the type of economic boom that Montrose is having in 2017 and 2018. Note that Census data always has quite a lag, so 2018 data will not be available for some time. In line with this, the percentage of the population below the poverty line fell, and is now trending downwards for 3 years in a row after trending upwards from 2012-2015. Personal income, another measure of county growth and a proxy for GDP at the county level is up 3.63% from last year and 5.32% from 2015.

Figure 1:
Montrose County Employment With Trend Line

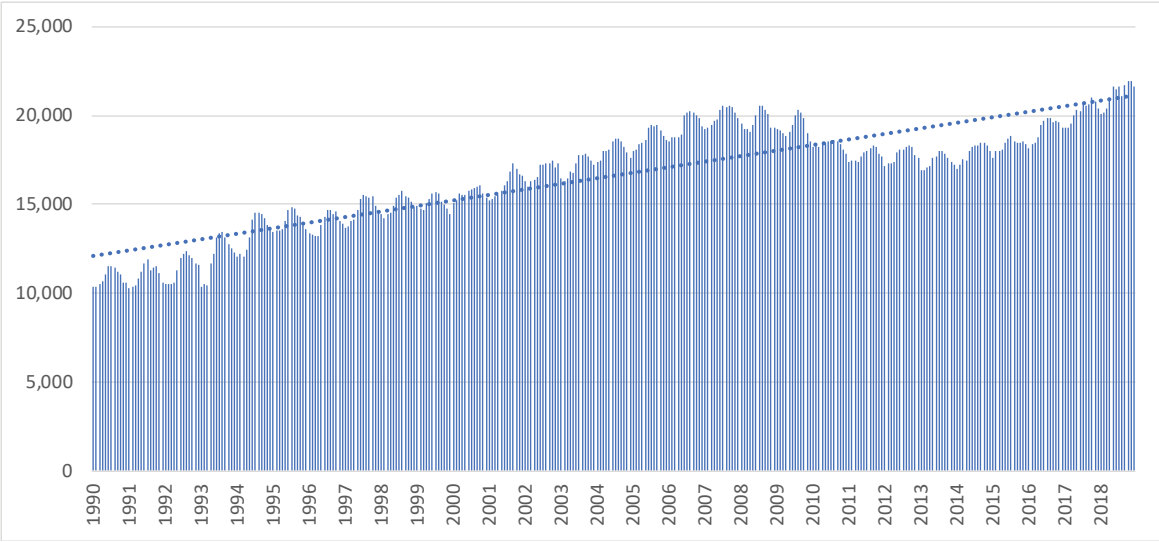


Figure 2:
Gross Domestic Product Estimate (new)

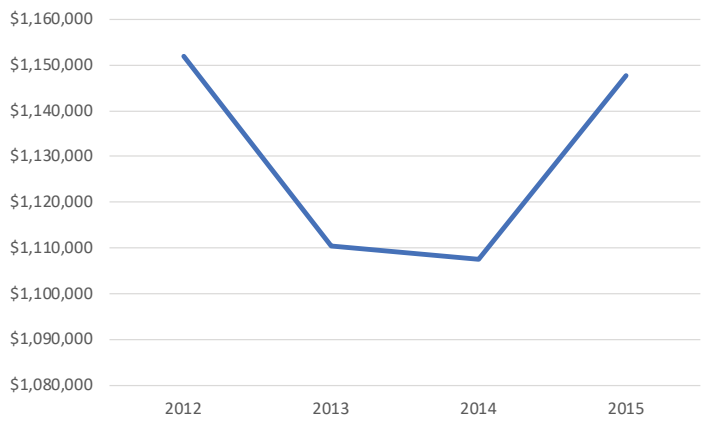
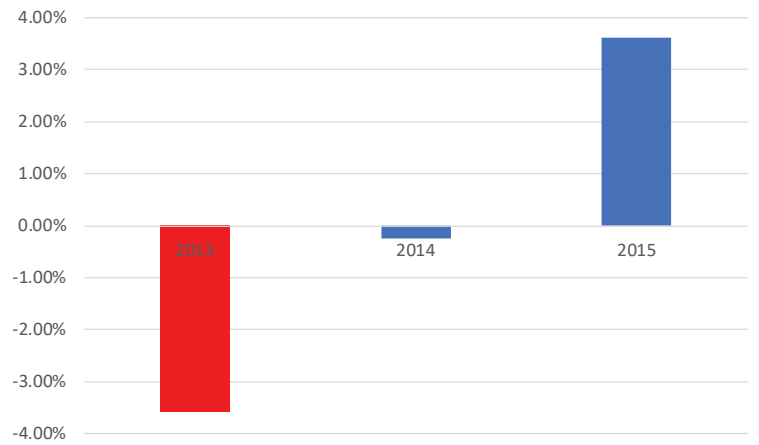


Figure 3:
GDP Growth Rate



Montrose County Compared to Other Counties

There are several ways to measure the recent economic success in Montrose County. 1) Compared to the boom of 2008, 2) compared to the Front Range, 3) compared to surrounding counties, and 4) compared to the recent past. Compared to the boom of 2008, Montrose County has more than fully recovered and is moving past the 2008 economic numbers. Neighboring Mesa and Delta counties have still not recovered fully from the 2008 boom. Comparing to Denver growth is an unfair and inaccurate comparison, but the increases in employment and median income may prove somewhat comparable for Montrose in 2017 and 2018 (figure 4). GDP growth rate comparisons are not complete because the BEA has not released all the Montrose estimates, but for the 4 years that are released, both 2014 and 2015 were strong growth years with only Denver having higher growth. Table 3 illustrates personal income, which is income derived from wages, salaries, social security, and other government benefits. Personal income is not GDP, but is an important and very large part of GDP. Since 2010 personal income has averaged 2.7%, lower than the Front Range but even with other Western Slope counties. Compared to the Front Range, Montrose has lagged behind, although 2017 and 2018 growth rate numbers will likely match or surpass those of the Front Range. Compared to the recent past, 2017 and 2018 have been strong growth years that have been much needed for Montrose after the employment stagnation of the post-recession years.

Table 2:
GDP Growth Rate % Comparison

	Grand Junction	Colorado Springs	Pueblo	Denver/Aurora/Lakewood	Montrose
2010	-5.4%	4.5%	0.4%	3.6%	N/A
2011	-2.1%	2.3%	0.3%	3.5%	N/A
2012	-0.1%	0.7%	2.5%	4.7%	N/A
2013	-1.6%	-0.1%	-2.3%	3.3%	-3.6%
2014	1.8%	-1.9%	2.2%	7.7%	-0.3%
2015	-2.6%	2.4%	1.6%	3.3%	3.6%
2016	-2.3%	1.9%	2.7%	2.4%	N/A
2017	4.2%	3.3%	2.8%	6.0%	N/A

Figure 4:
Median Household Income

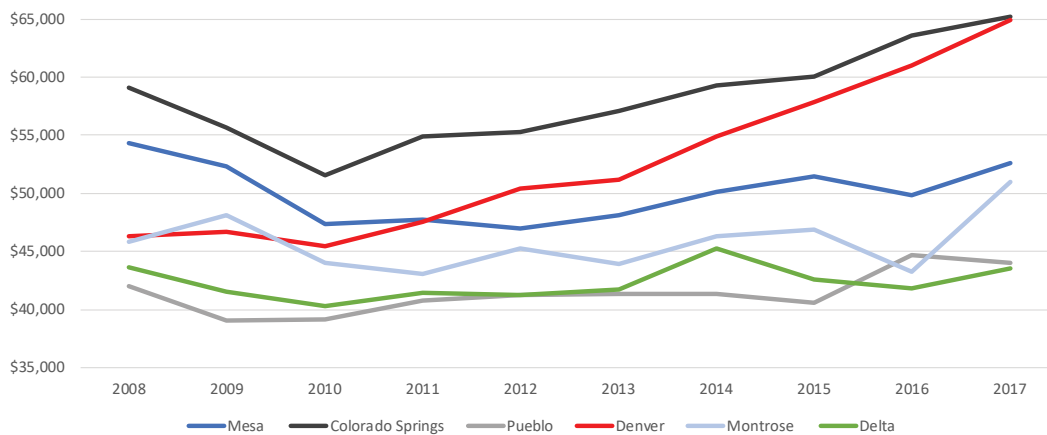


Table 3:
Personal Income Growth Rate Comparison

	Delta	Denver	El Paso	Garfield	Mesa	Montrose
2008	2.2%	6.2%	3.9%	6.0%	10.5%	4.6%
2009	-3.5%	-11.4%	1.5%	-5.8%	-6.6%	-2.8%
2010	2.9%	6.6%	5.0%	-10.2%	-2.2%	-1.2%
2011	7.8%	13.8%	6.6%	7.9%	4.3%	2.2%
2012	0.6%	9.4%	4.1%	5.6%	4.8%	3.9%
2013	1.4%	9.1%	1.6%	7.8%	1.7%	1.0%
2014	2.4%	12.9%	6.1%	12.4%	6.1%	5.9%
2015	2.2%	1.1%	5.1%	12.4%	1.5%	4.6%
2016	0.3%	-2.7%	2.7%	-3.0%	0.1%	3.2%
2017	12.4%	10.7%	5.2%	4.4%	5.2%	5.2%

Employment Changes: 2008 to 2018

Table 4 illustrates Q2 2018 employment and wages compared to Q2 2008 employment and wages. Note that the QCEW program does not count sole proprietors, so the total employment numbers will not perfectly match that of the previous section. However, the QCEW is the best source on employment and wage data per industry. The table is sorted by total employment change, which makes it easy to determine which industries have decreased since the 2008 boom and which industries have grown. The largest positive employment changes have been in health care, with 567 jobs, government with 182 jobs, and accommodation and food services with 165 jobs. The biggest losses in jobs over 10 years have been in construction, retail trade, and mining/oil/gas extraction. Note that this has not been adjusted for inflation so many of the wage gains are positive, despite some industries having employment loss.

Table 4:
Quarterly Census of Employment and Wages Q2 2008 Compared to Q2 2018

Sector	Average Employment 2nd Quarter 2018	Total Quarterly Wages (Q2 2018)	Average Weekly Wage (Q2 2018)	Total Wage Change (Q2 2008 to Q2 2018)	Total Employment Change (Q2 2008 to Q2 2018)
Health Care and Social Assistance	2,141	\$18,760,404	\$674	\$7,087,508	567
Government Total	3239	\$36,098,157	\$857	\$8,153,152	182
Accommodation and Food Services	1,374	\$6,298,373	\$353	\$1,960,352	165
Agriculture, Forestry, Fishing & Hunting	254	\$1,914,365	\$580	\$416,852	48
Manufacturing	1,365	\$12,976,849	\$731	\$3,317,274	33
Administrative and Waste Services	530	\$4,306,280	\$625	\$1,293,664	0
Real Estate and Rental and Leasing	329	\$2,886,772	\$675	\$242,996	-5
Utilities	213	\$4,083,927	\$1,475	\$828,319	-6
Arts, Entertainment, and Recreation	182	\$810,211	\$342	-\$67,800	-16
Transportation and Warehousing	465	\$3,992,797	\$661	\$510,873	-36
Information	166	\$1,436,551	\$666	-\$211,137	-42
Wholesale Trade	454	\$5,226,475	\$886	\$193,429	-62
Other Services, Ex. Public Admin	347	\$3,841,087	\$851	\$634,968	-67
Professional and Technical Services	460	\$6,418,370	\$1,073	\$897,304	-83
Finance and Insurance	313	\$4,253,640	\$1,045	\$186,867	-87
Mining, Oil, and Gas Extraction	45	\$834,103	\$1,426	-\$2,108,050	-141
Retail Trade	2,112	\$15,345,365	\$559	\$776,296	-200
Construction	1,271	\$14,146,884	\$856	\$206,427	-208

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

Figure 5:
OCEW Employment Comparison Q2 2008 to Q2 2018

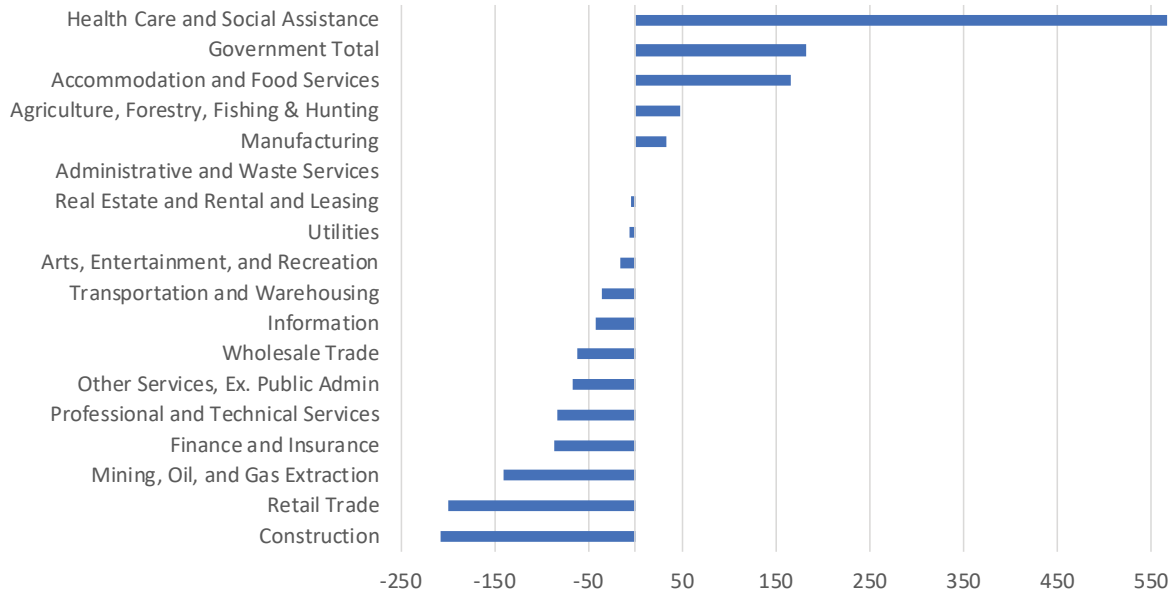
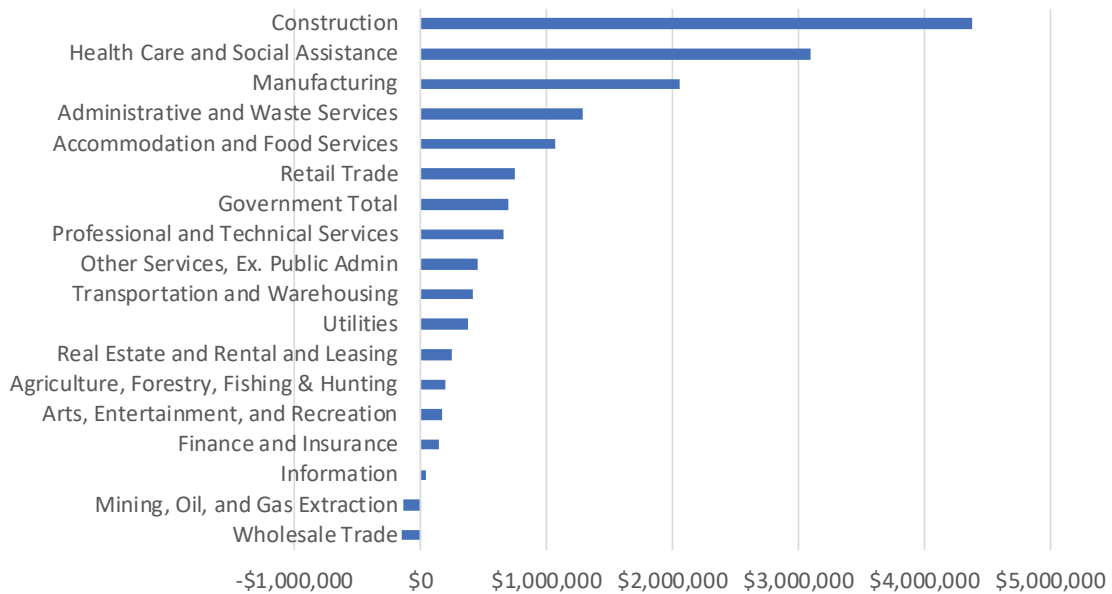


Figure 6:
OCEW Total Wage Comparison Q2 2016 to Q2 2018



Employment Changes: 2016 to 2018

Table 5 illustrates changes from the bottom of 2016 (which was a down year for much of the Western Slope) to Q2 2018 in order to see which industries have been responsible for the strong growth the county has experienced in 2017 and 2018. The table is sorted not by employment but by total wage change. The employment gains leaders are construction and health care, followed by government. But the important column is total wage change, which is a way of viewing which industry has had the biggest economic impact over the last two years. Some industries may employ many workers but have low wages, so looking at employment numbers is not always the best way to see which industry is most impactful. In terms of wage changes, construction leads the pack with \$4,377,756 in wage change since Q2 2016. Next is health care, manufacturing, administrative and waste services, and accommodation and food services. The construction industry has contributed 28% of new wages since Q2 of 2016, while health care has contributed 20%.

Table 5:
Quarterly Census of Employment and Wages Q2 2016 Compared to Q2 2018

Sector	Average Employment 2nd Quarter 2018	Total Quarterly Wages (Q2 2018)	Average Weekly Wage (Q2 2018)	Total Wage Change (Q2 2016 to Q2 2018)	Total Employment Change (Q2 2016 to Q2 2018)
Construction	1,271	14,146,884	856	\$4,377,756	323
Health Care and Social Assistance	2,141	\$18,760,404	\$674	\$3,089,978	209
Manufacturing	1,365	\$12,976,849	\$731	\$2,059,585	93
Administrative and Waste Services	530	\$4,306,280	\$625	\$1,289,874	20
Accommodation and Food Services	1,374	\$6,298,373	\$353	\$1,070,896	135
Retail Trade	2,112	\$15,345,365	\$559	\$742,577	-2
Government Total	3,239	\$36,098,157	\$857	\$691,020	117
Professional and Technical Services	460	\$6,418,370	\$1,073	\$659,792	32
Other Services, Ex. Public Admin	347	\$3,841,087	\$851	\$454,639	-38
Transportation and Warehousing	465	\$3,992,797	\$661	\$413,657	13
Utilities	213	\$4,083,927	\$1,475	\$371,077	-6
Real Estate and Rental and Leasing	329	\$2,886,772	\$675	\$240,320	16
Agriculture, Forestry, Fishing & Hunting	254	\$1,914,365	\$580	\$189,571	30
Arts, Entertainment, and Recreation	182	\$810,211	\$342	\$165,052	17
Finance and Insurance	313	\$4,253,640	\$1,045	\$146,939	16
Information	166	1,436,551	666	\$44,053	-4
Mining, Oil, and Gas Extraction	45	\$834,103	\$1,426	-\$134,619	-3
Wholesale Trade	454	\$5,226,475	\$886	-\$147,099	-22

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

Farm Employment

Table 6 illustrates newly release BEA estimates of farm employment for Montrose County. Farm employment increased 4.24% from 2016, and for 2017 is 6.3% of total employment. When the 2017 agricultural census is released I will cover a full agriculture section in this newsletter on what the Montrose farm industry trends are.

Table 6:
Farm Employment

Agriculture	2017	2016	2015	% change since 2016	% change from 2015
Farm Employment	1,328	1,274	1,273	4.24%	4.32%

Is the Growth of 2017 and 2018 Sustainable?

Since construction and health care are the two largest contributors to the economic success of 2017 and 2018, it is important to analyze the sustainability of these industries and their recent growth. Figure 7 illustrates the construction industry employment from 2000 through 2018. As you can see, construction has both seasonal fluctuations and tends to fluctuate with the business cycle with the tendency to peak at the top of business cycles and retreat during recessions (see the 2001 peak and 2007 peak). Construction therefore has some downside risk due to the tendency to fluctuate with the business cycle. The majority of economists believe we are in the latter stages of the business cycle, where growth begins to slow after the peak. Many economists see either considerably slower growth in 2019 and especially 2020, or even recession in late 2019 or 2020. With this potential business cycle risk in mind, the employment growth in construction may be reaching its short term peak, with moderate downside risk over the next 1-2 years. Since there is no housing bubble pushing construction into a bubble, if and when the business cycle turns, construction will not be hit as hard as it was in 2008. Montrose may have some countervailing factors such as retirees migrating to the area and considerable growth, but Montrose is not completely immune from a national slowdown.

Health care has the opposite story, and is recessionary proof and moves based on demographics. There is likely no risk to the growth in health care employment, which will help to stabilize Montrose County if construction and other industries do eventually slow. Health care will likely continue to grow over the long term due to the strong population growth that is predicted in the years to come for the county.

Figure 7:
Construction Employment

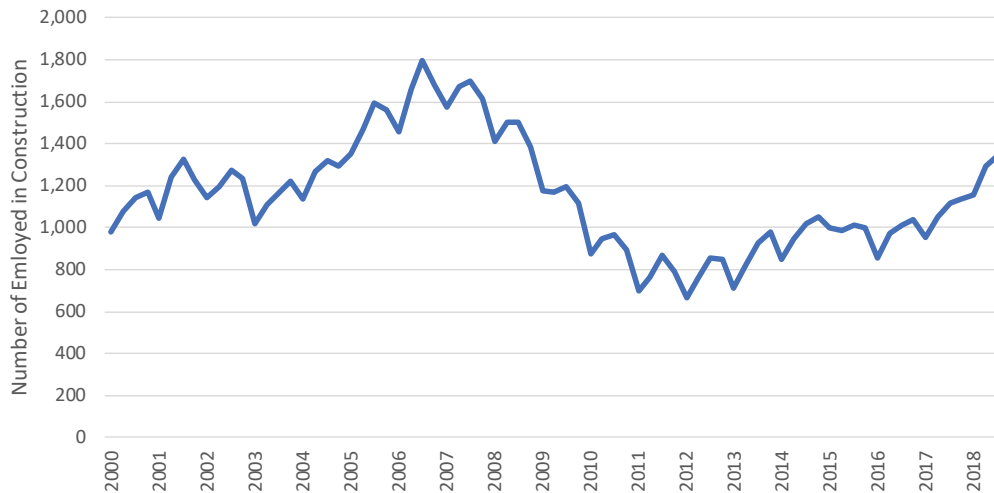
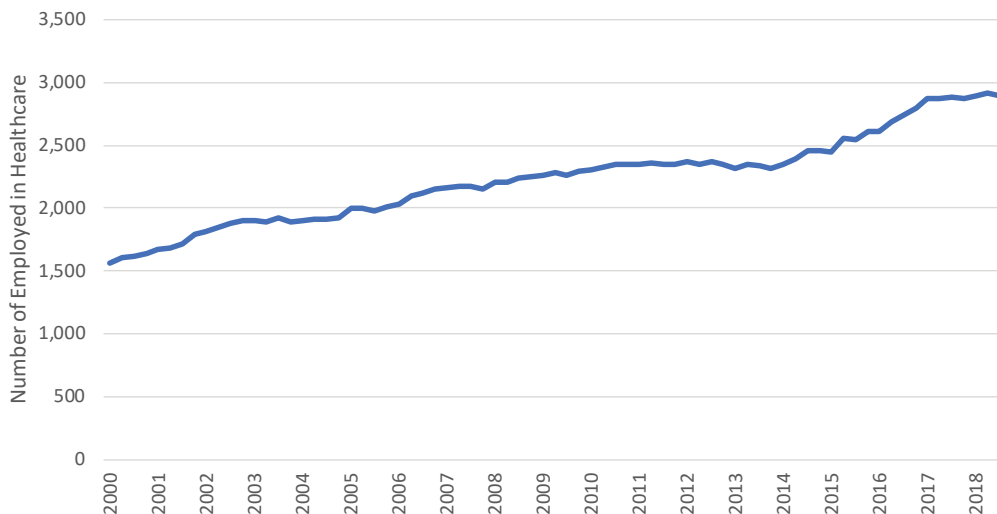


Figure 8:
Health care Employment



LOCAL REAL ESTATE

	Q4 2018	Q4 2017	% change since last year
Real Estate			
Inventory of Homes for Sale (3 month avg)	233	248	-6.06%
New Residential Listings (3 month total)	170	191	-10.99%
Sold Residential Listings (3 month total)	175	195	-10.26%
Median Sales Price	\$251,667	\$233,333	7.86%
Average Sales Price	\$280,134	\$260,929	7.36%
Days on Market	104.28	102.61	1.63%
Months Supply of Inventory	3.45	3.73	-7.34%
Total Building Permits	101	106	-4.72%
Total Building Permit Valuation	\$10,331,743	\$8,803,801	17.36%
Single Family Home Permits	39	42	-7.14%
Single Family Home Permit Valuation	\$6,355,686	\$7,030,167	-9.59%
Foreclosures			
Foreclosure Filings	13	15	-13.33%
Foreclosure Sales	3	6	-50.00%
Mortgage Rates			
30 Year Mortgage Rate	4.21%	3.29%	0.92%
15 year Mortgage Rate	4.78%	3.92%	0.86%

SOURCES IN ORDER OF LISTING: Real Estate: Colorado Association of Realtors Market Trends Program through ShowingTime. Note that real estate data is just single family homes; Building Permits and Valuation: Montrose County and Montrose City; Foreclosure Filings and Sales: Montrose County; Mortgage rates: Freddie Mac.

Local Real Estate Indicators

The Montrose real estate market remains strong, with a 7.86% increase in median sales prices from Q4 2017. Inventory is down and new listings are down, lessening the supply of housing units contributing to the price increasing. Single family home permits are not increasing over last year to meet the growing demand for housing units. Like many other cities right now, Montrose seems to have a tighter and tighter real estate market due to a shortage of housing units.

Mortgage rates are up almost 1% since the same time last year, pushing up the costs of housing. There was a short pullback in housing demand when interest rates spiked in September and October, but since then demand seems unchanged. National housing economists believe home values will continue to climb due to extraordinarily high demand for housing and a real shortage of new housing units. Unlike 2008, these home value increases do seem to be based on economic fundamentals. However, most housing economists do not expect home values to continue to increase at this pace, instead slowing the pace of price appreciation to a more sustainable level. As discussed in last quarter's economic update, house prices have to stay in line with some measure of consumer income in the long term. There is some sign of housing slowing nationally in larger cities, but thus far Montrose County seems unaffected.

The Federal Reserve has recently reversed course on their promised interest rate increases, instead opting to hold steady on interest rates for the foreseeable future. This will help keep housing healthy, as further increasing rates may finally curb housing demand.

REGIONAL ENERGY

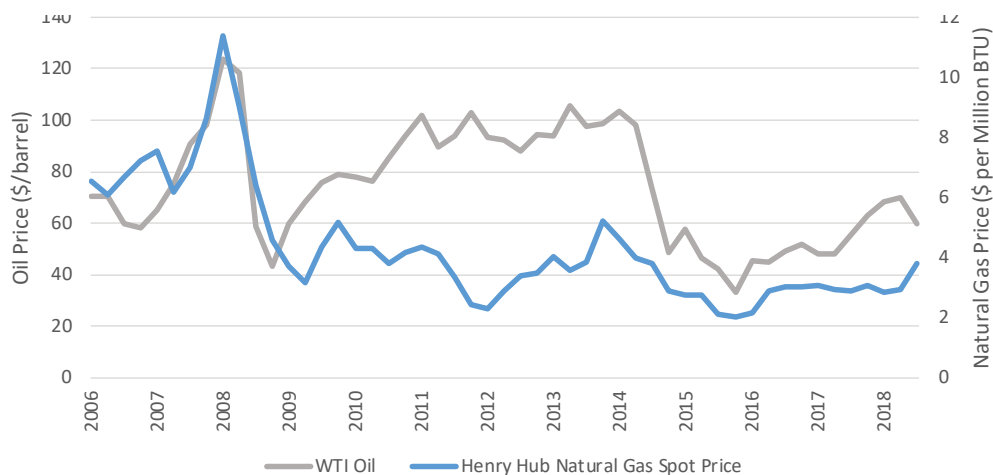
	Q4 2018	Q3 2018	Q4 2017	% change since last quarter	% change since last year (comparable quarters)
Energy Prices					
WTI Crude Oil	\$59.97	\$69.69	\$55.27	-13.95%	8.50%
Henry Hub Natural gas	\$3.80	\$2.93	\$2.90	29.69%	31.03%
Retail Gasoline Price	\$2.54	\$2.77	\$2.43	-8.41%	4.32%

Drilling Permits	2018 Total	2017 Total	% Change
Drilling Permits (Mesa County)	64	215	-70.23%
Drilling Permits (Rio Blanco County)	83	118	-29.66%
Drilling Permits (Garfield County)	702	612	14.71%
Drilling Permits (Moffat County)	4	5	-20.00%
Total Permits (Mesa, Rio Blanco, Garfield, Moffat)	853	950	-10.21%
Total Permits (Colorado)	5,116	3,909	30.88%

Local Rig Count	Jan-19	Nov-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

The price of Henry Hub natural gas has been extremely volatile from October through January. In the month of October, the average price of natural gas was \$3.28. November prices skyrocketed, peaking at a price of \$4.70/MMBtu on 11/21. From late November to early January gas prices swung back down to a low of \$2.72/MMBtu on 1/3/19, and have quickly risen to a late January price of \$3.43/MMBtu (as of 1/22/19). Cold weather and low inventory resulted in the uptick in prices through early December. The second half of December had warmer than average temperatures, returning natural gas prices to their previous levels. The average price of natural gas in 2018 was \$3.15/MMBtu. The Energy Information Agency forecasts that Henry Hub natural gas prices will be lower in 2019 than in 2018 forecasting a price of \$2.89/MMBtu. The EIA expects that production growth keeps pace with demand and export growth and inventories build faster than the five year averages.

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

Oil and Gasoline Prices

After hitting a recent peak of near \$77 per barrel of oil, the WTI price of oil fell drastically from October 3rd (\$76.40) to a bottom of \$44.48 on December 27th. Since the beginning of January, oil prices have moved up to the low 50's as of the end of January. Prices fell because of several concerns, including slowing global growth and the potential for reduced oil demand, and continued strong U.S. shale oil production raising inventories. The price of oil sparked a price reversal in January from late December lows as OPEC and Russia moved to cut production to increase prices. Oil prices are expected to be volatile for the next several months.

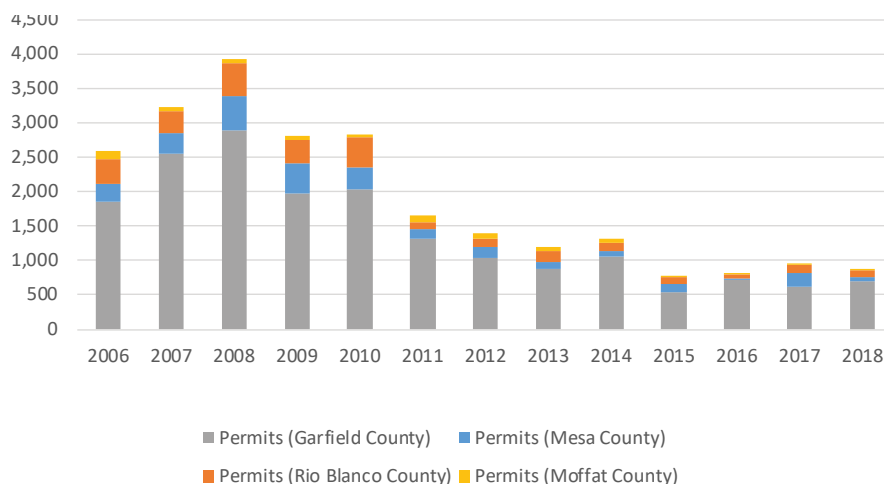
Gasoline prices averaged \$2.54 for Q4 of 2018, down from \$2.77 in Q3. The EIA expects gasoline prices to average \$2.30 per gallon during the first quarter of 2019, reflecting lower crude oil prices and lower refinery margins. Gasbuddy.com shows the mid February average gas price in Montrose ranges between \$2.15 and \$2.31.

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

Western Slope Drilling Activity

Drilling activity in the Western Slope has been constant, with 7 rigs in the Piceance for the entire year. Drilling permits were down 10.21% from last year for the Western Slope (853 in 2018 compared to 950 in 2017), while permit applications are up 30.88% for Colorado as a whole, primarily driven by Weld County. Mesa permits fell to 64 from 215 last year, while Garfield County had an increase to 702 in 2018 compared to 612 in 2017. Garfield was the only Piceance county that had permit applications increase year over year. Montrose continues to have no drilling permits issues.

Figure 10:
Drilling Permits: Western Colorado



NATIONAL ECONOMIC INDICATORS

	Q4 2018	Q3 2018	Q4 2017	% change since last period	% change since last year (comparable quarters)
Business Cycle Indicators					
Real GDP	#N/A*	3.40%	2.30%	#N/A	#N/A
Real Personal Consumption Expenditures (PCE)	#N/A*	2.93%	2.70%	#N/A	#N/A
Private Fixed Investment	#N/A*	8.16%	7.22%	#N/A	#N/A
National Consumer Confidence	98.1	98.1	98.4	0.00%	-0.30%
Industrial Production Index	109.6	108.5	105.3	0.93%	4.06%
Initial Weekly Unemployment Claims (4 week MA)	218,058	213,096	239,673	2.33%	-9.02%
Non Farm Payroll Change (in thousands)	2,650	2,541	2,164	4.28%	22.48%
Unemployment					
Unemployment Rate-U3-SA	3.80%	3.80%	4.10%	0.00%	-0.30%
Unemployment Rate-U6-SA	7.60%	7.50%	8.00%	0.10%	-0.40%
Interest Rates					
Federal Funds Rate	2.21%	1.91%	1.19%	0.30%	1.02%
10 Year U.S. Treasury	3.03%	2.93%	2.37%	0.10%	0.66%
30 Year U.S. Treasury	3.27%	3.06%	2.82%	0.21%	0.45%
Inflation Measures					
Inflation Rate (CPI)	2.23%	2.61%	2.12%	-0.39%	0.11%
Core Inflation Rate (All Items Less Food and Energy)	2.20%	2.23%	1.75%	-0.03%	0.45%
Inflation Rate (Shelter)	3.22%	3.39%	3.19%	-0.17%	0.03%
Producer Price Index (PPI)	3.54%	4.95%	4.62%	-1.40%	-1.07%
Employment Cost Index	2.89%	2.83%	2.66%	0.06%	0.24%
Stock Prices					
S&P 500	2,699	2,850	2,603	-5.29%	3.67%
Dow Jones Industrial Average	24,916	25,595	23,689	-2.65%	5.18%
Exchange Rate					
USD Exchange Rate (trade weighted)	128	125	120	2.17%	6.45%

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;

Note: * indicates that data release for Q4 2018 is delayed due to government shutdown.

Figure 11:
Real GDP

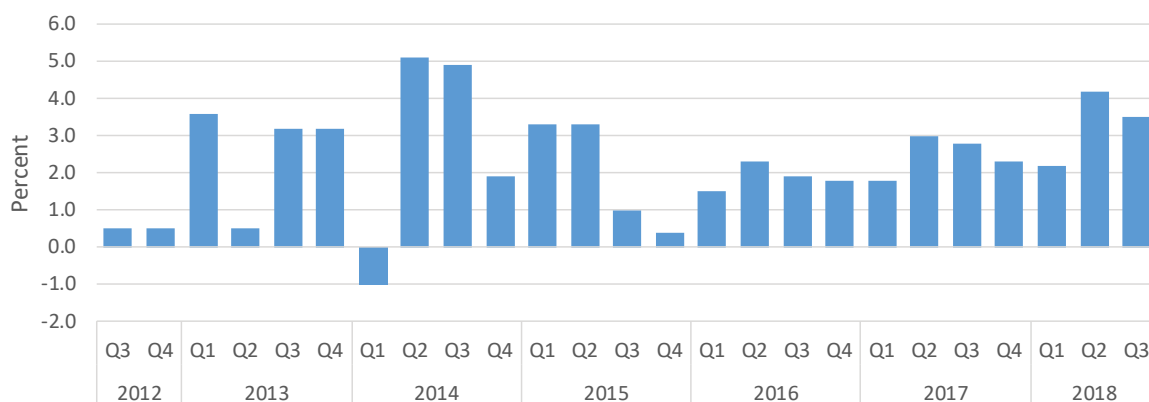
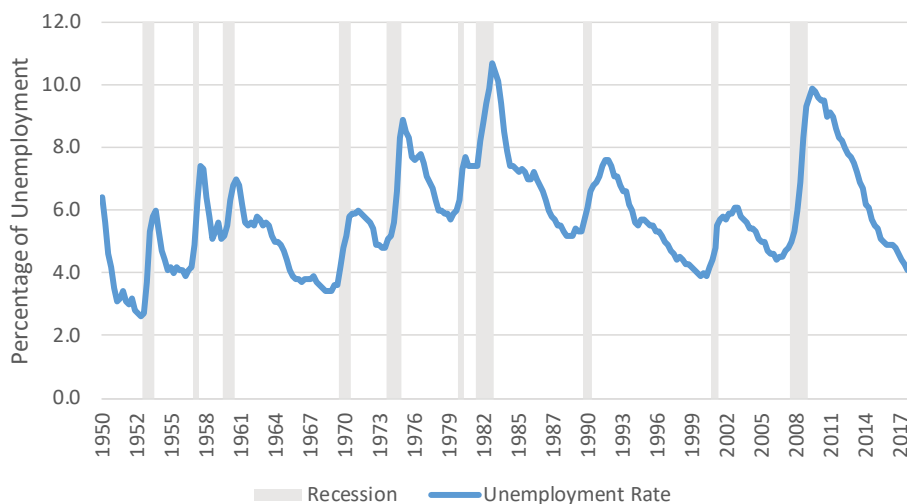


Figure 12:
U.S. Unemployment: 1950-2018



National Economic Performance

Quarter 4 GDP estimates have been delayed a full month due to the government shutdown. The Atlanta Federal Reserve GDP Now program forecasts a 2.5% growth rate for GDP in the 4th quarter of 2018. Growth is expected to be positive, but lower in 2019 as the effects of the fiscal stimulus wear off.

The national labor market continues to be strong, with very strong non-farm payrolls increase (figure 14). Non-farm payrolls had been trending down, fitting the narrative of the late stage business cycle slowdown, but the last two quarters have fought this narrative with an uptick in payroll numbers. Many economists believe that there is more room to run with employment because the labor force participation rate is low compared to pre-recession levels. The pre-recession peak of

labor force participation was approximately 67%, while we are currently at 63%. This means if we were to return to pre-recession norms, there are still people sitting on the sideline who have the capacity and potentially the will to work.

As expected with rising employment, unemployment claims are down year over year, falling 9%. National consumer confidence has held steady, while industrial production saw a modest increase from last quarter and last year. Seasonally adjusted unemployment remains at 3.8%, still at historical lows.

The consumer price index is still low, residing between 2-3 percent. This is likely one of the reasons the Federal Reserve has reversed course on interest rates. The employment cost index is continuing to increase, showing wage gains for workers, but its rate of increase is not much higher than the rate of inflation.

Figure 13:
Employment Cost Index

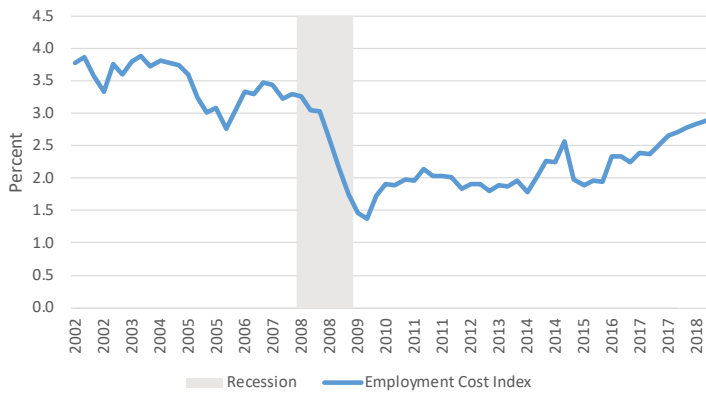
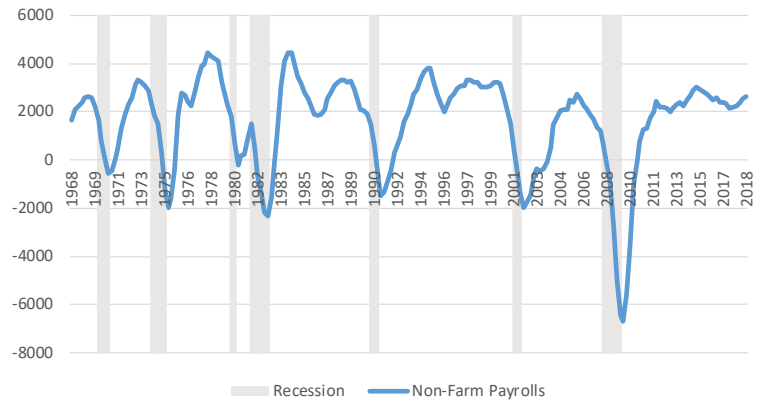


Figure 14:
Change in Non-Farm Payrolls



Federal Reserve Policy

The Federal Reserve has moved its target Federal Funds rate to 2.25-2.50%. The interest rate increases in the fall were worrisome because there was still little sign of inflation, but there have been some signs of financial fragility, slow international growth, and in larger cities a slowing housing market. Since late 2018, the Federal Reserve has reversed its view regarding raising rates. The Fed has now signalled that interest rate increases will be put on pause, causing many economists to speculate that we have seen the last interest rate increase for this business cycle. Not increasing rates will help the economy continue to build on its strong expansion by keeping interest rates relatively low. Factors that could change the Fed's decision in 2019 include increasing inflation (which there is no sign of), housing price bubble (housing prices are high but not in bubble territory), or signs of financial market bubbles.

What to Expect in 2019?

At other points in history when at this spot at the top of the business cycle economists would be worried about inflation, oil, and commodity prices, rising wages, bubble territory for home prices, and the Fed would be raising interest rates to curb these problems. This expansion shows no signs of any of these problems yet. In the past, demand for oil in an expansion would push up energy prices, but with the U.S. producing so much shale oil the law of supply kicks in, and as prices increase oil producers can supply the market with a short lag time. Wages are rising but at historically low levels (post WW2). Home prices are rising but not yet in bubble territory. There are still threats to the current expansion in the form of slow global growth, trade war concerns, international political risk, but thus far the expansion seems to be moving forward in 2019, albeit at a slower growth rate.



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