

MONTROSE COUNTY ECONOMIC UPDATE



Provided by the Business Department
of Colorado Mesa University

Second Quarter 2018

Economic Summary

- The Montrose County economy is relatively strong with an unemployment rate of 4.2%. There was a small spike in unemployment compared to last quarter likely caused by seasonal factors.
- The Montrose County real estate market is strong, with rising permit and permit valuation numbers. Home values continue to rise and are up 10.3% since last year.
- The price of oil moved higher and with it the price of gasoline (up 10% since last year). Natural gas prices are holding steady, while rig counts in the Piceance moved from 8 to 7.
- The national economy is strong with a growth rate of 2.3%. Unemployment remains low and industrial production and consumer confidence are high.

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
Confidence and Taxes.....	2
Montrose County Employment Trends.....	4
Local Real Estate.....	5
Mortgage Rate Analysis	6
Local Energy	7
Natural Gas Prices	8
Oil Prices.....	8
Western Slope Drilling Activity.....	8
National Economic Indicators	9
National Economic Performance	10

LOCAL ECONOMIC INDICATORS

	Q1 2018	Q4 2017	Q1 2017	% change since last quarter	% change since last year (comparable quarters)
Local Labor Market					
Unemployment Rate Montrose County-NSA	4.2%	3.1%	4.2%	1.1%	0.0%
Unemployment Rate Colorado - SA	3.0%	3.0%	2.7%	0.0%	0.3%
Unemployment Rate U.S. - SA	4.3%	3.9%	4.9%	0.4%	-0.6%
Labor Force	21,091	21,383	20,216	-1.4%	4.3%
Employed	20,208	20,728	19,374	-2.5%	4.3%
Unemployed	883	654	843	34.9%	4.7%
Business Confidence					
Leeds Colorado Business Confidence Index	61.3	59.5	63.4	3.0%	-3.3%
Sales/Use Taxes					
City Sales/Use Taxes (Quarterly)	\$3,896,286	\$4,407,129	\$3,604,150	-11.6%	8.1%
City Sales/Use Taxes (Cumulative)	\$3,896,286		\$3,604,150		8.1%
County Sales/Use Tax (Quarterly)	\$2,899,928	\$3,067,389	\$2,665,766	-5.5%	8.8%
County Sales/Use Tax (Cumulative)	\$2,899,928		\$2,665,766		8.8%
Montrose City Hotel and Restaurant Tax (Quarterly)	\$111,997	\$119,185	\$107,419	-6.0%	4.3%
Montrose City Hotel and Restaurant Tax (Cumulative)	\$111,997		\$107,419		4.3%

Montrose Regional Airport	Q1 2018	Q4 2017	Q1 2017	% change since last quarter	% change since last year
Enplanements	53,973	21,890	54,284	146.6%	-0.6%
Deplanements	49,890	25,959	50,226	92.2%	-0.7%
Local Labor Market Yearly Indicators	2016	2015	2014	% change since 2015	% change from 2014
Median Household Income	\$43,285	\$46,860	\$46,336	-7.6%	-6.6%
	2017	2016	2015	% change since 2016	% change from 2015
Population	41,784	41,160	40,534	1.5%	3.1%

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; Population: U.S. Census Bureau; Personal income per capita: Bureau of Economic Analysis

The Local Labor Market

The Montrose County labor market maintains a solid pace with a 4.2% unemployment rate, up from 3.1% the previous quarter but equal compared to a year ago. This uptick in unemployment is normal and the result of seasonal employment, including seasonal farm employment. Unfortunately the Bureau of Labor Statistics does not produce a seasonally adjusted unemployment rate for Montrose County. Table 1 illustrates 1, 5, and 10 year employment comparisons from Q1 in previous years. The number of employed workers is up 835 from last year, or 4.3%. The number of unemployed is up 40 compared to last year, or 4.7%. With data that has a seasonality, the year over year comparison is better, which shows that the unemployment situation is roughly the same as it was last year. There is more employment and slightly more unemployment, as well as a proportional increase in the labor force. Labor force, employment, and unemployment numbers have all drastically improved compared to 5 years ago, while labor force numbers have improved from Q1 2008.

Confidence and Taxes

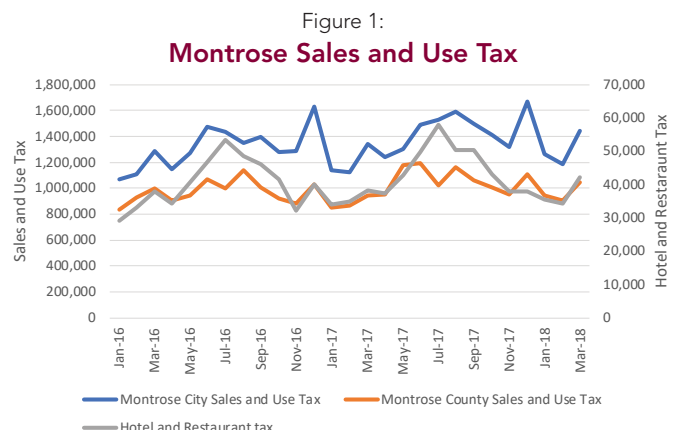
The Colorado Business Confidence Index produced by the Leeds school of business shows that business confidence in Colorado is up 3.3% from last quarter, but down 3% from last year. The index is still relatively high reflecting strong business confidence in the state of Colorado.

City and County sales and use tax numbers are up from last year. City sales and use taxes increased 8.1% from last year. County sales and use tax numbers are up 8.8% since Q1 of 2017. In addition to sales and use taxes, Montrose hotel and restaurant taxes are up year over year by 4.3%. Figure 1 illustrates the trend for these measures over time.

The Montrose County population has increased to 41,784 in 2017, 1.5% higher than 2016's population of 41,160. The Montrose County population growth rate of 1.5% was higher than the national rate of 0.7%.

Table 1:
1, 5, and 10 year Employment Comparison (Based on Q1, 2018)

	Labor Force	Employed	Unemployed
Annual	875	835	40
5-Year	1,936	3,197	-1,261
10-Year	730	877	-147
Annual %	4.3%	4.3%	4.7%
5-Year %	10.1%	18.8%	-58.8%
10-Year %	3.6%	4.5%	-14.3%



Median household income fell in 2016, in what appears to be part of double dip recession for many counties in the Western Slope. The 2017 median household income numbers will be important to see if this is an anomaly or if it becomes a trend.

The Montrose County Regional Airport reports enplanements and deplanements are almost identical to last years numbers, falling by less than 1%.

Figure 1:
Montrose County Labor Force

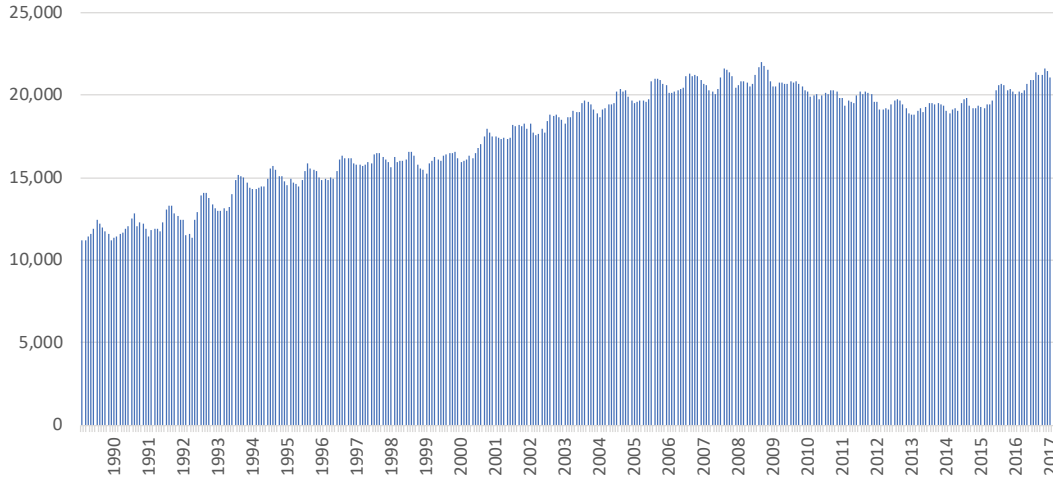


Figure 2:
Montrose County Unemployment

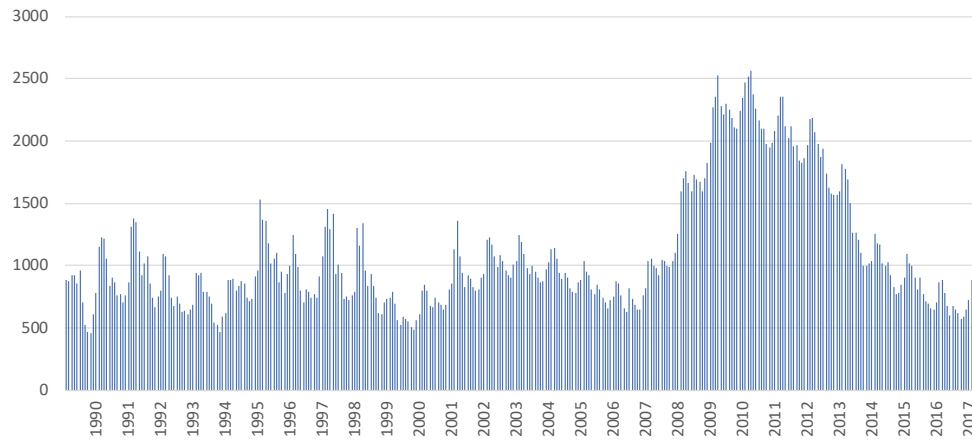
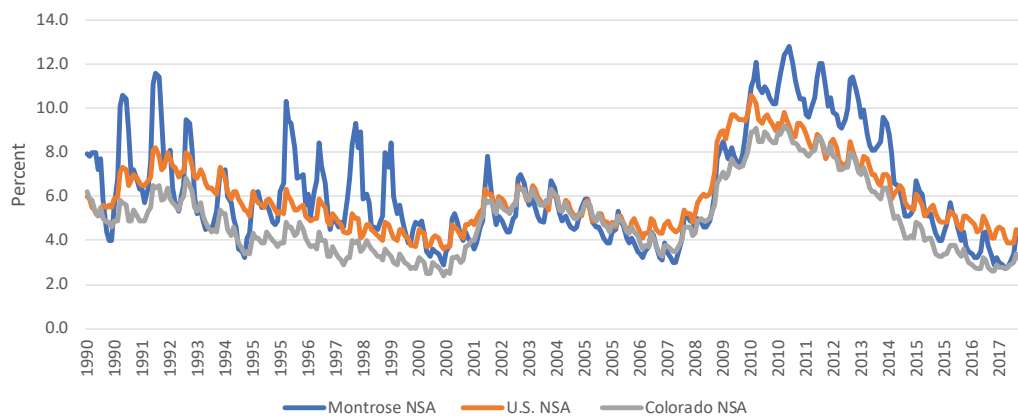


Figure 3:
Unemployment Rates (NSA)



SOURCE: Figures 1 and 2: Colorado Department of Labor and Employment; Figure 3: Leeds Schools of Business.

Montrose County Employment Trends

Table 2 illustrates average employment, total quarterly wages, and average weekly wage for all major industries in Montrose County. Several industries had large employment gains, including Arts, Entertainment, and Recreation (19.2%), Management of Companies and Enterprises (14.4%), and Mining, Oil, and Gas Extraction (11.5%). The largest wage gains were from Mining, Oil, and Gas Extraction (20.3%) and Administrative and Waste Services (7.4%). Overall, the data indicates employment gains and wage gains in most industries, which supports the low unemployment numbers from the previous section.

Table 2:
Quarterly Census of Employment and Wages for Q4 2017

Sector	Average Employment 4th Quarter 2017	Total Quarterly Wages	Average Weekly Wage	Annual Percent Change in Employment (Compared to Q4 2016)	Annual Percent Change in Average Weekly Wages (Compared to Q4 2016)
Total	15,093	\$150,084,908	\$765	3.5%	1.7%
Total Government	3,160	\$36,867,859	\$897	4.5%	-0.6%
Total Private	11,933	\$113,217,049	\$730	3.2%	2.4%
Health Care and Social Assistance	2,103	\$20,369,363	\$745	4.2%	2.6%
Retail Trade	2,094	\$15,758,638	\$579	0.6%	4.1%
Manufacturing	1,332	\$13,569,282	\$784	3.3%	-1.3%
Construction	1,110	\$13,051,064	\$904	9.5%	1.5%
Professional and Technical Services	455	\$7,640,316	\$1,292	3.4%	4.4%
Accommodation and Food Services	1,349	\$5,973,378	\$341	6.3%	2.1%
Wholesale Trade	486	\$5,430,681	\$860	1.7%	1.4%
Finance and Insurance	312	\$4,311,132	\$1,063	3.3%	-1.5%
Other Services, Ex. Public Admin	410	\$4,204,627	\$789	9.0%	-2.1%
Utilities	212	\$4,190,667	\$1,521	-3.2%	4.3%
Administrative and Waste Services	483	\$3,915,467	\$624	-4.0%	7.4%
Transportation and Warehousing	475	\$3,806,965	\$617	-3.8%	3.5%
Real Estate and Rental and Leasing	321	\$2,906,018	\$696	2.2%	5.8%
Management of Companies and Enterprises	111	\$2,451,214	\$1,699	14.4%	-3.3%
Agriculture, Forestry, Fishing & Hunting	266	\$1,992,016	\$576	-0.4%	6.9%
Mining, Oil, and Gas Extraction	58	\$1,372,162	\$1,820	11.5%	20.3%
Information	150	\$1,353,208	\$694	-6.8%	0.4%
Arts, Entertainment, and Recreation	186	\$873,623	\$361	19.2%	-3.5%
Educational Services	N/A	N/A	N/A	N/A	N/A

SOURCE: Colorado Department of Labor and Employment (QCEW). N/A denotes that data was not available. When data is not available it is generally due to too small a sample size. Most recent quarterly data available is reported.

LOCAL REAL ESTATE

	Q1 2018	Q1 2017	% change since last year
Real Estate			
Current Residential Listings	534	554	-3.6%
Sold Residential Listings	158	132	19.7%
Days on Market	67	72	-6.9%
Median Sales Price	\$215,000.00	\$195,000.00	10.3%
Single Family Home Sales	155	128	21.1%
Total Building Permits	144	120	20.0%
Total Building Permit Valuation	\$13,932,334	\$9,175,287	51.8%
Single Family Home Permits	64	32	100.0%
Single Family Home Permit Valuation	\$9,317,709	\$4,439,092	109.9%
Foreclosures			
Foreclosure Filings	15	14	7.1%
Foreclosure Sales	8	13	-38.5%
Mortgage Rates			
30 Year Mortgage Rate	3.9%	3.8%	0.1%
15 year Mortgage Rate	4.3%	4.2%	0.1%

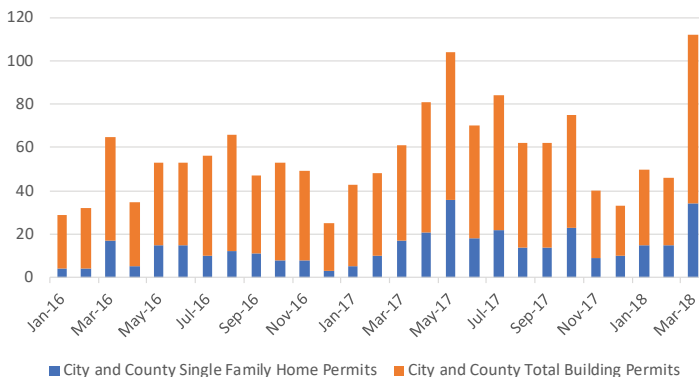
SOURCES IN ORDER OF LISTING: Sources in order of listing: Current and Sold Residential Listings, Absorption rate, Median Sales Price, Single Family Home Sales: Atha Real Estate Team (from MLS); Building Permits and Valuation: Montrose County and Montrose City; Foreclosure Filings and Sales: Montrose County; Mortgage rates: Freddie Mac.

Local Real Estate Indicators

The Montrose County real estate market is strong, with the median price of homes rising 10.3% year over year, matching the appreciation trend in neighboring Mesa County (10.1%). Current listings are down slightly, while sold listings are up almost 20%. The result of this is less inventory which pushes prices higher. The average days on market has fallen from 72 to 67, indicating that homes are selling faster. Total building permits are up 20%, with total building permit valuation up 50%. Single family home permits are up 100%, with single family home permit valuation up 110%. Foreclosures have fallen to the point where they are insignificant to the broader real estate market. An important economic issue for builders is the huge increase in lumber prices, brought on both by high demand and trade disputes with Canada. This combined with higher interest rates could push new home prices higher than in the past.

Figure 5:

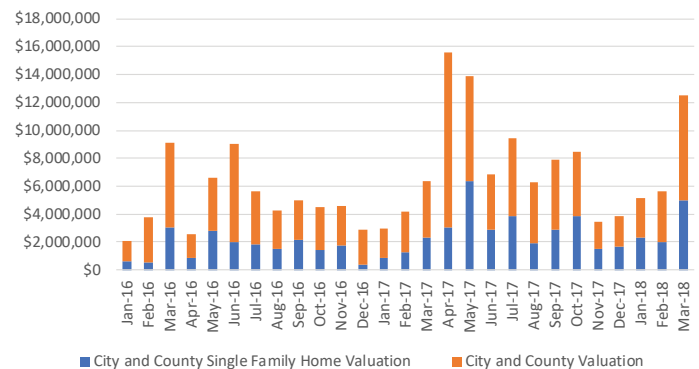
City and County Building Permits



SOURCE: Montrose City and Montrose County

Figure 6:

City and County Building Permit Valuation



SOURCE: Montrose City and Montrose County

Mortgage Rates

30-year mortgage rates are generally based on the 10-year treasury bond, with an average markup depending on risk factors (figure 7). As the Federal Reserve increases the federal funds rate, it will put upward pressure on the 10 year treasury bond, pushing mortgage rates higher. However, historically there is not a one-to-one relationship between the federal funds rate and the 10-year treasury bond. Figure 6 illustrates that there have been many instances in history where the Federal Reserve increased the federal funds rate and the 10-year treasury bond did not follow. Although we can expect higher mortgage rates, it is not clear how high mortgage rates will climb even if the Federal Reserve is committed to raising them. The Federal Reserve has stopped purchasing treasury bonds, but world demand for treasury bonds remains strong, keeping long term interest rates relatively low.

Figure 6:
Federal Funds and the 10 Year Treasury

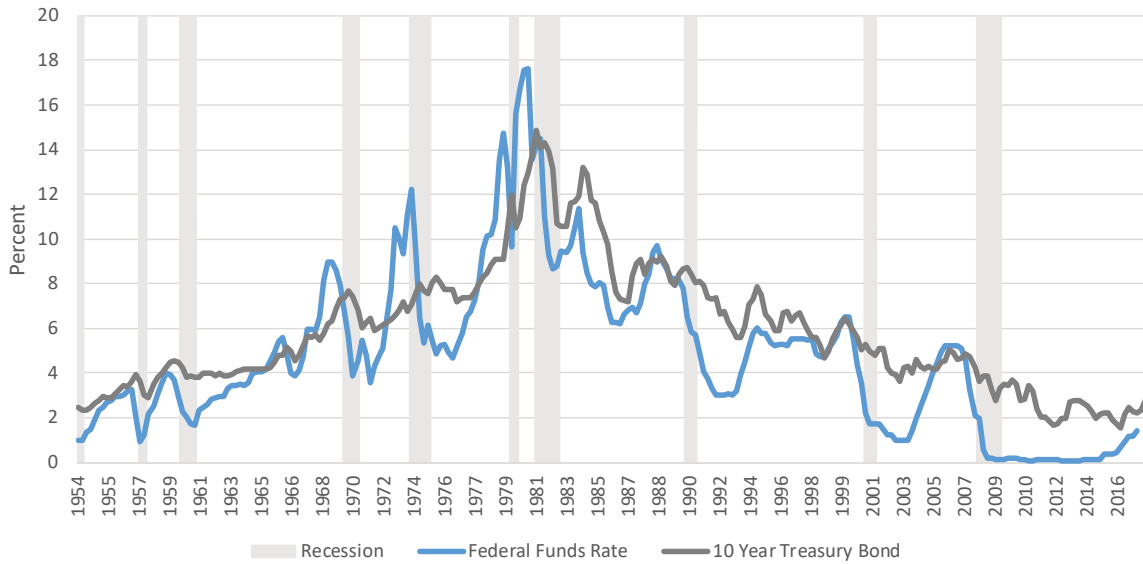
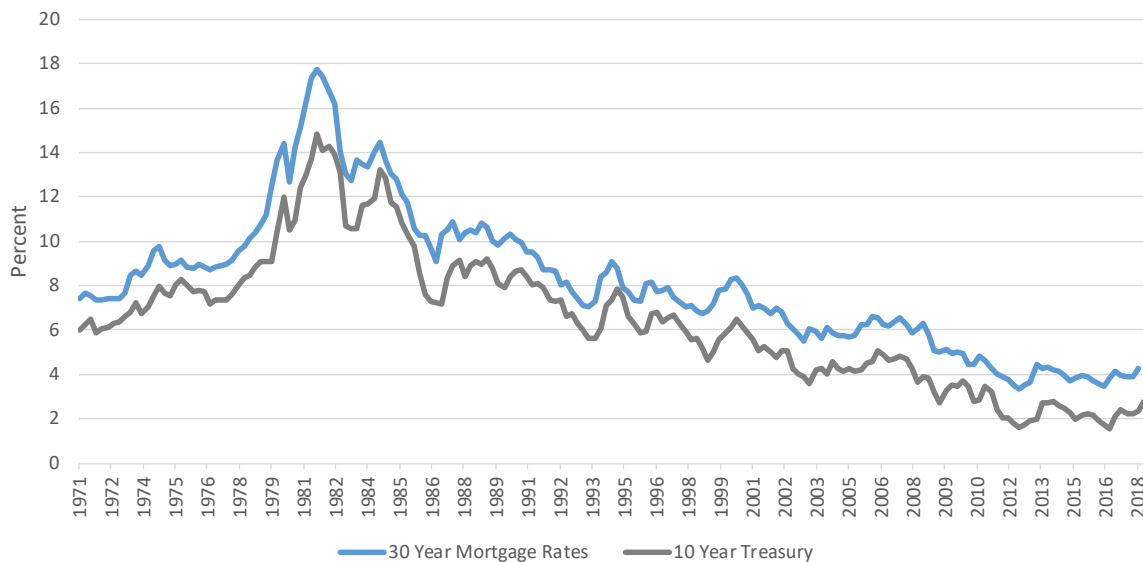


Figure 7:
10 Year Treasury and the 30 Year Mortgage Rate



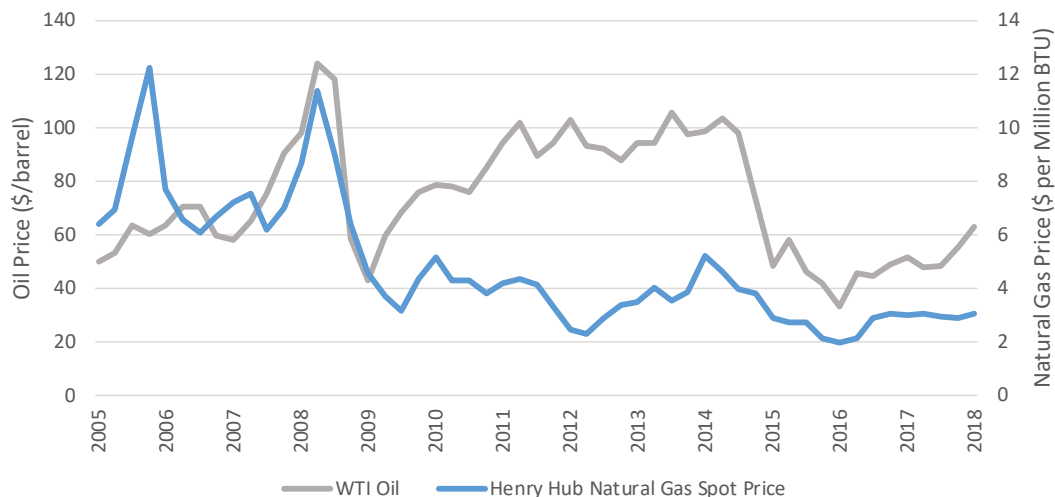
SOURCE: Figures 6 and 7: Federal Reserve Board

REGIONAL ENERGY

	Q1 2018	Q4 2017	Q1 2017	% change since last quarter	% change since last year (comparable quarters)
Energy Prices					
WTI Crude Oil	\$62.9	\$55.3	\$51.6	13.8%	21.9%
Brent Crude Oil	\$66.9	\$61.4	\$53.6	8.9%	24.8%
Henry Hub Natural gas	\$3.1	\$2.9	\$3.0	6.2%	2.3%
Retail Gasoline Price	\$2.5	\$2.4	\$2.3	2.1%	10.2%
Drilling Permits					
	2018 YTD (as of March 1st)	2017 YTD (as of March 2nd)	% change since last year		
Drilling Permits (Mesa County)	3	30	-90.0%		
Drilling Permits (Rio Blanco County)	51	71	-28.2%		
Drilling Permits (Garfield County)	16	79	-79.7%		
Drilling Permits (Moffat County)	0	1	-100.0%		
Total Permits (Mesa, Rio Blanco, Garfield, Moffat)	70	181	-61.3%		
Total Permits (Colorado)	419	478	-12.3%		
Local Rig Count					
	May-18	Feb-18			
Rig Count (Western Colorado, Mesa, Rio Blanco, Garfield, Moffat)	7	8			

SOURCES IN ORDER OF LISTING: 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 February 25th, 2018.

Figure 8:
Oil and Natural Gas Prices



SOURCE: Energy Information Agency

Natural Gas Prices

Natural gas prices rose from \$2.9/MMBtu in Q4 2017 to \$3.1/MMBtu in Q1 2018. Much of this increase was due to an extremely cold January that pushed natural gas prices to 3.87/MMBtu, but a warmer February and March pushed prices to \$2.67/MMBtu and \$2.69/MMBtu, respectively. Prices are expected to average \$3.01/MMBtu for 2018, with EIA forecasting higher natural gas prices in 2019 at \$3.11/MMBtu.

Natural gas production continues its record setting output. In 2017, natural gas production averaged 73.6 cubic feet per day (Bcf/d). For 2018, the EIA forecasts the largest production of natural gas ever, with a forecast of 80.5 Bcf/d. Preliminary forecasts for natural gas production in 2019 show production at 83.3 Bcf/d. These forecasts include the estimation of the continued increase in U.S. natural gas exports. Natural gas exports in 2017 were 0.4 Bcf/d, the 2018 forecast is 2.0 Bcf/d, and 4.6 Bcf/d in 2019.

Figure 9 illustrates a distinct trend between natural gas prices and employment in the oil/gas industry in neighboring Mesa County. As gas prices have moderately recovered from 2016 lows, employment in that industry has risen.

Oil Prices

Oil prices have been rising sharply, increasing 13.8% from last quarter and 21.9% from last year. Oil prices averaged \$62.9 for Q1, and have been increasing consistently. Several factors are pushing crude oil prices higher: 1) A robust U.S. economy. 2) A reasonably strong world economy. 3) OPEC and Russia's commitment to raising oil prices by cutting production. 4) World tensions that increase oil supply risk, including the withdrawal from the Iran nuclear deal. This withdrawal has increased the risk that both Israel and Saudi Arabia go to war with Iran. In addition to this, the collapsing government and economy of Venezuela continues to keep their production low. An actual conflict with Iran would drastically increase oil prices. As of May 26th, OPEC is now concerned about higher prices and is discussing how to increase output, which could lower prices for the summer.

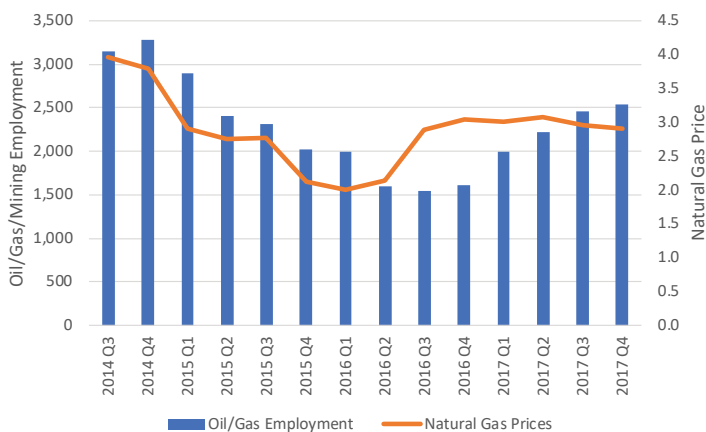
These high crude oil prices have led to high gasoline prices. Gas prices are up 10% from last year at \$2.5/gallon. Note that as of May 2018, Gasbuddy.com finds the average gas prices in Montrose County to be on average \$3.04, while the average price in Colorado is around \$2.97.

Western Slope Drilling Activity

Western slope drilling activity in Q1 of 2018 is down by one rig, falling from 8 to 7. All rigs in the Piceance are currently engaged in natural gas drilling. Drilling permits for the first quarter are down across the board. However, it is important to note that drilling permits have a very high variance, meaning that they may be low this quarter but they could drastically increase in the next. Next quarter's cumulative total will give a clearer picture of the drilling permit situation in the Piceance.

Figure 9:

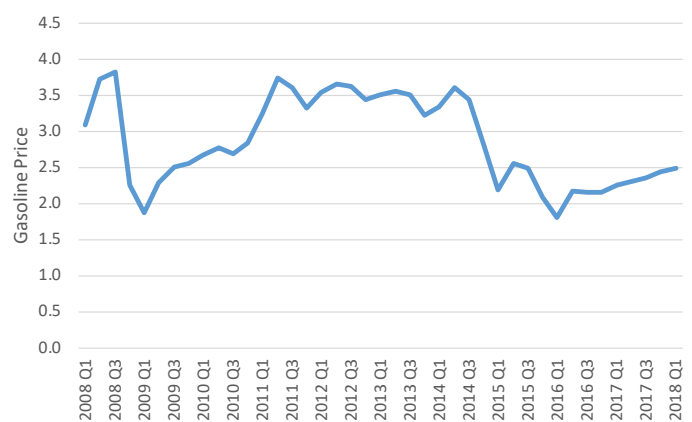
Oil/Gas/Mining Employment for Mesa County



SOURCE: Bureau of Labor Statistics and the Energy Information Agency

Figure 10:

Gasoline Prices



SOURCE: Energy Information Agency

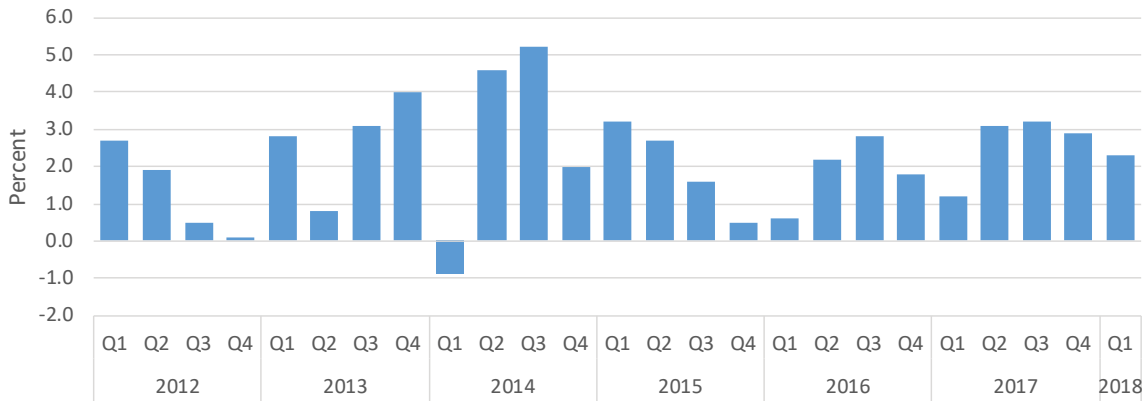
Sources: <https://www.eia.gov/outlooks/steo/report/natgas.php>. Retrieved May 25th, 2018.
<https://www.gasbuddy.com/GasPriceMap>. Retrieved May 25th, 2018.

NATIONAL ECONOMIC INDICATORS

	Q1 2018	Q4 2017	Q1 2017	% change since last period	% change since last year (comparable quarters)
Business Cycle Indicators					
Real GDP	2.3%	2.9%	1.2%	-0.6%	1.1%
Personal Consumption Expenditures (PCE)	1.1%	4.0%	1.9%	-2.9%	-0.8%
Business Fixed Investment	6.1%	6.8%	4.7%	-0.7%	1.4%
National Consumer Confidence	98.4	95.10	93.1	3.5%	5.7%
Industrial Production Index	105.9	105.3	102.5	0.6%	3.3%
Initial Weekly Unemployment Claims (4 week MA)	230,096	239,673	246,604	-4.0%	-6.7%
Non Farm Payroll Change (in thousands)	2,208	2,177	2,408	1.5%	-8.3%
Unemployment					
Unemployment Rate-U3-SA	4.1%	4.1%	4.7%	0.0%	-0.6%
Unemployment Rate-U6-SA	8.1%	8.0%	9.1%	0.1%	-1.0%
Interest Rates					
10 Year U.S. Treasury	2.8%	2.4%	2.4%	0.4%	0.4%
30 Year U.S. Treasury	3.0%	2.8%	3.1%	0.2%	-0.1%
Federal Funds Rate	1.4%	1.2%	0.7%	0.2%	0.7%
Inflation Measures					
Inflation Rate (CPI)	2.3%	2.1%	2.6%	0.2%	-0.3%
Core Inflation Rate (All Items Less Food and Energy)	1.9%	1.7%	2.1%	0.2%	-0.2%
Inflation Rate (Shelter)	3.2%	3.2%	3.5%	0.0%	-0.3%
Producer Price Index (PPI)	3.9%	4.6%	5.1%	-0.7%	-1.2%
Employment Cost Index	2.7%	2.7%	2.4%	0.0%	0.3%
Stock Prices					
S&P 500	2,733	2,603	2,326	5.0%	17.5%
Dow Jones Industrial Average	25,127	23,689	20,406	6.1%	23.1%

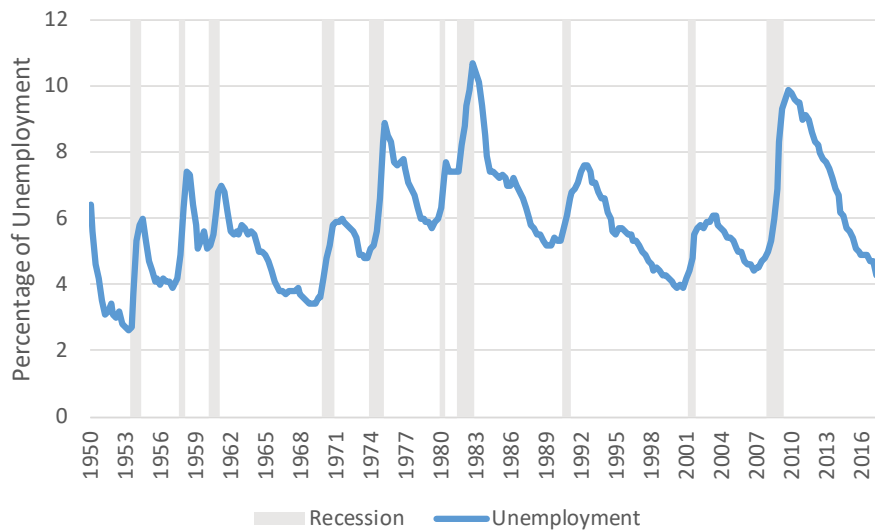
SOURCES IN ORDER OF LISTING: GDP, Consumption, and Investment: Bureau of Economic Analysis; Industrial Production: Board of Governors of the Federal Reserve System; Consumer Expectations: University of Michigan; Weekly Unemployment Claims: U.S. Employment and Training Administration. Non-Farm Payroll, Unemployment Rates, Inflation Measures: Bureau of Labor Statistics; Stock Prices: S&P Dow Jones Indices, LLC.

Figure 11:
Real GDP



Source: Bureau of Economic Analysis

Figure 12:
U.S. Unemployment: 1950-2017



Source: Bureau of Labor Statistics

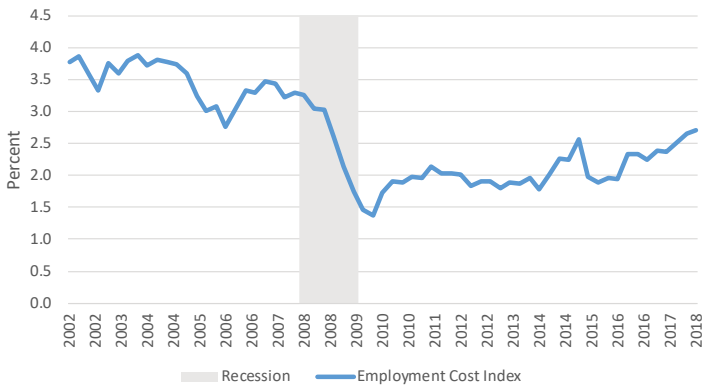
National Economic Performance

The national economy continues its strong growth pace with 2.3% growth in Q1 of 2018, up from 1.2% the previous year (figure 11). The Atlanta Federal Reserve forecasts that GDP growth will come in at 4% in Q2 2018. Personal consumption has slipped, in a slightly worrying trend, but national consumer confidence remains high. Investment remains strong at 6.8%, while industrial production is up 3.3% from last year. Weekly unemployment claims continue to fall as the economy continues to add jobs. Non-farm payrolls are still positive, however there is a trend graphically that shows employment gains are starting to slow, which is typical of a low unemployment economy. Unemployment remains low at a seasonally adjusted rate of 4.1%, while the U6 measure of unemployment which counts discouraged workers has fallen to 8.1%. Figure 12 illustrates

historical unemployment numbers.

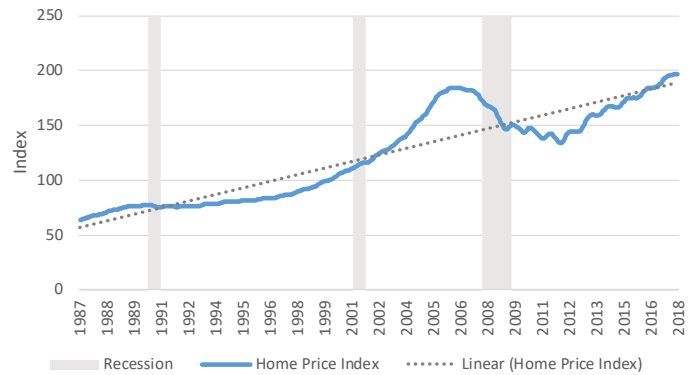
Inflation remains within the Federal Reserve's target range of 2-3%, coming in at 2.3%. The Federal Reserve uses the CPI that omits volatile food and energy prices (known as core inflation) as their target inflation measure. The Federal Reserve has a target of 2% for core inflation, and it currently sits at 1.9%. The producer price index (PPI), which measures the price of input costs to businesses fell to 3.9% from 4.6% last quarter. Oftentimes the PPI will increase before the CPI does, and can be a leading indicator for the CPI, but the PPI remains relatively low. The employment costs index remains steady at 2.7%. The employment cost index is a measure of wages, and this low number is perplexing in an economy with 4.1% unemployment.

Figure 13:
Employment Cost Index



Source: Bureau of Labor Statistics

Figure 14:
S&P/Case Schiller National Home Price Index



Source: S&P Dow Jones Indices LLC

National Economic Performance Continued

Most economists expect wage gains to be higher in an economy that is as robust as our current one. This is bad news for workers since wage gains seem hard to come by, but good news for low inflation since wages have a strong impact on inflation. Many economists believe that there is still slack in the labor force which is preventing wages from rising. This theory would explain the continued increase in non-farm payrolls despite such low unemployment numbers. In May, the Federal Reserve voted to not increase interest rates, keeping the Federal Funds rate steady at its range of 1.5% to 1.75%. Most economists believe the Federal Reserve will increase interest rates in the coming months. As long as inflation stays low, large interest rate increases may not be as necessary. There is also some international pressure to not raise rates too high because it puts upward pressure on the dollar, causing problems in countries such as Turkey and Argentina in the form of higher debt payments. Ultimately, the national economy is in good shape. Unemployment is low, inflation is low, consumer and business confidence are high, spending is high, industrial production is high; all signs point to a robust economy.

There are a few negative signs, including potential asset price bubbles in the stock market, bond market, and housing market. Many economists, including ex-Federal Reserve chairman Alan Greenspan, believe that there is both a stock market and bond market bubble, but there is definitely not a consensus among economists on this issue. A bond market bubble pop would result in rising interest rates. Whether the housing market is overvalued is also up for debate. Housing is moving up briskly and is now more expensive than during the 2008 bubble. Another troubling sign is the low labor productivity numbers since the recession. From 1988 to 2008 labor productivity growth averaged 2.2%, while 2009 to 2017 labor productivity averaged 1.2%.



The Montrose County Economic Update is compiled and written by Dr. Nathan Perry, Associate Professor of Economics at Colorado Mesa University.

☎ 970.248.1888

✉ naperry@coloradomesa.edu



1100 North Avenue
Grand Junction, Colorado 81501-3122
970.248.1778 • 970.248.1138 (f)

coloradomesa.edu