MONTROSE COUNTY ECONOMIC UPDATE

Second Quarter 2020

COLORADO MESA UNIVERSITY

Provided by the Business Department
of Colorado Mesa University

Economic Summary

- From March 21 through May 2, Montrose County has had 2,172 people file for unemployment, equating to 10.38% of the March labor force numbers. The Montrose unemployment rate moved from 3.6% in February, to 7.5% in March, with the April rate at 12%. Employment numbers fell from 20,860 to 17,410 from February to April.

- At the state level, 25.4 % of the unemployment claims (through May 2) are in the accomodation and food services industry, with retail trade (14%), and healthcare (13.3%) the next largest. Montrose airport enplanements are down 11.57% from last year, while Colorado business confidence is down 42% from last quarter.

- The April national unemployment rate was a dismal 14.7%, with the U6 rate that counts discouraged workers and marginally attached workers at 22.8%. Part of this unemployment is temporary due to shutdowns, but some of it wil persist due to what has been a massive demand shock, both locally and nationally.

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.

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LOCAL ECONOMIC INDICATORS

	Q1 2020	Q4 2019	Q1 2019	change since last quarter	change since last year (comparable quarters)
Local Labor Market					
Unemployment Rate Montrose County-NSA	4.83%	2.47%	4.60%	2.37%	0.23%
Unemployment Rate Colorado - NSA	3.70%	2.40%	3.30%	1.30%	0.40%
Unemployment Rate U.S. - NSA	4.10%	3.30%	4.10%	0.80%	0.00%
Labor Force	21,413	22,878	21,790	-1,464	-377
Employed	20,385	22,313	20,787	-1,928	-402
Unemployed	1,028	565	1,003	463	25
Business Confidence					
Leeds Colorado Business Confidence	29.7	50.8	52.7	-41.54%	-43.64%
Sales/Use Taxes					
City Sales/Use Taxes (YTD)	$4,120,642		$4,041,782		1.95%
County Sales/Use Tax (YTD)	$3,445,887		$3,344,288		3.04%
Hotel and Restaurant Tax (YTD)	$115,706		$117,614		-1.62%
Telluride Sales/Use Tax (YTD)	$2,270,733		$2,372,049		-4.27%
Business Filings	**2020 (YTD)**		**2019 (YTD)**		
Montrose County New Business Entity Filings	282		254		11.02%

Montrose Regional Airport	Q1 2020	Q4 2019	Q1 2010	% change from last quarter	% change from last year
Enplanements	56,916	30,426	64,363	87.06%	-11.57%
Standard of Living and Growth	**2018**	**2017**	**2016**	**% change since 2017**	**% change from 2016**
Median Household Income	$52,576	$51,031	$43,285	3.03%	21.46%
Percent of Population Below Poverty Line	16.7%	17.80%	18.00%	-1.10%	-1.30%
Personal Income	$1,685,601	$1,573,763	$1,491,837	7.11%	12.99%
Per Capita Personal Income	$39,930	$37,663	$36,238	6.02%	10.19%
Population	42,214	41,785	41,168	1.03%	2.54%
Montrose Real Gross Regional Product (in thousands, 2012 dollars)	$1,413,627	$1,359,203	$1,314,618	4.00%	7.53%

The Local Labor Market

The Montrose County labor market has turned sharply down due to COVID-19, with an unemloyment rate that moved from 3.6% in February, to 7.5% in March, to 12% in April (table 2). Labor force numbers fell from from 21,634 in February to 19,782 in April. Falling labor force numbers are typical in rising unemployment, as many workers leave the workforce with lack of opportunity. Employment numbers fell from 20,860 to 17,410 from February to April.   Weekly unemployment claims peaked in late March, and have fallen from 596 in late March to 178 in early May. Table 2 shows that the Western Slope unemployment is rising on level with the state, with a slightly higher projected unemployment rate. Figure 1 illustrates how employment has fallen as a result of the pandemic.

What Industries Are Most Affected?

Data from the Colorado Department of Labor shows which industries have been most affected. Table 4 illustrates unemployment claims by industry for Colorado from March 21-May 4. 25.4% % of the unemployment claims (through May 2) are in the accomodation and food services industry, with retail trade (14%), and healthcare (13.3%) the next largest. Decline in elective surgeries, lack of emergency room visits, and COVID-19 worries in nursing homes have hurt healthcare since the pandemic began.

Table 5 illustrates unemployment claims by occupation for the state of Colorado. Note that occupation and industry classifications are different. Industry is the type of business the person works for. Occupation is the skill or task of the person. 22% of unemployment claims are food and serving related, with 14% sales, and 7.6% personal care and service.

Table 1:
1, 5, and 10 Year Employment Comparison

	Labor Force	Employed	Unemployed
Annual	-378	-349	-29
5-Year	2,331	2,554	-222
10-Year	734	2,142	-1,408
Annual %	-1.74%	-1.68%	-2.92%
5-Year %	12.22%	14.28%	-18.58%
10-Year %	3.55%	11.71%	-59.10%

How quickly these jobs return depends on consumer demand, and consumer demand is dependent on risk factors for COVID-19. We have likely seen the worst of the unemployment claims, but it may be years until the low unemployment rates of 2017-2019 return to not just Montrose County, but the U.S. and World. After a demand shock such as this, even if COVID-19 risk factors fall drastically, it will take some time for employment to return to previous levels. The hope is that strong unemployment benefits and fiscal policy can keep people afloat in the short term.

Montrose airport enplanements are down 11.57% from last year. This number includes March's enplanement numbers, capturing the first two weeks of COVID-19 worries. The Leeds Colorado Business Confidence Index shows that business confidence has fallen almost 42% since last quarter.

Table 2:
Monthly Unemployment Rates

	February	March	April
Mesa	4.1%	7%	12.6%
Montrose	3.6%	7.5%	12%
Delta	4.2%	7.9%	10.2%
Garfield	3.3%	6%	13.4%
Colorado	2.9%	5.4%	12.0%

Table 3:
Weekly Initial Claims for Unemployment

	2019 Weekly Average	21-Mar-20	28-Mar-20	04-Apr-20	11-Apr-20	18-Apr-20	25-Apr-20	02-May-20	Total
Mesa	73	463	2,288	1,958	1,270	876	760	585	8,200
Montrose	22	116	596	493	333	238	218	178	2,172
Delta	15	60	305	239	181	126	129	79	1,119
Garfield	28	268	1,160	1,015	676	393	375	283	4,170
Colorado	2,044	25,760	86,500	80,445	55,859	40,479	36,899	28,445	354,387

Figure 1:
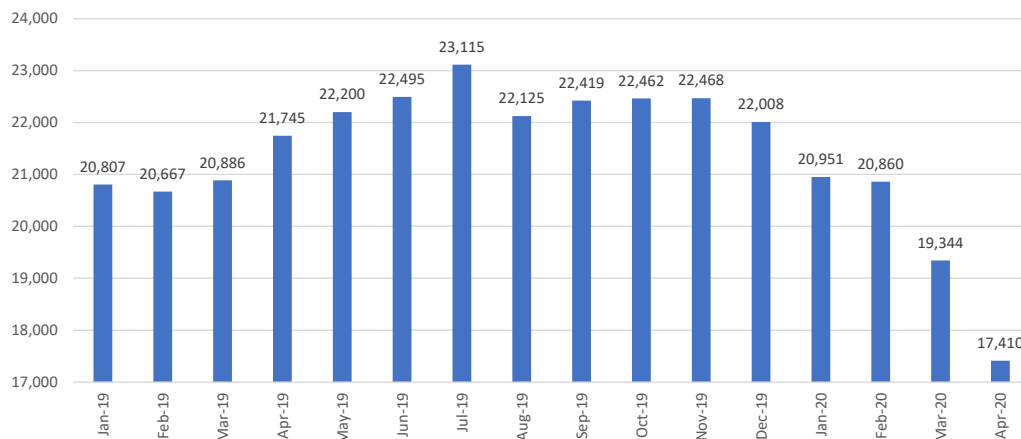## Employment (Jan-19 through April-20)

Table 4:
Colorado Unemployment Claims by Industry (March 15-May 2)

	21-Mar	28-Mar	4-Apr	11-Apr	18-Apr	25-Apr	Total	Percentage of Total
Construction	23	93	64	51	29	35	295	3.7%
Education and health services	33	257	278	127	89	84	868	10.9%
Financial activities	6	48	29	31	24	17	155	2.0%
Information	7	11	20	9	7	12	66	0.8%
Leisure and hospitality	233	707	370	212	151	106	1,779	22.4%
Manufacturing	11	136	110	60	32	17	366	4.6%
N/A	57	432	393	275	203	171	1,531	19.3%
Natural resources and mining	21	62	67	33	48	32	263	3.3%
Other services	15	173	87	55	42	26	398	5.0%
Professional and business services	50	226	144	90	64	57	631	8.0%
Public administration	2	6	21	16	7	7	59	0.7%
Trade, transportation, and utilities	67	432	363	303	174	187	1,526	19.2%
Total	525	2,583	1,946	1,262	870	751	7,937	100.0%

SOURCE: Colorado Department of Labor and Employment (QCEW), courtesy of the Mesa County Workforce Center.

What Type of Recovery?

Economists talk about several shapes of potential recovery, including a V-shaped, U-shaped, L-shaped, a "Nike Swoosh" shaped, and a square-root shaped recovery. A V-shaped recovery has a sharp downturn but an equally sharp upturn. A historical example would be the recession of 1953. A U-shaped recovery is where the recession lingers for a year or two until it starts to turn upwards, such as the 1973 recession. A W-shaped recession is where the economy turns quickly, recovers, but then turns downward again until it eventually recovers. 1980/1981 is an example, and this particular recession has this potential if COVID-19 problems return in the Fall/Winter. Then there is an L-shaped recession where the economy enters a recession and then stays in recession for a continued time. The Western Slope experienced an L-shaped recession (if not a depression) from 2009-2016. Then there is the Nike swoosh, which would be in between the V-shaped and U-shaped recovery. The recession lasts longer than the V but recovers more quickly than the U. Lastly, there is the square-root recession, that looks like a square-root sign from an algebra class. The economy turns downward, but then there is a partial recovery, but not a full recovery, and then the economy stagnates at that point for some time. Of all of these scenarios, the "swoosh" recovery or the square-root recovery seem the most probable. As businesses open there will be a quick increase in employment, but the levels will not return to 2019 levels for some time, as long as COVID-19 remains a risk, there will be parts of the population that change their consumption habits creating some structural unemployment. In addition to this, with such a loss of GDP over the last two months, economies will need to grow their way out of high unemployment to return to previous levels. Expect unemployment to fall out of double digits quickly but then take some time to fall to their most recent levels.

Table 5:
Colorado Unemployment Claims by Occupation (March 15-May 2)

Occupational Group	Total Initial Claims 3/15/20 - 5/2/20	Share of Total Initial Claims 3/15/20 - 5/2/20
Food Preparation and Serving Related	82,890	22.4%
Sales and Related	52,068	14.1%
Personal Care and Service	28,003	7.6%
Management	27,537	7.4%
Office and Administrative Support	20,512	5.5%
Healthcare Practitioners and Technical	19,975	5.4%
Transportation and Material Moving	17,574	4.8%
Healthcare Support	17,144	4.6%
Construction and Extraction	15,124	4.1%
Arts, Design, Entertainment, Sports, and Media	14,647	4.0%
Installation, Maintenance, and Repair	12,920	3.5%
Production	12,729	3.4%
Education, Training, and Library	11,823	3.2%
Business and Financial Operations	9,752	2.6%
Building and Grounds Cleaning and Maintenance	8,327	2.3%
Computer and Mathematical	4,120	1.1%
Life, Physical, and Social Science	3,524	1.0%
Community and Social Service	3,488	0.9%
Architecture and Engineering	2,805	0.8%
Protective Service	1,672	0.5%
Farming, Fishing, and Forestry	1,563	0.4%
Legal	1,551	0.4%

SOURCE: Colorado Department of Labor and Employment (QCEW).

Montrose County Employment Trends

Montrose employment trends from the most recent data point, Q4 of 2019, shows that manufacturing lost 165 jobs, but gains in accomodation and food service (116), retail trade (82), and transportation and warehousing (73) kept job gains postive. Note that QCEW gets its data from unemployment insurance, so it does not count sole proprietors and much farm employment. Because of this, farm and sole proprietor data is listed below in table 3. Note that Educational Services and Management of Companies and Enterprises are both omitted by the BLS due to lack of reporting data points. Wage data shows wages increased by 3.8% in nominal terms (not adjusting for inflation from Q4 2018 to Q4 2019).

Table 6:
Quarterly Census of Employment and Wages Q4 2019 Compared to Q3 2018

Sector	Average Employment Q4 2019	Total Quarterly Wages (Q4 2019)	Average Weekly Wage (Q4 2019)	Total Employment Change (Q4 2018 to Q4 2019)	Total Wage Change (Q4 2018 to Q4 2019)
Total, All Industries	15,614	$167,021,032	823	168	$6,213,611
Health Care and Social Assistance	2,858	$32,404,572	$872	5	$1,461,352
Retail Trade	2,259	$18,343,022	$625	82	$1,712,872
Construction	1,407	$18,153,257	$992	53	$1,029,235
Public Administration	1,014	$15,592,967	$1,183	2	$510,590
Manufacturing	1,233	$13,890,824	$867	-165	-$280,767
Accommodation and Food Services	1,498	$7,317,614	$376	116	$819,916
Transportation and Warehousing	625	$6,511,849	$801	73	$1,092,119
Professional and Technical Services	445	$6,430,312	$1,112	-9	-$824,849
Wholesale Trade	381	$5,615,324	$1,134	-74	-$144,198
Utilities	269	$5,388,767	$1,541	-7	$118,011
Finance and Insurance	304	$4,682,173	$1,185	-2	$64,219
Other Services, Ex. Public Admin	412	$4,608,302	$860	54	$327,827
Administrative and Waste Services	529	$4,270,714	$621	25	-$245,000
Real Estate and Rental and Leasing	371	$4,000,053	$829	19	$61,472
Agriculture, Forestry, Fishing & Hunting	277	$2,420,860	$672	23	$463,044
Information	187	$1,729,326	$711	4	$31,323
Arts, Entertainment, and Recreation	341	$1,641,513	$370	10	$159,131
Mining	26	$619,817	$1,834	-16	-$319,355
Educational Services	N/A	N/A	N/A	N/A	N/A
Management of Companies and Enterprises	N/A	N/A	N/A	N/A	N/A

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

Table 7:
Farm and Sole Proprietor Employment

BEA Data	2018	2017	2016	% change since 2017	% change from 2016
Farm Employment	1,439	1,480	1,393	-2.77%	3.30%
Sole Proprietors (non-farm)	8,141	7,935	7,758	2.60%	4.94%

Figure 2:
Total Wage Changes from Q4 2018 to Q4 2019

Industry	Wage Change
Retail Trade	$1,712,872
Health Care and Social Assistance	$1,461,352
Transportation and Warehousing	$1,092,119
Construction	$1,029,235
Accommodation and Food Services	$819,916
Public Administration	$510,590
Agriculture, Forestry, Fishing & Hunting	$463,044
Other Services, Ex. Public Admin	$327,827
Arts, Entertainment, and Recreation	$159,131
Utilities	$118,011
Finance and Insurance	$64,219
Real Estate and Rental and Leasing	$61,472
Information	$31,323
Wholesale Trade	-$144,198
Administrative and Waste Services	-$245,000
Manufacturing	-$280,767
Mining	-$319,355
Professional and Technical Services	-$824,849

Figure 3:
Total Jobs Change from Q4 2018 to Q4 2019

Industry	Jobs Change
Accommodation and Food Services	116
Retail Trade	82
Transportation and Warehousing	73
Other Services, Ex. Public Admin	54
Construction	53
Administrative and Waste Services	25
Agriculture, Forestry, Fishing & Hunting	23
Real Estate and Rental and Leasing	19
Arts, Entertainment, and Recreation	10
Health Care and Social Assistance	5
Information	4
Public Administration	2
Finance and Insurance	-2
Utilities	-7
Professional and Technical Services	-9
Mining	-16
Wholesale Trade	-74
Manufacturing	-165

LOCAL REAL ESTATE

	Q1 2020	Q1 2019	% change since last year
Real Estate			
Inventory of Homes for Sale (3 month avg)	161	202	-20.17%
New Residential Listings (3 month total)	187	202	-7.43%
Sold Residential Listings (3 month total)	134	121	10.74%
Median Sales Price	$273,358	$240,167	13.82%
Average Sales Price	$311,436	$265,929	17.11%
Days on Market	116.00	102.67	12.99%
Months Supply of Inventory	2.73	3.33	-18.00%
Total Building Permits	140	129	8.53%
Total Building Permit Valuation	$19,091,665	$14,854,127	28.53%
Single Family Home Permits	59	48	22.92%
Single Family Home Permit Valuation	$7,821,471	$7,859,335	-0.48%
Foreclosures			
Foreclosure Filings	11	20	-45.00%
Foreclosure Sales	2	3	-33.33%
Mortgage Rates			
30 Year Mortgage Rate	2.98%	3.82%	-0.84%
15 year Mortgage Rate	3.52%	4.37%	-0.85%

SOURCES IN ORDER OF LISTING: Real Estate: Colorado Association fo 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

Through March real estate seems to be unaffected by COVID-19, although that is expected to change in the April and May data. Inventory is down by 20%, while the median price of homes is up 13.82%. COVID-19 will affect the real estate market in several potential ways. The first is the possibility of a short term spike in home values brought on by a decrease in inventory due to social distancing, and sellers delaying listing their house. After this and a few months into this recession as unemployment takes its toll, there will be selling pressure as more people cannot keep paying their mortgage payment, likely putting downward pressure on prices. One countervailing factor is extraordinarily low mortgage rates. Both the 15 and 30 year mortgage rates are 0.85% lower than they were a year ago, and home owners are refinancing at record rates to take advantage. Mortgage rates are expected to stay low as the Federal Reserve engages in unprecedented treasury buying.

At the national level, Zillow predicts a 3-4% drop in home values for 2020, while Fannie Mae predicts home sales will fall by 15%, with prices rising very slightly. New residential home permits are expected to fall as higher unemployment pushes new housing demand down. This will likely have an adverse affect on the construction industry, which was due for a softening this year without COVID-19.

Regional Energy

	Q1 2020	Q4 2019	Q1 2019	% change since last quarter	% change since last year (comparable quarters)
Energy Prices					
WTI Crude Oil	$45.34	$56.84	$54.82	-20.23%	-17.29%
Henry Hub Natural gas	$1.91	$2.40	$2.92	-20.42%	-34.59%
Retail Gasoline Price	$2.31	$2.48	$2.27	-6.89%	1.81%

Drilling Permits	2020 (YTD, as of May)	2019 (YTD, May)		% Change since same time last year	
Drilling Permits (Mesa County)	0	0		0	
Drilling Permits (Rio Blanco County)	1	27		-96.30%	
Drilling Permits (Garfield County)	24	67		-64.18%	
Drilling Permits (Moffat County)	0	0		0	
Total Permits (Mesa, Rio Blanco, Garfield, Moffat)	25	94		-73.40%	
Total Permits (Colorado)	553	1,103		-49.86%	

Local Rig Count	**May-20**	**Feb-20**	**May-19**		
Rig Count (Western Colorado, Mesa, Rio Blanco, Garfield, Moffat)	1	3	4		

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.
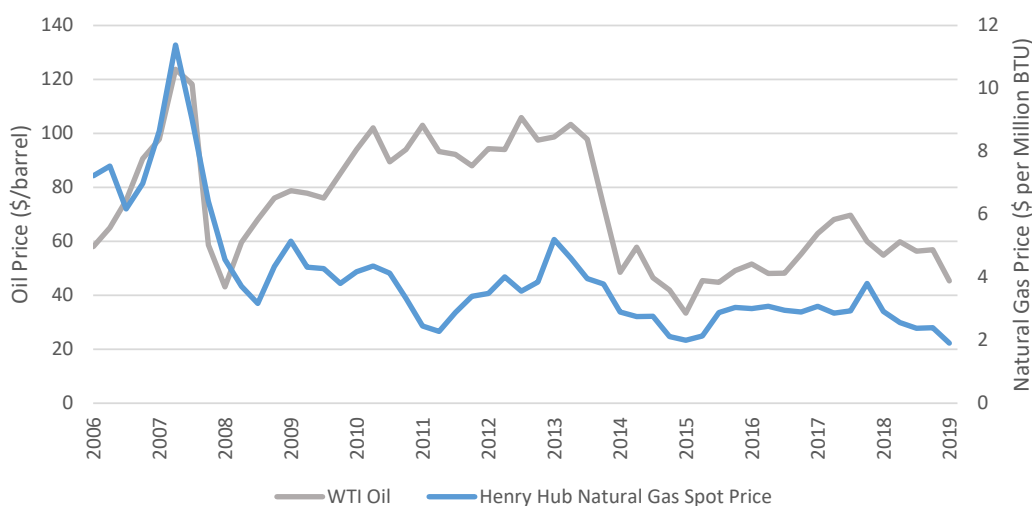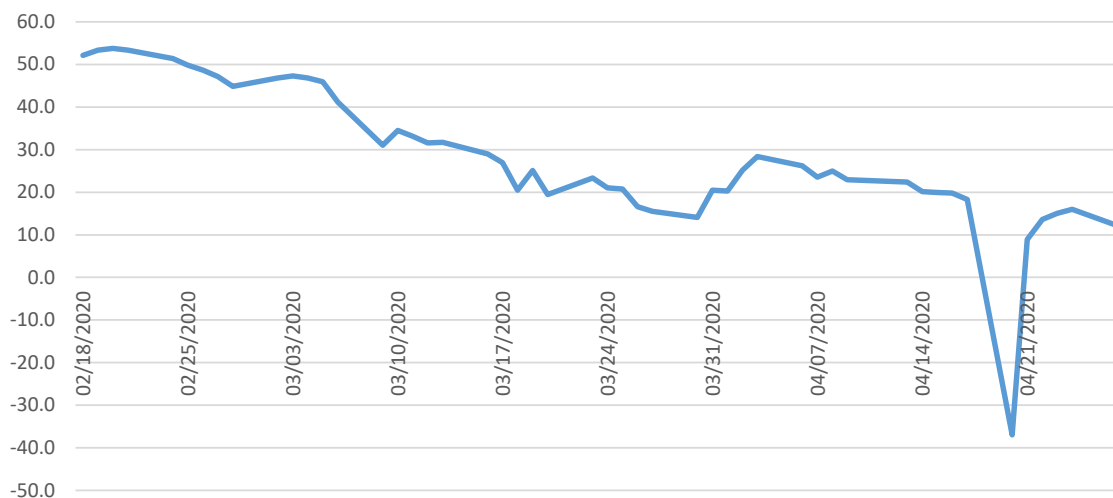
Figure 4:
Oil and Natural Gas Prices

Figure 5:
Daily WTI Oil, February 18-April 28

Natural Gas Prices

The Henry Hub natural gas spot price averaged $1.91/MMBtu for the first quarter of 2020, and hit a low of $1.55/MMBtu on April 2. The previous year's production along with a mild winter have increased year over year inventory levels and pushed prices down. Natural gas power generation has been the largest source of natural gas demand for the past year. Natural gas power is forecast to increase in 2020, however U.S. electricity consumption in general is forecast to be lower.

The EIA forecasts that natural gas demand will decrease significantly due to the poor economic outlook for the next year. This lower demand may be offset by a drastic reduction in national rig count. The national rig count as of May 2020 is 408, down 582 from last year's count of 990. The EIA forecast for natural gas price in 2020 is $2.11/MMBtu, while the 2021 forecast is $2.98/MMBtu. The higher 2020 price is expected due to rig counts falling and production declining as a result.

Source: Energy Information Agency

Oil and Gasoline Prices

It has been a wild quarter for oil prices, with a perfect storm of COVID-19 and OPEC politics coming together. In mid-March it became clear that COVID-19 was going to change consumption patterns, hurt the economy, and force potential shelter-in-place policies, drastically reducing short-term demand for oil. At the same time, an OPEC plus agreement to cut production fell through, resulting in Saudi Arabia launching a price war by drastically increasing supply output to punish Russia for not agreeing to output cuts. The result was a simultaneous demand and supply shock that forced oil into negative territory. Crude oil futures hit -$37 on April 20, as storage capacity was completely full, resulting in people being willing to pay to not receive physical barrels of oil. This has turned, and as of early May prices have returned to the low $20 level. EIA forecasts that Brent crude oil prices will average $33 for the rest of 2020. Note that WTI prices are generally lower than Brent prices.

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

Western Slope Drilling Activity

Rig counts continue to fall in the Piceance, with rigs falling from 4 in May of 2019, to 3 in February of 2020, to 1 in May 2020. Drilling permit applications are drastically down in a year over year comparison, falling by 74% compared to the 50% fall for the state as a whole. The lower rig count number is not good for employment in this industry, but the potential good news is that as the national rig count falls, natural gas supplies hitting the market will fall, setting the stage for a potential bounce in natural gas prices in 2021, which would help the Piceance Basin.

National Economic Indicators

	Q1 2020	Q4 2019	Q1 2019	% change since last period	% change since last year (comparable quarters)
Business Cycle Indicators					
Real GDP	-4.80%	2.10%	3.10%	-6.90%	-7.90%
Personal Consumption Expenditures	-7.60%	1.80%	1.10%	-9.40%	-8.70%
Gross Private Domestic Investment	-5.60%	-6.00%	6.20%	0.40%	-11.80%
National Consumer Confidence	96.6	97.2	94.5	-0.62%	2.22%
Industrial Production Index	107.4	109.6	109.8	-1.94%	-2.14%
Initial Weekly Unemployment Claims (4 week MA)	464,000	217,731	221,846	113.11%	109.15%
Non Farm Payroll Change (in thousands)	287,000	628,000	484,667	-54.30%	-40.78%
Unemployment					
Unemployment Rate-U3-SA	3.80%	3.50%	3.90%	0.30%	-0.10%
Unemployment Rate-U6-SA	7.50%	6.80%	7.50%	0.70%	0.00%
Interest Rates					
Federal Funds Rate	1.35%	1.66%	2.40%	-0.31%	-1.05%
10 Year U.S. Treasury	1.38%	1.79%	2.65%	-0.41%	-1.27%
30 Year U.S. Treasury	1.87%	2.25%	3.01%	-0.38%	-1.14%
Inflation Measures					
Inflation Rate (CPI)	2.11%	2.03%	1.62%	0.07%	0.48%
Core Inflation Rate (All Items Less Food and Energy)	2.24%	2.29%	2.09%	-0.05%	0.15%
Inflation Rate (Shelter)	3.21%	3.31%	3.33%	-0.09%	-0.11%
Producer Price Index (PPI)	-1.57%	-1.83%	0.44%	0.26%	-2.00%
Employment Cost Index	2.79%	2.74%	2.79%	0.05%	0.00%
Stock Prices					
S&P 500	3,056	3,083	2,721	-0.87%	12.31%
Dow Jones Industrial Average	26,554	27,537	25,147	-3.57%	5.60%
Trade Balance and Debt					
USD Exchange Rate (trade weighted)	N/A	130	127	N/A	N/A
Trade Balance (% of GDP)	-527.927	-577.867	-633.848	-8.64%	-16.71%
Federal Debt (% of GDP)*	106.8%	105.5%	105.2%	1.3%	1.6%

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.
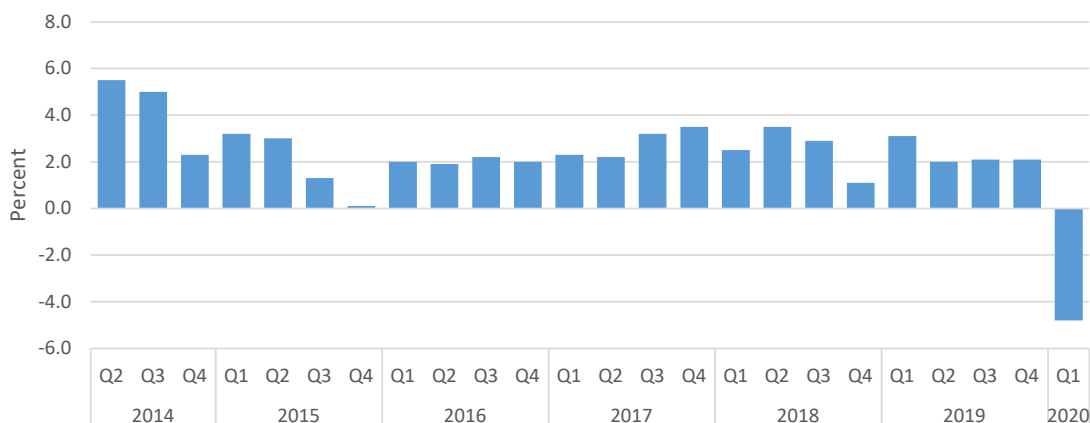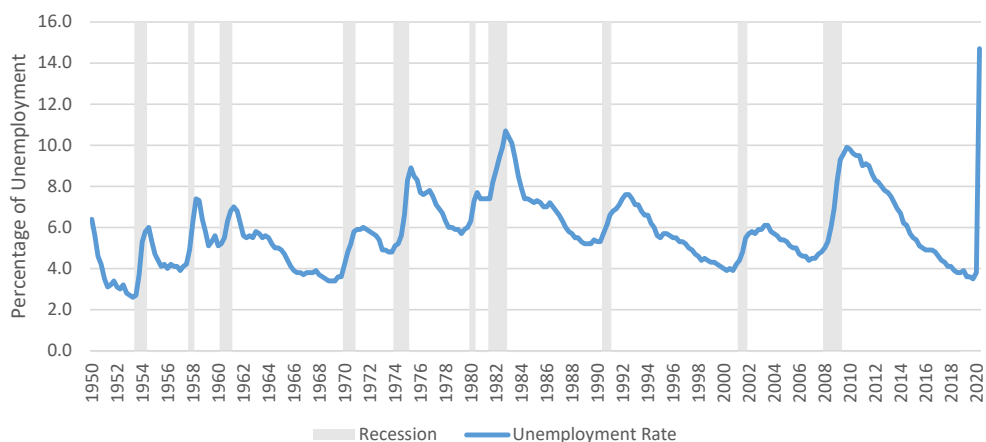
Figure 6:
Real GDP

Figure 7:
U.S. Unemployment: 1950-April 2020

National Economic Performance

COVID-19 has created an unpresedented demand shock to the economy, pushing the U.S. into what will most certainly be defined as a recession. The only comparison would be the flu epidemic of 1918, however the nation did not collect data the way it does now, and what data we do have is distorted by WWI. The April Unemployment rate jumped to 14.7%, the highest level since the Great Depression. The quarterly rate for Q1 was 3.8%, with a January rate of 3.6%, a February rate of 3.5%, and a March rate of 4.4%. Most layoffs were in the second half of March, so the COVID-19 effects are very apparent in the April data. This is the case for almost every data point. The U6 unemployment rate, which counts so called discouraged workers/people marginally attached to the labor force rose from 7% in February, to 8.7% in March, to an incredible 22.8% in April. Many economists believe the U6 rate is a more accurate rate of unemployment.

Q1 seasonally adjusted real GDP fell by -4.8%, and is expected to fall in Q2 by -34.9% (annual rate, Atlanta Federal Reserve estimates, GDP Now).

Interest Rates and the Fed

Interest rates on the 10 year treasury bond fell from 1.88% in early January to 0.7% at the end of March, hitting 0.63% by early May. This rush into treasury bonds is a result of a) the Federal Reserve purchasing bonds b) investors seeking safety. The Federal Reserve lowered the Federal Funds rate from 1.5% in early March to 0% by mid March. The fall in the 10 year treasury has caused the 30 year treasury to fall from 3.75% in early January to 3.25% in early May.

In addition to lowering interest rates, the Federal Reserve has announced it will engage in buying corporate bonds (Secondary Market Corporate Credit Facility) to provide liquidity to companies that have been hit hardest by COVID-19. The Fed has re-opened 2008-09 era lending facilities to provide liquidity to banks, the commerical paper market, direct lending to corporate employers (Primary Market Corporate Credit Facility), and an assortment of other programs. The sheer scope of Federal Reserve action during this crisis has no historical comparison and vastly outweighs the response in 2008-09. Figure 11 illustrates the Federal Reserves balance sheet (assets) increasing from $4 trillion to almost $7 trillion dollars (Figure 9).

Figure 8:
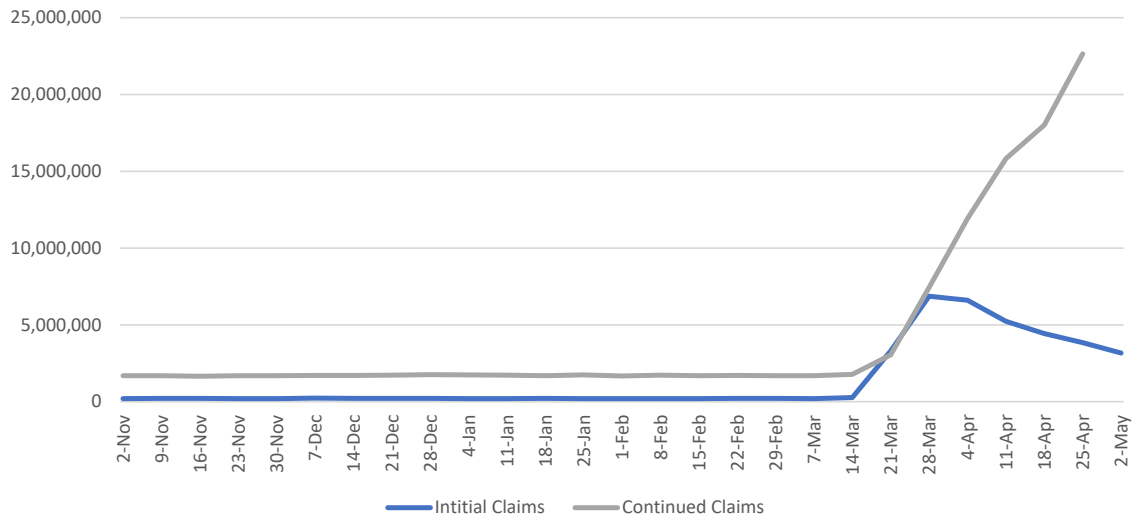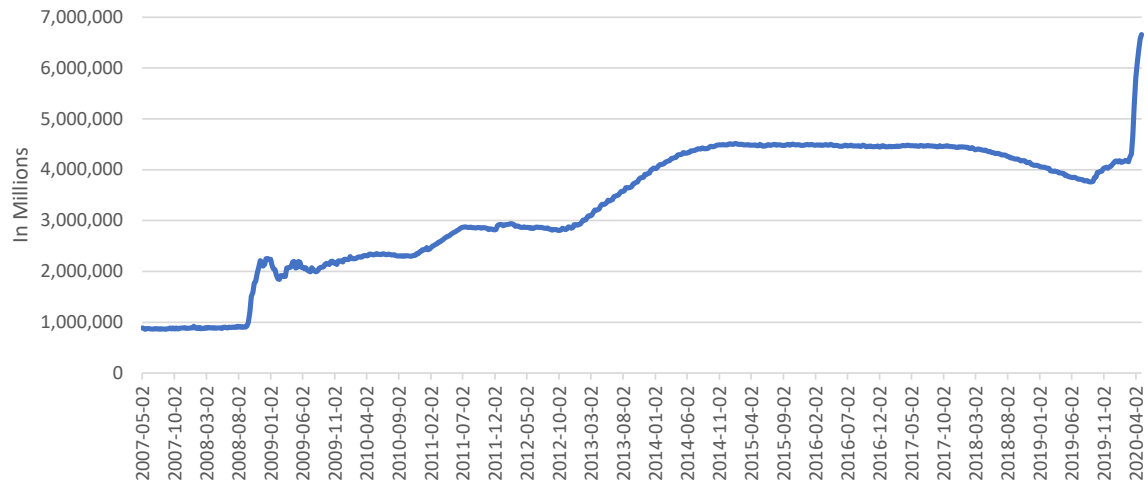### Intitial and Continuing Unemloyment Claims

Legend: Intitial Claims — Continued Claims

Figure 9:
Federal Reserve Assets

Table 7:
Congressional Budget Office Economic Forecast

	2020				Annual	
	Q1	Q2	Q3	Q4	2020	2021
Real GDP (annual rate)	-3.5%	-39.6%	23.5%	10.5%	-5.6%	2.8%
GDP (Trillions of dollars)	21.6	19.1	20.1	20.7	20.4	21.3
Unemploy-ment Rate	3.8%	14.0%	16.0%	11.7%	11.4%	10.1%

Figure 10:
S&P 500 Stock Prices (Dec-19-May19)

Figure 11:
Change in Non-Farm Payrolls
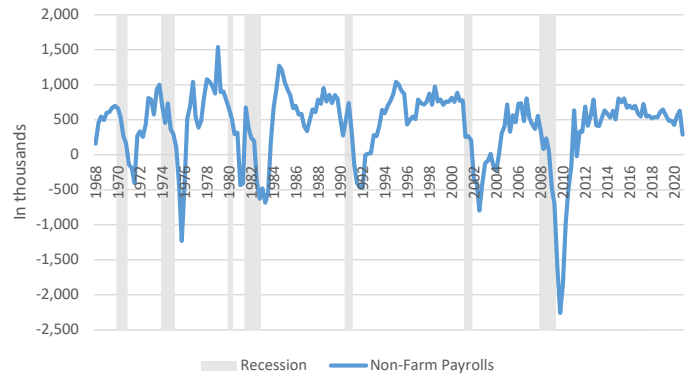
Fiscal Policy

Congress and the treasury department have acted quickly in response to the economic devastation and enacted a few key programs that may help the the economy. The $2 trillion fiscal stimulus bill included direct checks to Americans, expanded COVID-19 related unemployment insurance, and mortgage and student loan relief. In order to fund this and a potential new fiscal stimulus package, the treasury department issued new bonds (debt), which the Federal Reserve is buying (monetizing the debt). This brings up two important long term issues: 1) The increase in U.S. debt as a % of GDP and 2) the threat of inflation. Neither of these are likely a short term worry, as low interest rates will keep debt payments as a percentage of the Federal budget low, while the negative demand shock will outweigh the fiscal and monetary response, keeping inflation low in the short term. Rising food costs are the only potential threat to inflation, as the April CPI shows a 0.37% inflation rate, which means the U.S. should be more worried about deflation than inflation in the short term.

Growth Forecasts

Despite unpresedented Federal Reserve action and a large fiscal stimulus bill (with a second likely this summer), unemployment is expected to stay relatively high for the rest of the year. The congressional budget office forecasts -39.6% growth decline (annual rate), or GDP falling from $21.6 trillion to $19.1 trillion from Q1 to Q2. They forecast 14% unemployment for Q2, 16% unemployment for Q3, and 11.4% unemployment for Q4, with 10.1% unemployment for 2021. This forecast is likely a worst case scenario, and is drastically different than many people's expectations, including the financial markets which have priced in a quick full recovery, known as a V-shaped recovery. It's not as simple as states allowing people to go to work, as demand has been significantly altered until a COVID-19 treatment or vaccine is available, or we learn or perceive that risks are significantly lower than currently perceived. Employers will not hire back 100% of their workforce until they see demand return to normal. The U.S. will have to grow its way out of unemployment, and this could take some time. It is important to note that information about the risk of COVID-19 and the potential for better treatments change every week. Any economic forecast, such as the CBO forecast, are deeply impacted by the expected impacts of COVID-19. National forecasts are more dire than Western Slope and Colorado forecasts because U.S. data is driven by densely populated areas such as New York, L.A., and Seattle, whose population density make COVID-19 more devastating. However, even if the Western Slope is expected to outperform the nation, World and U.S. demand are lower than before COVID-19, and Western Slope businesses will feel these impacts.

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