

MONTROSE COUNTY ECONOMIC UPDATE



Provided by the Business Department
of Colorado Mesa University

Third Quarter 2019

Economic Summary

- The Montrose labor market remains strong with a non-seasonally adjusted unemployment rate of 2.93% for Q2 of 2019. Employment has grown by 1,030 since the same time last year. Recent population estimates for 2018 were released and show that Montrose grew by 429 people. After seeing population decline from 2009-2015, the population and employment numbers have increased from 2015 to the present.
- The Montrose real estate market remains strong, with an increase in median home values of 7.49%. This number had slowed last quarter but has increased this summer. Days on market has increased, showing that homes are taking longer to sell. In addition to this, building permits are also down from last year.
- The national economy continues to look strong, with low unemployment and reasonable growth. Negative signs include slowing investment, an inverted yield curve, and slowing international growth.

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

	Q2 2019	Q1 2019	Q2 2018	% change since last quarter	% change since last year (comparable quarters)
Local Labor Market					
Unemployment Rate Montrose County-NSA	2.93%	4.60%	3.50%	-1.67%	-0.57%
Unemployment Rate Colorado - NSA	2.70%	3.20%	3.00%	-0.50%	-0.30%
Unemployment Rate U.S. - NSA	3.50%	4.30%	3.80%	-0.80%	-0.30%
Labor Force	22,818	21,790	21,879	4.72%	4.29%
Employed	22,147	20,787	21,116	6.54%	4.88%
Unemployed	671	1,003	762	-33.09%	-11.94%
Business Confidence					
Leeds Colorado Business Confidence Index	50.5	52.7	59.6	-4.17%	-15.27%
Sales/Use Taxes					
City Sales/Use Taxes (Quarterly)	\$4,590,778	\$4,075,314	\$4,460,929	12.65%	2.91%
City Sales/Use Taxes (YTD)	\$8,666,092		\$8,357,215		3.70%
County Sales/Use Tax (Quarterly)	\$3,698,871	\$3,344,288	\$3,320,637	10.60%	11.39%
County Sales/Use Tax (YTD)	\$7,043,159		\$6,220,564		13.22%
Hotel and Restaurant Tax (Quarterly)	\$151,067	\$117,614	\$139,451	28.44%	8.33%
Hotel and Restaurant Tax (YTD)	\$268,681		\$251,448		6.85%
Telluride Sales/Use Tax (Quarterly)	\$1,337,225	\$2,372,049	\$1,355,554	-43.63%	-1.35%
Telluride Sales/Use Tax (YTD)	\$3,709,274		\$3,314,404		11.91%

Montrose Regional Airport	Q2 2019	Q1 2019	Q2 2018	% change since last quarter	% change since last year
Enplanements	22,352	64,363	20,241	-65.27%	10.43%
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%
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%
	2018	2017	2016	% change since 2017	% change from 2016
Population	42,214	41,785	41,168	1.03%	2.54%

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 County economy continues to perform very strongly with a 2.93% non-seasonally adjusted unemployment rate for Q2 of 2019. This is lower than both the Colorado and National rate. Montrose employment now stands at 22,147, 1,030 higher than a year ago. Montrose employment is 4,226 higher than 5 years ago, with 670 less people unemployed. Figure 1 illustrates this march upwards in employment. After the recession Montrose and much of the Western Slope stagnated. Montrose employment starting picking up in 2016 and has been increasing steadily since.

Other Local Data

As a result of more employment growth and a positive consumer, Montrose City and County sales taxes also continue to rise. County sales tax increased by 11.3% from last year, while the city is up almost 3% from last year.

Telluride sales tax income, which in this newsletter is used as a proxy for tourism, has increased 11% (YTD numbers) since last year.

The U.S. Census has produced updated population numbers for 2018, showing that Montrose County grew by 429 people (see Figure 2). Note that employment grew by more than double that number. Population growth in Montrose is expected to be positive for some time. The Colorado State demography office forecasts strong population growth over the next 20 years due to high migration rates.

The Leeds Colorado Business Confidence Index shows that businesses are losing confidence, with the index falling by 15% since last year.

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

	Labor Force	Employed	Unemployed
Annual	939	1,030	-91
5-Year	3,556	4,226	-670
10-Year	2,015	3,007	-991
Annual %	4.29%	4.88%	-11.94%
5-Year %	18.46%	23.58%	-49.95%
10-Year %	9.69%	15.71%	-59.62%

Figure 1:
Montrose 5 Year Employment

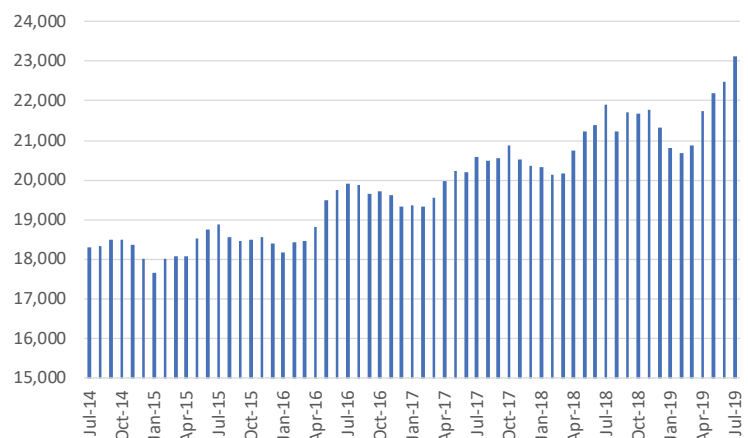


Figure 2:
Montrose County Population

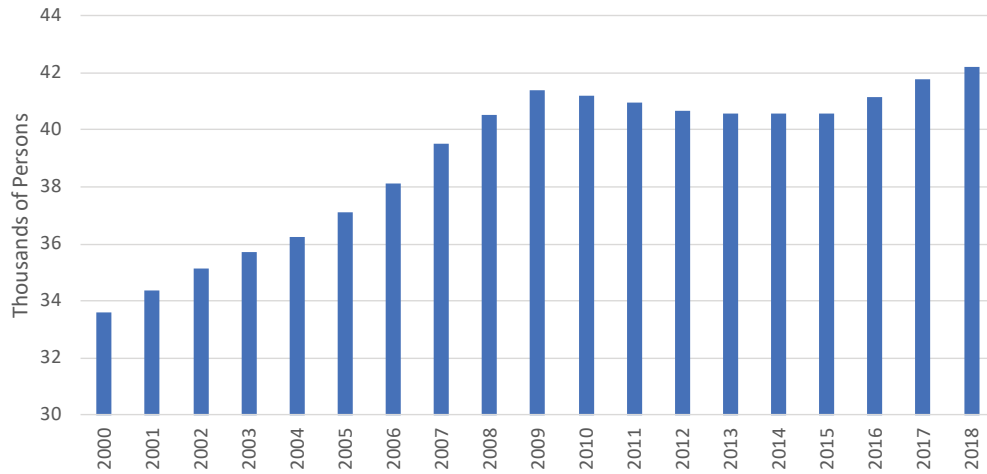


Figure 3:
Montrose Personal Income

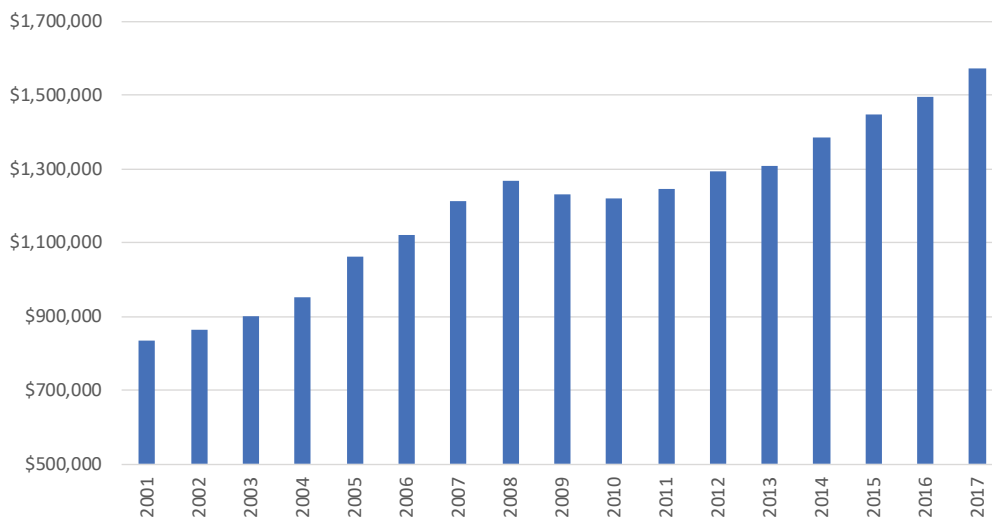
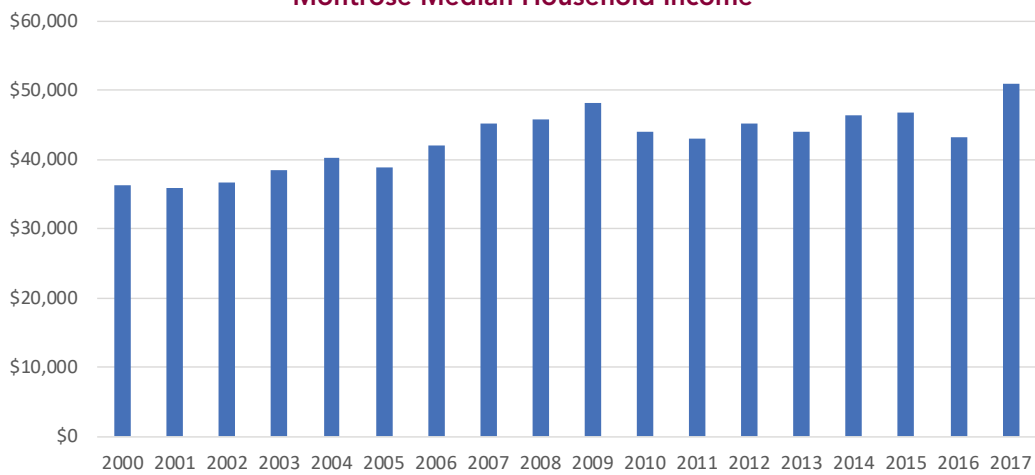


Figure 4:
Montrose Median Household Income



Montrose County Employment Trends

Construction is the biggest gainer from one year ago, adding \$1.3 million in new wages and 138 new jobs. Retail trade, accomodation and food services, and real estate are the next biggest contributors from one year ago. Note that the data in table 2 is sorted by total wage. Employment data above shows a 1,030 increase while QCEW shows a 261 increase. This discrepancy exists for two reasons: 1) They are different quarters (this Quarterly Census of Employment and Wages (QCEW) data is Q1 2019 while the CES unemployment numbers above are Q2 2019) and 2) QCEW only captures 75% of employment in Montrose, while Current Employment Statistics (CES) data used earlier in this newsletter is closer to 100%. QCEW gets its data from unemployment insurance, so it does not count many farm employees and sole proprietors. 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.

Table 2:

Quarterly Census of Employment and Wages Q1 2019 Compared to Q1 2018

Sector	Average Employment Q4 2018	Total Quarterly Wages (Q1 2019)	Average Weekly Wage (Q1 2019)	Total Employment Change (Q1 2018 to Q1 2019)	Total Wage Change (Q1 2018 to Q1 2019)
Total, All Industries	15,141	\$149,638,324	\$760	261	\$6,707,956
Health Care and Social Assistance	2,849	\$30,144,318	\$814	-49	\$233,178
Retail Trade	2,192	\$16,516,895	\$580	137	\$881,788
Public Administration	983	\$14,424,866	\$1,129	-7	\$32,725
Construction	1,297	\$13,870,807	\$823	138	\$1,347,577
Manufacturing	1,322	\$12,235,550	\$712	-28	\$343,384
Accommodation and Food Services	1,363	\$6,114,290	\$345	65	\$530,125
Transportation and Warehousing	621	\$5,675,685	\$703	8	\$314,486
Wholesale Trade	388	\$5,633,421	\$1,117	-167	\$335,954
Utilities	270	\$5,594,474	\$1,594	-11	\$1,130
Professional and Technical Services	415	\$5,142,489	\$953	-27	-\$486,484
Finance and Insurance	308	\$4,364,704	\$1,090	0	\$90,718
Other Services, Ex. Public Admin	374	\$4,080,015	\$839	15	\$409,776
Real Estate and Rental and Leasing	366	\$3,584,020	\$753	40	\$583,778
Administrative and Waste Services	452	\$3,253,198	\$554	-6	-\$283,724
Agriculture, Forestry, Fishing & Hunting	243	\$2,041,991	\$646	18	\$346,011
Information	184	\$1,742,653	\$729	-6	-\$8,136
Mining	39	\$1,373,850	\$2,710	-9	\$247,013
Arts, Entertainment, and Recreation	287	\$1,301,973	\$349	-26	-\$25,074
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 3:

Farm and Sole Proprietor Employment

BEA Data	2017	2016	2015	% change since 2016	% change from 2015
Farm Employment	1,328	1,274	1,273	4.24%	4.32%
Sole Proprietors (non-farm)	6,777	6,634	6,385	2.16%	6.14%

LOCAL REAL ESTATE

	Q2 2019	Q2 2018	% change since last year
Real Estate			
Inventory of Homes for Sale (3 month avg)	220	245	-10.19%
New Residential Listings (3 month total)	301	339	-11.21%
Sold Residential Listings (3 month total)	204	232	-12.07%
Median Sales Price	\$271,150	\$252,250	7.49%
Average Sales Price	\$300,701	\$282,809	6.33%
Days on Market	105.00	89.22	17.69%
Months Supply of Inventory	3.90	3.61	8.04%
Total Building Permits	148	192	-22.92%
Total Building Permit Valuation	\$16,957,552	\$26,875,069	-36.90%
Single Family Home Permits	61	65	-6.15%
Single Family Home Permit Valuation	\$9,948,503	\$10,238,307	-2.83%
Foreclosures			
Foreclosure Filings	6	17	-64.71%
Foreclosure Sales	6	4	50.00%
Mortgage Rates			
30 Year Mortgage Rate	3.46%	4.01%	-0.55%
15 year Mortgage Rate	4.01%	4.54%	-0.53%

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

The Montrose real estate market continues to perform well. Montrose median sales price has increased 7.49% from \$252,250 to \$271,150 (see Figure 5). In Q1 home prices seemed to be slowing, but they have picked right back up again in Q2. To put this in perspective, in 2010 the median home value was \$181,103. Both inventory, and new and sold listings are down from one year ago. As inventory falls, prices rise. Days on market is up from 89 to 105 days (Figure 6), showing that homes are taking longer to sell. This is confirmed by the months supply of inventory, which also increased (Figure 7). Lack of inventory is pushing prices higher, however those homes are taking longer to sell.

One would expect to see more buliding permits in a tight real estate market such as Montrose, however single family home permits are down from last year from 65 to 61, while total building permits are down from 192 to 148, with the valuation on those permits falling by approximately \$10,000,000. Lack of construction businesses and labor is likely hurting the ability to provide new inventory. After the crash of 2009, many builders left the business. Now that building demand is on the rise, there are not as many builders.

Recessions and Home Values

If the economy slows and does move into recession it is not necessarily true that housing prices will fall. The recession of 1991 saw home values decline -2.8% from the beginning of the recession to one month after the recession ended. The 2001 recession saw home values increase by 5.1%. In the recession of 2009 home values fell by 13%. Because of this variance, it is hard to predict based on history what will happen to home values if the economy slows to recession.

Figure 5:
Average and Median Home Value for Montrose

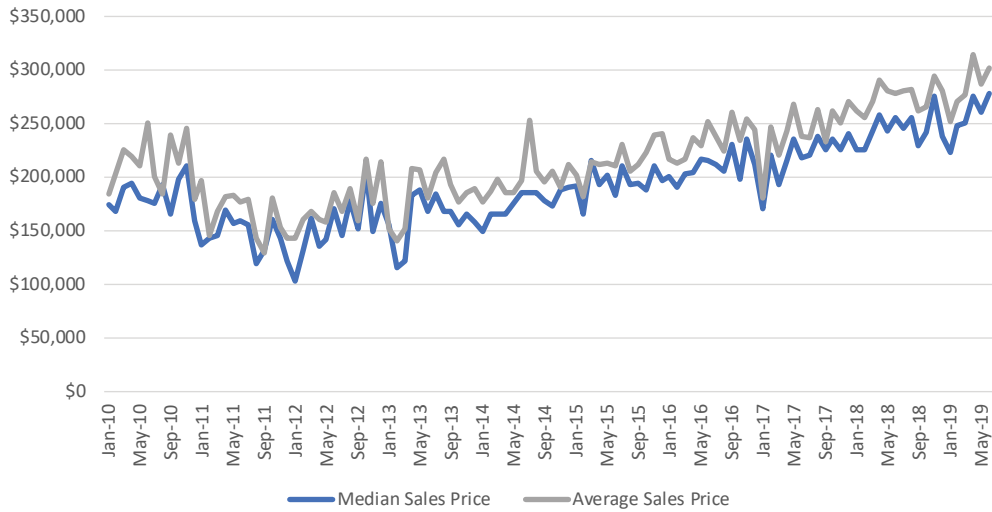


Figure 6:
Days on Market

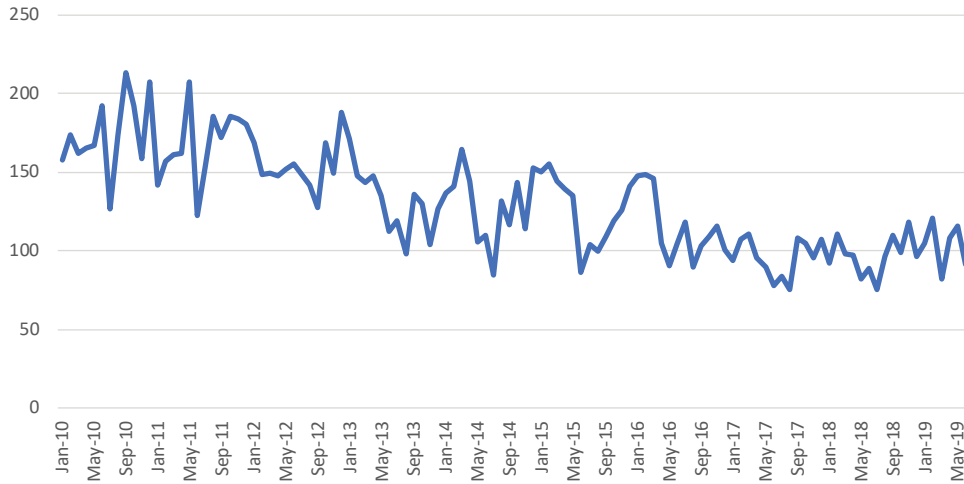
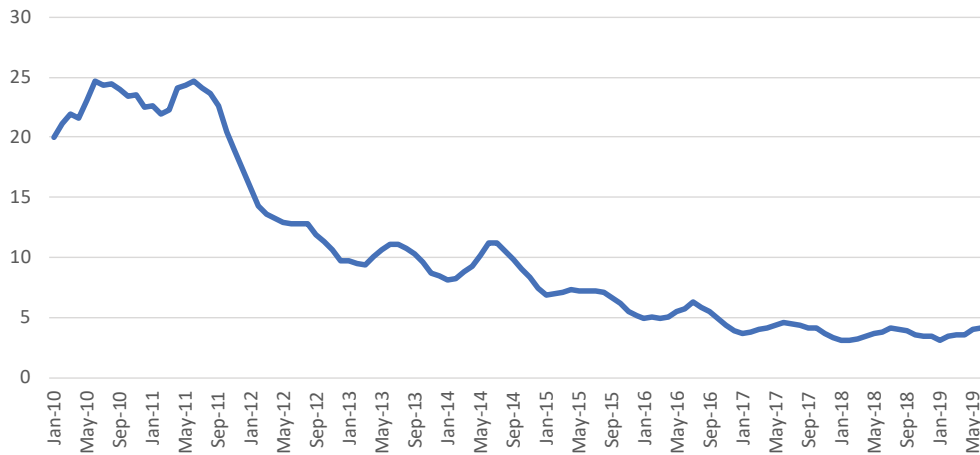


Figure 7:
Months Supply of Inventory



REGIONAL ENERGY

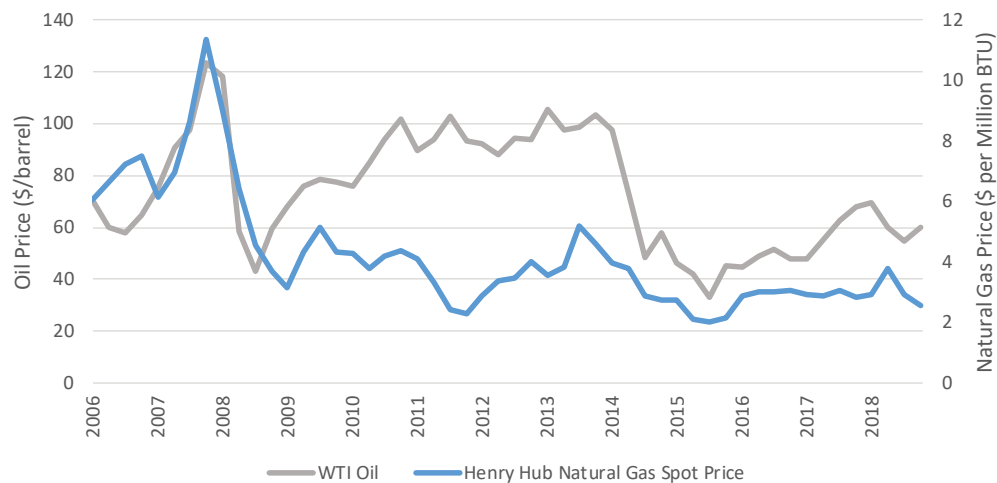
	Q2 2019	Q1 2019	Q2 2018	% change since last quarter	% change since last year (comparable quarters)
Energy Prices					
WTI Crude Oil	\$59.88	\$54.82	\$68.07	9.23%	-12.03%
Henry Hub Natural gas	\$2.56	\$2.92	\$2.86	-12.33%	-10.49%
Retail Gasoline Price	\$2.68	\$2.27	\$2.75	17.84%	-2.87%

Drilling Permits	2019 YTD	2018 YTD	2018 total	% Change since same time last year
Drilling Permits (Mesa County)	0	63	215	-100.00%
Drilling Permits (Rio Blanco County)	32	66	118	-51.52%
Drilling Permits (Garfield County)	105	440	612	-76.14%
Drilling Permits (Moffat County)	1	3	5	-66.67%
Total Permits (Mesa, Rio Blanco, Garfield, Moffat)	138	572	950	-75.87%
Total Permits (Colorado)	1,330	2,683	3,909	-50.43%

Local Rig Count	Aug-19	May-19	Aug-18
Rig Count (Western Colorado, Mesa, Rio Blanco, Garfield, Moffat)	5	4	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 September 1st, 2019. Note that drilling permits are from Q1 of 2019.

Figure 8:
Oil and Natural Gas Prices



Natural Gas Prices

The Henry Hub price of natural gas averaged \$2.56/MMBtu for Q2 2019, falling further by July to \$2.37/MMBtu. EIA lowered its 2nd half of 2019 forecast to \$2.36/MMBtu. However, EIA expects prices in 2020 to move towards their forecast of \$2.75/MMBtu. EIA forecasts that natural gas production will average 91 billion cubic feet per day in 2019, up 7.6 Bcf/d from 2018. EIA expects the monthly average of natural gas production to grow through 2019, decline slightly in early 2020 due to the effect of low prices in 2019, and then resume in the 2nd quarter of 2020. EIA forecasts natural gas production will average 92.5 Bcf/d.

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

Oil and Gasoline Prices

Crude oil prices averaged \$59.88 in Q2 2019, rising from Q1 but lower than Q2 2018. WTI oil has ranged between \$53 and \$59 throughout the summer months. The supply and demand issue for oil is interesting right now. The supply of oil is expected to fall as many Permian Basin wells are reaching the end of their life cycle. In addition to this, national rig counts are lower than last year. By itself this would put upward pressure on prices. However the demand picture is being driven by slower global growth, which by itself would reduce prices. So the question of where oil prices are going to go depends on which is stronger, the supply or demand effect. An attack on a Saudi Arabian oil facility is likely to push oil higher due to a need for an increased risk premium. This will likely have the effect of pushing up gasoline prices.

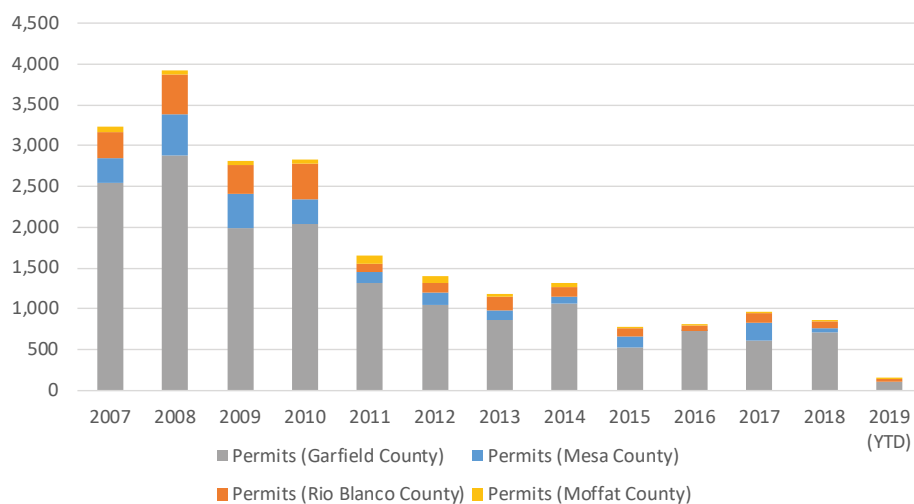
Gasoline prices averaged \$2.68 in Q2 of 2019, slightly lower than Q2 2018, but higher than Q1. Quarter 2 generally has higher gas prices due to the summer driving season. Gasbuddy.com shows that gas prices in Mesa County range from \$2.58 to \$2.76 as of early September.

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

Western Slope Drilling Activity

Over the last year, rig counts in the Piceance fell from 7 to 4, and increased to 5 in the most recent months. This reduction in rig counts can be explained by the falling price of natural gas. This increase from 4 to 5 rigs over the summer months despite low natural gas prices is encouraging for the industry. Drilling permits are significantly lower across the Western Slope compared to last year, with the Western Slope showing a 75% decrease in drilling permits from the same time last year.

Figure 9:
Drilling Permits: Western Colorado



NATIONAL ECONOMIC INDICATORS

	Q2 2019	Q1 2019	Q2 2018	% change since last period	% change since last year (comparable quarters)
Business Cycle Indicators					
Real GDP	2.10%	3.10%	3.50%	-1.00%	-1.40%
Personal Consumption Expenditures	4.30%	1.10%	4.00%	3.20%	0.30%
Gross Private Domestic Investment	-5.50%	6.20%	-1.80%	-11.70%	-3.70%
National Consumer Confidence	98.5	94.5	98.3	4.23%	0.20%
Industrial Production Index	109.2	109.8	107.9	-0.53%	1.19%
Initial Weekly Unemployment Claims (4 week MA)	215,904	222,442	220,462	-2.94%	-2.07%
Non Farm Payroll Change (in thousands)	442,333	617,000	694,667	-28.31%	-36.32%
Unemployment					
Unemployment Rate-U3-SA	3.60%	3.90%	3.90%	-0.30%	-0.30%
Unemployment Rate-U6-SA	7.20%	7.60%	7.80%	-0.40%	-0.60%
Interest Rates					
Federal Funds Rate	2.40%	2.40%	1.73%	0.00%	0.67%
10 Year U.S. Treasury	2.33%	2.65%	2.92%	-0.32%	-0.59%
30 Year U.S. Treasury	2.78%	3.01%	3.09%	-0.23%	-0.31%
Inflation Measures					
Inflation Rate (CPI)	1.82%	1.63%	2.67%	0.19%	-0.85%
Core Inflation Rate (All Items Less Food and Energy)	2.07%	2.09%	2.19%	-0.03%	-0.13%
Inflation Rate (Shelter)	3.43%	3.32%	3.41%	0.11%	0.02%
Producer Price Index (PPI)	-0.63%	0.44%	4.88%	-1.06%	-5.51%
Employment Cost Index	2.78%	2.87%	2.78%	-0.09%	0.00%
Stock Prices					
S&P 500	2,882	2,721	2,703	5.93%	6.63%
Dow Jones Industrial Average	26,096	25,147	24,556	3.77%	6.27%
Trade Balance and Debt					
USD Exchange Rate (trade weighted)	128	127	121	0.91%	6.06%
Trade Balance (% of GDP)	-661.749	-633.848	-568.391	4.40%	16.42%
Federal Debt (% of GDP)*	104.4%	105.2%	104.6%	-0.7%	-0.2%

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 10:
Real GDP

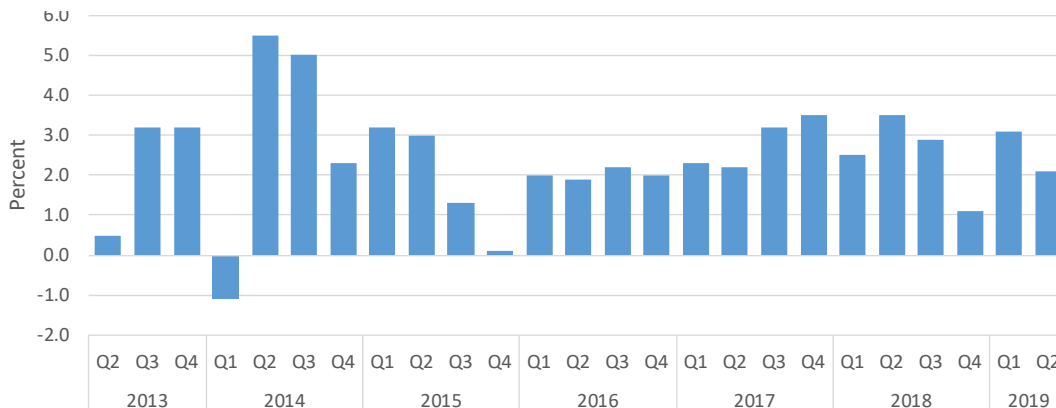
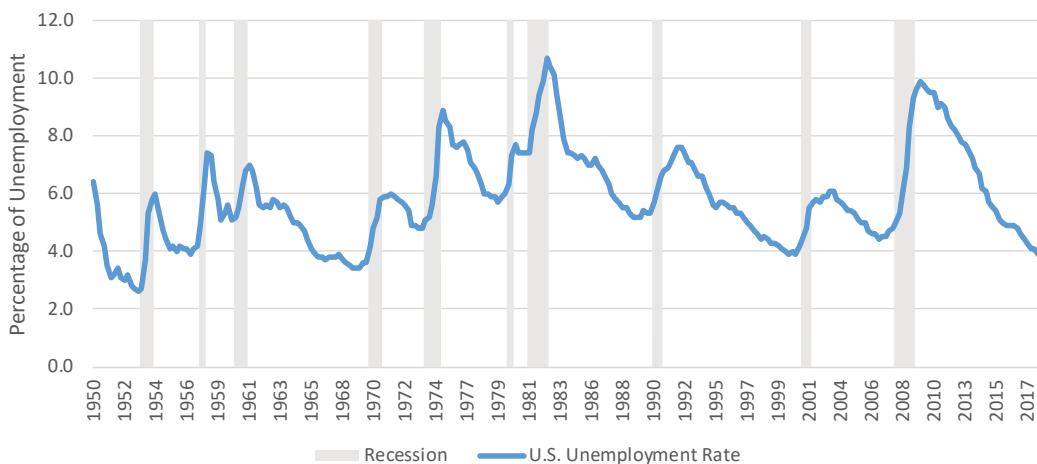


Figure 11:
U.S. Unemployment: 1950-Q1 2019



National Economic Performance

Q2 GDP came in at 2.1%, down from 3.1% the previous quarter and down from 3.5% at the same time last year (Figure 10). This is no surprise, as economists have been expecting positive but slower growth moving forward. Growth is being held up by the consumer, with consumption increasing by 4.3%. Investment is the big story, with investment slowing by 5.5%. Investment can swing quickly and is much more volatile than consumption.

The national unemployment rate remains extremely low at 3.6%. Non-farm payrolls fell to 442,333 from 617,000. Figure 13 illustrates non-farm payrolls. This is an important data point because its drop historically precedes recessions. The fall in non-farm payrolls means employment growth is starting to slow. To make a real determination we will need to see a few more quarters of falling numbers.

Inflation and Interest Rates

Inflation continues to be irrelevant, with an inflation rate of 1.82%. Core inflation, the measure the Federal Reserve uses as their target inflation rate which subtracts energy, food, and investment is 2.07%, which is at the low end of the Fed's 2-3% inflation target. Wages are growing at 2.78%, still relatively low for this point in the business cycle (compared to history), while the producer price index fell by -.63% from last quarter.

Interest rates remain low as international investors rush into treasury bonds. U.S. treasury bonds, despite having a historically low yield, have higher yields than the rest of the world. In fact, many countries have negative yielding bonds, meaning investors are paying to lose money. This only happens when investors see all other assets losing more value. The Federal Reserve is expected to lower the Federal Funds rate, both to stave off slow growth and prevent further inversion of the yield curve.

Figure 12:
U.S. Dollar Trade Weighted Index

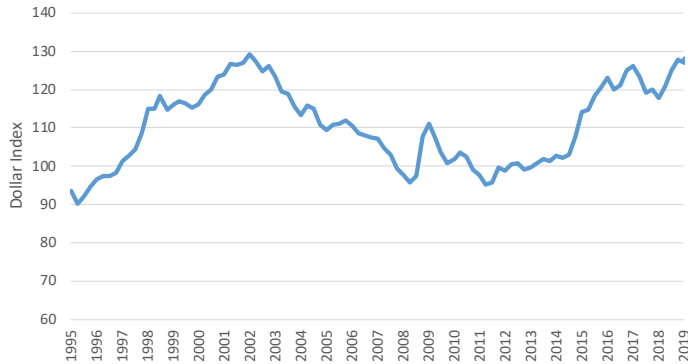
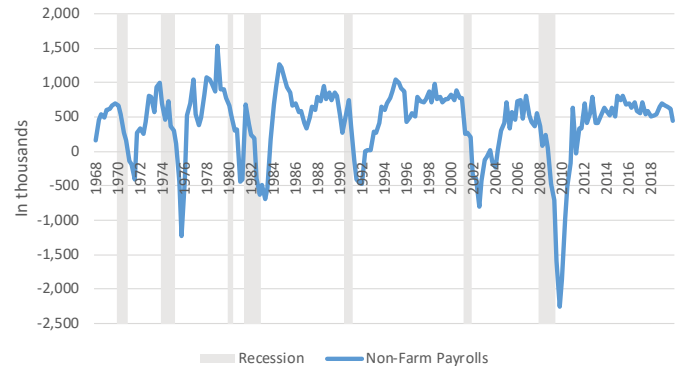


Figure 13:
Change in Non-Farm Payrolls



Trade Dispute, the White House, and the Fed

Aside from an inverted yield curve (where the 2 year treasury bond has a higher yield than the 10 year treasury bond), the other interesting happenings in monetary policy and the Federal Reserve involve the trade dispute with China, the U.S. dollar, and questions of Federal Reserve independence. The Trump administration is trying to exert pressure on China to renegotiate trade to reduce the massive trade deficit that exists between the U.S. and China (among other disputes). China has not been willing to negotiate to the Trump administration's demands, so the Trump administration has imposed tariffs, branded China as a currency manipulator, and is exerting pressure on U.S. companies to break their supply chain relationships with China. In a world without floating exchange rates, this would likely have helped to reduce the trade deficit, but because of the skyrocketing dollar, it has not.

One of the reasons the White House has been critical of the Federal Reserve is that the Fed's interest rate policy has kept interest rates higher in the U.S. than in other countries (say, Europe). The European Central Bank has already drastically lowered interest rates. With U.S. rates higher than the World's, international investors sell their domestic currency, say the Euro, to buy dollars in order to buy higher yielding U.S. treasury bonds. Because they are buying dollars, that increases the value of the dollar (see Figure 12). When the dollar increases in value, foreign imports get cheaper, which increases the trade deficit and makes the problem the White House is trying to address worse. This has led to deeper discussions among economists as to whether part of the Federal Reserve's policy goals should include the executive branch's foreign economic policy goals, such as trade policy. Ultimately, the Federal Reserve is expected to lower interest rates this quarter due to slowing U.S. and World growth. The hope is that this will facilitate investment which is starting to lag, and will most certainly help housing, which is now more expensive than the peak of the 2007 housing bubble. Lower rates may help housing but are unlikely to spur investment, as borrowing rates are already low. Investment is based less on interest rates and more on expected profitability which will be lower if the economy slows. Because interest rates are so low monetary policy is expected to be less useful through the next cycle.



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