Montrose County Economic Update

Second Quarter, 2021

Colorado Mesa University

Provided by the Business Department of Colorado Mesa University

Economic Summary

- Montrose employment fell during winter months but spiked sharply in April, rising from 19,951 people employed in March to 21,927 in April, lowering the unemployment rate from 6.4% to 5.6% in one month.
- This newsletter discusses economic diversification of the county through use of the Hachman Index. Economic diversification is a complicated issue, but since 2011, the Hachman Index shows that Montrose County has neither become more diverse, nor less diverse, trending sideways since 2011.
- The Montrose real estate market is much like the rest of the nation's housing market, with skyhigh prices and a lack of inventory. The median sales price has increased 30% since Q1 of 2020.
- U.S. GDP growth was 6.4% in Q1 2021, and the Atlanta Federal Reserve's GDP Now forecast for Q2 GDP growth is 9.3% as of mid-June. The national unemployment rate fell to 6.0% in March and 6.1% in April, with the U.S. economy adding 736,000 jobs.

Contents

Local Economic Indicators

	Q1 2021	Q4 2020	Q1 2020	change since last quarter	change since last year (comparable quarters)
Local Labor Market					
Unemployment Rate Montrose County-NSA	6.53%	5.83%	4.60%	0.70%	1.93%
Unemployment Rate Colorado - NSA	6.70%	6.70%	3.60%	0.00%	3.10%
Unemployment Rate U.S. - NSA	6.50%	6.50%	4.10%	0.00%	2.40%
Labor Force	21,658	22,118	21,264	-460	395
Employed	20,250	20,832	20,286	-582	-36
Unemployed	1,408	1,286	978	122	431
Business Confidence					
Leeds Colorado Business Confidence	64.4	47.9	29.7	34.45%	116.84%
Sales/Use Taxes					
City Sales/Use Taxes (YTD, May)	$5,073,135		$4,182,217		21.30%
County Sales/Use Tax (YTD)	$4,255,831		$3,445,887		23.50%
Hotel and Restaurant Tax (YTD)	$136,911		$115,706		18.33%
Telluride Sales/Use Tax (YTD)	$2,479,827		$2,270,733		9.21%
Business Filings	**2021 (YTD)**		**2020 (YTD)**		
Montrose County New Business Entity Filings (as of June)	409		405		0.99%

Montrose Regional Airport	2021		2020		% change from last year
Enplanements (YTD, May)	74,185		57,985		27.94%
Standard of Living and Growth	**2019**	**2018**	**2017**	**% change since 2018**	**% change from 2017**
Regional GDP	$1,500,154	$1,458,055	$1,360,761	2.89%	10.24%
Personal Income	$1,789,492	$1,735,660	$1,596,048	3.10%	12.12%
Personal Income Per Capita	$41,852	$41,124	$38,226	1.77%	9.49%
Median Household Income	$50,707	$52,576	$51,031	-3.55%	-0.63%
Percent of Population Below Poverty Line	15.1%	16.7%	17.80%	-1.60%	-2.70%
	2020	**2019**	**2018**	**% change since 2019**	**% change from 2018**
Population	43,322	42,791	42,309	1.24%	2.39%

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

Montrose employment fell during winter months but spiked up sharply in April, rising from 19,951 people employed in March to 21,927 in April, lowering the unemployment rate from 6.4% to 5.6% in one month. The labor force also grew in April, rising to a new high of 23,232. Assuming employment trends continue with April's momentum, Montrose employment trends are now back on track to where they were before the pandemic. Despite the pandemic, Montrose has 1,845 more employed than it did five years ago, or 10% more employment than in 2016. Montrose's unemployment rate in April of 5.6% is now lower than Colorado's (6.4%) and the nation (5.8%), as well as Mesa County (6.8%).

The question as to how accurate the unemployment rate is during a time when anecdotally there are many companies having difficulty hiring is up for debate. Many argue that unemployment assistance programs during COVID have distorted incentives to work in certain segments of the job market, which would artificially increase the unemployment rate. As COVID-related unemployment insurance is terminated we will see where the labor market data lands. Both locally and nationally, the shortage of workers in certain segments of the workforce is pushing wages up, which is good for workers, but can have inflationary effects as industry passes the costs of workers on in the form of higher prices.

Table 1:

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

	Labor Force	Employed	Unemployed
Annual	395	-36	431
5-Year	2,276	1,845	431
10-Year	1,752	2,908	-1,156
Annual %	1.86%	-0.18%	44.05%
5-Year %	11.74%	10.02%	44.05%
10-Year %	8.80%	16.77%	-45.09%

Other Local Data

Sales taxes continue to be strong, up 21% compared to a year ago. Hotel and restaraunt taxes are up more than 18%, while Telluride sales taxes are up 9.21%, showing that Telluride tourism has improved.

Newly released data from the Census Department shows that the Montrose County poverty rate estimate fell from 16.7% in 2018 to 15.1% in 2019. Note this data point has a long lag from when it was released. This is good news and shows that the strong economy of 2017-2019 had a a positive impact on poverty.

Figure 1:

5 Year Employment

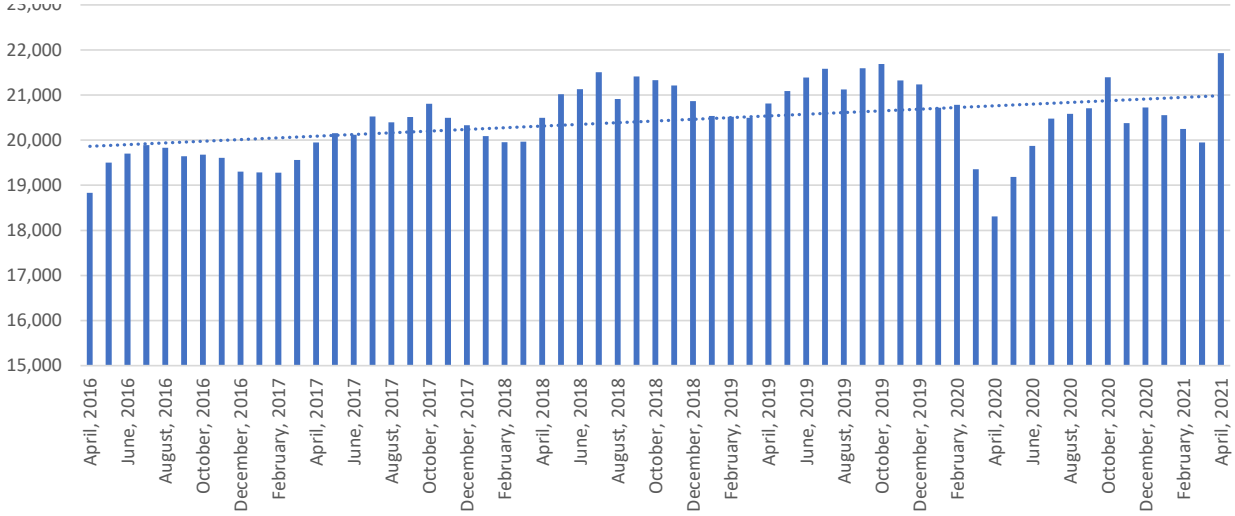


Figure 2:

1-Year Employment

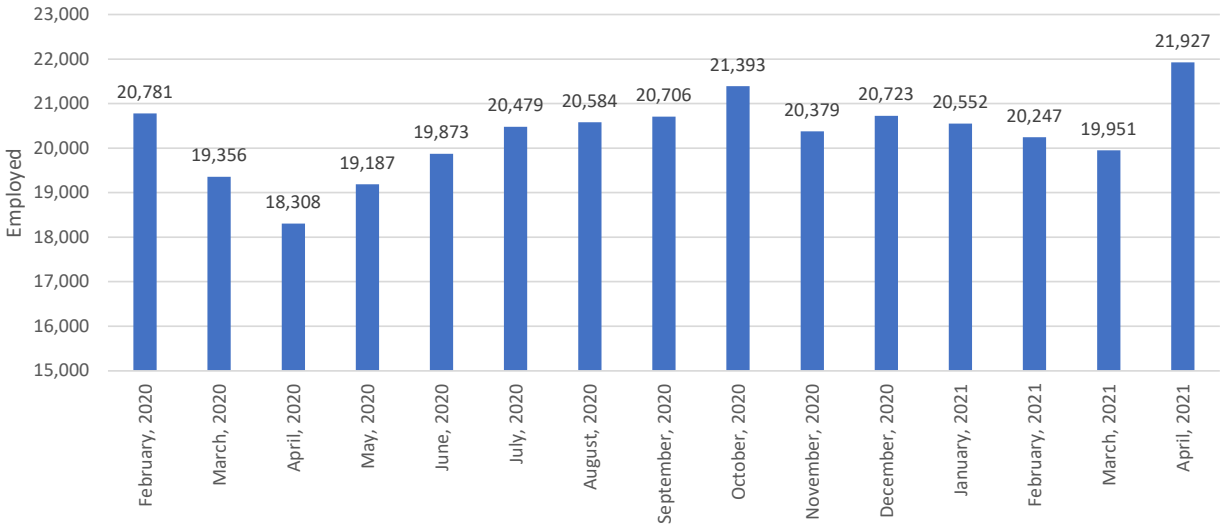


Figure 3:

Unemployment Rate

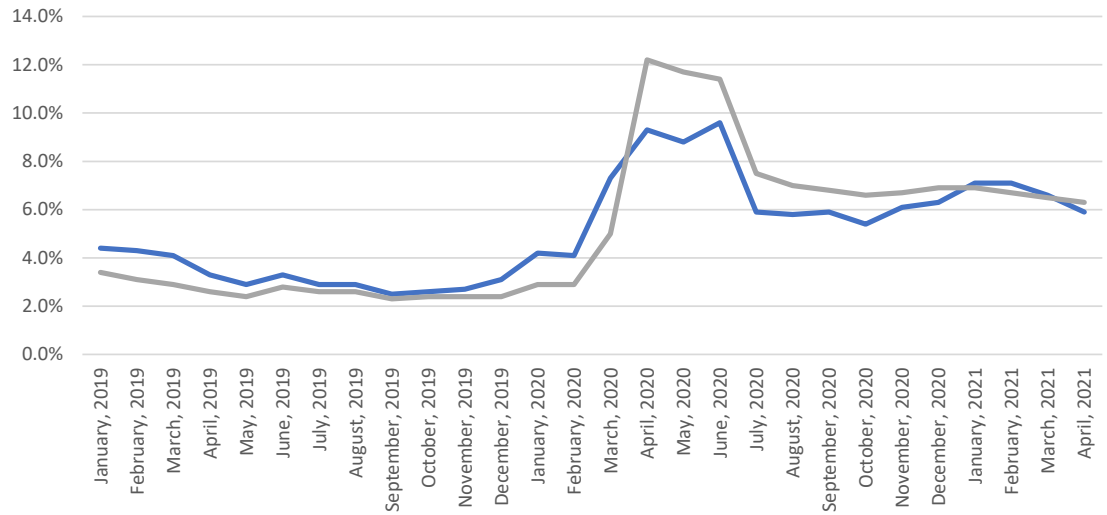
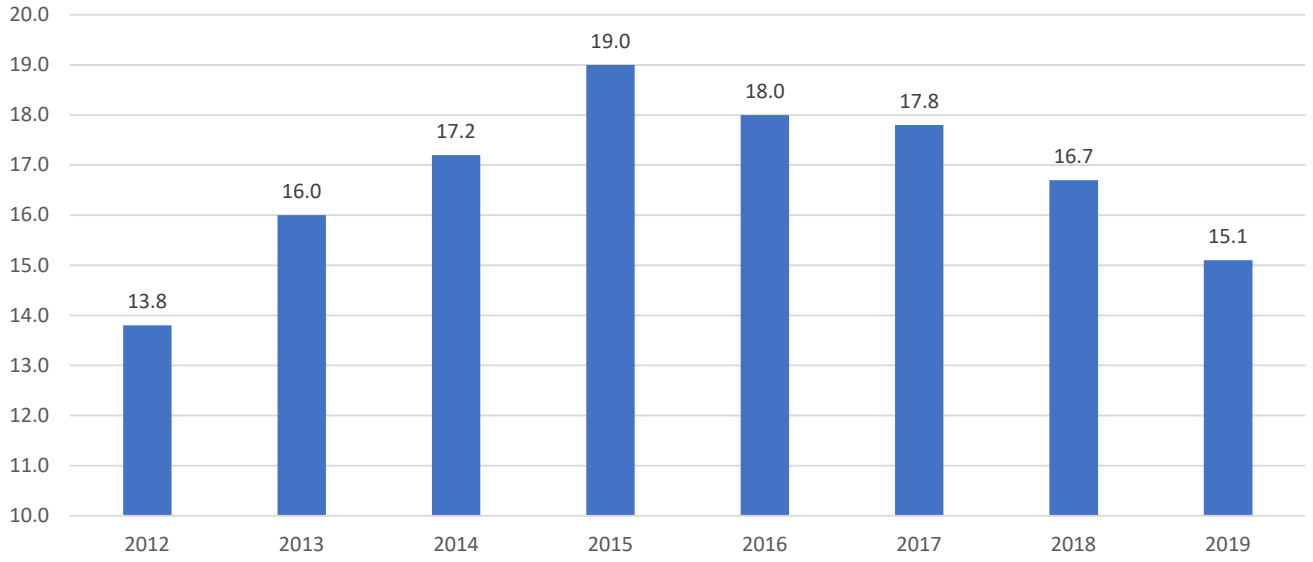


Figure 4:

Percentage of People Below the Poverty Line Montrose County



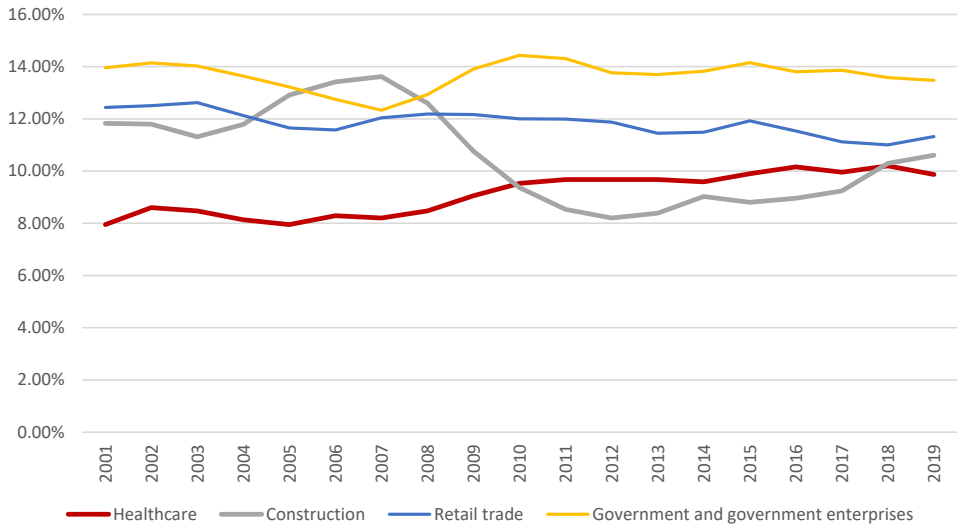
Industrial Diversification

Economic diversification is an important issue for smaller counties, as having a diverse economy means being hedged against any industry swings that would hurt the entire county's economy. This is especially important in counties that have extractive industries (such as Moffat County), tourism economies, or a high percentage of agriculture. Montrose does not have this particular problem, so the question of industrial diversification is not so much diversifying away from a key industry that may be cyclical, but simply ensuring that there are several growth industries as the county develops.

Construction, retail trade, and farm employment are all industries where Montrose has a signiciantly higher concentration than the State of Colorado (see table XXX). On the flip side, professional and technical services is an industry that Colorado is large and growing in that Mesa, Montrose, and Delta have a significanty smaller share of.

Figure 5:

Key Industries Share of Jobs



Industrial Diversification Continued

There are several ways to measure industrial diversification, but one of more more common ways is to use a Hachman Index. When thinking about industrial diversification, we need to ask ourselves: Is our economy diversified compared to what? In most cases, economists will measure industrial diversification compared to a larger area, in this case the state of Colorado. When looking at industrial diversification for a state, they will compare it to the nation. To do this, I calculated what is called the Hachman Index, which compares industrial conentration in Mesa County to Colorado over time to see if Montrose County is more or less diverse compared to Colorado. Figure 6 illustrates the Hachman Index. For reference, the higher the Hachman Index, the more diverse, or more like Colorado the county is. The Hachman Index shows that since around 2011 Montrose County has moved horizontal on the Hachman Index, indicating it is not increasing or decreasing its industrial diversification.

Figure 6:

Hachman Index Montrose

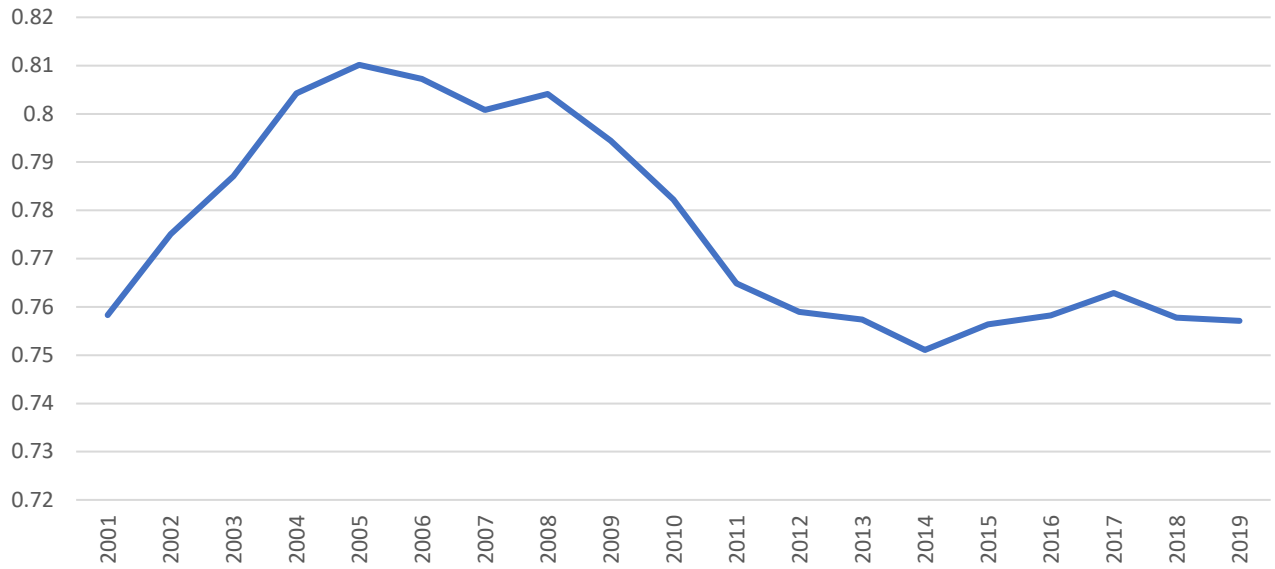


Table 2:

Hachman Index Comparison

	Hachman Index
Mesa	0.88
Montrose	0.75
Delta	0.55

Table 3:

Percentage Share of Jobs by Industry (2019 data)

Industry	Colorado	Montrose	Mesa	Delta
Forestry, fishing, and related activities	0.38%	1.35%	0.56%	2.04%
Mining, quarrying, and oil and gas extraction	1.23%	0.62%	3.06%	1.20%
Utilities	0.22%	0.82%	0.22%	0.29%
Construction	6.85%	10.60%	7.76%	7.34%
Manufacturing	4.27%	5.95%	3.82%	4.61%
Wholesale trade	3.09%	1.95%	3.03%	1.15%
Retail trade	8.65%	11.32%	11.08%	10.90%
Transportation and warehousing	3.88%	2.95%	3.58%	1.29%
Information	2.31%	0.89%	0.92%	1.15%
Finance and insurance	5.80%	3.34%	4.39%	3.12%
Real estate and rental and leasing	5.95%	6.72%	6.44%	9.15%
Professional, scientific, and technical services	9.36%	4.44%	4.91%	4.31%
Management of companies and enterprises	1.29%	0.74%	0.29%	0.49%
Administrative and support and waste management and remediation services	5.51%	4.21%	4.55%	3.27%
Educational services	1.99%	0.56%	1.11%	0.78%
Healthcare and social assistance	9.01%	9.87%	13.61%	9.08%
Art, entertainment, and recreation	2.92%	1.88%	2.30%	1.78%
Accomodation and food services	7.84%	6.59%	7.99%	5.87%
Other services (except government and government enterprises)	5.30%	6.02%	5.69%	6.06%
Government and government enterprises	12.93%	13.47%	11.72%	16.45%
Farm employment	1.22%	5.71%	2.96%	9.67%

Montrose County Employment Trends

Montrose QCEW data from Q4 2019 to Q4 2020 shows a slight decline in jobs, which is to be expected. Compared to Q4 of 2019, the biggest losses were in manufacturing (236), accomodation and food services (73), and arts entertainment and recreation (59). Job gains were in retail trade (93) and public administration (60). Although jobs were down, wages were up (similar to last quarter), rising by $10,593,219, led by gains in healthcare and retail trade. 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 4. Note that educational services and management of companies and enterprises are both omitted due to lack of reporting data points. Figure 7 and 8 illustrate QCEW changes in wages and jobs, respectively.

Table 4:

Quarterly Census of Employment and Wages (QCEW) Q4 2020 Compared to Q4 2019

Sector	Average Employment Q4 2020	Total Quarterly Wages (Q4 2020)	Average Weekly Wage (Q4 2020)	Total Employment Change (Q4 2019 to Q4 2020)	Total Wage Change (Q4 2019 to Q4 2020)
Total, All Industries	15,151	$177,604,251	$902	-463	$10,583,219
Health Care and Social Assistance	2,895	$37,128,701	$987	37	$4,724,129
Retail Trade	2,352	$21,939,938	$718	93	$3,596,916
Construction	1,347	$18,601,746	$1,062	-60	$448,489
Public Administration	1,074	$17,025,118	$1,219	60	$1,432,151
Manufacturing	997	$12,295,797	$949	-236	-$1,595,027
Accommodation and Food Services	1,425	$7,544,474	$407	-73	$226,860
Professional and Technical Services	449	$7,376,175	$1,264	4	$945,863
Transportation and Warehousing	665	$7,238,208	$837	40	$726,359
Wholesale Trade	395	$5,596,706	$1,090	14	-$18,618
Finance and Insurance	301	$5,236,240	$1,338	-3	$554,067
Utilities	245	$5,058,799	$1,588	-24	-$329,968
Other Services, Ex. Public Admin	402	$4,862,413	$930	-10	$254,111
Administrative and Waste Services	483	$4,331,588	$690	-46	$60,874
Real Estate and Rental and Leasing	351	$3,991,520	$875	-20	-$8,533
Agriculture, Forestry, Fishing & Hunting	274	$2,444,136	$686	-3	$23,276
Information	160	$2,330,424	$1,120	-27	$601,098
Arts, Entertainment, and Recreation	282	$1,922,417	$524	-59	$280,904
Mining	23	$533,506	$1,784	-3	-$86,311

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

Table 4:

Farm and Sole Proprietor Employment

BEA Data	2019	2018	2017	% change since 2018	% change from 2017
Farm Employment	1,128	1,134	1,133	-0.53%	-0.44%
Sole Proprietors (non-farm)	7,132	6,939	6,734	2.78%	5.91%

Figure 7:

Total Wage Changes from Q4 2019 to Q4 2020

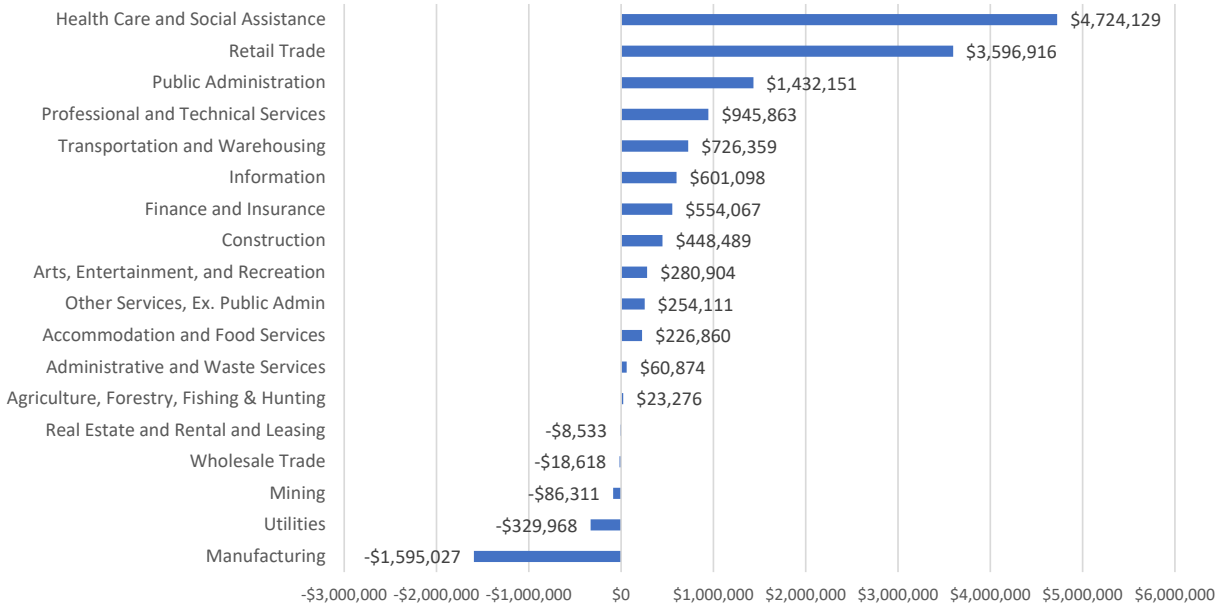
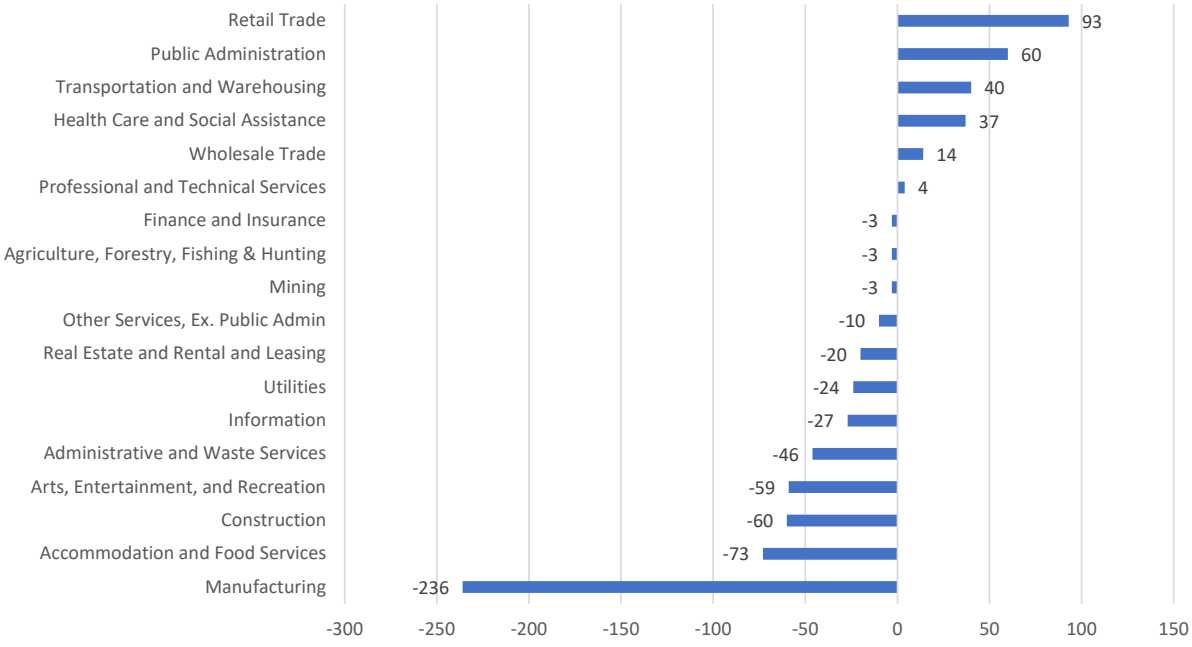


Figure 8:

Total Jobs Change from Q4 2019 to Q4 2020



Local Real Estate

	Q1 2021	Q1 2020	% change since last year
Real Estate			
Inventory of Homes for Sale (3 month avg)	84	161	-47.62%
New Residential Listings (3 month total)	174	187	-6.95%
Sold Residential Listings (3 month total)	151	134	12.69%
Median Sales Price	$356,333	$273,358	30.35%
Average Sales Price	$400,584	$311,436	28.62%
Days on Market	96.00	116.00	-17.24%
Months Supply of Inventory	1.30	2.73	-52.44%
Total Building Permits	389	231	68.40%
Total Building Permit Valuation	$57,081,473	$27,338,750	108.79%
Single Family Home Permits	174	96	81.25%
Single Family Home Permit Valuation	$31,815,513	$13,856,428	129.61%
Foreclosures			
Foreclosure Filings	5	13	-61.54%
Foreclosure Sales	4	2	100.00%
Mortgage Rates			
30 Year Mortgage Rate	2.28%	2.98%	-0.70%
15 year Mortgage Rate	2.88%	3.52%	-0.64%

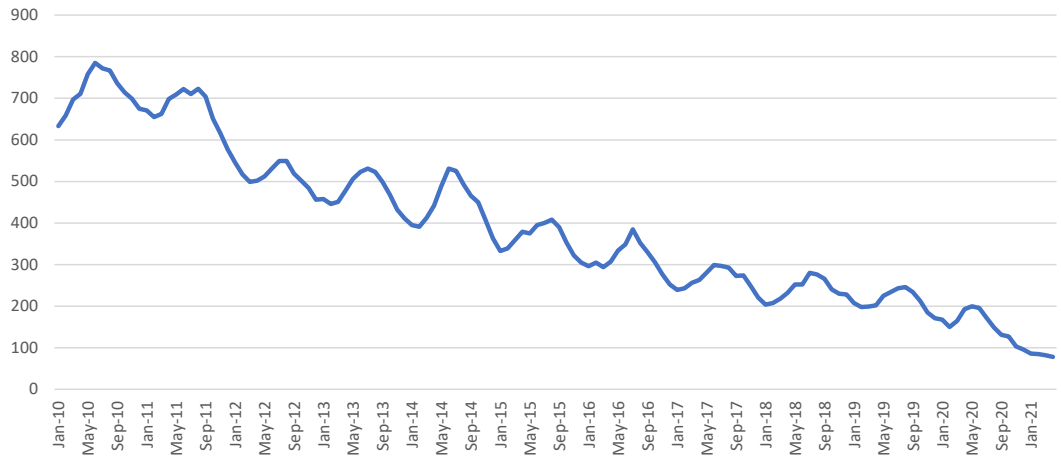
SOURCES IN ORDER OF LISTING: Real Estate: Colorado Association fo Realtors Market Trends Program through ShowingTime. Note that real estate data is just single family homes; Building Permits and Valuation: Montrose County and Montrose City; Foreclosure Filings and Sales: Montrose County; Mortgage rates: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

Local Real Estate Indicators

The Montrose real estate market is much like the rest of the nation's housing market, with skyhigh prices and a lack of inventory. Figure 9 illustrates the 11 year history of months supply of inventory, and shows just how tight this market is, with inventory at an all time low. Because of lack of inventory and supply chain issues pushing up costs, the median sales price increased 30% year-over-year. To meet the lack of housing supply, building permits are significantly higher in 2021 than in 2020, with single family permits up 81% from the same time last year. There are marjor shortages for housing building materials such as lumber. The National Home Builders Association estimates that the surge in lumber prices is adding $35,872 to the price of a new single family home, and adding $12,966 to the price of an average new multi-family home.

Figure 9:

Months Supply of Inventory



Regional Energy

	Q1 2021	Q4 2020	Q1 2020	% change since last quarter	% change since last year (comparable quarters)
Energy Prices					
WTI Crude Oil	$42.52	$40.89	$56.84	3.99%	-25.19%
Henry Hub Natural gas	$2.53	$2.00	$2.40	26.50%	5.42%
Retail Gasoline Price	$2.06	$2.10	$2.48	-1.53%	-16.84%

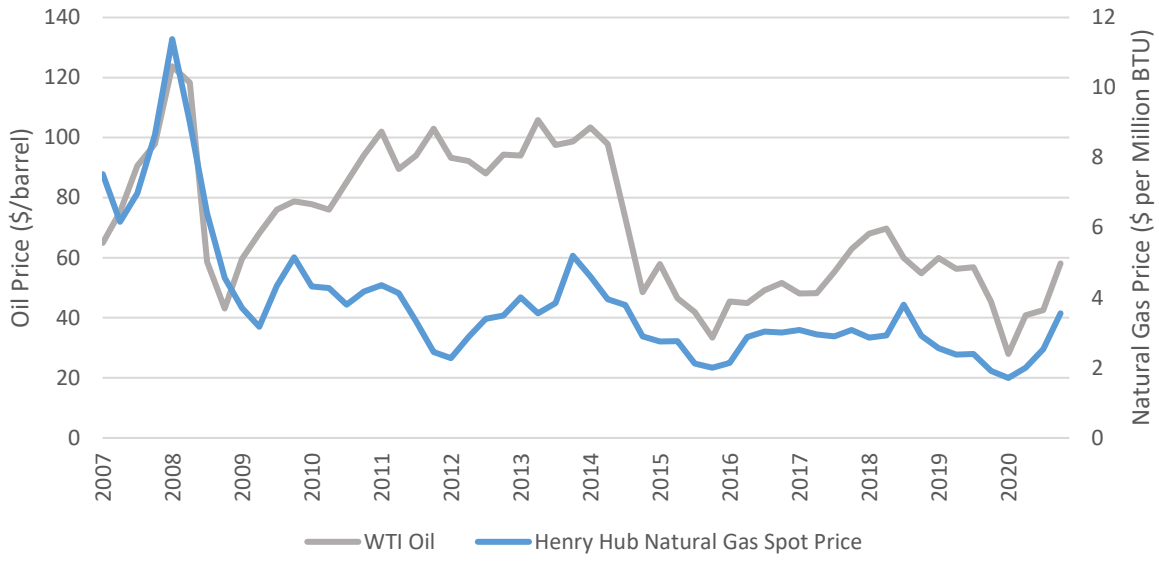
Drilling Permits	**2021**	**2020**	**% Change since same time last year**
Drilling Permits (Mesa County)	1	0	N/A
Drilling Permits (Rio Blanco County)	33	59	-44.07%
Drilling Permits (Garfield County)	127	149	-14.77%
Drilling Permits (Moffat County)	1	7	-85.71%
Total Permits (Mesa, Rio Blanco, Garfield, Moffat)	162	215	-24.65%
Total Permits (Colorado)	1,543	2,032	-24.06%

Local Rig Count	**May-21**	**Nov-20**	**May-20**
Rig Count (Western Colorado, Mesa, Rio Blanco, Garfield, Moffat)	3	1	1

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

Figure 10:

Oil and Natural Gas Prices



National Economic Indicators

	Q1 2021	Q4 2020	Q1 2020	% change since last period	% change since last year (comparable quarters)
Business Cycle Indicators					
Real GDP	6.40%	4.30%	2.90%	2.10%	3.50%
Personal Consumption Expenditures	11.30%	2.30%	1.80%	9.00%	9.50%
Gross Private Domestic Investment	-4.70%	27.80%	3.90%	-32.50%	-8.60%
National Consumer Confidence	80.2	79.8	96.6	0.50%	-16.98%
Industrial Production Index	98.1	97.4	100.0	0.70%	-1.89%
Initial Weekly Unemployment Claims (4 week MA)	805,615	787,250	430,538	2.33%	87.12%
Non Farm Payroll Change (in thousands)	736,000	1,759,000	132,000	-58.16%	457.58%
Unemployment					
Unemployment Rate-U3-SA	6.20%	6.80%	3.80%	-0.60%	2.40%
Unemployment Rate-U6-SA	11.00%	11.90%	7.60%	-0.90%	3.40%
Interest Rates					
Federal Funds Rate	0.08%	0.09%	1.35%	-0.01%	-1.27%
10 Year U.S. Treasury	1.32%	0.86%	1.38%	0.46%	-0.06%
30 Year U.S. Treasury	2.09%	1.62%	1.87%	0.47%	0.22%
Inflation Measures					
Inflation Rate (CPI)	1.89%	1.21%	2.10%	0.68%	-0.21%
Core Inflation Rate (All Items Less Food and Energy)	1.44%	1.63%	2.24%	-0.19%	-0.80%
Inflation Rate (Shelter)	1.59%	1.93%	3.21%	-0.34%	-1.62%
Producer Price Index (PPI)	6.79%	-0.22%	0.44%	7.01%	6.35%
Employment Cost Index	2.72%	2.52%	2.79%	0.20%	-0.08%
Stock Prices					
S&P 500	3,866	3,555	3,056	8.76%	26.50%
Dow Jones Industrial Average	31,551	29,092	26,554	8.45%	18.81%
Trade Balance and Debt					
Trade Balance (% of GDP)	-847.02	-847.02	-494.307	0.00%	71.36%
Federal Debt (% of GDP)*	129.1%	105.5%	106.7%	23.6%	22.4%

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 11:

Real GDP

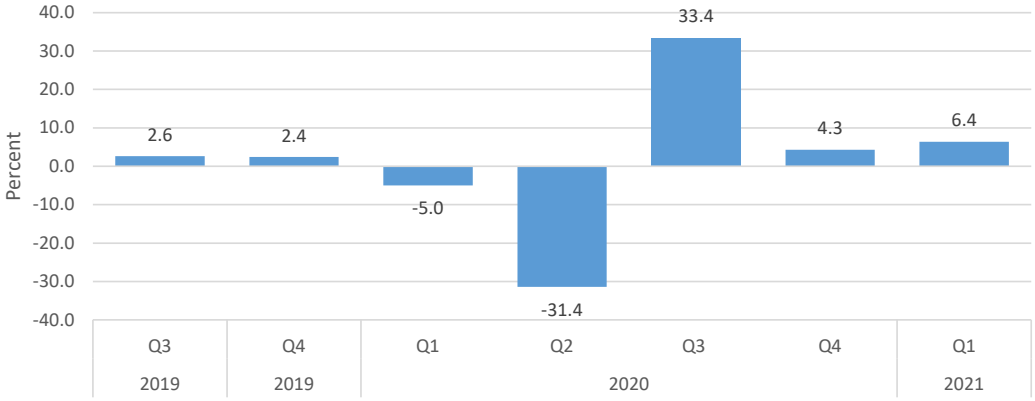
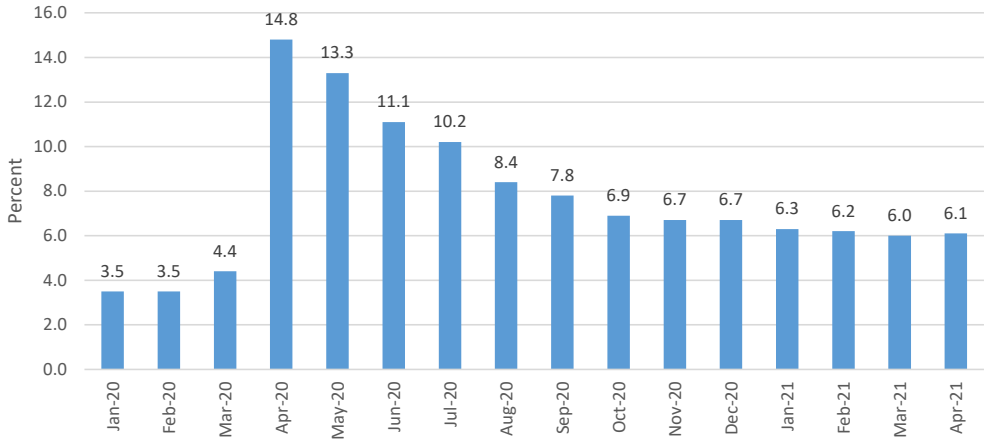


Figure 12:

U.S. Unemployment: January 2020 through April 2021



National Economic Performance

U.S. growth was expected to be strong coming out of the lag of winter months, and this expectation has turned out to be reality. U.S. GDP growth was 6.4% in Q1 2021, and the Atlanta Federal Reserve's GDP Now forecast for Q2 GDP growth is 9.3% as of early June.

The national unemployment rate fell to 6.0% in March and 6.1% in April, with the U.S. economy adding 736,000 jobs. The GDP gap now stands at $414.7 billion, up more than $300 billion from last quarter. Figure 13 illustrates the GDP gap, and although growth has been strong recently, the national economy is still not to the level of potential GDP. This is the area that the Fed will target as full employment, and will not relax monetary policy until GDP is back to potential and the labor market is strong.

Inflation

There is an enormous amount of discussion in finance and economics regarding the potential for inflation. Inflation is not something that the United States has faced in almost 40 years (figure 15). Thus far there has been no evidence for inflation, but that has changed in the last few months. The first argument that we will see inflation is pent up demand, with consumers eager to get out and spend. The Federal Reserve argues this may be transitory, and after a bump of spending, consumers will return to normal. The second argument is supply chain problems pushing prices up, including lumber shortages, semi-conductor shortages, and other raw materials. This can be seen most clearly in housing, where the National Home Builders Association reports that builders are seeing shortages in almost all components of housing, from roofing materials to appliances (https://nahbnow.com/2021/06/record-number-of-builders-report-material-shortages/).

The third argument that we will see inflation is the tight labor market. As discussed earlier, there are some segments of the labor market that are choosing unemployment over work because of extended COVID unemployment benefits. This has helped caused a labor supply shortage, which is pushing up wages in some industries. Wages are a large determinant of future inflation, and stagnating wages are one of the reasons inflation has stayed low over the last few decades.

The fourth argument is rising energy costs. WTI oil has rising close to $70 as of the writing of this newsletter. The EIA is expecting prices in the $60 range, but if oil goes higher as some in the financial markets expect, it could create additional inflationary pressure.

Figure 13:

GDP Gap

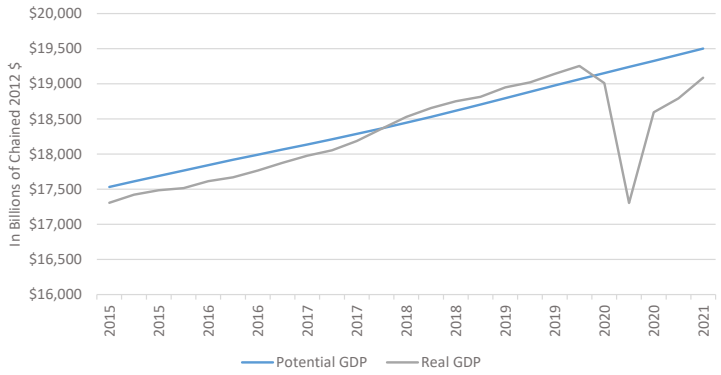


Figure 14:

Debt/GDP

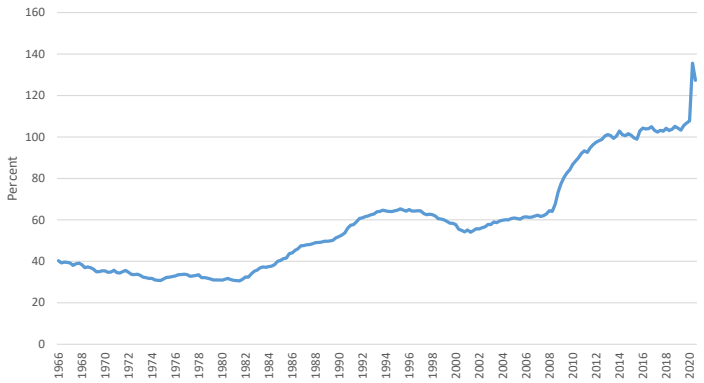
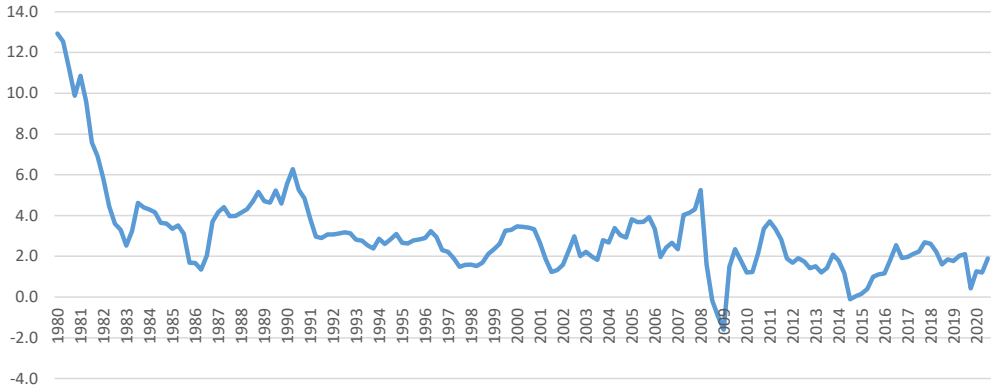


Figure 15:

Inflation Rate



Inflation Continued

There is reasonable evidence that we will see a temporary increase in inflation. But what does that mean, and when is inflation too high? We are so used to low inflation that a forecast of 3-4% inflation is causing panic in the financial markets. Despite these "high inflation" forecasts, there are some research firms that have an inflation forecast in the 2% range for core PCE, which is low. Ultimately supply chains will work themselves out, labor market incentives will return to normal, oil prices will cause the law of supply to kick in and production will increase, and consumers will return to their normal habits. The non-transitory inflation threat is twofold: First, wage increases tend to be permanent, economists think of wages as "sticky," since generally they don't come down. There is also what is called inflation expectations, the idea that current inflation creates a built-in expection for inflation that then creates future inflation. How much of this inflation will be non-transitory remains to be seen, however the increase in wages empirically is connected to higher inflation, as firms pass on labor costs to the consumer.

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