

MONTROSE COUNTY ECONOMIC UPDATE

Released: May 2025



Economic Summary

- Industry data shows that healthcare has been the leading contributor to job gains over the past few quarters.
- The average unemployment rate for 2024 was 4.6%, while the average for Q1 of 2025 is 5.6%. Montrose unemployment has been trending up, matching the trend in Colorado.
- U.S. GDP growth for Q1 2025 was -0.3%, showing contraction and creating a growing concern for a potential recession. Part of the reason for the negative growth rate is tariffs. Specifically, many firms rushed to purchase foreign goods before tariffs hit, causing a surge in imports, which is a subtraction from GDP.
- The national section of this newsletter has some information on tariffs, their purpose, pros and cons, as well as some graphs explaining the reasoning.

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LOCAL ECONOMIC INDICATORS

	Q1 2025	Q4 2024	Q1 2024	change since last quarter	change since last year (comparable quarters)
Local Labor Market					
Unemployment Rate Montrose County-NSA	5.63%	4.80%	4.77%	0.83%	0.87%
Unemployment Rate Colorado - NSA	4.90%	4.50%	4.00%	0.40%	0.90%
Unemployment Rate U.S. - NSA	4.40%	3.90%	4.10%	0.50%	0.30%
Labor Force	20,219	20,187	20,187	33	33
Employed	19,083	19,210	18,662	-127	421
Unemployed	1,136	977	936	160	201
Business Confidence					
Leeds Colorado Business Confidence	31.9	50	53.7	-36.20%	-40.60%
Sales/Use Taxes					
	2025 (YTD)		2024 (YTD)		
City Sales/Use Taxes	\$6,617,779		\$6,430,332		2.92%
County Sales/Use Tax	\$5,377,433		\$5,370,882		0.12%
Hotel and Restaurant Tax	\$331,613		\$182,203		82.00%
Telluride Sales/Use Tax (through Nov 2024. 2025 not released yet)	\$10,067,329		\$10,042,778		0.24%
Business Filings					
	2024		2023		
Montrose County New Business Entity Filings (through Nov)	1,306		947		37.91%

Montrose Regional Airport	2024		2023		% change
Enplanements (through Aug)	266,140		244,304		8.94%
Standard of Living and Growth	2024	2023	2022	2021	% change
Population (Census)	44,806	44,319	43,845	43,243	1.10%
	2023	2022	2021	2020	
Real Gross Domestic Product	\$1,810,292	\$1,742,828	\$1,632,031	\$1,567,762	3.87%
Personal Income	\$2,458,306	\$2,337,571	\$2,179,369	\$1,962,278	5.16%
Per Capita Personal Income	\$55,673	\$53,361	\$50,406	\$45,828	4.33%
Median Household Income	\$67,113	\$65,736	\$56,686	\$59,764	2.09%
Percent of Population Below Poverty Line	10.7%	11.7%	12.5%	10.4%	-1.00%
Place of Residence	2023	2022	2021	2020	
Adjustment for Place of Residence (in thousands)	\$20,860	\$18,435	\$1,283	\$8,522	13.15%

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 County employment averaged 19,083 in Q1 of 2025, compared to 18,662 in Q1 of 2024. Employment is higher, but so is unemployment. Unemployment numbers increased from a low of 596 in April 2023 to 976 in April of 2025. The average unemployment rate for 2024 was 4.6%, while the average for Q1 of 2025 is 5.6%. The first quarter typically experiences seasonal effects that elevate unemployment rates. Colorado's April unemployment rate (non-seasonally adjusted) was 4.6%.

This employment data is from the state and has a fairly small sample size at the county level. Employment estimates are by place of residence, and individuals are counted as "employed" once, even if they have multiple jobs.

The jobs data in figure 2 is from the state and is by place of work, and counts if a person works more than one job. The data shows that jobs in Montrose County increased from 22,057 in 2022 to 22,651 in 2023. Top employers are government (3,494), construction (2,838), and retail trade (2,667) (Figure 3).

Other Indicators

Montrose County sales taxes are up 0.12% compared to Q1 of last year, and city sales taxes are up 2.92% (Figure 4). These numbers are year-to-date comparisons as of October. The hotel and restaurant tax is up 82% due to the increase in the hotel tax, while Telluride sales taxes through November of 2024 are up 0.24%.

Business entity filings have continued to increase at a rapid pace since 2015. Business entity filings were 1,306 in 2024, compared to 947 in 2023, an increase of 37.9%.

Airport enplanements have continued to increase, rising 8.94% from 2023 to 2024.

Table 1:

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

	Labor Force	Employed	Unemployed
Annual	33	-127	160
5-Year	622	421	201
10-Year	670	464	206
Annual %	0.16%	-0.66%	16.35%
5-Year %	3.17%	2.26%	21.45%
10-Year %	3.43%	2.49%	22.14%

Place of Residence

Figure 6 illustrates what is called a "place of residence adjustment." This data is from the Bureau of Economic Analysis, and shows inflows and outflows of income to and from the county. A positive number indicates that more income is flowing into the county from other counties than flowing out. A negative number implies that more income is flowing out of the county to other counties than flowing in.

Montrose County has a history of a positive place of residence adjustment. This implies that there are more people who commute to other counties and bring back income than other counties deriving income from inside of Montrose County. Numbers show an 13.15% increase from 2022 to 2023.

Figure 1:
Montrose Employment

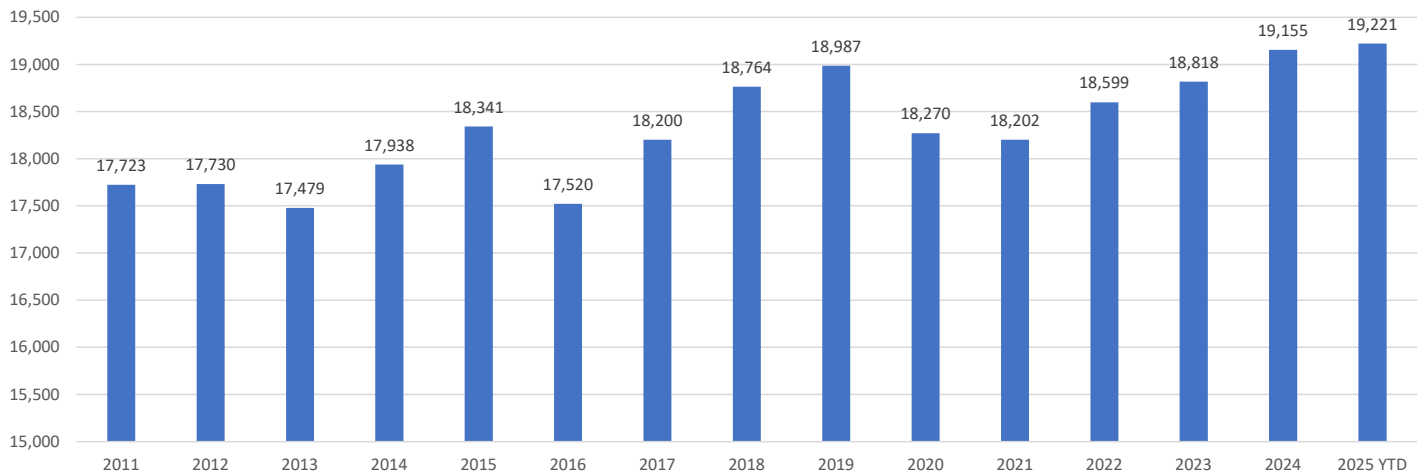


Figure 2:
Total Full and Part Time Jobs

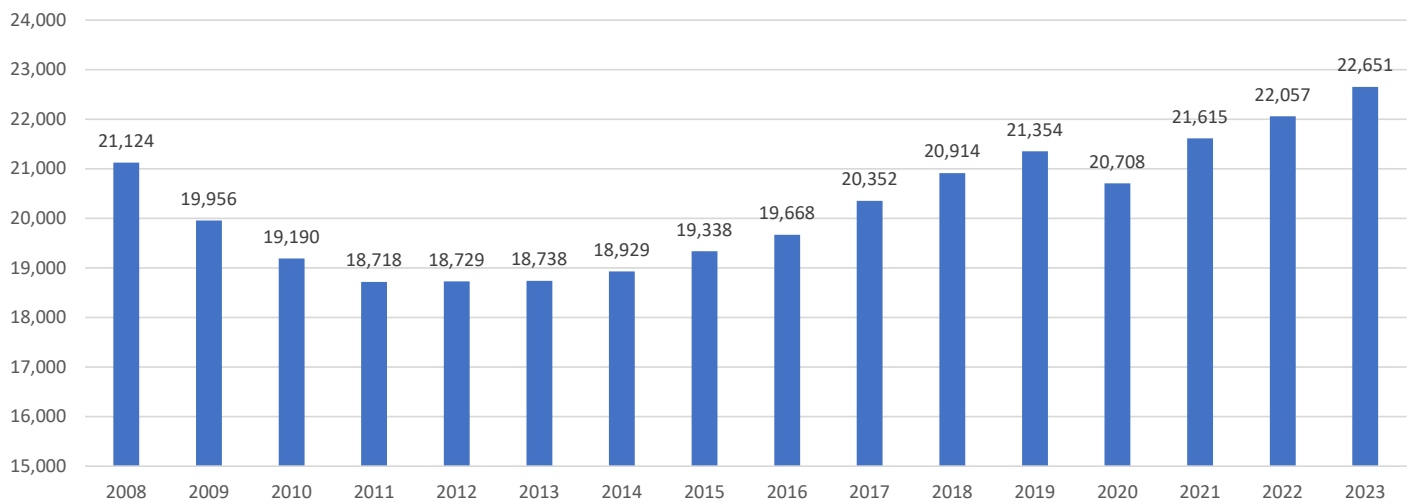


Figure 3
Jobs by Industry

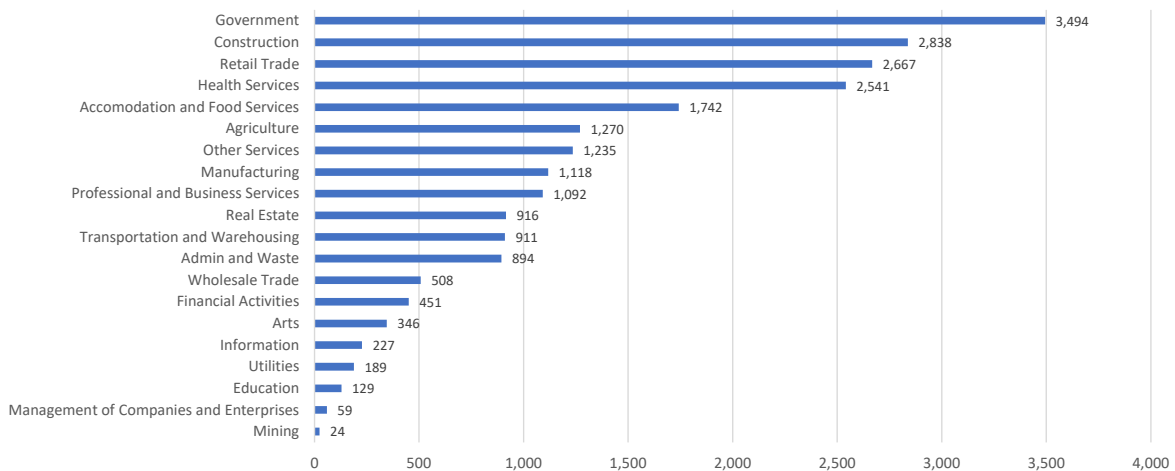


Figure 4:
Sales Taxes

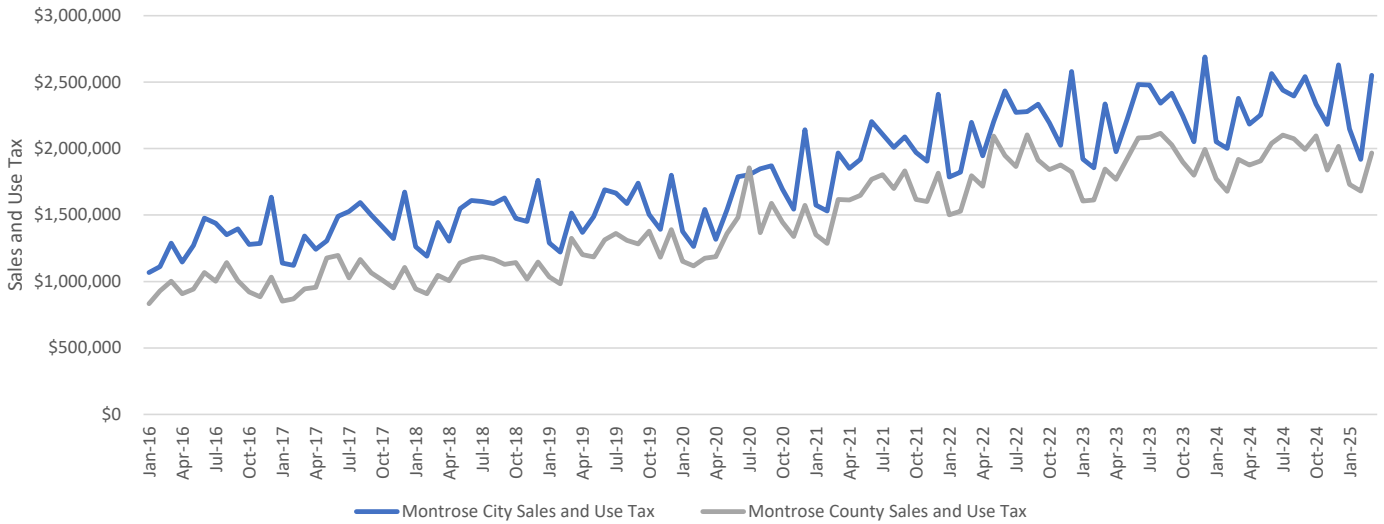


Figure 5:
Montrose County Business Entity Filings

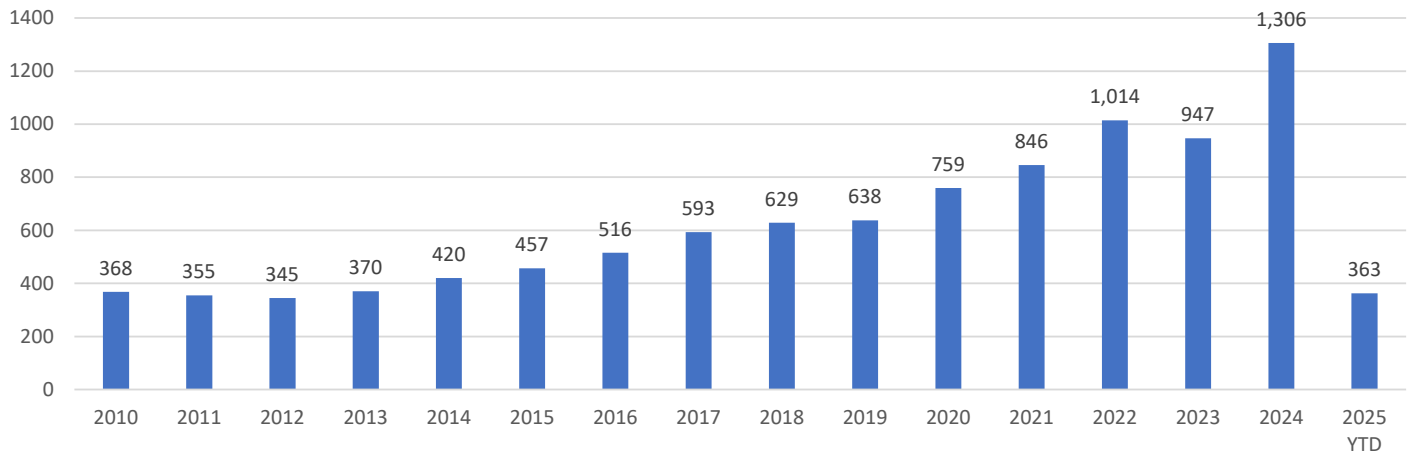
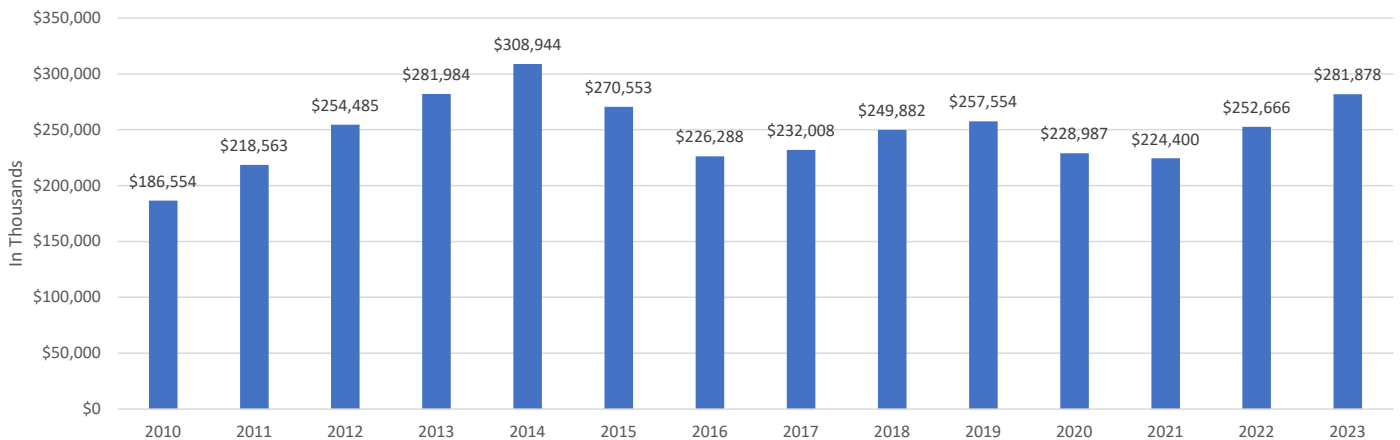


Figure 6:
Place of Residence



Standard of Living Measures

Standard of living measures are generally released each year in December for the previous year's data. Montrose County GDP for 2023 grew by 3.87% compared to 2022. This can be seen in Figure 8.

Montrose County median household income rose from \$65,736 in 2022 to \$67,113 in 2023. Montrose shows a strong upward trend in median household income since 2017.

The Census Department's SAIPE program (Small Area Income and Poverty Estimates) released their most recent poverty estimate, with Montrose County falling from 11.7% in 2022 to 10.7% in 2023.

Personal income per capita increased from \$53,361 in 2022 to \$55,637 in 2023. Per capita personal income is a measure of all personal income in the county divided by the population. Per capita personal income has increased drastically over the last decade.

Figure 7:
Western Slope GDP % Change 2023

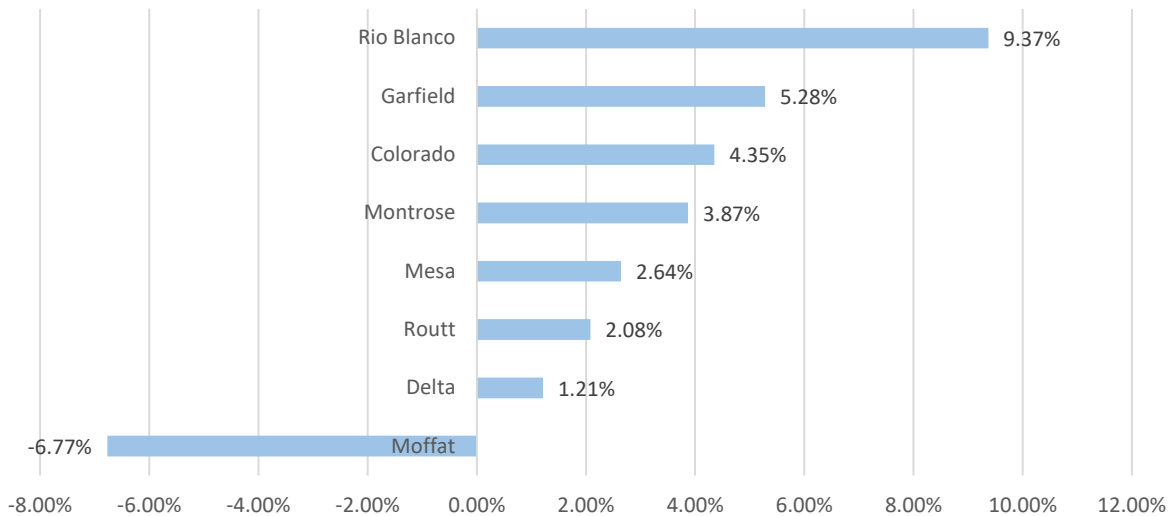


Figure 8:
Montrose County Real GDP (chained 2017 dollars)

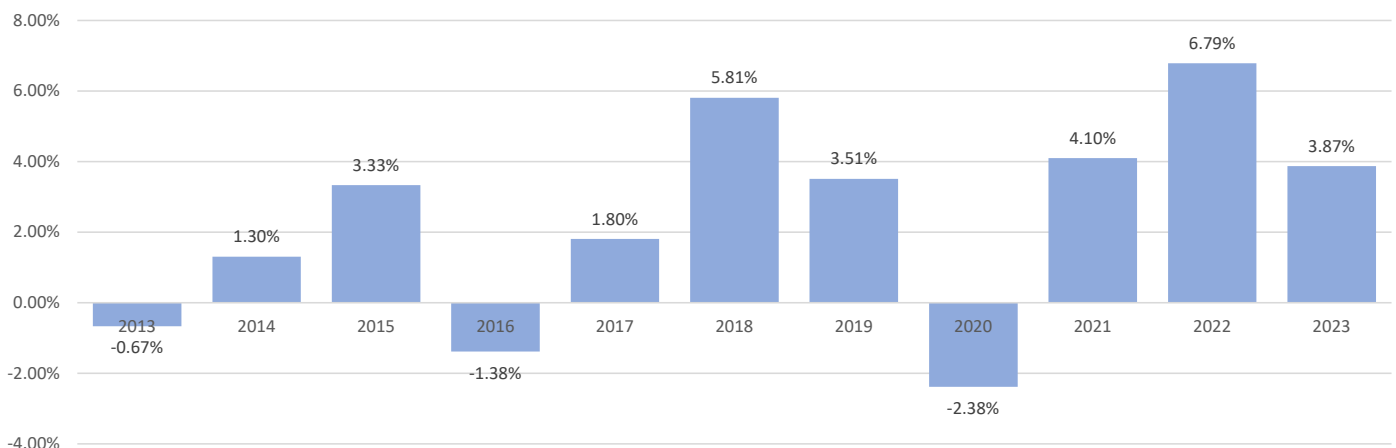


Figure 9:
Montrose County Median Household Income

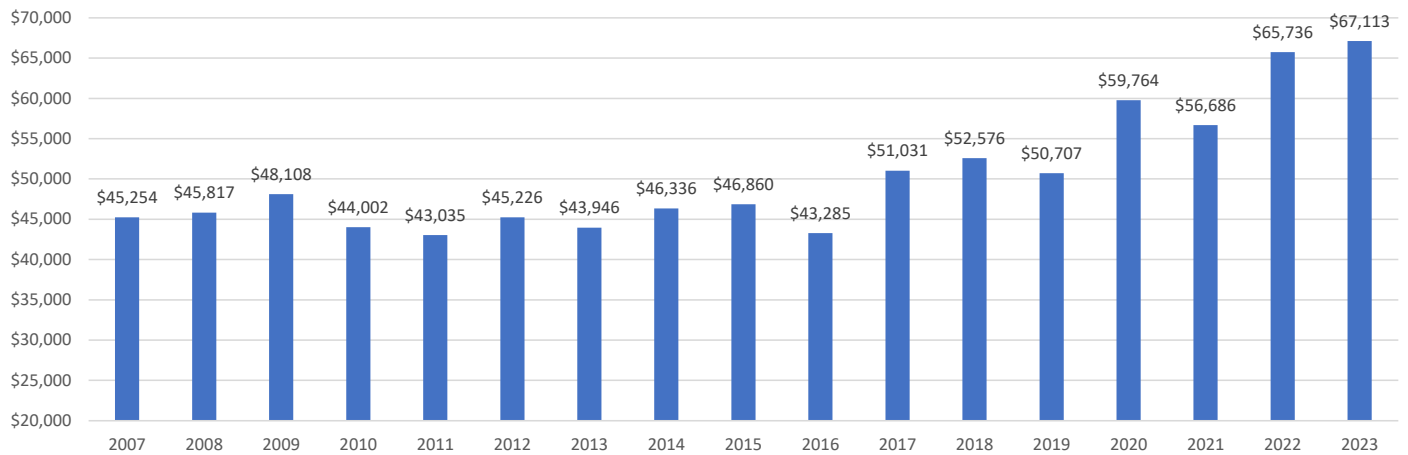
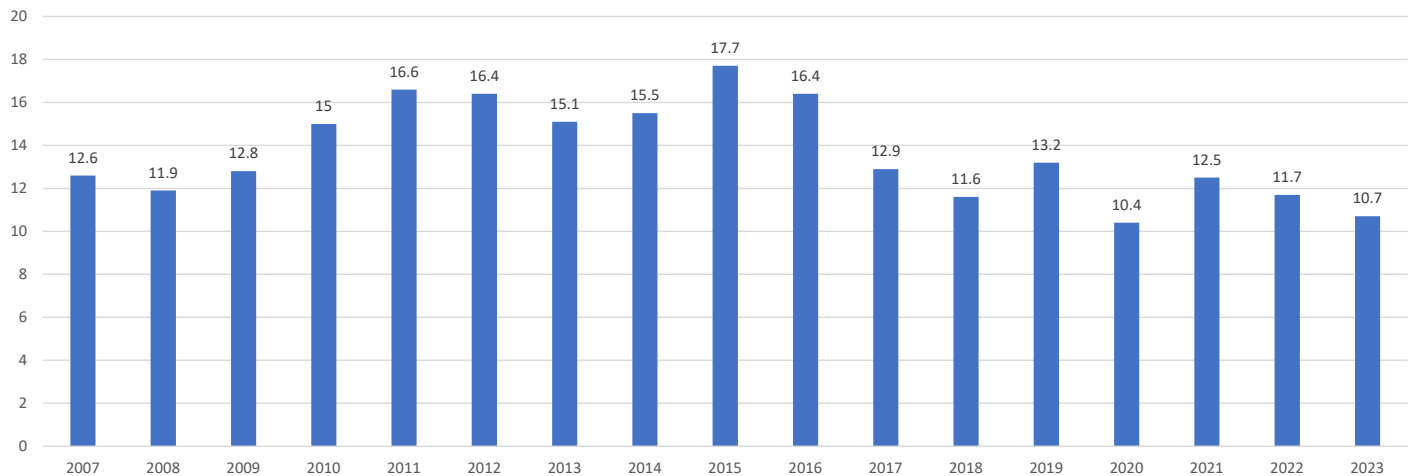


Figure 10:
Montrose Per Capita Income



Figure 11:
Montrose County Poverty Rate



Population Trends

The Colorado State Demography Office produces population estimates and population forecasts. Table 2 illustrates these forecasts for Western Slope counties. Montrose County is expected to grow from the previous 2020 estimate of 42,810 to 48,327 in 2030, 52,958 in 2040, and 54,586 in 2050. Population is a function of birth rate, death rate, and migration. Montrose County is expected to be fairly neutral with births and deaths, which means natural population growth is not what is expected to push Montrose County's population higher. Migration is the factor that is expected to fuel Montrose County's growth.

Table 2:
**Population Estimates Table (2020-2050),
Colorado State Demography Office**

	Mesa	Montrose	Delta	Garfield	Rio Blanco	Moffat	Routt
2020	155,993	42,810	31,052	61,791	6,521	13,265	24,834
2025	162,833	45,413	32,027	64,496	6,511	13,037	25,786
2030	174,827	48,327	33,286	69,950	6,440	12,851	27,336
2035	187,931	50,973	34,303	76,392	6,291	12,706	28,840
2040	198,890	52,958	35,029	82,780	6,147	12,577	30,133
2045	207,560	54,152	35,512	88,422	5,978	12,435	31,082
2050	214,206	54,586	35,769	92,516	5,773	12,261	31,700

Table 3:
**Montrose County Population Change Breakdown,
Colorado State Demography Office**

	Population	Change	Births	Deaths	Net Migration
2018	42,084	316	449	427	294
2019	42,501	417	359	422	480
2020	42,810	309	406	470	373
2021	43,234	424	381	527	570
2022	43,799	565	403	609	771
2023	44,318	519	402	532	649
2030	48,327	609	445	615	779

Industrial Diversification

The Hachman Index is an industrial diversification index that compares the industrial composition of Montrose County to the industrial composition of Colorado. A higher Hachman Index indicates in this case that Montrose County is closer to the composition of Colorado, whereas a lower Hachman Index implies less diversification compared to Colorado. Figure 12 shows that the Hachman Index indicates Montrose County saw an increase in diversification peaking in 2005, falling to a 20-year low by 2015, and then slowing with increases since then.

Another way to measure industrial diversification is through the Herfindah-Hirshman (HHI) Index. This measure only takes into account the market concentration of Montrose County, and does not use a comparison across the state like the Hachman Index. A higher HHI indicates more industrial concentration. The HHI shows that from 2001 to 2012 Montrose became more diversified, or decreased industrial concentration. Since 2012, the data has generally moved horizontally. Notice the small changes on the Y axis on the HHI Index, indicating that the HHI has not moved much. Ultimately, the Hachman Index is a better measure of industrial diversification as it uses Colorado as a comparison baseline.

Figure 12:
Hachman Index Montrose County

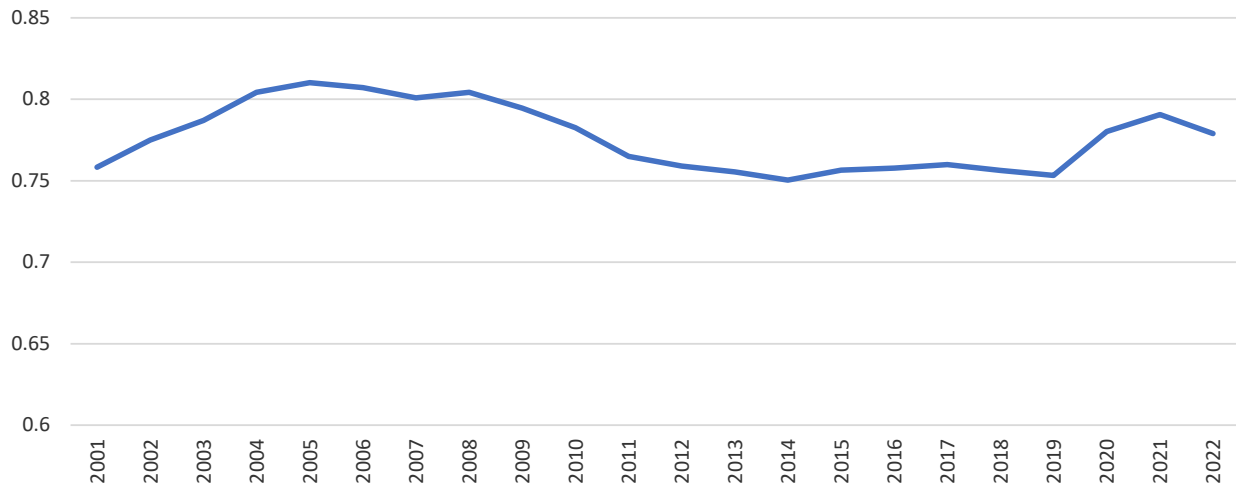
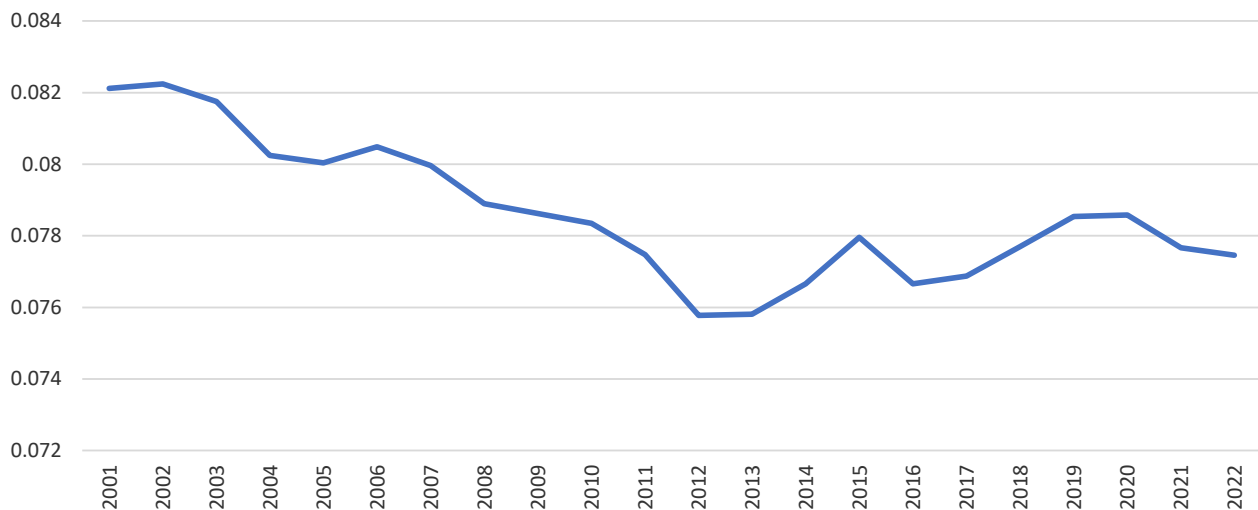


Figure 13:
HHI Index Montrose County



Montrose County Industry Trends

Montrose Quarterly Census of Employment and Wages data shows job gains of 437 compared to Q4 of 2023. Top gains in jobs were in construction (111), healthcare (102), and manufacturing (103). Wage gains year over year totaled \$22,213,195. The largest wage change was in healthcare at \$6,274,487. Figures 14 and 15 show job and wage gains, respectively.

The largest wage contributor to Montrose County is healthcare, at \$50,480,449 for Q4. Healthcare is followed by construction (\$36,535,201), retail trade (\$24,740,781), and public administration (\$23,017,033).

Table 2:
Quarterly Census of Employment and Wages (QCEW) Q4 2024 Compared to Q4 2023

Sector	Average Employment	Total Quarterly Wages	Average Weekly Wage	Total Employment Change	Total Wage Change
Total, All Industries	17,420	\$241,769,811	\$1,068	437	\$22,213,195
Health Care and Social Assistance	3,219	\$50,480,449	\$1,206	102	\$6,274,487
Construction	2,208	\$36,535,201	\$1,273	111	\$4,023,058
Retail Trade	2,367	\$24,740,781	\$804	-11	\$848,279
Public Administration	1,151	\$23,017,033	\$1,539	45	\$2,598,113
Manufacturing	1,147	\$15,073,904	\$1,011	103	\$1,263,818
Accommodation and Food Services	1,799	\$12,021,485	\$514	65	\$1,245,814
Professional and Technical Services	588	\$10,245,689	\$1,340	10	\$650,720
Transportation and Warehousing	764	\$9,797,326	\$986	-3	\$943,011
Wholesale Trade	426	\$8,489,739	\$1,534	-15	\$827,477
Finance and Insurance	314	\$5,969,534	\$1,464	-13	-\$43,106
Utilities	253	\$5,944,392	\$1,805	-7	\$356,504
Other Services, Ex. Public Admin	490	\$5,885,553	\$923	46	\$153,119
Administrative and Waste Services	474	\$5,821,103	\$945	26	\$662,126
Real Estate and Rental and Leasing	289	\$4,625,660	\$1,231	-30	-\$303,995
Information	200	\$3,317,375	\$1,278	4	\$373,443
Agriculture, Forestry, Fishing & Hunting	255	\$3,095,423	\$935	23	\$714,888
Arts, Entertainment, and Recreation	381	\$2,361,689	\$477	1	\$121,451
Management of Companies and Enterprises	38	\$884,726	\$1,775	13	\$344,203
Mining	15	\$221,878	\$1,164	7	\$115,437

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

Figure 14:
Total Job Change from Q4 2023 to Q4 2024

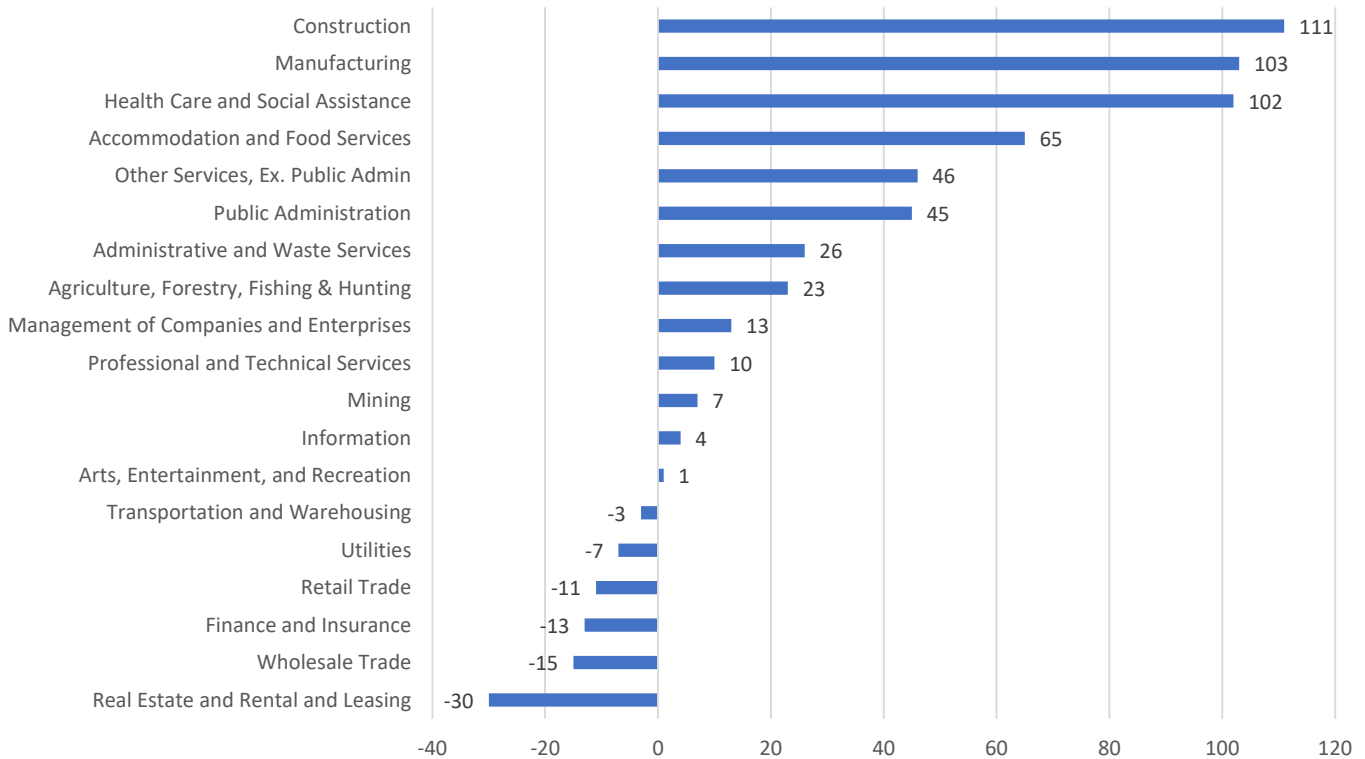
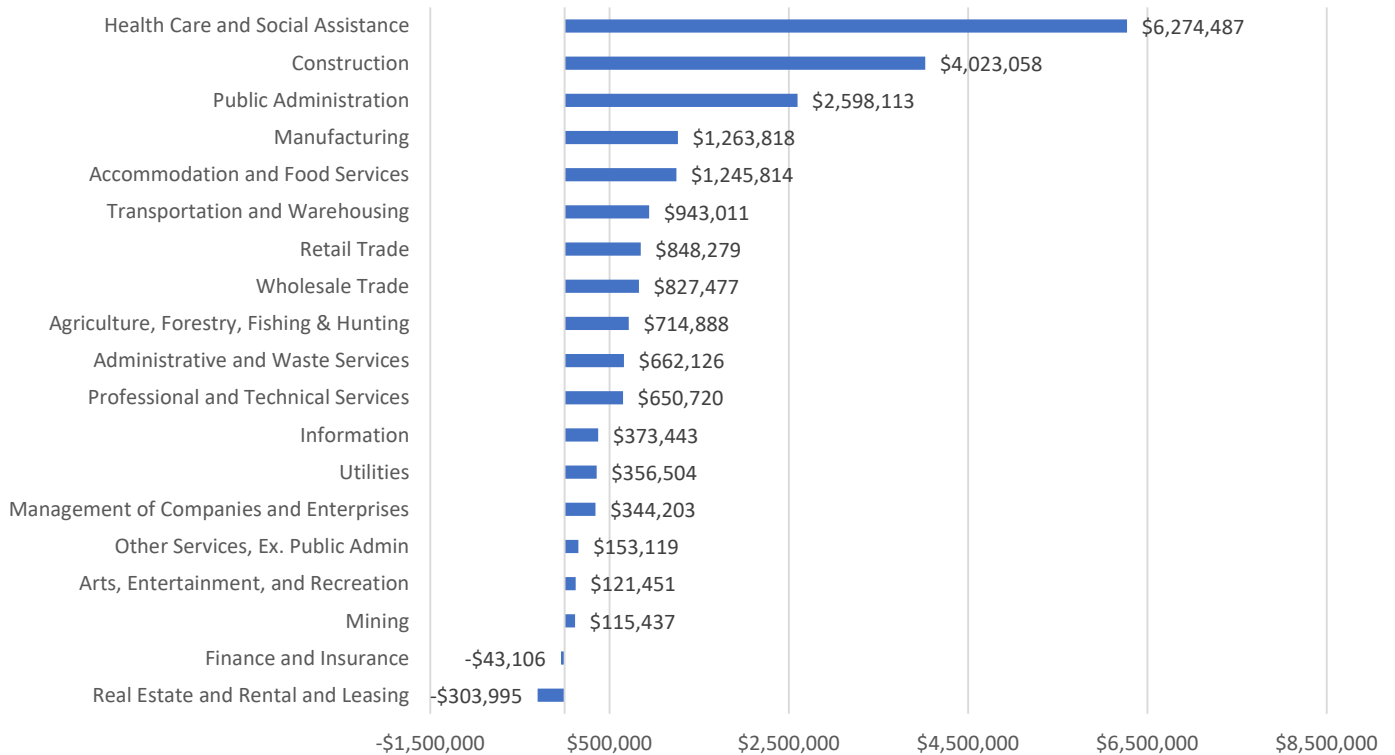


Figure 15:
Total Wage Change from Q4 2023 to Q4 2024



LOCAL REAL ESTATE

	Q1 2025	Q1 2024	% change since last year
Real Estate			
Inventory of Homes for Sale (average)	162	152	6.13%
New Residential Listings (average)	182	180	1.11%
Sold Residential Listings (average)	118	101	16.83%
Median Sales Price	\$467,167	\$410,535	13.79%
Average Sales Price	\$531,477	\$412,282	28.91%
Days on Market	120.00	122.33	-1.91%
Months Supply of Inventory	3.17	3.23	-2.06%
Building Permits (Census, most recent data 2023)	321.00	405.00	-20.74%
Total Building Permits	546	600	-9.00%
Total Building Permit Valuation	\$108,334,740	\$113,576,475	-4.62%
Single Family Home Permits	240	245	-2.04%
Single Family Home Permit Valuation	\$39,644,558	\$33,521,315	18.27%
Foreclosures			
	2024	2023	
Foreclosure Filings (YTD)	21	13	61.54%
Foreclosure Sales (YTD)	11	0	N/A
Mortgage Rates			
	April 2025	April 2024	
15 Year Mortgage Rate	5.90%	6.26%	-0.36%
30 year Mortgage Rate	6.73%	6.99%	-0.26%

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

Local Real Estate Indicators

The Montrose County real estate market saw an increase in inventory, with the average number of homes for sale up 6.13% from the previous year. New residential listings also grew by 1.11%, while sold listings increased by 16.83%. The median sales price rose 13.79% to \$467,167, and the average sales price increased 28.91% to \$531,477. Days on market fell by 1.91% at 120. The months supply of inventory fell slightly, falling from 3.23 to 3.17. Building permits showed a decline, with total permits down 9% compared to last year. Single-family home permits fell by 2.04%, and their valuation saw an 18.27% increase. Census permit data was released in December and showed that building permits for all residential structures (single family and multifamily) decreased from 405 in 2022 to 321 in 2023.

As of mid-May 2025, U.S. mortgage rates remain elevated, with the average 30-year fixed-rate mortgage at 6.73%, marking the highest level since late April. This uptick aligns with recent movements in the 10-year Treasury yield, which stood at 4.45% on May 15, 2025. The 10-year Treasury yield serves as a key benchmark for mortgage rates, and its fluctuations often influence borrowing costs. While some forecasts anticipate a modest decline in mortgage rates to around 6.5% by the end of the year, the trajectory will largely depend on economic factors such as growth/recession, tariff rates and inflation, and unanticipated supply shocks.

Figure 16:
Months Supply of Inventory



Figure 17:
Median and Average Home Sales Price

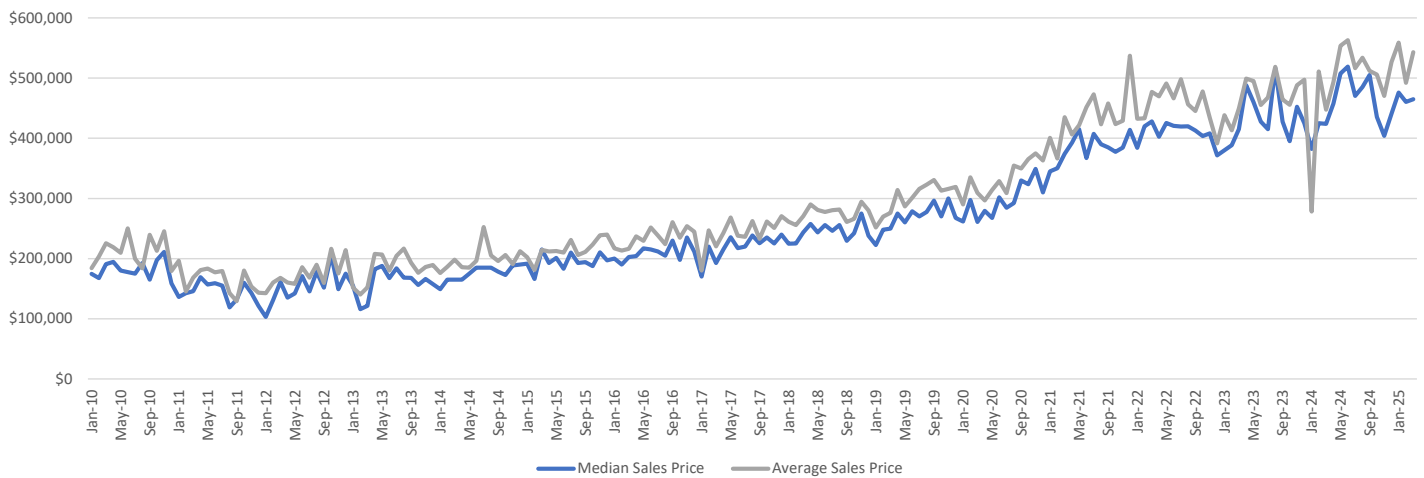
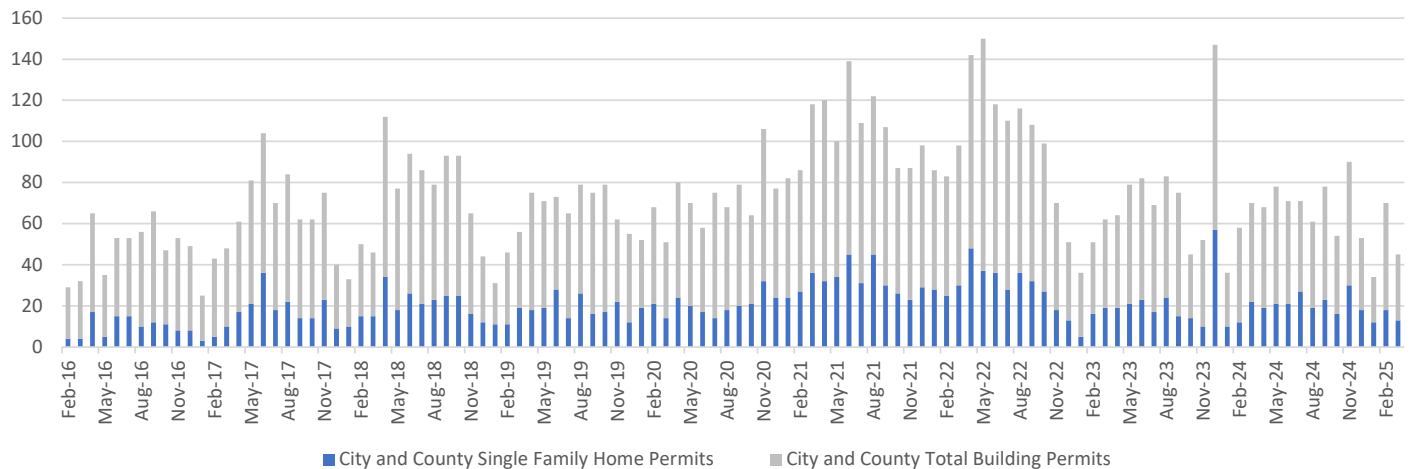


Figure 18:
City and County Building Permits



REGIONAL ENERGY

	Q1 2025	Q4 2024	Q1 2024	% change since last quarter	% change since last year (comparable quarters)
Energy Prices					
WTI Crude Oil	\$71.78	\$70.73	\$77.50	1.48%	-7.38%
Henry Hub Natural gas	\$4.15	\$2.44	\$2.13	70.08%	94.84%
Retail Gasoline Price	\$2.99	\$2.97	\$3.13	0.47%	-4.45%
Drilling Permits					
	2024	2023	2022	2021	
Drilling Permits (Mesa County)	40	0	0	1	
Drilling Permits (Rio Blanco County)	67	40	40	33	
Drilling Permits (Garfield County)	18	139	133	127	
Drilling Permits (Moffat County)	10	3	4	1	
Total Permits (Mesa, Rio Blanco, Garfield, Moffat)	135	182	177	162	
Total Permits (Colorado)	980	1,005	805	1,543	
Local Rig Count					
	25-May	Feb-23	Aug-22		
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; Coal data from the Colorado Division of Reclamation, Mining, and Safety.

Figure 19:
Oil and Natural Gas Prices

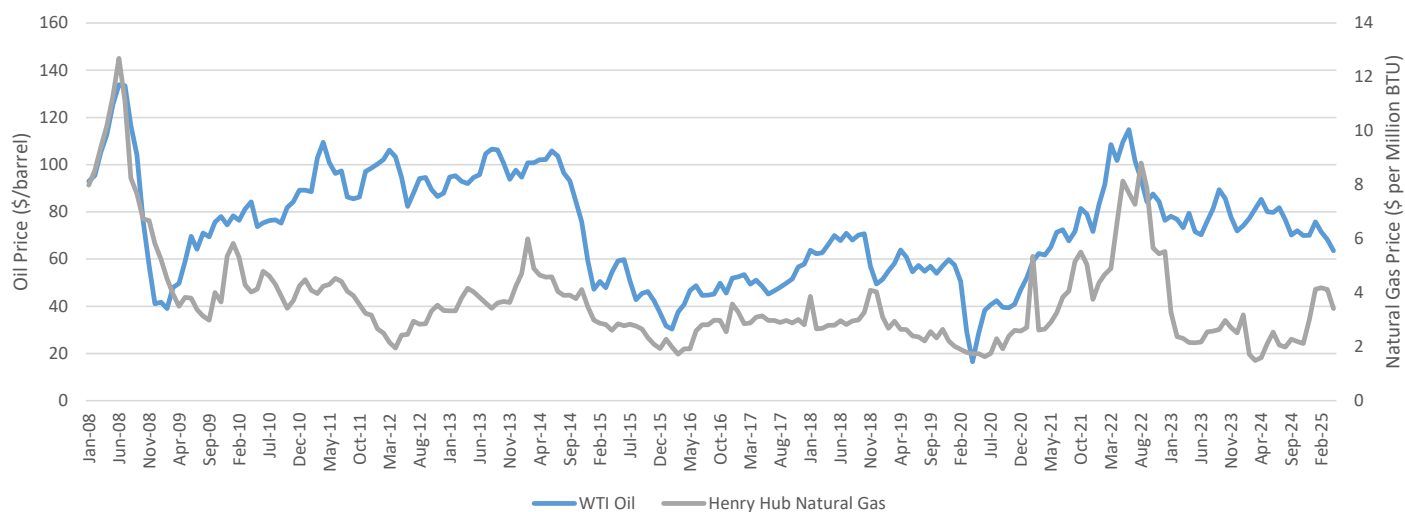


Figure 20:
Oil/Gas Drilling Permits and Oil/Gas Jobs

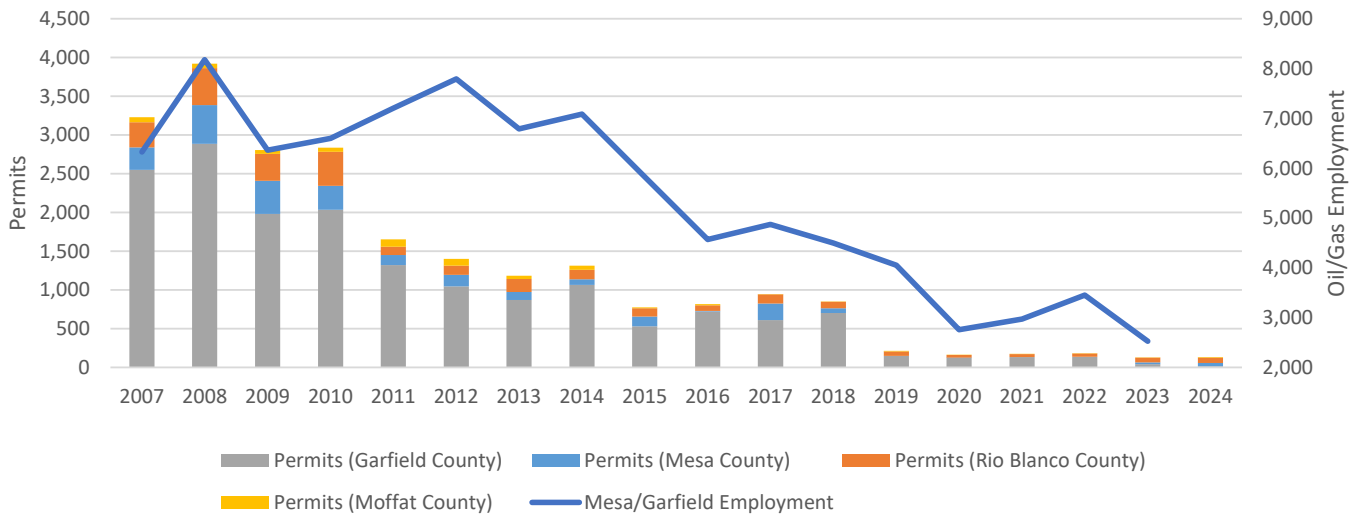
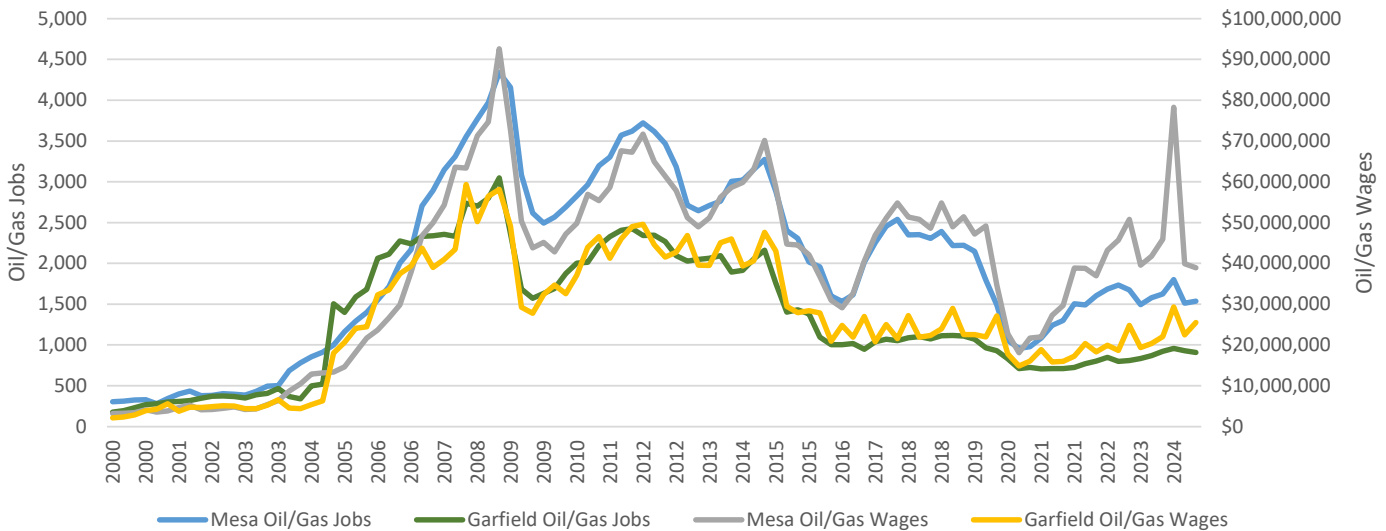


Figure 21:
Mesa and Garfield Oil and Gas Jobs/Wages



Western Slope Energy

Natural gas prices are on the rise in 2025, rebounding from the lows experienced in 2024. The U.S. Energy Information Administration (EIA) projects the Henry Hub spot price to average \$4.10 per million British thermal units (MMBtu) this year, nearly doubling from last year's average of \$2.20/MMBtu. This increase is driven by several factors, including reduced storage levels, increased demand, and lower associated gas production.

The first half of 2025 has seen a continued slide in oil prices, driven by global supply growth outpacing demand. The EIA projects Brent crude to average \$59 per barrel for the year, down from \$81 in 2024. This decline is attributed to increasing oil inventories, with global stockpiles expected to grow by an average of 0.4 million barrels per day in 2025. The EIA forecasts Brent prices to decrease from \$76 per barrel in the first quarter to \$61 by the fourth quarter of 2025. This oversupply is largely due to production increases from non-OPEC+ countries, including the U.S., Canada, Brazil, and Guyana. While OPEC+ plans to raise output in June, their production is still projected to remain below target levels.

NATIONAL ECONOMIC INDICATORS

	Q1 2025	Q4 2024	Q1 2024	% change since last period	% change since last year (comparable quarters)
Business Cycle Indicators					
Real GDP	-0.30%	2.40%	1.60%	-2.70%	-1.90%
Personal Consumption Expenditures	1.80%	4.00%	1.90%	-2.20%	-0.10%
Gross Private Domestic Investment	21.90%	-5.60%	3.60%	27.50%	18.30%
National Consumer Confidence	64.5	72.1	78.4	-10.54%	-17.73%
Industrial Production Index	103.7	102.4	102.2	1.31%	1.47%
Initial Weekly Unemployment Claims (4 week MA)	220,212	226,577	210,481	-2.81%	4.62%
Non Farm Payroll Change (in thousands)	543,000	509,333	575,333	6.61%	-5.62%
Unemployment					
Unemployment Rate-U3-SA	4.10%	4.10%	3.80%	0.00%	0.30%
Unemployment Rate-U6-SA	7.80%	7.60%	7.30%	0.20%	0.50%
Interest Rates					
Federal Funds Rate	4.33%	4.68%	5.33%	-0.35%	-1.00%
10 Year U.S. Treasury	4.45%	4.28%	4.16%	0.17%	0.29%
30 Year U.S. Treasury	4.71%	4.49%	4.33%	0.22%	0.38%
Inflation Measures					
Inflation Rate (CPI)	2.74%	2.72%	3.25%	0.02%	-0.51%
Core Inflation Rate (All Items Less Food and Energy)	3.08%	3.26%	3.82%	-0.18%	-0.74%
Inflation Rate (Shelter)	4.21%	4.76%	5.82%	-0.55%	-1.61%
Producer Price Index (PPI)	1.88%	0.24%	-1.89%	1.65%	3.77%
Employment Cost Index	3.60%	3.76%	4.20%	-0.16%	-0.60%
Stock Prices					
S&P 500	5,895	5,907	4,993	-0.21%	18.07%
Dow Jones Industrial Average	43,240	43,257	38,517	-0.04%	12.26%
Trade Balance and Debt					
Trade Balance (% of GDP)	-1262.307	-920.084	-841.569	37.19%	49.99%
Federal Debt (% of GDP)*	121.9%	120.7%	120.2%	1.1%	1.7%

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. Regional CPI data from the Bureau of Labor Statistics. Yield Curve from the Federal Reserve Board. Tariff rate from (10.5281/zenodo.15151391).

Figure 22:
Real GDP for U.S.

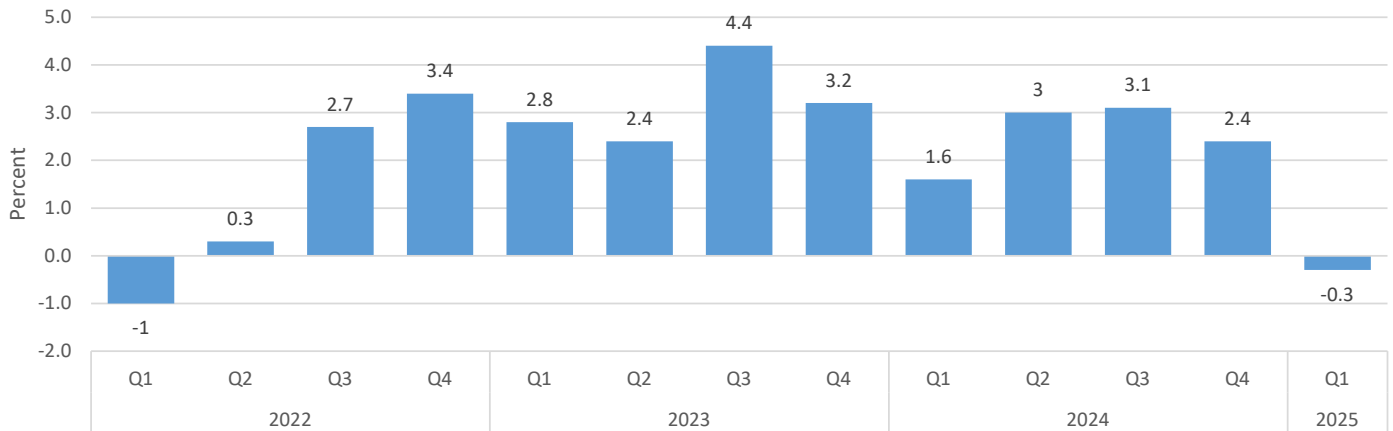
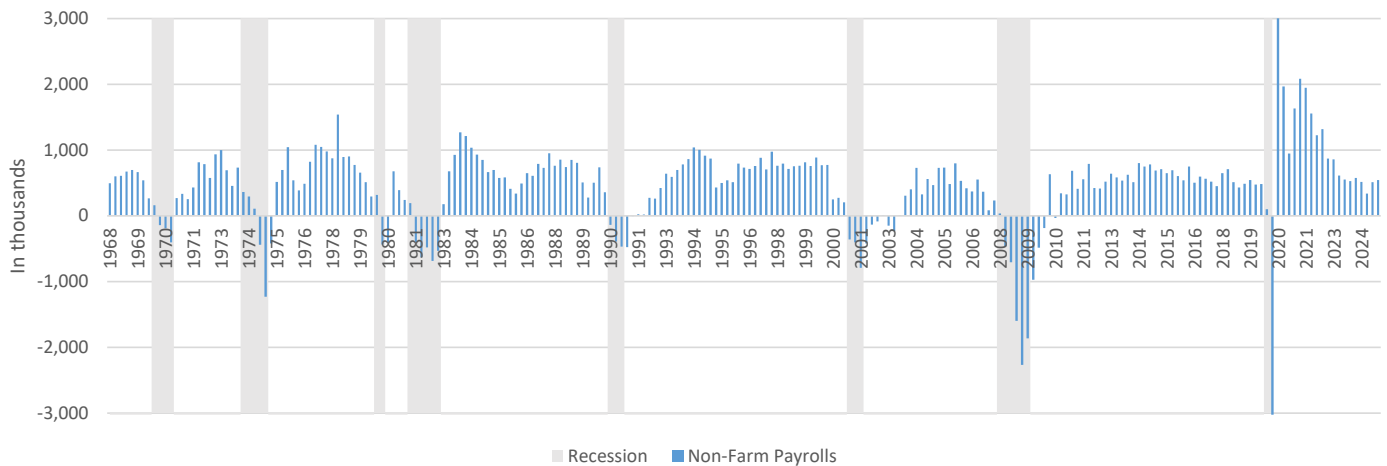


Figure 23:
Non-Farm Payrolls (Quarterly)



Economic Growth

U.S. GDP growth for Q1 2025 was -0.3%, showing contraction and creating a growing concern for a potential recession. Part of the reason for the negative growth rate is tariffs. Specifically, many firms rushed to purchase foreign goods before tariffs hit, causing a surge in imports, which is a subtraction from GDP. It is likely that Q2 will have the opposite anomaly, with less imports that could push growth higher. The Atlanta Fed GDPNow forecasts 2.4% growth for Q2 as of mid May. Economists were predicting solid growth in 2025 until the White House tariff plans were unveiled.

As more information about trade deals becomes known, growth forecasting will be more accurate. As of now, with tariff uncertainty, economists are expecting slow growth and potential recession as the economy adjusts to altered trade agreements and higher prices on imports.

Labor Market

The seasonally adjusted unemployment rate held just above 4% for the last several months, at 4.2% as of March (Figure 26). Colorado's seasonally adjusted unemployment rate is 4.8%, while the non-seasonally adjusted rate was 4.6% as mentioned earlier. Non-farm payroll numbers have leveled off the past few months, holding steady and showing some job growth (Figure 23).

JOLTS data, which tracks hires, quits, and layoffs, shows that job hiring is slowing, the quit rate has fallen, and layoffs have fallen. This translates to a stagnant labor market, with less hiring, but also low layoffs for those who are employed. The rising quit rate shows that workers realize they don't have better opportunities outside of their current employment and are staying put.

The employment cost index (Figure 27) shows that wages continue to fall from COVID level increases. This is a mixed bag for workers, and increased wages are helpful but they also contribute to inflation, which has been hurtful to consumers.

Tariffs

Tariffs are taxes on imported goods, and serve multiple economic and political purposes. The historical effective tariff rate can be seen in Figure 25. Economists often refer to the “3 Rs” of tariffs as Revenue, Retaliation, and Restriction.

Revenue is the oldest justification for tariffs. Before the modern income tax system, tariffs were the primary source of government revenue.

Retaliation refers to tariffs used as a tool in trade disputes. If one country believes another is engaging in unfair trade practices, it may impose retaliatory tariffs. Currently, the Trump administration is accusing China of unfair trade which is why tariffs on China were set higher than other countries.

Restriction describes tariffs’ use as a tool to limit imports. By making foreign goods more expensive, tariffs can protect domestic industries from global competition. This can support domestic employment and production in targeted sectors, but it also raises prices for consumers and downstream producers that rely on imported inputs.

There are pros and cons to tariffs. The pros include tariff revenue, the reduction of the trade deficit, and the encouragement of supply chains and manufacturing in the U.S. Figure 24 shows the current account divided by GDP for the United States. The current account is essentially the trade deficit, and shows the U.S. has imported much more than exported since the early 1980’s.

The cons of tariffs are the potential for retaliatory tariffs, the increase the cost of foreign goods and inputs which can be inflationary, and the potential for a large disruption of the international trade and political order, specifically the “exorbitant privilege” of the dollar.

Exorbitant privilege is a global demand for dollars that has

existed since World War II, and especially after the Bretton Woods system collapsed in the early 1970s. Countries, central banks, and corporations have held and traded in dollars for key global transactions such as oil, commodities, sovereign reserves, and international debt markets, which has increased the demand for dollars and hence U.S. financial assets like treasury bonds. The dollar has been both the official and de-facto world reserve currency. This grants the U.S. benefits including low borrowing costs because interest rates are lower, the ability to run persistent trade deficits, and additional monetary policy autonomy.

The flip side of this privilege is the large trade imbalance and the outsourcing of manufacturing. Here’s how it happens: Global demand for dollar-denominated assets like treasuries means foreign investors and governments need dollars. To acquire those dollars, foreign countries sell goods to the U.S., running trade surpluses with America. The U.S., in turn, runs chronic trade deficits, buying more than it sells, which feeds the global demand for dollar liquidity. Unlike other countries, the U.S. doesn’t need to balance trade with exports, because it can pay with its own currency, which other countries need to hold.

While the exorbitant privilege allows the U.S. to sustain consumption and investment levels beyond what it produces, it also contributes to industrial decline in some sectors and growing concerns about external debt and competitiveness.

Economists debate how long this system can last, but so far, the dollar’s dominance has proven remarkably resilient, even amid rising global challenges from currencies like the euro or China’s renminbi.

The current political debate centers around who benefits from this exorbitant privilege, and whether scaling back its advantages to restore domestic supply chains and manufacturing would serve the U.S. better overall.

Figure 24:

Current Account Deficit

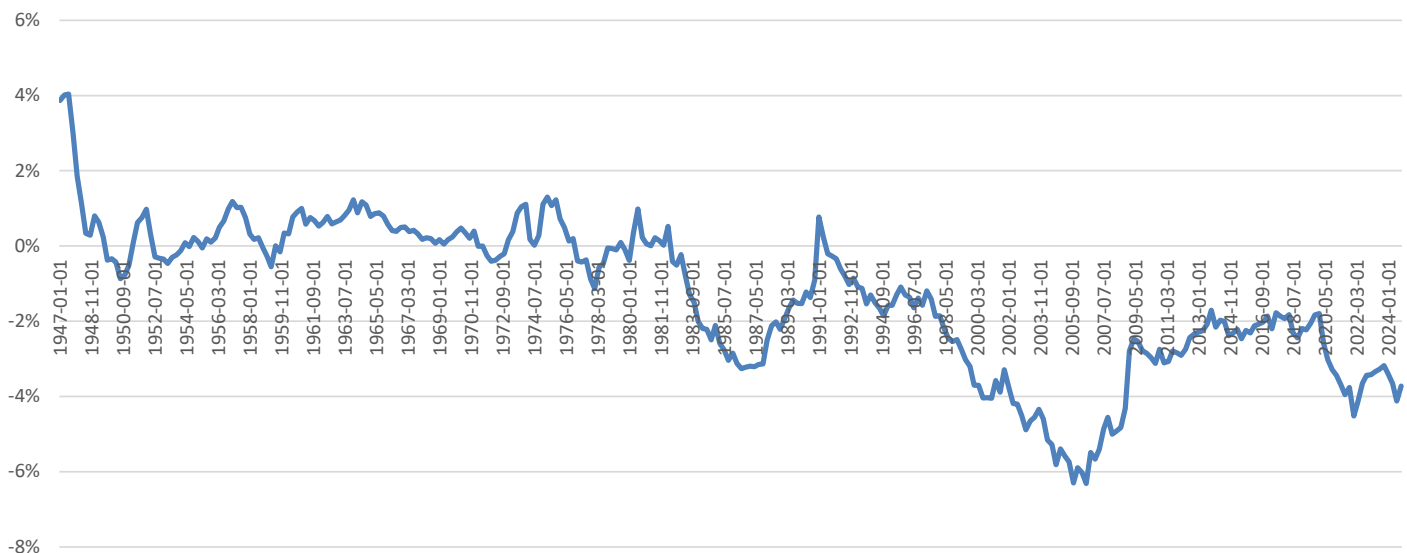


Figure 25:
Effective Tariff Rate

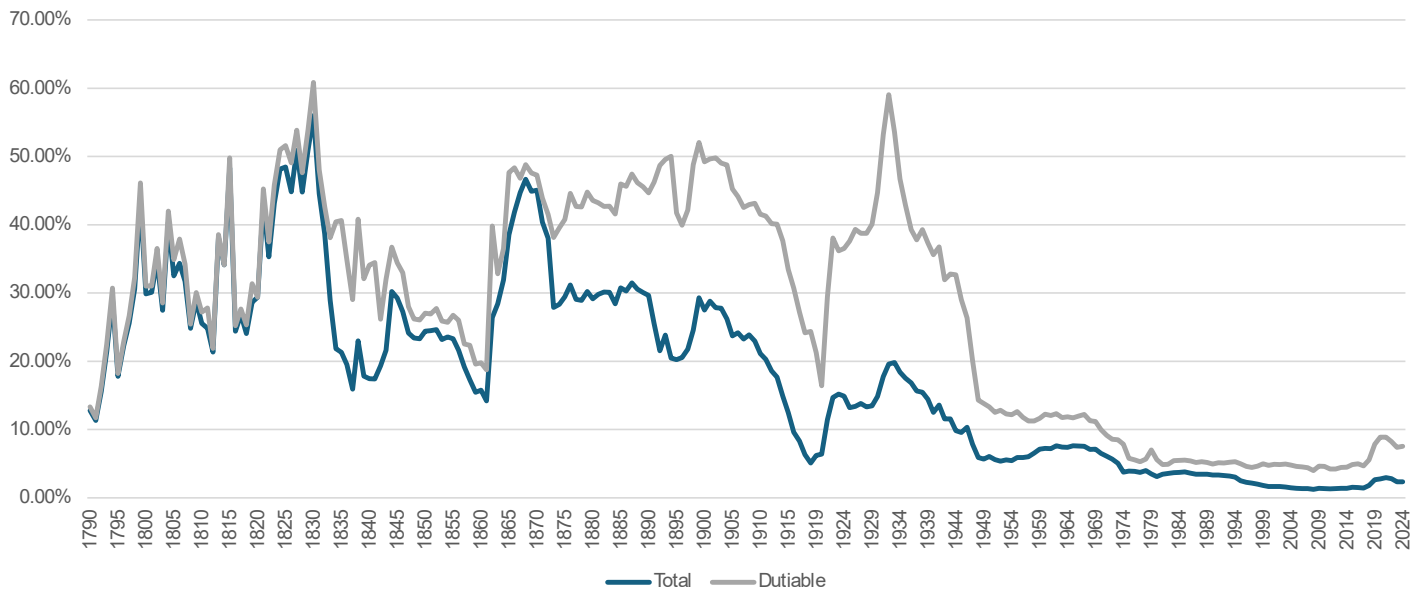


Figure 26:
Unemployment Rate

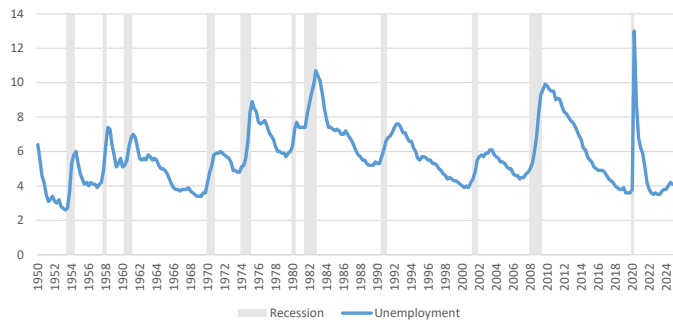
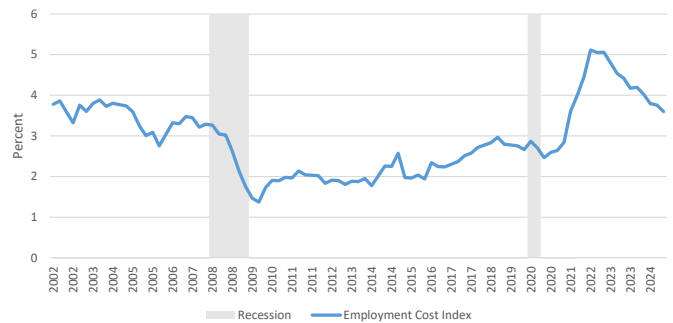


Figure 27:
Employment Cost Index



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