

MONTROSE COUNTY ECONOMIC UPDATE

Third Quarter, 2022



Economic Summary

- Montrose County employment averaged 22,271 for the second quarter of 2022, rising to 22,811 in August. The number of unemployed has fallen from 1,105 in August of 2021 to 723 in August of 2022, while the unemployment rate has fallen from 4.8% to 3.1%.
- Despite rising interest rates, Montrose median home sales price increased by 6.3% compared to the same quarter last year. Looking at just this year, since January there has been only a 2.5% increase in median home price on sales.
- Foreclosures have started rising, rising from 7 to 31 comparing year to date through August. This temporary spike has already returned to normalcy and was likely the result of the end of mortgage forbearance programs in the fall of 2021.
- Headline inflation printed at 8.3%, which was higher than many economists were expecting. Energy fell in August as expected, but food and shelter rose, keeping inflation above 8%. The Federal Reserve continues to ramp up the Federal Funds rate, with a current target range of 2.25-2.50%. Markets are trying to determine how high the Fed is willing to go to fight inflation, with current market odds at a terminal rate of 4.5%.

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LOCAL ECONOMIC INDICATORS

	Q2 2022	Q1 2022	Q2 2021	change since last quarter	change since last year (comparable quarters)
Local Labor Market					
Unemployment Rate Montrose County-NSA	3.13%	3.97%	5.67%	-0.83%	-2.53%
Unemployment Rate Colorado - NSA	3.10%	3.80%	6.00%	-0.70%	-2.90%
Unemployment Rate U.S. - NSA	3.50%	4.10%	5.80%	-0.60%	-2.30%
Labor Force	22,987	22,839	22,839	148	148
Employed	22,271	21,934	20,819	337	1,452
Unemployed	716	905	1,247	-189	-532
Business Confidence					
Leeds Colorado Business Confidence	41.1	53.9	67.3	-23.75%	-38.93%
Sales/Use Taxes					
City Sales/Use Taxes (YTD, June)	\$12,207,353		\$11,046,937		10.50%
County Sales/Use Tax (YTD, June)	\$10,585,949		\$9,285,603		14.00%
Hotel and Restaurant Tax (YTD, June)	\$353,375		\$319,981		10.44%
Telluride Sales/Use Tax (YTD, June)	\$5,245,930		\$4,158,872		26.14%
Business Filings					
	2022 (YTD)		2021 (YTD)		
Montrose County New Business Entity Filings (as of July 31st)	709		523		35.56%

Montrose Regional Airport	2022	2021	% change from last year		
Enplanements (YTD, May)	152,391	109,798	38.79%		
Standard of Living and Growth	2020	2019	2018	2017	% change since 2018
Median Household Income	\$59,746	\$50,707	\$52,576	\$51,031	17.83%
Percent of Population Below Poverty Line	10.4%	13.2%	11.60%	12.9	-2.80%
GDP Estimates	\$1,467,479	\$1,478,875	\$1,449,318	\$1,335,236	-0.79%
Population	43,322	42,791	42,309	41,795	1.24%
Personal Income	\$1,960,840	\$1,793,896	\$1,731,853	\$1,579,464	9.31%
Per Capita Personal Income	\$45,262	\$41,922	\$40,933	\$37,791	7.97%

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 22,271 for the second quarter of 2022, rising to 22,811 in August. The number of unemployed has fallen from 1,105 in August of 2021 to 723 in August of 2022, while the unemployment rate has fallen from 4.8% to 3.1%. The Q2 average unemployment rate was 3.13%.

Montrose County's labor market response to the Federal Reserve's rising interest rate environment will be a factor to watch for the rest of 2022. The Federal Reserve is expected to continue raising interest rates in an attempt to curb wage and price inflation. This is expected to slow economic growth over the next year, which is expected to create a softer labor market.

Last quarter I stated that the labor market response to the Federal Reserve's rising interest rate environment will be a factor to watch for the rest of 2022. This has not changed. So far the labor market has been slow to be impacted at both the national and local level, and the labor market remains tight. In order to bring down inflation, the Federal Reserve may need to soften the labor market to stop wage gains which contribute to inflation increases. How this manifests itself locally remains to be seen, but nationally with such a tight labor market, even a Fed induced recession is not expected to bring high unemployment numbers akin to previous recessions like 2009.

Table 1:

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

	Labor Force	Employed	Unemployed
Annual	148	337	-189
5-Year	920	1,452	-532
10-Year	2,459	2,323	137
Annual %	0.65%	1.54%	-20.89%
5-Year %	4.17%	6.97%	-42.62%
10-Year %	11.98%	11.64%	23.60%

Other Indicators

New business entity filings are up from last year, rising from 523 to 709 compared to July 31st of last year. Scheduled enplanements at the Montrose Regional Airport are up 38.79% indicating strong demand for travel, despite high oil prices and a pilot shortage.

The Leeds Business Confidence Index, which measures business confidence in Colorado, fell to 41.1 from 53.9 last quarter. All categories fell, as businesses expect the national economy to falter over the next several months.

Figure 1:
Montrose Employment

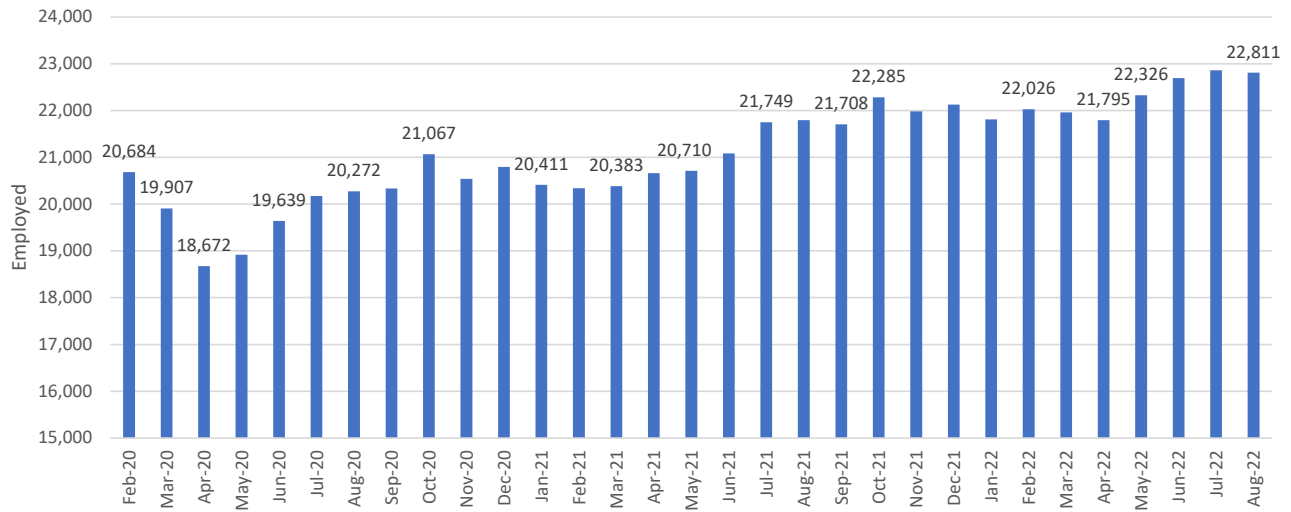


Figure 2:
Average Yearly Employment

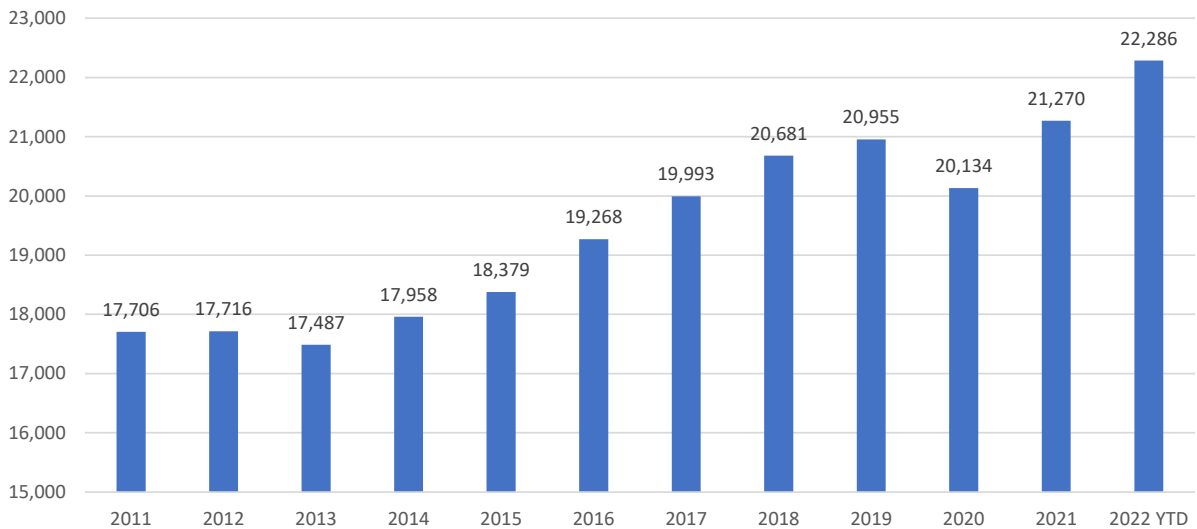


Figure 3:
Change in Average Yearly Employment

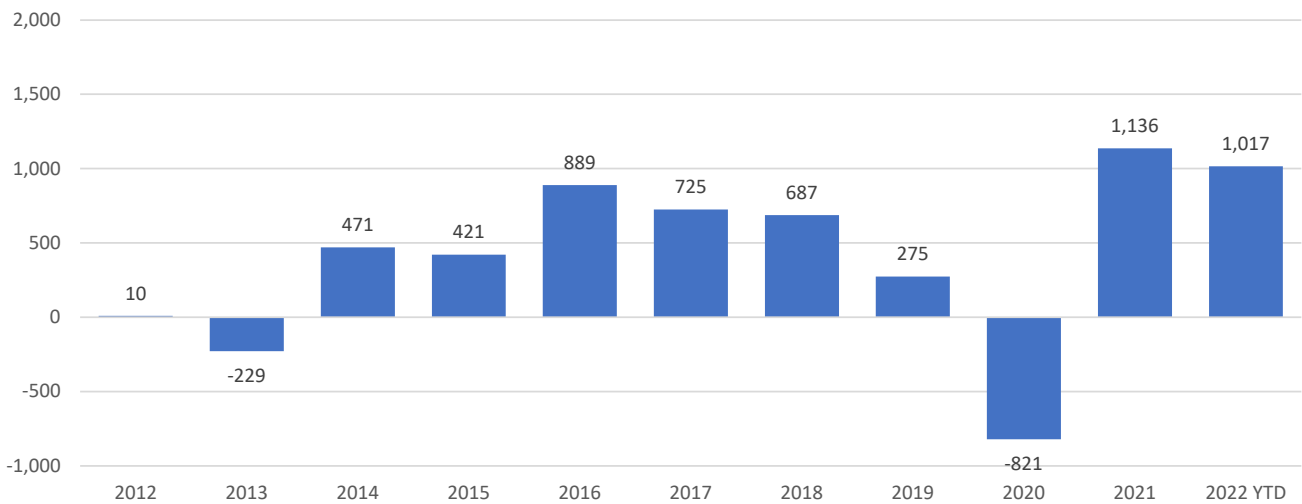


Figure 4:
Leeds Business Confidence Index

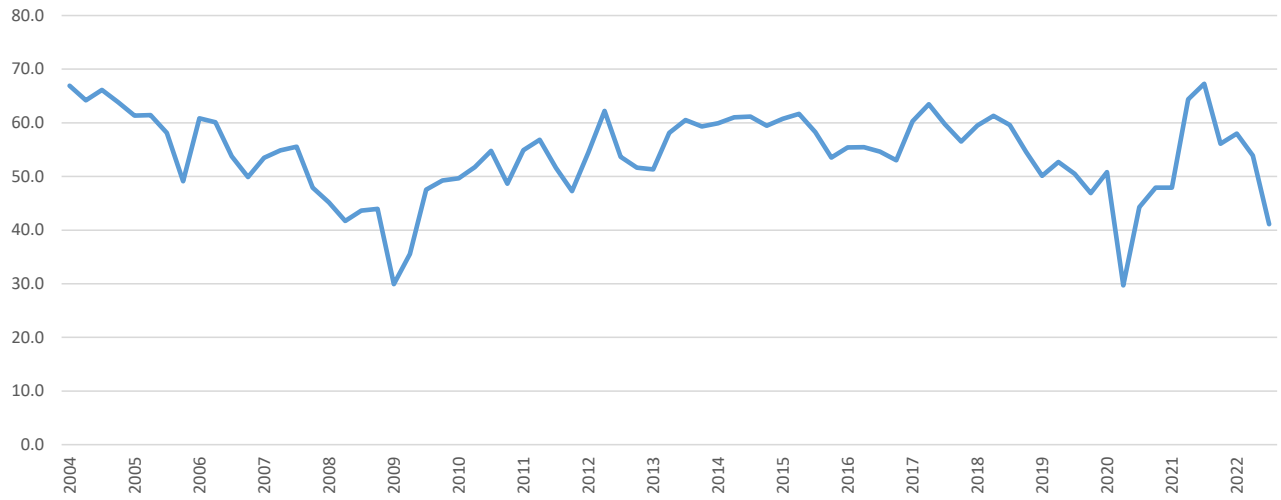


Figure 5:
Number of Unemployed Montrose County

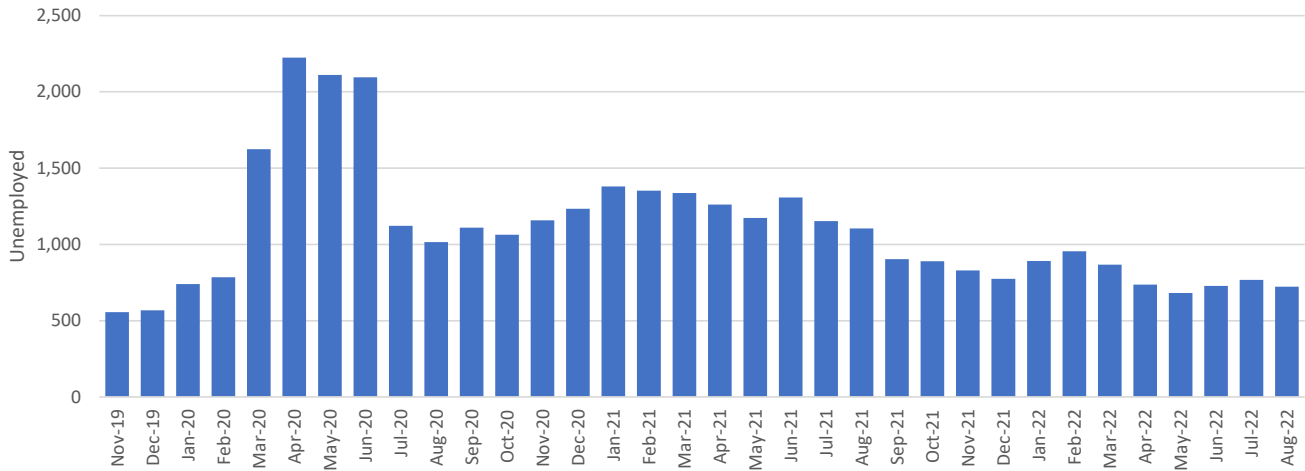


Figure 6:
Total Full and Part Time Jobs (BEA)

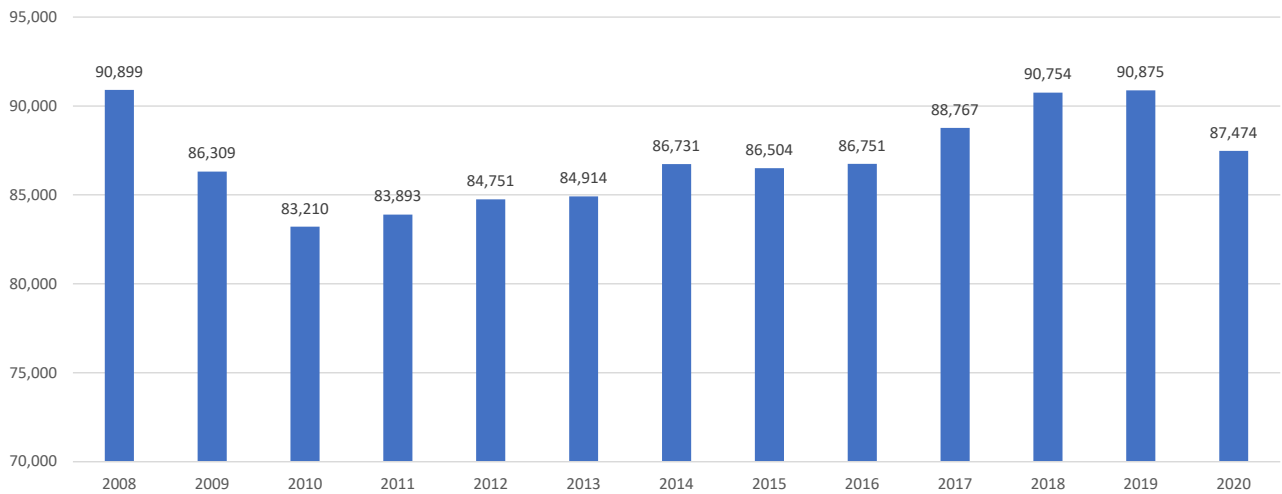


Figure 7:
Montrose County Median Household Income

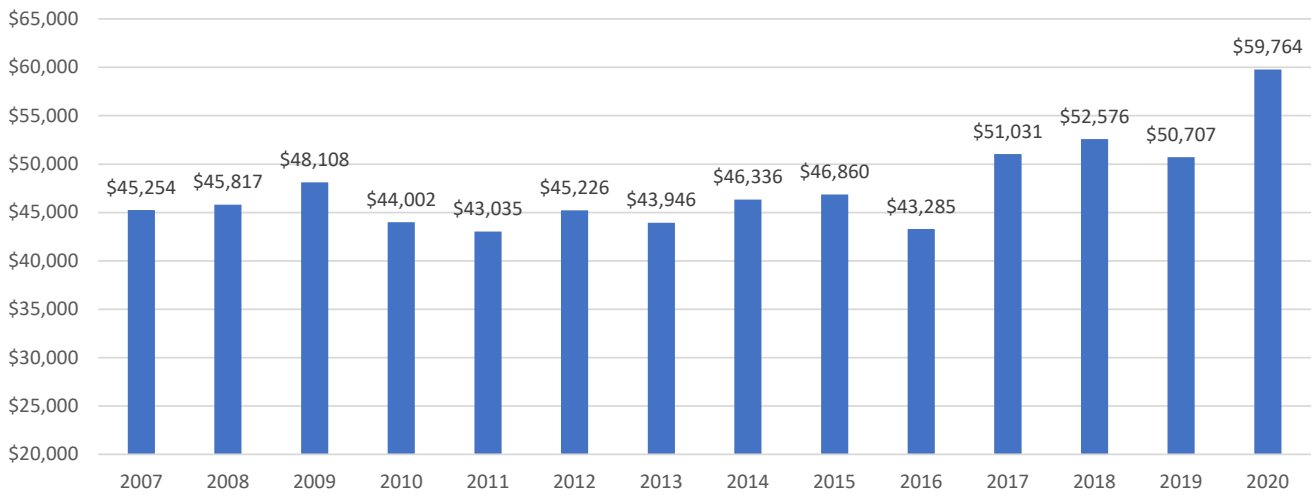


Figure 8:
Montrose County Poverty Rate Estimate

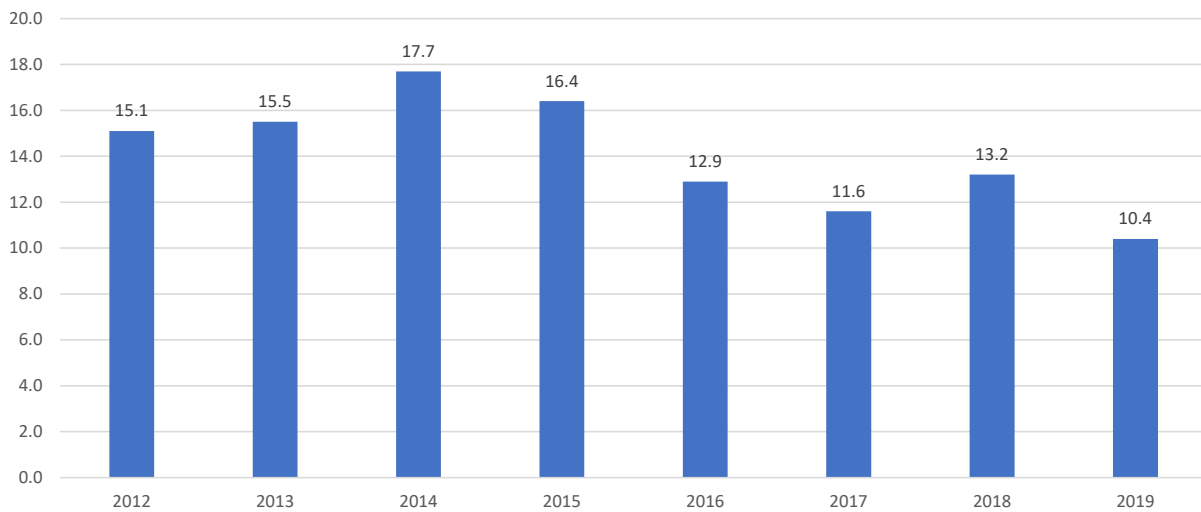
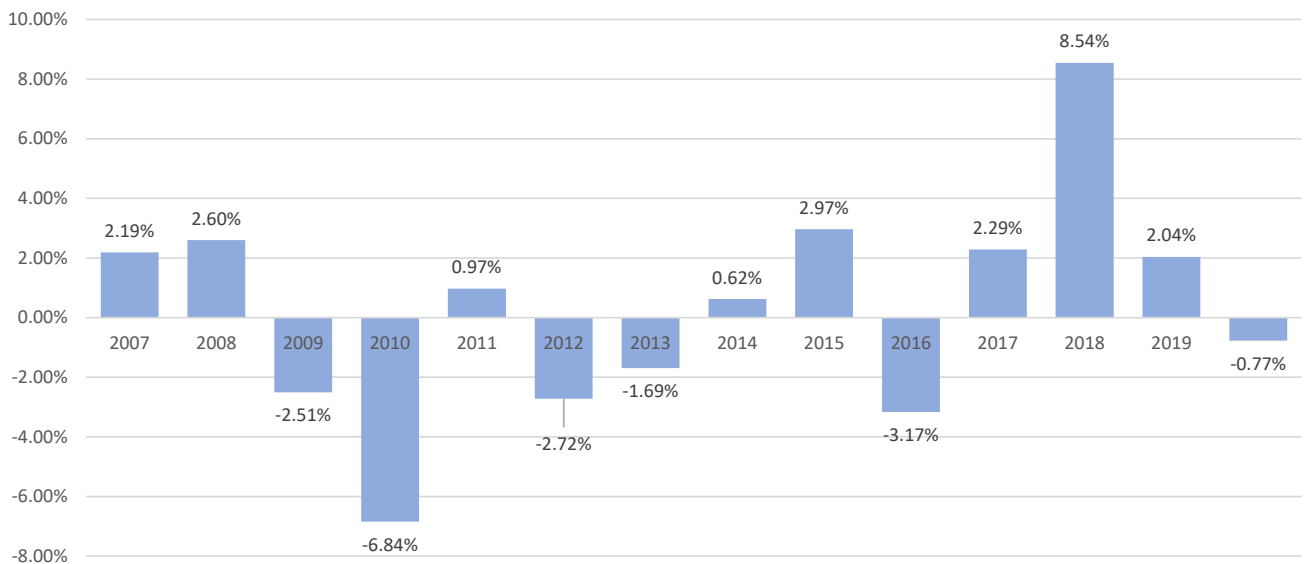


Figure 9:
Montrose County Real GDP (chained 2012 dollars)



Montrose County Employment Trends

Montrose Quarterly Census of Employment and Wages data shows big job and wage gains year over year. Top gains in jobs were in construction (170), transportation and warehousing (119), and accomodation and food services (86). Biggest losses were in agriculture, forestry, fishing and hunting (-30), as well as management of companies and enterprises (-23), neither which are large enough to be concerned about. Montrose job recovery from the 2020 recession has been strong, with only manufacturing not having fully recovered. Administrative and waste services fell the last two quarters but had recovered before that.

Table 3:
Quarterly Census of Employment and Wages (QCEW) Q1 2022 Compared to Q1 2021

Sector	Average Employment	Total Quarterly Wages	Average Weekly Wage	Total Employment Change	Total Wage Change
Total, All Industries	15,615	\$178,766,183	\$881	621	\$19,786,346
Health Care and Social Assistance	2,925	\$35,381,282	\$930	1	\$2,951,908
Retail Trade	2,423	\$23,840,312	\$757	78	\$3,684,843
Construction	1,479	\$18,097,334	\$941	170	\$3,016,354
Public Administration	1,046	\$16,793,618	\$1,235	14	\$889,920
Manufacturing	1076	\$13,135,002	\$939	60	\$1,968,664
Transportation and Warehousing	823	\$8,420,519	\$787	119	\$1,880,657
Accommodation and Food Services	1,492	\$8,206,622	\$423	86	\$1,106,163
Wholesale Trade	400	\$7,224,834	\$1,389	13	\$1,615,493
Professional and Technical Services	490	\$7,197,881	\$1,130	40	\$1,140,609
Finance and Insurance	308	\$5,362,554	\$1,339	12	\$656,206
Administrative and Waste Services	449	\$4,573,939	\$784	-9	\$807,767
Utilities	229	\$4,530,846	\$1,522	-16	-\$122,209
Other Services, Ex. Public Admin	383	\$4,228,527	\$849	-6	\$82,563
Real Estate and Rental and Leasing	336	\$3,842,223	\$880	-16	-\$43,960
Arts, Entertainment, and Recreation	308	\$1,998,307	\$499	70	\$274,166
Information	163	\$1,953,062	\$922	3	-\$224,033
Agriculture, Forestry, Fishing & Hunting	198	\$1,761,577	\$684	-30	-\$190,996
Management of Companies and Enterprises	77	\$1,701,303	\$1,700	-23	-\$380,247
Mining	23	\$447,238	\$1,496	-2	-\$8,931

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	2020	2019	2018	2017	% change from 2019
Farm Employment	1,131	1,128	1,134	1,133	0.26%
Sole Proprietors (non-farm)	6,510	6,621	6,939	6,734	-1.60%

Figure 10:
Montrose Industry Job Recovery, Q4 2019 compared to Q1 2022

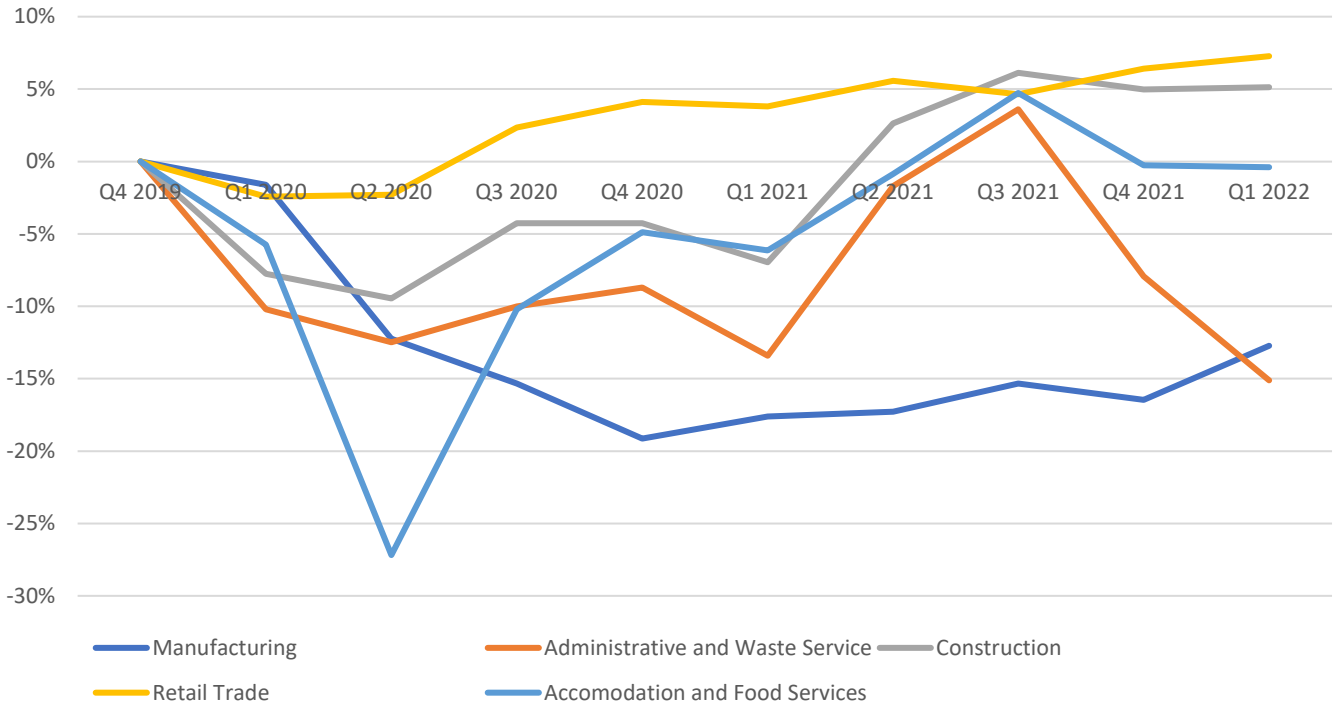
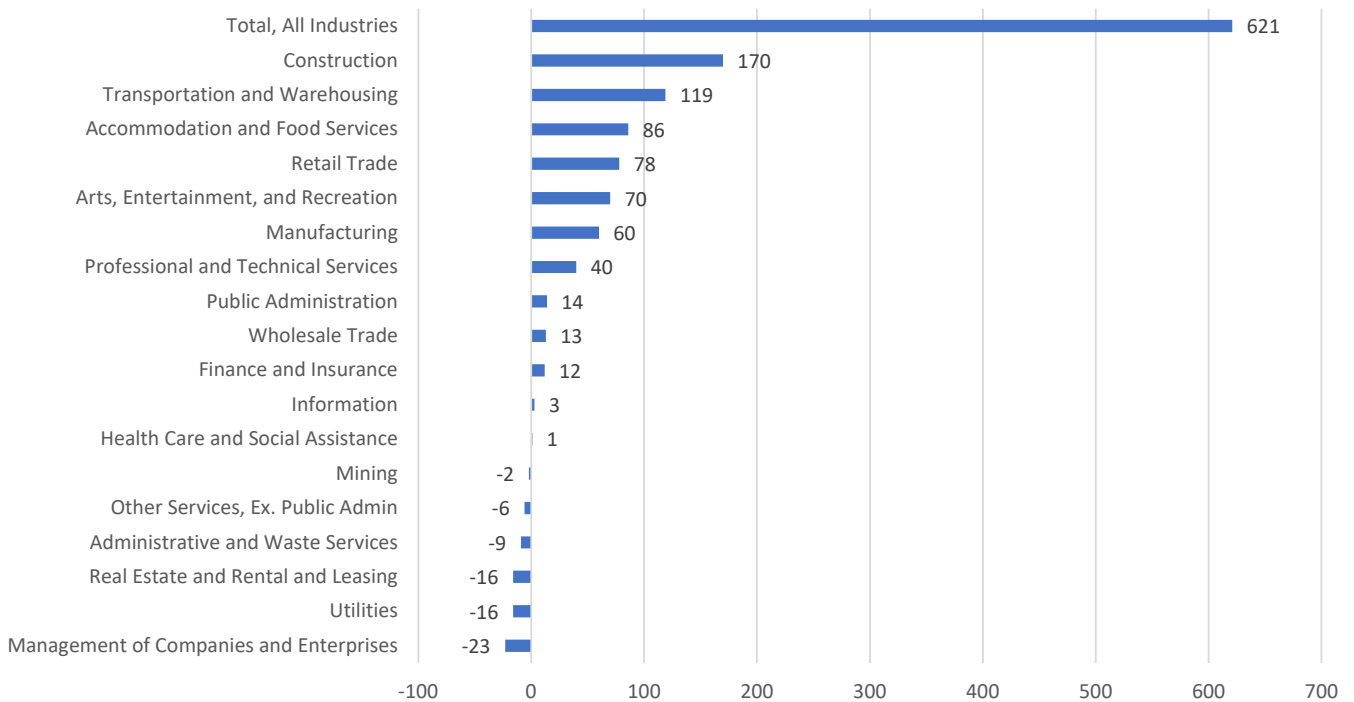


Figure 11:
Total Jobs Change from Q4 2020 to Q4 2021



LOCAL REAL ESTATE

	Q2 2022	Q2 2021	% change since last year
Real Estate			
Inventory of Homes for Sale (3 month avg)	109	92	18.91%
New Residential Listings (3 month total)	273	261	4.60%
Sold Residential Listings (3 month total)	202	230	-12.17%
Median Sales Price	\$416,149	\$391,483	6.30%
Average Sales Price	\$475,618	\$426,570	11.50%
Days on Market	65.67	85.67	-23.35%
Months Supply of Inventory	1.53	1.33	15.00%
Total Building Permits	628	621	1.13%
Total Building Permit Valuation	\$114,045,867	\$96,874,846	17.72%
Single Family Home Permits	240	280	-14.29%
Single Family Home Permit Valuation	\$35,578,219	\$47,070,921	-24.42%
Foreclosures			
Foreclosure Filings (YTD)	31	7	342.86%
Foreclosure Sales (YTD)	2	4	-50.00%
Mortgage Rates			
30 Year Mortgage Rate	4.56%	2.15%	2.41%
15 year Mortgage Rate	5.22%	2.84%	2.38%

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 another quarter of increase in sale prices. The median sales price increased by 6.3% compared to the same quarter last year. Mesa County is showing signs of a price increase pause, with prices falling July and August, but Montrose does not show the same two months, falling slightly in July at -0.2% and August rising 0.1%. Although the last two months do not show slowing like Mesa County, Montrose's year over year comparison is showing more slowing than Mesa, indicating that Montrose price appreciation may have already hit the pause button. Other data points are showing signs of slowing, including months supply of inventory which sits at 2.6 in August (figure 12). This measure needs to be closer to 5 to 6 months supply of inventory before home prices really start falling, but months supply of inventory has been on an upward trajectory since January, following interest rates. Current active listings are rising, and the percentage of list price received is falling (now at 98.7%, down from over 100% last year). Days on market keeps falling, which contradicts a few of the other datapoints. As of September 20th, mortgage rates had reached over 6% from the lows of 2.75% less than a year ago (figure 14). This has increased monthly payments of new purchases upwards of 50%.

Foreclosures have started rising, rising from 7 to 31 comparing 2021 through August with 2022 through August (figure 13). When looking at figure 13, the historical comparison shows that these foreclosure numbers are still really low. During the 2020-2021 COVID-19 period there were mortgage forbearance programs. Many of these programs ended in the fall of 2021. If a person/family is still struggling when the program ends they don't foreclose immediately, it's usually a 3-4 month process, which puts a spike right in February and March when we see it. Since March they have fallen back to "normal" levels. The 2020-2021 low foreclosure numbers were not normal, and were low in part due to mortgage forbearance programs. There is a similar trend nationally, and is not just a local issue. As the economy and labor market slow with the current and looming economic slowdown we will likely have an increase in foreclosures locally and nationally. At this point there is nothing to suggest it will be bad, but that depends on the depth of the economic downturn. If it's mild like most economists are predicting then don't expect foreclosures to spike, maybe just trend slightly higher.

Figure 12:
Months Supply of Inventory

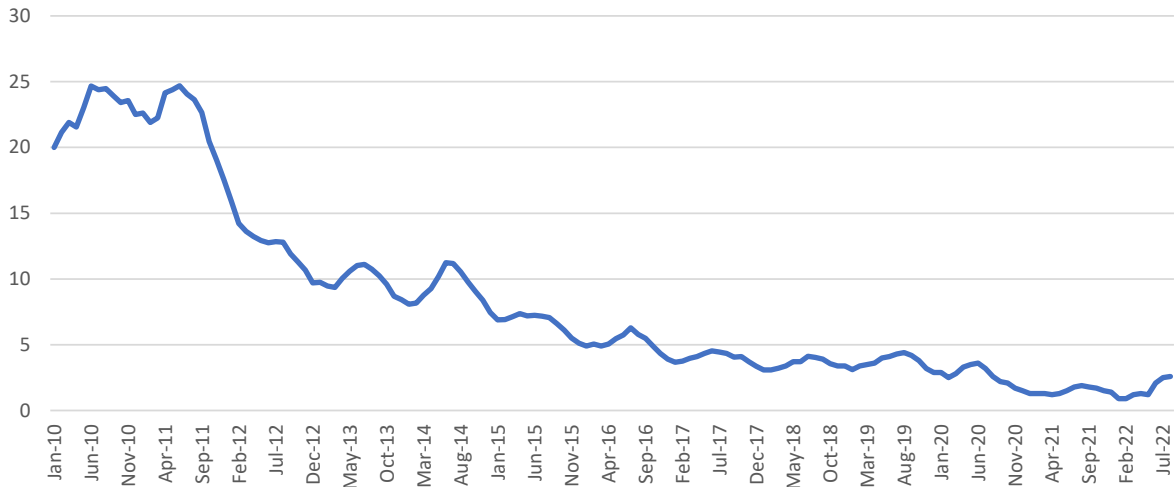


Figure 13:
Foreclosures

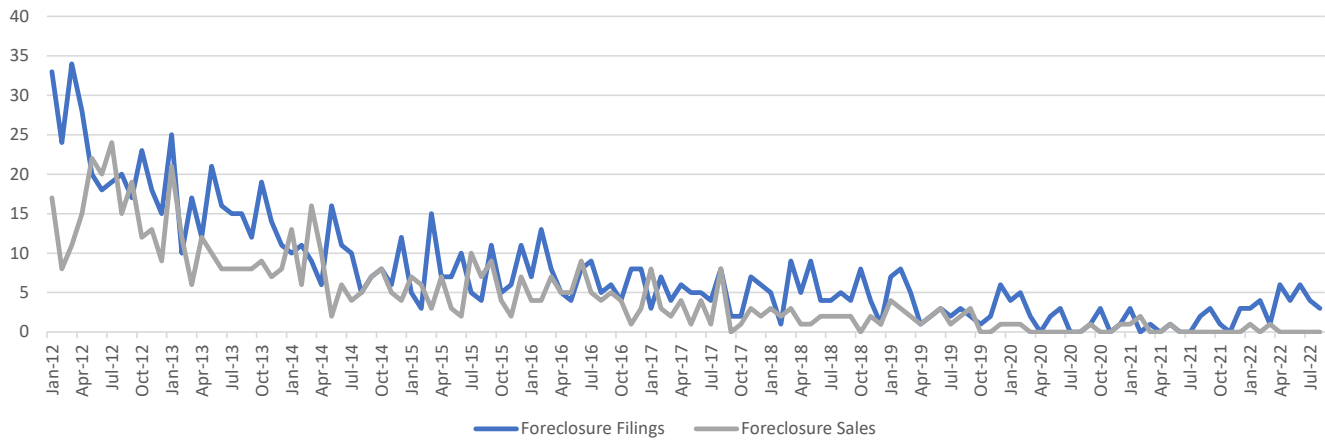
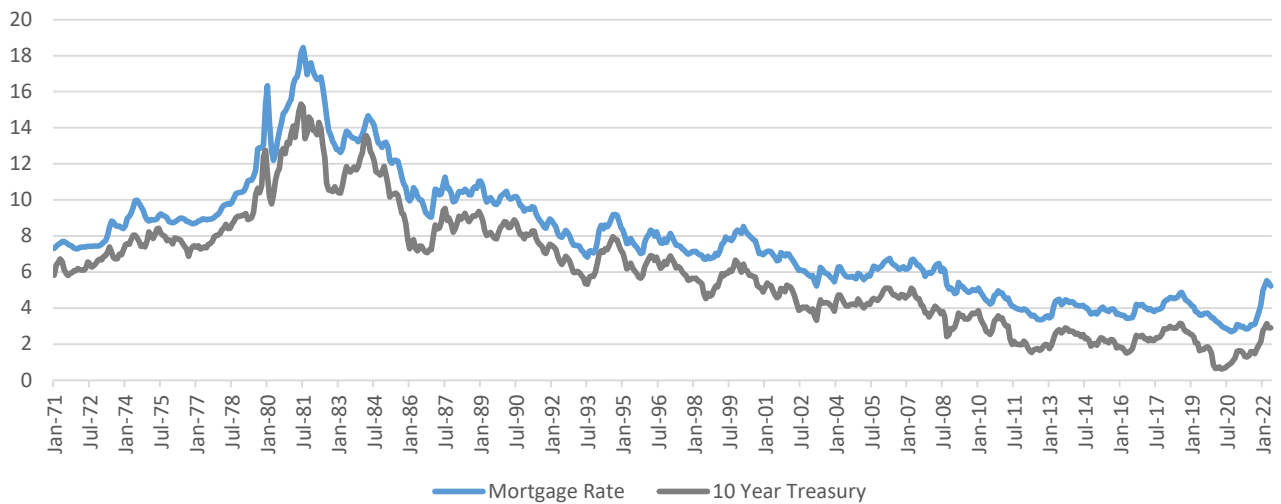


Figure 14:
10 Year Treasury and 30 Year Mortgage Rates (through Aug 2022)



REGIONAL ENERGY

	Q2 2022	Q1 2022	Q2 2021	% change since last quarter	% change since last year (comparable quarters)
Energy Prices					
WTI Crude Oil	\$108.83	\$95.18	\$66.19	14.34%	64.42%
Henry Hub Natural gas	\$7.48	\$4.66	\$2.94	60.52%	154.42%
Retail Gasoline Price	\$4.33	\$3.56	\$2.87	21.86%	50.78%
Drilling Permits					
	2022 (YTD)	2021	2020		
Drilling Permits (Mesa County)	0	0	1		
Drilling Permits (Rio Blanco County)	1	40	33		
Drilling Permits (Garfield County)	51	133	127		
Drilling Permits (Moffat County)	3	4	1		
Total Permits (Mesa, Rio Blanco, Garfield, Moffat)	55	177	162		
Total Permits (Colorado)	285	805	1,543		
Local Rig Count					
	Aug-22	Jun-22	Jan-22		
Rig Count (Western Colorado, Mesa, Rio Blanco, Garfield, Moffat)	4	3	2		

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 15:
Oil and Natural Gas Prices

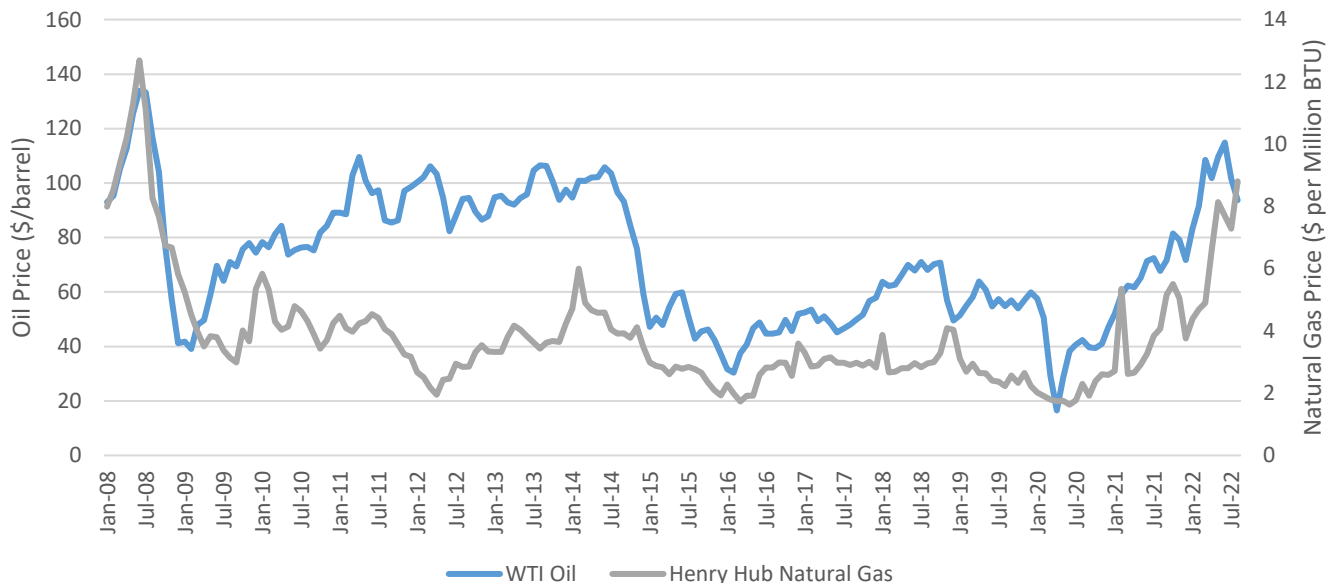


Figure 16:
Oil/Gas Drilling Permits and Oil/Gas Jobs

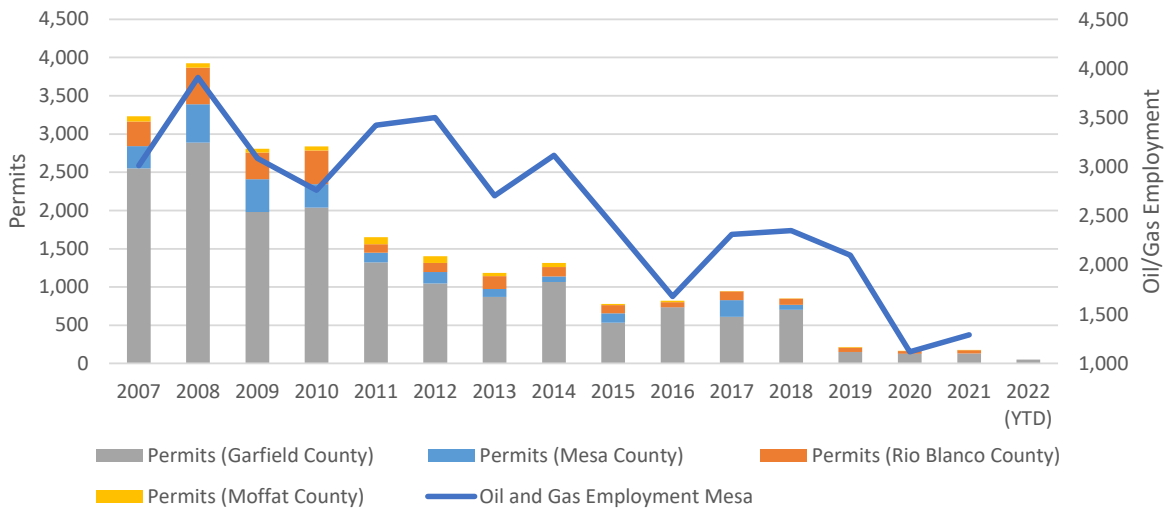
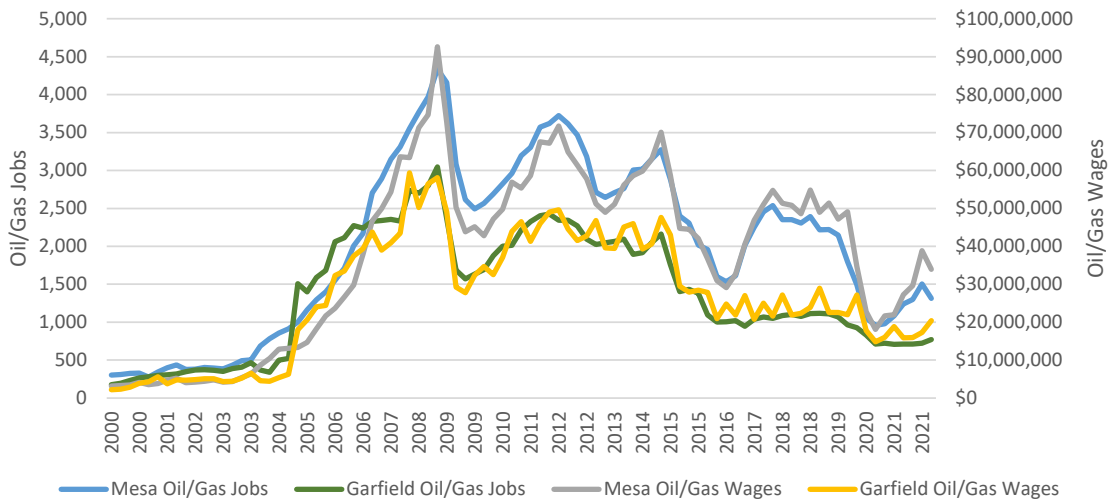


Figure 17:
Oil and Gasoline Prices



Western Slope Energy

West Texas Intermediate crude oil prices averaged \$108.83 in the second quarter of 2022, falling to \$88 by mid September. Gasoline followed oil and rose to \$5.00, peaking on June 13th, falling to \$3.65 a gallon by mid-September. Natural gas prices rose from \$2.94 in Q2 2021 to 7.48 in Q2 2022, rising to a peak of \$9.85 on August 22nd. Despite high natural gas prices, the Piceance rig count remains at 4, with 3 natural gas rigs, and an oil rig. This high of price of natural gas has not been seen since 2008 when rig counts were exponentially higher in the region. Even as recently as 2017 when natural gas prices ranged between \$3.00 and \$4.50 rig counts that year ranged between 8 and 9. There are several potential reasons for the slow move upwards in rig count, including lack of labor force to deploy the rigs, permitting delays, the loss of major capital deployments to other basins during the 2020 oil and gas downturn, industry interpretation of H.B. 181, and other potential explanations. With oil and gas prices expected to sustain their price increases, it would be surprising if the Piceance did not participate in the oil and gas surge. Data on oil and gas permits is as of April, as the COGCC has not responded to my requests for data.

NATIONAL ECONOMIC INDICATORS

	Q2 2022	Q1 2022	Q2 2021	% change since last period	% change since last year (comparable quarters)
Business Cycle Indicators					
Real GDP	-0.90%	-1.60%	6.70%	0.70%	-7.60%
Personal Consumption Expenditures	1.00%	1.80%	12.00%	-0.80%	-11.00%
Gross Private Domestic Investment	-13.50%	5.00%	-3.90%	-18.50%	-9.60%
National Consumer Confidence	57.9	63.1	85.6	-8.24%	-32.36%
Industrial Production Index	104.2	102.9	99.7	1.32%	4.60%
Initial Weekly Unemployment Claims (4 week MA)	198,846	207,673	518,365	-4.25%	-61.64%
Non Farm Payroll Change (in thousands)	1,261,333	1,720,333	1,452,667	-26.68%	-13.17%
Unemployment					
Unemployment Rate-U3-SA	3.60%	3.80%	5.90%	-0.20%	-2.30%
Unemployment Rate-U6-SA	6.90%	7.10%	10.10%	-0.20%	-3.20%
Interest Rates					
Federal Funds Rate	0.75%	0.12%	0.07%	0.63%	0.68%
10 Year U.S. Treasury	2.93%	1.94%	1.59%	0.99%	1.34%
30 Year U.S. Treasury	3.04%	2.26%	2.26%	0.78%	0.78%
Inflation Measures					
Inflation Rate (CPI)	8.58%	8.00%	4.81%	0.58%	3.77%
Core Inflation Rate (All Items Less Food and Energy)	6.02%	6.30%	3.74%	-0.28%	2.28%
Inflation Rate (Shelter)	5.40%	4.71%	2.29%	0.69%	3.11%
Producer Price Index (PPI)	21.96%	20.42%	18.82%	1.54%	3.13%
Employment Cost Index	5.04%	4.45%	2.91%	0.59%	2.13%
Stock Prices					
S&P 500	4,106	4,464	4,184	-8.02%	-1.86%
Dow Jones Industrial Average	32,688	34,679	34,121	-5.74%	-4.20%
Trade Balance and Debt					
Trade Balance (% of GDP)	-1078.339	-1177.904	-881.689	-8.45%	22.30%
Federal Debt (% of GDP)*	124.7%	123.4%	127.7%	1.3%	-3.0%

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.

Figure 18:
Real GDP for U.S.

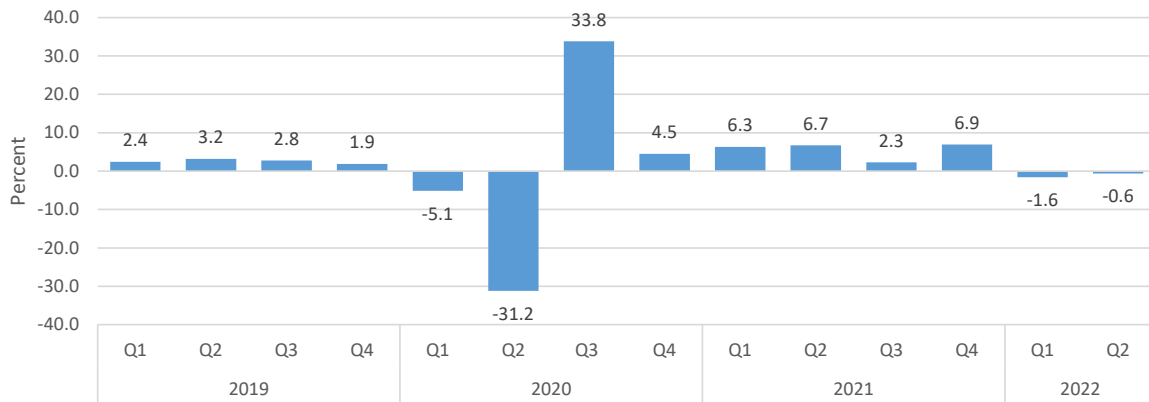
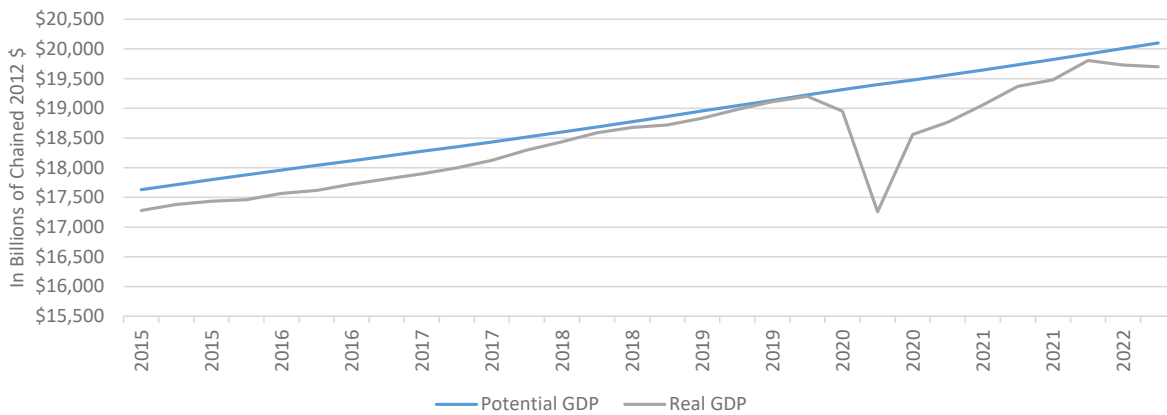


Figure 19:
GDP Gap



Economic Growth

U.S. GDP came in negative for a second straight quarter at -0.6% (figure 18). There have been debates about whether the U.S. is in a recession or not after two negative quarters of GDP. The National Bureau of Economic Research (NBER) makes this decision after looking at many different data points, not just GDP. Recession calls by NBER are usually made many months after the recession began, as economic data lags. There are some data points showing the economy is softening, but as of summer 2022, the labor market is so strong it would be difficult to say the U.S. is in recession yet. It is possible as the economy turns this fall and that in late 2022 or early 2023 the NBER backdates a recession to sometime in summer 2022. Due to the lagging nature of economic data we won't know for several more months.

Inflation Watch

Headline inflation printed at 8.3%, which was higher than many economists were expecting (figure 20). Energy fell in August as expected, but food and shelter rose keeping inflation above 8%. The continued high inflation rate puts pressure on the Federal Reserve to keep raising interest rates.

The Federal Reserve continues to ramp up the Federal Funds rate, with a current target range of 2.25-2.50%. Markets are trying to determine how high the Fed is willing to go to fight inflation, with current market odds at a terminal rate of 4.5%.

The Core CPI, which omits food and energy and is an important measure for the Federal Reserve, rose to 6.3%. Core CPI is important because the Fed does not have as much influence over food and energy prices.

Comparing different regional measures of the CPI shows that the national CPI, the "West" CPI, and the Denver, Aurora, Lakewood CPI all show inflation around the same rate of 8.1-8.3% (figure 22). The Mountain CPI, however, shows significantly higher inflation at 9.6%. The Mountain region includes Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, and Wyoming, while the West region includes the Mountain region and the Pacific states.

The yield curve continues to invert, signaling recession in the coming months (figure 24). The 10 year minus the 2 year treasury has been negative since early July and has been highly predictive of recession 9 months later.

Figure 20:
CPI (Inflation) Release from the Bureau of Labor Statistics (reproduced from BLS.gov)

Table A. Percent changes in CPI for All Urban Consumers (CPI-U): U.S. city average

	Seasonally adjusted changes from preceding month							Un-adjusted 12-mos. ended Aug. 2022
	Feb. 2022	Mar. 2022	Apr. 2022	May 2022	Jun. 2022	Jul. 2022	Aug. 2022	
All items.....	0.8	1.2	0.3	1.0	1.3	0.0	0.1	8.3
Food.....	1.0	1.0	0.9	1.2	1.0	1.1	0.8	11.4
Food at home.....	1.4	1.5	1.0	1.4	1.0	1.3	0.7	13.5
Food away from home ¹	0.4	0.3	0.6	0.7	0.9	0.7	0.9	8.0
Energy.....	3.5	11.0	-2.7	3.9	7.5	-4.6	-5.0	23.8
Energy commodities.....	6.7	18.1	-5.4	4.5	10.4	-7.6	-10.1	27.1
Gasoline (all types).....	6.6	18.3	-6.1	4.1	11.2	-7.7	-10.6	25.6
Fuel oil ¹	7.7	22.3	2.7	16.9	-1.2	-11.0	-5.9	68.8
Energy services.....	-0.4	1.8	1.3	3.0	3.5	0.1	2.1	19.8
Electricity.....	-1.1	2.2	0.7	1.3	1.7	1.6	1.5	15.8
Utility (piped) gas service.....	1.5	0.6	3.1	8.0	8.2	-3.6	3.5	33.0
All items less food and energy.....	0.5	0.3	0.6	0.6	0.7	0.3	0.6	6.3
Commodities less food and energy commodities.....	0.4	-0.4	0.2	0.7	0.8	0.2	0.5	7.1
New vehicles.....	0.3	0.2	1.1	1.0	0.7	0.6	0.8	10.1
Used cars and trucks.....	-0.2	-3.8	-0.4	1.8	1.6	-0.4	-0.1	7.8
Apparel.....	0.7	0.6	-0.8	0.7	0.8	-0.1	0.2	5.1
Medical care commodities ¹	0.3	0.2	0.1	0.3	0.4	0.6	0.2	4.1
Services less energy services.....	0.5	0.6	0.7	0.6	0.7	0.4	0.6	6.1
Shelter.....	0.5	0.5	0.5	0.6	0.6	0.5	0.7	6.2
Transportation services.....	1.4	2.0	3.1	1.3	2.1	-0.5	0.5	11.3
Medical care services.....	0.1	0.6	0.5	0.4	0.7	0.4	0.8	5.6

¹ Not seasonally adjusted.

Figure 21:
Inflation Rate

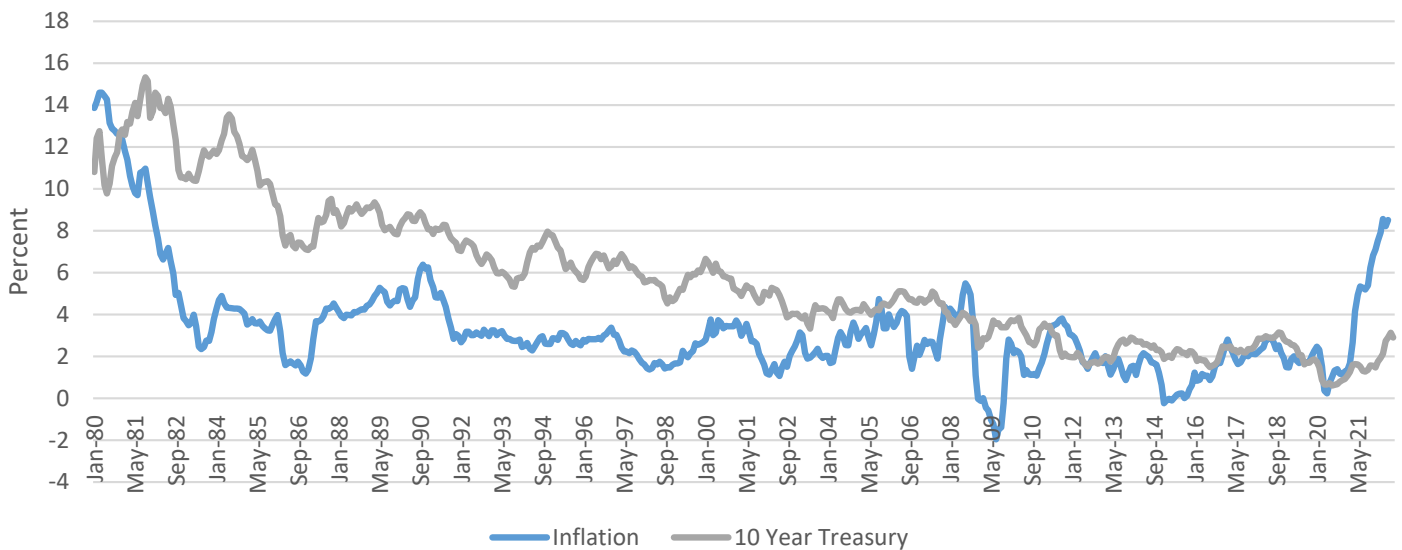


Figure 22:
Regional CPI Comparison

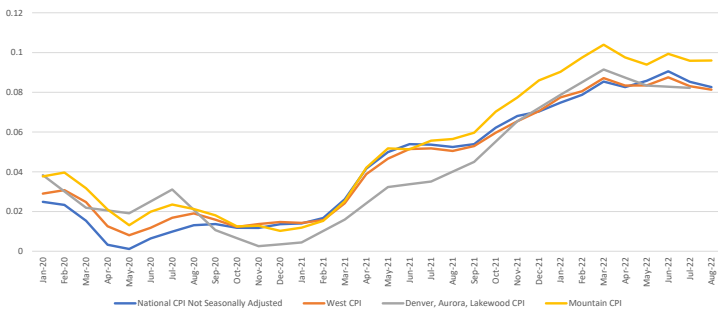


Figure 23:
Employment Cost Index



Figure 24:
Yield Curve: 10 Year Treasury minus 2 year Treasury



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