May, 2016, No 1 (3)

Four Corners Economic Quarterly

Fort Lewis College: Office of Business and Economic Research

New Format

This edition of the Four Corners Economic Quarterly kicks-off a new format. The Quarterly has experimented with a variety of formats and has come up with one that works, both for the editor and the overall "look".

Overview

This month we begin with **Greg Schulte***, City Manager of Pagosa Springs discussing recent economic activity in Pagosa Springs and the impacts on tax revenues. Next, we analyze the impacts of the Great Recession on the Four Corners area. We consider labor markets, income, and, briefly, transfer payments.*

The Summer of Pagosa

by Greg Schulte

It was the weekend of the Passport to Pagosa Food Festival this September and as I was driving through the downtown, I thought to myself: "Man, it seems busy in town these days."

Talking with some other local folks in town, they too thought it seemed a lot busier than normal. Of course, these were only perceptions of individual people, but in the back of my mind I was thinking it would be interesting to see the actual sales and lodger's tax data for validation. The Town self collects lodgers tax so we would know that in October, but sales tax is 2 months in arrears since it come through the state.

Even before then the data so far was, well, quite impressive. Of course, we had a lot of things going on in Town and Summer 2015 far was nothing we had yet experienced.

Summer is peak season in Pagosa with July always being our best month. We do have good winter tourism with Wolf Creek that usually goes through the spring breaks from the various states surrounding us and usually last through March. April is totally dead. May is a little better, but the true summer season starts in June. September and October are usually pretty good with the fall leaf peepers and the hunters. November is really slow but, statistically speaking, December is our second best month.

> **Taxes**
>
> *"We are projecting to receive about $4.1 million. Last year we collected $3.5 million, so it's about 20% increase."*

2015 was a little different from a couple of standpoints:

Overall, 2015 will be the highest grossing year ever in both sales and lodgers tax. We are projecting to receive about $4.1 million in 2015. In 2014 we collected $3.5 million, so it's about 20%

increase. As a comparison, 5 years ago we collected $3.0 million and 10 years ago we received $2.9 million, or a 41% increase from 10 years ago compared to now.

Something that I found to be interesting was the comparison between sales tax revenue in July 2015 and September 2015. As noted earlier, July is always our best month in sales tax revenue. December is consistently the 2nd best month for sales tax collections. September is usually right about the same as August and June. Not so in 2015. This year our total collections for July were $459,000. September collections were $455,000, or only 0.008% difference. June and August were both around $410,000. This was the first time that our September was essentially the same as our July. 2. Lodgers tax has also been on an upward trajectory. This year we are estimating to receive a total of $520,000 in lodgers tax. In 2014 we collected $509,000 and that compares to $384,000 collected in 2010 (5 years ago) and $333,000 in 2007 for a 56% increase from 2007 to 2015.

In mid–2014 the Town took over ownership and operational control of the Visitor Center and shortly thereafter installed electronic door counters. For peak month of July 2015 we had over 16,000 visitors. If you total the peak summer months of June, July, August, and September, we had a total of 50,877 visitors to the Center.

So – for those that are familiar with Pagosa, you might be tempted to say: "Well, of course it's going to be better – your Wal-Mart opened!" And that would be true, but does not explain everything.

> *We did some good press in 2015 as we were voted the #9 in Outside Magazine's "Best Places To Live in America."*

Our Wal-Mart opened in May 2015 and according to all sources it's been doing quite well and has exceeded the expectations of the Wal-Mart management. Due to state sales tax confidentiality rules, we can't get exact numbers, but it certainly has been quite the boon. Anecdotally, we know our Wal-Mart is drawing from northern New Mexico, including the Jicarillla Apache Reservation, as well as folks from over the pass in South Fork and Del Norte

As noted above, the Wal-Mart alone can't explain the volume of folks in town and the increase in the sales and lodgers tax. There's more to it and sometimes it manifests itself in small but, I'd argue, in telling ways. For example:

Aside from the new Wal-Mart, our local City Market underwent a $3.0 million renovation that included a Starbucks outlet. In addition, we had an independent grocer locate a full service grocery store in a vacant 13,000 square foot space in the downtown core. We went from 1 grocery store to 3 in one year. Also, we've had 2 new microbreweries open in the last 2 years. Like groceries, we went from 1 microbrewery to 3 in the space of two years.

Oh, and we now have a sushi restaurant. For some folks (myself included) that's real progress!

The past summer was very interesting because it seemed like Pagosa was being "discovered" on some level. We did some good press in 2015 as we were voted the #9 in *Outside Magazine*'s "Best Places To Live in America." In addition, Pagosa Springs ranked #4 in "Amazing Race" Host Phil Keoghan's Top 10 Destinations. I also think that Pagosa is being noticed for its availability of activities and amenities and still is affordable compared to other mountain communities.We look forward to 2016!

Greg Schulte has been town manager for Pagosa Springs since September, 2014. He can be contacted at (970) 264-4151 ext 236 or `gschulte@pagosasprings.co.gov`

The Aftermath of the Great Recession in Region 9

by Robert Sonora

The official dates of the Great Recession, according to the National Bureau of Economic Research's (NBER) business cycle data committee, are January, 2008 – June, 2009. These dates are reasonably close to the peak-to-trough cycle of real GDP growth over the same period.

In this article we compare the impacts of the Great Recession on the Four Corners area, concentrating on Archuleta, La Plata, and Montezuma counties in Colorado, and San Juan county, New Mexico. Because Dolores and San Juan counties are so small, there is a lot of noise in the data so we will not consider these counties in our discussion.

Labor Market

We begin our discussion by looking at the labor market. The Four Corners area has undergone a substantial change in the structure of its economy over the past few decades. While there are still ties to mineral extraction, particularly in San Juan, NM, agriculture, and government, other sectors have become stronger, such as services, real estate, food and beverage production, tourism, medical services, and education. This has made the area more resilient to macroeconomic shocks. We will look at the three most recent recessions, as county area labor market data was not available before 1990. The three recessions are the 1990 recession, 1990.08 – 1991.03 (year.month), the 2001 recession, 2001.04 – 2001.11, and the Great Recession, 2008.01 – 2009.06. The number of official recession months, are determined by the National Bureau of Economic Research (NBER, www.nber.org), are shaded gray in the following graphs.

Labor Force

First, we need a definition. The Bureau of Labor Statistics (BLS) defines the labor force as the number of people employed plus the number of unemployed, but searching for work, $LF_t = E_t + U_t$. From this definition, we get the unemployment rate, defined as the ratio of unemployed to the labor force, $u_t = U_t/LF_t$.[1]

The graphs show the seasonally adjusted labor force as the ratio of what it is at any point in time to level of the labor force at the beginning of the recession, i.e. LF_t/LF_0, where t is the point in time and 0 is the first month of the recession. Figures 1 and 2 show the 1990 and 2001 recessions. What is most striking about these figures is much the national recession did *not* have an impact on the labor force in the Four Corners. During the 1990 recession, Figure 1, all the counties, except Archuleta, saw their labor force grow throughout, and after, the recession.

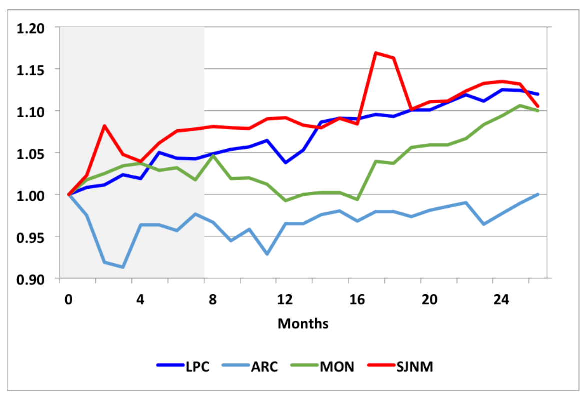

Figure 1. Labor Force: 1990 Recession

It took Archuleta about 28 months to return to its pre-recession labor force. As we will see below, the 1990 recession hit unemployment in Archuleta the hardest and it took some time for the unemployed, but looking for work, to find

[1] Those not employed nor searching are called *discouraged workers* and are *not* members of the labor force. The BLS calculates six different unemployment rates, called the U1, U2, . . . , U6 rates, the headline rate is the U3 rate. U4, U5, and U6 rates all include discouraged workers. Currently, the U4 rate, the U3 rate plus discouraged workers, is 5.3% compared to 5.0% for the headline rate. U6, what some refer to as the "true" unemployment rate, is currently 9.8%. Those interested can see www.bls.gov/news.release/empsit.t15.htm.

employment, almost five years, see Figure 7 below.

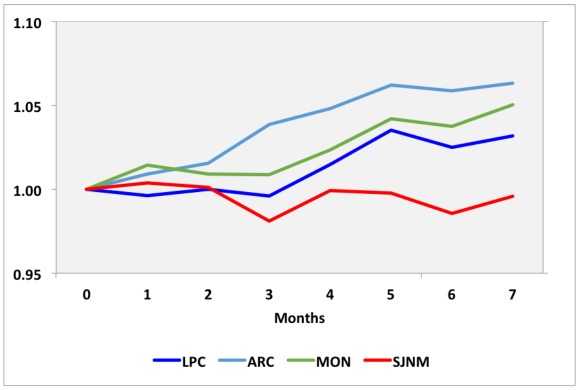

Figure 2. Labor Force: 2001 Recession

A similar story occurred during the 2001 recession, Figure 2. In fact, all three Colorado counties saw labor force growth throughout the entire official recession period. Only San Juan, NM experienced any decline in the labor force, but even this recovered with a half year or so. The Mission Ridge fire in June, 2002 is largely blamed for a prolonging the 2001 recession in La Plata, however, this does not appear to be borne out by the data here, and below. The labor force locally continued to expand during and after the fire as people may have, in the short run, been drawn to the region to fight the fire.Further labor would then have been required to repair the damaged area. Indeed, the labor force in La Plata grew, on average, about 3% in the five years after the fire.

The Great Recession tells a different story. While we do see a slight the labor force rise, in the 8 –12 month range, after words it went into a steady and pronounced decline – largely due to the fall in the real estate market. San Juan, NM did recover by the month 80, but then fell back into decline because of instability in oil and gas markets. As of this this writing none of the Colorado county labor forces have returned to their pre-recession levels, almost eight years later.

Mission Fire

The Mission Ridge fire in June, 2002 is largely blamed for a prolonging the 2001 recession in La Plata, however, this does not appear to be borne out by the data

Archuleta county spent about five years with a labor force about 85% of it pre-recession level, and while it has recovered sharply in the past year or so, still remains 5% below 2008 levels, though it did experience a sharp increase about 85 months after the beginning of the Great Recession.

I suspect that these changes experienced during the Great Recession are also due to demographic shifts as the boomer generation enters its' retirement years and workers close to their retirement years as well as an increase in discouraged worker, leaving the labor force – recall the definition above. This hypothesis is supported by other, less popular labor market statistics: the labor force participation rate, red line, the ratio of the labor force to overall population, and the employment-population ratio, blue, see Figure 4. As can be seen, both of these statistics have stagnated, though the employment-population ratio has been rebounding for a couple years. The labor force participation rate, on the other hand, has been declining since the beginning of the Great Recession.

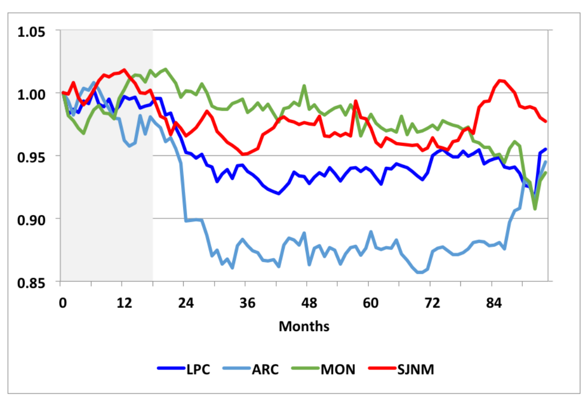

Figure 3. Labor Force: Great Recession

The impact of long run demographic change becomes particularly acute when we consider the number of retirees and other non-working residents moving into the area. Figure 5 shows the population growth rate for the four counties under consideration. High growth rates in the 1990s became negative during the Great Recession, which underscores some of the demographic changes underway.

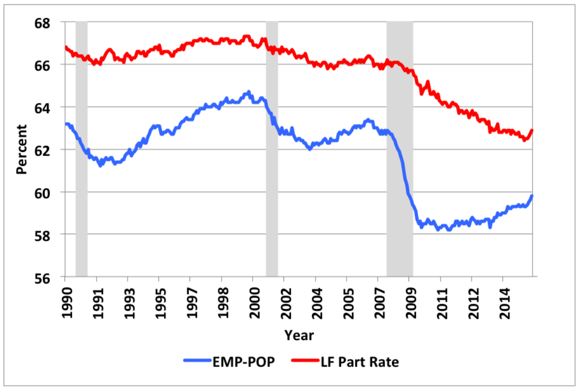

Figure 4. Labor Force Statistics

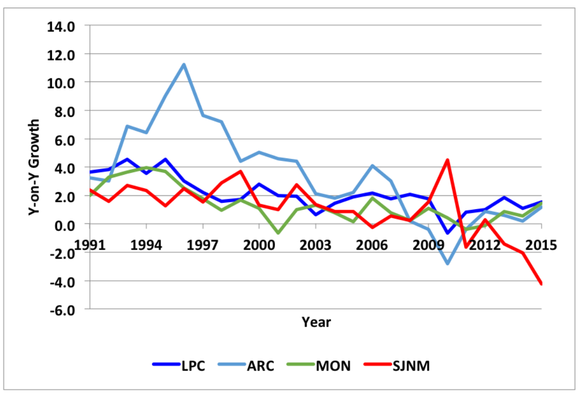

Figure 5. Four Corners Population Growth

Unemployment Rate

Now we turn our attention to the unemployment rate. Figures 6 – 8 are the difference between the monthly, seasonally adjusted, unemployment rate at any time during the recession minus the prevailing unemployment rate at the start of each recession, i.e. $u_t - u_0$, where t is the date, in months, and 0 is the first month of the recession. Again, the shaded areas are official US recession dates, in months. For each of the succeeding months, we will see unemployment rise above the prevailing rate before returning back to initial unemployment rate

In the 1990 recession, Figure 6, of the four counties being considered, only Archuleta require a region long four years to return to pre-recession levels. Also, at its peak after about two years after the beginning of the recession, the unemployment rate in Archuleta county was about 6% higher than it was during the first month of the recession. The other three counties had a much less, and shorter, pronounced increase in unemployment rates. For these counties, the 1990 recession was pretty benign, particularly in La Plata, which saw its unemployment rate rise only 1.5% above pre-recession levels.

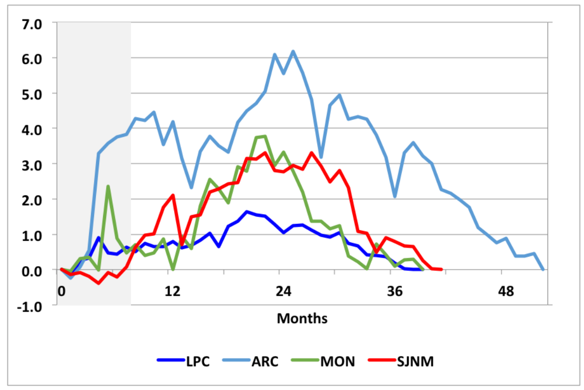

Figure 6. Unemployment: 1990 Recession

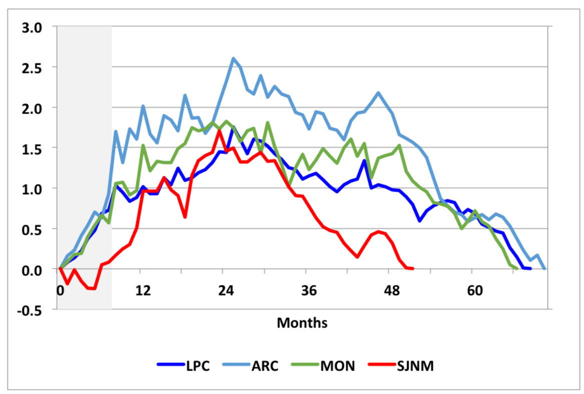

Figure 7. Unemployment: 2001 Recession

In 2001, in Figure 7, the three Colorado counties required about 5.5 years to return to pre-recession levels. In La Plata, unemployment began to fall about the time of the Mission fire. San Juan was quick to recover, about 4.5 years. This is likely due to the rise in oil and gas prices as a residual impact of rising uncertainty in commodity markets because of unrest in the Middle East, Iraq and Afghanistan in particular. Moreover, most counties' unemployment did not rise too far above where it was prior to the recession.

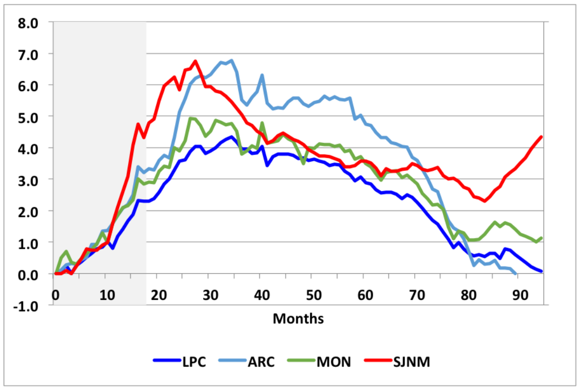

Figure 8. Unemployment: Great Recession

Turning our attention to the Great Recession, Figure 8, we see that the unemployment rate took roughly 7.5 years, at a minimum, to return to its pre-recession level, about twice as long as in the 1990 recession and 30% longer than the 2001 recession. Indeed, in Figure 3, for San Juan, NM and Archuleta, unemployment has not yet returned to its pre-recession levels. Though as more data becomes available, we should see Archuleta is almost fully recovered. We also see that throughout the Four Corners region, unemployment was considerably higher than in the months leading up to the recession: between a low of 4% difference in La Plata to a high of about 7% in San Juan, NM and Archuleta.

What is also striking is the upturn in unemployment for San Juan, NM. This is largely due to the declines in oil and natural gas prices over the past year or so. While it is true that there is a large amount of mineral extraction in La Plata, Archuleta, and Montezuma counties, the impact in San Juan, NM is larger as much of the extraction support industry is located there.

Generally, we see that "peak unemployment" occurs about 24 months after the beginning of a recession, which is standard for most US recessions. What made this recession so harmful was its' depth, breadth, and source. The most pernicious recessions historically, in the US and the rest of the world, are those associated with financial crises.

Income

I consider two forms of income in this discussion: Average annual per capita income (annual frequency) and average weekly earnings (quarterly) in the 2001 and Great recessions, as data is only available for both measures from 2000 on. The data is *not* adjusted for inflation. The first measures overall income per person in each county while the second considers wages per worker, which is slightly different. As we shall see, the Great Recession was relatively benign in the region, if you *had a job*. On the other hand, it was less so for the population as a whole. The opposite was true during the 2001 recession.

Let's first consider annual average income. As can be seen, per capita income, not adjusted for inflation, did not fall at all during the 2001 recession, Figure 9. On the contrary, for the three Colorado counties income grew during the three years following the recession, while in San Juan, NM, income remained constant before rising in the third year.

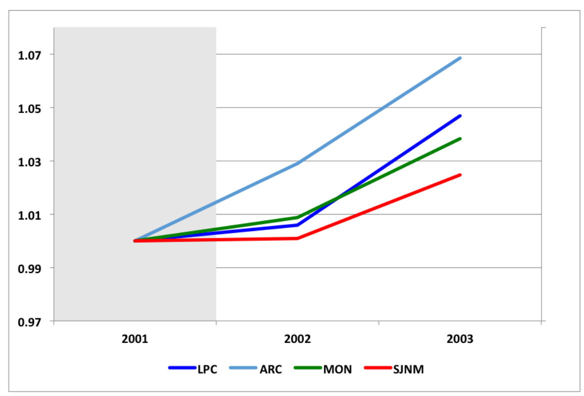

Figure 9. Annual Per Capita Income: 2001

Figure 10 shows the same data for the Great Recession. During this recession you can see that both La Plata and San Juan, NM required roughly three years to return to pre-Recession levels. While Archuleta and Montezuma experienced relatively little change and over the same period had grown about 5%.

Mission Fire

...the Great Recession was relatively benign in the region, if you had a job ...

If we turn our attention to weekly average wages we see a different story. In 2001, Figure 11, Both Archuleta and La Plata experienced a 3% downturn of weekly wages, but only in the first year after the recession. Both Montezuma and San Juan's wages rose in the months after the beginning of the recession. Differences arise from the experiences in the quarters after the recession. La Plata recovered strongly while Archuleta's income recovery petered out ending roughly at the same level it was in the first quarter of 2001. In San Juan, after initially having solid growth for a quarter or so, weekly income remained relatively unchanged for the next 18 – 20 months or so.

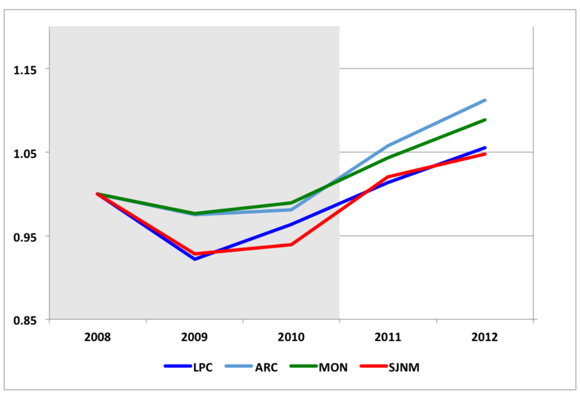

Figure 10. Annual Per Capita Income: 2007

Figure 12 displays average weekly income during the Great Recession. In sharp contrast to the 2001 recession, with the exception of Montezuma county, weekly incomes for all the counties rose throughout the period 2007 – 2011. Indeed, if we recall that inflation was negative throughout most of 2009, real incomes actually grew faster during this recovery. Couple this observation with persistently low inflation since the 2011, and real income growth is *relatively* robust.

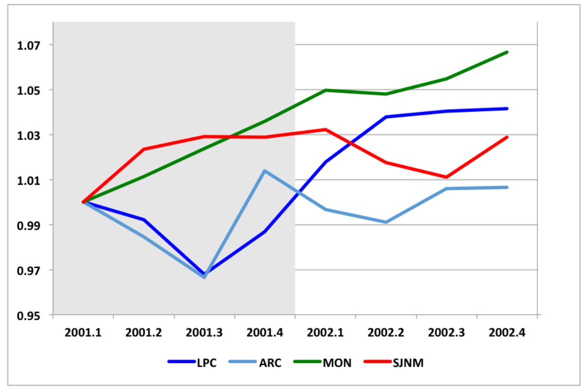

Figure 11. Average Weekly Income: 2001

So if we look at the post Great Recession period, while average annual *per capita* income did initially fall before rising and weekly wage *per worker*, we see a divergence which is, at first blush, potentially confounding. However, what this reflects that while average incomes did in fact fall, those who remained employed throughout the recessionary and post-recessionary periods did relatively well.

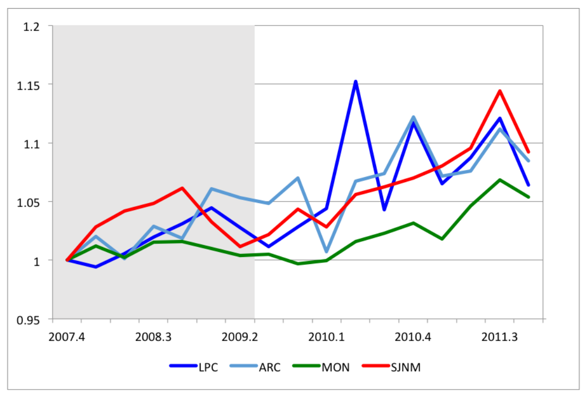

Figure 12. Average Weekly Income: 2007

Finally, Figure 13 shows the percentage of each county receiving Supplemental Nutrition Assistance Program (SNAP, aka food stamps) transfers, again the 2001 and Great Recession dates are shaded. As can be seen, the 2001 recession barely measures a "blip" in SNAP assistance, the sharpest increase is seen in Montezuma county. However, we can see considerable increases in food assistance during the 2007 recession, with San Juan, NM going from about 7.5% to over 20% between 2007 and 2011, both Archuleta and Montezuma counties saw their percentages double. Only La Plata escaped relatively unscathed, rising from about 4% to 7.3%

in 2011.

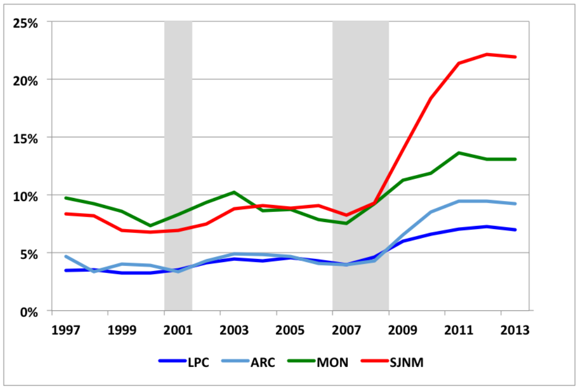

Figure 13. SNAP Percent Population: 1997 – 2013

For the available data, which is through 2013, all counties have leveled off and are likely falling since 2013. Data for 2015 in San Juan, NM will in all likelihood reflect falling oil and gas commodity prices which has negatively impacted their labor markets, as discussed above in Figure 8.

Summary

Nationally, there is little doubt that the Great *R*ecession was the deepest recession since the Great *D*epression of 1929 – 33. During the Great Recession, national real GDP fell to about 7.2% below potential GDP, equivalent to roughly $1.1 trillion. To put that into perspective, this is roughly equal to Mexican GDP, the fifteenth largest economy in the world.

However, the local economy remained relatively better off than the national average. While La Plata's unemployment rate remained consistently 2% below the national average, the other three county's unemployment was more or less the same as the national average. However, Region 9 fared far better with respect to income that the nation as a whole. Annual per capita income did fall in La Plata and San Juan, but not in Archuleta and Montezuma. Workers did better, weekly income increased across the region.

This not to say there was economic hardship – witness the jump in SNAP recipients – just that compared to many other communities in the US, Region 9 suffered relatively little. I have little doubt that had the Great Recession struck 20 – 30 years ago the story would be drastically different. This is largely due to the diversification of the local economy in the last few decades which reduces the likelihood that any one negative economic shock could unravel the local economy. One simply look to the impact of the 1970s negative oil and commodity shocks on the Colorado state economy to examine the impacts of a relatively undiversified economy.

Next quarter we will examine the impacts of the Great Recession at the microeconomic level.

The *Four Corners Economic Quarterly* is a newsletter on economic indicators of Southwest Colorado and northern New Mexico published by the Office of Economic Analysis and Business Research in the Fort Lewis College School of Business Administration.

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