

Leeds Business Confidence Index Cools Ahead of Q4 2017

The Leeds Business Confidence Index (LBCI) captures Colorado business leaders' expectations for the national economy, state economy, industry sales, profits, hiring plans, and capital expenditures. Ahead of Q4 2017, the index is at 56.5 (down from 59.7 in Q3) and 55.3 ahead of Q1 2018. A total of 284 qualified panelists responded to the survey.

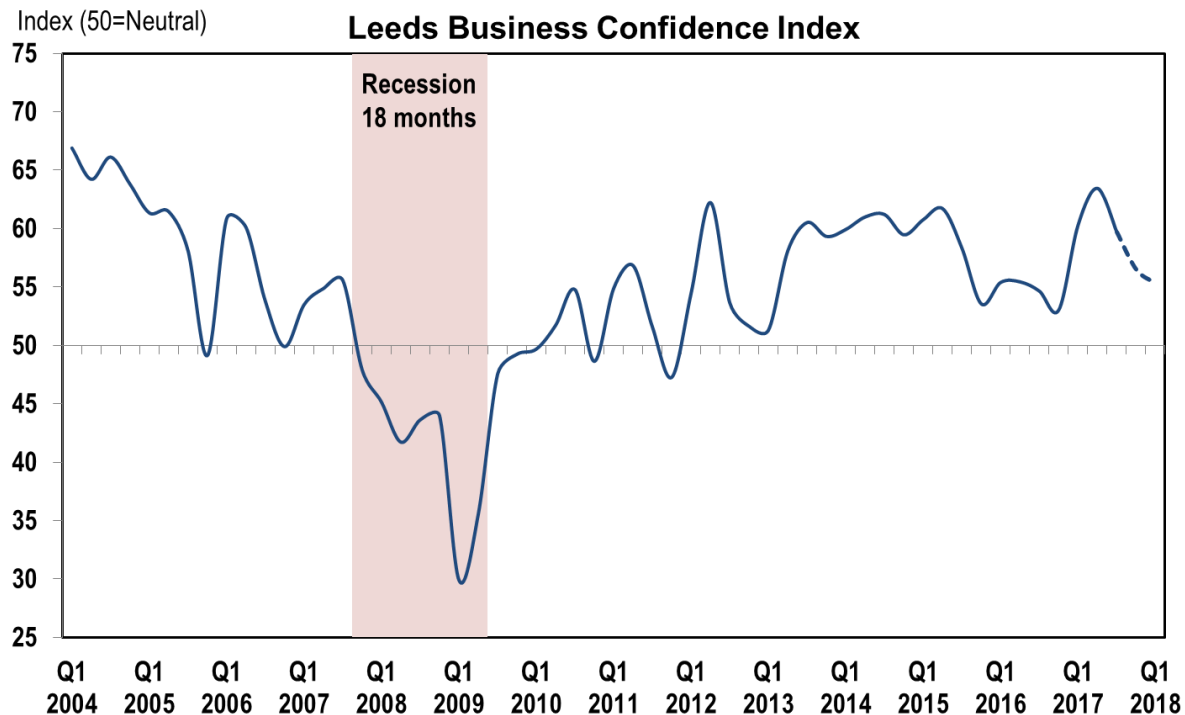
Leeds Business Confidence Index

Component	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Change	
						Quarterly	Annual
State Economy	57.5	62.8	67.0	60.9	58.8	▼	▲
National Economy	48.2	61.3	63.9	54.6	51.4	▼	▲
Industry Sales	55.3	59.8	64.3	62.4	58.5	▼	▲
Industry Profits	52.2	59.4	62.8	61.2	57.6	▼	▲
Industry Hiring	53.2	59.5	61.7	59.7	57.1	▼	▲
Capital Expenditures	51.7	59.1	61.0	59.5	55.8	▼	▲
LBCI	53.0	60.3	63.4	59.7	56.5	▼	▲

- Business confidence dropped for the second-consecutive quarter ahead of Q4 2017, with another decrease anticipated in Q1 2018.
- All six individual components of the LBCI remain in positive territory (above 50) ahead of both Q4 2017 and Q1 2018.
- While still positive, each component of the LBCI fell ahead of Q4 2017, reflecting lower expectations from business leaders.
- The LBCI, along with all of its individual components, increased year-over-year compared to Q4 2016.
- Expectations for capital expenditures experienced the greatest quarterly decline, while expectations for the state economy fell the least.
- Among other issues, respondents expressed concern about shortages in Colorado's labor market, statewide housing prices, and the general political landscape of the nation.
- The LBCI's positive standing is consistent with Colorado's continued employment growth, real GDP expansion, rising personal incomes, and other macroeconomic indicators.

Summary – Overall Positive Expectations, but Optimism Cooling

The LBCI fell ahead of Q4 2017, and expectations continued to drop for Q1 2018. However, the overall index remains in positive territory (above 50). Expectations for Q4 2017 are down to 56.5 (a 3.2 point decline from last quarter), but remained above the level from a year ago—up 3.5 points from Q4 2016. Ahead of Q1 2018, the index experienced a year-over-year decrease, dropping by 5 points to 55.3. While all six individual components of the index also remain in positive territory, each component experienced a decrease from the previous quarter as they continued to approach the neutral level. Panelists' expectations were weakest for the overall national economy, but were buoyed by stronger expectations for the state, industry sales, and industry profits.



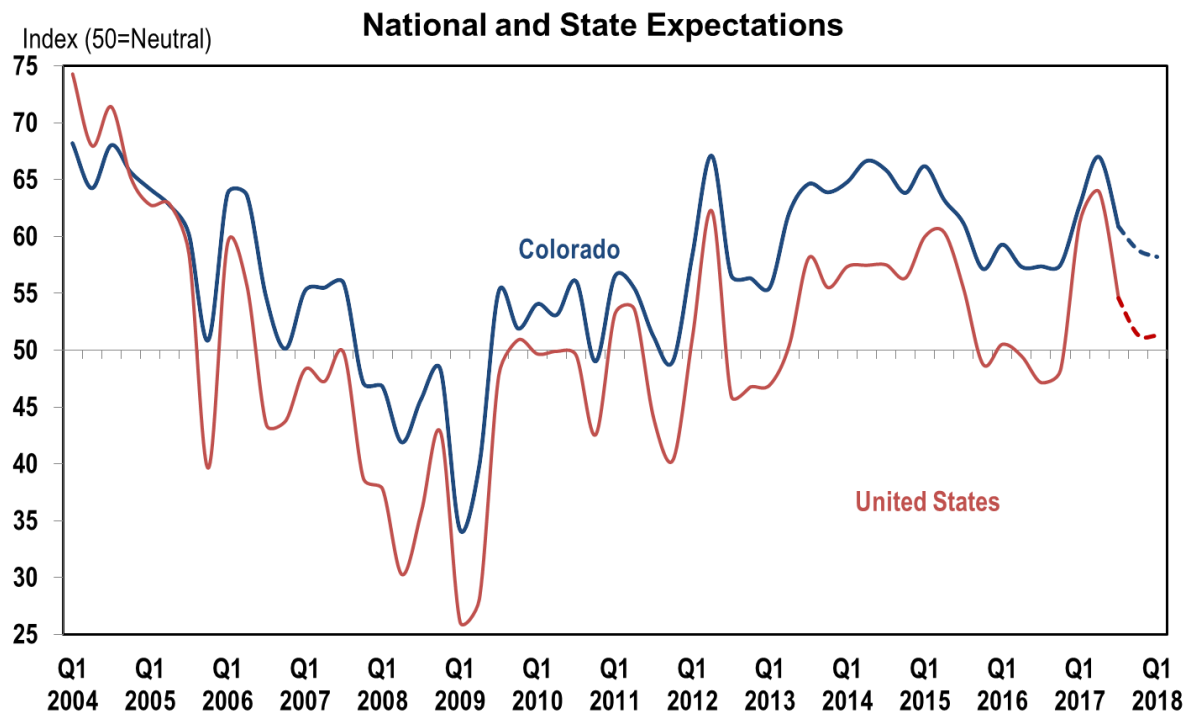
National real gross domestic product (GDP) continued to grow at a 3% seasonally adjusted annual rate (SAAR) in Q2 2017. Personal consumption expenditures, gross private domestic investment, and net exports all improved for the quarter, while government expenditures remained a drag on GDP, with a 0.3% decline. In 2016, GDP grew 1.5%, following the previous year's increase of 2.9%; analysts project accelerating growth in 2017 and 2018. GDP has recorded positive growth for the seventh consecutive year according to the Bureau of Economic Analysis (BEA). Colorado continued to experience positive real GDP growth, with 0.4% SAAR in Q1 2017. Colorado accounted for 1.8% of total U.S. GDP in Q1 2017.

National and State Economies — Continued Neutral Expectations

While the overall outlook remained positive, expectations for both the national economy and state economy cooled ahead of Q4 2017 for the second consecutive quarter. National expectations decreased from 54.6 in Q3 to 51.4 ahead of Q4 and 51.3 ahead of Q1 2018. State expectations fell from 60.9 in Q3 to 58.8 ahead of Q4 and 58.2 ahead of Q1 2018. Business

leaders continue to remain more positive about the state economy than the national economy, and the gap between state and national expectations widened for the third consecutive quarter in Q4.

Panelists' expectations for both the state and national economies maintained above-neutral outlooks. For the state economy, more respondents (39%) believe that the state economy will expand in Q4 than expect a decline (7.5%). Over half (53.5%) remain neutral. Regarding the national economy, 29% of respondents expect an increase, while a similar percentage, 26.4%, anticipate a decrease (44.6% are neutral).



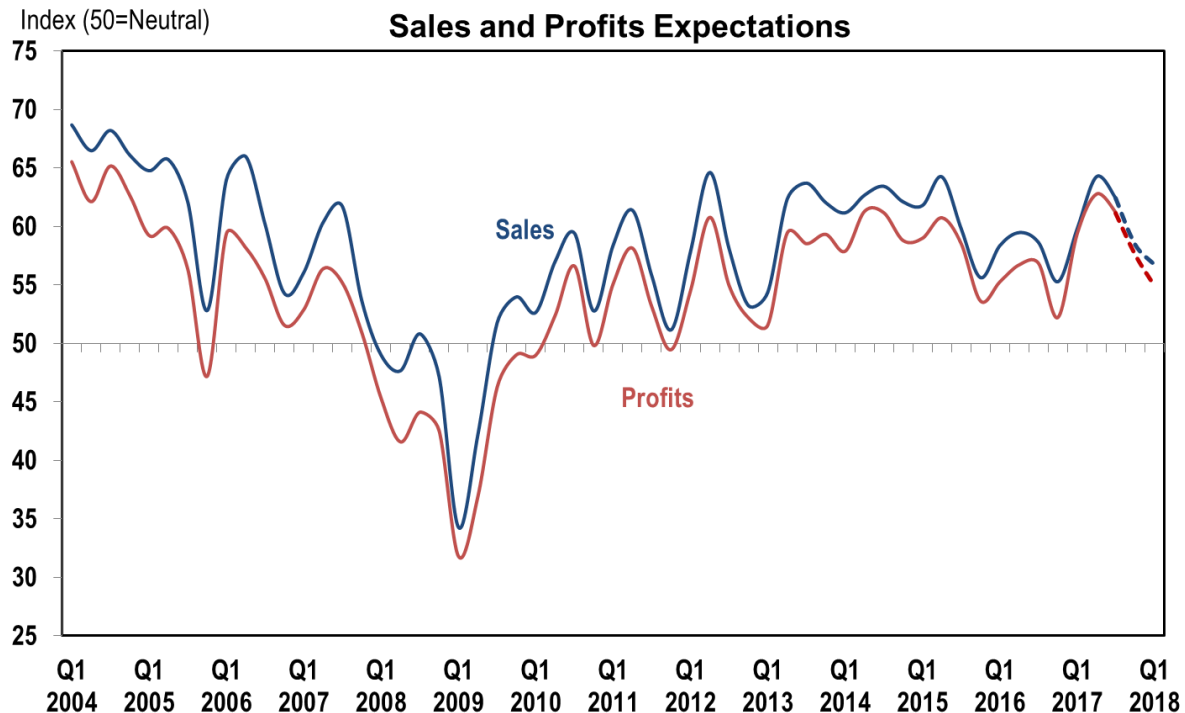
U.S GDP grew at 3% SAAR in Q2 2017, an increase in growth rate from the prior quarter's rate of 1.2%. The BEA reported:

The increase in real GDP in the second quarter reflected positive contributions from PCE, nonresidential fixed investment, exports, federal government spending, and private inventory investment that were partly offset by negative contributions from residential fixed investment and state and local government spending. Imports, which are a subtraction in the calculation of GDP, increased.

Strong increases in the growth of private consumption expenditures (PCE) and gross private domestic investment were the driving forces behind the pick-up in national Q2 2017 real GDP. Colorado's Q1 2017 real GDP grew at an SAAR of 0.4%. Mining and nondurable goods manufacturing posted the greatest quarterly increases, while the state's agriculture industry fell by the greatest amount.

Sales and Profits — Outlook Moves toward Neutral

The sales and profits expectations ahead of Q4 2017 were among the highest of the six components of the LBCI in the current survey. However, expectations for both components fell ahead of Q4 2017. Sales expectations slid by 3.9 points ahead of Q4 2017. Profits expectations declined 3.6 points ahead of Q4 2017.



The profits index decreased from 61.2 in Q3 2017 to 57.6 ahead of Q4 2017 and 54.9 ahead of Q1 2018. Respondents maintained an overall positive outlook, with 43.8% expecting a moderate to strong increase. Negative expectations also increased slightly from 13% of respondents in Q3 to 16.3% in Q4. According to the BEA, corporate profits registered a slight increase in Q2 2017, up 1.3% (SAAR) over the Q1 2017 total.

The sales index decreased from 62.4 in Q3 to 58.5 ahead of Q4 and 56.7 ahead of Q1 2018. In Q4, 47.2% of respondents expect increasing sales, while 36.8% expect a flat (neutral) quarter and 16% expect a decrease.

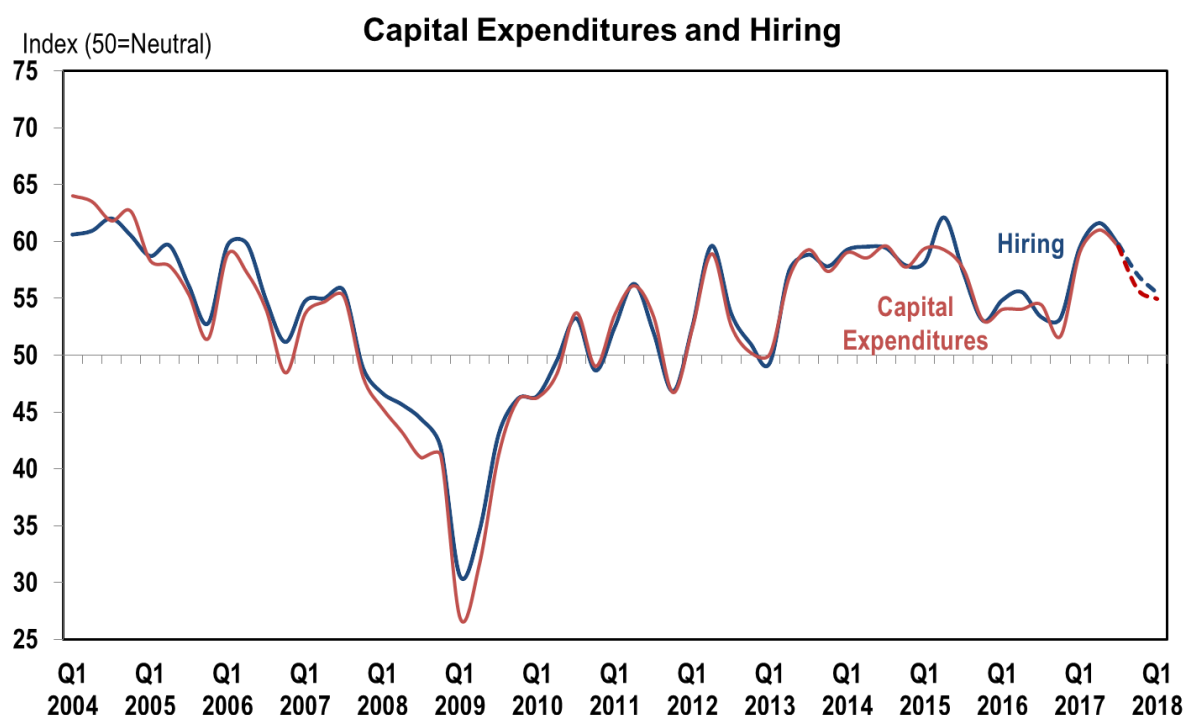
According to the Institute for Supply Management, the manufacturing index in August 2017 had a modest 2.5 percentage point increase over July 2017. With a reading of 58.8, the August manufacturing index is 3.4 points above the 12-month average and 2.1 points above the year-to-date average for 2017. The nonmanufacturing index also rose in August 2017, climbing by 1.4 percentage points from July. However, August remained below the 12-month average by 0.9 points.

Personal incomes continued to grow in Colorado in Q2 2017. According to the BEA, Q2 2017 Colorado personal income rose 0.8% from the preceding quarter, with a strong increase of 3.9% year-over-year. Colorado ranked 7th in the nation for year-over-year growth and 13th for

quarterly growth. Per capita personal income increased 0.4% in the state from Q1 2017 to Q2 2017 and 2.2% year-over-year. Colorado ranked 40th among states for quarterly growth in per capita personal income and 27th among all states in year-over-year growth in Q2 2017. Prices continue to increase, putting more pressure on personal income, wages, and salaries. According to the Bureau of Labor Statistics, prices increased 3.1% year-over-year in the first half of 2017 in the Denver-Boulder-Greeley region in Colorado. Core inflation (which excludes energy and food) increased 2.7% and shelter increased 5.3% during the same period.

Capital Expenditures and Hiring Plans — Growth Expectations Continue to Slow

The outlook for both capital expenditures and hiring declined ahead of Q4, with capital expenditures taking a larger step backward. Capital expenditures expectations fell 3.7 points ahead of Q4 2017—the second largest decline for the quarter among the six components of the index. Hiring expectations decreased by 2.6 points to settle at 57.1 ahead of Q4 2017.



The capital expenditures index fell from 59.5 in Q3 2017 to 55.8 ahead of Q4 and 54.9 ahead of Q1 2018. Less than half (37.2%) of respondents expect a moderate to strong increase in capex compared to 48% who project no change and 14.9% who project a decrease in investment.

In Colorado, an indicator for capital expenditures is infrastructure. According to Dodge Data and Analytics, the value of construction in Colorado was flat year-to-date through August 2017 compared to the same period one year ago. Through August, increases were observed in nonbuilding, while nonresidential construction was flat and the value of residential construction fell compared to the same period in 2016. However, residential building permits in Colorado were up 27% for the year through August, according to the U.S. Census Bureau.

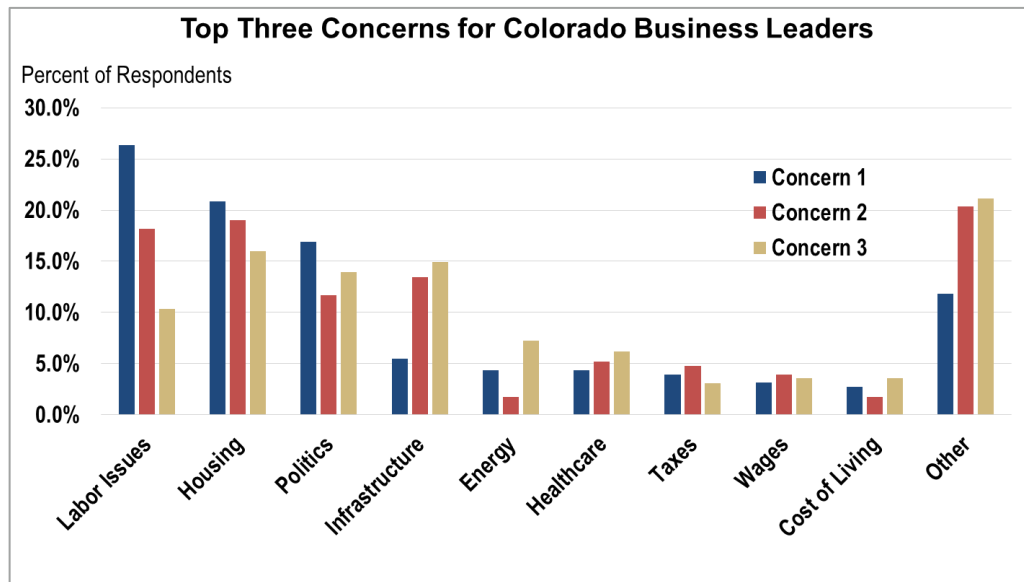
The hiring index decreased from 59.7 in Q3 to 57.1 ahead of Q4 and 55.5 ahead of Q1 2018. In Q4, 38.3% of respondents expect an increase in hiring, while 48.7% remain neutral (no change) and 13% expect a decrease.

Employment continues to grow in the United States. In August 2017, jobs increased 1.4% year-over-year. For all nonfarm sectors, 156,000 jobs were added in August. Year-to-date through August, the average number of jobs added per month totaled 176,000, down from the average of 194,000 for the same period a year ago. The unemployment rate in the United States rose by 0.1 percentage points in August to 4.4%, hovering around the lowest unemployment level recorded in a decade.

As of August 2017, Colorado continued to exhibit strong employment growth. Jobs increased 1.8% year-over-year in August, an increase of 45,800 year-over-year—the 14th-fastest rate in the country. The state unemployment rate continues to outperform the nation as a whole. In August 2017, the unemployment rate was just 2.4%—a rate well below the national average. Year-over-year employment growth was recorded for six of Colorado’s seven metropolitan areas. The Fort Collins-Loveland MSA recorded the fastest year-over-year growth (4.6%), followed by the Greeley MSA (3.5%) and the Boulder MSA (2.5%). The Colorado Springs and Denver-Aurora-Broomfield MSAs grew by 2.1% and 1.9%, respectively. The Grand Junction MSA experienced no growth, while the Pueblo MSA posted a 0.3% decline. Colorado industries with the greatest absolute job growth in August were Trade, Transportation, and Utilities (11,000 jobs) and Professional and Business Services (10,500 jobs). Mining and Manufacturing both recorded year-over-year job losses; however, the Colorado Department of Labor and Employment has indicated expected upward revisions to both sectors and to state employment overall.

Panelists' Top Economic Concerns

In an open-ended question, LBCI panelists were asked to indicate, in rank order, the three main headwinds facing the economy. According to respondents, the top problem facing the Colorado economy is labor issues,



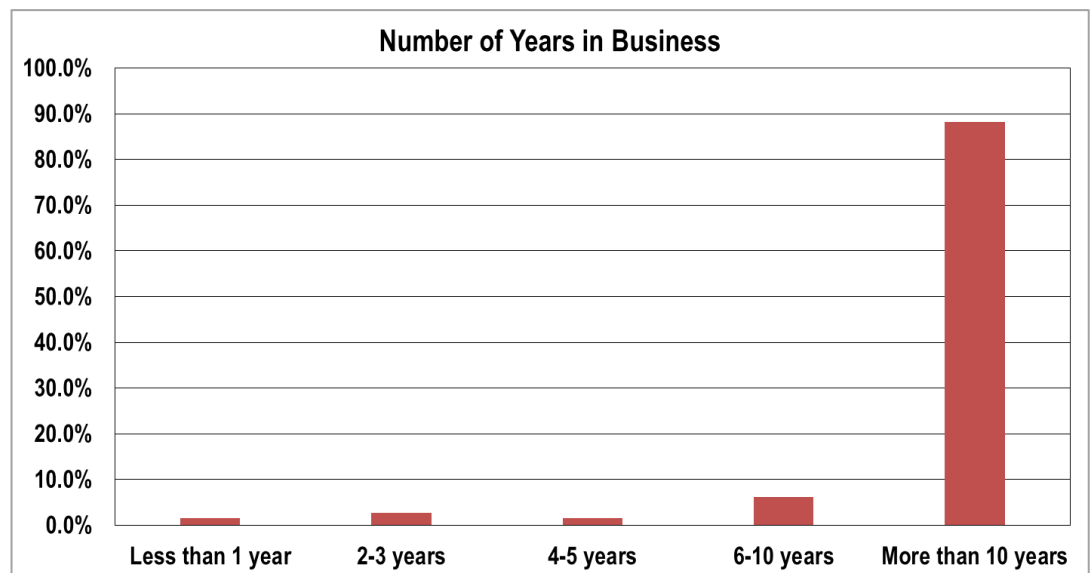
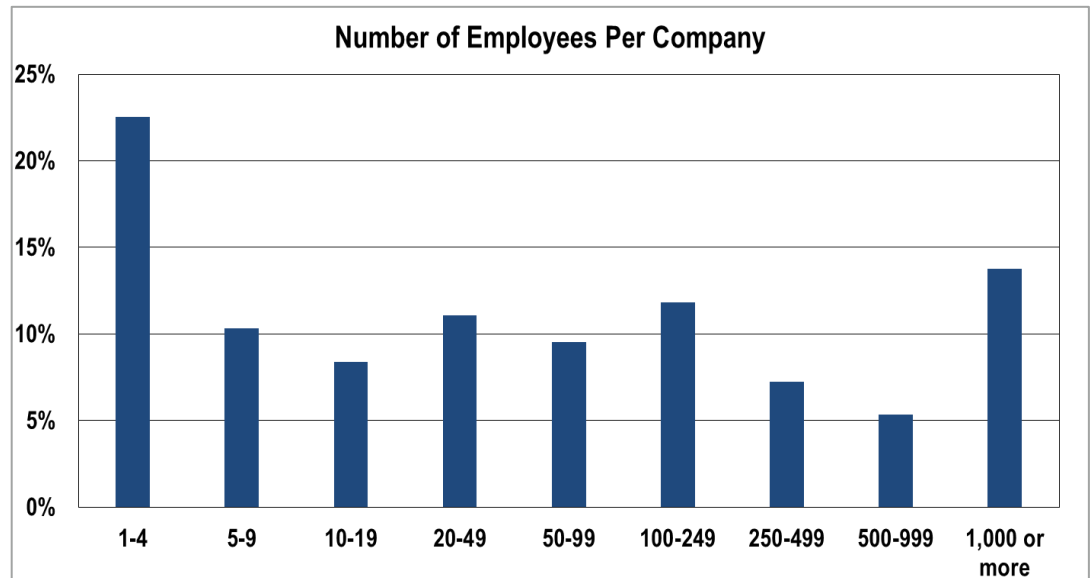
with 26.4% of responses citing labor shortages and cost of labor. With historically low unemployment rates, employers are finding it difficult to hire new employees to fill vacant or new positions. In addition, many respondents felt more attention needs to be focused on talent attraction and development. The second most frequently mentioned problem is housing, with 20.9% of responses. Panelists noted the increasingly high housing prices. Some respondents remarked that high prices and lack of affordable housing discouraged potential employees from relocating to the state. Politics was also a concern for 16.9% of respondents. Many respondents commented on national government uncertainty as a key threat to Colorado growth. Although not one of the top three concerns, many panelists felt government needs to increase infrastructure funding. With an increasing population in Colorado, many feared the state government is not allocating enough resources to address crumbling infrastructure.

Expectations by Company Size and Length of Time in Business

Panelists were asked two additional questions, one about the size of their company and the other about how long their company has been in business. About half (52.3%) of survey respondents work for companies with fewer than 50 employees. The three largest groups were represented by companies with 1–4 employees (22.5%), 1,000 or more employees (13.7%), and 100–249 employees (11.8%).

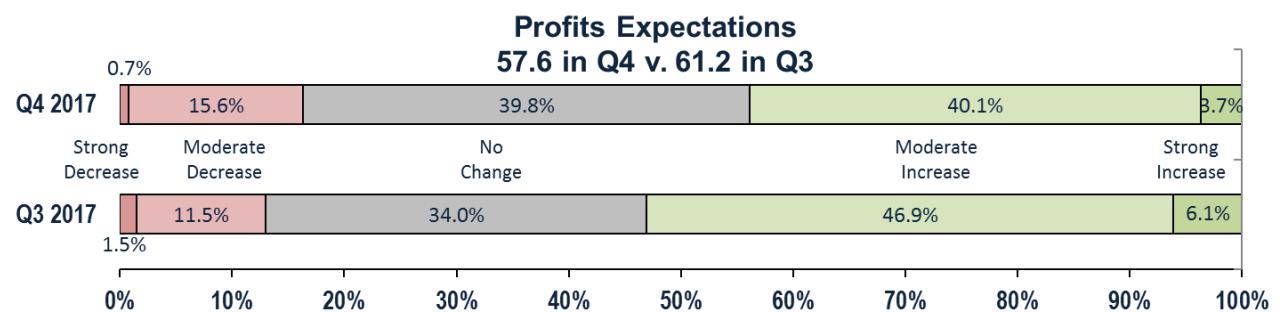
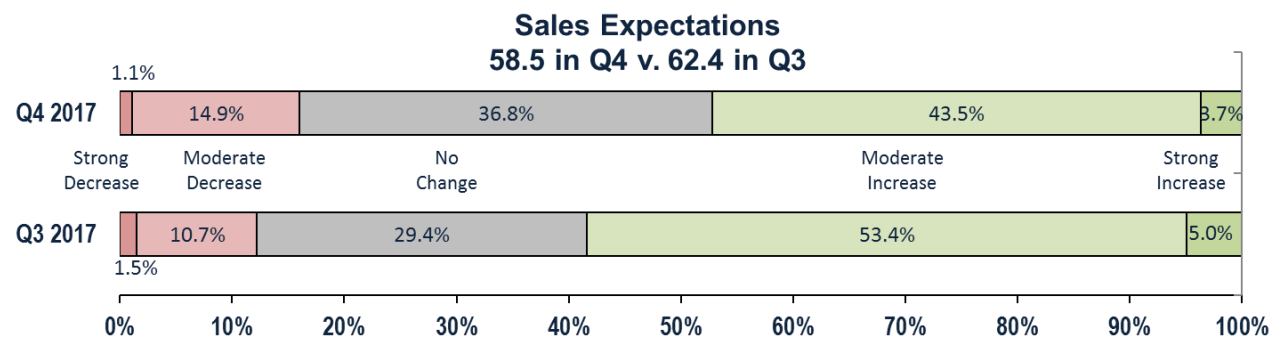
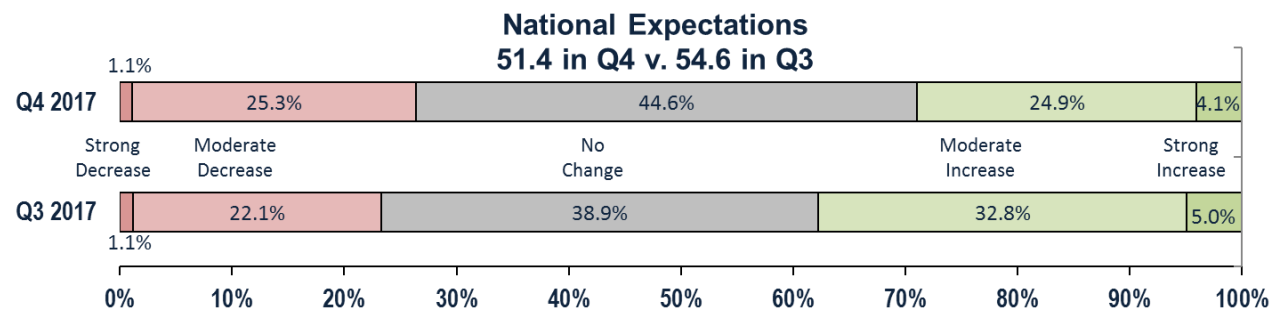
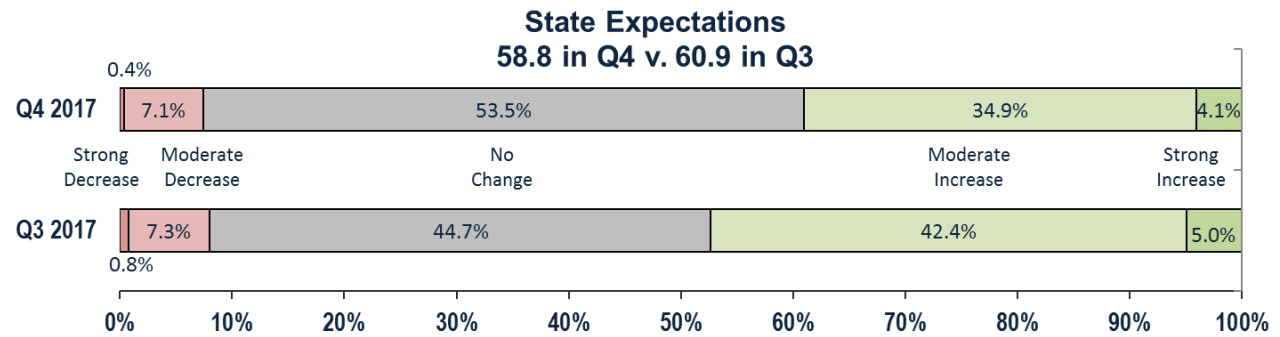
Small employers' expectations decreased 3 points ahead of Q4, and large employers' expectations fell 2.7 points. Small companies were collectively more optimistic than large companies (57.6 versus 55.5) ahead of Q4.

Over 88% of respondents work at a long-standing company that has been in business for more than 10 years.



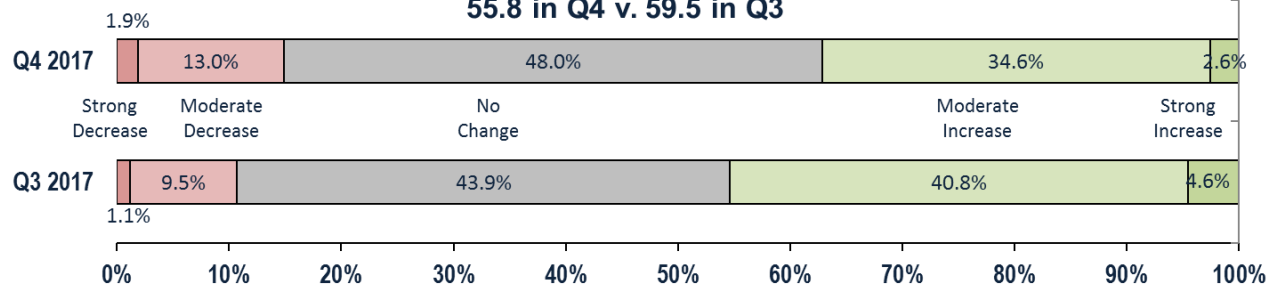
While responding panelists represent every industry in the state, the largest percentage of respondents to the Q4 survey were: Professional, Scientific, and Technical Services (19.8%); Finance and Insurance (16.8%); Management of Companies and Enterprises (11.4%); and Other Services (except Public Administration) (10.3%).

Distribution of Expectations in Q4 2017 and Q3 2017



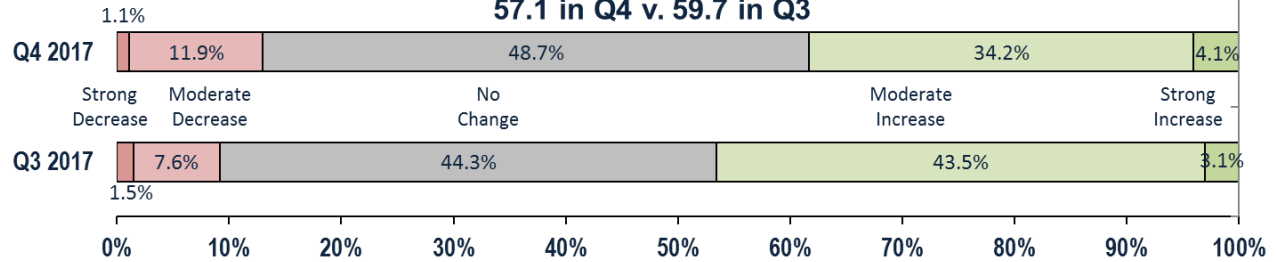
Capital Expenditures Expectations

55.8 in Q4 v. 59.5 in Q3



Hiring Expectations

57.1 in Q4 v. 59.7 in Q3



###

For more information about the LBCI and to become a panelist, go to:
www.colorado.edu/business/brd