

Leeds Business Confidence Brightens Ahead of Q2 2019

Colorado business leaders' confidence warmed ahead of Q2 2019, coinciding with a Fed signal of paused interest rate increases, lower stock market volatility, and the end of the government shutdown. 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 Q2 2019, the index increased to 52.7, with each component of the index above neutral (50), except national expectations. However, looking further out to Q3 2019, expectations remain cautious, with the index dropping to 49, pulled down not only by state and national economic conditions, but also by hiring and capital investment expectations. A total of 302 qualified panelists responded to the survey from March 1 through March 20.

Leeds Business Confidence Index

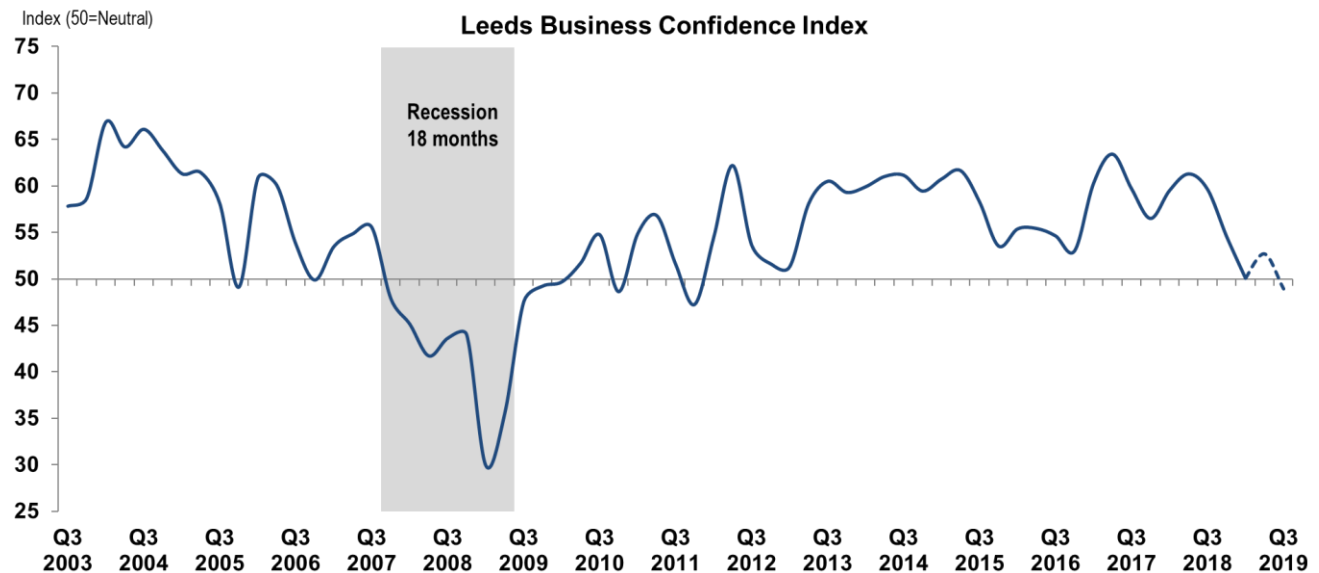
Component	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Change	
						Quarterly	Annual
State Economy	62.1	63.4	55.3	51.0	51.9	▲	▼
National Economy	58.1	57.0	50.1	42.5	46.2	▲	▼
Industry Sales	64.3	61.3	56.1	53.5	56.7	▲	▼
Industry Profits	62.5	59.8	56.4	51.0	55.5	▲	▼
Industry Hiring	60.5	59.5	55.3	51.7	54.1	▲	▼
Capital Expenditures	60.5	56.9	54.4	50.9	51.8	▲	▼
LBCI	61.3	59.6	54.6	50.1	52.7	▲	▼

- Business confidence rebounded slightly ahead of Q2, but fell ahead of Q3.
- Five of the six individual components of the LBCI remain in positive territory (above 50) ahead of Q2 2019, but national economy expectations remain below 50.
- Panelists are most optimistic about industry sales expectations, but remain most concerned about the national economy as it recorded the lowest confidence of the index components ahead of Q2 2019 and Q3 2019, citing the economy (generally), national and state politics, trade, and uncertainty.
- Colorado continues to experience employment growth, real GDP expansion, increasing personal income, and growth in other macroeconomic factors. However, the forecast for the economy in 2019 is slower than in 2018. The overall tempered outlook from respondents is consistent with these trends.

Summary – Confidence Rises Ahead of Q2

After falling a collective 11.2 points over the last three quarters, the LBCI rose 2.6 points ahead of Q2 2019. Looking further ahead to the preliminary Q3 2019 reading, the index slipped below 50 for the first time since Q4 2011.

Expectations for Q2 2019 increased to 52.7—a 8.6-point decrease from a year ago, but an increase over the prior quarter. This value is below the index average of 54.9 points over the 16 years of the survey. All six components increased from Q1 to Q2, and only the national expectations are in negative territory. Looking further ahead to Q3 2019, expectations tipped pessimistic, dropping 3.7 points from the previous quarter and 10.6 points since Q3 2018.



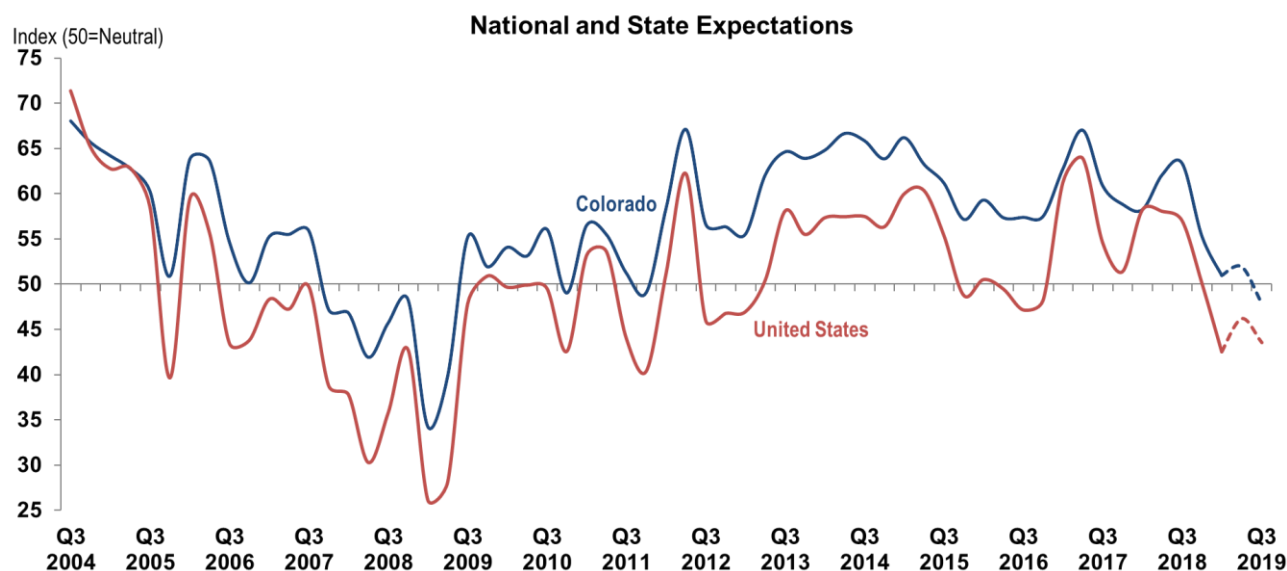
National real gross domestic product (GDP) grew at a 2.2% seasonally adjusted annual rate (SAAR) in Q4 2018 according to the initial estimate from the Bureau of Economic Analysis (BEA). Personal consumption expenditures grew 2.5%, government spending fell 0.4%, and private domestic fixed investment increased 3.1%. Imports significantly outpaced the growth in exports, further degrading the trade deficit. Expectations for 2019 real GDP growth slipped to 2.4% in March, according to Consensus Forecasts. Colorado continued to experience positive real GDP growth, with 3% year-over-year and 3.8% quarter-over-quarter (SAAR) growth in Q3 2018. Colorado accounts for 1.8% of total U.S. GDP.

National and State Economies — Panelists Expressing Caution

State expectations increased from 51 in Q1 to 51.9 in Q2, but slipped to 47.9 in the preliminary Q3 reading. While the decreasing state perceptions track sentiment about the national economy, state expectations remain notably more positive, consistent with economic performance. The national outlook, too, improved ahead of Q2, but remained below neutral nonetheless. National expectations recorded the lowest expectations in the index, at 46.2 ahead of Q2 and 43.5 ahead of Q3.

For the state economy, about a quarter (27.8%) of respondents believe that the state economy will grow faster in Q2, and 20.2% expect a slowing. The majority of panelists (52%) remained

neutral on their outlook. On the national level, 20.2% of panelists expect an acceleration, while 34.8% expect a slowing.



U.S GDP grew at 2.2% SAAR in Q4 2018, which is a decrease in the growth rate from the prior quarter's rate of 3.4%. According to the BEA report released March 28, 2019:

The increase in real GDP in the fourth quarter reflected positive contributions from personal consumption expenditures (PCE), nonresidential fixed investment, exports, private inventory investment, and federal government spending. Those 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.

The deceleration in real GDP growth in the fourth quarter reflected decelerations in private inventory investment, PCE, and federal government spending and a downturn in state and local government spending. These movements were partly offset by an upturn in exports and an acceleration in nonresidential fixed investment. Imports increased less in the fourth quarter than in the third quarter.

Colorado's Q3 2018 real GDP grew at an SAAR of 3.8% for the quarter and 3% year-over-year. Year-over-year, the largest percentage gains were recorded in the Professional, Scientific, and Technical Services industry; the Information industry; and the Real Estate, Rental, and Leasing industry.

Sales and Profits — Outlook Slows

Sales and profits expectations increased 3.2 points and 4.5 points, respectively, from Q1 2019 to Q2 2019. Looking toward Q3 2019, the outlook for these two metrics decreased 3.8 points, but remained in positive territory. Sales and profits recorded the highest expectations among the six components. The sales index stood at 56.7 in Q2, while profits was at 55.5. Looking ahead to Q3, sales expectations decreased to 52.9, while profits fell to 51.7.

A plurality of panelists (43.4%) expect an increase in sales and 38.7% anticipate an increase in profits in Q2 2019, while 19.5% expect a decrease in sales and 19.6% expect a decrease in profits. Looking ahead to Q3 2019, sales and profits expectations slip, but remain positive.



The health of sales and profits largely depends on the strength of the consumer. Consumer confidence remains high—1.4 points above the value a year ago in February 2018—and has been at the highest levels since 2000. As well, the Mountain Region index remains above the national index, and is 8.1 points higher than the same period a year ago. Personal consumption expenditures continue to exhibit stable growth (up 2.8% SAAR in Q3), and retail sales grew 4.9% in 2018, but largely stalled in December year-over-year, up 1.6% (seasonally adjusted).

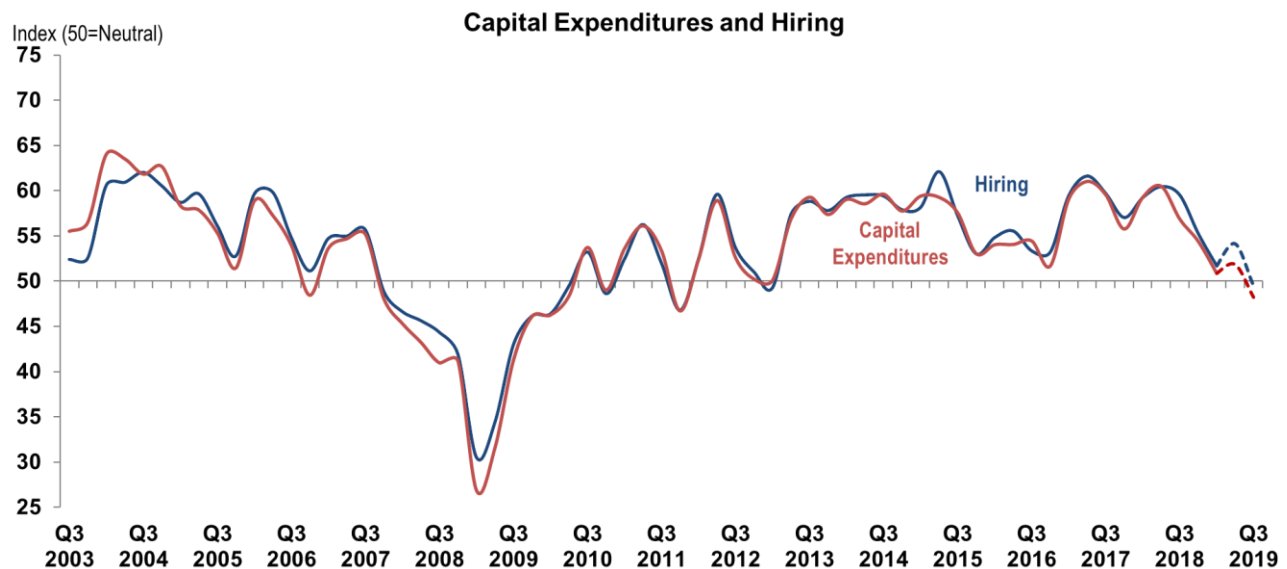
B-to-B sales are a signal for sales and profits. Business fixed investment accelerated in Q4, increasing to 6.2% growth (SAAR), and inventories grew. According to the Institute for Supply Management, the national manufacturing index in February 2019 was 54.2, the lowest reading in the past 12 months. The nonmanufacturing index increased month-over-month, and was higher than the 12-month average.

Personal incomes continued to grow in Colorado in Q3 2018. According to the BEA, Colorado's personal income rose 1.3% in Q3 2018 from the preceding quarter, with a strong increase of 5.5% year-over-year, ranking the state 4th in the nation. Colorado had the 11th-highest per capita personal income in Q3 2018, at \$57,079, and the state ranked 10th for per capita personal income growth.

Capital Expenditures and Hiring Plans — Up and Down

The outlook for both capital expenditures and hiring rose ahead of Q2, 0.9 points and 2.4 points, respectively. The capital expenditures index increased to 51.8, and the hiring plans index increased to 54.1. However, both metrics declined into negative territory ahead of Q3—planned capital expenditures fell to 48.2 and hiring plans fell to 49.5.

One-third (33.8%) of respondents expect an increase in hiring plans and 27.5% expect an increase in capital expenditures in Q2. The largest proportion of respondents anticipate no change (47% for hiring plans and 52% for capital expenditures). Looking ahead to Q3 2019, less than a quarter (23.5% and 19.7%, respectively) of panelists expect an increase in hiring or capital expenditures.



An indicator of capital expenditures is infrastructure. According to Dodge Data and Analytics, the value of construction in Colorado was up 19% in 2018, but preliminary data through February indicate an 8% decrease in activity. Through February, the value of residential building decreased 15%, and nonresidential building fell 17%. Nonbuilding doubled year-over-year through the first two months of 2019. According to the U.S. Census Bureau, the total value of construction for the nation stalled in January, up 0.3% year-over-year for the month.

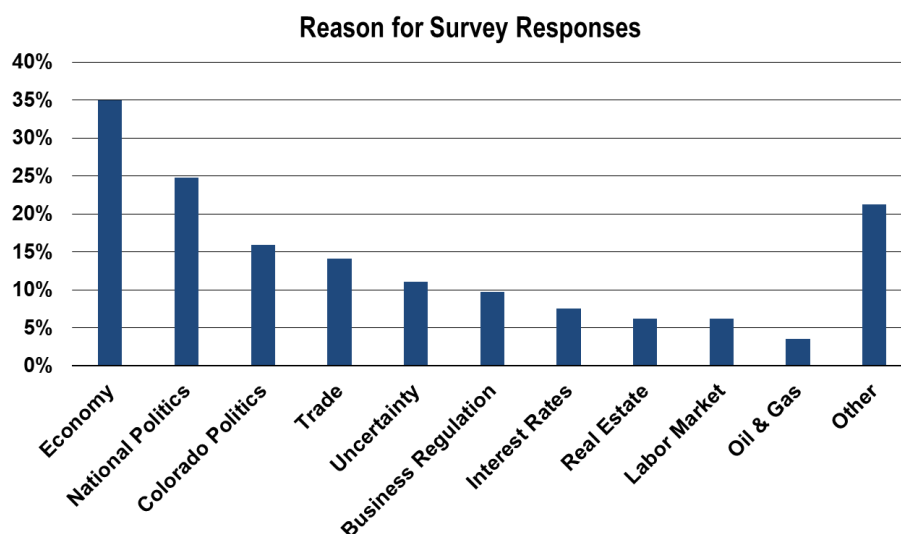
U.S. job growth continued in February 2019, increasing 1.7% year-over-year. However, nonfarm covered employment stalled in the preliminary release in February, up 20,000 month-over-month, following strong growth of 311,000 in January. Year-to-date through February, the average number of jobs added per month totaled 209,000, up from the 12-month average of 188,000 for the same period a year ago. The unemployment rate in the United States dropped from 4% to 3.8% in February.

As of February 2019, Colorado continued to exhibit strong employment growth. Jobs increased 1.7% from February 2018 to February 2019, a gain of 44,800 year-over-year—the 12th-fastest rate in the country. The seasonally adjusted state unemployment rate, at 3.7%, remained just below the national rate, ranking the state 23rd-lowest in the country. Year-over-year employment growth was recorded in all but one of Colorado’s seven metropolitan areas. The Grand Junction MSA recorded the fastest year-over-year growth (3.1%), followed by Fort Collins-Loveland (3%), Boulder (2.8%), Greeley (2.7%), Denver-Aurora-Lakewood (1.7%), Colorado Springs (1.4%), and Pueblo (-0.3%). Colorado industries with the greatest annual percent change

in February were Professional and Business Services (3.6%), Other Services (3.5%), and Mining and Logging (3.2%).

Inflation in Colorado has outpaced the nation for the past five years. However, it slowed in 2018. The all items index increased 2.7%; core inflation increased 2.5%; food, 2.3%; shelter, 2.7%; and medical care, 6.4%.

Reason for Survey Responses



Panelists were asked to give reasons for their expectations. The state of the economy was the most cited reason for respondents' responses (mentioned by 35% of respondents). National politics was the next most cited reason. Specific policies that appeared repeatedly were the Tax Cuts and Jobs Act of 2017 and the U.S. policy regarding trade with China. Another common theme that respondents communicated through their responses is uncertainty. Of the respondents who answered this question, 25 mentioned uncertainty, and 11 mentioned both national policies and uncertainty. Trade, specifically with China, was mentioned by 14% of respondents. Many were optimistic about a conclusion to trade disputes in 2019, but in the meantime they must deal with the impact of increased costs over the past year. Interest rates are currently low, but have been trending at an increase. Business leaders are unsure how this will progress in 2019, but many respondents anticipate that rates will remain low for the year.

Colorado politics was the third-most mentioned reason, with a substantial number of respondents referencing the oil and gas legislation that was recently introduced in the state legislature and increased business regulation by Colorado and local governments. Within Colorado, it seems many businesses are seeking to hire talent but are experiencing a low supply of qualified workers and increasing wages. High real estate prices in the Denver Metro area, mentioned by 6% of respondents, can be prohibitive to individuals and businesses.

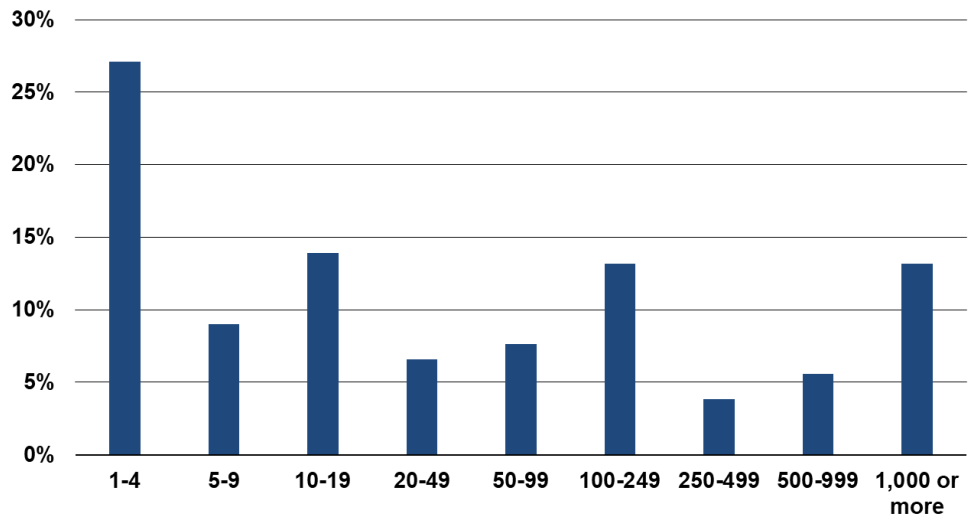
When comparing respondents' reasons with their overall positive or negative outlook, Colorado and national politics and the economy did not seem to substantially impact respondents' outlooks as there is a relatively even split of positive and negative expectations. The labor market seems to be the only reason mentioned that has a relationship to respondents' positive outlook. Conversely, of those mentioning trade, most have a negative outlook.

Expectations by Company Size and Length of Time in Business

Panelists were asked about the size of their company and the other about how long their company has been in business. A total of 84.6% of respondents work at a long-standing company that has been in business for more than 10 years. More than half (56.6%) of survey respondents work for companies with fewer than 50 employees. The four largest size cohorts were companies with 1–4 employees (27.1%), 10–19 employees (13.9%), 100–249 employees (13.2%), and 1,000 or more employees (13.2%).

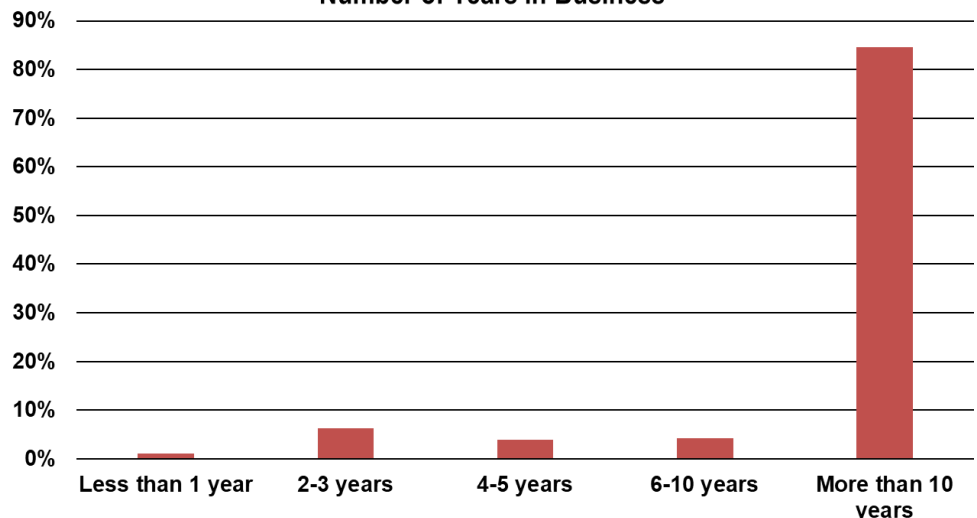
Small employers' (fewer than 50 employees) expectations increased 1.2 points ahead of Q2, and larger employers' expectations increased 4.1 points. From Q2 2019 to Q3 2019, expectations from both cohorts slipped. In Q2, large employers were more optimistic than small employers (0.8 points higher).

Number of Employees Per Company

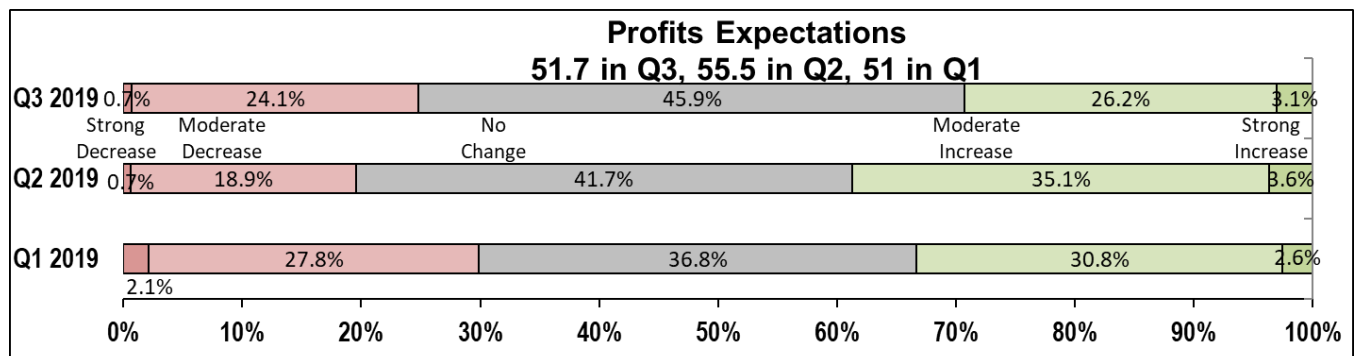
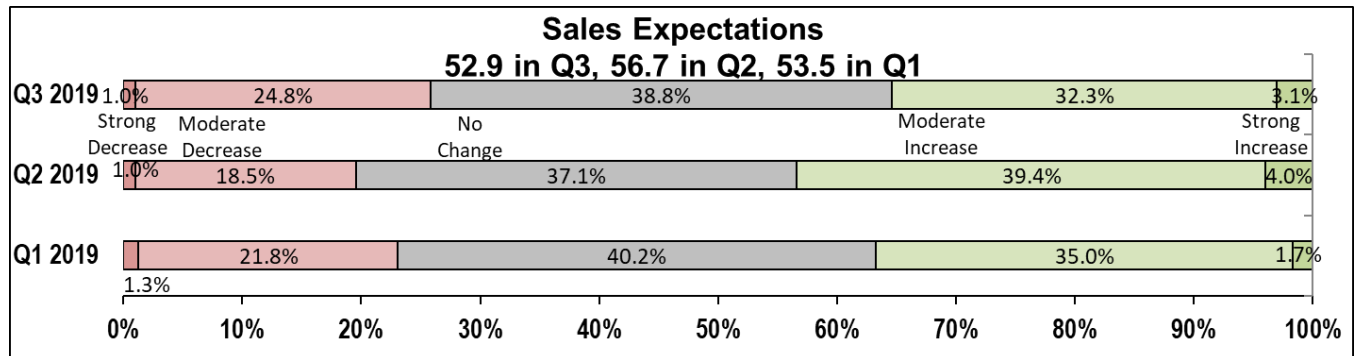
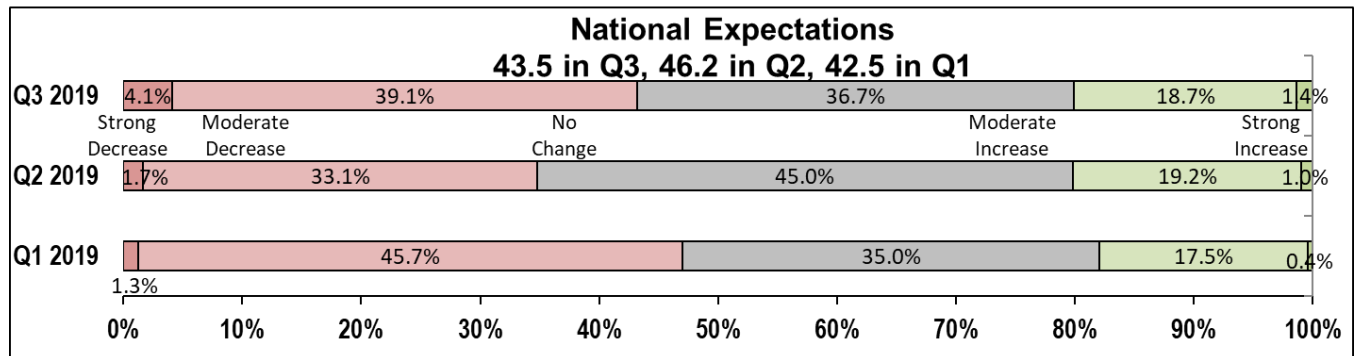
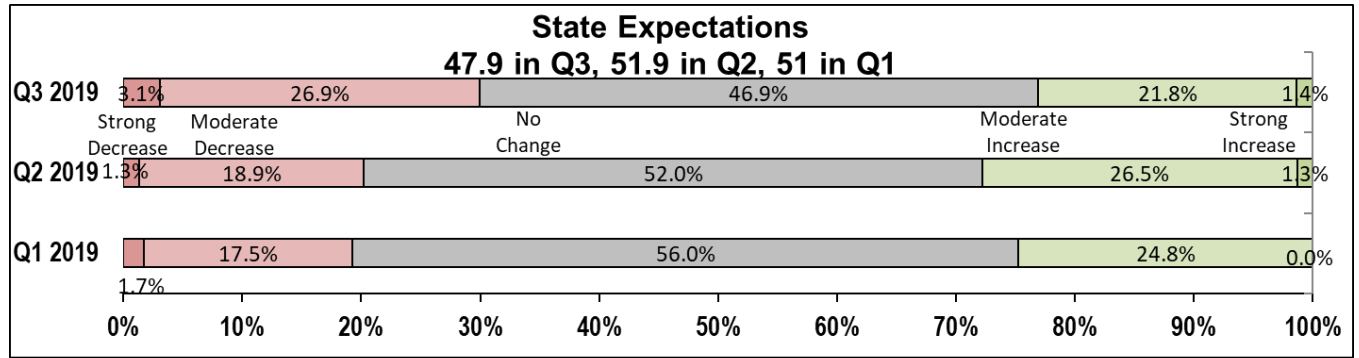


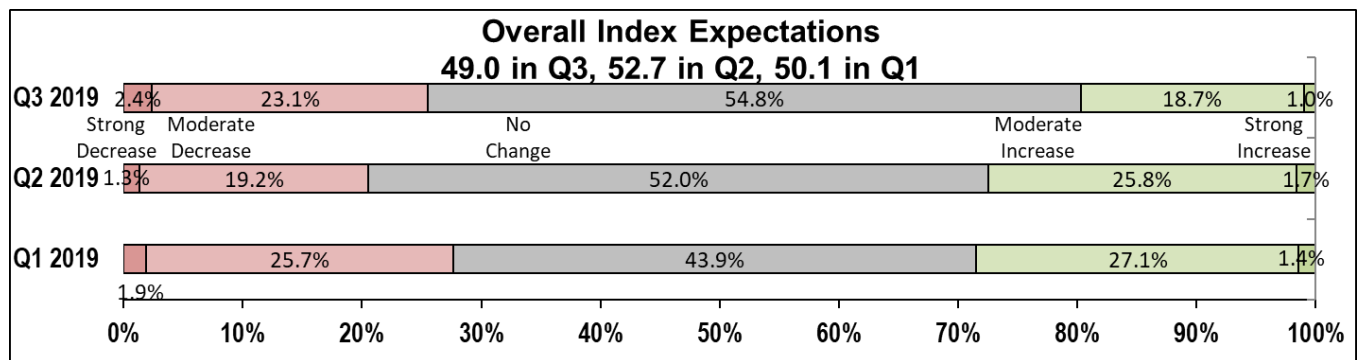
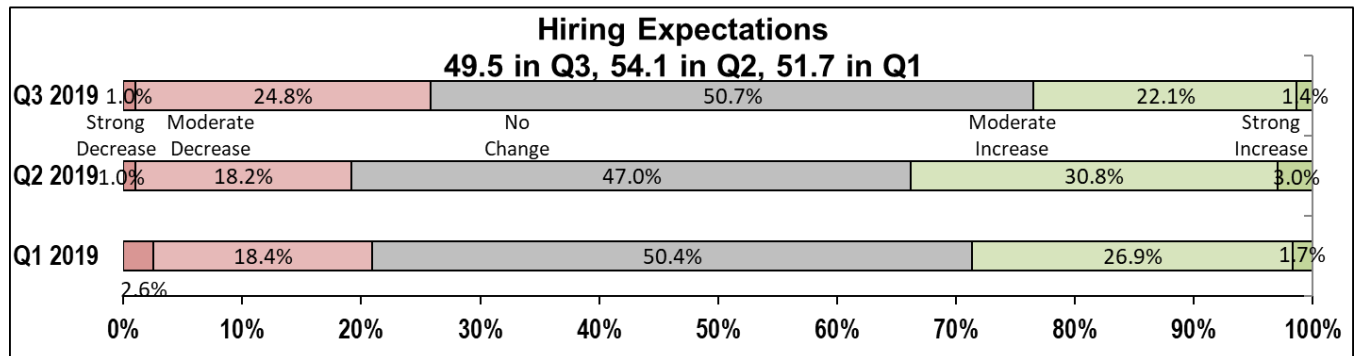
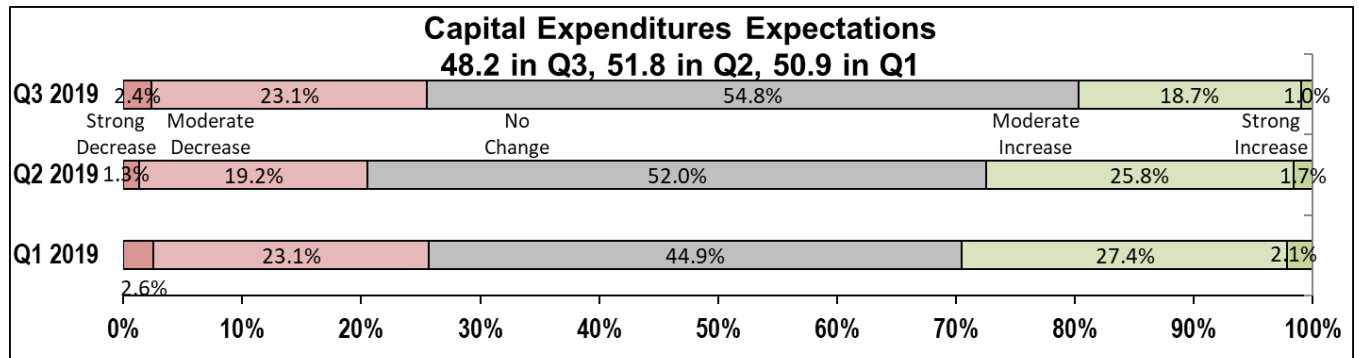
While responding panelists represent every industry in the state, the largest percentage of respondents to the Q2 survey were in the following sectors: Professional, Scientific, and Technical Services (22%); Finance and Insurance (16%); Real Estate, Rental, and Leasing (16%); and Government (12%).

Number of Years in Business



Distribution of Expectations in Q3 2019, Q2 2019, Q1 2019





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