LBCI LEEDS BUSINESS CONFIDENCE INDEX

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Leeds Business Confidence Index Keeps Head Above Water Ahead of Q3 2019

Colorado business leaders' confidence remained neutral heading into Q3 2019, coinciding with the Fed signaling potential interest rate cuts, weaker job growth, increased trade tensions, near-record levels for the S&P 500, and growing tensions in the Middle East. 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 Q3 2019, the index decreased to 50.5, with each component of the index above neutral (50), except national and state expectations. Looking further out to Q4 2019, expectations turned bearish, with the index dropping to 46.5. A total of 254 qualified panelists responded to the survey from May 31 through June 20.

Leeds Business Confidence Index

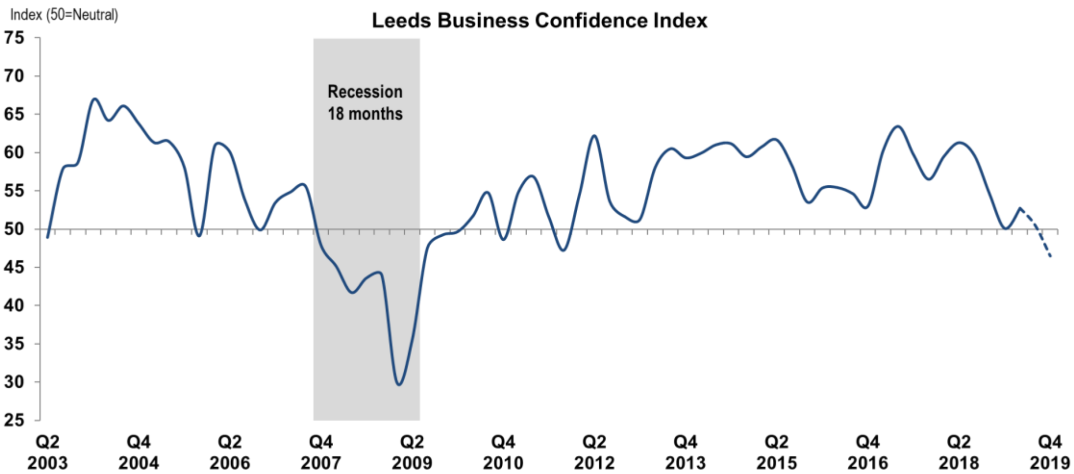
Component	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Change	
						Quarterly	Annual
State Economy	63.4	55.3	51.0	51.9	49.6	▼	▼
National Economy	57.0	50.1	42.5	46.2	43.1	▼	▼
Industry Sales	61.3	56.1	53.5	56.7	55.6	▼	▼
Industry Profits	59.8	56.4	51.0	55.5	52.4	▼	▼
Industry Hiring	59.5	55.3	51.7	54.1	51.0	▼	▼
Capital Expenditures	56.9	54.4	50.9	51.8	51.1	▼	▼
LBCI	**59.6**	**54.6**	**50.1**	**52.7**	**50.5**	▼	▼

- Business confidence fell ahead of Q3, and fell further looking out to Q4.
- Four of the six individual components of the LBCI remain in positive territory (above 50) ahead of Q3 2019, but national and state economy expectations are below 50. None of the six individual components of the LBCI are projected to stay in the positive territory during Q4.
- 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 for Q3 2019 and Q4 2019. Respondents cited the economy (generally), national and state politics, trade, and uncertainty as the reasons for their expectations.
- 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 outlook from respondents is neutral heading into the third quarter of 2019.

Summary – Confidence Lower Ahead of Q3

After rising 2.6 points in the last quarter, the LBCI fell 2.2 points ahead of Q3 2019. Looking further ahead to the preliminary Q4 2019 reading, the index slipped 3.5 points below 50.

Expectations for Q3 2019 decreased to 50.5—a 9.1-point decrease from a year ago, and a decrease over the prior quarter. This value is below the index average of 54.8 points over the 16 years of the survey. All six components decreased from Q2 to Q3, and only the national and state expectations are in negative territory. Looking further ahead to Q4 2019, expectations tipped pessimistic, dropping 4 points from the previous quarter and 8.1 points since Q4 2018.

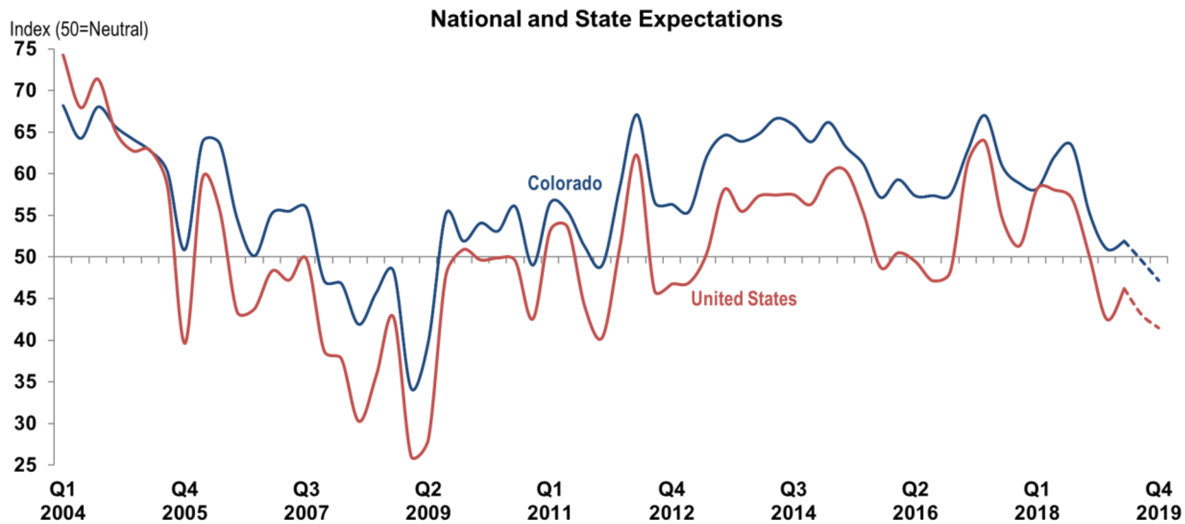


National real gross domestic product (GDP) grew at a 3.1% seasonally adjusted annual rate (SAAR) in Q1 2019 according to the initial estimate from the Bureau of Economic Analysis (BEA). Personal consumption expenditures grew 1.3%, government spending rose 2.5%, and private domestic fixed investment increased 1%. Imports significantly outpaced the growth in exports, further degrading the trade deficit. Expectations for 2019 real GDP growth slipped to 2.5% in June, according to Consensus Forecasts. Colorado continued to experience positive real GDP growth, with 3.5% year-over-year and 3.8% quarter-over-quarter (SAAR) growth in Q4 2018. Colorado accounts for 1.8% of total U.S. GDP.

National and State Economies — Panelists Expressing Caution

State expectations decreased from 51.9 in Q2 to 49.6 in Q3, and slipped further, to 47.2, in the preliminary Q4 reading. While lower state perceptions track sentiment about the national economy, state expectations remain less negative, consistent with economic performance. National expectations recorded the lowest expectations in the index, at 43.1 ahead of Q3 and 41.5 ahead of Q4.

For the state economy, less than a quarter (20.5%) of respondents believe that the state economy will grow faster in Q3, and 22.5% expect it to slow. The outlook of the majority of panelists (57.1%) remains neutral. On the national level, 15% of panelists expect an acceleration, while 42.6% anticipate a slowing.



U.S GDP grew at 3.1% SAAR in Q1 2019, which is an increase in the growth rate from the prior quarter's rate of 2.2%. According to the BEA report released May 30, 2019 (second estimate):

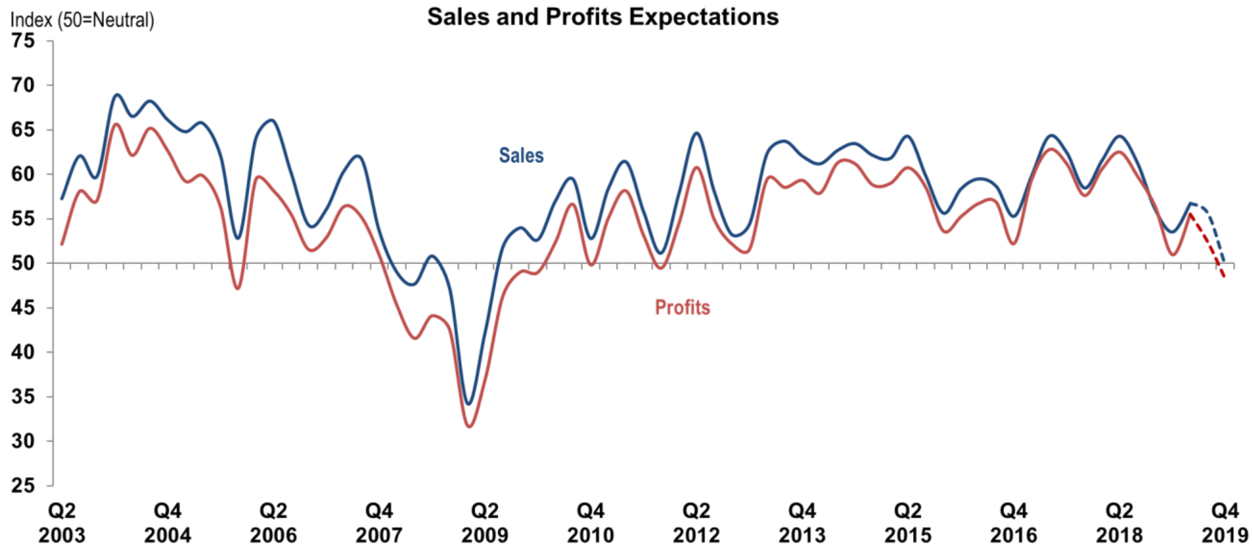
> *The increase in real GDP in the first quarter reflected positive contributions from personal consumption expenditures (PCE), private inventory investment, exports, state and local government spending, and nonresidential fixed investment that were partly offset by a negative contribution from residential fixed investment. Imports, which are a subtraction in the calculation of GDP, decreased.*
>
> *The acceleration in real GDP in the first quarter reflected an upturn in state and local government spending, accelerations in private inventory investment and in exports, and a smaller decrease in residential investment. These movements were partly offset by decelerations in PCE and nonresidential fixed investment, and a downturn in federal government spending. Imports turned down.*

Colorado's Q4 2018 real GDP grew at an SAAR of 3.8% for the quarter and 3.5% year-over-year. Year-over-year, the largest percentage gains were recorded in the Professional, Scientific, and Technical Services industry; the Real Estate, Rental, and Leasing industry; and the Information industry.

Sales and Profits — Outlook Slows

Sales and profits expectations decreased 1.1 points and 3.1 points, respectively, from Q2 2019 to Q3 2019. Looking toward Q4 2019, the outlook for sales decreased 5.9 points, and the profits outlook decreased by 4.2 points, tipping both into the negative territory. Even with the drop in expectations, sales and profits recorded the highest expectations among the six components. The sales index stood at 55.6 in Q3, while profits was at 52.4. Looking ahead to Q4, sales expectations decreased to 49.7, while profits fell to 48.2.

Nearly 40% of panelists (41.7%) expect an increase in sales and 34.7% anticipate an increase in profits in Q3 2019, while 21.7% expect a decrease in sales and 25.2% expect a decrease in profits. Looking ahead to Q4 2019, sales and profits expectations slip.



The health of sales and profits largely depends on the strength of the consumer. Consumer confidence remains high—5.3 points above the value a year ago in May 2018. As well, the Mountain Region index remains above the national index, and is 3.7 points higher than the same period a year ago. Personal consumption expenditures continue to exhibit stable growth (up 1.3% SAAR in Q1). Retail sales increased 4.9% in 2018, and continued to grow in April year-over-year, up 3.7% (seasonally adjusted).

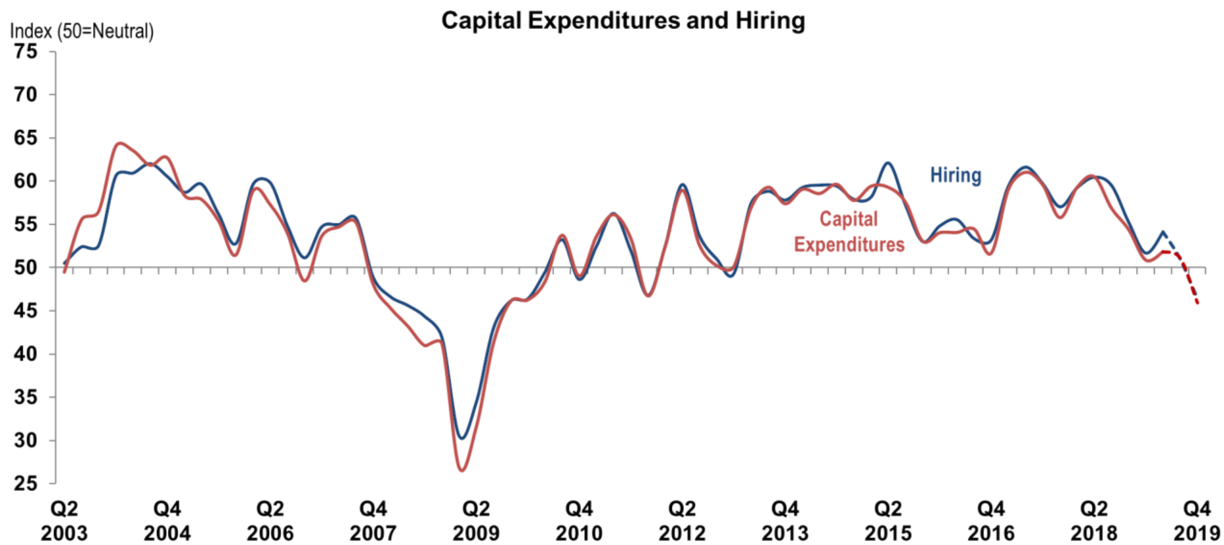
B-to-B sales are a signal for sales and profits. Business fixed investment decelerated in Q1, decreasing to 2.3% growth (SAAR), and inventories grew. According to the Institute for Supply Management, the national manufacturing index in May 2019 was 52.1, the lowest reading in the past 12 months. The nonmanufacturing index increased month-over-month, and was lower than the 12-month average.

Personal incomes continued to grow in Colorado in Q4 2018. According to the BEA, Colorado's personal income rose 3.8% in Q4 2018 from the preceding quarter, with a strong increase of 4.2% year-over-year. Colorado had the 13th-highest per capita personal income in Q4 2018, at $56,846, and the state ranked 14th for per capita personal income growth.

Capital Expenditures and Hiring Plans — Muted Expectations

The outlook for both capital expenditures and hiring fell ahead of Q3, 0.7 points and 3.1 points, respectively. The capital expenditures index dropped to 51.1, and the hiring plans index fell to 51. Both metrics declined into negative territory ahead of Q4—planned capital expenditures fell to 45.9 and hiring plans fell to 46.4.

More than one-quarter (28.7%) of respondents expect an increase in hiring plans and 29.5% expect an increase in capital expenditures in Q3. The largest proportion of respondents anticipate no change (46.1% for hiring plans and 42.9% for capital expenditures). Looking ahead to Q4 2019, less than a quarter (20.3% and 20.3%, respectively) of panelists expect an increase in hiring or capital expenditures.



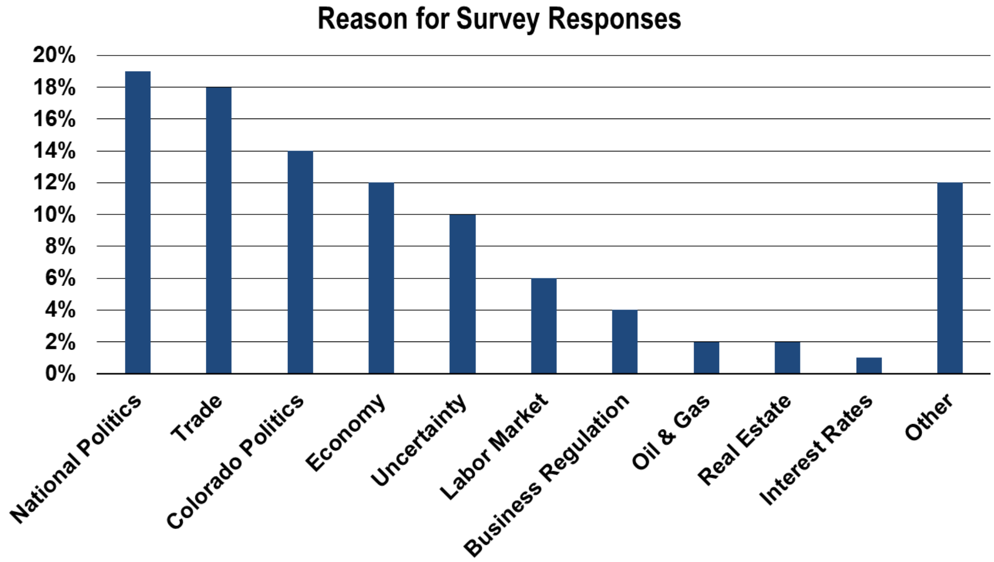
An indicator of capital expenditures is infrastructure. According to Dodge Data and Analytics, the value of construction in Colorado was up 22.6% in 2018, but preliminary data through May indicate a 27.5% decrease in activity year-to-date. Through May, the value of residential building decreased 25.9%, and nonresidential building fell 44%. Nonbuilding increased year-over-year through the first two months of 2019 by 26.6%. According to the U.S. Census Bureau, the total value of construction for the nation stalled in March, down 1.2% year-over-year for April.

U.S. job growth continued in May 2019, increasing 1.6% year-over-year. However, nonfarm covered employment slowed in the preliminary release in May, up 75,000 month-over-month, following strong growth of 224,000 in April. Year-to-date through May, the average number of jobs added per month totaled 164,000, down from the 12-month average of 230,000 for the same period a year ago. The unemployment rate in the United States stayed at 3.6% in May 2019.

As of May 2019, Colorado continued to exhibit strong employment growth. Jobs increased 1.7% from May 2018 to May 2019, a gain of 45,900 year-over-year. The seasonally adjusted state unemployment rate, at 3.2%, remained below the national rate, ranking the state 13th-lowest in the country. Year-over-year employment growth was recorded in all of Colorado’s seven metropolitan areas. The Greeley MSA and the Boulder MSA recorded the fastest year-over-year growth (2.9%), followed Grand Junction (2.8%), Fort Collins (2.7%), Colorado Springs (1.7%), Denver-Aurora-Lakewood (1.2%), and Pueblo (0.2%). Colorado industries with the greatest annual percent change in May were Professional and Business Services (5.2%), Other Services (3.8%), and Leisure and Hospitality (2.2%).

Inflation in Colorado has outpaced the nation for eight of the past nine years. Inflation slowed in 2018 and prices grew slowly in early 2019. In May, all items index increased 1.6% year-over-year; core inflation increased 2%; shelter, 2.4%; and medical care, 3.1%.

Reason for Survey Responses



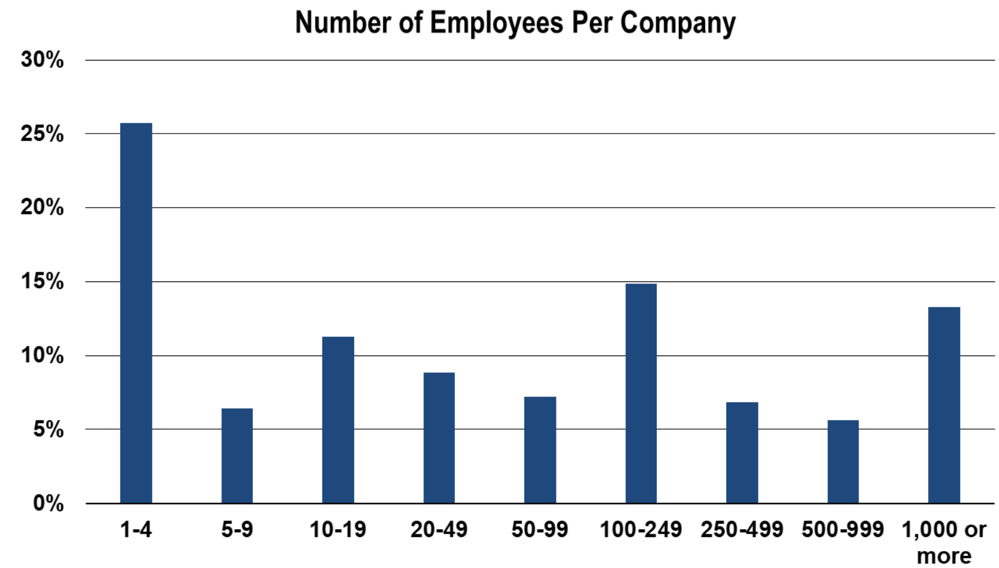
Panelists were asked to give reasons for their expectations. The state of national politics was the most cited reason for respondents' responses (mentioned by 19% of respondents). Trade was the next most cited reason (18%). Colorado politics was the third-most mentioned reason, with a numerous respondents referencing the Colorado oil and gas legislation and increased business regulation by state 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. A tight labor market, mentioned by 6% of respondents, can be difficult for 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. Those with a generally negative outlook often cited national politics, trade, and uncertainty.

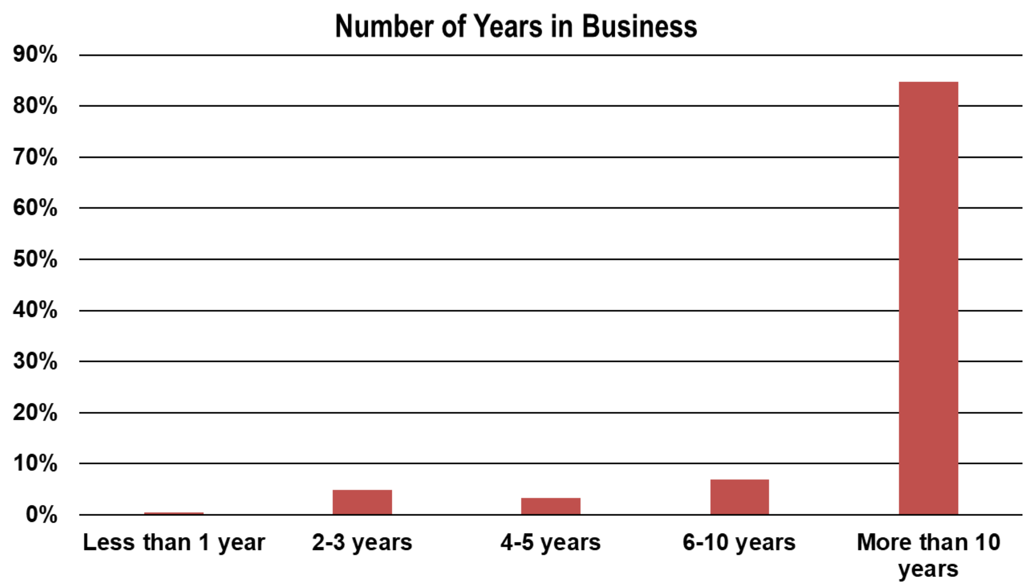
Expectations by Company Size and Length of Time in Business

Panelists were asked about the size of their company and about how long their company has been in business. A total of 84.7% of respondents work at a long-standing company that has been in business for more than 10 years. More than half (52.2%) of survey respondents work for companies with fewer than 50 employees. The four largest size cohorts were companies with 1–4 employees (25.7%), 100–240 employees (14.9%), 1,000 or more employees (13.3%) and 10–19 employees (11.2%).

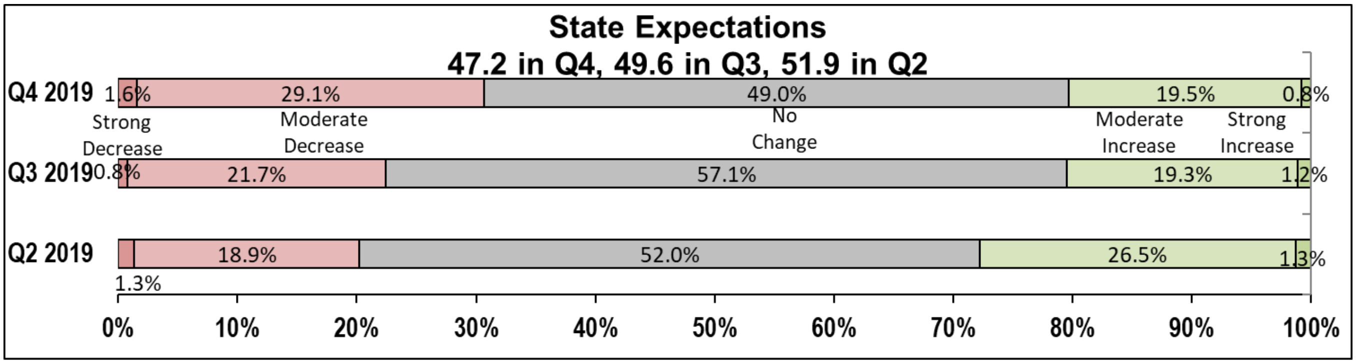
Small employers' (fewer than 50 employees) expectations decreased 6.5 points ahead of Q3, and larger employers' expectations fell 1.8 points. From Q3 2019 to Q4 2019, expectations from both cohorts slipped. In Q3, large employers were more optimistic than small employers (5.4 points higher).

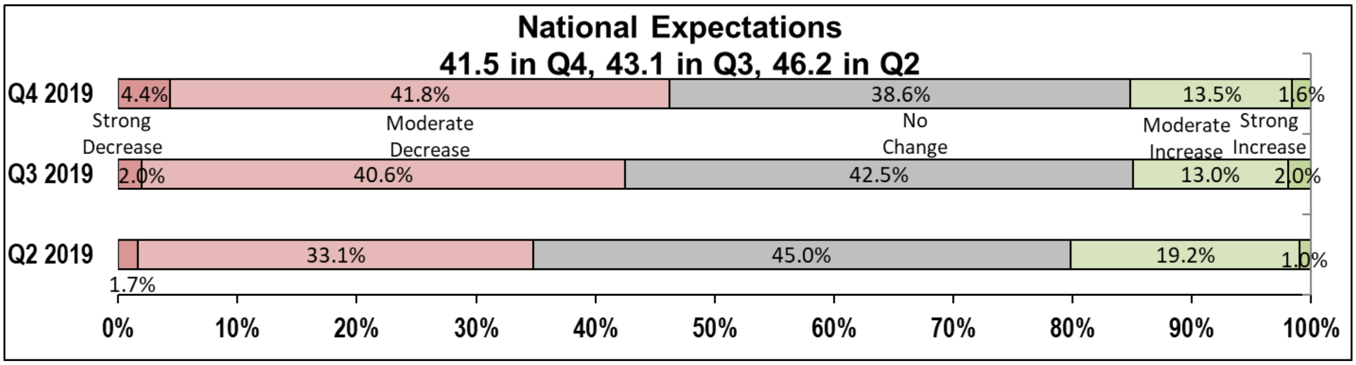


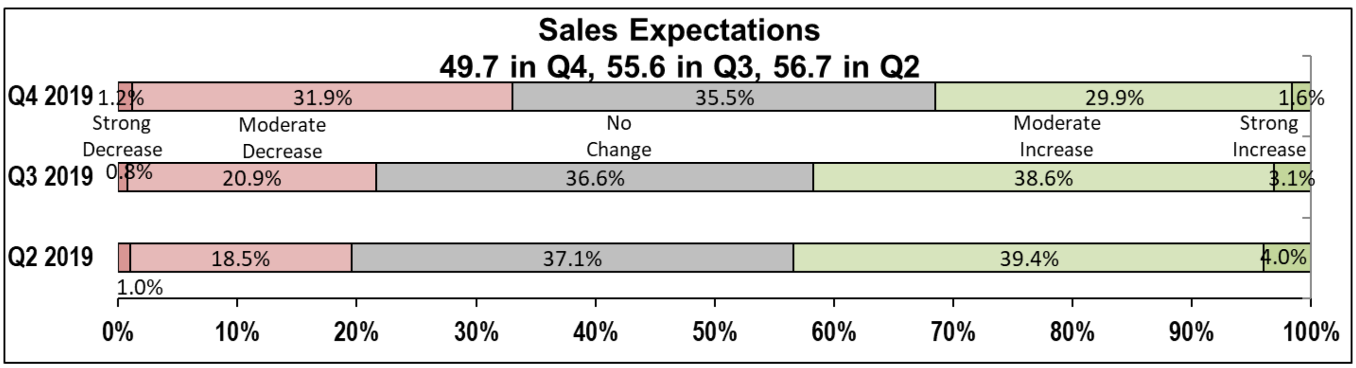
While responding panelists represent every industry in the state, the largest percentage of respondents to the Q3 survey were in the following sectors: Finance and insurance (18%); Real Estate, Rental, and Leasing (17%); Professional, Scientific, and Technical Services (15%); and Government (13%).

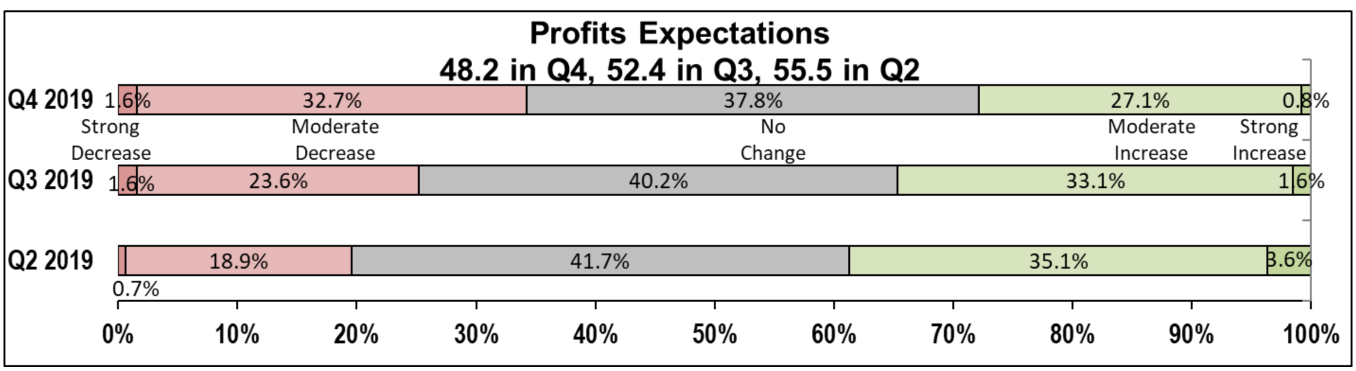


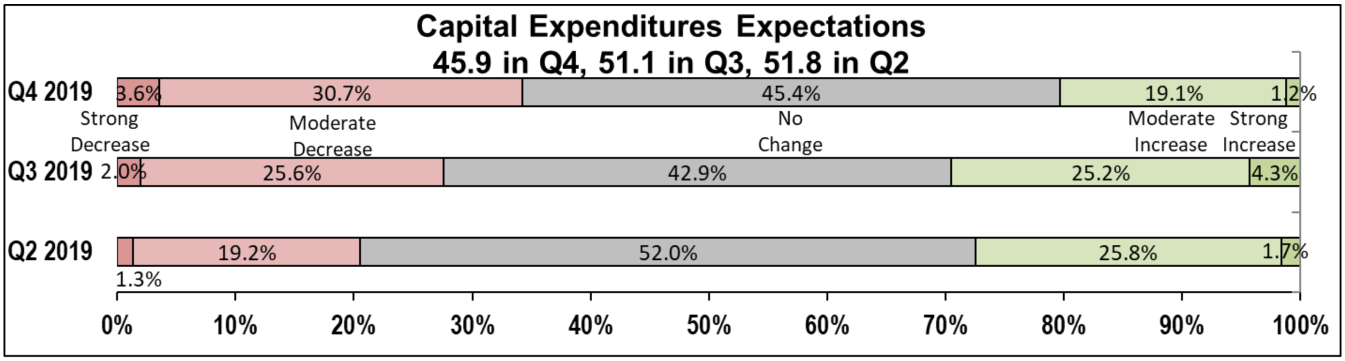
Distribution of Expectations in Q4 2019, Q3 2019, Q2 2019

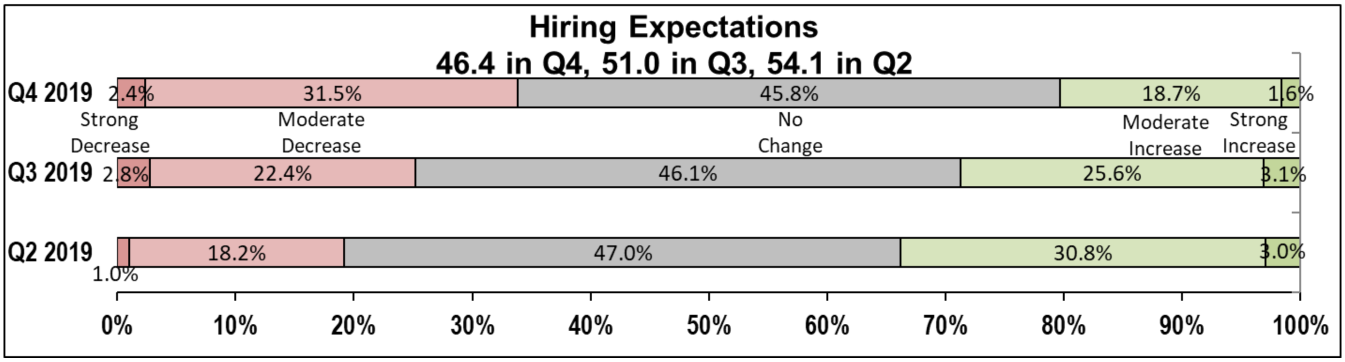


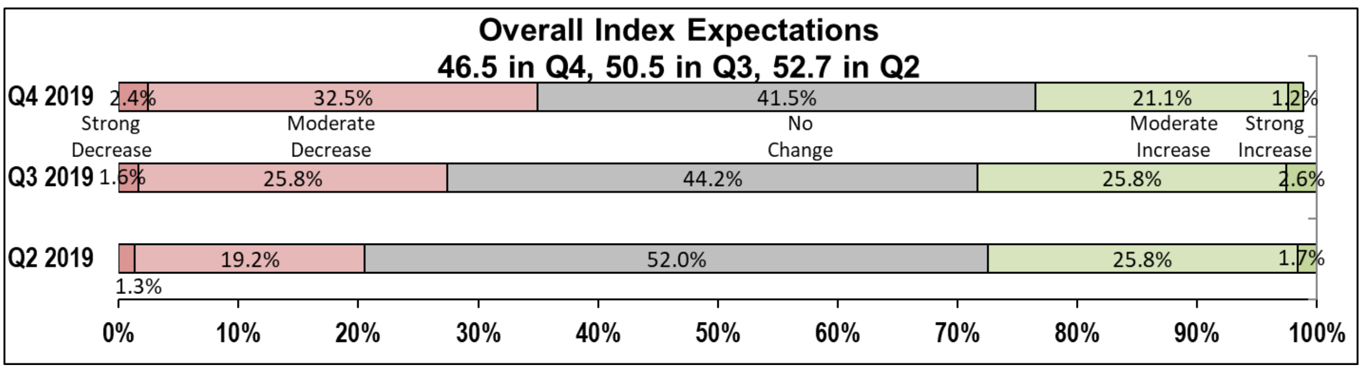












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For more information about the LBCI and to become a panelist, go to:
www.colorado.edu/business/brd