LBCI LEEDS BUSINESS CONFIDENCE INDEX

Fourth Quarter 2020
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Business Confidence Revised Down for Q4, but Still Improves from Q3

Business optimism was revised down for the fourth quarter from 51 to 47.9, signaling a more bearish reality as the economy moves into the final quarter of the year. Nonetheless, after falling to a historic low earlier in the year, Colorado business leaders' confidence did continue to mark improvement ahead of Q4 2020 and Q1 2021. A plurality of panelists (39%) continued to cite COVID-19 as the main driver for their pessimistic outlook, but the election was also cited by one in five panelists. Some responses struck tones of optimism with 19% of individuals citing resiliency and pent-up demand. While Q4 confidence remained below neutral, the Q1 2021 outlook rose moderately above neutral.

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 2020, the index increased 3.6 points to 47.9, with 5 of the 6 components of the index below neutral (50). Signaling further improvement in the first quarter of 2021, the index rebounded to 56, firmly crossing the neutral threshold. A total of 412 qualified panelists responded to the survey from September 1 through September 21.

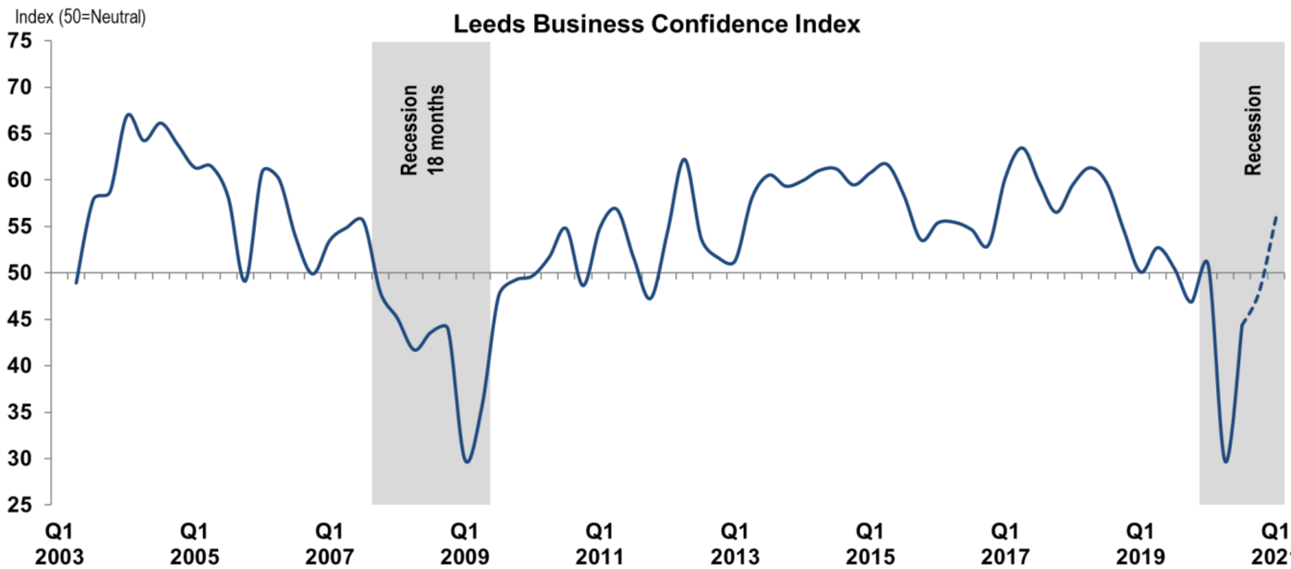
Leeds Business Confidence Index

Component	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Change	
						Quarterly	Annual
State Economy	47.4	51.5	28.8	46.8	48.9	▲	▲
National Economy	38.5	45.9	21.8	43.5	44.5	▲	▲
Industry Sales	51.3	54.1	32.9	51.3	52.5	▲	▲
Industry Profits	49.7	52.1	31.5	44.8	48.8	▲	▼
Industry Hiring	48.3	50.6	32.4	42.7	48.0	▲	▼
Capital Expenditures	45.9	50.6	31.0	37.1	44.7	▲	▼
LBCI	**46.9**	**50.8**	**29.7**	**44.3**	**47.9**	▲	▲

- Five individual components of the LBCI recorded negative perceptions (below 50) ahead of Q4 2020, but all six components improved relative to the prior quarter.
- Aside from the national economic outlook, the greatest pessimism was recorded in the two categories that reflect investment in company growth—capital investment and hiring.
- The sales outlook remained in positive territory, but the profits expectations remained pessimistic for the quarter.
- The rebound in the labor market through the summer left Colorado with a smaller jobs deficit than the nation (-5.3% versus -6.8%), and ranked the state 20th in the nation for year-over-year performance in August.

Summary – Confidence Improved Ahead of Q4

The LBCI continued to mark improvement in ahead of Q4 2020, but still remained below neutral. The 3.6-point increase brought the index to 47.9 ahead of Q4 2020. All six components increased from Q3 to Q4, but three components remained below levels from a year ago. Looking two quarters ahead to Q1 2021, expectations return to growth (56), with all six components in positive territory. The index illustrates the lasting impacts of COVID-19, but also the optimism that the recession will be relatively short-lived.

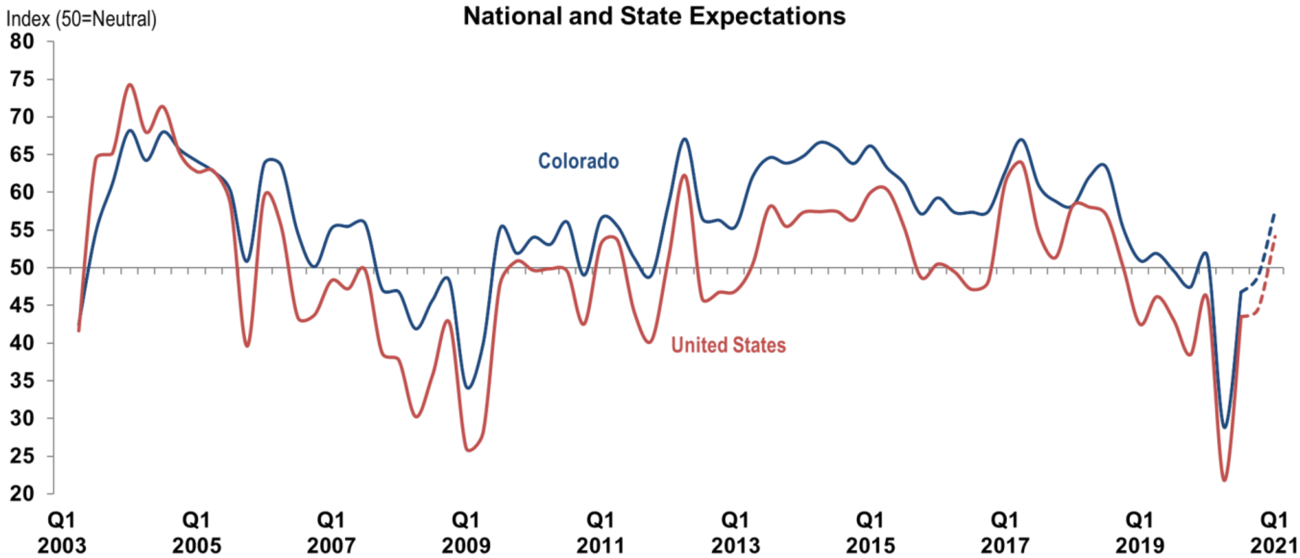


National real gross domestic product (GDP) fell at a 31.4% seasonally adjusted annual rate (SAAR) in Q2 2020 according to the third estimate from the Bureau of Economic Analysis (BEA). Personal consumption expenditures decreased 33.2%, government expenditures rose by 2.5%, and gross private domestic investment fell by 46.6%. The trade deficit shrank from Q1 2020 to Q2 2020, but still exceeded $775 billion (annualized average chained dollars). Economic expectations for real GDP growth in 2020 fell sharply in response to COVID-19. While the second quarter of 2020 is expected to reflect most of the economic loss from COVID given the rigidity of the lockdowns in April and May, GDP is expected to remain below 2019 levels until 2022.

National and State Economies — Looking Up

State expectations improved from 46.8 in Q3 to 48.9 ahead of Q4 and 57.6 ahead of Q1 2021. The state outlook is more than 4 points above the national outlook, indicating business leaders' confidence that the state will continue to outperform relative to the national economy. The national index recorded only modest gains ahead of Q4, increasing just one point from 43.5 to 44.5. However, the national index for Q1 2021 jumped to 54.1—the largest gain in the index.

For the state economy, 63.8% of respondents believe the state economy will stay neutral-to-positive in Q4, versus 36.2% who expect slower growth. On the national level, 52.9% are neutral-to-positive, versus 47.1% who expect slower growth.



U.S. GDP fell at 31.4% SAAR in Q2 2020, a precipitous fall from the prior quarter. According to the BEA report released September 30, 2020:

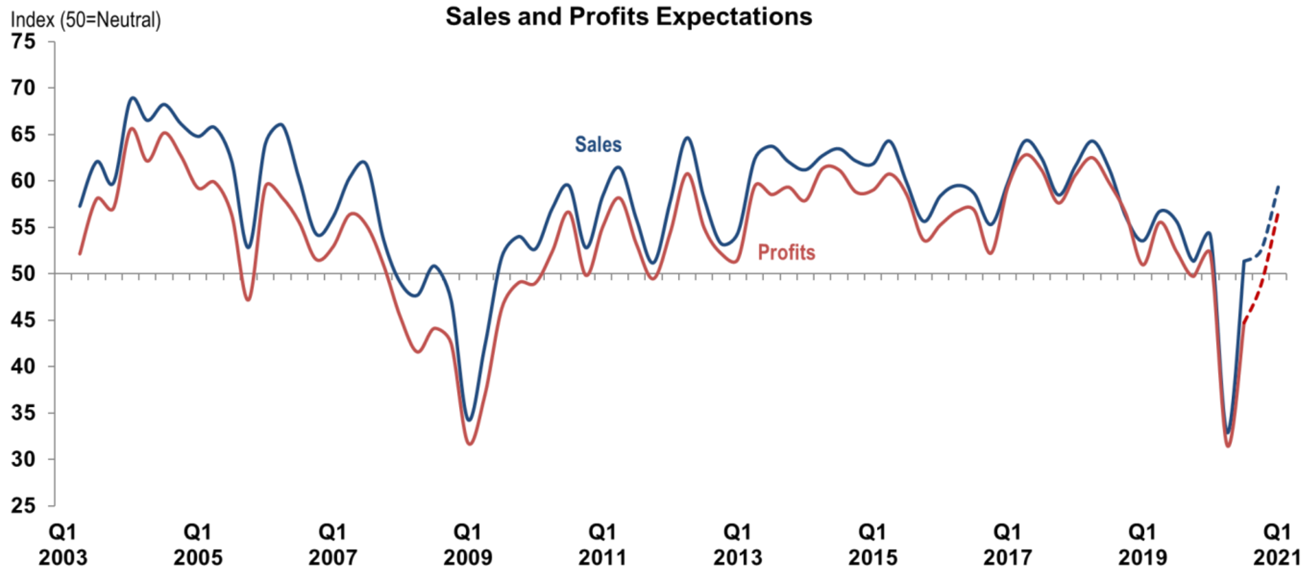
> *The decrease in real GDP reflected decreases in PCE, exports, nonresidential fixed investment, private inventory investment, residential fixed investment, and state and local government spending that were partly offset by an increase in federal government spending. Imports, which are a subtraction in the calculation of GDP, decreased.*
>
> *The decrease in PCE reflected decreases in services (led by health care) and goods (led by clothing and footwear). The decrease in exports primarily reflected a decrease in goods (led by capital goods). The decrease in nonresidential fixed investment primarily reflected a decrease in equipment (led by transportation equipment). The decrease in private inventory investment primarily reflected a decrease in retail (led by motor vehicle dealers). The decrease in residential investment primarily reflected decreases in new single-family housing.*

Colorado's Q1 2020 real GDP fell at a SAAR of 4.1% for the quarter but grew 1% year-over-year. Year-over-year, the largest percentage gains were recorded in the following industries: Mining, Quarrying, and Oil and Gas Extraction (7.3%); Management of Companies and Enterprises (6.9%); and Utilities (6.6%). The largest dollar gains were recorded in Professional, Scientific, and Technical Services ($1.9 billion) and Mining, Quarrying, and Oil and Gas Extraction ($1.6 billion).

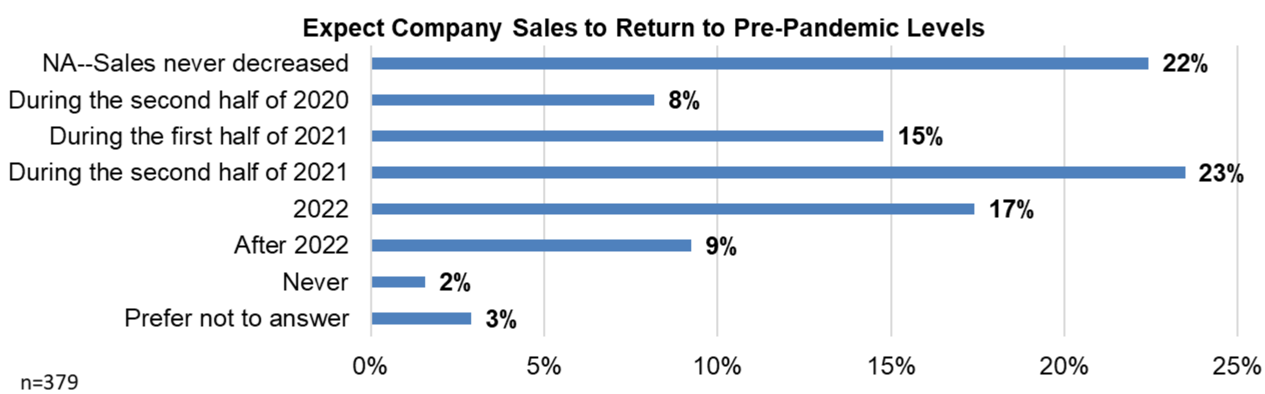
Sales and Profits — Hitting Pause

Sales and profits expectations increased 1.2 points and 4.0 points, respectively, from Q3 2020 to Q4 2020. The sales component recorded the highest expectations among the six components, and was the only component above neutral ahead of Q4. Looking toward Q1, the sales and profits outlook increased further, both pointing to expansion. This suggests that firms expect the worst impact on sales and profits to have occurred in the second quarter, with improvements occurring as restrictions began to ease in May and June.

The sales index reached 52.5 in Q4, while the profits index was at 48.8. A majority of panelists are neutral-to-positive regarding sales and profits ahead of Q4; however, 33.7% still expect a decrease in sales in Q4 and 37.9% expect falling profits. Looking ahead to Q1, sales expectations increased to 59.3, while profits improved to 56.6.



The Q4 2020 survey asked additional questions specifically about the COVID-19 impact on company sales. Of the 379 individuals who responded, 22% reported that sales never decreased. Regarding sales recovery, 46% of respondents put their company's sales recovery between the second half of 2020 and the second half of 2021, while 26% put a recovery in 2022 or after, and 2% do not anticipate ever recovering to pre-pandemic sales levels.



The health of sales and profits largely depends on the strength of the consumer. Prior to the virus outbreak in the U.S., most consumption data remained strong. According to the Conference Board, national consumer confidence dropped 5.4 points in August before rebounding strongly—up 15.5 points in September. Personal consumption expenditures decreased at a 33.2% seasonally adjusted annual rate in Q2. August retail sales increased 2.6% year-over-year, and were up 1.5% from the pre-pandemic peak in January, according to the seasonally adjusted advance estimate from the U.S. Census Bureau. This year over year gain has not been shared equally by all retail categories. In August, restaurant sales decreased 15.4% and grocery sales increased 10% from the same month in 2019, as the impact of COVID-19 changed consumer spending habits.

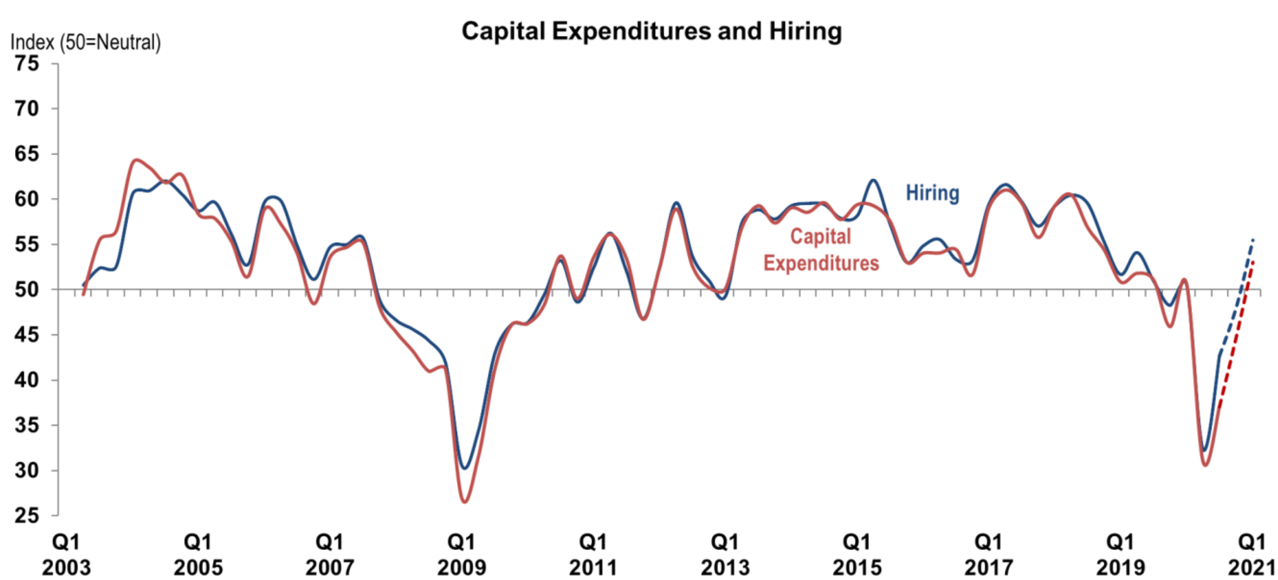
B-to-B sales are also a signal for sales and profits. While gross private domestic investment fell 46.6% (SAAR), the subset of nonresidential fixed investment decreased 27.2%. Inventories decreased sharply for the quarter. According to the Institute for Supply Management, the manufacturing sector has remained above 50 (expansionary mode) for the past three months, reaching 56 in August. The nonmanufacturing index in August 2020 experienced a drop to 56.9, but also remained above 50 for three consecutive months. The manufacturing survey from the Federal Reserve Bank of Kansas City recorded a composite index of 11 in September, slightly lower than 14 in August but remains higher than the level of 3 recorded in July.

In Colorado, personal incomes continued to grow in Q1 2020. According to the BEA, Colorado's nominal personal income grew 3.4% year-over-year. Colorado had the 11th-highest per capita personal income in Q1 2020, at $61,878, but the state slipped to 39th for per capita personal income growth year-over-year.

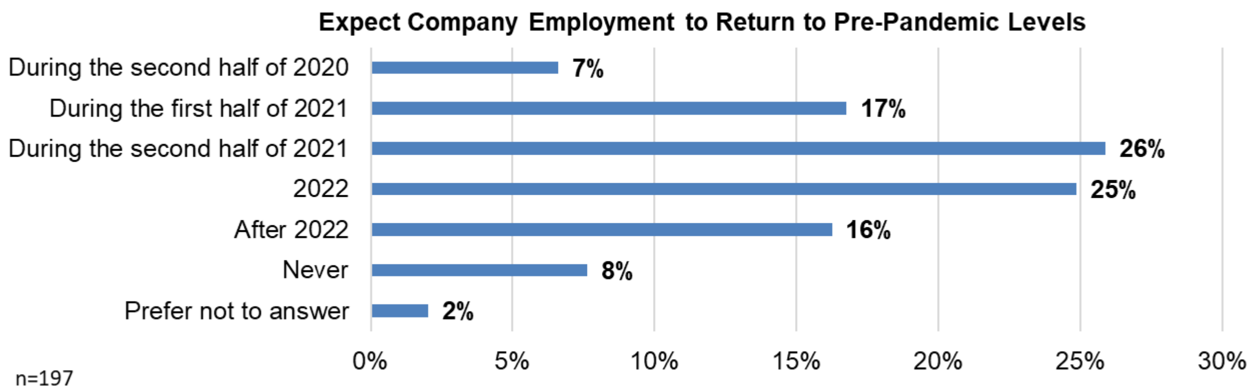
Capital Expenditures and Hiring Plans — Near-term Losses

The outlook for capital expenditures and hiring increased to 44.7 and 48, respectively, ahead of Q4. Both metrics rebounded further looking ahead to Q1—planned capital expenditures increased to 53 and hiring plans increased to 55.4. These components reflect investment in firm growth, thus, the rebound in the index in Q1 2021 is a positive confirmation of business conditions. Ahead of Q4 2020, 21.8% of respondents expect growth in capital expenditures, and 27.4% project an increase in hiring.

An indicator of capital expenditures is construction. According to Dodge Data and Analytics, the value of construction in Colorado decreased 23.9% in 2019. Year-to-date through August 2020, the total value of construction in Colorado has increased 0.5%, with the largest pullback in nonresidential construction. According to the U.S. Census Bureau, the total value of construction put in place for the nation increased 4% year-to-date through July 2020 compared to July 2019.



The Q4 2020 survey asked additional questions specifically about the COVID-19 impact on their company's employment. Of the 197 individuals who responded, half put their company's employment recovery between the second half of 2020 and the second half of 2021, while 41% put a recovery in 2022 or after, and 8% do not anticipate ever recovering lost jobs.



The U.S. job market has been on the mend since the steep decline during the height of lockdowns. Total nonfarm employment fell a record 14.5% (-22.2 million jobs) from February to April before rebounding 8.1% (10.6 million jobs) from April to August. However, total U.S. nonfarm employment remained down 6.8% year-over-year in August 2020. The unemployment rate in the United States continued to improve from the 14.7 in April to 8.4% in August.

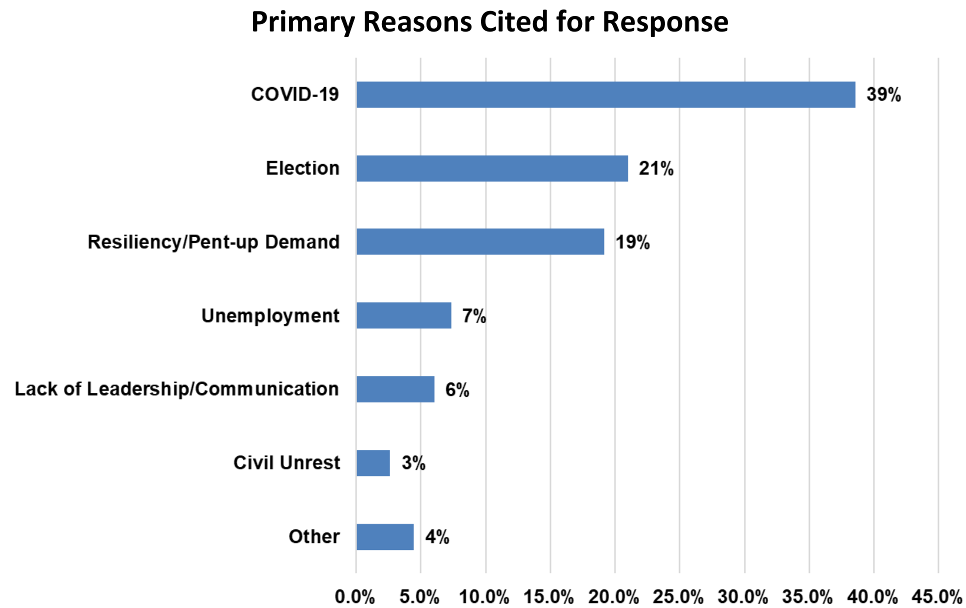
Colorado nonfarm employment decreased 12.2% (-342,300 jobs) from February to April, but increased 7.2% (178,500 jobs) from April to August. Colorado employment remained down 5.3% (-147,800 jobs) in August 2020 compared to August 2019. At 6.7%, Colorado's August unemployment ranked the state 20th-lowest in the country.

Year-over-year employment declines were recorded in all of Colorado's seven metropolitan statistical areas (MSAs) in August. The Boulder MSA recorded the largest year-over-year decline (-6.2%), followed by Greeley (-5.9%), Fort Collins (5.8%), Denver-Aurora-Lakewood (-4.5%), Pueblo (-3.6%), Colorado Springs (-2.2%), and Grand Junction (-0.6%). Colorado industries with the largest annual percent change in were Leisure and Hospitality (-19.1%), Mining and Logging (-18.3%), Other Services (-9.4%), Government (-5.2%), and Trade, Transportation, and Utilities (-3.8%). The only industry to record year-over-year growth in August was Manufacturing (0.5%).

Inflation in Colorado has outpaced the nation for the last seven years. Inflation slowed in 2018 and 2019, growing 2.7% and 1.9%, respectively, in the Denver-Aurora-Lakewood area. In July 2020, the all items index increased 3.1% year-over-year; core inflation increased 3.3%; shelter, 4.8%; and all items less shelter, 2.1%, not seasonally adjusted.

Reason for Survey Responses

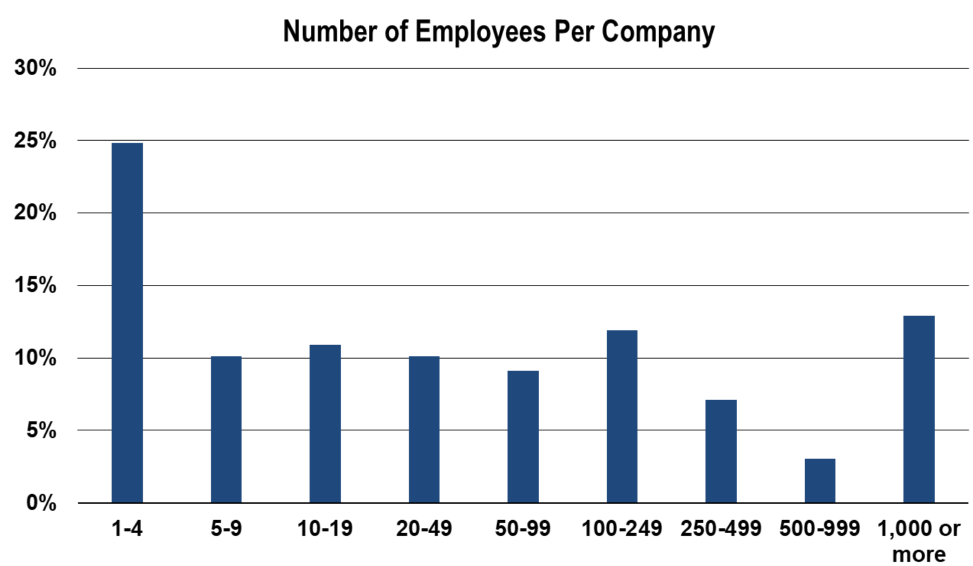
Panelists were asked to give reasons for their expectations. Of the 328 respondents who provided an explanation, COVID-19 was the most cited (mentioned by 39% of respondents). The election was the next most cited reason (21%), followed by resiliency/pent-up demand (19%).



Expectations by Company Size and Length of Time in Business

Panelists were asked about the size of their company and how long their company has been in business. A total of 82.7% of respondents work at a long-standing company that has been in business for more than 10 years. More than half (55.5%) of survey respondents work for companies with fewer than 50 employees.

Small employers were only slightly less optimistic than large employers ahead of Q4 2020. Both small (fewer than 50 employees) and large employers' expectations remained in negative territory ahead of Q4, but both groups turned positive looking out to Q1 2021.



While responding panelists represent every

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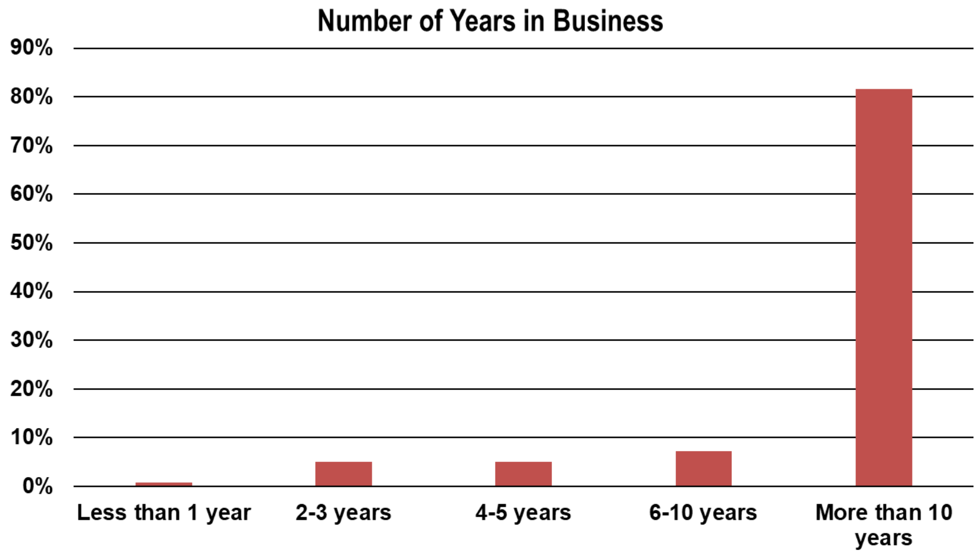
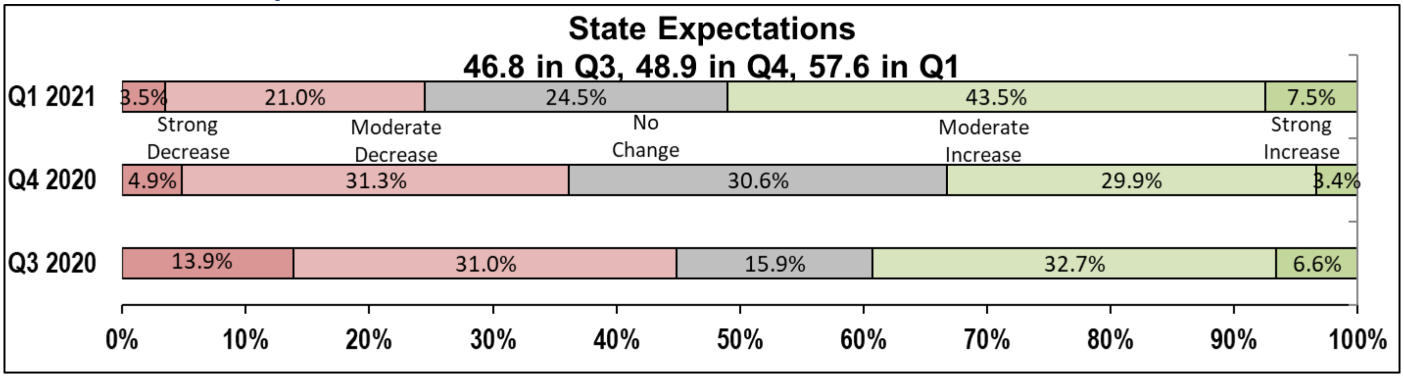
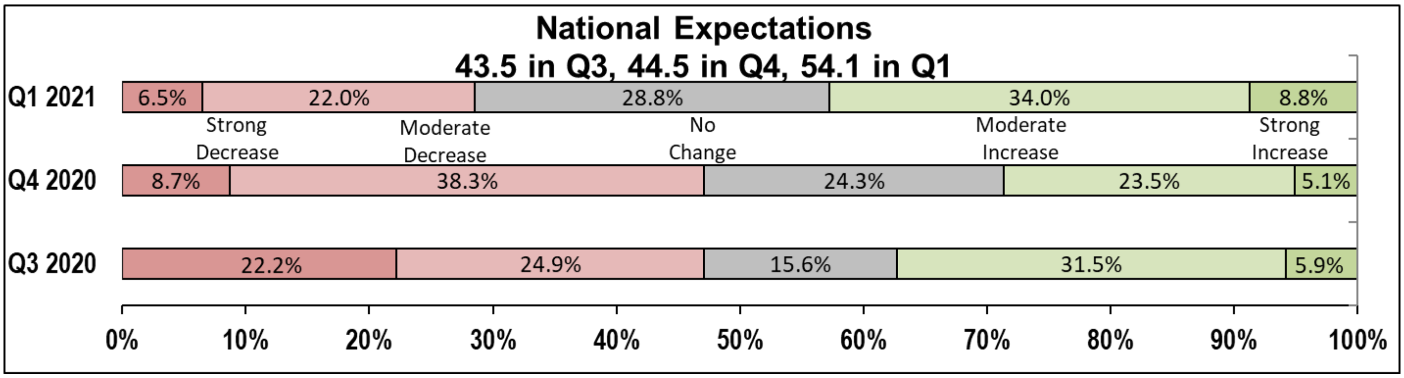
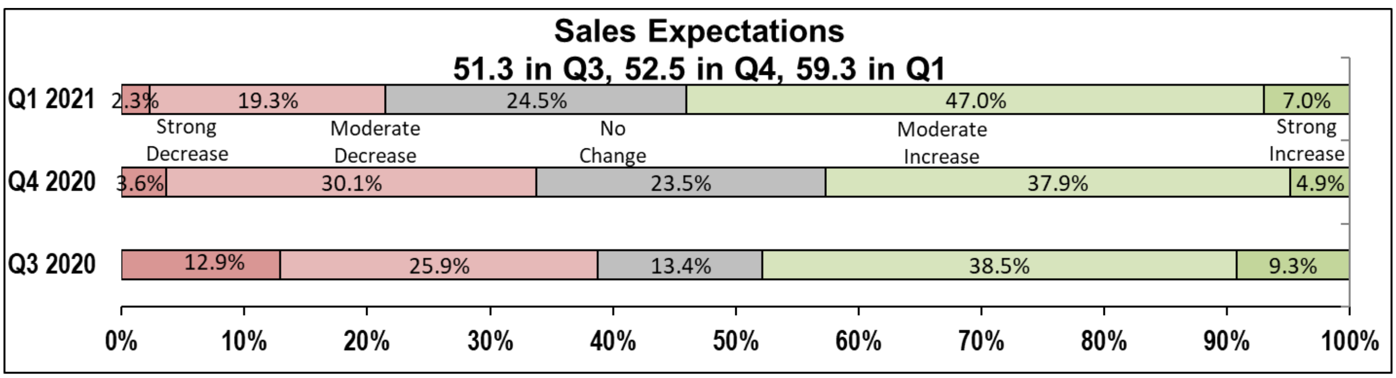
industry in the state, the largest percentage of respondents to the Q4 survey were in the following sectors: Professional, Scientific, and Technical Services (17%); Real Estate, Rental, and Leasing (17%); and Finance and Insurance (15%).

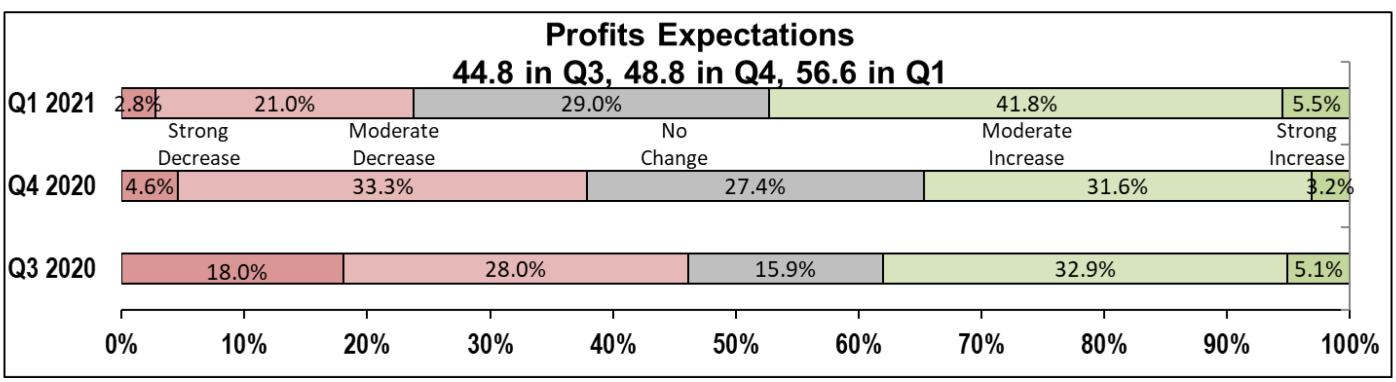


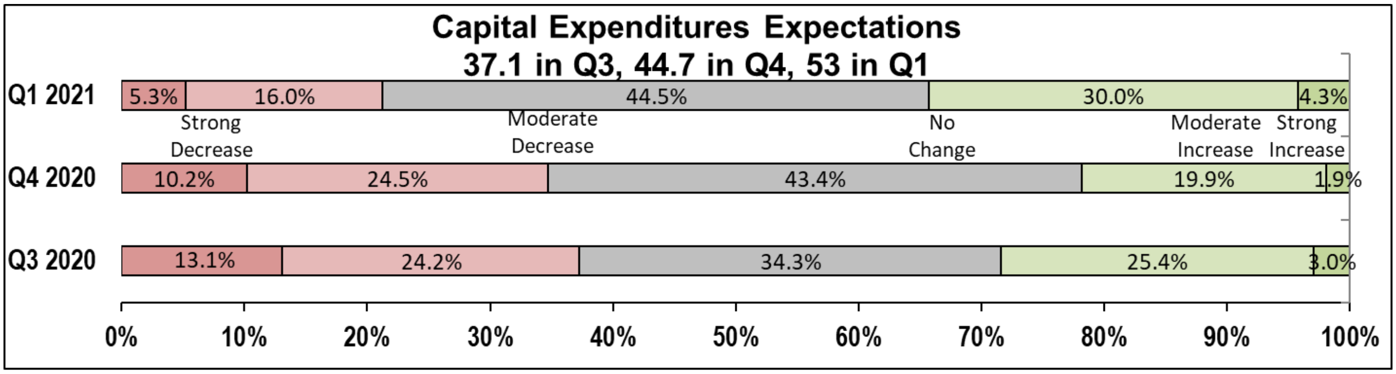
Distribution of Expectations in Q3 2020, Q4 2020, and Q1 2021

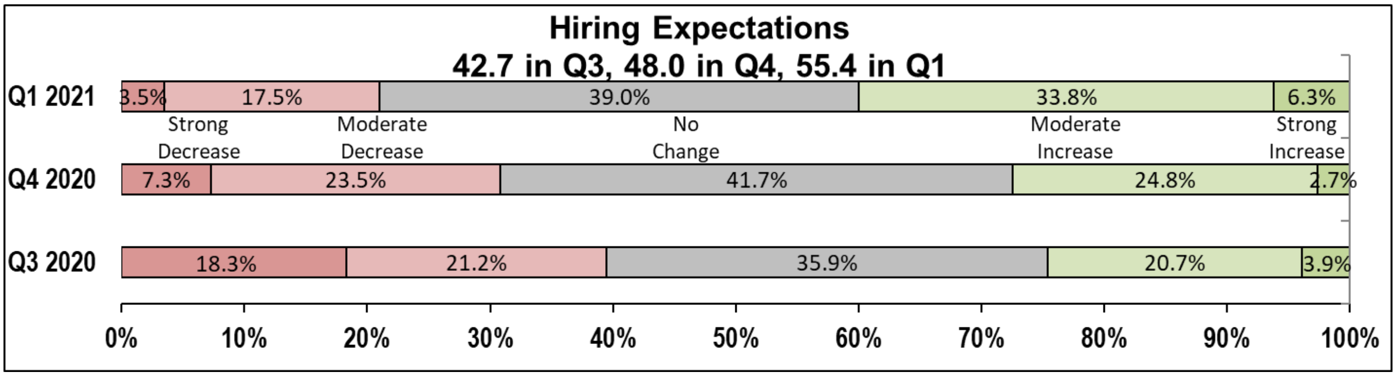


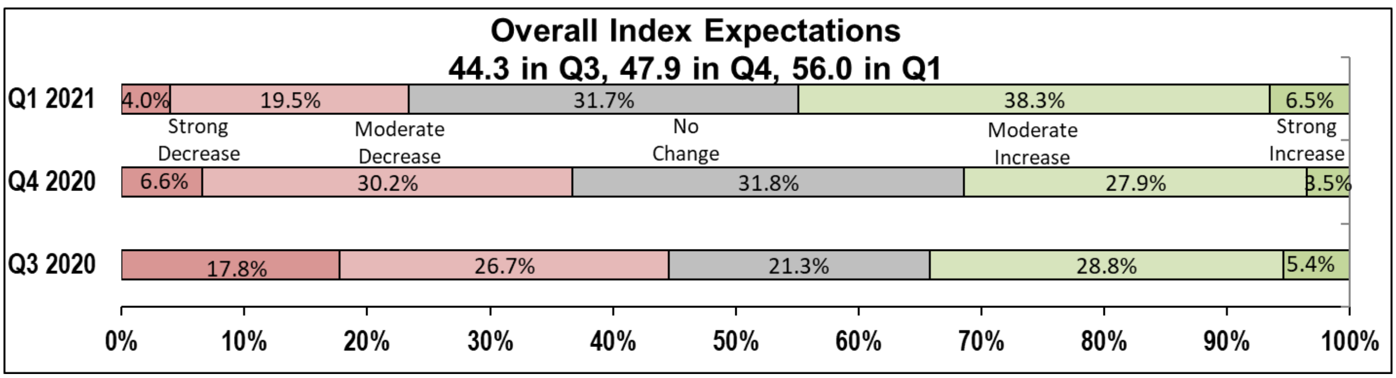












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For more information about the LBCI and to become a panelist, go to:
www.colorado.edu/business/brd