

Business Leaders' More Cautious ahead of Q4

Business confidence remained elevated ahead of Q4 2021 despite falling from record high levels in Q3. All components of the index slipped ahead of the fourth quarter, but only the national indicator reflected pessimism. The index fell 11.2 points from Q3 2021 to Q4 2021, but rebounded modestly (1.1 points) ahead of Q1 2022. While panelists expressed concerns about COVID variants, inflation, and the supply chain, they also expressed optimism about increased demand and the relative improvement in COVID cases and the supply chain.

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. While the index decreased ahead of Q4 2021 to 56.1, it remained in positive territory (50=neutral) and stayed elevated above the long-term average (54.3). Panelists anticipated a sustained recovery in the first quarter of 2022, with the index increasing modestly to 57.2. A total of 264 qualified panelists responded to the survey from September 1 through September 20.

Leeds Business Confidence Index

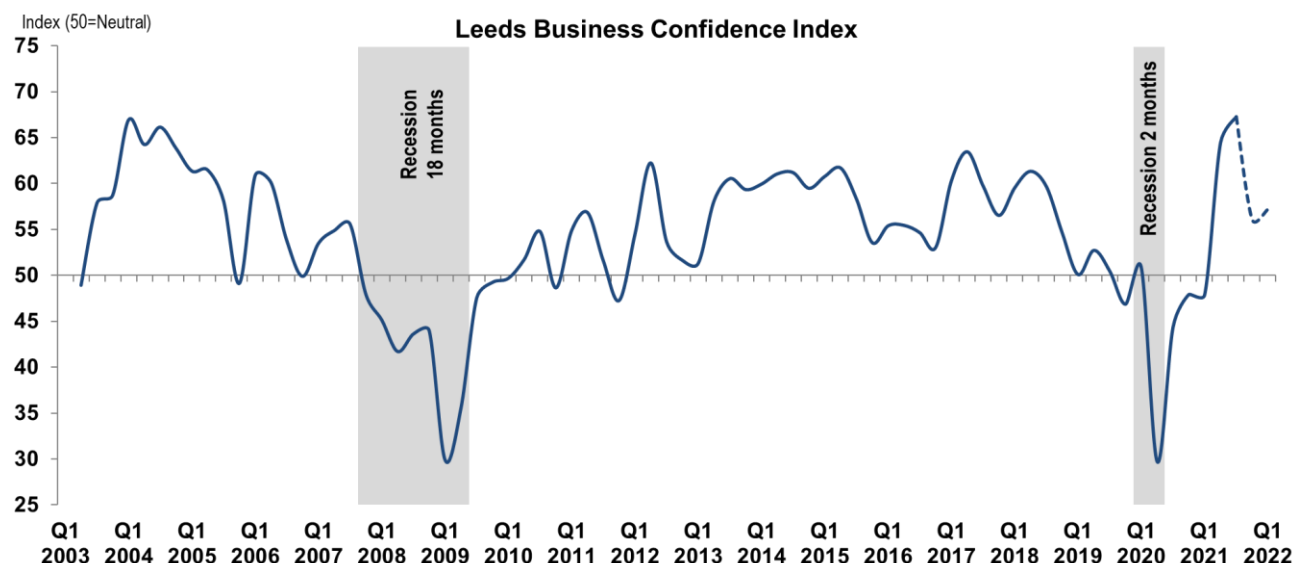
Component	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Change	
						Quarterly	Annual
State Economy	48.9	46.9	68.3	70.9	55.1	▼	▲
National Economy	44.5	43.5	65.7	67.5	48.9	▼	▲
Industry Sales	52.5	51.5	67.5	69.6	59.0	▼	▲
Industry Profits	48.8	48.7	63.1	65.2	56.6	▼	▲
Industry Hiring	48.0	49.9	61.8	67.7	61.6	▼	▲
Capital Expenditures	44.7	46.8	59.9	62.6	55.4	▼	▲
LBCI	47.9	47.9	64.4	67.3	56.1	▼	▲

- Five of the six individual components of the LBCI recorded positive perceptions (above 50) ahead of Q4 2021; panelists expressed a short-term pessimistic outlook for the national economy. All six components were positive looking further out to Q1 2022.
- The greatest optimism was recorded in hiring and industry sales.
- The rebound in the labor market through August left Colorado with a smaller jobs deficit than the nation (-2.9% versus -3.5%) and ranked the state 16th in the nation in terms of the recovery and 18th in terms of year-over-year performance.
- Colorado's personal income fell in Q2 2021 from the record high level recorded in Q1 2021; the decrease was attributable to the pullback in direct government transfer payments, even though employee wages and salaries increased to an all-time high.
- National real gross domestic product fully recovered from the recession in Q2 2021, up 0.8% above the all-time high recorded in Q4 2019.
- More than 57% of companies reported as of September that either sales never decreased or sales have already returned to pre-pandemic levels; and nearly 46% reported that employment has rebounded.
- Supply chain disruptions had varying impacts on 77% of responding companies.

Summary – Leaders Remain Optimistic

The LBCI fell from 67.3 in Q3 to 56.1 ahead of Q4 2021, remaining strongly in positive territory; the index posted gains year-over-year. All six components pulled back from Q3. Looking two quarters ahead to Q1 2022, expectations recovered slightly (57.2), still remaining at high levels. Coupling the quantitative survey results with the qualitative comments, panelists signaled expectations of a sustained economic recovery.

Component	Q4 2021	Change		Q1 2022	Change	
		Quarterly	Annual		Quarterly	Annual
State Economy	55.1	▼	▲	57.6	▲	▲
National Economy	48.9	▼	▲	52.1	▲	▲
Industry Sales	59.0	▼	▲	59.0	▲	▲
Industry Profits	56.6	▼	▲	57.3	▲	▲
Industry Hiring	61.6	▼	▲	60.3	▼	▲
Capital Expenditures	55.4	▼	▲	56.9	▲	▲
LBCI	56.1	▼	▲	57.2	▲	▲

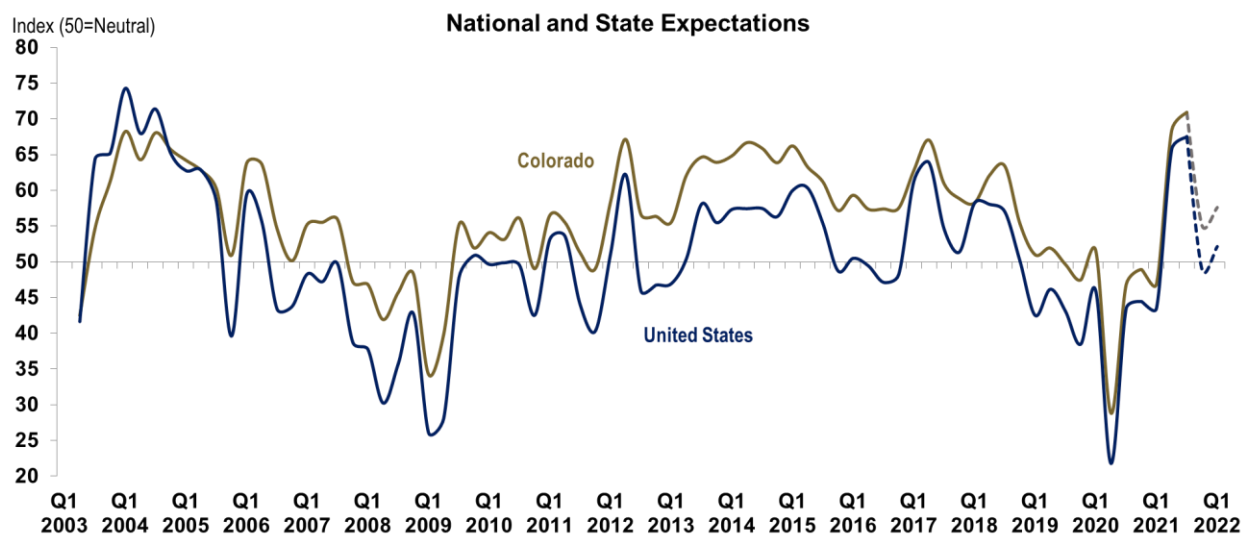


National real gross domestic product (GDP) increased at a 6.5% seasonally adjusted annual rate (SAAR) in Q2 2021 according to the advance estimate from the Bureau of Economic Analysis (BEA). Personal consumption expenditures increased 11.8%, but gross private domestic investment fell at an annualized rate of 3.5% and government expenditures fell 1.5%. The trade deficit increased from Q1 2021 to Q2 2021, growing to \$1.3 trillion (annualized average chained dollars). Consensus Forecasts' economic expectations for real GDP growth in 2021 remained high in August; the projected growth of nearly 6% would be the fastest pace of GDP growth in nearly 40 years.

National and State Economies — Mixed Outlook

General state and national economic expectations remained elevated ahead of Q4. State expectations decreased from a record 70.9 in Q3 to 55.1 ahead of Q4 and 57.6 looking out further to Q1 2022. The state outlook is 6.2 points above the national outlook in Q4, indicating business leaders' confidence that the state will outperform relative to the nation. The national index also fell, decreasing from 67.5 ahead of Q3 to 48.9 ahead of Q1 and 52.1 looking out to Q1 2022.

For the state economy, 81.8% of respondents believe the state economy will stay neutral-to-positive in Q4, versus 18.2% who expect slower growth. On the national level, 65.5% are neutral-to-positive, versus 34.5% who expect slower growth.



The National Bureau of Economic Research pegged the recession at two months (March-April 2020)—the shortest on record. U.S. GDP rebounded quickly, reaching a new record level in the second quarter of 2021. GDP grew 6.5% in Q2 2021, marking four consecutive quarters of strong growth following the end of the recession.

According to the BEA report released August 26, 2021:

The increase in real GDP in the second quarter reflected increases in personal consumption expenditures (PCE), nonresidential fixed investment, exports, and state and local government spending that were partly offset by decreases in private inventory investment, residential fixed investment, and federal government spending. Imports, which are a subtraction in the calculation of GDP, increased.

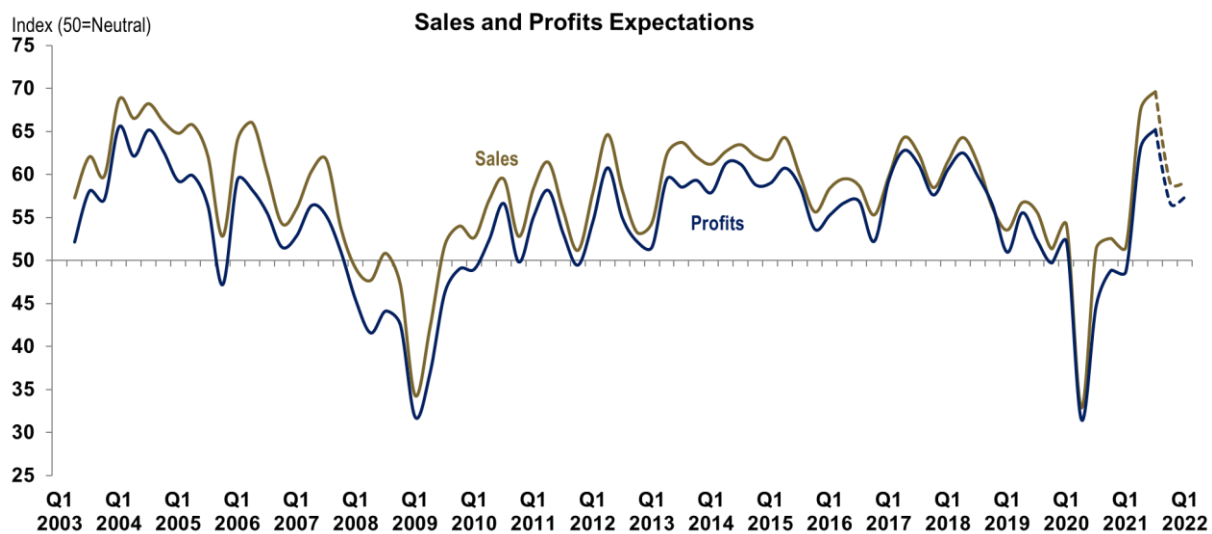
The increase in PCE reflected increases in services (led by food services and accommodations) and goods (led by "other" nondurable goods, notably pharmaceutical products, as well as clothing and footwear). The increase in nonresidential fixed investment reflected increases in intellectual property products (led by research and development as well as software) and equipment (led by transportation equipment). The increase in exports reflected an increase in goods (led by nonautomotive capital goods) and services (led by travel). The decrease in private inventory investment was led by a

decrease in retail trade inventories. The decrease in federal government spending primarily reflected a decrease in nondefense spending on intermediate goods and services. In the second quarter, nondefense services decreased as the processing and administration of Paycheck Protection Program (PPP) loan applications by banks on behalf of the federal government declined.

Colorado's Q1 2021 real GDP increased at a SAAR of 7.9% for the quarter and increased 1.1% year-over-year, reaching a new peak level. Year-over-year, the largest percentage gains were recorded in the following industries: Finance and Insurance (14%); Management of Companies and Enterprises (12%), and Administrative and Support and Waste Management (9.5%), while Arts, Entertainment, and Recreation remained down 25.5% and Agriculture, Forestry, Fishing, and Hunting was down 23.5%.

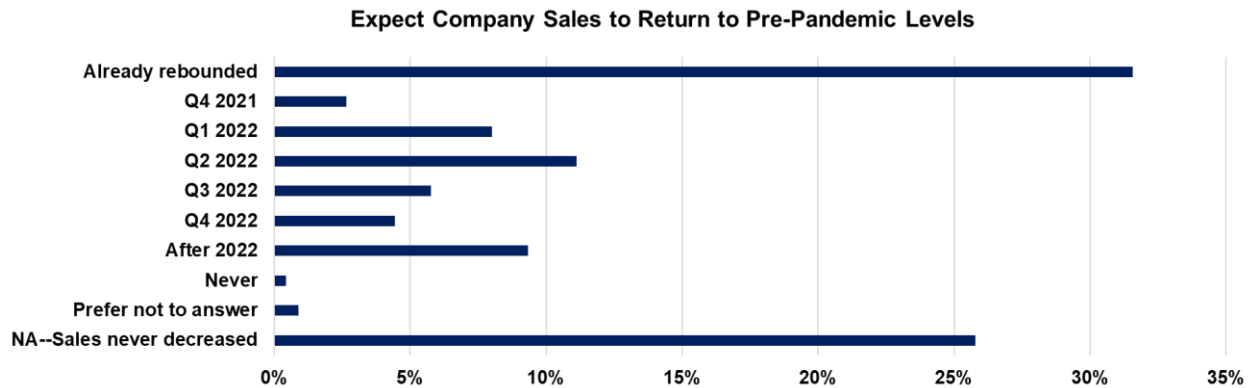
Sales and Profits — Still Recovering

Sales and profits expectations both slipped from the highs recorded in Q3 2021, but remained strongly positive. The sales index fell from 69.6 in Q3 to 59 ahead of Q4 2021 and Q1 2022; the profits index decreased from 65.2 in Q3 to 56.6 ahead of Q4 and 57.3 ahead of Q1 2022. A majority of panelists were neutral-to-positive regarding sales (79.5%) and profits (78.4%) ahead of Q4.



The Q3 2021 survey asked additional questions specifically about the COVID-19 impact on company sales. Of the 225 individuals who responded, 25.8% reported that sales never decreased, and nearly 31.6% reported that sales have already rebounded. Another 23.9% of respondents put their company's sales recovery in 2022.

Sales and profits largely depend on the strength of the consumer. Personal consumption expenditures increased at an annualized rate 11.8% quarter-over-quarter in Q2 2021 and 16.2% year-over-year. According to data from the U.S. Census Bureau, August retail sales were up 15.1% year-over-year. According to the Conference Board, national consumer confidence increased 27.5 points from August 2020 to August 2021; however, confidence slipped 15.1 points from the cycle high in June 2021.

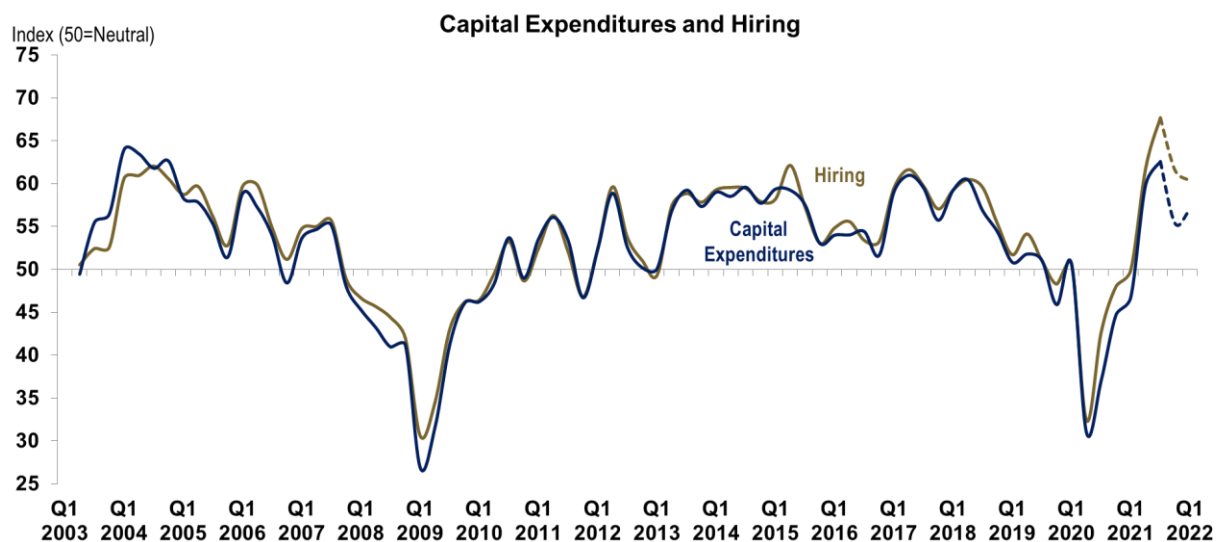


B-to-B sales are also a signal for sales and profits. In August 2021, wholesale trade increased 23.7% year-over-year, with gains in durable goods (19.5%) only modestly outpaced by gains in nondurable goods (27.7%). Wholesale inventories increased 11.5%.

In the second quarter of 2021, Colorado personal income grew 2.4% year-over-year, but fell 5% quarter-over-quarter, ranking the state 9th nationally. Colorado had the 10th-highest per capita personal income in Q2 2021, at \$66,679, and the state ranked 12th for per capita personal income growth year-over-year.

Capital Expenditures and Hiring Plans— Investment Stable

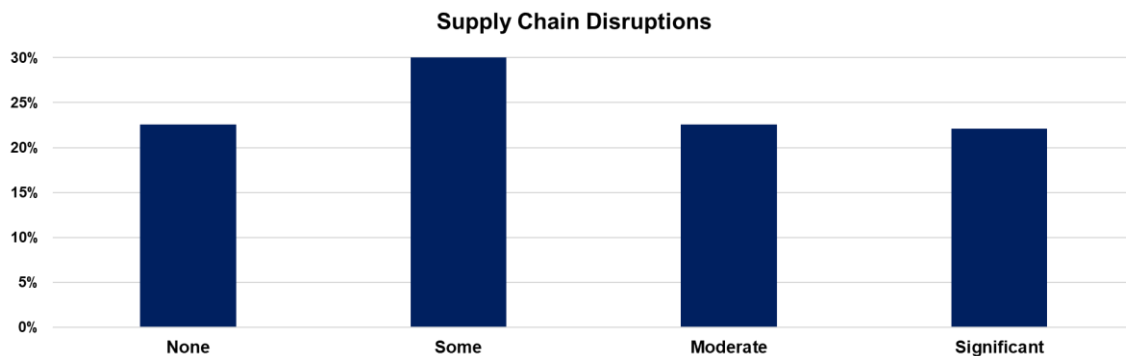
The outlook for capital expenditures and hiring both decreased ahead of Q4 2021, but panelists remained optimistic. These components reflect investment in firm growth, thus, the rebound in the index is a positive confirmation of business conditions. Ahead of Q4 2021, 81.4% of respondents expect neutral to positive growth in capital expenditures (versus 18.6% who expressed pessimism), and 85.6% project neutral to positive hiring.



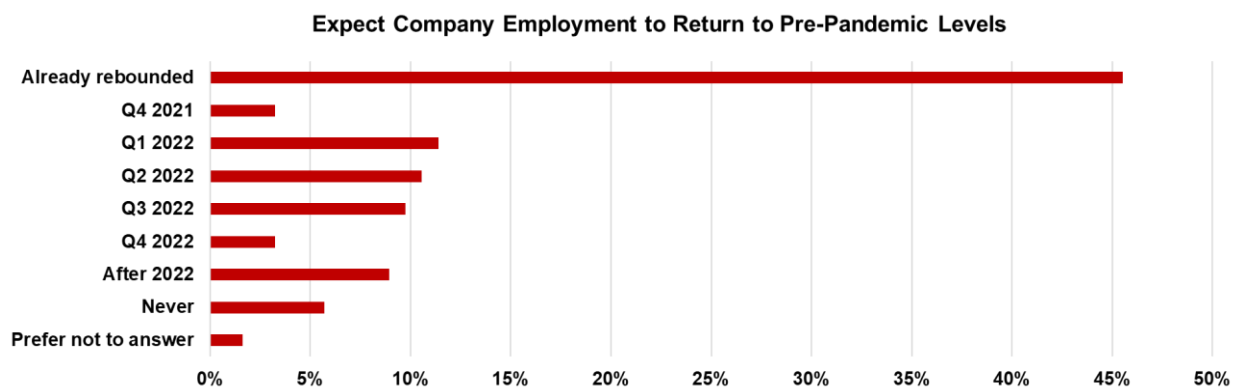
An indicator of capital expenditures is construction. According to Dodge Data and Analytics, the value of construction in Colorado increased 22.1% year-over-year during the first 8 months of 2021. Residential construction drove the growth, increasing 34.2%, while nonbuilding increased and nonresidential decreased. According to the U.S. Census Bureau, the total value of

construction put in place for the nation increased 6.2% January through July in 2021 compared to the same period in 2020. U.S. fixed business investment increased 3% in Q2 2021 (SAAR). Nonresidential private fixed investment increased 8%, with a decrease in structures, but increases in equipment and IP.

A majority of respondents (77%) noted supply chain disruptions ranging from some level of disruption (33%) to moderate disruptions (23%) to significant disruptions (22%). When asked about what will resolve the supply chain disruption, many individuals indicated the passage of time. Others suggested onshoring and building the domestic supply chain, and improving transportation, will help resolve long-term issues.



A plurality of respondents (46%) reported that employment has rebounded, with a majority of jobs being added back by mid-2022.



National employment has made a strong recovery from the recession lows reached in April 2020. Total nonfarm employment fell a record 14.7% (-22.4 million jobs) from February to April 2020 before rebounding 13.1% (17 million jobs) from April 2020 to August 2021. Total U.S. nonfarm employment grew 4.3% year-over-year in August. The unemployment rate in the United States continued to improve from 14.8% in April 2020 to 5.2% in August 2021; the rate just prior to the pandemic was 3.5% in February 2020.

Colorado nonfarm employment decreased 13.3% (-376,300 jobs) from January 2020 to April 2020 but increased 12% (293,400 jobs) from April 2020 to August 2021. However, Colorado

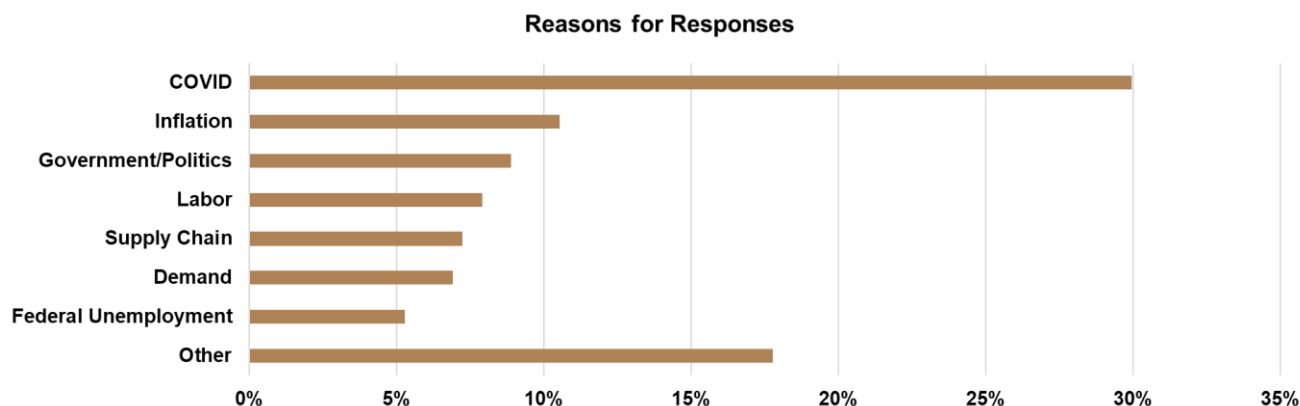
employment remained down 2.9% (-82,900 jobs) in August 2021 compared to January 2020. At 5.9%, Colorado's August unemployment rate ranked the state 35th-highest in the country, and the state had the 4th-highest labor force participation rate.

Year-over-year employment growth was recorded in all of Colorado's seven metropolitan statistical areas (MSAs) in August. The Boulder MSA recorded the largest year-over-year growth (6.1%), followed by Denver-Aurora-Greeley (5.3%), Colorado Springs (4.6%), Greeley (3.4%), Fort Collins-Loveland (3.1%), Grand Junction (2.3%), and Pueblo (1.3%). Colorado industries with the largest annual percent gains were Leisure and Hospitality (17.6%), Other Services (6%), and Professional and Business Services (5.8%).

Inflation in the Denver-Aurora-Lakewood MSA has outpaced the nation for the last eight years. In 2020, the all items index increased 2% year-over-year compared to 1.2% nationally. In July 2021, the Denver-Aurora-Lakewood MSA recorded price growth of 3.5% compared to 5.4% nationally. Core inflation in the Denver-Aurora-Lakewood MSA increased 2.4% year-over-year in July, shelter decreased 0.1%, and all items less shelter increased 5.6%, not seasonally adjusted.

Reason for Survey Responses

Panelists were asked to give reasons for their expectations. Of the 199 respondents who provided an explanation, COVID-19 was most often cited as a concern (Delta variant), but some noted an improvement in COVID cases as a reason for optimism. Inflation and a constrained supply chain were often noted in conjunction, while the labor shortage was noted as a headwind. A number of individuals also expressed concern about federal stimulus and politics.

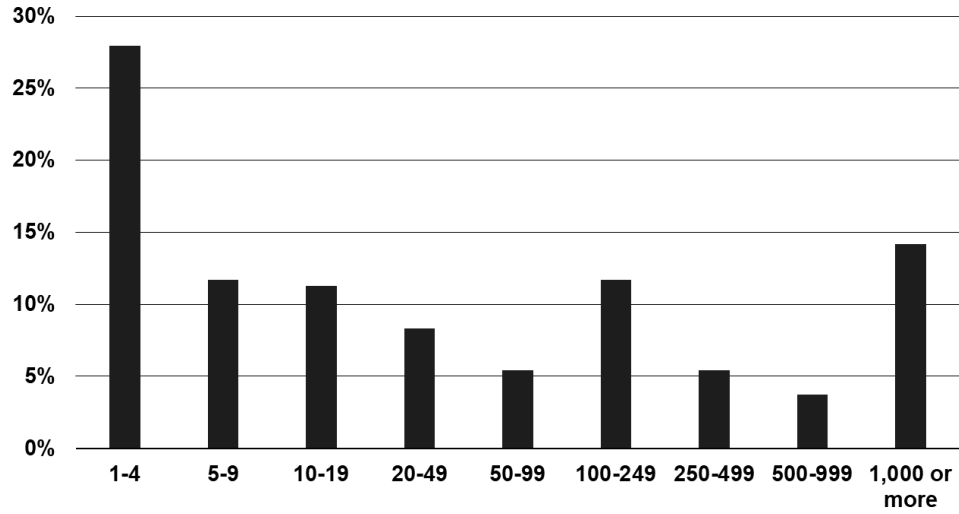


Expectations by Company Size and Length of Time in Business

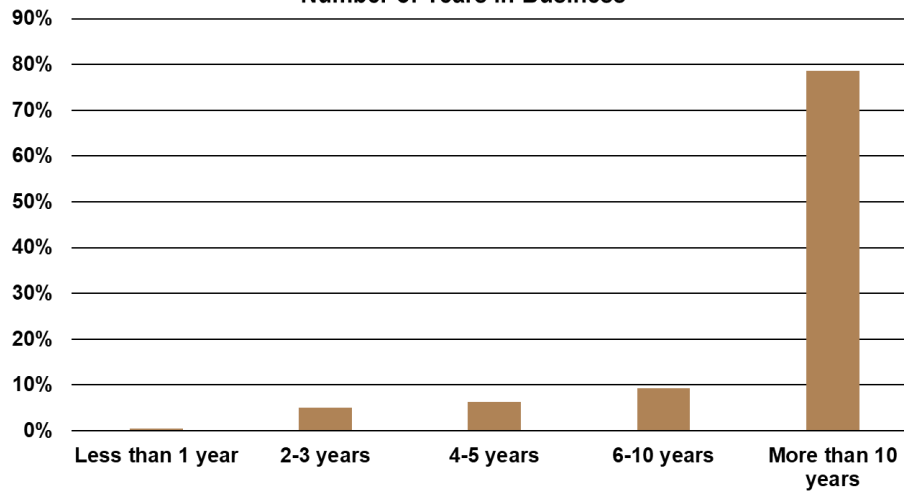
Panelists were asked about the size of their company and how long their company has been in business. Nearly 79% of respondents work at a long-standing company that has been in business for more than 10 years. More than half (59.2%) of survey respondents work for companies with fewer than 50 employees. Small employers were slightly less optimistic than large employers ahead of Q4 2021, but both cohorts expressed optimism.

While responding panelists represent every industry in the state, the largest percentage of respondents to the Q4 survey were in the following sectors: Professional, Scientific, and Technical Services (17%); Finance and Insurance (16%), and Real Estate, Rental, and Leasing (13%).

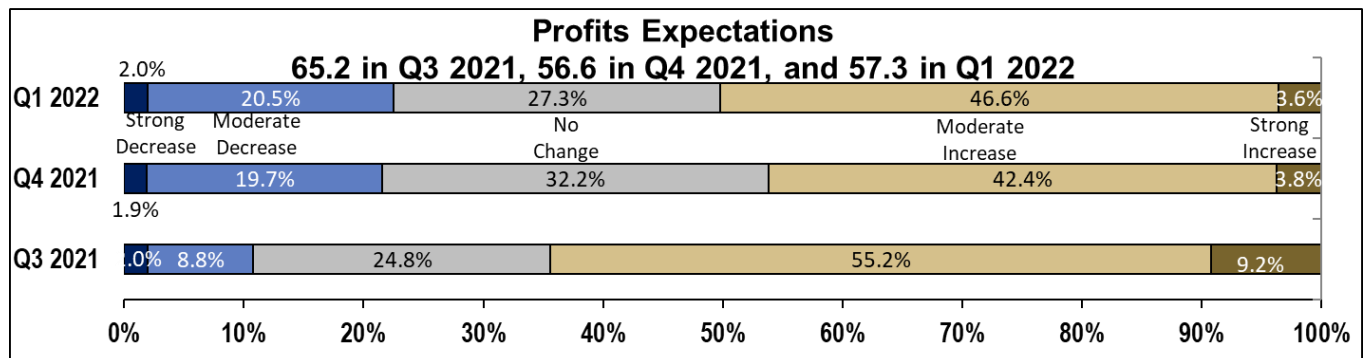
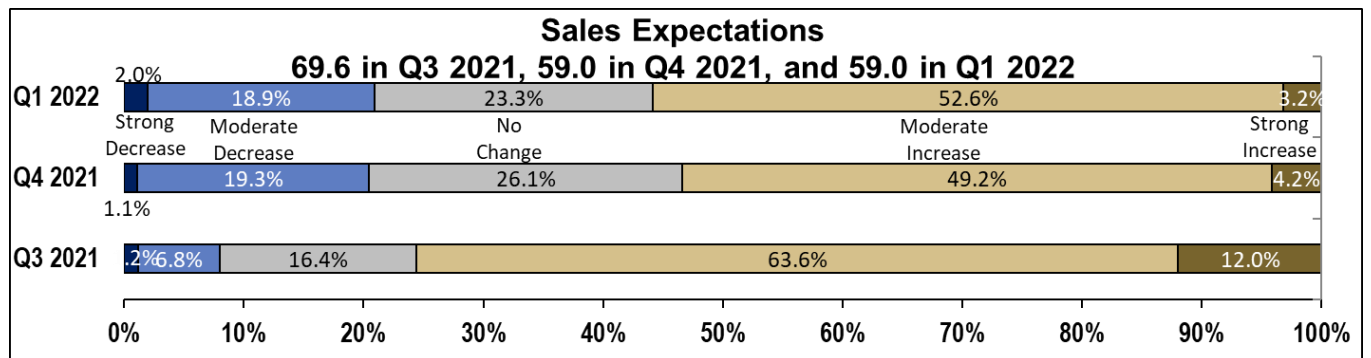
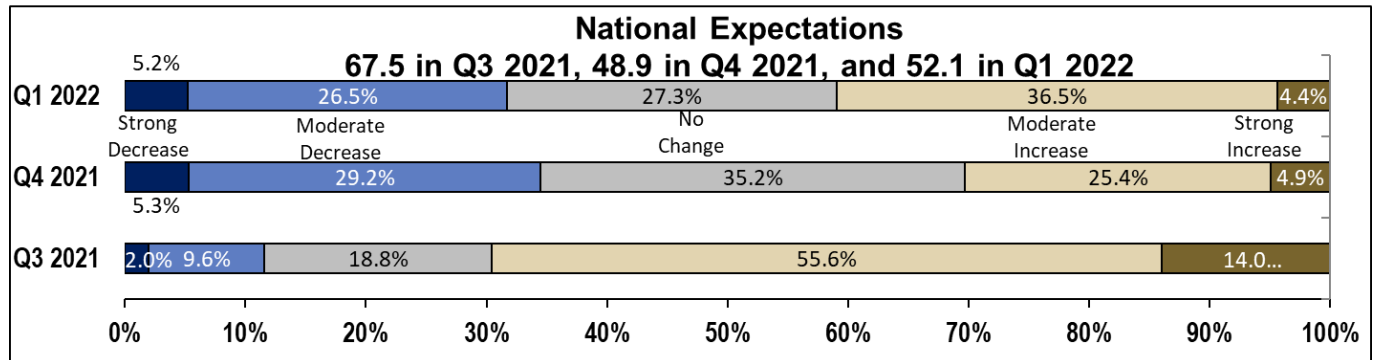
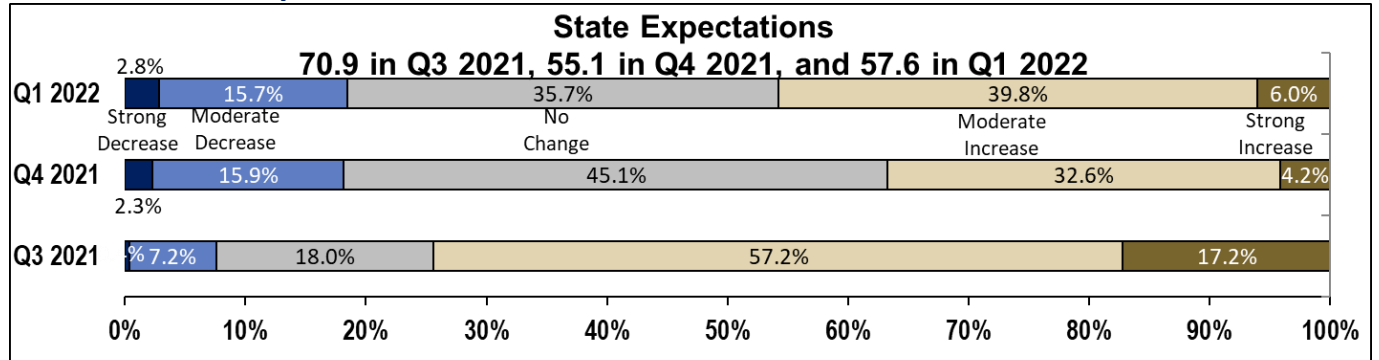
Number of Employees Per Company

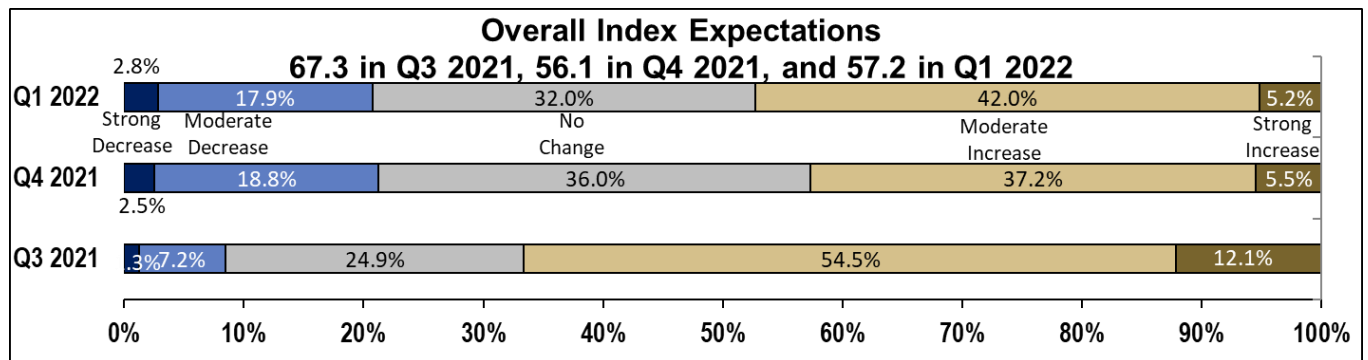
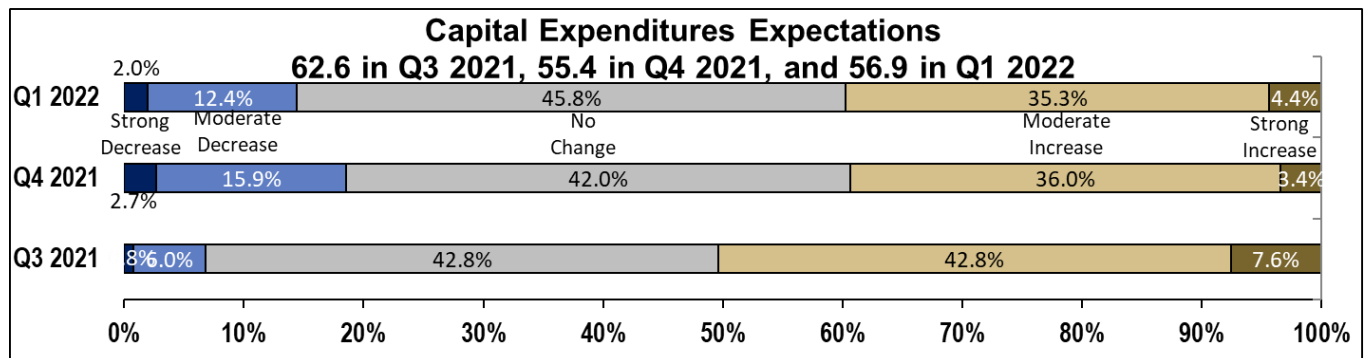
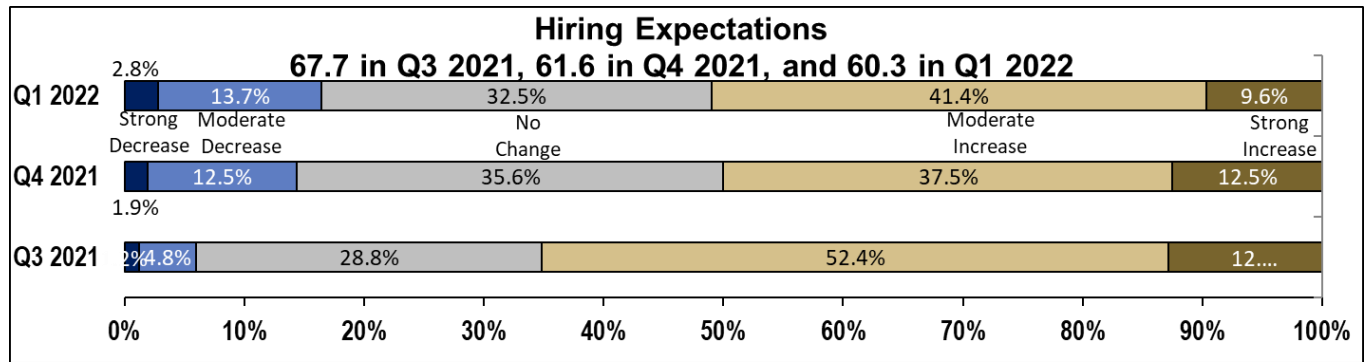


Number of Years in Business



Distribution of Expectations in Q3 2021, Q4 2021, and Q1 2022





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