

Marginal Improvement in Sentiment in the Near-Term Outlook

Business leaders' pessimism extended for another quarter ahead of Q2 2023, resulting in the third-longest period of pessimism in the indexes 20-year history. The Leeds Business Confidence Index (LBCI) first reported results ahead of Q2 2003 and captures Colorado business leaders' expectations for the national economy, state economy, industry sales, profits, hiring plans, and capital expenditures. The index recorded improvement in the current survey, but remained below 50 (50=neutral) and well below the long-term average (53.8). The index increased from 39.8 in Q1 2023 to 45.1 ahead of Q2 and 44.8 looking out further to Q3. All six components of the index increased ahead of the second quarter. A total of 230 qualified panelists responded to the survey from February 1 through February 20.

Leeds Business Confidence Index

Component	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Quarterly Change	Annual Change
State Economy	51.9	39.8	40.0	41.8	46.4	▲	▼
National Economy	40.4	27.7	30.7	34.4	37.1	▲	▼
Industry Sales	59.1	46.4	42.2	40.9	50.4	▲	▼
Industry Profits	55.0	42.2	41.7	39.7	47.6	▲	▼
Industry Hiring	60.4	48.3	43.3	42.1	46.7	▲	▼
Capital Expenditures	56.7	42.1	40.8	39.7	42.4	▲	▼
LBCI	53.9	41.1	39.8	39.8	45.1	▲	▼

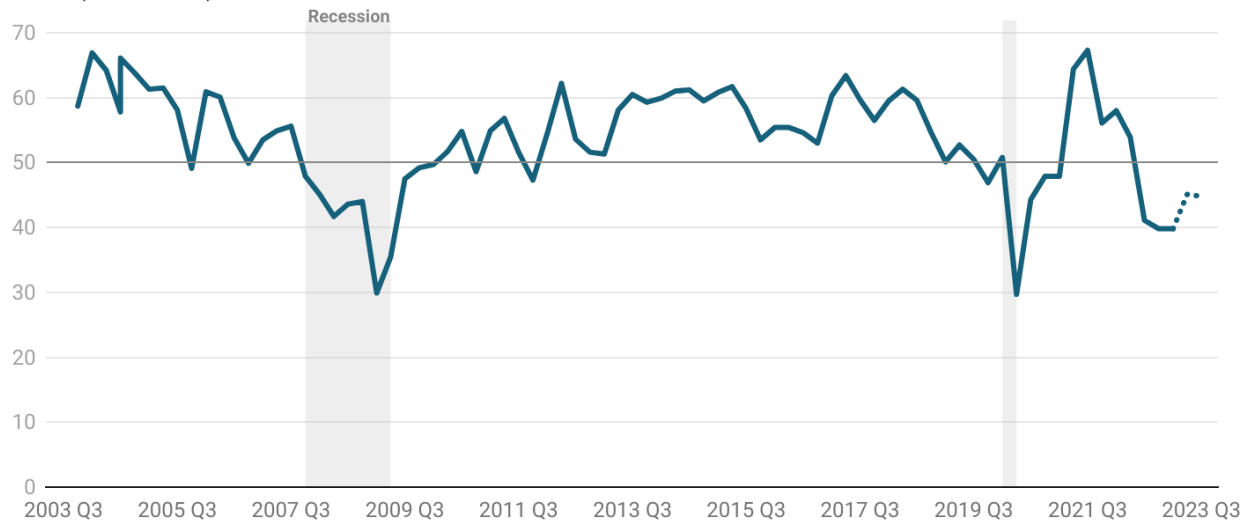
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- Five of the six individual components of the LBCI recorded negative perceptions (below 50) ahead of Q2 2023. The index was lowest for the national economy and highest for industry sales.
- More than half of respondents (56.9%) believe the U.S. will enter a recession in 2023.
- Interest rates and Inflation were the two most noted reasons for panelists' sentiments headed into Q2 2023, cited by 38% and 31% of respondents, respectively.
- While just 31% of panelists expect lower prices by the end of June, more than half (53.1%) expect lower prices by the end of December.
- Inflation in the Denver-Aurora-Lakewood MSA is projected to increase 4.3% in 2023, according to the Business Research Division's (BRD) forecasting model. This improved from a projection of 4.5% reported last quarter.
- Colorado's employment recovery has outperformed most other states, increasing 2.2% above the pre-recession peak as of January 2023. This ranked Colorado's recovery 19th nationally; the nation improved 2% above pre-recession levels as of January.
- Year-over-year employment growth in Colorado increased 2%, or 57,000 jobs in January 2023. The forecasting model now has Colorado's employment growth slowing to below 2% in 2023 after posting 4% growth in 2022.

- Colorado's per capita personal income increased 7.9% year-over-year in Q3 2022, ranking Colorado 1st. Personal income increased 8.5% ranking Colorado 2nd. Personal income growth is projected at 7.9% in 2023.
- National real gross domestic product (GDP) increased at an annualized rate of 2.7% in Q4 2022 and 0.9% year-over-year. Colorado's GDP increased at an annualized rate of 3.5% in Q3 and 3.2% year-over-year, ranking the state 16th and 6th, respectively.

Leeds Business Confidence Index

Index (50=Neutral)



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Leeds Business Confidence Index

Component	Q2 2023	Quarterly Change	Annual Change	Q3 2023	Quarterly Change	Annual Change
State Economy	46.4	▲	▼	45.5	▼	▲
National Economy	37.1	▲	▼	38.3	▲	▲
Industry Sales	50.4	▲	▼	49.1	▼	▲
Industry Profits	47.6	▲	▼	47.9	▲	▲
Industry Hiring	46.7	▲	▼	45.1	▼	▼
Capital Expenditures	42.4	▲	▼	43.1	▲	▲
LBCI	45.1	▲	▼	44.8	▼	▲

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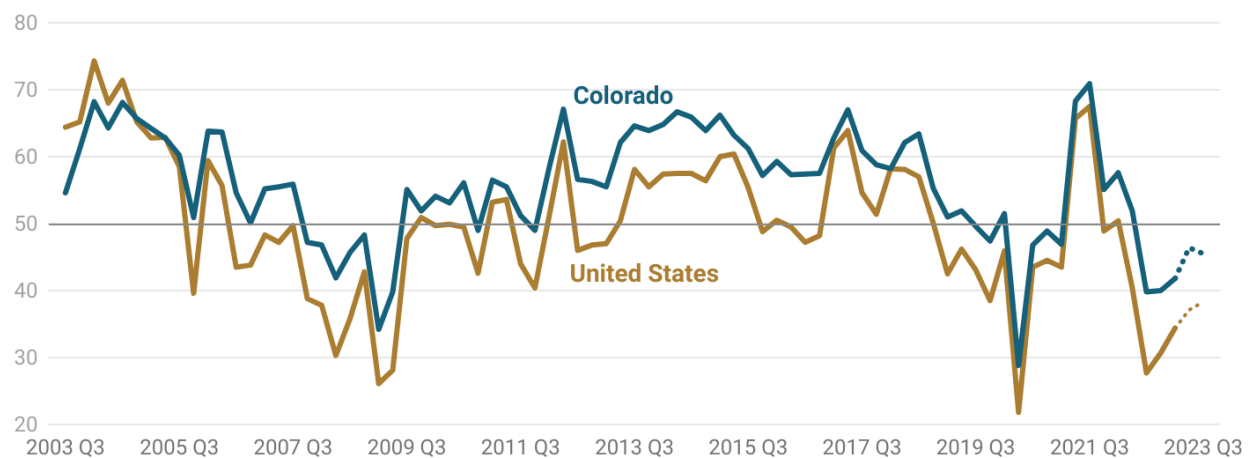
National and State Economies — Leaders' Optimism Improved

State and national economic expectations notched incremental improvement ahead of Q3 2023. State expectations changed from 41.8 ahead of Q1 2023 to 46.4 ahead of Q2, but slipped to 45.5 looking out further to Q3 2023. The gap between the state outlook and national outlook increased to 9.3 points ahead of Q2 2023, still indicating business leaders' confidence that the state will outperform relative to the nation. The national index rose from 34.4 in Q1 2023 to 37.1 ahead of Q2 2023 and 38.3 looking further out to Q3 2023.

For the state economy, nearly half (49.1%) of respondents were neutral on the outlook, while 32.2% project a moderate-to-strong decrease and 18.7% expect an increase. On the national level, more than half (57.8%) were projecting a decrease versus 10.9% projecting an increase (31.3% remained neutral).

National and State Expectations

Index (50=Neutral)



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National real GDP increased at a 2.7% seasonally adjusted annual rate (SAAR) in Q4 2022 according to the fourth estimate from the Bureau of Economic Analysis (BEA). Personal consumption expenditures increased 1.4%, and gross private domestic investment increased at a rate of 3.7%. Government expenditures increased 3.6%. The trade deficit decreased from Q3 2022 to Q4 2022, shrinking to \$1.24 trillion (annualized average chained dollars). Consensus Forecasts' expectations for real GDP growth is now projected at 1% for 2023.

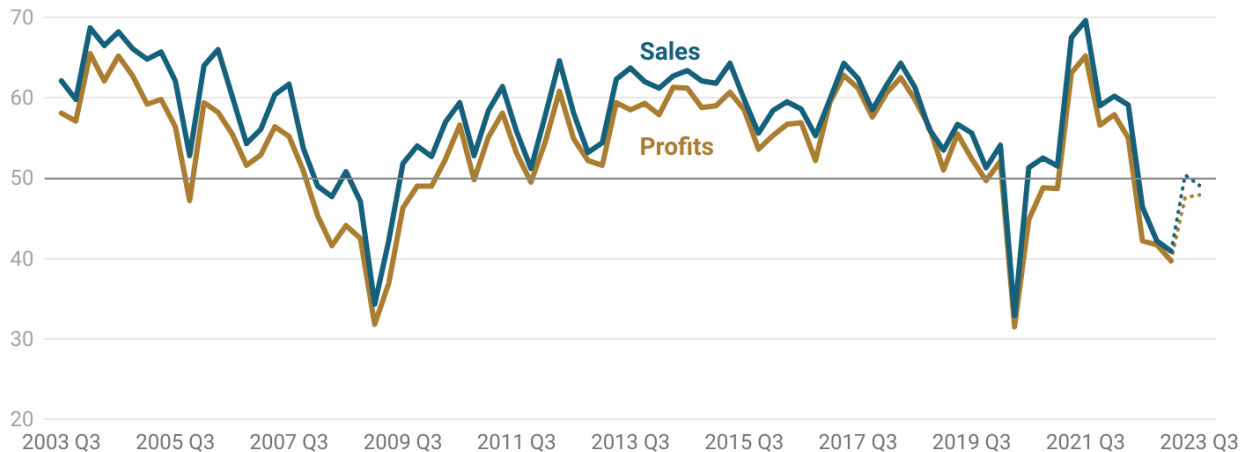
Colorado's Q3 2022 real GDP increased at a SAAR of 3.5% for the quarter (16th) and increased 3.2% year-over-year (6th). Year-over-year, the largest percentage gains were recorded in the following industries: Arts, Entertainment, and Recreation (20.1%); Management of Companies and Enterprises (16.9%), and Information (15.5%). The largest percentage declines were recorded in Construction (-12.5%), Mining (-11.6%), and Agriculture (-10.7%).

Sales and Profits — Expectations Improve

Sales and profits expectations increased ahead of the second quarter 2023. The sales index increased from 40.9 ahead of Q1 2023 to 50.4 ahead of Q2, but expectations pulled back slightly to 49.1 looking further out to Q3. The profits index changed from 39.7 in Q1 2023 to 47.6 ahead of Q2 and 47.9 ahead of Q3 2023. Individuals with a positive sales outlook (34.8%) outweighed those with negative perceptions (33%), while 32.2% remained neutral. Profits expectations for more imbalanced—the negative perceptions outweighed positive, 34.8% to 27% (38.3% remained neutral).

Sales and Profit Expectations

Index (50=Neutral)



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Sales and profits largely depend on the strength of the consumer. Personal consumption expenditures increased at an annualized rate of 1.4% quarter-over-quarter in Q4 2022 and 1.8% year-over-year. Growth in services consumption (2.4%) offset the decrease in goods (-0.5%) in the fourth quarter (annualized). According to data from the U.S. Census Bureau, February 2023 retail and food services sales were up 5.4% year-over-year but fell 0.4% from the previous month. The largest annual increase was in food services and drinking places (15.3%), followed by general merchandise stores (10.5%). The largest month-over-month declines came from electronics and appliances stores (-2.8%) and gasoline stations (-1.9%).

B-to-B sales are also a signal for sales and profits. In January 2023, wholesale trade increased 3.6% year-over-year and 1% month-over-month. Strong year-over-year gains were recorded in nondurable goods (7.4%), but sales decreased in durable goods (-0.5%) from the prior year. Wholesale inventories increased 15.8% over the year and decreased 0.4% from the prior month.

In the third quarter of 2022, Colorado personal income grew 8.5% year-over-year and 3.4% quarter-over-quarter, ranking the state 2nd and 1st nationally, for the respective metrics. Colorado had the 7th-highest per capita personal income in Q3 2022, at \$75,557, and the state ranked first for per capita personal income growth year-over-year. Wage and salary personal income growth is expected to remain strong as employment continues to rise.

Capital Expenditures and Hiring Increase

Despite the backdrop of a tight labor market, hiring expectations increased from 42.1 in Q1 2023 to 46.7 in Q2, but expectations slipped to 45.1 looking further out to Q3. The outlook for capital expenditures notched smaller gains—up 2.7 points to 42.4 in Q2 before increasing to 43.1 in Q3. Hiring and capital expenditures reflect investment in firm growth; thus, the subpar index is an indication of strained business conditions.

Capital Expenditures and Hiring Expectations



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Ahead of Q2 2023, 41.7% of respondents expected capital investment to slow versus 17.8% who expected an increase (40.4% were neutral). Regarding hiring, 34.8% of respondents expected a slowdown versus 26.1% who remained positive and 39.1% who remained neutral.

An indicator of capital expenditures is construction. According to Dodge Data and Analytics, the nominal value of construction starts in Colorado decreased 38% year-over-year in January and February 2023. Declines were posted in residential, nonresidential, and nonbuilding. According to the U.S. Census Bureau, the total value of construction put in place for the nation increased 5.7% in January 2023, with a 3.8% decrease in residential and 15.9% growth in nonresidential. The BEA reported U.S. nonresidential fixed business investment grew 3.3% quarter-over-quarter in Q4 2022 (SAAR) and increased 4.3% year-over-year; investment in structures grew 8.5% over the quarter and fell 3.3% over the year.

Seasonally adjusted national employment has made a strong recovery from the recession lows reached in April 2020. Total nonfarm employment in February 2023 increased 2% above the pre-recession peak in February 2020 and grew 2.9% (4.3 million jobs) year-over-year. The unemployment rate nationally increased to 3.6% in February 2023; the rate just prior to the pandemic, in February 2020, was 3.5%.

Colorado's January nonfarm employment stood 2.2% above the pre-recession peak and grew 2% (57,000 jobs) year-over-year. Colorado added 111,400 (4%) in 2022. Employment growth in

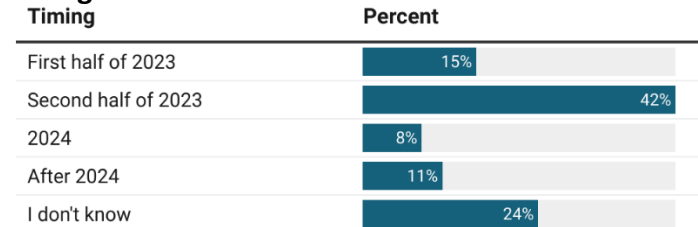
Colorado is projected to continue, albeit at a more moderate pace, adding another 57,100 jobs (2%) in 2023. At 2.8%, Colorado’s January unemployment rate was just below the national average, ranking 10th-lowest in the country, while the state had the 4th-highest labor force participation rate of 68.1% in January 2023.

Employment growth in six of Colorado’s seven metropolitan statistical areas (MSAs) fell below the national average in January. The Boulder MSA recorded the largest year-over-year growth (2.5%), followed by Greeley (2.1%), Colorado Springs (2.0%), Denver-Aurora-Lakewood (1.8%), Grand Junction (1.8%), Pueblo (1.6%), and a decrease in employment in Fort Collins (-0.3%).

Special Topic: Recession Expectations

As an indication of the economic headwinds, a majority of panelists indicated the U.S. is headed into a recession in 2023, with 15.3% expecting it to begin in the first half of 2023 and 42.3% the second half of the year. Just 7.9% put the odds in 2024 and 10.7% after 2024, while 23.7% are uncertain.

Timing of Next Recession



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Special Topic: Inflation

Inflation in the Denver-Aurora-Lakewood MSA has outpaced the nation for eight consecutive years (2013-2020), but prices grew more slowly in the Denver MSA compared to the nation in 2021. Prices locally were parallel to national price growth in 2022 (8%). In January 2023, the Denver-Aurora-Lakewood MSA recorded price growth of 6.4% year-over-year (not seasonally adjusted) compared to 6% nationally and 6.7% in the Mountain Region during the same period.

Panelists expect inflation to improve as the year progresses. While 30% expect prices to be higher by the end of June, 39% expect prices to be about the same, and 31% expect lower prices. By the end of December, a majority of panelists (53.1%) expect prices to decrease from current levels while 23% expect prices to remain the same and 23.9% expect higher prices.

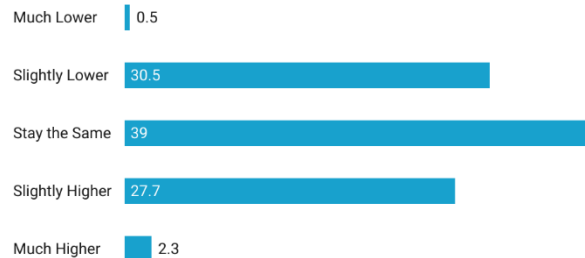
Consumer Price Index (Percent Change Year-over-Year), January 2023

Items	U.S. City Average	Mountain Region	Denver-Aurora-Lakewood	Item Weights
All items	6.0	6.7	6.4	100.0
Food and beverages	9.2	10.6	9.1	14.4
Housing	8.2	10.1	9.4	44.4
Apparel	3.3	5.8	8.5	2.5
Transportation	2.6	2.6	1.8	16.7
Medical care	2.3	-2.6	NA	8.1
Recreation	5.0	6.0	7.7	5.4
Education and communication	1.0	0.9	3.2	5.8
Other goods and services	6.1	2.0	2.4	2.7
All items less food and energy	5.5	5.9	5.9	

Table: Bureau of Labor Statistics, CPI for All Urban Consumers (CPI-U) (Not seasonally adjusted). • Created with Datawrapper

Inflation Expectations, End of June

Denver-Aurora-Lakewood



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Inflation Expectations, End of December

Denver-Aurora-Lakewood

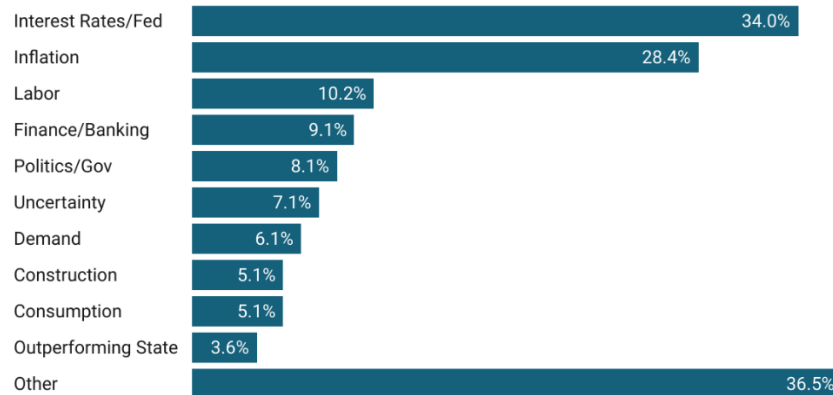


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Reasons for Survey Responses

Panelists were asked to give reasons for their expectations. Of the 197 respondents who provided open-ended explanations, interest rates were most often cited as a concern (34% of respondents), followed by inflation (28%), and labor markets (10%).

Reasons or Response



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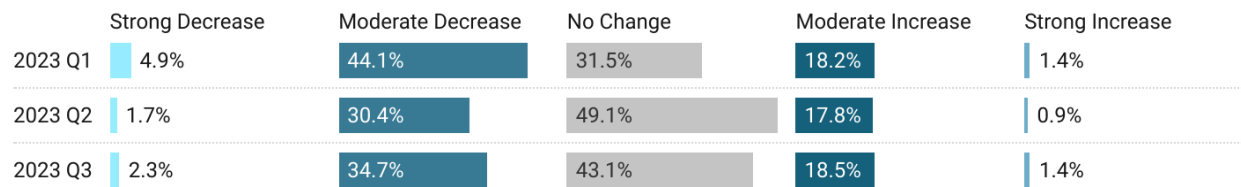
Expectations by Company Size and Length of Time in Business

Panelists were asked about the size of their company and how long their company has been in business. More than 79% of respondents work at a long-standing company that has been in business for more than 10 years. More than half (61%) of survey respondents work for companies with fewer than 50 employees. There was no difference in expectations between small and large employers ahead of Q2 2023.

Distribution of Expectations in Q1 2023, Q2 2023, and Q3 2023

State Expectations

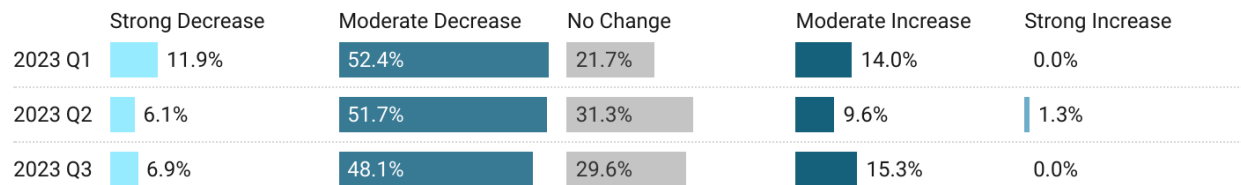
41.8 in Q1 2023, 46.4 in Q2 2023, and 45.5 in Q3 2023



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National Expectations

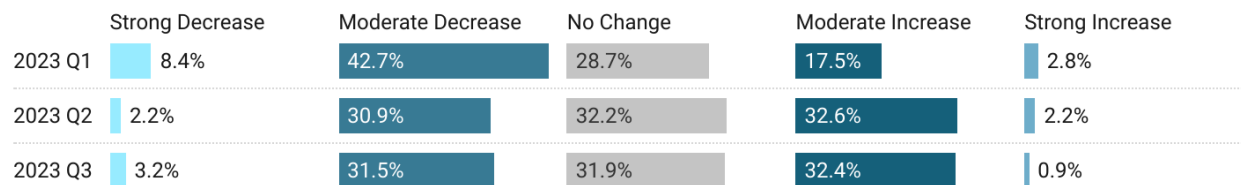
34.4 in Q1 2023, 37.1 in Q2 2023, and 38.3 in Q3 2023



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Sales Expectations

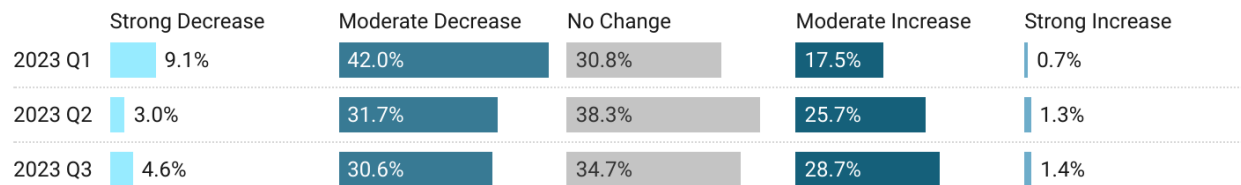
40.9 in Q1 2023, 50.4 in Q2 2023, and 49.1 in Q3 2023



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Profit Expectations

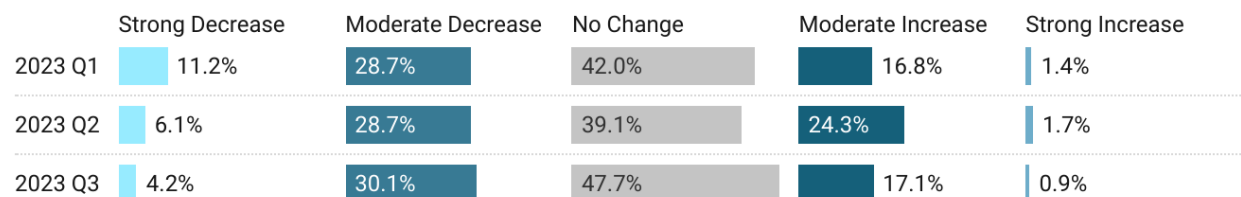
39.7 in Q1 2023, 47.6 in Q2 2023, and 47.9 in Q3 2023



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Hiring Expectations

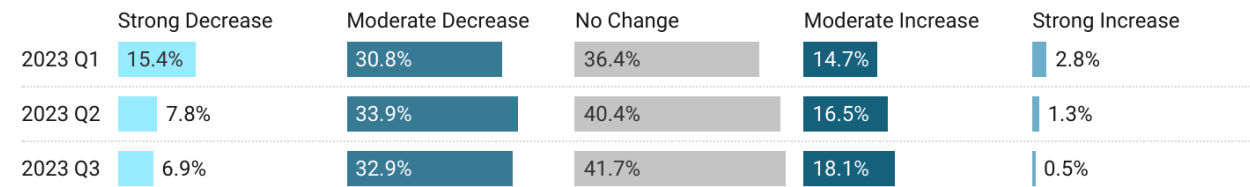
42.1 in Q1 2023, 46.7 in Q2 2023, and 45.1 in Q3 2023



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Capital Expenditures Expectations

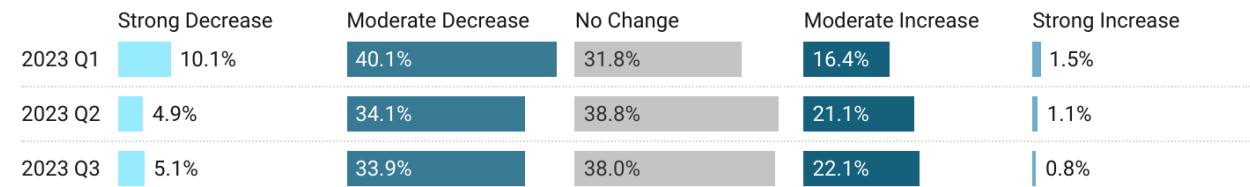
39.7 in Q1 2023, 42.4 in Q2 2023, and 43.1 in Q3 2023



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Overall Index Expectations

39.8 in Q1 2023, 45.1 in Q2 2023, and 44.8 in Q3 2023



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