

Business Confidence Improving

Entering 2024, business confidence remains suppressed but is on the rise. Nearly every component of the Leeds Business Confidence Index (LBCI) increased ahead of Q1 and Q2 2024. There was less consensus about the reasons for their outlook compared to the last several quarters, with interest rates, general comments about the economy, and inflation cited as the most pressing factors.

The LBCI captures Colorado business leaders' expectations for the national economy, state economy, industry sales, profits, hiring plans, and capital expenditures. The index remained below 50 in the current survey (50=neutral) and was below the long-term average. The index increased from 43.6 in Q4 2023 to 45.3 ahead of Q1 2024 and 49.6 looking out further to Q2. Five of the six components of the index increased ahead of the first quarter. Looking out to Q2, all six components increased, and three moved above the neutral threshold of 50. A total of 196 qualified panelists responded to the survey from December 1 through December 20, 2023.

Leeds Business Confidence Index

Component	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Quarterly Change	Annual Change
State Economy	41.8	46.4	44.9	45.5	47.2	▲	▲
National Economy	34.4	37.1	39.3	40.2	45.2	▲	▲
Industry Sales	40.9	50.4	48.0	48.2	46.0	▼	▲
Industry Profits	39.7	47.6	45.7	44.9	45.4	▲	▲
Industry Hiring	42.1	46.7	43.7	41.8	44.8	▲	▲
Capital Expenditures	39.7	42.4	43.1	40.9	43.2	▲	▲
LBCI	39.8	45.1	44.1	43.6	45.3	▲	▲

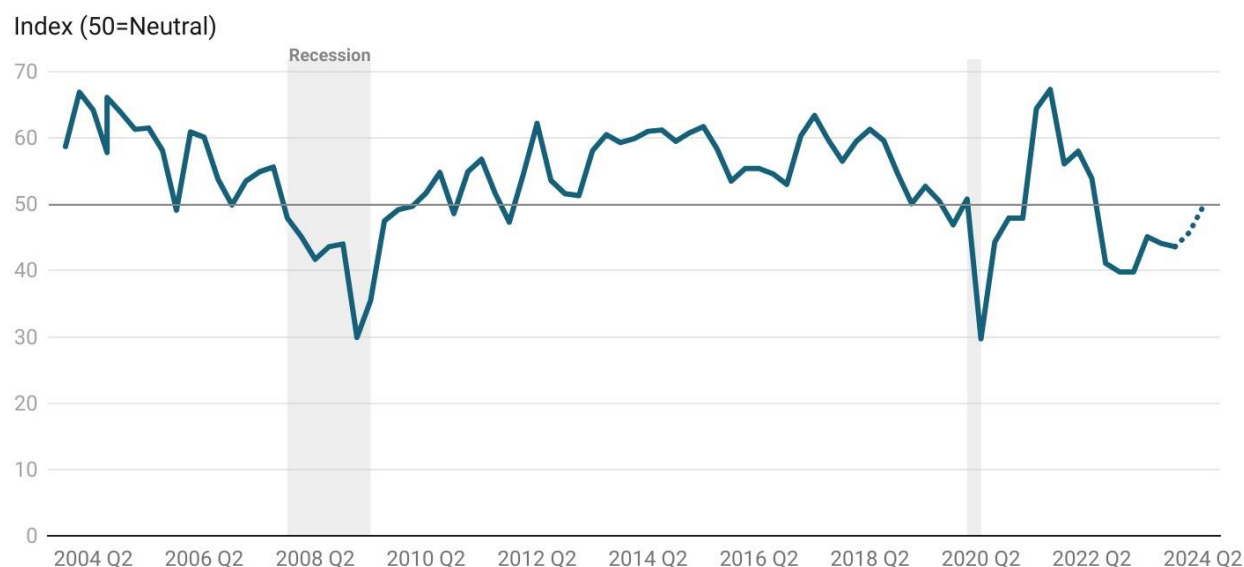
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- All 6 individual components of the LBCI recorded negative perceptions (below 50) ahead of Q1 2024. The index was lowest for capital expenditures and highest for the state economy.
- State expectations reached a level of 50 or greater for time in since Q2 2022 and national expectations increased for the 7th-consecutive quarter.
- Interest rates, general economic conditions, and Inflation were the three most noted reasons for panelists' sentiments headed into Q1 2024, cited by 26%, 24%, and 18% of respondents, respectively.
- Inflation in the Denver-Aurora-Lakewood MSA improved to 4.5% in November 2023 (compared to 3.1% for the U.S. city average). Inflation is projected to increase 3.2% in 2024, according to the Business Research Division's (BRD) forecasting model.
- Year-over-year employment growth in Colorado increased 1.1%, or 31,100 jobs in November 2023. The Colorado Department of Labor and Employment released estimates of expected revisions, indicating job growth in the state outperformed initial estimates by an

estimated 40,900 jobs in June. The BRD forecasting model now has Colorado's employment growing 2.2% in 2023 and 1.4% in 2024 after posting 4.4% growth in 2022.

- Colorado's personal income increased 3.3% year-over-year in Q3 2023, ranking the state 42nd. Per capita personal income increased 2.7%, also ranking Colorado 42nd. Personal income was distorted in Q3 2022 by TABOR refunds that presented as a sharp increase in transfer payments in the income accounts. In Q3 2023, this distortion reversed and presented as a sharp decrease. Excluding the transfer payments, Colorado's personal income rose 5.8% year-over-year, ranking the state 15th.
- National real gross domestic product (GDP) increased at an annualized rate of 4.9% in Q3 2023 and 2.9% year-over-year. Colorado's GDP increased at an annualized rate of 5.8% in Q3 and 3.4% year-over-year, ranking the state 10th and 19th, respectively.

Leeds Business Confidence Index



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Component	Q1 2024	Quarterly Change	Annual Change	Q2 2024	Quarterly Change	Annual Change
State Economy	47.2	▲	▲	50.0	▲	▲
National Economy	45.2	▲	▲	48.0	▲	▲
Industry Sales	46.0	▼	▲	53.4	▲	▲
Industry Profits	45.4	▲	▲	51.7	▲	▲
Industry Hiring	44.8	▲	▲	47.3	▲	▲
Capital Expenditures	43.2	▲	▲	47.3	▲	▲
LBCI	45.3	▲	▲	49.6	▲	▲

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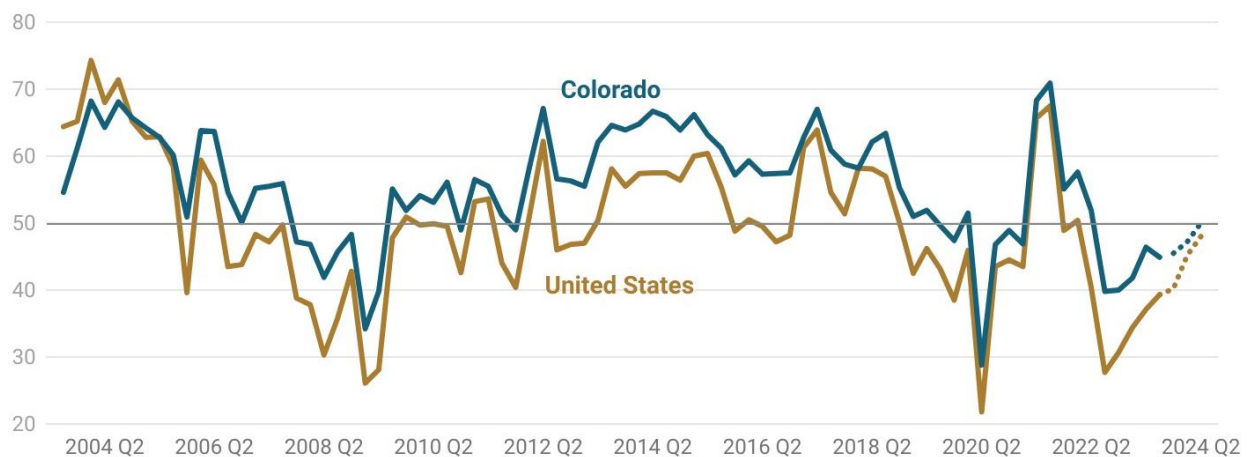
National and State Economies — Abating Pessimism

State and national economic expectations improved in the current survey. State expectations increased from 45.5 in Q4 2023 to 47.2 ahead of Q1 2024 and 50 looking out further to Q2 2024. The national index rose from 40.2 in Q4 2023 to 45.2 ahead of Q1 2024 and 48 looking further out to Q2 2024. Notably, ahead of Q2, state expectations reached a level of 50 or greater for time in since Q2 2022 and national expectations increased for the 7th-consecutive quarter. The gap between the state outlook and national outlook decreased to 2 points ahead for Q1 2024, still indicating business leaders' confidence that the state will outperform the nation, but the smallest gap in 6 years.

For the state economy, 37.2% of respondents are neutral on the outlook, while 35.2% expect a moderate-to-strong decrease and 27.5% expect an increase. On the national level, 41.3% expect a decrease versus 28% projecting an increase (30.6% remained neutral).

National and State Expectations

Index (50=Neutral)



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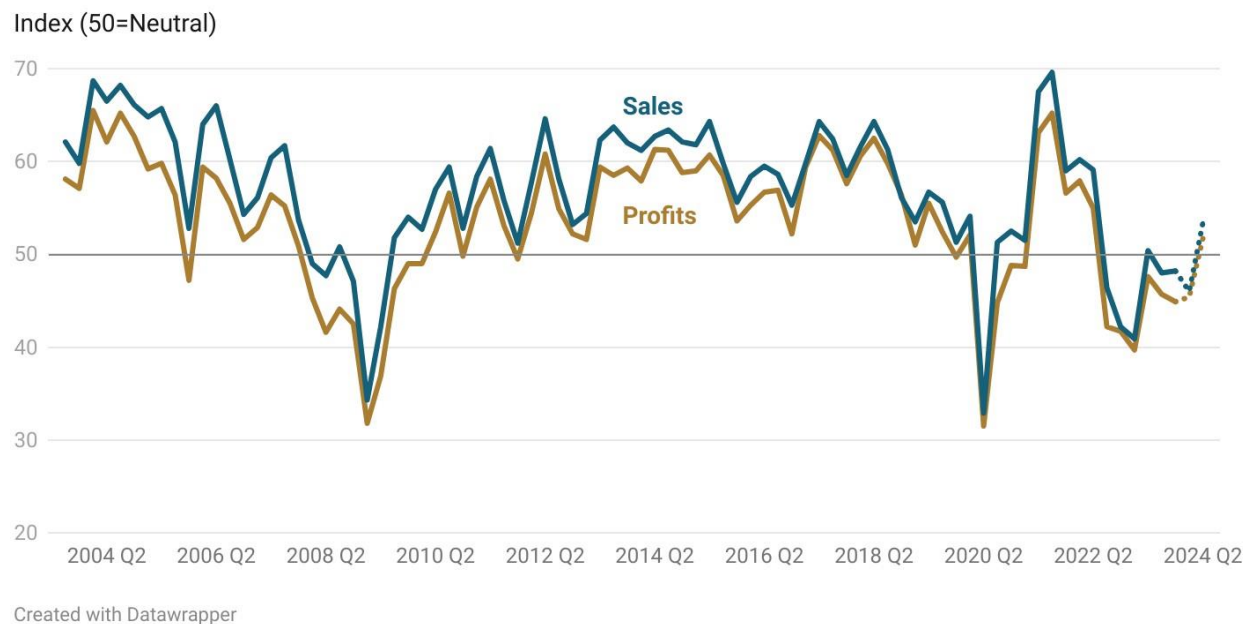
National real (inflation-adjusted) GDP increased at a 4.9% seasonally adjusted annual rate (SAAR) in Q3 2023 according to the third estimate from the Bureau of Economic Analysis (BEA). Personal consumption expenditures increased 3.1%, gross private domestic investment increased 10%, and government expenditures increased 5.8%. Net exports, which detract from GDP growth, increased \$2.5 billion from Q2 to Q3—the first increase in six quarters as the growth in imports exceeded the growth in exports. As of December, Consensus Forecasts reported expectations for real GDP growth at 2.4% for the annual average in 2023, and 1.2% in 2024.

Colorado's real GDP increased at a SAAR of 5.8% for the quarter and at 3.4% year-over-year in Q3. Overall, the largest year-over-year percentage gains in Colorado were recorded in Agriculture (14.5%); Arts, Entertainment, and Recreation (13.9%); Management of companies and enterprises (8.9%); and Professional, Scientific, and Technical Services (6.8%). The largest losses were in Construction (-12.9%), Finance and Insurance (-4.3%), and Wholesale Trade (-3.4%).

Sales and Profits — Expectations Rising

Sales and profits expectations were mixed ahead of the first quarter 2024 and breach 50 looking out to Q2 2024. The sales index decreased from 48.2 ahead of Q4 2023 to 46 ahead of Q1 2024 but increased to 53.4 looking further out to Q2 2024. The profits index increased from 44.9 in Q4 2023 to 45.4 ahead of Q1 2024 and 51.7 looking out to Q2 2024. Individuals with a negative sales outlook (41.8%) outweighed those with positive perceptions (29.6%), while 28.6% remained neutral ahead of Q1. Profits expectations had a similar distribution—the negative perceptions outweighed positive, 41.9% to 24.5% (33.7% remained neutral).

Sales and Profit Expectations



The strength of the consumer is a key component in the trajectory of sales and profits. Nationally, personal consumption expenditures increased at an annualized rate of 3.1% quarter-over-quarter in Q3 2023 and 2.2% year-over-year. Growth in goods exceeded the rate of growth in services. According to the U.S. Census Bureau, retail and food services sales were up 3.2% year-to-date through November 2023. The seasonally adjusted November figure was up 4.1% year-over-year and 0.3% month-over-month.

Business-to-business sales are also a signal for sales and profits. Wholesale trade sales decreased 0.4% year-over-year in the month of October 2023. Year-to-date sales (January through October) were down 1.8%. Year-over-year losses were recorded in durable goods (-2.2%) while nondurable goods increased 1.2% for the month of October. Wholesale inventories decreased 2.3% over the year and decreased 0.4% from the prior month.

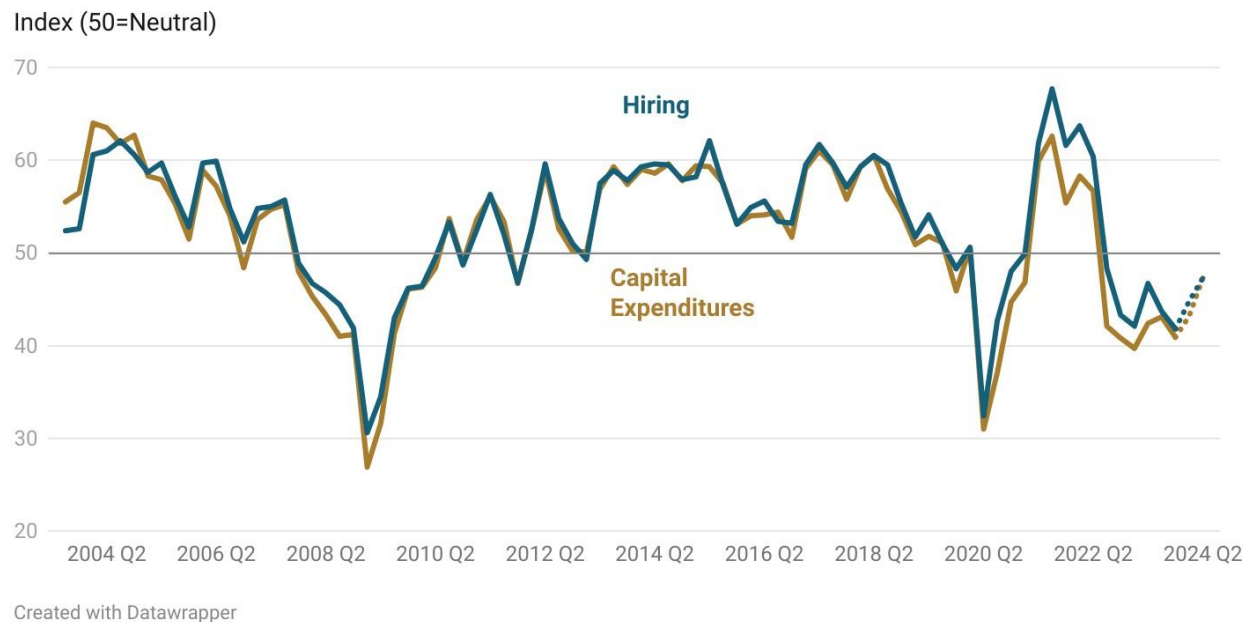
In the third quarter of 2023, national personal income continued to climb, increasing 4.7% year-over-year and at an annualized rate of 3.5% over the prior quarter. Colorado personal income rose 3.3% year-over-year and 1.2% quarter-over-quarter in Q3 2023, ranking the state 42nd and 4th nationally, for the respective metric. Colorado had the 6th-highest per capita personal

income in Q3 2023, at \$79,586; the state ranked 42nd for per capita personal income growth year-over-year (2.7%) and 5th for quarter-over-quarter growth (1%). Personal income was distorted in Q3 2022 by TABOR refunds that resulted in a sharp increase in transfer payments in the income accounts. In Q3 2023, this distortion reversed and resulted in a sharp decrease. Excluding the transfer payments, Colorado's personal income rose 5.8% year-over-year, ranking the state 15th.

Capital Expenditures and Hiring Expenditures Dip before Rising

With the backdrop of resilient hiring nationally, local hiring expectations increased from 41.8 in Q4 2023 to 44.8 in Q1 2024 and 47.3 looking further out to Q2. The outlook for capital expenditures increased from 40.9 in Q4 to 43.2 in Q1 2024 and 47.3 looking out to Q2.

Capital Expenditures and Hiring Expectations



Ahead of Q1 2024, 34.2% of respondents expect hiring to slow versus 19.4% who expected an increase (46.4% were neutral). Regarding capital expenditures, 36.2% of respondents expect a slowdown versus 18.4% who remained optimistic and 45.4% 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 10.9% year-to-date in November 2023 versus 2022 (January-November). Declines were recorded across residential (-22.5%) and nonresidential (-0.2%), but nonbuilding increased 6.2%. According to the U.S. Census Bureau, the total value of construction put in place for the nation increased 10.7% year-to-date in October 2023; residential increased 0.9% and nonresidential increased 20%, with increases in all product types. The BEA reported U.S. nonresidential fixed business investment increased 1.4% quarter-over-quarter in Q3 2023 (SAAR) and increased 4.1% year-over-year. Investment in structures grew 11.2% over the quarter and 15.7% over the year. Residential fixed investment increased 6.7% for the quarter after recording 9 consecutive quarterly decreases.

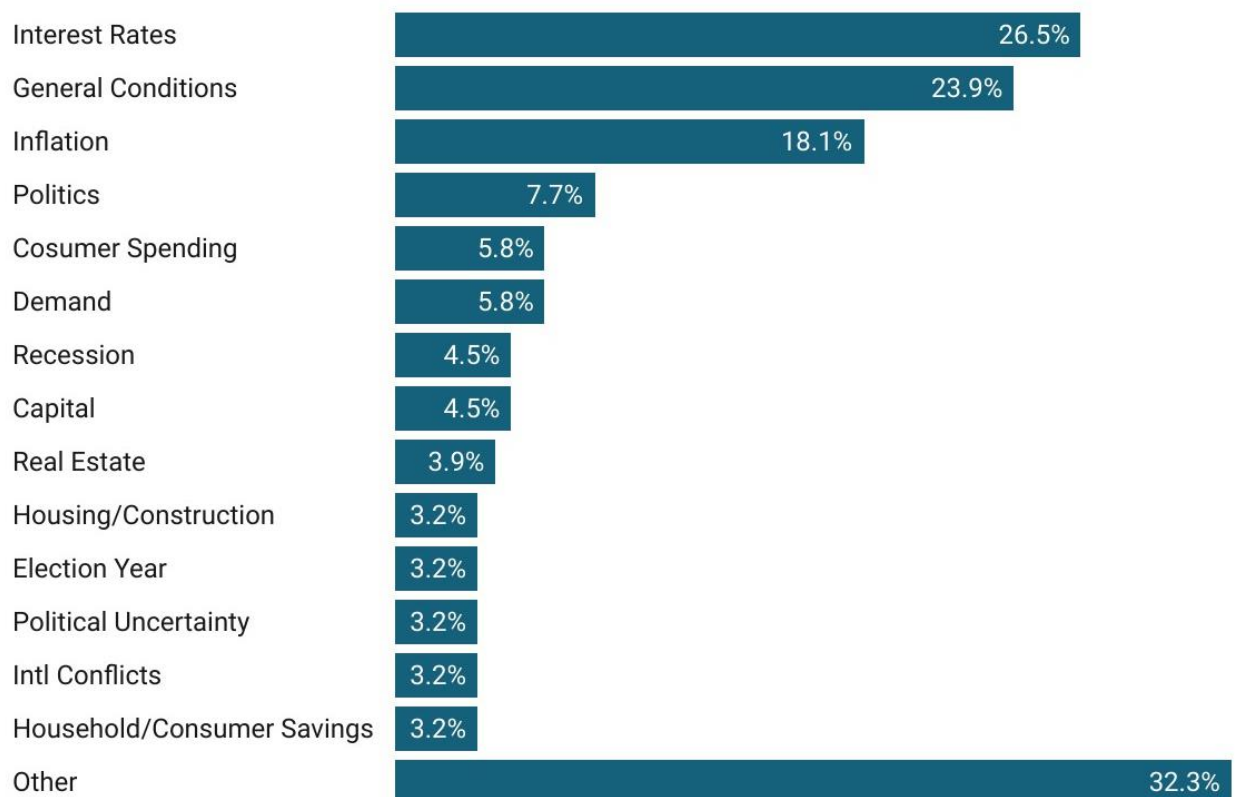
National employment growth continues to post strong but slowing gains. Total nonfarm employment in November 2023 increased 1.8% year-over-year, averaging 233,000 jobs added per month over the past year. The unemployment rate nationally decreased to 3.7% in November 2023.

Colorado's August nonfarm employment grew 1.1% (31,100 jobs) year-over-year. The BRD estimates employment growth in Colorado in 2023 grew 64,500 (2.2%), with the state expected to add 41,900 jobs (1.4%) in 2024. Colorado's November unemployment rate was 3.3%, 0.4 percentage points below the national average, tying Colorado 21st in the country. The state was tied for the 4th-highest labor force participation rate at 68.4%.

Reasons for Survey Responses

Panelists were asked to give reasons for their expectations. Of the 155 respondents who provided open-ended explanations, interest rates were most often cited as a concern (26% of respondents), followed by general economic conditions (24%), and inflation (18%). Compared to prior quarters, the discussion of a recession was sparsely discussed by respondents (5%), and it was sometimes noted for decreasing recessionary fears versus the elevated expectations of a recession noted in prior quarters. Likewise, the discussion about inflation and interest rates were not all negative—decreasing inflation and peaking interest rates fueled some optimism.

Reasons for Response

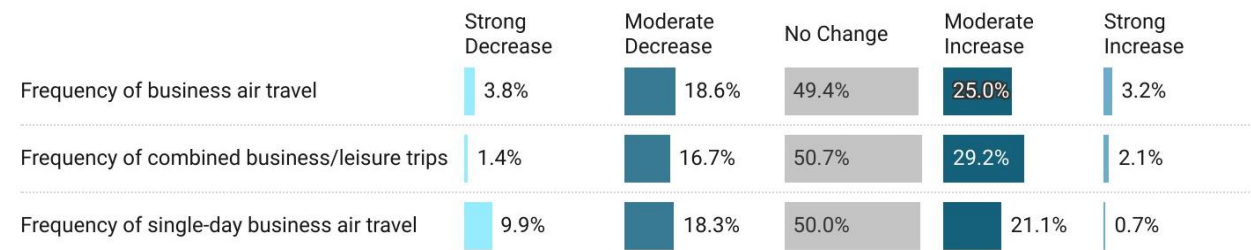


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Business Travel in 2024

Panelists were asked about business air travel expectations in 2024. Nearly half of respondents (49.4%) expect no change in business air travel in 2024, but more individuals expect an increase versus a decrease (28.2% versus 22.4%). When flying for business, individuals sometimes combine leisure travel with business travel. Just over half expect no change in combined business/leisure travel (50.7%), but nearly a third expect to increase combined travel (31.3%) while 18.1% expect a decrease in combined travel in 2024. Business travel sometimes necessitates short, single-day air travel. Similar to the other business travel responses, half of respondents expect no change in single-day air travel in 2024, while 21.8% expect to increase single-day business air travel and 28.2% expect to decrease single-day travel.

Changes in Business Air Travel in 2024

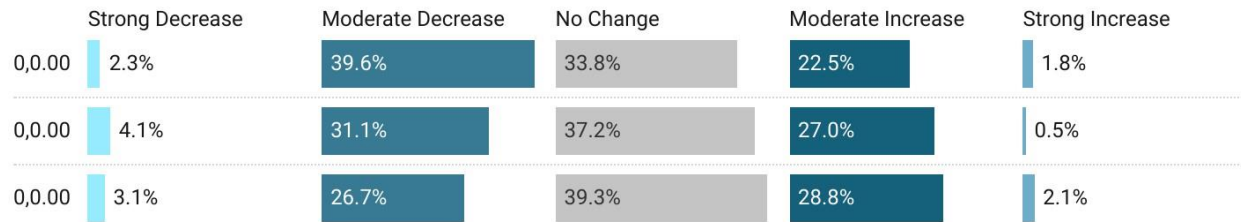


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Distribution of Expectations in Q4 2023, Q1 2024, and Q2 2024

State Expectations

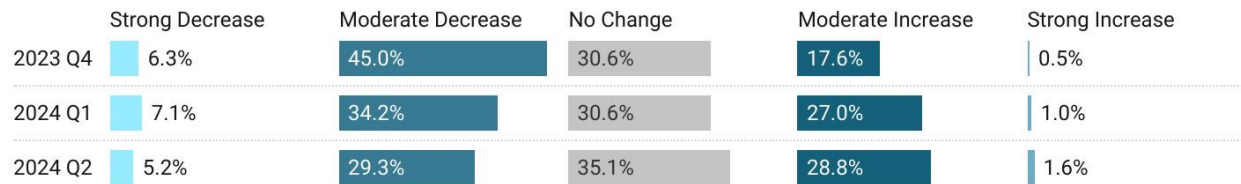
45.5 in Q4 2023, 47.2 in Q1 2024, and 50. in Q2 2024



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National Expectations

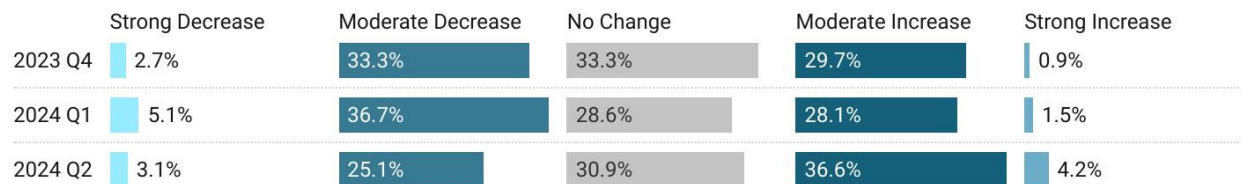
40.2 in Q4 2023, 45.2 in Q1 2024, and 48. in Q2 2024



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Sales Expectations

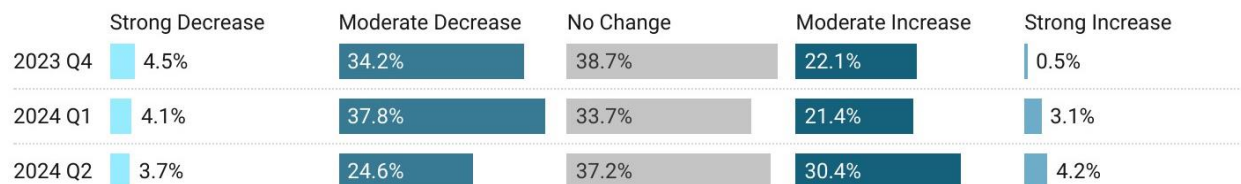
48.2 in Q4 2023, 46. in Q1 2024, and 53.4 in Q2 2024



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Profit Expectations

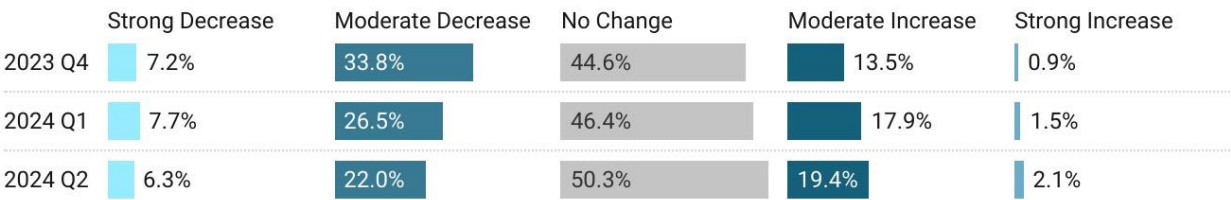
44.9 in Q4 2023, 45.4 in Q1 2024, and 51.7 in Q2 2024



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Hiring Expectations

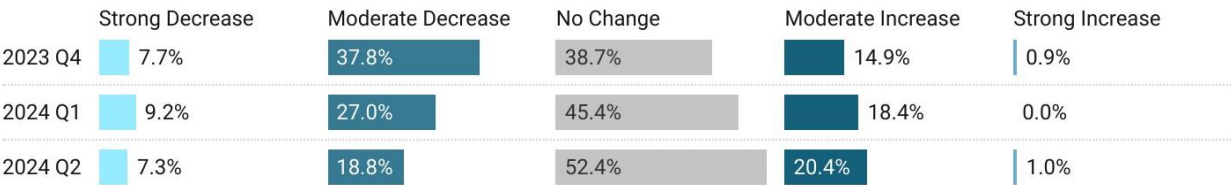
41.8 in Q4 2023, 44.8 in Q1 2024, and 47.3 in Q2 2024



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Capital Expenditures Expectations

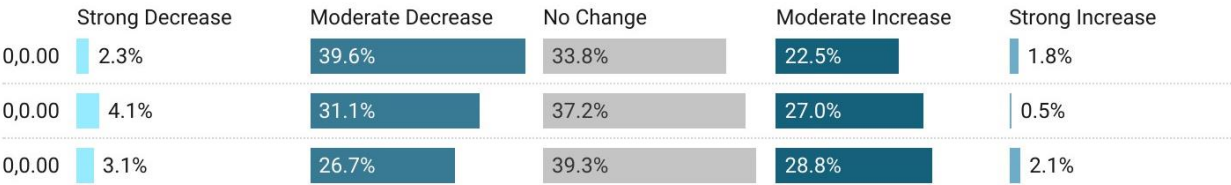
40.9 in Q4 2023, 43.2 in Q1 2024, and 47.3 in Q2 2024



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Overall Index Expectations

43.6 in Q4 2023, 45.3 in Q1 2024, and 49.6 in Q2 2024



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