LBCI LEEDS BUSINESS CONFIDENCE INDEX

First Quarter 2017
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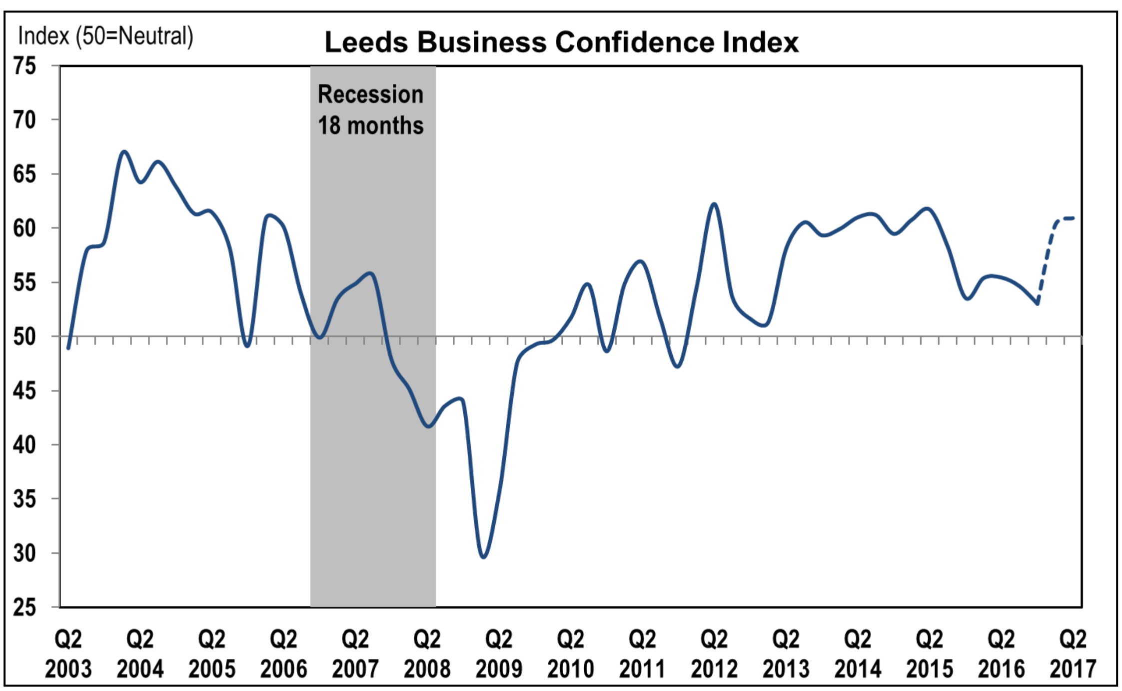
Summary — Spike in Optimism

The Leeds Business Confidence Index (LBCI) rebounded sharply ahead of Q1 2017, with further momentum expected in Q2. Prior to Q4, many panelists described economic concerns, including the election, political climate, and government regulation. The uncertainty around these has abated somewhat following the election.

Expectations for Q1 2017 are up 7.3 points from last quarter and 4.9 points from Q1 2016. The overall index for Q1 stood at 60.3 (50=neutral), supported by strong readings in every component of the index. Panelists were most optimistic about the state and national economy. All metrics in the index reported a positive outlook for Q1 2017, including national economic expectations, which have been below 50 for three consecutive quarters.

National real gross domestic product (GDP) grew at a 3.5% seasonally adjusted annual rate (SAAR) in Q3 2016 following growth of 0.8% in Q1 2016 and 1.4% in Q2 2016, according to the Bureau of Economic Analysis (BEA). Positive real GDP growth has been recorded for 10 consecutive quarters. Revisions to Colorado's GDP places the state among the middle of the pack nationally. Colorado recorded real GDP growth of 1.1% SAAR in Q2 2016, ranking the state the 29th for growth nationally. The Rocky Mountain region grew 1.4%.

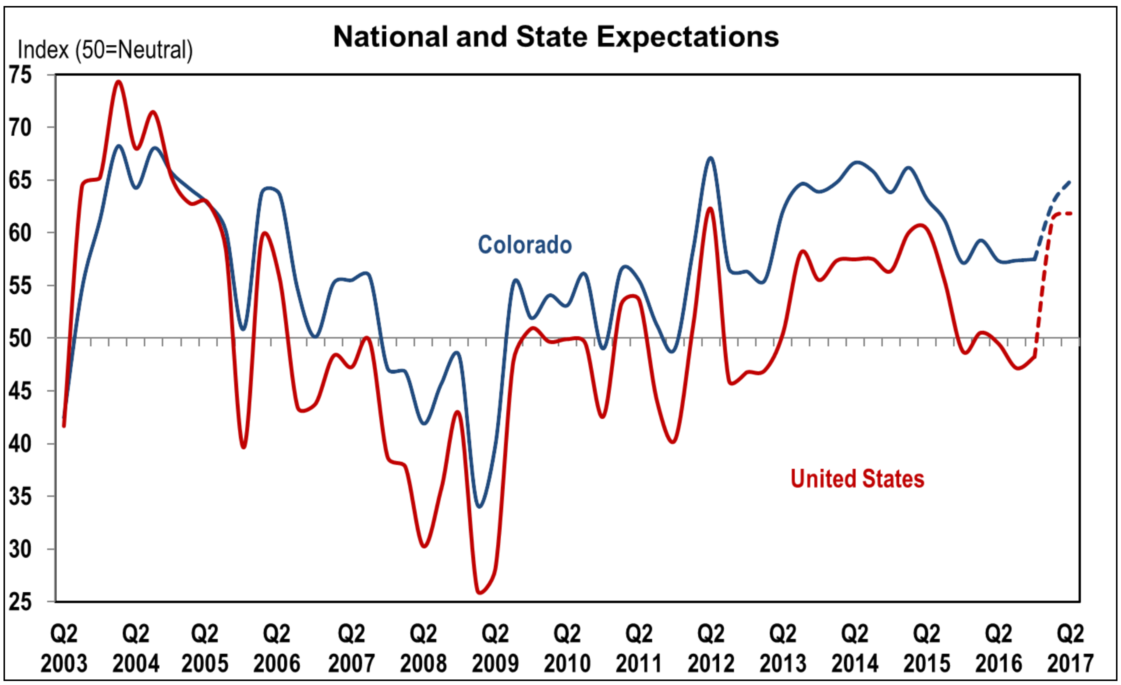
The LBCI, which captures Colorado business leaders' expectations for the national economy, state economy, industry sales, profits, hiring plans, and capital expenditures, is at 60.3 for Q1 2017 (up from 53 in Q4) and 60.9 for Q2 2017. Expectations increased compared to a year ago for both Q1 (4.9 points) and Q2 (5.5 points). A total of 237 qualified panelists responded to the survey.



National and State Economies — Looking Up

Expectations for the national economy and state economy improved markedly ahead of Q1 and Q2 under the supposition that certainty has decreased post-election. National expectations increased from 48.2 to 61.3 ahead of Q1 and 61.9 ahead of Q2. State expectations increased from 57.5 in Q4 to 62.8 ahead of Q1 and 64.9 ahead of Q2. Business leaders continue to remain more positive about the state economy than the national economy; however, the gap narrowed to the smallest margin since Q4 2009.

For the state economy, more respondents (59.5%) believe that the state economy will expand in Q1 than expect a decline (13.1%). More than one-quarter (27.4%) remain neutral. Regarding the national economy, 60.0% of respondents expect an increase, while 18.9% expect a decrease (21.1% are neutral).



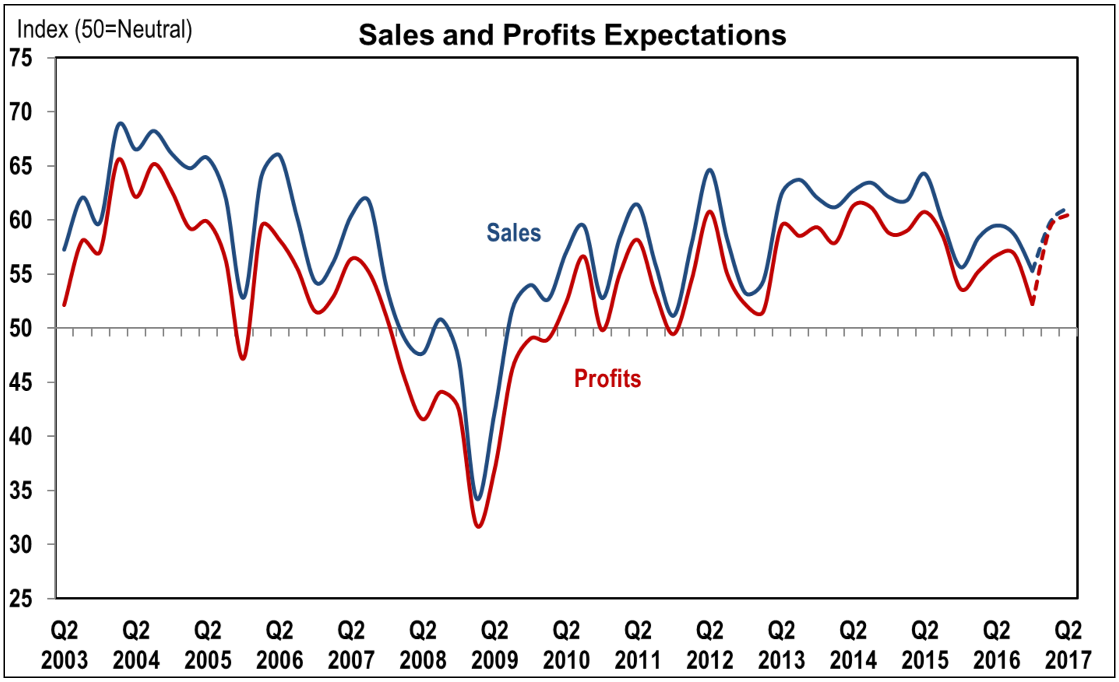
According to estimates from the BEA, U.S. real GDP in Q3 2016 grew at 3.5% SAAR, recording the fastest growth since Q3 2014. The BEA reported:

> *The increase in real GDP in the third quarter primarily reflected positive contributions from PCE, exports, private inventory investment, nonresidential fixed investment, and federal government spending that were partly offset by negative contributions from residential fixed investment. Imports, which are a subtraction in the calculation of GDP, increased.*

Colorado's 2016 real GDP growth slowed in 2016, with drag from the commodity-based agriculture and mining sectors, as well as from company headquarters and leisure and hospitality sectors. Colorado's real GDP expanded at a seasonally adjusted annual rate of 1.1% in Q2 2016.

Sales and Profits — Expectations Rebound Ahead of Q1

Both sales and profits expectations increased sharply ahead of Q1 2017. Profits expectations increased 7.2 points ahead of Q1 2017, more than offsetting the 4.7-point loss recorded in Q4. Sales expectations increased by 4.5 points ahead of Q1 2017.



The profits index increased from 52.2 in Q4 to 59.4 ahead of Q1 2017 and 60.5 ahead of Q2. Respondents shifted from largely a neutral position to overall positive, with 52.7% expecting a moderate to strong increase. Negative expectations fell from 21.5% of respondents to 17.3%. Nationally, corporate profits registered a strong increase in Q3 after declining in Q2 2016.

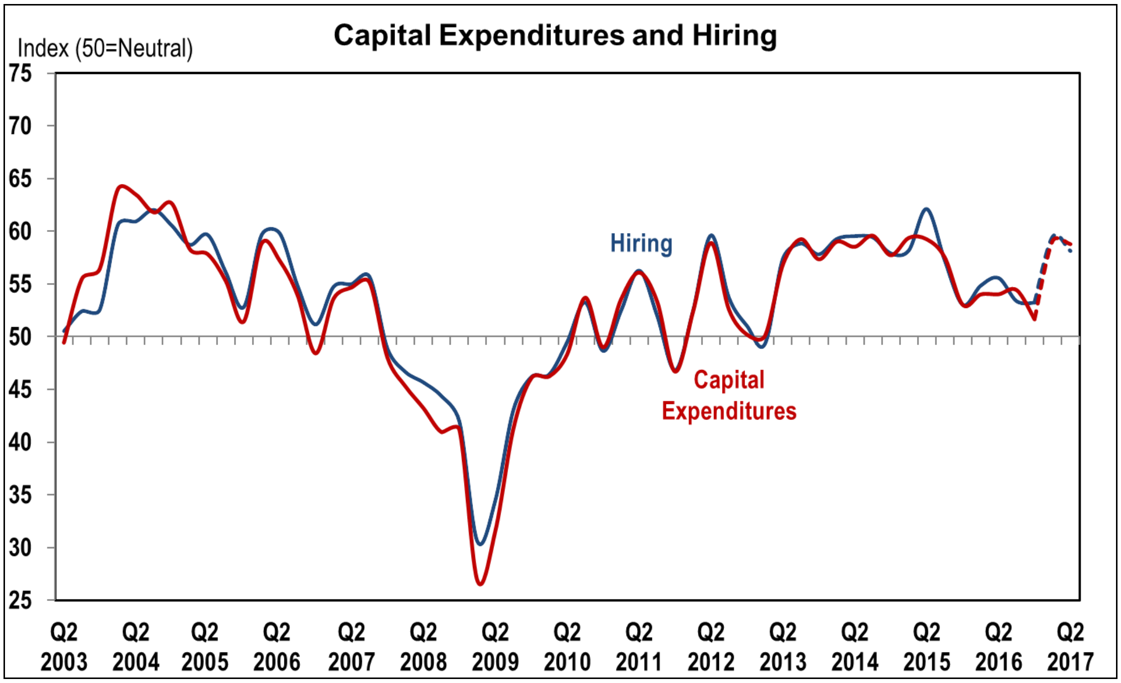
The sales index increased from 55.3 in Q4 to 59.8 in Q1 and 61.2 in Q2 2017. In Q1, 54.8% of respondents expect increasing sales (up from 39.2% in Q4), while 29.5% expect a flat (neutral) quarter and 15.6% expect decreases.

According to the Institute for Supply Management, the manufacturing index increased to 53.2% in November 2016, a 1.3 percentage point increase from October, and tying the 12-month high. The nonmanufacturing index also increased, advancing 2.4 percentage points, to 57.2% in November—a 12-month high.

Sales, particularly consumer sales, are impacted by the economic health of households. According to the BEA, Colorado total personal income rose 1.3% in Q3 2016 from the preceding quarter and 3.5% year-over-year, ranking the state 9th and 20th, respectively, for these metrics. While Colorado has the 15th-highest *per capita* personal income, incomes rose a mere 1.6% year-over-year in Q3—the 13th-slowest nationally. Meanwhile, prices continue to increase at a faster pace than personal income and wage and salary income. According to the most recent statistics from the Bureau of Labor Statistics, inflation in the first half of 2016 (all items index) increased 3% year-over-year in the Denver-Boulder-Greeley MSA. Core inflation increased 4.5% year-over-year, and shelter grew 7.6%.

Capital Expenditures and Hiring Plans — Stronger Expectations

The outlook for both capital expenditures and hiring increased ahead of Q1, with capital expenditures taking a larger step forward. Capital expenditures expectations increased 7.4 points ahead of Q1 2017, compared to the 2.8-point loss recorded in Q4. Hiring expectations increased by 6.3 points ahead of Q1 2017.



The capital expenditures index increased from 51.7 in Q4 to 59.1 ahead of Q1 2017 and 58.8 ahead of Q2. Nearly half (47.7%) of respondents expect a moderate to strong increase in capex, compared to 37.6% who project no change and 14.8% who project a decrease in investment.

In Colorado, one visible sign of capital expenditures is infrastructure. The value of construction in Colorado is projected to breach a new record in 2016 for the sum of residential, nonresidential, and nonbuilding construction. However, building permits remain below all-time highs.

The hiring index increased from 53.2 in Q4 to 59.5 in Q1 and 58.2 in Q2 2017. In Q1, 46.4% of respondents expect to increase hiring (up from 28.5% in Q4), while 42.6% remain neutral (no change).

The nation continues to add jobs; however, growth has slowed in 2016, averaging about 180,000 jobs per month for the first 11 months of the year (compared to 225,000 for the same period in 2015). Employment growth saw its smallest increase in May, with only 24,000 jobs added (partially driven down by the Verizon strike) and the largest gain for the year in June (271,000 jobs). National employment increased by 178,000 jobs in November. The national unemployment rate decreased to 4.6%—the lowest level since 2006.

Preliminary November employment figures for Colorado show growth of 2.2% year-over-year. Colorado has recorded 74 consecutive months of year-over-year employment growth and added

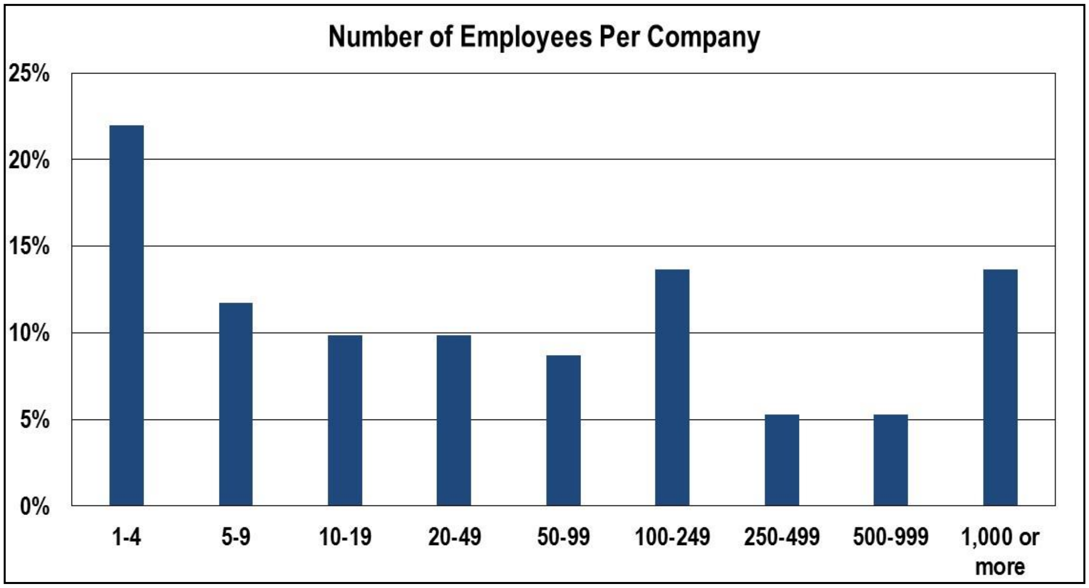
55,300 jobs year-over-year. The Leeds School of Business' *Colorado Business Economic Outlook* projects 54,900 jobs added in 2016 once figures are finalized in March, and forecasts 63,400 jobs in 2017.

The unemployment rate in Colorado has remained below the historical average in 2016, decreasing to 3.2% in November. Both the labor force and number of employed workers gained in November 2016 month-over-month and year-over-year. This compares to a national unemployment rate of 4.6%. Year-over-year employment growth was recorded in all seven of Colorado's metropolitan areas, with the Boulder and the Denver-Aurora-Lakewood MSAs recording the fastest growth, 3.9% and 3.1%, respectively. Grand Junction (0.3%) recorded the lowest year-over-year growth rate. The Colorado Department of Labor and Employment has indicated these growth rates are subject to revision in March 2017. The industries with the greatest increases in November year-over-year were Construction (8.3%), Education and Health Services (4.9%), and Leisure and Hospitality (3.1%). Mining and Manufacturing both recorded job losses in November, year-over-year.

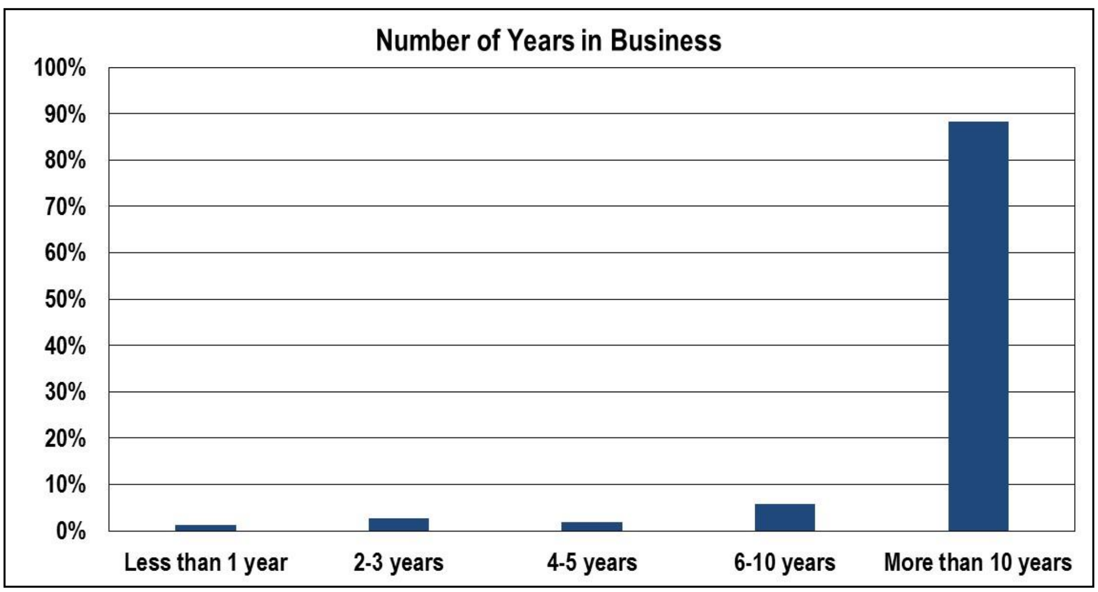
Expectations by Company Size and Length of Time in Business

Panelists were asked two additional questions, one about the size of their company and the other about how long their company has been in business. About half (48.9%) of survey respondents work for companies with fewer than 50 employees. The three largest groups were represented by companies with 1–4 employees (20.4%), 1,000 or more employees (14.9%), and 100–249 employees (14%).

Small employers' expectations increased 7.3 points ahead of Q1, and large employers' expectations increased 7.1 points. Small and large company expectations were remarkably similar—60 and 60.5, respectively, ahead of Q1.

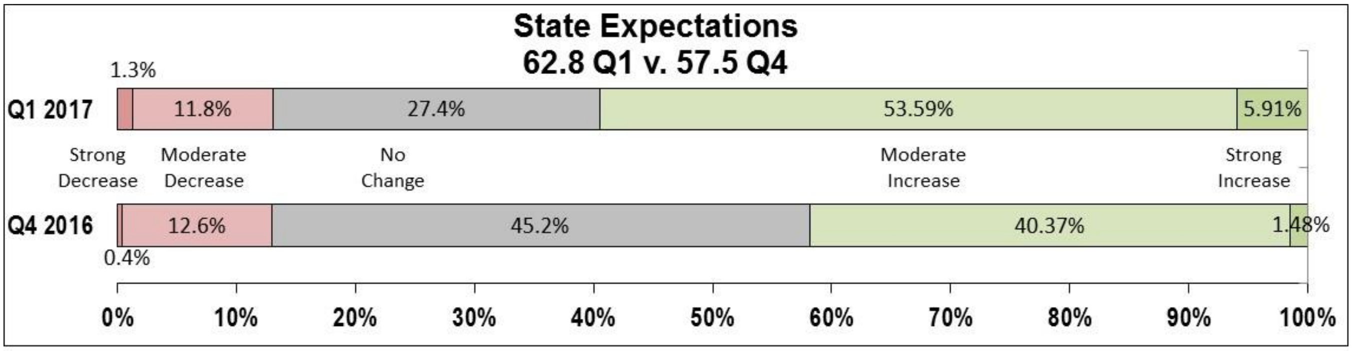


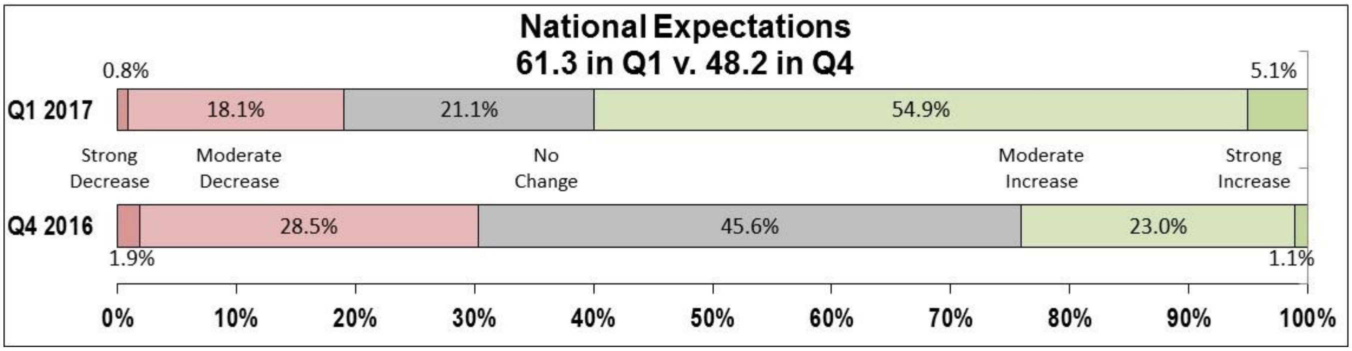
Nearly 90% of survey respondents work at a long-standing company that has been in business for more than 10 years.

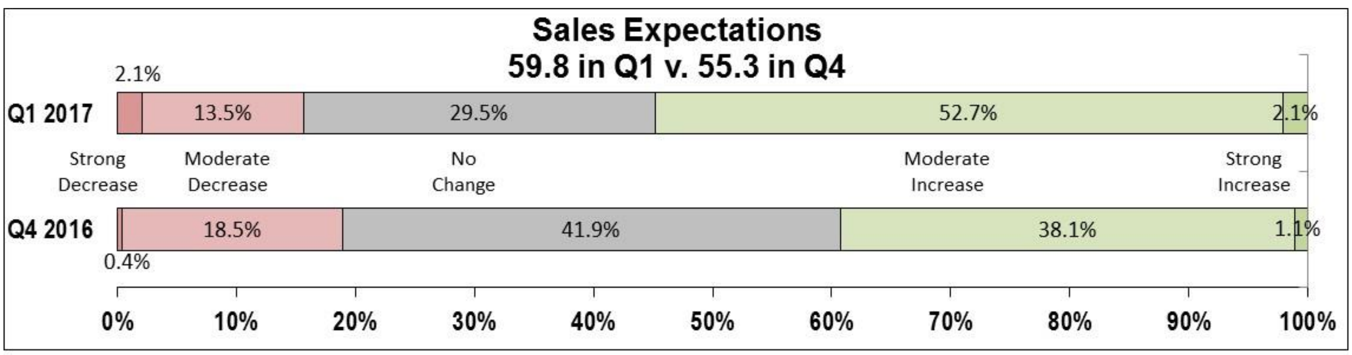


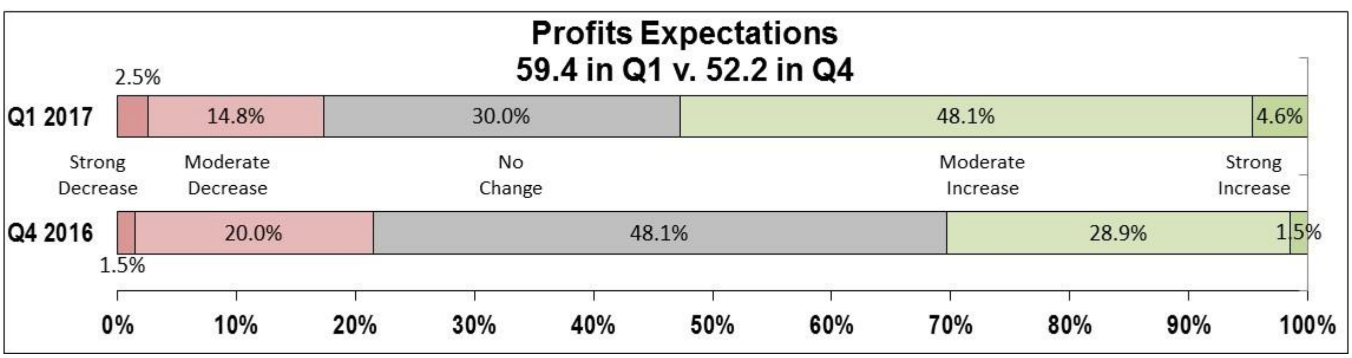
While responding panelists represent nearly every industry in the state, the largest percentage of respondents to the Q1 survey were: Professional, Scientific, and Technical Services (21%); Finance and Insurance (15.5%), Public Administration (13.4%); and Real Estate, Rental, and Leasing (12.2%).

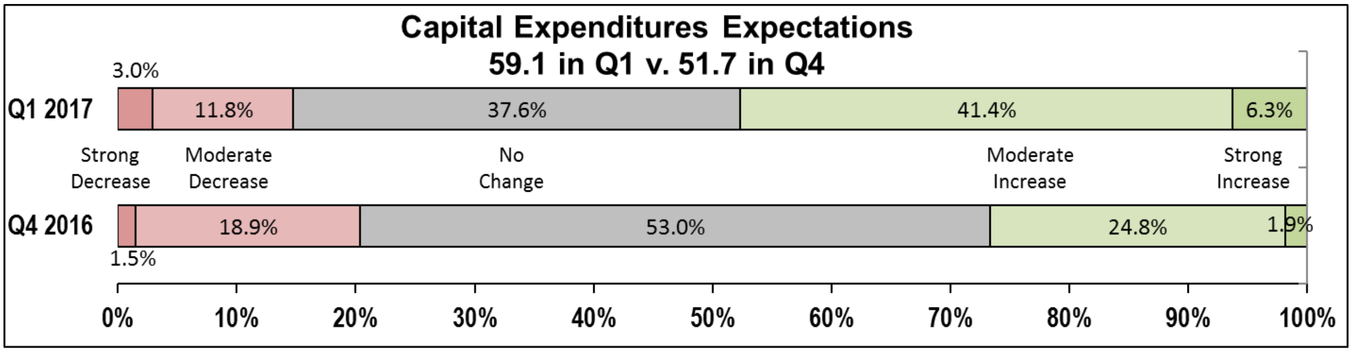
Distribution of Expectations in Q4 2016 and Q1 2017

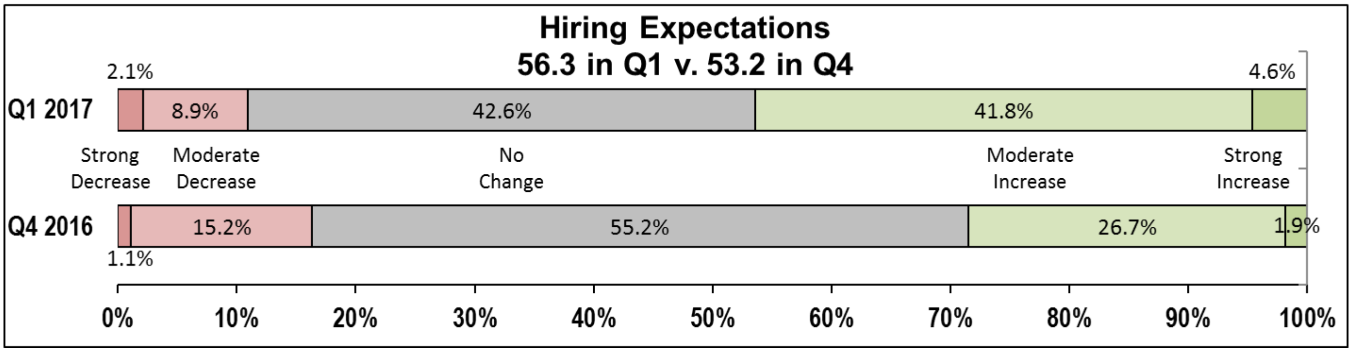












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