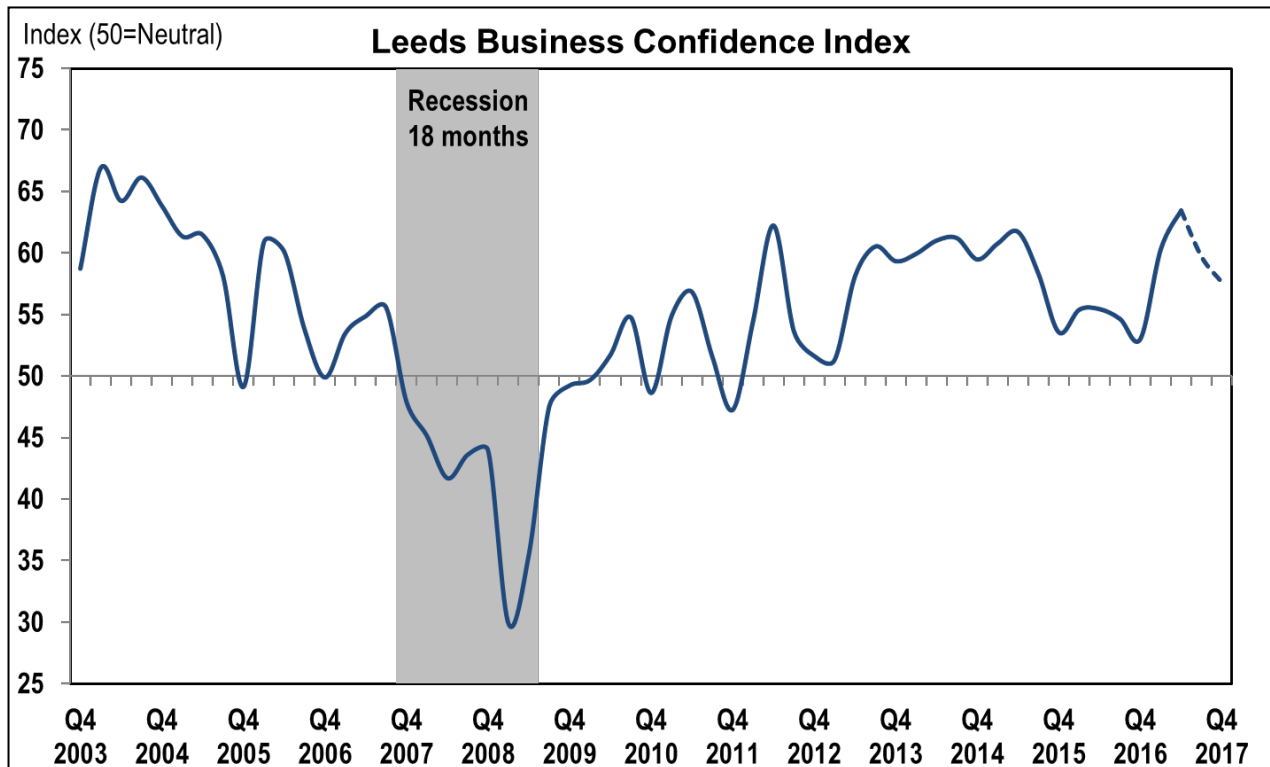


Summary — Tempered Optimism, but Still High

The Leeds Business Confidence Index (LBCI) fell ahead of Q3 2017, and expectations continued a shallow decline for Q4 2017. Expectations for Q3 2017 are down 3.7 points from last quarter, but remained strongly above a year ago—up 5.1 points from Q3 2016. While all components of the index remained comfortably in positive territory, each component of the index posted declines for the quarter. Panelists were most optimistic about sales, profits, and the state economy, with weakest expectations for the overall national economy.

National real gross domestic product (GDP) continued to grow at a 1.2% seasonally adjusted annual rate (SAAR) in Q1 2017. All sectors positively increased except for government consumption expenditures and gross investment, which experienced a 1.1% decline. In 2016, GDP grew 1.6%, following the previous year’s increase of 2.6%. GDP has experienced positive growth for the seventh consecutive year according to the Bureau of Economic Analysis (BEA). Colorado continued to experience positive GDP growth, with 3.7% SAAR in Q4 2016. Colorado accounted for 1.8% of total U.S GDP in Q4 2016.

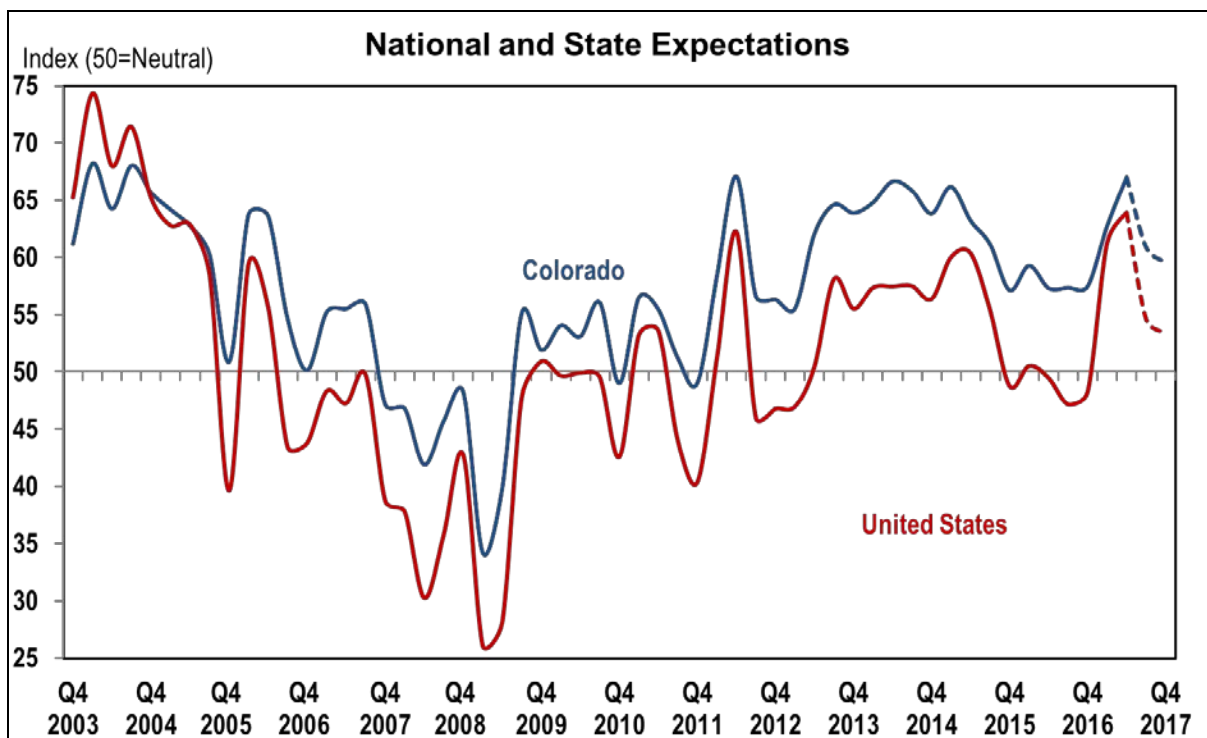
The LBCI, which captures Colorado business leaders’ expectations for the national economy, state economy, industry sales, profits, hiring plans, and capital expenditures, is at 59.7 for Q3 2017 (down from 63.4 in Q2) and 57.6 for Q4 2017. Expectations increased compared to a year ago for both Q3 (5.1 points) and Q4 (4.6 points). A total of 262 qualified panelists responded to the survey.



National and State Economies — Large Shift from Positive to Neutral

Expectations for both the national economy and state economy took a step back in Q3 2017, but the outlook remained positive. National expectations decreased from 63.9 in Q2 to 54.6 ahead of Q3 and 53.4 ahead of Q4. State expectations fell from 67.0 in Q2 to 60.9 ahead of Q3 and 59.5 ahead of Q4. Business leaders continue to remain more positive about the state economy than the national economy, and the gap between state and national expectations widened for the second consecutive quarter in Q3.

Both state and national expectations recorded a notable shift in panelists' expectations from positive to neutral outlooks. For the state economy, more respondents (47.4%) believe that the state economy will expand in Q3 than expect a decline (8.1%). Roughly one-quarter (44.7%) remain neutral. Regarding the national economy, 37.8% of respondents expect an increase, while 23.2% anticipate a decrease (38.9% are neutral).



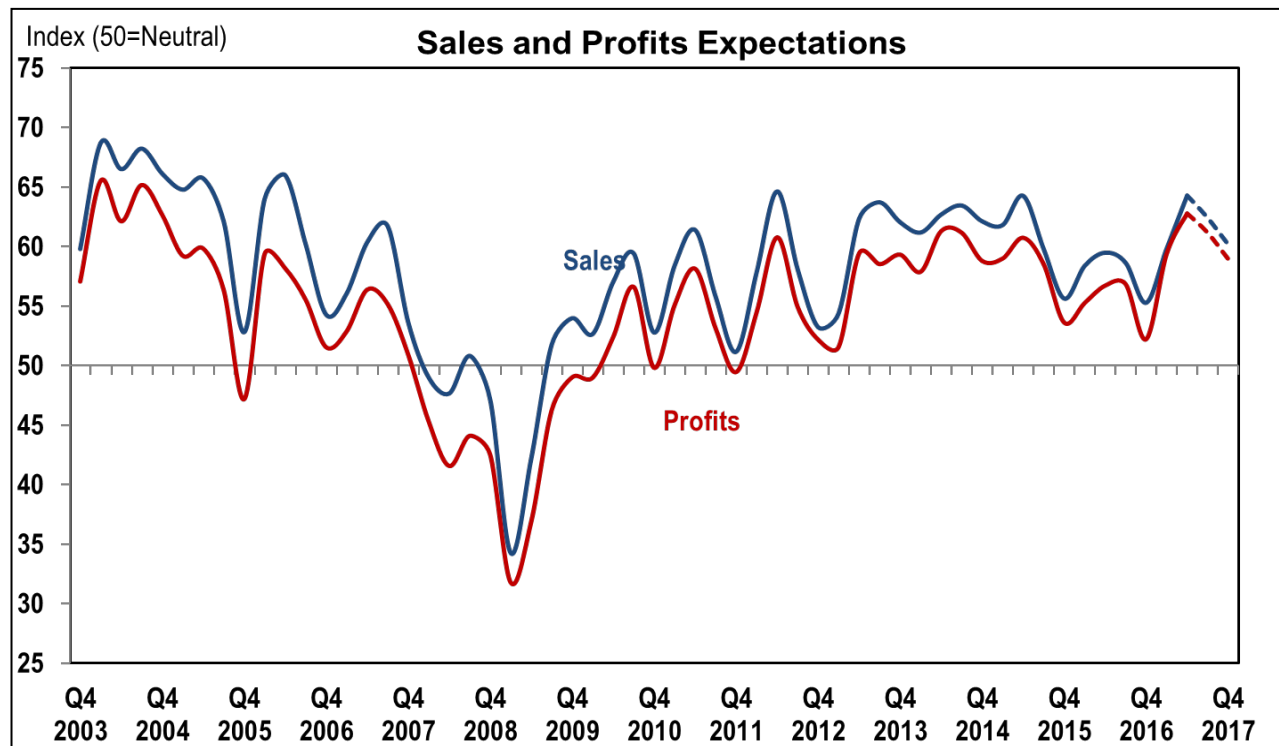
U.S. GDP in Q1 2017 grew at 1.2% SAAR, which was a decrease of the previous quarter's growth of 2.1%. The BEA reported:

The increase in real GDP in the first quarter reflected positive contributions from nonresidential fixed investment, exports, residential fixed investment, and PCE [personal consumption expenditure] that were partly offset by negative contributions from private inventory investment, federal government spending, and state and local government spending. Imports, which are a subtraction in the calculation of GDP, increased.

A deceleration in PCE and a downturn in private inventory investment were the main reasons for the deceleration in real GDP in the first quarter of 2017. Colorado's Q4 2016 real GDP grew 2.7% year-over-year. Mining and Management of Companies and Enterprises recorded the strongest decreases in the state, while Information recorded the greatest percentage gain.

Sales and Profits — Expectations Remain High

The sales and profits expectations ahead of Q3 2017 were the highest among the six components of the LBCI in the current survey. Both sales and profits expectations fell ahead of Q3 2017. Sales expectations fell by 1.9 points ahead of Q3 2017. Profits expectations declined 1.6 points ahead of Q3 2017.



The profits index decreased from 62.8 in Q2 2017 to 61.2 ahead of Q3 2017 and 58.9 ahead of Q4 2017. Respondents maintained an overall positive outlook, with 53% expecting a moderate to strong increase. Negative expectations increased modestly from 12.1% of respondents in Q2 to 13% in Q3. Corporate profits continued to register modest increases in Q1 2017, with a 1.2% SAAR increase, still far off the pace of the strong increase recorded in Q3 2016 (25.4% SAAR).

The sales index decreased from 64.3 in Q2 to 62.4 ahead of Q3 and 60.2 ahead of Q4 2017. In Q3, 58.4% of respondents expect increasing sales, while 29.4% expect a flat (neutral) quarter and 12.2% expect a decrease.

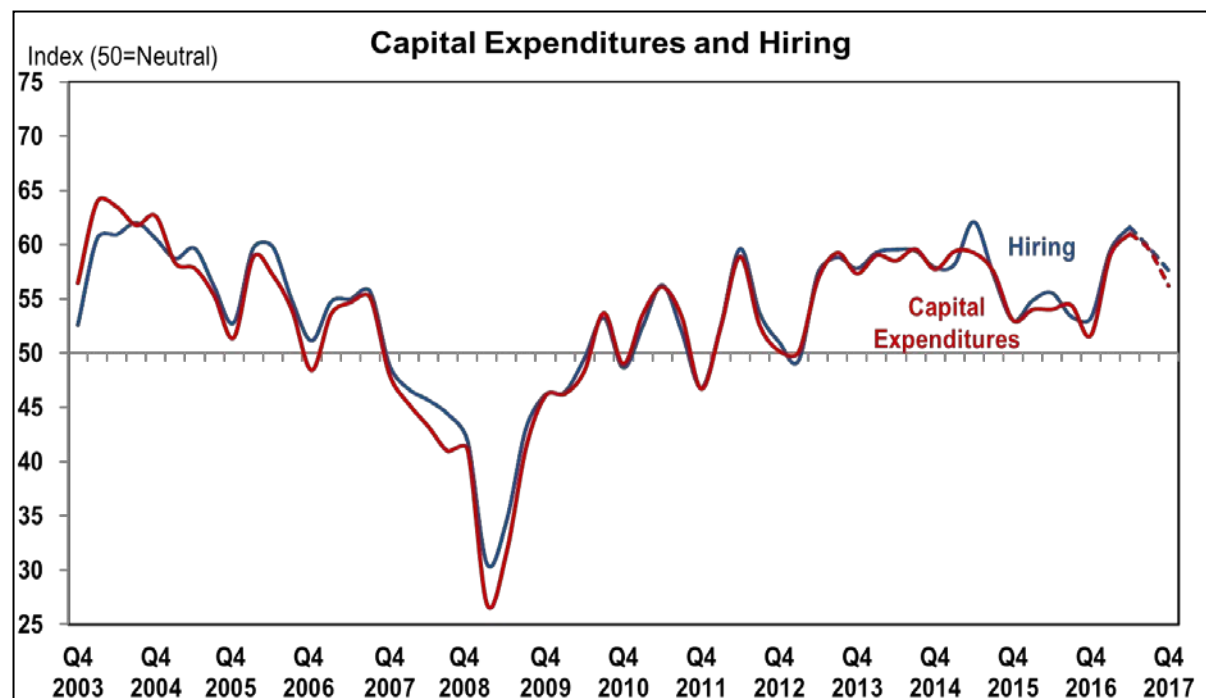
According to the Institute for Supply Management, the manufacturing index in May 2017 had a very slight, 0.1 percentage point, increase compared to April 2017. With a reading of 54.9, the May manufacturing index currently sits 1 percentage point above the 12-month average. The nonmanufacturing index fell in May 2017, decreasing 0.6 percentage points from April. However, May still remained above the 12-month average.

Personal incomes continued an upward climb in Colorado in Q4 2016. According to the BEA, Q4 2016 Colorado personal income rose 1.1% from the preceding quarter, with a strong increase of 4.4% year-over-year. Colorado ranked 7th for year-over-year growth and 7th for quarterly growth. Per capita personal income increased 0.6% in the state from Q3 to Q4 2016 and 2.7% year-over-year. Colorado ranked 31st among states for both quarterly and year-over-year growth

in Q4 2016. Prices continue to increase, putting more pressure on personal income, wages, and salaries. According to the Bureau of Labor Statistics, prices increased 2.8% in the Denver-Boulder-Greeley region in Colorado, while core inflation (which excludes energy and food) increased 4% and shelter increased 7.3%.

Capital Expenditures and Hiring Plans — Slowing Pace of Investment?

The outlook for both capital expenditures and hiring decreased ahead of Q3, with hiring taking a larger step backward. Capital expenditures expectations fell 1.5 points ahead of Q3 2017—the smallest decline for the quarter among the six components of the index. Hiring expectations decreased by 2 points to settle at 59.7 ahead of Q3 2017.



The capital expenditures index fell from 61.0 in Q2 2017 to 59.5 ahead of Q3 and 56.3 ahead of Q4 2017. Fewer than half (45.4%) of respondents expect a moderate to strong increase in capex compared to 43.9% who project no change and 10.6% who project a decrease in investment.

In Colorado, one visible sign of capital expenditures is infrastructure. The value of construction in Colorado increased 9% in 2016, according to Dodge Data and Analytics, but declined 7% year-to-date through May compared to the same period a year ago. Increases were observed in nonresidential building according to the May report, while nonbuilding construction and residential construction posted losses. However, residential building permits in Colorado were up nearly 30% for the year through April, according to the U.S. Census Bureau.

The hiring index decreased from 61.7 in Q2 to 59.7 ahead of Q3 and 57.6 ahead of Q4 2017. In Q3, 46.6% of respondents expect to increase hiring, while 44.3% remain neutral (no change) and 9.1% expect a decrease.

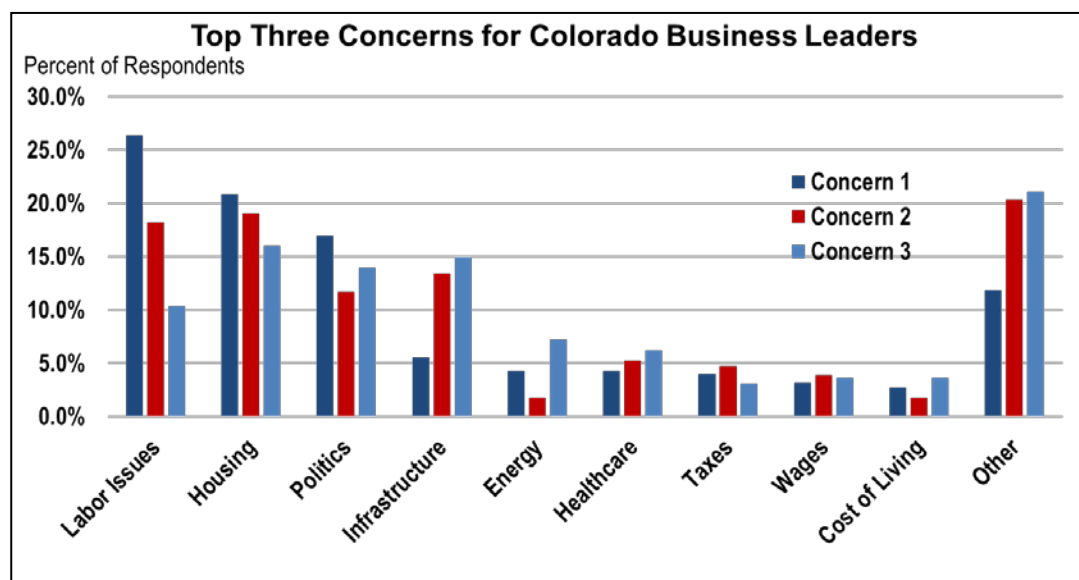
Employment continues to grow in the United States. In May 2017, jobs increased 1.6% year-over-year. For all nonfarm sectors, 138,000 jobs were added in May. Year-to-date through May, the average number of jobs added per month totaled 162,000, compared to 157,000 for the same period a year ago. The unemployment rate in the United States decreased to 4.3% in May. This is the lowest level recorded since May 2001.

As of May 2017, Colorado employment figures continue to show growth. Jobs increased 2.4% year-over-year in May, an increase of 62,000 year-over-year—the 5th-fastest rate in the country. The state unemployment rate continues to reach record lows. In May 2017, the unemployment rate was 2.3%—a rate well-below the national average. Year-over-year employment growth was recorded for all seven Colorado metropolitan areas. The Boulder MSA recorded the fastest growth (4.7%), followed by the Fort Collins-Loveland MSA (4.1%) and the Greeley MSA (3%). The Colorado Springs and Denver-Aurora-Broomfield MSAs were tied at 2.3%, while the Pueblo and Grand Junction MSAs rounded out the state, with 1.8% and 0.3% growth. Colorado industries with the greatest job increases in May were Leisure and Hospitality (4%) and Other Services (4%). Mining and Manufacturing both recorded year-over-year job losses.

Panelists’ Top Economic Concerns

In an open-ended question, LBCI panelists were asked to indicate, in rank order, the three main headwinds facing the economy. According to respondents, the top problem facing the Colorado economy is labor issues, with 26.4% of responses. With historically low unemployment rates, employers are finding it difficult to hire new employees to fill vacant or new positions. In addition, many respondents felt more attention needs to be focused on talent attraction and development. The second most frequently mentioned problem is housing, with 20.9% of responses. Panelists noted the increasingly high housing prices. Many respondents remarked that high prices and lack of affordable housing discouraged potential employees from relocating to the state. Politics was also a concern for 16.9% of respondents. Many respondents commented on national government uncertainty as a key threat to Colorado growth. Although not one of the top three concerns, many panelists felt the government needed to increase infrastructure funding. With an increasing population in Colorado, many feared the state government

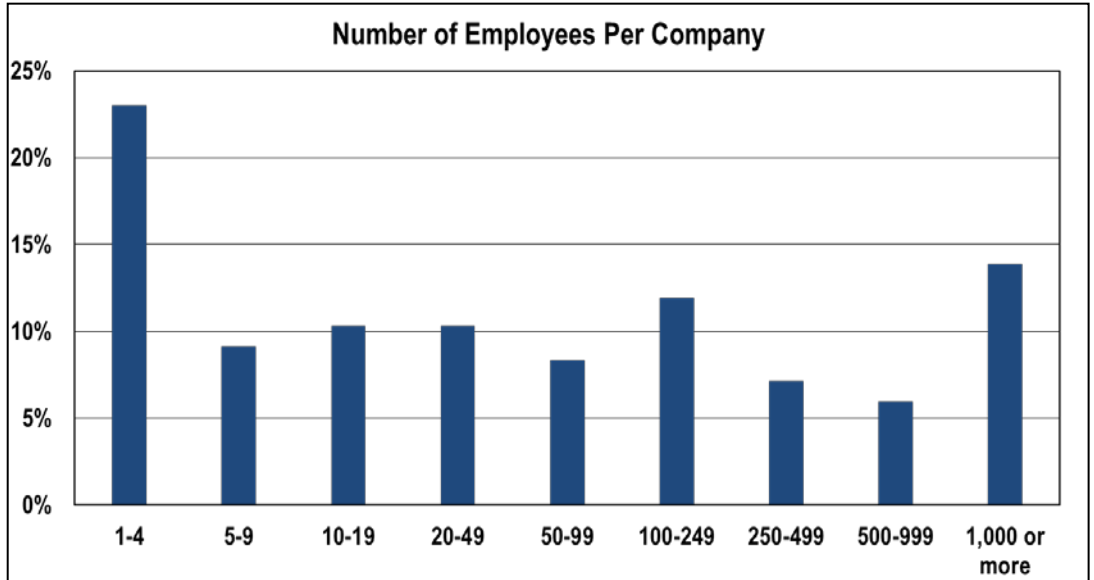
was not allocating enough resources to address crumbling infrastructure.



Expectations by Company Size and Length of Time in Business

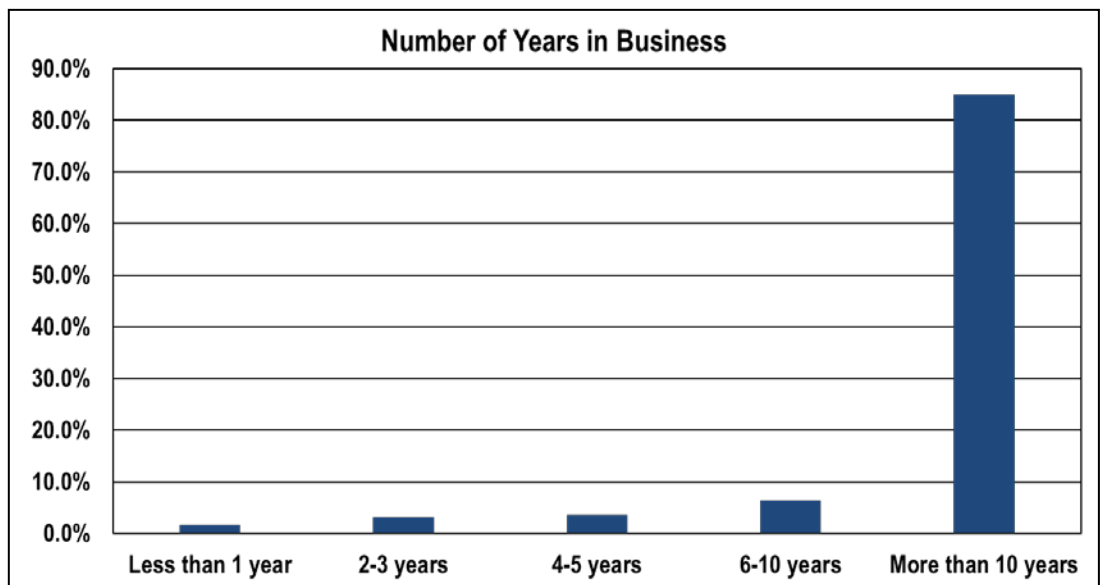
Panelists were asked two additional questions, one about the size of their company and the other about how long their company has been in business. About half (52.8%) of survey respondents work for companies with fewer than 50 employees. The three largest groups were represented by companies with 1–4 employees (23%), 1,000 or more employees (13.9%), and 100–249 employees (11.9%).

Small employers' expectations decreased 3.1 points ahead of Q3, and large employers' expectations fell 5 points. Small companies were collectively more optimistic than large companies (60.6 versus 58.2) ahead of Q3.



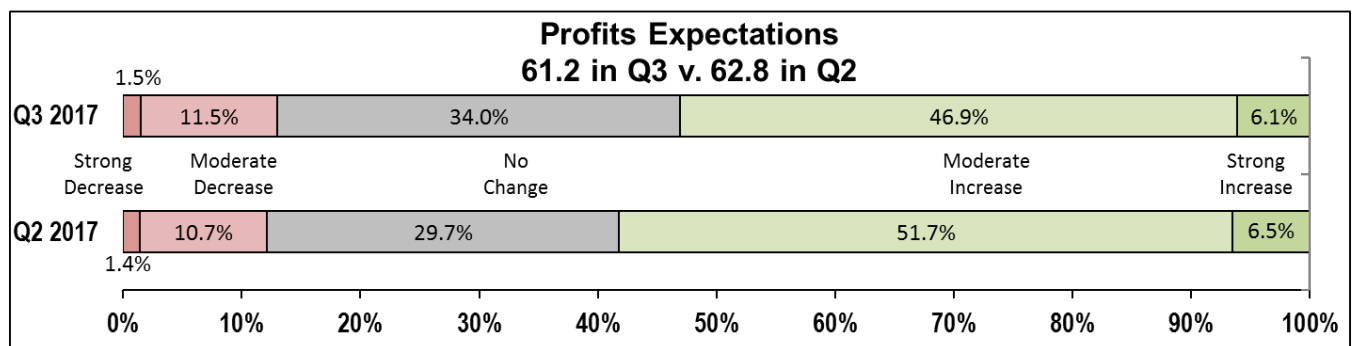
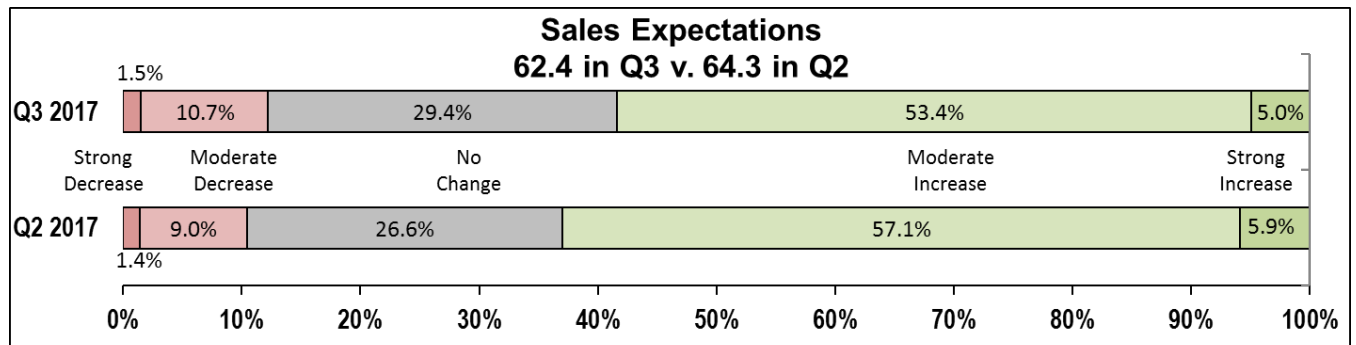
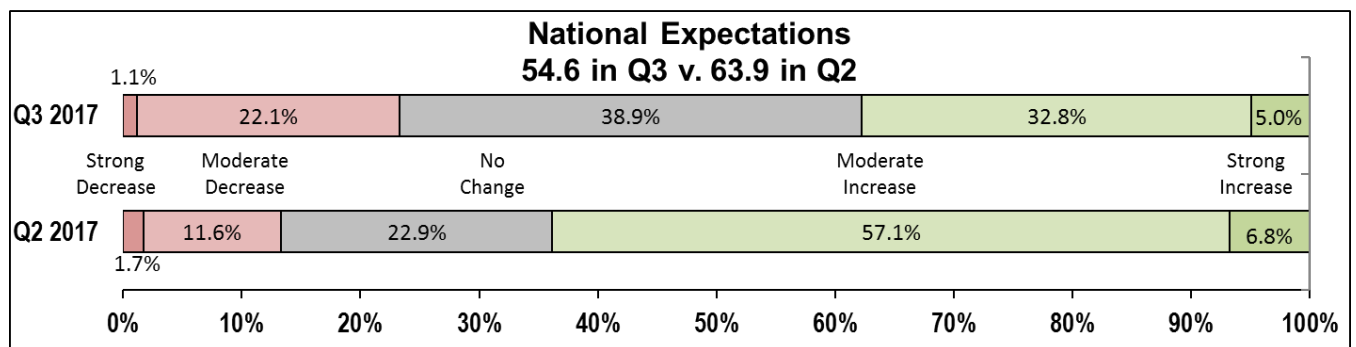
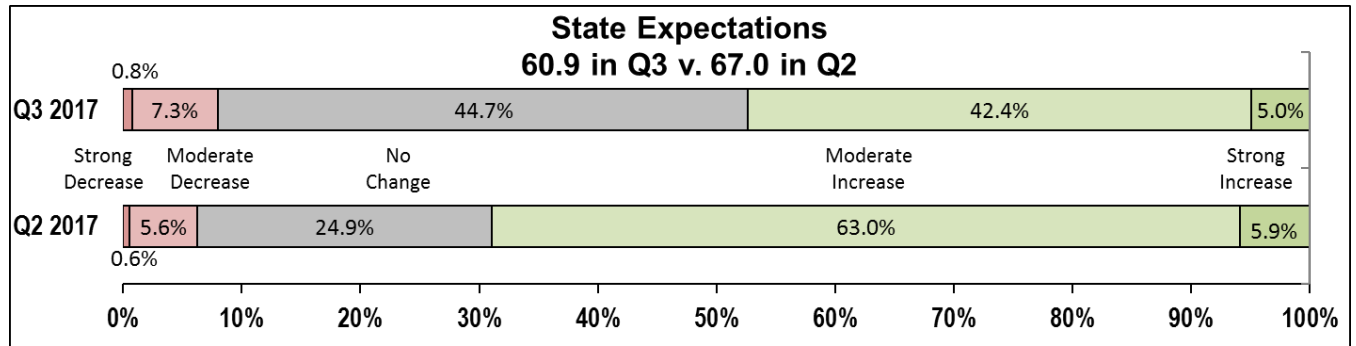
Nearly 85% of survey respondents work at a long-standing company that has been in business for more than 10 years.

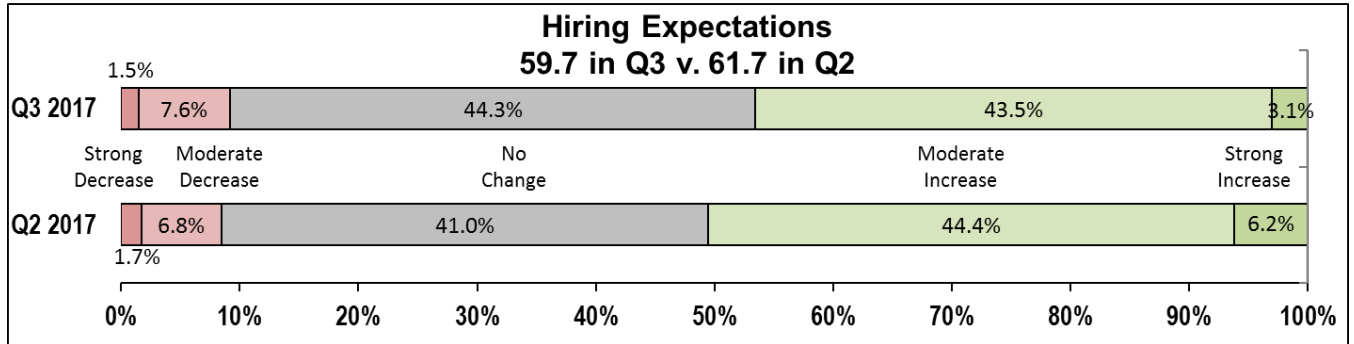
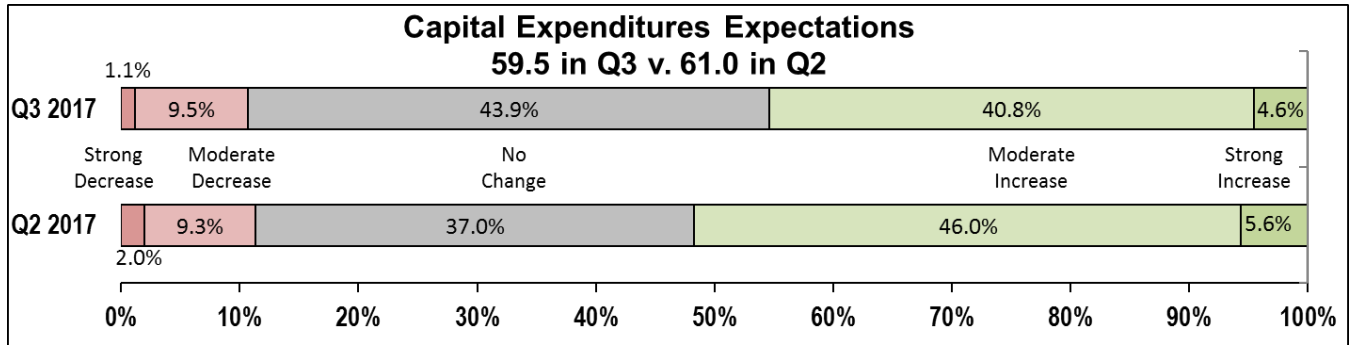
While responding panelists represent every industry in the



state, the largest percentage of respondents to the Q3 survey were: Professional, Scientific, and Technical Services (22.9%); Finance and Insurance (15.8%); Real Estate, Rental, and Leasing (10.5%); and Public Administration (11.7%).

Distribution of Expectations in Q3 2017 and Q2 2017





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