LBCI LEEDS BUSINESS CONFIDENCE INDEX

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Leeds Business Confidence Steady Ahead of Q3 2018

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. Ahead of Q3 2018 the index fell to 59.6 and slipped to 55.8 ahead of Q4 2018. Expectations were down modestly from Q2 to Q3 and decreased further through Q4. A total of 288 qualified panelists responded to the survey from June 1 through June 20.

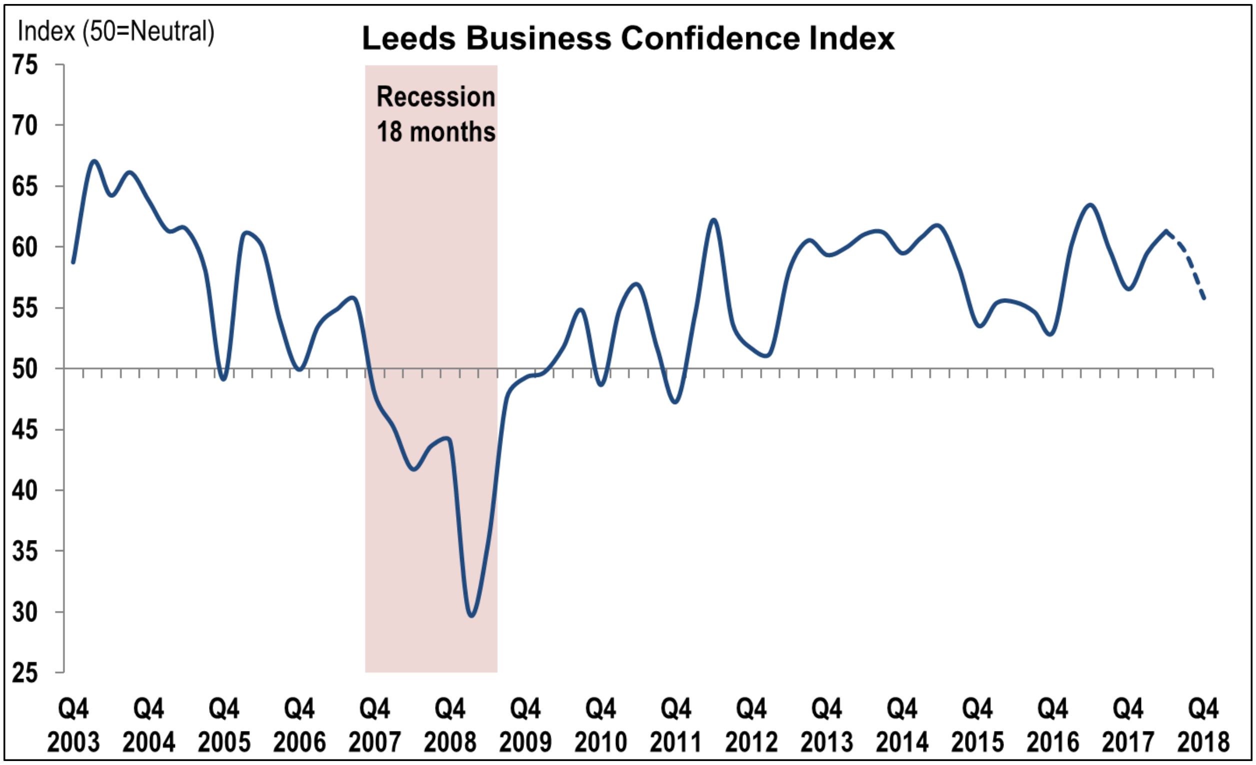
Leeds Business Confidence Index

Component	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Change	
						Quarterly	Annual
State Economy	60.9	58.8	58.2	62.1	63.4	▲	▲
National Economy	54.6	51.4	58.2	58.1	57.0	▼	▲
Industry Sales	62.4	58.5	61.6	64.3	61.3	▼	▼
Industry Profits	61.2	57.6	60.6	62.5	59.8	▼	▼
Industry Hiring	59.7	57.1	59.3	60.5	59.5	▼	▼
Capital Expenditures	59.5	55.8	59.3	60.5	56.9	▼	▼
LBCI	59.7	56.5	59.5	61.3	59.6	▼	▼

- Business confidence dipped slightly ahead of Q3, and fell further looking ahead to Q4.
- All six individual components of the LBCI remain in positive territory (above 50) ahead of both Q3 2018 and Q4 2018.
- The greatest headwinds weighing on panelists include labor shortage, affordable housing, and trade policy.
- After generally slowing in 2017, the Colorado economy has accelerated in 2018.
- Colorado continues to experience employment growth, real GDP expansion, increasing personal incomes, as well as growth in other macroeconomic factors, and the overall positive reading of the LBCI is consistent with these trends.

Summary – Slippage Ahead of Q3

The LBCI slipped slightly of Q3 2018 and decreased further ahead of Q4. The overall index remains comfortably in positive territory (above 50). Expectations for Q3 2018 are 59.6 (a 1.7-point decrease from last quarter, a 0.1-point decrease from a year ago). Looking further ahead to Q4 2018, expectations are down a modest 0.7 points from Q4 2017, but fell 3.8 points from the previous quarter. Five of the six componenets fell from Q2 to Q3 (save for state expectations); all individual components of the index remain in positive territory.

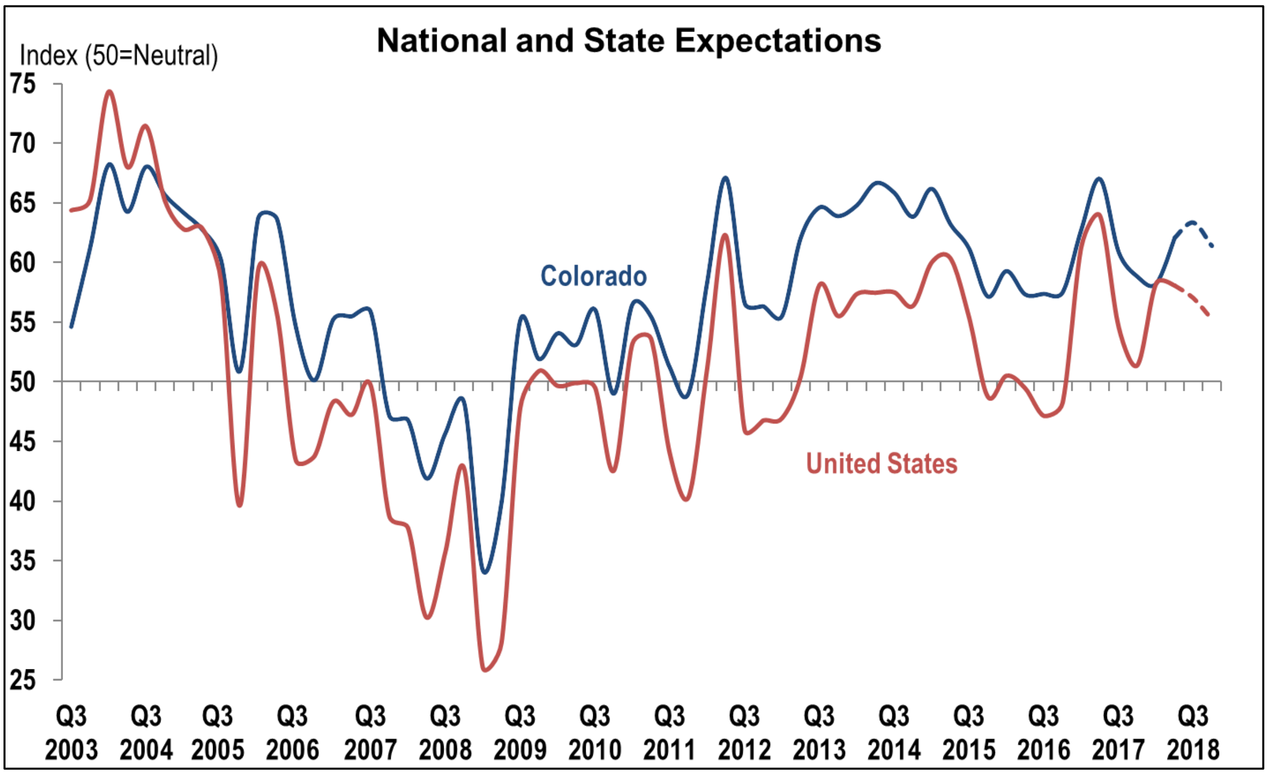


National real gross domestic product (GDP) grew at a 2% seasonally adjusted annual rate (SAAR) in Q1 2018 according to the third estimate. Personal consumption expenditures and government spending decelerated, but gross private domestic investment growth accelerated and exports outpaced the growth in imports, thus, improving the trade deficit. Expectations for 2018 growth have been revised up to nearly 3%. GDP has recorded positive growth for the seventh consecutive year according to the Bureau of Economic Analysis (BEA). Colorado continued to experience positive real GDP growth, with a revised 7.9% SAAR in Q3 2017 and 3.2% growth in Q4. Colorado accounted for 1.8% of total U.S. GDP in Q4 2017.

National and State Economies — State Outlook Up, National Down

Participants' remained more bullish about the state economy than the nation's ahead of Q3. With a reading of 63.4, state expectations rose ahead of Q3 while national expectations fell. National expectations decreased modestly, from 58.2 in Q1 to 58.1 ahead of Q2, 57.0 ahead of Q3 and 55.3 ahead of Q4 2018. State expectations rose from 62.1 in Q2 to 63.4 ahead of Q3 but slid to 61.4 ahead of Q4 2018. The third quarter marks improved expectations both year-over-year and quarter-over-quarter for the state outlook.

Panelists' expectations for both the state and national economies maintained above-neutral outlooks. For the state economy, the majority of respondents (56.3%) believe that the state economy will expand in Q3, and a smaller percentage (8.7%) expect a decline. A total of 35.1% of panelists remain neutral. On the national level, 46.2% of panelists expect an expansion, while 21.8% expect a decline. Looking ahead to Q4, 52.3% anticipate an expansion of the state economy and 43.5% expect a national expansion.



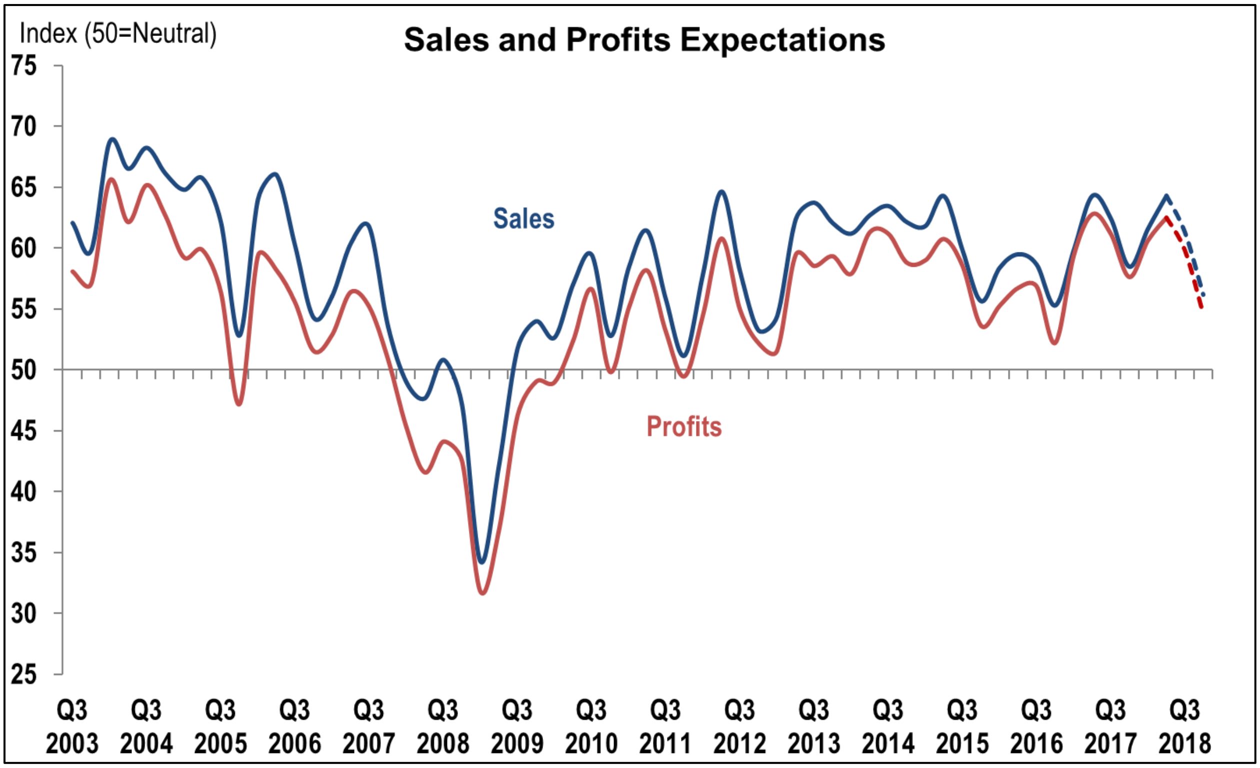
U.S GDP grew at 2% SAAR in Q1 2018 (third estimate), a decrease in the growth rate from the prior quarter's rate of 2.9%. The BEA reported:

> *The deceleration in real GDP growth in the first quarter reflected decelerations in PCE, exports, state and local government spending, and federal government spending and a downturn in residential fixed investment. These movements were partly offset by a smaller decrease in private inventory investment and a larger increase in nonresidential fixed investment. Imports, which are a subtraction in the calculation of GDP, decelerated.*

Colorado's Q4 2017 real GDP grew at an SAAR of 3.2%. Quarter-over-quarter, the Construction and Manufacturing industries increased by the largest percentage gains, while the Finance and Insurance industry and the Agriculture industry posted the largest declines.

Sales and Profits — Outlook for Sales and Profits Fall

Sales and profits expectations fell 3 points and 2.7 points, respectively, from Q2 and Q3 2018. Looking toward Q4, the outlook slips further—5.2 points each.



The profits index decreased from 62.5 in Q2 to 59.8 ahead of Q3 and 54.6 looking to Q4. Respondents maintained an overall positive outlook, with 50.3% expecting a moderate to strong increase in Q3. The sales index decreased from 64.3 in Q2 to 61.3 ahead of Q3 and 56.1 ahead of Q4. In Q3, 53.5% of panelists expect an increase, while 11.1% expect a decrease in sales. In terms of sales and profits, around 35% of respondents remain neutral.

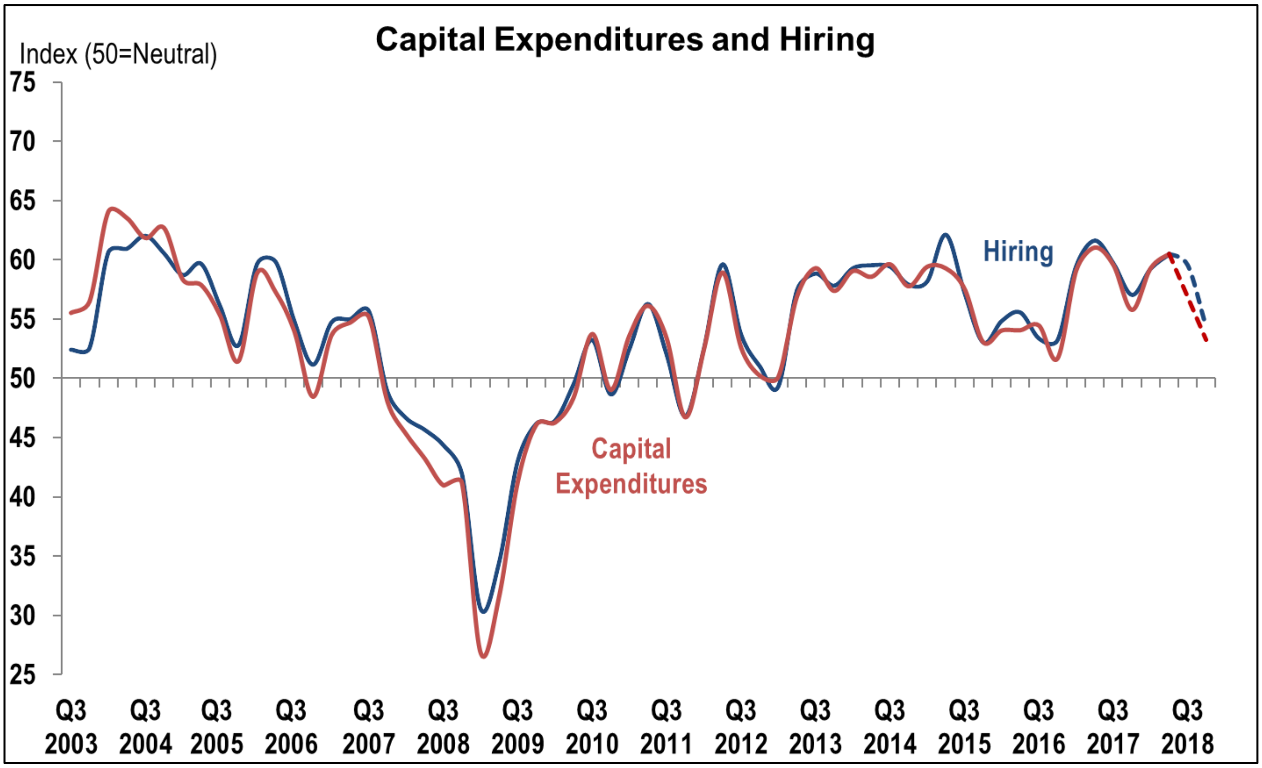
According to the Institute for Supply Management, the national manufacturing index in May 2018 is 58.7, an increase over April and the same as the 12-month average. The nonmanufacturing index also increased, up to 58.6 in May and slightly above the 12-month average of 57.7.

Personal incomes continued to grow in Colorado in Q4 2017. According to the BEA, Q4 2017 (most recent data) Colorado personal income rose 5.3% from the preceding quarter, with a strong increase of 5.3% year-over-year. Colorado ranked 5th in the nation for year-over-year growth and ranked 9th for quarterly growth. Colorado had the 13th-highest per capita personal income in Q4 2017, at $54,202, and the state ranked 11th for per capita personal income growth.

Prices continue to increase, putting more pressure on personal income, wages, and salaries. According to the Bureau of Labor Statistics, prices increased 0.9% (not seasonally adjusted) from January to May in the Denver-Aurora-Lakewood region in Colorado. Core inflation (which excludes energy and food) increased 0.3%, but shelter decreased 0.7%.

Capital Expenditures and Hiring Plans — Both Down

The outlook for both capital expenditures and hiring fell ahead of Q3 and Q4. Hiring plans fell to 59.5 in Q3 and decreased to 54.4 in Q4, while capital expenditures fell to 56.9 in Q3 and 53.2 in Q4. The capital expenditures outlook recorded the largest drop in expectations this quarter.



Less than half of respondents expect an increase in hiring plans (44.8%) and capital expenditures (40%) in Q3 2018. In addition, 44.4% expect no change in hiring plans, and 46.5% anticipate no change in capital expenditures in Q3.

In Colorado, an indicator for capital expenditures is infrastructure. According to Dodge Data and Analytics, the value of construction in Colorado was up 20% through April 2018 compared to the same period one year ago. Through April, nonbuilding increased by 18%, while residential increased by 10% and nonresidential went up 39%. According to the U.S. Census Bureau, the total value of construction for the nation increased by 7.6% from April 2017 to April 2018, which is considerably lower than Colorado.

Employment continues to grow in the United States. In January 2018, jobs increased 1.6% year-over-year. For all nonfarm sectors, 223,000 jobs were added in May 2018. Year-to-date through May, the average number of jobs added per month totaled 207,000, up from the five-month average of 172,000 for the same period a year ago. The unemployment rate in the United States dropped to 3.8% in May, tying the rate in April 2000.

As of May 2018, Colorado continued to exhibit strong employment growth. Jobs increased 2.7% from May 2017 to May 2018, an increase of 72,800 year-over-year—the sixth-fastest rate in the country. The state unemployment rate continues to outperform the nation as a whole. In May 2018, the unemployment rate was just 2.8% seasonally adjusted, well below the national average of 3.8%, ranking the state fifth lowest in the country. Year-over-year employment growth was recorded in all of Colorado's seven metropolitan areas. The Greeley MSA recorded the fastest year-over-year growth (4%), followed by Fort Collins (3.1%), Colorado Springs (2.8%), Denver-Aurora-Lakewood (2.7%), Grand Junction (2.2%), Boulder (2%), and Pueblo (1%). Colorado industries with the greatest annual percent change in May were Mining and Logging (13.3%), Construction (6%), and Leisure and Hospitality (5.3%).

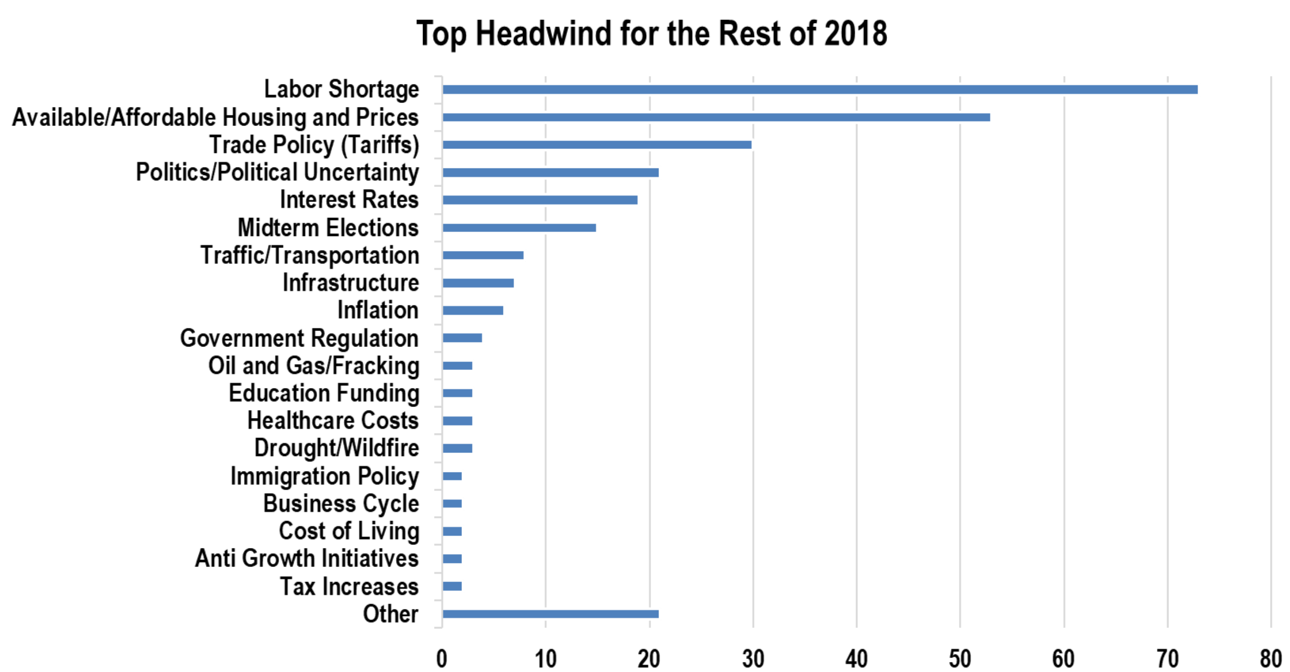
Headwinds Closing Out 2018

Panelists were asked about the top three headwinds they see facing Colorado for the rest of 2018.

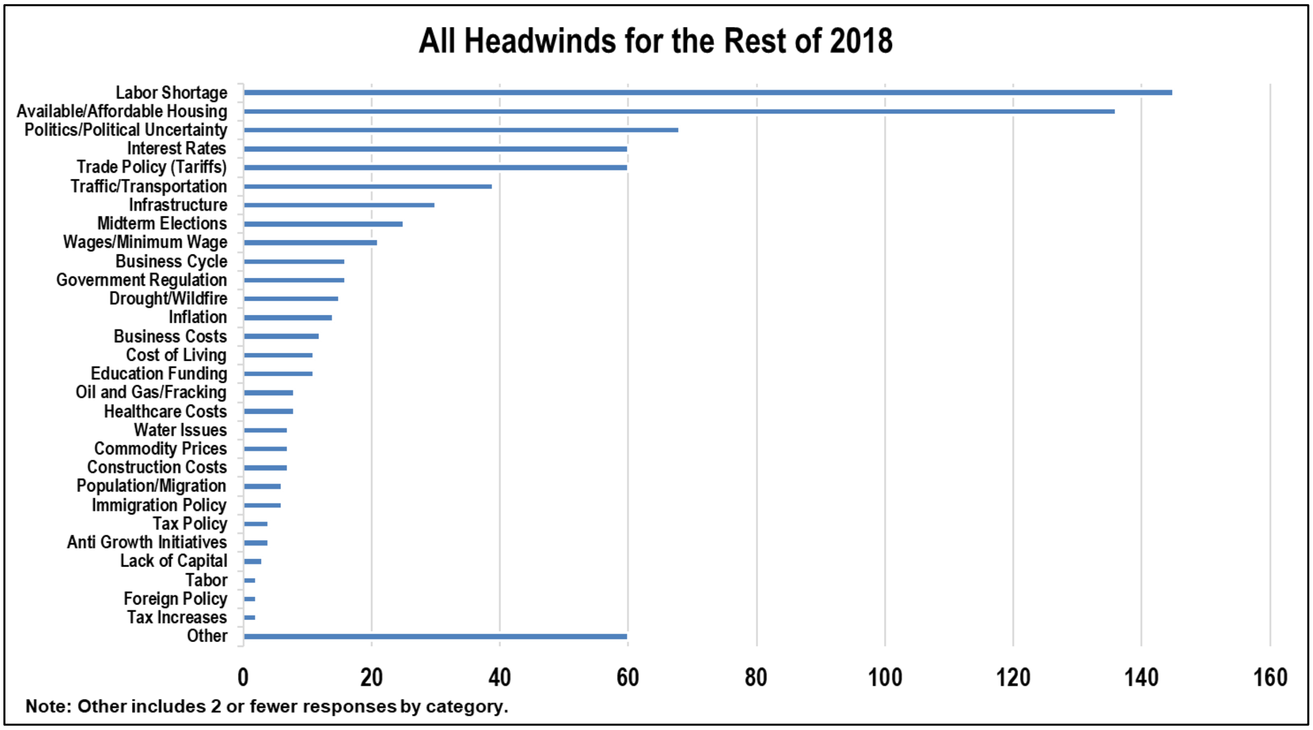
Top Challenge

The number one challenge listed pertained to the tight labor market—a lack of available workers, lack of skilled workers, lack of qualified workers, and labor shortage in key industries. Housing issues—both the availability of housing and affordability of housing—garnered the second-most responses, followed by concerns over trade policy, politics, and interest rates.

Aggregating all challenges (listed first, second, or third), the tight labor market and housing were still the top two issues, followed by politics, interest rates, and trade policy. These five topics responses represented 70% of the top responses and 58% of overall comments.



Note: Other includes 2 or fewer responses by category.

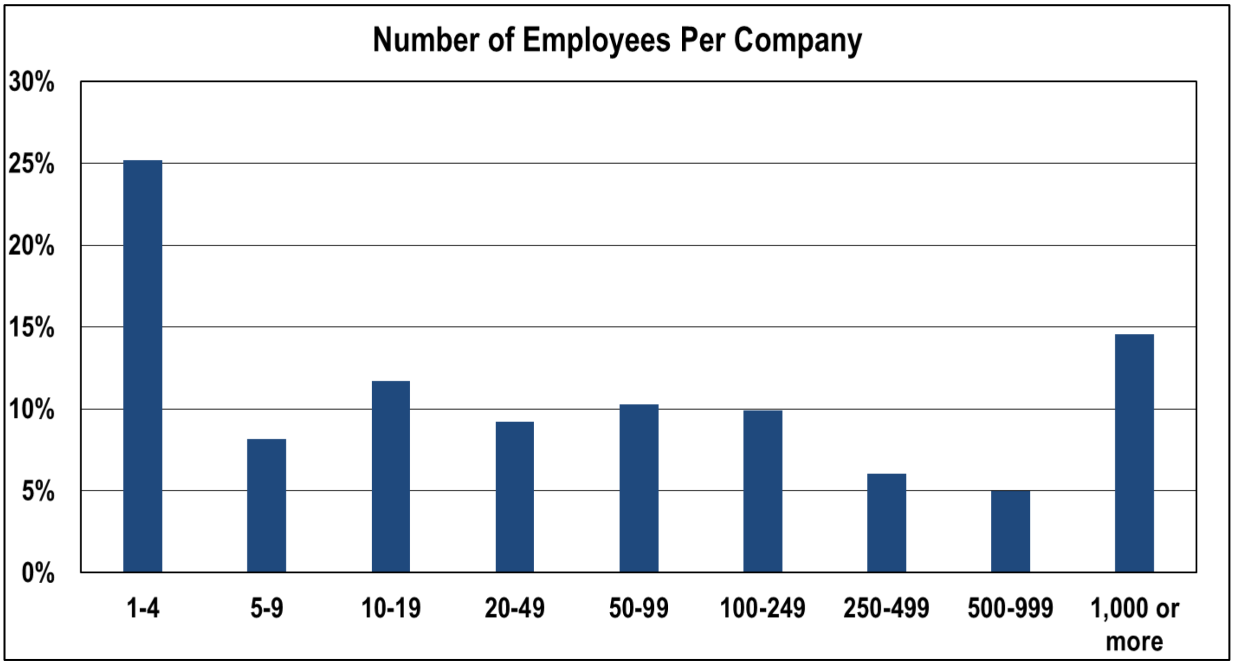


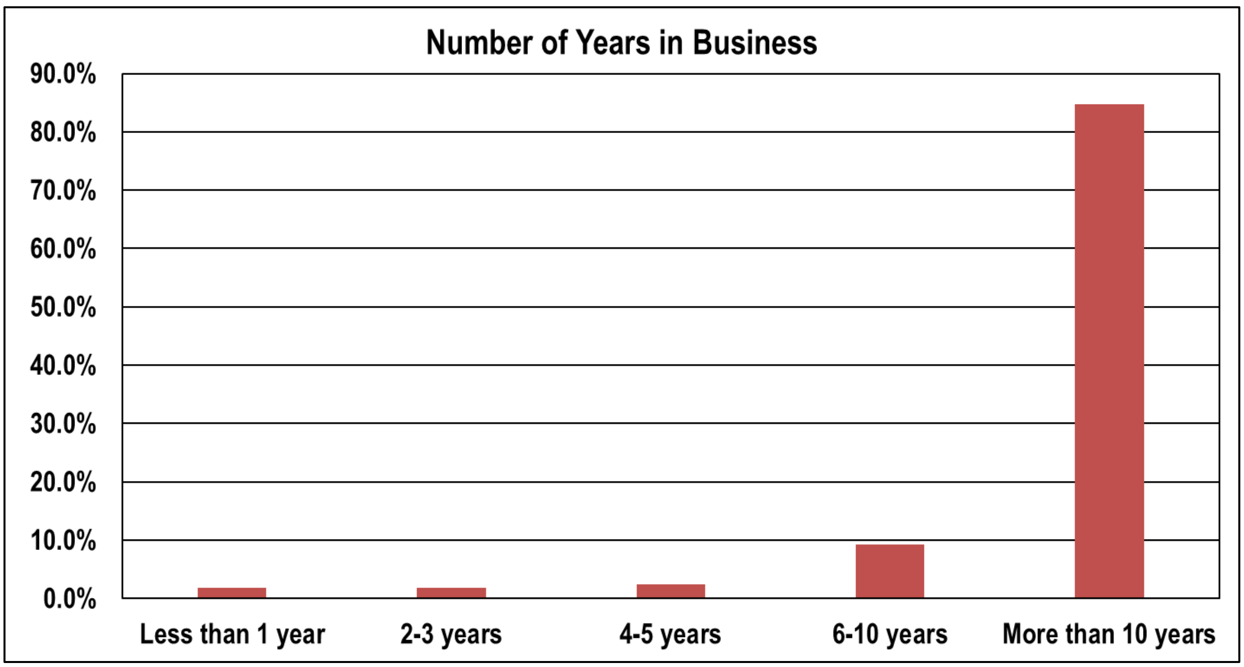
Expectations by Company Size and Length of Time in Business

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. More than half (54.3%) of survey respondents work for companies with fewer than 50 employees. The four largest groups were represented by companies with 1–4 employees (25.2%), 1,000 or more employees (14.5%), 10–19 employees (11.7%), and 50–99 employees (10.3%).

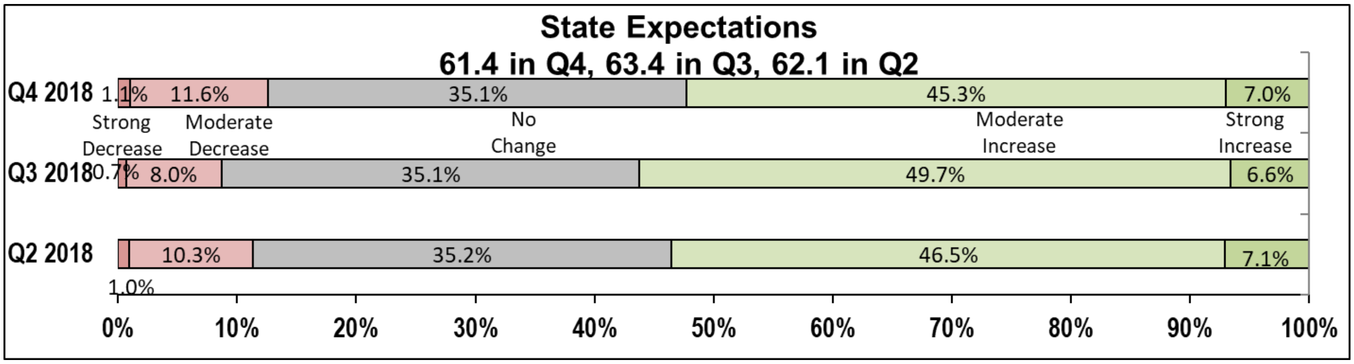
Small employers' (fewer than 50 employees) expectations decreased 1.2 points ahead of Q3, and large employers' expectations decreased 2.1 points. From Q3 to Q4, small and large employers' expectations decreased 5.2 points and 5.9 points, respectively. In Q3, small employers were slightly more optimistic than large employers (60.4 versus 59.5). A total of 84.8% of respondents work at a long-standing company that has been in business for more than 10 years.

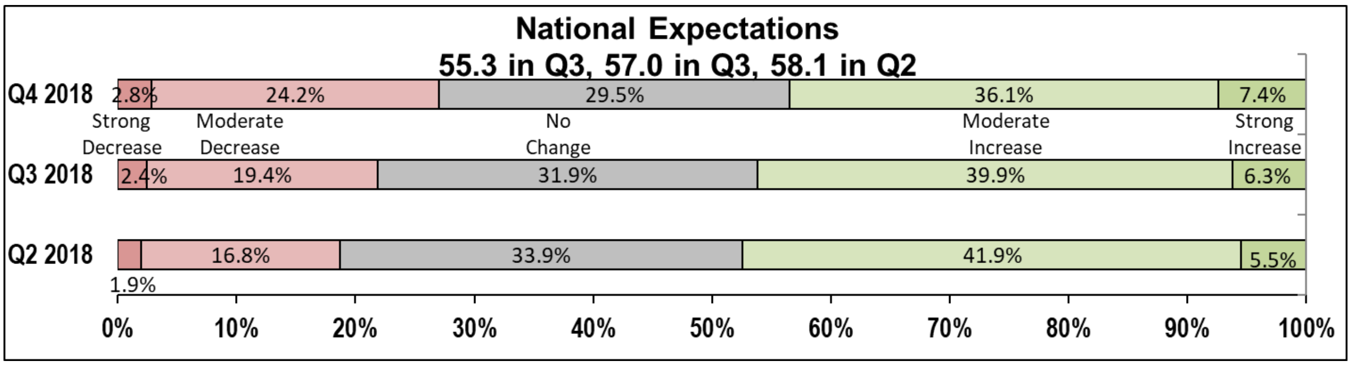
While responding panelists represent every industry in the state, the largest percentage of respondents to the Q3 survey were in the following sectors: Professional, Scientific and Technical Services (18%); Finance and Insurance (16%); and Real Estate, Rental and Leasing (15%).

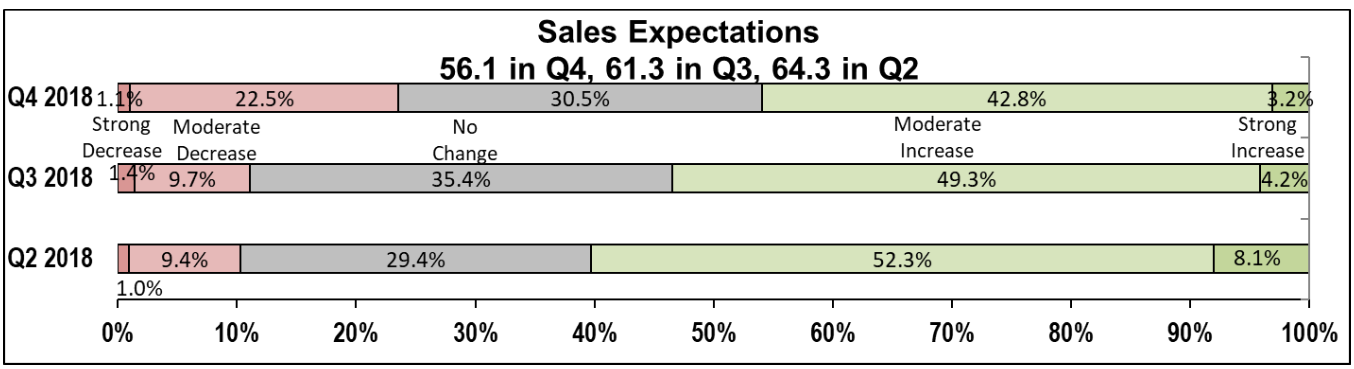

Number of Employees Per Company
30%
25%
20%
15%
10%
5%
0%
1-4
5-9
10-19
20-49
50-99
100-249
250-499
500-999
1,000 or more

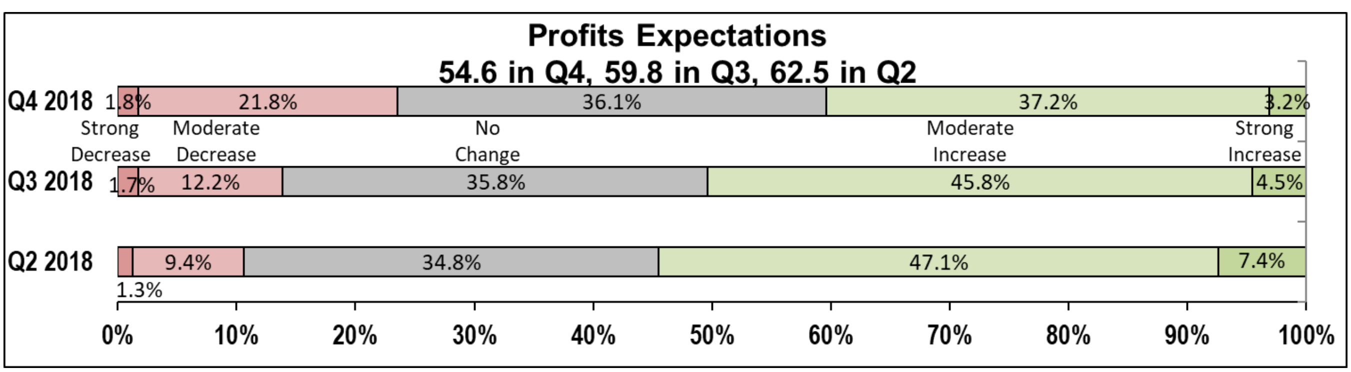

Number of Years in Business
90.0%
80.0%
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
Less than 1 year
2-3 years
4-5 years
6-10 years
More than 10 years

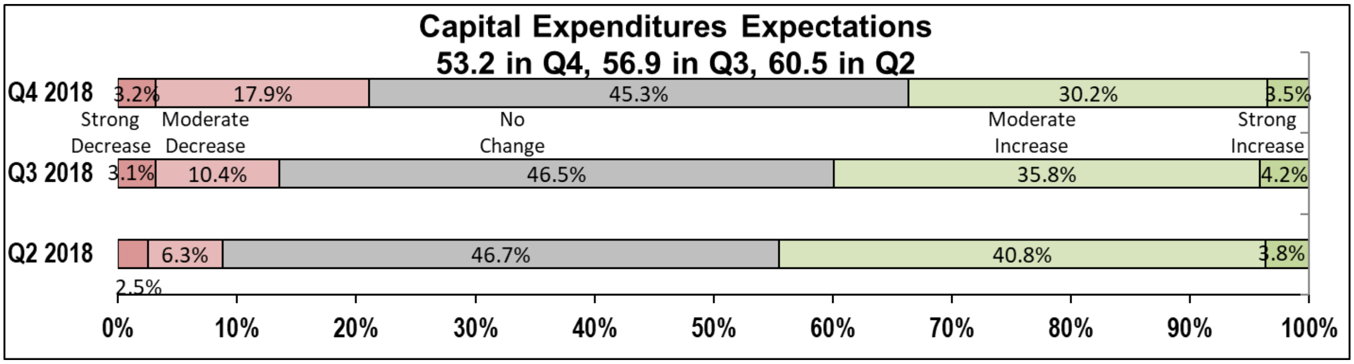
Distribution of Expectations in Q4 2018, Q3 2018, Q2 2018

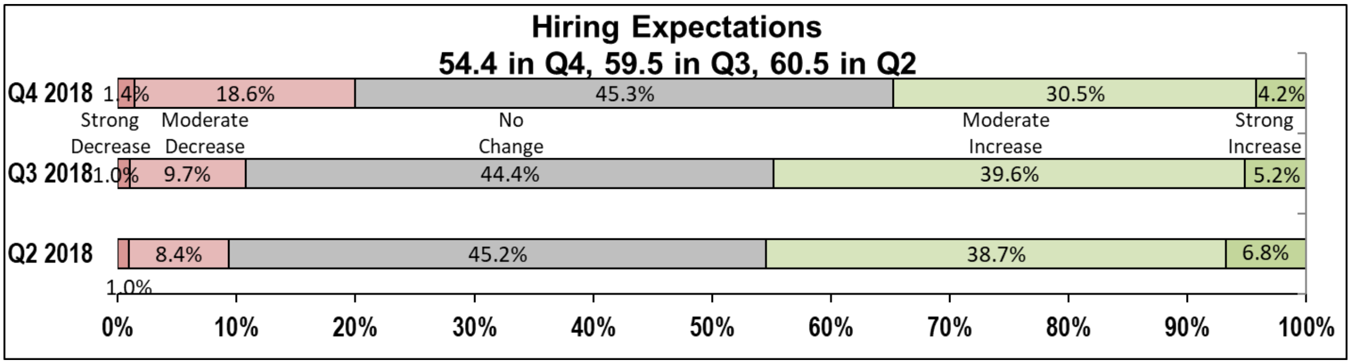


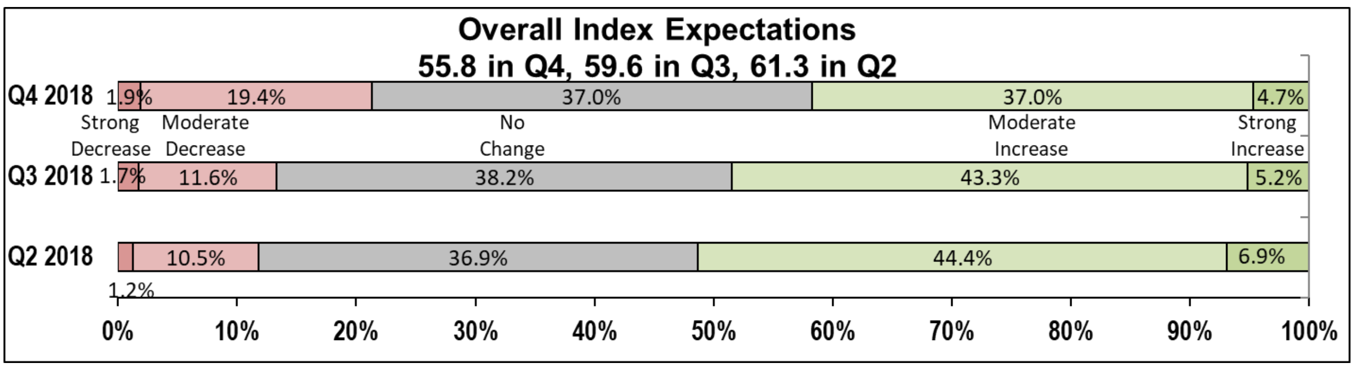












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For more information about the LBCI and to become a panelist, go to:
www.colorado.edu/business/brd