LBCI LEEDS BUSINESS CONFIDENCE INDEX

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Leeds Business Confidence Improves

After falling to a historic low in Q2 2020, Colorado business leaders' confidence improved ahead of Q3 and Q4 2020. A small majority (52%) continued to cite COVID-19 for their pessimistic outlook, but glimmers of optimism shone through with individuals citing resiliency and pent-up demand for the comparatively optimistic outlook. While Q3 confidence remained at levels recorded during the Great Recession, the quarterly increase marked a record improvement from Q2; the Q4 outlook rose just above neutral.

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 2020, the index increased 14.6 points to 44.3, with 5 of the 6 components of the index below neutral (50). Signaling further improvement in the fourth quarter, the index rebounded to 51, just crossing the neutral threshold. A total of 410 qualified panelists responded to the survey from June 1 through June 19.

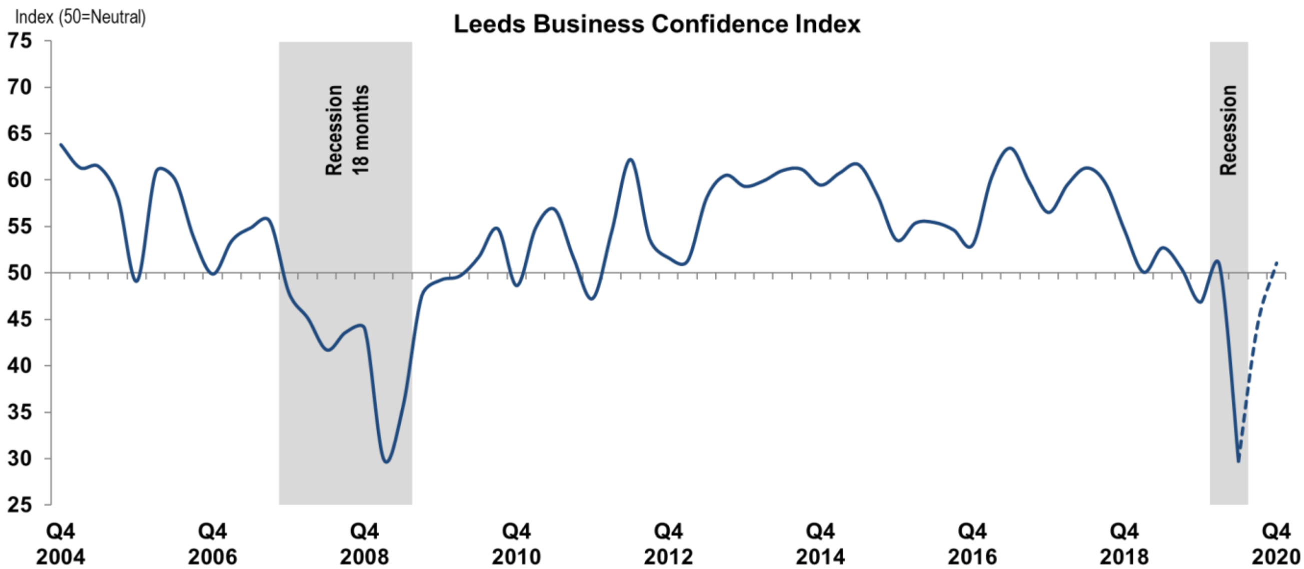
Leeds Business Confidence Index

Component	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Change	
						Quarterly	Annual
State Economy	49.6	47.4	51.5	28.8	46.8	▲	▼
National Economy	43.1	38.5	45.9	21.8	43.5	▲	▲
Industry Sales	55.6	51.3	54.1	32.9	51.3	▲	▼
Industry Profits	52.4	49.7	52.1	31.5	44.8	▲	▼
Industry Hiring	51.0	48.3	50.6	32.4	42.7	▲	▼
Capital Expenditures	51.1	45.9	50.6	31.0	37.1	▲	▼
LBCI	**50.5**	**46.9**	**50.8**	**29.7**	**44.3**	▲	▼

- Five individual components of the LBCI recorded negative perceptions (below 50) ahead of Q3 2020, but all six components improved relative to the prior quarter.
- The greatest pessimism was recorded in the two categories that reflect investment in company growth—capital investment and hiring.
- Two income statement categories—sales and profits—recorded strong improvement, with the sales category signaling expansionary levels in Q3.
- Most respondents indicated their company sales and employment may reach pre-pandemic levels in the second half of 2020 to the second half of 2021, while some indicate recovery is likely in 2022 or later, and others never expect to recover.
- The national outlook recorded the largest single category improvement for the quarter, but the relatively higher outlook for the state economy illustrates the perception that Colorado will outperform the nation through the economic crisis.
- The nation and the state recorded record job losses in March and April due to the COVID-19 pandemic and the government response to the pandemic. However, the nation and the state recouped some of the job losses in the month of May.

Summary – Confidence Improved Ahead of Q3

The LBCI recorded the single-largest improvement ahead of Q3 2020, but remained below neutral after a record decline in Q2. The 14.6-point increase brought the index to 44.3 ahead of Q3 2020. All six components increased from Q2 to Q3, but five components remained below levels from a year ago. Looking two quarters ahead to Q4 2020, expectations return to growth (51), with five of the six components in positive territory. The index illustrates the lasting impacts of COVID-19, but also the optimism that the severe economic standstill will be relatively short-lived.



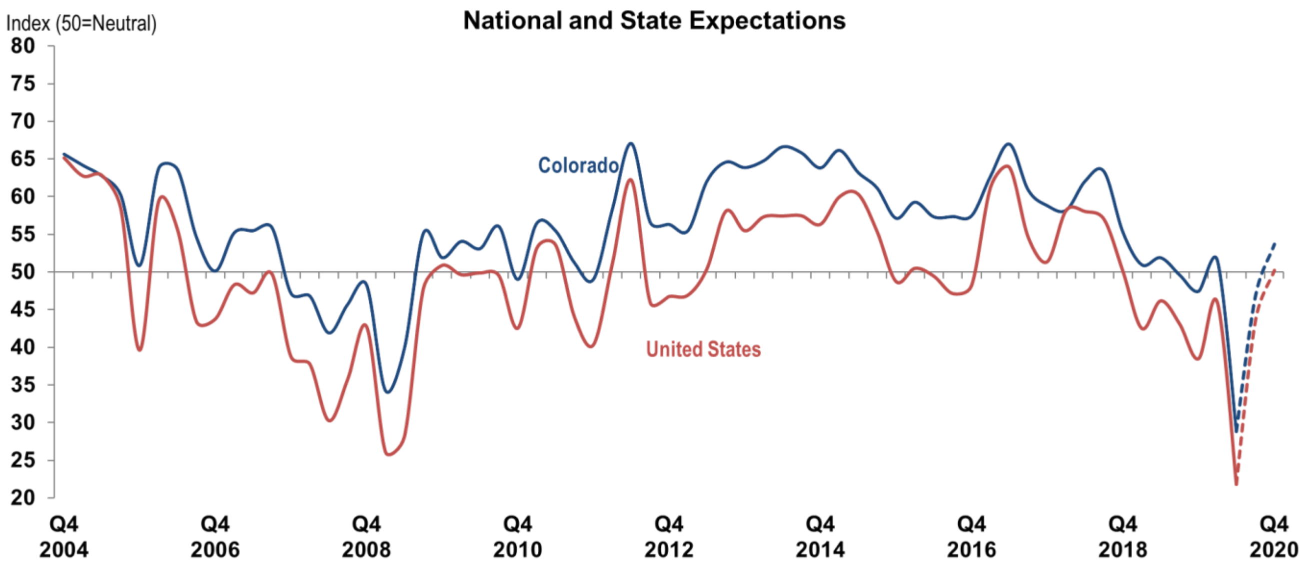
National real gross domestic product (GDP) fell at a 5% seasonally adjusted annual rate (SAAR) in Q1 2020 according to the third estimate from the Bureau of Economic Analysis (BEA). Personal consumption expenditures decreased 6.8%, government expenditures rose by 1.1%, and gross private domestic investment fell by 10.2%. The trade deficit shrank from Q4 2019 to Q1 2020, but still exceeded $816 billion (annualized average). Economic expectations for real GDP growth fell sharply in response to COVID-19. The second quarter of 2020 is expected to reflect most of the economic loss.

Colorado continued to experience positive real GDP growth, with 3.4% year-over-year and 2.6% quarter-over-quarter (SAAR) growth in Q4 2019. Colorado accounts for 1.9% of total U.S. GDP. However, the state's economy is not expected to continue this growth in the face of a national and global contraction. (State-level GDP for the first quarter will be released on July 7th by the BEA.)

National and State Economies — Looking Up

State expectations improved from 28.8 in Q2 to 46.8 ahead of Q3 and 53.7 ahead of Q4. The state outlook is 3 points above the national outlook, indicating business leaders' confidence that the state will continue to outperform relative to the national economy. Coming off the lowest number in the index in Q2, the national index recorded the greatest gain ahead of Q3—a 21.7-point gain to 43.5 ahead of Q3 and 50.2 ahead of Q4.

For the state economy, 55.1% of respondents believe the state economy will stay neutral-to-positive in Q3, versus 44.9% who expect slower growth. On the national level, 52.9% are neutral-to-positive, versus 47.1% who expect slower growth.



U.S. GDP fell at 5% SAAR in Q1 2020, a large drop from the prior quarter. According to the BEA report released June 25, 2020:

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

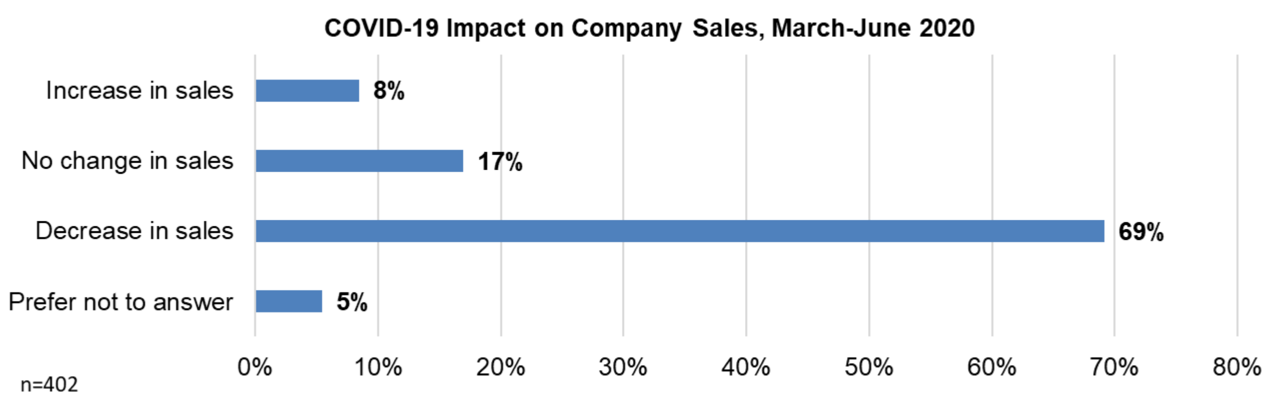
Colorado's Q4 2019 real GDP grew at a SAAR of 2.6% for the quarter and 3.4% year-over-year. Year-over-year, the largest percentage gains were recorded in the following industries: Agriculture, Forestry, Fishing, and Hunting (19%); Mining, Quarrying, and Oil and Gas Extraction (17%); and Information (7.9%). The largest dollar gains were recorded in Mining, Quarrying, and Oil and Gas Extraction ($3.4 billion) and Professional, Scientific, and Technical Services ($2.2 billion).

Sales and Profits — Hitting Pause

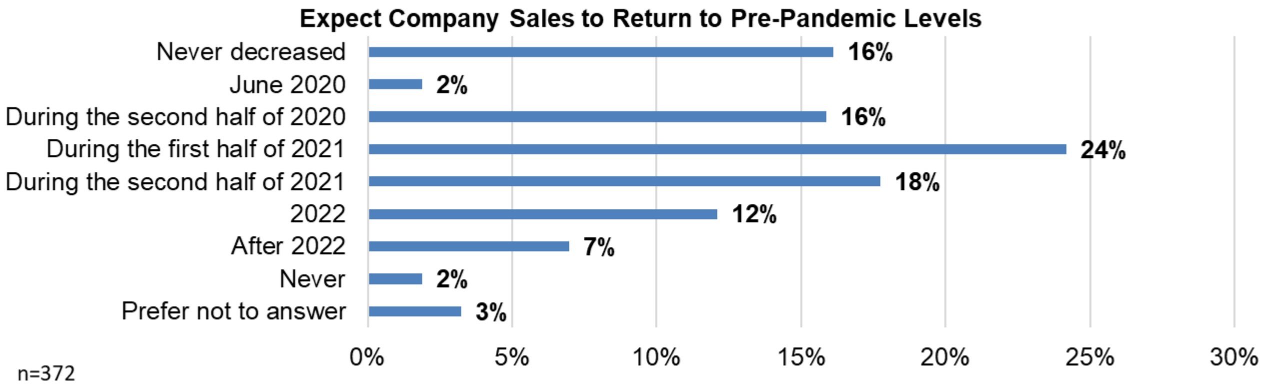
Sales and profits expectations increased 18.4 points and 13.3 points, respectively, from Q2 2020 to Q3 2020. The sales component recorded the highest expectations among the six components, and was the only component above neutral ahead of Q3. Looking toward Q4, the sales and profits outlook increased further, both pointing to expansion. This suggests that firms expect the worst impact on sales and profits occurred in the second quarter.

The sales index reached 51.3 in Q3, while the profits index was at 44.8. A majority of panelists are neutral-to-positive regarding sales and profits ahead of Q3; however, 38.8% still expect a decrease in sales in Q3 and 46.1% expect falling profits. Looking ahead to Q4, sales expectations increased to 55.4, while profits improved to 51.1.

The Q3 2020 survey asked additional questions specifically about the COVID-19 impact on company sales. Of the 402 individuals who responded, 69% reported a decrease in sales, 17% reported no change, and 8% reported an increase in sales.



Regarding sales recovery, most respondents (58%) put their company's sales recovery between the second half of 2020 and the second half of 2021, while 19% put a recovery in 2022 or after, and 2% do not anticipate ever recovering to pre-pandimic sales levels.



The health of sales and profits largely depend on the strength of the consumer. Prior to the virus outbreak in the U.S., most consumption data remained strong. National consumer confidence posted a record monthly drop in April as consumers reacted to COVID-19, and remained steady in May, according to data from the Conference Board. While consumer confidence posted strong month-over-month gains in June, it remained well-below pre-pandemic levels. Personal consumption expenditures fell at a 6.8% seasonally adjusted annual rate in Q1. Retail sales overall increased 3.6% in 2019, but were down 4.7% year-to-date through May 2020 from the same period a year ago, according to the seasonally adjusted advance estimate from the U.S. Census Bureau. Through May, restaurant sales decreased 22.3%, and grocery sales increased 13.6% from the same period in 2019, as the impact of COVID-19 changed consumer spending habits.

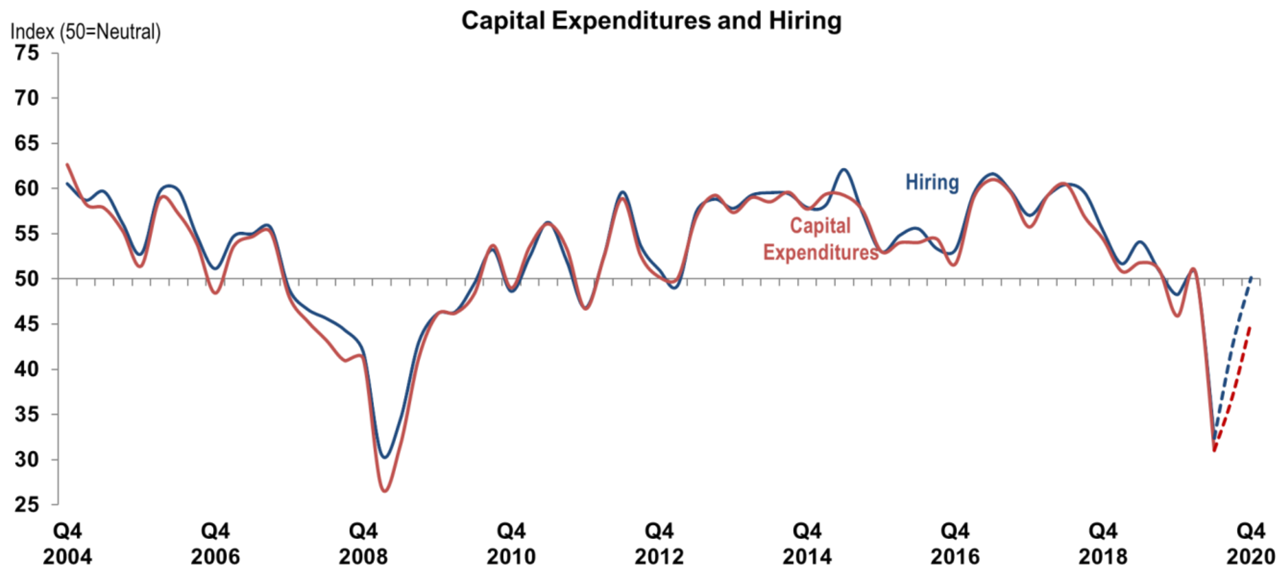
B-to-B sales are also a signal for sales and profits. While gross private domestic investment fell 10.2% (SAAR), the subset of nonresidential fixed investment decreased 6.4%. Inventories decreased sharply for the quarter. According to the Institute for Supply Management, the manufacturing sector entered a contraction in April and May, with the national manufacturing index at 43.1 in May, up slightly from the April reading which ended a period of 131 consecutive months of growth. The nonmanufacturing index in May 2020 experienced a second consecutive monthly contraction to 45.4, following a 122-month period of expansion. The manufacturing survey from the Federal Reserve Bank of Kansas City showed the industry grew slightly in June after three months of contraction.

In Colorado, personal incomes continued to grow in Q1 2020. According to the BEA, Colorado's nominal personal income grew 3.4% year-over-year. Colorado had the 11th-highest per capita personal income in Q1 2020, at $61,878, but the state slipped to 39th for per capita personal income growth year-over-year.

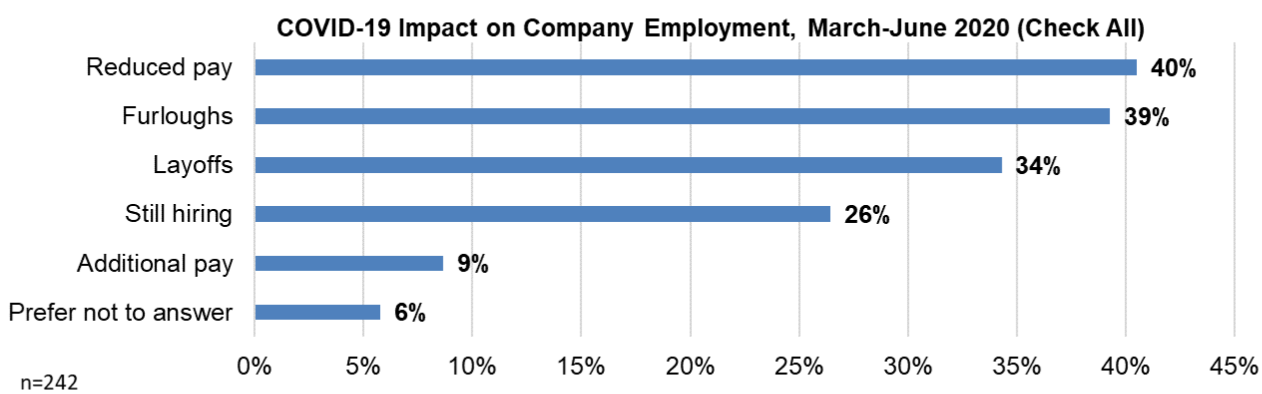
Capital Expenditures and Hiring Plans — Near-term Losses

The outlook for capital expenditures and hiring increased to 37.1 and 42.7, respectively, ahead of Q3. Both metrics rebounded further looking ahead to Q4—planned capital expenditures increased to 45.2 and hiring plans increased to 50.1. These components reflect investment in firm growth and are the two most depressed components of the index in both Q3 and Q4. Ahead of Q3, 50.7% of respondents expect a decline in capital expenditures, and 39.5% expect decreases in hiring.

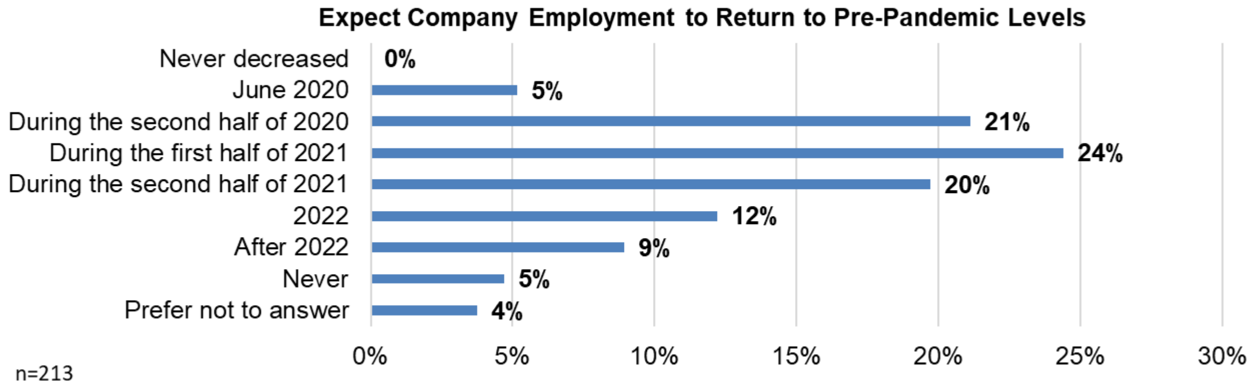
An indicator of capital expenditures is construction. According to Dodge Data and Analytics, the value of construction in Colorado decreased 27% in 2019. Year-to-date through May 2020, the total value of construction in Colorado has decreased 2.1%, with the largest pullback in residential construction. According to the U.S. Census Bureau, the total value of construction put in place for the nation increased 7.1% year-to-date in April 2020 compared to April 2019.



The Q3 2020 survey asked additional questions specifically about the COVID-19 impact on their company's employment. Of the 242 individuals who responded, 40% reported reduced pay for employees, 39% reported furloughs, and 34% reported layoffs. Conversely, 26% reported continued hiring and 9% reported additional pay for employees during the COVID-19 pandemic.



Regarding employment recovery, most respondents put their company's employment recovery between the second half of 2020 and the second half of 2021, while 21% put a recovery in 2022 or after, and 5% do not anticipate ever recovering lost jobs.



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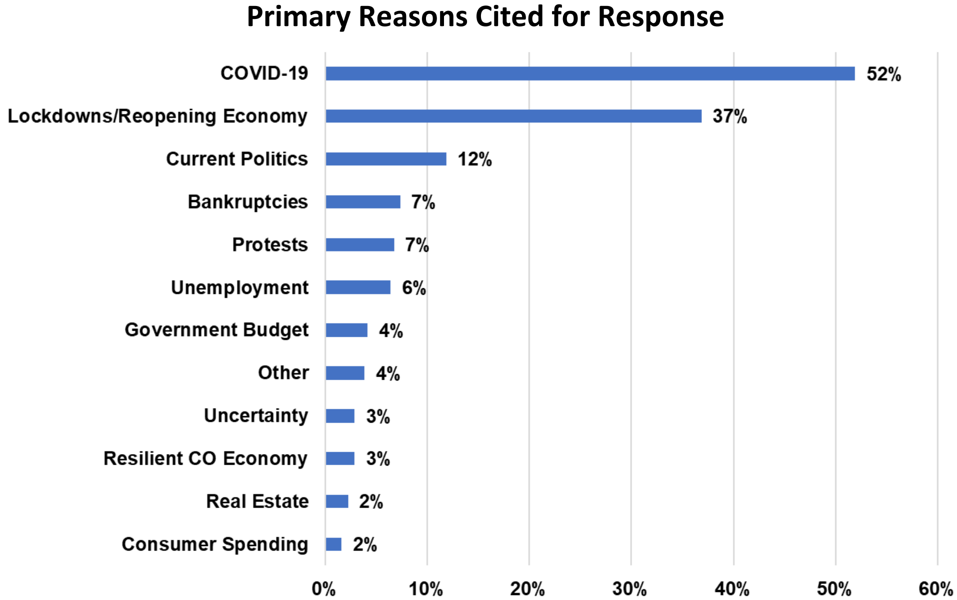
U.S. job growth came to a halt in March 2020 due to the impact from COVID-19. Total nonfarm employment increased only 0.5% in March year-over-year, before falling a record 13.3% in April and 11.7% in May from the prior year. Nearly 1.4 million jobs were lost in March from the prior month and a record 20.7 million jobs were lost in April, while 2.5 million jobs were added in May. The unemployment rate in the United States increased from 3.5% in February, to 4.4% in March, to a record 14.7% in April, before falling to 13.3% in May.

Colorado continued to exhibit moderate employment growth through March 2020. However, total employment declined 10.8% from April 2019 to April 2020, a loss of 298,500 jobs year-over-year, and declined 8.5% from May 2019 to May 2020, a loss of 236,200 jobs. The seasonally adjusted state unemployment rate increased from 2.5% in February, to 5.2% in March, to a record 12.2% in April, before decreasing to 10.2% in May. Colorado has the 22nd-lowest unemployment rate in the country, and remains below the national rate. Year-over-year employment declines were recorded in all of Colorado's seven metropolitan statistical areas (MSAs) in May. The Denver MSA recorded the largest year-over-year decline (-8.8%), followed by Greeley (-8.0%), Pueblo (-7.9%), Colorado Springs (-7.7%), Fort Collilns (-7.3%), Boulder (-6.2%), and Grand Junction (-6.0%). Colorado industries with the largest annual percent change in May were Leisure and Hospitality (-37.9%), Mining and Logging (-17.3%), Other Services (-12.9%), Trade, Transportation and Utilities (-7.6%), and Education and Health Services (-5.2%).

Inflation in Colorado has outpaced the nation for the last seven years. Inflation slowed in 2018 and 2019, growing 2.7% and 1.9%, respectively, in the Denver-Aurora-Lakewood area. In May 2020, the all items index increased 1.9% year-over-year; core inflation increased 3.1%; shelter, 4%; and all items less shelter, 0.7%, not seasonally adjusted.

Reason for Survey Responses

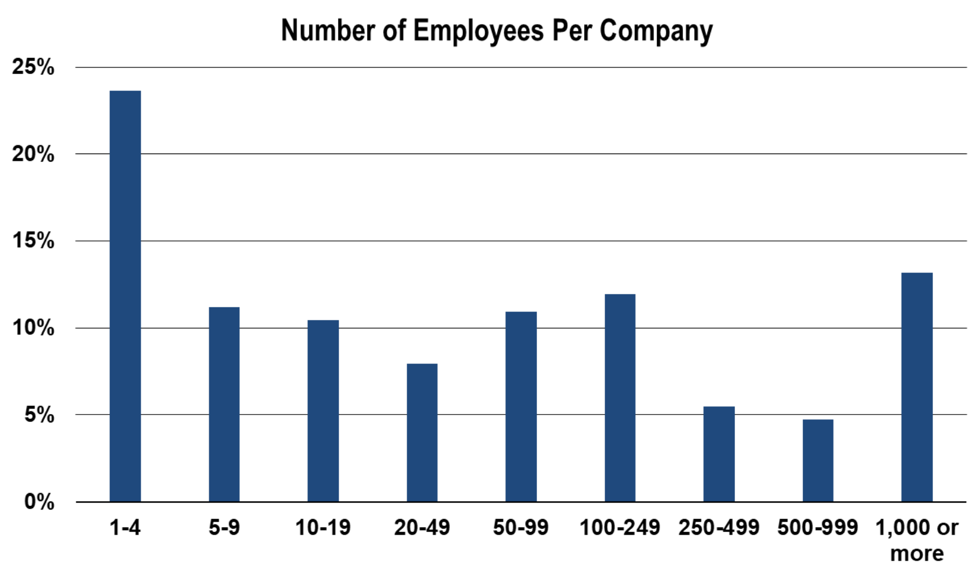
Panelists were asked to give reasons for their expectations. Of the 312 respondents who provided an explanation, COVID-19 was the most cited (mentioned by 52% of respondents). Lockdown/reopening was the next most cited reason (37%), followed by current politics (12%), bankruptcies (7%), and protests (7%).



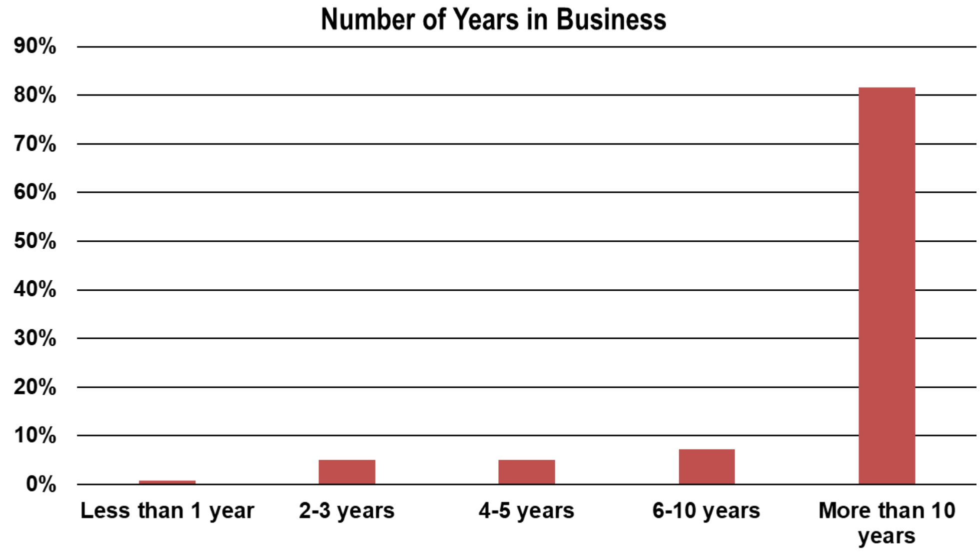
Expectations by Company Size and Length of Time in Business

Panelists were asked about the size of their company and how long their company has been in business. A total of 81.5% of respondents work at a long-standing company that has been in business for more than 10 years. More than half (53.2%) of survey respondents work for companies with fewer than 50 employees.

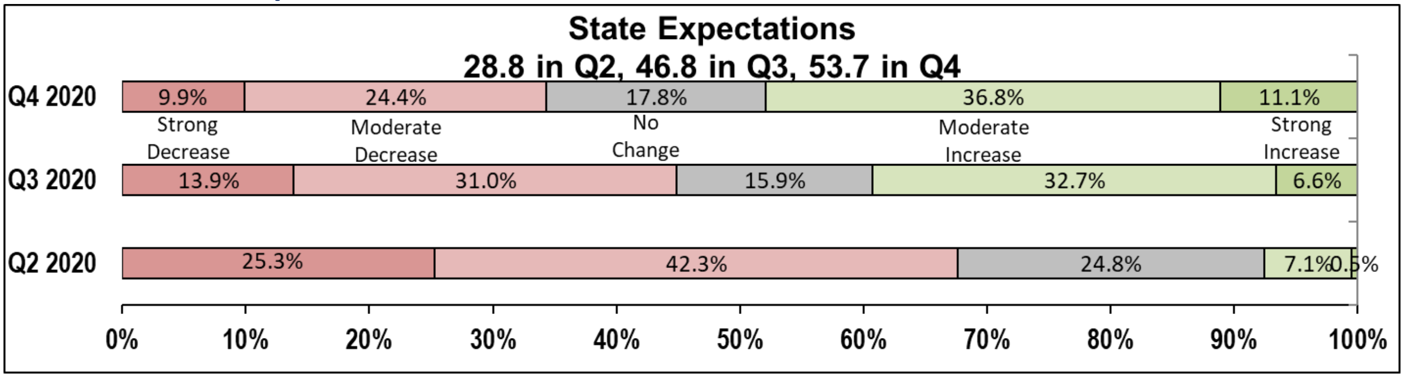
Small employers are only slightly less optimistic than large employers in Q3 2020. Both small (fewer than 50 employees) and large employers' expectations remained in negative territory.

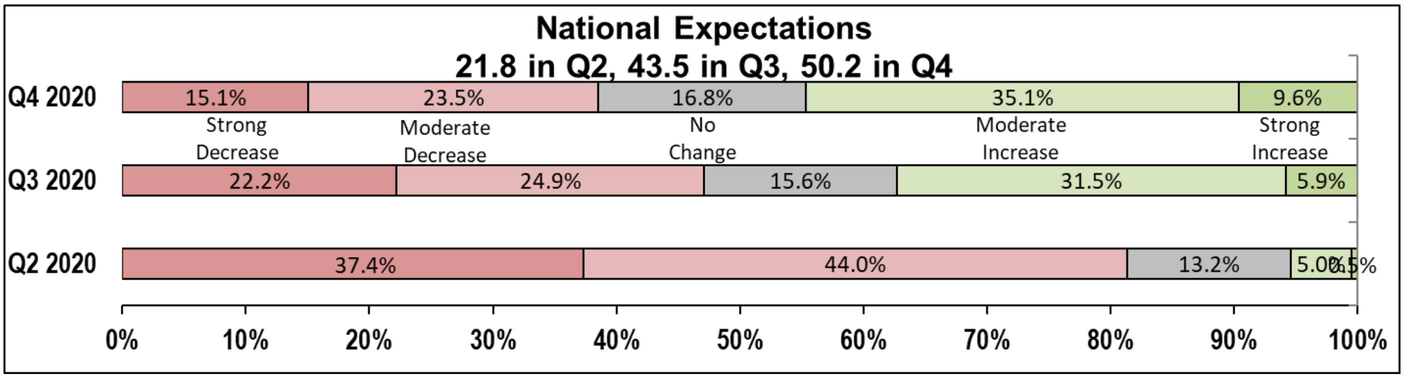


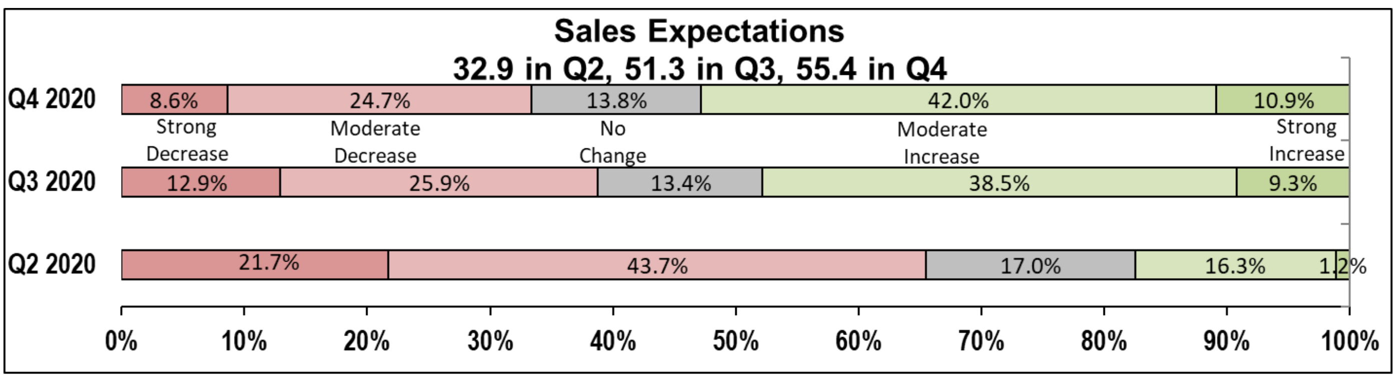
While responding panelists represent every industry in the state, the largest percentage of respondents to the Q3 survey were in the following sectors: Finance and Insurance (19%); Professional, Scientific, and Technical Services (18%); and Real Estate, Rental, and Leasing (17%).

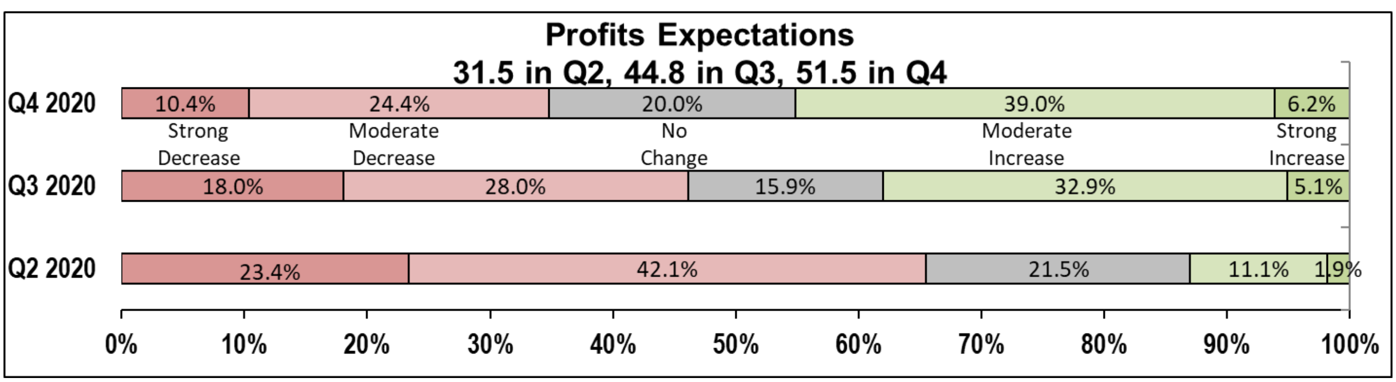


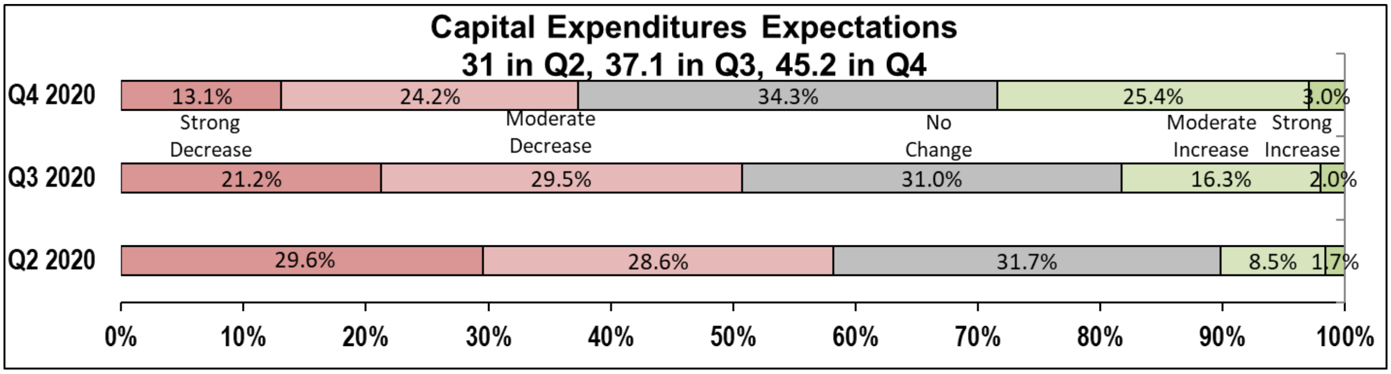
Distribution of Expectations in Q2 2020, Q3 2020, and Q4 2020

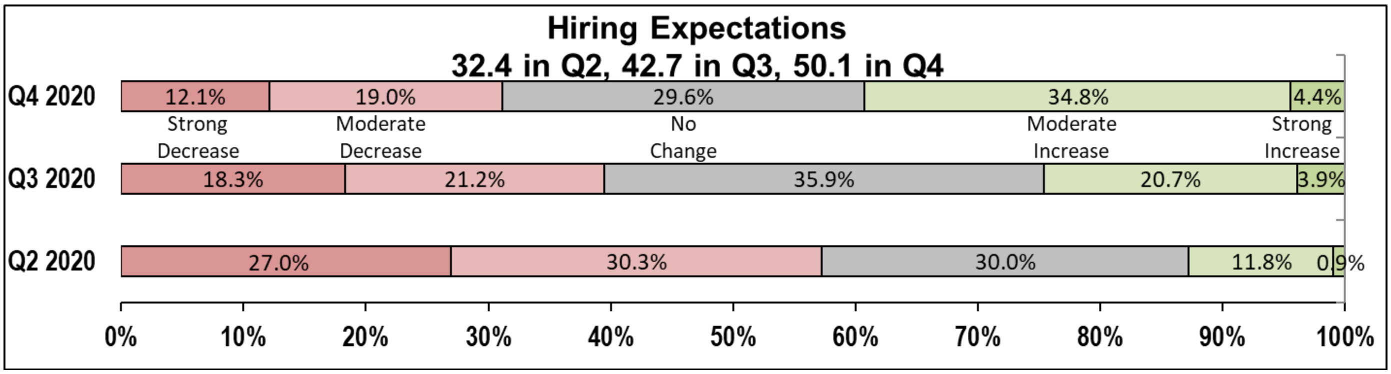


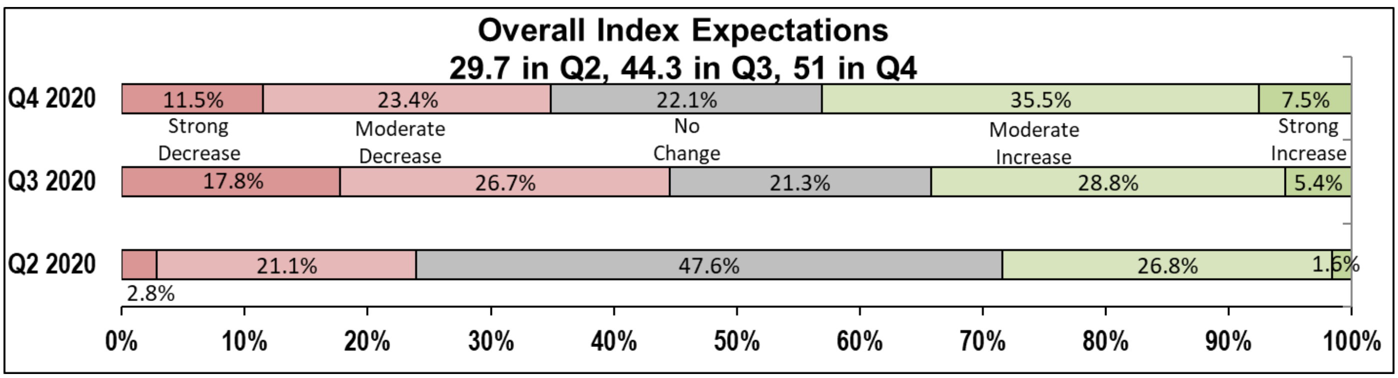












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For more information about the LBCI and to become a panelist, go to:
www.colorado.edu/business/brd