

### Business Leaders' Optimism Sours Ahead of Q3

Colorado business leaders expressed pessimism ahead of Q3 2022, recording the fifth-lowest index in the 20-year history of the Leeds Business Confidence Index driven by inflation, interest rates, and the supply chain, among other factors. Looking two quarters ahead to Q4 2022, overall expectations slipped further, recording the fourth-lowest outlook in the history of the index as the weight of economic headwinds overtake optimism. All components of the index decreased ahead of the third quarter. The index decreased 12.8 points from Q2 2022 to Q3 2022 (the second-largest drop on record) and fell another 3.1 points ahead of Q4 2022. Further, the index fell 12.2 points from the initial read from business leaders for Q3 back in March, illustrating the rapid deterioration in the outlook.

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. The index decreased ahead of Q3 2022 to 41.1, slipping into negative territory (50=neutral) and falling well-below the long-term average (54.2). Panelists' expectations slipped a little further looking out to Q4, falling to 38.0. A total of 216 qualified panelists responded to the survey from June 1 through June 20.

Component	Leeds Business Confidence Index					Quarterly Change	Annual Change
	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022		
State Economy	70.9	55.1	57.6	51.9	39.8	▼	▼
National Economy	67.5	48.9	50.4	40.4	27.7	▼	▼
Industry Sales	69.6	59.0	60.2	59.1	46.4	▼	▼
Industry Profits	65.2	56.6	57.9	55.0	42.2	▼	▼
Industry Hiring	67.7	61.6	63.7	60.4	48.3	▼	▼
Capital Expenditures	62.6	55.4	58.3	56.7	42.1	▼	▼
<b>LBCI</b>	<b>67.3</b>	<b>56.1</b>	<b>58.0</b>	<b>53.9</b>	<b>41.1</b>	▼	▼

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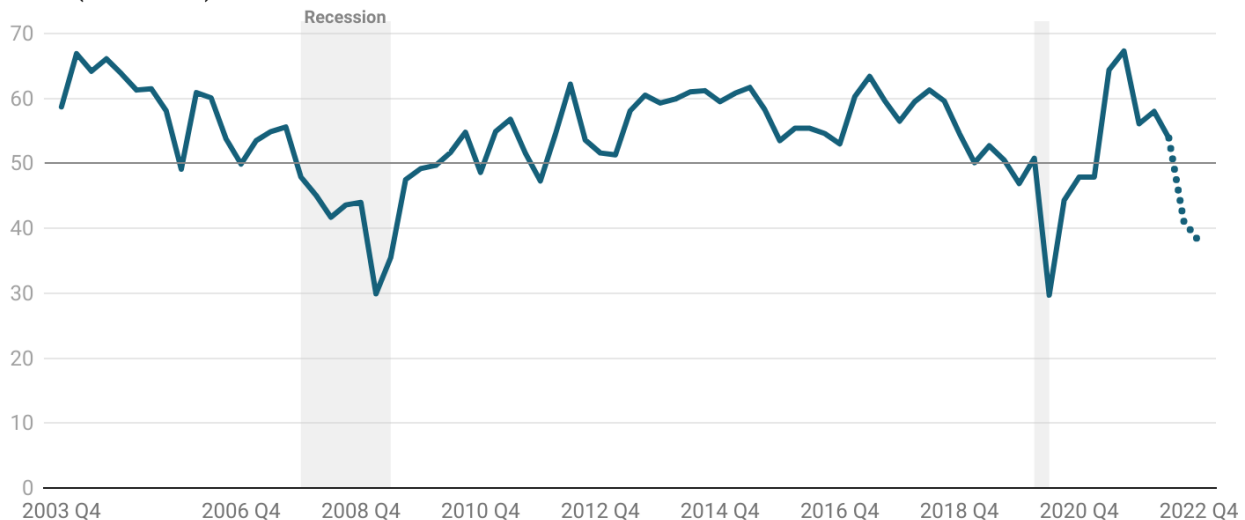
- All six of the individual components of the LBCI recorded negative perceptions (below 50) ahead of Q3 2022. The outlook was dimmest for the national economy and brightest for industry hiring.
- Nearly 23% of respondents think the country is already in a recession, while 57% expect it to occur sometime in the next year.
- Inflation was by and large the greatest concern among panelists, followed by interest rates, the supply chain, energy prices, the Russia-Ukraine conflict, and persistent worker shortages. Over 70% of panelists reported moderate to significant inflationary impacts on their business, and 56% of respondents expect to increase wages in response to higher inflation. A slim minority (15%) of panelists expect inflation to moderate in 2022. Most

panelists (57%) expect inflation to moderate in 2023 or beyond (16%). The remainder were uncertain.

- Inflation in Colorado is projected to increase 7.7% in 2022, slowing to 3.3% in 2023, according to the Business Research Division's (BRD) model.
- Colorado's employment recovery has outperformed most other states, increasing 1.2% above the pre-recession peak as of May 2022. This ranked Colorado's recovery 11th nationally; the nation remained 0.5% below pre-recession levels as of May.
- Year-over-year in May, employment in Colorado increased 4.6%, or 124,600 jobs. The employment forecast for 2022 stands at 3.3%, based on the BRD model.
- Colorado's personal income increased 0.8% year-over-year in Q1 2022, and per capita personal income increased 0.3%, both ranking Colorado 2nd. Personal income growth will be modest in 2022 (2.7%) due to the drop in stimulus funding.
- National real gross domestic product (GDP) decreased from Q4 2021 to Q1 2022 but was up year-over-year. Colorado's GDP increased 6.3% year-over-year in Q4 2021, ranking the state 12th. State real GDP is projected to increase 3.9% in 2022 and 1.7% in 2023.

### Leeds Business Confidence Index

Index (50=Neutral)



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Component	Q3 2022	Quarterly Change	Annual Change	Q4 2022	Quarterly Change	Annual Change
State Economy	39.8	▼	▼	37.3	▼	▼
National Economy	27.7	▼	▼	29.1	▲	▼
Industry Sales	46.4	▼	▼	42.7	▼	▼
Industry Profits	42.2	▼	▼	39.0	▼	▼
Industry Hiring	48.3	▼	▼	42.5	▼	▼
Capital Expenditures	42.1	▼	▼	37.6	▼	▼
<b>LBCI</b>	<b>41.1</b>	▼	▼	<b>38.0</b>	▼	▼

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## National and State Economies — Leaders' Optimism Loses Steam

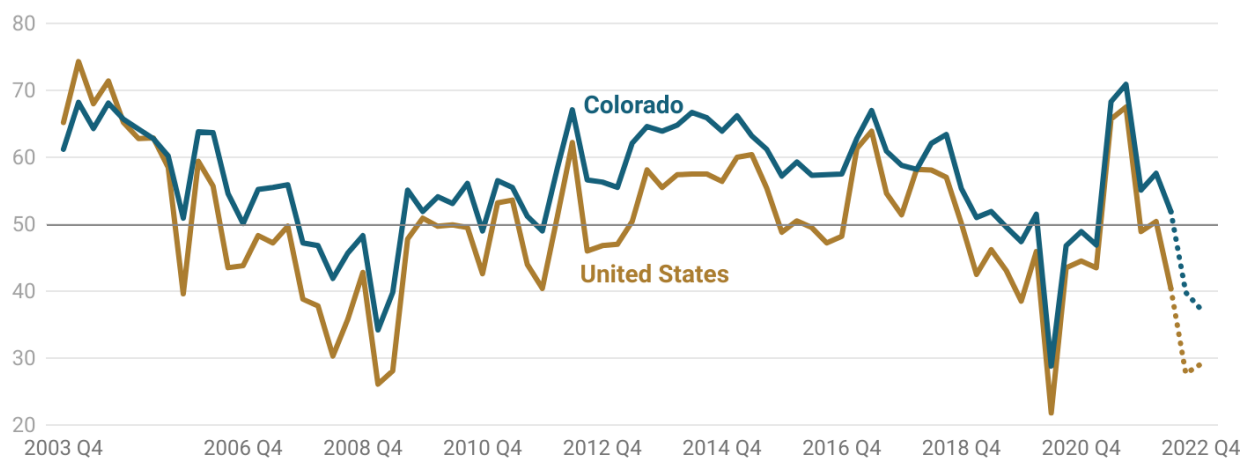
State economic expectations fell sharply below neutral ahead of Q3 and dipped slightly further ahead of Q4. National expectations, which were already negative, fell further into the red ahead of Q3, but notched an incremental improvement ahead of Q4.

State expectations fell from 51.9 ahead of Q2 to 39.8 ahead of Q3 and 37.3 looking out further to Q4 2022. The gap between the state outlook and national outlook widened to 12.1 points ahead of Q3 (the greatest gap between state and national expectations in the index's history) indicating business leaders' confidence that the state will outperform relative to the nation. The national index fell from 40.4 ahead of Q2 2022 to 27.7 ahead of Q3 and 29.1 looking further out to Q4.

For the state economy, nearly half (49.1%) of respondents were projecting a moderate-to-strong decrease in Q3 versus 13.4% who indicated an increase (37.5% were neutral). On the national level, more than three-quarters (76.4%) were projecting a decrease versus just 4.6% projecting an increase (19% remained neutral, and no panelists indicated a "strong increase" in activity).

### National and State Expectations

Index (50=Neutral)



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National real GDP decreased at a 1.4% seasonally adjusted annual rate (SAAR) in Q1 2022 according to the second estimate from the Bureau of Economic Analysis (BEA). The slowdown followed the strongest annual growth in nearly four decades. Personal consumption expenditures increased 2.7%, and gross private domestic investment increased at an annualized rate of 2.3%. Government expenditures declined 2.7%. The trade deficit increased from Q4 2021 to Q1 2022, growing to a record \$1.54 trillion (annualized average chained dollars). Consensus Forecasts' expectations for real GDP growth has been descending—down to 2.6% growth in 2022.

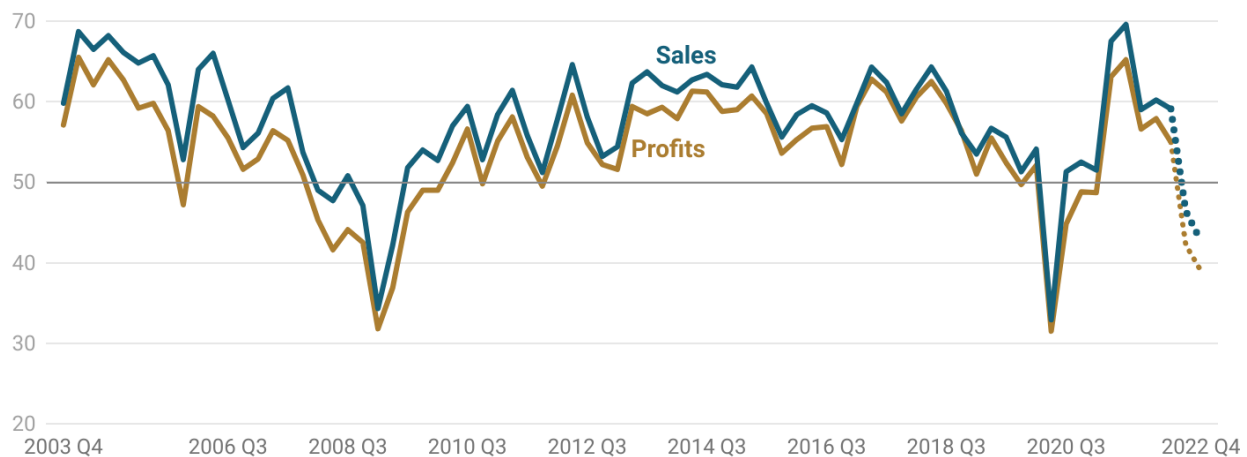
Colorado's Q4 2021 real GDP increased at a SAAR of 6% for the quarter and 6.3% year-over-year. Year-over-year, the largest percentage gains were recorded in the following industries: Accommodation and Food Services (31.4%); Arts, Entertainment, and Recreation (29.3%); and Professional, Scientific, and Technical Services (18.9%). Declines were recorded in Agriculture (-25.7%), Construction (-4.8%), and Retail trade (-4.3%). Real (inflation adjusted) GDP is projected to increase 3.8% in 2022 and 2.7% in 2023.

## Sales and Profits — Expectations Sink

Sales and profits expectations fell sharply of the third quarter. The sales index decreased from 59.1 ahead of Q2 to 46.4 ahead of Q3 and 42.7 ahead of Q4. The profits index decreased from 55 ahead of Q2 to 42.2 ahead of Q3 and 39.0 ahead of Q4. Individuals with a negative sales outlook (42.6%) outweighed those with positive perceptions (31%), while 26.4% remained neutral. This imbalance was even more pronounced for profits—the negative perceptions outweighed positive 50% to 24.5% (25.5% remained neutral).

### Sales and Profit Expectations

Index (50=Neutral)



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Sales and profits largely depend on the strength of the consumer. Personal consumption expenditures increased at an annualized rate of 2.7% quarter-over-quarter in Q1 2022 and 4.7% year-over-year. Growth in services consumption (4.3%) outpaced growth in goods (-0.1%) in the first quarter (annualized). According to data from the U.S. Census Bureau, May 2022 retail and food services sales were up 8.1% year-over-year but slipped 0.3% from April 2022. The largest annual increase was at gasoline stations (43.2%), reflecting large price increases, followed by miscellaneous store retailers (25.6%) and food services and drinking places (17.5%). Motor vehicle and parts dealers notched the largest month-over-month decline (-3.5%), followed by electronics and appliance stores (-1.3%).

B-to-B sales are also a signal for sales and profits. In April 2022, wholesale trade increased 20.9% year-over-year and 0.7% month-over-month. Strong year-over-year gains were recorded in both durable goods (16%) and nondurable goods (25.6%). Wholesale inventories increased 24% over the year and 2.2% over the quarter.

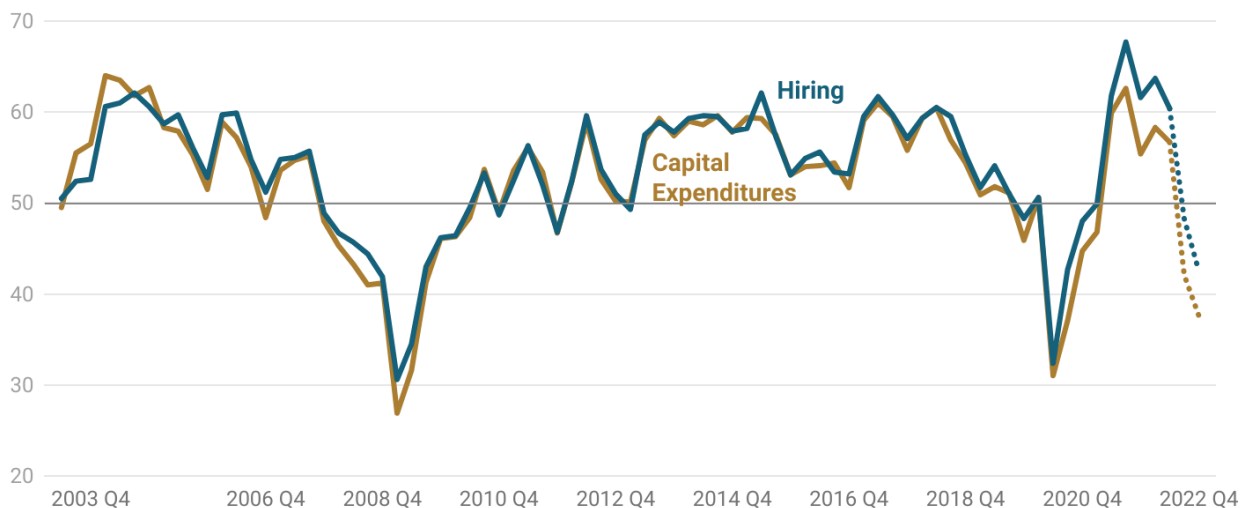
In the first quarter of 2022, Colorado personal income grew a modest 0.8% year-over-year and 1.3% quarter-over-quarter, ranking the state 2nd and 22nd nationally, for the respective metrics. Colorado had the 8th-highest per capita personal income in Q1 2022, at \$70,764, and the state ranked 2nd for per capita personal income growth year-over-year. Personal income growth is projected to be slower in 2022, resulting from the decrease in federal stimulus. Wage and salary personal income growth is expected to remain strong.

## Capital Expenditures and Hiring Plans— Investment Dims

The outlook for capital expenditures and hiring both decreased ahead of Q3 2022. These components reflect investment in firm growth; thus, the degrading index is a negative indication of business conditions. The capital expenditures index decreased from 56.7 in Q2 2022 to 42.1 ahead of Q3 and 37.6 looking out further to Q4 2022. Hiring expectations performed similarly, decreasing from 60.4 in Q2 to 48.3 ahead of Q3 and 42.5 ahead of Q4. Panelists were most optimistic about hiring expectations ahead of Q3.

### Capital Expenditures and Hiring Expectations

Index (50=Neutral)



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Ahead of Q3 2021, 42.1% of respondents expected capital investment to slow versus 20.4% who expected an increase (37.5% were neutral). Regarding hiring, 33.8% of respondents expected a slowdown versus 31% who remained positive and 35.2% who remained neutral.

An indicator of capital expenditures is construction. According to Dodge Data and Analytics, the nominal value of construction in Colorado increased 4.1% year-to-date in April 2022 compared to the same period the year prior. However, based on the rate of price growth, *real* (inflation-adjusted) construction starts were negative. Residential construction posted a 6.2% decline in the value of construction (nominal dollars) while nonresidential and nonbuilding construction posted gains of 2% and 47.6%, respectively. According to the U.S. Census Bureau, the total value of construction put in place for the nation increased 12.4% year-to-date for the four months ending in April 2022. The BEA reported U.S. nonresidential fixed business investment increased 9.2% quarter-over-quarter in Q1 2022 (SAAR) and increased 5.7% year-over-year; investment in structure fell 0.9% and 4.1%, respectively.

National employment has made a strong recovery from the recession lows reached in April 2020. Total nonfarm employment fell a record 14.4% (-22 million jobs) from February to April 2020 before rebounding 21.2 million jobs from May 2020 through May 2022. Total U.S. nonfarm employment grew 4.5% year-over-year in May 2022. The unemployment rate in the United States continued to improve from 14.7% in April 2020 to 3.6% in May 2022; the rate just prior to the pandemic, in February 2020, was 3.5%.

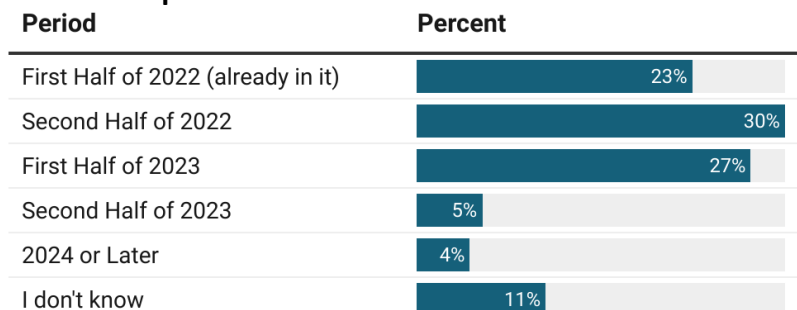
Colorado nonfarm employment decreased 13.3% (-375,200 jobs) from February 2020 to April 2020 but increased 410,300 jobs from May 2020 through May 2022. Colorado effectively recouped jobs lost due to the pandemic, reaching a new record for jobs in the state in February and increasing 1.2% above the prior peak in May. Colorado is projected to add about 89,500 jobs (3.3%) in 2022 with the greatest number of jobs added in the Leisure and Hospitality industry and in the Professional and Business Services industry. At 3.5%, Colorado's May unemployment rate dropped just below the national average but ranked the state 28th-lowest in the country; the state had the 3rd-highest labor force participation rate in the country. The state's unemployment rate was 2.8% in February 2020, just prior to the recession, and spiked to 11.8% in May 2020.

Strong year-over-year employment growth was recorded in all of Colorado's seven metropolitan statistical areas (MSAs) in May. Six of Colorado's seven MSAs rank among the top 100 nationally for employment growth. The Boulder MSA recorded the largest year-over-year growth (5.3%), followed by Denver-Aurora-Lakewood (4.7%), Pueblo (4.7%), Grand Junction (4.7%), Fort Collins (4.2%), Colorado Springs (3.9%), and Greeley (3.6%). Colorado industries with the largest annual percent gains were Leisure and Hospitality (12.5%), Professional and Business Services (7%), and Other Services (5.2%).

### Special Topic: Recession Expectations

As an indication of the economic headwinds, many panelists indicated the U.S. is either currently in a recession, or very near to a recession. Nearly 23% of respondents indicated the recession started in Q2 2022, while 57% expect the recession will begin in 2023 (30% put the odds in the first half of 2023, 27% in the second half of 2023). More than 4% indicated the recession is not imminent, putting it in 2024 or later, while 11% simply do not know.

#### Recession Expectations



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### Special Topic: Inflation

Inflation in the Denver-Aurora-Lakewood MSA has outpaced the nation for eight consecutive years (2013-2020), but prices grew more slowly in the Denver MSA compared to the nation in 2021. In 2021, the all-items index increased 3.5% year-over-year compared to 4.7% nationally. In May 2022, the Denver-Aurora-Lakewood MSA recorded price growth of 8.3% year-over-year (not seasonally adjusted) compared to 8.6% nationally and 9.4% in the Mountain Region.

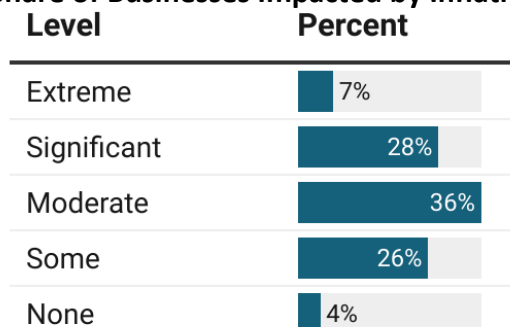
## Consumer Price Index (Percent Change Year-over-Year)

Items	U.S. City Average	Mountain Region	Denver-Aurora-Lakewood	Item Weights
<b>All items</b>	<b>8.6</b>	<b>9</b>	<b>8.3</b>	<b>100.0</b>
Food and beverages	9.7	9	9.4	14.3
Housing	6.9	10	7.2	42.4
Apparel	5.0	8	-0.3	2.5
Transportation	19.4	19	16.1	18.2
Medical care	3.7	4	10.3	8.5
Recreation	4.5	1	6.0	5.1
Education and communication	0.8	-1	-0.6	6.4
Other goods and services	6.3	6	9.5	2.7
All items less food and energy	6.0	8	7.1	

Table: Bureau of Labor Statistics, CPI for All Urban Consumers (CPI-U). • Created with Datawrapper

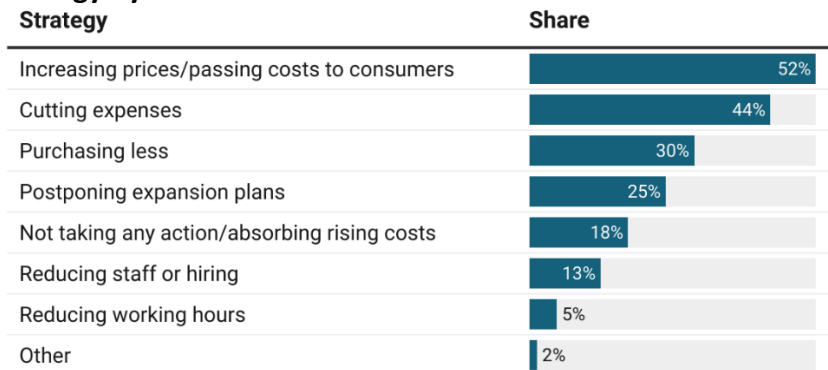
A majority of respondents (96%) noted that inflation issues are impacting their business (slightly more than last quarter), with impacts ranging from some level of impact (26%) to extreme (7%). More than 56% of respondents expect to increase wages in response to higher inflation. Most respondents (52%) expressed increasing prices and passing higher costs along to customers as a strategy to address inflation, following by expense cutting (44%) and fewer purchases (30%). Most expect inflation to moderate in 2023 (57.2%). The Business Research Division projects Colorado inflation to average 7.7% in 2022, moderating to 3.3% in 2023.

## Share of Businesses Impacted by Inflation



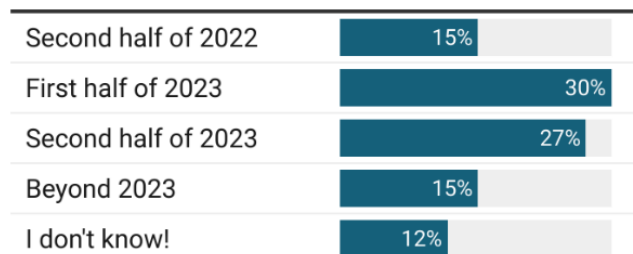
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## Strategy by Businesses to Address Inflation



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## When Businesses Expect Inflation to Moderate



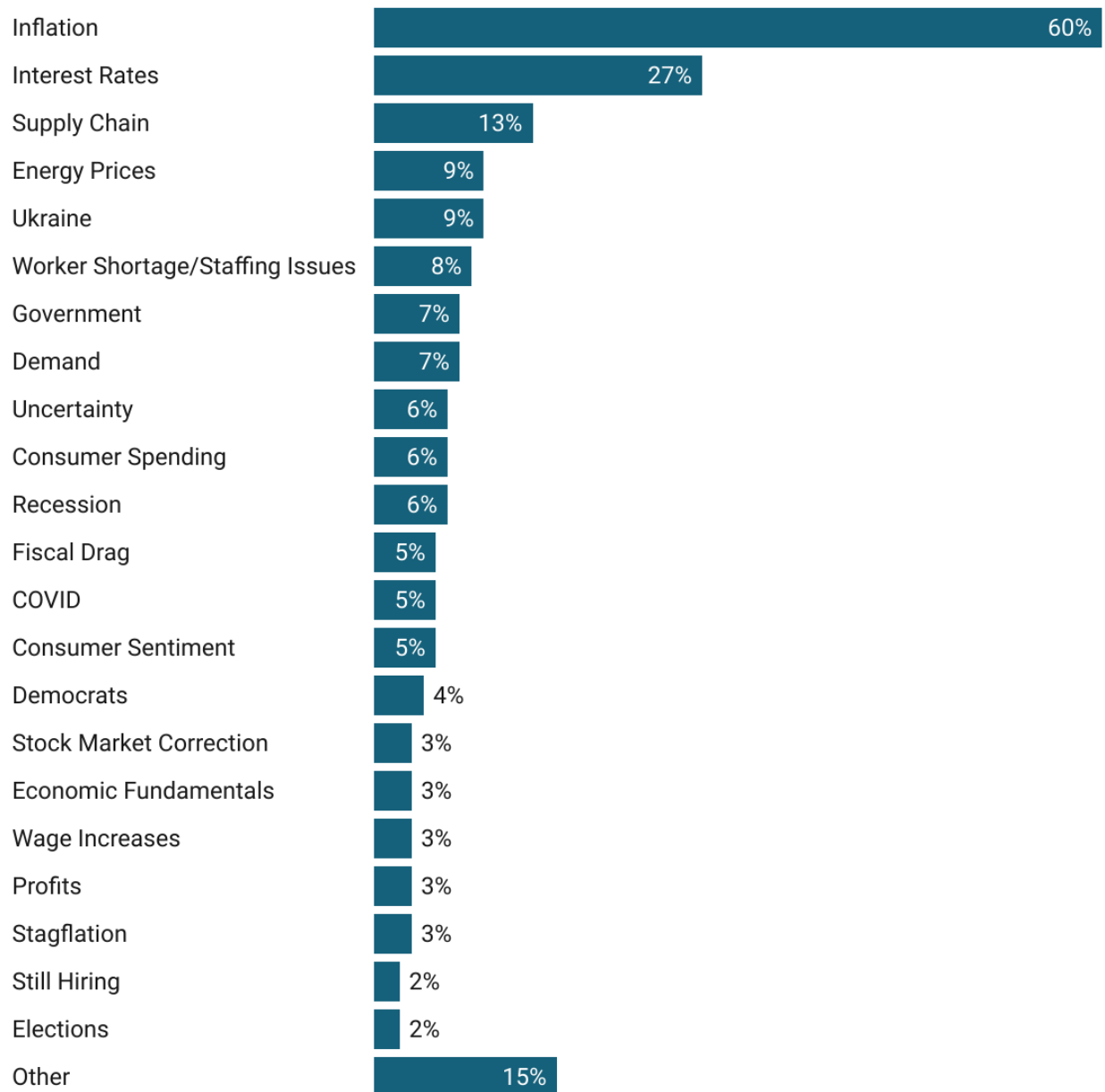
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## Reasons for Survey Responses

Panelists were asked to give reasons for their expectations. Of the 194 respondents who provided open-ended explanations, inflation was most often cited as a concern (60% of respondents), followed by interest rates (27%), supply chain issues (13%), energy prices (9%), and the conflict between Ukraine and Russia (9%).

### Reasons or Response

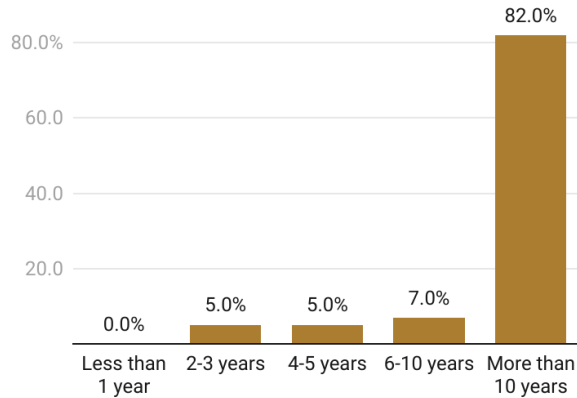


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## Expectations by Company Size and Length of Time in Business

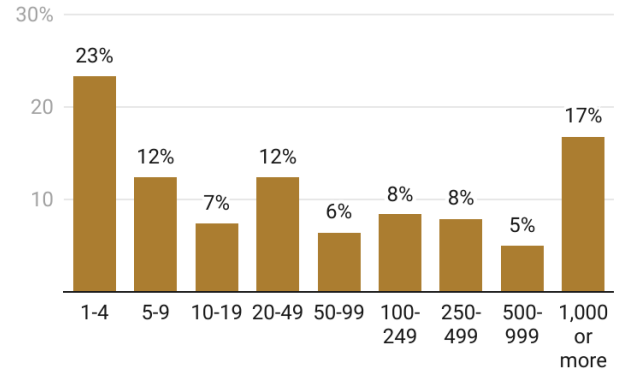
Panelists were asked about the size of their company and how long their company has been in business. More than 82% of respondents work at a long-standing company that has been in business for more than 10 years. More than half (54%) of survey respondents work for companies with fewer than 50 employees. Small employers were slightly less optimistic than large employers ahead of Q3 2022, but both cohorts expressed pessimism.

### Number of Years in Business



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### Number of Employees per Company

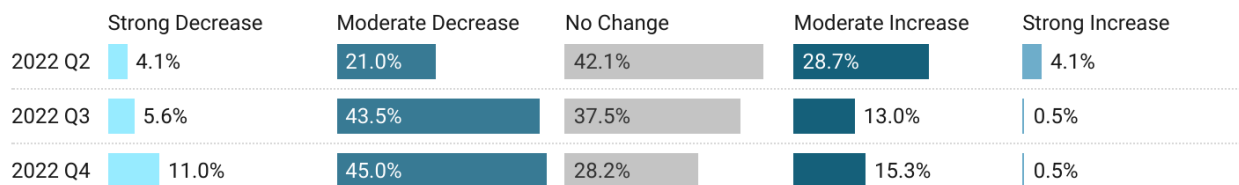


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## Distribution of Expectations in Q2 2022, Q3 2022, and Q4 2022

### State Expectations

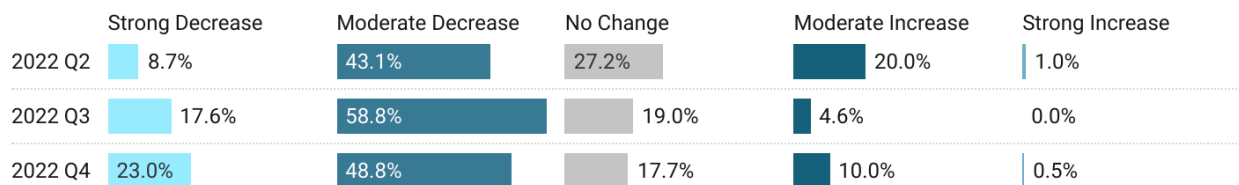
51.9 in Q2 2022, 39.8 in Q3 2022, and 37.3 in Q4 2022



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### National Expectations

40.4 in Q2 2022, 27.7 in Q3 2022, and 29.1 in Q4 2022

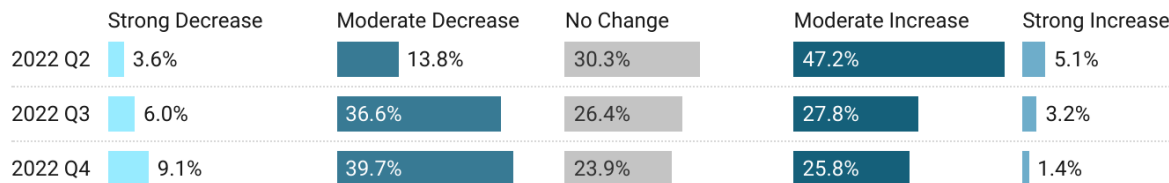


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## Sales Expectations

59.1 in Q2 2022, 46.4 in Q3 2022, and 42.7 in Q4 2022

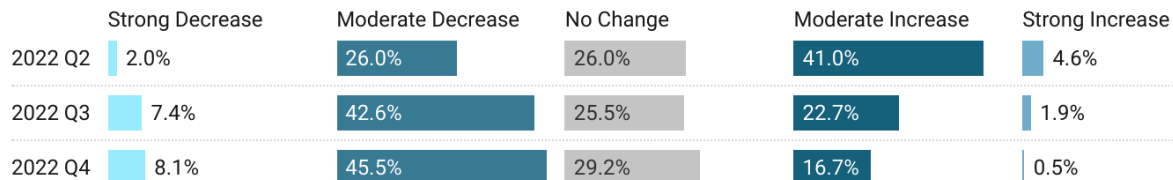


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## Profit Expectations

55 in Q2 2022, 42.2 in Q3 2022, and 39 in Q4 2022

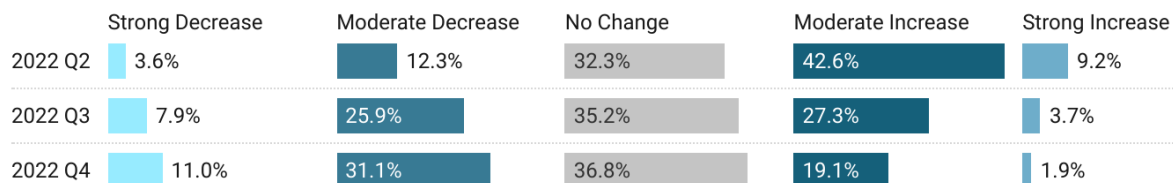


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## Hiring Expectations

60.4 in Q2 2022, 48.3 in Q3 2022, and 42.5 in Q4 2022

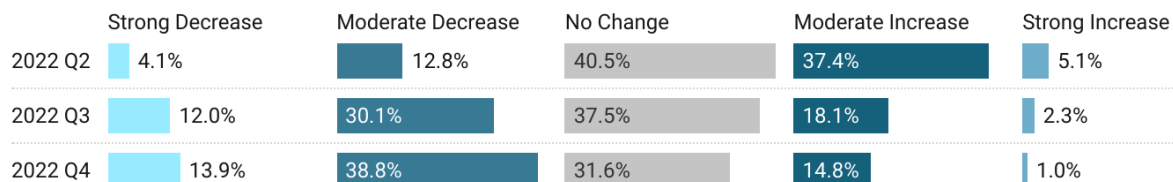


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## Capital Expenditures Expectations

56.7 in Q2 2022, 42.1 in Q3 2022, and 37.6 in Q4 2022

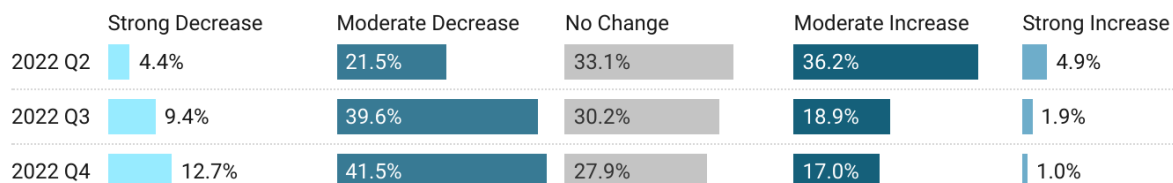


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## Overall Index Expectations

53.9 in Q2 2022, 41.1 in Q3 2022, and 38 in Q4 2022



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