LBCI LEEDS BUSINESS CONFIDENCE INDEX

Third Quarter 2016
Volume 9, number 3
colorado.edu/business/brd

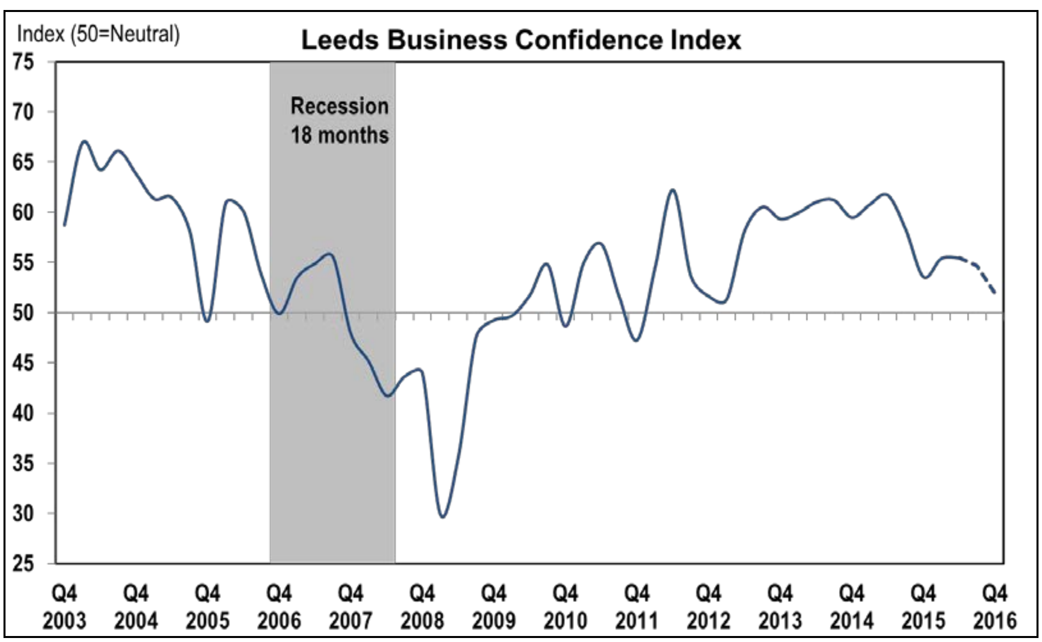
Summary — Stable Expectations

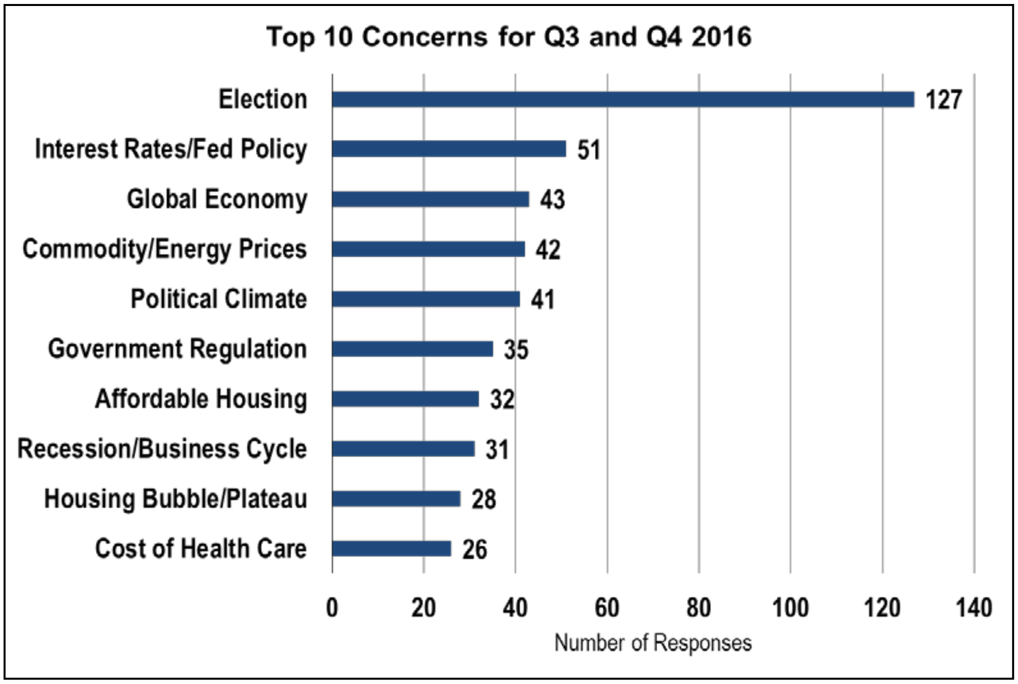
The panel of business leaders surveyed in the Leeds Business Confidence Index (LBCI) reported steady optimism ahead of Q3 2016, but expectations were lower for Q4 2016. The index is in positive territory (above 50) for all metrics in the index, except for the national outlook. Sales expectations topped the outlook, and the national index received the least optimistic responses.

According to the Bureau of Economic Analysis (BEA), the United States recorded real GDP growth of 2.4% in 2015. Quarterly growth peaked in Q2 2015, at 3.9% seasonally adjusted annual rate (SAAR), followed by 2% and 1.4% in Q3 and Q4, respectively. Quarterly growth continued to slow into Q1 2016, rising at only 0.8%. This marks the third-consecutive quarter that quarterly GDP growth rate declined. Colorado recorded real GDP growth of 2.8% SAAR, in Q4 2015, ranking the state the fourth-fastest growth nationally. The Rocky Mountain region grew at 2%.

Business leaders discussed their greatest concerns two quarters out. (Note: This survey was conducted prior to the United Kingdom voting to opt out of the European Union.) Among the top concerns identified by respondents were the upcoming presidential election, the prospect of rising interest rates, the global economy, the impact of commodity prices (notably, oil and gas prices), the political climate, government regulation, affordable housing, and the business cycle. Respondents most frequently noted the pending election, commodity and energy prices, and interest rates and Fed policy as their single greatest concern (see appendix).

The LBCI, which captures Colorado business leaders' expectations for the national economy, state economy, industry sales, profits, hiring plans, and capital expenditures, is at 54.6 for Q3 2016 (down from 55.4 in Q2), and 51.9 for Q4 2016. Expectations fell compared to a year ago for both Q3 (-3.6 points) and Q4 (-1.6 points). A total of 281 qualified panelists responded to the survey.

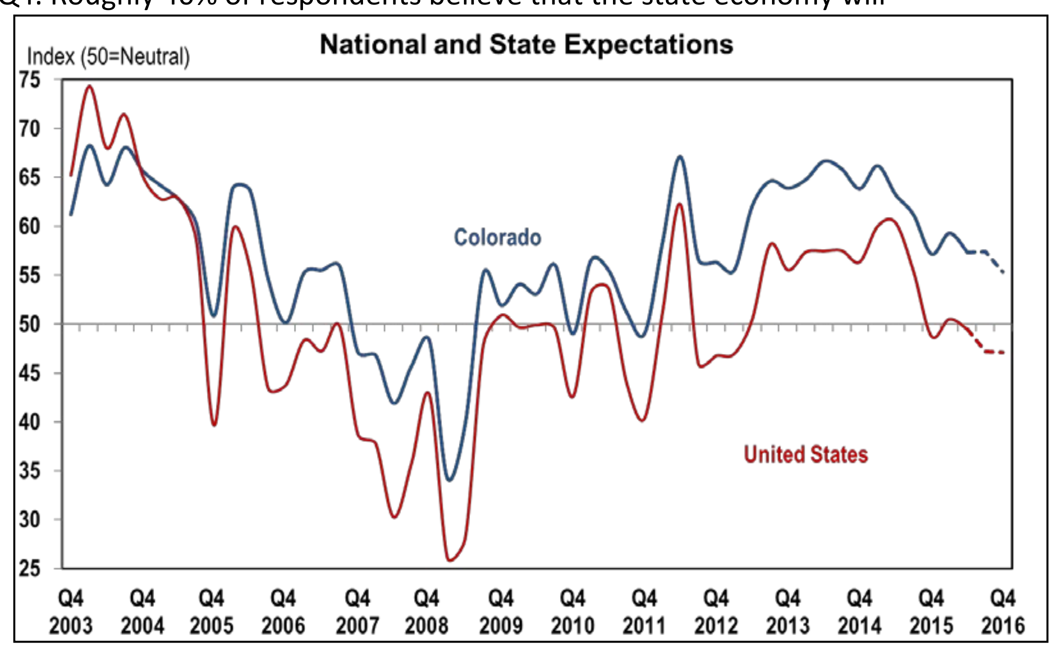




National and State Economies — Declining Outlook

Expectations about the national economy continue to decrease ahead of Q3 and Q4 while expectations about the state economy are fluctuating. National expectations saw a decline from 49.5 to 47.2 ahead of Q3 and 47.1 ahead of Q4. State expectations were nearly flat ahead of Q3, at 57.4, but dropped to 55.3 ahead of Q4. Business leaders continue to remain more positive about the state economy than the national economy.

Overall expectations for the state economy increased by 0.1 points ahead of Q3 and decreased by 2.1 points ahead of Q4. Roughly 40% of respondents believe that the state economy will expand in Q3, and 13% expect a decline (nearly 48% are neutral). Less than 1% of respondents expect a strong decrease in the state economy while approximately 4% expect a strong increase.



Confidence in the national economy decreased ahead of Q3 and Q4, from 49.5 in Q2 2016 to 47.2 in

Q3, and 47.1 in Q4. Nearly 22% of respondents expect an increase, while 32% expect a decrease (46% are neutral).

According to estimates from the BEA, U.S. real GDP in Q1 2016 grew at a 0.8% SAAR, recording slowing growth for three quarters. The BEA reported:

> *The deceleration in real GDP in the first quarter primarily reflected a larger decrease in nonresidential fixed investment, a deceleration in PCE, and a downturn in federal government spending that were partly offset by an upturn in state and local government spending, and an acceleration in residential fixed investment.*

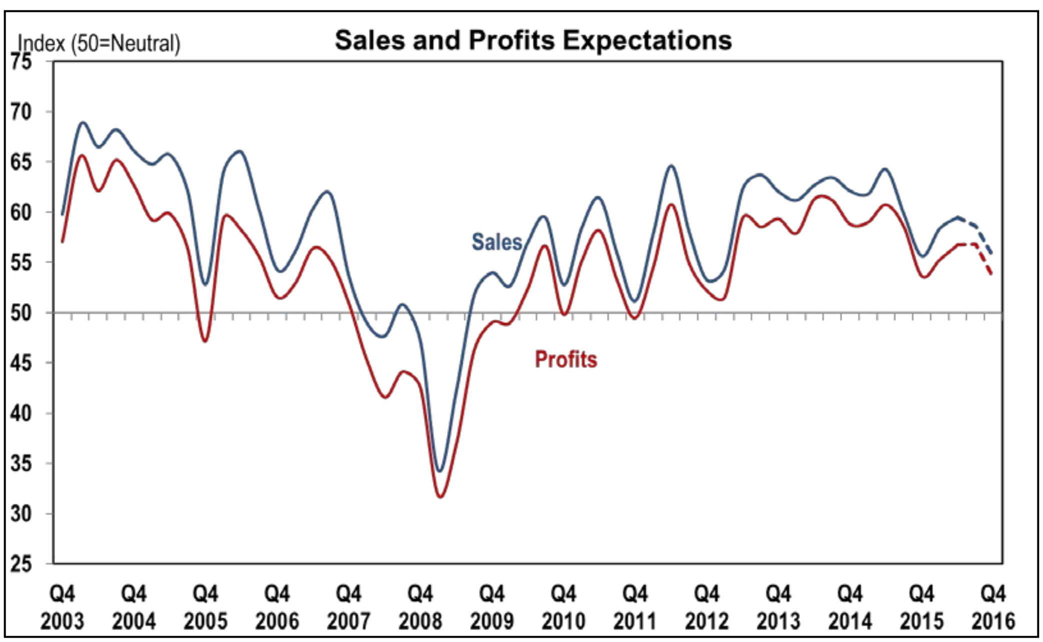
National employment growth remains strong; however, growth has slowed recently, averaging about 150,000 jobs per month for the first five months of 2016 (compared to 219,000 for the same period in 2015). Employment growth saw its smallest increase in May, with only 38,000 jobs added (partially driven down by the Verizon strike). The national unemployment rate decreased from April to May, declining from 5% to 4.7%.

Preliminary May employment figures for Colorado show slowing growth at 2.4% (compared to 3.1% in May 2015 and 2.9% in March 2016). Colorado has recorded 68 consecutive months of year-over-year employment growth and added 62,000 jobs year-over-year in May.

Sales and Profits — Expectations Stabilize Ahead of Q3

Profits expectations saw a slight increase ahead of Q3 2016, while sales expectations slipped by 0.9 points. Profits expectations from Q2 to Q3 were up less than 0.2 points, to 56.9; however, expectations for Q4 slid to 53.4. Sales expectations ahead of Q3 were 58.6, down from 59.5 in Q2. Similar to profits expectations, sales expectations declined ahead of Q4, dropping 3.2 points, to 55.4.

The slight increase in the profits index for Q3 was sustained by 43% of respondents expecting an increase, 16% expecting a decrease, and 41% not anticipating a change from Q2. Only 1% of respondents thought that profits would have a strong increase or a strong decrease.



The sales index declined to 58.6 in Q3, with 48%

anticipating an increase and 14% of respondents expecting sales to decrease (38% were neutral).

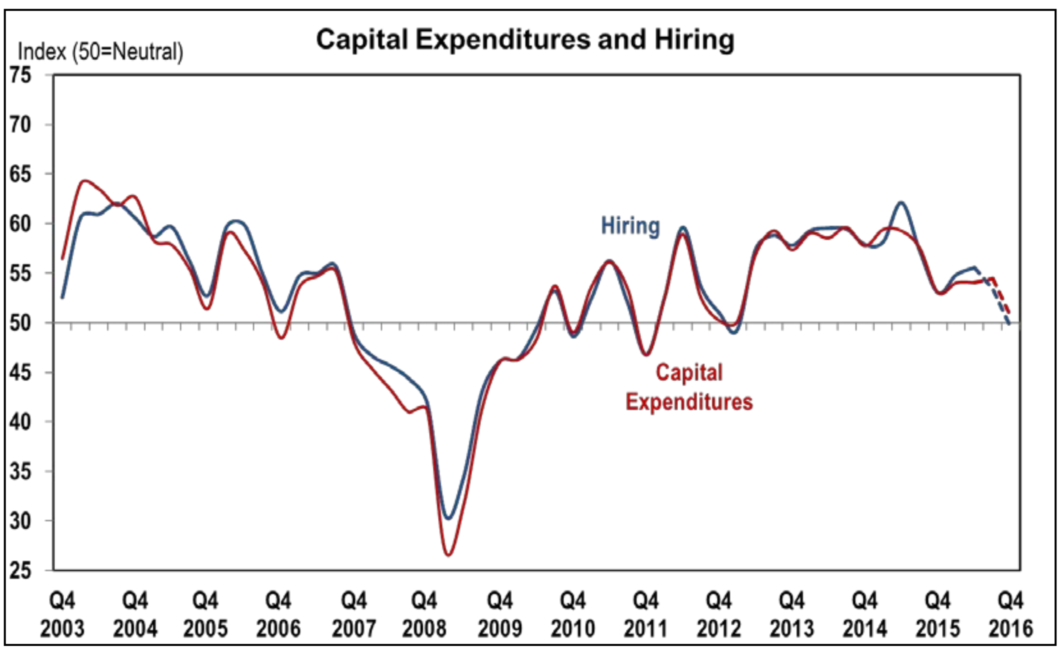
According to the BEA, Colorado personal income rose 1.1% in Q1 2016 from the preceding quarter and 4.3% year-over-year, ranking the state 18th and 28th, respectively, for these metrics. Per capita personal income rose 2.4% year-over-year in Q1—the 11th-slowest nationally. According to the most recent statistics from the BLS, inflation in the second half of the 2015 (all items index) increased 1.4% year-over-year in the Denver-Boulder-Greeley MSA. Core inflation increased 3.5% year-over-year, and shelter grew 5.8%.

According to the Federal Housing Finance Agency (FHFA) U.S. purchase-only house price index, home prices rose 5.7%, marking the 17th-consecutive quarter that home prices have risen. Colorado ranked 5th in the United States in home price appreciation in Q1 2016, a 3% increase from Q4 2015 and a 9% gain year-over-year.

According to the Institute for Supply Management, the manufacturing index increased to 51.3 in May 2016, a 0.5 increase from April. This marks the first time since September 2015 that the index was above the neutral (50) threshold, and the highest it has been since July 2015.

Capital Expenditures and Hiring Plans — Realignment

The capital expenditures outlook increased ahead of Q3, while hiring expectations decreased significantly. Both notched lower ahead of Q4.



From Q2 2016 to Q3 2016, capital expenditures outlook increased from 54.1 to 54.4. It dropped to 50.6 ahead of Q4. Respondents who believe capital expenditures would increase outnumbered those who thought it would decrease almost two to one. Roughly 35% expect an increase and 18% expect a decrease, with 47% remaining neutral.

Hiring expectations decreased ahead of both Q3 and Q4. From Q2 to Q3, expectations fell from 55.6 to 53.4, dropping again to 49.5 in Q4—the most pessimistic view since Q1 2013. Nearly 34% of respondents believe that hiring will increase in Q3, with only 0.7% expecting a strong increase.

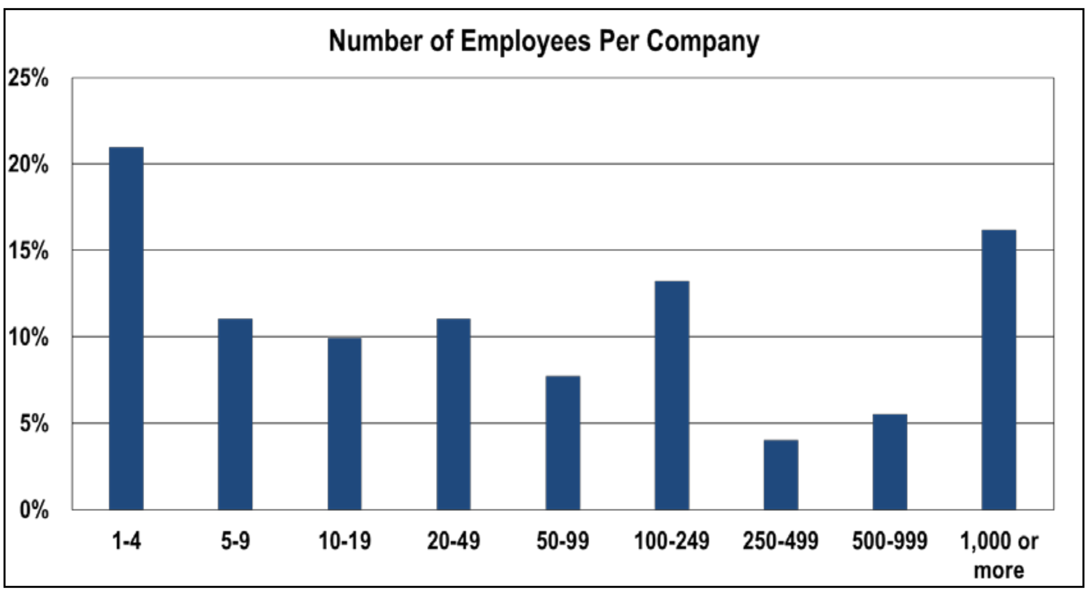
Another 19% believe that hiring will decrease, with 2% anticipating a strong decrease. The remaining 47% are neutral on hiring.

The unemployment rate in Colorado has remained below the historical average in 2016, but increased for the year in May, to 3.4%, with more entrants to the labor force and more unemployed. This compares to a national unemployment rate of 4.7%. Year-over-year employment growth was recorded in all of Colorado's metropolitan areas, with the Denver-Aurora-Lakewood and Fort Collins-Loveland MSAs recording the fastest growth, 3.1% and 3%, respectively. Grand Junction (1%) and Greeley (1.4%) recorded the lowest year-over-year growth rates.

As of May 2016, Colorado had a 2.4% year-over-year gain in employment. The industries with the greatest increases were Construction (7.1%), Leisure and Hospitality (5%), and Education and Health Services (3.1%). The only sector to have negative year-over-year growth was Mining, with a growth rate of -16.8%.

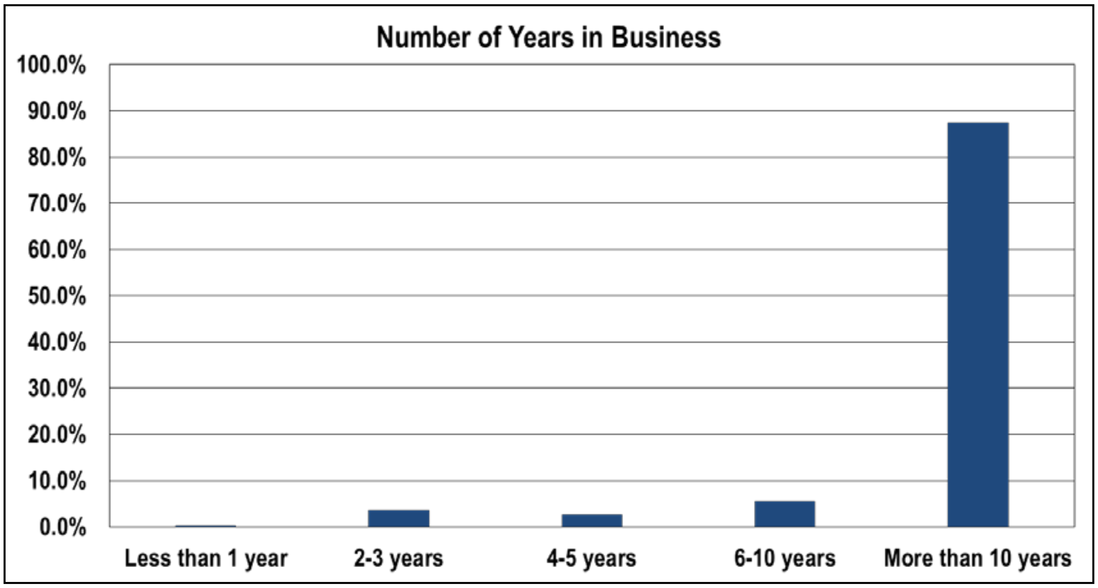
About the Panel — Company Size and Length of Time in Business

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 (52.9%) of survey respondents work for companies with fewer than 50 employees. The three largest groups were represented by companies with 1–4 employees (21%), 1,000 or more employees (16.2%), and 100–249 employees (13.2%).



Small employers' expectations decreased 2.1 points ahead of Q3 while large employers' expectations increased 0.7 points. While remaining above the neutral threshold, small employers (fewer than 50 employees) were notably less optimistic than large employers. The overall index for small employers decreased to 52.0 versus 57.8 for large employers. Large employers were more bullish than small employers in every category. The greatest differential (7.1) was in sales expectations, with small employers recording a reading of 55.4 versus large employers' reading of 62.5. The smallest difference (3.8) was in hiring plans. Small employers recorded a reading of 51.6 compared to 55.5 for large employers.

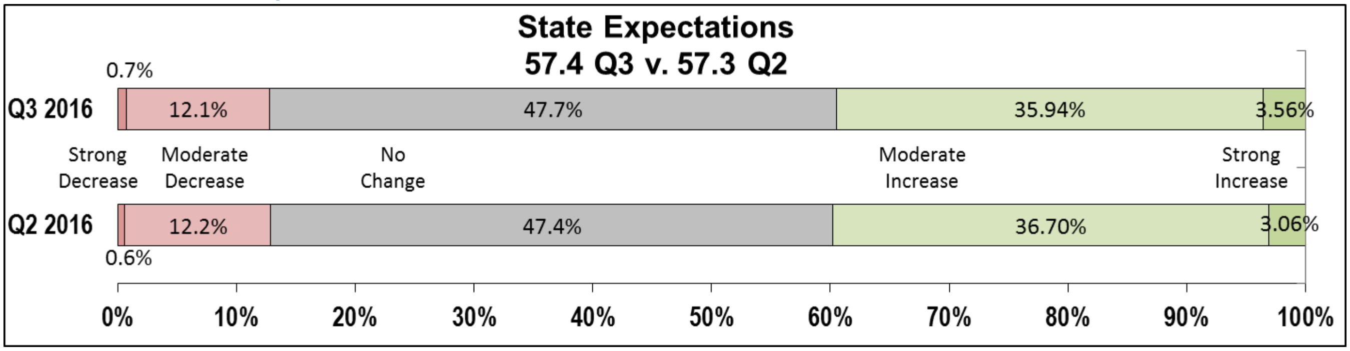
More than 87% of survey respondents work at a long-standing company that has been in business for more than 10 years. Newer companies were generally more bearish than long-standing companies.

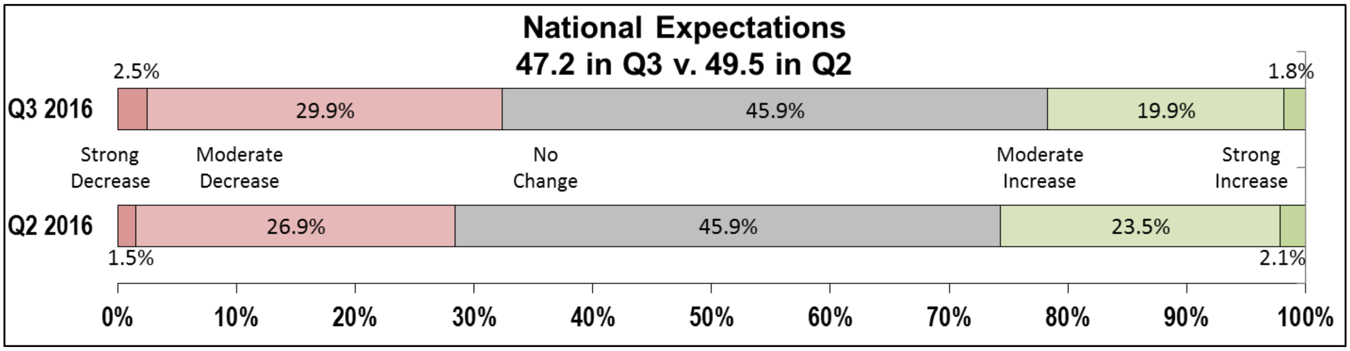


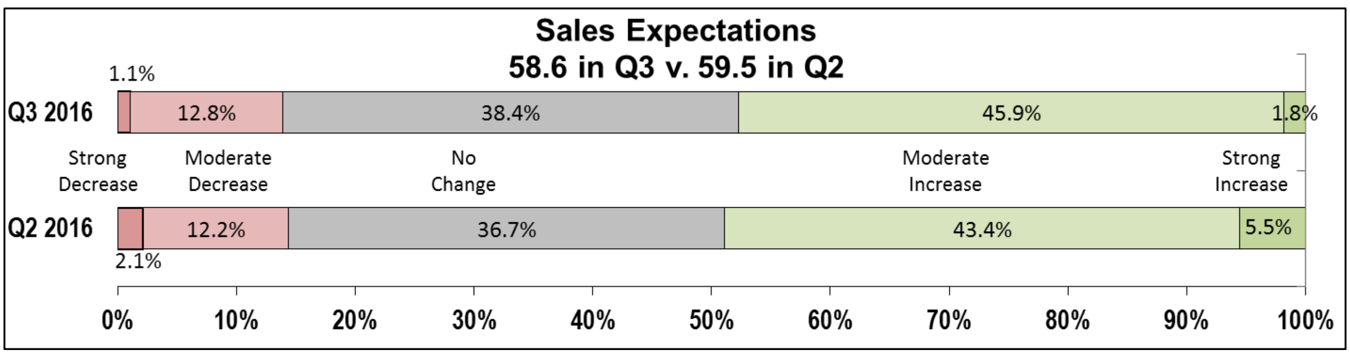
The index by firm tenure (how long it has been in business) was higher for firms in business more than 10 years (55.3) than for firms in business less than 10 years (50.8). The index for younger companies dropped 7.3 points ahead of Q3 while it increased 0.2 points for long-standing companies. The only category that younger companies had a higher index value for was in hiring plans. Newer companies recorded a reading of 53.5, compared to older companies' reading of 53.4

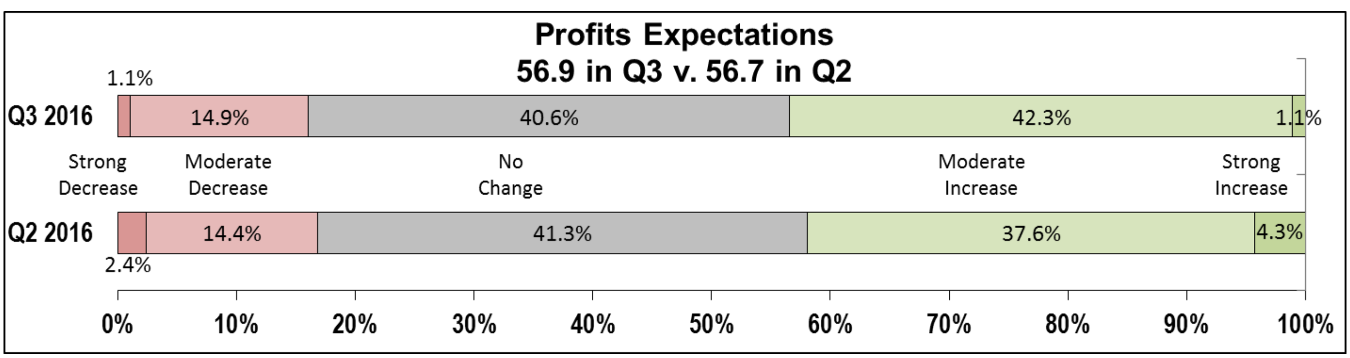
While responding panelists represent nearly every industry in the state, the largest percentage of respondents to the Q3 survey were: Professional, Scientific, and Technical Services (21.7%); Finance and Insurance (17.7%); and Public Administration (11.7%).

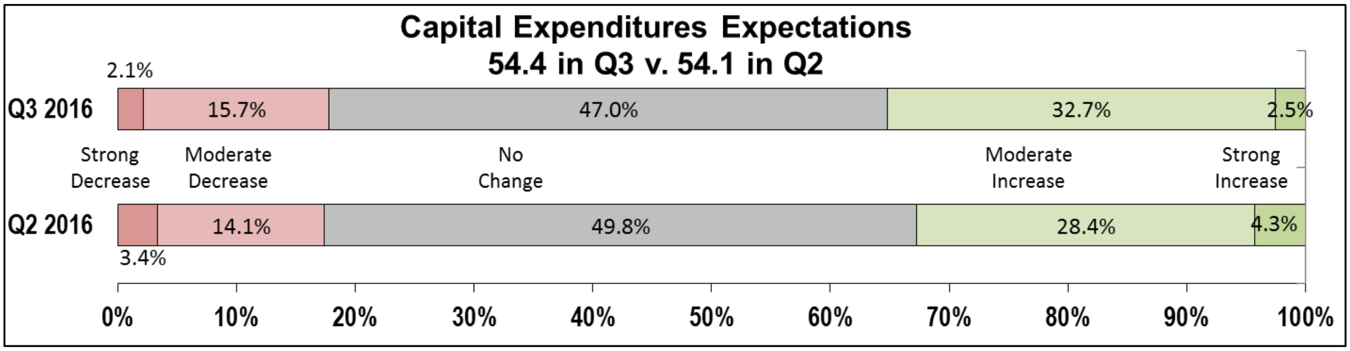
Distribution of Expectations

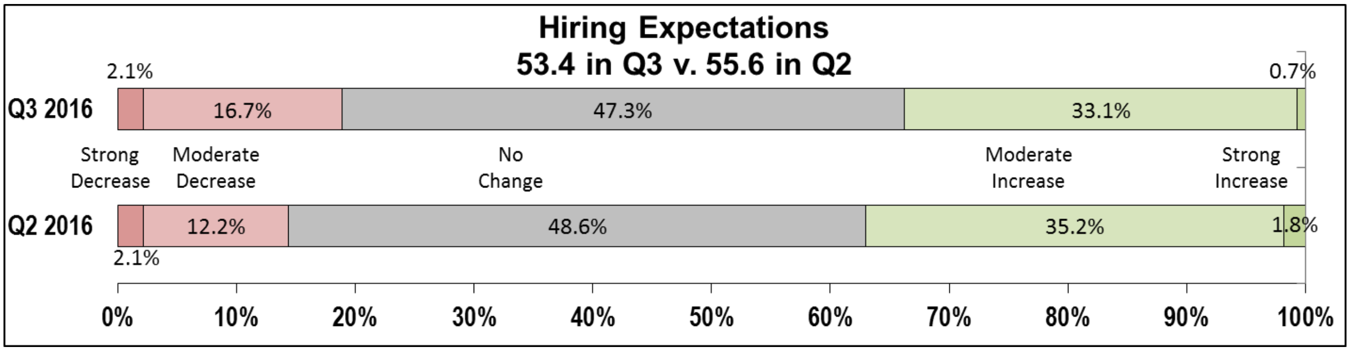









Capital Expenditures Expectations
54.4 in Q3 v. 54.1 in Q2
Q3 2016
2.1%
15.7%
47.0%
32.7%
2.5%
Strong Decrease
Moderate Decrease
No Change
Moderate Increase
Strong Increase
Q2 2016
3.4%
14.1%
49.8%
28.4%
4.3%
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
100%


Hiring Expectations
53.4 in Q3 v. 55.6 in Q2
Q3 2016
2.1%
16.7%
47.3%
33.1%
0.7%
Strong Decrease
Moderate Decrease
No Change
Moderate Increase
Strong Increase
Q2 2016
2.1%
12.2%
48.6%
35.2%
1.8%
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
100%

Concerns Looking Forward to Q4 2016

Concern	1	2	3
Election	72	28	27
Commodity/Energy Prices	19	15	8
Interest Rates/Fed Policy	17	22	12
Job growth	16	5	4
Political Climate	15	12	14
Government Regulation	11	11	13
Recession/Business Cycle	10	13	8
Skilled/Talented Workforce	10	6	6
Affordable Housing	8	13	11
Housing Bubble/Plateau	8	12	8
Global Economy	7	19	17
Consumer Spending	7	0	1
Cost of Health Care	6	9	11
Government Spending/Debt	6	7	9
Unemployment	6	3	3
Other	5	11	12
Labor Shortage	5	10	6
Low Wages	5	4	3
Stock Market	4	2	2
Inflation	4	2	2
Eurozone	3	3	3
National Security	1	10	9
Market Uncertainty	1	2	4
Strength of Dollar	1	2	2
Deteriorating Infrastructure	1	1	0
Minimum Wage	1	0	3
Labor Costs	1	0	1
Taxes	0	7	3
Wage Pressure	0	5	4
Consumer Debt	0	3	2
Consumer Confidence	0	2	4
Corporate Profits	0	2	3
Decline in Retail Sales	0	1	0
Geopolitics	0	1	0
Capital Spending	0	0	1
TABOR	0	0	1

# # #

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