

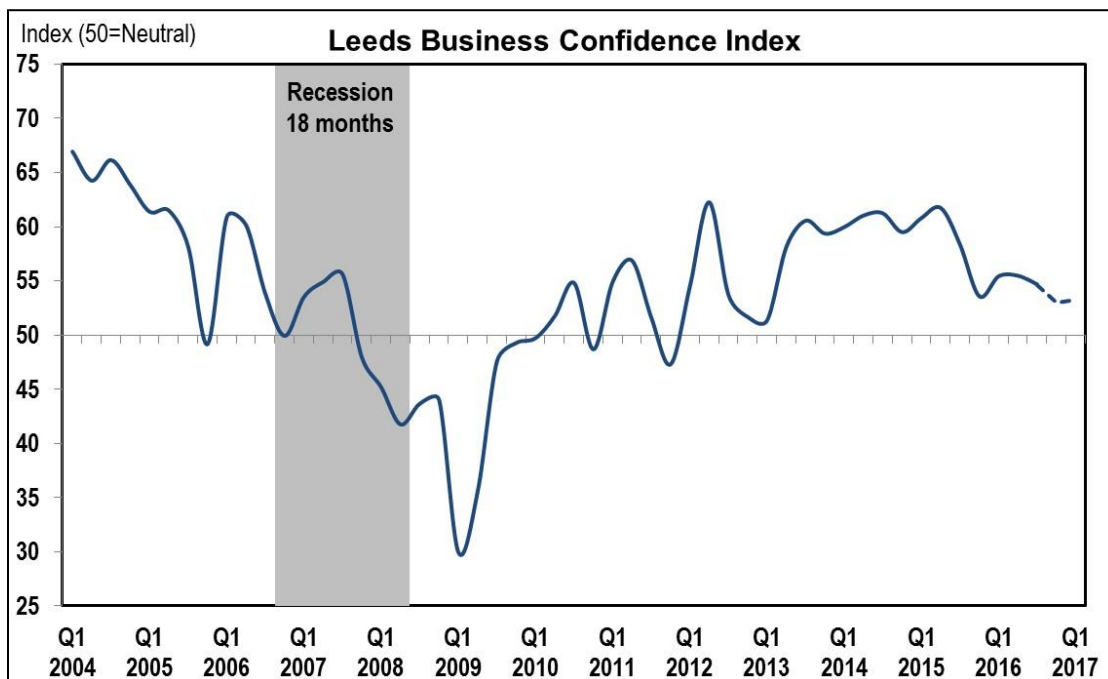
Summary — Waning Optimism

The Leeds Business Confidence Index (LBCI) reflected a less positive outlook for Q4 2016, although expectations for Q1 2017 recorded a notable uptick. While the expectations show a deterioration from last quarter, the index overall remains in positive territory for Q4 2016 and Q1 2017.

Expectations for Q4 2016 are down 1.6 points from last quarter and down half a point from Q4 2015. The overall index for Q4 stood at 53 (50=neutral), held back by negative national expectations. Panelists were most optimistic about the state economy and sales expectations. All metrics in the index reported a positive outlook for Q1 2017, including national economic expectations, which have been below 50 for three consecutive quarters.

National real gross domestic product (GDP) grew at a 1.1% seasonally adjusted annual rate (SAAR) in Q2 2016 following growth of 0.8% in Q1 2016 and annual growth of 2.6% in 2015 according to the Bureau of Economic Analysis (BEA). This broke three quarters of repeated slowing growth rates. Quarterly growth in Q1 and Q2 2016 was slower than in the first two quarters of 2015, though positive quarterly growth in real GDP has continued for nine consecutive quarters. This marks the first quarter since Q2 2015 that the pace of quarterly growth has increased. Colorado recorded real GDP growth of 3% SAAR in Q1 2016, ranking the state the fourth-fastest growth nationally. The Rocky Mountain region grew 1.7%.

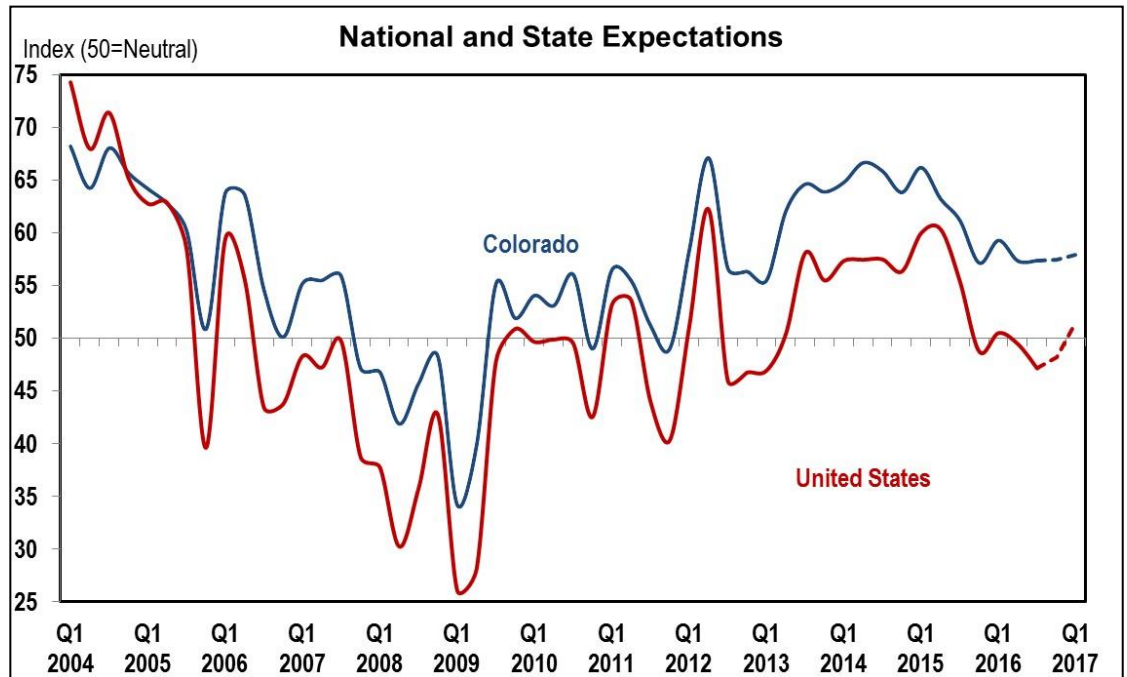
The LBCI, which captures Colorado business leaders' expectations for the national economy, state economy, industry sales, profits, hiring plans, and capital expenditures, is at 53 for Q4 2016 (down from 54.6 in Q3) and 53.2 for Q1 2017. Expectations fell compared to a year ago for both Q4 (-0.5 points) and Q1 (-2.2 points). A total of 270 qualified panelists responded to the survey. When asked about opportunities and concerns for their industry in 2017, most panelists listed concerns. The top three concerns included the election and political climate, government regulation, and a workforce talent shortage.



National and State Economies — Looking Up

Expectations about the national economy improved slightly ahead of Q4 and Q1 while expectations about the state economy remained nearly flat. National expectations saw an increase from 47.2 to 48.2 ahead of Q4 and 51.5 ahead of Q1. State expectations were nearly flat ahead of Q4, at 57.5, but increased modestly to 57.9 ahead of Q1. Business leaders continue to remain more positive about the state economy than the national economy; however, the gap narrowed to the smallest margin in a year and a half.

Overall expectations for the state economy increased by 0.1 points ahead of Q4 and increased by 0.4 points ahead of Q1. More respondents (41.9%) believe that the state economy will expand in Q4 than expect a decline (13%). About 45% remain neutral.



Confidence in the national economy increased ahead of Q4 and Q1, from 47.2 in Q3 2016 to 48.2 in Q4, and 51.5 in Q1. More than 24% of respondents expect an increase, while 30.4% expect a decrease (45.6% are neutral).

According to estimates from the BEA, U.S. real GDP in Q1 2016 grew at a 1.1% SAAR, recording the fastest growth since Q3 2015. The BEA reported:

The acceleration in real GDP in the second quarter primarily reflected an acceleration in PCE, a smaller decrease in nonresidential fixed investment, an upturn in exports, and a smaller decrease in federal government spending. These were partly offset by a larger decrease in private inventory investment and downturns in state and local government spending, in residential fixed investment, and in imports.

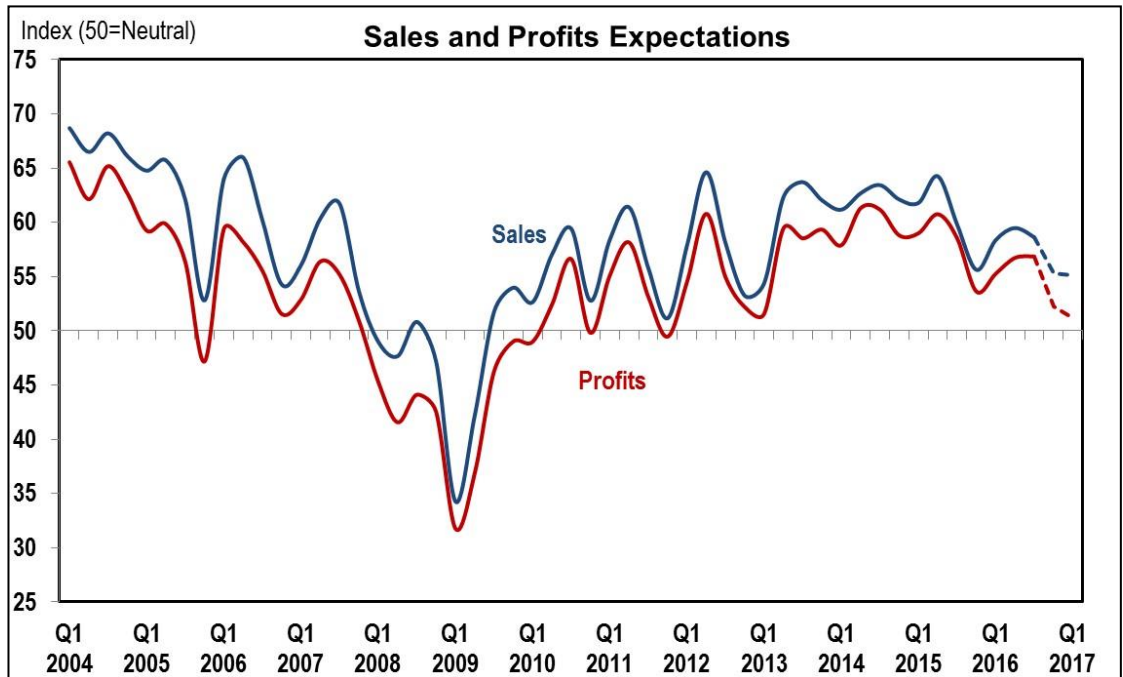
The nation continues to add jobs; however, growth has slowed in 2016, averaging about 182,000 jobs per month for the first eight months of the year (compared to 219,000 for the same period in 2015). Employment growth saw its smallest increase in May, with only 38,000 jobs added (partially driven down by the Verizon strike). National employment increased by 151,000 jobs in August. The national unemployment rate has stayed consistent, at 4.9%, from June 2016 through August 2016.

Preliminary August employment figures for Colorado show growth of 2.8% year-over-year. However, July employment growth increased by 0.2%, from 2.6% in June. Colorado has recorded 71 consecutive months of year-over-year employment growth and added 71,600 jobs year-over-year in August.

Sales and Profits — Expectations Slide Ahead of Q4

Both sales and profits expectations decreased sharply ahead of Q4 2016. Profits expectations fell 4.7 points ahead of Q4 2016, while sales expectations slipped by 3.3 points. Both metrics continued to decline in Q1 2017.

The profits index fell from 56.9 in Q3 to 52.2 in Q4 and 51.1 in Q1 2017. Positive profits expectations shifted from 43% of respondents in Q3 to only 30.4% of respondents in Q4. Neutral expectations inflated to nearly half of respondents, and negative expectations grew from 16% to 21.5%.



The sales index declined from 58.6 in Q3 to 55.3 in Q4 and 55.1 in Q1 2017. In Q4, 39.2% of respondents expect increasing sales, while 42% expect a flat (neutral) quarter.

According to the BEA, Colorado total personal income rose 1.1% in Q2 2016 from the preceding quarter and 3% year-over-year, ranking the state 14th and 26th, respectively, for these metrics. While Colorado has the 15th highest *per capita* personal income, incomes rose a mere 1.1% year-over-year in Q2—the 8th-slowest nationally. According to the most recent statistics from the Bureau of Labor Statistics, inflation in the first half of 2016 (all items index) increased 3% year-over-year in the Denver-Boulder-Greeley MSA. Core inflation increased 4.5% year-over-year, and shelter grew 7.6%.

According to the Federal Housing Finance Agency (FHFA) U.S. purchase-only house price index, home prices rose 10.2% year-over-year in Q2 2016, marking the 18th-consecutive quarter that home prices have risen. Colorado ranked 3rd in the United States in home price appreciation in Q2 2016, a 2.2% increase from Q1 2016.

According to the Institute for Supply Management, the manufacturing index fell to 49.4% in August 2016, a 3.2% decrease from July. This marks the first time since February 2016 that the index was below the neutral (50) threshold. The manufacturing index also dipped below the 12-month average in August.

Capital Expenditures and Hiring Plans — Softer Expectations

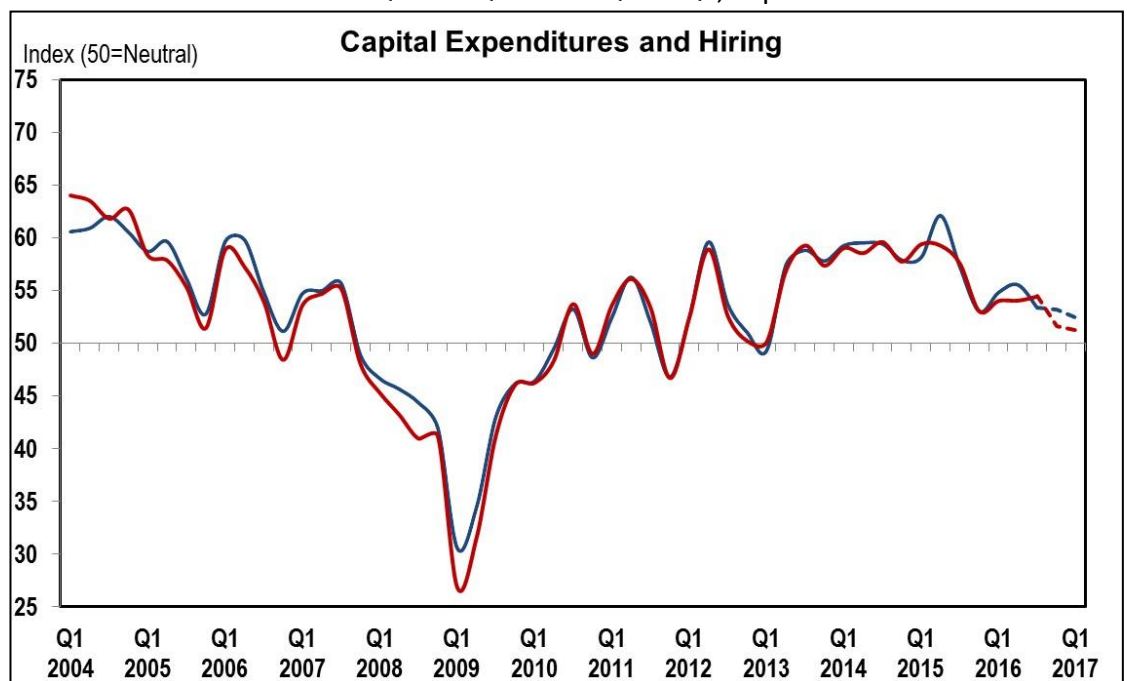
The outlook for both capital expenditures and hiring fell ahead of Q4, with capital expenditures taking a larger step back. The decline continued into Q1.

From Q3 2016 to Q4 2016, capital expenditures outlook decreased from 54.4 to 51.7. It dropped to 51.3 ahead of Q1 2017. Roughly 27% expect an increase and 20% expect a decrease, with 53% remaining neutral.

Hiring expectations decreased ahead of both Q4 and Q1. From Q3 to Q4, expectations fell from

53.4 to 53.2, dropping again to 52.5 in Q1 2017—the most pessimistic view since Q1 2013. Only 28.6% of respondents believe that hiring will increase in Q4 in their industry. Another 16.3%

believe that hiring will decrease. The remaining 55% have a neutral outlook on hiring.



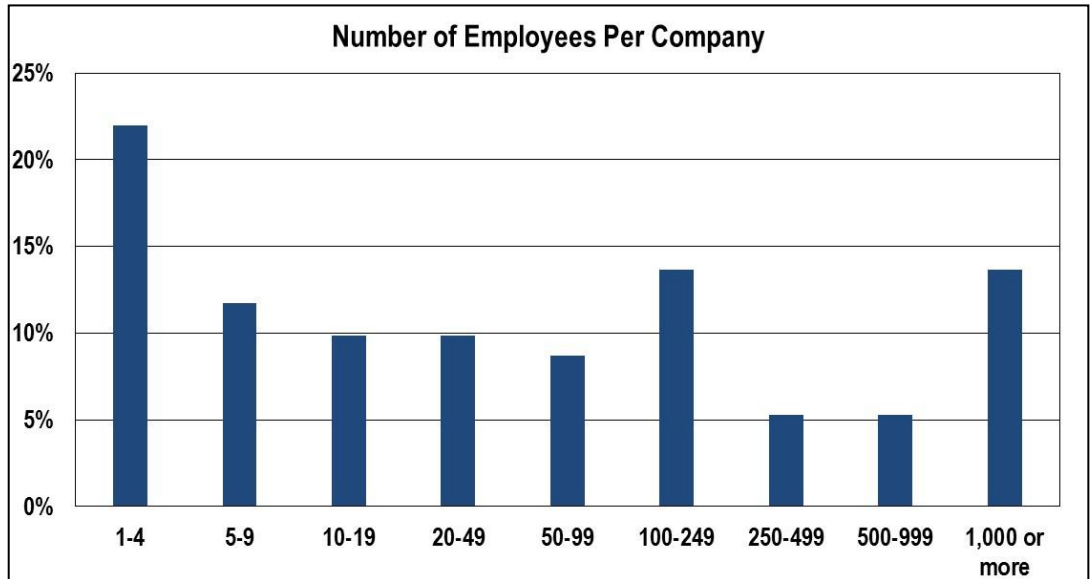
The unemployment rate in Colorado has remained below the historical average in 2016, but increased for the year in August, to 3.8%, with both the labor force and number of unemployed workers shrinking. This compares to a national unemployment rate of 4.9%. Year-over-year employment growth was recorded in six out of seven of Colorado’s metropolitan areas, with the Denver-Aurora-Lakewood and Fort Collins-Loveland MSAs recording the fastest growth, 3.3% and 3%, respectively. Grand Junction (0%) and Colorado Springs (1.7%) recorded the lowest year-over-year growth rates.

As of August 2016, Colorado had a 2.8% year-over-year gain in employment. The industries with the greatest increases were Construction (11.3%), Leisure and Hospitality (5.3%), and Education and Health Services (3.4%). The only sector to have negative year-over-year growth was Mining, with a growth rate of -14.8%.

Expectations by Company Size and Length of Time in Business

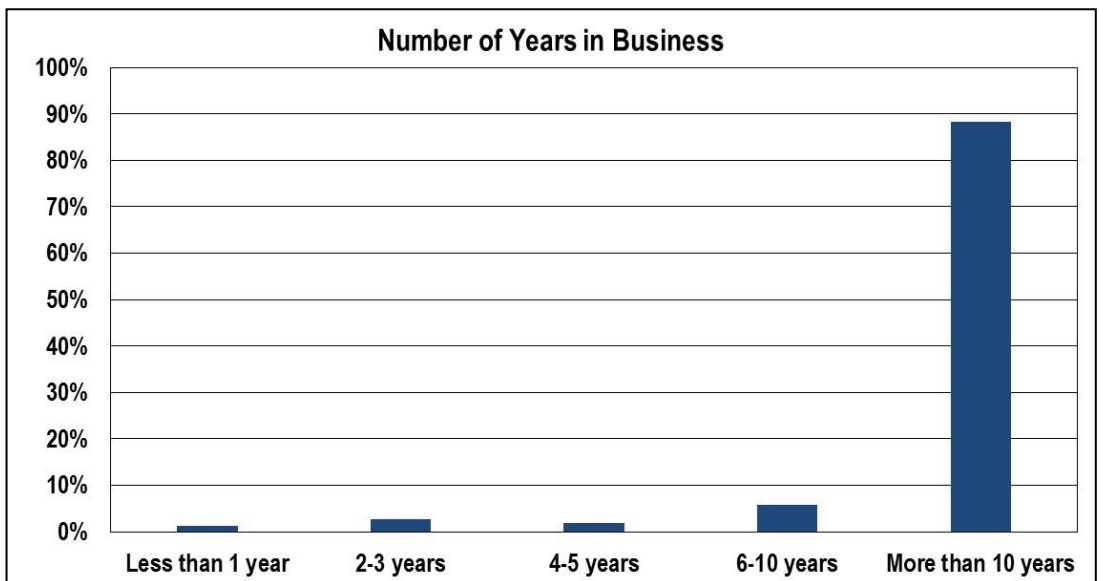
Panelists were asked two additional questions, one about the size of their company and the other about how long their company has been in business. About half (53.4%) of survey respondents work for companies with fewer than 50 employees. The three largest groups were represented by companies with 1–4 employees (22%), 1,000 or more employees (13.6%), and 100–249 employees (13.6%).

Small employers' expectations increased 0.7 points ahead of Q4 while large employers' expectations decreased 4.4 points. Despite the drop in expectations from large employers, they still remain more optimistic than



small employers, and both remain above neutral. The overall index for small employers increased to 52.7 compared to 53.4 for large employers. Large employers' expectations for sales and profits sank nearly 8 points from Q3 to Q4.

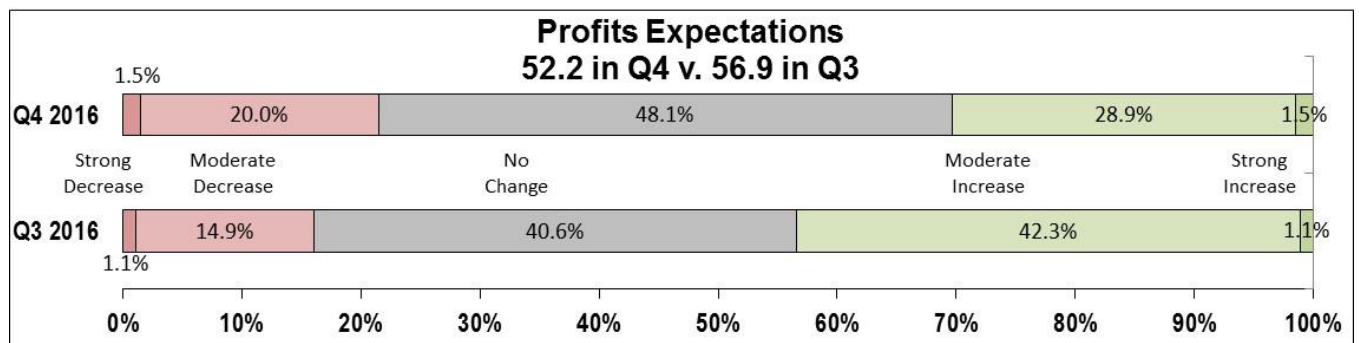
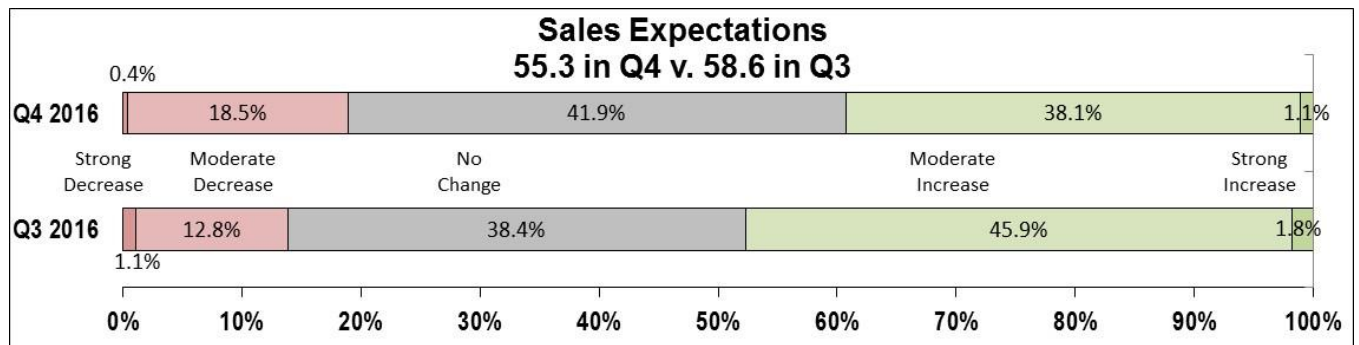
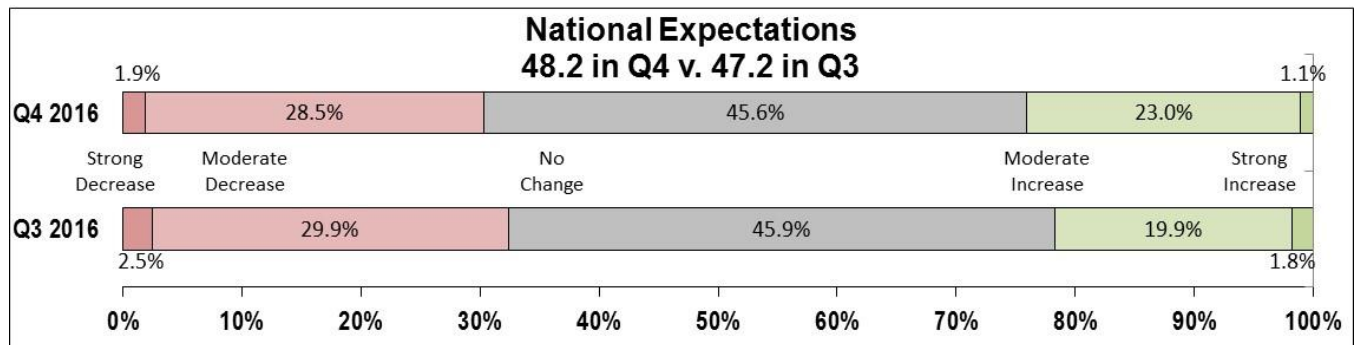
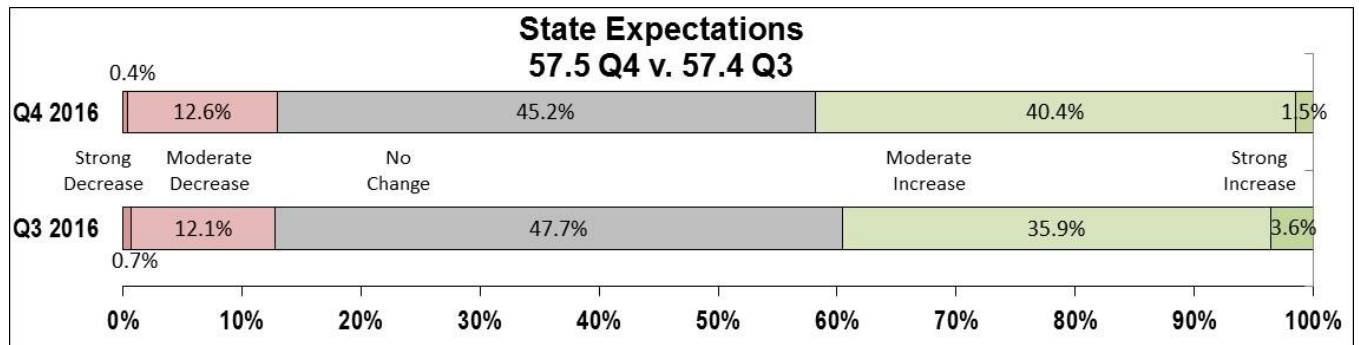
More than 88% of survey respondents work at a long-standing company that has been in business for more than 10 years.

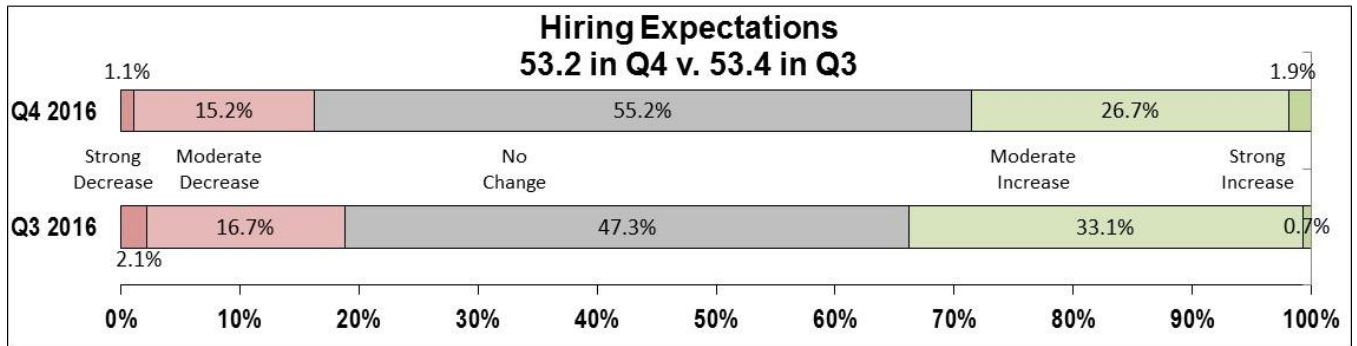
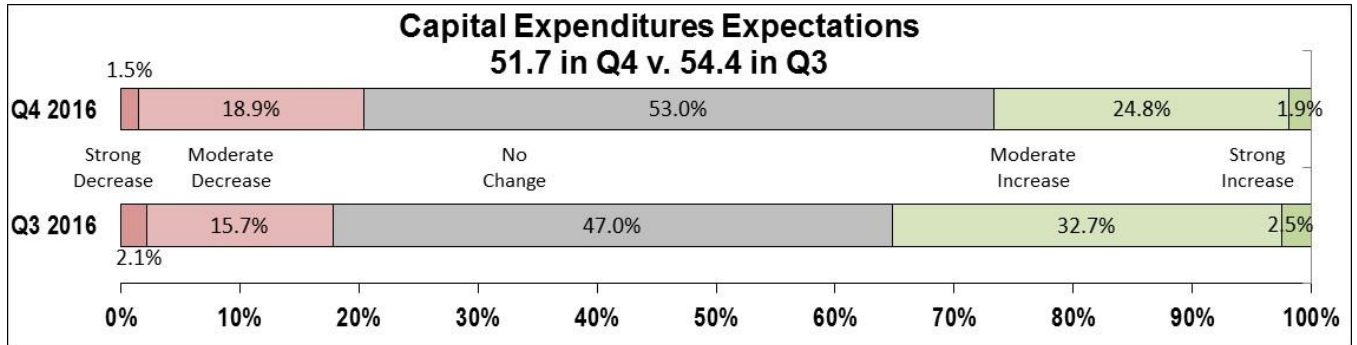


While responding panelists represent nearly every industry in

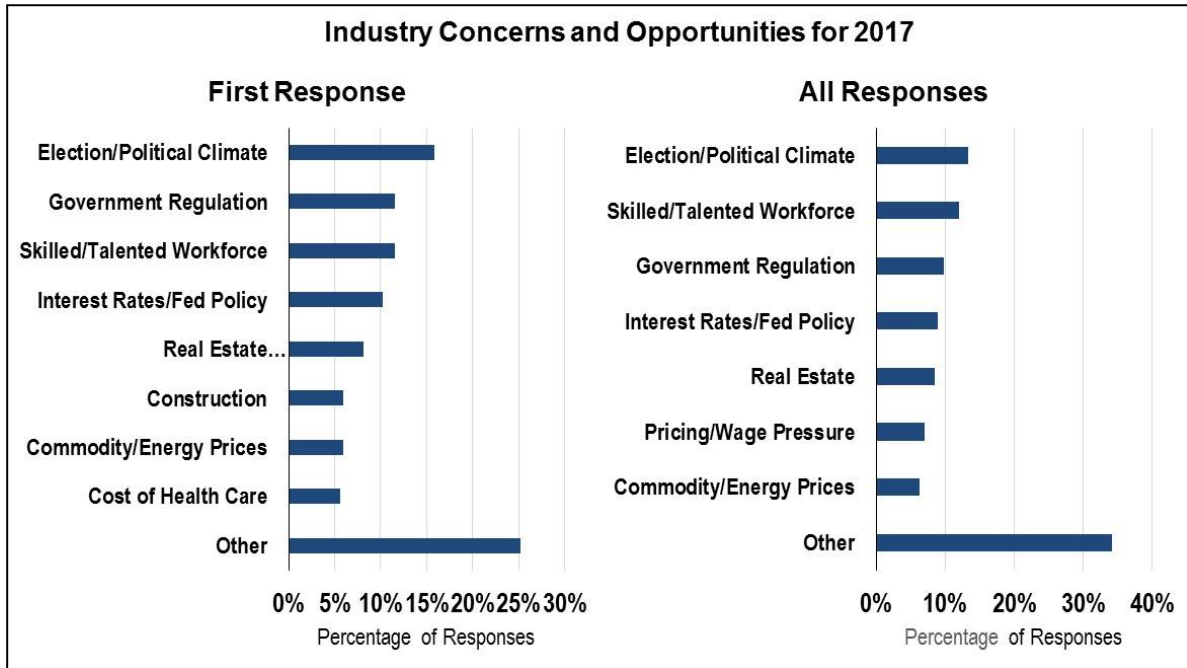
the state, the largest percentage of respondents to the Q4 survey were: Professional, Scientific, and Technical Services (21.2%); Public Administration (12.9%); and Finance and Insurance (15.5%).

Distribution of Expectations in Q3 2016 and Q4 2016





Industry Opportunities or Concerns Looking Ahead to 2017



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