LBCI LEEDS BUSINESS CONFIDENCE INDEX

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Leeds Business Confidence Rebounds Ahead of Q1 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 Q1 2018 the index is at 59.5 (up from 56.5 in Q4) and remained steady ahead of Q2 2018. A total of 240 qualified panelists responded to the survey.

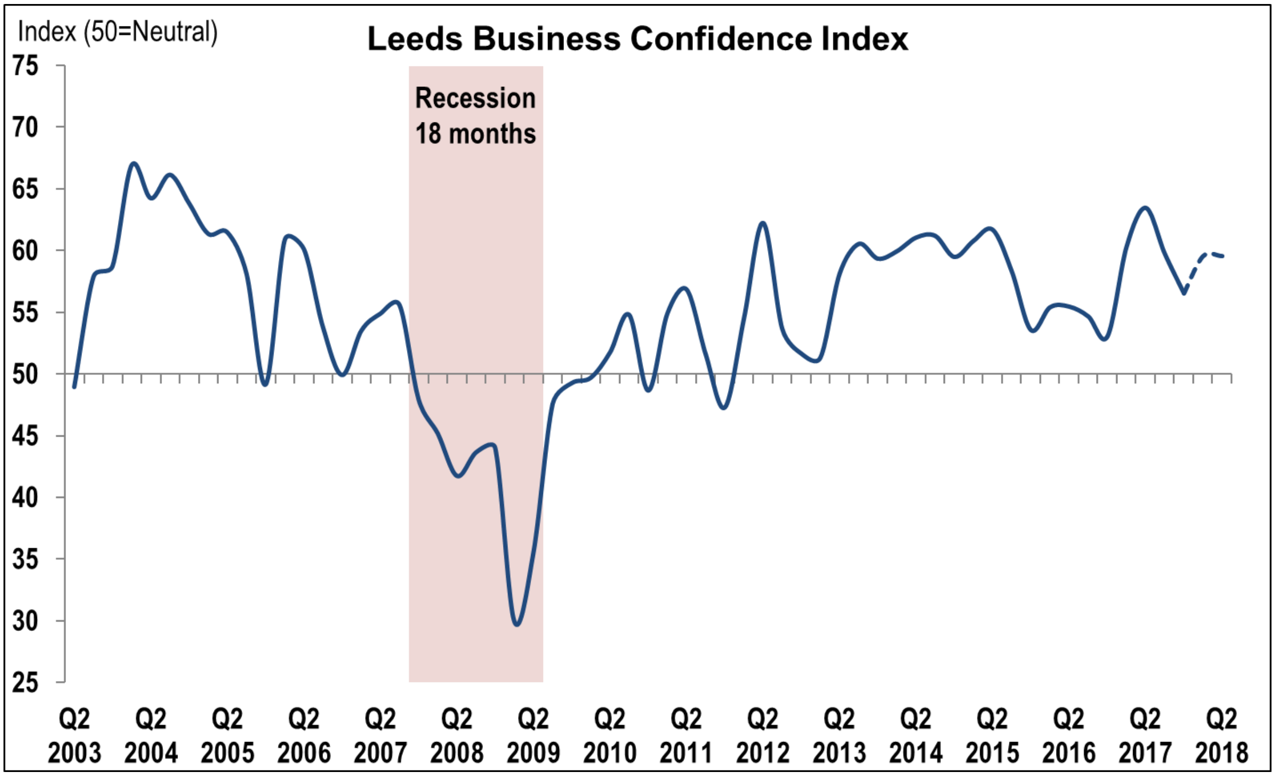
Leeds Business Confidence Index

Component	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Change	
						Quarterly	Annual
State Economy	62.8	67.0	60.9	58.8	58.2	▼	▼
National Economy	61.3	63.9	54.6	51.4	58.2	▲	▼
Industry Sales	59.8	64.3	62.4	58.5	61.6	▲	▲
Industry Profits	59.4	62.8	61.2	57.6	60.6	▲	▲
Industry Hiring	59.5	61.7	59.7	57.1	59.3	▲	▼
Capital Expenditures	59.1	61.0	59.5	55.8	59.3	▲	▲
LBCI	**60.3**	**63.4**	**59.7**	**56.5**	**59.5**	▲	▼

- Business confidence pivoted higher for ahead of Q1 2018, and remained unchanged looking ahead to Q2 2018.
- All six individual components of the LBCI remain in positive territory (above 50) ahead of both Q1 2018 and Q2 2018.
- All components of the LBCI rose ahead of Q1 2018, with the exception of the state economy overall, which recorded a modest pullback.
- State and national economic expectations converged in Q1, indicating business leaders' expectations that the Colorado economy is less likely to outperform the nation.
- Among other issues, respondents noted little impact of the minimum wage increase on their business. Likewise, most companies indicated little substitution of machinery for workers.
- The LBCI's positive standing is consistent with Colorado's continued employment growth, real GDP expansion, rising personal incomes, and other macroeconomic indicators.

Summary – Expectations Pivot Higher ahead of Q1

The LBCI rose ahead of Q1 2018, and remained steady ahead of Q2 2018. The overall index remains comfortably in positive territory (above 50). Expectations for Q1 2018 are up to 59.5 (a 3-point increase from last quarter), but slipped 0.8 points from a year ago. Looking further ahead to Q2 2018, the index remained flat compared to the prior quarter but decreased year-over-year, dropping by 3.9 points. All six individual components of the index also remain in positive territory, and with the exception of state expectations, each component of the index improved. Expectations about the national economy recorded the greatest jump, while state expectations recorded the only decline.

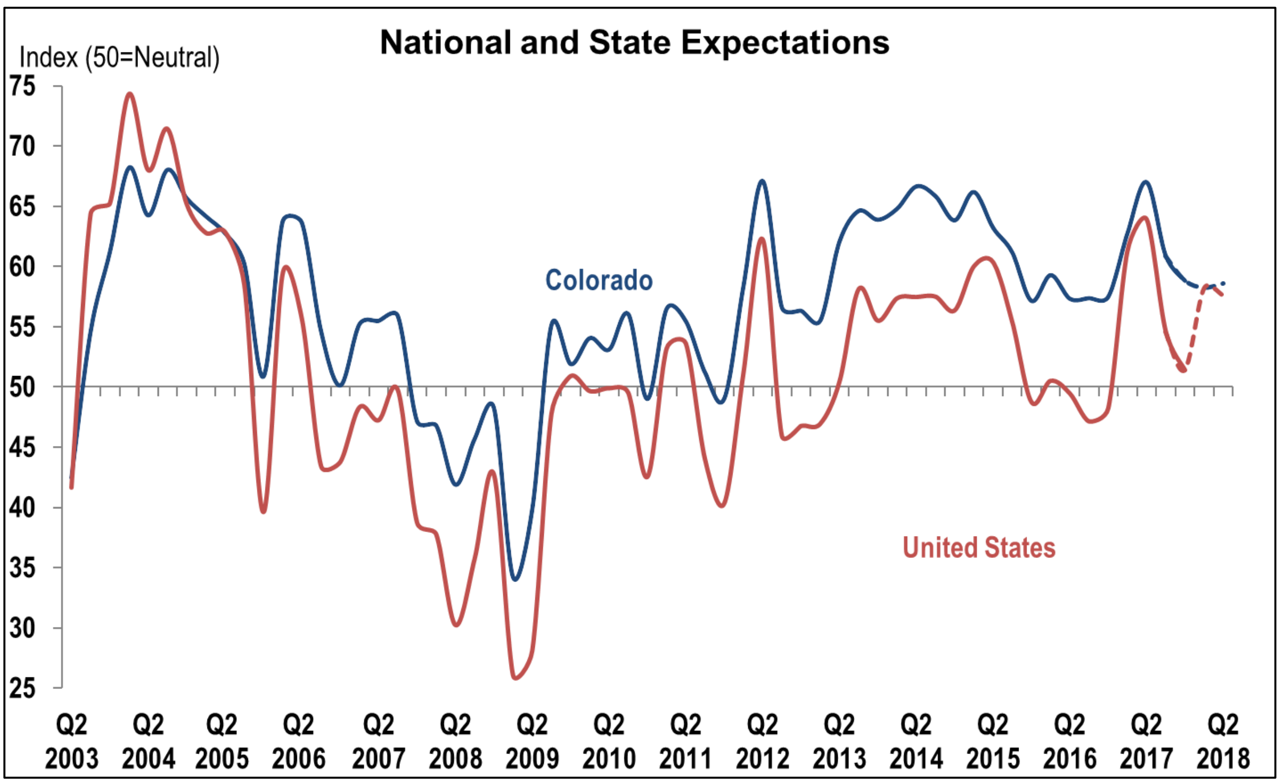


National real gross domestic product (GDP) continued to grow at a 3.2% seasonally adjusted annual rate (SAAR) in Q3 2017. Personal consumption expenditures slowed, gross private domestic investment accelerated, and net exports improved for the quarter, while government expenditures grew modestly. In 2016, GDP grew 1.5%, following the previous year's increase of 2.9%; analysts project accelerating growth in 2017 and 2018. 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 3.8% SAAR in Q2 2017. Colorado accounted for 1.8% of total U.S. GDP in Q2 2017.

National and State Economies — Continued Neutral Expectations

Expectations for both the national economy and state economy remained positive ahead of Q1 and Q2 2018 as the two indices converged. National expectations increased from 51.4 in Q4 to 58.2 ahead of Q1 and 57.6 ahead of Q2 2018. State expectations fell from 58.8 in Q4 to 58.2 ahead of Q1 and 58.6 ahead of Q2 2018. This marks the first quarter since 2005 that expectations for the Colorado economy have not been higher than those for the nation in panelists' view. While Colorado is expected to outpace the nation in economic growth in 2018, this demonstrates the view that the state is on a slower growth path compared to the recent past. As well, this survey period overlapped the tax bill vote, which may have boosted expectations for national economic growth.

Panelists' expectations for both the state and national economies maintained above-neutral outlooks. For the state economy, more respondents (39.2%) believe that the state economy will expand in Q1 than expect a decline (9.6%). Over half (51.3%) remain neutral. Marking a strong shift to positive expectations for the national economy, 46.2% of respondents expect an increase, while 17.6% anticipate a decrease (36.3% are neutral).



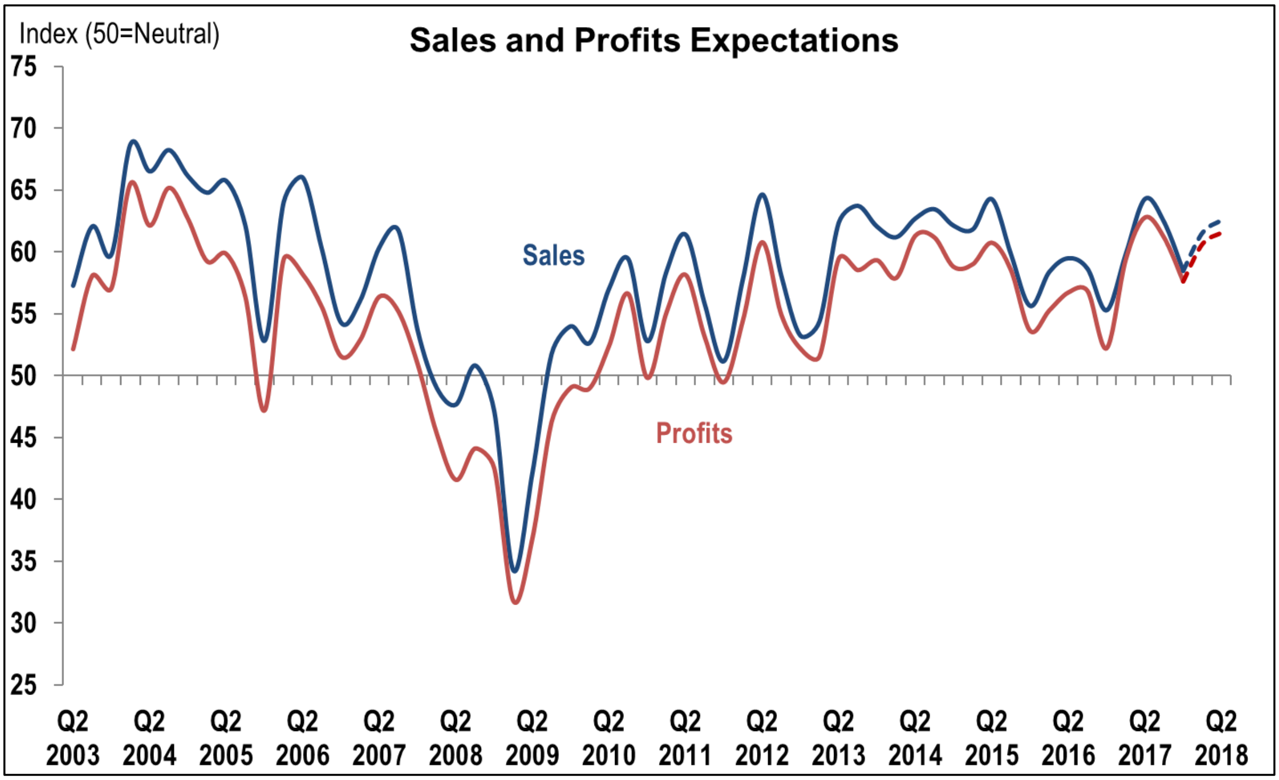
U.S GDP grew at 3.2% SAAR in Q3 2017, an increase in the growth rate from the prior quarter's rate of 3.1%. The BEA reported:

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

Colorado's Q2 2017 real GDP grew at an SAAR of 3.8%. Quarter-over-quarter, the Arts, Entertainment, and Recreation; Information; and Mining industries increased by the largest percentage, while the Information; Mining; and Retail industries increased by the greatest dollar amount.

Sales and Profits — Outlook Moves More Positive

The sales and profits expectations ahead of Q1 2018 were the highest of the six components of the LBCI in the current survey. Sales expectations moved up 3.1 points ahead of Q1 2018; profits expectations increased 3 points.



The profits index increased from 57.6 in Q4 2017 to 60.6 head of Q1 2018 and 61.5 ahead of Q2 2018. Respondents maintained an overall positive outlook, with 54.6% expecting a moderate to strong increase. Negative expectations decreased slightly from 16.3% of respondents in Q4 to 15.1% in Q1.

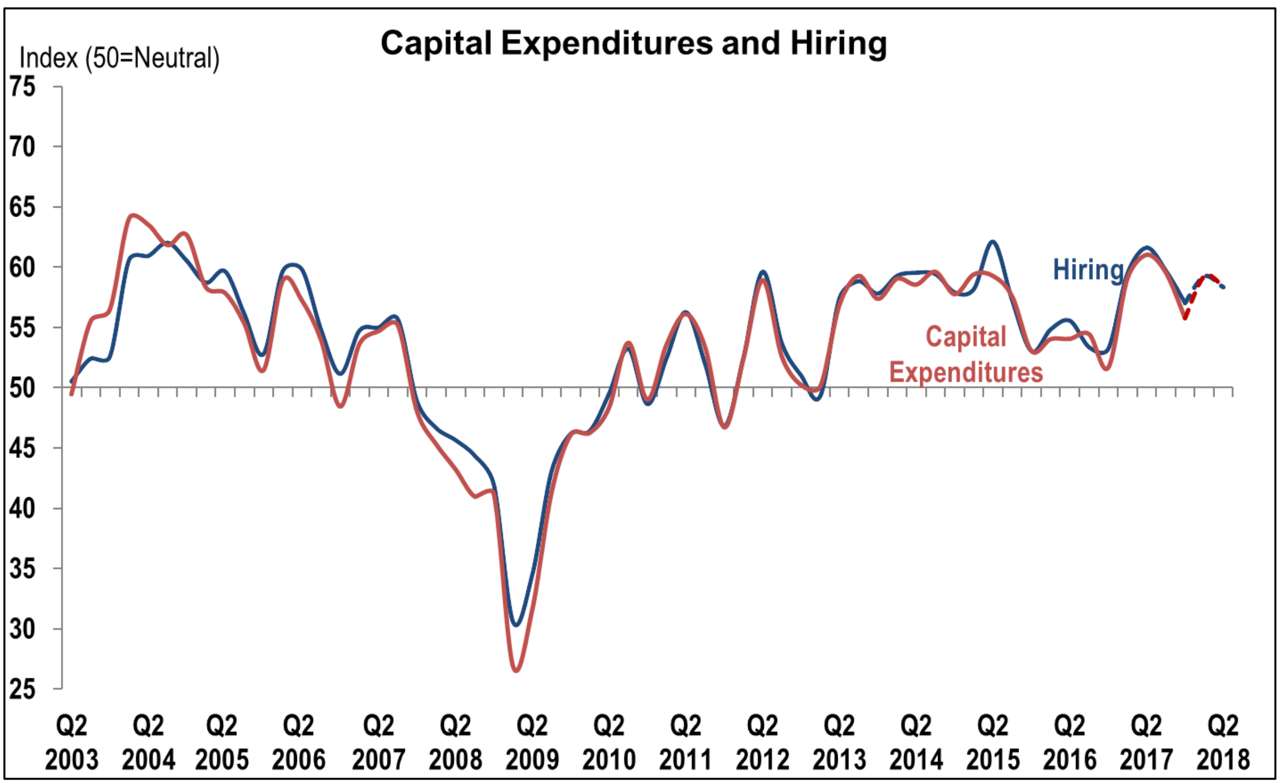
The sales index increased from 58.5 in Q4 to 61.6 ahead of Q1 and 62.6 ahead of Q1 2018. In Q1, 55.5% of respondents expect increasing sales, while 32.5% expect a flat (neutral) quarter and 12.1% expect a decrease.

According to the Institute for Supply Management, the manufacturing index in November 2017 had a modest 0.5 percentage point decrease from October 2017. With a reading of 58.2, the November manufacturing index is 1.1 points above the 12-month average and 0.8 points above the year-to-date average for 2017. The nonmanufacturing index also fell in November 2017 by 2.7 percentage points from October, but remained 0.4 points above the average for the past 12 months.

Personal incomes continued to grow in Colorado in Q3 2017. According to the BEA, Q3 2017 Colorado personal income rose 0.5% from the preceding quarter, with a strong increase of 2.9% year-over-year. Colorado ranked 13th in the nation for year-over-year growth, but fell to 42nd for quarterly growth. Per capita personal income increased a modest 0.1% in the state from Q2 2017 to Q3 2017 and 1.2% year-over-year. Colorado ranked 49th among states for quarterly growth in per capita personal income and 36th among all states in year-over-year growth in Q3 2017. Prices continue to increase, putting more pressure on personal income, wages, and salaries. According to the Bureau of Labor Statistics, prices increased 3.1% year-over-year in the first half of 2017 in the Denver-Boulder-Greeley region in Colorado. Core inflation (which excludes energy and food) increased 2.7% and shelter increased 5.3% during the same period.

Capital Expenditures and Hiring Plans — Spurt of Optimism

The outlook for both capital expenditures and hiring increased ahead of Q1, with capex expectations rebounding more and joining hiring expectations at 59.3. Capital expenditures expectations increased 3.5 points ahead of Q1 2018—the second largest increase among the six components of the index for the quarter. Hiring expectations increased by 3.5 points to settle at 59.3 ahead of Q1 2018.



The capital expenditures index increased from 55.8 in Q4 2017 to 59.3 ahead of Q1 2018 and 58.5 ahead of Q2. Less than half (44.6%) of respondents expect a moderate to strong increase in capex compared to 46.7% who project no change and 8.8% who project a decrease in investment.

In Colorado, an indicator for capital expenditures is infrastructure. According to Dodge Data and Analytics, the value of construction in Colorado was down 3% through November 2017 compared to the same period one year ago. Through November, nonbuilding and residential were essentially unchanged year-over-year, while nonresidential was down 8%. However, the Colorado Business Economic Outlook committee expects these figures to be revised up in coming months. Residential building permits in Colorado were up 10.5% for the year through November (16.6% increase for single family, 2.8% increase for multifamily), according to the U.S. Census Bureau.

The hiring index increased from 55.8 in Q4 to 59.3 ahead of Q1 2018 and 58.4 ahead of Q2. In Q1, 45.5% of respondents expect an increase in hiring, while 45.8% remain neutral (no change) and 8.7% expect a decrease.

Employment continues to grow in the United States. In November 2017, jobs increased 1.4% year-over-year. For all nonfarm sectors, 228,000 jobs were added in November. Year-to-date through November, the average number of jobs added per month totaled 174,000, down from the average of 190,000 for the same period a year ago. The unemployment rate in the United States stood at 4.1% in November.

As of November 2017, Colorado continued to exhibit strong employment growth. Jobs increased 1.7% year-over-year in November, an increase of 45,300 year-over-year—the 13th-fastest rate in the country. The state unemployment rate continues to outperform the nation as a whole. In November 2017, the unemployment rate was just 2.9%—a rate well below the national average. Year-over-year employment growth was recorded for six of Colorado's seven metropolitan areas. The Greeley MSA recorded the fastest year-over-year growth (4%), followed by the Fort Collins-Loveland MSA (2.7%) and the Boulder MSA (2.4%). The Denver-Aurora-Broomfield and Colorado Springs MSAs grew by 1.6% and 0.9%, respectively. The Pueblo MSA increased 0.5% while the Grand Junction MSA posted a 0.5% decline (however, Grand Junction is projected to be revised up). Colorado industries with the greatest absolute job growth in November were Professional and Business Services (13,700 jobs) and Leisure and Hospitality (7,200 jobs). Mining recorded modest year-over-year job losses; however, the Colorado Department of Labor and Employment has indicated expected upward revisions to this sector and to state employment overall.

Disruptive Impacts on Labor Market?

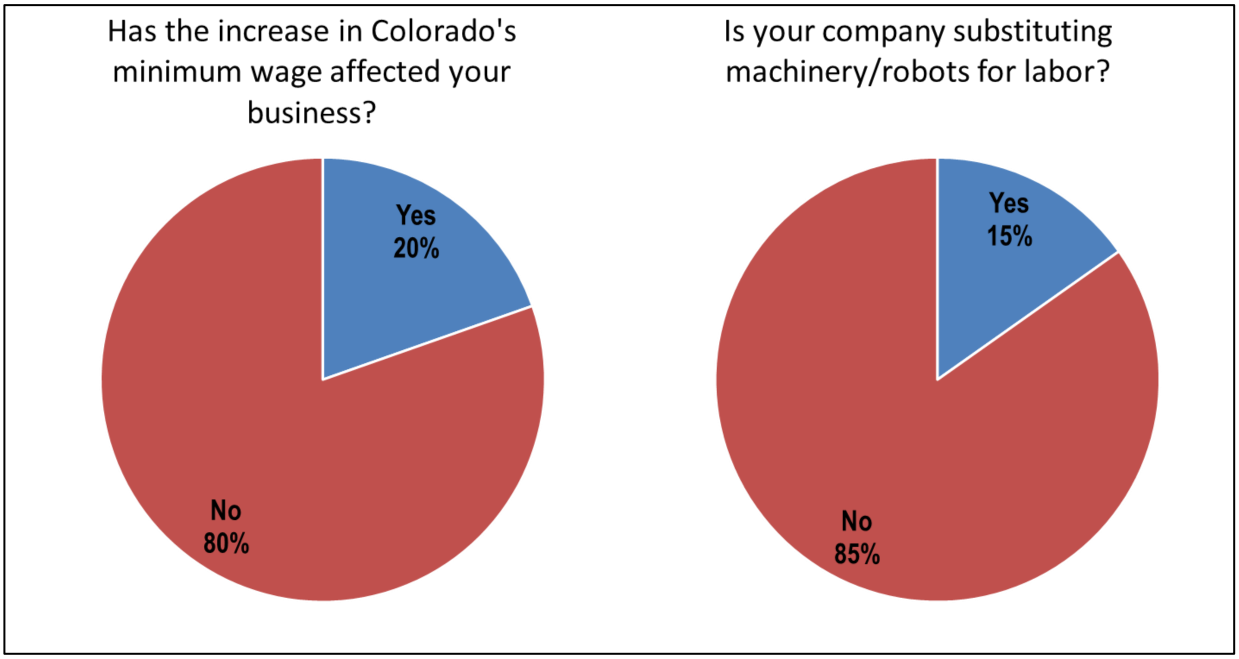
Panelists were asked two questions about potential disruptive impacts on the labor market—an increased minimum wage and the substitution of machines for labor.

Impact of the Higher Minimum Wage

On January 1, 2017, Colorado's minimum wage increased from $8.31 per hour to $9.30 per hour, an increase of $0.99, or 11.9%. On January 1, 2018, the rate increases again to $10.20, an increase of $0.90 or 9.7%. Reflecting on the increase in Colorado's minimum wage, 80% of panelists responded that the increase has not had an effect on their business. Of the 20% of respondents that did note an effect, they described higher costs, smaller profits, reduced employment, and cautious hiring.

Impact of Machines

In 2017, there was often talk of machines, artificial intelligence, or augmented intelligence replacing the workforce. Panelists were asked if their companies are substituting machines/robots for labor. Most respondents (85%) indicated that is not the case, and only 15% reported such a substitution. Respondents described IT, software, GIS, and automated manufacturing equipment among the substitutes.

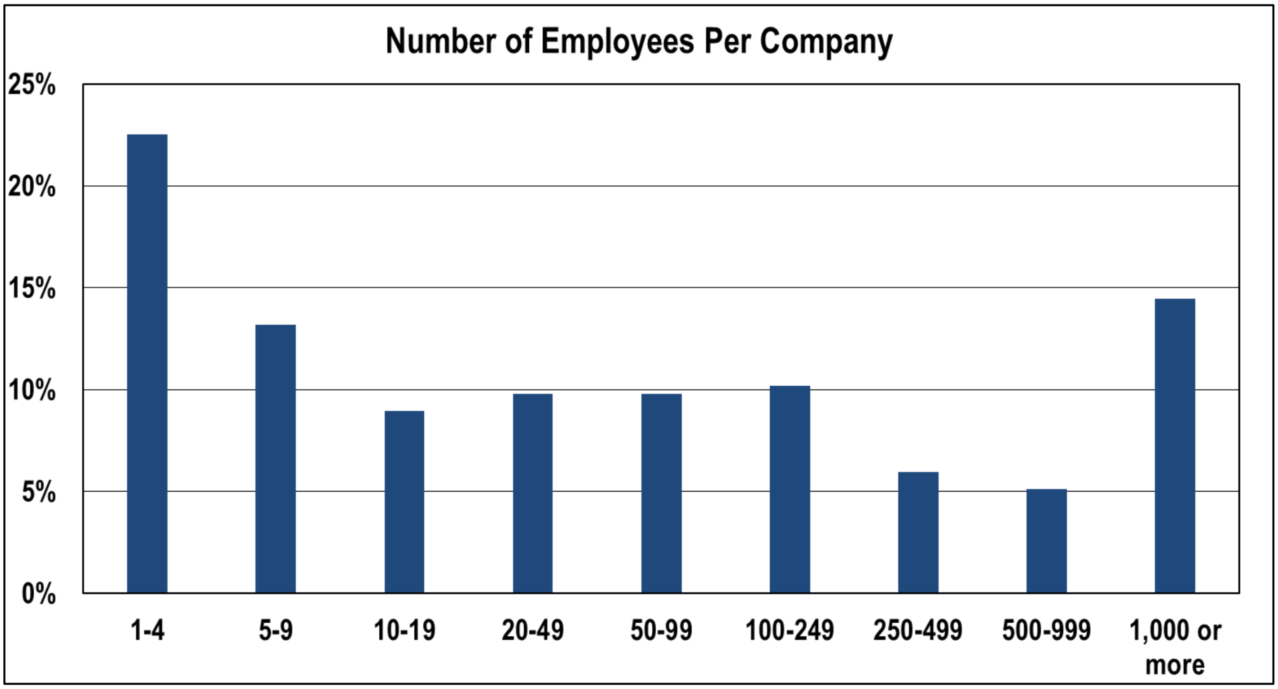


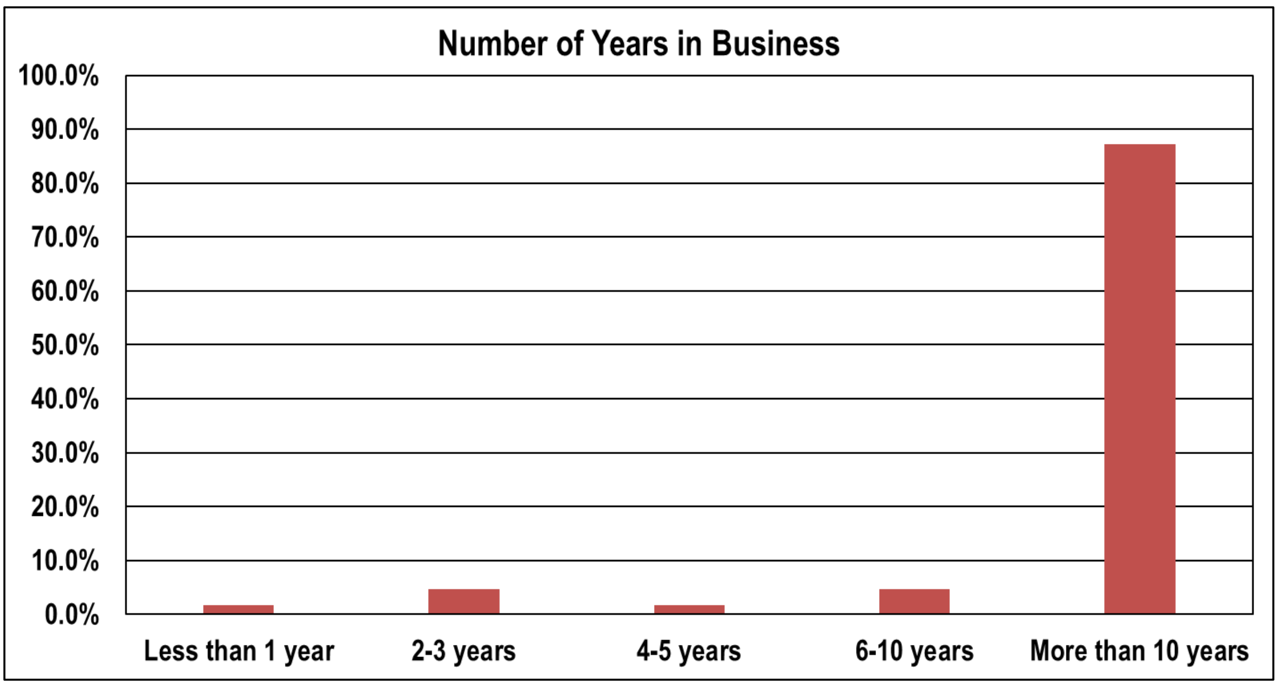
Expectations by Company Size and Length of Time in Business

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 (54.5%) of survey respondents work for companies with fewer than 50 employees. The three largest groups were represented by companies with 1–4 employees (22.6%), 1,000 or more employees (14.5%), and 5–9 employees (13.2%).

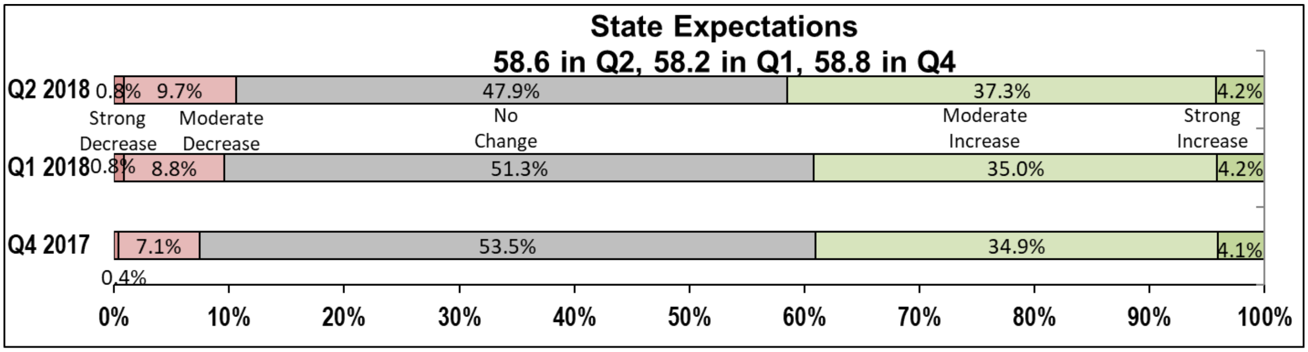
Small employers' expectations increased 2.7 points ahead of Q1, and large employers' expectations increased 3.3 points. Small companies were collectively more optimistic than large companies (60.3 versus 58.9) ahead of Q1. Over 87% of respondents work at a long-standing company that has been in business for more than 10 years.

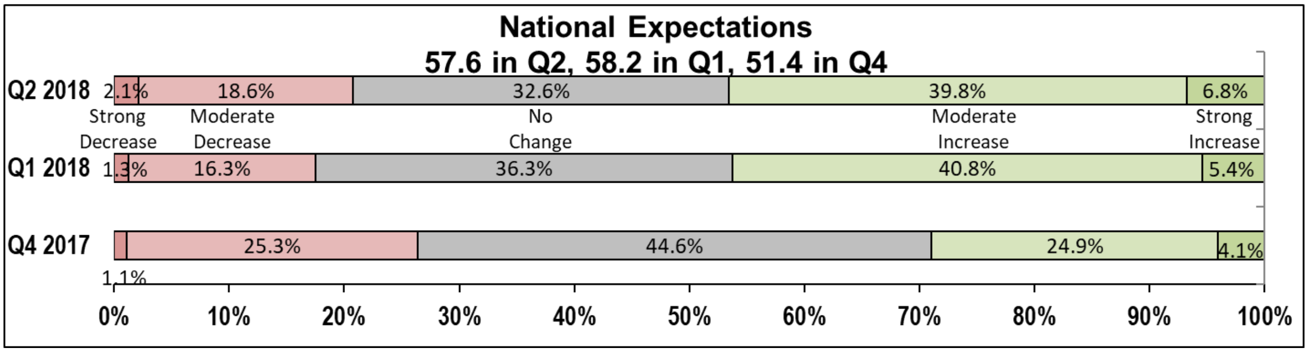
While responding panelists represent every industry in the state, the largest percentage of respondents to the Q1 survey were: Finance and Insurance (19.3%); Professional, Scientific, and Technical Services (16.4%); Management of Companies and Enterprises (13%); and Other Services (except Public Administration) (12.2%).

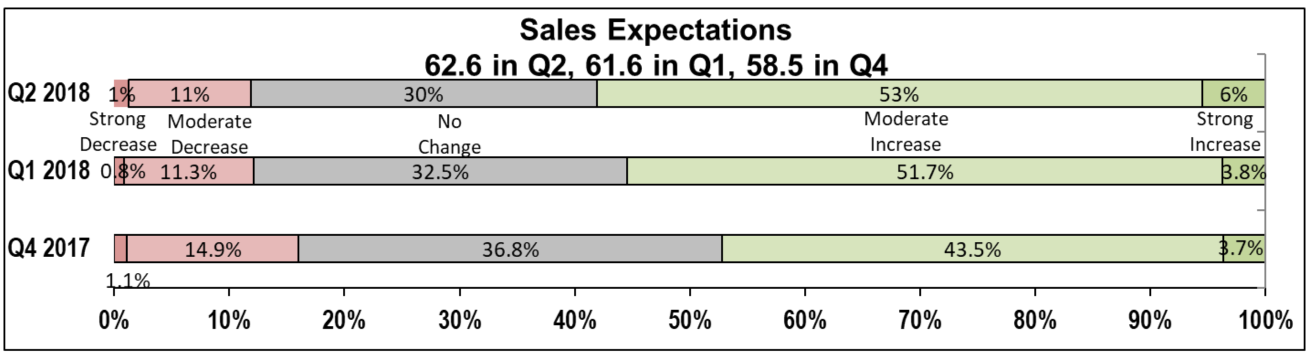

Number of Employees Per Company
25%
20%
15%
10%
5%
0%
1-4
5-9
10-19
20-49
50-99
100-249
250-499
500-999
1,000 or more

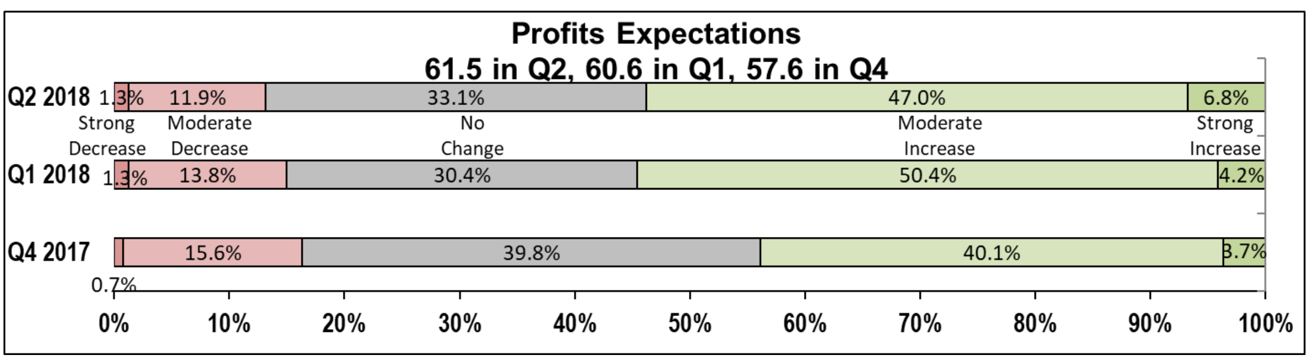

Number of Years in Business
100.0%
90.0%
80.0%
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
Less than 1 year
2-3 years
4-5 years
6-10 years
More than 10 years

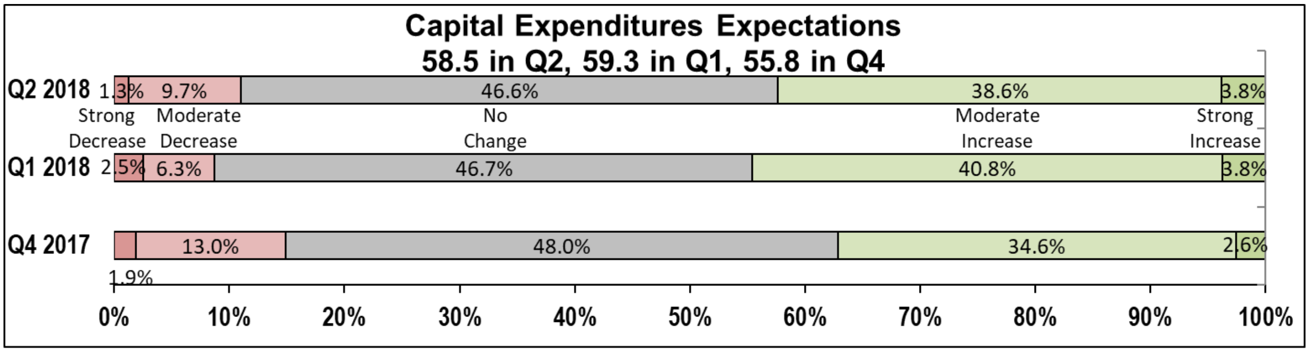
Distribution of Expectations in Q2 2018, Q1 2018, and Q4 2017

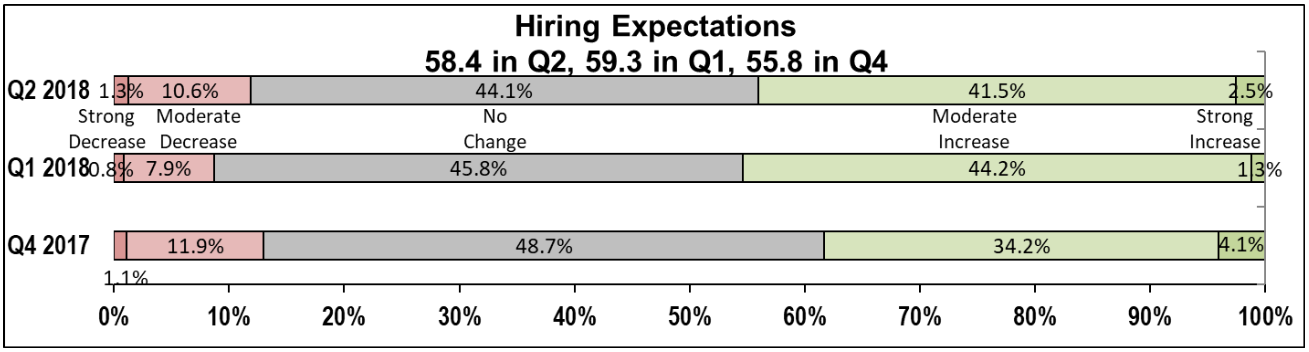












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For more information about the LBCI and to become a panelist, go to:
www.colorado.edu/business/brd