LBCI LEEDS BUSINESS CONFIDENCE INDEX

First Quarter 2019
Volume 12, number 1
colorado.edu/business/brd

Leeds Business Confidence Turns Bearish Ahead of Q1 2019

Colorado business leaders expressed caution ahead of Q1 2019, consistent with signals observed in the financial markets and expressed by the Federal Reserve. 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 2019 the index fell to 50.1 and remained there (50) looking to Q2 2019. However, the Q1 negative outlook is isolated to the national economy with the other components of the index lower but positive. A total of 234 qualified panelists responded to the survey from December 3 through December 20.

Leeds Business Confidence Index

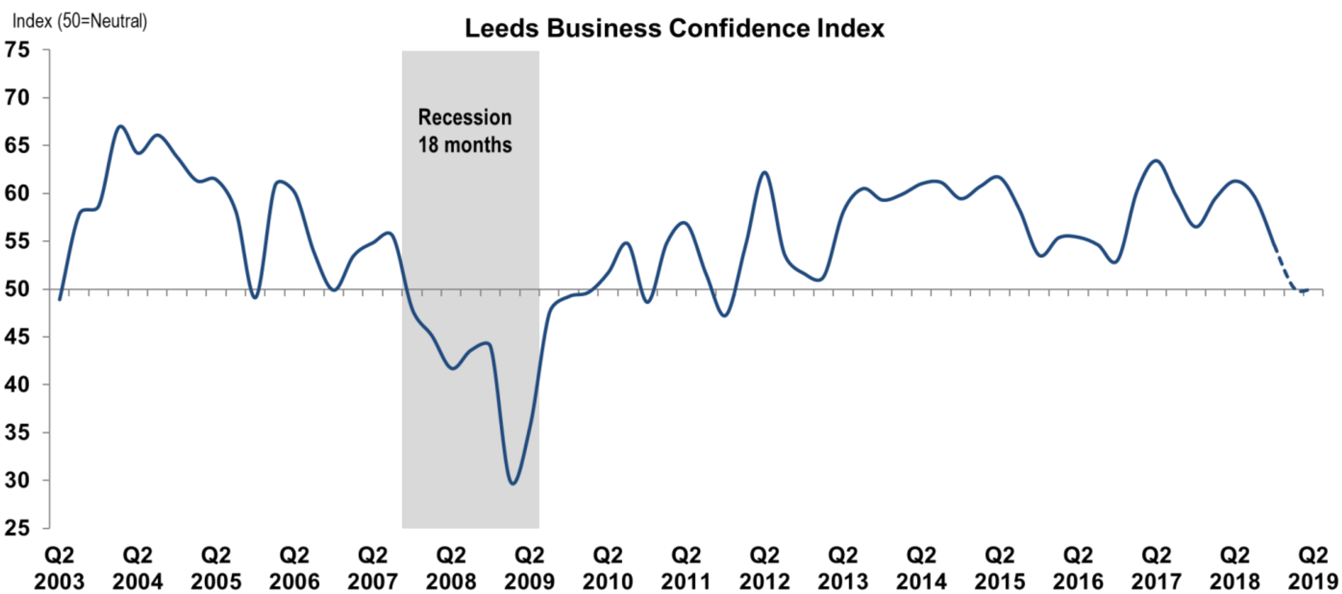
Component	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Change	
						Quarterly	Annual
State Economy	58.2	62.1	63.4	55.3	51.0	▼	▼
National Economy	58.2	58.1	57.0	50.1	42.5	▼	▼
Industry Sales	61.6	64.3	61.3	56.1	53.5	▼	▼
Industry Profits	60.6	62.5	59.8	56.4	51.0	▼	▼
Industry Hiring	59.3	60.5	59.5	55.3	51.7	▼	▼
Capital Expenditures	59.3	60.5	56.9	54.4	50.9	▼	▼
LBCI	59.5	61.3	59.6	54.6	50.1	▼	▼

- Business confidence continued a relatively steep drop ahead of Q1, and stayed depressed looking further to Q2.
- Five of the six individual components of the LBCI remain in positive territory (above 50) ahead of Q1 2019, but national economy expectations fell sharply, below 50.
- Panelists are most optimistic about industry sales expectations, but remained most concerned about the national economy as it recorded the lowest confidence of the index components ahead of Q1 2019 and Q2 2019 on the heels on a bear stock market, rising interest rates, trade concerns, and uncertainty surrounding a government shutdown.
- While the Colorado economy generally reaccelerated in 2018, softer growth is projected for 2019.
- Although wage pressures have been higher in Colorado than they have been nationally, most surveyed business leaders expressed no impact from the state's rising minimum wage, either because they are already paying above minimum wage, or because the nature of their businesses does not lend to minimum wage occupations. This high percentage partially reflects the heavily urban representation in the survey panel, as well as the industry mix.
- Of the companies directly impacted by the rising minimum wage in 2019, the most frequently cited business impacts included reduced profits, higher prices, smaller staff, and reduced shifts.
- Colorado continues to experience employment growth, real GDP expansion, increasing personal income, and growth in other macroeconomic factors. However, the forecast for the economy in 2019 is slower than in 2018. The overall tempered reading of the LBCI is consistent with these trends.

Summary – Notable Dip Ahead of Q1

After falling 5 points ahead of Q4, the LBCI continued to slide ahead of Q1 2019, decreasing by 4.5 points. Looking further ahead to Q2 2019, the index flattened, remaining nearly unchanged from Q1. The overall index stayed in positive territory (above 50); however, Q1 saw the 10th-largest quarterly drop and 5th-largest annual drop in confidence in the 64 quarters the Leeds School has conducted this survey. The Q1 reading is the lowest since Q4 2011.

Expectations for Q1 2019 fell to 50.1—a 9.4-point decrease from a year ago. This value is below the index average of 54.9 points over the 16 years of the survey. Although all six components fell from Q4 to Q1, only the national expectations dipped into negative territory. Looking further ahead to Q2 2019, expectations remained nearly unchanged (-0.1 points) from the previous quarter and fell 11.3 points since Q2 2018.

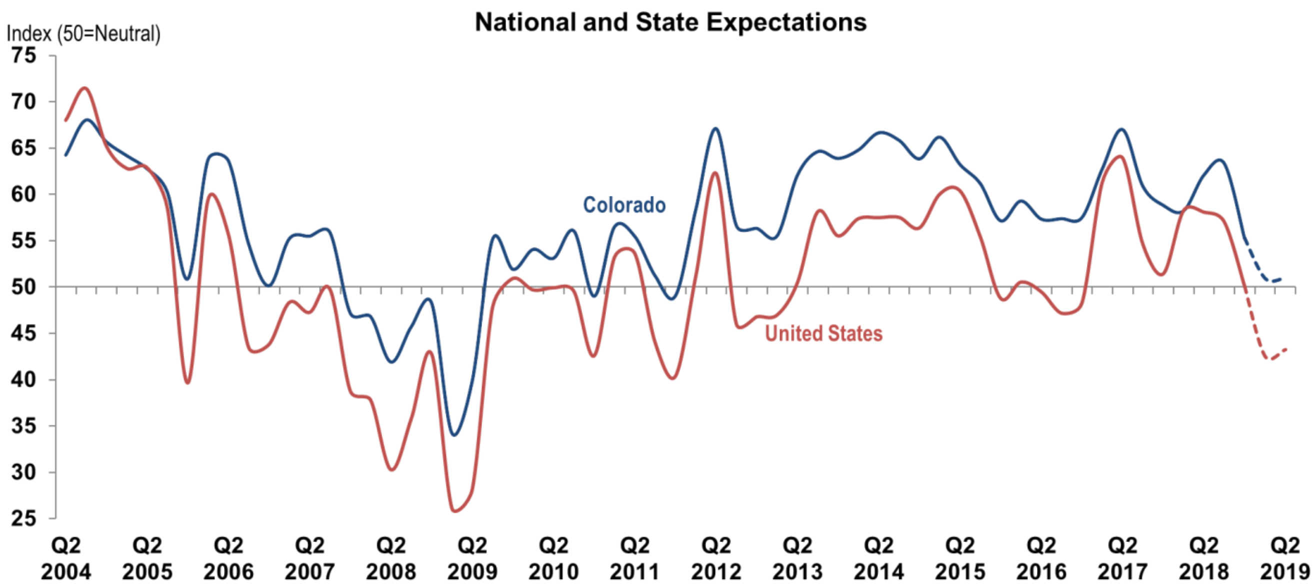


National real gross domestic product (GDP) grew at a 3.4% seasonally adjusted annual rate (SAAR) in Q3 2018 according to the third estimate from the Bureau of Economic Analysis (BEA). Personal consumption expenditures grew 3.5%, government spending increased 2.6%, but private domestic fixed investment slowed to 2.5%. Imports significantly outpaced the growth in exports, further degrading the trade deficit. Expectations for 2018 real GDP growth remain under 3%. GDP has recorded positive growth for the seventh consecutive year according to the BEA. Colorado continued to experience positive real GDP growth, with 3.5% year-over-year growth in Q2 2018. Colorado accounts for 1.8% of total U.S. GDP.

National and State Economies — Panelists Expressing Caution

State expectations decreased from 55.3 in Q4 to 51.0 in Q1, and remained unchanged ahead of Q2. While the decreasing state perceptions track sentiment about the national economy, state expectations remain notably more positive, consistent with economic performance. National expectations recorded the lowest expectations in the index, falling below neutral to 42.5 ahead of Q1 2019, but recovered slightly ahead of Q2.

For the state economy, about a quarter (24.8%) of respondents believe that the state economy will grow faster in Q1, and 19.2% expect a slowing. The majority of panelists (56%) remained neutral on their outlook. On the national level, 17.9% of panelists expect an acceleration, while nearly half (47%) expect a slowing.



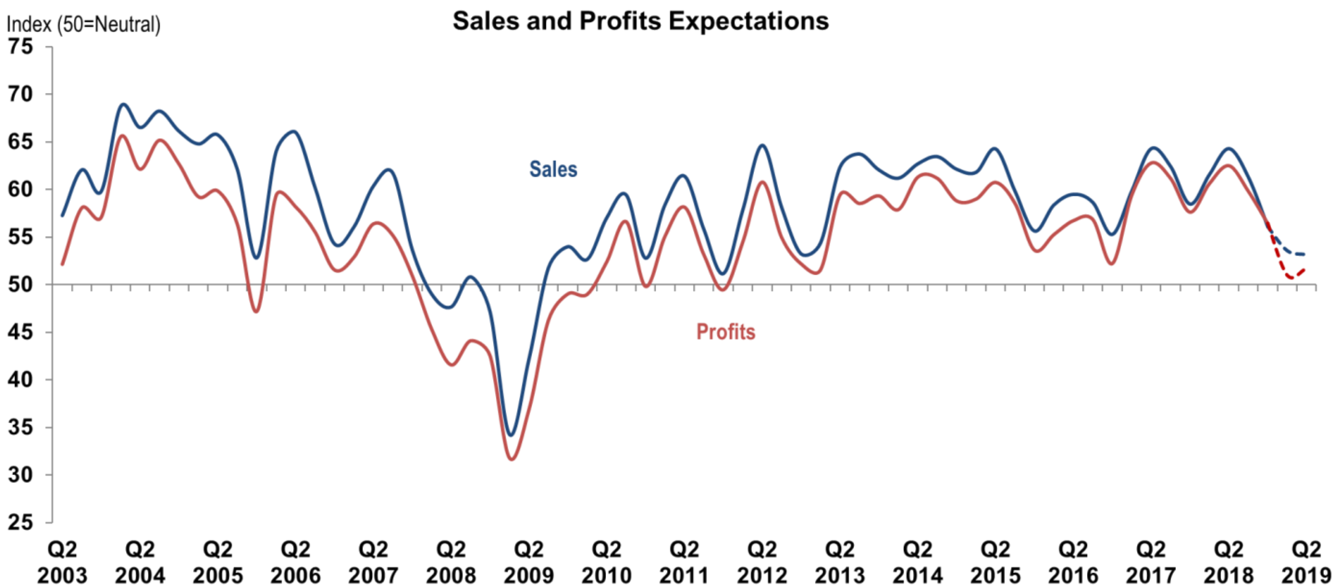
U.S GDP grew at 3.4% SAAR in Q3 2018 (second estimate), which is notably strong but a decrease in the growth rate from the prior quarter’s rate of 4.2%. The BEA reported:

> *The deceleration in real GDP growth in the third quarter primarily reflected a downturn in exports and decelerations in nonresidential fixed investment and in PCE. Imports increased in the third quarter after decreasing in the second. These movements were partly offset by an upturn in private inventory investment.*

Colorado’s Q2 2018 real GDP grew at an SAAR of 4.9% for the quarter and 3.5% year-over-year. Year-over-year, the largest percentage gains were recorded in the Information; Construction; and the Professional, Scientific, and Technical Services industries.

Sales and Profits — Outlook Slows

Sales and profits expectations fell 2.6 points and 5.4 points, respectively, from Q4 2018 to Q1 2019. Looking toward Q2 2019, the outlook for sales modestly decreased further—0.4 points—while the profits outlook improved slightly (0.7 points). The sales index stood at 53.5 in Q1, while profits was at 51. Sales expectations recorded the highest readings among the six components in Q1 2019. Looking ahead to Q2, sales expectations decreased to 53.1, while profits increased modestly to 51.7.



More than a third (36.7%) of panelists expect an increase in sales and 33.4% anticipate an increase in profits in Q1 2019, while 23.1% expect a decrease in sales and 29.9% expect a decrease in profits. Looking ahead to Q2 2019, sales expectations slip slightly, but the profits outlook increases.

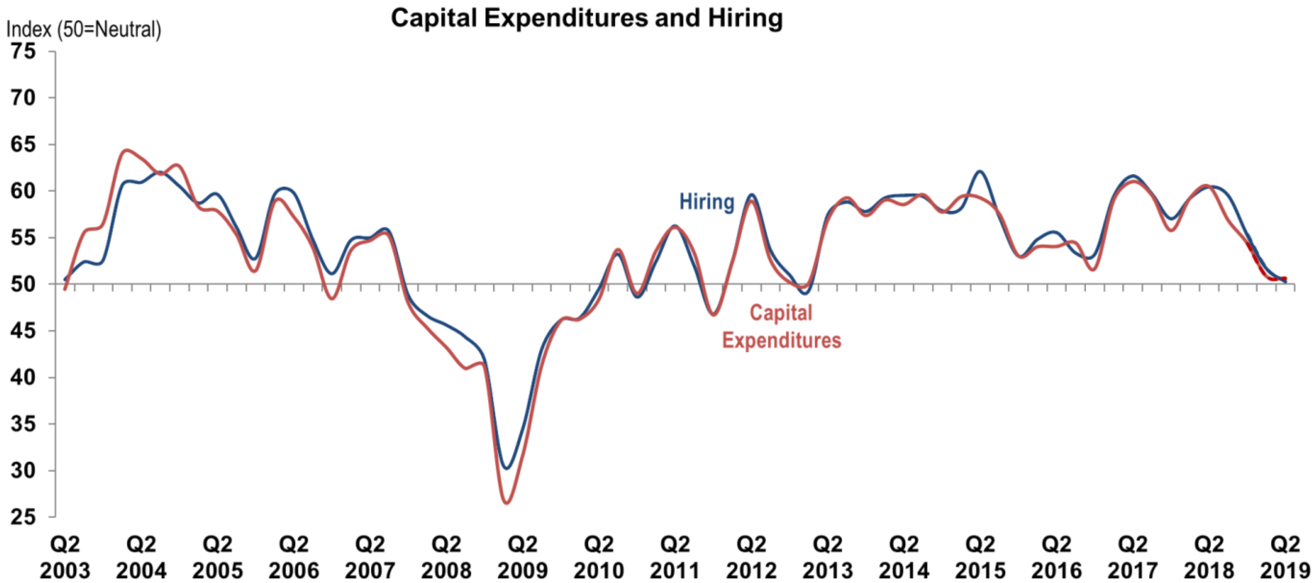
Sales and profits health largely depends on the strength of the consumer. Consumer confidence remains high—7.1 points above the value a year ago in November 2017—and has been at the highest levels since 2000. Personal consumption expenditures continue to exhibit strength (up 4% SAAR in Q3), and retail sales are up 5.4%.

B-to-B sales are a signal for sales and profits. Business fixed investment slowed in Q3, falling to 2.5% growth (SAAR) in Q3, and inventories grew. According to the Institute for Supply Management, the national manufacturing index in November 2018 was 59.3, which is higher than both the previous month's reading and just above the 12-month average. The nonmanufacturing index also increased to 60.7 in November.

Personal incomes continued to grow in Colorado in Q3 2018. According to the BEA, Colorado's personal income rose 1.3% in Q3 2018 from the preceding quarter, with a strong increase of 5.5% year-over-year, ranking the state 4th. Colorado had the 11th-highest per capita personal income in Q3 2018, at $57,079, and the state ranked 10th for per capita personal income growth.

Capital Expenditures and Hiring Plans — Both Down

The outlook for both capital expenditures and hiring fell ahead of Q1, decreasing 3.5 points and 3.6 points, respectively; the decline extended into Q2. Planned capital expenditures fell to 50.9 and hiring plans fell to 51.7 ahead of Q1 2019. Both decreased further looking ahead to Q2.



Only 28.6% of respondents expect an increase in hiring plans and 29.5% expect an increase in capital expenditures in Q1. The largest proportion of respondents anticipate no change (50.4% for hiring plans and 44.9% for capital expenditures). Looking ahead to Q2 2019, less than a third (28.8%) of panelists expect an increase in capital expenditures or hiring.

In Colorado, an indicator of capital expenditures is infrastructure. According to Dodge Data and Analytics, the value of construction in Colorado was up 20% through November 2018 compared to the same period one year ago. Through October, the value of residential building increased by 13%, and nonresidential building went up 22%. Nonbuilding increased by 37%. According to the U.S. Census Bureau, the total value of construction for the nation increased by 5.1% through October year-to-date.

U.S. job growth continued in November 2018, increasing 1.7% year-over-year. Nonfarm covered employment increased 155,000 from October to November. Year-to-date through November, the average number of jobs added per month totaled 206,000, up from the 11-month average of 183,000 for the same period a year ago. The unemployment rate in the United States remained around 3.7%, consistent with the year-to-date average unemployment rate of 3.9% through November 2018.

As of November 2018, Colorado continued to exhibit strong employment growth. Jobs increased 2.6% from November 2017 to November 2018, a gain of 69,100 year-over-year—the 8th-fastest rate in the country. The state unemployment rate continues to outperform the nation as a whole. In November 2018, the unemployment rate was 3.3% seasonally adjusted, 0.4 percentage points below the national average of 3.7%, ranking the state 15th-lowest in the country. Year-over-year employment growth was recorded in all of Colorado's seven metropolitan areas. The

Colorado Springs MSA recorded the fastest year-over-year growth (5%), followed by Fort Collins-Loveland (3.3%), Boulder (3.2%), Greeley (2.6%), Denver-Aurora-Lakewood (2.2%), Pueblo (1.3%), and Grand Junction (1.1%). Colorado industries with the greatest annual percent change in November were Natural Resources and Mining (14.3%) and Professional and Business Services (5.1%).

Inflation in Colorado has outpaced the nation for the past five years. However, it slowed in 2018. In the second half of 2017, prices were up 3.7% year-over-year in the state. In the first half of 2018, prices increased 3.2%. Price growth slowed to 2% year-over-year in November.

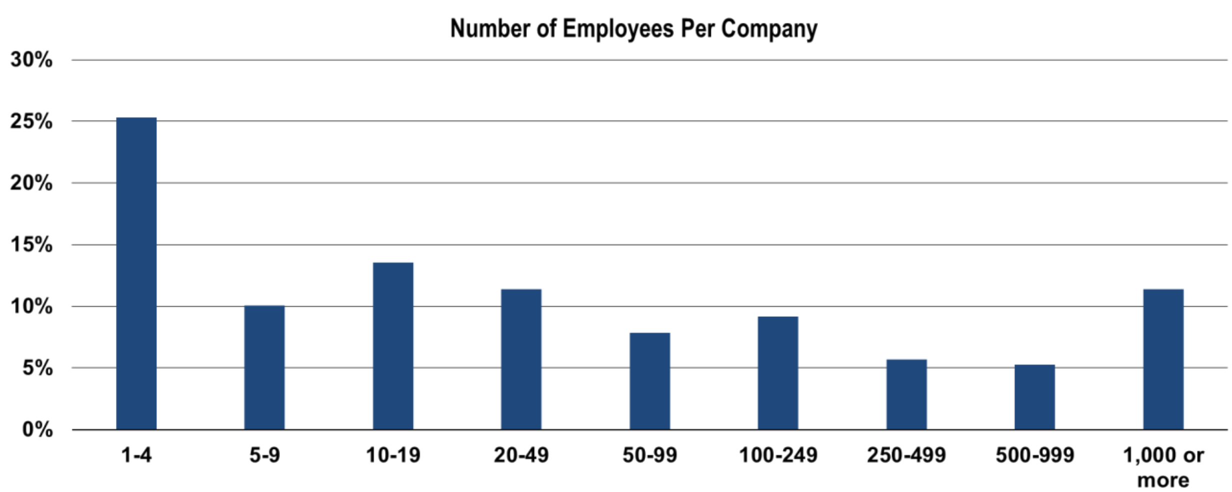
Rising Minimum Wage

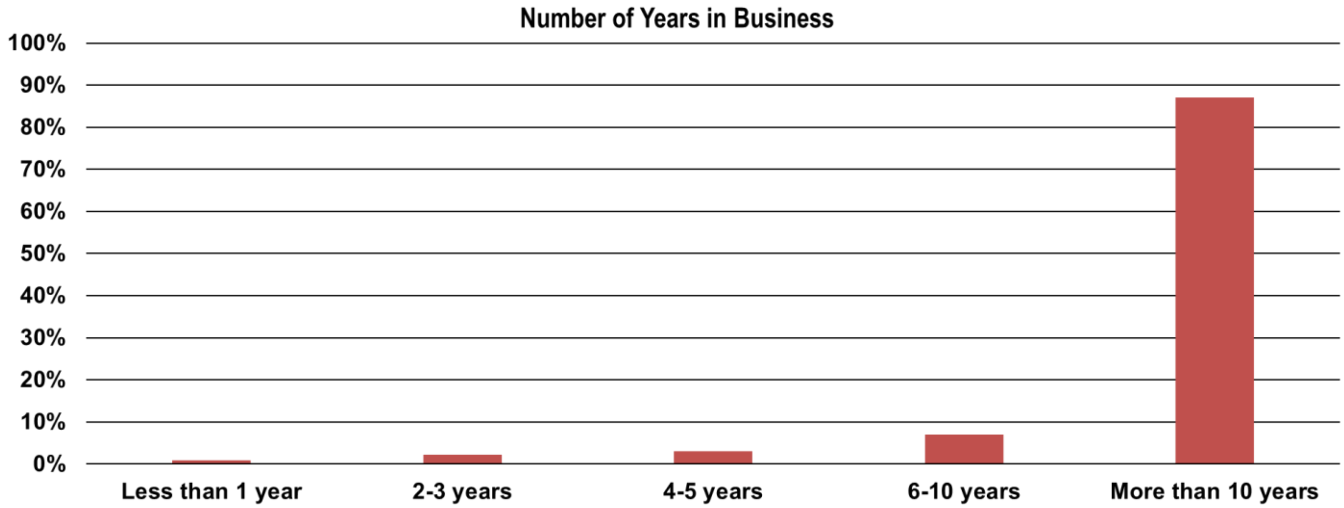
On January 1, 2018, the state minimum wage increased $0.90, to $10.20 per hour. On January 1, 2019, the rate increased another $0.90, to $11.10. Responding business leaders largely regarded the minimum wage increases as benign—87% of respondents reported the 2018 increase had no impact on their business either because they are already paying minimum wage or because their businesses generally do not have minimum wage occupations. A similar percentage (85%) anticipate the 2019 increase will have no impact on their business. This high percentage partially reflects the heavily urban representation in the survey panel, as well as the industry mix.

Mitigation strategies noted most often by business leaders included absorbing the cost from profits, increasing prices, decreasing staff, and reducing staff hours/shifts.

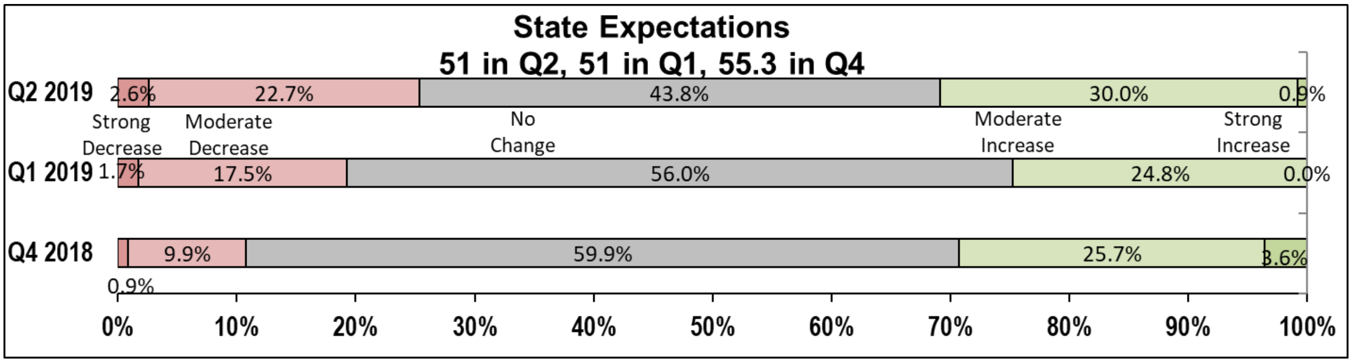
Expectations by Company Size and Length of Time in Business

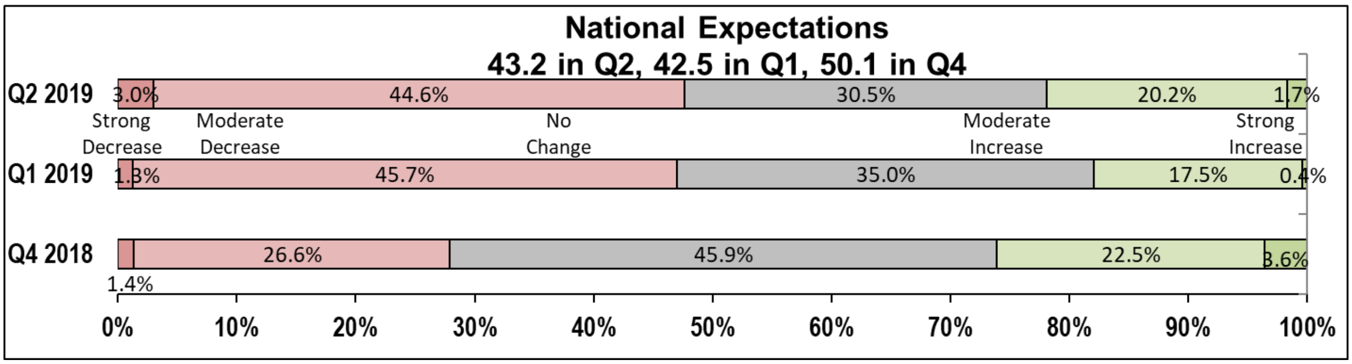
Panelists were asked two additional questions, one about the size of their company and the other about how long their company has been in business. Over 60% of survey respondents (61.3%) work for companies with fewer than 50 employees. The two largest groups were represented by companies with 1–4 employees (25.3%), 10–19 employees (13.5%). Small employers' (fewer than 50 employees) expectations decreased 1.5 points ahead of Q1.

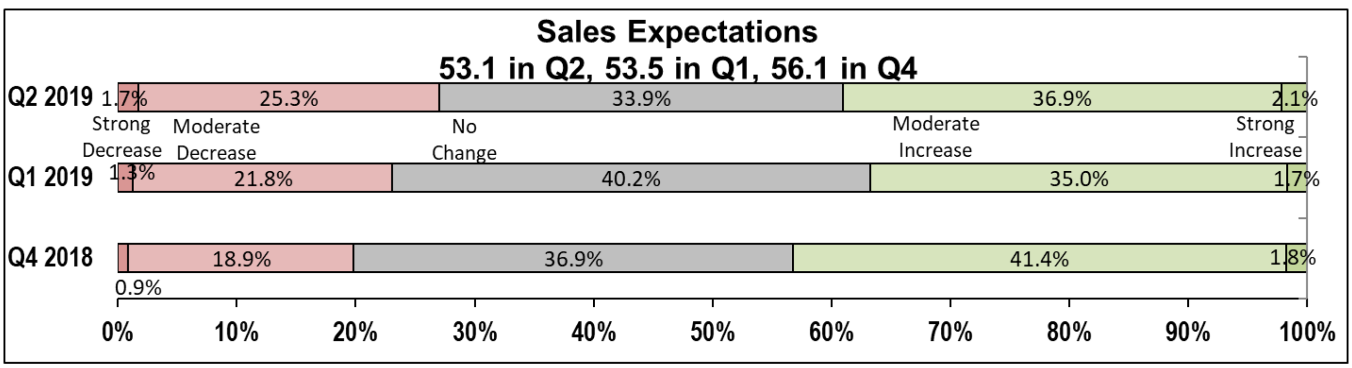


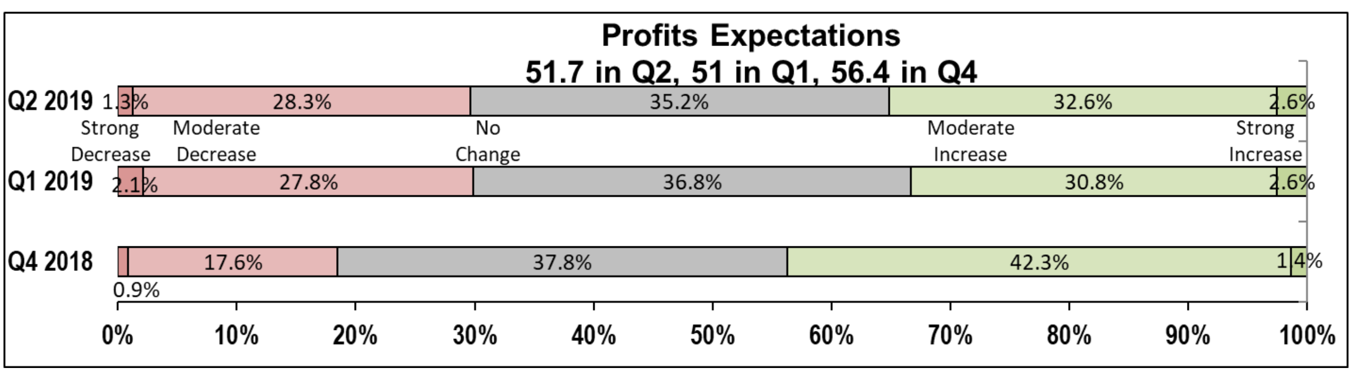

Number of Years in Business
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Less than 1 year
2-3 years
4-5 years
6-10 years
More than 10 years

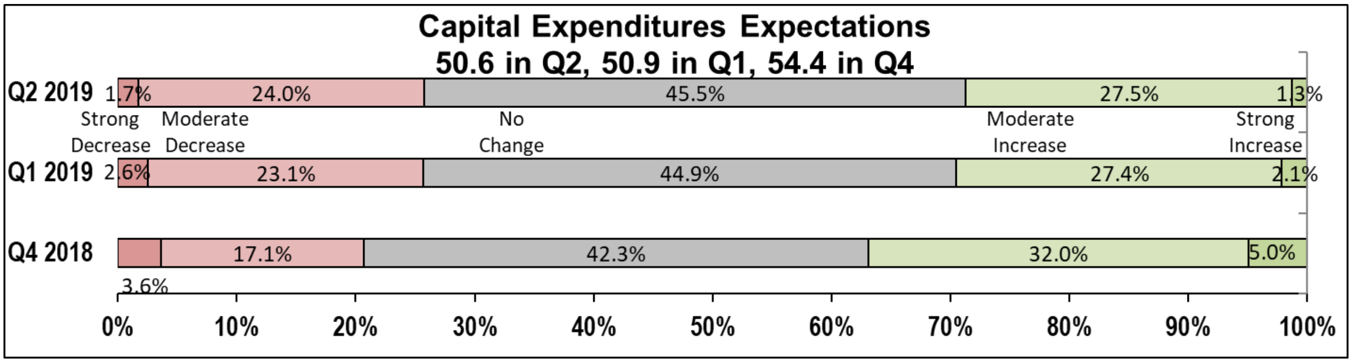
Distribution of Expectations in Q2 2019, Q1 2019, Q4 2018

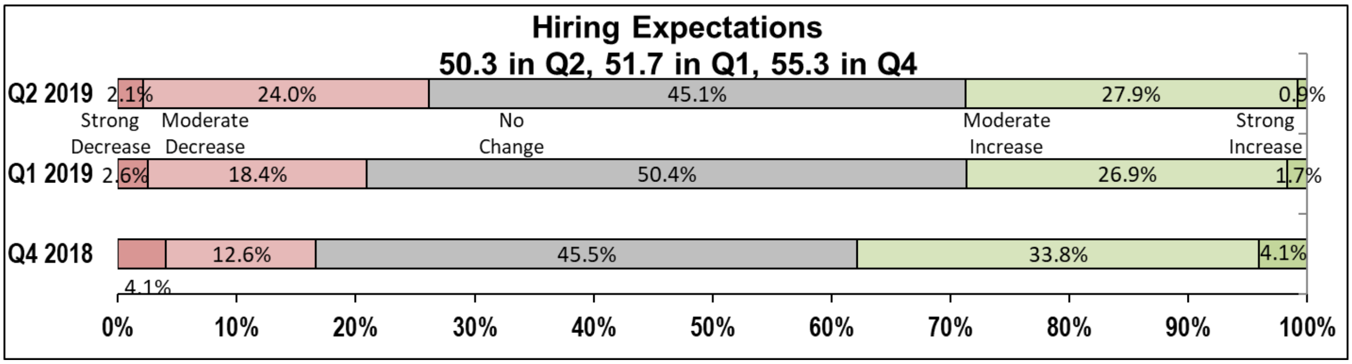


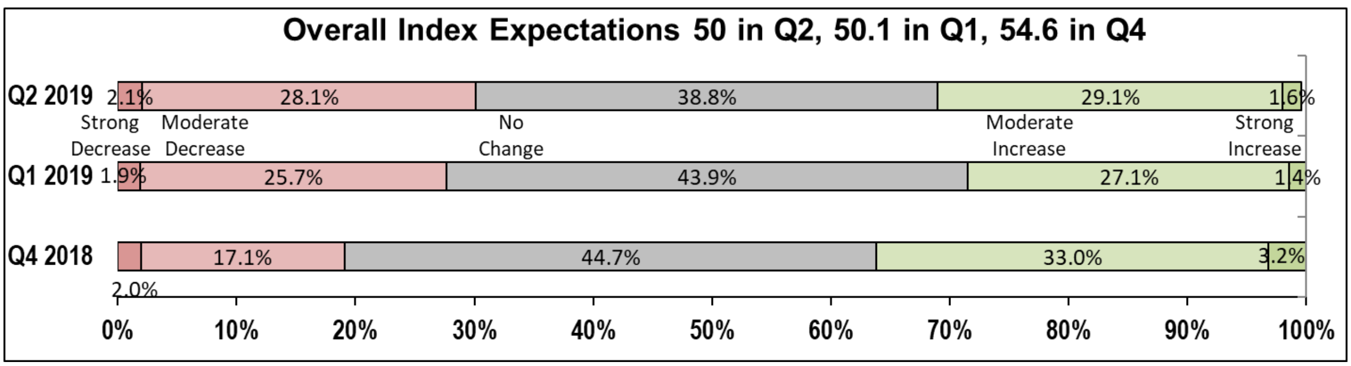












###

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