

## Leeds Business Confidence Index Rebounds Entering 2020

Colorado business leaders' confidence improved entering Q1 2020, rebounding to just above neutral. These sentiments coincide with improved trade relations, stable interest rates, and a strong labor report. The most commonly cited reasons by survey responses were the general economy, politics, uncertainty, trade, and the upcoming election year.

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 2020, the index increased nearly 4 points to 50.8, with all components of the index above neutral (50), except the national outlook. Looking further out to Q2 2020, the index remained fairly stable at 50.5. A total of 234 qualified panelists responded to the survey from December 2 through December 20.

### Leeds Business Confidence Index

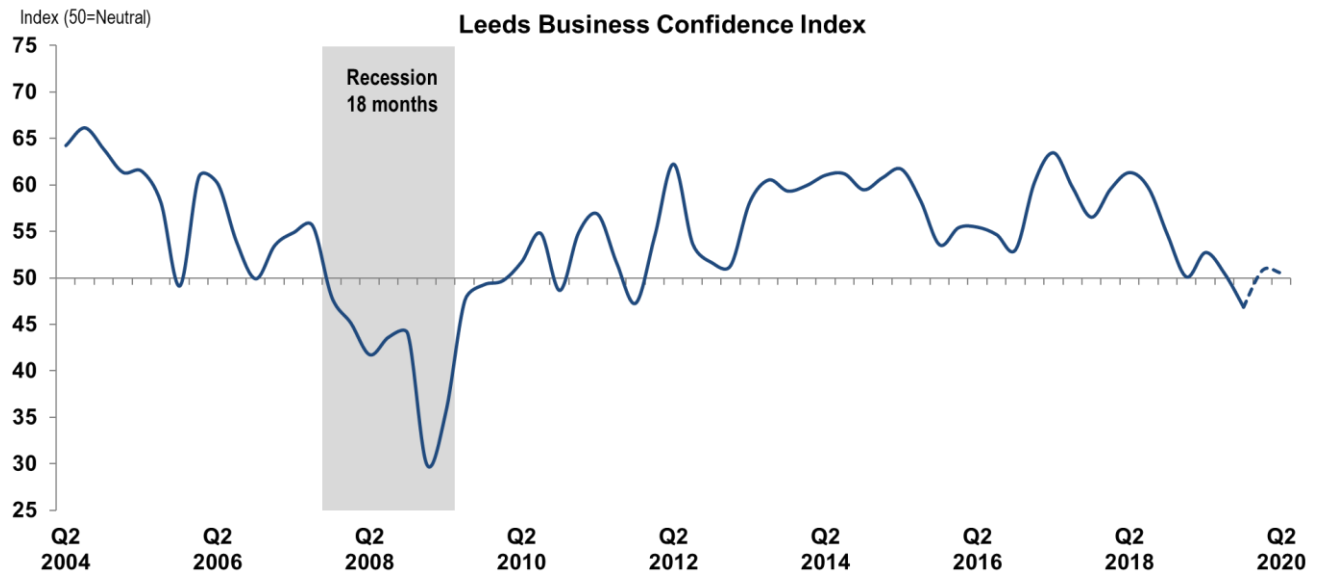
Component	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Change	
						Quarterly	Annual
State Economy	51.0	51.9	49.6	47.4	51.5	▲	▲
National Economy	42.5	46.2	43.1	38.5	45.9	▲	▲
Industry Sales	53.5	56.7	55.6	51.3	54.1	▲	▲
Industry Profits	51.0	55.5	52.4	49.7	52.1	▲	▲
Industry Hiring	51.7	54.1	51.0	48.3	50.6	▲	▼
Capital Expenditures	50.9	51.8	51.1	45.9	50.6	▲	▼
<b>LBCI</b>	<b>50.1</b>	<b>52.7</b>	<b>50.5</b>	<b>46.9</b>	<b>50.8</b>	▲	▲

- Five of the six individual components of the LBCI recorded positive perceptions (above 50) ahead of Q1 2020.
- Panelists are most optimistic about industry sales expectations, and are most concerned about the national economy as it recorded the lowest confidence of the index components for Q1 and Q2 2020.
- U.S. job growth continued in November 2019, recording the largest month-over-month gain since January 2019.
- Personal consumption exhibited moderate strength in Q3 2019, growing 3.1%.
- The Conference Board's consumer confidence fell month-over-month and year-over-year in November 2019, while the National Federal of Independent Business small business optimism increased over the month, and was nearly flat year-over-year.
- The Institute for Supply Management's (ISM) national manufacturing index was nearly flat over the month, remaining below 50 (neutral) for the 4<sup>th</sup> consecutive month.
- The ISM nonmanufacturing index remained above 50 (positive), but decreased both month-over-month and year-over-year in November.
- Colorado population, employment, GDP, and income point to sustained state economic growth in 2020.

## Summary – Confidence Higher Ahead of Q1

The LBCI stemmed losses after trending downward over the past year, rising 3.9 points in Q1 2020, regrouping to positive territory. The index increased to 50.8 ahead of Q1 2020, and remained fairly stable (50.5) looking further out to Q2 2020.

The quarterly reading remained below the 17-year average of 54.7. All six components increased from Q4 to Q1, and four of the six components increased compared to a year ago. Looking two quarters ahead to Q2 2020, expectations remained stable at 50.5 points.

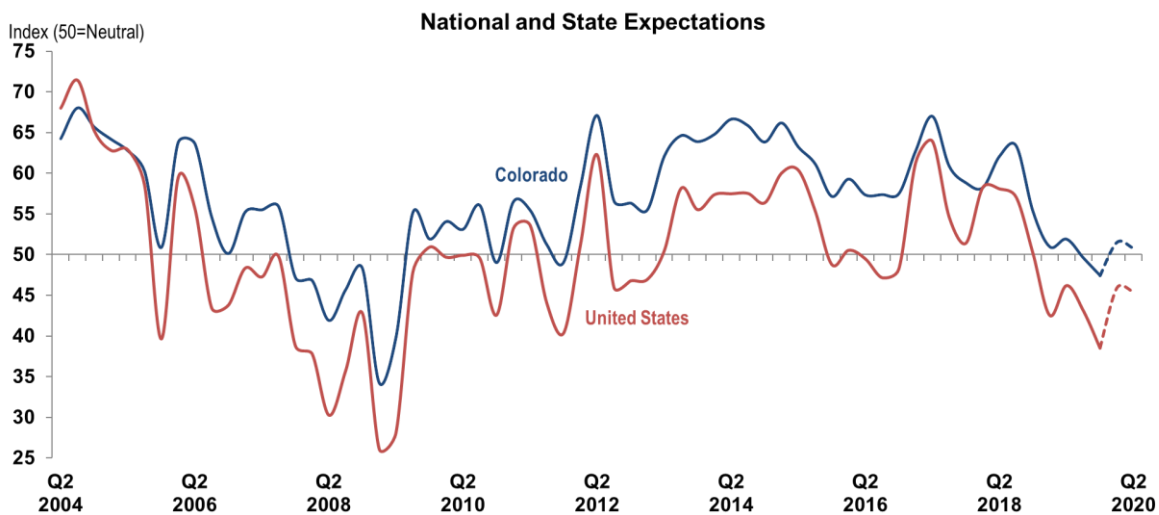


National real gross domestic product (GDP) grew at a 2.1% seasonally adjusted annual rate (SAAR) in Q3 2019 according to the third estimate from the Bureau of Economic Analysis (BEA). Personal consumption expenditures grew 3.1%, government expenditures rose by 1.7%, and private domestic fixed investment fell by 2.3%. The trade deficit increased from Q2 2019 to Q3 2019, approaching a trillion dollars (annualized average). Expectations for real GDP growth slipped to 1.8% for 2020, according to the December Consensus Forecasts report. Colorado continued to experience positive real GDP growth, with 3.4% year-over-year and 2.9% quarter-over-quarter (SAAR) growth in Q2 2019. Colorado accounts for 1.9% of total U.S. GDP.

## National and State Economies — Local Optimism, National Pessimism

State expectations increased from 47.4 in Q4 to 51.5 in Q1, rebounding from the initial negative reading collected last quarter. The state outlook is positive while the national outlook remains negative. The difference between the state and national outlook persists—the state outlook is 5.6 points above the national outlook, consistent with differences in actual economic performance. National expectations recorded the lowest expectations in the index, at 45.9 ahead of Q1, though, the national index recorded the largest quarter-over-quarter gain.

For the state economy, more than one-in-five respondents (20.5%) believe that the state economy will grow faster in Q1, and 14.1% expect it to slow. The outlook of the majority of panelists (65.4%) remains neutral. On the national level, 20.9% of panelists expect an acceleration, while 35.9% anticipate a slowing.



U.S. GDP grew at 2.1% SAAR in Q3 2019, nearly unchanged (+0.1 percentage points) from the prior quarter. According to the BEA report released December 20, 2019 (third estimate):

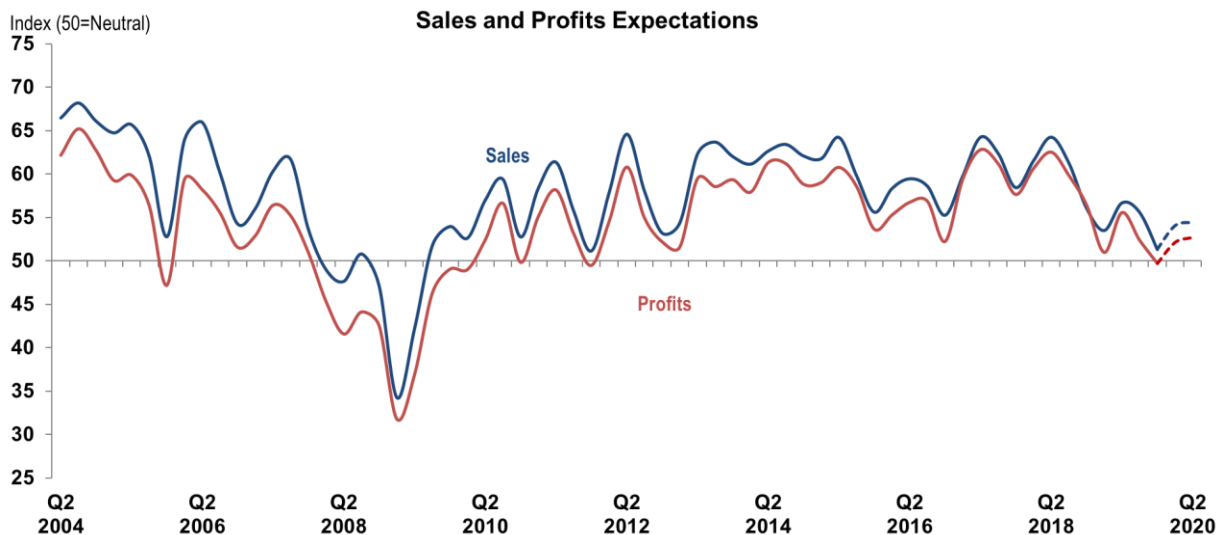
*The increase in real GDP in the third quarter reflected positive contributions from PCE, federal government spending, residential investment, exports, and state and local government spending that were partly offset by negative contributions from nonresidential fixed investment and private inventory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

*The acceleration in real GDP in the third quarter reflected a smaller decrease in private inventory investment and upturns in exports and residential fixed investment that were partly offset by decelerations in PCE, federal government spending, and state and local government spending, and a larger decrease in nonresidential fixed investment.*

Colorado's Q2 2019 real GDP grew at an SAAR of 2.9% for the quarter and 3.4% year-over-year. Year-over-year, the largest percentage gains were recorded in the Mining industry; the Management of Companies and Enterprises industry; and the Professional, Scientific, and Technical Services industry. The largest dollar gains were recorded in Mining and Professional, Scientific, and Technical Services.

## Sales and Profits — Outlook Slows

Sales and profits expectations increased 2.7 points and 2.4 points, respectively, from Q4 2019 to Q1 2020. Looking toward Q2 2020, the outlook for sales increased an additional 0.4 points, and the profits outlook increased by 0.6 points. Sales and profits recorded the highest expectations among the six components. The sales index stood at 54.1 in Q1, while profits index was at 52.1. Looking ahead to Q2, sales expectations increased to 54.5, while profits notched to 52.7. Nearly two-in-five panelists (38.9%) expect an increase in sales and 31.7% anticipate an increase in profits in Q1 2020; while 22.2% expect a decrease in sales and 23.5% expect a decrease in profits.



The health of sales and profits largely depends on the strength of the consumer. National consumer confidence declined in November, down 10.9 points from the prior year, 8.7 points from the prior quarter, and 0.6 points from the prior month. The Mountain Region index remains above the national index, but also fell sharply year-over-year and month-over-month. Personal consumption expenditures continue to exhibit stable growth (up 3.1% SAAR in Q3). Retail sales increased 4.9% in 2018, and continued to grow in October year-over-year, up 3.2% (seasonally adjusted).

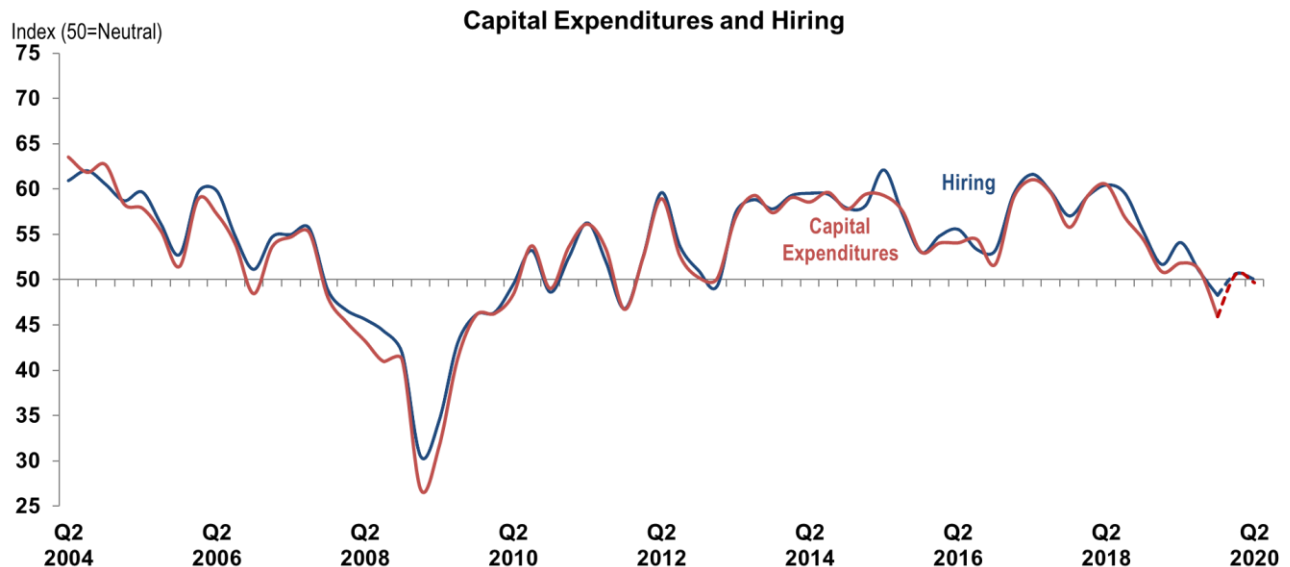
B-to-B sales are also a signal for sales and profits. Business fixed investment fell in Q3, down 2.3% (SAAR), and structures investment decreased 9.9% (contracting in four of the last five quarters). Inventories slightly increased. According to the Institute for Supply Management, the national manufacturing index in November 2019 was 48.1, the second-lowest reading in the past 12 months, and the fourth-consecutive month below the neutral rating of 50. The nonmanufacturing index in November 2019 also decreased, but, at 53.9, it remained above the neutral rating of 50.

Personal incomes continued to grow in Colorado in Q3 2019. According to the BEA, Colorado's nominal personal income rose at an annualized rate of 2.4% in Q3 2019 from the preceding quarter, with a strong increase of 5.3% year-over-year. Colorado had the 11th-highest *per capita* personal income in Q3 2019, at \$61,084, and the state ranked 26<sup>th</sup> for per capita personal income growth year-over-year.

## Capital Expenditures and Hiring Plans — In Sync

The outlook for both capital expenditures and hiring increased to 50.6 in Q1, up 4.7 points and 2.4 points, respectively. Both metrics declined looking further ahead to Q2—planned capital expenditures fell to 49.7 and hiring plans fell to 50.

Nearly 30% of respondents expect an increase in capital expenditures and 28.6% point to an increase in hiring in Q1. The largest proportion of respondents anticipate no change (46.2% for capital expenditures and 47.4% for hiring).



An indicator of capital expenditures is construction. According to Dodge Data and Analytics, the value of construction in Colorado was up 17.8% in 2018, but preliminary data through November 2019 indicate a 28.1% decrease in activity year-to-date. Through November, the value of residential building decreased 19% compared to the same period a year ago, nonresidential building fell 35.9%, and nonbuilding declined 39.8%. According to the U.S. Census Bureau, the total value of construction put in place for the nation increased 1.1% in October 2019 compared to October 2018.

U.S. job growth continued in November 2019, increasing 1.5% year-over-year. Nonfarm covered employment accelerated in November in the preliminary release, up 266,000 jobs month-over-month, following growth of 156,000 in October. Year-to-date through November, the average number of jobs added per month totaled 180,000, compared to 223,000 for the same period a year ago. The unemployment rate in the United States dropped to 3.5% in November.

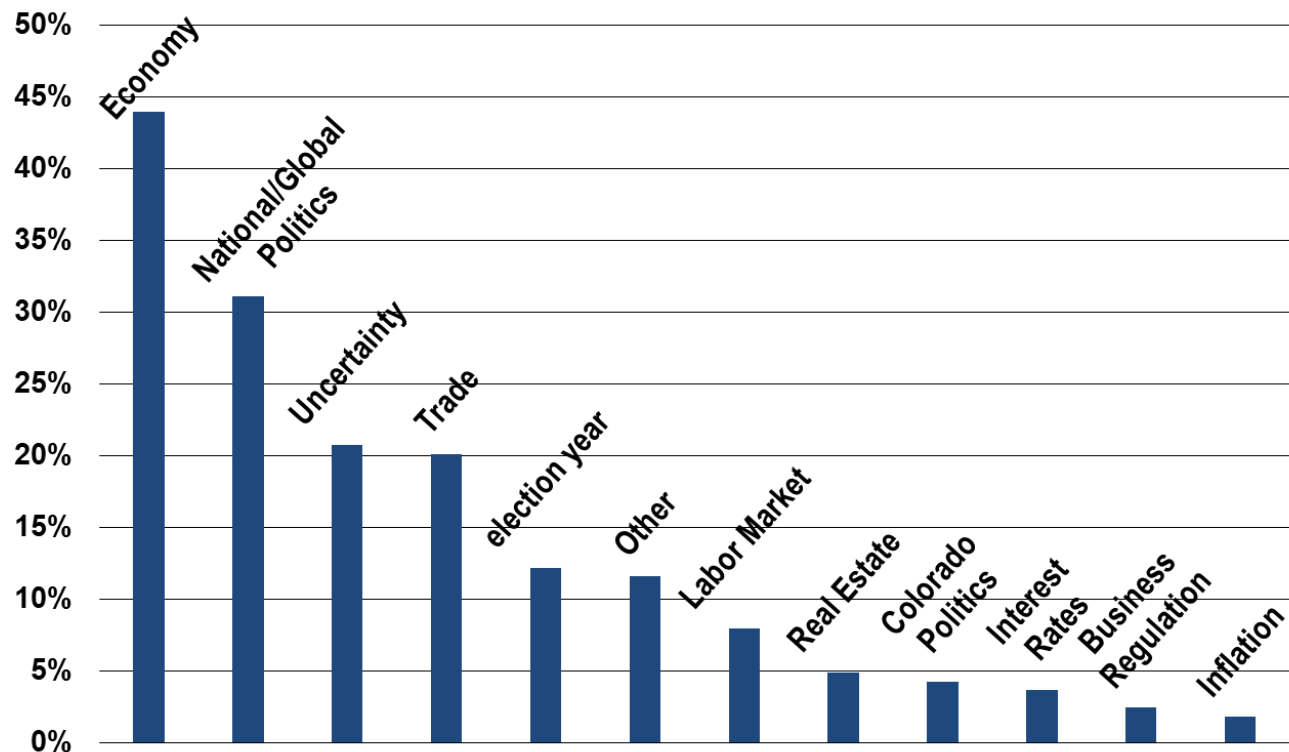
As of November 2019, Colorado continued to exhibit strong employment growth. Jobs increased 2.1% from November 2018 to November 2019, a gain of 57,100 year-over-year. The seasonally adjusted state unemployment rate, at 2.6%, remained below the national rate. Colorado is tied for the 5<sup>th</sup>-lowest unemployment rate in the country. Year-over-year employment growth was recorded in all of Colorado's seven metropolitan statistical areas (MSAs). The Greeley MSA recorded the fastest year-over-year growth (3.6%), followed by Colorado Springs (3.2%), Fort Collins (2.7%), Boulder (2.4%), Boulder (1.6%), Denver-Aurora-Lakewood (2.4%), Pueblo (1.3%),

and Grand Junction (1.1%). Colorado industries with the greatest annual percent change in November were Professional and Business Services (4.9%), Education and Health Services (3.6%), and Financial Activities (3.1%).

Inflation in Colorado has outpaced the nation for eight of the past nine years. Inflation slowed in 2018 and prices grew slowly in early 2019—Colorado recorded lower price growth than the nation in the second half of 2018 and the first half of 2019, but Colorado inflation accelerated in the bi-monthly reports in July, September, and November 2019. In November, the all items index increased 2.8% year-over-year; core inflation increased 3%; shelter, 4.8%; and all items less shelter, 1.7%, not seasonally adjusted.

### Reason for Survey Responses

Panelists were asked to give reasons for their expectations. Of the 164 respondents who cited reasons, the general economy was the most cited reason for respondents’ responses (mentioned by 44% of respondents). Politics was the next most cited reason (31%), followed by the general uncertainty (21%), trade (20%), and the election year (12%).

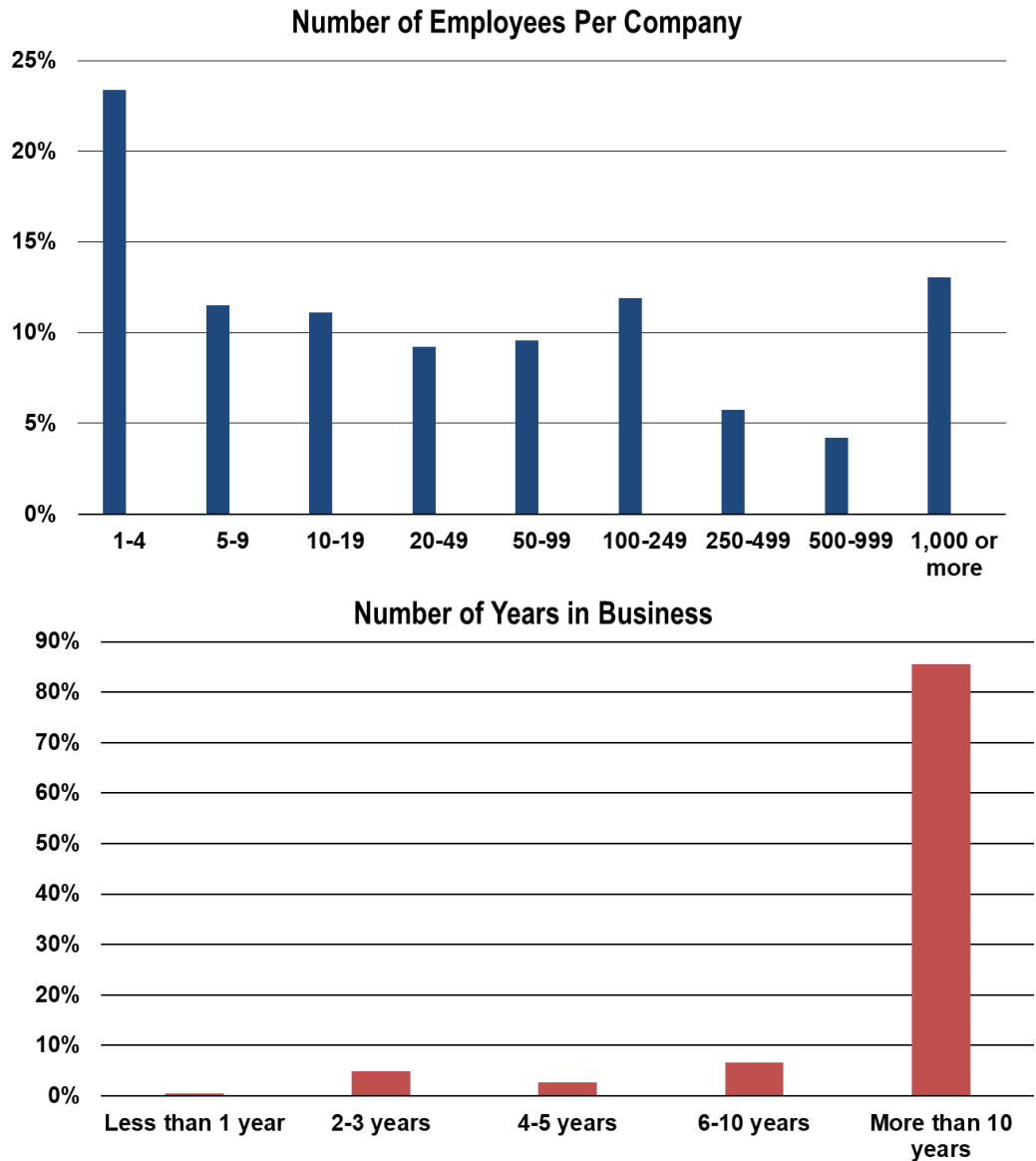


## Expectations by Company Size and Length of Time in Business

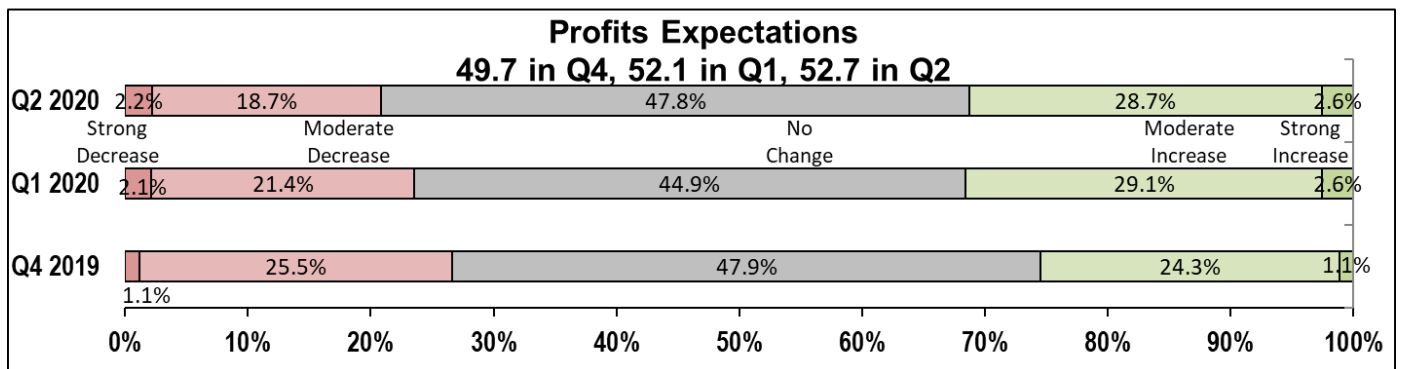
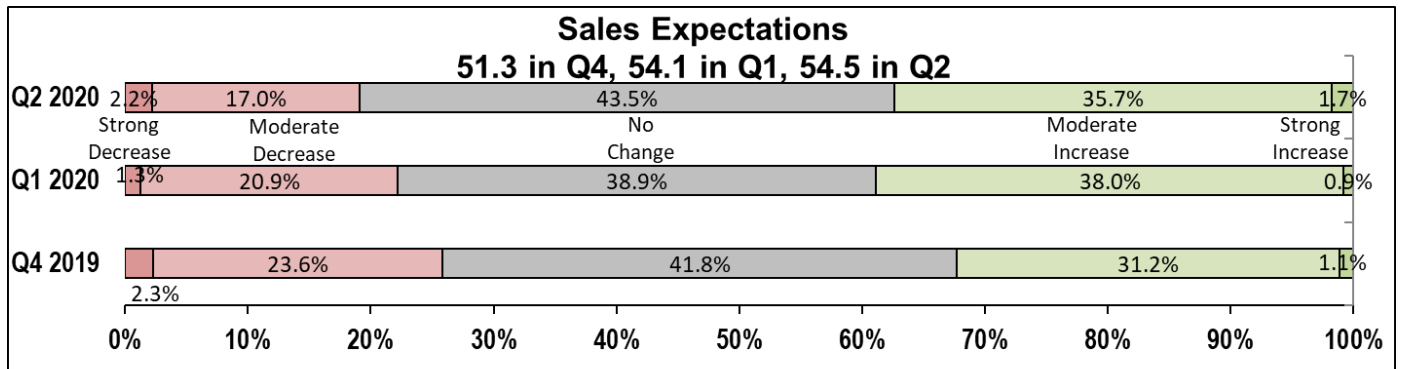
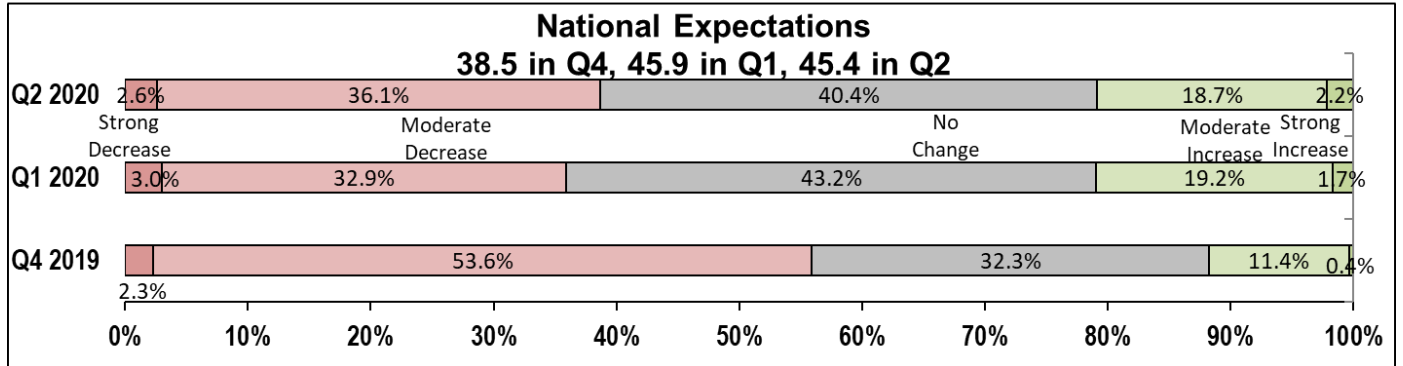
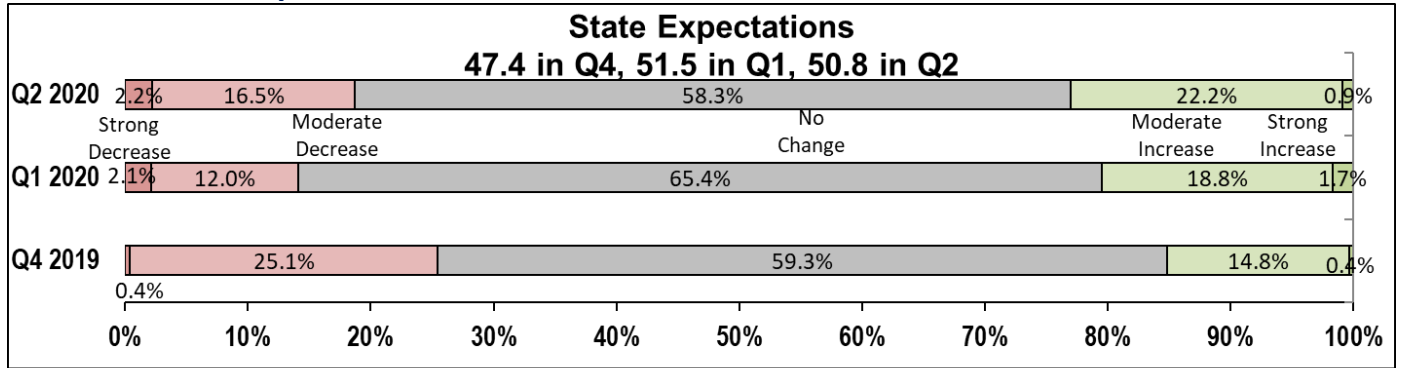
Panelists were asked about the size of their company and about how long their company has been in business. A total of 86% of respondents work at a long-standing company that has been in business for more than 10 years. More than half (55%) of survey respondents work for companies with fewer than 50 employees.

Small employers were less optimistic than larger employers by 4.1 points ahead of Q1 2020. Small employers' (fewer than 50 employees) expectations remained in negative territory (index of 47), while the large employers' index increased to 51.1.

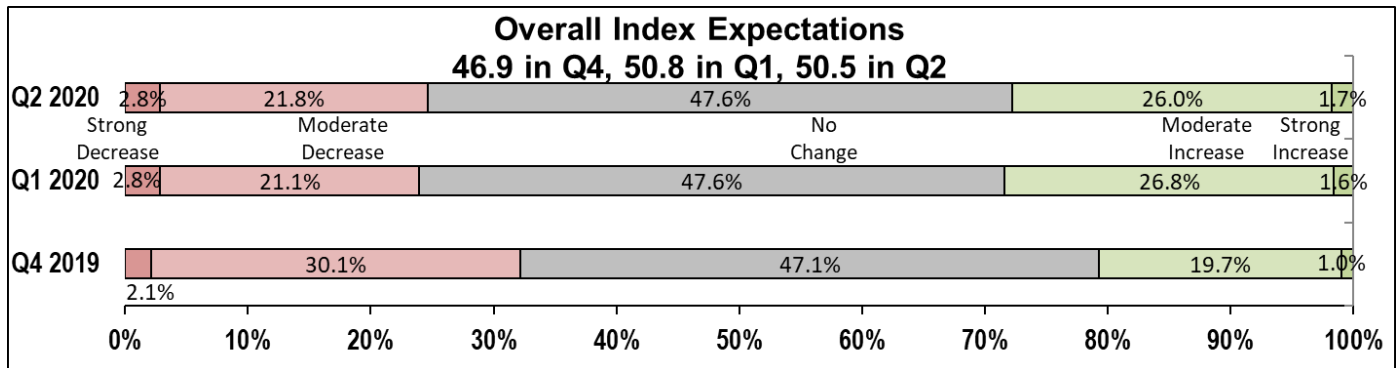
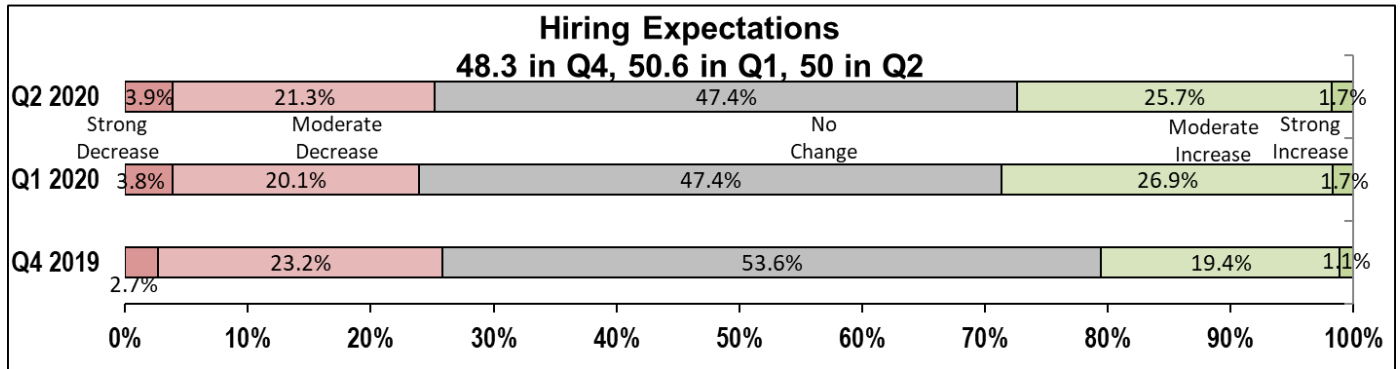
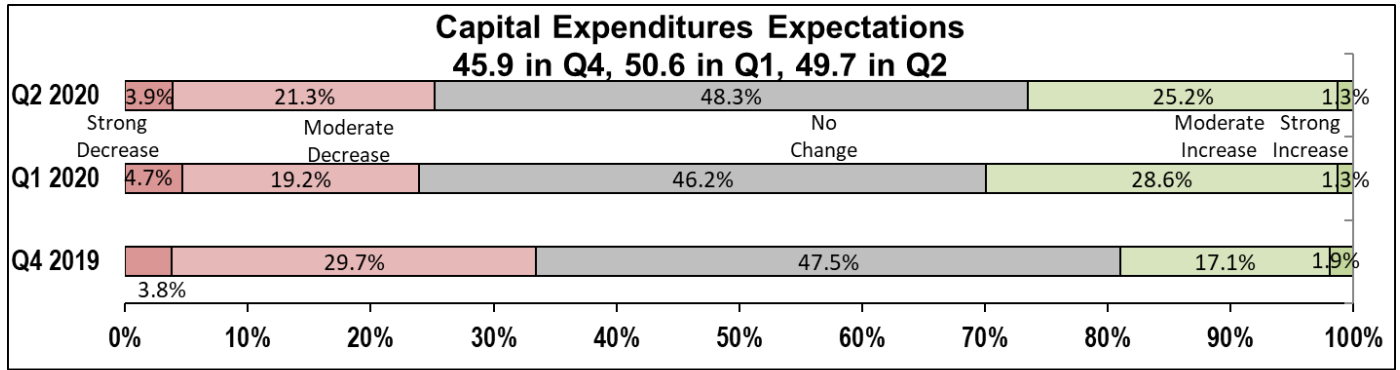
While responding panelists represent every industry in the state, the largest percentage of respondents to the Q1 survey were in the following sectors: Professional, Scientific, and Technical Services (20%); Finance and Insurance (17%); and Real Estate, Rental, and Leasing (15%).



## Distribution of Expectations in Q4 2019, Q1 2020, Q2 2020







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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)