

Business Leaders More Optimistic in the New Year

Business confidence remained elevated ahead of Q1 2022, rising slightly from Q4 2021. All components of the index increased ahead of the first quarter. The index increased 1.9 points from Q4 2021 to Q1 2022 and grew another 1.4 points ahead of Q2 2022. While panelists expressed concerns about inflation, supply chain issues, worker constraints, and COVID-19 variants, they also expressed optimism about increased demand and COVID-19. A vast majority of respondents noted inflation issues impacting their business. More than 68% of respondents expect to increase wages in response to higher inflation, and most do not expect inflation to moderate in the second half of 2022 or in 2023.

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. The index increased ahead of Q1 2022 to 58, remaining comfortably in positive territory (50=neutral) and above the long-term average (54.4). Panelists anticipated a sustained recovery in the second quarter of 2022, with the index increasing modestly to 59.4. A total of 231 qualified panelists responded to the survey from December 1 through December 20.

Leeds Business Confidence Index

Component	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Quarterly Change	Annual Change
State Economy	46.9	68.3	70.9	55.1	57.6	▲	▲
National Economy	43.5	65.7	67.5	48.9	50.4	▲	▲
Industry Sales	51.5	67.5	69.6	59.0	60.2	▲	▲
Industry Profits	48.7	63.1	65.2	56.6	57.9	▲	▲
Industry Hiring	49.9	61.8	67.7	61.6	63.7	▲	▲
Capital Expenditures	46.8	59.9	62.6	55.4	58.3	▲	▲
LBCI	47.9	64.4	67.3	56.1	58.0	▲	▲

- All six of the individual components of the LBCI recorded positive perceptions (above 50) ahead of Q1 2022.
- The greatest optimism was recorded in hiring and industry sales.
- The rebound in the labor market through November left Colorado with a smaller jobs deficit than the nation (-1.9% versus -2.6% from February 2020) and ranked the state 17th in the nation in terms of the recovery and 12th in terms of year-over-year performance.
- Colorado's personal income increased 8.7% year-over-year in Q3 2021, ranking Colorado 4th.
- National real gross domestic product fully recovered from the recession in Q2 2021 and increased at an annualized rate of 2.3% in Q3 2021. Colorado's GDP increased 5.5% year-over-year in Q3 2021, ranking the state 10th.

Summary – Leaders Remain Optimistic

The LBCI increased from 56.1 in Q4 2021 to 58 ahead of Q1 2022, remaining strongly in positive territory; the overall index posted gains quarter-over-quarter and year-over-year. As well, all six components increased from the prior quarter and prior year. Looking two quarters ahead to Q2 2022, expectations improved further. Coupling the quantitative survey results with the qualitative comments, panelists signaled expectations of a sustained economic recovery.

Component	Q1 2022	Quarterly Change	Annual Change	Q2 2022	Quarterly Change	Annual Change
State Economy	57.6	▲	▲	59.4	▲	▼
National Economy	50.4	▲	▲	55.0	▲	▼
Industry Sales	60.2	▲	▲	62.7	▲	▼
Industry Profits	57.9	▲	▲	59.2	▲	▼
Industry Hiring	63.7	▲	▲	62.9	▼	▲
Capital Expenditures	58.3	▲	▲	57.4	▼	▼
LBCI	58.0	▲	▲	59.4	▲	▼

Leeds Business Confidence Index

Index (50=Neutral)



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National real gross domestic product (GDP) increased at a 2.3% seasonally adjusted annual rate (SAAR) in Q3 2021 according to the third estimate from the Bureau of Economic Analysis (BEA). Personal consumption expenditures increased 2%, and gross private domestic investment increased at an annualized rate of 12.4%; government expenditures advanced 0.9%. The trade deficit increased from Q2 2021 to Q3 2021, growing to \$1.3 trillion (annualized average chained dollars). Consensus Forecasts' economic expectations for real GDP growth in 2021 remained high in December with estimated 2021 growth of 5.6% and projected 2022 growth of 4%.

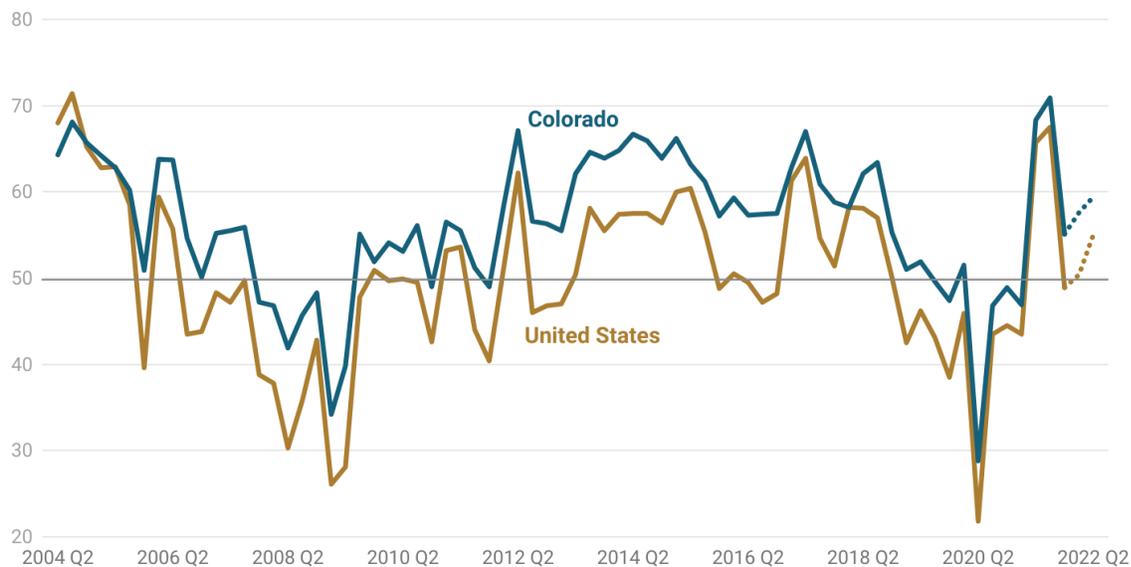
National and State Economies — Improved Outlook

General state and national economic expectations remained elevated ahead of Q1. State expectations increased from 55.1 ahead of Q4 to 57.6 ahead of Q1 and 59.4 looking out further to Q2 2022. The gap between the state outlook and national outlook widened to 7.2 points ahead of Q1, indicating business leaders' confidence that the state will outperform relative to the nation. The national index also increased from a negative position ahead of Q4 (48.9) to a positive position (50.4) ahead of Q1 2022 and 55 looking out further to Q2 2022.

For the state economy, 82.7% of respondents believe the state economy will stay neutral-to-positive in Q1, versus 17.3% who expect slower growth. On the national level, 65.8% are neutral-to-positive, versus 34.2% who expect slower growth.

National and State Expectations

Index (50=Neutral)



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The National Bureau of Economic Research pegged the recession at two months (March–April 2020)—the shortest on record. U.S. GDP rebounded quickly, reaching a new record level in the second quarter of 2021. Growth continued in the third quarter at an annualized rate of 2.3% in Q3 2021, marking five consecutive quarters of strong growth following the end of the recession.

According to the BEA report released December 22, 2021:

The increase in real GDP in the third quarter reflected increases in private inventory investment, PCE, state and local government spending, and nonresidential fixed investment that were partly offset by decreases in exports, residential fixed investment, and federal government spending. Imports increased.

The increase in private inventory investment reflected increases in wholesale trade (led by nondurable goods industries) and in retail trade (led by motor vehicles and parts dealers). The increase in PCE reflected an increase in services that was partly offset by a decrease in goods. Within services, increases were widespread with the largest contributions coming

from “other” services (mainly international travel) and transportation services. The decrease in goods primarily reflected a decrease in spending on motor vehicles and parts. The increase in state and local government spending was led by employee compensation (notably, education). The increase in nonresidential fixed investment reflected an increase in intellectual property products (led by software and research and development) that was partly offset by decreases in equipment and structures.

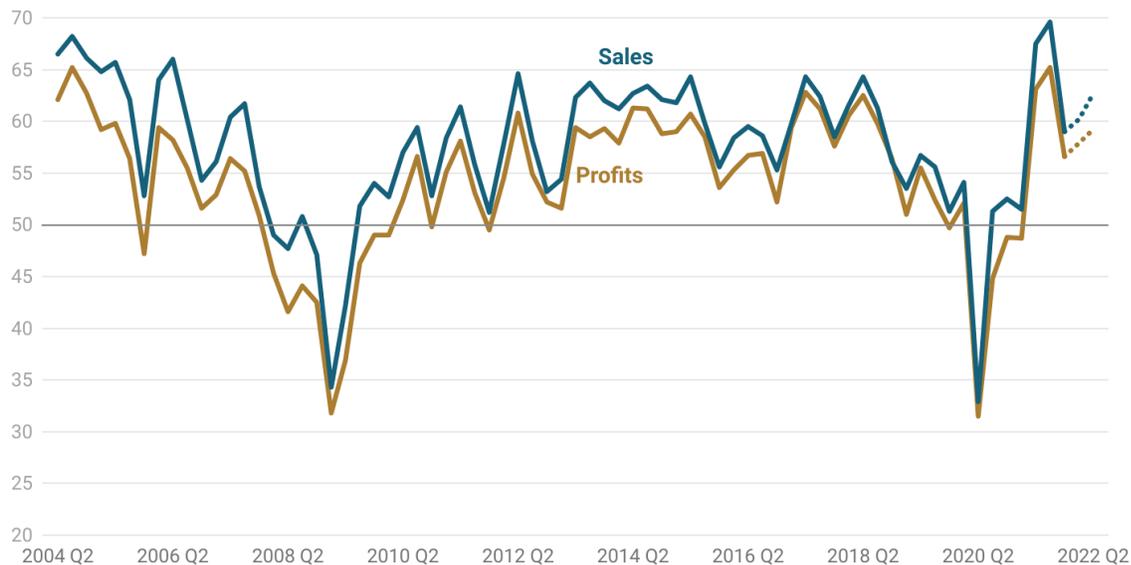
Colorado’s Q3 2021 real GDP increased at a SAAR of 2.3% for the quarter and increased 5.5% year-over-year, reaching a new peak level. Year-over-year, the largest percentage gains were recorded in the following industries: Arts, entertainment, and recreation (39.3%); Accommodation and food services (22.2%); and Management of companies and enterprises (18.1%); declines were recorded in Agriculture and Mining.

Sales and Profits — Expectations Remain High

Sales and profits expectations increased ahead of the fourth quarter. The sales index increased from 59 in Q4 to 60.2 ahead of Q1 2022 and 62.7 ahead of Q2 2022; the profits index increased from 56.6 in Q4 to 57.9 ahead of Q1 2022 and 59.2 ahead of Q2 2022. A majority of panelists were neutral-to-positive regarding sales (79.2%) and profits (78.8%) ahead of Q1 2022.

Sales and Profit Expectations

Index (50=Neutral)



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Sales and profits largely depend on the strength of the consumer. Personal consumption expenditures increased at an annualized rate of 2% quarter-over-quarter in Q3 2021 and 7.1% year-over-year. According to data from the U.S. Census Bureau, November retail sales were up 18.2% year-over-year, and 2.8% over the quarter. According to the Conference Board, national consumer confidence increased 28.7 points from December 2020 to December 2021 and increased 6 points from the prior quarter.

B-to-B sales are also a signal for sales and profits. In October 2021, wholesale trade increased 22.2% year-over-year and 3% from the prior quarter. Strong year-over-year gains were recorded

in both durable goods (14.2%) and nondurable goods (30.1%). Wholesale inventories increased 14.4% over the year and 5.1% over the quarter.

In the third quarter of 2021, Colorado personal income grew 8.7% year-over-year and 1.4% quarter-over-quarter, ranking the state 4th and 2nd nationally, for the respective metrics. Colorado had the 9th-highest per capita personal income in Q3 2021, at \$68,275, and the state ranked 5th for per capita personal income growth year-over-year.

Capital Expenditures and Hiring Plans— Investment Stable

The outlook for capital expenditures and hiring both increased ahead of Q1 2022, as panelists remained strongly optimistic. These components reflect investment in firm growth, thus, the rebound in the index is a positive confirmation of business conditions. Ahead of Q1 2021, 84.8% of respondents expect neutral to positive growth in capital expenditures (versus 15.2% who expressed pessimism), and 88.3% project neutral to positive hiring.

Capital Expenditures and Hiring Expectations

Index (50=Neutral)

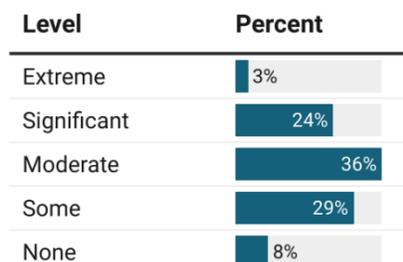


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An indicator of capital expenditures is construction. According to Dodge Data and Analytics, the value of construction in Colorado increased 17.5% year-over-year for the 11 months through November 2021. Nonbuilding and residential construction drove the growth, increasing 32.6% and 24.3%, respectively, while nonresidential decreased 4.4%. According to the U.S. Census Bureau, the total value of construction put in place for the nation increased 7.5% from January through October 2021 compared to the same period in 2020. After four strong quarters of growth, U.S. nonresidential fixed business investment increased 1.7% quarter-over-quarter in Q3 2021 (SAAR), and increased 9% year-over-year.

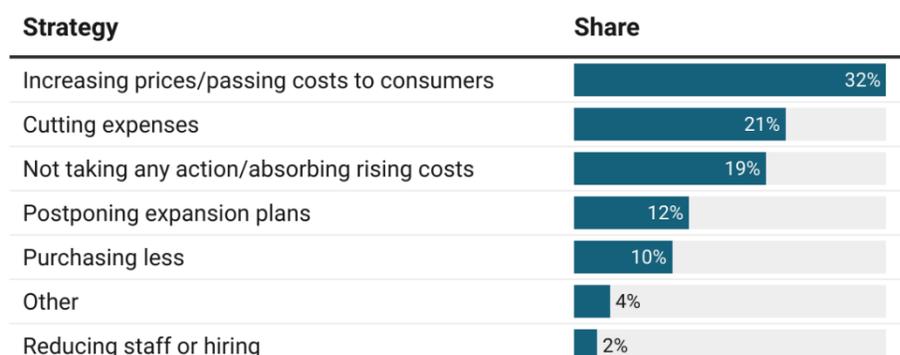
A majority of respondents (92%) noted inflation issues impacting their business, with impacts ranging from some level of impact (29%) to extreme (3%). More than 68% of respondents expect to increase wages in response to higher inflation, and most expect inflation to moderate in the second half of 2022 (33%) or in 2023 (35%).

Share of Businesses Impacted by Inflation



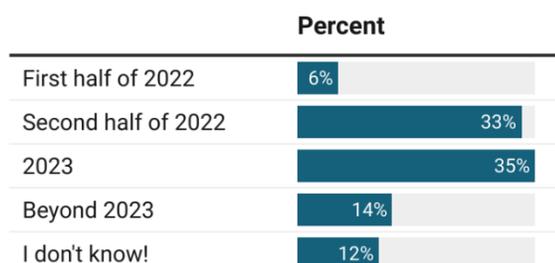
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Strategy by Businesses to Address Inflation



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When Businesses Expect Inflation to Moderate



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National employment has made a strong recovery from the recession lows reached in April 2020. Total nonfarm employment fell a record 14.7% (-22.4 million jobs) from February to April 2020 before rebounding 18.5 million jobs from May 2020 to November 2021. Total U.S. nonfarm employment grew 4.1% year-over-year in November. The unemployment rate in the United States continued to improve from 14.8% in April 2020 to 4.2% in November 2021; the rate just prior to the pandemic was 3.5% in February 2020.

Colorado nonfarm employment decreased 13.3% (-376,300 jobs) from January 2020 to April 2020 but increased 322,200 jobs from May 2020 to November 2021. However, Colorado employment remained down 1.9% (54,100 jobs) in November 2021 compared to January 2020. At 5.1%, Colorado's November unemployment rate was the 33rd-highest in the country, and the state had the 4th-highest labor force participation rate.

Year-over-year employment growth was recorded in all of Colorado’s seven metropolitan statistical areas (MSAs) in November. Four of Colorado’s seven MSAs rank among the top 100 nationally for employment growth. The Denver MSA recorded the largest year-over-year growth (5.3%), followed by Boulder (4.9%), Colorado Springs (4.8%), Greeley (4.1%), Grand Junction (2.9%), Pueblo (1.8%), and Fort Collins-Loveland (1.7%). Colorado industries with the largest annual percent gains were Leisure and Hospitality (18.4%), Professional and Business Services (5.9%), and Other Services (3.6%).

Inflation in the Denver-Aurora-Lakewood MSA has outpaced the nation for the last eight years. In 2020, the all items index increased 2% year-over-year compared to 1.2% nationally. In November 2021, the Denver-Aurora-Lakewood MSA recorded price growth of 6.5% year-over-year (not seasonally adjusted) compared to 6.8% nationally. Core inflation in the Denver-Aurora-Lakewood MSA increased 5.2% year-over-year in November, shelter increased 4.9%, and food at home (i.e., groceries) increased 2.8%, not seasonally adjusted.

Reason for Survey Responses

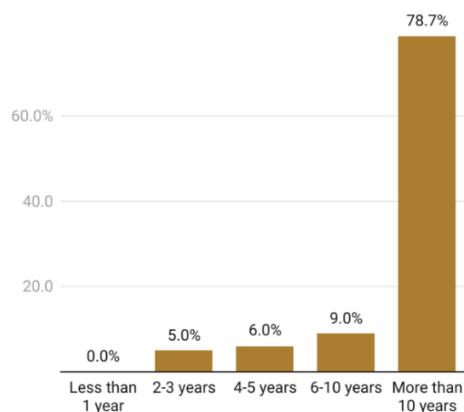
Panelists were asked to give reasons for their expectations. Of the 164 respondents who provided open-ended explanations, inflation was most often cited as a concern (28% of respondents), followed by COVID-19 concerns (24%), supply chain issues (16%), and workforce constraints (11%). Some noted an improvement in COVID-19 as a reason for optimism (10%), as well as high demand (9%).

Expectations by Company Size and Length of Time in Business

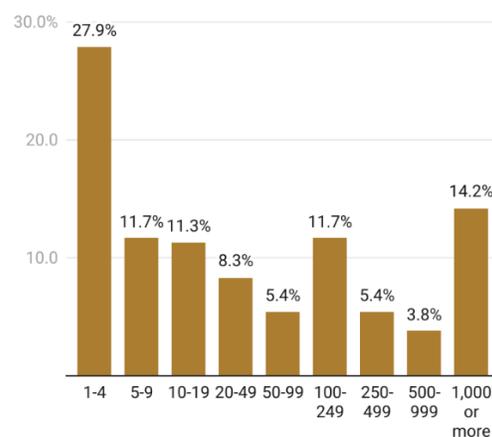
Panelists were asked about the size of their company and how long their company has been in business. More than 79% of respondents work at a long-standing company that has been in business for more than 10 years. More than half (52.8%) of survey respondents work for companies with fewer than 50 employees. Small employers were slightly less optimistic than large employers ahead of Q1 2022, but both cohorts expressed optimism.

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; Finance and Insurance; and Real Estate, Rental, and Leasing.

Number of Years in Business



Number of Employees Per Company

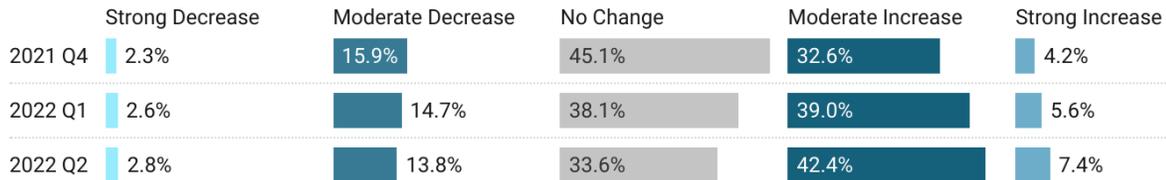


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Distribution of Expectations in Q4 2021, Q1 2022, and Q2 2022

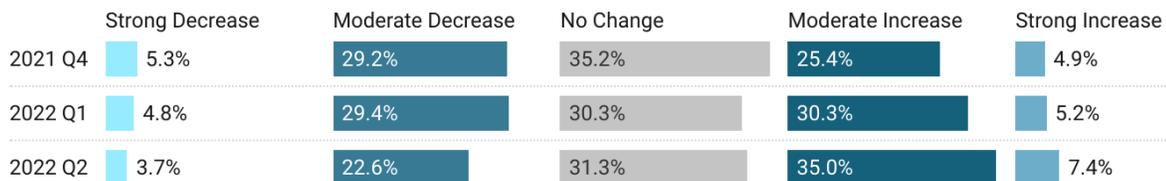
State Expectations

55.1 in Q4 2021, 57.6 in Q1 2022, and 59.4 in Q2 2022



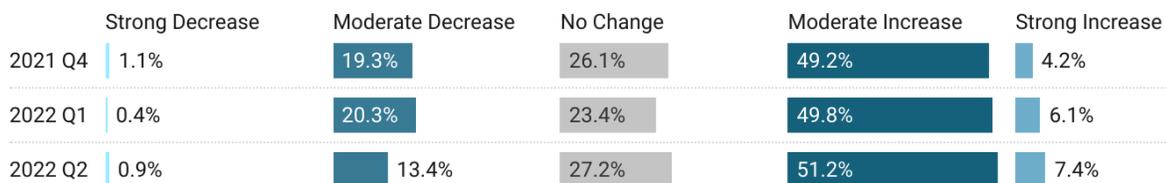
National Expectations

48.9 in Q4 2021, 50.4 in Q1 2022, and 55 in Q2 2022



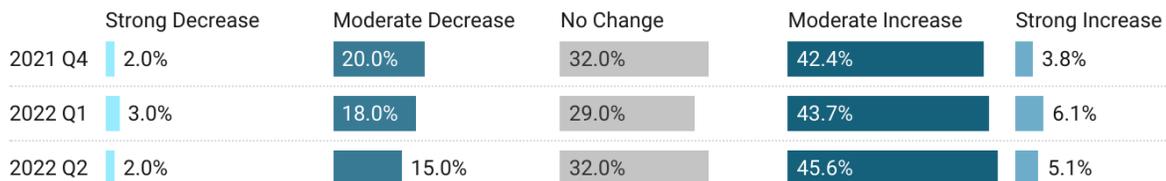
Sales Expectations

59.0 in Q4 2021, 60.2 in Q1 2022, and 62.7 in Q2 2022



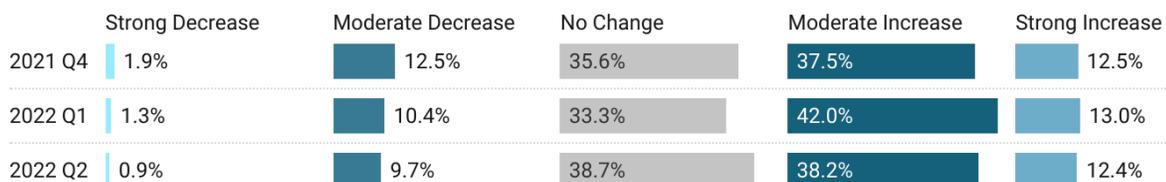
Profit Expectations

56.6 in Q4 2021, 57.9 in Q1 2022, and 59.2 in Q2 2022



Hiring Expectations

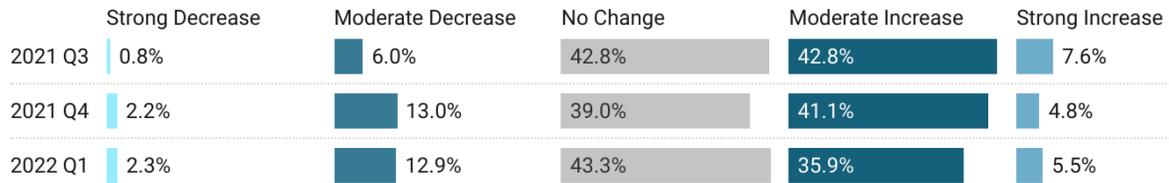
61.6 in Q4 2021, 63.7 in Q1 2022, and 62.9 in Q2 2022



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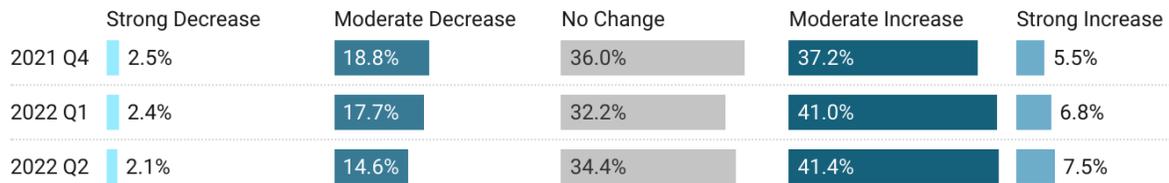
Capital Expenditures Expectations

55.4 in Q4 2021, 58.3 in Q1 2022, and 57.4 in Q2 2022



Overall Index Expectations

56.1 in Q4 2021, 58 in Q1 2022, and 59.4 in Q2 2022



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www.colorado.edu/business/brd