

## Business Leaders Signal Hope Looking Out to Q2 2023

Two decades ago, the Leeds Business Confidence Index (LBCI) first reported results ahead of Q2 2003 as Colorado was entrenched in a long recovery from the tech-led recession. Twenty years later as the index enters 2023, despite a notably better current economy, Colorado business leaders are less optimistic than they were in the early days of the index as a host of factors create notable headwinds: high interest rates and inflation, labor shortages, and fears about slowing consumer spending.

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 recorded no changes ahead of Q1 2023, remaining squarely in negative territory (50=neutral) and staying well below the long-term average (53.8). Panelists' expectations improved slightly looking out to Q2 2023, increasing to 43.2. Four of the six components of the index decreased ahead of the fourth quarter, but all components increased looking further out to Q2 2023, indicating a slightly improved outlook. A total of 143 qualified panelists responded to the survey from December 1 through December 20.

### Leeds Business Confidence Index

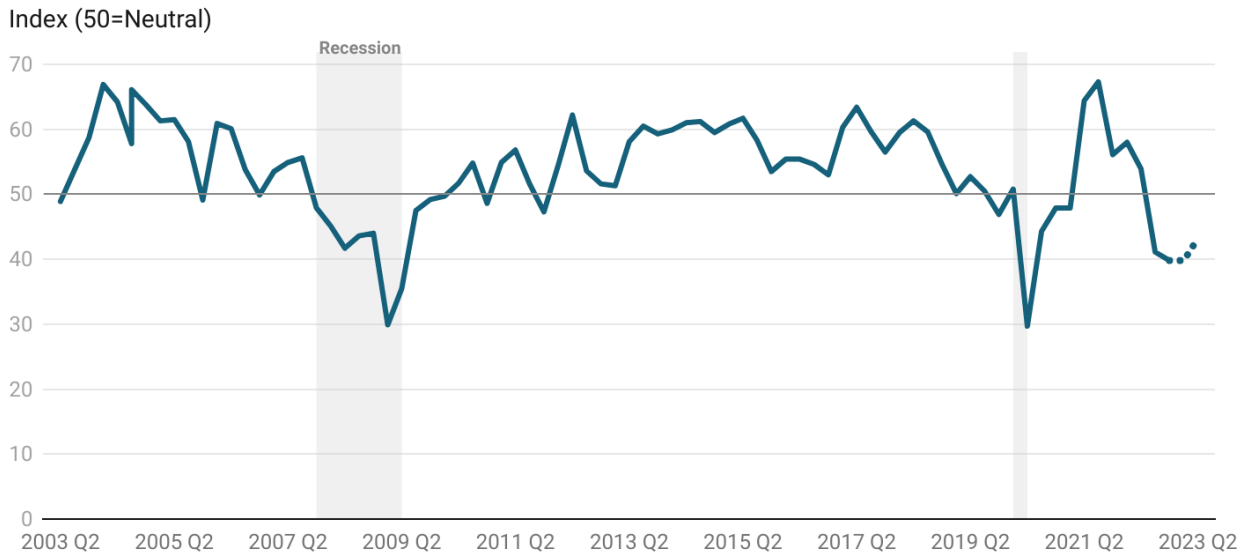
Component	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Quarterly Change	Annual Change
State Economy	57.6	51.9	39.8	40.0	41.8	▲	▼
National Economy	50.4	40.4	27.7	30.7	34.4	▲	▼
Industry Sales	60.2	59.1	46.4	42.2	40.9	▼	▼
Industry Profits	57.9	55.0	42.2	41.7	39.7	▼	▼
Industry Hiring	63.7	60.4	48.3	43.3	42.1	▼	▼
Capital Expenditures	58.3	56.7	42.1	40.8	39.7	▼	▼
<b>LBCI</b>	<b>58.0</b>	<b>53.9</b>	<b>41.1</b>	<b>39.8</b>	<b>39.8</b>	-	▼

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- All six of the individual components of the LBCI recorded negative perceptions (below 50) ahead of Q1 2023. The outlook was dimmest for the national economy and brightest for industry hiring.
- More than half of respondents (57.8%) believe the U.S. will enter a recession in the first half of 2023, while just 21.6% believe it is somewhat to very unlikely (20.7% remained neutral).
- Interest rates were by and large the greatest concern among panelists, followed by inflation, labor markets, and consumer spending.
- Nearly 56% of panelists expect the supply chain to improve in 2023, while 21% expect the supply chain to worsen (23% remained neutral). Panelists expressed supply chain disruptions will be driven by global political unrest, inflation, and labor market issues.
- Inflation in the Denver-Aurora-Lakewood MSA is projected to increase 4.5% in 2023, according to the Business Research Division's (BRD) forecasting model.

- Colorado’s employment recovery has outperformed most other states, increasing 2.9% above the pre-recession peak as of November 2022. This ranked Colorado’s recovery 11th nationally; the nation improved 0.7% above pre-recession levels as of November.
- Year-over-year in November, employment in Colorado increased 3.7%, or 103,400 jobs. The employment forecast for 2022 stands at 4.4%, based on the BRD forecasting model, but slows to 2% in 2023.
- Colorado’s per capita personal income increased 7.9% year-over-year in Q3 2022, ranking Colorado 1<sup>st</sup>. Personal income increased 8.5% ranking Colorado 2<sup>nd</sup>. Personal income growth is projected at 6.2% in 2023.
- National real gross domestic product (GDP) increased at an annualized rate of 3.2% in Q3 2022 and 1.9% year-over-year. Colorado’s GDP increased at an annualized rate of 3.5% in Q3 and 3.2% year-over-year, ranking the state 16<sup>th</sup> and 6<sup>th</sup>, respectively. State real GDP is projected to increase 2% in 2023.

### Leeds Business Confidence Index



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### Leeds Business Confidence Index

Component	Q1 2023	Quarterly Change	Annual Change	Q2 2023	Quarterly Change	Annual Change
State Economy	41.8	▲	▼	43.5	▲	▼
National Economy	34.4	▲	▼	38.2	▲	▼
Industry Sales	40.9	▼	▼	44.9	▲	▼
Industry Profits	39.7	▼	▼	44.0	▲	▼
Industry Hiring	42.1	▼	▼	45.5	▲	▼
Capital Expenditures	39.7	▼	▼	42.9	▲	▼
<b>LBCI</b>	<b>39.8</b>	-	▼	<b>43.2</b>	▲	▼

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## National and State Economies — Leaders’ Optimism Turning Up?

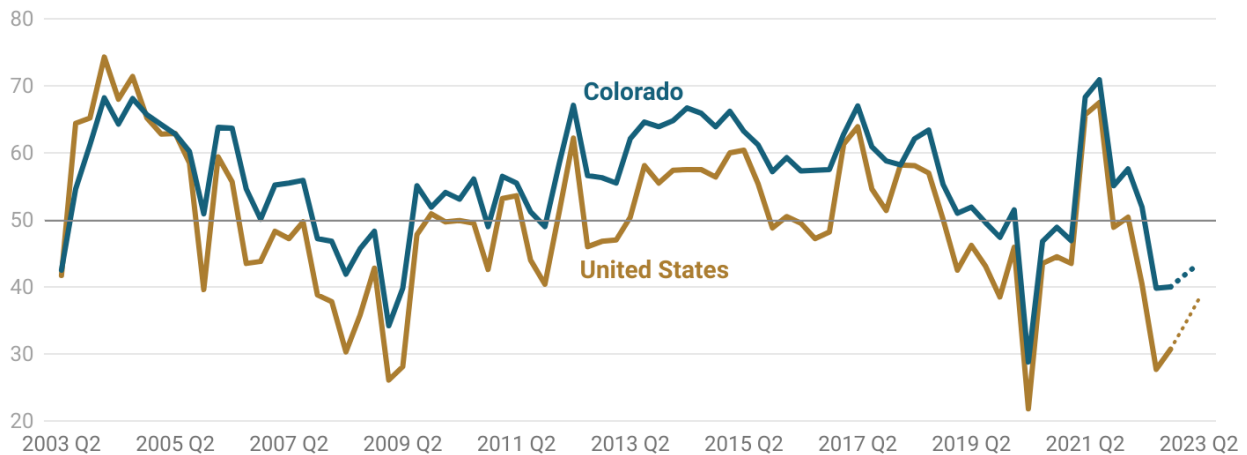
State economic expectations notched only incremental improvement ahead of Q1 and Q2 2023. National expectations notched a greater improvement from Q4, but still remained below state expectations.

State expectations changed from 40 ahead of Q4 to 41.8 ahead of Q1 2023 and 44 looking out further to Q2 2023. The gap between the state outlook and national outlook narrowed to 5.3 points ahead of Q2 2023, still indicating business leaders’ confidence that the state will outperform relative to the nation. The national index rose from 30.7 in Q4 2022 to 34.4 ahead of Q1 2023 and 38 looking further out to Q2 2023.

For the state economy, nearly half (49%) of respondents projected a moderate-to-strong decrease in Q1 versus 19.6% who indicated an increase (31.5% were neutral). On the national level, almost three-quarters (64.3%) were projecting a decrease versus 14% projecting an increase (21.7% remained neutral).

### National and State Expectations

Index (50=Neutral)



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National real GDP increased at a 3.2% seasonally adjusted annual rate (SAAR) in Q3 2022 according to the third estimate from the Bureau of Economic Analysis (BEA). Personal consumption expenditures increased 2.3%, but gross private domestic investment decreased at a rate of 9.6%. Government expenditures increased 3.7%. The trade deficit decreased from Q2 2022 to Q3 2022, shrinking to \$1.27 trillion (annualized average chained dollars). Consensus Forecasts’ expectations for real GDP growth is now projected at 1.9% for 2022. The descending trend will continue down to 0.2% growth in 2023, but there are signals that the 2023 economy may outperform initial expectations.

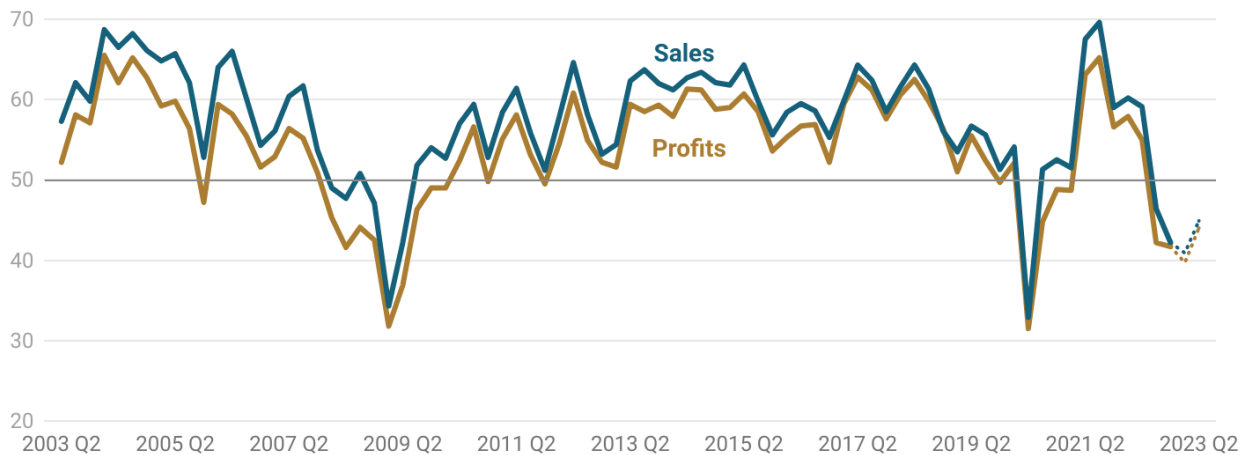
Colorado’s Q3 2022 real GDP increased at a SAAR of 3.9% for the quarter (16th) and increased 3.2% year-over-year (6th). Year-over-year, the largest percentage gains were recorded in the following industries: Arts, Entertainment, and Recreation (20.1%); Management of Companies and Enterprises (16.9%), and Information (15.5%). The largest percentage declines were recorded in Construction (-12.5%), Mining (-11.6%), and Agriculture (-10.7%). Colorado’s real (inflation adjusted) GDP is estimated to increase 3.1% in 2022 and forecasted at 2% in 2023.

## Sales and Profits — Expectations Sink

Sales and profits expectations fell ahead of the first quarter 2023 but rebounded ahead of Q2. The sales index decreased from 42.2 ahead of Q4 to 40.9 ahead of Q1 2023, rebounding to 44.9 ahead of Q2 2023. The profits index changed from 41.7 in Q4 to 39.7 ahead of Q1 2023 and 44 ahead of Q2 2023. Individuals with a negative sales outlook (51%) outweighed those with positive perceptions (20.3%), while 28.7% remained neutral. This imbalance was even more pronounced for profits—the negative perceptions outweighed positive, 51% to 18.2% (30.8% remained neutral).

### 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 2.3% quarter-over-quarter in Q3 2022 and 2.2% year-over-year. Growth in services consumption (3.5%) offset the decrease in goods (-0.2%) in the third quarter (annualized). According to data from the U.S. Census Bureau, November 2022 retail and food services sales were up 6.5% year-over-year but fell 0.6% from the previous month. The largest annual increase was at gasoline stations (16.2%), followed by food services and drinking places (14.1%). The largest month-over-month declines came from furniture and home furnishing stores (-2.6%) and Building material and garden stores (-2.5%).

B-to-B sales are also a signal for sales and profits. In October 2022, wholesale trade increased 11.9% year-over-year and 0.4% month-over-month. Strong year-over-year gains were recorded in both durable goods (10.7%) and nondurable goods (13%). Wholesale inventories increased 21.9% over the year and 0.5% from the prior month.

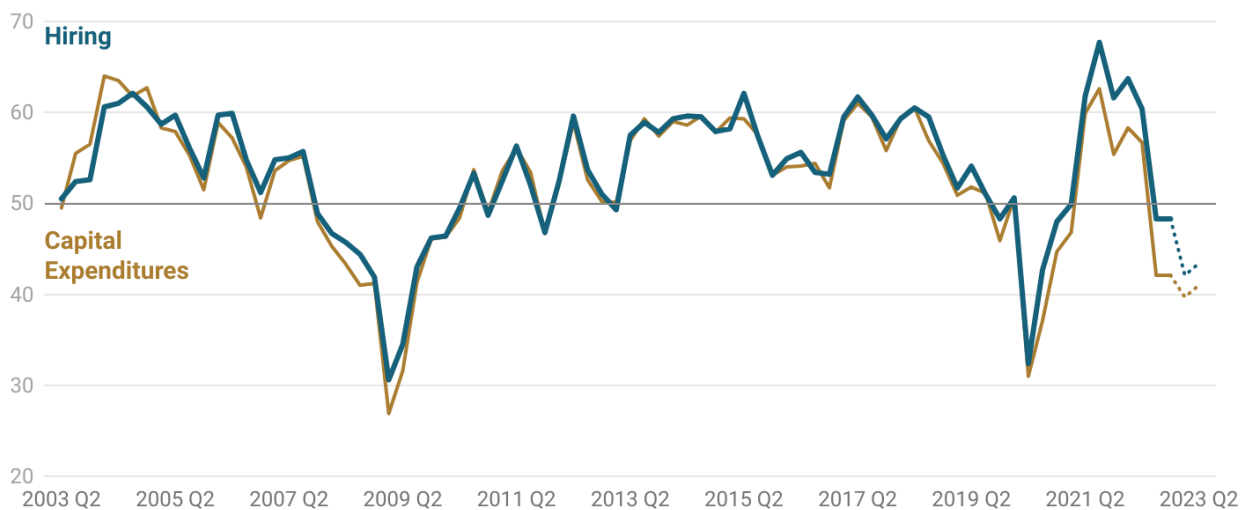
In the third quarter of 2022, Colorado personal income grew 8.5% year-over-year and 3.4% quarter-over-quarter, ranking the state 2nd and 1st nationally, for the respective metrics. Colorado had the 7th-highest per capita personal income in Q3 2022, at \$75,557, and the state ranked first for per capita personal income growth year-over-year. Wage and salary personal income growth is expected to remain strong as employment continues to rise.

## Capital Expenditures and Hiring Plans Flatline

While hiring expectations recorded the highest outlook among the six components of the index, expectations remained bearish (below 50). The outlook for capital expenditures and hiring both decreased ahead of Q1 2023 but signaled a turnaround heading into Q2 2023. These components reflect investment in firm growth; thus, the degrading index is an indication of negative business conditions. The capital expenditures index decreased from 40.8 in Q4 2022 to 39.7 ahead of Q1 2023 and 42.9 looking out further to Q2 2023. Hiring expectations performed similarly, decreasing from 43.3 in Q4 to 42.1 ahead of Q1 2023 and 45.5 ahead of Q2 (hiring recorded the highest index values in Q1 and Q2 2023).

### Capital Expenditures and Hiring Expectations

Index (50=Neutral)



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Ahead of Q1 2023, 46.2% of respondents expected capital investment to slow versus 17.5% who expected an increase (36.4% were neutral). Regarding hiring, 39.9% of respondents expected a slowdown versus 18.2% who remained positive and 42% who remained neutral.

An indicator of capital expenditures is construction. According to Dodge Data and Analytics, the nominal value of construction starts in Colorado increased 0.6% year-to-date in November 2022 compared to the same period the year prior. However, based on the rate of price growth, *real* (inflation-adjusted) construction was negative. Nominal residential construction posted an 11.7% decline in the value of construction (nominal dollars) while nonresidential and nonbuilding construction posted gains of 17.8% and 24%, respectively. According to the U.S. Census Bureau, the total value of construction put in place for the nation increased 10.8% year-to-date for the ten months ending in October 2022, with 16.4% growth in residential and 5.3% growth in nonresidential. The BEA reported U.S. nonresidential fixed business investment grew 6.2% quarter-over-quarter in Q3 2022 (SAAR) and increased 3.8% year-over-year; investment in structure fell 3.6% over the quarter and 8.4% over the year.

Seasonally adjusted national employment has made a strong recovery from the recession lows reached in April 2020. Total nonfarm employment in November 2022 increased 0.7% above the pre-recession peak in February 2020 and grew 3.3% (4.9 million jobs) year-over-year. The

unemployment rate in the United States continued to improve from 14.4% in April 2020 to 3.4% in November 2022; the rate just prior to the pandemic, in February 2020, was 3.8%.

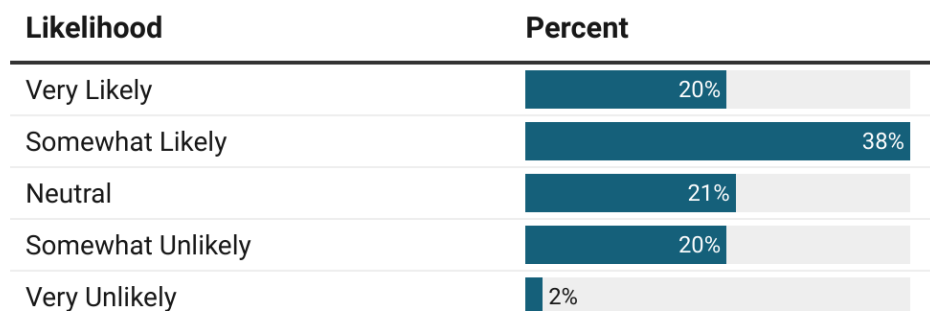
Colorado's November nonfarm employment stood 2.9% above the pre-recession peak and grew 3.7% (103,400 jobs) year-over-year. Colorado is projected to add about 120,800 jobs (4.4%) in 2022, with the greatest number of jobs added in the Professional and Business Services industry and Leisure and Hospitality industry. Employment growth in Colorado is projected to continue, albeit at a more moderate pace, adding another 57,100 jobs (2%). At 3.5%, Colorado's November unemployment rate was just below the national average, ranking 25th-lowest in the country, while the state had the 2nd-highest labor force participation rate.

Generally strong year-over-year employment growth was recorded in all of Colorado's seven metropolitan statistical areas (MSAs) in November. Two of Colorado's seven MSAs rank among the top 100 nationally for employment growth. The Boulder MSA recorded the largest year-over-year growth (3.8%), followed by Denver-Aurora-Lakewood (3.4%), Fort Collins (2.9%), Pueblo (2.7%), Colorado Springs (2.6%), Greeley (2.5%), and Grand Junction (1.2%). Colorado industries with the largest annual percent gains were Professional and Business Services (6.7%), Other Services (6%), and Mining and Logging (5.6%).

### Special Topic: Recession Expectations

As an indication of the economic headwinds, a majority of panelists indicated the U.S. is headed into a recession in the first half of 2023, with 20% deeming the likelihood as very likely, and 38% somewhat likely.

#### Likelihood of a Recession in 1H 2023



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### Special Topic: Inflation

Inflation in the Denver-Aurora-Lakewood MSA has outpaced the nation for eight consecutive years (2013-2020), but prices grew more slowly in the Denver MSA compared to the nation in 2021. Prices locally lagged national price growth in 2022. In November 2022, the Denver-Aurora-Lakewood MSA recorded price growth of 6.9% year-over-year (not seasonally adjusted) compared to 7.1% nationally and 8.3% in the Mountain Region during the same period.

## Consumer Price Index (Percent Change Year-over-Year)

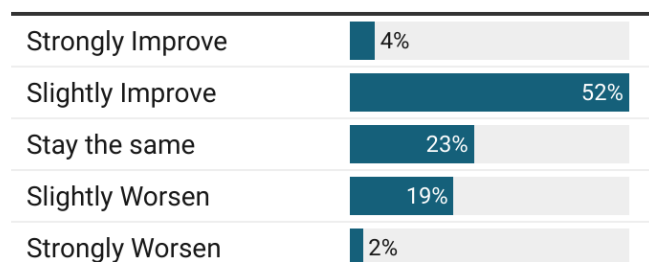
Items	U.S. City Average	Mountain Region	Denver-Aurora-Lakewood	Item Weights
<b>All items</b>	<b>7.1</b>	<b>8.3</b>	<b>6.9</b>	<b>100.0</b>
Food and beverages	10.3	10.9	9.5	14.3
Housing	7.8	10.0	9.6	42.4
Apparel	3.6	8.6	5.3	2.5
Transportation	7.8	9.2	4.2	18.2
Medical care	4.2	1.4	3.8	8.5
Recreation	4.7	2.6	2.3	5.1
Education and communication	0.7	2.5	0.3	6.4
Other goods and services	7.0	4.8	6.3	2.7
All items less food and energy	6.0	7.3	6.7	

Table: Bureau of Labor Statistics, CPI for All Urban Consumers (CPI-U) (Not seasonally adjusted). • Created with Datawrapper

A majority of respondents (56%) expect the supply chain to improve slightly or strongly in 2023, while 23% expect conditions to stay the same and 21% expect it to worsen. A majority of respondents noted that global political unrest (65%), inflation (59%), and labor issues (53%) will be the factors that continue to disrupt the supply chain. The Business Research Division projects Denver-Aurora-Lakewood MSA inflation to average 4.5% in 2023.

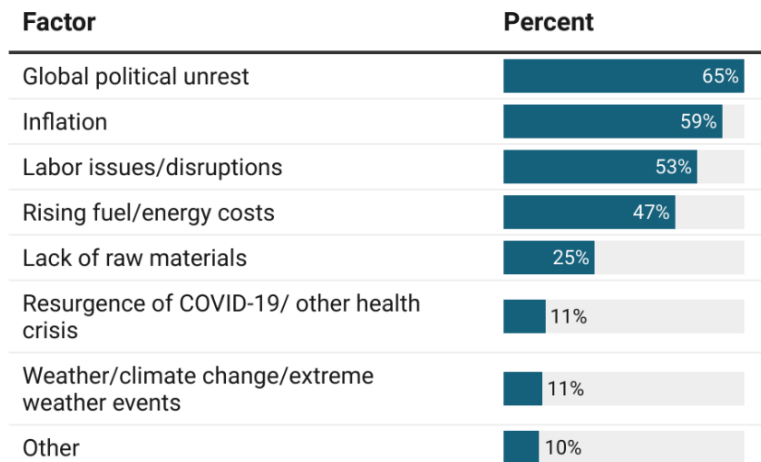
## Supply Chain Expectations in 2023

Percent



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## Factors Impacting Supply Chain in 2023

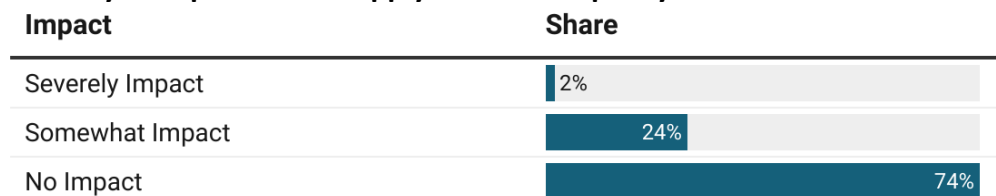


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## Special Topic: Water

Water made the headlines in 2022 with decreasing reservoir levels and persistent drought conditions. Despite the concerns, few businesses foresee short-term disruptions—74% of panelists expect no impact on their business in 2023, nearly a quarter expect the water supply to somewhat impact their business, and 2% expect severe impacts. According to the U.S. Drought Monitor, 43.3% of Colorado was experiencing moderate to severe drought conditions in late December. However, a year ago 99.8% of the state was experiencing moderate to severe drought conditions. According to the USDA, northwestern Colorado and the central mountains were at or above 100% snowpack, while southern Colorado was below average in December.

## How do you expect water supply issues to impact your business in 2023?



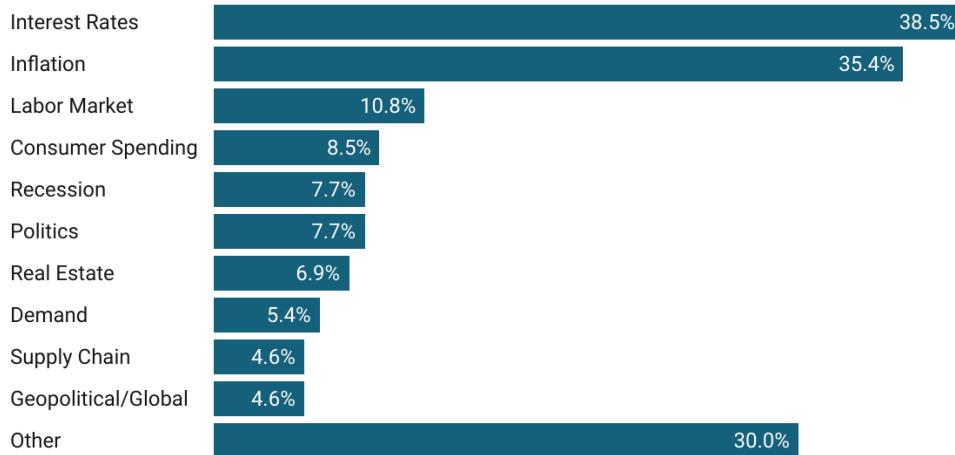
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## Reasons for Survey Responses

Panelists were asked to give reasons for their expectations. Of the 130 respondents who provided open-ended explanations, interest rates were most often cited as a concern (39% of respondents), followed by inflation (35%), labor market issues (11%), and consumer spending (9%).

### Reasons or Response

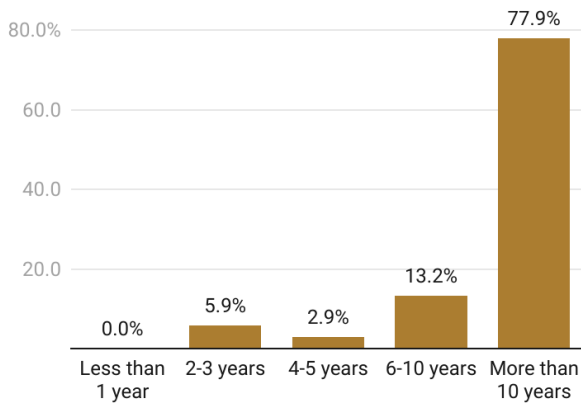


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## Expectations by Company Size and Length of Time in Business

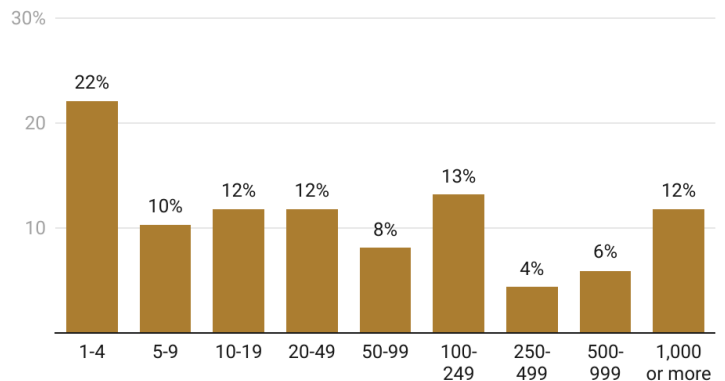
Panelists were asked about the size of their company and how long their company has been in business. Nearly 78% of respondents work at a long-standing company that has been in business for more than 10 years. More than half (55.9%) of survey respondents work for companies with fewer than 50 employees. Small employers were slightly more optimistic than large employers ahead of Q1 2022, but both cohorts expressed pessimism.

### Number of Years in Business



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### Number of Employees per Company

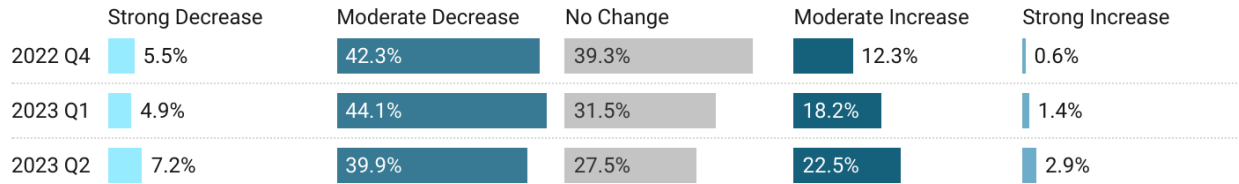


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## Distribution of Expectations in Q4 2022, Q1 2023, and Q2 2023

### State Expectations

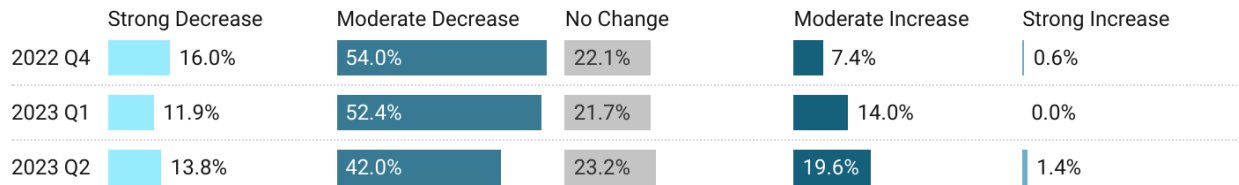
40.0 in Q4 2022, 41.8 in Q1 2023, and 43.5 in Q2 2023



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### National Expectations

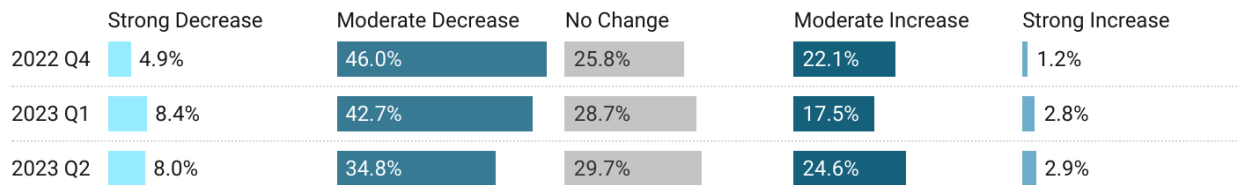
30.7 in Q4 2022, 34.4 in Q1 2023, and 38.2 in Q2 2023



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### Sales Expectations

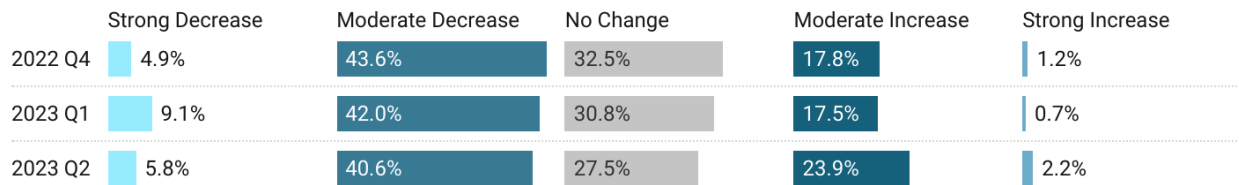
42.2 in Q4 2022, 40.9 in Q1 2023, and 44.9 in Q2 2023



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### Profit Expectations

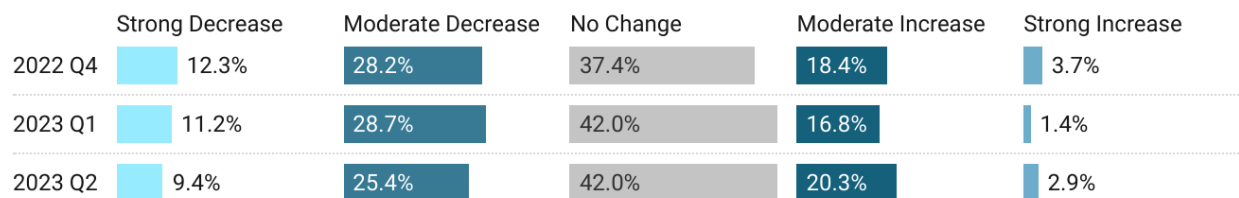
41.7 in Q4 2022, 39.7 in Q1 2023, and 44.0 in Q2 2023



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### Hiring Expectations

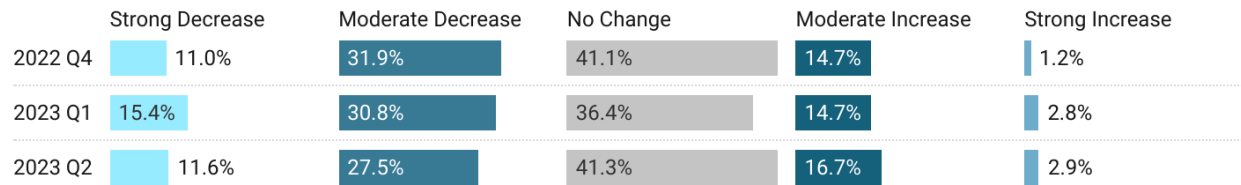
43.3 in Q4 2022, 42.1 in Q1 2023, and 45.5 in Q2 2023



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## Capital Expenditures Expectations

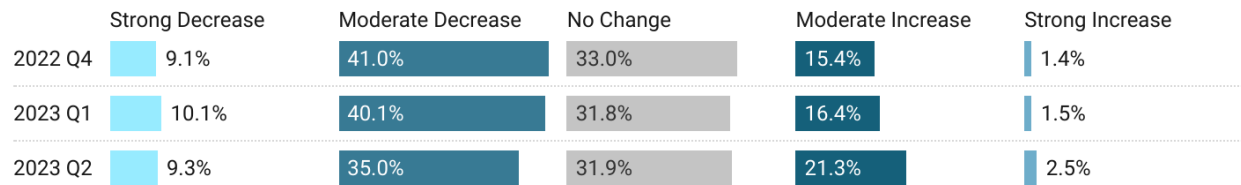
40.8 in Q4 2022, 39.7 in Q1 2023, and 42.9 in Q2 2023



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## Overall Index Expectations

39.8 in Q4 2022, 39.8 in Q1 2023, and 43.2 in Q2 2023



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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)*