

Summary — Stable Expectations

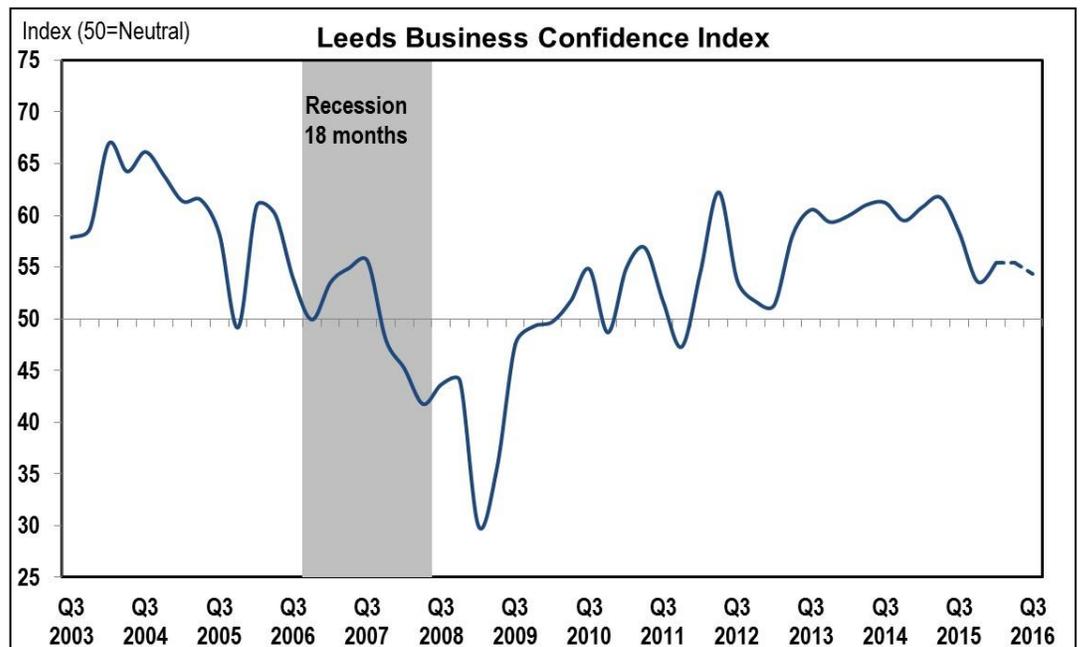
The panel of business leaders surveyed in the Leeds Business Confidence Index (LBCI) reported steady optimism ahead of Q2 2016, but expectations were lower for Q3 2016. The index is in positive territory (above 50) for all metrics in the index save for the national outlook. Sales expectations topped the outlook, and national expectations were least optimistic.

According to the Bureau of Economic Analysis (BEA), the United States recorded real GDP growth of 2.4% (seasonally adjusted annual rate) in 2015. Quarterly growth peaked in Q2 2015 (3.9%), followed by 2% and 1.4% in Q3 and Q4, respectively. Colorado recorded GDP growth of 2.4% in Q3 2015, ranking the state 18th-fastest growth nationally. The Rocky Mountain region grew at 2.6%.

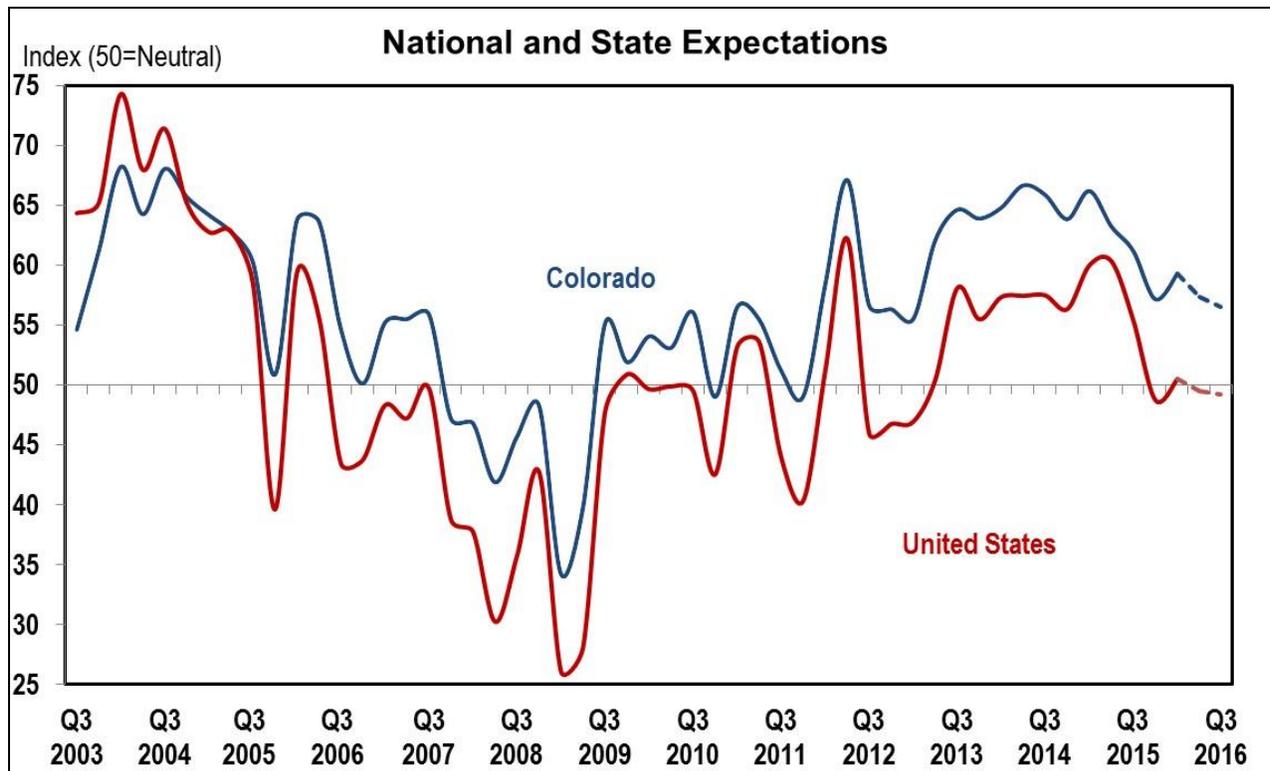
Business leaders discussed their greatest concerns two quarters out. The top concerns identified by respondents included the pending election, the impact of commodity prices (notably, oil and gas prices), the global economy, the political climate, interest rates and Fed policy, the U.S. business cycle, government regulation, and slower job growth. Examining the top three concerns, respondents most frequently noted the pending election, the impact of commodity prices, and the global economy as their greatest concerns (see appendix).

Additionally, a little more than half of respondents (52%) indicated the presence of a talent shortage in Colorado. Most often, panelists described the shortage as leading to higher salaries/wages, lower retention, slower business growth, and higher project costs. As well, panelists described a longer recruiting process and the need to recruit from out-of-state.

The LBCI, which captures Colorado business leaders' expectations for the national economy, state economy, industry sales, profits, hiring plans, and capital expenditures, is at 55.4 for Q2 2016 (unchanged from Q1) and 54.4 for Q3 2016. Expectations fell compared to a year ago for both Q2 (-6.3 points) and Q3 (-3.9 points). A total of 327 panelists responded to the survey.



decrease in private inventory investment, a downturn in imports, and an acceleration in federal government spending.

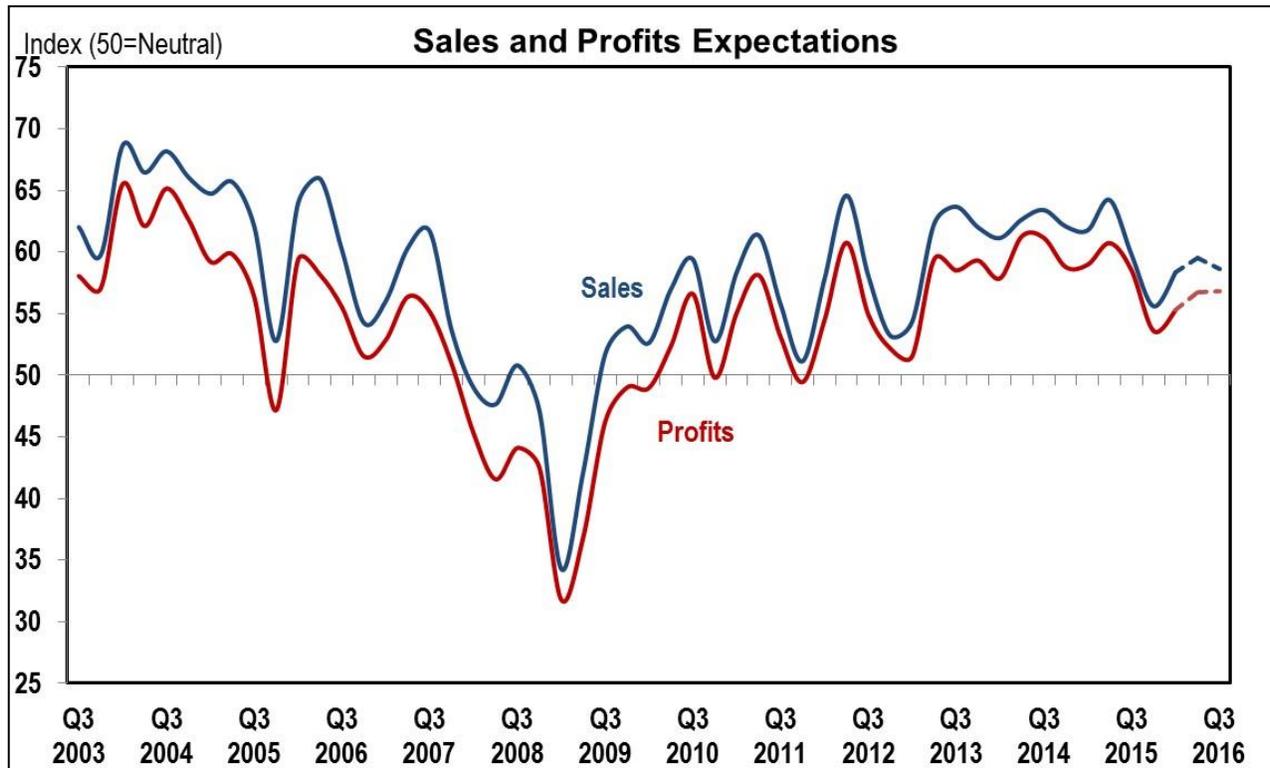


National employment growth exhibited strength, averaging 252,000 jobs over the five months ending in February, and the unemployment rate remained at 4.9% for the second-consecutive month in February.

Total year-over-year employment growth has continued to slow in Colorado for the second consecutive month in February, with the pace of growth at 2.5%. After 21 uninterrupted months of +3% job growth from November 2013 through July 2015, job growth has expanded in the 2% range for 7 months. The state recorded 52 consecutive months of job growth. Year-over-year, the state added 63,000 jobs.

Sales and Profits — Expectations Stabilize Ahead of Q1

Profits and sales expectations rose ahead of Q2 2016, but sales expectations decelerated for Q3. The profits index recorded a 1.4-point increase, from 55.3 in Q1 2016 to 56.7 in the Q2 2016 survey. Profits expectations increased to 56.8 for Q3 2016. Sales expectations increased from 58.4 to 59.5 in Q2 2016, but decreased to 58.6 in Q3 2016.



The positive profits index was sustained by 42% of respondents who anticipate an increase in sales in Q2 versus 17% who expect a decline; 41% are neutral. Of the respondents on the extreme tails, 4% expect a strong increase and 2% anticipate a strong decrease.

The sales index increased to 59.5 in Q2 2016, with those expecting growth in sales (49%) outweighing those anticipating declines (14%). More than one-third remain neutral.

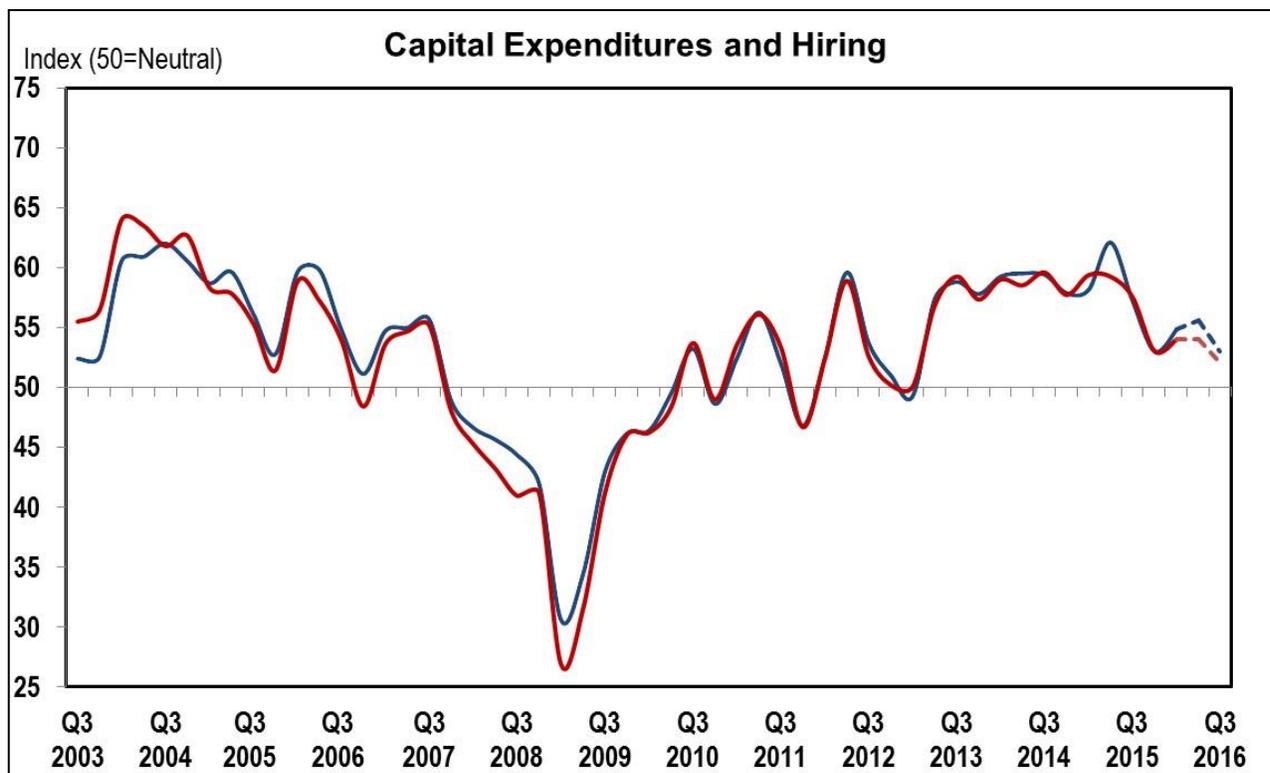
According to the BEA, state personal income rose 1% from the preceding quarter in Q4 2015 and 4.2% year-over-year, ranking the state 6th and 15th, respectively, for these metrics. Per capita personal income rose 2.2% year-over-year in Q4. Inflation in the second half of the year (all items index) increased 1.4% year-over-year in the Denver-Boulder-Greeley MSA. Core inflation increased 3.5% year-over-year, and shelter increased 5.8%.

According to the Federal Housing Finance Agency (FHFA) purchase only home price index, between the fourth quarter of 2014 and the fourth quarter of 2015, home prices rose in every state. Colorado ranked second in the nation—behind Nevada—in home price appreciation in Q4 2015, with a year-over-year increase of 10.9% and a 1.3% gain over the previous quarter.

According to the Institute for Supply Management, the manufacturing index increased to 49.5 in February 2016, an increase from January, but below the neutral (50) threshold.

Capital Expenditures and Hiring Plans — Realignment

Hiring expectations increased ahead of Q2, but the capital expenditures outlook remained flat; both decreased ahead of Q3.



While half of respondents are neutral, 33% expect a boost in capital expenditures, with the overall index increasing slightly to 54.1 in Q2 2016. Capital expenditure expectations decrease for Q3, to 52.1. A total of 4.3% respondents expect a strong increase compared to 3.4% who anticipate a strong decrease in capital expenditures.

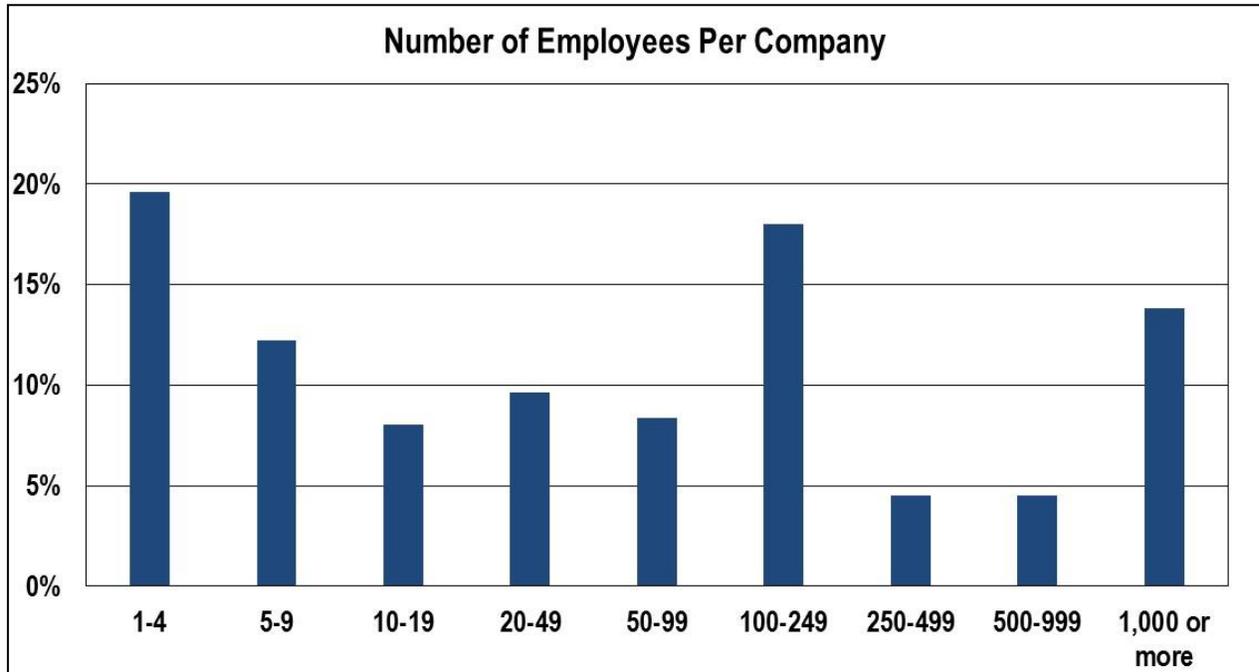
Hiring expectations increased as well in the Q2 2016 survey, from 54.9 to 55.6, but decreased, to 53, for Q3. About 49% of respondents are neutral on hiring, and another 37% of panelists note positive expectations, indicating employment in Colorado continues to have upward growth potential.

The unemployment rate in Colorado decreased to 3% in February 2016, which compares to the national unemployment rate of 4.9%. Employment growth was recorded year-over-year in most metropolitan areas around the state, with the Fort Collins-Loveland MSA and the Colorado Springs MSA recording the fastest growth, 3.8% and 2.7% year-over-year, respectively. The Denver-Aurora-Broomfield (2.5%), Boulder (1.8%), Pueblo (1.5%), and Grand Junction (0.2%) MSAs also recorded employment growth, while the Greeley MSA recorded a sixth-consecutive month of year-over-year declines (-0.6%).

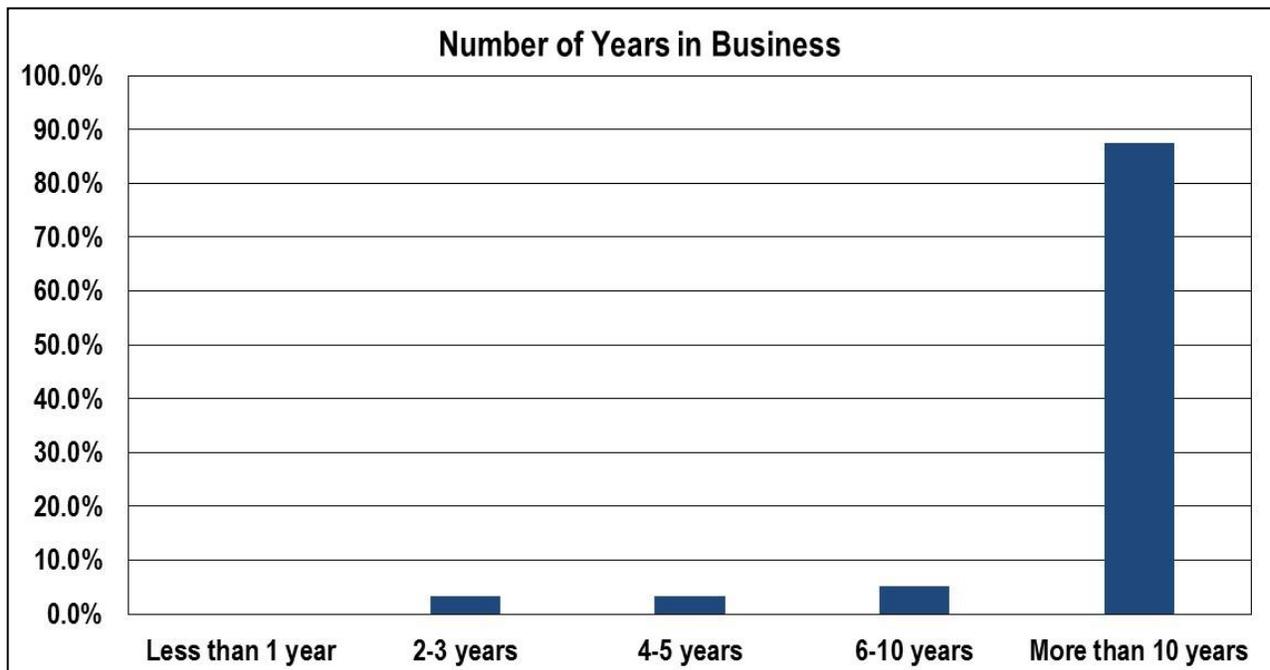
Across the state, the greatest year-over-year percentage gains in employment were in Leisure and Hospitality (6.3%), Construction (4.3%), and Education and Health Services (4%). The weakest sector for growth was Mining and Logging (-19.1%).

About the Panel — 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 (49.5%) of survey respondents work for companies with fewer than 50 employees. The four largest groups were represented by companies with 1–4 employees (19.6%), 100–249 employees (18%), 1,000 or more employees (13.8%), and 5–9 employees (12.2%).



Small employers' expectations increased 1.2 points ahead of Q2 while large employers' expectations decreased 0.8 points. While remaining above the neutral threshold, small employers (fewer than 50 employees) were notably less optimistic than large employers. The

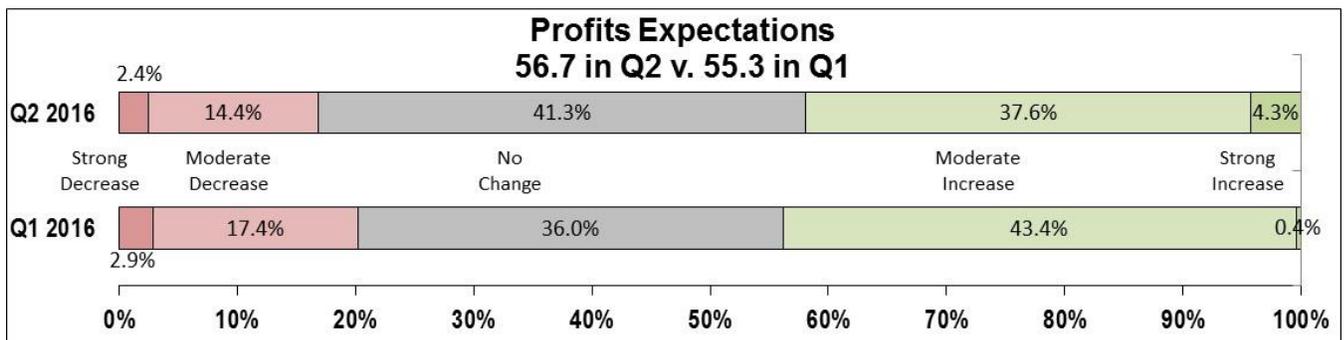
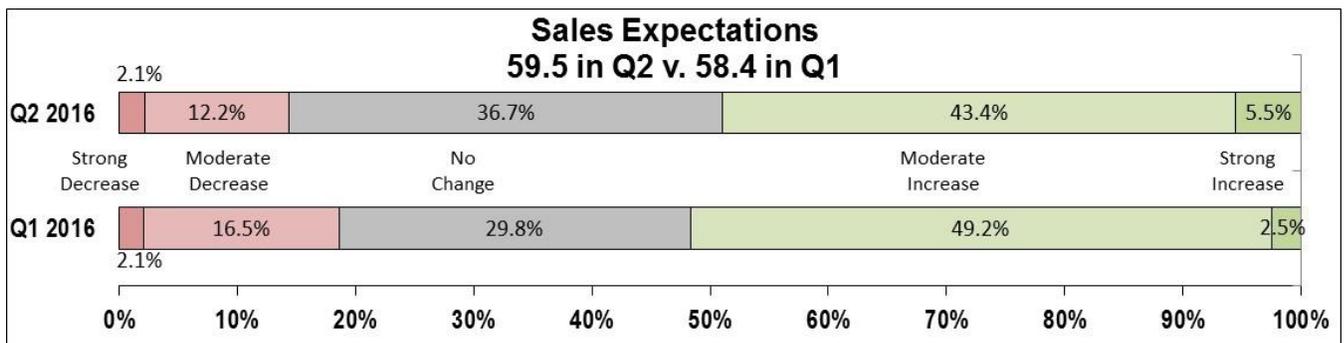
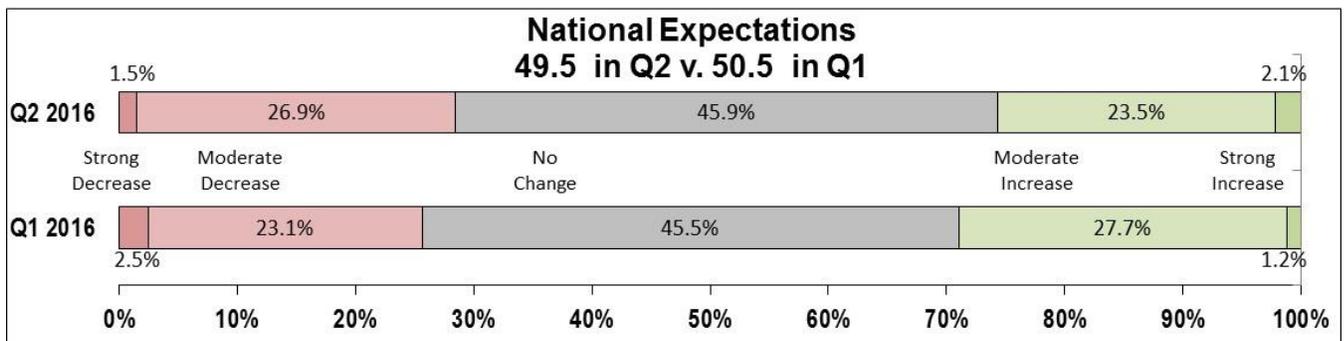
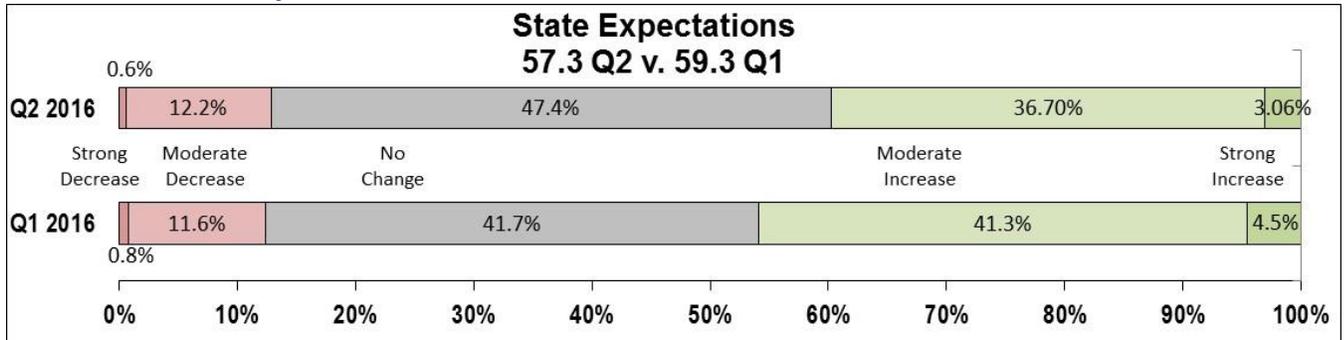


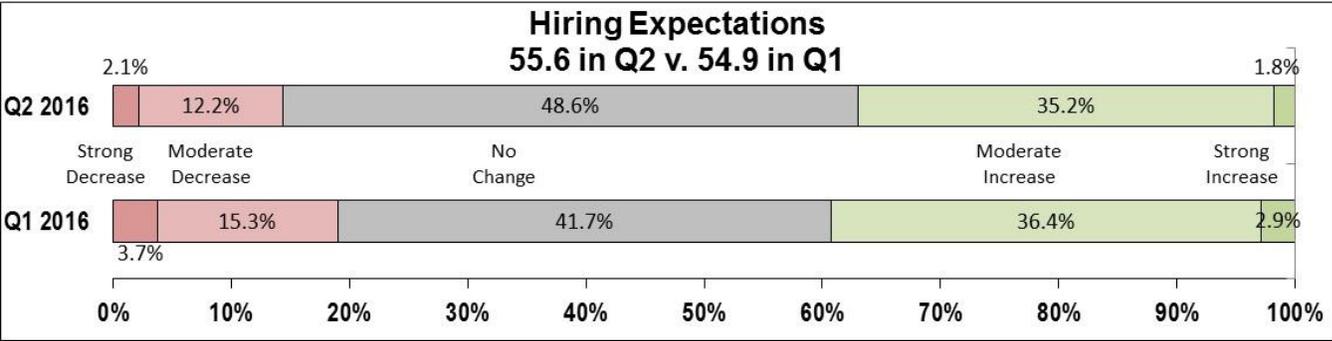
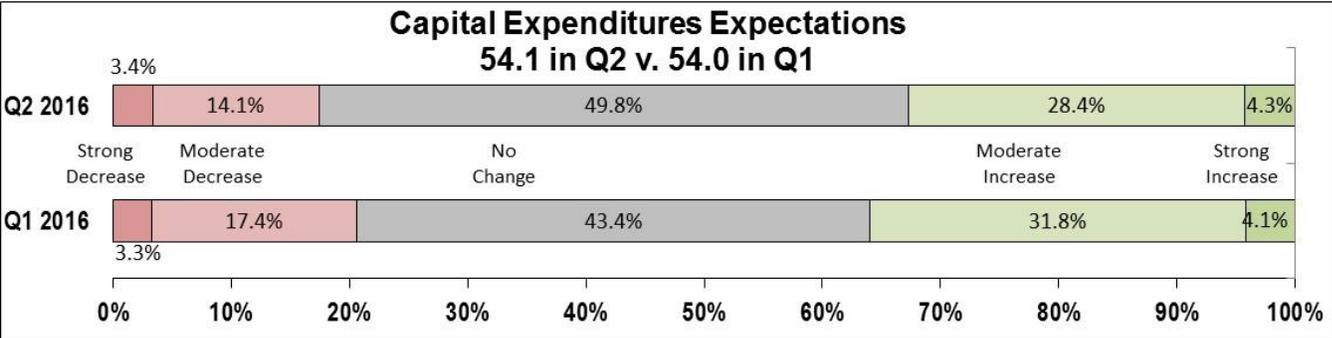
overall index for small employers increased to 54.1 versus 57.2 for large employers. Large employers were more bullish than small employers in every category. The greatest differential (6.5 points) was in hiring plans, with small employers recording a reading of 52.7 compared to large employers' reading of 59.2.

More than 87% of survey respondents work at a long-standing company that has been in business for more than 10 years. Newer companies were more bullish than long-standing companies. The index by firm tenure (how long it has been in business) was higher for firms in business less than 10 years (58.1) than for firms in business more than 10 years (55.1).

While responding panelists represent nearly every industry in the state, the largest percentage of respondents to the Q2 survey work in three private sectors: Professional and Technical Services (20.7%), Finance and Insurance (19.8%), and Real Estate and Rental and Leasing (11.1%).

Distribution of Expectations





Appendix: Overall Concerns Looking Ahead to Q3 2016

Concern	1	2	3
Election	70	34	34
Commodity/Energy Prices	52	30	26
Global Economy	29	27	23
Political Climate	16	16	15
Interest Rates/Fed Policy	13	21	10
Recession/Business Cycle	12	10	11
Government Regulation	10	14	7
Job growth	10	11	7
Government Spending/Debt	9	12	12
Other	9	27	35
Labor Shortage	8	9	6
Skilled/Talented Workforce	7	8	16
Affordable Housing	7	18	1
Housing Bubble/Plateau	5	3	5
Wage Pressure	5	2	1
Stock Market	5	9	2
Inflation	4	2	5
Capital Spending	4	0	1
Cost of Health Care	3	3	3
Taxes	3	4	6
National Security	3	2	2
Strength of Dollar	3	5	7
Consumer Confidence	3	2	1
Deteriorating Infrastructure	3	2	5
Demand Slowdown	2	2	2
Low Wages	2	7	5
Eurozone	1	1	1
Demographics	1	0	0
Labor Costs	1	2	1
Decline in Retail Sales	1	0	0
TABOR	1	0	0
Unemployed	1	2	5
Minimum Wage	1	1	0
Consumer Spending	1	1	2
Geopolitics	1	4	3
Productivity	1	0	1
Trade Deficits	1	0	1
Student Loans	1	0	2
Corruption	0	1	0
Market Uncertainty	0	1	1
Corporate Profits	0	3	1

N=291

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