

## Leeds Business Confidence Steady Ahead of Q2 2018

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 Q2 2018 the index increased to 61.3, but slipped to 59.7 ahead of Q3 2018. Although expectations generally rose ahead of Q2, they fell slightly ahead of Q3 for all components. A total of 310 qualified panelists responded to the survey from March 1 through March 20.

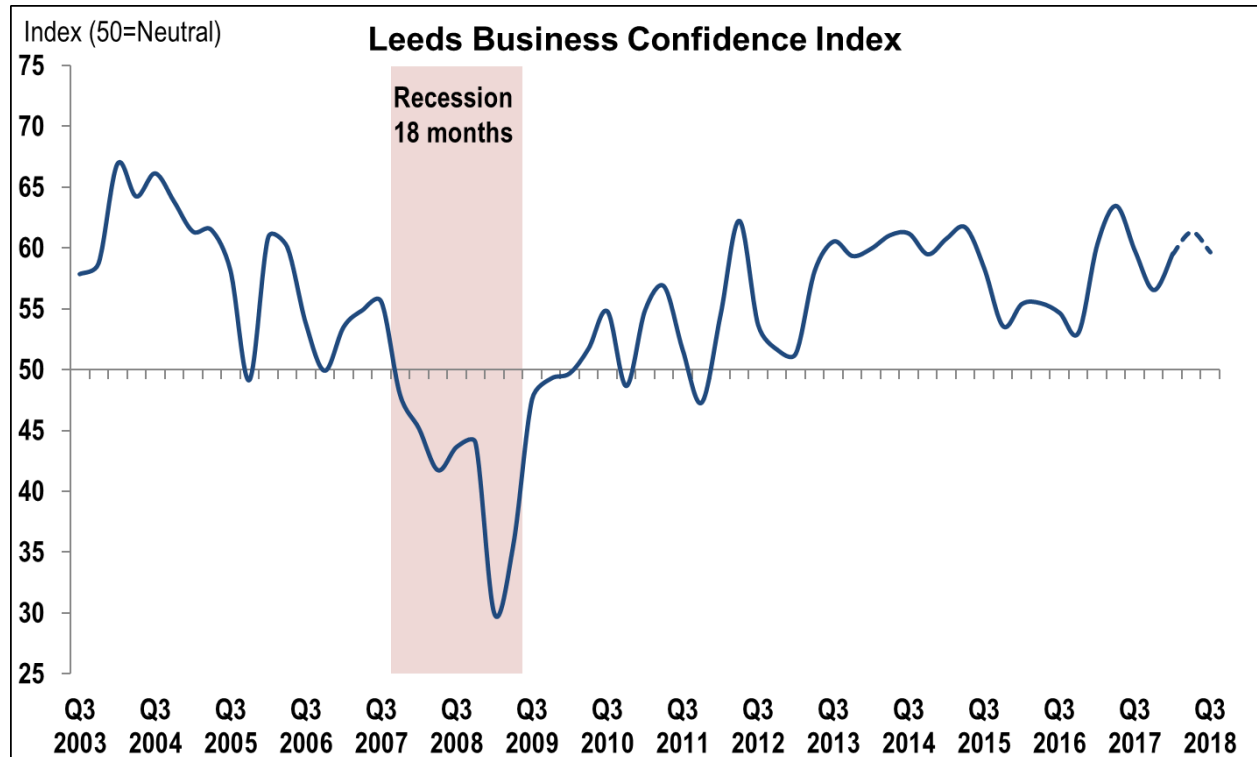
### Leeds Business Confidence Index

Component	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Change	
						Quarterly	Annual
State Economy	67.0	60.9	58.8	58.2	62.1	▲	▼
National Economy	63.9	54.6	51.4	58.2	58.1	▼	▼
Industry Sales	64.3	62.4	58.5	61.6	64.3	▲	No Change
Industry Profits	62.8	61.2	57.6	60.6	62.5	▲	▼
Industry Hiring	61.7	59.7	57.1	59.3	60.5	▲	▼
Capital Expenditures	61.0	59.5	55.8	59.3	60.5	▲	▼
<b>LBCI</b>	<b>63.4</b>	<b>59.7</b>	<b>56.5</b>	<b>59.5</b>	<b>61.3</b>	▲	▼

- Business confidence is slightly higher ahead of Q2, but falls looking to Q3.
- All six individual components of the LBCI remain in positive territory (above 50) ahead of both Q2 2018 and Q3 2018.
- Expectations for five of the components rose ahead of Q2, and the national economy fell by only 0.1 points from Q1 2018 to Q2 2018.
- Looking at the index year-over-year, five components fell from Q2 2017 to Q2 2018, indicating less confidence among business leaders this year.
- When panelists were asked how they would use tax savings, the top responses for households include they will increase savings, or they do not expect a tax cut. Regarding how companies will use the savings, the most frequent responses are they are unsure, or they plan to invest in equipment.
- Colorado continues to experience employment growth, real GDP expansion, increasing personal incomes, as well as other macroeconomic factors, and the overall positive reading of the LBCI is consistent with these trends.

## Summary – Steady Growth Ahead of Q2

The LBCI rose ahead of Q2 2018, but decreased slightly ahead of Q3 2018. The overall index remains comfortably in positive territory (above 50). Expectations for Q2 2018 are 61.3 (a 1.8-point increase from last quarter), but they slipped 2.1 points from a year ago. Looking further ahead to Q3 2018, expectations are unchanged from Q3 2017 (59.7), but fell 1.6 points from the previous quarter. All six individual components of the index remain in positive territory, and the national economy was the only component that fell from Q1 2018 to Q2 2018. Looking ahead to Q3, expectations for all six components declined compared to the prior quarter.

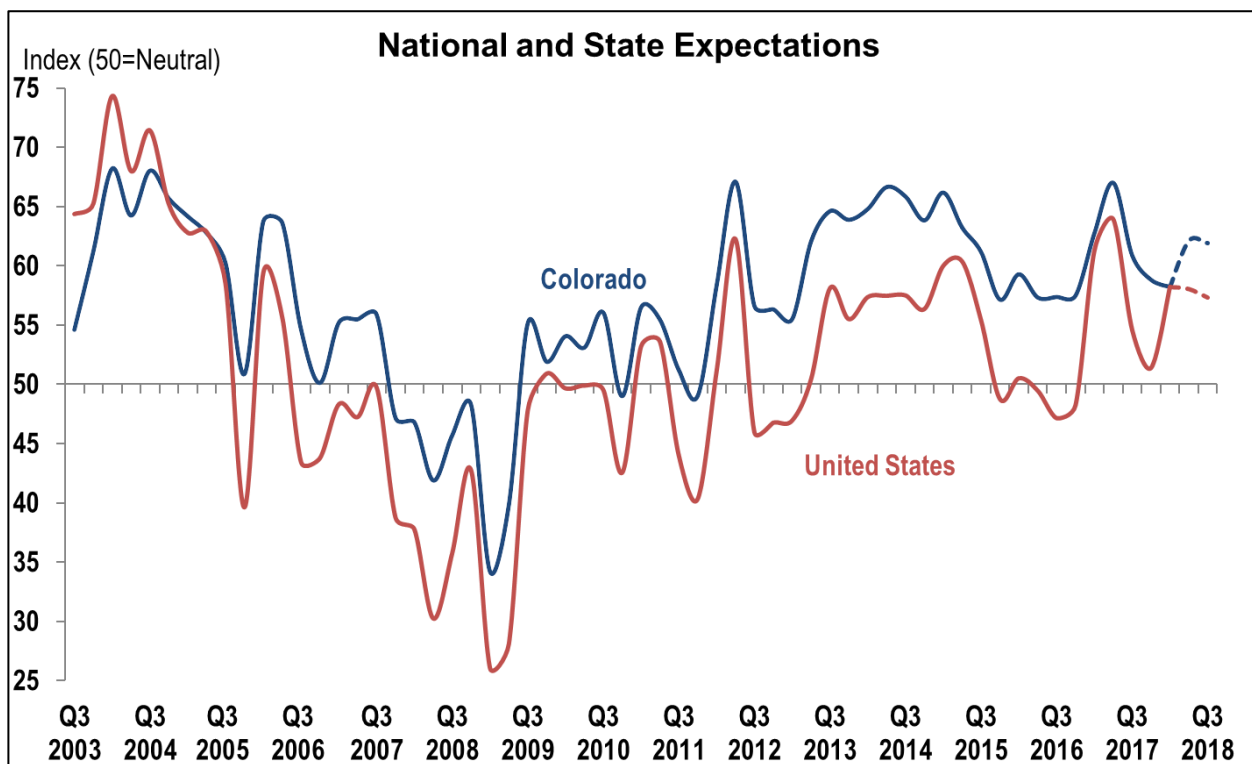


National real gross domestic product (GDP) grew at a 2.5% seasonally adjusted annual rate (SAAR) in Q4 2017. Personal consumption expenditures increased, gross private domestic investment decelerated, and net exports improved for the quarter, while government expenditures grew. In 2017, GDP rose 2.3%, following the previous year's increase of 1.5%; analysts project accelerating growth in 2018. GDP has recorded positive growth for the seventh consecutive year according to the Bureau of Economic Analysis (BEA). Colorado continued to experience positive real GDP growth, with 3.7% SAAR in Q3 2017. Colorado accounted for 1.8% of total U.S. GDP in Q3 2017.

## National and State Economies — Slight Positive Growth for State Outlook

After the national and state economy expectations converged in Q1 2018, with a reading of 58.2, state expectations rose ahead of Q2 and national expectations fell. National expectations decreased modestly from 58.2 in Q1 to 58.1 ahead of Q2 and 57.3 ahead of Q3 2018. State expectations rose from 58.2 in Q1 to 62.1 ahead of Q2 but slid to 61.9 ahead of Q3 2018. After three quarters of decreasing expectations on the state level, Q2 marks a transition to increased confidence, even though expectations are still 4.9 points lower than one year ago.

Panelists' expectations for both the state and national economies maintained above-neutral outlooks. For the state economy, the majority of respondents (53.6%) believe that the state economy will expand in Q2, and a smaller percentage (11.3%) expects a decline. A total of 35.2% of panelists remain neutral. On the national level, 47.4% of panelists expect an expansion, while 18.7% expect a decline. Looking ahead to Q3, 53% anticipate an expansion of the state economy and 46.6% expect a national expansion.



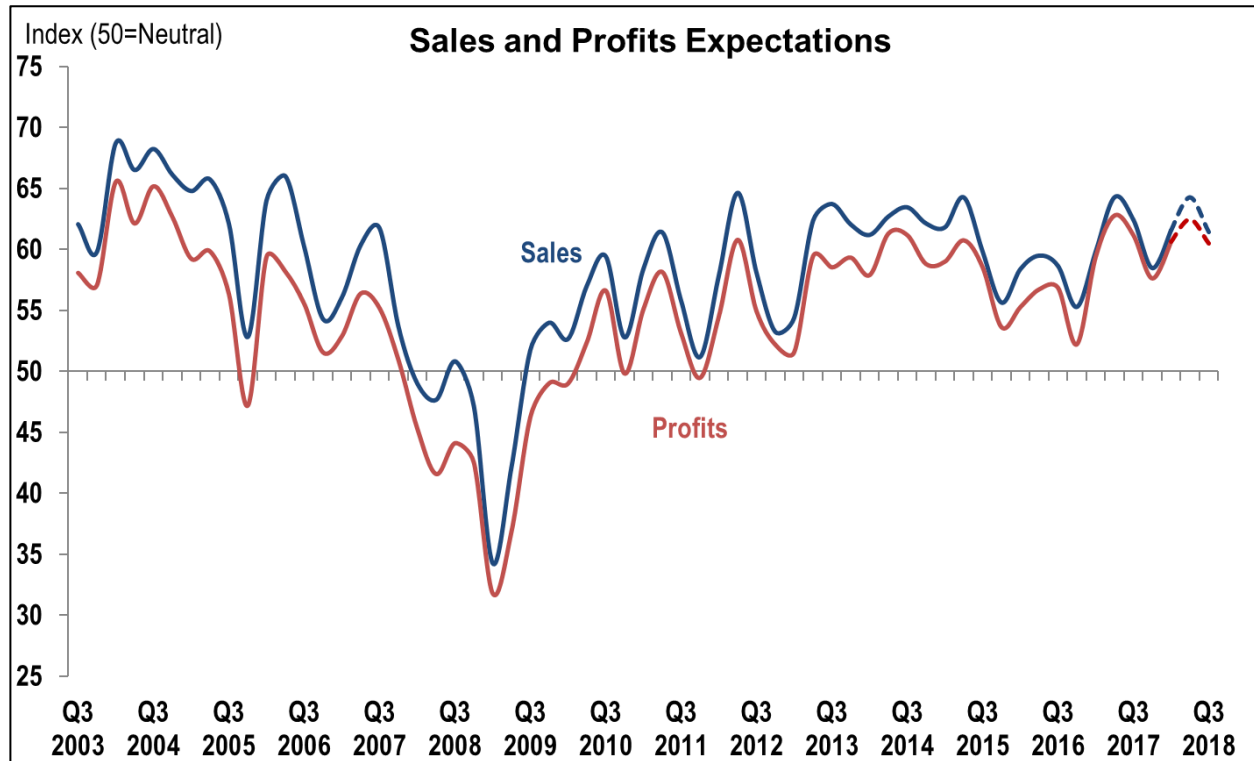
U.S. GDP grew at 2.5% SAAR in Q4 2017, a decrease in the growth rate from the prior quarter's rate of 3.2%. The BEA reported:

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

Colorado’s Q3 2017 real GDP grew at an SAAR of 3.7%. Quarter-over-quarter, the Finance and Insurance, Information, and Health Care and Social Assistance industries increased by the largest percentage and dollar amount.

### Sales and Profits — Small Decreases in Expectations

Sales and profits expectations rose 2.7 and 1.9 points, respectively, from Q1 and Q2 2018. Looking toward Q3, however, sales expectations fell 2.9 points, while profits expectations decreased 2 points.



The profits index increased from 60.6 in Q1 to 62.5 ahead of Q2, but decreased to 60.5 ahead of Q3. Respondents maintained an overall positive outlook, with 54.5% expecting a moderate to strong increase in Q2. The sales index increased from 61.6 in Q1 to 64.3 ahead of Q2 and fell slightly, to 61.4, in Q3. In Q2, 60.4 of panelists expect an increase, while 10.4% expect a decrease in sales. In terms of sales and profits, around 30% of respondents remain neutral.

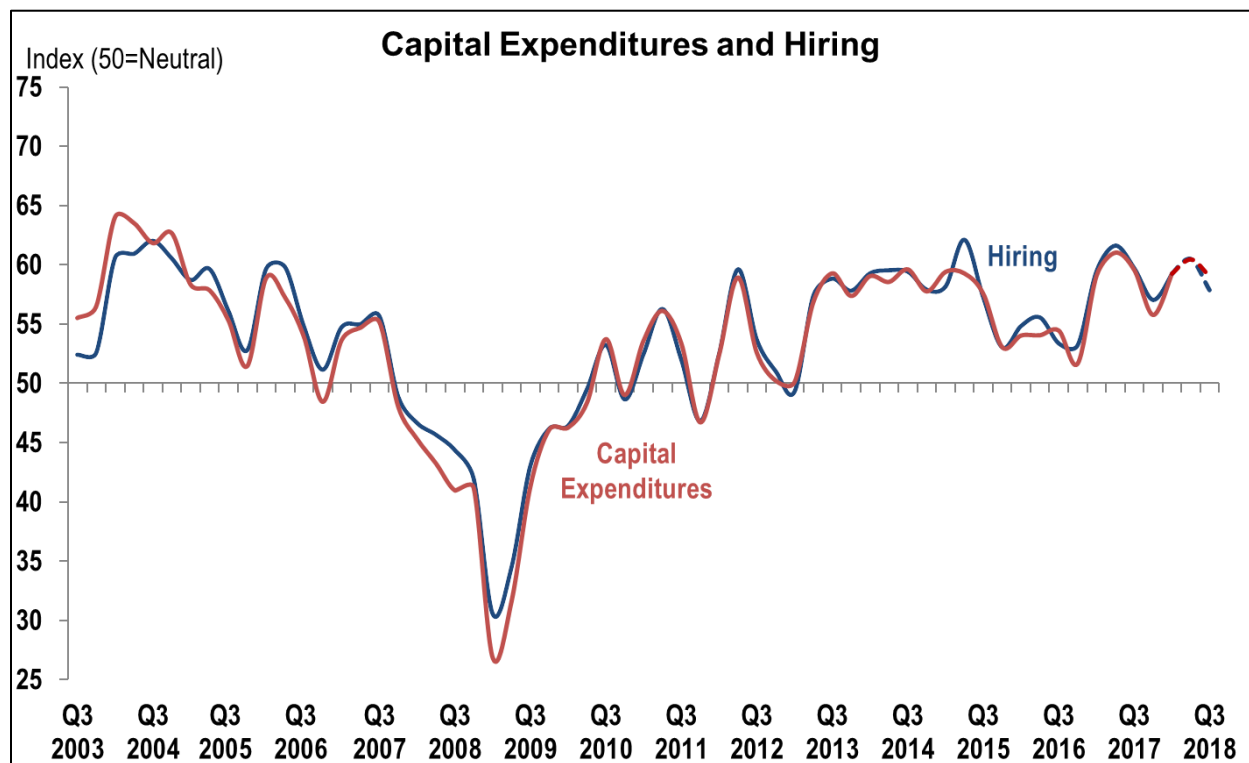
According to the Institute for Supply Management, the national manufacturing index in February 2018 is 60.8, which is the highest level since May 2004. February’s manufacturing index is 2.8 points higher than the 12-month average and 1.7 points higher than January 2018. The nonmanufacturing index fell slightly in February 2018, by 0.4 points, from January, but remained 2.1 points above the average for the past 12 months.

Personal incomes continued to grow in Colorado in Q4 2017. According to the BEA, Q4 2017 (most recent data) Colorado personal income rose 1.3% from the preceding quarter, with a strong increase of 5.3% year-over-year. Colorado ranked 5th in the nation for year-over-year

growth, and rose to 9th for quarterly growth. Per capita personal income increased 0.9% in the state from Q3 2017 to Q4 2017 and 3.9% year-over-year. Colorado ranked 29th among states for quarterly growth in per capita personal income and 11th among all states in year-over-year growth in Q4 2017. Prices continue to increase, putting more pressure on personal income, wages, and salaries. According to the Bureau of Labor Statistics, prices increased 2.6% year-over-year in the second half of 2017 in the Denver-Aurora-Lakewood region in Colorado. Core inflation (which excludes energy and food) increased 3.4% and shelter increased 4.5% during the same period.

### Capital Expenditures and Hiring Plans — Mixed Expectations

The outlook for both capital expenditures and hiring is relatively steady ahead of Q2 and Q3. Hiring plans increased to 60.5 in Q2 and decreased to 57.9 in Q3, while capital expenditures rose to 60.5 in Q2 but fell to 59.0 in Q3. Both components are lower than their readings from one year ago. Hiring plans fell by 1.2 points from Q2 2017 to Q2 2018, and capital expenditures dropped by 0.5 points in the same time frame.



Less than half of respondents expect an increase in hiring plans (45.5%) and capital expenditures (46.8%) in Q2 2018. In addition, 45.2% expect no change in hiring plans, and 42.9% anticipate no change in capital expenditures in Q2.

In Colorado, an indicator for capital expenditures is infrastructure. According to Dodge Data and Analytics, the value of construction in Colorado was up 12% through February 2018 compared to the same period one year ago. Through February, nonbuilding increased by 6.5%, while residential increased by 22.4%. According to the U.S. Census Bureau, the total value of

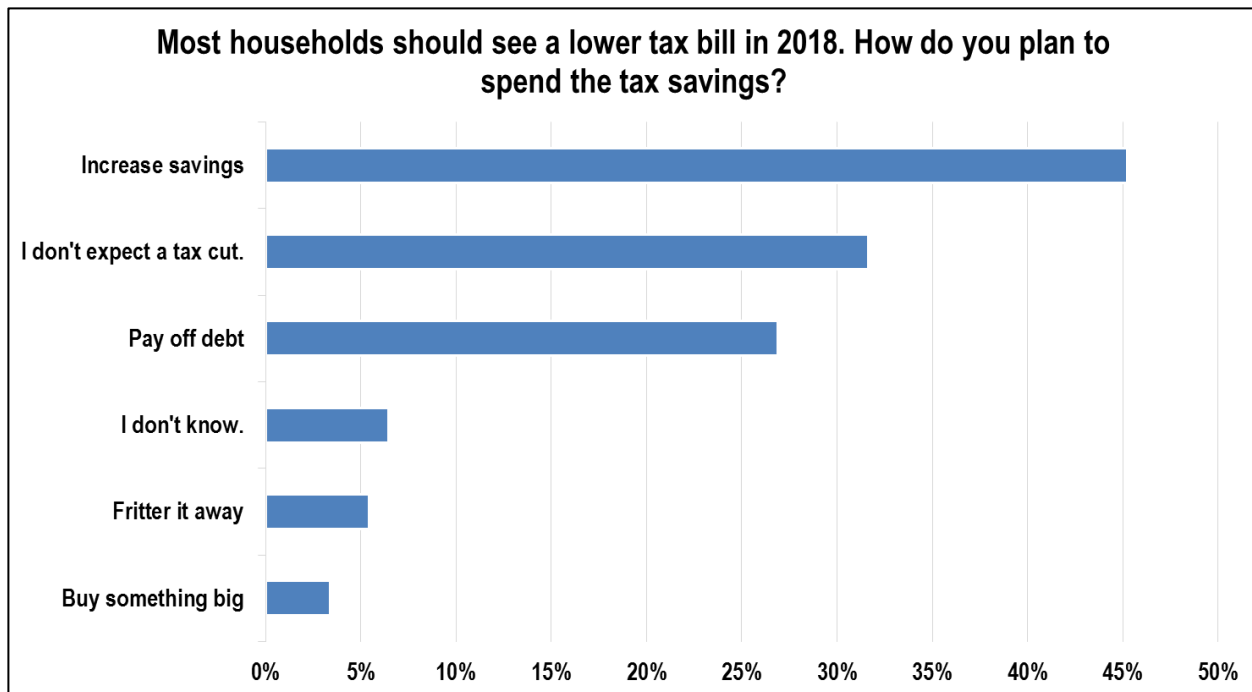
construction for the nation increased by 3.2% from January 2017 to January 2018, which is considerably lower than Colorado.

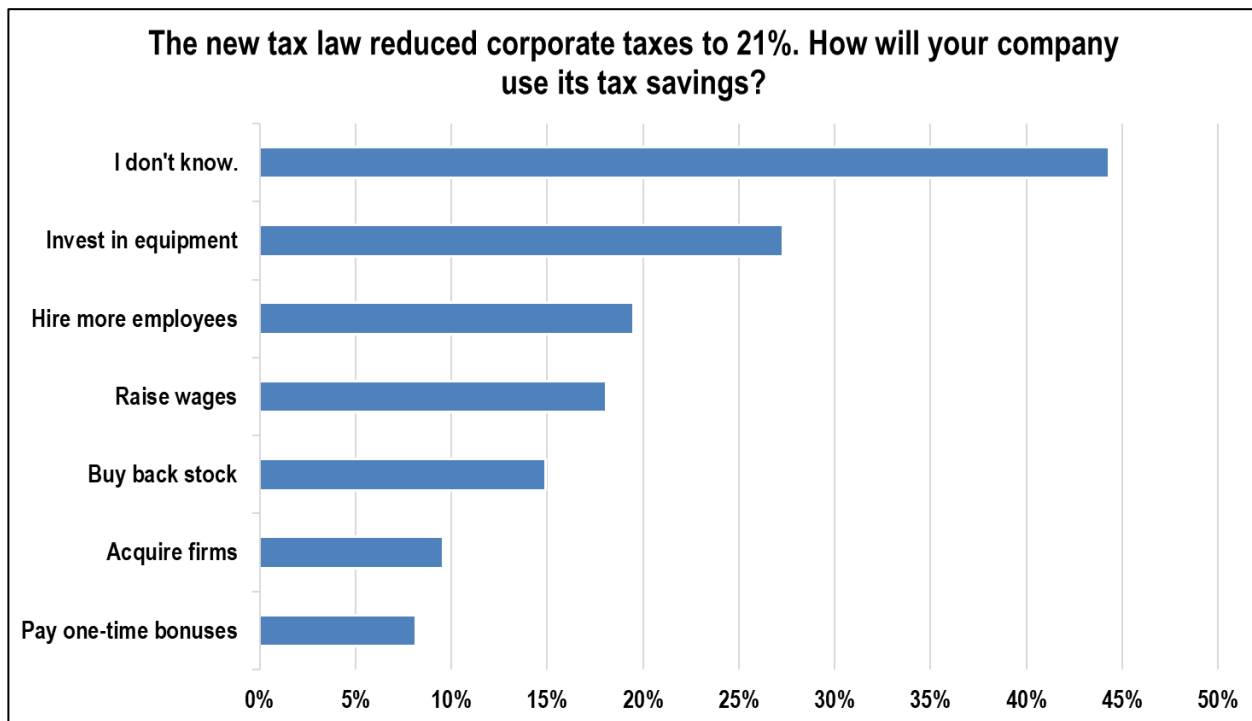
Employment continues to grow in the United States. In January 2018, jobs increased 1.5% year-over-year. For all nonfarm sectors, 200,000 jobs were added between December 2017 and January 2018. Year-to-date through January, the average number of jobs added per month totaled 174,000, down from an average of 190,000 for the same period a year ago. The unemployment rate in the United States stood at 4.1% in January.

As of February 2018, Colorado continued to exhibit strong employment growth. Jobs increased 2.4% from February 2017 to February 2018, an increase of 63,400 year-over-year—the fifth-fastest rate in the country. The state unemployment rate continues to outperform the nation as a whole. In February 2018, the unemployment rate was just 3% seasonally adjusted, well below the national average of 4.1%. Year-over-year employment growth was recorded for Colorado’s seven metropolitan areas. The Greeley MSA recorded the fastest year-over-year growth (6%), followed by Fort Collins (2.9%), Denver-Aurora-Lakewood (2.4%), Colorado Springs (2.2%), Boulder (1.9%), and Grand Junction (1.8%). Pueblo was the only MSA to report job losses (-0.3%). Colorado industries with the greatest annual percent change in February were Mining and Logging (16.7%), Construction (7.1%), and Information (4.1%).

### Impact of the Tax Cuts and Jobs Act (TCJA)

Panelists were asked how their households and companies planned to use their tax savings. Approximately 45% responded that their households planned to increase savings, while 32% do not expect a tax cut. A total of 27% of households plan to pay off debt. Turning to how companies expect to use the tax savings, 44% are unsure of how they will use it, and 27% plan to invest in equipment.



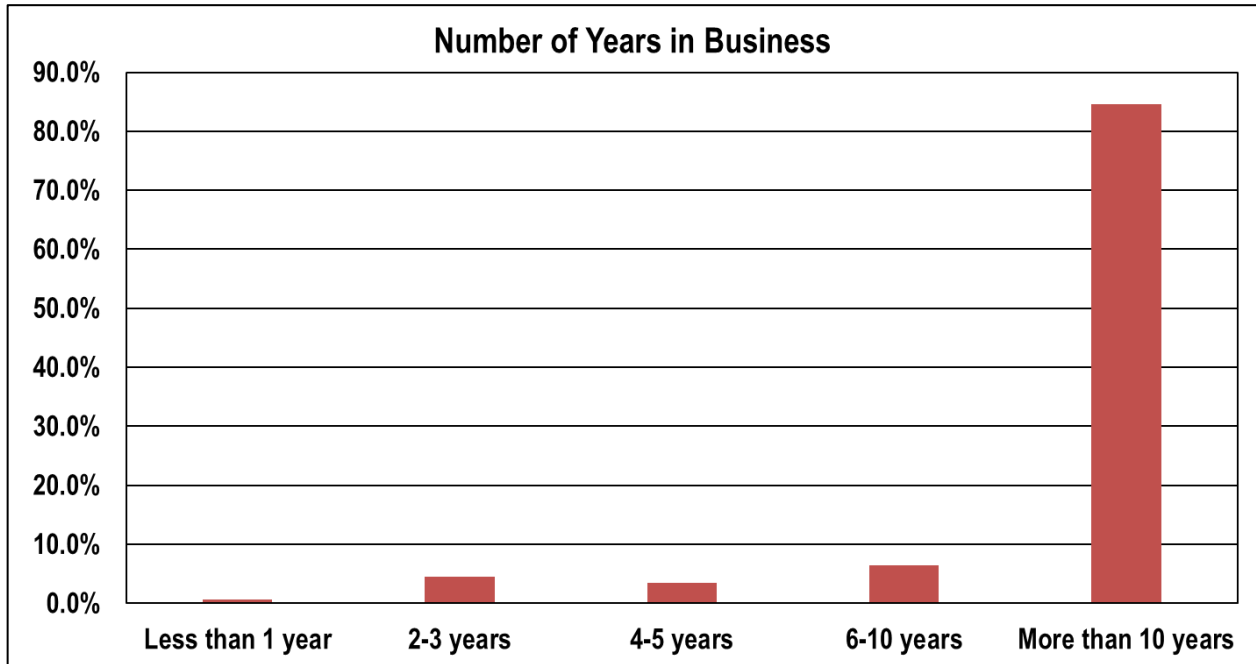
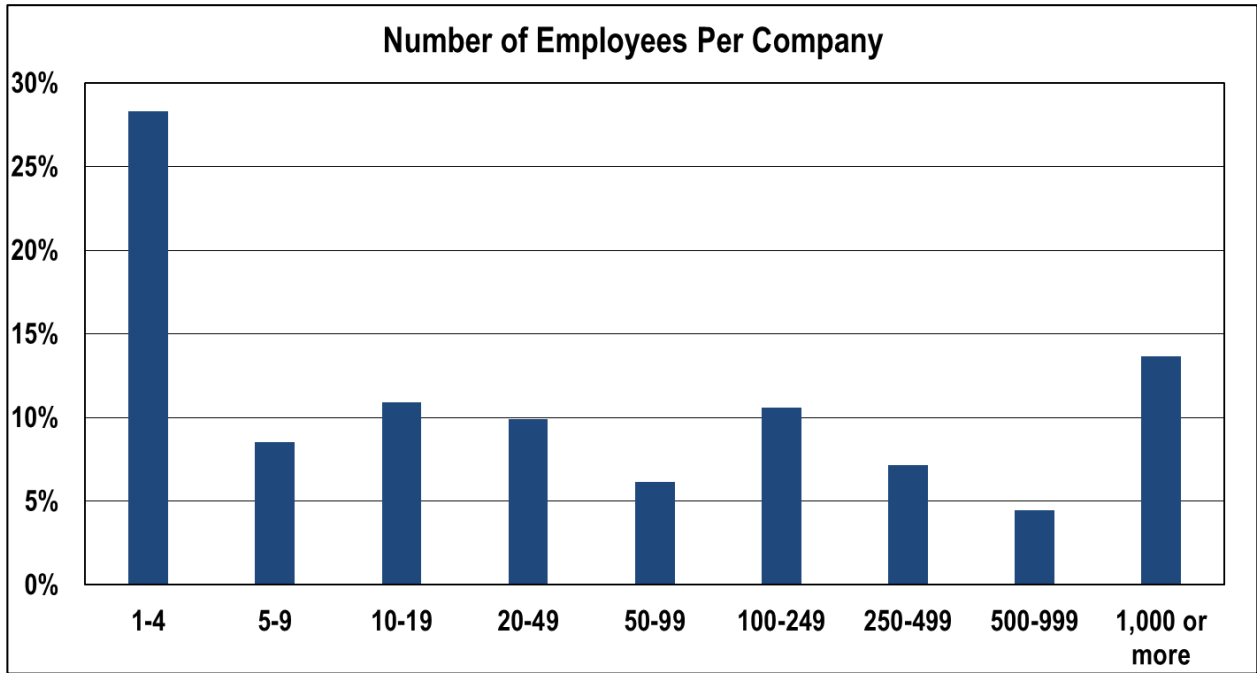


### Expectations by Company Size and Length of Time in Business

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. About half (57.7%) of survey respondents work for companies with fewer than 50 employees. The four largest groups were represented by companies with 1–4 employees (28.3%), 1,000 or more employees (13.7%), 10–19 employees (10.9%), and 20–49 employees (9.9%).

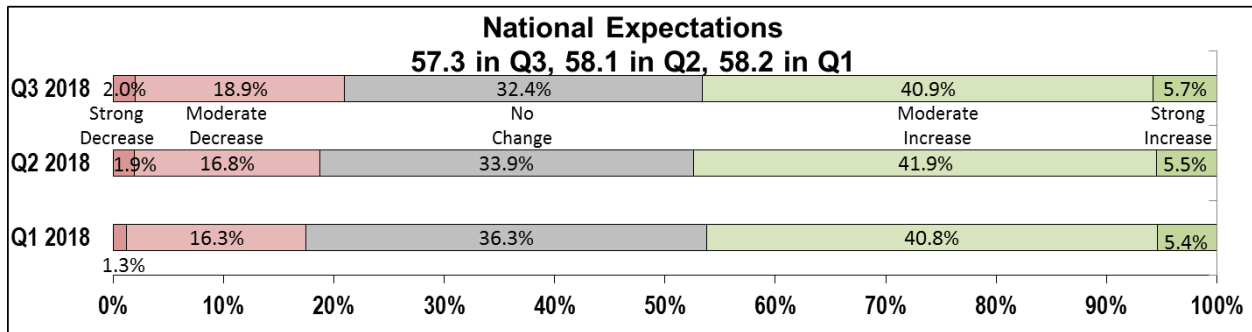
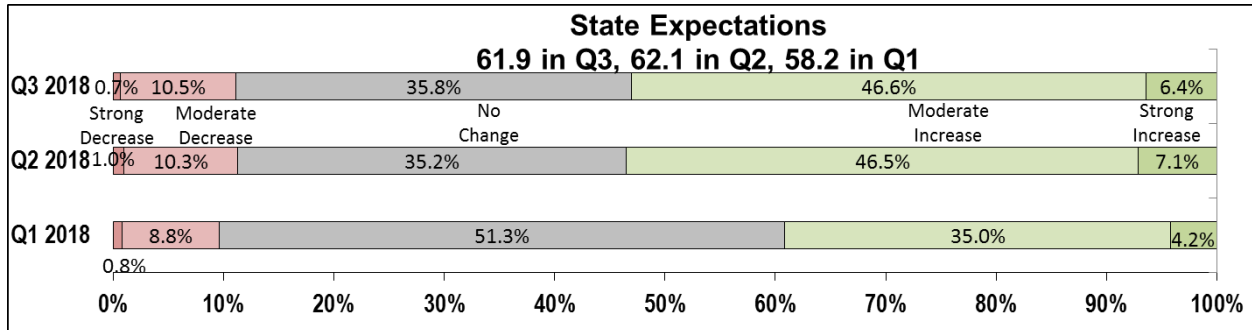
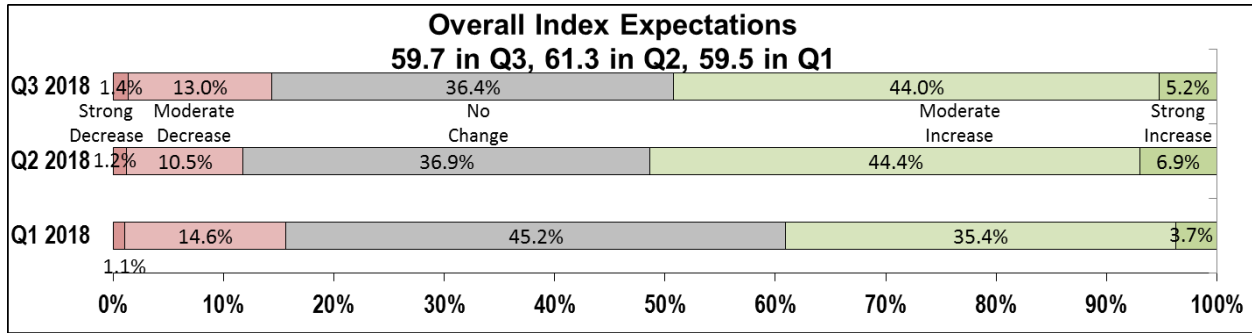
Small employers' (fewer than 50 employees) expectations increased 1.3 points ahead of Q2, and large employers' expectations increased 2 points. From Q2 to Q3, small and large employers' expectations decreased 1.7 points. In Q2, small employers were slightly more optimistic than large employers (61.6 versus 60.9). A total of 84.6% of respondents work at a long-standing company that has been in business for more than 10 years.

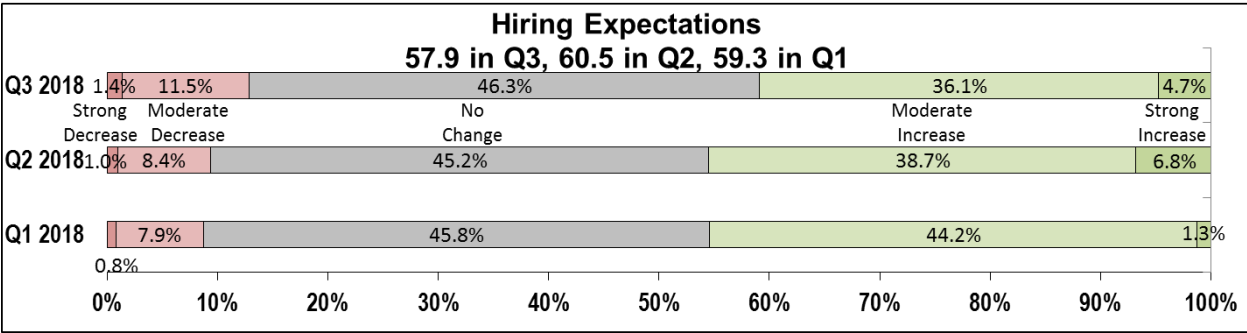
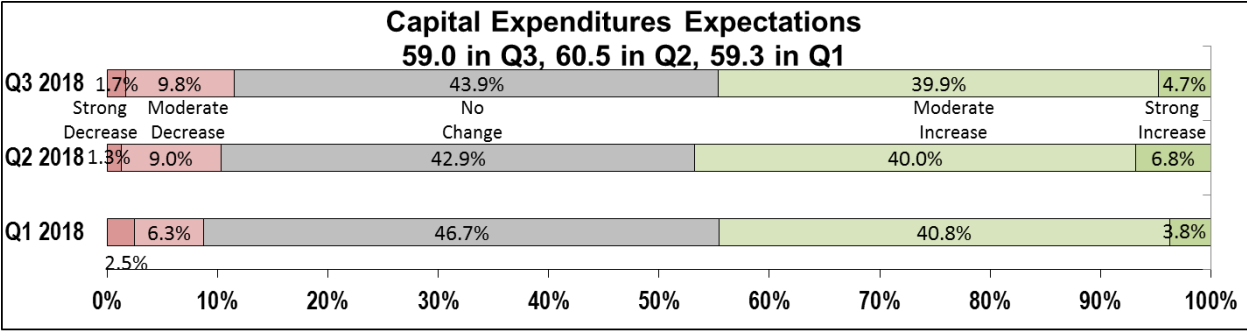
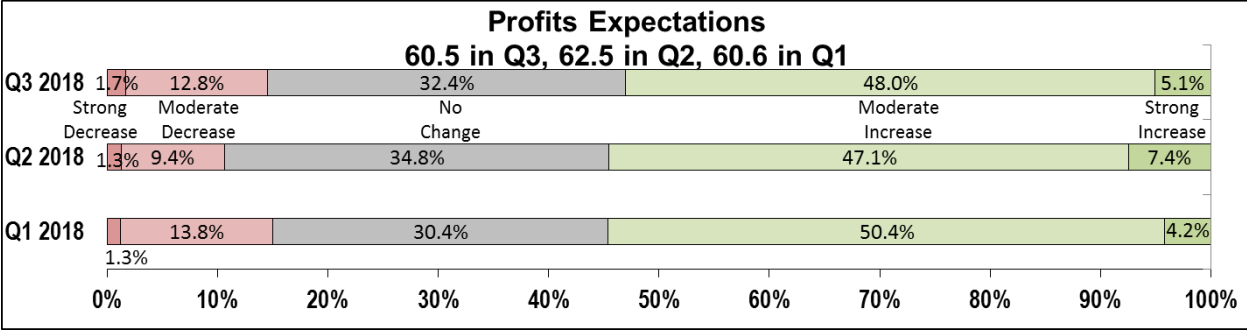
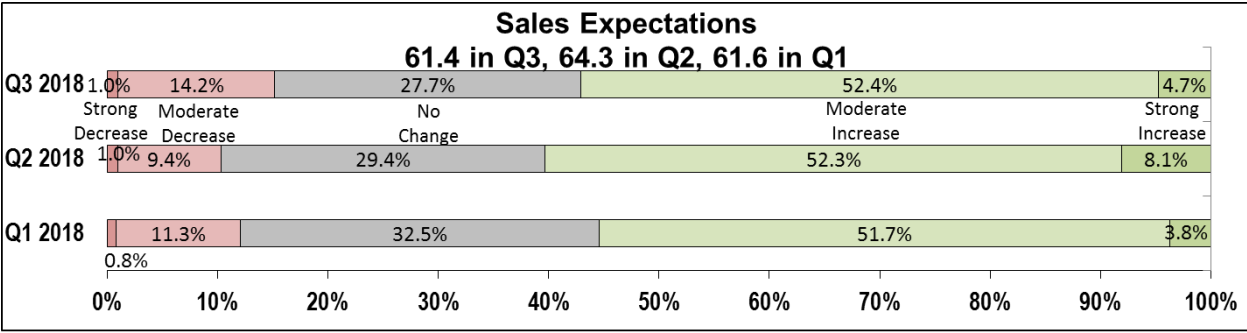
While responding panelists represent every industry in the state, the largest percentage of respondents to the Q2 survey were in the following sectors: Professional, Scientific and Technical Services (18%); Finance and Insurance (16%); and Real Estate, Rental and Leasing (15%).





## Distribution of Expectations in Q3 2018, Q2 2018, Q1 2018





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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)