LBCI LEEDS BUSINESS CONFIDENCE INDEX

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Leeds Business Confidence Index Sinks with COVID-19

Colorado business leaders' confidence dove to historic lows entering Q2 2020, with 86% of panelists citing COVID-19 for their pessimistic outlook. The index also recorded the largest single-quarter decline in the 17-year history of the index, illustrating the rapid deterioration of the economy.

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 2020, the index dropped 21.1 points to 29.7, with all components of the index well-below neutral (50). Signaling that the economy is expected to improve in the third quarter as the virus fades, the index rebounds modestly to 38.2. A total of 423 qualified panelists responded to the survey from March 1 through March 20.

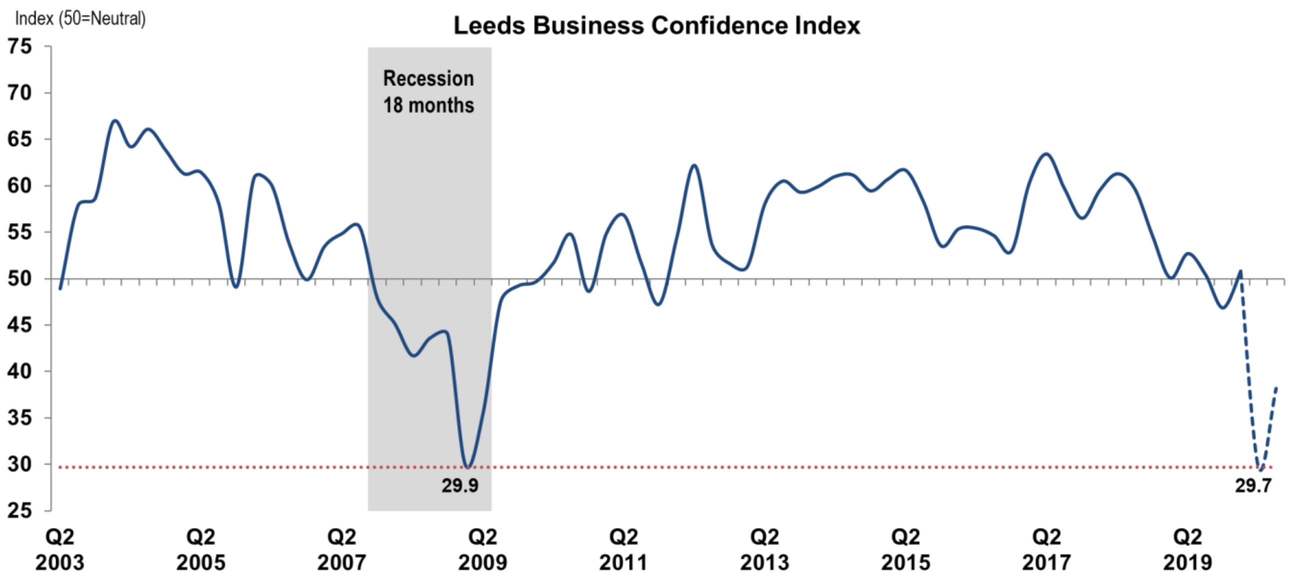
Leeds Business Confidence Index

Component	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Change	
						Quarterly	Annual
State Economy	51.9	49.6	47.4	51.5	28.8	▼	▼
National Economy	46.2	43.1	38.5	45.9	21.8	▼	▼
Industry Sales	56.7	55.6	51.3	54.1	32.9	▼	▼
Industry Profits	55.5	52.4	49.7	52.1	31.5	▼	▼
Industry Hiring	54.1	51.0	48.3	50.6	32.4	▼	▼
Capital Expenditures	51.8	51.1	45.9	50.6	31.0	▼	▼
LBCI	**52.7**	**50.5**	**46.9**	**50.8**	**29.7**	▼	▼

- All six individual components of the LBCI recorded negative perceptions (below 50) ahead of Q2 2020.
- While pessimism plagues all categories, panelists are most pessimistic about the national economic outlook. The relatively higher outlook for the state economy illustrates the perception that Colorado will outperform the nation through the economic crisis.
- While all six components are below neutral, four of the six are at record low levels. The two components that remained above their records lows—hiring and capital expenditures—reflect the deep and lasting impacts felt during the Great Recession.
- U.S. job growth is expected to decrease due to COVID-19-related job losses. Initial jobless claims increased by a record number for the week ending March 21, posting over 3 million new claims.
- Colorado is expected to record a decrease in GDP, employment, and income, reflecting the economic consequences of COVID-19.
- Most economic data are not yet reflecting the COVID-19-induced economic downturn due to data lags.

Summary – Confidence Cratered Ahead of Q2

The LBCI recorded the single-largest decline ahead of Q2 2020, dropping to the lowest level in the history of the index. The 21.1-point slide decreased the index to 29.7 ahead of Q2 2020, dropping the index from positive territory (50.8) last quarter. While the slide presents the worst single-quarter decline, the index recorded a greater cumulative decline during the Great Recession, illustrating today's quick market deterioration. All six components fell from Q1 to Q2, and all six components decreased compared to a year ago. Looking two quarters ahead to Q3 2020, expectations remain soured (38.2), but notably improved compared to Q2. The index illustrates the lasting impacts of COVID-19, but also the optimism that the severe economic standstill will be relatively short-lived.



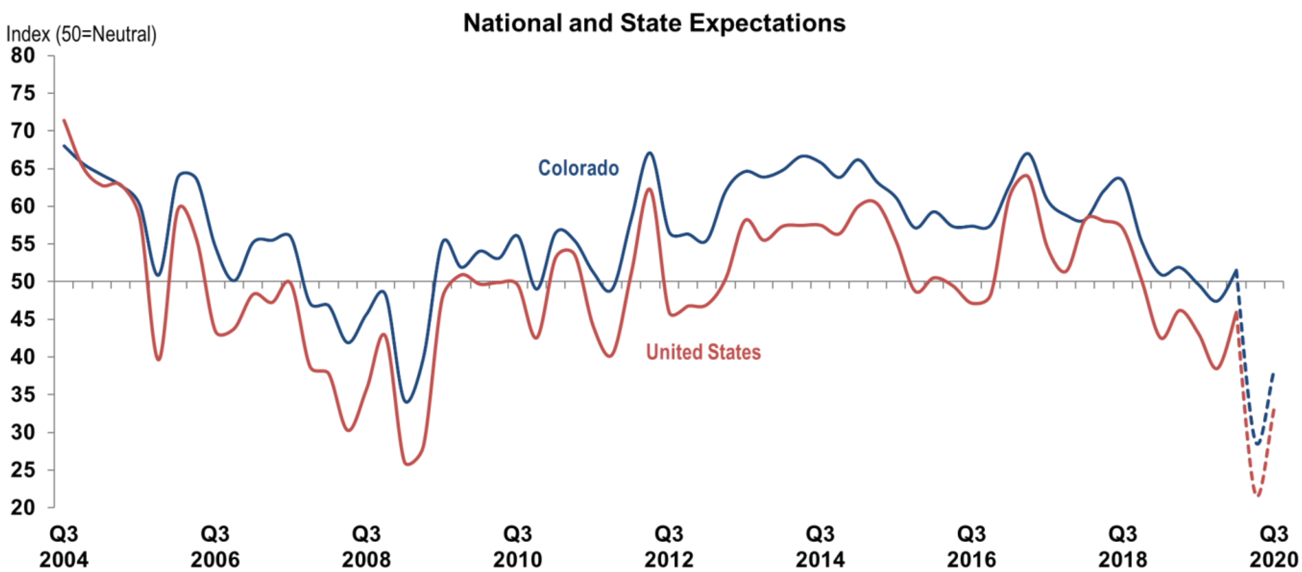
National real gross domestic product (GDP) grew at a 2.1% seasonally adjusted annual rate (SAAR) in Q4 2019 according to the third estimate from the Bureau of Economic Analysis (BEA). Personal consumption expenditures grew 1.8%, government expenditures rose by 2.5%, and private domestic fixed investment fell by 2.4%. The trade deficit shrank from Q3 2019 to Q4 2019, but still exceeded $900 billion (annualized average). However, economic expectations for real GDP growth fell sharply in response to COVID-19. The second and third quarters of 2020 are expected to inherit most of the economic loss.

Colorado continued to experience positive real GDP growth, with 3.3% year-over-year and 2.6% quarter-over-quarter (SAAR) growth in Q3 2019. Colorado accounts for 1.9% of total U.S. GDP. However, the state's economy is not expected to continue this growth in the face of a national and global contraction.

National and State Economies — Sharp Downturn

State expectations slid from 51.5 in Q1 to 28.8 ahead of Q2, recording the lowest economic expectations in the history of the index. While it may be of little solace during an economic downturn, the difference between the state and national outlook persists. The state outlook is 7 points above the national outlook, indicating business leaders' confidence that the state will continue to outperform relative to the national economy. National expectations recorded the lowest number in the index at 21.8 ahead of Q2—the lowest level ever recorded for any component of the index.

For the state economy, more than two-thirds of the respondents (67.6%) believe that the state economy will grow slower in Q2, while only 7.6% expect it to increase and 24.8% expect no change. On the national level, four out of five panelists (81.4%) expect a deceleration, while 5.4% anticipate an increase (13.2% expect no change).



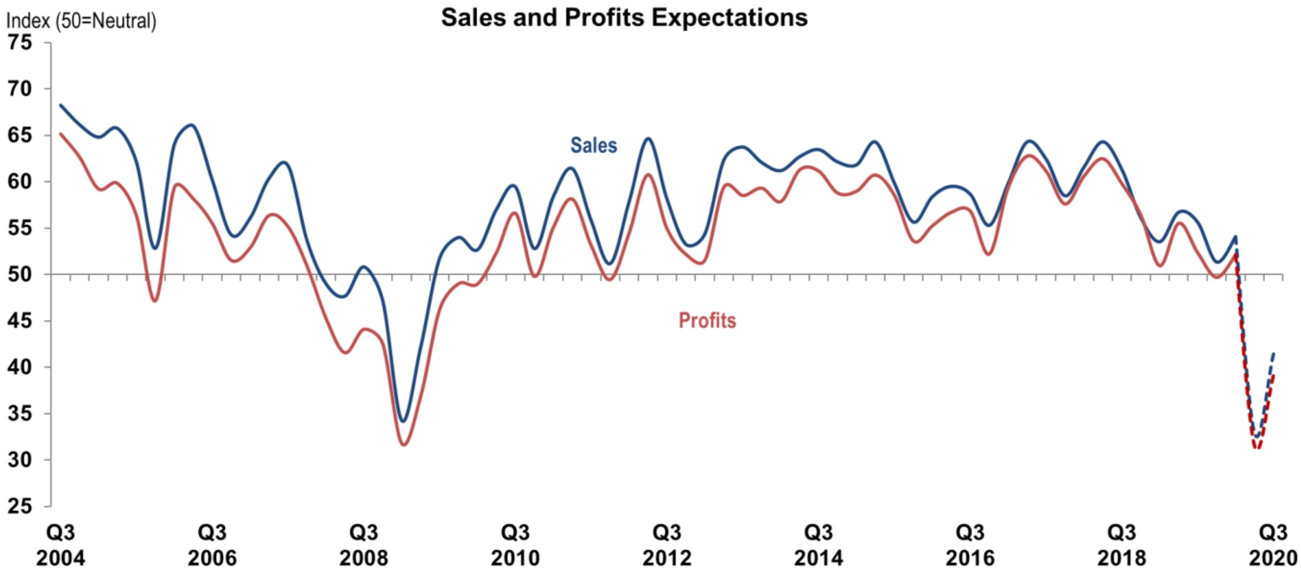
U.S. GDP grew at 2.1% SAAR in Q4 2019, unchanged from the prior quarter. According to the BEA report released March 26, 2020:

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

Colorado's Q3 2019 real GDP grew at a SAAR of 2.6% for the quarter and 3.3% year-over-year. Year-over-year, the largest percentage gains were recorded in the following industries: Agriculture, Forestry, Fishing, and Hunting (36.7%); Mining, Quarrying, and Oil and Gas Extraction (22.5%); and Professional, Scientific, and Technical Services (8%). The largest dollar gains were recorded in Mining, Quarrying, and Oil and Gas Extraction ($4.3 billion) and Professional, Scientific, and Technical Services ($2.7 billion).

Sales and Profits — Hitting Pause

Sales and profits expectations decreased 21.2 points and 20.6 points, respectively, from Q1 2020 to Q2 2020. The sales component nonetheless recorded the highest expectations among the six components. Looking toward Q3, the sales outlook increased 8.6 points, and the profits outlook increased 7.7 points, while both remain firmly in negative territory. This suggests that firms expect the worst impact on sales and profits to occur during the second quarter. The sales index stood at 32.9 in Q2, while the profits index was at 31.5. Looking ahead to Q3, sales expectations increased to 41.5, while profits improved to 39.2. Nearly two-thirds of panelists (65.5%) expect a decrease in sales and profits ahead of Q2. However, 17.5% expect an increase in sales in Q2, while 13% expect an increase in profits (the remainder expect no change).



The health of sales and profits largely depend on the strength of the consumer. Prior to the virus outbreak in the U.S., most consumption data remained strong. National consumer confidence remained steady in February, but slid in March as consumers reacted to COVID-19. Personal consumption expenditures grew at a 1.8% seasonally adjusted annual rate in Q4. Retail sales overall increased 3.6% in 2019, but slipped 0.5% from January to February 2020 according to the seasonally adjusted advance estimate from the U.S. Census Bureau. In 2019, restaurant sales increased 4.7%, and grocery sales increased 3.1%--two retail sectors expected to produce bimodal results as the economic impact of COVID-19 catches up with the data.

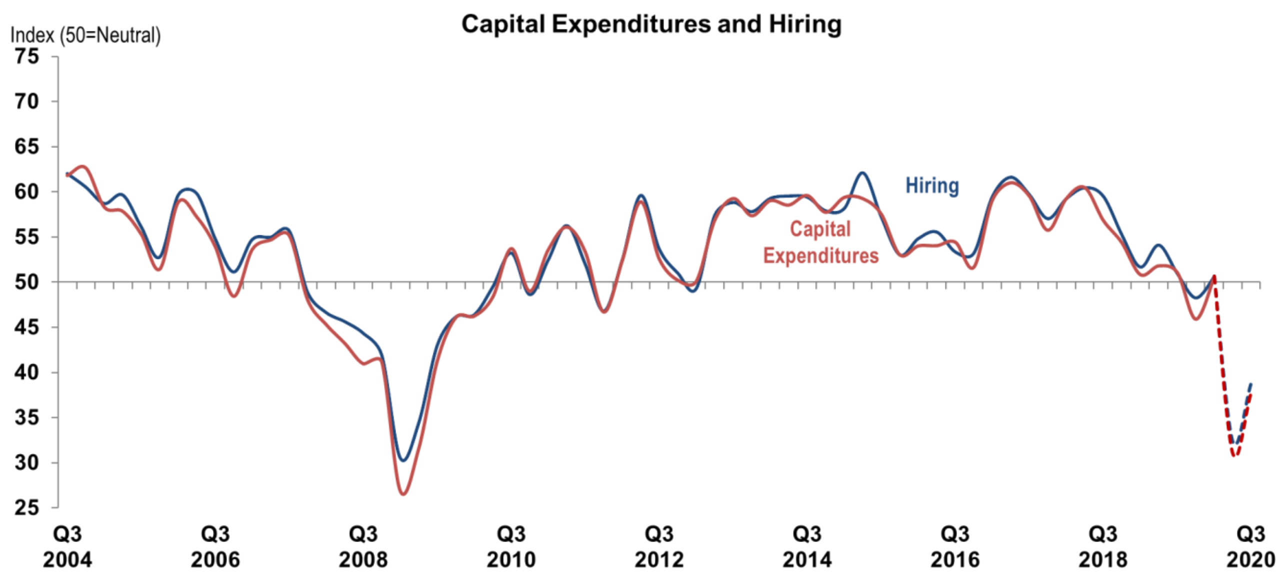
B-to-B sales are also a signal for sales and profits. Business fixed investment fell in Q4, down 2.4% (SAAR), and structures investment decreased 7.2% (contracting in five of the last six quarters). Growth in inventories also slowed. According to the Institute for Supply Management, the national manufacturing index in February 2020 was 50.1, slightly below 50.5, the average for the past 12 months. The nonmanufacturing index in February 2019 experienced a relatively large increase to 57.3, the highest rating of the past 12 months. However, these economic measures of economic activity were based on surveys prior to the U.S. economic slowdown.

In Colorado, personal incomes continued to grow in Q4 2019. According to the BEA, Colorado's nominal personal income rose at an annualized rate of 1.4% in Q4 2019 from the preceding quarter, with a strong increase of 5.4% year-over-year. Colorado had the 11th-highest per capita personal income in Q4 2019, at $61,854, and the state ranked 6th for per capita personal income growth year-over-year.

Capital Expenditures and Hiring Plans — Near-term Losses

The outlook for capital expenditures and hiring fell to 31 and 32.4, respectively, ahead of Q2. Both metrics rebounded somewhat looking further ahead to Q3—planned capital expenditures increased to 37.7 and hiring plans increased to 38.8. While the other components of the index fell to record low levels, both capital expenditures and hiring expectations remained above record lows despite declining sharply.

Over 58% of respondents expect a modest or strong decrease in capital expenditures and 57.3% expect a modest or strong decrease in hiring in Q2. A plurality of respondents anticipate no change (31.7% for capital expenditures and 30% for hiring).



Hiring and capital expenditures both were strong entering this downturn, and firms often pointed to a labor shortage as a critical issue for business.

An indicator of capital expenditures is construction. According to Dodge Data and Analytics, the value of construction in Colorado decreased 27% in 2019. Year-to-date through February 2020, the total value of construction in Colorado has decreased 18.5%, with the largest pullback in nonresidential construction. According to the U.S. Census Bureau, the total value of construction put in place for the nation increased 6.8% in January 2020 compared to January 2019.

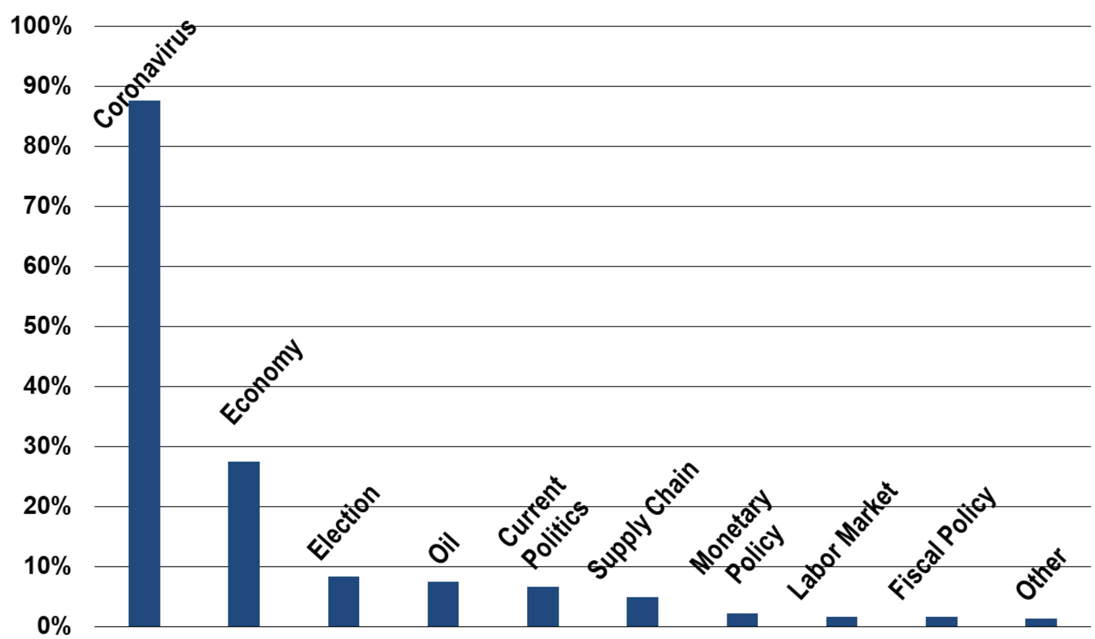
Leading up to the economic downturn, U.S. job growth continued in February 2020, increasing 1.6% year-over-year. Nonfarm covered employment increased by 273,000 jobs month-over-month for the first two months of the year. The unemployment rate in the United States dropped to 3.5% in February.

As of February 2020 (prior to COVID-19 registering an impact on employment), Colorado continued to exhibit strong employment growth. Total employment increased 1.8% from February 2019 to February 2020, a gain of 50,100 jobs year-over-year. The seasonally adjusted state unemployment rate, at 2.5%, remained below the national rate. Colorado is tied for the 3rd-lowest unemployment rate in the country. Year-over-year employment growth was recorded in all of Colorado's seven metropolitan statistical areas (MSAs), except the Grand Junction MSA. The Fort Collins MSA recorded the fastest year-over-year growth (3%), followed by Denver-Aurora-Lakewood (2.5%), Colorado Springs (2.4%), Greeley (1.9%), Boulder (1.0%), Pueblo (0.8%), and Grand Junction (-0.3%). Colorado industries with the greatest annual percent change in February were Professional and Business Services (3.9%), Other Services (2.8%), Government (2.6%), and Education and Health Services (2.2%).

Inflation in Colorado has outpaced the nation for the last seven years. Inflation slowed in 2018 and 2019, growing 2.7% and 1.9%, respectively, in the Denver-Aurora-Lakewood area. In January 2020, the all items index increased 3.8% year-over-year; core inflation increased 3.6%; shelter, 4.6%; and all items less shelter, 3.4%, not seasonally adjusted.

Reason for Survey Responses

Panelists were asked to give reasons for their expectations. Of the 361 respondents who provided an explanation, COVID-19 was the most cited (mentioned by 86% of respondents). The economy (generally) was the next most cited reason (27%), followed by the election (8%), and the oil market (7%).

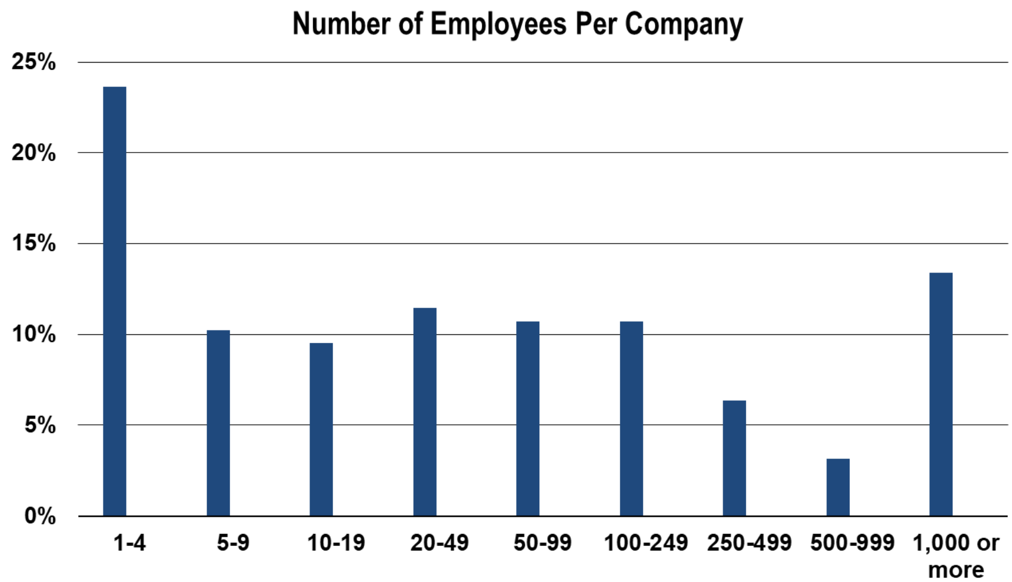


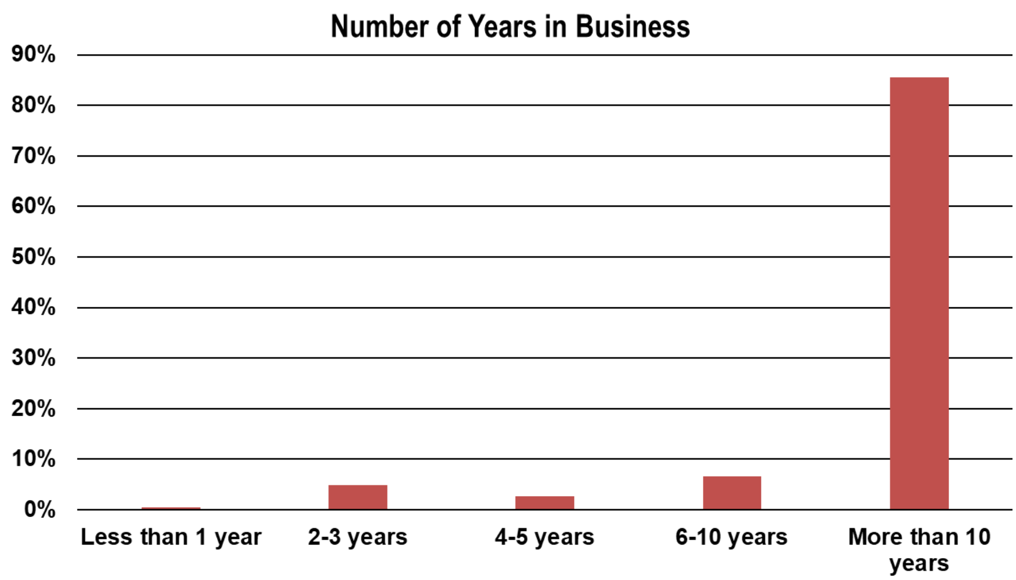
Expectations by Company Size and Length of Time in Business

Panelists were asked about the size of their company and how long their company has been in business. A total of 85% 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.

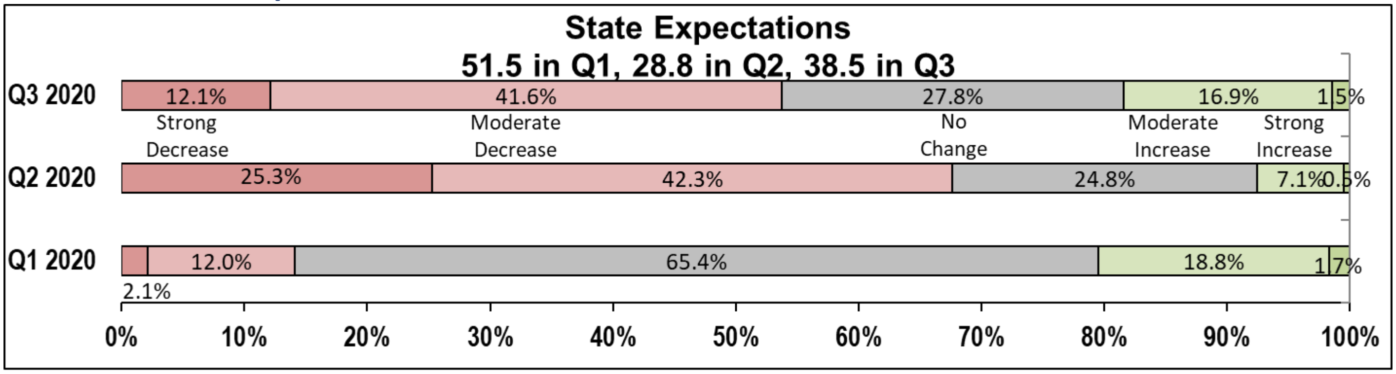
Small employers were slightly less optimistic than large employers in Q2 2020. Both small (fewer than 50 employees) and large employers' expectations remained in negative territory.

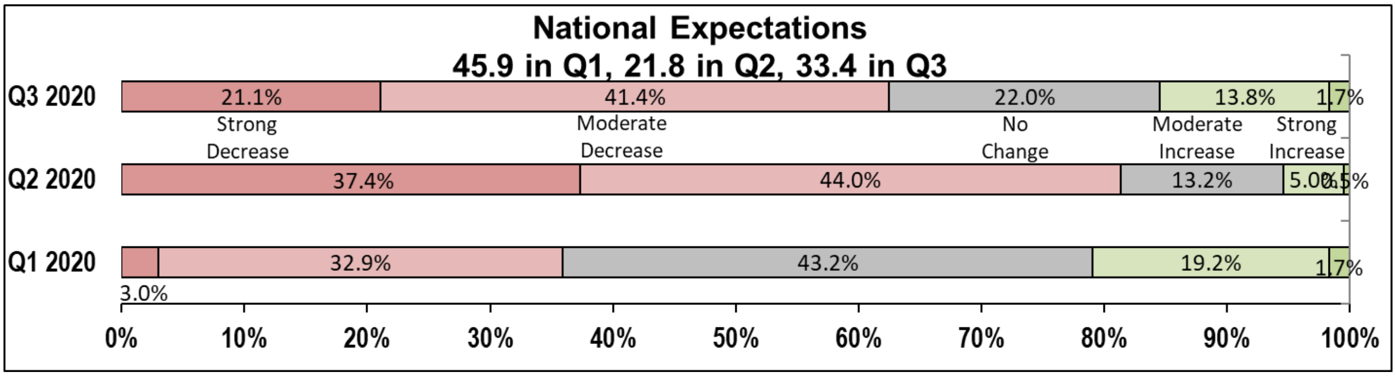
While responding panelists represent every industry in the state, the largest percentage of respondents to the Q2 survey were in the following sectors: Professional, Scientific, and Technical Services (18%); Finance and Insurance (17%); and Real Estate, Rental, and Leasing (15%).

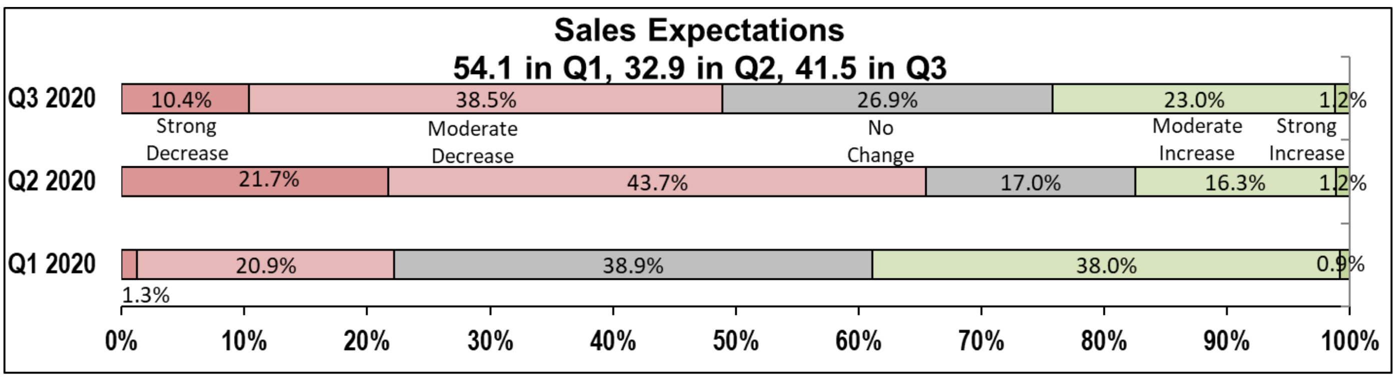


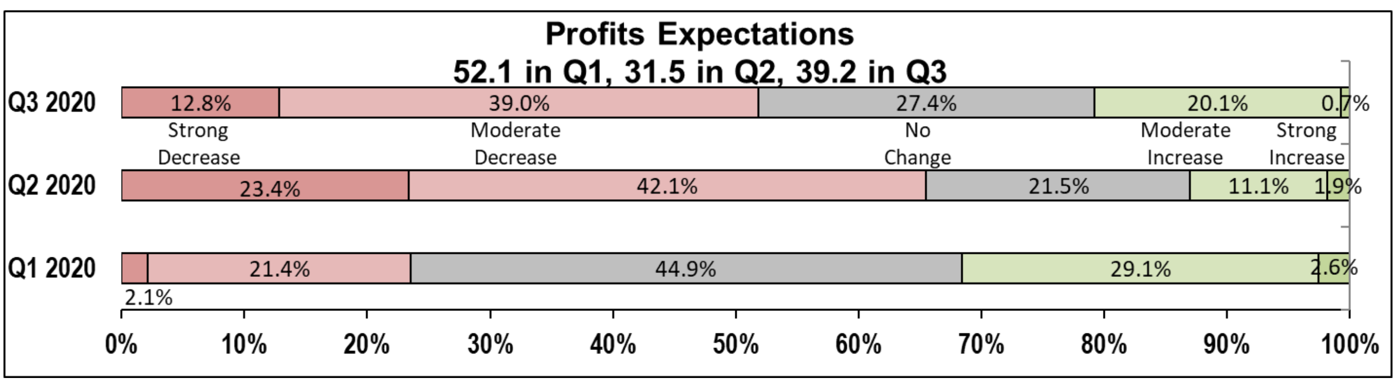


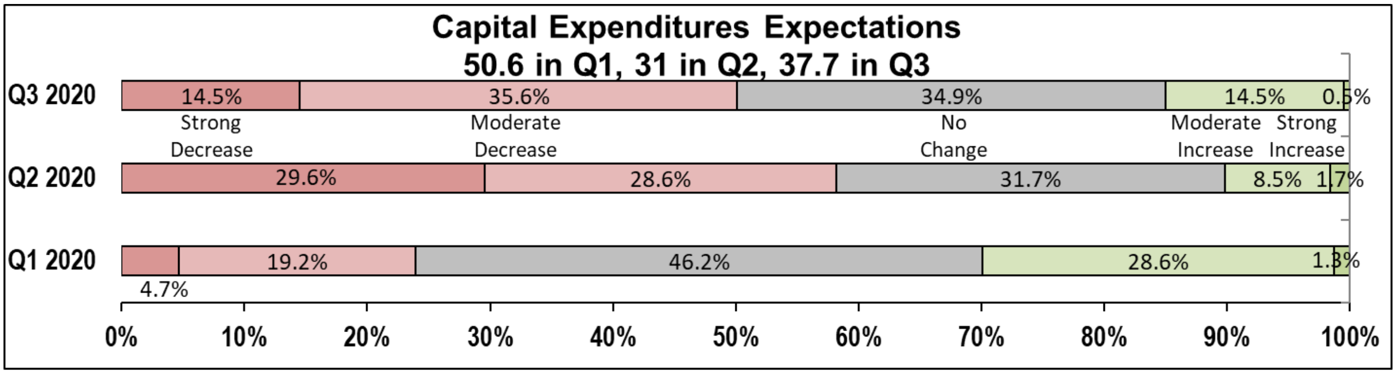
Distribution of Expectations in Q1 2020, Q2 2020, and Q3 2020

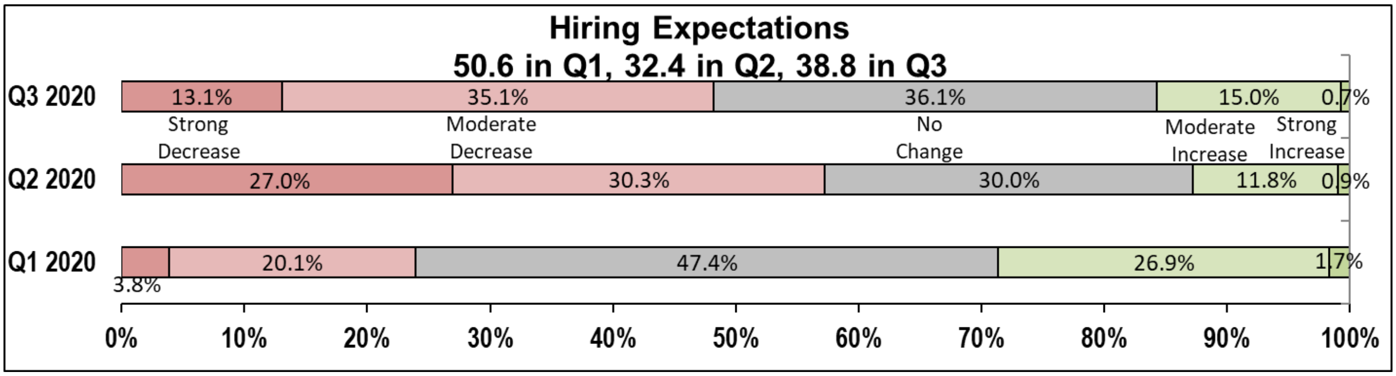


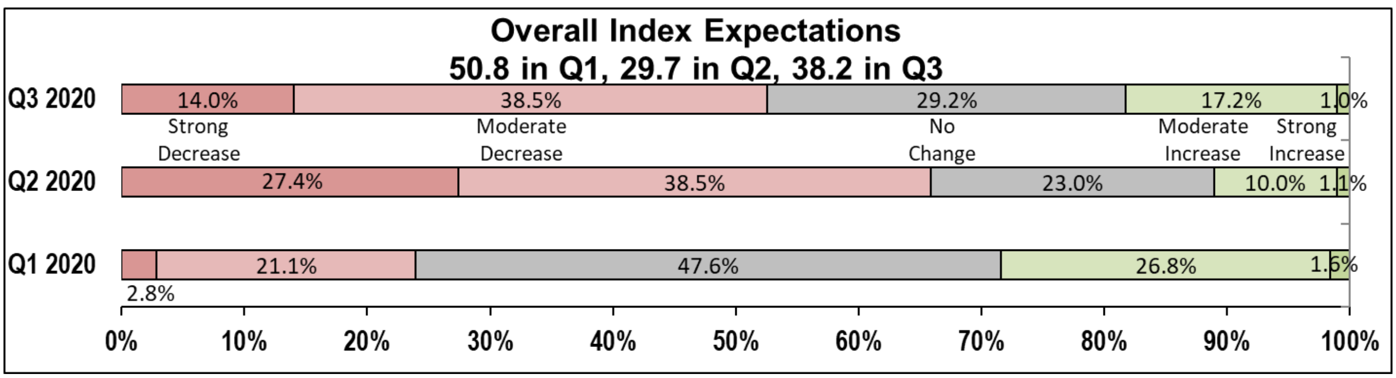












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For more information about the LBCI and to become a panelist, go to:
www.colorado.edu/business/brd