

Business Confidence Surges ahead of Q2

Business confidence increased sharply from Q1 2021 to Q2 2021, and marked further improvement looking out two quarters to Q3 2021, largely due to the pace of vaccinations and the expectations about easing economic restrictions. Optimism was revised up from the December survey for the second quarter that coincides with momentum in the recovery. One-third of panelists cited the COVID-19 vaccine as the main driver for their outlook, and one-fifth cited the easing of restrictions for their sentiments.

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 16.5 points ahead of Q2 2021, with gains pushing all six components of the index strongly into positive territory. Panelists anticipated strong improvement in the third quarter of 2021; the index improved to 68.8 two quarters out—a record high in the 19-year history of the index. A total of 278 qualified panelists responded to the survey from March 1 through March 22.

Leeds Business Confidence Index

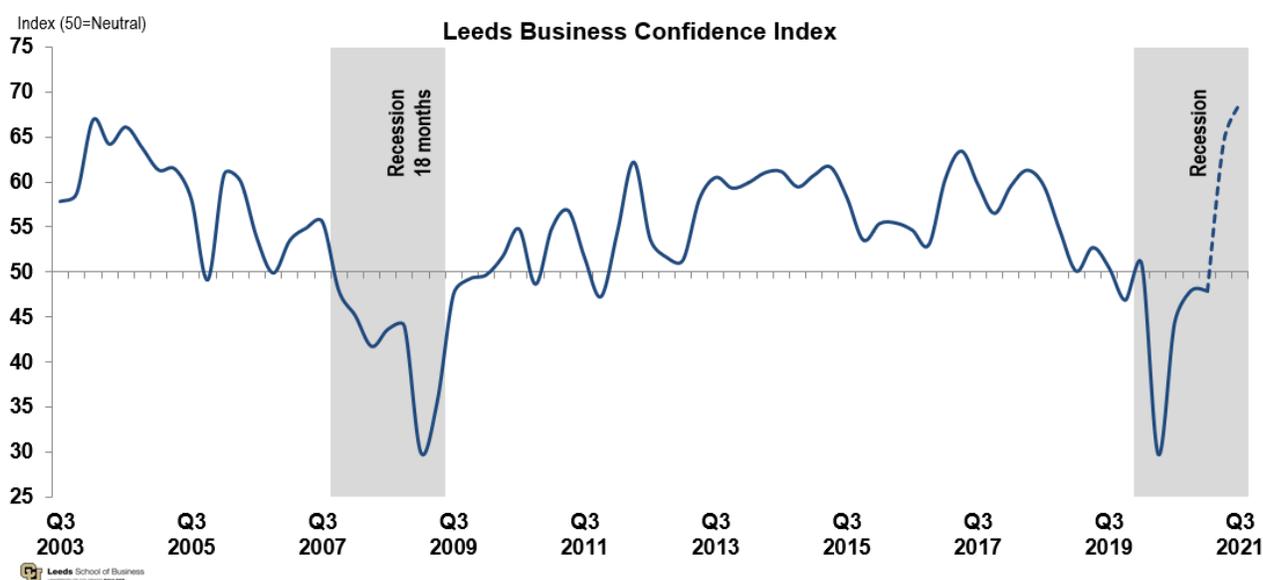
Component	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Change	
						Quarterly	Annual
State Economy	28.8	46.8	48.9	46.9	68.3	▲	▲
National Economy	21.8	43.5	44.5	43.5	65.7	▲	▲
Industry Sales	32.9	51.3	52.5	51.5	67.5	▲	▲
Industry Profits	31.5	44.8	48.8	48.7	63.1	▲	▲
Industry Hiring	32.4	42.7	48.0	49.9	61.8	▲	▲
Capital Expenditures	31.0	37.1	44.7	46.8	59.9	▲	▲
LBCI	29.7	44.3	47.9	47.9	64.4	▲	▲

- All six individual components of the LBCI recorded positive perceptions (above 50) ahead of Q2 2021.
- The greatest optimism was recorded in the state economy and sales expenditures.
- The rebound in the labor market through February left Colorado with a smaller jobs deficit than the nation (-5.6% versus -6.2%) and ranked the state 28th in the nation for year-over-year performance in February.
- Nearly 46% of companies reported as of March that either sales never decreased or sales have already returned to pre-pandemic levels.
- Many respondents expect to return to the office in the second or third quarters of 2021, but the recovery of jobs may not occur until 2022 for many companies.

Summary – Confidence Improved Ahead of Q1

The LBCI improved ahead of Q3 2021, making gains year-over-year and quarter-over-quarter, pushing the index strongly into positive territory. The index rose to 64.4 ahead of Q2 2021. All six components increased from Q1 to Q2. Looking two quarters ahead to Q3 2021, expectations rose to a record 68.8, with four of the six components at an all-time high. Coupling the quantitative survey results with the qualitative comments, panelists signaled the end of the pandemic recession.

Component	Q2 2021	Change		Q3 2021	Change	
		Quarterly	Annual		Quarterly	Annual
State Economy	68.3	▲	▲	73.4	▲	▲
National Economy	65.7	▲	▲	70.3	▲	▲
Industry Sales	67.5	▲	▲	71.1	▲	▲
Industry Profits	63.1	▲	▲	68.1	▲	▲
Industry Hiring	61.8	▲	▲	66.6	▲	▲
Capital Expenditures	59.9	▲	▲	63.4	▲	▲
LBCI	64.4	▲	▲	68.8	▲	▲

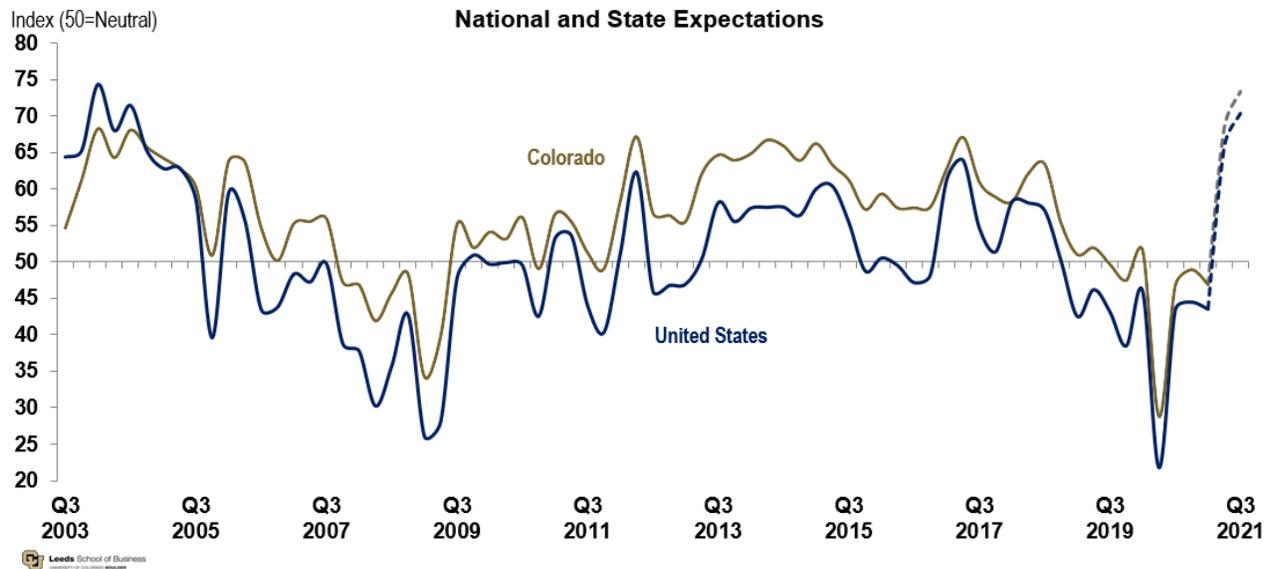


National real gross domestic product (GDP) increased at a 4.3% seasonally adjusted annual rate (SAAR) in Q4 2020 according to the third estimate from the Bureau of Economic Analysis (BEA). Personal consumption expenditures increased 2.3%, government expenditures fell 0.8%, and gross private domestic investment increased 27.8%. The trade deficit increased from Q3 2020 to Q4 2020, growing to \$1.1 trillion (annualized average chained dollars). Consensus Forecasts' economic expectations for real GDP growth in 2021 rose sharply coming off the recession year. The projected 5-6% growth would be the fastest pace of GDP growth in nearly 40 years.

National and State Economies — Giant Leap Forward

General state and national economic expectations rebounded ahead of Q2. State expectations increased from 46.9 in Q1 to 68.3 ahead of Q2 and reached a record 73.4 looking out further to Q3 2021. The state outlook is 2.6 points above the national outlook in Q2, indicating business leaders' confidence that the state will outperform relative to the nation. The national index also increased, increasing from 43.5 in Q1 to 65.7 ahead of Q2 and 70.3 ahead of Q3.

For the state economy, 92.4% of respondents believe the state economy will stay neutral-to-positive in Q2, versus 7.6% who expect slower growth. On the national level, 88.5% are neutral-to-positive, versus 11.5% who expect slower growth.



U.S. GDP grew 4.3% in Q4 2020 after a sharp rebound in Q3 2020. Despite the two periods of strong growth, GDP remained down 2.4% compared to Q4 2019.

According to the BEA report released February 25, 2020:

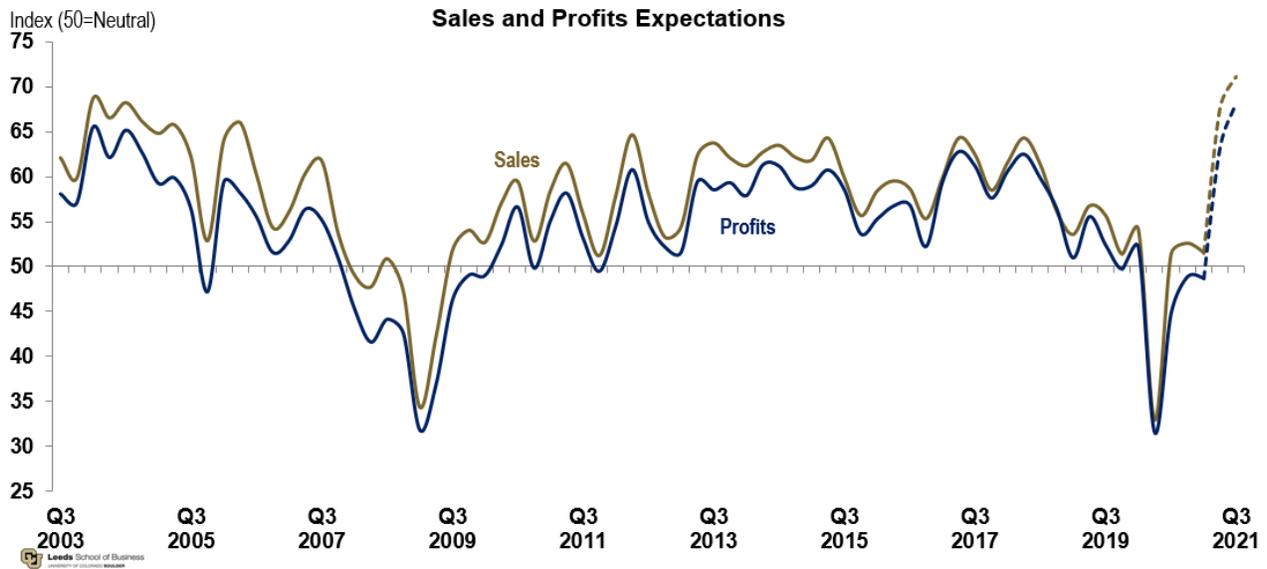
The increase in real GDP reflected increases in exports, nonresidential fixed investment, personal consumption expenditures (PCE), residential fixed investment, and private inventory investment, that were partly offset by decreases in state and local government spending as well as federal government spending (reflecting fewer fees paid to administer the Paycheck Protection Program loans). Imports, which are a subtraction in the calculation of GDP, increased.

The increase in exports primarily reflected an increase in goods (led by industrial supplies and materials). The increase in nonresidential fixed investment primarily reflected an increase in equipment (led by transportation equipment). The increase in PCE reflected an increase in services (led by health care). The increase in residential fixed investment primarily reflected an increase in single family units. The increase in private inventory investment primarily reflected an increase in manufacturing, including both durable and nondurable goods industries.

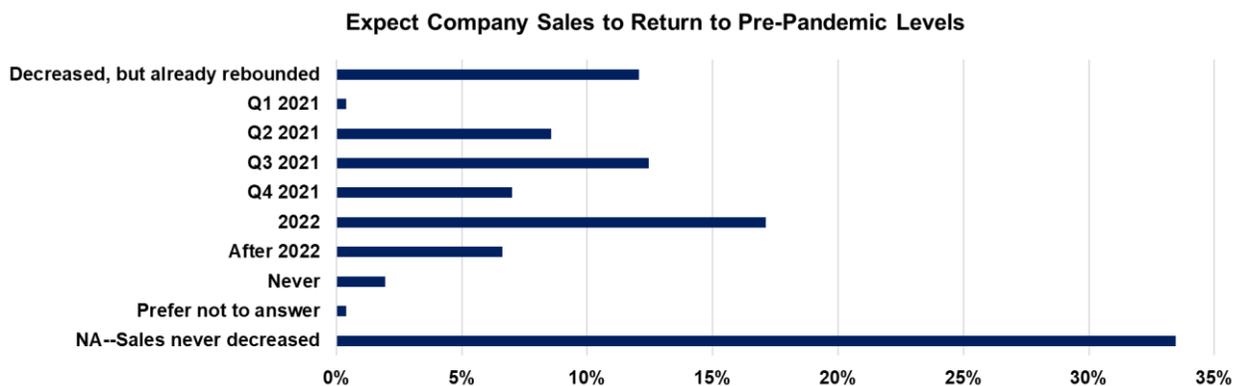
Colorado’s Q4 2020 real GDP increased at a SAAR of 4.5% for the quarter but fell 0.9% year-over-year. Year-over-year, the largest percentage losses were recorded in the following industries: Arts, entertainment, and recreation (-35.2%); Agriculture, forestry, fishing, and hunting (-21.1%); and Accommodation and food services (-20.7%). The largest gain was in Information (11.1%).

Sales and Profits — Signaling Recovery

Sales and profits expectations posted strong gains ahead of Q2 2021, signaling a recovery. The sales index climbed from 51.5 in Q1 to 67.5 ahead of Q2 and 71.1 ahead of Q3. A majority of panelists were neutral-to-positive regarding sales (91.4%) and profits (88.1%) ahead of Q2.



The Q2 2020 survey asked additional questions specifically about the COVID-19 impact on company sales. Of the 257 individuals who responded, a third reported that sales never decreased, and 12.1% reported that sales have already rebounded. Regarding sales recovery, 28.4% of respondents put their company’s sales recovery in 2021, and 23.7% put a recovery in 2022 or after.



Sales and profits largely depend on the strength of the consumer. Prior to the virus outbreak in the U.S., consumer confidence and consumption remained strong. While confidence rebounded following the cycle low in April, confidence began to dip again in November and remained subdued in February. According to the Conference Board, national consumer confidence

increased 2.4 points to 91.3 in February—just 5.6 points above the April 2020 low, and 41.3 points below February 2020. Personal consumption expenditures decreased at a 33.2% seasonally adjusted annual rate in Q2 but rebounded 41% in Q3 and 2.4% in Q4, leaving consumption down just 2.6% year-over-year. According to data from the U.S. Census Bureau, February retail sales were up 6.3% year-over-year, showing strong growth over February 2020—a month largely unaffected by the pandemic. This year-over-year gain has not been shared equally by all retail categories. In February 2021, restaurant sales decreased 17% and grocery sales increased 11.7% from the same month in 2020, as the impact of COVID-19 changed consumer spending habits.

B-to-B sales are also a signal for sales and profits. In January 2021, wholesale trade increased 5.9% year-over-year, with gains in durable goods (9.7%) outpacing gains in nondurable goods (2.5%).

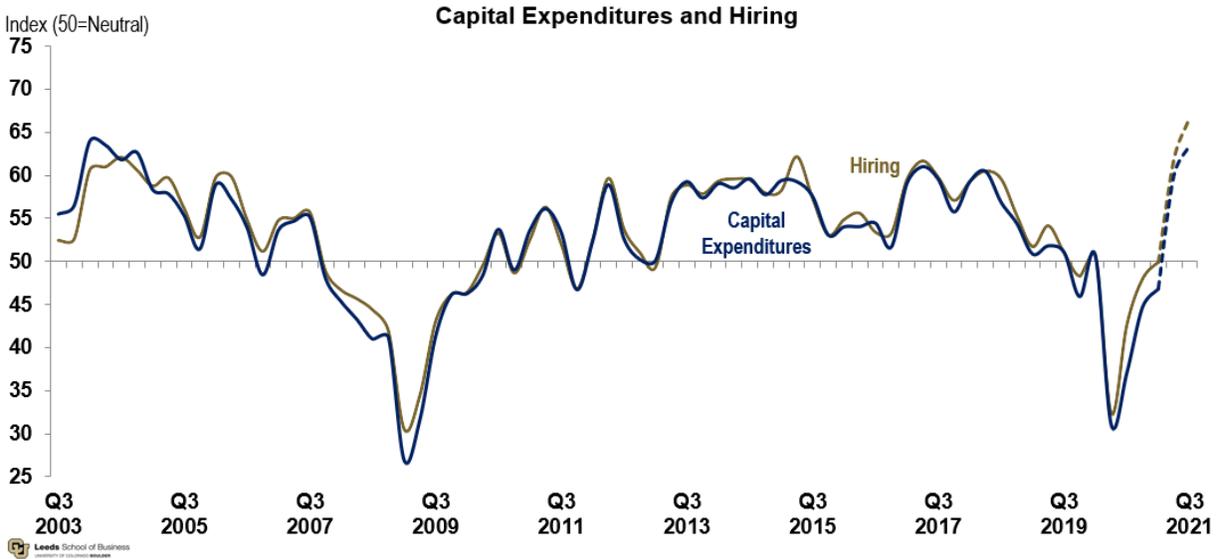
In Colorado, personal incomes continued to grow in Q4 2020. According to the BEA, Colorado's nominal personal income grew 3.3% year-over-year. Colorado had the 10th-highest per capita personal income in Q4 2020, at \$63,123, but the state slipped to 39th for per capita personal income growth year-over-year.

Capital Expenditures and Hiring Plans — Investment Rebound?

The outlook for capital expenditures and hiring increased to 59.9 and 61.8, respectively, ahead of Q2. Both metrics rebounded further looking ahead to Q3, with hiring expectations reaching a record 66.6, and capital expenditures expectations reaching a near-record 63.4. These components reflect investment in firm growth, thus, the rebound in the index is a positive confirmation of business conditions. Ahead of Q2 2020, 90.6% of respondents expect neutral to positive growth in capital expenditures (versus 9.4% who expressed pessimism), and 91.4% project an increase in hiring.

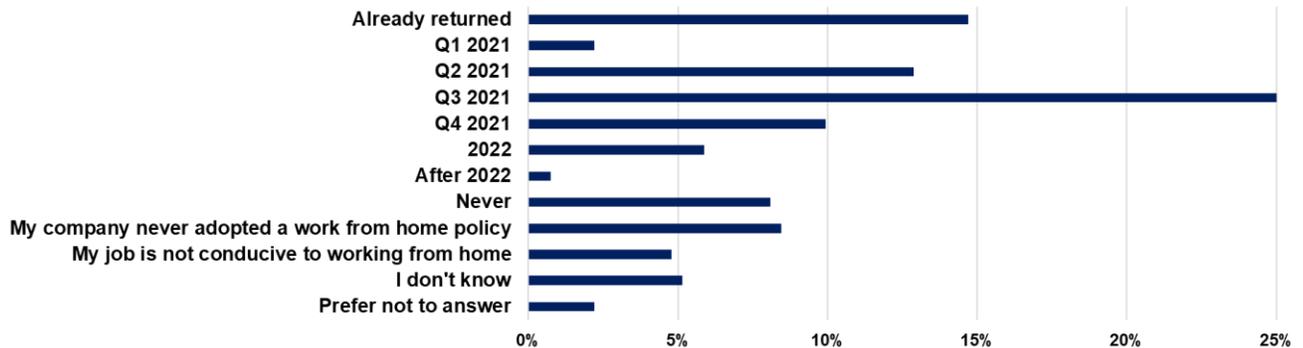
An indicator of capital expenditures is construction. According to Dodge Data and Analytics, the value of construction in Colorado decreased 23.2% in 2019. In 2020, however, total value of construction increased 4.3%. Residential construction drove the growth, increasing 12.1% compared to 2019. According to the U.S. Census Bureau, the total value of construction put in place for the nation increased 4.6% in 2020 compared to 2019.

Fixed business investment posted strong gains in the second half of 2020. Nonresidential private fixed investment fell at a seasonally adjusted annual rate of 27.2% in Q2 2020 but increased 22.9% and 13.1% in the subsequent two quarters, with most of the growth in equipment. The manufacturing survey from the Federal Reserve Bank of Kansas City recorded a composite index of 24 in February, posting three consecutive months of gains.

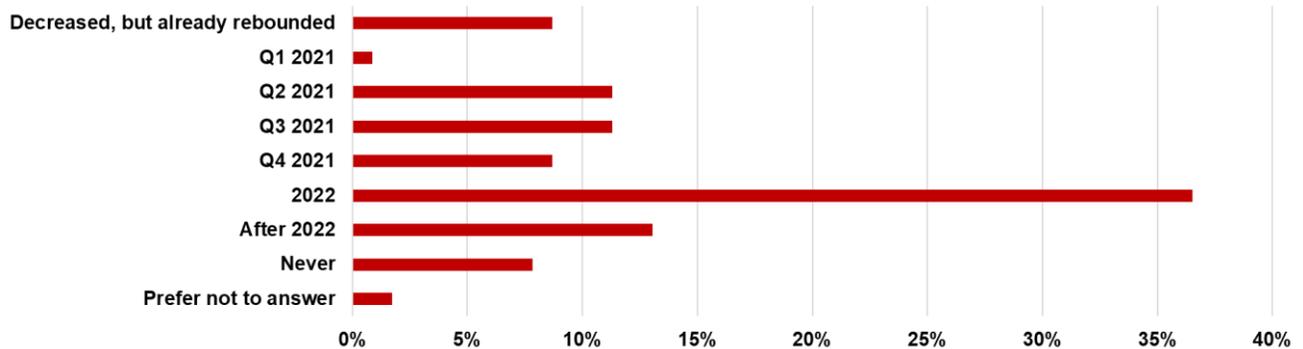


Many respondents do not expect to return to the office until the second or third quarters of 2021. More than a quarter of respondents have either already returned to the office or never were able to work from home. About 13% expect to return in the second quarter and 25% in the third quarter. Most business leaders expect the benefits of the vaccine rollout to their business to be cointegrated with a return in sales and a return of employees.

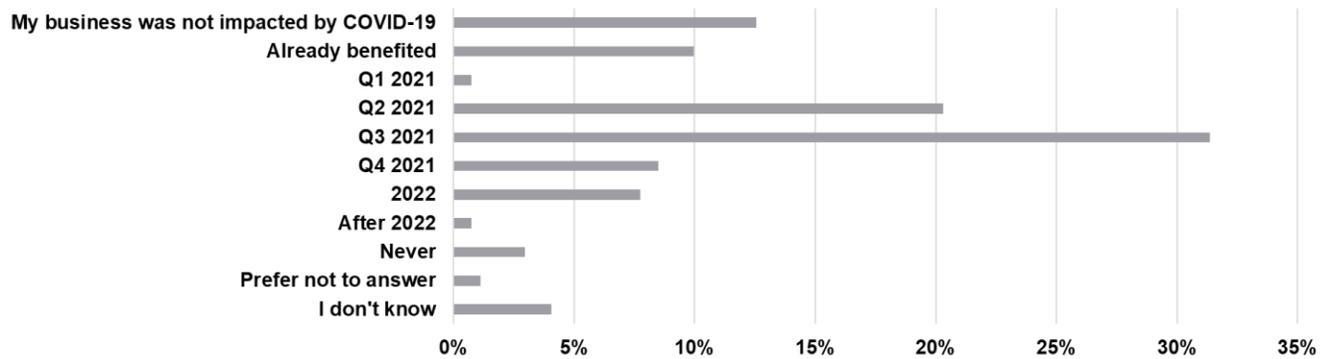
Expectations for Returning to the Office



Expect Company Employment to Return to Pre-Pandemic Levels



Expect to see the Benefits of the Vaccine Rollout in Your Business



National employment has recovered from the recession lows reached in April. Total nonfarm employment fell a record 14.5% (-22.2 million jobs) from February to April 2020 before rebounding 9.9% (12.9 million jobs) from April 2020 to February 2021. However, total U.S. nonfarm employment remained down 6.2% year-over-year. The unemployment rate in the United States continued to improve from 14.7% in April 2020 to 6.2% in February 2021.

Colorado nonfarm employment decreased 13.3% (-376,300 jobs) from January 2020 to April 2020 but increased 9% (219,100 jobs) from April 2020 to February 2021. However, Colorado employment remained down 5.6% (-156,700 jobs) in February 2021 compared to February 2020. At 6.6%, Colorado's February unemployment ranked the state 35th-lowest in the country.

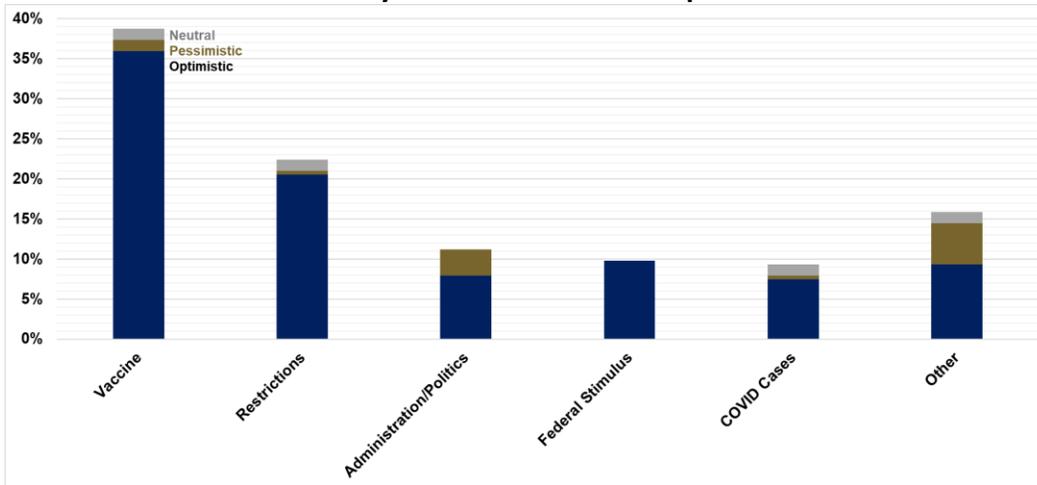
Year-over-year employment declines were recorded in all of Colorado's seven metropolitan statistical areas (MSAs) in February. The Greeley MSA recorded the largest year-over-year decline (-7.8%), followed by Boulder (-7.6%), Grand Junction (-5.5%), Denver (-5.3%), Pueblo (-4.9%), Fort Collins-Loveland (-4.9%), and Colorado Springs (-4.3%). Colorado industries with the largest annual percent loss were Mining and Logging (-27.5%), Leisure and Hospitality (-20.9%), and Other Services (-7.5%). The only industry to record modest year-over-year growth in February was Trade, Transportation, and Utilities (0.3%).

Inflation in Colorado has outpaced the nation for the last seven years until 2020. In January 2021, the all items index increased 0.4% year-over-year; core inflation increased 0.4%; shelter declined 1%; and all items less shelter increased 1.3%, not seasonally adjusted.

Reason for Survey Responses

Panelists were asked to give reasons for their expectations. Of the 214 respondents who provided an explanation, the vaccine was the most cited (mentioned by 38.8% of respondents), with most respondents referring to the rollout and adoption of vaccines in a positive context, while some individuals noted the slow rollout or skepticism about the vaccines. Business restrictions was the next most cited reason (22.4%), with most individuals citing an easing of restrictions as a reason for optimism, while others lamented about the past and current restrictions causing businesses harm. The change in administration, politics, and public policy were mentioned by 11.2% of respondents (7.9% positive, 3.3% negative), followed by federal stimulus and the decreasing COVID case count.

Primary Reasons Cited for Response

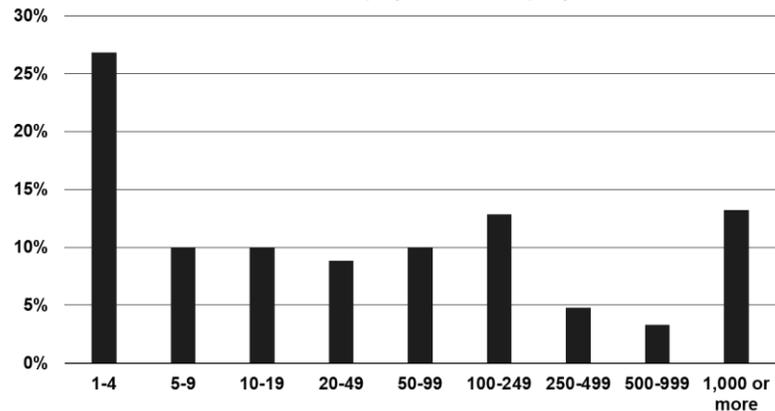


Expectations by Company Size and Length of Time in Business

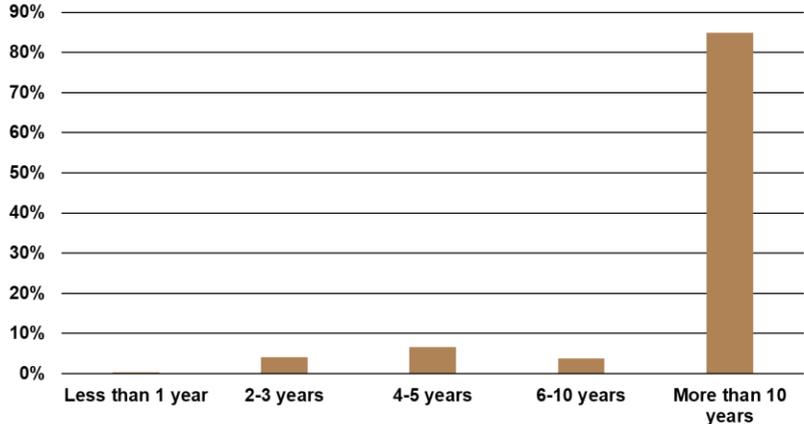
Panelists were asked about the size of their company and how long their company has been in business. A total of 84.9% of respondents work at a long-standing company that has been in business for more than 10 years. More than half (55.5%) of survey respondents work for companies with fewer than 50 employees. Small employers were slightly less optimistic than large employers ahead of Q2 2021, but both were strongly positive.

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 (16%); Finance and Insurance (16%), and Real Estate, Rental, and Leasing (15%).

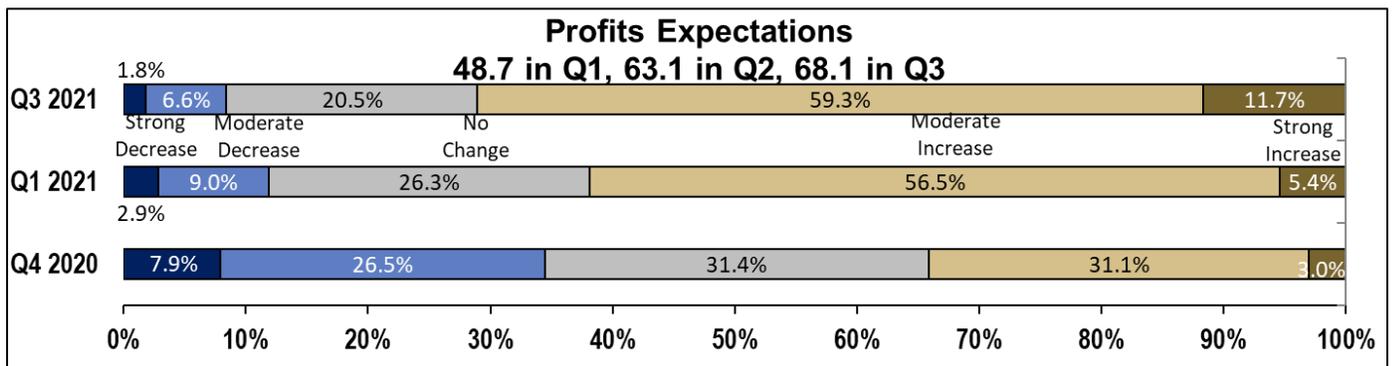
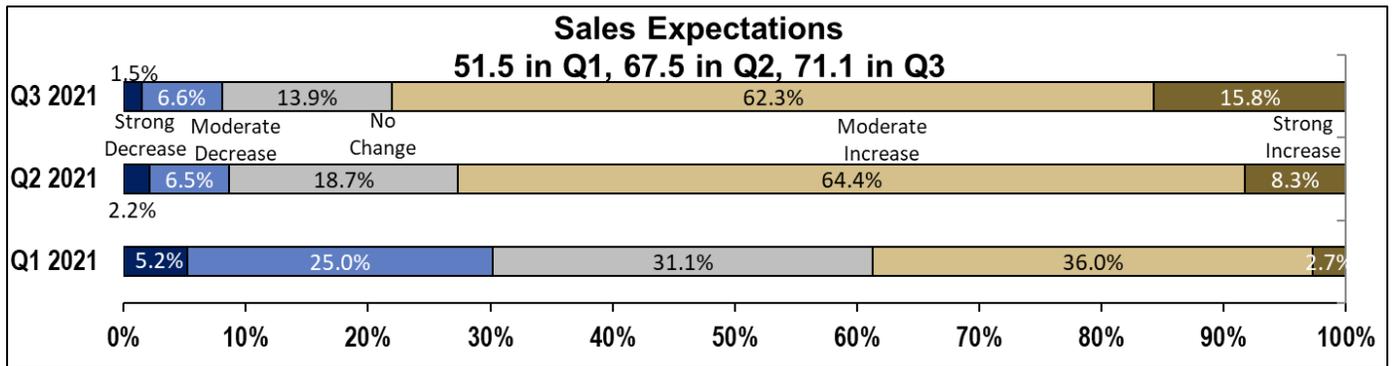
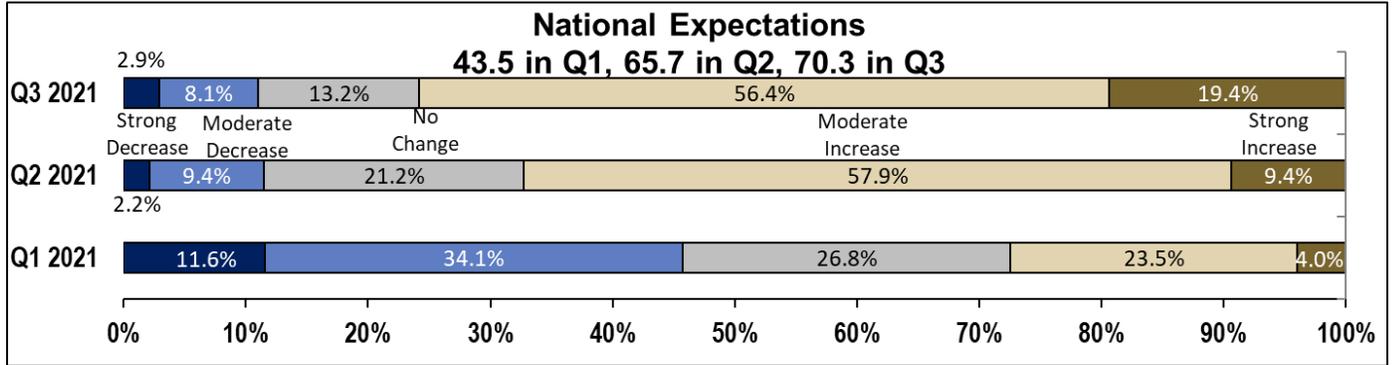
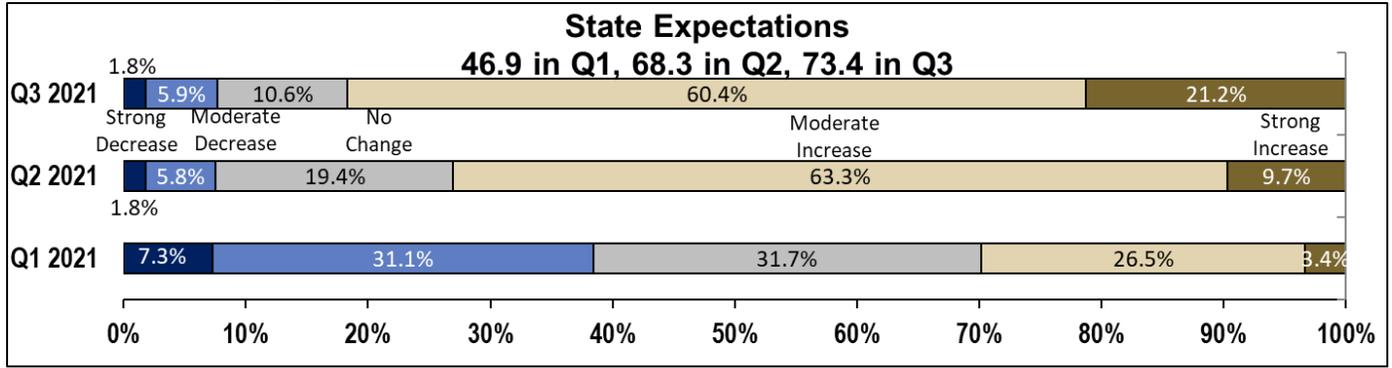
Number of Employees Per Company

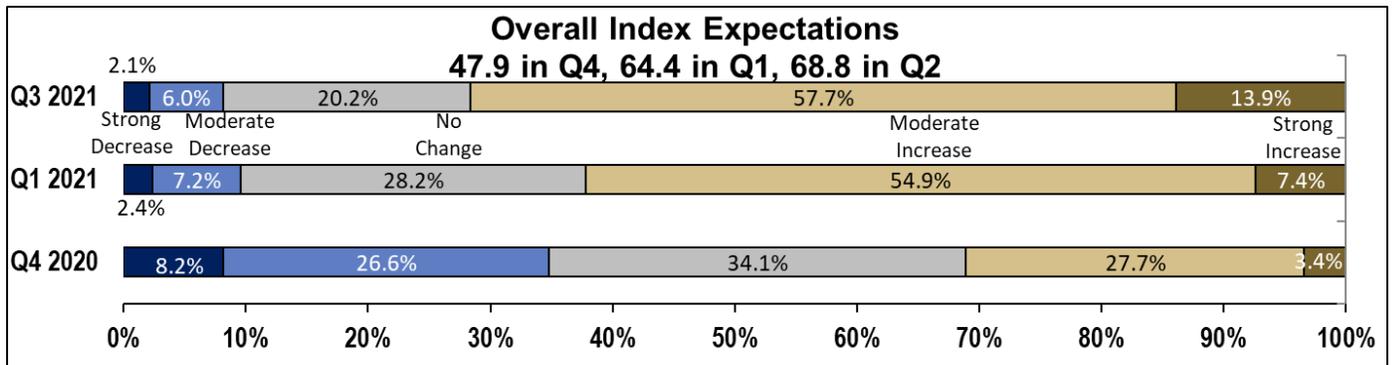
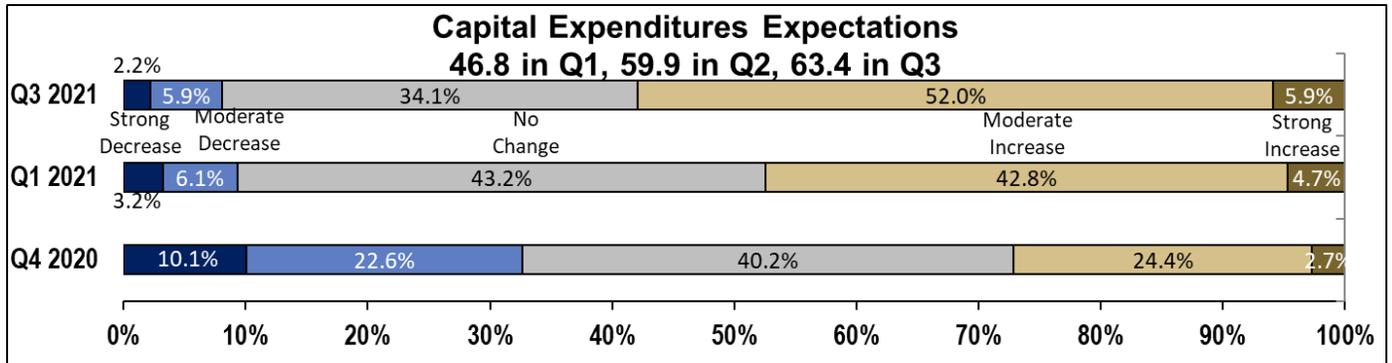
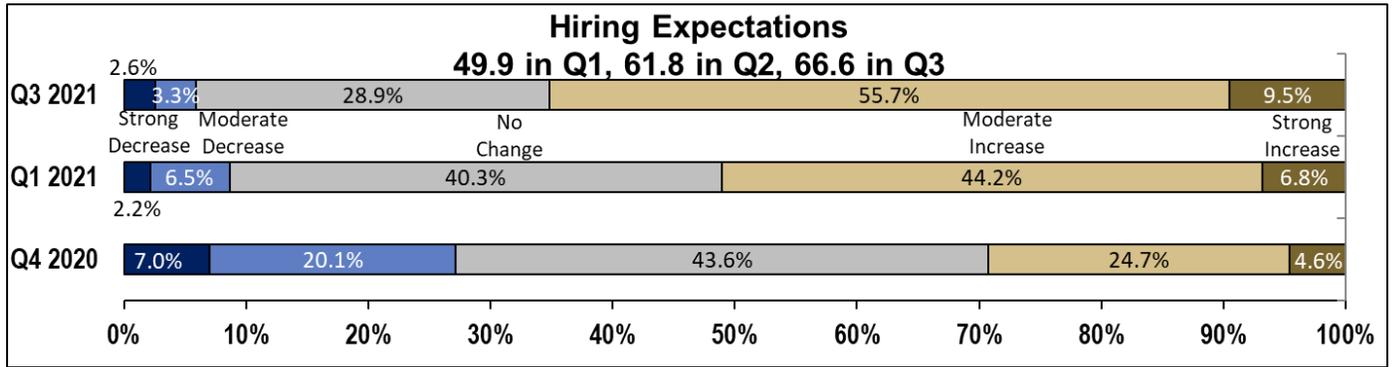


Number of Years in Business



Distribution of Expectations in Q1 2021, Q2 2021, and Q3 2021





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