

Business Leaders' Optimism Slips ahead of Q2

Business confidence slipped ahead of Q2 2022, but still remained positive, with business leaders citing the Russia/Ukraine conflict and inflation as the primary concern looking ahead to the new quarter. All components of the index decreased ahead of the second quarter. The index decreased 4.1 points from Q1 2022 to Q2 2022 and fell another 0.6 points ahead of Q3 2022.

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 decreased ahead of Q2 2022 to 53.9, remaining in positive territory (50=neutral) but falling below the long-term average (54.4). Panelists' expectations slipped a little further looking out to Q3, falling to 53.3. A total of 195 qualified panelists responded to the survey from March 1 through March 21.

Component	Leeds Business Confidence Index					Quarterly Change	Annual Change
	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022		
State Economy	68.3	70.9	55.1	57.6	51.9	▼	▼
National Economy	65.7	67.5	48.9	50.4	40.4	▼	▼
Industry Sales	67.5	69.6	59.0	60.2	59.1	▼	▼
Industry Profits	63.1	65.2	56.6	57.9	55.0	▼	▼
Industry Hiring	61.8	67.7	61.6	63.7	60.4	▼	▼
Capital Expenditures	59.9	62.6	55.4	58.3	56.7	▼	▼
LBCI	64.4	67.3	56.1	58.0	53.9	▼	▼

- Five of the individual components of the LBCI recorded positive perceptions (above 50) ahead of Q2 2022. The national outlook was the only component to fall below 50.
- Panelists expressed concerns about the Russia-Ukraine conflict, inflation, COVID-19, energy prices, and supply chain issues. More than 55% of respondents expect to increase wages in response to higher inflation, and most do not expect inflation to moderate until 2023. Inflation in Colorado is projected to increase 7.3% in 2022, slowing to 2.8% in 2023.
- Colorado's employment recovery has outperformed the nation. Colorado surpassed the pre-recession peak in February 2022, increasing 0.2% above the prerecession peak. This ranked Colorado's recovery 11th nationally (compared to -1.4% for the nation). Year-over-year in February, employment increased 5.1%, or 138,200 jobs. The employment forecast for 2022 has been revised up to 3.4%, with 2023 preliminary expectations at 2.2%
- Colorado's personal income increased 8.6% year-over-year in Q4 2021, ranking Colorado 14th; and 8.3% in the 4th quarter, ranking Colorado 7th. Personal income growth will be modest in 2022 (0.4%) due to the drop in stimulus, but may rebound in 2023 (3.3%).
- National real gross domestic product fully recovered from the recession in Q2 2021 and increased at an annualized rate of 7.0% in Q4 2021. Colorado's GDP increased 6.3% year-over-year in Q4 2021, ranking the state 12th. State real GDP is projected to increase 3.8% in 2022 and 2.7% in 2023.

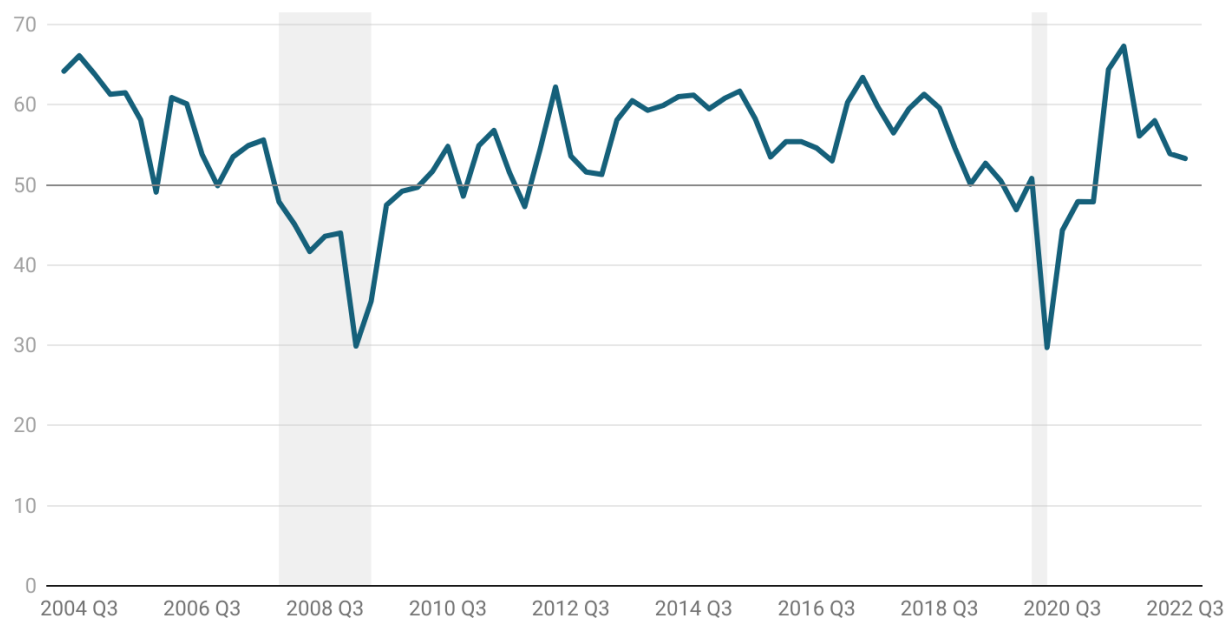
Summary – Leaders Remain Optimistic

The LBCI decreased from 58 in Q1 2022 to 53.9 ahead of Q2 2022 but remained in positive territory; the overall index posted declines quarter-over-quarter and year-over-year. All six components decreased from the prior quarter and prior year. Looking two quarters ahead to Q3 2022, expectations slipped further, but also remained positive overall. While economic risks are affront, the survey results coupled with economic metrics point to continued economic growth over the next two quarters.

Component	Q2 2022	Quarterly Change	Annual Change	Q3 2022	Quarterly Change	Annual Change
State Economy	51.9	▼	▼	52.3	▲	▼
National Economy	40.4	▼	▼	44.0	▲	▼
Industry Sales	59.1	▼	▼	58.3	▼	▼
Industry Profits	55.0	▼	▼	54.5	▼	▼
Industry Hiring	60.4	▼	▼	56.7	▼	▼
Capital Expenditures	56.7	▼	▼	54.1	▼	▼
LBCI	53.9	▼	▼	53.3	▼	▼

Leeds Business Confidence Index

Index (50=Neutral)



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National real gross domestic product (GDP) increased at a 6.9% seasonally adjusted annual rate (SAAR) in Q4 2021 according to the third estimate from the Bureau of Economic Analysis (BEA). Personal consumption expenditures increased 2.5%, and gross private domestic investment increased at an annualized rate of 36.7%; government expenditures declined 2.6%. The trade deficit increased from Q3 2021 to Q4 2021, growing to \$1.35 trillion (annualized average chained dollars). Consensus Forecasts' March expectations for 3.3% real GDP growth in 2022 was lower than prior months but remained above the long-term average.

National and State Economies — Outlook Dimmer

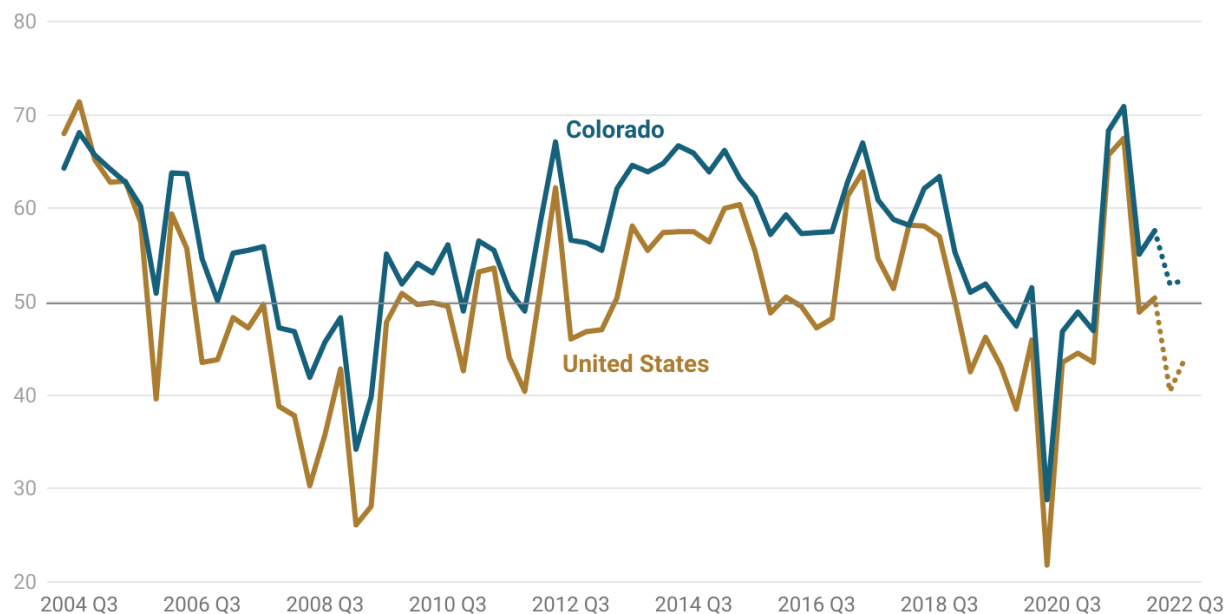
State economic expectations dipped but remained elevated ahead of Q2 and rebounded slightly looking out to Q3. National economic expectations fell sharply into negative territory ahead of Q2, remaining there in Q3.

State expectations fell from 57.6 ahead of Q1 to 51.9 ahead of Q2 and 52.3 looking out further to Q3 2022. The gap between the state outlook and national outlook widened to 11.5 points ahead of Q2 (the greatest gap in 9 years) indicating business leaders' confidence that the state will outperform relative to the nation. The national index fell from a positive position ahead of Q1 (50.4) to a negative position (40.4) ahead of Q2 2022 and 44 looking out further to Q3 2022.

For the state economy, 74.9% of respondents believe the state economy will stay neutral-to-positive in Q2, versus 25.1% who expect slower growth. On the national level, 48.2% are neutral-to-positive, versus 51.8% who expect slower growth.

National and State Expectations

Index (50=Neutral)



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The National Bureau of Economic Research pegged the recession at two months (March-April 2020)—the shortest on record. U.S. GDP rebounded quickly, reaching a new record level in the second quarter of 2021. Growth continued in the fourth quarter at an annualized rate of 7.0% in Q4 2021, marking six consecutive quarters of strong growth following the end of the recession.

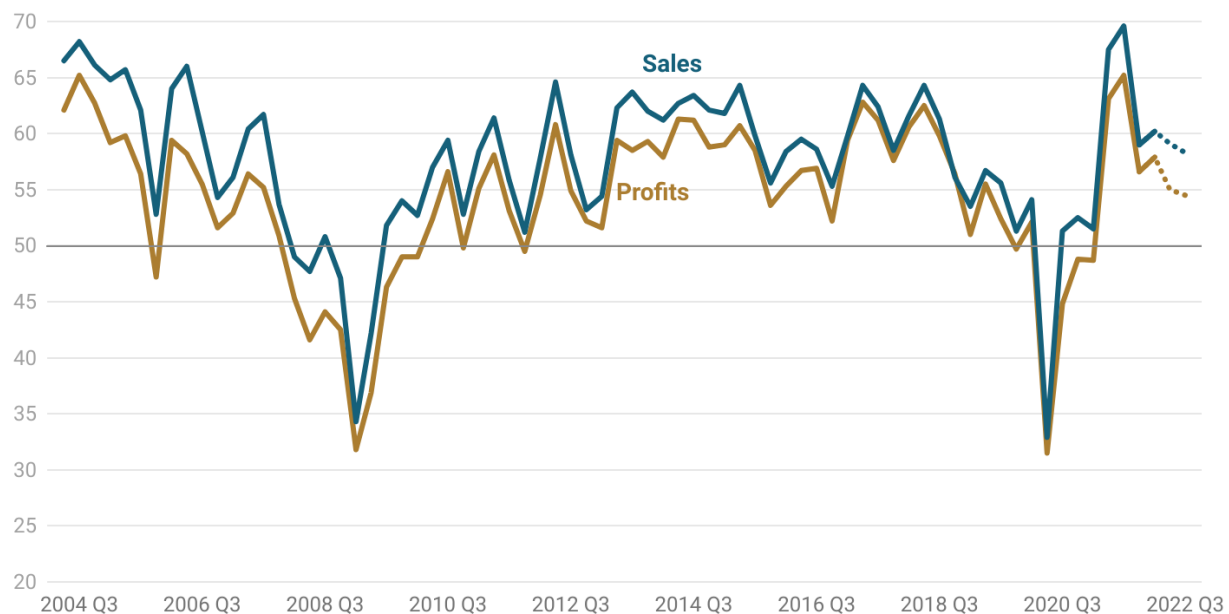
Colorado's Q4 2021 real GDP increased at a SAAR of 6% for the quarter and increased 6.3% year-over-year. Year-over-year, the largest percentage gains were recorded in the following industries: Accommodation and food services (31.4%); Arts, entertainment, and recreation (29.3%); and Professional, scientific, and technical services (18.9%); declines were recorded in Agriculture (-25.7%); Construction (-4.8%), and Retail trade (-4.3%). Real (inflation adjusted) GDP is projected to increase 3.8% in 2022 and 2.7% in 2023.

Sales and Profits — Expectations Remain High

Sales and profits expectations fell ahead of the second quarter, but expectations remained high. The sales index decreased from 60.2 in Q1 to 59.1 ahead of Q2 and 58.3 ahead of Q3 2022; the profits index decreased from 57.9 in Q1 2022 to 55 ahead of Q2 and 54.5 ahead of Q3. A majority of panelists were neutral-to-positive regarding sales (82.6%) and profits (71.8%) ahead of Q2 2022.

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 3.1% quarter-over-quarter in Q4 2021 and 7% year-over-year. Growth in services consumption (3.1%) outpaced growth in goods (1.5%) in the fourth quarter. According to data from the U.S. Census Bureau, February retail and food services sales were up 17.6% year-over-year, and 2.4% over the last three months. The largest annual increase was at gasoline stations (36.4%), reflecting the large price increases, followed by food services and drinking places (33%) as demand rebounded. According to the Conference Board, national consumer confidence increased 15.3 points from February 2021 to February 2022 but decreased 1.4 points from the prior quarter. The Michigan Consumer Sentiment survey showed less optimism year-over-year, decreasing 15.1 points year-over-year and 5.7 points over the past three months.

B-to-B sales are also a signal for sales and profits. In January 2022, wholesale trade increased 21.8% year-over-year and 6.2% over the prior three months. Strong year-over-year gains were recorded in both durable goods (18.1%) and nondurable goods (25.4%). Wholesale inventories increased 17.8% over the year and 5.3% over the quarter.

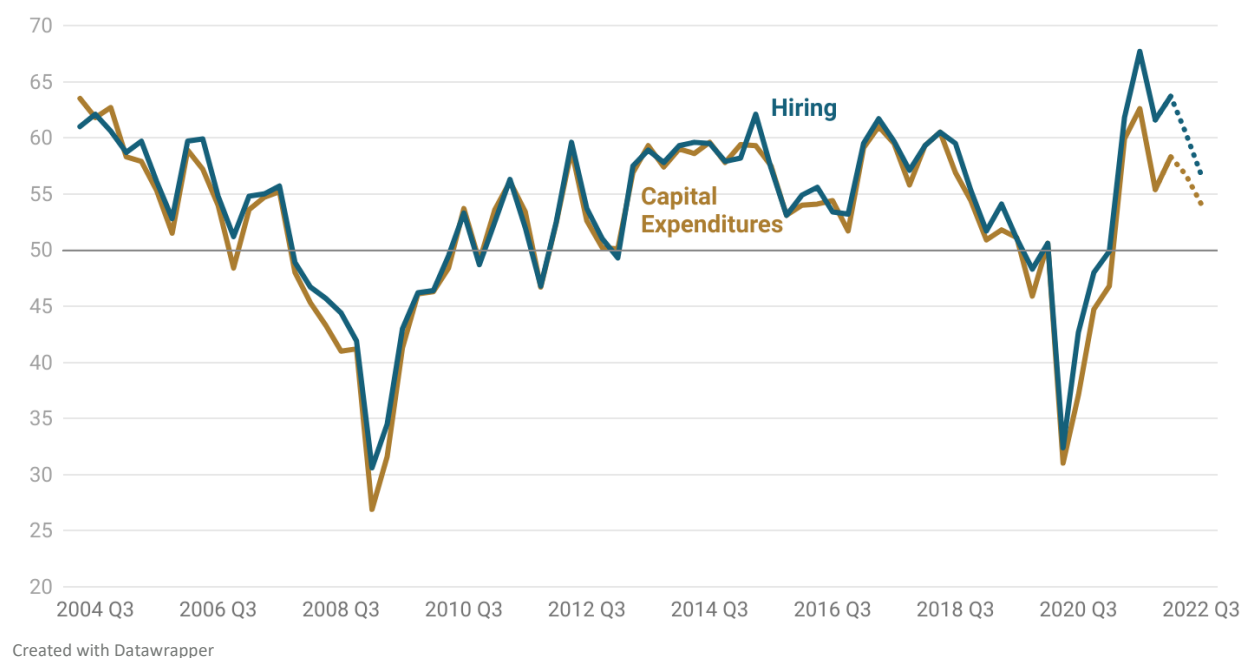
In the fourth quarter of 2021, Colorado personal income grew 8.6% year-over-year and 1% quarter-over-quarter, ranking the state 7th and 20th nationally, for the respective metrics. Colorado had the 8th-highest per capita personal income in Q4 2021, at \$69,113, and the state

ranked 7th for per capita personal income growth year-over-year. Personal income growth is projected to be slower in 2022 (0.4%) resulting from the decrease in federal stimulus. Wage and salary personal income growth is expected to remain strong.

Capital Expenditures and Hiring Plans— Cautious Optimism

The outlook for capital expenditures and hiring both decreased ahead of Q2 2022, but panelists remained optimistic. These components reflect investment in firm growth, thus, the rebound in the index is a positive confirmation of business conditions. The capital expenditures index decreased from 58.3 in Q1 2022 to 56.7 ahead of Q2 and 54.1 looking out further to Q3 2022. Hiring expectations performed similarly, decreasing from 63.7 in Q1 to 60.4 ahead of Q2 and 56.7 ahead of Q3. Hiring expectations recorded the most optimism in the index ahead of Q2.

Capital Expenditures and Hiring Expectations Index (50=Neutral)



Ahead of Q2 2021, 83.1% of respondents expect neutral to positive growth in capital expenditures (versus 16.9% who expressed pessimism), and 84.1% project neutral to positive hiring.

An indicator of capital expenditures is construction. According to Dodge Data and Analytics, the value of construction in Colorado increased 9.3% year-over-year for the 12 months through February 2022. Residential construction and nonbuilding construction posted strong gains, while nonresidential declined modestly. According to the U.S. Census Bureau, the total value of construction put in place for the nation increased 8.3% year-over-year for the 12 months ending in January 2022. The BEA reported U.S. nonresidential fixed business investment increased 3.7% quarter-over-quarter in Q4 2021 (SAAR), and increased 6.6% year-over-year.

National employment has made a strong recovery from the recession lows reached in April 2020. Total nonfarm employment fell a record 14.4% (-22 million jobs) from February to April 2020 before rebounding 19.9 million jobs from May 2020 through February 2022. Total U.S. nonfarm

employment grew 4.6% year-over-year in February. The unemployment rate in the United States continued to improve from 14.7% in April 2020 to 3.8% in February 2022; the rate just prior to the pandemic was 3.5% in February 2020.

Colorado nonfarm employment decreased 13.3% (-375,200 jobs) from January 2020 to April 2020 but increased 381,800 jobs from May 2020 through February 2022. Colorado effectively recouped jobs lost due to the pandemic, reaching a new record for jobs in the state in February. Colorado is projected to add about 94,000 jobs (3.4%) in 2022 and 62,000 in 2023 (2.2%) with the greatest number of jobs added in the Leisure and Hospitality industry and in the Professional and Business Services industry. At 4%, Colorado's February unemployment rate was the 28th-lowest in the country, and the state had the third-highest labor force participation rate in the country. The state's unemployment rate was 2.8% in February 2020, just prior to the recession, and spiked to 11.8% in May 2020.

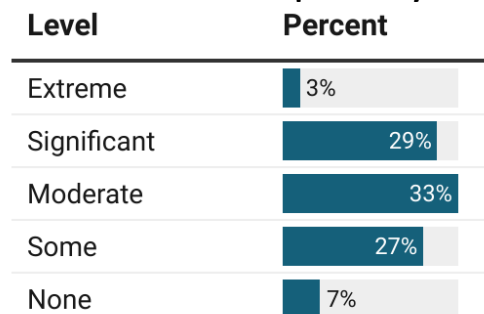
Strong year-over-year employment growth was recorded in all of Colorado's seven metropolitan statistical areas (MSAs) in February. Six of Colorado's seven MSAs rank among the top 100 nationally for employment growth. The Boulder MSA recorded the largest year-over-year growth (6.1%), followed by Grand Junction (5.7%), Denver-Aurora-Lakewood (5.5%), Pueblo (5.5%), Fort Collins (5.3%), Colorado Springs (4.8%), and Greeley (3.4%). Colorado industries with the largest annual percent gains were Leisure and Hospitality (19%), Professional and Business Services (7.1%), and Other Services (5.2%).

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. In 2021, the all-items index increased 3.5% year-over-year compared to 4.7% nationally. In January 2022, the Denver-Aurora-Lakewood MSA recorded price growth of 7.9% year-over-year (not seasonally adjusted) compared to 7.5% nationally.

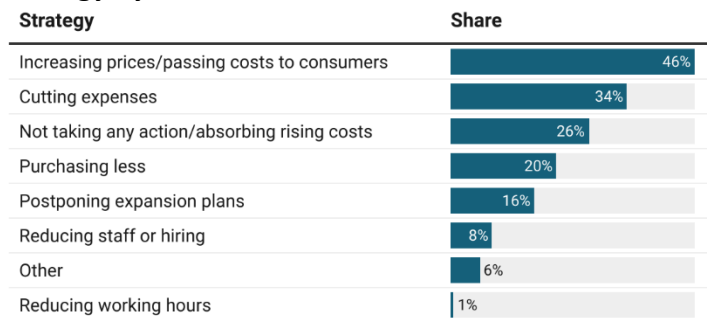
A majority of respondents (92.8%) noted inflation issues impacting their business, with impacts ranging from some level of impact (26.7%) to extreme (3.3%). More than 55% of respondents expect to increase wages in response to higher inflation, and most expect inflation to moderate in the 2023 (59.3%). The Business Research Division projects Colorado inflation to average 7.3% in 2022, moderating to 2.8% in 2023.

Share of Businesses Impacted by Inflation



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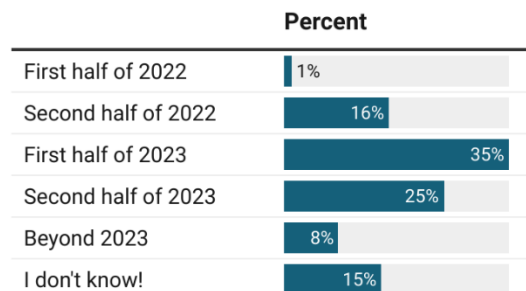
Strategy by Businesses to Address Inflation



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When Businesses Expect Inflation to Moderate

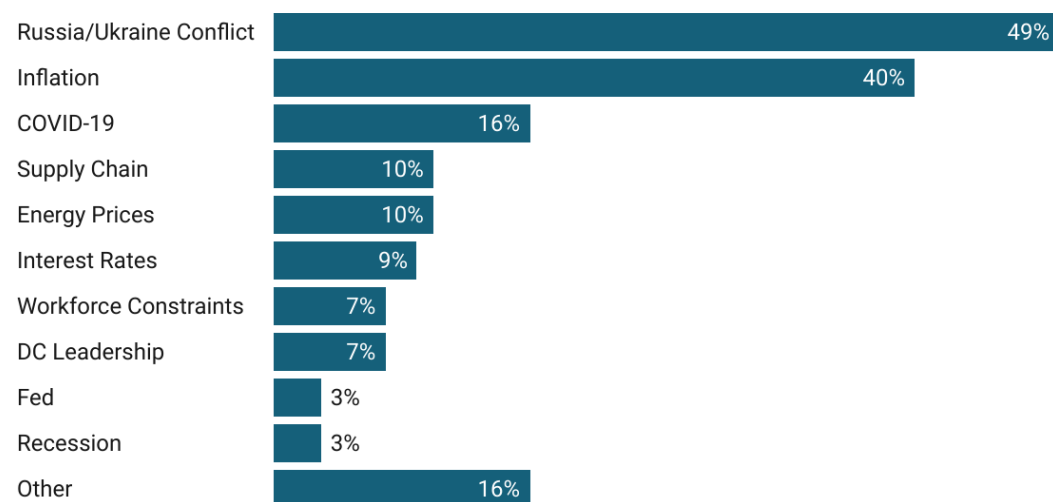


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Reasons for Survey Responses

Panelists were asked to give reasons for their expectations. Of the 179 respondents who provided open-ended explanations, the Russia/Ukraine conflict was most often cited as a concern (49% of respondents), followed by inflation (40%), COVID-19 (16%), supply chain issues (10%), and energy prices (10%).

Reasons or Response

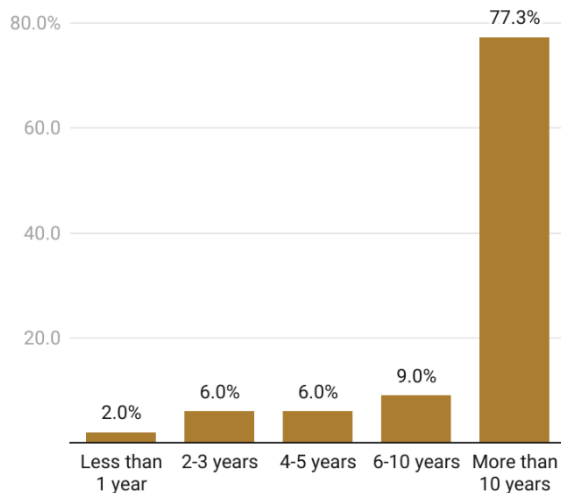


Expectations by Company Size and Length of Time in Business

Panelists were asked about the size of their company and how long their company has been in business. More than 77% of respondents work at a long-standing company that has been in business for more than 10 years. More than half (58.2%) of survey respondents work for companies with fewer than 50 employees. Small employers were slightly less optimistic than large employers ahead of Q2 2022, but both cohorts expressed optimism.

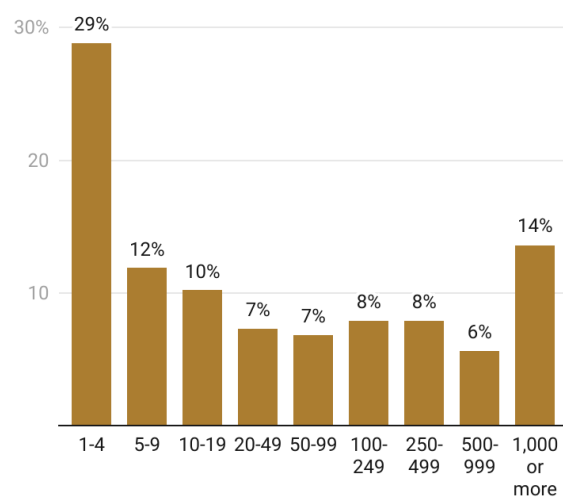
While responding panelists represent every industry in the state, the largest percentage of respondents to the Q2 survey were in the following sectors: Professional, Scientific, and Technical Services; Finance and Insurance; and Real Estate, Rental, and Leasing.

Number of Years in Business



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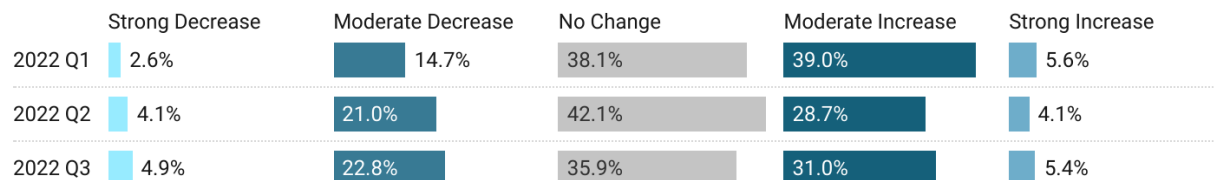
Number of Employees Per Company



Distribution of Expectations in Q1 2022, Q2 2022, and Q3 2022

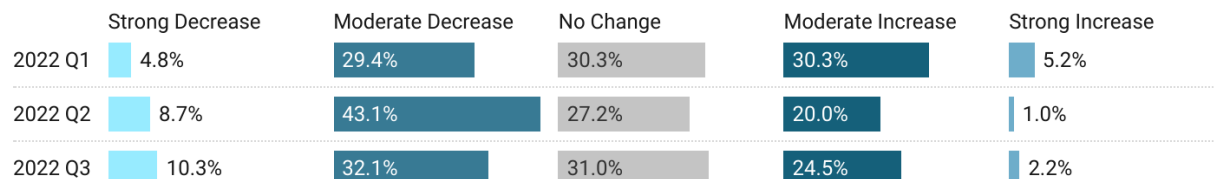
State Expectations

57.6 in Q1 2022, 51.9 in Q2 2022, and 52.3 in Q3 2022



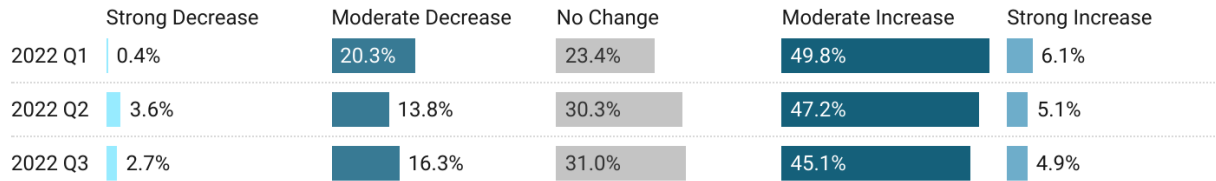
National Expectations

50.4 in Q1 2022, 40.4 in Q2 2022, and 44 in Q3 2022



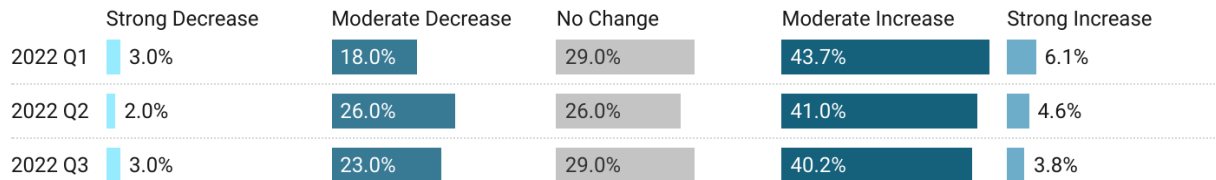
Sales Expectations

60.2 in Q1 2022, 59.1 in Q2 2022, and 58.3 in Q3 2022



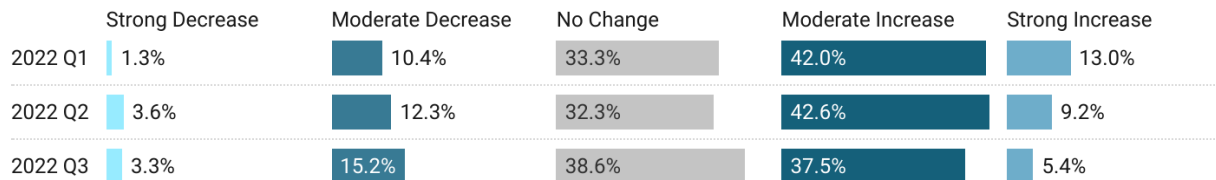
Profit Expectations

57.9 in Q1 2022, 55 in Q2 2022, and 54.5 in Q3 2022



Hiring Expectations

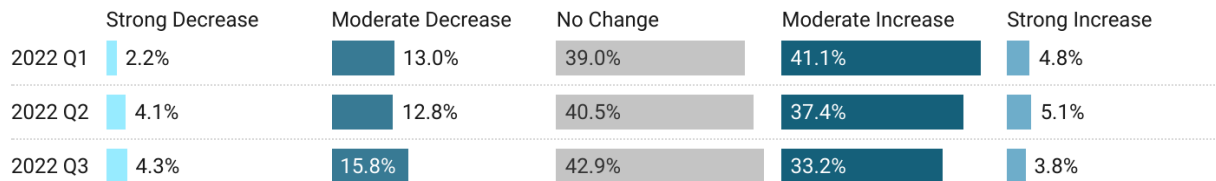
63.7 in Q1 2022, 60.4 in Q2 2022, and 56.7 in Q3 2022



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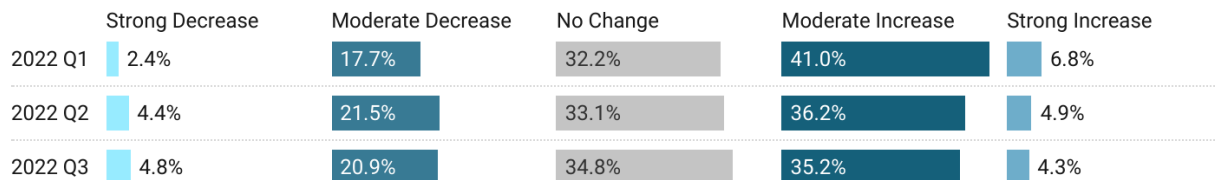
Capital Expenditures Expectations

58.3 in Q1 2022, 56.7 in Q2 2022, and 54.1 in Q3 2022



Overall Index Expectations

58 in Q1 2022, 53.9 in Q2 2022, and 53.3 in Q3 2022



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