

## Cautious Outlook Remains for 2023

Despite the economy demonstrating resiliency in the first half of the year, Colorado Business leaders' pessimism extended for another quarter ahead of Q3 2023, often citing interest rates, inflation, and general concerns about a recession. 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 remained below 50 in the current survey (50=neutral) and was below the long-term average (53.6). The index fell from 45.1 in Q2 2023 to 44.1 ahead of Q3 but increased slightly looking out further to Q4 (44.6). Four of the six components of the index decreased ahead of the third quarter. A total of 191 qualified panelists responded to the survey from June 1 through June 20.

### Leeds Business Confidence Index

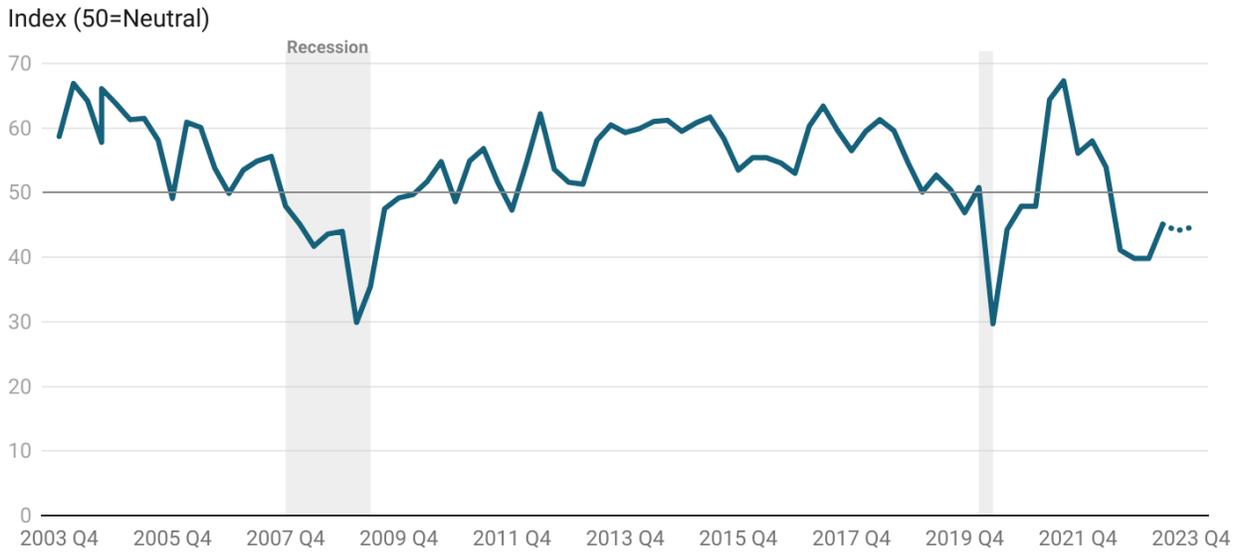
Component	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Quarterly Change	Annual Change
State Economy	39.8	40.0	41.8	46.4	44.9	▼	▲
National Economy	27.7	30.7	34.4	37.1	39.3	▲	▲
Industry Sales	46.4	42.2	40.9	50.4	48.0	▼	▲
Industry Profits	42.2	41.7	39.7	47.6	45.7	▼	▲
Industry Hiring	48.3	43.3	42.1	46.7	43.7	▼	▼
Capital Expenditures	42.1	40.8	39.7	42.4	43.1	▲	▲
<b>LBCI</b>	<b>41.1</b>	<b>39.8</b>	<b>39.8</b>	<b>45.1</b>	<b>44.1</b>	▼	▲

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- All 6 individual components of the LBCI recorded negative perceptions (below 50) ahead of Q3 2023. The index was lowest for the national economy and highest for industry sales.
- Fewer respondents believe the U.S. will enter a recession in 2023 versus last quarter (42.9% versus 56.9%).
- Interest rates and Inflation were the two most noted reasons for panelists' sentiments headed into Q3 2023, cited by 34% and 27% of respondents, respectively.
- Just 10.3% of panelists expect local inflation to fall below 3% in 2023; 44.9% expected sub-3% inflation in 2024.
- Inflation in the Denver-Aurora-Lakewood MSA is projected to increase 4.3% in 2023, according to the Business Research Division's (BRD) forecasting model.
- Colorado's employment recovery has outperformed most other states, increasing 2.8% above the pre-recession peak as of May 2023. This ranked Colorado's recovery 18th nationally; the nation improved 2.5% above pre-recession levels as of May.

- Year-over-year employment growth in Colorado increased 1.1%, or 30,200 jobs in May 2023. The forecasting model now has Colorado’s employment growth slowing to 1.8% in 2023 after posting 4% growth in 2022.
- Colorado’s per capita personal income increased 5.3% year-over-year in Q4 2022, ranking Colorado 28th. Personal income increased 5.9%, ranking Colorado 27th. Personal income growth is projected at 7.1% in 2023.
- National real gross domestic product (GDP) increased at an annualized rate of 1.3% in Q1 2023 and 1.6% year-over-year. Colorado’s GDP increased at an annualized rate of 2.7% in Q4 (most current data) and 1.7% year-over-year, ranking the state 22nd and 8th, respectively.

**Leeds Business Confidence Index**



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**Leeds Business Confidence Index**

Component	Q3 2023	Quarterly Change	Annual Change	Q4 2023	Quarterly Change	Annual Change
State Economy	44.9	▼	▲	46.2	▲	▲
National Economy	39.3	▲	▲	40.5	▲	▲
Industry Sales	48.0	▼	▲	48.6	▲	▲
Industry Profits	45.7	▼	▲	46.6	▲	▲
Industry Hiring	43.7	▼	▼	42.7	▼	▼
Capital Expenditures	43.1	▲	▲	43.1	-	▲
<b>LBCI</b>	<b>44.1</b>	<b>▼</b>	<b>▲</b>	<b>44.6</b>	<b>▲</b>	<b>▲</b>

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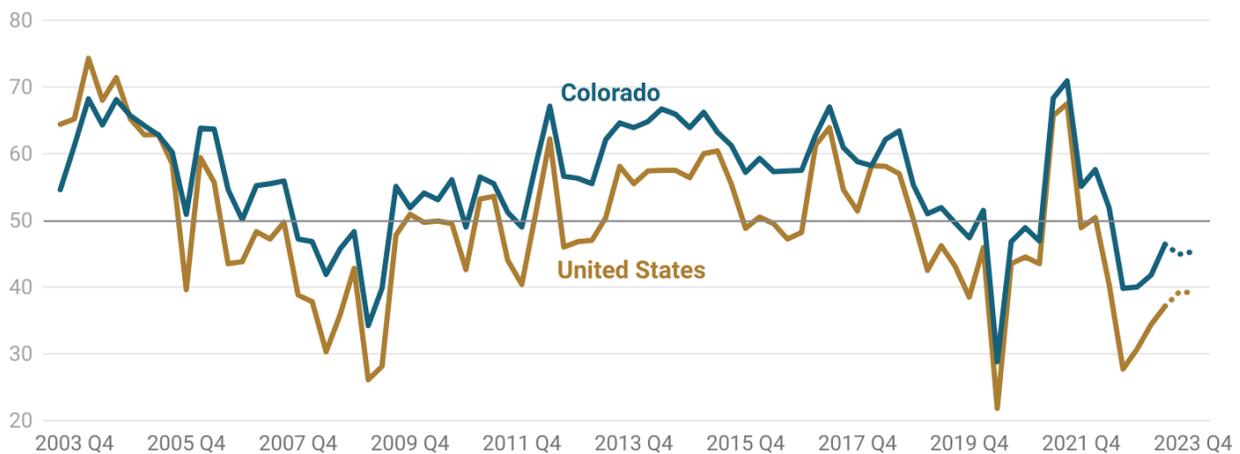
## National and State Economies — Leaders’ Optimism Improved

State and national economic expectations recorded mixed changes. State expectations decreased from 46.4 in Q2 2023 to 44.9 ahead of Q3 but increased to 46.2 looking out further to Q4 2023. The national index rose from 37.1 in Q2 2023 to 39.3 ahead of Q3 2023 and 40.5 looking further out to Q4 2023. The gap between the state outlook and national outlook decreased to 5.6 points ahead for Q3 2023, still indicating business leaders’ confidence that the state will outperform the nation.

For the state economy, 44% of respondents were neutral on the outlook, while 37.7% project a moderate-to-strong decrease and 18.3% expect an increase. On the national level, more than half (53.9%) were projecting a decrease versus 17.3% projecting an increase (28.8% remained neutral).

### National and State Expectations

Index (50=Neutral)



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National real GDP increased at a 1.3% seasonally adjusted annual rate (SAAR) in Q1 2023 according to the second estimate from the Bureau of Economic Analysis (BEA). Personal consumption expenditures increased 3.8%, and gross private domestic investment decreased at a rate of 11.5%. Government expenditures increased 5.2%. The trade deficit worsened from Q4 2022 to Q1 2023, increasing by \$4.9 billion (chained 2012 dollars). As of June, Consensus Forecasts’ expectations for real GDP growth is projected at 1.3% for 2023.

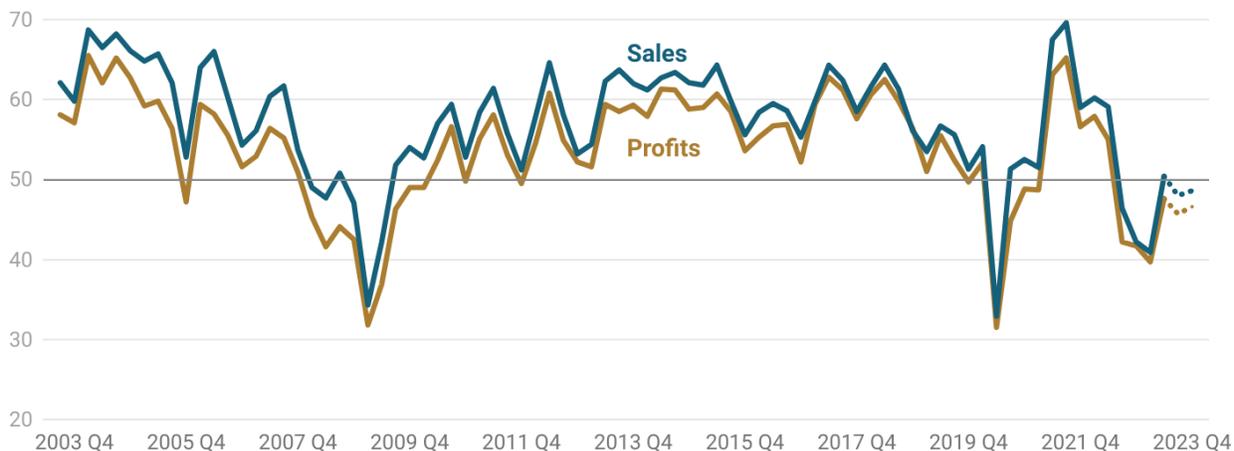
Colorado’s Q4 2022 real GDP increased at a SAAR of 2.7% for the quarter and at 1.7% year-over-year. Overall, the largest year-over-year percentage gains in Colorado’s were recorded in the following industries: Management of Companies and Enterprises (13.3%), Information (12.4%), and Professional, Scientific, and Technical Services (10%). The largest losses were in Construction (-14.5%); Agriculture, Forestry, Fishing, and Hunting (-8%); and Manufacturing (-4.2%).

## Sales and Profits — Expectations Fall

Sales and profits expectations decreased ahead of the third quarter 2023. The sales index decreased from 50.4 ahead of Q2 2023 to 48 ahead of Q3, but expectations rose slightly to 48.6 looking further out to Q4. The profits index fell from 47.6 in Q2 2023 to 45.7 ahead of Q3 but increased to 46.6 ahead of Q4. Individuals with a negative sales outlook (32.5%) outweighed those with positive perceptions (27.7%), while 39.8% remained neutral ahead of Q3. Profits expectations for more imbalanced—the negative perceptions outweighed positive, 38.7% to 23% (38.2% remained neutral).

### Sales and Profit Expectations

Index (50=Neutral)



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The trends in the strength of the consumer are a key component in the trajectory of sales and profits. Nationally, personal consumption expenditures increased at an annualized rate of 3.8% quarter-over-quarter in Q1 2023 and 2.3% year-over-year. Growth in goods exceeded the rate of growth in services. According to the U.S. Census Bureau, retail and food services sales were up 1.6% year-over-year in May 2023, and increased 3.5% year-to-date.

Business-to-business sales are also a signal for sales and profits. In April 2023, wholesale trade decreased 3.4% year-over-year and increased 0.2% month-over-month. Year-over-year losses were recorded in durable goods (-3.5%) and nondurable goods (-3.4%) from the prior year. Wholesale inventories increased 6.3% over the year and decreased 0.1% from the prior month.

In the fourth quarter of 2022, Colorado personal income rose 5.9% year-over-year and fell 0.6% quarter-over-quarter, ranking the state 27th and 50th nationally, for the respective metrics. Colorado had the 8th-highest per capita personal income in Q4 2022, at \$75,206, and the state ranked 28th for per capita personal income growth year-over-year (5.3%).

## Capital Expenditures Rise as Hiring Expenditures Fall

Despite the backdrop of resilient hiring nationally, local hiring expectations fell from 46.7 in Q2 2023 to 43.7 in Q3 and 42.7 looking further out to Q4. The outlook for capital expenditures recorded small gains—up 0.7 points to 43.1 in Q3 and remained unchanged ahead of Q4.

## Capital Expenditures and Hiring Expectations



Ahead of Q3 2023, 37.2% of respondents expected capital investment to slow versus 17.8% who expected an increase (45% were neutral). Regarding hiring, 37.2% of respondents expected a slowdown versus 17.3% who remained optimistic and 45.5% who remained neutral.

An indicator of capital expenditures is construction. According to Dodge Data and Analytics, the nominal value of construction starts in Colorado decreased 38% year-to-date 2023 versus 2022 (January-May). Declines were recorded across residential (-32.2%), nonresidential (-36.9%), and nonbuilding (-16.8%) construction. According to the U.S. Census Bureau, the total value of construction put in place for the nation increased 6.1% year-to-date in April 2023; residential decreased 8.4%, but nonresidential increased 22.3%. The BEA reported U.S. nonresidential fixed business investment increased 1.4% quarter-over-quarter in Q1 2023 (SAAR) and increased 2.9% year-over-year. Investment in structures grew 11% over the quarter and 2% over the year. Residential fixed investment recorded the 8th-consecutive quarterly decrease.

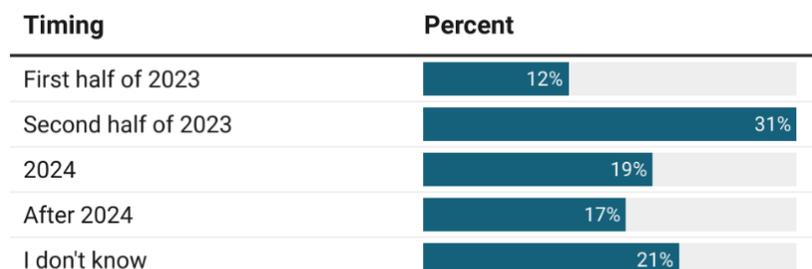
National employment growth continues to post strong gains. Total nonfarm employment in May 2023 increased 2.7% year-over-year, averaging 339,000 jobs added per month over the past year. The unemployment rate nationally increased to 3.7% in May 2023.

Colorado's January nonfarm employment stood 2.8% above the pre-recession peak and grew 1.1% (30,200 jobs) year-over-year. Employment growth in Colorado is projected to continue, albeit at a more moderate pace, adding another 51,000 jobs (1.8%) in 2023. At 2.8%, Colorado's May unemployment rate was 0.9% below the national average, ranking 17th-lowest in the country, while the state had the 4th-highest labor force participation rate of 68.7% in May 2023.

## Special Topic: Recession Expectations

Recession expectations decreased ahead of Q3 2023 with 42.9% of respondents indicating expectations of a recession in 2023 (12% indicated the U.S. is already in a recession and 31% expect one in the second half of the year). Expectations for a 2024 recession increased from 7.9% to 19%, and 16.8% project the recession after 2024 (21.2% are uncertain).

### Timing of Next Recession



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## Special Topic: Inflation

Inflation in the Denver-Aurora-Lakewood MSA has outpaced the nation for eight consecutive years (2013-2020), but prices grew slower in the Denver MSA compared to the nation in 2021. Prices locally were parallel to national price growth in 2022 (8%). In May 2023, the Denver-Aurora-Lakewood MSA recorded price growth of 5.1% year-over-year (not seasonally adjusted) compared to the U.S. city average of 4.0% and 5.1% in the Mountain Region during the same period.

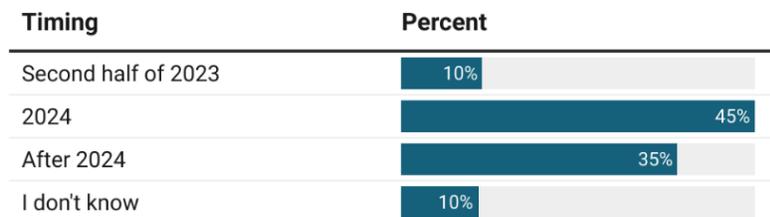
### Consumer Price Index (Percent Change Year-over-Year), May 2023

Items	U.S. City Average	Mountain	Denver-Aurora-Lakewood	Item Weights
<b>All items</b>	<b>4.0</b>	<b>5.1</b>	<b>5.1</b>	<b>100.0</b>
Food and beverages	6.6	7.8	7.4	14.4
Housing	6.8	8.1	7.8	44.4
Apparel	3.5	5.9	2.3	2.5
Transportation	-2.0	-0.8	0.9	16.7
Medical care	0.7	-0.1	-0.2	8.1
Recreation	4.5	6.4	8.1	5.4
Education and communication	1.5	2.1	2.6	5.8
Other goods and services	6.7	3.3	2.5	2.7
All items less food and energy	5.3	5.4	5.6	

Table: Bureau of Labor Statistics, CPI for All Urban Consumers (CPI-U) (Not seasonally adjusted). • Created with Datawrapper

Just 10% of panelists expect inflation to decrease from below 3% in 2023, but 45% expect sub-3% inflation sometime in 2024.

## Expectations for Sub-3% Inflation Locally

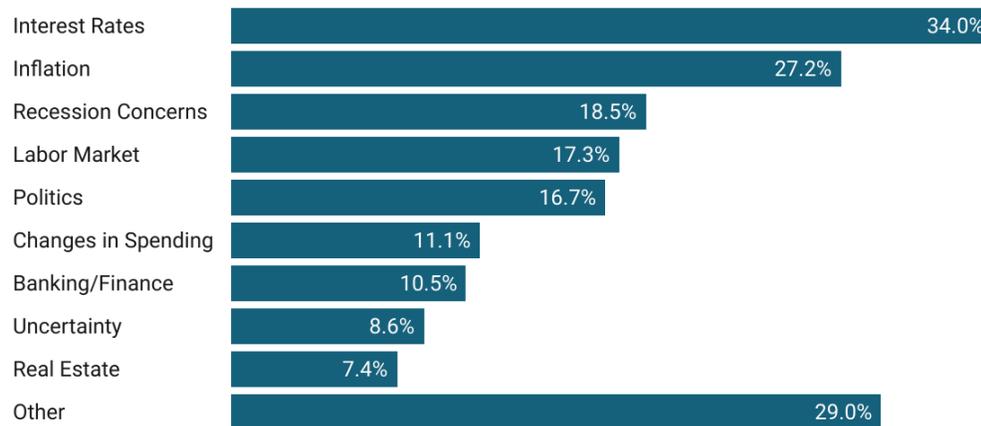


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## Reasons for Survey Responses

Panelists were asked to give reasons for their expectations. Of the 162 respondents who provided open-ended explanations, interest rates were most often cited as a concern (34% of respondents), followed by inflation (27.2%), and recession concerns (18.5%).

### Reasons for Response

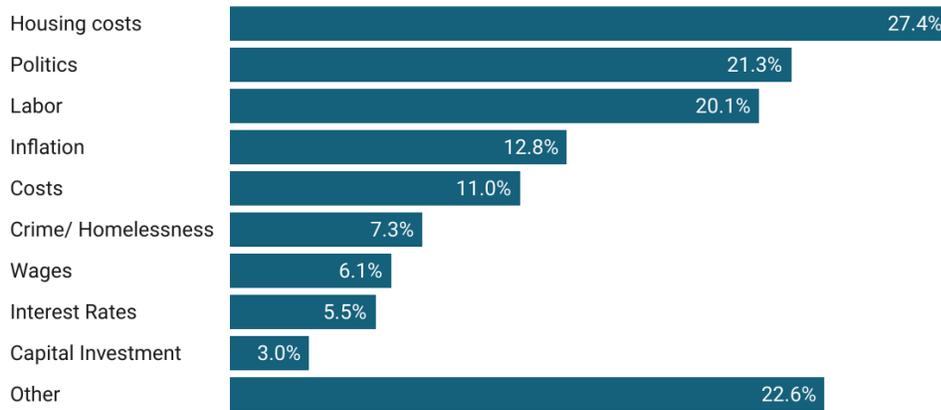


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## Pressing Challenges in the Colorado Economy

Panelists were asked to name the most pressing challenges for the Colorado economy. Of the 164 respondents who provided open-ended explanations, housing costs were the most frequently cited challenge (27.4%), followed by politics (21.3%), and labor (20.1%). A common labor concern panelists identified was hiring skilled workers.

## Pressing Challenges

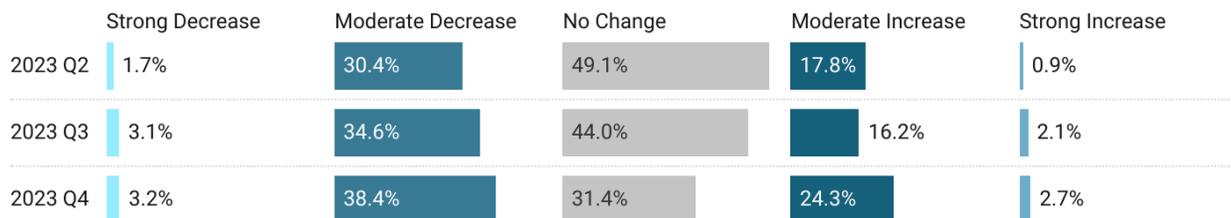


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## Distribution of Expectations in Q1 2023, Q2 2023, and Q3 2023

### State Expectations

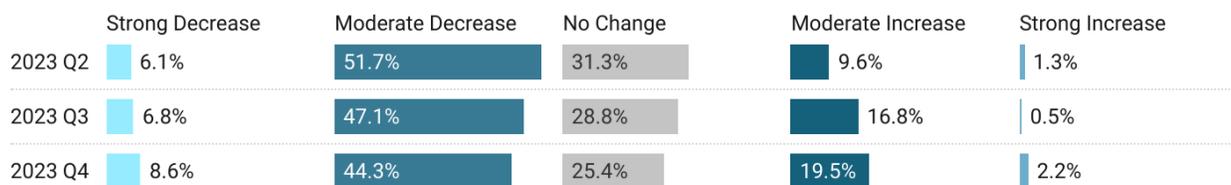
46.4 in Q2 2023, 44.9 in Q3 2023, and 46.2 in Q4 2023



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### National Expectations

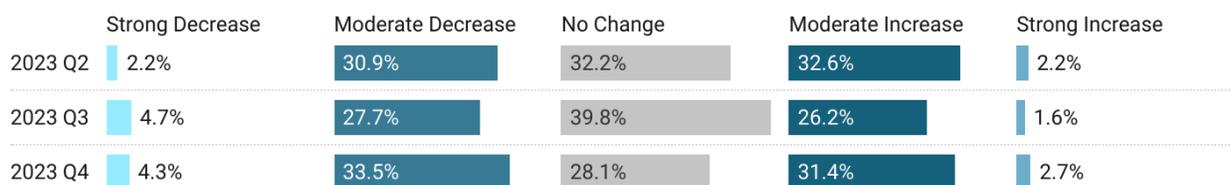
37.1 in Q2 2023, 39.3 in Q3 2023, and 40.5 in Q4 2023



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### Sales Expectations

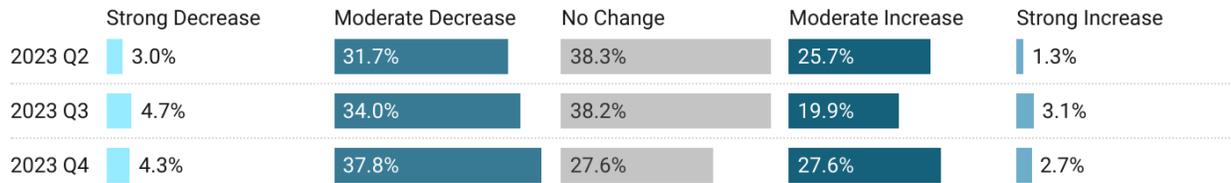
50.4 in Q2 2023, 48.0 in Q3 2023, and 48.6 in Q4 2023



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## Profit Expectations

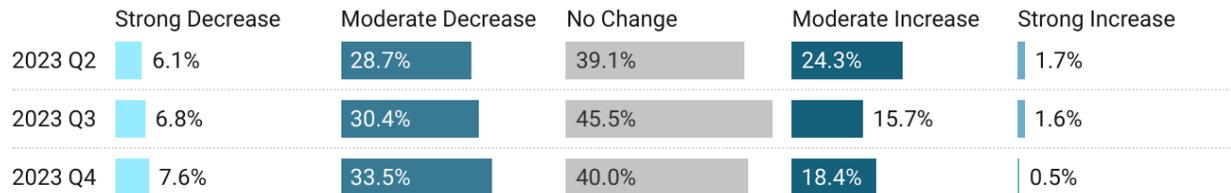
47.6 in Q2 2023, 45.7 in Q3 2023, and 46.6 in Q4 2023



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## Hiring Expectations

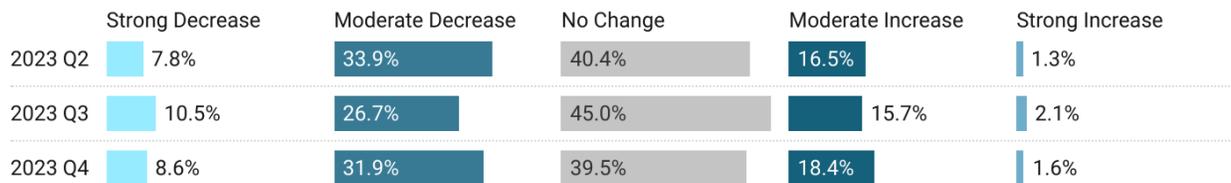
46.7 in Q2 2023, 43.7 in Q3 2023, and 42.7 in Q4 2023



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## Capital Expenditures Expectations

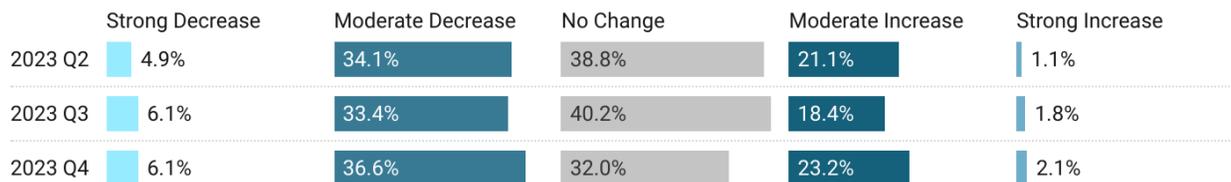
42.4 in Q2 2023, 43.1 in Q3 2023, and 43.1 in Q4 2023



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## Overall Index Expectations

45.1 in Q2 2023, 44.1 in Q3 2023, and 44.6 in Q4 2023



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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)