LBCI LEEDS BUSINESS CONFIDENCE INDEX

Fourth Quarter 2018
Volume 11, number 4
*colorado.edu/business/brd*

## Leeds Business Confidence Falls Ahead of Q4 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 Q4 2018 the index fell to 56.4 and slipped to 52.3 ahead of Q1 2019. A total of 222 qualified panelists responded to the survey from September 4 through September 20.

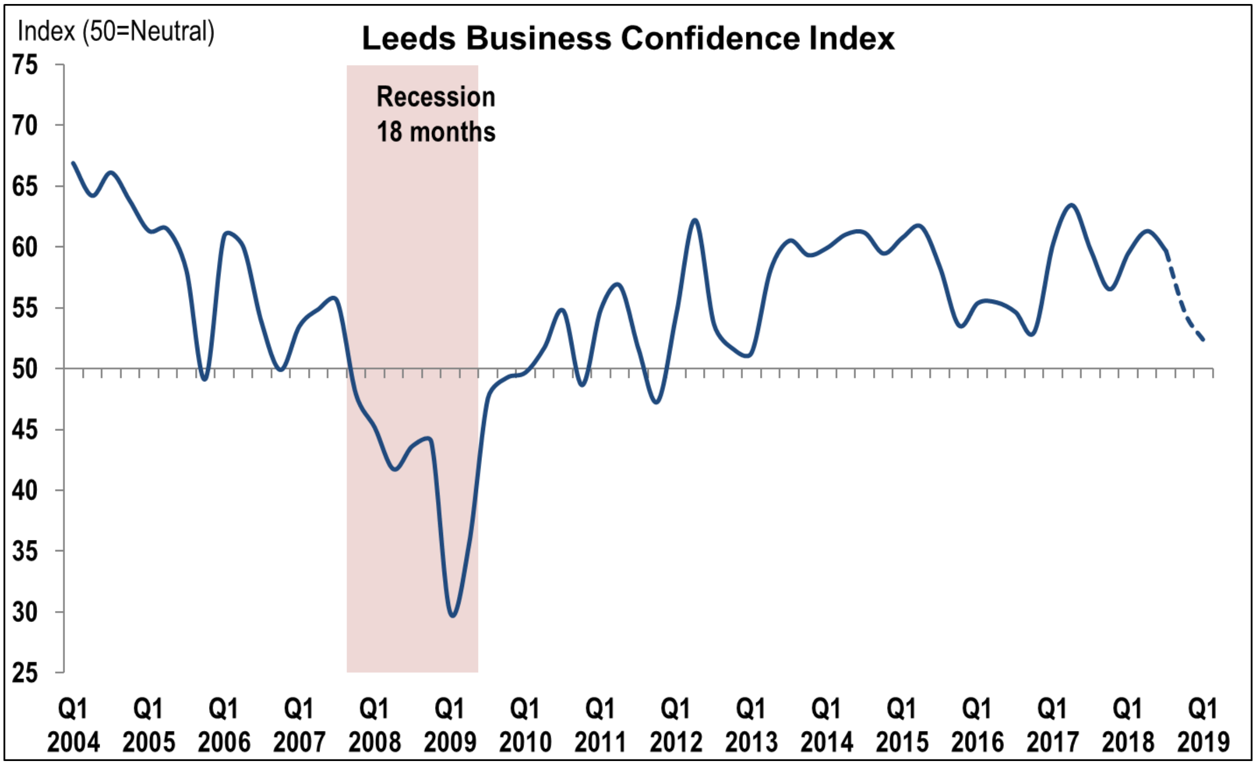
**Leeds Business Confidence Index**

| Component | Q4 2017 | Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 | Change | |
|---|---|---|---|---|---|---|---|
| | | | | | | Quarterly | Annual |
| State Economy | 58.8 | 58.2 | 62.1 | 63.4 | 55.3 | ▼ | ▼ |
| National Economy | 51.4 | 58.2 | 58.1 | 57.0 | 50.1 | ▼ | ▼ |
| Industry Sales | 58.5 | 61.6 | 64.3 | 61.3 | 56.1 | ▼ | ▼ |
| Industry Profits | 57.6 | 60.6 | 62.5 | 59.8 | 56.4 | ▼ | ▼ |
| Industry Hiring | 57.1 | 59.3 | 60.5 | 59.5 | 55.3 | ▼ | ▼ |
| Capital Expenditures | 55.8 | 59.3 | 60.5 | 56.9 | 54.4 | ▼ | ▼ |
| **LBCI** | **56.5** | **59.5** | **61.3** | **59.6** | **54.6** | ▼ | ▼ |

- Business confidence saw a relatively large drop ahead of Q4, and fell further looking ahead to Q1 2019.
- All six individual components of the LBCI remain in positive territory (above 50) ahead of Q4 2018, but national economy expectations fell below 50 in Q1 2019.
- After generally slowing in 2017, the Colorado economy has accelerated in 2018 with signs of continued growth in 2019.
- Panelists appear to be most concerned about the national economy as it recorded the lowest confidence ahead of Q4 2018 and Q1 2019.
- Hiring requirements remain about the same for the majority of employers, but some are accepting employees with fewer years of experience and years of education, or fewer skills.
- Colorado continues to experience employment growth, real GDP expansion, increasing personal income, and growth in other macroeconomic factors. The overall positive reading of the LBCI is consistent with these trends.

## Summary – Notable Dip Ahead of Q4

The LBCI slipped 5.0 points ahead of Q4 and continued to fall ahead of Q1 2019. The overall index remains in positive territory (above 50); however, Q4 saw the seventh-largest drop in confidence among the 63 quarters the Leeds School has conducted this survey. Expectations for Q4 2018 fell to 54.6—a 1.9-point decrease from a year ago. This value is consistent with the index average of 55 points over the 16 years of the index. Although all six components fell from Q3 to Q4, each component remains in positive territory. Looking further ahead to Q1 2019, expectations are down 2.3 points from the previous quarter and 7.2 points since Q1 2018.

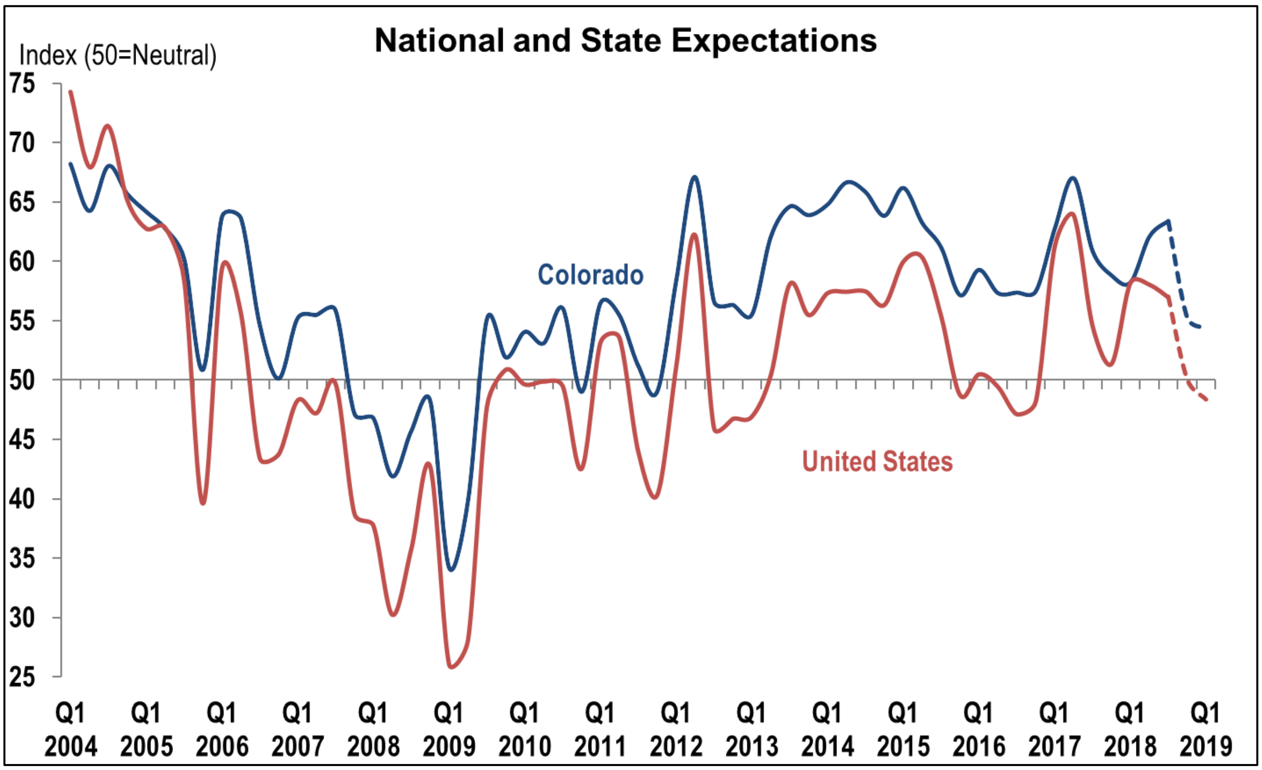



National real gross domestic product (GDP) grew at a 4.2% seasonally adjusted annual rate (SAAR) in Q2 2018 according to Bureau of Economic Analysis (BEA). Personal consumption expenditures grew 3.8%, government spending increased 2.5%, and private domestic fixed investment grew 8.7%. Exports also significantly outpaced the growth in imports, improving the trade deficit. Expectations for 2018 growth remain just shy of 3%. GDP has recorded positive growth for the seventh consecutive year according to the BEA. Colorado continued to experience positive real GDP growth, with a 3% SAAR growth rate in Q1 2018. Colorado accounted for 1.8% of total U.S. GDP in Q1 2018.

## National and State Economies — Panelists Expressing Caution

State expectations decreased from 63.4 in Q3 to 55.3 in Q4 (an 8.1-point decrease, the largest drop among all components) and fell by an additional 0.9 points ahead of Q1 2019. National expectations are 50.1 ahead of Q4 2018, the lowest reading since Q4 2016. National expectations also declined from Q3 to Q4 (6.9 points) and fell 1.7 more points ahead of Q1 2019. Despite these decreases, panelists' expectations for both the state and national economies in Q4 maintained slightly above-neutral outlooks (above 50), though national expectations slipped below neutral looking out to Q1 2019.

For the state economy, only 29.3% of respondents believe that the state economy will expand in Q4, and 10.8% expect a decline. The majority of panelists (59.9%) expect no change in the state economy. On the national level, 26.1% of panelists expect an expansion, while 28% expect a decline. Looking ahead to Q1, 31.8% anticipate an expansion of the state economy, and 27.7% expect a national expansion.



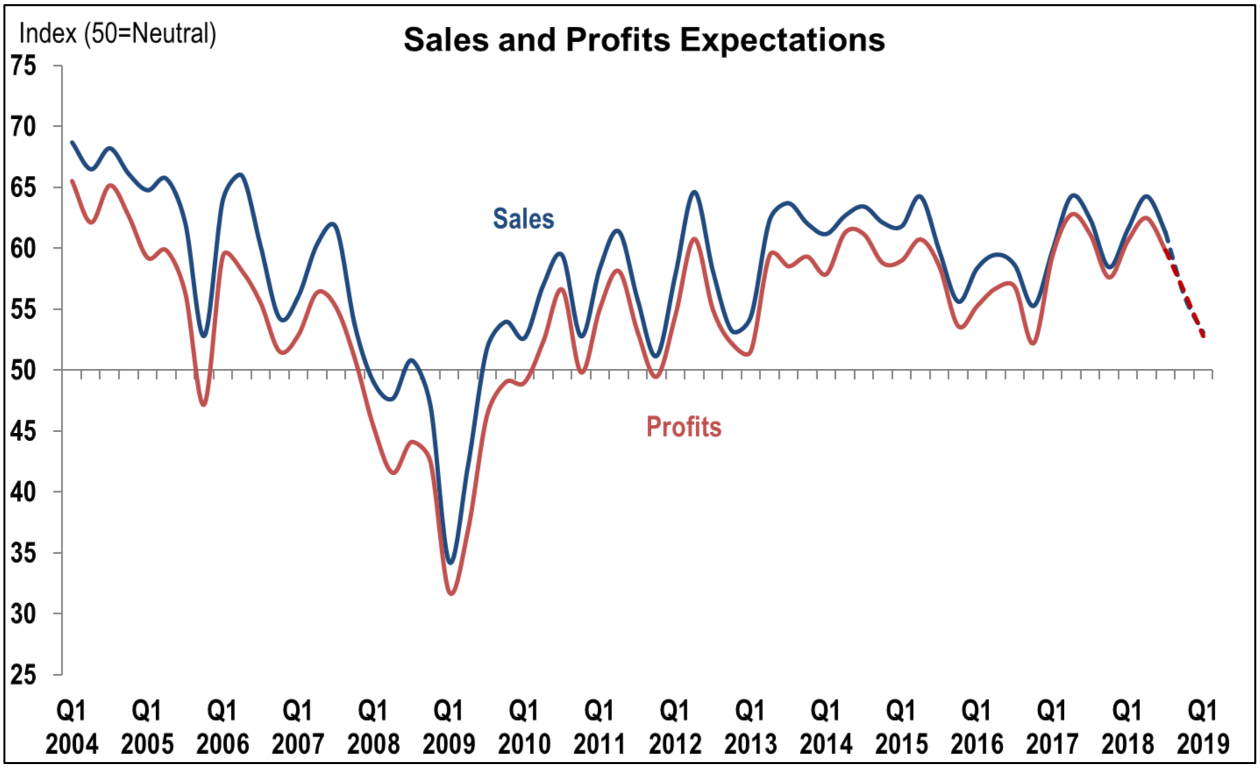

U.S GDP grew at 4.2% SAAR in Q2 2018 (second estimate), an increase in the growth rate from the prior quarter's rate of 2.2%. The BEA reported:

> *The increase in real GDP in the second quarter reflected positive contributions from PCE nonresidential fixed investment, exports, federal government spending, and state and local government spending that were partly offset by negative contributions from private inventory investment and residential fixed investment.*

Colorado's Q1 2018 real GDP grew at an SAAR of 3%. Quarter-over-quarter, Agriculture, Information, and Natural Resources and Mining increased by the largest percentage gains.

## Sales and Profits — Outlook for Sales and Profits Fall

Sales and profits expectations fell 5.2 points and 3.4 points, respectively, from Q3 to Q4 2018. Looking toward Q1 2019, the outlook for sales and profits slipped further—3.0 and 3.6 points, respectively. However, sales and profits expectations recorded the highest readings among the six components in Q4 2018—56.1 and 56.4, respectively. Looking ahead to Q1 2019, sales expectations slid to 53.1, while profits expectations declined to 52.8.




Around 43.2% of panelists expect an increase in sales and 43.7% anticipate an increase in profits in Q4 2018, while 19.8% expect a decrease in sales and 18.5% expect a decrease in profits. Looking ahead to Q1 2019, both sales and profits expectations slip slightly, but remain positive nonetheless.

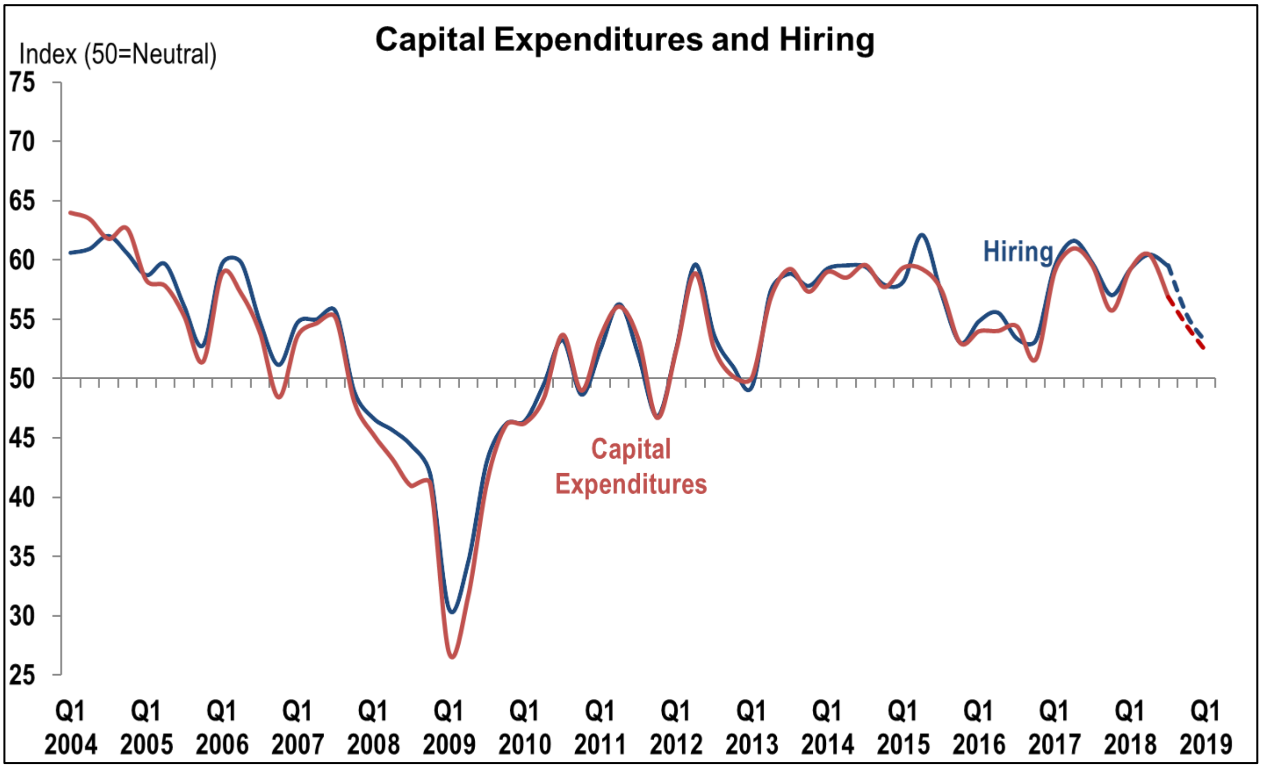
According to the Institute for Supply Management, the national manufacturing index in August 2018 was 61.3, which is higher than both the previous month's reading and higher than the average for 12 months. The nonmanufacturing index also increased to 58.5 in August.

Personal incomes continued to grow in Colorado in Q2 2018. According to the BEA, Colorado's personal income rose 1.3% in Q2 2018 from the preceding quarter, with a strong increase of 5.7% year-over-year. Colorado ranked 5th in the nation for quarterly growth and 4th for year-over-year growth. Colorado had the 13th-highest per capita personal income in Q2 2018, at $56,563, and the state ranked 8th for per capita personal income growth.

Prices continue to increase, putting more pressure on personal income, wages, and salaries. According to the Bureau of Labor Statistics, prices increased 3.2% from 2017 to 2018 midway through the year in the Denver-Aurora-Lakewood region in Colorado. Core inflation (which excludes energy and food) increased 2.9% year-over-year, while shelter increased 3.4%.

## Capital Expenditures and Hiring Plans — Both Down

The outlook for both capital expenditures and hiring fell ahead of Q3 and Q4. Hiring plans fell to 55.3 in Q4 2018 and 53 in Q1 2019, while capital expenditures fell to 54.4 in Q4 2018 and 52.3 in Q1 2019. Despite the decrease in expectations, capital expenditures saw the smallest decline in the index, 2.5 points, from Q3 to Q4. Expectations for hiring plans and capital expenditures declined 2.3 and 2.1 points from Q4 2018 to Q1 2019, respectively.




Only 37.9% of respondents expect an increase in hiring plans and 36.9% expect an increase in capital expenditures ahead of Q4. The largest proportion of respondents anticipate no change (45.5% for hiring plans and 42.3% for capital expenditures). Looking ahead to Q1 2019, just over 33% of panelists expect an increase in capital expenditures or hiring.

In Colorado, an indicator for capital expenditures is infrastructure. According to Dodge Data and Analytics, the value of construction in Colorado was up 4% through August 2018 compared to the same period one year ago. Through August, the value of residential building increased by 13% and nonresidential building went up 8%. However, nonbuilding decreased by 33% compared to August 2017. According to the U.S. Census Bureau, the total value of construction for the nation increased by 5.8% from July 2017 to July 2018, which is slightly higher than Colorado.

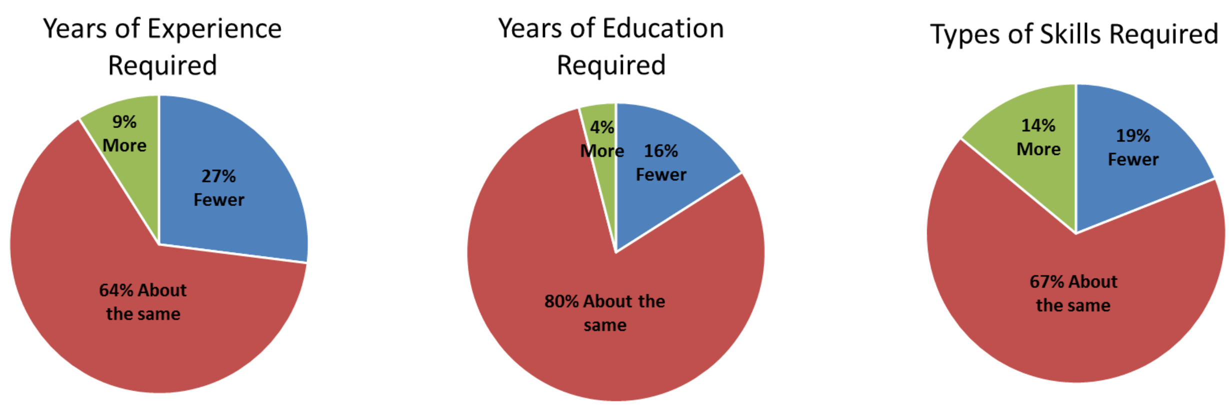
Employment continues to grow in the United States. In August 2018, jobs increased 1.6% year-over-year. For all nonfarm sectors, 201,000 jobs were added in August 2018. Year-to-date through August, the average number of jobs added per month totaled 207,000, up from the eight-month average of 189,000 for the same period a year ago. The unemployment rate in the United States remained around 3.9%, consistent with the year-to-date average unemployment rate of 4% through August 2018.

As of August 2018, Colorado continued to exhibit strong employment growth. Jobs increased 2.7% from August 2017 to August 2018, an increase of 72,200 year-over-year—the eighth-fastest rate in the country. The state unemployment rate continues to outperform the nation as a whole. In August 2018, the unemployment rate was just 2.9% seasonally adjusted, 1 percentage point below the national average of 3.9%, ranking the state eighth-lowest in the country. Year-over-year employment growth was recorded in all of Colorado's seven metropolitan areas. The Greeley MSA recorded the fastest year-over-year growth (5%), followed by Colorado Springs (4.1%), Fort Collins (3.1%), Denver-Aurora-Lakewood (2.8%), Grand Junction (2.1%), Boulder (1.4%), and Pueblo (0.8%). Colorado industries with the greatest annual percent change in August were Natural Resources and Mining (15.2%) and Leisure and Hospitality (5.5%).

## Hiring Requirements in Response to the Tight Labor Market

Based on the tight labor market's strain on local businesses, panelists were asked whether their hiring requirements have changed compared to five years ago, and if so, how they have changed. Panelists indicated if they had fewer, about the same, or more requirements in the categories of the number of years of experience required, the years of education required, and the types of skills required.

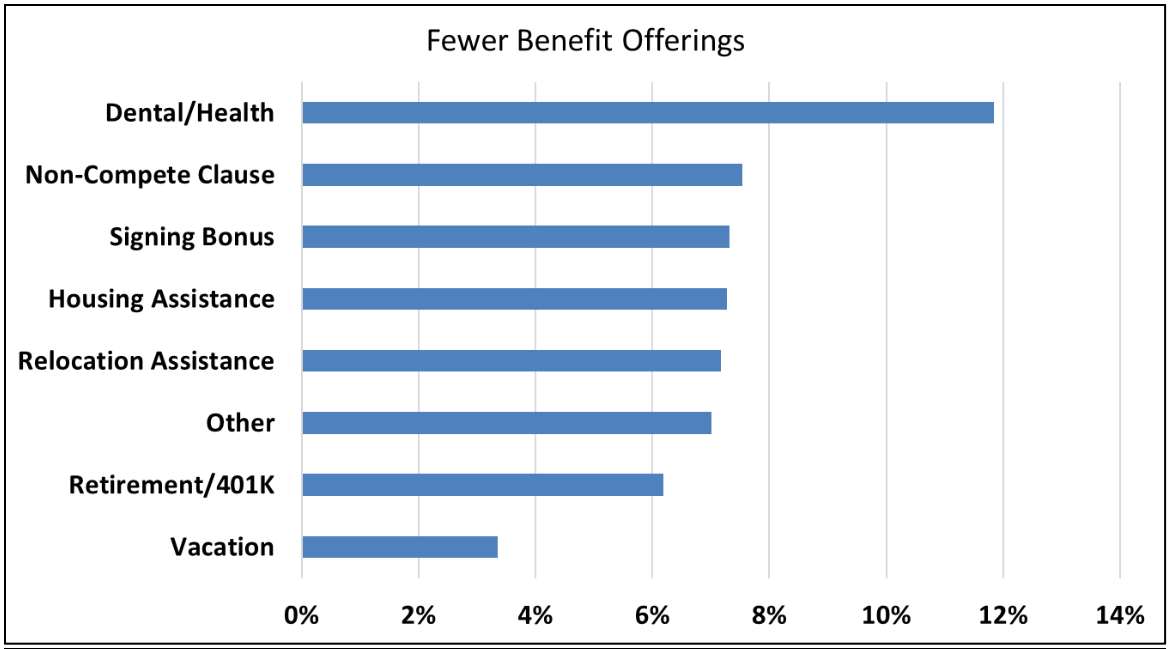
In terms of years of experience required, the majority of panelists (64%) responded that requirements remain about the same, 27% require less experience, and 9% require more experience. A total of 80% of panelists reported that education requirements remain about the same, while 16% require fewer years of education and 4% require more. The types of skills required are similar: the majority (67%) require about the same types of skills, 19% require fewer types of skills, and 14% require more skills.

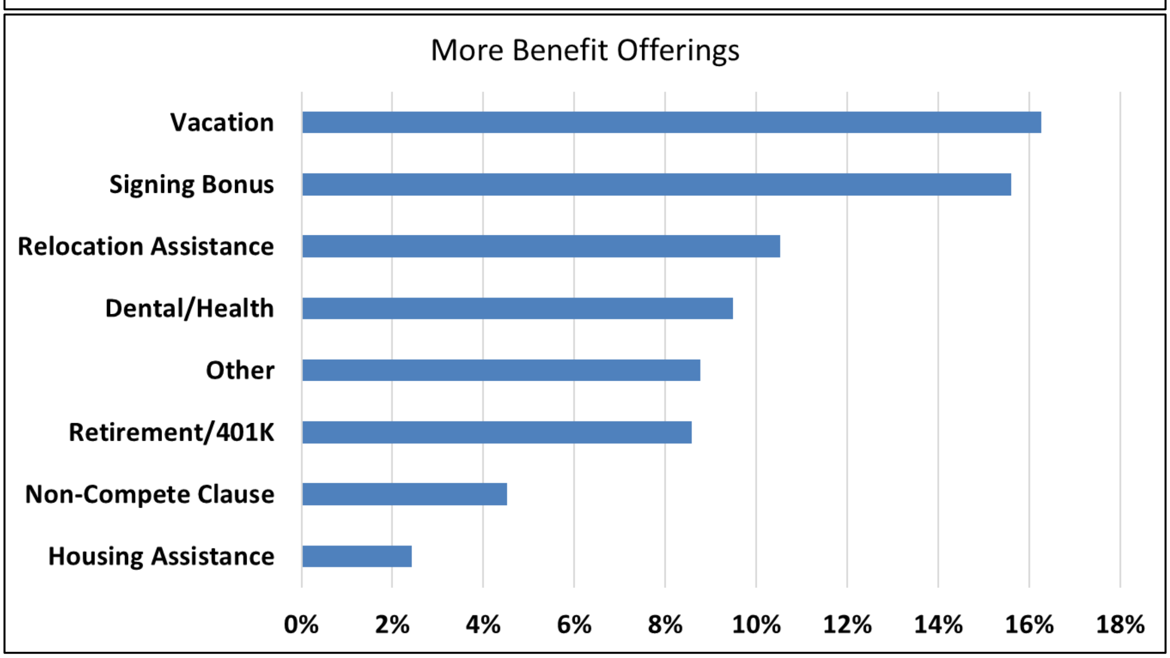


## Benefit Offerings to Employees

In order to compete with other employers and retain talented employees, businesses may offer certain benefits. Panelists were asked how their employee benefits have changed based on hiring practices over the past five years.

Asked about seven specific benefits categories, plus an “other” category, 77 – 90% of panelists reported that benefit offerings have remained about the same for the select categories. If respondents did reduce benefits, they were reduced most frequently in the dental/health category. Only 3% of panelists offered less vacation. Alternatively, benefits were increased most frequently in the vacation (16%) and signing bonuses (16%) categories. When asked to describe other perks offered to attract new employees, the most common responses were flexible hours or the option to work from home, parking or transportation assistance, and higher wages.

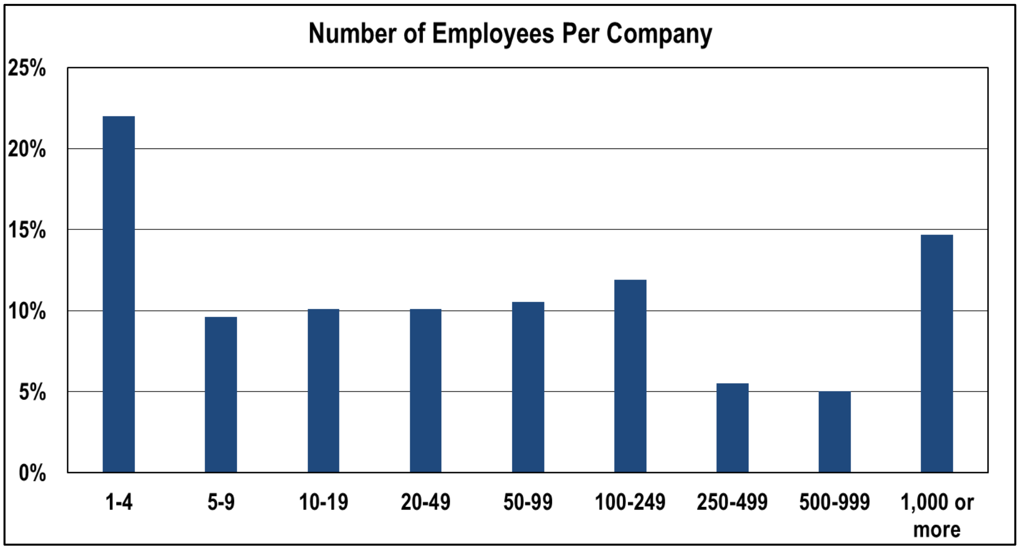


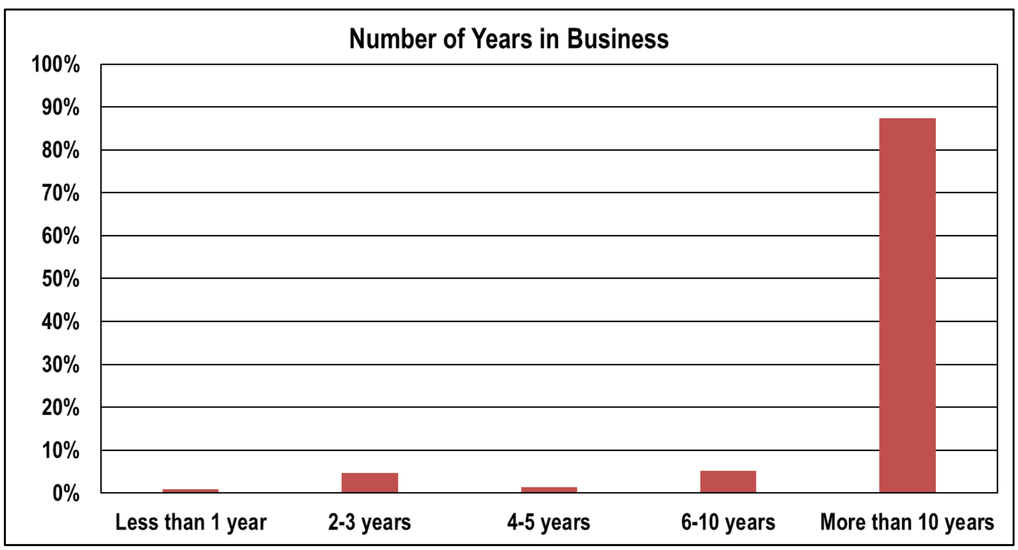
## Expectations by Company Size and Length of Time in Business

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. Roughly half (51.8%) of survey respondents work for companies with fewer than 50 employees. The four largest groups were represented by companies with 1–4 employees (22%), 1,000 or more employees (14.7%), 100–249 employees (11.9%), and 50–99 employees (10.6%).

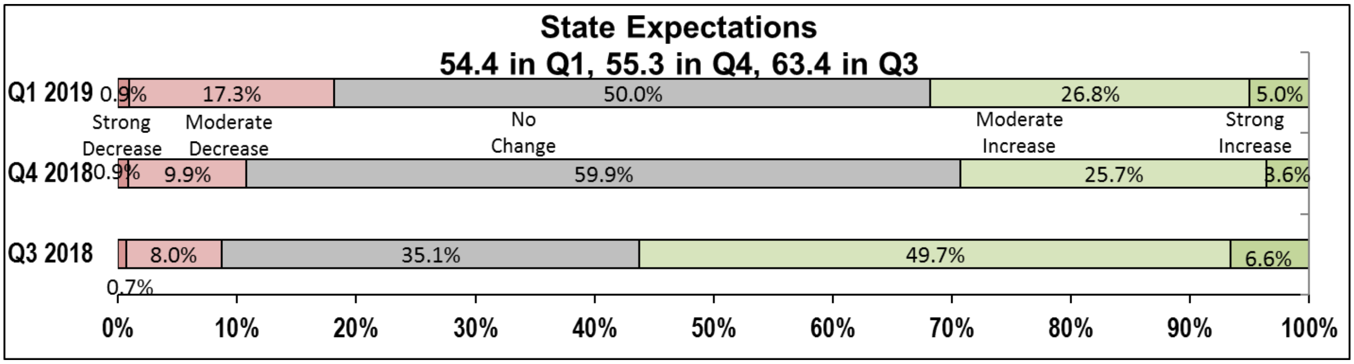
Small employers' (fewer than 50 employees) expectations decreased 7.8 points ahead of Q4, and larger employers' expectations decreased 2 points. From Q4 2018 to Q1 2019, small and large employers' expectations decreased 1.5 points and 2.6 points, respectively. In Q4, large employers were more optimistic than small employers (4.4 points higher). A total of 87.4% of respondents work at a long-standing company that has been in business for more than 10 years.

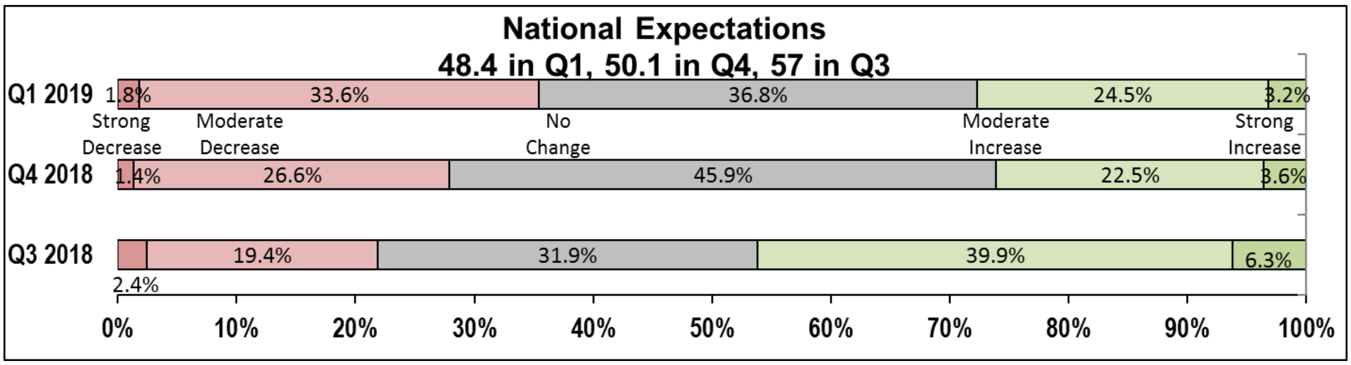


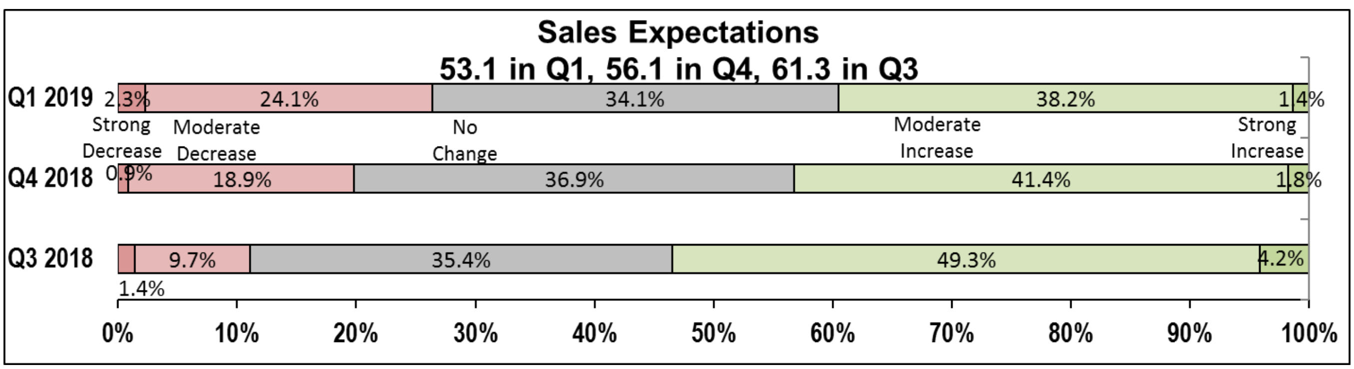

While responding panelists represent every industry in the state, the largest percentage of respondents to the Q4 survey were in the following sectors: Finance and Insurance (16%); Real Estate, Rental, and Leasing (16%); and Government (14%).

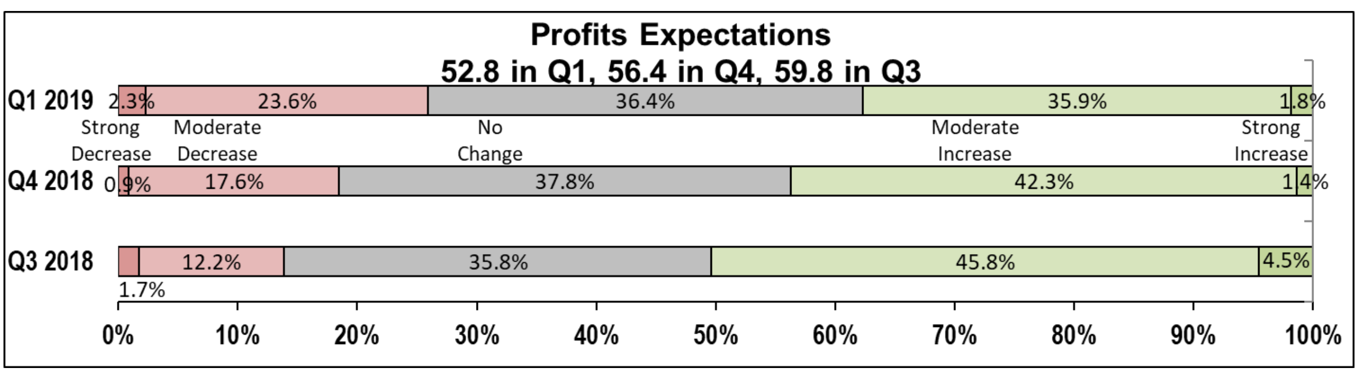


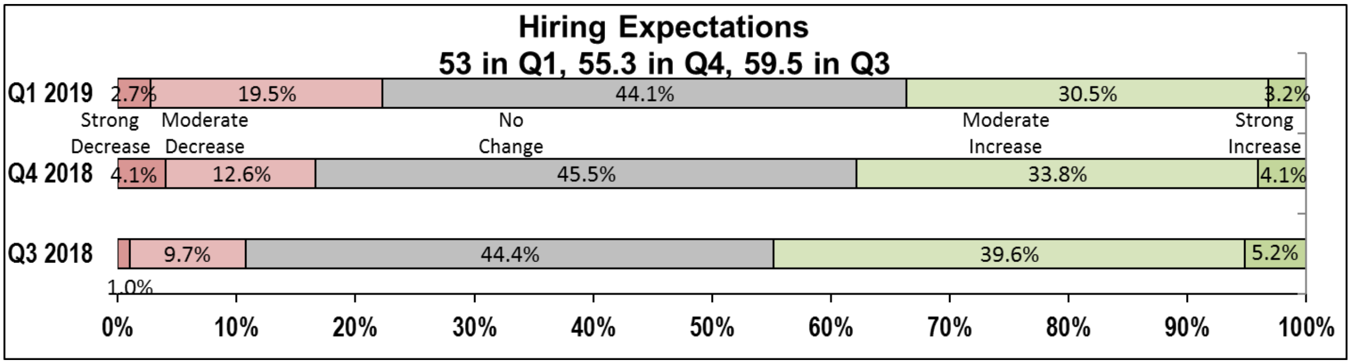
## Distribution of Expectations in Q1 2019, Q4 2018, Q3 2018

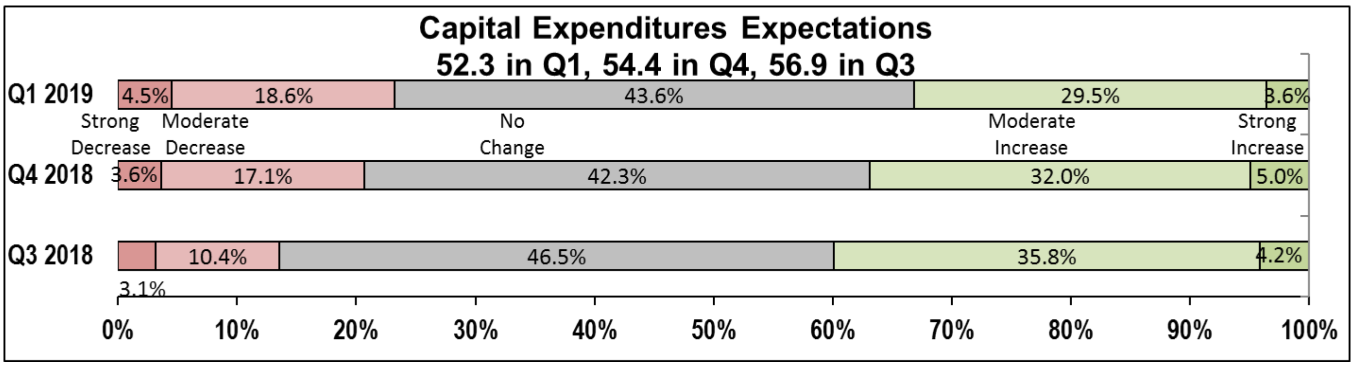


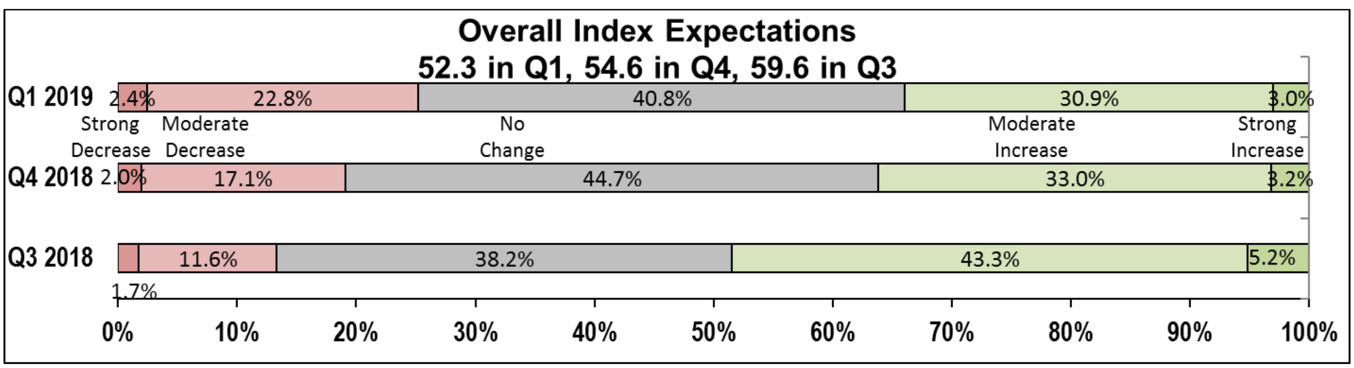






# # #

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