

Negative Outlook Reaching Inflection Point?

Colorado business leaders expressed pessimism ahead of Q4 2022, recording the fourth-lowest index in the 20-year history of the Leeds Business Confidence Index driven by inflation, interest rates, the supply chain, and the workforce, among other factors. Looking two quarters ahead to Q1 2023, overall expectations rebounded slightly, but still recorded the fifth-lowest outlook in the history of the index as economic headwinds weigh on optimism. Four of the six components of the index decreased ahead of the fourth quarter. The index decreased 1.3 points from Q3 2022 to Q4 2022 and increased 1.2 points ahead of Q1 2023. Further, the Q4 index was revised up just 1.8 points from the initial read from business leaders for Q4 back in June, illustrating a consistent, albeit slightly improved, outlook.

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 Q4 2022 to 39.8, remaining squarely in negative territory (50=neutral) and staying well below the long-term average (54). Panelists' expectations improved slightly looking out to Q1 2023, increasing to 41. A total of 163 qualified panelists responded to the survey from September 1 through September 21.

Leeds Business Confidence Index

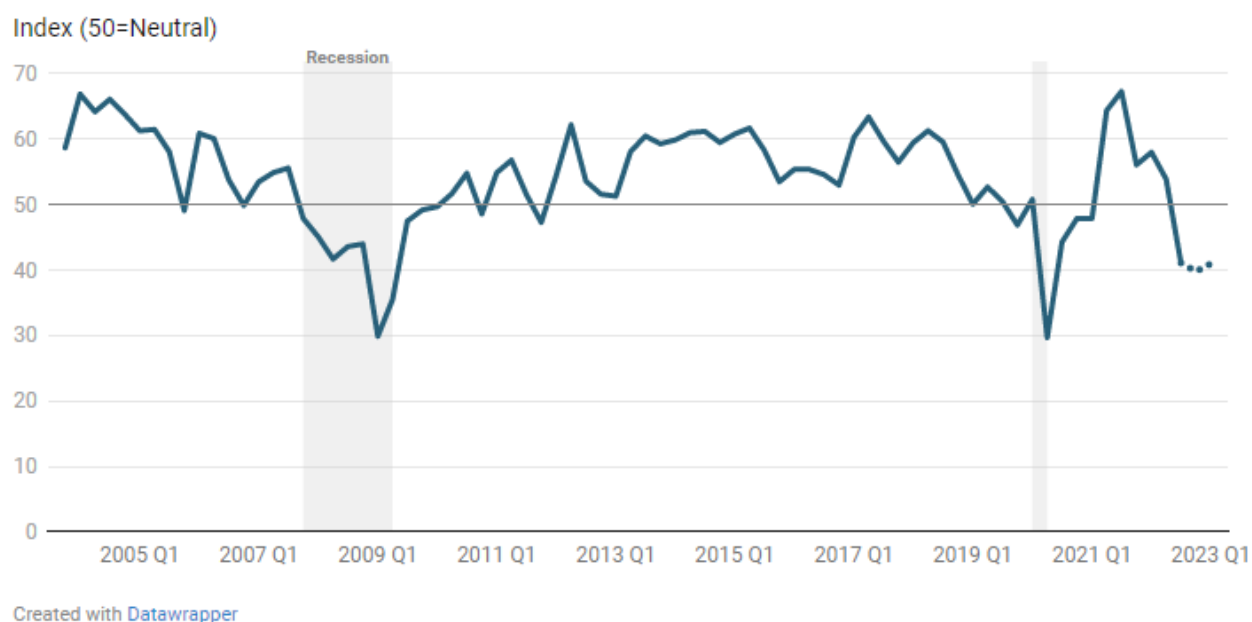
Component	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Quarterly Change	Annual Change
State Economy	55.1	57.6	51.9	39.8	40.0	▲	▼
National Economy	48.9	50.4	40.4	27.7	30.7	▲	▼
Industry Sales	59.0	60.2	59.1	46.4	42.2	▼	▼
Industry Profits	56.6	57.9	55.0	42.2	41.7	▼	▼
Industry Hiring	61.6	63.7	60.4	48.3	43.3	▼	▼
Capital Expenditures	55.4	58.3	56.7	42.1	40.8	▼	▼
LBCI	56.1	58.0	53.9	41.1	39.8	▼	▼

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- All six of the individual components of the LBCI recorded negative perceptions (below 50) ahead of Q4 2022. The outlook was dimmest for the national economy and brightest for industry hiring.
- One-sixth of respondents believe the U.S. was in a recession in the first half of 2022, while nearly 45% put the recession beginning in the second half of 2022 and 20% in 2023.
- Inflation was by and large the greatest concern among panelists, followed by interest rates, the supply chain, and persistent worker shortages. Over 77% of panelists reported moderate to extreme inflationary impacts on their business, and 57% of respondents expect to increase wages in response to higher inflation. A majority of panelists expect inflation to moderate in 2023.

- Inflation in Colorado is projected to increase 8.2% in 2022, slowing to 4.1% in 2023, according to the Business Research Division's (BRD) model.
- Colorado's employment recovery has outperformed most other states, increasing 1.9% above the pre-recession peak as of August 2022. This ranked Colorado's recovery 13th nationally; the nation improved 0.16% above pre-recession levels as of August.
- Year-over-year in August, employment in Colorado increased 3.9%, or 108,300 jobs. The employment forecast for 2022 stands at 4.1%, based on the BRD model, slowing to 1.8% in 2023.
- Colorado's personal income increased 0.8% year-over-year in Q1 2022, and per capita personal income increased 0.3%, both ranking Colorado 2nd. Personal income growth is projected at 5.7% in 2022.
- National real gross domestic product (GDP) decreased from Q1 2022 to Q2 2022 but was up year-over-year. Colorado's GDP increased 3.9% year-over-year in Q1 2022, ranking the state 15th. State real GDP is projected to increase 2.1% in 2022 and 2.8% in 2023.

Leeds Business Confidence Index



Component	Q4 2022	Quarterly Change	Annual Change	Q1 2023	Quarterly Change	Annual Change
State Economy	40.0	▲	▼	40.2	▲	▼
National Economy	30.7	▲	▼	35.0	▲	▼
Industry Sales	42.2	▼	▼	43.5	▲	▼
Industry Profits	41.7	▼	▼	42.7	▲	▼
Industry Hiring	43.3	▼	▼	43.4	▲	▼
Capital Expenditures	40.8	▼	▼	41.0	▲	▼
LBCI	39.8	▼	▼	41.0	▲	▼

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National and State Economies — Leaders' Optimism Turning Up?

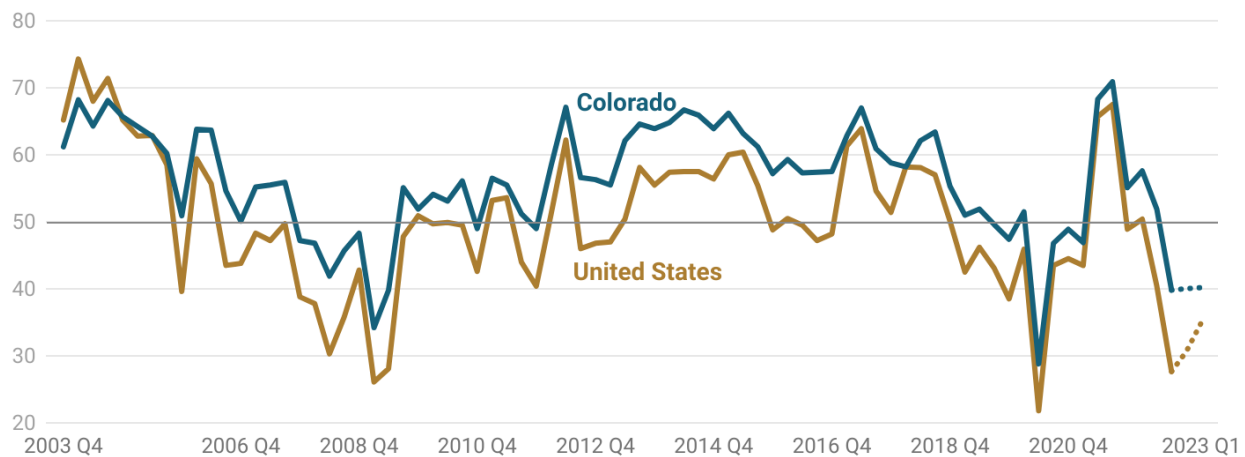
State economic expectations practically demonstrated a period of *no change* ahead of Q4 2022 and Q1 2023. National expectations notched a greater improvement from Q3, but still remained below state expectations.

State expectations changed from 39.8 ahead of Q3 to 40 ahead of Q4 and 40.2 looking out further to Q4 2022. The gap between the state outlook and national outlook narrowed to 5.2 points ahead of Q1 2023, still indicating business leaders' confidence that the state will outperform relative to the nation. The national index rose from 27.7 in Q3 2022 to 30.7 ahead of Q4 and 35.0 looking further out to Q1 2023.

For the state economy, nearly half (47.8%) of respondents projected a moderate-to-strong decrease in Q4 versus 12.9% who indicated an increase (39.3% were neutral). On the national level, almost three-quarters (69.9%) were projecting a decrease versus just 8% projecting an increase (22.1% remained neutral).

National and State Expectations

Index (50=Neutral)



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National real GDP decreased at a 0.6% seasonally adjusted annual rate (SAAR) in Q2 2022 according to the second estimate from the Bureau of Economic Analysis (BEA). Personal consumption expenditures increased 1.5%, and gross private domestic investment decreased at a rate of 13.2%. Government expenditures declined 1.8%. The trade deficit decreased from Q1 2022 to Q2 2022, shrinking to \$1.47 trillion (annualized average chained dollars). Consensus Forecasts' expectations for real GDP growth is now projected at 1.7% for 2022. The descending trend will continue down to 0.5% growth in 2023.

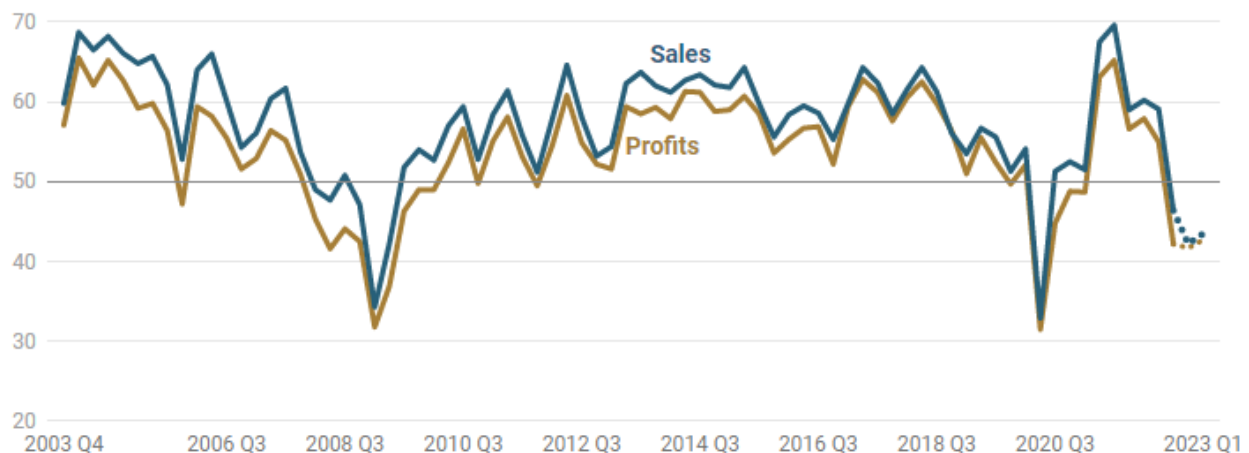
Colorado's Q1 2022 real GDP decreased at a SAAR of 1.9% for the quarter and increased 3.9% year-over-year. Year-over-year, the largest percentage gains were recorded in the following industries: Arts, Entertainment, and Recreation (20.7%); Accommodation and Food Services (20.1%); and Professional, Scientific, and Technical Services (13.8%). The largest percentage declines were recorded in Agriculture (-12.6%), Retail trade (-10.2%), and Construction (-5.6%). Real (inflation adjusted) GDP is projected to increase 2.1% in 2022 and 2.8% in 2023.

Sales and Profits — Expectations Sink

Sales and profits expectations fell sharply ahead of the fourth quarter. The sales index decreased from 46.4 ahead of Q3 to 42.2 ahead of Q4 and 43.5 ahead of Q1 2023. The profits index changed from 42.2 in Q3 to 41.7 ahead of Q4 and 42.7 ahead of Q1 2023. Individuals with a negative sales outlook (50.9%) outweighed those with positive perceptions (23.3%), while 25.8% remained neutral. This imbalance was even more pronounced for profits—the negative perceptions outweighed positive, 48.5% to 19% (32.5% remained neutral).

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 1.5% quarter-over-quarter in Q2 2022 and 1.9% year-over-year. Growth in services consumption (3.6%) offset the decrease in goods (-2.4%) in the second quarter (annualized). According to data from the U.S. Census Bureau, August 2022 retail and food services sales were up 9.1% year-over-year and 0.3% from the previous month. The largest annual increase was at gasoline stations (29.3%), reflecting a consistently high price in that sector, followed by miscellaneous store retailers (15.3%), nonstore retailers (11.2%), and food services and drinking places (10.9%). Notably, the largest month-over-month decline also came from gasoline stations (-4.2%), followed by furniture and home furnishing stores (-1.3%).

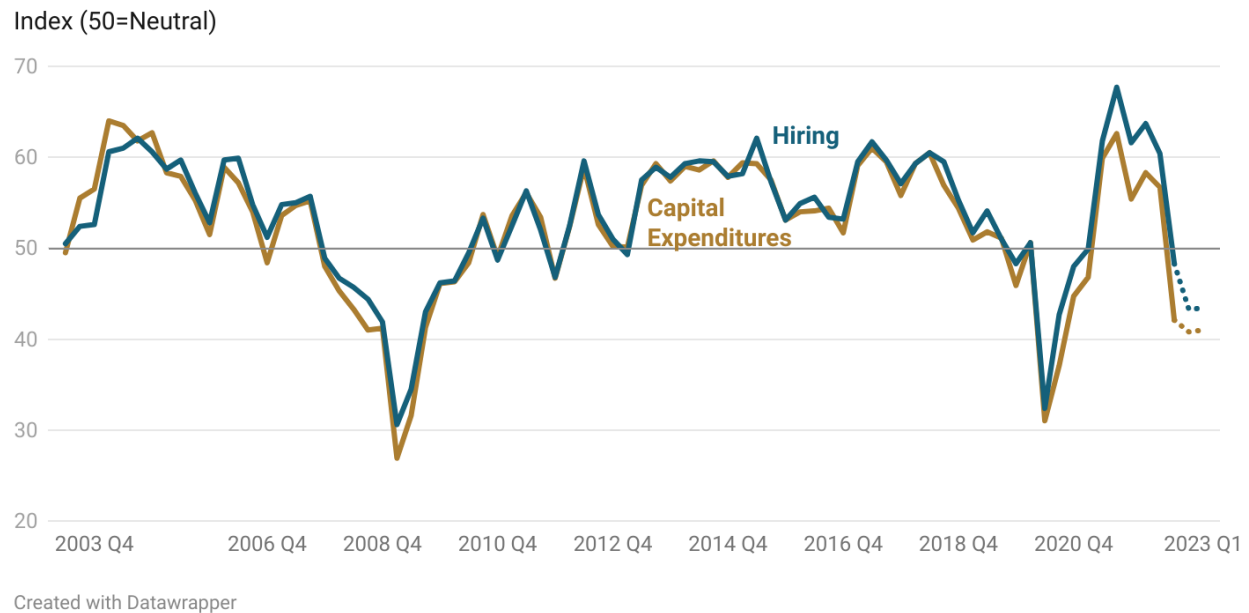
B-to-B sales are also a signal for sales and profits. In July 2022, wholesale trade increased 15.3% year-over-year but decreased 1.4% month-over-month. Strong year-over-year gains were recorded in both durable goods (11.1%) and nondurable goods (19.3%). Wholesale inventories increased 25.1% over the year and 0.6% from the prior month.

In the first quarter of 2022, Colorado personal income grew a modest 0.8% year-over-year and 1.3% quarter-over-quarter, ranking the state 2nd and 22nd nationally, for the respective metrics. Colorado had the 8th-highest per capita personal income in Q1 2022, at \$70,764, and the state ranked 2nd for per capita personal income growth year-over-year. Personal income growth is projected to be slower in 2022, resulting from the decrease in federal stimulus. Wage and salary personal income growth is expected to remain strong.

Capital Expenditures and Hiring Plans Flatline

While hiring expectations recorded the highest outlook among the six components of the index, expectations remained bearish (below 50), and recorded the sharpest decline among the components ahead of Q4. The outlook for capital expenditures and hiring both decreased ahead of Q4 2022. These components reflect investment in firm growth; thus, the degrading index is an indication of negative business conditions. The capital expenditures index decreased from 42.1 in Q3 2022 to 40.8 ahead of Q4 and 41 looking out further to Q1 2023. Hiring expectations performed similarly, decreasing from 48.3 in Q3 to 43.3 ahead of Q4 and 43.4 ahead of Q1.

Capital Expenditures and Hiring Expectations



Ahead of Q4 2022, 42.9% of respondents expected capital investment to slow versus 16% who expected an increase (41.1% were neutral). Regarding hiring, 40.5% of respondents expected a slowdown versus 22.1% who remained positive and 37.4% who remained neutral.

An indicator of capital expenditures is construction. According to Dodge Data and Analytics, the nominal value of construction in Colorado increased 2.5% year-to-date in August 2022 compared to the same period the year prior. However, based on the rate of price growth, *real* (inflation-adjusted) construction starts were negative. Nominal residential construction posted an 8.2% decline in the value of construction (nominal dollars) while nonresidential and nonbuilding construction posted gains of 2.4% and 48.9%, respectively. According to the U.S. Census Bureau, the total value of construction put in place for the nation increased 10.8% year-to-date for the seven months ending in July 2022, with 20.3% growth in residential and 1.7% growth in nonresidential. The BEA reported U.S. nonresidential fixed business investment was flat quarter-over-quarter in Q2 2022 (SAAR) and increased 3.6% year-over-year; investment in structure fell 13.2% over the quarter and 6.7% over the year.

Seasonally adjusted national employment has made a strong recovery from the recession lows reached in April 2020. Total nonfarm employment in August 2022 increased 0.15% above the pre-recession peak in February 2020 and grew 4% (5.8 million jobs) year-over-year. The

unemployment rate in the United States continued to improve from 14.4% in April 2020 to 3.8% in August 2022; the rate just prior to the pandemic, in February 2020, was 3.8%.

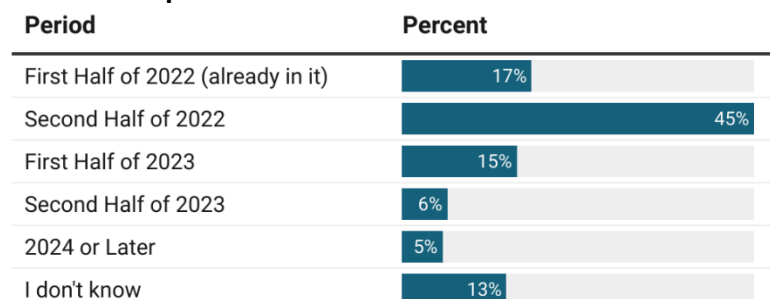
Colorado's August nonfarm employment stood 1.9% above the pre-recession peak and grew 3.9% (108,300 jobs) year-over-year. Colorado is projected to add about 112,000 jobs (4.1%) in 2022, with the greatest number of jobs added in the Leisure and Hospitality industry and in the Professional and Business Services industry. At 3.4%, Colorado's August unemployment rate was just below the national average, ranking 24th-lowest in the country; the state had the 2nd-highest labor force participation rate in the country.

Strong year-over-year employment growth was recorded in all of Colorado's seven metropolitan statistical areas (MSAs) in August. Three of Colorado's seven MSAs rank among the top 100 nationally for employment growth. The Boulder MSA recorded the largest year-over-year growth (4%), followed by Fort Collins (3.7%), Denver-Aurora-Lakewood (3.6%), Greeley (3.1%), Pueblo (2.7%), Colorado Springs (2.5%), and Grand Junction (1.8%). Colorado industries with the largest annual percent gains were Leisure and Hospitality (9.9%), Professional and Business Services (6.7%), and Construction (5.2%).

Special Topic: Recession Expectations

As an indication of the economic headwinds, many panelists indicated the U.S. is either currently in a recession, or very near to a recession. Nearly 17% of respondents indicated the recession started in the first half of 2022, while 45% peg the recession in the second half of the year and 21% put the odds in 2023. More than 5% indicated the recession is not imminent, putting it in 2024 or later, while 13% had no opinion.

Recession Expectations



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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 more slowly in the Denver MSA compared to the nation in 2021. Prices locally lagged national price growth in 2022. In July 2022, the Denver-Aurora-Lakewood MSA recorded price growth of 8.2% year-over-year (not seasonally adjusted) compared to 8.5% nationally and 9.6% in the Mountain Region during the same period.

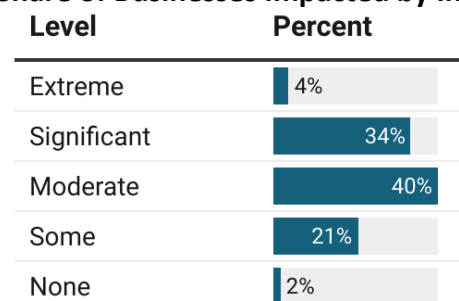
Consumer Price Index (Percent Change Year-over-Year)

Items	U.S. City Average	Mountain Region	Denver-Aurora-Lakewood	Item Weights
All items	8.5	9.6	8.2	100.0
Food and beverages	10.5	10.2	11.6	14.3
Housing	7.4	10.2	7.1	42.4
Apparel	5.1	9.3	2.3	2.5
Transportation	16.4	16.1	12.9	18.2
Medical care	4.8	3.1	11.2	8.5
Recreation	4.4	3.0	3.6	5.1
Education and communication	0.5	0.2	0.5	6.4
Other goods and services	6.3	6.3	7.2	2.7
All items less food and energy	5.9	8.0	6.6	

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

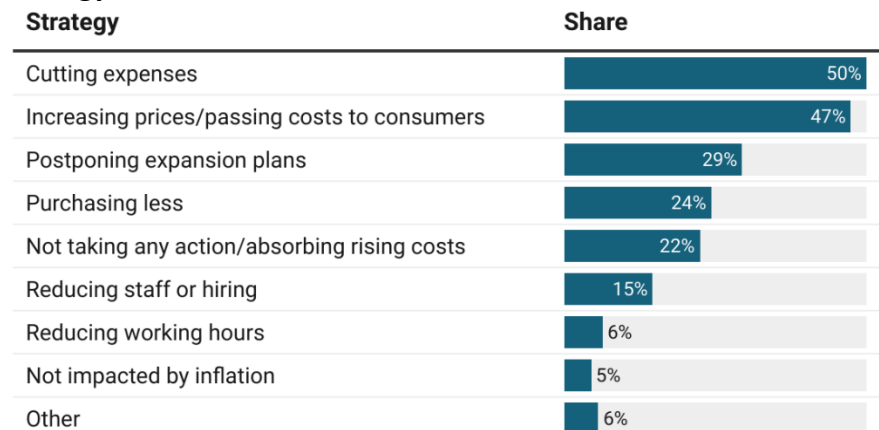
A majority of respondents (98%) noted that inflation issues are impacting their business (slightly more than last quarter), with impacts ranging from some level of impact (21%) to extreme (4%). More than 57% of respondents expect to increase wages in response to higher inflation. Most respondents (50%) expressed cutting costs as a strategy to address inflation, following by increasing prices and passing higher costs along to customers (47%) and postponing expansion plans (29%). Most expect inflation to moderate in 2023 (60%). The Business Research Division projects Colorado inflation to average 8.2% in 2022, moderating to 4.1% in 2023.

Share of Businesses Impacted by Inflation



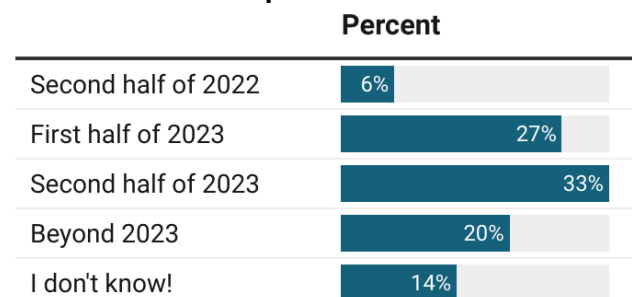
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Strategy to Address Inflation



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When Businesses Expect Inflation to Moderate

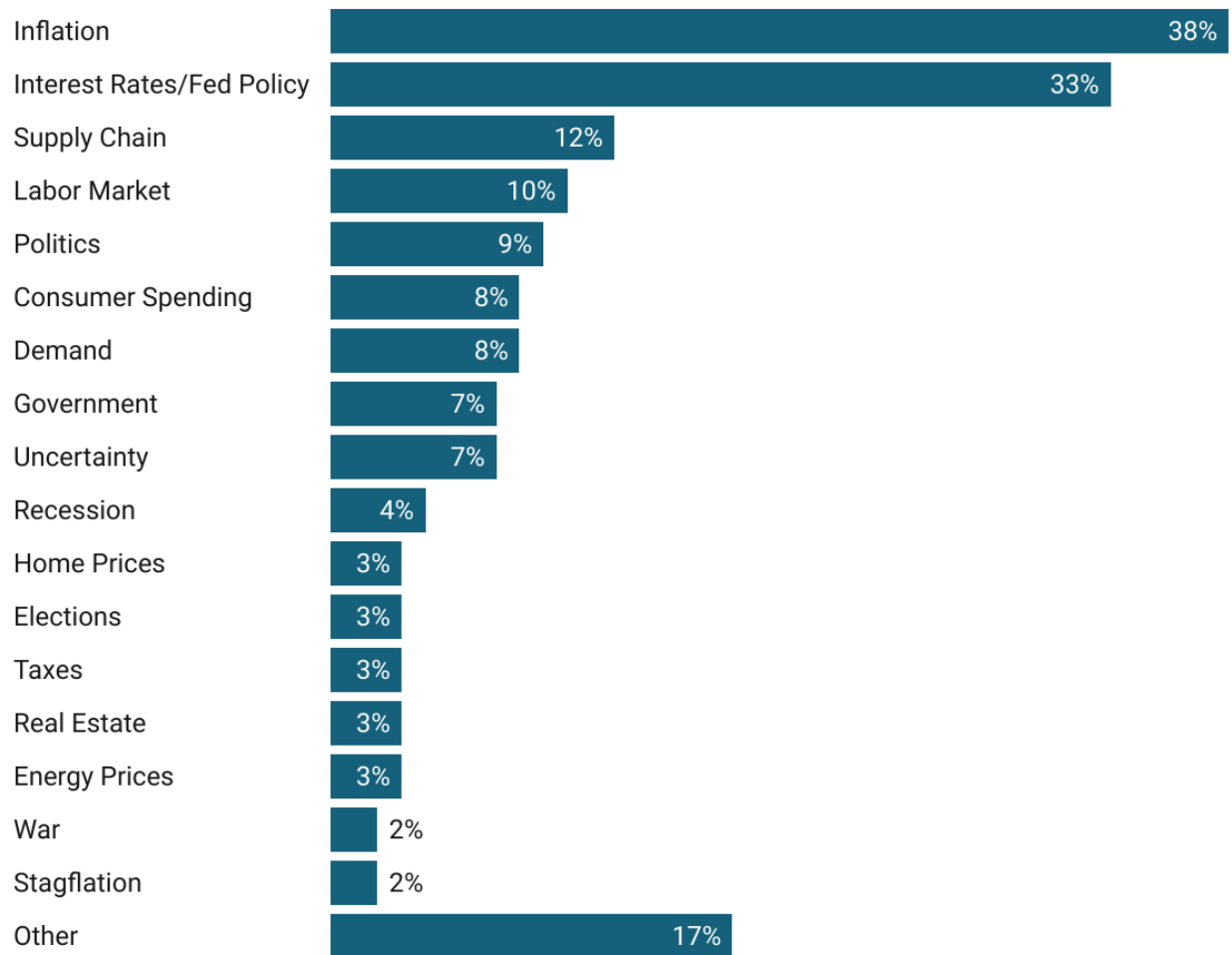


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Reasons for Survey Responses

Panelists were asked to give reasons for their expectations. Of the 153 respondents who provided open-ended explanations, inflation was most often cited as a concern (38% of respondents), followed by interest rates (33%), supply chain issues (12%), and labor market constraints (10%).

Reasons or Response

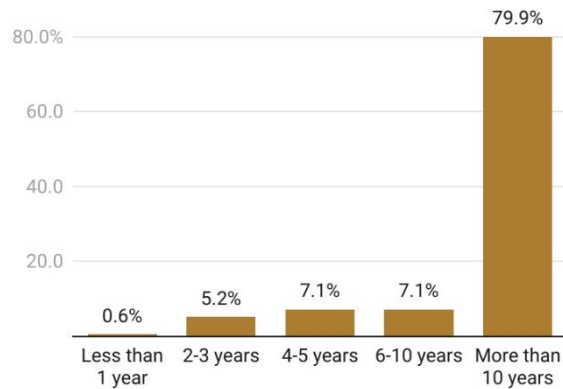


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Expectations by Company Size and Length of Time in Business

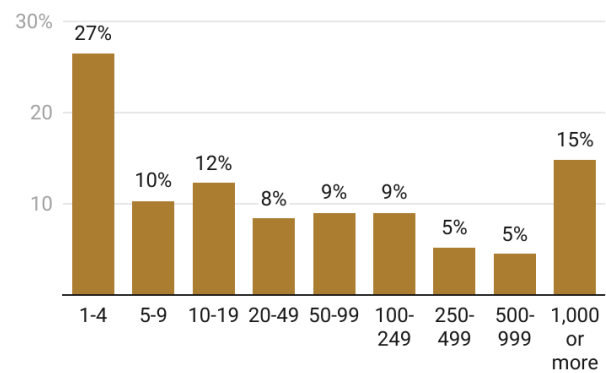
Panelists were asked about the size of their company and how long their company has been in business. Nearly 80% of respondents work at a long-standing company that has been in business for more than 10 years. More than half (57%) of survey respondents work for companies with fewer than 50 employees. Small employers were slightly less optimistic than large employers ahead of Q4 2022, but both cohorts expressed pessimism.

Number of Years in Business



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Number of Employees per Company

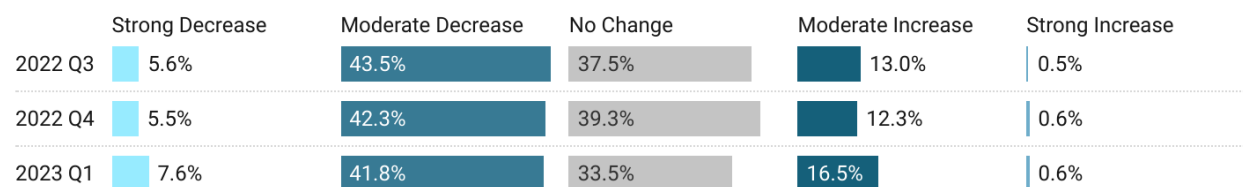


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Distribution of Expectations in Q3 2022, Q4 2022, and Q1 2023

State Expectations

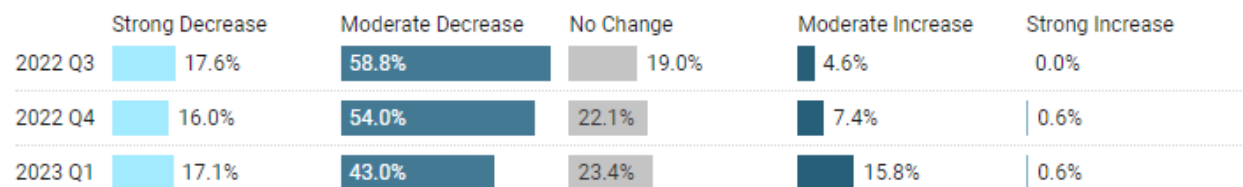
39.8 in Q3 2022, 40.0 in Q4 2022, and 40.2 in Q1 2023



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National Expectations

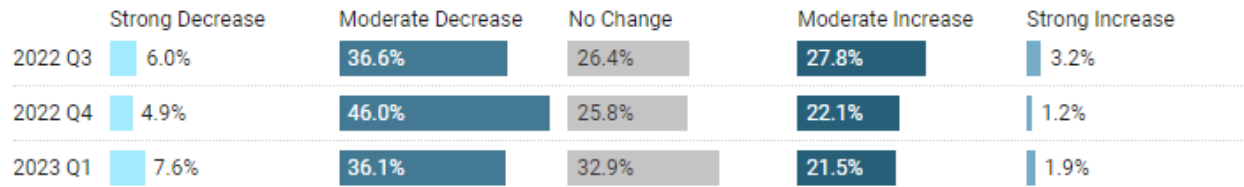
27.7 in Q3 2022, 30.7 in Q4 2022, and 35.0 in Q1 2023



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Sales Expectations

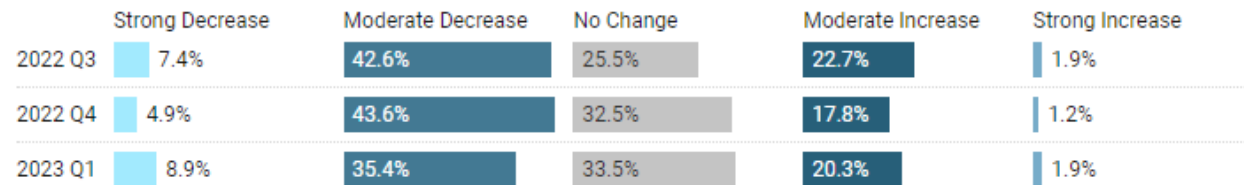
46.4 in Q3 2022, 42.2 in Q4 2022, and 43.5 in Q1 2023



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Profit Expectations

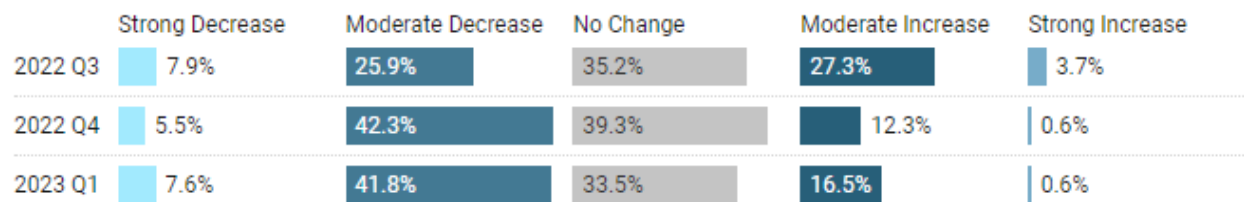
42.2 in Q3 2022, 41.7 in Q4 2022, and 42.7 in Q1 2023



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Hiring Expectations

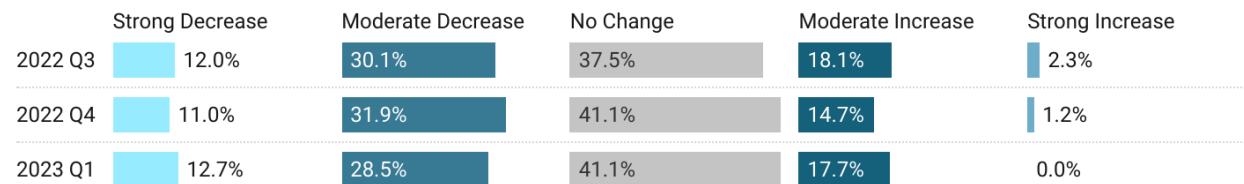
48.3 in Q3 2022, 43.3 in Q4 2022, and 43.4 in Q1 2023



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Capital Expenditures Expectations

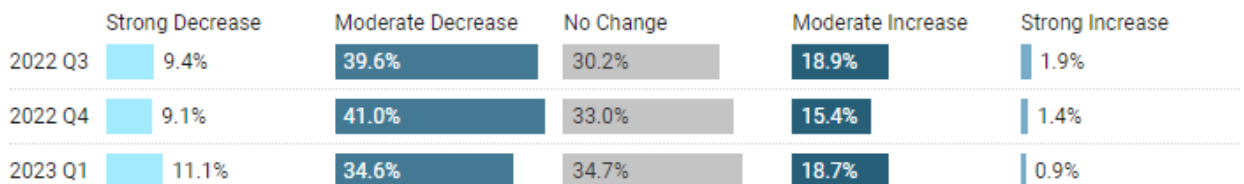
42.1 in Q3 2022, 40.8 in Q4 2022, and 41.0 in Q1 2023



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Overall Index Expectations

41.1 in Q3 2022, 39.8 in Q4 2022, and 41 in Q1 2023



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