

## Business Leaders Remain Bearish ahead of Q4 2023

The economy has proven more resilient in 2023, with a majority of respondents to the Leeds Business Confidence Index (LBCI) indicating the economy has performed better-than-expected. Despite this reflection, Colorado business leaders’ pessimism extended for another quarter ahead of Q4 2023, often citing interest rates, inflation, politics, and recession for their outlook. The 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. The index fell from 44.1 in Q3 2023 to 43.6 ahead of Q4 but increased slightly looking out further to Q1 (45.7). Three of the six components of the index increased ahead of the fourth quarter. A total of 222 qualified panelists responded to the survey from September 1 through September 20.

### Leeds Business Confidence Index

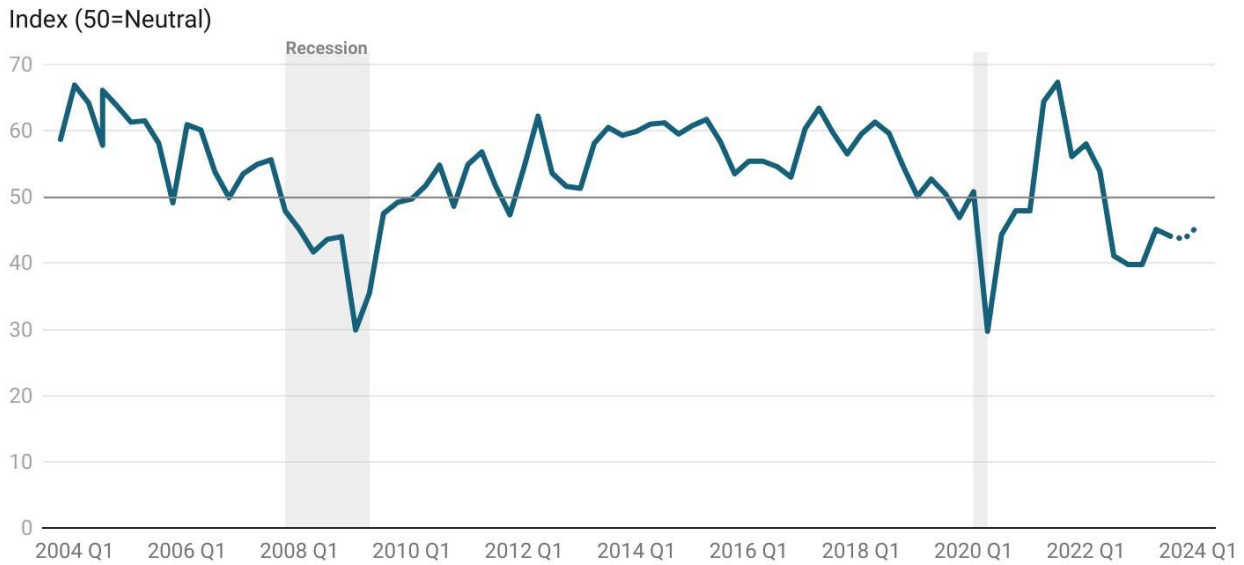
Component	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Quarterly Change	Annual Change
State Economy	40.0	41.8	46.4	44.9	45.5	▲	▲
National Economy	30.7	34.4	37.1	39.3	40.2	▲	▲
Industry Sales	42.2	40.9	50.4	48.0	48.2	▲	▲
Industry Profits	41.7	39.7	47.6	45.7	44.9	▼	▲
Industry Hiring	43.3	42.1	46.7	43.7	41.8	▼	▼
Capital Expenditures	40.8	39.7	42.4	43.1	40.9	▼	▲
<b>LBCI</b>	<b>39.8</b>	<b>39.8</b>	<b>45.1</b>	<b>44.1</b>	<b>43.6</b>	<b>▼</b>	<b>▲</b>

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- All 6 individual components of the LBCI recorded negative perceptions (below 50) ahead of Q4 2023. The index was lowest for the national economy and highest for industry sales.
- A majority of panelists reported the economy performed better than expected in the first half of 2023.
- Two-thirds of panelists expect generative AI to have some-to-significant disruption on their industry.
- Interest rates and Inflation were the two most noted reasons for panelists’ sentiments headed into Q4 2023, cited by 34% and 16% of respondents, respectively.
- Inflation in the Denver-Aurora-Lakewood MSA is projected to increase 3.1% in 2023, according to the Business Research Division’s (BRD) forecasting model.
- Year-over-year employment growth in Colorado increased 1.5%, or 42,700 jobs in August 2023. The Colorado Department of Labor and Employment released estimates of expected revisions, indicating job growth in the state is outperforming initial estimates by about 27,000 jobs. The BRD forecasting model now has Colorado’s employment growing 2.2% in 2023 after posting over 4% growth in 2022.

- Colorado’s per capita personal income increased 5.1% year-over-year in Q1 2023, ranking the state 37th. Total personal income increased 5.8%, ranking Colorado 31st. Annual personal income growth is projected at 5.3% in 2023.
- National real gross domestic product (GDP) increased at an annualized rate of 2.1% in Q2 2023 and 2.4% year-over-year. Colorado’s GDP increased at an annualized rate of 1.9% in Q1 (most current data) and 1.5% year-over-year, ranking the state 25th and 24th, respectively.

**Leeds Business Confidence Index**



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**Leeds Business Confidence Index**

Component	Q4 2023	Quarterly Change	Annual Change	Q1 2024	Quarterly Change	Annual Change
State Economy	45.5	▲	▲	47.0	▲	▲
National Economy	40.2	▲	▲	42.9	▲	▲
Industry Sales	48.2	▲	▲	48.3	▲	▲
Industry Profits	44.9	▼	▲	46.8	▲	▲
Industry Hiring	41.8	▼	▼	44.4	▲	▲
Capital Expenditures	40.9	▼	▲	45.0	▲	▲
<b>LBCI</b>	<b>43.6</b>	<b>▼</b>	<b>▲</b>	<b>45.7</b>	<b>▲</b>	<b>▲</b>

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**National and State Economies — Leaders Remain Cautious**

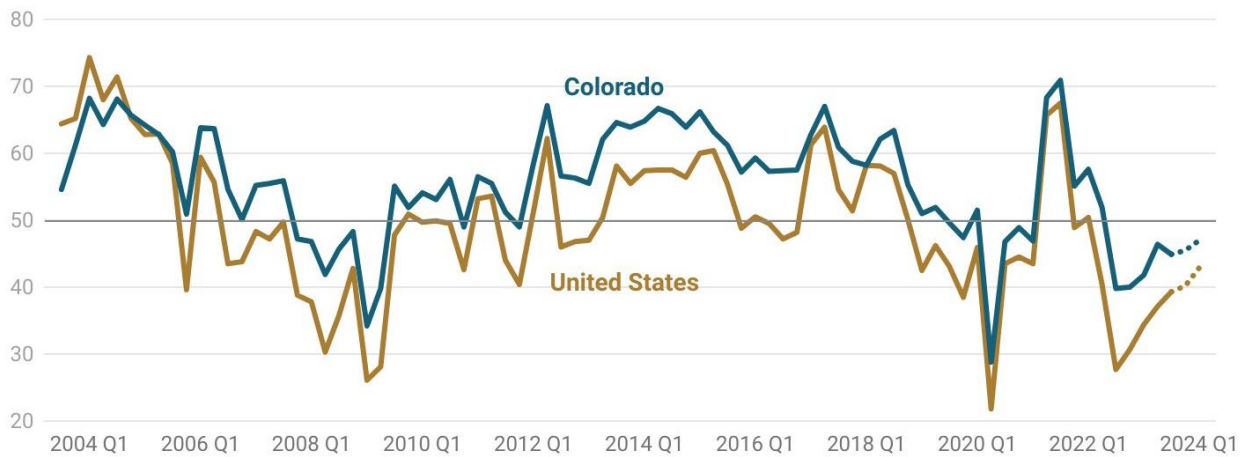
State and national economic expectations recorded mixed changes. State expectations increased from 44.9 in Q3 2023 to 45.5 ahead of Q4 but increased to 47 looking out further to Q1 2024. The national index rose from 39.3 in Q3 2023 to 40.2 ahead of Q4 2023 and 42.9 looking further out to Q1 2024. The gap between the state outlook and national outlook decreased to 4.1 points

ahead for Q4 2023, still indicating business leaders' confidence that the state will outperform the nation.

For the state economy, a third of respondents were neutral on the outlook, while 41.9% expect a moderate-to-strong decrease and 24.3% expect an increase. On the national level, more than half (51.4%) were projecting a decrease versus 18% projecting an increase (30.6% remained neutral).

### National and State Expectations

Index (50=Neutral)



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National real GDP increased at a 2.1% seasonally adjusted annual rate (SAAR) in Q2 2023 according to the second estimate from the Bureau of Economic Analysis (BEA). Personal consumption expenditures increased 0.8%, gross private domestic investment increased 5.2%, and government expenditures increased 3.3%. Marking the 5<sup>th</sup>-consecutive improvement in the trade deficit, net exports improved from Q1 2023 to Q2 2023 by \$6.9 billion (chained 2017 dollars). As of September, Consensus Forecasts reported expectations for real GDP growth at 2.1% for 2023.

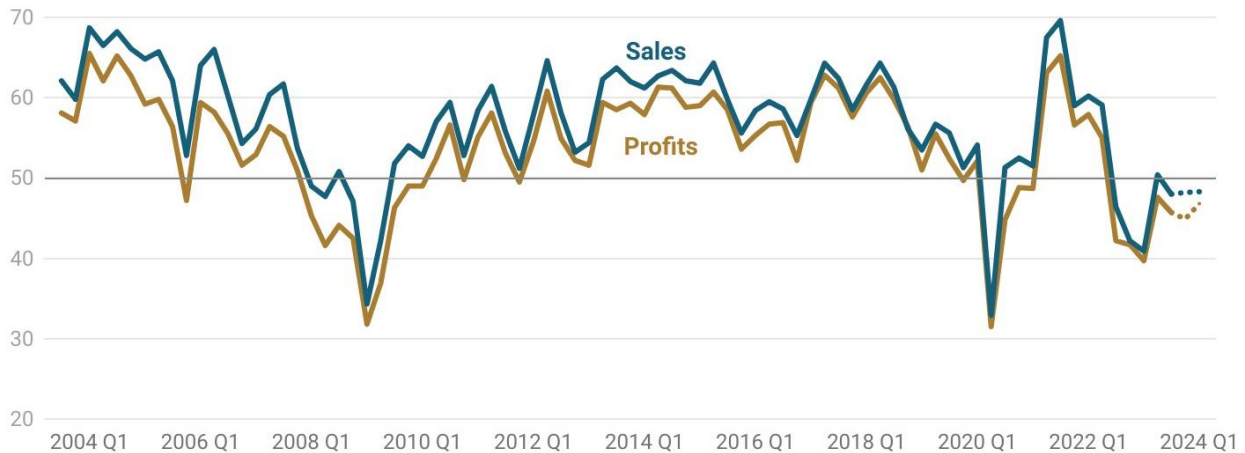
Colorado's Q1 2023 real GDP increased at a SAAR of 1.9% for the quarter and at 1.5% year-over-year. Overall, the largest year-over-year percentage gains in Colorado's were recorded in Agriculture (14.5%); Arts, Entertainment, and Recreation (13.9%); and Management of Companies and Enterprises (8.9%). The largest losses were in Construction (-12.9%), Finance and Insurance (-4.3%), and Wholesale Trade (-3.4%).

## Sales and Profits — Expectations Flat

Sales and profits expectations changed modestly ahead of the fourth quarter 2023. The sales index increased from 48 ahead of Q3 2023 to 48.2 ahead of Q4 and 48.3 looking further out to Q1 2024. The profits index fell from 45.7 in Q3 2023 to 44.9 ahead of Q4 but increased to 46.8 looking out to Q1 2024. Individuals with a negative sales outlook (36%) outweighed those with positive perceptions (30.6%), while 33.3% remained neutral ahead of Q4. Profits expectations for more imbalanced—the negative perceptions outweighed positive, 38.7% to 22.5% (38.7% 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 1.7% quarter-over-quarter in Q1 2023 and 2.3% year-over-year. Growth in services exceeded the rate of growth in goods. According to the U.S. Census Bureau, retail and food services sales were up 3% year-to-date through August 2023. The seasonally adjusted August figure was up 2.5% year-over-year and 0.6% month-over-month.

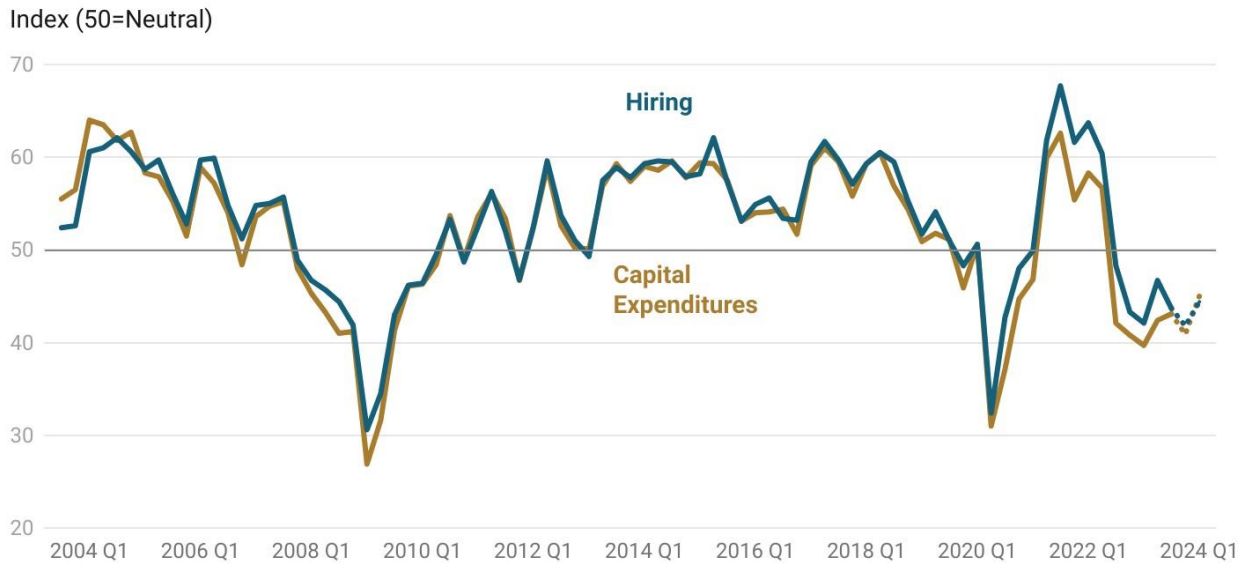
Business-to-business sales are also a signal for sales and profits. Wholesale trade sales were down 2.5% year-to-date through July 2023. In July 2023 alone, wholesale trade decreased 4.2% year-over-year and increased 0.8% month-over-month. Year-over-year losses were recorded in durable goods (-2.3%) and nondurable goods (-5.8%) for the month of July. Wholesale inventories increased 0.5% over the year and decreased 0.2% from the prior month.

In the second quarter of 2023, national personal income continued to climb, increasing 5.4% year-over-year and at an annualized rate of 4.2% over the prior quarter. Colorado personal income rose 5.8% year-over-year and 1.2% quarter-over-quarter in Q1 2023, ranking the state 31st and 40th nationally, for the respective metric. Colorado had the 8th-highest per capita personal income in Q1 2023, at \$76,089, and the state ranked 37th for per capita personal income growth year-over-year (5.1%).

## Capital Expenditures and Hiring Expenditures Dip before Rising

Despite the backdrop of resilient hiring nationally, local hiring expectations fell from 43.7 in Q3 2023 to 41.8 in Q4 and 44.4 looking further out to Q1 2024. The outlook for capital expenditures fell from 43.1 in Q3 to 40.9 in Q4, but rose to 45 looking out to Q1 2024.

### Capital Expenditures and Hiring Expectations



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Ahead of Q4 2023, 45.5% of respondents expected capital investment to slow versus 15.8% who expected an increase (38.7% were neutral). Regarding hiring, 41% of respondents expected a slowdown versus 14.4% who remained optimistic and 44.6% 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 16% year-to-date 2023 versus 2022 (January-August). Declines were recorded across residential (-27%) and nonresidential (-9%), but nonbuilding (+6%) increased. According to the U.S. Census Bureau, the total value of construction put in place for the nation increased 3.7% year-to-date in July 2023; residential decreased 9.3%, but nonresidential increased 17.8%. The BEA reported U.S. nonresidential fixed business investment increased 4.2% quarter-over-quarter in Q2 2023 (SAAR) and increased 6.1% year-over-year. Investment in structures grew 11.2% over the quarter and 9.5% over the year. Residential fixed investment recorded the 9th-consecutive quarterly decrease.

National employment growth continues to post strong but slowing gains. Total nonfarm employment in August 2023 increased 2% year-over-year, averaging 257,000 jobs added per month over the past year. June, July, and August, while still recording strong growth, were the three slowest growth months since December 2020. The unemployment rate nationally increased to 3.8% in August 2023.

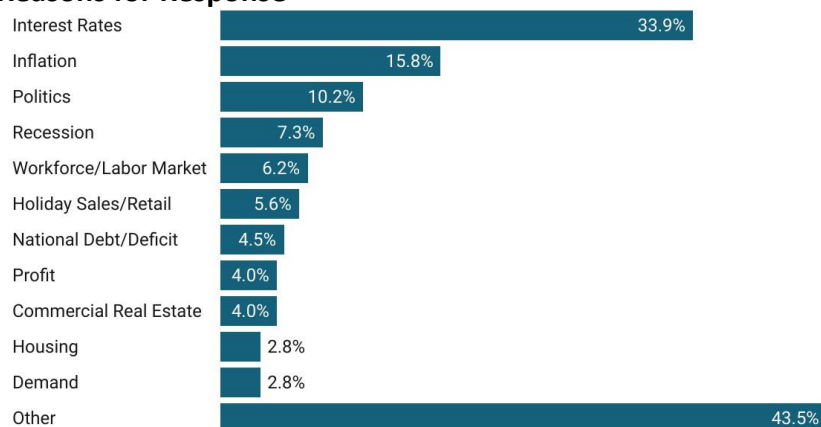
Colorado's August nonfarm employment grew 1.5% (42,700 jobs) year-over-year. Employment growth in Colorado is projected to continue in 2023, with the state expected to add over 60,000 jobs for the year. Colorado's August unemployment rate was 3.1%—the highest since April 2022,

0.7 percentage points below the national average, tying Colorado 25th in the country, while the state was tied for the 4th-highest labor force participation rate at 68.7%.

## Reasons for Survey Responses

Panelists were asked to give reasons for their expectations. Of the 177 respondents who provided open-ended explanations, interest rates were most often cited as a concern (34% of respondents), followed by inflation (16%), and politics (10%). Discussion of a recession was cited by 7% of respondents, but more individuals referred to receding recessionary fears versus actual fears of an impending recession as the reason for their response. Likewise, the discussion about inflation was not all negative—a quarter of the responses about inflation described decreasing inflation fueling some optimism.

### Reasons for Response

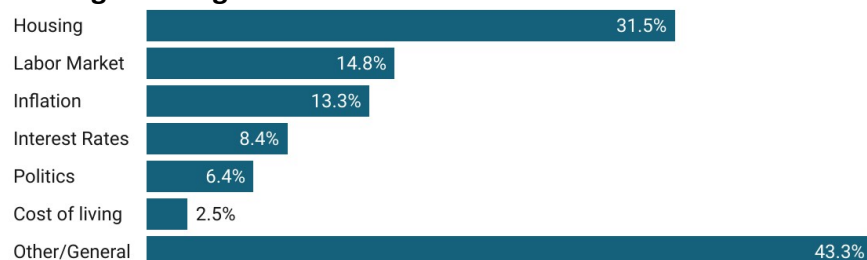


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## Pressing Challenges in the Colorado Economy

Panelists were asked to name the most pressing challenges for the Colorado economy. Of the 203 respondents who provided open-ended explanations, housing was the most frequently cited challenge (32%), with comments about a housing shortage, housing prices, and affordable housing. The labor market was mentioned by 15% of respondents in the context of worker shortages. Inflation was discussed by 13% of respondents.

### Pressing Challenges



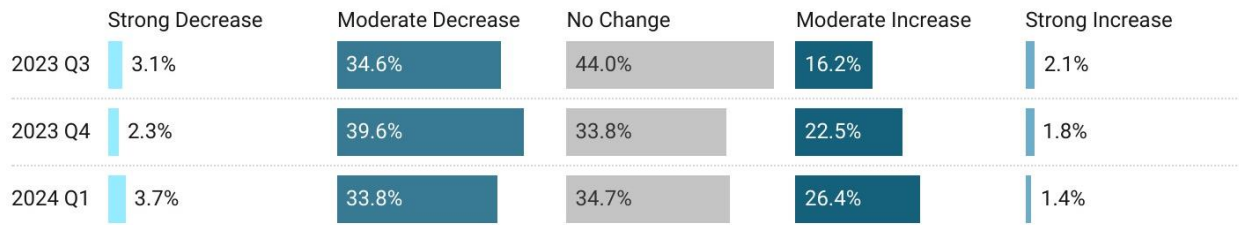
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## Distribution of Expectations in Q3 2023, Q4 2023, and Q1 2024

### State Expectations

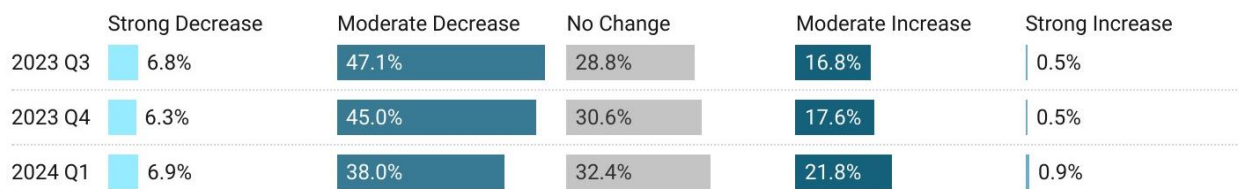
44.9 in Q3 2023, 45.5 in Q4 2023, and 47. in Q1 2024



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### National Expectations

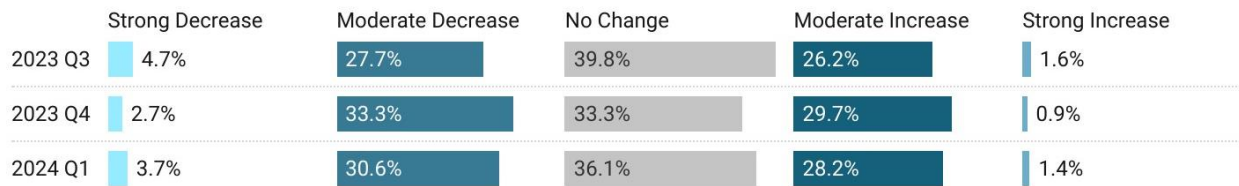
39.3 in Q3 2023, 40.2 in Q4 2023, and 42.9 in Q1 2024



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### Sales Expectations

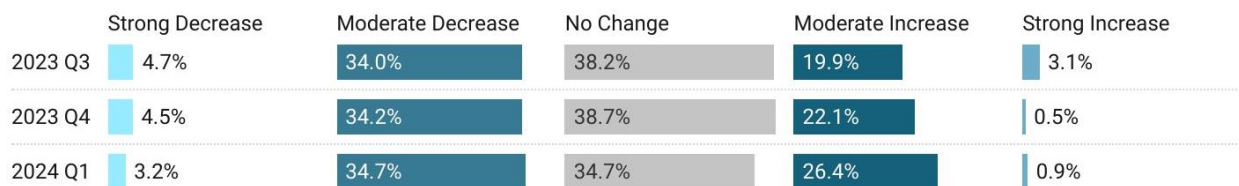
48.0 in Q3 2023, 48.2 in Q4 2023, and 48.3 in Q1 2024



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### Profit Expectations

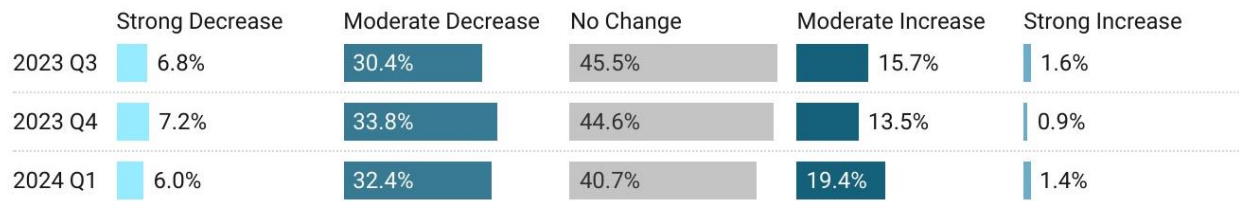
45.7 in Q3 2023, 44.9 in Q4 2023, and 46.8 in Q1 2024



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### Hiring Expectations

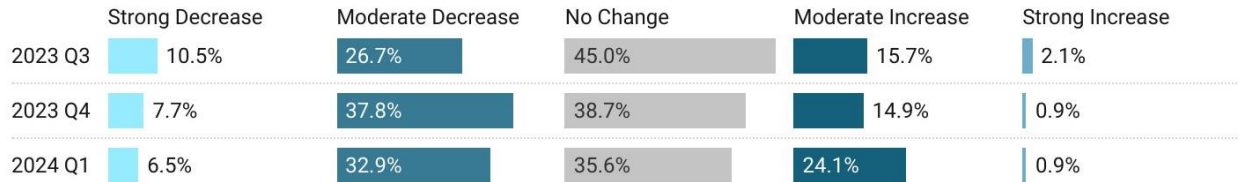
43.7 in Q3 2023, 41.8 in Q4 2023, and 44.4 in Q1 2024



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### Capital Expenditures Expectations

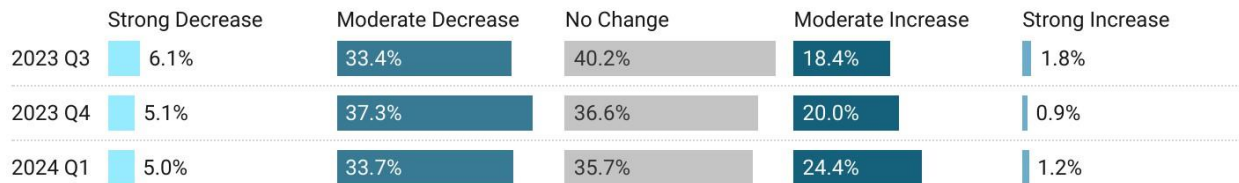
43.1 in Q3 2023, 40.9 in Q4 2023, and 45. in Q1 2024



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### Overall Index Expectations

44.1 in Q3 2023, 43.6 in Q4 2023, and 45.7 in Q1 2024



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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)