LBCI LEEDS BUSINESS CONFIDENCE INDEX

Second Quarter 2017
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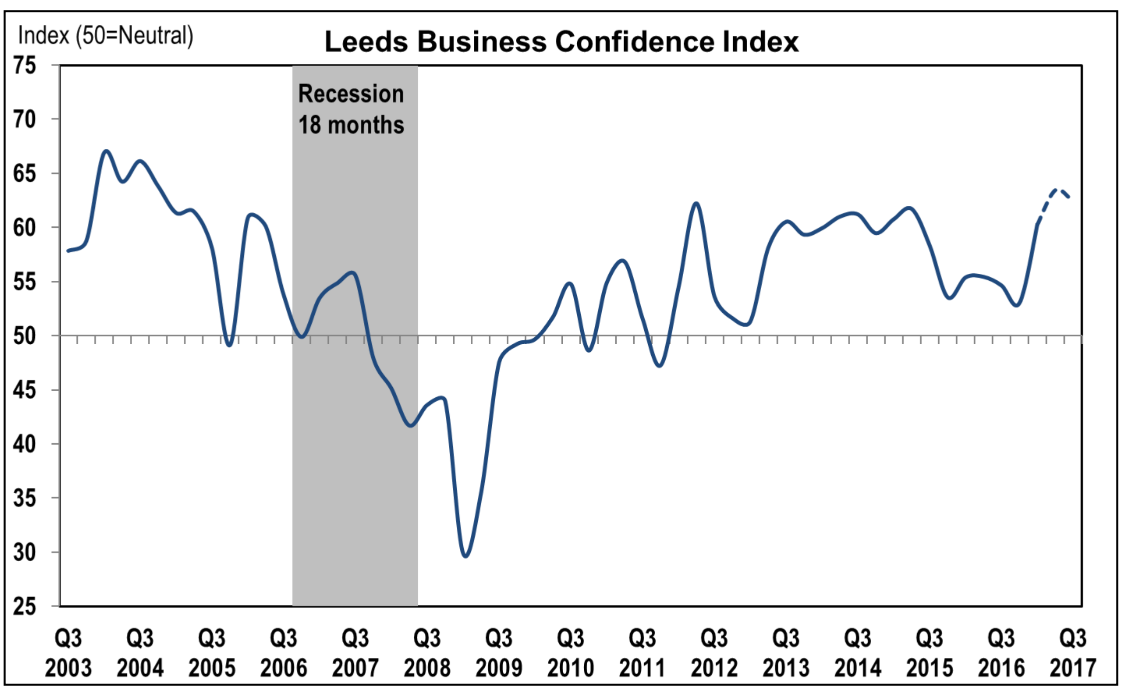
Summary — Optimism Remains High

The Leeds Business Confidence Index (LBCI) experienced a slight increase ahead of Q2 2017, with stability expected in Q3. Expectations for Q2 2017 are up 3.1 points from last quarter and 8 points from Q2 2016. The overall index improved based on strong readings in every component. Panelists were most optimistic about the state economy. All metrics in the index reported a positive outlook for Q2 2017, including national economic expectations for the second straight quarter.

National real gross domestic product (GDP) grew 1.6% in 2016 after growing 2.4% in 2014 and 2.6% in 2015. GDP grew at a 2.1% seasonally adjusted annual rate (SAAR) in Q4 2016 following growth of 1.4% in Q2 2016 and 3.5% in Q3 2016, according to the Bureau of Economic Analysis (BEA). Positive real GDP growth has been recorded for 11 consecutive quarters. Colorado recorded real GDP growth of 5.1% SAAR in Q3 2016, ranking the state the fourth for growth nationally. The Rocky Mountain region grew 4.7%.

The LBCI, which captures Colorado business leaders' expectations for the national economy, state economy, industry sales, profits, hiring plans, and capital expenditures, is at 63.4 for Q2 2017 (up from 60.3 in Q1) and 62.4 for Q3 2017. Expectations increased compared to a year ago for both Q2 (8 points) and Q3 (7.8 points). A total of 354 qualified panelists responded to the survey.



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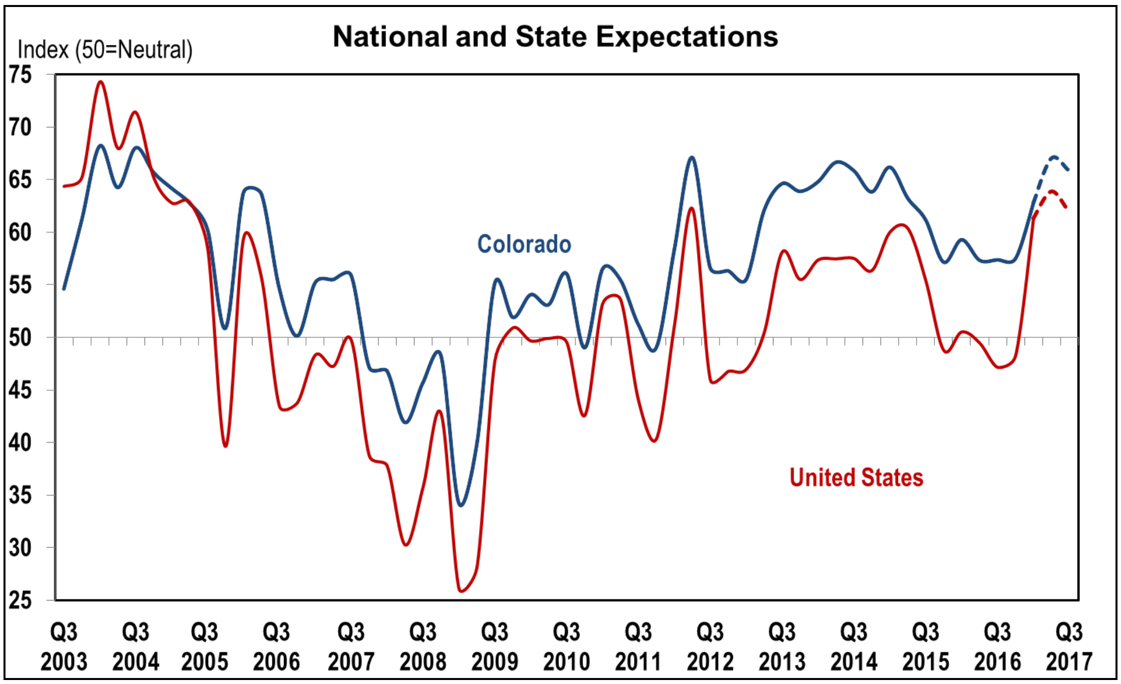
National and State Economies — Maintaining Optimism

Expectations for both the national economy and state economy improved ahead of Q2. National expectations increased from 61.3 to 63.9 ahead of Q2 and decreased modestly, to 61.9, ahead of Q3. State expectations increased from 62.8 in Q4 to 67.0 ahead of Q2 and decreased to 65.8 ahead of Q3. Business leaders continue to remain more positive about the state economy than the national economy, evidenced by a larger gap between the two compared to Q1.

For the state economy, more respondents (68.9%) believe that the state economy will expand in Q2 than expect a decline (6.2%). Roughly one-quarter (24.9%) remain neutral. Regarding the national economy, 63.9% of respondents expect an increase, while 13.3% expect a decrease (22.9% are neutral).



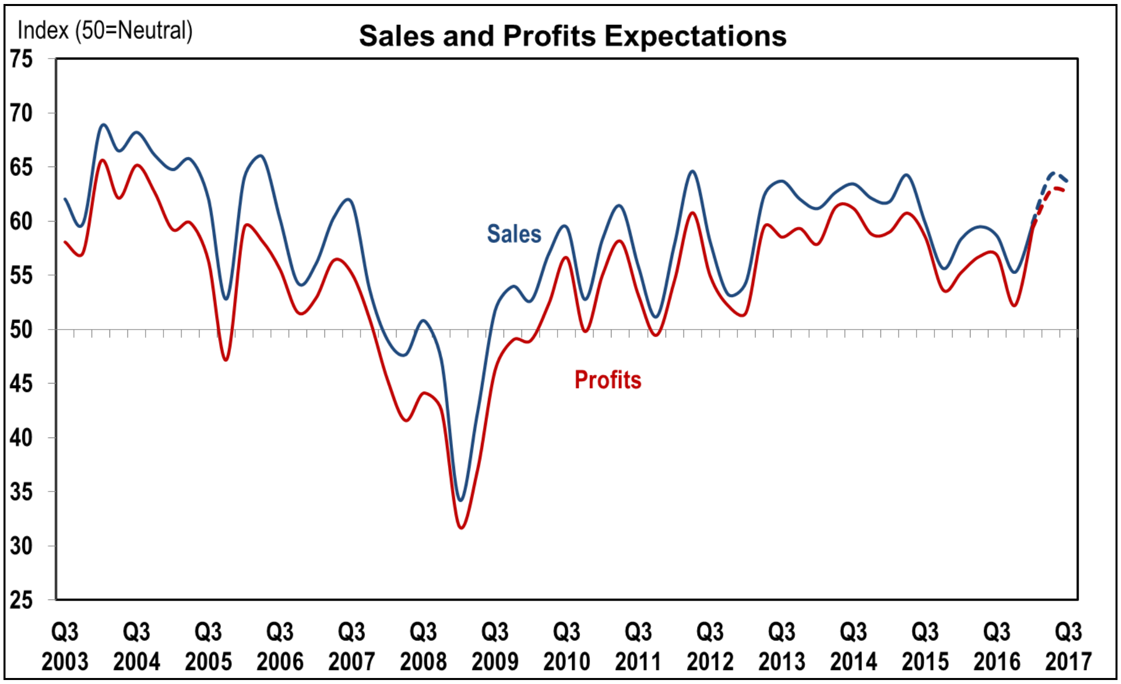
According to estimates from the BEA, U.S. real GDP in Q4 2016 grew at 2.1% SAAR, recording a 1.4 percentage-point slowdown from the previous quarter. The BEA reported:

> *The increase in real GDP in the fourth quarter reflected positive contributions from personal consumption expenditures (PCE), private inventory investment, residential fixed investment, nonresidential fixed investment, and state and local government spending that were partly offset by negative contributions from exports and federal government spending. Imports, which are a subtraction in the calculation of GDP, increased.*

Colorado's 2016 real GDP growth accelerated in the third quarter of 2016, led by the agriculture and utilities sectors, as well as by the construction and finance sectors. Colorado's real GDP expanded at a seasonally adjusted annual rate of 5.1% in Q3 2016.

Sales and Profits — Expectations Rise Ahead of Q2

Both sales and profits expectations increased significantly ahead of Q2 2017. Profits expectations increased 3.4 points ahead of Q2 2017, building on the 7.2-point gain recorded in Q1. Sales expectations increased by 4.5 points ahead of Q2 2017, equal to the gain posted in Q1.



The profits index increased from 59.4 in Q1 to 62.8 ahead of Q2 2017 and 62.7 ahead of Q3. Respondents maintained an overall positive outlook, with 58.2% expecting a moderate to strong increase. Negative expectations fell from 17.3% of respondents in Q1 to 12.1% in Q2. Nationally, corporate profits registered a modest increase in Q4 (2.1% SAAR) after recording a strong increase in Q3 (25.4% SAAR).

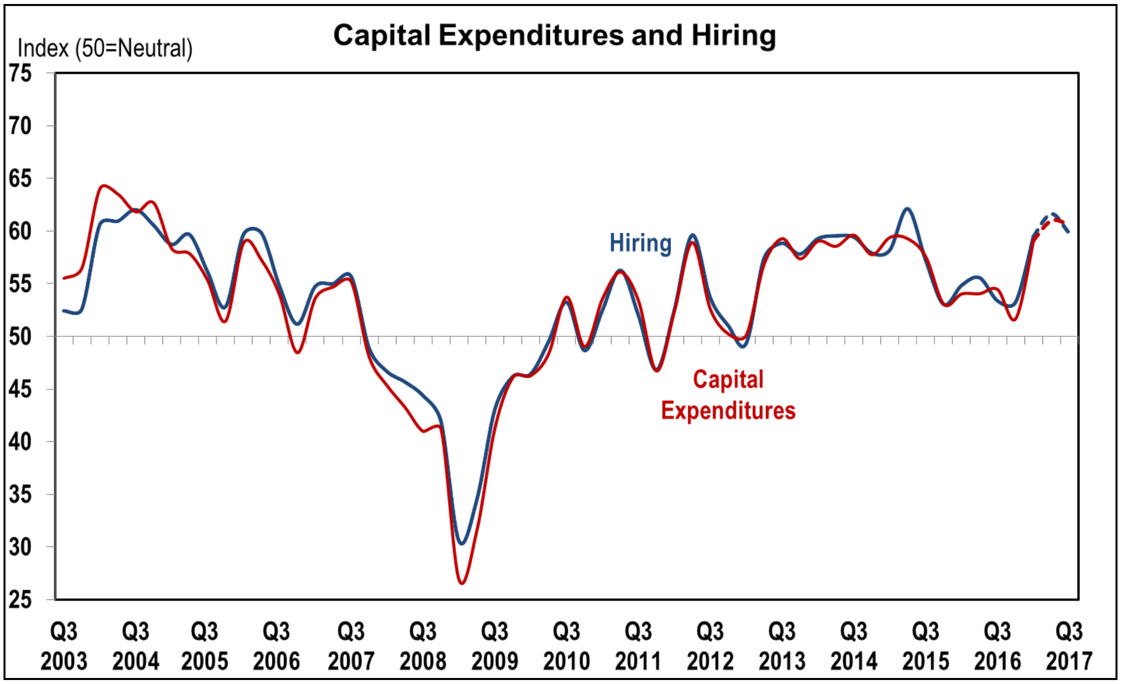
The sales index increased from 59.8 in Q1 to 64.3 in Q2 and 63.7 in Q3 2017. In Q2, 63% of respondents expect increasing sales (up from 54.8% in Q1), while 26.6% expect a flat (neutral) quarter and 10.4% expect a decrease.

According to the Institute for Supply Management, the manufacturing index increased to 57.7% in February 2017, a 1.7 percentage point increase from January, reaching its highest level in the past 12 months. The nonmanufacturing index also increased, advancing 1.1 percentage points, to 57.6% in February—a 12-month high.

Sales, particularly consumer sales, are impacted by the economic health of households. According to the BEA, Colorado total personal income rose 1.3% in Q3 2016 from the preceding quarter and 3.5% year-over-year, ranking the state 9th and 20th, respectively, for these metrics. While Colorado has the 15th-highest *per capita* personal income, incomes rose a mere 1.6% year-over-year in Q3—the 13th-slowest nationally. Meanwhile, prices continue to increase at a faster pace than personal income and wage and salary income. According to the most recent statistics from the Bureau of Labor Statistics, inflation in the second half of 2016 (all items index) increased 2.6% year-over-year in the Denver-Boulder-Greeley MSA. Core inflation increased 3.5% year-over-year, and shelter grew 7%.

Capital Expenditures and Hiring Plans — Stable Expectations

The outlook for both capital expenditures and hiring increased ahead of Q2, with hiring taking a larger step forward. Capital expenditures expectations increased 1.9 points ahead of Q2 2017 compared to the 7.4-point gain recorded in Q1. The capex index fell 0.4 points ahead of Q3. Hiring expectations increased by 2.2 points ahead of Q2 2017, before slipping 1.8 points in Q3.



The capital expenditures index increased from 59.1 in Q1 to 61.0 ahead of Q2 2017 and 60.6 ahead of Q3. Over half (51.6%) of respondents expect a moderate to strong increase in capex compared to 37% who project no change and 11.3% who project a decrease in investment.

In Colorado, one visible sign of capital expenditures is infrastructure. The value of construction in Colorado increased 9% in 2016, according to Dodge Data and Analytics. Increases were observed in residential and nonresidential building in 2016, while nonbuilding construction posted losses. Residential building permits remain below all-time highs.

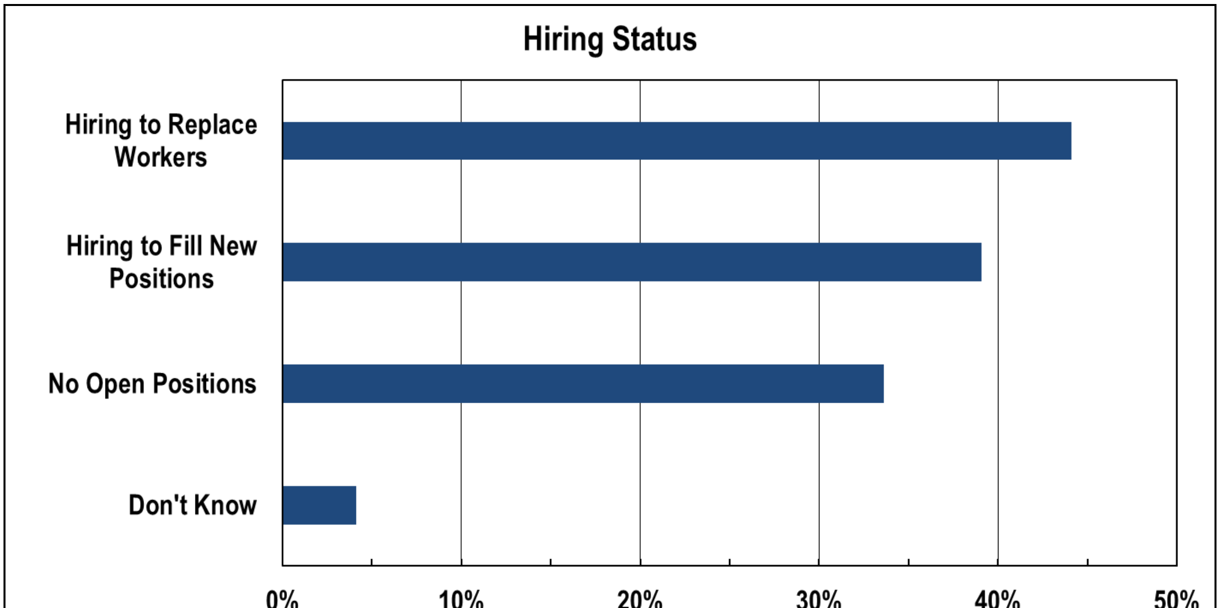
The hiring index increased from 59.5 in Q1 to 61.7 in Q2 and 59.8 in Q3 2017. In Q2, 50.6% of respondents expect to increase hiring (up from 46.4% in Q1), while 41% remain neutral (no change) and 8.5% expect a decrease.

The nation continues to add jobs and growth has quickened early in 2017, averaging about 237,000 jobs per month for the first 2 months of the year (compared to 182,000 for the same period in 2016). In the past 12 months, employment growth saw its smallest increase in May 2016, with only 43,000 jobs added and the largest gain for the year in June 2016 (297,000 jobs). National employment increased by 235,000 jobs in February 2017. The national unemployment rate decreased to 4.7%—tied for the second lowest level since 2006.

Preliminary February 2017 employment figures for Colorado show growth of 1.9% year-over-year. Colorado has recorded 76 consecutive months of year-over-year employment growth and added 50,300 jobs year-over-year. The state has reached a level commensurate with full employment, which will constrain the pace of employment growth in 2017.

Both the labor force and number of employed workers gained in February 2017 month-over-month and year-over-year. The unemployment rate in Colorado remains below the historical average in February 2017, at 2.9%. This compares to a national unemployment rate of 4.7%. Year-over-year employment growth was recorded in six out of Colorado's seven metropolitan areas, with the Boulder, Fort Collins, and Colorado Springs MSAs recording the fastest growth, 3.2%, 3.1%, and 2.5%, respectively. Grand Junction recorded the only negative year-over-year growth rate (-0.7%). The industries with the greatest increases in February year-over-year were Construction (4.5%), Other Services (3.5%), and Education and Health Services (3%). Mining and Manufacturing both recorded job losses in February year-over-year.

In this quarter's survey, respondents were asked further about their current hiring plans. Nearly 64% of individuals indicated their company is currently trying to fill open positions. More than 44% of individuals indicated their company was hiring to replace workers who left, while 39.1% of individuals indicated hiring to fill new positions. One-third of individuals indicated their company has no open positions.

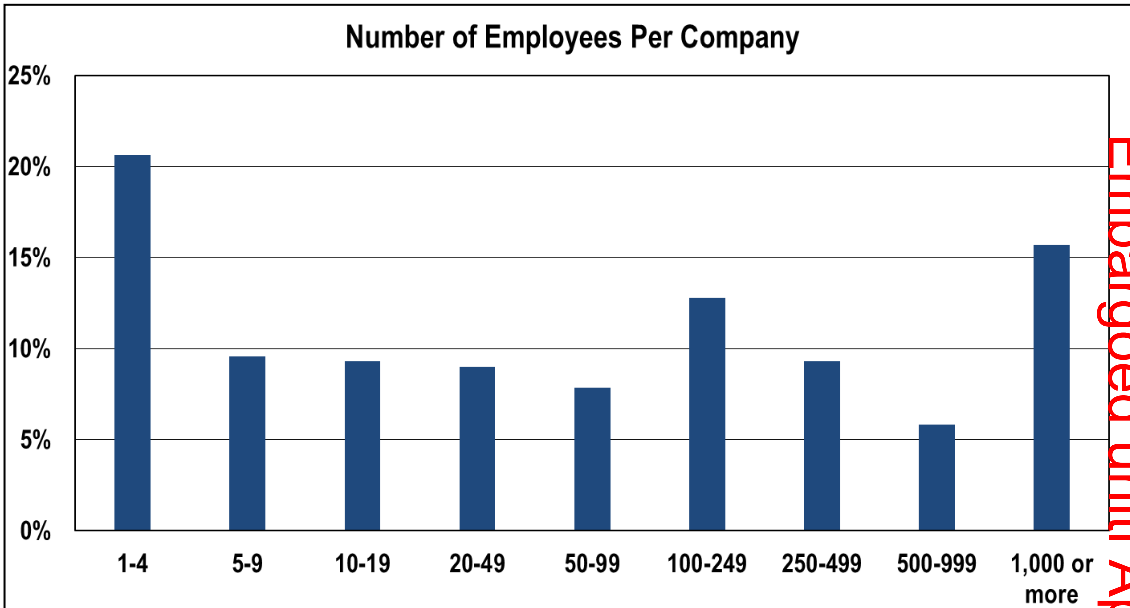


Note: Hiring responses are not mutually exclusive. Some respondents indicated hiring both to replace workers and to fill new positions.

Expectations by Company Size and Length of Time in Business

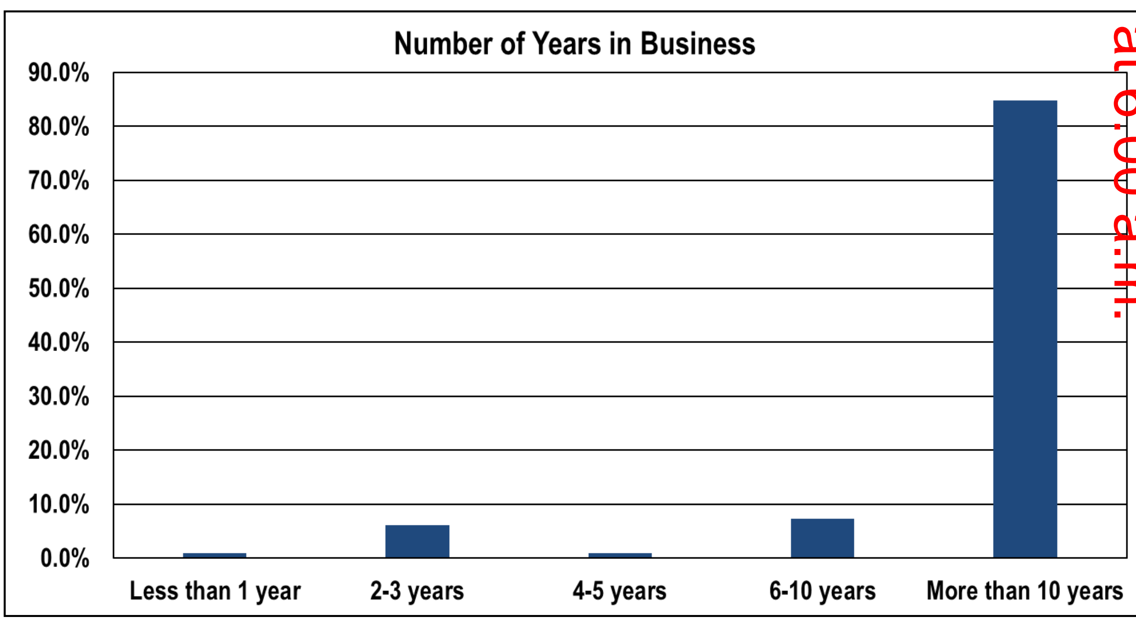
Panelists were asked two additional questions, one about the size of their company and the other about how long their company has been in business. About half (48.6%) of survey respondents work for companies with fewer than 50 employees. The three largest groups were represented by companies with 1–4 employees (20.6%), 1,000 or more employees (15.7%), and 100–249 employees (12.8%).

Small employers' expectations increased 3.7 points ahead of Q2, and large employers' expectations increased 2.7 points. Small and large company expectations were similar—63.7 and 63.2, respectively, ahead of Q2.

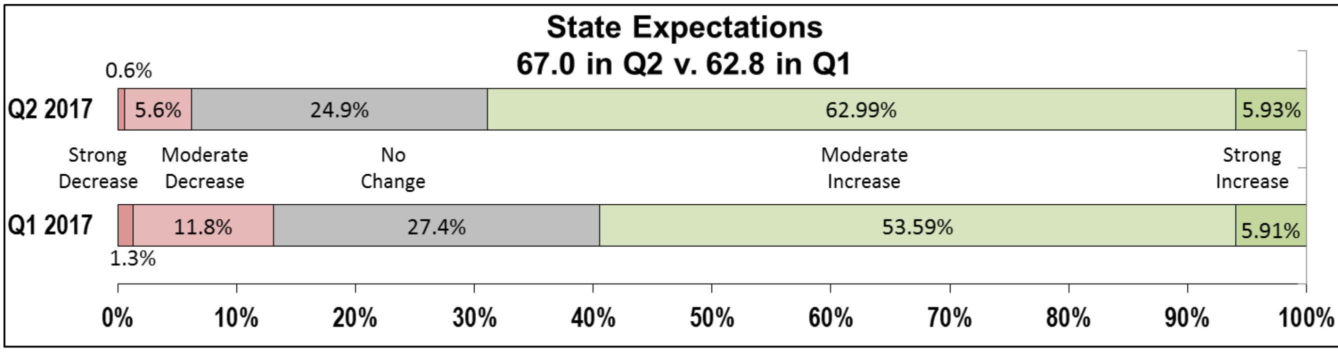


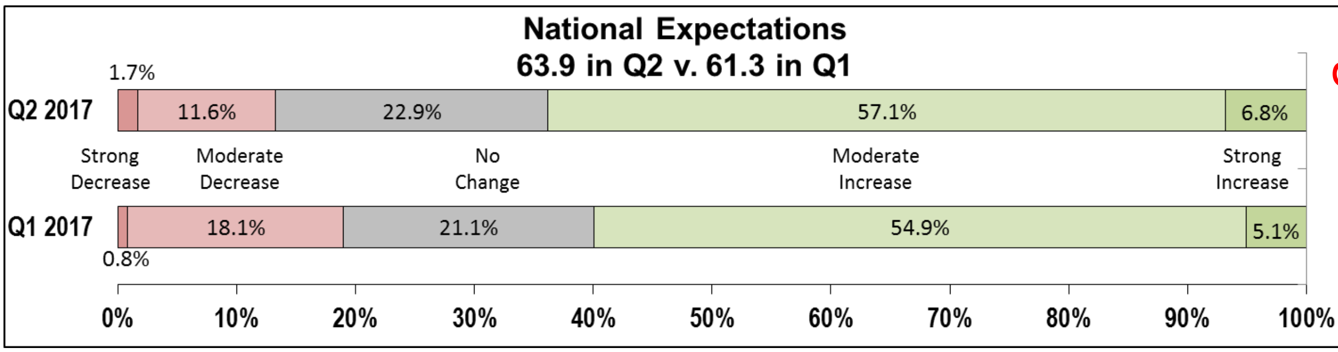
Nearly 85% of survey respondents work at a long-standing company that has been in business for more than 10 years.

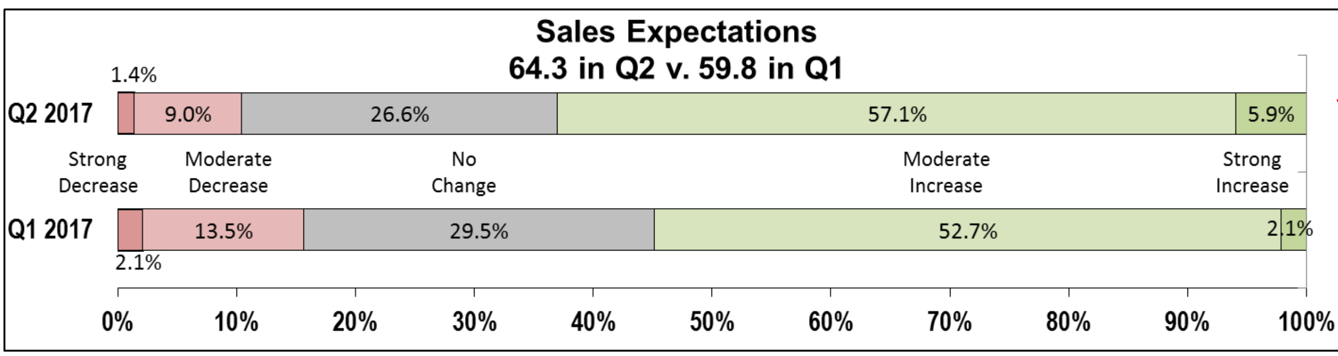
While responding panelists represent nearly every industry in the state, the largest percentage of respondents to the Q2 survey were: Professional, Scientific, and Technical Services (20.1%); Finance and Insurance (17.3%); Real Estate, Rental, and Leasing (13%); and Public Administration (9.1%).

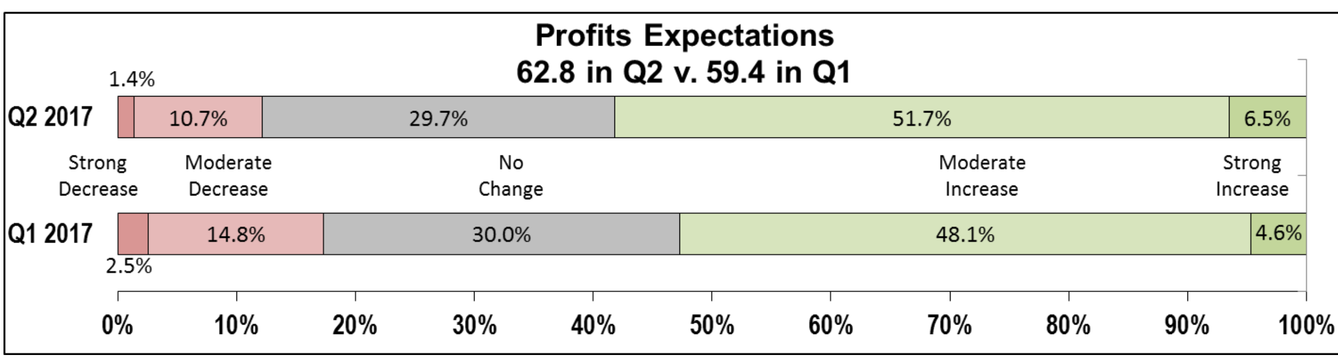


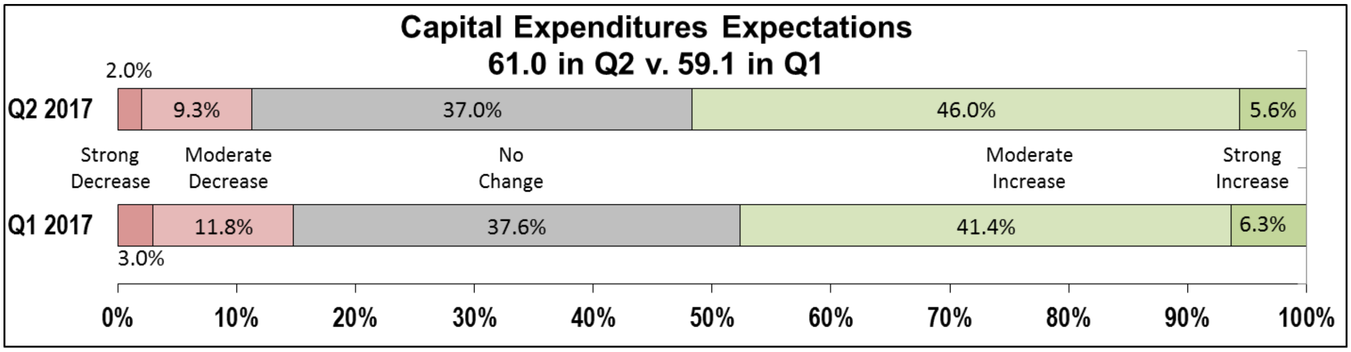
Distribution of Expectations in Q2 2017 and Q1 2017

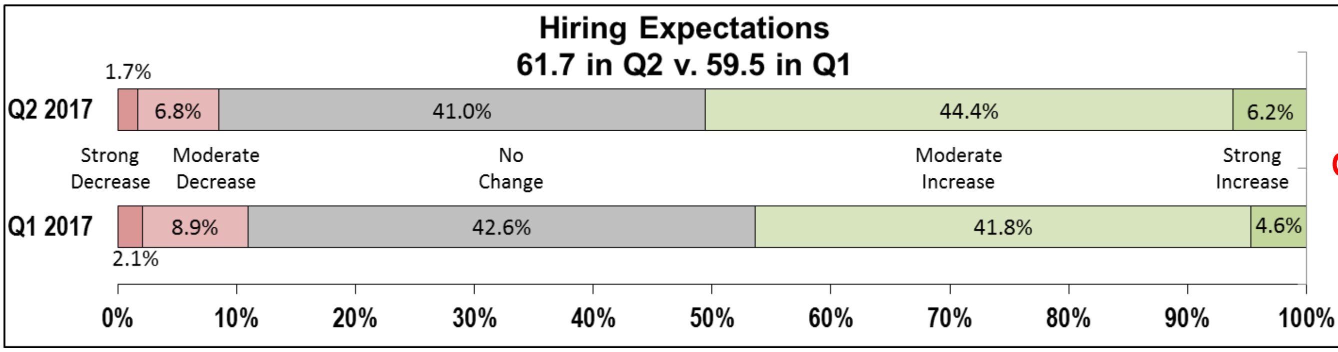












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For more information about the LBCI and to become a panelist, go to:
www.colorado.edu/business/brd