LBCI LEEDS BUSINESS CONFIDENCE INDEX

First Quarter 2021
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Business Confidence Revised Down for Q1, but Brightens ahead of Q2

Business confidence ahead of Q1 2021 was unchanged compared to Q4 2020, but looking further out to Q2 confidence improved, largely on positive news about the vaccine and the hopes of a real reopening of the economy. Optimism was revised down from the September survey for the first quarter as the economic reality of the second COVID-19 wave set in. One-third of panelists cited the COVID-19 vaccine as the main driver for their outlook, and more than a quarter of respondents cited COVID-19 for their economic sentiments. While Q1 confidence remained below neutral, the Q2 2021 outlook rose strongly above neutral.

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 flat ahead of Q1 2021, with 5 of the 6 components of the index below neutral (50). Panelists anticipated strong improvement in the second quarter of 2021; the index rebounded to 59.5, firmly crossing the neutral threshold. A total of 328 qualified panelists responded to the survey from December 1 through December 21.

Leeds Business Confidence Index

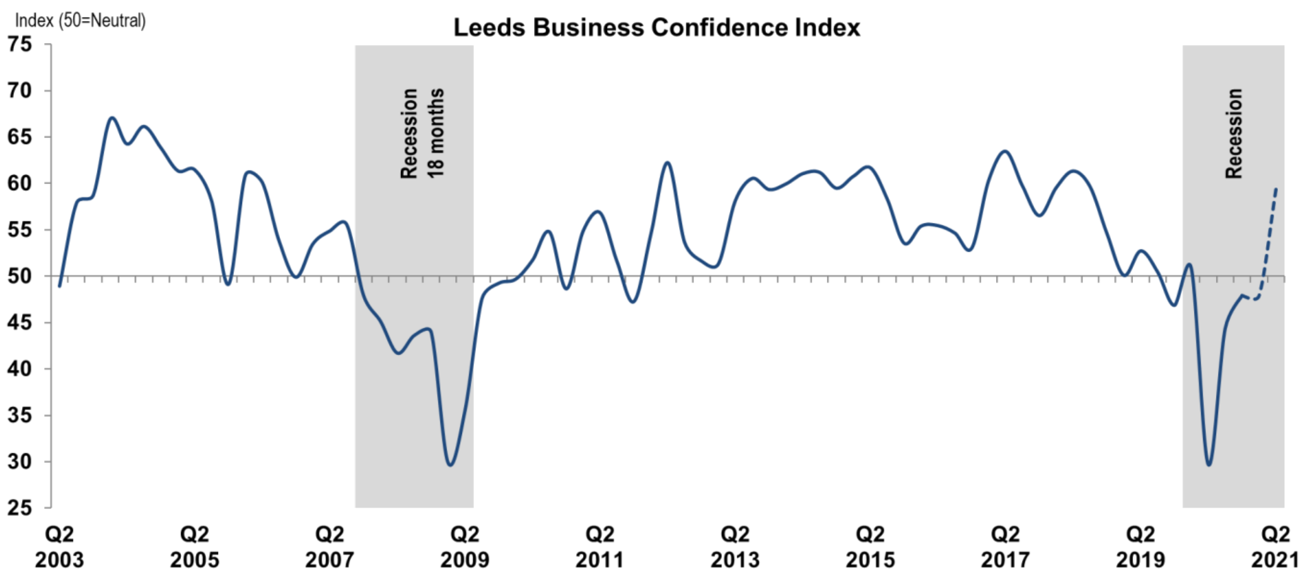
Component	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Change	
						Quarterly	Annual
State Economy	51.5	28.8	46.8	48.9	46.9	▼	▼
National Economy	45.9	21.8	43.5	44.5	43.5	▼	▼
Industry Sales	54.1	32.9	51.3	52.5	51.5	▼	▼
Industry Profits	52.1	31.5	44.8	48.8	48.7	▼	▼
Industry Hiring	50.6	32.4	42.7	48.0	49.9	▲	▼
Capital Expenditures	50.6	31.0	37.1	44.7	46.8	▲	▼
LBCI	**50.8**	**29.7**	**44.3**	**47.9**	**47.9**	▼	▼

- Five individual components of the LBCI recorded negative perceptions (below 50) ahead of Q1 2021, but all six components improved ahead of Q2.
- Aside from the national economic outlook, the greatest pessimism was recorded in the state economy and capital expenditures.
- The sales outlook remained in positive territory, but the profits expectations remained pessimistic for the quarter.
- The rebound in the labor market through the summer left Colorado with a smaller jobs deficit than the nation (-4.6% versus -6.1%), and ranked the state 21st in the nation for year-over-year performance in November.
- Individuals were split on the topic of productivity. While 30% of respondents reported no change in worker productivity, 33.8% reported an improvement in productivity while 36.3% reported productivity took a hit from March through December.
- Despite the impact (good or bad) on productivity, many respondents do not expect to return to the office until the second or third quarters of 2021.

Summary – Confidence Unchanged Ahead of Q1

The LBCI stalled ahead of Q1 2021, remaining below neutral and at the same level as in Q4 2020. The index stood at 47.9 ahead of Q1 2021. Four of the six components decreased from Q4 to Q1, and five components remained below neutral. Looking two quarters ahead to Q2 2021, expectations returned to growth (59.5), with all six components in positive territory. Index revisions illustrate the volatile economic environment that is impacted by the pandemic. The index illustrates the continuing impacts of COVID-19, but also the optimism that a recovery is in sight.

Component	Q1 2021	Change		Q2 2021	Change	
		Quarterly	Annual		Quarterly	Annual
State Economy	46.9	▼	▼	61.2	▲	▲
National Economy	43.5	▼	▼	58.1	▲	▲
Industry Sales	51.5	▼	▼	63.4	▲	▲
Industry Profits	48.7	▼	▼	58.4	▲	▲
Industry Hiring	49.9	▲	▼	58.8	▲	▲
Capital Expenditures	46.8	▲	▼	56.9	▲	▲
LBCI	**47.9**	▼	▼	**59.5**	▲	▲

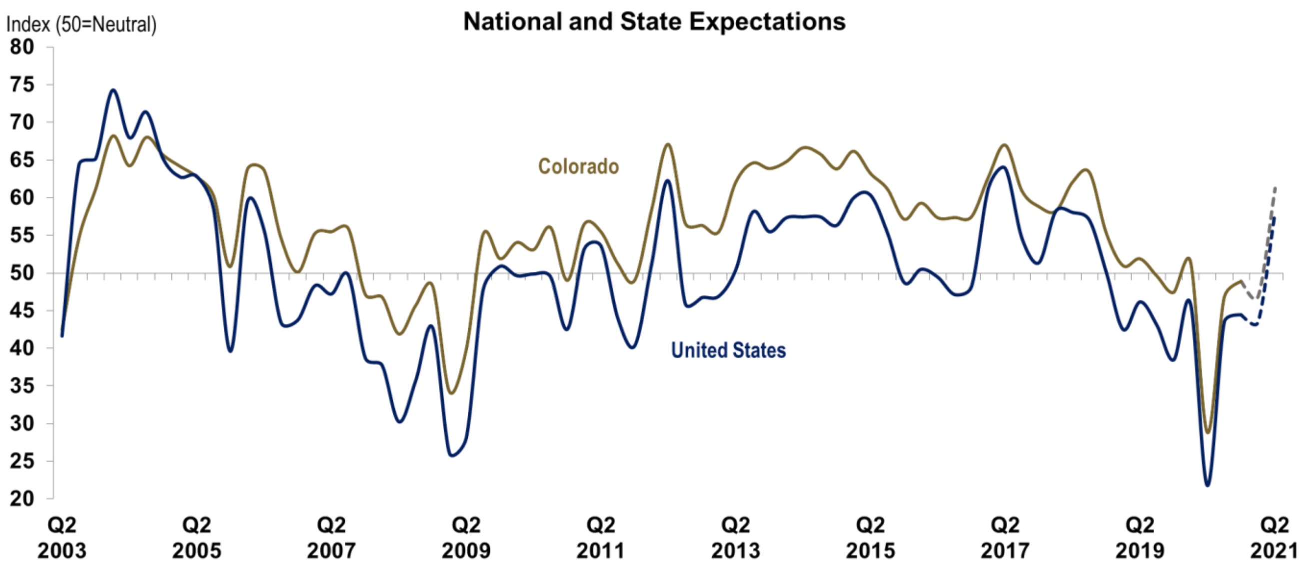


National real gross domestic product (GDP) increased at a 33.4% seasonally adjusted annual rate (SAAR) in Q3 2020 according to the third estimate from the Bureau of Economic Analysis (BEA). Personal consumption expenditures increased 41%, government expenditures fell 4.8%, and gross private domestic investment increased 86.3%. The trade deficit increased from Q2 2020 to Q3 2020, exceeding $1 trillion (annualized average chained dollars). Economic expectations for real GDP growth in 2020 fell sharply in response to COVID-19. While the third quarter of 2020 illustrates the beginning of the rebound from the pandemic, Q3 GDP remained 2.8% below Q3 2019.

National and State Economies — Two Steps Back

General state and national economic expectations paused as the pandemic spiked and the economy went through another round of rolling shutdowns. State expectations fell from 48.9 in Q4 to 46.9 ahead of Q1, but shot up to 61.2 ahead of Q2 2021. The state outlook is 3.4 points above the national outlook, indicating business leaders' confidence that the state will continue to outperform relative to the nation. The national index fell ahead of Q1, decreasing one point from 44.5 to 43.5. However, the national index for Q2 2021 jumped to 58.1.

For the state economy, 61.1% of respondents believe the state economy will stay neutral-to-positive in Q1, versus 38.4% who expect slower growth. On the national level, 54.3% are neutral-to-positive, versus 45.7% who expect slower growth.



U.S. GDP rebounded sharply in Q3 2020 following the precipitous fall in Q2. GDP grew at a seasonally adjusted annual rate of 33.4% after decreasing 31.4% in Q2. Despite the rebound, GDP remained down 2.8% compared to Q3 2019, and down 3.4% from the peak in Q4 2019.

According to the BEA report released December 22, 2020:

> *The increase in real GDP reflected increases in PCE, private inventory investment, exports, nonresidential fixed investment, and residential fixed investment that were partly offset by decreases in federal government spending (reflecting fewer fees paid to administer the Paycheck Protection Program loans) and state and local government spending. Imports, which are a subtraction in the calculation of GDP, increased.*
>
> *The increase in PCE reflected increases in services (led by health care as well as food services and accommodations) and goods (led by clothing and footwear as well as motor vehicles and parts). The increase in private inventory investment primarily reflected an increase in retail trade (led by motor vehicle dealers). The increase in exports primarily reflected an increase in goods (led by automotive vehicles, engines, and parts as well as capital goods). The increase in nonresidential fixed investment primarily reflected an increase in equipment (led by transportation equipment). The increase in residential fixed*

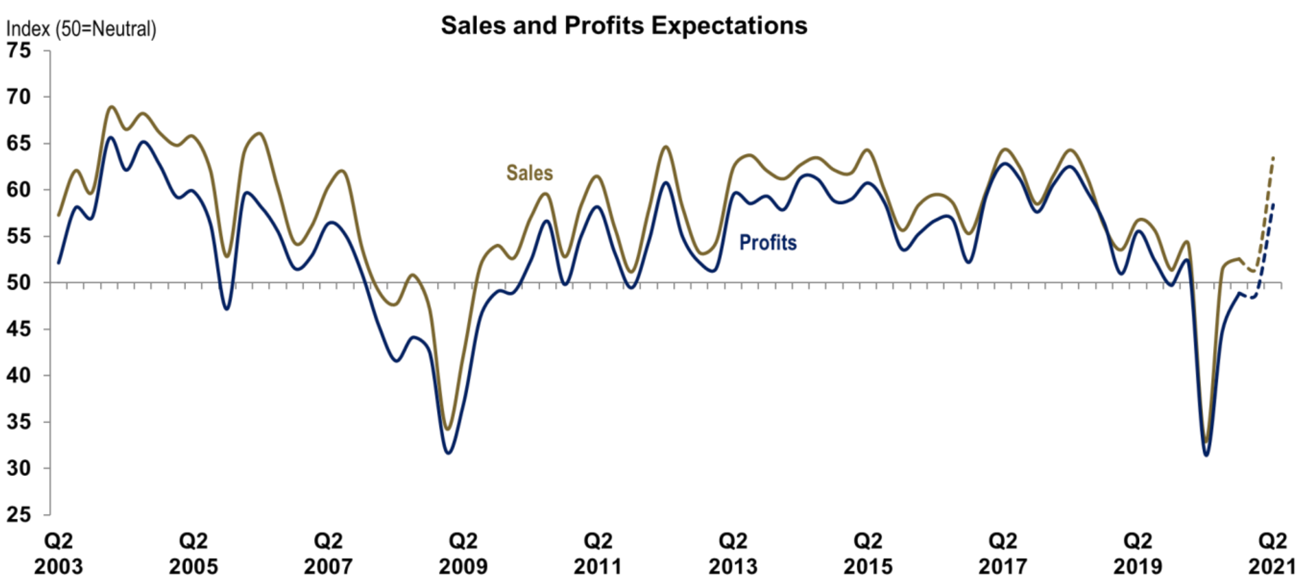
investment primarily reflected an increase in brokers' commissions and other ownership transfer costs.

Colorado's Q3 2020 real GDP increased at a SAAR of 30.1% for the quarter, but fell 1.4% year-over-year. Year-over-year, the largest percentage losses were recorded in the following industries: Arts, entertainment, and recreation (-40%); Agriculture, forestry, fishing, and hunting (-23.6%); and Accommodation and food services (-15.5%). The largest gain was in Information (10.7%).

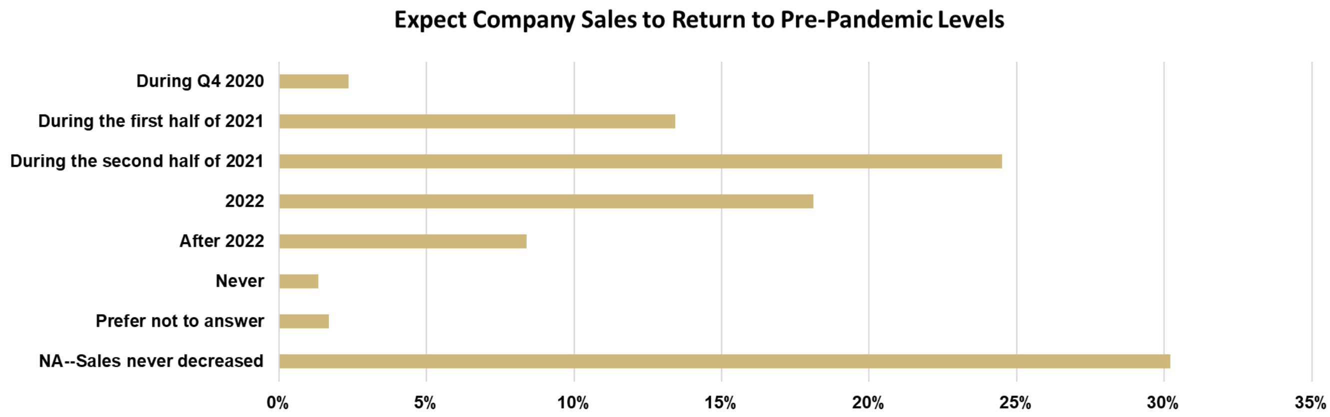
Sales and Profits — Hitting Pause

Sales and profits expectations decreased 1 point and 0.1 points, respectively, from Q4 2020 to Q1 2021. The sales component recorded the highest expectations among the six components and was the only component above neutral ahead of Q1. Looking toward Q2, the sales and profits outlook increased, both pointing to strong expansion.

The sales index reached 51.5 in Q1, while the profits index was at 48.7. A majority of panelists are neutral-to-positive regarding sales and profits ahead of Q1; however, 30.2% still expect a decrease in sales in Q1 and 34.5% expect falling profits. Looking ahead to Q2, sales expectations increased to 63.4, while profits improved to 58.4.



The Q1 2020 survey asked additional questions specifically about the COVID-19 impact on company sales. Of the 298 individuals who responded, 30% reported that sales never decreased. Regarding sales recovery, 38% of respondents put their company's sales recovery in 2021, and 27% put a recovery in 2022 or after.



Sales and profits largely depend on the strength of the consumer. Prior to the virus outbreak in the U.S., consumer confidence and consumption remained strong. While confidence rebounded following the cycle low in April, confidence began to dip again in November. According to the Conference Board, national consumer confidence dropped 8.5 points in November and another 4.3 points in December. Personal consumption expenditures decreased at a 33.2% seasonally adjusted annual rate in Q2 but rebounded 41% in Q3. November retail sales were up 4.1% year-over-year, but slipped 1.1% from the prior month, according to the seasonally adjusted advance estimate from the U.S. Census Bureau. This year-over-year gain has not been shared equally by all retail categories. In November, restaurant sales decreased 17.2% and grocery sales increased 10.5% from the same month in 2019, as the impact of COVID-19 changed consumer spending habits.

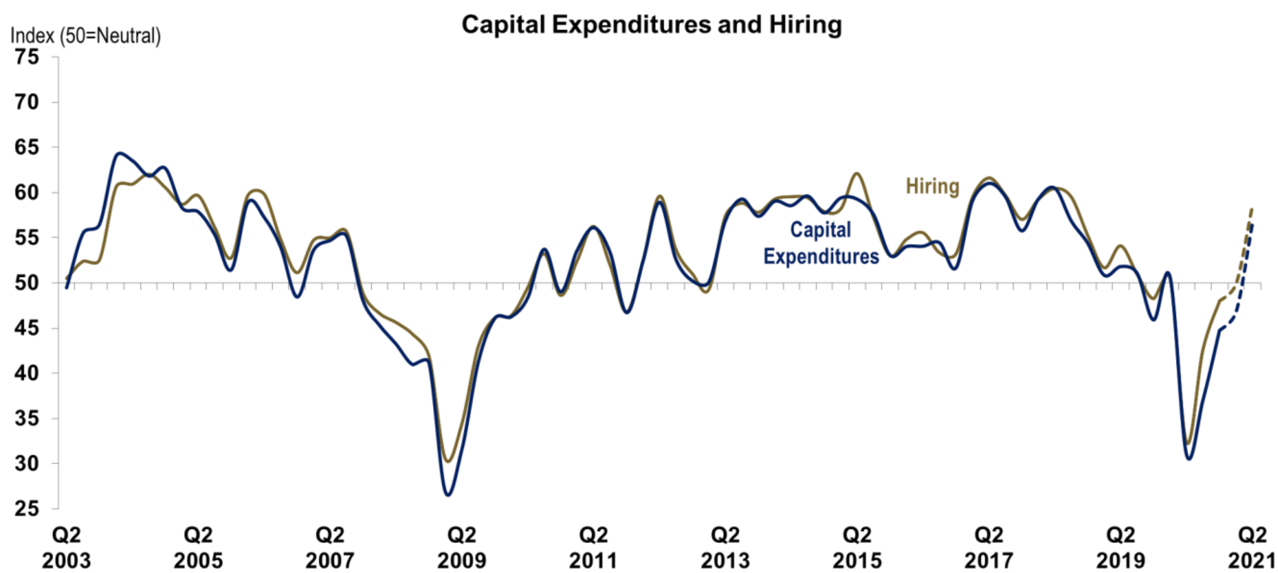
B-to-B sales are also a signal for sales and profits. While gross private domestic investment fell 46.6% (SAAR), investment rebounded 86.3% in Q3. The subset of nonresidential fixed investment decreased 27.2% in Q2 and rebounded 22.9% in Q3. Inventories decreased sharply in the second quarter; while inventories continued to contract in Q3, they fell by a much smaller margin. According to the Institute for Supply Management, the manufacturing sector has remained above 50 (expansion) for the past six months, with an index of 57.5 in November. The nonmanufacturing index in November 2020 experienced a modest drop to 55.9, but also remained above 50 for six consecutive months. The manufacturing survey from the Federal Reserve Bank of Kansas City recorded a composite index of 14 in December, improving from November.

In Colorado, personal incomes continued to grow in Q3 2020. According to the BEA, Colorado's nominal personal income grew 3.9% year-over-year. Colorado had the 12th-highest per capita personal income in Q3 2020, at $63,098, but the state slipped to 48th for per capita personal income growth year-over-year.

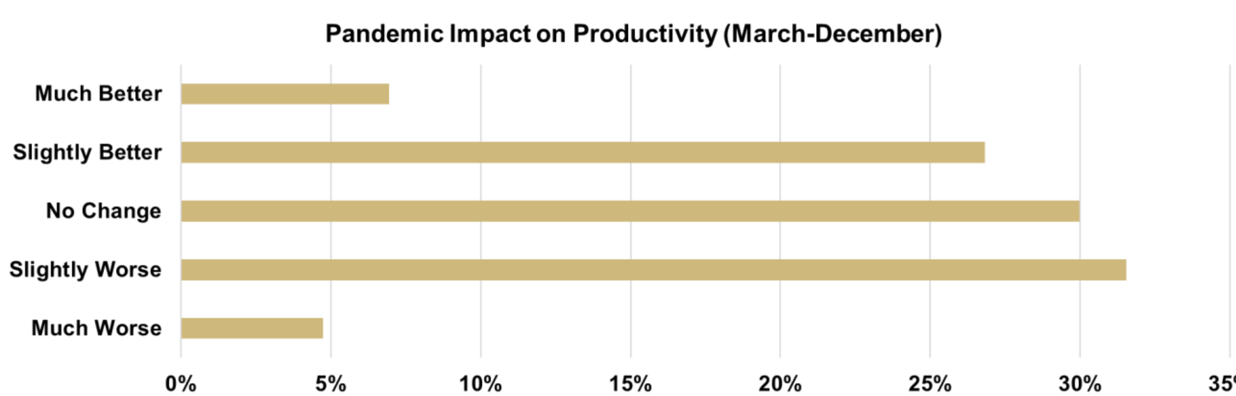
Capital Expenditures and Hiring Plans — Silver Lining?

The outlook for capital expenditures and hiring increased to 46.8 and 49.9, respectively, ahead of Q1. Both metrics rebounded further looking ahead to Q2—planned capital expenditures increased to 56.9 and hiring plans increased to 58.8. These components reflect investment in firm growth, thus, the rebound in the index in Q2 2021 is a positive confirmation of business conditions. Ahead of Q1 2020, 27.1% of respondents expect growth in capital expenditures, and 29.3% project an increase in hiring.

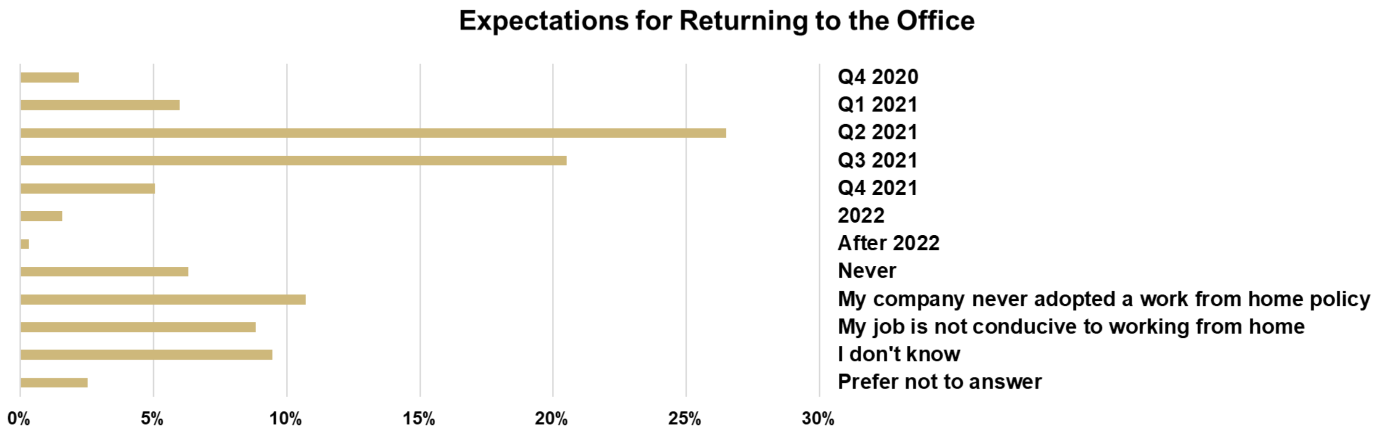
An indicator of capital expenditures is construction. According to Dodge Data and Analytics, the value of construction in Colorado decreased 23.2% in 2019. Year-to-date through November 2020, the total value of construction in Colorado has increased 0.3%, with the largest pullback in nonresidential construction. According to the U.S. Census Bureau, the total value of construction put in place for the nation increased 4.3% year-to-date through October 2020 compared to October 2019.



Individuals were split on the topic of productivity. While 30% of respondents reported no change in worker productivity, 33.8% reported an improvement in productivity while 36.3% reported productivity took a hit from March through December.



Despite the impact (good or bad) on productivity, many respondents do not expect to return to the office until the second or third quarters of 2021.



National employment has recovered from the recession lows reached in April, but jobs are coming back at a slower rate, indicating a stalling in the recovery. Total nonfarm employment fell a record 14.5% (-22.2 million jobs) from February to April before rebounding 9.5% (12.3 million jobs) from April to November. However, total U.S. nonfarm employment remained down 6.1% year-over-year in November 2020. The unemployment rate in the United States continued to improve from 14.7% in April to 6.7% in November.

Colorado nonfarm employment decreased 12.2% (-342,300 jobs) from February to April, but increased 8.5% (209,600 jobs) from April to November. However, the rebound stalled in November, with a month-over-month decrease of 6,900. Colorado employment remained down 4.6% (-128,200 jobs) in November 2020 compared to November 2019. At 6.4%, Colorado's November unemployment ranked the state 31st-lowest in the country.

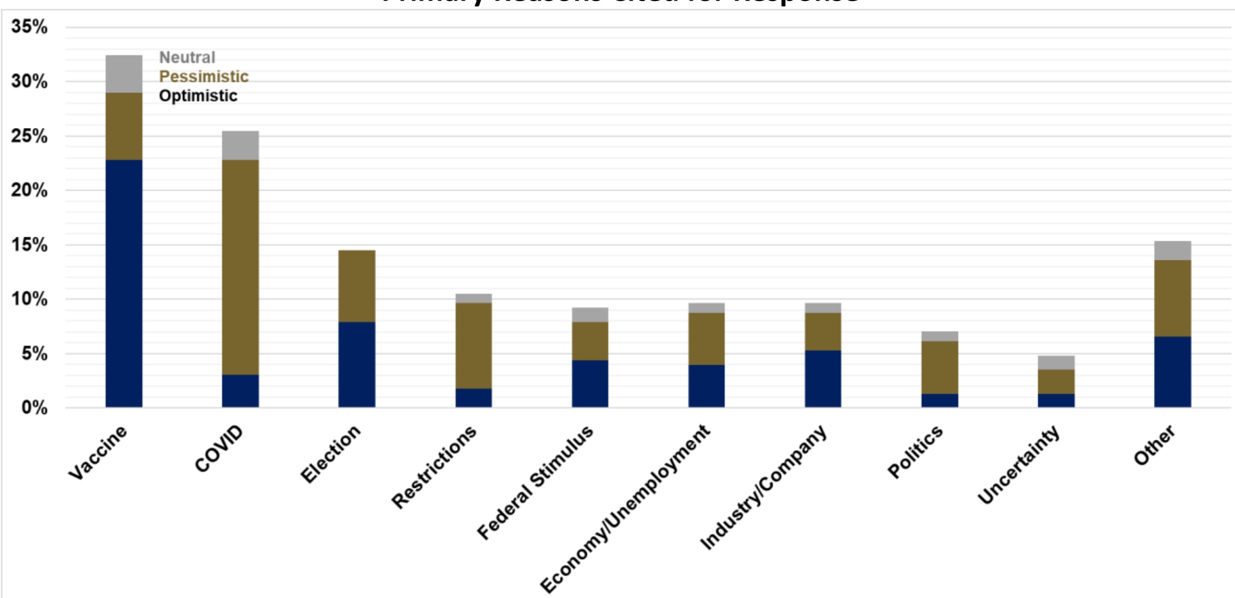
Year-over-year employment declines were recorded in all but one of Colorado's seven metropolitan statistical areas (MSAs) in November. The Boulder MSA recorded the largest year-over-year decline (-7.2%), followed by Fort Collins-Loveland (-7%), Greeley (-5.6%), Denver-Aurora-Lakewood (-3.3%), Pueblo (-3.1%), and Colorado Springs (-2.6%). Grand Junction increased 0.3% year-over-year. Colorado industries with the largest annual percent loss were Leisure and Hospitality (-16.4%), Mining and Logging (-11.7%), and Other Services (-7.7%). The only industries to record year-over-year growth in November were Manufacturing (2.4%) and Professional and Business Services (0.7%).

Inflation in Colorado has outpaced the nation for the last seven years until 2020. In November 2020, the all items index increased 0.3% year-over-year; core inflation increased 0.6%; shelter, -0.9%; and all items less shelter, 0.9%, not seasonally adjusted.

Reason for Survey Responses

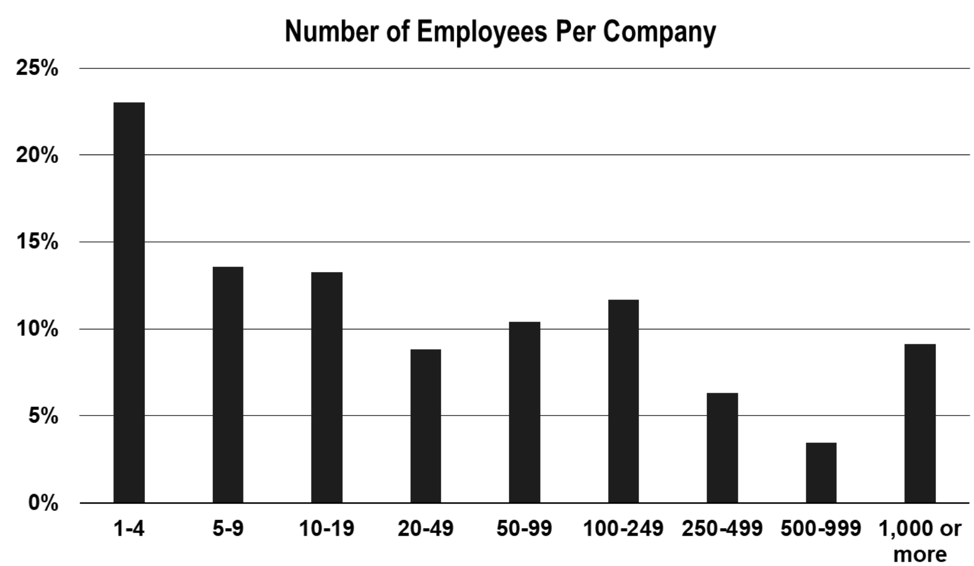
Panelists were asked to give reasons for their expectations. Of the 228 respondents who provided an explanation, the vaccine was the most cited (mentioned by 33% of respondents). COVID-19 was the next most cited reason (25%), followed by change in federal leadership (14%). While the vaccine was mostly cited by individuals who expressed a positive outlook, some individuals cited the lag in deploying a vaccine as a reason for their pessimism in the immediate quarter ahead. Similarly, while most individuals who citied COVID-19 for their pessimism, some individuals expressed that the waning virus in Q1 is their reason for optimism. The outcome of the election presented mixed confidence, with both optimism and pessimism by respondents.

Primary Reasons Cited for Response

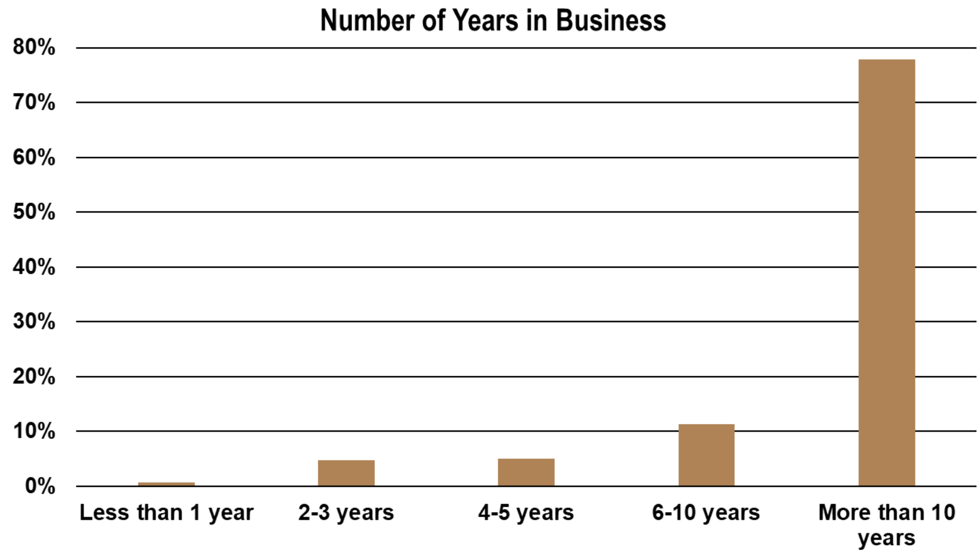


Expectations by Company Size and Length of Time in Business

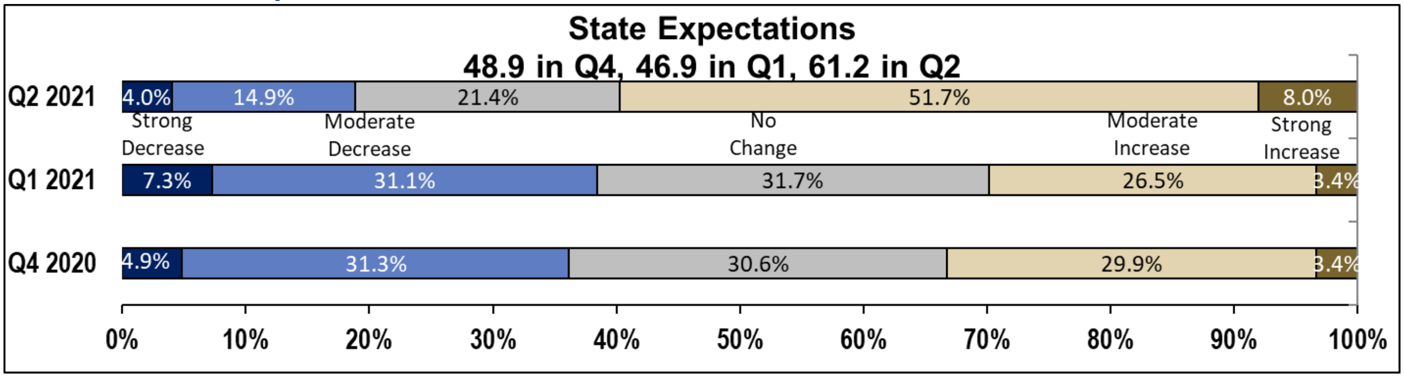
Panelists were asked about the size of their company and how long their company has been in business. A total of 77.9% of respondents work at a long-standing company that has been in business for more than 10 years. More than half (58.7%) of survey respondents work for companies with fewer than 50 employees. Small employers were less optimistic than large employers ahead of Q1 2021. Small (fewer than 50 employees) employers' expectations remained in negative territory ahead of Q1 (46.3), but large employers notched above neutral (51). Both groups are more positive looking out to Q2 2021.

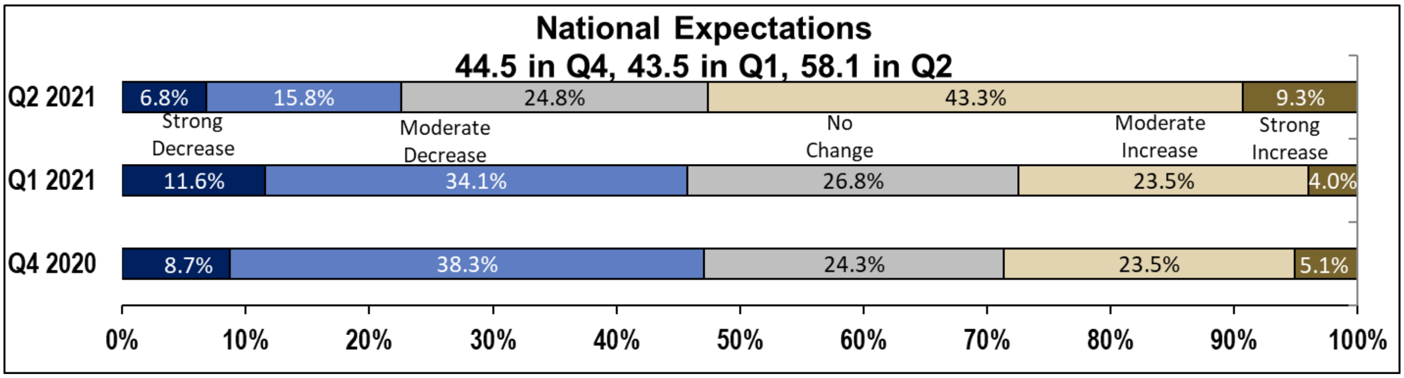


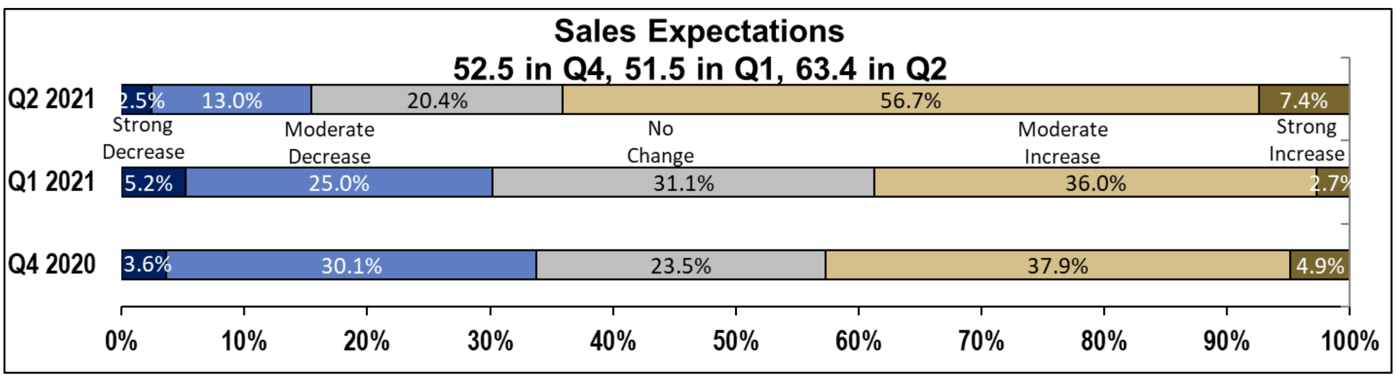
While responding panelists represent every industry in the state, the largest percentage of respondents to the Q1 survey were in the following sectors: Real Estate, Rental, and Leasing (16%); Professional, Scientific, and Technical Services (15%); and Finance and Insurance (14%).

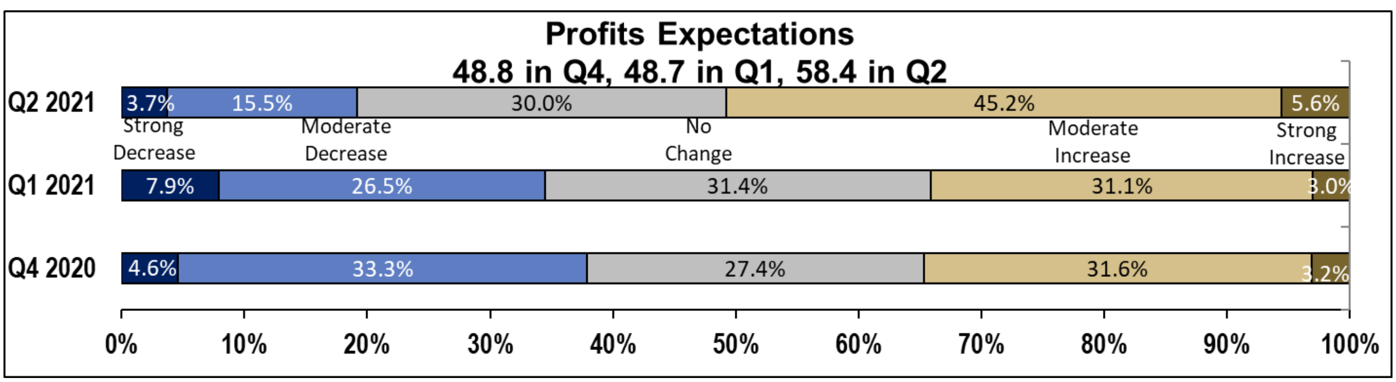


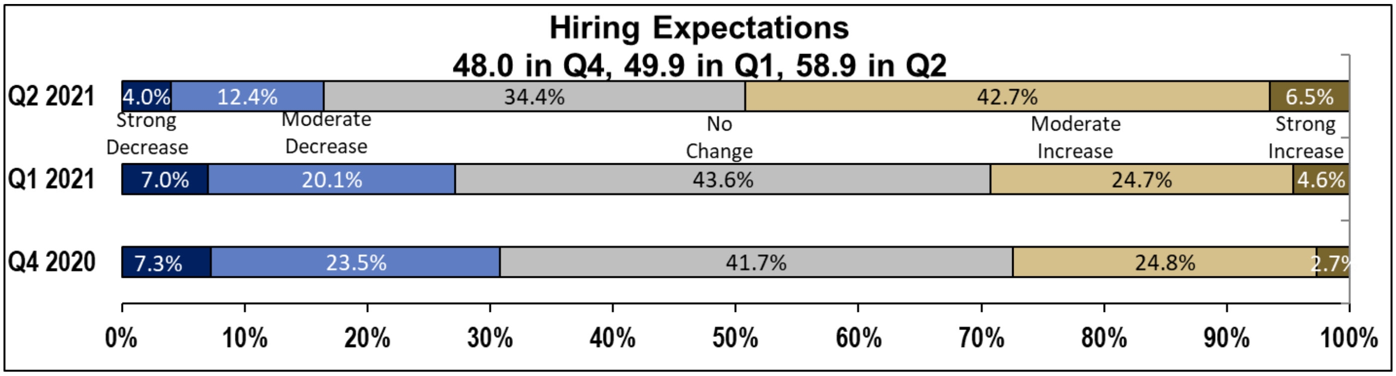
Distribution of Expectations in Q4 2020, Q1 2020, and Q2 2021

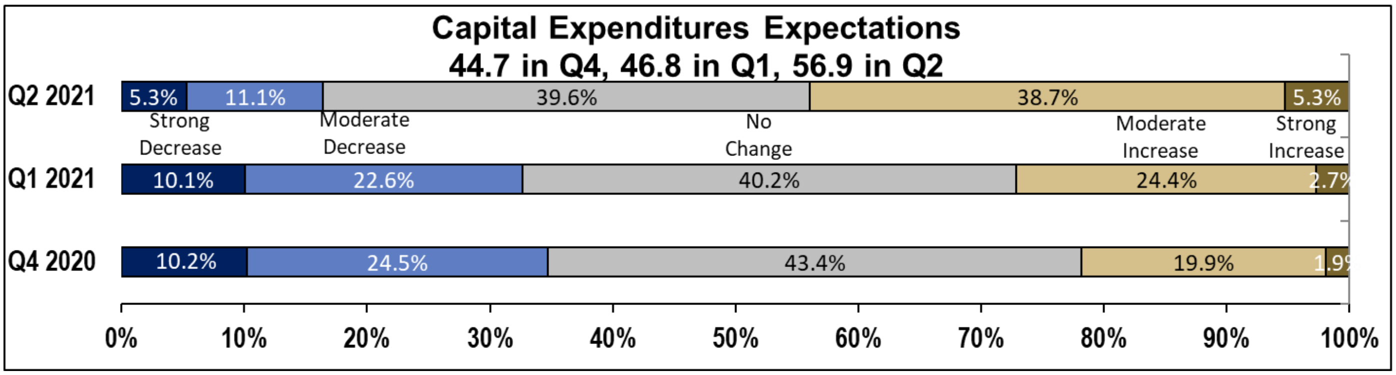


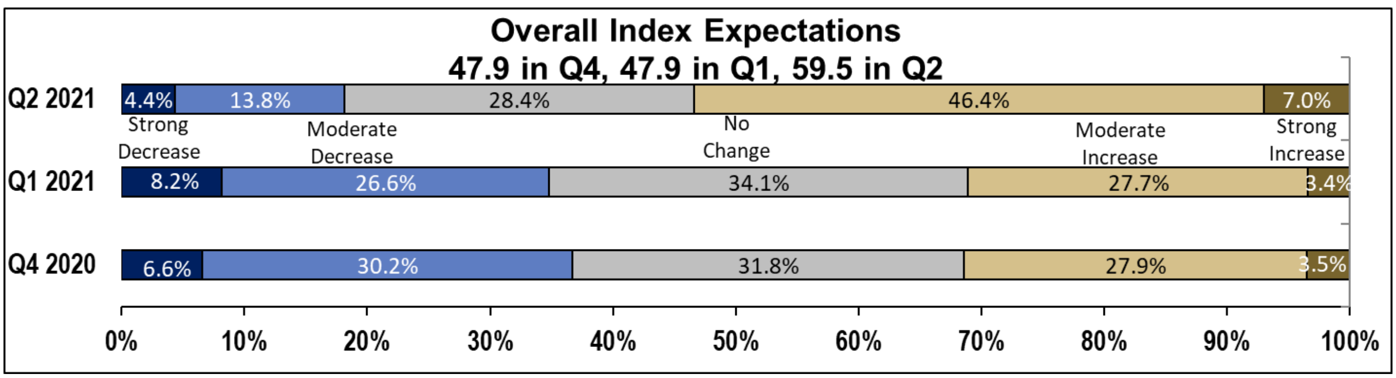












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For more information about the LBCI and to become a panelist, go to:
www.colorado.edu/business/brd