

## Leeds Business Confidence Index Turns Bearish ahead of Q4

Colorado business leaders' confidence slipped into negative territory ahead of Q4 2019, recording the first pessimistic outlook since Q2 2011, and registering the lowest index value since the end of the recession. These sentiments coincide with ongoing trade tensions, an additional interest rate cut, and increased political strain in the Middle East. The most commonly cited reasons by survey responses for the pessimism included trade, politics, the economy, and uncertainty.

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 2019, the index decreased to 46.9, with most components of the index falling below neutral (50), except industry sales. Looking further out to Q1 2020, the index sank further, dropping to 44. A total of 263 qualified panelists responded to the survey from August 30 through September 20.

### Leeds Business Confidence Index

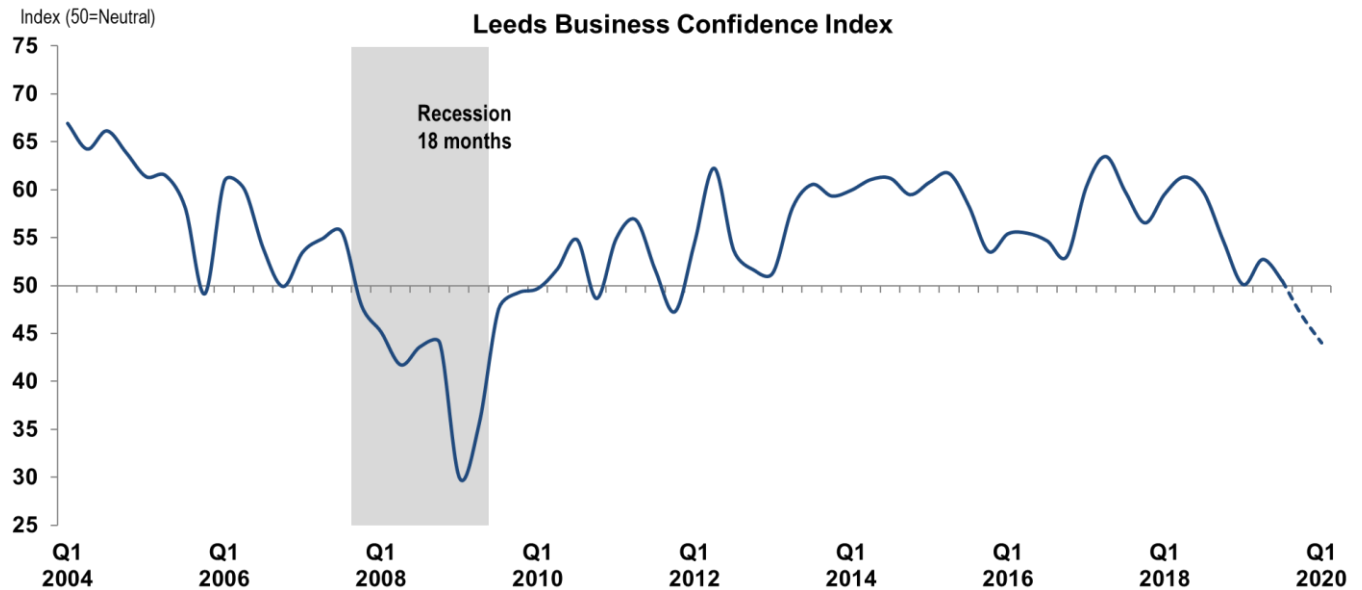
Component	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Change	
						Quarterly	Annual
State Economy	55.3	51.0	51.9	49.6	47.4	▼	▼
National Economy	50.1	42.5	46.2	43.1	38.5	▼	▼
Industry Sales	56.1	53.5	56.7	55.6	51.3	▼	▼
Industry Profits	56.4	51.0	55.5	52.4	49.7	▼	▼
Industry Hiring	55.3	51.7	54.1	51.0	48.3	▼	▼
Capital Expenditures	54.4	50.9	51.8	51.1	45.9	▼	▼
<b>LBCI</b>	<b>54.6</b>	<b>50.1</b>	<b>52.7</b>	<b>50.5</b>	<b>46.9</b>	▼	▼

- Five of the six individual components of the LBCI recorded negative perceptions (below 50) ahead of Q4 2019. Respondents were pessimistic about all six of the individual components of the LBCI looking ahead to Q1.
- Panelists are most optimistic about industry sales expectations, and are most concerned about the national economy as it recorded the lowest confidence of the index components for Q4 2019 and Q1 2020.
- U.S. job growth continued in August 2019, but slowed month-over-month.
- Consumer confidence fell in September, and the Institute for Supply Management's national manufacturing index decreased in August.
- Colorado's economy continues to expand, but at a slower rate of growth.

## Summary – Confidence Lower Ahead of Q4

After rising 2.6 points in Q2 2019, the LBCI fell 2.2 points in Q3 2019. Now, looking forward to Q4 2019 and Q1 2020, the index fell further and now reflects a pessimistic outlook. The index fell 3.6 points looking ahead one quarter to Q4, and fell 2.9 points looking further out to Q1 2020.

Expectations for Q4 2019 decreased to 46.9—a 7.7-point decrease from a year ago, and a decrease over the prior quarter. This value is below the index average of 54.7 points over the 17 years of the survey. All six components decreased from Q3 to Q4, and only the industry sales expectations remained in positive territory. Looking two quarters ahead to Q1 2020, expectations dipped further, dropping 6.1 points compared to Q1 2019.

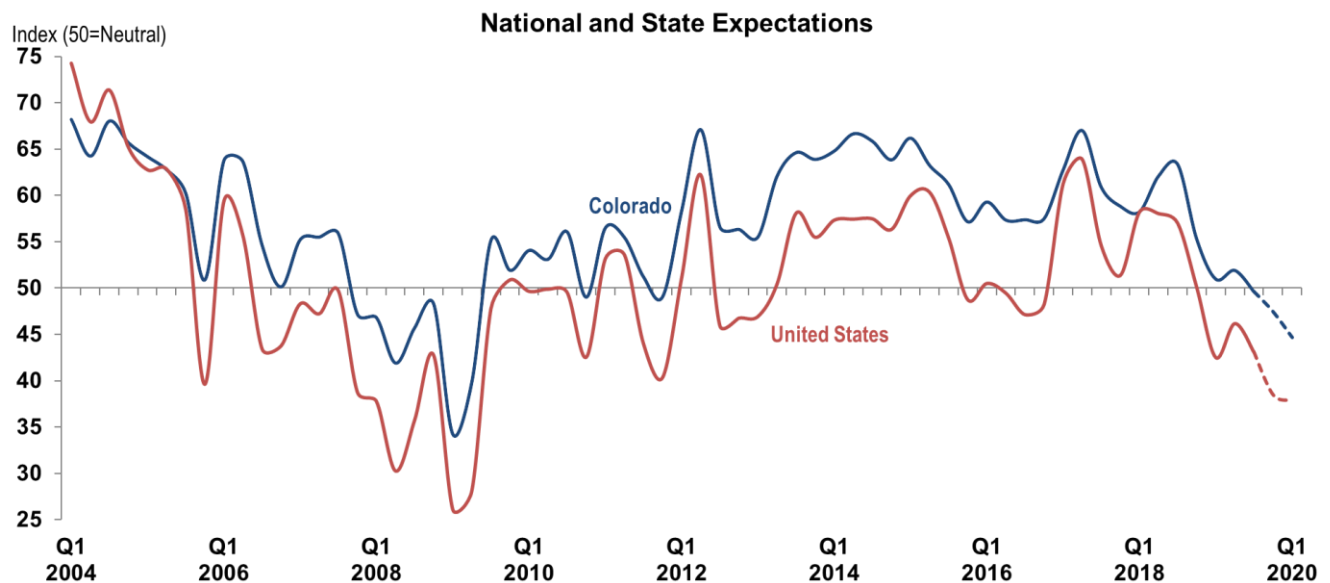


National real gross domestic product (GDP) grew at a 2.0% seasonally adjusted annual rate (SAAR) in Q2 2019 according to the third estimate from the Bureau of Economic Analysis (BEA). Personal consumption expenditures grew 4.6%, government expenditures rose by 4.8%, and private domestic fixed investment fell by 1%. The trade deficit increased from Q1 2019 to Q2 2019. Expectations for real GDP growth slipped to 2.3% for 2019 and 1.8% for 2020, according to the September Consensus Forecasts report. Colorado continued to experience positive real GDP growth, with 4.4% year-over-year and 3.6% quarter-over-quarter (SAAR) growth in Q1 2019. Colorado accounts for 1.8% of total U.S. GDP.

## National and State Economies — Panelists Expressing Caution

State expectations decreased from 49.6 in Q3 to 47.4 in Q4, and slipped further, to 44.6, in the preliminary Q1 reading. While lower state perceptions track sentiment about the national economy, state expectations remain less negative, consistent with stronger state-level economic performance. National expectations recorded the lowest expectations in the index, at 38.5 ahead of Q4 and 37.8 ahead of Q1.

For the state economy, less than one-in-six respondents (15.2%) believe that the state economy will grow faster in Q4, and 25.5% expect it to slow. The outlook of the majority of panelists (59.3%) remains neutral. On the national level, 11.8% of panelists expect an acceleration, while 55.9% anticipate a slowing.



U.S GDP grew at 2.0% SAAR in Q2 2019, which is a decrease in the growth rate from the prior quarter's rate of 3.1%. According to the BEA report released September 26, 2019 (third estimate):

*The increase in real GDP in the second quarter reflected positive contributions from PCE, federal government spending, and state and local government spending that were partly offset by negative contributions from private inventory investment, exports, nonresidential fixed investment, and residential fixed investment (table 2).*

*The deceleration in real GDP in the second quarter primarily reflected downturns in inventory investment, exports, and nonresidential fixed investment. These downturns were partly offset by accelerations in PCE and federal government spending.*

Colorado's Q1 2019 real GDP grew at an SAAR of 3.6% for the quarter and 4.4% year-over-year. Year-over-year, the largest percentage gains were recorded in the Mining industry; the Agriculture, Forestry, Fishing, and Hunting industry; and the Information industry. The largest dollar gains were recorded in Information; Mining; and Professional, Scientific, and Technical Services.

## Sales and Profits — Outlook Slows

Sales and profits expectations decreased 4.3 points and 2.7 points, respectively, from Q3 2019 to Q4 2019. Looking toward Q1 2020, the outlook for sales decreased an additional 4.2 points, and the profits outlook decreased by 3.4 points. Even with the drop in expectations, sales and profits recorded the highest expectations among the six components. The sales index stood at 51.3 in Q4, while profits was at 49.7. Looking ahead to Q1, sales expectations decreased to 47.1, while profits fell to 46.3.

Nearly a third of panelists (32.3%) expect an increase in sales and 25.4% anticipate an increase in profits in Q4 2019, while 25.9% expect a decrease in sales and 26.6% expect a decrease in profits. Looking ahead to Q1 2020, sales and profits expectations both fall further.



The health of sales and profits largely depends on the strength of the consumer. National consumer confidence declined sharply in September, down 9.1 points from August and 10.2 points from September 2018. The Mountain Region index remains above the national index, but also fell sharply year-over-year and month-over-month. Personal consumption expenditures continue to exhibit stable growth (up 4.6% SAAR in Q2). Retail sales increased 4.9% in 2018, and continued to grow in July year-over-year, up 3.6% (seasonally adjusted).

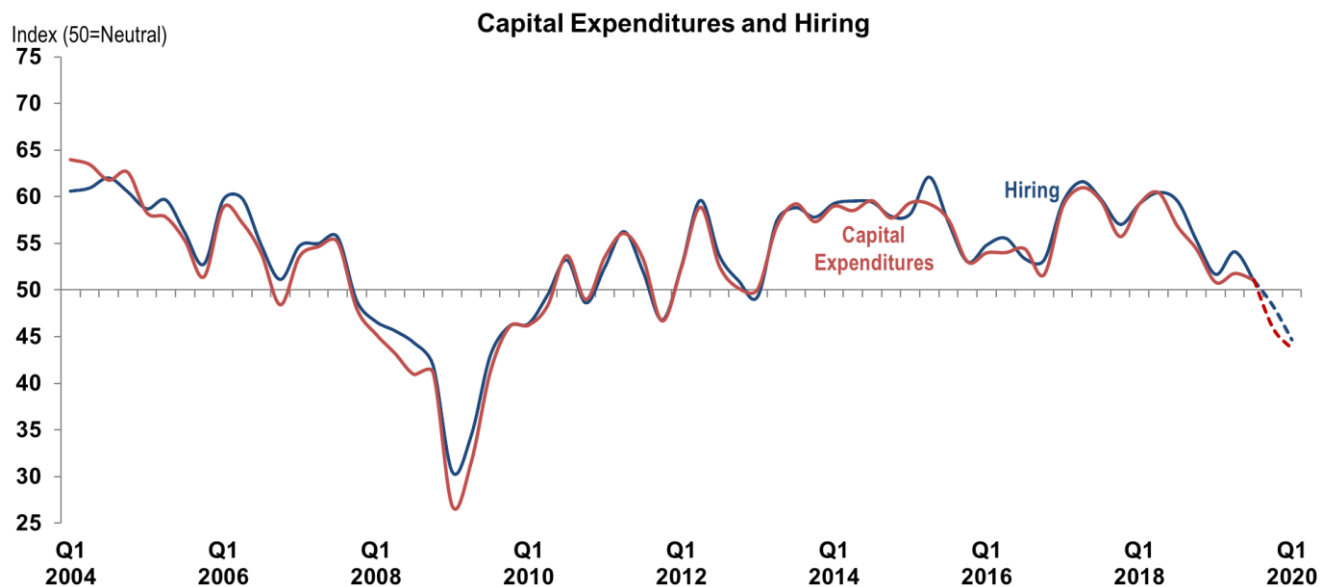
B-to-B sales are also a signal for sales and profits. Business fixed investment fell in Q2, down 0.6% (SAAR), and inventories slightly increased. According to the Institute for Supply Management, the national manufacturing index in August 2019 was 49.1, the lowest reading in the past 12 months. The nonmanufacturing index in August 2019 was 56.4, slightly lower than the average for 12 months.

Personal incomes continued to grow in Colorado in Q1 2019. According to the BEA, Colorado's personal income rose 1.2% in Q2 2019 from the preceding quarter, with a strong increase of 6.2% year-over-year. Colorado had the 11th-highest *per capita* personal income in Q2 2019, at \$60,891, and the state ranked 10<sup>th</sup> for per capita personal income growth year-over-year.

## Capital Expenditures and Hiring Plans — Muted Expectations

The outlook for both capital expenditures and hiring fell ahead of Q4, 5.2 points and 2.7 points, respectively. The capital expenditures index dropped to 45.9, and the hiring plans index fell to 48.3. Both metrics declined further into negative territory ahead of Q1—planned capital expenditures fell to 43.7 and hiring plans fell to 44.6.

About one-in-five respondents expect an increase in capital expenditures (19%) and hiring (20.5%) in Q4. The largest proportion of respondents anticipate no change (53.6% for hiring plans and 47.5% for capital expenditures).



An indicator of capital expenditures is infrastructure. According to Dodge Data and Analytics, the value of construction in Colorado was up 22.6% in 2018, but preliminary data through August 2019 indicate a 27.2% decrease in activity year-to-date. Through August, the value of residential building decreased 15.5% compared to the same period a year ago, nonresidential building fell 45.1%, and nonbuilding declined 28.4%. According to the U.S. Census Bureau, the total value of construction for the nation decreased in July, down 2.7% compared to July 2018.

U.S. job growth continued in August 2019, increasing 1.4% year-over-year. However, nonfarm covered employment slowed in the preliminary release in August, up 130,000 month-over-month, following growth of 159,000 in July. Year-to-date through August, the average number of jobs added per month totaled 158,000, compared to 234,000 for the same period a year ago. This marks the slowest rate of job growth since 2010 for the first 8 months of the year. The unemployment rate in the United States remained at 3.7% for the third consecutive month in August.

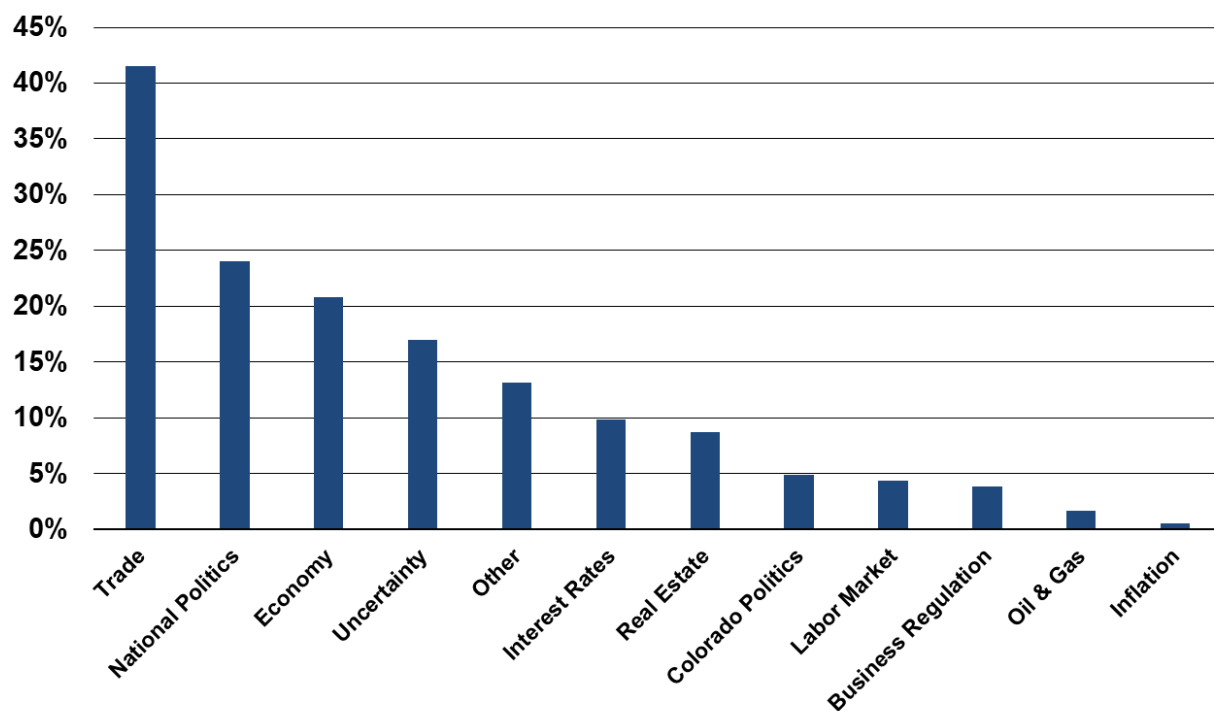
As of August 2019, Colorado continued to exhibit strong employment growth. Jobs increased 2.4% from August 2018 to August 2019, a gain of 64,900 year-over-year. The seasonally adjusted state unemployment rate, at 2.8%, remained below the national rate. Colorado is tied for the 6<sup>th</sup>-

lowest unemployment rate in the country. Year-over-year employment growth was recorded in all of Colorado’s seven metropolitan statistical areas (MSAs). The Colorado Springs MSA recorded the fastest year-over-year growth (3.4%), followed by Grand Junction (2.3%), Greeley (2.2%), Denver-Aurora-Lakewood (1.9%), Boulder (1.6%), Fort Collins (1.3%), and Pueblo (0.6%). Colorado industries with the greatest annual percent change in August were Professional and Business Services (6.5%), Other Services (3.3%), and Education and Health Services (3.1%).

Inflation in Colorado has outpaced the nation for eight of the past nine years. Inflation slowed in 2018 and prices grew slowly in early 2019—Colorado recorded lower price growth than the nation in the second half of 2018 and the first half of 2019. In July, the all items index increased 2.1% year-over-year; core inflation increased 2.8%; shelter, 3.8%; and medical care, 3.1%, not seasonally adjusted.

### Reason for Survey Responses

Panelists were asked to give reasons for their expectations. Of the 183 respondents who cited reasons, trade was the most cited reason for respondents’ responses (mentioned by 42% of respondents). Politics was the next most cited reason (24%), followed by the economy (21%), and general uncertainty (17%).

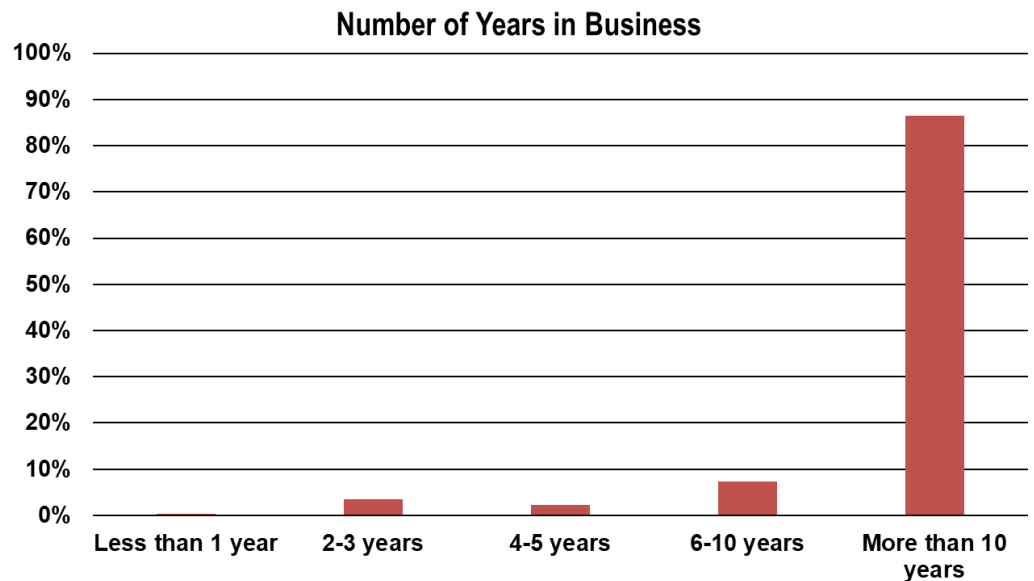
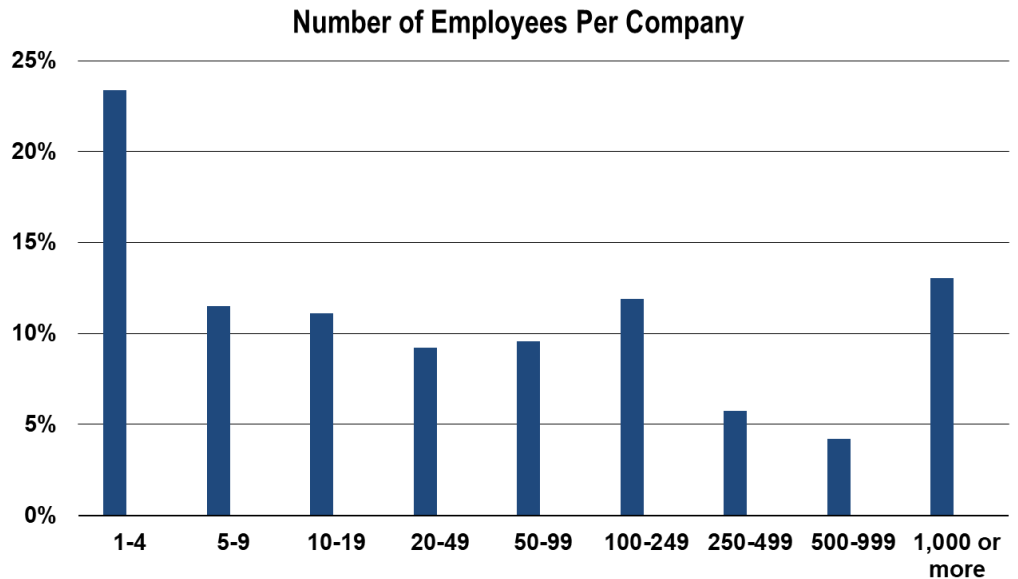


## Expectations by Company Size and Length of Time in Business

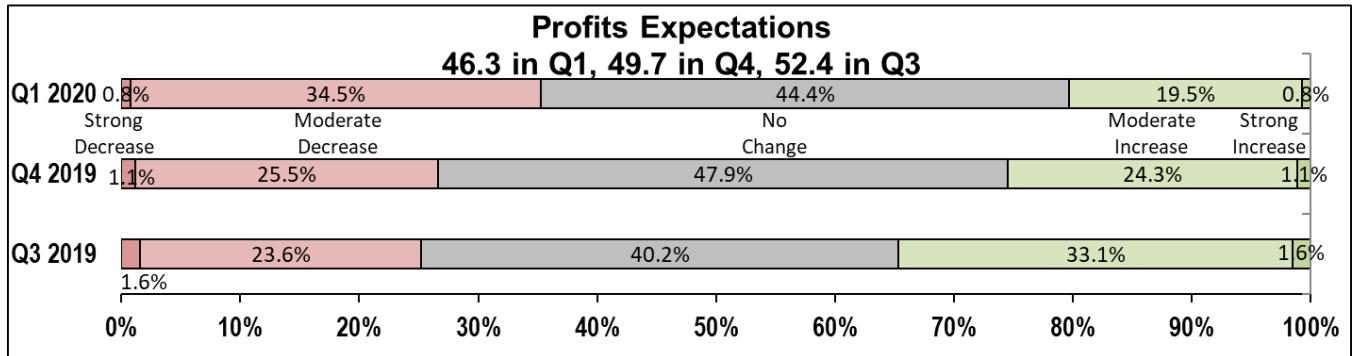
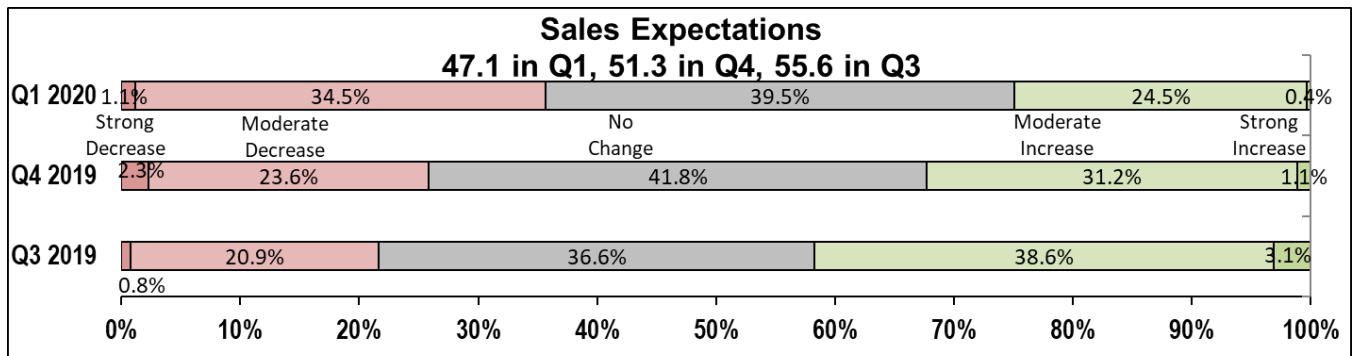
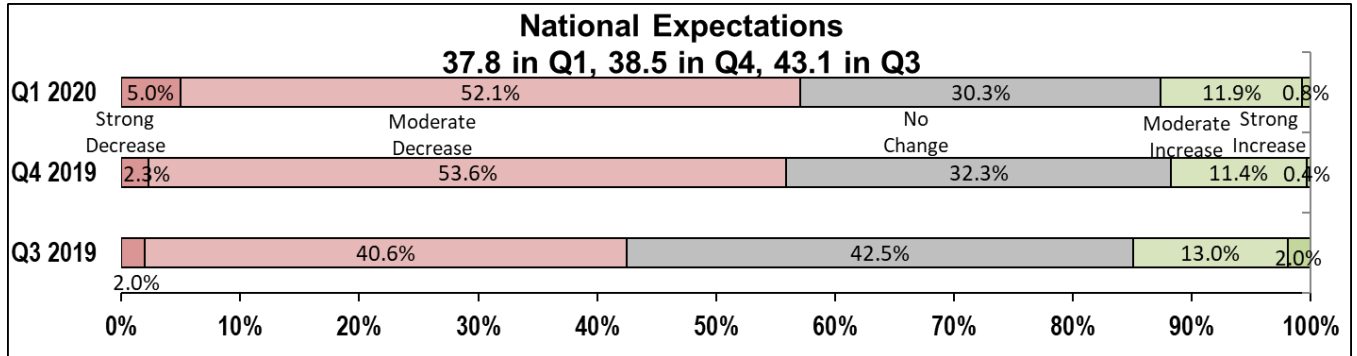
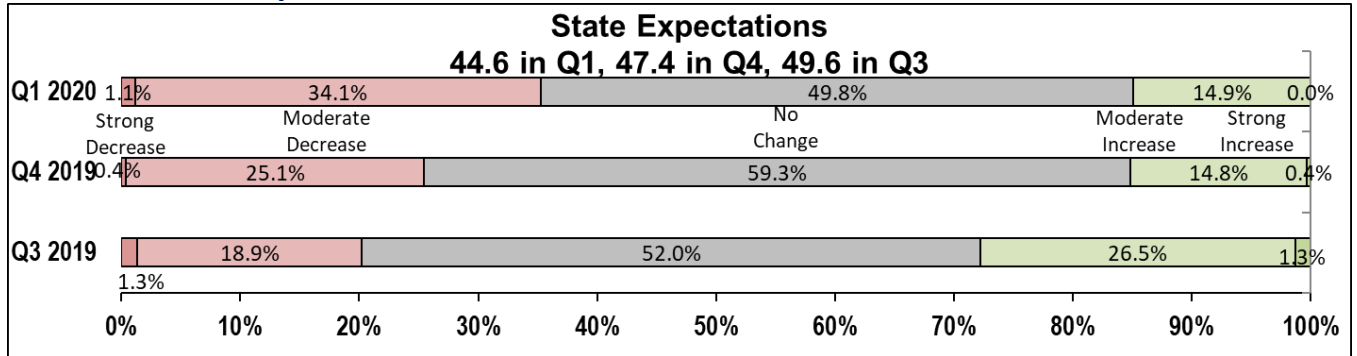
Panelists were asked about the size of their company and about how long their company has been in business. A total of 86.5% of respondents work at a long-standing company that has been in business for more than 10 years. More than half (55.2%) of survey respondents work for companies with fewer than 50 employees.

Small employers were less optimistic than larger employers by 3.8 points ahead of Q4 2019. Small employers' (fewer than 50 employees) expectations decreased 2.2 points ahead of Q4, and larger employers' expectations fell 3.7 points.

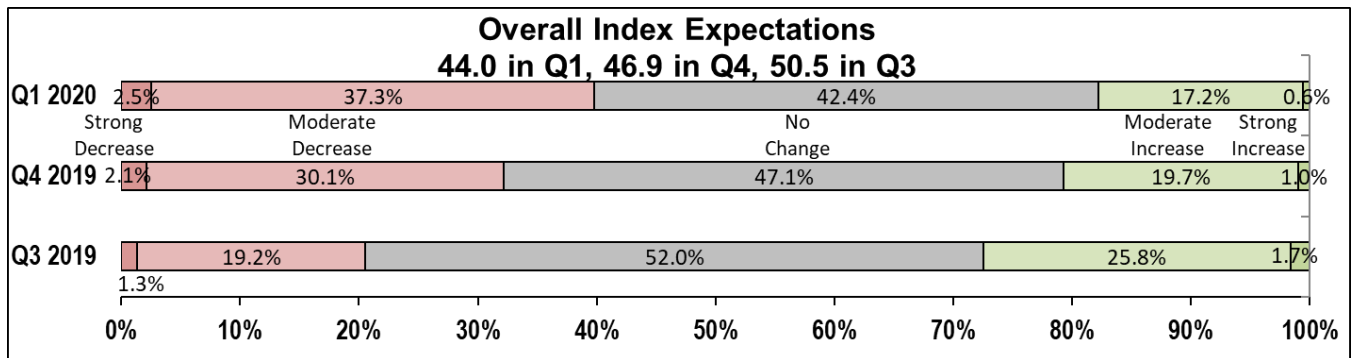
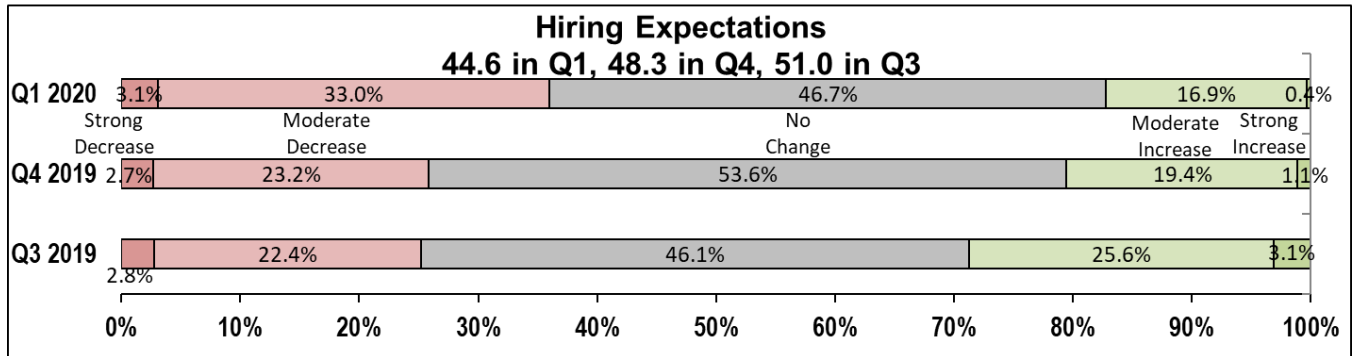
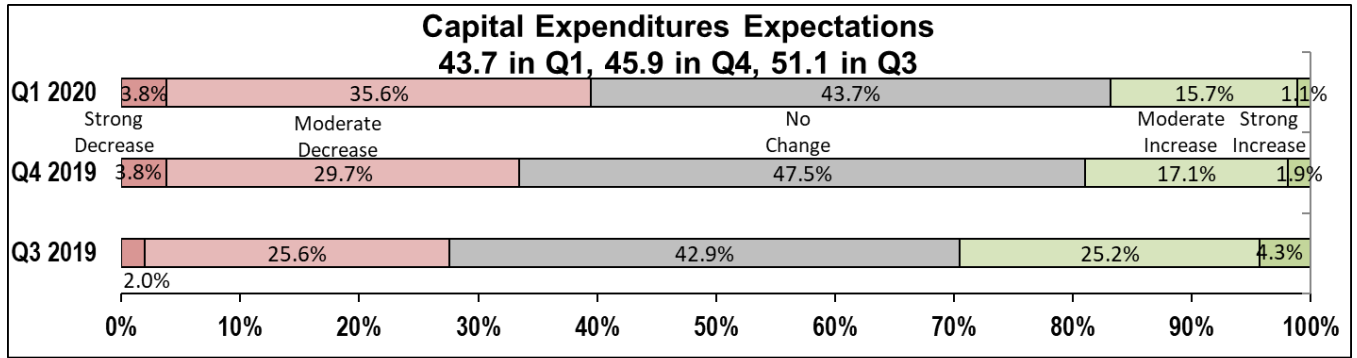
While responding panelists represent every industry in the state, the largest percentage of respondents to the Q4 survey were in the following sectors: Professional, Scientific, and Technical Services (21%); Government (16%); Finance and Insurance (15%); and Real Estate, Rental, and Leasing (15%).



## Distribution of Expectations in Q1 2020, Q4 2019, Q3 2019







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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)