COLORADO BUSINESS REVIEW

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Ball Corporation President and CEO John Hayes outlines strategies for igniting economic growth in the state at the 47th annual Colorado Business Economic Outlook Forum.

Forum Keynote Address

Igniting Growth in Colorado

Rachel Ford

Drawing from his experience as President and CEO of Ball Corporation, **John Hayes** called for clear, consistent, and competitive strategies to advance business and the economy in 2012 and beyond. Ball Corporation, a leader in metal packaging and aerospace technology, operates at the intersection of consumer, industry, and government needs. Arguing from this unique vantage point, Hayes asserted that defensive responses to the troubled economy, such as cutting costs and raising revenues, would not be enough to resume growth or calm the fears of an anxious and frustrated society. Like other private businesses, Ball Corporation has had to adjust to the stagnant economy, despite the recession-resistant nature of its products. Hayes urged society to strategically adapt to the new economic environment, like private enterprise has been forced to do, by committing to three growth priorities: consistent investment in education, competitive regulations, and clear tax policy.

Just as training and development is key to a prosperous business, Hayes emphasized the significance of education to a prosperous society. Education drives innovation, job creation, and opportunities. Globally, developing nations like India and China are rich in highly educated and highly skilled low-cost labor. In contrast, the United States recently dropped in rank to 14th in the world in its share of adults aged 25-34 with a post-secondary degree. Because this age group drives a noteworthy portion of demand for bottled drinks, Ball Corporation has witnessed the high unemployment, low formation of new households, and down-trading and reductions in consumption among these young people with dismay. In these trends, Hayes recognized a need for structural change. To be competitive, the United States must realign its education agenda with future employment needs and provide consistent support for educational and vocational programs.

In addition, Hayes compared the need for competitive regulations and clear tax policy in the United States to the need for process efficiency and cost competitiveness in the business world. Increasingly, local businesses compete with international forces of supply and demand. In the market for commodities, Ball Corporation has experienced a sustained increase in prices, despite soft local demand, because of a growing need for resources in China, Brazil, Turkey, and other developing nations. However, regulations and tax policy in the United States often burden international competitiveness rather than support it. Hayes believes that many recent regulations, adopted to discourage practices that contributed to the recession, are overly burdensome on businesses. Additionally, outdated regulations are often never removed from the books, further inflating the number

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Summary of Forecast

Slow, Steady Employment Growth Projected for Colorado in 2012

The following observations summarize the thoughts of the Colorado Business Economic Outlook committee members as of early December for 2011 and beyond:

Colorado, like the rest of the nation, experienced slow growth in 2011. The state added 27,500 jobs in 2011, a gain of only 1.2%, which makes up one-fifth of the jobs lost from 2008 through 2010. For the decade, population gains outstripped job gains nearly 30-to-1. While some of these people represent retirees, others are now self-employed and thus may be working, but are not counted in total nonfarm employment rolls. The consensus of the 2012 estimating committees is that nascent employment growth will continue in 2012, with the state adding another 23,000 new jobs.

Over the past 10 years, goods-producing industries lost a net 93,200 jobs, while services-producing industries gained 115,900 jobs, and are expected to continue employment gains. Industries producing goods also are adding employment.

Following Manufacturing gains in 2011, the sector will resume losses of 1,900 jobs in 2012, related primarily to declines in durable goods manufacturing. Expected weakness in the dollar should assist in mitigating some Manufacturing losses. Despite environmental policy implications, much of the Natural Resources and Mining Sector continues to add jobs given improving prices and technology that make extraction of resources more feasible. This should lead to 1,100 more jobs in 2012. With modest increases in the supply of nonresidential buildings and multifamily residential housing, Construction will return to growth in 2012, climbing by 2,900 jobs.

The 2012 outlook for services employment shows growth in all sectors but Information and Financial Activities, which will shed 500 and 1,000 jobs, respectively. Information continues to shrink primarily due to consolidations in telecom and publishing, while Financial Activities needs fewer employees in a slow banking and mortgage market. Adding 7,500 jobs, growth will be led by Education and Health Services, which weathered the recession better than all other industries in Colorado. Professional and Business Services; Trade, Transportation, and Utilities; and Leisure and Hospitality will continue to exhibit moderate employment growth of 6,800, 2,400, and 3,800, respectively. Government will increase by 400 jobs, with growth in state and local public education offset by declines in federal, state, and local noneducation.

While the road to global economic recovery has many hurdles, Colorado remains positioned for strategic economic growth, leveraging economic diversity that ranges from natural resources to high-tech industry clusters. Targeted economic development will yield new companies and businesses in expansion that will drive employment growth looking forward. And Colorado's unique quality of life will continue to attract skilled labor, entrepreneurs, and thought leaders that help to give the state a competitive advantage in an ever-more competitive landscape.

For more information on each industry sector, visit leeds.colorado.edu/brd.

ESTIMATED NET JOBS CREATED IN NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT SECTORS, 2001–2012

(In Thousands)

Sector	2001-2011[a]	2010[a]	2011[b]	2012[c]
Mining and Logging	14.9	0.2	3.4	1.1
Construction	-56.6	-16.2	-4.0	2.9
Manufacturing	-51.5	-4.4	2.8	-1.9
Total Goods Producing	*-93.2*	*-20.4*	*2.2*	*2.1*
Trade, Transportation, and Utilities	-20.5	-6.0	4.7	2.4
Information	-36.2	-3.0	-0.6	-0.5
Financial Activities	-4.8	-4.0	-0.5	-1.0
Professional and Business Services	24.7	-0.4	7.2	6.8
Education and Health Services	71.8	7.4	8.0	7.5
Leisure and Hospitality	23.3	0.7	7.4	3.8
Other Services	9.5	-1.2	0.8	1.5
Government	48.1	3.4	-1.7	0.4
Total Services Producing	*115.9*	*-3.1*	*25.3*	*20.9*
Total Jobs Created	22.7	-23.5	27.5	23.0

[a]Revised. [b]Estimated. [c]Forecast.

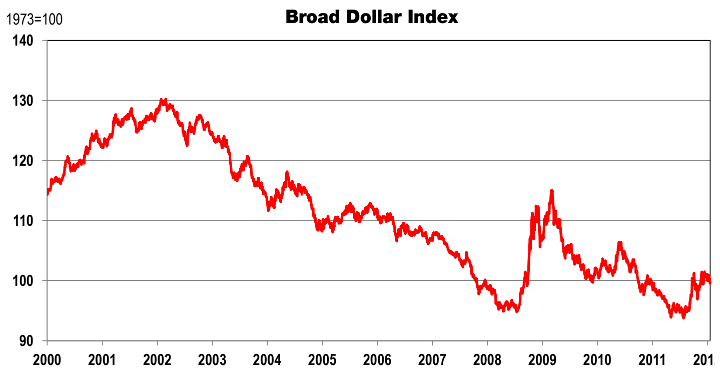
Sources: Colorado Department of Labor and Employment and Colorado Business Economic Outlook Committees.

From the Editor

While the road to economic recovery has many hurdles, Colorado remains positioned for strategic economic growth as highlighted at the 47th annual Colorado Business Economic Outlook Forum held on December 5 in Denver at the Grand Hyatt Hotel. The half-day event featured an employment forecast for 12 industry sectors, a keynote address by Ball Corporation President and CEO John A. Hayes, and three industry discussion sessions. Summaries of the day's proceedings appear on the pages that follow. For additional details, visit our website, leeds.colorado.edu/brd.

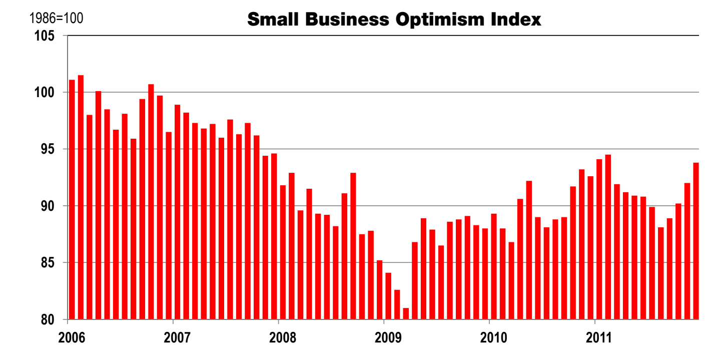
—Richard Wobbekind

Forum Breakout Session Economic Indicators

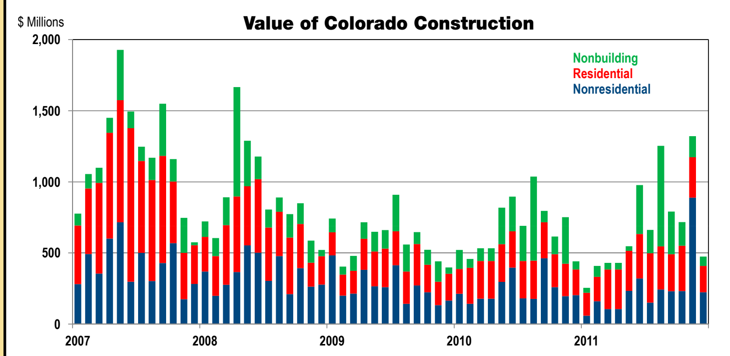


Source: Federal Reserve.

Source: U.S. Census Bureau, Quarterly Financial Report for Manufacturing, Mining, Trade, and Selected Service Industries.



Source: National Federation of Independent Business (used with permission).



Source: McGraw-Hill Construction, Dodge Local Construction Potentials Bulletin.

Core Metrics Data

Year	Month	Colorado Employment (In Thousands)	Colorado Unemployment Rate	Colorado FHFA Quarterly Housing Price Index	U.S. Consumer Price Index (Inflation)	U.S. Consumer Price Index (Core Inflation)[a]
2009	**December**	2,213.8	8.7%	267.5	215.9	220.0
2010	**January**	2,210.3	9.5	--	216.7	220.1
	February	2,214.5	9.4	--	216.7	220.6
	March	2,217.1	9.7	269.9	217.6	221.1
	April	2,220.0	8.8	--	218.0	221.2
	May	2,226.6	8.7	--	218.2	221.2
	June	2,221.9	8.9	273.2	218.0	221.3
	July	2,222.9	8.8	--	218.0	221.3
	August	2,222.7	8.7	--	218.3	221.6
	September	2,217.4	8.4	264.5	218.4	221.9
	October	2,222.0	8.4	--	218.7	222.1
	November	2,222.1	8.9	--	218.8	222.1
	December	2,221.2	8.7	264.9	219.2	221.8
2011	**January**	2,225.3	9.9	--	220.2	222.2
	February	2,227.7	9.7	--	221.3	223.0
	March	2,226.0	9.3	256.3	223.5	223.7
	April	2,230.1	8.3	--	224.9	224.1
	May	2,231.7	8.5	--	226.0	224.5
	June	2,238.3	8.8	264.0	225.7	224.9
	July	2,241.7	8.6	--	225.9	225.2
	August	2,244.4	8.3	--	226.5	225.9
	September	2,245.9	7.7	263.8	226.9	226.3
	October	2,252.1	7.7	--	226.4	226.7
	November	2,249.2	7.8	--	226.2	226.9
	December	2,244.8	7.9	N/A	225.7	226.7
	Month-over-Month[b]	0.42%	0.1	-0.09%	0.01%	0.15%
	Year-over-Year	1.09%	-0.8	-0.25%	2.98%	2.23%
	5-Year CAGR[c]	-0.50%	--	-1.07%	2.23%	1.77%

[a]Inflation less food and energy. [b]Quarter-over-Quarter for the FHFA Housing Price Index. [c]Compound annual growth rate.

Sources: Bureau of Labor Statistics (CES, LAUS, and CPI) and Federal Housing Finance Agency. Data not seasonally adjusted.

Forum Breakout Session

Colorado's Competition: International Trade Moving Forward

Colorado Department of Agriculture Commissioner John Salazar

Ryan Streit

Opinions expressed by panelists reflect the most current market information available as of early December.

Globalization, the seemingly ubiquitous buzz word in discussions of current economic trends, has come to characterize the very foundation of many countries' long-term economic prospects. The unprecedented level of integration, both political and economic, among many of the world's key trading nations has resulted in the rapid flow of people, goods, services, and most importantly, ideas, across borders. International trade has thus taken center stage as a critical component of economic growth for the United States and the world. Moderated by **Karen Gerwitz** of the World Trade Center Denver, breakout session speakers detailed the competitive success Colorado has enjoyed in the global economy and described the state's international trade outlook for 2012 as positive.

Despite the somewhat anemic recovery, Colorado exports in 2011 increased 12% over 2010, with the state's trade deficit holding steady at just under $3 billion. However, while these figures are certainly welcome news, the rest of the nation's exports outpaced Colorado's with an 18% jump, leaving Colorado 37th in dollar value of merchandise and commodity exports. Predictably, Mexico and Canada continue to be Colorado's main trading partners, although if all the member countries of the eurozone were combined, the western European market would overtake Canada as Colorado's second-largest export destination. In terms of the dollar value of exports in 2011, Canada declined 9%; Mexico rose 25%; China, Colorado's third-largest export market, increased 18%; and Japan climbed an impressive 29% over 2010. As the European debt crisis continues to weigh on the minds of international investors and traders, growth in Colorado exports to the continent is expected to slow slightly in 2012. Overall, however, China, Japan, Mexico, and Brazil are anticipated to be the fastest-growing export markets for Colorado, with the state's total value of export sales projected to reach $7.96 billion this year. Using the Department of Commerce's estimation that approximately one job is supported for every $165,000 in exports, Colorado's exports industries could sustain a healthy 48,000 relatively well-paying jobs moving forward.

Within these broader export figures, agricultural exports play a key role in Colorado's international trade. Panelist **Mike Erker**, of Erker Grain in Fort Morgan, and Colorado Department of Agriculture Commissioner **John Salazar** detailed the state's consistently strong growth in this sector, with meat and a variety of plant seeds reigning as Colorado's main agricultural exports. In 2010, agricultural exports rose 21% and experienced another 23% gain in 2011. As free trade agreements continue to be forged between the United States and major trading partners like South Korea, Colorado's agricultural exports will continue to experience significant growth, helping to pull the rest of the state through the ongoing recovery.

In terms of technology and other international economic activity, Colorado is poised to become a major player in global trade. As panelist **Bob Berglund**, of Merrick & Company in Aurora, discussed, a diverse array of infrastructure projects abroad have increasingly allowed Colorado companies to expand their operations into emerging markets around the world, fostering greater international investment and development. In the more high-tech product markets, panelist **Dave Henriksen**, of OptiBrand in Fort Collins, offered that the implementation of national identification systems and technologies, such as new advanced scanners, at major trading centers around the world is making significant progress. Similar technologies are also being developed to improve security, disease management, and other issues involved in transnational movements of people and goods. For consumer technology, panelist **Rick Brown**, with OtterBox in Fort Collins, discussed the rapidly growing demand for electrical components and special materials that feed into the exploding global market for personal devices like smartphones and associated accessories. Overall, the panel discussion offered unique insight into the future of Colorado's international trade, both its strengths and the challenging global environment in which it must compete.

With globalization's unprecedented interconnectedness comes an increasingly competitive, fast-paced global economy. As businesses all around the country and world work to expand their networks and deliver their goods and services as efficiently as possible, Colorado remains a strong competitor in a variety of export industries, from agriculture to infrastructure, to advanced technologies. As the United States continues to make its way out of the recent recession, Colorado's international trade sectors should enjoy a strong 2012.

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Small business session panelists offer suggestions at the 2012 Outlook Forum on how to navigate the challenging economy.

Forum Breakout Session

What Small Business Really Needs to be Healthy in 2012 and Beyond

Rachel Ford

Opinions expressed by panelists reflect the most current market information available as of early December.

Small business has been called America's engine of economic growth. However, for the past several years, small businesses have been struggling to perform in the leaner economy. Lost customers, increasing costs, and stricter regulations have taken their toll on revenue and profits, threatening solvency and limiting opportunities for expansion. In the small business breakout session, which was moderated by LONCO, Inc. Principal **Mark Hamouz**, panelists offered suggestions for small businesses to succeed in the new economic climate and addressed concerns about challenges in 2012.

According to **Harold Jackson**, a member of the board of directors for the U.S. Chamber of Commerce and CEO of Buffalo Supply Inc., the primary concern of small business owners is lack of sales, followed closely by rising healthcare costs. In his own business, Jackson saw a 23% rise in health insurance premiums but a reduction in the coverage available to his employees. When rising costs are not offset by new business, profits disappear. Indeed, **Kelly Manning**, state director of the Colorado Small Business Development Centers (SBDC) Network, announced that many small businesses in Colorado were still struggling at the end of 2011 to fully regain revenues lost at the start of the recession. Manning highlighted the significance of even one lost client in a time of low sales. Retaining a client is much cheaper for a business than attracting a new customer.

Flexibility and speed are the advantages of small business in the new economic environment, according to **Van Walbridge**, president and director of Mobile Tool International. In response to decreased sales, many small businesses have been forced to increase their cost efficiency to remain competitive. Walbridge believes that small businesses are best able to leverage this new efficiency in order to grow in 2012. However, he emphasized that growth also depends on one of the most critical challenges of small businesses—access to capital. Kelly Manning, **Larry Martin**, president of Bank Strategies LLC, and **Jon Shaw**, leader of the Healthcare Banking segment of BBVA Compass, stressed the importance of planning in obtaining the necessary funding. Although past business trends are generally important in getting a loan or other funding, most businesses have experienced a drop in revenues. Consequently,

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LOST CUSTOMERS, INCREASING COSTS, AND STRICTER REGULATIONS HAVE TAKEN THEIR TOLL ON REVENUE AND PROFITS, THREATENING SOLVENCY AND LIMITING OPPORTUNITIES FOR EXPANSION.

Forum Breakout Session

Real Estate: Where are We in the Recovery?

ALTHOUGH DENVER IS THE 17TH-LARGEST OFFICE MARKET IN THE UNITED STATES AND MAINTAINS A LEVEL OF PER CAPITA INCOME ABOVE THE NATIONAL AVERAGE, THE FACT THAT THERE HAS BEEN LITTLE TO NO ABSORPTION FOLLOWING THE RECESSION INDICATES THAT THE CITY IS STILL "BUMPING ALONG THE BOTTOM."

Ryan Streit

Opinions expressed by panelists reflect the most current market information available as of early December.

Since the Great Recession began in late 2007, the ailing real estate industry in the United States has remained under intense scrutiny. As the country gradually crawls out of the downturn, activity in commercial real estate markets serves as a key indicator of businesses' confidence and growth moving forward. While the residential real estate industry played a significant role in the recession and will continue to be a vital component of the recovery, this forum breakout session focused primarily on the overall health and outlook of Colorado's commercial real estate industry. Moderated by Professor **Thomas Thibodeau**, academic director of the University of Colorado Boulder Real Estate Center in the Leeds School of Business, panelists from real estate giant CBRE detailed current figures and trends in the Metro Denver market for office, industrial, and retail space.

When the economy turns sour, businesses are forced to respond by cutting production, scaling back operations, or, in some cases, simply shutting down. The severity of the recent recession thus caused a spike in vacancy rates for office space in the Denver Metro area. Furthermore, the dramatic contraction of the Financial Activities Sector as a whole, and nearly unprecedented volatility in the banking industry specifically, led to a significant tightening of credit markets. As **Frank Kelley**, a senior vice president at CBRE, explained in this breakout session, the virtually frozen credit markets have made it increasingly difficult for businesses to access the capital needed to invest in expansion and kickstart the recovery. Although Denver is the 17th-largest office market in the United States and maintains a level of per capita income above the national average, the fact that there has been little to no absorption following the recession indicates that the city is still "bumping along the bottom." As Kelley pointed out, direct vacancy in the Denver Metro area office market stands at roughly 15.3%, with slow decreases projected for 2012. As the Construction industry continues to struggle as well, it is highly unlikely that Denver will experience notable growth in large office spaces, especially in the southeast and northwest regions. The silver lining for this rather lackluster outlook, however, is Denver's ability to attract out-of-state investment. When coupled with the city's well-educated labor force, these factors will help spur economic growth and demand for office space moving forward.

As the nation's 22nd-largest market for industrial space, Denver's relative prominence in the Rocky Mountain region has allowed it to rebound reasonably well, although significant challenges remain. Panelist **Jim Bolt**, executive vice president of CBRE, explained that active yet cautious demand for industrial space has created a few mixed signals for the health of the market. Vacancy rates of 6% and a "flight to quality" trend in the Denver area indicate a recovering market poised to experience expansion moving forward. However, with just 1 million square feet of net absorption in 2011 and sizable gaps between asking and bid prices persisting, the Denver industrial market still has room for improvement. Additionally, while the city had roughly 17.5 million square feet of industrial activity in 2007, there have been no new industrial Class A building projects since then, and gross activity in 2011 was below half of the 2007 pre-recession levels, at just 8 million square feet. Compared to other major cities in the region, Denver's minimal industrial absorption lags Phoenix and Salt Lake City, but leads Las Vegas. Overall, as Colorado's economy gradually gets back on its feet, increased job growth and investment will accelerate absorption and boost activity in Metro Denver's stagnant industrial real estate market.

With disparagingly low job growth and consumer confidence frequently making headlines, retail sales numbers remain a key focus of economists seeking signs of recovery in the United States. The health of the commercial real estate market for retail space is thus contingent on the ability of retailers to attract customers, even in the current period of economic uncertainty. As panelist **Jim Lee**, vice president of CBRE, explained, the significant 7% hike in 2011 Black Friday sales and the improved holiday shopping season overall indicate that the market for retail space may be poised to experience the strongest rebound of any component of Colorado's commercial real estate industry in 2012. While direct vacancy remains high at 7.8% and net absorption was disappointingly low in 2011, big box sites, which currently account for nearly half of Denver's vacant 3.9 million square feet of retail space, will gradually be reabsorbed moving forward as large retailers expand. As job growth and consumer spending increase with the recovery, sales figures will continue to climb, allowing retailers of all sizes to upgrade to higher quality spaces or simply expand their operations.

Real estate session moderator Thomas Thibodeau, with the Leeds School of Business, and panelists James Bolt, Frank Kelley, and Jim Lee, all with CBRE, discuss office, industrial, and retail space in the Metro Denver market at the 47th annual Outlook Forum.

Real estate took possibly one of the hardest hits of any industry in the recent recession. While the residential markets certainly have plenty of problems, the commercial real estate industry in the Denver Metro area has significant challenges of its own, namely persistently low absorption and high vacancy rates. A common theme throughout many forecasts for the U.S. economy is the need for increased job growth and consumer confidence, and this is no different for Colorado's commercial real estate industry. As the recovery picks up momentum, businesses will see greater demand for goods and services, and the demand for office, industrial, and retail space will rise as a result. Although the current economic uncertainty continues to challenge the state's economy, Colorado's commercial real estate industry as a whole is well-equipped to overcome these issues and continue its moderate, steady recovery in 2012.

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SMALL BUSINESS, CONTINUED FROM PAGE 3

Martin and Shaw advised small businesses to focus more on developing reliable cash flows and a strategic response to any declines in business. To improve overall access to capital, the panelists urged small business owners to understand their business' financials, utilize data analysis systems to forecast future trends, and create a business plan to strategically address opportunities and threats.

One significant concern for 2012 was the ability to plan for upcoming regulations. Because 2012 is an election year, some panelists expect political gridlock. However, all panelists agreed that agency regulations were likely to expand in 2012. For example, as a consumer state, Colorado has generally enjoyed cheap out-going shipping because trucks that brought goods into the state have empty space for the return trip. However, Walbridge reported that tougher regulations for truck drivers will probably increase the cost of exporting goods out of Colorado in 2012. In addition, Manning pointed to the possibility of an online sales tax being passed in 2012. Regardless of whether the new tax is passed, the government's need for funding will certainly continue to feed uncertainty about tax rates and the deficit for businesses of every size.

In addition to the serious external challenges addressed in the breakout session, the panel also had important recommendations for the internal culture of small businesses. Panelists called for confidence, initiative, understanding, creativity, innovation, transparency, and, most of all, optimism. After all, Shaw pointed out, being open for business should be considered a victory. Certainly, success in 2012 will require thoughtful planning and preparation for new regulations, as well as positivity. But, as Jackson put it, owners of small businesses are up to the challenge: "Small business people are optimistic people; 2012 will be a good year for us."

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IGNITING GROWTH, CONTINUED FROM PAGE 1

of requirements for firms. Likewise, the tax policy in the United States actually encourages business to locate assets and operations in other countries. Industry and government interactions must be clearly redefined to promote competitive investments in the United States and create jobs in the long term.

Looking back on events leading up to the recent recession, Hayes saw an economy gorged on a diet of unsustainable debt. Although government measures, such as extended unemployment benefits, stimulus money, and tax breaks, stabilized the economy in the short term, Hayes believes fundamental lifestyle changes must take place in order to get the United States back on a high-growth platform. Undeniably, economic growth requires purposeful action. Hayes challenged citizens, business people, and policy makers to prioritize the development of a clear, consistent, and competitive strategy to bolster education investment, improve regulations, and streamline the tax policy.

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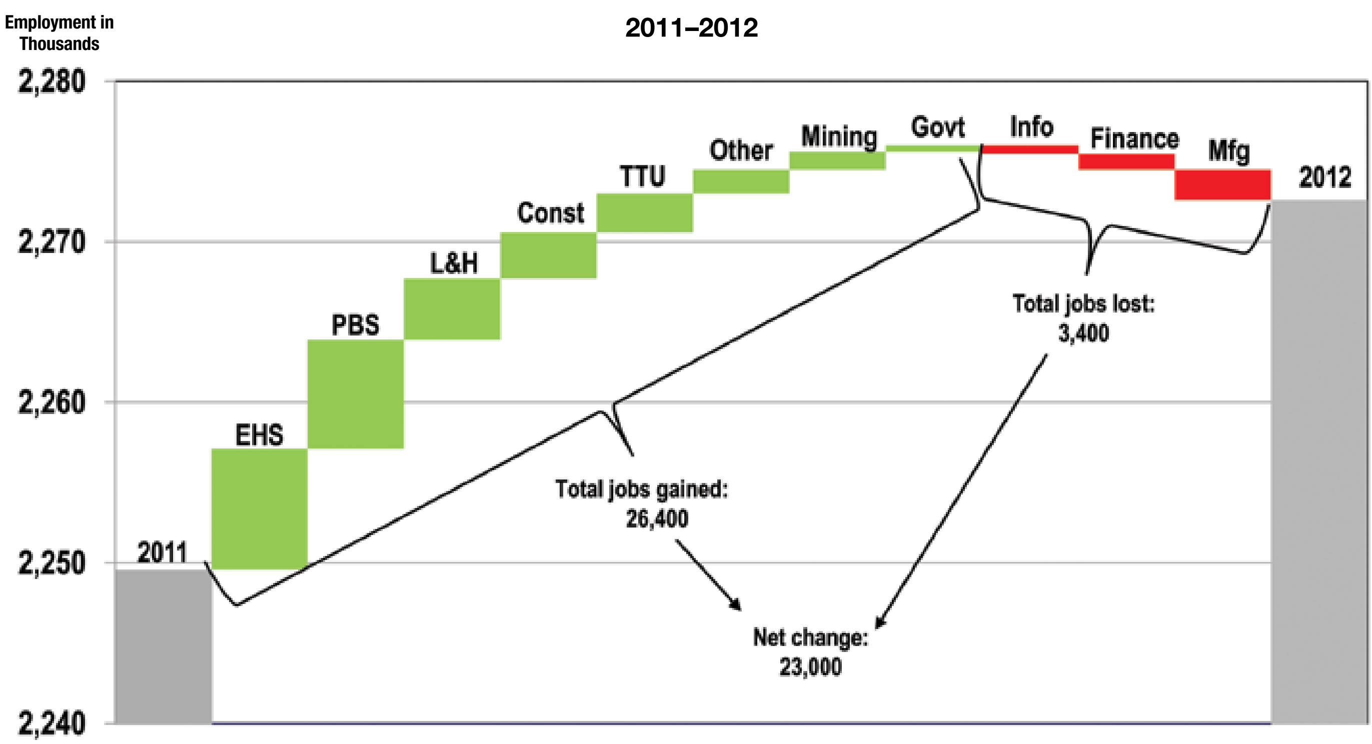
COLORADO NONFARM EMPLOYMENT
2011–2012



Sources: Bureau of Labor Statistics, Current Employment Statistics (NSA); and Colorado Business Economic Outlook Committee.