

## COLORADO

Results from the initial Colorado Business Leaders Confidence Index (BLCI) indicate that Colorado business leaders believe that neither the national nor the state economy will rebound in the second quarter of 2003. Trends suggested by the survey support information provided by other key national and state indicators. Uncertainty about the duration of the war in Iraq, rising energy prices, volatile stock prices, and weak labor markets have given business leaders reason to be cautious about the



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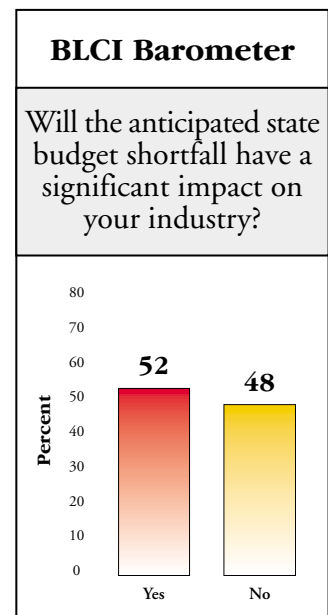
Only the major trends of the Business Leaders Confidence Index are reported in this first summary because of the timing of the survey. The survey began before the war in Iraq started and the cutoff date occurred after it had begun. It is believed that the perceptions of some business leaders may have significantly shifted because of the dramatic change in events. It is hoped that world events will be less tumultuous at the time the next BLCI is conducted, allowing us to more confidently report results in greater detail.

## BLCI Barometer

This quarter, Colorado business leaders were asked to indicate whether the state budget revenue shortfalls and subsequent state budget reductions will negatively impact their industry. Slightly more than half of the respondents indicated that the shortfalls and reductions will have a negative effect on their industry. Most of the business leaders who indicated that the budget cuts will not impact their industry responded that they were either a national company or served niche markets. Because they do very little business in Colorado or because their business is very specific they did not expect to be impacted.

On the other hand, business leaders who felt that the budget cuts will negatively impact their industry fell into one of four categories. Many of these respondents are service providers or

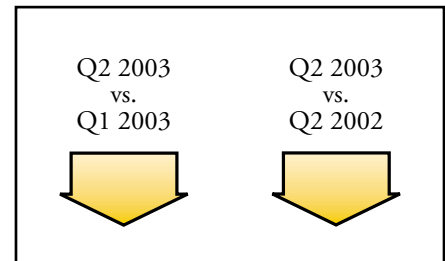
contractors with the state government. Another segment of the respondents were concerned that the budget cuts could put state revenues in a spiral of extended revenue shortfalls. Business leaders also expressed concerns about how budget cuts would impact the state's ability to provide quality education programs. Finally, business leaders were fearful that the state government will impose additional taxes on businesses to help make up the shortfall.



## Expectations for the National Economy

Uncertainties stemming from war, energy prices, and the stock market have left Colorado business leaders uneasy about the course of the U.S. economy over the next quarter. Business leaders indicated a strong concern that the national economy would be worse in the second quarter of 2003 compared to the first quarter of this year. They also expressed an even stronger concern that the economy would be worse than the second quarter of 2002. The apprehension of state business leaders is reflected in national consumer confidence, as measured by the Conference Board, which fell in March for the ninth time in the last 10 months. The Conference Board's index of leading indicators dropped by 0.4% in February, the first decline in the index since September 2002.

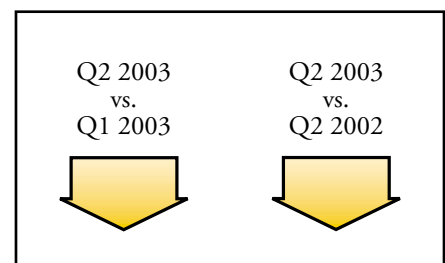
### Expectations for the National Economy



## Expectations for the State Economy

Colorado business leaders were equally apprehensive about the state economy in the second quarter. They indicated a strong concern that the state economy would be worse in the second quarter of 2003 than in the first quarter. They expressed an even stronger concern that the state economy would perform worse than both the state economy in the second quarter of 2002 and the national economy during the second quarter of 2003. The uneasiness of state business leaders is reflected in regional consumer confidence as measured by the Conference Board. The regional leading indicator dropped from 97.6 in January to 66.9 in February. Some state government officials have indicated that they might revise unemployment projections for 2003 upwards.

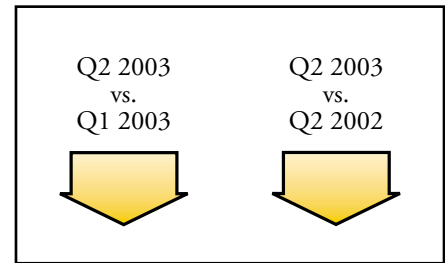
### Expectations for the State Economy



## Interest Rate Expectations

In May of 2000, interest rates were cut 50 basis points, to 6.5%. As the economy began to falter in early 2001, the Federal Reserve began to implement monetary policy that resulted in 11 rate cuts. An additional rate cut of 50 basis points was made in November of 2002, which dropped the federal funds rate to 1.25%. Colorado business leaders indicated there is a moderate to strong chance that we will see an additional decrease in interest rates compared to both the previous quarter and the second quarter of 2002. Only a small portion of business leaders expect an increase in interest rates in the near term. This sentiment reflects speculation that the Federal Reserve will cut rates an additional 25 to 50 basis points in the short term.

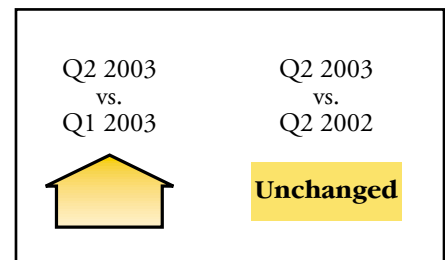
### Interest Rate Expectations



## Industry Sales Expectations

State business leaders are less pessimistic about the performance of their industry than they are about the state and national economies. They anticipate industry sales for Q2 2003 to remain flat compared to the second quarter of 2002, but expect an increase in sales compared to the first quarter of this year. It should be noted that many businesses experience seasonal trends that cause their second quarter sales to be stronger than their first quarter sales, and this may not necessarily translate into a seasonally adjusted growth rate in sales. Factors to watch in the months ahead are the number of building permits issued and business inventory levels.

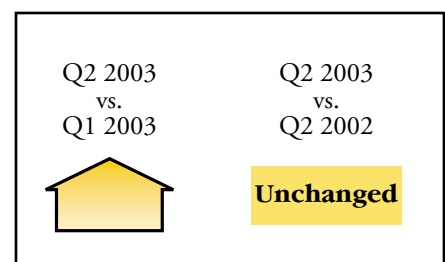
### Outlook for Q2 Industry Sales



## Industry Profits

While Colorado business leaders hold limited optimism for increased sales, they are slightly less optimistic about industry profits. Industry sales for Q2 2003 are expected to remain flat compared to the second quarter of 2002, and profits are not anticipated to show growth during Q2 2003. On a similar note, respondents look for Q2 2003 profits to be higher than in Q1 2003; however, their optimism for increased profits does not match their optimism for increased sales. This suggests there may be uneasiness about increases in expenses, such as energy costs, that cannot be recovered in the near term.

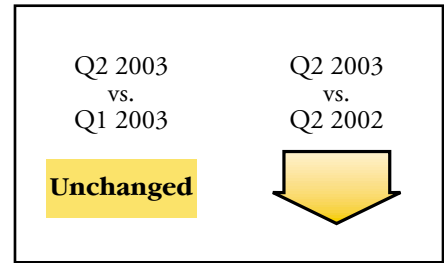
### Outlook for Q2 Industry Profits



## Industry Hiring Plans

Colorado business leaders continue to remain cautious with their hiring plans. Currently, it appears that employment levels have stabilized. Overall, a small segment of business leaders indicated that their Q2 2003 staff levels will be reduced compared to the same period in 2002. They also said that their number of employees will remain unchanged and will not increase during the second quarter. While this is good news in the sense that there is no decrease, it is bad news in that overall employment trends typically show companies increasing their size to meet increased demands during the second quarter.

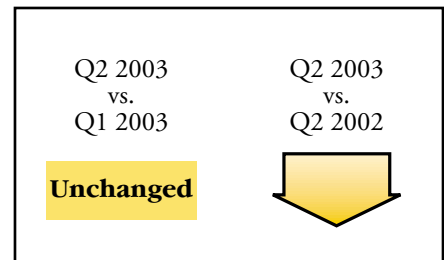
### Outlook for Q2 Industry Hiring



## Industry Capital Expenditures

During the past 18 months, strong consumer spending could not offset weak business spending patterns. This has made for a mild recovery from the recession of 2001. Business spending by Colorado companies is not expected to improve during the second quarter of 2003. It is anticipated that capital expenditures for most companies during Q2 2003 will be at, or slightly below, the level of the same quarter last year. Companies will most likely remain cautious until the outcome of the war in Iraq is better understood. Therefore, capital expenditures for most companies will not increase during the second quarter of 2003.

### Outlook for Q2 Capital Expenditures



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