

BLCI *Business Leaders Confidence Index*[®]

Fourth Quarter 2003 • Volume 1 • Number 3

Colorado Business Leaders Confidence Index

Results from the fourth quarter Colorado *Business Leaders Confidence Index*[®] moved upward slightly from 57.8 to 58.7 as Colorado business leaders remain guardedly optimistic about the economy. Last quarter, five of the six components of the index rose sharply, following the official end of the conflict in Iraq. Only expectations for hiring showed a minimal gain. This quarter the sole

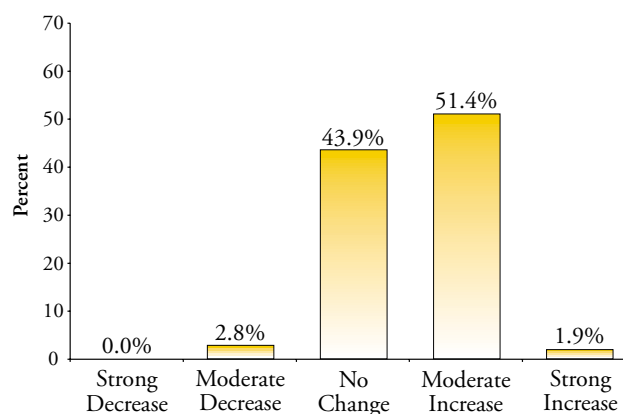
component of the index to experience a significant upturn was expectations for the state economy. On the down side, industry sales and profit expectations dropped slightly. Hiring expectations remained flat, but above 50. While business leaders may be more optimistic about the Colorado economy, it is likely that this will only result in modest employment increases in the near term.

Index History			
	Q2 2003	Q3 2003	Q4 2003
BLCI	48.9	57.8	58.7
Expectations for the National Economy	41.7	64.4	65.2
Expectations for the State Economy	42.5	54.6	61.2
Industry Sales Expectations	57.3	62.1	59.8
Industry Profits	52.2	58.1	57.1
Industry Hiring Plans	50.5	52.4	52.6
Industry Capital Expenditures	49.5	55.5	56.5

Interest Rate Expectations

Approximately 53.3% of the business leaders surveyed felt that interest rates for the fourth quarter would increase, 43.9% thought rates would remain unchanged, and 2.8% reported they would decrease further. At the mid-September FOMC meeting the fed funds target rate remained unchanged at 1.00% (the fed funds target rate is the rate at which depository institutions lend to other depository institutions). The Committee stated that it “continues to believe that an accommodative stance of monetary policy, coupled with robust underlying growth in productivity, is providing important ongoing support to economic activity.” The view of our panelists seems consistent with gradually rising long-term rates, while short-term rates remain flat.

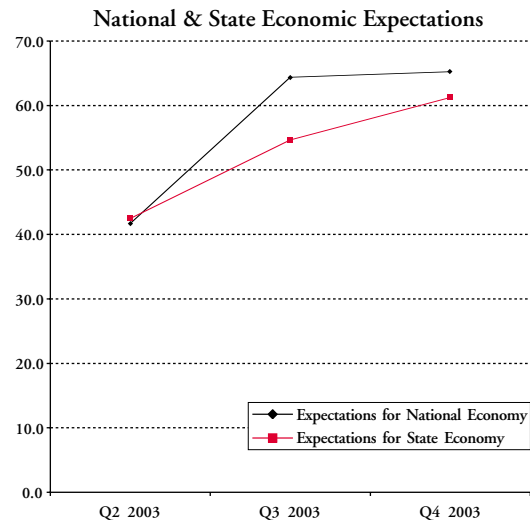
Q4 2003 Interest Rate Expectations



Expectations for the National and State Economy

From the second quarter to the third quarter, Colorado business leaders' expectations about the national economy rose sharply as this component of the index moved from 41.7 to 64.4. Expectations for the fourth quarter remain optimistic, but virtually unchanged as this component of the index moved to 65.2 in the recent survey period. Slightly more than 74% of the respondents expect the national economy to show a moderate or strong increase in the fourth quarter, while just under 14% expect the economy to exhibit a moderate to strong decrease.

The optimism expressed in the BLCI is shared by increases in other key national indicators, such as the Conference Board's Index of Consumer Confidence, which reached a yearly low of 61.4 in March and was at 81.3 at the end of August. Investors have renewed enthusiasm for the equity markets as the NASDAQ moved from the low 1,300s in the first quarter to above 1,900 in mid-September. A final piece of good news relates to GDP expectations. In late September, the second quarter GDP was revised upward from 3.1 to 3.3. In addition, Consensus Forecast expects GDP growth to be 4.0% in the fourth quarter and have growth approaching 4.0% in 2004.



The Colorado economy is linked closely to the national economy; however, it lagged behind most other states in entering and exiting the recent recession. Current BLCI survey results illustrate this point as Colorado business leaders think the state economy has bottomed out and is moving in a positive direction. The expectations for the state economy component of the index increased from 42.5 during the second quarter to 54.6 last quarter. Expectations for the fourth quarter showed another jump as the indicator moved to 61.2. Fifty-nine percent of the respondents indicated that they expect the state economy to exhibit a moderate or strong increase in the fourth quarter, while about 28% expect the state economy to remain unchanged.

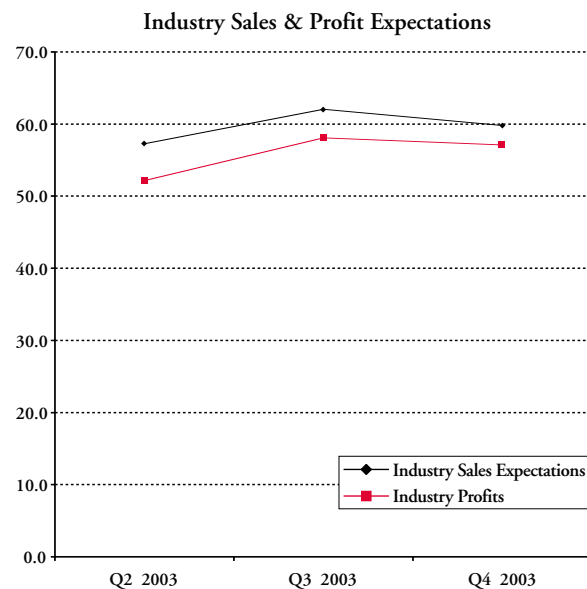
Industry Sales and Profit Expectations

The increased optimism about improved economic conditions, both nationally and at the state level, has not translated into increased sales expectations. This component of the index increased slightly from 57.3 for the second quarter to 62.1 for the last quarter, but dropped to 59.8 for the fourth quarter. Just over 57% of the respondents expect moderate or strong increases in sales, while about 26% anticipate sales will remain unchanged. About

17% expect to experience a moderate or strong decrease in sales in the fourth quarter.

During the first and second quarter, many Colorado companies benefited from low interest rates and energy costs. Increased costs in these and other areas, such as health care benefits, have made it difficult for some companies to maintain their profit margins. Overall, business leaders are

optimistic about increased sales and profits, but many are concerned that increased sales will not necessarily translate into increased profits. The profit component of the index grew from 52.2 for the second quarter to 58.1 last quarter, but dropped to 57.1 for the fourth quarter. About 51% of the respondents expect moderate or strong increases in profits, while about 27% anticipate no change in profits and about 21% think they will experience moderate or strong decreases. The lack of confidence in increased profitability is the most frequently cited reason for business leaders' reluctance to increase capital expenditures and hiring.

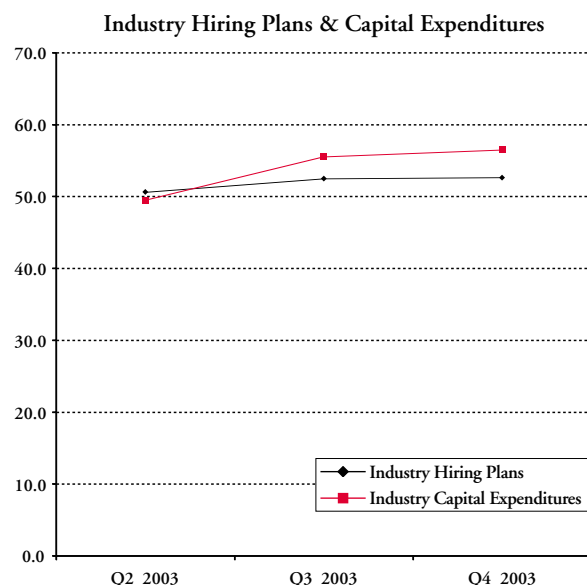


Industry Hiring Plans and Capital Expenditures

For the past two years companies have shown weak hiring and spending patterns which have kept the economy from growing at a stronger pace. These particular components of the BLCI remain weaker than those previously discussed. The capital expenditure component of the index increased from 49.5 in the second quarter to 55.5 last quarter. Expectations for the fourth quarter have only risen slightly, to 56.5, and a full 51% of the respondents expect capital expenditures to remain unchanged during the upcoming quarter. Approximately 38% of the respondents expect moderate or strong increases in capital expenditures, and 11% report they will experience moderate or strong decreases in capital expenditures.

Typically, increases in capital expenditures are followed by increases in hiring. This has not yet been the case in Colorado as many companies were forced to increase efficiencies when they downsized or eliminated services or products. Unfortunately, a number of these companies have not found it necessary to hire additional employees to meet the current level of demand. For these reasons, the Colorado business leaders surveyed are not particularly optimistic about employment growth in the fourth quarter of 2003.

The hiring component of the index has shown very little movement. It increased from 50.5 in the second quarter to 52.4 last quarter. Expectations for the fourth quarter remained virtually unchanged at 52.6. Slightly more than 56% of the respondents expect their hiring to remain unchanged during the upcoming quarter. Approximately 28% of the respondents expect moderate or strong increases in hiring, while 16% report they will experience moderate or strong decreases in hiring.



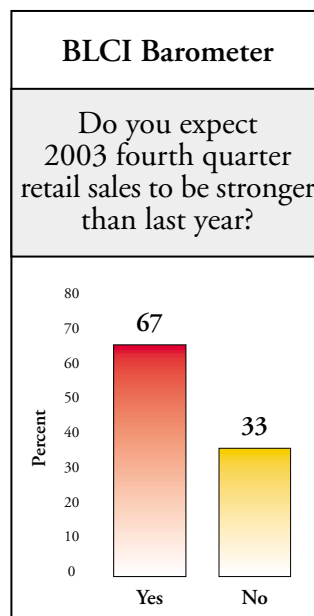
BLCI Barometer

This quarter Colorado business leaders were asked to indicate whether they thought retail sales during the holiday season would be greater than last year. Slightly less than 67% indicated that Colorado retail sales would be greater this holiday season.

In mid-September, the National Retail Federation (NRF) released a forecast stating that 2003 holiday retail sales would be 5.7% greater than last year. This growth will be driven by such factors as increased disposable income, low interest rates, rising equity markets, greater business spending, and growing consumer confidence. According to the NRF, holiday retail sales account for about 23% of total retail sales.

Typically, increased retail sales in the fourth quarter translate into increased employment in Colorado. Between 1993 and 1997 total employment during the fourth quarter increased by an average of 1.5% over the prior quarter. In addition, between 1998 and 2000, total employment during the fourth quarter was 1.0% greater than in the third quarter. Strong or solid retail sales were recorded in each of these years, and quarterly employment reached

its peak during the fourth quarter. However, in 2001, when retail sales lagged, total employment during the fourth quarter was 1.2% less than the third quarter and 2002 experienced a similar pattern. Results from this survey suggest that although the state will enjoy increased retail sales during the fourth quarter, this growth may only be accompanied by modest increases in employment.



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