

BLCI *Business Leaders Confidence Index*[®]

First Quarter 2004 • Volume 2 • Number 1

Colorado Business Leaders Confidence Index

Results from the first quarter 2004 Colorado *Business Leaders Confidence Index*[®] show that all six components of the survey posted strong gains as the composite index moved from 58.7 to 66.9. This suggests that Colorado business leaders are optimistic about the state's economic growth in the first quarter of 2004. Of particular importance is the movement

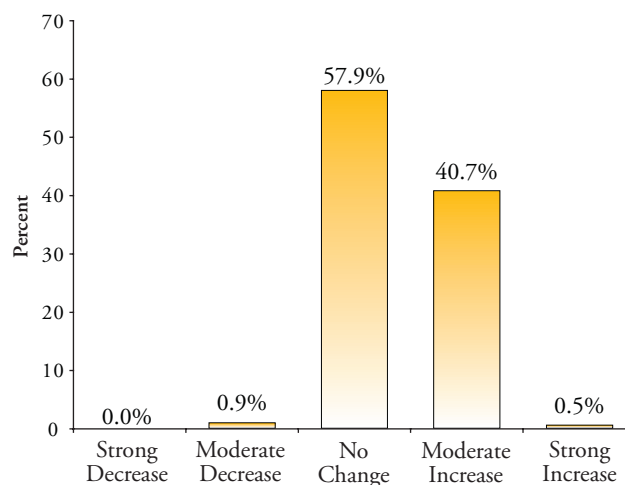
of the index for hiring plans from 52.6 to 60.6. In past quarters, this index component has been relatively stagnant. This increased optimism for hiring is in line with the Business Research Division's recently released 2004 employment forecast, which predicts job growth of 1.5% in 2004 and the end of back-to-back years of job losses.

Index History				
	Q2 2003	Q3 2003	Q4 2003	Q1 2004
BLCI	48.9	57.8	58.7	66.9
Expectations for National Economy	41.7	64.4	65.2	74.3
Expectations for State Economy	42.5	54.6	61.2	68.2
Industry Sales Expectations	57.3	62.1	59.8	68.7
Industry Profits	52.2	58.1	57.1	65.5
Industry Hiring Plans	50.5	52.4	52.6	60.6
Industry Capital Expenditures	49.5	55.5	56.5	64.0

Interest Rate Expectations

Approximately 41.2% of the business leaders surveyed feel that interest rates for the first quarter will increase, 57.9% think rates will remain unchanged, and 0.9% believe that rates will decrease further. Respondent results are most likely biased by comments from the December 9th meeting of the Federal Open Market Committee, where it was decided that the fed funds target rate would remain unchanged at 1.00% (the fed funds target rate is the rate at which depository institutions lend to other depository institutions). The Committee repeated its statement from the September and October meetings, declaring 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."

Q1 2004 Interest Rate Expectations

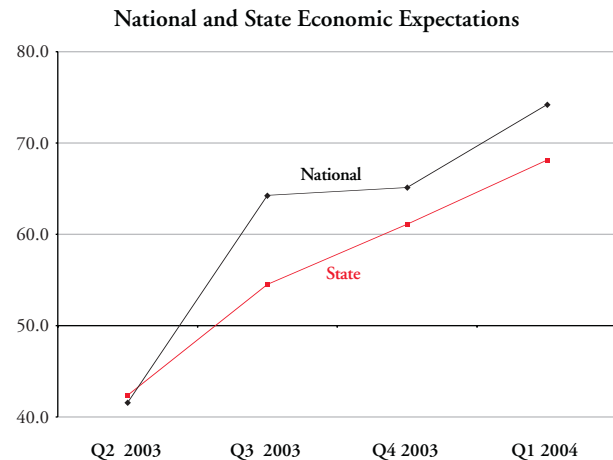


Expectations for the National and State Economy

Since the end of the formal war in Iraq, Colorado business leaders have shown increased confidence in both the national and Colorado economies. The index measuring expectations for the national economy has moved from 65.2 to 74.3, while expectations for the state economy have further improved, from 61.2 to 68.2.

Nearly 88% of the respondents expect the national economy to show a moderate or strong increase in the first quarter, whereas about 5% expect the economy to exhibit a moderate to strong decrease. Approximately 7% expect no change. About 75% of the respondents indicated that they expect the state economy to exhibit a moderate or strong increase in the first quarter, while only 4% expect the state economy to decline. Twenty-one percent expect the state economy to remain unchanged.

Optimism at the national level is in part a reaction to renewed enthusiasm for the equity markets, declining jobless claims since mid-summer, increasing productivity, and improving consumer confidence. In addition, the GDP showed growth of 3.3% in the second quarter and 8.2% in the



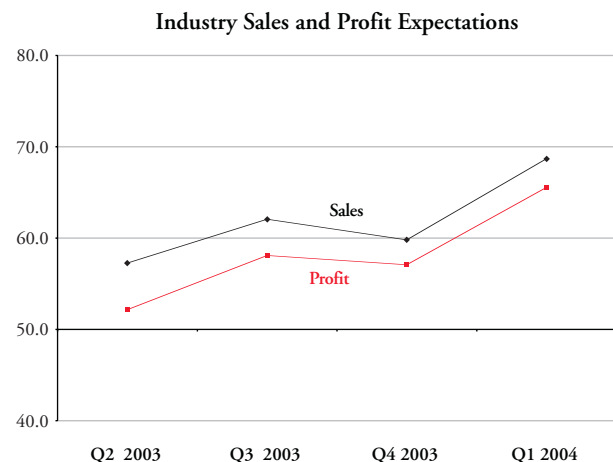
third quarter. A final piece of good news is that most 2004 GDP forecasts are being revised upwards. In its recently released Colorado Business Economic Outlook, the Business Research Division indicated that expansion in Colorado is predicated on a 4.2% growth rate in the GDP during 2004.

Respondent optimism for the state economy is supported by improvement in unemployment rates and decreased job loss in all sectors of the economy. In 2004, job losses are expected to occur only in the manufacturing, construction, and government sectors.

Industry Sales and Profit Expectations

It appears that increased optimism for the national and state economies is finally translating into expectations for improved sales and profits. Movement of the index for sales expectations jumped from 59.8 to 68.7, with a similar increase in profits, from 57.1 to 65.5. Nearly 74% of the respondents expect moderate or strong increases in sales, while about 19% anticipate sales will remain unchanged. About 7% expect to experience a moderate or strong decrease in sales in the first quarter.

Colorado companies have benefited from low interest rates and a low rate of inflation. Although



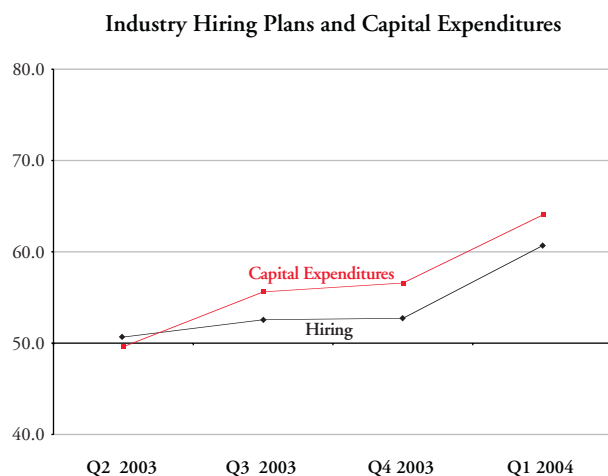
both are expected to continue in the future, employers will be faced with increased energy and employment costs, making it difficult for some companies to maintain profit margins. There is some concern that increased sales will not necessarily translate into increased profits. About 63% of the respondents expect moderate or strong

increases in profits, while roughly 28% anticipate no change in profits. About 9% think they will experience moderate or strong decreases. This component of the index is important because there is a strong relationship between sales and profitability levels and hiring and capital expenditures patterns.

Industry Hiring Plans and Capital Expenditures

As is typical of most shallow recessions, the 2001 downturn in the national economy has been followed by a weak recovery. The consumer has been relied on to carry the economy for the past two years as companies have had weak hiring and spending patterns. Although national unemployment rates have begun to decline, the “jobless recovery” appears to have neared its end, and business inventories are expected to increase in 2004, the business spending and hiring components of the BLCI remain weaker than the other components previously discussed.

The capital expenditure component of the index has increased from 56.5 to 64.0, an indication of improved business spending in the future. This coincides with projections made by Consensus Forecast, which predicts that business spending will increase by more than 9% in 2004, while business inventories will increase by about \$44 billion. It should be noted that Colorado business leaders are at best cautiously optimistic. Only 53% of the survey respondents indicated that they expect moderate or strong increases in capital expenditures, and 5% report they will experience moderate or strong decreases in capital expenditures. The remaining 42% are expecting their capital expenditures to remain unchanged.



Although it is encouraging to see the positive movement in the index for hiring expectations, from 52.6 to 60.6, it should be noted that a majority of Colorado business leaders are cautious about the future. About 48% of the respondents expect their hiring to remain unchanged during the upcoming quarter. Approximately 47% of the respondents expect moderate or strong increases in hiring, while 6% report they will experience moderate or strong decreases in hiring.

In its recently released forecast of the state economy, the Business Research Division indicated that 32,300 jobs will be added in 2004. Job growth will be lead by increases in the Professional and Business Services, Health Care, and Leisure and Hospitality NAICS Sectors of the economy.

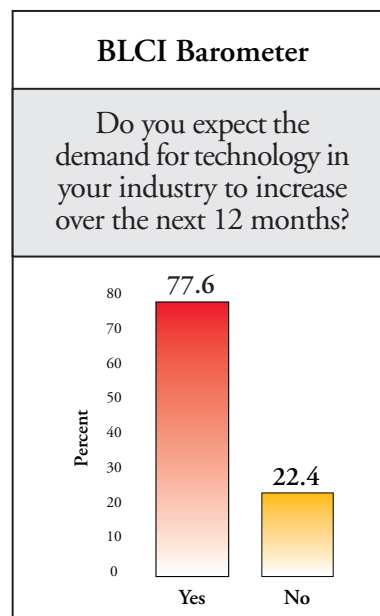
BLCI Barometer

This quarter Colorado business leaders were asked to indicate whether they thought the demand for technology upgrades or purchases (i.e., computers, servers, networking, or other information technology) would increase over the next 12 months. Slightly less than 78% indicated that they expect the demand for technology upgrades or purchases to increase.

The optimism of Colorado business leaders is also supported by other indicators. According to the Semiconductor Industry Association, year-over-year sales through October are about 23% higher; however, they remain about 17% below their peak, which was reached three years ago. Other good news is that semiconductors sales growth is broad based, across both chip types and regions of the world.

The SEMI Book-to-Bill Ratio has increased from 0.9 in April to 1.04 in November, the second consecutive month above 1.0. While both orders and sales are well below record levels, industry experts believe that fundamentals are in place for continued growth in the industry. Global chip

sales have rebounded as a result of strength in gadgets and consumer electronics spending. In addition, businesses are beginning to replace their pre-Y2K computers and software with new and improved technologies. Strong growth in technology sales will be a welcome relief for the advanced technology sector in Colorado.



The BLCI is a
Compass on Business
initiative created
in collaboration with:



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