BLCI Business Leaders Confidence Index®

Second Quarter 2004 • Volume 2 • Number 2

Colorado Business Leaders Confidence Index

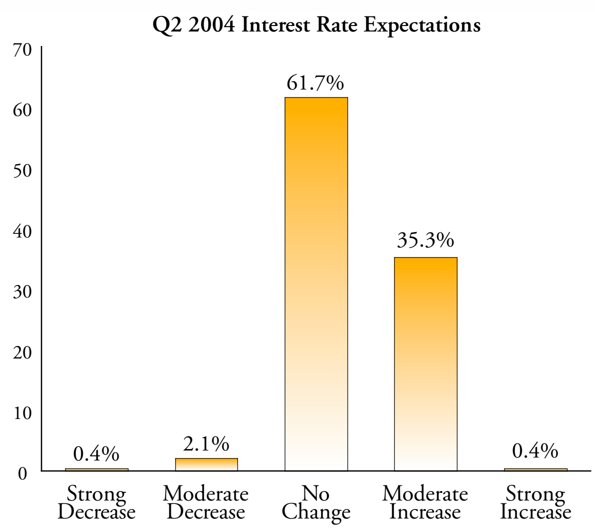
Results from the most recent Colorado *Business Leaders Confidence Index®* (BLCI) survey period indicate that Colorado business leaders remain optimistic about the economic outlook, although they are slightly less enthusiastic than in the previous quarter. After showing strong growth for the past three quarters, the BLCI dropped from 66.9 to 64.2 with five of the six components of the index showing decreases from the prior quarter. Concerns that the jobless recovery will linger into the summer have created interest in the index component that measures hiring expectations. After showing strong upward movement last quarter, the hiring index remains virtually unchanged this period. The strongest decreases in other index components were seen in expectations for the national and state economy; however, these areas were the ones that have shown the sharpest increases in the past. Business leaders also were less optimistic about sales and profits expectations and the outlook for capital spending. It is important to note that while lower than last quarter, the index is still bullish.

Index History

	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004
BLCI	**48.9**	**57.8**	**58.7**	**66.9**	**64.2**
Expectations for National Economy	41.7	64.4	65.2	74.3	68.0
Expectations for State Economy	42.5	54.6	61.2	68.2	64.3
Industry Sales Expectations	57.3	62.1	59.8	68.7	66.5
Industry Profits	52.2	58.1	57.1	65.5	62.1
Industry Hiring Plans	50.5	52.4	52.6	60.6	61.0
Industry Capital Expenditures	49.5	55.5	56.5	64.0	63.5

Interest Rate Expectations

Approximately 35.7% of the business leaders surveyed feel that interest rates for the second quarter will increase, 61.7% think rates will remain unchanged, and 2.5% believe that rates will decrease further. These responses are largely consistent with the comments from the March 16 Federal Open Market Committee (FOMC) meeting. The FOMC 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.)

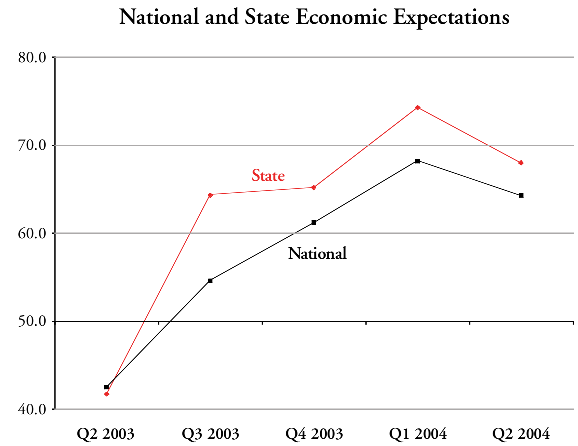


The committee repeated its statement from previous meetings when it reported that the perceived upside and downside risks to the attainment of sustainable growth are roughly equal for the next few quarters. The accommodative monetary policy, coupled with robust underlying growth in productivity and continued fiscal stimulus, will provide important ongoing support to economic activity.

The analysis of the Colorado BLCI is prepared by the Business Research Division, Leeds School of Business, University of Colorado at Boulder.

Expectations for the National and State Economy

With the formal end of the war in Iraq, business leaders have expressed increased confidence in both the national and Colorado economies. The continuing struggles in Iraq, the train bombing in Spain, and turmoil in a number of other countries are possible international factors that may cause business leaders to be less optimistic about the future. At home, the lack of strong job growth, flat equity markets, and uncertainty surrounding the elections has caused some concern about the future. At the state level, optimism for the Colorado economy has been dampened by the continuing state financial crisis and concerns over weak job and income growth.



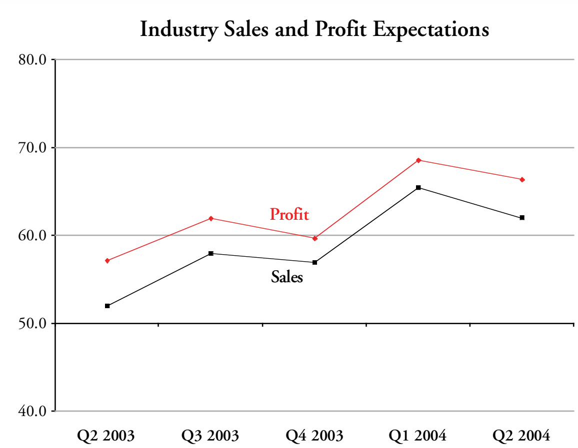
While these concerns are noteworthy, they are outweighed by optimism for the future. The year-over-year second quarter national expectations index is 68.0, up from 41.7 last year. A similar increase occurred regarding expectations for the state economy, with a rise from 42.5 in the second quarter of last year to 64.3 this year.

Optimism at the national level is in part a reaction to declining jobless claims since the middle of last summer, increased productivity, and overall improving consumer confidence as measured by the Conference Board's National and Regional Index of Consumer Confidence. In addition, the GDP showed growth of 3.1% in 2003 with a strong second half. According to *Consensus Forecast*, GDP growth is expected to reach 4.6% this year. Because Colorado is linked to the national economy, growth in the national economy is expected to benefit Colorado. Respondent optimism, as reflected in the index component for the state economy, is supported by improvement in unemployment rates, and decreased, albeit slow, job loss in all sectors of the economy.

Nearly 76.6% of the respondents expect the national economy to show a moderate or strong increase in the second quarter, whereas only about 9.4% expect the economy to exhibit a moderate to strong decrease, and 14% expect no change. About 63.8% of the respondents indicated that they expect the state economy to exhibit a moderate or strong increase in the second quarter, while only 8.1% expect the state economy to show a strong or moderate decline. About 28.1% expect the state economy to remain unchanged.

Industry Sales and Profit Expectations

The decreased expectations shown for the national and state economies are reflected in lower, but positive, expectations for improved sales and profits. The magnitude of the decrease in the sales index is not significant given the amount of increase in the index over the past year. About 71.1% of the respondents anticipate moderate or strong increases in sales, while about 19.1% believe sales will remain unchanged. Only 9.8% expect to experience a moderate or strong decrease in sales in the second quarter.



Low interest rates and inflation are factors that have benefited Colorado businesses during the past year. Both are expected to continue in the near term; however, increased energy and employment costs will make it difficult for some companies to maintain profit margins. The importance of monitoring these components of the index is that hiring and capital expenditures cannot occur without strong sales and the maintenance of profit margins.

About 57.4% of the respondents expect moderate or strong increases in profits, while about 30.6% anticipate no change in profits and about 11.9% think they will experience moderate or strong decreases in the second quarter.

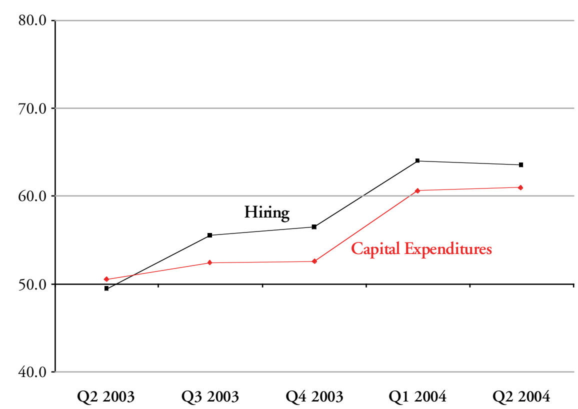
Industry Hiring Plans and Capital Expenditures

While there are indications, both nationally and statewide, that the economy is healthy, Coloradans have reason to focus on the lack of new jobs and the state fiscal crisis. Recently revised unemployment data shows that the annual unemployment rate for 2003 increased from 5.7% to 6.0%, although a monthly comparison shows that the January 2004 rate of 6.0% is less than the 6.4% recorded the previous January. Concerns about the jobless recovery are well-founded as about 42,900 jobs were lost in 2002, followed by another 32,100 in 2003. The 2004 Business Economic Outlook Forecast, prepared by the Business Research Division (BRD) predicts that 32,300 jobs will be added this year, bringing the state back to the 2002 level of employment.

The Q2 2004 capital expenditure component of the index showed a slight decrease from the prior period, dropping from 64.0 to 63.5. This component of the index remains well above 50, indicating that solid business spending will occur in the future. This coincides with projections made by *Consensus Forecast*, which predicted that national business spending will increase by more than 11% in 2004, while business inventories are projected to increase by about $46 billion.

It should be noted about half of Colorado business leaders are optimistic about increased spending. Approximately 53.6% of the survey respondents indicated that they expect moderate or strong increases in capital expenditures, while 7.2% report they will experience moderate or strong capital

Industry Hiring Plans and Capital Expenditures



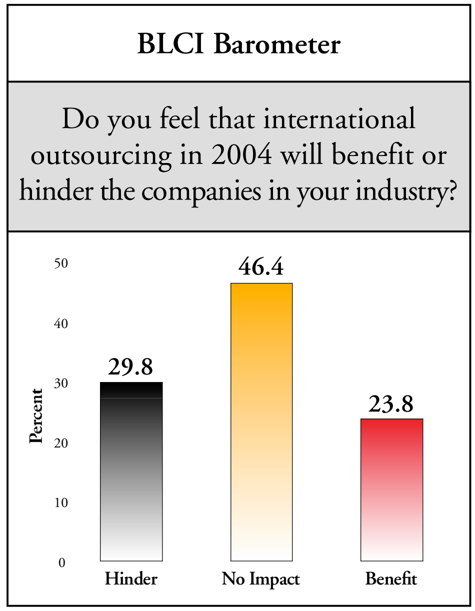
expenditure decreases. The remaining 39.1% are expecting their capital expenditures to remain unchanged. Of note, the state budget crisis is impacting many companies that rely on state government for a portion of their business. As a result, they will remain cautious about hiring or increased capital spending.

Similarly, about half of the respondents are optimistic about their hiring plans. Approximately 50.6% of the respondents expect moderate or strong increases in hiring, while 9.4% report they will experience moderate or strong hiring decreases. About 40.0% of the respondents expect their hiring to remain unchanged during the upcoming quarter.

In its annual forecast, the BRD projects that job growth will be led by increases in the Professional and Business Services, Health Care, and Leisure and Hospitality Sectors of the economy.

BLCI Barometer

This quarter Colorado business leaders were asked to indicate whether outsourcing would impact their businesses during the next 12 months. Responses were divided. About 23.8% indicated that outsourcing would help their business, while 29.8% indicated that it would hinder their business. About 46.4% indicated that it would not impact their business.



The most common argument in support of outsourcing is that it allows companies to maintain margins and pass on cost savings to customers. Some employers feel that outsourcing gives them a much larger labor pool, thus providing greater opportunities to find superior employees. A final argument is that outsourcing can be viewed as a new form of doing international trade (i.e., outsourcing will play an integral role in redefining the global economy).

The most obvious concern about outsourcing is that American jobs are being shipped overseas. Outsourcing is taking part of the blame for the jobless recovery we are currently experiencing. Some argue that by shipping jobs overseas, U.S. companies are running the risk of losing their technological edge as more development takes place there. The concern is that other countries will begin to develop competencies that threaten the current competitive edge held by American companies. The final page of this story has yet to be written.

COMPASS *On Business*

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

University of Colorado at Boulder Colorado LEEDS School of Business

Compass Bank

First Class
Presorted
U.S. Postage
PAID
Permit No. 600
Houston, Texas

For more details on the Colorado Business Leaders Confidence Index®, visit www.blcindex.com/colorado/