

BLCI *Business Leaders Confidence Index*[®]

Third Quarter 2004 • Volume 2 • Number 3

Colorado Business Leaders Confidence Index

Colorado business leaders continue to be optimistic about the outlook for the Colorado and national economies for the third quarter. The Colorado *Business Leaders Confidence Index*[®] (BLCI) has been relatively stable during 2004, fluctuating in the mid-sixties. Confidence in the economy is being driven by strong business investment, favorable sales and profit expectations, and an end to the jobless recovery. In April, Colorado wage and salary employment was greater than the same month of the prior year for the

first time in 32 months. The downward trend seems to have reversed itself as a year-over-year increase also occurred in May. This sets the stage for positive annual job growth for the first time since 2001.

All six components of the index are above 60 and expectations for the national economy topped 70. Expectations for capital expenditures have decreased slightly over the past two quarters, although they remain bullish.

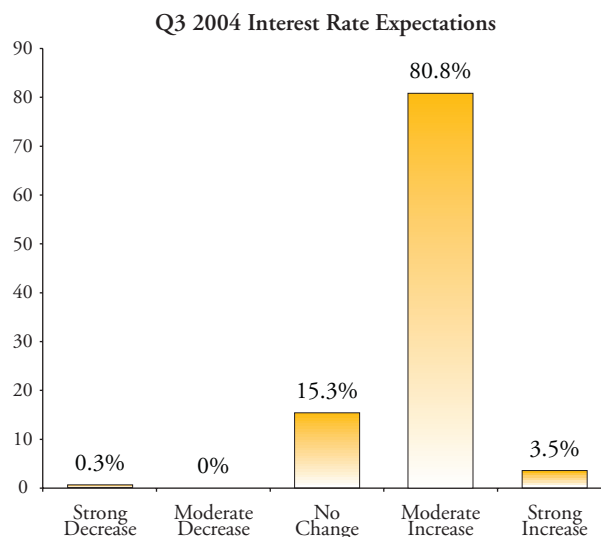
	Index History					
	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004
BLCI	48.9	57.8	58.7	66.9	64.2	66.1
Expectations for National Economy	41.7	64.4	65.2	74.3	68.0	71.4
Expectations for State Economy	42.5	54.6	61.2	68.2	64.3	68.1
Industry Sales Expectations	57.3	62.1	59.8	68.7	66.5	68.2
Industry Profits	52.2	58.1	57.1	65.5	62.1	65.2
Industry Hiring Plans	50.5	52.4	52.6	60.6	61.0	62.1
Industry Capital Expenditures	49.5	55.5	56.5	64.0	63.5	61.8

Interest Rate Expectations

It came as no surprise that the Federal Reserve Board raised the federal funds target rate 25 basis points at the end of June. (The fed funds target rate is the rate at which depository institutions lend to other depository institutions.) This was the first increase in four years and brought an end to a 12-month period during which the rate was at a 45-year low of 1.0%.

Business leaders anticipated this increase in their responses to the recent BLCI survey that closed 10 days before the FOMC made its decision. Approximately 84.3% of the business leaders felt that interest rates would increase, 15.3% thought they would remain unchanged, and less than 1.0% felt they would decrease further.

In the months ahead it seems likely the FOMC will push the rate toward a more neutral position, raising rates gradually over the next 18 months to prevent shock to the system that might be caused



from raising rates abruptly. In other words, 25 basis-point increases will most likely result from the August and subsequent meetings of the FOMC.

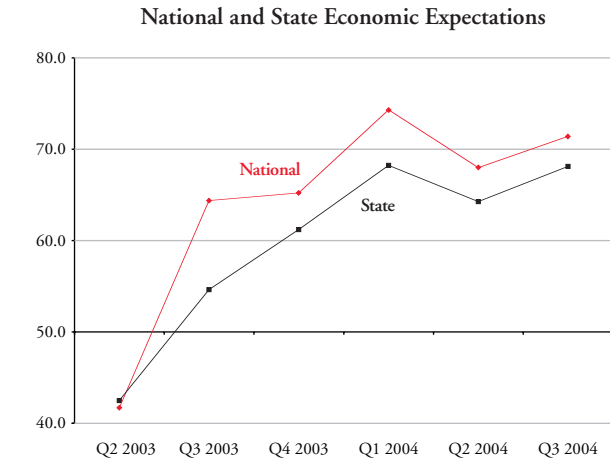
Expectations for the National and State Economy

In the latest survey, Colorado business leaders expressed near-record level exuberance for both the state and national economies. The index of expectations for the national economy increased from 68.0 to 71.4, while the state index jumped from 64.3 to 68.1.

At the national level, this enthusiasm is a function of strong exports, declining unemployment claims, strong business investment, and solid consumer spending (the Conference Board index of consumer confidence rose abruptly from 93.1 in May to 101.9 in June, a two-year high). In May the *Consensus Forecast* estimated the 2004 GDP to be 4.6%, and GDP expectations remain strong for the rest of the year.

The strength of the national economy is expected to finally bolster the Colorado economy. At the state level, business leaders are encouraged by reduced unemployment, employment gains in key sectors, and strong exports of manufactured goods. State unemployment for May 2004 dropped to 4.6%, near the bottom of the range of natural unemployment (4.5% to 5.0%). Moreover, a number of rural counties have unemployment rates well below the state average. As well, the following metro area counties have employment rates below the natural rate: Mesa (4.3%), Larimer (4.3%), Jefferson (4.2%), Boulder (4.1%), and Douglas (3.3%).

More importantly, evidence suggests that jobs are being added in important high-value, wage-generating sectors such as financial activities, professional business services, and health care. In addition, the construction sector is performing

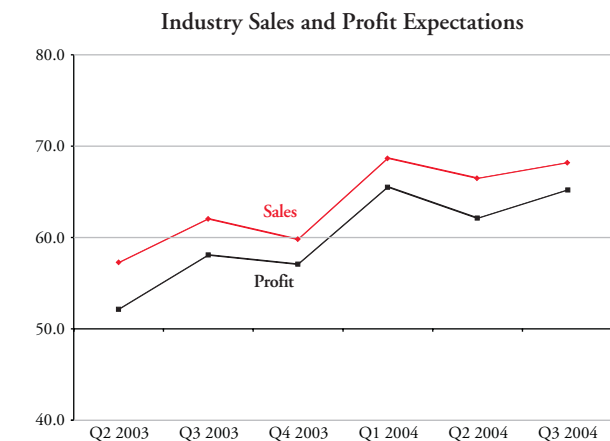


substantially better than expected, with strength in both single-family and multi-family permits. Through May year-on-year total permits are about 21.9% greater than in 2003. The manufacturing sector is also showing signs that job recovery will start to occur in the second half of the year. Conversely, the information sector continues to experience job losses.

Nearly 78.9% of the respondents expect the national economy to show a moderate or strong increase in the third quarter, whereas only about 7.3% expect the economy to exhibit a moderate to strong decrease and 13.7% anticipate no change. About 71.6% of the respondents think the state economy will exhibit a moderate or strong increase in the third quarter, while only 4.8% expect the state economy to show a strong or moderate decline. About 28.4% expect the state economy to remain unchanged.

Industry Sales and Profit Expectations

A number of factors have given Colorado business leaders reason to remain bullish in their expectations for industry sales and profits. Concerns about inflation brought on by increased energy and employment costs have been eased by the Federal Reserve's increase in the target funds rate at the end of June. In addition, strong business investment at the national level is occurring as a result of solid consumer spending, a favorable tax environment, and strong corporate balance sheets.



Most importantly, demand is increasing in sectors of the economy that have shown declines for the past three years. This has provided more companies with opportunities to raise prices, which in turn should allow them to continue to improve profit

margins. About 73.8% of the respondents indicated that they expect strong or moderate increases in their sales, while about 63.3% anticipate strong or moderate increases in profits.

Industry Hiring Plans and Capital Expenditures

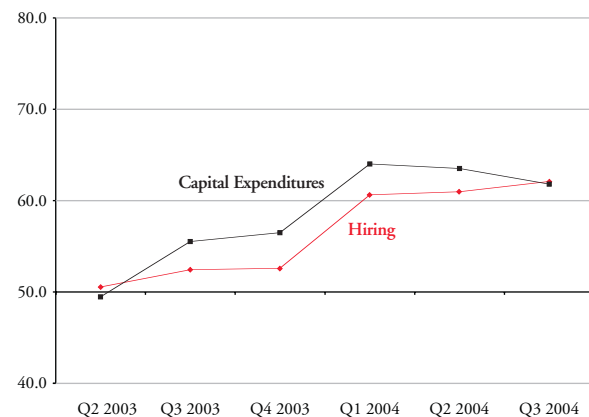
Nationally, business investment is expected to increase during the second half of the year. After growing at a rate of about 3.0% in 2003, first quarter 2004 business investment was about 9.4% higher than the first quarter of last year. *Consensus Forecast* projects that quarterly year-to-year growth is expected to be slightly above 10% for the remainder of 2004.

For the fourth consecutive month the U.S. economy has added jobs. After showing increases of 353,000 in March and 346,000 in April, 248,000 jobs were added in May and about 112,000 in June. Expectations are that job growth will average more than 200,000 for the remainder of the year. The June Manpower Employment Survey expects U.S. hiring to continue into the third quarter, in part based on the strength of the global economy. This fact is highlighted in the BLCI survey by expectations that jobs will be added in 16 of the 19 participating counties.

For the second consecutive quarter, the capital expenditure component of the Colorado BLCI showed a slight decrease from the prior period, dropping from 63.5 to 61.8. The real story is that this component of the index remains well above the neutral point of 50, indicating that Colorado business spending will continue to be positive in the upcoming quarter.

Even though the Colorado economy has been less vibrant than the national economy during 2004, signs of improvement were seen in Colorado as employment gains were experienced in April for the first time in 32 months. In both January and February of this year Colorado had approximately 18,000 fewer workers than the prior year. In

Industry Hiring Plans and Capital Expenditures



March, the deficit was about 5,100 jobs. The transition to a positive number of jobs occurred in April, when 11,900 jobs were added. In May another 11,400 jobs were added. If the number of jobs can increase by an average of 20,000 each month for the remainder of the year, Colorado will end the year with annual job growth of 0.5%, or 10,200 jobs for the year.

If there is a concern about the jobs that are being added, it will focus on the type of jobs and the associated wages. In 2003 Colorado per capita personal income increased at a rate of 1.7%, compared to 2.3% for the United States, and Colorado ranked 46th in terms of per capita income growth.

For the first time in the two-year history of the BLCI, a majority of respondents are optimistic about their hiring plans. About 52.1% of the respondents indicated that they expect to add jobs, while around 40.9% anticipate their hiring to remain unchanged during the upcoming quarter. Approximately 7.1% expect to experience moderate or strong hiring decreases.



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BLCI Barometer

This quarter Colorado business leaders were asked to indicate whether they expected prices for services or goods produced by their industry to increase, decrease, or stay the same. Responses were divided fairly evenly between companies that expected no changes and companies that anticipated price increases. About 49.2% indicated that the goods and products produced by their industry would not experience an increase, whereas 43.5% reported that they expected an increase. Approximately 7.3% expected goods or services produced by their industry to decrease.

A review of survey results shows that a majority of the respondents in the goods-producing sectors indicated that their industries would experience price increases. As expected, the respondents in the service-producing sectors reported that there will most likely not be price changes for the products and services sold in their industry. The sectors most likely to experience price decreases are wholesale and retail trade and financial services and products.

