

B L C I *Business Leaders Confidence Index*[®]

Fourth Quarter 2004 • Volume 2 • Number 4

Colorado Business Leaders Confidence Index

The fourth quarter Colorado *Business Leaders Confidence Index*[®] (BLCI) declined slightly following an increase in the previous quarter. The forward looking index, which measures expectations for the upcoming quarter, has ranged between 63.8 and 67.9 throughout 2004, and slipped from 66.1 in the third quarter to 63.8 in the fourth quarter. The decrease is a result of weakened confidence in the job market, hesitation resulting from election and ballot initiatives, uncertainty from the war on terrorism, and higher energy prices. Despite increased uneasiness and the aforementioned decrease in the index, all six components of the index remain above

60, an indication that the economy continues to be in a highly expansionary mode.

For the first time in the two-year history of the BLCI, expectations for the state economy are comparable to the expectations for the national economy. Increased optimism about the state economy is most likely derived from the fact that year-over-year state employment was about 15,000 jobs higher in the second quarter of this year. Similar month-over-month employment gains also occurred in July and August and are expected for the remainder of the year.

Index History

	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004
BLCI	48.9	57.8	58.7	66.9	64.2	66.1	63.8
Expectations for National Economy	41.7	64.4	65.2	74.3	68.0	71.4	65.2
Expectations for State Economy	42.5	54.6	61.2	68.2	64.3	68.1	65.7
Industry Sales Expectations	57.3	62.1	59.8	68.7	66.5	68.2	66.1
Industry Profits	52.2	58.1	57.1	65.5	62.1	65.2	62.7
Industry Hiring Plans	50.5	52.4	52.6	60.6	61.0	62.1	60.6
Industry Capital Expenditures	49.5	55.5	56.5	64.0	63.5	61.8	62.7

Fostering Growth in Colorado in 2005

This quarter, Colorado business leaders were asked to share their thoughts on how to foster growth in Colorado and in their industry during 2005. Overwhelmingly, they felt that job creation will be the driver of a successful Colorado economy in 2005.

They believed that the best way to generate jobs is to provide relocation incentives to companies operating outside Colorado, and incentives or tax breaks to current Colorado companies that create jobs within the state. Examples of such job creation would be bringing branches or subsidiaries of in-state companies to Colorado or relocating headquarters to the state. Colorado business leaders

also thought that state and local governments could best support the economy by reducing various business taxes and red tape. For example, permitting processes could be streamlined, thus making it easier to comply with regulations.

The November election was definitely on the minds of the BLCI panelists. In fact, some business leaders felt that the economy has been put on hold until after the election. Colorado business leaders showed strong support for both presidential candidates and indicated the ideology of their party was best suited for the economic growth of the state and country.

(Fostering Growth continued on back page)

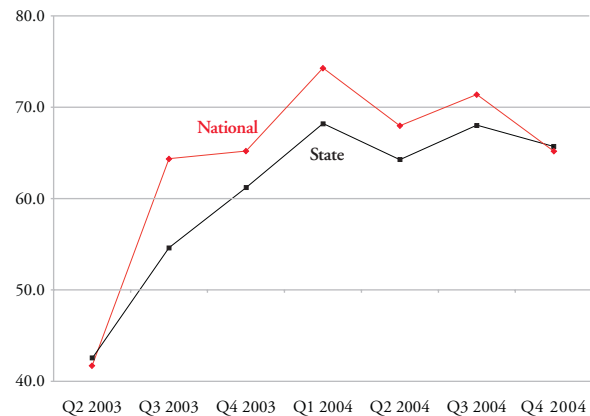
Expectations for the National and State Economy

Although Colorado business leaders have slightly lower expectations for both the national and state economies in the months ahead, they remain optimistic about both. The index measuring expectations for the national economy decreased from a near-record high of 71.4 to 65.2. The outlook for the state experienced a less significant decline, moving from 68.1 to 65.7.

At this time last year, the 2004 GDP was forecasted to grow at a rate of 4.0 to 4.5%. Although the year started strong, with growth of 4.5% in the first quarter, it tapered off, to 3.3%, in the second quarter. While the year-end total is expected to be on target, in the range of 4.0 to 4.5%, there is concern that the expansion has begun to decelerate. Similarly, retail sales were solid during the first quarter, but spending showed negative growth in three of the five months ending with August. Although modest growth has occurred in core sales, there has been more volatility in recent months as a result of decreased auto sales and weak durable goods sales. Finally, consumer confidence, as measured by the Conference Board, dipped from 105.7 in July to 96.8 in September. Consumers appear to be cautiously waiting the outcome of the election.

At the state level, Colorado business leaders are encouraged by a lower unemployment rate, employment gains in key sectors, and strong exports of agricultural and manufactured goods. State unemployment for August 2004 dropped to 4.9%, well below the national rate of 5.4%. Overall, the

National and State Economic Expectations



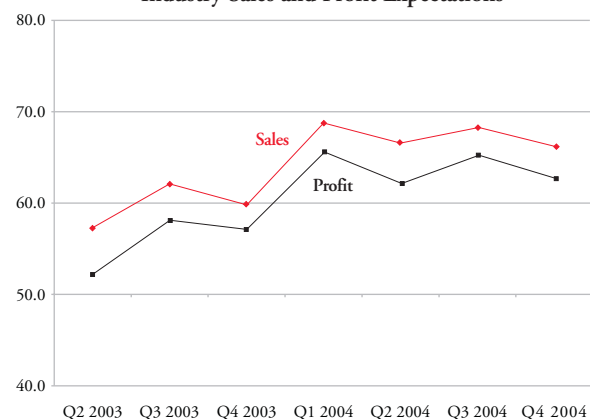
metro counties have a slightly higher unemployment rate of 5.1%, compared to 3.7% for the rural counties. Colorado is one of 34 states with an unemployment rate below the national rate.

Nearly 69.5% of the respondents expect the national economy to show a moderate or strong increase in the fourth quarter, whereas only about 12.4% anticipate the economy will exhibit a moderate to strong decrease and 18.1% anticipate no change. Approximately 67.4% of the respondents think the state economy will demonstrate a moderate or strong increase in the fourth quarter, while only 6.7% expect the state economy to show a strong or moderate decline. About 25.8% believe the state economy will remain unchanged.

Industry Sales and Profit Expectations

In line with expectations for the national and state economies, Colorado business leaders are showing a slightly lower level of optimism about industry sales and profits for the upcoming quarter. This decrease mirrors data from the Bureau of Economic Analysis indicating that domestic corporate profits increased at a declining rate. Profits grew by \$28.3 billion in the second quarter, compared to an increase of \$47.0 billion in the first quarter. While companies are expected to maintain strong balance sheets in the months ahead, concern exists about increased health-care and other employment costs, as well as energy and other input costs.

Industry Sales and Profit Expectations



On a more positive note, solid business investment is occurring as a result of modest core consumer spending, a favorable tax environment, and increased demand in sectors of the economy that have shown declines for the past three years. This has provided some companies with opportunities

to raise prices, which in turn should allow them to continue to improve profit margins. About 69.5% of the Colorado business leaders indicated that they expect strong or moderate increases in their sales, while approximately 59.4% anticipate strong or moderate increases in profits.

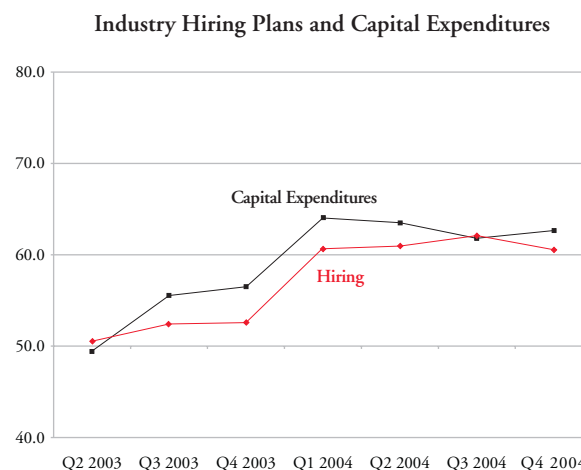
Industry Hiring Plans and Capital Expenditures

Increases in business inventories and strong business investment throughout 2004 have helped fill the void created by only modest levels of core consumer spending. *Consensus Forecast* projects that year-to-year real business fixed investment is expected to grow at a rate of 9.7% in 2004 and slow to a rate of 8.8% in 2005. After showing negative growth of -0.7% in 2003, business inventories are expected to increase by \$48.1 billion in 2004 and \$53.1 billion next year.

During 2004 the capital expenditure component of the Colorado BLCI has remained relatively stable, moving from 61.8 to 62.7 for the fourth quarter. The fact that this component of the index remains well above the neutral point of 50 indicates that Colorado businesses should benefit from solid business investment similar to that occurring in other parts of the country. About 52% of the business leaders indicated that they expect to see strong or moderate increases in their industry's capital expenditures, 7.7% expect to see strong or moderate decreases, and 40.3% anticipate no changes.

Nationally, about 595,000 jobs were added during the first quarter, while 628,000 jobs were added during the second quarter. Employment growth has been much more tepid in the third quarter as 73,000 jobs were added in July, 144,000 jobs were added in August, and an estimated 165,000 will be added in September. On the bright side, manufacturing payrolls have increased by 107,000 since January, despite productivity gains of 3.7% for the same period. Economy.com expects a monthly average of 150,000 to 200,000 jobs to be added for the remaining three months of the year.

Colorado employment is projected to increase by 0.5%, or 10,200 jobs, in 2004. Growth is expected



to occur primarily in high-value, wage-generating sectors, such as financial activities, professional business services, and health care. While other key high-value, wage generating sectors, such as construction, manufacturing, and information, are expected to decrease, the percentage of decline over the prior year will be small.

After experiencing two years of negative job growth, it is encouraging to see positive job growth in 2004. However, there is some concern about the type of jobs that are being added and the wages associated with them. 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. A quick review of Colorado's *Quarterly Consensus of Employment & Wages* data shows that first quarter average weekly wages for all industries were about 3.9% higher in 2004 and personal income growth has accelerated as well.

About 47% of the respondents indicated that they expect to add jobs during the upcoming quarter, while around 44% anticipate their hiring to remain unchanged. Only 9.1% expect to experience moderate or strong hiring decreases.

The BLCI is a
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Fostering Growth (Continued from page 1)

The most frequently discussed political issues were the state's fiscal quandary and FastTracks. Business leaders expressed a need for state government to address the fiscal crisis brought about by the combination of the ratchet effect of TABOR, the Gallagher Amendment, and Amendment 23. They also showed almost unanimous support for FastTracks.

While BLCI panelists often pointed out industry specific issues they believe are critical to their industry's growth and the growth of the state economy, across the board they identified three areas as vital to the growth of the state during the next year.

First, they indicated that it is important for the state government to have a strong tourism marketing and promotion effort. Second, they felt it was critical to focus attention on the state's infrastructure, in particular transportation. Finally, they stressed the importance of support for education. Panelists viewed state government support for K-12 education and higher education

as essential. This is seen as an important factor in providing Colorado companies with an educated workforce.

Many business leaders pointed out the importance of the national economy to Colorado and the close ties between the state and national economies. A majority of the respondents indicated that they had benefited from low interest rates in recent years and felt that low interest rates and minimal inflation would encourage the continued growth of the state economy. Having said that, it is understood that not all businesses benefit from low interest rates.

Business costs were another area addressed by Colorado business leaders. Health-care costs were at the top of the list of such concerns, followed at a distance by overall business costs, energy costs, and availability of venture capital or other funding. A rainy summer in many parts of the state has caused the issue of water supplies, conservation, and storage to decrease in importance.