

# B L C I *Business Leaders Confidence Index®*

First Quarter 2005 • Volume 3 • Number 1

## Colorado Business Leaders Confidence Index

The first quarter 2005 Colorado *Business Leaders Confidence Index®* (BLCI) declined for the second quarter in a row, to 61.3. This represents a decrease of more than five points from the level recorded a year ago, 66.9. The index, which measures expectations for the upcoming quarter, was driven to a lower level by decreases in each of the six components of the index. In most cases, business leaders continue to be optimistic about the future, but they expect growth to remain steady in the near term. All six components of the index remain well above the neutral point of 50, indicating that the

economy continues to be in an expansionary mode.

For the second time in the two-year history of the BLCI, Colorado business leaders have higher expectations for the state economy than for the national economy. After showing year-over-year job losses in January and February 2004, state employment turned positive in the second quarter. Solid employment growth of about 15,000 jobs was seen for both the second and third quarters. Preliminary year-over-year fourth quarter job growth estimates project a gain of at least 30,000 jobs.

### Index History

	Q2 2003	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005
BLCI	48.9	57.8	58.7	66.9	64.2	66.1	63.8	61.3
Expectations for National Economy	41.7	64.4	65.2	74.3	68.0	71.4	65.2	62.8
Expectations for State Economy	42.5	54.6	61.2	68.2	64.3	68.1	65.7	64.2
Industry Sales Expectations	57.3	62.1	59.8	68.7	66.5	68.2	66.1	64.8
Industry Profits	52.2	58.1	57.1	65.5	62.1	65.2	62.7	59.2
Industry Hiring Plans	50.5	52.4	52.6	60.6	61.0	62.1	60.6	58.7
Industry Capital Expenditures	49.5	55.5	56.5	64.0	63.5	61.8	62.7	58.3

## Colorado's Funding Situation

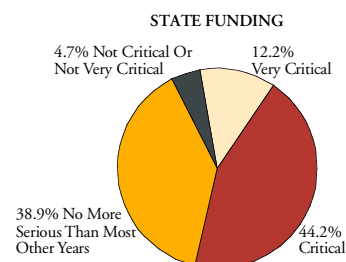
This quarter, Colorado business leaders were asked to comment on the state's financial situation, as well as the funding situation for transportation and higher education.

Business leaders who feel that the current situation is not critical believe there is most likely sufficient funding for transportation, as evidenced by investments in T-REX and FasTracks. These leaders are optimistic that the present challenges facing the state and its transportation and higher education system will be resolved by increased revenues generated from continued growth in the state and further improvement in the economy. Finally, they

feel that the state needs to follow the lead of the private sector and "do more with less."

On the other hand, a majority of the business leaders believe the state is facing some serious funding issues. These individuals attribute the problem to a combination of

Amendment 23, the Gallagher Amendment, and the ratchet-down-effect of TABOR. They feel that



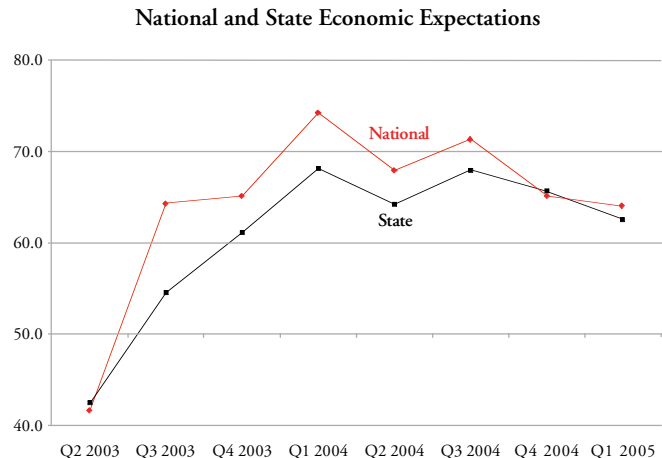
(Funding Situation continued on back page)

## Expectations for the National and State Economy

Although Colorado business leaders have lowered their expectations for the performance of the national and state economies for the upcoming quarter, they remain bullish about both. Approximately 58.7% of the respondents expect a moderate or strong increase in the national economy, while 30.4% anticipate no change. Only about 10.9% anticipate a moderate to strong decrease. Compared to the prior quarter, a significant shift has occurred as more business leaders expect growth at current rates in the near term, rather than moderate or strong growth.

Because much of the focus on the economy during 2004 centered on high unemployment rates, it was easy to forget that the United States experienced real GDP growth of about 4%. This rate of growth compares to the strong expansionary period of 1996-2000, when GDP growth varied between 3.7 and 4.5%. GDP growth is expected to slow to 3.6% in 2005, along with decreased rates of personal consumption and business investment. Given this economic scenario, it is logical for Colorado business leaders to have lower expectations for the national economy in Q1 2005.

At the same time, Colorado business leaders see Colorado outperforming the nation in some areas. State unemployment rates are expected to be about a half-point below the national rate in 2005. Employment gains are expected in all sectors, and expectations are that there will be strong exports of agricultural and manufactured goods. Approximately

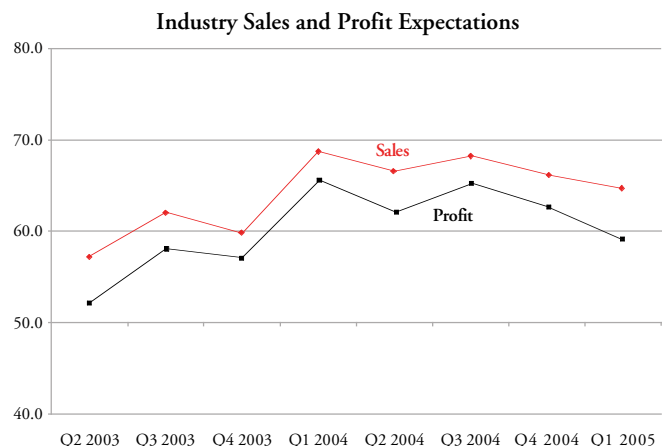


61.4% of the respondents think the state economy will demonstrate a moderate or strong increase in the first quarter, and 29.5% anticipate growth to continue at its current rate. Only 9.4% expect the state economy to show a strong or moderate decline.

The optimism of Colorado business leaders is consistent with the state economic forecast recently released by the Business Research Division (BRD). The *Colorado Business Economic Outlook's* projected job growth of 2.0% is impressive, compared to the minimal job growth seen in 2001 and 2004 and the significant job losses in 2002 and 2003. On the other hand, Colorado is tied for 8th in terms of job growth and 11th in population growth among 11 western states. Reduced net migration will partially drive slower rates of employment growth in 2005.

## Industry Sales and Profit Expectations

The sales and profits components of the index showed decreases that are consistent with projections for a slower rate of growth in the national economy. About 51.5% of business leaders indicated their profits would show strong or moderate increases in Q1 2005, down from 59.4% for the previous quarter. At the same time, expectations for strong or moderate rate of sales growth showed a more modest decline, from 69.5 to 64.7%. Although data for one quarter does not establish a trend, the widening gap between expectations for profits and for sales points out the cost management challenges facing companies in the current economy.



In the months ahead, Colorado business leaders will be faced with health-care costs that may show

double-digit increases. Nationally, employment

costs are expected to rise about 3.8% in 2005. In Colorado, the rate of increase could be higher as the labor pool tightens and the unemployment rate remains below 5%.

Most likely, the increasing disparity between profits and sales is a result of companies unable to control or pass along energy and other input costs. Industries

that are critical to Colorado, such as transportation, are experiencing staggering impacts to the bottom line as a result of increases in fuel or other input costs.

Despite these concerns, the index for both components remains near 60 or above, as many companies will continue to have strong balance sheets and profit statements.

## Industry Hiring Plans and Capital Expenditures

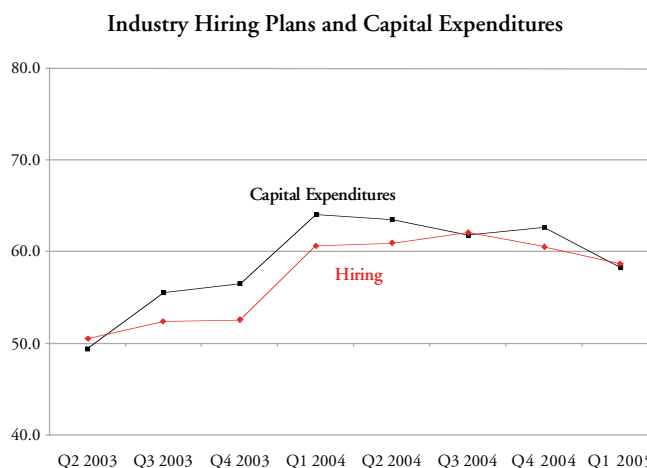
Nationally, economic growth will be fueled by strong business investment and solid consumer spending in 2005. Year-to-year real business fixed investment is expected to grow 8.9% in 2005, down from 10.0% in 2004. After showing negative growth in 2003, business inventories are expected to rise by more than \$50 billion in both 2004 and 2005. Real government consumption and investment is expected to increase by 2.2% in both 2004 and 2005.

The Q1 2005 capital expenditure index component registered 58.3, down from the record high of 64.0 set in Q1 2004. This decline is consistent with the above-mentioned projections for lower or flat rates of growth for capital expenditures. 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.

Approximately 41.6% of the business leaders indicated that they expect to see strong or moderate increases in their industry's capital expenditures, down from 52.0% in the prior quarter. About 46.5% of the respondents anticipate no changes for Q1 2005, up from 40.3% in the previous quarter.

Nationally, employment will increase by more than 2.2 million workers in 2004, while Colorado employment will rise by over 10,000 employees. In its economic forecast for 2005, the BRD projects that Colorado's population will grow by 1.1%, or about 57,600 people. While this rate is higher than the national rate, it is much lower than the growth experienced in the 1990s. In 2005, Colorado employment is forecasted to increase by 2%, or 43,100 additional employees.

After the job losses in 2002 and 2003, it is encouraging to see positive job growth in 2004 and 2005; however, there is some concern about the types of jobs being added and the wages associated with them. Colorado per capita personal income for 2003 (the most recent data available) increased at a rate of 1.7%, compared to 2.3% for the United



States. Colorado was ranked 46th out of all states in terms of the percentage of per capita income growth in 2003. A quick review of the state's employment and wage data shows that second quarter average weekly wages for all industries were about 3.2% higher in 2004 compared to the same period in the prior year.

In 2005, growth is expected to occur in all sectors, with more than half of the jobs added in sectors that have average weekly wages below the state average. The Professional and Business Services Sector will gain 14,800 workers, followed by 6,900 employees in Trade, Transportation, and Utilities. Approximately 5,200 workers will be added in the Leisure and Hospitality Sector, and Educational (Private) and Health Services employment will increase by 4,600 employees. About three-fourths of total employment growth is expected to occur in these four sectors.

About 41.6% of the respondents indicated that they expect to add jobs during the upcoming quarter, while around 49.2% anticipate their hiring to remain unchanged. Only 9.2% expect to experience moderate or strong hiring decreases. This additional hiring will help keep the labor market in balance and put modest upward pressure on wages in most sectors.

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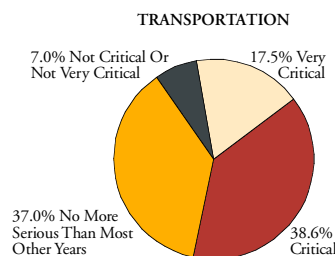
*For more details on the Colorado Business Leaders Confidence Index<sup>®</sup>, visit [www.bcli.com/colorado/](http://www.bcli.com/colorado/)*

## *Funding Situation (Continued from page 1)*

the state is facing these problems because of a lack of leadership in the executive and legislative branches of the government. They also attribute a portion of the problem to a public that is not fully educated about the issues and how to properly address them.

The survey respondents feel that the state's transportation and higher education infrastructures are essential for the economic vitality of the state. A strong transportation system is critical for maintaining our current population and base of industry, and for attracting other businesses to the state. Another key point raised by supporters of a strong transportation infrastructure is that limited funding is preventing the adequate upkeep on roads throughout the entire state.

Business leaders who indicated that higher education is not sufficiently funded believe that investments in higher education are long-term investments.



They are concerned that recent funding cuts may have irreversibly damaged the system. In addition, these individuals view

higher education as essential for the support of current industry as it provides qualified employees for the region. Respondents stated that a well-funded education system is critical for "selling" the state, and it is necessary for Colorado to remain competitive with the rest of the world. Finally, these respondents are concerned that decreased support for higher education will lead to significantly higher tuition, which, in turn, will raise larger societal issues.

When the state legislature convenes, it must address both the current fiscal shortfall and future funding mechanisms. Both Governor Owens and the legislature have made these issues their top priority and have indicated their willingness to work on them.

