

# B L C I *Business Leaders Confidence Index*<sup>®</sup>

Second Quarter 2005 • Volume 3 • Number 2

## Colorado Business Leaders Confidence Index

After showing declines in the previous two quarters, the second quarter 2005 Colorado *Business Leaders Confidence Index*<sup>®</sup> (BLCI) at 61.5 remains essentially unchanged this quarter. Even though there is no significant upward movement in the index, the current reading poses little concern given the overall strength of the economy, and the fact that the index remains well above the neutral point of 50. The forward-looking index, which measures expectations for the upcoming quarter, is comprised of six components. All six components remain above 50, indicating that

the economy continues to be in an expansionary mode.

While the expectations for the state economy declined for the third quarter in a row, this component remains above 60, demonstrating a high level of confidence in Colorado's economy. This optimism is consistent with the recently released upward revision of employment data for 2004, showing that a total of 27,900 jobs were added last year. An employment increase of 43,100 is forecast for 2005.

### Index History

	Q3 2003	Q4 2003	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005
BLCI	57.8	58.7	66.9	64.2	66.1	63.8	61.3	61.5
Expectations for National Economy	64.4	65.2	74.3	68.0	71.4	65.2	62.8	62.9
Expectations for State Economy	54.6	61.2	68.2	64.3	68.1	65.7	64.2	62.8
Industry Sales Expectations	62.1	59.8	68.7	66.5	68.2	66.1	64.8	65.7
Industry Profits	58.1	57.1	65.5	62.1	65.2	62.7	59.2	59.8
Industry Hiring Plans	52.4	52.6	60.6	61.0	62.1	60.6	58.7	59.7
Industry Capital Expenditures	55.5	56.5	64.0	63.5	61.8	62.7	58.3	57.9

## Healthcare in Colorado

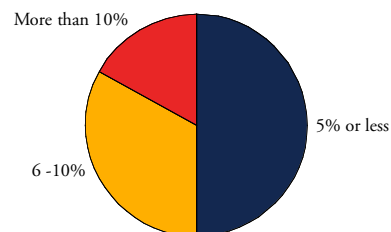
Because rising healthcare costs have been identified as a factor that creates hardships for both employers and employees, Colorado business leaders were asked to provide their thoughts about the challenges they face regarding rising healthcare costs. In a report published by *Kiplinger Business Forecasts*, it was stated that healthcare costs increased 50% between 1997 and 2002, and were expected to increase by an average annual rate of 7% for the remainder of the decade. In addition, a Mercer survey indicated that employer health insurance costs rose to \$4,900 per employee in 2002.

About 85% of the business leaders participating in the BLCI survey offer healthcare insurance.

Approximately 11% have never offered it, and 3% have dropped coverage in the past three years.

Roughly half of the business leaders who were knowledgeable about their healthcare costs indicated that these costs were less than 5% of their total fixed costs. About one-third of the respondents estimated that their healthcare costs were in the range of 6 -10%. The remaining 17%

Healthcare premiums comprise what portion of your company's fixed costs?



(Healthcare Costs continued on back page)

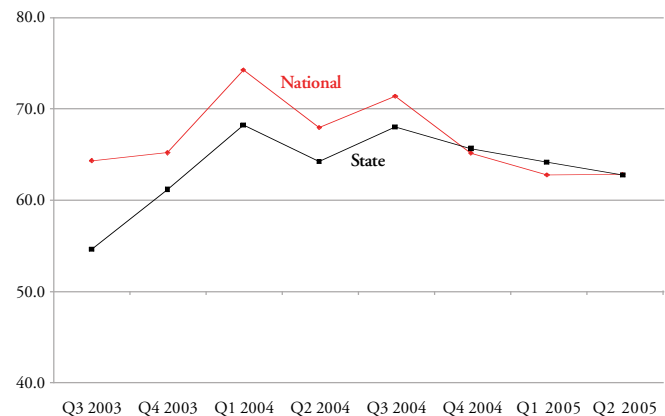
## Expectations for the National and State Economy

Colorado business leaders remain bullish about the performance of both the national and state economies in the upcoming quarter. Approximately 58% of the respondents expect a moderate or strong increase in the national economy, while 32% anticipate no change. Only about 10% expect a moderate to strong decrease. The distribution of these responses is similar to the previous quarter.

Panelist optimism is most likely driven by strong real GDP growth, with a projection of 3.6% in 2005. In addition, personal consumption is expected to rise by 3.1%, and business investment is forecast to increase by 8.9%. Moreover, the most recent monthly employment data indicate an increase in hiring nationwide.

At the state level, approximately 58% of the respondents think Colorado's economy will experience moderate or strong growth in the second quarter, while about 34% anticipate growth to continue at its current rate. Only 8% expect the state economy to show a strong or moderate decline.

Optimism about the state economy is tied to positive employment projections. Colorado unemployment rates are expected to be about a half-point below the national rate in 2005. In its 2005 economic forecast, the Business Research Division at the University of Colorado expects all sectors of the economy to show



employment gains. In part, this growth will be driven by expectations for strong exports of agricultural and manufactured goods, and solid global demand for professional and business services provided by Colorado companies.

The outlook for the state economy is positive, with employment and population growth both expected to exceed the national averages. However, when comparing Colorado to other western states, the *Western Blue Chip* indicator shows the state tied for 8th in terms of job growth and 11th in population growth. This relatively weak regional performance has been caused by low levels of net migration and a slower rate of recovery from the 2001 recession.

## Industry Sales and Profit Expectations

The sales and profits components of the index remain strong, and both the sales and profit indices remain well above 50, indicating growth. However, the gap between expectations for profits and for sales increased for the third consecutive quarter. The good news is that about 69% of business leaders anticipate moderate or strong sales increases.

Approximately 51% of business leaders anticipate their profits to show strong or moderate increases in Q2 2005, while only 13% expect strong or moderate decreases. Roughly 36% of the state's business leaders anticipate no change.



The growing disparity between profits and sales is thought to be a result of volatility in fuel, energy, and other input costs. In many cases, companies are unable to react to fluctuations in a timely manner and are forced to absorb cost increases. In particular, this has a major impact on companies in the transportation sector.

In addition, employment costs are expected to rise across the country at an average rate of about 3.8% in 2005. The rate of increase could be higher in Colorado as the overall unemployment rate falls to 4.8%, and the labor market tightens in certain industries.

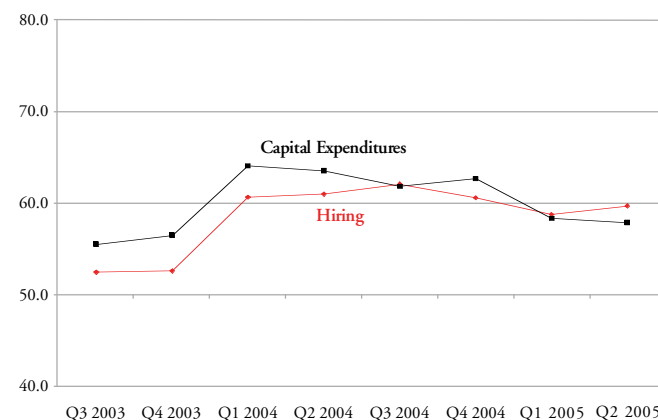
## Industry Hiring Plans and Capital Expenditures

Business leaders indicated a slight shift in the mix of their investment in labor and capital expenditures, with a slightly stronger emphasis on labor compared to past quarters. During three of the four quarters in 2004, the index for the capital expenditures component was at least two points higher than the hiring component. Panelists' expectations have changed for the first two quarters of 2005 with the index for capital expenditures component now lower than the hiring component. This suggests that companies may have reached a point where it is necessary to make a strong commitment to hiring employees as the next step in maintaining or increasing sales.

Approximately 42% of the business leaders indicated that they expect moderate or strong increases in their industry's capital expenditures, with an additional 47% anticipating no changes for Q2 2005. Only 11% expect moderate or strong decreases.

It is encouraging to see positive job growth in 2004 and 2005 after the job losses experienced during the previous two years. In the short term, about 43% of the business leaders indicated that they expect moderate or strong increases in jobs during the upcoming quarter, while around 49% anticipate their hiring to remain unchanged. Only 8% anticipate moderate or strong hiring decreases. This additional hiring will help keep the labor market in balance and put modest upward pressure on wages in some sectors.

While the outlook for the economy is positive, reasonable concern exists that the high-paying jobs lost during the 2001-2003 period will be replaced with lower paying jobs. 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.

Initial data indicate that 2004 will be better. A quick review of the state's employment and wage data shows that third quarter average weekly wages for all industries were about 1.2% higher in 2004 compared to the same period in the prior year. It appears that average wages for workers in 2004 will be 2.5-3.0% higher than in 2003.

According to the 2005 Colorado Business Economic Outlook, job growth is expected 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 workers. About three-fourths of total employment growth is expected to occur in these four sectors. The high wage sectors of Construction, Manufacturing, and Information Services will unfortunately experience very modest growth.

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



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

## Healthcare Costs (Continued from page 1)

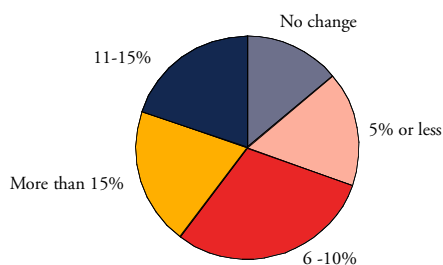
projected that healthcare costs were at least 10% of their total fixed costs.

Only about 14% of the business leaders surveyed indicated that their healthcare costs had not increased during the past year, with

an additional 17% stating that costs had gone up by less than 5%. Roughly 30% said that the cost of premiums had escalated by 6-10%, while about 20% reported that they had increased 11-15%. The remaining 20% stated their premiums had increased by more than 15%. The median rate of increase was 6-10%, which is similar to the *Kiplinger* projection.

In addition, *Kiplinger* has released information that identified consumer-driven health plans, disease management programs,

How much did your typical employee healthcare premium increase in the past 12 months?



tighter prescription drug plans, the passage of more costs to retirees, and the adoption of spousal surcharges as ways that employers will hold down costs. While none of these is a remedy unto itself, a combination of these options can help create meaningful savings. The *Kiplinger* report suggests that healthcare costs will increase 10% over last year, which is a lower rate of growth in than previous years.

Colorado business leaders were given a list of 11 alternatives for dealing with rising healthcare costs. About half of the respondents reported that they increased the employee match, while roughly 45% either absorbed the cost or changed the benefits provided to their employees. Approximately 42% either increased the co-pay or employee deductible, and 40% indicated that they changed carriers. Only about 14% established healthcare savings accounts. Less than 3% reported changing employee or retiree eligibility, or establishing graduated contribution programs.

