BUSINESS LEADERS BLCI CONFIDENCE INDEX®

Colorado
First Quarter 2006
Volume 4 • Number 1

Colorado BLCI Returns to Previous Level As anticipated, the Colorado *Business Leaders Confidence Index®* (BLCI) rose sharply in the first quarter, pushing the index back to the level it was a year ago. Last quarter the BLCI dropped by 9.0 points as a result of uncertainty associated with the series of hurricanes in the Gulf Coast. This decrease in the BLCI, and its subsequent surge, is consistent with other consumer and business indicators that measure short-term economic expectations.

The forward-looking index, which measures expectations for the upcoming quarter, is comprised of six components. Each of the individual components is well above 50, in the range of 58 to 64, indicating that the economy continues to be in an expansionary mode.

National Indicators	2004	2005	2006
Real GDP	4.2%	3.5%	3.5%
Per Capita Income	4.9	5.5	5.0
Real Disposable Personal Income	3.4	2.0	3.2
Retail Sales	7.2	8.0	7.2
Real Business Investment	9.4	8.7	5.0
Real Government Consumption & Investment	2.2	1.9	2.2
Consumer Price Index	2.7	3.3	3.0
Population	1.0	1.0	1.0
Employment	1.1	1.7	1.8
Colorado Indicators			
Per Capita Income	4.5%	5.1%	5.2%
Retail Sales	5.7	5.6	5.8
Consumer Price Index	0.1	1.7	2.2
Population	1.4	1.4	1.5
Employment	1.2	2.1	2.3

Nationally, this optimism is in line with projected real GDP growth of 3.5% in 2006. This growth will be driven by solid consumption and business investment, and stronger government spending. Real disposable personal income is expected to rise by 3.2%, with a 7.2% increase projected for retail sales. In terms of GDP growth, the trade deficit is a wildcard. In late 2005 it was expected that the deficit would approach $760 billion by the end of 2006; however, if energy prices continue to drop or remain at current levels, this imbalance may remain closer to $700 billion for the year.

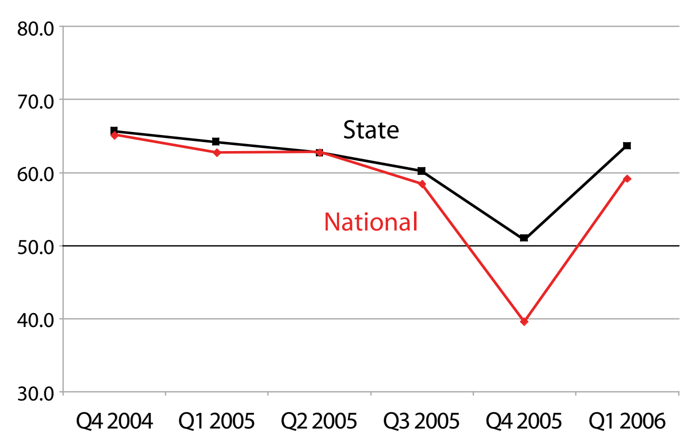
State Economy Viewed More Favorably Than National Economy In five out of the last six quarters Colorado business leaders have indicated that they have more confidence in the performance of the state economy than the national economy. In 2006 the U.S. unemployment rate is expected to drop to 5%, compared to the 4.9% rate forecasted for Colorado. It should be noted that Colorado is at the top of the range of the natural rate of unemployment, 4.5-5.0%. Up to this time, employers in most sectors have felt minimal pressure to raise wages; however, as the unemployment rate falls below 5%, the labor market will evolve into a workers' market as skilled employees become scarce.

With the improving state economy, an increase in the number of jobs created will attract more people to Colorado. As a result, net migration will rise, and statewide population is expected to grow at a rate of 1.5% this year, compared to 1% for the nation.

Locally, the best measure of consumption is retail sales. The state is expected to record solid retail sales growth, an increase of 5.8%; however, this is well below the growth rate for the nation. While Colorado per capita income remains above the national level, $39,917 versus $36,635, this year will be the first time since 2001 that Colorado's per capita income has grown at a faster rate than the United States.

The monetary policy prescribed by the Federal Reserve has placed a premium on keeping inflation in check. Housing is the key component of the (CPI) Consumer Price Index. Projections show that housing will rise 2.6%, while medical care will climb 4.5%. The only certainty about energy costs is that they will remain volatile. Nationally, the CPI is anticipated to rise in 2006 at a slightly lower rate of 3% than in the previous year. The Denver-Boulder-Greeley CPI, Colorado's measure of inflation, remained well below the national average in 2005, at 1.7%. The outlook is for a slight increase, to 2.2%, this year. The formula used to derive the CPI factors incentives offered by landlords and auto dealers into the calculation of the index. Over the past year it has been necessary to offer rent and auto price incentives in order to maintain desired occupancy levels and meet prescribed sales goals. Although this trend is expected to continue into 2006, as the state economy continues to improve the need for these discounts will diminish and the area's CPI will move accordingly.

Expectations for National and State Economics



For the past couple of years state spending has been restricted by TABOR limitations and weak revenue growth, but these constraints will be eased by the passage of Referendum C. In addition, state sales and use tax revenues will continue to climb as Colorado payrolls strengthen, and consumers and corporations have more disposable income available to spend on goods and services, healthcare, and housing. Individual income tax revenues are expected to rise by 7.6% in fiscal year 2006. After an increase of about 34% in 2005, corporate income tax receipts will remain flat or fall slightly this year.

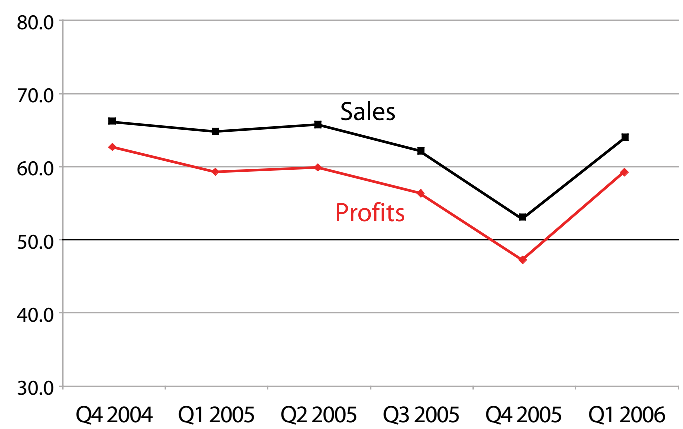
Over half (51%) of the panelists believe the national economy will grow faster in the first quarter than the fourth quarter of 2005, while 32% expect no change. Only 17% foresee a declining national economy.

About 63% of the panelists project the state economy will perform better in the first quarter, and only 11% expect it to decline. Approximately 26% of the respondents think the state economy will remain unchanged.

Gap Remains between Profits and Sales The index components that measure expectations for sales and profits are at approximately the same level as a year ago. The gap between sales and profit expectations has decreased for the past three quarters; however, the fact that there is a 4.6 point gap suggests that many companies are being forced to absorb all or some of their rapidly rising costs. Over the next year, pressures from increasing costs of healthcare, fuel, energy, and other inputs will continue to challenge businesses to maintain their profit margins.

Business leaders are generally optimistic about their expected sales for the New Year. About 65% anticipate an increase, and 21% believe sales will remain unchanged. Only 14% expect a decline in sales. On the profit side of the equation, 52% of the panelists believe profits will increase, while only 29% expect them to remain unchanged. About 18% expect to see a decline in profits during the first quarter.

Sales and Profits Expectations

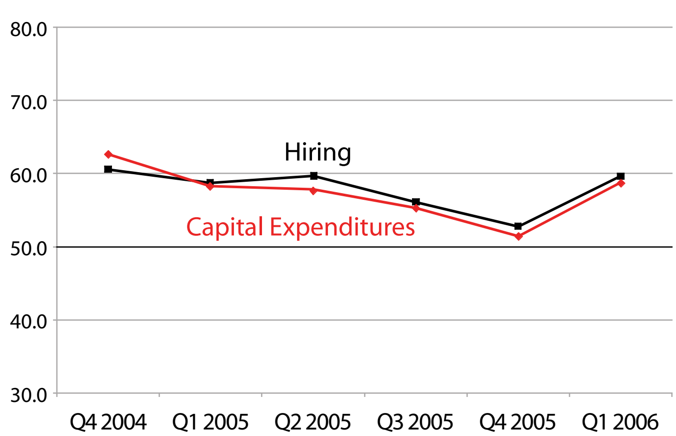


While the outlook for sales remains positive, at the national level it appears that government spending will play a greater role in the economy than in previous years. It is expected to increase by 2.2% in 2006, up from 1.9% last year. A recent report by the Department of Census listed Colorado as the state with the highest decrease in federal grants. Unfortunately, this suggests that while government spending is rapidly accelerating, the trickle down effect to Colorado may be inconsequential.

Weaker Shock for Hiring and Capital Spending The index components that measure expectations for capital spending and hiring plans have historically shown the least volatility of all BLCI components. Both capital spending and hiring plans components are at about the same level as a year ago, well above the neutral point of 50. This illustrates that companies will continue to make careful investments in labor and capital projects as a means of reaching sales and profit goals.

Approximately 45% of the panelists project moderate or strong increases in capital spending in their industry during the first quarter, while 43% expect no changes. The remaining 12% believe moderate or strong decreases will occur.

Expectations for Capital Expenditures and Hiring

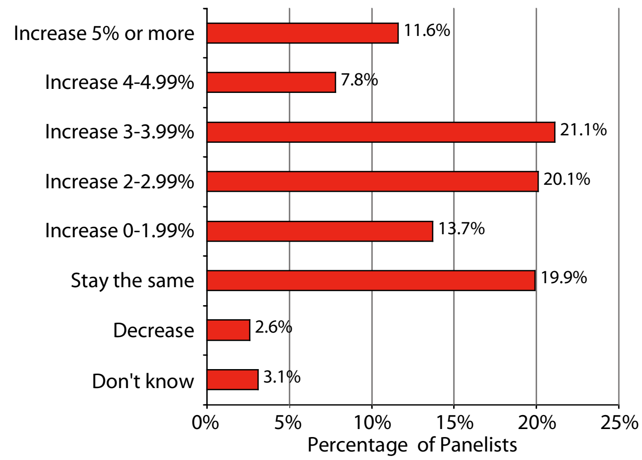


By comparison, roughly 47% of the panelists anticipate increases in their industry's workforce, whereas about 43% expect no change. The Business Research Division remains optimistic about employment growth in Colorado and believes that the work force will increase by approximately 52,100 in 2006.

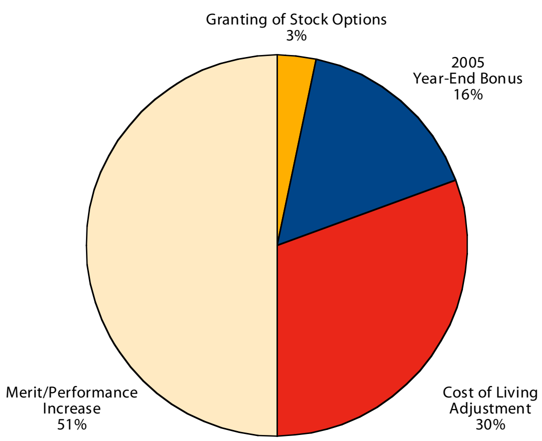
Nationally, employment is projected to increase by 1.8% this year, with Colorado expected to grow at a more robust rate of 2.3%. Areas of the economy to watch are Professional and Business Services (PBS), Natural Resources and Mining (NRM), Healthcare, and Retail Sales. The PBS Sector will be the leader in absolute growth, climbing by 11,700 jobs. Although the NRM Sector is one of the smallest, it will post an 11% gain, or 1,700 jobs. The primary contribution of the NRM Sector comes through the value of its production and related taxes. Manufacturing and the Information Sectors are at the other end of the spectrum, with minimal or no employment growth projected for the months ahead.

Expectations for Employee Compensation The topical questions this quarter focus on expectations for employee compensation changes during the next six months. The median value of the expected changes fell in the 2.0-2.99% range. The distribution of increases was virtually tri-modal; about 21% said employee compensation will increase by 3.0-3.99%, while 20% indicated compensation will rise by 2.0-2.99%, and another 20% believe compensation will remain unchanged at their companies. A comparison to data from the Arizona BLCI shows that wages are less robust in Colorado. This is to be expected, given the fact that the Arizona economy has been much stronger over the past 18 months. Upward pressure on wages is likely to be greater there. More importantly, wages are expected to once again move upward in Colorado after several years of stagnant growth.

Expectations for Employee Compensation Over the Next Six Months



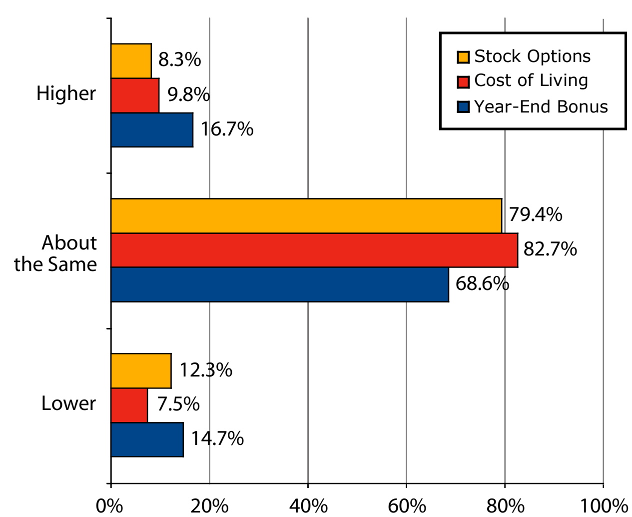
What Portion of the Change in Compensation Will Each Compromise?



Survey respondents were asked to describe the form in which increases will be paid—year-end bonuses, cost of living adjustments (COLAs), merit increases, or stock options. On average, approximately half indicated that the increases will be based on merit or performance, while roughly two-thirds will use COLAs. Around 28% of companies use only one of the four compensation methods. Approximately 35% of the companies use two forms, 29% use three methods, and 9% use all four.

Finally, business leaders were asked to address the role of year-end bonuses, COLAs, and stock options compared to one year ago. Approximately four out of five business leaders indicated that their distribution of stock options would remain about the same, about the number said there would be no changes in policies for COLAs, while about two-thirds said the payouts of year-end bonuses would not be altered. For the companies making changes, there will be a net increase in the distribution of COLAs and year-end bonuses, while stock options will experience a net decrease.

Compensation Plans 2004 vs. 2005



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Business Leaders Confidence Index History

	Q4 2004	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006
BLCI	**63.8**	**61.3**	**61.5**	**58.1**	**49.1**	**60.9**
Component indices:						
National Economy	65.2	62.8	62.9	58.5	39.6	59.4
State Economy	65.7	64.2	62.8	60.2	50.9	63.8
Industry Sales	66.1	64.8	65.7	62.1	52.8	64.0
Industry Profits	62.7	59.2	59.8	56.4	47.2	59.4
Industry Hiring Plans	60.6	58.7	59.7	56.1	52.8	59.7
Industry Capital Expenditures	62.7	58.3	57.9	55.3	51.5	58.9

** For a complete history, visit www.blci.com/colorado.*

A Look into the BLCI Panelists are asked to choose their responses from a five-point scale. A numerical value ranging from –2 (Strong Decrease/Much Worse) to +2 (Strong Increase/Much Better) is assigned to each of these. A score is then calculated for each question and transformed into a scale that ranges from 0 to 100. Index values above 50 indicate expectations for increases, and index values below 50 indicate expectations for decreases. The BLCI combines these six measures using equal weighting.

Both total panel membership and the number completing the survey continue to expand. Many thanks to all of our panel members for making this survey a useful and reliable indicator. We make no pretense that this survey is representative of all business leaders in Colorado. What we report here are the responses of the panelists who completed our survey. As we continue to grow the size of the panel, we will add analysis for individual industries and sub-state areas.

Please join us in early March for our Second Quarter 2006 survey at www.blci.com/colorado.