

Colorado BLCI in Positive Territory

State business leaders maintain their optimism about the future as the Colorado *Business Leaders Confidence Index*® (BLCI) – at 60.1 – remained virtually unchanged from the prior quarter. The index, which measures expectations for the upcoming quarter, is comprised of six components. Each of the individual components this quarter fell in the range of 55 to 66, indicating that the economy continues to be in an expansionary mode. (For a detailed index component history, see table on page 4.)

At the beginning of the year, real 2006 GDP growth was projected to be 3.5%. At this point, it appears that projection will be a best-case scenario. GDP growth is now projected to be above 3.5% in the first half of the year tapering off to 3.0% or less in the second half. Overall GDP growth will be driven by solid consumption, business investment, and government spending. The trade deficit will continue to increase, particularly if energy prices rise during the summer months, to a total of \$655 billion this year.

National and State Economy – State Viewed More Favorably

For six out of the last seven quarters, Colorado business leaders have shown greater confidence in the performance of the state economy than the national economy. As of now, it appears this trend will continue through 2006. This year Colorado is expecting a 4.9% rate of unemployment – slightly lower than the national rate of 5.0%. Both rates are at the upper end of the natural rate of unemployment, 4.5-5.0%. Up to this point, employers in most sectors have felt minimal pressure to raise wages; however, as the overall unemployment rate reaches its theoretical optimal level, the labor market will evolve into a workers' market as skilled employees become more scarce. Anecdotal evidence suggests that some Colorado companies are beginning to feel this wage pressure, particularly in highly-trained technical positions.

After four years of comparatively low net migration, Colorado will once again become a more attractive place to relocate as the labor market gains additional strength. As a result, net migration will increase, and statewide population will grow at a rate of 1.5% this year compared to 1.0% for the nation. Net migration will account for about 45% of the population increase projected for 2006.

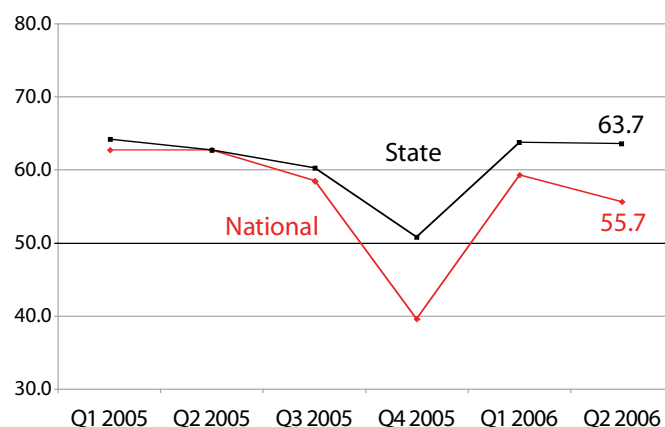
The uptick in employment bodes well for state retail sales. A hike of about 5.8% is expected for the year. Another positive note is that Colorado per capita income will continue to increase at a faster rate than the U.S. average. In this important category, the state average for the year is expected to be \$39,917 versus \$36,635 for the United States.

If there has been a bright spot in the soft economy of recent years, it has been that overall inflation has remained low. Nationally, the Consumer Price Index (CPI) is anticipated to increase about 3.0% in 2006 compared to an increase of 2.2% for the Denver-Boulder-Greeley area. Since 2003 the Colorado CPI has remained lower than the national rate, in part because it has been necessary for apartment owners and automobile dealers to offer price incentives in order to meet prescribed sales goals. While this trend will continue in

| National Indicators | | | |
|----------------------|------|------|------|
| | 2004 | 2005 | 2006 |
| Real GDP | 4.2% | 3.5% | 3.5% |
| Per Capita Income | 4.9 | 5.5 | 4.6 |
| Retail Sales | 7.2 | 8.0 | 7.2 |
| 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 | | | |
|----------------------|------|------|------|
| | 2004 | 2005 | 2006 |
| 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 |

Expectations for National and State Economies



2006, improvements in the state and regional economies will diminish the need for these discounts. At that point, prices will again rise at a normal rate, and the gap between the state and national CPI indices will be narrowed.

Approximately 40% of the BLCI panelists surveyed expect to see strong or moderate growth in the U.S. economy, while 43% anticipate no change. Only 17% foresee a declining national economy during the next quarter. On the other hand, approximately 58% of the panelists believe the state economy will show strong or moderate growth and just 7% expect it to decline. Roughly 35% of the respondents believe the state economy will remain unchanged.

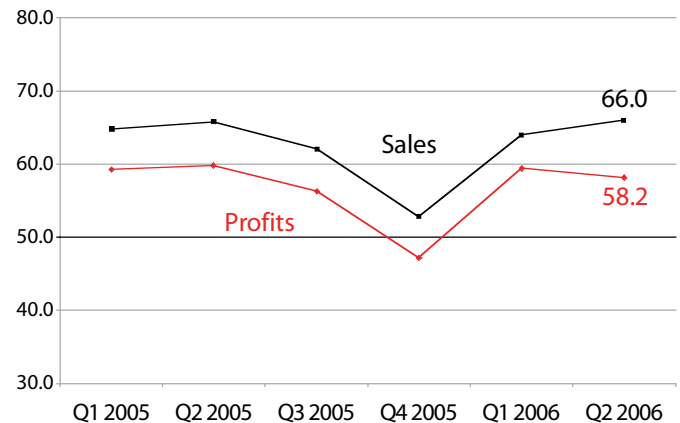
Gap between Profits and Sales Reaches Record Level

After decreasing for three quarters, the gap between sales and profit expectations widened as expectations for sales moved up by two points and the outlook for profits decreased. The gap reached a record level of 7.8 points, which most likely suggests that many companies are unable to pass on rapidly rising costs to their customers. Increased costs from healthcare, fuel and energy, and other inputs will continue to put pressure on businesses to maintain their profit margins.

Business leaders are very optimistic about their expected sales for the upcoming quarter. Almost 70% anticipate an increase, and 21% believe sales will remain unchanged. Only 9% expect a decline in sales. This is in sharp contrast to the profit side of the equation, where less than half (46%) of the respondents expect an increase and 40% believe profits will remain unchanged from the prior quarter.

This optimism for increased industry sales is reflected in a late March update of the Colorado budget, prepared by the Office of State Planning and Budgeting. Their recent projection states that Colorado will collect at least \$158 million more than originally budgeted for 2006. The majority of this increase will be a direct result of increased corporate income tax revenues.

Sales and Profits Expectations

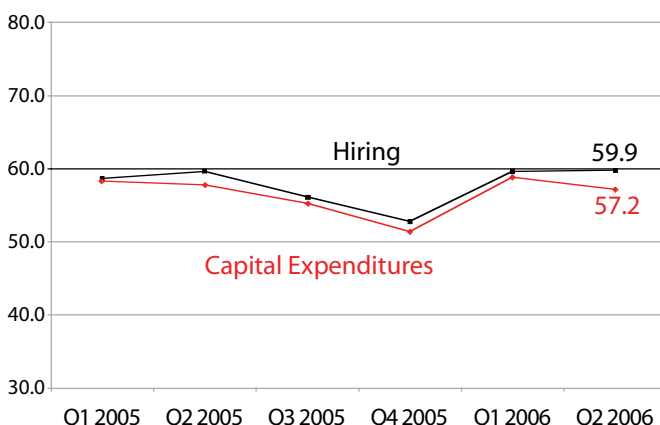


Colorado Hiring to Outpace the Nation

The index components measuring expectations for capital spending and hiring plans have historically been the least volatile of the six BLCI components. Although there was a slight decline in second quarter expectations for capital spending, both index components are at about the same level as a year ago—well above the neutral point of 50. While business leaders surveyed have positive outlooks for the second quarter, they will continue to make careful investments of labor and capital as they strive to meet their sales and profit objectives.

Approximately 41% of the survey panelists project moderate or strong increases in capital spending in their industry next quarter, while 47% expect no changes. The remaining 12% anticipate moderate or strong decreases.

Expectations for Capital Expenditures and Hiring



In comparison, roughly 47% of the panelists expect increases in their industry's work force, whereas about 41% anticipate no change. This optimism is mirrored in the annual forecast of the Colorado economy prepared by the Business Research Division (BRD). In that forecast, the BRD projected that Colorado employment would increase by approximately 52,100 workers this year. At the time this report was published, preliminary January data reflected growth at a slightly higher pace.

Nationally, employment is projected to increase by 1.8%, with Colorado expected to grow at a more robust rate of 2.3% in 2006. The most likely industries for strong growth are Professional Business Services (PBS), Natural Resources and Mining, Health Care and Retail Sales. The PBS sector will lead in absolute growth, increasing by 11,700 jobs. Productivity will continue to show growth for many manufacturers and telecom companies, although in many cases that growth will not result in comparable employment growth.

The Graying of America

The 2004 American Community Survey projects that about 7% of the U.S. population is projected to turn age 55 by 2009. An additional 16% will reach that mark by 2019. Colorado has a slightly younger population than the United States as evidenced by the fact that less than 19% of the population is 55 and older, compared to 22% for the nation.

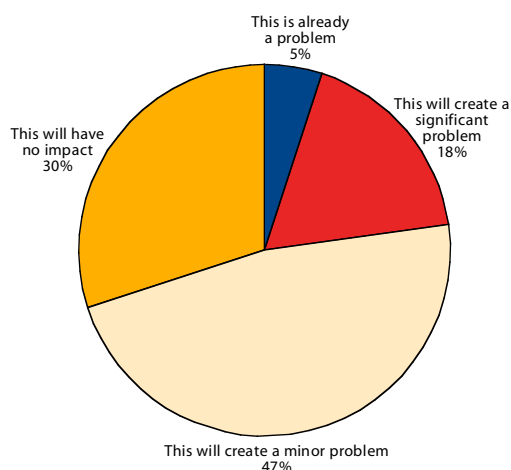
Some industries, particularly advanced technology industries that require high levels of specific technical or institutional knowledge, are reportedly facing a crisis because many workers will be retiring in the near future.

U.S. and Colorado Age Breakdown

| Age | Colorado % | U.S. % |
|-----------------|------------|--------|
| Under 20 years | 28.4 | 28.0 |
| 20 to 39 years | 29.8 | 27.5 |
| 40 to 44 years | 8.5 | 8.0 |
| 45 to 49 years | 7.7 | 7.7 |
| 50 to 54 years | 6.8 | 6.8 |
| 55 years & over | 18.8 | 22 |
| Total | 100 | 100 |

Source: 2004 ACS Table S0101

Impact of Retirement on your Company?



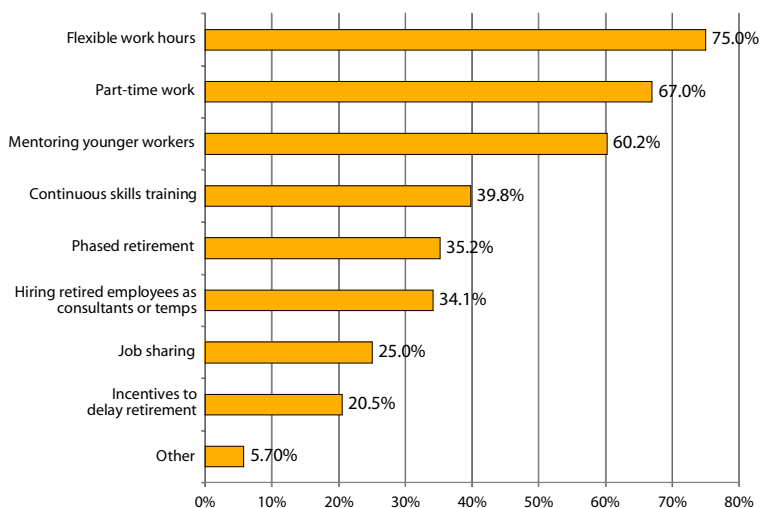
With that in mind, Colorado business leaders were asked what percentage of their workforce is in the 55 or older age bracket. About two-thirds report that less than 20% of their workers are in this age group. For approximately one in six companies, 20-29% of employees are in this category. Another one in six stated that at least 30% of workers are age 55 or older.

Overall, business leaders are not anticipating that the aging of the workforce will be a critical problem in the future. Only about 5% report there is currently a problem, while about 18% believe this will be a significant problem in the near term. Approximately 47% feel this will cause a minor problem, whereas 30% report this will have no impact on their business.

About one-third of the companies indicated that they had a plan, or were working on a plan, to deal with the situation. Roughly 55% of the panelists who indicated that this is already a problem or that it will create a significant problem stated that they had a plan or were working on a plan.

The panelists who indicated that they had a plan or were working on a plan were asked what actions they would take to retain the services of the older workers. The most common responses were to offer flexible work hours or part-time work opportunities for older workers, or mentoring programs for younger workers. A second group of less frequently cited responses included continuous skills training for all employees. Other alternatives for older employees were consulting or temporary opportunities, and phased-in retirement. The least popular options were incentives to delay retirement and job sharing programs.

How to Retain Older Workers?



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



Business Leaders Confidence Index History

| | Q1 2005 | Q2 2005 | Q3 2005 | Q4 2005 | Q1 2006 | Q2 2006 |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| BLCI | 61.3 | 61.5 | 58.1 | 49.1 | 60.9 | 60.1 |
| <i>Component indices:</i> | | | | | | |
| National Economy | 62.8 | 62.9 | 58.5 | 39.6 | 59.4 | 55.7 |
| State Economy | 64.2 | 62.8 | 60.2 | 50.9 | 63.8 | 63.7 |
| Industry Sales | 64.8 | 65.7 | 62.1 | 52.8 | 64.0 | 66.0 |
| Industry Profits | 59.2 | 59.8 | 56.4 | 47.2 | 59.4 | 58.2 |
| Industry Hiring Plans | 58.7 | 59.7 | 56.1 | 52.8 | 59.7 | 59.9 |
| Industry Capital Expenditures | 58.3 | 57.9 | 55.3 | 51.5 | 58.9 | 57.2 |

* For a complete history, visit www.bhci.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 June for our Third Quarter 2006 survey at www.bhci.com/colorado.