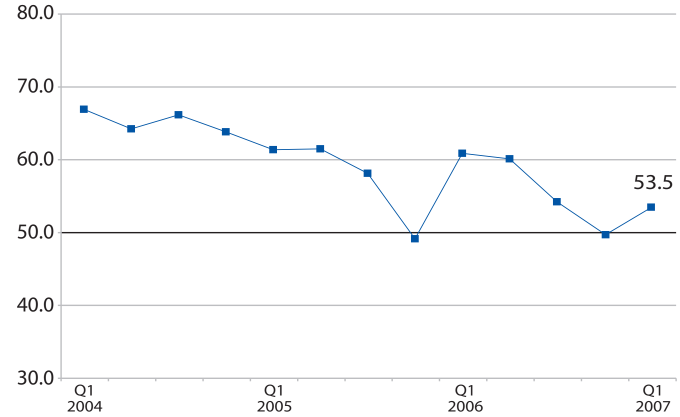
BUSINESS LEADERS BLCI CONFIDENCE INDEX®

Colorado
First Quarter 2007
Volume 5 • Number 1

Economy Growing at a Modest Rate

Business Leaders Confidence Index History



The Colorado *Business Leaders Confidence Index*® (BLCI) moved up from 49.9 to 53.5 for the first quarter of 2007, reflecting the view of a modestly expanding economy. The forward-looking index, which measures expectations for the upcoming quarter, is comprised of six components. Five of the six components registered above 50, in the range of 52.9 to 56.1, indicating that the economy continues to be in an expansionary mode.

The national economy can best be described as growing, but at a below-potential output level. After strong expansion the first half of 2006, real GDP growth was driven down during the second half of the year due to the impacts of rising interest rates, the slumping housing market and the prolonged higher costs of foreign oil. This level of moderate economic expansion is projected to continue into 2007, with real GDP expected to drop to 2.6%, well below the 2006 rate of 3.4%. Overall growth will be slowed by lower consumption, real business investment and government expenditures. Real disposable personal income is expected to rise by 3.3%, with a projected increase of 6.8% in retail sales.

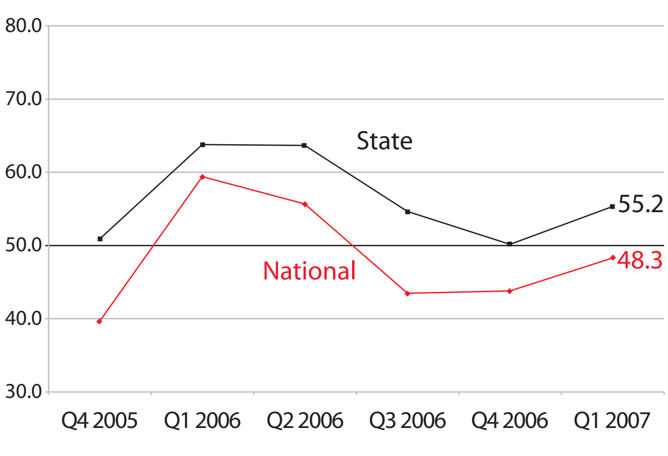
Similar to the U.S., the considerable momentum the world economy experienced during the first half of 2006 decelerated during the second half of the year. A more moderate growth rate is expected for 2007. The strongest real GDP growth is projected to occur in the Asia Pacific region, Eastern Europe and Russia, while Western Europe will remain sluggish. The economies of our NAFTA partners, Canada and Mexico, are expected to outperform the U.S. economy. Overall, the positives should outweigh the negatives for Colorado exporters, with an expected increase of 11% in 2007 exports.

Colorado Continues to Outperform U.S.

For the seventh consecutive quarter, Colorado business leaders indicated they have more confidence in the performance of the state economy than the national economy. In 2007, both the U.S. and Colorado unemployment rates are expected to rise slightly, to 5%, for the U.S. and 4.8% for Colorado. With the relative strength of the state economy, more people will be attracted to Colorado. As a result, net migration will rise and statewide population is anticipated to grow at a rate of 2% this year, compared to 1% for the nation.

At the state level, retail sales are a good barometer of consumption. Colorado is expected to record solid retail sales growth, an increase of 4.5%; however, this is almost two percentage points below the projected growth rate for the nation. This relatively weaker retail sales picture is a reflection of the prolonged slump in residential housing as well as the continued weakness in the sale of automobiles. Colorado per capita income will remain above the national level, $40,749 versus $37,345 though the rate of increase in 2007 will be in line with the nation.

Expectations for National and State Economies



The sectors of the economy with the highest absolute employment growth are projected to be Professional and Business Services; Trade, Transportation, and Utilities; Leisure and Hospitality; Educational and Health Services; and Government. Nonfarm wage and salary employment for 2007 is projected to grow at a rate of 1.9%, reflecting a gain of 42,300 jobs. On the downside, the Information supersector is expected to only add 300 jobs and Manufacturing is expected to lose 100 jobs.

While the Colorado and U.S. economies are closely linked, Colorado has a greater concentration of technology-based, high-wage industries. Because the recent recession centered around the tech sectors, it had a more dramatic impact on the state, especially during the 2001-2003 period.

The following data help illustrate this point. In January of 1990, approximately 7.6% of the state's workforce was classified as technology based. At its peak in January 2001, this percentage had climbed to 9.4%. In August 2006, it had dropped to 7.4%. From an employment perspective, technology workers in Colorado totaled 97,600 in January of 1990. By February 2001, the number had soared to 179,500. Nearly three years later, technology employment had dropped to 139,800 workers. By August 2006, this total had modestly increased to 145,700.

Despite this dramatic decline in tech workers, Colorado continues to have a much higher concentration of tech workers than the nation. State leaders must support policies that foster job creation, research and development, and workforce development if Colorado is to maintain and enhance that advantage.

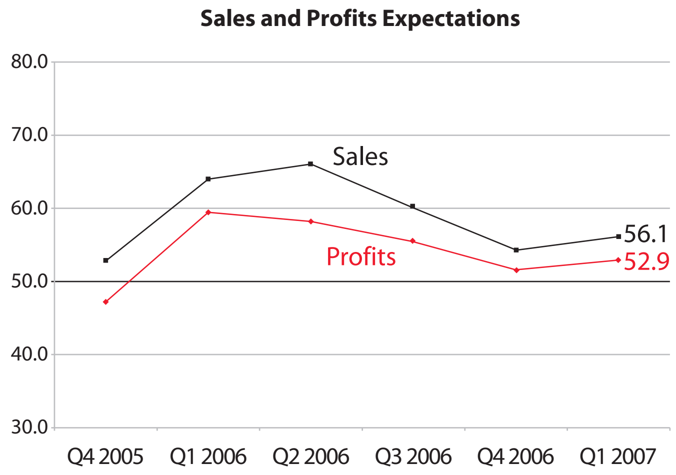
About one-third of the BLCI panelists believe the national economy will grow more slowly in the first quarter than in the fourth quarter of 2006, while 38% expect no change. Only 28% foresee an improving national economy.

On the other hand, approximately 38% of the panelists believe the state economy will perform better in the first quarter, and only 18% expect it to decline. Roughly 43% of the respondents think the performance of the state economy will remain unchanged from last quarter.

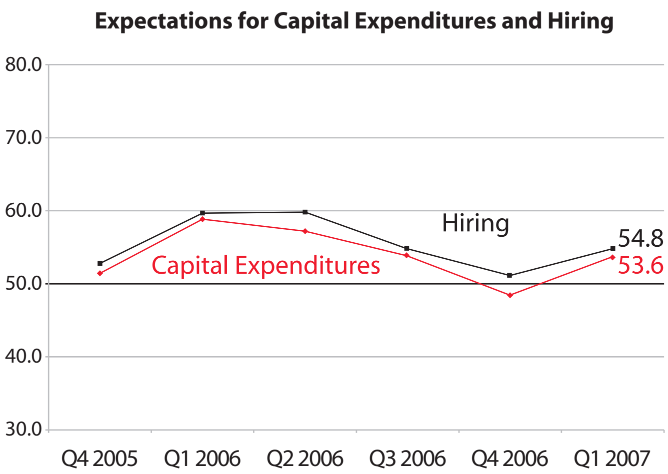
Outlook for Profits and Sales Rebounds

The BLCI components that measure expectations for sales and profits are only slightly higher than last quarter; however, the index component measuring sales expectations was the highest of the Q1 2007 component measures, at 56.1. The gap between sales and profits is well below the four-year BLCI average suggesting that many companies are managing pressures from the increasing costs of healthcare, energy, and other inputs.

Although business leaders are optimistic about sales during the upcoming quarter, this index component recorded the third lowest value of the previous four years. This supports the belief that the economy is expanding at a much slower rate than in the recent past. Nationally, personal consumption is expected to increase by 2.8% in 2007, while real business investment is expected to expand by 6.8%. Government spending growth is anticipated to drop to 1.9%.



About 47% of the BLCI panelists anticipate an increase in sales, and 29% believe sales will remain unchanged. Approximately 24% expect a decline in sales. On the profit side of the equation, 39% of the panelists believe profits will increase, while 34% expect them to remain unchanged. Almost 27% anticipate a decline in profits during the first quarter.



Outlook for Hiring and Capital Spending Remains Positive

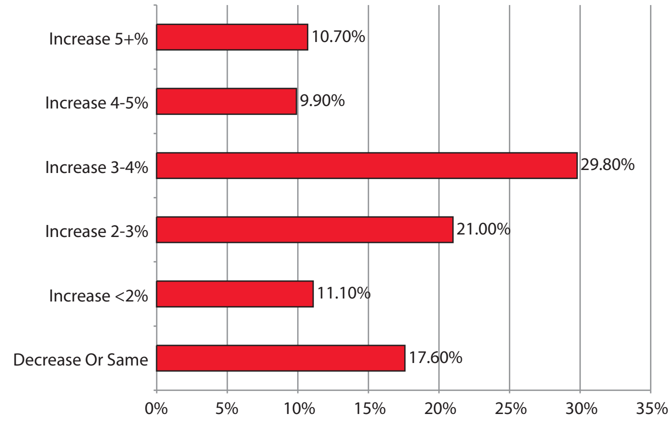
From a historical perspective, the Q1 2007 index components that measure expectations for capital spending and hiring plans are lower than the four-year BLCI average. Then again, it should be noted that both these components are above the neutral point of 50. This illustrates that companies will continue to make careful investments in labor and capital projects as a means of reaching sales and profit goals. Expectations for hiring are above those for capital spending, suggesting that companies will have a greater tendency in the coming quarter to support their growth through increased employment.

Approximately 35% of the panelists project moderate or strong increases in capital spending in their industry during the first quarter, while 45% expect no changes. The remaining 20% believe moderate or strong decreases will occur. By comparison, roughly 39% of the panelists anticipate increases in their industry's workforce, whereas about 42% foresee no change. About 19% expect a decline.

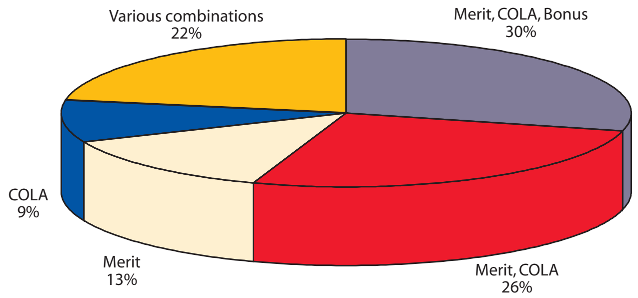
Expectations for Employee Compensation

The topical questions this quarter focus on expectations of employee compensation changes (excluding benefits) during the next 12 months. The median value of the expected increases fell in the 3.0-4.0% range, up slightly from the responses received in the first quarter 2006 BLCI survey. A survey conducted recently by Mercer Human Resources Consulting shows that overall companies "expect to dole out average annual pay raises for 2007 of 3.6% to 3.7%."

Over the next year do you expect employee compensation (excluding benefits) in your firm to:



Compensation Categories



BLCI panelists were asked to identify the sources of 2007 pay increases among the following four categories: merit/performance, cost of living adjustments (COLAs), year-end bonuses, and stock options. While a clear majority, 77%, of the companies expect to use a variety of methods for increasing wages, nearly a quarter of the companies surveyed indicate that they will use only one type of compensation method.

The most frequent grouping of compensation categories was the combination of merit increases, COLAs and year-end bonuses. About 26% of the survey participants expect to pair merit increases and COLAs. Approximately 13% will use merit/performance increases exclusively while 9% use COLAs exclusively. Various other combinations account for the remaining 22% of responses.

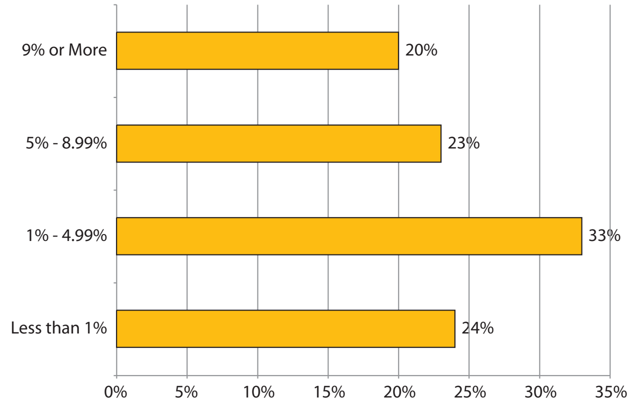
Across the various combinations, about 85% of the companies indicated that compensation increases will be based on merit or performance. Almost 74% of panelists plan on COLAs as part of their compensation package, while 44% expect to provide year-end bonuses and only 9% provide stock options.

The percentage of companies that base pay raises on merit is up compared to responses to a year ago and in line with a labor market that allows employers to be more selective about who receives pay increases. These results are supported by the Mercer survey that reported, "Companies have been tying pay to performance in recent years in an effort to keep their fixed expenses as lean as possible, yet at the same time rewarding the most valuable workers. This provides companies the flexibility to rein in costs during tight years, but to share the profits during abundant years."

Finally, business leaders were asked to indicate the amount of bonuses offered by their companies. Of those panelists who were aware of the bonus structure, the median increase was 3.0 – 5.0% of employee wages.

A quarter of the respondents indicated the bonuses would be negligible, i.e. less than 1%. About one-third indicated that bonuses would be between 1% and 4.9% and another 23% responded that bonuses would be between 5% and 8.9%. Approximately 20% of the panelists indicated that their bonuses would be greater than 9%.

If your firm offers a year-end bonus, which category best represents the percentage of an employee's wage?



Compass ON BUSINESS

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

Compass Bank

University of Colorado at Boulder
Colorado LEEDS
School of Business

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.

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 2007 survey at www.blci.com/colorado.

Business Leaders Confidence Index History by Component

	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006	**Q1 2007**
BLCI	49.1	60.9	60.1	53.8	49.9	**53.5**
Component indices:						
Expectations for National Economy	39.6	59.4	55.7	43.5	43.8	**48.3**
Expectations for State Economy	50.9	63.8	63.7	54.6	50.1	**55.2**
Industry Sales Expectations	52.8	64.0	66.0	60.2	54.3	**56.1**
Industry Profits Expectations	47.2	59.4	58.2	55.5	51.6	**52.9**
Industry Hiring Plans	52.8	59.7	59.9	54.8	51.2	**54.8**
Industry Capital Expenditures	51.5	58.9	57.2	54.0	48.4	**53.6**

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