

### BLCI Edges Forward on Increased Sales Optimism

The third quarter Colorado *Business Leaders Confidence Index*® (BLCI) edged forward on the strength of stronger sales and solid hiring and capital spending. The forward-looking index, which measures expectations for the upcoming quarter, moved from 54.9 to 55.6. Five of the six index components posted increases, and only one registered below 50. The fact that the BLCI is above the neutral point of 50 suggests that the economy should continue in an expansionary mode in the coming quarter.

Colorado business leaders continue to express apprehension about the performance of the national economy. Although real GDP registered a solid growth rate of 3.3% in 2006, the expansion was anemic during the second half of the year due to the effects of rising interest rates, the slumping housing market and the prolonged higher costs of foreign oil. This below-potential level of growth has continued into the first half of 2007. Real GDP growth for the first quarter was revised downward to 0.6%; however, steady improvement is expected during the remainder of the year. Projections point to real GDP growth in the range of 2.0% to 2.6% for 2007.

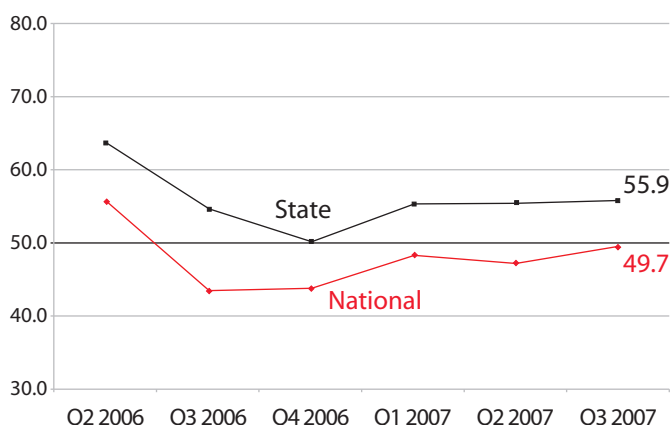
### Solid State Growth Outpaces the Nation

Nationally, the economy remains stable, despite the lackluster growth in GDP. On a positive note, unemployment is expected to remain unchanged at 4.5%, and employment is expected to increase, albeit at a rate lower than last year. Consumer spending continues to be strong, government spending remains solid and business investment should increase in the second half of the year. The primary downside risks are possible energy shocks that might arise from severe weather or an unforeseen geopolitical event, continued uncertainty in the housing market and a possible slowdown in consumer spending. At 2.6%, the inflation rate is high enough to continue to attract attention. Although low by historical standards, core inflation is running in the upper bounds of the comfort level for the Fed. As a result, short-term interest rates are expected to remain flat for much of the year. If there is a change, there is a greater probability that movement will be in an upward direction.

Although the performance of the Colorado economy is closely linked to the U.S. economy, for the past two years Colorado business leaders have been more confident in the performance of the state economy. Between mid-2005 and mid-2007 Colorado's population increased by approximately 180,000, of which about 55% was a result of net migration. Population growth for the state is 2.0% compared to 1.0% for the nation. During that same period, Colorado employment increased by roughly

100,000 workers. Employment has climbed about 2.2% for the state over the past two years compared to 1.7% for the United States.

Expectations for National and State Economies



As business leaders look ahead to the third quarter, a significant gap exists between expectations for the U.S. and Colorado economies. For the third quarter in a row, the measurement for state expectations remains above 55, while the national outlook component is below 50 for the fifth consecutive quarter.

About 44% of the panelists believe the national economy will remain unchanged during the upcoming quarter, while 28% are optimistic and a similar percentage pessimistic. At the state level, approximately 42% of the panelists believe the performance of the state economy will remain unchanged. About 40% expect it to perform better in the third quarter, while only 18% expect it to decline.

At the moment, the greatest risk to the Colorado economy appears to be a downturn in the national or global economies. Although the housing and construction markets continue to be sluggish, Colorado is not affected as much as other areas of the country that experienced double-digit growth over the last couple of years. High energy prices are both a negative and a positive. While they are a burden to the consumer and increase the rate of inflation, they also benefit areas of the state with strong oil and gas reserves on the fiscal side. The argument can be made that high energy prices are more of a burden than a blessing because state coffers benefit more from sales and use taxes than from severance taxes and mineral lease revenue.

A final indicator of the strength of the state economy came in June when the state's Office of Planning and Budgeting announced that the forecast for General Fund revenue increased by \$62.9 million for 2006-2007 compared with the March 2007 revenue forecast. This gain is largely due to projected increases in individual income taxes.

### Outlook for Stronger Sales and Weaker Profits

The index component that measures expectations for sales showed the greatest component increase, whereas expectations for profits was the only component that registered a decrease. As a result, the gap between profits and sales expectations increased to 6.5, the second highest level in the history of the BLCI. This suggests that many companies are concerned about pressures from the increasing costs of healthcare, energy and other inputs. In addition, as the unemployment rate continues to decline, wage pressure is anticipated to increase, particularly in the high-tech area.

On a related note, real per capita income for Colorado is expected to rise 5.3% this year, up from 4.6% in 2006. Nationally, 2007 per capita income is projected to grow 4.8%. This should help support solid consumer spending in the state.

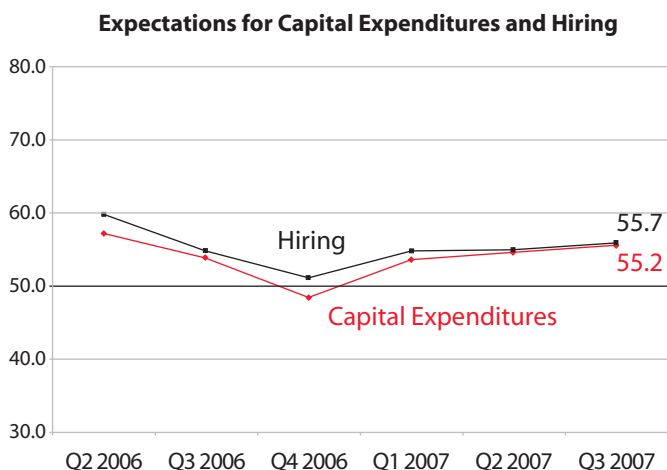
About 58% of the panelists anticipate an increase in sales, up from 53% last quarter. Right at 27% believe sales will remain unchanged and only 15% expect to see a decline.

On the profit side of the equation, 43% of the panelists believe profits will increase, while 35% expect them to remain unchanged. Roughly 23% anticipate a decline in profits during the third quarter.

### Gap between Hiring and Capital Spending Closes

The index components for hiring and capital spending posted marginal increases for the third quarter, yet both remain above the neutral point of 50. Furthermore, the gap between hiring and capital spending has almost disappeared. This suggests that companies will continue to make careful investments equally in labor and capital projects as a means of reaching sales and profit goals. For the past two years, the trend has been to focus more on labor investments. This change is likely a reflection of tighter labor markets and low unemployment rates.

Approximately 50% of the panelists expect no changes in capital spending in their industry during the third quarter and 35% project moderate or strong increases. The remaining 15% believe moderate or strong decreases will occur.



By comparison, about 48% of the panelists foresee no change in their industry's workforce, whereas roughly 37% anticipate increases. Almost 15% expect a decline.

sectors of the economy with the highest absolute employment growth are Professional and Business Services; Educational and Health Services; Leisure and Hospitality; and Government. Combined, about 38,000 jobs have been added in these four areas. On the downside, decreases have occurred in both the Construction and Manufacturing sectors. On a positive note, however, the Information Sector has showed a slight increase in employment for the first time in more than six years.

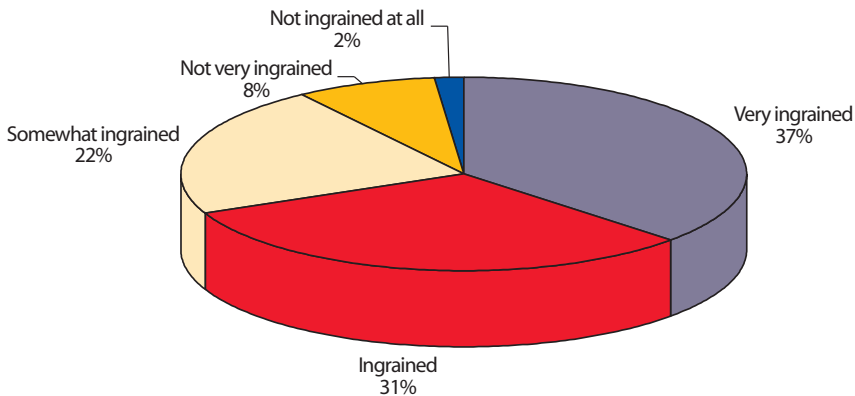
Cost Management Strategies

The topical questions this quarter focus on the cost management strategies and tactics used by Colorado companies to improve overall productivity. Areas examined were the importance of cost management to companies, where companies are most likely to incur costs, and where cost cutting occurs during down times.

Strategic cost management includes setting cost-related objectives as part of the business planning process and communicating those objectives. Based on survey results, cost management is important to Colorado companies, and it is accomplished in various ways.

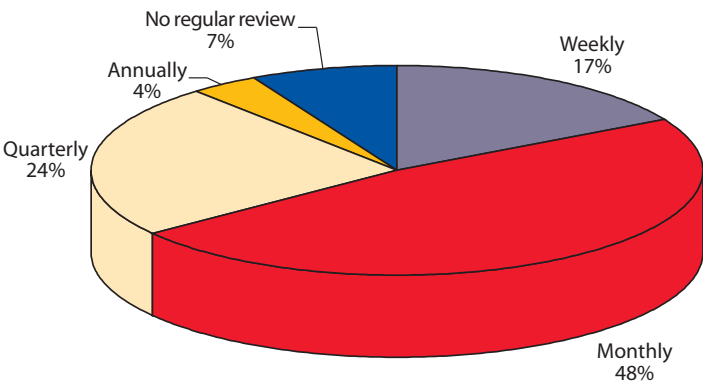
About 68% of the panelists said that cost management was ingrained in their business and strategy. An additional 22% indicated that it was somewhat ingrained. The remaining respondents indicated that cost management was not ingrained.

How ingrained is cost management in your business and strategy?



Colorado companies use a variety of strategies to review their costs. About 48% review costs on a monthly basis, whereas 24% review quarterly. An additional 17% are more meticulous, looking at costs each week. A handful of companies, 4%, examine costs annually, and the remaining 7% have no regular schedule or strategy.

How Often Do You Review Costs?



Panelists were asked to rank four areas of expenses in terms of cost. For 80% of respondents, the first or second most costly area was salaries and benefits. Materials and supplies were a distant second, followed by energy and transportation. Equipment expenses ranked last of the four categories.

Areas of Highest Cost	
Benefits/Salaries	80.0%
Materials/Supplies	35.8%
Energy/Transportation	26.7%
Equipment	20.4%

Areas in Which You Reduce Costs	
Raises/Bonuses/Benefits	43.2%
Travel/Expense Accounts	33.0%
Across The Board	22.1%
People	22.0%
Marketing	15.4%
Stretch Payables	14.8%

Colorado business leaders were given six categories to rank in terms of costs they would cut if necessary. About 43% indicated that pay raises, bonuses, and benefits were their first or second choice. Next was travel and expense accounts, followed by across-the-board cuts and staff reductions. The final areas were marketing and stretching payables as a means of extending their cash flow.

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



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

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 September for our Fourth Quarter 2007 survey at [www.bcli.com/colorado](http://www.bcli.com/colorado).**

### **Business Leaders Confidence Index History by Component**

	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	<b>Q3 2007</b>
<b>BLCI</b>	60.1	53.8	49.9	53.5	54.9	<b>55.6</b>
<i>Component indices:</i>						
Expectations for National Economy	55.7	43.5	43.8	48.3	47.2	<b>49.7</b>
Expectations for State Economy	63.7	54.6	50.1	55.2	55.5	<b>55.9</b>
Industry Sales Expectations	66.0	60.2	54.3	56.1	60.4	<b>61.7</b>
Industry Profits	58.2	55.5	51.6	52.9	56.4	<b>55.2</b>
Industry Hiring Plans	59.9	54.8	51.2	54.8	55.0	<b>55.7</b>
Industry Capital Expenditures	57.2	54.0	48.4	53.6	54.7	<b>55.2</b>

*\* For a complete history, visit [www.bcli.com/colorado](http://www.bcli.com/colorado).*