

Index Dips Below Neutral Point The combination of a tightening credit market, the housing slump and increased oil prices have caused business leaders to express concern about the future performance of the economy. The Colorado Business Leaders Confidence Index® (BLCI), which measures the expectations of Colorado business leaders for the upcoming quarter, moved into negative territory falling from 55.6 to 47.9.

All six index components posted decreases, and only two registered above 50. The fact that the BLCI is below the neutral point of 50 suggests that the economy will continue to perform below its potential in the months ahead.

During the first quarter of 2007, the GDP registered movement of only 0.6%, with a more robust growth rate of 3.8% in the second quarter. Annual projections for the year point to real GDP growth in the range of 2.0% to 2.3% for 2007. Obviously, third and fourth quarter numbers are expected to be more modest than the second quarter. Sluggish real GDP growth is expected to continue into the first half of 2008.

The fourth quarter BLCI was driven to a record low by very weak expectations about the performance of the national economy, along with pessimism about hiring and capital expenditures. Business leaders remain most optimistic about their prospects for sales and profit.

This quarter the BLCI survey was conducted from September 1st through September 20th. Survey expectations were monitored throughout the period to determine if there was an impact from the Fed's announcement to lower Fed Funds rates. Responses were more positive after the announcement that rates would be lowered than during the initial days of the survey period. Time will tell whether the Fed's rate-cutting actions will truly impact the economy over the short-term.

It should also be noted that national employment data, which reflected a loss of jobs for the first time in four years, was released during the first week of the survey period. The magnitude of the decline may have negatively impacted some of the results.

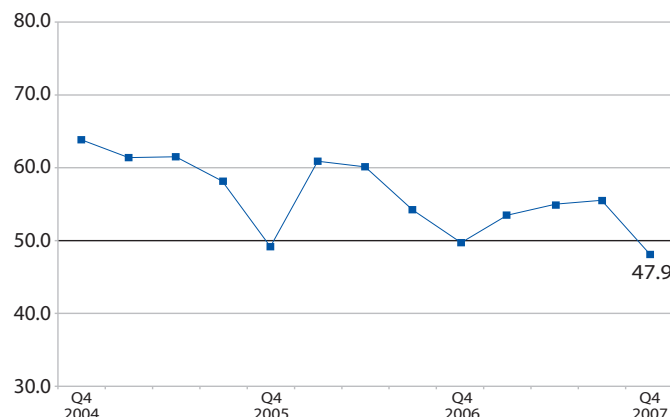
State Growth Outpaces the Nation The disarray in the credit and housing markets has weakened the national economy to the point that the "R word" is being used more frequently. While the likelihood of a recession has admittedly increased, such an occurrence presently remains in the range of 25% to 40%.

For much of the past year, Colorado led the nation in foreclosures. In recent months, while other states have begun to experience greater problems from the housing slump/credit tightening, Colorado's overall situation has improved. On a positive note, the state appears to have weathered that storm and is expected to pull out of the slump in the second half of 2008.

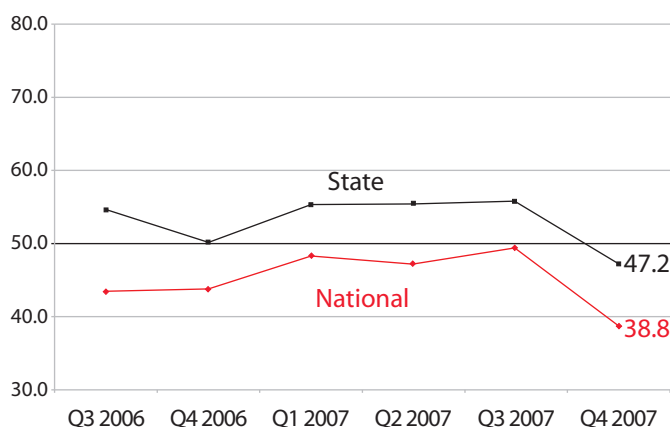
As is always the case, there are a number of downside risks that might prolong the current sluggish growth. These include geopolitical events, the failure of mortgage-lending institutions, stronger than anticipated inflation or increases in the cost of oil and decreased spending by consumers and businesses. At the moment, overall consumption is the factor that is generating the most attention and concern.

In a September press release, the National Retail Federation (NRF) predicted that total holidays sales (November and December) will be up 4.0%, representing the slowest growth since a 1.3% increase in 2002. Overall, the NRF expects this slower rate of spending to continue into 2008, when nominal retail sales will increase by about 5.3%, or about one percentage point below the 2007 total.

BLCI History



Expectations for National and State Economies



The combination of the factors mentioned previously has caused business leaders to show concern about the performance of the economy. Fourth-quarter expectations for the national economy dropped by almost 11 points, from 49.7 to 38.8, while the outlook for the Colorado declined from 55.9 to 47.2. The national outlook is below 50 for the sixth consecutive quarter, mirroring the below potential growth of the GDP. This is only the second time in 19 quarters that the state index component has registered below the neutral point.

On a positive note, the index suggests that business leaders expect Colorado to continue to outperform the nation. At the same time, the index offers a word of caution. Because the performance of the Colorado economy is closely linked to the national economy, it is clear the national economy will continue to perform at a level that may cause the state economy to expand at a slower rate than in recent months.

About 32% of the panelists believe the national economy will remain unchanged during the upcoming quarter, while 13% are optimistic and 55% are pessimistic about future growth. At the state level, approximately 44% of the panelists believe the performance of the state economy will remain unchanged. While 23% expect it to improve in the fourth quarter, one-third expects it to decline.

Outlook for Weaker Sales and Profits The sales component of the BLCI was the most positive of the six components, registering 53.7, a decline of 8 points compared to last quarter. About 42% of the panelists anticipate an increase in sales, while only 27% expect to see a decline. Thirty-one percent believe sales will remain unchanged.

The decrease in sales expectations is most likely a reflection of forecasts that project reduced demand. The picture that is being painted shows concerns about personal consumption, which accounts for about 70% of the GDP, and comparatively weak real business investment, a key element in business cycles. Finally, real government consumption and investment growth will remain flat, slightly under 2%, this year and next.

At the state level, retail trade sales are one of the best proxies of consumption. September 2007 projections prepared by the Governor's Office and State Budgeting and Planning (OSPb) suggests that the outlook for Colorado retail sales for 2007 will increase by 5.4%, similar to the 2006 rate of growth.

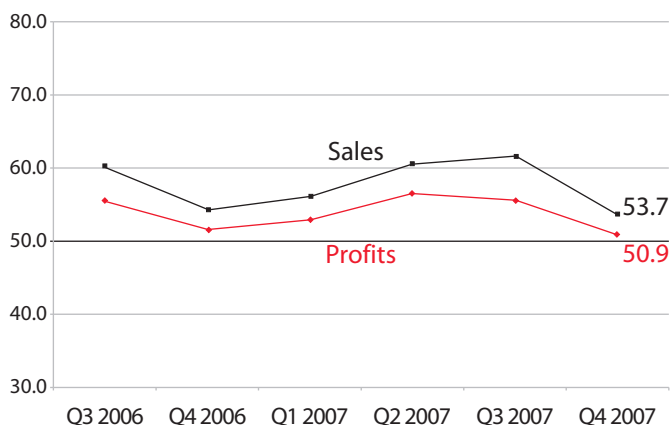
The profit component of the index also posted a value above the neutral point coming in at 50.9. On the profit side of the equation, 34% of the panelists believe profits will increase, while 35% expect them to remain unchanged. Roughly 31% anticipate a decline in profits during the fourth quarter.

Between 2003 and 2006, Nominal Pre-Tax Corporate Profits experienced double-digit growth, ranging from 12 to 24%. The outlook for 2007 and 2008 is a slower growth rate of less than 4%. While there is a decline in the rate at which profits are expected to increase, the critical issue is that the rate of growth will remain significant. On a similar note, employment costs will remain relatively flat and producers' prices are expected to decrease slightly during the next year.

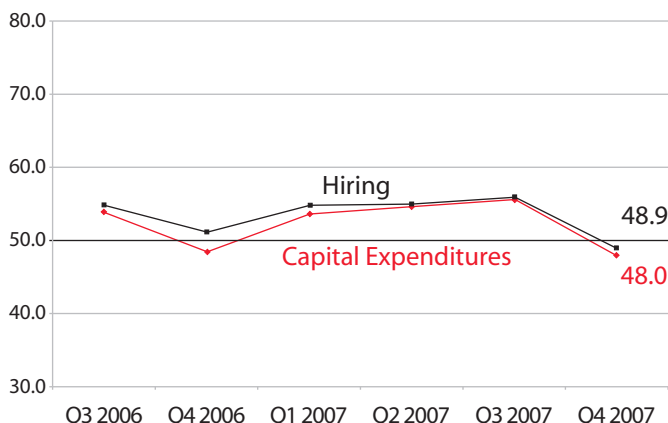
Hiring and Capital Spending near Neutral Point The index components for hiring and capital spending dropped sharply to record lows. Both values dropped below the neutral point of 50, pointing to slower activity.

Nationally, employment is expected to grow at a rate of about 0.8% in 2008 while the unemployment rate will increase slightly to 4.8%. The U.S. population is projected to expand at a rate of 0.9%.

Sales and Profit Expectations



Expectations for Capital Expenditures and Hiring



In its September release of economic data, OSPb projected that the state unemployment rate will remain at 4.0% through next year. They estimate employment will rise by 1.9% this year, following by an increase of 1.8% in 2008.

A straw poll of the estimating group for the Colorado Business Economic Outlook points to a slower rate of growth - 1.6% - next year. The upside to growth in the 1.5 to 2.5% range is that it is much more manageable than the explosive rates of employment growth seen during the 1990s.

Roughly 27% of the panelists anticipate increases in their industry's workforce, whereas about 44% foresee no change. Almost 29% expect a decline.

Approximately one-quarter of the panelists project moderate or strong increases in capital spending in their industry during the fourth quarter; 45% expect no changes. The remaining 30% believe moderate or strong decreases will occur. As previously mentioned, real business investment will occur at a slower rate than in previous years. Projections are for growth of 3.5 to 4.5% for both this year and next.

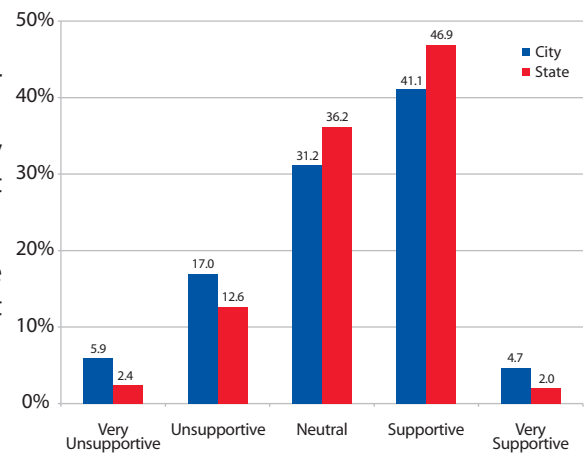
Topical Question Series: State and Local Support for Business

The topical question series this quarter focuses on state and local support for business. Respondents rated how supportive their state and local business environments are and ranked the ways state and local regulation has positively affected business. In addition, business leaders shared their thoughts about what issues the state and local government should focus on.

Overall, a majority of business leaders felt that they operate in favorable state and local business environments. They view the state business environment slightly more favorably than the local business environments.

Slightly less than half of the respondents indicate that the state's business environment was supportive while slightly more than one-third said it was neutral. Right at 15% felt they were operating their business in a state environment that was not helpful.

At the local level, about 46% of business leaders thought the local business environment was helpful, while less than one-third thought it was neutral. About 23% thought their business was operating in an unhelpful local business environment.



Rank the ways in which city/municipal regulation has positively affected your business

1. Provides local incentives (e.g., abatements)
2. Assists with zoning issues
3. Streamlines government (e.g., paperwork reduction/e-filing, etc.)
4. Provides workforce training
5. Enables financing
6. Gears tax laws to specific company types

Rank the ways in which state legislation regulation has positively affected your business

1. Stimulates consumer spending
2. Utilizes incentives (e.g., tax credits for energy and R&D/promoting organic growth)
3. Provides workforce training
4. Streamlines government (e.g., paperwork reduction/e-filing, etc.)
5. Enables financing
6. Writes tax laws to address specific industry needs

Finally, Colorado business leaders were asked to identify the top issue they thought state and/or local government should focus on. Business leaders made it clear that their greatest concern is state tax reform, i.e. reduction of the burden of taxes on businesses. The second most important item is better support for state businesses, particularly key industry associations, small businesses, targeted industries, and companies/industries that generate primary jobs.

The current legislative agenda addresses some of these issues. Business leaders will be paying close attention to the outcomes.

If you could get state/city legislators/officials to focus on and improve one key issue, what would it be?

1. Tax reform resulting in more efficient government operations and regulations and lower burden on businesses
2. Support small business, key industry associations, key industries, and companies generating primary jobs
3. Improve the state's infrastructure and transportation system
4. Address immigration issues
5. Sufficient support of P-20 education
6. Address healthcare/insurance issues
7. Address workforce issue needs
8. Affordable housing
9. Increase financing for small businesses
10. Address water issues

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

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 December for our First Quarter 2008 survey at www.bcli.com/colorado.

Business Leaders Confidence Index History by Component

| | Q3 2006 | Q4 2006 | Q1 2007 | Q2 2007 | Q3 2007 | Q4 2007 |
|-----------------------------------|---------|---------|---------|---------|---------|-------------|
| BLCI | 53.8 | 49.9 | 53.5 | 54.9 | 55.6 | 47.9 |
| Component indices: | | | | | | |
| Expectations for National Economy | 43.5 | 43.8 | 48.3 | 47.2 | 49.7 | 38.8 |
| Expectations for State Economy | 54.6 | 50.1 | 55.2 | 55.5 | 55.9 | 47.2 |
| Industry Sales Expectations | 60.2 | 54.3 | 56.1 | 60.4 | 61.7 | 53.7 |
| Industry Profits | 55.5 | 51.6 | 52.9 | 56.4 | 55.2 | 50.9 |
| Industry Hiring Plans | 54.8 | 51.2 | 54.8 | 55.0 | 55.7 | 48.9 |
| Industry Capital Expenditures | 54.0 | 48.4 | 53.6 | 54.7 | 55.2 | 48.0 |

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