

Continued Below Potential Growth on the Horizon

The national economic outlook calls for real GDP growth to continue at a rate below potential. In turn, slower growth is expected for Colorado. After a sharp decline last quarter, the forward-looking Colorado Business Leaders Confidence Index® (BLCI) registered a slight decline, dropping from 47.9 to 45.1. Each of the six BLCI components registered below 50, indicating that the economy will continue to perform at a substandard level in the upcoming quarter.

At this juncture, a great divergence of opinion exists about the performance of the economy. To illustrate this point, we cite the most recent issue of Consensus Forecasts, which predicts a range of real GDP growth from 1.2% to 3.0%. Our view is that the year will start out slow, but the economy will perform better in the second half of 2008.

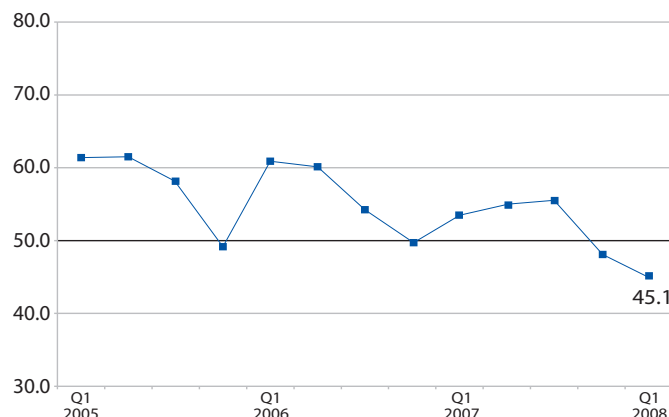
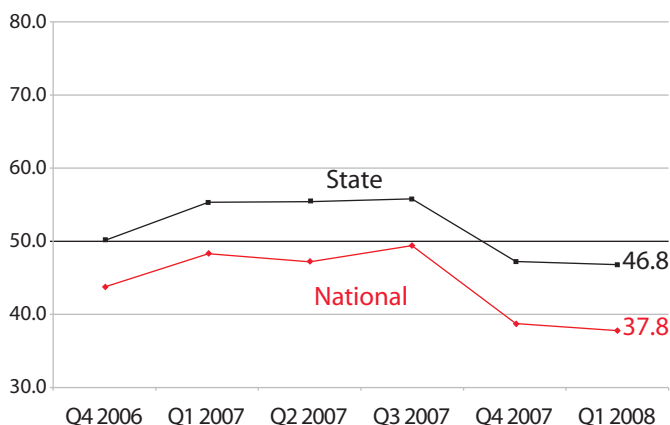
Personal consumption accounts for approximately 70% of GDP. The combination of the slump in the housing market and volatility in the financial markets has been a reminder to consumers that the value of their homes and stock portfolios is capable of moving in both directions. Accordingly, consumers are expected to exercise greater caution in their spending patterns, resulting in modest consumption growth of 2.4% in 2008. It is probable that nominal retail sales will increase by 5.3%, the lowest rate of growth since 2003. Light truck and auto sales, a major component of retail sales, will likely remain flat, at 16 million vehicles. Although it will be some time before the official data are tallied, recent holiday season sales appear to have already felt these effects.

Business investment accounts for about 15% of GDP growth, but plays a critical role in income generation. In 2007, corporate profits grew at a slower rate as a result of rising business costs and the slowing national economy. Real business investment is projected to expand at a rate of 4.2% in 2008.

The third component of GDP is government spending, which accounts for approximately 19% of total output. Anemic growth in real government spending, approximately 1.8% in 2008, will be a drag on the economy. The slowdown will lead to declining tax revenues, which will result in a higher deficit, totaling \$203 billion.

The final component is net exports, which accounts for 4% of total output and has an inverse correlation to the overall GDP equation. During 2007, U.S. exports benefited from strong global economic conditions and the continued decline in the trade-weighted value of the dollar. Net exports will improve to a smaller deficit of \$540 billion in 2008.

Looking ahead to 2008, the global economy is projected to expand at a slower rate. The strongest economic growth projections are for Eastern Europe and Asia-Pacific, with estimated growth rates of 6.2% and 5.3%, respectively. Projected GDP growth for Western Europe in 2008 will be 2.2%. Some of Colorado's strongest European export markets are expected to experience only modest growth.

BLCI History**Expectations for National and State Economies**

State Continues to Outperform the Nation Since the first quarter of 2005, Colorado business leaders indicated they have more confidence in the performance of the state economy than the national economy. On a positive note, the relative strength of the state economy will attract more people to Colorado, and as a result, net migration will exceed 60,000 for the first time since 2001. Colorado's population will pass 5 million in 2008 and the statewide population will increase at a rate of 2.1%, compared to 0.9% nationally.

The sectors of the economy with the highest absolute employment growth will be professional and business services, tourism, healthcare, and natural resources. Nonfarm wage and salary employment for 2008 will grow at a rate of 1.9%, reflecting a gain of 43,300 jobs. On the downside, jobs will be lost in the construction and manufacturing sectors.

Less than 13% of the BLCI panelists surveyed expressed optimism about the national economy during the first quarter, while about 30% expect no change. Slightly more than 57% foresee a declining national economy in the short term.

Panelists are more optimistic about the Colorado economy. Almost 22% anticipate that the state economy will perform better in the first quarter, while almost 45% think the economy will remain unchanged. About one-third of the respondents believe the state economy will perform worse in the near term.

The strongest deterrents to growth in 2008 will be the continued fallout from the subprime collapse, the reset of adjustable interest rates, the credit crunch and slumping housing markets. When these woes initially came to light in late 2006 and early 2007, it was thought they would have a short-term economic impact. Unfortunately, the effect has lasted longer and spilled over into more areas of the market than originally anticipated. Because Colorado felt some of these impacts earlier than other parts of the country, it is possible that signs of a turnaround within the state will be seen in the second half of 2008.

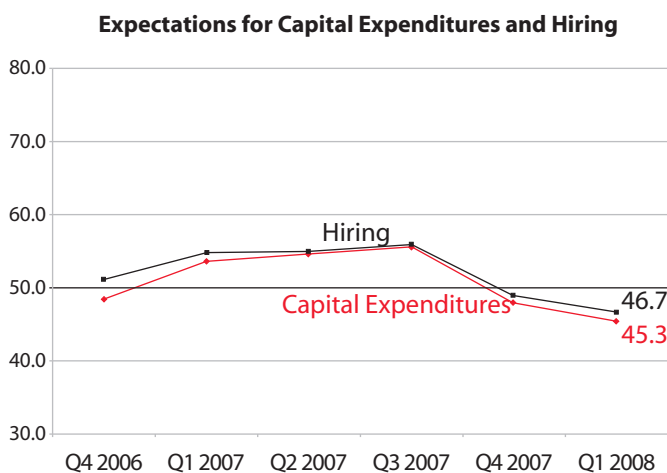
Outlook for Profits and Sales Declines The index components that measure expectations for sales and profits dropped below 50 for the first time since the BLCI was initiated in the first quarter of 2003. Evidently companies are challenged by the prospects of falling sales, along with pressures arising from increased costs of healthcare, energy and other inputs.

Nationally, nominal pre-tax profits are expected to increase at a modest rate of 3.6% in 2008. This represents a slight boost from the 3.3% increase estimated for 2007 and a significant decrease from the double-digit growth rates of the previous four years. Price pressures are likely to continue with producer prices projected to rise by 2% and employment costs by 3.3%. As the Colorado unemployment rate remains below the natural rate, upside wage pressures may develop in certain high-tech sectors.

Roughly 35% of the BLCI panelists anticipate an increase in sales while 28% believe sales will remain unchanged. Approximately 37% expect sales to decline. On the profit side of the equation, slightly more than 27% of the panelists believe profits will increase, and 31% expect them to remain unchanged. Approximately 42% anticipate a decline in profits during the first quarter.

Outlook for Hiring and Capital Spending Remains Cautious 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 virtually the same as those for capital spending, suggesting that companies will support growth through both increased employment and capital expenditures. The index components that measure expectations for hiring plans and capital spending are below the neutral mark of 50, at 46.7 and 45.3 respectively.

Employment in Colorado is projected to increase by 1.9%, or 43,300 jobs, in 2008. If similar growth occurs next year, the state will record average annual employment growth of 30,700 workers for the current decade. This is an annualized increase of about 1.4% for the period 2000-2009.



Since records have been kept, beginning in 1939, state employment has increased at an average yearly rate of approximately 31,500 workers, or an annualized rate of 3.4%. Relative growth during the current decade has occurred at a slower rate than the overall average because the present employment base is much larger. In addition, absolute growth has been dampened by significant job losses that occurred during 2002 and 2003.

About 22% of the BLCI panelists project moderate or strong increases in capital spending in their industry during the first quarter, while approximately 43% expect no change. The remaining 35% believe moderate or strong decreases will occur. By comparison, roughly 22% of the panelists anticipate increases in their industry's workforce, whereas nearly 48% foresee no change. About 30% expect a decline.

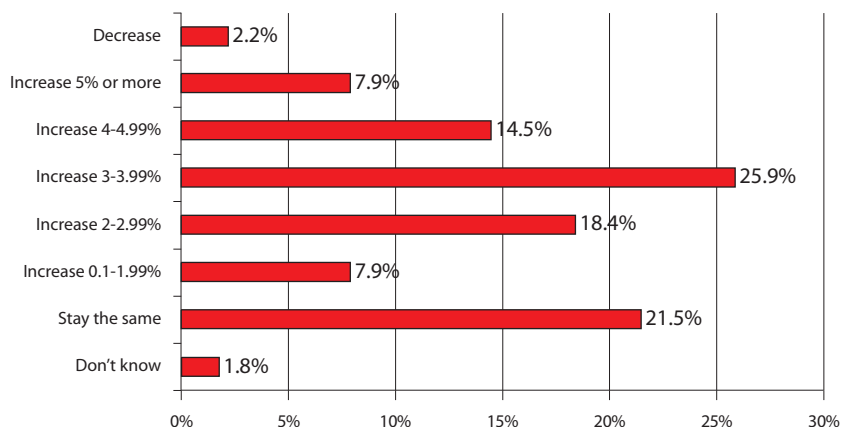
*** Projections for 2008 are based on the Business Research Division's Colorado Economic Outlook.**

Topical Question Series – Employee Compensation Expectations

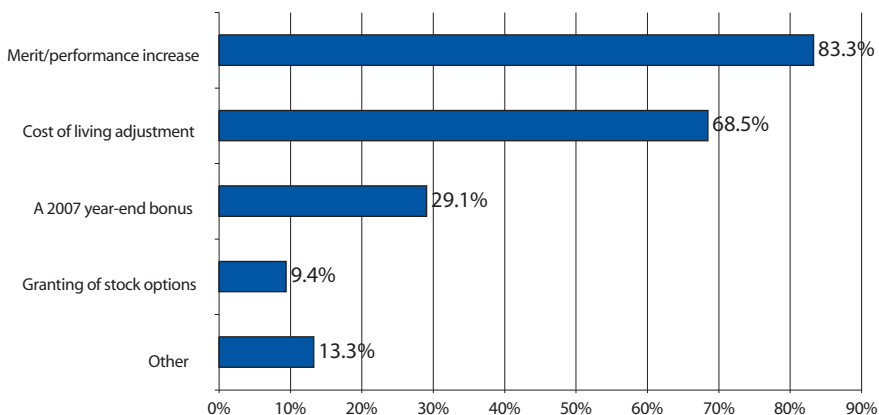
The topical questions this quarter, the same ones asked a year ago, focus on expectations of employee compensation changes (excluding benefits) during the next 12 months.

For the companies where increases were known, the median value of the expected changes fell in the 2.0-2.9% range. This is the one category where survey results fell below those of a year ago (3.0-3.9%). Approximately 24% of the companies anticipate wages to remain the same or decrease slightly.

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



What portion of the total change in compensation will each of the following categories comprise?*



*Panelists could choose multiple answers.

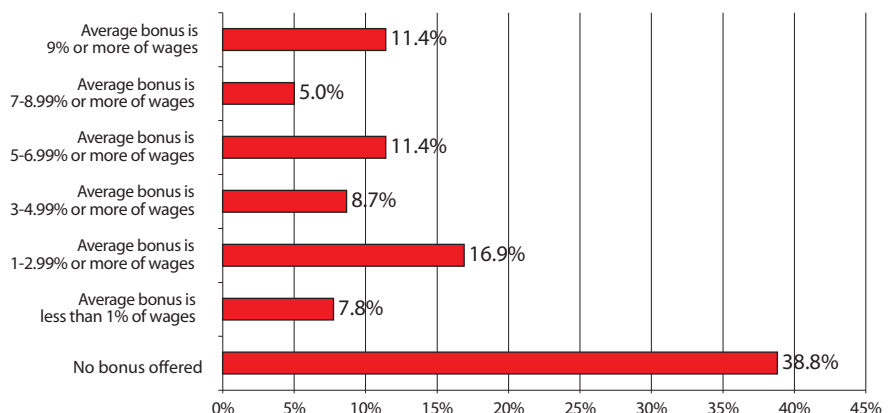
BLCI panelists were asked to identify the sources of their projected 2008 pay increases among four categories: merit/performance, cost of living adjustments (COLAs), year-end bonuses and stock options. A large majority, 71%, of the companies will use a variety of methods for increasing wages. Approximately 83% will rely on merit/performance-based pay increases, while 69% anticipate using COLAs. In addition, 29% will use bonuses as a means of compensation and 9% will use stock options. Other means for increasing pay included commissions and increased benefits.

Nearly 19% of the panelists will exclusively use merit or performance as the basis for pay increases, while 9% will employ COLAs. Less than one percent will rely strictly on bonuses or stock options.

Finally, business leaders were asked to indicate the amount of bonuses offered by their companies. Of those panelists who were aware of their firm's bonus structure, the median increase was 1.0-2.9%, one bracket lower than the 2007 percentage.

In regards to bonuses, approximately 8% revealed the bonuses would be negligible (i.e., less than 1%). About one quarter of the respondents indicated that bonuses would be between 1% and 4.9%, and another 16% responded they would fall between 5% and 8.9%. Approximately 11% reported that bonuses would be greater than 9%.

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



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



For more details on the Colorado Business Leaders Confidence Index, visit www.blici.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 is reported here are the responses of the panelists who completed the BLCI 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 2008 survey at www.blici.com/colorado.

Business Leaders Confidence Index History by Component

	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008
BLCI	49.9	53.5	54.9	55.6	47.9	45.1
Component indices:						
Expectations for National Economy	43.8	48.3	47.2	49.7	38.8	37.8
Expectations for State Economy	50.1	55.2	55.5	55.9	47.2	46.8
Industry Sales Expectations	54.3	56.1	60.4	61.7	53.7	49.0
Industry Profits	51.6	52.9	56.4	55.2	50.9	45.3
Industry Hiring Plans	51.2	54.8	55.0	55.7	48.9	46.7
Industry Capital Expenditures	48.4	53.6	54.7	55.2	48.0	45.3

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