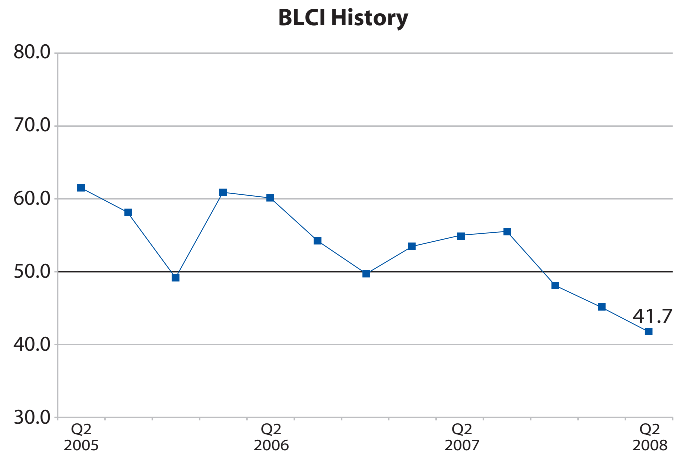
BUSINESS LEADERS BLCI CONFIDENCE INDEX®

Colorado
Second Quarter 2008
Volume 6 • Number 2



Below Potential Growth on Tap As we enter the second quarter, consumer confidence is down, automobile sales have stalled, $3.00 per gallon gas is beginning to sound like a bargain, credit is tight and the housing issues are like cold winter weather that just won't go away. However, spring training has come to an end, and Rockies fans are hopeful that the team is on the road to another trip to the World Series.

On the economic front, there aren't many home runs on tap in the short term. For the third consecutive quarter, the forward-looking BLCI declined, slipping from 45.1 to 41.7. This indicates that the economy will continue to perform below potential during the second quarter of the year. Each of the six components that make up the BLCI registered values below 50 for the second consecutive quarter.

This lack of enthusiasm for the economy is shared by economists nationwide. The focus of our discussion last quarter was on the divergence of opinion about the performance of the economy. We mentioned that the group of economists participating in the *Consensus Forecasts* panel projected real GDP growth for 2008 ranging from 1.2% to 3.0%. The most recent set of projections now varies from 0.8% to 2.1%. The economists forecast no real growth during the first half of the year, and a slight improvement, varying from 2.1% to 2.4%, during the second half.

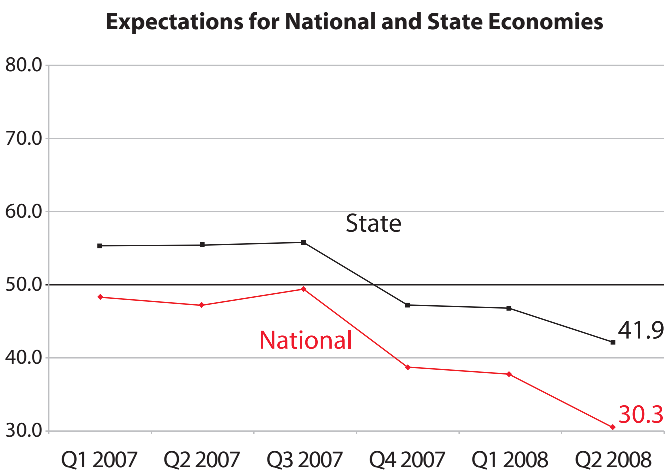
Personal consumption accounts for about 70% of GDP. Consumption expectations continue to slide as more consumers lose confidence in the economy and exercise greater caution in their spending patterns. Real personal consumption growth is now projected to be in the range of 0.2% to 2.0% in 2008. The federal tax rebates are expected to help fuel stronger consumption in the second half of the year.

Business investment accounts for about 15% of GDP growth. The decline in expectations for business investments has been less dramatic. Real business investment is projected to expand at a rate of 3.3%.

The third component of GDP is government spending, which accounts for about 19% of total output. Real government spending growth has remained fairly constant, at 2.0%, this year. The slowdown will lead to sluggish tax revenue increases and ultimately to a much higher deficit, totaling $360 to $365 billion.

The final component of output is net exports which account for 4% of the total output and has an inverse correlation to the overall GDP equasion. U.S. exports are expected to benefit from moderate global economic growth and the continued decline in the trade-weighted value of the dollar. Net exports will record a smaller deficit, $474 billion, in 2008.

Respondents See Downturn in State Economy Since the second quarter in 2005, the panelists have expressed greater optimism about the outlook for the state economy versus the national economy. Projections for the second quarter indicate that the gap between the two has widened to a record 11.6 points.



The expectations for the national economy reached a record low of 30.3, while expectations for the state economy registered only 41.9.

Only 10% of the panelists expressed optimism about the national economy during the second quarter, while about 17% expect no change. Almost 73% foresee a declining national economy in the short term.

Panelists are more optimistic about the Colorado economy. Almost 19% anticipate the state economy will perform better in the second quarter, while nearly 33% think the economy will remain unchanged. About 48% of respondents believe the state economy will perform worse in the near term.

Although we are in the midst of a slowdown, the Colorado economy has an unemployment rate of 4.4%, below both the natural rate of unemployment (4.5 to 5.0%) and the U.S. rate of 4.8%. In addition, Colorado has continued to add jobs during January and February, albeit at a slower pace.

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From a geographic standpoint, 38 of the state's 64 counties have unemployment rates below the state average. Counties such as Mesa, Garfield, La Plata, and Morgan, which have prospered from the booming energy industry, have unemployment rates less than the state average. Additionally, Boulder County has benefitted from the recovery in the advanced technology sectors. These five counties have unemployment rates in the range of 2.7% to 3.5%.

A review of the preliminary February employment data shows patterns of growth and decline. On the positive side, the following sectors added jobs:

- Government sector (10,700 jobs)
- Professional Business Services (8,800 jobs)
- Retail (5,200 jobs)
- Leisure and hospitality area (9,000 jobs)
- Healthcare (7,700 jobs)
- Natural resources and mining (3,200 jobs)

Conversely, manufacturing shed about 3,300 jobs, and approximately 2,200 jobs were lost in the finance and insurance sector. Most of those jobs were related to problems in the credit markets.

Several sectors are of special interest, including employment services, construction, architectural services, transportation, and information, because they tell different stories about the economy.

Although employment services is a small sector, it is watched closely because it includes temporary agencies and jobs services. The manner in which companies hire temporary workers is considered a harbinger of what is going to happen in the months ahead. During February, this sector contracted by 1,100 jobs, suggesting that overall weaker employment will occur in the short term.

At first glance, it is surprising to note that there are actually 1,200 more construction workers this year; however, a closer look reveals a decrease in the housing-related subsectors and gains in those associated with nonbuilding and nonresidential construction.

Similar to the way employment services is viewed as a leading indicator of general economic activity, architectural services is often considered a sign of future construction activity. In February, 1,600 architectural service jobs were added, suggesting that the construction industry should expect good news in the months ahead.

A total of 800 workers have been added in trucking and air transportation. Although both these industries are experiencing growth, much of the increase is due to record enplanements at Denver International Airport.

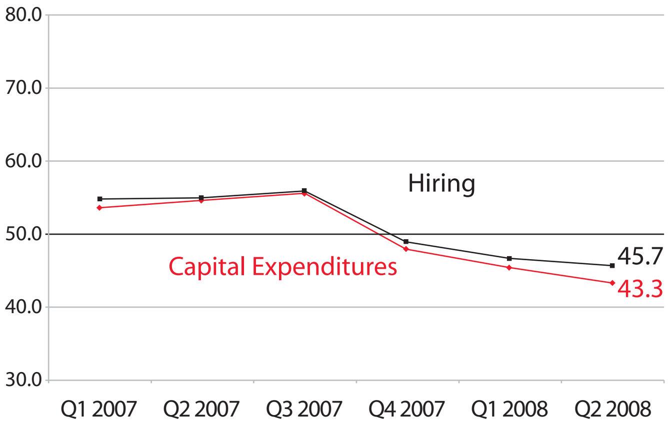
Finally, the information sector is of special interest because it has shed 30,000 jobs since 2001. About 20,000 of these have been lost in telecommunications, with the remaining divided between publishing and software. February data show that publishing continues to decline, software remains flat, and telecommunications has gained about 1,100 jobs.

While the February employment data are mixed, there is encouraging news on the economic development front. Colorado remains a very attractive place to live and work, as evidenced by recent announcements that Vestas has opened a wind turbine manufacturing facility in Windsor, Conoco Phillips will establish a training facility in Louisville and Renewable Energy Systems Americas will relocate from Austin to Broomfield. In addition, Covidien is planning a major expansion at its Gunbarrel location near Boulder.

Outlook for Hiring and Capital Spending Continues to Move Lower Price pressures will continue as a result of decreased sales volume (i.e., greater competition and rising employment costs). Consequently, companies will be faced with the challenge of balancing labor and capital projects in an effort to meet sales and profit goals.

At its annual forecast in December, the Business Research Division projected that Colorado employment would increase by 1.9%, or 43,300 jobs, in 2008. The year has started on a positive note as month-to-month employment for January 2008 was 49,300 jobs higher than the previous year. Month-to-month job growth for February reflected a slowdown, to 32,400 additional jobs this year. This is the smallest number of jobs added on a month-to-month basis since May 2004. While one month does not make a trend, this decrease may be a precursor of slower employment growth in the months ahead.

Expectations for Capital Expenditures and Hiring



Expectations for hiring are slightly higher than those for capital spending, suggesting that companies are more likely to support growth through increased employment than capital expenditures. The index components that measure expectations for hiring plans and capital spending experienced minimal declines for the upcoming quarter. However, both remain below the neutral mark of 50, registering 45.7 and 43.3, respectively.

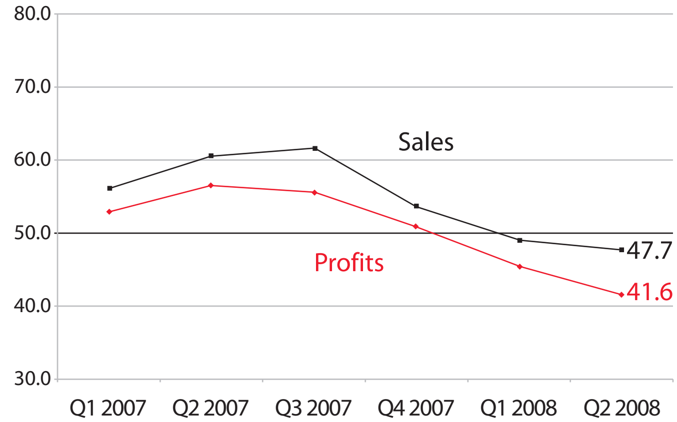
About 23% of the panelists project moderate or strong increases in capital spending in their industry during the first quarter, while approximately 37% expect no change. The remaining 39% believe moderate or strong decreases will occur. By comparison, roughly 22% of the panelists anticipate increases in their industry's workforce, whereas 46% foresee no change. About 33% expect a decline.

Continued Declines Projected for Profits and Sales

The most positive aspect of the survey this period is the outlook for sales, although the outlook for sales and profits reached their lowest levels since the inception of the BLCI. Slightly more than one-third of the respondents expect their sales to increase during the upcoming quarter, while about one-quarter believe their sales will remain constant. The remaining 40% of business leaders are pessimistic about their sales outlook.

On the profit side of the equation, companies are challenged by the prospects of falling sales, along with pressures arising from increased costs of healthcare, energy and other inputs. Slightly more than 22% of the panelists believe profits will increase, and about 30% expect them to remain unchanged. Roughly 48% anticipate a decline in profits during the second quarter.

Sales and Profit Expectations

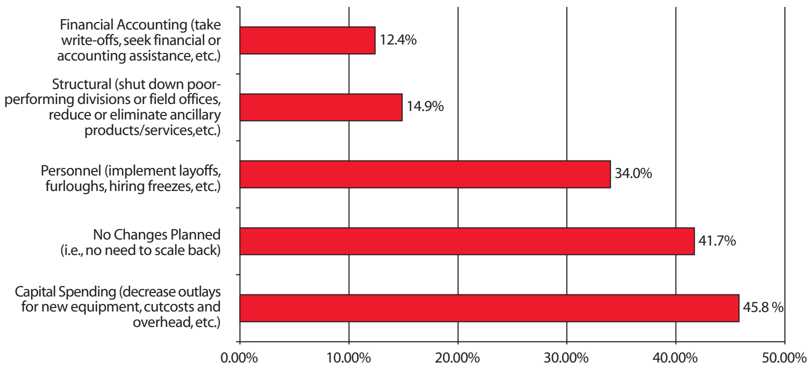


This dismal outlook for profits is shared by the economists that submit estimates for *Consensus Forecasts*. In November, the group's economists projected that 2008 nominal pre-tax profits would climb 3.4%, while in their most recent forecast the growth rate was reduced to -0.3%.

Topical Question Series

While some debate is still occurring regarding whether the country is in a recession, the best case scenario seems to be that we will show virtually no growth in the first half of the year. Given that scenario, we asked Colorado business leaders to discuss some of their strategies for dealing with the current turbulent economy.

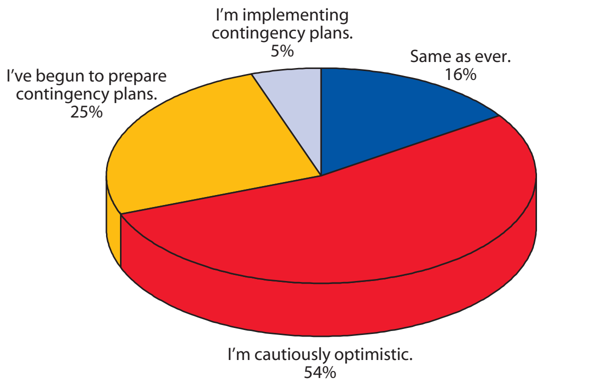
Amid this downturn, in what areas of your business will you scale back?*



*Panelists could choose multiple answers.

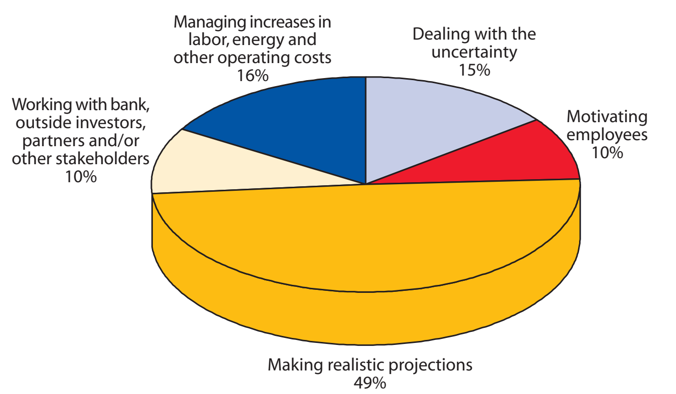
In our first question, BLCI panelists were asked to select the areas of their business they would scale back. About 46% said they would cut back in the areas of capital spending, while 42% reported there was currently no need to take action. Thirty-four percent indicated they would make changes in personnel. At the lower end of the spectrum, about 15% said they would make structural changes within their company. Slightly more than 12% stated they would seek financial assistance.

How would you characterize your approach to managing your business during these tough economic times?



BLCI panelists were also asked to characterize their approach to managing their business during these challenging economic times. Almost 54% said that they were cautiously optimistic, indicating that they would make conservative bets in the short term but bolder investments in the long haul. About one-fourth indicated that they had begun to prepare contingency plans based on worst-case economic assumptions. Almost 16% stated that they were currently not going to change their strategy, vision, or decision-making process. Finally, about 5% of the responding business leaders have already implemented contingency plans.

What's the hardest part of running a company in this rocky economy?



The final question asked Colorado business leaders to identify the single hardest part of running a company in the current economy. About half of the respondents stated that making realistic goals and projections was their top challenge. Slightly more than 16% identified managing increases in labor, energy and other operating costs as the top challenge, while about 15% felt that the toughest challenge was dealing with the uncertainly. Ten percent felt that working with the bank, investors, and other stakeholders was at the top of the list, while a similar percentage thought the top challenge was motivating employees and asking them to do more with less.

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For more details on the Colorado Business Leaders Confidence Index, visit www.blci.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 June for our Third Quarter 2008 survey at www.blci.com/colorado.

Business Leaders Confidence Index History by Component

	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	**Q2 2008**
BLCI	53.5	54.9	55.6	47.9	45.1	**41.7**
Component indices:						
Expectations for National Economy	48.3	47.2	49.7	38.8	37.8	**30.3**
Expectations for State Economy	55.2	55.5	55.9	47.2	46.8	**41.9**
Industry Sales Expectations	56.1	60.4	61.7	53.7	49.0	**47.7**
Industry Profits	52.9	56.4	55.2	50.9	45.3	**41.6**
Industry Hiring Plans	54.8	55.0	55.7	48.9	46.7	**45.7**
Industry Capital Expenditures	53.6	54.7	55.2	48.0	45.3	**43.3**

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