

Economy May Be Headed Upwards As the third quarter approaches, a discussion of the problems facing the national economy continues to focus on declining housing prices, prolonged volatility in oil prices, the lack of available credit and unsettled financial markets. These problems have been with us for about two years and the economy will continue to be affected by them in the months ahead. Also, additional uncertainty has been added as we enter the election season and business decisions may be delayed until our political future is sorted out in November.

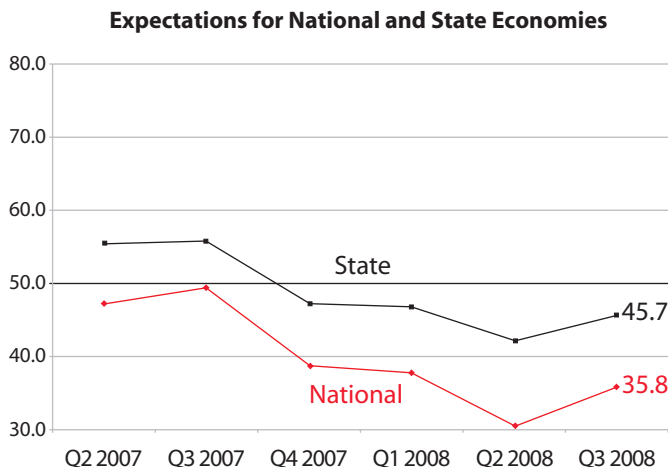
Results from the forward-looking Colorado Business Leaders Confidence Index® (BLCI) suggest that state business leaders are more optimistic about the economy than in previous periods. For the first time in four quarters, the BLCI recorded a slight uptick, advancing from 41.7 to 43.6. The fact that the quarterly reading is below the neutral mark of 50 indicates that the economy is expected to continue performing below potential during the third quarter of the year.

On a positive note, four of the six components that make up the BLCI reversed their downward trends of the past three quarters. The sales component index pushed above the 50 barrier, while the other five components registered between 35 and 46.

Nationally, the overall sentiment of the *Consensus Forecast* economists is that we have dodged a recession. At the same time, the magnitude of downside risks in the current economy is sufficient to create uncertainty about the remainder of the year.

First quarter 2008 real GDP has been revised upward, to 1.0%, with a decline expected for Q2. Real GDP growth is anticipated to jump to 1.5% in the third quarter, with the combined impact of the government stimulus checks and the Fed's policy on interest rates accounting for as much as one percentage point worth of growth. Output for the fourth quarter is expected to decline, to less than 1.0%. Overall, real output growth for 2008 is estimated to be 1.5%, with individual projections ranging from 0.8% to 1.9%. Other comparative forecasts by recognized economic groups vary from 0.5% to 2.7%. This variance in opinions is even greater looking ahead to 2009, ranging from 0.6% to 3.1%.

Outlook for State and National Economy Reverses Direction Since the second quarter of 2005, panelists have expressed greater optimism about the outlook for the state economy than the national economy. While the gap between the state and national economy remains greater than 10 points for the third quarter, the important story is that the outlook for both components has reversed a downward trend. Expectations for the national economy moved from a record low of 30.3 to 35.8, while the outlook for the state economy rose from 41.9 to 45.7.

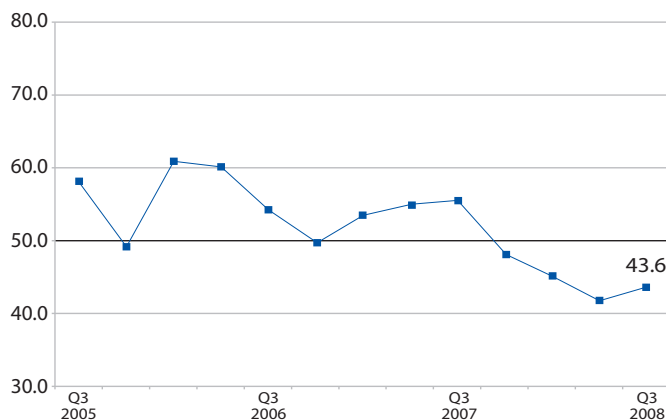


In our second quarter overview, 73% of the panelists expected the national economy to decline in the short term. This percentage declined to 61% for the third quarter. Unfortunately, only 15% of the panelists expressed optimism about the national economy, while about 24% expect no change.

By comparison, last quarter about 48% of the panelists believed the state economy would decline in the short term. Although results for the third quarter improved, 39% still expect the economy to continue to slide in the short run. Slightly more than 24% anticipate the state economy will perform better in the third quarter, while nearly 37% think it will remain unchanged.

Panelist expectations are in line with the latest employment data from the Bureau of Labor Statistics. Nationally, unemployment is 5.5%, while Colorado has an unemployment rate of 4.9%, within the range of the natural rate of unemployment (4.5 to 5.0%). Colorado employment continues to grow at a rate well above the national rate.

BLCI History



Sales Projections Return to Positive Territory

The most positive component of the BLCI is the outlook for sales, climbing from 47.7 to 50.8. Slightly more than 38% of the respondents expect their sales to increase during the upcoming quarter, while roughly 28% believe their sales will remain about the same. The remaining 35% of business leaders are pessimistic about their sales outlook. The optimism for the third quarter is in line with the solid real GDP growth projected by a majority of economists for Q3.

On the profit side of the equation, companies were slightly more hopeful about profits. This component of the index increased from 41.6 to 44.1, which is below the neutral mark of 50.

Despite higher expectations, companies continue to be challenged by the volatility of energy costs,

along with pressures from rising costs of healthcare and other inputs. Many businesses, ranging from airlines to pizza stores, have reacted to increased fuel costs by raising prices or adding creative surcharges onto regular prices.

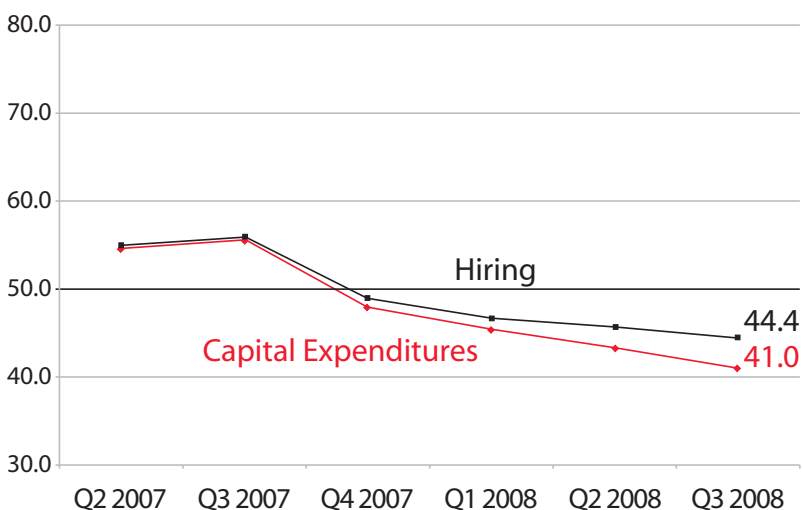
Roughly 46% of the panelists anticipate a decline in profits during the third quarter, virtually unchanged from the second quarter reading. Slightly more than 27% of the panelists believe profits will increase, and about 28% expect them to remain unchanged.

Outlook for Hiring and Capital Spending Continues to Move Lower

Concerns about profitability will cause companies to continue to make careful investments in labor and capital projects as a means of reaching their sales and profit goals. Expectations for hiring are higher than those for capital spending as the gap between the two components reached 3.4 points, its highest level since the inception of the BLCI in 2003. This suggests that companies are more likely to support growth through increased employment than through investments in facilities or equipment.

More importantly, the values for both components of the index declined for the fourth consecutive quarter and remain below the neutral point of 50. This suggests that companies may be waiting to increase hiring or invest in their company until there are signs that the national economy is on a more stable footing and poised for higher growth rates.

Expectations for Capital Expenditures and Hiring

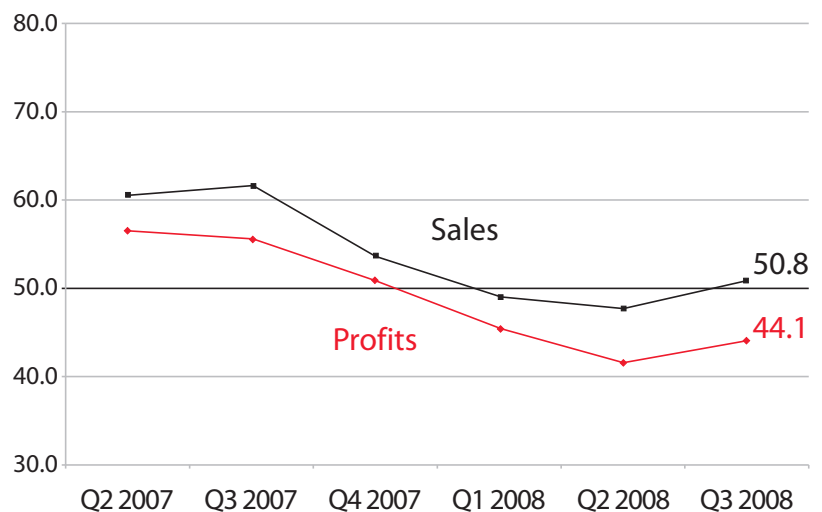


At its annual forecast in December, the Business Research Division projected that Colorado employment would increase by 1.9%, or 43,300 jobs, in 2008. The year has started on a positive note as average employment for the first five months is 1.9% higher than for the same period of the previous year. On the downside, the rate of growth has increased at a decreasing rate for each of the past five months.

Fewer than one-in-five panelists anticipate increases in their industry's workforce, whereas 46% foresee no change. About 35% expect a decline.

By comparison, a meager 19% of the panelists project moderate or strong increases in capital spending in their industry during the third quarter, while approximately 37% expect no change. The remaining 43% believe moderate or strong decreases will occur.

Sales and Profit Expectations



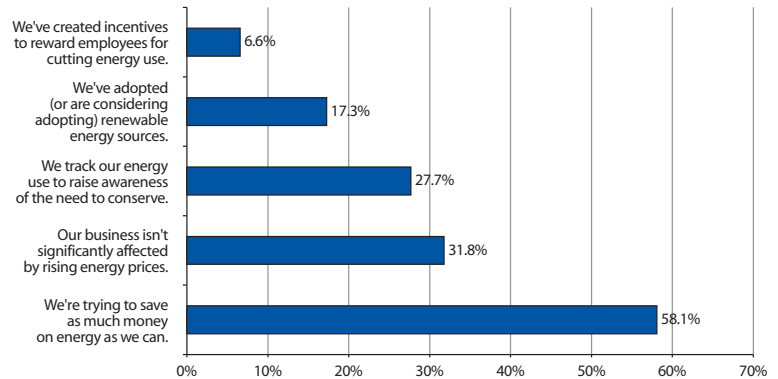
Topical Question Series – Effects of Rising Energy Costs on Business Given an environment where gasoline prices may push \$5.00 per gallon later this summer, panelists were asked to address a series of energy-related topical questions.

First, panelists were asked how their business was responding to rising energy costs. Surprisingly, almost one-third of the respondents indicated that they were not significantly affected by rising energy prices.

However, 58% of the respondents indicated that their companies were trying to save as much money on energy as possible. About 28% indicated that their companies tracked their energy consumption use to raise awareness of the need to conserve.

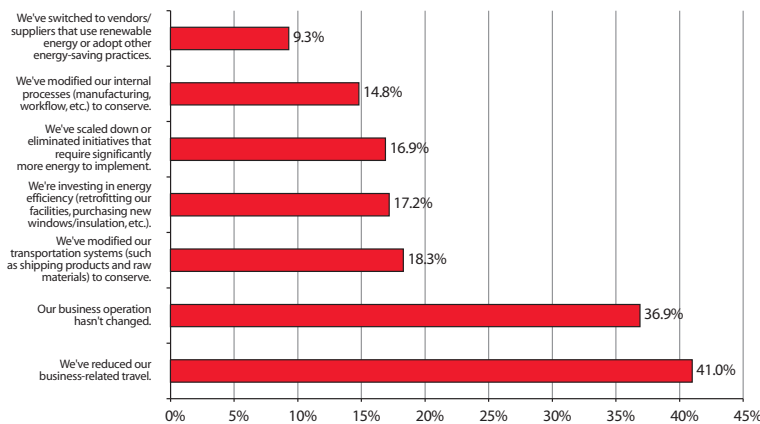
Slightly more than 17% of the panelists stated that their business has adopted or are considering adopting renewable energy sources. Finally, about 7% of the companies have created incentives to reward employees for cutting energy use.

How is your business responding to rising energy prices?*



*Panelists could choose multiple answers.

How has your business operation changed in the past year due to rising energy costs?*



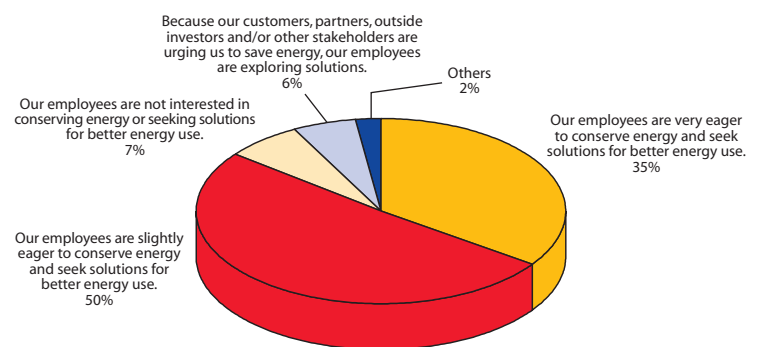
*Panelists could choose multiple answers.

More specifically, the business leaders were asked how their business operations had changed in the past year due to rising energy costs. Approximately 37% of the respondents indicated that their business operations had not significantly changed in the past year due to rising energy prices.

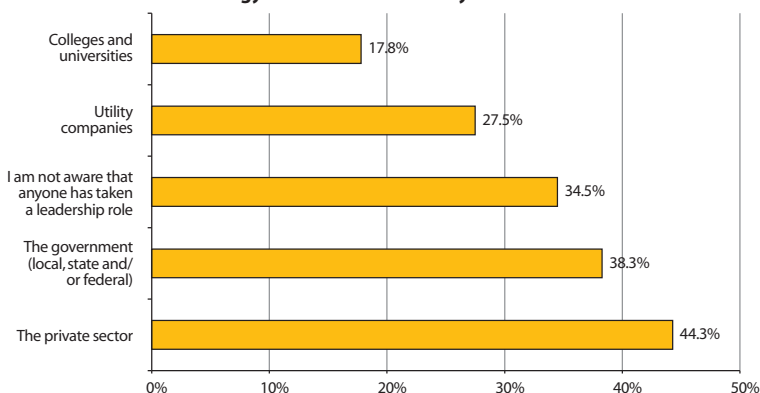
The most common reaction to rising energy prices was to reduce business-related travel (41% of the respondents selected this option). In descending order, between 19% and 14% selected modified transportation systems, energy efficiency investments, scaled down or elimination of initiatives that require significantly more energy to implement, and internal processes modification. Approximately 9% of the companies switched to vendors or suppliers that use renewable energy or adopt energy savings practices.

Next, business leaders were asked to characterize their employees' attitudes about energy use. Slightly more than 85% of the panelists indicated that their workers were either very eager or somewhat eager to conserve energy and seek solutions for better energy use. Only about 7% of the respondents stated that their employees were not interested in energy efficiency or conservation. Approximately 6% of the panelists reported that they are exploring alternatives because their customers, partners, outside investors, and/or other stakeholders were urging them to save energy. The remaining responses included a variety of comments.

How would you characterize your employees' attitudes about energy use?



Who is taking a leadership role in encouraging energy-efficient solutions in your state?*



*Panelists could choose multiple answers.

Finally, survey respondents were asked to identify who is taking a leadership role in encouraging energy efficient solutions in Colorado. The responses to this question curiously do not reflect the well-publicized activity that is occurring in all sectors of the economy as noted below.

Slightly more than 44% of the panelists indicated that the private sector was encouraging energy efficient solutions. A number of companies in Colorado, such as New Belgium Brewery, are highly recognized for their sustainability efforts.

Government organizations at the local, state, and/or federal levels received the second-highest rating, with slightly more than 38%. This rate is surprisingly low given that traditional and alternative energy is one of the four pillars of Governor Ritter's Colorado Promise and economic development policy. State and local economic development efforts helped attract ConocoPhillips to Louisville, where more than 7,000 energy-related workers are expected to locate over the next five years. In addition, Vestas, a global manufacturer of wind turbines, has located a facility in northern Colorado that is expected to employ more than 1,000 workers. Another economic development coup was achieved by the Broomfield Economic Development Corporation when it announced that Renewable Energy Systems moved its headquarters to Colorado. The facility is expected to employ over 150 renewable energy workers within the next year.

Moreover, Colorado is home to the National Renewable Energy Laboratory (NREL). The facility is the nation's premier research facility for discovering new energy efficient solutions and has numerous partnerships with private-sector companies, as well as colleges and universities.

Additionally, in 2004, Colorado voters approved Amendment 37, which requires Colorado's top utility companies to provide a percentage of their retail electricity sales from renewable energy sources. The amendment requires that 3% of sales be from renewable sources by 2007, 6% by 2011, and 10% by 2015. Aggressive efforts from Colorado's top utility, Xcel Energy, have put the state ahead of schedule in achieving these goals. Also, Xcel announced in March 2008 that Boulder would become the nation's first fully integrated Smart Grid City. Despite the leadership of Xcel and other utilities, only 28% of the panelists recognized them as leaders in creating energy efficient solutions.

About 18% of the respondents recognized the colleges and universities for their leadership in this area. It should be noted that currently CU has a sustainable and renewable energy initiative in place, CSU has developed a clean-tech cluster for northern Colorado, and Colorado School of Mines is home to the Colorado Energy Research Institute. All three universities are nationally recognized for their energy-related research.

Given the magnitude of activity from all corners of the state and the various sectors of the economy, it seems puzzling that slightly more than one-third of the respondents indicated that they are not aware that any entity has taken a leadership role in encouraging energy efficient solutions in the state.

Overall, Colorado business, government, and utility leaders have taken a number of long-term steps to position the state as a leader in creating energy solutions. While these efforts offer reason to be optimistic about the future, they do not provide short-term fixes to the problems caused by the recent volatility in energy prices.

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 September for our Fourth Quarter 2008 survey at www.blc.com/colorado.

Business Leaders Confidence Index History by Component

	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008
BLCI	54.9	55.6	47.9	45.1	41.7	43.6
Component indices:						
Expectations for National Economy	47.2	49.7	38.8	37.8	30.3	35.8
Expectations for State Economy	55.5	55.9	47.2	46.8	41.9	45.7
Industry Sales Expectations	60.4	61.7	53.7	49.0	47.7	50.8
Industry Profits	56.4	55.2	50.9	45.3	41.6	44.1
Industry Hiring Plans	55.0	55.7	48.9	46.7	45.7	44.4
Industry Capital Expenditures	54.7	55.2	48.0	45.3	43.3	41.0

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

For more details on the Colorado Business Leaders Confidence Index, visit www.blc.com/colorado