

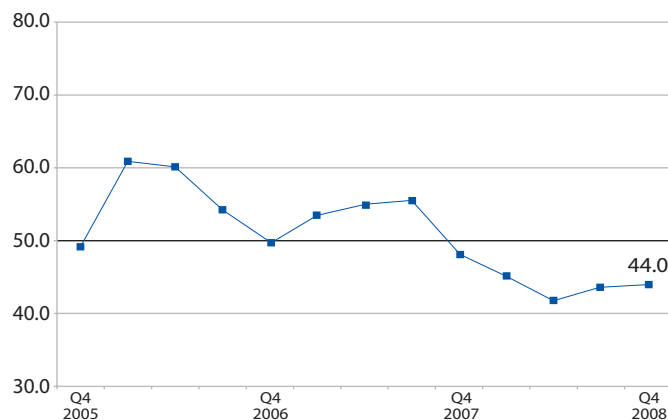
**Business Leaders Remain Watchful** Recent concerns about whether the country is in a recession have been replaced with discussions about bailouts, takeovers, buyouts and the mark these activities will leave on the financial markets, consumer confidence and the overall economy. This recent series of events come on top of two years of declining housing prices, prolonged volatility in oil prices, periods of frozen credit markets and a presidential race.

Last quarter it appeared that the forward-looking BLCI had reversed trend and was on track to exceed the neutral point of 50. While the indicator did not lose ground this survey period, the increase from 43.6 to 44.0 is insignificant in magnitude, signaling another quarter of below potential growth.

The downward movement of projections for company sales, profits and hiring suggests that business leaders will remain watchful until the election is past and there is improved confidence in the fundamentals of the economy. On a positive note, expectations for the state and national economy showed solid gains.

Nationally, the overall sentiment of economists for the Consensus Forecast panel is that real GDP for 2008 will be in the 1.6% to 1.8% range. At this point, these economists are ambivalent about 2009 as their projections range from 0.6% to 3.1%. Their attitudes reflect the uncertainty that is making consumers and business leaders cautious.

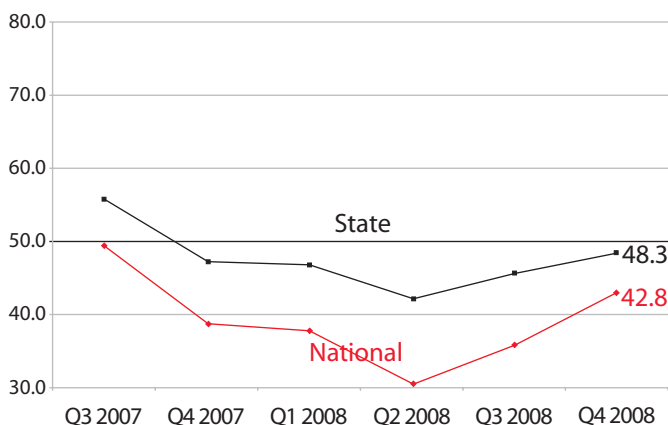
BLCI History



**Outlook for State and National Economies Improving** Three things are noteworthy about the panelists' expectations for the performance of the state and national economies. First, since the first quarter of 2005 panelists have expressed greater optimism about the outlook for state economy than the national economy. Notable, that gap has narrowed this quarter as expectations for the national economy rose from 35.8 to 42.8 and the outlook for the state economy posted a smaller gain, moving from 45.7 to 48.3. Second, the upward movement of both index components for the second consecutive quarter points to prospects for a stronger economy in 2009. Third, although improvement is projected in the months ahead, both the state and national economies are performing below potential.

Another way of measuring the change in expectations is to evaluate the percentage of respondents who expected the national

Expectations for National and State Economies



economy to decline in the short term. In the second quarter of this year, 73% of the panelists shared this sentiment. That percentage dropped to 61% for the third quarter and 48% for the final quarter. About one-fourth of the panelists are optimistic about the outlook for the national economy during the fourth quarter, while approximately 28% expect no change.

A similar comparison exists for the state economy, although the magnitude of change is not as drastic. In the second quarter about 48% of the panelists believed the state economy would decline. That percentage dropped to 39% for the third quarter and 37% for the final quarter. Slightly more than 31% of the panelists anticipate that the state economy will perform better in the fourth quarter, while nearly 32% think it will remain unchanged.



## Volatility Causes Concerns about Sales and Profits

Historically, sales expectations have generally received the highest value of the six index components. This is logical given that sales are the driving force behind the success of many companies. It then follows that projected changes in profit expectations mirror changes in sales expectations.

Looking ahead to the fourth quarter, the outlook for the sales component of the index declined from 50.8 to 47.1. Profit expectations moved accordingly, dipping from 44.1 to 42.5.

The gap between sales and profits can be considered a crude measure of how companies perceive their ability to manage costs. This gap narrowed for the fourth quarter, suggesting that cost management may be less of an issue for business leaders. For the moment, fears of inflation are in check given recent reductions in the price for a barrel of oil, slowing global economic growth and minimal gains or depreciation in housing prices. In addition, wage pressures have diminished as the unemployment rate has crept higher.

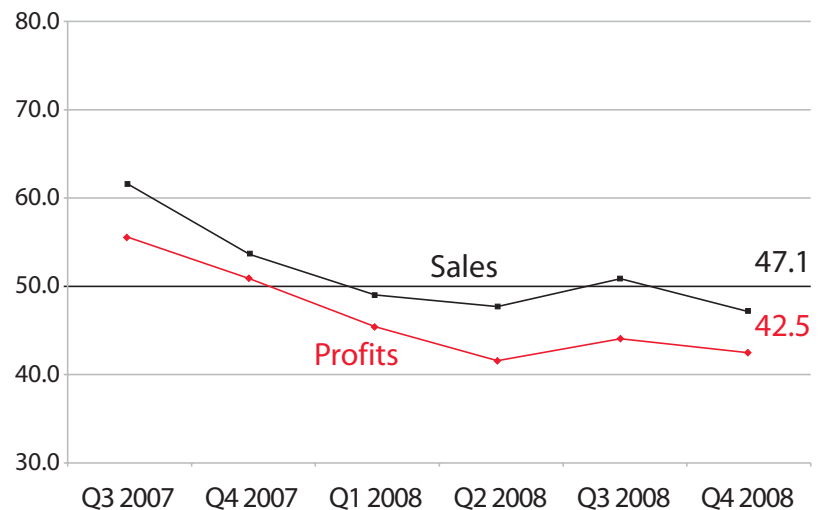
The Office of State Planning and Budgeting (OSPb) is estimating retail trade sales growth of 4.0% in calendar year 2008 followed by a slight increase of 5.2% next year. This compares to a growth rate of 7.0% in 2007. At the same time, individual and corporate income taxes are expected to increase by 5.4% in FY 2009. Individual income tax receipts account for about 90% of total income tax receipts. In 2009, income taxes will contribute about \$5.7 billion to the state coffers compared to \$2.4 billion for sales and use taxes.

Nationally, the outlook is for slower retail trade sales growth during the upcoming holiday season. Last year, holiday retail trade sales were only 3.0% higher than in 2006. Although consumer confidence is down across the country, cash registers in Colorado are expected to take in more revenue than in other areas because of the state's better overall economic performance relative to the nation.

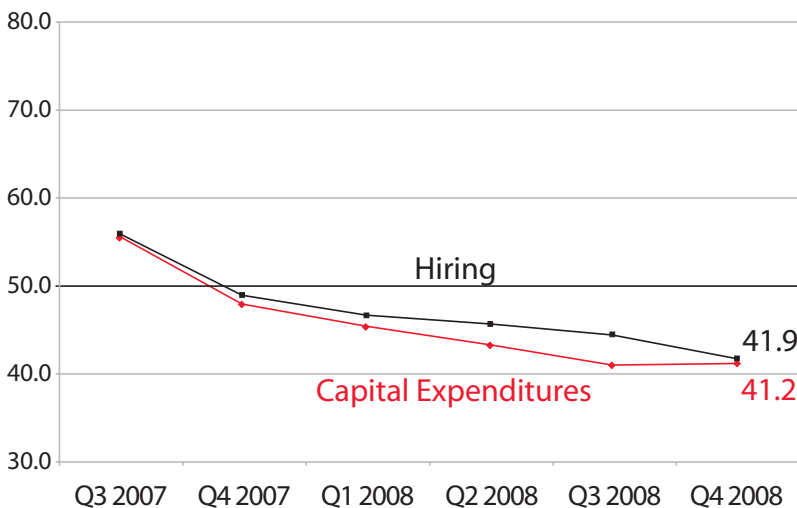
About 34% of the respondents expect industry sales to increase during the upcoming quarter, while roughly 24% believe sales will remain about the same. The remaining 42% are pessimistic about their sales outlook.

On the profit side of the equation, roughly 44% of the panelists anticipate a decline in profits during the fourth quarter, similar to the readings for the last two quarters. About 24% of the panelists believe profits will increase, while 32% expect them to remain unchanged.

Sales and Profit Expectations



Expectations for Capital Expenditures and Hiring



## Business Leaders Remain Cautious about Hiring and Spending

While business leaders paint a slightly brighter picture for both the state and national economies in the upcoming quarter, they remain discouraged about their prospects for increased investments in labor and capital expenditures. The gap between these two index components narrowed to the point that business leaders do not have a preference for either labor or capital investments.

In fact, expectations for hiring declined for the fifth consecutive quarter. This is in line with actual employment patterns, which have trended downward since the latter part of 2007. As expected, the Colorado unemployment rate has slowly inched up from 3.6% in October 2007 to 5.2% in August.

Despite this decline in hiring expectations, the rate of growth for state employment for this year is expected to exceed 1.5%. By comparison, Colorado is ranked in the middle of the western states in terms of employment growth. On the downside, Arizona and California are expecting flat growth or declines, while employment growth in Wyoming is pushing 3.0%.

On the positive side, great strides have been made this year in positioning Colorado as a leader in the governor's target industries. During the first half of the year, Vestas announced that it was opening significant facilities in Weld and Pueblo counties. In addition, Conoco-Phillips and several small energy companies announced they are moving facilities to the state. Additionally, growth of the renewable energy cluster will be buoyed by continued strong funding for the National Renewable Energy Laboratory (NREL).

The aerospace industry was given a boost by contracts at Ball, United Launch Alliance, and Lockheed Martin. In September, NASA named the Laboratory for Atmospheric and Space Physics at the University of Colorado at Boulder as the principal investigator for the upcoming \$485 million robotic mission to Mars in 2013.

Colorado's third targeted industry, biosciences, moved up in various national rankings. The campus at Fitzsimons continues to expand its services, as well.

And lastly, this past summer Denver served as host to the DNC. In addition to the DNC, various other significant conventions met in Denver in August with an estimated total attendance of 80,000. These events helped keep the metro area economy strong throughout the summer months. Each of these events also provided the city and state with worldwide exposure that will produce dividends for years to come.

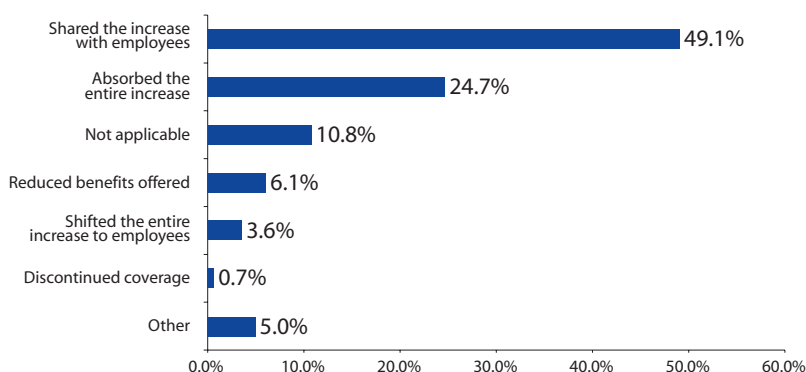
Almost half of the respondents indicated that their employment plans for the fourth quarter would not change, while slightly more than 15% expected gains. A little more than one-third of the business leaders responded that they expected hiring declines.

By comparison, 18% of the panelists project moderate or strong increases in capital spending. The remaining 82% of respondents are equally divided between anticipating decreased spending and expecting spending to stay constant.

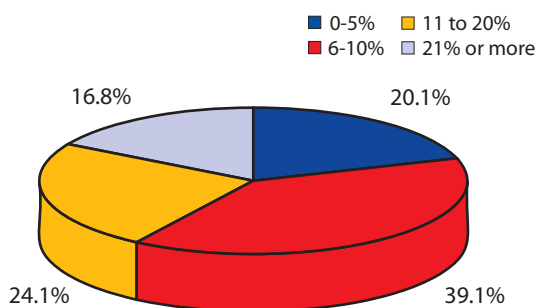
### Topical Question Series: Health Insurance Costs

For a period of time, key economic concerns have focused on foreclosures, the price of oil, and the performance of the financial markets. With the amount of attention given to these factors, it has been easy to overlook health care and the cost of health insurance plans. An article in the Northern Colorado Business Review stated that, "Overall health-care costs in Colorado and Wyoming rose by 12 percent in 2008 over 2007 levels, but average health insurance premiums have gone up only 7 percent thanks to employer contributions, according to the Mountain States Employers Council's (MSEC) 2008 Health and Welfare Plans Survey." This price increase is more than double the increase in inflation for the same period.

**How Did Your Company Manage the Rising Cost of Health Insurance in 2008?**



**How Much Did Your Health Insurance Premiums Increase in 2008?**

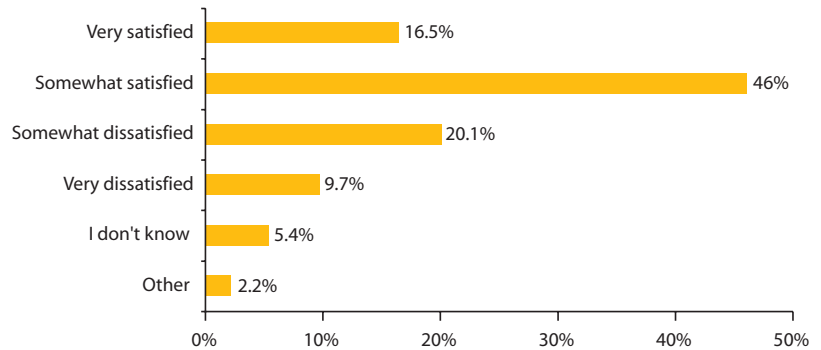


Given this backdrop, the topical question for this quarter examined the costs of health insurance premiums. First, business leaders were asked how they responded to the rising cost of health insurance in 2008. About half of the respondents indicated that they shared the increase with their employees, and almost one-fourth of the panelists stated that their companies absorbed the entire increase. A small percentage reduced the benefits offered or shifted the entire increase to their employees. Less than 1% discontinued their coverage. The remainder of the business leaders had a variety of responses.

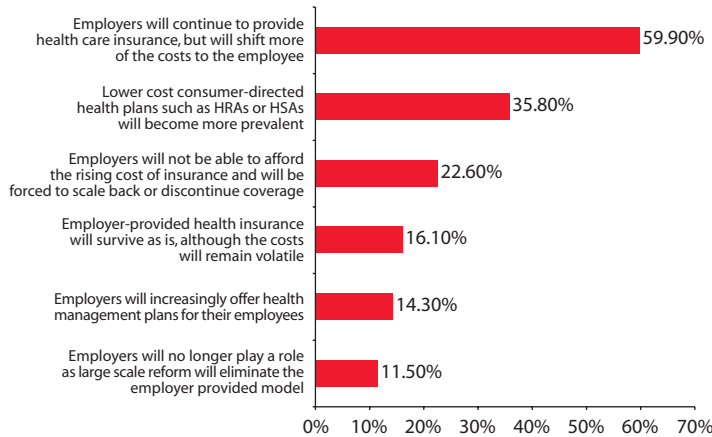
Next, BLCI panelists were queried about how much their premiums increased. There were no companies that reported a decrease in premiums. About one in five stated their premium costs had risen by less than 5% and about two in five reported cost increases in the range of 6% and 10%. Approximately 24% of the respondents indicated their premium costs were 11% to 20% higher and roughly 17% reported increases greater than 20%. Based on this data, insurance premium costs climbed by at least 11%, similar to the increase reported in the MSEC survey.

Panelists were also asked how their workers viewed the affordability and quality of their health insurance. About 63% indicated that they are satisfied and approximately 30% are dissatisfied. The remaining 7% either didn't know or provided a variety of responses.

#### How do your workers view the affordability and quality of their health insurance?



#### How do you envision the future of employer-provided health insurance?\*



Finally, business leaders were asked to envision the future of employer-provided health insurance. They were given a list of six items and asked to check all that applied.

Overwhelmingly, respondents indicated that health insurance will survive, but employees will be expected to pay more of the costs. In addition, they believe that health reimbursement accounts and health saving accounts would become more prevalent.

\*Panelists could choose multiple responses.

### 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 December for our First Quarter 2009 survey at [www.blc.com/colorado](http://www.blc.com/colorado).

#### Business Leaders Confidence Index History by Component

	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008
<b>BLCI</b>	55.6	47.9	45.1	41.7	43.6	<b>44.0</b>
Component indices:						
Expectations for National Economy	49.7	38.8	37.8	30.3	35.8	<b>42.8</b>
Expectations for State Economy	55.9	47.2	46.8	41.9	45.7	<b>48.3</b>
Industry Sales Expectations	61.7	53.7	49.0	47.7	50.8	<b>47.1</b>
Industry Profits	55.2	50.9	45.3	41.6	44.1	<b>42.5</b>
Industry Hiring Plans	55.7	48.9	46.7	45.7	44.4	<b>41.9</b>
Industry Capital Expenditures	55.2	48.0	45.3	43.3	41.0	<b>41.2</b>

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

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