BUSINESS LEADERS BLCI CONFIDENCE INDEX®

Colorado
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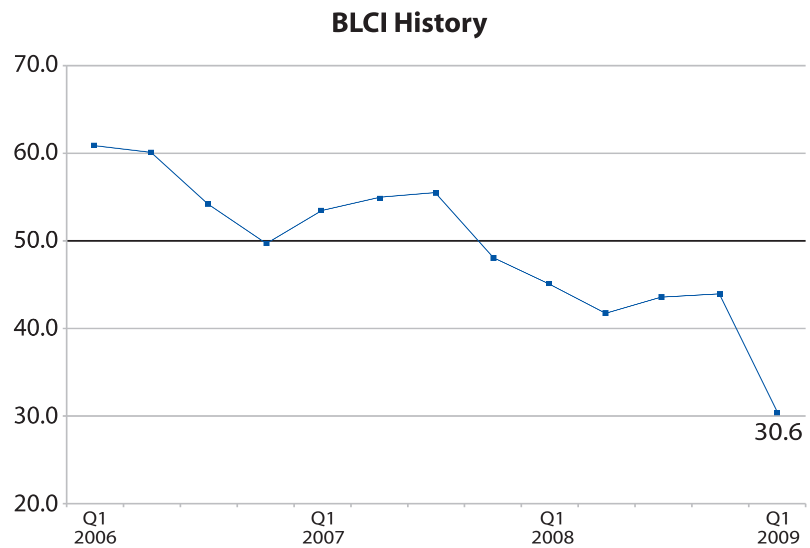
BLCI Falls to Record Lows

Over the past two years, the news has been dominated by discussions of the slumping housing market, the collapse of the financial markets, overleveraged consumers, tight credit markets, volatile oil prices and sagging consumer confidence. Throughout much of this time, the Colorado economy has withstood the pressure from the nation's economic woes better than other states, and has even been a leader in terms of job creation.

In early December the National Bureau of Economic Research (NBER) identified December of 2007 as the month in which the last expansion ended and recession began. Based on this evaluation, the U.S. has been in a recession for an entire calendar year. The NBER is the organization that evaluates the performance of the U.S. economy and officially determines the beginning and end dates of U.S. recessions. The NBER defines a recession as a significant decline in economic activity in production, employment, real income, and other indicators.

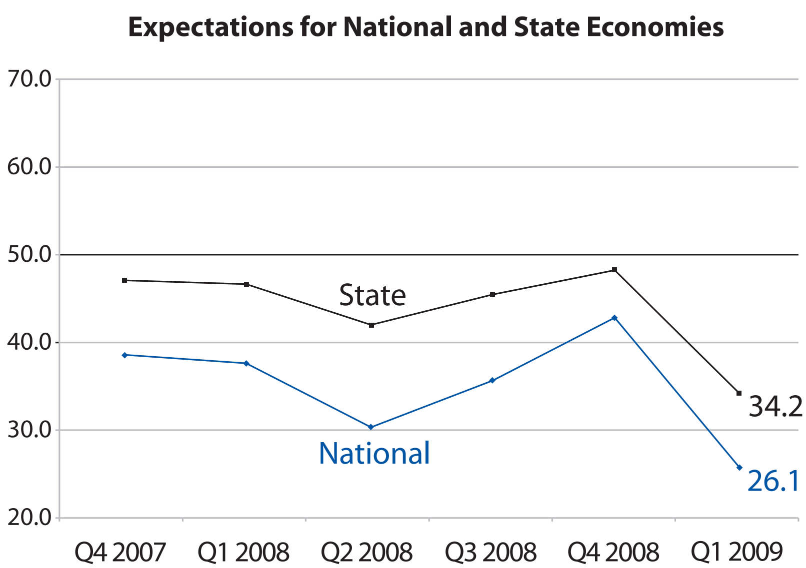


A review of *Business Leaders Confidence Index*® (BLCI) results reveals that expectations for the performance of both the U.S. and Colorado economies peaked in the third quarter of 2007 and began their downward trend in the fourth quarter, paralleling the NBER timing of the recession. Both index components have trended downward since then.

The Q1 2009 composite BLCI fell from 44.0 to a record-low of 30.6. The forward-looking index, and each of its six components, experienced double-digit declines, similar to declines in national indices.

Outlook for State Remains Better than Nation

During the second week of December, Moody's Economy.com released its monthly forecast update. Much like previous forecasts, the December version reflected a downgrade in projected performance.



The forecast calls for real GDP growth of -4.6% in the fourth quarter of 2008, with overall expansion for the year of 1.2%. The outlook for 2009 is guarded, with real GDP growth of -1.5%. Conditions are expected to improve throughout the year, suggesting that the worst may be behind us. However, the best-case scenario for a return to positive growth and job creation is in the fourth quarter of 2009.

Government spending is projected to escalate by 3.0%, reflecting stimulus efforts of the incoming administration to counter the recession. As a result, the federal deficit is projected to increase to at least $1.2 trillion in 2009. In addition, the forecast calls for a decline in personal consumption of 2.0%, accompanied by a reduction in fixed investment of 6.6%. In both cases, declines are greatest in Q4 2008 and Q1 2009, with improvement expected as 2009 progresses. On a more positive note, the trade imbalance is expected to taper off to below $350 billion.

At the state level, research conducted by the Business Research Division (BRD) shows that the decline in Colorado employment began in the first half of 2008, suggesting that the state may have entered the current recession later than the U.S. economy. However, it should be noted that the Bureau of Labor Statistics and the Colorado Labor Market Information group will revise their data in early 2009. These revisions will likely show that Colorado employment began to shrink in the fourth quarter of 2008 as indicated by the BLCI.

In December of 2008, the BRD released its 2009 forecast and projected that the state would lose 4,300 jobs. At that point, all other state forecasts pointed to positive job growth in 2009. After the BRD forecast release, fellow public and private forecasters were quick to label the BRD forecast as "too optimistic," and revised their forecasts downward, with the most pessimistic pointing to 25,000 fewer workers in 2009. Even the most pessimistic scenario is less than the number of workers shed in 2002.

Results from the Q1 2009 survey show that approximately 78% of BLCI panelists expect the national economy to decline in the first quarter, while 12% anticipate no change and 9% foresee a slight increase. The index component measuring expected movement of the national economy fell from 42.8 to 26.1.

Business leaders are slightly more optimistic about the outlook for the state. Approximately one-fourth of the participants anticipate no change in the economy and almost 10% see a slight increase on the horizon. About two-thirds of business leaders expect the state economy to decline. The index component monitoring changes in expectations for the state economy fell from 48.3 to 34.2 for the first quarter. The fact that about one-third of companies predicts no change or is optimistic is a sign that in a diverse economy, there are companies that succeed during "down times."

The BRD has identified the following points as areas of high interest in discussions about the performance of the Colorado economy:

- The recession is broad based and will touch all sectors.
- Innovation will continue to drive the state economy. An important part of that innovation is occurring in the energy sector.
- Inflation-adjusted retail trade sales will register a decline for the fifth year this decade.
- Residential valuation peaked in 2005. In late 2009 or early 2010, the statewide construction industry may begin to show signs of a recovery.
- Statewide population will continue to expand at a rate of 1.5%-2.0% for the foreseeable future.
- With a unique quality of life and a highly trained workforce, Colorado will remain an attractive place to live and work.

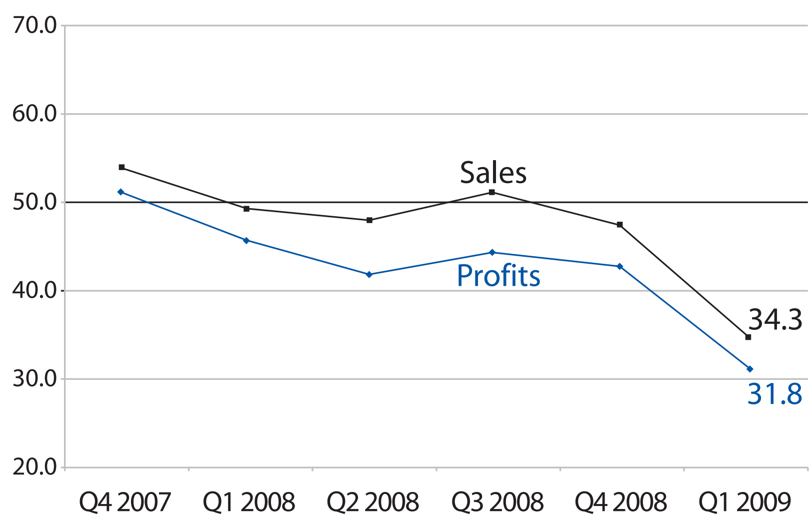
Business Leaders Operating in Cost Containment Mode The sales expectations component of the BLCI has recorded the highest value of the six index components about 75% of the time. This stands to reason because sales are the driving force behind the success of companies, and most business leaders are optimistic about the future of their businesses. Projected changes in profit expectations mirror changes in sales expectations to the extent that costs can be managed.

Sales expectations for the first quarter declined from 47.1 to 34.3. Profit expectations registered a similar decrease, falling from 42.5 to 31.8.

The gap between sales and profits can be considered a crude measure of how companies perceive their ability to manage costs. This gap has now narrowed to its lowest level in the history of the BLCI. This suggests that business leaders are focused almost exclusively on cost containment. Business leaders appear to be in a frame of mind to delay capital expenditures, investments in labor and operating expenses as long as feasibly possible. In addition, fears of inflation are in check given recent reductions in commodity prices, slowing global economic growth, diminished wage pressures and minimal gains or depreciation in housing prices.

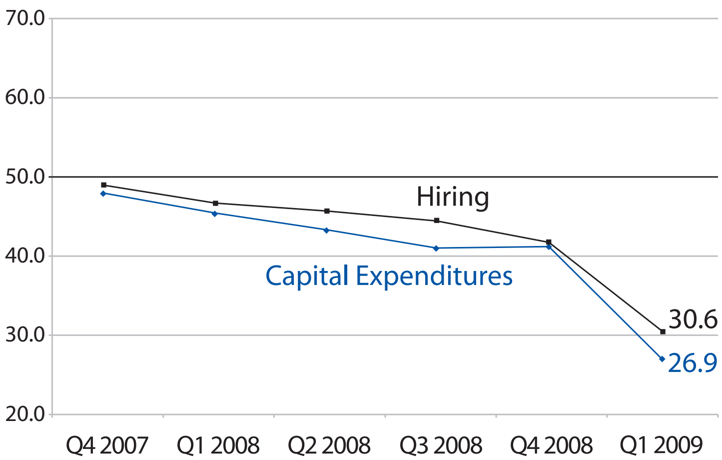
Only about 18% of BLCI respondents expect industry sales to increase during the first quarter. Meanwhile, almost 16% believe sales will stay about the same and the remaining 66% are pessimistic about their sales outlook.

Sales and Profit Expectations



The breakdown is similar for the profit side of the equation. Slightly more than 68% of the panelists anticipate a decline in profits during the first quarter. About 14% of the panelists believe profits will increase, while 18% expect them to remain unchanged.

Expectations for Capital Expenditures and Hiring



Capital and Investment Plans Put on Hold The discussion about expectations for increased hiring or capital investment is quite simple - they have been placed on hold. If companies find it necessary to invest, it will most likely be on the labor side. The component measuring capital expenditures for the first quarter sank from 41.2 to 26.9. Hiring expectations registered a similar decrease, falling from 41.9 to 30.6.

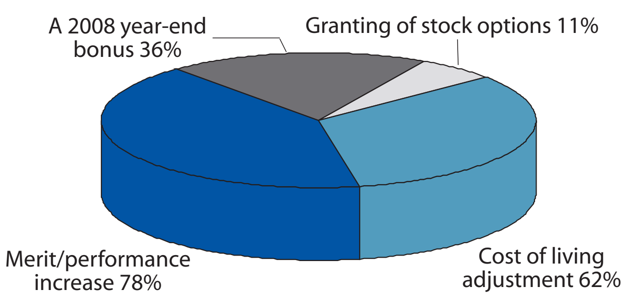
About 69% of the panelists project moderate or strong decreases in capital spending during the first quarter, and about 24% expect spending to remain constant. Only 7% of respondents are anticipating increased capital spending.

By comparison, approximately 61% of the business leaders believe that hiring will decline. This is almost twice the percentage of companies that foresaw declines in the previous BLCI. About 32% of the respondents indicated that their employment plans for the first quarter would not change, while slightly less than 8% expected gains.

Topical Question Series - Expectations for Employee Compensation The topical question series for the first quarter of the year have historically focused on expectations for changes in employee compensation (excluding benefits) during the upcoming 12 months.

Respondents were asked to indicate the level of their companies wage increases for the coming year, from a list that included 7 intervals. For the respondents who knew the level of increases, the median value of the expected changes fell in the "stay the same" category. Slightly more than 54% of the companies anticipate wages to remain the same or decrease slightly. By contrast, this percentage was 24% last year. Moreover, the median category was 2.0-2.9% in the first quarter of 2008 versus 3.0-3.9% in 2007.

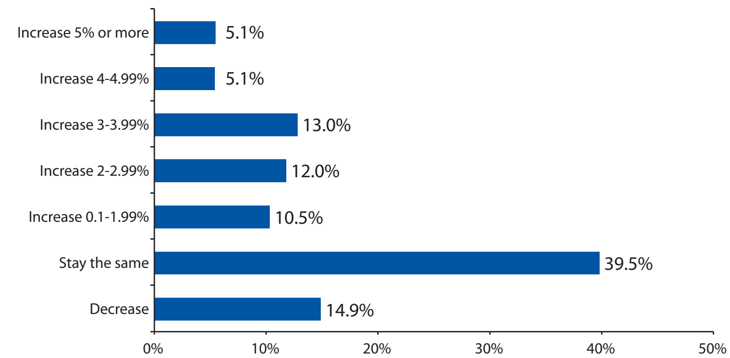
What portion of the total change in compensation will each of the following categories comprise?*



Next, business leaders were asked to indicate the amount of bonuses, listed in six categories, offered by their companies. Of those panelists who were aware of their firm's bonus structure, the median increase was 3.0%-4.9%. This result was one level higher than the 2008 median category and similar to the 2007 value.

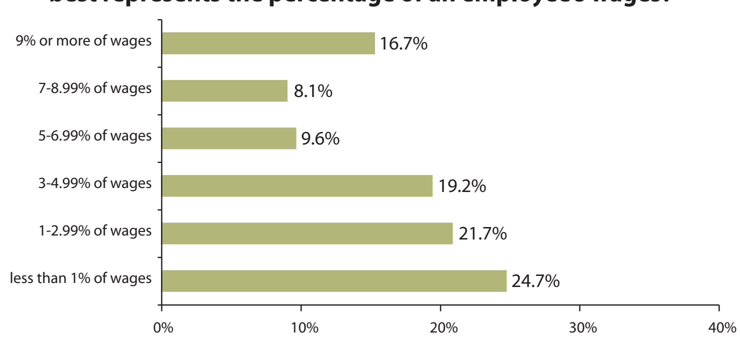
Of the companies that offer bonuses, about one-fourth indicated the bonuses would be negligible (i.e., less than 1%). About 41% of the respondents indicated that bonuses would be between 1% and 4.9%, and another 18% reported they would fall between 5% and 8.9%. Approximately 17% revealed that bonuses would be greater than 9%

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

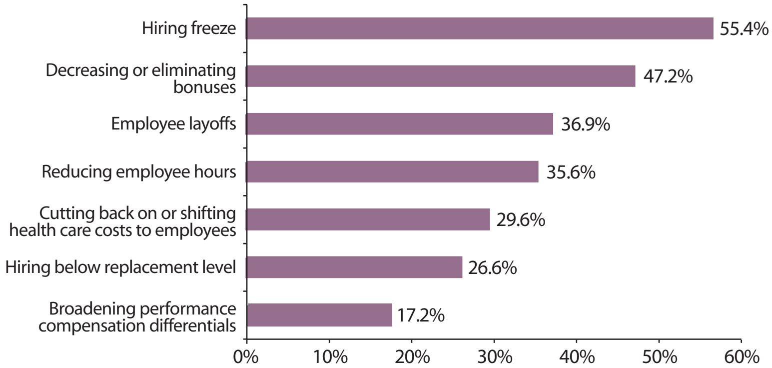


Respondents were also asked to identify the sources of their projected 2009 pay increases from among four categories: merit/performance, cost of living adjustments (COLAs), year-end bonuses, and stock options. About 59% of the companies use a variety of methods for increasing wages. Approximately 78% will rely on merit/performance based pay increases, while 62% anticipate using COLAs. In addition, 36% will use bonuses as a means of pay increase and 11% will use stock options. These percentages are similar to results of the first quarter 2008 survey.

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



Actions Being Considered to Contain Costs*



*Panelists could choose multiple responses.

Finally, respondents were provided with a list of eight possible ways to contain compensation and benefit costs in the current economic environment and asked to indicate those used by their company. The top means of for controlling costs were:

- Hiring freeze
- Decrease or eliminate bonuses
- Employee layoffs
- Reduce employee hours

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 2009 survey at www.blci.com/colorado.

Business Leaders Confidence Index History by Component

	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	**Q1 2009**
BLCI	47.9	45.1	41.7	43.6	44.0	**30.6**
Component indices:						
Expectations for National Economy	38.8	37.8	30.3	35.8	42.8	**26.1**
Expectations for State Economy	47.2	46.8	41.9	45.7	48.3	**34.2**
Industry Sales Expectations	53.7	49.0	47.7	50.8	47.1	**34.3**
Industry Profits	50.9	45.3	41.6	44.1	42.5	**31.8**
Industry Hiring Plans	48.9	46.7	45.7	44.4	41.9	**30.6**
Industry Capital Expenditures	48.0	45.3	43.3	41.0	41.2	**26.9**

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

Compass ON BUSINESS

University of Colorado at Boulder Colorado LEEDS School of Business

BBVA Compass

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