BUSINESS LEADERS BLCI CONFIDENCE INDEX®

Colorado
Second Quarter 2009
Volume 7 • Number 2

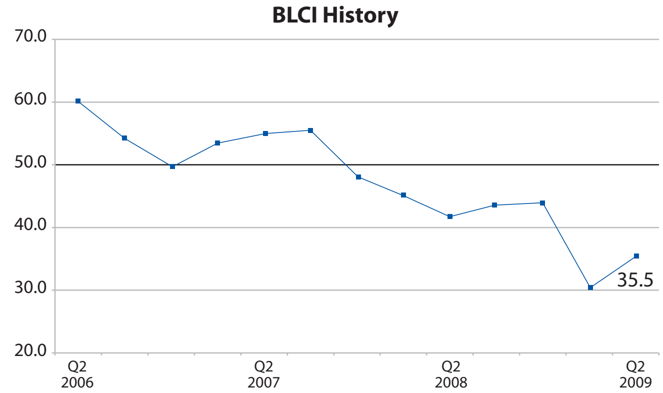
To panelists and readers:

As of the Q2 2009 survey, BBVA Compass is concluding the Colorado BLCI. Your input has been invaluable and we have appreciated your continued participation. Moving forward, we will be providing you with economic forecasting and business articles through the US Regional Watch which can be found at www.compassbank.com.

The University of Colorado will be assuming continuing responsibility for the survey beginning with the third quarter of 2009. Look for information from them soon concerning the Leeds Business Confidence Index and visit their website at http://leeds.colorado.edu.

As always, we wish your business much success in the months ahead.

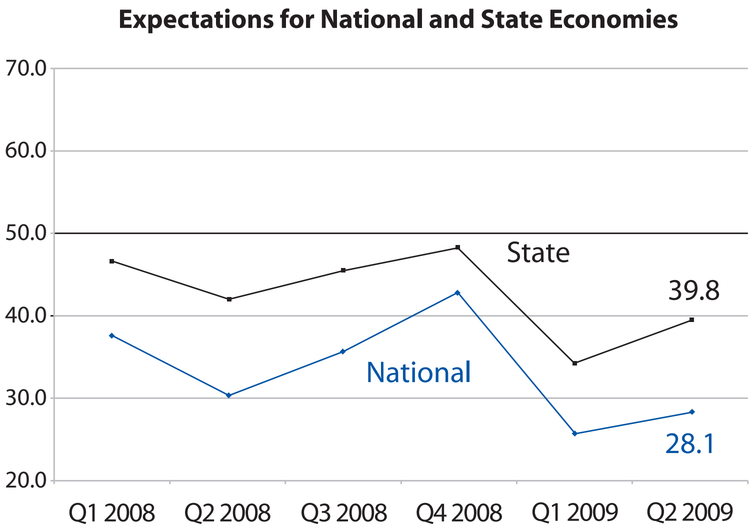
BLCI Records Slight Upward Movement After plunging to a record low last quarter, the forward-looking Colorado *Business Leaders Confidence Index®* (BLCI) bounced upward, from 30.6 to 35.5 for the second quarter of 2009. Although all six index components posted gains, all remain below the neutral level of 50. The largest absolute gain occurred in sales expectations, while the increases were somewhat disappointing in the critical areas of hiring and capital expenditures. This reversal in the direction of the BLCI and the strength of the individual responses offers a glimmer of hope that we are inching closer to better economic times.



Panelists Forecast Slight Economic Improvement On a positive note, Colorado business leaders remain more confident about the state economy than the national economy. They are also optimistic that both economies will improve during the second quarter as we work our way out of the recession. While this news is encouraging, the state and nation will continue to face challenging times as both components remain well below the neutral point of 50.

Survey results indicate that approximately 73% of the BLCI panelists expect the national economy to contract in the second quarter. This is marginally better than the 78% in the prior quarter. About 20% anticipate no change, and only 8% foresee a slight increase. The index component that measures the expected movement of the national economy improved by only two points, moving from 26.1 to 28.1.

As previously mentioned, business leaders are more optimistic about the outlook for the state. The index component monitoring changes in expectations for the second quarter showed a larger gain, from 34.2 to 39.8. Approximately 30% of the participants anticipate no change in the outlook for the state, while 18% project a small increase. Slightly more than half of business leaders expect the state economy to decline. While it is encouraging to see state expectations rise at a rate greater than that for the nation, it is important to remember that because both economies are closely linked, Colorado's potential for improvement will be limited by the growth of national and international communities.



Nationally, real GDP growth for the fourth quarter of 2008 registered -6.3%, the largest decline since the first quarter of 1982. During the second week of April, Moody's Economy.com released its monthly forecast update, calling for real GDP growth of -1.9% in Q2 2009, with an overall decline of 2.6% for the year. Positive growth in the range of 1.5%-2.0% is projected for the fourth quarter of the year. This below-potential level of growth is expected to continue into next year.

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Government spending is projected to escalate by 3.4% this year, reflecting multiple stimulus efforts designed to counter the recession. These efforts will come at a cost as some prognosticators project that the federal budget deficit will exceed two trillion dollars within the year.

At the same time, personal consumption for 2009 is expected to decline by a rate of 2.1%. On a brighter note, Q3 2009 is expected to mark the fifth and final quarter of negative consumption as stimulus plans begin to kick in. The reversal of this downward trend will play a significant role in a return to positive real GDP growth in the fourth quarter. Even with this growth, the personal savings rate should remain in the 4.5%-5.0% range through 2010.

After a drop of about 5% in 2008, the country can expect a reduction in fixed investment of about 15% this year. Declines are projected to have bottomed out in Q4 2008 and Q1 2009, in the -20% to -30% range. Meanwhile, the trade deficit is anticipated to remain around -$350 billion through next year.

At this time a year ago it was clear to many that the economy was headed for a downturn. It was thought that if a recession was to occur it would be broad and relatively shallow. Additionally, the worst case scenario, it was believed, would be a modest decline in real GDP growth, accompanied by moderate job losses. In September, a cascade of negative events put the real economy in a tailspin that is still being felt today. The result was a freezing of the credit market, steep declines in equity markets and dramatic drops in business and consumer confidence.

At the state level, revised data from Colorado Labor Market Information show an annualized average increase of 45,000-50,000 workers in Q1 2008. In subsequent quarters, the annualized number of additional workers fell steadily, to 30,000 and 17,000, respectively. These declines were in line with initial projections for a broad and shallow recession. Expectations for a continued steady decrease were shattered when fourth quarter employment recorded annualized job losses averaging 20,000 workers, followed by annualized average losses of 50,000 workers in the first two months of 2009.

Another indicator shows the magnitude of the projected changes in the state General Fund Revenues. In December of 2007, the Office of State Planning and Budgeting (OSPB) projected general funds revenue of $8.1 billion in 2009 and $9.5 billion in 2012. In its March 2009 revision, projections for 2009 had declined to $7.3 billion—a drop of about $800 million from the December 2007 budget—while 2012 had fallen to $8.3 billion.

Despite the bad news, there are some bright spots. The current Q2 BLCI results provide a glimmer of hope that confidence in Colorado may be slowly returning. After testing a low of 6,500, the Dow Jones Industrial Average has shown steady increases for a short period. It is believed that a sustained upward tick in the equities markets will signal improvement in the overall economy in the next four to six months. Colorado initial unemployment claims appear to have peaked at 7,300 in early January. The fact that they have returned to the neighborhood of 6,000 is a positive sign; however, total unemployment will not subside as long as continuing claims rise.

Another positive is the comparative state of the Colorado housing market. Home appreciation rates are better here than in many parts of the country. As well, the number of foreclosures has decreased in most parts of the state. Although net migration rates have been revised downward, a net of approximately 50,000 people is expected to be added to the state's population this year—a sign that Colorado continues to be a great place to live and work.

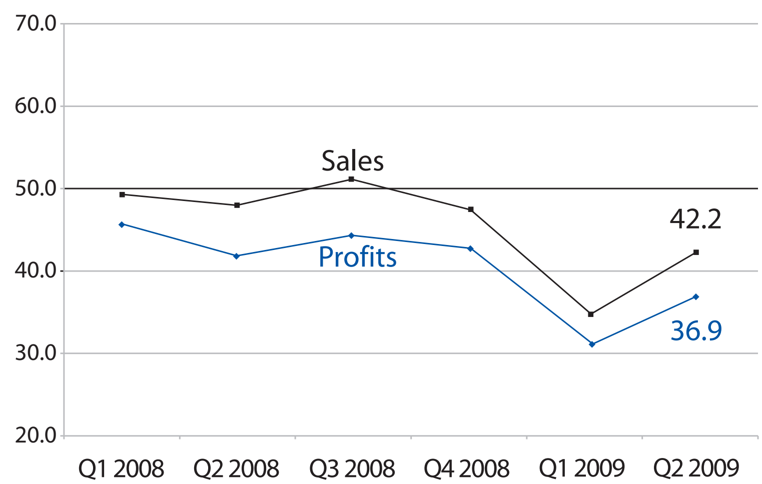
The revised employment data suggest that that Colorado most likely entered the recession about a quarter later than the remainder of the country, or about one year ago. Despite the current strengths of the state, Colorado could follow its historical pattern and exit the recession after the U.S. economy. It remains to be seen how much damage Colorado businesses and state revenue sources will sustain in the interim.

Cautious Optimism for Industry Sales and Profits As has been the case in previous quarters, the sales expectations component of the BLCI again recorded the highest value of the six index components. Business leaders exhibited increased confidence in their sales outlook as sales expectations for Q2 2009 rose from 34.3 to 42.2.

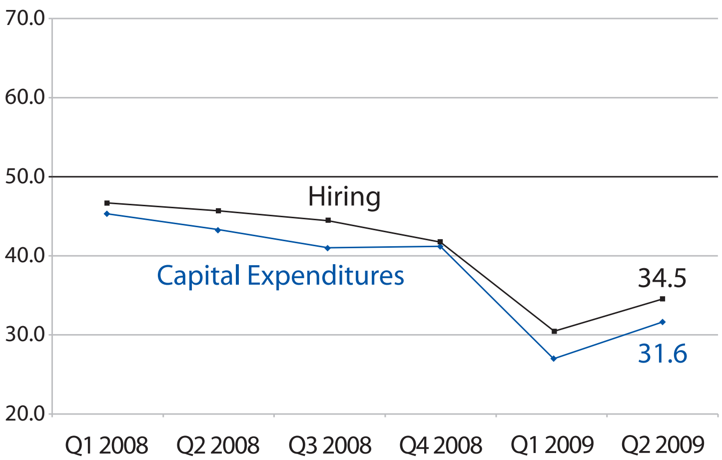
Almost 30% of the BLCI respondents expect industry sales to increase during the second quarter, compared to about 20% for the first quarter. Approximately 23% believe sales will stay about the same. About half of the respondents are pessimistic about their sales outlook, down from 66% in Q1. This shift to fewer pessimistic responses is significant and encouraging.

The outlook for profit expectations also moved forward, advancing from 31.8 to 36.9. Fifty-eight percent of the panelists anticipate a decline in profits during the second quarter, down from 68% last quarter. About 21% of the panelists believe profits will increase, while a similar percentage of panelists expect profits to remain unchanged. Despite increased optimism, the data suggest that business leaders remain focused on cost containment until they are more confident that sufficient sales will materialize to warrant increased investment or spending.

Sales and Profit Expectations



Expectations for Capital Expenditures and Hiring



Outlook Remains Pessimistic for Capital Spending and Industry Hiring The expectations for investments in capital goods and labor are consistent with the dire state of the economy. Despite improvements in both components, values for the upcoming quarter remain well below the neutral point of 50. The component measuring the outlook for capital expenditures for the second quarter rose from 26.9 to 31.6.

More importantly, about 59% of the panelists project moderate or strong decreases in capital spending during the second quarter, and approximately 32% expect spending to remain constant. Only 9% of respondents anticipate increased capital spending.

Hiring expectations registered a similar increase, rising from 30.6 to 34.5. About 54% of business leaders believe that hiring will decline. This represents an improvement from 61% last quarter. Roughly 35% indicated that their employment plans for the second quarter would not change, while slightly less than 12% expected gains.

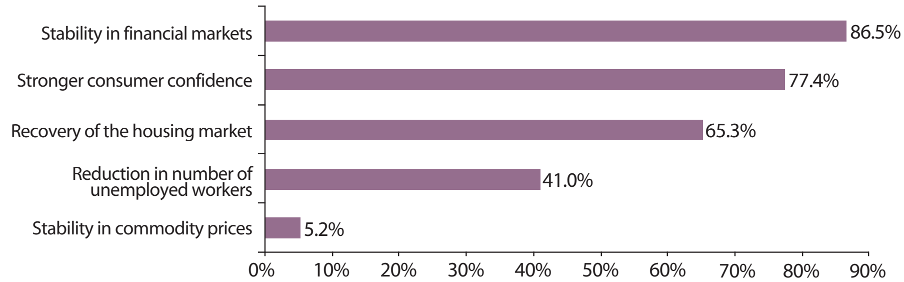
Despite improvements in both of these components, it is clear that increased investment in capital, labor, or operating expenses is unlikely to occur until business leaders are more confident that the number of orders will rise and be converted to actual sales.

It is likely that business leaders will remain cautious as long as credit is tight and confidence is weak. These data suggest that companies will continue to postpone investment as long as possible. If investment does occur, companies are most likely to opt for labor rather than capital spending.

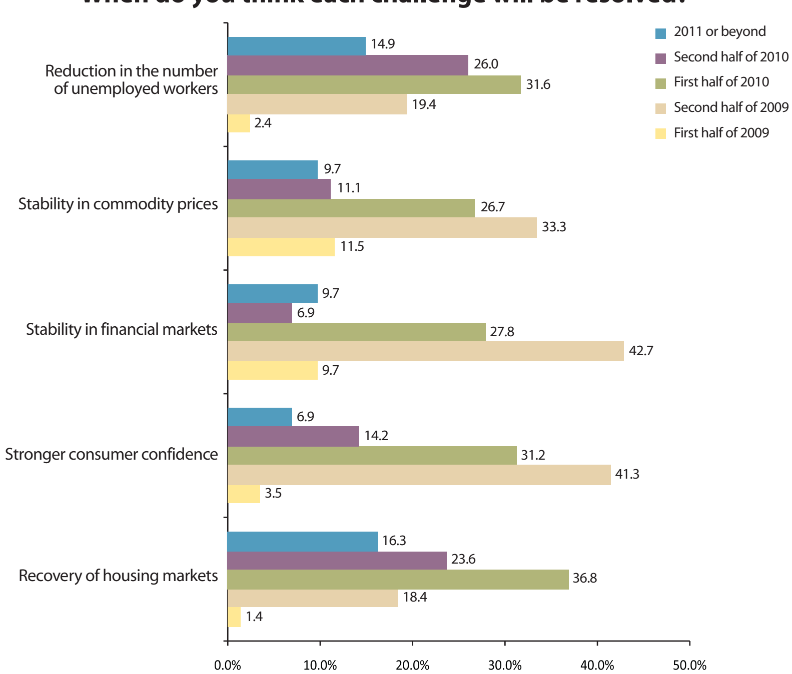
Topical Question Series – The U.S. Economic Recession and Recovery

Because we are in unprecedented economic times, the topical questions for the second quarter dealt with various aspects of the current recession.

Which factors will exert the greatest impact on U.S. economic recovery?*



When do you think each challenge will be resolved?

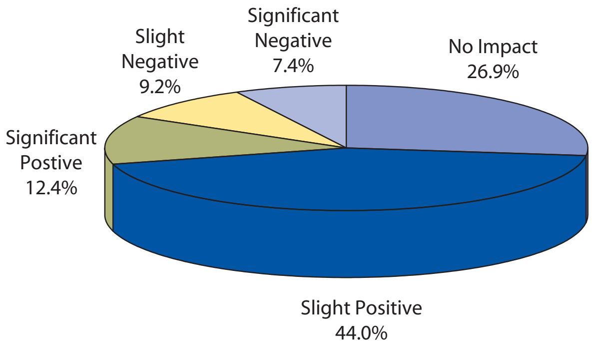


First, panelists were asked to identify the factors that would exert the greatest impact on the recovery of the economy. They were asked to select three factors from a list of five that they thought would be most influential. About 87% said that stability in the financial markets would lead to the recovery, followed by improved consumer confidence, at 77%, and a rebound in the housing market, at 65%. Reduced unemployment and stability in commodity prices were identified as the factors that would have the least influence on the recovery.

Panelists were then queried about when they thought each of the five factors would be resolved. The most common value for a return to stability in the financial markets and for a return of consumer confidence was the second half of 2009, whereas stability in commodity prices is expected most often in the first half of 2010. When looking at that data as a whole, these factors were followed by reduced unemployment and an improved housing market, with expected recovery dates closer to mid-2010.

*Panelists could choose multiple responses.

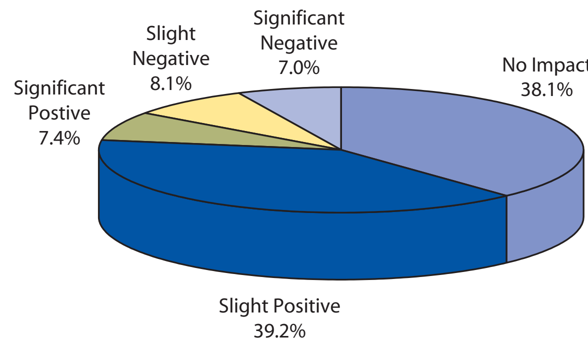
What impact will the economic stimulus package have on your industry?



Finally, the panelists were asked a pair of questions relating to the projected impact of the stimulus package, both on their industry and their company. Slightly less than 17% indicated that their industry would feel a negative impact as a result of the stimulus package. Almost 27% of the respondents stated that the stimulus package would not have any impact on their industry, while 44% thought it would have a slight positive impact. About 12% stated that the stimulus package would have a significant positive impact on their industry.

Colorado business leaders were less positive about the impact of stimulus efforts on their company. About 38% indicated that their company would not be impacted, while 47% would feel either a positive or significant increase in business. The remaining 15% expected to experience a negative impact as a result of stimulus efforts.

What impact will the economic stimulus package have on your company?



Business Leaders Confidence Index History by Component

	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	**Q2 2009**
BLCI	45.1	41.7	43.6	44.0	30.6	**35.5**
Component indices:						
Expectations for National Economy	37.8	30.3	35.8	42.8	26.1	**28.1**
Expectations for State Economy	46.8	41.9	45.7	48.3	34.2	**39.8**
Industry Sales Expectations	49.0	47.7	50.8	47.1	34.3	**42.2**
Industry Profits	45.3	41.6	44.1	42.5	31.8	**36.9**
Industry Hiring Plans	46.7	45.7	44.4	41.9	30.6	**34.5**
Industry Capital Expenditures	45.3	43.3	41.0	41.2	26.9	**31.6**

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.

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

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University of Colorado at Boulder Colorado LEEDS School of Business

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