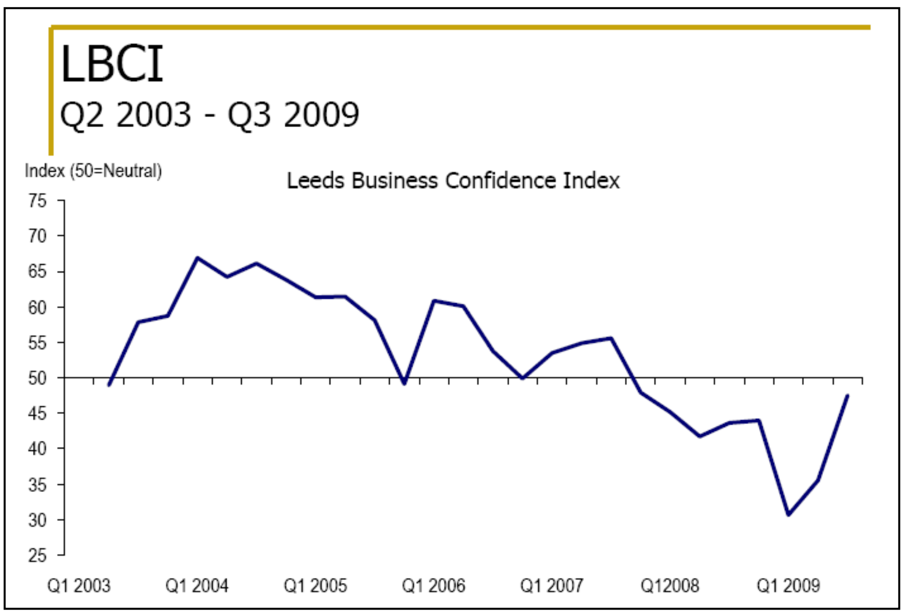
LBCI LEEDS BUSINESS CONFIDENCE INDEX

**Third Quarter 2009**
**Volume 1, number 1**
*http://leeds.colorado.edu/lbci*

## Overview – Leeds Business Confidence Index Records Uptick

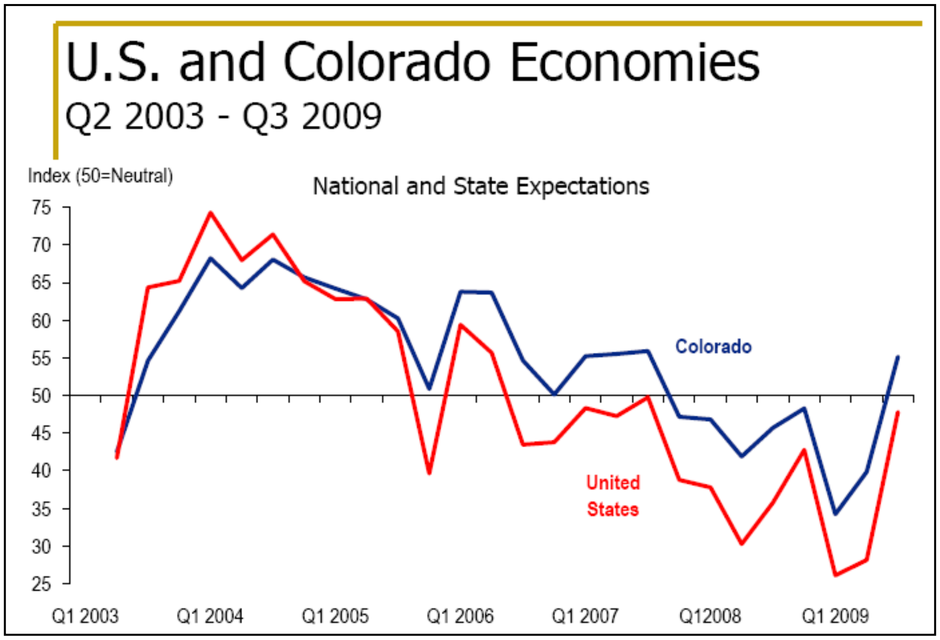
After plunging to a record low in the first quarter of 2009, the forward-looking LBCI surged upward, from 35.5 to 47.5, for the third quarter of 2009. All six index components posted steep gains, and two of the components (state economy and sales) passed the neutral mark of 50. The improvement of the individual components parallels improvements in other key national economic indicators. However, overall, the LBCI remains below 50 as leaders expressed continued concerns about profits, hiring, and capital expenditures.




## National and State Economies – Outlook for State Remains Better than Nation

On a positive note, Colorado business leaders have returned to a bullish position on the state economy as this component of the index skyrocketed from 39.8 to 55.1. This represents the first time in almost two years that this component registered above 50. Expectations for the national economy jumped by almost 20 points, from 28.1 to 47.8.

Survey results indicate that panelists are split almost evenly about what they think will happen in the months ahead with the national economy. This is in sharp contrast to the previous quarter when approximately 73% of the business leaders projected worsening conditions.




At the state level, almost 46% of the panelists project moderate or strong growth in the state economy. Approximately 32% anticipate no change in the outlook for the state, while 23% project a decrease.

It is particularly encouraging to see the increased optimism for both the state and national economies, as well as confidence that Colorado will outperform the nation. At the same time, it is important to remember that Colorado's economy is closely linked to the global economy. The state's potential for growth will therefore be limited by the performance of the national and international business communities.

Nationally, real GDP growth for the first quarter of 2009 registered -5.5%, improving slightly over the final period in 2008. Real GDP growth is expected to show continued gains through the remainder of 2009, with minimal expansion projected for the second half. An overall decline of about 3.0% is projected for this year. Weak growth in the 1.5%-2% range is anticipated for 2010.

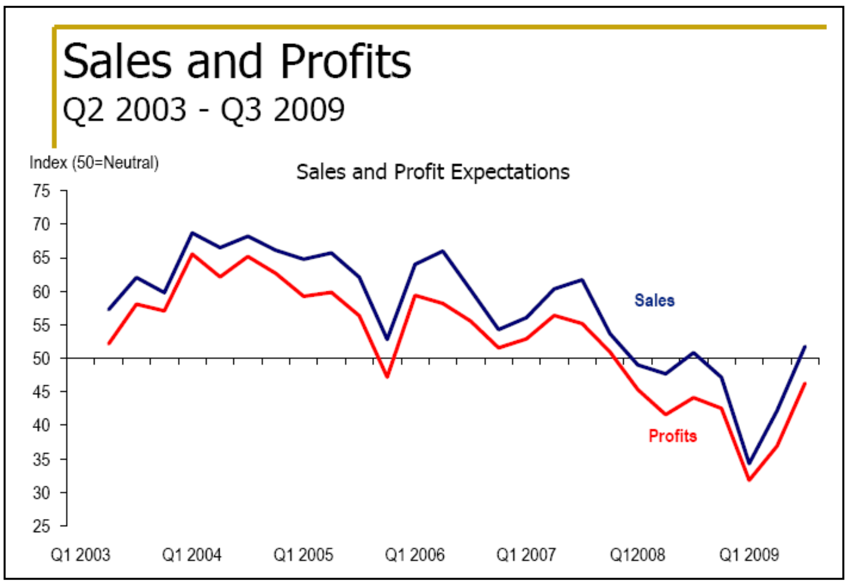
At the state level, a timely measure of economic performance is the non-farm employment series provided by Colorado Labor Market Information. After peaking at 2,379,100 employees in June 2008, the May 2009 data show that Colorado payrolls have shed almost 117,000 jobs during the downturn.

Another way of looking at the Colorado economy is to compare average total employment for the first five months of the year. Through May 2009, employment in the state totaled about 73,000 fewer employees than the same timeframe last year. During this five-month period, job gains were recorded in only three sectors: health care, government, and mining. Almost 75,000 workers have been dropped from the Professional Business Services; Construction; Trade, Transportation, and Utilities; and Manufacturing sectors.

While Colorado is on track to post record job losses in 2009, it is projected to be one of the country's top performing state economies in 2010—with a caveat. Estimates indicate that Colorado will be one of a handful of states that will record actual job growth next year, adding fewer than 10,000 jobs.

## Sales and Profits – Business Leaders Continue to Operate in Cost Containment Mode but are Optimistic about Sales

Business leaders exhibited increased confidence in their sales outlook as sales expectations for Q3 2009 rose sharply from 42.2 to 51.8. There has been a marked increase in sales and profit expectations over the past six months, as illustrated by the fact that over 43% of the respondents expect industry sales to increase during the third quarter—more than double the 20% recorded for the first quarter. Likewise, roughly 25% believe sales will stay about the same for the upcoming quarter. Around 32% of respondents are pessimistic about their sales outlook for sales in Q3, down from 66% in Q1. The trend of fewer pessimistic responses is significant.




The outlook for profit expectations also moved forward, advancing from 36.9 to 46.3. Business leaders are clearly faced with many challenges, including dealing with increased commodity prices and managing profit margins in markets with heavy discounting.

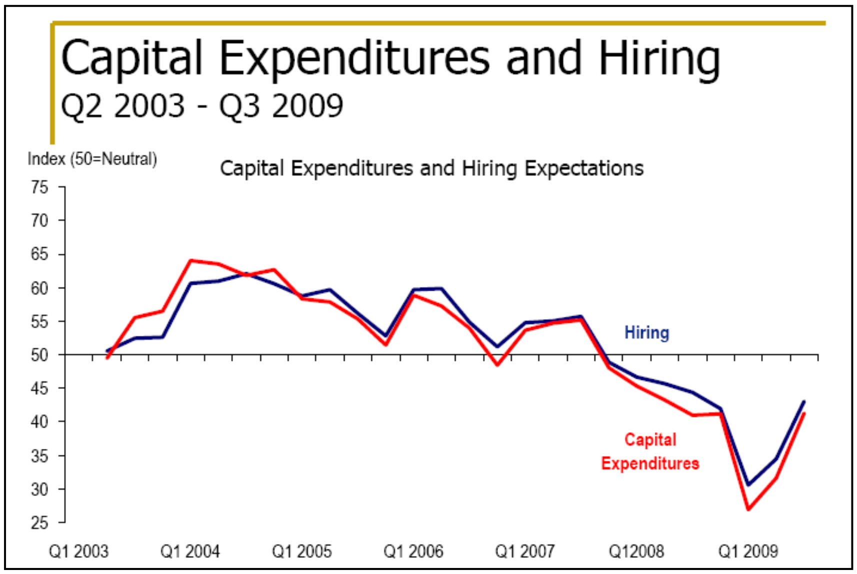
About 30% of the panelists foresee an increase in profits, while one-third expect no change. Slightly more than 36% anticipate a decline in profits during the third quarter. This is an improvement from the previous quarter when 58% projected a decline. While business leaders are more optimistic about their sales and profit expectations than in previous quarters, it is essential that they remain focused on cost containment if they are to succeed and prosper.

## Capital Expenditures and Hiring Plans – Capital and Investment Plans on Hold

While the overall upward movement of the LBCI is an encouraging sign, business leaders remain hesitant about ramping up their investments in capital goods and labor. The values for both indicator components remain well below the neutral point of 50.

The component measuring expectations for Q3 capital expenditures jumped by almost 10 points, from 31.6 to 41.2. However, only 16% of respondents anticipate moderate or strong increases in capital spending. About 37% of the panelists project moderate or strong decreases in capital spending during the third quarter. Roughly 47% expect spending to remain constant.

Hiring expectations registered similar values. This component posted a slightly smaller increase, rising from 34.5 to 43.0, as only 17% of the respondents expected gains. About 36% of business leaders believe that hiring will decline. Approximately 47% indicated that their employment plans for the third quarter would not change.




Concerns about profits and acquiring capital will continue to challenge business leaders. Unfortunately, credit is not expected to loosen significantly until lending institutions become more confident that their operations are on more stable ground.

On a positive note, the second quarter uptick in the equity markets has played a role in improving consumer and business sentiment. In addition, there are signs that consumers are returning to the marketplace while increasing their savings rate.

While companies and consumers are beginning to loosen their purse strings, it is clear that they will continue to postpone spending and hiring as long as possible. Despite this delay, it is unlikely that pent-up demand will produce a spike in either area in the foreseeable future. Finally, it appears that when investment does occur, businesses are likely to favor labor rather than capital spending.