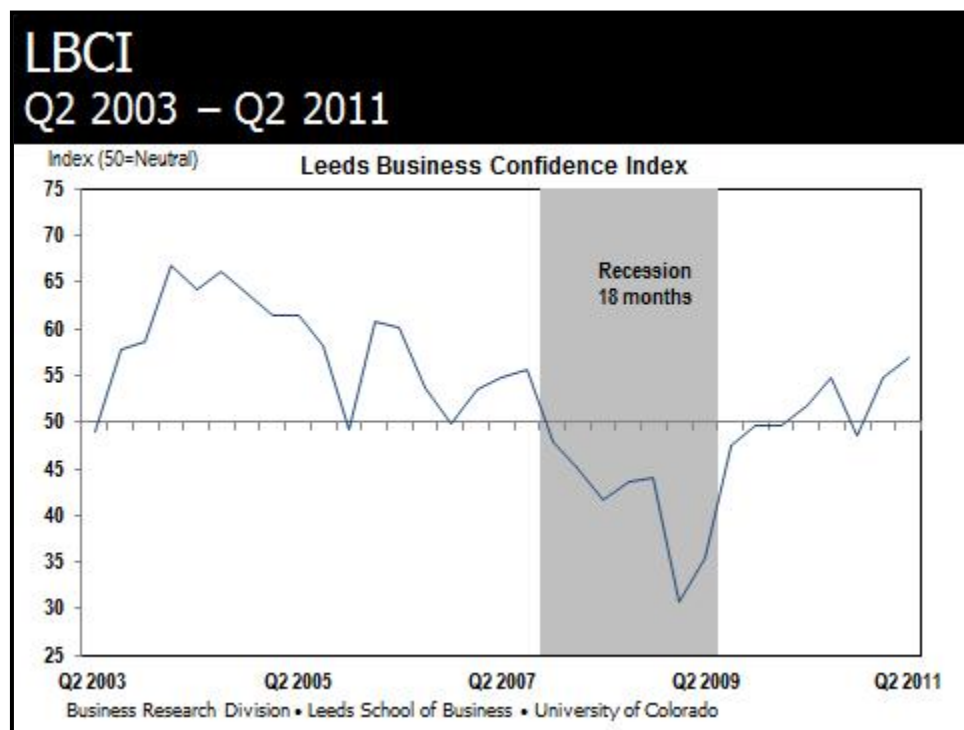


Overview — Continued Confidence in Second Quarter

As Colorado enters the second quarter, confidence continues on a positive slope. The Leeds Business Confidence Index (LBCI) measures the confidence of Colorado business leaders in six categories: national economy, state economy, industry sales, industry profits, hiring plans, and capital expenditures. The LBCI's reading of 56.8 is the highest level since Q2 2006.

For the second consecutive quarter, all metrics are above the neutral mark (50). While confidence in the state and national economies has leveled, expectations for sales, industry profits, hiring plans, and capital expenditures all recorded aggressive gains. The greatest positive change is to hiring plans, which grew from 52.5 in Q1 to 56.3 in Q2.

In addition to the expectations questions, panelists were asked how Colorado should face an estimated \$1 billion budget shortfall for FY 2011-2012. What share should be achieved through spending cuts, and what share should be achieved through tax increases? On average, respondents allocated 29% of the budget balancing burden to increased taxes and 71% to spending cuts.

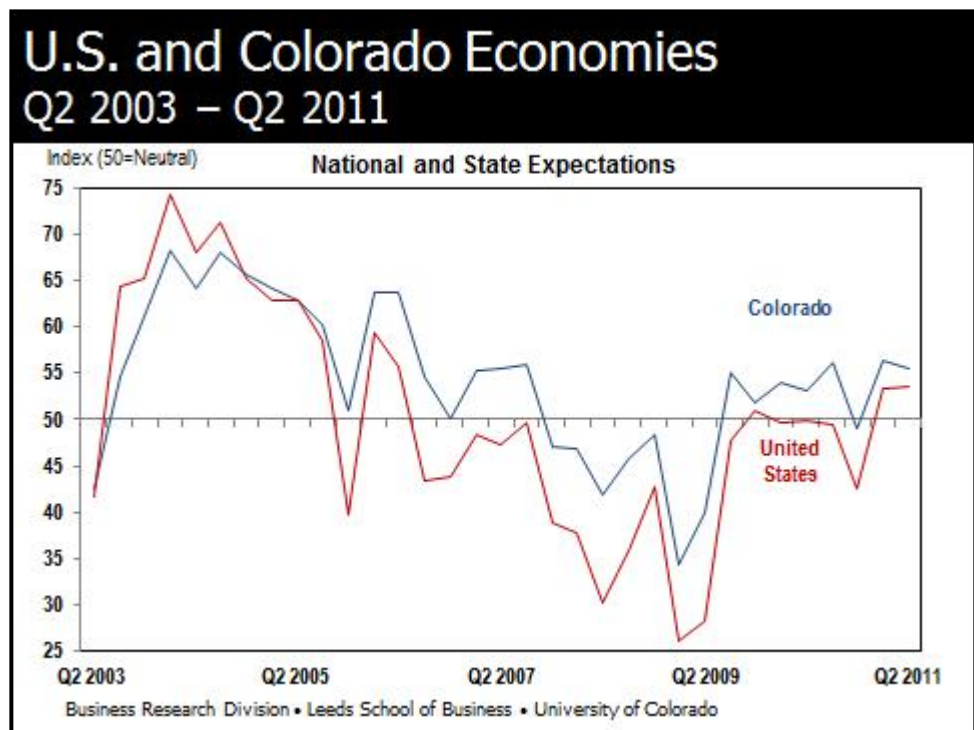


National and State Economies — Positive Expectations

Business leaders remain positive, yet subdued, regarding national and state economic growth. Confidence in both the U.S. and Colorado economies remains above neutral. The national index increased from 53.2 to 53.6, while the state index fell slightly, from 56.5 to 55.5. Despite the marginal decrease from last quarter, expectations for Colorado's economy continued trending higher than those for the nation's in this survey of business leaders.

After expanding by an estimated 2.8% in 2010, economic projections from Moody's Economy.com indicate that national real GDP will grow by 3.5% in 2011. The Bureau of Economic Analysis reported quarterly GDP growth ranged from 1.7% to 3.7% last year. National employment figures reported by the Bureau of Labor Statistics (BLS) for 2010 indicate a 0.8% loss for the year, while state employment slid 1.1%. February employment figures show Colorado beginning to gain momentum in the number of new jobs, with seasonally adjusted employment growth month-over-month and year-over-year. Colorado's population continues to increase at a faster rate than the nation's. Nationally, inflation-adjusted consumption is expected to grow 3.3%, and consumer prices are anticipated to climb 2%, close to the theoretical Fed target.

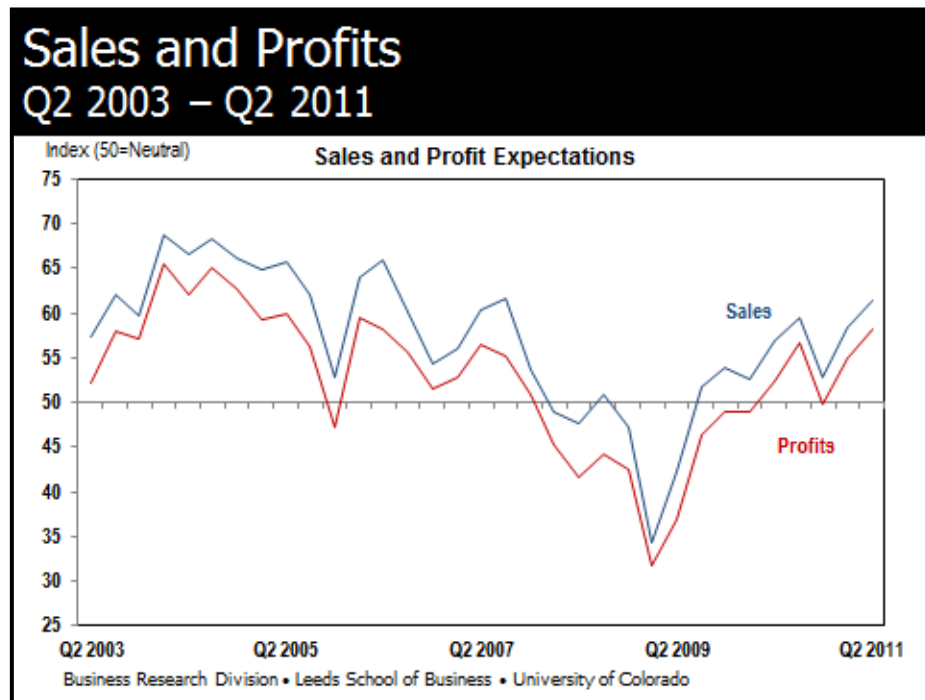
Last quarter, concerns were raised regarding U.S. government spending, the European debt crisis, and currency wars. Focus is now on unrest stretching from Egypt to Libya, a triple catastrophe in Japan, spiking commodity prices, and threats of a government shutdown over the budget.



Sales and Profits — Confidence Begins to Bloom

Sales and profits expectations are moving in a positive direction in close tandem. The sales and profit expectations of business leaders are back to prerecession levels. The sales index recorded a reading of 61.4, and profit, 58.1. These are the highest readings since Q2 2007.

The sales index rose to 61.4. A majority of respondents (56.3%) expect a moderate increase in sales, compared to only 11.5% who anticipate a moderate or strong decrease and 32.2% who expect no change.



The profit index rose to 58.1, with nearly half (49.6%) anticipating moderate to strong increases, 17.4% expecting moderate to strong decreases, and 33% remaining neutral.

Producer and consumer prices will impact sales and profits. According to the BLS, the Consumer Price Index for All Urban Consumers rose 2.1% year-over-year in

February, while core inflation (all items less food and energy) rose 1.1%. However, the Producer Price Index rose 5.6% during the same time period.

Capital Expenditures and Hiring Plans — Vital Components Strengthening

Capital expenditures and hiring, two integral components of an economic recovery, advanced for the second consecutive quarter. Business leaders' investment and hiring expectations improved to 56.1 and 56.3, respectively.

Q2 expectations for capital investment rallied from 53.6 to 56.1. More than 43% of respondents remain neutral. Responses for moderate to strong *increases* outweighed those anticipating moderate to strong *decreases*, 40.7% to 15.9%.

Hiring expectations recorded the greatest gain in Q2, climbing from 52.5 to 56.3. Many respondents remain neutral regarding their hiring plans (47%). However, responses for

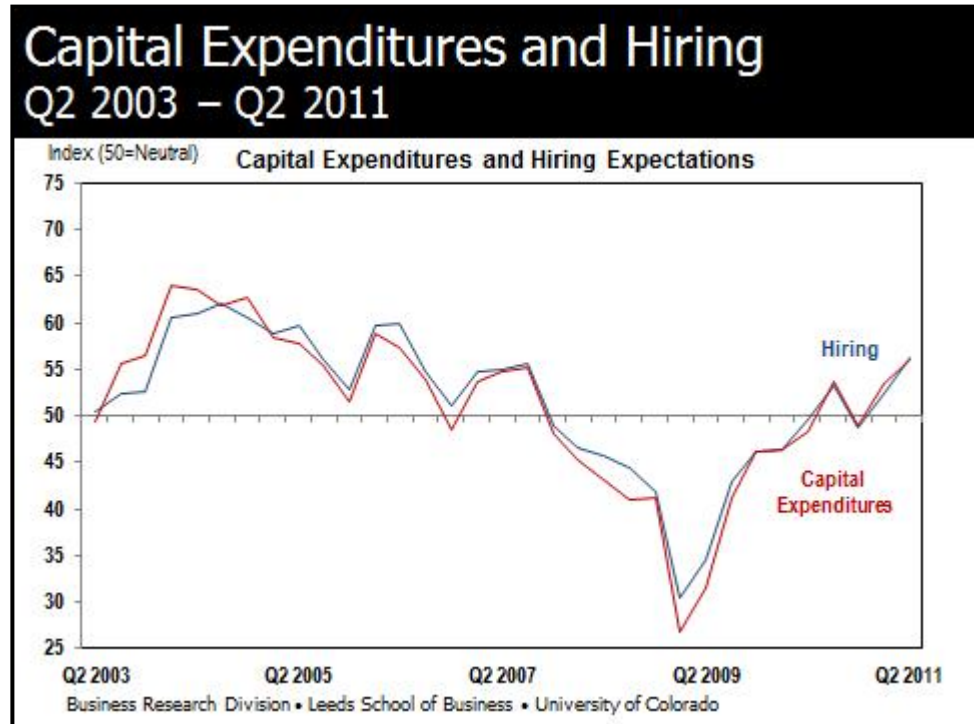
moderate to strong *increases* outweighed those for moderate to strong *decreases*, 24.8% versus 14.4%, respectively.

Employment numbers from the BLS show Colorado turned the corner on jobs in Q4 2010. Year-over-year monthly job gains in Colorado were 0.1%, 0.2%, 0.3%, 0.7%, 0.6% between October 2010 and February 2011. These marginal increases come after 24 consecutive months of year-over-year job losses, making this a long road to employment recovery in the state.

While Colorado employment figures vary greatly by industry and metropolitan statistical area (MSA), only one MSA recorded job losses in February. Seasonally adjusted figures for February indicate employment gains in the Fort Collins-Loveland MSA (+1.1%), the Denver-Aurora-Broomfield MSA

(+1.0%), the Boulder MSA (+0.7%), the Pueblo MSA (+0.3%), and the Colorado Springs MSA (+0.2%).

The BLS data also revealed flat employment growth in the Greeley MSA and losses in the Grand Junction MSA (-0.5%). Preliminary February seasonally adjusted year-over-year employment records for the state indicate the three largest percentage gainers were Mining and Logging (+9.1%), Educational and Health Services (+4.4%), and Leisure and Hospitality (+3.1%), while Construction (-7.5%), Information (-4.4%), and Financial Activities (-2.7%) reported the steepest percentage losses.



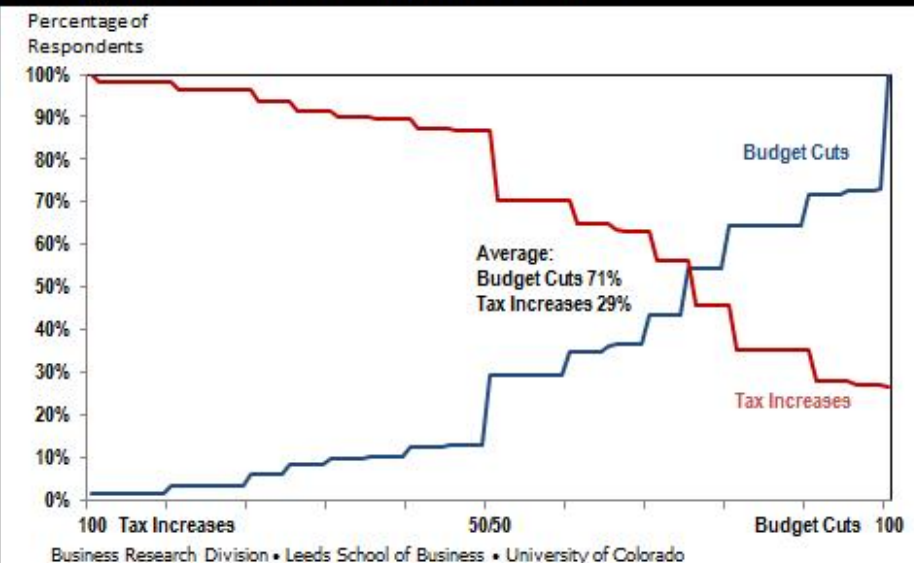
Colorado Budget: \$1 Billion Shortfall

Participants were asked how Colorado should face an estimated \$1 billion budget shortfall for FY 2011-2012. The question asked respondents to assign a value for tax increases and one for spending cuts, for a total of 100%. Overall, panelists indicated that to balance the budget 29% of the budget shortfall should come from increased taxes and 71% should come from spending cuts.

Tax Increases

Panelists were asked to specify the areas they believe would be most amenable to tax increases. About half of the respondents (52%) indicated an increase in sales tax, followed by personal income tax (33%) and corporate income tax (26%). “Other” frequent responses included suggestions of higher taxes on fuel, tobacco, and alcohol. Choices were not mutually exclusive.

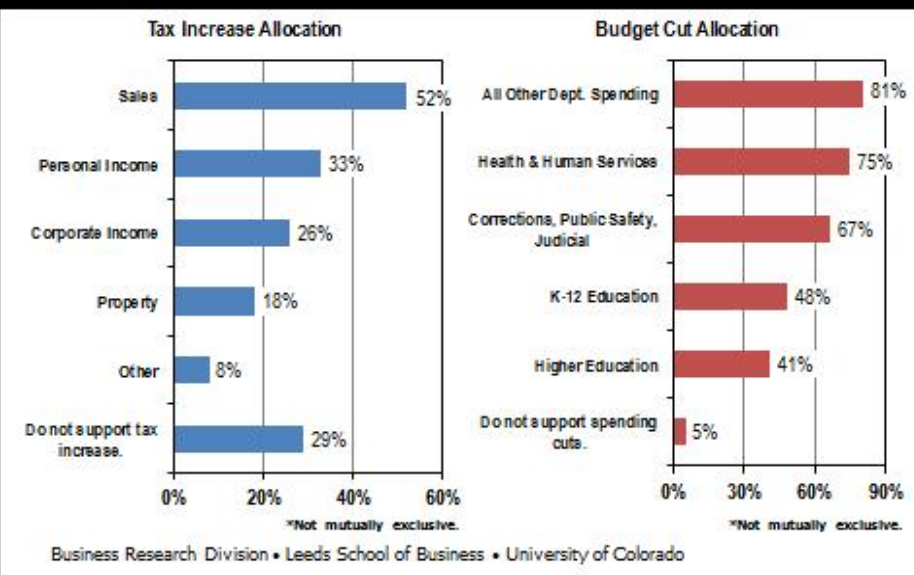
Balancing the State Budget Budget Cuts versus Tax Increases



Budget Cuts

Respondents were asked to specify the areas where budget cuts where should be applied. Four out of five respondents indicated that budget cuts should be allocated to “All Other Departments,” and three out of four respondents suggested that budget cuts be applied to Health and Human Services. K-12 education and higher education received fewer responses, 48% and 41%, respectively. Frequent “Other” responses included cutting government salaries and reevaluating/consolidating positions. Choices were not mutually exclusive.

Colorado’s Budget Shortfall FY 2011-2012



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For more information about the LBCI and to become a panelist, go to leeds.colorado.edu/lbci.