

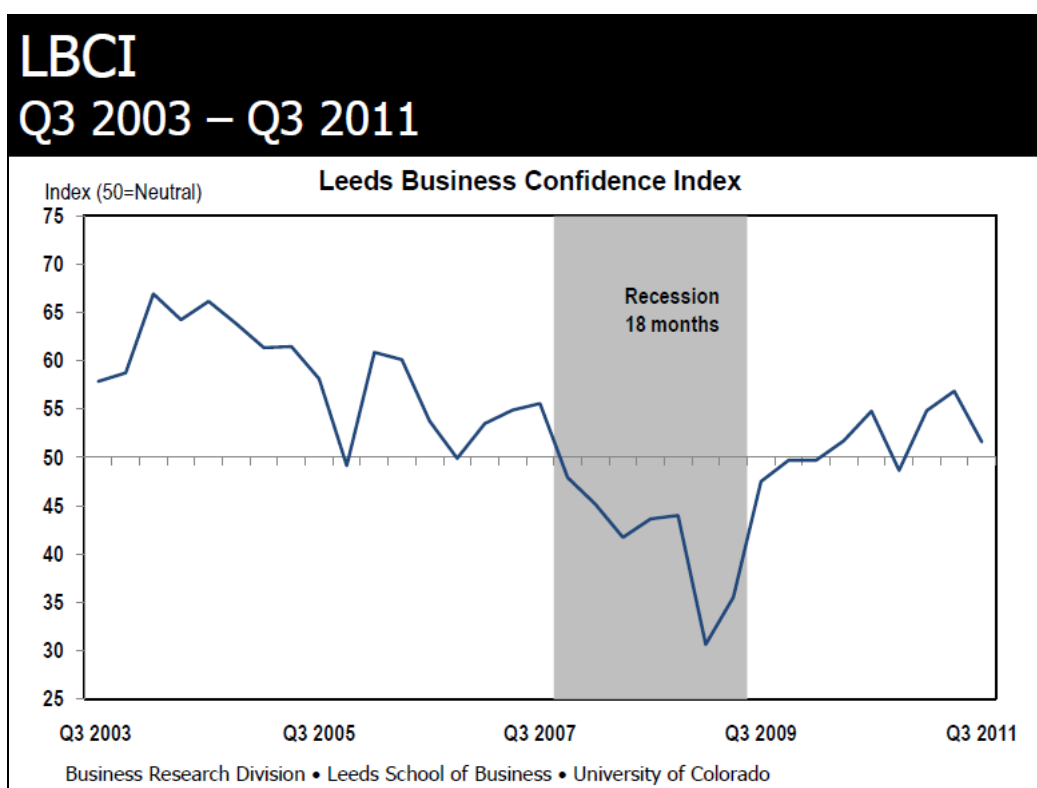
PRESS EMBARGO UNTIL 8:00 a.m., JULY 1.

Overview — Falling Confidence in Third Quarter

Colorado business leaders remained positive, albeit generally less optimistic, looking ahead to Q3 2011. 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 slipped from 56.8 to 51.6 from Q2 to Q3.

Confidence waned across all metrics, although most indices remained above the neutral mark (50). Business leaders pointed to more upside potential on sales and profits, which appeared to translate to capital expenditures and hiring. Expectations for the national economy were especially bleak, falling back below neutral after two consecutive quarters of optimism, while expectations for the Colorado economy hovered just above neutral.

In addition to the expectations questions, panelists were asked about producer prices and fuel prices. For producer prices, business leaders pointed to energy and transportation costs applying the most pressure to their bottom line, followed by labor and materials (e.g., steel, copper, etc.). Business leaders expect the average fuel price to be \$3.77 per gallon in Q3 2011.



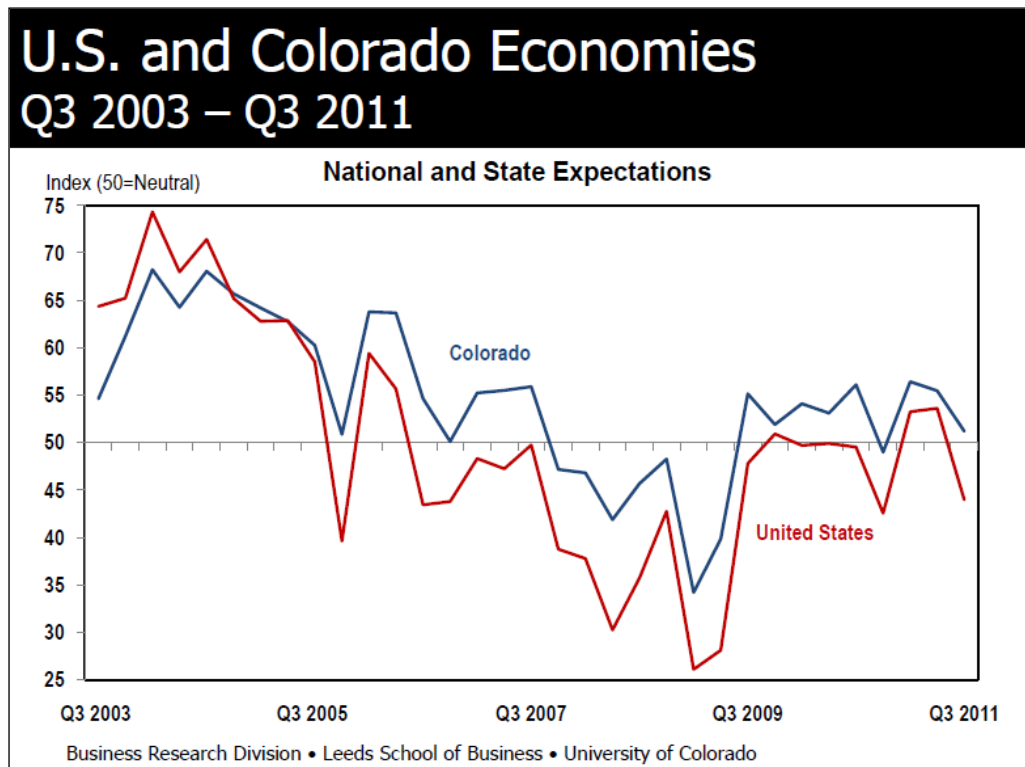
National and State Economies — Split Confidence

Business leaders continue to be more positive about the state economy than the national economy—a trend that has occurred for 25 consecutive quarters. While below Q2 2011 levels, confidence remained positive, with a reading of 51.2, for Colorado’s economy looking ahead to Q3. Nearly 46% of respondents are neutral regarding the state economy, and 30% expect expansion. The two “tails” of the survey scale, strong increase and strong decrease, garnered only 1.3% and 1.6% of the responses, respectively.

Confidence turned negative for the national economy, decreasing by nearly 10 points, from 53.6 to 44.0. Many respondents—41%—were on the fence for this indicator, choosing “neutral.” However, the expectations for a decrease in the outlook for the national economy outweighed expectations for an increase, 39% to 19%.

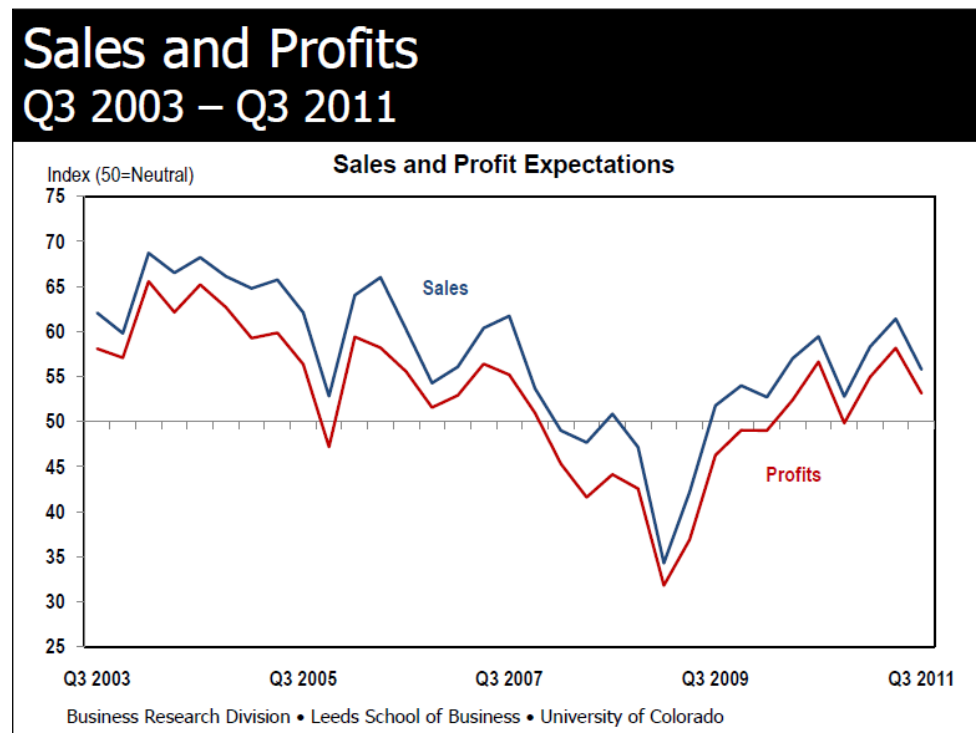
Economic data released during the second quarter surely weighed on Colorado business leaders’ expectations for the state and national economies. After expanding by an estimated 2.9% in 2010, economic projections from Moody’s Economy.com have been revised downward, indicating that national real GDP will grow by 2.7% in 2011. The Bureau of Economic Analysis reported that quarterly GDP growth increased 1.9% in Q1 2011. U.S. employment figures from the Bureau of Labor Statistics (BLS) showed a smaller-than-expected gain of 54,000 jobs, seasonally adjusted, in May 2011, while Colorado added 4,200 jobs. Nationally, inflation-

adjusted consumption is expected to grow 2.7%, and consumer prices are anticipated to climb 3%. The S&P/Case-Shiller Home Price Index released May 31 showed prices declined further in March, and the U.S. Census Bureau reported year-over-year stagnation in housing starts.



Sales and Profits — Still Positive

Sales and profits expectations are positive, but subdued, for Q3 2011, continuing a pattern of two steps forward, one step back. The sales index recorded a reading of 55.8, and profit, 53.1—a drop of more than five points each.



The sales index fell to 55.8, but remained above the critical neutral mark (50).

Compared to Q2 results, in which a majority of respondents (56.3%) expected a moderate increase in sales, those anticipating such an increase in Q3 fell to 43.9% as more individuals expect no change or a decrease.

While the profit index also remained positive, it also declined, sliding to 53.1. Most respondents remained neutral to positive (77.2%).

Business confidence has waned as national and regional indices have dropped in a similar pattern to the LBCI.

Consumer confidence and prices will impact sales and profits. According to the Conference Board, the Consumer Confidence Index fell in May from 66.0 to 60.8. The BLS reported the Consumer Price Index for All Urban Consumers rose 3.6% year-over-year in May, while core inflation was up 1.5% year-over-year. Producer prices for finished goods climbed 7.3%.

Capital Expenditures and Hiring Plans — Balancing Act

Macro indicators show companies making investments in both capital and labor, but the lack of strength in hiring may be hampering the recovery. In the Q3 survey, business leaders' again indicated positive confidence toward hiring and capital expenditures for their industry, though these two metrics pulled back slightly from Q2.

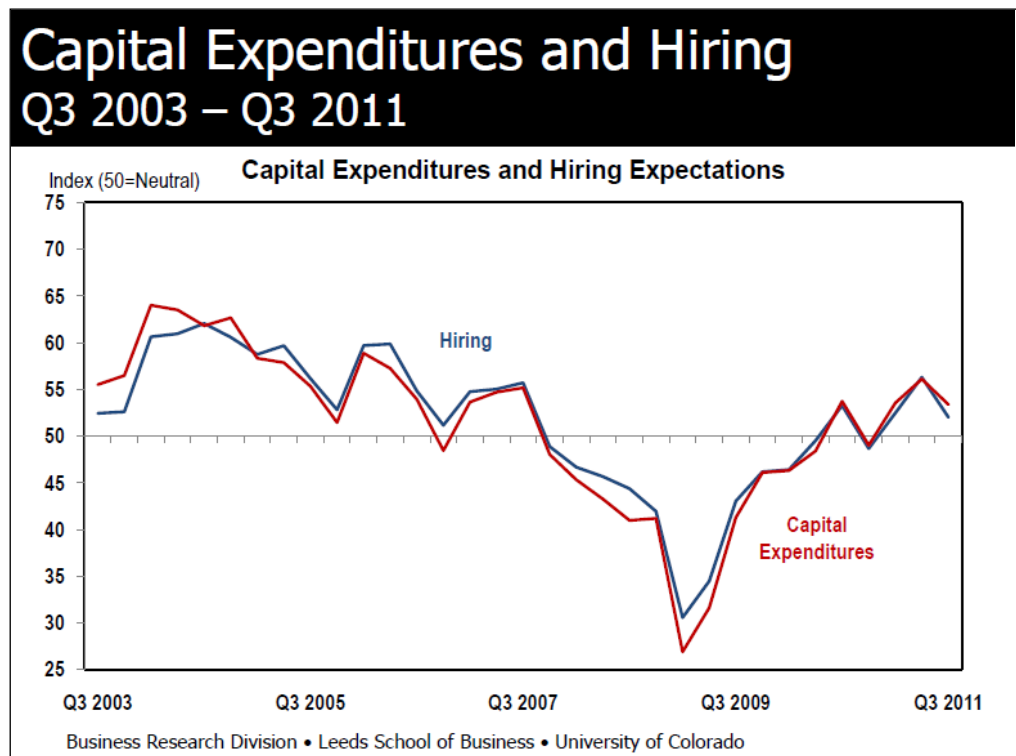
Q3 expectations for capital investment measured 53.4, down from 56.1 in Q2. More than 48% of respondents remain neutral, while more than 32% anticipate moderate to strong increases.

While hiring expectations remained positive, this indicator garnered the lowest rating among industry-specific questions for Q3—a reading of 52. While 30% of respondents expect a moderate increase, only 1.3% anticipate strong increase.

Employment numbers from the BLS show Colorado turned the corner on jobs in November 2010 and has experienced seven months of year-over-year increases. However, the 150,000-job deficit from the peak in June 2008 to May 2011 illustrates the need for more aggressive employment growth.

Colorado employment figures vary greatly by industry and metropolitan statistical area (MSA). Most MSAs have consistently demonstrated year-over-year growth in 2011, but May employment figures show the Colorado Springs, Denver Metro, and Grand Junction MSAs lost jobs year-over-year for the month.

(Although Denver gained private employment, the MSA's modest decline was attributable to Government job losses.) Employment figures reveal that Construction, Information, and Government recorded the steepest job losses in May, while Education and Health Services, and Leisure and Hospitality recorded the greatest gains.

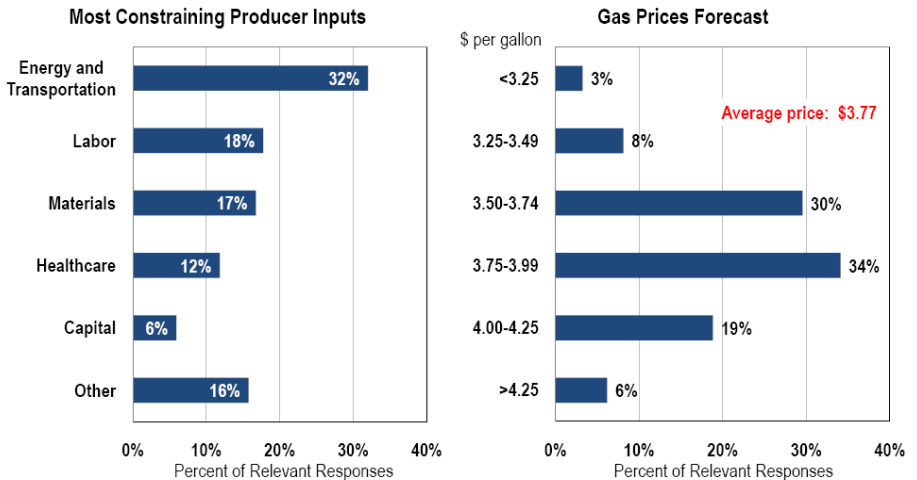


Producer Inputs and Prices

Participants were asked which producer inputs were pressuring their bottom line the most. Thirty-two percent of respondents reported that energy and transportation inputs were causing the greatest constraint, followed by labor (18%), materials (17%), and healthcare (12%).

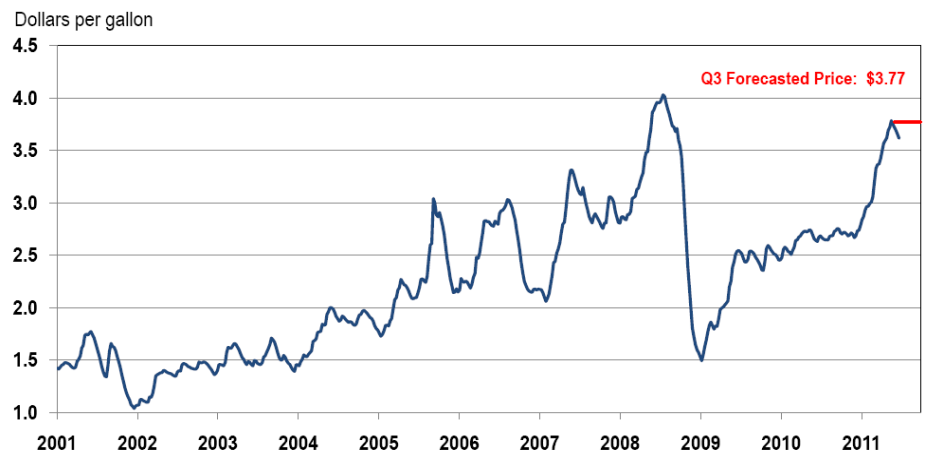
When asked to forecast fuel prices, business leaders estimated the average price for regular unleaded gasoline at \$3.77 per gallon for the quarter, with 83% of respondents forecasting prices between \$3.25 and \$4.25.

Input Costs for Colorado Firms Q3 2011



Business Research Division • Leeds School of Business • University of Colorado

Colorado Retail Gasoline Prices



Source: Energy Information Administration (All Grades) and the LBCI.
Business Research Division • Leeds School of Business • University of Colorado

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