LBCI LEEDS BUSINESS CONFIDENCE INDEX

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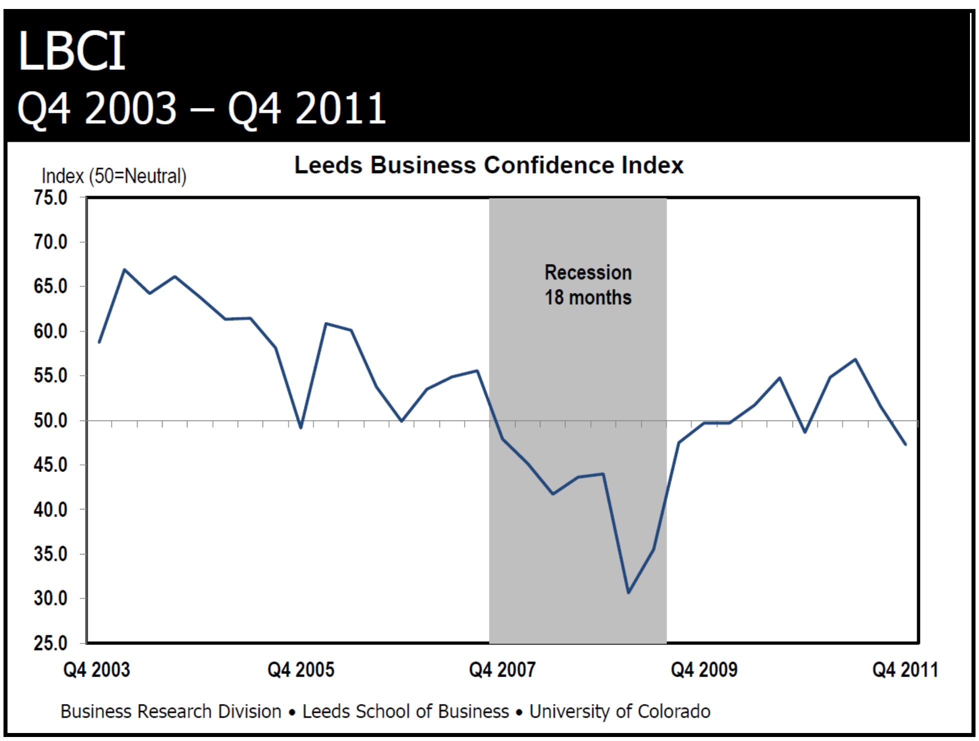
Overview — Dismal Expectations for Q4

Colorado business leaders' outlook turned negative heading into Q4 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 51.6 to 47.3 from Q3 to Q4.

Confidence waned across all metrics—only industry sales expectations remained above the neutral mark (50). Weaker sales and profits expectations have likely caused expectations for capital spending and hiring to fall into negative territory. Expectations for the national economy continued to fall, which marks two consecutive quarters of expected weak national economic growth, while expectations for the Colorado economy fell below the neutral mark of 50 for the first time in 10 quarters.

In addition to the expectations questions, panelists were asked about factors inhibiting the economic recovery. Panelists indicated uncertainty and consumer and business confidence as the greatest inhibiting factor, followed by government regulation, politics, and employment. When asked about the implications of the August 5, 2011, S&P downgrade of the U.S. debt rating from AAA to AA+, 76% of panelists expect no impact on their company today, and 65% anticipate no impact on their company one year from now.



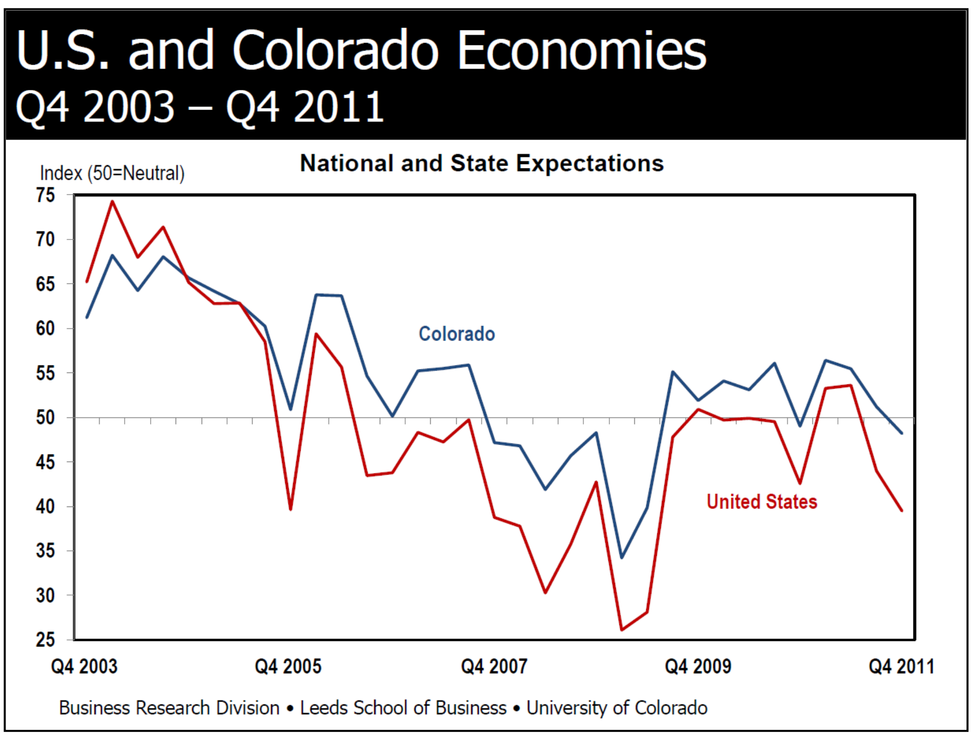
National and State Economies — Retrenching

Both the national and state expectations fell in Q4, marking three consecutive quarters of decline for the state and two for the nation. Despite business leaders continuing to be more positive about the state economy than the national economy—a trend that has occurred for 26 consecutive quarters, both metrics are now in negative territory.

With a reading of 49.0, confidence in the state economy fell below neutral for the first time since Q4 2010. Nearly half of respondents are neutral regarding the state economy, while 23% expect expansion. The two "tails" of the survey scale, strong increase and strong decrease, garnered only 0.8% and 1.7% of the responses, respectively.

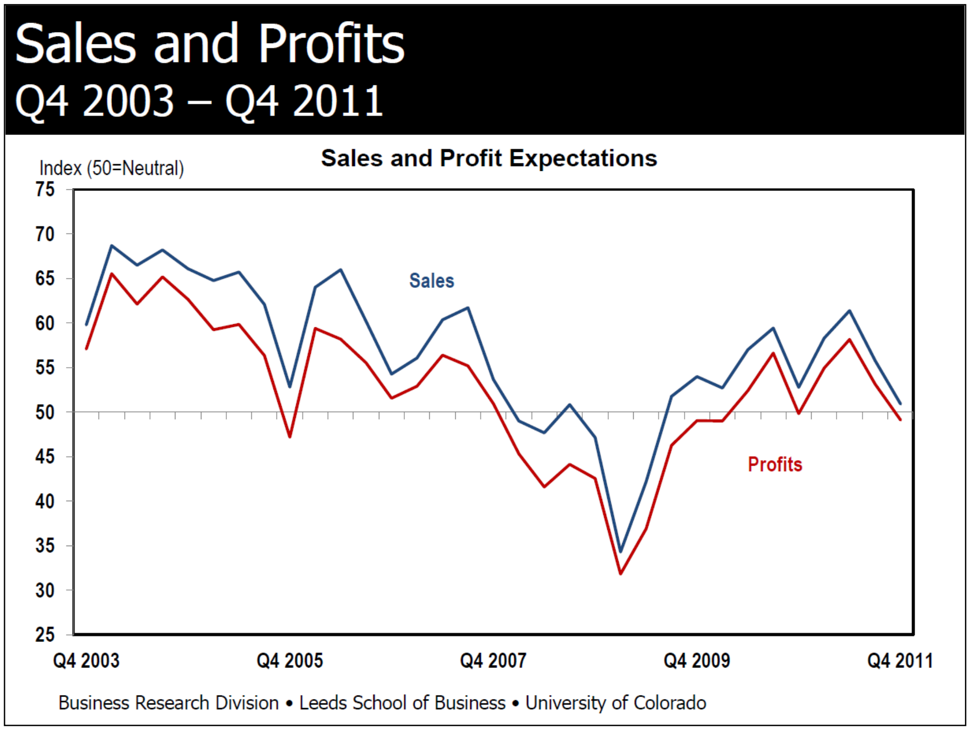
Confidence in the national economy decreased by 3.6 points, from 44.0 to 40.4—the lowest recording since Q2 2009. Many respondents—49.2%—now have a negative outlook for the national economy, while only 16.1% expect positive changes.

Economic data released during the third quarter surely weighed on Colorado business leaders' expectations for the state and national economies. After expanding by 3.0% in 2010, economic projections for GDP have been revised downward time and again to between 1.6% and 1.8% for 2011, and between 2.3% and 2.7% for 2012. The Bureau of Economic Analysis reported that quarterly GDP growth increased a slow 0.4% in Q1 and 1.0% in Q2 2011. U.S. employment figures from the Bureau of Labor Statistics (BLS) reported no jobs added in August 2011, seasonally adjusted, while Colorado lost 1,800 jobs. Nationally, inflation-adjusted consumption is expected to grow 2.1%, and consumer prices are anticipated to climb 3% in 2011. The June S&P/Case-Shiller Home Price Index showed prices declined but may have bottomed in March, and the U.S. Census Bureau reported year-over-year stagnation in housing starts.



Sales and Profits — Neutral

Two quarters of sharp declines have left the sales and profits expectations largely in neutral territory for Q4 2011. The sales index recorded a reading of 51.2, and profit, 49.5—declines from 55.8 and 53.1, respectively.



While the sales index fell to 51.2, it remained above the critical neutral mark (50). Those expecting an increase in sales fell from 43.9% of respondents in Q3 to 32.2% in Q4 as more businesses shifted to neutral or negative expectations.

The profit index slid to 49.5, just below neutral, indicating a sharp decline in optimism for Q4. Many respondents remain neutral (40.7%), while 28% expect moderate declines and 2.5% anticipate strong declines.

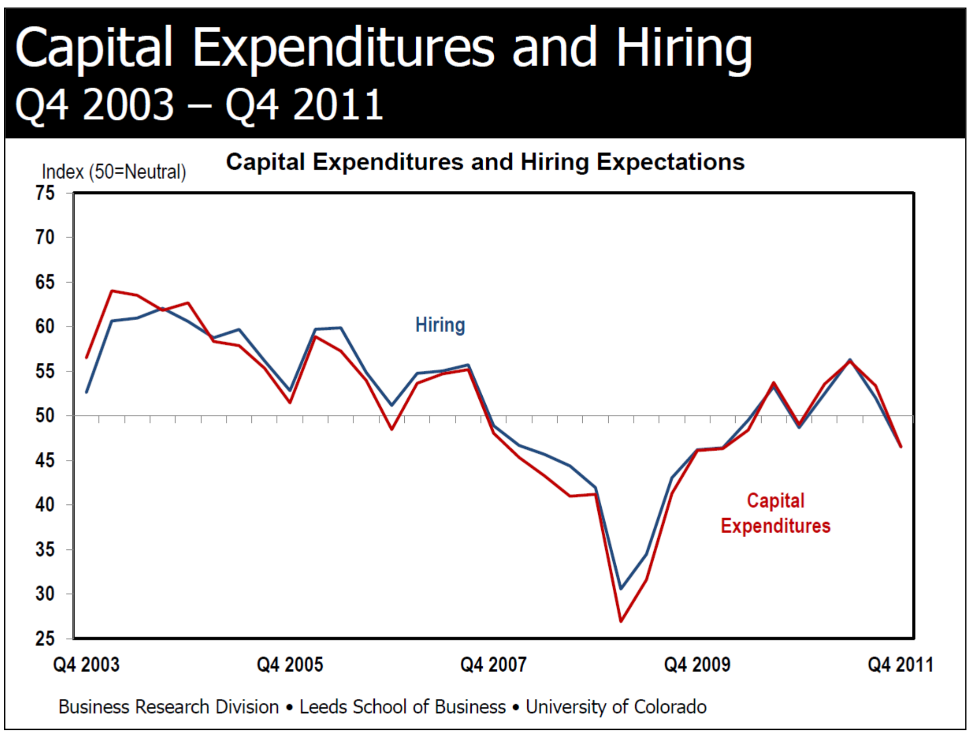
Unemployment, consumer confidence, and prices will impact sales and profits. The labor department announced that unemployment remained at 9.1% in August, with no new jobs added. According to the Conference Board, the Consumer Confidence Index fell from 59.2 in July 2011 to 44.5 in August. The BLS reported the Consumer Price Index for All Urban Consumers rose 3.8% year-over-year in August, while core inflation was up 2% year-over-year. Producer prices for finished goods climbed 6.5%.

Capital Expenditures and Hiring Plans — Declining Expectations

Macro indicators show companies are making fewer investments in both capital and labor due to the lack of confidence in the economy. As businesses stay on the sideline, the weak employment situation is perpetuated. In the Q4 survey, business leaders' indicated slightly negative expectations toward hiring and capital expenditures for their industry as metrics fell below the neutral mark from Q3 to Q4.

Capital investment expectations measured 46.7, down from 53.4 in Q3. Nearly half of respondents remain neutral, while 28% anticipate moderate to strong decreases. The expectations for a "strong decrease" in capital expenditures outpaced expectations for a "strong increase" 8.1% to 0.4%.

While a majority of respondents remain neutral, overall hiring expectations turned negative for Q4, a fall from 52 in Q3 to 46.8 in Q4. While 16.9% of respondents expect a moderate to strong increase, 26.3% anticipate a moderate to strong decrease.

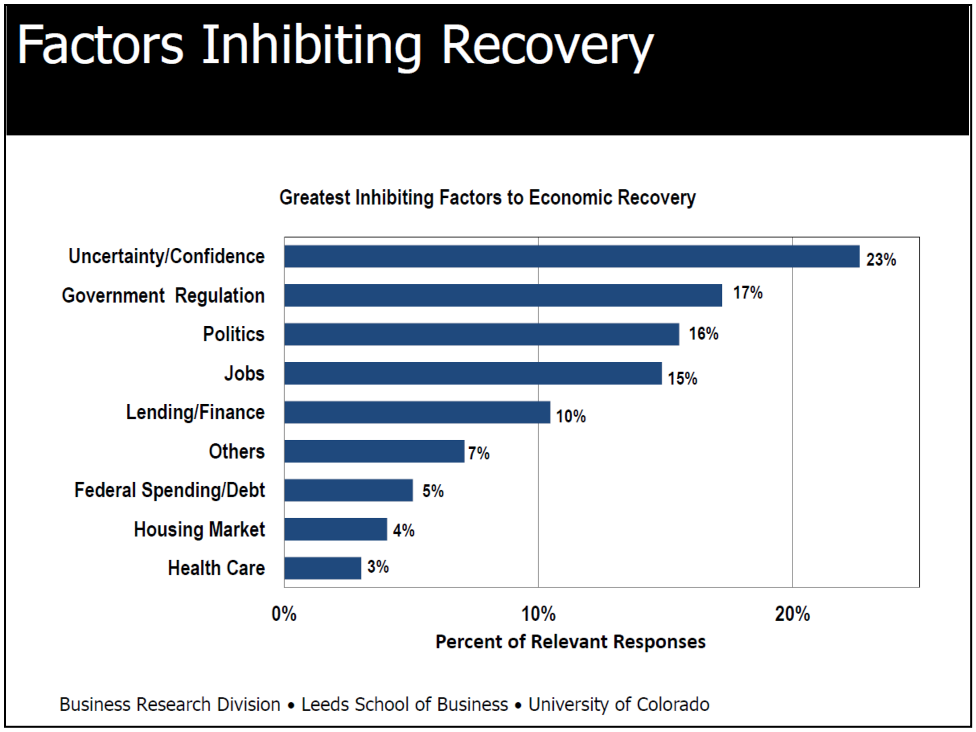


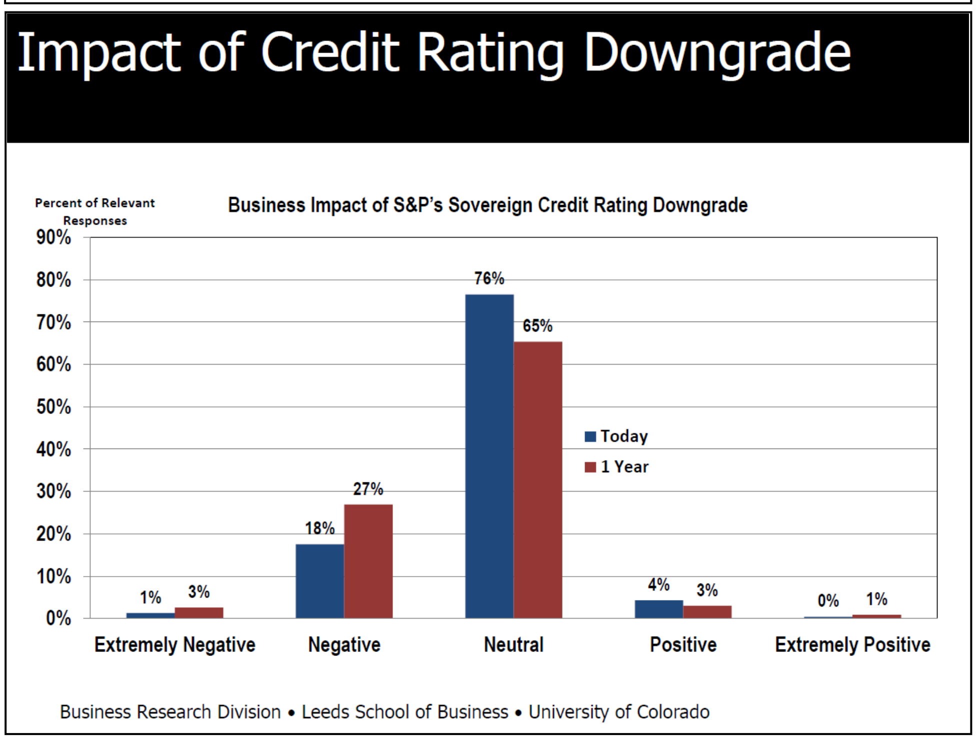
Despite month-to-month volatility in employment, numbers from the BLS show Colorado turned the corner on jobs in October 2010 and has experienced 11 months of year-over-year increases. However, the magnitude of the job deficit that remains in Q3 2011 illustrates the need for more aggressive employment growth.

Colorado employment figures vary greatly by industry and by metropolitan statistical area (MSA). Most MSAs have consistently demonstrated year-over-year growth in 2011, but August employment figures show the Grand Junction, Colorado Springs, Denver-Aurora-Broomfield MSAs lost jobs year-over-year for the month. Employment figures reveal that Construction, Information, and Financial Activities recorded the steepest job losses in August, year-over-year, while Education and Health Services, Leisure and Hospitality, and Professional and Business Services recorded the greatest gains.

Factors Inhibiting Growth and the U.S. Downgrade

Panelists expressed their unease with the recovery, illustrating that interrelated factors are inhibiting growth. A general depiction of the problem is that uncertainty around taxes, health care, and the overall economy are causing businesses to wait on the sidelines when it comes to hiring. Panelists were asked to comment on the greatest inhibiting factor. Approximately 23% of respondents indicated that uncertainty and consumer/business confidence is the greatest inhibitor, while 17% cited government regulation. Politics, employment, and access to capital rounded out the top five at 16%, 15%, and 10%, respectively. These responses generally compare to one year ago when panelists were asked this question, but the order and magnitude has changed. In Q4 2010, politics and lending each received 28% of responses, followed by confidence (24%) and employment (19%).





On August 5, 2011, Standard & Poor's (S&P) downgraded the long-term sovereign credit rating on the United States from AAA to AA+. Survey participants were asked what the impact will be to their businesses today and one year from today. An overwhelming majority of respondents, 76%, claimed the downgrade would have no impact today, while 19% expected negative impacts. The number anticipating negative implications one year out rose to 30%.

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