

PRESS EMBARGO UNTIL 8:00 a.m., July 2, 2012.

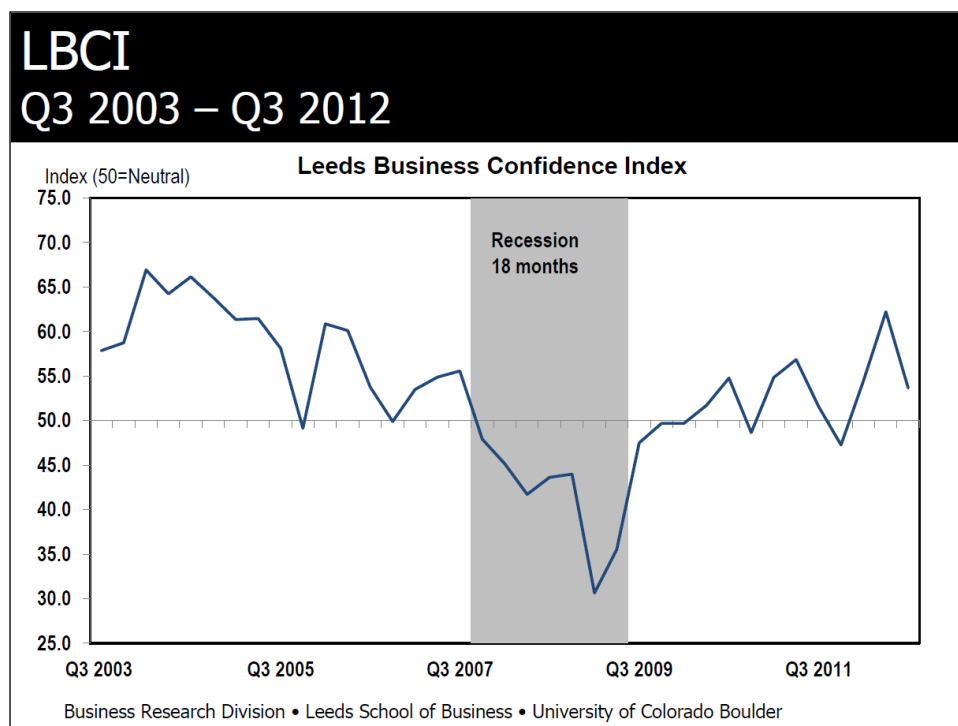
Overview — Optimism Weakens

Colorado business leaders' optimism weakened going into Q3 2012, but remained higher than the 10-year average for the index. 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 slid from 62.2 in Q2 to 53.6 in Q3.

Confidence decreased for all metrics, but remained above the neutral mark (50) for all except the national economy. Expectations for the state and national economies both fell, with state expectations remaining positive, at 56.6. The expectations differential between the state and the nation widened in Q3 to 10.7, indicating greater confidence in the local economy than the national economy. Despite waning optimism, more than two out of three respondents indicated their company's recovery is stronger today compared to one year ago.

The Q3 outlook marks three quarters of continued optimism, though the decrease in the index reveals caution, most notably with regard to the macroeconomic environment.

Looking ahead to Q3 2012, month-over-month employment figures and jobless claims are pointing to a slowly improving labor market. However, drags on the economy persist—the European debt crisis, the *rate* of employment growth, and subpar construction activity.



National and State Economies — Mixed Expectations

Both the national and state outlook took a step back for Q3, leaving Colorado in positive territory while the national outlook turned negative. Optimism about the local economy continues to outstrip that of the nation—a 29-quarter trend in the index.

Confidence in the state economy retreated from 67.1 to 56.6, reflecting general uneasiness with recent economic data. Nearly 40% of respondents are neutral regarding the state economy, while 43% expect expansion (down from 65.2% in Q2). The gap between the two “tails” of the survey scale, strong increase and strong decrease, narrowed with values of 0.9% and 0.4%, respectively.

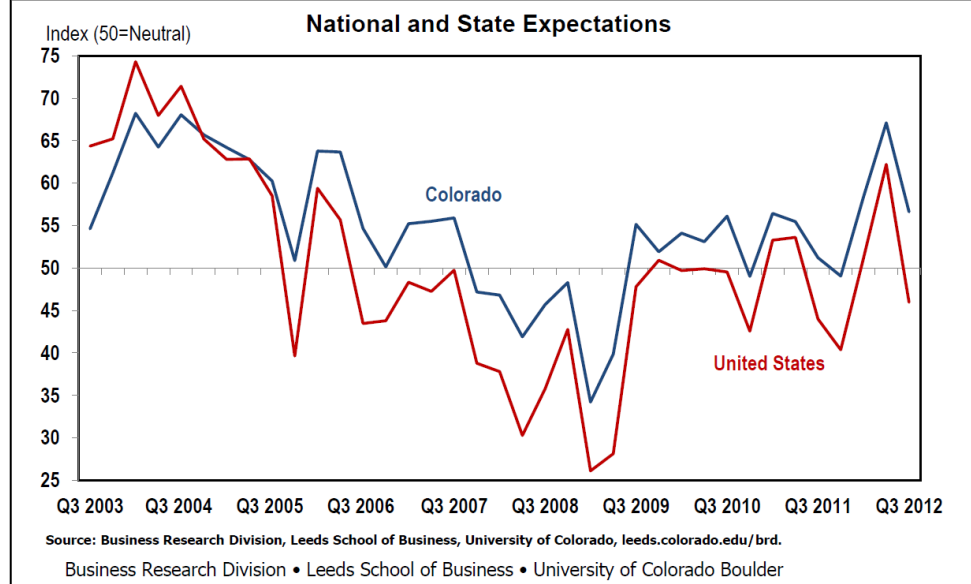
Confidence in the national economy decreased 16.2 points, from 62.2 to 46.0, with pessimists outweighing optimists 37.7% to 23.8%—an about face from one quarter ago. Roughly 39% of survey respondents remain neutral.

Economic data released during the second quarter muted Colorado business leaders’ expectations for the state and national economies. The Bureau of Economic Analysis reports U.S. real GDP expanded by 1.7% in 2011, with annualized GDP increasing each quarter (0.4%, 1.3%, 1.8%, and 3.0%). However, growth in Q1 2012 slipped to 1.9%. Projections for real GDP have been revised to 2.2%—2.4% for 2012, and between 2.6% and 2.8% for 2013.

Despite some recent volatility in initial and

continuing unemployment claims, they continue to decline, recording the lowest levels since Q2 2008—more than four years ago. Seasonally adjusted month-over-month U.S. employment gains were recorded for the 20th consecutive month in May. However, the data indicate some slowing, with growth below 200,000 jobs in March, April, and May (143,000, 77,000, and 69,000, respectively). Colorado’s month-over-month gains totaled 2,000 in May 2012. Nationally, inflation-adjusted consumption levels and consumer prices are both expected to grow less than 2% in 2012.

U.S. and Colorado Economies Q3 2003 – Q3 2012

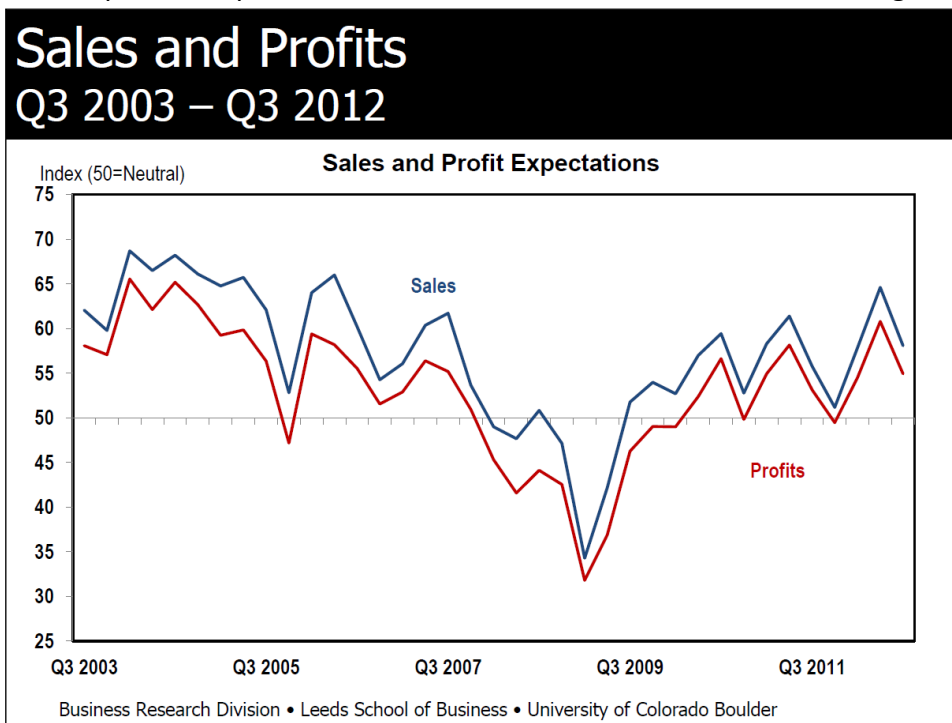


Sales and Profits — Still Positive

Panelists' responses softened looking ahead to Q3, but nonetheless revealed continued positive expectations for sales and profits. The sales index recorded a reading of 58.1, and profit, 54.9—decreases from 64.6 and 60.8 in Q2, respectively. Sales and profits expectations were higher than the 10-year average for the index.

The sales index, at 58.1, was buoyed by 45.7% of respondents who expect an increase in sales in Q3 versus only 17% who anticipate a decline. Roughly 37% remain neutral. Few are on the extreme tails of the scale, with 4.5% expecting strong increases and 0.9% strong decreases.

The profit index fell from 60.8 to 54.9, remaining above the critical neutral mark of 50. Those expecting profit growth shrank from 51.4% in Q2 to 38.6%. Those anticipating a decline increased to 19.7%, while 43.5% remained neutral on their profit outlook. Personal consumption comprises more than 71% of GDP, and consumer strength is a key indicator for



future sales and profits. Consumption is affected by the jobs situation, and national and state unemployment ticked up in May—partially due to people returning to the labor force. Consumer prices remain stable. Personal income continues to grow in the 2% range.

The Bureau of Labor Statistics (BLS) announced

that national unemployment increased from 8.1% to a seasonally adjusted 8.2% in May. In Colorado, the rate increased from 7.9% to a seasonally adjusted 8.1% in May. While the number of employed climbed from April to May nationally and statewide, the unemployment rate grew with a larger increase in the labor force, indicating citizens' return to the labor market. According to the Conference Board, the Consumer Confidence Index decreased to 64.9 in May for the nation, while the Mountain Region settled at 62. The BLS reported the Consumer Price Index for All Urban Consumers rose 1.7% year-over-year in May, while core inflation was up 2.3% for the same period. Producer prices have also moderated with easing energy prices.

Capital Expenditures and Hiring Plans — Moving in Tandem

Capital expenditures and hiring expectations moderated for Q3, but remain positive. These two metrics now move almost entirely in tandem, with slightly higher expectations for hiring this quarter.

Capital investment expectations measured 52.6, down from 58.9 in Q2. While panelists were mostly neutral (48.4%), 30.9% expect a boost in capital expenditures. The tails, including strong increase and strong decrease, were balanced at 2.2% each.

Hiring expectations decreased from 59.6 in Q2 to 53.7 in Q3. More than half of the panelists were neutral on hiring (52%), while those expecting moderate to strong increases outweighed moderate to strong decreases 30.5% to 17.5%.

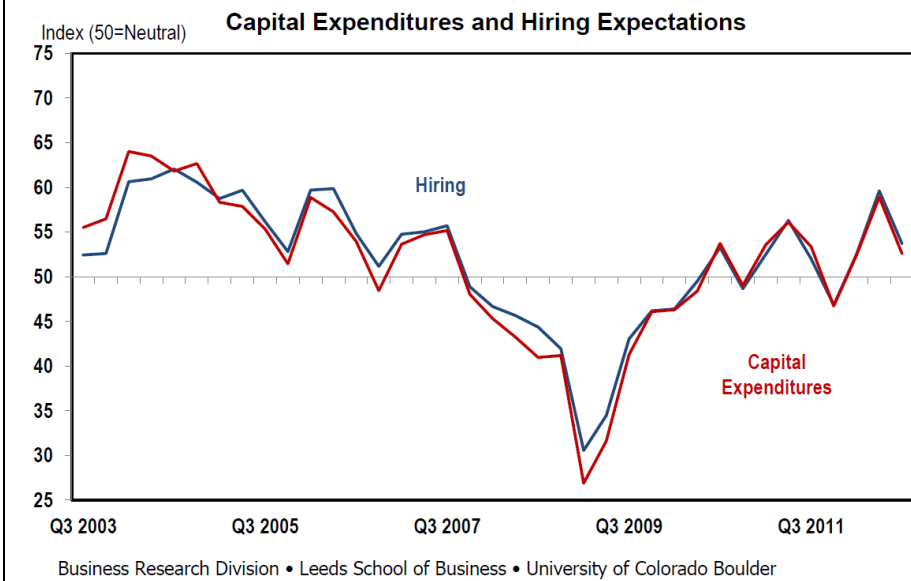
Despite month-to-month volatility in employment, numbers from the

BLS show Colorado turned the corner on jobs in September 2010, experiencing 21 months of year-over-year increases, with May 2012 rising 1.8%.

While Colorado employment figures vary greatly by industry and by metropolitan statistical area (MSA), all Colorado MSAs recorded year-over-year growth in May 2012. Seasonally adjusted May employment figures showed the highest year-over-year growth rates in the Grand Junction (+4.3%), Fort Collins-Loveland (+2.7%), and Denver-Aurora-Broomfield (+2.6%) MSAs. The Boulder (+1.7%), Pueblo (+0.9%), Colorado Springs (+0.6%), and Greeley (+0.5%) MSAs also recorded year-over-year growth.

Statewide, the greatest employment gains year-over-year in May were in the Professional and Business Services (+8,900 jobs), Education and Health Services (+7,800 jobs), and Construction (+7,000 jobs) sectors, while losses were recorded in Government (-400) and Information (-3,300). Manufacturing, while not adding a vast number of jobs, has been an unexpected source of sustained strength (+3,700).

Capital Expenditures and Hiring Q3 2003 – Q3 2012



Additional Survey Results — Factors Disrupting Recovery

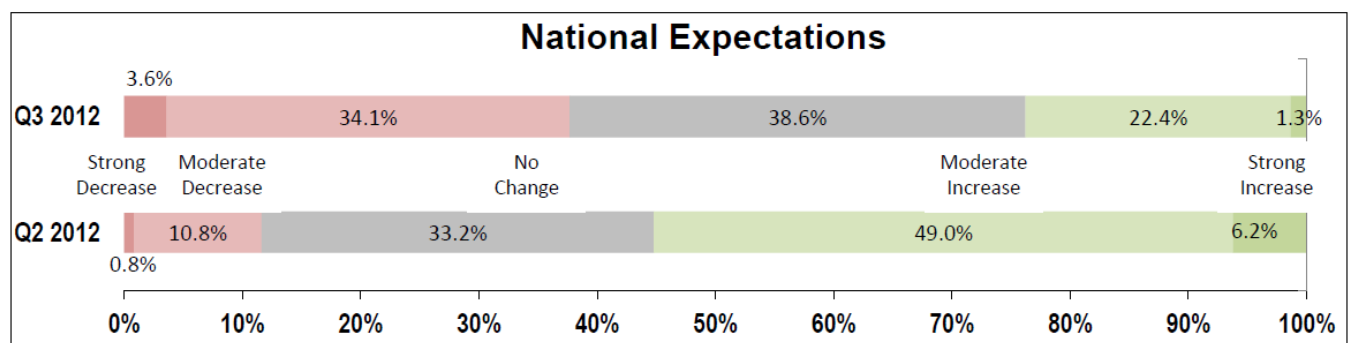
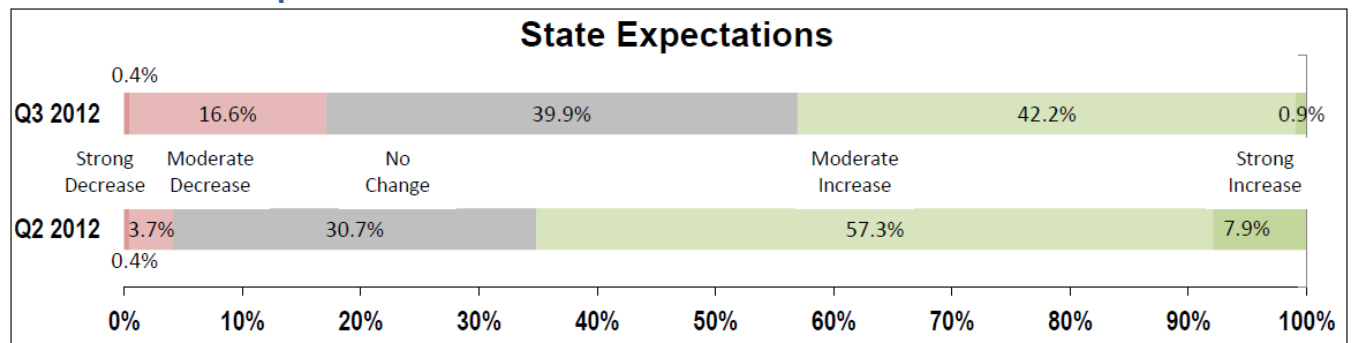
Panelists were asked to rate their organization's recovery today compared with a year ago on a scale from 1.0 to 5.0, with 1.0 indicating a weaker recovery and 5.0 indicating a stronger recovery. Most survey respondents indicated their organization's recovery is stronger today than a year ago, with 66% rating it greater than neutral (3.1–5.0). Those indicating a weaker recovery (1.0–2.9) compared to one year ago accounted for 29%.

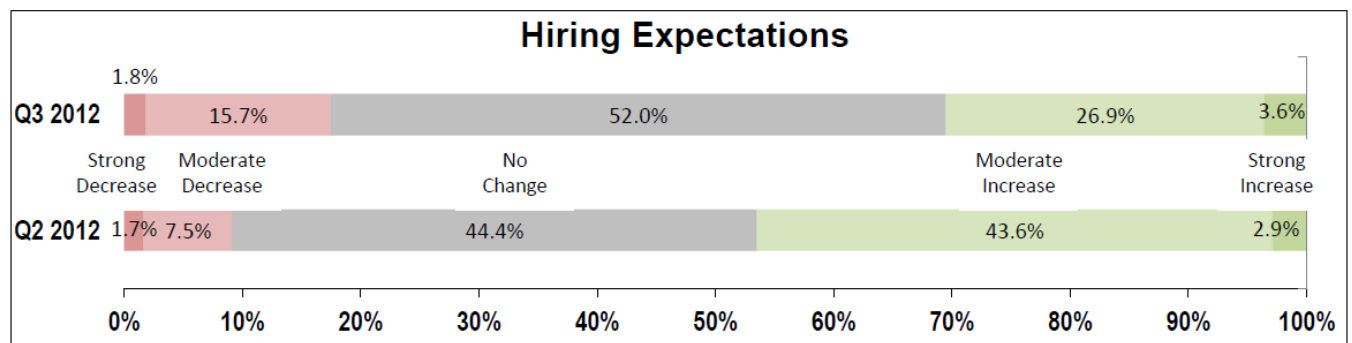
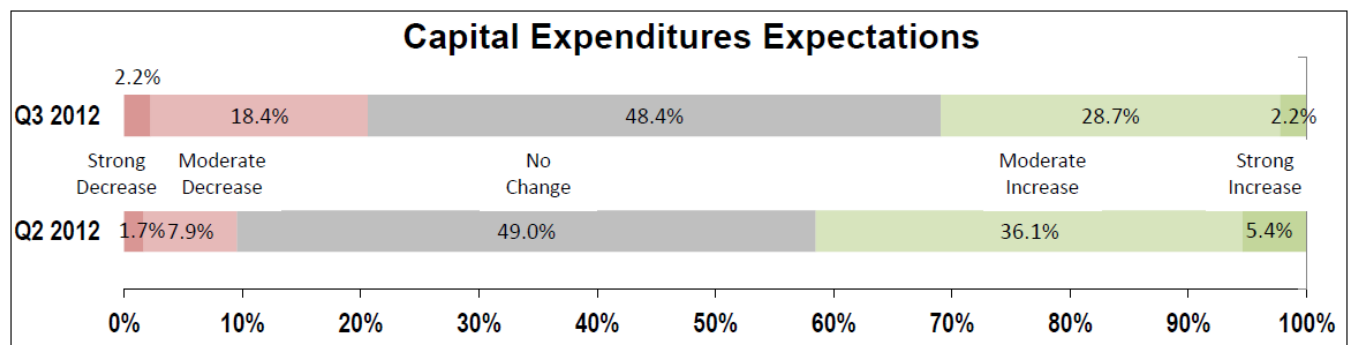
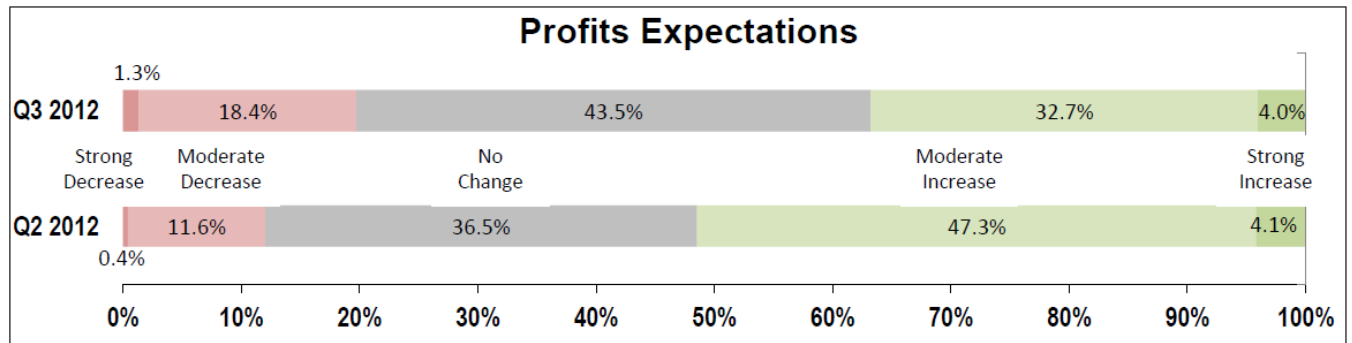
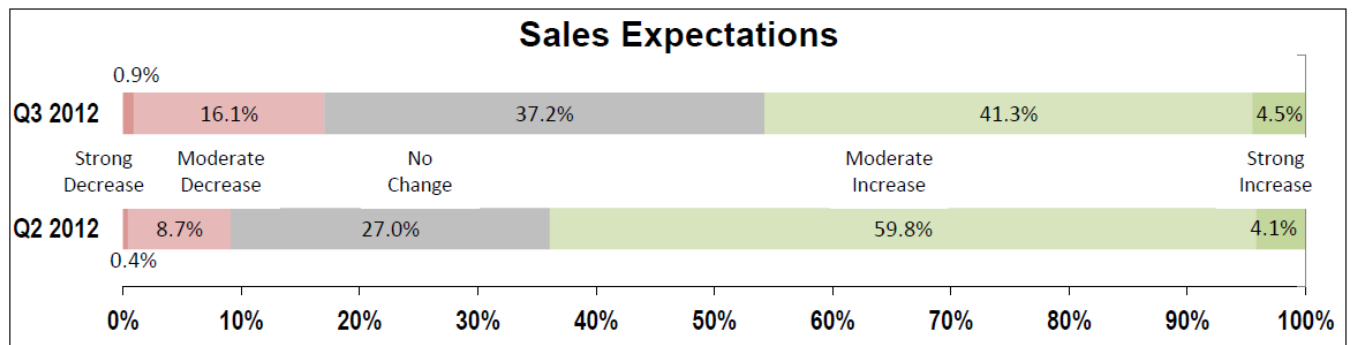
Looking forward, business leaders identified factors that could most disrupt their organization's recovery. Politics proved to be the topic most often identified by respondents. Out of 160 qualitative responses, 11.9% expressed concern about the election and political stalemate in Washington. This concern is echoed by others, including Mark Hopkins, who, in an article written for Moody's Analytics, discusses the importance of the outcome of the upcoming election in determining the balance between austerity and economic growth.

Lending is another issue of concern to LBCI respondents, cited by 11.3%. Business leaders, weary of tightening credit, reported that higher interest rates could affect their organization. Likewise, results of the May survey from the National Association for Business Economics (NABE) indicated a similar sentiment, projecting an increase in longer term interest rates.

LBCI respondents also mentioned decreasing confidence—9.4% cited declining consumer and business confidence as a factor that could disrupt recovery. Another concern, reported by 8.8% of respondents, is continued unemployment, which was also expressed by NABE survey respondents and the National Federation of Independent Business (NFIB). Other factors frequently cited by LBCI respondents include anxiety about government spending, the sluggish real estate market, energy costs, tax policy, and the economic situation in Europe.

Distribution of Expectations





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