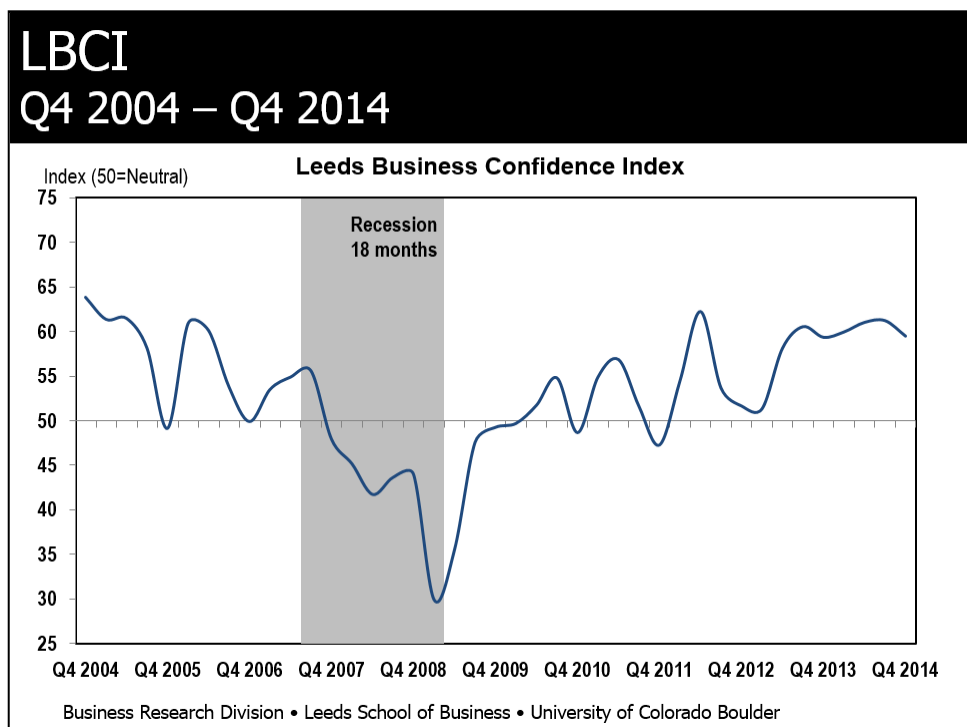


Summary — Tempered Optimism for Q4

Colorado business leaders' continue to have a positive outlook heading into Q4 2014. The index remains in positive territory (above 50) for all measured metrics, and while the overall index is modestly higher than a year ago, expectations are slightly less bullish compared to last quarter. The index coincides with positive signals observed in the national and Colorado economies.

Total national employment is now 0.5% above the previous peak. Seventeen states have recovered employment lost during the recession, and 14 other states are within 1% of their previous peak. In Colorado, employment and incomes are rising, wealth has generally rebounded, and the state's fiscal situation improves with the passing of each quarter. Slow wage growth and a smaller labor force signal there is more room for the Colorado economy to grow before reaching full employment. Housing prices, including purchase and rents, may be an inhibitor to continued robust growth looking ahead.

The Leeds Business Confidence Index (LBCI), which captures Colorado business leaders' expectations for the national economy, state economy, industry sales, profits, hiring plans, and capital expenditures, is at 59.5 for Q4 2014 compared to 61.2 ahead of Q3 2014. Expectations remain the most bullish for the overall state economy and for sales. Expectations for industry profits decreased more than any other metric (-2.4 points) and state economy expectations fell 2 points. The LBCI is up 0.2 points from 59.3 one year ago. There were 287 panelist responses to the Q4 2014 survey.

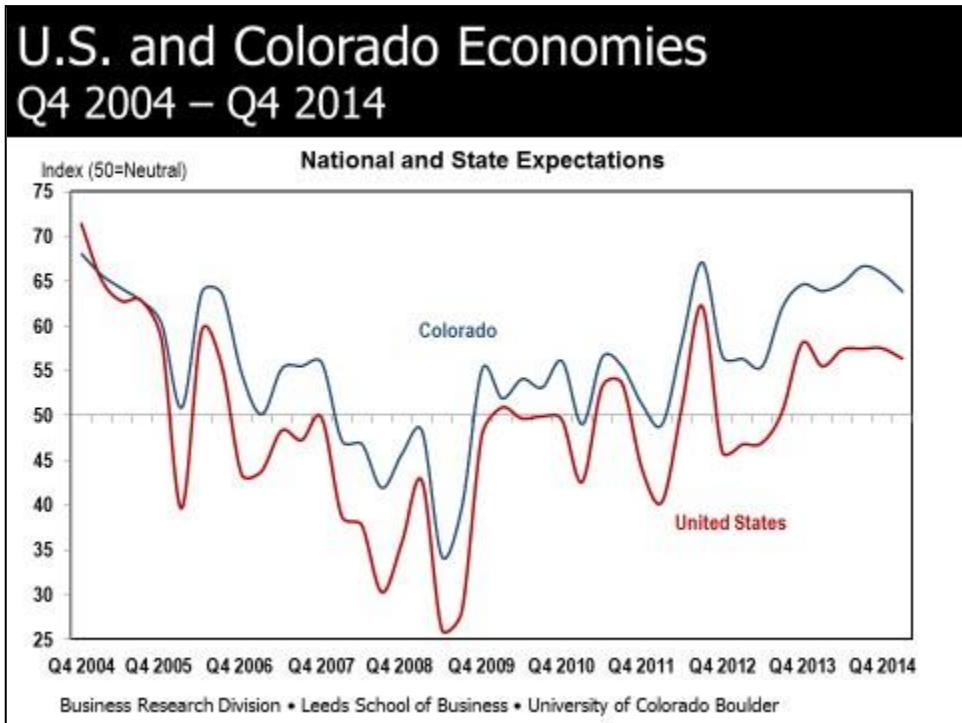


While expectations dampened across the board this quarter, Q4 2014 represents 12 consecutive quarters of positive expectations.

National and State Economies — Down for Q4 2014

While both the national and state economies remained in positive territory in the Q4 2014 survey, confidence in the state economy fell 2 points and confidence in the nation fell 1.1 points. Compared to the Q4 2013 survey, optimism is up for the national economy and flat for the state economy.

Overall expectations for the state economy dropped from 65.9 in Q3 2014 to 63.9 in Q4 2014. Nearly 57% expect the state economy to expand, and 35.2% of respondents are neutral. The gap between the two “tails” of the survey scale, strong increase and strong decrease, grew in Q4—those expecting a strong increase totaled 6.6% of respondents, and no respondents expect a strong decrease.



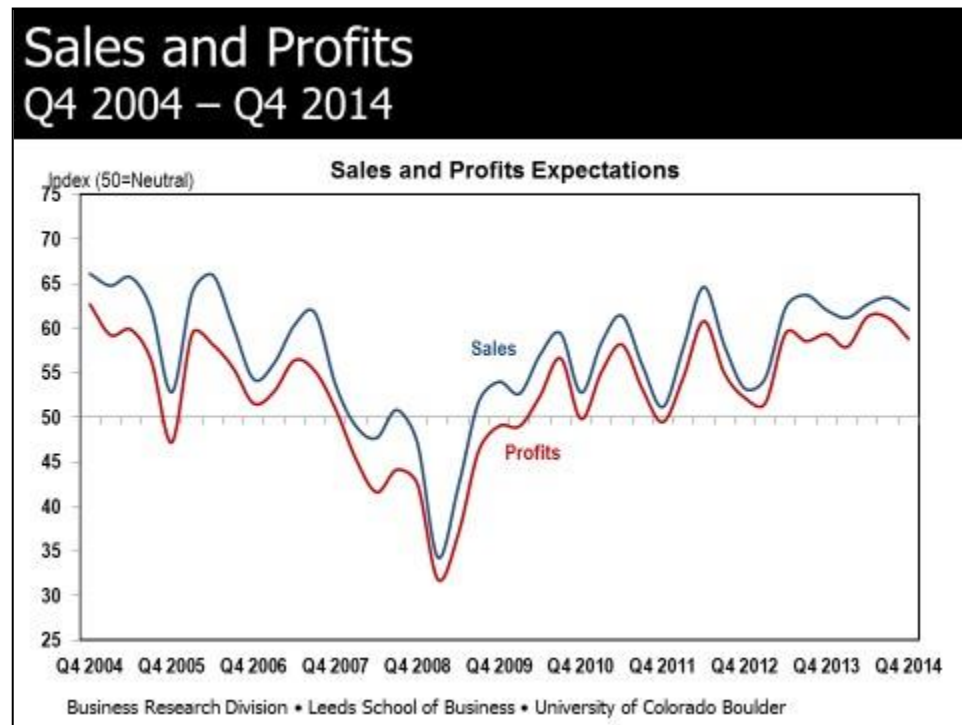
Confidence in the national economy fell to 56.4 from 57.5 in Q3 2014. Optimists continue to outweigh pessimists, 40.8% to 16.3%. Roughly 43% of survey respondents remain neutral.

After falling 2.1% in Q1 2014, U.S. real GDP rose at an annual rate of 4.2% in Q2 2014. Upturns in exports and private inventory investment, alongside positive contributions from personal consumption expenditures (PCE) and nonresidential fixed investment, accelerated growth in Q2.

U.S. employment grew for the 47th-consecutive month in August, with 142,000 jobs added month-over-month (seasonally adjusted). Average growth in 2014 is 215,000 jobs, and to date, August has recorded the slowest growth during the year. Total employment in Colorado fell by 700 jobs from July to August 2014, but increased by 54,400 jobs (2.3%) year-over-year. The state added an average of 5,300 jobs per month for the first eight months of the year, which compares to an average of 6,400 jobs gained per month through August 2013.

Sales and Profits — Profit Expectations Continue to Slip

Sales and profits expectations fell ahead of Q4 2014, though both metrics remain solidly in positive territory. The profits index has continued its downward trajectory, decreasing from 61.2 in Q3 2014 to 58.8 in the Q4 2014 survey. Sales expectations fell after expanding in Q3, sliding from 63.4 to 62.1.



The positive sales index was sustained by 57.5% of respondents who anticipate an increase in sales in Q4 versus only 15% who expect a decline; 27.5% are neutral. Of the respondents on the extreme tails, 5.9% expect strong increases, and no respondents anticipate strong decreases.

The profit index decreased from 61.2 in Q3 2014 to 58.8 in Q4. Those expecting growth in profits (47.7%) outweighed those anticipating declines (14.3%), and 38% remained neutral.

Decreasing excess capacity in the economy may be leading to the lower profit expectations as economic slack is absorbed. According to the Federal Aviation Administration, the airline load factor hit an all-time high for the month in June 2013 (87%) and dropped to 86.4% in June 2014. Despite an improving unemployment rate, the labor market may be one of the few areas that continues to have excess capacity, evidenced by the decreasing labor force participation rate and soft wage growth.

According to the Bureau of Economic Analysis, state personal income rose 1.3% from the preceding quarter in Q1 2014, ranking the state seventh nationally in personal income growth.

After strong growth, the monthly FHFA purchase-only home price index slipped in July for two regions nationally, including the Rocky Mountain region. The FHFA purchase-only home price index indicates home prices in the Colorado rose 7.8% year-over-year in Q2 2014 compared to 9.9% in the first quarter. The all-transactions index (which includes appraisals) increased from 7.6% year-over-year in Q1 to 9.5% in Q2.

Statewide retail sales totaled \$13.2 billion in April 2014, reflecting a 6.7% increase over the April 2013 total of \$12.4 billion, and taxable sales rose 11.7%. Retail sales for the last 12 months grew 7.7% year-over-year. In the same period, taxable sales rose 11.7% year-over-year. The all items Consumer Price Index for All Urban Consumers rose by 2.9% in July year-over-year in the Denver-Boulder-Greeley area. Core inflation increased 3%, and the all items index less shelter rose 1.8%.

The Institute for Supply Management reported continued improvement in both the ISM manufacturing index (highest level since 2011) and the ISM nonmanufacturing index (highest level since 2005). Notably, the manufacturing index recorded improvements in production and new orders, while the nonmanufacturing index recorded improvements in employment and business activity.

Capital Expenditures and Hiring Plans — Expectations Dip

Capital investment expectations declined from 59.6 in Q3 to 57.8 in Q4. While 46.7% of respondents are neutral, 40.4% expect a boost in capital expenditures. The tails, strong increase and strong decrease, tilted positive at 5.9% and 2.4%, respectively. In the same period, hiring expectations fell again in the Q4 2014 survey, from 59.5 to 57.9. Approximately 43% of respondents are neutral on hiring, 43.9% are positive, and only 13% are negative, indicating employment in Colorado continues to have upward growth potential.

Colorado's unemployment rate fell to 5.1% in August 2014, which compares to the national unemployment rate of 6.1%. Colorado has recorded year-over-year employment growth for 47 consecutive

months. In August 2014, employment rose 2.3% year-over-year and 3.6% over the pre-recessionary peak. Moody's Economy.com pegs Colorado employment growth fifth nationally in 2014 and third in 2015.

For the 12th-consecutive month, all of Colorado's metropolitan statistical areas

(MSAs) recorded year-over-year employment growth in August (seasonally adjusted). The



greatest year-over-year growth was seen in the Greeley (4.7%), Boulder (3%), Denver-Aurora-Broomfield (2.2%), and Fort Collins-Loveland (2%) MSAs while the Colorado Springs (0.4%), Pueblo (1.9%), and Grand Junction MSAs (0.7%) experienced more sluggish growth.

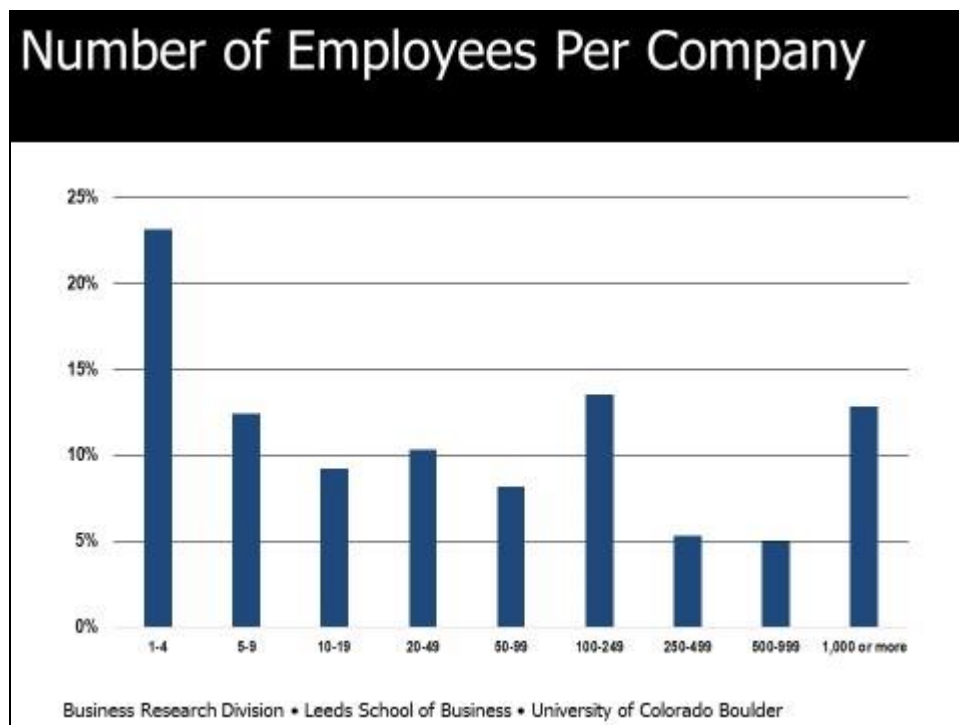
As of August 2014, the Greeley MSA is 13.9% above prerecession employment levels, whereas the Grand Junction MSA remains 10% below peak employment. The Colorado Springs MSA is the only other MSA that has still not reached prerecession employment (-1.4%).

Across the state, Mining and Logging (11.7%), Manufacturing (4.7%), and Education and Health Services (4.7%) reported the greatest year-over-year employment gains in August. Information and Financial Activities are the only industries that experienced year-over-year declines for the month (-2% and -3.5%, respectively).

About the Panel — Company Size and Length of Time in Business

Panelists were asked two additional questions, one about the size of their company and the other about how long their company has been in business. More than half (55.2%) of survey respondents work for companies with fewer than 50 employees, and 44.8% work for companies with 50 or more employees. The three largest groups were represented by companies with 1–4 employees (23.1%), 100–249 employees (13.5%), and 1,000 or more employees (12.8%).

Both small employers' and large employers' expectations fell slightly ahead of Q4 (-1.4 points and -2.1 points, respectively). While still resonating well above the neutral threshold, small employers (fewer than 50 employees) were notably less optimistic than large employers. The overall index for small employers rested at 57.5 versus 61.9 for large employers.



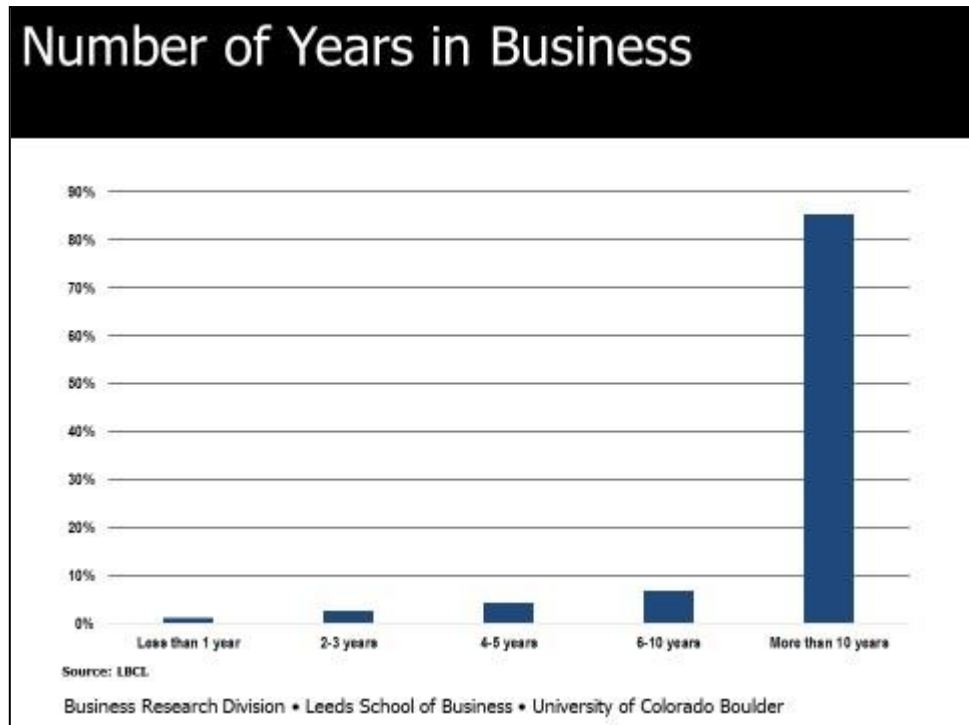
The greatest disparity existed in capital expenditures expectations—which are presumably a bigger relative commitment for small firms. However, expectations for the state and national economy were also lower for small businesses.

Approximately 85% of survey respondents work at a long-standing company that has been in business for more than 10 years.

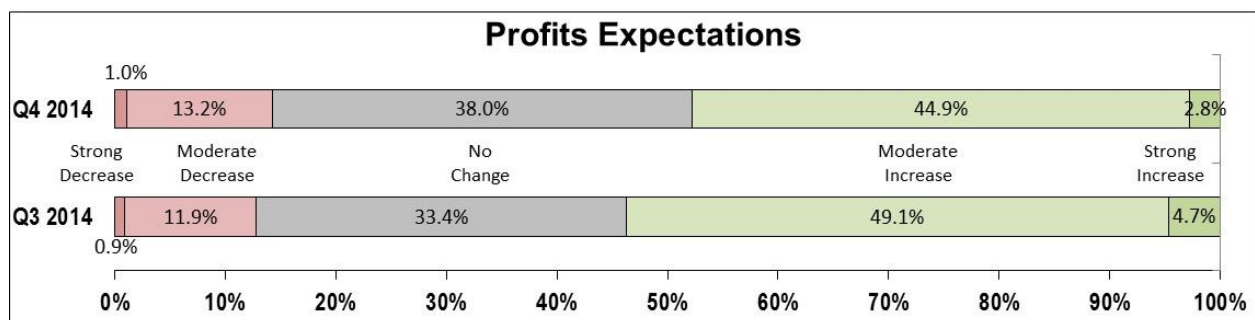
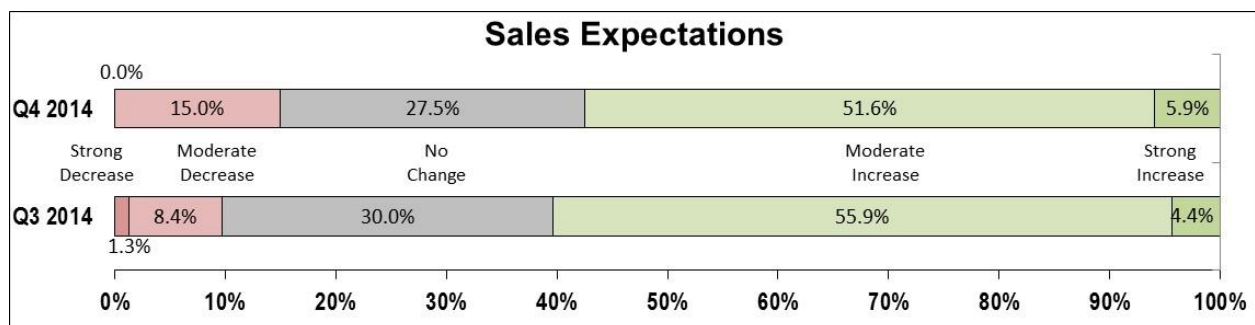
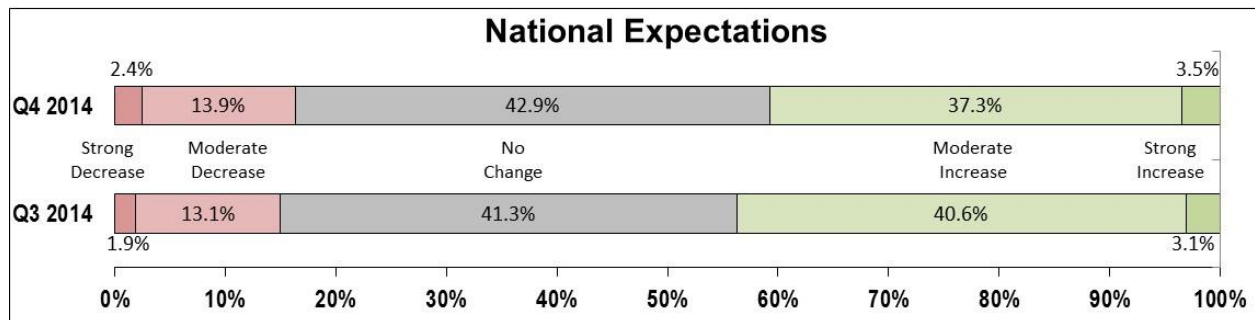
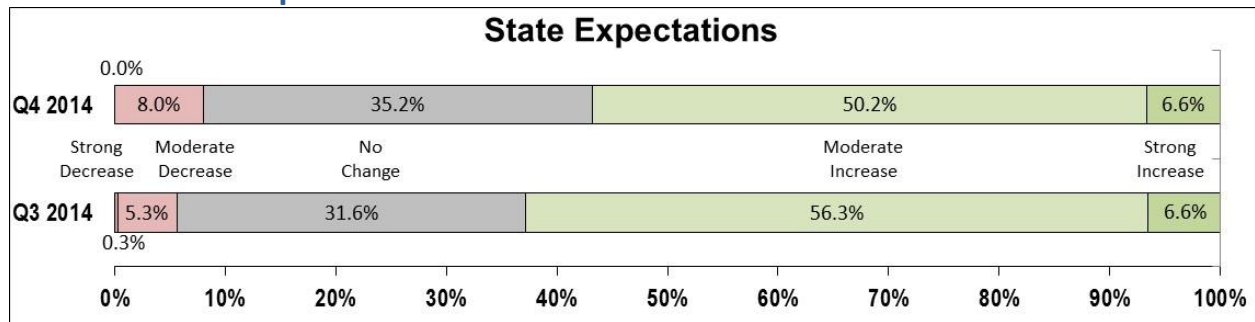
The index by firm tenure (how long it has been in business) was higher for firms in business less than 10 years (63.3) than for firms in business longer than 10 years

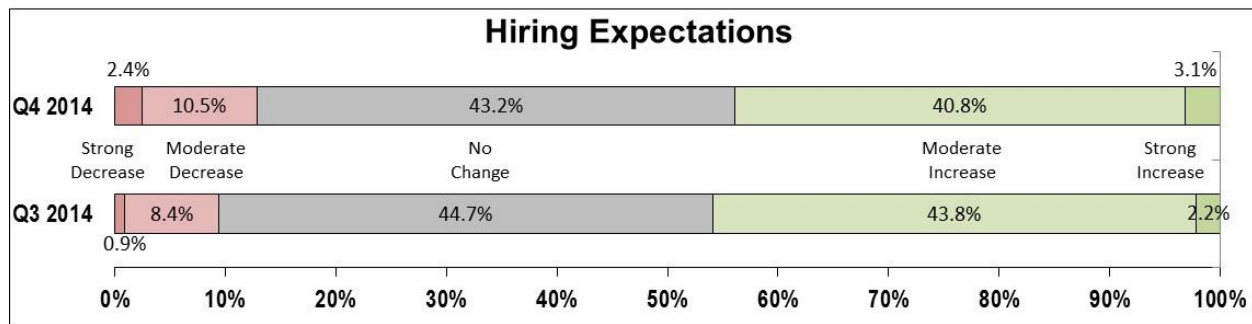
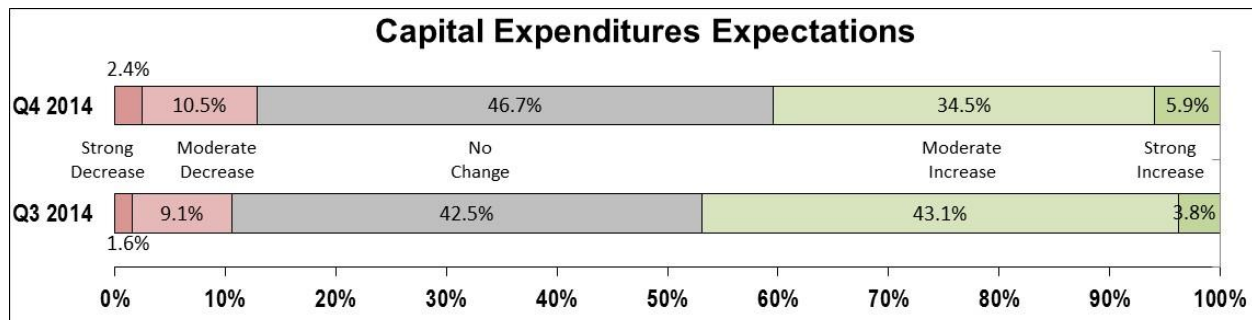
(58.8). Younger businesses were more optimistic across the board, with the greatest difference in industry sales expectations.

While responding panelists represented nearly every industry in the state, most respondents to the Q4 survey represented three sectors: Professional and Technical Services (37.9%), Finance and Insurance (18.9%), and Real Estate and Rental and Leasing (14.2%).



Distribution of Expectations





###

For more information about the LBCI and to become a panelist, go to:

<http://leeds.colorado.edu/brd#leedsbusinessconfidenceindex>