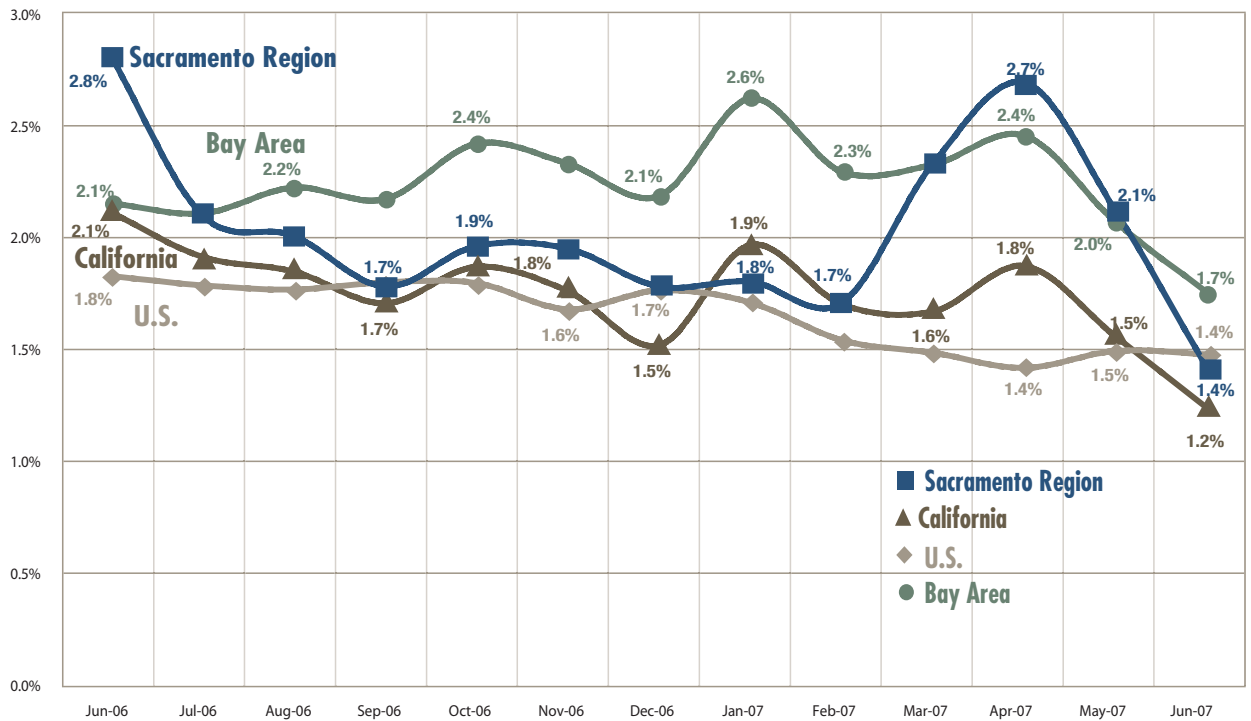


Q2 2007

Quarterly

ECONOMIC REPORT

Housing-Related Slowdowns Impact the Sacramento Region's Economy, Dropping the Region's Job Growth to Around the National Average and the Middle of the Major and Neighboring Regions



Job Growth

Sacramento Region, Bay Area, California and United States
 Sacramento Regional Research Institute, July 2007

Data Sources: California Employment Development Department and US Bureau of Labor Statistics

Note: Job growth reflects year-over-year Nonfarm employment growth rates.

The six-county Sacramento Region's job growth declined in both May and June 2007 after reaching a relatively strong peak in April 2007 (2.7 percent). Between June 2006 and 2007, the Region experienced a 1.4 percent employment growth rate (one of the lowest levels since summer of 2004), reflecting a gain of 13,100 jobs. While improving growth in the Professional & Business Services sector and the commercial components of the Construction sector helped boost job growth

in March and April 2007, housing-related declines again had an obvious effect on the Region's economy in the latter part of the second quarter of 2007. Year-over-year employment growth rates in the Construction and Financial Activities sectors have slowed significantly in the past two months. The June 2007 growth rate placed the Region close to the national average for the first time since December 2006; however, the Region remained above the statewide average.

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An economic report on the six-county Sacramento Region provided by the Sacramento Regional Research Institute (SRRRI), a joint venture of SACTO and California State University, Sacramento

Job Growth cont.

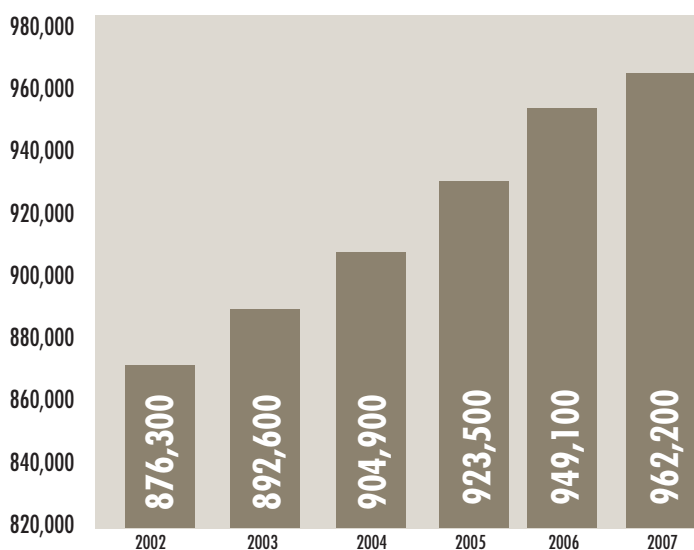
The state overall has demonstrated a similar, but less pronounced, job growth pattern as the Sacramento Region in the second quarter of 2007. Following a peak in April 2007 (1.8 percent), housing-related slowdowns led to a decline in the state's job growth in May and June 2007. The state posted a 12-month gain of about 183,000 jobs in June 2007 with a 1.2 percent growth rate (lower than rates seen since summer of 2004). For the first time since late 2006, the state's year-over-year employment growth rate dropped below the national average at the end of the quarter.

The Bay Area also demonstrated declining job growth toward the latter half of the second quarter of 2007, falling below 2.0 percent job growth for the first time since April 2006. Most

sectors have seen slowing growth during this time, but the most notable change has been in the Construction sector, which shifted to negative year-over-year employment growth in June 2007 (following 13 straight months of positive growth). Overall, between June 2006 and 2007, the Bay Area gained 50,100 jobs with a 1.7 percent growth rate. The Bay Area overtook the Sacramento Region's job growth at the end of the quarter and remained above the statewide and national averages.

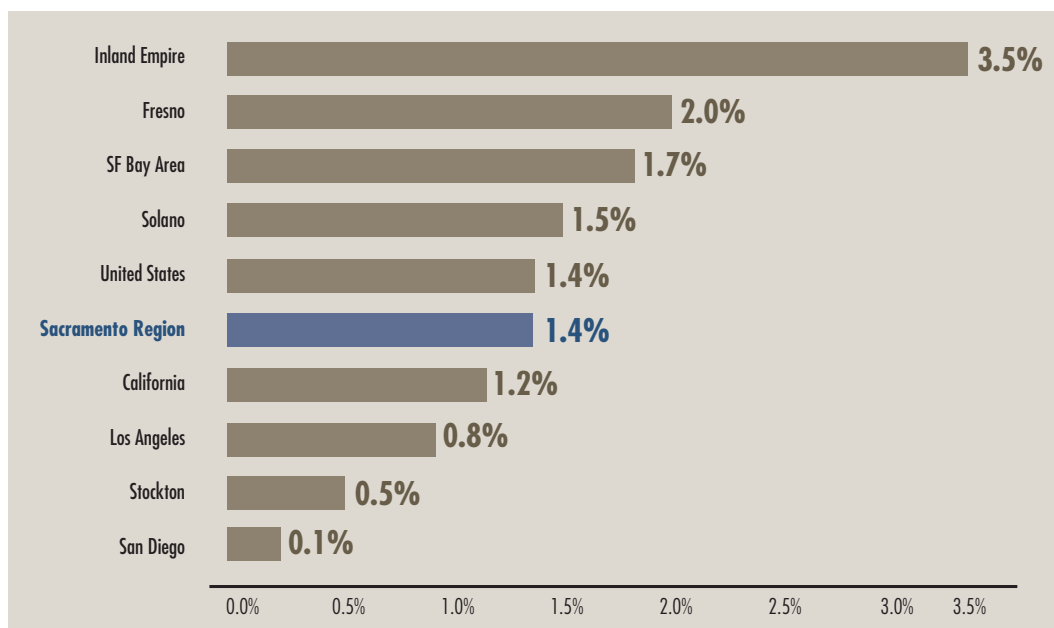
Despite some flattening off in the second quarter of 2007, the nation is still experiencing a declining job growth trend overall. The nation added about 2 million jobs and posted 1.4 percent job growth in June 2007, somewhat lower than the same point in 2006 (1.8 percent). Like California and the Sacramento Region, the nation is experiencing the continued effects of the housing-related slowdowns, resulting in job growth that is the lowest the nation has seen since summer of 2004.

The Sacramento Region was one of five major and neighboring regions to exceed the statewide average employment growth rate between June 2006 and 2007. The other four regions (the Inland Empire, Fresno, Bay Area, and Solano) all outpaced the national average, while the Region posted a similar growth rate (1.4 percent). At the end of the last quarter, the Region's job growth was well above the national average as well as the Fresno region, but lost ground on the list in the second quarter of 2007 due to recent weakening growth. The Inland Empire maintained its lead with a remarkably strong 3.5 percent year-over-year employment growth rate. At the other end of the spectrum, the Los Angeles, Stockton, and San Diego regions all posted job growth under 1.0 percent, below both the statewide and national averages.



Sacramento Region Employment
June 2002–2007

Sacramento Regional Research Institute, July 2007
Data Source: California Employment Development Department
Note: Totals reflect Nonfarm employment.



Employment Growth Rates

Selected Regions,
June 2006–2007
Sacramento Regional Research
Institute, July 2007
Data Sources: California Employment
Development Department and
US Bureau of Labor Statistics
Note: Growth rates reflect Nonfarm
employment.

Sacramento Region Posted Job Losses Only in Housing-related Sectors While Government; Educational & Health Services; and Trade, Transportation, & Utilities Added the Most Jobs in the Past Year

The Sacramento Region's Government; Educational & Health Services; and Trade, Transportation, & Utilities added the most jobs among the major sectors between June 2006 and 2007 (Professional & Business Services also experienced growth similar to Trade, Transportation & Utilities). These three sectors combined posted a 12-month increase of 12,100 jobs, constituting most (92 percent) of the net job gain in the Region. All of these sectors have experienced slowing growth over the second quarter of 2007, but both Government and Educational & Health Services have topped the list of year-over-year job gains for a number of months. It is interesting to note that the Manufacturing sector jumped back to positive, although minimal, job growth following 10 months of negative or no growth. In March, April, and May 2007, the Construction sector showed positive growth (mainly due to non-residential activities), but moved back to negative growth in June 2007 (similar to the pattern it had been seeing since around the beginning of the year). Financial Activities (containing real estate activities) also shifted to negative growth in June 2007 (something this sector has

not experienced since summer of 2001). These housing-related sectors were the only two to post job losses in the past year.

The state's leading sectors included Government; Educational & Health Services; and Professional & Business Services. Together, these three sectors contributed 143,400 jobs to the state's economy over the last 12 months (nearly 79 percent of the net gains). The Construction; Financial Activities; and Manufacturing sectors continued to shed jobs on a year-over-year basis at the statewide level (Natural Resources & Mining also showed a minimal job loss). The former two demonstrate the ongoing effects of the weakening housing market in the state overall.

The Bay Area's job gains were also led by the Professional & Business Services; Educational & Health Services; and Government sectors, which added a total of 34,100 jobs in the last 12 months (68 percent of the region's net gains). Now exhibiting a statewide pattern, the Bay Area's Construction sector shifted to negative growth in June 2007, ending the 13-month run of positive job growth in every major sector. Although nearly every sector has shown slowing growth recently, this was the only sector to post job losses between June 2006 and 2007.

Within the Sacramento Region, the Sacramento-Arden Arcade-Roseville Metropolitan Statistical Area (MSA—El Dorado, Placer, Sacramento, and Yolo Counties)

continued on next page

Major Sector Employment Gains and Losses

Sacramento Region, California and SF Bay Area

| Sector | June 2006–2007 | | |
|------------------------|-------------------|----------------|---------------|
| | Sacramento Region | California | SF Bay Area |
| Total Nonfarm | 13,100 | 182,600 | 50,100 |
| Private Sector | 5,700 | 129,300 | 41,500 |
| Public Sector | 7,400 | 53,300 | 8,600 |
| Government | 7,400 | 53,300 | 8,600 |
| Edu. & Health Svcs. | 2,800 | 45,500 | 9,700 |
| Trade, Trans., & Util. | 1,900 | 28,400 | 5,100 |
| Prof. & Business Svcs. | 1,900 | 44,600 | 15,800 |
| Other Services | 900 | 7,300 | 800 |
| Leisure & Hospitality | 700 | 34,500 | 6,200 |
| Manufacturing | 200 | -8,900 | 1,800 |
| Information | 200 | 800 | 1,500 |
| Nat. Res. & Mining | 0 | -200 | 100 |
| Financial Activities | -1,300 | -9,300 | 800 |
| Construction | -1,600 | -13,400 | -300 |

Sacramento Regional Research Institute, July 2007
Data Source: California Employment Development Department

Employment Gains and Losses

Components of Sacramento Region and Bay Area

| Area | June 2006–2007 | |
|---|----------------|-------------|
| | Absolute | Rate |
| Sacramento Region | 13,100 | 1.4% |
| Sacramento-Arden Arcade-Roseville MSA | 13,200 | 1.5% |
| Yuba City MSA | -100 | -0.2% |
| Bay Area | 50,100 | 1.7% |
| San Francisco-San Mateo-Redwood City Div. | 21,100 | 2.2% |
| San Jose-Sunnyvale-Santa Clara MSA | 17,700 | 2.0% |
| Oakland-Fremont-Hayward Div. | 11,300 | 1.1% |

Sacramento Regional Research Institute, July 2007
Data Source: California Employment Development Department
Note: Gains and losses reflect Nonfarm employment.

Sector Gains and Losses *cont.*

added jobs while the Yuba City MSA (Sutter and Yuba Counties) posted a small 12-month job loss in June 2007 (for the first time since December 2003). The Sacramento-Arden Arcade-Roseville MSA’s gain of 13,200 jobs (1.5 percent job growth) was led by the Government and Trade, Transportation, & Utilities sectors as Construction and Financial Activities mitigated these gains by posting the only job losses. The Yuba City MSA showed minimal gains in only four major sectors (the most in Educational & Health Services) while the rest of the economy sat at no growth or posted job losses. This resulted in an overall loss of 100 jobs (-0.2 percent job growth) between June 2006 and 2007.

All components of the Bay Area’s economy continued to add jobs in June 2007. About 42 percent of the region’s net growth was from the San Francisco-San Mateo-Redwood City Metropolitan Division (MD—Marin, San Mateo, and San Francisco Counties), which added 21,100 jobs with 2.2 percent job growth in the last 12

months. Every major sector in this MD posted job gains with Professional & Business Services and Leisure & Hospitality leading the pack. The San Jose-Sunnyvale-Santa Clara MSA (San Benito and Santa Clara Counties) experienced healthy job growth at 2.0 percent (a gain of 17,700 jobs). Growth in the Silicon Valley was led by Professional & Business Services and Educational & Health services while a few sectors saw minimal job losses (including Financial Activities). The Oakland-Fremont-Hayward MD (Alameda and Contra Costa Counties) showed the lowest job growth in the Bay Area (1.1 percent) and contributed almost a quarter of the net gains in the Bay Area (11,300 jobs). The East Bay experienced notable 12-month job losses in the Construction and Financial Activities sectors (which resulted in an overall loss in the Bay Area’s Construction sector) while Government and Educational & Health Services added the most jobs.

Growth in Employment Opportunities for Sacramento Region Residents Has Not Stayed on Par with the Growth in Employable Residents

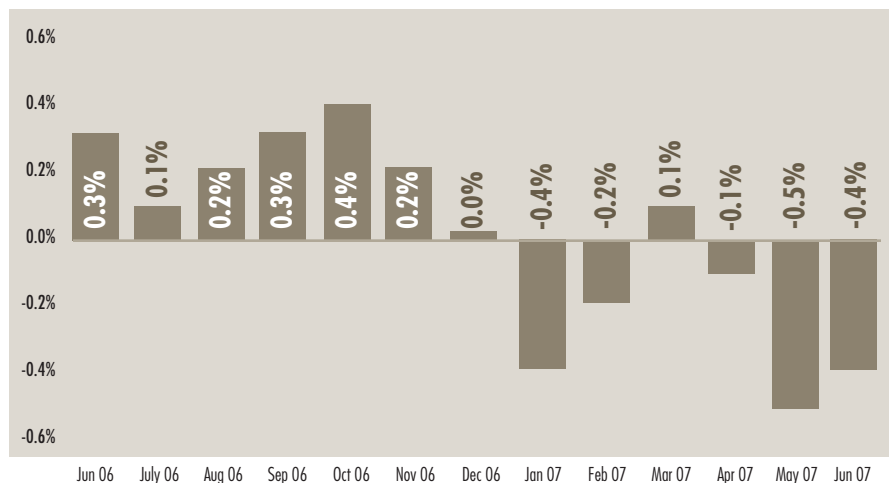
The Sacramento Region’s somewhat poor economic health in the last quarter pointed to the possibility of slowing conditions, which started to manifest themselves this quarter. Economic theory suggests that as long as the year-over-year growth rate in the number of persons employed is larger than the growth rate in the civilian labor force, a region is in good economic health. In the second quarter, the Region exhibited weaker conditions in every month, suggesting that the current economic environment might persist. Recently, growth in employment opportunities

available to the Region’s residents has not been keeping pace with growth in the number of employable people. During the latter half of 2006, the opposite was apparent, reflecting fairly good economic health. This pattern shifted at the beginning of the year and has generally persisted.

Sacramento Region Economic Health

Sacramento Regional Research Institute,
July 2007

Data Source: California Employment Development Department
Note: Bars reflect the percentage point difference between the year-over-year growth rates in the employed portion of the labor force and the total labor force.



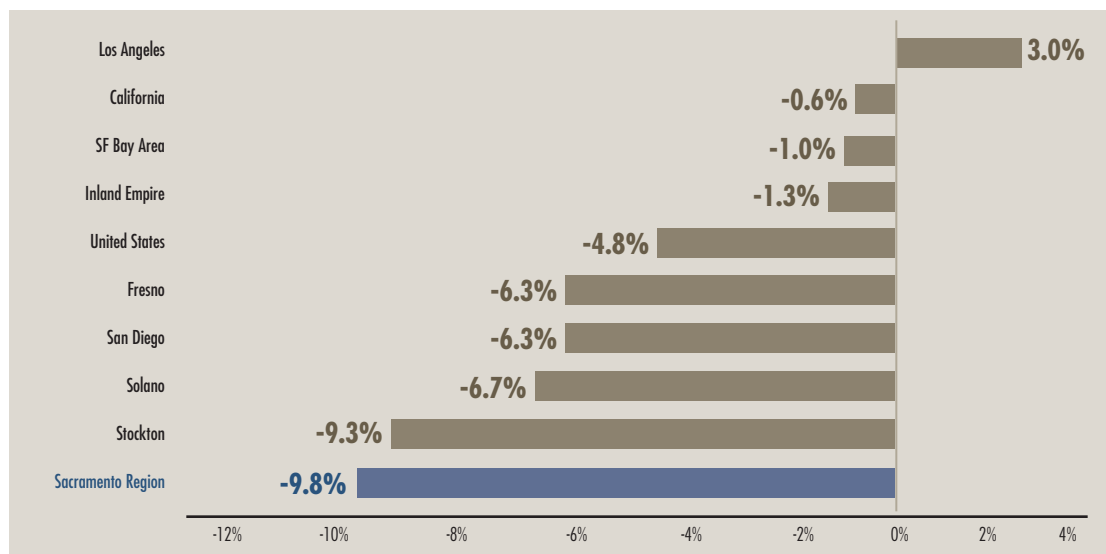
Sacramento Region Experienced the Largest Percentage Decline in Home Sale Price and the Greatest Improvement in Housing Affordability Among Major and Neighboring California Regions Between the First Quarters of 2006 and 2007

The Sacramento Region experienced the greatest decline in home sale price among the neighboring and major regions in the state. The Region's price dropped 9.8 percent from \$395,000 in the first quarter of 2006 to \$357,000 in the same quarter of 2007. As a result, the Region now has one of the lowest home sale prices out of the neighboring and major regions (along with the Fresno region)—significantly below the statewide average of \$468,000, but higher than the national average of \$238,000. Many regions saw percentage declines notably larger than the statewide average of -0.6 percent and a handful posted home sale price decreases greater than the national average of 4.8 percent. Only the Los Angeles region showed a home sale price increase, a minimal 3.0 percent over the past year, bucking the statewide and national trends. The Bay Area and Los Angeles regions continue to lead the pack in home sale prices with recent values of \$614,000 and \$547,000, respectively.

The percentage of homes sold affordable to families earning a median income in the Sacramento Region improved through the first quarter of 2007, landing at 13.6 percent. This reflects a 5.5 percentage point gain over the same time last year. The Region is now the second most affordable among the neighboring and major regions in the state, falling only behind Solano. The California regions still are well behind the national average of 43.9 percent. Only the Los Angeles region posted a Housing Opportunity Index score lower than the statewide average of 9.1 percent with only 3.9 percent of homes sold in the first quarter of 2007 affordable to median income families. All of the regions experienced improvements in housing affordability between the first quarters of 2006 and 2007, but none were as large as the Sacramento Region (ranging from a mere 0.3 percentage points in the Bay Area to 4.2 in San Diego).

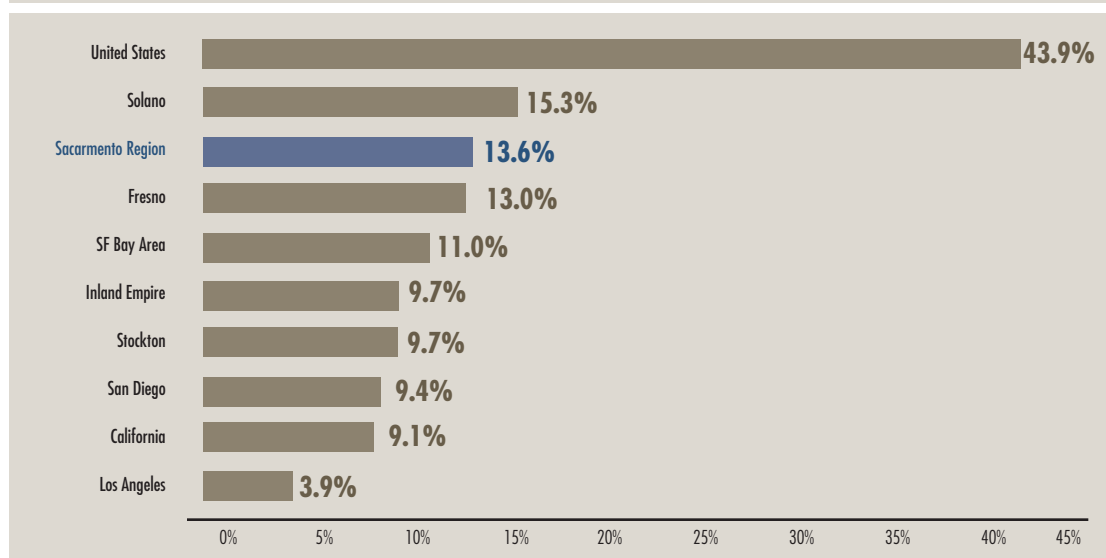
Home Sale Price Growth Selected Regions, First Quarter 2006–2007

Sacramento Regional Research Institute, July 2007
Data Source: National Association of Home Builders-Wells Fargo Housing Opportunity Index



Housing Opportunity Index Selected Regions, First Quarter 2007

Sacramento Regional Research Institute, July 2007
Data Source: National Association of Home Builders-Wells Fargo Housing Opportunity Index
Note: Housing Opportunity Index reflects share of homes sold that would have been affordable to a family earning the median income.



Prosperity Index: Measuring the Sacramento Region's Competitive Position

Business Component Update

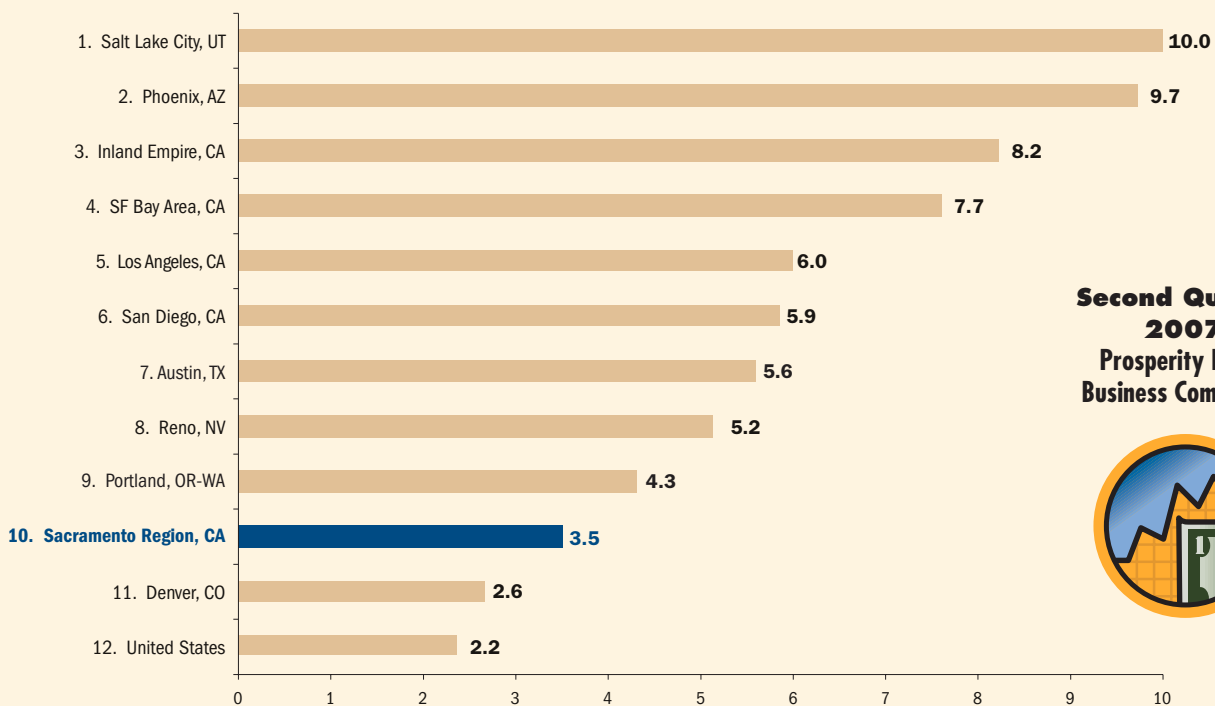
The Sacramento Regional Research Institute (SRRI) developed the Prosperity Index to provide business and community leaders in the Sacramento Region a valuable tool to measure economic prosperity and track its performance against competitor regions in order to evaluate the competition, identify opportunities for improvement and ultimately impact change in the Region. Along with the national average, ten competitor regions were chosen as benchmarks for this analysis based on feedback from regional economic development organizations regarding metropolitan areas that often compete with the Region for business location and expansion projects. SRRI will update the overall Prosperity Index annually—which measures indicators in the three areas of **BUSINESS, PEOPLE** and **PLACE**. The **BUSINESS** component will be updated quarterly in order to allow for more frequent evaluations of the local business climate. For more information and to view the 2006 report, please visit www.srri.net.



The Sacramento Region Dropped to Tenth Place on the Second Quarter 2007 Prosperity Index Business Component

The Sacramento Region dropped back to tenth place among its main competitors on the **BUSINESS** component of the **PROSPERITY INDEX** for the second quarter of 2007. The Region received a score of 3.5 out of a possible 10, a decline from its first quarter 2007 score of 4.3. Although the Region dropped below Portland, it remained above Denver and the national average. All California regions placed above Sacramento and ranked in a cluster from sixth to third place with scores from 5.9 (San Diego) to 8.2 (Inland Empire). Salt Lake City overtook Phoenix for the top score on the Business component, breaking the trend seen though 2006 and the first quarter of 2007. Denver and the national average flip-flopped

in the second quarter of 2007, demonstrating that all of these competitive economies in the western United States present some of the strongest business climates in the nation. The Sacramento Region received a relatively strong score on the Establishment Growth indicator and a moderate score for Office Vacancy Rate. On all other indicators, the Region posted fairly low scores. Compared to the first quarter of 2007, three of the six indicators have shown improvements (Establishment Growth, Office Vacancy Rate, and Venture Capital Investment). All in all, the Sacramento Region presents a relatively low competitive position in terms of business climate.



**Second Quarter
2007
Prosperity Index
Business Component**



Prosperity Index: Measuring the Sacramento Region's Competitive Position

Second Quarter 2007 Prosperity Index: Business Component Indicator Scores

| Region | Establishment Growth | Job Growth | Office Vacancy Rate | Payroll Growth | Unemployment Rate | Venture Capital Investment |
|------------------------------|----------------------|---------------|---------------------|----------------|-------------------|----------------------------|
| Austin, TX | 2.2 | 9.5 | 0.0 | 5.9 | 4.7 | 0.8 |
| SF Bay Area, CA | 4.8 | 1.8 | 7.1 | 4.4 | 3.5 | 10.0 |
| Denver, CO | 0.0 | 1.3 | 0.5 | 4.3 | 3.5 | 1.0 |
| Inland Empire, CA | 10.0 | 7.5 | 9.1 | 6.3 | 0.5 | 0.0 |
| Los Angeles, CA | 7.7 | 0.3 | 10.0 | 2.4 | 2.9 | 1.2 |
| Phoenix, AZ | 9.5 | 10.0 | 4.3 | 8.9 | 6.6 | 0.5 |
| Portland, OR-WA | 3.7 | 4.3 | 4.9 | 3.7 | 0.0 | 1.2 |
| Reno, NV | 4.4 | 3.6 | 5.8 | 3.6 | 4.1 | 0.0 |
| Sacramento Region, CA | 7.8 (+) | 1.3(-) | 4.5(+) | 0.1(-) | 0.3(-) | 0.4(+) |
| Salt Lake City, UT | 7.3 | 9.2 | 4.1 | 10.0 | 10.0 | 0.3 |
| San Diego, CA | 7.4 | 0.6 | 4.9 | 0.0 | 4.4 | 7.1 |
| United States | 0.5 | 0.0 | 2.9 | 2.9 | 2.0 | 0.7 |

Sacramento Regional Research Institute, July 2007

Note: + refers to improvement in score over Q1 2007 and - represents decrease in score from Q1 2007.

Benchmark Regions

Sacramento Region, CA—El Dorado, Placer, Sacramento, Sutter, Yolo, and Yuba Counties

Austin, TX—Bastrop, Caldwell, Hays, Travis, and Williamson Counties

SF Bay Area, CA—Alameda, Contra Costa, Marin, San Benito, San Francisco, San Mateo, and Santa Clara Counties

Denver, CO—Adams, Arapahoe, Broomfield, Clear Creek, Denver, Douglas, Elbert, Gilpin, Jefferson, Park, and Boulder Counties

Inland Empire, CA—Riverside and San Bernardino Counties

Los Angeles, CA—Orange, Los Angeles, and Ventura Counties

Phoenix, AZ—Maricopa and Pinal Counties

Portland, OR-WA—Clackamas, Columbia, Multnomah, Washington, Yamhill Counties in Oregon and Clark and Skamania Counties in Washington

Reno, NV—Storey and Washoe Counties

Salt Lake City, UT—Salt Lake, Summit, Tooele, Davis, Morgan, and Weber Counties

San Diego, CA—San Diego County

United States—national average

Prosperity Index Business Component Indicators

Job Growth accounts for the year-over-year percentage increase in average third quarter employment from 2005 to 2006. This measure is often viewed as an indicator of overall economic performance since employment is the primary source of income for residents and changes in the level of jobs reflect local business patterns. The source for this data is the Bureau of Labor Statistics' Quarterly Census of Employment and Wages.

Establishment Growth measures the percentage increase in firms from the third quarter of 2005 to the same quarter of 2006. As an indicator of the overall business climate, this measure shows net changes in the number of businesses and captures firm births and deaths. The source for this data is the Bureau of Labor Statistics' Quarterly Census of Employment and Wages.

Office Vacancy Rate calculates the percentage of the total net rentable area of office property that was unoccupied in the first quarter of 2007. High vacancies indicate a lack of demand and/or overdevelopment and can also be interpreted as signs of economic slowdown. Regions with high vacancy rates receive low scores on this indicator. The sources for this data are the CB Richard Ellis Office Vacancy Index and Market View reports and Colliers International Market Reports.

Payroll Growth measures the percentage increase in aggregate compensation over a one-year period (in this case, from the third quarter of 2005 to the third quarter of 2006). This data provides insight into changes in total industry payrolls, pointing to general business performance and the level of available consumption and savings activity. The source for this data is the Bureau of Labor Statistics' Quarterly Census of Employment and Wages.

Unemployment Rate calculates a 12-month moving average (ending in March 2007) percentage of the labor force that was unemployed. Higher unemployment rates indicate signs of economic slowdowns, increased competition for jobs, and decreased ability to generate income while lower rates tend to signify growth and expansion. Regions with low unemployment rates receive higher scores on this indicator. The source for this data is the Bureau of Labor Statistics' Local Area Unemployment Statistics.

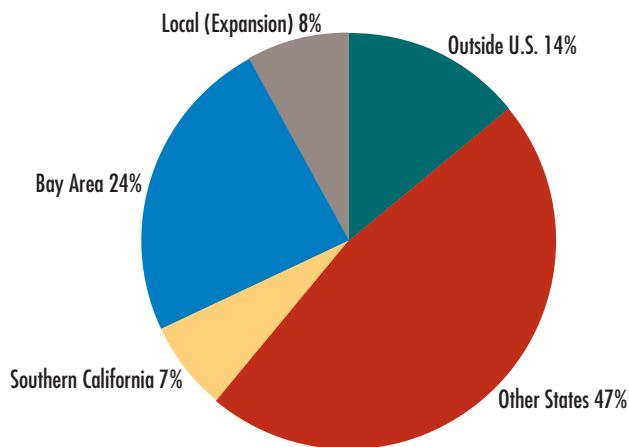
Venture Capital Investment accounts for total venture capital funds invested in local companies per employee in the first quarter of 2007. This indicator not only points to perceptions in the investment community about a region's innovation capacity and investment risk, but also has future implications since firms receiving venture capital use the funds in an attempt to innovate, develop products and services, and become more productive in the future. The sources for this data are Venture Economics' Quarterly Statistics and the Bureau of Labor Statistics' Quarterly Census of Employment and Wages.

SACTO Prospect Activity Update

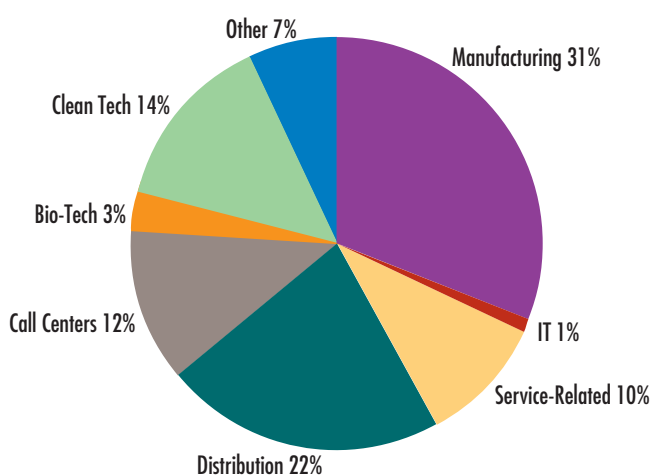
Because clean energy/green technology has become such an integral part of SACTO's recruiting efforts, we have established a separate category for tracking these prospects. Included in this category are headquarters, sales and marketing offices, and manufacturing and distribution facilities. SACTO's focus on attracting clean energy companies continues to pay dividends as green technology companies now represent 14% of our active prospects. International companies comprise over 40% of these prospects and cover the full spectrum of clean energy technologies including biodiesel, biofuel, wind power, photovoltaic and biomass. Companies

are recognizing that the Sacramento Region has a lot to offer in terms of workforce, access to the Capital and world-class academic institutions, investment opportunities and a high quality of life. Coupling these attributes with the regional collaboration through Partnership for Prosperity, the region is poised to become a green energy leader. SACTO continues to see heavy interest from industrial prospects with manufacturers make up the largest percentage of active prospects at 31% (this number does not include clean energy manufacturers). Distribution facilities also remain steady at 22% of SACTO's active prospects.

Prospect Origin Breakdown



Facility Type Breakdown



Quarterly

ECONOMIC REPORT

A P U B L I C A T I O N B R O U G H T T O Y O U B Y S A C T O A N D
T H E S A C R A M E N T O R E G I O N A L R E S E A R C H I N S T I T U T E

SACTO  The Inside Track

ABOUT SACTO

SACTO is the region's leading facilitator of economic development bringing together the organizations, information and resources in the pursuit of jobs, talent and investment needed to ensure regional prosperity and global competitiveness.

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 **SRRI**

ABOUT SRRI

SRRI provides a full range of objective economic and demographic research services to government entities, businesses and non-profit organizations.

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THE INSIDE TRACK


SACRAMENTO
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