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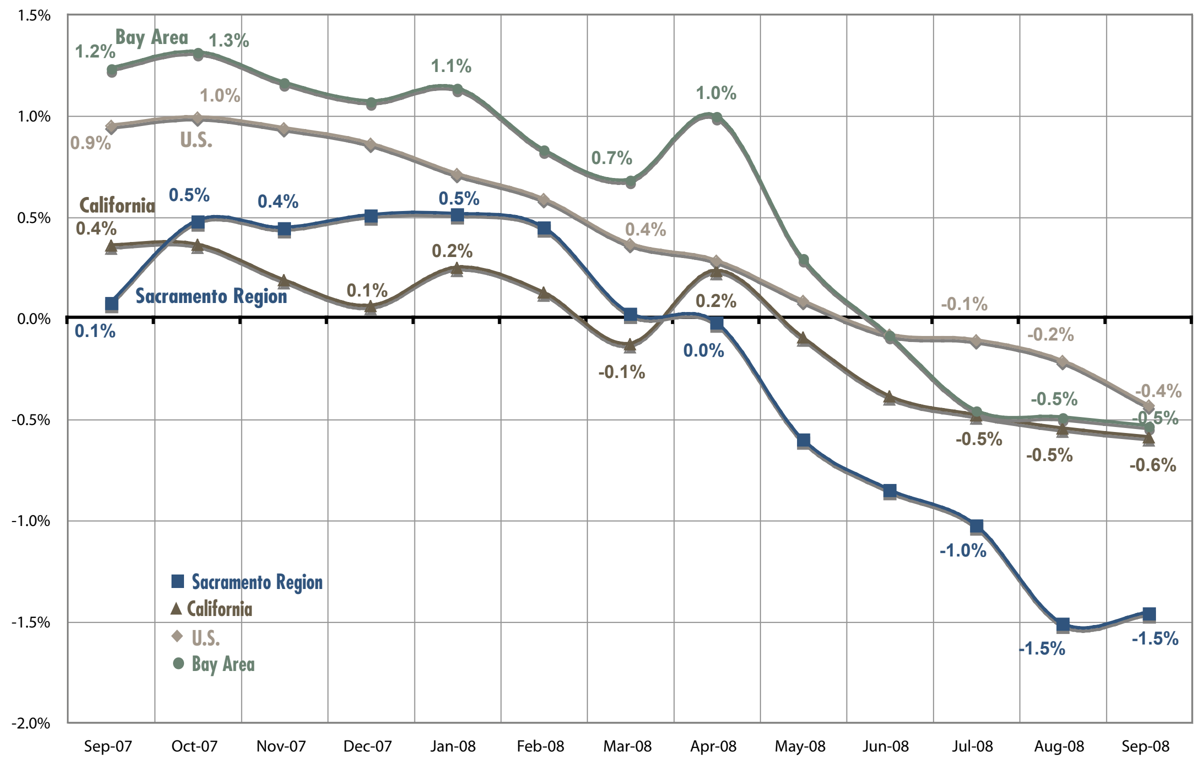
Quarterly ECONOMIC REPORT

Q3 2008

Although the Rate of Job Losses Stabilized in the Sacramento Region, its Job Growth Remains Below Many of the Major Regions in California and the Statewide and National Averages



Job Growth

Sacramento Region, Bay Area, California, and United States

Sacramento Regional Research Institute, October 2008

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

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

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

The annual rate of job losses in the six-county Sacramento Region remained stable in September 2008, marking the end of a four-month period of steadily declining job growth. Preliminary data show that the Region posted -1.5 percent job growth for the second month in a row, equating to a year-over-year decrease of 13,800 jobs. This employment growth rate is significantly below the statewide and national averages and falls around the lowest level the Region has experienced since the first quarter of 1992. Since the beginning of the year, job growth in nearly every major sector of the Region's economy has slowed considerably, contributing to the current weak conditions. At this point, only two major sectors are adding jobs on an annual basis—Professional & Business Services and Educational & Health Services. While the former, one of the Region's largest sectors, has

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Job Growth *cont.*

supported steady performance, the latter has seen job growth slow tremendously over the past nine months. The downturn that was confined to the housing-related sectors and retail trade activities at the beginning of 2008 has now spread widely throughout the public and private sector components of the Region's economy.

Job growth in California fell slightly in September 2008 to -0.6 percent, reflecting a loss of 89,700 jobs in the past year. The state's economy is in a weaker position than the nation—it fell into negative job growth one month sooner and has experienced job losses at a more pronounced rate ever since. In addition to the significant impacts from the housing-related sectors, manufacturing and retail trade activities are also having a notable effect on recent slowing in the economy. The state experienced similar negative employment growth rates during the last statewide economic downturn, posting jobs losses at several points in the 2001 to 2003 period.

Even though signs have been troubling for quite some time, the nation only shifted to negative job growth in June 2008. The most recent data show that between September 2007 and 2008, 599,000 jobs were shed from payrolls nationwide at a rate of -0.4 percent. As the nation continues its two-year pattern of steadily decreasing job growth, other macro-economic indicators remain concerning. Despite slight improvements recently, consumer sentiment is still measuring at relatively low levels and inflation and the unemployment rate are notably higher than at the beginning of the year. These national trends are important to monitor since they have been shown to affect economic performance at the statewide and Sacramento Region levels and neither will likely recover when the nation's economy is declining.

Like the Sacramento Region, the Bay Area's job growth stayed flat in September 2008. The Bay Area has posted -0.5 percent job growth for the last three months with

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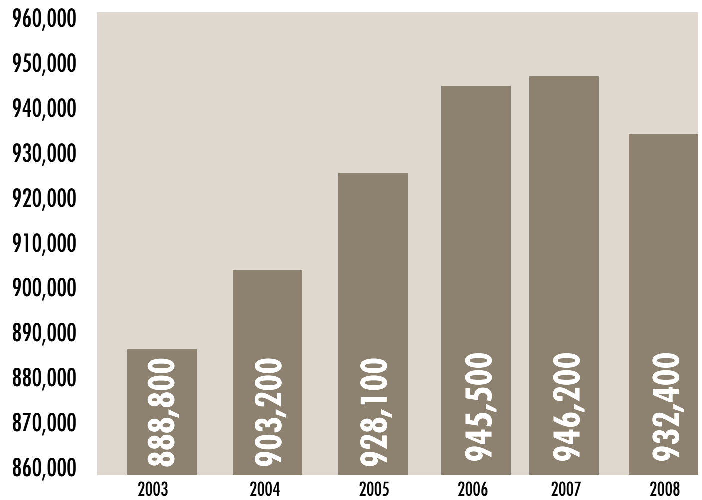
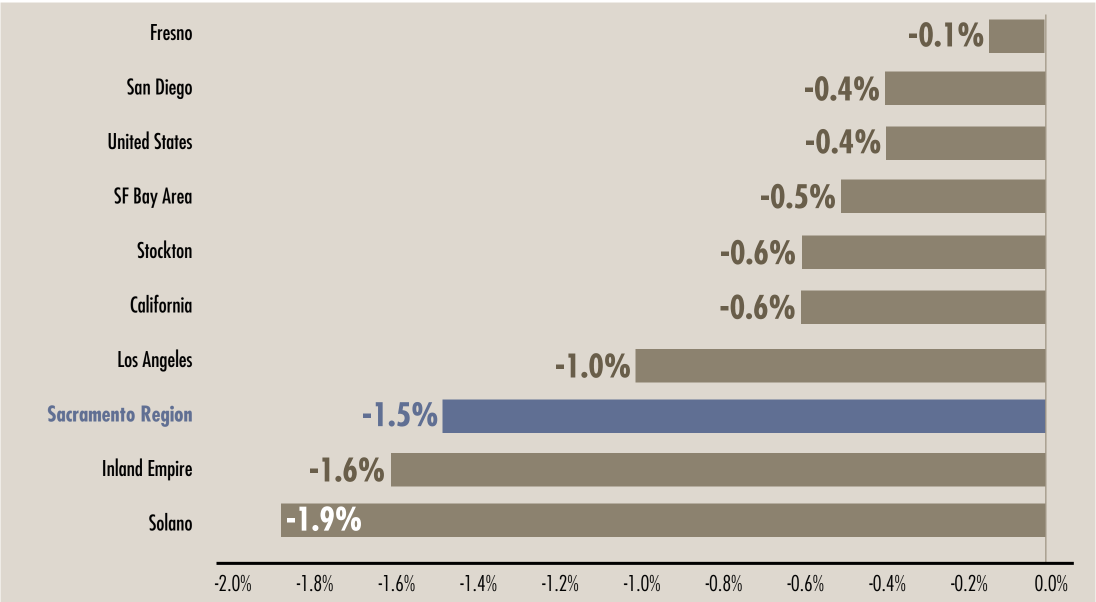
Sacramento Region Employment
September 2003–2008



Sacramento Regional Research Institute, October 2008
Data Source: California Employment Development Department
Note: Totals reflect Nonfarm employment.

Employment Growth Rates
Selected Regions, September 2007–2008



Sacramento Regional Research Institute, October 2008
Data Sources: California Employment Development Department and US Bureau of Labor Statistics
Note: Growth rates reflect Nonfarm employment.

Job Growth *cont.*

the most recent reading associated with a 12-month loss of 15,800 jobs. Similar to the state, the Bay Area has not seen negative growth at this level since the last economic downturn, which, for the Bay Area, lasted from 2001 to 2004 with job growth dropping to extremely low levels at certain points during that period. Every major sector in the Bay Area has experienced slowing growth since the beginning of 2008 with only two sectors now adding a notable amount of jobs on a year-over-year basis, Professional & Business Services and Educational & Health Services. The Bay Area is now tracking between the statewide and national averages as it has remained constant while the two benchmarks continue to decline.

The Sacramento Region is now one of the weakest regions in California. The most recent job growth places the Region among a group of three major and neighboring regions in the state with negative employment growth rates greater than 1 percent and job growth below both the statewide and national averages. The Region is slightly stronger than Southern California's Inland Empire and notably healthier than its neighbor Solano. Although all of the selected regions posted negative year-over-year employment growth in September 2008, two outperformed both the state and nation, Fresno and San Diego. The nearby Bay Area and Stockton region rank in the middle of the list between the state and nation. It is clear that the current economic downturn is affecting all areas of the state with each of its major markets shedding jobs on an annual basis.

Only Two of the Sacramento Region's Major Sectors are Now Adding Jobs on an Annual Basis While a Handful of Sectors Are Shedding Jobs at Troubling Levels

As the downturn continues, weak performance keeps spreading throughout the Sacramento Region's economy. Annual job losses are now occurring in 8 of the 11 major sectors with one other sector showing no growth. This leaves two sectors in the Region that continue to add jobs to payrolls on a year-over-year basis, Professional & Business Services and Educational & Health Services. Between September 2007 and 2008, the greatest losses were in the Construction; Trade, Transportation, & Utilities; and Leisure & Hospitality sectors, which, combined, posted a decrease of 11,800 jobs. This loss is almost three times as large as the total gain from the two sectors showing positive growth. Three other sectors are posting yearly losses greater than 1,000 jobs, including Manufacturing, Government, and Financial Activities.

Job losses are not as widespread in the state overall. Only six of the state's major sectors posted employment declines during the 12 months ending September 2008. Construction; Trade, Transportation, & Utilities; and Financial Activities posted the greatest losses in California with a combined decrease of 143,500 jobs. The state's Educational & Health Services, Government, and Leisure & Hospitality sectors saw the largest job gains in the past year (with a total increase of 83,900 jobs). The latter two sectors are showing a different pattern at the statewide level compared to the Sacramento Region (adding jobs versus posting losses).

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Major Sector Employment Gains and Losses
Sacramento Region, California, and Bay Area

	September 2007-2008		
Sector	**Sacramento Region**	**California**	**SF Bay Area**
Total Nonfarm	**-13,800**	**-89,700**	**-15,800**
Private Sector	**-11,800**	**-115,400**	**-15,000**
Public Sector	**-2,000**	**25,700**	**-800**
Edu. & Health Svcs.	2,600	47,000	4,100
Prof. & Business Svcs.	1,600	4,800	4,000
Nat. Res. & Mining	0	1,000	100
Other Services	-100	-2,000	-300
Information	-600	-6,800	-200
Manufacturing	-1,300	-27,100	-1,400
Government	-2,000	25,700	-800
Financial Activities	-2,200	-31,700	-5,800
Leisure & Hospitality	-3,000	11,200	-600
Trade, Trans., & Util.	-4,100	-31,500	-7,100
Construction	-4,700	-80,300	-7,800

Sacramento Regional Research Institute, October 2008
Data Source: California Employment Development Department

Sector Gains and Losses *cont.*

Employment Gains and Losses
Components of Sacramento Region and Bay Area

	September 2007-2008	
Area	**Absolute**	**Rate**
Sacramento Region	**-13,800**	**-1.5%**
Yuba City MSA	-2,800	-6.6%
Sacramento-Arden Arcade-Roseville MSA	-11,000	-1.2%
Bay Area	**-15,800**	**-0.5%**
San Francisco-San Mateo-Redwood City Div.	4,900	0.5%
San Jose-Sunnyvale-Santa Clara MSA	700	0.1%
Oakland-Fremont-Hayward Div.	-21,400	-2.0%

Sacramento Regional Research Institute, October 2008
Data Source: California Employment Development Department
Note: Gains and losses reflect Nonfarm employment.

Resembling the Sacramento Region, the Bay Area is seeing annual job losses in 8 of its 11 major sectors. The heaviest losses are being felt in similar sectors as the state—Construction; Trade, Transportation, & Utilities; and Financial Activities. Combined, these three sectors lost 20,700 jobs in the Bay Area between September 2007 and 2008. The Bay Area's gains are also mainly confined to the Professional & Business Services and Educational & Health Services sectors, which added 8,100 jobs in the last year (only making up about 40 percent of the total losses in the three weakest sectors).

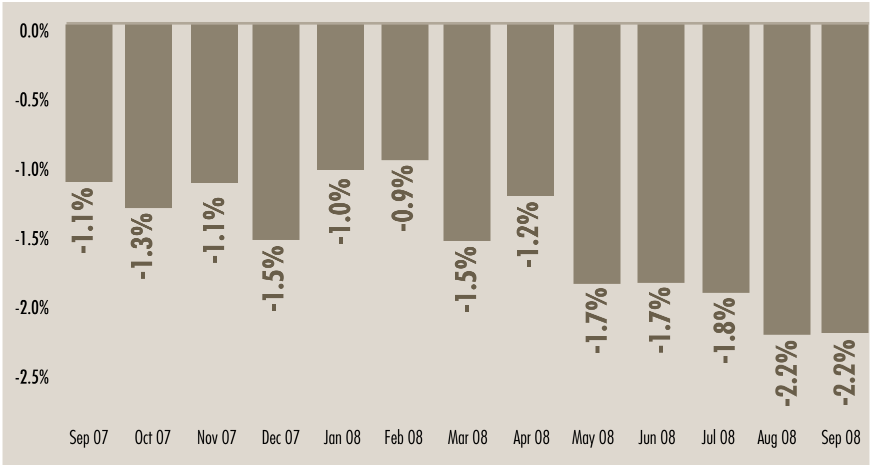
The Sacramento Region contains one of the poorest performing Metropolitan Statistical Areas (MSA) in the state, Yuba City MSA (Sutter and Yuba Counties). This MSA posted -6.6 percent job growth in September 2008 with a net loss of 2,800 jobs. While the rate of job losses are not as dramatic in the larger Sacramento-Arden Arcade-Roseville MSA (El Dorado, Placer, Sacramento, and Yolo Counties), it experienced a net decrease of 11,000 jobs in the last 12 months (-1.2 percent job growth). Similar to the Region overall, both MSAs are posting losses in nearly all major sectors (Construction leading the way) with only Professional & Business Services and Educational & Health Services adding jobs.

The Bay Area's overall economy would be in a much worse position if it were not for the San Francisco-San Mateo-Redwood City Metropolitan Division (MD—Marin, San Francisco, and San Mateo Counties), which is one of the strongest markets in the state. This MD posted 0.5 percent job growth in the 12 months ending September 2008 with a gain of 4,900 jobs. The Professional & Business Services sector experienced the greatest employment gains in the MD while Trade, Transportation, & Utilities posted the largest losses (one of only three sectors with job declines). The San Jose-Sunnyvale-Santa Clara MSA (San Benito and Santa Clara Counties) is holding steady with essentially no growth in the past year. Educational & Health Services provided the largest boost to the Silicon Valley economy while Construction lost the most jobs. The Oakland-Fremont-Hayward MD (Alameda and Contra Costa Counties) is primarily responsible for the poor performance in the Bay Area—this MD experienced -2.0 percent job growth with a decrease of 21,400 jobs in the last 12 months. Job losses are occurring throughout the East Bay economy (Construction is seeing the most severe losses) with essentially only one sector adding jobs, Educational & Health Services.

The Number of Employment Opportunities for the Sacramento Region's Residents is Shrinking Relative to the Pool of Employable People, Leading to an Unhealthy Labor Market

According to another measure of economic health in the Sacramento Region, the poor performance in the Region's economy will likely not improve in the short-term. 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. This measure has been in negative territory for the past year with the divergence increasing in recent months. Such a large divergence suggests that employment opportunities available to the Region's residents are growing at a significantly slower rate than the number of employable people, creating unhealthy labor market conditions.

Sacramento Region Economic Health



Sacramento Regional Research Institute, October 2008
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.

Housing Affordability in the Sacramento Region is Better Than the National Average and Tops the List of Major and Neighboring Regions in the State

Home sale prices in the Sacramento Region have declined by nearly one-third between the second quarters of 2007 and 2008, a decline similar to the statewide average. The approximately 32 percent drop puts the Region's median home sale price at $237,000. Among the major and neighboring regions in the state, only the Inland Empire and Stockton experienced price declines greater than the Sacramento Region. Fresno was the only region where home sale prices did not drop more than one-quarter in the last year (although it maintains the lowest price among the group at $208,000, which is below the national average of $215,000). California markets are seeing declines much greater than the national average of around 10 percent. Discounted foreclosure properties are pulling down the market prices throughout the state as they account for a large share of recent sales in most regions and other properties have to compete with the downward pressure.

The dramatic declines in home sale prices have made all the major and neighboring regions in the state more affordable, taking incomes into account. The Sacramento Region has gained the most ground in terms of housing affordability, with over a 40 percentage point gain in the Housing Opportunity Index (HOI) between the second quarters of 2007

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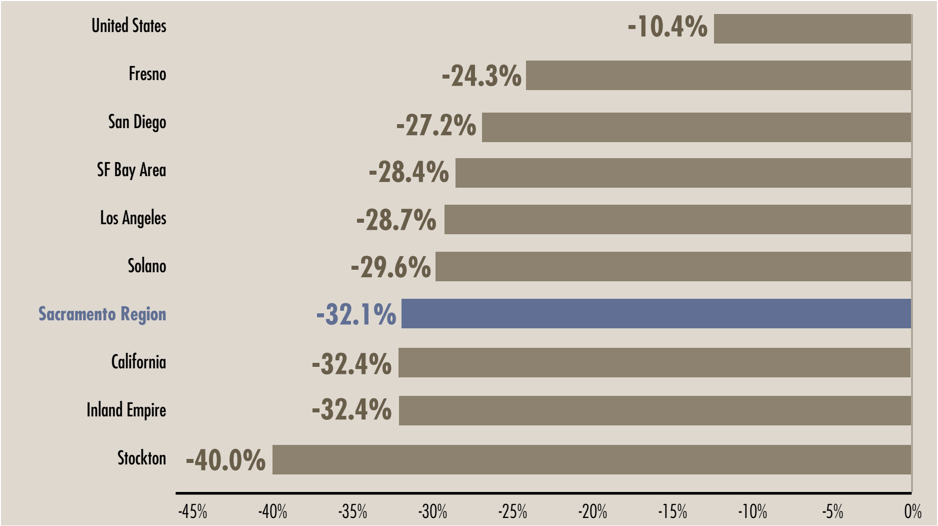
Home Sales *cont.*

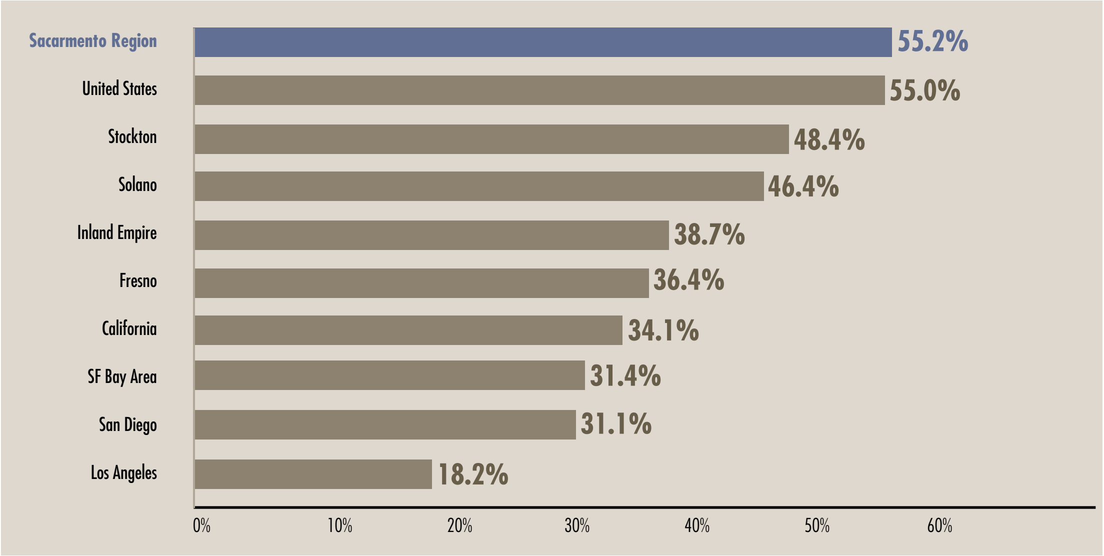
and 2008. Over 55 percent of the homes sold in the Sacramento Region during the second quarter of 2008 were affordable to a family earning a median income based on traditional mortgage standards. This percentage makes Sacramento the most affordable region in the state and even more affordable than the national average. The major coastal markets in the state have again shifted back to the bottom of the list—the Bay Area, San Diego, and Los Angeles are all below the statewide average HOI of around 34 percent. It is also interesting to note that the inland markets have now moved back up toward the top of the list of affordability with most tracking above the statewide average. Many California markets have started to see home sales increase in recent months and the rising affordability across the state has no doubt played an important role in these trends.

Home Sale Price Growth
Selected Regions, Second Quarter 2007–2008



Sacramento Regional Research Institute, October 2008
Data Source: National Association of Home Builders-Wells Fargo Housing Opportunity Index

Housing Opportunity Index
Selected Regions, Second Quarter 2008



Sacramento Regional Research Institute, October 2008
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.

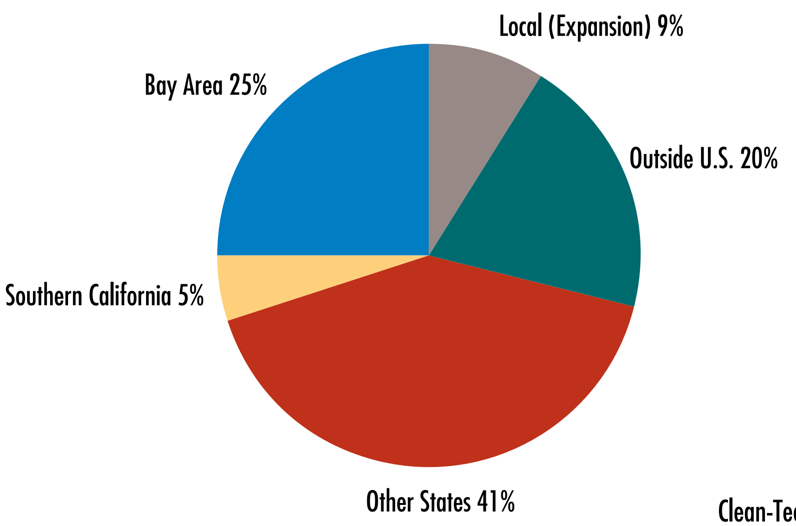
SACTO Prospect Activity Update

Even in light of the economic conditions highlighted in this Quarterly Report, SACTO continues to experience high levels of prospect activity. There are several factors contributing to this level of activity.

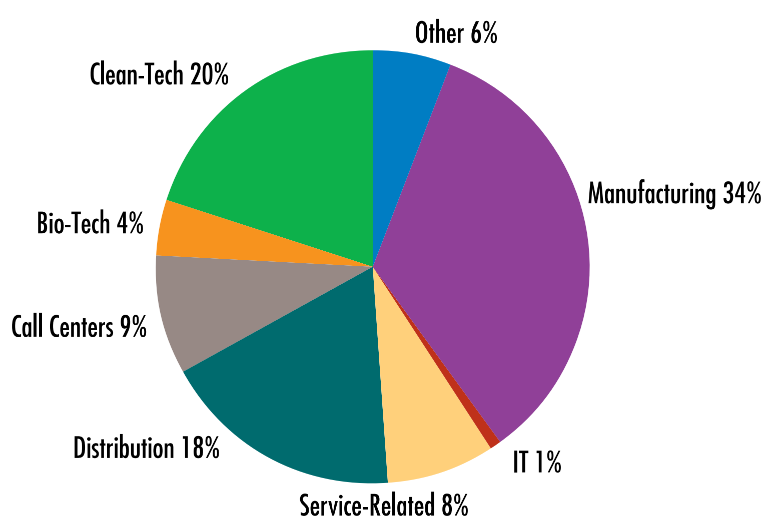
Sixty-one percent of all SACTO prospects are currently from outside of California, and 20 percent of these are from outside of the U.S. The percentage of prospects originating from outside of California has remained relatively steady over the past year and can be directly attributed to the need for goods and services in the state. As the state capital of the eighth-largest economy in the world, the Sacramento Region continues to be a desirable location, and interest from international companies is on the rise. This has been largely influenced by solar companies from around the globe looking to establish a foothold in the California market, which currently accounts for over 70 percent of the installations in the U.S.

Manufacturing is the leading facility type, accounting for 48 percent of active prospect activity. Twenty percent of SACTO's overall prospects are in the clean energy technology sector in the areas of manufacturing (14 percent) and service-related businesses (6 percent). The Sacramento Region is emerging as a leader in the clean energy technology sector, and SACTO is capitalizing on the Region's location as the capital of the most progressively "green" state in the U.S. market. This includes access to the legislative hub as well as many of the state agencies shaping the policies that affect the clean energy technology industry. When coupled with a highly educated workforce, outstanding educational institutions, and internationally recognized utilities, the Region is perfectly positioned to emerge as a national leader in this sector.

Prospect Origin Breakdown



Facility Type Breakdown



Quarterly
ECONOMIC REPORT

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SACTO The Inside Track

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

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SACTO THE INSIDE TRACK

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