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SRRI Economy Watch September 2004

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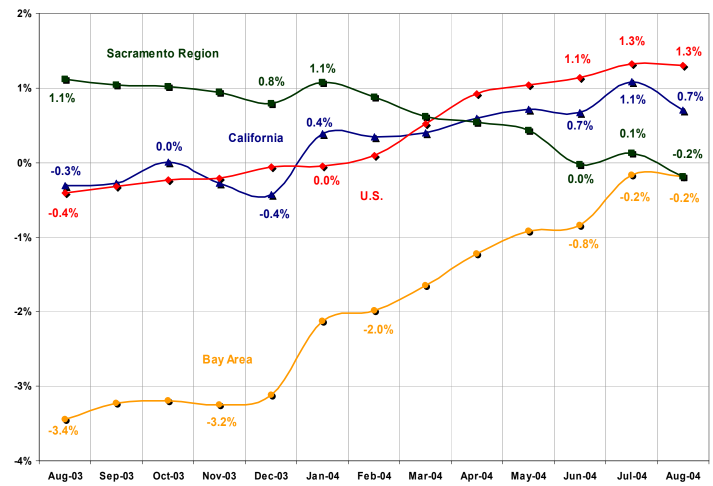
EMPLOYMENT GROWTH IN THE SACRAMENTO REGION, THE BAY AREA, CALIFORNIA, AND THE UNITED STATES

The Region has effectively been in a no growth phase over the past few months, dropping to slightly negative year-over-year employment growth in August.

After a period of falling year-over-year employment growth rates, the Sacramento Region has leveled-off over the past three months, entering a period of limited job growth. August 2004 marks the lowest point in the past year with an employment decrease of 0.2 percent since August 2003. This marks a loss of 1,700 Nonfarm jobs in the six-county region. Similar to Sacramento's Nonfarm employment growth rate pattern, job growth in the state and the Bay Area has flattened-out over the past few months. The Bay Area's employment growth rates have been increasing over the past year, but have remained slightly negative in July and August 2004 at -0.2 percent (representing a loss of 5,200 jobs). While the state reached a high point over the past year in July 2004, its August 2004 year-over-year employment growth rate remained positive, but fell to 0.7 percent. Over the past year, California has gained 100,600 Nonfarm jobs. The nation continued its slow, but steady increasing employment growth rate pattern, reaching 1.3 percent growth in August 2004. California overall and the north state economies have hit a bump in economic progress over the past few months, while the nation continues to demonstrate a fairly promising trend.

Employment Growth Rate Comparison
Sacramento Region, Bay Area, California, and U.S.



Sacramento Regional Research Institute, September 2004
Data Source: Employment Development Department and Bureau of Labor Statistics
Notes: Sacramento Region includes Sacramento, Yolo, and Yuba City PMSAs.
Bay Area includes Oakland, San Jose, and San Francisco PMSAs.
Growth reflects 12 months ending August 2004.

The Construction and Educational & Health Services sectors have seen the greatest job gains over the past year, but losses in Government and Financial Activities have moderated the growth in the Region's economy.

Over the past year, Sacramento's employment growth numbers have been primarily influenced by two industry sectors—Construction and Government. With an increase of over 5,600 jobs, the Construction sector continues to top of the list with the greatest year-over-year job gains in August 2004, followed by Educational & Health Services with a gain of 2,400 jobs. The Government sector, which has lost 6,700 jobs since August 2003, remains at the bottom of the list with the greatest job losses in the Sacramento Region. While previously in the middle of the list, the Financial Activities sector follows Government with a loss of 1,700 jobs. California's greatest job gains and losses remain in the Professional & Business Services and Government sectors, respectively. The Bay Area also continued to see relatively large losses in the Government sector, while the Educational & Health Services and Leisure & Hospitality sectors provided the greatest job gains.

Employment Gains and Losses
Selected Major Sectors

	August 2003-2004		
Sector	*Sacramento*	*California*	*Bay Area*
Construction	5,684	31,300	1,300
Edu. & Health Svcs.	2,400	23,900	3,500
Prof. & Business Svcs.	1,900	58,400	-3,400
Manufacturing	-300	5,000	0
Trade, Trans., & Util.	-500	21,000	200
Leisure & Hospitality	-900	9,000	2,900
Information	-1,200	-11,300	-1,600
Financial Activities	-1,700	6,500	2,700
Government	-6,700	-40,100	-11,800

Sacramento Regional Research Institute, September 2004
Data Source: Employment Development Department
Note: Growth reflects 12 months ending August 2004.

Job losses in the Sacramento Region have been concentrated in relatively high-paying industries, while gains have primarily been within sectors providing mid-level wages.

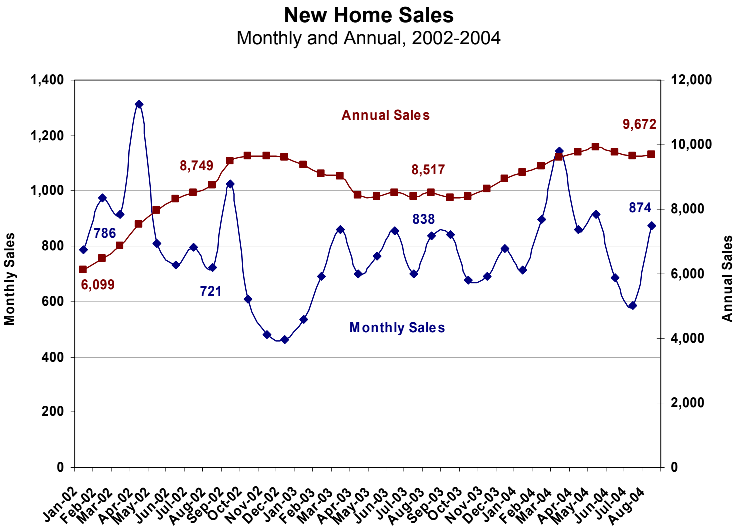
Of the total 1,700 jobs lost in the Sacramento Region between August 2003 and 2004, the majority have been within sectors where jobs are relatively high-paying. A less substantial overall loss has also been seen in relatively low-paying industry sectors. Over the past year, the Region has added jobs exclusively within sectors providing mid-level wages. While these gains have offset some of the losses at all pay levels, Sacramento's overall employment gains and losses have demonstrated a notable shift—most job losses are occurring in relatively high-paying sectors, but gains are concentrated in sectors with relatively lower pay levels. While the general effects of this shift are not fully evident at this point, this pattern is much different than what California, in general, has experienced. Year-over-year job losses in the state have been concentrated in sectors providing mid-level wages with fewer employment decreases in the relatively high- and low-paying sectors. Employment gains in California have offset losses in all pay levels with a large portion of the employment increases spread across the relatively high- and mid-paying sectors and most net activity encompassed in sectors providing high-level wages.

Employment Gains and Losses
General Industry Pay Levels

	August 2003-2004		
Industry Pay Level	*Gains*	*Losses*	*Net*
Sacramento Region			
High-Paying	0	-9,900	-9,900
Mid-Paying	9,984	-500	9,484
Low-Paying	0	-1,284	-1,284
Total	9,984	-11,684	-1,700
California			
High-Paying	69,900	-11,300	58,600
Mid-Paying	76,200	-40,100	36,100
Low-Paying	9,000	-3,100	5,900
Total	155,100	-54,500	100,600

Sacramento Regional Research Institute, September 2004
Data Source: Employment Development Department
Note: Growth reflects 12 months ending August 2004.

SACRAMENTO REGION NEW HOME SALES



Sacramento Regional Research Institute, September 2004
Data Source: Building Industry Association of Superior California

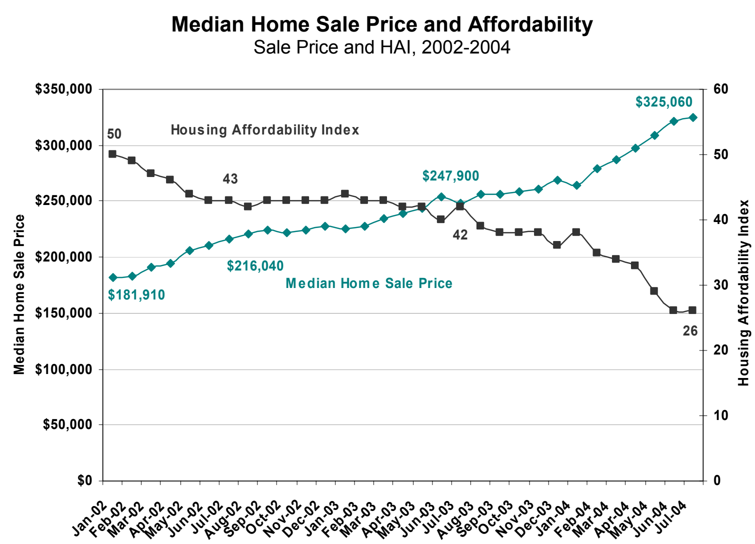
Home sale numbers in 2004 have been slightly higher than levels seen in 2002 and 2003 in the Sacramento Region.

Monthly new home sales in the Sacramento Region saw relatively strong numbers in 2002 with some months reaching over 1,000 new homes sold. While monthly numbers did not top some of the 2002 levels, 2003 saw annual sales around the same level as 2002. The first eight months of 2004 have seen some strong monthly numbers with annual sales measures above both 2002 and 2003. On average, monthly new home sales have been above 800 in 2004 with the highest point reaching 1,146 in March (a level fairly close to the March peak of 1,311 in 2002). Comparatively strong and stable monthly sales, relatively low interest rates, and population increases have contributed to keeping annual new home sales figures steady throughout 2004 at points typically above 9,000 annual sales. The generally high levels of new home sales in the Sacramento Region have not slowed and 2004 is proving to be another strong year despite a slowing of the Region's economy and some changes in interest rates. These measures also illustrate the economic activity and stability in the Construction industry—Sacramento's strongest sector.

SACRAMENTO REGION MEDIAN HOME SALE PRICE AND AFFORDABILITY

Recent escalating increases in median home sale prices have led to considerable decreases in the proportion of households able to afford a median-priced home in the Sacramento Region.

The housing market in the Sacramento Region has experienced a relatively high level of demand since 2002. As housing transactions have shown a steady and increasing trend over the past two years, median home sale prices have continuously increased. While the general median home sale price trend in 2002 and 2003 increased at a fairly slow and constant rate, increases in 2004 have been much sharper. In January 2004 the median home sale price was close to $264,000 and by July it reached a level above $325,000 (an approximately 25 percent price increase over this time period). As home sale prices steadily rose throughout 2002 and 2003, the housing affordability index continuously decreased. With the more significant shifts in median home sale prices in 2004, the housing affordability index also dropped considerably. At the beginning of 2004, about 38 percent of Sacramento's households could afford a median-priced home, but by August this measure dropped by 12 percentage points to 26 percent. Overall, while prices and affordability changed steadily throughout 2002 and 2003, measures in 2004 have shifted more drastically. The housing market has seen median home sale prices increase from close to $182,000 in January 2002 to over $325,000 about half-way through 2004. Correspondingly, housing affordability has decreased from 50 percent of the Region's households able to afford a median-priced home to only 26 percent in July 2004. With the continued housing boom, the Sacramento Region has suffered in terms of affordability, and home sale trends show that this trend most likely will continue in the short-term.



Sacramento Regional Research Institute, September 2004
Data Source: California Association of Realtors

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