

Sacramento Region Business Forecast

The Updated Sacramento Region Business Forecast Shows that the Sacramento Region's Economy Will Likely Continue to Weaken Over the Next 12 Months with No Significant Improvements Expected in this Time Period

The Sacramento Regional Research Institute (SRRRI) is grateful for the support of the Underwriters of this project:



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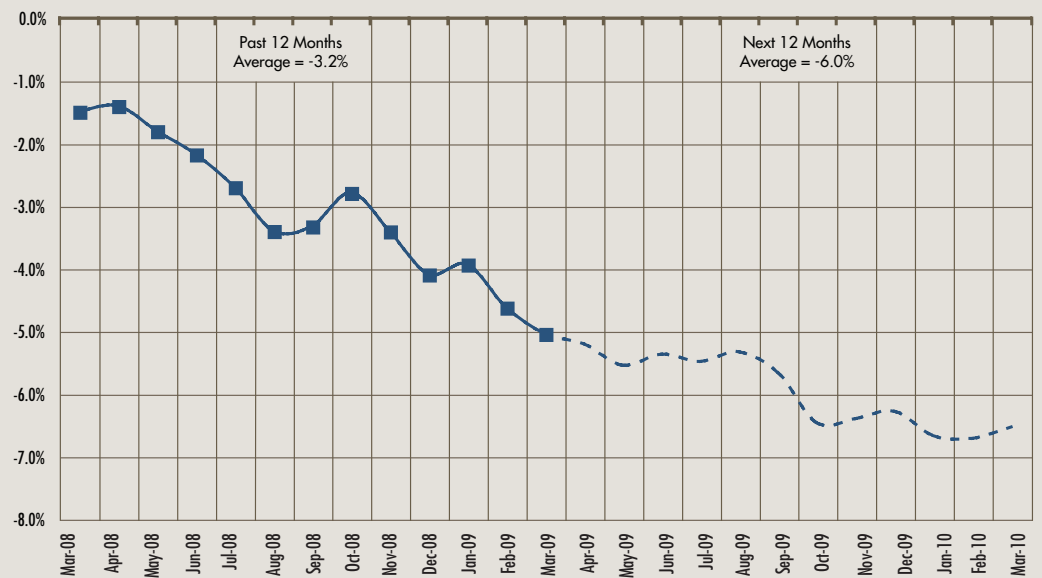
Sacramento Region Business Forecast Job Growth Outlook, April 2009–March 2010

JOB GROWTH OUTLOOK

Job growth in the six-county Sacramento Region will continue to deteriorate over the next 12 months, reaching rates lower than it has seen in the past 20 years. Over the past 12 months, the Region posted annual average job growth of -3.2 percent—the forecast for the next 12 months shows an average of -6.0 percent, close to twice as weak as the previous period. This employment growth rate equates to an annual average loss of over 54,000 jobs. For the forecast period of April 2009 to March 2010, year-over-year employment growth rates are expected to range between -5.2 percent to -6.7 percent. The Region's job growth will dip slightly and then remain somewhat stable through the second and third quarters of 2009 before falling again in the fourth quarter of 2009 and floating at a notably low level through the first quarter of 2010. Absent some external factor that cannot be accounted for in examining the dynamics driving regional economic behavior, the forecast offers no hope for significant recovery in the Sacramento Region during the next 12 months.

Sacramento Region Job Growth Outlook

April 2009–March 2010



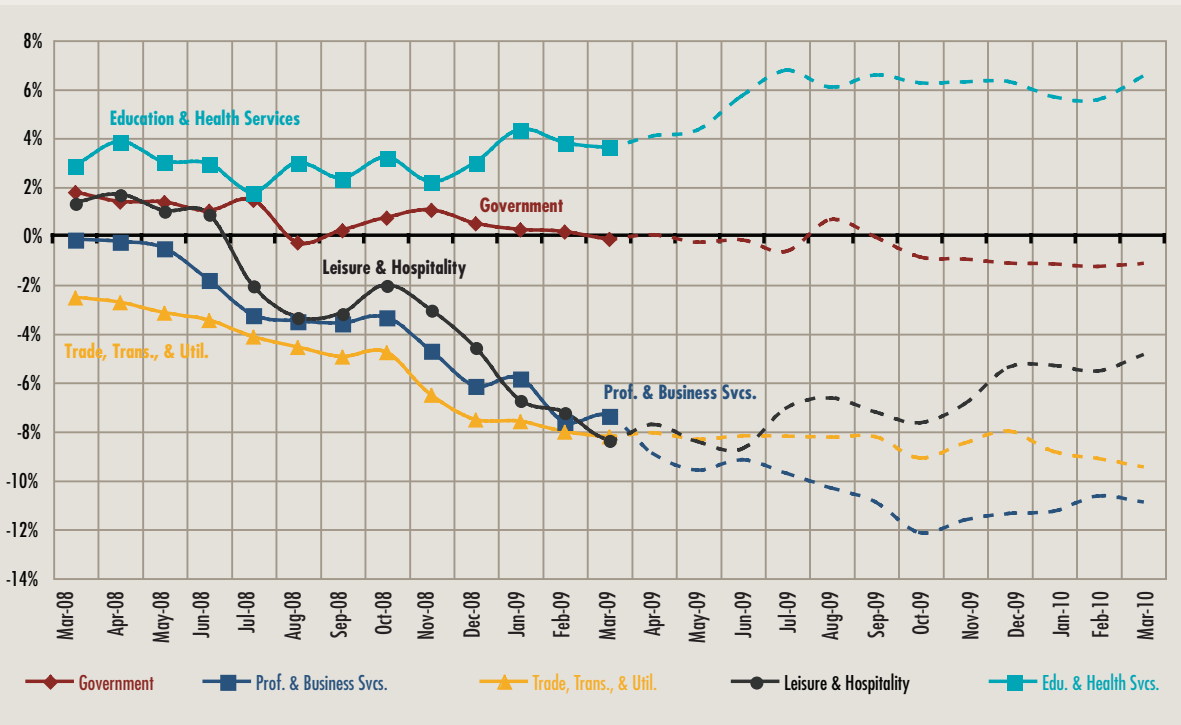
Sacramento Regional Research Institute, April 2009
Data Source: Historical from California Employment Development Department
Forecast from SRRRI Sacramento Region Business Forecast model
Note: Job growth reflects year-over-year Nonfarm employment growth rates.

Sacramento Region Business Forecast

The Sacramento Region's job growth dropped into negative territory in October 2007 and has demonstrated a fairly steady declining trend since. For most of this period, the Region has tracked well below the statewide and national averages and has recently reached some of the lowest job growth levels in two decades. This increasingly weak performance is a strong determinant of job growth in the next 12 months. The rates of job losses at the statewide and national levels have also been increasing with job growth dropping to concerning levels in the past few months. Other macro-level conditions are also troubling—consumer confidence has dipped to very low levels, personal consumption is in negative territory, and unemployment continues to rise. In response, the Federal Reserve has supported an expansionary monetary policy to stimulate the economy by lowering the federal funds rate. The federal government has also passed a number of fiscal stimulus packages to help spur employment growth. Since the Sacramento Region is not likely to notably outperform the national and statewide benchmarks in the short-term, the

broader deterioration of economic conditions could certainly diminish regional job growth performance while expansionary monetary and fiscal policy could moderate the magnitude of slowdowns.

With the exception of the Educational & Health Services sector, job growth in all of the larger sectors in the Sacramento Region's economy has slowed substantially. The forecast shows that performance in the Educational & Health Services sector will strengthen in the next two quarters and provide a strong boost to the Region's economy through the first quarter of 2010. The Region's largest sector, Government, has essentially been in a no growth phase recently (jumping between minimally positive and negative growth). Following a period of continued stability, job growth in this sector is expected to dip and remain in negative territory for the fourth quarter of 2009 and first quarter of 2010. Over the past year, the Trade, Transportation, & Utilities; Professional & Business Services; and Leisure & Hospitality sectors have demonstrated job growth patterns similar to the overall regional economy. Job growth in the Region's second-largest sector,



Sacramento Region Largest Major Sector Job Growth Outlook April 2009–March 2010

Sacramento Regional Research Institute, April 2009
 Data Source: Historical from California Employment Development Department
 Forecast from SRRI Sacramento Region Business Forecast model
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Sacramento Region Business Forecast

Sacramento Region Average Job Growth Outlook

Sorted by Sector Size

Sector	Past 12 Months	Next 12 Months	Q2-09	Q3-09	Q4-09	Q1-10
Total Nonfarm	-3.2%	-6.0%	-5.4%	-5.5%	-6.4%	-6.6%
Government	0.6%	-0.6%	-0.2%	0.0%	-1.0%	-1.2%
Trade, Trans., & Util.	-5.5%	-8.5%	-8.2%	-8.2%	-8.6%	-9.2%
Edu. & Health Svcs.	3.1%	5.8%	4.7%	6.4%	6.3%	5.9%
Prof. & Business Svcs.	-4.0%	-10.6%	-9.2%	-10.3%	-11.7%	-11.0%
Leisure & Hospitality	-3.1%	-6.8%	-8.3%	-7.0%	-6.7%	-5.3%
Financial Activities	-7.6%	-11.5%	-9.6%	-10.7%	-12.7%	-13.1%
Construction	-16.3%	-27.7%	-20.2%	-24.4%	-29.2%	-36.9%
Manufacturing	-4.9%	-7.8%	-6.5%	-5.4%	-8.4%	-11.0%
Other Services	-0.3%	-3.6%	-3.7%	-2.9%	-3.6%	-4.1%
Information	-5.9%	-12.9%	-10.9%	-12.5%	-14.3%	-13.9%
Nat. Res. & Mining	11.4%	6.8%	1.7%	15.5%	11.2%	-1.0%

Sacramento Regional Research Institute, April 2009

Data Source: Historical from California Employment Development Department

Forecast from SRRI Sacramento Region Business Forecast model

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

Trade, Transportation, & Utilities (dominated by retail activities), is expected to remain at notably low levels throughout the forecast period without much improvement or weakening. Expectations for the Professional & Business Services sector are not rosy either—job growth in this sector will decline even further over the next 6 months before seeing the rate of job losses ease slightly over the last 6 months of the forecast period. The Leisure & Hospitality sector (heavily weighted toward restaurants and bars) will likely see some improvement over the next 12 months, but will not escape continued job losses by the end of the first quarter of 2010. Overall, these large sectors significantly affect regional economic performance and most are expected to see job losses continue over the coming 12 months.

All of the Sacramento Region's 11 major sectors, with the exception of Educational & Health Services, will see slower job growth in the next 12 months compared to growth in the past 12

months. Only two sectors are expected to see positive annual average job growth in the coming 12 months including Educational & Health Services and the very small Natural Resources & Mining sector. The remaining 9 sectors will all experience further annual job losses in the forecast period. The majority of the major sectors will see their best performance, with less severe rates of job losses, during the third quarter of 2009. The weakest performance for the majority of the major sectors is expected in the first quarter of 2010. It is interesting to note that the Construction sector is not expected to enter a recovery period in the coming 12 months; rather, job growth is forecast to decline even further in all four quarters. Another sector affected substantially by the housing slump as well as the recent turmoil in the financial markets, Financial Activities, is also forecast to see performance drop off further in each successive quarter.

Sacramento Region Business Forecast

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About SRRRI

SRRRI 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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FORECAST BACKGROUND

The forecast highlights the results of an econometric model that analyzes the relationship between indicators of economic performance and job growth in the six-county Sacramento Region (El Dorado, Placer, Sacramento, Sutter, Yolo, and Yuba Counties). Job growth, or the year-over-year growth rate in Nonfarm employment, is one of the best and most closely monitored measures of regional economic performance. Total Nonfarm employment is made up of 11 major industry sectors that group the Region's establishments together based on similarity in business processes used to produce goods or services. A forecast of job growth and major sector performance provides the business and economic development communities an outlook for the Region's economy 12 months into the future.

The econometric model uses a vector autoregression (VAR) technique, which allows a single model to forecast all variables simultaneously and keep outcomes mutually consistent. Specifically, all 11 major industry sectors are forecast at the same time and aggregated to describe overall Nonfarm employment. The forecast model is recalibrated bi-annually, to address fundamental shifts that occur in the economy. Close to four dozen leading, coincident, and lagging indicators for the Sacramento Region, Bay Area, California, and the United States were analyzed and considered as potential predictors of major industry sector and total Nonfarm employment levels. In this recalibration process, the federal funds rate was added to the model as an indicator of the Federal Reserve's stance on monetary policy. The VAR model has demonstrated strong predictive ability for calculating job growth by month from 1992 to the most current data. Since Nonfarm employment reflects the average behavior across all major industries, this forecast could contain greater predictive ability than the forecasts for any single component. It is important to note that this forecast takes historical data through March 2009 into account, a timeframe which captures the deteriorating economic conditions nationally, statewide, and regionally.

The Sacramento Regional Research Institute (SRRRI), an economic research and consulting group affiliated with the Sacramento Area Commerce and Trade Organization (SACTO), developed the forecast in partnership with Sacramento State to serve as a forward-looking resource for the Sacramento Region's business and economic development communities. It is currently the only locally-produced regional economic forecast for the six-county Sacramento Region. The job growth information tracks data that is presented by SRRRI monthly in *Economy Watch* and quarterly in SACTO's *Quarterly Economic Report*.

The forecast is updated bi-annually, after the conclusions of the first and third quarters, with the results presented as a supplement to SACTO's *Quarterly Economic Report*. SRRRI will also be incrementally growing the forecast beyond job growth—as models are developed and tested, additional indicators will be presented in the bi-annual updates.

It is important to note that this forecast was created using historical data and econometric modeling techniques, reflecting performance and assumptions demonstrated through the latest historical data. Actual economic performance could differ significantly from this forecast and SRRRI and its affiliates shall not be held responsible for consequences resulting from any such differences.