

Sacramento Region Business Forecast

The Updated Sacramento Region Business Forecast Shows That the Rate of Job Losses Will Accelerate Over the Next Two Quarters Before Easing Somewhat in Mid-2009.

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



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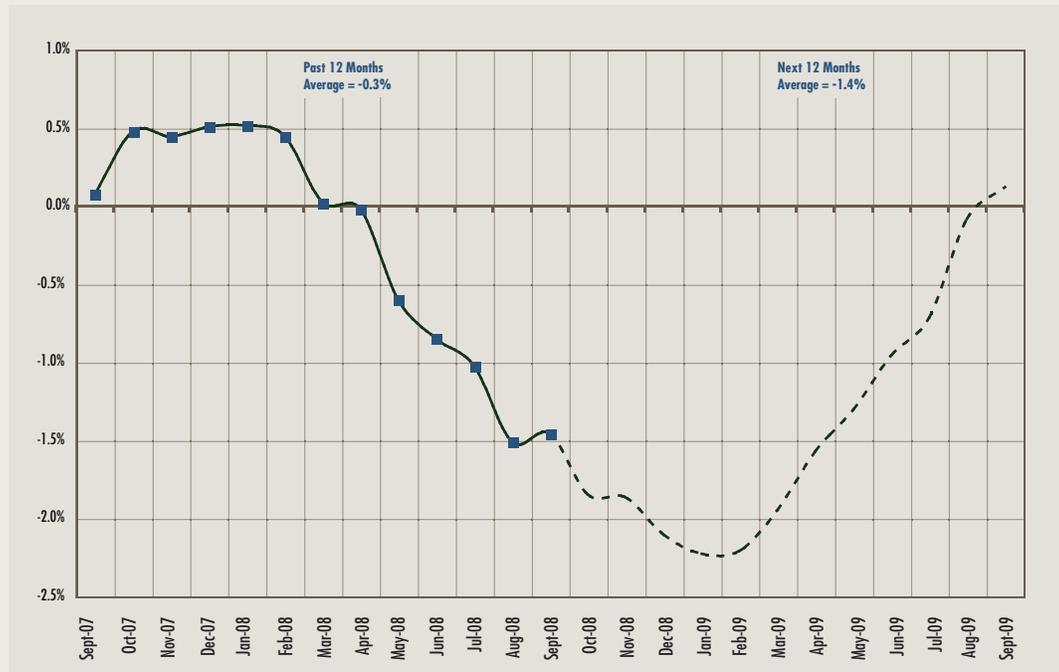
Sacramento Region Business Forecast Job Growth Outlook, October 2008–September 2009

JOB GROWTH OUTLOOK

The six-county Sacramento Region will experience notably slower job growth during the next 12 months, reaching rates of job losses in excess of 2 percent at its lowest point. The forecast estimates that average annual job growth over the coming 12 months will be -1.4 percent, significantly lower than the -0.3 percent seen in the preceding 12 months. Year-over-year employment growth rates will range from -2.2 percent to 0.1 percent between October 2008 and September 2009. The Region's job growth will fall to even lower levels than where it currently sits in the fourth quarter of 2008 and first quarter of 2009 before it starts to improve in the second and third quarters of 2009. Before it begins to rebound, the Region could reach negative growth at levels lower than it saw during the downturn in the early 1990s (during that downturn the Region saw job growth fall to -2.1 percent at the lowest point). By the end of the third quarter of 2009, the Region will be back to essentially a no-growth level.

Sacramento Region Job Growth Outlook

October 2008–September 2009

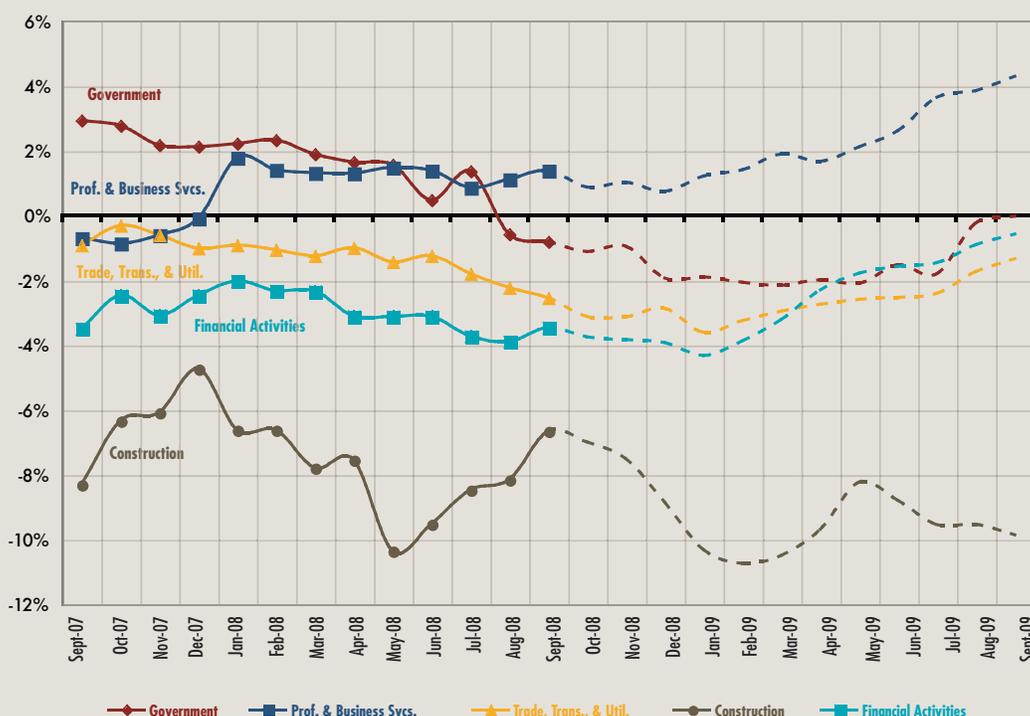


Sacramento Regional Research Institute, October 2008
Data Source: Historical from California Employment Development Department
Forecast from Sacramento State-SRRI Sacramento Region Business Forecast model
Note: Job growth reflects year-over-year Nonfarm employment growth rates.

Sacramento Region Business Forecast

The Sacramento Region's job growth has declined substantially since the beginning of 2008, recently falling significantly below the statewide and national averages and reaching low levels not seen since the first quarter of 1992. This weak performance is a strong determinant of job growth in the next 12 months. Job growth at both the statewide and national levels has been in negative territory for the past few months. The nation continued its pattern of steadily decreasing job growth while other macro-level conditions have deteriorated since the beginning of the year—consumer sentiment has been floating around historically low levels and inflation and unemployment have increased. Pulled down considerably by housing-related and retail trade activities, the state's job growth has dropped below the national average and continues to go downhill. These weak economic conditions at the broader national and statewide levels could certainly diminish local performance as the Region is not likely to significantly outperform these benchmarks any time soon.

In addition to the two housing-related sectors (Construction and Financial Activities), one of the Region's largest sectors, Trade, Transportation, & Utilities, has provided a considerable drag on the local economy during the current downturn. The forecast shows that these three sectors will continue to post negative job growth over the next 12 months with Construction having quite a prolonged recovery period. While the Construction sector has improved slightly in recent months, further improvements will likely not occur and the sector could see job growth drop off again and remain relatively low for the rest of the forecast period. The recent turmoil in the financial markets creates a great amount of uncertainty in the Financial Activities sector, but based on current conditions and historical patterns, this sector could start to improve at the beginning of 2009 with negative job growth becoming much less severe by the end of the coming 12 months. The effects of the housing downturn and credit crunch have bled into the Trade, Transportation, & Utilities sector (the Region's second-largest sector), mainly in the retail trade components. Performance in this sector has been deteriorating



Sacramento Region Selected Major Sector Job Growth Outlook
October 2008–September 2009

Sacramento Regional Research Institute, October 2008
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Sacramento Region Average Job Growth Outlook

Sorted by Sector Size

Sector	Past 12 Months	Next 12 Months	Q4-08	Q1-09	Q2-09	Q3-09
Total Nonfarm	-0.3%	-1.4%	-1.9%	-2.1%	-1.3%	-0.2%
Government	1.4%	-1.5%	-1.3%	-2.0%	-1.9%	-0.7%
Trade, Trans., & Util.	-1.3%	-2.7%	-3.0%	-3.3%	-2.6%	-1.8%
Prof. & Business Svcs.	0.9%	2.1%	0.9%	1.5%	2.1%	3.9%
Edu. & Health Svcs.	3.6%	2.1%	1.9%	2.0%	2.1%	2.3%
Leisure & Hospitality	0.1%	-1.6%	-4.0%	-2.8%	-0.7%	1.2%
Construction	-7.4%	-9.2%	-7.8%	-10.5%	-8.9%	-9.6%
Financial Activities	-2.9%	-2.6%	-3.8%	-3.8%	-1.9%	-1.0%
Manufacturing	-4.2%	-2.0%	-3.1%	-4.3%	-2.0%	1.5%
Other Services	2.1%	0.3%	0.2%	0.2%	0.5%	0.4%
Information	-1.4%	0.3%	-2.2%	-0.4%	1.1%	2.5%
Nat. Res. & Mining	15.6%	1.6%	-6.4%	-11.4%	10.7%	13.4%

Sacramento Regional Research Institute, October 2008

Data Source: Historical from California Employment Development Department

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even further in recent months—the forecast shows that it will flatten out for the next few months and start to tick back up slightly in early-2009.

Two of the Region's largest sectors showed positive growth for most of the past 12 months, Government and Professional & Business Services. As a result of the economic downturn and related budget deficits at all levels, the former (the Region's largest sector) recently began shedding jobs on an annual basis. Negative job growth in the Government sector will become more pronounced then flatten out for most of the next 12 months, improving back to a no-growth situation by the third quarter of 2009. On the other hand, Professional & Business Services (the third-largest sector in the Region) has maintained healthy conditions since the beginning of 2008, providing a much-needed boost to the Region's economy. Over the next 12 months, this sector's contribution to the economy will increase with job growth accelerating at a steady pace.

The majority of the Region's major sectors will see slower growth in the next 12 months compared to job growth over the last 12 months. Only four major sectors are forecast to experience improvements in average 12-month job growth, including Professional & Business Services; Financial Activities; Manufacturing; and Information. Six of the 11 major sectors show average growth in negative territory, with Construction posting the poorest performance. Of the sectors forecast to post positive growth, the Professional & Business Services and Educational & Health Services sectors show the healthiest growth prospects. For nearly all of the Region's major sectors, the first quarter of 2008 will be the weakest among the next four quarters (with eight sectors posting negative growth) while the third quarter of 2009 will be the strongest (as seven sectors reach positive growth levels).

Sacramento Region Business Forecast

PROJECT TEAM

Dr. Stephen Perez,
Assistant to the President for
Special Projects, Sacramento
State

Dr. Suzanne O'Keefe,
Economist, SRRI and Associate
Professor of Economics,
Sacramento State

Ryan Sharp,
Director, SRRI

Helen Schaubmayer,
Deputy Director, SRRI



About SRRI

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

Sacramento Regional Research Institute

A Joint Venture of SACTO
and California State University,
Sacramento
400 Capitol Mall, Suite 2500
Sacramento, CA 95814-4436
PHONE: (916) 491-0444
FAX: (916) 441-2312
srri@srri.net
www.srri.net



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. 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. 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 September 2008 into account, a timeframe which captures some of the recent financial market turmoil.

The Sacramento Regional Research Institute (SRRI), a joint venture of the Sacramento Area Commerce and Trade Organization (SACTO) and California State University, Sacramento (Sacramento State), developed the forecast 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 Sacramento Region. The job growth information tracks data that is presented by SRRI monthly in *Economy Watch* and quarterly in SACTO's *Quarterly Economic Report*.

The forecast model is recalibrated bi-annually with the results presented as a supplement to SACTO's *Quarterly Economic Report*. SRRI 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 SRRI and its affiliates shall not be held responsible for consequences resulting from any such differences.