Business Component Update

The Center for Strategic Economic Research 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. CSER updates the overall Prosperity Index annually—which measures indicators in the three areas of* **BUSINESS, PEOPLE** *and* **PLACE**. *The Business component is updated quarterly in order to allow for more frequent evaluations of the local business climate. For more information and to view the 2010 report, please visit www.strategiceconomicresearch.org.*

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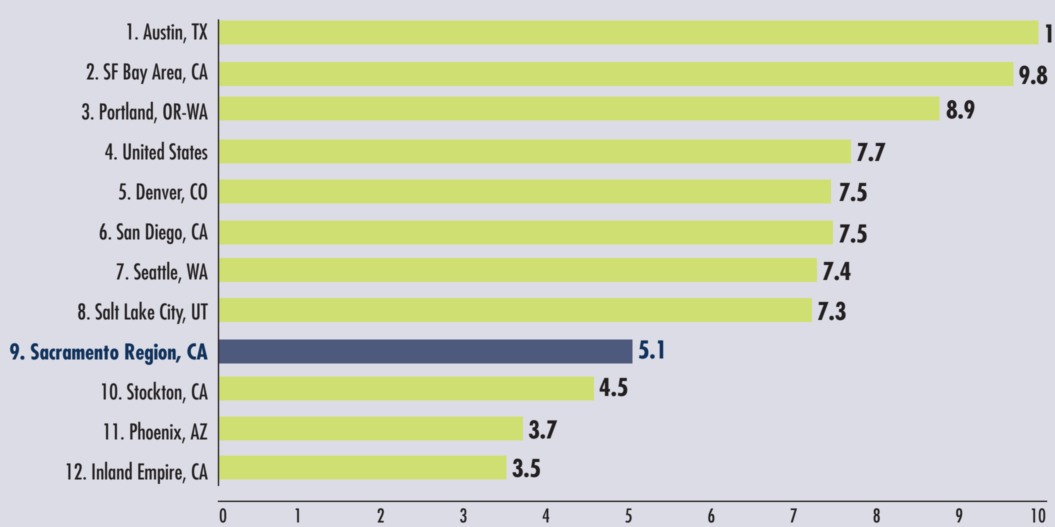
Sacramento Received Another Low Ranking on the Business Component of the Prospertiy Index

For the third straight quarter, the Sacramento Region placed ninth on the *Prosperity Index* **BUSINESS** component. The Region's fourth quarter 2010 score dropped slightly compared to the third quarter, from 5.2 to 5.1 (out of a possible 10), but it kept its ninth place spot on the list of main competitors for business location and expansion projects. Sacramento placed above two of the four other regions in California, Stockton and the Inland Empire (Riverside and San Bernardino Counties), along with the Phoenix region. It is interesting to note, however, that the score gap between Sacramento and the eighth place region is significant, a difference of over 2 points—the middle tier regions are showing very similar performance. One of the other measured California regions placed above the national average in second place, the SF Bay Area (dropping from first place in the third quarter). The Austin region experienced a dramatic jump since the third quarter, moving up from fifth place to the top spot in the fourth quarter. In addition to Austin and the SF Bay Area, Portland ranked among the top three with a stronger business climate than the rest of the nation.

Sacramento's low ranking demonstrates its continued weak competitive position in terms of business climate. The Region posted a strong score in only one of the business climate indicators, Establishment Growth, which scored 7.3 out of a possible 10. The remaining five indicators presented fairly weak scores. Two of the indicators saw scores increase over the third quarter including Establishment Growth and Payroll Growth—all others held steady with the exception of Job Growth where relative performance declined since the last quarter. The BUSINESS component indicators are beginning to catch up with the core of the regional recession—with Sacramento showing limited movement, the index indicates that the effects of the recession on the business climate are not as severe as in other regions.



Fourth Quarter 2010 Prosperity Index BUSINESS Component

Prosperity Index: Measuring the Sacramento Region's Competitive Position

Fourth Quarter 2010 Prosperity Index: Business Component Indicator Scores

Region	Establishment Growth	Job Growth	Office Vacancy Rate	Payroll Growth	Unemployment Rate	Venture Capital Investment
Austin, TX	5.4	10.0	3.1	10.0	9.9	3.3
Denver, CO	1.4	5.3	9.2	5.1	9.3	1.0
Inland Empire, CA	9.4	0.0	2.6	0.0	2.5	0.0
Phoenix, AZ	4.9	1.2	0.0	0.9	8.2	0.1
Portland, OR-WA	10.0	4.7	10.0	5.5	6.5	0.4
Sacramento Region, CA	***7.3 (+)***	***2.5 (-)***	***4.0 (=)***	***3.2 (+)***	***4.1 (=)***	***0.1 (=)***
Salt Lake City, UT	0.0	5.8	8.7	5.4	10.0	0.6
San Diego, CA	7.4	4.5	6.7	3.1	6.4	3.0
Seattle, WA	8.0	3.2	6.7	2.8	8.2	1.7
SF Bay Area, CA	7.3	2.2	9.4	5.5	6.2	10.0
Stockton, CA	6.5	1.7	8.8	1.8	0.0	0.0
United States	4.6	5.4	8.6	5.6	7.3	0.6

Data Source: Center for Strategic Economic Research

Note: + refers to improvement in score over Q4 2009, – represents decrease in score from Q4 2009 and = means no change in score since Q1 2009.

Benchmark Regions

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

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

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

Inland Empire, CA—Riverside and San Bernardino 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

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

San Diego, CA—San Diego County

Seattle, WA—King, Kitsap, Pierce, and Snohomish Counties

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

Stockton, CA—San Joaquin County

United States—national average

Prosperity Index Business Component Indicators

Job Growth accounts for the year-over-year percentage increase in average first quarter employment from 2009 to 2010. 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 first quarter of 2009 to the same quarter of 2010. 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 third quarter of 2010. 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 first quarter of 2009 to the first quarter of 2010). 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 September 2010) 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 third quarter of 2010. 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.