

Sacramento Region Business Forecast

The Center for Strategic Economic Research (CSER) is grateful for the support of the Underwriters of this project:



Since 1979, Grubb & Ellis Sacramento has provided the highest quality of service to its clients. Over 50 specialists in two regional offices handle the sale, leasing and management of commercial and industrial properties. The Grubb & Ellis difference is the quality of information, the way it is shared and the professionals who deliver it to you.

1610 Arden Way, Suite 195
Sacramento, CA 95815
(916) 418-6000 • www.grubb-ellis.com



LEARN HERE, LEAD ANYWHERE®

A Superior Business Learning Environment Founded in 1922, Drexel University's nationally-ranked LeBow College of Business integrates Drexel University's technological prominence with experience-based education to develop world-class leaders and advance knowledge through research. The College draws on these foundations to support its three core strategies: global scope, entrepreneurial orientation, and lifecycle relationships.

3141 Chestnut Street
Philadelphia, PA 19104
(215) 895-2111 • www.lebow.drexel.edu



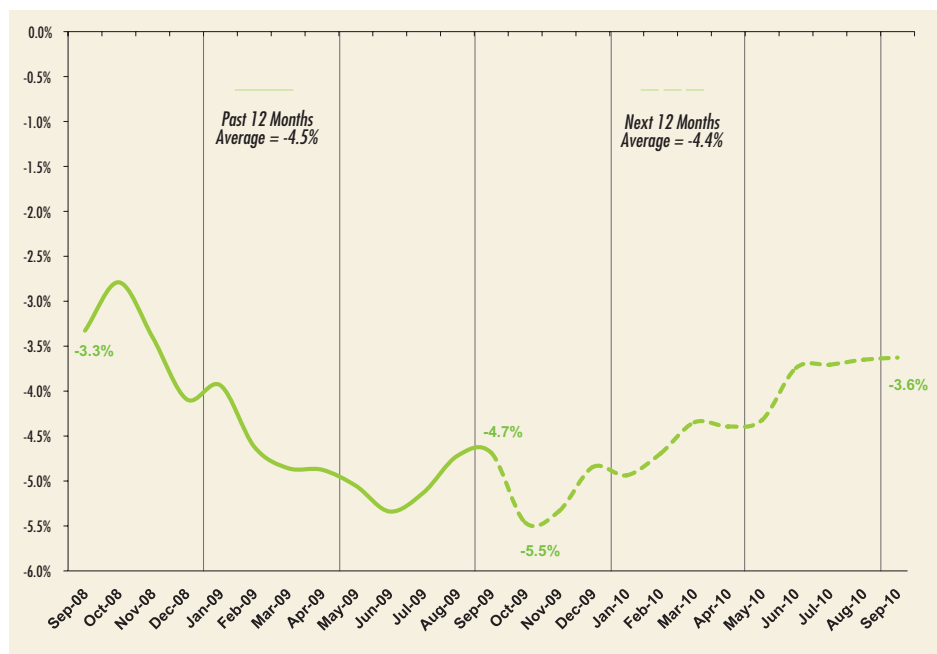
For more than 60 years, SMUD has been providing electricity to the people of Sacramento County. As the sixth-largest publicly owned utility in the country, SMUD is dedicated to providing solutions for their customers' electrical energy needs, to being a leader in customer satisfaction and to promoting community benefits.

6301 S Street
Sacramento, CA 95817
(916) 452-3211 • www.smud.org

The Annual Rate of Jobs Loss Will Ease Over the Next 12 Months

The third quarter 2009 update to the *Sacramento Region Business Forecast* shows that the six-county Sacramento Region's job growth will bottom-out and the annual rate of loss will begin to improve over the next 12 months. Over the 12 months ending September 2009, the Region experienced annual average job growth of -4.5 percent—this rate will improve slightly to -4.4 percent in the forecasted 12 months ending September 2010, reflecting an annual average loss of about 39,000 jobs. Following the brief period of stability seen in the past couple months, Sacramento's job growth will take another dip in the fourth quarter of 2009 with job growth falling to a low of -5.5 percent (lower than rates seen in over 20 years). After this downturn, the rate of job losses will ease gradually through the third quarter of 2010 with job growth moving up to -3.6 percent. While the forecast shows general improvement in the Region's economy during the next 12 months, the recovery back to positive growth on a consistent basis will likely be lengthy.

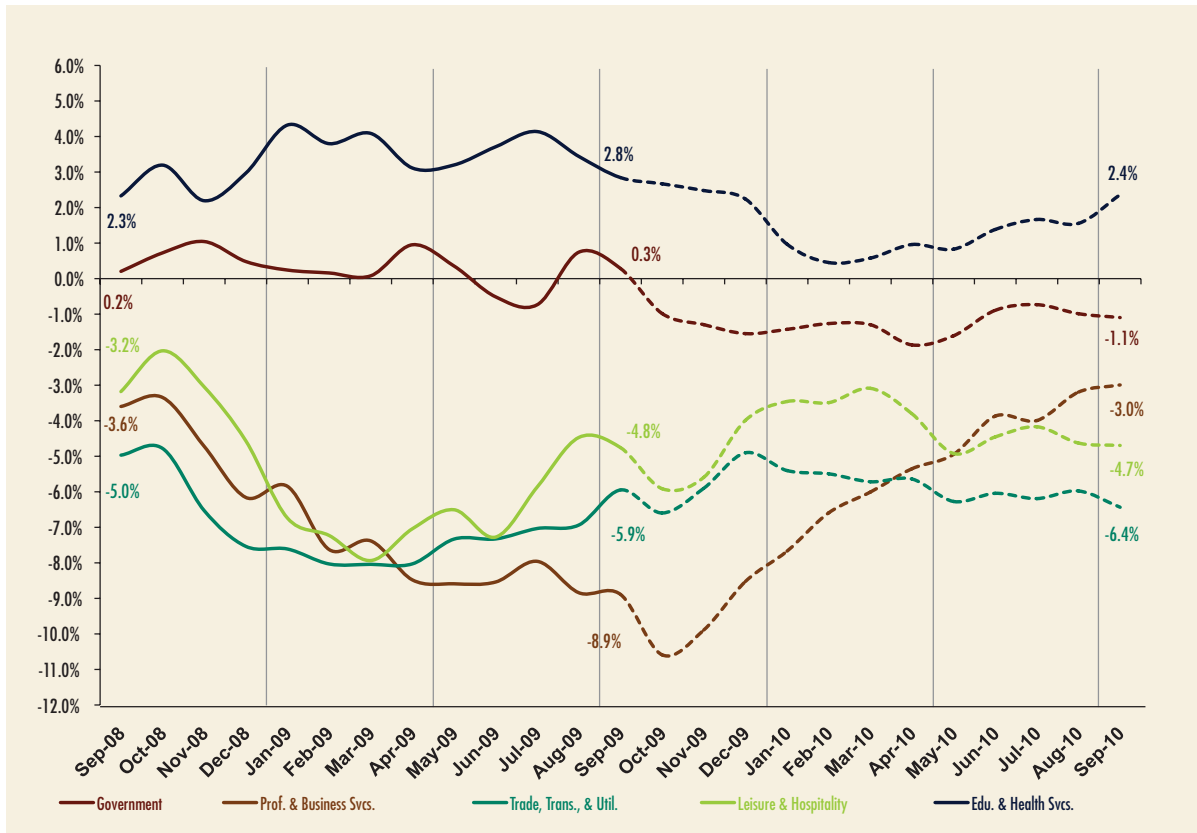
Sacramento Region Annual Job Growth Outlook October 2009 to September 2010 Forecast



Data Sources: Historical from CA Employment Development Department; Forecast from CSER Business Forecast model

Negative Job Growth will Persist in Most of the Larger Sectors

Sacramento Region Largest Sector Annual Job Growth Outlook October 2009 to September 2010 Forecast



Data Sources: Historical from CA Employment Development Department; Forecast from CSER Business Forecast model

Only one of the Region's major sectors is forecast to experience positive job growth throughout the forecast period, Educational & Health Services, which is among the largest in the economy and includes private education and all types of health care. Job growth in this sector has slowed in recent months and this pattern is expected to persist through the first quarter of 2010, at which point performance will pick back up through the third quarter. Government, the Region's largest sector, is forecast to shift from current positive job growth to consistent negative growth between October 2009 and September 2010 as nearly all components of this sector must address ongoing budget issues. The other large sectors in Sacramento have all been posting concerning rates of job loss and are not expected to add jobs in the next 12 months. Trade, Transportation, & Utilities, heavily weighted by retail trade activities, has seen some improvement since the beginning of 2009 and is forecast to move up a little more in the fourth quarter of 2009 before essentially flattening out for the following three quarters. A similar pattern is expected in the Leisure & Hospitality sector, a large sector dominated by restaurants and bars. Performance in the Professional & Business Services sector has fallen dramatically in the past year as demand for services in this sector have dropped off with the widespread recession. This sector will likely hit bottom in the next couple of months and then steadily see job loss rates diminish through September 2010. Overall, performance in these large sectors significantly influence the regional economy and most are expected to experience job losses over the coming 12 months.

Most Major Sectors will See Further Strains in the Next 12 Months

Five of the Sacramento Region's major sectors will see conditions improve in the next 12 months compared to the past year. In addition to the large Trade, Transportation, & Utilities; Professional & Business Services; and Leisure & Hospitality sectors, the smaller Financial Activities (banks, insurance, and real estate) and Other Services (basically maintenance/repair, personal services, and non-profits) sectors will experience less severe rates of loss in the coming 12 months. The remaining six sectors are all forecast to post weaker performance in the next 12 months. This includes the Construction sector, a driver of the current recession that has seen job growth steadily decline for almost two and a half years. Things will likely not get better in this sector in the next year with continued weak rates of job loss as the housing market slowly recovers and the commercial market takes a dip. Most major sectors will see the poorest performance in the first quarter of 2010 while, by the third quarter, many sectors could see improved conditions.

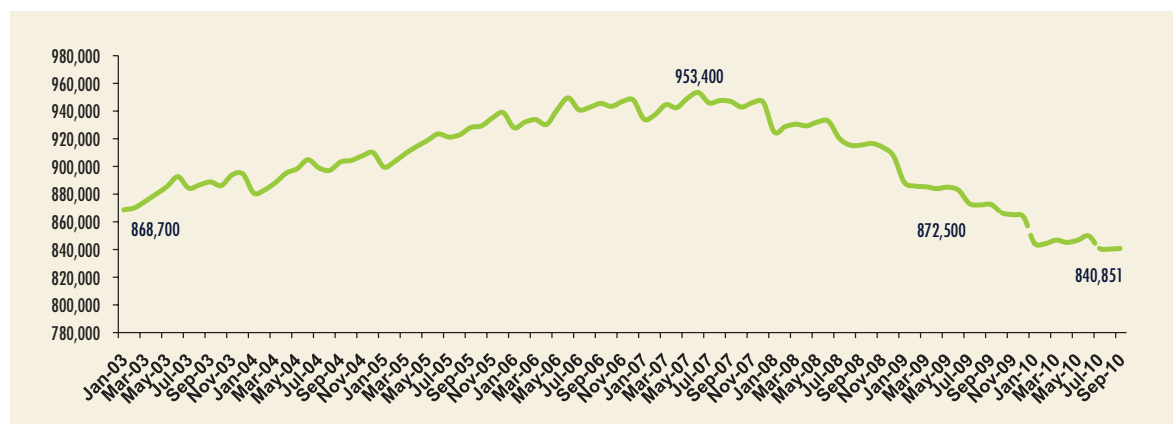
Major Sector Annual Average Job Growth Outlook
Q4-09 to Q3-10 Forecast, Sorted by Sector Size

Sector	Past 12 Months	Next 12 Months	Q4-09	Q1-10	Q2-10	Q3-10
Total Nonfarm	-4.5%	-4.4%	-5.2%	-4.7%	-4.2%	-3.7%
Government	0.3%	-1.2%	-1.3%	-1.3%	-1.5%	-0.9%
Trade, Trans., & Util.	-7.1%	-5.9%	-5.8%	-5.5%	-6.0%	-6.2%
Edu. & Health Svcs.	3.4%	1.5%	2.5%	0.7%	1.1%	1.9%
Prof. & Business Svcs.	-7.2%	-6.1%	-9.7%	-6.8%	-4.7%	-3.4%
Leisure & Hospitality	-5.6%	-4.4%	-5.2%	-3.3%	-4.4%	-4.5%
Financial Activities	-7.6%	-2.4%	-5.3%	-2.0%	-1.1%	-1.2%
Construction	-19.5%	-24.5%	-25.2%	-28.1%	-23.4%	-21.5%
Manufacturing	-6.1%	-8.9%	-9.4%	-11.0%	-9.7%	-5.7%
Other Services	-1.9%	-0.8%	-0.5%	-0.4%	-0.4%	-1.9%
Information	-9.0%	-9.4%	-9.5%	-8.2%	-8.4%	-11.4%
Mining & Logging	0.8%	-14.7%	-12.2%	-25.2%	-15.0%	-6.4%

Data Sources: Historical from CA Employment Development Department; Forecast from CSER Business Forecast model

Employment Levels will Drop Even Further Off the 2007 Peak

**Sacramento Region
Total Nonfarm
Employment Outlook**
October 2009 to
September 2010
Forecast

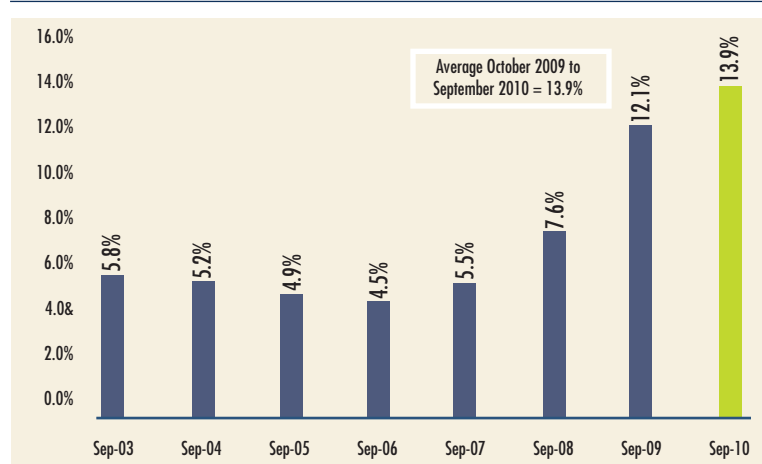


Data Sources: Historical from CA Employment Development Department; Forecast from CSER Business Forecast model

Unemployment Rates Will Rise More Slowly in the Coming Year

With establishments in the Region expected to continue to shed payroll jobs, total Nonfarm employment will drop to around 841,000 by September 2010. While Sacramento is currently supporting an employment level close to what was seen in early-2003, the forecast loss could take the Region down to 2001 levels. Since the peak in June 2007, Sacramento has lost nearly 81,000 jobs and another significant job loss could be seen in the next 12 months. Further job losses will put greater strain on the Region's labor market, which is already seeing relatively high unemployment rates (even with signs of residents exiting the labor force). Sacramento's unemployment rate is currently at 12.1 percent—unemployment over the next 12 months could average 13.9 percent, a level not seen in 25 years. By September 2010, the unemployment rate is expected to jump another 1.8 percentage points. This acceleration is much slower than the 4.5 percentage point increase posted in the previous year, which, like job growth, suggests general improvement in the Region's economic conditions moving forward.

Sacramento Region Unemployment Rate Outlook October 2009 to September 2010 Forecast



Data Sources: Historical from CA Employment Development Department; Forecast from CSER Business Forecast model



The Center for Strategic Economic Research (CSER), an economic research and consulting group affiliated with the Sacramento Area Commerce and Trade Organization (SACTO), provides a full range of objective economic and demographic research services to businesses, government entities, educational institutions, and non-profit organizations throughout the country. For more information about CSER or the Sacramento Region Business Forecast, visit www.strategiceconomicresearch.org or contact CSER by mail at 400 Capitol Mall, Suite 2500, Sacramento, CA 95814; by telephone at (916) 491-0444; or by e-mail at info@strategiceconomicresearch.org.

PROJECT TEAM

Ryan Sharp, Director
Center for Strategic Economic Research

Helen Schaubmayer, Deputy Director
Center for Strategic Economic Research

Dr. Stephen Perez, Professor of Economics
Sacramento State

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

FORECAST BACKGROUND — The forecast highlights the results of econometric models that analyze the relationship between indicators of economic performance, job growth, and unemployment rates 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. The unemployment rate measures the extent to which residents are able to find employment opportunities, specifically capturing those individuals who are part of the labor force and are not working, but are able, available, and actively looking for work. A forecast of job growth, major sector performance, and unemployment rates provides the business and economic development communities an outlook for the Region's economy 12 months into the future.

The econometric models primarily rely on 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. Forecast changes in Nonfarm employment are then run through another least squares regression model that analyzes corresponding changes in the unemployment rate over time. The forecast models are 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. The VAR and least squares models have demonstrated strong predictive ability for calculating job growth and unemployment rates by month from 1992 to the most current data. Since Nonfarm employment reflects the average behavior across all major industries, the related 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 2009 into account, a timeframe which captures the deteriorating economic conditions nationally, statewide, and regionally.

The Center for Strategic Economic Research (CSER) 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 six-county Sacramento Region. The job growth and unemployment rate forecasts follow data that are presented by CSER 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*. CSER will also be incrementally growing the forecast beyond overall and industry-specific job growth and unemployment rates—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 CSER and its affiliates shall not be held responsible for consequences resulting from any such differences.