

An economic report on the six-county Sacramento Region provided by the Center for Strategic Economic Research (CSER), an economic research and consulting group affiliated with SACTO

Quarterly

ECONOMIC REPORT

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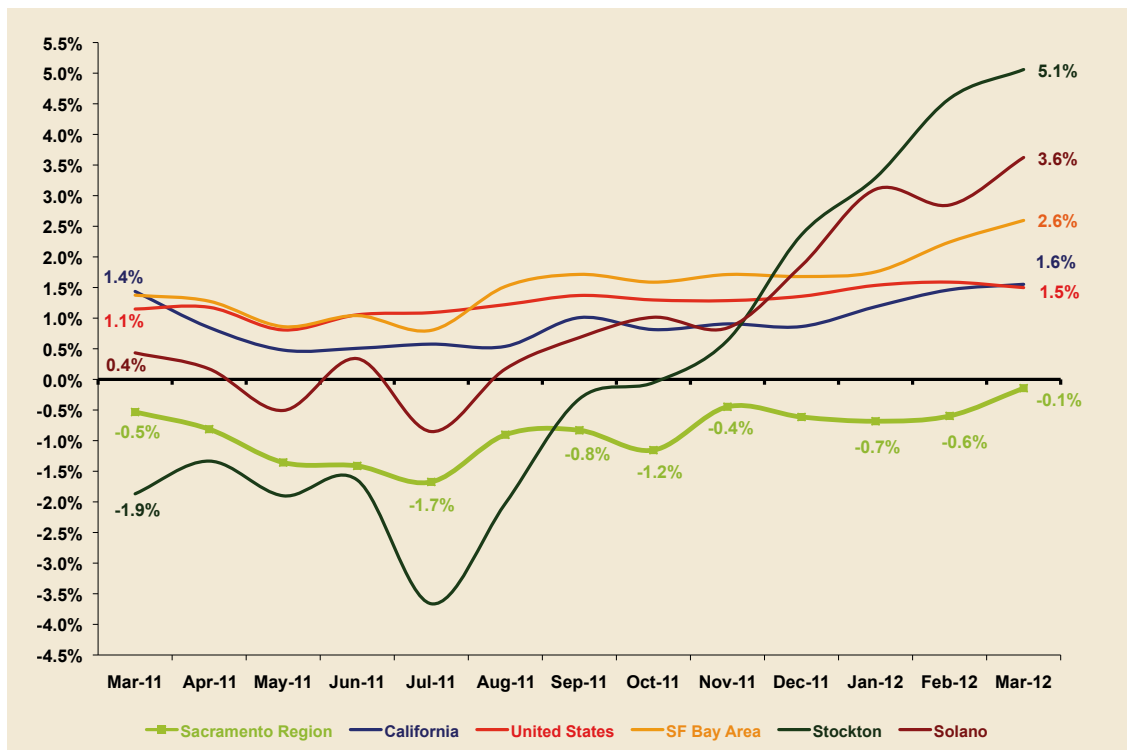
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Annual Job Losses Persisted in the Sacramento Region Through the First Quarter of 2012

Job growth in the six-county Sacramento Region remained in negative territory at the end of the first quarter of 2012. Over the 12 months ending March 2012, jobs on payrolls in the Region dropped by 0.1 percent, reflecting a net decrease of 1,200 jobs. Economic conditions in Sacramento have improved modestly compared to the same point in the previous year when annual job growth was at -0.5 percent. The sub-markets in the Sacramento Region are showing significantly different economic performance—the core Sacramento market (El Dorado, Placer, Sacramento, and Yolo Counties) is posting negative job growth whereas the Yuba-Sutter market has experienced positive job growth since the summer of 2011. The former is among only six metropolitan areas in the state (out of a total of 28) that

continues to see annual job losses and is by far the largest market on this dubious list. Overall, regional job growth has been tracking below the state and nation benchmarks, which have both been posting positive annual job growth for 20 months. Lagging recovery in the Region is influenced significantly by losses in two of the five largest sectors, Government and Leisure & Hospitality. The disappearance of jobs on payrolls in the Government sector is reflected across federal, state, and local activities. Similarly, losses touch nearly all activities in the Leisure & Hospitality sector including arts, entertainment, and recreation; accommodation; and bars and restaurants. These significant losses are mitigated to a certain extent by gains in the three other large sectors in Sacramento, Educational & Health Services; Trade,

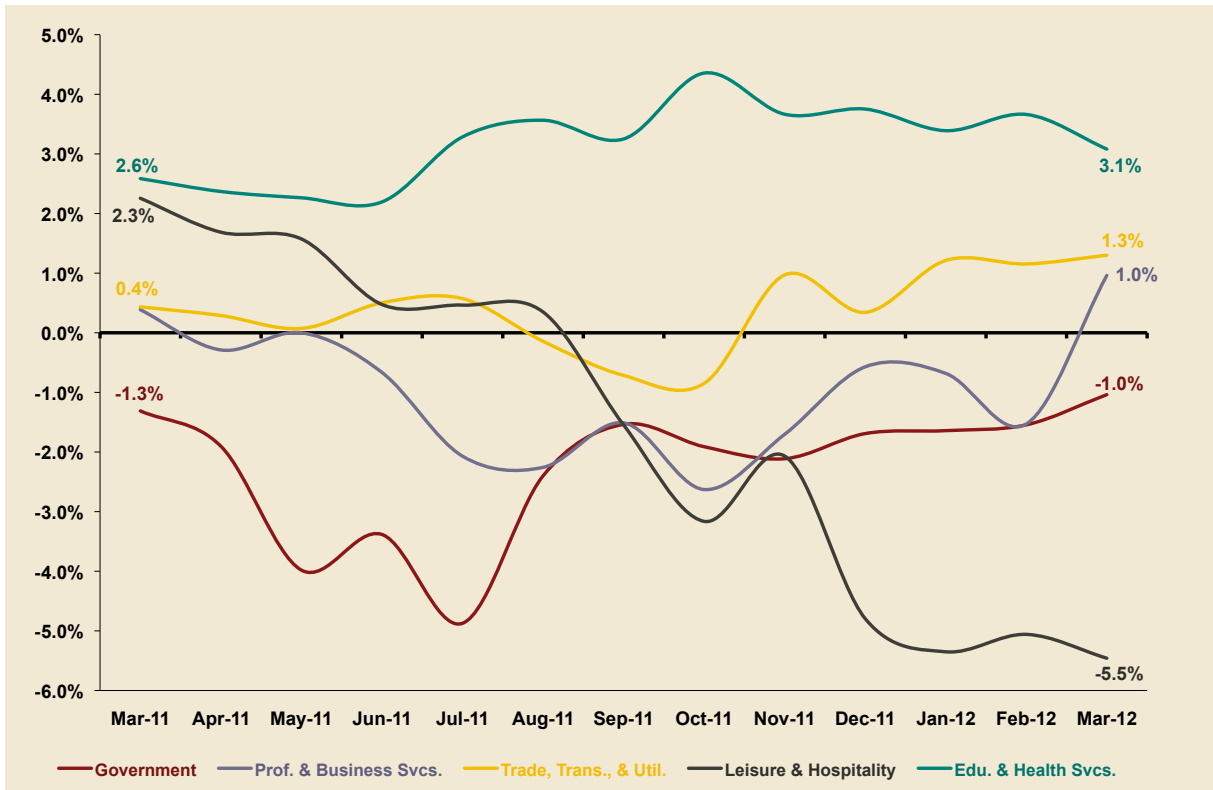
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Annual Job Growth

Data Sources: CA Employment Development Department and U.S. Bureau of Labor Statistics

Among the Sacramento Region's Five Largest Sectors, Two Lost Jobs and Three Added Jobs in the Past 12 Months



Sacramento Region Largest Sector Annual Job Growth

Data Source: CA Employment Development Department

Transportation, & Utilities; and Professional & Business Services. Educational & Health Services continues to post relatively strong job growth with gains primarily in healthcare activities. Trade, Transportation, & Utilities recently shifted back to positive territory with growth driven by recovery in retail trade. Professional & Business Services posted positive job growth in March 2012 following several months of job losses—gains in this sector fall mostly within the administrative and support services category.

Both California and the United States have demonstrated a very shallow upward job growth pattern over the past year. Job growth reached 1.6 percent in the state in March 2012 while the nation posted a 1.5 percent annual job increase (equating to gains of 217,500 and 1.9 million jobs, respectively).

All of Sacramento's neighboring regions are also posting positive job growth and have outpaced the statewide and national averages for several months. The SF Bay Area posted an employment gain of 2.6 percent between March 2011 and 2012, reflecting the addition of 71,400 jobs on payrolls. Both the Stockton and Solano markets have seen rapid improvements in job growth since late 2011. Stockton posted the second-highest rate of employment growth in the state at 5.1 percent (equating to a gain of 9,300 jobs). Despite strong job growth performance and gains in nearly all major sectors, Stockton's labor market conditions have not fundamentally changed as the market unemployment rate remains among the highest in the nation. In March 2012, Solano posted 3.6 percent job growth with an annual gain of 4,200 jobs driven in large part by gains in healthcare and retail trade activities.

The Sacramento's Region's Private Sector Added Jobs in The Past Year, but Losses in the Public Sector Negated These Gains

| Sector | Sacramento Region | March 2011-2012 | | | |
|------------------------|-------------------|-----------------|---------------|--------------|--------------|
| | | California | SF Bay Area | Stockton | Solano |
| Total Nonfarm | -1,200 | 217,500 | 71,400 | 9,300 | 4,200 |
| Private Sector | 1,300 | 261,800 | 77,800 | 8,700 | 4,900 |
| Public Sector | -2,500 | -44,300 | -6,400 | 600 | -700 |
| Edu. & Health Svcs. | 3,300 | 59,600 | 14,900 | 1,700 | 1,000 |
| Trade, Trans., & Util. | 1,800 | 54,200 | 9,300 | 2,800 | 1,200 |
| Prof. & Business Svcs. | 1,000 | 80,000 | 25,200 | 1,000 | 200 |
| Other Services | 900 | -3,600 | 6,000 | 0 | 0 |
| Financial Activities | 700 | 5,500 | -900 | 300 | 200 |
| Mining & Logging | 24 | 700 | 0 | 0 | 100 |
| Manufacturing | 0 | 2,900 | 1,500 | 1,600 | 100 |
| Information | -200 | 16,300 | 7,800 | 0 | 100 |
| Construction | -1,524 | 12,400 | 6,600 | 400 | 500 |
| Government | -2,500 | -44,300 | -6,400 | 600 | -700 |
| Leisure & Hospitality | -4,700 | 33,800 | 7,400 | 900 | 1,500 |

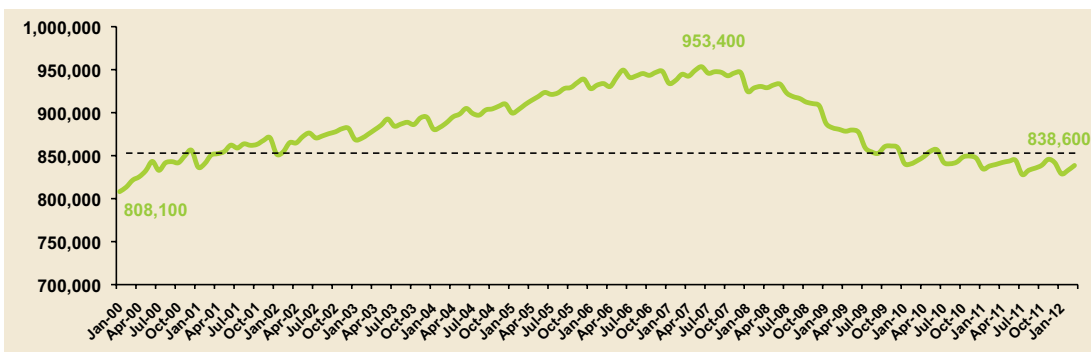
Four major sectors posted annual job losses in the Sacramento Region in March 2012. The greatest losses among this group were within two of Sacramento's largest sectors, Government and Leisure & Hospitality. Six of the Region's major sectors added jobs between March 2011 and 2012 with Educational & Health Services leading the way. Sacramento's private sector on the whole saw a net increase of 1,300 jobs over the past 12 months. However, the Region's public sector decline of 2,500 jobs led to the overall Nonfarm loss of 1,200 jobs. This put Sacramento's total employment level at 838,600, which tracks near year 2000 and 2001 levels and is about 115,000 jobs lower than the June 2007 peak.

Major Sector Annual Job Gains and Losses

Data Source: CA Employment Development Department

Total Nonfarm Employment in the Sacramento Region Remains at Year 2000 and 2001 Levels

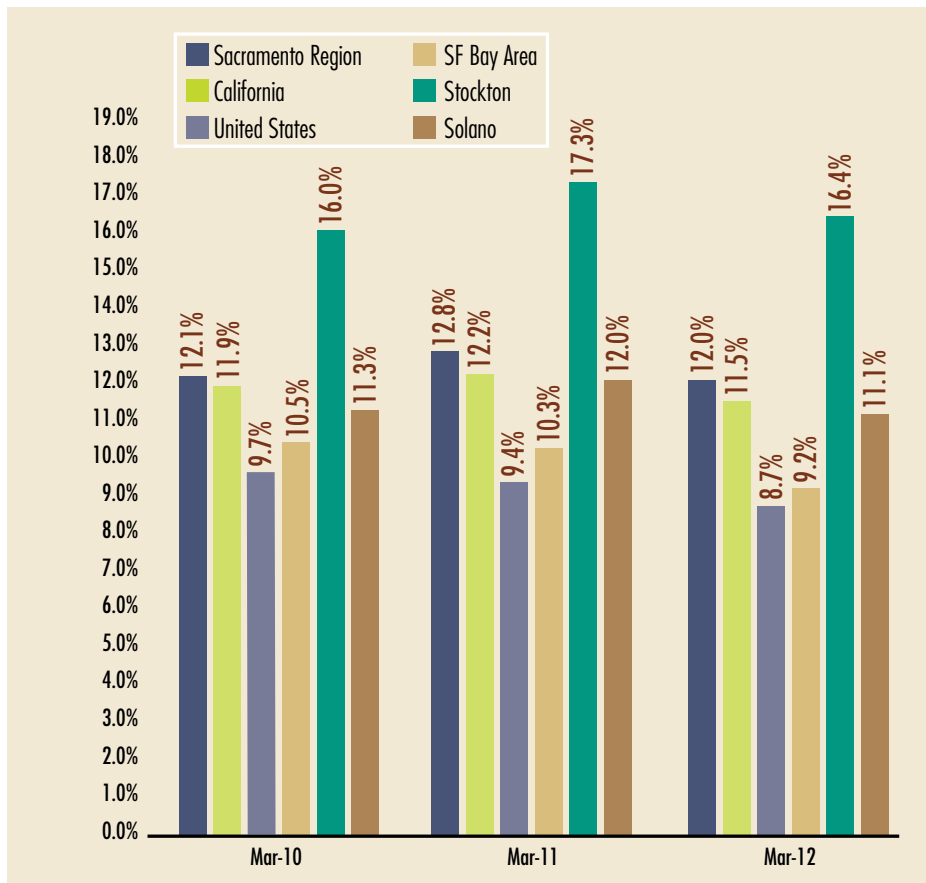
Annual job losses at the statewide level were confined to the Government and Other Services sectors. The greatest gains in the March 2011 to 2012 period were in the state's Professional & Business Services sector. During the 12 months ending March 2012, the SF Bay Area posted losses in Government and Financial Activities and saw the most pronounced gains in the Professional & Business Services sector. None of the 11 major sectors in the Stockton market posted annual job losses. Stockton's Trade, Transportation & Utilities sector contributed roughly 30 percent of the total annual employment increase in the market. In the Solano market, only the Government sector posted an annual job loss in March 2012 while Leisure & Hospitality posted the greatest gain among the other major sectors.



Sacramento Region Total Nonfarm Employment

Data Source: CA Employment Development Department

The Sacramento Region's Unemployment Rate Continued to Decrease Through the First Quarter of 2012



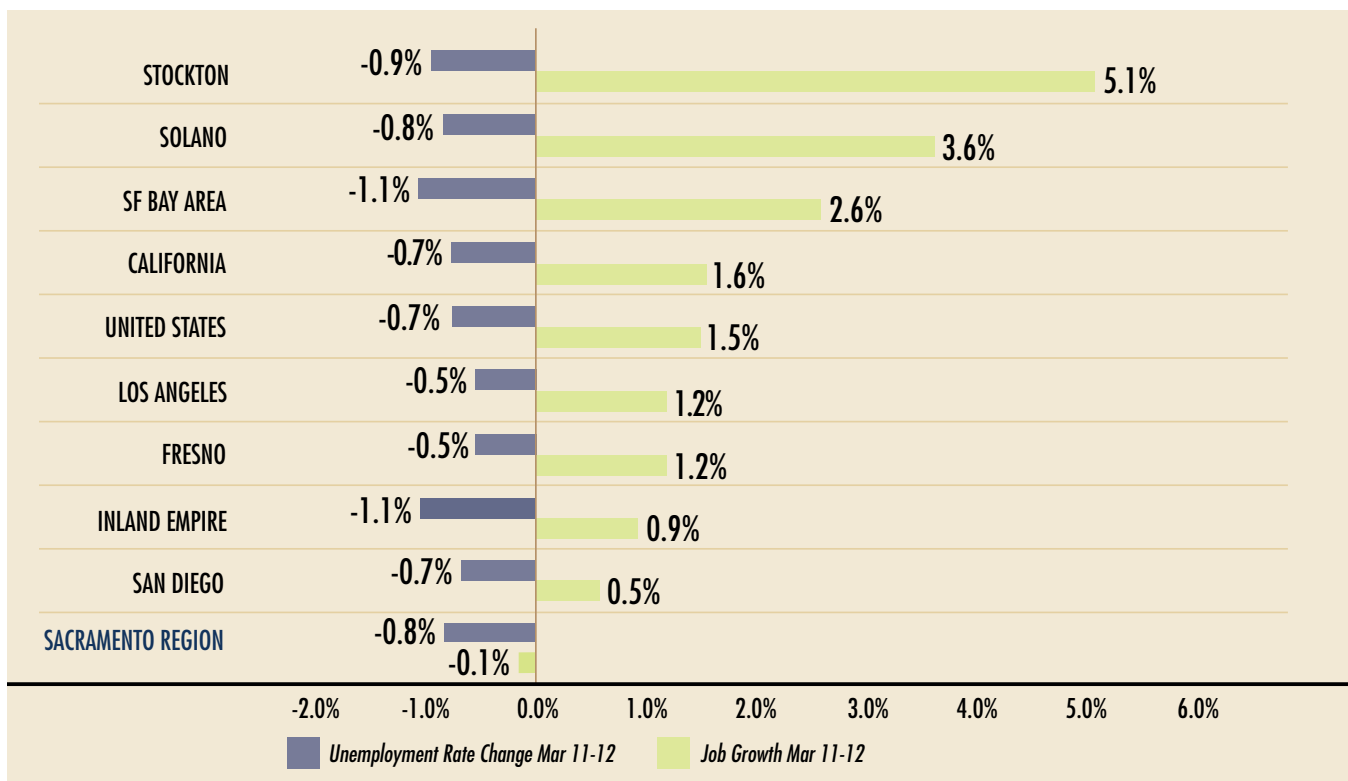
**Unemployment Rate
(Seasonally Adjusted Annual Average)**

Data Sources: CA Employment Development Department and U.S. Bureau of Labor Statistics

The Sacramento Region's unemployment rate stood at 12.0 percent in March 2012 (based on a seasonally adjusted annual average value). This rate reflects a total of over 133,000 residents officially considered unemployed out of a labor force of just over 1.1 million people. Sacramento's unemployment rate dropped eight basis points over the past 12 months, continuing a decreasing pattern that began in early 2011. The Region placed above the statewide unemployment rate of 11.5 percent, which is significantly higher than the national average of 8.7 percent. The SF Bay Area saw another notable drop in its unemployment rate in March 2012, to 9.2 percent, bringing it closer to the national average. The Solano market posted an unemployment rate of 11.1 percent, coming in just below the statewide average. Even with a substantial decline, Stockton's unemployment rate remained tremendously high in March 2012 at 16.4 percent. Among the 372 measured metropolitan areas in the country, Stockton ranked 363 based on the severity of its unemployment rate.

The Sacramento Region's Economic Performance Places It at the Bottom of the List of Major and Neighboring Regions

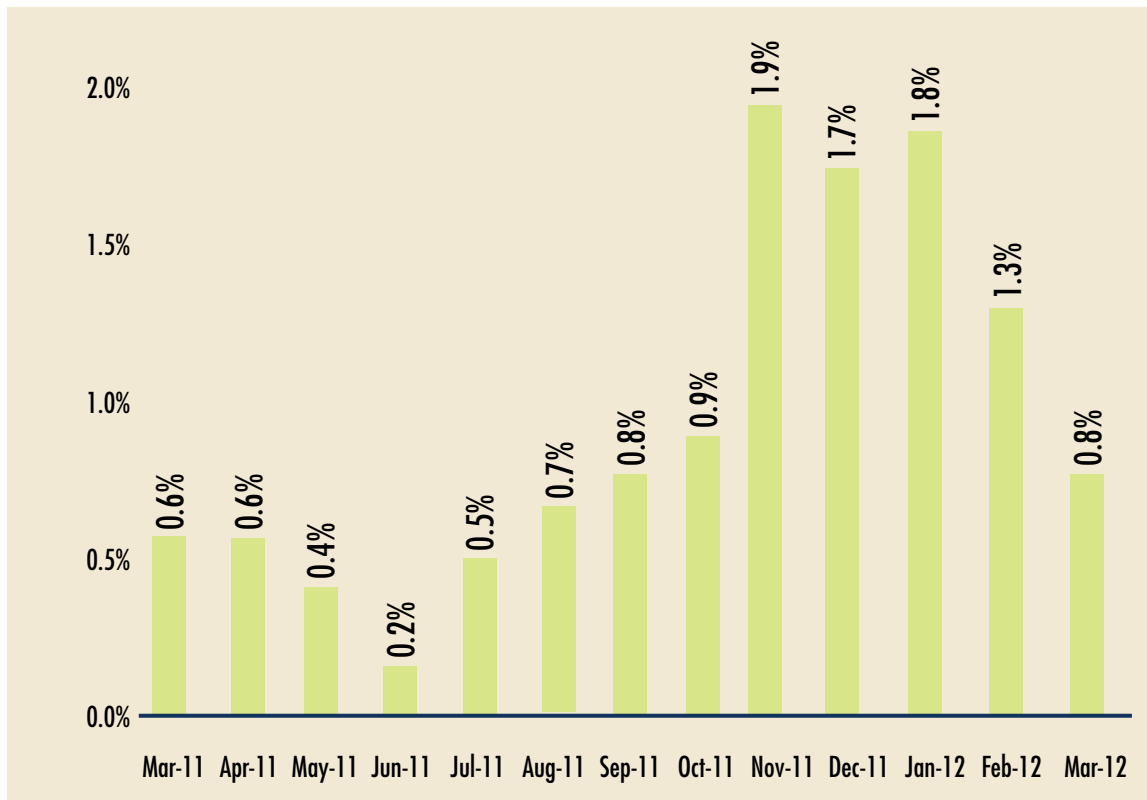
While the Sacramento Region posted negative job growth in March 2012, every other major and neighboring market in the state saw positive job growth. Job growth in three of these markets exceeded the statewide and national averages including Stockton, Solano, and the SF Bay Area. Los Angeles, Fresno, the Inland Empire (Riverside and San Bernardino Counties), and San Diego all experienced positive job growth at rates below the national average, ranging from 0.5 percent to 1.2 percent. Sacramento is among a group of five regions, which saw unemployment rates decline at levels greater than the statewide and national averages. Both the SF Bay Area and the Inland Empire saw unemployment rates decrease by more than one percentage point in the 12 months ending March 2012. The Sacramento Region and Solano posted annual unemployment rate declines of eight basis points while Stockton saw a nine-basis point decrease.



Annual Job Growth and Unemployment Rate Change

Data Sources: CA Employment Development Department and U.S. Bureau of Labor Statistics

Employment Opportunities are Being Created in the Region While the Number of Employable People is Decreasing



Sacramento Region Labor Force and Employment Annual Growth Divergence

Data Source: CA Employment Development Department

In addition to declining unemployment rates, other labor market dynamics in the Sacramento Region are demonstrating a positive pattern. The measure of economic health, which reflects the divergence between annual growth in employed residents and the total labor force, has been positive for 15 months. This measure jumped significantly in late 2011, but has dropped off since that point. Starting in September 2011, the number of employed residents began increasing on an annual basis. While the labor force continued to decline annually, the signs of increased employment opportunities show that this indicator is moving in the right direction. Prior to the September 2011 mark, this measure was in positive territory due to the fact that the labor force was declining more rapidly than the number of employed residents. The turnaround in the dynamics captured in this measure suggest that overall economic conditions in the Sacramento Region will likely continue to improve in the short-term.

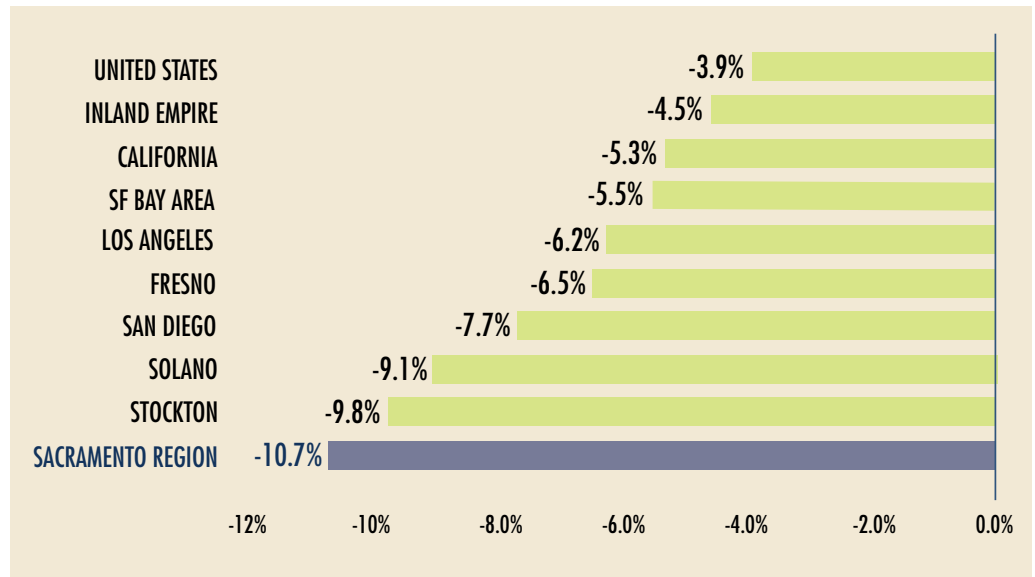
The Median Home Sale Price in the Sacramento Region Dropped More Rapidly Than Any Other Major and Neighboring Region in the State

Median home sale prices across the state and nation declined between the fourth quarters of 2010 and 2011. The rates of decline in California have been much more pronounced than the national average of 3.9 percent. With the exception of the Inland Empire, the inland markets of the state have seen the greatest rates of decline. The Sacramento Region saw an annual median home sale price decrease of 10.7 percent, the largest among the major and neighboring regions in the state. Coastal markets experienced declines between 5.5 percent and 7.7 percent.

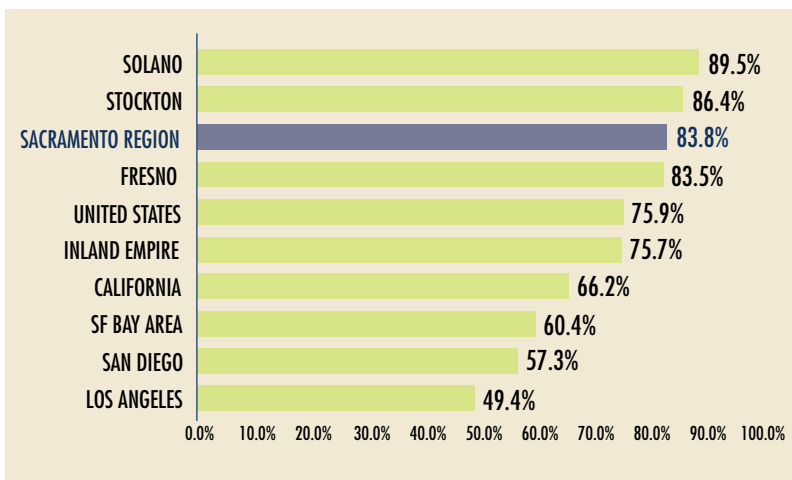
Sacramento's median home sale price in the fourth quarter of 2011 was \$175,000, no doubt influenced by sales of distressed properties. This price was very close to the national average of \$170,000. The state's coastal markets all supported median prices above the \$300,000 mark.

Annual Median Home Sale Price Growth, Fourth Quarter 2011

Data Source: National Association of Home Builders-Wells Fargo Housing Opportunity Index



The Sacramento Region's Housing Affordability Is Greater Than the National Average



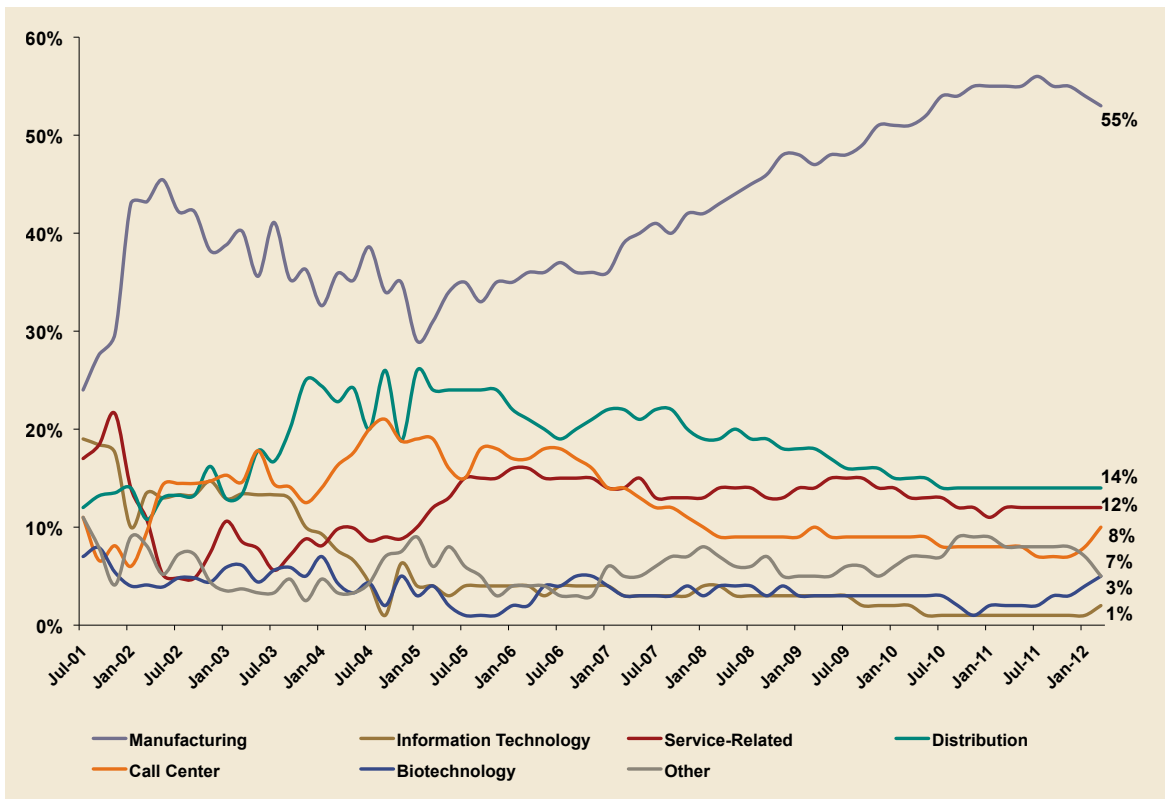
Housing Opportunity Index, Fourth Quarter 2011

Data Source: National Association of Home Builders-Wells Fargo Housing Opportunity Index

Note: Housing Opportunity Index reflects share of homes sold that would have been affordable to a family earning the median income.

Considering both home sale price and income levels, the Sacramento Region ranks as one of the most affordable markets in the state. The fourth quarter 2011 Housing Opportunity Index (HOI) for Sacramento demonstrates that nearly 84 percent of the homes sold in that period were affordable to a family earning a median income. Only Stockton and Solano supported higher HOI scores. The coastal markets all received HOI scores below the statewide average of 66.2 with less than 50 percent of the transactions in the Los Angeles market during the fourth quarter of 2011 selling at prices affordable to a family earning a median income. The Sacramento Region's HOI score increased by 3.8 percentage points between the fourth quarters of 2010 and 2011, which was one of the smallest shifts among the major and neighboring regions in the state. The Fresno market saw an annual increase of 6.7 percentage points in its HOI score while the Inland Empire's HOI score dropped by 1.1 percentage points.

Manufacturing Companies Continue to Dominate SACTO's Business Attraction Prospect Activity



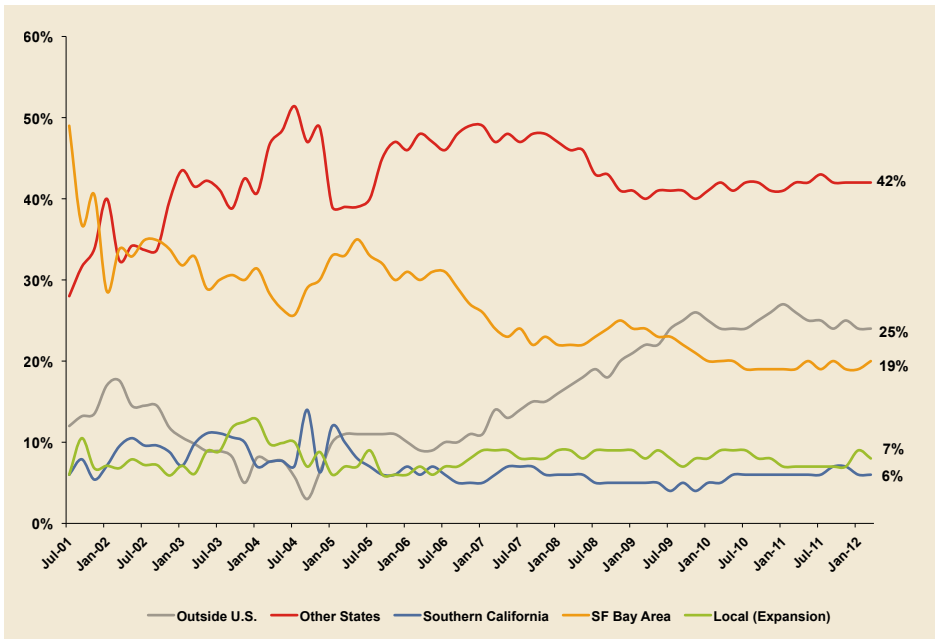
SACTO Business Location Prospect Company Type, through March 2012

Data Source: Sacramento Area Commerce and Trade Organization

SACTO's roster of active business location and expansion prospects has increased by approximately 11 percent in the past year. While the majority of these prospects are interested in establishing new or expanded manufacturing facilities in the region, the share of businesses in this category has declined recently. This is due to the fact that the Call Center and Biotechnology (mainly agriculture-related) categories have captured much of the new prospect activity, now accounting for 7 percent and 8 percent of all active prospects, respectively. The Manufacturing prospects are seeking industrial sites that fall within incentive areas while the Call Center and Biotechnology prospects are focused on a mix of both office and industrial space. Clean Energy Technology is captured within a number of the company type categories—separating this group out of other categories shows that it accounts for about one-third of all active prospects. This segment has become much more diversified than in the past with companies representing a broader mix of renewable energy and energy efficiency activities.

Over Two-Thirds of SACTO's Active Prospects Originate from Outside the State

Companies originating from other states make up about 42 percent of all SACTO business attraction prospects. This group includes a wide variety of company types from several different states. Around one-quarter of all active prospects are from foreign locations. This segment has recently been weighted more heavily toward companies from Asian locations particularly within the Clean Energy Technology and Agriculture sectors. Prospects originating from outside California continue to look for opportunities to establish a location in a major western market while costs remain depressed and real estate and workforce availability is not a major issue. The SF Bay Area economy is in the midst of recovery and SACTO expects prospects from this market area, which currently represents 19 percent of active prospects, to increase notably in the next few years. In recent months, there has also been a small increase in local company expansions mainly due to activity in the Agriculture sector.



SACTO Business Location Prospect Origin, through March 2012

Data Source: Sacramento Area Commerce and Trade Organization

The Sacramento Region Business Confidence Index Shows Increasingly Positive Business Sentiment

*The Center for Strategic Economic Research-Sacramento Business Journal **Sacramento Region Business Confidence Index** was established with the goal of publishing a quarterly survey that tracks business sentiment in the Sacramento Region. The survey is posted online the last month of each quarter by the Sacramento Business Journal, and a list of more than 13,000 subscribers are invited to respond anonymously with screening to reduce the likelihood of multiple individual responses. CSER analyzes the responses and creates and monitors the index scores.*

Business confidence in the Sacramento Region is at the highest level seen since the regional economy began to improve, according to the Business Confidence Index (BCI) for the first quarter of 2012. The BCI score (measured on a scale of 0 to 100) moved up to 57 demonstrating that business leaders in the Sacramento Region have positive perceptions of conditions in their industries and the regional economy overall. Considering that business confidence acts as a leading

economic indicator, this score suggests that the Region's economy will likely continue to improve in the short-term. Moreover, components of the BCI score that focus on expectations for the next six months received relatively high scores with the industry-related measure at 59 and broader business climate measure at 60. Business leaders also clearly recognize that economic conditions have improved over the past six months with both related scores squarely in positive territory above the 50 mark.

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Business Sentiment continued...

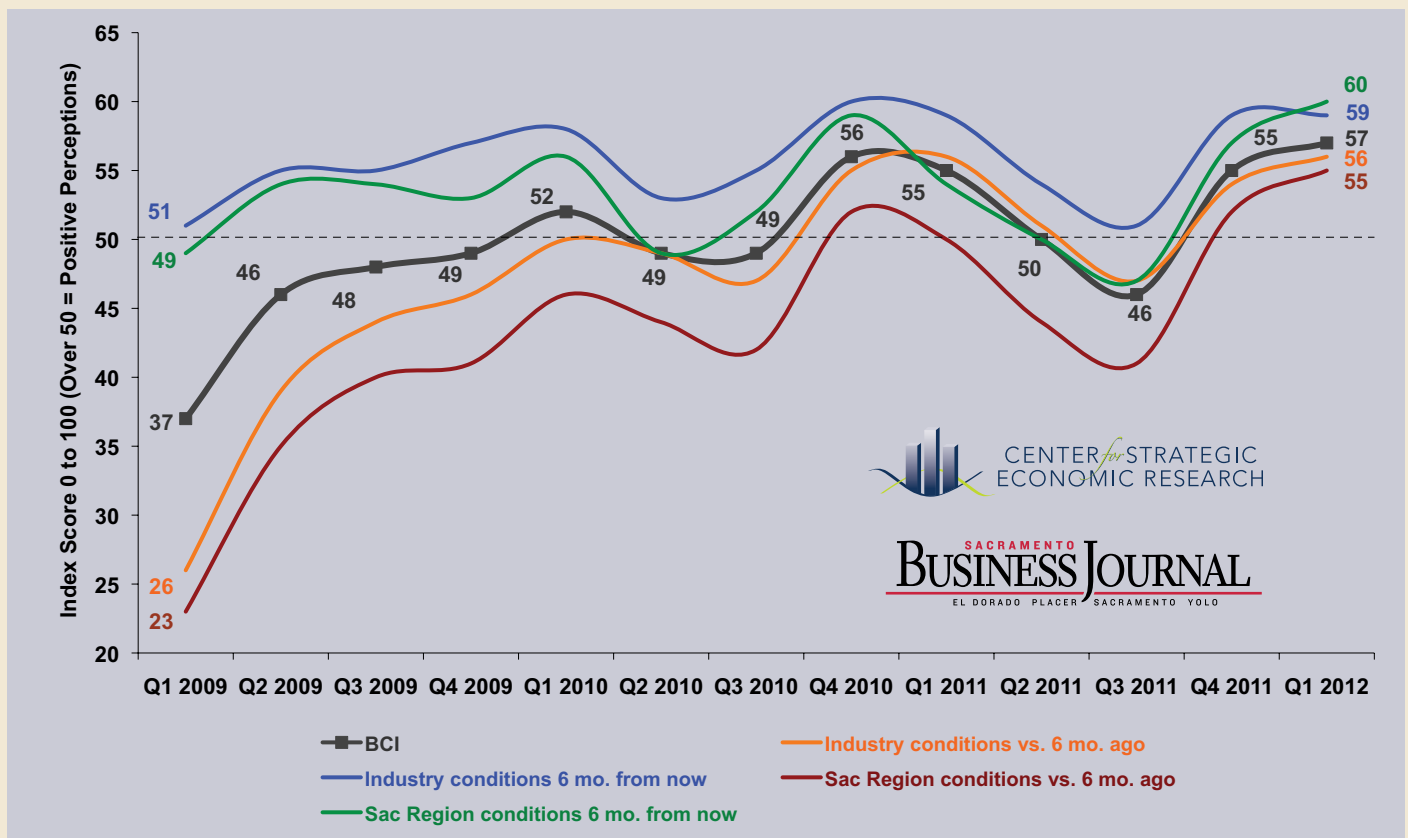
It is interesting to note that, in addition to observations about upticks in new business, many of the open ended positive comments provided in the survey process related to the sports and entertainment complex topic. Since this survey was conducted prior to the termination of the agreement, some of the positive business sentiment could diminish next quarter. Other common comments reflected uncertainty in the Government, Construction, and Financial Activities sectors.

Nearly 47 percent of survey participants feel that conditions in their industry are the same as they were six months ago with another close to 35 percent stating that conditions have improved. The shares of responses in these categories are slightly higher than they were last quarter, leading to an increase in the related BCI score from 54 to 56. Almost 48 percent of respondents anticipate conditions in their industry to improve in the coming six months while 39 percent

believe the situation will remain the same. These responses were similar to the previous quarter, keeping the related BCI score at 59.

Forty-nine percent of responding business leaders feel the business climate in the Sacramento Region is the same as it was six months ago. An additional 30 percent suggest that the Region's economy has improved over the past six months, reflecting an increase of over 7 percentage points over the previous quarter. As such, the related BCI score moved up from 52 in the fourth quarter of 2011 to 55 in the first quarter of 2012. Close to 43 percent of survey respondents expect regional economic conditions to improve in the next six months while about 40 percent think they will remain the same. These positive perceptions received a greater share of responses compared to the previous quarter resulting in an increase in the related BCI score from 57 to 60.

Sacramento Region Business Confidence Index—First Quarter 2012



Data Source: Center for Strategic Economic Research-Sacramento Business Journal Business Confidence Survey conducted between March 1, 2012 and March 31, 2012—participants were asked to provide their assessment of the Sacramento Region's business climate and their industry for the previous and upcoming six months

Note: Responses to the questions are scaled from 0 to 100 in the following manner: Substantially Better = 100; Moderately Better = 75; Same = 50; Moderately Worse = 25; Substantially Worse = 0.

ACKNOWLEDGMENTS

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

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As a major regional employer, economic driver, health provider and innovation center, UC Davis Health System advances economic development and quality of life in the Sacramento area.

The region's only academic health center is home to a nationally ranked 645-bed acute-care hospital, one of the country's best medical schools, the new Betty Irene Moore School of Nursing, an 800-member physicians group and renowned specialty centers such as a National Cancer Institute-designated comprehensive cancer center. Together, they offer area workers and their families highly advanced care and promising new therapies for the most complex and acute health conditions.

With a workforce of roughly 10,000, UC Davis Health System is among Sacramento's largest employers. For every employee or dollar of output directly supported by health system operations, the north state's economy gains an additional 1.1 jobs or \$1.1 of output, according to a Center for Strategic Economic Research analysis. The health system's combined economic impact throughout Northern California is more than \$3.4 billion and more than 20,000 jobs.

UC Davis works actively through collaboration to expand the area's promising life sciences business sector. Examples include two National Science Foundation-supported UC Davis programs that help multidisciplinary teams bring research discoveries and technologies to the market. Since 2004, 34 startup companies have spun off from UC Davis in various sectors.

To learn more about how UC Davis Health System is improving lives and transforming health care, visit healthsystem.ucdavis.edu.

Quarterly
ECONOMIC REPORT

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SACTO  The Inside Track

ABOUT SACTO

SACTO is the Sacramento Region's leading facilitator of economic development bringing together the organizations, information, and resources in the pursuit of jobs, talent, and investment needed to ensure regional prosperity and global competitiveness.

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