SACRAMENTO

EMPLOYMENT GROWTH RANK
Best=1 Worst=387

2005-07
100
2nd quintile

2005-10
75
1st quintile

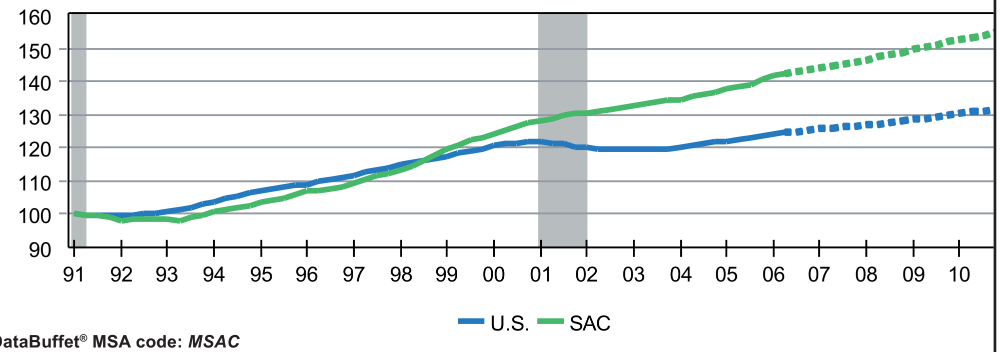
LIFE CYCLE PHASE
Growth/Mature

Best=1 **VITALITY** Worst=379
57
1st quintile

COST OF DOING BUSINESS
U.S.= 100% **130%**

COST OF LIVING
U.S.= 100% **108%**

Relative Employment Performance (1991=100)



DataBuffet® MSA code: *MSAC*

1999	2000	2001	2002	2003	2004	2005	Indicators	2006	2007	2008	2009	2010
62.7	66.3	67.9	70.1	74.3	78.7	82.9	**Gross Metro Product, C$B**	86.4	89.0	92.1	95.1	98.0
8.7	*5.8*	*2.4*	*3.3*	*6.0*	*5.8*	*5.4*	*% Change*	*4.2*	*3.0*	*3.4*	*3.3*	*3.1*
770.5	797.1	819.0	832.3	846.1	859.1	880.4	**Total Employment (000)**	905.2	919.1	935.7	954.7	973.7
5.4	*3.5*	*2.7*	*1.6*	*1.7*	*1.5*	*2.5*	*% Change*	*2.8*	*1.5*	*1.8*	*2.0*	*2.0*
4.1	4.3	4.5	5.5	5.7	5.4	4.7	**Unemployment Rate**	4.4	4.4	4.3	4.1	4.0
7.1	9.1	6.1	3.6	4.7	6.8	6.8	**Personal Income Growth**	6.9	6.2	6.1	6.4	6.2
1,767.2	1,808.5	1,867.1	1,925.3	1,974.8	2,014.6	2,042.3	**Population (000)**	2,076.2	2,103.1	2,134.0	2,167.0	2,199.8
10,964	13,468	14,719	17,614	18,165	18,523	16,671	**Single-Family Permits**	11,388	11,266	12,311	13,677	13,304
3,511	3,325	3,715	4,485	4,667	3,476	3,111	**Multifamily Permits**	2,274	2,300	3,046	3,474	3,677
132.7	143.9	172.3	207.9	246.8	314.8	375.0	**Existing Home Price ($Ths)**	405.3	415.5	409.9	406.6	412.4
11,474	10,423	26,212	36,410	54,627	45,430	51,882	**Mortgage Originations ($Mil)**	46,869	41,445	35,623	35,526	36,562
24.8	30.6	47.2	46.4	37.0	26.8	14.0	**Net Migration (000)**	19.7	12.2	15.6	16.9	15.9
9,832	8,310	8,716	8,380	8,167	7,497	11,001	**Personal Bankruptcies**	6,577	7,641	8,237	8,566	9,210

STRENGTHS & WEAKNESSES

STRENGTHS

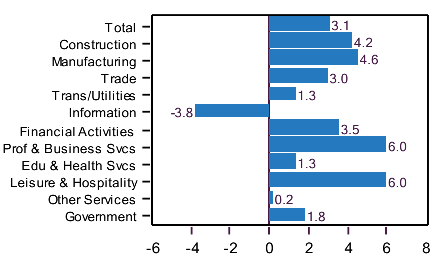
- Strategic position for back-office and transportation services.
- Increasing economic diversity.
- UC-Davis provides stable employment and research support to local economy.

WEAKNESSES

- Elevated house prices detract from affordability.
- Increasing productivity in manufacturing may weigh on high-tech employment.

CURRENT EMPLOYMENT TRENDS

March 2006 Employment Growth
% change year ago, 3 mo. MA



FORECAST RISKS

SHORT TERM ↑ LONG TERM ↑ RISK-ADJUSTED RETURN, '05-10 **0.21%**

UPSIDE

- Increased availability of venture capital and government research facilities stimulate growth of bioscience industry in SAC.

DOWNSIDE

- House prices fall as interest rates rise, reducing homeowner equity.
- Overbuilding leads to broad cutbacks in construction activity.

ANALYSIS

Recent Performance. The Sacramento metro area is racing ahead of both the national and statewide economies. The local economy bypassed the last recession and has added over 15,000 jobs on average over the last five years. Labor markets are enjoying a healthy expansion, much in tune with the U.S., with unemployment trending down despite significant labor force growth. California's state budget outlook continues to overshoot estimations, ensuring a healthy, above average pace of job creation in state government. However, agriculture continues to weigh on the metro area economy due to uncertainty associated with crop success. SAC boasts strong fundamentals, like positive net migration and above average income levels that are a boon to consumer-driven industries.

Manufacturing. With industrial production in SAC growing at a fast pace and employment in the sector rebounding to pre-slump levels, manufacturing will continue to regain momentum. Although manufacturing is still about 2,000 jobs below the peak levels seen in 2000, employment has been on an upward trajectory for the last three years and will remain elevated due to the presence of several top players. Dominant employers in high-tech manufacturing like Intel and Hewlett Packard will help to sustain growth moving forward. However, with companies adapting more cost effective, capital intensive methods, there will be some limitations on the pace of employment growth.

Yolo Agriculture. Yolo County was recently declared a crop disaster due to wet weather losses of alfalfa and garbanzo beans, which will significantly dent agriculture's contributions to the SAC economy this year. However, some of the losses may be recouped if relief is provided by the Emergency Supplemental Appropriations Act passed by the House of Representatives. Alfalfa, a crop estimated at $37.8 million in 2004, is expected to suffer a 36% crop loss, while the garbanzo crop size is expected to shrink by 65%. These losses will not only significantly dent the $300 million contribution of agricultural production in Yolo County but also induce a negative multiplier effect on agriculture and support industries in the county. Other crops like tomatoes and rice also suffered losses due to diseases and other such causes. Agriculture contributes significantly to the SAC economy and will continue to be exposed to the uncertainty created within the industry by important drivers like weather conditions.

Construction. SAC's construction is one of the few industries facing some turbulence. This is mostly on account of the already evident meltdown of the metro area's overheated housing markets. Housing starts, for instance, are currently declining at 14% year-over year on a 12-month moving average basis and the market is steadily moving into an oversupply situation. Housing in the metro area was initially characterized as highly overpriced and price growth is already showing signs of a deceleration. Consistent with these signs of cooling, housing activity will slow further as higher mortgage rates and very low affordability impinge on homebuyers, thus weighing on construction. On the upside, however, major commercial construction projects in downtown SAC will steady the industry over the year.

With the state budget recovery, the near-term outlook for Sacramento remains positive, with modest growth in government employment. Growth should see a slight acceleration over the course of this year before slowing to a more sustainable pace in 2007; steady gains in professional/business services and retail trade will lead the way. The housing market remains the greatest near-term downside risk. Over the long run, high incomes, relatively lower costs, and strong population gains will lead to growth well above the state and national averages.

Ashwini Sebastian
April 2006

EMPLOYMENT & INDUSTRY

TOP EMPLOYERS

University of California, Davis	12,678
Hewlett Packard Co.	9,561
Raley's Inc	7,084
UC Davis Health System	7,028
Intel Corp.	6,500
Sutter Health Sacramento Sierra Region	5,041
CHW / Mercy Healthcare Sacramento	4,897
SBC Communications, Inc.	4,703
Bank of America	3,592
Target Corp	3,408
Wells Fargo	2,928
Cache Creek Casino Resort	2,500
California State University Sacramento	2,335
Sacramento Municipal Utility District	2,290
Health Net Inc	2,200
Kaiser Permanente	1,847
Blue Shield of California	1,676
EDS	1,650
Vision Service Plan Inc.	1,643
Aerojet	1,538

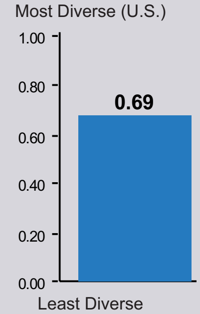
Sources: Sacramento Business Journal, January 2004 & Sacramento Business Journal, September 2005

Public

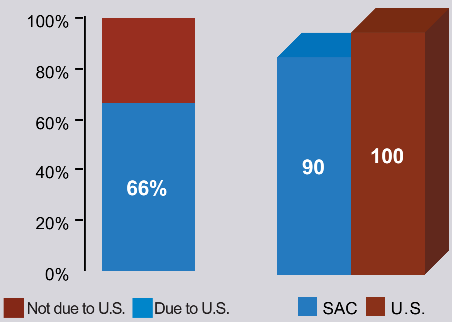
Federal	12,740
State	102,347
Local	109,027

2005

INDUSTRIAL DIVERSITY



EMPLOYMENT VOLATILITY

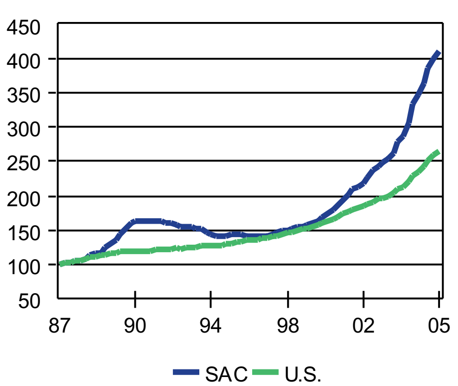


COMPARATIVE EMPLOYMENT AND INCOME

Sector	% of Total Employment SAC	CA	US	Average Annual Earnings SAC	CA	US
Construction	8.3%	6.1%	5.5%	$53,016	$53,160	$43,405
Manufacturing	5.6%	10.2%	10.7%	$67,966	$70,932	$63,608
Durable	*72.0%*	*64.0%*	*62.9%*	*nd*	*$78,683*	*$66,482*
Nondurable	*28.0%*	*36.0%*	*37.1%*	*nd*	*$57,711*	*$58,981*
Transportation/Utilities	2.7%	3.3%	3.7%	nd	$57,780	$52,867
Wholesale Trade	3.0%	4.6%	4.3%	nd	$61,435	$59,820
Retail Trade	11.2%	11.2%	11.4%	$30,380	$31,764	$25,982
Information	2.3%	3.2%	2.3%	$64,666	$91,760	$74,870
Financial Activities	7.2%	6.3%	6.1%	$44,038	$51,593	$50,152
Prof. and Bus. Services	11.7%	14.5%	12.6%	$40,805	$50,560	$46,927
Educ. and Health Services	9.9%	10.7%	13.0%	$42,097	$41,384	$37,997
Leisure and Hosp. Services	9.3%	10.0%	9.6%	$17,034	$22,588	$18,752
Other Services	3.3%	3.5%	4.0%	$25,581	$23,874	$22,636
Government	25.5%	16.3%	16.3%	$58,114	$56,811	$50,297

Sources: Percent of total employment - Moody's Economy.com & BLS, 2005; Average annual earnings - BEA, 2003

HOUSE PRICES



Source: OFHEO, 1987Q1=100, NSA

CREDIT QUALITY

FITCH	MOODY'S
N/A	County A2

LEADING INDUSTRIES

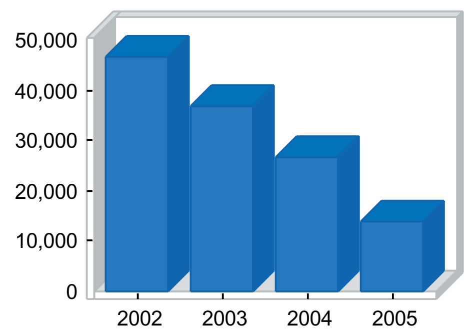
NAICS	Industry	Employees (000)
GVSL	State & Local Government	211.4
7222	Limited-Service Eating Places	29.1
7221	Full-Service Restaurants	27.5
6221	General Medical and Surgical Hospitals	24.8
5613	Employment Services	20.5
4451	Grocery Stores	16.9
2382	Building Equipment Contractors	16.4
5241	Insurance Carriers	15.8
2383	Building Finishing Contractors	15.3
2360	Construction of Buildings	14.9
2381	Foundation, Structure & Bldg. Ext. Contract.	13.7
GVF	Federal Government	12.7
PH	Private Household Workers	12.4
5617	Services to Buildings and Dwellings	12.2
4521	Department Stores	12.2
	High-tech employment	40.1
	As % of total employment	4.4

Sources: BLS, Moody's Economy.com, 2005

MIGRATION FLOWS

Into Sacramento	Number of Migrants	Median Income
Oakland CA	9,209	37,274
San Jose CA	6,564	40,037
San Francisco CA	4,948	38,668
Vallejo CA	4,664	34,095
Los Angeles CA	3,286	23,850
Stockton CA	3,278	26,509
San Diego CA	1,711	22,092
Yuba City CA	1,524	25,797
Santa Rosa CA	1,446	32,668
Riverside CA	1,364	25,572
Total Inmigration	73,724	28,098
From Sacramento		
Oakland CA	3,360	24,821
Stockton CA	2,379	27,218
Yuba City CA	2,226	32,955
San Francisco CA	2,029	25,606
Los Angeles CA	1,980	20,368
San Jose CA	1,868	27,927
Vallejo CA	1,854	27,795
San Diego CA	1,653	19,350
Reno NV	1,338	22,931
Riverside CA	1,262	26,857
Total Outmigration	58,893	27,063
Net Migration	**14,831**	**1,035**

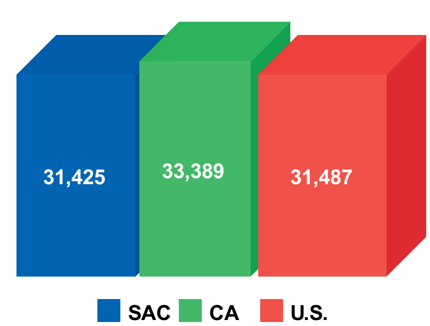
Net Migration, SAC



	2002	2003	2004	2005
Domestic	36,020	27,088	17,728	5,684
Foreign	10,416	9,913	9,030	8,294
Total	46,436	37,001	26,758	13,978

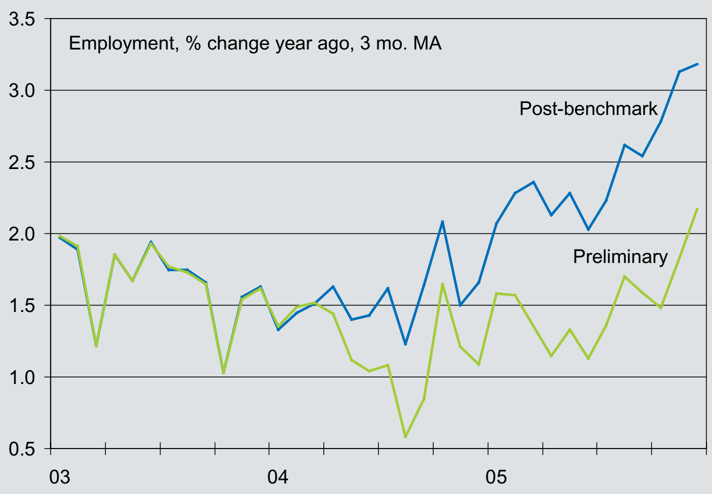
Sources: IRS (top), 2004; Census Bureau, 2005

PER CAPITA INCOME

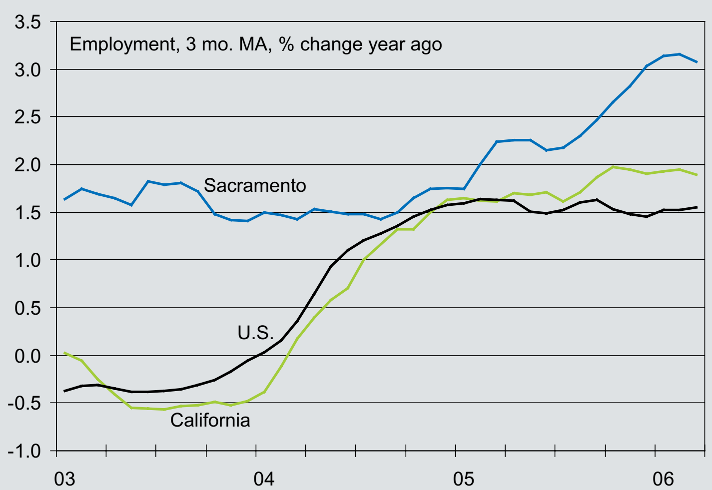


Source: Bureau of Economic Analysis, 2003

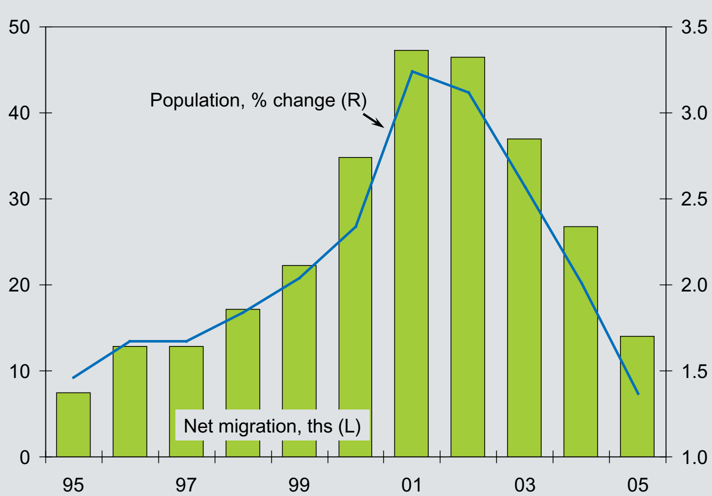
Unanticipated Strength in Service Sector...



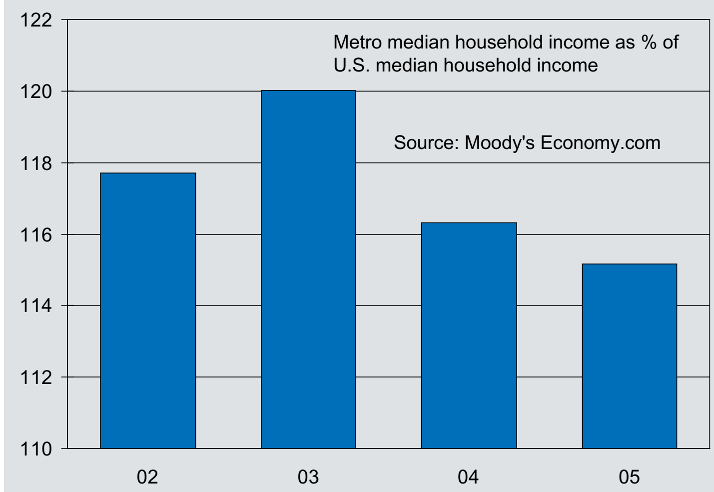
...Helping to Increase Sacramento's Differential with Nation



Population Growth Slowing but Still Overshooting Average

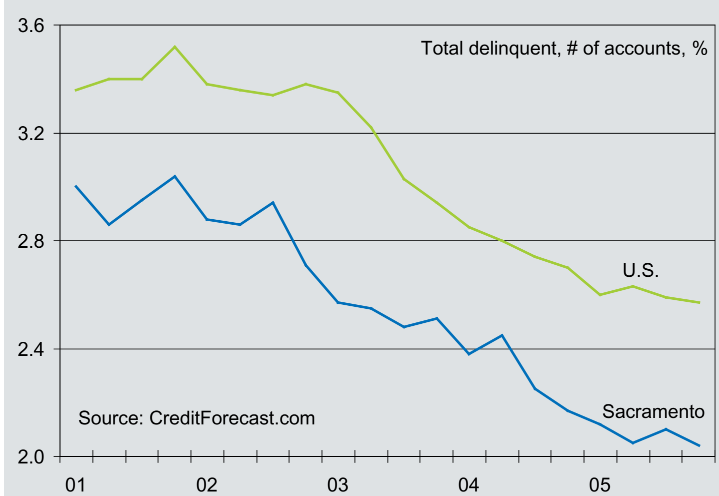


Consumer Industries Will Benefit from Sacramento Households



Median household income levels in SAC are nearly $7,000 more than for the rest of the nation and hence provide residents in the metro area greater purchasing power than many neighboring areas. Moreover, after trailing the U.S. average, growth in the measure has also begun to outperform the norm in recent quarters. As a result, industries like retail trade and leisure/hospitality are receiving a boost in demand from increased consumer spending and adding jobs at a heated pace. The boom in demand has also prompted massive downtown construction in retail and also brought in a mix of specialty stores to meet diversifying needs.

Healthy Labor Markets Support Credit Conditions



Delinquency rates in SAC are falling and remain at record lows. Sharp declines in consumer and bankcard delinquency rates over the last few years are the main components responsible for improving credit conditions in the metro area. The main force behind the improvements, though, is the sustained good health of labor markets. Unemployment reached 4.6% in February despite above average labor force growth, and the economy is likely operating near capacity. Current above average per capita and household income levels along with gains in wealth from homeownership will keep credit conditions in good shape in the near term.