EastBay

Q1

2010

ECONOMIC OUTLOOK

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Recovery in the East Bay: A Microcosm of California

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January, 2010

The recovery from the current recession is at hand and there is widespread anticipation of better times in 2010. How will the East Bay fare in this recovery? Economists are of somewhat different views on the answer to this question and for good reason. The East Bay economy straddles the two distinct parts of the divided California recovery. On the one hand it is well situated for growth in exports, in green technology, in research, engineering and development, and in medical technology, much like the other coastal urban areas in California. On the other, East Bay employment has been disproportionately weighted towards residential construction, trade, and government jobs much like the interior areas of California.

All signs are pointing to the former leading the state out of recession and the latter lagging well behind. It is the weight ascribed to these two forces which is the source of the differences in views on the shape and speed of the recovery in the East Bay. The view of the UCLA Anderson Forecast is that the East Bay may be a little more like the other coastal regions than the interior regions, and therefore, will grow slightly faster than the state as a whole, but will not see rapid growth until the latter part of 2010.

With respect to employment the worst seems to be over. Over the last four months the seasonally adjusted unemployment rate spiked at 11.7% and then returned to the level of last August. Though payroll job loss continues, there were 3,000 fewer payroll jobs in November than in September, the rate of decline is slowing and the pattern is suggestive of job increases in the early part of 2010. In particular, a key area of East Bay employment, durable goods manufacturing, saw a net addition of jobs in the last two months compared to the 3rd quarter. In addition, temporary services, a precursor of general hiring, and education and health care, traditional engines of growth, are now adding jobs in the East Bay.

One of the two principal reasons for optimism going forward is the robust recovery of exports. Since the 1st quarter of 2009 the number of full containers designated for export through the Port of Oakland has steadily grown. Growth has occurred in other California ports as well, but Oakland, as the port of embarkation for produce and processed foods, and forest products from the Central Valley has led the state in returning to pre-recession levels. In addition, growth in manufactured goods exported from the East Bay has begun.

This positive trend ought to continue through the next few years as China’s growth rate is accelerating and world trade is returning from its collapse in 2008. High valued exports through SFO are still about 15% below October 2007 levels but are also growing. This export led growth is one of the important engines of growth for Coastal California and its continuation depends upon both the growth of California’s trading partners and competitive exchange rates. Our U.S. forecast places both of those events as being likely.

The other reason for optimism is the East Bay's manufacturing base. The inventory cycle currently fueling the national recovery will soon be felt in new hiring over a broad spectrum of manufacturing. Moreover, the long awaited Obama stimulus package research funds are now being spent and the Bay Area, with its critical mass of technology firms and universities, is winning a sizable proportion of contracts. These initiatives in green technology along with the venture capital and private equity investments in green, med, and information technology will incubate new manufacturing in the East Bay. Thus, while some aspects of manufacturing in the

East Bay are in decline (e.g NUMMI and associated fabrication facilities) on balance the base is solid and growing.

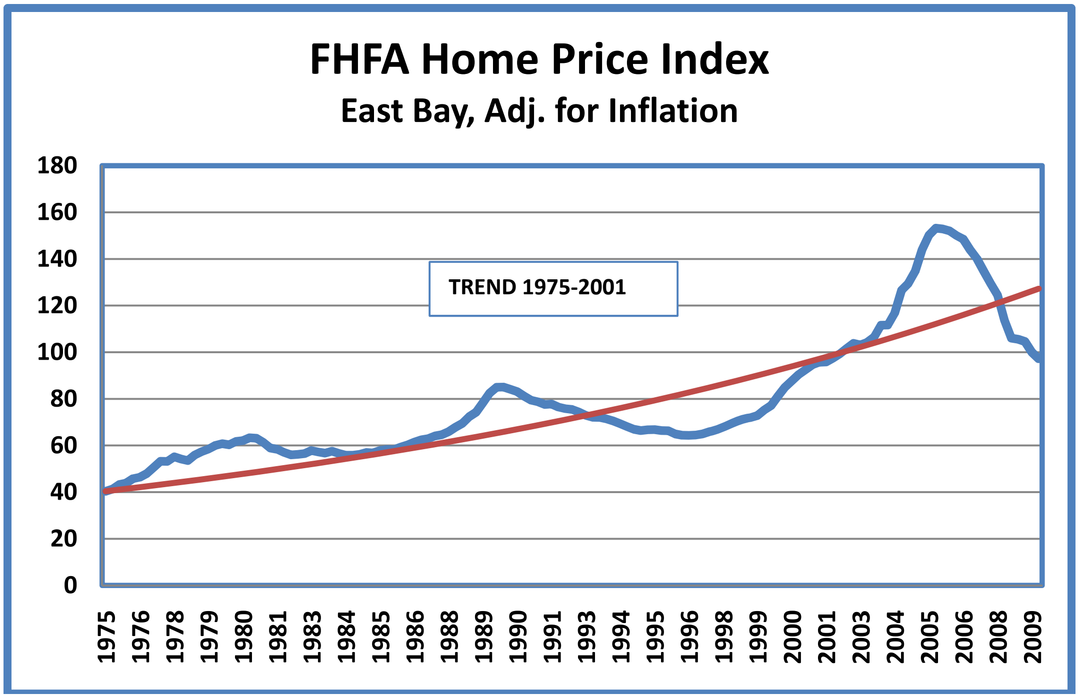
The East Bay's comparative advantage as a locus of trade for the Bay Area has its downside as well. The low retail inventories of the 2009 holiday season as well as the fall off in imports has made retail, wholesale, transportation and warehousing the source of the greatest private sector job loss in the last few months. If, as we are forecasting, consumption returns slowly during this recovery, firms in these sectors will be forced look for ways to economize and continue to trim payrolls.

The bubble in home prices in the Bay Area fueled a boom in new home construction in the middle part of the last decade. This was particularly true in the inland portions of the East Bay as astronomical home prices near the Bay forced households seeking affordable housing further to the east. According to the *Case Shiller / S&P* home price index, prices in the San Francisco/East Bay metropolitan area rose 76% from 2001 to 2006. In a dramatic reversal they declined from their peak by -46% earlier this year, and in a turnaround over the last six months have risen by 15%. This is a good indication that housing markets have stabilized in the Bay Area. But, the FHFA quarterly index, which breaks out the East Bay from the Metro area, shows that East Bay inflation adjusted home prices in the 3rd quarter of 2009 were the same as they were in the 1st quarter of 2002 and it does not show the same stabilization.

The weakness in the East Bay relative to the overall Bay Area housing market is being driven by the overhang of excess housing in the eastern part of the region. With home prices more affordable in the western part of the region and unemployment remaining high, residential construction will be a second source of drag on the recovery.

The third and largest problematic sector for the East Bay remains government. The state and local government sector, which includes public education, comprises 16% of all East Bay jobs. Over the last two months, local government job loss has made up 2/3rds of the total payroll job loss. State budget cuts in the first five months of fiscal 2009 have resulted in a small state employment reduction. As we approach the new fiscal year more cuts are in store. The bottom line is, as a consequence of the 2009 and 2010 state budgets, more reductions in government spending are to come. The way in which the legislative and executive branches address the looming 2010 budget deficit will have a significant impact on the shape of the recovery.

So as we look at the recovery for 2010, The East Bay, being somewhat of a microcosm of the California economy should begin to turn the corner slowly with more rapid growth at the end of 2010 and into 2011. The East Bay's considerable advantage as an export center and as a cost effective manufacturing location close to technology research and development centers argues for a robust recovery once the three downside sectors stabilize and are no longer a source of contraction for the region.


FHFA Home Price Index
East Bay, Adj. for Inflation
TREND 1975-2001
180
160
140
120
100
80
60
40
20
0
1975
1976
1978
1979
1980
1981
1983
1984
1985
1986
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2004
2005
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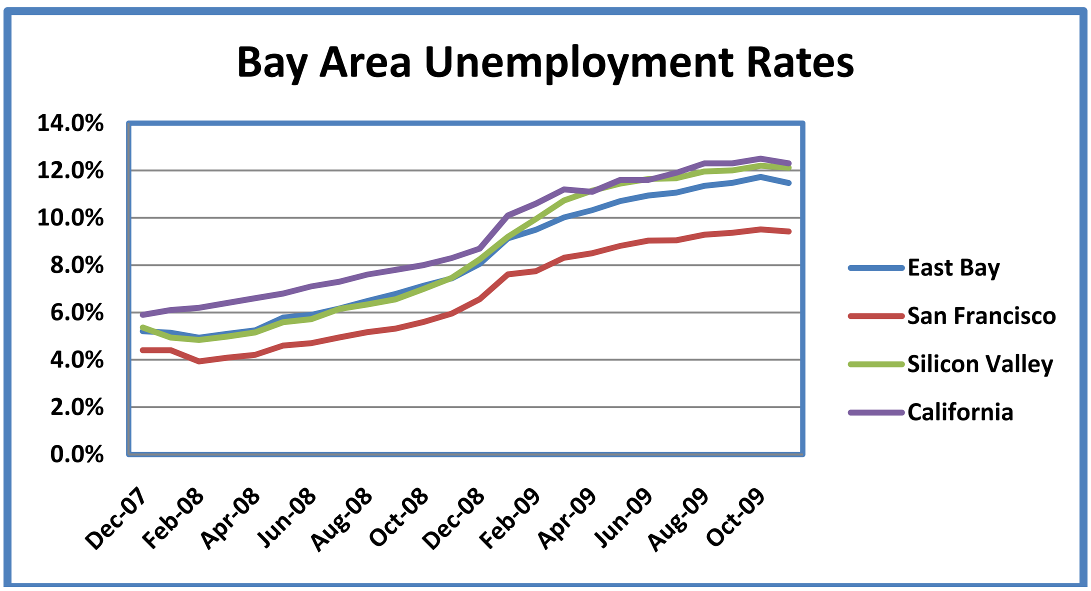
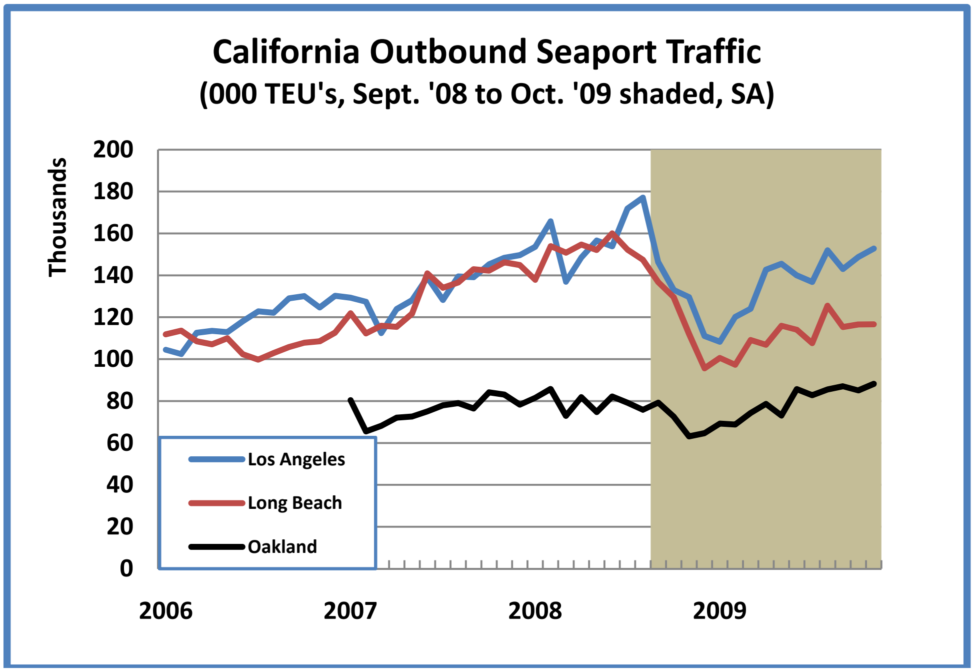
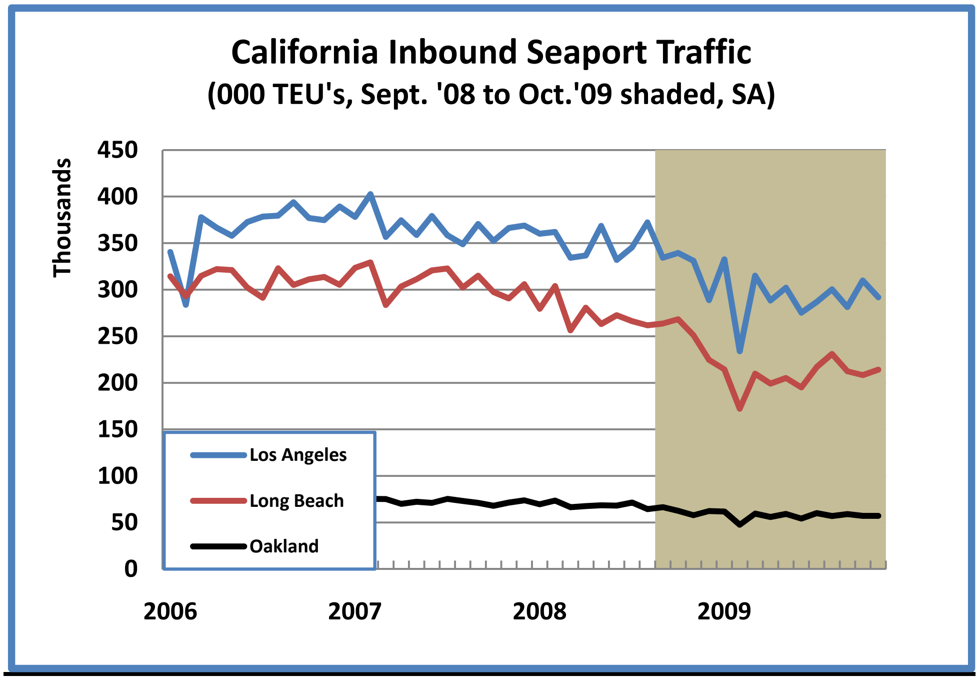
2008
2009


Bay Area Unemployment Rates
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
Dec-07
Feb-08
Apr-08
Jun-08
Aug-08
Oct-08
Dec-08
Feb-09
Apr-09
Jun-09
Aug-09
Oct-09
East Bay
San Francisco
Silicon Valley
California


California Outbound Seaport Traffic
(000 TEU's, Sept. '08 to Oct. '09 shaded, SA)
Thousands
200
180
160
140
120
100
80
60
40
20
0
Los Angeles
Long Beach
Oakland
2006
2007
2008
2009


California Inbound Seaport Traffic
(000 TEU's, Sept. '08 to Oct.'09 shaded, SA)
Thousands
450
400
350
300
250
200
150
100
50
0
Los Angeles
Long Beach
Oakland
2006
2007
2008
2009

California: Recovery from the Recession and the Great Budget Head Fake

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December 2009

The end of the current recession is turning out much as we predicted. California's unemployment rate continues to increase from the past year, local government employment continues its decline and has now been joined by state government contraction - and 2009 personal income, when it is reported, ought to be lower for the entire year. The current forecast differs from the previous one in as much as our U.S. forecast is slightly more optimistic than before and our California forecast overlays that with a larger than expected reduction in state government spending. The net effect is to lower our forecast for California for the coming year.

Overall, the outlook for the balance of the new year is for little to no growth. The economy will begin to pick up slightly in the beginning of 2011 and by the middle of 2011 begin to grow at more normal levels. The keys to California's recovery remain in exports of manufactured and agricultural goods. Factoring in a recovery in U.S. consumption which increases the demand for Asian imports and for products from California's factories, increased public works construction, and increased investment in business equipment and software.

Recent Trends - Labor Markets on the Mend In December of 2008, our forecast was for labor markets to improve in California by the fourth quarter of 2009. The carnage of the first quarter - when a third of a million jobs evaporated and the ranks of the unemployed swelled by over 400,000 - has now ended.

Importantly, the CES data, which is based on a larger sample than the household, or CPS survey, showed growth in non-farm payroll employment of 25,700 jobs for October 2009. This is the first growth in payroll jobs in California since April 2008 and the largest growth in payroll jobs since July 2007, five months before the recession began.[1] In the four months ending in October, job losses are considerably lower than the previous trimesters and four sectors, health care, wholesale trade, non-durable goods manufacturing and education are moving into net additions to employment.

However, the private sector employment industries-- construction, durable goods manufacturing and retail -- have yet to show encouraging signs. Total employment in the construction sector continues to decline due primarily to the dismal state of nonresidential construction and the fact that stimulus supported infrastructure construction has yet to begin in earnest. On the building side, new permits for residential construction reached record low levels seven months ago and have neither moved up nor down since then. With housing prices stabilizing according to one index (FHFA) and rising according to another (Case / Shiller S&P) and with inventories low in the coastal cities we still expect to see residential construction beginning a recovery in 2010.

The Public Sector and the Great Budget Head Fake

With respect to the jobs market, one curious anomaly stood out. With all of the hue and cry about the California state government running out of money and a monstrous $40 billion plus shortfall in the combined fiscal 2008 and fiscal 2009 state budgets[2], employment in state

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[1] http://www.labormarketinfo.edd.ca.gov/?PAGEID=94.
[2] "In Budget Deal, California Shuts $41 Billion Gap," Jennifer Steinhauer, New York Times, February 19, 2009.
"Deal Reached to Close California's $26 Billion Budget Deficit," Judy Lin, CNS News/Associated Press, July 21, 2009.
"California at the Brink of Financial Disaster," Michael Genest, California Department of Finance, 1/13/2009.

government barely budged.[3] When there are ostensibly huge cuts in spending and little response in the direct employment supported by that spending, one is led to the conclusion that those spending cuts are, at least in part, not there. This answer had been hinted at for some time and was succinctly called out in a November LAO Report.[4]

In sports, a head fake is a move which gets you to look in the wrong direction for a sufficient amount of time so that when you discover that you have looked the wrong way, it is too late to correct the error. In this case it is a July budget agreement which purported to include sources of revenue and spending reductions which were anything but guaranteed. In fact it would have been reasonable to assume that at least some of the budget solutions could not come to fruition. This head fake resulted in the budget shortfall being lobbed forward into the next 2010-2011 budget years. The LAO report predicts that the budget will have to be balanced through a combination of spending cuts and (possibly) new revenues to the tune of 20+ billion dollars. Our estimates are slightly more optimistic, but only slightly. Some of the estimated fiscal 2010 budget shortfall is being generated by mandated increases in spending which will have to be offset by new revenues or cuts elsewhere in the state budget, and others are being generated by the need to make up for the shortfall in fiscal 2009 revenues.

Pronouncements from Sacramento[5] to the contrary, this was a head fake. The gap was never closed. All of us, including the legislative and executive branches of government, took the fake with some relief that the worst was now behind us and we had survived a major fiscal crisis. The fake lasted a third of the fiscal year. In November, the LAO reported that at least $2.1 billion dollars of revenue would never materialize and $4.1B billion dollars of cuts would not be made.

More specifically, programs for health care and corrections are larger than the fiscal 2009 budget agreement, an event which occurred as a consequence of legal and political challenges and of court orders precluding certain cuts. Several revenue sources, notably the sale of the state's Compensation Insurance Fund and the allocation of money from transportation funds, turned out not to be possible. Federal stimulus funds directed at making up budget gaps for state and local governments will expire along with some of the one-time changes to expenditures . Prop 98 mandated increases in educational funding must also be added to the fiscal 2010 budget. All of these factors represent an estimated $20B challenge for the legislature and governor.

Changes to state spending of this magnitude are always problematic for economic growth. The initial reaction to the news of the fake was that this is a disaster for California. Perhaps, it was and perhaps it was not. Essentially, what has happened is an inter-temporal shift in spending from fiscal years 2010- 2011 to fiscal year 2009. But, inter-temporal transfers of government spending are not always necessarily bad. It all depends on the timing and cost of the transfer.[6]

So, theory is the best guide we have for interpreting the impact of the head fake on California, and theory says this head fake, while slowing growth in 2010 and 2011, was not necessarily a bad event at all. To be sure, the recurrent budget crises and the systemic problems of government finance in California are a huge negative and they will require fundamental reform if such painful and costly episodes are to be avoided in the future. But the impact of this particular event does not, as one might think at first blush, engender another economic disaster for the state.

[3] http://www.labormarketinfo.edd.ca.gov, January 8, 2009.

[4] "The 2010-11 Budget: California's Fiscal Outlook," Mac Taylor, Legislative Analyst's Office, http://www.lao.ca.gov, 11/18/2909.

[5] "Closing the $60 Billion Budget Gap," California State Budget: 2009-2010, California Department of Finance, http://www.dof.ca.gov, July 28, 2009.

[6] For a survey see "Back to Keynes?" Frederick van der Ploeg, CESifo Economic Studies, vol. 51, 2005, http://CESifoOxfordJournals.org.

The Nation: Lost and Found

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UCLA Anderson Forecast
December 2009

The first decade of the 21st century is over. Good riddance! It has truly been a lost decade for labor and capital. In stunning contrast with the ebullience of late 1999, there are now a half million fewer people on nonfarm payrolls than at the start of the decade. To be sure, late 1999 represented a business cycle peak while late 2009 represented a trough, but make no mistake, the recent recession established postwar records for declines in employment, home and stock prices. Concomitantly, the federal budget swung from a $91 billion surplus in FY 1999 to a record $1.4 trillion deficit in FY 2009. All of the gory details are presented in the following table.

Selected Economic Indicators: Late 2009 vs. Late 1999

Economic Indicator	Late 1999*	Late 2009**	Percent or Level Change
Real GDP-$Bil.	11,014	12,990	17.90%
Industrial Production	102.4	98.6	-3.70%
Nonfarm Payrolls	130,532,000	129,993,000 a	-539,000
Pvt. Nonfarm Payrolls	109,487,000	108,401,000 a	-1,086,000
Unemployment Rate	4.00%	10.20%	6.20%
Avg. Hourly Earns.-$	13.7	18.72	36.60%
Real Avg. Hrly. Earns.	8.12	8.65	6.50%
Fed.Def/Surp.-$Bil.	91	-1,417	-1,508
S&P 500 Index	1469.25	1091.38	-25.70%
Real S&P 500	870.41	504.33	-42.10%
U.S. Treas. 6s/26	91.47	122.63	34.10%
Trade Wght.$-Major	96.21	72.97	-24.20%
NYM-Oil/bbl.	25.6	76.35	198.20%
Gold/oz.-Comex	289.6	1146.4	295.90%
Median Home Price-$	141,800	173,100	22.10%
Real Med. Home Pr.-$	84,000	80,000	-4.80%
CPI-U	168.8	216.4	28.20%

* Ma

** Market data as of November 20, 2009, economic data as of latest available month or quarter.

a. Adjusted for preliminary labor market rebenching. Total October 2009 payrolls adjusted down by 824,000 and total private payrolls adjusted down by 855,000.

Source: Bloomberg, Global Insight

Despite the 64% stock market rally off the March lows, both nominal and real stock prices are far off their year-end 1999 levels by 26% and 42%, respectively. In sharp distinction, oil, gold, and of all things, very staid U.S. Treasury bonds enjoyed spectacular bull markets during the decade. Gold and oil prices nearly tripled and quadrupled, respectively and long-term U.S Treasury bonds that offered current yields just above 6.5% advanced by 34% during the decade. Along the way, the trade-weighted foreign exchange value of the U.S. dollar declined by 24%. Median existing home prices, after soaring earlier in the decade, went into free fall after

2006 and ended up a modest 22% in nominal terms and actually **declined** by 5% in real terms. Nevertheless, we would like to think that the next decade is the mirror image of the last where we start from a cyclical trough and end at a peak.

The Near-Term Outlook

Similar to last quarter, we continue to believe that the economy is on a modest growth path that will be accompanied by extraordinarily high rates of unemployment.[7] Specifically, we forecast that after growing at 2.8% in the most recent[8] and current quarters, real GDP growth will settle into a 2% growth path for much of 2010 and be closer to 3% in 2011. With such sluggish growth, the unemployment rate will likely peak at 10.5% in the first quarter and remain at or above 10% for almost all of next year. Further exacerbating the employment situation is uncertainty about tax, healthcare and energy policies coming out of Washington.

The slow growth outlook reflects the lagged effects of the implosion of consumer balance sheets and is a result of the economy in transition from being an import-oriented/low-savings rate one to a more export and higher-savings oriented one. That transition is being pushed along by the administration's weak dollar policy which encourages exports and discourages the consumption of imports. The combined effect will cause real consumer spending to grow at a modest 2% rate, well below the more historical 3-3.5% rate.

We would be remiss if we did not discuss the current situation with respect to housing activity. In terms of prices and home sales it appears that housing is finally on the road to recovery. To be sure, with 23% of the nation's houses with mortgages underwater, foreclosures continue to rise; but we believe that is already factored into the decision making process of both buyers and sellers.

The Highly Medicated Economy

Let's be clear, policy makers are highly medicating the economy with record federal deficits and a zero interest rate policy coming from the Federal Reserve. While necessary to abate the free fall in the economy that took place in late 2008 and early 2009, both fiscal and monetary policies are not sustainable in the long-run. Deficits will have to be reduced and interest rates will return to more normal levels. In fact, our longer-term deficit projections do not include another stimulus package nor the inevitable cost-overruns associated with the healthcare package now moving through the legislation.

With all of the stimulative "medication" in the system it would be logical to assume that the most likely side effect would be a ramp up in inflation. Indeed we believed that is the message coming out of the foreign exchange and gold markets. Nevertheless with so much excess capacity in labor and product markets, we believe that inflation will not manifest itself within the 2011 forecast horizon. Indeed we are forecasting consumer price inflation to average a modest 2% over the next two years.

Conclusion

When economic historians look back on the recent recession and the sluggish recovery we are forecasting, we believe they will note that the 2007- 2010 era signaled that the U.S. economy entered a period of transition. The characteristics of the period involve the inability of export growth to completely offset growth declines in consumer spending and state and local spending. Over time the savings rate will increase and once it stabilizes in the 5-7% range, consumption will once again grow with the economy. By mid-decade, 3-4% economic growth accompanied by mid-single digit unemployment rates will once again become the norm. Thus instead of being a lost decade, we will once again find our way back to the economy's historical growth path.

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[7] See Shulman, David, "The Long Goodbye", UCLA Anderson Forecast, September 2009.

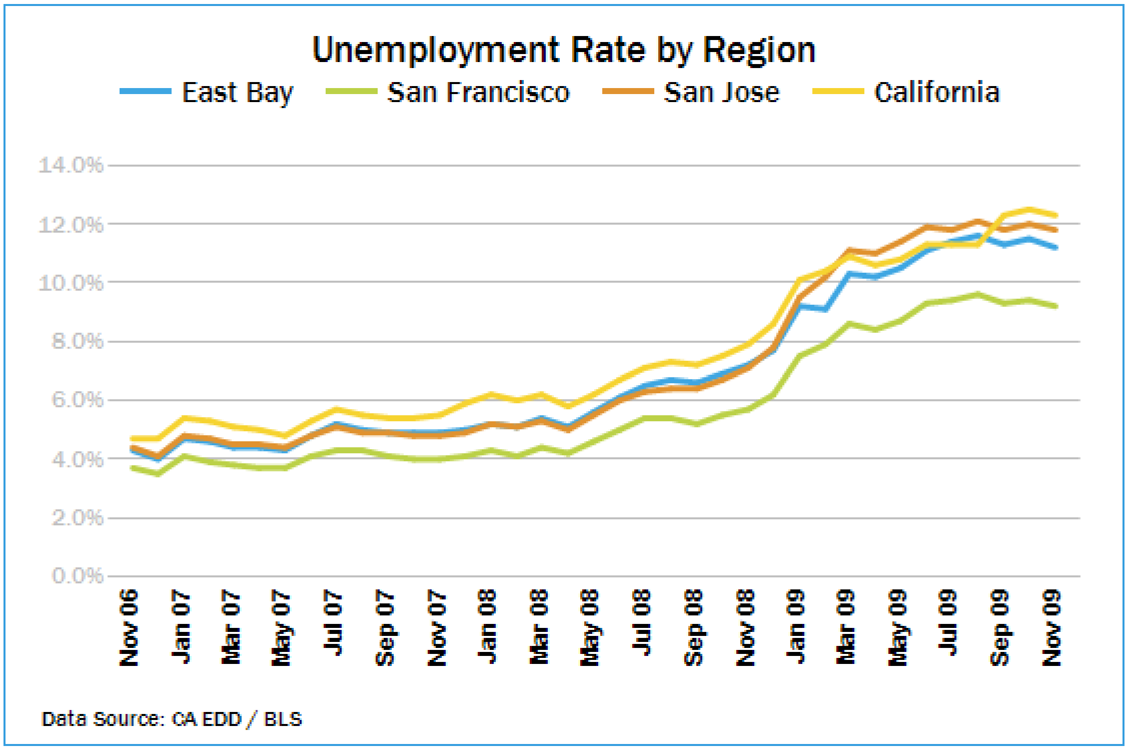
[8] Third quarter GDP has since been re-estimated from 2.8% to 2.2% Source: Bureau of Economic Analysis.

BAY AREA EMPLOYMENT

BAY AREA UNEMPLOYMENT

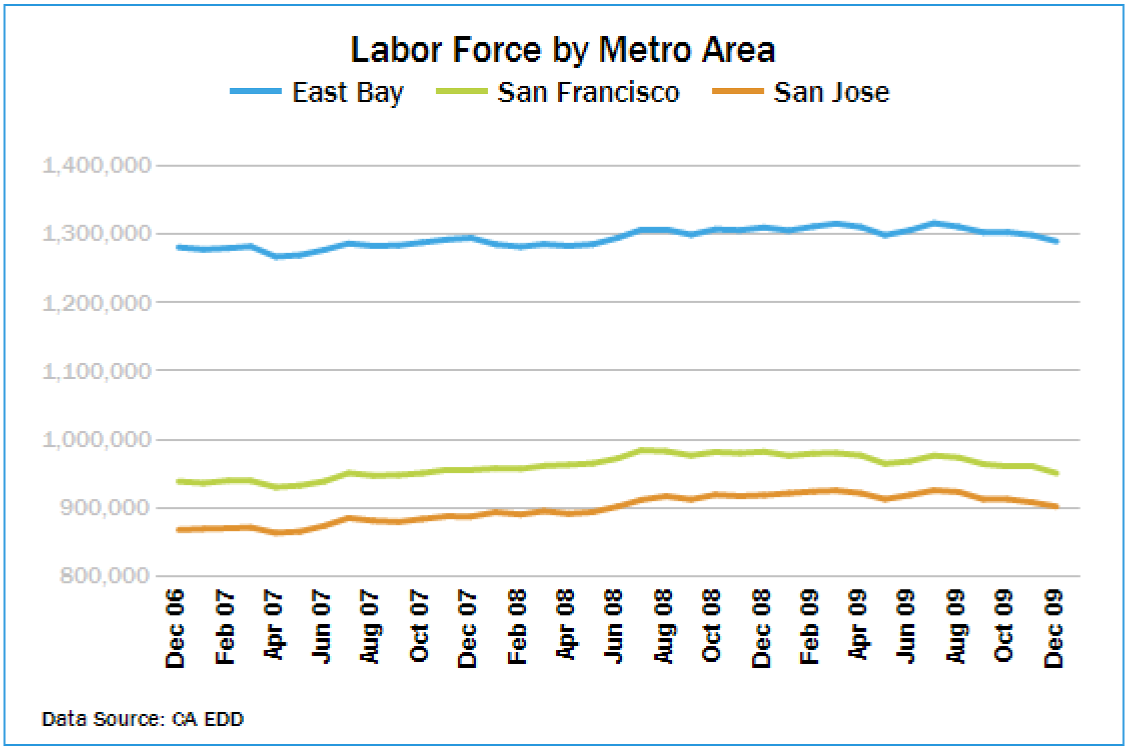
The unemployment rate in the East Bay was 10.9 percent in December 2009, down from a revised 11.4 percent in November 2009, and above the year-ago estimate of 7.7 percent. This compares with an unadjusted unemployment rate of 12.1 percent for California and 9.7 percent for the nation during the same period. The unemployment rate was 10.9 percent in Alameda County, and 11.0 percent in Contra Costa County.

San Francisco's unemployment rate was 8.9 percent in December – down from 9.2 percent in November, but significantly higher than the December 2008 estimate of 6.2 percent. The unemployment rate in San Jose fell to 11.5 percent in December, down from a revised 11.9 percent in November, and up from 7.8 percent in December 2008.



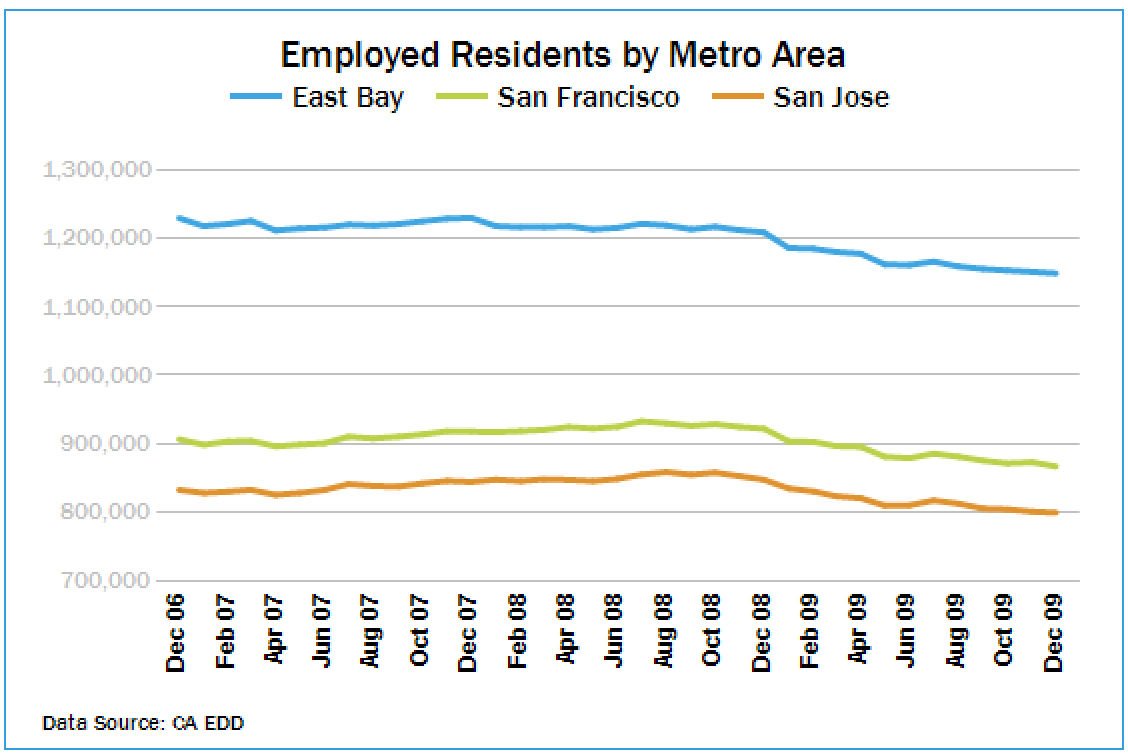
BAY AREA LABOR FORCE

In a month-over-month comparison, the East Bay's labor force (number of individuals currently employed or actively seeking employment) lost 9,000 workers, falling to 1,289,400 in December 2009. San Francisco's labor force lost 10,200 workers, falling to 950,700 and in San Jose the number of workers fell 6,100, to 901,900 in December. In a year-over-year comparison, each of the Bay Area regions saw a decline in the number of workers. The East Bay had 20,300 fewer workers in December 2009 than in December 2008, San Jose lost 16,700 workers and San Francisco lost 31,400 workers.



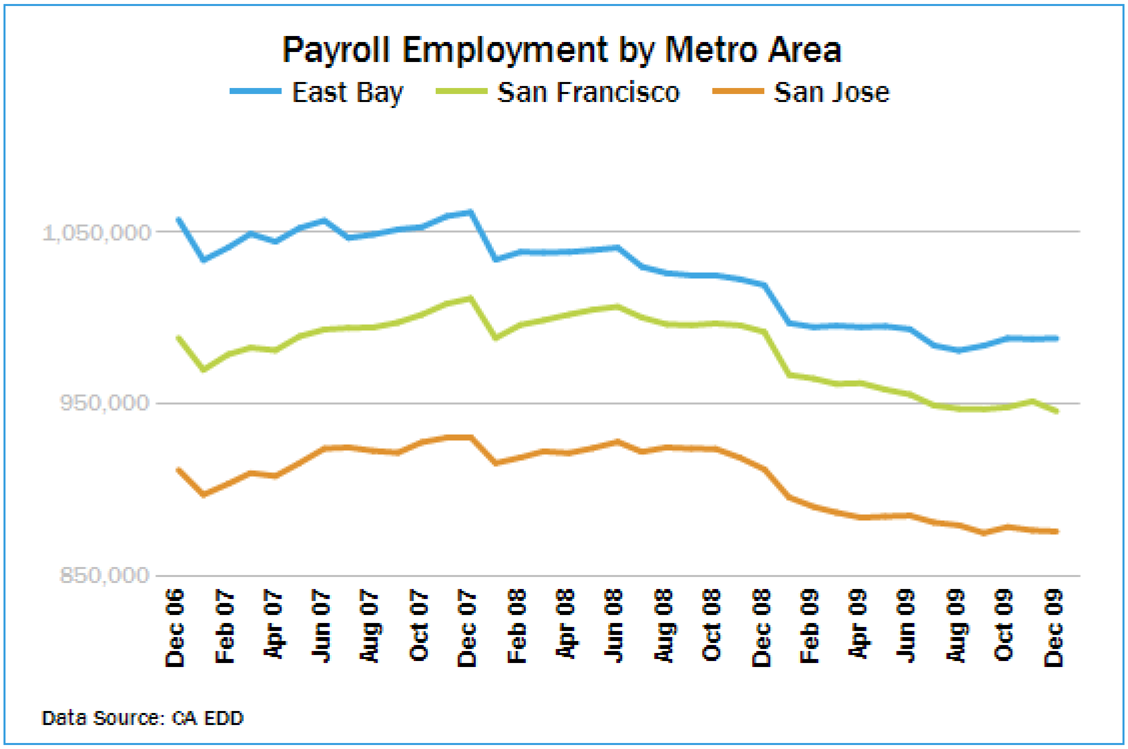
BAY AREA EMPLOYED RESIDENTS

Between November and December 2009, the number of employed residents (employed persons who reside within the region) fell 2,200 in the East Bay, 6,100 in San Francisco, and 1,600 in San Jose. When compared to December 2008, a year-over-year comparison showed the East Bay with 60,000 fewer employed residents, San Francisco with 55,300 fewer and San Jose with 48,200 fewer.



BAY AREA PAYROLL EMPLOYMENT

Between November and December 2009, the East Bay gained 300 payroll jobs (number of jobs located in the specified region, not including those who are self-employed), while San Francisco lost 5,700 and San Jose lost 600. Since December 2008, the East Bay has lost 31,000 jobs, San Francisco has lost 46,100 and San Jose has lost 36,200. A detailed description of East Bay payroll employment by sector follows in the next section.



EAST BAY PAYROLL EMPLOYMENT

MONTHLY COMPARISON

According to the California Employment Development Department's Labor Market report, Between November 2009 and December 2009, the total number of jobs in the East Bay rose by 300 jobs to reach 988,000.

• Trade, transportation, and utilities posted a net seasonal increase of 1,900 jobs, well below its average 3,500-job increase between November and December over the prior 19 years. Retail trade gained 2,100 jobs, and transportation, warehousing, and utilities added 500 jobs. In contrast, wholesale trade fell by 700 jobs, reversing its usual seasonal pattern.

• Private health care establishments boosted payrolls by 800 jobs over the month.

• Leisure and hospitality gained 700 jobs seasonally, as additions in food services and drinking places (up 800 jobs) more than offset cutbacks in accommodations (down 100 jobs).

• Meanwhile, construction fell by 2,500 jobs, a larger-than-usual seasonal decrease. More than two-thirds of the decline occurred in specialty trade contractors.

ANNUAL COMPARISON

Between December 2008 and December 2009, the total number of jobs in the East Bay receded by 31,000 or 3.0 percent.

• Private health care gained 900 jobs over the year.

• Trade, transportation, and utilities experienced its 23rd consecutive monthly loss on a year-over basis, a net drop of 7,700 jobs. Retail trade (down 3,400 jobs); wholesale trade (down 2,600 jobs); and transportation, warehousing, and utilities (down 1,700 jobs) each shed jobs compared to last December.

• Construction fell by 5,900 jobs, while the financial activities industry likewise pared 2,000 jobs.

• Professional and business services lost 4,700 jobs over the year. Services to buildings and dwellings (down 1,400 jobs) and employment services (down 1,100 jobs) together accounted for just over half the cutbacks in this major industry.

	Dec-09	1 Month Change	*12 Month Change*	12 Month % Change	24 Month Change	24 Month % Change
Educational and Health Services	129,500	500	*600*	0.5%	2,500	2.0%
Information	26,800	-100	*-500*	-1.8%	-1,300	-4.6%
Other Services	34,600	200	*-500*	-1.4%	-1,700	-4.7%
Trans, Warehousing & Utilities	35,100	500	*-1,700*	-4.6%	-3,900	-10.0%
Financial Activities	52,800	200	*-2,000*	-3.6%	-7,200	-12.0%
Leisure and Hospitality	85,500	700	*-2,500*	-2.8%	-2,900	-3.3%
Wholesale Trade	45,000	-700	*-2,600*	-5.5%	-3,600	-7.4%
Manufacturing	88,100	-300	*-3,400*	-3.7%	-7,300	-7.7%
Retail Trade	108,200	2,100	*-3,400*	-3.0%	-11,900	-9.9%
Government	171,500	-400	*-4,500*	-2.6%	-8,200	-4.6%
Professional and Business Services	154,500	200	*-4,700*	-3.0%	-11,600	-7.0%
Construction	53,800	-2,500	*-5,900*	-9.9%	-16,400	-23.4%
Total, All Industries	**988,000**	**300**	***-31,000***	**-3.0%**	**-73,400**	**-6.9%**
INDUSTRY EMPLOYMENT DATA SOURCE: California Employment Development Department						

EAST BAY CONSTRUCTION EMPLOYMENT

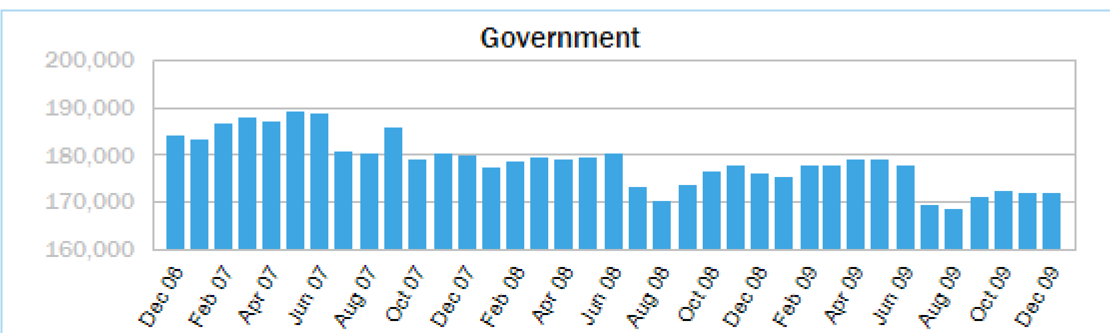
All subsectors of the East Bay's construction sector, with the exception of Nonresidential Building Construction (up 200), posted losses in the year-over-year comparison - adding up to a loss of 5,900 jobs between December 2008 and December 2009.

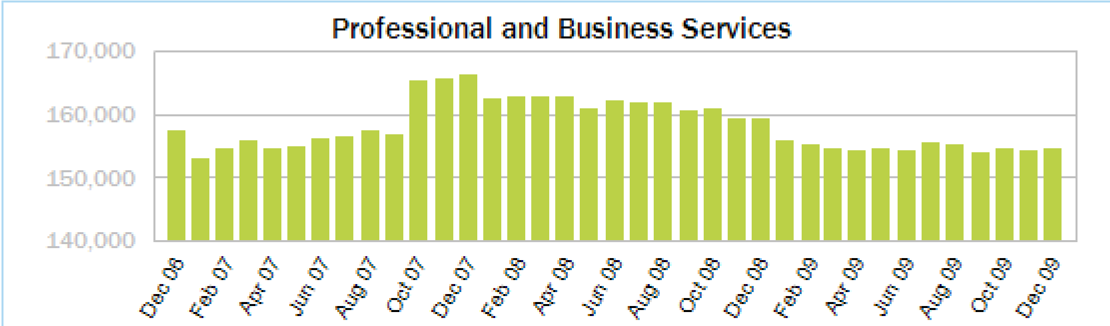
	Dec-09	1 Month Change	*12 Month Change*	12 Month % Change	24 Month Change	24 Month % Change
Nonresidential Building	5,600	0	*200*	3.7%	-300	-5.1%
Highway, Street, and Bridge	3,000	-500	*-400*	-11.8%	-500	-14.3%
Building Foundation and Exterior Contr.	7,800	-300	*-400*	-4.9%	-2,500	-24.3%
Residual-Other Heavy and Civil Engineer	3,700	-100	*-800*	-17.8%	-1,300	-26.0%
Building Equipment Contr.	13,300	-100	*-900*	-6.3%	-2,100	-13.6%
Residential Building	7,400	-200	*-1,700*	-18.7%	-3,600	-32.7%
Other Specialty Trade Contract	13,000	-1,300	*-1,900*	-12.8%	-6,100	-31.9%
Heavy and Civil Engineering Construction	**6,700**	**-600**	***-1,200***	**-15.2%**	**-1,800**	**-21.2%**
Construction of Buildings	**13,000**	**-200**	***-1,500***	**-10.3%**	**-3,900**	**-23.1%**

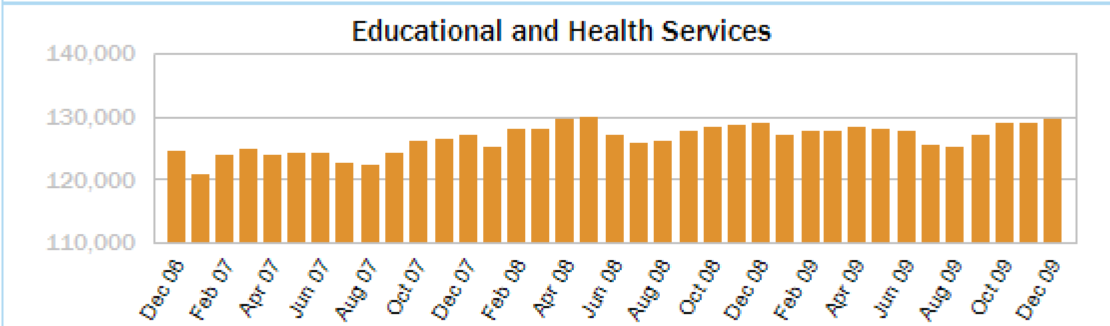
Specialty Trade Contractors	**34,100**	**-1,700**	***-3,200***	**-8.6%**	**-10,700**	**-23.9%**
All Construction	**53,800**	**-2,500**	***-5,900***	**-9.9%**	**-16,400**	**-23.4%**

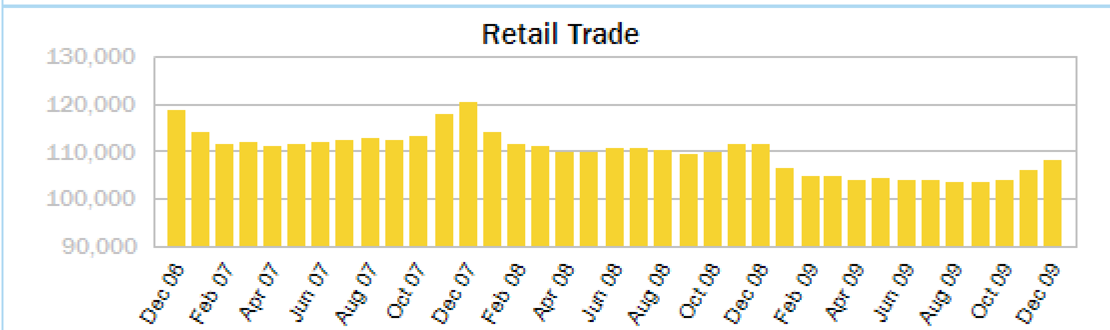
EAST BAY MANUFACTURING PAYROLL EMPLOYMENT
The East Bay's manufacturing sector showed an overall loss of 3,400 jobs between December 2008 and December 2009 with most losses occurring in Residual-Miscellaneous Manufacturing.

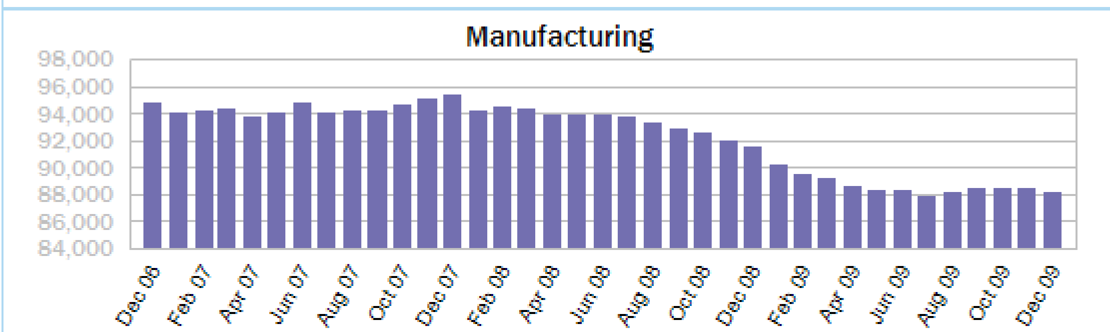
	Dec-09	1 Month Change	12 Month Change	12 Month % Change	24 Month Change	24 Month % Change
Petroleum and Coal Products	8,000	-100	*0*	0.0%	500	6.7%
Chemical Manufacturing	6,900	0	*-100*	-1.4%	-300	-4.2%
Transportation Equipment	7,000	0	*-200*	-2.8%	-900	-11.4%
Residual-Food	19,600	0	*-300*	-1.5%	-1,000	-4.9%
Computer and Electronic Product	18,100	0	*-1,100*	-5.7%	-2,000	-10.0%
Residual-Miscellaneous	28,500	-200	*-1,700*	-5.6%	-3,600	-11.2%
Nondurable Goods	**34,500**	**-100**	***-400***	**-1.1%**	**-800**	**-2.3%**
Durable Goods	**53,600**	**-200**	***-3,000***	**-5.3%**	**-6,500**	**-10.8%**
All Manufacturing	**88,100**	**-300**	***-3,400***	**-3.7%**	**-7,300**	**-7.7%**

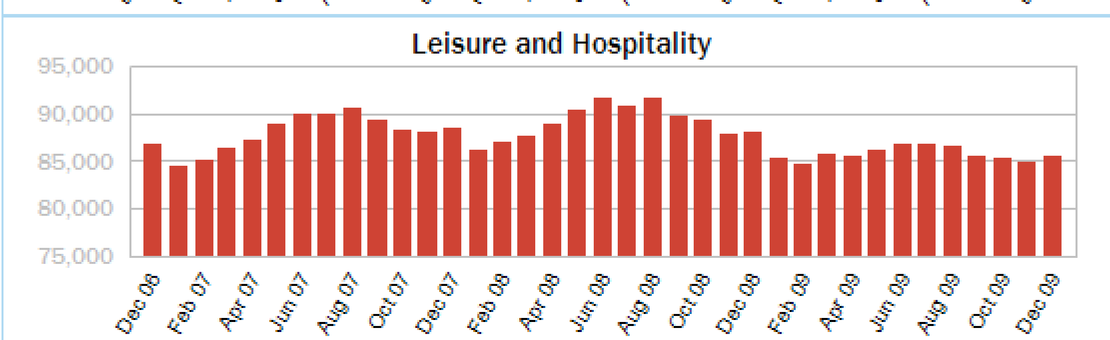



Professional and Business Services
170,000
160,000
150,000
140,000
Dec 06
Feb 07
Apr 07
Jun 07
Aug 07
Oct 07
Dec 07
Feb 08
Apr 08
Jun 08
Aug 08
Oct 08
Dec 08
Feb 09
Apr 09
Jun 09
Aug 09
Oct 09
Dec 09


Educational and Health Services
140,000
130,000
120,000
110,000
Dec 06
Feb 07
Apr 07
Jun 07
Aug 07
Oct 07
Dec 07
Feb 08
Apr 08
Jun 08
Aug 08
Oct 08
Dec 08
Feb 09
Apr 09
Jun 09
Aug 09
Oct 09
Dec 09


Retail Trade
130,000
120,000
110,000
100,000
90,000
Dec 06
Feb 07
Apr 07
Jun 07
Aug 07
Oct 07
Dec 07
Feb 08
Apr 08
Jun 08
Aug 08
Oct 08
Dec 08
Feb 09
Apr 09
Jun 09
Aug 09
Oct 09
Dec 09


Manufacturing
98,000
96,000
94,000
92,000
90,000
88,000
86,000
84,000
Dec 06
Feb 07
Apr 07
Jun 07
Aug 07
Oct 07
Dec 07
Feb 08
Apr 08
Jun 08
Aug 08
Oct 08
Dec 08
Feb 09
Apr 09
Jun 09
Aug 09
Oct 09
Dec 09


Leisure and Hospitality
95,000
90,000
85,000
80,000
75,000
Dec 06
Feb 07
Apr 07
Jun 07
Aug 07
Oct 07
Dec 07
Feb 08
Apr 08
Jun 08
Aug 08
Oct 08
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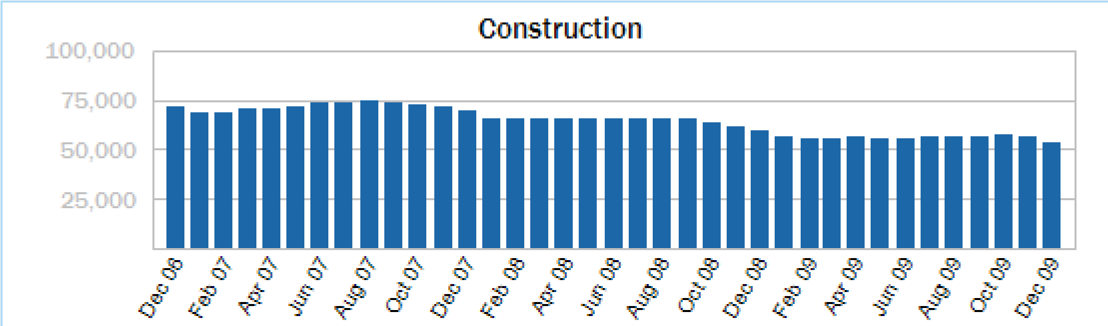
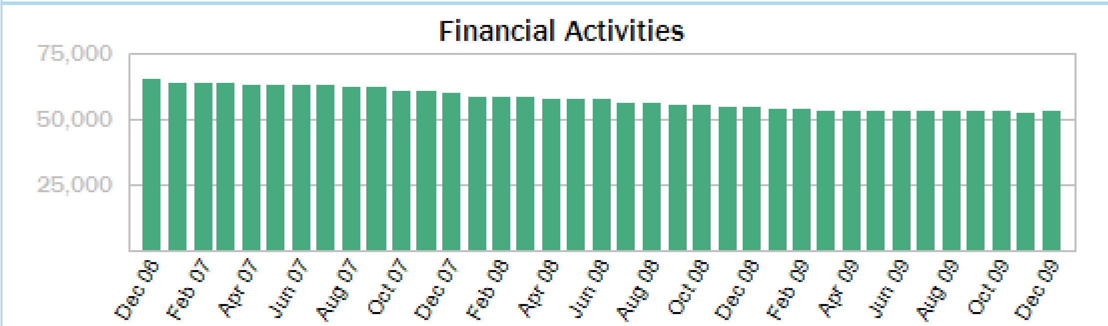
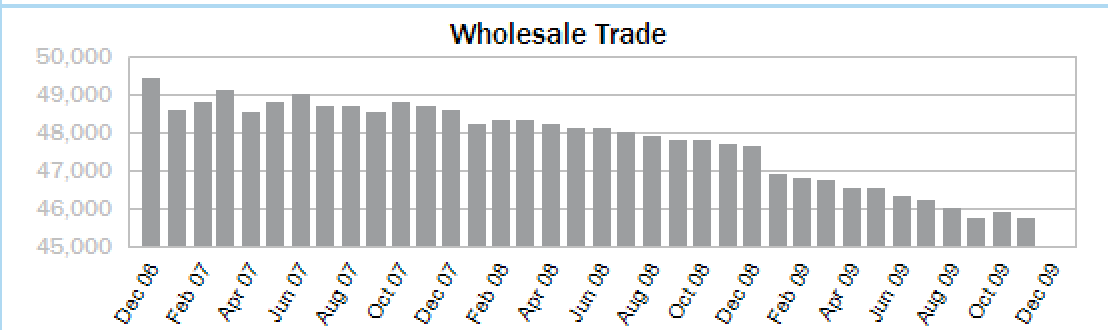
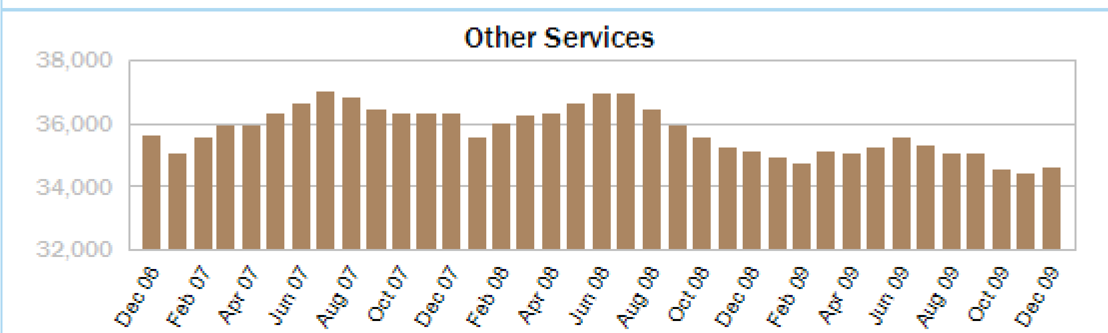
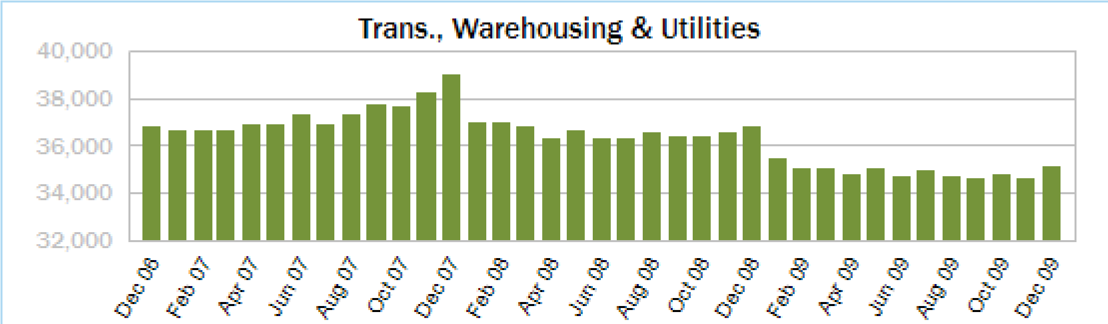
Feb 09
Apr 09
Jun 09
Aug 09
Oct 09
Dec 09

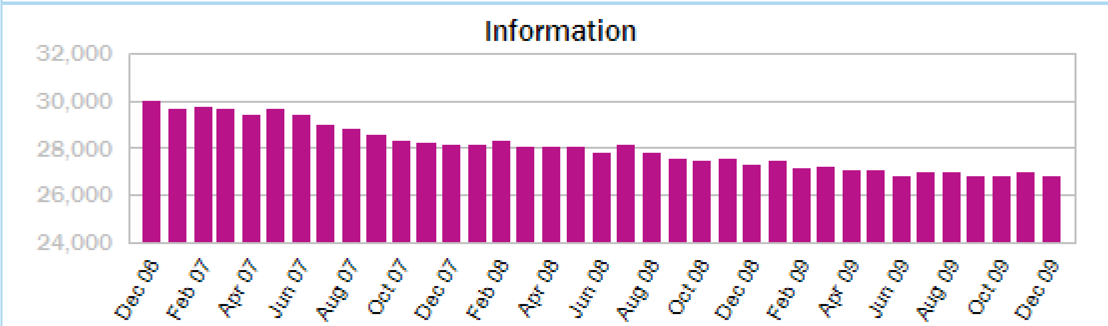

Construction
100,000
75,000
50,000
25,000
Dec 06
Feb 07
Apr 07
Jun 07
Aug 07
Oct 07
Dec 07
Feb 08
Apr 08
Jun 08
Aug 08
Oct 08
Dec 08
Feb 09
Apr 09
Jun 09
Aug 09
Oct 09
Dec 09


Financial Activities
75,000
50,000
25,000
Dec 06
Feb 07
Apr 07
Jun 07
Aug 07
Oct 07
Dec 07
Feb 08
Apr 08
Jun 08
Aug 08
Oct 08
Dec 08
Feb 09
Apr 09
Jun 09
Aug 09
Oct 09
Dec 09


Wholesale Trade
50,000
49,000
48,000
47,000
46,000
45,000
Dec 06
Feb 07
Apr 07
Jun 07
Aug 07
Oct 07
Dec 07
Feb 08
Apr 08
Jun 08
Aug 08
Oct 08
Dec 08
Feb 09
Apr 09
Jun 09
Aug 09
Oct 09
Dec 09


Other Services
38,000
36,000
34,000
32,000
Dec 06
Feb 07
Apr 07
Jun 07
Aug 07
Oct 07
Dec 07
Feb 08
Apr 08
Jun 08
Aug 08
Oct 08
Dec 08
Feb 09
Apr 09
Jun 09
Aug 09
Oct 09
Dec 09





BAY AREA HOME SALES

BAY AREA HOME SALES

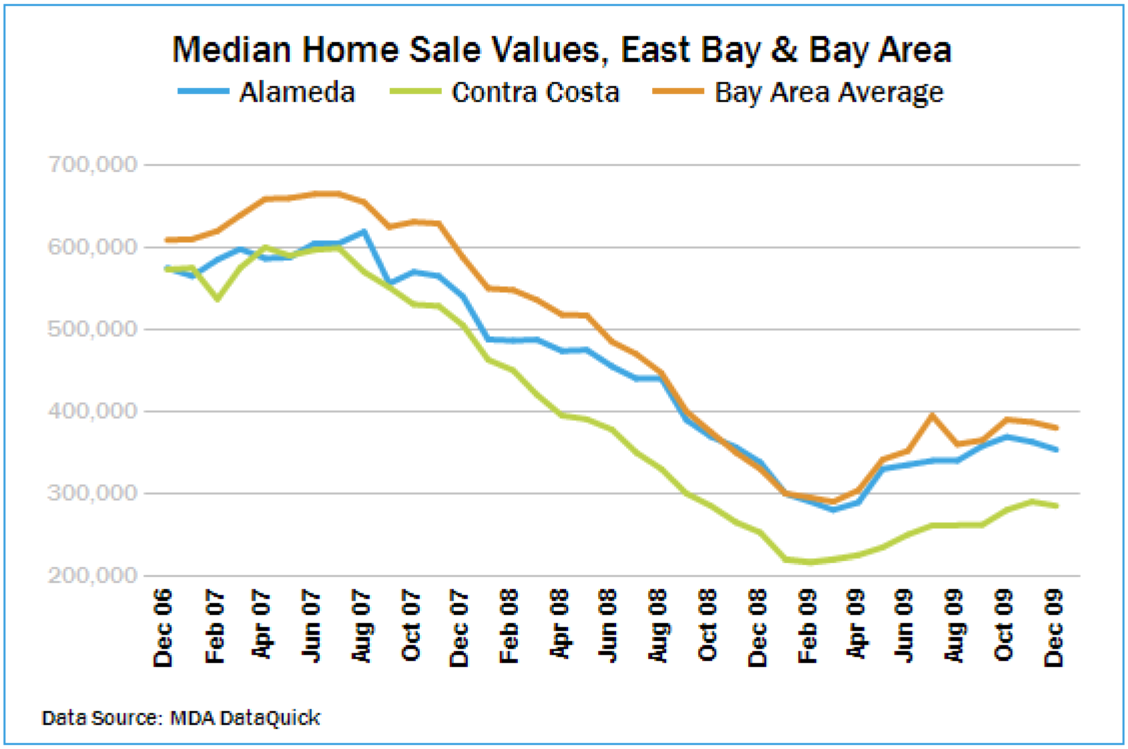
According to MDA DataQuick, the Bay Area housing market last month continued its step-by-step climb up from the bottom with upticks in sales as well as prices. Many of the underlying trends are shifting slowly, if at all, indicating sluggish change in market fundamentals, a real estate information service reported. A total of 7,828 new and resale houses and condos were sold in the nine-county region last month. That was up 13.8 percent from 6,878 in November, and up 13.6 percent from 6,889 for December 2008.

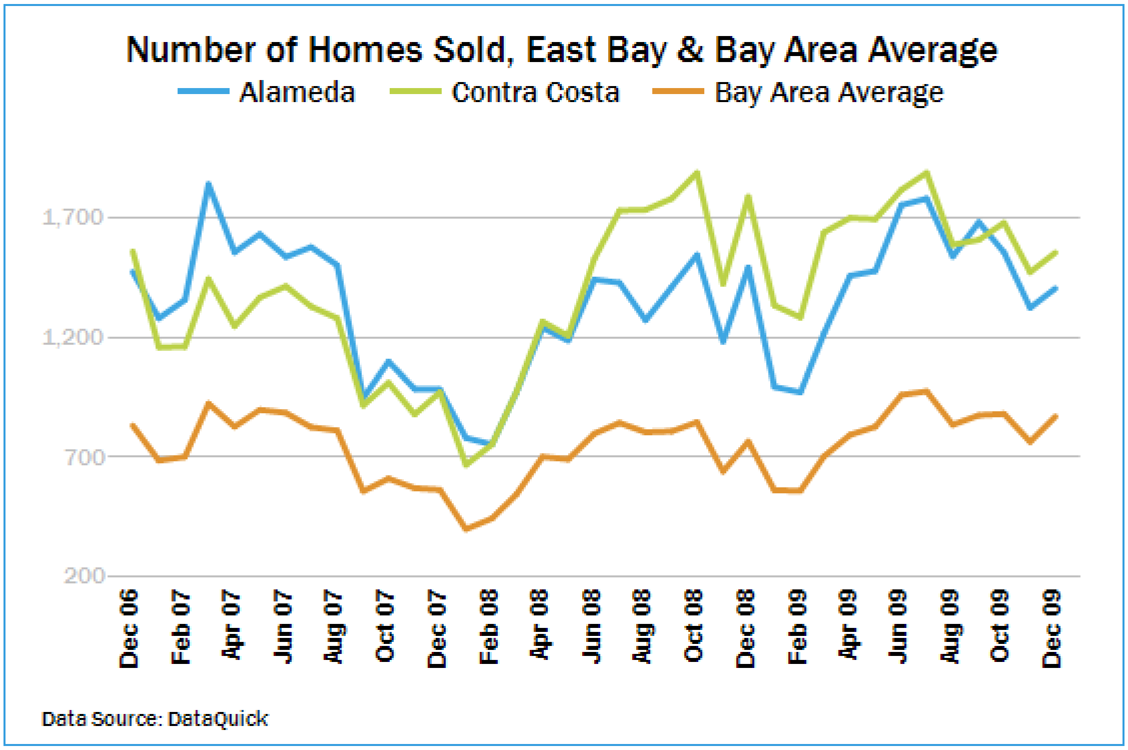
In the East Bay, Alameda County's median value was $360,000 in December 2009 – a 0.8 percent decrease from November and a 6.5 percent increase when compared to December 2008. In Contra Costa County the median home value was $287,500 – a 0.9 percent decrease from November and a 13.9 percent increase when compared to December 2008.

The median price paid for a Bay Area home was $380,000 in December 2009. That was down 1.8 percent from $387,000 for the month before, and up 15.2 percent from $330,000 for December 2008. Last month was the third in a row with a year-over-year gain, after 22 months of decline. The median hit bottom at $290,000 last March, well off the $665,000 peak reached in June and July of 2007.

All Homes by County	Number Sold Dec 2009	Sales Annual Pct. Change	Median Dec 2009	Median Annual Pct. Change
Alameda	$1,552	4.00%	$360,000	6.50%
Contra Costa	$1,634	-8.60%	$287,500	13.90%
Marin	265	60.60%	$635,000	12.90%
Napa	128	15.30%	$356,000	-11.60%

San Francisco	1,915	51.40%	$475,000	8.90%
San Mateo	499	36.30%	$650,000	5.40%
Santa Clara	642	47.60%	$586,500	9.20%
Solano	698	-4.80%	$217,500	1.90%
Sonoma	495	-7.30%	$330,000	10.00%
Bay Area	7,828	13.60%	$380,000	15.20%
Source: MDA DataQuick				





EAST BAY HOME SALES

County/City/Area	# Sold	Nov-09	Nov-08	% Change
Alameda County	1,404	$353,500	$330,000	7.12%
ALAMEDA	46	$569,000	$640,000	-11.09%
ALBANY	20	$620,500	$364,500	70.23%
BERKELEY	48	$525,000	$719,000	-26.98%
CASTRO VALLEY	68	$397,000	$455,000	-12.75%
DUBLIN	66	$485,000	$462,500	4.86%
EMERYVILLE	32	$349,000	$299,000	16.72%
FREMONT	204	$427,250	$437,500	-2.34%
HAYWARD	191	$260,000	$265,000	-1.89%
LIVERMORE	117	$385,000	$394,500	-2.41%
NEWARK	39	$342,000	$357,500	-4.34%
OAKLAND	323	$250,000	$224,000	11.61%
PLEASANTON	66	$621,000	$711,500	-12.72%
SAN LEANDRO	90	$328,000	$323,000	1.55%
SAN LORENZO	29	$300,000	$320,000	-6.25%
UNION CITY	64	$319,000	$402,000	-20.65%
Contra Costa County	1,554	$285,000	$250,000	14.00%
ALAMO	21	$1,100,000	$1,195,000	-7.95%
ANTIOCH	203	$220,000	$210,000	4.76%
BRENTWOOD	142	$312,500	$307,500	1.63%
CLAYTON	20	$560,000	$521,000	7.49%
CONCORD	161	$270,000	$241,000	12.03%
DANVILLE	80	$780,000	$1,029,000	-24.20%
DISCOVERY BAY	37	$307,000	$299,250	2.59%
EL CERRITO	14	$509,250	$521,000	-2.26%
EL SOBRANTE	29	$265,000	$357,250	-25.82%
HERCULES	33	$301,000	$373,750	-19.46%
LAFAYETTE	19	$900,000	$882,500	1.98%
MARTINEZ	47	$337,000	$335,000	0.60%
MORAGA	12	$655,000	$995,000	-34.17%
OAKLEY	79	$250,500	$256,500	-2.34%
ORINDA	17	$805,500	$985,000	-18.22%
PINOLE	27	$267,000	$271,500	-1.66%
PITTSBURG	161	$182,000	$157,500	15.56%
PLEASANT HILL	24	$425,000	$410,000	3.66%
RICHMOND	112	$144,500	$138,000	4.71%
RODEO	10	$201,000	$158,000	27.22%
SAN PABLO	78	$186,500	$160,000	16.56%
SAN RAMON	119	$590,000	$711,500	-17.08%
WALNUT CREEK	105	$434,000	$500,000	-13.20%
Source: DataQuick / SF Chronicle				

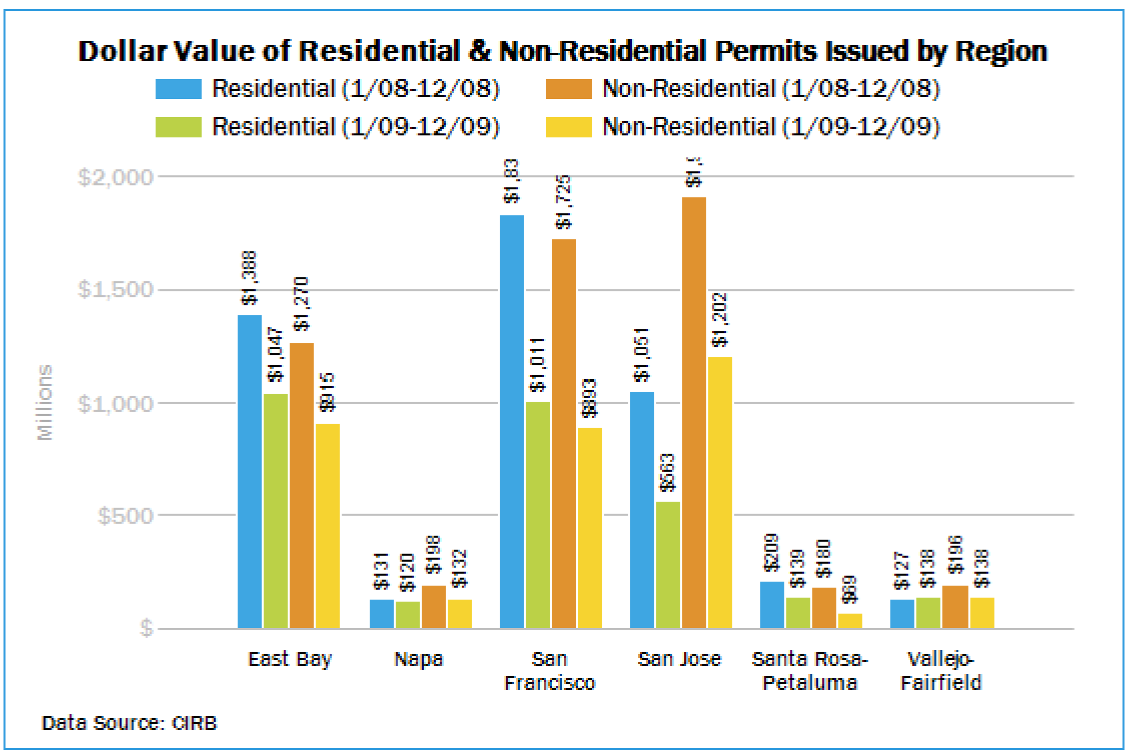
BAY AREA CONSTRUCTION PERMITS

The following tables and graphs compare the 12-month periods of January 2008 to December 2008 and January 2009 to December 2009.

In a comparison of these two twelve-month periods, the East Bay showed a decrease in construction permit values, falling 26.2 percent from the previous period. All other Bay Area regions posted losses during this period as well, with San Francisco showing the sharpest decrease of over 46 percent over the previous 12-month period.

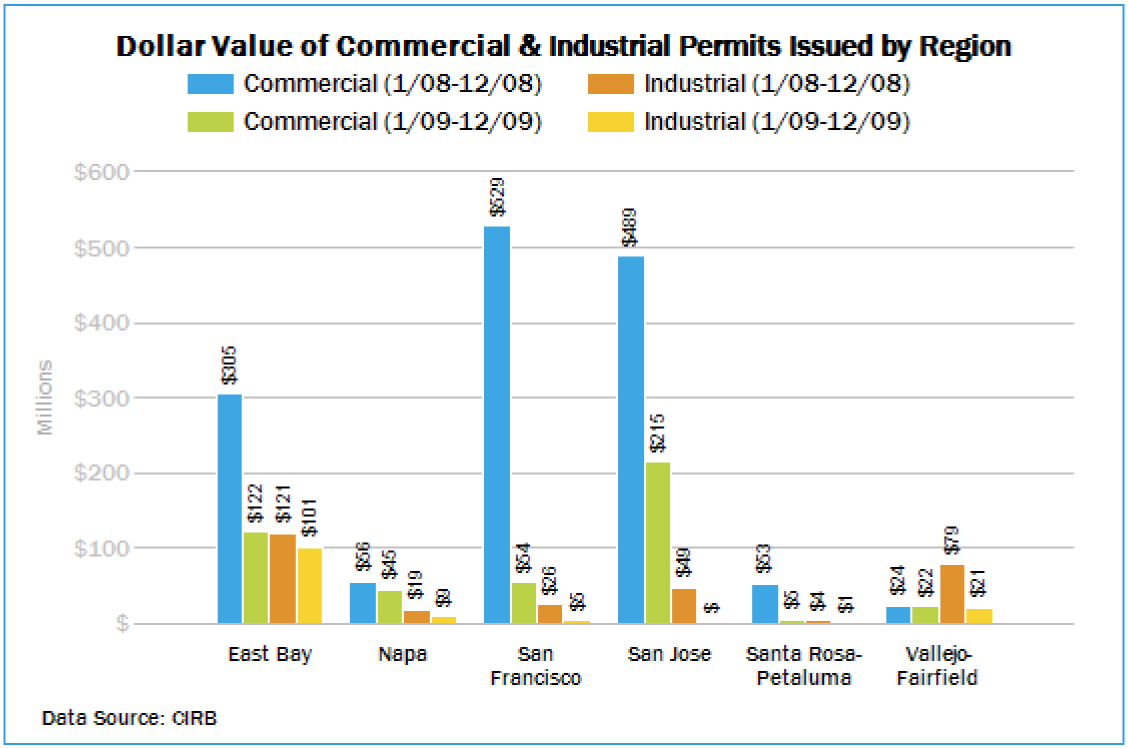
RESIDENTIAL & NON-RESIDENTIAL PERMITS

When comparing the two previous 12-month periods of January 2008 to December 2008 and January 2009 to December 2009, residential permit values fell throughout the Bay Area with the steepest declines occurring in the San Francisco (down 45 percent) and San Jose (down 46.5 percent) regions. In the East Bay, residential construction fell 24.5 percent. Non-residential construction permit values also declined in all Bay Area regions during this period, falling 28 percent in the East Bay and over 48 percent in the San Francisco region.



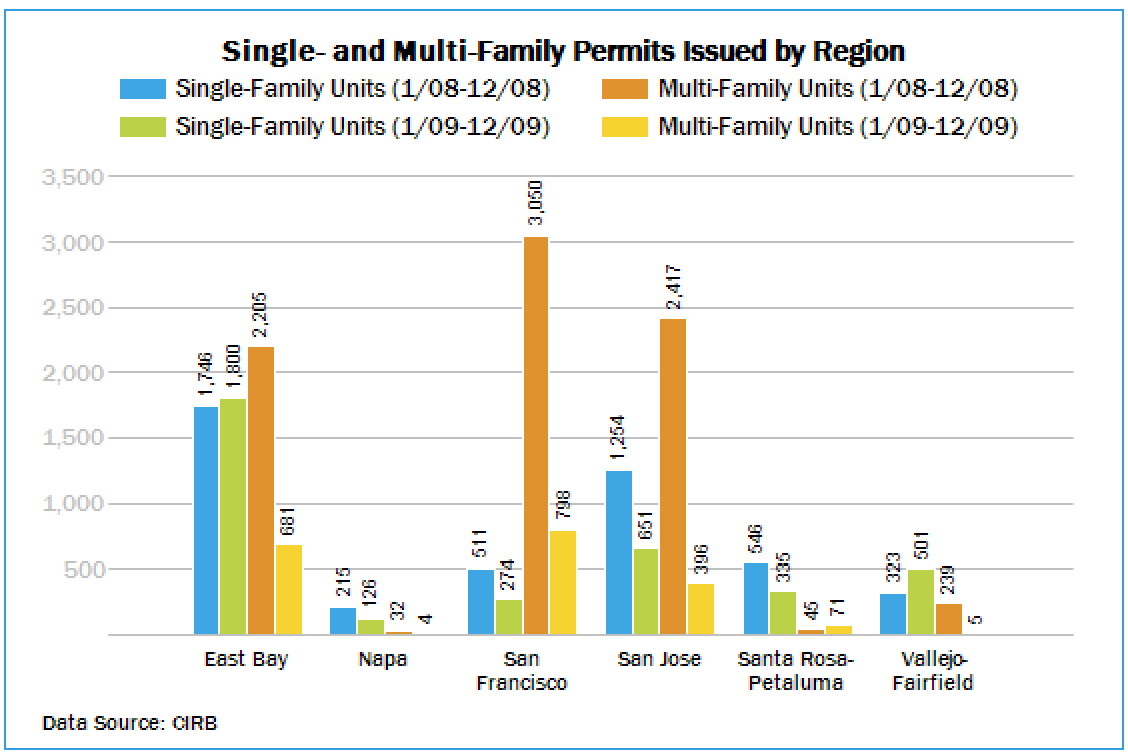
COMMERCIAL & INDUSTRIAL PERMITS

In a comparison of commercial and industrial construction permits issued during the same two 12-month periods, the dollar value of commercial permits issued in the East Bay fell 60 percent when compared with the previous period. Commercial building permit values declined throughout the Bay Area during this period, falling most sharply in the San Francisco region (down 89.8 percent). Industrial permit values were also down during this period, falling 16.2 percent in the East Bay.



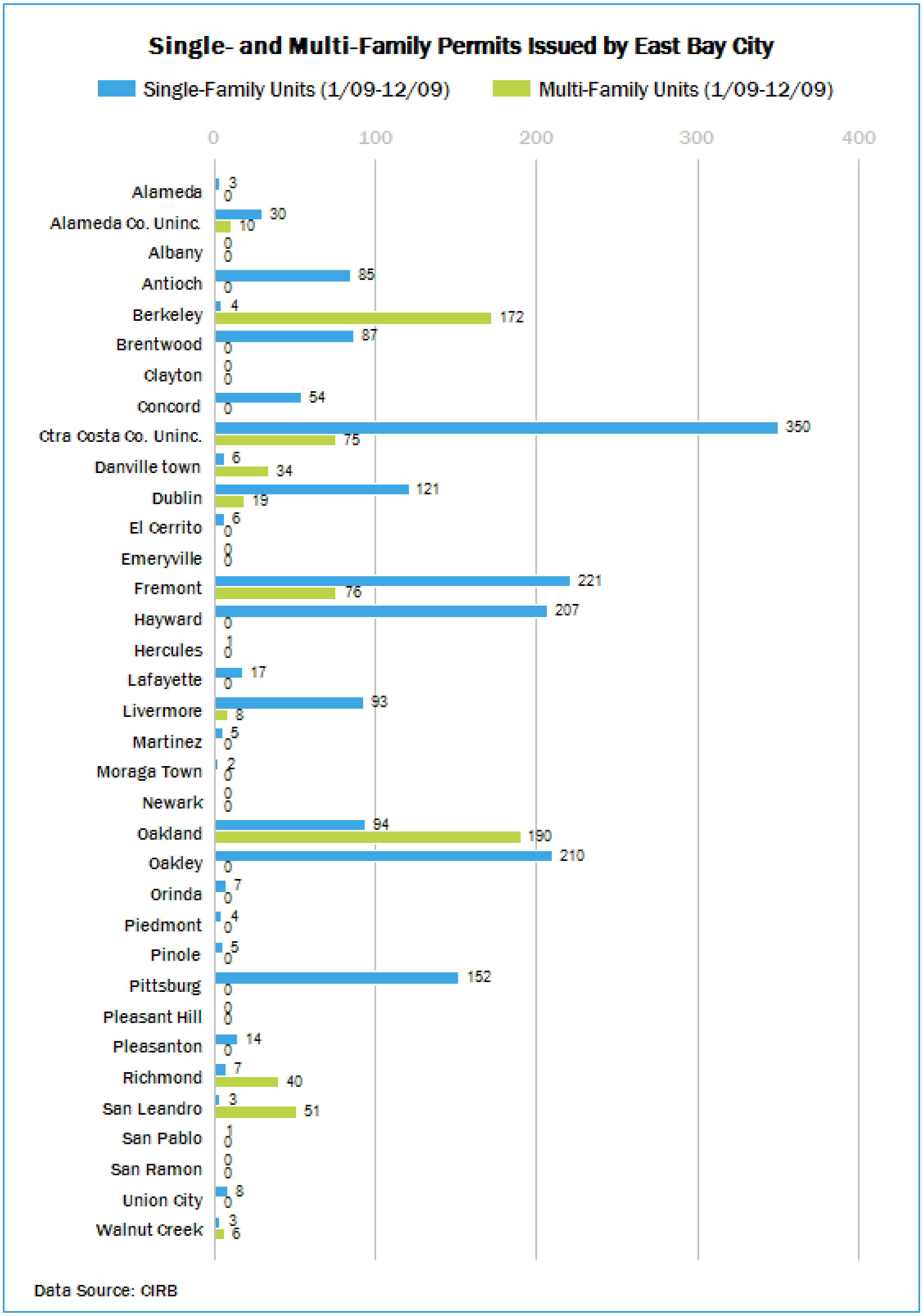
SINGLE AND MULTI-FAMILY PERMITS

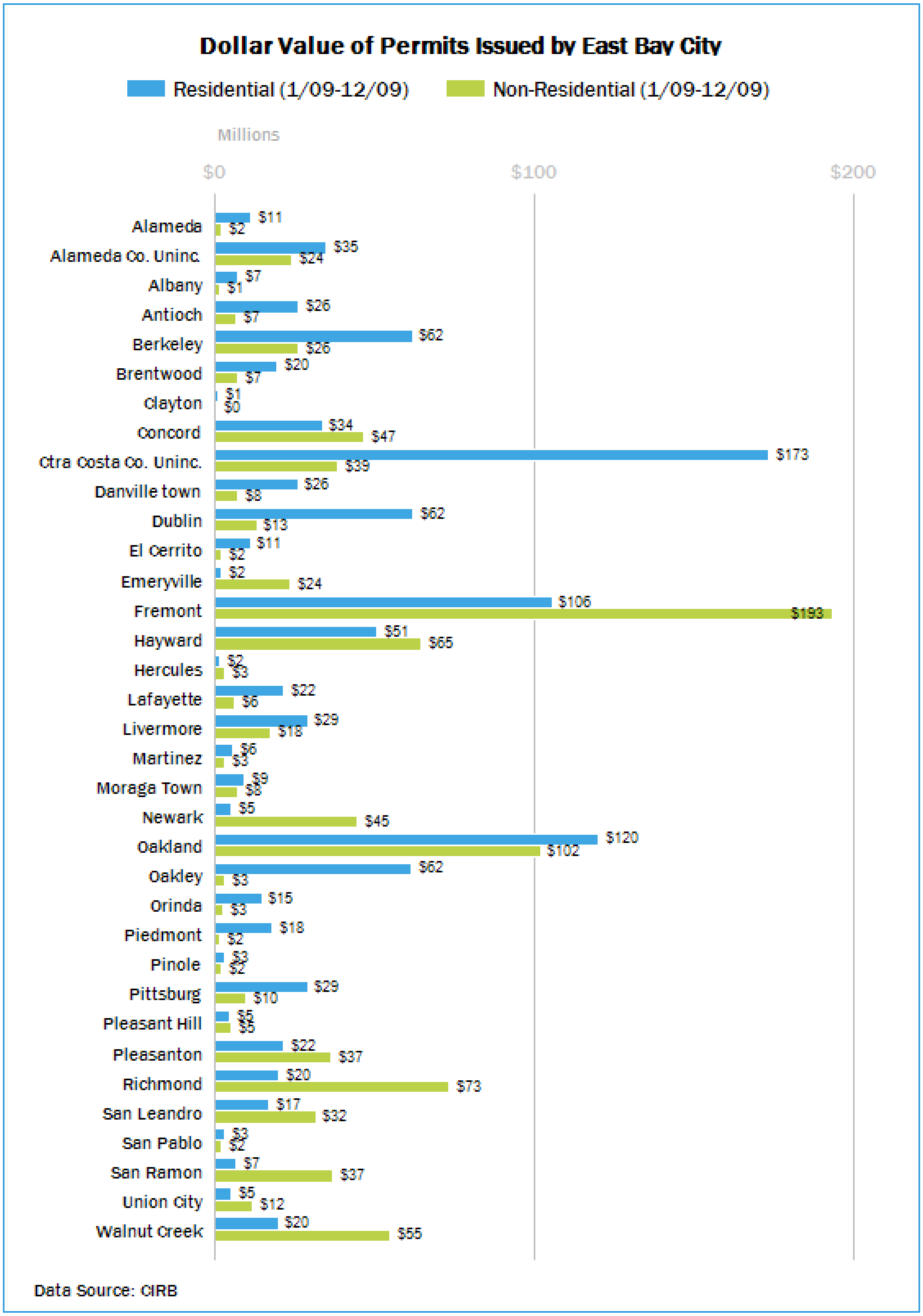
In the East Bay permits for single-family units increased 3.1 percent over the previous 12-month period while multi-family permits fell 69.1 percent.



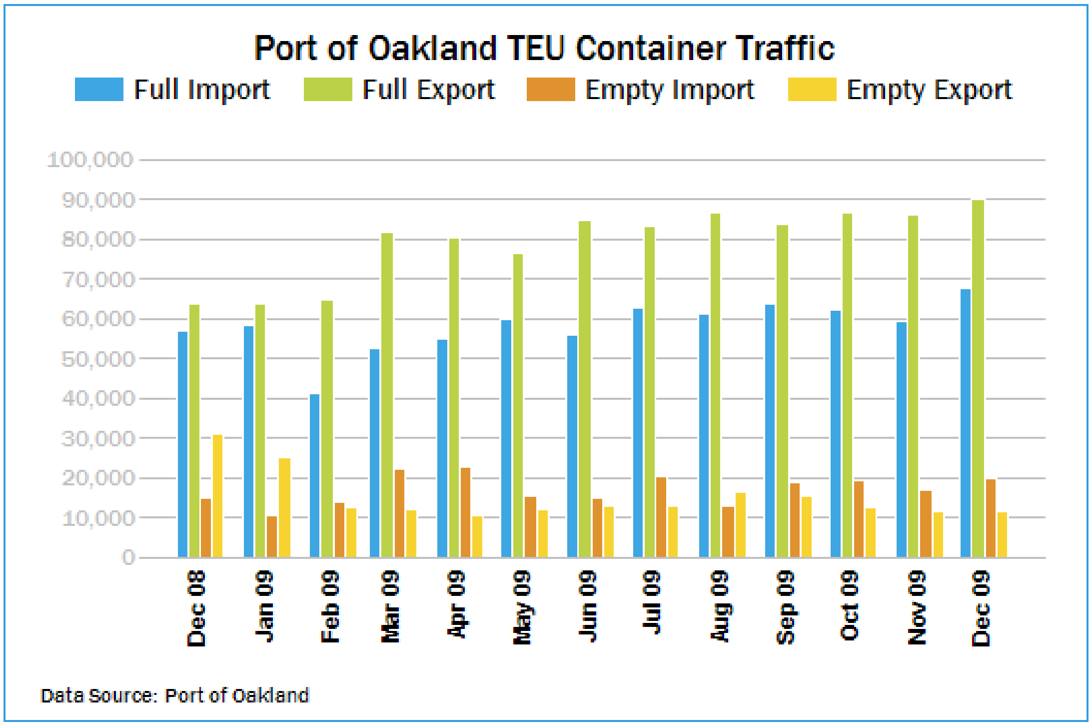
EAST BAY CONSTRUCTION

The following charts show the number and value of single, multi-family, residential and non-residential construction permits issued in East Bay cities for the twelve-month period ending December 2009.

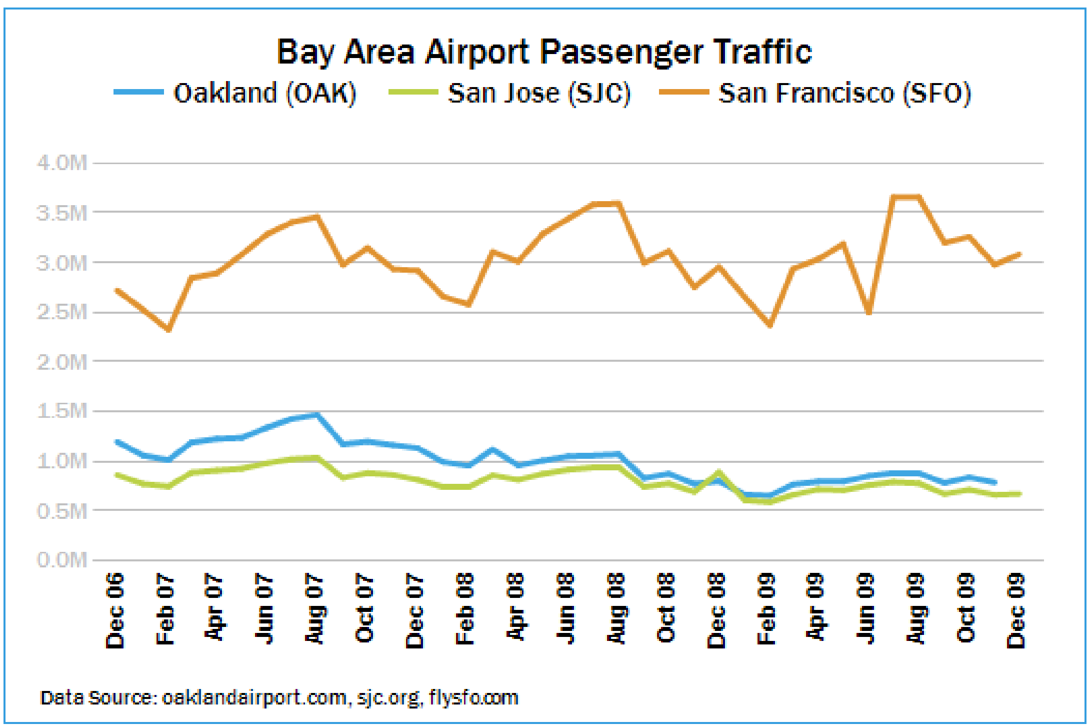



Dollar Value of Permits Issued by East Bay City
Residential (1/09-12/09)
Non-Residential (1/09-12/09)
Millions
$0
$100
$200
Alameda $11 $2
Alameda Co. Uninc. $35 $24
Albany $7 $1
Antioch $26 $7
Berkeley $62 $26
Brentwood $20 $7
Clayton $1 $0
Concord $34 $47
Ctra Costa Co. Uninc. $173 $39
Danville town $26 $8
Dublin $62 $13
El Cerrito $11 $2
Emeryville $2 $24
Fremont $106 $193
Hayward $51 $65
Hercules $2 $3
Lafayette $22 $6
Livermore $29 $18
Martinez $6 $3
Moraga Town $9 $8
Newark $5 $45
Oakland $120 $102
Oakley $62 $3
Orinda $15 $3
Piedmont $18 $2
Pinole $3 $2
Pittsburg $29 $10
Pleasant Hill $5 $5
Pleasanton $22 $37
Richmond $20 $73
San Leandro $17 $32
San Pablo $3 $2
San Ramon $7 $37
Union City $5 $12
Walnut Creek $20 $55
Data Source: CIRB

TRADE & TRAVEL



Traffic of full import containers traveling through the Port of Oakland increased 17.9 percent between December 2008 and December 2009, while full exports increased 41.1 percent. Empty container imports increased 32.9 percent and empty exports decreased 63.2 percent.



At Oakland International Airport, ridership increased slightly (up 1.8 percent) between November 2008 and November 2009. Traffic through San Francisco International increased 4.2 percent annually, and at San Jose Mineta Airport traffic decreased 32.2 percent during the same period.