

Searching for a Bottom; Considering a Recovery

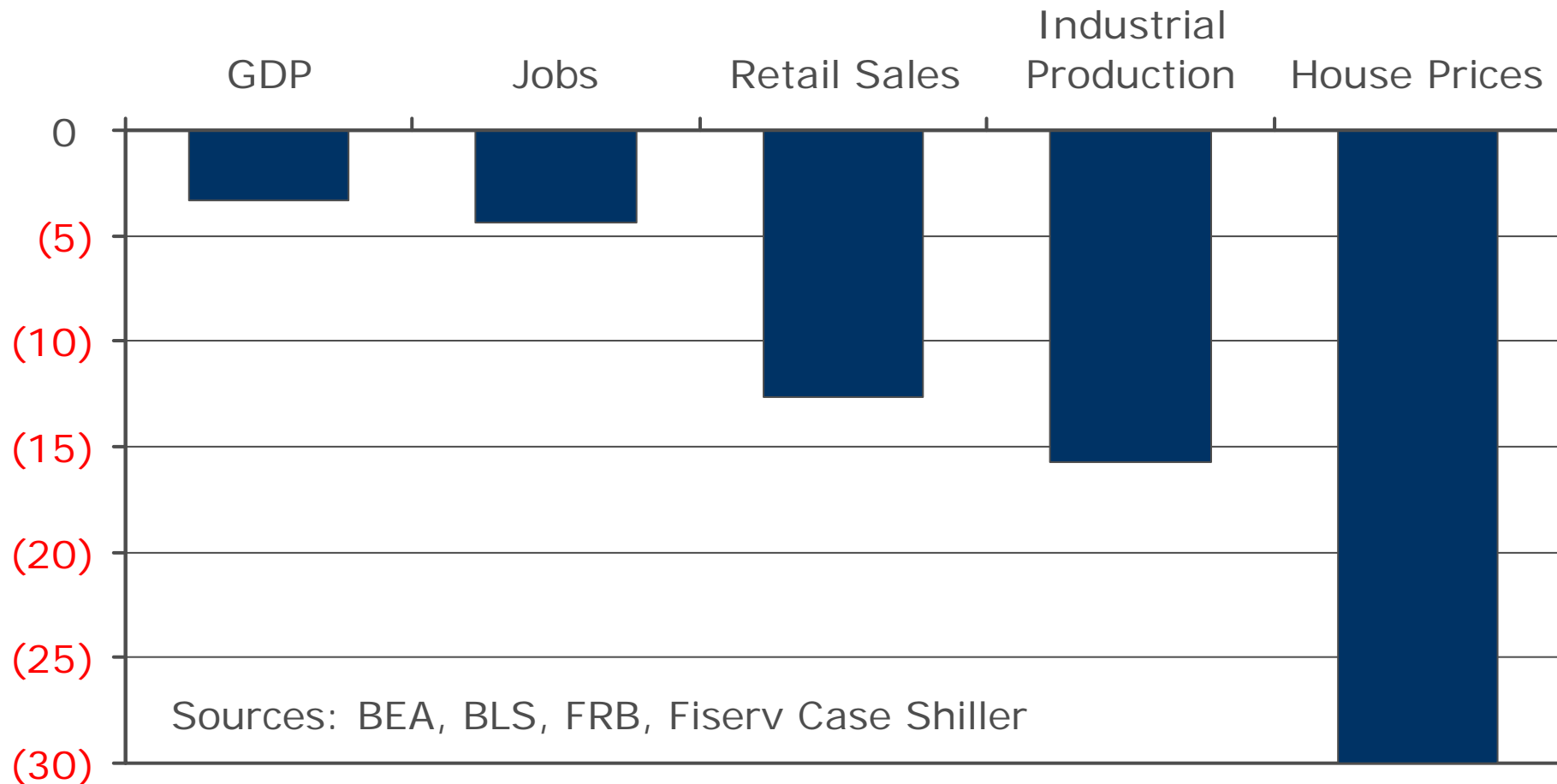
Presented by:

Steve Cochrane,
Managing Director

June 25, 2009

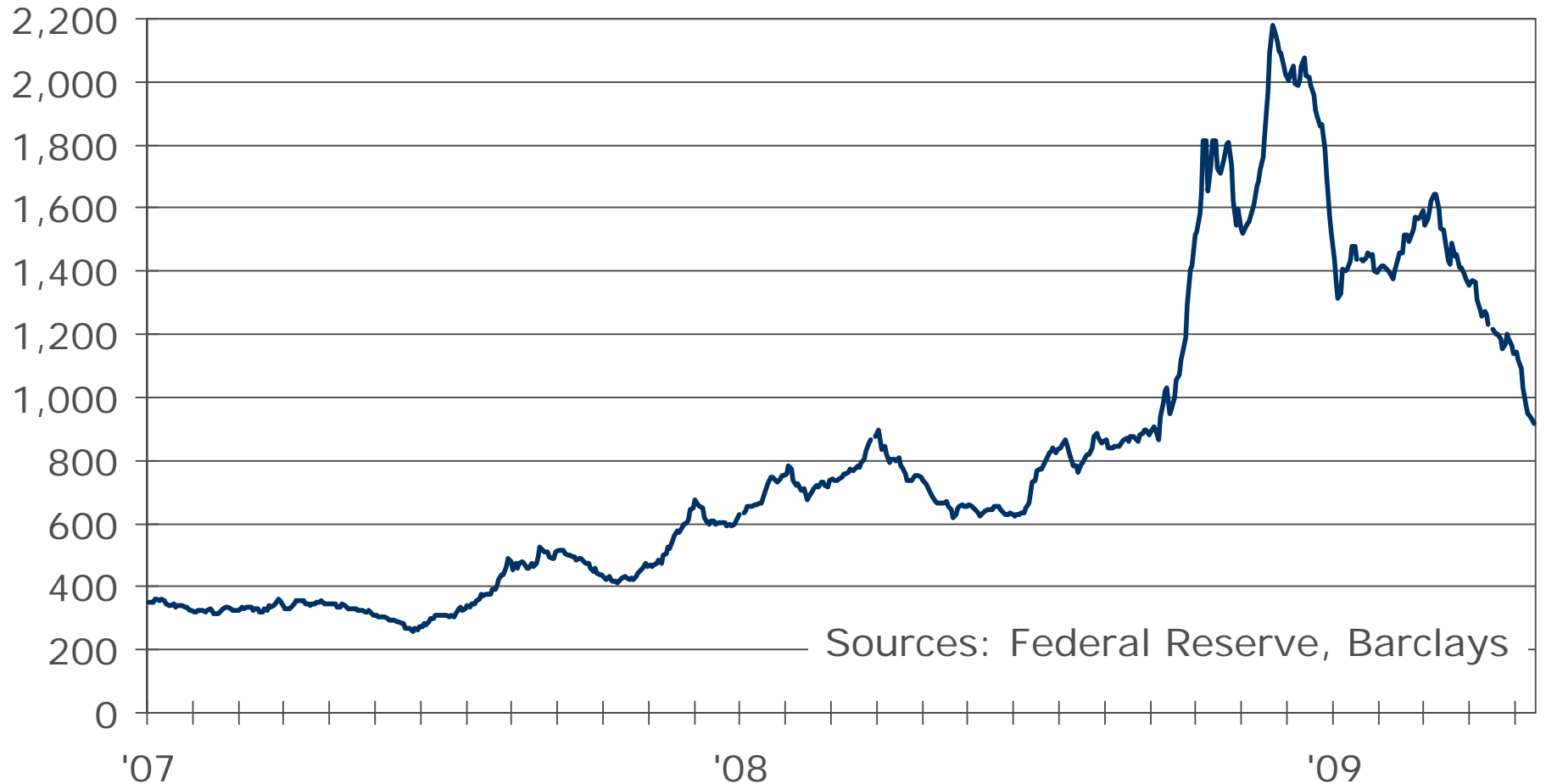
Intense, But No Longer Intensifying...

% change from peak, U.S.

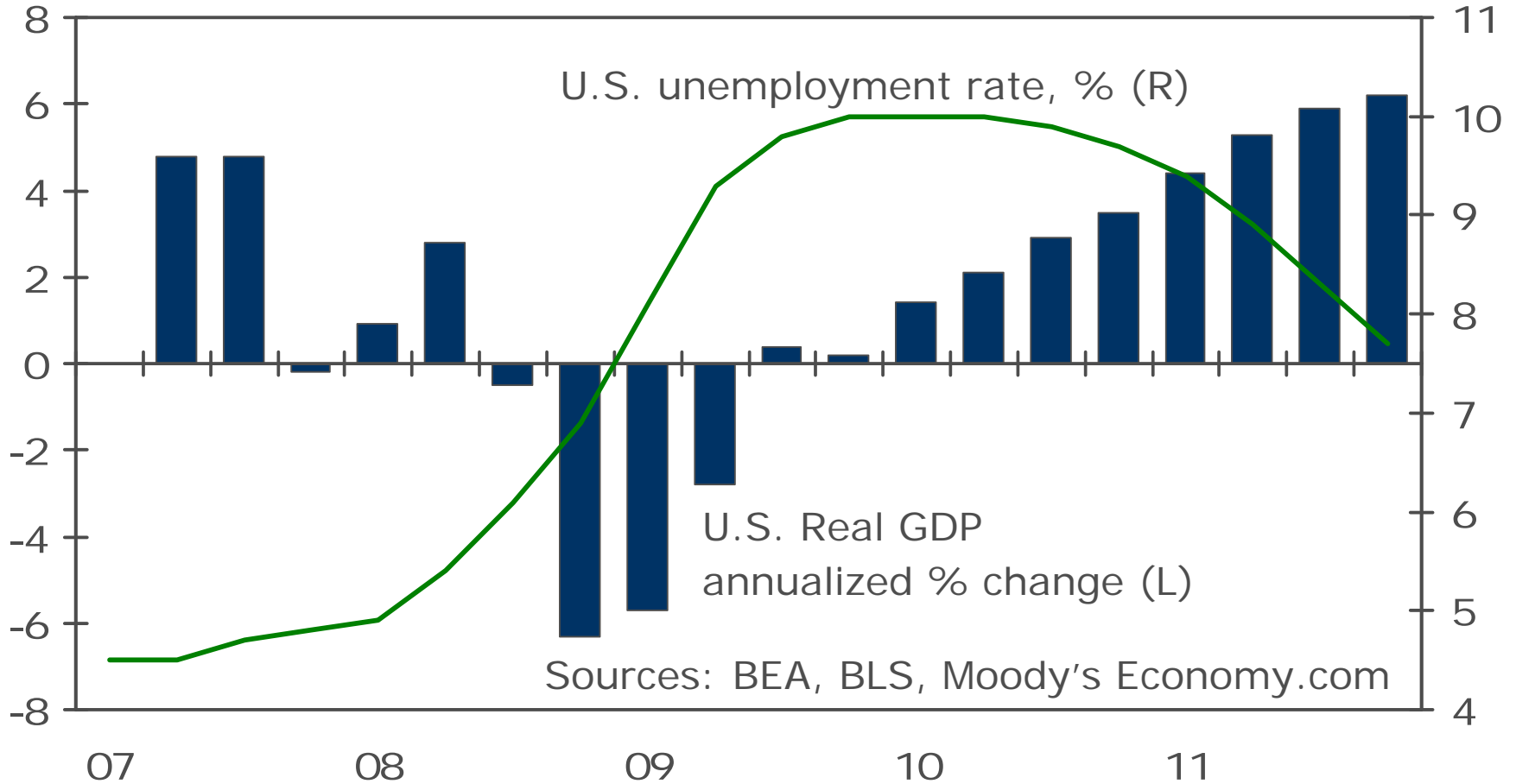


...Cheering Financial Markets

Junk corporate bond spread, basis points

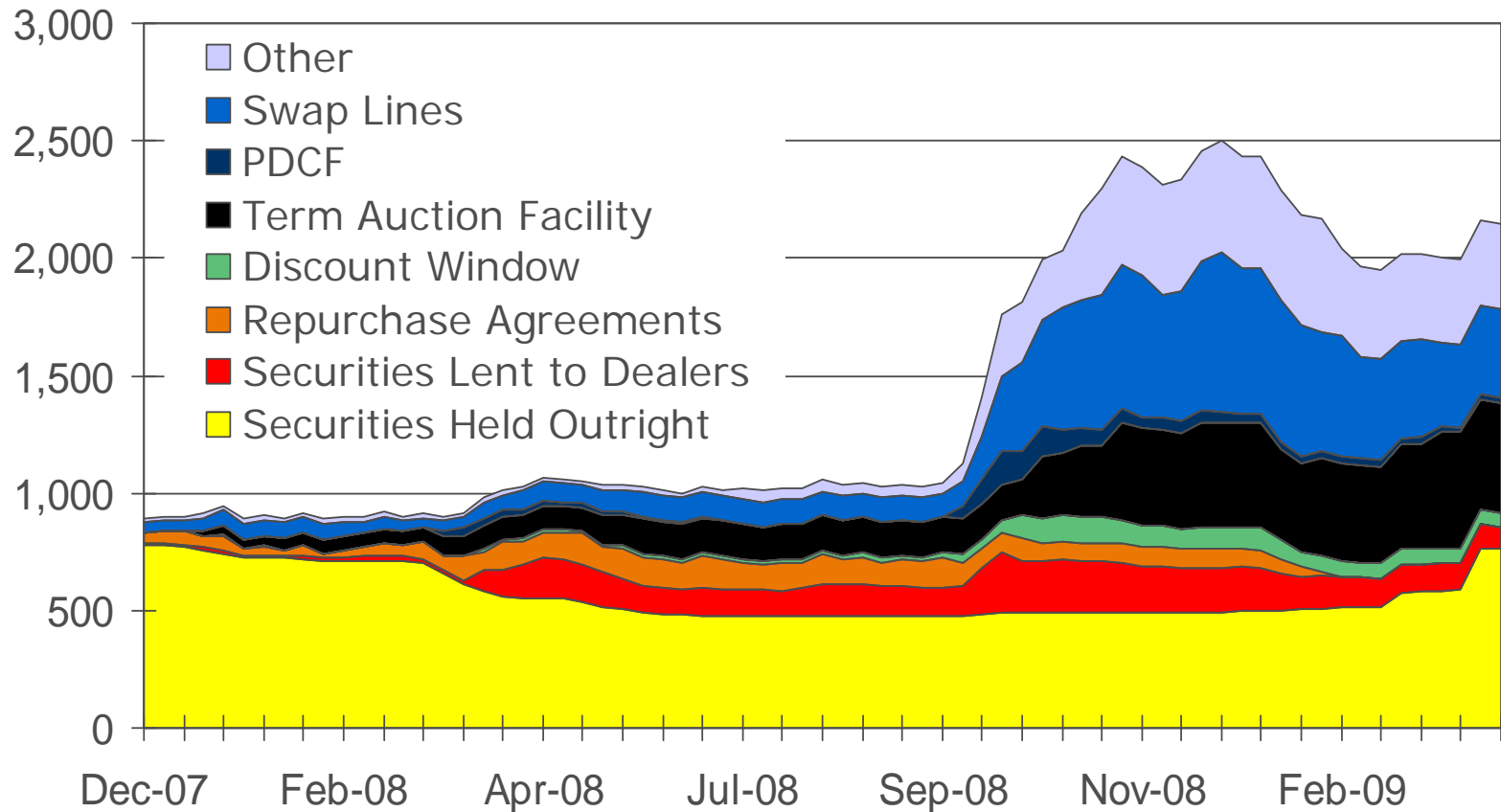


A Long and Deep Recession



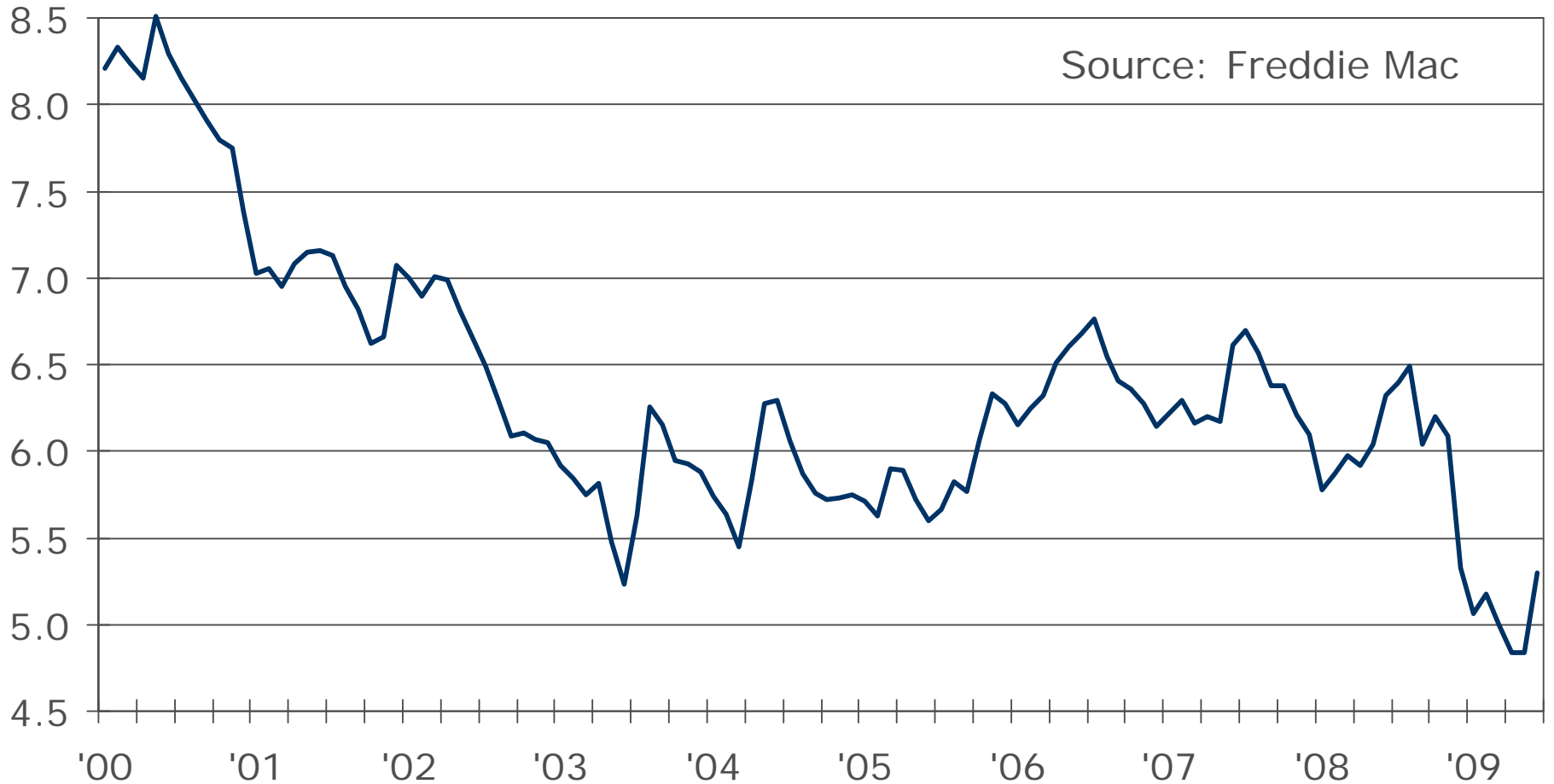
The Fed Prints Money...

Federal Reserve's balance sheet, \$ bil



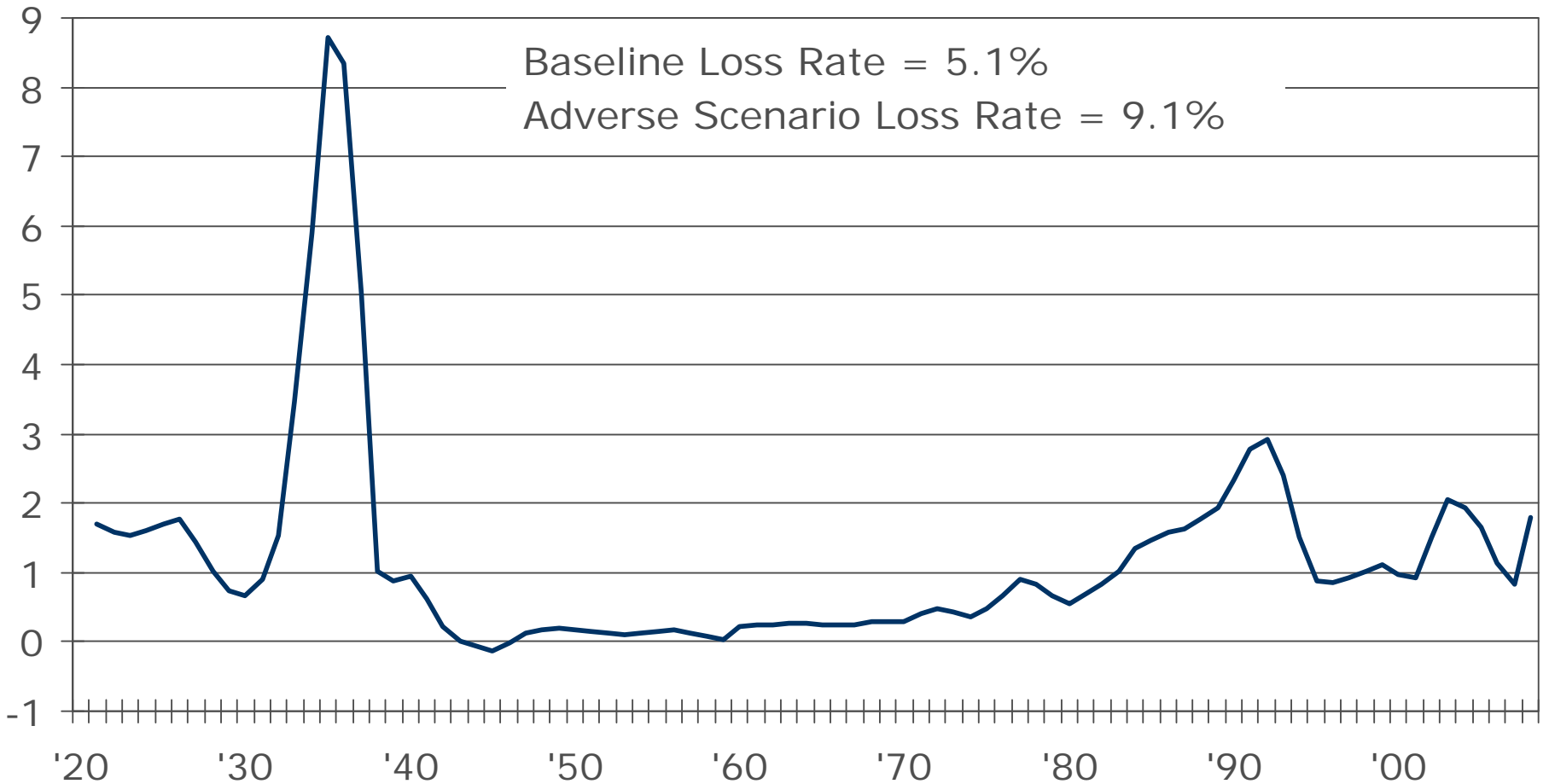
...Pushing Mortgage Rates to Record Lows

Freddie Mac Fixed Mortgage Rate



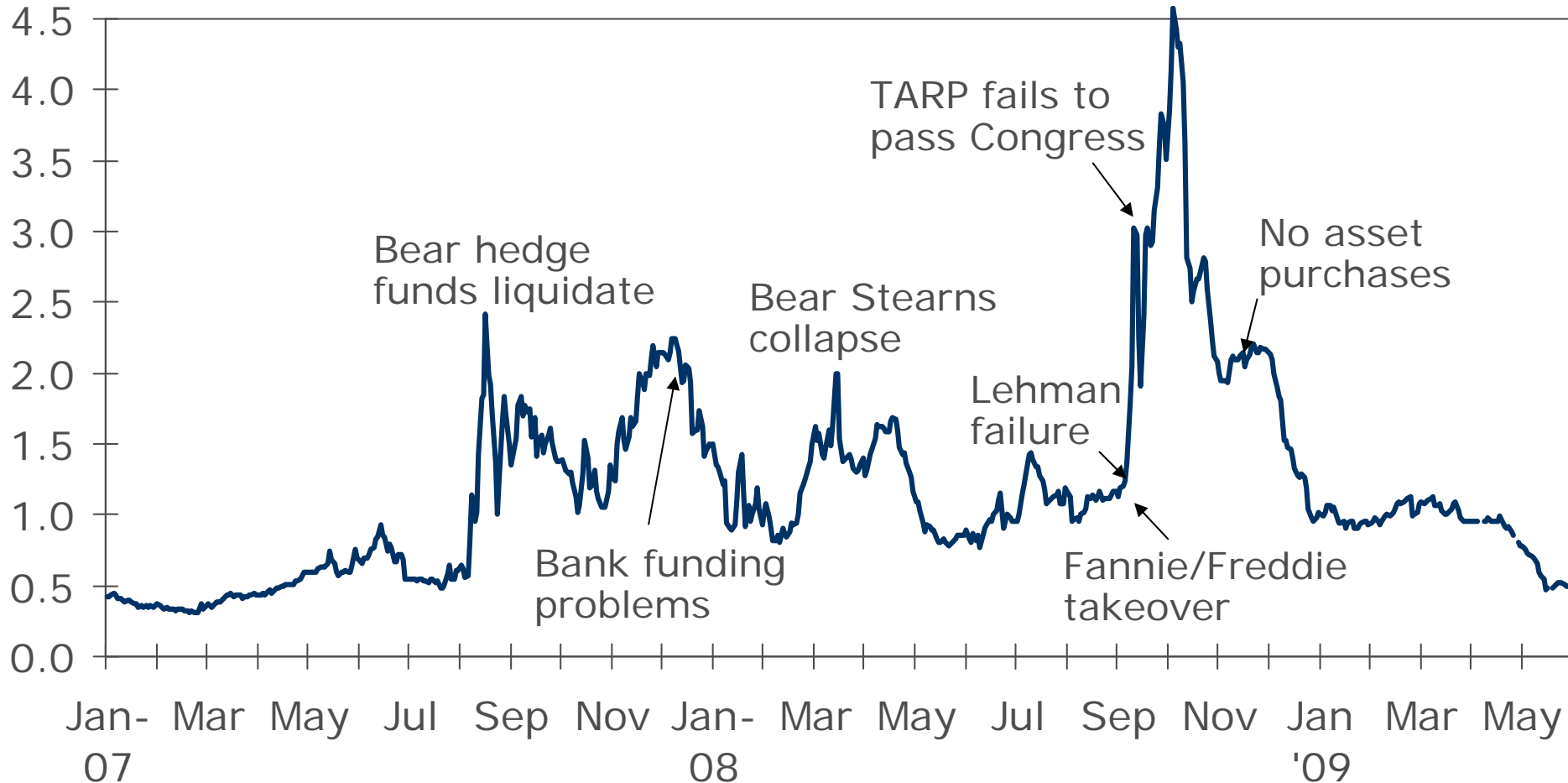
Bank Stress Tests Are Stressful...

Commercial Bank two-year loan loss rate



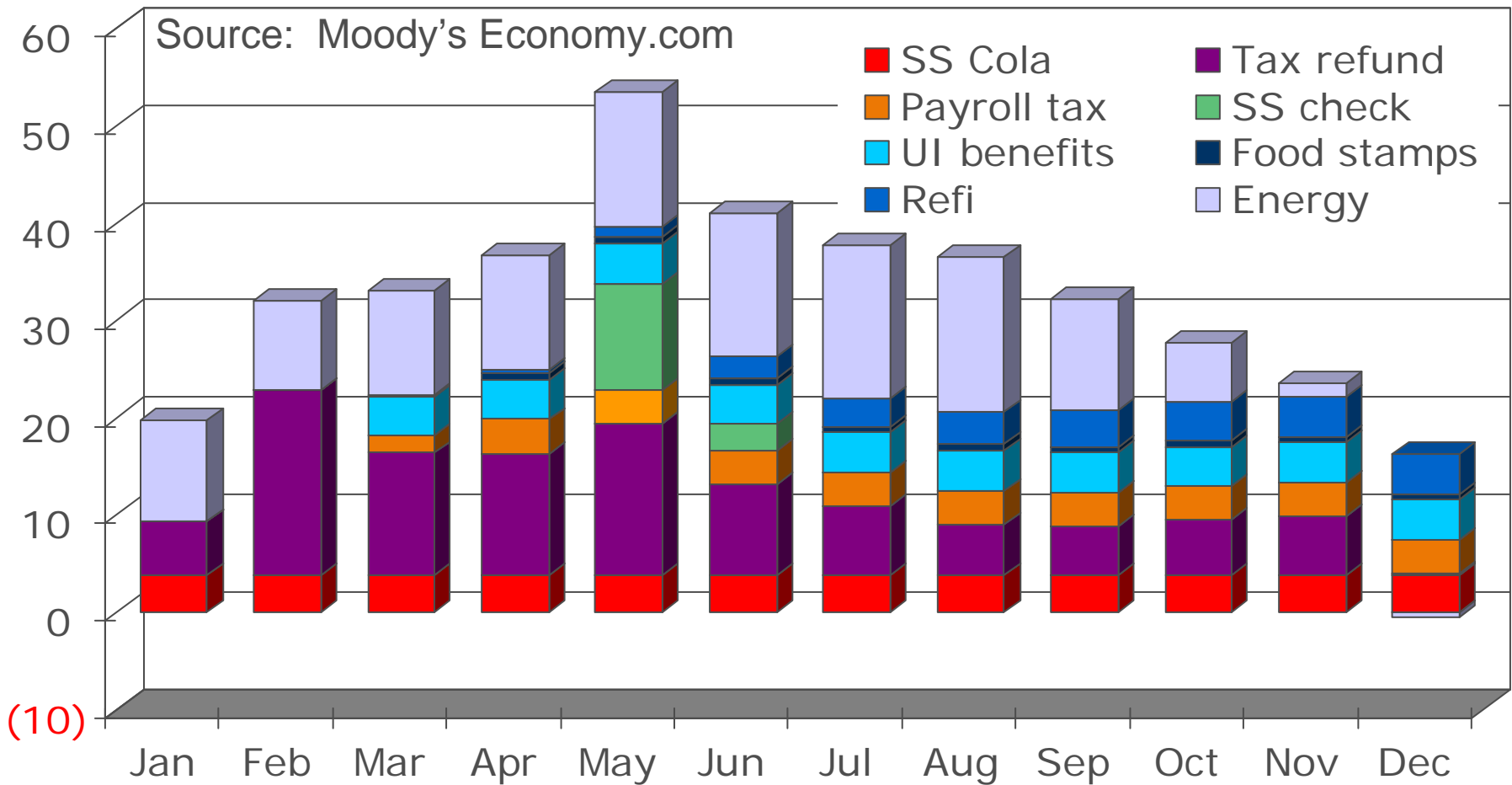
...Stabilizing the Banking System

Difference between 3 month Libor and Treasury bill yields



The Moment Of Truth For Stimulus

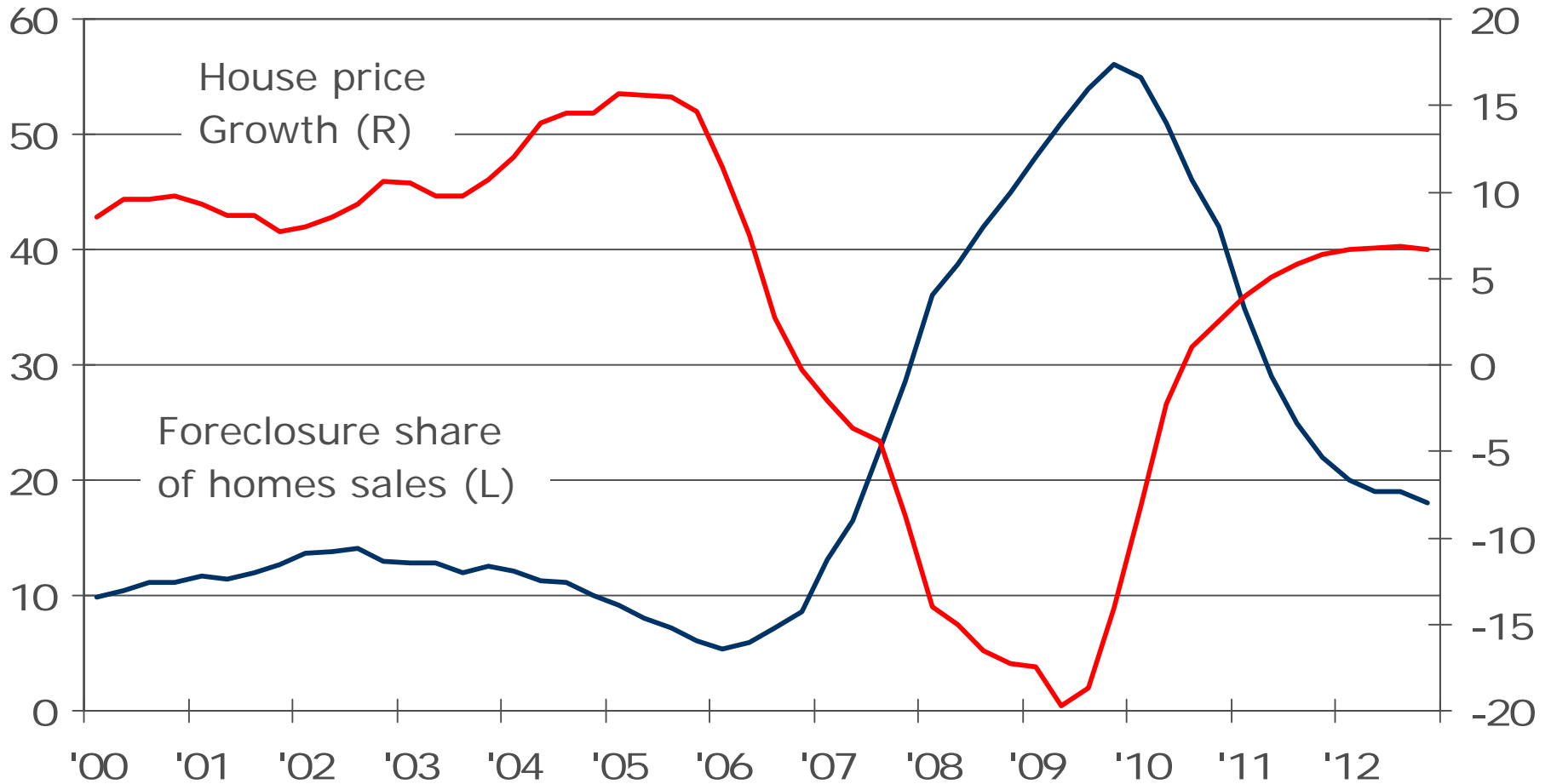
Extra cash, 2009 vs. 2008, \$ bil



(10)

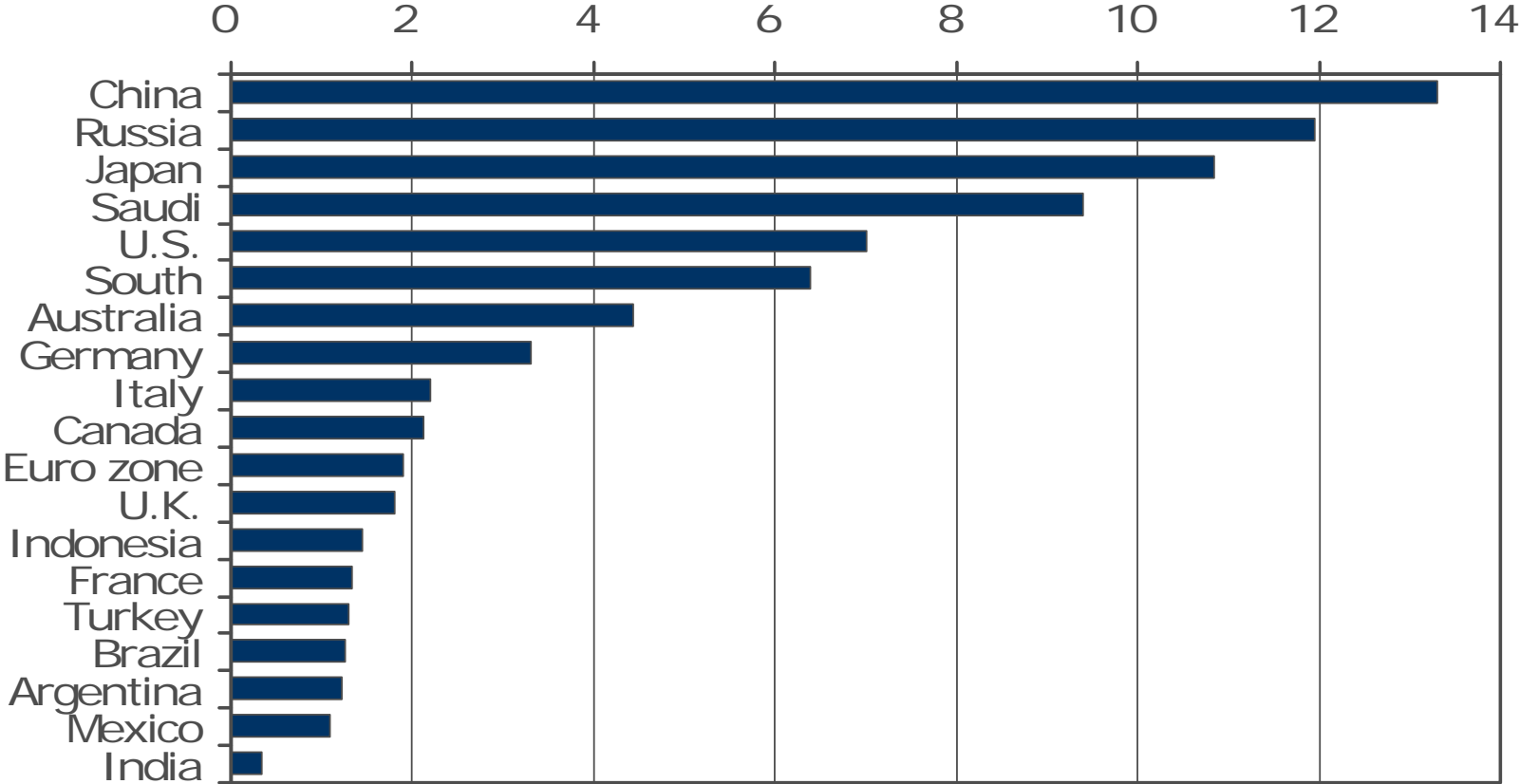
Foreclosures Will Peak as Mods Kick-In

Sources: Fiserv Case Shiller, Equifax, Moody's Economy.com



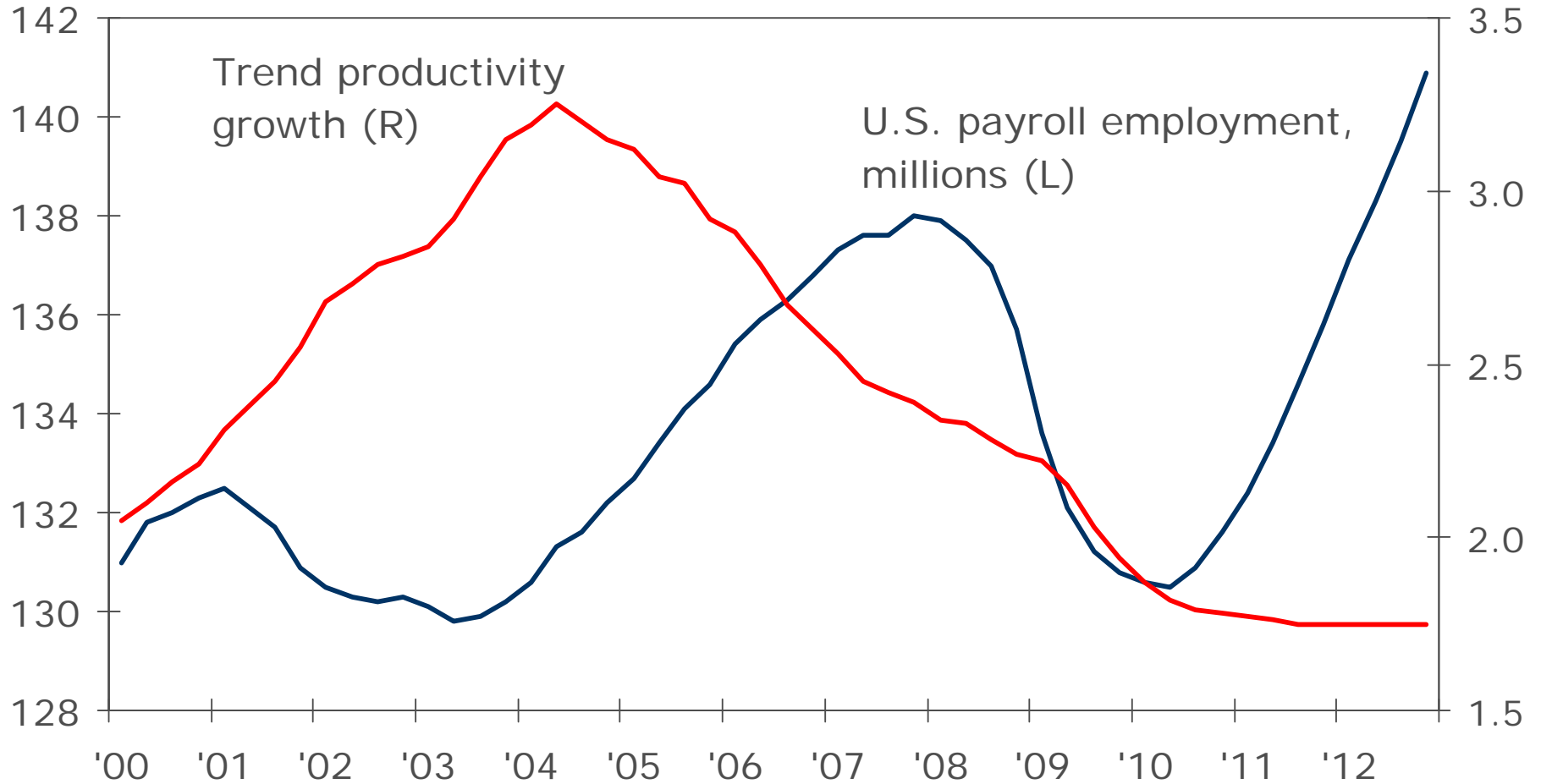
Impressive Global Policy Response

Total fiscal stimulus as a % of 2008 GDP



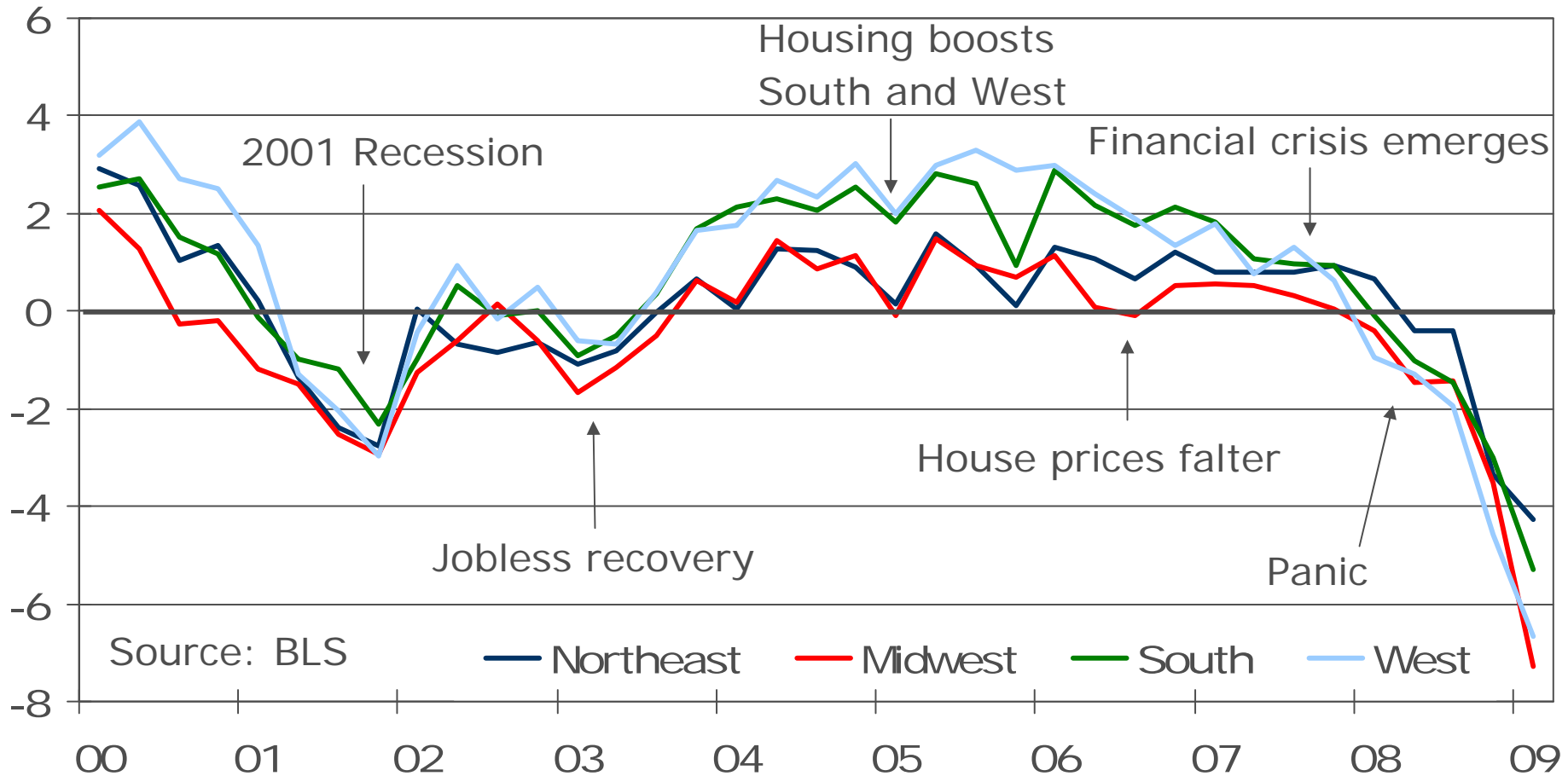
Not a Jobless Recovery

Sources: BLS, Moody's Economy.com



Employment Has Plunged Everywhere...

Employment, quarterly annualized % change



Source: BLS

— Northeast

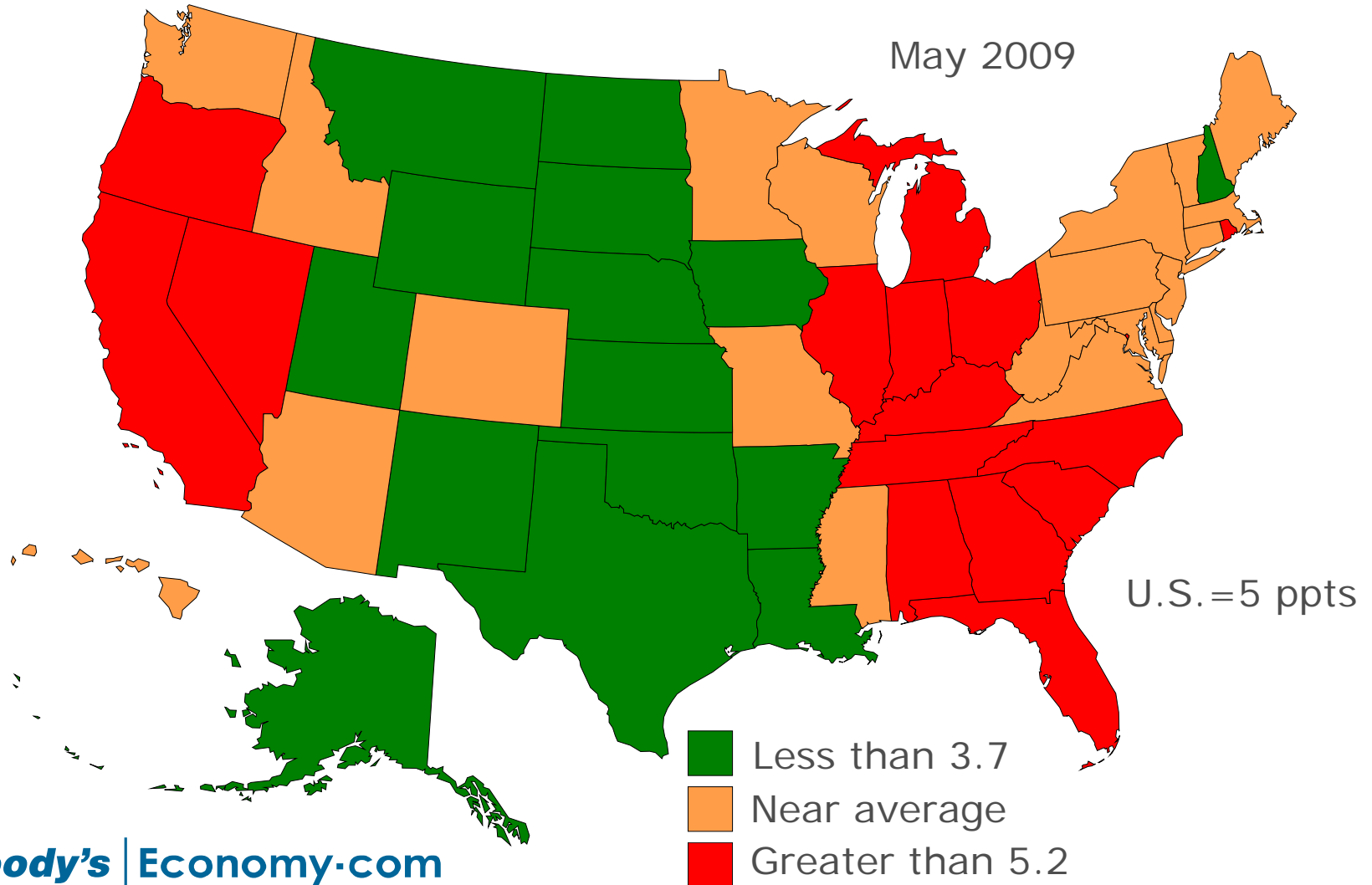
— Midwest

— South

— West

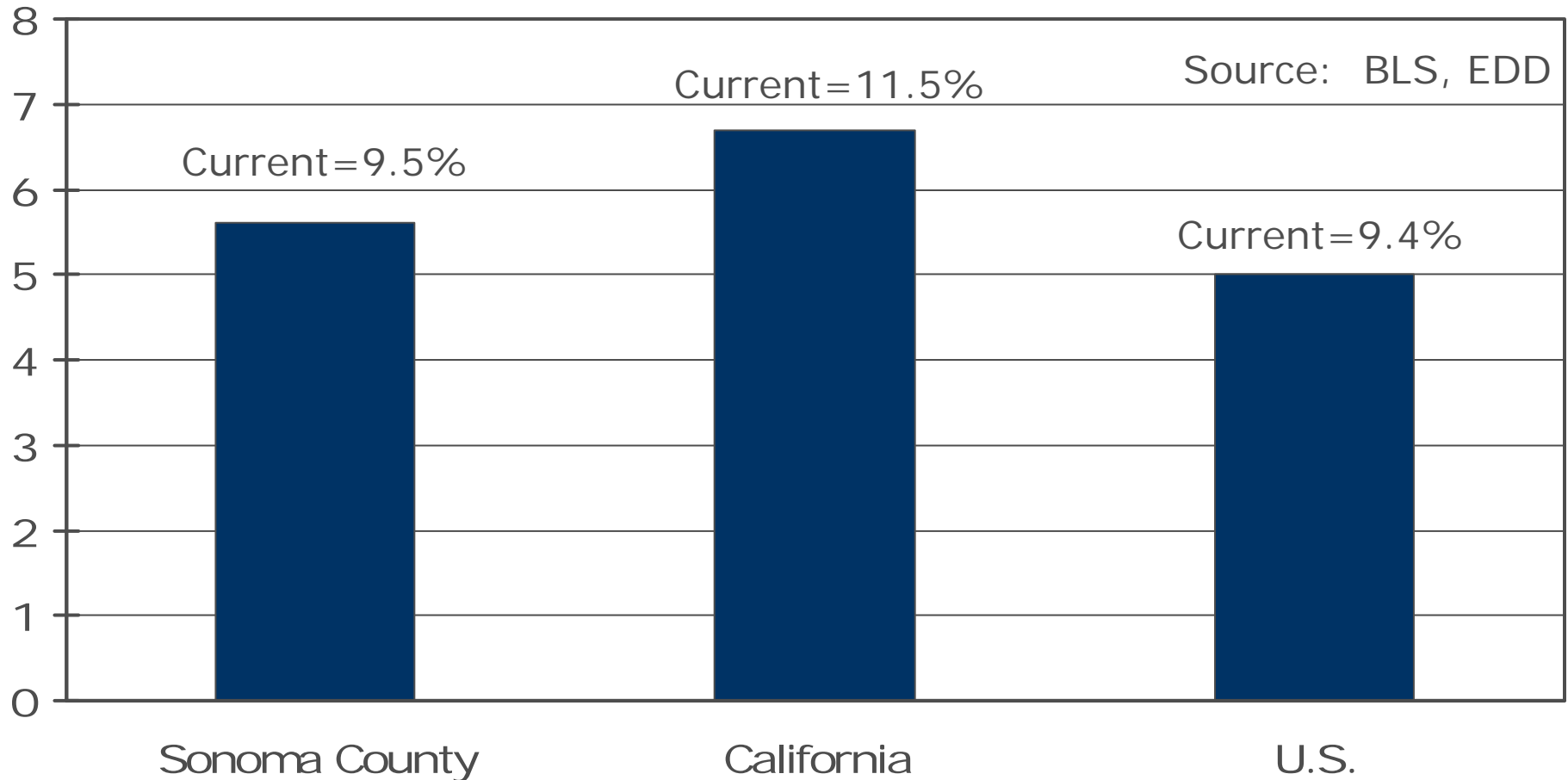
Strongest Labor Markets in the Central Core...

Unemployment rate, change from cyclical low, ppts



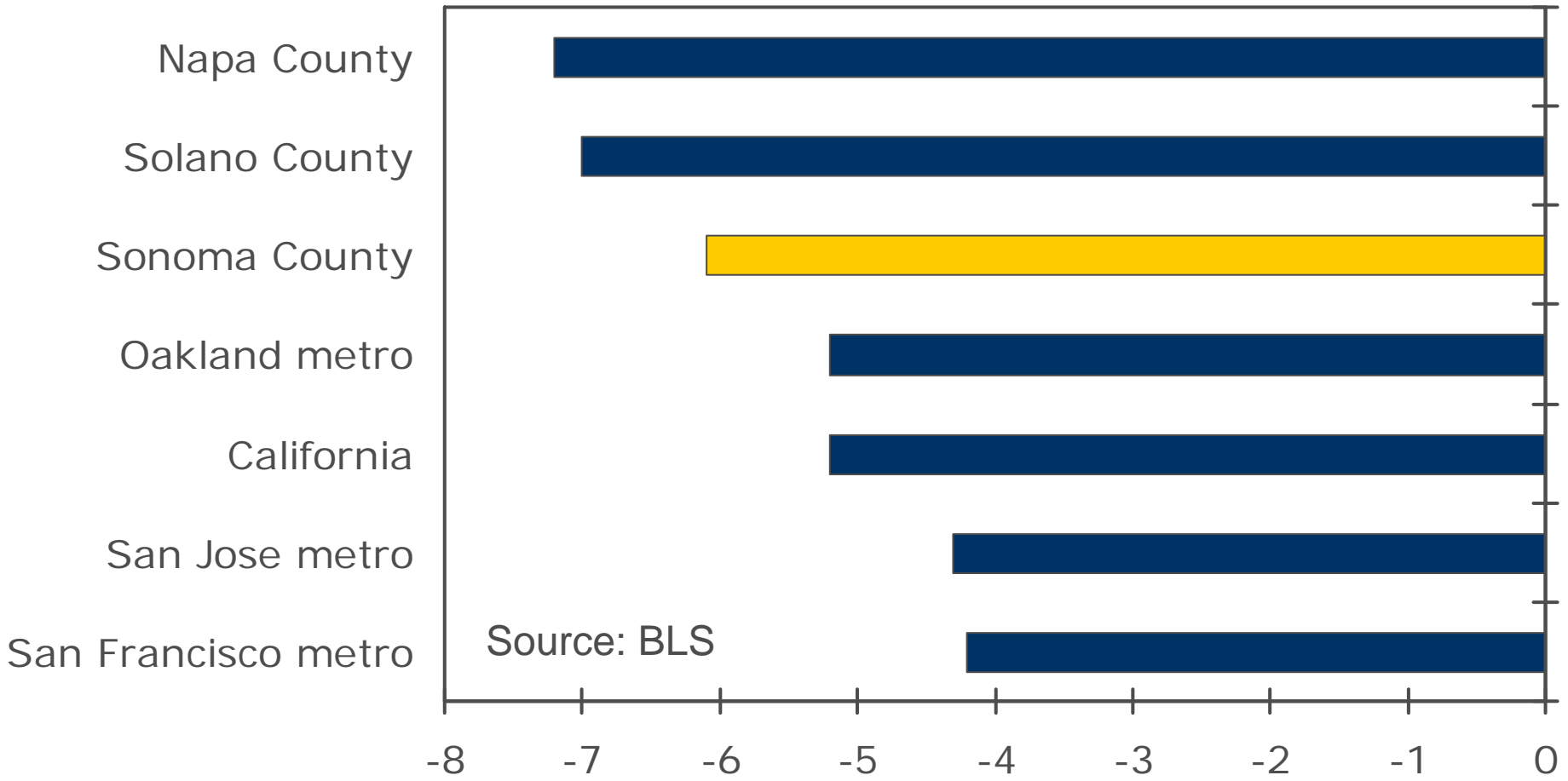
A Deep Recession for Sonoma County

Percentage point change in unemployment rate from low



...With Much Pain in Sonoma County

Employment, 3 mo MA, May 2009, % change from peak



West Metro Areas—Payroll Employment

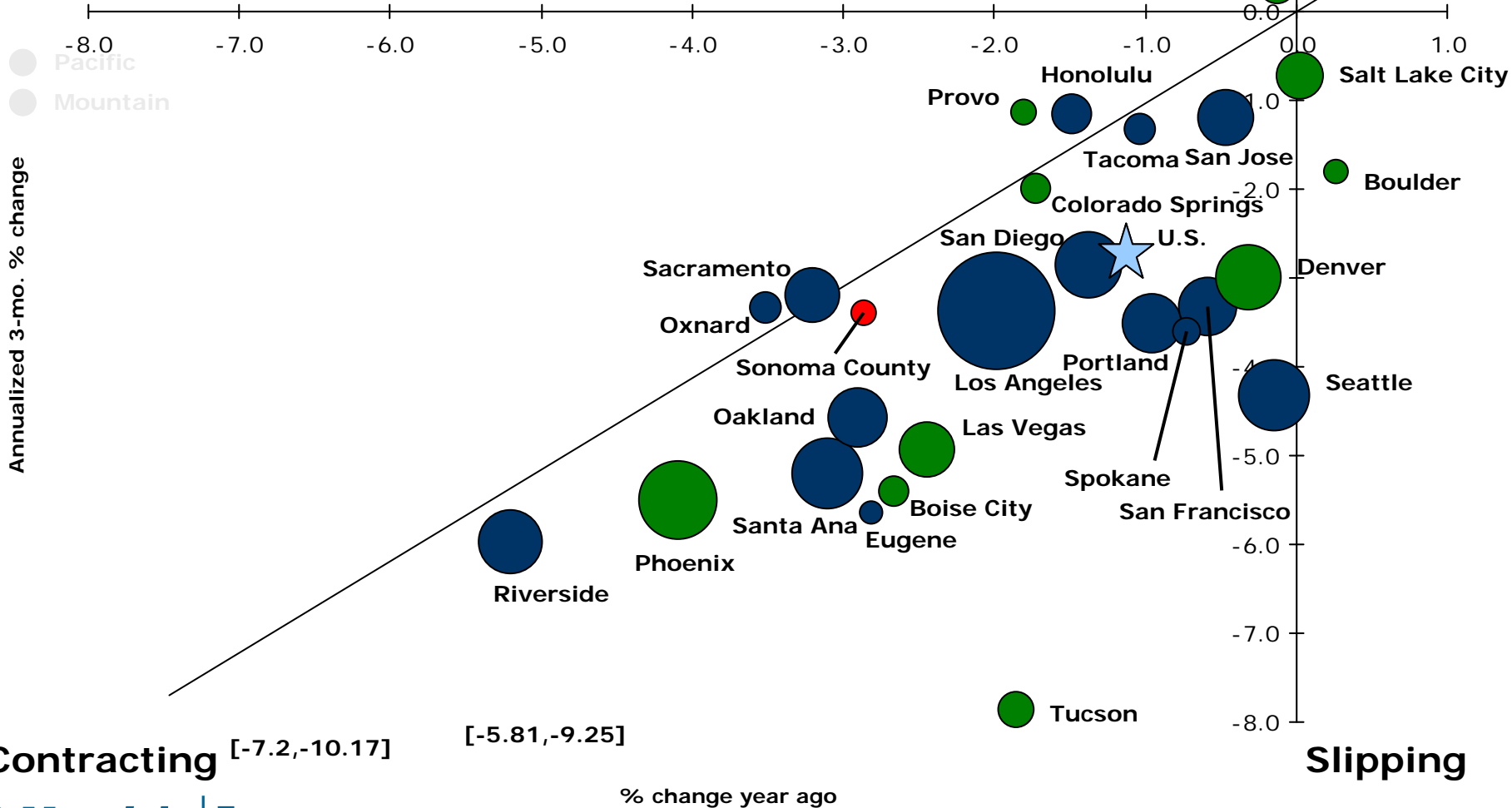
One-year vs. 3-month performance (3-mo. MA)

Improving

West Metro Areas

Expanding

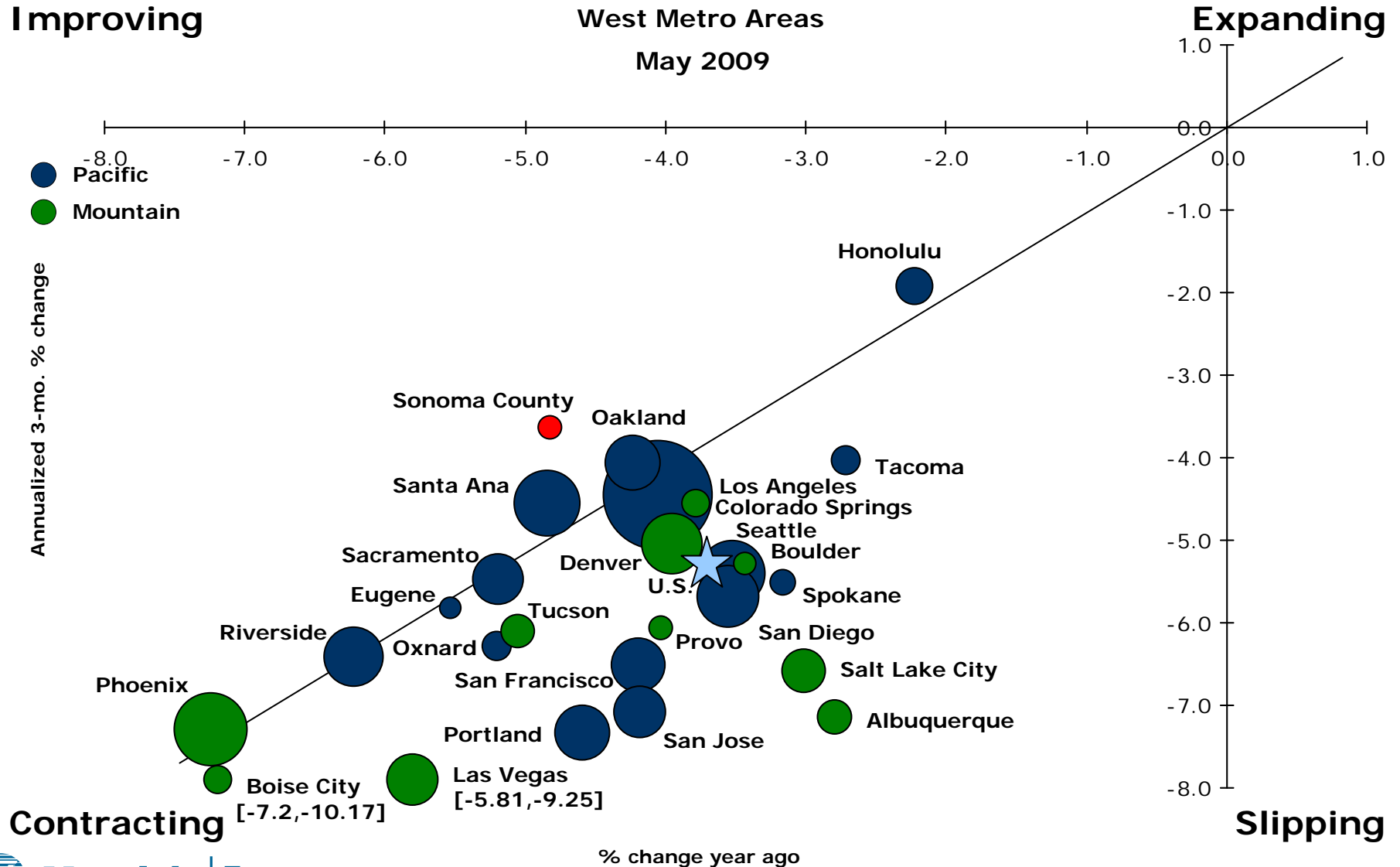
Nov 2007
May 2008



NOTE: Size reflects relative total employment

West Metro Areas—Payroll Employment

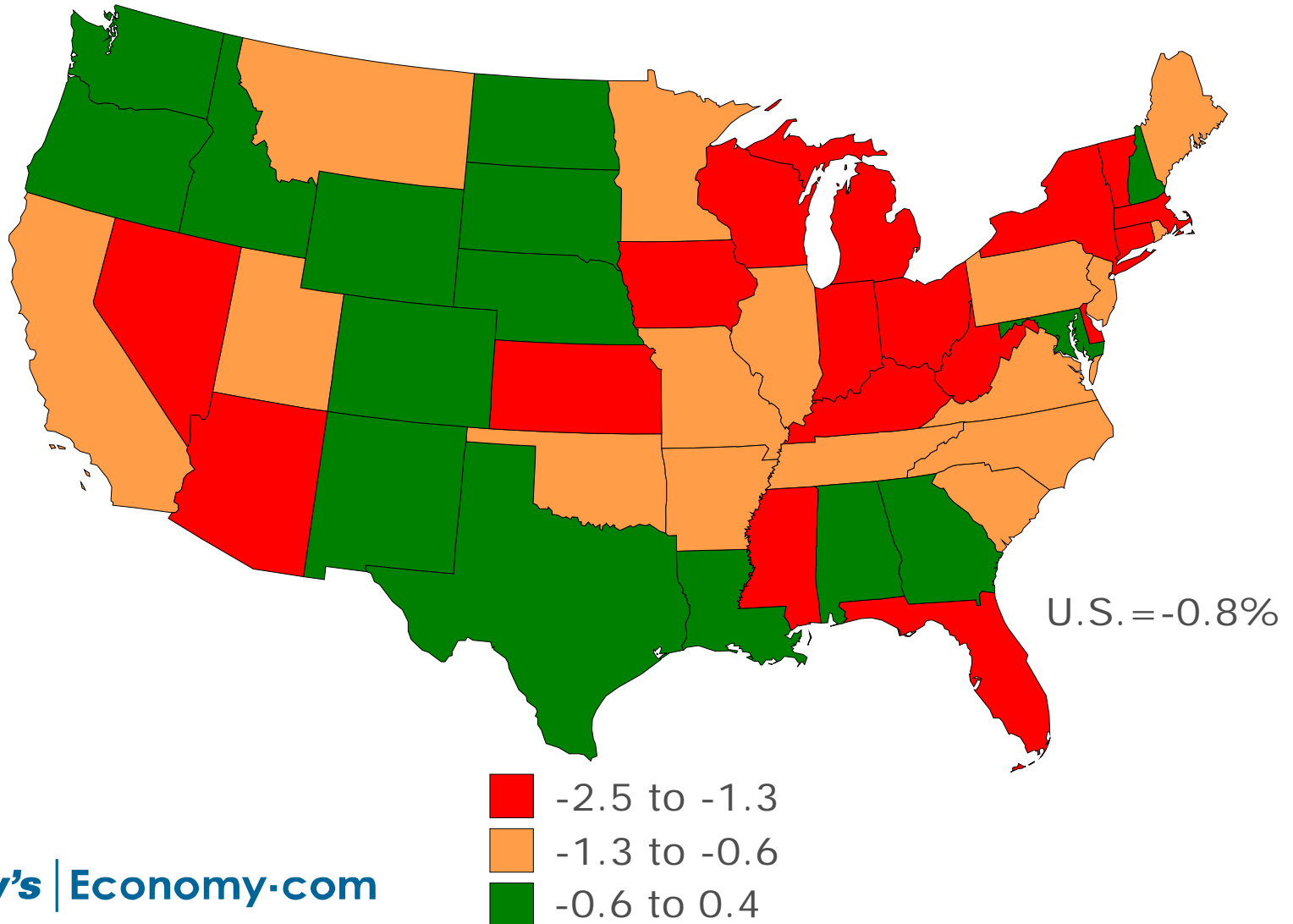
One-year vs. 3-month performance (3-mo. MA)



NOTE: Size reflects relative total employment

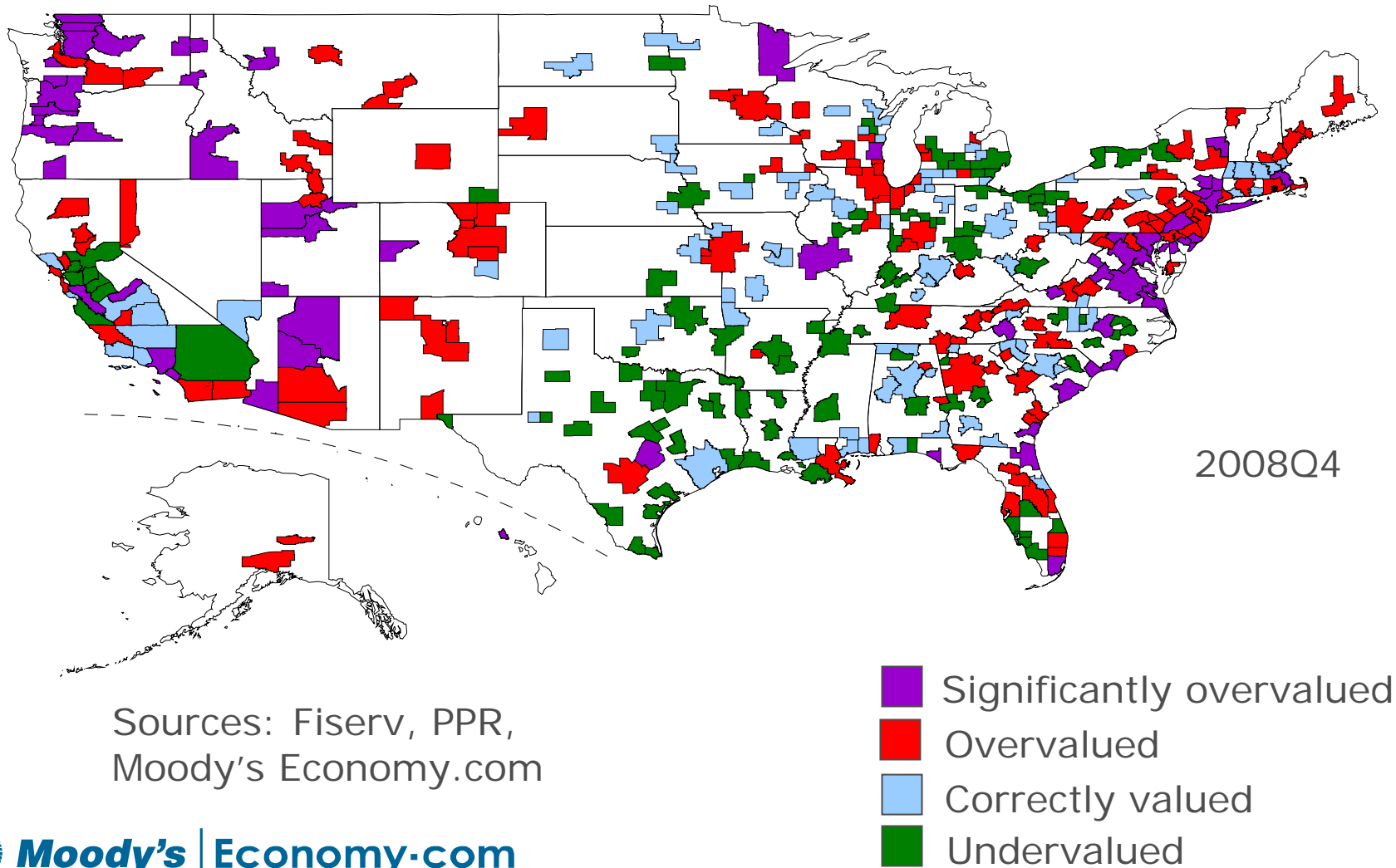
Outlook Weakest in Northeast, Midwest, Florida

Employment growth forecast, % change, 2010



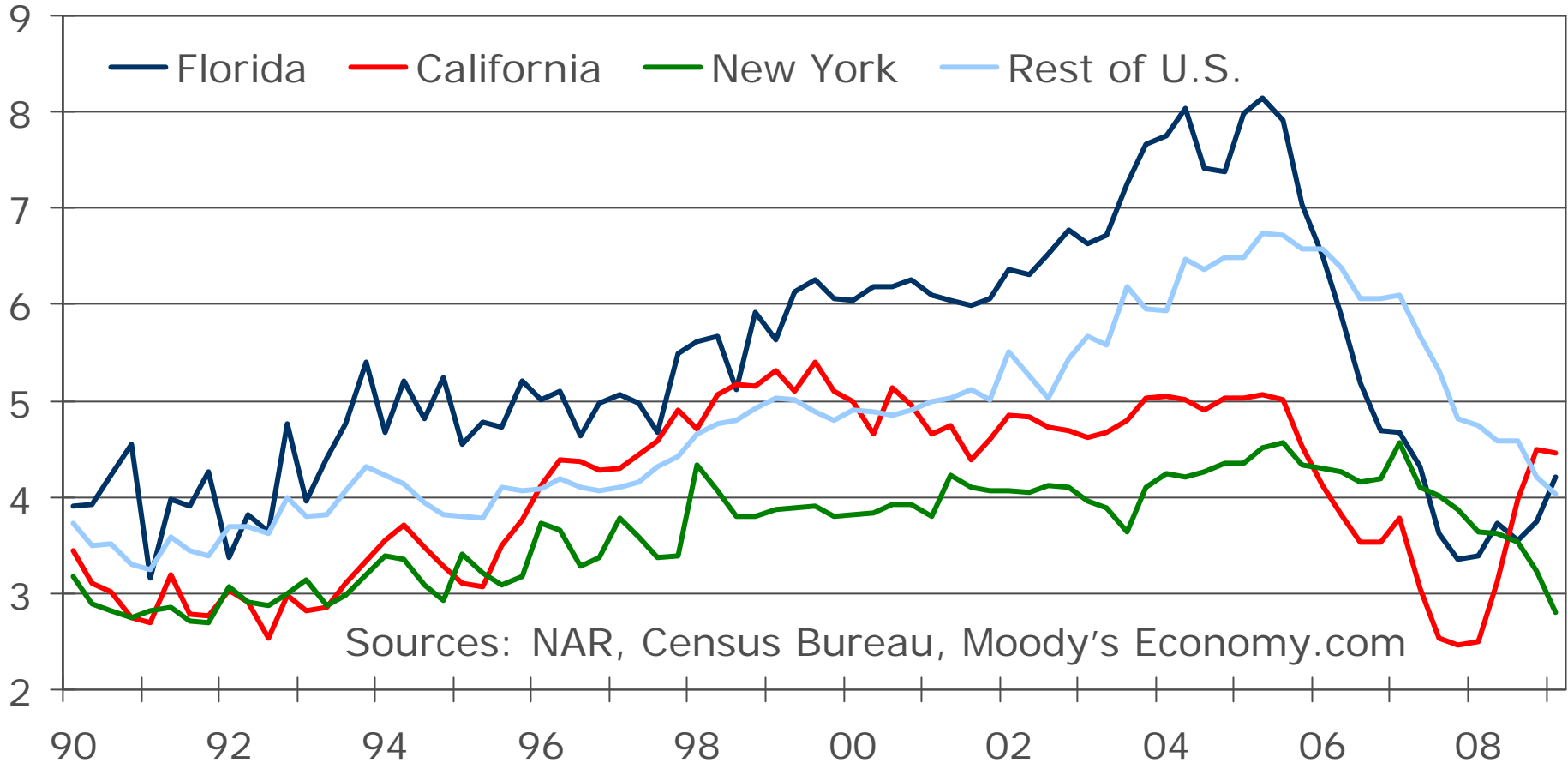
House Price Balance Beginning to Emerge

Based on house price to income and rent ratios



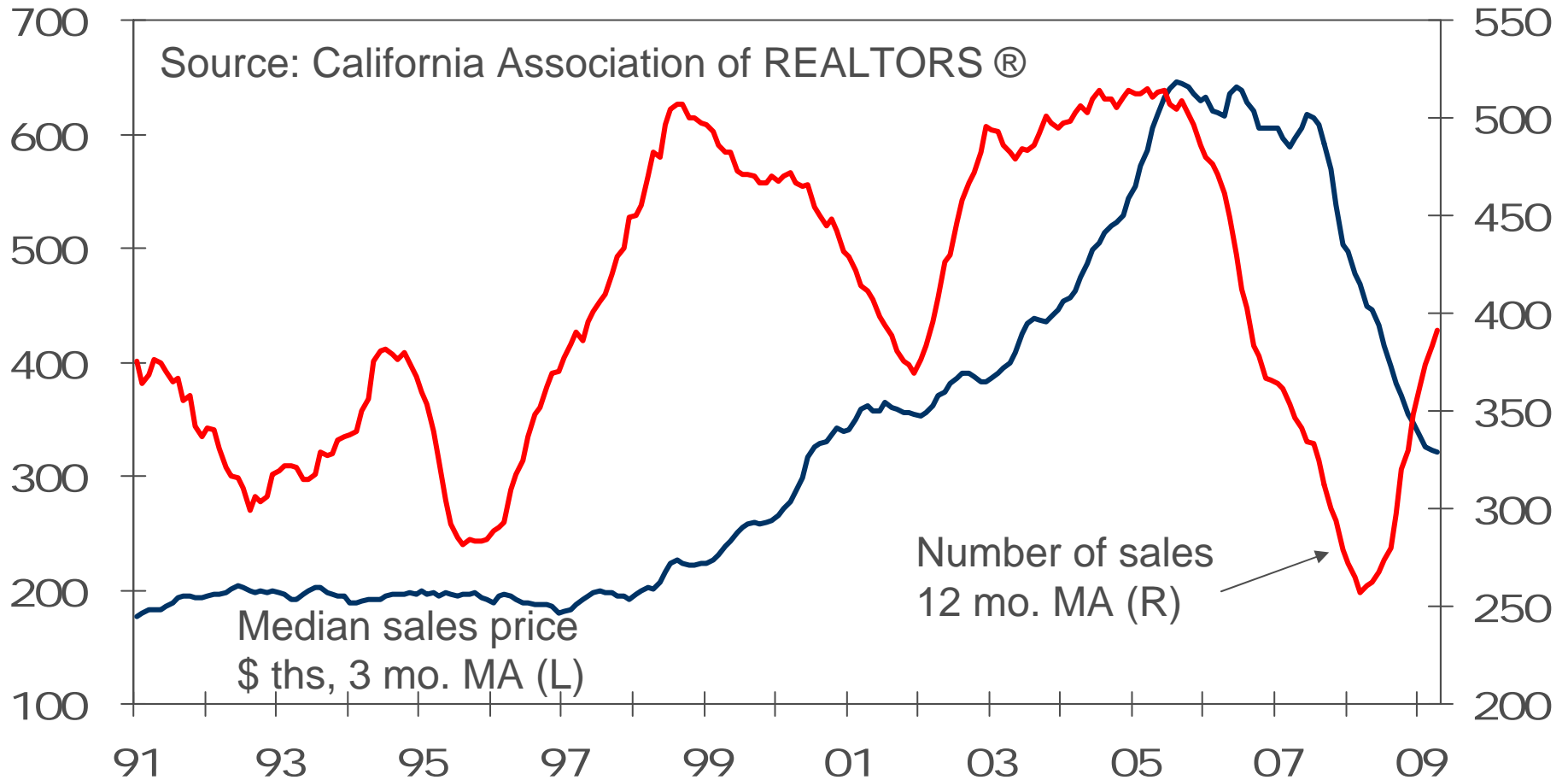
California Buyers First to Respond to Low Prices

Home sales as % of number of households, annualized



Sonoma County Buyers Join In...

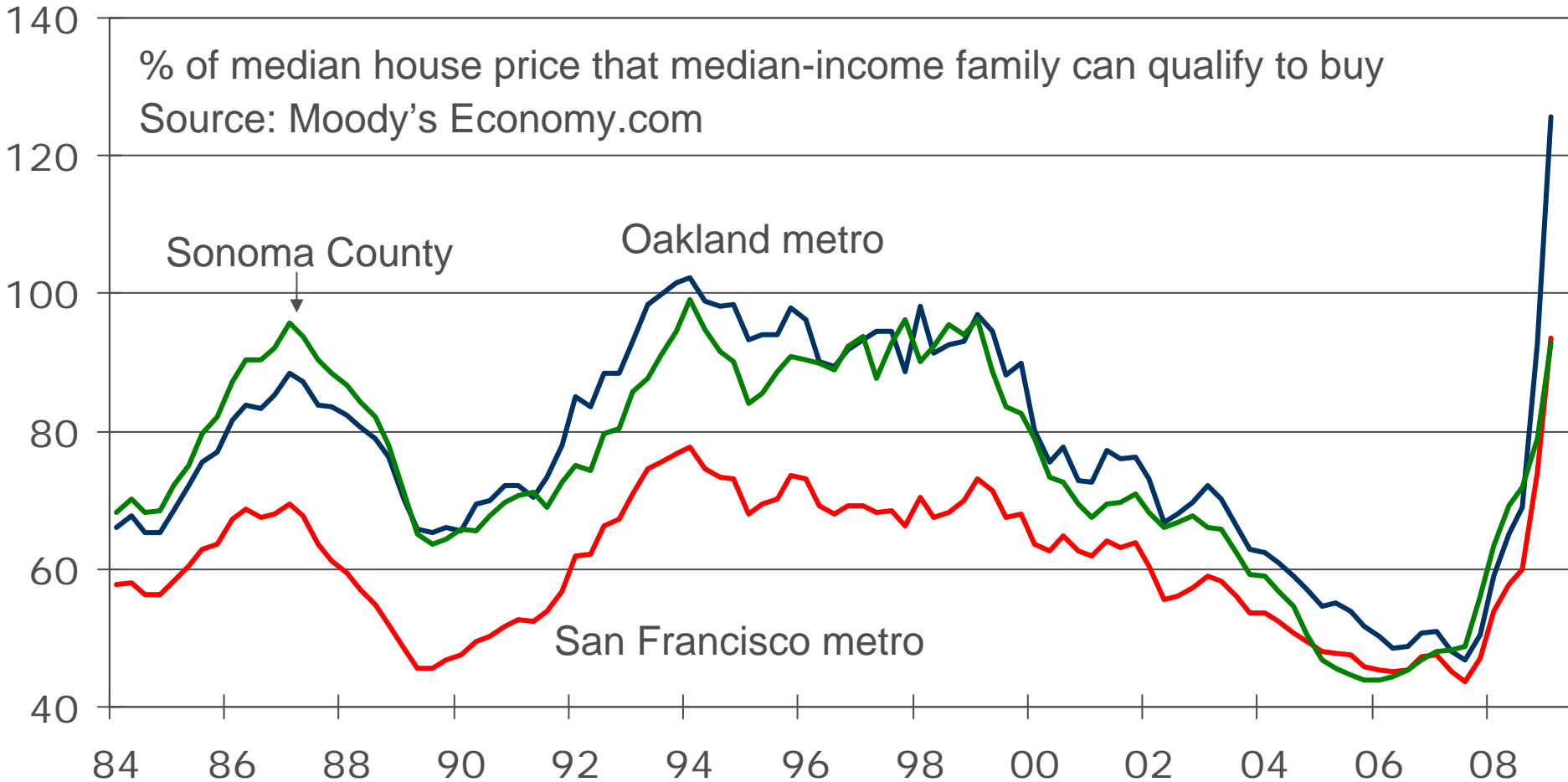
Existing single-family homes; data not seasonally adjusted



...As Affordability in Sonoma Nears Record High...

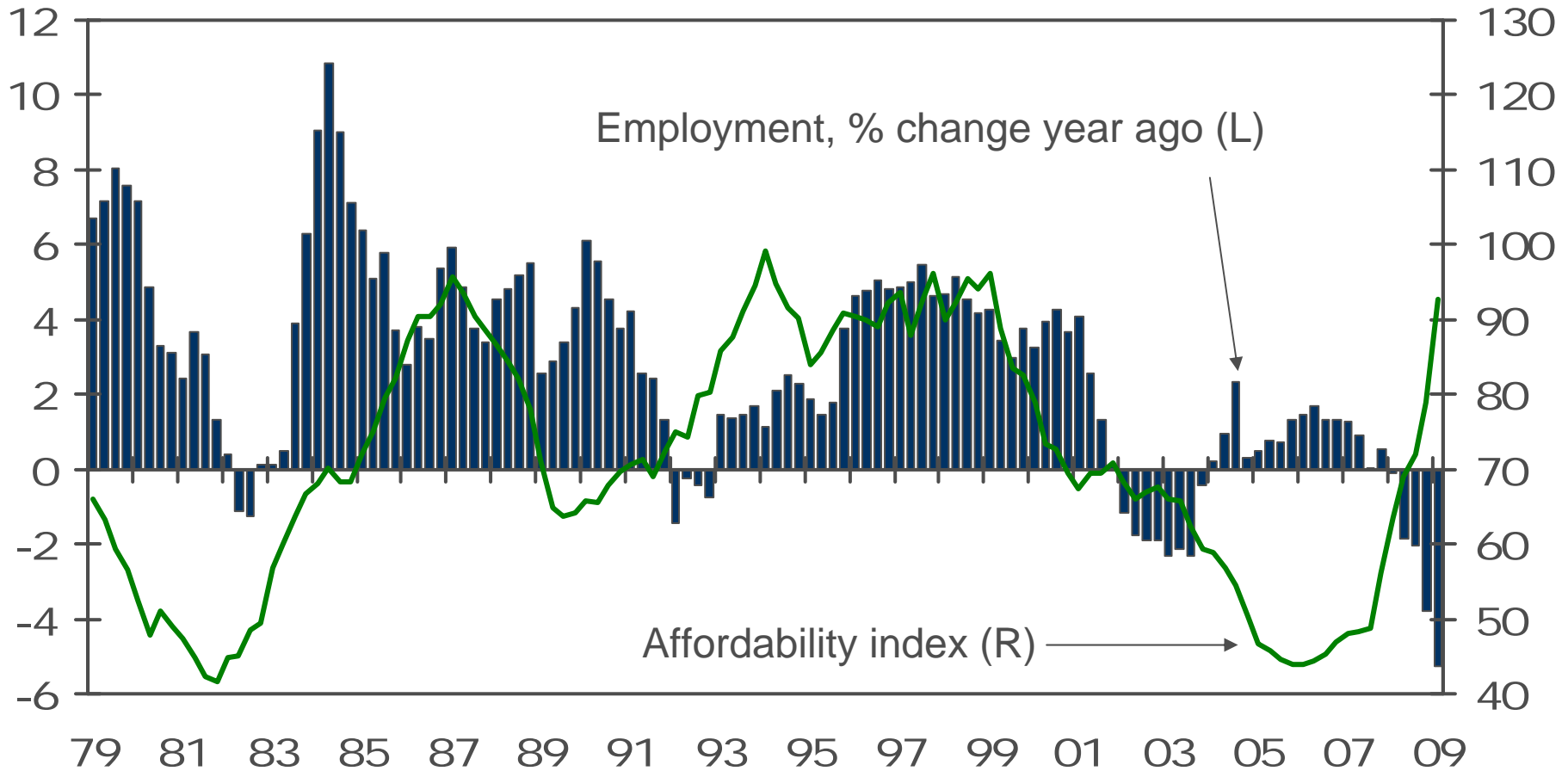
Housing affordability index

% of median house price that median-income family can qualify to buy
Source: Moody's Economy.com



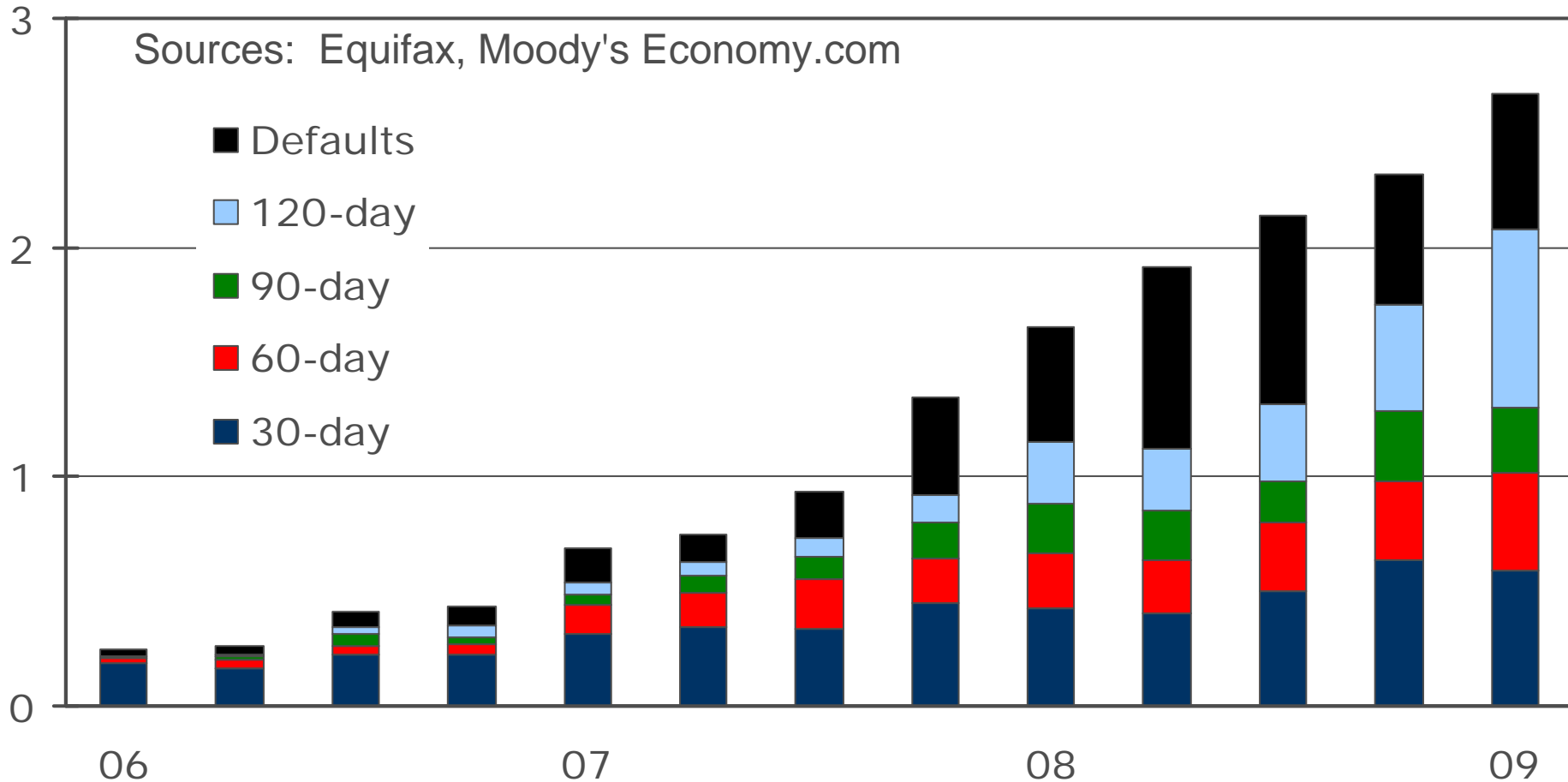
...A Necessary Condition for Growth

Sonoma County: Housing affordability index; job growth



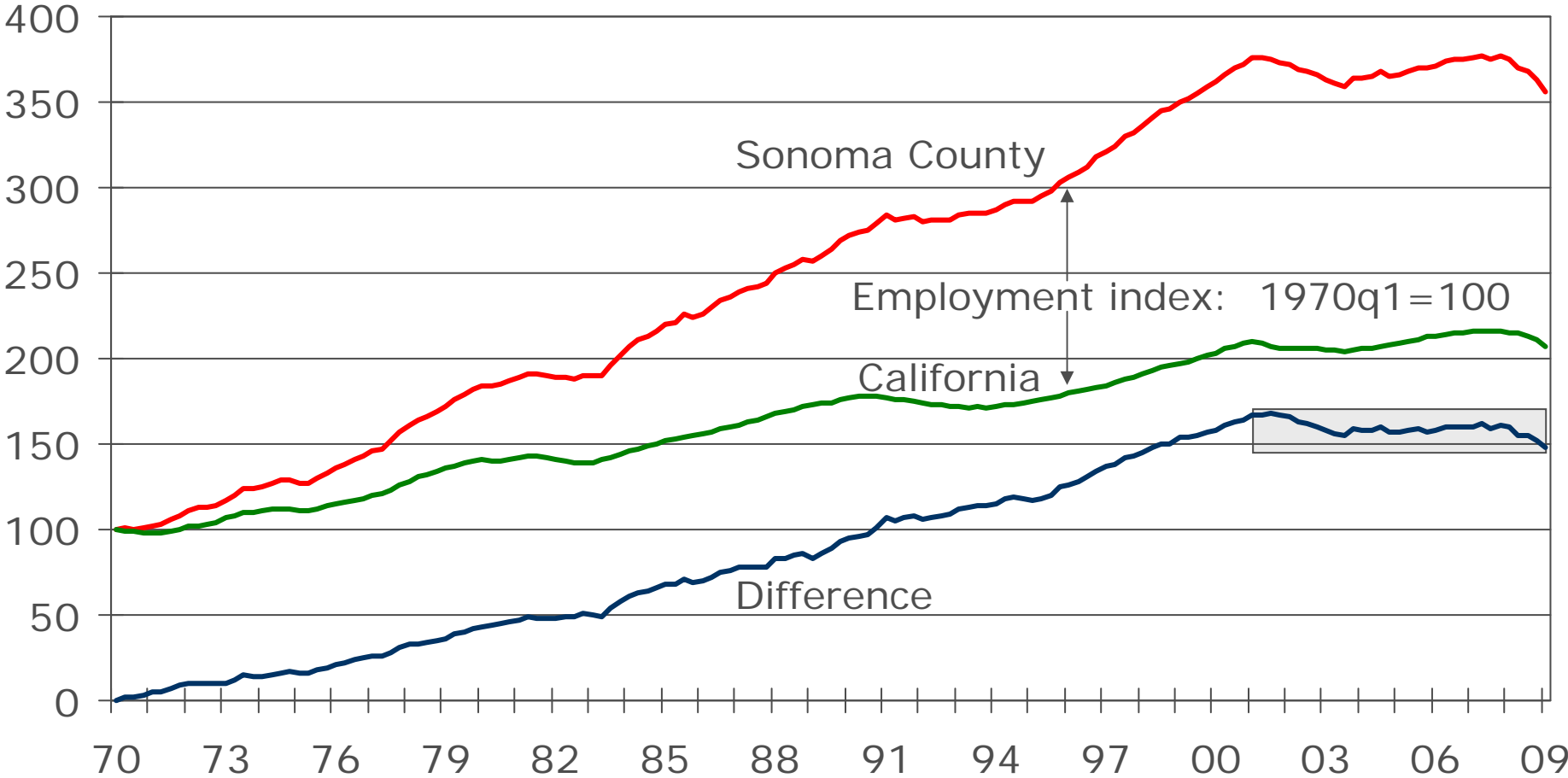
But Pipeline of Delinquencies Is Still Filling

Sonoma County: Delinquencies, first mortgages, \$ bil



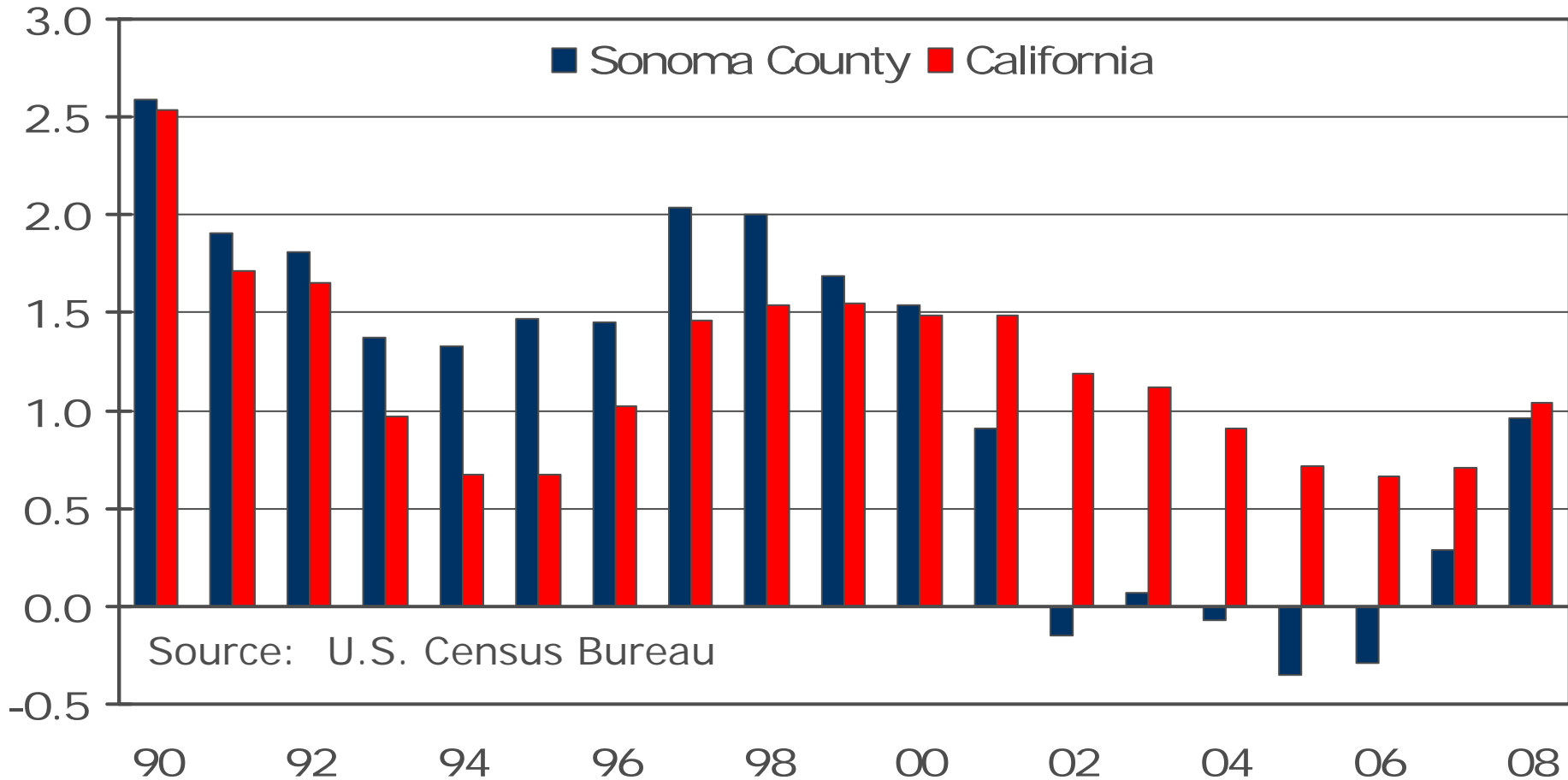
Another Spark is Needed...

Employment indexes, Sonoma Co. and California



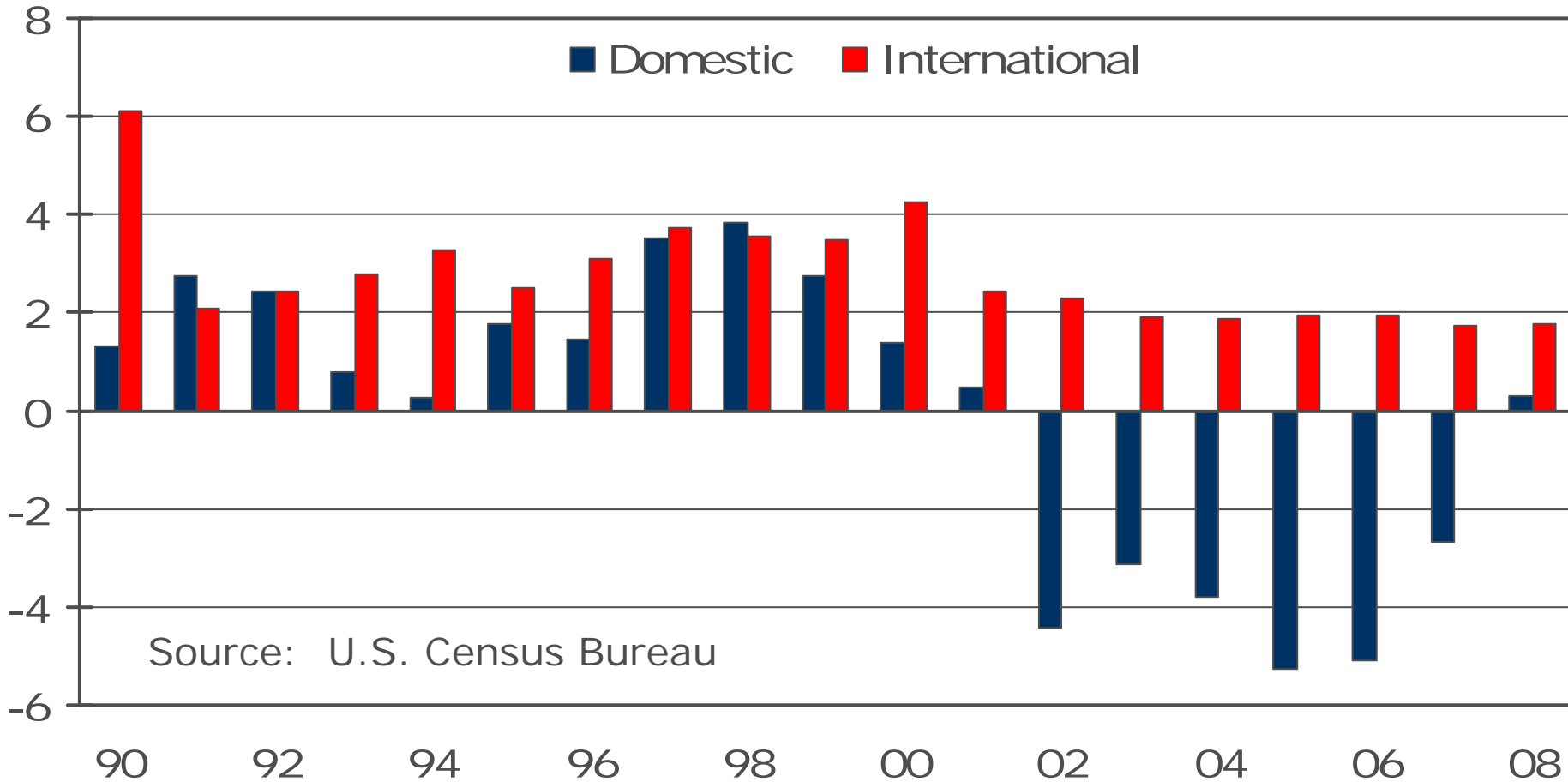
... That May Be in the Making ...

Population, % change



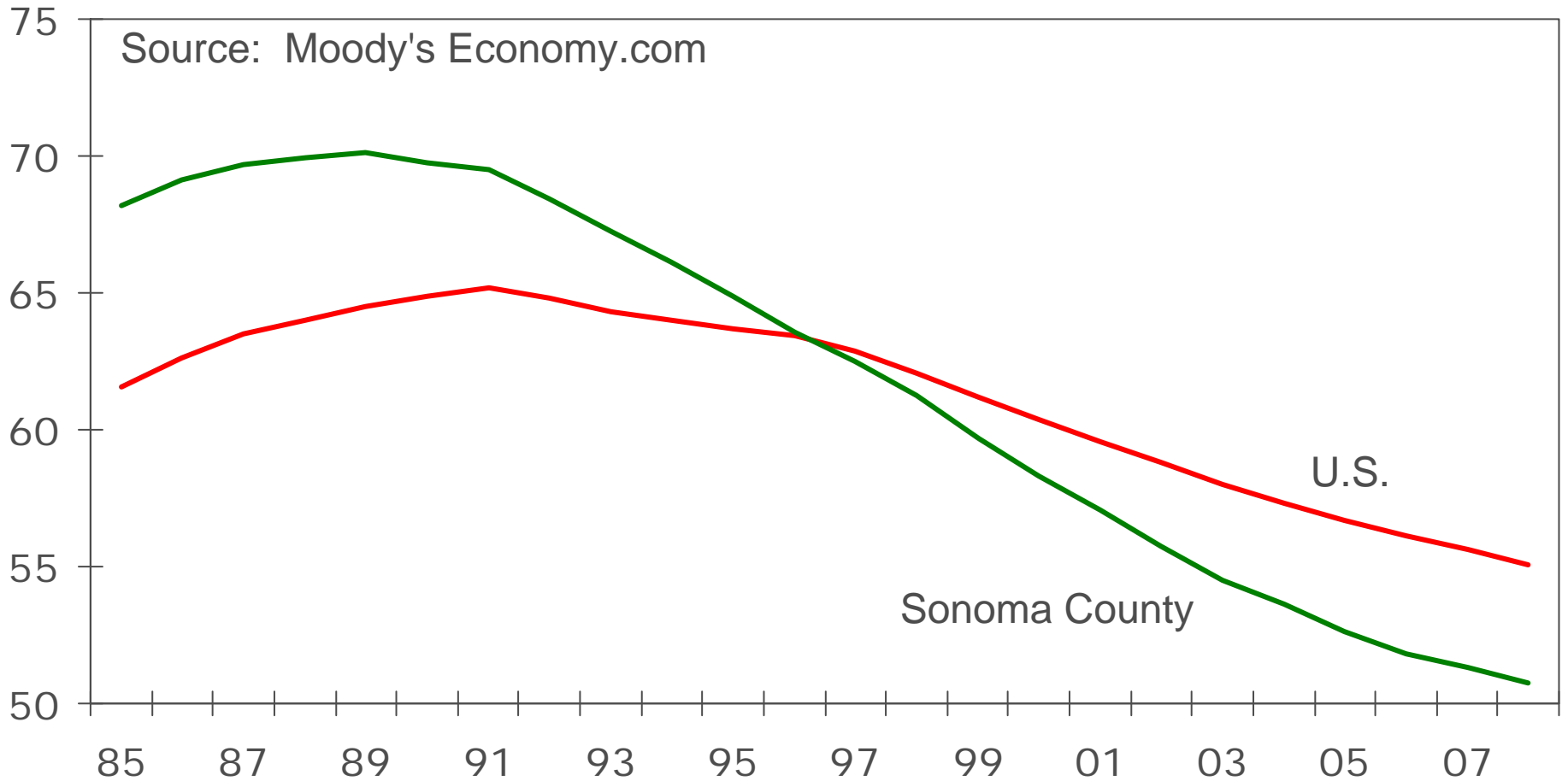
... As Outmigration Eases ...

Sonoma County: Net migration, ths



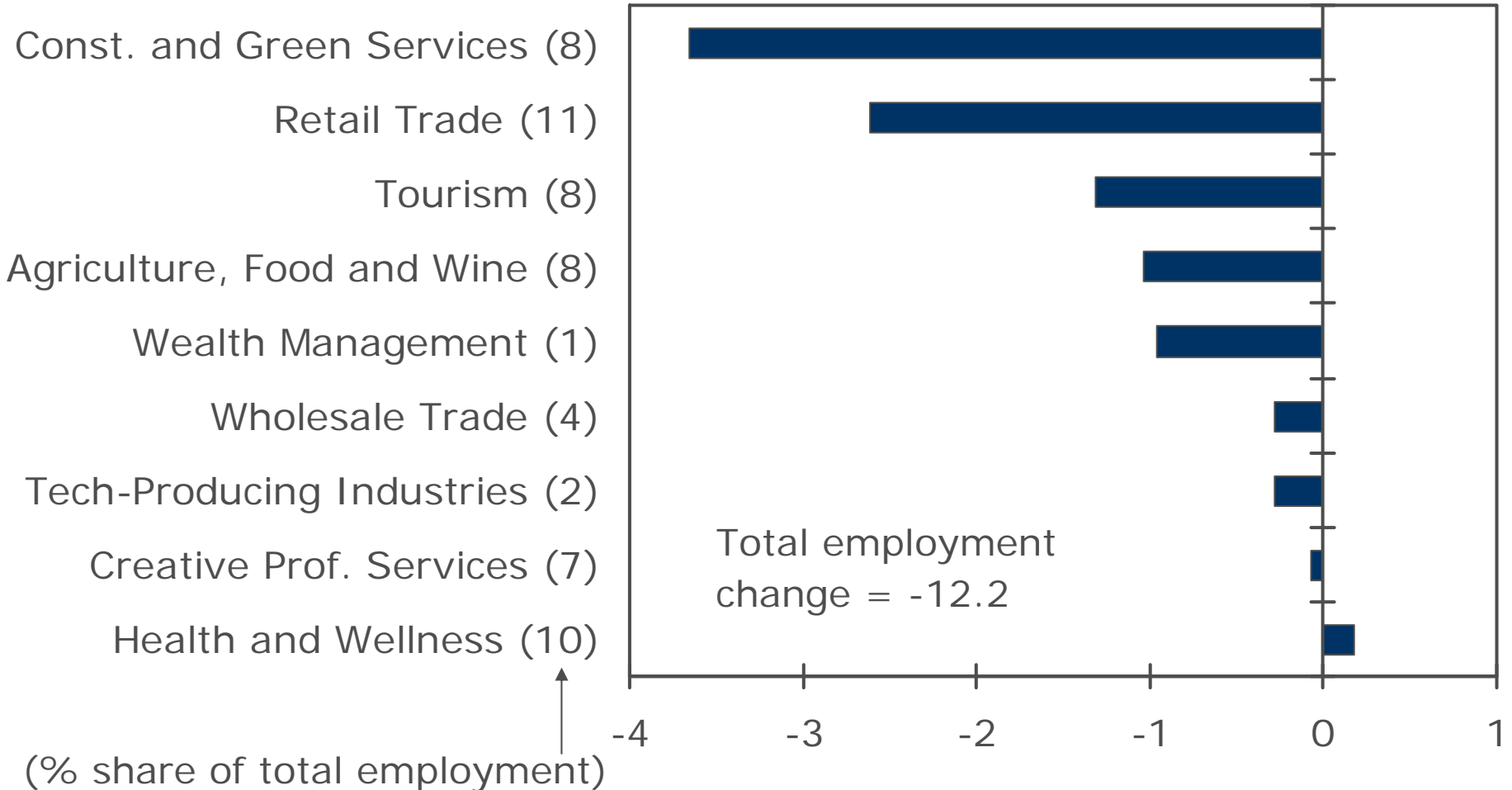
... Potentially Boosts the Labor Force

Population, 25-44 years old, % of total



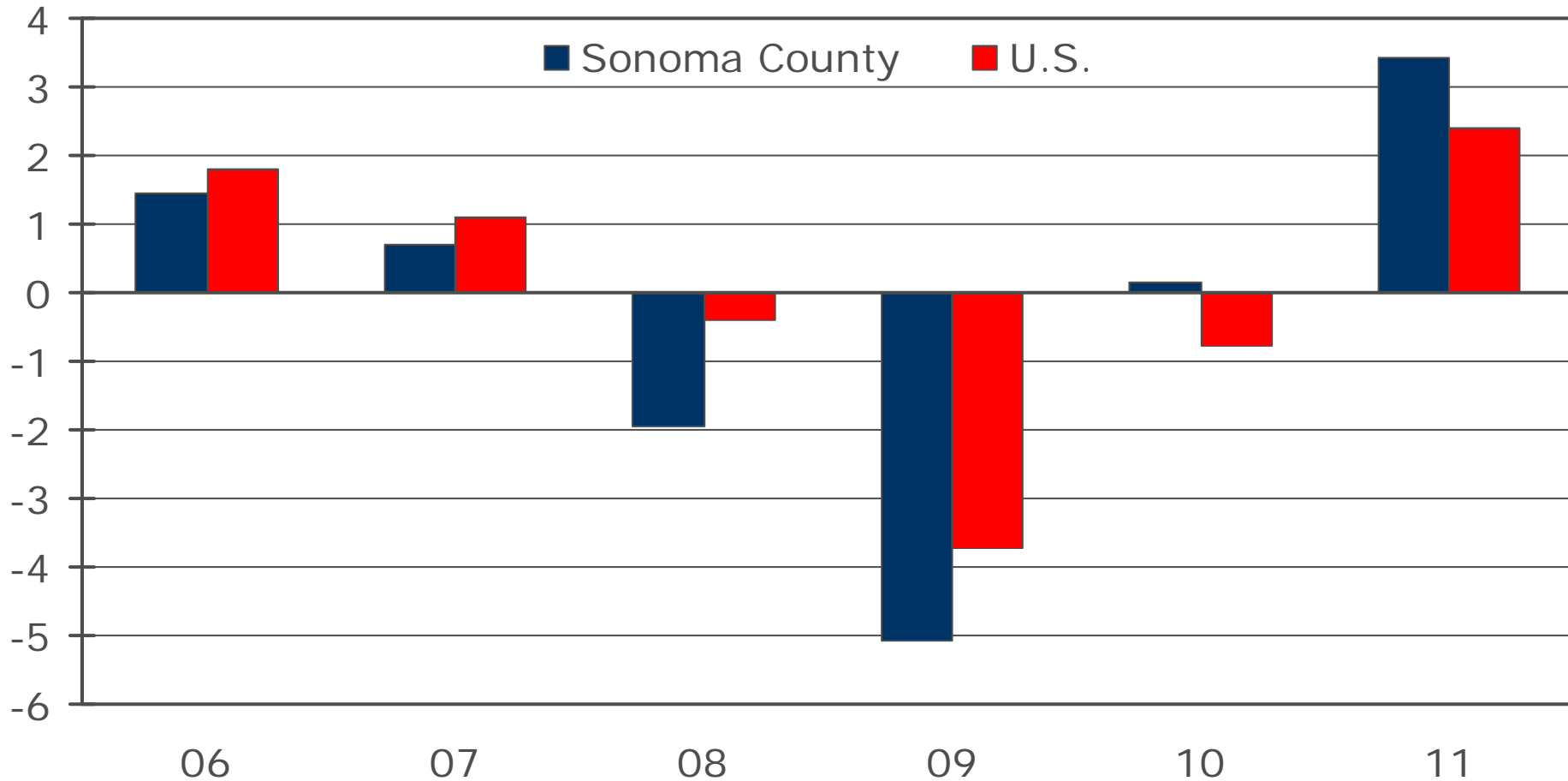
Most Jobs Lost in Construction and Retail

Change in employment, June '07 to May '09, ths



Economy Will Stabilize and Begin to Expand in 2010

Employment, % change



www.economy.com