It Does Not Get More Exciting!

Tri-County Economic Forecast
January 17, 2008
Chico, California
John Mitchell

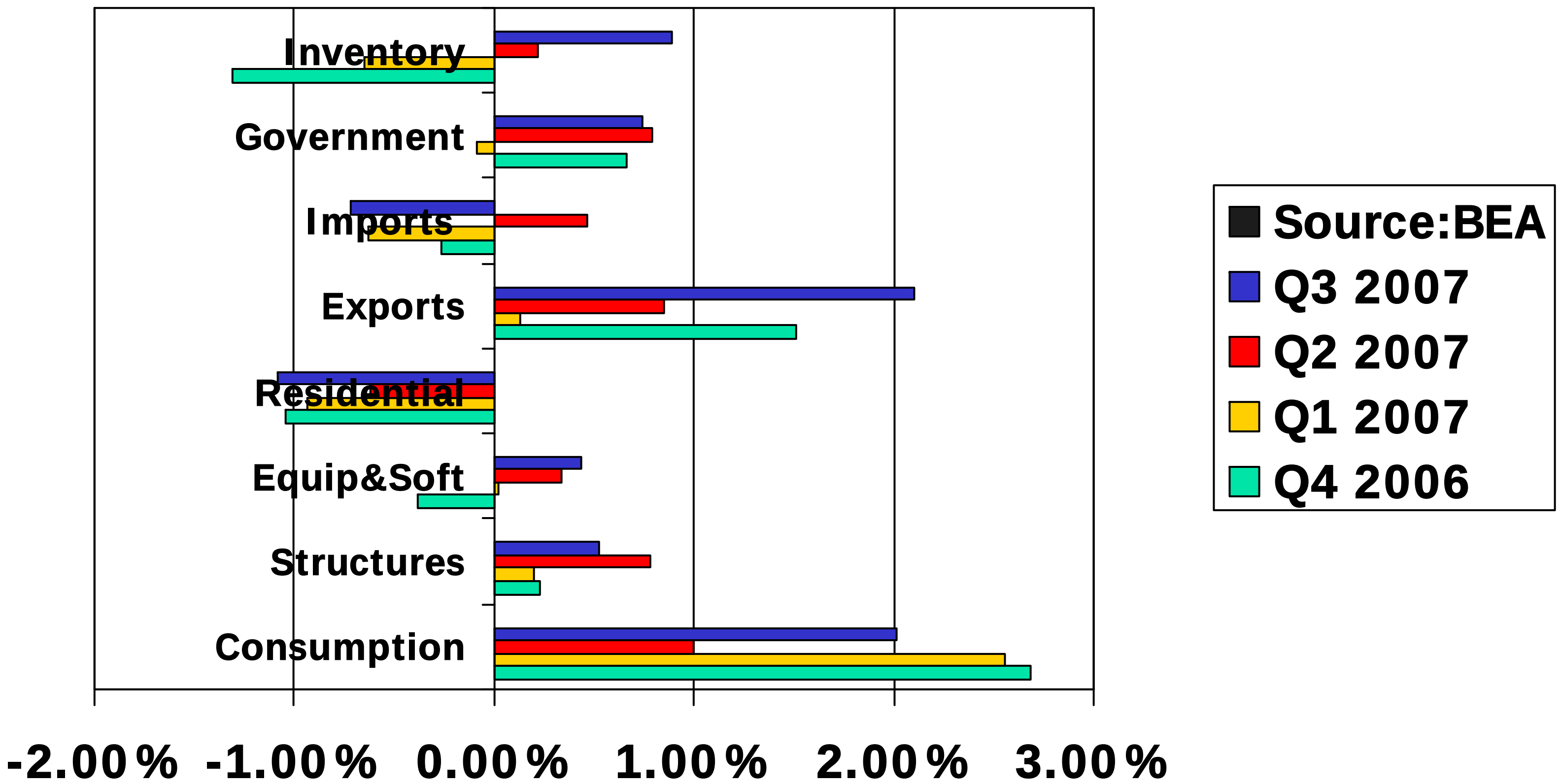
The Environment

- Seven Year Upturn ? Third Year of Housing Contraction
- Robust Exports
- Credit Market Turmoil
- Election Year Environment
- Commodity Shocks
- Employment Softening
- Recession Worries 60/40
- Talk of Fiscal Stimulus
- Monetary Policy Change
- Obama, Huckabee and Britney

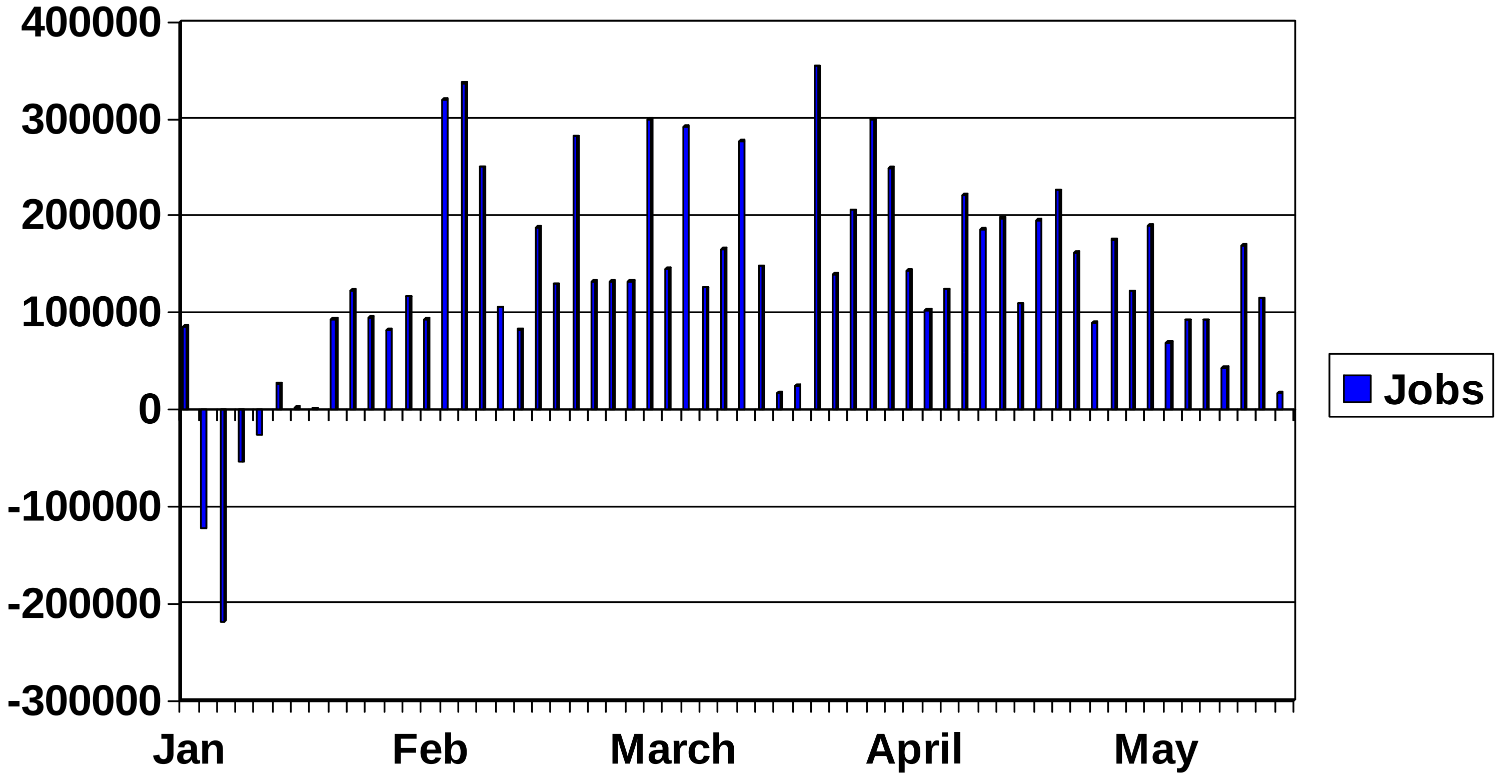
The Last Five Quarters

	06/Q3	06/Q4	07/Q1	07/Q2	07/Q3
GDP	**1.1%**	**2.1%**	**.6%**	**3.8%**	**4.9%**
Consumer	**2.8**	**3.9**	**3.7**	**1.4**	**2.8**
Equip	**2.9**	**-4.9**	**.3**	**4.7**	**6.2**
Structures	**10.8**	**7.4**	**6.4**	**26.2**	**16.4**
Residential	*-20.4*	*-17.2*	*-16.3*	*-11.8*	*-20.5*
Federal	.9	7.3	-6.3	6	7.1
S&L	.7	1.3	3	3	1.9
Exports	**5.7**	**14.3**	**1.1**	**7.5**	**19.1**
Imports	5.4	1.6	3.9	-2.7	4.4

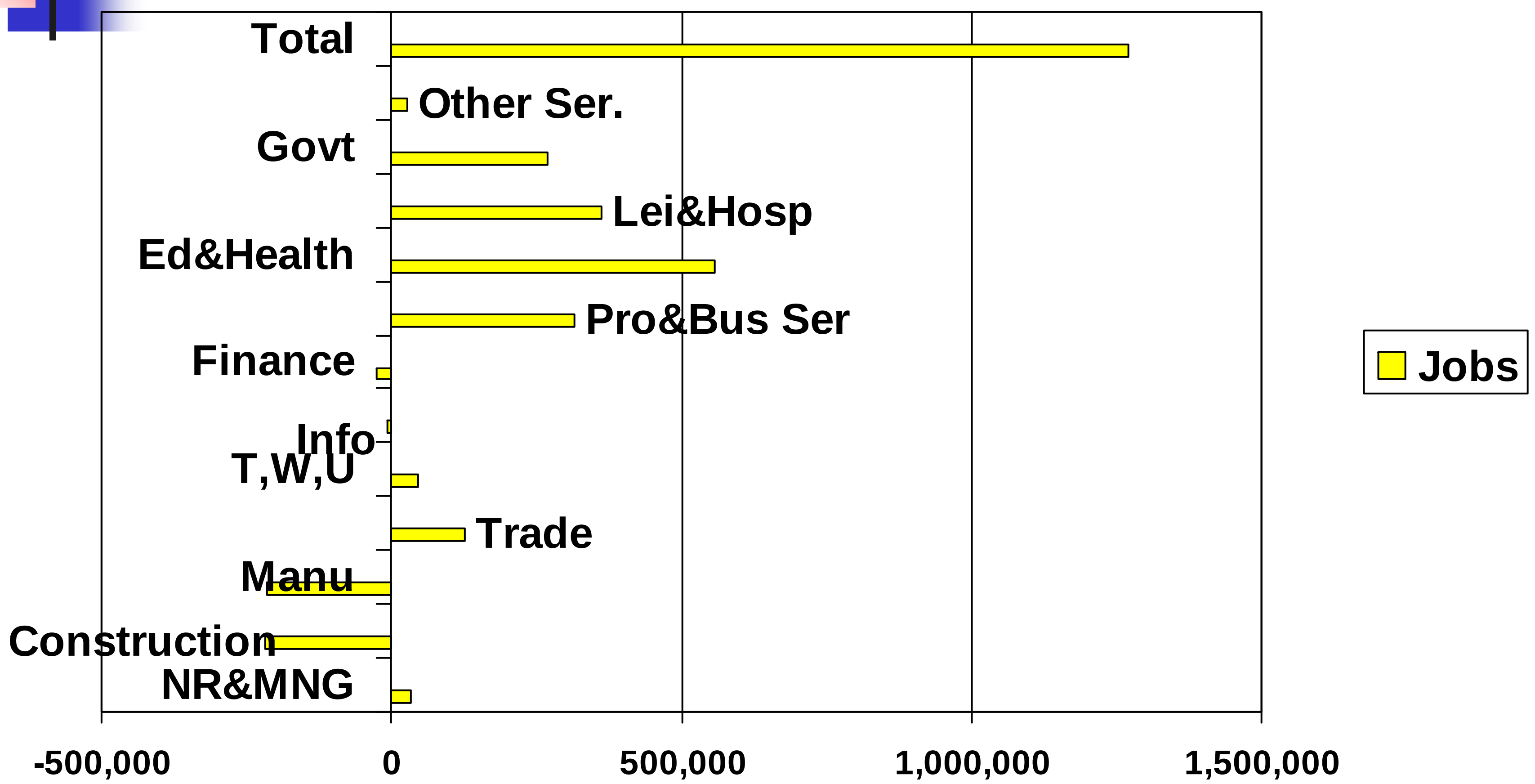
% Point Contribution to Real GDP Growth Q4 2006 to Q3 2007



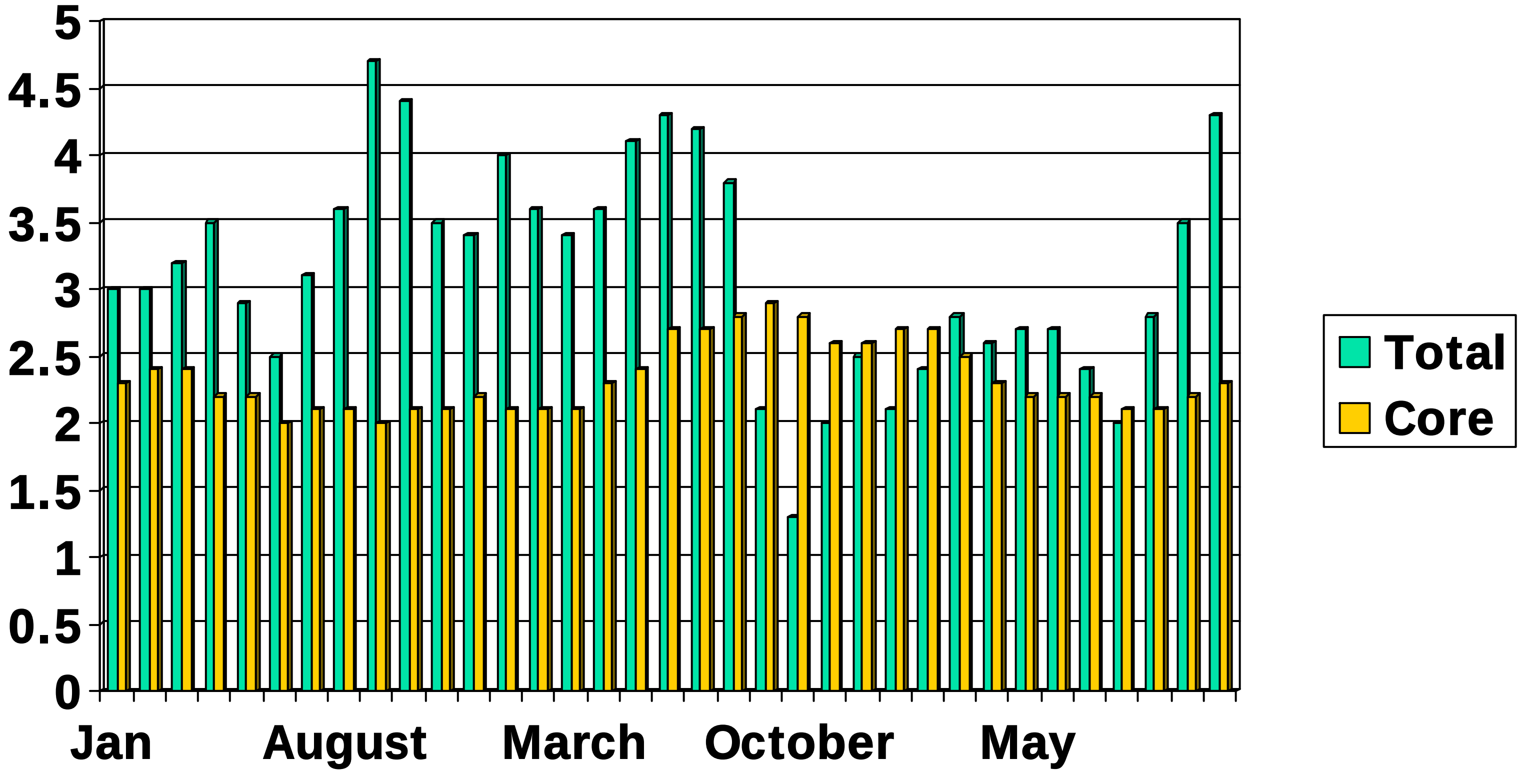
Wage and Salary Employment Changes 2003 to 2007
5% Unemployment Rate December



U.S. Employment Year to December 2007 (.9%)



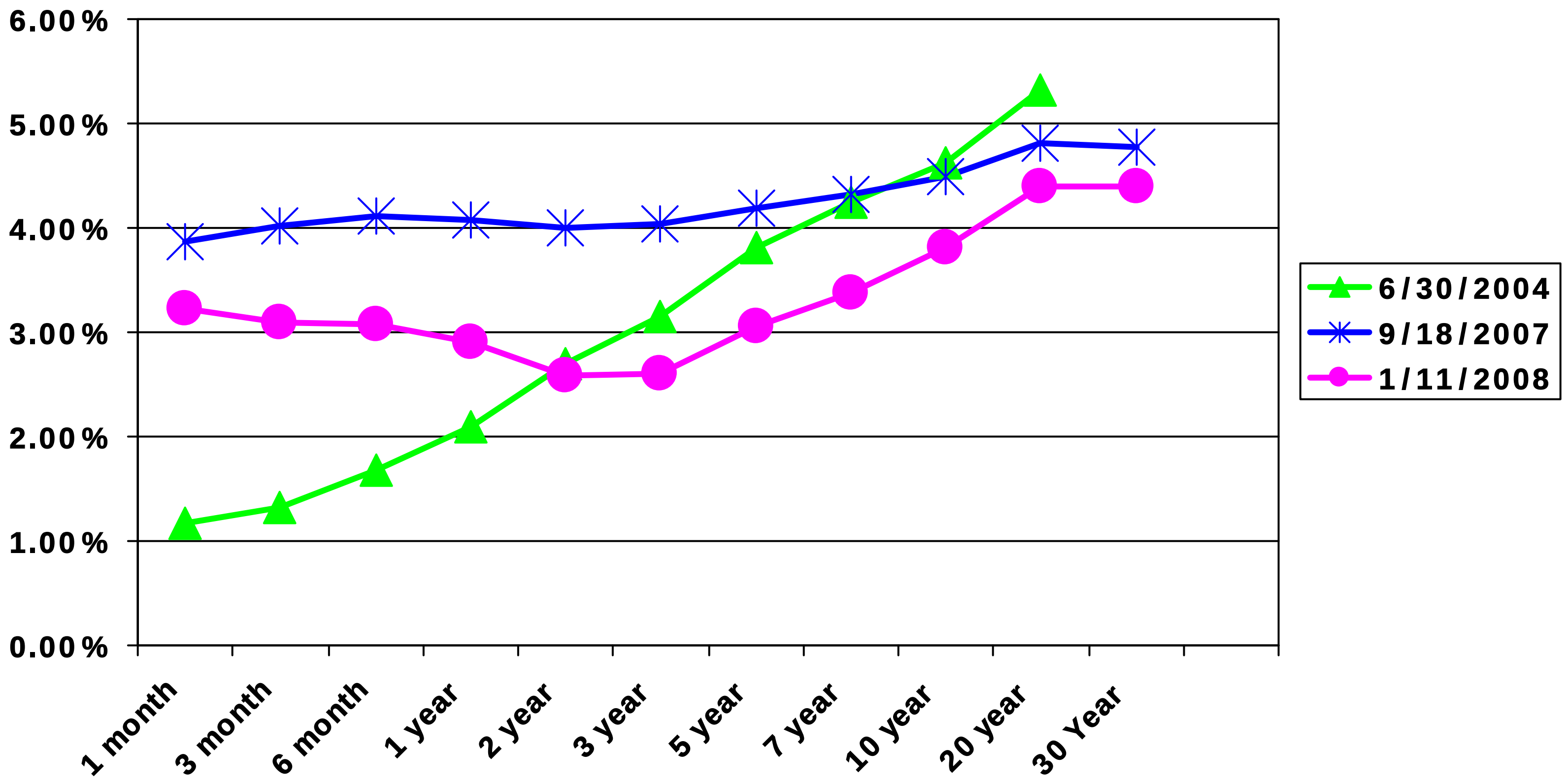
Consumer Price Index and Core 2005-2007 Year over Year November 4.3% Core 2.3%



Detail CPI

- Energy 21.4% Year to November
- Demand Growth-Political Unrest-Signals for change in behavior
- Food Prices 4.8% Year to November
- Rising Incomes elsewhere in the world, drought, diversion to biofuels (Agflation)

Yield Curve


6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
1 month
3 month
6 month
1 year
2 year
3 year
5 year
7 year
10 year
20 year
30 Year
6/30/2004
9/18/2007
1/11/2008

Considerations

HEADWINDS	**TAILWINDS**
Housing Inventory	Monetary Policy
Wealth Effect	Global Growth
Financial Markets	Balance Sheets
Energy/Food	Time

2008

- Real GDP growth 2-2.3% with Downside Risks
- Inflation 2.5-3%
- Rates- 1/10/2008 Bernanke " ready to take substantive additional action."

Are we headed for a recession?

- Yes and we have been ever since November of 2001!
- In 2008? Maybe-Beige Book indicates slow growth with weakness in residential construction.
- The Three P’s: Pervasive, Pronounced and Persistent (ECRI)
- Policy Responses? (The last two recessions were 8 months long!)

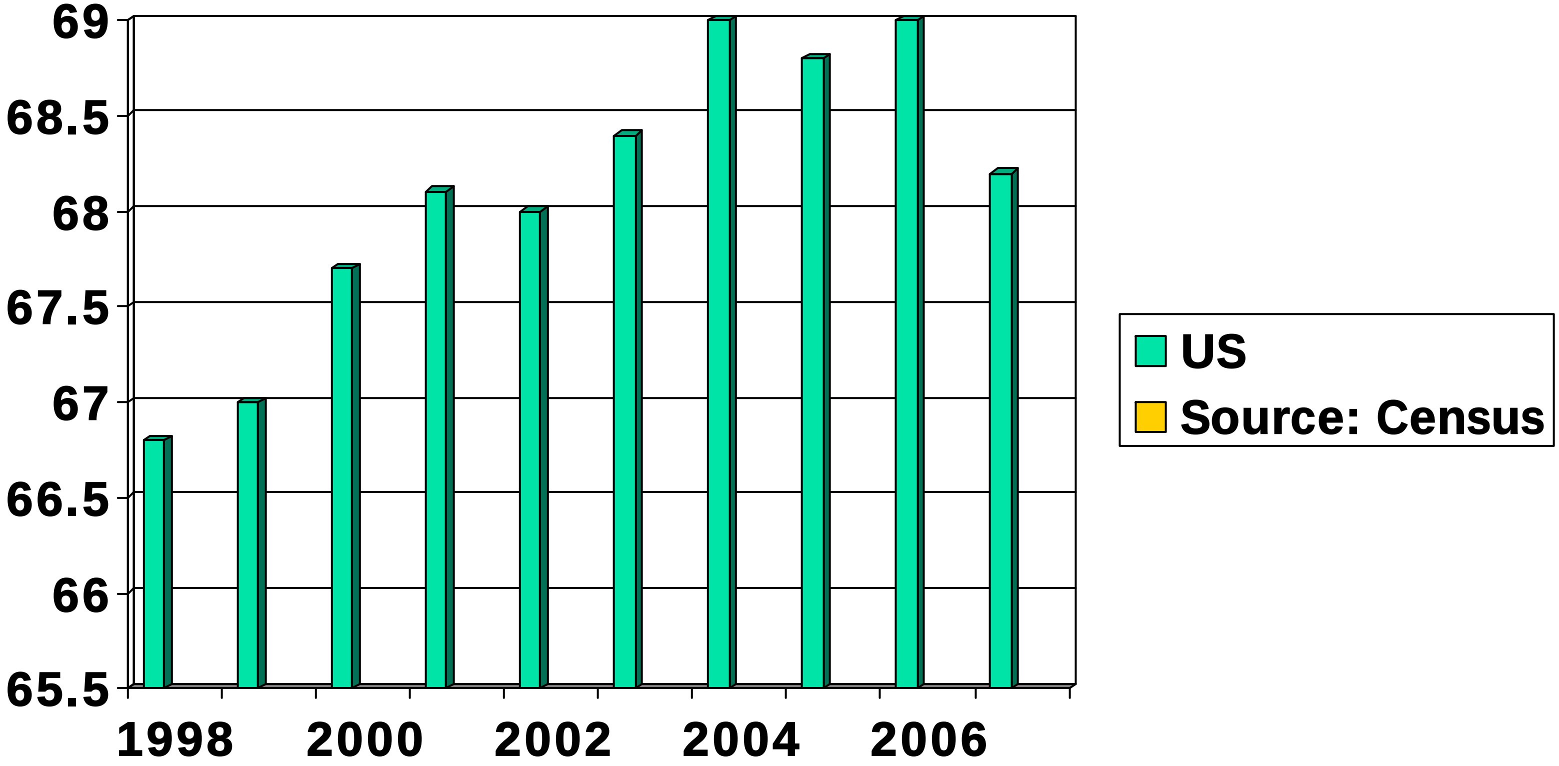
Key Questions

- When will the housing decline end and what will the spillovers be ? For: Consumers, Financial Institutions, Governments, Forest Products, Real Estate Support Sector
- Impact on credit markets?
- Will strength in trade and investment help to offset housing weakness and more modest consumer spending growth or will business investment weaken?
- How serious will the drag from the energy price shock be?
- Piling On?

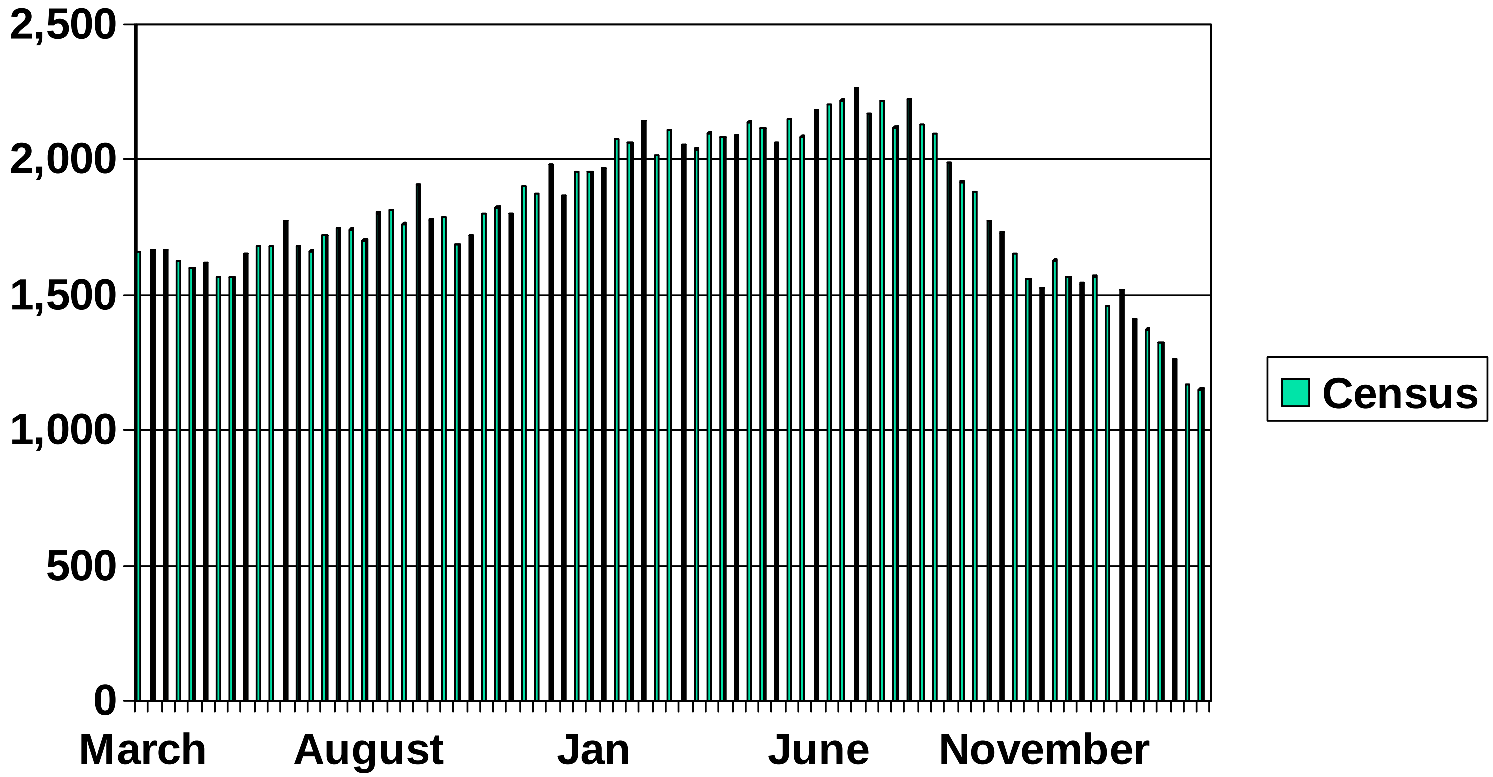
Real Estate: Stories for your Children!

- Interest Rates
- Glut of Savings
- Exotic Instruments-Interest Only, Optional ARMs, Ninjas, No Docs
- They worked for a while: Buy-Hold-Refi
- Securitized Mortgages-Not Portfolio Investment
- Legacy of Stock Market Collapse
- Price Increases
- Cost of Ownership Declined

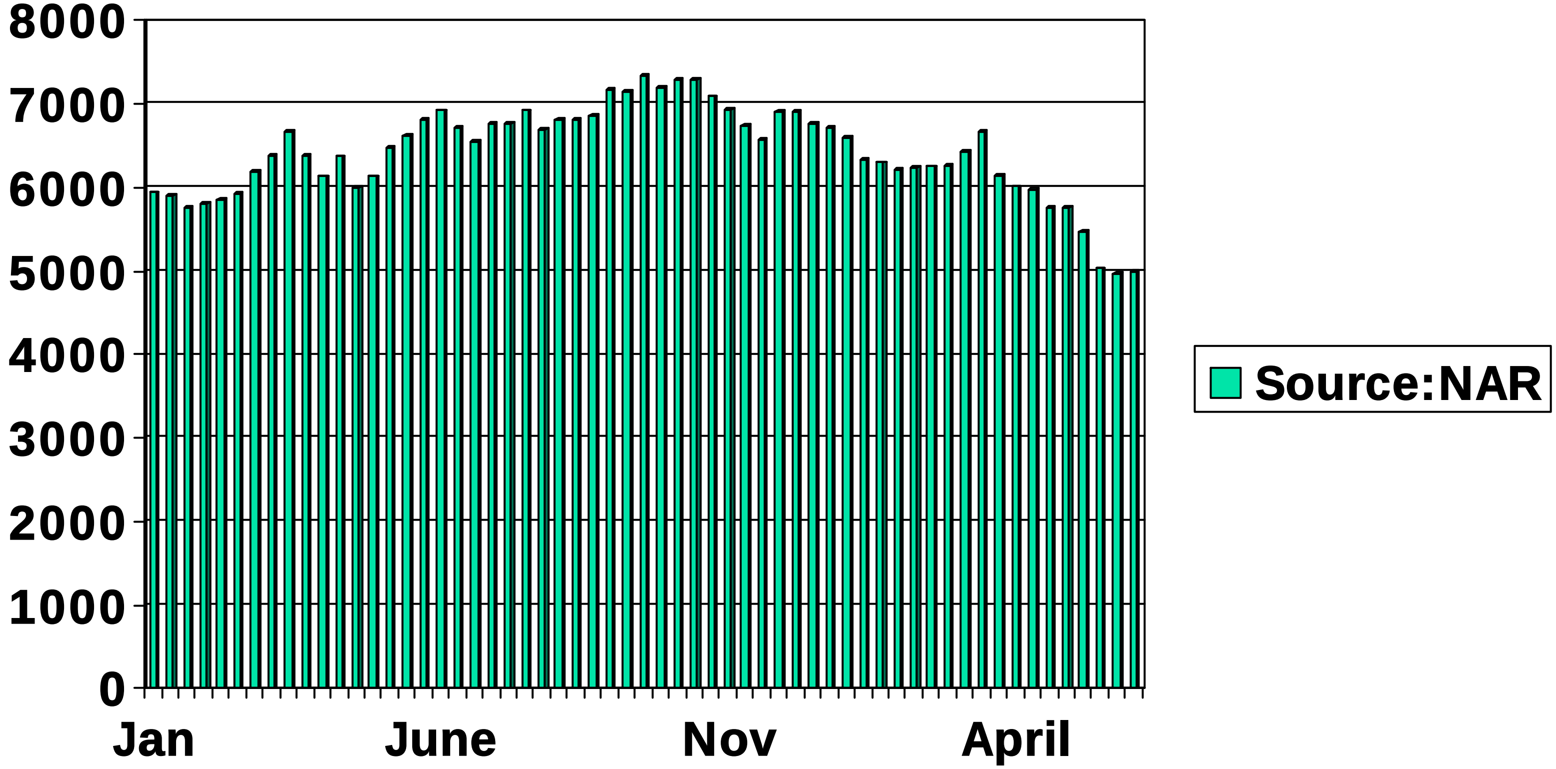
Homeownership Rates Q3
(Tossing out the baby with the water!)



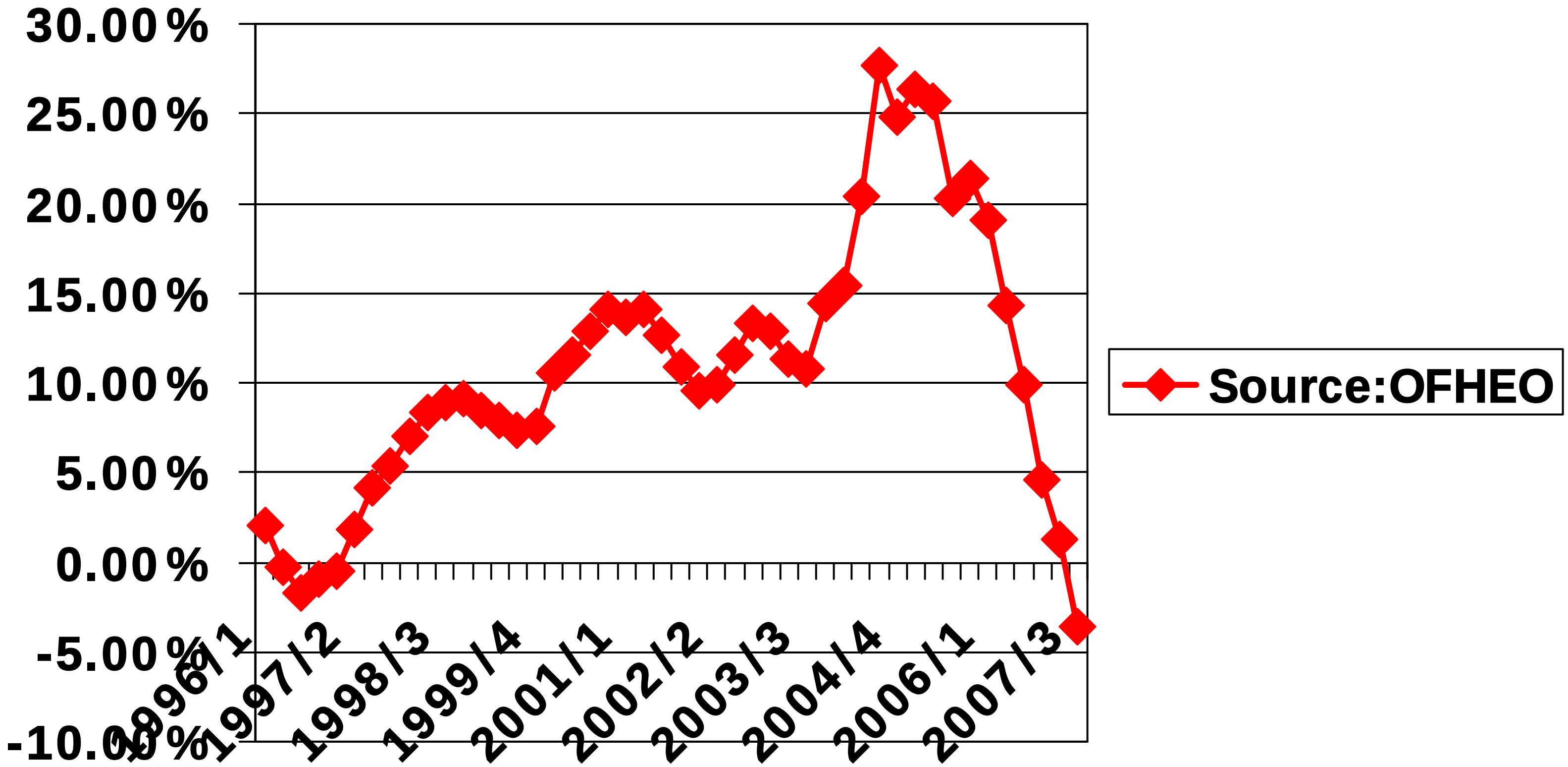
Residential Permits 2001-2007 (,000 SAAR)- 24.7% in first 11 months of 07 Not Over Yet!



Existing Single Family Home Sales 2003-2007 (SAAR, 000) A Bottom?



OFHEO 12 Month Increase
California Home Prices 1996-2007/Q3



House Price Appreciation Annual to 9/30/2007 and (Q3 07)

- OFHEO Q3/2007
- US 1.79% (-.36%)
- Utah 12.89% (2.12%)
- Wyoming 11.77% (2.8%)
- Montana 7.74% (1.64%)
- New Mexico 7.39% (1.43%)
- Washington 6.98% (1.01%)
- Idaho 6.87% (1.62%)
- North Carolina 6.51% (1.01%)
- Texas 6.3% (1.14%)
- North Dakota 6.25% (1.53%)
- Tennessee 5.96% (.93%)
- Oregon 5.55% (.37%)

- Alaska 4.59% (-.05%)
- Ohio -.06% (-.88%)
- Minnesota -.06 (-1.15%)
- Arizona -.21% (-.99%)
- New Hampshire -.42%(-1.55%)
- Florida -2.12% (-2.08%)
- Rhode Island -2.24% (-1.4%)
- Massachusetts -2.31% (-1.68%)
- Nevada -2.42% (-.7%)
- ***California -3.59% (-1.76%)***
- Michigan -3.74% (-2.5%)

- No Condos, No Mortgages over $417,000
- Source: OFHEO

Housing Tidbits

- More than 90% of Mortgages Current
- Case Shiller Home Prices down 6.1% to October
- Inventories New 9.3 Months Supply in November   Existing 10.3 Months Supply
- Nevada, Florida and Ohio top foreclosure rates: California in top 10 in November (RealtyTrac)

Unwinding the Boom

- Declines in Construction
- Some Forbearance (Regulators, National Plan)
- Increase in Affordability
- Changed Expectations
- Changed Regulatory Environment
- Tighter Credit Standards will make it harder for marginal borrowers to buy.
- In Time 2009? The adjustments are taking place now.
- Implications of the national plan? (Deal or No Deal)

Job Growth Update –November 2007 Data-48 States Growing

- Utah 1
- Wyoming 2
- Montana 3
- Louisiana 4
- Texas 5
- Colorado 6
- Washington 7
- Georgia 8
- Idaho 9
- Virginia 10
- North Carolina 11
- Oregon 18
- South Carolina 20
- New Mexico 24
- Hawaii 28
- New York 31
- Nevada 32
- ***California 40***
- Delaware 47
- Minnesota 48
- Ohio 49
- Michigan 50

A Different World?

- Climate Change Initiatives
- Reduce Greenhouse Gas Emissions
- California Part of Western Governors Climate Change Initiative (OR, WA, CA, AZ, MT, NM, UT, BC and Manitoba)
- Carbon Tax or Cap and Trade-cap emissions and people would have a permit to discharge or purchase one. Legislation introduced in US Senate
- Bali Meeting-New Negotiations and a New Cast of Characters in 2009

Observations

- We are talking about changing prices and changing behavior-Choices
- Location, Transportation, Production Techniques, Building Design and Size
- Resources have alternative uses what do you fix? Bridges, Higher Ed, Transportation, AIDS, Malaria, Entitlements, Temperature in 2100? Balancing people at different times and places.
- Global
- Bill Gates and the Meteor

Summary

- Most likely continued expansion, but downside risks have increased. (High Level of Uncertainty in Fed Minutes)
- Trade, Investment, Employment and Income gains are crucial.
- Housing adjustment is underway, but not finished.
- We tend to underestimate the resiliency of the US economy.
- This is the first month of your lives with retired boomers receiving entitlements-it will last for the duration.