

JANUARY 2024

Quarterly Economic Outlook

BY COLIN SEITZ

Macroeconomic outlook

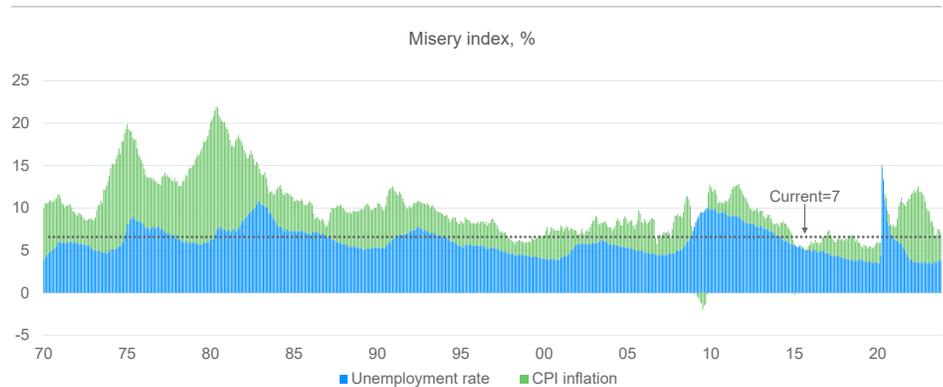
The U.S. economy is performing well. Unemployment remains below 4%, where it has been for the past two years. The last time unemployment was this low for this long was in the late 1960s. Back then, an unemployment rate that low was not sustainable since it was below the economy's full-employment unemployment rate. This was one reason inflation took off in the 1970s. Today, given the nation's different demographics and better job-matching, the economy can sustain near-4% unemployment, our current estimate of full employment.

Indeed, despite low unemployment, inflation continues to moderate. Year-over consumer price inflation is near 3%, and core CPI would be back to the Federal Reserve's target if not for stubbornly strong growth in the cost of housing services. But the growth in housing costs is set to meaningfully throttle back given weak effective market rents, which the Bureau of Labor Statistics uses to construct the CPI for housing services. Rental vacancy rates are on the rise and will increase more in coming months given the ample supply of new apartment units in train.

The so-called misery index—the sum of the unemployment and CPI inflation rates, which nicely summarizes the economy's broad performance—has rarely and only briefly been as good as it is now. The index is close to its optimal reading of 6.5% (the sum of the economy's estimated full-employment unemployment rate of 4% and the Fed's CPI inflation target of 2.5%) (see Chart 1).

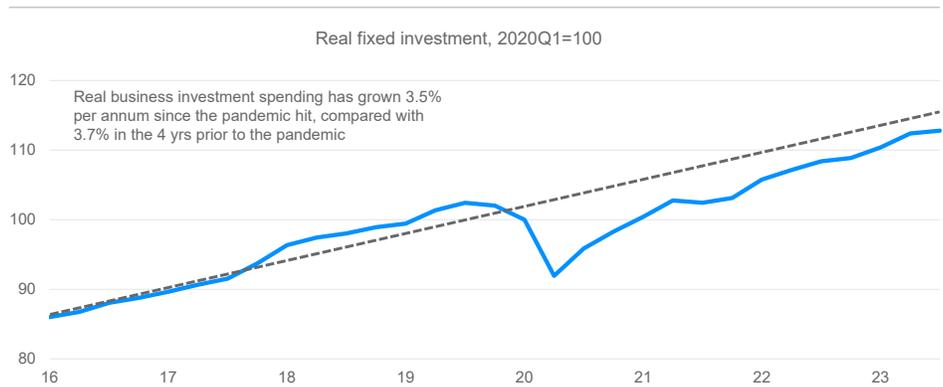
Consumers are doing their part and spending just enough to support broader economic growth. With inflation moderating, real after-inflation incomes and thus consumers' purchasing power are improving. Still-substantial excess savings built up during the pandemic by middle- and especially high-income households also support spending. Near-record stock prices and housing values and still-low and stable debt service burdens are also helping.

Chart 1: About as Good as It Gets



Sources: BLS, Moody's Analytics

Chart 2: Business Investment Recovers From the Pandemic



Sources: BEA, Moody's Analytics

And businesses are hanging tough. They continue to add strongly to payrolls and maintain investment. While difficult to disentangle, historically the first indication that the economy is in trouble and recession is dead-ahead is when anxious businesses rein in their activities. Rising layoffs undermine consumer sentiment, and weakening investment presages a pullback in consumer spending. A self-reinforcing vicious cycle that characterizes a downturn takes hold.

None of this is happening today. Indeed, layoffs remain exceptionally low and investment spending is sturdy. The growth in real business fixed investment, which excludes inventory investment, is consistent with pre-pandemic trends (see Chart 2).

QUARTERLY ECONOMIC OUTLOOK

In the four years leading up to the pandemic, real business fixed investment grew at a 3.7% per annum pace. Despite getting hit hard during the pandemic shutdowns, it has grown just about as strongly in the nearly four years since. Investment in structures, including commercial real estate, has lagged, but equipment investment has kept pace with overall spending. Additionally, intellectual property investment, which includes software and research and development, has enjoyed outside gains.

While there are crosswinds, the tailwinds behind business investment should continue to blow hardest. Most significant, businesses are highly profitable, suggesting juicy returns to more investment. Profit margins, measured as the ratio of before-tax profits for nonfinancial corporations to the gross product of those businesses, have been higher but not often (see Chart 3).

Profits got especially pumped up during the pandemic, when businesses' costs rose sharply with the supply-chain and labor market disruptions, but shortages empowered businesses to increase their prices even more. Businesses are also benefiting from steadily falling tax rates, culminating with the big tax rate reduction in the Tax Cut and Jobs Act passed under President Trump. Profit margins on an after-tax basis are about as wide as they have ever been and almost twice their average since the 1960s.

Businesses thus have an outside economic incentive to continue strong investment. Over time, the increase in their productive capacity and the intensifying competitive pressures that result should push profit margins back down to something more typical, but that will take a while. This is in keeping with the adage that prices rise like a rocket and fall like a feather. Even this assumes that the apparent concentration of activity in fewer businesses across markets in recent years does not overly stymie competition.

The Fed's aggressive interest rate hikes and higher long-term rates have also done little to dent corporate profitability, at least so far. Interest expense as a share of corporate cash flow fell to a record low near 5% (see Chart 4).

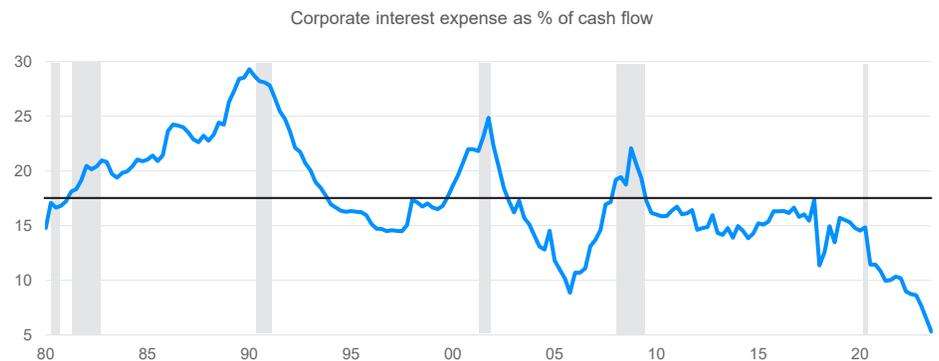
While the return on new investment is high, the cost of capital remains low by most historical standards, and this is despite the runup in interest rates. This goes in part to the near-record stock

Chart 3: Pumped-Up Profit Margins



Sources: BEA, Moody's Analytics

Chart 4: Businesses Have Locked In Previously Low Rates



Sources: BEA, Moody's Analytics

prices and lofty equity valuations. The price-earnings multiple on the Standard & Poor's 500 is 20 times, more or less—higher if based on trailing earnings and lower if based on forward earnings. This compares with a long-run average PE multiple closer to 15 times and implies a below-average cost of equity capital. Of course, this varies considerably across companies, and especially so now with the valuations of the so-called magnificent seven technology stocks so much higher than for the rest of the market. The cost of debt capital also remains reasonably attractive as corporate borrowing costs have not risen nearly as much as risk-free Treasury yields.

The crisis that roiled the banking system in March sparked a tightening in underwriting standards for bank loans to businesses—commercial and industrial loans—but the fallout on credit availability has been surprisingly modest. In the immediate wake of the crisis, half of senior loan officers at commercial banks said they were raising their standards to make a loan to companies of all sizes. In the past, when so many banks tightened and C&I loans outstanding declined, the economy was already in recession (see Chart 5).

QUARTERLY ECONOMIC OUTLOOK

Not so this time. Businesses have not had the same trouble getting credit despite tighter underwriting. According to small businesses surveyed by the National Federation of Independent Business, a net 8% say credit is hard to get. It was close to twice that during the financial crisis. And in response to the Moody's Analytics weekly survey of business confidence, only 5% said getting credit was their biggest problem. More than twice that percentage said so at the height of the pandemic and during the financial crisis. C&I loans outstanding have gone sideways but have not declined.

Business investment is also enjoying a meaningful boost from recent federal legislation that provides more funds for public infrastructure, tax breaks for semiconductor fab construction and research and development, and a host of incentives for green energy development. Most of the latest investment has been in new construction. Manufacturing construction put-in-place has surged from a consistent \$75 billion per annum to well over \$200 billion (see Chart 6). As construction projects are completed, the new fab plants will need to be fitted out with equipment. Public construction has also jumped from close to \$350 billion per annum to \$450 billion, lifting investment for construction equipment and for supplying manufacturing and mining industries.

The extraordinary increase in new-business formations since the pandemic hit should also provide a longer-term boost to business investment. Just prior to the pandemic, applications to the Internal Revenue Service to start a new business with a high propensity to hire workers was near 1.25 million per annum. Since the pandemic, it is closer to 1.75 million (see Chart 7).

Concern that the economy will suffer a downturn is steadily fading, as the economy continues to perform well and prospects are improving as inflation recedes without an increase in unemployment. Waning economic fallout from the pandemic and the

Chart 5: Banks Tighten Down on Business Lending

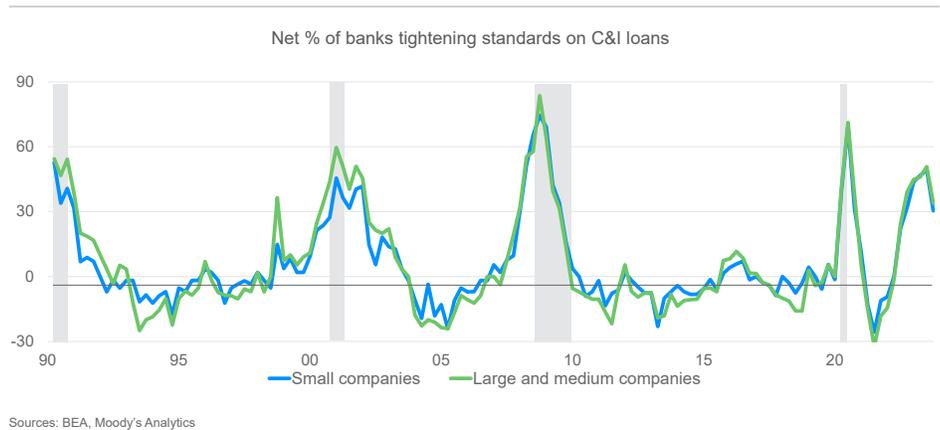


Chart 6: Fiscal Policy Provides a Tailwind

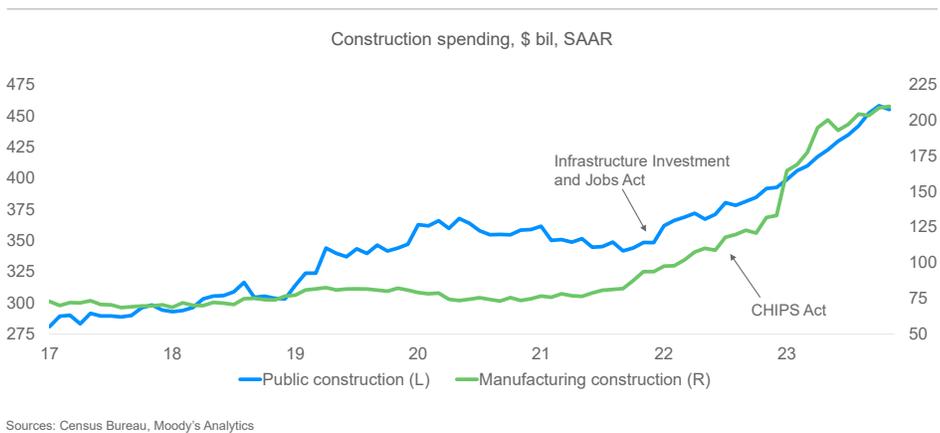


Chart 7: Businesses Form at an Extraordinary Pace



Russia/Ukraine war is a key reason, but so too is the resilience of American consumers and businesses. Consumers continue to do their part, spending just enough to keep the economy moving forward, but not so much that it fans inflation and interest rates.

QUARTERLY ECONOMIC OUTLOOK

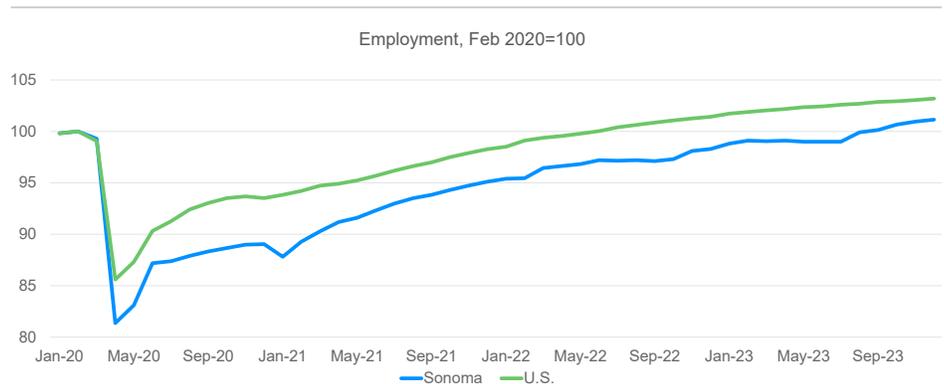
Businesses are also hanging tough. Despite higher interest rates and tightening credit, they remain stalwart in their refusal to lay off workers and rein in investment. And with good reason; the returns to expansion are high given their extraordinary profitability—much higher than their cost of capital. With new businesses forming at an extraordinary pace and a highly supportive fiscal policy, odds are increasing that the economy will find a soft landing.

Sonoma County outlook

Sonoma County's economy found some renewed momentum through the second half of 2023 (see Chart 8). While the national economy continues to slow, job growth in the county accelerated in the last three- and six-month periods, significantly outpacing both California and the nation during those times. Leisure/hospitality has found another gear following a mid-year swoon and annual job growth is running ahead of the national average even as payrolls are cresting new highs. Construction is powering ahead, driven by renewed nonresidential construction (see Chart 9). On the other hand, the jobless rate has crept higher over the past year, while the labor force has flatlined below its pre-pandemic level. House prices rose in fits and starts in 2023, but are still below their mid-2022 highs, matching the California trajectory. Permit issuance is inching slowly higher but remains below its pre-pandemic pace.

Sonoma County and the U.S. economy will continue to slow, but crucially avoid any outright job losses. After payrolls advanced 2.8% in 2023, job growth will slow to around half that pace in 2024 as the economy downshifts (see Chart 10). Total payrolls are already past their pre-pandemic level; combined with a slowing national economy, these will apply restraint to Sonoma's key industry clusters. Sonoma's major industry, tourism, is cyclical. With income growth decelerating, cyclical industries will face challenges as consumer spending slows from last year's pace.

Chart 8: Sonoma County Makes Up Some Ground



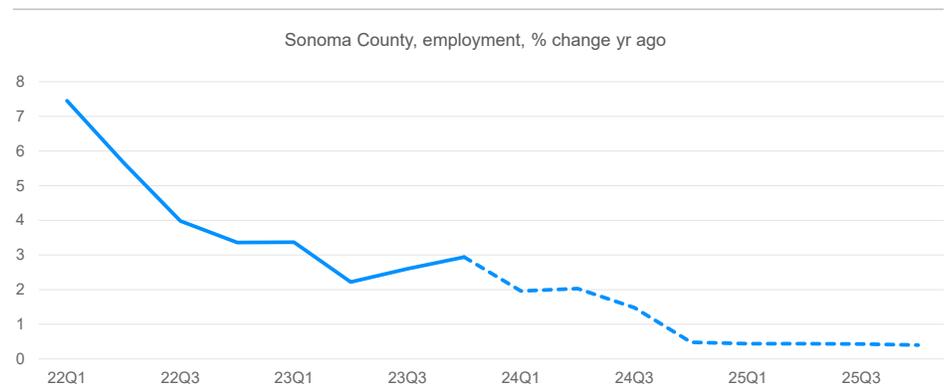
Sources: BLS, Moody's Analytics

Chart 9: Nonresidential Permitting Finds Another Gear



Sources: Census Bureau, Moody's Analytics

Chart 10: Job Growth Will Slow to a Crawl



Sources: BLS, Moody's Analytics

Tourism will settle into a slower pace of growth as payrolls have recouped their losses from the pandemic and staffing levels are normalizing. Payrolls are already 8% above their pre-pandemic levels, compared with just 1% for the region; combined with a slowing

QUARTERLY ECONOMIC OUTLOOK

labor market, this will ensure job growth downshifts during the next year. Arrivals at Charles M. Schultz-Sonoma County Airport increased again in 2023, albeit at a reduced pace than in 2022, signaling that pent-up demand for travel is waning. Still, the metro area's plentiful tourism draws will keep visitor spending ticking and enable modest growth. Sonoma boasts world-class wineries and weather that make it a popular year-round destination. A cooling U.S. economy ensures that spending on recreation pulls back relative to 2022 and 2023, and leisure/hospitality will settle into a slower pace of growth.

However, weak demographic trends will undermine steady growth in tourism and the beverage industry. Sonoma County's affordability challenges have led to an exodus of residents for six consecutive years as people move to lower-cost areas away from the coast. The housing market is among the least affordable in the U.S., so rapid improvement in migration trends is unlikely. Declining numbers in the working-age population will put a speed limit on labor force and job growth, leading to below-average growth in population-dependent industries, including healthcare. While migration trends are still not favorable, they have improved in recent years and compare favorably to nearby Napa, where out-migration has accelerated since the pandemic.

California's larger grape harvest in 2023 should balance the market after consecutive years of smaller-than-expected crop

yields. According to the California Grape Crush Report, grape prices per ton increased about 7% in 2022 after surging 25% in 2021. These increases are likely to give way given earlier reports of a strong harvest this year. More-available supply will keep a speed limit on price increases, though the quality of the harvest will ensure that prices do not decrease. The county's other largest agriculture product will similarly see a retreat in pricing power. After peaking in mid-2022, milk prices declined sharply and are only now beginning to rebound. Milk prices now sit only slightly higher than their pre-pandemic level, which is still significantly lower than their highs from nearly a decade ago. U.S. and global demand for nondairy alternatives continues to rise and chip away at market share of the dairy market, which will limit price increases for Sonoma County dairy farmers. Coupled with improved drought conditions that should see milk production in California increase in the next two years, this suggests that milk prices will modestly tick downward this year and next.

Sonoma County's near-term outlook is on stable footing, though the economy will expand at a slower pace than last year. Tourism will settle into a reduced pace of growth as the national economy slows, but still drive modest advances. Unfortunately, weak population growth will outmuscle the advantages of a high quality of life and an educated workforce, relegating the county to a slightly below-average performer relative to California.

About Moody's Analytics

Moody's Analytics provides financial intelligence and analytical tools supporting our clients' growth, efficiency and risk management objectives. The combination of our unparalleled expertise in risk, expansive information resources, and innovative application of technology helps today's business leaders confidently navigate an evolving marketplace. We are recognized for our industry-leading solutions, comprising research, data, software and professional services, assembled to deliver a seamless customer experience. Thousands of organizations worldwide have made us their trusted partner because of our uncompromising commitment to quality, client service, and integrity.

Concise and timely economic research by Moody's Analytics supports firms and policymakers in strategic planning, product and sales forecasting, credit risk and sensitivity management, and investment research. Our economic research publications provide in-depth analysis of the global economy, including the U.S. and all of its state and metropolitan areas, all European countries and their subnational areas, Asia, and the Americas. We track and forecast economic growth and cover specialized topics such as labor markets, housing, consumer spending and credit, output and income, mortgage activity, demographics, central bank behavior, and prices. We also provide real-time monitoring of macroeconomic indicators and analysis on timely topics such as monetary policy and sovereign risk. Our clients include multinational corporations, governments at all levels, central banks, financial regulators, retailers, mutual funds, financial institutions, utilities, residential and commercial real estate firms, insurance companies, and professional investors.

Moody's Analytics added the economic forecasting firm Economy.com to its portfolio in 2005. This unit is based in King of Prussia PA, a suburb of Philadelphia, with offices in London, Prague and Sydney. More information is available at www.economy.com.

Moody's Analytics is a subsidiary of Moody's Corporation (NYSE: MCO). Further information is available at www.moodyanalytics.com.

DISCLAIMER: Moody's Analytics, a unit of Moody's Corporation, provides economic analysis, credit risk data and insight, as well as risk management solutions. Research authored by Moody's Analytics does not reflect the opinions of Moody's Investors Service, the credit rating agency. To avoid confusion, please use the full company name "Moody's Analytics", when citing views from Moody's Analytics.

About Moody's Corporation

Moody's Analytics is a subsidiary of Moody's Corporation (NYSE: MCO). MCO reported revenue of \$5.5 billion in 2022, employs approximately 14,000 people worldwide and maintains a presence in more than 40 countries. Further information about Moody's Analytics is available at www.moodyanalytics.com.

CONTACT US

For further information contact us at a location below:

U.S./CANADA
+1.866.275.3266

EMEA
+44.20.7772.5454 London
+420.234.747.505 Prague

ASIA/PACIFIC
+852.3551.3077

OTHER LOCATIONS
+1.610.235.5299

Email us: helpeconomy@moodys.com
Or visit us: www.economy.com

© 2024 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED OR OTHERWISE MADE AVAILABLE BY MOODY'S (COLLECTIVELY, "MATERIALS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S MATERIALS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S MATERIALS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND MATERIALS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND MATERIALS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND MATERIALS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES OR OTHERWISE MAKES AVAILABLE ITS MATERIALS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND MATERIALS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR MATERIALS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. FOR CLARITY, NO INFORMATION CONTAINED HEREIN MAY BE USED TO DEVELOP, IMPROVE, TRAIN OR RETRAIN ANY SOFTWARE PROGRAM OR DATABASE, INCLUDING, BUT NOT LIMITED TO, FOR ANY ARTIFICIAL INTELLIGENCE, MACHINE LEARNING OR NATURAL LANGUAGE PROCESSING SOFTWARE, ALGORITHM, METHODOLOGY AND/OR MODEL.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND MATERIALS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the credit rating process or in preparing its Materials.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$500 to approximately \$5,300,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Charter Documents - Director and Shareholder Affiliation Policy."

Moody's SF Japan K.K., Moody's Local AR Agente de Calificación de Riesgo S.A., Moody's Local BR Agência de Classificação de Risco LTDA, Moody's Local MX S.A. de C.V., I.C.V., Moody's Local PE Clasificadora de Riesgo S.A., and Moody's Local PA Clasificadora de Riesgo S.A. (collectively, the "Moody's Non-NRSRO CRAs") are all indirectly wholly-owned credit rating agency subsidiaries of MCO. None of the Moody's Non-NRSRO CRAs is a Nationally Recognized Statistical Rating Organization.

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for India only: Moody's credit ratings, Assessments, other opinions and Materials are not intended to be and shall not be relied upon or used by any users located in India in relation to securities listed or proposed to be listed on Indian stock exchanges.

Additional terms with respect to Second Party Opinions (as defined in Moody's Investors Service Rating Symbols and Definitions): Please note that a Second Party Opinion ("SPO") is not a "credit rating". The issuance of SPOs is not a regulated activity in many jurisdictions, including Singapore. JAPAN: In Japan, development and provision of SPOs fall under the category of "Ancillary Businesses", not "Credit Rating Business", and are not subject to the regulations applicable to "Credit Rating Business" under the Financial Instruments and Exchange Act of Japan and its relevant regulation. PRC: Any SPO: (1) does not constitute a PRC Green Bond Assessment as defined under any relevant PRC laws or regulations; (2) cannot be included in any registration statement, offering circular, prospectus or any other documents submitted to the PRC regulatory authorities or otherwise used to satisfy any PRC regulatory disclosure requirement; and (3) cannot be used within the PRC for any regulatory purpose or for any other purpose which is not permitted under relevant PRC laws or regulations. For the purposes of this disclaimer, "PRC" refers to the mainland of the People's Republic of China, excluding Hong Kong, Macau and Taiwan.