

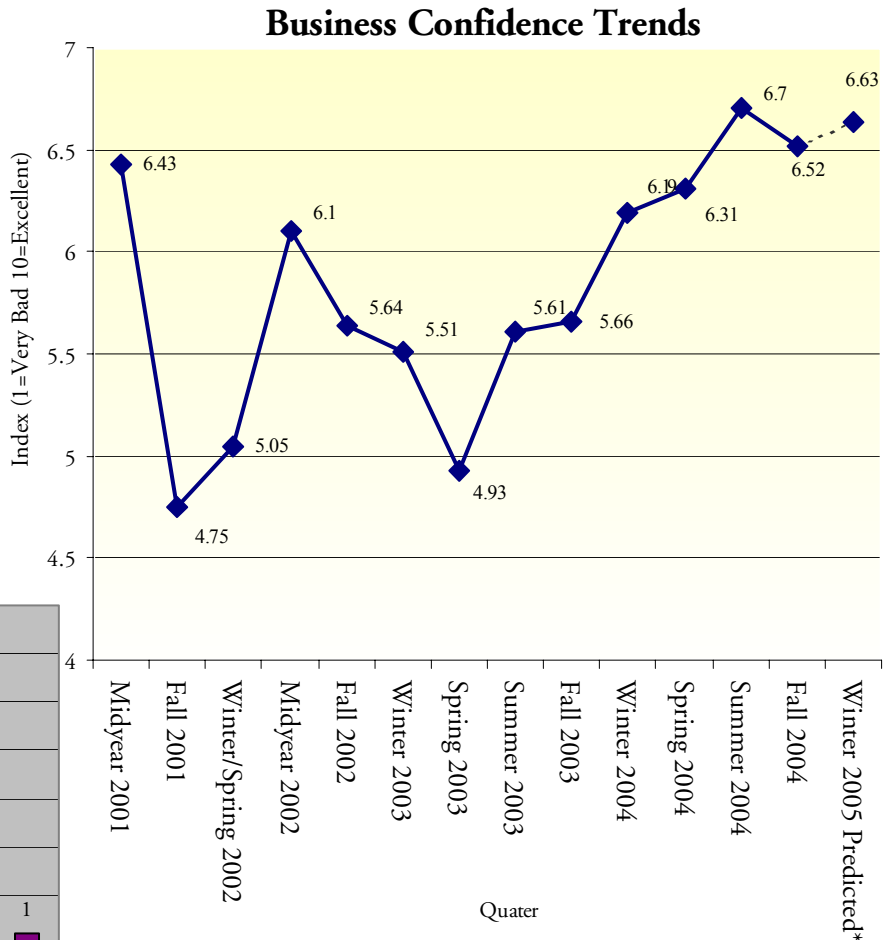
Sonoma County Economic Development Board Business Confidence Report Fall 2004

Conducted during the month of September, the Sonoma County Economic Development Board presents the *Fall 2004 Business Confidence Report*. Key highlights from the report include:

- The *Business Confidence Index* dipped from Summer 2004 by 0.18 points (2.7%) to 6.52 on a 10- point scale, but remains strong. Overall, business executives reported confidence within their industry at 6.3 on a 10-point scale. This indicates that industry confidence remains strong despite the slight drop in the majority of industry sectors.
- Fifty-three percent of local executives predict increasing wage and salary rates within the next six months. Twenty-nine percent of respondents feel they will increase their number of full-time employees, and 53% of businesses will keep employment constant.
- The September purchasing trends for Sonoma County and the nation indicate that both the overall economy and the manufacturing sector are growing. The Local Purchasing Trends Index (PTI) registered at 55.4%, which mirrors the National Purchasing Manager's Index (PMI) of 58.5%.
- Sixty-three percent of respondents anticipate stock market performance to remain the same over the next three months, and 32% forecast the stock market to improve. In addition, the large majority (88%) of local executives predict interest rates to rise, and 55% of respondents feel that the national unemployment rate will not change over the next six months.

Business Confidence Dips, But Still Remains Strong

Local executives' current Business Confidence dipped from Summer 2004 by 0.18 points (2.7%) to 6.52 on a 10-point scale (1=very bad; 10=excellent), but remains strong. Overall, 79% of local executives positively assessed current Sonoma County economic conditions (a rating of 6 or above) as confidence in the local economy holds steady at a three-year statistical high (See graphs). Expectations and confidence for future local economic conditions remain steady. Business Confidence is predicted to reach 6.63 over the next six months, reflecting business executives' confidence in Sonoma County's continued economic growth.



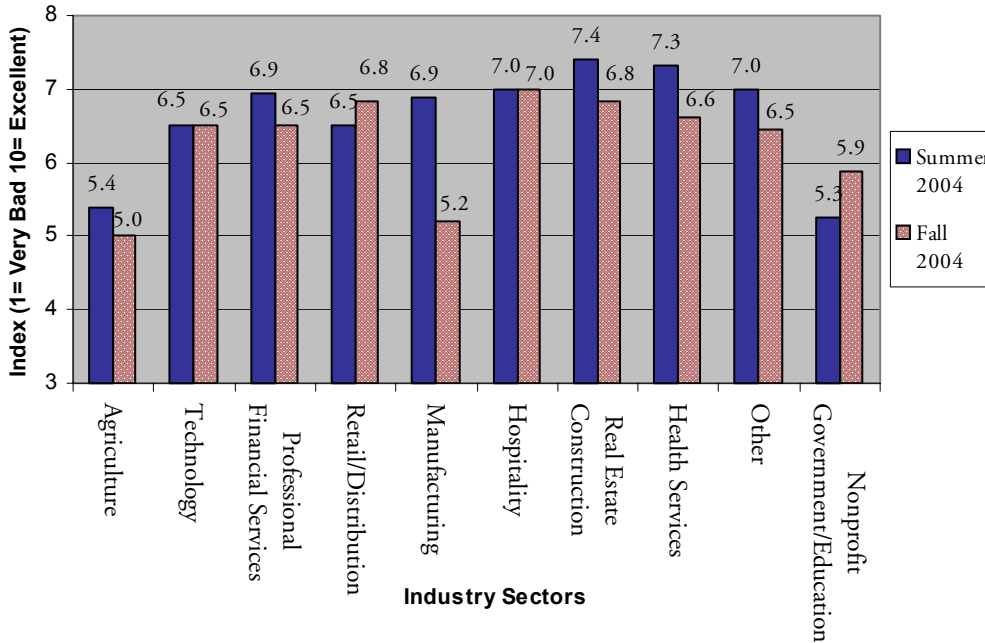
Distribution of Executive's Current Business Confidence Ratings



Industry Confidence in Sonoma County

While *Business Confidence* shows confidence in the economy as a whole, *industry confidence* looks specifically at how executives feel about their sector's performance and growth. The graph below reflects the changes in industry confidence by sector from the last quarter. Overall, business executives reported confidence within their industry at 6.3 on a 10-point scale (1=Not Confident; 10=Very Confident). This indicates that industry confidence remains strong despite the slight drop in the majority of industry sectors.

Industry Confidence



Index Change by Industry

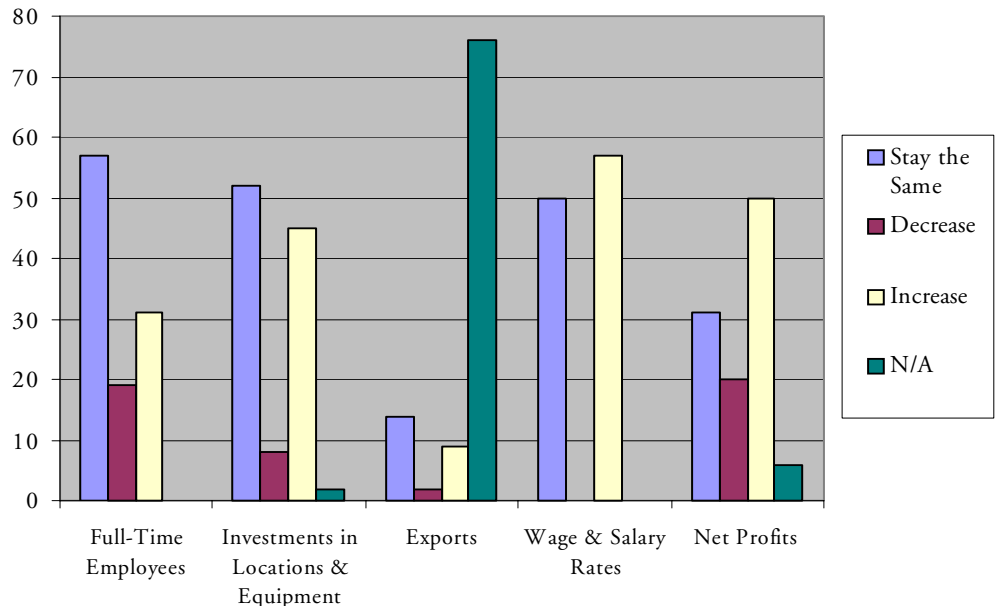
Agriculture	-0.4
Technology	0.0
Professional/Financial	-0.4
Retail/Distribution	+0.3
Manufacturing	-1.7
Hospitality	0.0
Real Estate/Construction	-0.6
Health Services	-0.7
Other	-0.5
Nonprofit/Government/ Education	+0.6

Business Forecasted to Remain the Same or Increase over the next Six Months: Full-Time Employees, Investments in Locations and Equipment, Exports, Wages, Salary Rates, & Net Profits to Remain Constant

Business executives foresee production capacity and spending to either increase or remain static. The majority (53%) of respondents expect their number of full-time employees to remain the same, while 29% of executives feel that they will increase employment with only 18% making cuts. Similarly, the large majority of executives forecast investments in locations and equipment to either stay the same (49%), or to increase (42%).

In addition, 53% of local business leaders expect to increase wage and salary rates within the next six months. This is compatible with the latest Manufacturing Institute of Supply and Management's (ISM) September Report indicating a significant upward pressure on prices nationally.¹ Finally, net profits look promising. Forty-seven percent of local executives predict an increase in net profits, 29% expect profits to remain the same and only 19% foresee a decrease in their business's net profits over the next six months.

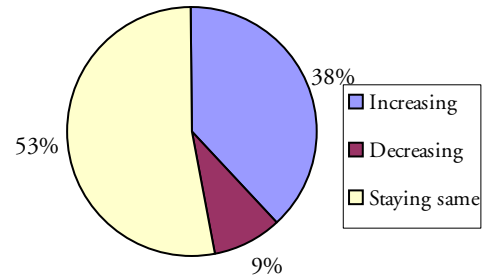
Forecast of Business over the Next Six Months



2004-2005 Forecasted Budgets for Advertising, Sales and Marketing

Budgets for advertising, sales and marketing reflect how executives are choosing to promote their businesses. The majority (53%) of respondents reported no change in their budgets. However, 38% of respondents plan on increasing their budgets, while only 9% foresee advertising, sales and marketing budgets decreasing.

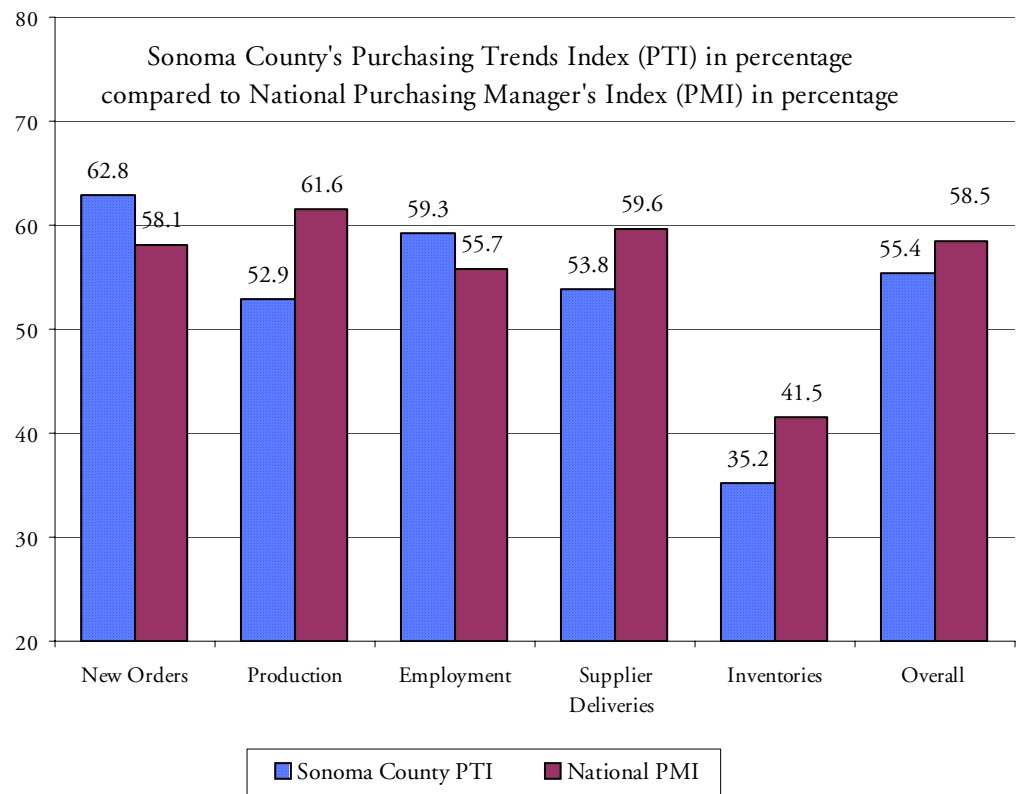
Forecasted 2004-2005 Budgets for Advertising, Sales and Marketing



Sonoma County Purchasing Trends Index

The September purchasing trends for Sonoma County and the nation indicate that both the overall economy and the manufacturing sector are growing. In reference to the graph on the right, growth in the manufacturing sector is indicated when the indices measure above 50%. In addition, expansion of the economy is measured by an overall score in excess of 42.8%.

Sonoma County's Purchasing Trends Index (PTI) registered 55.4% in September, which mirrors the National Purchasing Manager's Index (PMI) of 58.5%.³ Although the rate of change compared to August was slower, overall September's purchasing trends both nationally and locally were surprisingly strong given the slow down in new orders at a national level.

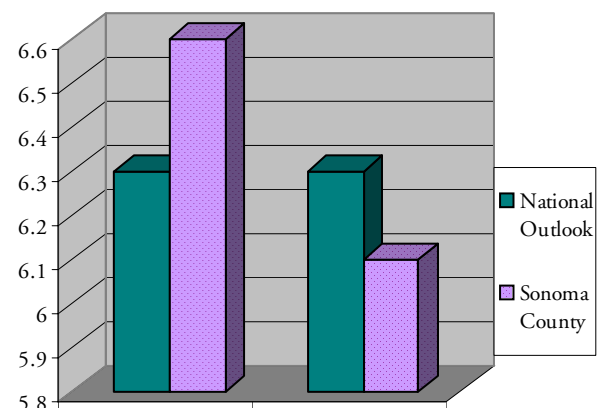


The Big Picture:

The Six-Month Outlook for the National and Local Economy

Business confidence in Sonoma County parallels national business confidence as reported by The Conference Board's "CEO Confidence Survey".² The national index also dipped from the first quarter, but remains strong. Business executives throughout the nation rated both national economic growth and national industrial growth at 6.3 out of a 10-point scale. On a national level, the confidence in the economy as a whole remains steady, down from Spring 2004 by a mere 0.24 points (4%). Confidence in national industries also holds steady, down only a mere 0.18 points (3%). In addition, projected national overall confidence by local executives continues to remain strong. The six-month forecast of 6.6 for the economy and 6.1 for industry confidence is the same as it was in Spring 2004.

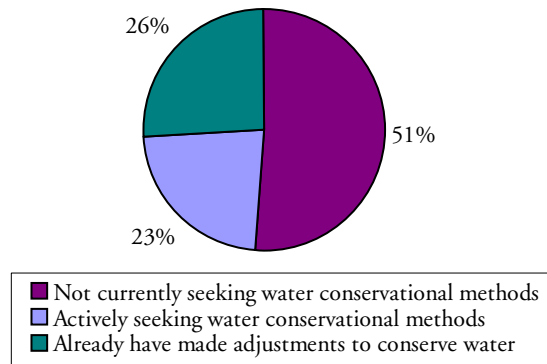
Local vs. National Outlook



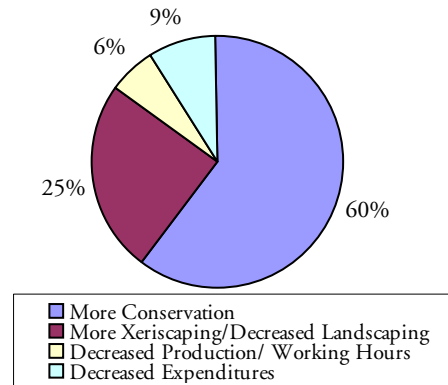
Emerging Business Issue: Water

This quarter's Business Confidence theme focused on water usage and conservation methods. Twenty-three percent of responding executives are actively seeking ways to minimize their business's water usage, and 51% are not currently seeking ways to conserve. The 26% of businesses that have already made adjustments to conserve water reported conservation methods that included water efficient toilets, usage of native plants in landscaping, synthetic athletic fields, less irrigation, and other low-flow water devices. Variables, such as industry, weather, and tourism, influenced respondents' anticipated water usage over the next six months. Nevertheless, the majority (75%) of executives reported no anticipated change in water usage, while 20% will decrease usage. Finally, 60% of respondents would exercise more conservation if reductions in water usage were mandated. Other hypothetical business changes included more xeriscaping/decreased landscaping (25%), decreased production/working hours (6%), and decreased expenditures (9%).

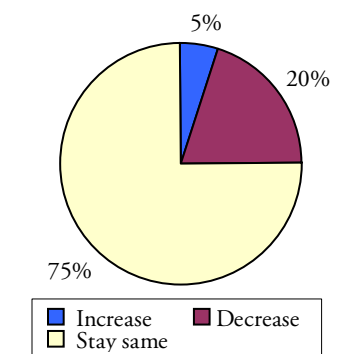
Business Water Conservation Methods



Forseeable Business Impacts if Reductions in Water Usage were Mandated

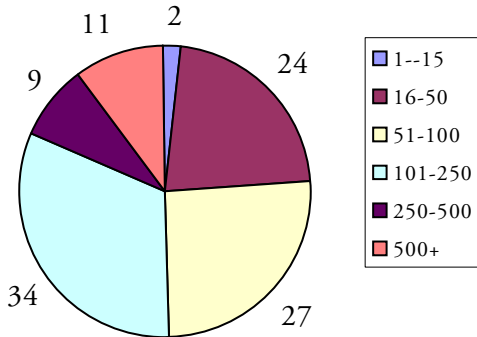


Anticipated Changes in Business' Water Usage Over the Next 6 Months

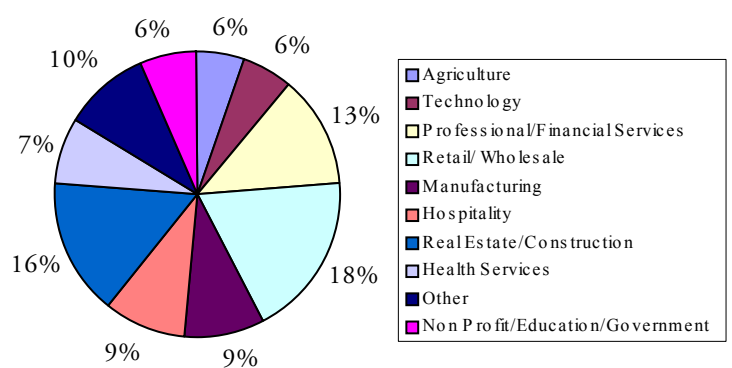


Sample Characteristics

Number of Employees for Companies Surveyed



Fall 2004 Responses by Industry



Notes

1. The Institute of Supply and Management, "September Manufacturing ISM Report on Business," Released October 1, 2004.
2. The Conference Board. CEO Confidence Survey, 2nd Quarter 2004, "Chief Executives' Confidence Dips, But Still Remains Strong." July 7, 2004.
3. The Institute of Supply Management. "September Manufacturing ISM Report on Business, PMI at 58.5%" September 2004.

Surveys were mailed to 350 business executives in the beginning of September with a due date of September 29, 2004. Responses were received from 115 businesses, for a response rate of about 33%. The Sonoma County Business Confidence Index is the mean of all respondents' perceptions of Sonoma County's current economic situation on a scale of 1-10. Due to adjustments in methodology, some percentages differ from those cited in earlier Sonoma County Business Confidence Reports. The national PMI comes from the Institute for Supply Management and the figure is based on the month of March only. The PMI uses information about companies' new orders, production, employment, supply deliveries, and inventories. Sonoma County's index tries to mirror these indicators when computing its index. However, due to differences in the methodology of compiling data, the two indices may not be directly comparable.

The Sonoma County Economic Development Board has conducted the Business Confidence survey since December 1999 and produces a quarterly report. This report reflects the information gathered during a survey conducted in September. Individual surveys are confidential. This report was prepared by Nicole Knecht.

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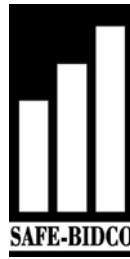
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