



Sonoma County Economic Development Board Business Confidence Report Spring 2005

Conducted during the month of March, the Sonoma County Economic Development Board presents the Spring 2005 Business Confidence Report. Key highlights from this report include:

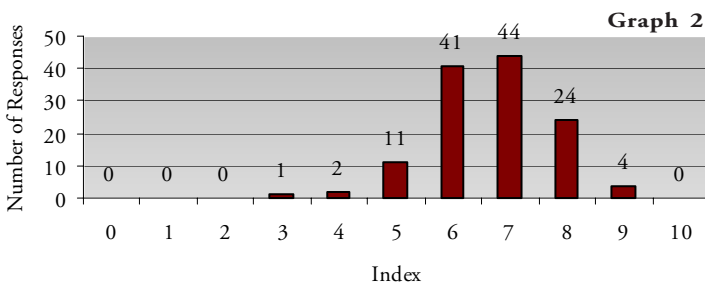
- The Sonoma County Business Confidence Index rose after two consecutive quarters of decline, reaching close to its high point in the Summer 2004 index. The Spring index increased by 0.28 points (4.4 percent) from Winter 2005 to 6.68 on a 10-point scale. Business executives' confidence within their industries also increased 0.13 points (2 percent) to 6.48 from Winter 2005.
- The majority (49%) of executives expect their number of full-time employees to increase, while 43% of respondents expect employment to remain static. Fifty-six percent of respondents expect wage and salaries to rise in the next six months, and 54% of executives forecast their net profits to rise throughout the summer months.
- Purchasing trends for both Sonoma County and the United States indicate that economic activity in the manufacturing sector grew. The Local Purchasing Trends Index is up 1% to 69.3 percent from Winter 2005. This surpasses the growth of the U.S. Purchasing Manager's Index registered at 55.2 percent, a decrease of 5.8% compared to Winter 2005's reading taken in December.
- Fifty-eight percent of respondents plan to take aggressive-to-moderate attitudes towards overall significant capital expenditures. The majority 51% of respondents feel the national unemployment rate will decline, and 40% anticipate that the stock market will rise.

Business Confidence Rebounds

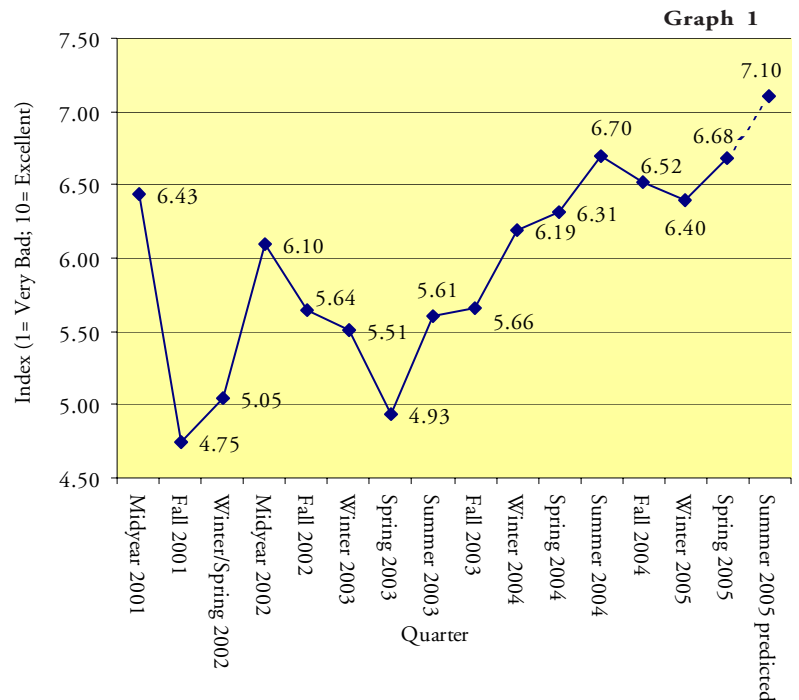
The Sonoma County Business Confidence Index rose after two consecutive quarters of decline, approaching the high point in the Summer 2004 index. As Graph 1 shows, the Spring index increased by 0.28 points (4.4%) from Winter 2005 to 6.68 on a 10-point scale (1= very bad; 10= excellent). Business executives' confidence within their industries also increased 0.13 points (2%) to 6.48 from Winter 2005. Both indices indicate that the responding executives feel very positively about the economy in Sonoma County. Eighty-nine percent of the respondents assessed Sonoma County economic conditions over the last six months as positive (a score of 6 or above). Business executives in Sonoma County also expect the County's economy over the next six months to be stronger, forecasting a confidence level of 7.10.

Distribution of Business Confidence

Distribution of Executive's Current Business Confidence Ratings



Business Confidence Trends



Industry Confidence in Sonoma County

While the business confidence index indicates the level of confidence in the economy as a whole, industry confidence illustrates specifically how executives feel about their sector's current economic condition and future growth. Graph 3 compares the level of confidence of the industries. Overall, business executives reported their industry confidence at 6.48, with the highest confidence being reported by the hospitality sector, which reported an industry confidence level of 7.00. The lowest confidence level was for the nonprofit/government/education sector, with a confidence level of 5.33. The health services sector saw the largest gains in industry confidence, rising from 5.50 in the winter to 6.40 this spring (See Table 1).



Table 1

Index Change by Industry

Agriculture	+0.24
Health Services	+0.90
Hospitality	+0.70
Manufacturing	+0.13
Nonprofit/Government/Education	-0.89
Other	0.00
Professional/Financial	-0.26
Real Estate/Construction	+0.77
Retail/Wholesale Distribution	-0.22
Technology	0.00
Overall	+0.13

Businesses Expect to Expand More Than They Anticipated Last Winter: Full-Time Employment, Investment, Salaries, Profits

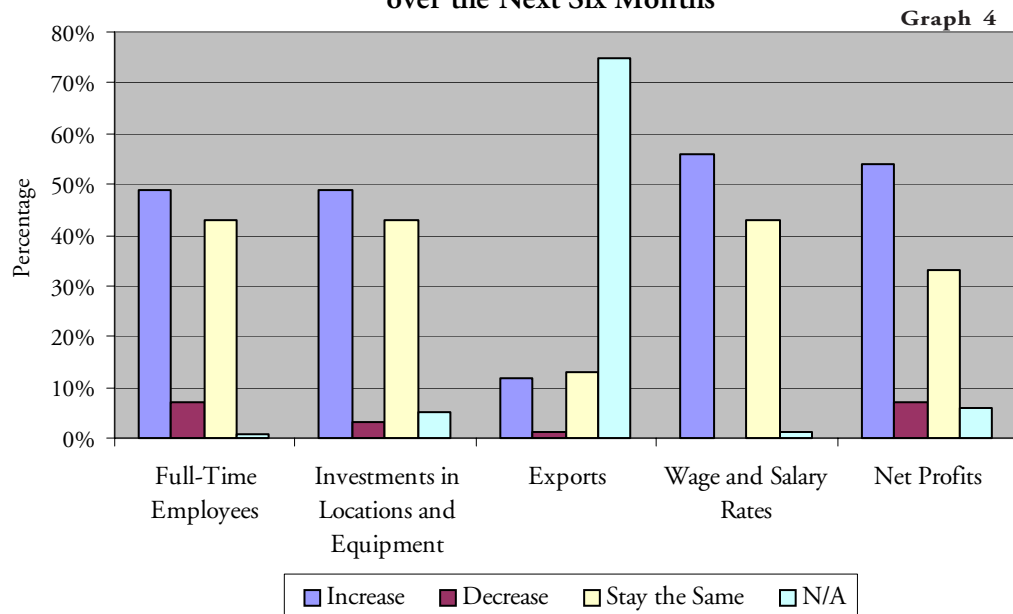
Overall, the respondents expect production capacity to either increase or remain static over the next six months. Graph 4 displays executives' forecast of business production capacity and spending over the next six months.

The majority (49%) of executives expect their number of full-time employees to increase, while 43% of respondents expect employment to remain static. In addition, 49% of responding executives predicted that they would increase investments in locations and equipment, and 56% expect wage and salaries to rise in the next six months. Net profits look promising, with 54% of executives forecasting their net profits to rise throughout the summer months.

While most responding companies (75%) do not export their products or services, of those companies that do, 25% expect their exports to rise or stay constant over the next six months.

Expanding Production Capacity in Sonoma County

Forecast of Business Production Capacity and Spending over the Next Six Months



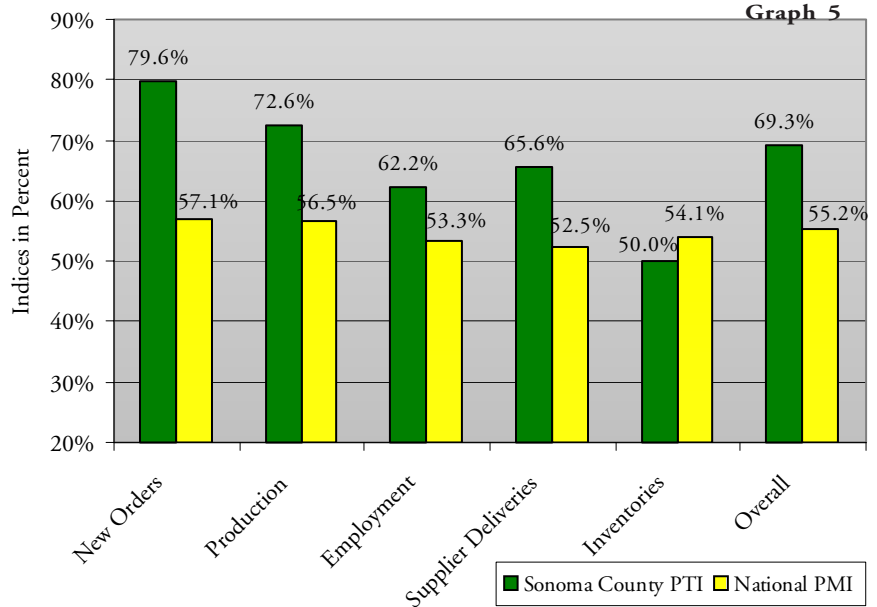
Sonoma County Purchasing Trends Index (PTI)

The purchasing trends for both Sonoma County and the United States indicate that economic activity in the manufacturing sector grew. Graphs 5 and 6 compare the local Purchasing Trends Index (PTI) index with the U.S. Purchasing Manager's Index (PMI) index.

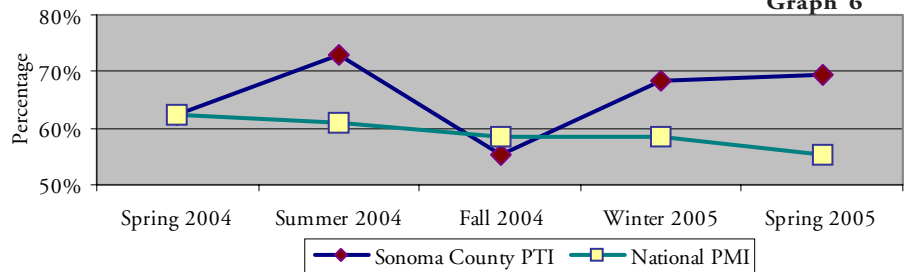
The local PTI is up 1% to 69.3% from Winter 2005. In comparison, the national PMI registered 55.2%, a decrease of 5.8% compared to the Winter 2005 survey. This PMI index indicates, nevertheless, that the manufacturing economy grew in March for the 22nd consecutive month, and decreased only by 0.1 percentage point when compared to February's seasonally adjusted reading of 55.3%.¹ A reading above 50% indicates that the manufacturing economy is generally expanding; below 50% indicates that it is generally contracting.

As Graph 6 highlights, this data could indicate that Sonoma County continues to grow faster than the nation. In Summer 2004, for example, the local PTI registered at 72.8% compared to the national PMI of 61%.

Sonoma County vs National Production Indices



Manufacturing PMI and PTI Trends

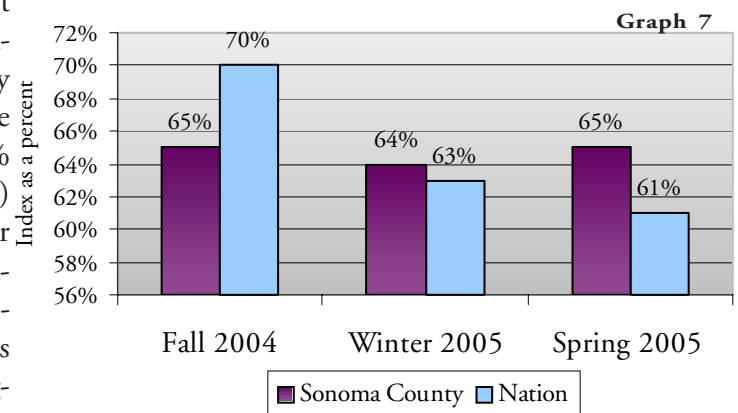


The Big Picture:

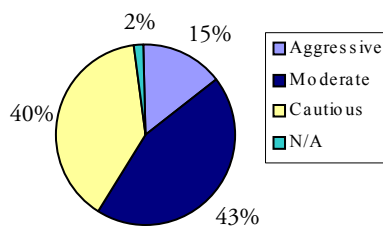
Sonoma County and the National Economy

Trends in local business confidence are similar to trends witnessed in national business and consumer confidence. In a survey of CEOs nationally, the Conference Board found that confidence in the economy as a whole to be at 61 on a 100-point scale, with a reading above 50 reflecting more positive than negative responses.² This is on par with the data from Sonoma County (See Graph 7). Local business executives' confidence in the economy as a whole remains steady, increasing slightly to 65% from Winter 2005. Similarly, executives positively rated (65%) their confidence for the nation's economic growth within their industry over the next six months. Additional business expectations displayed below in Graphs 9-11 also indicate positive local and national confidence. Fifty-eight percent of respondents plan to take aggressive-to-moderate attitudes towards overall significant capital expenditures. The majority 51% of respondents feel the national unemployment rate will decline, and 40% anticipate that the stock market will rise.

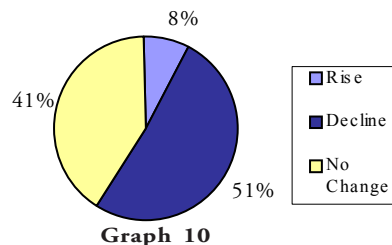
Business Confidence Local and National Comparison



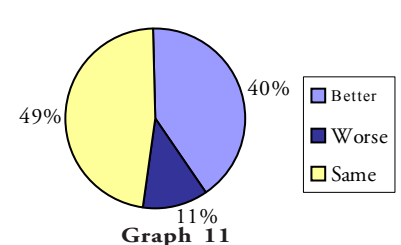
Capital Expenditures



National Unemployment Rate



Stock Market Performance



Hiring Within Sonoma County

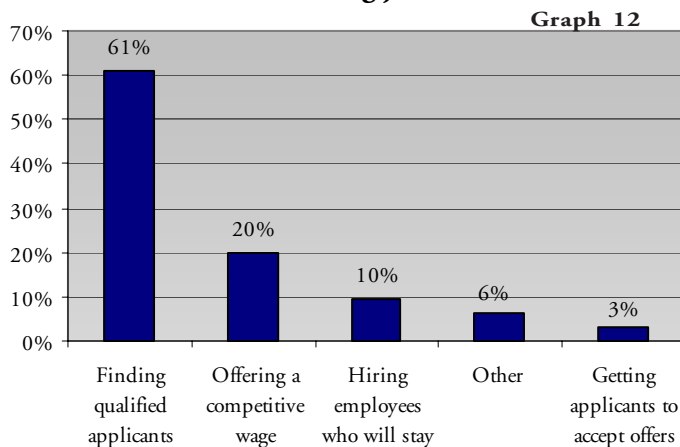
The peak tourism season is approaching. Due in part to the fact that Sonoma County supports a \$1 billion tourism industry, spring and summer often represent peak hiring seasons. Thus, executives were asked topical questions about filling job openings and local challenges impacting hiring.

Graph 12 displays executives' reported difficulties in filling jobs. The majority of executives (61%) reported that finding qualified applicants was the most difficult aspect of filling job openings, while offering a competitive wage was the second greatest challenge (20%).

Graph 13 shows that 88% of respondents reported that the amount of time taken to fill job openings this year compared to previous year was the same (46%) or shorter (25%).

Also contributing to local executives' hiring obstacles was the recent rise in the median sales price for single-family homes, which surpassed \$500,000 in November 2004. Of responding executives, 74% reported that increasing housing prices impact hiring within their business (See Graph 14).

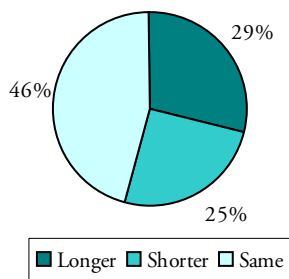
Reported most difficult aspect of filling jobs



Graph 12

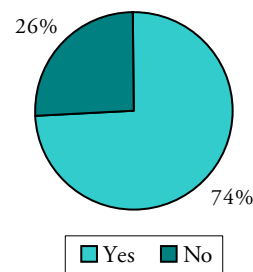
Graph 13

Compared to previous years, how long did it take to fill job openings?



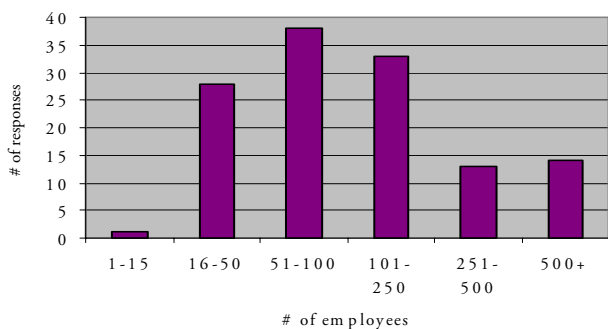
Graph 14

Are increasing housing prices in Sonoma County impacting hiring within your business?

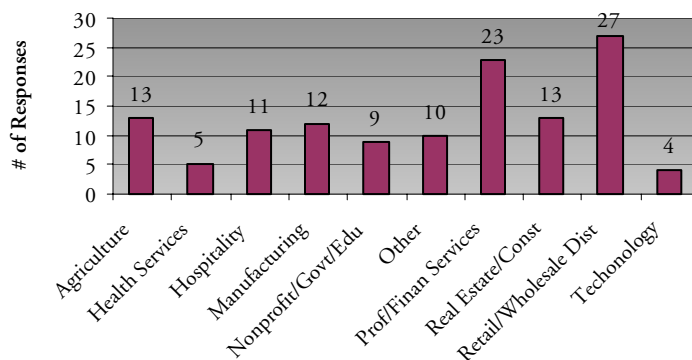


Sample Characteristics

Responses by Number of Employees



Responses by Industry



Notes

1. The Institute of Supply and Management, "March Manufacturing ISM Report on Business," Released April 1 2005. Found at <http://www.ism.ws/ISMReport/ROB042005.cfm>
2. The Conference Board. CEO Confidence Survey, 4th Quarter 2004, "Chief Executives' Confidence Declines Further" January 10, 2005.

Surveys were mailed to 381 business executives in the beginning of March with a due date of March 24, 2005. Responses were received from 127 businesses, for a response rate of 33 percent. 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, unless otherwise indicated. 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 March. Individual surveys are confidential. This report was prepared by Nicole Knecht.

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**With Acknowledgment and Appreciation to the Underwriters of the
Economic Development Board Foundation Research Initiatives Program**
 Sonoma County Permit & Resources Management Dept. ■ Sonoma County Office of Education
 Community Development Commission ■ Sonoma County Health Services ■ Coddling Foundation
 Sonoma County Transportation & Public Works ■ Sonoma County Workforce Investment Board



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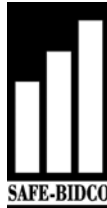
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