



Business Barometer

Second Quarter 2010

2010
SONOMA
COUNTY

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Economic Trends and Outlook

Annual Percentage Change

	2007	2008	2009	2010	2011
Sonoma County					
Employment	0.7	-2.2	-7.3	-2.4	1.4
Worker Productivity	4.5	3.6	4.3	6.1	4.2
Consumer price index	-0.4	-3.1	-3.9	1.6	1.8
Gross Metro Product	2.0	-0.4	-4.2	3.0	4.7
Population	0.4	1.1	1.2	1.0	1.2

Source: Moody's Economy.com

Second Quarter 2010 Business Barometer

August 2010

The Sonoma County Economic Development Board (EDB), in partnership with the Sonoma County Workforce Investment Board, is pleased to present the 2010 Second Quarter Business Barometer. This report primarily covers data from April, May, and June 2010.

The Business Barometer provides an overview of Sonoma County's quarterly economic performance. The indicators selected for this report detail a broad scope of economic measurements, including real estate, employment, and inflation.

Highlights of the Second Quarter Business Barometer include:

- The value of residential and non-residential building permits increased 94% and 41% respectively on a year-over basis.
- The seasonally adjusted second quarter unemployment rate decreased to 10.4%, down from 10.6% in the first quarter of 2009. The unemployment rate is higher than the national average of 9.7% but well below the California average of 12.4%
- A special focus on Technology with forecasts by Moody's Economy.com that predict the Technology sector to have considerable potential for long-term economic growth.

The EDB encourages interested readers to recommend pertinent local indicators or ways in which we can improve this report. For additional information, questions or comments, please contact us at (707) 565-7170 or visit www.sonomaedb.org.

Sincerely,

Ben Stone, Executive Director



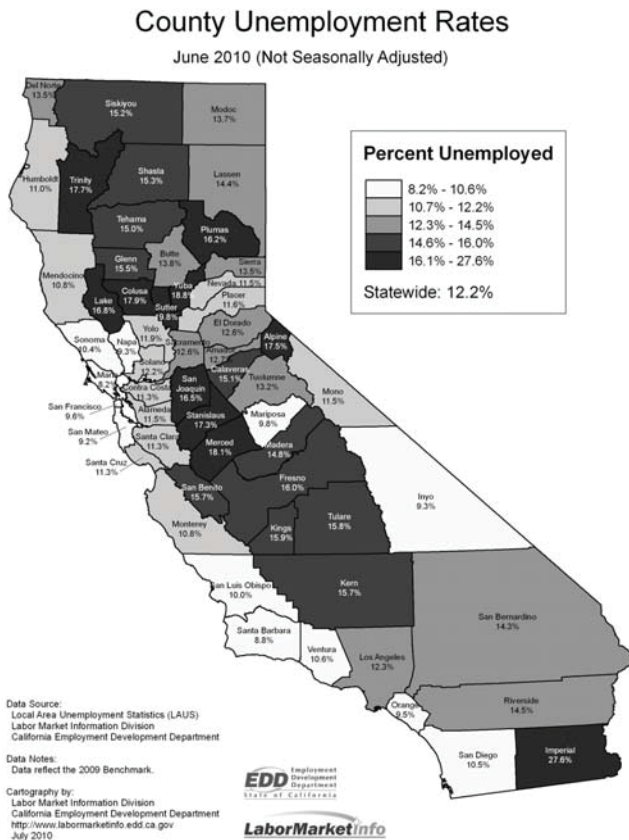
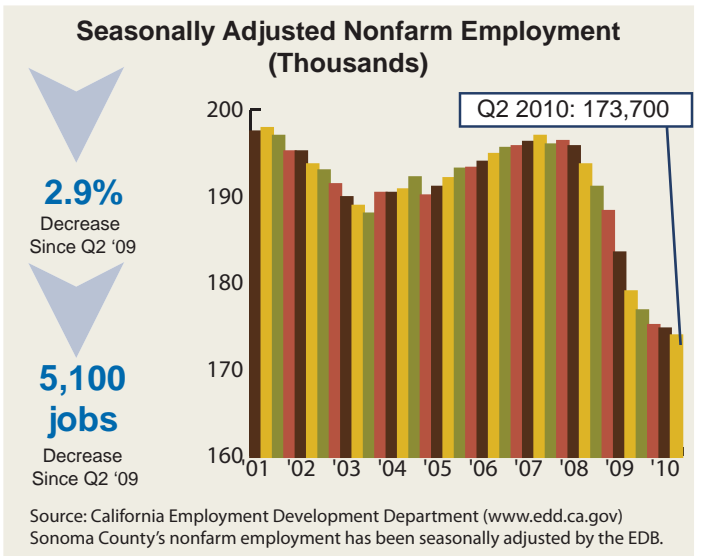
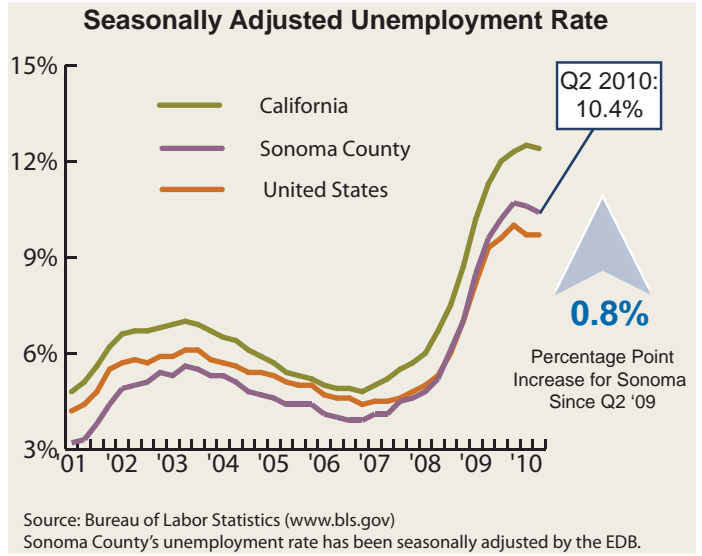
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Vitality

Sonoma County's seasonally adjusted unemployment rate was 10.4% in Q2 2010, improving from the Q1 2010 rate (10.7%). County unemployment is above the national rate (9.7%), but remained below California (12.4%).

Sonoma County's seasonally adjusted nonfarm employment continued to decline in Q2 2010 to 173,700 jobs. Seasonally adjusted employment has fallen by about 5,100 jobs since Q2 2009.

The Sonoma County Business Confidence Index -- which measures business executives' confidence in the county's economy as a whole -- rose to 5.04 in the fourth quarter, an increase of more than 10% from Q2 2009. The Index is measured on a 10-point scale, with a score of 1 representing the lowest possible confidence level and 10 the highest.

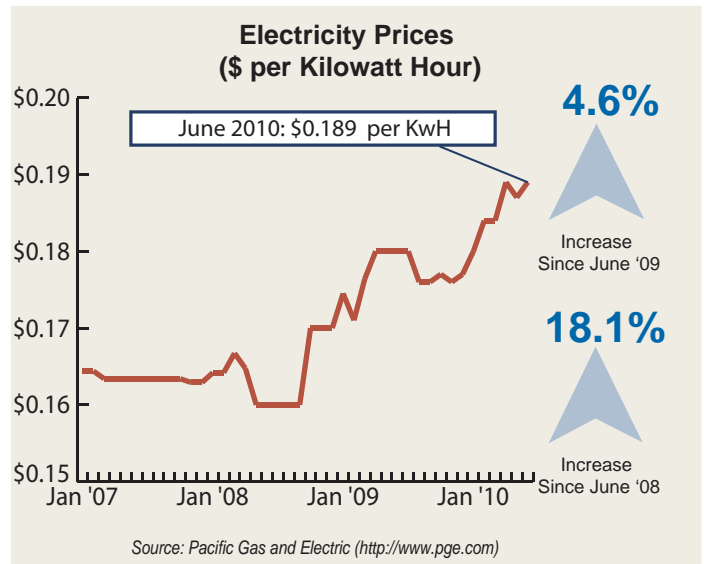
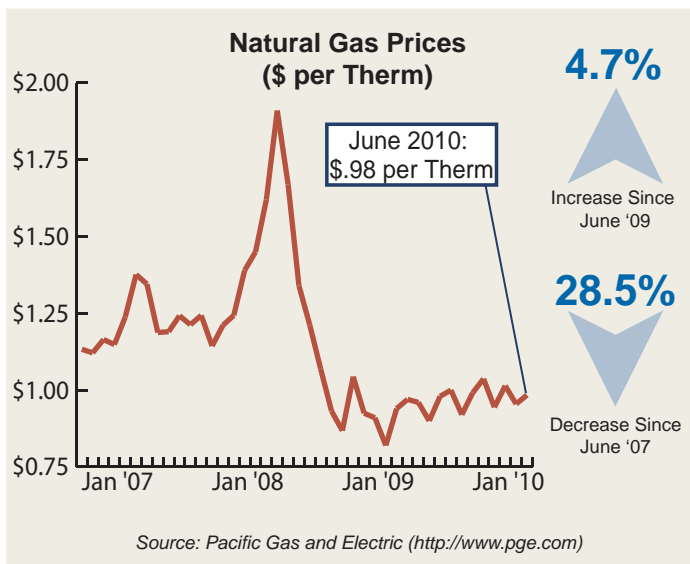
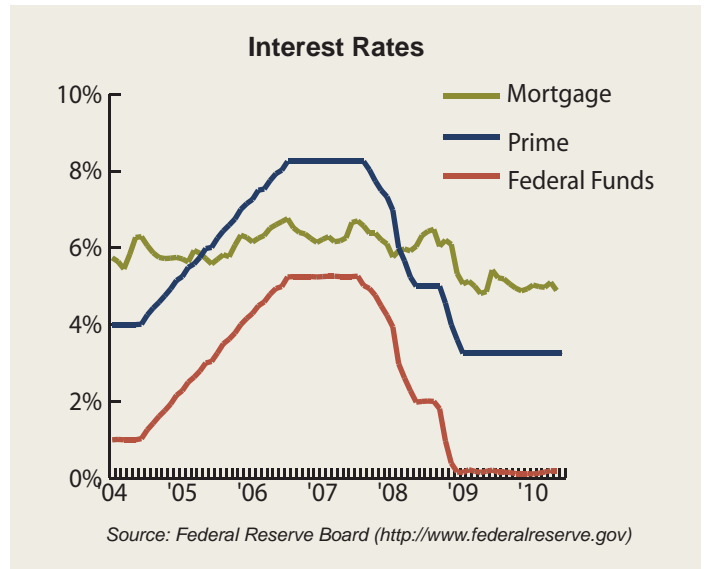
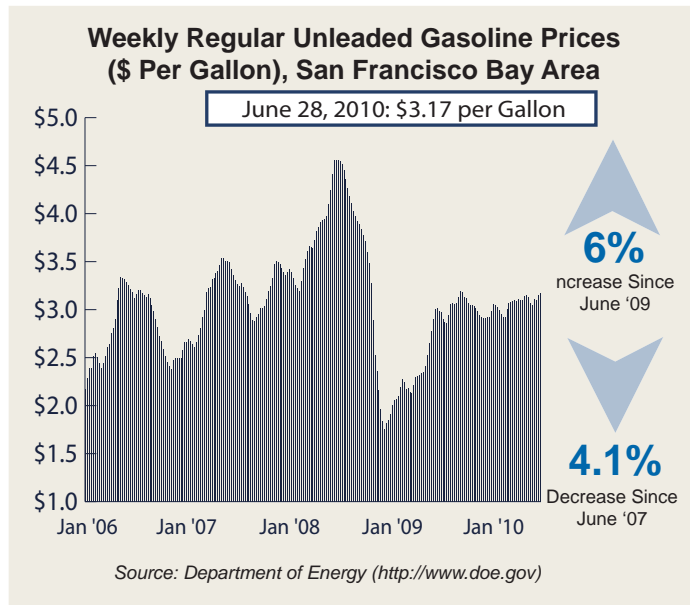
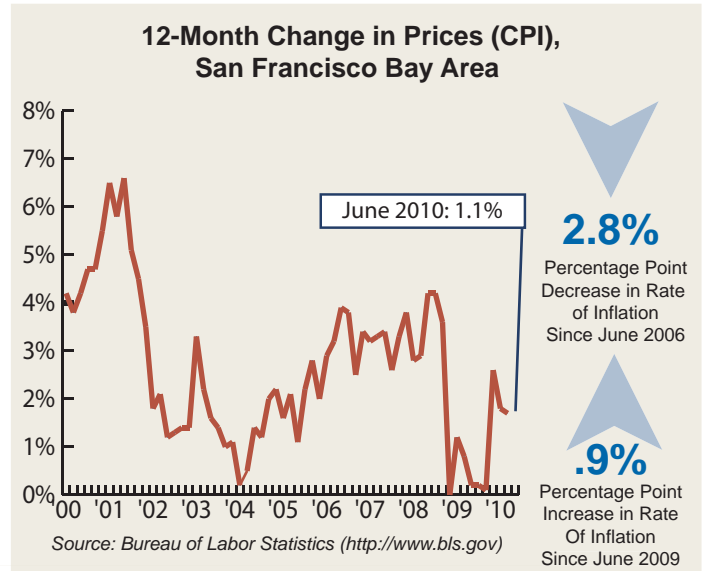


Energy, Inflation, and Interest Rates

The price of regular unleaded gasoline in the San Francisco Bay Area increased to around \$3.17 per gallon in the second quarter of 2010. The price of natural gas increased 4.7% annually and has decreased 28.5% in the past three years. Electricity prices increased 4.6% annually from June 2009.

Inflation decreased .9 percentage points during the second quarter of 2010. Members of the Federal Reserve voiced concerns about deflation as prices have been slowing, the rate of inflation in the San Francisco Bay area has fallen for the past six months.

The Federal Funds rate continued to hover just above 0% in Q2 2010 and although bank lending continues to contract, financial market conditions remain supportive of economic growth. Mortgage rates and the Bank Prime Loan rates also remained relatively unchanged in Q2 2010.



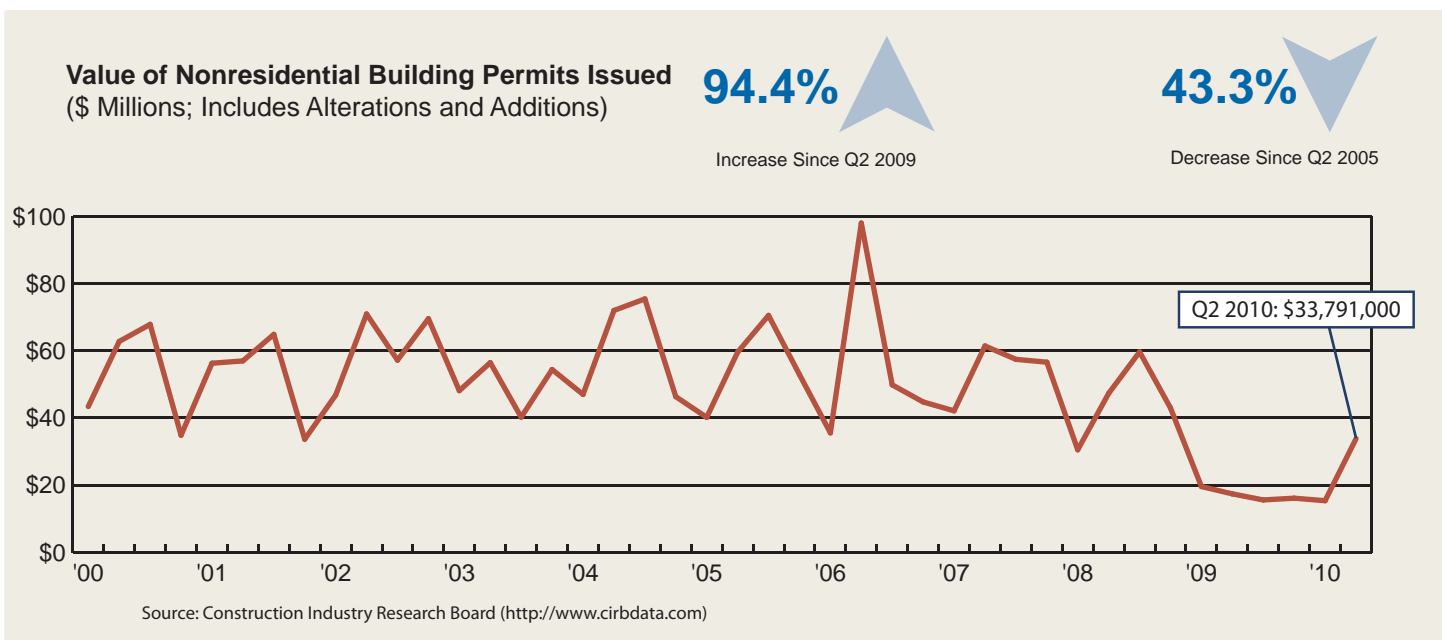
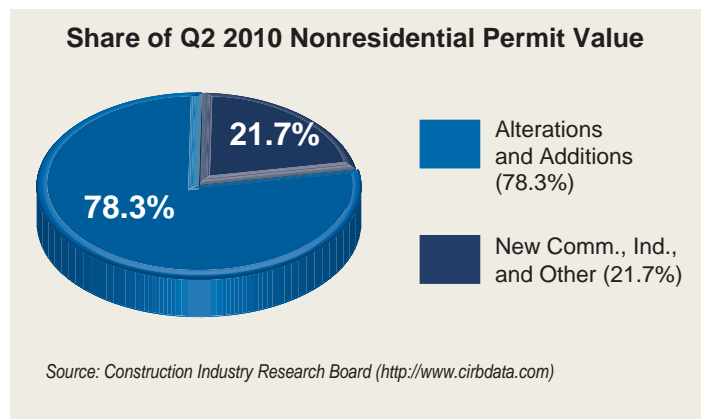
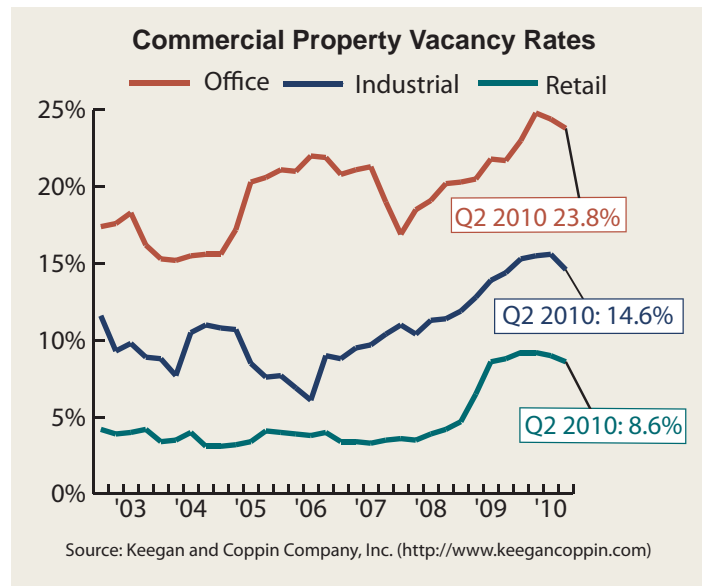
Commercial Real Estate

The office vacancy rate for Sonoma County decreased in the second successive quarter after growing for nine consecutive quarters. The office vacancy rate registers 23.8% countywide with the highest levels of 38.2% and 43.4% in Rohnert Park and Petaluma respectively. Santa Rosa and the "North Corridor" region (Healdsburg, Windsor, and the airport area) have significantly lower vacancy rates at 15.7% and 15.2% respectively.

Office rent has fallen considerably over the past two years, a sign of the distressed nature of the commercial property market, but also an indicator of the improved affordability for new and expanding businesses. Sonoma County's cost of doing business is not only below the U.S. average, but it is the only Bay Area metro area to have below-average costs. Thus, Sonoma County is competitive in business costs not only nationwide but also within the Bay Area.

Only a fifth of the combined fiscal value of nonresidential building permits issued in the second quarter were for new construction, decreasing from Q1 2010 where new construction accounted for 28% of the total value.

Given the low demand and high vacancy rates, commercial real estate construction has continued to remain subdued. However, the value of nonresidential building permits has rebounded 94.4% annually and 120% from the past quarter which could indicate a positive trend for the construction industry.



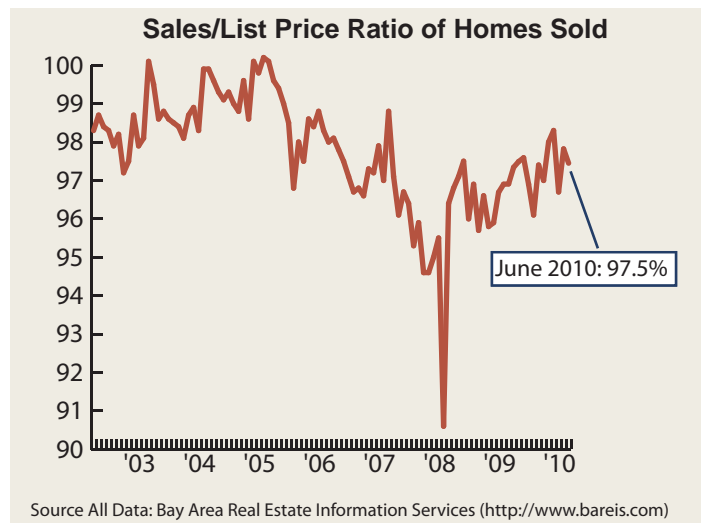
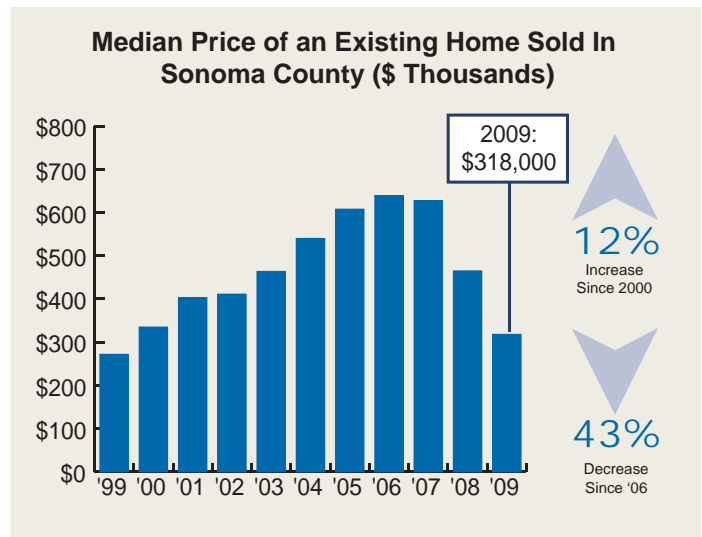
Residential Real Estate

Sonoma County's median home price decreased \$58,000, or 14%, on a year-over basis to \$318,000 in 2009. This is the fourth consecutive year-over decline after nearly a decade's worth of strong price advances. Housing affordability levels are now at their highest levels in over two decades, a median income-earning family could afford a house priced at 82% of the median sales price. This is nearly double the level of 44% reached at the end of 2005.

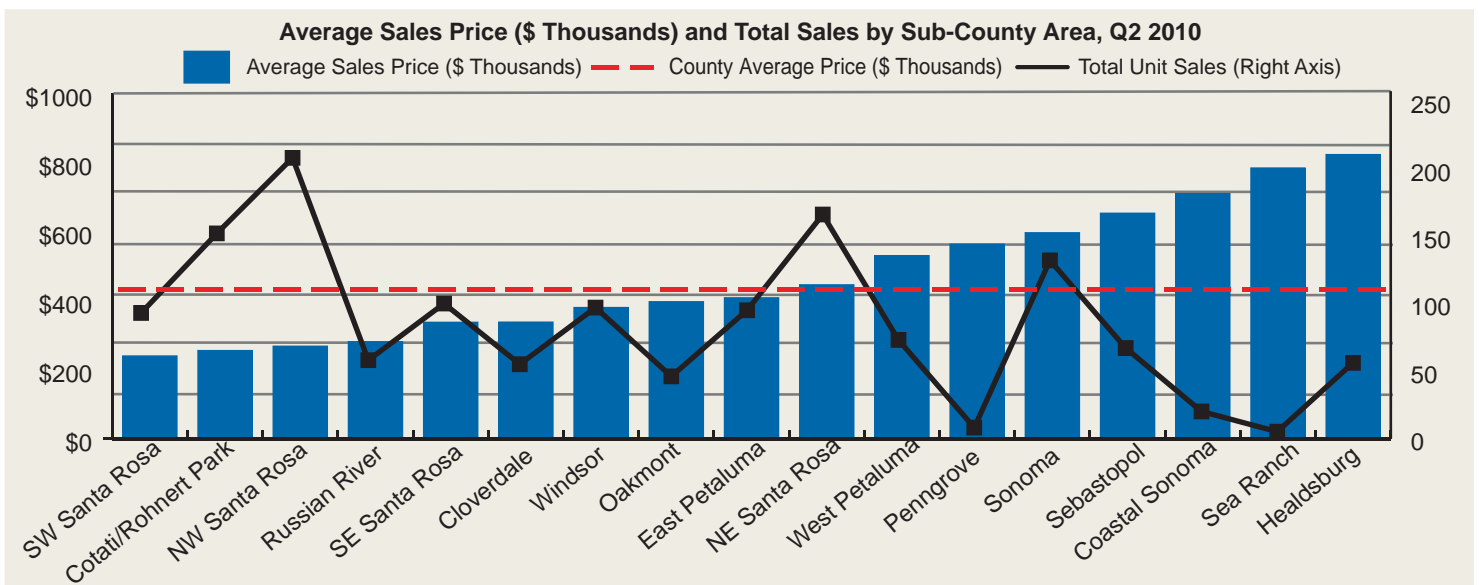
According to a recent report by Moody's Economy.com, housing affordability is now on par with the San Francisco metropolitan division—which includes the counties of San Mateo, San Francisco and Marin—and the San Jose metropolitan area.

The average home sold for 97.5% of its asking price in June 2010 an increase from 96.9% in June 2009. The general downward trend in the sales/list price ratio has begun to reverse, suggesting a slight increase in demand. However, the continued decline of the median price of homes sold suggests buyers continue to have the upper hand in negotiations.

Northwest Santa Rosa, Northeast Santa Rosa, Cotati/Rohnert Park, and Sonoma had the greatest number of homes sold. Sonoma County's average sales price was \$406,000 during the second quarter. Sea Ranch, Coastal Sonoma, and Sebastopol had the highest average home price and Southwest Santa Rosa, Cotati/Rohnert Park, and Northwest Santa Rosa had the lowest average home price.



Source All Data: Bay Area Real Estate Information Services (<http://www.bareis.com>)

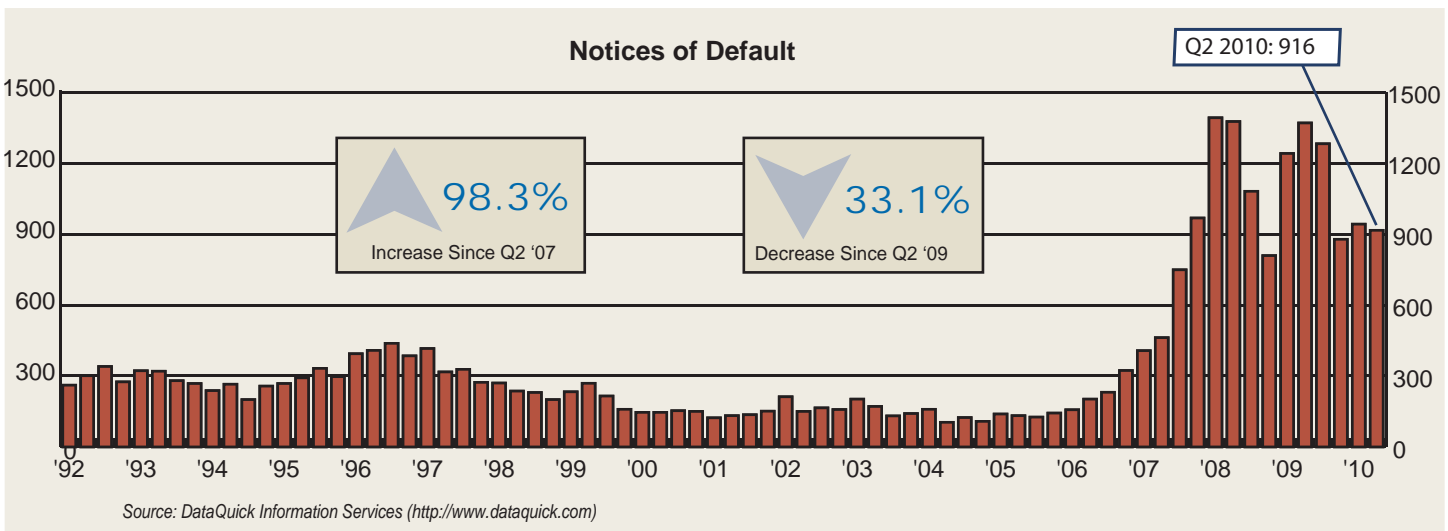
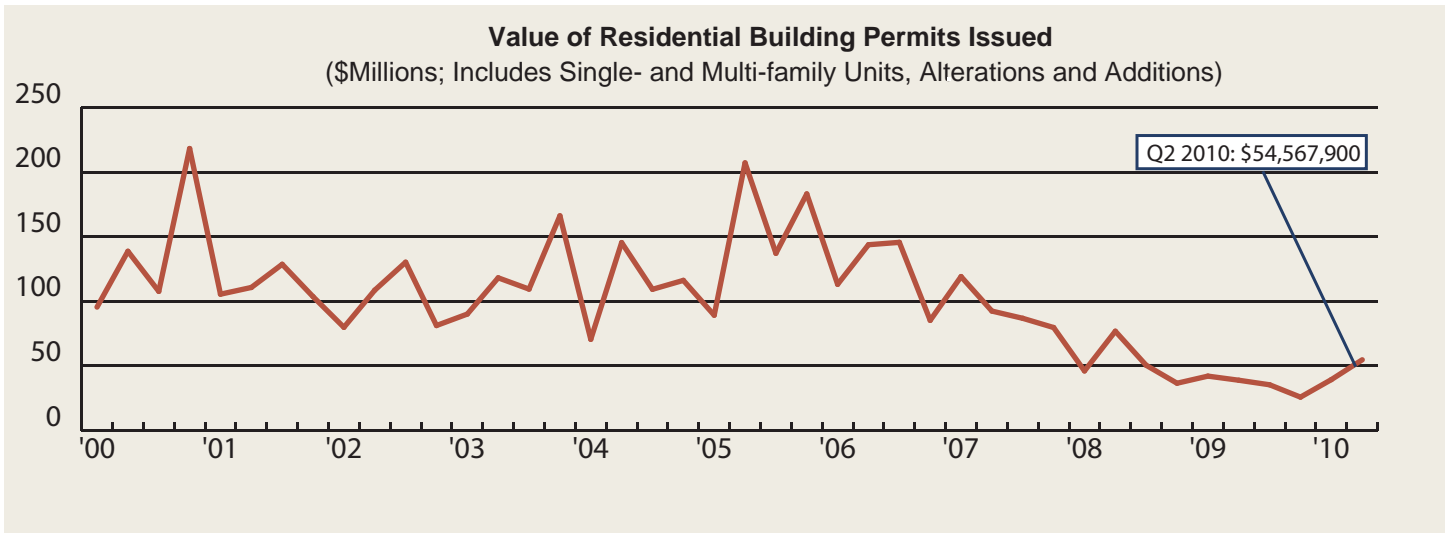
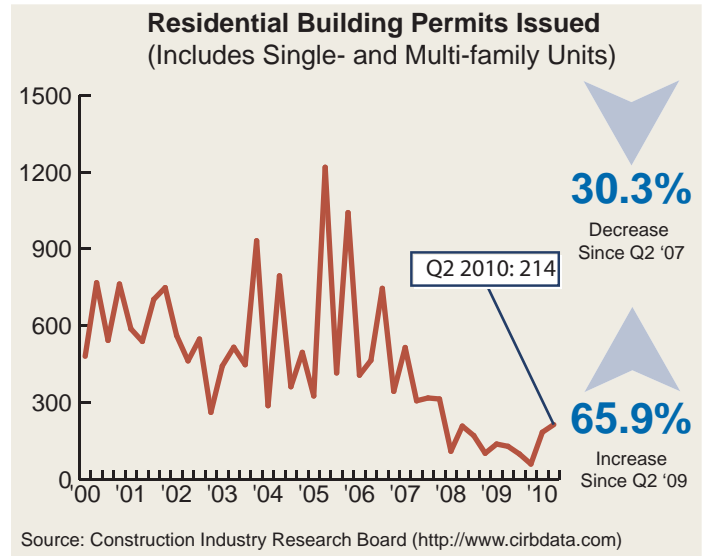


Residential Real Estate

Residential building permits issuances in Sonoma County rose in Q2 2010 to 214 after hitting a record low of 60 in Q4 2009. Permits issued increased 65.9% year-over. The 3-year trend indicates a 30.3% decrease since Q2 2007.

The rise in residential permit issuances and increase in permit values are two positive indicators for residential construction. In the second quarter of 2010 total residential permit values increased 40.9% annually. Although the recent increase has not offset a negative 5-year trend, positive alterations and additions could indicate growing investment residencies.

Defaults in the Q2 2010 were relatively stable at 916, down from 942 for Q1 2010. The number of defaults is down significantly from highs in 2008 and 2009.

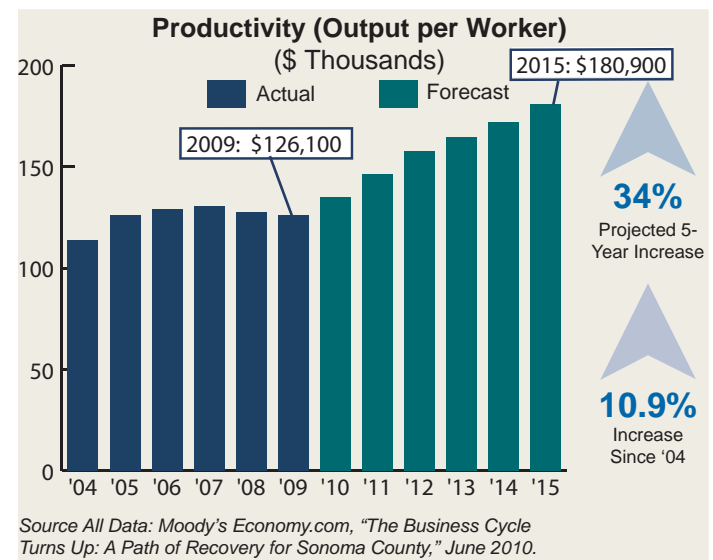
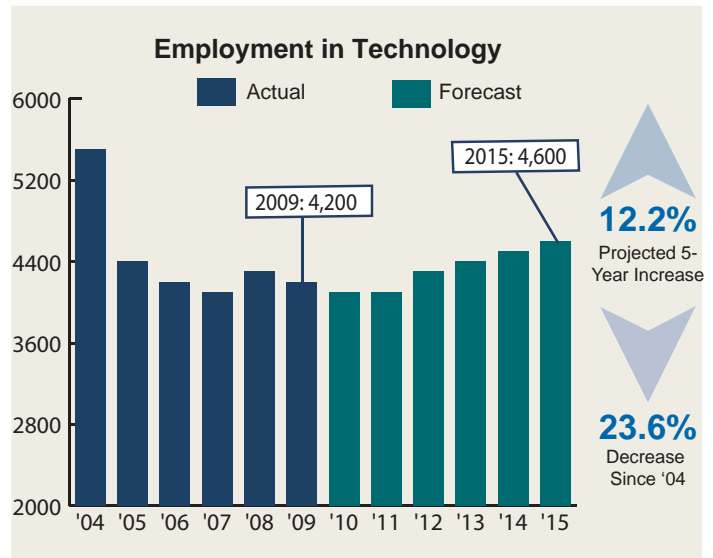
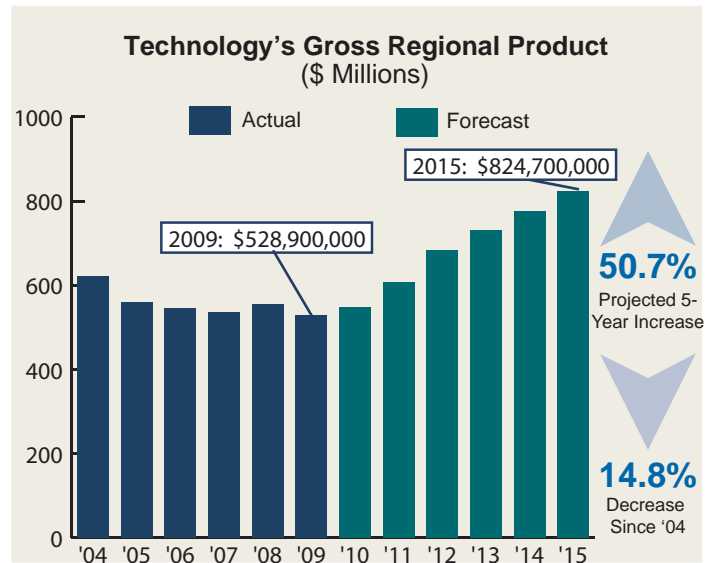


Special Focus: Technology

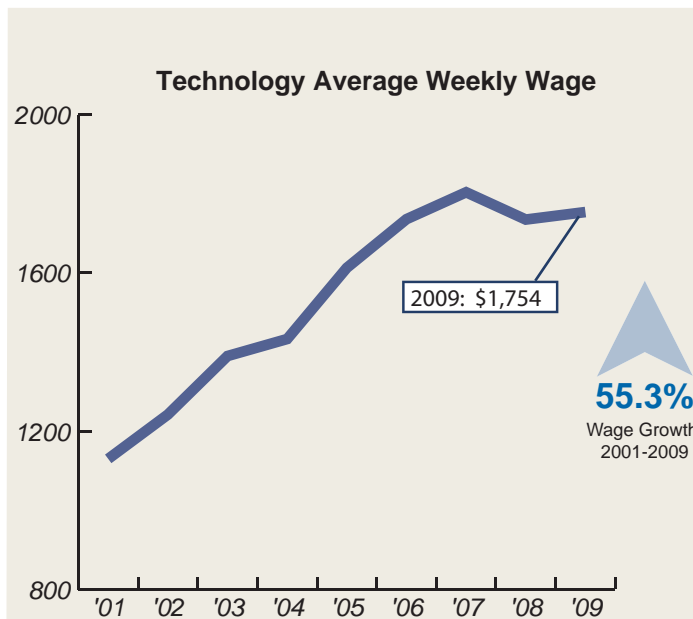
The technology-producing industries accounted for 2.3% of total employment within Sonoma County in 2009. The technology-producing sector in Sonoma County has included primarily telecom and medical instruments manufacturing, supplemented by production of semiconductors, control instruments, and other electronic components.

Technology industries surged during the technology boom in the late 1990s. However, since 2000 technology industries have faltered and current employment is two-thirds of what it was at its peak, according to Moody's Economy.com. Many technology firms have survived in Sonoma County, signaling some remaining comparative advantage for tech-producing industries because of its skilled labor pool, installed base in the county, and proximity to tech-producing areas elsewhere in the Bay Area.

Moody's Analytics predicts a new source for considerable long-term potential growth for technology-producing industries with the increased demand for green technology. In the long-term this may include industries that improve efficient use of water; improve lighting, heating and cooling efficiency of buildings; or allow agriculture to make better use of land and water resources.



Source All Data: Moody's Economy.com, "The Business Cycle Turns Up: A Path of Recovery for Sonoma County," June 2010.



Source: Bureau of Labor Statistics (www.bls.gov)

According to BLS statistics, in 2009 technology jobs in Sonoma County paid 111% more above the county's average weekly wage (\$832).