



Business Confidence Report Fall 2005

Executive Summary

Conducted during the month of September, the Sonoma County Economic Development Board (EDB) presents the Fall 2005 Business Confidence Report. Key highlights from this report include:

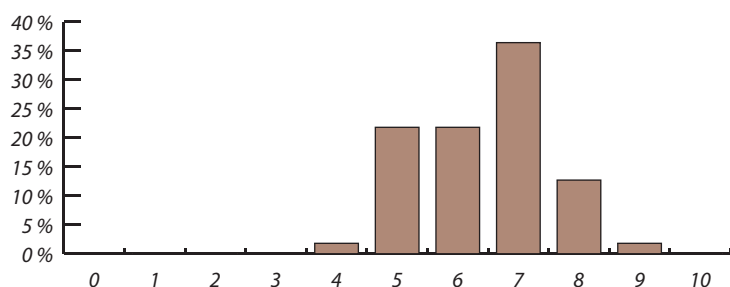
- Sonoma County business executives remain moderately upbeat about the local economy as the Sonoma County Business Confidence Index scored 6.41 on a 10-point scale, though they are less optimistic than they were at the beginning of the summer. Local business executives predict that the County's economy will be slightly stronger over the next six months, forecasting a confidence level of 6.45.
- Nearly twice as many executives expect to be adding employees as expect to be reducing employees. However, nearly 60% of executives expect to maintain the same level of employees in the next six months as they have currently. Executives also feel optimistic about their companies' bottom line, with more than 40% of respondents expecting net profits to increase over the next six months. Most respondents plan to take aggressive-to-moderate attitudes towards overall significant capital expenditures, while 39% plan to remain cautious in the next six months. Respondents were mixed on the national unemployment outlook, and most felt that the stock market's performance would be similar to the recent past. The two most commonly cited challenges facing the business community were the high cost of housing and traffic gridlock. A slight majority of CEO's want air service, preferring service to LAX over John Wayne airport.
- Purchasing trends for both Sonoma County and the United States indicate that economic activity in the previous quarter grew. The Local Purchasing Trends Index is 62%, a decrease from the Summer 2005 level, but nonetheless significantly above 50%, the level indicating an expanding economy.

Business Confidence Flat; Optimism About the Future

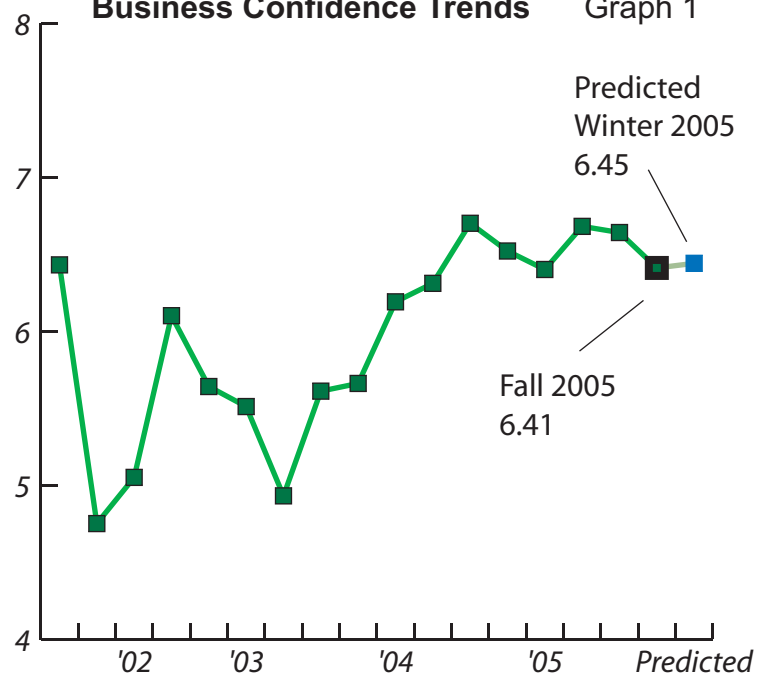
The Sonoma County Business Confidence Index fell slightly in the fall of 2005. As Graph 1 shows, the index for Sonoma County scored a 6.41 on a 10-point scale (1= challenged; 10= excellent), decreasing 0.23 points (3.5%) from the Summer 2005 Index. Business executives' confidence within their industries also decreased 3.7% (from 6.38 to 6.15) from Summer 2005, but remains positive (a score of 6 or above). Despite the moderate decrease in ratings, both indices indicate a healthy economy. Local business executives also expect the county's economy to be marginally stronger over the next six months, forecasting a level of 6.45.

Graph 2 illustrates the distribution of individual responses on the survey. The overwhelming majority of respondents indicated a confidence level between five and eight.

Distribution of Business Confidence Graph 2



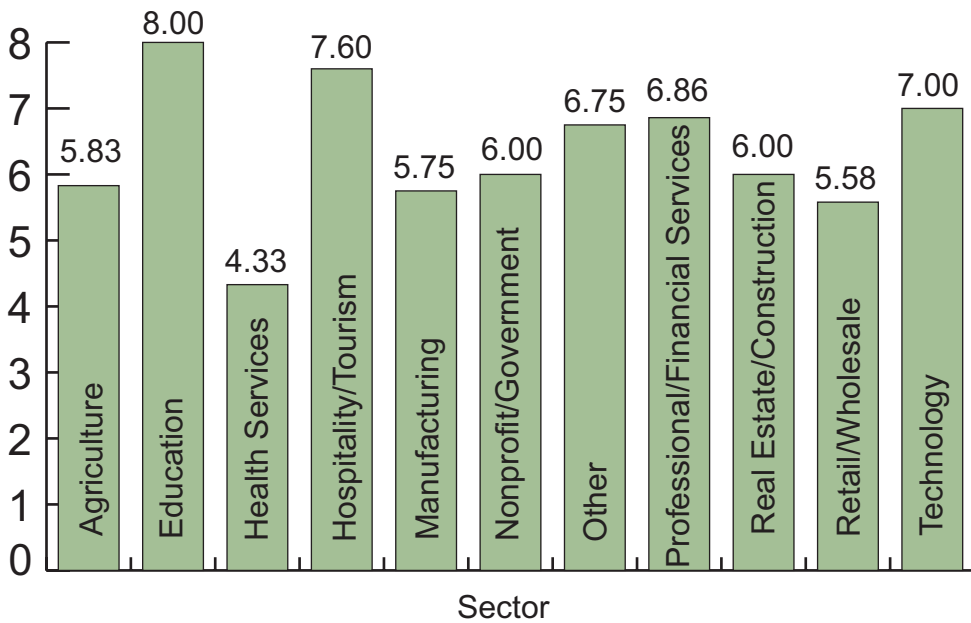
Business Confidence Trends Graph 1



Industry Confidence in Sonoma County

Industry Confidence

Graph 3

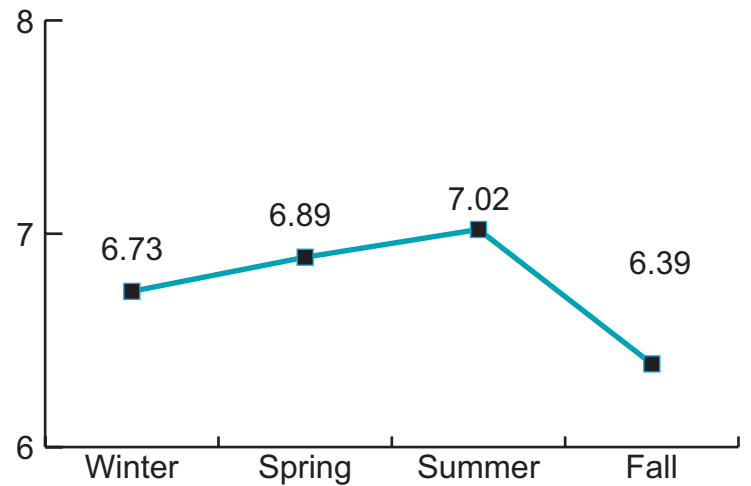


While the business confidence index indicates the level of confidence in the economy as a whole, industry confidence illustrates specifically how executives feel about their sector's current economic conditions and future growth. Graph 3 compares the level of confidence of each industry. Overall, business executives reported their industry confidence at 6.15, with the highest confidence being reported by the education sector, with a level of 8.00. Similarly, hospitality business leaders are bullish as reported industry confidence continues to increase. The health services sector ranked the lowest, with a confidence of 4.33.

Business executives report slump in business performance, yet most expect improvement

As shown in Graph 4, business executives are less optimistic about their business performance in the fall report than they have been in the previous year. The Fall 2005 index of 6.39 was a 9% fall from the Summer 2005 level of 7.02. This fall's report reversed a year-long trend of increasing business performance.

How is your business performing now? Graph 4

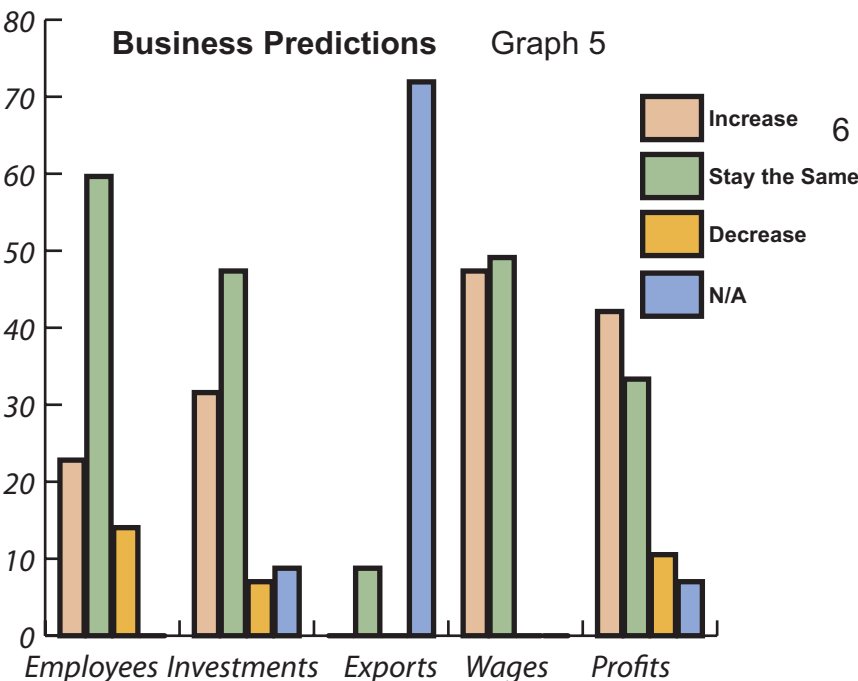


However, in contrast to the dip in business performance, local executives report optimistic plans for the next six months, as shown on Graph 5. Nearly twice as many executives plan on increasing employees than decreasing, and all executives expect wages to either rise or remain constant.

More than 40 percent of executives expect their business profits to rise over the next six months, while only 10 percent expect their business profits to fall. Additionally, one third of surveyed executives expect to see their investments in locations and equipment rise over the next six months.

Business Predictions

Graph 5

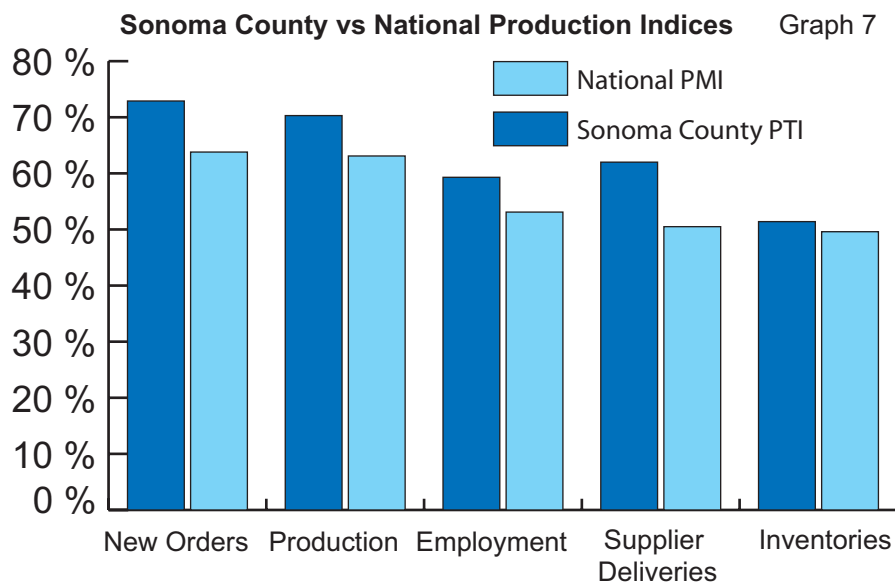
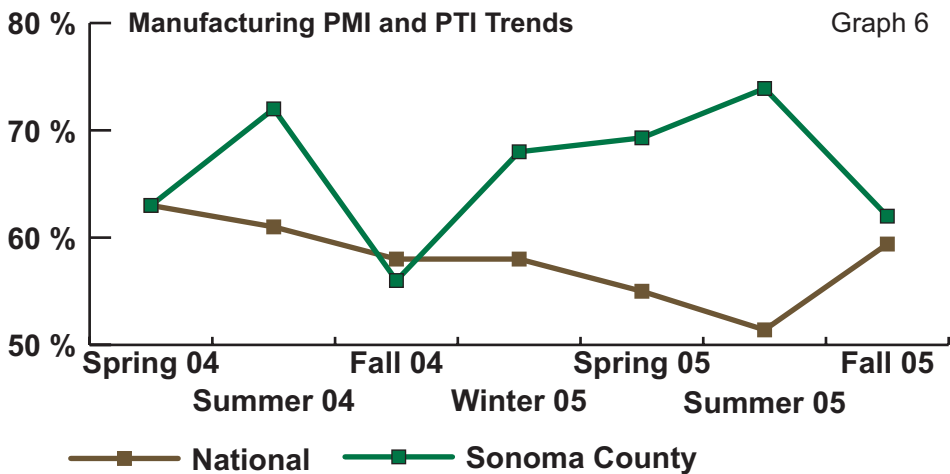


Industry Confidence in Sonoma County

The purchasing trends for both Sonoma County and the United States indicate that economic activity in the manufacturing sector continues to grow. Graphs 6 and 7 compare the local Purchasing Trends Index (PTI) with the U.S. Purchasing Manager's Index (PMI).

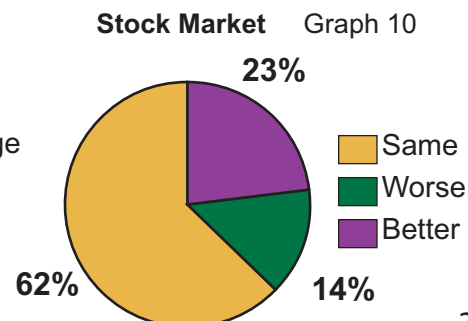
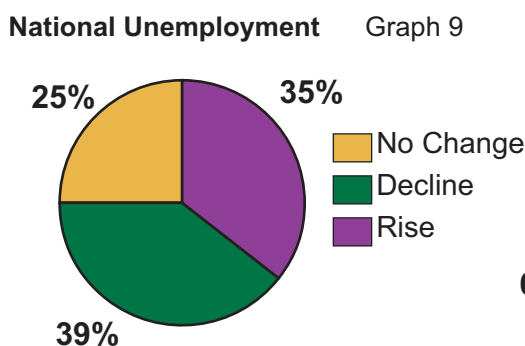
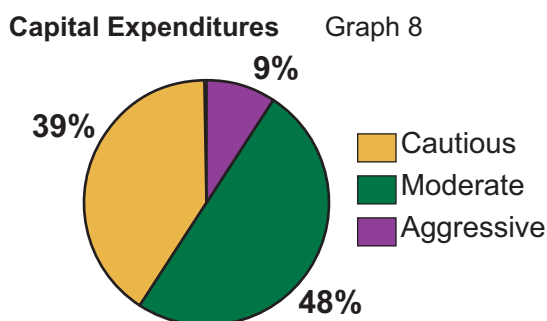
The local PTI has decreased 11.9% to 62.0% from 73.9% in the Summer 2005 report. While this represents a significantly lower PTI than Summer 2005, it is important to note that a PTI of greater than 50% indicates a generally expanding economy. Therefore, the decrease in the Sonoma County PTI to 62.0% should be interpreted in an economy which continues to expand, but at a slower rate than last quarter.

Graph 6 highlights national and local growth trends. Annual PTI trends suggest that the local economy has been steadily expanding for at least seven quarters, though the speed of the expansion has varied from quarter to quarter. In six of the last seven quarters, the Sonoma County expansion has outpaced the national expansion.



The Big Picture: Sonoma County and the National Economy

Business executives' expectations in three areas are shown below in Graphs 8 - 10. Nearly half of local executives hold a moderate attitude towards potentially significant capital expenditures. Sonoma County executives have mixed views on the national economy. Those executives who expect the national unemployment rate to rise are nearly equal to those who expect to see a fall in the next six months, and an overwhelming majority expect that the stock market will perform roughly the same as it has in the recent past.

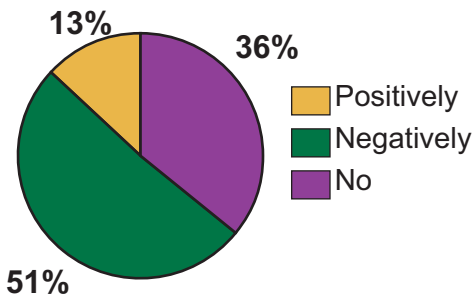


Rising Home Prices

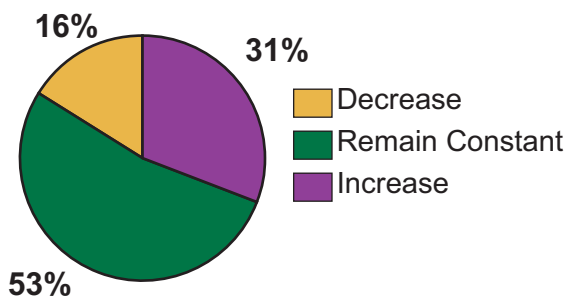
With home prices rapidly rising in Sonoma County for several years, this survey asked business executives how the appreciation in home values has affected their business. A majority of executives reported that the appreciation in home prices has harmed their businesses, and many of those executives specifically cited a difficulty in recruiting employees given the high cost of living. 36% of executives reported no effect on their business, and 13% reported that the increase in home values has helped their business.

Most Sonoma County executives expect home values to either continue increasing or remain constant for the next six months. Only 16% of executives expect that home values will fall.

Has the appreciation in home values in Sonoma County affected your business? Graph 11



What do you anticipate will happen to local home values in the next six months? Graph 12

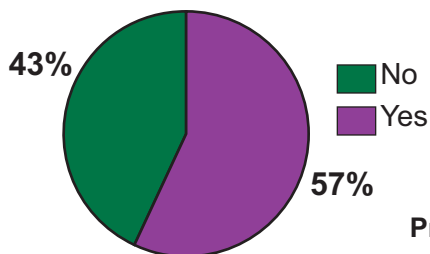


Air Travel

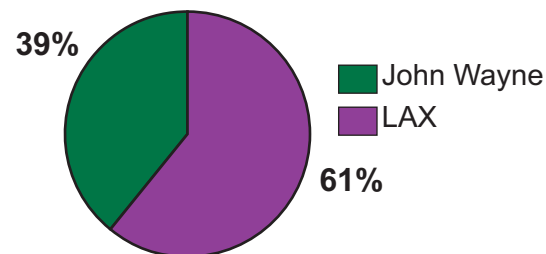
We asked executives if they felt the arrival of air service from the Sonoma County airport to the Los Angeles area would benefit their business. Executives were somewhat divided on the benefits of air service, with 57% declaring that regular air service would benefit their business, and 43% expect that air service would not benefit their business.

Of those who would benefit, 61% would prefer air service to Los Angeles International Airport, and 39% would prefer service to John Wayne/Orange County Airport.

Would air service be beneficial? Graph 13



Preferred Airport Graph 14



Surveys were mailed to 300 business executives in the beginning of September with a due date of September 30, 2005. Responses were received from 65 businesses, for a response rate of 22 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 is the most recent available as this report was written, unless otherwise indicated. The PMI uses information about companies' new orders, production, employment, supply deliveries, and inventories. Sonoma County's index mirrors the PMI 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 currently produces a quarterly report. Individual surveys are confidential. This report was prepared by Will Cathcart.

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