



Sonoma County Economic Development Board Business Confidence Report Winter 2005

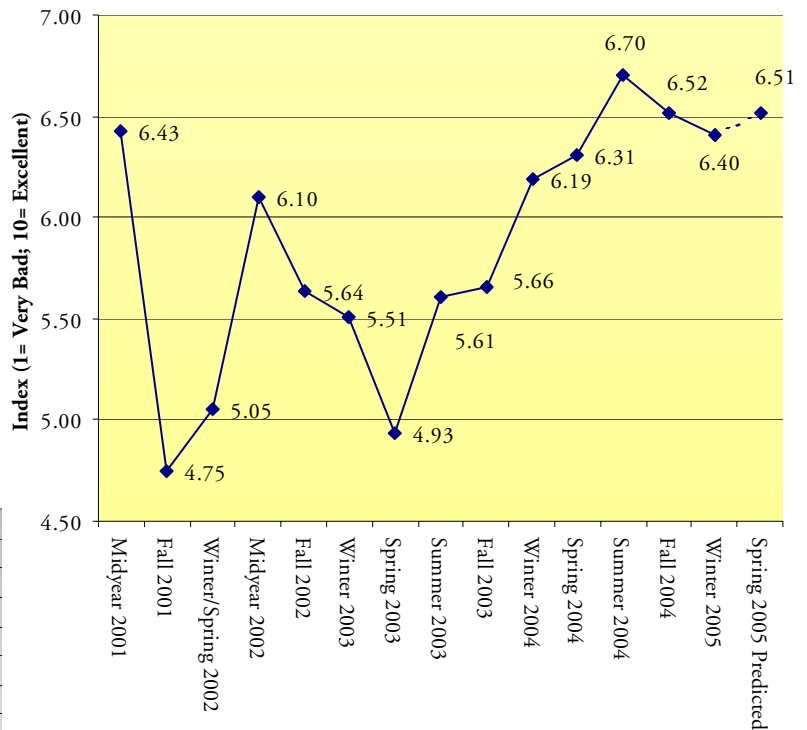
Conducted during the month of December, the Sonoma County Economic Development Board presents the Winter 2005 Business Confidence Report. Key highlights from this report include:

- The Business Confidence Index dipped slightly from Fall 2004 by 0.12 points (1.8 percent) to 6.40 on a 10-point scale, but remains positive. Overall business executives' confidence within their industries is 6.35. This indicates that industry confidence also remains strong and even went up marginally from 6.30 in Fall 2004.
- Fifty-four percent of participating executives predict that wage and salary rates will rise. In spite of this, 41 percent of respondents plan on increasing the number of full-time employees while another 49 percent plan to keep employment constant.
- The purchasing trends for both Sonoma County and the United States show that the manufacturing sector is growing at an increasing rate. The Local Purchasing Trends Index is up 12.9 percentage points to 68.3 percent. This surpasses the growth of the U.S. Purchasing Manager's Index of 58.6 percent, which is up nearly two percentage points from October.
- Eighty-nine percent of responding business executives predict that interest rates will continue to rise. Nearly all (90 percent) of the respondents felt that the stock market would either rise or hold constant. Forty-five percent of respondents indicated that they expect unemployment to hold constant over the next six months.

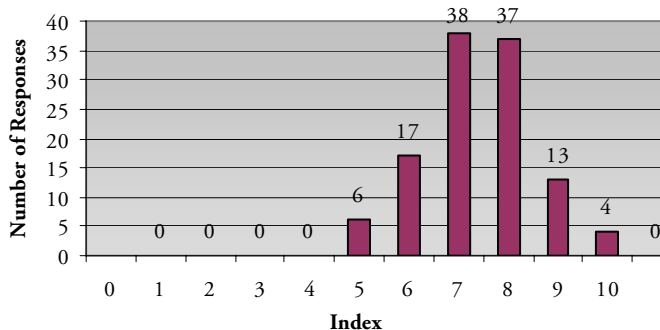
Business Confidence Dips, But Still Remains Positive

Local executives' current Business Confidence dipped slightly from Fall 2004 by 0.12 points (1.8 percent) to 6.40 on a 10-point scale (1= very bad; 10= excellent), but remains positive. This indicates that the responding companies feel that the economy in Sonoma County is doing well. Overall, Business Confidence is down 0.30 or nearly five percent from Summer 2004 when it was at a three-year high. The absolute level, however, remains high compared to the last three years. Eighty 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, reporting a confidence level of 6.51.

Business Confidence Trends

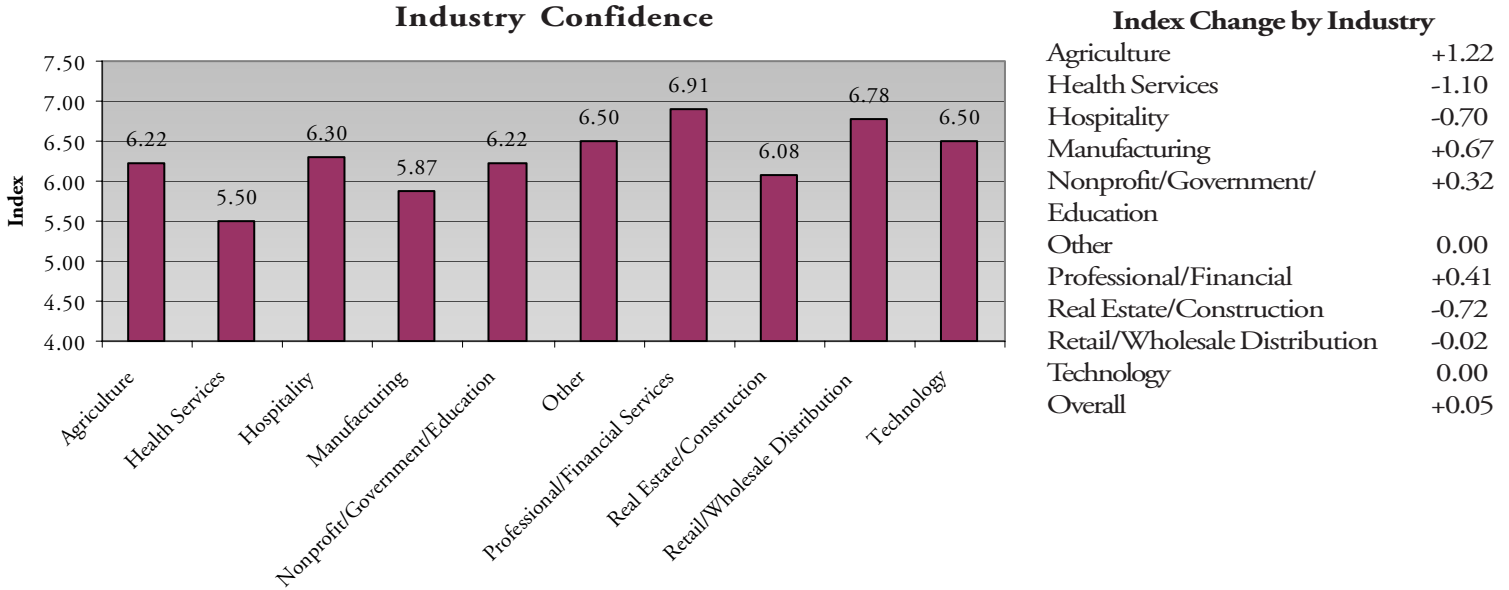


Distribution of Business Confidence



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. The graph compares the level of confidence of the industries. Overall, business executives reported their industry confidence at 6.35, with the highest confidence being reported by the professional/financial services sector, which reported an industry confidence level of 6.91. The lowest confidence level was for the health services sector with a confidence level of 5.50. The agricultural sector saw the largest gains in industry confidence, rising from 5.00 in the fall to 6.22 this winter.



Businesses Expect to Expand More Than They Anticipated Last Fall: Full Time Employment and Investment

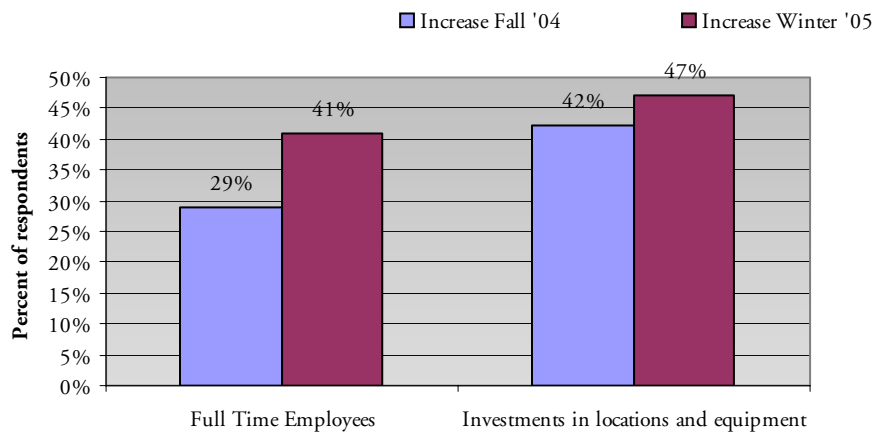
Overall, respondents expect production capacity to either increase or remain static over the next six months. Interestingly, however, executives now appear more likely to expand in employment and investment than they were three months ago.

In absolute terms, 41 percent of responding executives predicted that they would increase their number of full-time employees, 47 percent reported that they would increase their investments in locations and equipment, and 46 percent expected their net profits to rise.

On the other hand, more companies expect wage and salary rates to rise than they reported last September. Nearly all responding executives expected wage and salary rates to increase (54 percent) or stay the same (44 percent). In spite of this increase in costs, fewer companies anticipate their net profits to decrease over the next six months than they did last quarter.

While most responding companies (76 percent) do not export their products or services, of those companies that do, 95 percent expect their exports to rise or stay constant over the next six months.

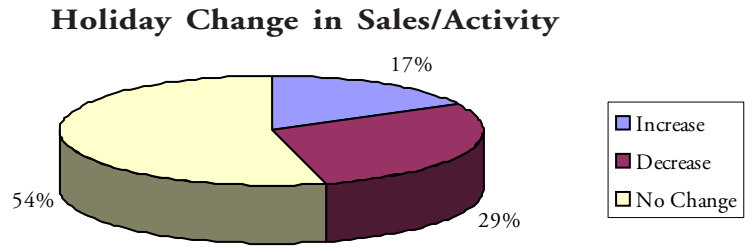
Expanding Production Capacity in Sonoma County



	Increase		Decrease		Same		N/A	
	Fall	Winter	Fall	Winter	Fall	Winter	Fall	Winter
Full Time Employees	29%	41%	18%	10%	53%	49%	0%	1%
Investments	42%	47%	7%	6%	49%	42%	2%	5%
Exports	9%	6%	2%	1%	14%	17%	75%	75%
Wage and Salary	53%	54%	0%	0%	47%	44%	0%	2%
Net Profits	47%	46%	19%	14%	29%	33%	6%	7%

Tis the Season...

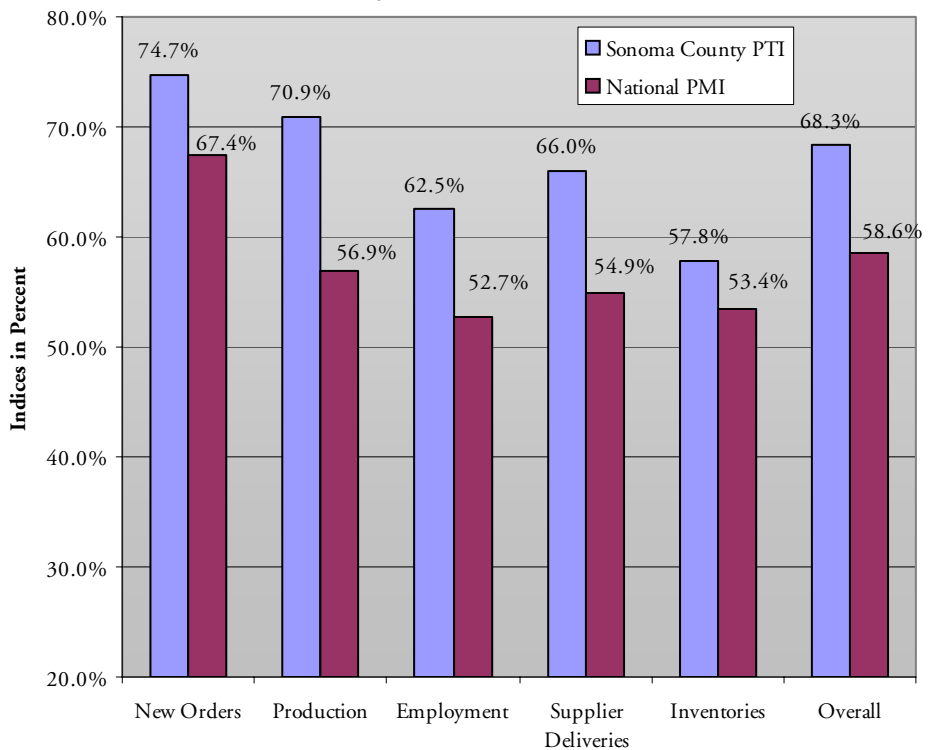
Most respondents did not expect the holiday season to affect either their business's productivity (54 percent) or sales/activity (53 percent). Twenty-nine percent of responding executives expected the holiday season to negatively affect their businesses, while only 15 percent expected productivity to rise.



Sonoma County Purchasing Trends Index

The purchasing trends for both Sonoma County and the United States show that the manufacturing sector is growing at an increasing rate. The Local Purchasing Trends Index (PTI) is up 12.6 percentage points to 68 percent. This eclipses the growth of the U.S. Purchasing Manager's Index (PMI). The U.S. index rose to 58.6 percent and is up nearly two percentage points from October.¹ An overall number greater than 42.8 percent indicates a growing manufacturing sector. Accordingly, all of the components that make up the indices, both in the nation and in Sonoma County, are rising. These include: new orders, production, employment, supplier deliveries, and inventories.

Sonoma County vs National Production Indices



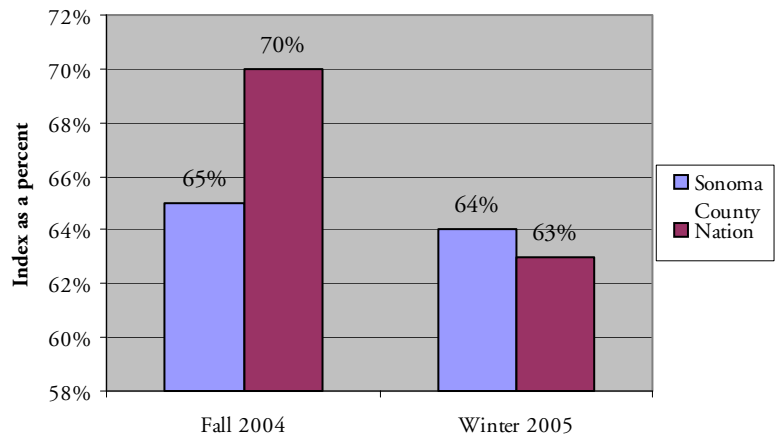
This data could indicate that Sonoma County is once again growing faster than the nation.

This is similar to this past summer when the local PTI was 72.8 percent compared to the national PMI figure of 61 percent. The national figure is also growing at an increasing rate based on the most recent month-to-month data.

A National Comparison

In a survey of CEOs nationally, the Conference Board found that confidence in the economy as a whole to be at 63 on a 100 point scale.² This is on par with the data from Sonoma County. The national survey also fell from last quarter when it was at 70, a decline of nearly 10 percent. While this decline far exceeds the decline seen in Sonoma County, it is indicative of current softening economic conditions and expectations. Also, similar to the results found in Sonoma County, while confidence is down (but still positive) many businesses have increased capital spending plans for this year in anticipation of an increase in sales volume.

Business Confidence

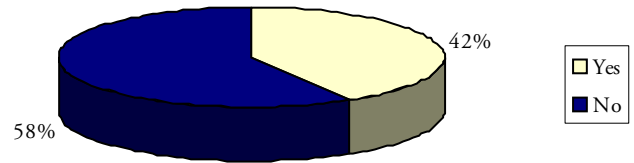


Transportation Issues

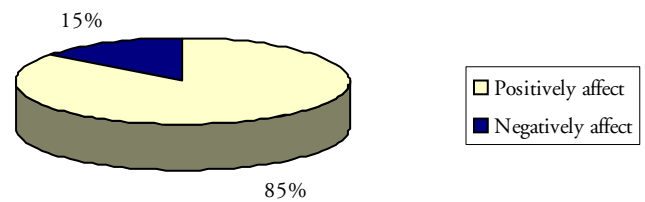
Although the price of gas has dropped lately, it is still 25 percent higher than it was just one year ago.³ In light of the importance of gasoline in our economy, this quarter's survey asked business executives what they thought would happen to gas prices. Fifty percent of the responding executives thought that gasoline prices would hold steady at the current elevated prices. Of those that felt the gas prices would be constant, 42 percent anticipated adjusting their business practices in order to compensate for increased costs.

Another important transportation issue in Sonoma County is the recent passage of Measure M. It adds a .25 percent sales tax in Sonoma County in order to pay for transportation improvements ranging from Highway 101 improvements to enhanced biking and walking paths throughout the county. Again, the respondents were nearly split with a small majority (54 percent) saying that the measure would not affect their business. On a positive note, executives were five times more likely (85 percent to 15 percent) to report that Measure M would benefit rather than harm their businesses.

Changing Practices Due to Sustained Elevated Gas Prices

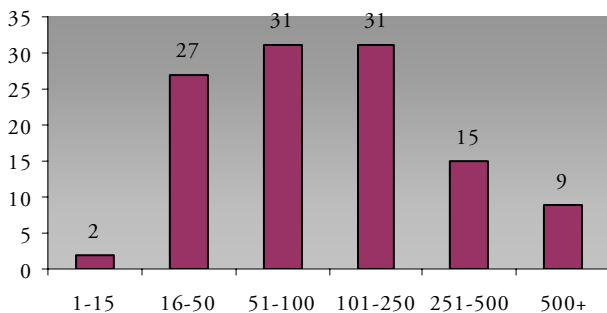


How Will Measure M Affect Businesses?

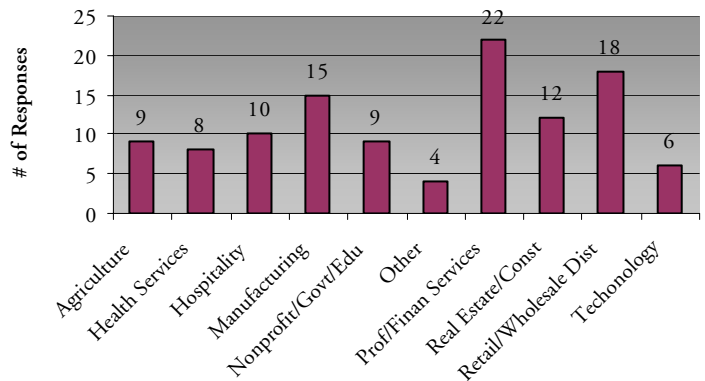


Sample Characteristics

Responses by Number of Employees



Responses by Industry



Notes

1. The Institute of Supply and Management, "December Manufacturing ISM Report on Business," Released January 3, 2004.
2. The Conference Board. CEO Confidence Survey, 3rd Quarter 2004, "Chief Executives' Confidence Declines Again" October 13, 2004.
3. AAA. "California Daily Fuel Gauge Report." December 23, 2004. 198.6.95.31/CAavg.asp.

Surveys were mailed to 387 business executives in the beginning of December with a due date of December 30, 2004. Responses were received from 118 businesses, for a response rate of 30 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 December 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 December. Individual surveys are confidential. This report was prepared by Scott Rosenblum.

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