



## Business Confidence Report Winter 2006

### Executive Summary

Conducted during the months of December and January, the Sonoma County Economic Development Board (EDB) presents the Winter 2006 Business Confidence Report. Key highlights from this report include:

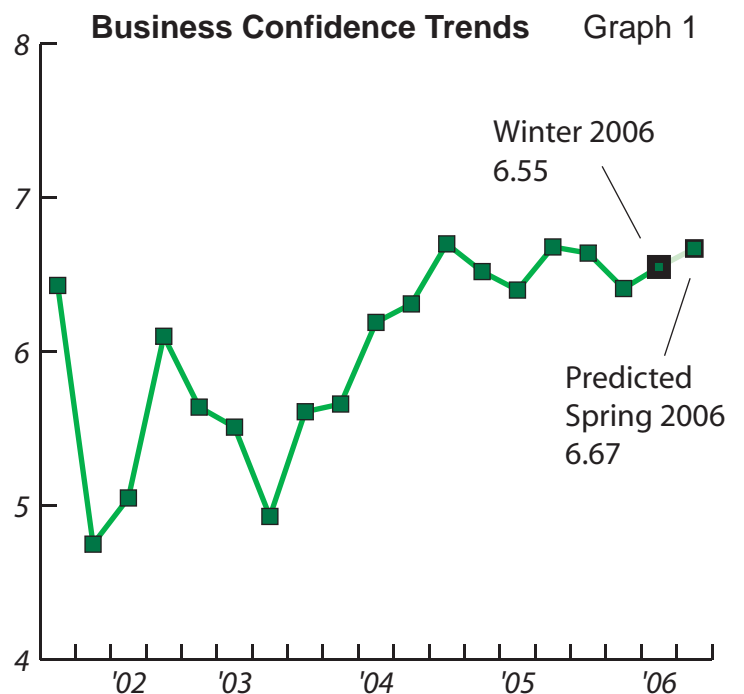
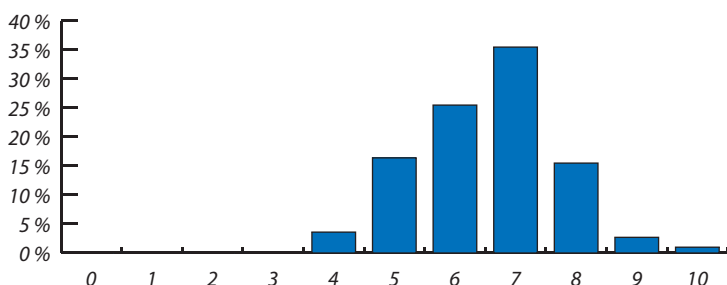
- Sonoma County business executives remain upbeat about the local economy, as the Sonoma County Business Confidence Index scored 6.55 on a 10-point scale. Local business executives predict that the County's economy will be slightly stronger over the next six months, forecasting a confidence level of 6.67.
- More than three times as many executives are expecting to be adding employees as are expecting to be reducing employees, however, most executives expect to maintain the same level of employees in the next six months. Executives also feel optimistic about the near future, with more than half of respondents expecting net profits to increase over the next six months. Fully 99% of executives expect to see wages either rise or stay constant. When asked to predict the rate at which wages will rise in their industry, most executives report an increase of 2-4%.
- 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 64.4%, significantly above 50%, the level indicating an expanding economy, and above the previous level of 62%, indicating that the economy is expanding at a faster pace than it was in the Fall of 2005. The number of executives who are "aggressive" about capital spending has doubled since last quarter.
- The two most commonly cited challenges facing the business community were 1) the high cost of housing and 2) traffic gridlock. Additionally, many employers frequently cite the difficulty of finding and recruiting qualified employees as an obstacle for growth in their business, a trend which can be indicative of the county's declining rate of unemployment. Many employers also cited regulation or government policies as an obstacle to success.

### Business Confidence Up; Optimism About the Future

The Sonoma County Business Confidence Index rose slightly in the winter of 2006. As Graph 1 shows, the index for Sonoma County scored a 6.55 on a 10-point scale (1= challenged; 10= excellent), increasing 0.14 points (2.1%) from the Fall 2005 Index. Business executives' confidence within their industries increased 7.2% (from 6.15 to 6.63) from Fall 2005. Both indices indicate a healthy economy, as any score over 6 is considered positive. Local business executives also expect the county's economy to be marginally stronger over the next six months, forecasting an index level of 6.67.

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

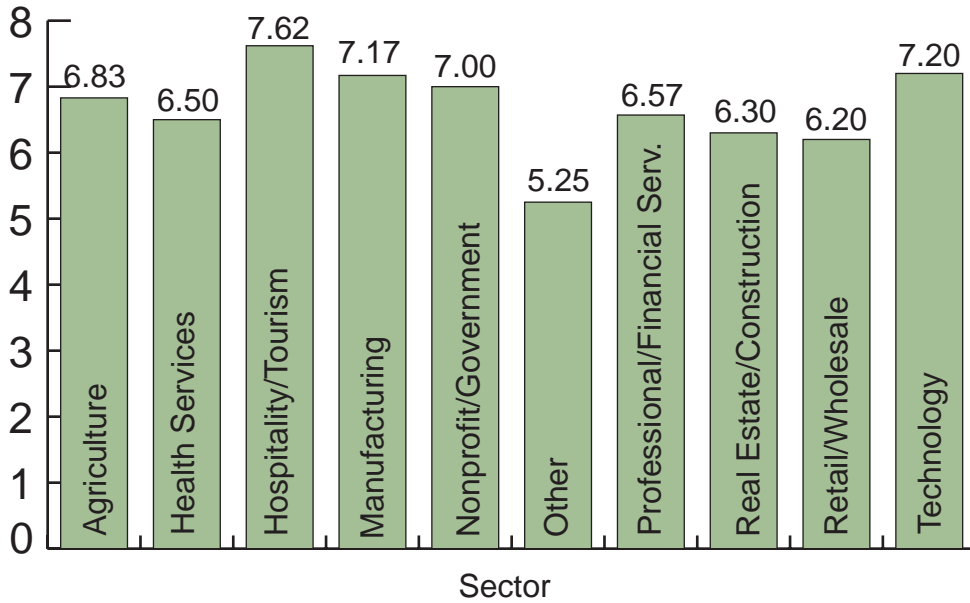
**Distribution of Business Confidence** Graph 2



## Industry Confidence in Sonoma County

Industry Confidence

Graph 3

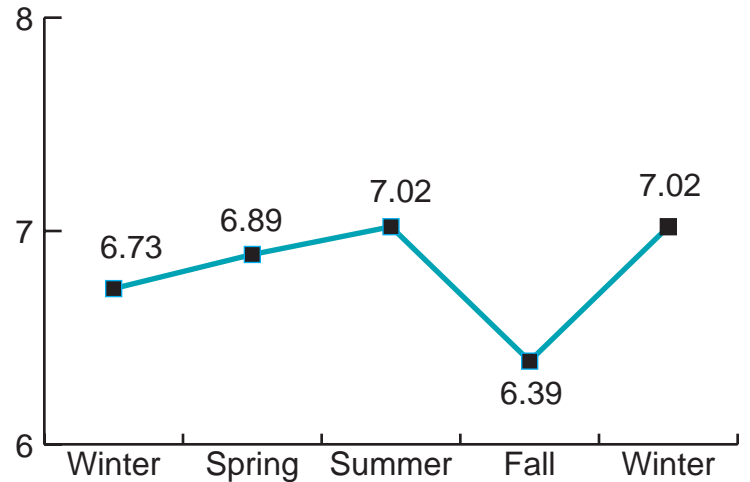


While the Business Confidence Index indicates the level of confidence in the economy as a whole, industry confidence specifically illustrates how executives feel about their sector's current economic conditions and future growth. Graph 3 compares the level of confidence of each industry. Overall, business executives reported their industry confidence at 6.61, with the highest confidence being reported by the hospitality sector, with a level of 7.62. Other strong industries were technology, manufacturing, nonprofit, and agriculture. The lowest reported industry confidence was for those businesses that classified their industry as "other."

## Business executives report improvement in business performance

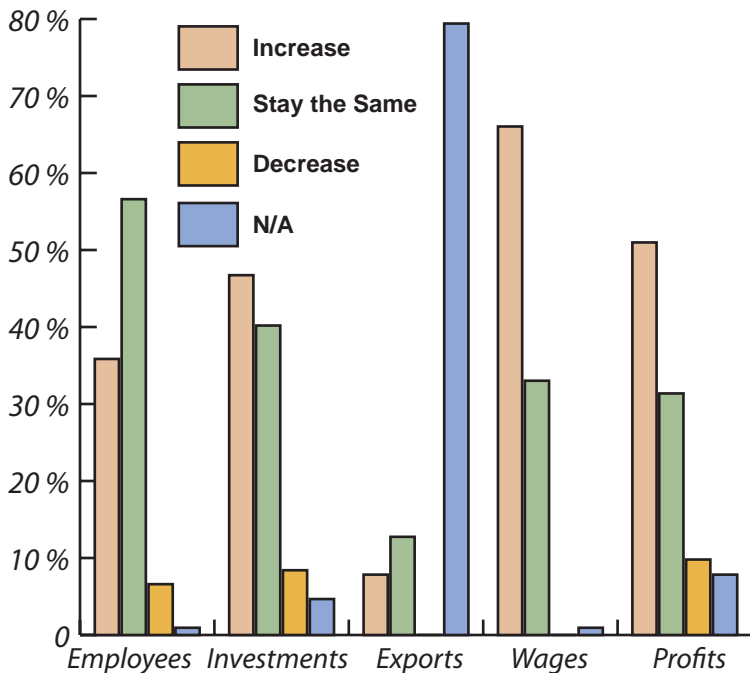
As shown in Graph 4, business executives have resumed their optimistic view of recent business performance. After a year-long trend in increasing business performance, the index briefly fell in Fall of 2005. The Winter 2006 index of 7.02 was a 10% rise from the Fall 2005 level of 6.39.

How is your business performing now? Graph 4



Business Predictions

Graph 5



Business executives' plans appear to mirror their optimism over the recent past. More than 90% of executives expect to maintain or grow their workforce and capital investments in the next six months, and 82% of executives expect to see their profits stay the same or rise.

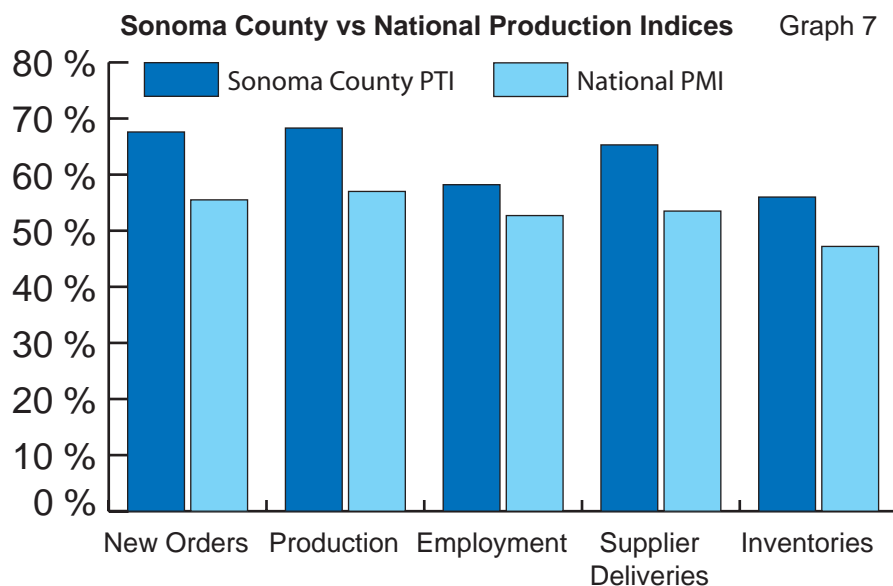
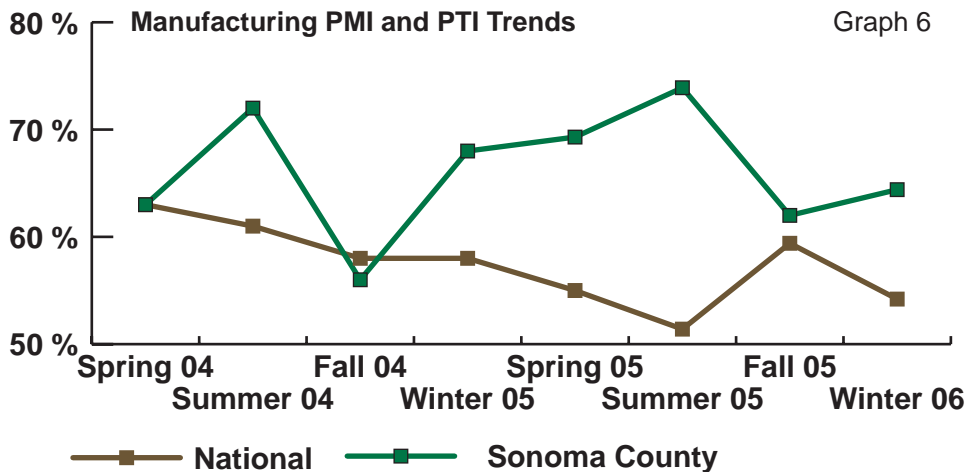
Executives also predict cost increases, with fully 99% of those surveyed expecting wage and salary rates to either stay the same or increase.

## Purchasing Trends

The purchasing trends for both Sonoma County and the United States indicate that economic activity 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 increased 3.9% to 64.4% from 62.0% in the Fall 2005 report. This represents an increase in reported economic expansion from Summer 2005, but it is important to note that any PTI greater than 50% indicates a generally expanding economy. Therefore, the increase in the Sonoma County PTI to 64.4% should be interpreted as an economy which continues to expand, but at a slightly faster rate than last quarter.

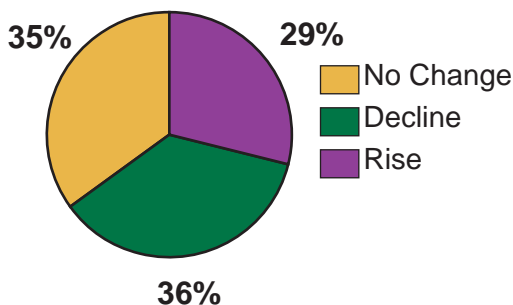
Graph 6 highlights national and local growth trends. Annual PTI trends suggest that the local economy has been steadily expanding for at least eight consecutive quarters, though the speed of the expansion has varied from quarter to quarter. In seven of the last eight quarters, the Sonoma County expansion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



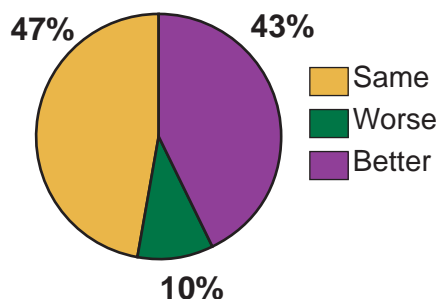
## The Big Picture: Sonoma County and the National Economy

Sonoma County executives have mixed views on the national economy. Those executives who expect the national unemployment rate to rise are nearly as many as 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 or better than it has in the recent past, with only 10% expecting worse performance.

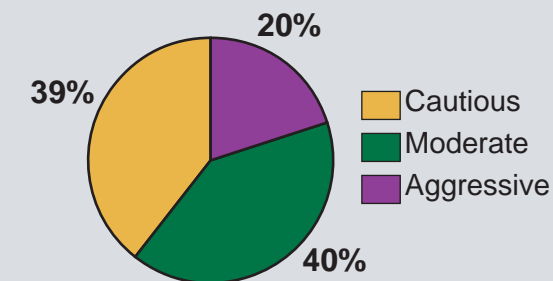
**National Unemployment** Graph 9



**Stock Market** Graph 10



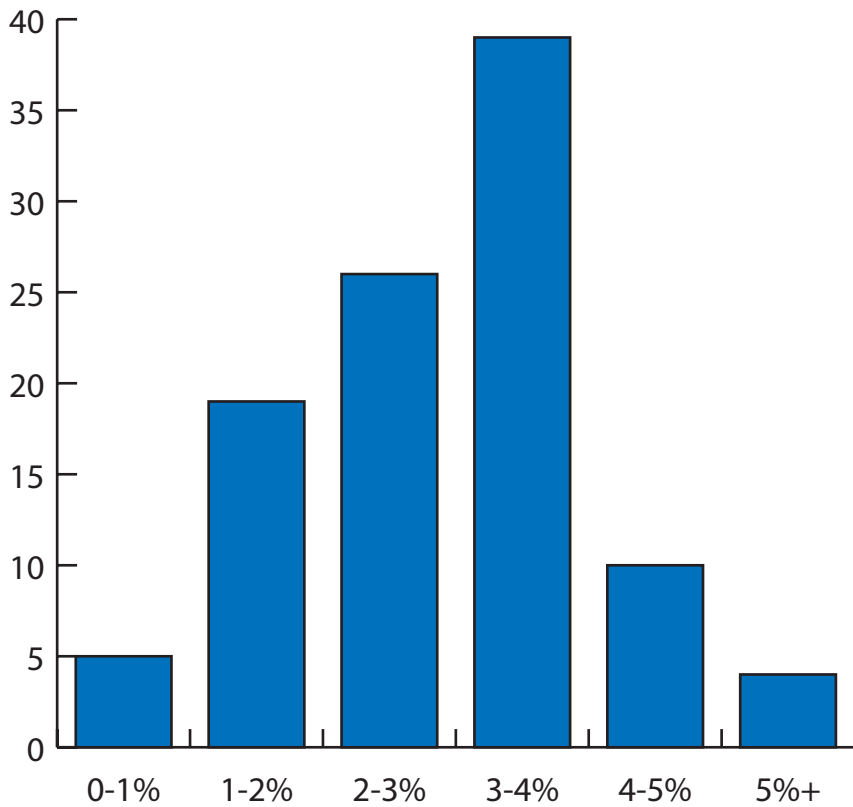
**Capital Expenditures** Graph 8



An equal number of Sonoma County executives hold a moderate view towards capital expenditures as hold a cautious view, while 20% hold an aggressive view towards capital expenditures in the near future. The number of executives holding an aggressive view has more than doubled since our last survey.

## Wage and Salary Growth

**What, if any, increase in wage and salary rates do you anticipate will occur in your industry over the next year?** Graph 11



In this edition we asked business executives to report their expectation for wage and salary increases over the next year. The most common response was 3-4%, and a majority of executives expected increases in the range of 2-4%.

Graph 11 shows the entire distribution of responses.

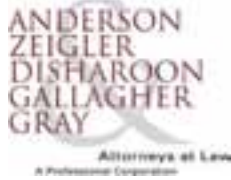
Surveys were mailed to 330 business executives in the month of December with a due date of January 18, 2006. Responses were received from 113 businesses, for a response rate of 34 percent. The Sonoma County Business Confidence Index is the mean of all respondents' perceptions of Sonoma County's current 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, with the assistance and insight of Christina Smith.

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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 ■ Sonoma County  
 Transportation & Public Works ■ Sonoma County Workforce Investment Board



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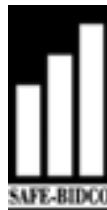
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