



Fall 2001 Sonoma County Business Confidence Report

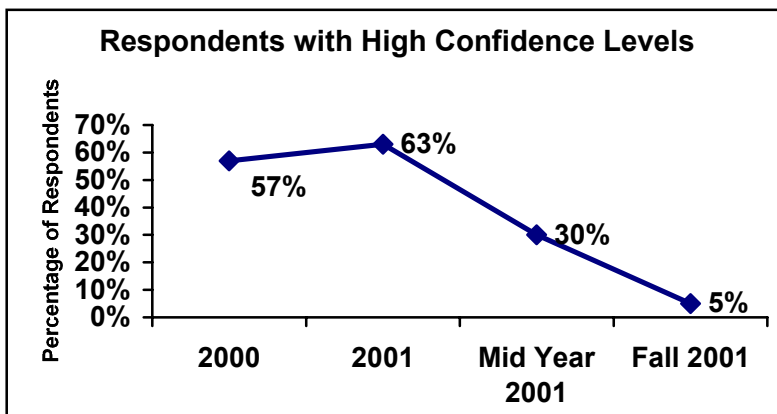
Sonoma County Businesses Appear in a Paradox

According to the Sonoma County Economic Development Board's *Fall 2001 Sonoma County Business Confidence Survey*, which queried more than 300 leading business executives, many respondents felt optimistic about their own businesses but had little confidence in the overall economy's potential for growth. Compared to the results of the Economic Development Board's *Mid-Year Business Confidence Survey*, many Sonoma County business owners are exhibiting a significant drop in confidence in the growth of the county's economy. The percentage of respondents who reported they were "highly confident" in the growth of the economy plummeted from 30 percent in July 2001 to 5 percent in October 2001.

Despite diminishing confidence and predictions for growth, most survey respondents planned to maintain or increase their number of full-time employees, as well as wage and salary rates. Most responding CEO's also expected to increase or maintain their investment in plants and equipment in early 2002.

"HIGH CONFIDENCE" LEVEL DROPS DRAMATICALLY

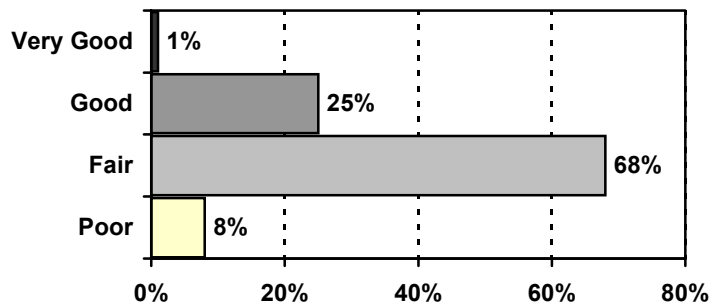
Sonoma County businesses appear less confident about Sonoma County's economy for the end of the year 2001. On a scale ranging from one to 10, where 10 was "extremely confident" and one indicated "not confident," 26% of respondents rated themselves a five, indicating a satisfactory rating at the midpoint of the confidence spectrum. Whereas in July 2001, 94% of respondents were confident or highly confident, in October 2001 only 35% of respondents indicated that their confidence level was a 6 or above. Confidence has dropped steadily throughout the year 2001:



SONOMA COUNTY ECONOMY

While few respondents expressed high levels of confidence in the county's economic growth, most appear to have some hope for the outlook over the next three months. Respondents were more positive in their predictions for the County's economy than for National economic outlook.

Outlook for Sonoma County Economy



LOCAL EXPECTATIONS

Overall confidence has diminished considerably since the summer, with 72% of respondents reporting being either confident or highly confident, compared to 94% in July. The number of respondents reporting a lack of confidence in Sonoma County's economic growth reached a two-year high, with more than 20% of respondents more pessimistic in October than they were in July. In addition, the average confidence level slipped from a 6.2 to a 4.75. Respondents from the technology and manufacturing sectors were surprisingly confident, despite the fact that 44% characterized their recent business volume as "poor;" the average confidence level for technology and manufacturing was 4.95. Overall, respondents' confidence in Sonoma County's economy was slightly more optimistic than their outlook for the national economy.

U.S. ECONOMY

With a series of headlines reporting layoffs, market declines, National tragedies, and the impending recession, many respondents appear to find it difficult to feel optimistic about the U.S. economy. Not a single respondent said he or she was "very optimistic" about the National Economy over the next three months. However, only 14% were "very pessimistic", which left most respondents in the middle of the spectrum.

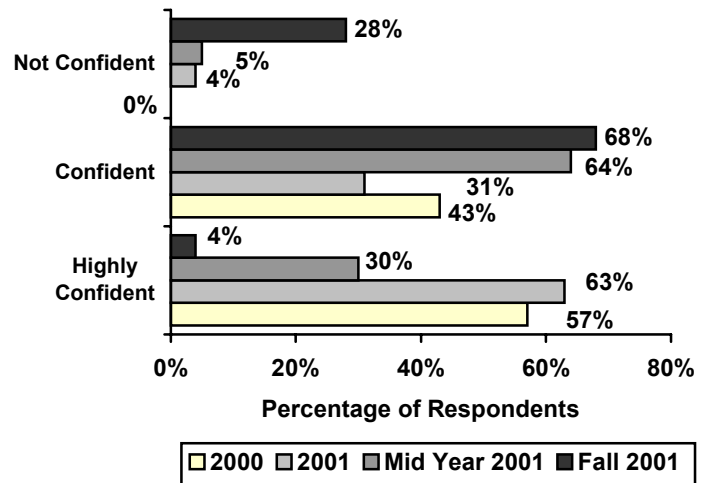
HOLIDAY SEASON

With the holiday retail season fast approaching and the economy giving every indication of a recession, many retailers are nervous about how this year's revenue will compare to that of 2000. However, with an average confidence rating of 6.2, Sonoma County retailers are anxiously optimistic about the remainder of the year. The majority of Sonoma County businesses, however, predict a decrease in holiday revenue for 2001.

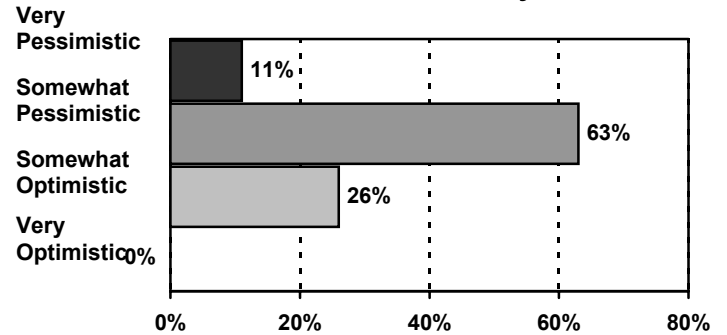
THE AFTERMATH OF SEPTEMBER 11th

The tragic events of September 11 impacted not only the nation's sense of security and overall demeanor, but also the nation's already declining economy. In Sonoma County, sixty-three percent of respondents reported that the events of September 11 had a negative impact on their business, primarily in the area of business travel. Many respondents also indicated a change in morale and a loss of revenue, particularly in the retail and wine industries. The majority of respondents anticipated the impact of September 11 on their business to be temporary.

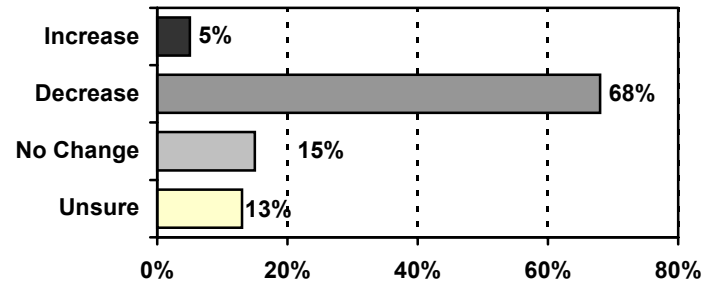
Trends in Confidence Levels



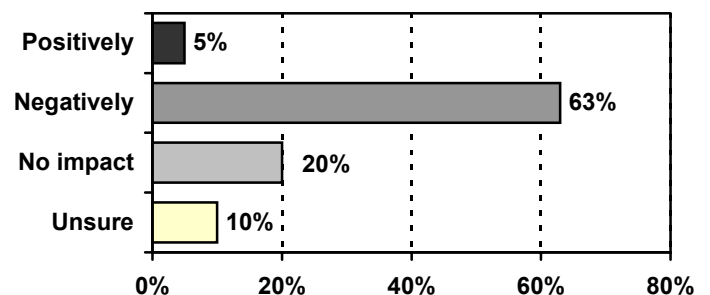
Outlook for US Economy



Predictions for 2001 Holiday Retail Season



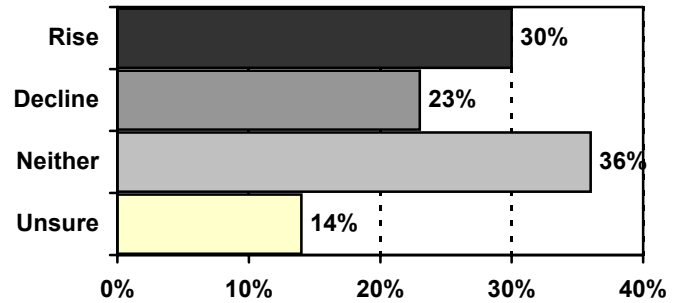
Impact of September 11



MARKET WATCH

The already downtrodden stock market took a nosedive after the September 11 attacks, when after a historic four-day closure, the market reopened and the Dow experienced its worst single-week performance since the Great Depression, and the US market lost \$1.38 trillion in overall value. Fortunately the market has shown signs of improvement since September, and survey respondents agree that it is more likely that the market will either plateau or improve in the next three months, rather than experience another decline.

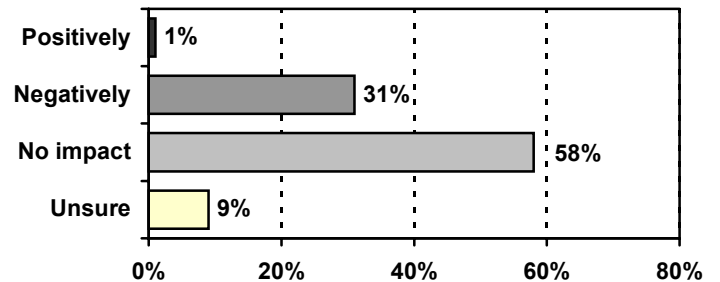
Anticipate Stock Market Rise or Decline?



SONOMA COUNTY AIRPORT

When United Airlines announced in August that they would be discontinuing commercial air service from Charles M. Schulz-Sonoma County Airport at the end of October, many people in Sonoma County feared not only a loss of convenience, but also a loss of business and tourism revenue. While one-third of respondents reported that the airport situation is “a serious issue for Sonoma County businesses,” many others did not foresee a major impact in their business after the October 31 closure.

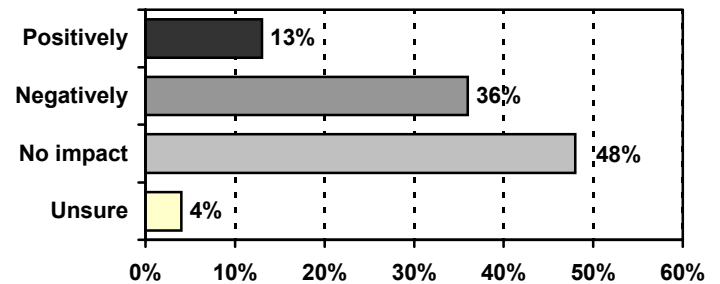
Loss of Commercial Air Service



ENERGY

A year ago, energy was the top concern of most California policy makers. Three months ago, 61% of Sonoma County respondents said that energy issues were having a negative impact on their business. Now, however, with threats of blackouts diminishing and gas prices falling, only 36% of respondents have experienced a negative impact on their business due to energy.

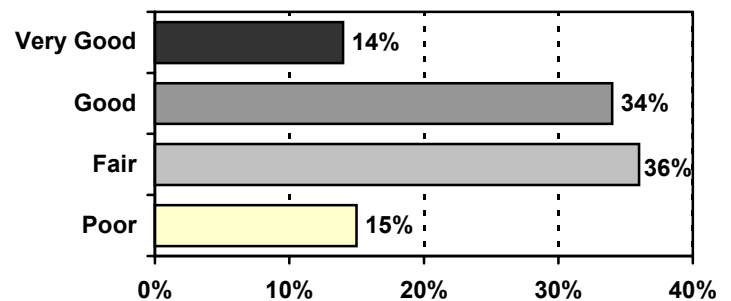
Effect of Energy Issues on Business



CURRENT BUSINESS CONDITIONS

The majority of responding local executives reported that business is “fair” to “good.” In the technology and manufacturing industry, however, the outlook is not as positive, with only 25% of respondents reporting that business is good, and the remaining respondents characterizing their business as fair to poor. The retail industry was surprisingly optimistic, with 45% of respondents reporting that business is good to very good, and no respondents describing business as poor. Overall, it appears that, despite diminished confidence levels, many Sonoma County businesses are doing relatively well.

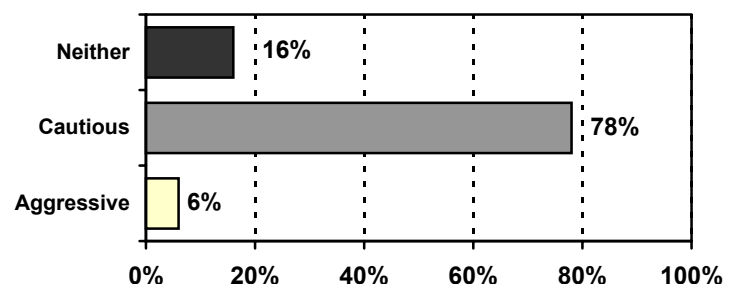
How is your business now?



CAPITAL INVESTMENT

Sixty-four percent of respondents do not plan to increase capital spending next year, and the majority of respondents characterized their attitude toward capital budgets, advertising, and other investments as “cautious.” Many businesses pointed out that they have always been cautious in this area, regardless of business volume or economic outlook.

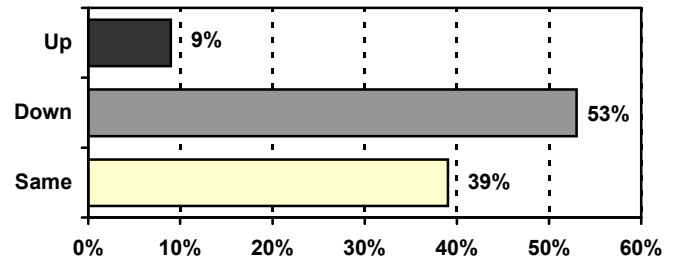
Expected Changes in Capital Investment



GROSS DOMESTIC PRODUCT

For the first time in many years, the US has seen a negative growth rate in the GDP. While growth had been slowing since the end of last year, the majority of survey respondents in July predicted that the GDP would remain constant for the remainder of 2001. However, in the third quarter of the year, the GDP decreased by 0.4%, and the majority of survey respondents predicts that it will continue to decrease over the next three months.

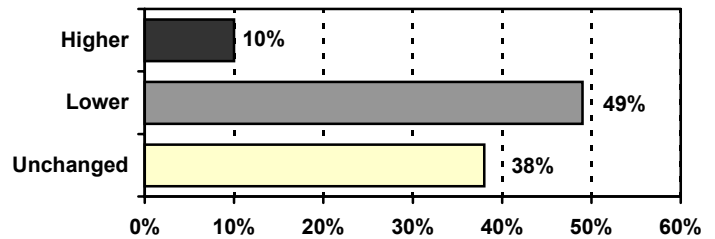
Predicted GDP Growth



INTEREST RATES

In an effort to rescue the US economy from the threat of recession, the Federal Reserve Bank has lowered interest rates ten times this year. The Federal funds rate, which began the year at 6.5 percent, is now down to 2.0 percent. Forty-nine percent of respondents expect interest rates to continue to fall in the remainder of 2001, while only 10% foresee an increase in interest rates. The majority of respondents expect the current rate, the lowest federal funds rate since 1961, to continue to decrease by year-end.

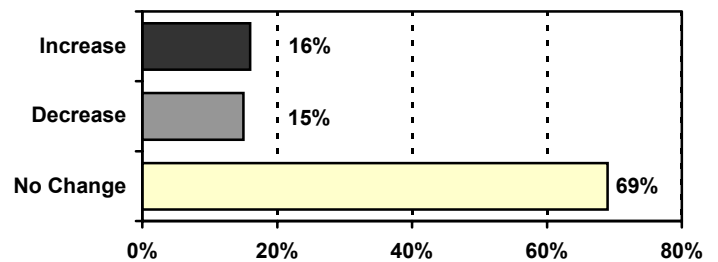
Interest Rate Predictions



INFLATION RATE

In a seemingly unpredictable economy, survey respondents were surprisingly optimistic about the rate of inflation, with well over half predicting that rates will not change. Three months ago, 36% of survey respondents predicted increased inflation, whereas now only 16% of the same group of businesses foresees an increase in price inflation.

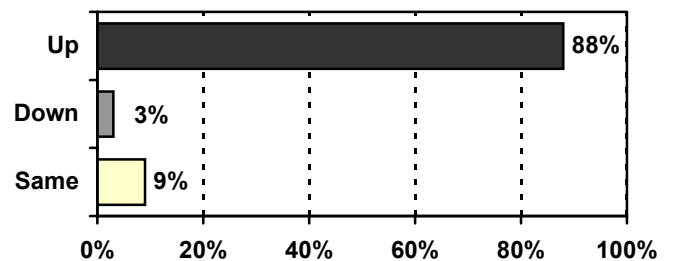
Anticipated Changes in Inflation Rate



UNEMPLOYMENT RATE

Sonoma County's unemployment rate in October of 2001 was 3%, compared to an unemployment rate of 5.4% in all of California and 5% for the entire United States. Only Marin, San Luis Obispo, and Santa Barbara counties have lower unemployment rates than Sonoma County. 88% of respondents believed that the unemployment rate will increase, and 9% expected the unemployment rate to remain the same.

Expected Changes in Unemployment Rate



METHODOLOGY

The Sonoma County Economic Development Board conducted its first-ever survey of Sonoma County business confidence in December 1999 and repeated it in December of 2000. Due to the economic changes in 2001, a mid-year survey was conducted last June, and a fall survey was conducted at the end of October 2001. Executives at 300 leading firms in Sonoma County were asked to identify changes they expect to occur in their businesses, and to rate their confidence in the local and US economies for the final three months of the year 2001. Of the 300 firms, 81 responded to the survey (27%). The responses covered businesses in a wide range of industries and sizes, representing 20 of Sonoma County's economic sectors. The majority of respondents came from the professional and financial services sector, with many also in manufacturing, technology, retail, tourism, and agriculture. Individual survey results are confidential. This report was prepared by Erin Fredrick and edited by Brian Kelsey.

For more information about the Fall 2001 Sonoma County Business Confidence Survey, please contact:

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