



Midyear 2002 Sonoma County Business Confidence Report

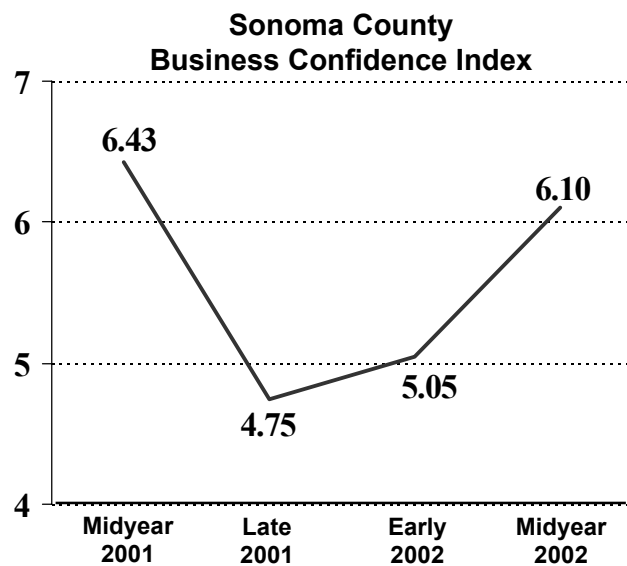
Sonoma County Business Confidence Continues To Rebound Confidence Ratings Climb for the Second Consecutive Trimester

The Sonoma County business community continues to gain confidence in the local economy, according to results of the Sonoma County Economic Development Board's (EDB) *Midyear 2002 Sonoma County Business Confidence Survey*. The Sonoma County Business Confidence Index is at its highest level in the past year, as business leaders appear determined to emerge from the recession as strong as ever. Individually, 5 of the 7 industry sectors tracked in the survey report increased confidence, and nearly 2 out of 3 business executives and owners rate the status of their own businesses as "Good" or "Very Good."

Sonoma County's consistent increases in business confidence contrast sharply with recent national figures, which decreased significantly during the second quarter. While Sonoma County's business confidence has lagged behind national levels in recent quarters, this gap was greatly reduced during the second quarter as the local economy continued to recover toward pre-recession levels.

Business Confidence Index Up 21%

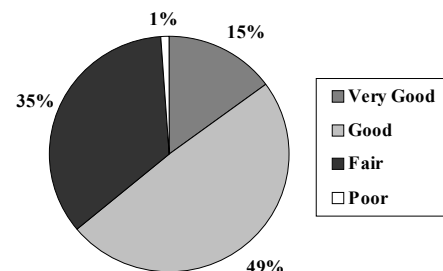
According to the Sonoma County Business Confidence Index, **respondents are currently feeling more optimistic toward the economy's growth potential in the next four months than they have been since Summer of 2001**. The Index saw a significant gain of 21%, up to 6.10 from an index of 5.05 in *Early 2002*. This gain, combined with the gain from *Late 2001* to *Early 2002*, means that the Index has increased by 28% since *Late 2001*, and is only down 5% from its level one year ago.²



Most Sonoma County Businesses Rate Current Status "Very Good" or "Good"

Sixty-four percent of responding Sonoma County businesses rated their current status as "Good" or "Very Good," up from 56% in the *Early 2002 Sonoma County Business Confidence Report*. While this is an encouraging trend as levels continue to rise from the low of 48% in *Late 2001*, "Very Good" responses actually declined to 15% from their 19% level in *Early 2002*. Fewer Sonoma County businesses seem to have cause for serious concern in *Mid 2002*, fortunately, as "Poor" responses declined to only 1%, after levels of 8% in *Early 2002* and 15% in *Late 2001*.

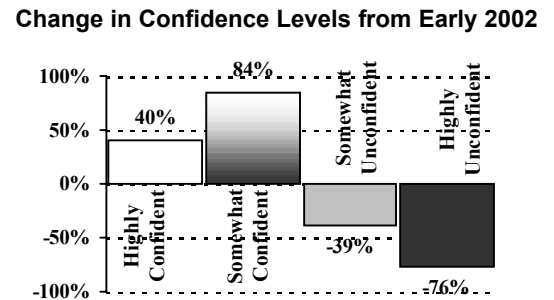
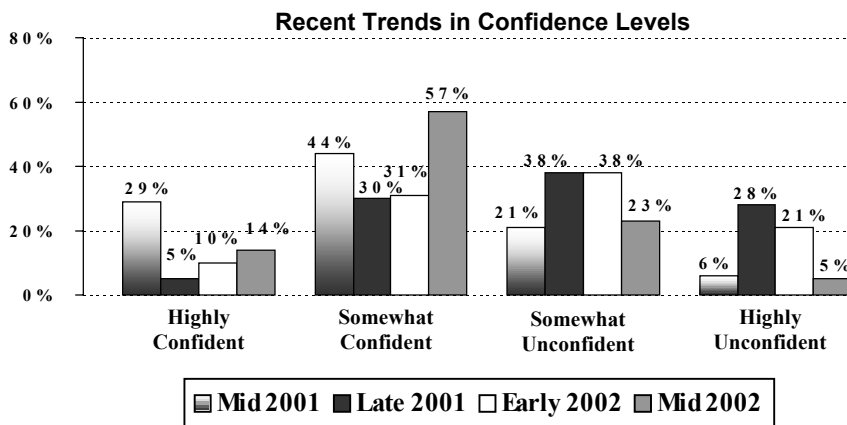
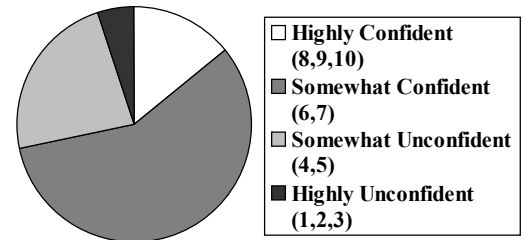
Current Status of Sonoma County Businesses



Sonoma County Business Confidence Rising Across The Board

While responses of “Highly Confident” and “Somewhat Confident” showed significant gains from their *Early 2002* numbers, responses of both “Somewhat Unconfident” and “Highly Unconfident” were down significantly. Especially encouraging was the decrease of “Highly Unconfident” responses by 76%. For the first time in a year, it seems that Sonoma County businesses are feeling assured that business is recovering well from the recession that began in March 2001.

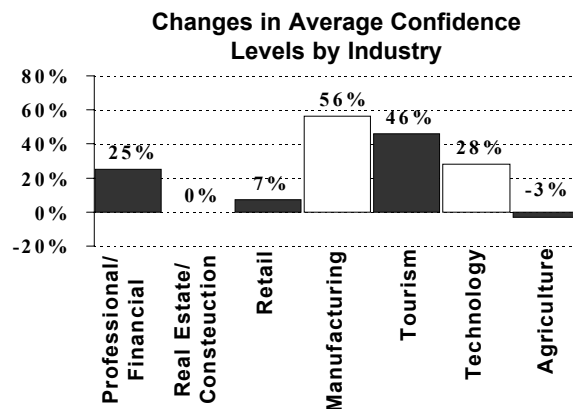
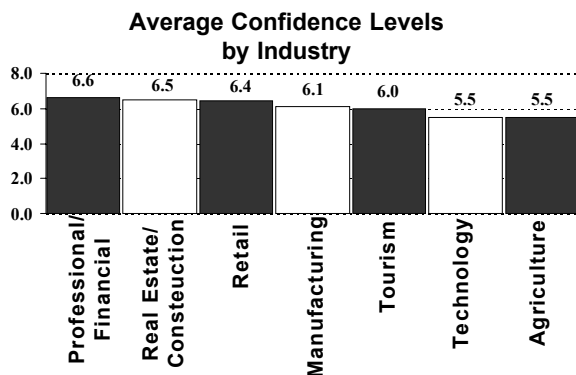
An interesting point of note is that the *Midyear 2002 Business Confidence Survey* results continue the trends established in the *Early 2002 Business Confidence Report*. “Highly Confident” and “Somewhat Confident” responses continued to increase, while “Highly Unconfident” responses continued to decrease. However, while *Early 2001* only experienced one category change of over 25% (“Highly Confident,” 100%), *Midyear 2002* finds fluctuations of 39% or above in every category, with a maximum variation in the form of an 84% increase in “Somewhat Confident” responses.²



Outlook Good for Most Sonoma County Industry Sectors

In keeping with the overall trend of rising confidence levels, **six of the seven industry sectors measured by the *Midyear 2002 Sonoma County Business Confidence Survey* showed rises in confidence from the levels reported in *Early 2002***. Leading the way was the Manufacturing sector, with a 56% gain in confidence. Tourism (46%), Technology (28%), and Professional and Financial Services (25%) also experienced significant gains in confidence. Only the Agriculture industry saw a reduction of confidence, losing 3% from its *Early 2002* level.

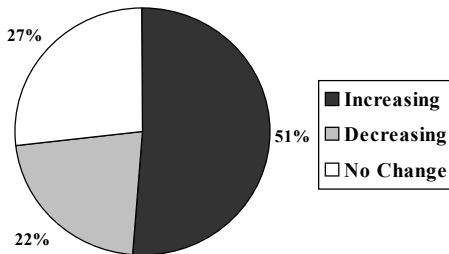
These numbers are encouraging indeed, as these sectors continue to rebound and show optimism for the near future. While in *Early 2002* three of the seven industries reported confidence levels of 4.3 and below, none of the industries currently report levels below 5.5. The growth of these sectors to above average confidence likely signals prosperous times ahead for much of the Sonoma County economy.



Sonoma County Businesses' Retail Business Volumes Continue to Rise

More than half of responding Sonoma County business owners report that their retail business volumes have grown from their levels of one year ago. Only 22% of businesses experienced decreased volume from the same quarter last year. While these numbers are encouraging, as many businesses are experiencing volume growth, one in five responding businesses are still experiencing volume below that of last year, suggesting that recovery may be slower for these businesses than it was for those who are already bettering last year's numbers.

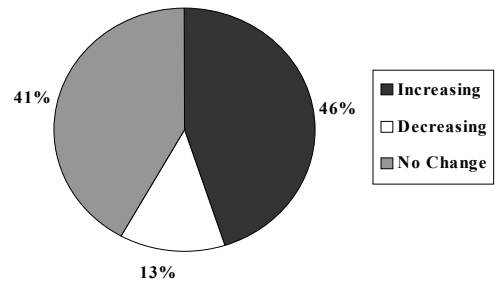
Second Quarter 2002 Business Volume Compared to Second Quarter 2001



Business Owners Expect Short-Term Profit Growth

Responding business owners are generally optimistic about their likely profits over the next four months, with nearly half expecting growth and a total of 87% expecting to maintain present levels or improve upon them. A small minority (13%) were more pessimistic, however, predicting a decrease in profits in the near future.

Expectations for Businesses' Profit Growth Over the Next Four Months



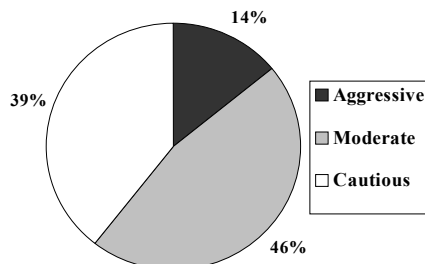
Sonoma County Businesses Staying Moderate to Cautious with Capital Investments

Nearly half of businesses (46%) responding to the survey indicated that they were taking an attitude of moderation toward capital investment in the coming months. An additional 39% expressed an attitude on the side of caution, making the overall attitude of survey respondents toward capital investment a conservative one at this time. 14% of responding business owners, however, are taking an aggressive stance toward capital investment, possibly perceiving competitors' more conservative attitudes as an opportunity to gain a competitive edge.

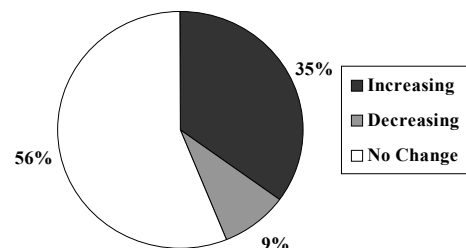
Survey Respondents Forecast Rise in Full-Time Employment

In what appears to be a promising sign for Sonoma County's workforce, 35% of Sonoma County business owners who responded to the survey expect to increase their number of full-time employees over the next four months. While more than half of business owners expect their number of employees to stay the same during that time, of the 44% who anticipated a change, nearly 4 in 5 expected to be hiring additional employees.

Businesses' Attitudes Toward Capital Investment



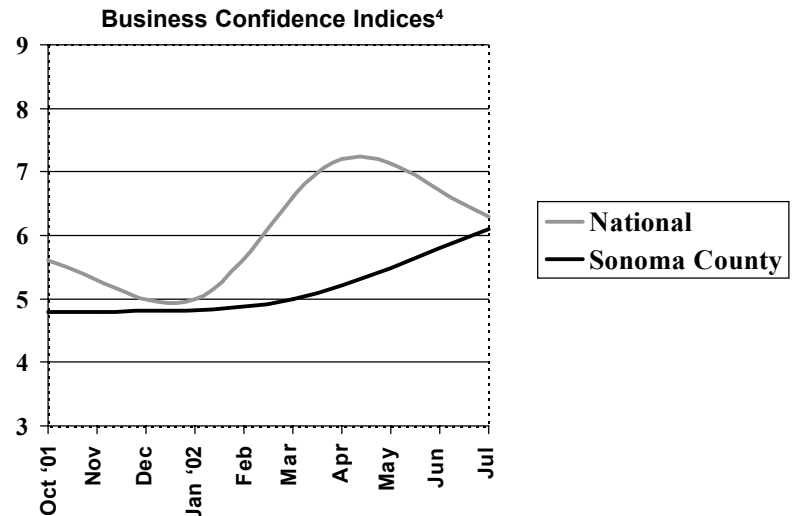
Expected Change in Number of Full-time Employees



THE BIG PICTURE: Sonoma County and the National Economy

Sonoma County's Business Confidence Rebounding Slowly but Steadily; National Figures Continue to Fluctuate

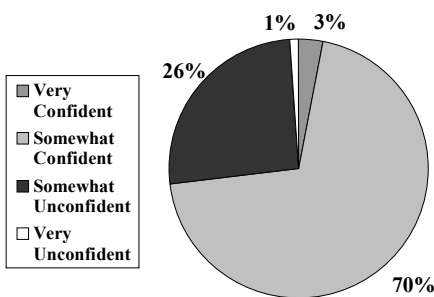
While the Sonoma County Business Confidence Index has been making a gradual climb since October of 2001, the national figures continue their recent erraticism, according to the Conference Board's Measure of Business Confidence. For the third straight quarter, the national index reversed its direction, experiencing a decrease from 7.2 to 6.3. While these numbers continue to outpace the local outlook, currently at 6.1, the continual improvement of Sonoma County's business confidence figures suggest a strong potential for local figures to outpace national indices in the near future.



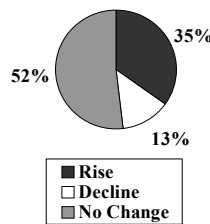
Sonoma County Business Owners Confident About National Economy

A large majority of Sonoma County business owners responding to the survey (70%) listed their outlooks for the national economy as "Somewhat Confident." **Overall, 73% of those responding were confident about the national economy, up from 55% in Early 2002.** Regarding specific aspects of the national economy, most expected little change in the next four months, as just over half replied "No Change" regarding their expectations for the stock market and unemployment rates, and nearly three in four expect no change in interest rates, which have been declining rapidly over the last year. Of respondents who did anticipate significant change in the stock market, however, almost three quarters predict a bullish market over the next four months. The split was more even among those who expected change in the unemployment rate, with 56% optimistically anticipating a decline in the national unemployment rate, and 44% foreseeing a rise in unemployment. Finally, of respondents who believed that interest rates would be changing over the next four months, over 85% expected that change to be seen in a rise of interest rates for the first time since May 2002. The expectation of a rise in interest rates presumably signals an expectation of continued economic recovery by these respondents.

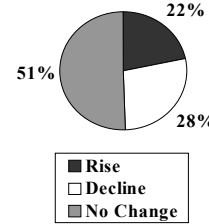
Outlook for National Economy



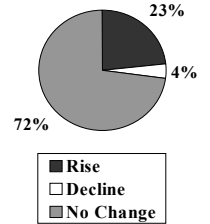
Expectations For Stock Market Activity



Expectations for National Unemployment Rate



Expectations For Interest Rate Activity



NOTES

¹ Surveys were sent out to 300 Sonoma County businesses. Responses were received from 80 businesses, for a response rate of 27%.

² The Sonoma County Business Confidence Index is the mean of all respondents' projections, on a scale of 1 to 10, of Sonoma County's potential for growth over the next two quarters.

³ Due to changes in methodology, some percentages differ from those cited in the Early 2002 Sonoma County Business Confidence Report.

⁴ National Business Confidence figures from The Conference Board's Measure of Business Confidence results for businesses' expectations for the national economy six months ahead. Values have been converted from scale of 100 to scale of 10 in order to create consistency between national and Sonoma County Business Confidence values.

The Sonoma County Economic Development Board conducted its first-ever survey of Sonoma County business confidence in December 1999. The report currently is released quarterly. This report reflects information gathered during a survey conducted in June 2002. Individual survey results are confidential. This report was prepared by Joseph Sherman and edited by Brian Kelsey.

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