



Early 2002 Sonoma County Business Confidence Report

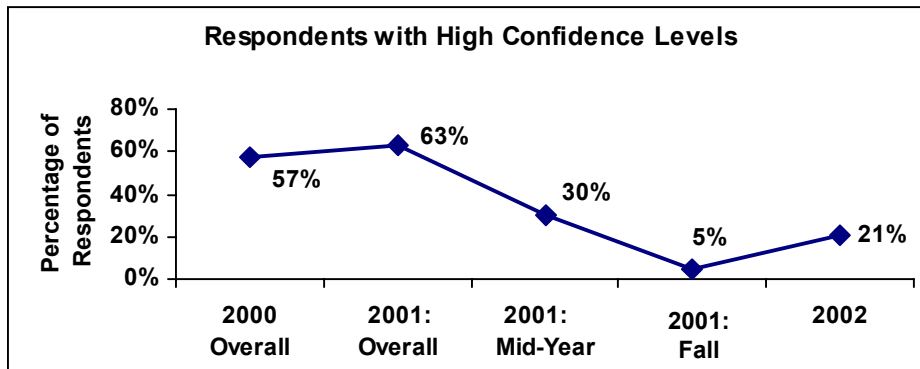
Sonoma County Businesses Look to 2002 with Increased Confidence

According to the Sonoma County Economic Development Board's *Early 2002 Sonoma County Business Confidence Survey*, which queried nearly 300 leading business executives, many respondents are feeling more optimistic in the economy's potential for growth in the year 2002 than they were in 2001. Compared to the results of the Economic Development Board's *Fall 2001 Business Confidence Survey*, many Sonoma County business owners are exhibiting a significant increase 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 local economy increased dramatically from 5 percent in October 2001 to 22 percent in January 2002.

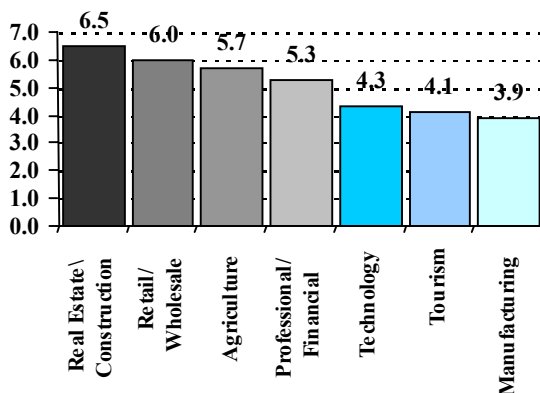
While on the national level many economists have predicted March as the turning point for the recession, many survey respondents stated that they expect "a tough economy until mid-year, followed by a slow recovery." Some respondents characterized 2002 as "a Ride-It-Out kind of year," but most are optimistic for economic improvement for the second half of 2002.

"HIGH CONFIDENCE" LEVEL ON THE RISE

Though still not as confident as they were six months ago, Sonoma County businesses appear more confident about Sonoma County's economy for the beginning of the year 2002 than they were for the end of 2001. On a scale ranging from one to 10, where 10 was "extremely confident" and one indicated "not confident," 79% of respondents rated themselves a 4 or above. Though these numbers are not as high as they were in July 2001, when 94% of respondents were confident or highly confident, they do indicate a significant increase in the business community's confidence in the county's potential for economic growth.



Average Confidence Level by Industry



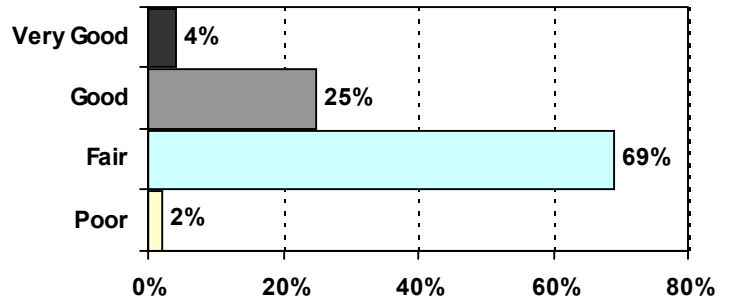
CONFIDENCE BREAKDOWN BY INDUSTRY

2001 was a turbulent year for the technology industry, and many Telecom Valley companies did not emerge unscathed. However, most respondents appeared relatively positive. The manufacturing sector, which made up 22% of the respondent pool, is the least confident of the responding industries. Hotels and restaurants have also been hit hard in the post-September 11th economy, but most respondents from the tourism industry seemed optimistic that although some companies cancelled holiday celebrations and many tourists opted to forego holiday leisure travel, their businesses are still doing relatively well and will continue to improve throughout 2002. On the other end of the confidence spectrum, wholesalers, retailers, and distributors are confident in the potential for increased revenue in 2002. Despite the tourism sector's concerns over lack of tourism and restaurant revenue, many respondents from wineries appear confident because of steady sales at grocery and club business, contributing to an average confidence level of 5.7 for the agriculture industry in Sonoma County.

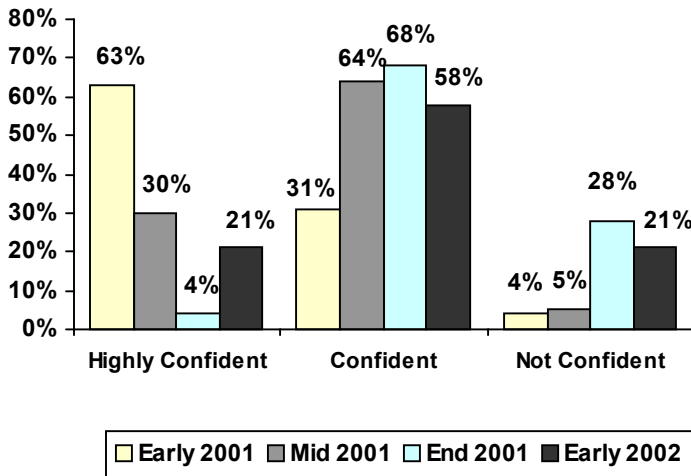
SONOMA COUNTY ECONOMY

Survey respondents were slightly more optimistic for the first quarter of 2002 than they were for the final quarter of 2001. Overall, survey respondents from all industries seem relatively positive in their outlook for the county's economy.

Outlook for Sonoma County Economy



Trends in Confidence Levels



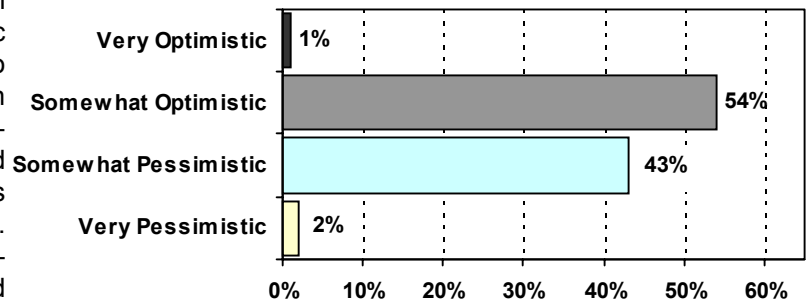
LOCAL EXPECTATIONS

While the percentage of respondents that are "highly confident" is equal to the percentage that are "not confident," a significant number of those who were "not confident" last quarter have shifted to a more optimistic outlook. The average confidence level increased from a 4.75 in October to a 5.06 in January. This increase in confidence could be a reflection of the predictions many economists have made for the national economy's recovery. *Business Week* predicted in its February 11 issue that "this downturn will probably turn out to be one of the most superficial slumps in the postwar era," based on the fourth-quarter growth in the GDP. However, the same article warned that "shallow recessions beget mild recoveries," and the current recession may have long-term effects on business and consumer confidence.

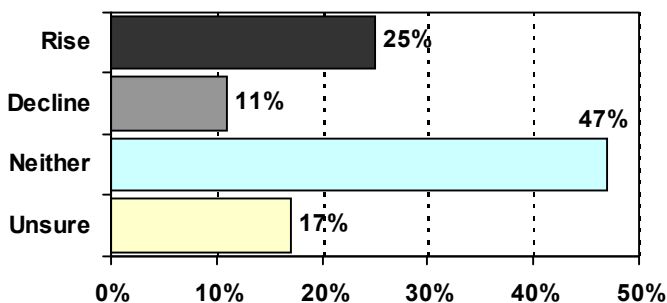
U.S. ECONOMY

In his 2002 State of the Union address, President Bush highlighted the need for job creation and an Economic Security Plan to stimulate economic growth. He also explained that increased government spending on homeland security, airline security, emergency response, and "the war against terrorism," absorbed 19% of the budget surplus, with another two-thirds drained from the recession that began in March 2000. Despite these figures, the President seemed optimistic about the country's prospects for growth, and Sonoma County survey respondents appear to express similar optimism.

Outlook for US Economy



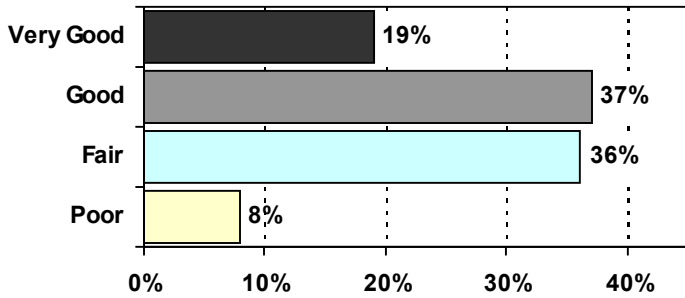
Anticipate Stock Market Rise or Decline?



MARKET WATCH

After a record-breaking (and for some, heartbreaking) year, the US market has slowly returned to "normal" levels. The majority of respondents anticipate that the market will continue to stabilize through the first quarter of 2002.

How is your business now?

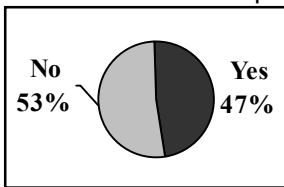


CURRENT BUSINESS CONDITIONS

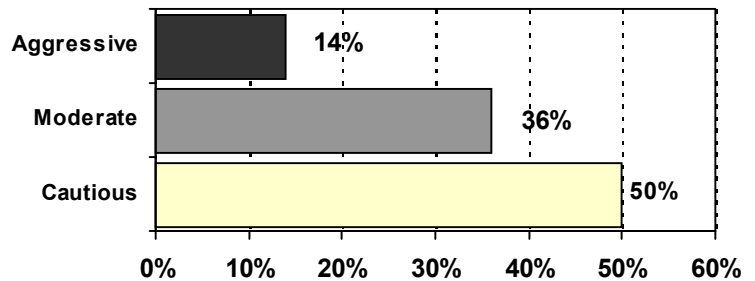
Many respondents cited September 11th and consumer confidence as primary factors in declining business volume. However others cited consumer confidence as a factor in *increasing* business volume. The businesses that seemed most satisfied with their business volume were grocery stores and other food suppliers and retailers. As one respondent said, "Even in during an economic downturn, people need to eat."

CAPITAL INVESTMENT

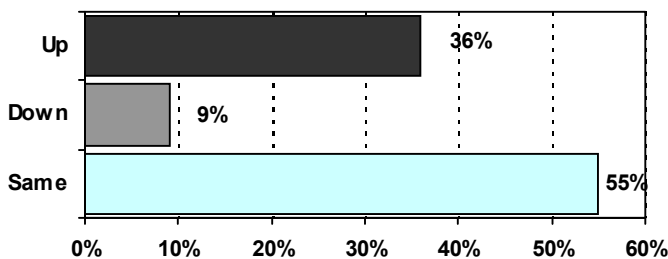
Whereas only 6% of respondents in October 2001 characterized their attitude toward capital budgets, advertising, etc. as "aggressive", in January 2002, 13% of respondents were aggressive. In addition, the number of "cautious" respondents decreased from 78 percent to 54 percent. 34% of respondents plan to increase their investment in plants and equipment, and 54% intend to maintain their current inventory. Just over half of respondents answered "no" to a question that asked if their company planned to increase capital spending in 2002, see chart:



Expected Changes in Capital Investment



Predicted GDP Growth



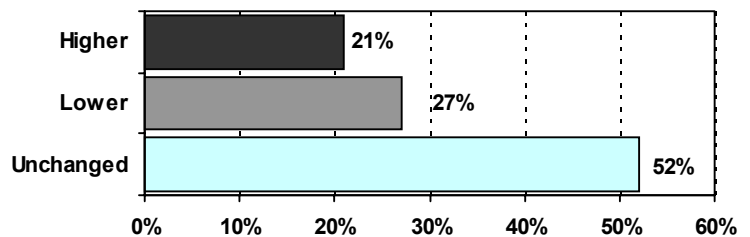
GROSS DOMESTIC PRODUCT

With an unexpected fourth quarter 2001 preliminary GDP increase of 0.2% (following a third quarter 1.3% decrease), the recession appears to be showing signs of recovery. The majority of survey respondents predicted that in 2002, the GDP would remain relatively constant. 36% anticipated growth in the GDP, and only 9% expected a decrease.

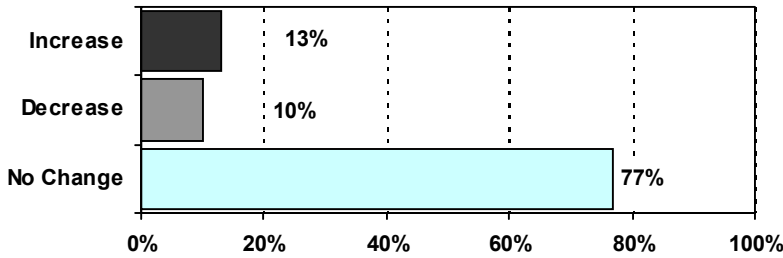
INTEREST RATES

After lowering interest rates 11 times in 2001, the Federal Reserve announced at its Jan. 29-30 meeting that the federal funds rate would remain unchanged. The lower rates were great for the mortgage business, according to many of the local mortgage companies who responded to the 2002 Business Confidence survey, and they hoped for the rates to continue for most of 2002. However, most respondents anticipate that the "great time to refinance" mantra will soon expire: 52% expect rates to remain unchanged, and 21% anticipate that the rates will go back up.

Interest Rate Predictions



Anticipated Changes in Inflation Rate



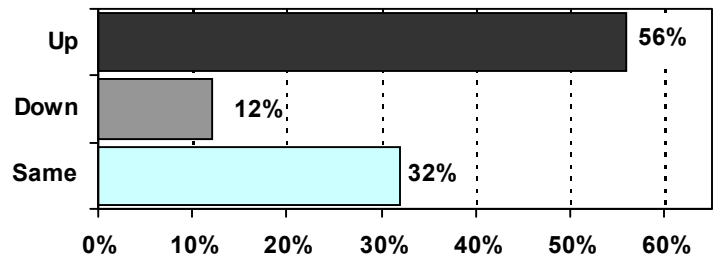
INFLATION RATE

With gas and clothing prices falling, low interest rates, and consumer spending steady, the inflation rate in the Bay Area appears to have plateaued. The majority of survey respondents continue to anticipate a levelling off of the rate of inflation.

UNEMPLOYMENT RATE

Sonoma County has the fourth lowest county unemployment rate in California, however the majority of survey respondents expect it to increase in 2002. Despite these predictions for decreasing levels of employment throughout the county, 59% of responding companies anticipate retaining the same number of full-time employees in 2002 as in 2001, and 62% expect to maintain the same wage and salary rates. When polled about their anticipated changes for 2002, 30% of respondents expected to increase their company's level of employment. In addition, 53% of respondents foresee an increase in net profits, 33% plan to increase wages and 30% plan to increase the number of full-time employees.

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 economic changes, a mid-year survey was conducted in June 2001, and a fall survey was conducted at the end of October 2001. This report reflects information gathered during a survey conducted in January 2002. 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 first quarter of 2002. Of the 300 firms, 90 responded to the survey, for a response rate of 30 percent. 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 2002 Sonoma County Business Confidence Survey, please contact:

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