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# Sonoma County Local Economic Report Fall 2002



Prepared By

THE SONOMA COUNTY ECONOMIC DEVELOPMENT BOARD

Ben Stone, Director

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The Sonoma County Economic Development Board is pleased to bring you the Fall 2002 issue of the *Sonoma County Local Economic Report Series*.

In this issue, you will find the latest available data and associated analysis regarding a variety of important economic indicators, including the following highlights

- Despite monthly fluctuations, unemployment in Sonoma County has remained virtually unchanged at 4.2% since April 2002.
- With the exception of seasonal activity in Farm and Construction, job growth in Sonoma County has been stagnant or non-existent across most industry sectors since the release of the Summer 2002 quarterly report.
- The manufacturing sector is yet to rebound from last years recession and its outlook depends on the performance of the technology sector.
- Wineries and vineyards are experiencing a surge in supply, putting downward pressure on prices and trouble for vineyards without long-term contracts.

Like previous issues of the *Sonoma County Local Economic Report Series*, the Fall 2002 publication offers information from a variety of data sources, as well as analysis performed by Economy.com and the Economic Development Board's research staff.

As a valuable subscriber to this report series, please feel free to offer feedback on ways to improve the research publications. You can contact Nikhila Raj at (707) 565-7589 with any feedback or questions.

Thank you again for your interest in Sonoma County's economy and the Economic Development Board's research efforts.

Yours sincerely,

Ben Stone  
Executive Director, Economic Development Board

# SONOMA COUNTY

## EMPLOYMENT

**GROWTH**  
2001-03

**182**

2001-06

**93**

Best=1 Worst=325

## MSA LIFE CYCLE PHASE

Growth/Mature

VITALITY

Best=1 Worst=325

**80**

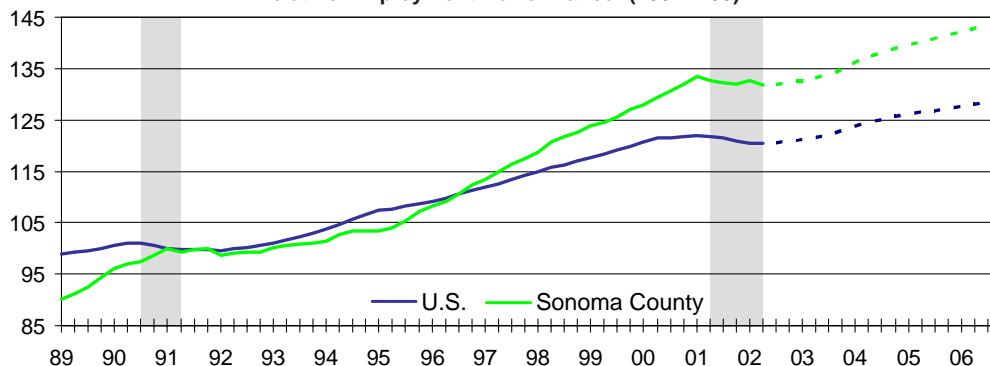
U.S. = 100%

**99%**

U.S. = 100%

**127%**

## Relative Employment Performance (1991=100)



1995	1996	1997	1998	1999	2000	2001	Indicators	2002	2003	2004	2005	2006
10.8	11.2	12.1	13.0	14.0	15.5	15.8	<b>Gross Metro Product, C\$B</b>	16.2	16.8	17.5	18.1	18.8
4.1	3.3	8.1	7.4	7.9	10.6	1.7	<b>% Change</b>	2.7	3.5	4.4	3.5	4.0
150.2	157.5	165.4	173.1	179.3	186.1	189.8	<b>Total Employment (000)</b>	189.1	191.1	196.8	201.0	204.7
2.2	4.8	5.0	4.7	3.6	3.8	2.0	<b>% Change</b>	-0.3	1.0	3.0	2.2	1.8
5.5	4.4	3.8	3.3	2.7	2.6	2.9	<b>Unemployment Rate</b>	4.3	4.4	4.0	3.8	3.6
4.1	6.4	8.4	8.1	5.6	13.0	4.4	<b>Personal Income Growth</b>	3.7	5.6	6.9	6.2	6.2
422.3	428.4	437.1	445.9	453.4	460.3	464.0	<b>Population (000)</b>	468.3	476.5	486.8	497.6	507.1
1,608	1,412	1,785	2,098	2,348	2,013	1,717	<b>Single-Family Permits</b>	1,715	1,819	1,885	1,833	1,860
322	75	176	964	688	492	866	<b>Multifamily Permits</b>	755	619	765	765	774
219.0	216.4	226.5	247.3	276.9	326.4	366.6	<b>Existing Home Price (\$Ths)</b>	400.4	413.7	426.6	436.6	453.5
2,013	2,619	2,868	5,157	4,512	3,734	7,988	<b>Mortgage Originations (\$Mil)</b>	6,477	4,198	4,225	4,646	4,696
4.0	4.3	7.0	7.1	5.9	5.3	2.1	<b>Net Migration (000)</b>	2.6	6.5	8.5	8.9	7.5
1,571	2,011	2,090	2,173	1,627	1,158	1,183	<b>Personal Bankruptcies</b>	1,323	1,283	1,204	1,202	1,169

## STRENGTHS & WEAKNESSES

### STRENGTHS

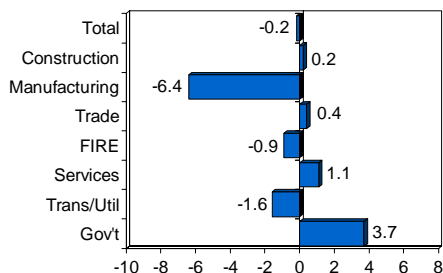
- High per capita income.
- Links to stable consumer economy are strong.
- Attractive environment.

### WEAKNESSES

- Exposure is significant to weak telecom demand.
- Very high housing costs.
- High cost of doing business.
- Strict regulatory environment.

## CURRENT EMPLOYMENT TRENDS

### July 2002 Employment Growth % Change Year Ago



## FORECAST RISKS

SHORT TERM ↓ LONG TERM ↓ RISK-ADJUSTED RETURN, '01-06 **0.01%**

### UPSIDE

- Broadband deregulation generates surge in demand for telecom equipment.
- Weakening dollar boosts Sonoma County wine exports.

### DOWNSIDE

- Extended overcapacity in domestic telecom industry stifles demand for SON tech products longer term.
- Labor shortages and unaffordable housing continue to limit capacity for economic growth.

## ANALYSIS

**Recent Performance.** Sonoma County's economy has stabilized, although there is some risk that its downturn may not be over yet. Nevertheless, employment has remained largely unchanged since the beginning of this year. Payroll employment remains below its early 2001 peak, but nearly equal to its year ago level. The unemployment rate has fallen to below 4% in recent months, a considerable achievement for this period of little economic growth. In SON where there are many self-employed, and independent contract workers at vineyards and in related tourism industries, the payroll survey may not be picking up the broad range of employment trends.

**Industrial trends.** Most of the economy is currently in a holding pattern. Service and finance-related employment have remained unchanged for over one year. A downturn continues in manufacturing, attesting to the continued weakness in SON's tech-related industries. Construction activity has also eased. But evidence of healthy household balance sheets arises from bankruptcy filings and retail trade. Personal bankruptcy filings have barely risen over the past 18 months, and they fell during the second quarter. Moreover, retail trade employment continued to rise through July.

**Wineries and vineyards.** This year's grape harvest will be bountiful. Thus, there will be some downward pressure on prices, and growers without long-term contracts may have difficulty realizing a profit this year. Wineries will benefit from lower grape prices, however, and quality should be exceptional given that the large harvest will allow growers and vineyards to be selective in what they use. With the statewide harvest also unusually large and global wine production rising, SON vintners may also face some strong price competition. Their only advantage at the moment is the good quality of this year's harvest, which may help preserve local pricing power. There is considerable downside risk for profitability in the coming years.

**Financial services.** SON's financial services industry is bucking broader Bay Area trends with stable employment and strong financial results. SON's industry is concentrated in commercial banking, rather than the more volatile brokerage and venture funding markets. Thus, it benefits not only from SON's relatively stable economy, but from current low short-term interest rates that keep its cost of funds low.

**Manufacturing.** Nearly all of the losses in SON's manufacturing employment are occurring among optical equipment makers. With a loss of approximately 2,300 jobs since its peak at the end of 2000, the industry is still suffering from the falloff in demand for advanced telecommunications-related equipment. The outlook for the industry is not good in the near term, but by 2004, demand should improve and as technology advances and markets at home and abroad expand once again.

**Congestion.** Traffic congestion still poses a constraint on the economy, but some progress is being made on the creation of a rail link between SON and Marin County ferry terminals. While hurdles remain, including a possible new sales tax and approval by the state legislature, the possibility of relieving severe highway congestion provides some upside potential.

**Risks to Sonoma County's economy should not be discounted.** Should the U.S. economy slip back into recession, it is not likely that consumer spending would be as robust as it was last year. This would put both the winemaking and tourism industries at a substantial risk. However, barring another sharp falloff in the stock market or a surprise shock to oil prices, the macro economy should continue its moderate expansion, pulling SON's consumer-related industries with it. While short-term risks abound, SON is still expected to be an above average performer over the long term.

Steven G. Cochrane  
August 2002

## EMPLOYMENT & INDUSTRY

### TOP EMPLOYERS

Agilent Technologies	5,000
Santa Rosa Junior College	3,606
Medtronic AVE	2,257
St. Joseph Health System	1,800
Sonoma State University	1,459
OCLI, JDS Uniphase System	1,350
State Farm Insurance Company	1,200
Advanced Fibre Communications	800
Pacific Bell	773
North American Mortgage Company	728
Pacific Gas & Electric Company	725
Kendall-Jackson Wine Estates	625
Sutter Medical Center	621
Kaiser Permanente	600
Hansel Dealer Group	593
Legacy Marketing Group	532
Alcatel, USA	525
Cisco Systems	510
The Press Democrat	430
Exchange Bank	426

Source: The Business Journal serving Sonoma & Marin Counties, May 2001

### Public

Federal	1,868
State	5,235
Local	20,858

2001

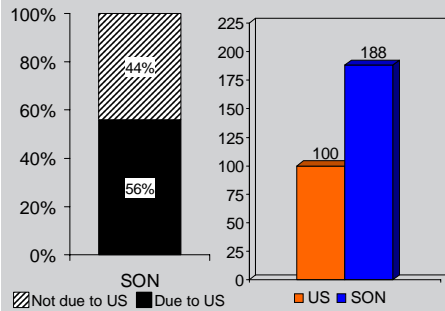
### INDUSTRIAL DIVERSITY

Most Diverse (U.S.)



### EMPLOYMENT VOLATILITY

DUE TO U.S. FLUCTUATIONS      RELATIVE TO U.S.



## MIGRATION FLOWS

Into Sonoma County      Number of Migrants      Median Income

San Francisco	4,612	40,981
Oakland	1,508	37,072
San Jose	990	59,538
Vallejo	861	29,046
Los Angeles	793	26,874
Sacramento	632	28,169
San Diego	450	25,262
Orange County	292	29,666
Riverside	284	29,764
Seattle	261	38,328
Total Immigration	19,736	30,660

### From Sonoma County

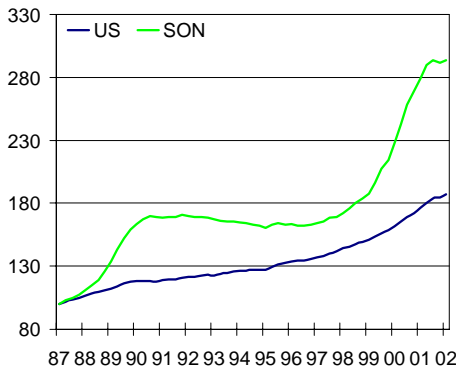
San Francisco	1,992	31,020
Sacramento	1,835	33,995
Vallejo	1,355	37,804
Oakland	1,002	29,225
Los Angeles	510	22,972
San Diego	500	18,635
San Jose	434	32,124
Riverside	390	24,960
Redding	321	26,943
Phoenix	308	28,928
Total Outmigration	20,354	28,159

## COMPARATIVE EMPLOYMENT AND INCOME

Sector	% of Total Employment			Average Annual Earnings		
	SON	CA	US	SON	CA	US
Mining	0.2%	0.2%	0.4%	\$142,762	\$73,365	\$64,853
Construction	7.1%	5.2%	5.2%	\$53,833	\$45,170	\$37,846
Manufacturing	17.0%	13.0%	13.4%	\$57,835	\$62,741	\$50,161
Durable	67.0%	63.0%	60.1%	nd	\$73,507	\$52,419
Nondurable	33.0%	37.0%	39.9%	nd	\$44,441	\$46,703
Transport/Utilities	3.4%	5.1%	5.3%	\$47,126	\$56,681	\$50,161
Wholesale Trade	3.6%	5.5%	5.3%	\$42,582	\$51,650	\$49,721
Retail Trade	19.4%	17.2%	17.8%	\$22,820	\$23,778	\$19,357
Finance, Ins., Real Estate	5.7%	5.7%	5.8%	\$30,206	\$42,347	\$42,743
Services	29.1%	31.9%	31.0%	\$30,873	\$40,095	\$33,327
Memo: Health Services	7.7%	6.5%	7.8%	nd	\$45,293	\$40,060
Government	14.7%	16.2%	15.8%	\$41,550	\$47,005	\$41,557

Source: Percent of total employment - BLS, 2001; Average annual earnings - BEA, 2000

### HOUSE PRICES



Source: OFHEO, 1987Q1 = 100, NSA

### LEADING INDUSTRIES

SIC	Industry	Employees (000)
208	Beverages	5.8
385	Ophthalmic goods	5.3
382	Measuring & controlling devices	5.0
FR	Farms	4.1
PH	Private household workers	3.8
150	Res & nonres building construction	3.4
801	Offices & clinics of medical doctors	3.3
799	Misc amusement & recreational serv.	3.2
174	Masonry, stonework & plastering	3.2
829	Schools & educational services, nec	3.1
832	Individual & family services	2.6
551	New & used car dealers	2.3
323	Products of purchased glass	2.0
616	Mortgage bankers & brokers	2.0
594	Miscellaneous shopping goods stores	2.0
	High-tech employment	16.7
	As % of total employment	8.4

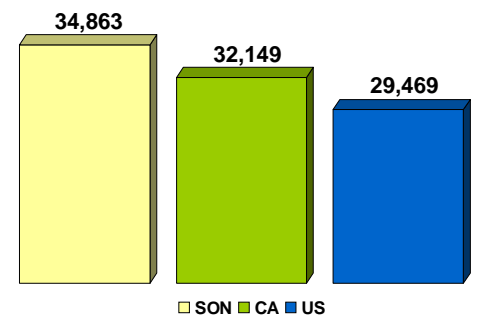
Source: BLS, Economy.com, 2001

### CREDIT QUALITY

MOODY'S RATING

COUNTY **Aa3**

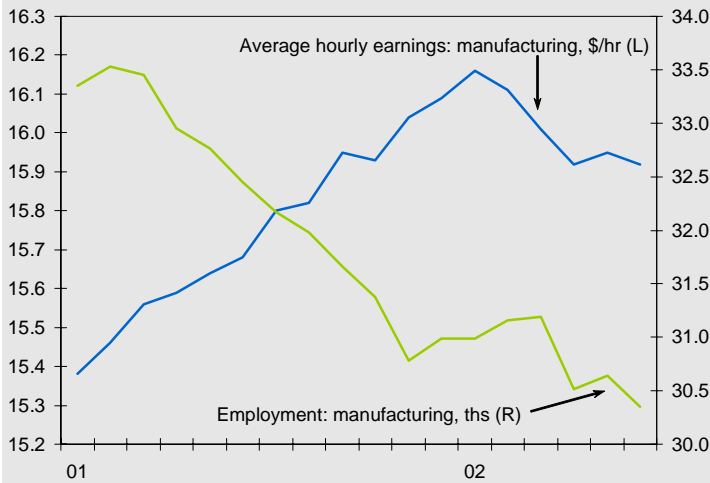
### PER CAPITA INCOME



Source: Bureau of Economic Analysis, 2000

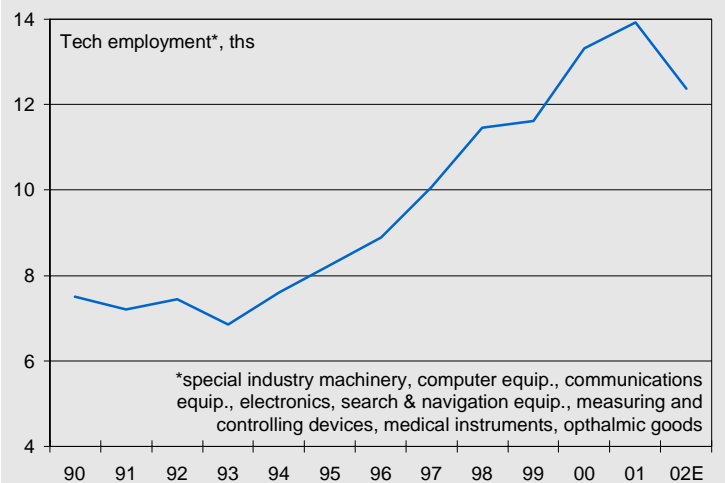
# Sonoma County

## SON's Weakness Today Is Manufacturing



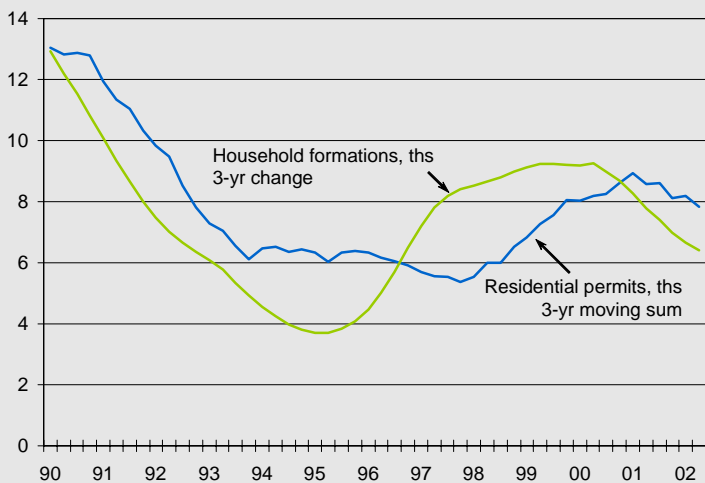
The recession last year hit SON's manufacturing economy very hard. The industry has yet to recover. Hourly earnings appear to have leveled off but manufacturing employment continues to fall. Manufacturing was a critical driver of SON's economy during the 1990s, rising from less than 14% of employment in 1990 to a high well above average of over 17% last year. The industry helped transform the economy by adding another basic driver to the existing agriculture/winery and tourism industries. Its outlook depends upon the pace of new investment by telecom companies.

## Tech Economy Takes a Beating



SON's tech economy was hurt much more deeply this year than by the recession of the early 1990's. Tech-based manufacturing became increasingly focused over the course of the 1990s upon optical and electronic equipment used by the telecommunications industry. Unfortunately, telecom is undergoing the most severe retrenchment of any industry nationwide. Looking forward, however, advancing technology and shifting markets towards computers, software and others will support the industry. Increased diligence by venture capital firms will slow the pace of local investment in tech startups in the years to come.

## Fundamental Balance of Housing Market Is Shifting



Slower population growth beginning in 2001 is beginning to change the underlying supply/demand balance for housing in SON. Household formations have slowed considerably and now trail behind the pace of construction activity. Thus, house-price appreciation has slowed from over 20% to high single digits. There is some risk to the housing market should the imbalance worsen. It must be remembered that when construction outpaced demand in the first half of the 1990s, housing prices fell in three out of four years ending in 1996.

## Retail Remains Very Strong



Continued gains in retail trade employment are indicative of strong household balance sheets and a stable tourism industry. Personal bankruptcy filings are no longer rising in SON and tourist arrivals did not plummet following 9/11. Retail trade has slowed somewhat, however. In the third quarter of last year (latest data) SON's taxable sales were down 3% over the year, about equal to the statewide average. This is quite moderate, however, considering the double-digit declines seen in San Jose and San Francisco at the same time.

# Sonoma County Local Economic Report



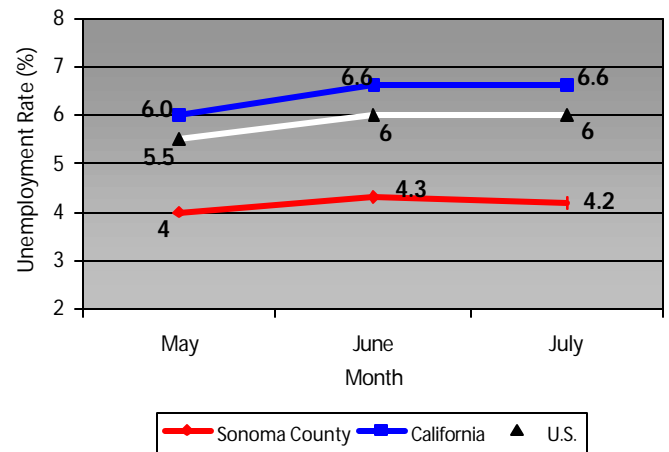
Issue 4, Fall 2002

## Employment Situation

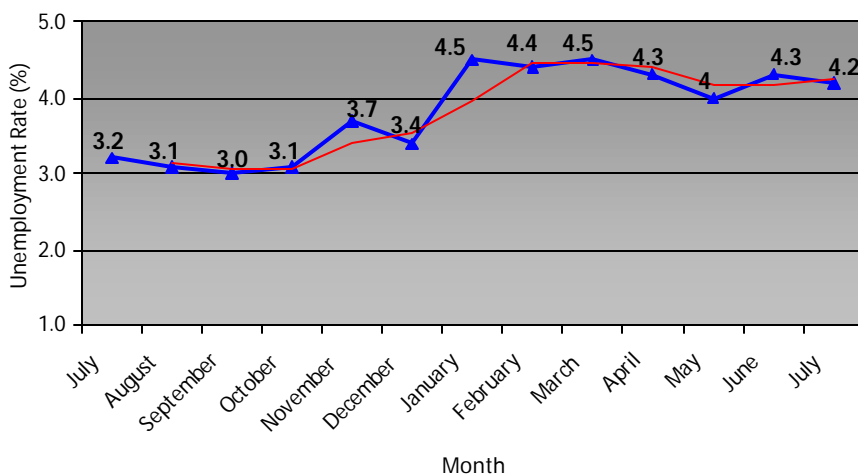
Aggregate unemployment in Sonoma County, as well as the State of California and the U.S., remained virtually unchanged in July 2002, compared to the previous month. In fact, after the number of unemployed people in Sonoma County jumped to more than 11,000 in January, the first time the total surpassed 10,000 since February 1998, the unemployment rate has showed only modest and temporary changes on a monthly basis. As the adjacent graph indicates, the local unemployment rate in July was 4.2%.

Outside of the continued losses in technology related manufacturing sectors, employment markets have appeared to stabilize in Sonoma County. However, as summer hiring in seasonal industries, such as construction, retail, and farm production, draws to a conclusion, stagnant employment growth will pose a larger threat to Sonoma County's employment situation: Total non-farm employment in Sonoma County has decreased 2.2% since May 2002.

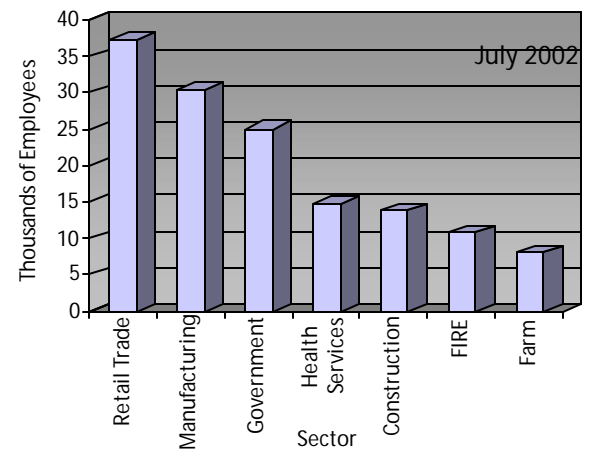
Unemployment Rates:  
Sonoma County, California, U.S.



Sonoma County Unemployment Rates



Total Employment by Primary Industry  
in Sonoma County



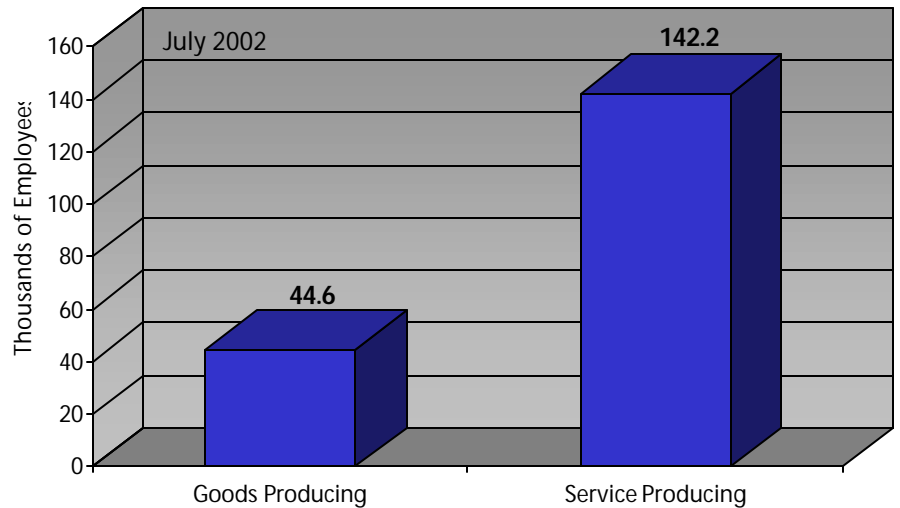
This report was authored by Brian J. Kelsey, Research Director at the EDB, and Dr. Steven G. Cochrane, Director of Regional Services at Economy.com. The data was gathered from widely accepted sources, however, the EDB does not guarantee its complete accuracy.

## Job Market Trends

After short-lived increases in May, job growth in most local industries has been non-existent since the publication of the last report in this series. Total employment in Sonoma County increased from 254,100 to 255,200 between April and May, managing only a slim growth rate of 0.4%. With almost identical gains in the overall labor force, the net effect on Sonoma County's labor market has been very minimal.

Employment in goods producing industries has increased 2.8% since April, an encouraging result of, among other factors, stabilization in the local manufacturing sector. This marginal growth has kept wages relatively constant since April.

## Employment by Basic Industry Type in Sonoma County

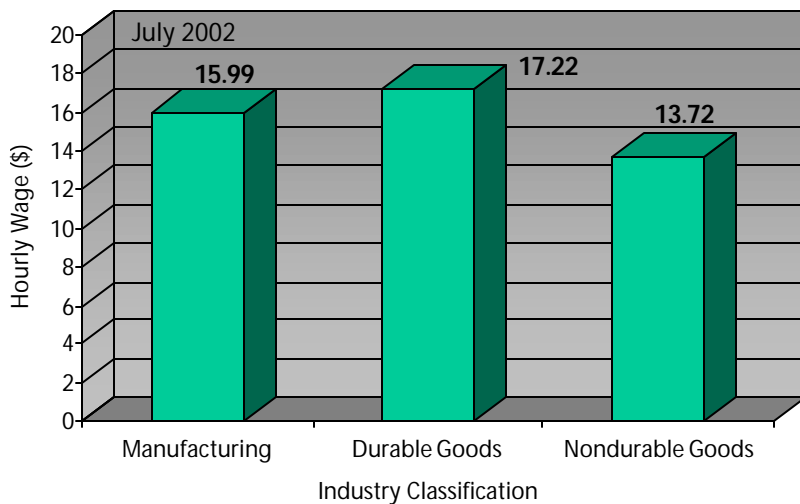


## Taxable Sales

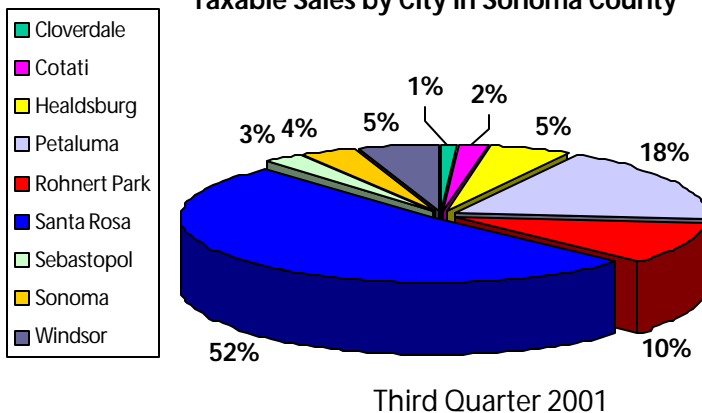
After a sizeable increase of 10.6% in Second Quarter 2001, total taxable sales in Sonoma County remained virtually unchanged in the Third Quarter, growing at a pace of only 0.1% and totaling \$1.73 billion.

With heavy reliance on consumer spending in both the Tourism and Wine industries, two of Sonoma County's primary economic growth engines, the importance of sustained growth in taxable sales cannot be overstated. Data releases for Fourth Quarter 2001 and the early part of 2002 will most likely show the continued effects of the economic downturn. However, employment growth in the retail sector during 2002, as noted in other parts of this report, is an encouraging sign for continued growth in local taxable sales.

## Average Hourly Wage by Industry Classification in Sonoma County



## Taxable Sales by City in Sonoma County



## Taxable Sales by City in Sonoma County for Third Quarter 2001

(Taxable Transactions in Thousands of Dollars)

	Retail Stores	Total All Outlets
Cloverdale	8,369	12,036
Cotati	17,743	25,437
Healdsburg	48,407	66,341
Petaluma	172,385	237,171
Rohnert Park	109,398	135,825
Santa Rosa	560,341	664,944
Sebastopol	28,543	36,110
Sonoma	44,023	49,490
Windsor	39,612	66,694
<b>Total</b>	<b>1,189,485</b>	<b>1,730,867</b>

## Construction & Real Estate

New privately-owned residential building permits in Sonoma County, an important indicator for measuring economic growth, totaled 123 buildings, 207 units, and \$28.9 million in construction costs for July 2002. While consistent with the historical pattern of summer construction, the total number of new permits in July decreased relatively sharply (23.6%) from the previous month. In fact, when compared to 2001, new permits are down for the year by almost 14%. As of the end of July, new building permits in Sonoma County in 2002 have totaled 908 buildings, 1,379 units, and \$180.6 in construction costs.

According to estimates performed by Keegan & Coppin Company, Inc., vacancy rates for Second Quarter 2002 in Sonoma County showed slight improvements from the previous quarter. The total office base was 10.38 million sq. ft., with a vacancy rate of 13.3%. More than 1.5 million sq. ft. of new buildings was in the planning stage. The total industrial base in Sonoma County, by comparison, was 23.14 million sq. ft., with a vacancy rate of 9.9%. Almost 526,000 sq. ft. of new space was in the planning stage.

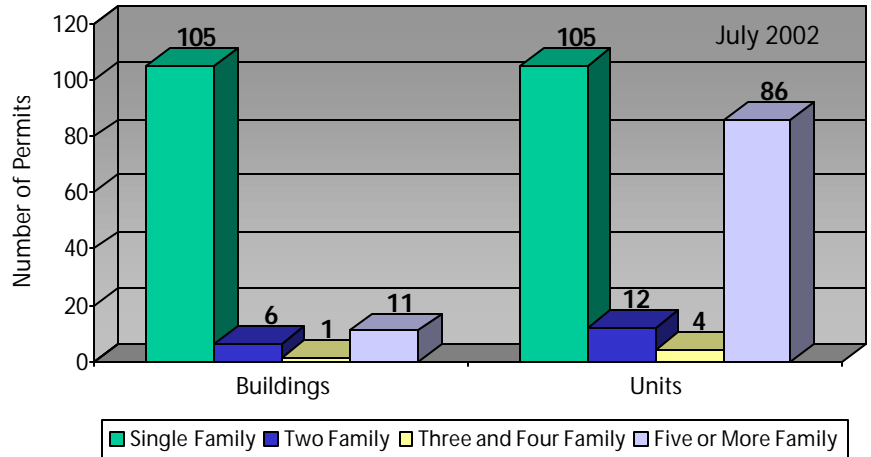
The North Corridor\* registered the highest degree of change in office vacancy rates for Second Quarter 2002, increasing from 13.4% to 18.1%. Petaluma, Rohnert Park, and Santa Rosa showed slight decreases.

The North Corridor also displayed the most change in industrial vacancy estimates, increasing from 12.7% in the First Quarter to 22.8% in the Second Quarter. Rohnert Park registered no change, and industrial vacancy rates in Petaluma and Santa Rosa decreased 4.2 and 4.1 percentage points, respectively.

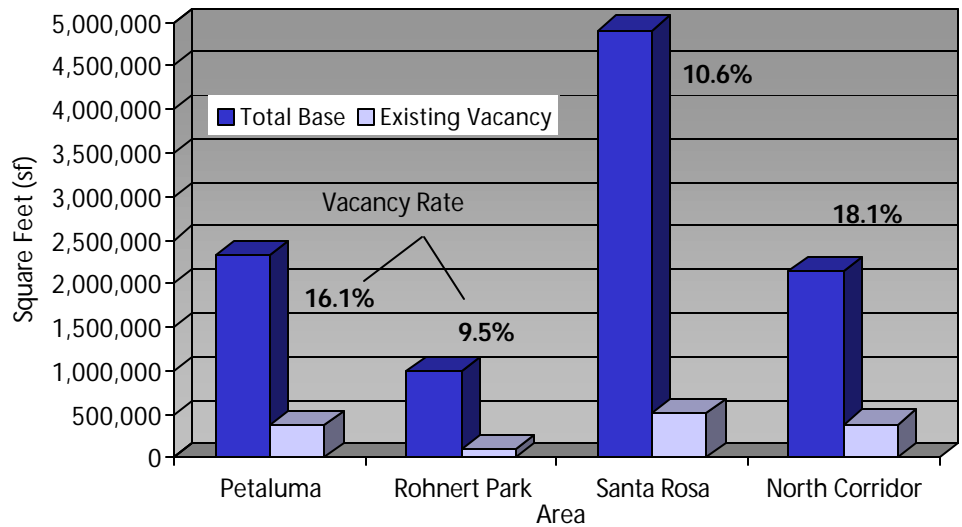
Despite the short-term improvement, total vacancy rates for Sonoma County are still roughly twice as high as this time last year, reflecting the continued downturn in business activity.

\*North Corridor includes Windsor, Healdsburg, & Airport Blvd.

### New Privately-Owned Residential Building Permits in Sonoma County



### Sonoma County Office Vacancy Estimates Second Quarter 2002



### Sonoma County Industrial Vacancy Estimates Second Quarter 2002

