



Sonoma County Economic Development Board Business Confidence Report Winter 2003

Sonoma County business confidence decreased during this Winter, but not as much as predicted by local business executives in the Fall of 2002. While more than half of respondents rated the overall status of their business between good to excellent, the percentage was lower than the previous quarter. Retail business volumes rose in general, with confidence in the industry increasing eight percent. Business executives continue to be cautious with their overall capital investments, with a higher percentage choosing moderation instead of aggression. The majority of respondents see the level of investments, exports, wage and salary rates, net profits, and number of employees as remaining comparable to previous quarters, but the number of respondents predicting decreases in these categories has increased. Business executives are inconsistent in their views toward the national employment rate, stock market activity, and the interest rate, but most viewed them as remaining the same. The EDB's *Winter 2003 Report* includes the following highlights:

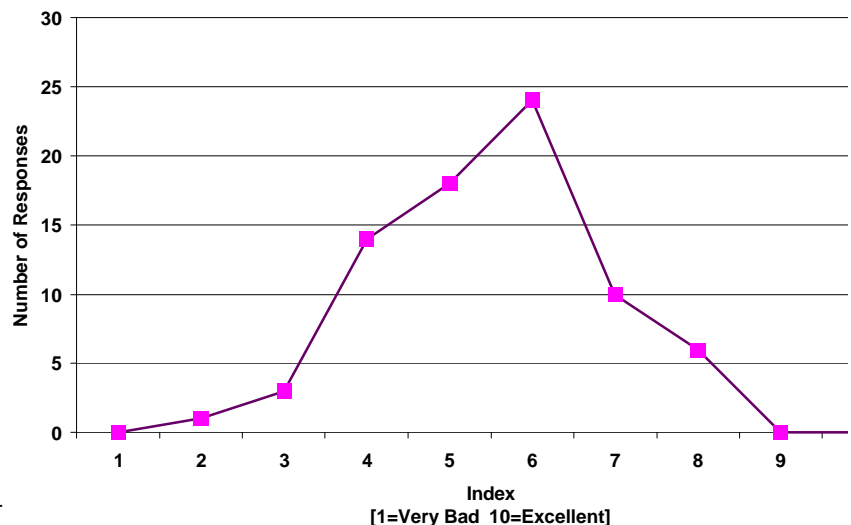
- ◆ The business confidence index fell 2.25% from 5.64 last fall to 5.51 this winter.
- ◆ Respondents predict that business confidence will increase to 5.53 in the next 4 months.
- ◆ 77.24% of business executives reported good to excellent performance in their business, down from 81% earlier last year.
- ◆ Retail business volume increased for only 35% of responding businesses, compared to 39% last fall.
- ◆ The tourism sector experienced the largest decline in business confidence.
- ◆ 63% of business executives report that they will be cautious with capital investments; 31% will be moderate.

Seven local sectors were surveyed, including agriculture, manufacturing, professional/financial services, retail/distribution, real estate/construction, technology, and tourism. A category for "other" was also listed.

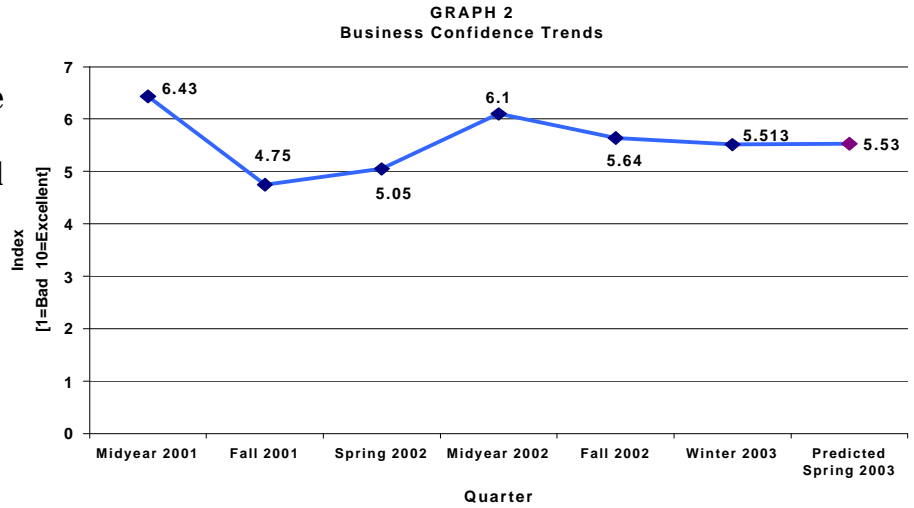
Business Confidence Decreases, But Less Than Expected

The business confidence index ranges from 1 (Very Bad) to 10 (Excellent). Survey respondents choose a position on the scale based on their perception of the current economic conditions, and their responses are then averaged. The formula used is: $\frac{\sum_{i=1}^{10} ib_i}{\sum b}$ where i =index # and b =number of respondents per index number. Using this equation, current perceptions of business confidence in Sonoma County are averaged at 5.51 (See Graph 1). While business confidence has decreased, participants in the Fall 2002 report predicted that confidence would decrease to 5.47 in the four months following the survey.

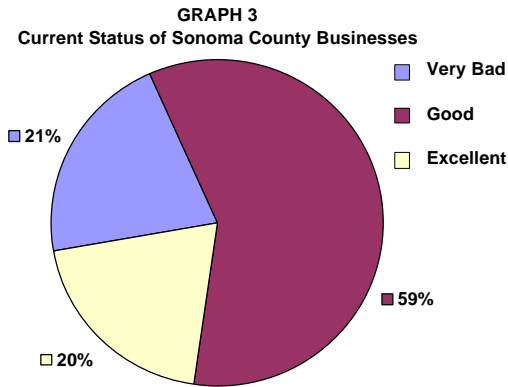
GRAPH 1
Perceptions of Current Economic Conditions in Sonoma County



The better-than-expected confidence level may be due to the improved stock market performance during the 4th quarter of 2002; the S&P 500 gained 8.4%, while the DOW gained 10.4%.¹ While executives are generally wary of the muted rebound taking place, they expect business confidence for Sonoma County to increase slightly, however, to 5.53 during the next four months. The trends in business confidence can be seen in Graph 2.



Business Rating in Sonoma County



The percentage of business executives who rated their own company's performance as good to excellent decreased in the last quarter. 59% of survey respondents rated the status of their business as good, up from 53% last Fall, but only 20% of businesses were rated as excellent, down from 28% earlier last year (Graph 3). 21% of businesses were rated at the low end of the performance index.

Business Confidence by Sector in Sonoma County

Respondents from five of the seven surveyed sectors in Sonoma County indicated higher business confidence in their respective sectors in comparison to last Fall (Table 1). Tourism experienced the largest percentage decline, followed by technology. The percentage decrease in confidence, and the 3.5 average confidence level in technology corresponds, to the large hits in stock market prices experienced by local tech companies (Graph 4).² Retail and distribution have an above average confidence in the industry, which may be related to the reported 1.2% increase in national retail sales.³ Manufacturing experienced the second largest positive percentage change in confidence, even with production decreasing nationally by 0.2%.⁴

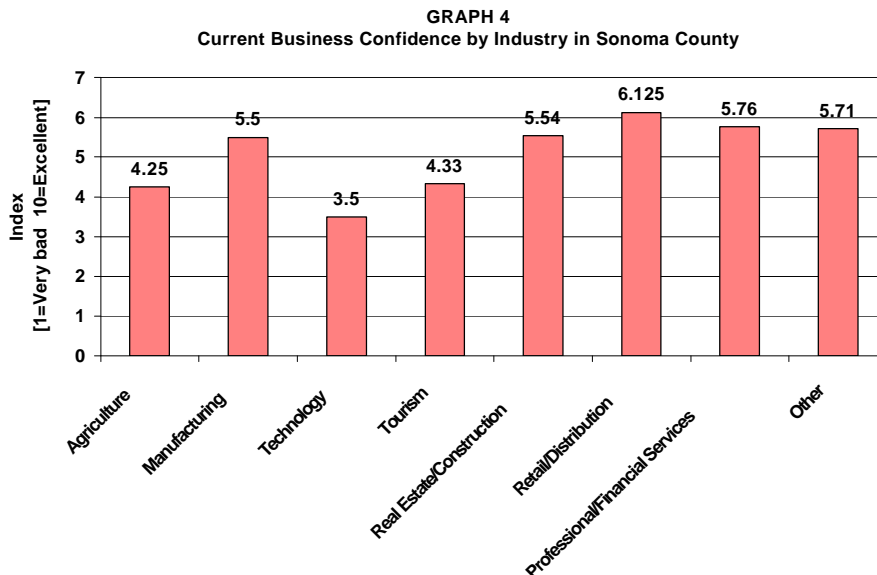


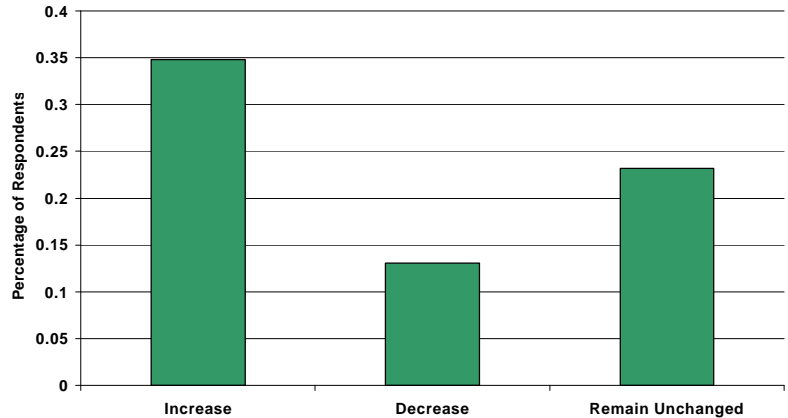
Table 1

Percent Change by Industry	
Agriculture	15.80%
Manufacturing	15.10%
Professional/Financial	3.78%
Retail/Distribution	8.02%
Real Estate/Construction	-10.70%
Technology	-22.20%
Tourism	-38.10%
Other	0.71%

More Businesses Experience Unchanged Retail Volumes

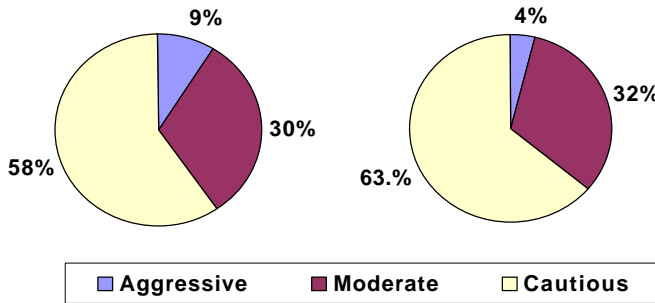
Thirty-four percent of executives reported that they experienced an increase in retail business volume for the most recent quarter, shrinking from the thirty nine percent increase seen in Fall 2002 (see Graph 5). Seventeen percent experienced a decrease and 23% percent had no change, compared to the 21% and 11%, respectively, reported last quarter. These figures conform to the reduced sales during the end of 2002.

GRAPH 5
Retail Business Volume for Most Recent Quarter



Sonoma County Businesses Even More Cautious in Overall Capital Expenditures

GRAPH 6
Attitudes Toward Overall Capital Investment
Fall 2002 Winter 2003

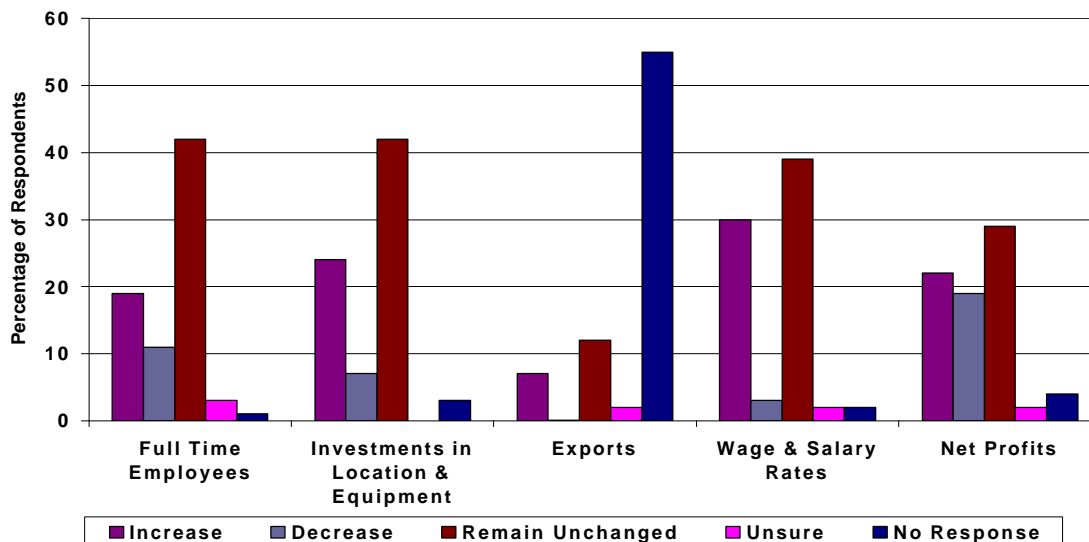


Sonoma County business executives are even more cautious in their investment plans for this Winter. 63% of the survey respondents are being cautious about capital investments, which is a 4% increase from earlier this year. 32% of business executives felt moderately about capital expenditures, compared to 30% earlier this year. Additionally, only 4% of business executives have an aggressive attitude toward overall spending (Graph 6).

Most Aspects of Business Expected to Remain the Same

Business executives do not foresee increases in production capacity or spending, preferring to keep their business operations static and to maintain the trend of the last three quarters. Additionally, the number of respondents calculating a decrease in full time employees, wage and salary rates, and net profits has grown from the past quarter (Graph 7). Exports is the only category which had no negative expectations, paralleling the idea that international trade will be a stabilizing factor for the local economy, as presented by *Economy.com* in the Economic Development Board's *2003 Winter Local Economic Report*.

GRAPH 7
Response to Business In Next Six Months



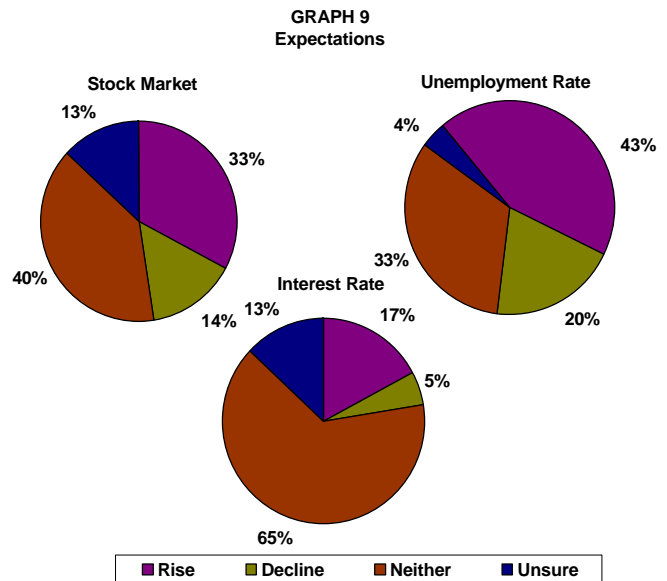
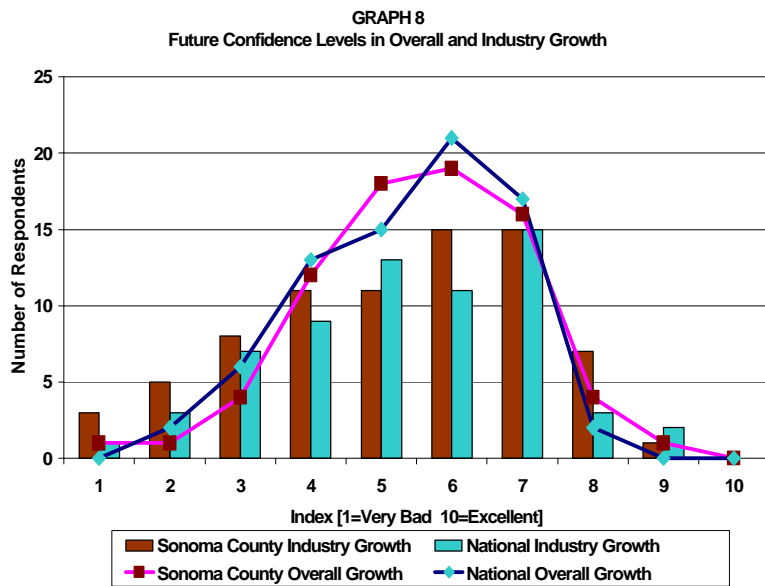
The Big Picture

Sonoma County and the National Economy

The trends in business confidence in Sonoma County are similar to the trends witnessed in national business and consumer confidence. According to the Conference Board's Measure of Consumer Confidence, figures decreased more than 4 points in December, with expectations for a further 10 point decrease.⁵ National Business Confidence increased slightly, however, from 5.4 to 5.8 for fourth quarter, 2002.⁶ The Board stresses caution about the increase, holding that national economy recovery is not a definite.

Sonoma County Businesses Mixed About National Economy

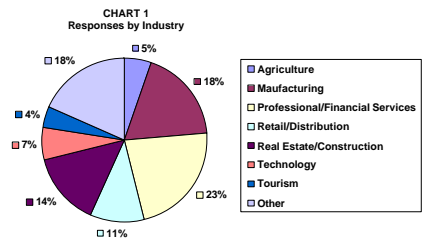
Sonoma County business executives changed their perspective about national overall growth from last Fall, with confidence levels increasing beyond confidence levels for Sonoma County overall growth (Graph 8). Moreover, the confidence about industry growth in Sonoma County increased to match confidence levels in national industry growth, which is also a change from the last quarter. Most respondents expected the interest rate to neither rise nor decline, the unemployment rate to rise and the stock market to remain unchanged to rise (Graph 9).



Notes

1. Lanthrop Investment Management Corporation. *Fourth Quarter 2002 Review*.
2. Appel, Ted. *The Press Democrat*. "Analysts See Bull Market '03". Jan 1, 2003.
3. Aversa, Jeanine. *The Press Democrat*. "Manufacturin Stumbles in December". Jan 17, 2003.
4. Aversa, Jeanine. *Mercury News*. "Retail Sales Up 1.2% in December". Jan 14, 2003.
5. *The Conference Board*. "Consumer Confidence Declines More Than 4 Points in December". Dec 31, 2002
6. *CNN Money*. "Survey: CEO Confidence Grows". Jan 14, 2003.

Surveys were mailed to 325 business executives in 20 sectors on December 20, 2002, with a due date of January 13, 2003. Responses were received from 76 businesses, for a response rate of almost 25%. The Sonoma County Business Confidence Index is the mean of all respondents' projections on a scale of 1-10 of Sonoma County's current and future potential for growth. Due to changes in methodology, some percentages differ from those cited in earlier Sonoma County Business Confidence Reports. National Business Confidence figures are from The Conference Board's Measure of Business Confidence created by businesses' expectations for the national economy in the next six months. Values have been converted from a scale of 100 to a scale of 10 in order to help create consistency between national and Sonoma County Business Confidence values. Responses by Industry can be seen in Chart 1



The Sonoma County Economic Development Board has conducted the Business Confidence survey since December 1999 and produces a quarterly report. This report reflects the information gathered during a survey conducted in December 2002. Individual surveys are confidential. This report was prepared by Nikhila Raj.

For more information, please contact:
Ben Stone, Executive Director
Sonoma County Economic Development Board
 401 College Ave ♦ Santa Rosa, CA 95401 ♦ (707) 565-7170
 edb@sonoma-county.org