

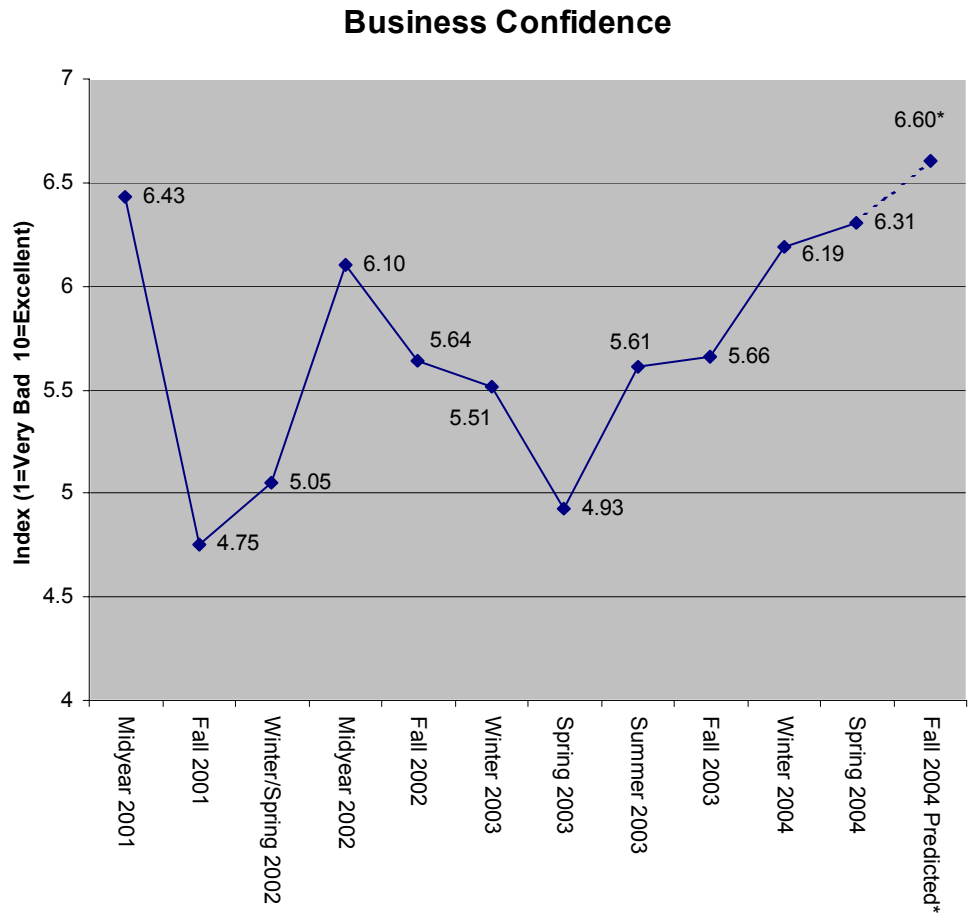
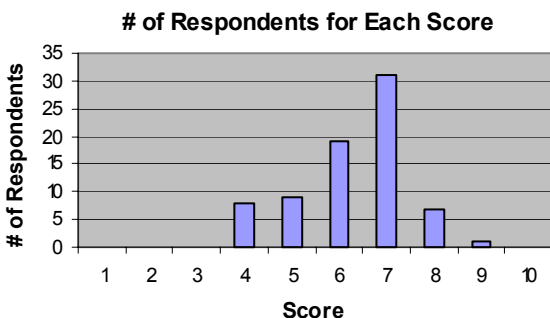
# Sonoma County Economic Development Board Business Confidence Report Spring 2004

Conducted during the month of March, the Sonoma County Economic Development Board presents the *Spring 2004 Business Confidence Report*. Key highlights from the report include:

- The *Business Confidence Index* increased by .12 (2%) to 6.31 (10 point scale). Executives are predicting further improvement this fall.
- The industries with the biggest off-shoring potential are technology, manufacturing, and the professional and financial services.
- More than two-thirds of respondents feel that there is no potential for off-shoring within their companies.
- The employment outlook for the next six months is favorable.
- Industry confidence is up from last quarter by 7% to 6.13 (10 point scale) with the biggest gains in agriculture, and professional/financial services.
- Local executives have a strong confidence for national economic growth
- The *Sonoma County Purchasing Trends Index* has shown significant improvement since last quarter.

## *Business Confidence Increasing*

Business Confidence continues to rise for the fourth consecutive quarter hitting 6.31 on a 10 point scale (1=very bad; 10=excellent). Overall, company executives report that the current economic conditions in Sonoma County are strong. 78% of executives surveyed report a positive confidence (a score of 6 or higher), with the most reported score being a 7 (refer to the figure below). Executives have an even better outlook for the future. Business Confidence is predicted to reach an all-time-high over the next six months, showing that business executives feel confident in the continued growth of Sonoma County.



## Off-Shoring Potential

A major trend nationwide which has both economic and political implications is off-shoring. Sonoma County has recently experienced off-shoring, which is the practice of moving jobs to other areas of the world where the same work can be done at a cheaper overall cost.<sup>1</sup>

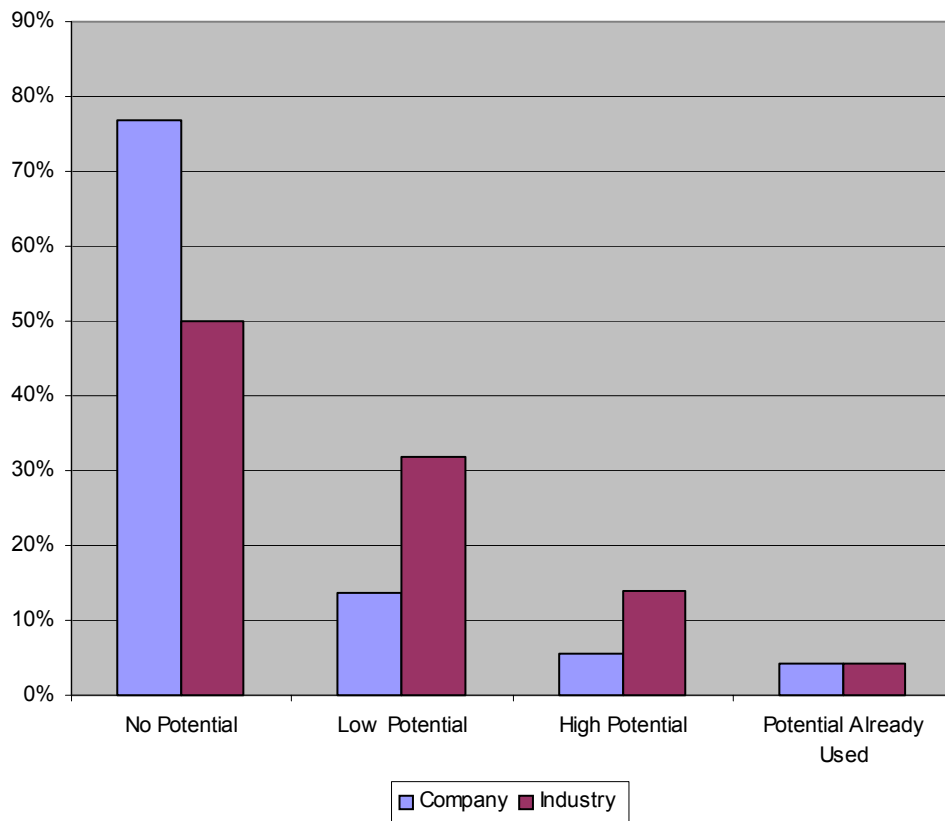
Despite the recent increase in the number and types of jobs that can be off-shored, a vast majority of business executives in Sonoma County feel that their own company has no potential to off-shore any of its products or services (77%). In comparison, local executives perceive that off-shoring does have potential within their particular industries (50%). This difference may come from the perceived notion that many jobs in Sonoma County aren't as susceptible to off-shoring as similar jobs throughout the country. Only 4% of executives stated that they have already started to off-shore, and only 5% say that their company has a high potential to off-shore.

Out of all the industries surveyed, companies in the technology sector believe that their companies have the highest potential to send jobs overseas with an average rating of 3 (1=no potential, 2=low potential, 3=high potential, 4=potential already used). The manufacturing sector came in second with a rating of 1.8, and the professional and financial services were third with an average rating of 1.5.

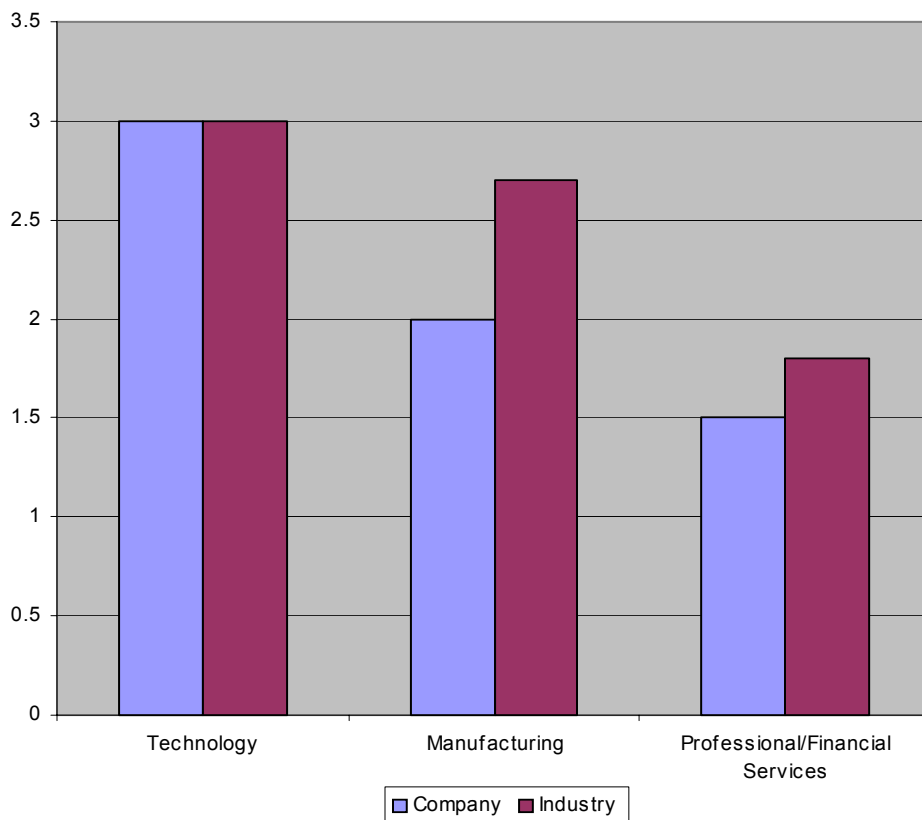
Manufacturing executives in Sonoma County perceive that their companies are more protected from off-shoring than jobs in the manufacturing sector in general. While executives rated the off-shore potential to be 1.8 for their companies, they rated the potential within the manufacturing industry to be at 2.7.

More than two-thirds of respondents (69%) believe that off-shoring is a long term economic trend, while 20% believe that it is a mid-term and 11% believe that it is a short-term trend.

Potential for Off Shoring



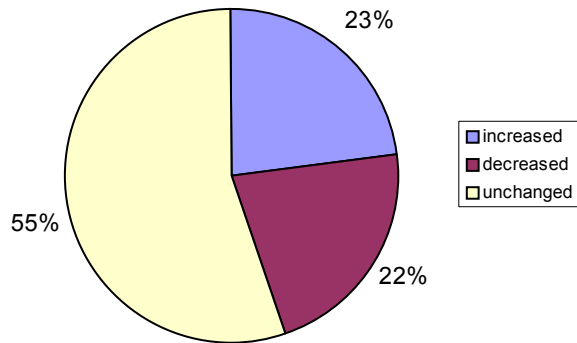
Off Shoring Potential by Industry



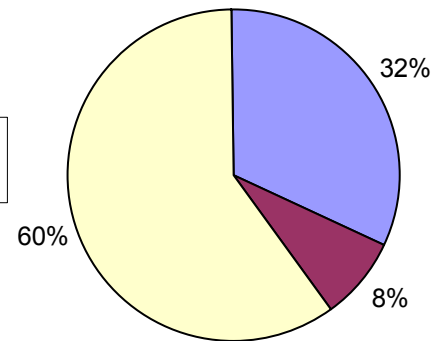
## Sonoma County Employment

With the discussion of offshoring also come issues of employment and the rise or decline of jobs. Respondents reported that employment over the last quarter has been steady and that the employment outlook over the next six months is good. Almost one-third of executives expect to increase full time employment in the next six months while only 8% expect employment to decrease.

**Employment this Quarter**



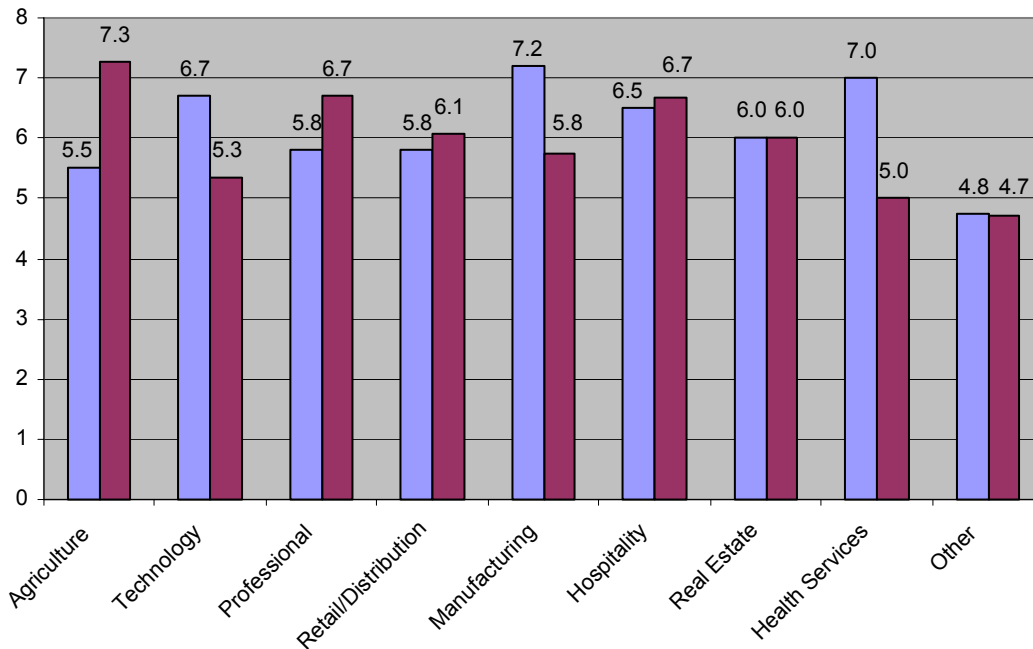
**Employment - Six Month Outlook**



## Industry Confidence in Sonoma County

Overall, the confidence that executives had for businesses within their industry rated 6.13 out of 10. This figure is up from last quarter by 7%, which had an industry confidence of 5.73. Agriculture and the professional/financial services showed the biggest gains in industry confidence with increases of 1.8 and .9 respectively. In addition, the retail, hospitality, and real estate and construction sectors each remained strong this quarter with industry confidence's above 6.0.

**Industry Confidence**



**Table 1**

<i>Index Change by Industry</i>	
Agriculture	+1.8
Technology	-1.4
Professional/Financial	+0.9
Retail/Distribution	+0.2
Manufacturing	-1.4
Real Estate/Construction	0.0
Other	-0.1

## Six Month Outlook: National and Local Economy

Business respondents have a strong confidence in the growth of the national economy, which is comparable to the strong confidence they have for Sonoma County growth. Local business executives rate national economic growth and national industry growth at 6.5 out of a ten point scale. This figure is similar to the national business confidence as reported by The Conference Board. Business executives throughout the nation rated their overall confidence for the next six months at 6.6 and their industry confidence for the next six months at 6.3.<sup>2</sup>

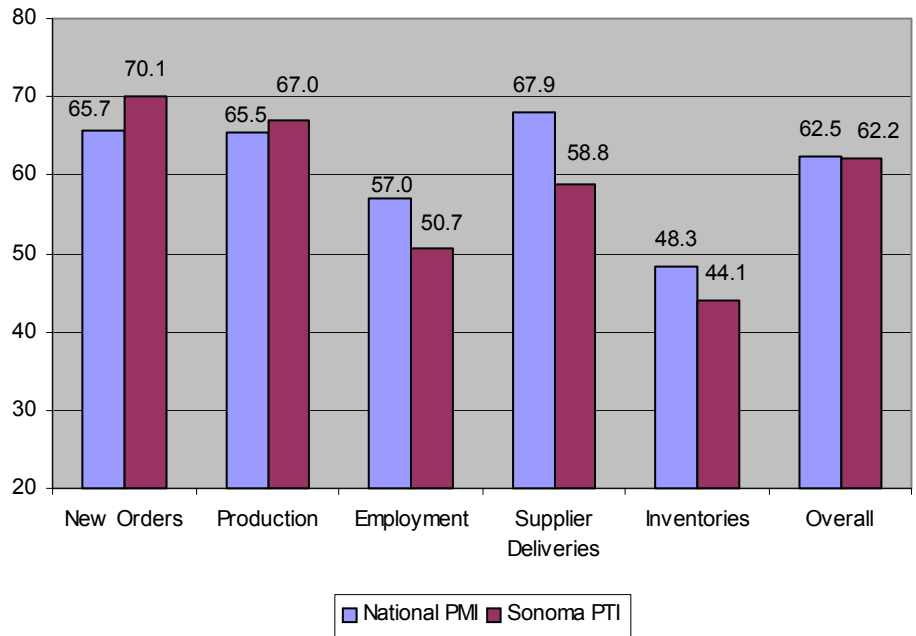
	Nation	Sonoma County
Whole Economy	6.54	6.60
Industry	6.48	6.12

# Sonoma County Purchasing Trends Index

The national Purchasing Manager's Index remains steady at 62.5 in its most recent survey.<sup>3</sup> Sonoma County's Purchasing Trends Index rates similarly at 62.2. These numbers suggest that both the manufacturing (a score above 50) and the economy overall are expanding (a score above 42.9).

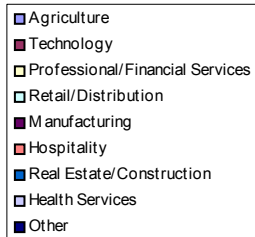
Compared to last quarter, the Sonoma County Purchasing Trends Index has improved significantly, by almost 13 points and has caught up to the national index. Every indicator has shown significant improvement in Sonoma County with both New Orders and Production having surpassed the corresponding National Index.

**National PMI vs. Local PTI**

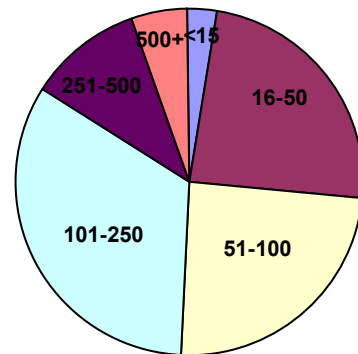


## Sample Characteristics

**Companies Surveyed by Industry**



**Number of Employees for Companies Surveyed**



**Notes**

1. Deloitte Research. "Making the off-shore call: The road map for communications operators." 2004.
2. The Conference Board. "Chief Executives' Confidence Dips." January 13, 2004.
3. The Institute of Supply Management. "March Manufacturing ISM Report on Business." April 2004.

Surveys were mailed to 329 business executives in the beginning of March with a due date of April 1, 2004. Responses were received from 76 businesses, for a response rate of about 23%. The Sonoma County Business Confidence Index is the mean of all respondents' perceptions on a scale of 1-10 of Sonoma County's current economic situation. Due to adjustments in methodology, some percentages differ from those cited in earlier Sonoma County Business Confidence Reports. The national PMI comes from the Institute for Supply Management and the figure is based on the month of March only. The PMI uses information about companies' new orders, production, employment, supply deliveries, and inventories, and Sonoma County's index tries to mirror these indicators when computing its index. However, due to differences in the methodology of compiling data, the two indices may not be directly comparable.

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 March 2004. Individual surveys are confidential. This report was prepared by Adam Grosch.

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