Sonoma County Economic Development Board

BUSINESS BAROMETER

May 2006

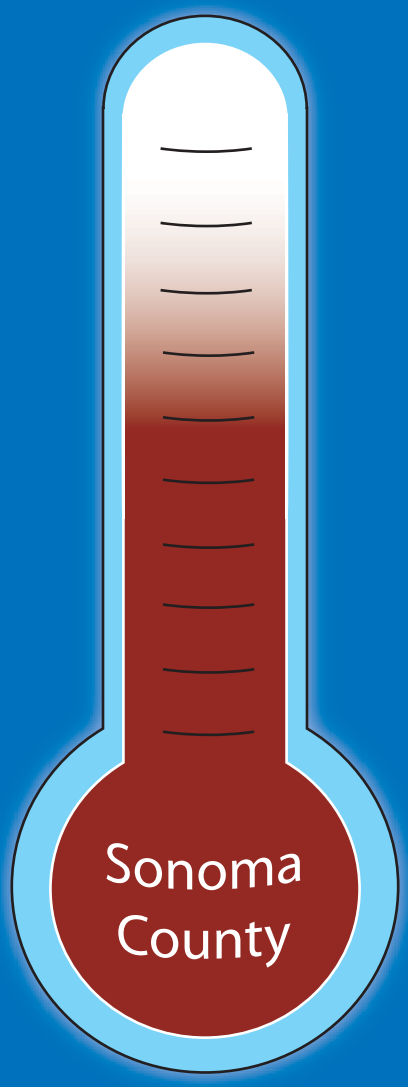
In This Month's Report:

- Newly revised employment data shows that Sonoma County added 3,700 jobs in the 12-month period ending March 2006. The seasonally adjusted unemployment rate in Sonoma County fell to 3.9% in March of 2006. This is the first time in more than five years that the unemployment rate has fallen below 4.0%. (All employment data is seasonally adjusted by the EDB).

- Home prices in February 2006 were nearly 4% lower than the 2005 median.

- Energy prices have resumed their rise, with gasoline reaching $3.10 per gallon in the Bay Area. Inflation rose in February 2006 to 2.9% per year.

- A special focus this month on the County's technology sector.



Produced in partnership with the Workforce Investment Board

With Acknowledgment and Appreciation to the Underwriters of the Economic Development Board Foundation Research Initiatives Program

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Anderson Zeigler Disharoon Gallagher & Gray — Attorneys at Law, A Professional Corporation

REMLA — Redwood Empire Mortgage Lenders Association

Ryan Mortgage Company

North Bay Business Journal — North San Francisco Bay Area: Sonoma, Napa, and Marin Counties

Summit State Bank

Bank of Marin — Member FDIC

Christopherson Homes Incorporated

Luther Burbank Savings

Midstate Construction — Quality Since 1935

NorBAR — North Bay Association of Realtors

Frank Howard Allen Realtors

CMPR — Carle, Mackie, Power & Ross LLP Attorneys

North Coast Bank

Bank of America

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Keegan & Coppin Real Estate

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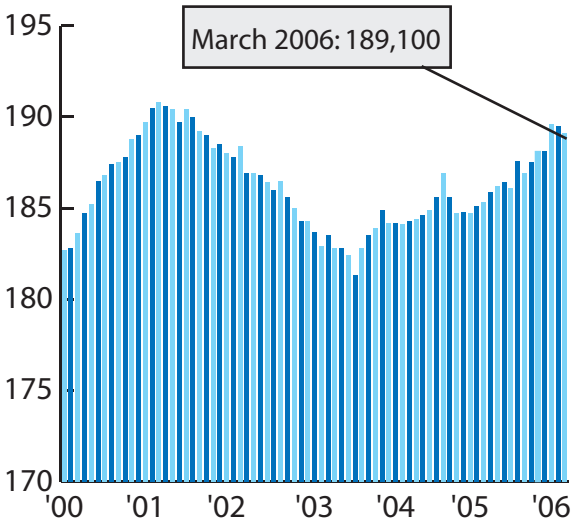
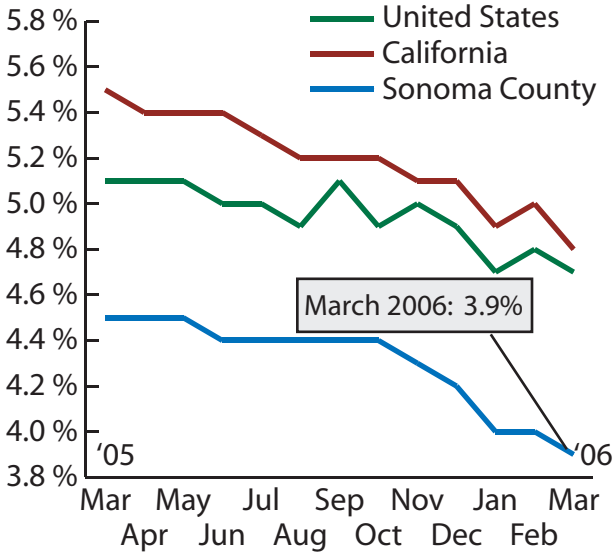
Employment (Thousands)



3,700 Change in jobs since March 2005

1,900 Change in jobs since March 2001

Unemployment Rate



0.6% Change in unemployment rate since March 2005

Sources: Bureau of Labor Statistics (http://www.bls.gov)
Data is seasonally adjusted by the EDB

Recently revised employment statistics have shown that there has been more job creation in Sonoma County than previously believed. There were 3,700 more Sonoma County jobs in March 2006 than in March 2005. Over the past year the Sonoma County unemployment rate has been well below the U.S. and California unemployment rates. The unemployment rate declined from 4.5% in March of 2005 to 3.9% in March of 2006, on a seasonally adjusted basis.

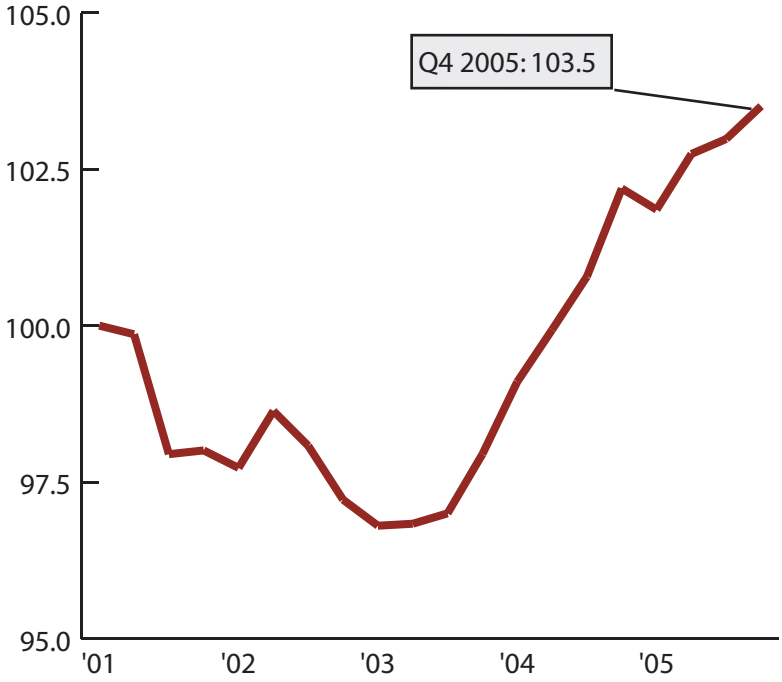
While employment has yet to return to its 2001 peak, Sonoma County has experienced positive job creation since August of 2003.

Business Cycle Index

The Sonoma County Business Cycle rose again in the 4th Quarter of 2005. Currently, the Index stands at 103.5 - 3.5% above 1st Quarter 2001. The index "bottoms out" in the first half of 2003, and has been steadily rising since, a representation of the improving economic conditions experienced in the County.

The Sonoma County Business Cycle Index attempts to show the current trends of several key economic statistics in one graph. The Index combines four statistics in varying proportions based on their volatility - those statistics, such as employment, which are relatively stable are considered more important than those statistics, such as business confidence, which tend to vary considerably. Currently the index is weighted in the following approximate proportions: Employment - 45%, Wages - 34%, Taxable Sales - 17%, Business Confidence - 3%. The index is set so that 1st Quarter 2001 = 100.

The index provides a visual representation of the overall business cycle in Sonoma County. Following the decline of the technology sector, the index shows the economic contraction experienced in Sonoma County after 2001.



1.3% Change in index since 4th Quarter 2004

3.5% Change in index since 1st Quarter 2001

Source: Sonoma County Economic Development Board (http://www.sonoma-county.org/edb)

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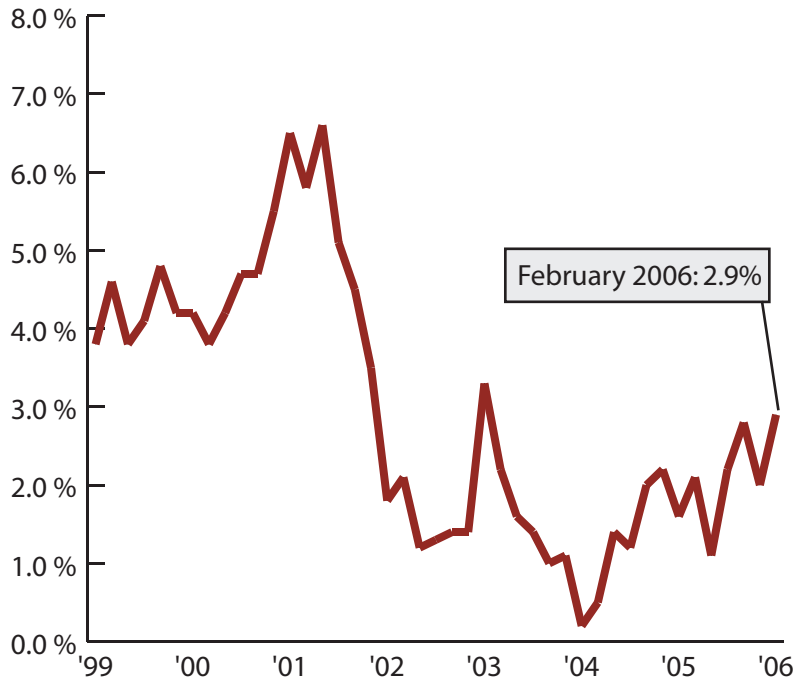
Inflation

Rapidly increasing gasoline and natural gas prices have contributed to significant concern over the possibility of increased inflation. While the rate of inflation has remained relatively low at 2.8% per year, gasoline has recently reached a peak price in the Bay Area of $3.10 per gallon. Overall, gasoline prices are 61 cents higher than they were in April 2005. Similarly, natural gas and electricity prices have begun to rise.

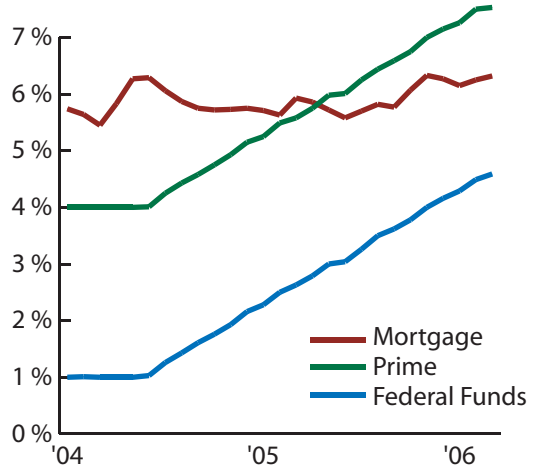
12-Month Change in Prices, *San Francisco/Bay Area*



1.3% Increase in rate of inflation since February 2005

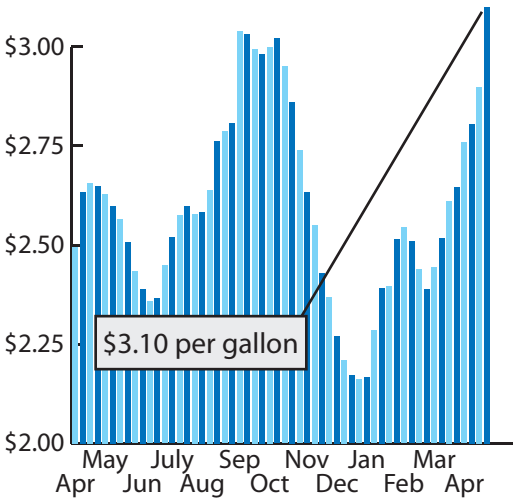
3.6% Decrease in rate of inflation since February 2001

Interest Rates



Sources: Bureau of Labor Statistics (http://www.bls.gov) and The Board of Governors of the Federal Reserve (http://www.federalreserve.gov)

Gasoline, *San Francisco/Bay Area*

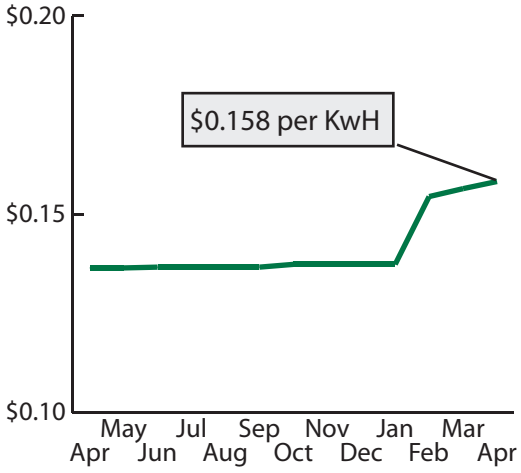


6¢ Increase since September 2005 peak

61¢ Increase since April 2005

Electricity

Price per Kilowatt Hour

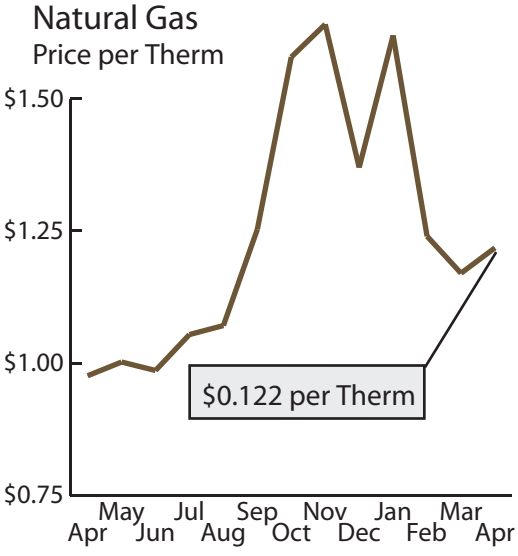


16% Increase since April 2005

1.2% Increase since March 2006

Natural Gas

Price per Therm



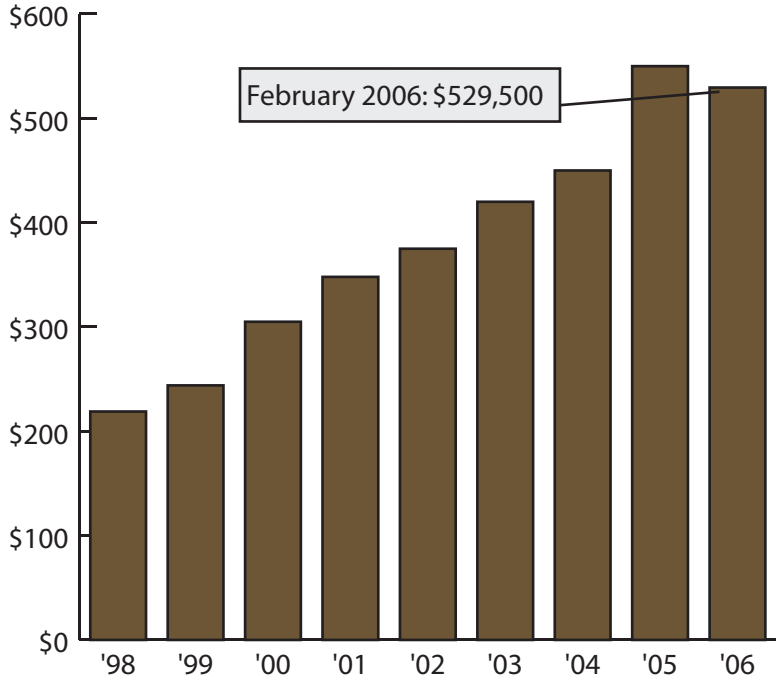
25% Increase since April 2005

4.1% Decrease since March 2006

Sources: Department of Energy (http://www.doe.gov) and Pacific Gas and Electric (http://www.pge.com)

Housing

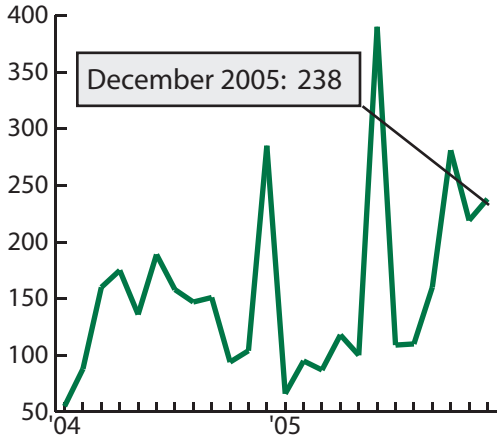
Median Home Price (Thousands)



3.7% Decrease since 2005

142% Increase since 1998

Housing Starts



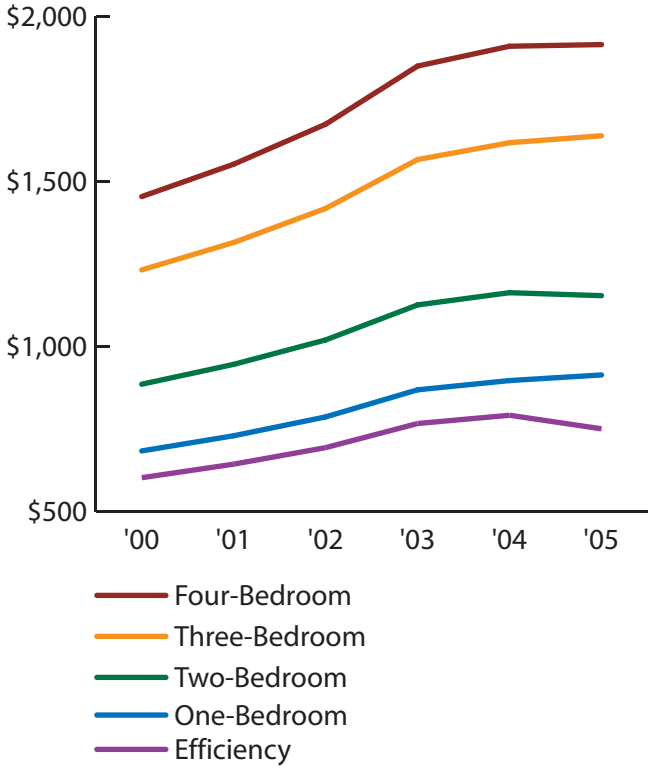
Year	Housing Starts
2004	1742
2005	1973

19 Increase since last month

231 Increase since last year

Sources: California Association of Realtors (http://www.car.org) and The U.S. Bureau of the Census (http://www.census.gov)

Fair Market Rent



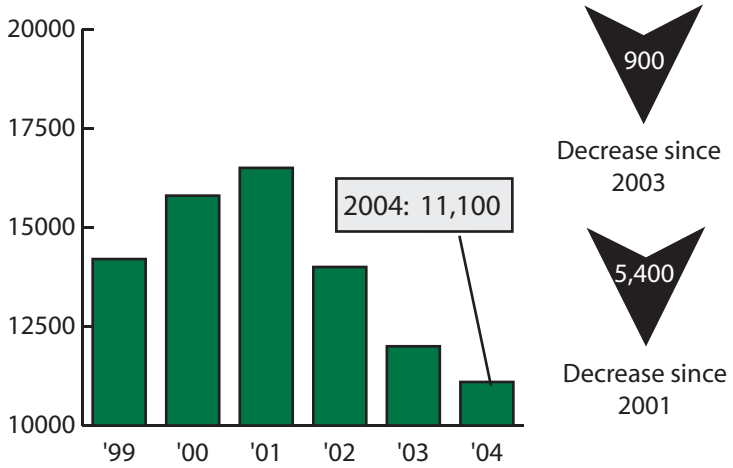
Recently, home prices have begun to decline: February 2006's median home price was 3.7% lower than 2005. Home prices have increased dramatically over the last seven years, and the median home price in February 2006 was $529,500 for Sonoma County, a 142% increase since 1998. "Housing Starts" have risen with 231 more starts in 2005 than last year. (Housing starts are new homes which begin construction during a calender year -- so a housing start in December of 2005 may not be completed for quite some time).

"Fair Market Rents," calculated by the Department of Housing and Urban Development, have reached a plateau in Sonoma County, with the fair market rent for two-bedroom and efficiency apartments actually declining in the last year. The current fair market rent for a two-bedroom apartment is $1154 per month.

Sources: Department of Housing and Urban Development (http://www.hud.gov)

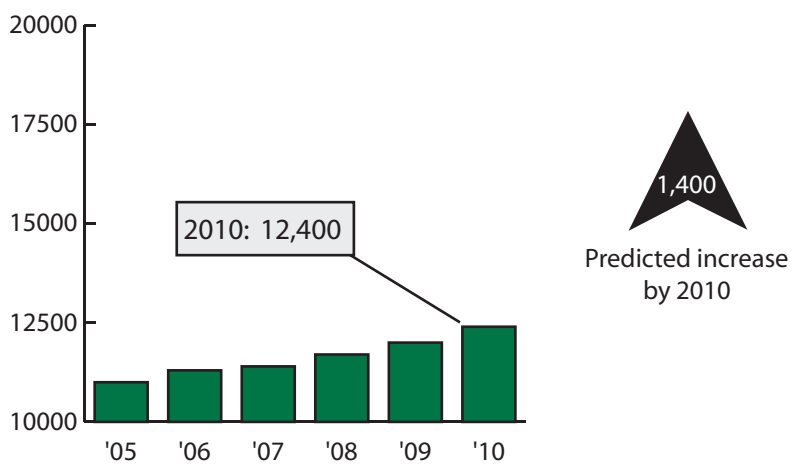
Special Focus: The Technology Sector

Technology Employment



Source: Economy.com, "Thriving in Sonoma County," May 2005
http://www.sonoma-county.org/edb

Forecasted Technology Employment



Source: Economy.com, "Thriving in Sonoma County," May 2005
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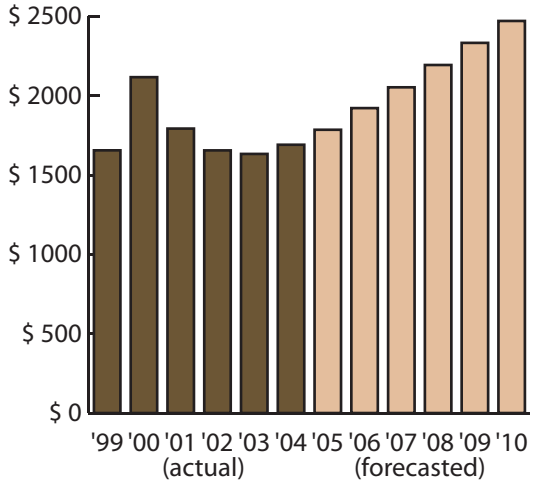
Employment in the Sonoma County Technology Sector is expected to grow moderately in the future, reaching 12,400 in 2010. The sector, which in 2000 contributed more than 13% to Sonoma County's output, has shrunk in recent years, and today is slightly less than 10% of the County's economy.

Future growth in the technology industry will focus on the Information Technology and Engineering and Research sectors. While High Technology Instruments and Optics at one point employed nearly three-quarters of the technology sector, by the end of the decade these two sub-sectors will employ only 55% of the industry, having been replaced by Enginnering and Research and Information Technology's rapid growth.

Technology Sector Output (Millions of current dollars)



Source: Economy.com, "Thriving in Sonoma County," May 2005
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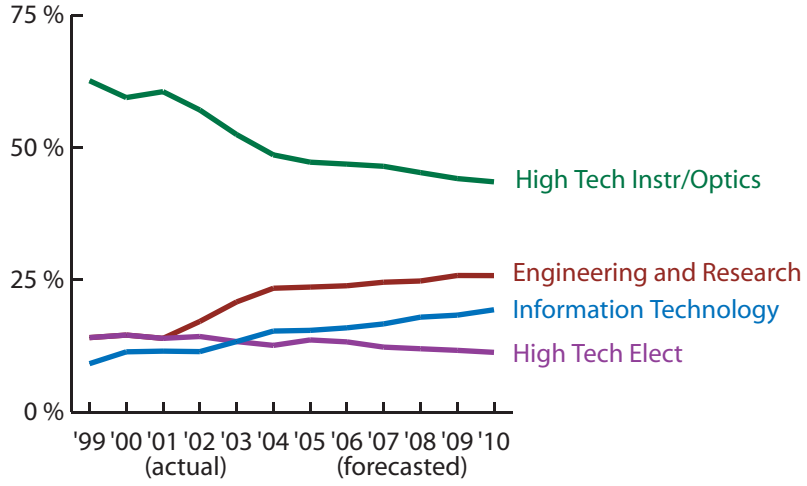
Components of Industry Employment



Notes and Acknowledgements

The purpose of the Business Barometer Report is to provide a sense of how the Sonoma County economy is performing. The indicators selected for this report cover a wide array of economic areas, including employment, housing and construction, prices and inflation, and more. The hope is that briefly presenting this variety of information in one report gives the reader a broad picture of the health and direction of the local economy. The Economic Development Board encourages interested readers to recommend any pertinent local indicator or area that may improve this report. All data is believed to be the most current available at the time of publication. This report was prepared by Will Cathcart.

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