Sonoma County Economic Development Board

Business Confidence Report
Fall 2006

Executive Summary

Conducted during the months of September and October, the Sonoma County Economic Development Board (EDB) presents the Fall 2006 Business Confidence Report. Key highlights from this report include:

- The Sonoma County Business Confidence Index is at a 3-year low and the forecast suggests it will creep lower in the Winter. The Fall score of 6.23 is a far-cry from Fall 2002's 4.75 nadir, however, and executives' predictions suggest that the economy will continue to grow, albeit at a more tepid pace.

- Twenty-seven percent of executives believe that employment will rise within their businesses over the next six months, nearly double the percent of those who anticipate a decline. Seventy-two percent also predict that their businesses' profitability will remain the same or increase over the same period.

- The percent of businesses that plan on employing an aggressive capital expenditure strategy over the next two quarters remained unchanged from the Spring; however, the percent opting for a cautious approach grew, while the moderates decreased correspondingly.

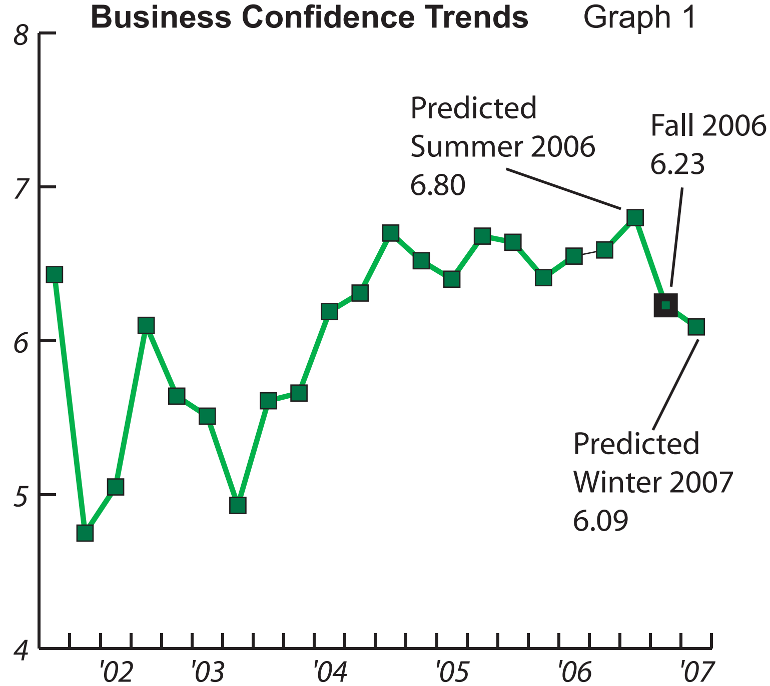
- The local Purchasing Trends Index (PTI) is at 61%, above the 50% threshold for a growing economy. The PTI decreased by 10% over the last six months, meaning that the local economy is growing at a slower clip than in the Spring.

Business Confidence Down; Economy still Healthy

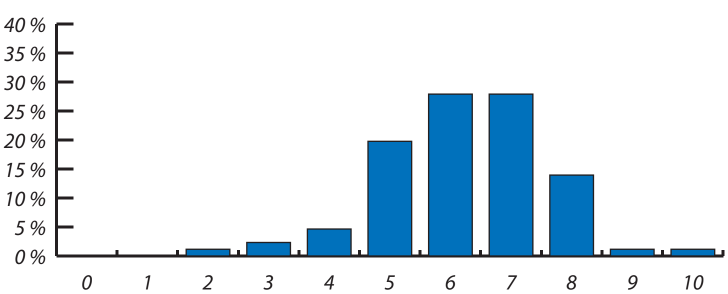
As Graph 1 shows, the index for Sonoma County scored a 6.23 on a 10-point scale (1= challenged; 10= excellent), decreasing 0.57 points (8.3%) from the predicted Summer 2006 Index. To be sure, however, the Summer Index is based on an estimate and a Summer-to-Fall decline in confidence historically has not been uncommon. Nevertheless, the Index indicates a healthy economy, since scores higher than or near 6 are considered positive. Local business executives expect the county's economy to be marginally weaker over the next six months, forecasting an index level of 6.09.

Graph 2 illustrates the distribution of individual responses on the survey. The overwhelming majority of respondents indicate a confidence level between five and eight.

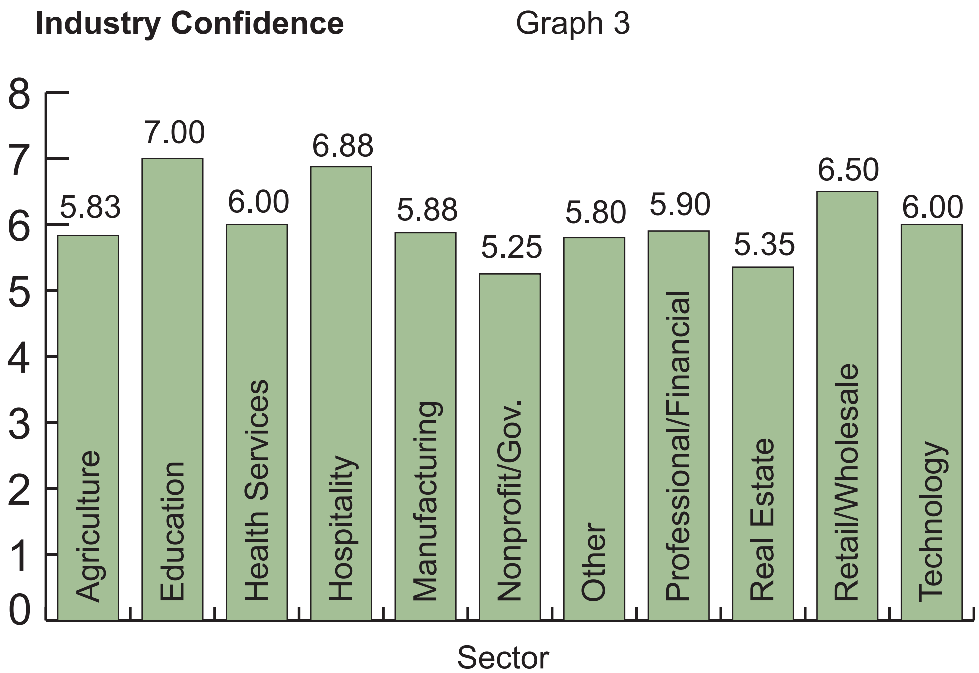
Business Confidence Trends Graph 1



Distribution of Business Confidence Graph 2



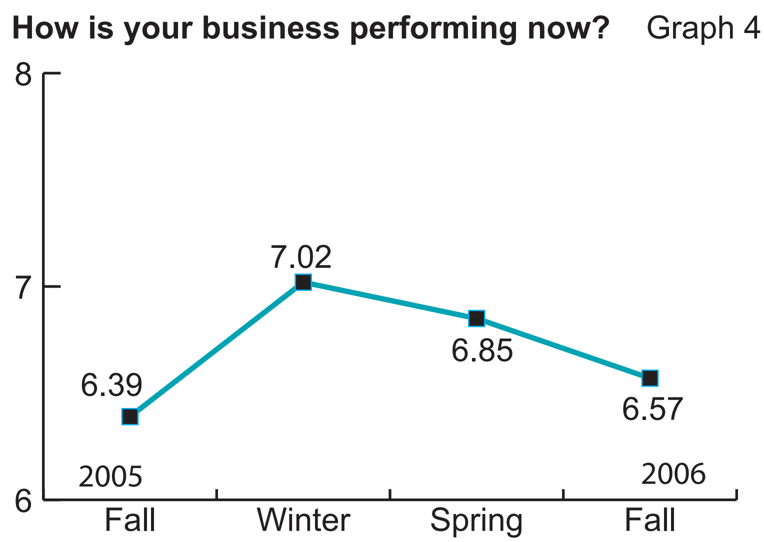
Industry Confidence in Sonoma County

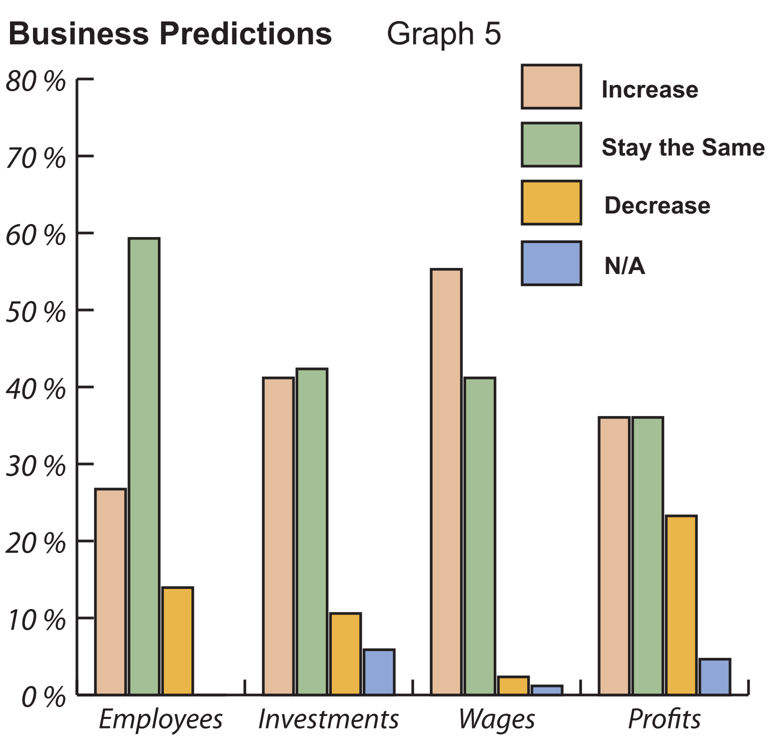


While the Business Confidence Index indicates the level of confidence in the economy as a whole, industry confidence specifically illustrates how executives feel about their sector's current economic conditions and future growth. Graph 3 compares the level of confidence of each industry. Overall, business executives report their industry confidence at 5.95, with the highest confidence reported by the education sector at 7.00. Executives in most industries are less optimistic than 6 months ago; however, the agriculture, health services, manufacturing, and retail/wholesale sectors saw modest confidence gains.

Business executives less optimistic about business performance

The Fall 2006 index of 6.57 is a 4% decline from the Spring 2006 level of 6.85. Nevertheless, this figure represents a 3% increase from last Fall's low of 6.39. At that time, however, industry and business confidence levels were higher.





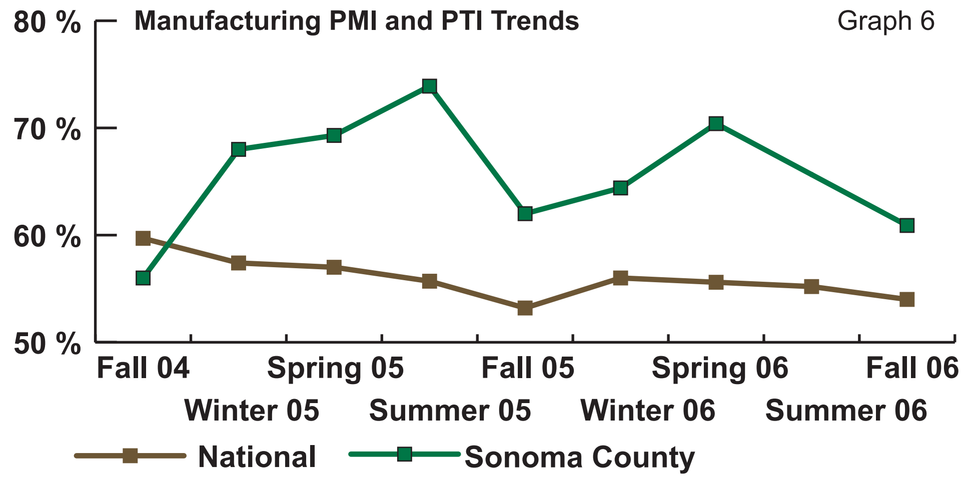
Across the board, the percentage of respondents who believe their businesses will experience a decrease in employees, investment, wages, or profits over the next six months increased from Spring. Still, the overwhelming majority of executives predict equal or higher levels for the aforementioned four areas in the next two quarters. In fact, three times as many executives anticipate similar or higher profitability over the next six months than those who expect a decline. The results also point to higher wages in the future, with a full 55% of executive forecasting salary increases.

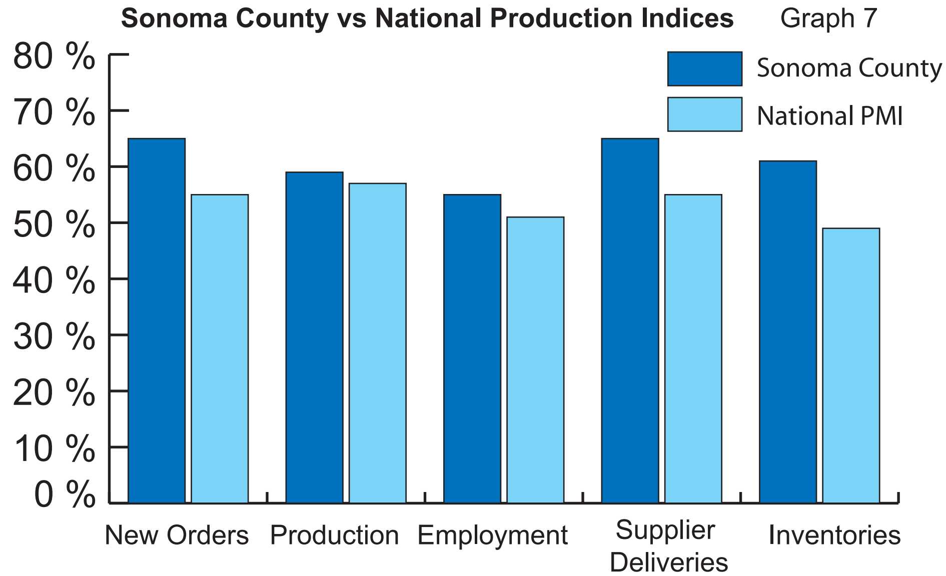
Purchasing Trends

The purchasing trends for both Sonoma County and the United States indicate that economic activity continues to grow. Graphs 6 and 7 compare the local Purchasing Trends Index (PTI) with the U.S. Purchasing Manager's Index (PMI).

The local PTI has decreased 9% to 61% from 70% in the Spring 2006 report. This represents a decrease in reported economic expansion from Fall 2005, but it is important to note that any PTI greater than 50% indicates a generally expanding economy. Therefore, the slight decrease in the Sonoma County PTI to 61% can be interpreted as an economy which continues to expand, but at a slightly slower rate than last year.

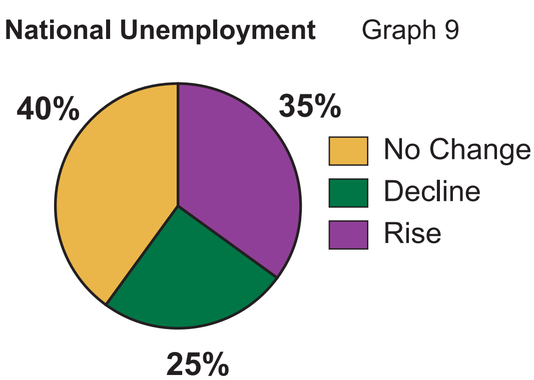
Graph 6 highlights national and local growth trends. Annual PTI trends suggest that the local economy has been steadily expanding for at least nine consecutive quarters, though the speed of the expansion has varied from quarter to quarter. In eight of the last nine quarters, the Sonoma County expansion has outpaced the national expansion.

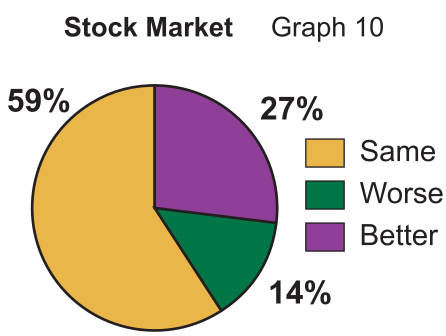


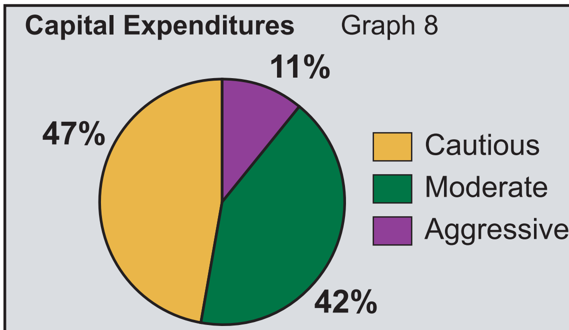


The Big Picture: Sonoma County and the National Economy

The bullish attitude that predominated in Spring seems to be on the wane; the percent of Sonoma County executives who expect better stock market performance in the next 6 months has fallen by 9% of the total, and the percent that anticipate a rise in national unemployment has swelled to 35%.







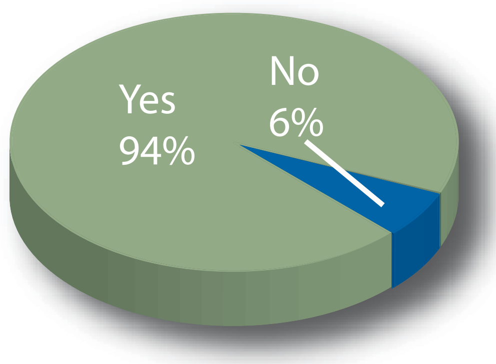
Most Sonoma County executives hold a moderate view towards capital expenditures, but are more conservative than in Spring. The percent with cautious attitudes grew by 15% of the total, while the moderate crowd saw a concomitant 15% decline. The percent of respondents employing an aggressive capital expenditure strategy over the next 6 months remained unchanged.

Special Topic Questions

Each month the EDB polls businesses on special topic questions. This month the EDB focused on initiatives being considered for the future.

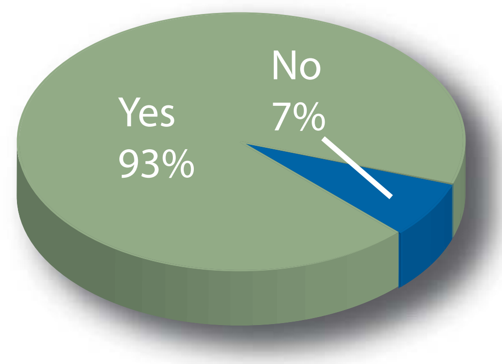
Strategic Plan

Would it be useful to develop a strategic vision for Sonoma County?



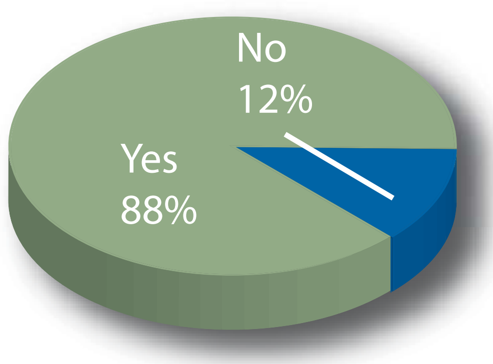
Small Business Wellness

Would it be useful to provide simple workforce wellness tips for local small businesses?



Joint Recruitment Website

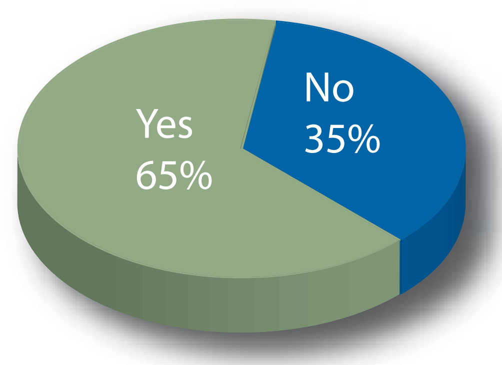
Would it be useful to have a website that provides consolidated "quality of life" information about Sonoma County for employee recruitment purposes?



Sonoma County Job Link

Have you heard of Sonoma County Job Link?

Job Link is part of a nation-wide network of career centers that were developed to provide employment and training services for job seekers, job changers, and businesses.



Surveys were mailed to 300 business executives in the month of September with a due date of October 4, 2006. Responses were received from 91 businesses, for a response rate of 30 percent. The Sonoma County Business Confidence Index is the mean of all respondents' perceptions of Sonoma County's current economic situation on a scale of 1-10. 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 is the most recent available as this report was written, unless otherwise indicated. The PMI uses information about companies' new orders, production, employment, supply deliveries, and inventories. Sonoma County's index mirrors the PMI 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 currently produces a quarterly report. Individual surveys are confidential. This report was prepared by Ben Herbert.

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