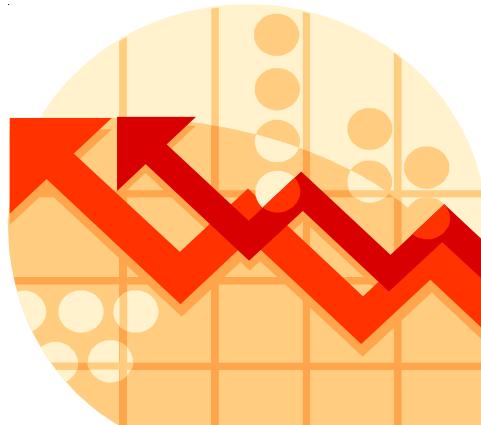


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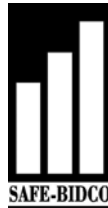
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SONOMA
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Sonoma County Alliance

SONOMA COUNTY

EMPLOYMENT GROWTH RANK

Best=1 Worst=387

2004-06

254
4th quintile

2004-09

83
1st quintile

LIFE CYCLE PHASE

Growth/Mature

Best=1 Worst=387

VITALITY

306

COST OF DOING BUSINESS

U.S.=100%

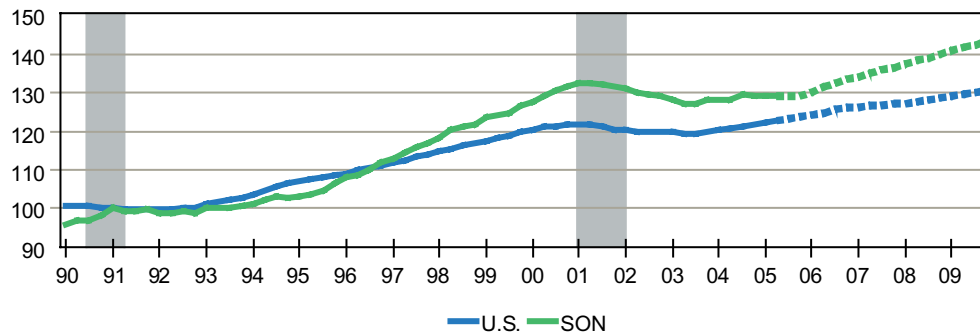
124%

COST OF LIVING

U.S.=100%

135%

Relative Employment Performance (1991=100)



1998	1999	2000	2001	2002	2003	2004	Indicators	2005	2006	2007	2008	2009
13.1	14.5	15.9	16.1	16.2	16.5	17.0	Gross Metro Product, C\$B	17.4	18.0	18.7	19.5	20.3
8.1	10.1	10.3	0.9	0.7	1.8	3.0	% Change	2.3	3.5	4.2	4.3	3.9
173.0	179.3	186.1	189.8	186.6	183.2	184.9	Total Employment (000)	185.6	189.3	194.4	199.1	203.9
4.6	3.6	3.8	2.0	-1.7	-1.8	0.9	% Change	0.4	2.0	2.7	2.4	2.4
3.3	2.7	3.3	3.7	4.5	5.0	4.9	Unemployment Rate	4.4	4.5	4.5	4.4	4.2
8.4	5.8	-99.9	1.1	-0.4	0.8	5.3	Personal Income Growth	4.8	7.1	6.7	5.7	5.8
445.9	453.4	460.4	465.7	465.9	467.3	468.5	Population (000)	477.5	486.7	497.7	506.3	515.7
2,098	2,348	2,013	1,717	1,350	1,503	1,342	Single-Family Permits	1,381	1,666	2,045	1,990	1,988
964	688	492	866	578	749	587	Multifamily Permits	377	509	648	723	737
243.7	284.0	359.2	408.3	436.5	490.8	575.2	Existing Home Price (\$Ths)	710.8	751.7	738.9	709.0	681.5
4,927	4,417	3,941	9,310	11,382	16,524	10,896	Mortgage Originations (\$Mil)	9,283	7,754	6,793	6,063	5,908
7.2	6.0	5.5	3.7	-1.5	-0.3	-0.7	Net Migration (000)	7.2	7.2	9.0	6.4	6.9
2,173	1,627	1,158	1,183	1,223	1,300	1,267	Personal Bankruptcies	1,316	1,408	1,526	1,635	1,653

STRENGTHS & WEAKNESSES

STRENGTHS

- Global demand is good for basic products produced in the area.
- Household balance sheets are in good shape.

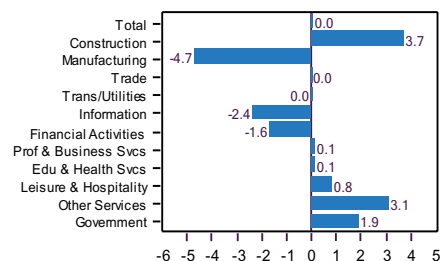
WEAKNESSES

- High dependence upon housing related employment.
- Very low housing affordability.
- Weak population and labor force growth.

CURRENT EMPLOYMENT TRENDS

November 2005 Employment Growth

% change year ago, 3 mo. MA



FORECAST RISKS

SHORT TERM ↑ LONG TERM ↓ RISK-ADJUSTED RETURN, '04-'09 **0.51%**

UPSIDE

- Dollar falls further versus Asian currencies, supporting SAA's exports and international tourism.
- Tech-producing industries face rising demand from resurgent telecom industry.

DOWNSIDE

- Elevated energy prices sap demand away from travel and wine.
- Housing market corrects, reducing available equity for homeowners.

ANALYSIS

Recent Performance. The economy of Sonoma County (SON) has held steady over the past six months. There is little change in the labor market situation, with virtually flat employment and a jobless rate that is ending the year about where it started at the beginning of the year. We do estimate that the economy as a whole has been expanding, however, with estimated industrial production rising at nearly double the national pace. The housing market, however, is finally reflecting the tepid economic performance with a leveling of sales prices in recent months. Measures of household credit quality are mixed, with an outsized surge in personal bankruptcy filings in the third quarter, but little significant rise in consumer loan delinquency rates. SON has not shaken off the label of underperformer, which has stuck for over three years.

Open economy advantages. SON's outlook for growth relies on the fact that it is an open economy with its major industries driven by broad national demand, business investment spending, and export markets. These factors bode well for the local economy in the near term.

First, the U.S. domestic economy is expected to maintain a stable growth rate above long-term potential through 2006, supporting income growth and thus demand for SON's wine, food, and tourism industries.

Second, U.S. investment spending on business equipment and software is projected to rise by over 7% in the coming year, strong enough to support SON's makers of technology equipment.

Third, export markets will strengthen in 2006 due to both improving economic growth in Europe and Asia, and an expected devaluation of the dollar versus Asian currencies. This benefits the broad spectrum of SON industries with strong global demand for specialty foods and wines, rising international tourist arrivals in the Bay Area, and demand for telecom and other tech equipment both domestically and abroad.

Pricing pressure. The very strong grape harvest this fall does put some downward pressure on wine prices going forward, just when the global supply glut has been absorbed. Fortunately, this increase in supply comes at a time when global demand also is rising, as opposed to being concurrent with recession as happened previously. But it may very well moderate the pace of farm income growth in the near term.

Other basic industries in the local economy do not face the same downside pricing pressure. Bay Area hotel occupancy rates have risen to above 70% and room rates—up by 10% over the year—have risen for two consecutive years.

Furthermore, if the dollar continues to fall versus foreign currencies, particularly in Asia, then local exporters gain a pricing advantage in those markets. Thus, while pricing pressures remain for many industries, the impact may not be quite so severe for SON's exporters due to the nature of their products and their markets.

Housing. There is some evidence that the housing market is slowing. The Calif. Assoc. of Realtors' median sales price for North Bay single-family houses fell for two consecutive months in October and November—the first back-to-back decline since 2001—and appreciation over the year has fallen from the mid-20s to the mid-teens. Supporting prices, however, is an increasingly balanced market with construction activity that has held steady over the past three years while household formations have accelerated moderately. Still, affordability is miserably low, so risks of a price correction remain.

The outlook for Sonoma County is for improvement in 2006, although there is no return foreseen to the rates of growth prior to the 2001 recession. The area's basic industries face favorable market conditions in the near term both in the U.S. and abroad, generating upside potential to outpace the U.S. average.

Steven G. Cochrane
January 2006

EMPLOYMENT & INDUSTRY

TOP EMPLOYERS

Santa Rosa Junior College	3,115
Agilent Technologies, Inc.	2,500
St. Joseph Health System	2,370
Sonoma State University	1,799
Kaiser Permanente	1,423
Optical Coating Laboratory	1,300
JDS Uniphase Corporation	1,200
Safeway, Inc.	1,218
Medtronic, AVE	1,200
Kendall-Jackson Wine Estates	900
Sutter Medical Center	859
State Farm Insurance Company	846
Albertsons, Inc.	770
Target Corporation	724
Amy's Kitchen	650
Hansel Dealer Group	650
Advanced Fibre Communications	600
SBC Communications, Inc.	600
Longs Drug Stores, Inc.	585
Cisco Systems, Inc.	550
Home Depot	550

Source: North Bay Business Journal, February 2004

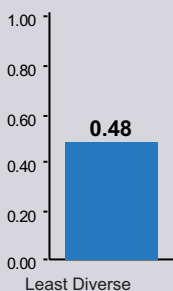
Public

Federal	1,691
State	5,569
Local	22,341

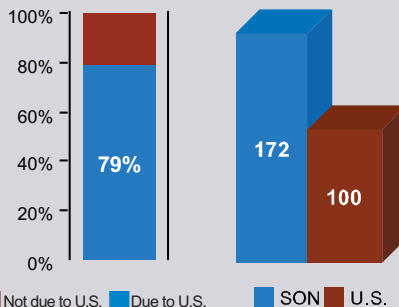
2004

INDUSTRIAL DIVERSITY

Most Diverse (U.S.)



EMPLOYMENT VOLATILITY DUE TO U.S. FLUCTUATIONS RELATIVE TO U.S.

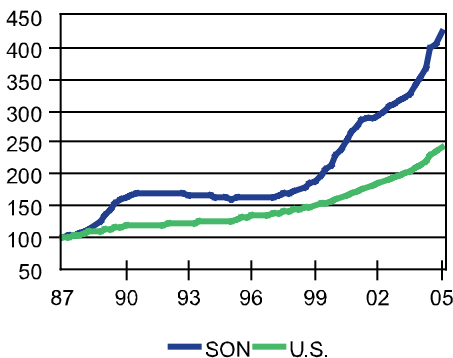


COMPARATIVE EMPLOYMENT AND INCOME

Sector	% of Total Employment			Average Annual Earnings		
	SON	CA	US	SON	CA	US
Construction	7.4%	5.8%	5.3%	\$53,490	\$54,018	\$44,373
Manufacturing	13.1%	10.5%	10.9%	\$62,321	\$70,640	\$63,129
Durable	52.4%	63.5%	62.3%	nd	\$78,393	\$65,880
Nondurable	47.6%	36.5%	37.7%	nd	\$57,502	\$58,627
Transportation/Utilities	2.1%	3.3%	3.7%	\$45,852	\$57,461	\$51,868
Wholesale Trade	3.5%	4.5%	4.3%	\$52,404	\$60,818	\$59,828
Retail Trade	12.7%	11.1%	11.4%	\$30,102	\$31,964	\$26,190
Information	2.3%	3.3%	2.4%	\$67,415	\$94,946	\$78,059
Financial Activities	5.4%	6.2%	6.1%	\$40,133	\$53,047	\$51,058
Prof. and Bus. Services	10.7%	14.4%	12.5%	\$37,240	\$50,601	\$47,411
Educ. and Health Services	12.2%	10.7%	12.9%	\$39,530	\$42,197	\$38,538
Leisure and Hosp. Services	10.9%	9.9%	9.5%	\$16,370	\$22,617	\$18,779
Other Services	3.5%	3.5%	4.1%	\$23,358	\$23,766	\$22,334
Government	16.0%	16.4%	16.4%	\$48,681	\$55,189	\$49,194

Source: Percent of total employment - Economy.com & BLS, 2004; Average annual earnings - BEA, 2003

HOUSE PRICES



Source: OFHEO, 1987Q1=100, NSA

LEADING INDUSTRIES

NAICS Industry	Employees (000)
GVSL State & Local Government	27.9
7221 Full-Service Restaurants	7.2
3121 Beverage Manufacturing	6.3
6221 General Medical and Surgical Hospitals	5.7
FR Farms	5.3
4451 Grocery Stores	5.2
7222 Limited-Service Eating Places	5.2
5613 Employment Services	4.1
2360 Construction of Buildings	4.0
7211 Traveler Accommodation	3.2
5617 Services to Buildings and Dwellings	3.0
3345 Nav., Meas., Electromed. & Ctrl. Inst. Manuf.	2.8
2383 Building Finishing Contractors	2.7
2382 Building Equipment Contractors	2.7
4521 Department Stores	2.6
High-tech employment	11.6
As % of total employment	6.0

Source: BLS, Economy.com, 2004

CREDIT QUALITY

FITCH
N/A

MOODY'S
Aa2

MIGRATION FLOWS

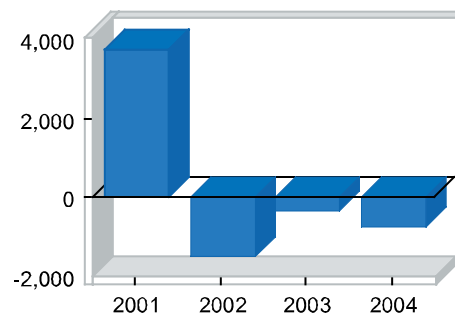
Into Sonoma County	Number of Migrants	Median Income
San Francisco CA	3,662	39,470
Oakland CA	1,233	31,625
San Jose CA	647	43,970
Sacramento CA	610	23,165
Los Angeles CA	527	19,558
Vallejo CA	439	33,552
Napa CA	395	29,999
San Diego CA	326	18,602
Riverside CA	245	22,626
Santa Ana CA	210	25,749
Total Inmigration	14,659	26,425

From Sonoma County

San Francisco CA	1,940	31,988
Sacramento CA	1,524	30,729
Oakland CA	931	27,947
Vallejo CA	571	39,721
Los Angeles CA	474	18,297
Napa CA	465	30,520
San Jose CA	445	39,558
San Diego CA	434	17,673
Phoenix AZ	349	30,430
Riverside CA	317	24,758
Total Outmigration	17,318	27,050

Net Migration	-2,659	-625
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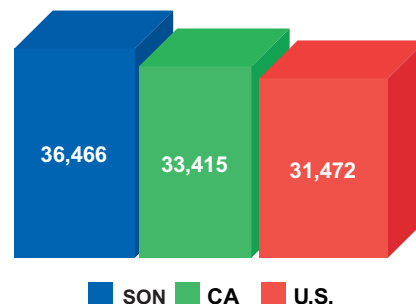
Net Migration, SON



	2001	2002	2003	2004
Domestic	1,056	-4,084	-2,871	-3,271
Foreign	2,683	2,613	2,540	2,542
Total	3,739	-1,471	-331	-729

Source: IRS (top), 2003; Census Bureau & Economy.com, 2004

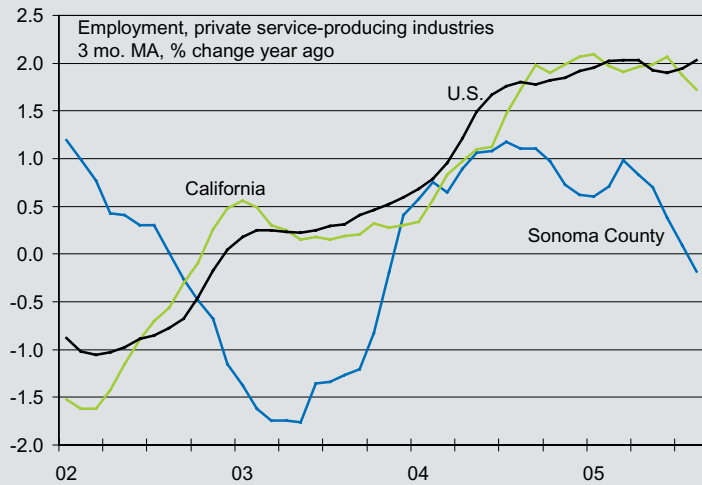
PER CAPITA INCOME



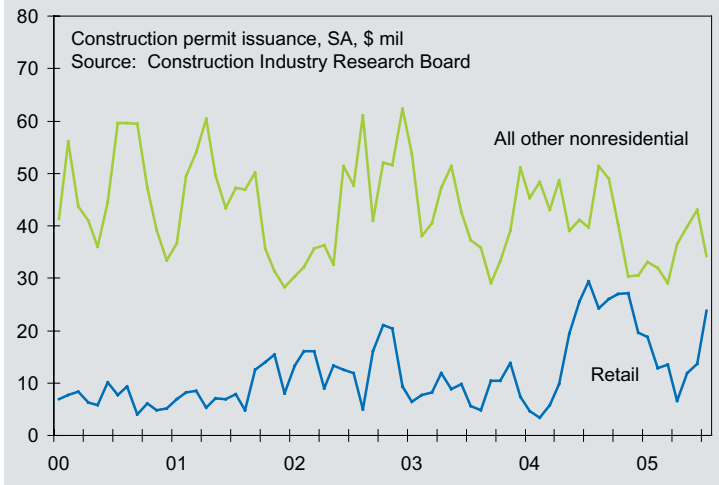
Source: Bureau of Economic Analysis, 2003

Sonoma County

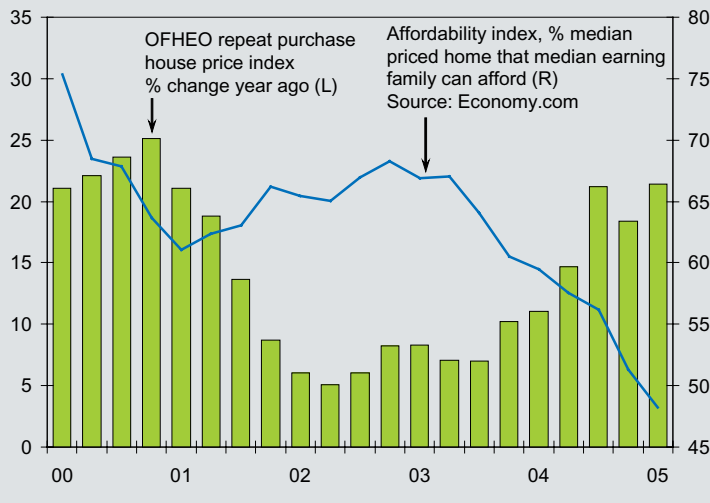
Service-Producing Industries Falter in Sonoma County



Nonresidential Construction Focused on Retail

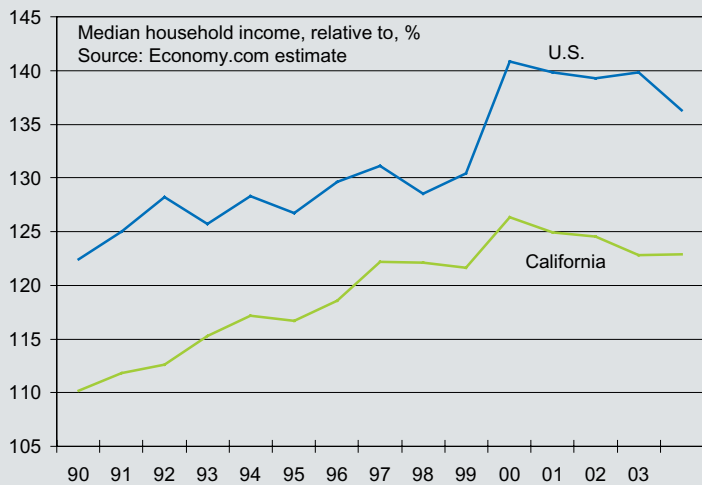


Rapid House-Price Appreciation; Affordability Plummetts

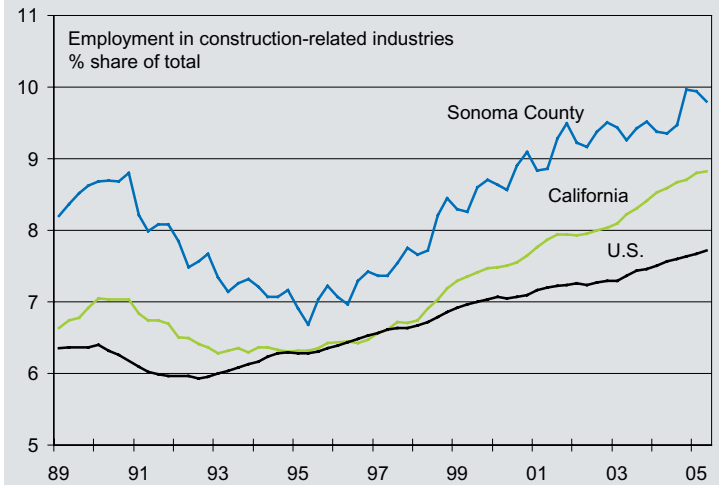


Nonresidential construction in SON is increasingly concentrated in retail space. Currently, there is little new demand for either office or industrial space. Moreover, until recently, there had been little new supply of retail space in the metro area, particularly high-end space. The addition of new space is beneficial for SON since it is a retailing center for much of northern California. Attracting more shoppers from outside of the metro area will generate higher tax revenues, income, and employment for SON.

Income Growth Has Faltered; Still Well Above Average



Labor Market Increasingly Concentrated in Construction



While homebuilding has slowed in recent months, the labor market remains unusually concentrated in construction. The share of construction-related employment, at 10%, is above the previous peak of 9% prior to the end of the last great housing cycle in the late 1980s. Construction always plays a more important role in SON compared to the state and nation since the area has a large second-home market. Nevertheless, the local economy appears overconcentrated compared to historical trends and is at some risk should housing markets falter in late 2006 or 2007.