Sonoma County on the Mend:
Growing Your Business in a Challenging Economy

Prepared for:

Sonoma County Economic Development Board

June 2006

Moody's Economy·com

121 N. Walnut St., Suite 500
West Chester, PA 19380
Toll Free: 1.866.275.3266
help@economy.com

Moody's | Economy·com
121 N. Walnut St., Suite 500
West Chester, PA 19380

Table of Contents

Moody's Economy.com
121 N. Walnut St., Suite 500
West Chester, PA 19380

U.S. Economic Outlook
Short-Term Executive Summary
June 2006

Steve Cochrane, 610.235.5114

RECENT PERFORMANCE (back to top)

- Economic growth was expected to slow throughout this year and into next, but the slowdown is steeper and occurring more quickly than anticipated just a few weeks ago. Growth in the current quarter appears closer to 2.5% on an annualized basis, less than one-half of the 5.3% growth the U.S. experienced during the first quarter.

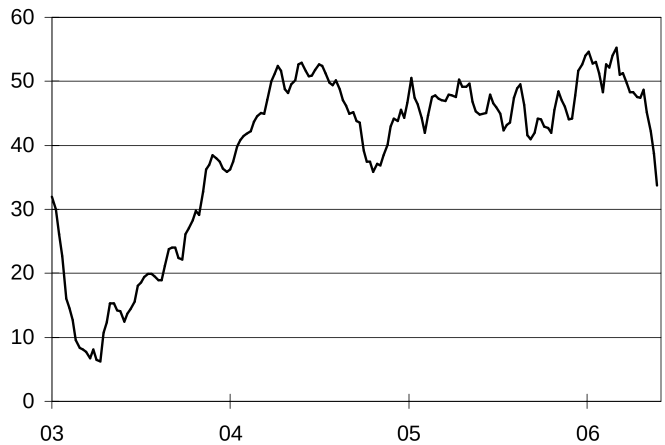
- This is a downward revision of more than one percentage point to the second quarter from last month's outlook. A contraction in homebuilding and measurably weaker consumer spending gains are behind this change to the forecast. Vehicle sales have faded and core retail sales growth has turned soft.

- That consumers have become so cautious, so quickly, largely reflects this spring's surge in gasoline prices. Households are finding it difficult to adjust to $3 for a gallon of regular unleaded, with consumer sentiment falling sharply. Higher gasoline prices have hit lower-income households especially hard. Those in the bottom two quintiles of the income distribution are now spending over 10% of their budgets on energy.

- More circumspect consumers may also reflect a seeming pause in hiring, as businesses are also adjusting to the higher prices. The gain of 75,000 jobs in May is only about one-half of trend job growth, suggesting that if future job gains are also as weak, the unemployment rate will not only stop falling , but may even rise. Initial claims for unemployment insurance, a good leading indicator of future job market conditions, are edging higher, albeit not yet to a point indicative of below-trend employment growth.

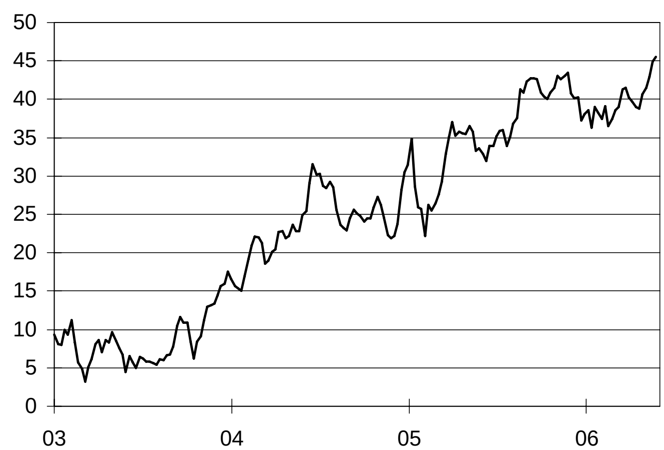
- Businesses are edgy. The Moody's Economy.com weekly survey of business confidence suggests that there has been a broad-based softening in sales since this time last month. In just the past four weeks, the net percentage of respondents saying that sales are rising declined from a near record high to a level last seen in late 2003.

Chart 1: Sales Weaken Sharply...
Moody's Economy.com global business confidence, sales, diffusion index, 4 wk. MA



- The survey also indicates that price pressures are intensifying. Nearly one-half of respondents say they are raising prices for their wares. As recently as this time last year, the corresponding share was less than one-fifth.

Chart 2: ...Price Pressures Intensify
Moody's Economy.com global business confidence, prices received, diffusion index, 4 wk. MA



Monetary Pause

- The business confidence survey highlights a dilemma for the Federal Open Market Committee: either continue to tighten monetary policy in the face of a weakening economy, or pause despite inflation that is sure to soon breach policymakers' targets.

- This is a particularly difficult decision for the new Federal Reserve Chairman. Chairman Bernanke has yet to fully establish his inflation-fighting credentials, and he will eventually have to prove that his ardent support for inflation targeting holds in practice as strongly as it does in theory.

- This is not the appropriate time to do so, however. The growth slowdown is expected to be substantial and prolonged enough to ensure that inflation expectations remain contained and that underlying inflation will soon moderate back to within its target.

- Moreover, the risk that policymakers will overstep and tighten too aggressively is palpable. Not only have policymakers overstepped historically at similar points in previous business cycles, but the housing and mortgage markets are only now feeling the impact of two years of interest rate hikes. The speculation in housing evident last year and the year before could be pushed out of the market in a orderly way, with house prices simply going flat, or it could be wrung out quickly, leading to declining house prices. The conduct of monetary policy will likely determine which scenario unfolds, with substantial implications for the broader economy.

- While policymakers should remain firmly biased toward more tightening as long as inflation remains above target, Moody's Economy.com is holding (with much trepidation) to its long-standing view that the current 5% fed funds rate will be the peak in this rate cycle.

- The Santa Rosa-Petaluma economy (Sonoma County) is expanding, although growth of the workforce has been volatile lately. On average, however, the economy has almost kept pace with the national average over the past six months. Santa Rosa's important high-tech sector is stabilizing after shedding thousands of jobs over the past four years. The strongest of the area's basic industries appears to be travel and tourism, although employment in this industry has seen considerable volatility in recent months. Household finances are in good shape. Consumer loan delinquency rates did edge upward during this year's first quarter, but the overall rate remains very low, below the state and national averages.

Fundamentally Sound

- While there will be periods in the coming year or two when the economy will feel uncomfortably soft, the current expansion will remain firmly in place.

- This optimism is based on the unusually strong financial health of businesses. But for only a few industries, profitability has never been stronger and balance sheets more pristine. The notable exceptions include the domestic vehicle manufacturers, various nondurable manufacturers, the airlines and print media. After-tax corporate profit margins are near a record as a share of GDP, more than 12%, and the share of cash flow businesses are devoting to interest expenses is at a quarter-century low.

- Resiliently robust productivity growth is supporting this stellar performance. Nearly five years into the expansion, nonfarm business productivity is still rising at a 2.5% annual pace. With labor compensation growth still modest, unit labor costs today are not much higher than they were at the start of the expansion.

- It is difficult to envisage businesses significantly curtailing their investment and hiring in any sustained way. Indeed, given the lower and steadily declining U.S. dollar and strong broad-based growth overseas, it would seem that businesses have strong incentives to continue expanding their operations everywhere, including in the U.S.

- U.S. businesses can also be increasingly confident that overseas markets will remain strong. The Chinese and Indian economies show no indication of moderating much from their current double-digit paces. Growth in commodity-fueled economies, ranging from Canada to Russia, remains robust. Even the long-struggling Japanese and European economies are finally enjoying self-sustaining economic recoveries. All of the globe's substantive economies are expanding simultaneously for the first time since the late 1980s.

- Given this strong global economic backdrop, the U.S. trade balance should soon stabilize. A rapidly eroding trade deficit has been a heavy weight on growth in recent years. This weight may even begin to lift by this time next year as long as China continues on its path of revaluing the yuan. This has been a slow but steady process, which will continue as long as protectionist sentiment in the U.S. remains at bay.

OUTLOOK (back to top)

- The long-anticipated slowing in growth, with less aggressive households leading the way, is at hand. Higher energy prices are increasingly stifling and higher interest rates more binding. There may be a fillip in growth later this year if energy prices moderate as anticipated, but only for a brief period.

- The economy's performance over the next couple of years will not measure up to that of the past couple of years. Real GDP growth is expected to slow from 3.5% in 2006 to at best 3% in 2007. Core CPI inflation is projected to rise from just over 2% currently to a peak of not quite 3% early next year.

- Even this performance will require some deft policymaking. The Federal Reserve will have to conduct a delicate balancing act, raising rates enough to ensure that the recent acceleration in inflation is temporary, but not by so much that it precipitates a financial event with broad macroeconomic implications. The expansion is strong, but not invincible

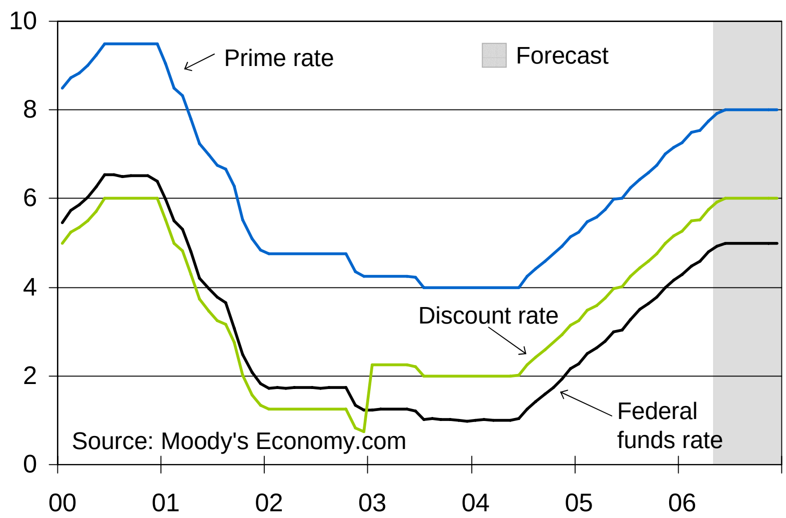
ASSUMPTIONS (back to top)

Monetary Policy

- The Federal Reserve is struggling over whether to end its series of tightening moves that began in June 2004 and has pushed the federal funds rate target from 1% to its current 5%. Moody's Economy.com expects policymakers to hold policy unchanged for an extended period to gauge the impact of their tightening efforts to date.

- Behind this view is an economy that has seen a measurable slowing in growth. At the start of the year, the economy was clearly expanding at above potential; it now appears to have slipped below. Interest rate-sensitive housing activity is off substantially and consumer spending growth has moderated.

Chart 1: Monetary Policy



- Given the long lags between changes in monetary policy and their impact on economic growth, it is reasonable to expect that growth will slow even more in coming months in response to the two years of rate hikes. There is also legitimate concern that policymakers may weigh too heavily on the economy. In times past, during similar rate tightening cycles, rising rates exposed financial stresses that ultimately had substantial negative economic consequences; the mid-1990s Mexican peso crisis is one good example. It is not obvious where those stresses might be today, but the nexus of the rapidly growing mortgage-backed securities market, the hedge fund industry, and global investors is a good candidate.

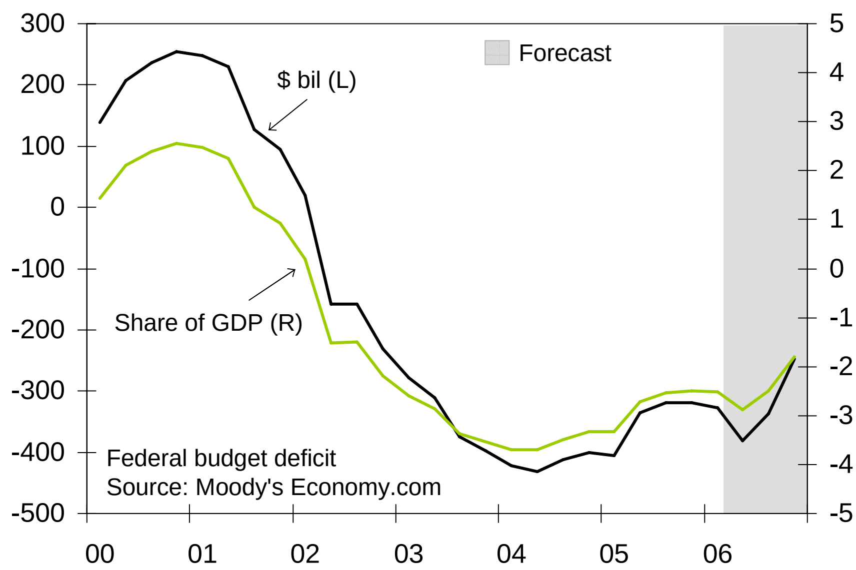
- Even more tightening may be needed in coming months, however. Inflationary pressures have intensified, with core inflation breaking through policymakers' target range. Inflation expectations appear anchored, but fragile. Investors' long-term inflation expectations, as implied by Treasury Inflation Protected Securities, have moved higher, and are now at the top of the range established since TIPS began trading. Consumers' expectations of inflation are also edging up, according the University of Michigan's consumer confidence survey.

- Moody's Economy.com is thus holding to its long-standing view that the current 5% funds rate will be the peak in this rate cycle. We are reaffirming this outlook with trepidation, however. Although the odds are that a 5% funds rate will be sufficient, the probability is high that even more tightening will be needed later this year.

Fiscal Policy

- The federal government is on track to post another $300 billion-plus deficit in the current 2006 fiscal year. None of this shortfall can be explained by a weak economy, however, as was the case earlier in the decade when the economy was struggling.

Chart 2: Fiscal Policy



- The longer-term budget outlook is even darker. Using realistic assumptions about future tax and spending policies, the cumulative budget deficit over the coming decade is set to total over $4 trillion, equal to over 3% of GDP. This baseline, most likely, outlook assumes that: 1) the federal cost of last summer's hurricanes will ultimately total $100 billion; 2) the costs associated with the Iraq and Afghanistan conflicts, which will total nearly $100 billion this fiscal year, will wind down slowly over the course of this decade; 3) the tax cuts instituted in the first Bush term are made permanent; 4) non-defense discretionary spending grows at the rate of nominal GDP; and 5) the alternative minimum tax is effectively indexed to inflation.

- Budget prospects erode measurably more in the subsequent quarter century as the costs of Medicaid, Medicare and Social Security balloon. Without substantial changes to these programs, which seems unlikely anytime soon, and using realistic assumptions regarding tax and other spending policies, the budget deficit will approach 10% of GDP by 2030.

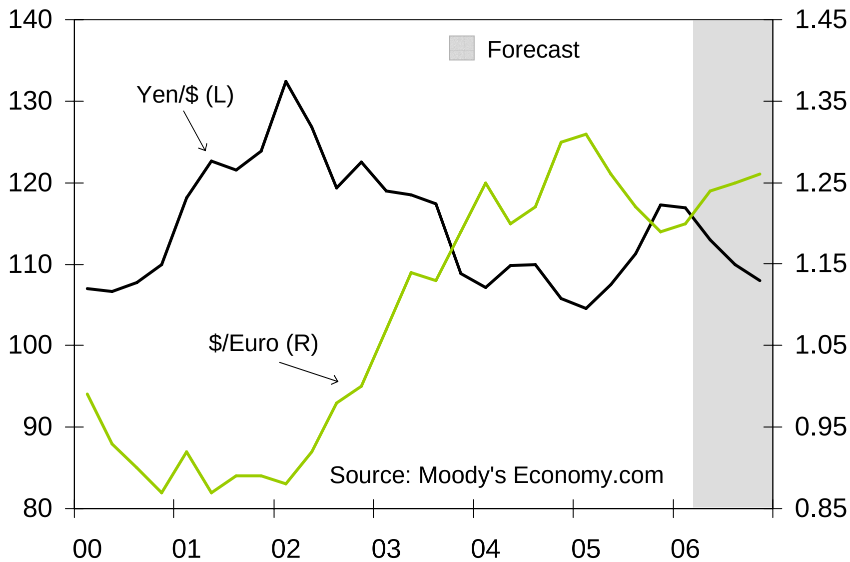
U.S. Dollar

- The dollar has fallen in value in recent weeks against the euro, pound and Canadian dollar; this comes after more than a year of a generally stable currency. On a real broad trade-weighted basis, the dollar is off some 15% since peaking in early 2002.

- Another 15% real decline in the dollar is anticipated over the remainder of the decade, principally against the Chinese yuan and other Asian currencies. The Chinese recently began what is expected to be an extended process toward a substantially stronger and freely-floating currency. This process began with China's July 2005 decision to revalue the yuan and adopt a more flexible exchange rate policy. The yuan is expected to appreciate by 5% over the coming year vis-à-vis the U.S. dollar, 25% over the next three years, and be freely-floating by the end of this decade. Other Asian nations, including Japan, will follow the Chinese lead and allow their currencies to appreciate, albeit to a lesser degree.

- The dollar is not expected to rise much further anytime soon against the euro, pound and Canadian. The dollar is appropriately valued with the euro near $1.20 and the U.K. pound at $1.75. The equilibrium value of the Canadian dollar is at between $.80 and $.85. Currently the euro, pound and Canadian dollar are trading slightly above these equilibrium values.

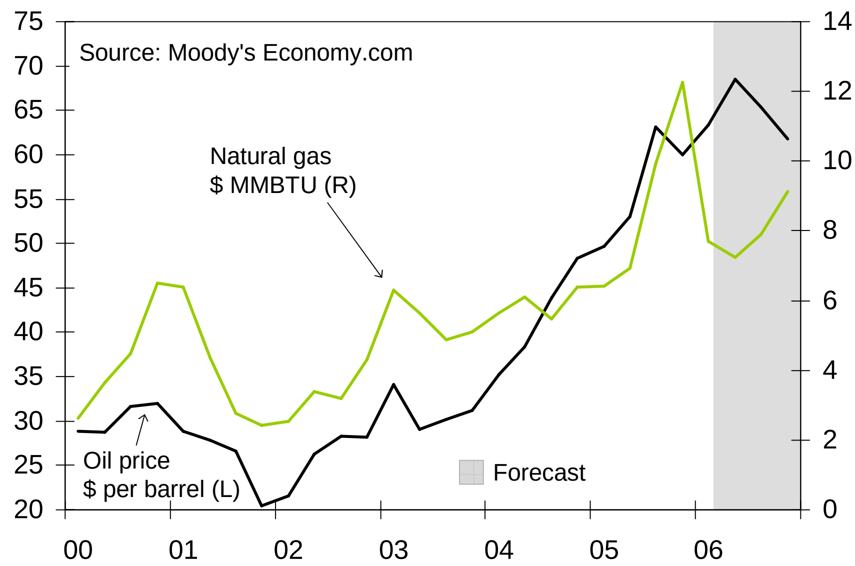
Chart 3: U.S. Dollar



Energy Prices

- Oil prices remain near record highs, with a barrel of WTI trading at over $70. Retail gasoline prices have risen even more strongly to near $3 per gallon. Natural gas prices have remained more stable, at under $7 per million BTU.

Chart 4: Oil Prices



- Prices remain elevated, despite more ample inventories, because of the lack of excess global capacity in oil production. The Energy Information Administration estimates that there is only 1 million barrels of daily spare capacity in Saudi Arabia, which is paltry compared to daily global consumption of near 85 million barrels. Any supply disruption, actual or even perceived, pushes up prices.

- Energy prices are expected to decline starting later this year, however. Key to this outlook is that the currently high prices are slowing energy demand growth. Total OECD oil consumption is lower today than it was one year ago. While this is not unusual during recessions, it is unprecedented during a period of strong expansion, as is occurring now. Higher prices are also spurring increases in global energy supplies. Worldwide rig counts are now as high as they have been since the early 1980s.

- Natural gas prices are expected to remain elevated compared to oil prices until later in the decade, when the U.S. completes liquid natural gas terminal development. A lack of available pipeline and seaport capacity is currently constraining natural gas imports, and new exploration and development have been limited.

- Oil prices are expected to average between $65 and $70 per barrel this year, declining to near $55 by late 2007 and bottoming out at $40 to $45 per barrel in 2008. Natural gas prices are expected to hover between $7 and $10 per million BTU, except during periods of extreme weather, over the next two to three years. Prices will move toward the bottom end of this range later in the decade when new LNG capacity comes on line.

FORECAST RISKS (back to top)

Energy

- Energy prices remain one of the most significant threats to the economic outlook. While prices for crude oil and gasoline have retreated somewhat from their May peak, they nonetheless remain extremely elevated, with West Texas Intermediate crude above $70 per barrel and gasoline flirting with $3 a gallon.

- That energy prices remain elevated even as signals are emerging that growth is slowing highlights that the major impetus for the recent price gains is no longer robust demand, but instead concerns over supply. On the crude side of the equation, geopolitical worries have caused speculators to bid up prices. The rise in gasoline prices is due to a wider confluence of events, but nearly all of the pressure on prices is coming from the supply side. Because adding additional supply is time consuming, both at the exploration and refining ends of the market, the threat to the global economy is that much more potent.

- Indeed, with excess global energy production capacity already razor-thin, a lengthy disruption anywhere in the world could send prices up even further. While most economies have handled the upswing in energy prices thus far, sustained record prices would be an increasing weight on global growth, with the effects reverberating back on the U.S. economy.

- The inflationary impact of higher energy prices has yet to fully come to fruition, with pass-through to core prices still fairly tame. But with the economy running close to capacity, businesses may need to become more aggressive with pricing, especially if recent higher input prices are regarded as permanent.The Federal Reserve is struggling over whether to end its series of tightening moves that began in June 2004 and has pushed the federal funds rate target from 1% to its current 5%. Moody's Economy.com expects policymakers to hold policy unchanged for an extended period to gauge the impact of their tightening efforts to date.

Housing

- The housing market has peaked. Sales are off substantially from their highs last summer, and are set to fall further despite the recent stabilization. National home-builders are reporting increased cancellations and lower orders, and are using price incentives more aggressively. Inventories of unsold new and existing homes have soared. House-price growth has weakened somewhat, particularly in the investor-infected condominium market.

- The upward movement in interest rates and the steady decline in affordability will continue to slow the housing market. Federal Reserve rate hikes have pushed up short-term yields, making adjustable-rate mortgages less attractive, while the upward movement of longer-term interest rates is taming demand for fixed-rate mortgages. Coupled with robust house-price appreciation over the past few years, higher interest rates have pushed housing affordability in many parts of the country to lows not seen for many years.

- A soft landing in the housing market—with a slowing in house-price appreciation and gradual contractions in home sales and residential construction—remains the most likely outcome. The longer the elevated activity continues, however, the greater the risk that the future correction is disorderly. Given housing's importance to the economy—through job creation, mortgage equity withdrawal, the wealth effect and the financial system—spillover effects on the rest of the economy could be substantial.

Growth

- After a robust first quarter, the lackluster May employment report cemented the view that, halfway through the second quarter, growth is slowing. The unfolding slowdown is fairly broad-based, with growth in residential construction and consumption decelerating and manufacturing and non-manufacturing orders and shipments sliding.

- While other segments of the economy are doing well—business investment and non-residential construction are the most obvious standouts—high energy prices, a softening housing market and the lagged impact of two years of monetary tightening are weighing on the expansion. Further, with inflation running a little hotter than monetary policymakers would like, the likelihood of higher interest rates, and hence an even greater weight on growth in the second half of the year, cannot be ruled out. On the upside, global growth is still sturdy and could offset some of the domestic slowdown.

Monetary Policy

- Monetary policy, which has been a fundamental support for global growth in several key economies for several years, is transitioning to a potential weight. In the U.S., financial markets are already signaling that the fed funds rate is at the high end of most estimates of neutral. Given the lagged impact of changes in monetary policy on the real economy, the removal of past policy accommodation and our forecast for slowing growth in the second half of the year, the Federal Reserve should now be in a period of finetuning. The risks for monetary policy always increase at inflection points, as finding the sweet spot is that much more difficult. Moreover, with inflation percolating, the risks to our policy forecast lie on the upside.

- Without question, risks are also abundant in other countries. Data over the past few months point to a healthier Japanese economy, and financial markets are anticipating the end of that country's quantitative easing policy. However, during Japan's extended slump there have been many false alarms signaling the end of deflation; if monetary policy is changed prematurely, lackluster growth in Japan would weigh on the global economy.

- In the euro zone, the German, Italian and French economies remain sluggish, even with sporadic signs of improvement over the past few quarters. Structural impediments are the major concern, but the European Central Bank could be another weight going forward. With inflation bubbling across the union, the ECB has assumed a tightening bias in its policy stance and several rate hikes are expected this year. With monetary policy stimulus now fading, the headwinds for the European economy could strengthen, with negative repercussions for U.S. export industries.

Financial Markets

- Volatility is making a comeback. Over the past few weeks the CBOE VIX, a measure of equity market price volatility, has jumped to levels not seen since before the Federal Reserve started its tightening cycle. Asset markets are in the process of correcting, as the uncertain economic and financial market outlook has forced investors to reintroduce a risk premium that was long priced out of the market. Mixed messages from several investor sentiment readings solidify this view. Previous spikes in volatility during the current business cycle often lasted for several weeks before a return to relative stability; however, it is unlikely that this metric will dip back to its first quarter range anytime soon. Mid-cycle uncertainty and Federal Reserve fine-tuning have historically pushed volatility higher; given the current outlook, there is no reason to expect anything different in this cycle.

- Even with greater volatility in equity and fixed income markets, today's financial market fault line is the burgeoning mortgage-backed securities market. Higher yields and very good credit performance, at least to date, have attracted investors to MBS. Credit quality is sure to weaken as housing activity slows and house price gains cool. At least some of the new homeowners who have taken on exotic mortgage loans with little in the way of a down payment to squeeze into a home will face clear difficulties in making their monthly payments. Given that many global investors are new to the U.S. MBS market, they may not be prepared for a weakening in credit quality. The fallout of this scenario could be debilitating if the free flow of credit is short-circuited.

Moody's | Economy·com
121 N. Walnut St., Suite 500
West Chester, PA 19380

Regional Economic Outlook

June 2006

Sonoma County, California (Santa Rosa CA MSA)

Steve Cochrane, 610.235.5114

SUMMARY (back to top)

Santa Rosa's open economy is in good position to benefit from an expanding global economy and extensive business investment spending. Further, the expectation of strong consumer spending among mid- to high-income households will also support the economy through the next 12 to 18 months.

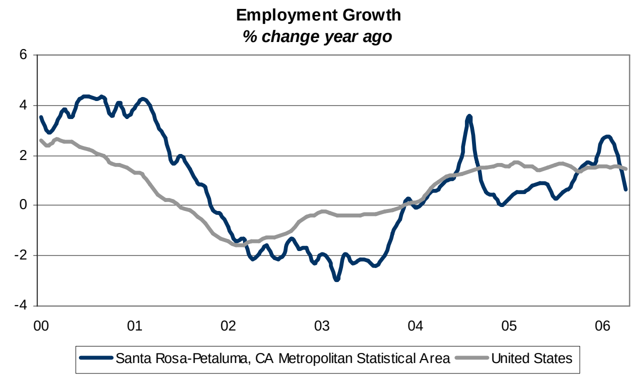
The economy is expanding at its strongest pace since the 2001 recession, with industrial production expanding well above average. Labor markets have been volatile of late, but overall, job growth remains positive and the unemployment rate amont the lowest nationwide. The strong global economy supports export demand for the area's winemaking industry, as well as its technology products. The strength of the higher-end consumer economy in the U.S. also lends support to the wine industry, as well as to the travel and tourism industry.

High housing costs generate near-term risks as households are dissuaded from living in the county and, ultimately, house prices could falter if buyers broadly turn from buying to renting in this unaffordable market. Another risk arises from the extremely large winegrape harvest this past fall. Ample supply in coming years could minimize any pricing power that the industry regained recently, offset only by the anticipated high quality of wines to come from the 2005 harvest.

Over the long run, Santa Rosa's high costs of living and doing business and the relative lack of land available for development will weigh on growth. Still, as the various tech-producing industries expand, supplemented by a travel and tourism industry with broader offerings toward health and lifestyle, the economy is expected to be an above average performer over the long term.

RECENT PERFORMANCE (back to top)

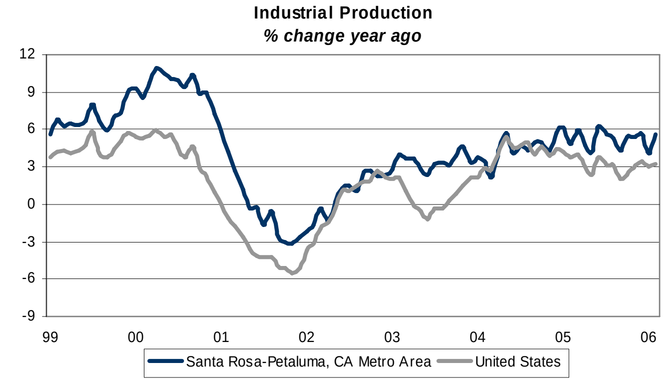
- The Santa Rosa-Petaluma economy (Sonoma County) is expanding, although growth of the workforce has been volatile lately. On average, however, the economy has almost kept pace with the national average over the past six months. Santa Rosa's important high-tech sector is stabilizing after shedding thousands of jobs over the past four years. The strongest of the area's basic industries appears to be travel and tourism, although employment in this industry has seen considerable volatility in recent months. Household finances are in good shape. Consumer loan delinquency rates did edge upward during this year's first quarter, but the overall rate remains very low, below the state and national averages.



Source: Bureau of Labor Statistics

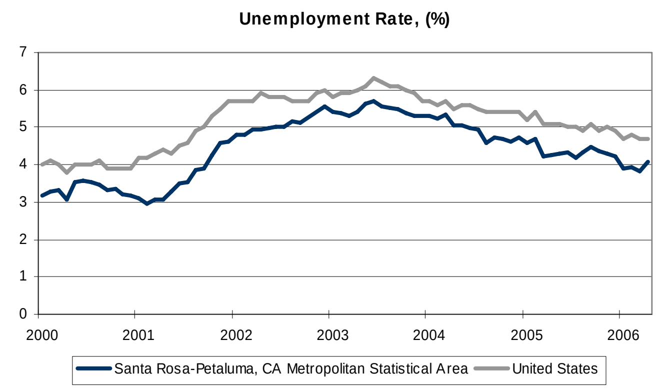
Santa Rosa-Petaluma, CA Metropolitan Statistical Area Employment, Recent Performance April 2006					
	Annualized growth rate				
	3-mo	6-mo	12-mo	5 yr	10 yr
Total	-5.7	-0.4	0.6	-0.4	1.8
Construction	-22.7	-2.0	2.1	1.0	6.0
Manufacturing	0.2	3.9	-0.9	-5.4	0.5
Wholesale Trade	-5.4	-1.7	4.2	4.9	3.7
Retail Trade	-2.5	-1.2	-0.4	-0.4	0.9
Transportation and Utilities	-2.8	-1.9	-0.1	-2.1	-1.3
Information	-7.9	1.5	-2.6	-4.9	2.3
Financial Activities	-4.8	-2.8	-1.1	-1.3	0.3
Professional and Business Services	-6.7	2.4	6.5	1.1	3.6
Education and Health Services	-5.5	-3.0	-1.7	-0.5	1.4
Leisure and Hospitality	-9.7	-0.3	1.0	2.0	2.4
Government	-1.1	-1.4	0.3	1.6	1.9
	Percent				
Unemployment rate	3.9	4.0	4.2	4.8	4.1

- Our estimate of industrial production for the metro area is rising at an above average pace. Investment in telecommunications equipment was hit hard during the first half of this decade, but finally appears to be rebounding. Accordingly, industrial producton growth has been rising at a steady rate, at about 5%, for nearly the past two years.



Source: Moody's Economy.com, Inc.

- Despite Santa Rosa's volatile job growth of late, the unemployment rate is at the lowest level since 2001. While this is partly due to a decline in labor force participation rate, it bodes well for labor compensation, which should accelerate if the labor market tightens further. The unemployment rate has tracked the national rate almost perfectly for most of this decade, remaining one to two points lower. The rather stable unemployment rate at 4% is one indication that the economy is performing stronger than what is implied by the volatility of the payroll employment estimates.



Source: Bureau of Labor Statistics

- Manufacturing employment has remained level for more than one year, although it has been volatile from month to month as some larger tech-producing firms consolidate and take operations elsewhere while smaller firms expand and add to payrolls. Professional services, transportation and government are the most stable employers at the moment.

- The sharpest recent change in labor market conditions lies within the construction industry. Just since the beginning of this year, the Bureau of Labor Statistics estimates that 1,000 out of over 15,000 total jobs in construction have been lost. Like many industries, recent figures have been volatile and the loss only erases a surge in employment in last year's fourth quarter. Nevertheless, given that construction jobs have fallen in recent months in a number of California metro areas and the housing market is highly susceptible to rising interest rates, the loss may portend some weakness in the near-term performance of the economy.

NEAR-TERM OUTLOOK (back to top)

- There will likely be some further volatility in the near-term performance of the economy as demand factors adjust to higher interest rates, elevated energy prices, and a softening of nationwide labor markets. Despite these headwinds, however, the outlook for Santa Rosa's economy is good. Overall, Sonoma County is projected to return to above average growth through the latter part of this decade, although it would be unrealistic to project growth rates matching those of the second half of the 1990s.

Hospitality

- The leisure and hospitality industry is arguably the strongest segment of Santa Rosa's so-called basic economy right now. The hotel occupancy rate for Sonoma County has risen to over 60% as of early this year, according to Smith Travel Research. This remains below the peak achieved prior to 9/11, but it has improved considerably over the past two years. Room rates have risen at a good rate over the past 12 months with increased demand, particularly for higher-end hotels. With U.S. personal income growth accelerating and corporate profits improving, the outlook for leisure and corporate travel looks better than at any time since the beginning of the 2001 recession.

- The tourism industry owes some of its recent success to the improving outlook for the wine industry, which is a key driver of tourist activity. Wine consumption has rebounded and shipments of high-end and medium-priced wines from California are rising, reflecting firmer consumer demand. This improvement in wine consumption makes winery visits and wine-related tourism all the more popular, especially in conjunction with the growing array of tourist activities in Santa Rosa.

- Visits to Sonoma County wineries rose a whopping 19% in 2005, while sales in wine tasting rooms in the county rose 11% according to a recent survey by VinQuest. This growing interest in wineries and wine tasting is likely to persist through the near term and will help offset the effects of higher energy costs on the industry.

- In addition to wineries and vineyards, there has been an increasing focus on other attractions such as spas, restaurants, outdoor activities, golf courses, equestrian facilities, theatres, farmers markets, an African safari, and even Infineon Raceway, one of the world's top racing facilities, which offers visitors the chance to get behind the wheel of a Formula One racecar through the ESPN Russell Racing School.

- The recent and projected decline in the U.S. dollar also offers some pricing support in Santa Rosa's tourism industry. Favorable exchange rates overseas versus the dollar make Santa Rosa relatively more attractive to international travelers and discourage U.S. travelers from going overseas. Sonoma County wines will likely continue to gain international recognition while the dollar falls further versus Asian currencies, presenting considerable upside potential for Santa Rosa tourism over the coming two years.

- The near-term outlook is good, but the current U.S. macroeconomic climate, with elevated energy prices, emerging inflationary pressures and rising interest rates, indicates that Sonoma County's tourism industry is edging past its peak growth rate with more moderate growth expected during the coming year. Economic growth in the U.S. currently is very strong, with first quarter GDP growth exceeding 5%. However, we do expect a moderation in national growth as the year progresses. Inflationary pressures are developing, in part due to high energy prices and the depreciation of the dollar. Slower growth in the economy and rising costs could induce consumers to delay or shorten vacations, which would in turn decrease tourism spending in Sonoma County.

- One of the major concerns for the health of the economy is high and rising energy prices. With gasoline prices nationwide near record highs of around $3 a gallon, high energy costs are eating into consumers' disposable incomes and could affect travel plans for the summer. According to the Travel Industry Association survey, summer travel will grow marginally by 1% from last year.

- Apart from U.S. macroeconomic trends, Sonoma County's tourism industry is also affected by the health of the broader regional economy. Since Sonoma County is only an hour north of San Francisco, it is to a large extent a day trip or weekend getaway spot for people who live and travel to the Bay Area. Fortunately, the Bay Area economy has improved markedly in the past year. Job growth is accelerating steadily in the broader San Francisco Bay Area. Personal income growth in the Bay Area will lead to increased spending on tourism in Sonoma County. Per capita income growth in California and the nation slowed somewhat in late 2005, and is expected to continue to moderate in the region and state through the near term.

- The state of the national and regional housing market can also have an effect on the performance of the tourism industry. Consumer spending in the past few years has been buoyed by access to home equity fueled by steady house-price appreciation and low interest rates. In this regard, the recent moderation in house-price growth nationally and especially in the Bay Area will limit consumer spending growth going forward. Higher interest rates will exacerbate house-price moderation and increase the debt-service burden of homeowners, which will also limit consumer discretionary spending.

- Expanding hotel capacity will generate additional potential growth for the travel and tourism industry. Hilton announced plans to build three new hotels, bringing their number of hotels in the county to five. In a move that signals the growing diversity of travelers to the area, the properties will be mid-priced hotels as opposed to the predominant upscale hotels that have been the norm for the last five years. The three hotels will add 300 new rooms to the towns of Windsor, Santa Rosa, and Rohnert Park, over the next two years, increasing the stock of rooms in the county by nearly 4%.

- Sonoma County hotels have enjoyed improved increased pricing power lately due to high consumer demand for travel and leisure. The Average Daily Rate (ADR) in Sonoma County increased by more than 10% in 2005 to $109 on a year-ago basis according to Smith Travel Research. Demand grew by over 10% early this year compared to one year ago. That is the largest increase in demand on a year-ago basis since 2001. At the same time, the supply of rooms has increased very little, providing hotels with increased pricing power. The challenge going forward is to maintain this pricing power as several hundred new rooms come on to the market in the near term. Carefully segmenting the market will help to maintain prices in an environment in which supply expands and the risk for demand growth is on the downside.

Wine and food products

- The North Bay wine industry has emerged from an oversupply situation during the first half of this decade, allowing some improvement in pricing power. In 2005, however, Sonoma County grape growers produced a record tonnage of excellent-quality grapes following a season of late rains and near ideal growing conditions. The county's tonnage was up by a whopping 21% over the 2000 record and revenue was up by 11%, according to the Sonoma County Grape Growers Association. Prices weakened initially, in response to the increased supply, but the excellent quality of the grapes helped to stabilize prices rather quickly. Thus, there are prospects for very high quality wine that may well command good prices even as supply rises as vintages are released to the market in coming years.

- Consumers' appetite for wine seems to remain strong. U.S. and global consumption is at a record high and should continue as the global economy expands. Statewide, premium wines—those most often grown in Sonoma County—saw a 13% increase in case volume in 2005. Everyday wines, priced under $7 per bottle, declined by 2%. Thus, should such trends continue, Sonoma County's wine industry should see good demand growth going forward.

- One downside factor for the wine industry is that, while global demand has continually risen since 2001, U.S. exports peaked during the first half of 2005. There was some rebound during the early months of 2006, but the turnaround is still tentative. Still, the outlook remains positive, largely due to the expectation that the value of the dollar will fall by 3% to 5% annually through 2008, mainly versus Asian currencies, providing an additional pricing advantage for U.S. wines in expanding overseas markets.

- Demand for wine grew at a remarkable clip though 2005 and into early 2006, as the broader economic recovery drove healthy income growth. Consumer spending on wine and brandy rose by over 10% in 2005, the fastest pace of growth since 1990. Further, consumer spending data though April 2006 affirms that spending continues to grow at a double-digit clip through early 2006, suggesting that this will be another banner year for wine demand nationally.

- Notably, unlike two years ago, consumer demand growth is not being driven by the availability of cheaper domestic and imported wines, but is coming at a time when consumer prices for wine have been steadily rising. Consumer prices for wine rose in 2005 at the fastest pace since 1997, a marked turnaround from the lackluster price growth seen between 2000 and 2004. Prices paid by consumers for wine accelerated further through April 2006, and is yet to make much of a dent on demand for wine.

- One marked problem with the broader domestic wine industry, and particularly in Sonoma, is branding constraints. Wine drinkers in general maintain very little brand loyalty, making wine purchasing decisions based on price, region and brand, in that order. Thus, winemakers in Napa are able to charge on average 15% higher for their wines than Sonoma, largely due to better name recognition.

- There is some evidence that more sophisticated branding and marketing, especially to the younger 21 to 25 year age cohort—or millennials—who are the hope of the wine industry to pick up the mantle after the baby boomers. Wines like Australia's Yellow Tail and Don Sebastiani & Son's Smoking Loon have posted phenomenal growth over the past few years, largely on the back of more hip marketing. More wineries may replicate this approach to broaden wine's appeal.

- Export markets remain underdeveloped, due both to low price points of current exports and continued difficulty in raising quality perceptions among foreign consumers. The flow of less expensive California wines abroad for the last two years has worked to further weaken perception. A recent survey among wine drinkers in the U.K., California, Canada, Germany, and Japan noted increased awareness of California wines, but a decrease in perceived quality.

Technology

- The economy still faces some churning as technology-producing manufacturers continue to consolidate and cut costs. Yet, it is remarkable that manufacturing employment is holding steady, even as firms such as Agilent and Alcatel have contracted local units and the former Next Level Communications and Tegal Corp. have shut local operations.

- Despite recent cuts, Agilent is signaling a long-term commitment to the Santa Rosa metro area with $50 million worth of improvements to its local campus. Further, JDS Uniphase also is reinvesting in its production and R&D facilities to restructure local production.

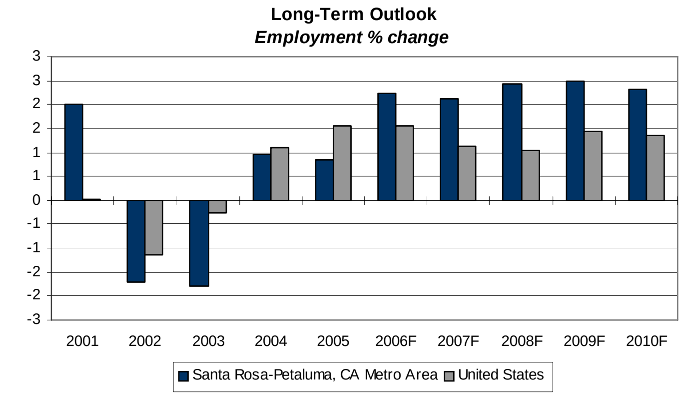
- Aside from Santa Rosa's larger tech-producing firms, smaller telecom equipment producers, such as Calix and Technovus, have introduced new products in response to improving demand among telecom service providers. Technovus, for example, is providing chipsets to a Japanese network-component company to be installed in high-speed voice, video, and data equipment for telecom providers. An improvement in Bay Area venture capital placements through 2005 generates further potential for small firms such as these to find capital for planned expansions.

- The outlook for telecom equipment is much improved from a year ago. U.S. investment spending on communications equipment is expanding rapidly, as capacity utilization rises and new technology drives the industry. International demand is also strong as emerging market countries build out their telecom systems, often using cell phone systems to complete the more rural portions of their service territories.

- The key to the outlook for technology and telecom equipment is a continued rapid pace of business investment spending both domestically and abroad. Investment in technology equipment accelerated in this year's first quarter to 8% over the year, its strongest rate of growth since early 2004. One year from now, as the U.S. economy continues to expand and some capacity constraints begin to arise, investment spending may once again accelerate.

- The outlook for medical equipment and pharmaceuticals is more assured over the long term given advances in technology and expanding demand from an aging population. A direct example of the impact on Sonoma County is the impending expansion of NeilMed Pharmaceuticals, which plans to double its current staff when it moves to a larger facility near the airport.

Professional Services



Source: BLS, Moody's Economy.com, Inc.

- Job growth among professional services expanded strongly over the past year, a sure sign that the economy is back on its feet after a weak post-recession recovery period. Employment growth for services such as accounting, advertising, and legal services is rising as profit margins widen and the economy expands. Given that so many of the area's basic industries are now stable at worst, and indeed expanding, accelerating profit growth and some capacity constraints help support demand for a range of outside business and professional services. The near-term outlook is very good for such services and hiring should remain robust across these industries.

- As measured by employment growth, the fastest growing component of professional services at the moment, which is closely related to Sonoma County's tech-producing economy, is the broadly defined professional, scientific and technical services industry. Over the past year employment in this industry classification has risen by 1,100 workers to nearly 11,000. This is one of the more robust components of the economy and illustrates the health of the technology-based industries in the county. It is research and development produced by local electronics, telecom and biotech firms, supported by this expanding cluster of technical support workers.

- Finally, the coming expansion of two major medical facilities in Santa Rosa generates good prospects for professional and technical services. Sutter Medical Center will be constructing a new $257 million hospital in the coming years in Santa Rosa. Further, Kaiser Permanente Medical Center will be spending about the same amount to upgrade its existing hospital and to build a new medical office building.

LONG-TERM OUTLOOK: POSITIVE FACTORS (back to top)

- The long-term outlook for the area's key industry, winemaking, remains favorable. Improving name recognition and rising global wine consumption are positive fundamentals driving the industry outlook. That said, the coming decade will not see the soaring demand, pricing power, nor solid profitability of the past decade. Furthermore, it will become increasingly difficult for the industry to expand in Santa Rosa as land becomes more scarce.

- National demographic trends also suggest healthy long-term prospects for grape growers and winemakers. Per capita consumption of wine rose to a new peak in 2005. Shipments to domestic markets also rose to a new record last year. Core wine drinkers—those who consume wine at least weekly—account for 12% of the total population, but 80% of consumption. This share of core consumers has risen since 2000, after holding steady through the 1990s. Finally, the share of the core consumers in the population rises with age cohort, an encouraging sign in an aging nation.

- The long-term outlook for Sonoma County's tourism industry remains favorable. The region is growing in recognition and its proximity to Bay Area attractions will continue to support tourist traffic. Moreover, the continued strong popularity of wine and the wine-related culture underpin the positive fundamental outlook for the industry.

- Demographic trends suggest healthy longer-term prospects as well. Baby boomers are nearing retirement age with well-developed tastes for travel and recreation, in addition to the discretionary income to fund these tastes. Wine consumption is growing among all generational segments, according to MKF Wine Business Advisors. Baby boomers are leading the way, but interest in wine is growing among not only women but men and nearly all ethnic groups. Thus, as baby boomers retire in the years to come, they are expected to generate a great deal of travel to the Bay Area and to Sonoma County in particular. Well-heeled retirees will likely support the housing market longer term as well.

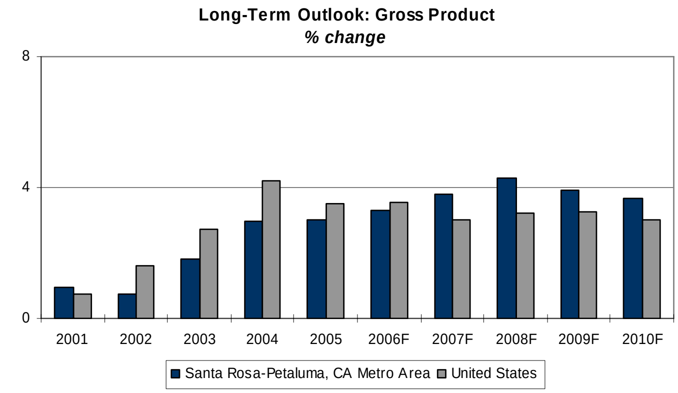
- In an effort to diversify away from the wine industry, the area is increasingly leveraging its existing infrastructure. For instance, specialty food products that complement the wine industry are developing in the region. These include olive oils, cheeses, and a range of organic vegetables and meat products. Such goods are linked to the tourism industry as well, as visitors sample these products locally and then generate new markets once they return home. Similarly, these niche industries play an increasingly important role as suppliers to restaurants throughout the San Francisco Bay Area.

- The wealth of the Santa Rosa area creates good long-term potential for financial service providers and a wide variety of personal services. This will become increasingly important as retirees are drawn to the area in the coming decade. Given the high cost of living in the area, retirees will generally have a high level of wealth, generating demand for personal services, financial services, and healthcare.

- A brightening feature of the area's economy is an improvement of the infrastructure linkages between Santa Rosa and the rest of the region. Long-suffering commuters to Marin County and San Francisco will get some relief in coming years as the congested Highway 101 corridor gets a complete makeover. The highway is being widened and improved, a project that has been in the planning stages for many years, but was stalled by environmental and budgetary constraints.

- A second improvement is the return of commercial air service to Santa Rosa. Horizon Air has entered into an agreement to commence service to the Pacific Northwest and southern California. Affordable flights to Los Angeles, priced at $99, will start in March 2007. Thus, with the improved highway and air links, economic links with nearby San Francisco, and farther up and down the West Coast, will help to spur the local economy over the long term.

LONG-TERM OUTLOOK: NEGATIVE FACTORS (back to top)



Source: Moody's Economy.com, Inc.

- Santa Rosa's major weakness is its very high cost structure. Although California is known for being expensive, business costs in Santa Rosa are even higher than the state average. High business costs will weigh on the pace of long-term growth, particularly as high-tech products become commodities and production is shifted to less costly locations, often overseas. Energy costs are of particular concern in the county, as well as the state as a whole. There are possibilities of electricity shortages in the summer months, while oil and gas prices remain high and show little sign of moderating.

Index of Relative Business Costs

	Labor Cost		Tax Burden		Energy Cost		Office Space		Overall Index	
	Index	*Rank*	Index	*Rank*	Index	*Rank*	Index	*Rank*		*Rank*
Santa Rosa-Petaluma	**114**	***68***	**99**	***116***	**196**	***22***	**102**	***38***	**124**	***18***
San Francisco-Oakland-Fremont	112	87	99	117	196	23	139	8	128	12
San Jose-Sunnyvale-Santa Clara	93	345	99	118	196	24	133	9	116	42
Oakland-Fremont-Hayward, CA Metropolitan Division	116	50	100	104	196	18	125	14	127	16
Denver-Aurora	116	40	73	363	90	234	76	130	102	133
Seattle-Tacoma-Bellevue	111	103	99	110	105	123	85	75	107	79
Portland-Vancouver-Beaverton	81	384	102	84	95	200	84	80	86	363
Sacramento--Arden-Arcade--Roseville	121	10	98	126	196	27	111	26	130	8
Salt Lake City	105	174	96	154	105	130	83	82	101	138

Notes:
1) Rank is out of 390 metro areas and metro divisions.
2) U.S. average = 100.
3) Labor Costs are measured by total earnings per employee at the 3-digit NAICS level.
4) Tax Burdens are measured by all taxes excluding severance, education, and hospital taxes relative to personal income.
5) Energy costs are measured by cents per kWh for industrial and commercial users.
6) Office costs are measured by rent per square foot.
7) In the Overall Index, Labor Costs have 65% weight, Energy Costs have 15% weight, and Office Costs and Taxes have 10% weight.

- Housing affordability also remains a persistent problem in Santa Rosa. House prices have risen to prohibitively high levels, especially in the Bay Area, where the median priced house costs more than three times as much as the national average. Although the area's current weak demographic trends do not support such price growth, environmental constraints as well as the area's natural beauty and temperate climate work together to keep prices high. These factors are expected to bolster the housing market and prevent a severe correction of house prices amid rising interest rates. However, the near-term risk for house prices is decidedly on the downside, as we estimate that the market is very overpriced based on current demographic and income trends.

- Another weakness of the local economy is the specialized nature of the economy, as indicated by its low diversity index of just 0.47. The winemaking industry, the tech-producing industries (with their focus on telecom and medical instruments), and the travel and tourism industries are the primary drivers of growth in the local economy. When U.S. and global demand are strong for these three industries, the local economy thrives. But when demand falters, the local economy slows, creating potential for a volatile pattern of growth over the long term. This is indicated by the area's volatility index of 194, which is well ahead of most metro areas in northern California outside of San Francisco. Its beta index of 1.68 is indicative of an economy that reacts strongly, indeed overreacts to a certain extent, to changes in the U.S. economy. This poses some downside risk should the U.S. economy slow considerably through late 2006 and into 2007. Sonoma County's economy could react with a possibly sharper downturn.

- Already, Santa Rosa's technology industries have taken a diminished role in the economy, as many tech-producing firms have consolidated and shifted production offshore. While winemaking and tourism are firmly rooted in Sonoma County, they too could face considerable global competition going forward. Given that the economy remains somewhat specialized, it would struggle to find new growth drivers.

- Challenges for Sonoma County over the long term include the ability for winemakers to maintain their competitiveness in an increasingly global market where cost containment and quality control will be critical. Similarly, the tourism industry will have to keep its offerings fresh as wine, specialty foods, and lifestyle offerings become ubiquitous features of global tourism. In the past, the area's economy has proved itself to be resilient and its industries, including technology, have been able to restructure and remain competitive. The projected positive outlook assumes these qualities will continue, generating slightly above average growth over the long term.

Employment Diversity and Volatility

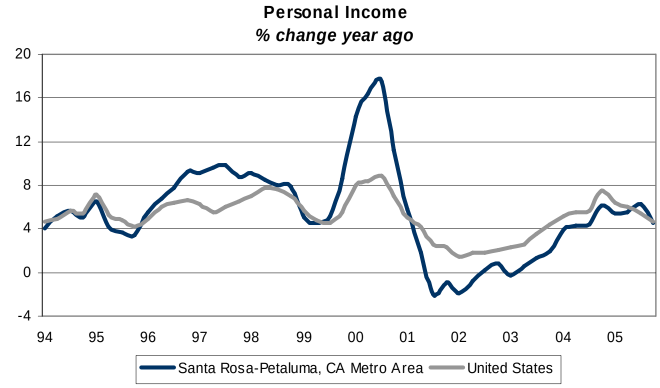
	Diversity[1]	Volatility 1996-2005			
	2004-2005	Total[2]	Systematic[3]	Nonsystematic[3]	Beta[4]
Santa Rosa-Petaluma	**0.47**	**194**	**87**	**13**	**1.68**
San Francisco-Oakland-Fremont	0.63	215	95	5	2.03
Oakland-Fremont-Hayward, CA Metropolitan	0.73	153	89	11	1.36
Vallejo-Fairfield	0.63	139	29	71	0.40
Portland-Vancouver-Beaverton	0.74	179	82	18	1.47
Sacramento--Arden-Arcade--Roseville	0.69	92	68	32	0.62
United States	1.00	100	100	0	1.00
Median	0.51	124	67	33	0.76

Notes:

1) Diversity is defined as the extent to which an MSA's industrial structure approximates that of the nation. The more closely the MSA's economy resembles the national economy, the higher the value. The diversity measure is bounded between 0 and 1. 1 means the MSA has the same industrial structure as the U.S., 0 means it has a totally different industrial structure than the U.S. Diversity is estimated using data for 2003 and 2004.
2) Total volatility is the standard deviation of an MSA's employment growth. This relative deviation has been indexed to the United States = 100. Volatility is estimated using data between 1995 and 2004.
3) Systematic fluctuation is that portion of an area's economy that is associated with national economic fluctuations. Nonsystematic volatility is that portion of an area's volatility not associated with national economic fluctuations.
4) Beta measures the magnitude of an area's sensitivity to national economic conditions. The U.S. average, by definition, is 1. A one percentage point increase in national employment will cause that portion of a metro area's employment base to rise by the percentage value of beta.

INCOME (back to top)

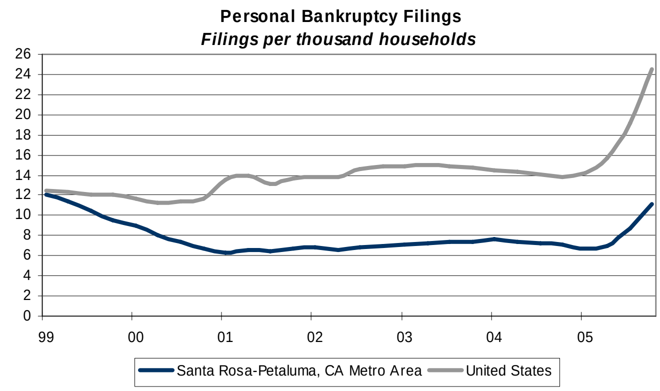
- Income growth in Santa Rosa has improved recently with the economy's turnaround and the rate of growth no longer lags behind the national average. This is the first time in four years that income growth has kept up with the U.S. average. Improving wages and salaries from the broad-based travel and tourism industry are supporting the improved income trends. More recently, the record grape harvest and the fact that prices did not plunge with the increased supply, generated very strong farm income during the latter part of 2005.



Source: BEA, Moody's Economy.com, Inc.

- The overall improvement in Sonoma County's economy has generated an improvement in estimated per capita income in the area. Although per capita income remains higher than the national level, its growth had been mostly flat since 2000. This trend finally turned upward in 2005, generating further evidence that the economy is in expansion mode once again.

BALANCE SHEETS (back to top)



Source: Administrative Office of U.S. District Courts

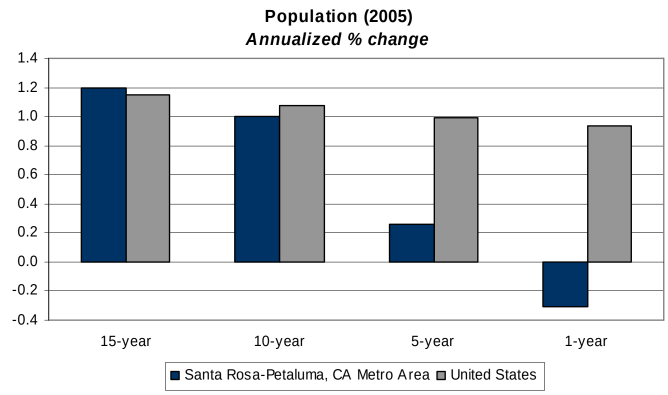
- Household credit quality in Santa Rosa remains impressively strong. Personal bankruptcies, which have edged upward nearly everywhere since mid-2005, due to a change in bankruptcy law in October 2005, rose much more modestly in Santa Rosa than elsewhere. High per capita income and sky-rocketing house prices have kept credit conditions in Santa Rosa strong.

- As the local housing market adjusts to higher interest rates, however, there is a risk that a halt in house-price appreciation will bring to an end the widespread ability of homeowners to tap seemingly ever-rising home equity to supplement household income. Furthermore, as mortgage rates reset this year and next, generating higher monthly payments and thus higher debt service burdens, household financial conditions could deteriorate.

- Indeed, according to CreditForecast.com (a joint service of Moody's Economy.com and Equifax), the overall delinquency rate of consumer loans in Sonoma County rose in the first quarter of 2006 to above 1.1%. This marks the first time it has broken this barrier since mid-2004. So far, however, this rate is relatively low, well below the state rate of 1.7% and the U.S. rate of 2.5%. Further, the rise in the first quarter was much tamer locally than it was in the state or the U.S. So it appears that, despite some indicators of deterioration, credit quality remains rather solid in Santa Rosa, although risks remain for the remainder of this year and next. Much depends on the pace of interest rate hikes and the path of adjustment for the area's housing market.

- Corporate credit quality is not quite as strong. Business bankruptcy filings rose by 20% over the year through the end of 2005, well ahead of the increases in California and the U.S., which were in the low teens. This weakness reflects the problems Santa Rosa's high-tech industries continue to face as consolidation continues.

DEMOGRAPHIC TRENDS (back to top)

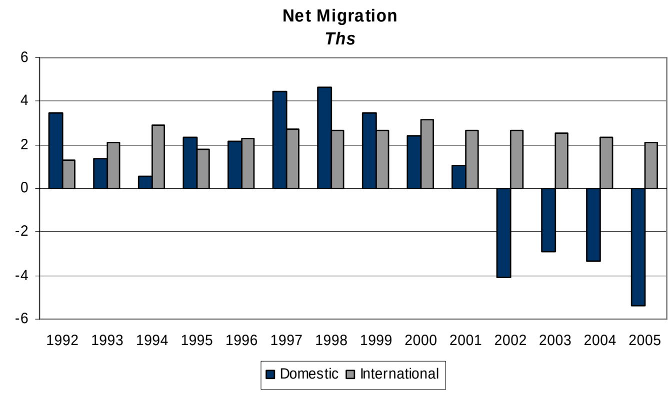


Source: BOC

- One indication that the economy may continue to struggle in maintaining long-term growth is a weak pattern of demographic trends. The Census Bureau estimates that population growth has consistently slowed over the past 15 years, so much so that the bureau estimates that population actually fell in 2005 by 0.3%. If this estimate holds, following revisions based on the 2010 census, it would be the first decline in Santa Rosa's post-World War II history.

- It should be noted that a separate estimate by the Demographic Research Unit of the California Department of Finance estimates that population posted positive growth of 0.4% in 2005, although this too was a deceleration from the previous year. The DRU supplements its estimation techniques with data from neighboring states on migration trends based on changes of address on driver licenses. Still, 0.4% is less than the historical average and illustrates the difficulty that high housing prices create in limiting in-migration. This then contributes to a slow pace of labor force growth, which could limit long-term growth in the area should this trend continue.

- Population growth, however, is expected to accelerate in coming years, to exceed 1% annually, and once again lead the U.S. and statewide averages. This rate of growth would be consistent with long-term trends and would be necessary to provide an adequate labor force for the expanding economy. It is based on assumptions of continued growth in the economy and improved housing affordability as price appreciation slows considerably.



Source: BOC

- Yet there is considerable downside risk to this outlook. First, housing affordability is close to an all-time low. Moody's Economy.com estimates that at year-end 2005, the median income-earning household in Santa Rosa could afford to buy a house costing just 44% of the median sales price, which exceeds $600,000 according to the California Association of Realtors.

- Santa Rosa's population is somewhat skewed toward the older cohorts. An above average share of its population is between the ages of 45 and 65. In the near term, this highly productive cohort will contribute to strong productivity growth. But over the coming ten years, this cohort will begin exiting the labor force through retirement, which will begin to erode the area's above average labor participation rate and weigh on its long-term productivity growth.

Population Profile	% of total Population, 2004	
Rosa-Petaluma, CA Metropolitan Statistical Area		US
Age 5-19	21.1	20.9
Age 25-44	26.6	28.7
Age 45-64	26.8	24.1
Over age 65	12.5	12.4
Birth Rate, (# of Births per 1000)	12.1	14.0
Death Rate, (# of Deaths per 1000)	8.1	8.4
Median Age (2000 Census)	37.5	35.3

Source: BOC

Migration Flows - Santa Rosa-Petaluma, CA Metropolitan Statistical Area

Into Santa Rosa-Petaluma, CA Metropolitan Statistical Area	Number of Migrants	Median Income
San Francisco-San Mateo-Redwood City, CA Metropolitan Division	3,352	36,702
Oakland-Fremont-Hayward, CA Metropolitan Division	1,164	30,204
Sacramento--Arden-Arcade--Roseville, CA Metropolitan Statistical Area	700	25,070
San Jose-Sunnyvale-Santa Clara, CA Metropolitan Statistical Area	549	41,315
Los Angeles-Long Beach-Glendale, CA Metropolitan Division	545	23,199
Napa, CA Metropolitan Statistical Area	545	32,272
Vallejo-Fairfield, CA Metropolitan Statistical Area	424	32,499
San Diego-Carlsbad-San Marcos, CA Metropolitan Statistical Area	273	19,166
Riverside-San Bernardino-Ontario, CA Metropolitan Statistical Area	248	20,323
Santa Ana-Anaheim-Irvine, CA Metropolitan Division	205	26,249
Inmigration	**14,117**	**26,582**

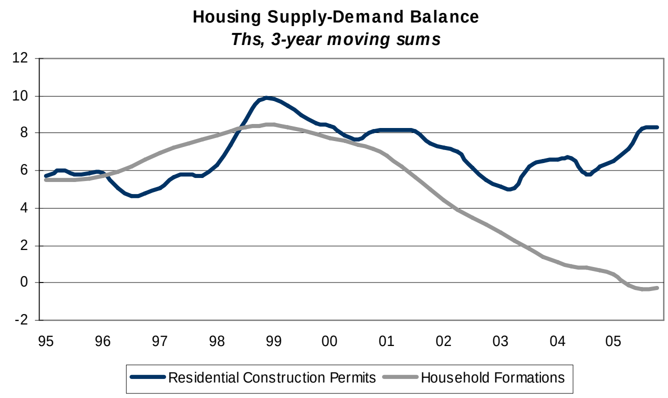
From Santa Rosa-Petaluma, CA Metropolitan Statistical Area	Number of Migrants	Median Income
San Francisco-San Mateo-Redwood City, CA Metropolitan Division	2,053	32,109
Sacramento--Arden-Arcade--Roseville, CA Metropolitan Statistical Area	1,446	32,668
Oakland-Fremont-Hayward, CA Metropolitan Division	963	28,959
Vallejo-Fairfield, CA Metropolitan Statistical Area	519	36,022
Napa, CA Metropolitan Statistical Area	474	31,847
San Diego-Carlsbad-San Marcos, CA Metropolitan Statistical Area	466	22,307
Los Angeles-Long Beach-Glendale, CA Metropolitan Division	461	21,102
Phoenix-Mesa-Scottsdale, AZ Metropolitan Statistical Area	397	29,361
San Jose-Sunnyvale-Santa Clara, CA Metropolitan Statistical Area	383	35,226
Riverside-San Bernardino-Ontario, CA Metropolitan Statistical Area	323	25,692
Outmigration	**17,496**	**27,297**
Net Migration	**-3,379**	**-715**

Note:
Net Migration: Number of Migrants is the net flow of migrants.
Income is the difference between the weighted average of the median income of inmigrants and that of outmigrants.

Source: Moody's Economy.com calculation from 2004 IRS data

RESIDENTIAL REAL ESTATE (back to top)

- House-price appreciation has slowed in Santa Rosa, a delayed response to market oversupply finally triggered by rising mortgage interest rates. Some of the previous run-up in the market was the result of speculative buying as well as second home purchases. Speculative buying is likely coming to a quick end with the rising interest rates. The demand for second homes and retirement homes, however, will likely continue and should lend some stability to the market as it adjusts to a higher interest rate environment. Anecdotal evidence suggests that currently, roughly 20% to 30% of houses are sold as second homes to a wide assortment of both domestic and foreign buyers.



Source: BOC, Moody's Economy.com, Inc.

- Houses in the Bay Area are definitely among the most expensive in the state, and Santa Rosa now has the second highest median house price in that area, led only by the San Francisco metro division. Thus, there is considerable risk of a price correction in the near term.

COMMERCIAL REAL ESTATE (back to top)

- With office space-using employment now rising, demand for commercial real estate is the highest it has been since the 2001 recession. Office vacancies are plentiful, leading to improvement in asking lease rates. However, given the high vacancy rates, which have exceeded 20% over the past five quarters, according to Keegan & Coppin Co. in Santa Rosa, little new construction is in the pipeline. Much of the vacant space is concentrated in the Rohnert Park area due to the abandonment of Agilent Technologies' former Rohnert Park campus. In fact, this massive property single-handedly reversed Santa Rosa's otherwise improving absorption rates. Demand growth for office space should improve over the coming year.

- Industrial markets appear to be much stronger. Keegan & Coppin estimates a 6.1% vacancy rate in this market as of the first quarter of 2006, down from 8.5% a year earlier and a peak rate of 11% in mid-2004. Given that a number of small firms are garnering venture capital and other sources of capital infusion, the outlook for industrial space demand is reasonably good, although it will likely be absorbed in small increments. Moreover, construction permit issuance has been slow for new industrial space.

- Retail markets are stable. The vacancy rate for retail space has held steady at about 4% over the past several years and there seems to be no prospect of overbuilding in this segment of the industry.

FORECAST RISKS (back to top)

- Rising interest rates pose the greatest near-term risk to the economy. First, higher rates are cooling the housing market and house prices have begun to level off. While our baseline forecast expects a moderate decline in house prices, an unexpected surge in interest rates could very well drive all speculative pressures from the market and cause a more serious price decline that could amount to a double-digit percentage drop.

- Second, higher interest rates could put some downward pressure on the rate of business investment spending. The economy is growing rapidly enough that emerging production constraints in the near term will be strong enough to drive investment spending upward. But if rates were to rise higher or more quickly than expected, some investment spending would be choked off with negative consequences for Santa Rosa's durable goods producers.

- Further risk arises from continued elevation of fuel prices, which could limit leisure travel this summer. This would be particularly difficult for the economy if price hikes filtered through to the previously competitive air travel industry. Until recently, competition from low-cost air carriers kept airline fares remarkably low. But even low-cost carriers cannot hedge high fuel prices forever, and fares are beginning to creep upward. Further hikes would mean that both auto and air travel could feel considerable downside pressure this summer and into 2007, limiting growth in Santa Rosa's travel and tourism industry.

- Additionally, if energy prices do not moderate in the near term as expected, hotels' plans for expansion in Sonoma County could be at risk. Hotels have been planning to build more moderately priced properties, hoping to accommodate more visitors with moderate-income levels. However, these visitors are generally more sensitive to rising energy costs and interest rates. Therefore, these new hotel offerings at lower price points may not see the strong demand that is hoped for. Another rise in oil prices would pinch consumer spending, particularly for nonessential items like travel.

- A longer-term downside risk arises from concern that Sonoma County wines will not be able to remain competitive in the global marketplace. Global supply is rising and the bountiful 2005 grape harvest in northern California will keep supplies plentiful in the near term. Further, the quality of global brands is improving and the sheer proliferation of brands makes it harder to maintain brand loyalty.

- Upside potential comes from the possibility that global demand growth for Santa Rosa's goods and services could improve considerably in the near term. This is likely if the dollar falls further and more rapidly versus Asian currencies now that the Chinese yuan is allowed to be traded more openly, at least within the band restrictions set by the Chinese central bank. It is likely that the dollar will fall by about 5% per year over the coming three years versus the Chinese and other Asian currencies, generating additional pricing power for U.S.-made goods in that region of the world.

- A large portion of the visitors who come to Sonoma County have traditionally been from higher-income households, and would therefore be less sensitive to potential increases in energy prices and interest rates. Demand for the high-end tourism that Sonoma County is able to provide through food, wine and golf could remain stronger than we expect, if the structure of the tourism market there remains heavily weighted toward the upper income bracket.

MAJOR EMPLOYERS (back to top)

Major Employers: Santa Rosa-Petaluma CA

Rank	Employer	Industry	Employee
1	Kaiser Permanente	Education or Health Service	2,200
2	St. Joseph Health System	Education or Health Service	1,918
3	Agilent Technologies	Manufacturing	1,900
4	Medtronic Vascular	Manufacturing	1,290
5	Sutter Medical Center of Santa Rosa	Education or Health Service	1,024
6	Safeway, Inc.	Retail Trade	960
7	Kendall-Jackson Wine Estates	Manufacturing	920
8	Home Depot	Retail Trade	900
9	Amy's Kitchen	Manufacturing	832
10	JDS Uniphase Corporation	Manufacturing	800
11	Albertsons, Inc.	Retail Trade	780
12	River Rock Casino	Leisure and Hospitality	701
13	Hansel Auto Group	Retail Trade	652
14	Wal-Mart Stores, Inc.	Retail Trade	610
15	AT&T California	Information	600
16	State Farm Insurance Company	Financial Activities	566
17	Washington Mutual	Financial Activities	560
18	Longs Drug Stores, Inc.	Retail Trade	550
19	Beam Wine Estates	Manufacturing	500
20	Pacific Gas and Electric Company	Trans./Warehouse/Utilities	500
21	Mary's Pizza Shack	Leisure and Hospitality	500

Source: North Bay Business Journal - Sonoma County, Feb 2006

DEMOGRAPHIC PROFILE (back to top)

Indicator	Units	Statistical Area	U.S.	Rank	Year
Households					
Households, % change (2000-2005)	Ann. % change	0.6	1.0	252	2005
Population w/ B.S. degree or higher	% of adult population	28.5	24.4	77	2000
Median household income	$	60,719	45,503	30	2005
% change year ago		*1.5*	*2.5*	252	2005
Population					
Per capita income	$	36,466	31,484	43	2003
% change year ago		*0.4*	*2.2*	375	2003
Population	thousands	466	296,410	130	2005
% change year ago		*-0.3*	*0.9*	359	2005
White	%	81.6	75.1	206	2000
Black or African American	%	1.4	12.3	321	2000
Hispanic	%	17.3	12.6	64	2000
Asian	%	3.3	3.8	73	2000
Net domestic migration, rate	Persons/ths. pop.	-11.5	0.0	362	2005
International migration, rate	Persons/ths. pop.	4.5	3.5	67	2005
Poverty rate	%	8.1	12.4	44	1999
Median age	years	37.5	35.3	319	2000
Household Cost Indexes					
Housing affordability index	Index: U.S.=100	44.9	129.6	388	2005
Median existing home price	$ ths	706.3	220.5	5	2005
% change year ago		*-17.5*	*-8.1*	344	2005
Cost of living	Index: U.S.=100	134.94	100	373	2004

TABLES (back to top)

Table 1: Sonoma County Clusters
Industries within clusters are listed by their North American Industry Classification System codes

Basic Clusters

1) Agriculture, Wineries, and Food Processing

111,112	Farming
311	Food manufacturing
3121	Beverage manufacturing
4238	Machinery, equipment, and supplies, wholesale
4245	Farm-product raw material, wholesale

2) Information Technology

5112	Software publishers
5161	Internet publishing and broadcasting
5181	Internet service providers and web search portals
5182	Data processing services
5415	Computer systems design and related services

3) High-tech electronics

3341	Computer and peripheral equipment
3342	Communications equipment
3342	Audio and video equipment
3344	Semiconductors and other electronic components

4) High-tech Instruments and Optical Goods

3345	Navigational, measuring, electromedical, and control instruments
3346	Manufacturing and reproducing magnetic and optical media
3391	Medical equipment and supplies

5) Other High-value Manufacturing

3332	Industrial machinery
3334	Ventilation, heating, air-conditioning, and refrigeration equipment
3351	Electric lighting equipment
3352	Household appliances
3353	Electrical equipment
3359	Other electrical equipment and components

6) Resource-based Manufacturing

316	Leather and allied products
321	Wood products
322	Paper manufacturing
327	Nonmetallic mineral products

7) Financial Activities excluding real estate

521	Monetary authorities - central bank
522	Credit intermediation and related activities
523	Securities, commodities, and other investments
524	Insurance carriers and related activities
525	Funds, trusts, and other financial vehicles

8) Tourism

4811	Scheduled air transportation
4812	Nonscheduled air transportation
4853	Taxi and limousine services
4855	Charter bus industry
487	Scenic and sightseeing transportation
4881	Support activities for air transportation
5121	Motion picture and video industries
5321	Automotive equipment rental and leasing
5615	Travel arrangement and reservation services
711	Performing Arts, Spectator Sports, and Related Industries
712	Museums, Historical Sites, and Similar Institutions
713	Amusement, Gambling, and Recreation Industries
7211	Traveler accommodation
7212	Recreational vehicle parks and recreational camps
7221	Full-Service Restaurants
7223	Special Food Services
7224	Drinking Places (Alcoholic Beverages)

Non-basic Clusters

9) Engineering and Research

5413	Architectural, engineering, and related services
5417	Scientific research and development services

10) Legal Services

5411	Legal services

11) Health Services

621	Ambulatory health care services
622	Hospitals
623	Nursing and residential facilities

12) Other Professional Services

3231	Printing and support activities
5412	Accounting, taxes, bookkeeping, payroll services
5414	Specialized design services
5416	Management, scientific, and technical consulting
5418	Advertising and related services
5419	Other professional, scientific, and technical services
55	Management of companies and enterprises
5611	Office administrative services
5612	Facilities support services
5613	Employment services
5614	Business support services
5616	Investigation and security services
5617	Services to buildings and dwellings
5619	Other support services
562	Waste management and remediation services

13) Retail Trade

441	Motor vehicle and parts dealers
442	Furniture and home furnishing stores
443	Electronics and appliance stores
444	Building materials and garden equipment and supplies
445	Food and beverage stores
446	Health and personal care stores
447	Gasoline stations
448	Clothing and accessory stores
451	Sporting goods, hobby, book, and music stores
452	General merchandise stores
453	Misc. store retailers
454	Nonstore retailers

Table 2: Leading Clusters in Sonoma County

1) Agriculture, Wineries, and Food Processing

2) Information Technology

3) High-value Added Manufacturing
   a) High-tech electronics
   b) High-tech instruments and Optical Goods
   c) Other high-value manufacturing

4) Tourism

5) Professional Services
   a) Engineering and Research
   b) Other professional services

6) Retail Trade

Table 3: Sonoma County Historical Summary Indicators

	2000	2001	2002	2003	2004	2005	Annual Growth 00-05
			Economy				
Gross Metro Product (Mil 2000$)	16.1	16.2	16.3	16.7	17.2	17.8	2.1
% Annual Change	10.3	0.8	0.9	2.1	3.4	3.2	
Gross Metro Product (Mil $)	16.1	16.3	16.8	17.4	18.5	19.6	4.1
% Annual Change	10.8	1.8	2.6	3.8	6.1	6.1	
Non-farm Employment (Ths)	186.1	189.8	186.6	183.2	185.0	186.6	0.1
% Annual Change	3.8	2.0	-1.7	-1.8	1.0	0.9	
			Components of Employment				
Mining and Natural Resources	0.4	0.3	0.3	0.3	0.2	0.2	-11.7
Construction	13.1	13.7	13.3	13.0	13.7	14.3	1.7
Manufacturing	30.2	30.4	27.3	25.3	24.2	23.7	-4.7
Trade, Transportation, and Utilities	33.6	34.1	34.1	33.9	34.2	34.7	0.7
Wholesale Trade	5.8	5.9	6.0	6.3	6.7	7.3	4.9
Retail Trade	23.7	24.1	24.0	23.8	23.6	23.7	0.0
Transportation and Utilities	4.1	4.0	4.1	3.8	3.9	3.7	-2.0
Information	4.1	4.5	4.2	4.0	4.3	3.8	-1.3
Financial Activities	10.2	10.4	10.3	10.3	10.0	9.7	-1.0
Professional and Business Services	20.6	20.0	19.0	19.0	19.6	20.4	-0.2
Education and Health Services	22.0	22.9	23.3	22.7	22.5	22.6	0.5
Leisure and Hospitality	17.9	18.7	19.7	19.9	20.2	20.5	2.7
Other Services	6.4	6.8	6.7	6.4	6.4	6.2	-0.5
Government	27.6	28.0	28.4	28.5	29.7	30.5	2.0
Labor Force (Ths)	253.4	257.8	257.7	254.7	256.8	258.1	0.4
% Annual Change	1.7	1.8	0.0	-1.1	0.8	0.5	
Number of Employed (Ths)	244.9	248.4	244.6	240.9	244.1	246.9	0.2
Number of Unemployed (Ths)	8.5	9.4	13.1	13.9	12.7	11.2	5.8
							Average
Unemployment Rate (%)	3.3	3.6	5.1	5.5	4.9	4.3	4.5
			Income, Demographics, and Consumption				
Personal Income (Mil $)	16,777.9	16,968.8	16,966.7	17,212.7	18,202.9	19,215.0	2.7
% Annual Change	14.8	1.1	0.0	1.4	5.8	5.6	
Real Personal Income (Mil 2000$)	16,777.4	16,621.8	16,387.0	16,312.4	16,816.0	17,262.2	0.6
Per Capita Income ($)	36,374.4	36,446.7	36,412.4	36,833.8	38,912.3	41,184.7	2.5
Median Household Income ($)	59,122.6	58,993.1	58,930.2	60,398.2	59,830.8	60,718.6	0.5
Personal Bankruptcy Filings	1,158.0	1,183.0	1,223.0	1,300.0	1,267.0	1,997.0	11.5
Consumer Price Index	186.7	184.8	180.7	177.9	175.9	180.1	-0.7
Population (Ths)	460.5	465.6	465.8	467.2	467.9	466.5	0.3
% Annual Change	1.6	1.1	0.0	0.3	0.2	-0.3	
Age <4	27.8	27.8	27.6	28.0	28.5	28.7	0.6
Age 5-19	97.7	98.3	96.8	96.0	95.7	94.1	-0.8
Age 20-24	28.1	30.0	31.0	32.3	32.2	32.3	2.8
Age 25-44	133.7	131.9	129.3	126.6	124.8	122.5	-1.7
Age 45-64	115.0	119.1	122.9	126.2	128.4	130.4	2.5
Age >65	58.2	58.4	58.1	58.1	58.4	58.6	0.1
Households (Ths)	173.1	175.1	175.2	175.8	176.1	175.6	0.3
% Annual Change	1.3	1.1	0.1	0.3	0.2	-0.3	
Net Migration (Ths)	5.6	3.7	-1.4	-0.4	-1.0	-3.3	
			Residential Housing Market				**Average**
Total Housing Permits	2,505	2,583	1,928	2,252	1,929	2,819	2,336
% Annual Change	-17.5	3.1	-25.4	16.8	-14.3	46.1	
Single Family Permits	2,013	1,717	1,350	1,503	1,342	1,598	-4.5
Multi Family Permits	492	866	578	749	587	1,221	19.9
Median Exist. Home Price (SA, Ths $)	359.2	408.3	436.5	490.8	575.2	682.5	13.7
% Annual Change	26.5	13.7	6.9	12.4	17.2	18.7	
Existing Home Sales (Ths)	10.1	8.8	7.8	7.8	7.5	8.1	-4.4
Mortgage Originations (Mil $)	3,941.4	9,310.4	11,382.3	16,523.7	10,895.7	9,496.7	19.2
							Average
Affordability Index	68.8	63.2	64.4	61.7	55.5	48.5	60.4
Nonres. Building Permits (Mil $)			**Nonresidential Construction**				**Average**
Total	208.8	211.7	244.4	199.2	240.7	223.1	221.3

Table 4: Sonoma County Forecasted Summary Indicators

	2006	2007	2008	2009	2010	2011	Annual Growth 06-11
				Economy			
Gross Metro Product (Mil 2000$)	18.4	19.0	19.8	20.5	21.2	22.0	3.6
% Annual Change	3.5	3.1	4.0	3.7	3.6	3.4	
Gross Metro Product (Mil $)	20.9	22.2	23.6	25.0	26.4	27.9	5.9
% Annual Change	6.7	6.1	6.4	5.8	5.6	5.5	
Non-farm Employment (Ths)	190.3	193.1	197.2	201.6	206.1	210.3	2.0
% Annual Change	2.0	1.5	2.1	2.3	2.2	2.1	
				Components of Employment			
Mining and Natural Resources	0.2	0.2	0.2	0.2	0.2	0.2	-1.1
Construction	14.9	15.2	15.9	16.0	16.1	16.1	1.4
Manufacturing	23.7	23.7	23.7	23.9	24.1	24.2	0.4
Trade, Transportation, and Utilities	35.4	35.8	36.3	36.9	37.6	38.2	1.6
Wholesale Trade	7.6	7.7	7.8	8.0	8.2	8.3	1.8
Retail Trade	24.1	24.4	24.7	25.1	25.6	26.0	1.6
Transportation and Utilities	3.7	3.7	3.7	3.8	3.8	3.9	1.2
Information	4.0	4.1	4.2	4.3	4.4	4.4	2.1
Financial Activities	9.6	9.6	9.7	9.9	10.1	10.2	1.1
Professional and Business Services	21.8	22.5	23.4	24.5	25.6	26.7	4.2
Education and Health Services	22.7	23.3	23.9	24.7	25.5	26.3	3.0
Leisure and Hospitality	21.3	21.9	22.7	23.6	24.5	25.4	3.6
Other Services	6.3	6.4	6.6	6.7	6.9	7.0	2.1
Government	30.3	30.4	30.6	30.9	31.2	31.5	0.8
Labor Force (Ths)	255.9	260.2	265.2	270.2	276.1	282.0	2.0
% Annual Change	-0.9	1.7	1.9	1.9	2.2	2.1	
Number of Employed (Ths)	245.9	249.9	254.9	260.2	266.2	271.9	2.0
Number of Unemployed (Ths)	10.0	10.4	10.3	10.0	9.9	10.1	0.2
							Average
Unemployment Rate (%)	3.9	4.0	3.9	3.7	3.6	3.6	3.8
				Income, Demographics, and Consumption			
Personal Income (Mil $)	20,343.2	21,559.7	22,821.0	24,187.3	25,601.7	27,065.9	5.9
% Annual Change	5.9	6.0	5.9	6.0	5.8	5.7	
Real Personal Income (Mil 2000$)	17,751.9	18,304.1	18,957.5	19,690.6	20,426.8	21,163.1	3.6
Per Capita Income ($)	43,444.2	45,545.8	47,485.4	49,454.1	51,442.8	53,435.2	4.2
Median Household Income ($)	63,456.9	65,898.8	68,057.9	70,171.9	72,272.1	74,304.0	3.2
Personal Bankruptcy Filings	1,133.9	1,323.4	1,406.2	1,459.6	1,574.7	1,638.4	7.6
Consumer Price Index	187.9	193.2	197.7	202.9	209.0	215.7	2.8
Population (Ths)	467.7	472.5	479.5	488.0	496.5	505.3	1.6
% Annual Change	0.3	1.0	1.5	1.8	1.8	1.8	
Age <4	28.9	29.3	29.9	30.6	31.3	32.0	2.1
Age 5-19	93.3	93.1	93.2	93.5	93.5	93.6	0.1
Age 20-24	32.5	33.0	33.7	34.7	35.8	36.9	2.6
Age 25-44	121.2	121.0	121.4	122.3	123.3	124.9	0.6
Age 45-64	132.7	135.8	139.2	143.1	146.7	149.8	2.4
Age >65	59.1	60.3	62.0	63.9	65.9	68.1	2.9
Households (Ths)	175.8	177.9	181.1	185.0	189.0	193.2	1.9
% Annual Change	0.1	1.2	1.8	2.1	2.2	2.2	
Net Migration (Ths)	-0.7	2.8	4.9	6.2	6.1	6.2	
				Residential Housing Market			Average
Total Housing Permits	1,925	2,874	3,013	2,939	2,943	2,967	2,777
% Annual Change	-31.7	49.3	4.9	-2.5	0.1	0.8	
Single Family Permits	1,548	2,188	2,218	2,156	2,125	2,123	2,060
Multi Family Permits	377	686	795	783	818	844	717
Median Exist. Home Price (SA, Ths $)	723.2	740.0	743.9	756.0	780.5	816.3	2.5
% Annual Change	6.0	2.3	0.5	1.6	3.2	4.6	
Existing Home Sales (Ths)	7.8	7.4	7.6	8.0	8.3	8.6	1.8
Mortgage Originations (Mil $)	8,356.3	7,445.6	6,503.6	6,603.4	6,908.1	7,218.9	-2.9
							Average
Affordability Index	43.4	43.8	44.4	44.3	44.1	43.8	44.0
Nonres. Building Permits (Mil $)				Nonresidential Construction			
Total	232.7	275.4	293.6	297.9	302.7	309.0	285.2

Table 5: Sonoma County Historical Employment by Cluster
Thousands

	2000	2001	2002	2003	2004	2005	Compound Ann. Growth Rate 00-05	Pct. Share of Employment 2005
Total	199.5	202.3	200.1	196.2	197.7	200.7	0.1	100.0
% Change	3.0	1.4	-1.1	-2.0	0.8	1.5		
1. Agriculture/Food Processing	18.6	17.8	18.8	18.2	17.5	18.7	0.1	9.3
% Change	-0.7	-4.5	6.0	-3.4	-3.7	6.8		
2. Information Technology	1.9	2.0	1.7	1.7	1.7	1.2	-8.7	0.6
% Change	23.5	4.0	-12.0	-3.3	2.3	-29.9		
3. High-tech Electronics	2.2	2.4	2.1	1.7	1.4	1.3	-10.5	0.6
% Change	10.5	10.9	-13.0	-19.8	-15.2	-12.7		
4. High-tech Instruments/Optical	10.0	10.5	8.4	6.5	5.4	4.2	-15.8	2.1
% Change	4.8	4.9	-20.0	-22.3	-17.5	-21.5		
5. Other High-value Manufacturing	0.5	0.5	0.4	0.5	0.6	0.6	4.0	0.3
% Change	-24.3	-10.0	-20.9	21.5	24.6	13.0		
6. Resource-based Manufacturing	2.0	1.8	1.6	1.6	1.6	1.7	-3.7	0.8
% Change	-12.1	-9.7	-10.7	0.4	-1.1	3.3		
7. Financial Activities	7.2	7.2	7.3	7.3	7.1	6.7	-1.3	3.3
% Change	0.4	0.5	1.7	-0.7	-2.7	-5.3		
8. Tourism	14.4	15.2	16.1	16.2	16.4	16.3	2.5	8.1
% Change	3.1	5.8	5.7	0.4	1.2	-0.6		
9. Engineering and Research	1.8	1.9	2.0	2.5	2.9	2.8	9.3	1.4
% Change	8.4	3.3	7.8	23.6	14.4	-1.1		
10. Legal Services	1.1	1.1	1.2	1.4	1.4	1.2	1.7	0.6
% Change	-5.2	4.9	4.3	15.3	3.9	-17.0		
11. Health Services	16.7	17.1	17.5	16.9	16.9	17.0	0.3	8.5
% Change	4.8	2.3	2.6	-3.7	0.0	0.6		
12. Other Professional Services	16.9	16.3	15.4	14.7	14.9	16.2	-0.9	8.1
% Change	4.9	-3.9	-5.2	-4.6	1.4	8.4		
13. Retail Trade	23.7	24.1	24.0	23.8	23.6	23.7	0.0	11.8
% Change	0.9	1.6	-0.3	-1.1	-0.6	0.3		
Sum of Clusters	90.1	90.6	89.0	85.7	84.4	85.0	-1.1	42.4
% Change	2.6	0.6	-1.7	-3.7	-1.5	0.7		
Other	109.4	111.7	111.1	110.4	113.2	115.7	1.1	57.6
% Change	3.4	2.1	-0.5	-0.6	2.5	2.2		

Table 6: Sonoma County Forecasted Employment by Cluster
Thousands

	2006	2007	2008	2009	2010	2011	Compound Ann. Growth Rate 06-11	Pct. Share of Employment 2011
Total	205.1	209.2	214.1	219.2	224.1	228.5	2.2	100.0
% Change	2.2	2.0	2.3	2.4	2.2	2.0		
1. Agriculture/Food Processing	19.4	19.4	19.5	19.6	19.8	19.9	0.5	8.7
% Change	3.3	0.3	0.4	0.8	0.7	0.5		
2. Information Technology	1.3	1.3	1.4	1.5	1.6	1.7	6.3	0.7
% Change	4.6	6.6	6.5	6.3	6.0	5.9		
3. High-tech Electronics	1.2	1.1	1.1	1.1	1.1	1.1	-1.6	0.5
% Change	-7.6	-2.5	-2.4	-1.0	-0.9	-1.1		
4. High-tech Instruments/Optical	3.9	3.9	4.0	4.0	4.0	4.1	0.7	1.8
% Change	-6.6	0.1	0.3	1.1	1.2	1.0		
5. Other High-value Manufacturing	0.7	0.7	0.7	0.7	0.7	0.7	0.4	0.3
% Change	10.2	-0.1	0.0	0.8	0.7	0.5		
6. Resource-based Manufacturing	1.6	1.6	1.6	1.7	1.7	1.7	0.5	0.7
% Change	-1.4	-0.3	0.5	0.9	0.7	0.8		
7. Financial Activities	6.7	6.8	6.9	7.1	7.2	7.4	1.9	3.2
% Change	-0.3	1.6	1.6	2.2	2.4	1.7		
8. Tourism	17.0	17.6	18.3	19.0	19.7	20.4	3.7	8.9
% Change	4.7	3.4	3.6	3.9	3.8	3.5		
9. Engineering and Research	3.1	3.2	3.3	3.4	3.6	3.7	3.9	1.6
% Change	8.3	3.3	3.9	4.1	4.0	4.0		
10. Legal Services	1.2	1.3	1.3	1.4	1.4	1.5	3.2	0.6
% Change	5.0	2.6	3.2	3.5	3.4	3.3		
11. Health Services	17.1	17.6	18.1	18.7	19.3	19.8	3.0	8.7
% Change	0.9	2.6	2.9	3.3	3.1	2.9		
12. Other Professional Services	17.2	17.7	18.5	19.3	20.1	21.0	4.1	9.2
% Change	6.2	3.3	4.2	4.5	4.3	4.2		
13. Retail Trade	24.2	24.8	25.2	25.8	26.3	26.8	2.0	11.7
% Change	2.1	2.4	1.9	2.1	2.0	1.8		
Sum of Clusters	87.9	89.9	92.0	94.5	97.0	99.3	2.5	43.5
% Change	3.4	2.2	2.4	2.7	2.6	2.4		
Other	117.2	119.4	122.1	124.7	127.1	129.2	2.0	56.5
% Change	1.3	1.9	2.3	2.1	1.9	1.7		

Table 7: Sonoma County Historical Gross Regional Product (Output) by Cluster
Millions of current dollars

	2000	2001	2002	2003	2004	2005	Compound Ann. Growth Rate 00-05	Pct. Share of Total Output 2005
Total	15,939.9	16,235.7	16,624.7	17,201.1	18,193.8	19,279.1	3.9	100.0
% Change	10.8	1.9	2.4	3.5	5.8	6.0		
1. Agriculture/Food Processing	936.3	966.4	1,043.0	1,073.9	1,065.6	1,136.9	4.0	5.9
% Change	3.3	3.2	7.9	3.0	-0.8	6.7		
2. Information Technology	247.1	221.1	210.3	234.8	268.4	200.9	-4.1	1.0
% Change	31.2	-10.5	-4.9	11.7	14.3	-25.1		
3. High-tech Electronics	355.8	246.1	231.7	229.6	224.3	220.7	-9.1	1.1
% Change	35.8	-30.8	-5.8	-0.9	-2.3	-1.6		
4. High-tech Instruments/Optical	1,309.8	1,052.0	894.2	840.5	762.2	688.4	-12.1	3.6
% Change	25.7	-19.7	-15.0	-6.0	-9.3	-9.7		
5. Other High-value Manufacturing	67.3	40.8	32.6	42.0	59.9	91.7	6.4	0.5
% Change	4.7	-39.3	-20.2	28.8	42.8	53.0		
6. Resource-based Manufacturing	124.7	124.6	111.8	123.8	128.0	140.5	2.4	0.7
% Change	-10.0	0.0	-10.3	10.7	3.4	9.8		
7. Financial Activities	928.1	992.1	1,094.7	1,160.9	1,251.5	1,289.4	6.8	6.7
% Change	8.0	6.9	10.3	6.1	7.8	3.0		
8. Tourism	589.4	637.3	719.1	745.1	800.9	853.6	7.7	4.4
% Change	7.0	8.1	12.8	3.6	7.5	6.6		
9. Engineering and Research	228.2	227.9	243.7	296.2	348.9	387.6	11.2	2.0
% Change	17.3	-0.2	6.9	21.6	17.8	11.1		
10. Legal Services	127.6	137.3	141.5	161.2	165.5	182.7	7.4	0.9
% Change	1.5	7.5	3.1	13.9	2.7	10.4		
11. Health Services	947.8	1,047.5	1,140.8	1,166.5	1,216.6	1,292.5	6.4	6.7
% Change	8.6	10.5	8.9	2.3	4.3	6.2		
12. Other Professional Services	1,172.7	1,150.5	1,159.6	1,166.0	1,234.1	1,337.0	2.7	6.9
% Change	9.4	-1.9	0.8	0.5	5.8	8.3		
13. Retail Trade	1,363.3	1,426.6	1,541.9	1,569.6	1,581.2	1,612.0	3.4	8.4
% Change	3.7	4.6	8.1	1.8	0.7	1.9		
Sum of Clusters	6,270.0	5,968.7	6,076.1	6,197.7	6,345.4	6,528.9	0.8	33.9
% Change	12.0	-4.8	1.8	2.0	2.4	2.9		
Other	9,669.9	10,267.0	10,548.6	11,003.4	11,848.4	12,750.2	5.7	66.1
% Change	10.0	6.2	2.7	4.3	7.7	7.6		

Table 8: Sonoma County Forecasted Gross Regional Product (Output) by Cluster
Millions of current dollars

	2006	2007	2008	2009	2010	2011	Compound Ann. Growth Rate 06-11	Pct. Share of Total Output 2011
Total	20,536.6	21,943.7	23,405.5	24,813.1	26,229.0	27,668.5	6.1	100.0
% Change	6.5	6.9	6.7	6.0	5.7	5.5		
1. Agriculture/Food Processing	1,202.3	1,248.1	1,291.7	1,325.2	1,354.6	1,382.7	2.8	5.0
% Change	5.8	3.8	3.5	2.6	2.2	2.1		
2. Information Technology	220.1	237.1	255.6	273.5	291.1	309.6	7.1	1.1
% Change	9.5	7.7	7.8	7.0	6.5	6.3		
3. High-tech Electronics	228.4	278.0	338.1	407.0	484.6	573.3	20.2	2.1
% Change	3.5	21.7	21.6	20.4	19.1	18.3		
4. High-tech Instruments/Optical	715.6	786.3	860.6	931.9	1,001.3	1,071.0	8.4	3.9
% Change	3.9	9.9	9.4	8.3	7.5	7.0		
5. Other High-value Manufacturing	99.2	103.9	108.3	111.8	114.6	117.0	3.3	0.4
% Change	8.2	4.7	4.3	3.2	2.5	2.1		
6. Resource-based Manufacturing	148.6	153.8	158.4	161.4	163.7	165.8	2.2	0.6
% Change	5.7	3.5	3.0	1.9	1.4	1.2		
7. Financial Activities	1,384.3	1,519.4	1,661.6	1,809.2	1,967.8	2,125.2	9.0	7.7
% Change	7.4	9.8	9.4	8.9	8.8	8.0		
8. Tourism	931.9	1,008.4	1,090.0	1,170.2	1,251.3	1,335.6	7.5	4.8
% Change	9.2	8.2	8.1	7.4	6.9	6.7		
9. Engineering and Research	443.6	476.7	515.1	552.2	589.6	628.9	7.2	2.3
% Change	14.4	7.5	8.1	7.2	6.8	6.7		
10. Legal Services	209.0	224.5	242.5	259.8	277.2	295.5	7.2	1.1
% Change	14.4	7.4	8.0	7.1	6.7	6.6		
11. Health Services	1,353.1	1,428.3	1,502.6	1,571.2	1,638.3	1,706.4	4.7	6.2
% Change	4.7	5.6	5.2	4.6	4.3	4.2		
12. Other Professional Services	1,466.9	1,570.8	1,690.8	1,804.4	1,917.8	2,035.6	6.8	7.4
% Change	9.7	7.1	7.6	6.7	6.3	6.1		
13. Retail Trade	1,714.5	1,875.6	2,033.0	2,188.4	2,347.0	2,510.9	7.9	9.1
% Change	6.4	9.4	8.4	7.6	7.2	7.0		
Sum of Clusters	7,022.5	7,584.8	8,183.2	8,764.6	9,352.0	9,964.5	7.2	36.0
% Change	7.6	8.0	7.9	7.1	6.7	6.5		
Other	13,514.1	14,358.8	15,222.3	16,048.5	16,877.0	17,704.0	5.5	64.0
% Change	6.0	6.3	6.0	5.4	5.2	4.9		

Table 9: Sonoma County Historical Gross Regional Product (Output) by Cluster
Millions of 2000 dollars

	2000	2001	2002	2003	2004	2005	Compound Ann. Growth Rate 00-05	Pct. Share of Total Output 2005
Total	15,939.9	16,088.4	16,206.3	16,501.9	16,990.0	17,500.2	1.9	100.0
% Change	10.3	0.9	0.7	1.8	3.0	3.0		
1. Agriculture/Food Processing	936.3	909.4	950.3	952.3	881.9	919.4	-0.4	5.3
% Change	3.2	-2.9	4.5	0.2	-7.4	4.3		
2. Information Technology	247.1	214.9	200.9	223.0	250.5	183.1	-5.8	1.0
% Change	29.7	-13.0	-6.5	11.0	12.3	-26.9		
3. High-tech Electronics	355.8	326.9	347.0	389.5	389.8	378.8	1.3	2.2
% Change	76.4	-8.1	6.1	12.3	0.1	-2.8		
4. High-tech Instruments/Optical	1,309.8	1,241.6	1,155.6	1,184.2	1,038.4	948.3	-6.3	5.4
% Change	46.7	-5.2	-6.9	2.5	-12.3	-8.7		
5. Other High-value Manufacturing	67.3	40.0	32.0	41.4	56.0	82.0	4.0	0.5
% Change	5.3	-40.6	-20.0	29.5	35.2	46.3		
6. Resource-based Manufacturing	124.7	124.6	111.1	122.3	119.1	125.2	0.1	0.7
% Change	-8.3	-0.1	-10.8	10.1	-2.6	5.1		
7. Financial Activities	928.1	983.0	1,062.6	1,130.6	1,196.4	1,205.5	5.4	6.9
% Change	6.6	5.9	8.1	6.4	5.8	0.8		
8. Tourism	589.4	616.9	677.8	690.7	730.7	757.8	5.2	4.3
% Change	3.0	4.7	9.9	1.9	5.8	3.7		
9. Engineering and Research	228.2	221.5	233.0	280.1	322.3	347.0	8.7	2.0
% Change	15.4	-2.9	5.2	20.2	15.0	7.7		
10. Legal Services	127.6	133.4	135.4	152.5	152.9	163.5	5.1	0.9
% Change	-0.2	4.5	1.4	12.7	0.2	7.0		
11. Health Services	947.8	995.1	1,048.9	1,034.2	1,044.5	1,075.9	2.6	6.1
% Change	4.9	5.0	5.4	-1.4	1.0	3.0		
12. Other Professional Services	1,172.7	1,119.3	1,122.7	1,119.9	1,148.6	1,209.2	0.6	6.9
% Change	4.2	-4.6	0.3	-0.3	2.6	5.3		
13. Retail Trade	1,363.3	1,461.5	1,546.3	1,607.9	1,644.6	1,655.2	4.0	9.5
% Change	3.9	7.2	5.8	4.0	2.3	0.6		
Sum of Clusters	6,270.0	6,151.9	6,265.5	6,489.0	6,462.8	6,480.8	0.7	37.0
% Change	14.7	-1.9	1.8	3.6	-0.4	0.3		
Other	9,669.9	9,936.6	9,940.7	10,012.9	10,527.2	11,019.4	2.6	63.0
% Change	7.6	2.8	0.0	0.7	5.1	4.7		

Table 10: Sonoma County Forecasted Gross Regional Product (Output) by Cluster
Millions of 2000 dollars

	2006	2007	2008	2009	2010	2011	Compound Ann. Growth Rate 06-11	Pct. Share of Total Output 2011
Total	18,079.3	18,768.0	19,574.5	20,341.4	21,087.8	21,810.2	3.8	100.0
% Change	3.3	3.8	4.3	3.9	3.7	3.4		
1. Agriculture/Food Processing	1,001.3	1,011.5	1,012.3	1,006.9	998.7	989.1	-0.2	4.5
% Change	8.9	1.0	0.1	-0.5	-0.8	-1.0		
2. Information Technology	193.7	202.3	213.0	223.2	232.9	242.7	4.6	1.1
% Change	5.8	4.4	5.3	4.8	4.3	4.2		
3. High-tech Electronics	382.5	444.8	520.3	603.7	693.3	790.8	15.6	3.6
% Change	1.0	16.3	17.0	16.0	14.8	14.1		
4. High-tech Instruments/Optical	948.1	999.0	1,056.2	1,107.0	1,151.3	1,191.1	4.7	5.5
% Change	0.0	5.4	5.7	4.8	4.0	3.5		
5. Other High-value Manufacturing	86.7	86.8	87.1	86.7	85.7	84.4	-0.5	0.4
% Change	5.8	0.0	0.3	-0.5	-1.1	-1.5		
6. Resource-based Manufacturing	129.3	127.9	126.8	124.6	121.9	119.1	-1.6	0.5
% Change	3.2	-1.1	-0.9	-1.8	-2.1	-2.3		
7. Financial Activities	1,250.8	1,330.3	1,421.4	1,515.8	1,615.8	1,709.7	6.5	7.8
% Change	3.8	6.4	6.8	6.6	6.6	5.8		
8. Tourism	795.1	833.9	880.9	926.7	971.5	1,016.3	5.0	4.7
% Change	4.9	4.9	5.6	5.2	4.8	4.6		
9. Engineering and Research	382.4	398.1	420.4	441.4	461.8	482.6	4.8	2.2
% Change	10.2	4.1	5.6	5.0	4.6	4.5		
10. Legal Services	180.2	187.5	197.8	207.6	217.1	226.8	4.7	1.0
% Change	10.2	4.1	5.5	4.9	4.6	4.5		
11. Health Services	1,085.3	1,110.1	1,141.1	1,168.7	1,194.3	1,218.8	2.3	5.6
% Change	0.9	2.3	2.8	2.4	2.2	2.1		
12. Other Professional Services	1,281.0	1,328.8	1,397.2	1,460.3	1,520.9	1,581.6	4.3	7.3
% Change	5.9	3.7	5.1	4.5	4.2	4.0		
13. Retail Trade	1,697.6	1,799.6	1,905.8	2,009.4	2,112.0	2,213.7	5.5	10.1
% Change	2.6	6.0	5.9	5.4	5.1	4.8		
Sum of Clusters	6,768.4	7,104.9	7,493.2	7,865.2	8,228.2	8,592.2	4.9	39.4
% Change	4.4	5.0	5.5	5.0	4.6	4.4		
Other	11,310.9	11,663.1	12,081.3	12,476.2	12,859.6	13,218.0	3.2	60.6
% Change	2.6	3.1	3.6	3.3	3.1	2.8		

Table 11: Sonoma County Historical Productivity (Output per Worker)
Thousand of current dollars

	2000	2001	2002	2003	2004	2005	Compound Ann. Growth Rate 00-05	Pct. Share of Total Output 2005
Total	79.9	80.2	83.1	87.7	92.0	96.1	3.8	100.0
% Change	7.5	0.4	3.5	5.6	5.0	4.4		
1. Agriculture/Food Processing	50.3	54.4	55.4	59.0	60.8	60.7	3.8	63.2
% Change	4.1	8.1	1.8	6.6	3.0	-0.1		
2. Information Technology	130.4	112.2	121.3	140.0	156.3	166.9	5.1	173.8
% Change	6.2	-13.9	8.1	15.4	11.7	6.8		
3. High-tech Electronics	162.5	101.4	109.8	135.6	156.1	175.9	1.6	183.2
% Change	22.8	-37.6	8.3	23.5	15.2	12.7		
4. High-tech Instruments/Optical	131.1	100.4	106.7	129.1	141.9	163.2	4.5	169.9
% Change	19.9	-23.4	6.3	20.9	10.0	15.0		
5. Other High-value Manufacturing	126.3	85.2	85.9	91.0	104.3	141.2	2.3	147.0
% Change	38.4	-32.6	0.8	6.0	14.6	35.4		
6. Resource-based Manufacturing	61.8	68.4	68.8	75.9	79.3	84.3	6.4	87.8
% Change	2.5	10.7	0.5	10.3	4.6	6.3		
7. Financial Activities	129.1	137.4	149.0	159.2	176.5	191.9	8.2	199.8
% Change	7.6	6.4	8.5	6.8	10.8	8.8		
8. Tourism	40.9	41.8	44.6	46.1	48.9	52.4	5.1	54.6
% Change	3.8	2.2	6.7	3.2	6.2	7.2		
9. Engineering and Research	125.1	121.0	120.0	118.1	121.6	136.5	1.8	142.1
% Change	8.2	-3.3	-0.8	-1.6	2.9	12.3		
10. Legal Services	117.4	120.4	119.0	117.5	116.1	154.4	5.6	160.8
% Change	7.1	2.6	-1.2	-1.2	-1.2	33.0		
11. Health Services	56.8	61.3	65.1	69.1	72.1	76.1	6.0	79.2
% Change	3.6	8.0	6.1	6.2	4.3	5.6		
12. Other Professional Services	69.3	70.7	75.2	79.3	82.8	82.7	3.6	86.1
% Change	4.3	2.0	6.3	5.4	4.4	-0.1		
13. Retail Trade	57.5	59.2	64.1	66.0	66.9	68.0	3.4	70.8
% Change	2.8	3.0	8.4	2.9	1.3	1.7		
Sum of Clusters	69.6	65.9	68.2	72.3	75.2	76.8	2.0	79.9
% Change	9.2	-5.4	3.6	6.0	3.9	2.2		
Other	88.4	91.9	95.0	99.6	104.6	110.2	4.5	114.8
% Change	6.4	4.0	3.3	4.9	5.0	5.3		

Table 12: Sonoma County Forecasted Productivity (Output per Worker)

Thousand of current dollars

	2006	2007	2008	2009	2010	2011	Compound Ann. Growth Rate 06-11	Pct. Share of Total Output 2011
Total	100.1	104.9	109.3	113.2	117.1	121.1	3.9	100.0
% Change	4.2	4.7	4.2	3.6	3.4	3.4		
1. Agriculture/Food Processing	62.1	64.3	66.3	67.5	68.5	69.5	2.3	57.4
% Change	2.3	3.5	3.1	1.8	1.5	1.5		
2. Information Technology	174.9	176.7	178.9	180.0	180.7	181.6	0.8	150.0
% Change	4.7	1.1	1.2	0.6	0.4	0.5		
3. High-tech Electronics	197.0	245.8	306.1	372.4	447.4	535.1	22.1	442.0
% Change	11.9	24.8	24.6	21.6	20.1	19.6		
4. High-tech Instruments/Optical	181.6	199.5	217.8	233.2	247.7	262.4	7.6	216.7
% Change	11.3	9.8	9.2	7.1	6.2	5.9		
5. Other High-value Manufacturi	138.7	145.4	151.6	155.2	158.0	160.5	3.0	132.6
% Change	-1.8	4.8	4.2	2.4	1.8	1.6		
6. Resource-based Manufacturing	90.5	94.0	96.3	97.2	97.9	98.3	1.7	81.2
% Change	7.3	3.9	2.5	1.0	0.7	0.5		
7. Financial Activities	206.6	223.1	240.1	255.9	271.8	288.6	6.9	238.3
% Change	7.6	8.0	7.6	6.6	6.2	6.2		
8. Tourism	54.7	57.2	59.7	61.6	63.5	65.5	3.7	54.1
% Change	4.2	4.6	4.3	3.3	3.0	3.1		
9. Engineering and Research	144.2	150.1	156.1	160.7	164.9	169.2	3.2	139.7
% Change	5.6	4.0	4.0	2.9	2.6	2.6		
10. Legal Services	168.2	176.1	184.3	190.8	196.9	203.2	3.8	167.8
% Change	8.9	4.7	4.6	3.6	3.2	3.2		
11. Health Services	79.0	81.3	83.1	84.1	85.0	86.0	1.7	71.1
% Change	3.8	2.9	2.2	1.2	1.1	1.2		
12. Other Professional Services	85.5	88.6	91.6	93.5	95.3	97.1	2.6	80.2
% Change	3.3	3.7	3.3	2.2	1.9	1.9		
13. Retail Trade	70.8	75.7	80.5	84.9	89.2	93.8	5.8	77.5
% Change	4.1	6.9	6.4	5.4	5.1	5.1		
Sum of Clusters	79.9	84.4	89.0	92.8	96.5	100.3	4.7	82.9
% Change	4.0	5.7	5.4	4.3	4.0	4.0		
Other	115.3	120.3	124.7	128.7	132.8	137.0	3.5	113.2
% Change	4.6	4.3	3.6	3.2	3.2	3.2		

Table 13: Sonoma County Historical Productivity (Output per Worker)

Thousands of 2000 dollars

	2000	2001	2002	2003	2004	2005	Compound Ann. Growth Rate 00-05	Pct. Share of Total Output 2005
Total	79.9	79.5	81.0	84.1	86.0	87.2	1.8	100.0
% Change	7.0	-0.5	1.8	3.9	2.2	1.4		
1. Agriculture/Food Processing	50.3	51.2	50.4	52.3	50.3	49.1	-0.5	56.3
% Change	3.9	1.7	-1.4	3.7	-3.9	-2.4		
2. Information Technology	130.4	109.0	115.9	132.9	145.9	152.2	3.1	174.5
% Change	5.0	-16.4	6.3	14.7	9.8	4.3		
3. High-tech Electronics	162.5	134.7	164.4	230.0	271.4	301.9	13.2	346.3
% Change	59.6	-17.1	22.0	39.9	18.0	11.3		
4. High-tech Instruments/Optical	131.1	118.6	137.9	181.8	193.4	224.9	11.4	257.9
% Change	40.0	-9.6	16.3	31.8	6.3	16.3		
5. Other High-value Manufacturing	126.3	83.4	84.3	89.9	97.6	126.3	0.0	144.8
% Change	39.1	-34.0	1.2	6.6	8.5	29.5		
6. Resource-based Manufacturing	61.8	68.4	68.4	74.9	73.8	75.2	4.0	86.2
% Change	4.3	10.6	-0.1	9.6	-1.5	1.8		
7. Financial Activities	129.1	136.1	144.7	155.1	168.7	179.4	6.8	205.8
% Change	6.2	5.4	6.3	7.2	8.8	6.4		
8. Tourism	40.9	40.5	42.1	42.7	44.6	46.6	2.6	53.4
% Change	0.0	-1.1	3.9	1.5	4.5	4.3		
9. Engineering and Research	125.1	117.6	114.8	111.7	112.3	122.2	-0.5	140.2
% Change	6.5	-6.0	-2.4	-2.7	0.5	8.9		
10. Legal Services	117.4	117.0	113.8	111.2	107.3	138.2	3.3	158.5
% Change	5.4	-0.3	-2.8	-2.3	-3.5	28.8		
11. Health Services	56.8	58.3	59.8	61.3	61.9	63.4	2.2	72.7
% Change	0.1	2.6	2.7	2.4	1.0	2.4		
12. Other Professional Services	69.3	68.8	72.8	76.2	77.0	74.8	1.5	85.8
% Change	-0.6	-0.7	5.8	4.6	1.1	-2.9		
13. Retail Trade	57.5	60.6	64.3	67.6	69.6	69.8	4.0	80.1
% Change	2.9	5.5	6.1	5.2	2.9	0.4		
Sum of Clusters	69.6	67.9	70.4	75.7	76.5	76.2	1.8	87.4
% Change	11.8	-2.5	3.7	7.6	1.1	-0.4		
Other	88.4	89.0	89.5	90.7	93.0	95.3	1.5	109.3
% Change	4.1	0.6	0.6	1.3	2.6	2.5		

Table 14: Sonoma County Forecasted Productivity (Output per Worker)
Thousands of 2000 dollars

	2006	2007	2008	2009	2010	2011	Compound Ann. Growth Rate 06-11	Pct. Share of Total Output 2011
Total	88.1	89.7	91.4	92.8	94.1	95.4	1.6	100.0
% Change	1.1	1.8	1.9	1.5	1.4	1.4		
1. Agriculture/Food Processing	51.7	52.1	51.9	51.3	50.5	49.7	-0.8	52.1
% Change	5.4	0.7	-0.3	-1.3	-1.5	-1.5		
2. Information Technology	153.9	150.7	149.1	146.9	144.6	142.3	-1.6	149.1
% Change	1.1	-2.0	-1.1	-1.5	-1.6	-1.6		
3. High-tech Electronics	329.8	393.2	471.1	552.4	640.0	738.1	17.5	773.4
% Change	9.2	19.2	19.8	17.2	15.9	15.3		
4. High-tech Instruments/Optical	240.7	253.5	267.3	277.0	284.8	291.8	3.9	305.8
% Change	7.0	5.3	5.5	3.6	2.8	2.5		
5. Other High-value Manufacturing	121.3	121.5	121.9	120.3	118.2	115.8	-0.9	121.3
% Change	-4.0	0.2	0.3	-1.3	-1.8	-2.0		
6. Resource-based Manufacturing	78.7	78.1	77.1	75.0	72.9	70.7	-2.1	74.0
% Change	4.7	-0.8	-1.4	-2.6	-2.8	-3.1		
7. Financial Activities	186.7	195.4	205.4	214.4	223.2	232.1	4.5	243.3
% Change	4.0	4.7	5.1	4.4	4.1	4.0		
8. Tourism	46.6	47.3	48.2	48.8	49.3	49.8	1.3	52.2
% Change	0.2	1.4	2.0	1.2	1.0	1.1		
9. Engineering and Research	124.3	125.3	127.4	128.4	129.1	129.8	0.9	136.0
% Change	1.7	0.8	1.6	0.8	0.6	0.5		
10. Legal Services	145.0	147.1	150.4	152.5	154.3	155.9	1.5	163.4
% Change	4.9	1.4	2.2	1.4	1.1	1.1		
11. Health Services	63.4	63.2	63.1	62.5	62.0	61.4	-0.6	64.4
% Change	0.0	-0.3	-0.2	-0.8	-0.9	-0.8		
12. Other Professional Services	74.6	75.0	75.7	75.7	75.6	75.5	0.2	79.1
% Change	-0.2	0.4	0.9	0.0	-0.1	-0.2		
13. Retail Trade	70.1	72.6	75.5	77.9	80.3	82.7	3.4	86.7
% Change	0.4	3.5	3.9	3.2	3.0	3.0		
Sum of Clusters	77.0	79.1	81.5	83.3	84.9	86.5	2.4	90.7
% Change	1.0	2.7	3.0	2.2	1.9	1.9		
Other	96.5	97.7	98.9	100.0	101.2	102.3	1.2	107.2
% Change	1.3	1.2	1.3	1.1	1.1	1.1		

Table 15: Sonoma County Historical Employment by Leading Clusters
Thousands

	2000	2001	2002	2003	2004	2005	Compound Ann. Growth Rate 00-05	Pct. Share of Employment 2005
Total	199.5	202.3	200.1	196.2	197.7	200.7	0.1	100.0
% Change	3.0	1.4	-1.1	-2.0	0.8	1.5		
1. Agriculture/Food Processing	18.6	17.8	18.8	18.2	17.5	18.7	0.1	9.3
% Change	-0.7	-4.5	6.0	-3.4	-3.7	6.8		
2. Information Technology	1.9	2.0	1.7	1.7	1.7	1.2	-8.7	0.6
% Change	23.5	4.0	-12.0	-3.3	2.3	-29.9		
3. High-value Manufacturing	12.7	13.4	10.9	8.7	7.4	6.1	-13.6	3.0
% Change	4.0	5.3	-18.8	-20.3	-14.8	-17.1		
4. Tourism	14.4	15.2	16.1	16.2	16.4	16.3	2.5	8.1
% Change	3.1	5.8	5.7	0.4	1.2	-0.6		
5. Professional Services	18.7	18.2	17.4	17.2	17.8	19.0	0.3	9.5
% Change	5.2	-3.2	-3.9	-1.3	3.3	6.9		
6. Retail Trade	23.7	24.1	24.0	23.8	23.6	23.7	0.0	11.8
% Change	0.9	1.6	-0.3	-1.1	-0.6	0.3		
Sum of Clusters	90.1	90.6	89.0	85.7	84.4	85.0	-1.1	42.4
% Change	2.6	0.6	-1.7	-3.7	-1.5	0.7		
Other	109.4	111.7	111.1	110.4	113.2	115.7	1.1	57.6
% Change	3.4	2.1	-0.5	-0.6	2.5	2.2		

Table 16: Sonoma County Forecasted Employment by Leading Clusters
Thousands

	2006	2007	2008	2009	2010	2011	Compound Ann. Growth Rate 06-11	Pct. Share of Employment 2011
Total	205.1	209.2	214.1	219.2	224.1	228.5	2.2	100.0
% Change	2.2	2.0	2.3	2.4	2.2	2.0		
1. Agriculture	19.4	19.4	19.5	19.6	19.8	19.9	0.5	8.7
% Change	3.3	0.3	0.4	0.8	0.7	0.5		
2. Information Technology	1.3	1.3	1.4	1.5	1.6	1.7	6.3	0.7
% Change	4.6	6.6	6.5	6.3	6.0	5.9		
3. High-value Manufacturing	5.8	5.8	5.8	5.8	5.9	5.9	0.2	2.6
% Change	-5.0	-0.5	-0.3	0.7	0.7	0.5		
4. Tourism	17.0	17.6	18.3	19.0	19.7	20.4	3.7	8.9
% Change	4.7	3.4	3.6	3.9	3.8	3.5		
5. Professional Services	20.2	20.9	21.8	22.7	23.7	24.7	4.0	10.8
% Change	6.5	3.3	4.1	4.4	4.3	4.1		
6. Retail Trade	24.2	24.8	25.2	25.8	26.3	26.8	2.0	11.7
% Change	2.1	2.4	1.9	2.1	2.0	1.8		
Sum of Clusters	87.9	89.9	92.0	94.5	97.0	99.3	2.5	43.5
% Change	3.4	2.2	2.4	2.7	2.6	2.4		
Other	117.2	119.4	122.1	124.7	127.1	129.2	2.0	56.5
% Change	1.3	1.9	2.3	2.1	1.9	1.7		

Table 17: Sonoma County Historical Gross Regional Product (Output) by Leading Clusters

Millions of current dollars

	2000	2001	2002	2003	2004	2005	Compound Ann. Growth Rate 00-05	Pct. Share of Total Output 2005
Total	15,939.85	16,235.66	16,624.73	17,201.06	18,193.75	19,279.10	3.9	100.0
% Change	10.77	1.86	2.40	3.47	5.77	5.97		
1. Agriculture	936.34	966.41	1,043.04	1,073.91	1,065.55	1,136.94	4.0	5.9
% Change	3.30	3.21	7.93	2.96	-0.78	6.70		
2. Information Technology	247.08	221.13	210.25	234.77	268.36	200.89	-4.1	1.0
% Change	31.24	-10.50	-4.92	11.66	14.31	-25.14		
3. High-value Manufacturing	1,732.9	1,338.9	1,158.5	1,112.0	1,046.4	1,000.9	-10.4	5.2
% Change	26.6	-22.7	-13.5	-4.0	-5.9	-4.4		
4. Tourism	589.41	637.28	719.14	745.14	800.87	853.57	7.7	4.4
% Change	7.00	8.12	12.84	3.62	7.48	6.58		
5. Professional Services	1,400.9	1,378.4	1,403.3	1,462.2	1,582.9	1,724.6	4.2	8.9
% Change	10.6	-1.6	1.8	4.2	8.3	9.0		
6. Retail Trade	1,363.33	1,426.55	1,541.91	1,569.58	1,581.25	1,612.01	3.4	8.4
% Change	3.69	4.64	8.09	1.79	0.74	1.95		
Sum of Clusters	6,270.00	5,968.66	6,076.09	6,197.66	6,345.40	6,528.89	0.8	33.9
% Change	12.05	-4.81	1.80	2.00	2.38	2.89		
Other	9,669.86	10,267.00	10,548.65	11,003.40	11,848.35	12,750.21	5.7	66.1
% Change	9.95	6.18	2.74	4.31	7.68	7.61		

Table 18: Sonoma County Forecasted Gross Regional Product (Output) by Leading Clusters
Millions of current dollars

	2006	2007	2008	2009	2010	2011	Compound Ann. Growth Rate 06-11	Pct. Share of Total Output 2011
Total	20,536.6	21,943.7	23,405.5	24,813.1	26,229.0	27,668.5	6.1	100.0
% Change	6.5	6.9	6.7	6.0	5.7	5.5		
1. Agriculture	1,202.3	1,248.1	1,291.7	1,325.2	1,354.6	1,382.7	2.8	5.0
% Change	5.8	3.8	3.5	2.6	2.2	2.1		
2. Information Technology	220.1	237.1	255.6	273.5	291.1	309.6	7.1	1.1
% Change	9.5	7.7	7.8	7.0	6.5	6.3		
3. High-value Manufacturing	1,043.2	1,168.2	1,306.9	1,450.7	1,600.5	1,761.2	11.0	6.4
% Change	4.2	12.0	11.9	11.0	10.3	10.0		
4. Tourism	931.9	1,008.4	1,090.0	1,170.2	1,251.3	1,335.6	7.5	4.8
% Change	9.2	8.2	8.1	7.4	6.9	6.7		
5. Professional Services	1,910.5	2,047.4	2,205.9	2,356.6	2,507.4	2,664.5	6.9	9.6
% Change	10.8	7.2	7.7	6.8	6.4	6.3		
6. Retail Trade	1,714.5	1,875.6	2,033.0	2,188.4	2,347.0	2,510.9	7.9	9.1
% Change	6.4	9.4	8.4	7.6	7.2	7.0		
Sum of Clusters	7,022.5	7,584.8	8,183.2	8,764.6	9,352.0	9,964.5	7.2	36.0
% Change	7.6	8.0	7.9	7.1	6.7	6.5		
Other	13,514.1	14,358.8	15,222.3	16,048.5	16,877.0	17,704.0	5.5	64.0
% Change	6.0	6.3	6.0	5.4	5.2	4.9		

Table 19: Sonoma County Historical Gross Regional Product (Output) by Leading Clusters
Million of 2000 dollars

	2000	2001	2002	2003	2004	2005	Compound Ann. Growth Rate 00-05	Pct. Share of Total Output 2005
Total	15,939.9	16,088.4	16,206.3	16,501.9	16,990.0	17,500.2	1.9	100.0
% Change	10.3	0.9	0.7	1.8	3.0	3.0		
1. Agriculture	936.3	909.4	950.3	952.3	881.9	989.1	1.1	5.7
% Change	3.2	-2.9	4.5	0.2	-7.4	-1.0		
2. Information Technology	247.1	214.9	200.9	223.0	250.5	242.7	-0.4	1.4
% Change	29.7	-13.0	-6.5	11.0	12.3	4.2		
3. High-value Manufacturing	1,732.9	1,608.4	1,534.5	1,615.1	1,484.2	1,409.1	-4.1	8.1
% Change	49.6	-7.2	-4.6	5.3	-8.1	-5.1		
4. Tourism	589.4	616.9	677.8	690.7	730.7	1,016.3	11.5	5.8
% Change	3.0	4.7	9.9	1.9	5.8	4.6		
5. Professional Services	1,400.9	1,340.8	1,355.8	1,400.0	1,470.9	1,556.2	2.1	8.9
% Change	5.9	-4.3	1.1	3.3	5.1	5.8		
6. Retail Trade	1,363.3	1,461.5	1,546.3	1,607.9	1,644.6	2,213.7	10.2	12.6
% Change	3.9	7.2	5.8	4.0	2.3	4.8		
Sum of Clusters	6,270.0	6,151.9	6,265.5	6,489.0	6,462.8	8,592.2	6.5	49.1
% Change	14.7	-1.9	1.8	3.6	-0.4	4.4		
Other	9,669.9	9,936.6	9,940.7	10,012.9	10,527.2	13,218.0	6.5	75.5
% Change	7.6	2.8	0.0	0.7	5.1	2.8		

Table 20: Sonoma County Forecasted Gross Regional Product (Output) by Leading Clusters

Million of 2000 dollars

	2006	2007	2008	2009	2010	2011	Compound Ann. Growth Rate 06-11	Pct. Share of Total Output 2011
Total	18,079.3	18,768.0	19,574.5	20,341.4	21,087.8	21,810.2	3.8	100.0
% Change	3.3	3.8	4.3	3.9	3.7	3.4		
1. Agriculture	1,001.3	1,011.5	1,012.3	1,006.9	998.7	989.1	-0.2	4.5
% Change	8.9	1.0	0.1	-0.5	-0.8	-1.0		
2. Information Technology	193.7	202.3	213.0	223.2	232.9	242.7	4.6	1.1
% Change	5.8	4.4	5.3	4.8	4.3	4.2		
3. High-value Manufacturing	1,417.4	1,530.6	1,663.6	1,797.4	1,930.3	2,066.2	7.8	9.5
% Change	0.6	8.0	8.7	8.0	7.4	7.0		
4. Tourism	795.1	833.9	880.9	926.7	971.5	1,016.3	5.0	4.7
% Change	4.9	4.9	5.6	5.2	4.8	4.6		
5. Professional Services	1,663.4	1,727.0	1,817.6	1,901.7	1,982.8	2,064.2	4.4	9.5
% Change	6.9	3.8	5.2	4.6	4.3	4.1		
6. Retail Trade	1,697.6	1,799.6	1,905.8	2,009.4	2,112.0	2,213.7	5.5	10.1
% Change	2.6	6.0	5.9	5.4	5.1	4.8		
Sum of Clusters	6,768.4	7,104.9	7,493.2	7,865.2	8,228.2	8,592.2	4.9	39.4
% Change	4.4	5.0	5.5	5.0	4.6	4.4		
Other	11,310.9	11,663.1	12,081.3	12,476.2	12,859.6	13,218.0	3.2	60.6
% Change	2.6	3.1	3.6	3.3	3.1	2.8		

Table 21: Sonoma County Historical Productivity (Output per Worker) by Leading Clusters

Thousands of current dollars

	2000	2001	2002	2003	2004	2005	Compound Ann. Growth Rate 00-05	Pct. Share of Total Output 2005
Total	79.9	80.2	83.1	87.7	92.0	96.1	3.8	100.0
% Change	7.5	0.4	3.5	5.6	5.0	4.4		
1. Agriculture	50.3	54.4	55.4	59.0	60.8	69.5	6.7	72.4
% Change	4.1	8.1	1.8	6.6	3.0	1.5		
2. Information Technology	130.4	112.2	121.3	140.0	156.3	181.6	6.9	189.0
% Change	6.2	-13.9	8.1	15.4	11.7	0.5		
3. High-value Manufacturing	136.3	100.1	106.6	128.3	141.8	163.5	3.7	170.2
% Change	21.7	-26.6	6.5	20.4	10.5	15.3		
4. Tourism	40.9	41.8	44.6	46.1	48.9	65.5	9.9	68.2
% Change	3.8	2.2	6.7	3.2	6.2	3.1		
5. Professional Services	74.7	75.9	80.4	85.0	89.0	90.7	4.0	94.5
% Change	5.1	1.6	5.9	5.6	4.8	1.9		
6. Retail Trade	57.5	59.2	64.1	66.0	66.9	93.8	10.3	97.6
% Change	2.8	3.0	8.4	2.9	1.3	5.1		
Sum of Clusters	69.6	65.9	68.2	72.3	75.2	100.3	7.6	104.4
% Change	9.2	-5.4	3.6	6.0	3.9	4.0		
Other	88.4	91.9	95.0	99.6	104.6	137.0	9.2	142.6
% Change	6.4	4.0	3.3	4.9	5.0	3.2		

Table 22: Sonoma County Forecasted Productivity (Output per Worker) by Leading Clusters
Thousands of current dollars

	2006	2007	2008	2009	2010	2011	Compound Ann. Growth Rate 06-11	Pct. Share of Total Output 2011
Total	100.1	104.9	109.3	113.2	117.1	121.1	3.9	100.0
% Change	4.2	4.7	4.2	3.6	3.4	3.4		
1. Agriculture	62.1	64.3	66.3	67.5	68.5	69.5	2.3	57.4
% Change	2.3	3.5	3.1	1.8	1.5	1.5		
2. Information Technology	174.9	176.7	178.9	180.0	180.7	181.6	0.8	150.0
% Change	4.7	1.1	1.2	0.6	0.4	0.5		
3. High-value Manufacturing	179.4	201.9	226.5	249.7	273.6	299.4	10.8	247.3
% Change	9.7	12.5	12.2	10.3	9.6	9.5		
4. Tourism	54.7	57.2	59.7	61.6	63.5	65.5	3.7	54.1
% Change	4.2	4.6	4.3	3.3	3.0	3.1		
5. Professional Services	94.4	97.9	101.3	103.7	105.8	108.0	2.7	89.2
% Change	4.0	3.8	3.5	2.3	2.1	2.0		
6. Retail Trade	70.1	72.6	75.5	77.9	80.3	82.7	3.4	68.3
% Change	0.4	3.5	3.9	3.2	3.0	3.0		
Sum of Clusters	79.9	84.4	89.0	92.8	96.5	100.3	4.7	82.9
% Change	4.0	5.7	5.4	4.3	4.0	4.0		
Other	115.3	120.3	124.7	128.7	132.8	137.0	3.5	113.2
% Change	4.6	4.3	3.6	3.2	3.2	3.2		

Table 23: Sonoma County Historical Productivity (Output per Worker) by Leading Clusters

Thousands of 2000 dollars

	2000	2001	2002	2003	2004	2005	Compound Ann. Growth Rate 00-05	Pct. Share of Total Output 2005
Total	79.9	79.5	81.0	84.1	86.0	87.2	1.8	100.0
% Change	7.0	-0.5	1.8	3.9	2.2	1.4		
1. Agriculture	50.3	51.2	50.4	52.3	50.3	49.7	-0.2	57.0
% Change	3.9	1.7	-1.4	3.7	-3.9	-1.5		
2. Information Technology	130.4	109.0	115.9	132.9	145.9	142.3	1.8	163.2
% Change	5.0	-16.4	6.3	14.7	9.8	-1.6		
3. High-value Manufacturing	136.3	120.2	141.2	186.4	201.1	230.2	11.0	264.0
% Change	43.8	-11.8	17.5	32.0	7.9	14.5		
4. Tourism	40.9	40.5	42.1	42.7	44.6	49.8	4.0	57.1
% Change	0.0	-1.1	3.9	1.5	4.5	1.1		
5. Professional Services	74.7	73.9	77.7	81.3	82.7	81.9	1.8	93.9
% Change	0.6	-1.2	5.2	4.7	1.7	-1.0		
6. Retail Trade	57.5	60.6	64.3	67.6	69.6	82.7	7.5	94.8
% Change	2.9	5.5	6.1	5.2	2.9	3.0		
Sum of Clusters	69.6	67.9	70.4	75.7	76.5	86.5	4.4	99.2
% Change	11.8	-2.5	3.7	7.6	1.1	1.9		
Other	88.4	89.0	89.5	90.7	93.0	102.3	3.0	117.3
% Change	4.1	0.6	0.6	1.3	2.6	1.1		

Table 24: Sonoma County Forecasted Productivity (Output per Worker) by Leading Clusters
Thousands of 2000 dollars

	2006	2007	2008	2009	2010	2011	Compound Ann. Growth Rate 06-11	Pct. Share of Total Output 2011
Total	88.1	89.7	91.4	92.8	94.1	95.4	1.6	100.0
% Change	1.1	1.8	1.9	1.5	1.4	1.4		
1. Agriculture	51.7	52.1	51.9	51.3	50.5	49.7	-0.8	52.1
% Change	5.4	0.7	-0.3	-1.3	-1.5	-1.5		
2. Information Technology	153.9	150.7	149.1	146.9	144.6	142.3	-1.6	149.1
% Change	1.1	-2.0	-1.1	-1.5	-1.6	-1.6		
3. High-value Manufacturing	243.8	264.5	288.3	309.4	329.9	351.3	7.6	368.1
% Change	5.9	8.5	9.0	7.3	6.6	6.5		
4. Tourism	46.6	47.3	48.2	48.8	49.3	49.8	1.3	52.2
% Change	0.2	1.4	2.0	1.2	1.0	1.1		
5. Professional Services	82.2	82.6	83.5	83.7	83.7	83.7	0.4	87.7
% Change	0.4	0.5	1.1	0.2	0.0	0.0		
6. Retail Trade	70.1	72.6	75.5	77.9	80.3	82.7	3.4	86.7
% Change	0.4	3.5	3.9	3.2	3.0	3.0		
Sum of Clusters	77.0	79.1	81.5	83.3	84.9	86.5	2.4	90.7
% Change	1.0	2.7	3.0	2.2	1.9	1.9		
Other	96.5	97.7	98.9	100.0	101.2	102.3	1.2	107.2
% Change	1.3	1.2	1.3	1.1	1.1	1.1		

ABOUT MOODY’S ECONOMY.COM (back to top)

Moody's Economy.com is a leading independent provider of economic, financial, country, and industry research designed to meet the diverse planning and information needs of businesses, governments, and professional investors worldwide. Our research has many dimensions: country analysis; financial markets; industrial markets; and regional markets. Moody's Economy.com's information and services are used in a variety of ways, including strategic planning; product and sales forecasting; risk and sensitivity management; and as investment research.

We have over 500 clients worldwide, including the largest commercial and investment banks; insurance companies; financial services firms; mutual funds; governments at all levels; manufacturers; utilities; and industrial and technology clients.

Moody's Economy.com is headquartered in West Chester, Pennsylvania, a suburb of Philadelphia. We also maintain offices in London, England and Sydney, Australia. Get more information on our worldwide offices here.

MOODY’S ECONOMY.COM OFFICES

London
Moody’s Economy.com (U.K.) Ltd.
Suite 003, Erico House
93-99 Upper Richmond Road
London, SW152TGUK
Tel: +44 (0) 20 8785 5617
Fax: +44 (0) 20 8785 5622

Sydney
Moody’s Economy.com Pty. Ltd.
Level 10
1 O’Connell Street
Sydney, NSW, 2000, Australia
Tel: +61 (02) 8221.8861
Fax: +61 (02) 8221.8860

United States
Moody’s Economy.com, Inc.
121 North Walnut St., Suite 500
West Chester, PA 19380-3166
Tel: 610.235.5000
Fax: 610.235.5302

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

Sonoma County Permit & Resources Management Dept. ■ Community Development Commission ■ Sonoma County Health Services ■ Sonoma County Transportation & Public Works

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

North Bay Construction

Sonoma County Workforce Investment Board

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

Christopherson Homes Incorporated

REMLA — Redwood Empire Mortgage Lenders Association

Bank of Marin — Member FDIC

Summit State Bank

Midstate Construction — Quality Since 1935

Frank Howard Allen Realtors

Luther Burbank Savings

CMPR — Carle, Mackie, Power & Ross LLP, Attorneys

Bank of America

NorBAR — North Bay Association of Realtors

Merrill Arnone & Jones, LLP

Moss Adams LLP

NAI BT Commercial — Commercial Real Estate Services, Worldwide.

Exchange Bank — Since 1890

Safe-BIDCO

American AgCredit

Circle Bank

North Coast Builders Exchange

Sonoma County Office of Education

Simons & Brecht Inc. — Development • Architecture • Management — Redefining the workplace since 1967

North American Title Company — Like Clockwork®

Matsen Insurance Brokers

BasinStreet Properties

Sonoma County Water Agency

Comcast

Prudential California Realty Santa Rosa

The Press Democrat

Wells Fargo

Redwood Credit Union

Codding Enterprises

PG&E — Pacific Gas and Electric Company®

Kaiser Permanente® thrive

Sonoma County Alliance

Cushman & Wakefield® — Global Real Estate Solutions

Sonoma Valley Bank

Keegan & Coppin Real Estate

Infineon Raceway