



ECONOMY

BUSINESS CONFIDENCE SPRING 2007



WITH ACKNOWLEDGMENT AND APPRECIATION TO LOCAL KEY BUSINESSES
SUPPORTING SONOMA COUNTY ECONOMIC DEVELOPMENT:

CHAIRMAN'S CIRCLE:



EXECUTIVE TIER:



ASSOCIATE TIER:



- Sonoma County Permit & Resources Management
- Community Development Commission
- Sonoma County Health Services
- Sonoma County Transportation & Public Works

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SPRING BUSINESS CONFIDENCE

2007

June 2007

The Sonoma County Economic Development Board (EDB), in partnership with the Sonoma County Workforce Investment Board (WIB), is pleased to bring you the Spring 2007 Business Confidence. The purpose of the Business Confidence Report is to gauge executives' perceptions of current and future economic conditions both within the county and the country.

Highlights from the Spring Business Confidence Report include:

- Sonoma County executives are upbeat about current economic conditions and forecast better conditions for the next few months.
- A plurality of responding executives expect their profitability to increase over the next six months.
- The Business Performance Index and the Purchasing Trends Index both recorded their first upticks since winter 2006 and spring 2006, respectively.
- Nearly two-thirds of executives report that recent increases in gasoline prices have had either a moderate or significant impact on their company/organization's costs.
- Viva Las Vegas! Nearly half of all respondents to a special topic question on air service from Sonoma County's airport, STS, would like to see service extended to Las Vegas.

The EDB encourages interested readers to recommend any pertinent local indicator or ways in which we may improve this report. As always, if you have any questions, please feel free to contact us at (707) 565-7170.

Sincerely,



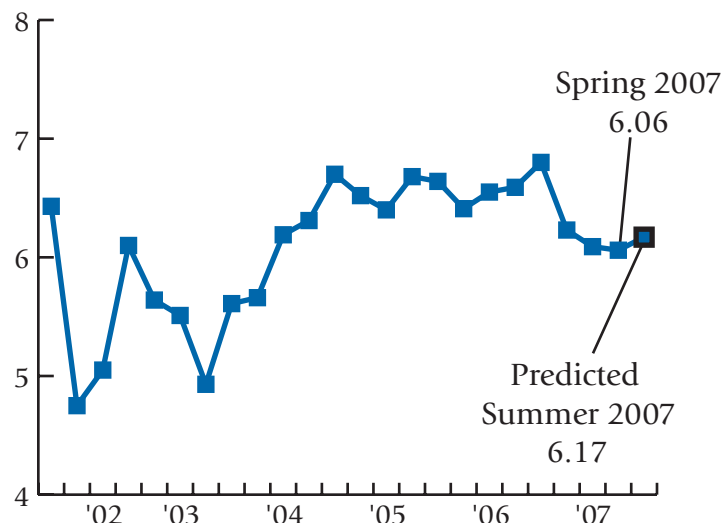
Ben Stone
Executive Director

BUSINESS CONFIDENCE DOWN SLIGHTLY YET FORECASTS ARE POSITIVE

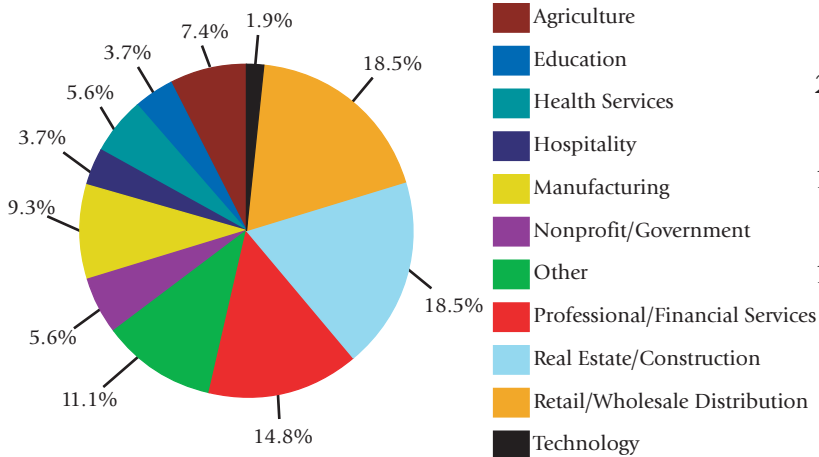
The Sonoma County Business Confidence Index dropped down to 6.06, declining 0.5% from winter's 6.09 score. The Index is measured on a 10-point scale with a score of 1 representing the lowest possible confidence level and 10 the highest. Business executives' confidence within their industries increased 8.0% from winter, rising from 5.64 to 6.09. Both indices indicate a healthy economy, since scores higher than 6 are considered positive. Local business executives expect further strength in the local economy over the next six months, forecasting a Business Confidence level of 6.17 for the summer.

The distribution of survey responses is skewed left. The overwhelming majority of respondents indicate a confidence level between four and eight.

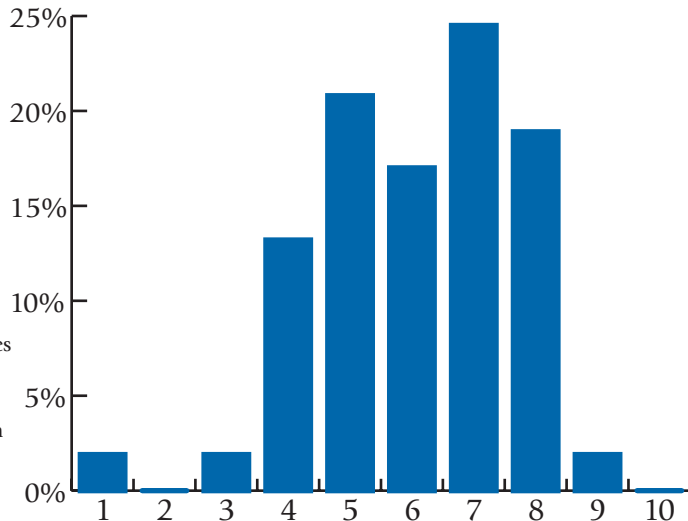
BUSINESS CONFIDENCE READING



RESPONDENTS BY INDUSTRY



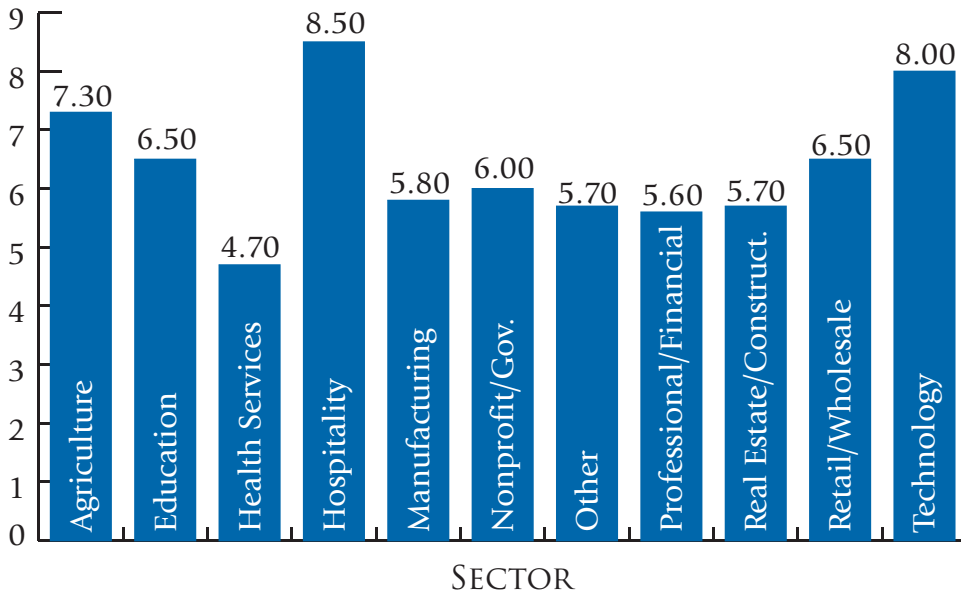
DISTRIBUTION OF BUSINESS CONFIDENCE



For more information, please contact:
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 401 College Ave, Suite D
 Santa Rosa, CA 95401-5148
 (707) 565-7170

INDUSTRY CONFIDENCE & BUSINESS PERFORMANCE

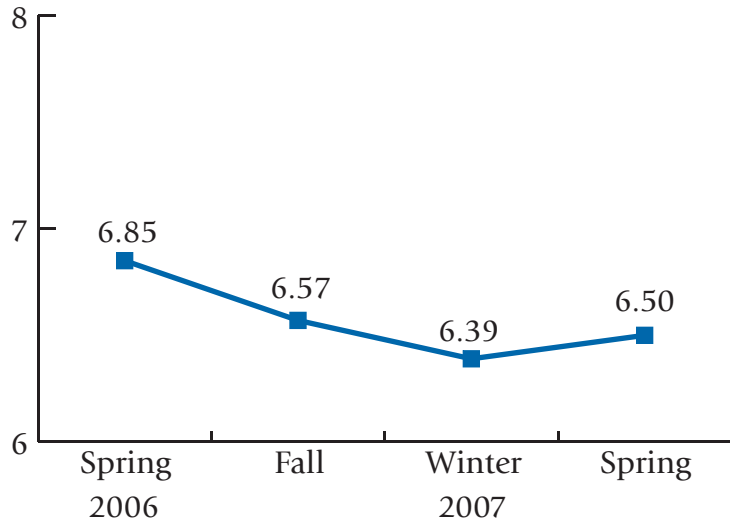
INDUSTRY CONFIDENCE



While the Business Confidence Index indicates the level of confidence in the economy as a whole, industry confidence specifically illustrates how executives feel about their sector's current economic conditions and future growth. The graph to the left compares the level of confidence of each sector. Overall, business executives report their industry confidence at 6.09, with the highest confidence reported by the hospitality sector at 8.50. More than half of all industries experienced confidence losses from the winter; however, key sectors such as retail/wholesale, professional and financial services, real estate/construction, and hospitality all saw confidence gains.

BUSINESS EXECUTIVES OPTIMISTIC ABOUT NEXT SIX MONTHS

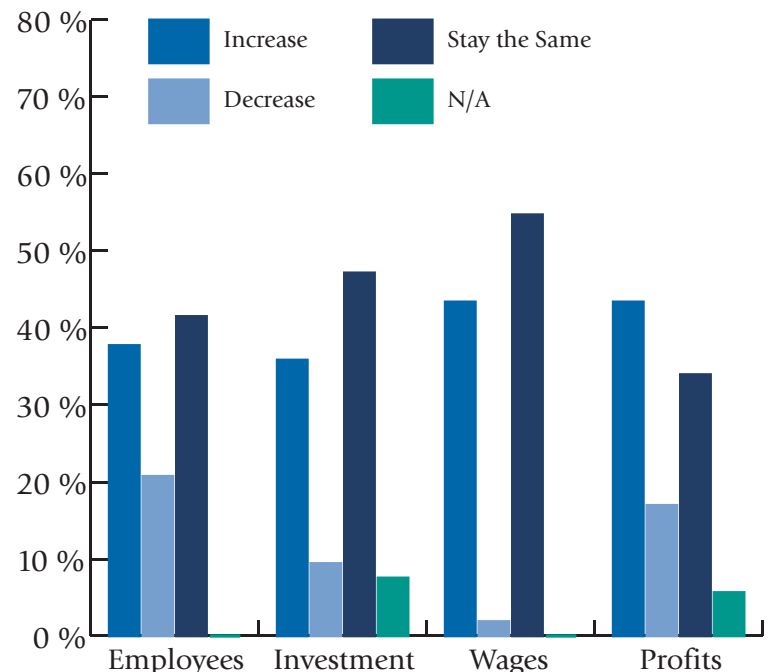
HOW IS YOUR BUSINESS PERFORMING NOW?



The spring 2007 Business Performance Index rebounded to around fall's reading, after a decline in the winter. The score of 6.50 represented a 1.7% increase from the winter level of 6.39, and was the index's first uptick since winter 2006.

Local executives' predictions convey continued optimism, as over three-quarters of all respondents expect their business/organization's investment, workforce, profitability, and wages to either increase or stay about the same over the next six months. In fact, a plurality of polled executives—43.9%—believe that their business' profitability will grow, more than twice the amount that anticipate a decline (17.0%). Further, 35.9% project an increase in investment, although, as depicted on the next page, the overwhelming majority will pursue either a moderate or cautious capital expenditure strategy.

BUSINESS PREDICTIONS



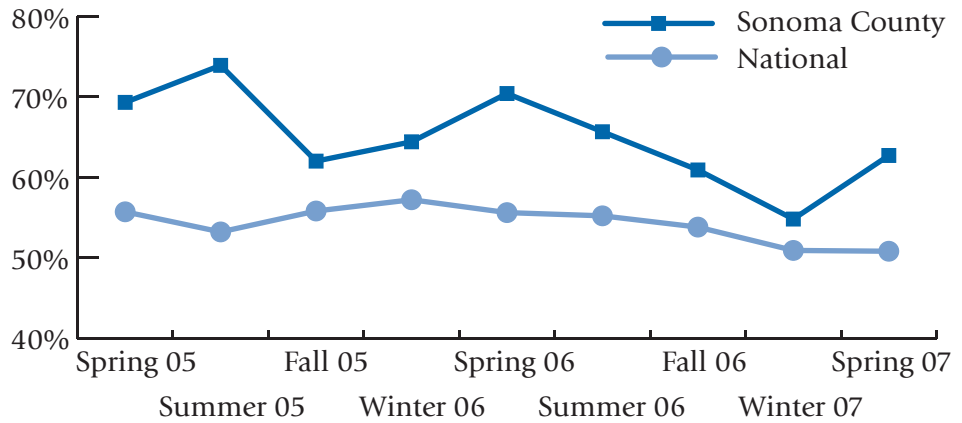
PURCHASING TRENDS

The purchasing trends for both Sonoma County and the United States indicate that economic activity continues to grow. Graphs 7 and 8 compare the local Purchasing Trends Index (PTI) with the U.S. Purchasing Manager's Index (PMI). Any PTI or PMI greater than 50% indicates a generally expanding economy.

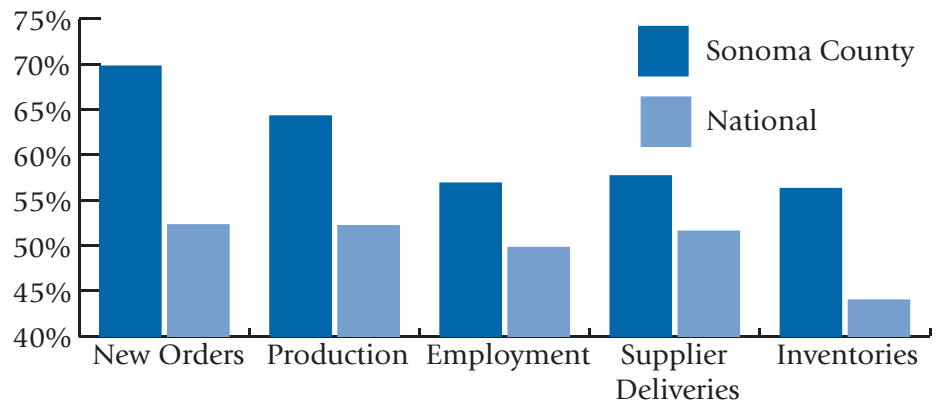
The local PTI has increased 15% to 62.7% in the spring from 54.7% in the winter report. This increase in PTI, the first since spring 2006, suggests that Sonoma County's economy grew more rapidly in spring 2007 relative to the winter 2007 and fall 2006. The current PTI reading, nevertheless, is 12.4% lower than last spring.

Graph 7 highlights national and local growth trends. Annual PTI trends suggest that the local economy has been steadily expanding for at least nine consecutive quarters, though the speed of the expansion has varied from quarter to quarter. In the last ten quarters, Sonoma County's expansion has outpaced national expansion.

MANUFACTURING PMI AND PTI TRENDS



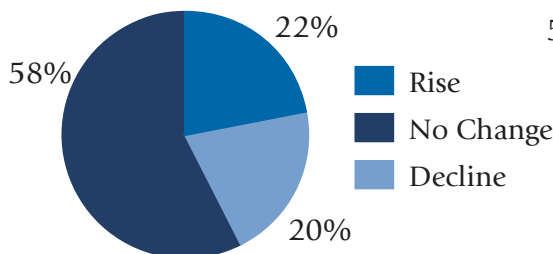
SONOMA COUNTY VS NATIONAL PRODUCTION INDICES



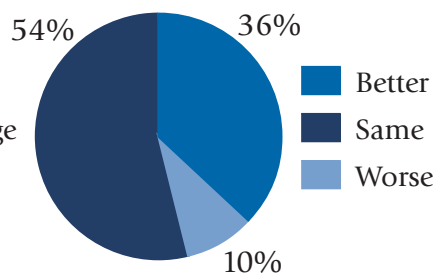
THE BIG PICTURE: SONOMA COUNTY AND THE NATIONAL ECONOMY

Local executives are bullish on the stock market's performance over the next six months, with nearly four times as many executives predicting an increase in stock market value than a decrease. The poll on national unemployment over the next six months, however, was less decisive; a virtually equal number of respondents believed national unemployment would rise as those who believed it would fall. On both questions, the majority of respondents predicted similar conditions over the next 6 months.

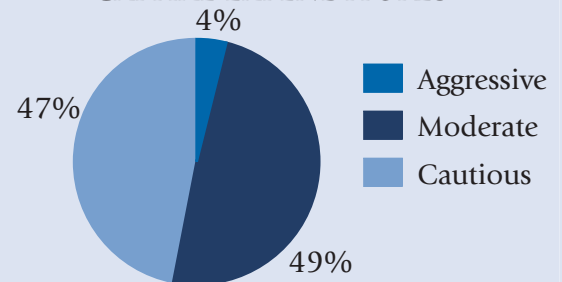
NATIONAL UNEMPLOYMENT



STOCK MARKET



CAPITAL EXPENDITURES

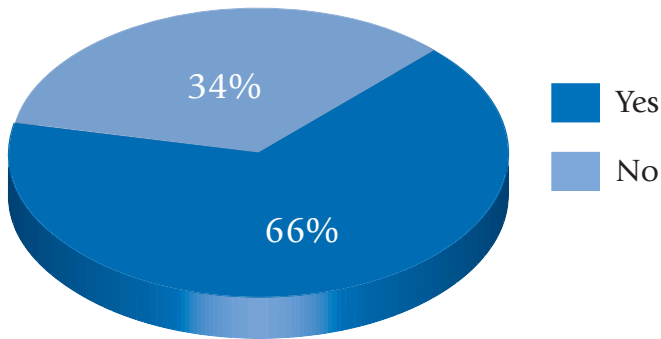


Most Sonoma County executives hold a moderate or cautious view towards capital expenditures. Despite an increase in the percent of respondents who foresee rising investment within their business or organization over the next six months, the percent pursuing an aggressive capital expenditures strategy decreased dramatically from 19% in the winter to 4% in the spring.

Each month the EDB polls businesses on special topic questions. This month the EDB focused on Sonoma County Job Link, disaster and pandemic preparedness, gasoline prices, and air service from Sonoma County's airport, STS.

SONOMA COUNTY JOB LINK

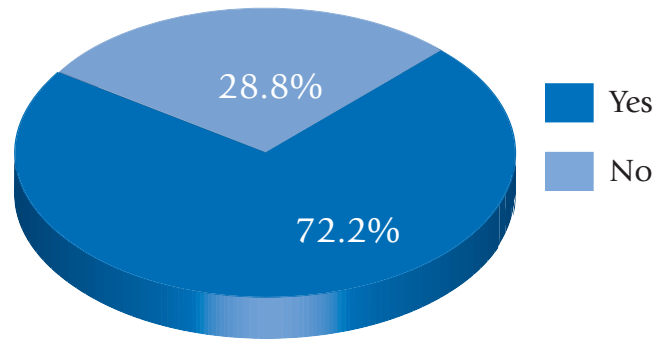
Have you heard of Sonoma County Job Link?
(N=53)



For more information, please visit:
<http://www.socojoblink.org/>

EMPLOYERS' COALITION ON HEALTH

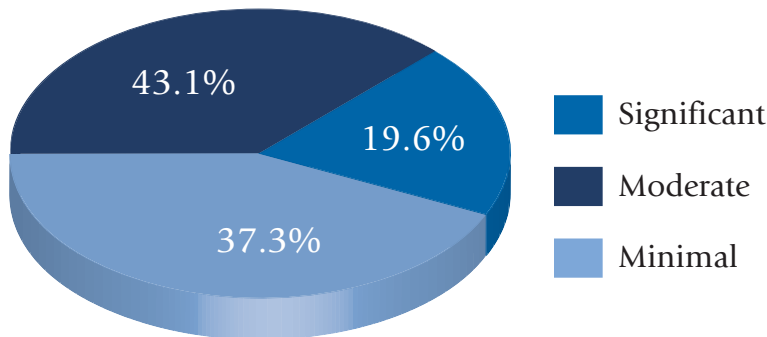
Would it be useful for the EDB to offer informational resources and workshops on disaster and pandemic preparedness and business continuity?
(N=36, excludes "N/A" responses)



For more information, please visit:
<http://www.scech.org/>

GASOLINE PRICES

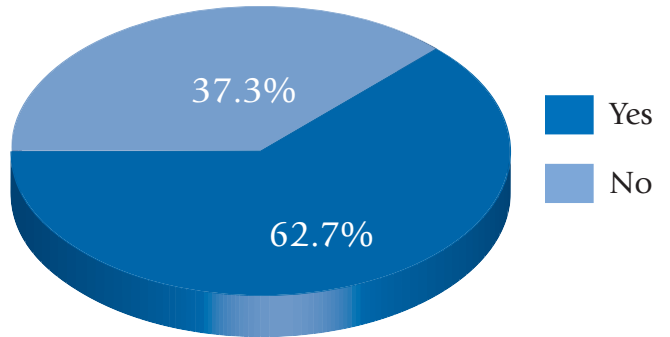
What effect have recent increases in gasoline prices had on your company/organization's costs?
(N=51)



For more information, please visit:
<http://www.doe.gov/>

AIR SERVICE

Will firms in your industry be likely to use the new air service to LA or Seattle?
(N=51)

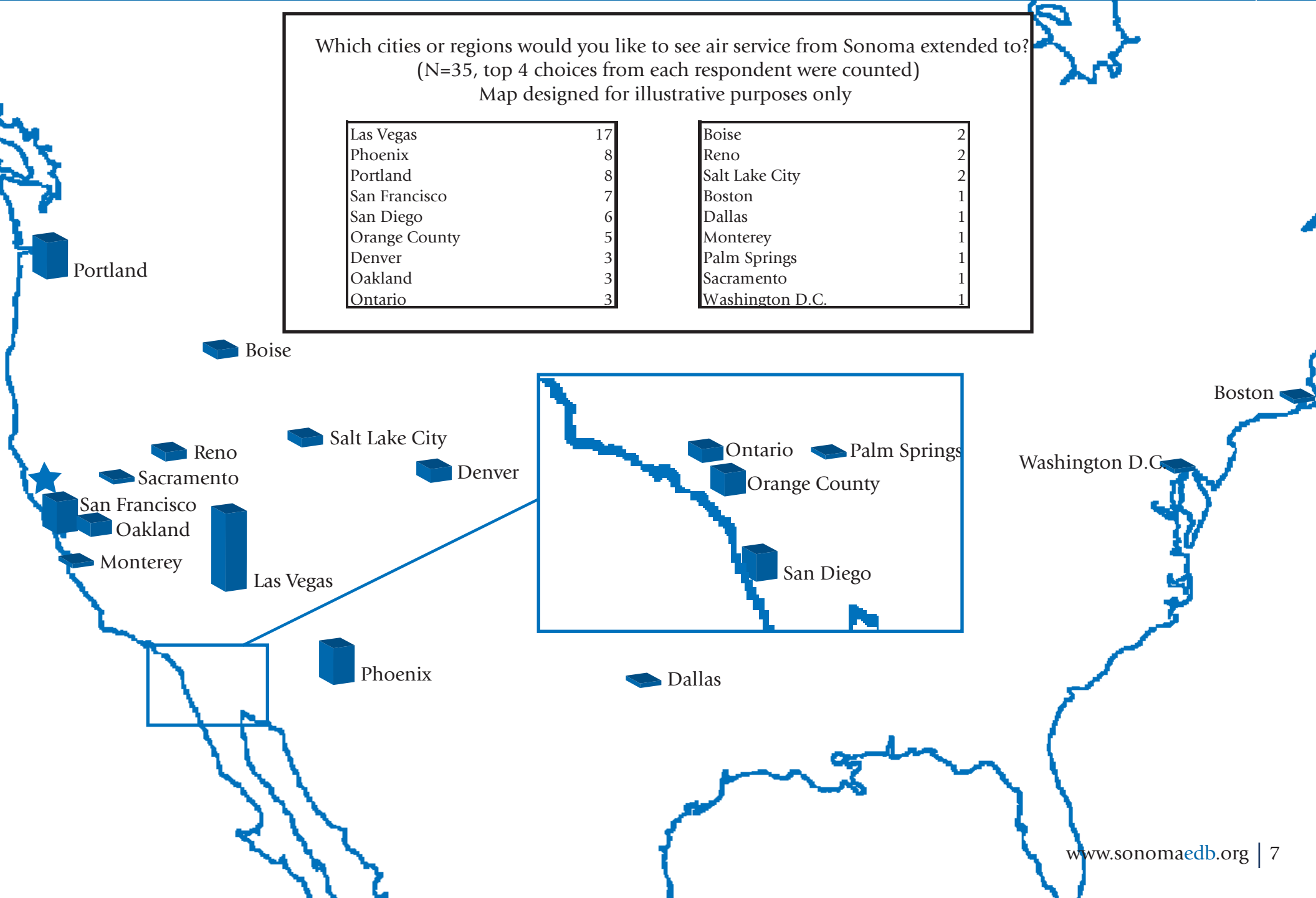


For more information, please visit:
<http://www.horizon.com/>

Which cities or regions would you like to see air service from Sonoma extended to?
(N=35, top 4 choices from each respondent were counted)

Map designed for illustrative purposes only

Las Vegas	17	Boise	2
Phoenix	8	Reno	2
Portland	8	Salt Lake City	2
San Francisco	7	Boston	1
San Diego	6	Dallas	1
Orange County	5	Monterey	1
Denver	3	Palm Springs	1
Oakland	3	Sacramento	1
Ontario	3	Washington D.C.	1



Surveys were mailed to 180 business executives in the month of April with a due date of May 18, 2007. Responses were received from 54 businesses, for a response rate of 30.0 percent. The Sonoma County Business Confidence Index is the mean of all respondents' perceptions of Sonoma County's current economic situation on a scale of 1-10. Due to adjustments in methodology, some percentages differ from those cited in earlier Sonoma County Business Confidence Reports. The national PMI comes from the Institute for Supply Management and is the most recent available as this report was written, unless otherwise indicated. The PMI uses information about companies' new orders, production, employment, supply deliveries, and inventories. Sonoma County's index mirrors the PMI when computing its index. However due to differences in the methodology of compiling data, the two indices may not be directly comparable.

The Sonoma County Economic Development Board has conducted the Business Confidence Survey since December 1999 and currently produces a quarterly report. Individual surveys are confidential. This quarter's report was prepared by Benjamin Herbert.