



Sonoma County Economic Development Board

BUSINESS BAROMETER

Winter 2007

In This Month's Report:

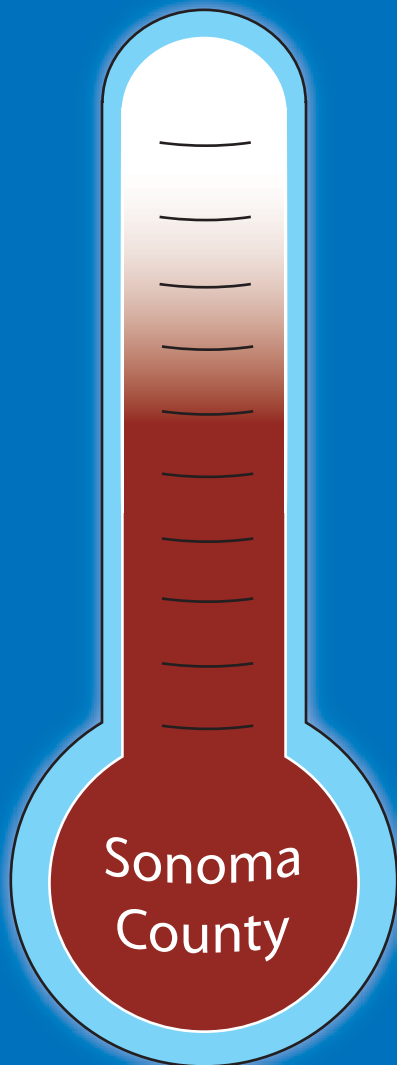
- A special focus on the county's real estate market. The Economic Development Board will track notices of default in future releases of the Business Barometer.
- Home prices in December 2006 declined 1.9% from the 2005 median and housing starts stalled.
- Sonoma County lost 1,400 jobs year-over-year in the fourth quarter (October, November, December); however, the county unemployment rate of 4.0% is still considerably lower than California's and the United States'.
- Gasoline prices hovered around \$2.65 per gallon for the month of January. Natural gas prices decreased 30% from January 2006.
- Inflation reached 3.4% annualized after declining in the fall. Competitive environments helped keep inflation in check despite an uptick in labor compensation.

Notes and Acknowledgements

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

For more information, please contact:
Ben Stone, Executive Director

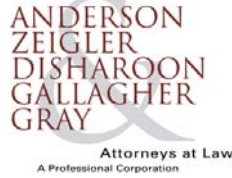
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With Acknowledgment and Appreciation to the Underwriters of the Economic Development Board Foundation Research Initiatives Program:

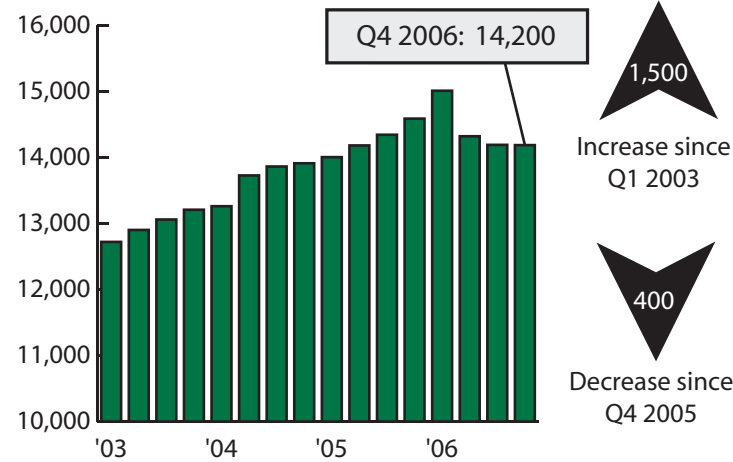
- Sonoma County Permit & Resources Management ■ Community Development Commission ■
- Sonoma County Health Services ■ Sonoma County Transportation & Public Works ■





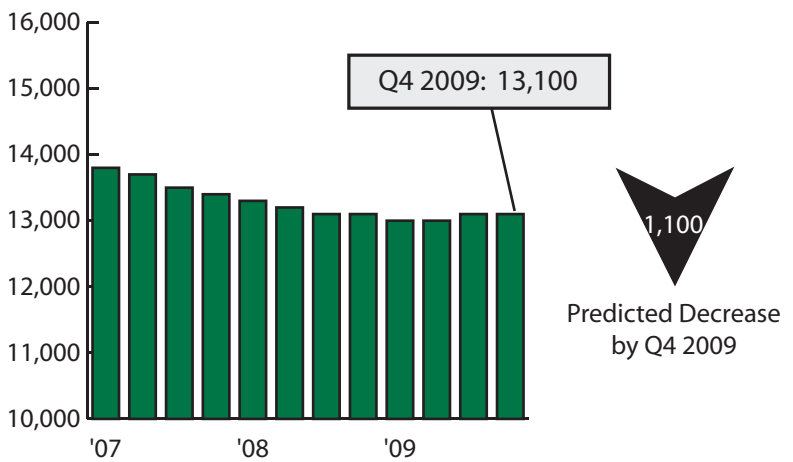
Special Focus: Real Estate

Construction Employment, Seasonally Adjusted



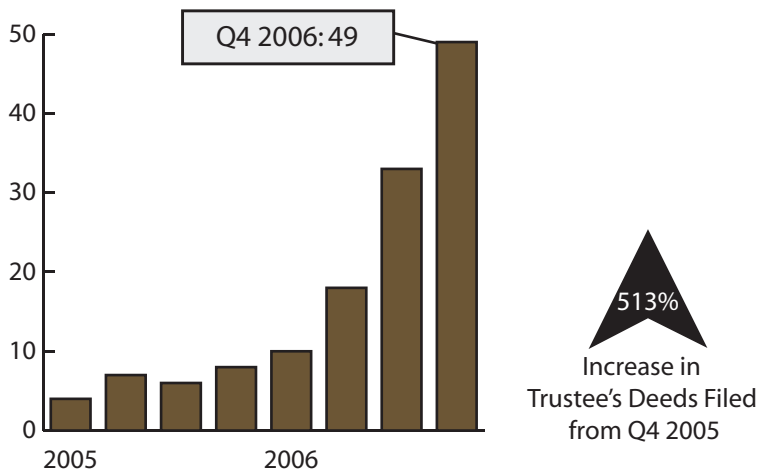
Source: Employment Development Department
<http://www.labormarketinfo.edd.ca.gov>
 Data has been seasonally adjusted by the EDB

Forecasted Construction Employment, Seasonally Adjusted



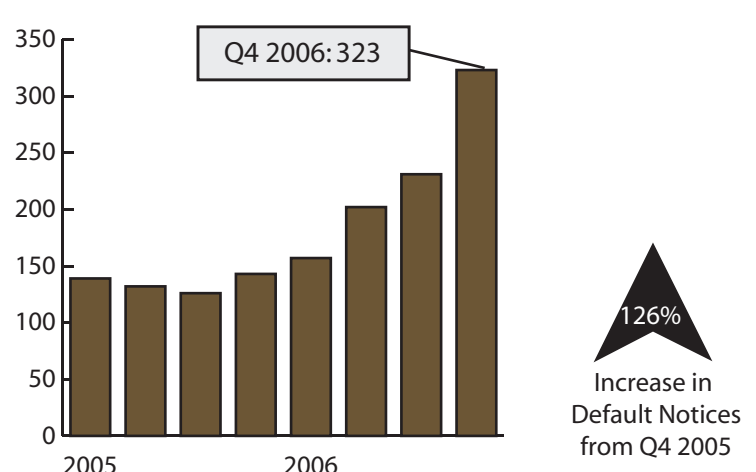
Source: Eberhardt School of Business Business Forecasting Center, "California and Metro Forecast 2006-2009," December 2006
http://forecast.pacific.edu/cametroforecast/CA_MetroForecast_Dec_06.pdf

Trustee's Deeds Filed, Houses and Condos



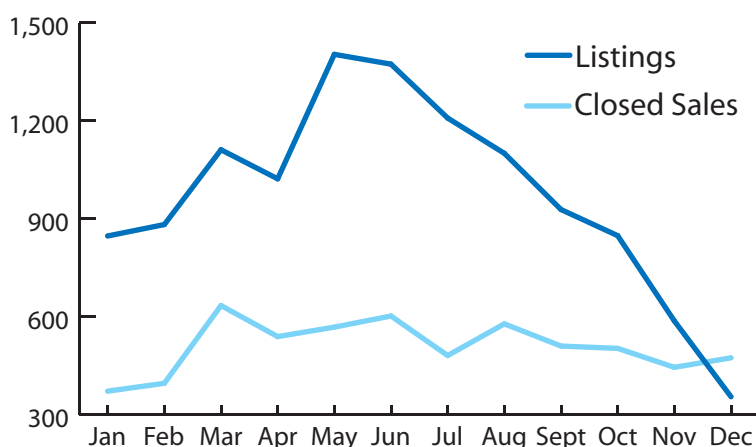
Source: DataQuick Information Systems
<http://www.dqnews.com>

Notices of Default, Houses and Condos



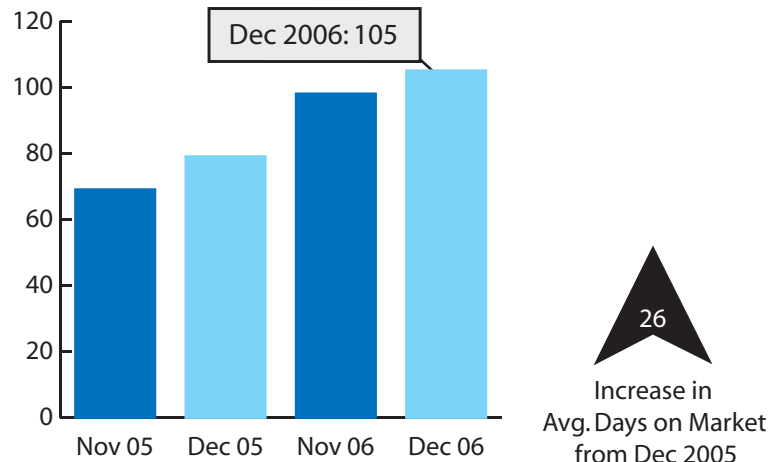
Source: DataQuick Information Systems
<http://www.dqnews.com>

Listings and Closed Sales, 2006



Source: Bay Area Real Estate Information Services
<http://www.bareis.com>

Average Days on Market, Residential

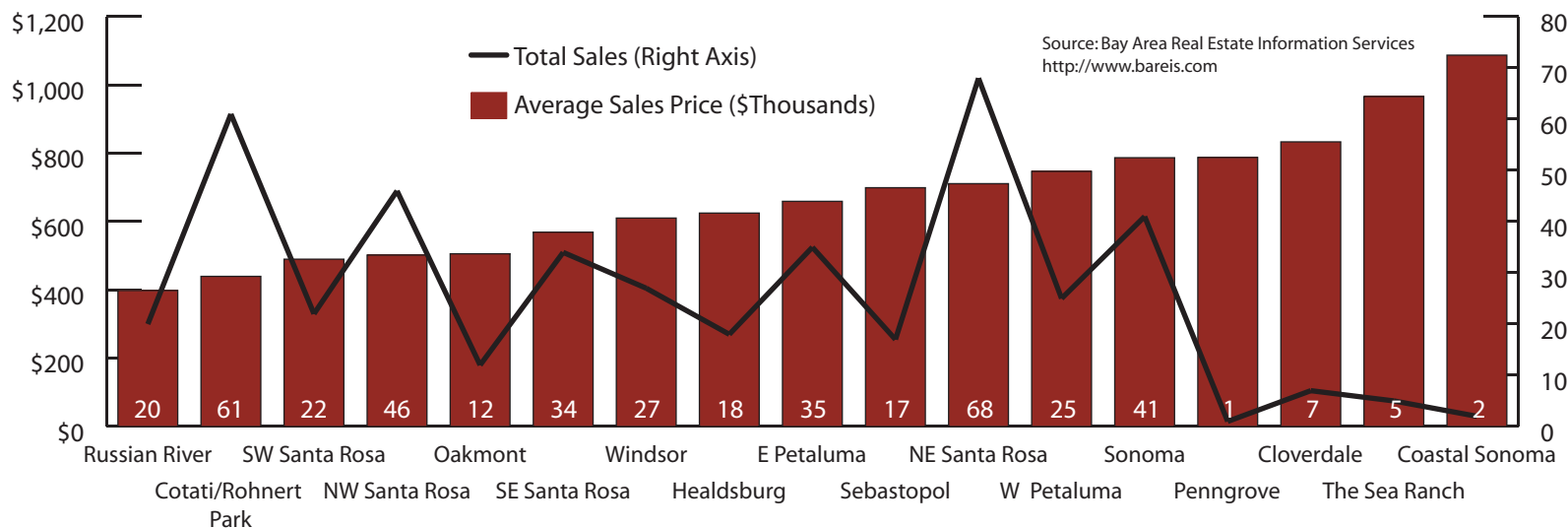


Source: Bay Area Real Estate Information Services
<http://www.bareis.com>



Special Focus: Real Estate

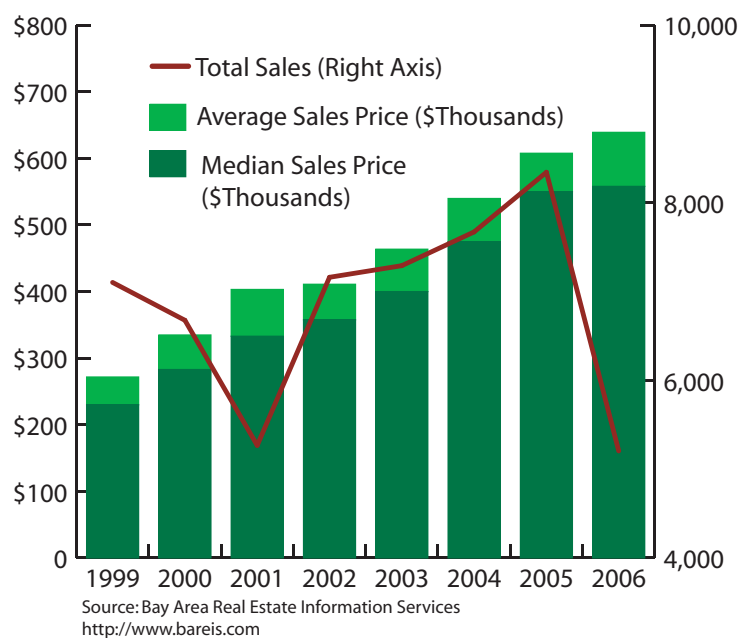
Average Sales Price and Total Sales by Region, December 2006



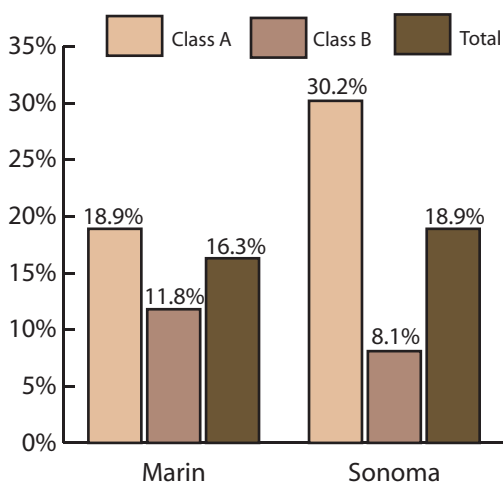
Sonoma County's residential real estate market has cooled considerably after years of stellar valuation gains. The construction industry, which employs 7.7% of Sonoma's workforce, is bearing the brunt of this weakness, as torpid demand has led to a near 3% decline in employment year-over-year in the fourth quarter. According to the Construction Industry Research Board, only 60 new housing units were completed in December 2006, none of which were multi-family. The University of the Pacific's Eberhardt School of Business's Forecasting Center predicts a further reduction of 1,100 construction laborers by 2009.

The outlook for the commercial real estate sector is positive, according to Moody's Economy.com (see *Winter 2007 Quarterly Economic Report*). Lower rents relative to surrounding counties and the opening of Horizon Air routes will help spur demand.

Sonoma County Annual Sales Report, 1999-2006

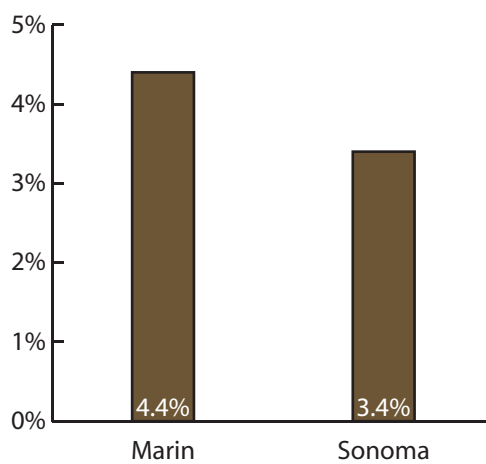


Office Vacancy, Q3 2006



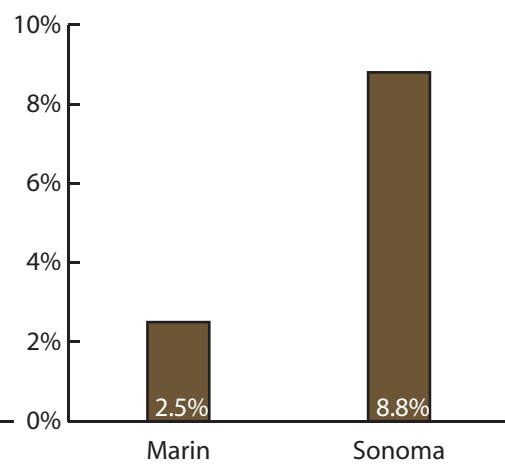
Source: Orion Partners, "Office Market Report Q3 2006"
http://www.orionre.com

Retail Vacancy, Q3 2006



Source: Keegan & Coppin
http://www.keegancoppin.com

Industrial Vacancy, Q3 2006

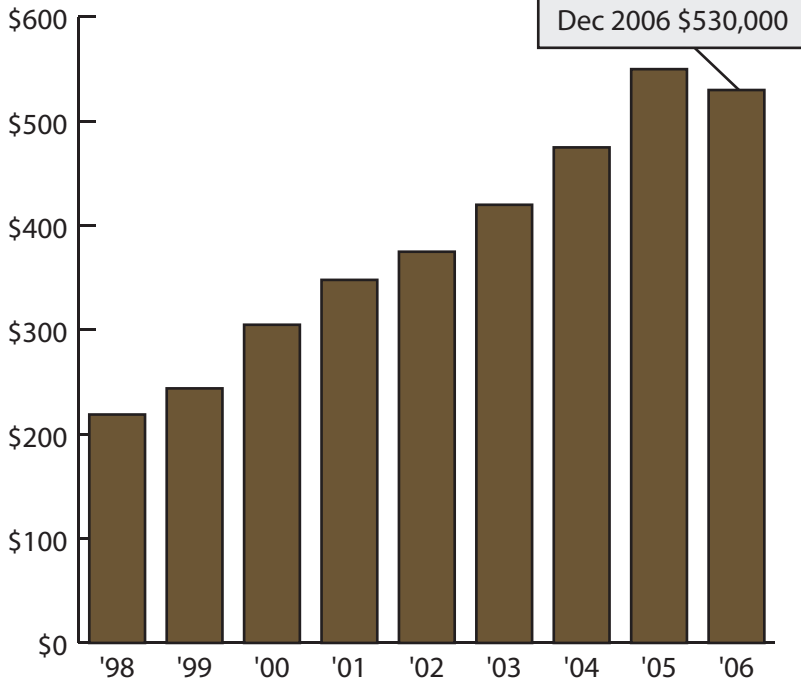


Source: Keegan & Coppin
http://www.keegancoppin.com



Housing

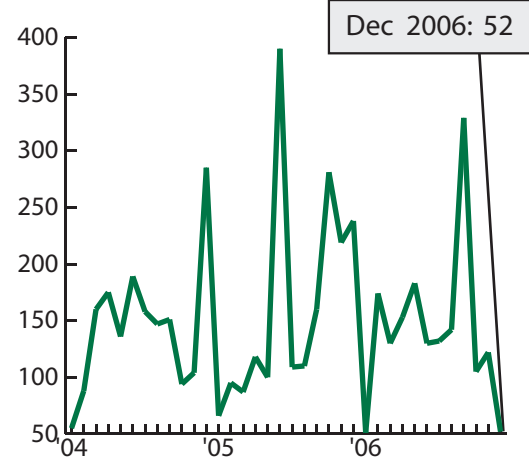
Median Home Price (Thousands)



1.9% Decrease since 2005

142% Increase since 1998

Housing Starts



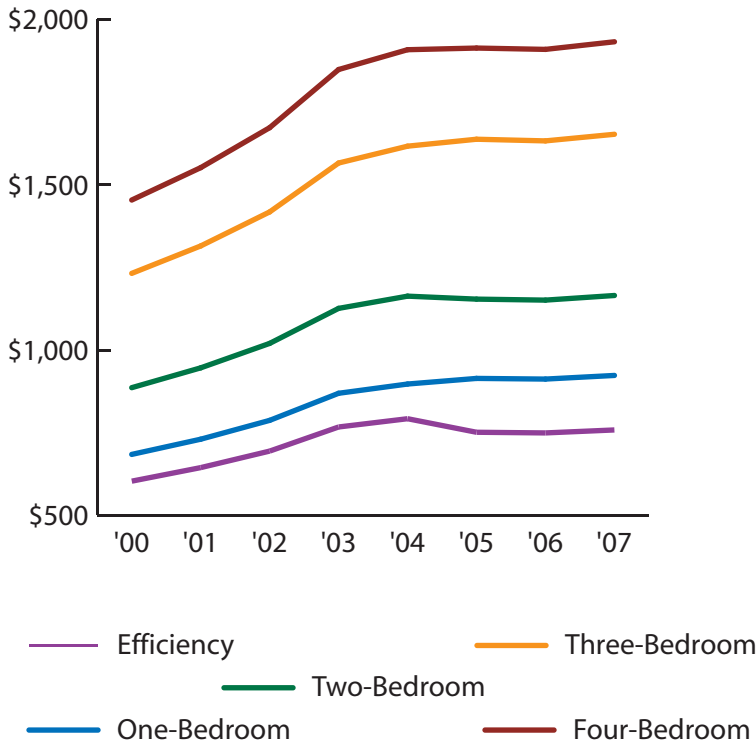
Year	Housing Starts
2004	1742
2005	1973
2006	1699

70 Decrease since November 2006

274 Decrease from 2005

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

Fair Market Rent

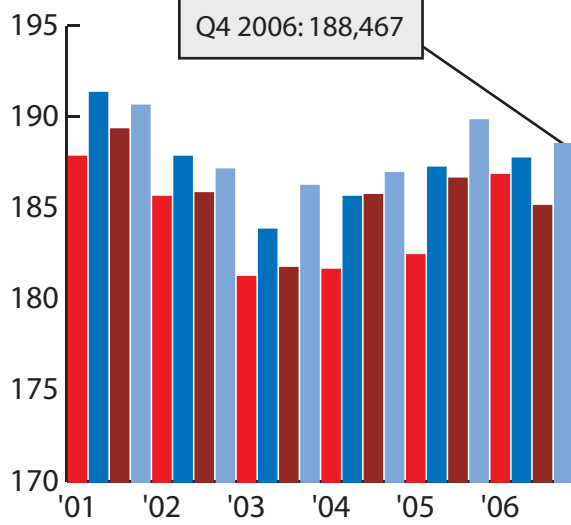


The median home price decreased \$10,000 from last December's sales numbers. According to Bay Area Real Estate Information Services, the average home in Sonoma County remained on the market for 106 days before being sold in December 2006, up from 79 days in December 2005. Housing starts have declined considerably on a year-over-year basis, particularly in the last three months of 2006. Housing starts are defined as new homes which begin construction during a calendar year -- so a housing start in December of 2006 may not be completed for quite some time.

Fair Market Rents, calculated by the Department of Housing and Urban Development, have reached a plateau in Sonoma County. The current fair market rent for a two-bedroom apartment is \$1,165 per month.



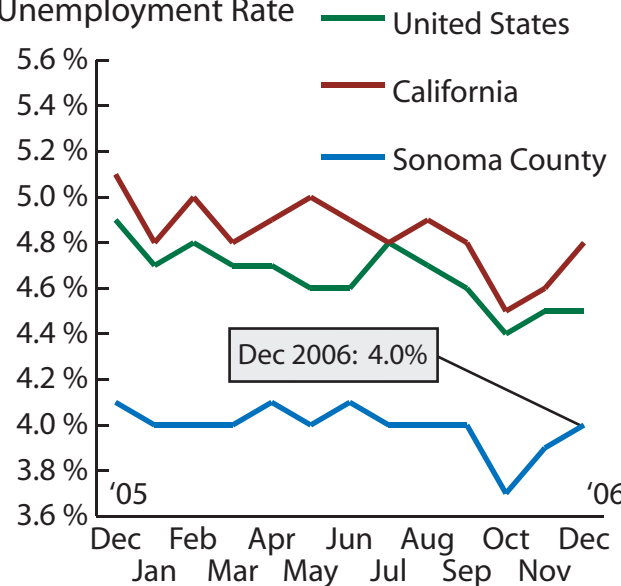
Non-Farm Employment (Thousands)



▼ 1,400 Change in jobs since Q4 2005

▼ 2,800 Change in jobs since Q2 2001

Unemployment Rate



▼ 0.1% Change in unemployment rate since December 2005

Sonoma County's non-farm employment is down 1,400 year-over-year and many key sectors—leisure and hospitality, construction, retail trade, and professional and business services—have shed jobs. The recent release of the BLS' Quarterly Census for Wage and Employment for the second quarter of 2006, which showed stronger job growth than prior monthly estimates, suggests that revised data may indicate a healthier employment market.

Sonoma County's unemployment rate increased back up to 4.0% in December, but remains well below the U.S. and California rates.

Sources: Bureau of Labor Statistics (<http://www.bls.gov>)
 Sonoma County's Unemployment Rate Has Been Seasonally Adjusted by the EDB

Business Cycle Index

The Sonoma County Business Cycle rose again in the 4th Quarter of 2006. Currently, the Index stands at 105.4 -- 5.4% above 1st Quarter 2001. The index "bottoms out" in the first half of 2003, and has been steadily rising since, a representation of the improving economic conditions experienced in the County.

The Sonoma County Business Cycle Index attempts to show the current trends of several key economic statistics in one graph. The Index combines four statistics in varying proportions based on their volatility - those statistics, such as employment, which are relatively stable are considered more important than those statistics, such as business confidence, which tend to vary considerably. Currently the index is weighted in the following approximate proportions: Employment - 54%, Wages - 25%, Taxable Sales - 18%, Business Confidence - 3%. The index is set so that 1st Quarter 2001 = 100.

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



▲ 1.7% Change in index since Q4 2005

▲ 5.4% Change in index since Q1 2001

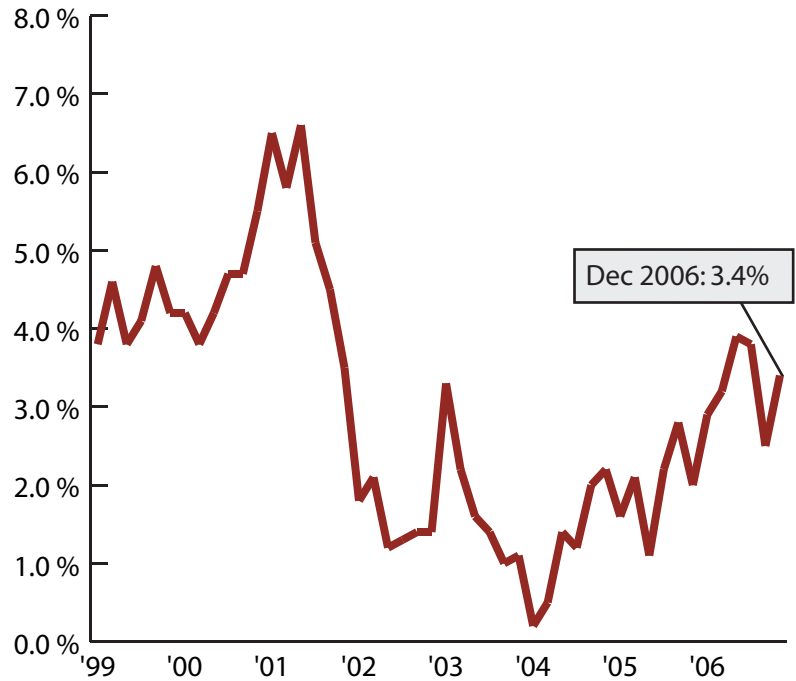
Source: Sonoma County Economic Development Board (<http://www.sonoma-county.org/edb>)



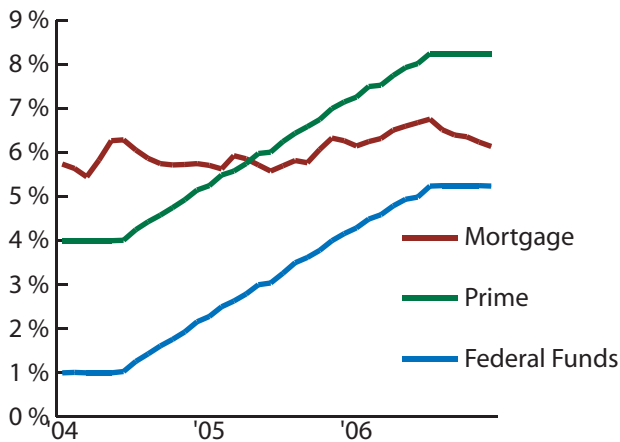
Inflation

Prices for a gallon of regular unleaded gasoline have hovered in the \$2.60s for the past month after hitting a low of \$2.38 in November. The price for crude oil futures (NYMEX: CL) has dropped nearly 30% from its summertime apex, down to around \$55 a barrel. Natural gas prices have also tempered over the last year with the per unit (Therm) cost declining 30%. Inflation crept downward during the fall, but has since rebounded to a modest 3.4% annualized. According to the Federal Reserve Bank, growth in labor compensation for December and January increased relative to October and November, but highly competitive environments curbed inflation.

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



Interest Rates

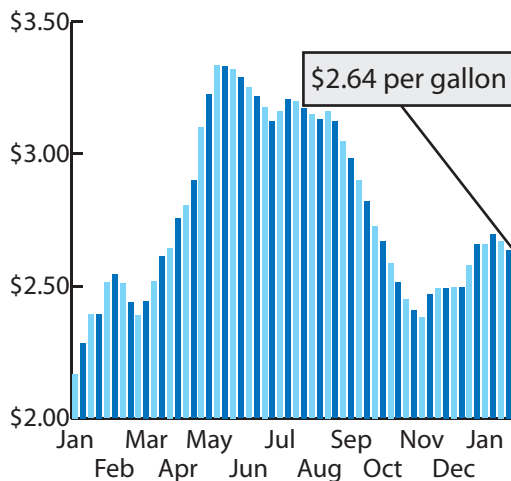


1.4% Increase in rate of inflation since Dec 2005

3.2% Decrease in rate of inflation since June 2001

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

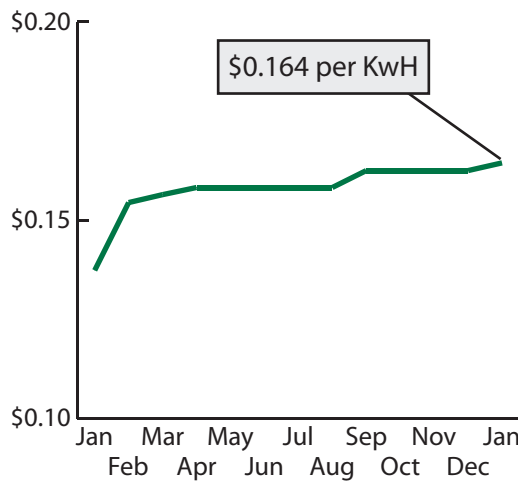
Gasoline, San Francisco/Bay Area



63¢ Decrease since May 2006

31¢ Increase since January 2006

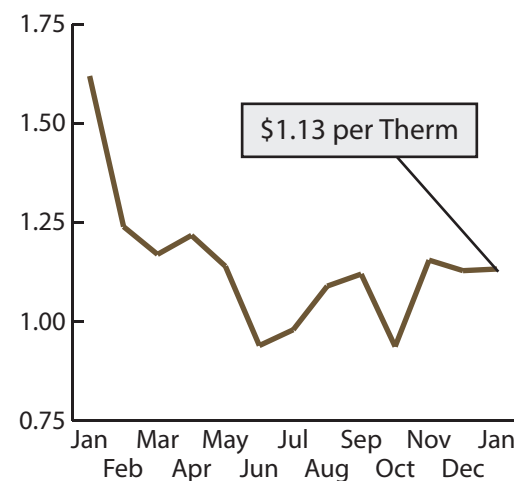
Electricity Price per Kilowatt Hour



20% Increase since January 2006

1.1% Increase since December 2006

Natural Gas Price per Therm



30% Decrease since January 2006

0% Unchanged since December 2006

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