



Business Confidence Report Winter 2007

Executive Summary

Conducted during the month of December, the Sonoma County Economic Development Board (EDB) presents the Winter 2007 Business Confidence Report. Key highlights from this report include:

- Sonoma County business executives remain upbeat about the local economy.
- The number of businesses that have an “aggressive” stance toward capital investment swelled to 19% from 11% in the Fall.
- Thirty-two percent of businesses expect to increase employees over the next six months, nearly double the percent that anticipate downsizing their workforce.
- Purchasing trends for both Sonoma County and the United States indicate that economic activity in the previous quarter grew.
- Most executives predict wage increases of 2-4% over the next year.
- More than half of executives reported that the holiday season would have little effect on their business’s activity/sales.

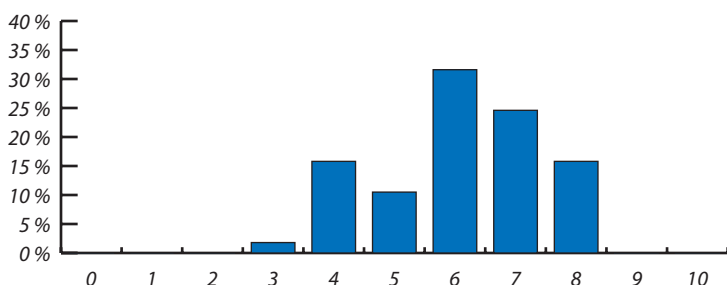
Business Confidence Down Again Yet Still Positive

The Sonoma County Business Confidence Index dropped down to 6.09, declining 2.2% from Fall’s 6.23 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 decreased 5.2% (from 5.95 to 5.64) from Fall 2006. Nevertheless, both indices indicate a healthy economy, since scores higher than or near 6 are considered positive. Local business executives also expect the county’s economy to be marginally weaker over the next six months, forecasting an index level of 6.02.

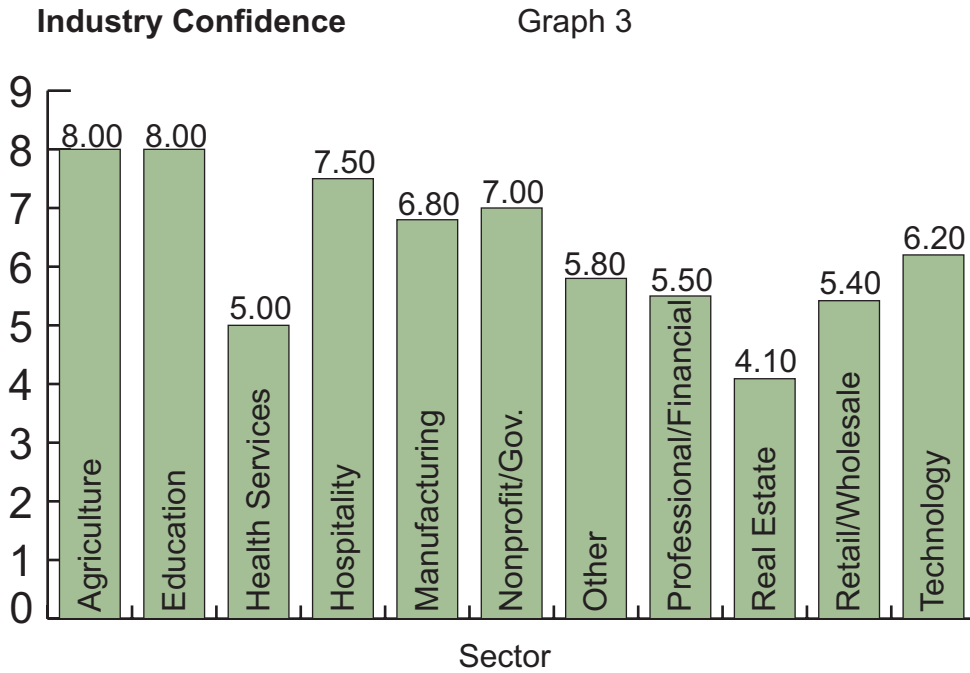
Graph 2 illustrates the distribution of individual responses on the survey. The overwhelming majority of respondents indicate a confidence level between four and eight.



Distribution of Business Confidence Graph 2



Industry Confidence in Sonoma County

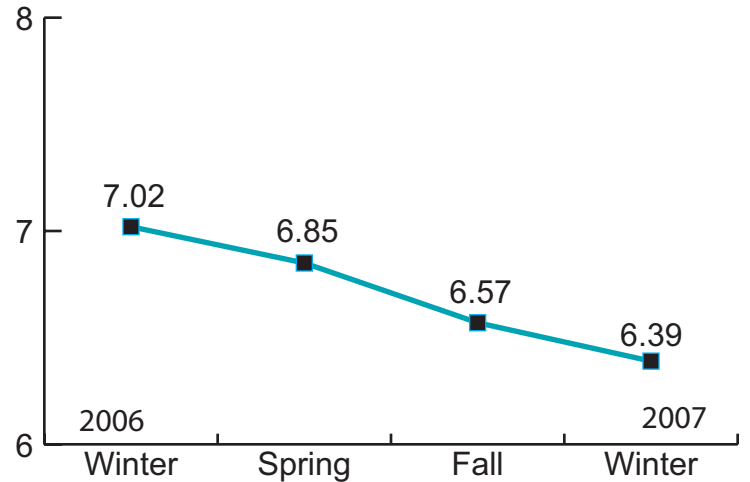


While the Business Confidence Index indicates the level of confidence in the economy as a whole, industry confidence specifically illustrates how executives feel about their sector's current economic conditions and future growth. Graph 3 compares the level of confidence of each industry. Overall, business executives report their industry confidence at 5.64, with the highest confidence reported by the agriculture and education sectors at 8.00. More than half of all industries experienced confidence gains from the Fall; however, key sectors such as retail/wholesale, professional and financial services, real estate, and health services all saw confidence losses.

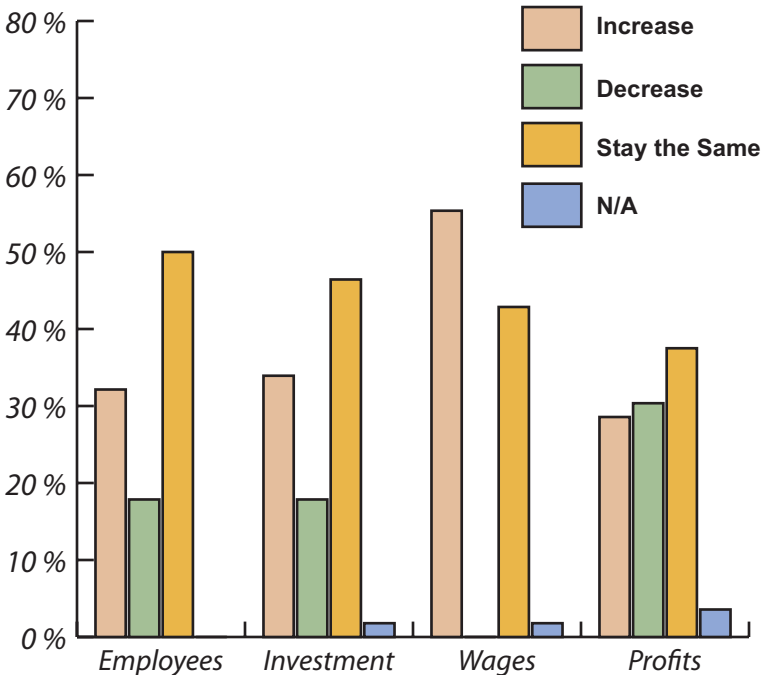
Business Executives Less Optimistic about Business Performance

The Winter 2007 index of 6.39 continued a near-linear descent that began in the Winter of 2006 and represented a 2.7% decline from the Fall 2006 level of 6.57. The index is at its lowest level since Fall 2005.

How is your business performing now? Graph 4



Business Predictions Graph 5



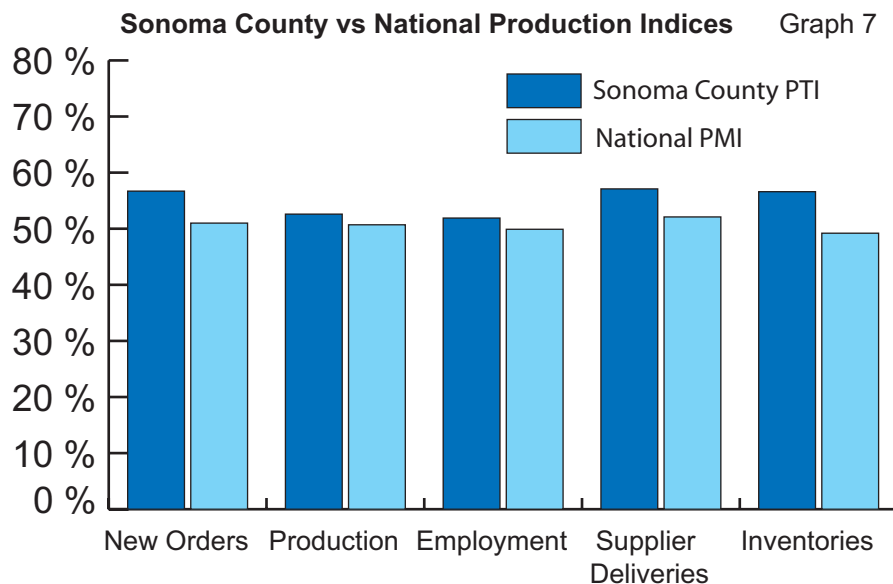
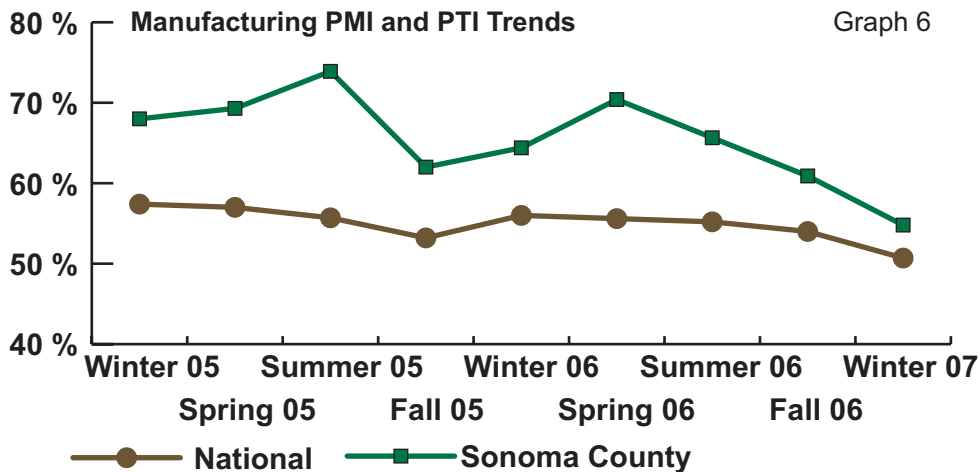
Business executives' plans appear to forecast a further weakening of the local economy. A slightly greater percentage of executives anticipate a decline in profitability than an increase over the next six months, and the percentage who expect their workforce and investment to decrease grew from the Fall. One of the explanations for the dimmer outlook on profitability could be the fact that all respondents expected wages for their employees to either increase or stay the same, a sign of a tight labor market. Just over 32% of executives predict an increase in hiring, however, up from 27% in the Fall.

Purchasing Trends

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

The local PTI has decreased 10% to 54.8% from 60.9% in the Fall 2006 report. This represents a decrease in reported economic expansion from Winter 2006, but it is important to note that any PTI greater than 50% indicates a generally expanding economy. Therefore, the decrease in the Sonoma County PTI to 54.8% can be interpreted as an economy which continues to expand, but at a slower rate than last year.

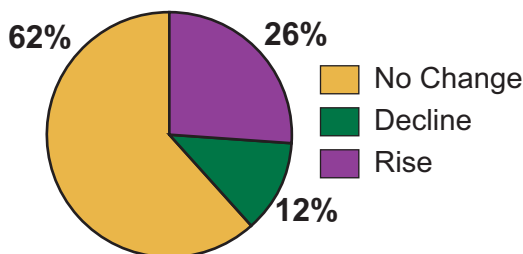
Graph 6 highlights national and local growth trends. Annual PTI trends suggest that the local economy has been steadily expanding for at least nine consecutive quarters, though the speed of the expansion has varied from quarter to quarter. In the last nine quarters, Sonoma County's expansion has outpaced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



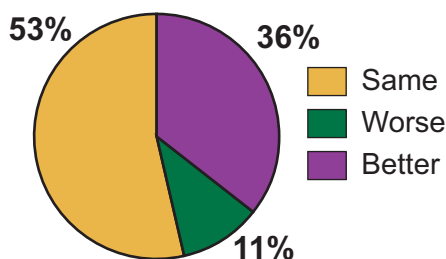
The Big Picture: Sonoma County and the National Economy

Sonoma County executives are more bullish on the stock market's performance over the next six months than they were last Fall. Thirty-six percent of executives believe the stock market's value will increase, up from 27% in the Fall, and only 11% expect prices to fall, down from 14% in Fall. More executive foresee national unemployment rates remaining the same over the next six months than last Fall, with those expecting rates to rise and decline both falling.

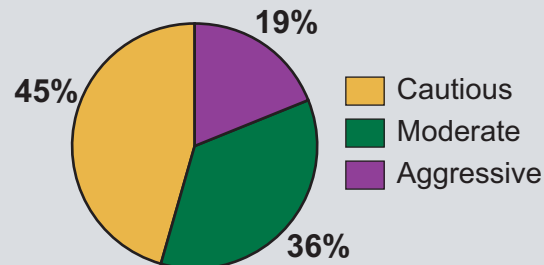
National Unemployment Graph 9



Stock Market Graph 10



Capital Expenditures Graph 8



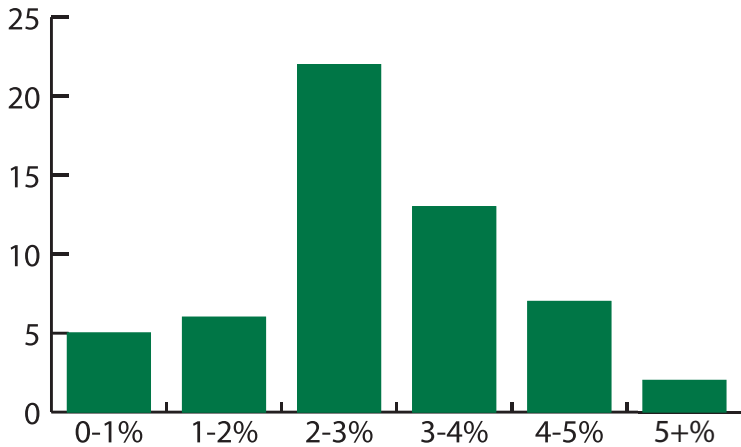
Most Sonoma County executives hold a moderate or cautious view towards capital expenditures, but the percent pursuing an aggressive capital expenditures strategy over the next six months increased from 11% in the Fall to 19%. This percentage represents the highest level since the Spring 2006 Business Confidence Survey.

Special Topic Questions

Each month the EDB polls businesses on special topic questions. This month the EDB focused on wage and salary increases over the next year and the effect of the holiday season on local businesses' activity/sales.

Wage and Salary Growth

What, if any, increase in wage and salary rates do you anticipate in your industry over the next year?

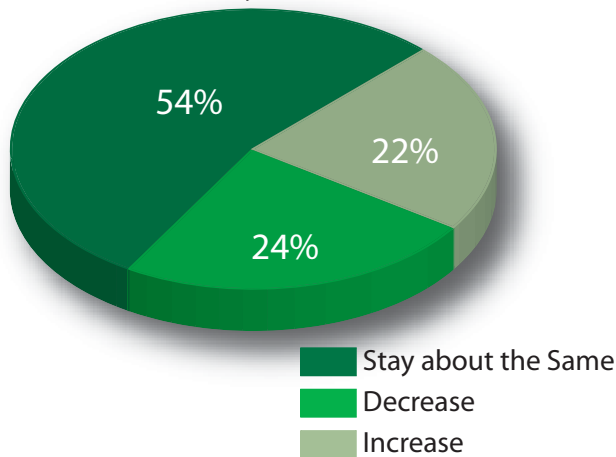


In this edition we asked business executives to report their expectations for wage and salary increases within their industries over the next year. The most common response was 2-3% and a majority of executives expected increases in the range of 2-4%.

The graph on the left shows the distribution of responses.

Holiday Seasonality

How do you expect the holiday season to affect your business's activity/sales?



Business executives were asked about how they expected the holiday season to affect their business's activity/sales. The majority believed that their business's activity/sales would remain about the same and slightly more executives thought their activity/sales would decrease than increase.

Surveys were mailed to 297 business executives in the month of December with a due date of December 22, 2006. Responses were received from 57 businesses, for a response rate of 19.2 percent. The Sonoma County Business Confidence Index is the mean of all respondents' perceptions of Sonoma County's current economic situation on a scale of 1-10. Due to adjustments in methodology, some percentages differ from those cited in earlier Sonoma County Business Confidence Reports. The national PMI comes from the Institute for Supply Management and is the most recent available as this report was written, unless otherwise indicated. The PMI uses information about companies' new orders, production, employment, supply deliveries, and inventories. Sonoma County's index mirrors the PMI when computing its index. However due to differences in the methodology of compiling data, the two indices may not be directly comparable.

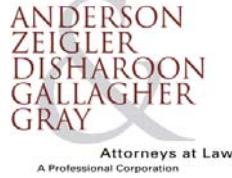
The Sonoma County Economic Development Board has conducted the Business Confidence Survey since December 1999 and currently produces a quarterly report. Individual surveys are confidential. This report was prepared by Benjamin Herbert.

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