



Business Confidence Report

Winter 2011

2011
SONOMA
COUNTY

Winter 2011 Business Confidence Survey and Report

The Sonoma County Economic Development Board (EDB), in partnership with the Sonoma County Workforce Investment Board (WIB), is pleased to present the *2011 Business Confidence Survey and Report*.

Highlights from this *Business Confidence Report* include:

- Sonoma County business confidence is shining compared to its worst performance two years ago when the average business confidence rating on a scale of 1 to 10 was 3.2. Sonoma County is now doing much better with an average business confidence of 5.45.
- Businesses have yielded feedback as to what local government can do to help businesses succeed in Sonoma County. The most requested three options were to help businesses stay and grow in Sonoma County, make the permitting process more efficient, and attract new businesses to Sonoma County.
- When asked whether they were considering hiring new employees in 2012, 58% of business executives in Sonoma County responded in the affirmative, suggesting that Sonoma County's economy is getting back on track.

Thank you for your interest in the Economic Development Board's research. For additional information, questions, comments, or suggestions please contact us at (707) 565-7170 or visit www.sonomaedb.org.

Sincerely,



Ben Stone
Executive Director



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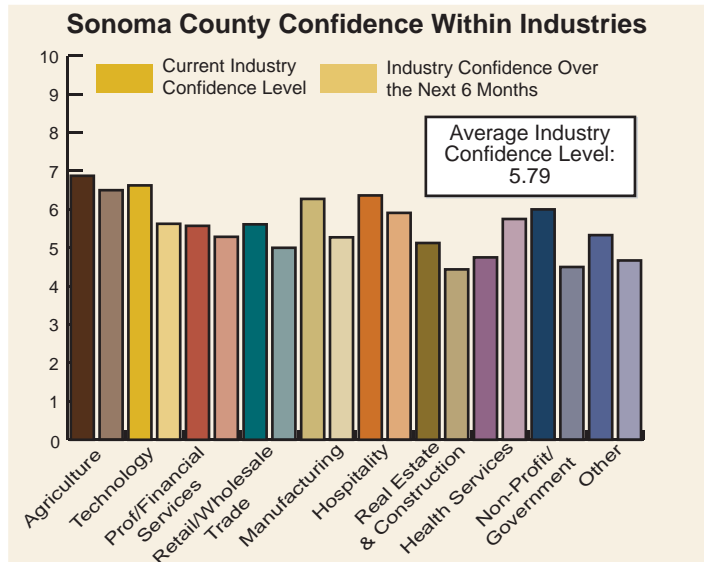
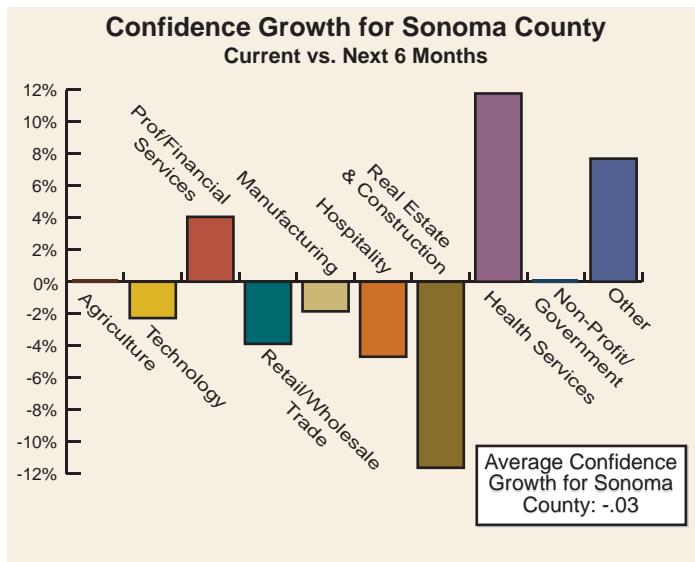
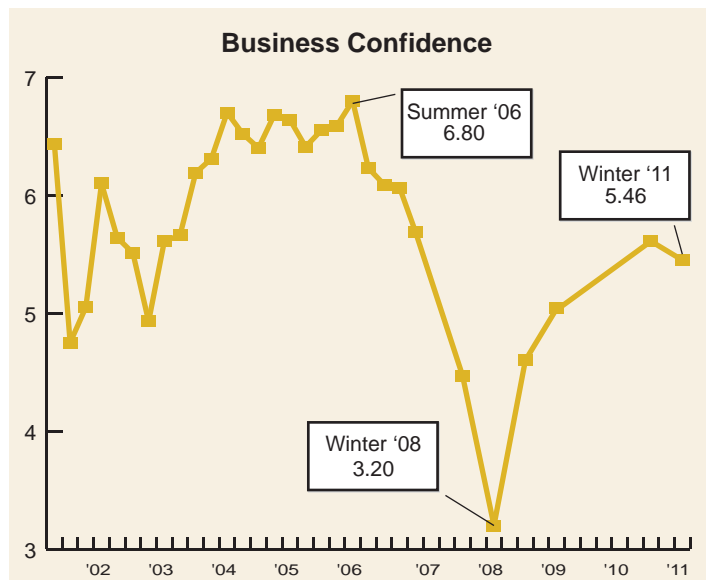
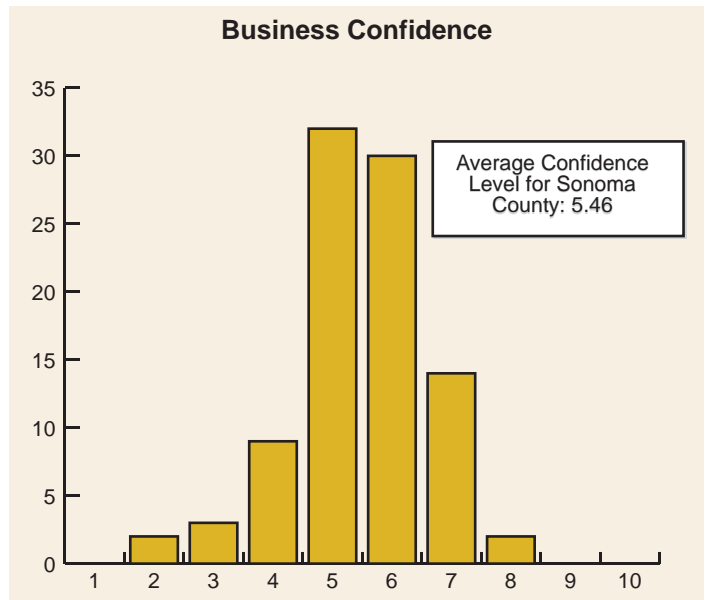
Business Confidence

The average business confidence level for Sonoma County in winter of 2011 was 5.46. The Index is measured on a 10-point scale, with a score of 1 representing the lowest possible confidence level and 10 the highest. Of the responses from business executives, exactly fifty percent ranked their business confidence level a 5 or below, and exactly 50 percent ranked it a 6 or above. Such a distribution suggests that Sonoma County business executives are unsure of where the economy is headed. Though with 84% of respondents ranking 5 and above, there appears to be growing optimism for improving economic conditions.

Business confidence is continuing its upward trend, recovering from the economic downturn. Compared to its low of 3.20 during the summer of '08, Sonoma County business confidence has since rebounded by over 70% to its current level of 5.46. This points to greater hopefulness among business executives as Sonoma County weathers and pulls out of the recession.

Business executives' confidence in their respective industries shows signs of lagging in the coming months. Comparing business executives' opinion about the performance of their industry currently and over the next six months, nearly every industry is expecting a decrease in its confidence level except for Health Services. The current average industry confidence level is 5.79, but the projected industry confidence average is 5.3 over the next 6 months, showing that overall confidence is decreasing in each industry.

Average confidence growth for Sonoma County was negative across all industries at -.03, which is a very small decline suggesting that firms are unsure about Sonoma County's continued economic vitality. Most notably, Health Services had the largest confidence growth projected for the next 6 months at about 12%. Real Estate and Construction had the worst outlook, with confidence growth at -12%.



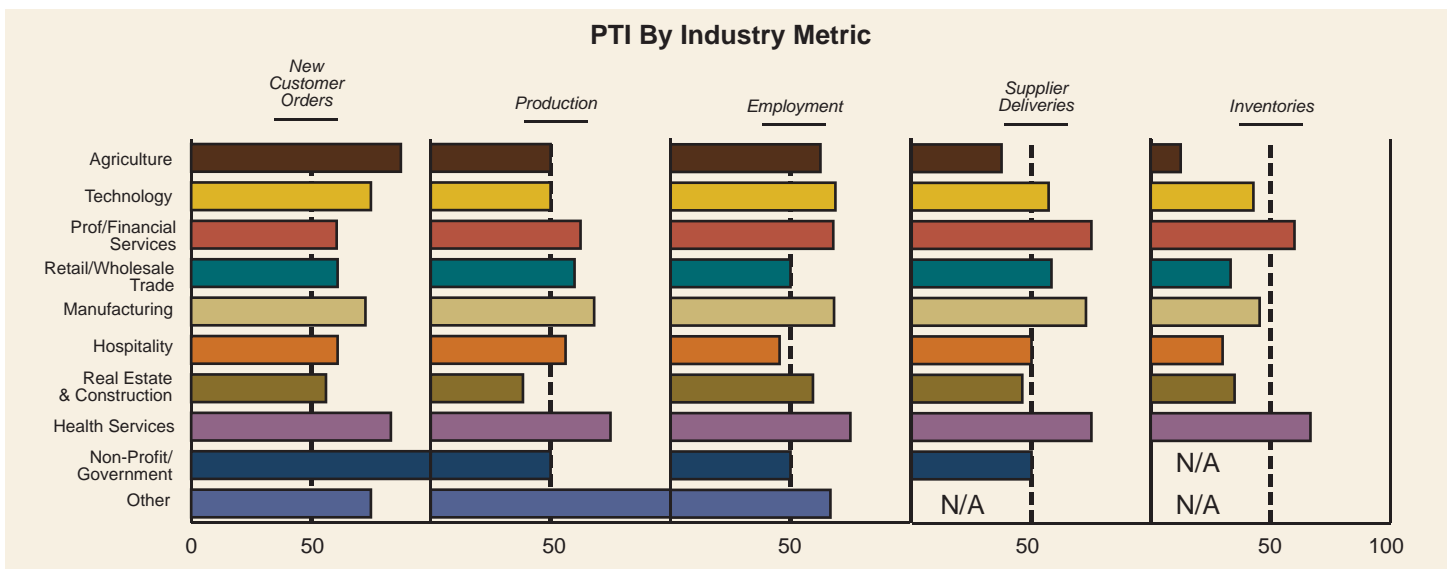
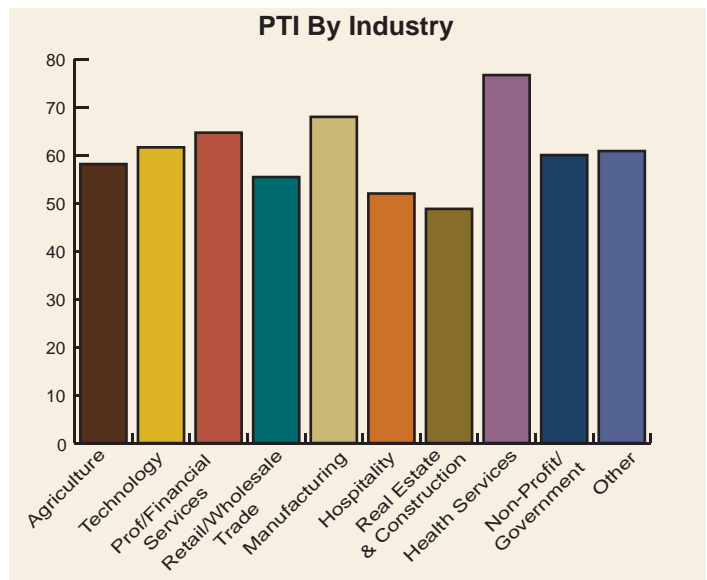
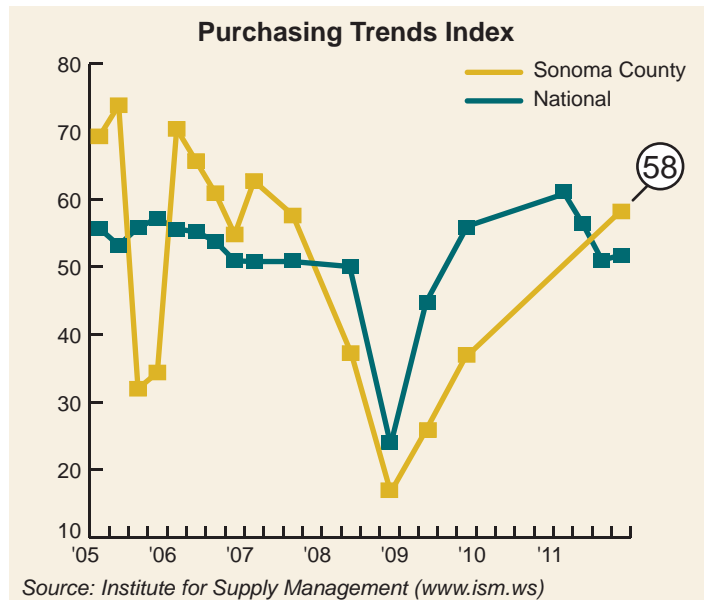
Purchasing Trends

The average Purchasing Trends Index (PTI) value for Sonoma County is 58, and an index score above 50 suggests that the economy is getting back on its feet. The PTI measures a company's performance in key industry metrics over the past quarter (in this case, October, November, and December of 2011) as increased, decreased, or unchanged. **Lagging behind America since summer of 2011, Sonoma County's PTI score is finally higher than the United States Purchasing Manager's Index (PMI) score of 51.7**, meaning that business feel less economically challenged doing business in Sonoma County than in the US as a whole.

By industry, Health Services has the highest PTI index value at 77 points, followed by the Manufacturing sector with 68, the Professional/Financial Services with 65, and the Technology sector with 62. Such high index values indicate that these industries performed especially well over the last quarter, which is supported by the fact that Health Services has the highest PTI score and is the only industry that projected a confidence increase over the next 6 months.

Breaking the PTI down into its components yields a view of which areas each industry did especially well in, and vice versa. **Every industry had a PTI score above 50 for an average of 73 for New Customer Orders, which suggests that more consumer spending is a main driver of Sonoma County's economic recovery.** *Employment* was the second-best performing PTI metric, with an average index value of 61.5, and every industry but hospitality rating employment performance above 50, meaning firms are hiring more employees or providing more hours for current employees. *Production, Supplier Deliveries, and Inventories* scored lower, respectively.

More information on how the EDB calculates the PTI statistic is available at the end of this report in the Methodology, Sources, and Notes Section.



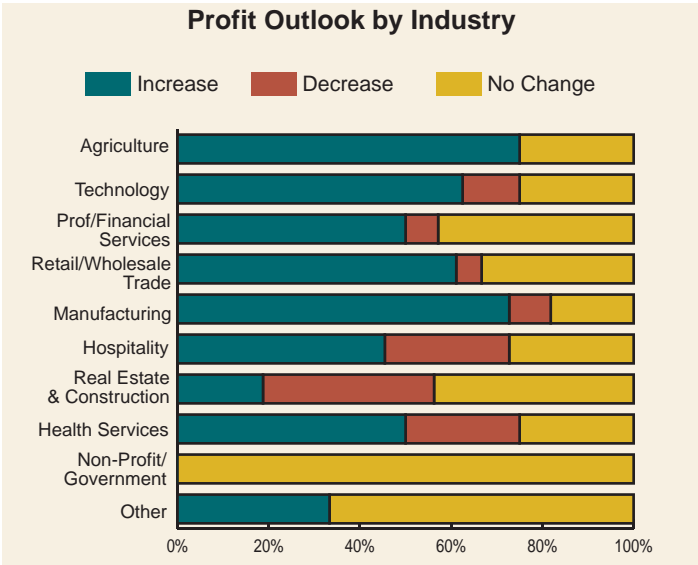
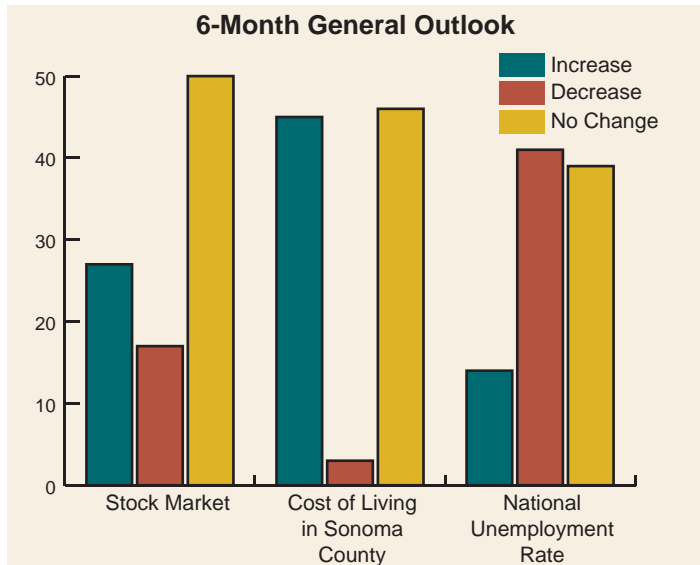
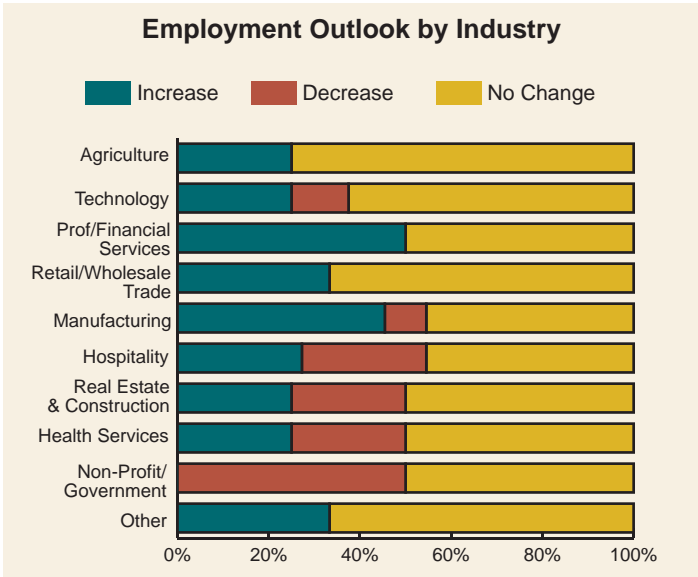
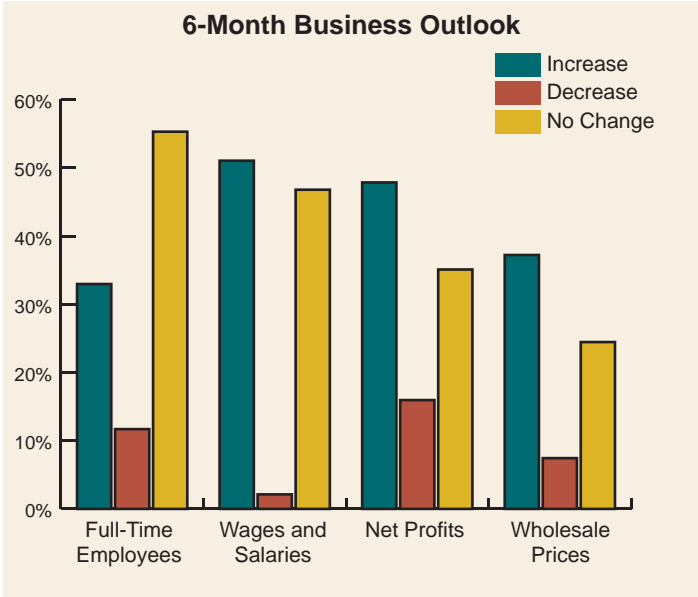
Looking Forward

The 6-month business outlook for Sonoma County is overwhelmingly positive. When asked what they expected to happen over the next six months in each category, very few responded that they anticipate a decrease. Full-time employees had the smallest increase out of the four outlook measures, with most firms responding that employment will remain unchanged. Wages and Salaries had the largest response of 'increase', which implies that employees are set to receive wage increases as the economy recovers.

The employment outlook for Professional/Financial Services is the best of all industries, with 50% of business executives anticipating a hiring increase and 50% expecting the employment scenario to remain unchanged over the next 6 months. Manufacturing comes in a close second with 45% of business executives responding they are expecting to hire in the next 6 months, though there is sentiment within the industry that hiring could decrease (10% of executives).

Profit outlook is very optimistic for the next 6 months in nearly every industry. Most importantly, Agriculture, Manufacturing, Technology, and a slew of other industries have more than 60% of their business executives expecting profit increases over the next 6 months. The only industries where a majority of surveyed executives did not anticipate profit increases were Hospitality, Real Estate, and Other.

The news is positive for the 6-month general outlook, which looks at national measures and the cost of living in Sonoma County. A majority of respondents think that the stock market will either increase or experience no change over the next 6 months. Nearly no business executives in Sonoma County expect the cost of living in the County to decrease. This could be a result of wage and income expansion driving up other costs and prices in Sonoma County. Finally, the national unemployment rate is almost universally expected to decline over the next 6 months.



Workforce & Special Focus

The Economic Development Board polls businesses on special topic questions in each survey, which are pertinent to current economic issues. This survey asked questions relating to Sonoma County's workforce and local government initiatives.

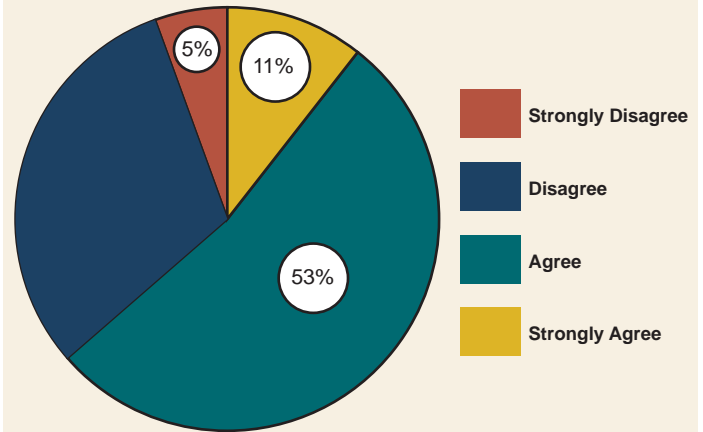
When asked whether or not firms were able to find qualified employees, a healthy majority of business executives responded in the affirmative. This means that over 64% of businesses believe that the Sonoma County workforce possesses sufficient skills to be employable. Most of the negative sentiment surrounding employee qualification comes from the tech and manufacturing sectors, where qualifications and skills are very important.

When asked whether or not firms were planning on hiring in 2012, 58% of firms responded either 'agree' or 'strongly agree'. This suggests that Sonoma County's economy is getting back on track. The nervousness in hiring is largely due to national and international concerns, but so much positive sentiment in the hiring sector is very good news for Sonoma County's economic recovery.

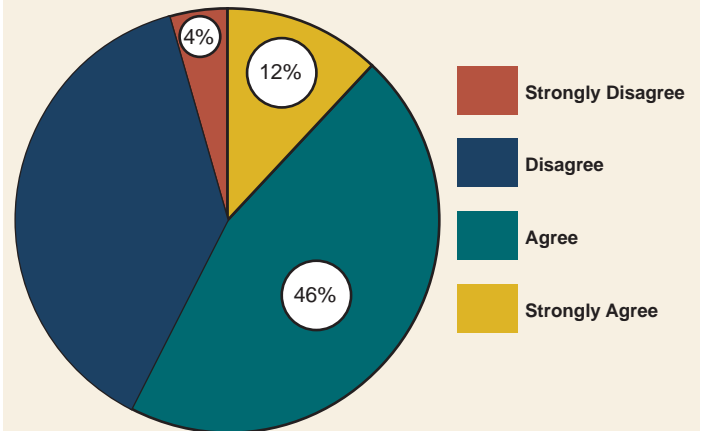
In the business confidence survey, the EDB asked what local government could do to most help businesses in Sonoma County be successful. **Of the six options, helping businesses stay and grow in Sonoma County, more efficient permitting, and attracting new businesses to Sonoma County were the most popular.**

When broken down by industry, each sector's vision for improving Sonoma County's economy can be seen. For example, the Agriculture industry overwhelmingly supports having more efficient permitting in Sonoma County, and the Technology, Manufacturing and Non-profit/Government sectors see a need for increased workforce training in order to have a more talented workforce pool to choose from. These opinions will certainly shape economic and public policy in Sonoma County going forward.

We Are Able to Find Qualified Employees

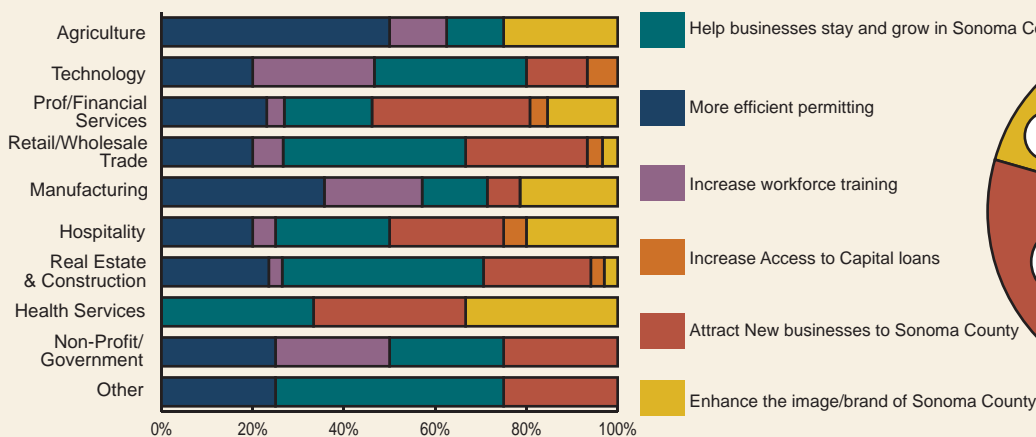


We Are Planning on Hiring New Employees in 2012

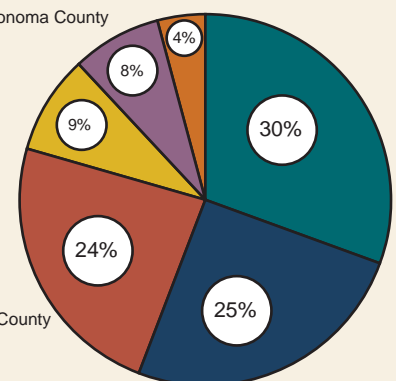


Special Focus: What Can Local Government do to Help Businesses Be Successful?

By Industry



Total



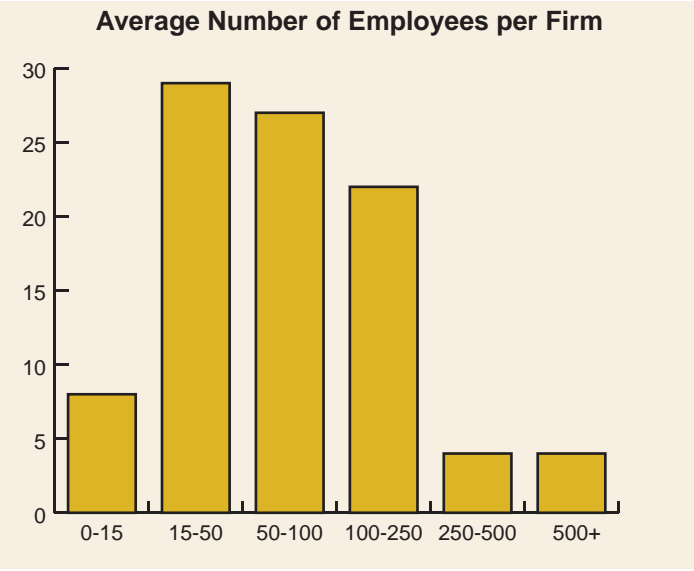
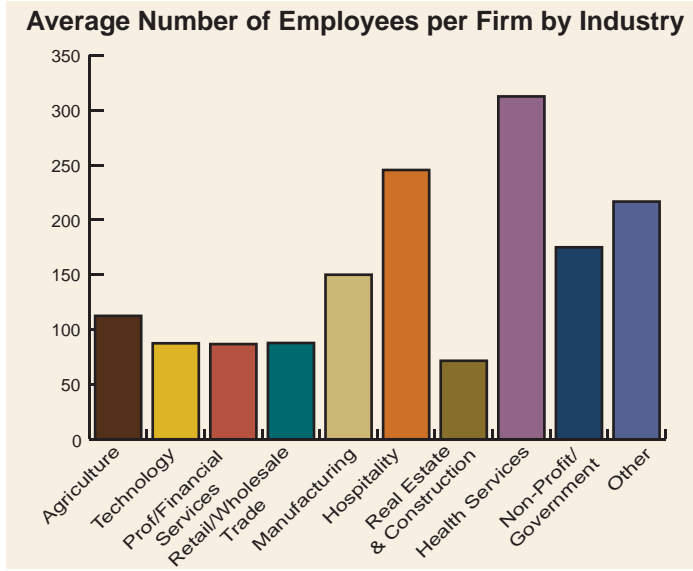
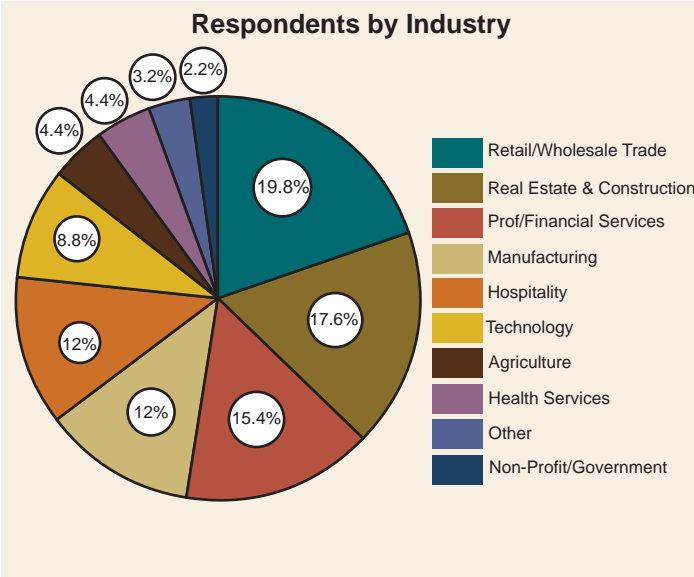
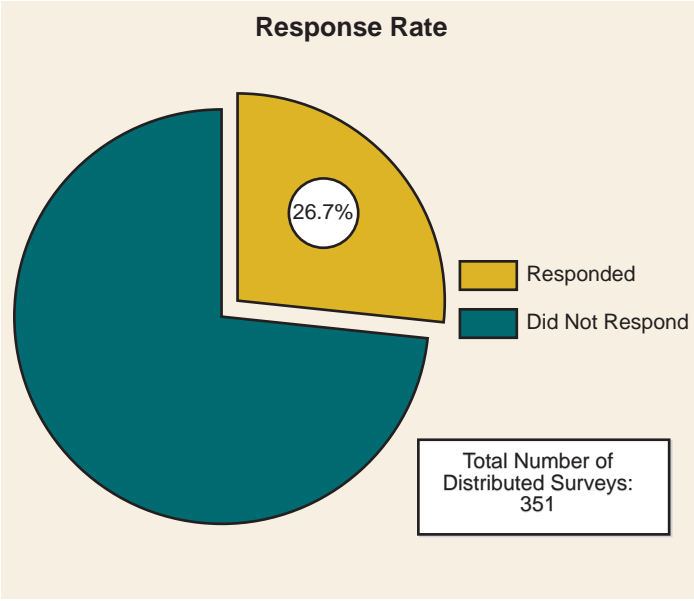
Respondent Summary

The Economic Development Board distributed 351 surveys in an attempt to gather sufficient opinions about the state of Sonoma County's economy. **The EDB received 95 surveys in response, for a response rate of 26.7%, or just over one-quarter. This is a high enough response rate to construct a cross-section of the business sentiment in Sonoma County.**

The EDB attempted to survey a broad range of businesses when conducting the Business Confidence Survey. Using NAICS designations, we asked respondents to match themselves to the industry that closest represented their business. **The four most represented industries responding to the survey were Retail and Wholesale Trade (19.8%), Real Estate and Construction (17.6%), Professional and Financial Services (15.4%), and Manufacturing (12%), respectively.** There were no respondents from the education sector.

The average number of employees for a firm responding to the EDB's Business Confidence Survey is about 168. The 15-50 employee range had the highest frequency, with 29 firms reporting that many employees. The second highest is 50-100 employees, with 27 responding firms having that many employees. There were eight total firms that had either 250-500 or 500+. This shows a good representation of small, medium, and large businesses included in the EDB's survey.

By industry, Health Services had the largest average number of employees per firm, at 312. The next-largest firm size is in Hospitality with 245 employees on average. Employing the fewest number of people is Real Estate & Construction, at 71 persons per firm on average.



Methodology, Sources, and Notes

Note on Survey and Data

In order to get a cross-section of businesses in Sonoma County, the EDB sent surveys out to 350 business leaders in Sonoma County. In order to get a more general overview, we attempted to select businesses from a wide variety of industries, so they can reflect their opinions of the overall economy, but also their particular sector. **The EDB received 95 surveys in response, for a response rate of 26.7%, or just over one-quarter. This is a high enough response rate to construct a cross-section of the business sentiment in Sonoma County.**

The survey, which we gave businesses a month to complete, is the primary source for all data contained in this report. We used a list of 350 businesses that came from the North Bay Business Journal and is the most up to date list of relevant businesses in Sonoma County. A list of participating businesses is not available because respondents were told their answers would be kept anonymous.

The results of the survey were tabulated by hand in house, and most reported statistics are averages, medians, or majorities. The EDB does not guarantee the accuracy of these statistics nor does the EDB recommend that they be regarded as a factual representation of the business climate in Sonoma County. If there are errors in our methodology, sources or notes, please contact the EDB at edb@sonoma-county.org.

Our last business confidence report was conducted in Spring/Summer of 2011, but we chose not to publish the results. This decision was reached after much consideration on the part of the Economic Development Board. We felt that the report reflected an incorrect economic perception, as it was distributed and collected immediately before the debt ceiling and Eurozone debt crisis's of July 2011. We believed the summer report to be misaligned with the intent of the Economic Development Board's Business Confidence Survey and Report, which is to illustrate the current business climate of Sonoma County. Therefore, we offer you our winter Business Confidence Report with accurate numbers, to the best of our ability.

Note on Special Focus

The local government and workforce survey questions are new additions for the 2012 winter business confidence survey. They are part of a special focus on business development and workforce availability and training.

The Economic Development Board adopted these questions from the Sonoma Valley Chamber's Economic Development Partnership 'TOPS' survey. The TOPS survey has fewer, more broad questions, and the EDB wanted to mimic this simplicity in some of its survey questions and the length of the survey itself.

We would like to extend our appreciation to the Sonoma Valley Chamber for their cooperation in providing copies of their surveys and results for comparative analysis.

Index Methodology

An index is an economic tool that is used to make general comparisons across a range of metrics.

The Conference Board processes a national CEO Confidence survey, which can be found at www.conference-board.org; this data is then compared with the local business executives' responses to the EDB survey. The Sonoma County "purchasing trends" index is modeled after the national "Purchasing Managers Index" from the Institute for Supply Management (www.ism.ws). It is intended to provide a measurement for the pace at which an economy is expanding or contracting.

The national PMI uses information detailing companies' new orders, production, employment, supply deliveries and inventories. Sonoma County's index mirrors the PMI in computation. However, due to differences in compilation methodology, the two indices may not be directly comparable.

The formula for the PTI in each category is, using the responses to the question, "What has happened to the following within your company in the past quarter?" with regard to new customer orders, production, employment, supplier deliveries and inventories. Respondents then chose answers of Increased, Decreased, or Unchanged.

The indices for each category were then calculated by: $(I + 0.5*U)/N$ where I = number of people responding "increased," U = number of people responding "unchanged" and N = number of people responding to this particular question. Once all of the indices have been computed, the numbers are inserted into the overall PTI formula of: $PTI = 0.3 * O + 0.25 * P + 0.2 * E + 0.15 * S + 0.1 * I$, where PTI = Purchasing Manager's Index; O = New Customer Orders; P = Production; E = Employment; S = Supplier Deliveries; I = Inventories.

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.

Any feedback, suggestions, or comments can be directed to the Sonoma County Economic Development Board at edb@sonoma-county.org or (707)-565-7170.

With acknowledgement and appreciation to local key businesses supporting Sonoma County Economic Development:

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