



2001 Mid-Year Sonoma County Business Confidence Survey

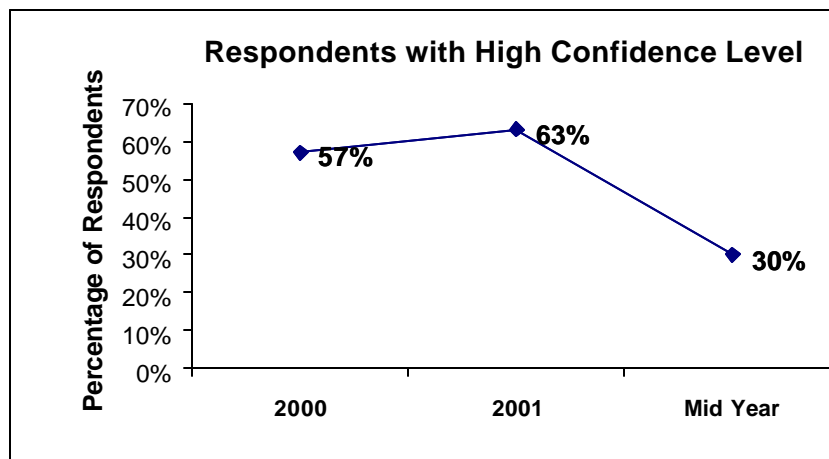
Sonoma County Businesses Are Reserved About the End of 2001

According to the Sonoma County Economic Development Board's **2001 Mid-Year Sonoma County Business Confidence Survey**, which queried more than 250 leading business executives, confidence in the local economy is surprisingly strong, with 94 percent of respondents confident or highly confident. Even with the fourth-lowest unemployment rate in California, and one of the fastest growth rates for jobs and income in the Nation, Sonoma County's business leaders anticipate a slowing of the county's growth rate. Compared to the results of similar surveys at the end of 1999 and 2000, these results illustrate a significant drop in "high confidence" in the growth of the county's economy. The percentage of respondents who reported they were highly confident in the growth of the economy fell in half from 63 percent at the end of 2000 to 30 percent in July of 2001.

Ranked 6th on *Forbes' 2001 Best Places for Business and Careers*, Sonoma County reflects strong prosperity and business optimism. With many firms expecting to stabilize operations and spend less on equipment and plants than in year 2000, there are signs that local business executive's optimism has deteriorated over the last six months.

HIGH CONFIDENCE LEVEL DROPS SIGNIFICANTLY

Sonoma County businesses remain *optimistic* about the economy for the end of the year 2001, according to the Mid-Year Sonoma County Business Confidence Survey. Ninety-four percent are confident or highly confident. However, reports for six months show that high confidence has dropped steeply:



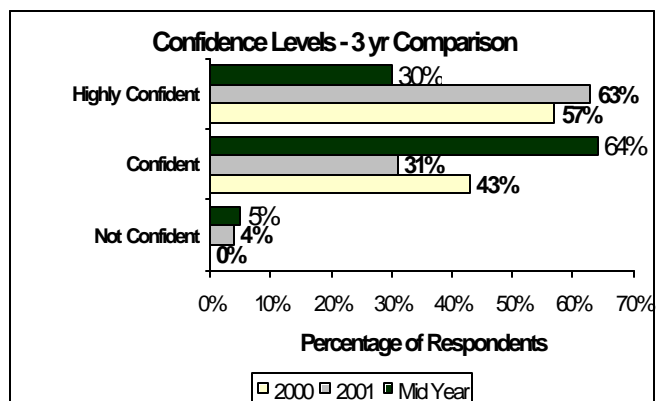
Other highlights from the survey include:

- ↑ More than 50 percent of respondents expect the Dow to advance, while GDP growth and inflation remain constant.
- ↓ A more than 60 percent *decrease* in respondents who expect interest rates to increase, compared to the two previous surveys.
- Almost 50 percent of respondents expect *no change* in profits; possibly signaling continued strength in profits by the end of 2001.
- ↑ There was a four-fold *increase* in the percentage of respondents who expect the local unemployment rate to rise from the 2000 Report to the 2001 Mid-Year Report.

Expected Business Changes: Slowing of Growth

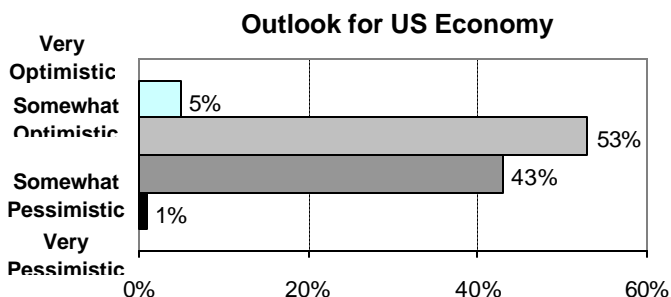
LOCAL EXPECTATIONS

Overall confidence remains strong, as 94 percent reported being either confident or highly confident. While the percentage of respondents who are highly confident about Sonoma County's economic growth has fallen, the majority of business leaders remain confident about the near future. The drop in those reporting high confidence show a trend that business leaders are becoming more concerned about the economic future of the region. Overall, respondents showed greater confidence in local economic growth than in the national economy.



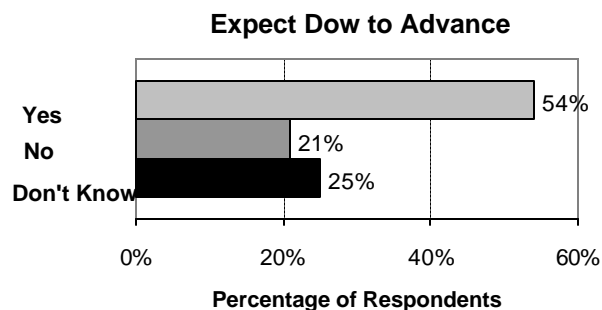
US ECONOMY

Recent tax cuts and interest rates decreases are attempts to prevent the recently booming economy from becoming a full-fledged recession. Only five percent of respondents said they were very optimistic about the US Economy over the next six months.



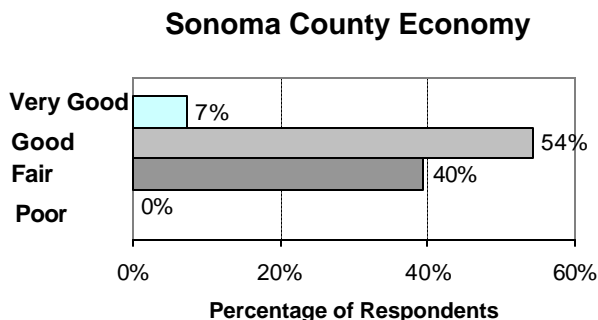
WALL STREET

For the first six months of 2001, the stock market has behaved more like a stumbling wildebeest than either a bear or bull. Interest rate reductions have failed to increase corporate profit projections and encourage investors to return to the market. The survey results suggest respondents believe the market will advance before the end of the year.



SONOMA COUNTY ECONOMY

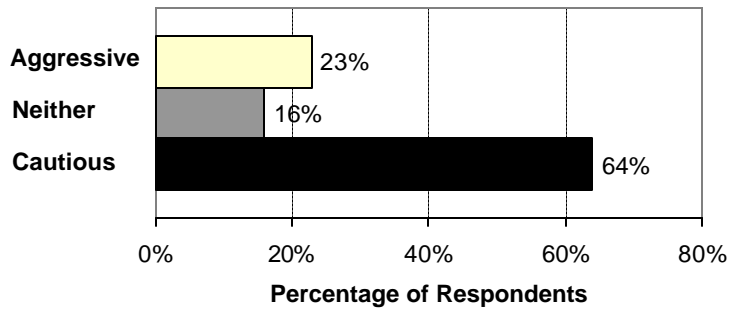
Sonoma County's economy doesn't have complete "staying power" were a recession to hit California. But while other counties struggle with increased unemployment, Sonoma County continues to expand. No respondent felt poorly about the prospect for the local economy over the next six months.



CAPITAL INVESTMENT

Sixty-four percent of respondents will be cautious with their capital investment, while 16 percent plan to make no changes in their capital investment. Much of the national business slowdown is attributed to a lull in demand for massive capital investments, with slumping activity involving computers and other technology sector products.

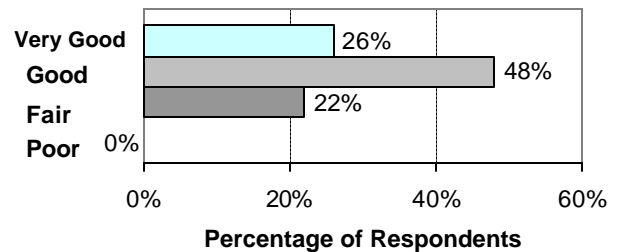
Expected Changes in Capital Investment



BUSINESS NOW

Seventy-four percent of local executives reported that business is good. This is in part because of the recent economic strength and its positive result on businesses. The current concern about a slumping economy has just begun to materialize into declining profits, even though the majority of companies report business is very good or good.

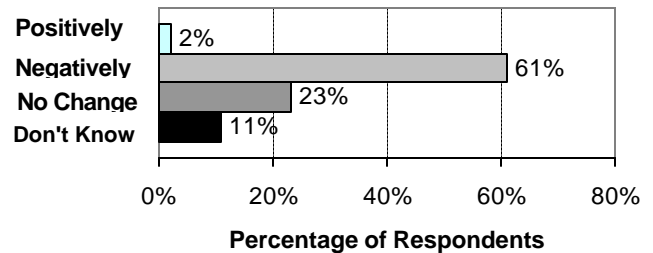
How is your business now?



ENERGY

California's energy issues have wreaked havoc across the state in recent months. High prices and steady demand for power has forced businesses to alter their practices to keep costs reasonable. An overwhelming 61 percent of respondents said energy was negatively affecting their business. A couple companies mentioned the desire to conserve energy has led to increased sales of conservation products, and has thus been beneficial to their business.

Energy Affecting Business

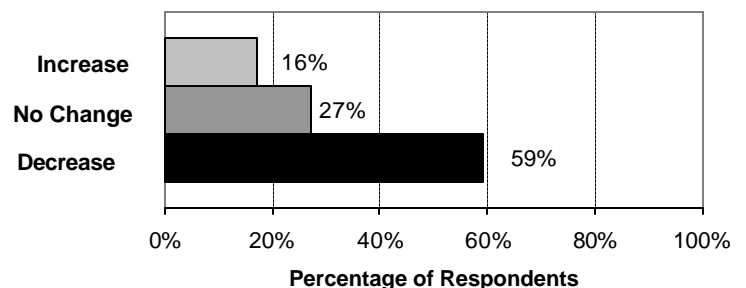


Expected Changes in the Economy: Modest Growth

INTEREST RATES

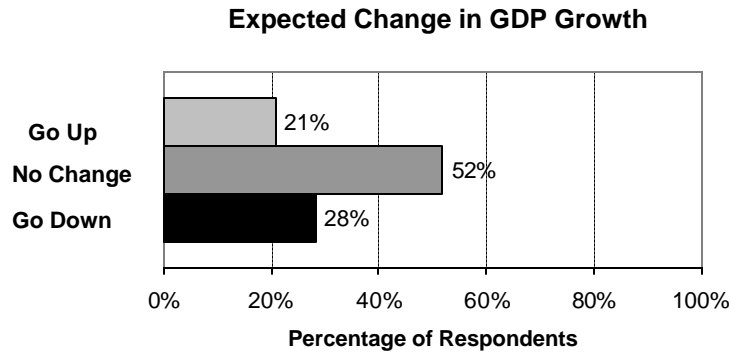
The Federal Reserve Bank has already lowered interest rates six times in 2001. Fifty-six percent of respondents expect interest rates to continue to fall in remainder of 2001, while only 16 percent foresee an increase in interest rates. The Federal funds rate, which began the year at 6.5 percent, is now down to 3.75 percent. The majority of respondents expect this rate to continue to decrease by year-end.

Expected Changes in Interest Rates



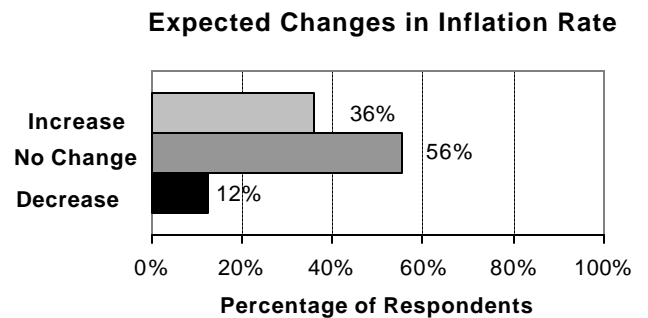
GROWTH IN GROSS DOMESTIC PRODUCT

US Gross Domestic Product saw an increase of 5 percent from 1999 to 2000. Growth slowed from the first quarter of 2000 when it was at 4.8 percent, to 1.2 percent at the end of the first quarter of 2001. Fifty-two percent of respondents expect GDP growth to remain constant, while 28 percent expect a decrease in GDP over the next six months.



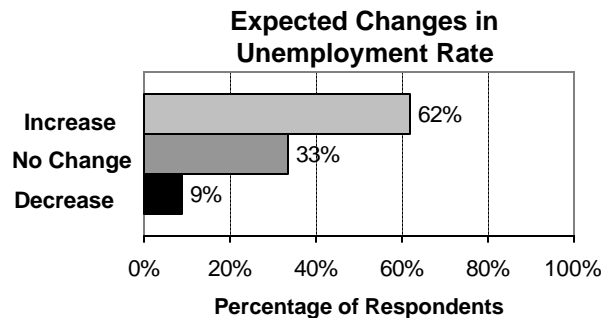
INFLATION RATE

Price inflation nationally rose by 3.15% in 2000. Thirty-six percent of respondents anticipate the inflation rate to increase, while another 56 percent expect the inflation rate to remain the same.



UNEMPLOYMENT RATE

Sonoma County's unemployment rate in May of 2001 was 2.3 percent, compared with an unemployment rate of 4.9 percent in all of California. Only Marin, San Luis Obispo, and San Mateo counties have lower unemployment rates than Sonoma County. Sixty-two percent of respondents believe that the unemployment rate will increase, while only 9 percent expect the unemployment rate to decrease.



METHODOLOGY

The Sonoma County Economic Development Board conducted its first-ever survey of Sonoma County business confidence in December 1999 and repeated it in December of 2000. This mid-year survey was conducted in June 2001, due to the economic changes taking place. Executives at 250 leading firms in Sonoma County rated their confidence in the local economy, identified changes they expect to occur in their businesses, and in the economy for the final six months of the year 2001. Of the 250 firms, 82 responded to the survey (over 35%). The responses covered businesses in a wide range of industries and sizes, representing 20 of Sonoma County's economic sectors. Individual survey results are confidential.

For more information about the 2001 Mid-Year Sonoma County Business Confidence Survey, please contact:

Ben Stone, Director
 Sonoma County Economic Development Board
 401 College Ave., Suite D
 Santa Rosa, CA 95401-5148
 (707) 565-7170
 bstone@sonoma-county.org
 www.sonoma-county.org/EDB