



# Sonoma County Economic Development Board Business Confidence Report Fall 2002

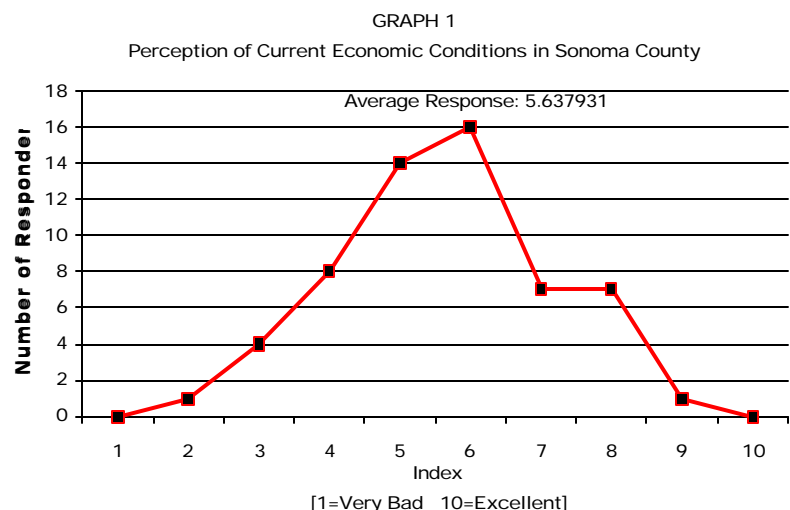
Sonoma County business confidence decreased during the Fall of 2002. However, the majority of respondents rated the overall status of their business between good to excellent, with high confidence in growth by industry. Retail business volumes continued to rise, but not by the high percentages reported during the second quarter. Business executives report that they are wary of expenditures, with over half of the respondents choosing to be cautious with their overall capital investments. Consequently, most business executives predict neither an increase nor a decrease in level of investments, exports, wage and salary rates, and net profits, or in the number of employees. Attitudes are similar toward the national economy, with companies expecting the national employment rate, stock market activity, and interest rate to remain the same. The EDB's Fall 2002 report includes the following highlights:

- ◆ The local Business Confidence index fell 7.5% from 6.10 midyear to 5.64 this Fall.
- ◆ Business confidence is expected to fall to 5.47 in the next 4 months.
- ◆ 81% of business executives reported good to excellent performance in their business.
- ◆ Retail business volume increased for 39% of responding businesses.
- ◆ The agriculture sector experienced the largest decline in business confidence.
- ◆ 59% of business executives report that they will be cautious with capital investments; 30% are moderate.

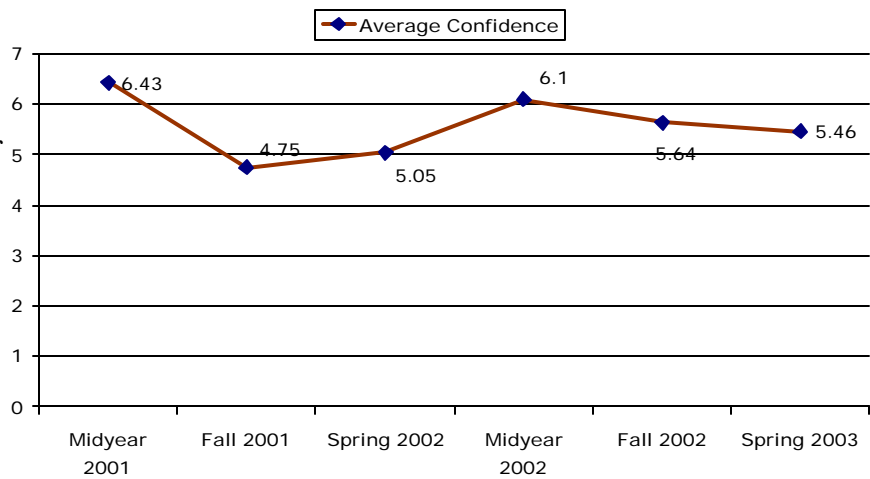
Eight local sectors were surveyed, including agriculture, manufacturing, professional/financial services, retail/distribution, real estate/construction, technology and tourism.

## *Business Confidence in Sonoma County Dips Slightly*

As the recession continues to affect the United States, business executives in Sonoma County are becoming more guarded about their economic outlook. The business confidence index dipped from 6.10 at midyear to an average of 5.64 this Fall (Graph 1). Confidence levels with respect to the current state of the economy in Sonoma County remain surprisingly high considering the anniversary of the September 11<sup>th</sup> attacks, the possibility of war with Iraq, and the continuing recession.



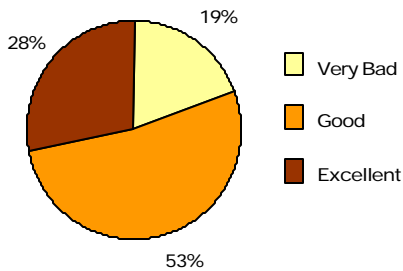
GRAPH 2  
Past and Future Business Confidence



Survey respondents expect business confidence for Sonoma County to decrease to 5.47 during the next four months. This perception may be associated with poor performance in retail sales during the back-to-school season, which many feel may continue into the upcoming Holiday season. The trends in business confidence can be seen in Graph 2.

### Business Rating in Sonoma County

GRAPH 3  
Current Status of Businesses in Sonoma County



The decrease in overall Sonoma County business confidence mirrored national business and consumer confidence levels, which also decreased. In contrast, business executives felt that their own companies have performed well in the second quarter, with 81% of survey respondents rating the status of their business as good or excellent (Graph 3).

### Business Confidence by Sector in Sonoma County

Respondents from the eight surveyed sectors in Sonoma County indicated lower business confidence in their respective sectors in comparison to the overall index. 60% of respondents rated performance in their industry at 5 or higher, but the average of individual industries was low (Graph 4). These numbers follow the trend established throughout the year, with businesses being confident, but not overly optimistic. Average business confidence by industry showed significant decreases in every sector. Confidence in agriculture fell from 5.5 midyear to 3.67, experiencing the largest percentage decline (Table 1).

GRAPH 4  
Confidence Level for Sonoma County Growth in Industry

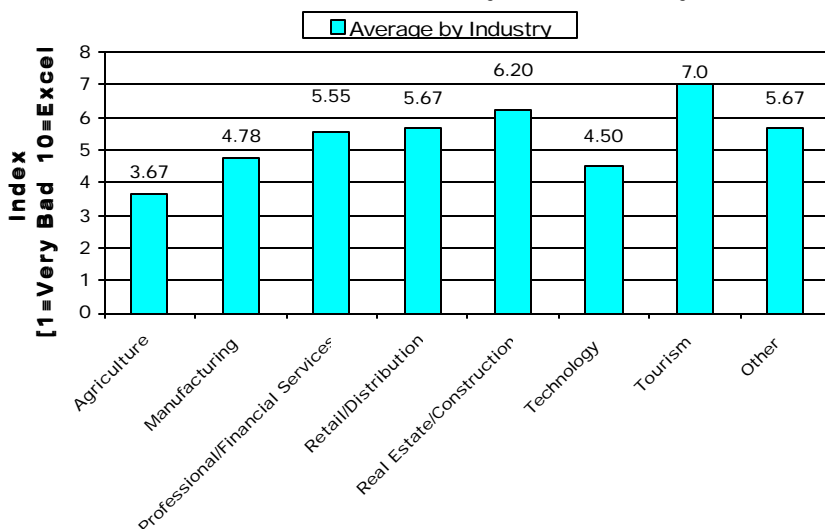


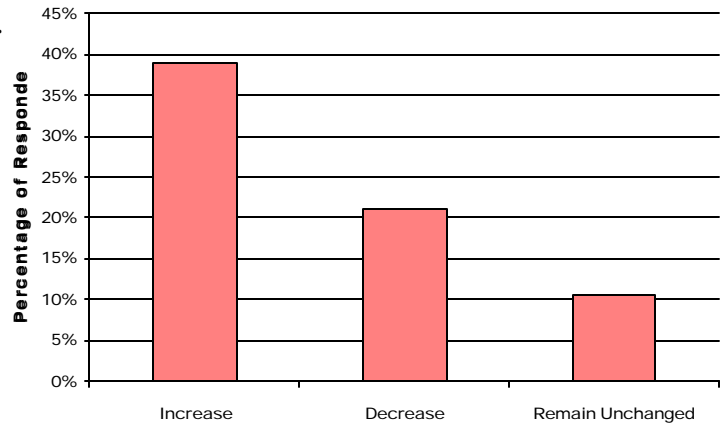
Table 1

Percent Change by Industry	
Agriculture	-33%
Manufacturing	-22%
Professional/Financial	-16%
Retail/Distribution	-11.4%
Real Estate/Construction	-4.6%
Technology	-18%
Tourism	16%

## Retail Business Volumes Increase at a Slower Pace

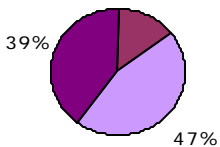
39% of responding businesses experienced an increase in retail business volume for the most recent quarter. 21% had a decrease and 11% had no change. A smaller percentage of businesses experienced an increase in business volume from the second quarter, illustrating the slowed recovery predicted in the Midyear Business Confidence Report. However, the percentage of businesses that experienced decreased retail volumes remained the same as midyear figures, providing stability to the market.

GRAPH 5  
Retail Business Volume For Most Recent Quarter  
Compared to Last Year



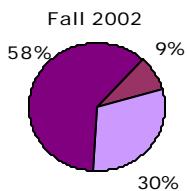
## Sonoma County Businesses Slip from Moderate to Cautious in Overall Expenditures

Chart 6  
Midyear 2002  
14%



■ Aggressive  
■ Moderate  
■ Cautious

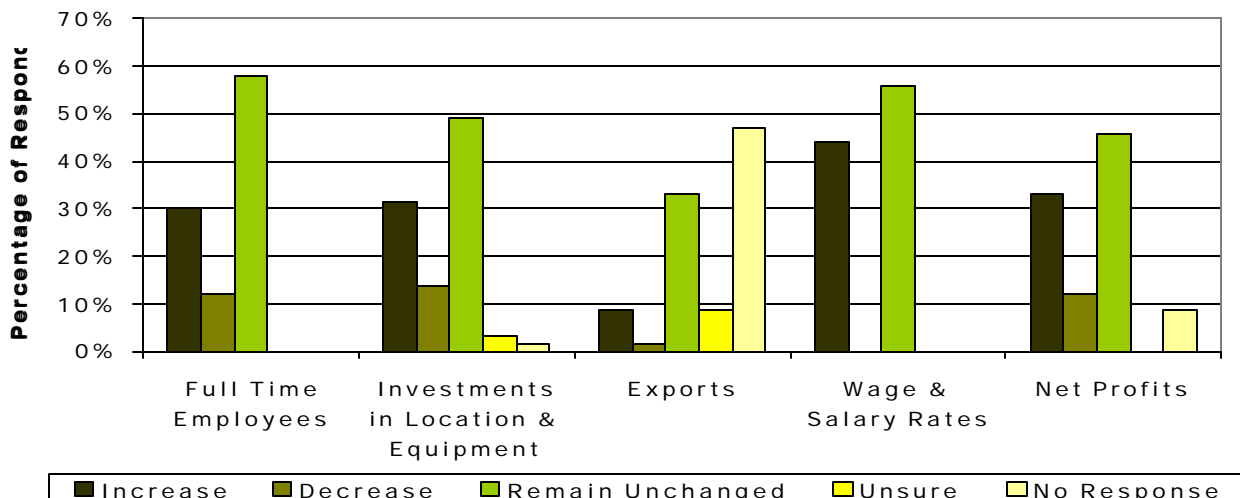
Conservation and restraint seemed to be the objectives for Sonoma County business executives this Fall. 58% of the survey respondents were being cautious about capital investments, which is a 12% increase from earlier this year. 30% of business executives felt moderate about capital expenditures, compared to 46% earlier this year. Additionally, only 9% of business executives have an aggressive attitude toward overall spending (Chart 6).



## Most Aspects of Business Expected to Remain the Same

Respondents believed that businesses will perform and operate relatively similarly to their current outlook. The overwhelming feeling that the economy will improve was supplemented by the certainty that businesses will increase rather than decrease aspects of their operations (Graph 7). For instance, 52% saw wage and salary rates remaining the same, and 48% saw rates increasing in the next six months.

GRAPH 7  
Response to Business in Next Six Months

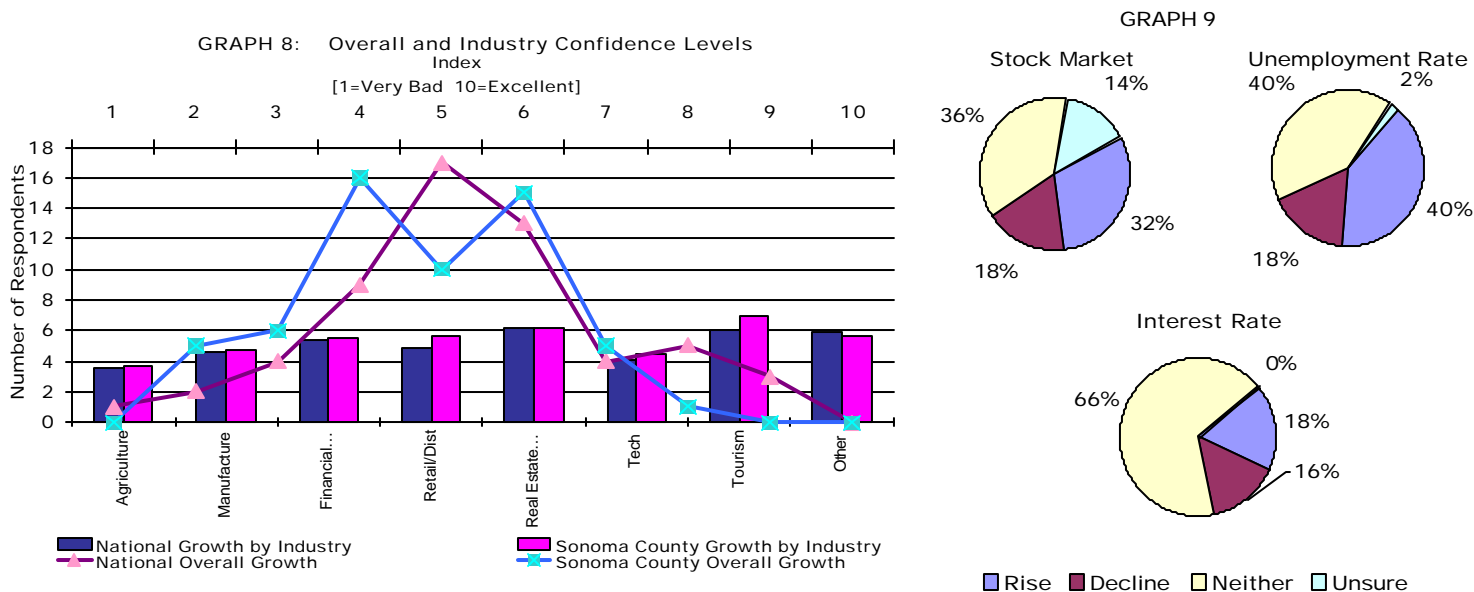


## ***The Big Picture: Sonoma County and the National Economy***

Business confidence at the national level was strikingly similar to Sonoma County, with the county index outpacing the national index. According to the Conference Board's Measure of Business Confidence, figures decreased from 6.1 at the second quarter to 5.4 in the most recent poll, compared to the Economic Development Board's 5.64 for Sonoma County. Yet, the Conference Board also reported that business executives are optimistic about the future, just as businesses are in Sonoma County.

### ***Sonoma County Businesses Mixed About National Economy***

Sonoma County business executives lacked confidence about the national economy, with the overall and industry confidence levels lower than those for Sonoma County (Graph 8). Respondents were unsure about the possibility of national economic growth, with the average at 4.74. They were slightly more confident about national economic growth in their industry at 4.97. Accordingly, the majority of respondents expected no change in the stock market, national unemployment, or interest rate (Graph 9).



#### Notes

1. Surveys were sent out to 325 businesses in 20 sectors. Responses were received from 62 businesses, for a response rate of 19%.
2. The Sonoma County Business Confidence Index is the mean of all respondents' projections on a scale of 1-10 of Sonoma County's current and future potential for growth.
3. Due to changes in methodology, some percentages differ from those cited in earlier Sonoma County Business Confidence Reports.
4. National Business Confidence figures are from The Conference Board's Measure of Business Confidence created by businesses' expectations for the national economy in the next six months. Values have been converted from a scale of 100 to a scale of 10 in order to help create consistency between national and Sonoma County Business Confidence values.
5. Responses by Industry can be seen in Chart 1

The Sonoma County Economic Development Board has conducted the Business Confidence survey since December 1999 and produces a quarterly report. This report reflects the information gathered during a survey conducted in September 2002. Individual surveys are confidential. This report was prepared by Nikhila Raj.

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