



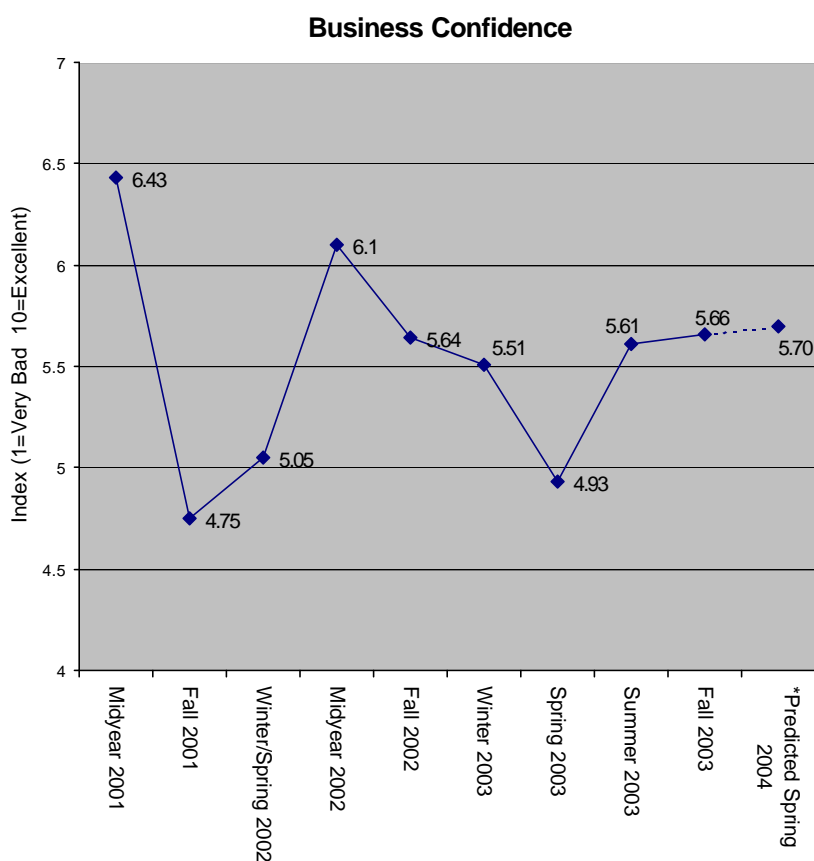
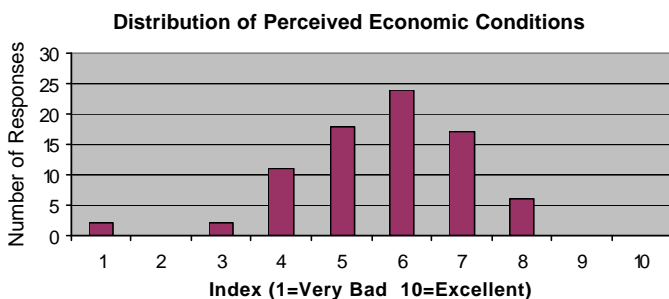
Sonoma County Economic Development Board Business Confidence Report Fall 2003

Conducted during the month of September, the EDB's *Fall 2003 Business Confidence Report* reveals that business confidence is remaining steady. The report includes the following key highlights:

- ◆ The *Business Confidence Index* has remained steady this quarter with an index of 5.66 (on a scale of 1 to 10).
- ◆ The employment outlook is mixed but shows promise for more local hiring in the next six months.
- ◆ Profit outlooks have improved since last quarter, with approximately four-fifths of responding executives predicting the same or increased profits.
- ◆ Capital investment strategy has become more aggressive since last quarter, signifying increased spending on capital goods by local firms.
- ◆ The real estate sector, with an index of 6.0, has seen the biggest improvement in industry confidence (up 1.2 points).
- ◆ The local *Purchasing Trends Index* surpassed the national Purchasing Managers' Index, indicating a positive upswing in new orders by local businesses.
- ◆ More than two-thirds of responding executives believe that a Rohnert Park casino will have an impact on their business. However, feelings are mixed on what type of impact it will have.
- ◆ 16% of responding executives stated that it was more likely than not that part or all of their businesses would move out of state in the next 5 years citing high costs of doing business as the number one reason for leaving. The manufacturing and agricultural sectors are the most likely sectors to relocate.

Business Confidence Steady

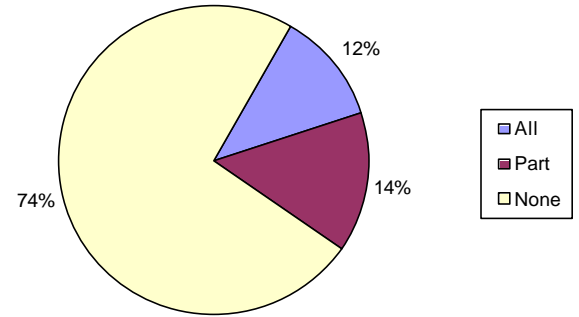
After rebounding last quarter, the Business Confidence Index in Sonoma County has remained steady with an index of 5.66. This is compared to an index of 5.61 last quarter on a 1 (very bad) to 10 (excellent) scale (see graph at right). A majority of respondents (59%) felt positive about current economic conditions in Sonoma County (a rating of 6 or more) while only 19% of respondents felt negatively about economic conditions (rating of four or less). The full distribution of responses can be found in the graph below. Expectations and confidence in the future also remains steady; however, in comparison to last quarter, business executives are much less confident for the future.



Too Costly for Business?

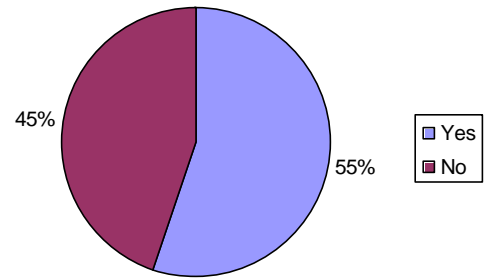
More than 96% of respondents stated that the cost of running their business in California is higher than it would be in a different state. Approximately one quarter (26%) of responding executives stated that they have considered moving all or part of their business out of state. Of those, 90% named high costs of doing business as at least one of the reasons why they have considered moving. While almost no executives said that the chance of moving out of state is a sure thing, 16% stated that it was more likely than not that part or all of their business would move out of state in the next 5 years. The manufacturing sector has the most interest in relocating, with 40% of the manufacturing executives stating that it is at least 50% likely that all or part of their business will relocate in the next 5 years. Agriculture is the second sector most interested in relocating, with 29% of their executives saying the same thing.

Considered Moving Out of State

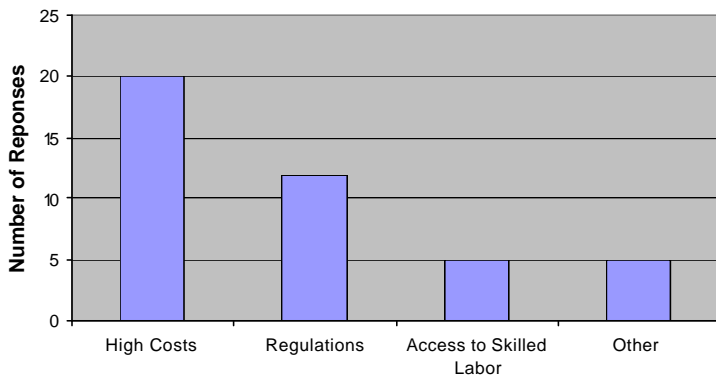


A majority (55%) of executives have also considered out-sourcing part of their business. This is a method that many companies are currently using in order to reduce costs.

Considered Out-sourcing?



Reasons for Moving



Industry Confidence in Sonoma County

The graph below shows industry confidence by sector for last quarter and the current quarter. While confidence is slightly down in many sectors, there is a significant increase in the industry confidence in real estate. Industry confidence looks at how executives feel about their particular industry, which is different from business confidence, which looks at how executives feel about the economy as a whole. The average industry confidence among all respondents is 5.3, which is significantly less than the average business confidence of 5.7. This suggests that many executives feel less confident about their own industry sector in Sonoma County than they do about the overall Sonoma County economy.

Industry Confidence

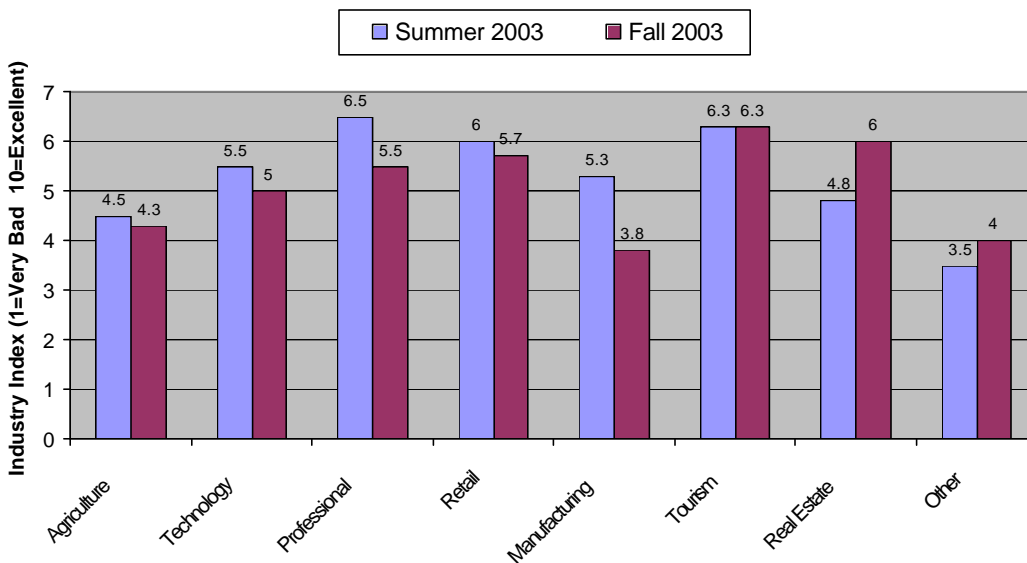


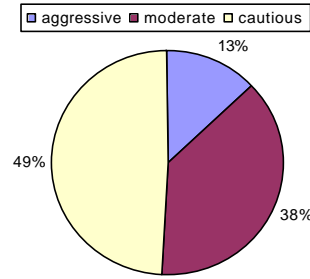
Table 1

Index Change by Industry	
Agriculture	-0.2
Technology	-0.5
Professional/Financial	-1.0
Retail/Distribution	-0.3
Manufacturing	-1.5
Tourism	0.0
Real Estate	+1.2
Other	+0.5

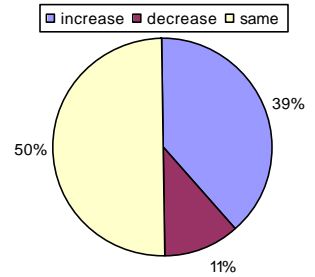
Sonoma County Business Expectations for the Next Six Months

For the first time in several quarters, less than half (49%) of the business executives surveyed were cautious toward capital investment. This is compared to 63% of respondents who were cautious last quarter, and shows there is a general shift toward increased aggressiveness in investment strategy. In addition, 39% of executives surveyed expect that their investments in locations and equipment will increase in the next 6 months, while only 11% foresee a decrease in investment.

Current Capital Investment Strategy

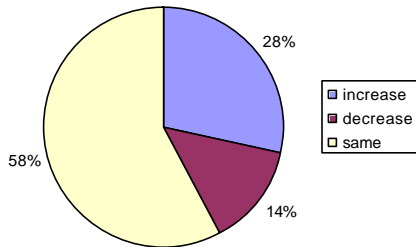


Expectations for Capital Investment in the Next 6 Months



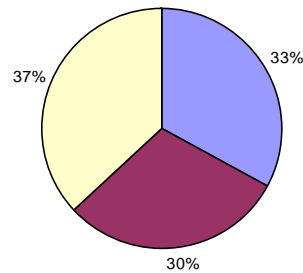
The employment outlook is mixed but shows hope for more jobs in the next six months. More than one quarter (28%) of executives plan to increase employment, compared to 14% who are planning to cut back. The majority of respondents expect employment to stay the same.

Employment Expectations

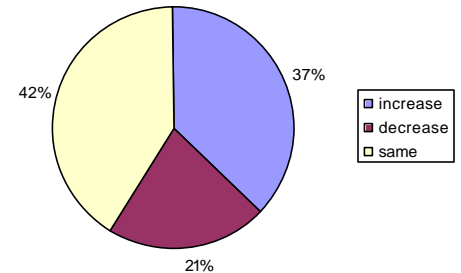


Profit outlooks have improved since last quarter. Only 21% of executives expect profits to decrease compared to 30% last quarter.

Summer '03 Profit Expectations



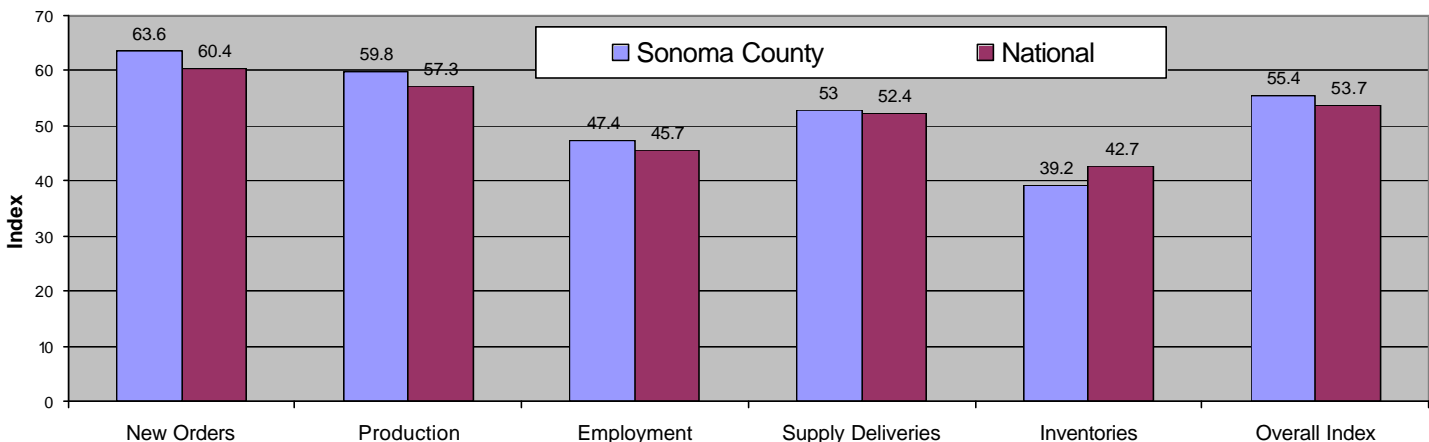
Fall '03 Profit Expectations



Sonoma County Purchasing Trends Index

The national Purchasing Managers' Index (PMI) produced by the Institute for Supply Management (ISM) is used as an indicator for economic activity in both the manufacturing and non-manufacturing sectors. It is believed that if this index is above 50 then manufacturing is expanding, and if the index is above 42.9 then there is overall economic growth. The current national PMI for September (53.7) suggests that the national economy is expanding and that the manufacturing sector is expanding.¹ Sonoma County's *Purchasing Trends Index* (PTI) uses the same indicators as the PMI. The Sonoma County's PTI is 55.4, which suggests that Sonoma County's economy is expanding. The graph below shows a comparison of Sonoma County's PTI and the Institute of Supply Management's national PMI.

Sonoma County Purchasing Trends Index



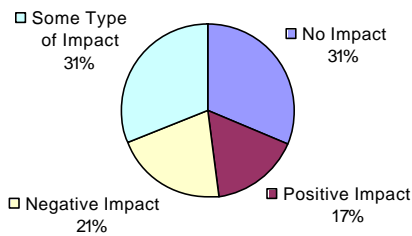
Sonoma County and the National Economy

Survey respondents felt slightly more confident about national economic growth (Index = 5.9) than they did about Sonoma County economic growth (Index = 5.7). Respondents also felt more confident in the growth of their industry sector nationwide (5.4) than they did with the growth of their industry sector within Sonoma County (5.0).

Overall, respondents have mixed feelings about where the national economy is headed. More respondents believe unemployment will fall (33%) than respondents who believe unemployment will rise (23%) in the next six months. Only 8% feel that the stock market will perform worse in the next three months, while 46% believe that the stock market will perform better. A majority (56%) of responding executives expect interest rates to rise.

Rohnert Park Casino

Impact of New Casino

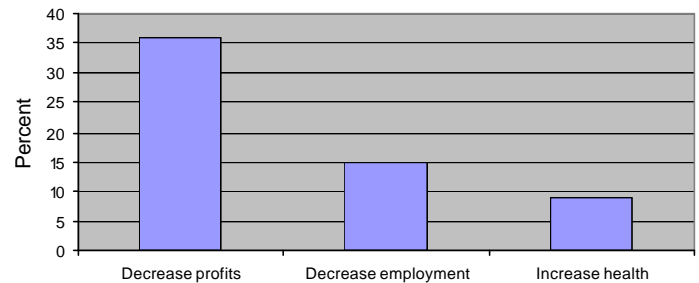


More than two-thirds (69%) of the business executives surveyed believe that a new casino in Rohnert Park will have an impact on their business. 45% of those who believe a casino would impact their business are not sure whether it would be a positive impact or a negative impact. 30% of those who expect to be impacted believe a casino will have a negative impact, and 25% believe that it will have a positive impact.

Health Care

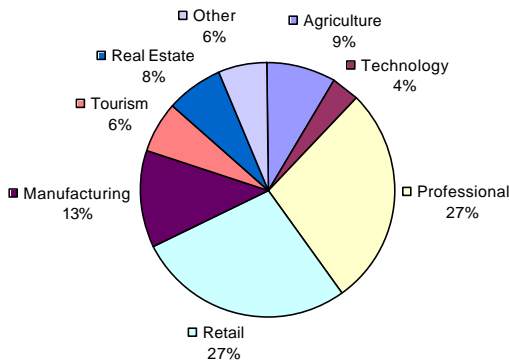
More than one-third (36%) of executives surveyed stated that the California universal health care bill recently signed by Gov. Davis will decrease their profits. A few (15%) say that it will decrease their number of employees, and 9% say that it will improve the health of their employees, reduce absenteeism, and/or reduce anxiety.

Impact of Universal Health Care

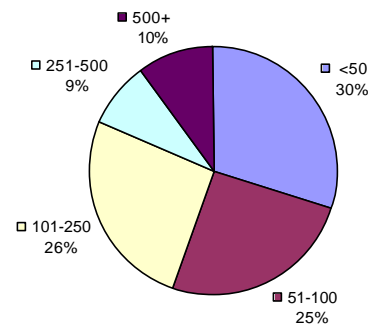


Sample Characteristics

Survey Responses by Industry



Responses by Number of Employees



Notes

1. The Institute of Supply Management. "September Manufacturing ISM Report on Business." 1 October 2003.

Surveys were mailed to 329 business executives in the beginning of September with a due date of September 30, 2003. Responses were received from 81 businesses, for a response rate of 25%. The Sonoma County Business Confidence Index is the mean of all respondents' perceptions on a scale of 1-10 of Sonoma County's current economic situation. 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 the figure is based on the month of September only. The PMI uses information about companies' new orders, production, employment, supply deliveries, and inventories. Sonoma County's index tries to mirror these indicators 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 produces a quarterly report. This report reflects the information gathered during a survey conducted in September 2003. Individual surveys are confidential. This report was prepared by Adam Grosch.

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