



Sonoma County Economic Development Board Business Confidence Report Spring 2003

Conducted during the conflict with Iraq, a survey of business confidence in Sonoma County showed dramatic decreases this past quarter, missing expected targets from Winter 2003. Business executives also lowered current business ratings in the county. Retail business volume decreased for 30% of respondents, compared to 17% from the previous quarter. Yet, attitudes toward capital investment are gradually becoming more aggressive, with fewer business executives being cautious or moderate. Facets of Sonoma County businesses are still expected to remain unchanged, including full-time employees, exports, wage and salary rates, and net profits, congruent with opinions from Winter 2003. Business executives are also more confident about the potential for growth and the stability of the national economy. Respondents are expecting the stock market to rise, and the unemployment and interest rates to remain unchanged. The EDB's *Spring 2003 Report* includes the following highlights:

- ◆ The business confidence index has fallen a total of 19.2% between the Mid-year 2002 report and the Spring 2003 report.
- ◆ Respondents predict that business confidence will increase 7% to 5.31 in the next four months.
- ◆ Fewer businesses reported “excellent” performance, but 66% are still doing “good”.
- ◆ Retail business volume has decreased rather than increased for more respondents, breaking a positive one-year trend.
- ◆ The manufacturing sector experienced the largest decline in business confidence, followed by technology.
- ◆ The percentage of business executives being “aggressive” in their capital investments has doubled.

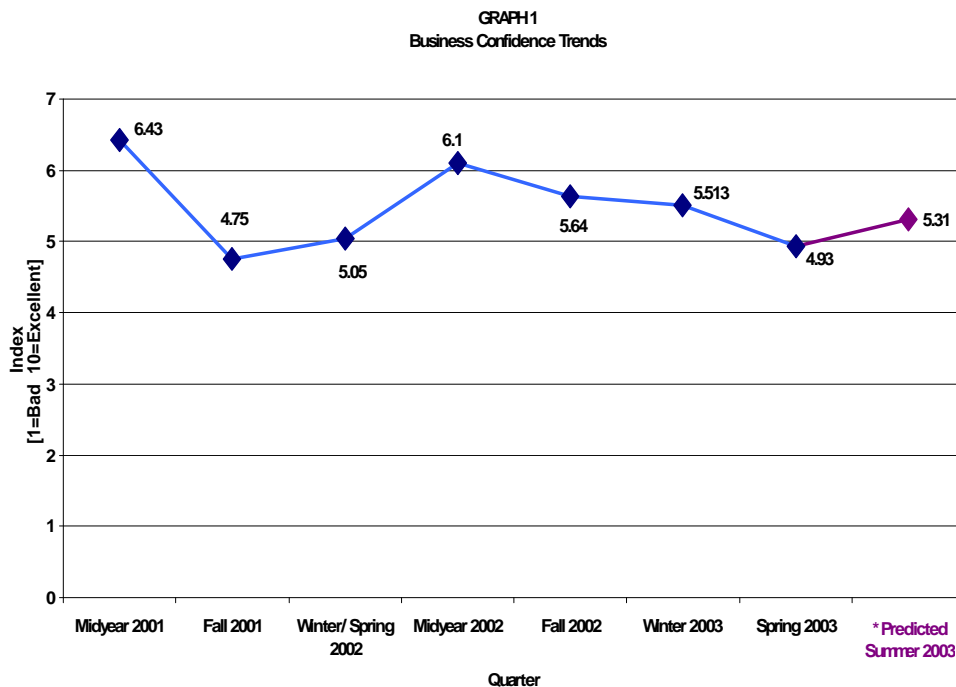
Seven local sectors were surveyed, including agriculture, manufacturing, professional/financial services, retail/distribution, real estate/construction, technology, and tourism. A category for “other” was listed, and incorporated information from various sectors including health, education, and the like.

Business Confidence Hits Four Quarter Low

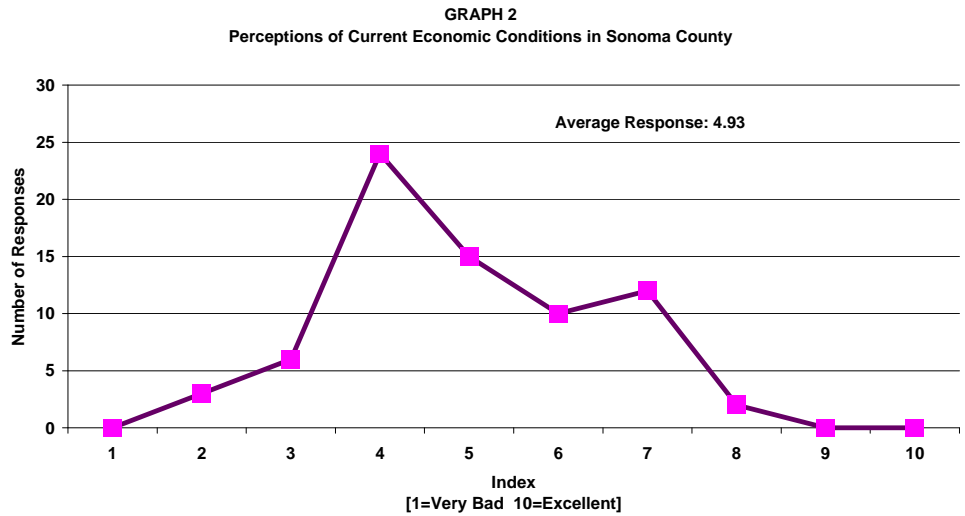
Executives' business confidence decreased more than expected from Winter 2003, falling below the mid-point of 5.0. Decreased consumer confidence was the most cited reason for this one-year low in business confidence. However, executives expect a rebound in confidence this summer. The business confidence index ranges from 1 (Very Bad) to 10 (Excellent). Survey respondents chose a position on the scale based on their perception of the current economic conditions, and their responses were then averaged. The formula used is:

$$\frac{\sum_{i=1}^{10} ib_i}{\sum b}$$

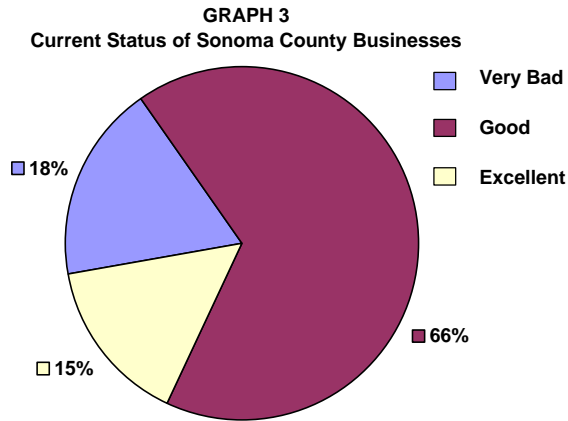
where i =index # and b =number of respondents per index number. Using this equation, current perceptions of business confidence in Sonoma County are averaged at 4.93 (See Graph 1).



While executives expected business confidence for Sonoma County to increase to 5.53 during the first quarter of 2003, confidence actually decreased almost eleven percent to 4.93. As the survey was conducted while tensions with Iraq escalated, respondents may have inserted potential negatives of the conflict into their perceptions of current economic conditions. This may also explain the jump in expected confidence levels for the next quarter if respondents believed that the conflict would not continue into summer. The distribution of responses can be seen in Graph 2.



Businesses Good, But Not Excellent



An increasing number of respondents are downsizing their business rating from excellent to good, a trend that started in Fall 2002. Currently, 66 % of businesses executives report their businesses are performing well, up from the 58% cited last quarter. However, respondents in the “excellent” category decreased from 20% to 15%. This downward trend may be due to decreased business activity in the non-manufacturing sector and the lack of growth in the manufacturing sector reported nationally.¹ A bit of good news is the slight decrease in percentage of businesses reported to be doing poorly, from 21% to 18%.

Business Confidence by Sector in Sonoma County

While half of the industries surveyed experienced an increase in confidence from Winter 2003, the other half saw decreases in confidence. Although executives in the retail industry are the most confident, the professional/financial services industry experienced the largest confidence increase from 5.09 to 5.76. Manufacturing had the largest decrease in confidence, after the technology sector. This may be explained by the small decline in national manufacturing output for the second consecutive quarter in March; national output fell at an annual rate of 0.7 percent in the first quarter of 2003. Subsequently, national widespread job losses continue in the manufacturing sector.²

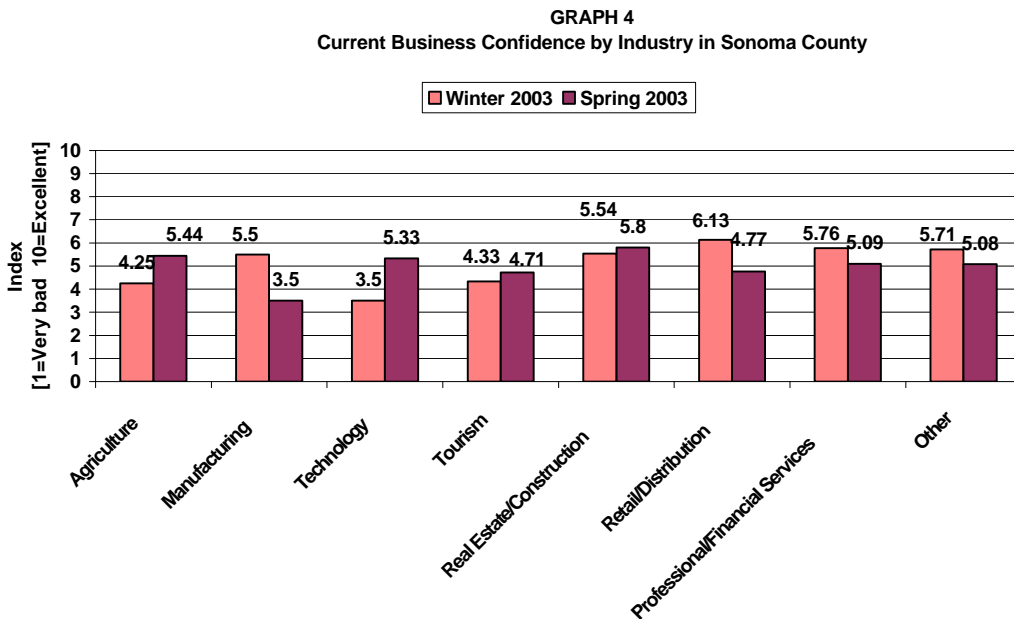


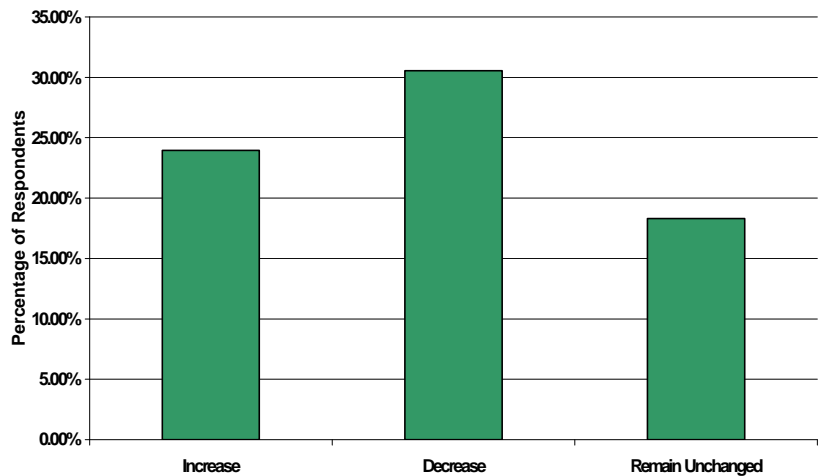
Table 1
Percent Change by Industry

Industry	Percent Change
Agriculture	28%
Manufacturing	-36%
Professional/Financial	-11%
Retail/Distribution	-22%
Real Estate/Construction	4.69%
Technology	-52.3%
Tourism	8.7%
Other	-12.43%

Reverse in Retail Trend

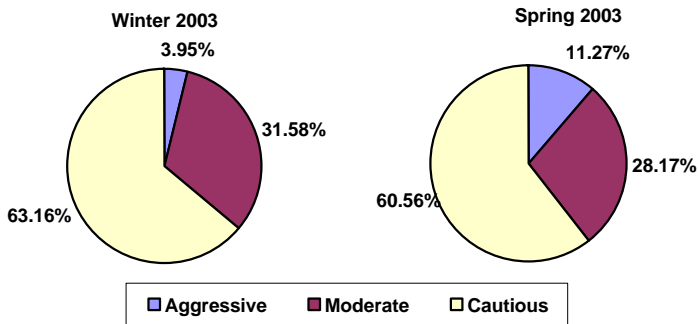
For the past year, retail business volume has increased for the majority of businesses in Sonoma County. However, this quarter more respondents (30%) experienced decreases than increases in volume (Graph 5). Only 24% of business executives reported they had increases in retail business volume, an 11% decrease from Winter 2003. This is not surprising even though the Commerce Department reported an increase of 2.1% in national retail sales in March 2003, because much of the improvement was due to auto sales and higher gas prices.³ Moreover, a rebound is not expected, as the National Retail Federation recently cut its annual growth forecast from 5.5% to 3.8%.⁴

GRAPH 5
Retail Business Volume for Most Recent Quarter



Business Executives More Aggressive in Capital Investments

GRAPH 6
Attitudes Toward Overall Capital Investment

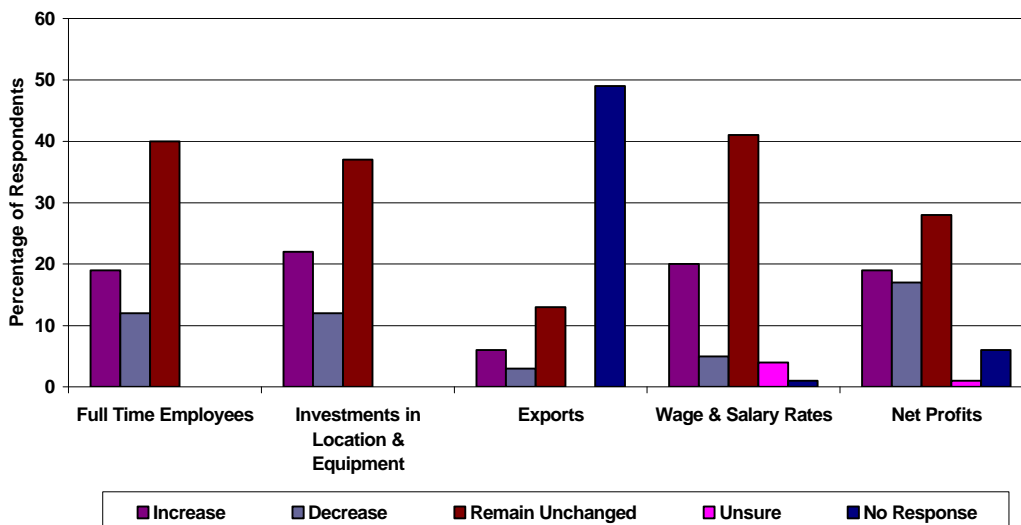


Executives in Sonoma County are renewing their aggressive strategies toward capital investments from a year ago. Eleven percent of respondents have “aggressive” attitudes, compared to four percent from Winter 2003. However, sixty-one percent are still being “cautious”, down from sixty-three percent. Most significant is the four percent decrease in the number of business executives feeling “moderate” about capital investments (Graph 6).

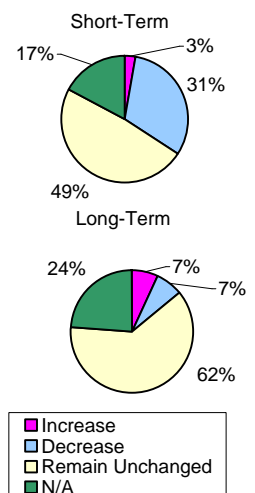
Static Expectations

Although there is an increase in aggressiveness toward capital investments, respondents are planning to maintain the number of full time employees, amount of investments in location and equipment, and wage and salary rates. Executives also expect exports and net profits to remain unchanged (Graph 7). Complementing this outlook is the 49% of respondents feeling that the Iraqi conflict will not have an affect on their businesses in the short-term, with 31% of business executives reporting they believe that the conflict will decrease business. In the long-term however, respondents do not anticipate any change in business in Sonoma County (Graph 8).

GRAPH 7
Response to Business In Next Six Months



GRAPH 8
Effects of Conflict in Iraq on Sonoma County Businesses



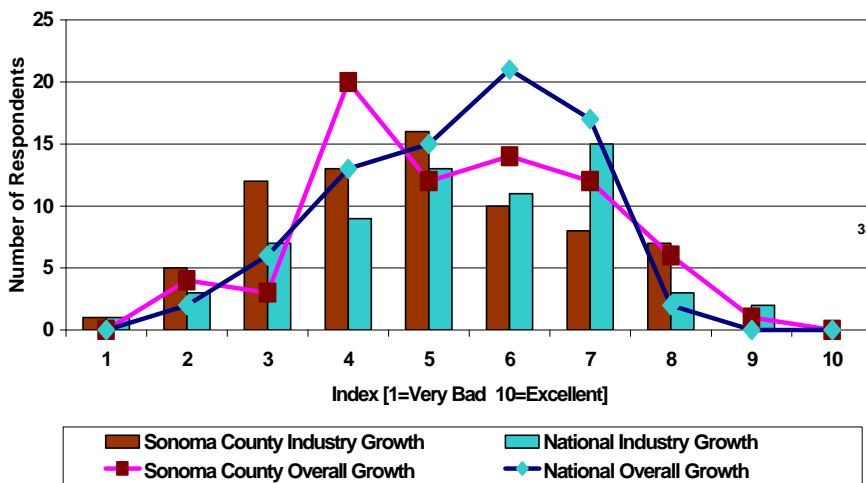
The Big Picture *Sonoma County and the National Economy*

Business confidence in Sonoma County parallels national business confidence as the national index decreased dramatically from 5.8 to 5.3 for the first quarter of 2003, dampening the rebound that occurred in the fourth quarter of 2002.⁵ The increase in unemployment from March to April is suggestive of further declines in national business confidence; the unemployment rate now stands at 6%, up from 5.8% in March, and at the highest level since December 2002.⁷ On a bright note, however, the Conference Board's Consumer Confidence index, which had been on the decline for the past four months, improved in April to 8.48 from 6.14 in March.⁶

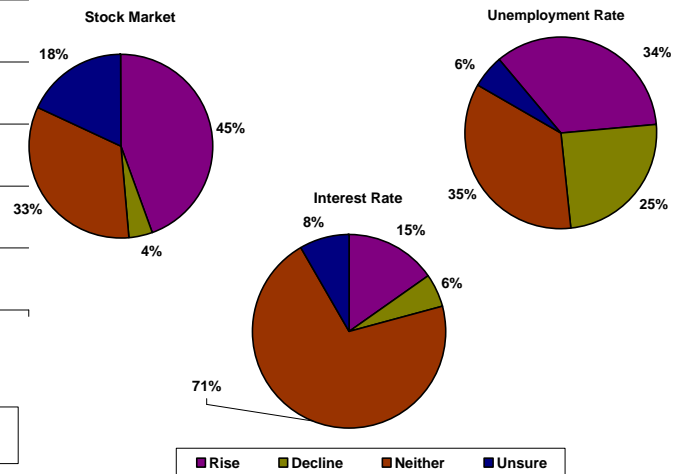
More Confidence for Growth in National Economy

Respondents are placing more confidence in the national economy than in the Sonoma County economy for overall and industry growth (Graph 8). Confidence levels for overall growth are at 5.39 for the national economy versus 5.31 for Sonoma County; for industry growth, confidence levels have a larger gap with the index at 5.20 nationally versus 4.88 locally. Respondents are optimistic in their outlook on the stock market, which is expected to rise by 45% of executives. The unemployment expectations teeter between remaining unchanged (35%) and rising (34%), while interest rates are overwhelmingly expected to remain the same at 71% (Graph 9).

GRAPH 8
Future Confidence Levels in Overall and Industry Growth



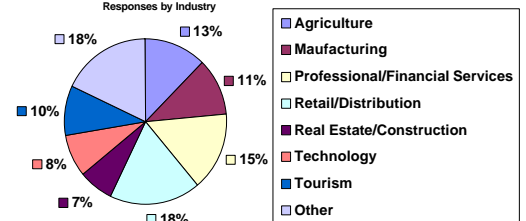
GRAPH 9
Expectations



Notes

1. Institute of Supply Management. "Non-Manufacturing Report on Business". March 2003.
2. Starnes, Glenn. *Northeast-Midwest Institute*. "Monthly Economic Review by the Congressional Task Force on Manufacturing". May 1, 2003.
3. US Department of Commerce News. *Advanced Monthly Sales for Retail Trade and Food Services*. March 2003.
4. Tice, Carol. "No Retail Relief". *Puget Sound Business Journal*. April 25, 2003.
5. *The Conference Board*. "Chief Executives Confidence Declines". April 8, 2003.
6. *The Conference Board*. "Consumer Confidence Index Rebounds in April". April 29, 2003.
7. Gongloff, Mark. "Unemployment Jumps to 6%". *CNN Money*. May 2, 2003.

CHART 1



Surveys were mailed to 308 business executives in 20 sectors on March 30, 2003, with a due date of April 30, 2003. Responses were received from 72 businesses, for a response rate of 24%. 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. Due to changes in methodology, some percentages differ from those cited in earlier Sonoma County Business Confidence Reports. 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. 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 April 2003. Individual surveys are confidential. This report was prepared by Nikhila Raj.

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