



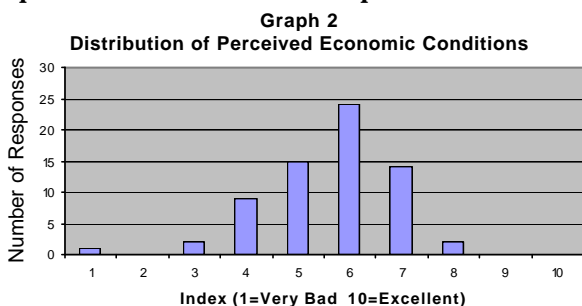
# Sonoma County Economic Development Board Business Confidence Report Summer 2003

Conducted during July 1–25, 2003, the EDB’s *Summer 2003 Business Confidence Report* reveals that business confidence is rebounding despite major increases in workers’ compensation costs. A new feature this quarter is the *Sonoma County Purchasing Trends Index*. This Index is similar to the national *Purchasing Managers’ Index* (PMI) produced by the Institute of Supply Management (ISM). The EDB’s *Summer 2003 Business Confidence Report* includes the following highlights:

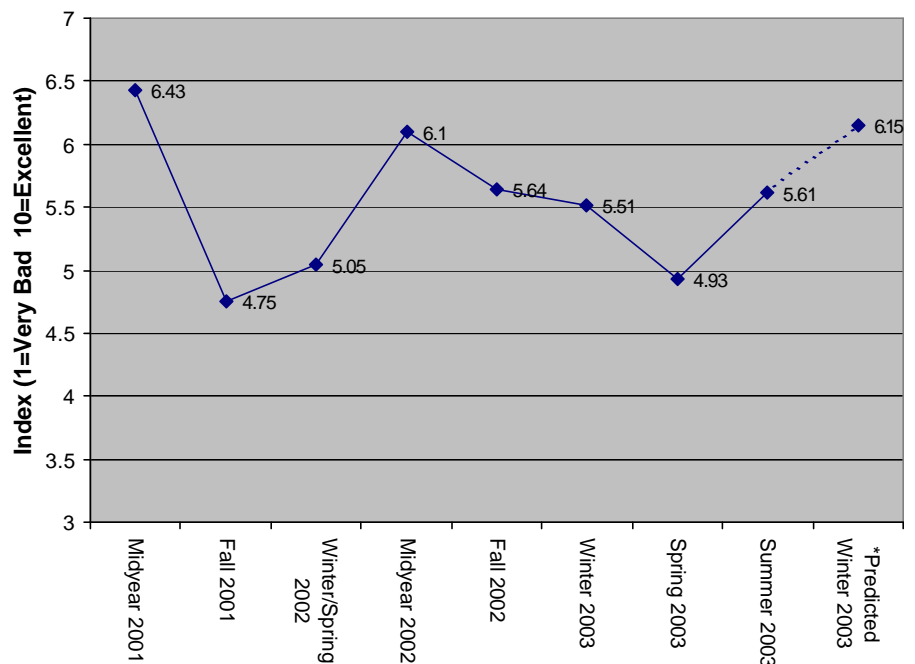
- ◆ The *Business Confidence Index* has rebounded this quarter from 4.93 to 5.61 (on a scale of 1 to 10) and respondents expect it to continue to rise.
- ◆ The costs of workers’ compensation costs are increasing. In an effort to keep costs down, business executives have increased safety awareness. Despite these efforts, many report that steep increases in workers’ compensation premiums are having the effect of slowing growth and reducing hiring.
- ◆ The tourism sector has the highest business confidence index (7.0) and has seen the largest increase this quarter (+2.29).
- ◆ Profit expectations for the next 6 months are mixed.
- ◆ The majority (74%) of business executives in Sonoma County are planning to take a vacation this summer.
- ◆ *Sonoma County’s Purchasing Trend’s Index* at 41.3 is lower than the national *Purchasing Managers’ Index* (49.8).

## ***Business Confidence Rebounding***

Last spring, after hitting a four-quarter low (4.93), the Business Confidence Index in Sonoma County has rebounded more than predicted to 5.61 on a 1 (very bad) to 10 (excellent) scale (see Graph 1). A majority of respondents (59%) felt positive about current economic conditions in Sonoma County (a rating of 6 or more) while only 18% of respondents felt negatively about economic conditions (gave a rating of four or less). The full distribution of responses can be found in Graph 2.



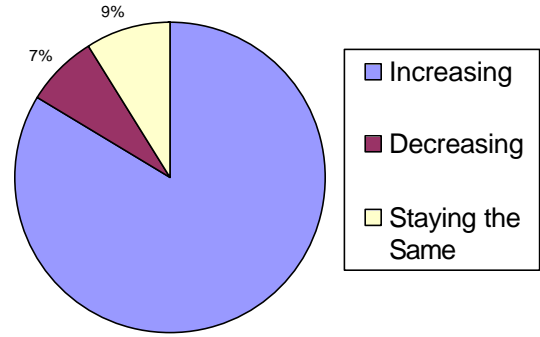
**Graph 1**  
Business Confidence Trends



## **Workers' Compensation Causes Major Concern**

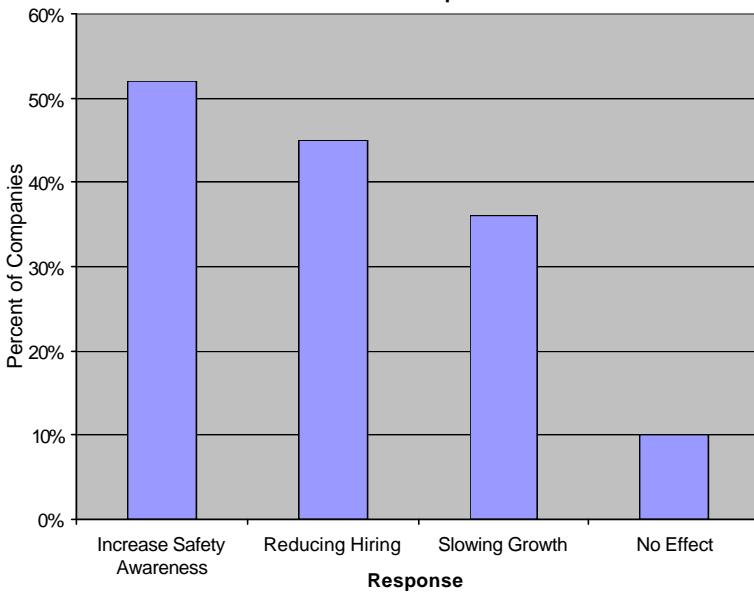
A major cause of concern is the increased cost of workers' compensation. Thirty-six percent of respondents say that compensation costs are slowing growth. Forty-five percent are reducing hiring, and fifty-two percent are increasing safety awareness (see Graph 3). An overwhelming majority (82%) of executives reported increased workers' compensation costs for their company. Only 7% of respondents said that compensation costs for their company were decreasing and most of these responses were due to self-insurance or a move to self-insurance (see Graph 4).

Graph 4  
Costs of Workers Compensation



According to the *Kiplinger California Letter*, workers' compensation has been increasing in the last three years, and rates are expected to continue to rise over the next year in double-digit numbers.<sup>1</sup> One company documented a 46% increase in workers' compensation premiums over the last year alone. Several business leaders report feeling powerless. A couple ruled out expansion in California and may expand in other states. One major manufacturer surveyed has already finalized plans to completely relocate out of state primarily due to high workers' compensation premiums. According to the *Press Democrat* the average cost of workers' compensation in California is \$5.23 per \$100 of payroll, the highest in the nation. This compares to \$1.65 in the state of Washington.<sup>2</sup> Some businesses are exploring alternatives such as self-insurance, "return-to-work" incentive programs, and increased safety and prevention programs in an effort to keep costs as low as possible.

Graph 3  
Effects of Workers Compensation



## **Business Confidence by Sector in Sonoma County**

Graph 5 shows business confidence by sector for the current quarter and the last quarter. Business confidence is up for most industries including technology, professional/financial, retail/distribution, manufacturing, and tourism. The biggest increase (2.29) in business confidence comes from the tourism sector.

**Graph 5: Business Confidence in Sonoma County by Industry**

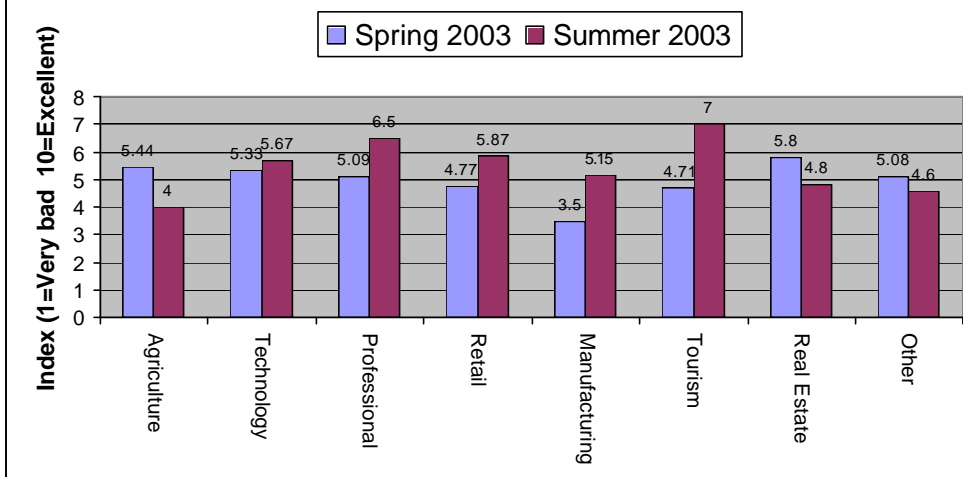
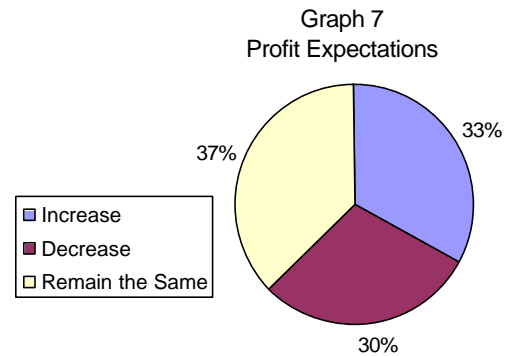


Table 1

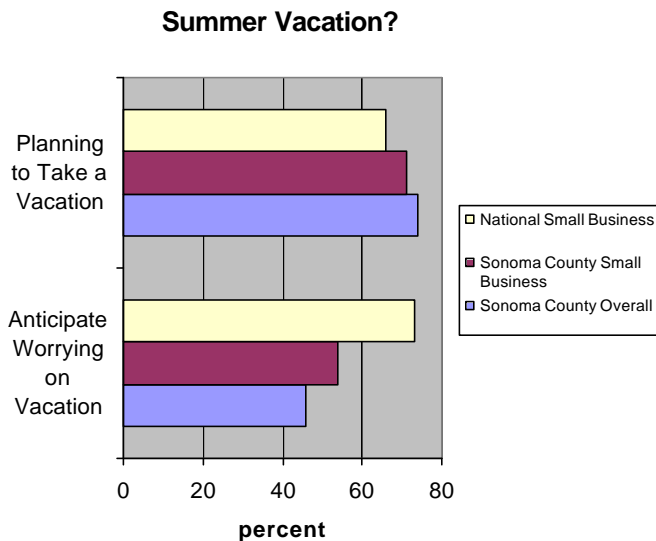
Index Change by Industry	
Agriculture	-1.44
Technology	+.34
Professional/Financial	+1.41
Retail/Distribution	+1.10
Manufacturing	+1.65
Tourism	+2.29
Real Estate	-1.00
Other	-.48

## ***Business Expectations for the Next Six Months***

Despite increased confidence, the majority of business executives surveyed (63%) remain cautious toward capital investment and are wary of being too aggressive. Most respondents plan to maintain the number of full time employees (51%), investments (47%), and wages (57%). Expectations on net profits are mixed; 33% expect no change, 29% expect an increase, and 26% expect profits to decrease. Those surveyed in Sonoma County are much less confident in their expectations for profits compared with a nationwide survey done by *The Conference Board* which found that 65% of CEOs expected profit to increase.<sup>4</sup>



## ***Summer Vacation Plans***



Almost three quarters (74%) of respondents stated that this summer they planned to take at least one week of vacation. A higher percentage of business executives (76%) from large companies (100+ employees) are planning on taking a vacation compared to business executives from smaller companies (71%). In comparison, 66% of small business owners surveyed nationwide by American Express plan to take a week of vacation.<sup>5</sup> Of those Sonoma County executives planning to take vacation, 46% anticipate worrying while on vacation. Sonoma County executives anticipate worrying the most about missed opportunities (24%) and management (19%). In the nationwide American Express survey of small business owners, 73% anticipate worrying on vacation while in comparison, 54% of small business executives in Sonoma County anticipate worrying on their vacation.

## ***The Big Picture***

### ***Sonoma County and the National Economy***

Business confidence in Sonoma County parallels national business confidence as the national index improved from 5.3 to 6.0 in the 2nd quarter. In Sonoma County, the index improved from 4.9 to 5.6 (see Graph 1). Similarly, CEOs nationwide show an increase in their perception of their own business strength, whose index is up from 4.0 to 5.5. This quarter's figure for business strength in Sonoma County is higher than the national average at 6.0.<sup>4</sup>

### ***Confidence for Sonoma County vs National Economy***

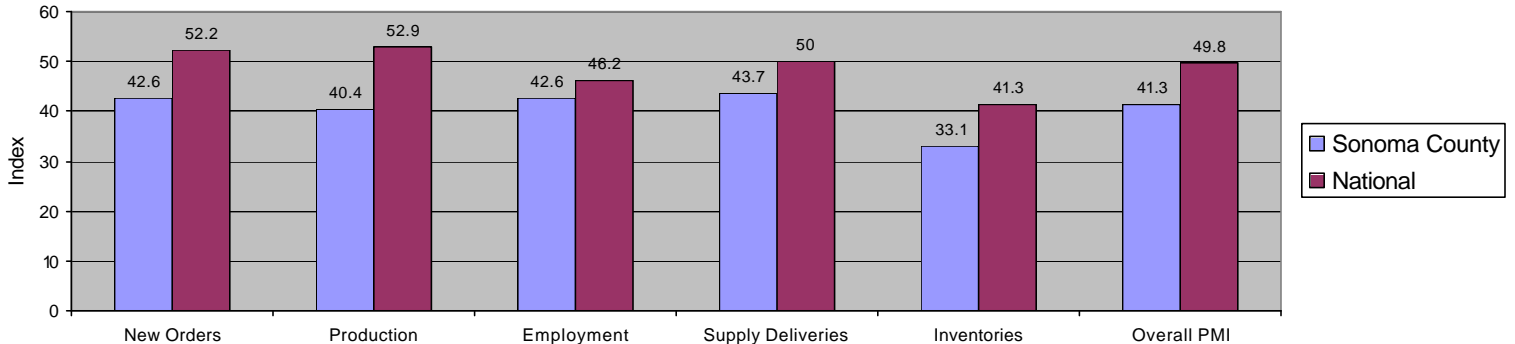
Respondents are placing more confidence in Sonoma County's overall growth (6.2) than in the nation's overall economic growth (5.8). For industry growth, however, respondents are more confident in the growth of their industry nationwide (5.6) than they are with the growth of their industry within Sonoma County (5.4).

Although still mixed, respondents' predictions on nationwide unemployment have improved since last quarter. More respondents believe unemployment will fall (36%) than respondents who believe unemployment will rise (29%). More than 63% of respondents felt that the stock market would improve in the next six months while only 6% thought the value of the stock market would decrease. Three-fourths of respondents believe that interest rates will remain unchanged.

# New Index Trial: Sonoma County Purchasing Trends Index

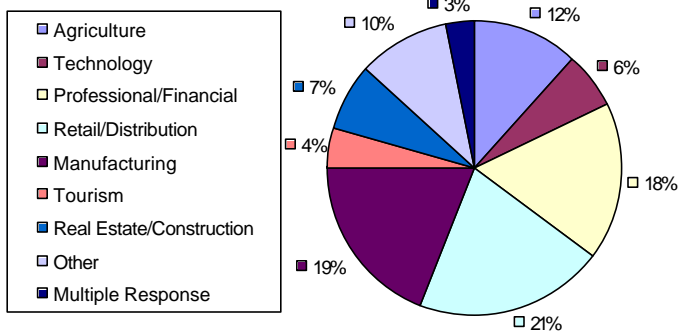
The national Purchasing Managers' Index (PMI) produced by the Institute for Supply Management (ISM) is used as an indicator for economic activity in both the manufacturing and non-manufacturing sectors. The PMI uses information about companies' new orders, production, employment, supply deliveries, and inventories. The ISM believes that if its index is above 50 then manufacturing is expanding, and if the PMI is above 42.9 then there is overall economic growth. The current national PMI for June (49.8) suggests that the national economy is expanding and that the manufacturing sector is contracting.<sup>3</sup> The EDB's *Purchasing Trends Index* (PTI) uses the same indicators as the PMI, but may not be directly comparable due to the methodology of compiling data. The EDB's index is 41.3, which could be a sign that Sonoma County's economy may not be as strong as the national economy. Graph 6 shows a comparison of Sonoma County's PTI and the Institute of Supply Management's national PMI.

Graph 6: Purchasing Trends Index vs. Purchasing Managers Index

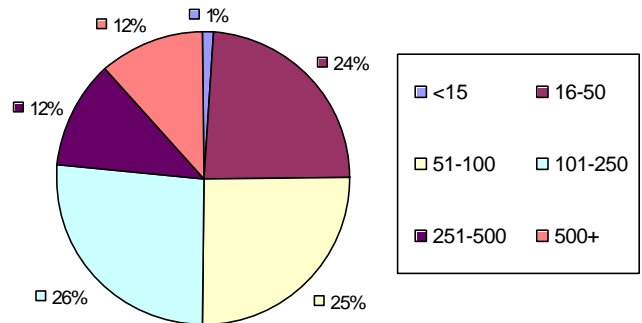


## Sample Characteristics

Survey Responses by Industry



Survey Responses by Company Size



### Notes

1. The Kiplinger Washington Editors. "The Kiplinger California Letter." 16 July 2003.
2. Fricker, Mary. "Workers comp costs key to relocation." *The Press Democrat*. 26 July 2003.
3. The Institute of Supply Management. "June Manufacturing ISM Report on Business." 1 July 2003.
4. The Conference Board. "Chief Executives Confidence Improves." 7 July 2003.
5. American Express. "Two-thirds of small business owners plan summer vacations, according to the open small business network 2003 semi-annual monitor from American Express." 28 May 2003.

Surveys were mailed to 308 business executives in 20 sectors on June 30, 2003, with a due date of July 25, 2003. Responses were received from 69 businesses, for a response rate of 22%. The Sonoma County Business Confidence Index is the mean of all respondents' perceptions or projections on a scale of 1-10 of Sonoma County's current situation or 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. The national PMI comes from the Institute for Supply Management and the figure is based on the month of June only.

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 July 2003. Individual surveys are confidential. This report was prepared by Adam Grosch.

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