

Sonoma County Economic Development Board Business Confidence Report Summer 2004

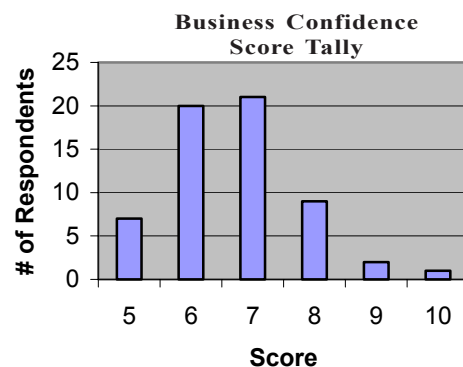
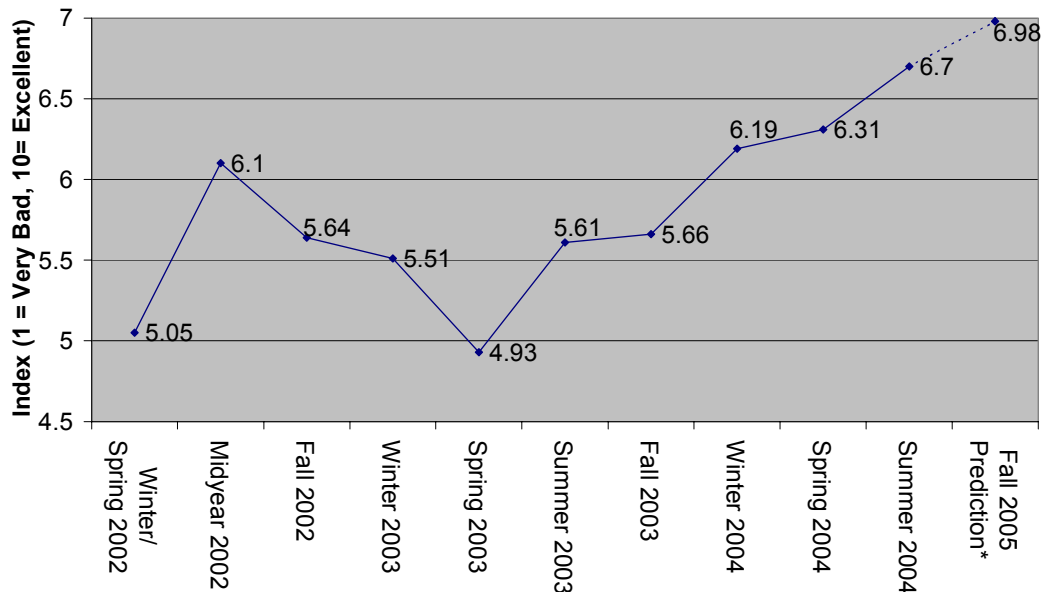
Conducted during the month of June, the Sonoma County Economic Development Board presents the *Summer 2004 Business Confidence Report*. Key highlights from the report include:

- The *Business Confidence Index* increased by 6.2% to 6.7 (10 point scale). Executives are predicting further improvement this fall.
- 98% of responding business executives say they have not suffered a loss in business due to rising gas prices.
- Two-thirds of business executives reported an increase in new customer orders within the past quarter.
- Executives continue to increase aggressiveness in investment strategy. This quarter only 34% of respondents plan to be cautious in their capital investments; where as, six months ago 49% of respondents were cautious.
- Confidence in all key sectors is up from last quarter by 8.32% to 6.64 (10 point scale) with the biggest gains in health services.
- The majority of executives surveyed (93%) expect interest rates to increase by the end of the 3rd quarter.
- The *Sonoma County Purchasing Trends Index* has shown significant improvement since last quarter, increasing from 62.2 to 72.9.

Business Confidence Increasing

Sonoma County Business Confidence continues to rise for the fifth consecutive quarter, hitting 6.7 on a 10 point scale (1=very bad; 10=excellent). Overall, Sonoma County businesses report that the current economic conditions in Sonoma County are strong. 88% of the businesses surveyed reported a positive confidence (a score of 6 or higher), with the most reported score being a 7 (refer to the figure below). The future of Sonoma County businesses looks promising: respondents foresee Business Confidence increasing 3% to 6.9 by Winter of 2005.

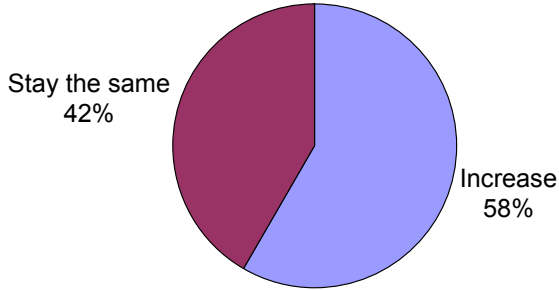
Business Confidence



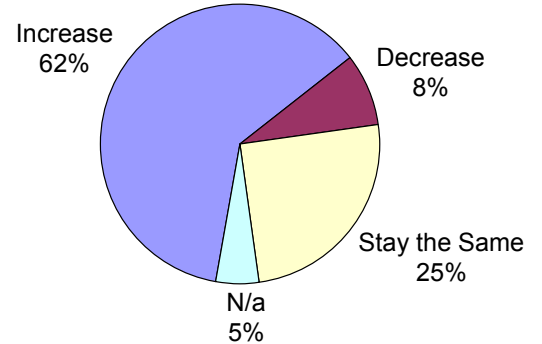
Sonoma County Business Predictions

The majority of business executives in Sonoma County believe the economy is going to continue to improve. 58% of local executives foresee an increase in wage or salary rates while 62% of respondents predict an increase in profits over the next 6 months. Although executives feel that interest rates are going to rise by the third quarter of 2004, the vast majority (92%) anticipate the stock market to rise or stay constant over the next three months. In addition, 70% of business executives predict that the national unemployment rate will decline that over the next 6 months, while 25% predict no changes. Moreover, 50% of respondents have a “moderate” attitude toward expenditures such as capital improvements (up from 38% six months ago), while only 34% are taking a “cautious” approach.

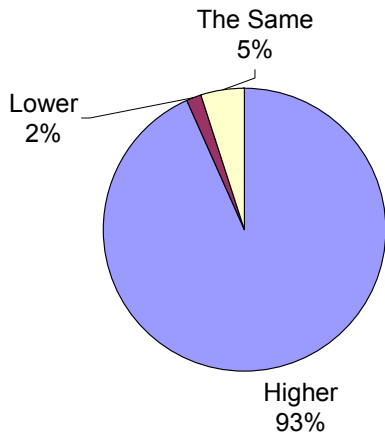
Wages and Salary Rates



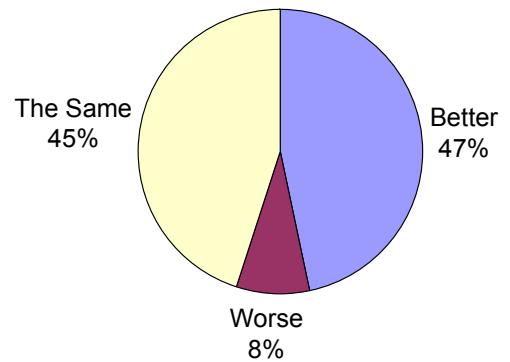
Net Profits



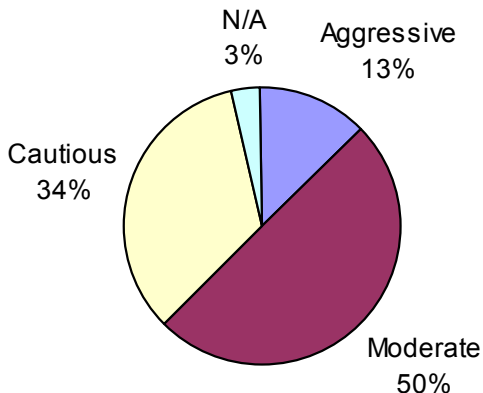
Interest Rates



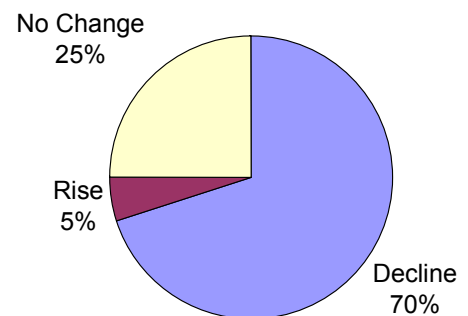
Stock Market



Capital Investment

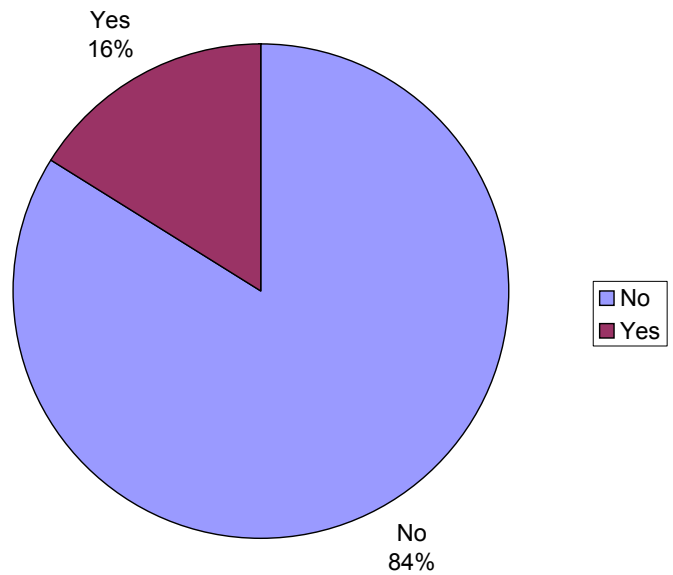


National Unemployment



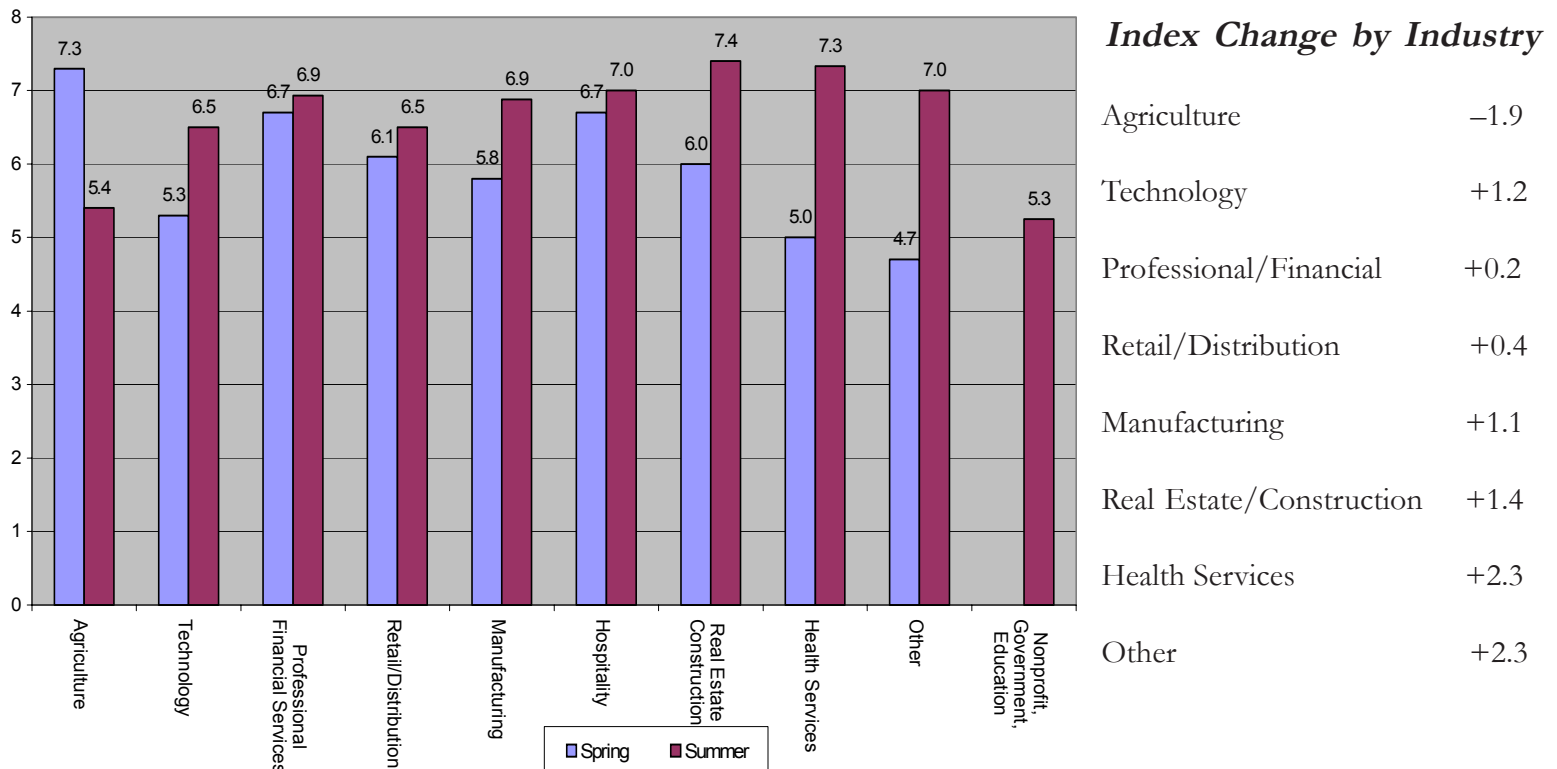
Effects of Rising Gas Prices on Sonoma County Businesses

Despite recent concerns, rising gas prices have not affected most businesses in Sonoma County. 98% of local executives reported no loss in business due to rising gas prices. In addition, 84% of respondents reported no changed business practices, while only 16% have changed the way they do business. Of the executives that responded “yes” to having changed their business practices, 50% have increased prices and 33% have reduced trips or work-related travel in order to offset rising gas prices. In general, Sonoma County businesses appear resilient to the economic effects of higher gas prices.



Sector Confidence in Sonoma County

Overall, the confidence that executives had for businesses within their sector rated 6.64 out of 10. This figure is up from last quarter by 8.3%, from 6.13. Health services and the “miscellaneous” sector showed the biggest gains in industry confidence increase, with increases of 2.33 and 2.30 respectively. In addition, the hospitality, health services, real estate construction, and “other” sectors showed the strongest industry confidence at, or above, 7.0.



Six Month Outlook: National and Local Economy

Local business executives rate national economic growth and national industry growth at 7.2 and 6.9 on a 10 point scale. This figure is similar to the national business confidence as reported by The Conference Board. Business executives throughout the nation rated their overall confidence at 7.0 and their industry confidence at 7.2.

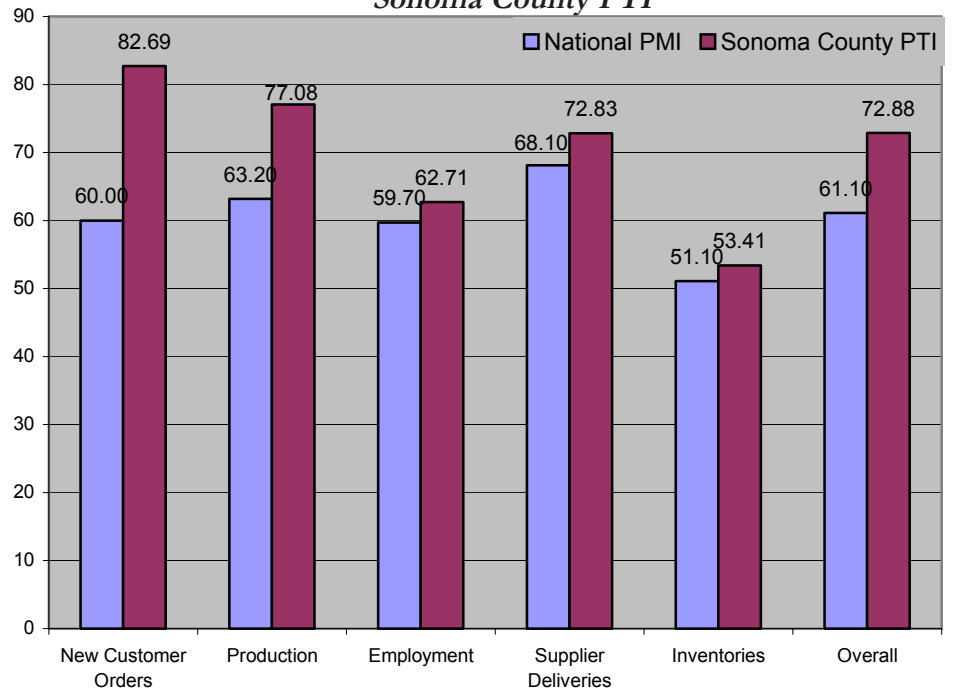
	Nation	Sonoma County
Economy	7.2	6.9
Industry	6.9	6.7

Sonoma County Purchasing Trends Index

National PMI vs. Sonoma County PTI

The Institute of Supply and Management's June survey found the Purchasing Manager's Index at 61.1. Sonoma County's Purchasing Trends Index rates higher by 12 points at 72.8. These numbers suggest that both manufacturing (a score above 50) and the economy overall (a score above 42.9) are expanding.

Compared to last quarter, the Sonoma County Purchasing Trends Index has improved significantly by 10 points from 62.2 to 72.8. Every indicator has shown significant improvement in Sonoma County, with the largest increase in new customer orders followed by production, as compared to the National Index.

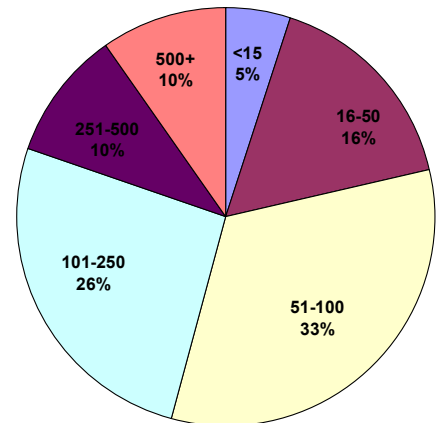


Sample Characteristics

Size of Industries Surveyed



Size of Businesses Surveyed



Notes

1. The Conference Board. "Chief Executives' Confidence Dips, But Still Remains Strong." July 7, 2004.
2. The Institute of Supply Management. "June Manufacturing ISM Report On Business" July 1, 2004.

Surveys were mailed to 315 business executives in the beginning of June with a due date of July 1, 2004. Responses were received from 62 businesses, for a response rate of about 20%. 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 June only. The PMI uses information about companies' new orders, production, employment, supply deliveries, and inventories, and 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 June 2004. Individual surveys are confidential. This report was prepared by Katherine Valenzuela.

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Economic Development Board Research Initiatives Program Acknowledgment and Appreciation to our Underwriters

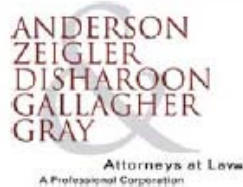
American Ag Credit
Anderson, Zeigler, Disharoon, Gallagher & Gray
Bank of America
Bank of Marin
Basin Street Properties
Business Bank of California
Christopherson Homes Inc.
Coddling Foundation
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SUMMIT STATE BANK



LUTHER BURBANK SAVINGS



Bank of Marin



BASIN STREET PROPERTIES

