



# Sonoma County Economic Development Board Business Confidence Report Summer 2005

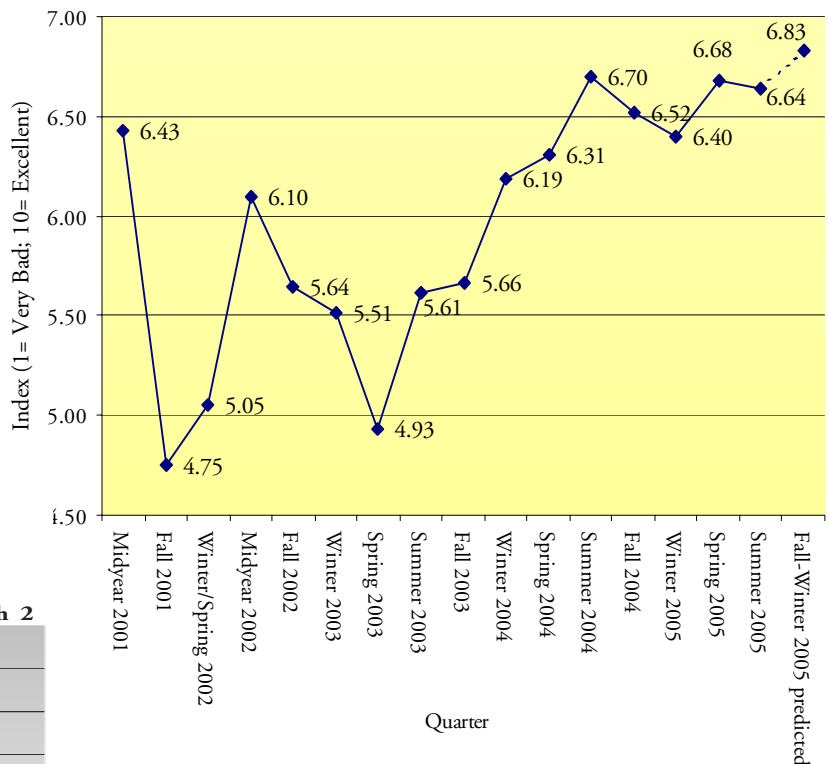
Conducted during the month of June, the Sonoma County Economic Development Board (EDB) presents the Summer 2005 Business Confidence Report. Key highlights from this report include:

- Sonoma County business executives remain upbeat about the local economy as the Sonoma County Business Confidence Index scored a 6.64 on a 10-point scale. Local business executives predict that the County's economy will be stronger over the next six months, forecasting a record high confidence level of 6.83.
- Solid job hiring is foreseen by nearly 40% of responding executives, and contributes to local leaders' optimistic feeling about the economy. Expectations on wage and salary rates have also climbed upward as two-thirds of executives plan to increase wage and salary rates. Executives also feel optimistic about their companies' revenues, with 56% of respondents expecting net profits to increase over the next six months.
- Purchasing trends for both Sonoma County and the United States indicate that economic activity in the manufacturing sector grew. The Local Purchasing Trends Index has improved 6.6% to 73.9% from Spring 2005. This surpasses the growth of the U.S. Purchasing Manager's Index registered at 51.4%, indicating a slow down in the rate of growth for the national manufacturing sector.
- Fifty-five percent of respondents plan to take aggressive-to-moderate attitudes towards overall significant capital expenditures. A majority of respondents feel the national unemployment rate will decline, and 39% anticipate that the stock market will rise.

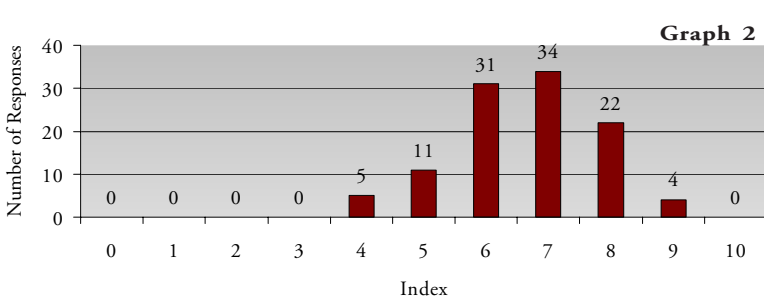
## *Upbeat Business Confidence Outlook*

Sonoma County business leaders remain upbeat about the local economy. As Graph 1 shows, the EDB's Summer 2005 Business Confidence Index for Sonoma County scored a 6.64 on a 10-point scale (1= very bad; 10= excellent), decreasing a mere 0.04 points (0.5%) from the Spring 2005 Index. Business executives' confidence within their industries also decreased 1.5% from 6.48 to 6.38 from Spring 2005, but remains positive (a score of 6 or above). Despite the slight decrease in ratings, both indices indicate a strong sign of health for the local economy. Local business executives also expect the County's economy to be stronger over the next six months, forecasting a record high confidence level of 6.83.

**Business Confidence Trends Graph 1**



**Distribution of Business Confidence Graph 2**

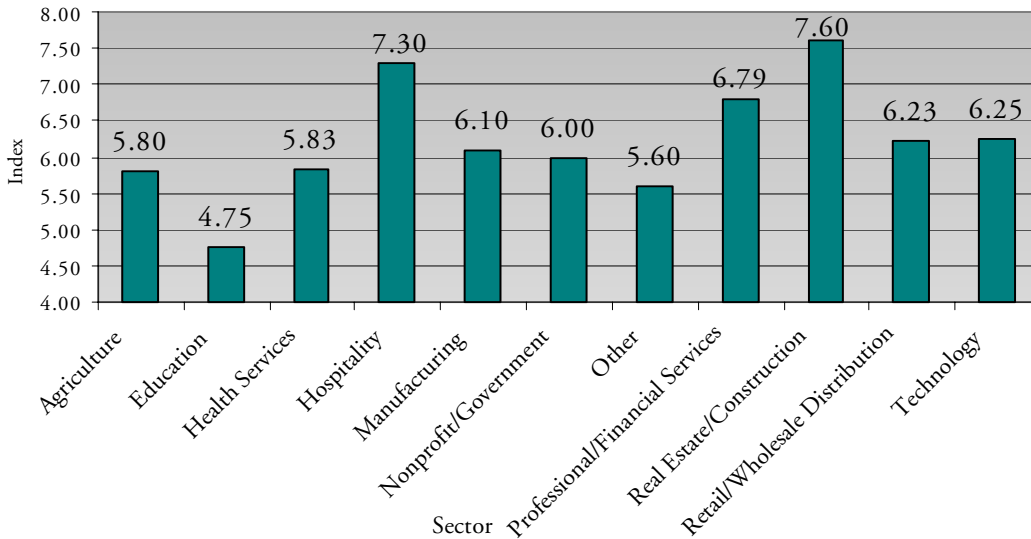


## Industry Confidence in Sonoma County

While the business confidence index indicates the level of confidence in the economy as a whole, industry confidence illustrates specifically how executives feel about their sector's current economic condition and future growth. Graph 3 compares the level of confidence of the industries. Overall, business executives reported their industry confidence at 6.38, with the highest confidence being reported by the real estate and construction sector, with a level of 7.60, an 11% increase from Spring 2005 (See Table 1). Similarly, hospitality business leaders are bullish as reported industry confidence continues to increase. The education sector ranked the lowest with an industry confidence level of 4.75.

**Industry Confidence**

**Graph 3**



**Table 1**

**Index Change by Industry**

|                               |                |
|-------------------------------|----------------|
| Agriculture                   | -0.66          |
| Education                     | No Spring data |
| Health Services               | -0.57          |
| Hospitality                   | +0.30          |
| Manufacturing                 | +0.10          |
| Nonprofit/Government          | +0.67          |
| Other                         | -0.90          |
| Professional/Financial        | +0.14          |
| Real Estate/Construction      | +0.75          |
| Retail/Wholesale Distribution | +0.33          |
| Technology                    | -0.25          |
| <b>Overall</b>                | <b>-0.1</b>    |

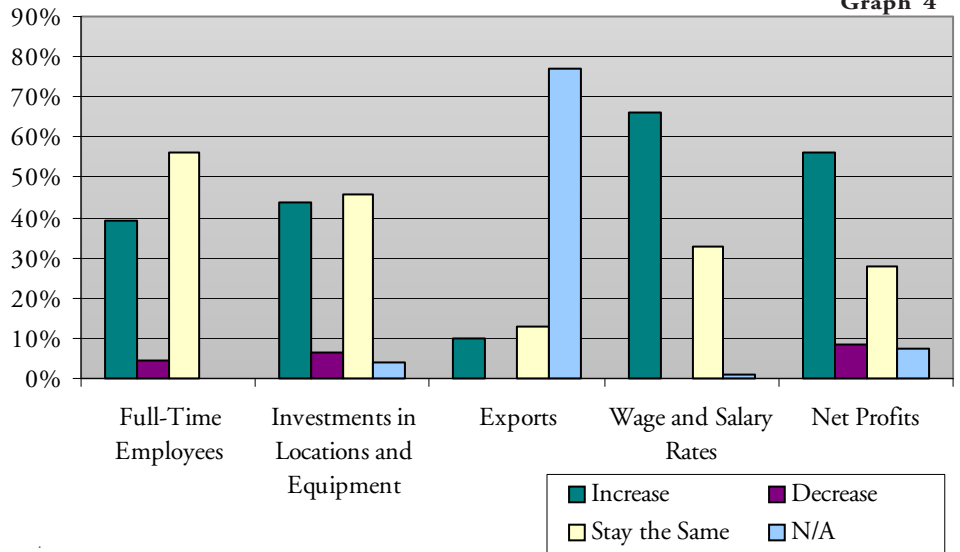
## Business Executives feel optimistic about new job hires, wage and salary rates, and net profits

Graph 4 displays executives' optimistic forecast of business production capacity and spending over the next six months.

Solid job hiring is foreseen by nearly 40% of responding executives, and contributes to local leaders' optimistic feeling about the economy. Investments in locations and equipment are also predicted to increase (44%) or remain at the same level (46%). Expectations of wage and salary rates have also climbed upwards, as two-thirds of executives plan to increase wage and salary rates. Executives also feel positive about their companies' revenues, with 56% of respondents expecting net profits to increase over the next six months.

**Expanding Production Capacity in Sonoma County**

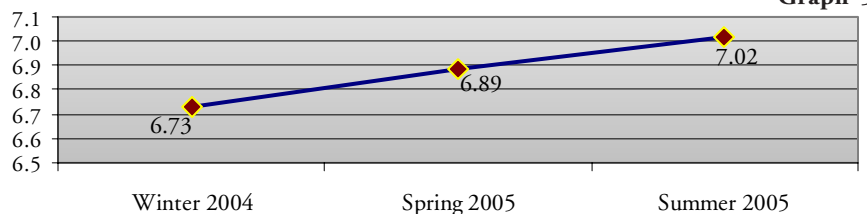
**Graph 4**



Graph 5 shows respondents rating of current business performance over the last six months. The high Summer 2005 index, scoring 7.02 on a 10-point scale (1= Struggling Greatly, 10 Extremely Strong) supports executives current optimism of expanding production capacity and spending.

**How is your business performing now?**

**Graph 5**



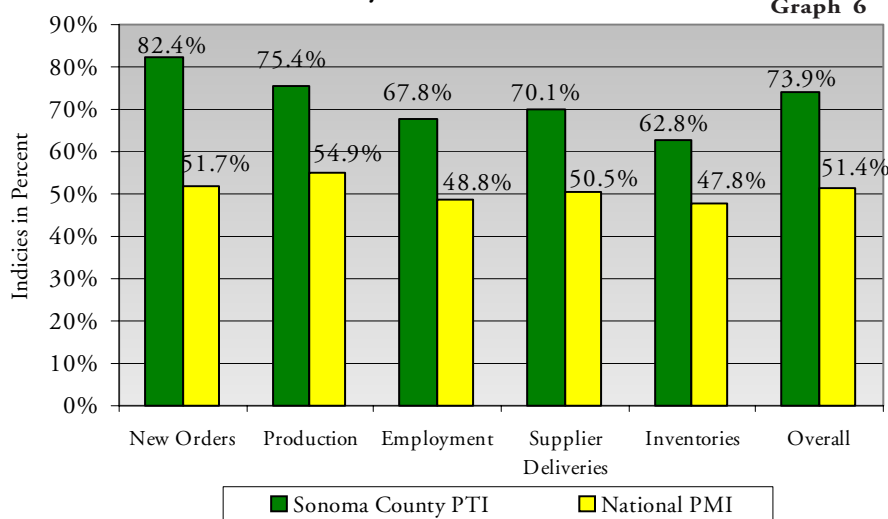
## Sonoma County Purchasing Trends Index (PTI)

The purchasing trends for both Sonoma County and the United States indicate that economic activity in the manufacturing sector continues to grow. Graphs 6 and 7 compare the local Purchasing Trends Index (PTI) index with the U.S. Purchasing Manager's Index (PMI) index.

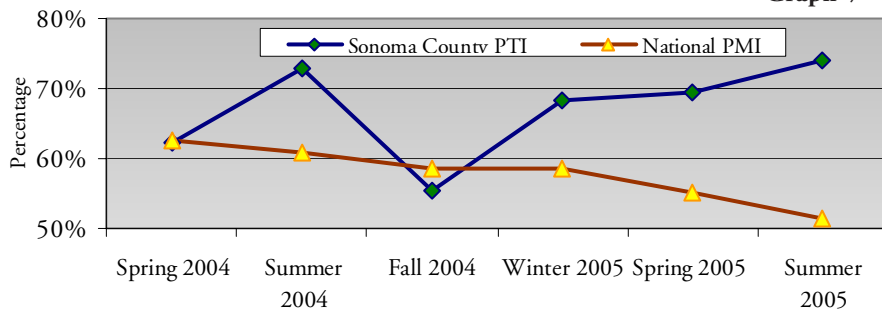
The local PTI has improved 6.6% to 73.9% from the Spring 2005 index of 69.3%. This surpasses the growth of the U.S. PMI which registered 51.4%. While this continued growth trend for the PMI index represents the longest period of growth in the last 16 years, the rate of growth has slowed significantly, indicating that the national manufacturing sector is losing momentum.<sup>1</sup> A reading above 50% indicates that the manufacturing economy is generally expanding; below 50% indicates that it is generally contracting.

Graph 7 highlights national and local growth trends. Annual PTI trends suggest that the local manufacturing sector has steadily gained forward momentum after slowing in Fall 2004. In contrast, the downward trend of the national PMI index may signify a shift away from the seller's market that has existed over the last year.

**Sonoma County vs National Production Indices** Graph 6



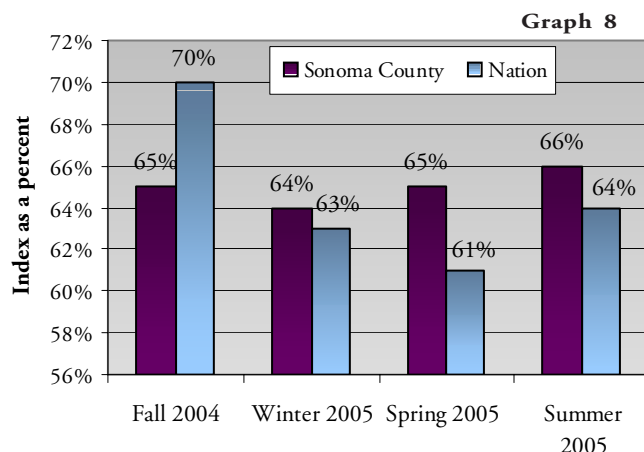
**Manufacturing PMI and PTI Trends** Graph 7



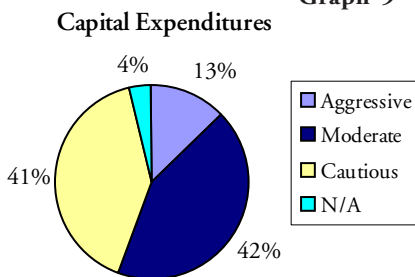
## The Big Picture: Sonoma County and the National Economy

Trends in local business confidence are similar to trends witnessed in national business and consumer confidence. In a survey of CEOs nationally, the Conference Board found that confidence in the economy as a whole edged up to 62 from 61 on a 100-point scale in the first quarter of 2005, with a reading above 50 reflecting more positive than negative responses.<sup>2</sup> This is on par with the data from Sonoma County (See Graph 8). Local business executives' confidence in the national economy improved 5% from Spring 2005 to 64%. Additional business expectations displayed below in Graphs 9-11 also indicate positive local and national confidence. Fifty-five percent of respondents plan to take aggressive-to-moderate attitudes towards overall significant capital expenditures. The majority (51%) of respondents feel the national unemployment rate will decline, and 39% anticipate that the stock market will rise.

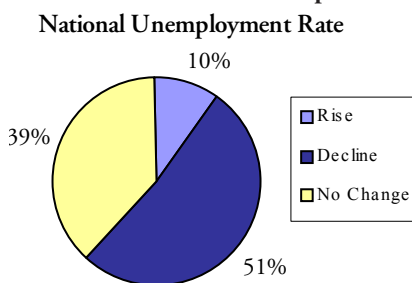
**Business Confidence**  
**Local and National Comparison**



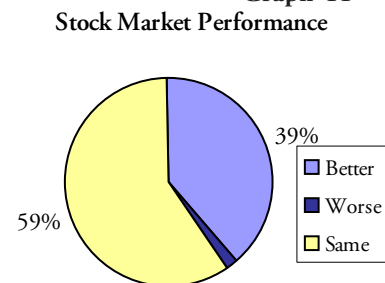
Graph 9



Graph 10



Graph 11



## Summer Economic Challenges for Sonoma County: Higher Interest Rates and Increased Gas Prices

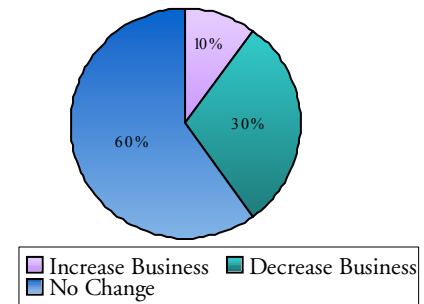
Recent research by Economy.com, the EDB's research partner, explains that travel and tourism are Sonoma County's strongest basic industries.<sup>3</sup> Downside potential from high gas prices could pose a challenge to the summer peak tourism. Gas prices remain well above \$2 per gallon, and ongoing concerns over the reliability of energy supplies, as well as surging global demand for energy, may contribute to continued near-term increased energy prices.

Graph 12 displays responding executives' feelings on how increased gas prices will affect local leisure and hospitality industries. Sixty percent of executives reported that increased energy pricing will not affect the tourism sector, while 30% feel that business will decrease, and only 10% believe that higher pricing may attract more local Bay Area tourists to visit Sonoma County.

Economy.com also states that rising interest rates pose the greatest near-term risk to the economy.<sup>4</sup> Among other effects, rising interest rates could put downward pressure on the rate of business investment spending. Graph 13 shows that 72% of responding executives predict that interest rates will rise over the next six months. However, only 36% reported that rising interest rates would affect their company's business decisions (See Graph 14).

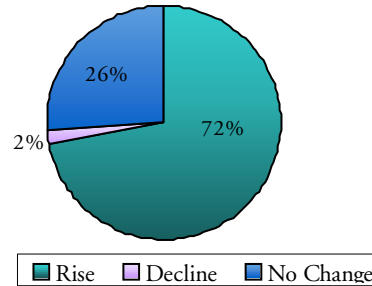
**Graph 12**

**How will increased gas prices affect tourism in Sonoma County?**



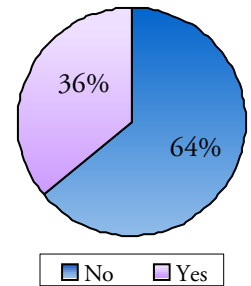
**Graph 13**

**Six Month Interest Rate Forecast**



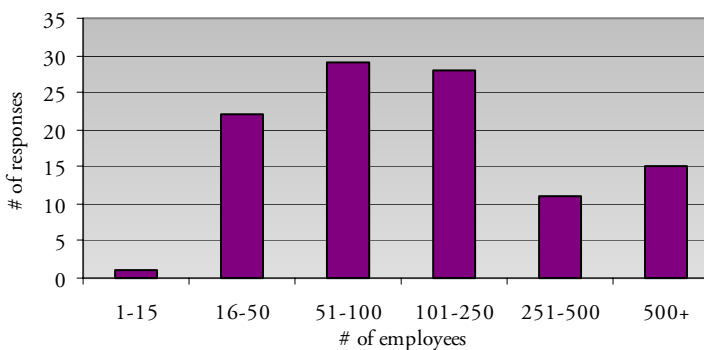
**Graph 14**

**Are rising interest rates affecting your company's business decisions?**

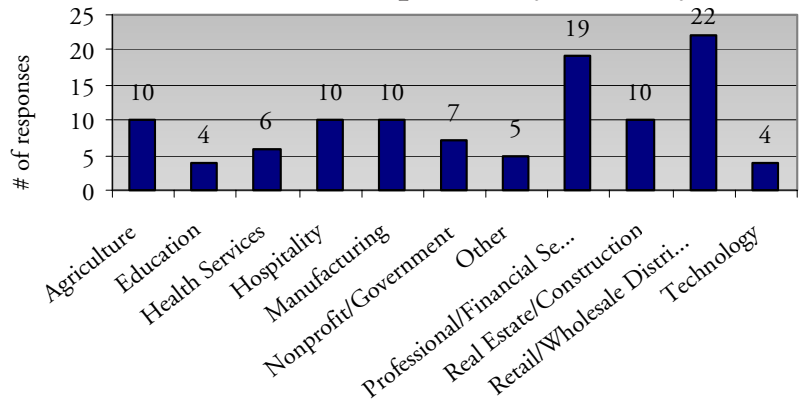


### Sample Characteristics

**Responses by Number of Employees**



**Responses by Industry**



**Notes**

1. The Institute of Supply and Management, "May Manufacturing ISM Report on Business," Released May 2005. Found at <http://www.ism.ws/ISMReport/ROB042005.cfm>
2. The Conference Board. CEO Confidence Survey, 1st Quarter 2005, "Chief Executives' Confidence Edges Up" April 7, 2005.
3. Economy.com. Spring 2005 Local Economic Report (MSA#3) and "Sonoma County's Advantage in Economic Recovery" p. 28 May 2005
4. *Ibid*

Surveys were mailed to 380 business executives in the beginning of June with a due date of June 17, 2005. Responses were received from 107 businesses, for a response rate of 28 percent. The Sonoma County Business Confidence Index is the mean of all respondents' perceptions of Sonoma County's current economic situation on a scale of 1-10. 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 May only, unless otherwise indicated. 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 June 2005. Individual surveys are confidential. This report was prepared by Nicole Knecht, Project Coordinator for the Economic Development Board.

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