



Business Confidence Report Spring 2006

Executive Summary

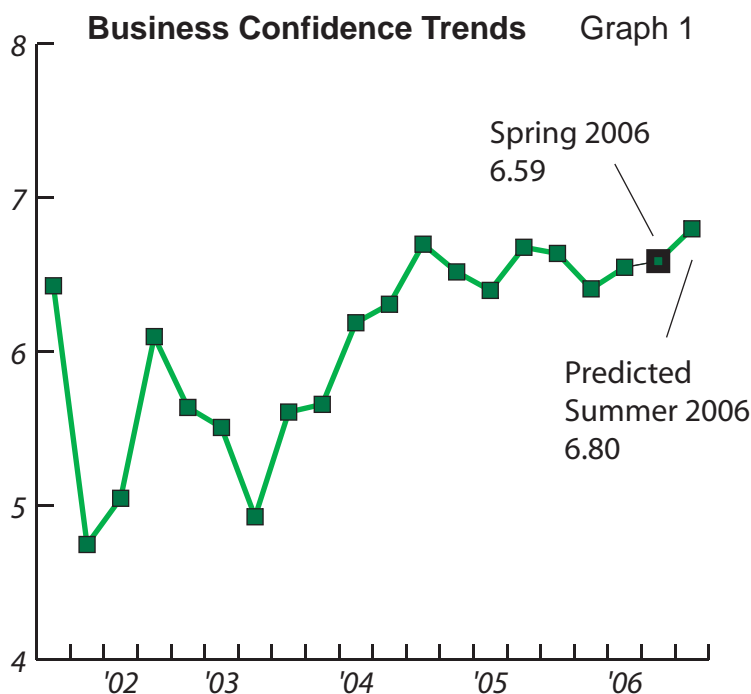
Conducted during the months of March and April, the Sonoma County Economic Development Board (EDB) presents the Spring 2006 Business Confidence Report. Key highlights from this report include:

- Sonoma County business executives remain upbeat about the local economy, as the Sonoma County Business Confidence Index scored 6.59 on a 10-point scale. Local business executives predict that the County's economy will be slightly stronger over the next six months, forecasting a confidence level of 6.80.
- More than 90% of businesses expect to maintain or increase their workforce and investment spending over the next six months. Executives also feel optimistic about the near future, with nearly half of respondents expecting net profits to increase over the next six months. Fully 96% of executives expect to see wages either rise or stay constant.
- Purchasing trends for both Sonoma County and the United States indicate that economic activity in the previous quarter grew. The Local Purchasing Trends Index is 70.4%, significantly above 50%, the level indicating an expanding economy, and above the previous level of 64.4%, indicating that the economy is expanding at a faster pace than it was in the Fall of 2005. The number of executives who are "aggressive" about capital spending is 11%.
- When asked about Highway 101 construction, many executives expressed a desire that there be more detailed communication regarding the project and alternative routes, and many suggested that the construction be done predominately at night.

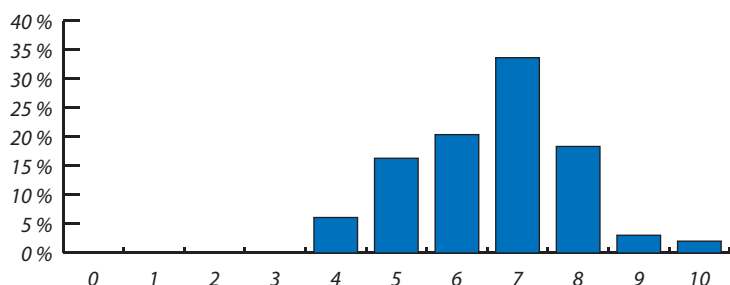
Business Confidence Unchanged; Optimism About the Future

The Sonoma County Business Confidence Index was essentially unchanged in spring of 2006, rising less than one percent. As Graph 1 shows, the index for Sonoma County scored a 6.59 on a 10-point scale (1= challenged; 10= excellent), increasing 0.04 points (0.6%) from the Winter 2006 Index. Business executives' confidence within their industries decreased 4.7% (from 6.63 to 6.32) from Winter 2006. Both indices indicate a healthy economy, because scores more than 6 are considered positive. Local business executives also expect the county's economy to be marginally stronger over the next six months, forecasting an index level of 6.80.

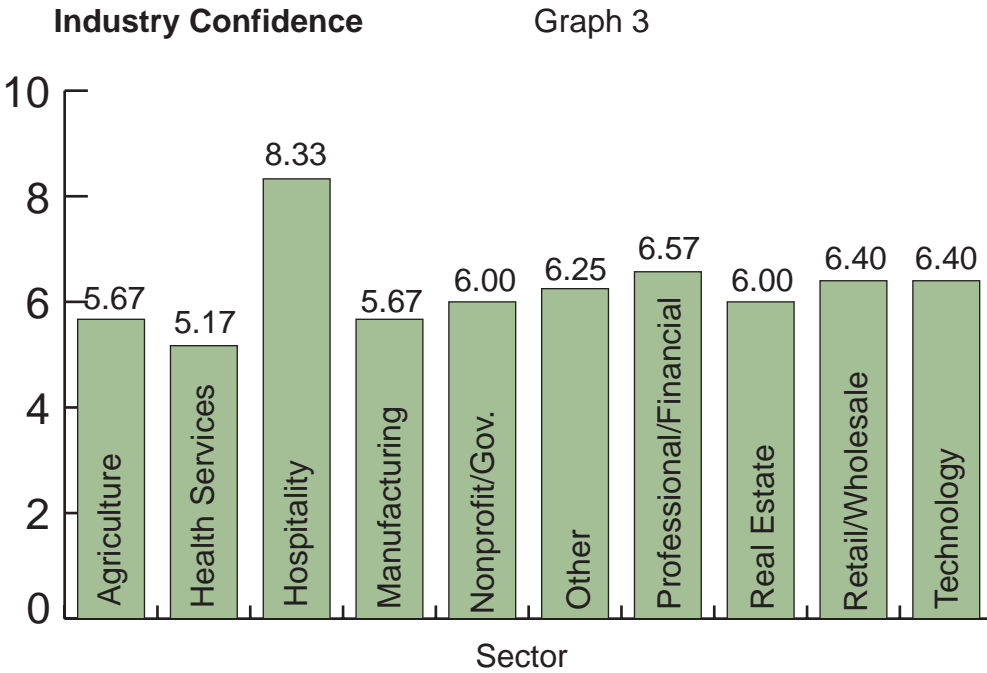
Graph 2 illustrates the distribution of individual responses on the survey. The overwhelming majority of respondents indicate a confidence level between five and eight.



Distribution of Business Confidence

 Graph 2

Industry Confidence in Sonoma County

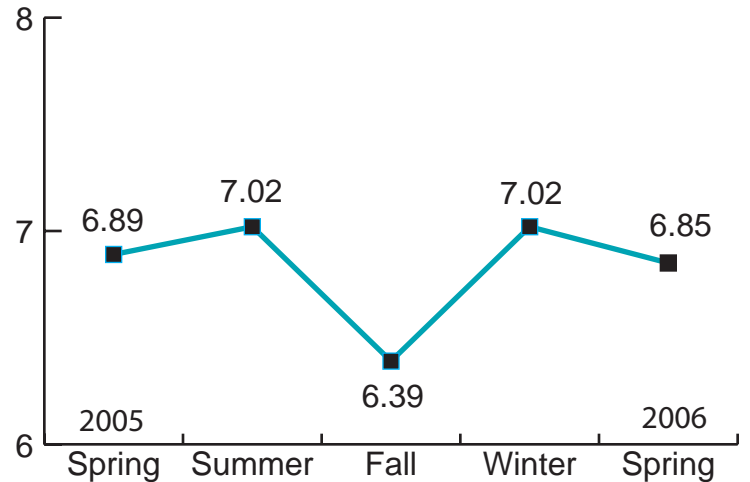


While the Business Confidence Index indicates the level of confidence in the economy as a whole, industry confidence specifically illustrates how executives feel about their sector's current economic conditions and future growth. Graph 3 compares the level of confidence of each industry. Overall, business executives report their industry confidence at 6.32, with the highest confidence reported by the hospitality sector, a level of 8.33. This is the second quarter in a row in which Hospitality has reported the highest confidence level. Otherwise, there was little variation in confidence among industries.

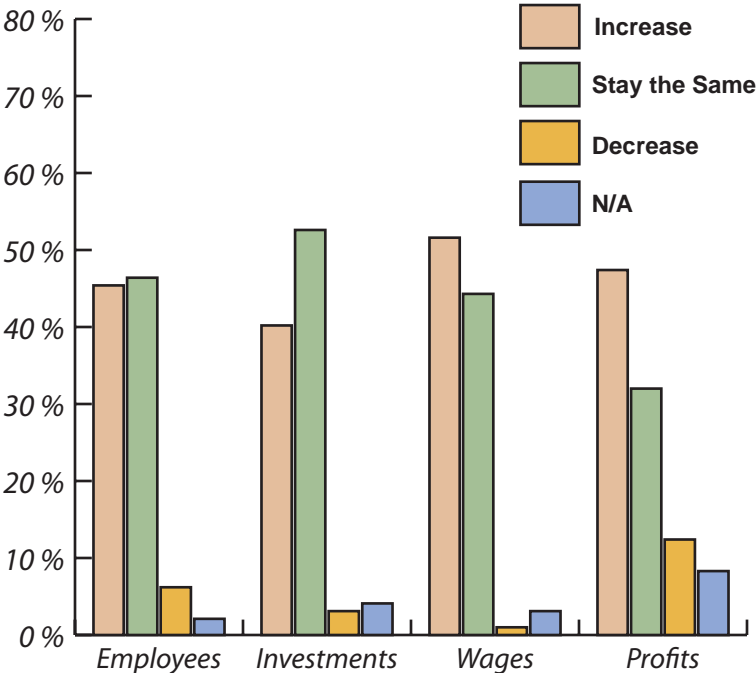
Business executives less optimistic about business performance

As shown in Graph 4, the Spring 2006 index of 6.85 was a 2.4% decline from the Winter 2006 level of 7.02. This is still well above the Fall 2005 low of 6.39, and nearly on par with business performance a year ago.

How is your business performing now? Graph 4



Business Predictions Graph 5



Business executives' plans appear to mirror their optimism over the recent past. More than 90% of executives expect to maintain or grow their workforce and investment spending in the next six months, and 79% of executives expect to see their profits stay the same or rise.

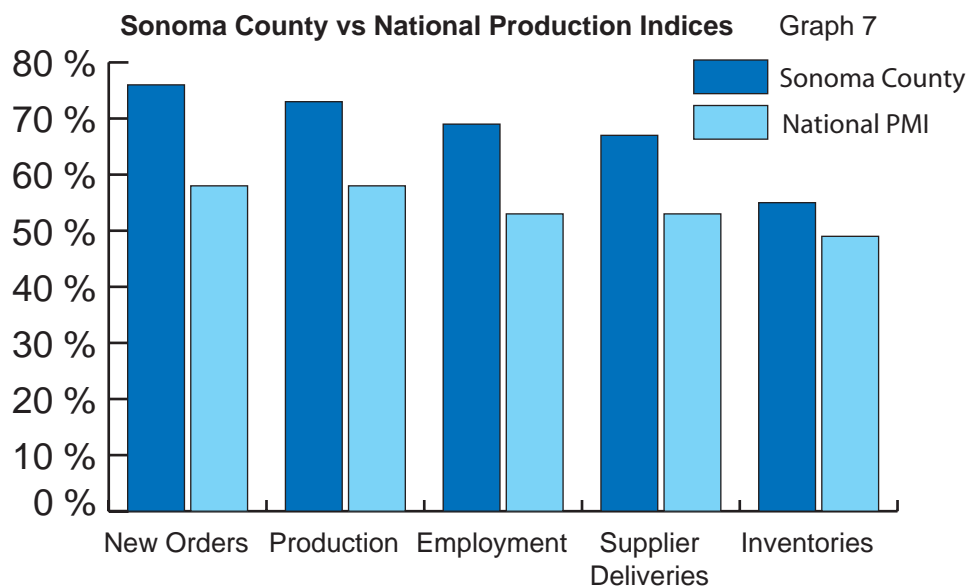
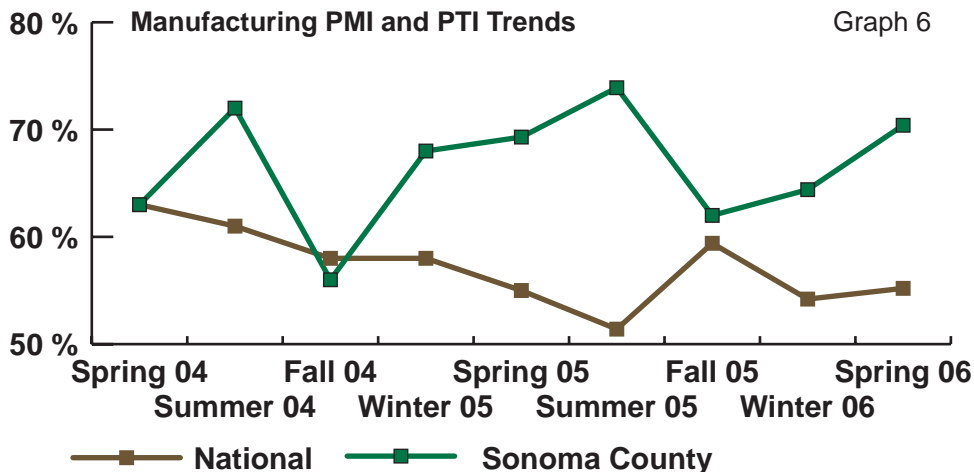
Executives also predict cost increases, with fully 96% of those surveyed expecting wage and salary rates to either stay the same or increase.

Purchasing Trends

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

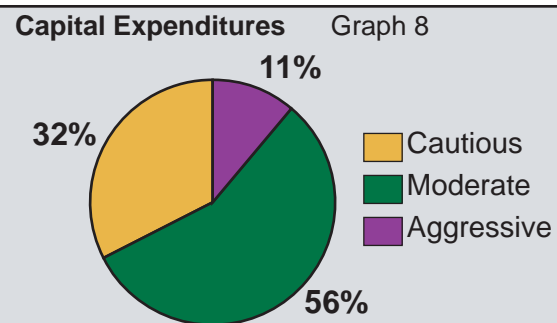
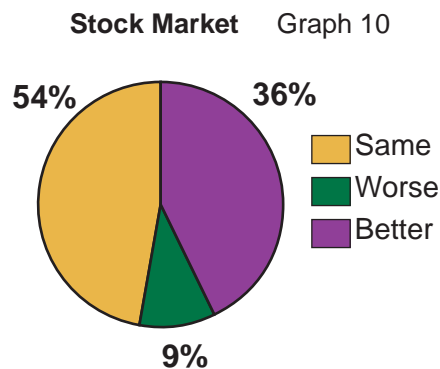
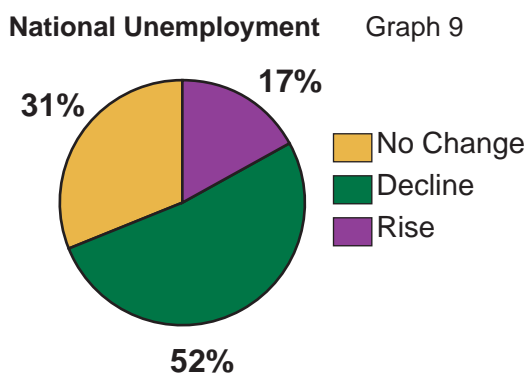
The local PTI has increased 6.0% to 70.4% from 64.4% in the Winter 2006 report. This represents an increase in reported economic expansion from Fall 2005, but it is important to note that any PTI greater than 50% indicates a generally expanding economy. Therefore, the increase in the Sonoma County PTI to 70.4% can be interpreted as an economy which continues to expand, but at a slightly faster rate than last quarter.

Graph 6 highlights national and local growth trends. Annual PTI trends suggest that the local economy has been steadily expanding for at least nine consecutive quarters, though the speed of the expansion has varied from quarter to quarter. In eight of the last nine quarters, the Sonoma County expansion has outpaced the national expansion.



The Big Picture: Sonoma County and the National Economy

Sonoma County executives have optimistic views on the national economy. Most executives expect the national unemployment rate to fall in the next six months, and an overwhelming majority expect that the stock market will perform roughly the same as or better than it has in the recent past, with less than 10% expecting worse performance.

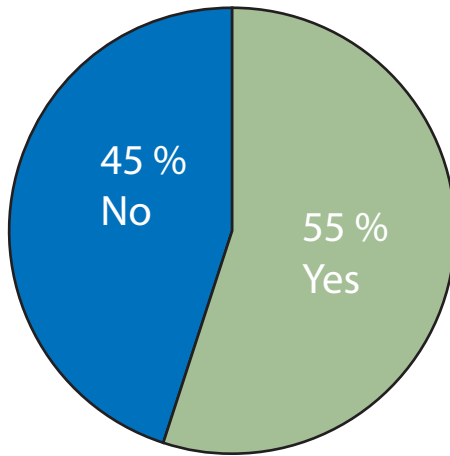


Most Sonoma County executives hold a moderate view towards capital expenditures. Slightly more than 32% hold a cautious view, while 11% hold an aggressive view towards capital expenditures in the near future. The number of executives holding an aggressive view fell from 20% in Winter of 2006, but still remains slightly higher than six months ago.

Sonoma County Job Link

Have you heard of the Sonoma County Job Link?

Graph 11



In this edition, business executives were asked to report whether they were familiar with Sonoma County Job Link. Job Link is part of a nation-wide network of career centers that were developed to provide employment and training services for job seekers, job changers, and businesses. Sonoma County Job Link is operated by the County, with oversight from the Workforce Investment Board, to provide universal access to employment and training resources.

Graph 11 shows the response - 55% of business executives reported familiarity with Sonoma County Job Link.

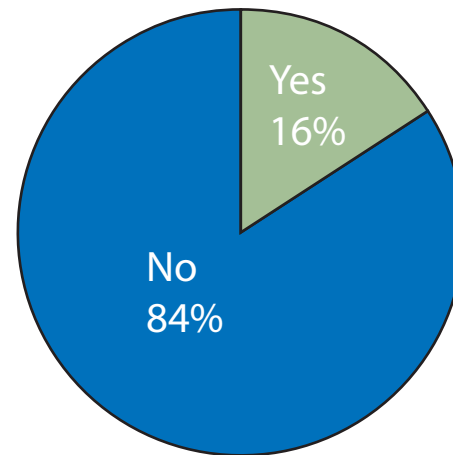
Highway 101 Construction

Have you adjusted or do you intend to adjust your business plans in response to the Hwy 101 construction that begins this spring?

Graph 12

Business executives were asked if they were planning to adjust their business operations in response to Highway 101 construction. Only 16% of businesses indicated that they were planning to do so, several of them stating that they were planning to open a satellite office elsewhere in the county.

Many executives expressed a desire that there be better communication regarding the project and alternative routes. Also, many executives reiterated the importance of performing the construction outside of rush hour, and preferably at night. This information is being forwarded to state regulators, CalTrans, and the City of Santa Rosa.



Surveys were mailed to 326 business executives in the month of March with a due date of April 7, 2006. Responses were received from 99 businesses, for a response rate of 30 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 is the most recent available as this report was written, unless otherwise indicated. The PMI uses information about companies' new orders, production, employment, supply deliveries, and inventories. Sonoma County's index mirrors the PMI 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 currently produces a quarterly report. Individual surveys are confidential. This report was prepared by Will Cathcart.

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