

Recovery or Recession:

What's Ahead for Sonoma County

Prepared for:

Sonoma County Economic Development Board

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U.S. Economic Outlook

Short Term Executive Summary

RECENT PERFORMANCE [\(back to top\)](#)

- While economists and policymakers continue to debate whether the economy is suffering a recession, there is no debate in the mind of the average American household; this is a recession. Households have lower real purchasing power than a year ago and they are worth less. It is with good reason that consumer confidence is as low as it has been since the early 1980s.

Purchasing Power Fades

- Behind households' declining real incomes are a weakening job market and surging energy and food costs. The half-point jump in unemployment to 5.5% in May overstates the erosion, but not by much. Teenagers started looking for summer work earlier than usual, probably because they knew it would be tougher to land a job, and this resulted in a large increase in teen unemployment. Unemployment was up across all age groups, however.
- The steady decline in jobs since the beginning of the year is adding up. Some 325,000 have been lost across a wide range of industries. Only healthcare, private educational services, and the public education component of local government are adding to payrolls. The BLS says the leisure and hospitality industry is also adding to the total, but this is more likely a measurement problem and will get revised away when the household survey data are reconciled with payroll employment counts next January. In fact, it would not be surprising if employment actually started declining in late 2007. Since that point the economy has lost more than half a million jobs, according to the household survey data.
- Households are getting crimped as the increasingly harsh job market is holding down wage growth while the costs of energy and food are rising rapidly. Oil prices have surged to a record near \$140 per barrel as the weak economy is undermining the dollar. Adding further fuel to the fire, anxious investors are piling into commodities because no other investment is consistently rising in price. Demand and supply fundamentals argue for oil that is well below

\$100 per barrel, but oil markets are currently being driven by financial speculators and longer-term portfolio investors looking to add commodities to their holdings given their negative correlation with other asset prices. Hoarding is also probably playing a role in driving prices up as everyone wants to buy as much as possible now before prices rise again.

- Nationwide gasoline prices have blasted through \$4 per gallon and if oil stays near \$140, gasoline will be going for \$4.75 by July 4th. Every penny increase in the cost of a gallon of gas costs American consumers just over \$1 billion in the following year. Since gas started 2008 at near \$3 per gallon, the runup since then means that consumers will spend over \$100 billion more this year to fill their tanks. This is about the size of the tax rebates being mailed to households between May and July. Because the rebate money is up front and the gas bills come over a year, the rebates should provide some boost to consumer spending this summer. However, it will not provide the economic lift policymakers had hoped for.
- Since oil prices are being fueled more by financial factors than fundamentals, they could easily go higher instead of lower, at least for awhile. However, once the economy would break, energy demand would fall sharply. Given the current fragile state of affairs, anything over \$150 per barrel for very long would almost surely send the economy into a tailspin.

Net Worth Declines

- Undermining households' net worth are plunging house prices and a fragile stock market. Housing wealth has declined about \$3 trillion since peaking about two years ago, with most of the declines occurring since late 2007. This translates into a loss of over \$30,000 in homeowners' equity for the average homeowner.
- More losses are coming as a growing number of housing markets across the country are increasingly gripped in a vicious self-reinforcing cycle of price declines prompting more foreclosures, in turn igniting greater price declines. Foreclosures are soaring. According to credit file data from Equifax, first mortgage loan defaults, which are the first step in the foreclosure process, rose to an incredible 2.8 million annualized pace at the end of May. Equally disconcerting, delinquencies and defaults are rising almost everywhere, and the problems are no longer concentrated only among subprime borrowers.
- The Bush administration's efforts to facilitate loan modifications and forestall foreclosures are being completely overwhelmed. Mortgage servicers are not very likely to modify or refinance a loan if the borrower has both an affordability problem, say due to unemployment, and also has a home that is worth less than the mortgage. So far, servicers have shown little interest

in writing down mortgages due in part to their fear that this would ignite a moral hazard stampede of large numbers of homeowners asking for the same relief.

- The recently wobbly stock market could also be a worrisome blow to household wealth. Stocks had revived from their March low on the hope that the economy would avoid a full-blown recession. Investors are now re-evaluating this working assumption given the bad news from the job and energy markets. Another leg down in stock prices would be just one more reason for nervous households to become even more cautious.

Outlook

- The near-term outlook is turning more negative. Real GDP growth is expected to be 1.6% this year and 2.7% in 2009. It is important to keep in mind this is before revisions. The economy probably contracted during the first half of 2008, but this will not be known for sure for quite some time. Growth had been forecast to be better than 3% in 2009, but that was before the current rise in oil prices. The 3% figure had also been predicated on more actions by policymakers, which now seem much less likely.
- The higher oil prices will stymie any further rate cuts by the Federal Reserve. Policymakers are worried that record oil is undermining inflation expectations and will result in a broader acceleration in inflation. Chairman Bernanke has also expressed concern about the inflationary impact of the weak dollar. While these concerns are likely overdone, policymakers clearly do not feel comfortable cutting rates further.
- It is also increasingly unlikely that Congress and the administration will come to terms on any further help for the housing market, at least not before the election. The Treasury's moral hazard concerns and the view that there is very little policymakers can do anyway even if there was a consensus mean that the housing market is on its own.
- If the views in Washington do not soon change, and if more policy efforts are not put into place, then the 2009 outlook will weaken further in coming months.

ASSUMPTIONS [\(back to top\)](#)

Monetary Policy

- The Federal Reserve has pursued an unprecedented easing in monetary policy in response to the subprime financial shock and its fallout on the economy. Since last summer, policy-makers have cut the federal funds rate target from 5.25% to 2% and have created and implemented several new mechanisms for providing liquidity to the financial system.
- The Federal Reserve is expected to hold the funds rate target at 2% through the end of this year and well into 2009. With underlying inflation running at just over 2%, the real federal funds rate is negative, consistent with the real rate in past recessions.
- Once it appears that the economy has found its footing and a self-sustaining expansion has begun, the Federal Reserve will therefore tighten policy quickly. With unemployment peaking and housing prices bottoming out in the spring of 2009, the Fed is expected to begin tightening policy during the second half of the year. The funds rate is expected to end 2009 at 3% and 2010 at closer to 5%.

Fiscal Policy

- The federal government's fiscal situation will deteriorate substantially in the current fiscal year. The budget deficit is expected to widen from \$163 billion in FY2007 to near \$400 billion in FY2008 and \$500 billion in FY2009.
- This erosion in the fiscal situation is due to the weaker economy and the passage of a \$160 billion fiscal stimulus package earlier this year. The legislation includes a tax rebate for lower- and middle-income households, amounting to over \$100 billion, business investment incentives worth \$50 billion, and the temporary increase in mortgage caps on the GSEs and the FHA. The tax cuts and increased spending will take place beginning in May and will extend through the second half of 2008. This stimulus will provide a helpful economic boost. The tax rebate is particularly well designed; it will go to lower-income workers who do not owe income taxes and who are likely to spend it quickly, rather than to high-income households that are much more likely to save the money.
- The deficit would erode even without the fiscal stimulus. The faltering economy is undermining tax revenue growth as corporate profits fall and income growth slows sharply. Increased

transfer payments will soon fuel stronger spending growth. Spending on Iraq and Afghanistan will total approximately \$150 billion in the next fiscal year.

U.S. Dollar

- The dollar remains under severe pressure in foreign exchange markets due to the soft economy and aggressive Fed easing. The weakness has been most pronounced against the euro, as the European Central Bank continues to hold policy unchanged and has suggested that its next move might be to raise interest rates. On a real broad trade-weighted basis, the dollar is off almost 25% since peaking in early 2002.
- The dollar has also weakened against the Japanese yen, as the long-running yen carry trade is unwinding. Global investors had been borrowing cheap short-term money in yen and then buying dollar and euro-denominated assets around the globe.
- The real broad trade-weighted dollar is expected to fall another 5%, principally against the yen, Chinese yuan, and other Asian currencies. The Chinese are engaged in what is expected to be an extended process toward a substantially stronger and eventually freely floating currency. This process began with China's July 2005 decision to revalue the yuan and adopt a more flexible exchange rate policy. The yuan is expected to appreciate by 5% per annum through the remainder of the decade, and to be freely-floating by early in the next decade. Other Asian nations, including Japan, will follow the Chinese lead and allow their currencies to appreciate, albeit not to the same degree.
- The dollar is not expected to fall much further against the euro, pound and Canadian dollar. The dollar is appropriately valued with the euro near \$1.25 and the U.K. pound at \$1.75. The Canadian dollar at between \$.80 and \$.85 is also at its equilibrium value. The euro, pound, and Canadian dollar are all currently trading well above these equilibrium values.

Energy Prices

- Oil prices have surged, with the price of a barrel of West Texas Intermediate currently trading at well over \$135 per barrel, up from as low as \$50 as recently as late 2006. Retail gasoline prices are now rising with the higher oil prices and are at a record high of over \$4 per gallon. Natural gas prices have recently spurted higher to over \$12 per million BTU.

- Of the \$135 oil price, \$75 is consistent with underlying global demand and supply fundamentals, \$20 is due to a weaker dollar, \$10 dollar is a risk premium, and \$30 is driven by increased financial demand. Since oil is traded globally in dollars, when the dollar falls in value, the dollar price for oil must rise to equilibrate the global demand and supply of oil. The risk premium reflects fears over the potential for supply disruptions, which has induced manufacturers and transportation companies who must have oil to pay a premium to ensure they get it. Financial demand is being driven by longer-term investors, who are adding commodities to their portfolios due to their negative correlation with other asset prices, and speculators attracted simply by the rising prices.
- Energy prices will remain volatile, buffeted by weather and geopolitical events, but are expected to generally move lower by the end of this decade. Behind this outlook is the response of global energy demand and supply to the higher prices. Evidence of the demand response is the decline in OECD oil consumption, which is lower today than a year ago. In the U.S., vehicle sales have weakened, and there has been a shift toward more fuel-efficient vehicles and less driving. While this is not unusual during recessions, it is unprecedented during economic expansions. Evidence of the supply response is ramped-up exploration and development in projects ranging from Canadian tar sands to Venezuelan heavy oil. The risk premium and financial demand for oil will also wane once a sufficient cushion develops between global demand and the global capacity to produce oil.
- Oil prices are expected to remain near current levels through the summer, sliding to near \$100 per barrel by year's end and bottoming out at near \$60 per barrel early in the next decade. Natural gas prices are expected to hover between \$6 and \$12 per million BTU, except during periods of extreme weather, over the next two to three years. Prices will move toward the bottom end of this range in the next few years as new LNG capacity comes on line.

FORECAST RISKS [\(back to top\)](#)

Foreclosures

- The foreclosure problem will continue to weigh on the economy and a worsening of the situation presents a key downside risk. The share of American homeowners facing foreclosure is surging, with adjustable rate mortgage resets, falling house prices, and the slowing job market all contributing to the trend. Conditions will deteriorate in coming months. Foreclosures hurt lenders by requiring them to write down mortgages, and depress house prices, both of which increase the severity of the housing market cycle.
- States recognize that foreclosures will worsen, but the costs of intervention are prohibitive. Most states have constitutional prohibitions against deficit spending, making it difficult to devise mortgage repurchase plans to stop house prices from falling further.
- The disconnect between the severity of the problem and the efficacy of states' responses would not hold if policies were broadly effective. Unfortunately, state responses have been too modest to move the market.

Inventories

- A larger than expected boost in inventory investment was a key reason why the economy posted positive GDP growth in the first quarter. However, this boost was likely involuntary. While the current forecast does call for inventory reductions, there is potential for businesses to draw down much further. In recent quarters, the inventory-to-shipments ratio has been above its five-year moving average, indicating a rather sharp correction is in store.

Investment

- Despite low interest rates and tax incentives, the risks for investment spending are to the downside due to the ongoing troubles in credit markets and business pessimism. Profit margins will suffer as high energy and other commodity prices continue to filter through to intermediate producers, who are unable to fully pass on their higher costs because of the recession and weak demand. This, combined with increasing uncertainty about the near-term economy, will make firms more likely to put off capital investment. Additionally, the slowdown in state revenue growth is a negative for government investment in infrastructure. The econ-

omy could see deeper than expected weakness in investment spending, a downside risk for growth.

Income

- Weaker than expected income growth would put an additional weight on consumer spending, which was already soft because of reduced access to home equity and negative wealth effects from falling house and equity prices. Now job losses and weak wage gains are limiting growth in labor market income and losses in equity markets and weaker corporate performance are weighing on dividend income. Besides the negative effects of slower income growth on consumer spending, the inability of homeowners to rely on mortgage equity withdrawal could lead more households to turn to other sources for borrowing, such as loans from 401(k) plans, which would further weaken household balance sheets.

Gas Tax Holiday

- A summertime suspension of the federal gas tax, endorsed by John McCain and Hillary Clinton, has little chance of passage, but a measure with similar aims may gain passage as political pressures increase. The original idea had been to eliminate the tax from Memorial Day to Labor Day, when gas prices are seasonally high. This would put approximately \$10 billion into the economy—\$7 billion to households and \$3 billion to truckers—during this vulnerable period. The plan has drawn criticism—that it does not address the nation’s long-term energy problem or that it is anti-environment—but this is misplaced. The gas-tax holiday is intended to stimulate the economy, not solve the nation’s energy problems, and its impact on the environment would not be measurable. There is also a concern that such a holiday would reduce funding for government infrastructure projects, but this is simply an accounting issue: the money could easily be replaced out of the Treasury’s general funds.
- There is a legitimate concern that a gas tax holiday would mainly benefit big oil producers who would raise prices to offset the tax savings. However, this assumes that gasoline demand would rise during the suspension period, which is unlikely. Gasoline demand is very inelastic over short periods. With the economy weak and gas prices already at record highs, demand is unlikely to grow much, if at all. If the current price for gasoline equates demand and supply, and demand is inelastic, then eliminating the tax will not result in higher gas prices. Thus, the average household would save about \$60 this summer—not much for most consumers, but a tangible boost for lower-income households struggling to pay commuting

costs. The psychological benefit would also be important: nothing weighs more heavily on consumers' collective psyche than higher gas prices.

- The difference between a weak economy and a recession is frequently confidence. Confidence now is as low as it has been since the early 1980s. Anything policymakers can do to shore it up, without jeopardizing the nation's long-term budget prospects, would be a big plus.

Dollar

- Low interest rates have the potential to push the dollar down more than currently forecast. While the weak dollar has supported export growth and an improvement in the current account deficit, further weakening raises key risks. A falling dollar will keep upward pressures on prices for both oil and imported consumer goods, adding further to inflationary pressures. Longer term, the continued weakness could put the dollar's role as primary reserve currency in question.
- Additionally, the weak dollar is putting greater pressure on an increasingly fragile euro zone economy. The last time the euro zone stalled in the face of a weak dollar, in 2002, it took almost two years for the subsequent recovery to take hold.

Global Economy

- The critical assumption that the U.S. recession will not significantly spill over to global markets hinges on the belief that the global economy is decoupling from that of the U.S. Considering the recent loss of momentum in global trade, the risk is that decoupling may be less than anticipated. Historically, recessions in the U.S. have spread to the rest of the world with a lag of one to two quarters. Thus, evidence of the global economy's true dependence on the U.S. will emerge over the next few months. Whether the world economy can pass the decoupling test will be a crucial factor in determining the depth and duration of the U.S. downturn, and the subsequent recovery.

Financial Market Regulation

- Restoring investor confidence in the financial system is key to finding the road to recovery. Treasury Secretary Paulson and Representative Frank, chairman of the House Financial

Services Committee, have offered separate proposals to change U.S. credit market regulation.

- It is too early to tell to what degree the proposed reforms will restore confidence, because it is uncertain which elements of which plan will be adopted. However, risks are to the upside for passage of reforms that would boost confidence in financial markets. Confidence-building measures will need to ensure that regulators receive timely information from market players and can exercise credible oversight to curb risky practices.

Regional Economic Outlook

Sonoma County, CA

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SUMMARY [\(back to top\)](#)

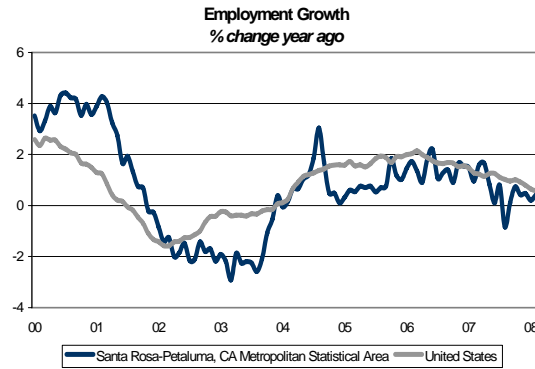
Sonoma County's economy has been quite volatile this decade and has undergone some substantial changes in its composition. Following phenomenal growth through much of the 1990s, Sonoma County suffered inordinately during and after the 2001 recession because of a loss of technology-related employment and consolidation of the telecom equipment and medical technology industries. Further, the wine industry suffered several weak years due to a glut of global supply that significantly reduced prices. And finally, the housing market has gone through a cycle of rapid price appreciation, followed by a correction in house prices that continues today.

In the midst of national and statewide recessions today, the Sonoma County economy has proved relatively resilient. While employment is little changed for the past two quarters, payrolls are not contracting and are above their 2007 levels. However, on balance the economy is still in a position of weakness and is in search of a driving force that will spark employment and income growth and accelerate productivity growth.

Over the long run, Sonoma County's high costs of living and doing business and the relative lack of land available for development will weigh on growth. Still, as the various food, beverage and tech-producing industries expand, supplemented by a travel and tourism industry with broader offerings toward health and lifestyle and a workforce that is highly skilled and innovative, the economy is expected to be an above-average performer over the long term.

RECENT PERFORMANCE [\(back to top\)](#)

- The Sonoma County economy has leveled off with most performance indicators showing little or no growth. Softening in the labor market has driven up the jobless rate by nearly one percentage point. The housing market remains on a downward path with prices falling for the past year and construction still weak. Given all this

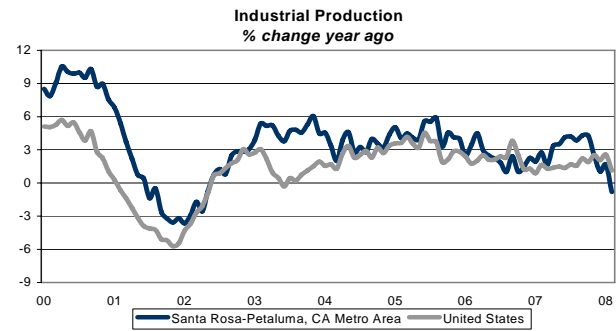


Source: Bureau of Labor Statistics

weakness, however, Sonoma County does enjoy more stability among its basic industries than many other areas of California. For example, the sharp cutbacks of a year ago in financial services employment have abated and Sonoma County's tourism, technology-producing and winemaking industries are holding steady. Household finances have weakened, but are holding up better than they are across the state and nation because of the area's above average income. Consumer loan delinquency rates are rising, but the overall rate remains below average.

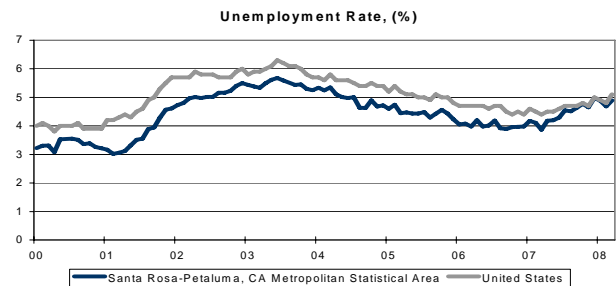
Santa Rosa-Petaluma, CA Metro Area Employment, Recent Performance April 2008					
	Annualized growth rate				
	3-mo	6-mo	12-mo	5 yr	10 yr
Total	1.5	0.6	0.5	0.9	1.1
Construction	-11.7	-8.4	-6.9	1.2	3.3
Manufacturing	4.7	2.7	2.3	-2.5	-2.1
Wholesale Trade	4.3	-0.5	2.6	5.0	3.7
Retail Trade	10.7	3.9	4.4	0.9	0.7
Transportation and Utilities	4.1	6.1	4.7	3.9	1.2
Information	14.4	4.4	3.4	-4.5	-0.9
Financial Activities	-2.0	-1.3	-4.2	-2.7	-0.1
Professional and Business Services	2.9	3.8	2.2	4.9	2.4
Education and Health Services	3.7	1.0	1.3	0.9	1.5
Leisure and Hospitality	-10.7	1.6	-0.5	1.2	2.0
Government	3.9	-2.6	-1.2	1.5	1.9
	Percent				
Unemployment rate	4.9	4.8	4.7	4.6	4.2

- Moody's Economy.com's estimate of industrial production for the area is falling at a 1% pace. This reading is consistent with a contracting industrial sector, which is the product of a weak national economy. Uncertain of the economy's prospects, businesses have tempered their investment in capital goods to the detriment of the manufacturing sector.



Source: Moody's Economy.com, Inc.

- The local unemployment rate has tracked the U.S. rate since 2000, remaining consistently below the national rate by about one percentage point. However, a weaker local labor market has pushed the unemployment rate in line with the national benchmark in recent months. To wit, the unemployment rate has risen to 4.9%, up from a cyclical low of 3.9% in early 2007. One positive factor in the local labor market is robust labor force growth. Not only is the weaker job market not discouraging workers from leaving the labor force, but the pace of entrance into the labor force is actually accelerating. This is the main factor responsible for the sizable rise in the unemployment rate.



Source: Bureau of Labor Statistics

- Manufacturing payrolls have stabilized over the past year following a long decline that began at the start of the decade. This is a critical change of fortune and indicates that the broad restructuring that took place among industries such as telecommunications and biotechnology has ebbed, as some stability has returned to the tech-producing industries and they are hiring once again.
- The construction industry has rolled over and is now in rapid decline. Job loss has accelerated thus far in 2008, and construction employment has declined by 9% since peaking in mid-2006. Weakness in the construction industry stems from an exceptionally lackluster residential real estate market. The decline in construction employment is

consistent with the 65% and 79% declines in housing starts and housing permits, respectively, since their peaks nearly two years ago. Nonresidential construction is proving no longer able to mitigate weakness in residential construction.

- Over the past year, job growth across the various service-producing industries is uniformly positive, although it has slowed quite dramatically. Employment in Sonoma County's critical leisure & hospitality industry has leveled off this past year as a weaker consumer environment constricts growth. With high gasoline prices and a weak U.S. labor market, tourist visits to Sonoma County could be quite weak this summer.

NEAR-TERM OUTLOOK [\(back to top\)](#)

- Factors that may lead to a slower pace of growth in the very near term include weakened consumer spending both in California and nationwide due to weakened housing markets, weakened household balance sheets, elevated energy prices, and a softening of the U.S. labor markets. Despite these headwinds, however, the outlook for Sonoma County's economy is good. To wit, Sonoma County employment is expected to grow at 1.6% per annum over the next five years while California is only expected to muster per annum growth of 1.0%. The following sections will illustrate trends in some of the leading industries that drive the Sonoma County economy.

Tourism

- With the U.S. economy contracting and the price of gasoline soaring to record levels, the near-term outlook for the tourism industry is limited. Fortunately, the industry caters to higher-income consumers who have accumulated enough wealth to bolster spending during the current cyclical downturn, but the industry will not be unscathed by the struggling U.S. economy. Indeed, employment growth in the leisure and hospitality industry has been limited recently. Risks are weighted to the downside.
- Development activity is still taking place in Sonoma County's tourism industry, albeit at a much slower pace than a year ago. A surge of construction added much additional hotel capacity in 2003 and 2004. More recently there was a small gain in new hotel space built in 2006 and 2007.
- Hiring activity in Sonoma's leisure and hospitality industry has been muted over the past year, falling short of the 2.3% annual average of the previous four years. Job growth in retailing has compensated for weakness in leisure and hospitality over the last year.
- The tourism cluster has experienced the most steady job growth of the county's nine clusters over the past ten years. Through the boom years of the late 1990s and the difficult post-recession years of 2002 and 2003, this industry has managed to expand. Because it is not as cyclical as other industries such as manufacturing, it is able to provide steady growth in good times and in bad.

- One reason why this cluster is so steady is that it draws its demand from a wide variety of sources, and it caters generally to higher-income households. The wide variety of sources includes visitors not just from the Bay Area and elsewhere in the West but from all around the U.S. and worldwide. Attracting higher-income households is a positive as those households generally have accumulated enough wealth to bolster spending in times of a downturn in the business cycle.
- The breadth of the market for this cluster also illustrates its global nature. It also gains from the value of the dollar as overseas visitors flock to the U.S. to take advantage of goods and services priced relatively inexpensively in terms of their home currencies. Indeed, the weak U.S. dollar has attracted a healthy dose of foreign tourism.
- Another positive factor is the relative strength of the Bay Area economy. The economy is much more stable than most of the West and the U.S., and it is still expanding even as California and the U.S. are in recession. Steady hiring has helped to spur income growth in the area, which historically outpaces the national average.
- The complexion of the tourism industry may very well change if a large proposed casino is built in Sonoma County. There would be a one-time increase in the number of people employed in the cluster and the concentration of the tourism cluster in the economy would rise. The casino would likely cater to regional visitors and render the local tourism cluster somewhat more reliant on the regional economy, adding some volatility to the industry.
- The outlook for pricing of Sonoma County's leisure services appears sound, given the continued strong demand for its services, the growing popularity of wine and the continued depreciation of the dollar against major currencies. The weaker dollar will help to draw international travelers who will find visiting Sonoma County less expensive.

Agriculture, food, and wine

- Sonoma County's wine industry is in good shape. Recent market activity shows demand for Pinot Noir, Chardonnay, Pinot Gris and Cabernet Sauvignon wines is outpacing supply. Demand for Pinot Noir is especially strong. This will afford wine growers with more pricing power and allow for increased levels of profitability.

- The total size of California's grape crush has returned to near average levels after 2005's record-setting harvest, which has been fortunate for growers in Sonoma County. While last year's grape harvest was smaller, the grapes were of high quality. This will give a significant boost to the industry, as vintners draw down on their inventories and two consecutive years of high quality help them expand their sales volume.
- Chardonnay remains the most popular white varietal, but demand is increasing for both Sauvignon Blanc and Pinot Grigio. Furthermore, although total volume is still very small, Riesling sales are rising at a very strong clip, topping any white varietal and second only to Pinot Noir. Planted acreage for Pinot Noir continues to increase, but has not been able to keep pace with the booming demand over recent years.
- Meanwhile, the wine consumer market continues to grow, supporting demand for wine. An increasing number of U.S. adults are now classified as core wine consumers, outnumbering marginal consumers for the first time ever. Core consumers are those who drink at least one glass of wine per week, and account for nearly 90% of total wine consumption. This trend is a result of many marginal consumers drinking wine more regularly, while wine is also gaining popularity with younger consumers.
- An important industry development has been the Supreme Court ruling that has begun opening up the national wine market to direct shipping from California. In May 2005, the Supreme Court ruled that states could not ban direct shipments of wine through the mail for wineries outside of their border if they allowed the same for wineries within their borders. The ruling opened up over seven large states to national competition for direct shipping, including New York, Florida and Texas. The number of states allowing legal shipping of wine by mail rose from 25 to 33, representing 78% of total consumers in the U.S., versus 50% previously.
- Despite the vast increase in the potential market, the ruling has not been a universal positive for the industry. This is because several states have enacted new bureaucracy and taxes that make it difficult for the smallest wineries to compete and take advantage of the new provisions. Still, as a whole, the development is positive news for vintners and wine sellers looking to expand domestic share, while avoiding expensive distributor networks.

- Pricing power has improved for growers, but is relatively more limited for wineries. The 2005 bumper crop depressed pricing power with a glut of grapes, although quality was high. Last year, quality remained high, while the smaller crop is allowing growers to work through their oversupply. As a result, pricing power is recovering, both on the growers' and on the vintners' ends.
- Longer term the outlook for Sonoma County's wine industry remains favorable. Ever improving name recognition and rising wine consumption globally are the positive fundamentals driving the industry's outlook. Wine is steadily gaining popularity among Americans, and currently rivals beer as their most preferred alcoholic drink. This trend is supported by the growing evidence that moderate wine consumption can yield many health benefits.
- The wine industry will benefit from the new millennial generation of wine drinkers that will hopefully pick up the mantle as baby boomers age. The oldest of this new large cohort, almost as big as the baby-boomer cohort, are now in their early 20s, and 40% of this cohort are considered core wine drinkers. The challenge for the wine industry will be to deepen its attraction of marginal drinkers, who have cut their consumption of wine over the past three years.
- The strategic threat of lower-cost wine with fruitier flavors from wineries in Australia, Chile and South Africa is very real. Large wineries have reduced their exposure to this competition by acquiring properties in several of these areas, but local growers and small vintners will continue to be pressured by the cheaper and consumer-friendly wines from the New World wineries.
- The falling U.S. dollar versus currencies more closely tied to the euro and pound sterling (such as South Africa) or more closely tied to the Chinese and Japanese currencies generates some long-term pricing potential for Sonoma County wines sold in overseas markets.

Technology

- Technology has suffered a great amount of volatility over the past decade. Technology industries soared during the late 1990s when technology saw its relative concentration rise to an unprecedented level. But since 2000, technology industries have faltered and current employment is half of what it was at its peak.

- Despite the declining prominence of technology-related industries in Sonoma County, many firms and entrepreneurs from the 2000 tech boom have survived and still call Sonoma County home. There is an indication of some remaining comparative advantage for tech-producing industries in terms of its skilled labor pool, its installed base in the county, and its proximity to tech-producing areas elsewhere in the Bay Area.
- Sonoma County's technology industries have stabilized considerably, and are enjoying a period of stability today following several years of consolidation and restructuring. Most of the area's technology-producing firms report improved growth of demand and production, and there is a moderate gain in the industry's employment. A strong global economy and a weakening in the U.S. dollar have been the main catalysts for growth as they have bolstered demand for locally produced high-tech goods.
- A new source of potential growth for technology-producing industries lies in rising demand for green technology. This is a somewhat ill-defined category of industries but could include industries that improve efficient use of water, improve lighting, heating and cooling efficiency of buildings or allow agriculture to make better use of land and water resources. Such industries are truly in their infant stages and offer uncertain but very great potential for growth.
- Even as the U.S. economy is teetering, the landscape for technology firms remains buoyant. With healthy corporate balance sheets in all but a handful of industries, business investment spending in technology is strong and is expected to expand further.
- There is currently an ongoing hospital building boom nationwide and many hospitals are upgrading existing facilities. New diagnostic and patient care equipment, as well as information technology upgrades, form a significant portion of these capital expenditures, promising strong demand for medical device and equipment manufacturers in the near term.

Creative professional services

- Creative professional services are comprised of two general types of industries. First are those that directly produce a broad range of creative services. It includes creative activities ranging from motion picture and video production to scientific research, and to artists, writers and performers. The second type includes professional services that must find creative solutions in supporting small but innovative service providers. Such industries include legal services, accounting, and architectural and engineering services, among others.

- Creative professional services are emerging as an important part of the Sonoma County economy. Taken together, the cluster includes more than 12,000 payroll workers, which represents over 7% of the Sonoma County economy, and countless others that are self-employed. Furthermore, similar to the tourism cluster, creative professional services have only a moderate correlation to the business cycle, thereby providing some stability to the economy over time.

- Given the area's relatively skilled workforce, its location close to even higher concentrations of creative talent in the Bay Area, and its highly valued quality of life, there should be good potential in coming years to accommodate, attract and develop a larger creative professional services cluster in Sonoma County.

LONG-TERM OUTLOOK: POSITIVE FACTORS [\(back to top\)](#)

- Sonoma County's basic industries such as its wineries and specialty foods, travel and tourism, and technology-producing industries provide considerable long-term potential for economic growth. These basic industries that drive Sonoma County's economy build on the comparative advantages that are inherent in the county's resources—its workforce, its natural resources, and its capital.
- These resources are plentiful. For example, the metro area's workforce is relatively skilled. According to the 2000 census, 29% of the adult population has a college degree, higher than the U.S. rate of 25% and California's 27%. Its natural resources are bountiful as attested by its rich soil, mild climate, and extensive shoreline, forests and parklands. It has built up local capital through entrepreneurship over the past several decades. Per capita income in Sonoma County exceeds the national and statewide averages.
- The long-term outlook for the winemaking industry remains especially favorable. Rising global wine consumption and a weakening dollar are positive fundamentals driving international demand for local wines. That said, as the industry matures, growth in the coming decade will not likely be as fast as it was in the past. Much depends upon how quickly the emerging Generation Y—the children of the baby boomers—takes up the mantle of wine consumption and knowledge in the coming decade. Furthermore, expansion of the industry within Sonoma County will become increasingly difficult as land becomes scarcer and conservation of resources becomes increasingly important.
- National demographic trends, however, do suggest healthy long-term prospects for grape growers and winemakers. Per capita consumption of wine rose to a new peak in 2005 (latest data available) according to the Wine Institute. International markets are increasingly important. Exports of wine rose sharply in 2006 over a rather soft 2005. Over the past decade, wine exports have more than doubled.
- The long-term outlook for Sonoma County's tourism industry remains favorable. The region is growing in recognition and its proximity to Bay Area attractions will continue to support tourist traffic. Moreover, the continued strong popularity of wine and the wine-related culture underpin the positive fundamental outlook for the industry.

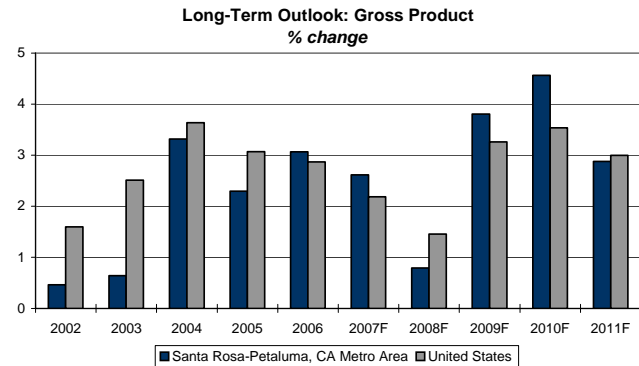
- The travel and tourism industry also has potential to expand internationally as the region becomes better known overseas and as accommodations and attractions improve over time. This is especially pertinent, as overseas travelers tend to spend more per day than do domestic travelers.
- Demographic trends suggest healthy longer-term prospects as well. Baby boomers are nearing retirement age with well-developed tastes for travel and recreation, in addition to the discretionary income to fund these tastes. Wine consumption is growing among all generational segments, according to MKF Wine Business Advisors. Baby boomers are leading the way, but interest in wine is growing among not only women but men and nearly all ethnic groups. Thus, as baby boomers retire in the years to come, they are expected to generate a great deal of travel to the Bay Area and to Sonoma County in particular. Well-heeled retirees will likely support the housing market longer term as well.
- Specialty food products have the long-term potential to complement the wine industry within the region. These include olive oils, cheeses, and a range of organic vegetables and meat products. Such goods are linked to the tourism industry as well, as visitors sample these products locally and then generate new markets once they return home. Similarly, these niche industries play an increasingly important role as suppliers to restaurants throughout the San Francisco Bay Area.
- The wealth of Sonoma County creates good long-term potential for financial service providers and a wide variety of personal services. This will become increasingly important as retirees are drawn to the area in the coming decade. Given the high cost of living in the area, retirees will generally have a high level of wealth, generating demand for personal services, financial services, and healthcare.
- A brightening feature of the area's economy is an improvement of the infrastructure linkages between Sonoma County and the rest of the region. Work continues on the improvement of the long-congested Highway 101 corridor and there is potential for other infrastructure improvements following the passage of statewide bond initiatives in November 2006.
- The return of commercial air service in early 2007 to Sonoma County improves the area's long-term economic potential. Horizon Air now provides service to Los Angeles, Seattle,

Portland and Las Vegas. Thus, with the improved highway and air links, closer economic ties with the entire West Coast will help to spur local economic growth.

- The increasingly skilled workforce of Sonoma County offers further long-term potential for the economy's growth. According to the 2000 Census, nearly 29% of the population over age 25 has attained a bachelor's degree or higher, versus 24% nationwide and 27% for California. Further, the widening breadth of offerings at Sonoma State University provides increased potential for constant improvement of workforce quality in the county.

LONG-TERM OUTLOOK: NEGATIVE FACTORS [\(back to top\)](#)

- Sonoma County's major weakness is its very high cost structure. That said, however, the area's relative cost of doing business has fallen in recent years and no longer exceeds the statewide average. As of 2006, Moody's Economy.com estimates that the cost of doing business index for Sonoma County is at 109. The index is based on 100 equaling the U.S. average, so 109 indicates the overall cost of doing business is 9% higher than the national average. For California as a whole, the index is higher at 118.



Source: Moody's Economy.com, Inc.

Index of Relative Business Costs										
	Labor Cost		Tax Burden		Energy Cost		Office Space		Overall Index	
	Index	Rank	Index	Rank	Index	Rank	Index	Rank	Index	Rank
Santa Rosa-Petaluma	98	193	99	77	156	62	110	37	109	39
San Francisco-Oakland-Fremont	120	5	99	75	156	61	151	8	127	8
San Jose-Sunnyvale-Santa Clara	129	1	98	95	156	67	140	10	133	3
Oakland-Fremont-Hayward, CA Metropolitan Division	109	29	99	68	156	57	131	12	119	13
Denver-Aurora	109	32	71	371	85	267	84	88	100	106
Seattle-Tacoma-Bellevue	107	40	96	120	99	155	92	66	105	72
Portland-Vancouver-Beaverton	106	48	97	117	86	241	93	62	101	95
Sacramento--Arden-Arcade--Roseville	94	300	99	79	156	64	117	30	108	46
Salt Lake City	99	180	92	172	93	211	92	65	97	155

Notes:

- Rank is out of 390 metro areas and metro divisions.
- U.S. average = 100.
- Labor Costs are measured by total earnings per employee at the 3-digit NAICS level.
- Tax Burdens are measured by all taxes excluding severance, education, and hospital taxes relative to personal income.
- Energy costs are measured by cents per kWh for industrial and commercial users.
- Office costs are measured by rent per square foot.
- In the Overall Index, Labor Costs have 65% weight, Energy Costs have 15% weight, and Office Costs and Taxes have 10% weight.

- What is more important for Sonoma County is that the business cost index has fallen in recent years from a peak of over 114 in 2003. The improvement is due to lower electric utility rates, which peaked with the severe shortage of power earlier in the decade. The tax burden also has improved over this same time period and is now estimated to be slightly below the U.S. average for the first time since 2001. Unit labor costs have held steady during the first half of this decade. Office rental rates have risen steadily since 2003. Thus, business costs remain high for Sonoma County. They are not worsening, however, and given the high value added of many industries in the area, a somewhat higher cost of doing business can be absorbed. It does, however, limit the number of industries that have the potential to expand in the area.
- Congestion and the need for infrastructure improvements further limit long-term growth potential. Despite current highway improvements, access to San Francisco and Oakland is limited to roads that are frequently congested with reduced traffic speed. This is particularly important since most goods and visitors flow in and out through these areas and rely on their airports and ports for longer journeys.
- Housing affordability remains a problem. House prices have plummeted over the past year and affordability has improved, but affordability must rise further to bring housing demand in line with housing supply. The Moody's Economy.com housing affordability stands at 60, indicating that a family earning the median income in the county can qualify for a mortgage at current prevailing interest rates for a home priced at just 60% of the median sales price in the county. While housing affordability has risen from a low point of just 46 in the last quarter of 2005, housing affordability in Sonoma County is still well below the national average of 140.
- Another weakness of the local economy is the specialized nature of the economy, as indicated by its low diversity index of just 0.48. The winemaking industry, the tech-producing industries (with their focus on telecom and medical instruments), and the travel and tourism industries are the primary drivers of growth in the local economy. When U.S. and global demand are strong for these three industries, the local economy thrives. But when demand falters, the local economy slows, creating potential for a volatile pattern of growth over the long term. This is indicated by the area's volatility index of 184, which is well ahead of most metro areas in northern California outside of San Francisco. This poses some downside risk

should the U.S. economy falter further through this year and into 2009. Sonoma County's economy could react with a possibly sharper downturn.

- Challenges for Sonoma County over the long term include the ability for winemakers to maintain their competitiveness in an increasingly global market where cost containment and quality control will be critical. Similarly, the tourism industry will have to keep its offerings fresh as wine, specialty foods, and lifestyle offerings become ubiquitous features of global tourism. The area's tech-producing industries will have to continue to find critical niches in R&D capacities for telecom, biotech and other emerging technologies. In the past, the area's economy has proved itself to be resilient and its industries, including technology, have been able to restructure and remain competitive. Currently, the potential for new and innovative green technologies creates potential long-term growth for the county. The projected positive outlook assumes these qualities will continue, and that the area will be able to incubate new as yet unknown industries through its innovative and creative workforce.

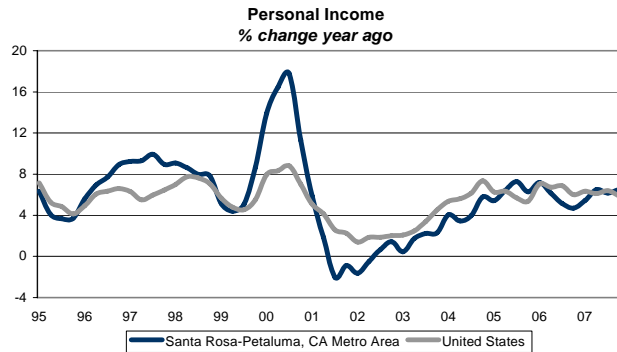
Employment Diversity and Volatility					
	Diversity ¹	Volatility 1998-2007			Beta ⁴
	2006-2007	Total ²	Systematic ³	Nonsystematic ³	
Santa Rosa-Petaluma	0.48	180	84	16	1.51
San Francisco-Oakland	0.63	211	94	6	1.98
Oakland-Fremont-Hayward	0.80	153	86	14	1.32
Vallejo-Fairfield	0.66	159	36	64	0.57
Portland-Vancouver-Beaverton	0.75	167	84	16	1.40
United States	1.00	100	100	0	1.00
Median	0.49	128	64	36	0.74

Notes:

- Diversity is defined as the extent to which an MSA's industrial structure approximates that of the nation. The more closely the MSA's economy resembles the national economy, the higher the value. The diversity measure is bounded between 0 and 1. 1 means the MSA has the same industrial structure as the U.S., 0 means it has a totally different industrial structure than the U.S. Diversity is estimated using data for 2007.
- Total volatility is the standard deviation of an MSA's employment growth. This relative deviation has been indexed to the United States = 100. Volatility is estimated using data for 2007.
- Systematic fluctuation is that portion of an area's economy that is associated with national economic fluctuations. Nonsystematic volatility is that portion of an area's volatility not associated with national economic fluctuations.
- Beta measures the magnitude of an area's sensitivity to national economic conditions. The U.S. average, by definition, is 1. A one percentage point increase in national employment will cause that portion of a metro area's employment base to rise by the percentage value of beta.

INCOME [\(back to top\)](#)

- Although per capita income remains high, exceeding U.S. and statewide averages, its lead has narrowed somewhat since the start of this decade. Below average job creation over the past two years has inhibited income growth through wages and

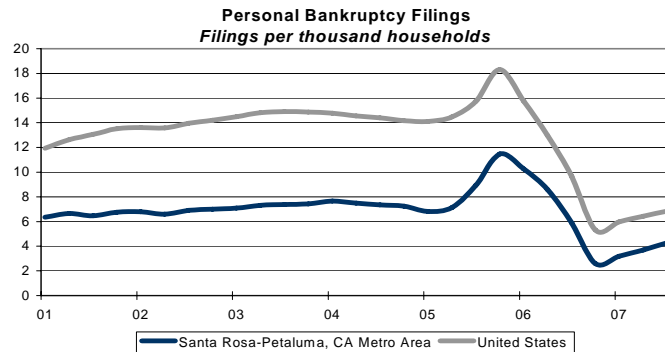


Source: BEA, Moody's Economy.com, Inc.

- and salaries. Sonoma County's relative wealth is still a great advantage, however. Households in Sonoma County are more prone to own stock equities and other investments. Thus, income from dividends, interest and rent also currently supports total personal income.
- Per capita income in Sonoma County still leads the U.S., but its lead has narrowed in recent years. At the start of this decade, per capita income was 22% higher than the U.S. Today it just 18% higher.

BALANCE SHEETS [\(back to top\)](#)

- Consumer credit conditions have substantially deteriorated in Sonoma County over the past two years. While consumer credit delinquency rates are still lower in Sonoma County than they are both nationally and across the state, the



Source: Administrative Office of U.S. District Courts

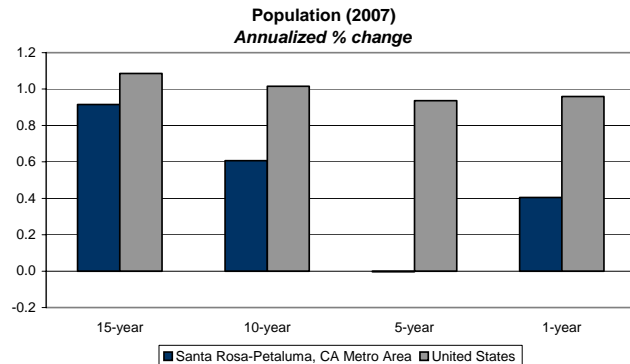
- rate of increase in delinquencies has been much more rapid in Sonoma County. Due to changes in personal bankruptcy law, recent data on filings has been quite volatile.
- The combination of a softening labor market, rising unemployment, severe house price declines, and a tightening of lending standards has resulted in a higher rate of mortgage delinquencies and defaults. Credit conditions have deteriorated despite Sonoma County households' high incomes.
- According to CreditForecast.com (a joint service of Moody's Economy.com and Equifax), the delinquency rate of all consumer loans in Sonoma County rose in the first quarter of 2008 to 4.3%. This rate is the same for mortgage and non-mortgage credit. Each was below 1% in 2004.
- These rates are rising rapidly and are expected to rise further through this year. The primary catalysts for deteriorating credit conditions are falling house prices and income disruptions. House prices have fallen rapidly. According to the California Association of Realtors the median sales price for single-family homes in the North Bay has fallen back to a level not seen since early 2004. This has translated into an increasing number of homeowners who are underwater—meaning they owe more on their mortgage than their house is worth. As house prices continue to decline, an increasing number of homeowners may choose to walk away from their homes. Furthermore, income disruptions are proving increasingly difficult to navigate. A lost job, a death in the family, or a divorce is in many cases proving too much for already-strapped borrowers to handle, which forces the borrower into delinquency or default. With unemployment expected to rise further and house prices expected to fall further, credit conditions will deteriorate throughout the year.

- Some impact on local consumer spending is already being felt from the deterioration of credit quality and the diminished ability to extract equity from one's home. For example, sales of durable goods, as illustrated by auto sales, have weakened this year. Sales of new cars in the county are down by 13% from a year ago according to Autodata. It is hard to extract the impact of credit quality and house prices from that of high fuel costs, which also weigh on auto purchases. But the downturn in auto sales is consistent with that seen in areas across the U.S. where mortgage equity withdrawal has been a prominent feature of household cash flow, largely in California, Florida and the Northeast.

DEMOGRAPHIC TRENDS [\(back to top\)](#)

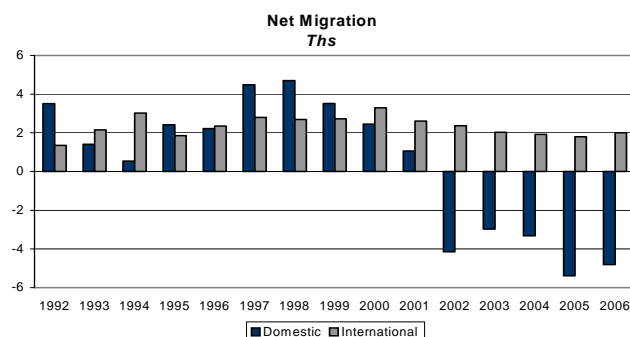
- Demographic trends are improving ever so slowly in Sonoma County. In 2007, the Census Bureau estimates that population growth turned positive for the first time since 2003. Growth was just 0.4%, still well below the 20-year average of over 2% that prevailed prior to 2000. But this is a marked improvement from the first half of this decade when population declined in four of the five years during the 2002-2006 period.

- It should be noted that a separate estimate by the Demographic Research Unit of the California Department of Finance estimates that population growth did slow considerably at mid-decade but never fell. The DRU also estimates that conditions have since improved; they estimate a 0.9% growth rate for 2007, which would make it about equal to the national average. It should also be noted, however, that DRU revised down its 2006 growth rate to 0.3% from an initial 0.7% rate. Thus, one might expect that following revisions, the current rate of growth may actually be somewhere between 0.4% and 0.9%. Still, this is not a bad pace of recovery following several years of little or no growth. The DRU estimates seem to be more consistent with overall economic trends in Sonoma County. If these estimates are borne out by the 2010 census, they will show that the county's economy fully recovered from the 2001 recession by 2006 with population growth now closer to long-term historical trends. DRU supplements its estimation techniques with data from neighboring states on migration trends based on changes of address on driver's licenses.



Source: BOC

- Population growth is expected to accelerate further in coming years, to exceed 1% annually by the end of the decade and once again lead the U.S. and statewide averages. This rate of growth would be consistent with long-term trends and would be necessary to



Source: BOC

provide an adequate labor force for the expanding economy. It is based on assumptions of continued growth in the economy and improved housing affordability as home values lose further value through much of 2008.

- Yet there is considerable downside risk to this outlook. First, as mentioned above, housing affordability is exceptionally low. Second, Sonoma County's population is somewhat skewed toward the older cohorts. An above average share of its population is between the ages of 45 and 65. In the near term, this highly productive cohort will contribute to strong productivity growth. But over the coming ten years, this cohort will begin exiting the labor force through retirement, which will begin to erode the area's above average labor force participation rate and weigh on its long-term productivity growth.

- Over the long term, population growth will increasingly depend upon immigrant households. This will begin to reshape the population. Because immigrant households are generally younger and larger, they will provide a boost to labor force growth as their children age into the working age groups. But in the meantime challenges are created to provide education and training needed for the immigrant households to fully participate in the county's workforce and the broader economy.

Population Profile		% of total Population, 2006	
Santa Rosa-Petaluma, CA Metro Area		US	
Age 5-19	19.8	20.6	
Age 25-44	25.7	28.1	
Age 45-64	28.6	25.0	
Over age 65	12.7	12.4	
Birth Rate, (# of Births per 1000)	12.1	14.1	
Death Rate, (# of Deaths per 1000)	8.1	8.1	
Median Age (2000 Census)	37.5	35.3	

Source: BOC

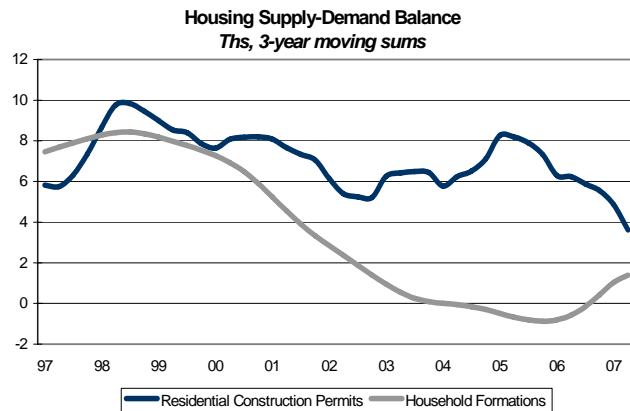
Migration Flows - Santa Rosa-Petaluma, CA Metro Area					
Into Santa Rosa-Petaluma, CA Metro Area			From Santa Rosa-Petaluma, CA Metro Area		
	Number of Migrants	Median Income		Number of Migrants	Median Income
San Francisco-San Mateo-Redwood City, CA Metropolitan Division	3,156	37,285	San Francisco-San Mateo-Redwood City, CA Metropolitan Division	2,199	31,234
Oakland-Fremont-Hayward, CA Metropolitan Division	1,083	31,654	Sacramento-Arden-Arcade-Roseville, CA Metropolitan Statistical Area	1,370	30,628
Sacramento-Arden-Arcade-Roseville, CA Metropolitan Statistical Area	658	25,697	Oakland-Fremont-Hayward, CA Metropolitan Division	829	28,855
Los Angeles-Long Beach-Glendale, CA Metropolitan Division	552	24,921	Vallejo-Fairfield, CA Metropolitan Statistical Area	570	41,022
Vallejo-Fairfield, CA Metropolitan Statistical Area	454	33,094	Napa, CA Metropolitan Statistical Area	465	31,666
San Jose-Sunnyvale-Santa Clara, CA Metropolitan Statistical Area	432	40,624	Phoenix-Mesa-Scottsdale, AZ Metropolitan Statistical Area	415	33,057
Napa, CA Metropolitan Statistical Area	405	32,499	San Jose-Sunnyvale-Santa Clara, CA Metropolitan Statistical Area	414	39,106
San Diego-Carlsbad-San Marcos, CA Metropolitan Statistical Area	319	21,704	Los Angeles-Long Beach-Glendale, CA Metropolitan Division	406	18,789
Santa Ana-Anaheim-Irvine, CA Metropolitan Division	226	35,832	San Diego-Carlsbad-San Marcos, CA Metropolitan Statistical Area	384	20,624
Riverside-San Bernardino-Ontario, CA Metropolitan Statistical Area	223	22,482	Portland-Vancouver-Beaverton, OR-WA Metropolitan Statistical Area	345	32,551
Inmigration	13,506	27,265	Outmigration	17,841	28,292
			Net Migration	-4,335	-1,027

Note:
Net Migration: Number of Migrants is the net flow of migrants.
Income is the difference between the weighted average of the median income of immigrants and that of outmigrants.

Source: Moody's Economy.com calculation from 2005 IRS data

RESIDENTIAL REAL ESTATE [\(back to top\)](#)

- Sonoma County's housing market is in the deepest downturn it has ever experienced. The median sales price of an existing single-family home has fallen by an incredible 26% since peaking in late 2005 according to the California Association of Realtors. The Case-Shiller Home Price Index shows a comparable decline in house prices; the index has fallen by 18% over the same period.



Source: BOC, Moody's Economy.com, Inc.

- Homebuilders have reacted to the market shift with a slowdown in new construction. The number of permits issued for new housing units has plummeted by 55% from a year ago and by an incredible 81% since the peak in December 2005. Despite this decline in new construction, construction payrolls have only fallen by 9% since their peak. Construction payrolls are clearly at risk of falling even further. The downturn in construction could be extended if mortgage credit conditions further deteriorate, which would increase the supply of homes available for sale and exert further downward pressure on house prices.
- The Moody's Economy.com baseline outlook calls for house prices to decline by an additional 15% from today's levels before stabilizing in mid-2009. By then, improved population growth and the now record-low number of residential construction permits are expected to bring the housing market back into supply/demand balance. Should demographic trends improve beyond expectations, the market could stabilize sooner.

COMMERCIAL REAL ESTATE [\(back to top\)](#)

- Prices for commercial real estate help to expand Sonoma County's comparative advantage versus the rest of the Bay Area. Its commercial real estate market has weakened over the past year in line with the nationwide commercial real estate market. Vacancy rates on suburban and metropolitan office space began to rise nationally toward the end of last year as demand for office-using employment fell. Lower demand for office space brought a peak in commercial real estate prices in December 2007.
- The industrial space market is also oversupplied and has weakened in line with the U.S. economy. Nationwide demand for industrial real estate has weakened as lower levels of absorption have led to a persistent rise in the industrial vacancy rate to 10.5% from its cyclical low of 9.5% in the third quarter of 2006. However, the longer-term outlook is brighter, with the area expanding as a center for warehousing and transportation within the North Bay region. There has been a gradual but measurable concentration of such industries in recent years. The expanding wine and specialty food industries also create demand for storage space and logistics, particularly as wineries expand into direct sales.
- A widening state fiscal deficit puts public infrastructure construction at some risk through the end of this decade. Voters did approve a \$43 billion measure in November 2006 for infrastructure improvements, but the state may find it difficult to service the added debt that has been authorized and so the pace of highway, bridge and school construction could likely slow.
- Given a weakening in office-using employment growth and an oversupply of office space, it could be 2009 before absorption reaches the point of generating a significant amount of new office construction. Industrial construction will likely improve sooner due to lower vacancies and the turnaround in this industry's labor market.
- The travel and tourism industry could also provide some spark to the local construction industry. The last surge of hotel construction was in 2002 and early 2003, and yet travel and tourism remain strong in the county with steady gains in leisure and hospitality employment. Thus, latent demand is building for new accommodations.
- Industrial construction has been supported by the wine industry's very large crushes of the past several years, requiring more space for storage and processing. While the expansion

of tech-producing industries will likely maintain its historic volatility, it too creates considerable potential for further growth as the Bay Area emerges once again as a leading technology center.

FORECAST RISKS [\(back to top\)](#)

- There is much uncertainty in Sonoma County's outlook considering that the structure of its tech-producing industries has shifted away from telecommunications in recent years and the wine industry has matured. Further investment in the economy is expected, but the exact industries expected to gain from incoming investment are unclear. Risks, therefore, are weighted to the downside as restructuring continues within Sonoma County's primary growth drivers.
- Another major factor that would cause the economic outlook to deviate from the baseline forecast is a further rise in energy prices. With \$4/gallon gasoline a reality and air travel more costly, visitor arrivals could very well weaken this summer, which would be directly felt in Sonoma County. This would be particularly difficult if consequently competitive pressures in the airline industry subsided and air fares were hiked significantly to offset rising jet fuel costs. If both gasoline and air fares rose considerably, visits by both local and national travelers would be curtailed.
- Additionally, if energy prices do not moderate in the near term as expected, hotels' plans for expansion in Sonoma County could be at risk. Hotels have been planning to build more moderately priced properties, hoping to accommodate more visitors with moderate-income levels. However, these visitors are generally more sensitive to rising energy costs and interest rates. Therefore, these new hotel offerings at lower price points may not see the strong demand that is hoped for. Further hikes in gasoline prices would pinch consumer spending, particularly for nonessential items like travel. Furthermore, if the energy shock lengthens the national recession, business investment spending could also weaken, which could shatter the newfound stability in Sonoma County's tech-producing industries.
- The sole upside risk for the tourism industry lies in international arrivals, which are being spurred by the weak dollar. International arrivals through San Francisco's airport continue to rise, offering some upside potential for the near term.
- Mortgage credit quality holds the key to the depth of the homebuilding industry's potential downside risks. If the rate of mortgage delinquencies and foreclosures rises significantly further, it could place a number of units back on the market, with lenders pricing them for a

quick sale. Should this happen, demand for new construction could falter and the period of weak house prices could extend well beyond 2009.

- A longer-term risk arises from the potential for credit quality problems to shift from the household sector to the corporate sector. A nearly five-year period of double-digit growth of corporate profits nationwide is beginning to ease. If this trend worsens further, and yet labor and other input costs continue to rise, deteriorating corporate balance sheets could lead to reduced investment in fixed structures.
- Upside potential comes from the possibility that global demand growth for Sonoma County's goods and services could improve considerably in the near term. This is likely if the dollar falls further and more rapidly versus Asian currencies now that the Chinese yuan is allowed to be traded more openly, at least within the band restrictions set by the Chinese central bank. It is likely that the dollar will fall by about 5% per year over the coming three years versus the Chinese and other Asian currencies, generating additional pricing power for U.S.-made goods in that region of the world.
- A large portion of the visitors who come to Sonoma County have traditionally been from higher-income households, and would therefore be less sensitive to potential increases in energy prices and interest rates. Demand for the high-end tourism that Sonoma County is able to provide through food, wine and golf could remain stronger than we expect, if the structure of the tourism market there remains heavily weighted toward the upper income bracket.
- Plans for redevelopment of downtown Sonoma County generate further long-term potential for the construction industry. New commercial and high-density housing could reshape the face of the downtown area. Already, the profile of downtown as a retail center is improving and attracting investor interest.
- The county's industrial market could also see some upside potential around the Charles M. Schulz Airport if new air service meets with continued success and generates further economic activity in the airport area.

MAJOR EMPLOYERS [\(back to top\)](#)

Major Employers: Santa Rosa-Petaluma, CA Metropolitan Statistical Area

Rank	Employer	Industry	Employee
1	Kaiser Permanente	Education or Health Service	2,300
2	St. Joseph Health System	Education or Health Service	2,166
3	Agilent Technologies	Manufacturing	1,400
4	Medtronic CardioVascular	Manufacturing	1,200
5	Sutter Medical Center of Santa Rosa	Education or Health Service	1,097
6	Safeway, Inc.	Retail Trade	1,082
7	Amy's Kitchen	Manufacturing	950
8	Kendall-Jackson Wine Estates	Manufacturing	920
9	Home Depot	Retail Trade	700
10	Hansel Auto Group	Retail Trade	681
11	Lucky	Retail Trade	677
12	River Rock Casino	Leisure and Hospitality	651
13	JDS Uniphase Corporation	Manufacturing	650
14	Wal-Mart Stores, Inc.	Retail Trade	650
15	AT&T California	Information	597
16	Mary's Pizza Shack	Leisure and Hospitality	575
17	Washington Mutual	Financial Activities	560
18	Wells Fargo	Financial Activities	512
19	Korbel	Manufacturing	502
20	Pacific Gas and Electric Company	Trans./Warehouse/Utilities	500
21	State Farm Insurance Company	Financial Activities	467
22	Exchange Bank	Financial Activities	434
23	Beam Wine Estates	Manufacturing	427
24	North Bay Construction	Construction	400
25	Petaluma Acquisitions	Manufacturing	400

Source: North Bay Business Journal - Sonoma County, February 2008

DEMOGRAPHIC PROFILE [\(back to top\)](#)

Indicator	Units	Statistical Area	U.S.	Rank	Year
Households					
Households, % change (2002-2007)	Ann. % change	0.1	1.1	321	2007
Population w/ B.A. degree or higher	% of adult population	28.5	24.4	77	2000
Median household income	\$	58,119	48,201	52	2006
<i>% change year ago</i>		7.1	4.1	121	2006
Population					
Per capita income	\$	42,738	36,714	43	2006
<i>% change year ago</i>		5.7	5.6	84	2006
Population	thousands	464	301,621	132	2007
<i>% change year ago</i>		0.4	1.0	269	2007
White	%	81.6	75.1	206	2000
Black or African American	%	1.4	12.3	321	2000
Hispanic	%	17.3	12.6	64	2000
Asian	%	3.3	3.8	73	2000
Net domestic migration, rate	Persons/th. pop.	-5.5	0.0	307	2007
International migration, rate	Persons/th. pop.	4.6	3.4	58	2007
Poverty rate	%	8.1	12.4	44	1999
Median age	years	37.5	35.3	318	2000
Household Cost Indexes					
Housing affordability index		53.7	135.4	375	2007
Median existing home price	\$ ths	641.8	215.9	8	2007
<i>% change year ago</i>		-6.5	-0.4	346	2007
Cost of living	Index: U.S.=100	139.17	100	374	2006

TABLES [\(back to top\)](#)

Table 1: Sonoma County Clusters

Industries within clusters are listed by their North American Industry Classification System codes

Composition of Economic Clusters

- | | |
|---|---|
| <p>1) Agriculture, Food and Wine</p> <ul style="list-style-type: none"> 111,112 Farming 311 Food manufacturing 3121 Beverage manufacturing <p>2) Technology-Producing Industries</p> <ul style="list-style-type: none"> 3344 Semiconductors and other electronic components 3345 Navigational, measuring, electromedical, and control instruments 3391 Medical equipment and supplies <p>3) Wealth Management</p> <ul style="list-style-type: none"> 5211 Monetary Authorities - Central Bank 5222 Nondepository Credit Intermediation 5223 Activities Related to Credit Intermediation 5231 Securities and Commodity Contracts Intermediation and Brokerage 5232 Securities and Commodity Exchanges 5239 Other Financial Investment Activities 5251 Insurance and Employee Benefit Funds 5312 Offices of Real Estate Agents and Brokers <p>4) Tourism</p> <ul style="list-style-type: none"> 4811 Scheduled Air Transportation 4812 Nonscheduled Air Transportation 4851 Urban Transit Systems 4853 Taxi and Limousine Service 4855 Charter Bus Industry 4881 Support Activities for Air Transportation 4884 Support Activities for Road Transportation 7112 Spectator Sports 7121 Museums, Historical Sites, and Similar Institutions 7131 Amusement Parks and Arcades 7132 Gambling Industries 7139 Other Amusement and Recreation Industries 7211 Traveler Accommodation 7212 RV (Recreational Vehicle) Parks and Recreational Camps 7213 Rooming and Boarding Houses 7221 Full-Service Restaurants 7222 Limited-Service Eating Places <p>5) Health and Wellness</p> <ul style="list-style-type: none"> 621 Ambulatory Health Care Services -- would include privately owned community health care 622 Hospitals 623 Nursing and Residential Care Facilities 8121 Personal Care Services | <p>6) Creative Professional Services</p> <ul style="list-style-type: none"> 5112 Software Publishers 5121 Motion Picture and Video Industries 5331 Lessors of Nonfinancial Intangible Assets (except Copyrighted Works) 5411 Legal Services 5412 Accounting, Tax Preparation, Bookkeeping, and Payroll Services 5413 Architectural, Engineering, and Related Services, 5414 Specialized Design Services 5415 Computer Systems Design and Related Services 5416 Management, Scientific, and Technical Consulting Services 5417 Scientific Research and Development Services 5418 Advertising and Related Services 5419 Other Professional, Scientific, and Technical Services 7113 Promoters of Performing Arts, Sports, and Similar Events 7114 Agents and Managers for Artists, Athletes, Entertainers, and Other Public Figures 7115 Independent Artists, Writers, and Performers <p>7) Construction and Green Services</p> <ul style="list-style-type: none"> 23 Construction 327 Non-metallic minerals (clay, cement, concrete products) 5617 Services to buildings and dwellings 5621 Waste collection 5629 Remediation and Other Waste Management Services 2211 Electric Power Generation, Transmission and Distribution <p>8) Retail Trade</p> <ul style="list-style-type: none"> RT Retail Trade <p>9) Wholesale Trade</p> <ul style="list-style-type: none"> 42 Wholesale Trade |
|---|---|

Table 2: Sonoma County Historical Summary Indicators

	2002	2003	2004	2005	2006	2007	Annual Growth 02-07
Economy							
Gross Metro Product (Bil 2000\$)	16.4	16.5	17.1	17.4	18.0	18.4	2.3
% Annual Change	0.5	0.6	3.3	2.3	3.1	2.3	
Gross Metro Product (Bil \$)	16.9	17.3	18.4	19.3	20.5	21.6	5.0
% Annual Change	2.5	2.5	6.1	5.1	6.1	5.2	
Non-farm Employment (Ths)	186.6	183.2	184.9	186.4	189.1	190.4	0.4
% Annual Change	-1.7	-1.8	0.9	0.8	1.4	0.7	
Components of Employment							
Mining and Natural Resources	0.3	0.3	0.2	0.2	0.2	0.2	-5.7
Construction	13.3	13.0	13.7	14.2	14.7	14.4	1.6
Manufacturing	27.3	25.3	24.2	23.5	22.9	22.3	-4.0
Trade, Transportation, and Utilities	34.1	33.9	34.2	34.8	35.5	36.3	1.3
Wholesale Trade	6.0	6.3	6.6	7.3	7.5	7.7	5.2
Retail Trade	24.0	23.8	23.6	23.7	23.8	24.1	0.0
Transportation and Utilities	4.1	3.8	3.9	3.7	4.2	4.5	2.1
Information	4.2	4.0	4.3	3.7	3.2	3.0	-6.5
Financial Activities	10.3	10.3	10.0	9.8	9.7	9.3	-2.0
Professional and Business Services	19.0	19.0	19.6	20.4	22.1	23.0	4.0
Education and Health Services	23.3	22.7	22.5	22.8	23.1	23.6	0.3
Leisure and Hospitality	19.7	19.9	20.2	20.5	20.7	20.8	1.1
Other Services	6.7	6.4	6.4	6.2	6.3	6.3	-1.1
Government	28.4	28.5	29.7	30.4	30.7	31.1	1.8
Labor Force (Ths)	258.0	254.8	256.1	256.2	258.1	262.0	0.3
% Annual Change	0.1	-1.3	0.5	0.0	0.8	1.5	
Number of Employed (Ths)	244.9	240.9	243.4	244.7	247.8	250.5	0.4
Number of Unemployed (Ths)	13.1	13.9	12.7	11.4	10.4	11.6	-2.5
Unemployment Rate (%)	5.1	5.5	5.0	4.5	4.0	4.4	Average 4.7
Income, Demographics, and Consumption							
Personal Income (Mil \$)	16,966.7	17,253.1	17,999.3	19,143.0	20,250.3	21,497.0	4.8
% Annual Change	0.0	1.7	4.3	6.4	5.8	6.2	
Real Personal Income (Mil 2000\$)	16,387.0	16,339.0	16,605.8	17,154.6	17,659.2	18,280.7	2.2
Per Capita Income (\$)	36,519.8	37,094.6	38,718.4	41,304.2	43,769.4	46,225.0	4.8
Median Household Income (\$)	56,099.4	57,956.8	57,301.7	54,267.0	58,119.0	60,794.3	1.6
Personal Bankruptcy Filings	1,223.0	1,300.0	1,267.0	1,997.0	451.0	837.0	-7.3
Consumer Price Index	223.5	229.0	235.6	252.9	261.6	269.6	3.8
Population (Ths)	464.5	465.1	465.0	463.6	462.6	464.4	0.0
% Annual Change	-0.1	0.1	0.0	-0.3	-0.2	0.4	
Age <4	27.4	27.7	28.3	29.0	29.1	29.3	1.4
Age 5-19	96.0	95.1	94.4	93.4	91.5	90.8	-1.1
Age 20-24	31.0	31.8	32.3	31.8	31.8	32.0	0.7
Age 25-44	129.8	126.9	124.5	121.1	119.1	118.1	-1.9
Age 45-64	122.4	125.5	127.7	130.0	132.3	134.8	2.0
Age >65	57.9	58.0	58.0	58.4	58.7	59.5	0.5
Households (Ths)	174.7	175.0	175.0	174.5	174.2	174.9	0.0
% Annual Change	0.0	0.2	0.0	-0.3	-0.2	0.4	
Net Migration (Ths)	-1.8	-0.9	-1.4	-3.6	-2.8	-0.1	
Residential Housing Market							
Total Housing Permits	1,928	2,252	1,929	2,819	1,912	1,431	Average 2,045
% Annual Change	-25.4	16.8	-14.3	46.1	-32.2	-25.2	
Single Family Permits	1,350	1,503	1,342	1,598	1,357	910	-7.6
Multi Family Permits	578	749	587	1,221	555	521	-2.1
Median Exist. Home Price (SA, Ths \$)	436.4	490.6	574.4	698.9	686.1	638.9	7.9
% Annual Change	6.9	12.4	17.1	21.7	-1.8	-6.9	
Existing Home Sales (Ths)	7.8	7.8	7.5	8.0	6.7	5.5	-6.6
Mortgage Originations (Mil \$)	12,254.7	17,825.1	12,155.5	12,457.3	9,552.4	6,300.8	-12.5
Affordability Index	64.8	62.4	55.5	46.8	47.3	53.7	Average 55.1
Nonresidential Construction							
Nonres. Building Permits (Mil \$)	244.4	199.1	240.7	223.1	228.1	227.5	Average 227.2
Total	244.4	199.1	240.7	223.1	228.1	227.5	
Office Buildings	50.1	11.8	23.7	9.6	10.5	25.3	21.8
Retail Space	54.0	35.9	77.0	66.5	46.7	30.2	51.7
Industrial	8.9	12.4	3.9	3.1	8.9	5.8	7.2

Table 3: Sonoma County Forecasted Summary Indicators

	2008	2009	2010	2011	2012	2013	Annual Growth 08-13
Economy							
Gross Metro Product (Bil 2000\$)	18.5	19.1	20.0	20.6	21.1	21.5	3.0
% Annual Change	0.7	3.3	4.5	2.8	2.4	2.1	
Gross Metro Product (Bil \$)	22.2	23.3	24.7	25.9	26.9	28.0	4.8
% Annual Change	2.7	4.9	6.4	4.7	4.0	3.8	
Non-farm Employment (Ths)	190.9	193.7	199.8	203.8	206.0	207.3	1.7
% Annual Change	0.2	1.5	3.2	2.0	1.1	0.7	
Components of Employment							
Mining and Natural Resources	0.2	0.2	0.2	0.2	0.2	0.2	-0.9
Construction	14.1	14.5	15.2	15.3	15.0	14.6	0.7
Manufacturing	22.4	22.3	22.6	22.7	22.7	22.6	0.2
Trade, Transportation, and Utilities	36.8	37.2	38.2	38.7	38.8	38.7	1.0
Wholesale Trade	7.8	7.8	8.0	8.2	8.3	8.3	1.3
Retail Trade	24.5	25.0	25.7	26.0	26.0	25.9	1.1
Transportation and Utilities	4.5	4.4	4.5	4.5	4.5	4.5	0.3
Information	3.0	3.1	3.2	3.2	3.2	3.2	1.2
Financial Activities	8.9	8.9	9.3	9.6	9.6	9.5	1.4
Professional and Business Services	23.7	24.5	25.8	27.0	28.1	29.0	4.1
Education and Health Services	23.9	24.5	25.5	26.3	27.1	27.6	3.0
Leisure and Hospitality	21.1	21.6	22.5	23.2	23.7	24.0	2.6
Other Services	6.3	6.4	6.6	6.7	6.7	6.7	1.1
Government	30.4	30.4	30.7	30.7	30.9	31.1	0.5
Labor Force (Ths)	266.0	270.0	276.9	282.8	287.6	291.9	1.9
% Annual Change	1.5	1.5	2.6	2.1	1.7	1.5	
Number of Employed (Ths)	252.8	256.7	264.3	270.5	274.8	278.8	2.0
Number of Unemployed (Ths)	13.2	13.3	12.7	12.2	12.7	13.1	-0.2
Unemployment Rate (%)	5.0	4.9	4.6	4.3	4.4	4.5	Average 4.6
Income, Demographics, and Consumption							
Personal Income (Mil \$)	22,308.2	23,410.6	24,912.6	26,140.6	27,114.9	27,942.1	4.6
% Annual Change	3.8	4.9	6.4	4.9	3.7	3.1	
Real Personal Income (Mil 2000\$)	18,443.0	19,056.5	20,044.8	20,805.5	21,264.7	21,556.4	3.2
Per Capita Income (\$)	47,690.0	49,635.6	52,018.5	53,715.7	54,764.3	55,500.5	3.1
Median Household Income (\$)	62,127.4	63,961.5	66,104.9	67,469.2	68,039.7	68,222.7	1.9
Personal Bankruptcy Filings	974.5	948.2	926.3	936.0	920.3	897.5	-1.6
Consumer Price Index	277.6	281.6	287.6	293.7	301.3	309.2	2.2
Population (Ths)	467.5	470.7	477.9	485.6	494.0	502.4	1.5
% Annual Change	0.7	0.7	1.5	1.6	1.7	1.7	
Age <4	29.6	29.9	30.4	31.0	31.7	32.3	1.8
Age 5-19	90.1	89.3	89.1	89.0	89.2	89.7	-0.1
Age 20-24	32.4	33.0	33.9	34.8	35.6	36.0	2.1
Age 25-44	117.5	117.0	117.6	118.9	120.6	122.4	0.8
Age 45-64	137.1	139.5	143.0	145.9	148.0	150.2	1.8
Age >65	60.8	62.0	63.9	66.0	69.0	72.0	3.5
Households (Ths)	176.3	178.0	181.4	184.8	188.7	192.5	1.8
% Annual Change	0.8	0.9	1.9	1.9	2.1	2.0	
Net Migration (Ths)	1.0	1.0	4.9	5.1	5.8	5.6	
Residential Housing Market							
Total Housing Permits	725	1,215	2,215	2,476	2,431	2,409	Average 1,912
% Annual Change	-49.4	67.6	82.4	11.8	-1.8	-0.9	
Single Family Permits	533	855	1,588	1,862	1,843	1,847	1,421
Multi Family Permits	192	360	628	614	588	562	491
Median Exist. Home Price (SA, Ths \$)	488.4	454.3	491.4	538.1	584.0	624.3	5.0
% Annual Change	-23.5	-7.0	8.2	9.5	8.5	6.9	
Existing Home Sales (Ths)	5.2	6.3	6.8	6.8	6.9	7.1	6.5
Mortgage Originations (Mil \$)	5,067.5	4,848.7	5,094.8	5,291.0	5,425.4	5,688.0	2.3
Affordability Index	72.7	73.1	68.5	64.7	60.0	56.3	Average 65.9
Nonresidential Construction							
Nonres. Building Permits (Mil \$)							
Total	259.6	295.2	313.3	332.8	351.3	369.9	320.3
Office Buildings	19.1	23.0	25.0	27.2	28.4	29.8	25.4
Retail Space	50.0	58.6	59.4	60.0	60.4	60.4	58.1
Industrial	27.3	33.5	35.9	39.0	42.1	46.6	37.4

Table 4: Sonoma County Historical Employment by Cluster
Thousands

	2002	2003	2004	2005	2006	2007	Compound Ann. Growth Rate	Pct. Share of Employment
	2002	2003	2004	2005	2006	2007	02-07	2007
Total	200.1	196.1	197.5	198.5	200.4	201.8	0.2	100.0
% Change	-1.1	-2.0	0.7	0.5	0.9	0.7		
1. Agriculture, Food and Wine	18.4	17.8	16.9	16.3	15.7	15.5	-3.4	7.7
% Change	6.7	-3.4	-4.7	-3.7	-3.4	-1.7		
2. Technology-Producing Industries	8.6	6.7	5.7	4.6	4.3	4.1	-13.8	2.0
% Change	-22.9	-22.9	-14.1	-19.3	-6.9	-4.2		
3. Wealth Management	2.7	3.0	2.9	3.1	3.2	2.9	1.6	1.4
% Change	4.3	11.6	-2.8	5.4	4.9	-9.6		
4. Tourism	15.0	15.1	15.3	15.8	16.1	16.3	1.7	8.1
% Change	8.7	0.7	1.2	3.4	1.8	1.4		
5. Health and Wellness	18.4	17.7	17.7	18.0	18.4	18.7	0.4	9.3
% Change	0.9	-3.7	0.4	1.3	2.3	1.6		
6. Creative Professional Services	8.8	9.4	10.1	10.8	11.9	13.1	8.4	6.5
% Change	5.1	6.8	8.1	6.5	10.2	10.5		
7. Construction and Green Services	17.9	17.5	18.3	19.0	19.6	19.3	1.5	9.6
% Change	-2.4	-2.4	4.8	4.0	3.2	-1.9		
8. Retail Trade	24.0	23.8	23.6	23.8	23.8	24.1	0.0	11.9
% Change	-0.3	-1.1	-0.6	0.5	0.1	1.2		
8. Wholesale Trade	6.0	6.3	6.6	7.3	7.5	7.7	5.2	3.8
% Change	1.0	4.3	6.1	10.4	2.7	2.6		
Sum of Clusters	119.8	117.0	117.3	118.6	120.6	121.7	0.3	60.3
% Change	0.0	-2.3	0.2	1.2	1.6	0.9		
Other	80.4	79.1	80.2	79.8	79.8	80.1	-0.1	39.7
% Change	-2.7	-1.6	1.5	-0.5	-0.1	0.3		

Table 5: Sonoma County Forecasted Employment by Cluster
Thousands

	2008	2009	2010	2011	2012	2013	Compound Ann. Growth Rate 08-13	Pct. Share of Employment 2013
Total	202.0	205.0	211.3	215.4	217.7	219.1	1.6	100.0
% Change	0.1	1.5	3.1	2.0	1.1	0.6		
1. Agriculture, Food and Wine	15.5	15.5	15.7	15.8	15.8	15.7	0.3	7.2
% Change	0.4	0.0	1.0	0.6	0.0	-0.3		
2. Technology-Producing Industries	4.2	4.2	4.2	4.3	4.3	4.3	0.8	2.0
% Change	1.2	0.0	1.9	1.1	0.6	0.3		
3. Wealth Management	2.7	2.7	2.9	3.0	3.0	3.0	2.7	1.4
% Change	-8.2	1.2	6.3	4.1	1.5	0.4		
4. Tourism	16.6	16.9	17.5	18.0	18.2	18.4	2.1	8.4
% Change	1.5	1.6	3.8	2.6	1.5	0.9		
5. Health and Wellness	19.1	19.6	20.3	20.9	21.4	21.9	2.8	10.0
% Change	1.9	2.6	3.8	3.1	2.4	1.9		
6. Creative Professional Services	13.9	14.5	15.2	15.9	16.5	17.0	4.1	7.8
% Change	6.3	3.8	5.2	4.3	3.7	3.3		
7. Construction and Green Services	19.1	19.7	20.7	21.2	21.2	21.1	2.0	9.6
% Change	-2.4	-2.4	4.8	4.0	3.2	-1.9		
8. Retail Trade	24.4	24.7	25.4	25.7	25.7	25.4	0.9	11.6
% Change	1.3	1.4	2.7	1.3	-0.2	-0.8		
8. Wholesale Trade	7.8	7.9	8.1	8.3	8.3	8.4	1.4	3.8
% Change	1.4	1.0	2.3	1.8	1.1	0.6		
Sum of Clusters	123.3	125.6	130.0	133.0	134.5	135.3	1.9	61.7
% Change	1.3	1.9	3.5	2.3	1.1	0.6		
Other	78.7	79.4	81.3	82.5	83.3	83.8	1.3	38.3
% Change	-1.7	0.8	2.4	1.5	1.0	0.7		

Table 6: Sonoma County Historical Gross Regional Product (Output) by Cluster
Millions of current dollars

	2002	2003	2004	2005	2006	2007	Compound Ann. Growth Rate	Pct. Share of Total Output
	02-07	2007						
Total	16,897.2	17,325.8	18,383.1	19,325.8	20,509.2	21,653.8	5.1	100.0
% Change	2.5	2.5	6.1	5.1	6.1	5.6		
1. Agriculture, Food and Wine	1,305.0	1,286.4	1,206.9	1,290.2	1,338.0	1,469.1	2.4	6.8
% Change	13.3	-1.4	-6.2	6.9	3.7	9.8		
2. Technology-Producing Industries	879.2	737.4	634.2	557.5	615.1	691.0	-4.7	3.2
% Change	-22.6	-16.1	-14.0	-12.1	10.3	12.3		
3. Wealth Management	1,095.4	1,254.8	1,379.6	1,546.5	1,698.8	1,688.4	9.0	7.8
% Change	6.0	14.6	10.0	12.1	9.9	-0.6		
4. Tourism	668.2	681.2	733.4	784.5	829.1	864.2	5.3	4.0
% Change	16.5	1.9	7.7	7.0	5.7	4.2		
5. Health and Wellness	1,173.9	1,209.2	1,273.8	1,372.0	1,477.1	1,503.7	5.1	6.9
% Change	6.7	3.0	5.3	7.7	7.7	1.8		
6. Creative Professional Services	1,147.4	1,270.4	1,452.1	1,621.3	1,867.0	2,000.4	11.8	9.2
% Change	6.1	10.7	14.3	11.7	15.2	7.1		
7. Construction and Green Services	1,402.0	1,403.6	1,556.0	1,735.7	1,815.4	1,955.2	6.9	9.0
% Change	2.7	0.1	10.9	11.5	4.6	7.7		
8. Retail Trade	1,518.1	1,551.3	1,606.0	1,672.1	1,716.3	1,782.2	3.3	8.2
% Change	4.8	2.2	3.5	4.1	2.6	3.8		
8. Wholesale Trade	753.0	810.2	909.3	1,087.5	1,177.7	1,229.7	10.3	5.7
% Change	5.1	7.6	12.2	19.6	8.3	4.4		
Sum of Clusters	9,942.3	10,204.5	10,751.3	11,667.4	12,534.4	13,183.9	5.8	60.9
% Change	3.5	2.6	5.4	8.5	7.4	5.2		
Other	6,954.9	7,121.3	7,631.8	7,658.5	7,974.8	8,470.0	4.0	39.1
% Change	1.2	2.4	7.2	0.3	4.1	6.2		

Table 7: Sonoma County Forecasted Gross Regional Product (Output) by Cluster
Millions of current dollars

	2008	2009	2010	2011	2012	2013	Compound Ann. Growth Rate	Pct. Share of Total Output
	08-13	2013						
Total	22,271.5	23,421.0	24,935.6	26,123.1	27,187.6	28,233.2	4.9	100.0
% Change	2.9	5.2	6.5	4.8	4.1	3.8		
1. Agriculture, Food and Wine	1,569.8	1,609.8	1,671.1	1,722.0	1,768.8	1,816.5	3.0	6.4
% Change	6.9	2.5	3.8	3.0	2.7	2.7		
2. Technology-Producing Industries	707.8	737.8	775.4	812.0	848.4	884.6	4.6	3.1
% Change	2.4	4.2	5.1	4.7	4.5	4.3		
3. Wealth Management	1,669.2	1,791.6	1,981.1	2,123.9	2,238.8	2,345.5	7.0	8.3
% Change	-1.1	7.3	10.6	7.2	5.4	4.8		
4. Tourism	880.7	923.9	986.0	1,034.4	1,080.2	1,127.8	5.1	4.0
% Change	1.9	4.9	6.7	4.9	4.4	4.4		
5. Health and Wellness	1,542.7	1,595.3	1,671.9	1,732.9	1,788.8	1,848.8	3.7	6.5
% Change	2.6	3.4	4.8	3.7	3.2	3.4		
6. Creative Professional Services	2,106.9	2,278.5	2,461.6	2,621.3	2,800.3	2,991.5	7.3	10.6
% Change	5.3	8.1	8.0	6.5	6.8	6.8		
7. Construction and Green Services	2,074.4	2,202.4	2,344.6	2,417.7	2,446.5	2,463.4	3.5	8.7
% Change	6.1	6.2	6.5	3.1	1.2	0.7		
8. Retail Trade	1,833.4	1,969.3	2,127.4	2,267.0	2,390.1	2,505.3	6.4	8.9
% Change	2.9	7.4	8.0	6.6	5.4	4.8		
8. Wholesale Trade	1,312.6	1,397.6	1,499.2	1,599.7	1,699.3	1,799.3	6.5	6.4
% Change	6.7	6.5	7.3	6.7	6.2	5.9		
Sum of Clusters	13,697.6	14,506.1	15,518.3	16,331.0	17,061.2	17,782.7	5.4	63.0
% Change	3.9	5.9	7.0	5.2	4.5	4.2		
Other	8,573.9	8,914.9	9,417.3	9,792.2	10,126.4	10,450.5	4.0	37.0
% Change	1.2	4.0	5.6	4.0	3.4	3.2		

Table 8: Sonoma County Historical Gross Regional Product (Output) by Cluster
Millions of 2000 dollars

	2002	2003	2004	2005	2006	2007	Compound Ann. Growth Rate 02-07	Pct. Share of Total Output 2007
Total	16,401.4	16,506.5	17,054.2	17,445.7	17,980.6	18,451.3	2.4	100.0
% Change	0.5	0.6	3.3	2.3	3.1	2.6		
1. Agriculture, Food and Wine	1,185.4	1,151.4	1,073.3	1,107.8	1,089.5	1,140.8	-0.8	6.2
% Change	9.6	-2.9	-6.8	3.2	-1.7	4.7		
2. Technology-Producing Industries	1,116.6	999.1	909.9	934.4	946.5	1,007.5	-2.0	5.5
% Change	-17.1	-10.5	-8.9	2.7	1.3	6.4		
3. Wealth Management	1,051.0	1,191.4	1,277.8	1,402.7	1,484.5	1,431.1	6.4	7.8
% Change	3.2	13.4	7.3	9.8	5.8	-3.6		
4. Tourism	644.5	648.2	679.7	706.1	724.1	725.7	2.4	3.9
% Change	15.2	0.6	4.9	3.9	2.6	0.2		
5. Health and Wellness	1,078.1	1,076.4	1,096.4	1,149.8	1,203.7	1,186.1	1.9	6.4
% Change	3.2	-0.2	1.9	4.9	4.7	-1.5		
6. Creative Professional Services	1,087.6	1,206.4	1,371.8	1,512.2	1,702.8	1,775.6	10.3	9.6
% Change	3.6	10.9	13.7	10.2	12.6	4.3		
7. Construction and Green Services	1,258.6	1,216.2	1,264.0	1,311.9	1,310.9	1,382.9	1.9	7.5
% Change	-1.1	-3.4	3.9	3.8	-0.1	5.5		
8. Retail Trade	1,526.7	1,552.7	1,585.4	1,646.8	1,677.4	1,734.1	2.6	9.4
% Change	2.9	1.7	2.1	3.9	1.9	3.4		
8. Wholesale Trade	782.1	830.6	872.7	981.6	1,017.7	1,018.4	5.4	5.5
% Change	4.6	6.2	5.1	12.5	3.7	0.1		
Sum of Clusters	9,730.6	9,872.3	10,131.1	10,753.2	11,157.2	11,402.1	3.2	61.8
% Change	1.3	1.5	2.6	6.1	3.8	2.2		
Other	6,670.7	6,634.2	6,923.1	6,692.5	6,823.4	7,049.2	1.1	38.2
% Change	-0.7	-0.5	4.4	-3.3	2.0	3.3		

Table 9: Sonoma County Forecasted Gross Regional Product (Output) by Cluster
Millions of 2000 dollars

	2008	2009	2010	2011	2012	2013	Compound Ann. Growth Rate	Pct. Share of Total Output
	08-13	2013						
Total	18,596.9	19,254.1	20,130.1	20,719.6	21,218.6	21,664.9	3.1	100.0
% Change	0.8	3.5	4.5	2.9	2.4	2.1		
1. Agriculture, Food and Wine	1,226.5	1,248.1	1,272.2	1,285.8	1,297.3	1,307.9	1.3	6.0
% Change	7.5	1.8	1.9	1.1	0.9	0.8		
2. Technology-Producing Industries	1,012.9	1,035.5	1,067.8	1,098.4	1,127.6	1,154.2	2.6	5.3
% Change	0.5	2.2	3.1	2.9	2.7	2.4		
3. Wealth Management	1,383.1	1,459.8	1,585.7	1,671.1	1,732.3	1,782.7	5.2	8.2
% Change	-3.4	5.5	8.6	5.4	3.7	2.9		
4. Tourism	720.8	744.6	781.2	805.8	828.5	850.9	3.4	3.9
% Change	-0.7	3.3	4.9	3.2	2.8	2.7		
5. Health and Wellness	1,185.7	1,204.9	1,239.5	1,261.2	1,279.5	1,298.6	1.8	6.0
% Change	0.0	1.6	2.9	1.8	1.4	1.5		
6. Creative Professional Services	1,826.5	1,943.0	2,060.5	2,153.0	2,260.2	2,371.2	5.4	10.9
% Change	2.9	6.4	6.0	4.5	5.0	4.9		
7. Construction and Green Services	1,443.6	1,505.9	1,572.8	1,593.2	1,586.5	1,570.9	1.7	7.3
% Change	4.4	4.3	4.4	1.3	-0.4	-1.0		
8. Retail Trade	1,761.7	1,860.4	1,972.9	2,064.1	2,139.0	2,201.8	4.6	10.2
% Change	1.6	5.6	6.0	4.6	3.6	2.9		
8. Wholesale Trade	1,057.3	1,106.8	1,165.5	1,220.9	1,274.7	1,325.6	4.6	6.1
% Change	3.8	4.7	5.3	4.8	4.4	4.0		
Sum of Clusters	11,618.1	12,108.9	12,718.1	13,153.7	13,525.5	13,863.8	3.6	64.0
% Change	1.9	4.2	5.0	3.4	2.8	2.5		
Other	6,978.8	7,145.2	7,412.0	7,565.9	7,693.1	7,801.2	2.3	36.0
% Change	-1.0	2.4	3.7	2.1	1.7	1.4		

Table 10: Sonoma County Historical Productivity (Output per Worker)
Thousand of current dollars

	2002	2003	2004	2005	2006	2007	Compound Ann. Growth Rate 02-07
Total	84.4	88.3	93.1	97.4	102.4	107.3	4.9
% Change	3.6	4.6	5.4	4.6	5.1	4.8	
1. Agriculture, Food and Wine	70.9	72.4	71.3	79.1	85.0	94.9	6.0
% Change	6.1	2.1	-1.5	11.0	7.3	11.7	
2. Technology-Producing Industries	101.9	110.8	111.0	120.9	143.3	168.0	10.5
% Change	0.5	8.8	0.1	9.0	18.5	17.3	
3. Wealth Management	410.4	421.2	476.5	507.0	530.7	583.1	7.3
% Change	1.7	2.6	13.1	6.4	4.7	9.9	
4. Tourism	44.5	45.1	47.9	49.6	51.5	52.9	3.5
% Change	7.1	1.2	6.4	3.4	3.8	2.8	
5. Health and Wellness	64.0	68.4	71.8	76.3	80.3	80.4	4.7
% Change	5.7	6.9	5.0	6.3	5.2	0.1	
6. Creative Professional Services	131.0	135.8	143.6	150.6	157.3	152.5	3.1
% Change	0.9	3.7	5.7	4.9	4.5	-3.1	
7. Construction and Green Services	78.3	80.4	85.1	91.2	92.4	101.4	5.3
% Change	5.3	2.6	5.8	7.3	1.3	9.7	
8. Retail Trade	63.2	65.3	68.0	70.4	72.2	74.0	3.2
% Change	5.1	3.3	4.1	3.6	2.5	2.6	
8. Wholesale Trade	125.3	129.3	136.7	148.2	156.2	159.0	4.9
% Change	4.0	3.2	5.8	8.4	5.4	1.8	
Sum of Clusters	83.0	87.2	91.7	98.3	104.0	108.3	5.5
% Change	3.4	5.0	5.2	7.3	5.7	4.2	
Other	86.5	90.1	95.1	95.9	99.9	105.8	4.1
% Change	4.0	4.1	5.6	0.8	4.2	5.8	

Table 11: Sonoma County Forecasted Productivity (Output per Worker)
Thousand of current dollars

	2008	2009	2010	2011	2012	2013	Compound Ann. Growth Rate 08-13
Total	110.2	114.3	118.0	121.3	124.9	128.9	3.2
% Change	2.7	3.6	3.3	2.7	3.0	3.2	
1. Agriculture, Food and Wine	101.0	103.6	106.4	109.1	112.0	115.4	2.7
% Change	6.4	2.6	2.7	2.5	2.7	3.0	
2. Technology-Producing Industries	170.0	177.3	182.8	189.5	196.8	204.6	3.8
% Change	1.2	4.3	3.1	3.6	3.9	3.9	
3. Wealth Management	628.2	666.0	692.7	713.6	741.2	773.7	4.3
% Change	7.7	6.0	4.0	3.0	3.9	4.4	
4. Tourism	53.1	54.8	56.3	57.6	59.3	61.3	2.9
% Change	0.4	3.2	2.8	2.2	2.9	3.4	
5. Health and Wellness	81.0	81.6	82.4	82.8	83.5	84.6	0.9
% Change	0.7	0.7	1.0	0.5	0.8	1.4	
6. Creative Professional Services	151.1	157.5	161.7	165.1	170.2	175.9	3.1
% Change	-0.9	4.2	2.7	2.1	3.1	3.4	
7. Construction and Green Service	108.5	112.0	113.3	114.0	115.4	116.9	1.5
% Change	7.0	3.2	1.1	0.7	1.2	1.3	
8. Retail Trade	75.2	79.7	83.8	88.2	93.1	98.4	5.5
% Change	1.6	6.0	5.2	5.2	5.6	5.7	
8. Wholesale Trade	167.3	176.3	184.9	193.8	203.7	214.3	5.1
% Change	5.2	5.4	4.9	4.8	5.1	5.2	
Sum of Clusters	111.1	115.5	119.4	122.8	126.9	131.5	3.4
% Change	2.6	4.0	3.3	2.9	3.3	3.6	
Other	108.9	112.3	115.9	118.8	121.6	124.7	2.7
% Change	3.0	3.1	3.2	2.5	2.4	2.5	

Table 12: Sonoma County Historical Productivity (Output per Worker)
Thousands of 2000 dollars

	2002	2003	2004	2005	2006	2007	Compound Ann. Growth Rate 02-07
Total	82.0	84.2	86.4	87.9	89.7	91.4	2.2
% Change	1.6	2.7	2.6	1.8	2.1	1.9	
1. Agriculture, Food and Wine	64.4	64.8	63.4	68.0	69.2	73.7	2.7
% Change	2.7	0.6	-2.2	7.2	1.8	6.5	
2. Technology-Producing Industries	129.4	150.2	159.2	202.6	220.5	244.9	13.6
% Change	7.6	16.1	6.0	27.3	8.8	11.1	
3. Wealth Management	393.8	399.9	441.3	459.8	463.7	494.3	4.6
% Change	-1.1	1.6	10.4	4.2	0.8	6.6	
4. Tourism	43.0	42.9	44.4	44.6	44.9	44.4	0.7
% Change	6.0	-0.2	3.6	0.4	0.7	-1.1	
5. Health and Wellness	58.7	60.9	61.8	64.0	65.5	63.5	1.6
% Change	2.2	3.6	1.5	3.5	2.3	-3.1	
6. Creative Professional Services	124.1	129.0	135.6	140.4	143.5	135.4	1.7
% Change	-1.5	3.9	5.2	3.5	2.2	-5.7	
7. Construction and Green Services	70.3	69.7	69.1	69.0	66.7	71.7	0.4
% Change	1.3	-0.9	-0.8	-0.2	-3.2	7.5	
8. Retail Trade	63.5	65.3	67.1	69.3	70.5	72.0	2.6
% Change	3.1	2.9	2.7	3.3	1.7	2.1	
8. Wholesale Trade	130.2	132.5	131.2	133.7	135.0	131.7	0.2
% Change	3.6	1.8	-1.0	1.9	0.9	-2.4	
Sum of Clusters	81.3	84.3	86.4	90.6	92.5	93.7	2.9
% Change	1.2	3.8	2.4	4.9	2.1	1.2	
Other	83.0	83.9	86.3	83.8	85.5	88.0	1.2
% Change	2.0	1.1	2.9	-2.9	2.0	3.0	

Table 13: Sonoma County Forecasted Productivity (Output per Worker)
Thousands of 2000 dollars

	2008	2009	2010	2011	2012	2013	Compound Ann. Growth Rate 08-13
Total	92.1	93.9	95.3	96.2	97.5	98.9	1.4
% Change	0.7	2.0	1.4	0.9	1.3	1.5	
1. Agriculture, Food and Wine	78.9	80.3	81.0	81.4	82.1	83.1	1.0
% Change	7.1	1.8	0.9	0.5	0.9	1.1	
2. Technology-Producing Industries	243.3	248.8	251.8	256.3	261.6	267.0	1.9
% Change	-0.7	2.3	1.2	1.8	2.1	2.0	
3. Wealth Management	520.5	542.6	554.5	561.5	573.5	588.0	2.5
% Change	5.3	4.3	2.2	1.3	2.1	2.5	
4. Tourism	43.5	44.2	44.6	44.9	45.5	46.3	1.3
% Change	-2.2	1.6	1.1	0.5	1.3	1.7	
5. Health and Wellness	62.2	61.6	61.1	60.3	59.7	59.4	-0.9
% Change	-1.9	-1.0	-0.8	-1.3	-1.0	-0.4	
6. Creative Professional Services	131.0	134.3	135.3	135.6	137.3	139.4	1.3
% Change	-3.2	2.5	0.8	0.2	1.3	1.5	
7. Construction and Green Services	75.5	76.6	76.0	75.2	74.8	74.5	-0.3
% Change	5.3	1.4	-0.8	-1.1	-0.4	-0.4	
8. Retail Trade	72.3	75.3	77.7	80.3	83.3	86.5	3.7
% Change	0.3	4.2	3.3	3.3	3.8	3.8	
8. Wholesale Trade	134.7	139.6	143.8	147.9	152.8	157.9	3.2
% Change	2.3	3.6	2.9	2.9	3.3	3.3	
Sum of Clusters	94.2	96.4	97.8	98.9	100.6	102.5	1.7
% Change	0.6	2.3	1.4	1.1	1.7	1.9	
Other	88.6	90.0	91.2	91.8	92.4	93.1	1.0
% Change	0.7	1.5	1.3	0.6	0.7	0.7	

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