Fall 2014 Business Confidence Survey and Report

December 2014

The Sonoma County Economic Development Board (EDB), in partnership with the Sonoma County Workforce Investment Board (WIB), is pleased to present the Fall 2014 Business Confidence Survey and Report.

Highlights from this Business Confidence Report include:

■ The business confidence level for Sonoma County remains high with a score of 7.00.

■ The business outlook over the next six months for Sonoma County is positive in several industries. A large proportion of executives reported profits, and investments in locations and equipments, are expected to increase in the future.

■ The business outlook over the next six months for Sonoma County is positive in several industries. A large proportion of respondents believe that investments in locations & equipment and profits are expected to increase in the future.

■ Sonoma County's economy continues to expand. The Economic Development Board's Purchasing Trends Index (PTI) is now at 58.69, making this the first year that Sonoma County has scored lower than the United States since 2007. This indicates that businesses feel more economically challenged operating in Sonoma County than in the US as a whole. However, any score above 50 indicates that Sonoma County's economy is expanding.

■ The Economic Development Board polls businesses on special topic questions in each survey that are pertinent to current economic issues. This year, in partnership with the MTC (Metropolitan Transportation Commission), respondents were asked questions to help further understand workforce conditions and efforts.

Thank you for your interest in the Economic Development Board's research. For additional information, questions, comments, or suggestions please contact us at (707) 565-7170 or visit www.sonomaedb.org.

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Business Confidence

The business confidence level for Sonoma County remains high with a score of 7.00. Business executives were asked their perception of current economic conditions in Sonoma County on a 10-point scale, with a score of 1 representing the lowest possible confidence level and 10 the highest. When asked to judge the current economic conditions solely in their industry, as opposed to Sonoma County as a whole, business executives expressed a slightly lower confidence with a score of 6.79.

Business confidence in Sonoma County has been strengthening since the recessionary period of 2007-08. Since hitting a low of 3.2 in the winter of 2008, confidence has soared by 113%. With confidence returned to above pre-recession levels, businesses will be more inclined to step up hiring, make capital investments, and increase production.

Comparing business executives’ expectations about the performance of their industry currently and over the next six months shows an optimistic trend. The survey reveals that during this period the average confidence level of Sonoma County rose to 7.13. When business owners were asked about confidence in their specific industry, the average anticipated confidence level dipped to 6.94. Industry results were also mixed, with most indicating positive change in confidence.

During the winter of 2014, when the EDB conducted its last business confidence survey, the six month forecasted confidence was 7.22 at record-high. It is certainly encouraging to see business executives more confident than anticipated while adding another successive year of growth.
Purchasing Trends

The Purchasing Trends Index (PTI) value for Sonoma County is 58.69. An index score above 50 indicates that the economy is expanding. The PTI survey measures a company’s performance in key industry metrics. This marks the first year in over three years that Sonoma County has scored lower than the United States. This indicates that businesses feel more economically challenged operating in Sonoma County than in the US as a whole.

By industry, hospitality has the highest PTI index value at 84.33 points, followed by manufacturing with 80.5 and technology with 77.5. Businesses that identified themselves by “other” were primarily in the tourism, media, and transportation industries. High index values imply that these industries performed especially well over the last two quarters.

Breaking the PTI down into its components allows us to identify areas in which each industry did especially well and also where businesses struggled. Two components, new customer orders and production, indicated rapid expansion by scoring above a 70 in almost every industry. The magnitude of the scores in new customer orders suggests that more consumer spending is the main driver of Sonoma County’s economic performance. The results in the employment component were also largely positive, with industries indicating that they are hiring more employees or providing more hours for current employees.
Looking Forward

The business outlook over the next six months for Sonoma County is positive in several industries. A large proportion of businesses believe that investments in locations & equipment, and profits, are expected to increase in the future. While employment and exports showed strong performance, the majority of respondents indicated that these categories would remain unchanged.

The employment outlook for education and hospitality are among the strongest of all industries, with 100% and 57.14% of business executives, respectively anticipating a hiring increase. On the other hand, non-profit and government reported a neutral outlook, with 100% predicting no change in employment.

When asked to rate the ability of their business to find qualified employees in Sonoma County’s labor force over the past 6 months, 57 percent of the business executives experienced some difficulty. While the overall labor market looked optimistic for most industries, about 30 percent of businesses, specifically in Professional and Financial Services, Health Services, and Hospitality industries, reported having experienced much difficulty in finding qualified employees.

When asked about their attitude towards significant capital expenditures, the majority of business executives responded that they were moderate and cautious. Capital expenditure is important for the continued growth of infrastructure and productivity of Sonoma County. Uncertainty regarding both the United States and European economies, as well as other nations, may postpone capital expenditure because businesses are not sure they will see a return on their investment.
Special Focus - Market and Workforce Conditions

The Economic Development Board polls businesses on special topic questions in each survey that are pertinent to current economic issues. This year, in partnership with the MTC (Metropolitan Transportation Commission), respondents were asked questions to help further understand workforce conditions and efforts.

The majority of business executives expect the national unemployment rate to fall over the next six months with 56.3% anticipating a decline, 40.2% anticipating no change, and 3.45% anticipating a rise.

When business executives were asked how a higher minimum wage, at either the state or federal level, might impact their firm, an overwhelming number believed that there would be no change. 23.8% of business executives anticipated a decrease and only 2.38% believed that it would cause an increase.

With the MTC, business executives were asked to rank specific market, regulatory, and workforce conditions on a scale of 1-5, indicating what would be most important and impacting to job creation in the $18-$30/hr range.

The results show that some of the highest-ranked conditions were streamlined permit processing, with 35.8% of business executives ranking it as very important, and lower taxes, which 28.6% ranked it as very important as well. Some of the least concerning conditions were housing costs/availability, workforce training, and a lower cost of doing business.
Respondent Summary

The Economic Development Board distributed 200 surveys representing 11 industry sectors in order to gather opinions about the confidence of Sonoma County's businesses. The EDB received 87 surveys in response, for a response rate of 44%. This is a very high response rate for a mailed written survey.

The EDB attempted to survey a broad range of businesses when conducting the Business Confidence Survey. Using NAICS designations, we asked respondents to match themselves to the industry that closest represented their business. The four most represented industries responding to the survey were Professional and Financial Services (19.5%), Retail and Wholesale Distribution (17.3%), Manufacturing (17.3%), and Real Estate & Construction (11.5%). Non-Profit & Government, Health Services and Education were the least-represented industries.

The most common business size of those that responded was in the 16-50 range. The 101-250 range had the second-highest frequency, with 24 firms reporting that many employees. The third highest was the 51-100 range, with 13 firms in the category responding having that many employees. There were 11 total firms that had either 251-500 or 500+ employees. This shows a good representation of small, medium, and large businesses included in the EDB’s survey.
Methodology, Sources, and Notes

Note on Survey and Data

In order to get a cross-section of businesses in Sonoma County, the EDB sent surveys out to 200 business leaders in Sonoma County. We selected businesses across 11 sectors so that their opinions represent the overall economy. The EDB received 87 surveys in response for a response rate of 44%. This is a very high response rate for a mailed written survey.

The results of the survey were tabulated in house, and most reported statistics are averages, medians, or majorities. The EDB does not guarantee the accuracy of these statistics nor does the EDB guarantee that they are a factual representation of the business climate in Sonoma County. If there are errors in our methodology, sources or notes, please contact the EDB at edb@sonoma-county.org.

Note on Special Focus

The specific market, workforce, and regulatory questions were part of the 2014 Summer Business Confidence Survey's special focus with the partnership of the Metropolitan Transportation Commission. The special focus reports on important sector and economic issues facing Sonoma County. Previous topics have included tourism, business development, workforce availability and training. Suggestions are welcome.

Index Methodology

An index is an economic tool that is used to make general comparisons across a range of metrics.

The Sonoma County “purchasing trends” index is modeled after the national “Purchasing Managers Index” from the Institute for Supply Management (www.ism.ws). It is intended to provide a measurement for the pace at which an economy is expanding or contracting.

The national PMI uses information detailing companies’ new orders, production, employment, supply deliveries and inventories. Sonoma County’s index mirrors the PMI in computation. However, due to differences in compilation methodology, the two indices may not be directly comparable.

The formula for the PTI in each category is, using the responses to the question, “What has happened to the following within your company in the past quarter?” with regard to new customer orders, production, employment, supplier deliveries and inventories. Respondents then chose answers of Increased, Decreased, or Unchanged.

The indices for each category were then calculated by: \((I + 0.5*U)/N\) where \(I\) is the number of people responding “increased,” \(U\) is the number of people responding “unchanged” and \(N\) is the number of people responding to this particular question. Once all of the indices have been computed, the numbers are inserted into the overall PTI formula of: \(PTI = 0.3 * O + 0.25 * P + 0.2 * E + 0.15 * S + 0.1 * I\), where \(PTI\) = Purchasing Manager’s Index; \(O\) = New Customer Orders; \(P\) = Production; \(E\) = Employment; \(S\) = Supplier Deliveries; \(I\) = Inventories.

The following industries comprise the PTI: Real Estate and Construction, Manufacturing, Professional and Financial Services, Retail and Wholesale, Agriculture, Technology, Hospitality and Other.

The Sonoma County Business Confidence Index is the mean of all respondents’ perceptions of Sonoma County’s current economic situation on a scale of 1-10. Due to adjustments in methodology, some percentages differ from those cited in earlier Sonoma County Business Confidence reports.

Any feedback, suggestions, or comments can be directed to the Sonoma County Economic Development Board at edb@sonoma-county.org or (707)-565-7170.

www.sonomaedb.org
With acknowledgement and appreciation to key local businesses that support economic development in Sonoma County.