

Local Economic Report

Winter 2014

2014
SONOMA
COUNTY



Winter 2014 Local Economic Report


The Sonoma County Economic Development Board (EDB), in partnership with the Sonoma County Workforce Investment Board (WIB), is pleased to present the *Winter 2014 Local Economic Report*. Our research partner, Moody's Analytics, provided the research for this report. Highlights from this *Local Economic Report* include:

- Bolstered by US growth, Sonoma County's recovery will strengthen through 2015, with unemployment rate already falling below 6% in early 2014. Improvements in tourism, wine industry, newly resurgent housing, and life sciences-related technology will be positive drivers.
- Aging populations and increasing access to healthcare in the U.S. will generally favor the county's cluster of medical device manufacturers. However, consumers' changing preferences may create a challenging environment for the county's electronic measurement divisions.
- Visitor-dependent industries will thrive due to the strengthening U.S. economy and improving outlook for wine country. Passenger traffic through January 2014 increased by 6.6% from a year earlier, and the average hotel occupancy rate and room rates through October were higher than a year earlier.
- The county's expanding travel infrastructure and high quality of life will attract high skilled workers. However, increasing living and business costs will keep it an average performer.

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.



Pamela Chanter
Chair
Economic Development Board



Ben Stone
Executive Director
Economic Development Board

MOODY'S
ANALYTICS

SONOMA COUNTY
 **WORKFORCE**
INVESTMENT BOARD

SONOMA COUNTY
 **EDB**
ECONOMIC DEVELOPMENT BOARD

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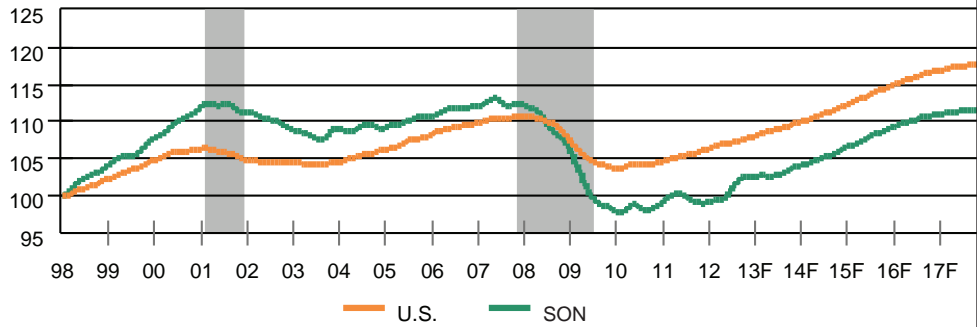
Libby Harvey FitzGerald
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SONOMA COUNTY

EMPLOYMENT GROWTH RANK <small>Best=1, Worst=392</small>	2012-2014	2012-2017
	78 1st quintile	110 2nd quintile
LIFE CYCLE PHASE	VITALITY	
	RELATIVE 99% <small>U.S.=100%</small>	RANK 167 <small>Best=1, Worst=384</small>
RISK EXPOSURE	2013-2018	
	50 1st quintile <small>Highest=1, Lowest=384</small>	RELATIVE COSTS <small>U.S.=100%</small>
	LIVING 119%	BUSINESS 98%

RELATIVE EMPLOYMENT PERFORMANCE (1998=100)



2006	2007	2008	2009	2010	2011	2012	INDICATORS	2013	2014	2015	2016	2017
20.4	20.9	20.2	18.8	19.1	19.5	19.8	Gross metro product (C\$B)	20.4	21.0	21.9	22.5	22.9
2.3	2.1	-3.1	-7.0	1.7	1.8	1.6	<i>% change</i>	3.3	2.8	4.1	2.9	2.0
189.0	190.5	185.8	170.4	166.5	168.8	170.9	Total employment (000)	174.6	178.2	182.8	186.7	188.7
1.4	0.8	-2.5	-8.3	-2.3	1.3	1.3	<i>% change</i>	2.2	2.1	2.6	2.1	1.0
4.0	4.3	5.8	9.6	10.4	9.8	8.6	Unemployment rate	6.8	6.0	5.7	5.5	5.2
7.9	3.8	-0.4	-5.2	2.2	7.0	2.7	Personal income growth	2.1	6.9	7.3	6.0	4.4
465.2	467.4	473.1	479.5	484.8	488.1	491.8	Population (000)	495.3	499.6	503.9	508.5	512.7
1,357	910	544	371	287	449	312	Single-family permits	518	1,559	2,174	2,219	1,986
555	521	68	71	190	183	248	Multifamily permits	274	418	434	442	437
621.5	574.9	407.9	348.7	362.3	332.6	355.9	Existing-home price (\$ ths)	434.0	456.7	468.2	473.9	487.8
8,990	6,663	3,558	5,576	4,943	4,026	5,155	Mortgage originations (\$ mil)	4,876	3,029	3,072	2,767	2,971
-2.5	-0.0	3.6	4.1	3.5	1.6	2.1	Net migration (000)	1.4	2.0	1.9	2.1	1.7
451	837	1,503	2,170	2,490	2,296	1,776	Personal bankruptcies	1,392	1,263	1,218	1,314	1,457

STRENGTHS & WEAKNESSES

STRENGTHS

- Medical devices and computer equipment testing clusters promote spin-off investments.
- World-class wineries are a lucrative draw for international high-income tourism.

WEAKNESSES

- Limited land available for new wineries and commercial construction, hindering long-term growth.
- High business costs relative to other areas of California and the West.

CURRENT EMPLOYMENT TRENDS

% CHANGE YR AGO, 3-MO MA

	Mar 13	Jul 13	Nov 13
Total	3.4	1.9	1.7
Construction	1.4	1.9	-0.7
Manufacturing	1.6	0.2	-0.1
Trade	4.2	2.0	1.7
Trans/Utilities	9.3	4.1	2.5
Information	2.1	1.2	0.0
Financial Activities	3.1	0.7	1.4
Prof & Business Svcs.	3.7	3.3	5.1
Edu & Health Svcs.	2.7	2.7	1.9
Leisure & Hospitality	5.5	2.7	3.3
Other Services	3.9	-0.5	0.0
Government	2.4	1.2	0.7

FORECAST RISKS

SHORT TERM



LONG TERM



UPSIDE

- Rising mobile and tablet shipments drive demand for locally made testing equipment.
- More states lift restrictions on direct wine shipments, bolstering sales for wineries.

DOWNSIDE

- Medical device companies reduce local presence in favor of lower-cost areas.
- Water and other environmental restrictions increase operating costs for wineries and breweries.

ANALYSIS

Recent Performance. Sonoma County's recovery solidified near the end of 2013 as core consumer-dependent industries strengthened and a major Indian casino began operations. Hiring for the tribal casino, classified as local government, overstated public sector strength, but hiring by private visitor-dependent industries and business services points to real positives. The unemployment rate slipped below 6.5% for the first time since the end of 2008, even as the labor force stopped declining. However, some signs of cooling are visible in real estate. House price appreciation eased as sales fell by more than 10% from a year earlier, according to the California Association of Realtors. Construction of multifamily units is increasing.

Wine. Winemakers face an increasing supply of wine grapes. Early reports suggest that the 2013 North Bay harvest may not surpass the record 2012 crop, but it will produce a well above-average yield. Two consecutive large yields will limit grape price growth and cause a shortage of wine storage tanks.

Market conditions for Sonoma County's high-end wines are favorable. A stronger U.S. recovery as well as high capital gains realized from equities will help to drive wine sales in 2014. High-markup hotel sales increased in 2013, providing a lucrative sales channel for high-priced county wines. Off-premises sales of premium wines also outpaced total wine sales last year.

Tourism. A strengthening U.S. recovery and an improving outlook for wine country bode well for visitor-dependent industries. Through January, passenger traffic at Charles M. Schulz-Sonoma County Airport increased by 6.6% from the same period in 2013. Correspondingly, the average hotel occupancy rate and room rates through October were higher than a year earlier, according to PKF Consulting.

California's newest and largest tribal casino will help to attract more Northern California residents to Sonoma County. The Graton Resort & Casino opened in November with 3,000 slot machines and 144 gaming tables. Tribal authorities expect to eventually employ up to 2,000 workers at the fully completed resort and casino, the closest to San Francisco and Oakland.

Technology. Agilent Technologies' electronic measurement division, Sonoma County's largest technology employer, has faced a challenging environment as a newly spun-off division, although a rise in semiconductor sales points to an increase in demand for electronics testing equipment for mobiles and tablet computers. The division reported a 14% fall in sales for the quarter ending October 31 from a year earlier.

The outlook for Sonoma County's cluster of medical device manufacturers is generally more favorable. An aging population and increased access to healthcare domestically and globally are bolstering demand for stents and other devices made by firms such as Medtronic's vascular division, the county's second largest tech employer. The division reported a 3% annualized increase in revenue in the most recent quarter.

Sonoma County's recovery will strengthen through 2015, bolstered by U.S. growth, which will spur gains in tourism and the wine industry. Additional support will come from life sciences-related technology and housing. Housing construction will begin to increase. The unemployment has fallen below 6% by beginning of 2014. The county will maintain its high quality of life and attractiveness for high-skilled workers. However, elevated costs will keep it an average performer over the extended forecast.

*Eduardo J. Martinez
January 2014*

EMPLOYMENT & INDUSTRY

TOP EMPLOYERS

Kaiser Permanente	2,812
St. Joseph Health System	2,489
Sutter Medical Center of Santa Rosa	1,497
Safeway Inc.	1,200
Agilent Technologies	1,150
Amy's Kitchen	900
Medtronic CardioVascular	840
Wal-Mart Stores Inc.	650
Kendall-Jackson Wine Estates	640
AT&T	600
Lucky	550
River Rock Casino	539
Pacific Gas and EI	500
Hansel Auto Group	460
Petaluma Acquisitions	425
Exchange Bank	419
The Home Depot U.S.A. Inc.	390
Korbel	376
G&G Supermarket	325
Mary's Pizza Shack	300

Source: North Bay Business Journal: Book of Lists, January 2012

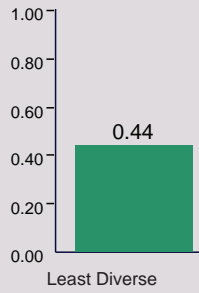
PUBLIC

Federal	1,504
State	4,658
Local	21,522

2012

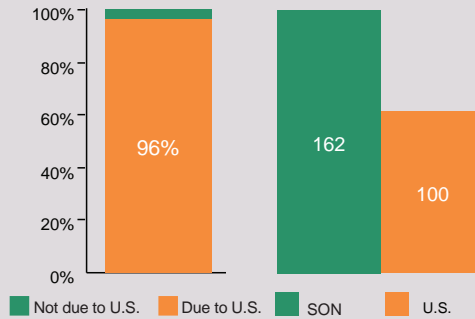
INDUSTRIAL DIVERSITY

Most Diverse (U.S.)



EMPLOYMENT VOLATILITY

Due to U.S. fluctuations Relative to U.S.



MIGRATION FLOWS

INTO SONOMA COUNTY, CA NUMBER OF MIGRANTS

San Francisco, CA	2,717
Oakland, CA	1,041
Sacramento, CA	704
Los Angeles, CA	470
Napa, CA	469
San Jose, CA	411
Vallejo, CA	404
San Diego, CA	332
Santa Ana, CA	199
Riverside, CA	193
Total In-migration	12,910

FROM SONOMA COUNTY, CA

San Francisco, CA	1,767
Oakland, CA	882
Sacramento, CA	748
Vallejo, CA	501
Napa, CA	421
Los Angeles, CA	397
San Jose, CA	369
San Diego, CA	353
Riverside, CA	193
Seattle, WA	170
Total Out-migration	12,293

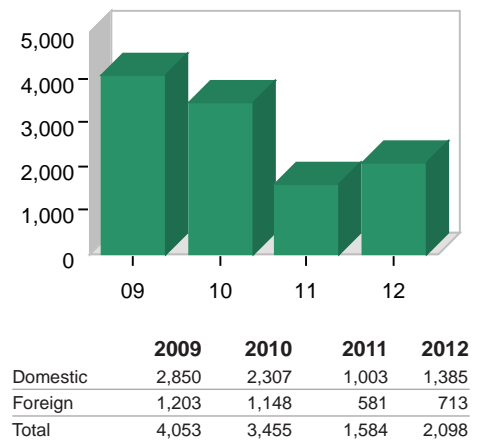
Net Migration 617

COMPARATIVE EMPLOYMENT AND INCOME

Sector	% of Total Employment			Average Annual Earnings		
	SON	CA	U.S.	SON	CA	U.S.
Mining	0.1%	0.2%	0.6%	\$15,522	\$115,365	\$121,241
Construction	5.1%	4.1%	4.2%	\$63,290	\$59,428	\$55,288
Manufacturing	11.5%	8.7%	8.9%	\$80,019	\$90,755	\$75,242
Durable	43.0%	62.4%	62.6%	nd	\$102,152	\$76,882
Nondurable	57.0%	37.6%	37.4%	nd	\$72,181	\$72,564
Transportation/Utilities	2.3%	3.4%	3.7%	\$69,011	\$66,808	\$63,045
Wholesale Trade	4.0%	4.7%	4.2%	\$69,985	\$77,286	\$77,359
Retail Trade	13.2%	10.9%	11.1%	\$34,979	\$36,893	\$31,495
Information	1.5%	3.0%	2.0%	\$70,593	\$119,643	\$93,099
Financial Activities	4.4%	5.4%	5.8%	\$30,052	\$42,223	\$47,540
Prof. and Bus. Services	10.5%	15.5%	13.4%	\$44,757	\$67,428	\$61,311
Educ. and Health Services	14.7%	13.1%	15.2%	\$56,905	\$56,788	\$50,524
Leisure and Hosp. Services	12.8%	11.1%	10.3%	\$21,924	\$28,480	\$23,812
Other Services	3.7%	3.5%	4.1%	\$38,818	\$35,125	\$33,224
Government	16.2%	16.5%	16.4%	\$66,914	\$88,336	\$70,342

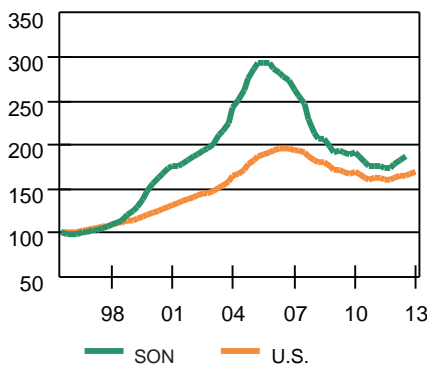
Sources: Percent of total employment — Moody's Analytics & BLS, 2012; Average annual earnings — BEA, 2011

NET MIGRATION, SON



Sources: IRS (top), 2010; Census Bureau, 2012

HOUSE PRICES



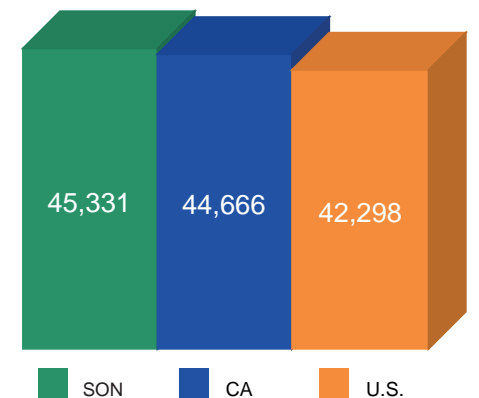
Source: FHFA, 1996Q1=100, NSA

LEADING INDUSTRIES

NAICS INDUSTRY	EMPLOYEES (000)
GVSL State & Local Government	26.2
7225 Restaurants and other eating places	14.0
3121 Beverage manufacturing	6.4
FR Farms	6.1
4451 Grocery stores	5.9
6221 General medical and surgical hospitals	4.2
PH Private Household Workers	4.0
7211 Traveler accommodation	3.6
6214 Outpatient care centers	3.2
5617 Services to buildings and dwellings	3.2
6211 Offices of physicians	3.0
5613 Employment services	2.8
6241 Individual and family services	2.3
7139 Other amusement and recreation industries	2.2
FH Fishing, Hunting, Etc.	2.0
High-tech employment	8.2
As % of total employment	4.4

Sources: BLS, Moody's Analytics, 2012

PER CAPITA INCOME



Source: Bureau of Economic Analysis, 2011

MOODY'S RATING

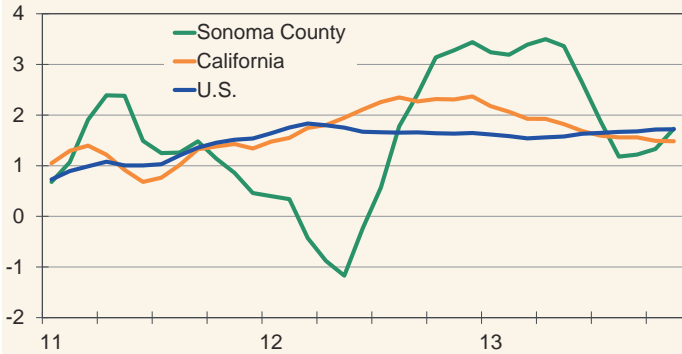
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COUNTY
AS OF APR 16, 2010

Graphical Analysis

Sonoma County's Recovery Gets a Lift...

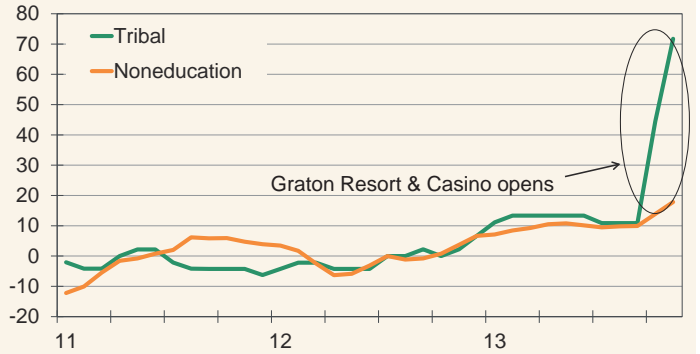
Employment, % change yr ago, 3-mo MA



Sources: BLS, Moody's Analytics

...From California's Largest Tribal Casino

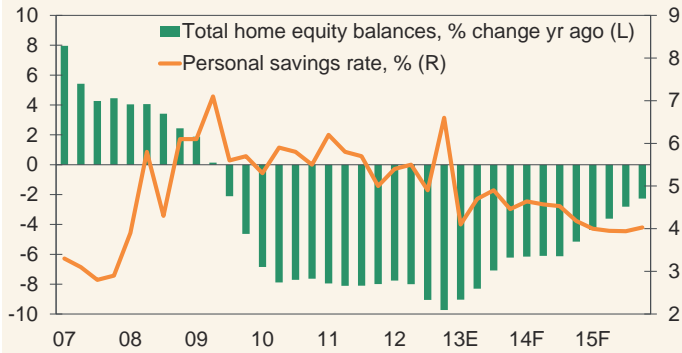
Local government employment, % change yr ago, 3-mo MA



Sources: BLS, Moody's Analytics

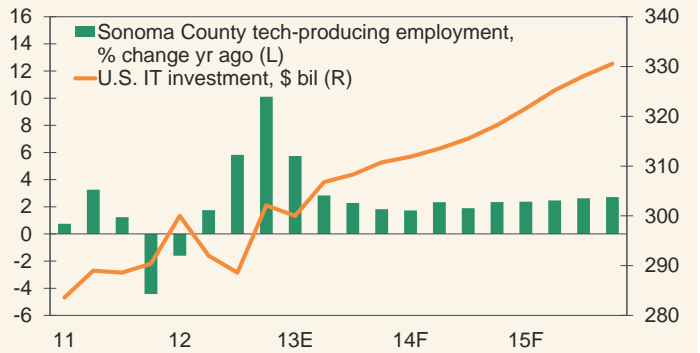
Wine Buyers Begin to Loosen Wallets

U.S.



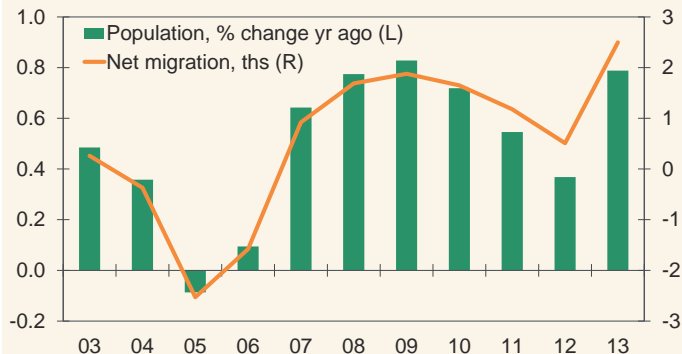
Sources: BEA, Equifax, Moody's Analytics

Good Outlook for Tech Producers



Sources: BEA, BLS, Moody's Analytics

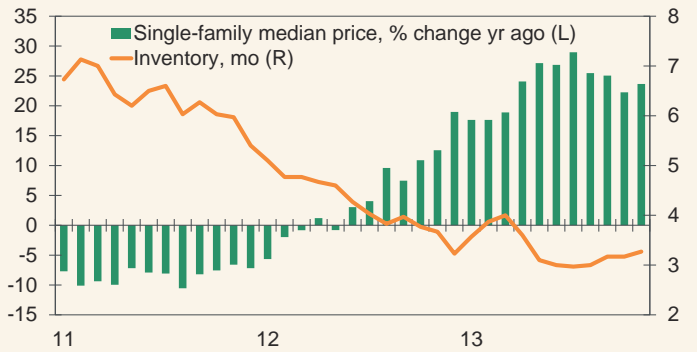
Sonoma County Demographics Bounce Back



Sources: State of California, Moody's Analytics

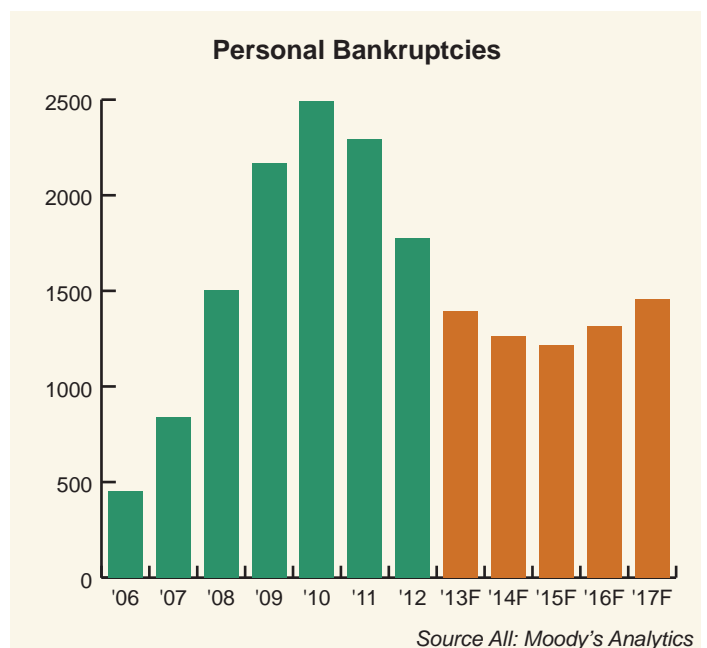
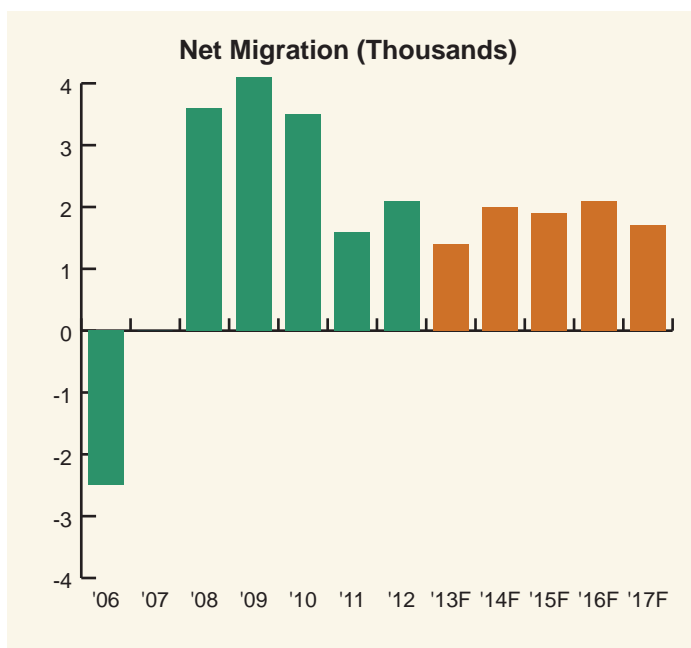
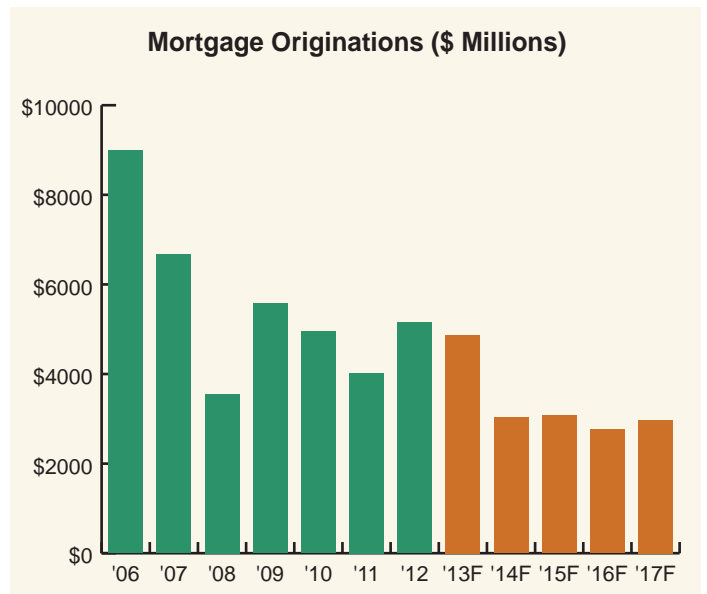
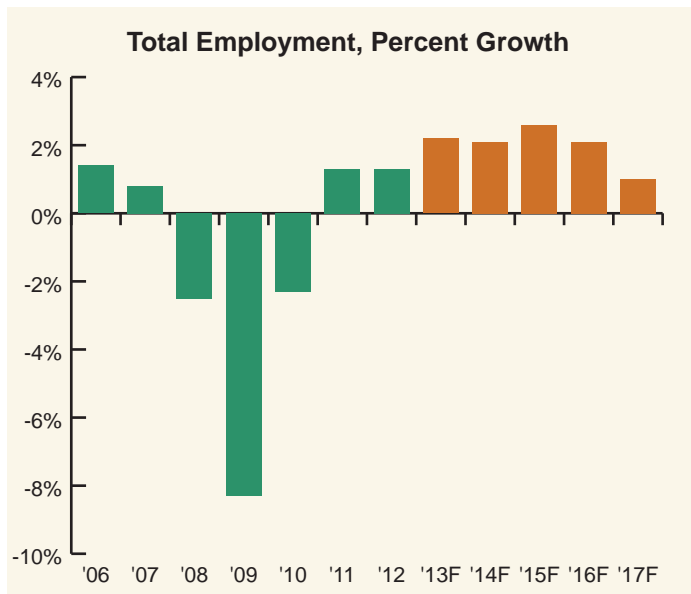
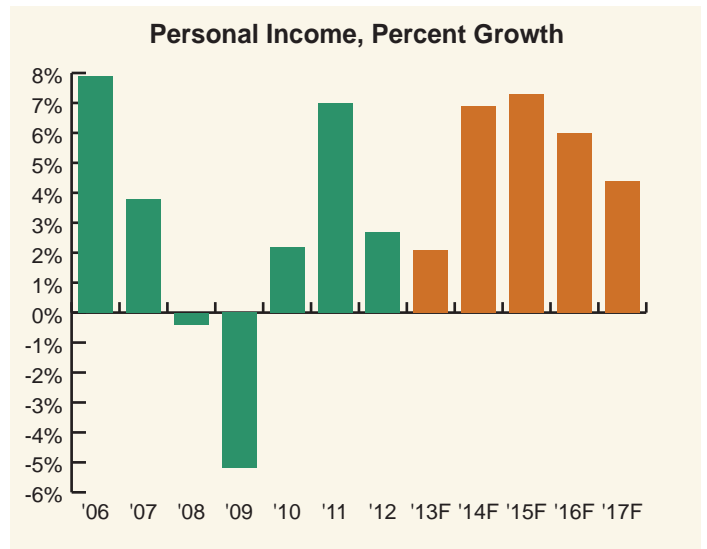
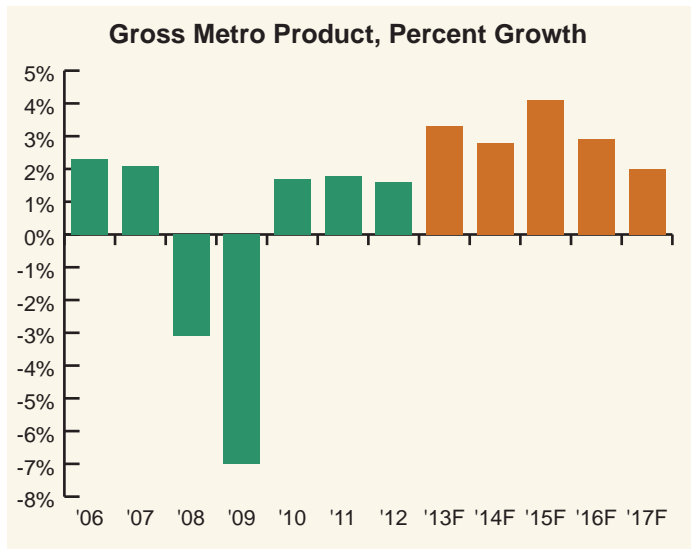
Low Inventories, In-Migration Lead to Building

Sonoma County, 3-mo MA



Sources: California Assn. of Realtors, Moody's Analytics

5-Year Forecasts for Sonoma County



Source All: Moody's Analytics

With acknowledgement and appreciation to key local businesses that support economic development in Sonoma County

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