

Local Economic Report

Fall 2013

2013
SONOMA
COUNTY



Fall 2013 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 *Fall 2013 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 slipping below 7% for the first time since the end of 2008. Improvements in tourism, wine industry, newly resurgent housing, business services and local non-education payrolls 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 the first eight months of 2013 increased 7% from a year earlier, and the hotel occupancy rate rose nearly 10 percentage points to 78%.
- 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

 **EDB**
ECONOMIC DEVELOPMENT BOARD

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SONOMA COUNTY

EMPLOYMENT GROWTH RANK

2012-2014
110
2nd quintile

2012-2017
122
2nd quintile

LIFE CYCLE PHASE

VITALITY

RELATIVE **99%**
U.S.=100%

RANK **167**
Best=1, Worst=384

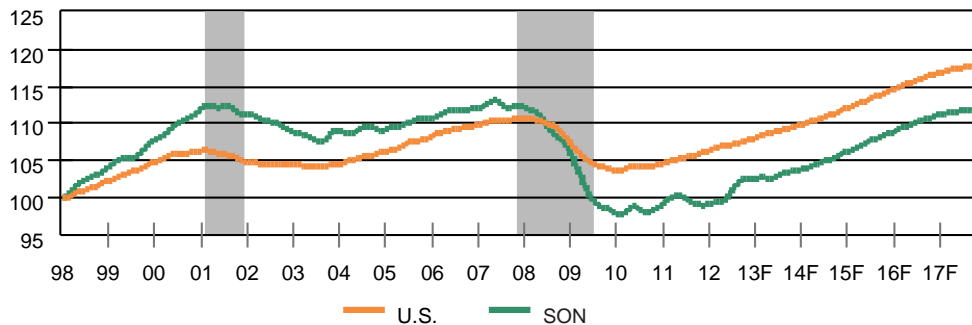
RISK EXPOSURE

2013-2018
67
1st quintile
Highest=1, Lowest=384

RELATIVE COSTS U.S.=100%

LIVING **121%**
BUSINESS **91%**

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)	20.3	21.0	21.9	22.6	23.1
2.3	2.1	-3.1	-7.0	1.7	1.8	1.6	% change	2.9	3.2	4.2	3.1	2.4
189.0	190.5	185.8	170.4	166.5	168.8	170.9	Total employment (000)	174.5	177.7	182.2	186.5	189.2
1.4	0.8	-2.5	-8.3	-2.3	1.3	1.3	% change	2.1	1.8	2.6	2.4	1.4
4.0	4.3	5.8	9.6	10.4	9.8	8.6	Unemployment rate	6.7	6.1	5.9	5.6	5.2
8.2	4.4	0.6	-7.9	2.5	5.5	2.2	Personal income growth	4.1	6.5	7.2	6.6	5.1
465.2	467.4	473.1	479.5	484.8	488.1	491.8	Population (000)	496.6	502.1	507.5	513.2	518.5
1,357	910	544	371	287	449	312	Single-family permits	622	1,455	1,957	2,002	1,809
555	521	68	71	190	183	248	Multifamily permits	370	417	418	402	378
621.5	574.9	407.9	348.7	362.3	332.6	356.1	Existing-home price (\$ ths)	425.1	446.1	459.4	466.6	485.6
8,990	6,663	3,558	5,606	4,991	4,082	5,966	Mortgage originations (\$ mil)	5,162	3,232	3,258	3,251	4,287
-2.5	-0.0	3.6	4.1	3.5	1.6	2.1	Net migration (000)	2.7	3.4	3.0	3.2	2.9
451	837	1,503	2,170	2,490	2,296	1,776	Personal bankruptcies	1,474	1,356	1,397	1,485	1,604

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

- High business costs relative to lower-cost areas of California and the West.

CURRENT EMPLOYMENT TRENDS

% CHANGE YR AGO, 3-MO MA

	Nov 12	Mar 13	Jul 13
Total	3.3	3.4	1.9
Construction	1.2	1.4	1.9
Manufacturing	-0.1	1.6	0.2
Trade	4.1	4.2	2.0
Trans/Utilities	5.6	9.3	4.1
Information	4.4	2.1	1.2
Financial Activities	1.0	3.1	0.7
Prof & Business Svcs.	4.4	3.7	2.9
Edu & Health Svcs.	3.8	2.7	2.7
Leisure & Hospitality	6.5	5.5	2.8
Other Services	5.4	3.9	-0.5
Government	1.5	2.4	1.3

FORECAST RISKS

SHORT TERM



LONG TERM



UPSIDE

- Compromise on federal spending further bolsters consumer spending on tourism.
- 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 edged forward through the third quarter of 2013, aided in large part by wine and visitor-dependent industries, improving business services, and newly revived public sector spending. Business services, restaurants, and local non-education payrolls, including tribal casinos, are contributing the most to recent payroll gains. The unemployment rate has slipped below 7% for the first time since the end of 2008. Improvements extend to real estate. House prices are rising on a year-over-year basis as inventory is at its lowest level in more than four years.

Wine. Local winemakers face an improving outlook. A sizable 2013 vintage harvest, fueled by favorable summer weather, drove demand for barrels and space to store maturing wines to a pace above that in past years. Weak demand for residential construction workers tempered grape growers' fears of a labor shortage in the face of falling international migration to the county.

Market conditions for Sonoma County's high-end wines are favorable. Retail sales of wines priced \$20 and more outpaced all other categories in mid-summer, according to Nielsen. On-premise sales of wine and spirits rose 1.5% in the first half of 2013 from a year earlier, according to GuestMetrics. Improving labor markets and consumer confidence, bolstered by resurgent housing markets, bode well for wine sales.

Tourism. A strengthening U.S. recovery and an improving outlook for Wine Country bode well for local visitor-dependent industries. Through September, passenger traffic at Charles M. Schulz-Sonoma County Airport increased 7% from the same period in 2012 and nearly matched the pre-recession level reached in 2008. Correspondingly, the hotel occupancy rate rose nearly 10 percentage points to 78% in May from a year earlier, according to Smith Travel Research.

The county's travel infrastructure will soon expand. Work has begun on a \$53 million airport improvement project, scheduled to be completed by late 2014. Among the improvements, reconfigured and extended runways will help to expand the number of airlines servicing the airport beyond its sole carrier, Horizon Air.

Technology. Agilent Technologies' electronic measurement division, Sonoma County's largest technology employer, faces a challenging environment as a newly spun-off division. Although usually more stable than Agilent's communications and defense-related product lines, the Santa Rosa-based electronic measurement division reported a 17% fall in sales for the quarter ending July 31 from a year earlier. The division has been particularly hurt by consumers' changing preferences, as smaller and less complex tablets require less testing than PCs.

The outlook for the county's cluster of medical device manufacturers is generally more favorable. Aging populations and increased access to health-care in the U.S. and emerging economies are bolstering demand for stents and other devices made by firms such as Medtronic's Santa Rosa-based vascular division, the county's second largest tech employer. The division reported a 2% increase in revenues in its most recent quarter.

Sonoma County's recovery will strengthen through 2015, bolstered by U.S. growth. Tourism and the wine industry will be positive drivers, with additional support from technology and newly resurgent housing. The unemployment rate will fall to 6% by the middle of 2015. The metro area 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
Fall 2013

EMPLOYMENT & INDUSTRY

TOP PRIVATE 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 Electric Co.	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

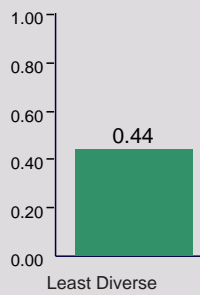
PUBLIC EMPLOYERS

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

2012

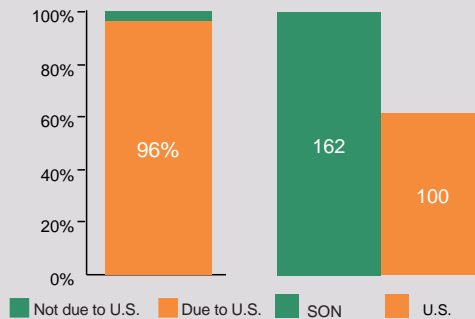
INDUSTRIAL DIVERSITY

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

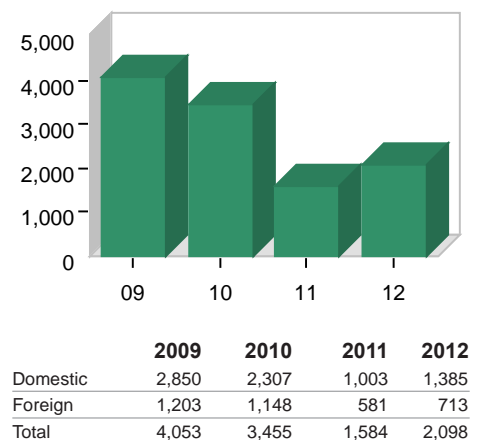
Net Migration 617

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	\$75,833	\$80,442
Construction	5.1%	4.1%	4.2%	\$63,290	\$64,858	\$57,059
Manufacturing	11.5%	8.7%	8.9%	\$80,019	\$93,487	\$76,451
Durable	42.9%	62.4%	62.6%	nd	\$105,024	\$78,378
Nondurable	57.1%	37.6%	37.4%	nd	\$74,760	\$73,303
Transportation/Utilities	2.3%	3.4%	3.7%	\$69,011	\$67,171	\$63,289
Wholesale Trade	4.0%	4.7%	4.2%	\$69,985	\$78,212	\$78,458
Retail Trade	13.2%	10.9%	11.1%	\$34,979	\$37,786	\$32,088
Information	1.5%	3.0%	2.0%	\$70,593	\$127,523	\$96,383
Financial Activities	4.4%	5.4%	5.8%	\$30,052	\$47,475	\$50,553
Prof. and Bus. Services	10.5%	15.5%	13.4%	\$44,757	\$67,822	\$61,371
Educ. and Health Services	14.7%	13.1%	15.2%	\$56,905	\$57,360	\$50,771
Leisure and Hosp. Services	12.8%	11.1%	10.3%	\$21,924	\$29,191	\$24,149
Other Services	3.7%	3.5%	4.1%	\$38,818	\$37,024	\$34,601
Government	16.2%	16.5%	16.4%	\$66,914	\$78,670	\$68,458

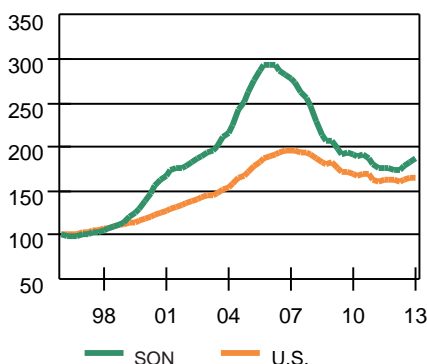
Sources: Percent of total employment — Moody's Analytics & BLS, 2012; Average annual earnings — BEA, 2011

NET MIGRATION, SON



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

HOUSE PRICES



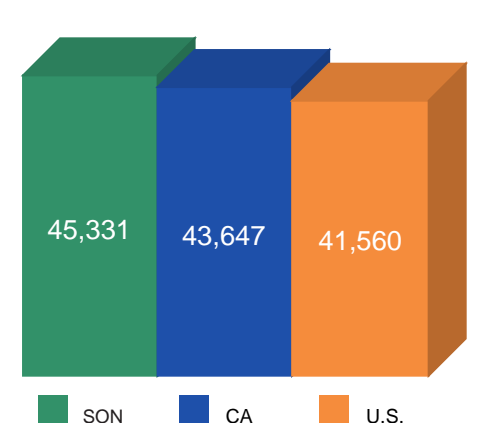
Source: FHFA, 1996Q1=100, NSA

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

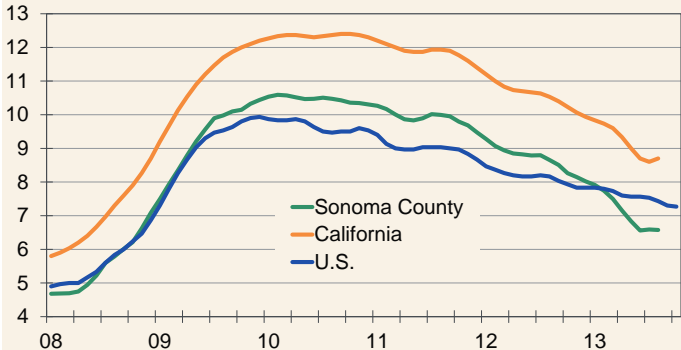
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COUNTY
AS OF APR 16, 2010

Graphical Analysis

Labor Markets Improve

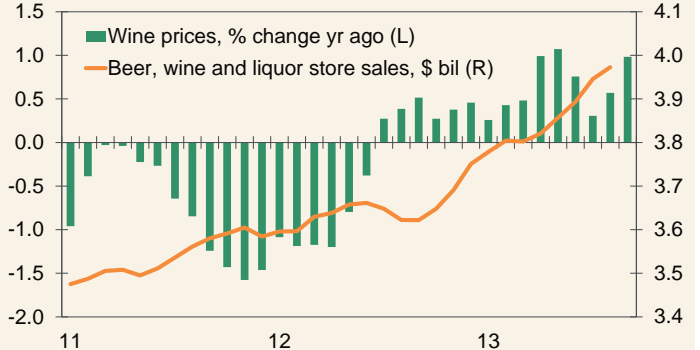
Unemployment rate, %, 3-mo MA



Sources: BLS, Moody's Analytics

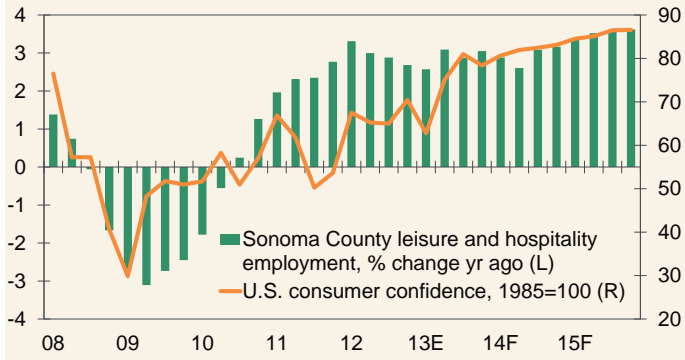
Improving Demand for Sonoma County Wines

U.S., 3-mo MA



Sources: BLS, Census Bureau, Moody's Analytics

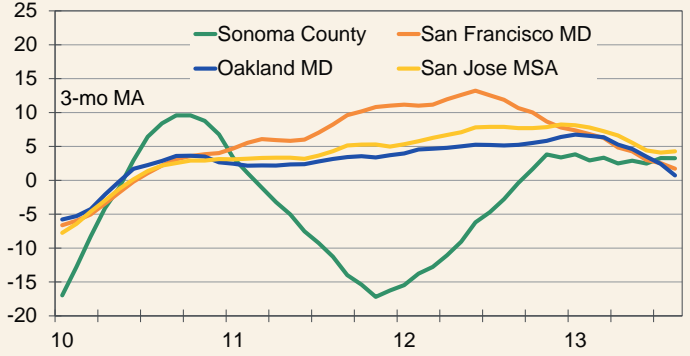
Favorable Outlook for Wine Country Tourism



Sources: BLS, The Conference Board, Moody's Analytics

Sonoma's Tech Job Growth Stabilizes

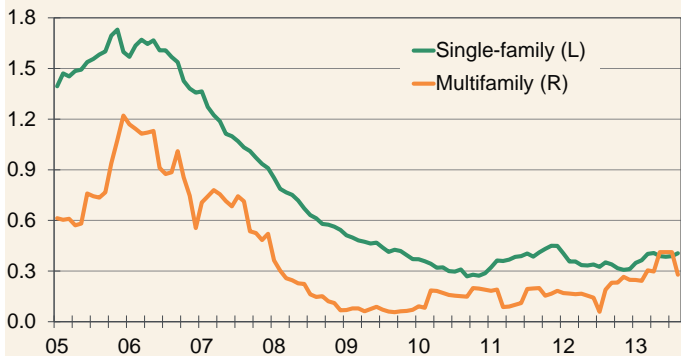
Professional, scientific, technology employment, % change yr ago



Sources: BLS, Moody's Analytics

Homebuilding Recovery in Early Phase...

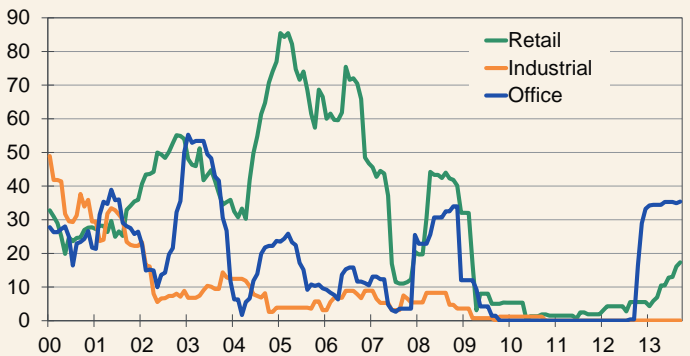
Sonoma County residential permits, ths, SAAR, 12-mo MA



Sources: Census Bureau, Moody's Analytics

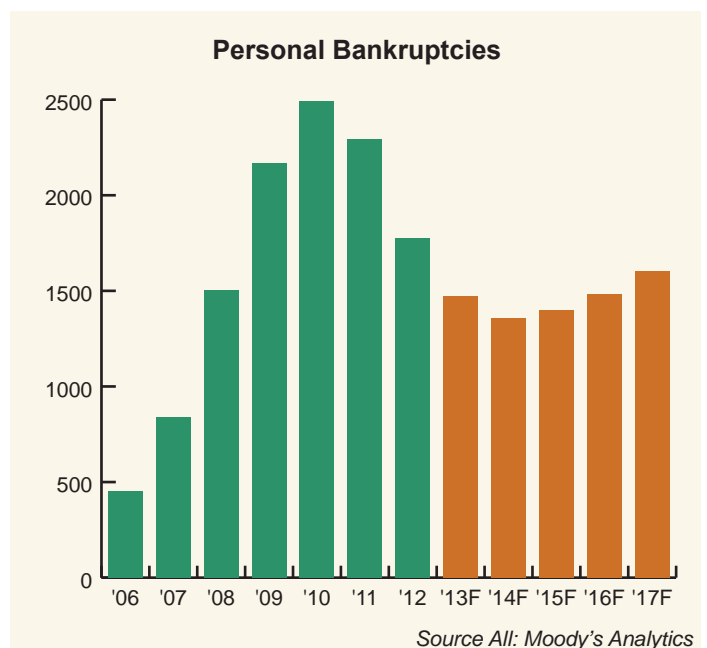
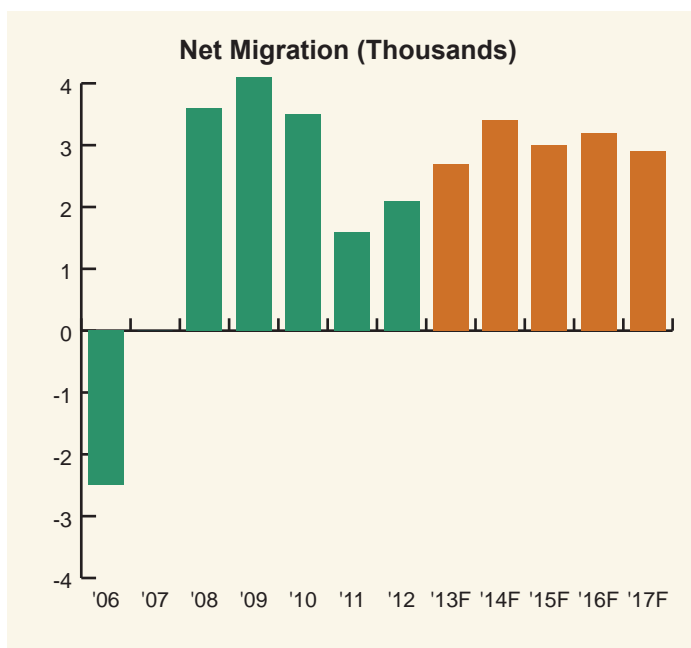
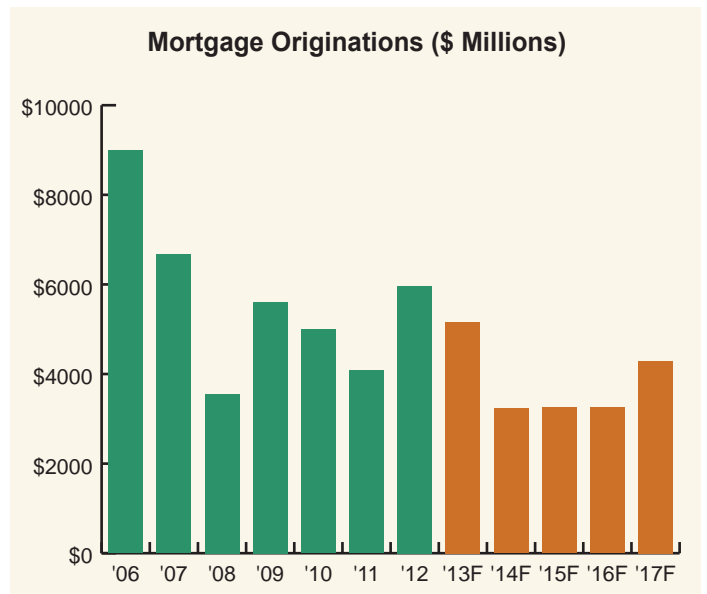
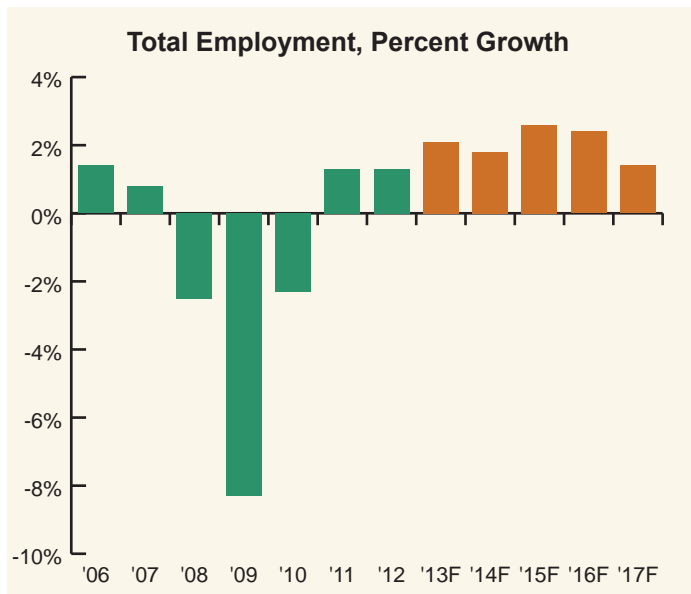
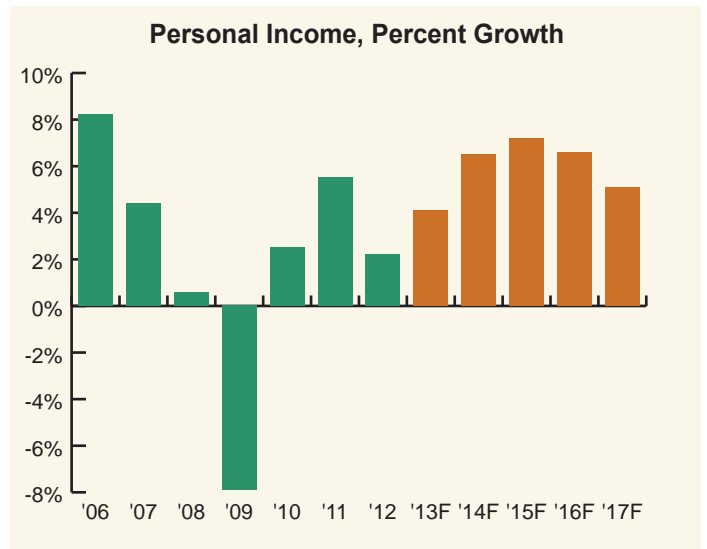
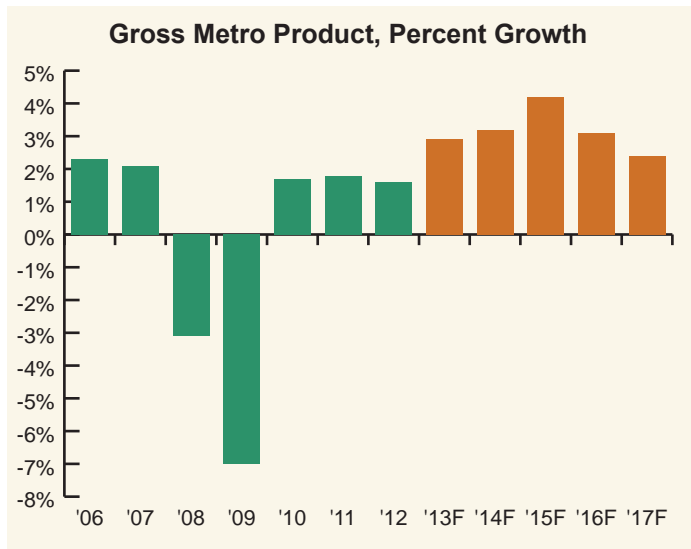
...But Commercial Building Is Reviving

Sonoma County nonresidential permits, \$ mil, 12-mo moving sum



Sources: CIRB-CHF, Moody's Analytics

5-Year Forecasts for Sonoma County



Source All: Moody's Analytics

With acknowledgement and appreciation to local key businesses supporting Sonoma County Economic Development:

Director



Executive



Sponsors



American AgCredit



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CERTIFIED PUBLIC ACCOUNTANTS • APC
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