

# Local Economic Report

## Spring 2011

**2011**  
SONOMA  
COUNTY



# Spring 2011 Local Economic Report

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April 2011

The Sonoma County Economic Development Board (EDB), in partnership with the Sonoma County Workforce Investment Board (WIB), is pleased to present the *Spring 2011 Local Economic Report*. Our research partner, Moody's Analytics, provided the research for this report. Highlights from this *Local Economic Report* include:

- Sonoma County's total employment is at its highest level since the end of 2009, partially because of boosting employment in technology and construction.
- Technology, particularly medical device firms, remains as a key industry driving growth in Sonoma County. Demand for new medical technologies and drugs will be a positive driver.
- The strengthening state and U.S. recoveries will boost demand for the county's tourism-related industries. Local hotel occupancies are higher than a year ago, and hotels no longer rely on discounted rates to fill rooms.
- Sonoma County's recovery will strengthen in 2011, led by tech, tourism, and construction. Accelerating job growth is forecasted to push the unemployment rate below 9% by the middle of 2012.

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](http://www.sonomaedb.org).

Sincerely,



**Ben Stone**  
Executive Director

**MOODY'S**  
ANALYTICS

SONOMA COUNTY  
**WORKFORCE**  
INVESTMENT BOARD

 **EDB**  
SONOMA COUNTY  
ECONOMIC DEVELOPMENT BOARD

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# SONOMA COUNTY

## EMPLOYMENT GROWTH RANK

2010-2012

**112**

2nd quintile

2010-2015

**114**

2nd quintile

Best=1, Worst=392

## VITALITY

RELATIVE

**105%**

U.S.=100%

RANK

**138**

Best=1 Worst=384

## RELATIVE COSTS

LIVING

**127%**

U.S.=100%

BUSINESS

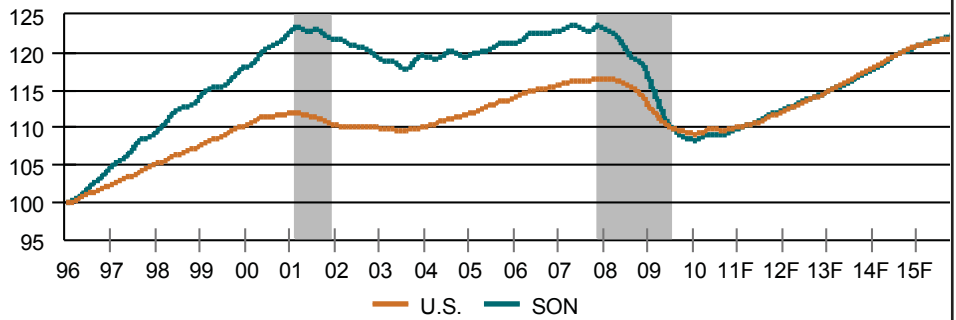
**93%**

## LIFE CYCLE PHASE

Growth/Mature

2004	2005	2006	2007	2008	2009	2010	INDICATORS	2011	2012	2013	2014	2015
19.5	19.9	20.4	21.0	20.6	19.8	20.0	<b>Gross metro product (C\$B)</b>	20.8	21.7	22.5	23.1	23.7
2.9	2.5	2.5	2.5	-1.7	-4.2	1.1	% change	4.2	4.4	3.5	2.8	2.4
184.8	186.3	189.0	190.4	186.4	171.8	168.5	<b>Total employment (000)</b>	171.6	175.5	179.5	184.4	188.2
0.8	0.8	1.4	0.8	-2.1	-7.9	-1.9	% change	1.9	2.3	2.3	2.8	2.0
5.0	4.5	4.0	4.3	5.7	9.7	10.5	<b>Unemployment rate</b>	10.1	8.8	7.5	6.0	5.1
4.1	4.4	8.2	4.3	1.5	-4.3	2.5	<b>Personal income growth</b>	5.2	6.0	7.0	5.8	4.8
463.2	461.4	459.8	461.4	466.4	472.1	476.4	<b>Population (000)</b>	482.1	488.6	495.0	501.1	507.1
1,342	1,598	1,357	910	544	371	293	<b>Single-family permits</b>	544	1,195	1,498	1,505	1,360
587	1,221	555	521	68	71	189	<b>Multifamily permits</b>	251	483	569	544	472
574.9	699.0	686.7	639.1	475.7	429.9	443.7	<b>Existing-home price (\$ths)</b>	404.7	402.2	422.3	443.5	466.9
11,619	12,695	10,041	7,541	5,441	7,239	5,166	<b>Mortgage originations (\$mil)</b>	4,450	3,346	3,753	4,352	5,249
-2.1	-3.5	-3.3	-0.5	2.9	3.4	1.9	<b>Net migration (000)</b>	3.2	3.9	3.7	3.2	3.1
1,267	1,997	451	837	1,503	2,170	2,490	<b>Personal bankruptcies</b>	2,647	2,732	2,722	2,691	2,680

## RELATIVE EMPLOYMENT PERFORMANCE (1996=100)



## STRENGTHS & WEAKNESSES

### STRENGTHS

- Existing entrepreneurial and physical infrastructure plus connection with other tech centers attracts new investments.
- Highly educated workforce relative to California and the U.S. boosts income and spending levels.

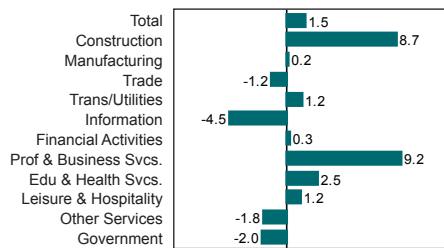
### WEAKNESSES

- Land use constraints limit where and how easily residential and nonresidential construction can occur.

## CURRENT EMPLOYMENT TRENDS

### FEBRUARY 2011

% change yr ago, 3-mo MA



## FORECAST RISKS

SHORT TERM ~~X~~ LONG TERM ~~X~~

RISK-ADJUSTED RETURN, '10-15 **-0.01%**

### UPSIDE RISKS

- Developing and aging Asia provides growing markets for IT and medical device makers.
- Improving business confidence will translate to renewed bookings of corporate meetings at local resorts and wineries.

### DOWNSIDE RISKS

- Foreclosures rise substantially, extending price declines deeper and longer than forecast.

## ANALYSIS

**Recent Performance.** Sonoma County is moving closer to expansion. Construction has joined technology in boosting employment, pushing the unemployment rate below 10%—a percentage point higher than the U.S. rate, but 2 points below the California average—and lifting total employment to its highest level since the end of 2009.

Real estate has been less of a drag on the recovery. Issuance of residential permits has increased since last fall, and prices for existing houses have avoided another sharp drop. In contrast, the rate of new real-estate-owned foreclosures is increasing, following the end of a voluntary moratorium.

**Technology.** Demand for electronics and other tech equipment will remain one of the county's strongest drivers in 2011. Agilent Technologies—the county's largest private sector employer—is hiring production and research and development workers in order to reduce a growing backlog of orders resulting from strong demand for its testing equipment used by cell phone and other electronics makers. The federal rural broadband stimulus is also driving the expansion of the county's broadband firms, as telephone and internet service providers upgrade their broadband systems.

Demand for new medical technologies and drugs will be another positive driver. Mandates for online records included in the federal healthcare law helped Sonoma-based Tolven raise more than \$200 million in venture capital last year. Petaluma-based Oculus Innovative Sciences has signed a \$1 million deal to develop and market drugs for an international generic pharmaceutical firm. Strong 2010 sales and growing market share for Medtronic's Santa Rosa-based cardiovascular division may minimize the local impact of 4% to 5% companywide job cuts that were announced in February.

**Tourism.** The strengthening state and U.S. recoveries will boost demand for the county's tourism-related industries. Local hotel occupancies are higher than a year ago, and hotels are no longer reliant on discounted rates to fill rooms, boosting revenues. A recently completed expansion helped to increase air passenger traffic at Sonoma County Airport by nearly 20% in the first two months of 2011. Rising gas prices are a downside risk, which could diminish the growth in summer visitors traveling to the county by air or automobile.

**Wine.** The county's producers of high-quality wines face stabilizing price conditions at best. Off- and on-premises wine sales have increased in recent months, although they have been boosted by continued discounting of wines priced above \$20 a bottle. The smaller harvest will help to reduce wine inventories in 2011, following two years of an oversupply of quality wines. However, higher savings rates will make the shift to value permanent for many wine drinkers, limiting any gains in pricing power for high-quality wine makers even as job and income growth accelerates.

Direct shipments of wine—a lucrative sales channel for county wineries—face a downside risk in the form of Congressional legislation. H.R. 1161 would allow states to prohibit out-of-state wine shipments, while still allowing in-state shipments. California wine producers, who accounted for 61% of the U.S. wine market in volume terms in 2010, would be the most hurt if the bill is approved and signed into law.

**Sonoma County's recovery will strengthen in 2011, led by tech, tourism and construction. Accelerating job growth will push the unemployment rate below 9% by the middle of 2012. The county will maintain its high quality of life and attractiveness for high-skilled workers. However, high housing costs will keep the county as a below-average performer at times over the extended forecast.**

*Eduardo J. Martinez  
April 2011*

## EMPLOYMENT & INDUSTRY

### TOP EMPLOYERS

Kaiser Permanente	2,686
St. Joseph Health System	2,310
Safeway, Inc.	1,200
Sutter Medical Center of Santa Rosa	1,197
Agilent Technologies	1,100
Amy's Kitchen	900
Medtronic CardioVascular	800
River Rock Casino	660
Wal-Mart Stores, Inc.	650
Kendall-Jackson Wine Estates	640
AT&T	597
Lucky	552
Wells Fargo & Company	519
Pacific Gas and Electric Company	500
Hansel Auto Group	450
Korbel	426
Petaluma Acquisitions	425
Exchange Bank	415
The Home Depot U.S.A., Inc.	392
G&G Supermarket	350

Source: North Bay Business Journal: Book of Lists, January 2011

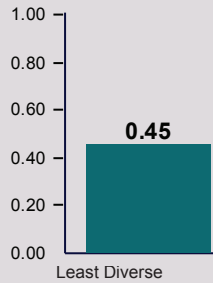
### PUBLIC

Federal	1,775
State	4,673
Local	20,288

2010

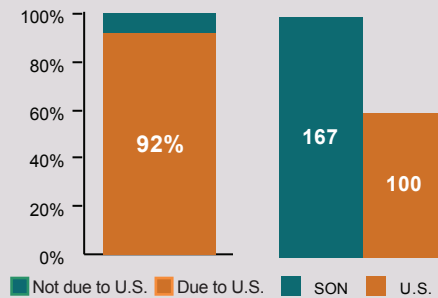
### INDUSTRIAL DIVERSITY

Most Diverse (U.S.)



### EMPLOYMENT VOLATILITY

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



## MIGRATION FLOWS

### INTO SONOMA COUNTY      NUMBER OF MIGRANTS

San Francisco, CA	2,599
Sacramento, CA	711
Vallejo, CA	445
San Jose, CA	363
Riverside, CA	278
<b>Total In-migration</b>	<b>13,499</b>

### FROM SONOMA COUNTY

San Francisco, CA	1,902
Sacramento, CA	964
Los Angeles, CA	390
San Jose, CA	339
Portland, OR	249
<b>Total Out-migration</b>	<b>13,386</b>

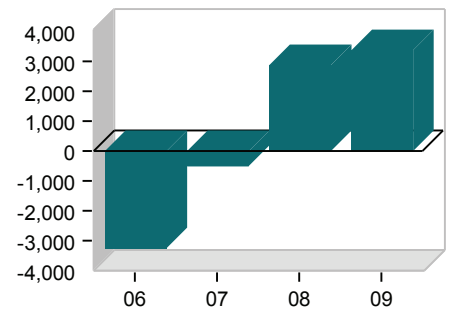
**Net Migration      113**

## COMPARATIVE EMPLOYMENT AND INCOME

Sector	% of Total Employment			Average Annual Earnings		
	SON	CA	U.S.	SON	CA	U.S.
Mining	0.1%	0.2%	0.5%	\$42,413	\$105,671	\$118,024
Construction	5.3%	4.0%	4.3%	\$64,718	\$67,528	\$52,713
Manufacturing	11.7%	8.9%	8.9%	\$68,294	\$82,873	\$70,624
Durable	44.8%	62.0%	61.3%	nd	\$91,166	\$71,769
Nondurable	55.2%	38.0%	38.7%	nd	\$68,939	\$68,664
Transportation/Utilities	2.3%	3.3%	3.6%	\$57,532	\$64,980	\$59,318
Wholesale Trade	3.9%	4.6%	4.2%	\$69,196	\$75,210	\$73,182
Retail Trade	12.5%	10.9%	11.1%	\$34,867	\$35,750	\$29,661
Information	1.5%	3.1%	2.1%	\$57,483	\$106,252	\$88,995
Financial Activities	4.5%	5.5%	5.9%	\$31,705	\$46,639	\$48,603
Prof. and Bus. Services	12.6%	14.9%	12.8%	\$46,670	\$65,491	\$59,457
Educ. and Health Services	14.3%	12.9%	15.1%	\$52,505	\$53,550	\$47,836
Leisure and Hosp. Services	11.9%	10.8%	10.0%	\$22,762	\$28,348	\$22,976
Other Services	3.5%	3.5%	4.1%	\$40,048	\$34,473	\$32,181
Government	15.9%	17.4%	17.3%	\$63,730	\$73,619	\$63,226

Sources: Percent of total employment — Moody's Analytics & BLS, 2010; Average annual earnings — BEA, 2008

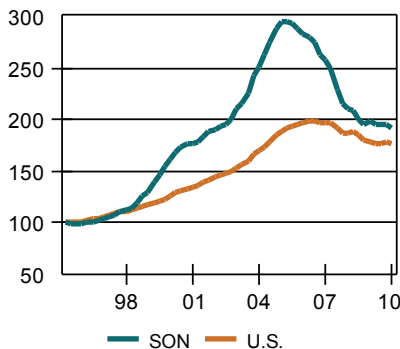
### Net Migration, SON



	2006	2007	2008	2009
Domestic	-5,007	-2,073	1,384	1,855
Foreign	1,747	1,555	1,522	1,523
<b>Total</b>	<b>-3,260</b>	<b>-518</b>	<b>2,906</b>	<b>3,378</b>

Sources: IRS (top), 2008; Census Bureau, 2009

## HOUSE PRICES



Source: FHFA, 1996Q1=100, NSA

## LEADING INDUSTRIES

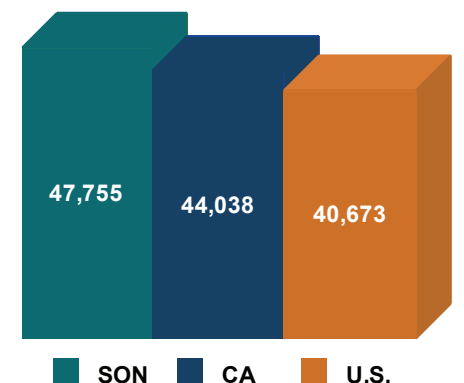
### NAICS INDUSTRY      EMPLOYEES (000)

GVSL State & Local Government	25.0
7221 Full-Service Restaurants	7.5
3121 Beverage Manufacturing	6.3
4451 Grocery Stores	5.4
7222 Limited-Service Eating Places	5.2
FR Farms	5.1
6221 General Medical and Surgical Hospitals	4.4
5412 Account., Tax Prep., Bkkeep. & Payroll Svcs.	4.2
PH Private Household Workers	3.5
7211 Traveler Accommodation	3.3
6211 Offices of Physicians	3.2
5613 Employment Services	2.9
5617 Services to Buildings and Dwellings	2.8
4521 Department Stores	2.4
7139 Other Amusement and Recreation Industries	2.1

High-tech employment      8.4  
As % of total employment      4.7

Sources: BLS, Moody's Analytics, 2010

## PER CAPITA INCOME



Source: Bureau of Economic Analysis, 2008

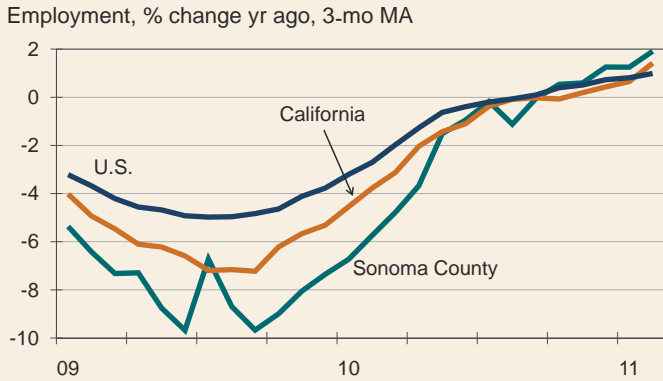
## MOODY'S RATING

**Aa1**

COUNTY  
AS OF APR 16, 2010

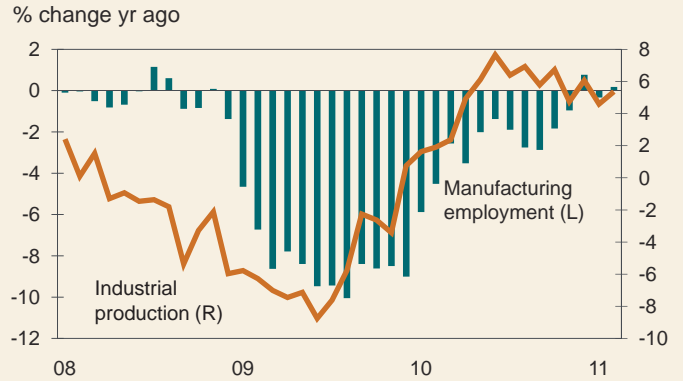
# Graphical Analysis

## The Pace of Job Recovery Quickens...



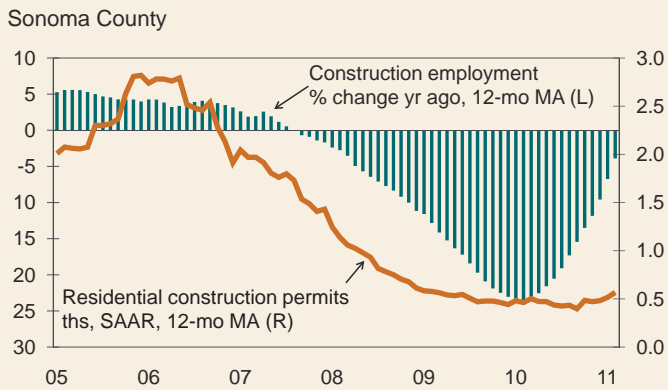
Source: BLS

## ...As Manufacturers Begin to Hire...



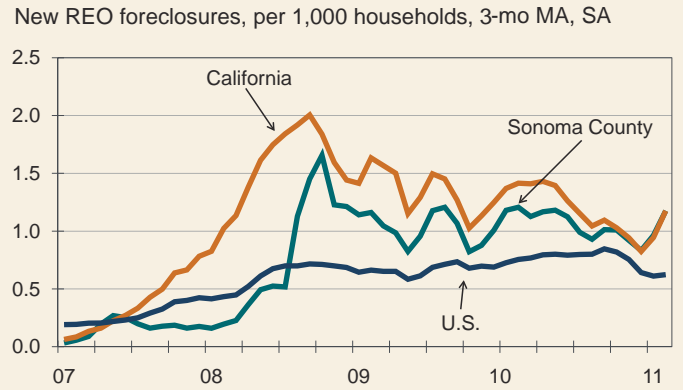
Sources: BLS, Moody's Analytics

## ...And Real Estate Construction Nears a Bottom



Sources: BLS, Moody's Analytics

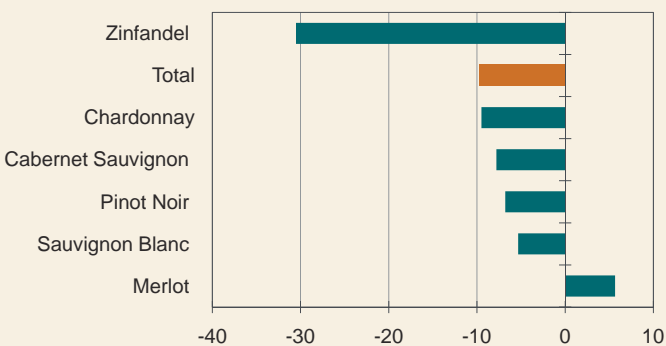
## End of Moratorium Pushes Foreclosures Up



Sources: Moody's Analytics, Realty Trac

## Severe Weather Reduces Grape Yields

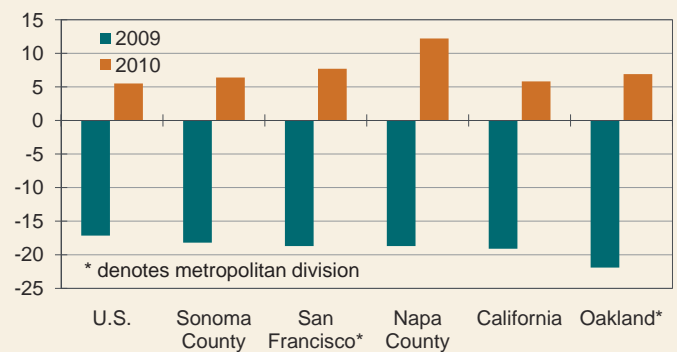
Sonoma County wine grape tonnage, % change yr ago, 2010



Source: USDA

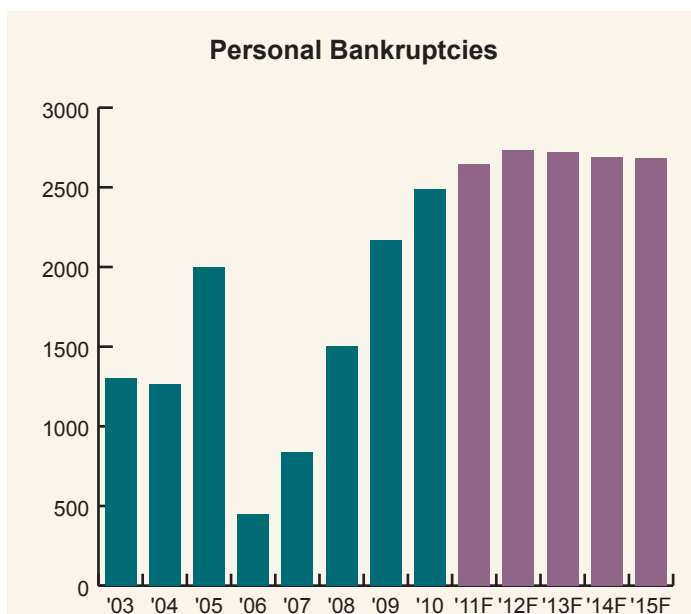
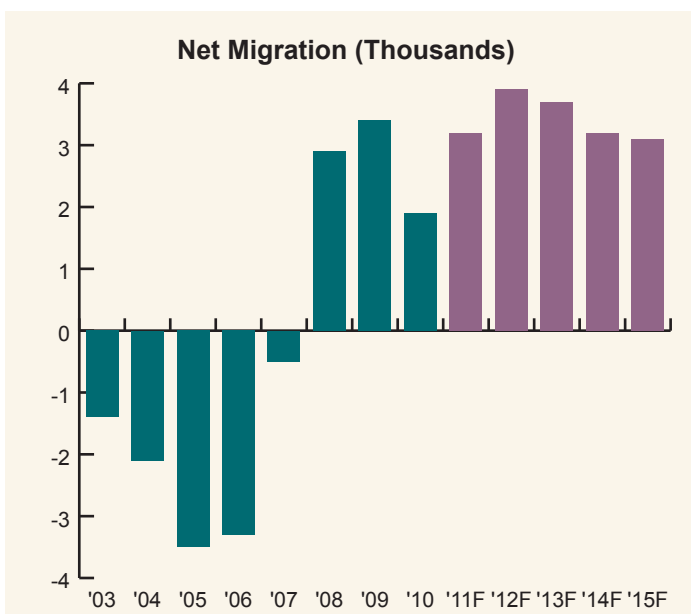
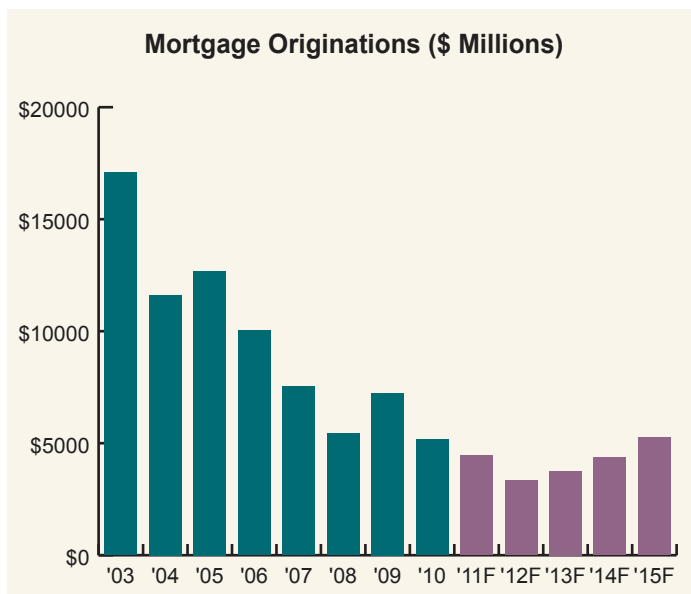
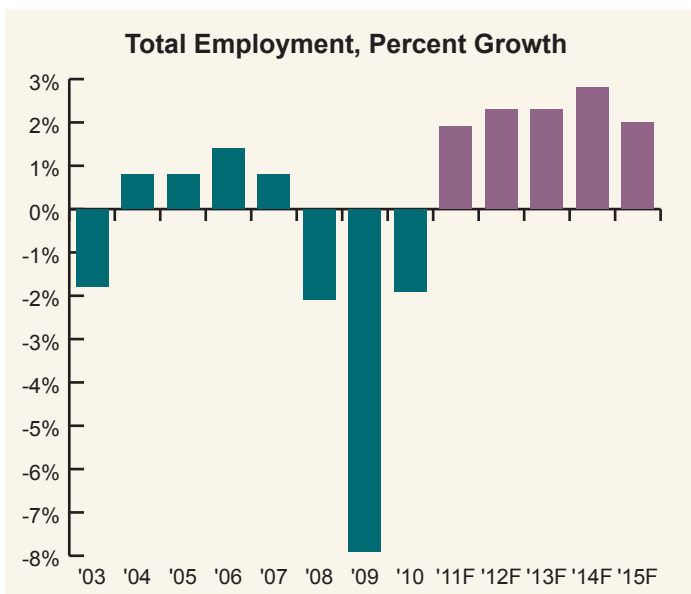
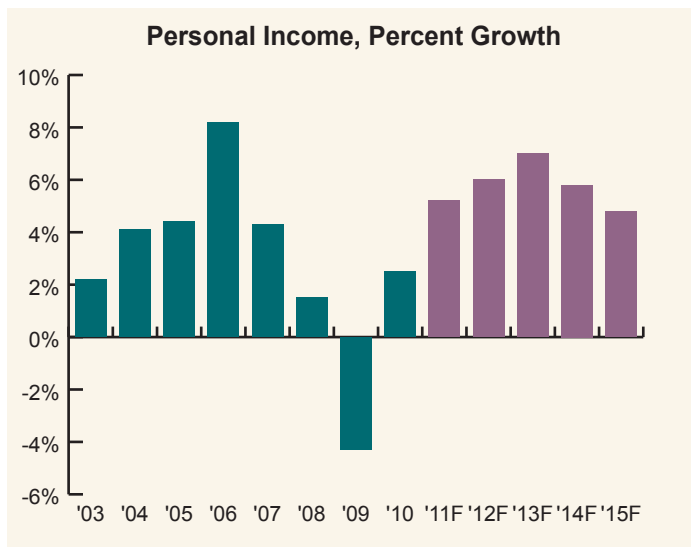
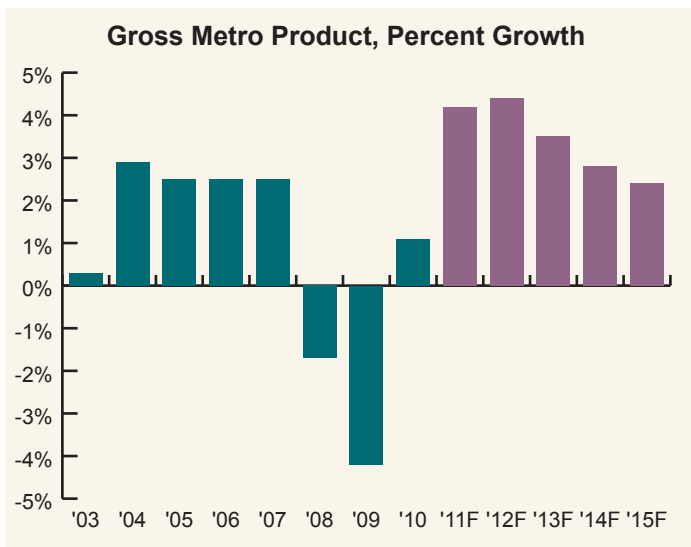
## Hotel Financials Begin to Climb Back

Revenue per available room, % change



Source: Smith Travel Research

# 5-Year Forecasts for Sonoma County



Source All: Moody's Analytics

WITH ACKNOWLEDGMENT AND APPRECIATION TO LOCAL KEY BUSINESSES  
SUPPORTING SONOMA COUNTY ECONOMIC DEVELOPMENT:

DIRECTOR



EXECUTIVE



SPONSOR



- County of Sonoma General Services, Real Estate Division
- County of Sonoma Board of Supervisors
- Sonoma County Health Services
- Sonoma County Transportation & Public Works