



**MOSTLY  
SUNNY**

Santa Rosa  
High: 78 Low: 48

Petaluma  
High: 78 Low: 47

Sonoma  
High: 79 Low: 48

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# The Press DEMOCRAT

MONDAY, SEPTEMBER 27, 2004 • SANTA ROSA, CALIFORNIA

## Giants drop the ball

Bad defense,  
shaky outing  
by Brett Tomko  
doom SF in loss  
to Dodgers / **C1**



*global shift*  
SECOND OF FOUR PARTS

# \$1 billion impact

EFFECT IN SONOMA COUNTY GOES BEYOND JOBS LOST TO OFFSHORING

By **JEREMY HAY**  
and **MARY FRICKER**

THE PRESS DEMOCRAT

**T**he loss of thousands of manufacturing jobs shipped overseas from Sonoma County since 2000 is stripping almost \$1 billion a year from the local economy.

The costs reach far beyond the person whose job was lost and cascade across the economic landscape, hitting a broad range of supply and service businesses, where reduced revenues produced additional layoffs.

The losses to offshoring overlapped a harsh recession, creating a hole in the county's economy that is only slowly being filled in. And they marked a new era of global competition that still shades the county's sluggish economic recovery with uncertainty.

"This is the first New Economy recession we've ever had. It's hard for people to know where it's going to go," said Ben Stone, director of the county's Economic Development Board. "It's harder to predict because there are so many new variables."

The impact to the county's economy from losing manufacturing jobs to foreign competition was detailed in a study done by the Center for Regional Economic Analysis at Sonoma State University for The Press Democrat.

The study found that the announced offshoring of 2,202 jobs — to Malaysia, Mexico, Ireland, China and Brazil — could cause the elimination of another 3,483 jobs in Sonoma County.

"If a job is lost, spending by the firm and by the laid-off worker is reduced, which ripples through the local economy like waves from a rock dropped into a pond," said Robert Eyler, director of the SSU center and chairman of the university's Economics Department.

"At some point the waves dissipate, but there is a lot of movement in between," he said.

In Sonoma County, the jobs sent to  
TURN TO **BILLION**, PAGE A7

### INSIDE TODAY



The impact of jobs lost to offshoring ripples through the North Coast economy even as workers overseas acquire new jobs and lifestyles.



**DISPLACED WORKER:** Gerard Cheney felt the effects of offshoring in 2002 when he was laid off from Jetronics, a Santa Rosa company that supplied equipment to Agilent Technologies. Recently, he found a new job at Walton Saw in Santa Rosa.

JOHN BURGESS / The Press Democrat

# global shift

OFFSHORING JOBS AND THE NORTH COAST

## BILLION: Loss caused by outsourcing equal to 5% of Sonoma County's \$18 billion economy

CONTINUED FROM PAGE A1

other countries will continue to drain the economy until the positions are replaced, he said.

"The money will come back," Eyler said. "But how long it will take and with what kind of jobs is difficult to forecast."

The study, which Eyler conducted, examined the consequences of losing the offshored jobs to foreign factories.

The \$1 billion impact amounts to about a 5 percent loss to the county's \$18 billion economy. Recovery is coming slowly as other parts of the economy struggle out of the recession.

The manufacturing jobs analyzed in the study represent 1,702 jobs that five companies have announced sending to their plants offshore in the past four years, plus another 500 that were to be sent abroad next year. The figure for loss of future jobs was revised down to 325 after the study was concluded.

"All these are relatively high-wage industries," which amplifies the impact of their loss, Eyler said.

Almost three-fourths of the offshored jobs came from two major Sonoma County high-tech companies — Agilent Technologies and Medtronic Inc.

"In the near-term perspective, it hurts a whole lot," said Steve Cochrane, a Santa Rosa native who is now director of regional economics for Economy.com. The Pennsylvania consulting firm contracts with Sonoma County to provide reports on the county's economy.

"The income is lost and the households have to find another job locally or they move away. Either way, it's difficult," Cochrane said. "If they move away, you lose the demand that household has on local goods and services. If they find a job locally, it may not pay enough."

Some of the economic shock was absorbed by the near-doubling of home values and low in-

terest rates that gave homeowners access to much-needed cash during the downturn that struck Sonoma County in early 2001.

The resulting consumer spending, buttressed by severance packages for many of those who lost jobs, money made in multibillion-dollar buy-outs during the dot-com boom and a stock market rally in 2003 helped prop up the local economy as businesses slashed costs and jobs.

"The overall effect on the economy can be somewhat masked, even though we know the potential of the economy has been constrained due to the fact that these jobs are not there," Eyler said.

The SSU study concludes that the 2,202 jobs moved abroad would cause the following losses:

- \$949 million in lost economic output of goods and services each year, an amount roughly half the size of the county's wine industry and equal to the county's tourism industry.

- An additional 3,483 eliminated jobs, with some of the hardest-hit sectors in wholesale supply trade, food service, medical office staff, managers and electronic component manufacturing.

- \$301 million in lost wages, part of the \$949 million in lost output.

Sonoma County produced \$18 billion in goods and services last year — up from \$15.5 billion in 2000 — and its 184,700 workers earn about \$7.39 billion a year. That means the offshored jobs already announced by companies could cost the county 4 percent to 6 percent of a year's output and labor income.

With each manufacturing job lost, the costs — direct and indirect — mount.

Decades of research shows that laid-off manufacturing workers experience "persistent earnings losses," said UC Santa Cruz economist Lori Kletzer, an authority on the effects of



CHRISTOPHER CHUNG / The Press Democrat

**Robert Eyler, director of the Center for Regional Economic Analysis at Sonoma State University, says jobs sent to other countries will continue to drain the economy until the positions are replaced. "The money will come back," he said. "But how long it will take and with what kind of jobs is difficult to forecast."**

foreign competition on the U.S. economy and employment trends.

About two-thirds earn less at their new jobs, and about a quarter of those earn more than 30 percent less, she said.

Several factors, in addition to housing strength and stock market gains, softened the economic blow. The falling dollar improved winery exports and lured foreign visitors to Wine Country. Health care provided high-paying openings. Entrepreneurs continued to start small businesses. Some workers displaced by offshoring found new jobs.

The August unemployment rate of 4.2 percent, double what it was in December 2000, remains well below state and national rates.

But there are still 11,900 fewer jobs in Sonoma County than in the peak year of 2001, when there were 196,600, and job creation locally as well as national-

ly has been sluggish and concentrated in mostly low-paying industries.

Despite a gain of 100 jobs in August, the first job increase in three years, and a recent uptick in the county's quarterly survey of confidence among business leaders, economists are unsure how quickly or how well the Sonoma County economy will recover.

While previously the county emerged from recessions into recoveries that created similar or comparable jobs to those lost in a downturn, today such jobs are being created more slowly or, in the case of the manufacturing jobs already lost, barely at all.

Against that backdrop, the strengthening pull of overseas markets — and the productivity increases realized by American businesses battling to cut costs and raise market share — are raising new questions about the direction and evol-

ving structure of America's economy.

"It's a real crossroads, and I just think the science of economics has not completely had a chance to digest it all," said Stone, who faces the challenge of promoting the county's economy as head of the economic development office.

Key factors, he said, are "the ability to make anything anywhere so easily, the ability to move companies and residence so much more easily," and the speed with which large amounts of data can be transmitted via the Internet.

Some economists expect the nation's economic direction to emerge after the presidential election, Eyler said.

"At least then we'll know what path we're on," he said. "We are as likely to go into a time of sustained growth as we are to go into a recession. We are still on that borderline, in my mind."

### JOBS OFFSHORED

**Agilent Technologies** has transferred the work done by 700 employees to Penang, Malaysia, since 2001.

**Medtronic Inc.** has moved about 435 jobs to plants in Mexico and Ireland since 2002. It announced in January that it planned to send more than 500 jobs to its facility in Galway, Ireland, and another dozen to its plant in Tijuana, Mexico. Last week, the company revised that figure downward to about 325. Next year, about 30 jobs are going to Tijuana and about 295 to Galway, the company said.

**Sola Optical**, a maker of eyeglass lenses, shifted 412 jobs from Petaluma to Tijuana, as well as Brazil and China, in 2000 and 2001.

**Komag Material Technology** transferred 120 manufacturing and research positions to Malaysia in 2001 and 2002 and closed its Santa Rosa plant.

**Boericke & Tafel**, a producer of homeopathic pharmaceuticals in Petaluma, sent 35 jobs to Mexico and moved out of the county this year.

### THE STUDY

The impact of the offshoring of 2,202 Sonoma County jobs was analyzed for The Press Democrat by Robert Eyler, chair of the Economics Department at Sonoma State University and director of the university's Center for Regional Economic Analysis.

His study measures the impact before displaced workers find new jobs and subcontractors and suppliers find new business. It assumes the manufacturing jobs are permanently lost because the companies have sent jobs abroad as part of long-term strategies to shift assembly costs to other countries.

It calculates the ripple effect, both in the companies themselves and in the broader economy, only of those Sonoma County jobs that are known to have been moved overseas.