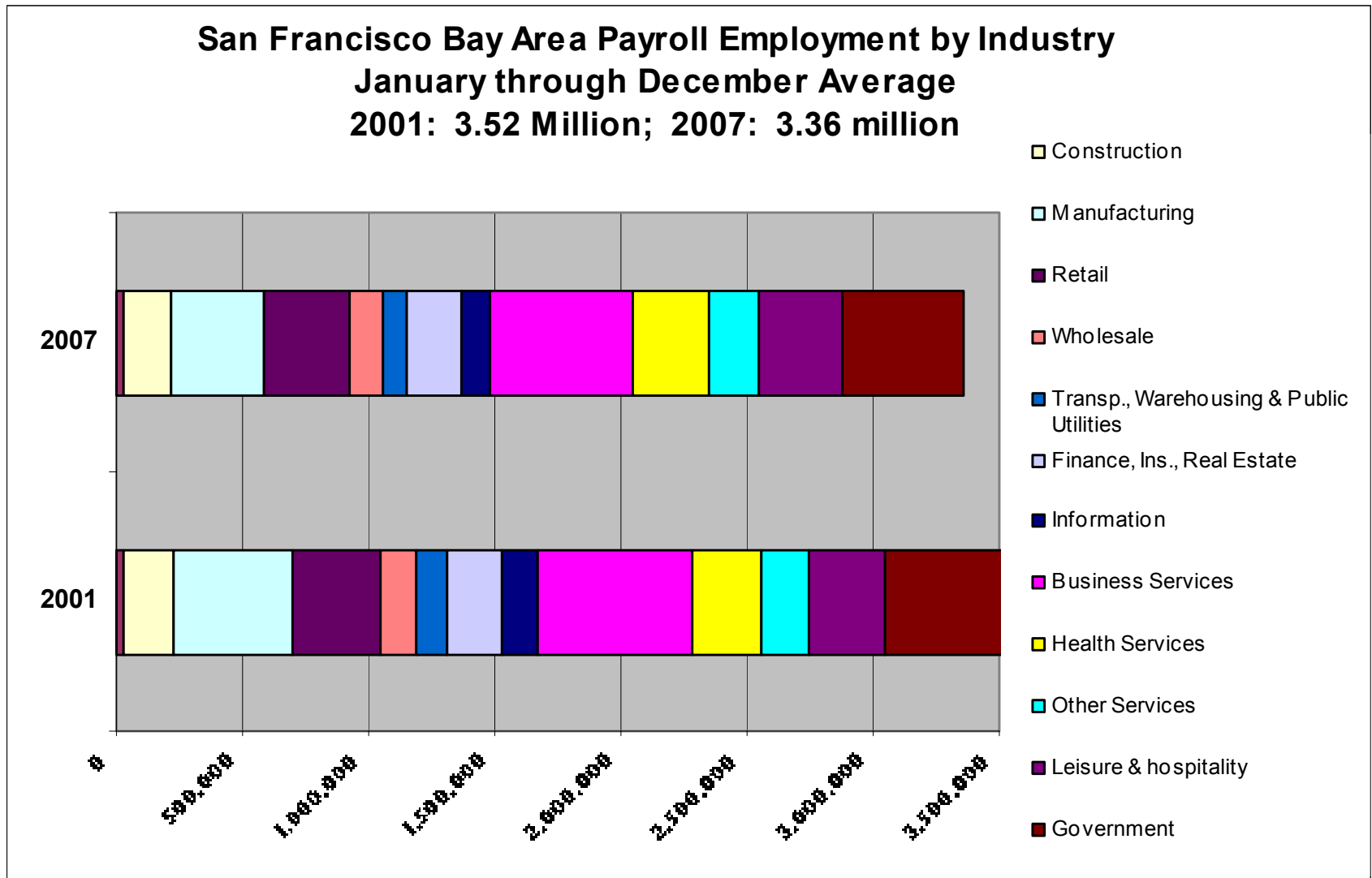




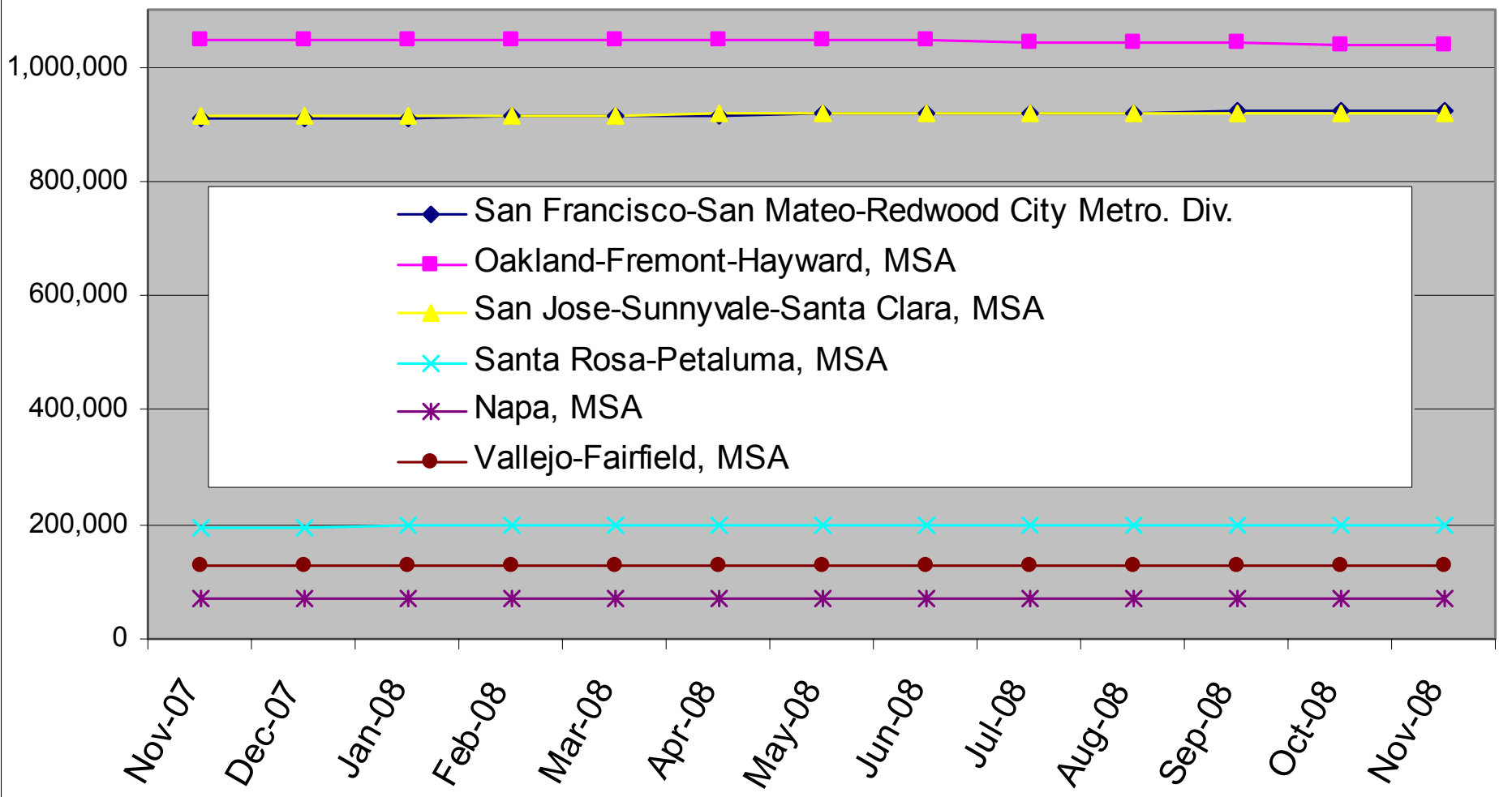
# The San Francisco Bay Area Economic Outlook

Presented by  
Anne Ramstetter Wenzel  
To the Silicon Valley Roundtable  
January 13, 2009

# Employment Never Recovered to 2001 levels:



## SF Bay Area Payroll Employment - 12 month moving average



*Note that the San Francisco and San Jose metropolitan areas are very similar in size  
And growth trends.*

# North Bay Employment - Construction, Manufacturing and Trade

November 2008 Year-to-Date Percent Change from Same Period  
2007

	Santa Rosa- Petaluma, MSA	Napa, MSA	Vallejo- Fairfield, MSA
<b>Construction</b>	-4.7%	-9.1%	-14.2%
<b>Manufacturing*</b>	1.9%	1.3%	-5.2%
<b>Retail</b>	2.9%	-2.7%	2.0%
<b>Wholesale</b>	1.5%	2.7%	-1.1%
<b>Transportation, Warehousing &amp; Public Utilities</b>	3.2%	2.3%	-8.0%
*Includes beverages manufacturing.			

# San Francisco-Oakland-San Jose Employment - Construction, Manufacturing and Trade

November 2008 Year-to-Date Percent Change from Same Period 2007

	San Francisco- San Mateo- Redwood City Metro. Div.	Oakland- Fremont- Hayward, MSA	San Jose- Sunnyvale- Santa Clara, MSA
<b>Construction</b>	2.9%	-6.7%	-3.7%
<b>Manufacturing*</b>	0.8%	-1.6%	0.9%
<b>Retail</b>	-0.3%	-2.4%	-1.0%
<b>Wholesale</b>	-0.3%	-2.3%	1.5%
<b>Transportation, Warehousing &amp; Public Utilities</b>	-1.6%	0.5%	2.1%

\*Includes chemical manufacturing, which includes the biotechnology industry.

San Jose manufacturing employment for the month of November 2008 was 1.4% below November 2007 levels.

## North Bay Employment - Services

November 2008 Year-to-Date Percent Change from Same Period  
2007

	Santa Rosa- Petaluma, MSA	Napa, MSA	Vallejo- Fairfield, MSA
<b>FIRE*</b>	-3.2%	-11.6%	-6.3%
<b>Information</b>	3.0%	0.0%	-5.2%
<b>Business Services</b>	3.3%	-3.1%	-3.6%
<b>Health Services</b>	1.8%	2.7%	1.1%
<b>Other Services^</b>	-2.6%	-0.3%	-1.3%
<b>Leisure &amp; Hospitality</b>	0.3%	-1.1%	2.5%

\*Finance, Insurance and Real Estate.

^Private Education and personal services.

## San Francisco-Oakland-San Jose Employment - Services

November 2008 Year-to-Date Percent Change from Same Period 2007

	San Francisco- San Mateo- Redwood City Metro. Div.	Oakland- Fremont- Hayward, MSA	San Jose- Sunnyvale- Santa Clara, MSA
<b>FIRE*</b>	-0.7%	-7.1%	-3.4%
<b>Information</b>	0.4%	-2.9%	2.8%
<b>Business Services</b>	3.0%	-0.4%	0.4%
<b>Health Services</b>	1.1%	0.8%	2.1%
<b>Other Services^</b>	1.8%	0.2%	2.3%
<b>Leisure &amp; Hospitality</b>	2.2%	-0.6%	-0.8%

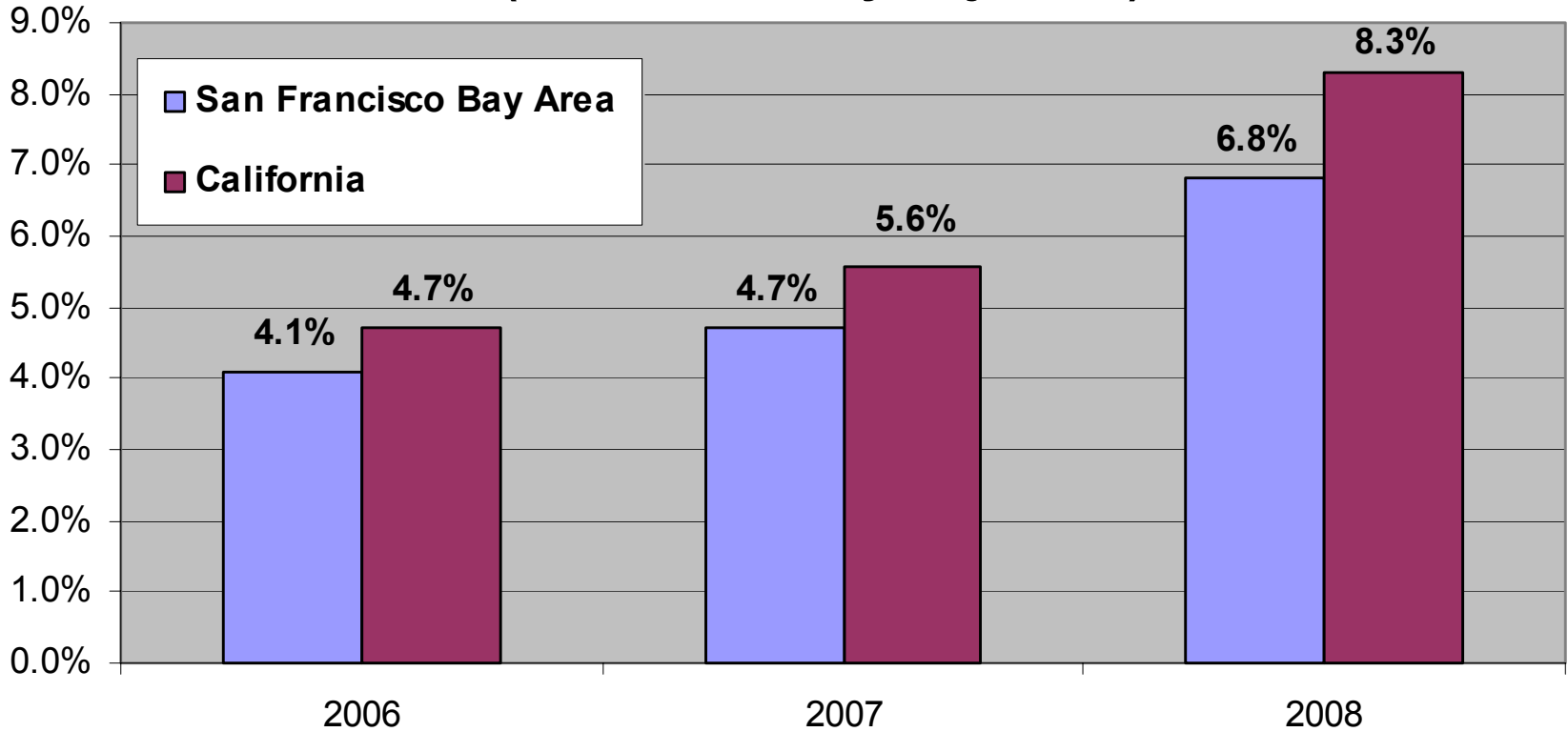
\*Finance, Insurance and Real Estate.

^Private Education and personal services.

## November 2008 Year to Date Payroll Employment\*

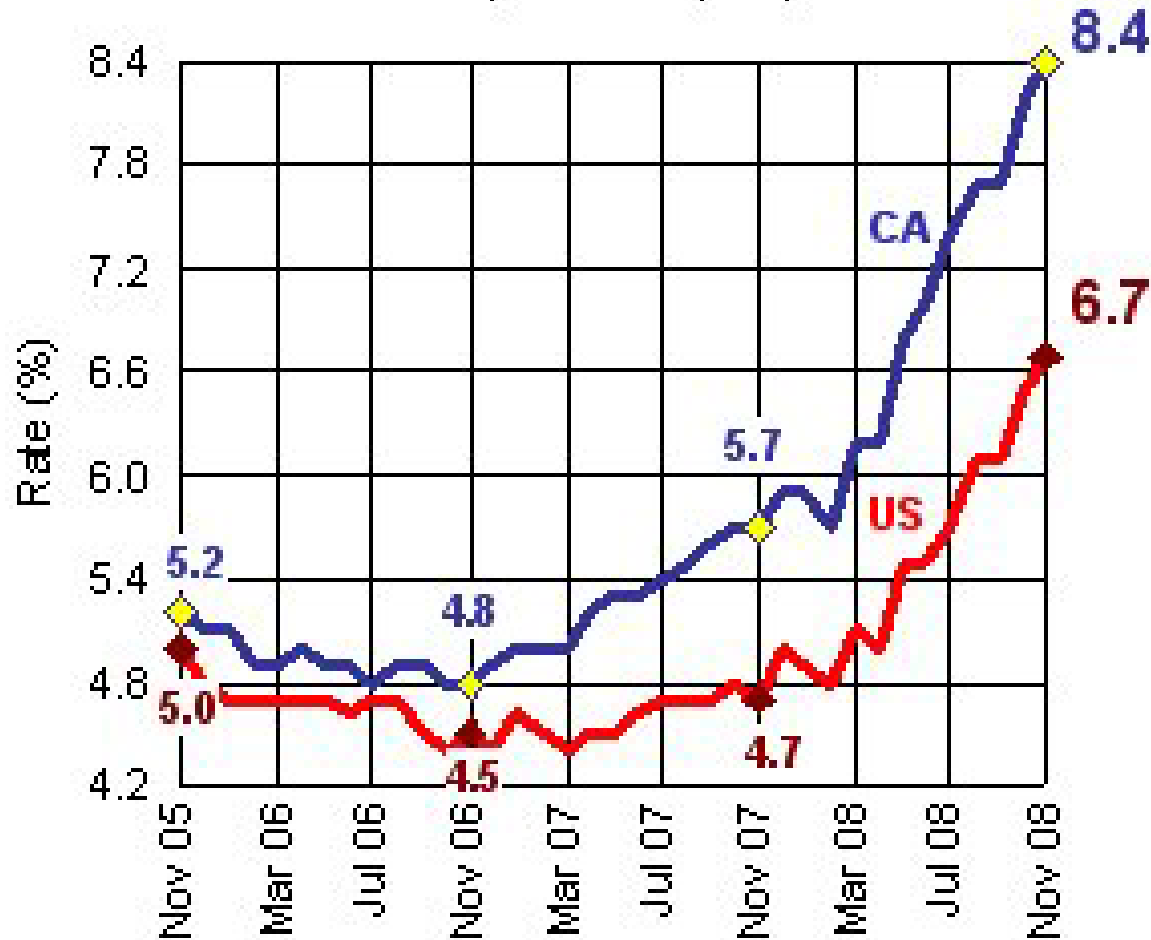
	San Francisco Bay Area		California	
	Total	Percent Change from Prior Year:	Total	Percent Change from Prior Year:
<b>Construction</b>	186,400	-4.1%	816,627	-8.9%
<b><i>Manufacturing</i></b>	347,627	0.1%	1,437,800	-1.8%
<b>Retail</b>	338,627	-0.9%	1,658,909	-1.4%
<b>Wholesale</b>	128,609	-0.4%	719,145	0.4%
<b>Transportation, Warehousing &amp; Public Utilities</b>	100,400	-0.4%	507,836	0.8%
<b>FIRE*</b>	199,582	-3.5%	873,200	-3.9%
<b>Information</b>	113,627	0.4%	467,273	-1.1%
<b>Business Services</b>	579,455	1.1%	2,276,355	0.7%
<b>Health Services</b>	302,500	1.3%	1,411,045	2.9%
<b>Other Services^</b>	195,582	1.1%	817,409	2.1%
<b>Leisure &amp; Hospitality</b>	333,118	0.6%	1,564,264	0.7%
<b>Government</b>	492,955	1.0%	2,530,836	1.5%
<b>Total#</b>	3,344,955	0.0%	15,501,709	-0.3%

# November Unemployment Rate San Francisco Bay Area and California (not seasonally adjusted)



## Three-Year Trend in California and U.S. Unemployment Rates

November 2008, Seasonally Adjusted Data



Source: Employment Development Department Labor Market Overview, <http://www.labormarketinfo.edd.ca.gov/>, downloaded 1/12/2008.

## San Francisco Bay Area November 2008 Employment\*

<b>Metropolitan Area:</b>	<b>Number</b>	<b>Percent Change from November 2007</b>
Oakland-Fremont-Hayward Metro. Div.	1,214,200	-1.2%
San Francisco-San Mateo-Redwood City Metro. Div.	915,800	-0.7%
San Jose-Sunnyvale-Santa Clara, MSA	845,400	0.2%
Napa, MSA	70,400	-0.4%
Santa Rosa- Petaluma, MSA	252,900	-0.1%
Vallejo-Fairfield, MSA	199,400	-0.5%
<b>Total, San Francisco Bay Area</b>	<b>3,498,100</b>	<b>-0.6%</b>
<b>California</b>	<b>17,032,500</b>	<b>-1.7%</b>

\*Not seasonally adjusted. Includes the self-employed.

SOURCE: California Employment Development Department

## San Francisco Bay Area Office Vacancy Rates by Area\*

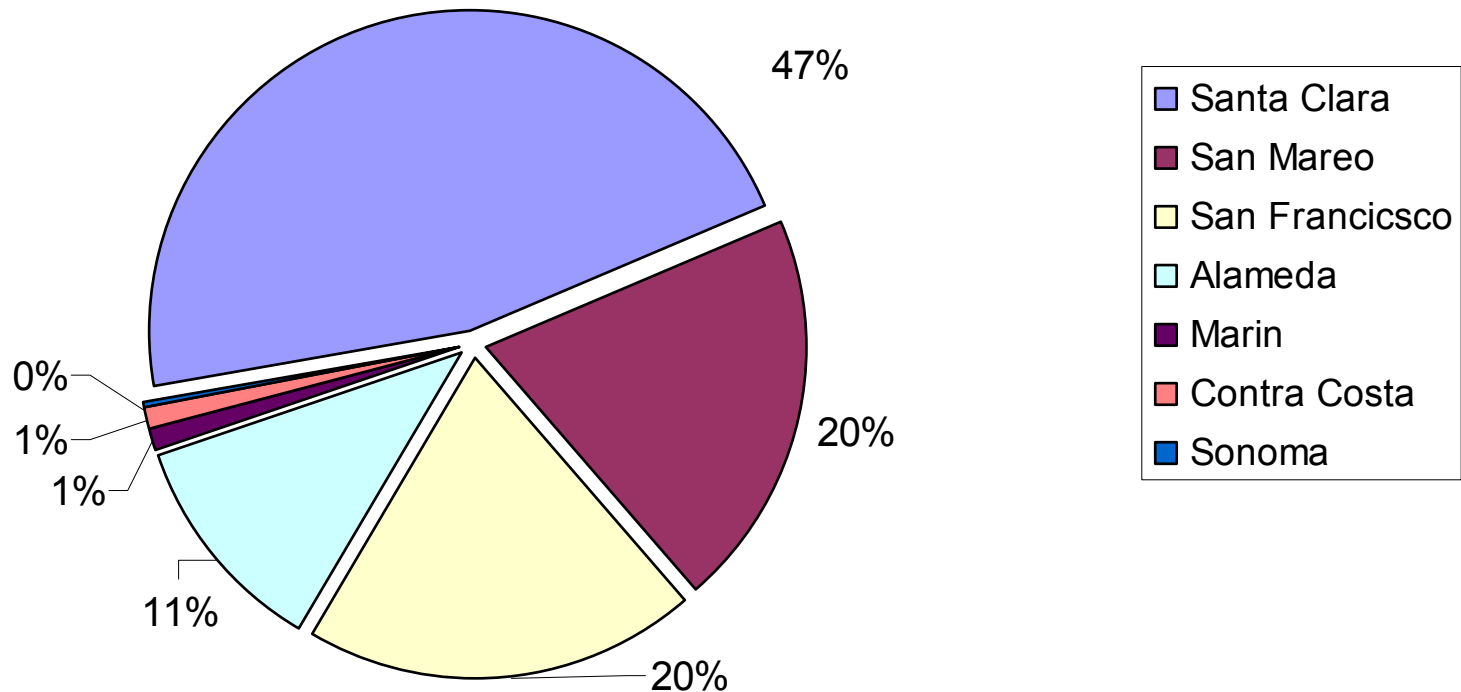
County/Area:	2000	2004	2005	2007	2008
<b>East Bay^</b>	5.6%	16.8%	14.6%	13.4%	15.7%
<b>Marin County</b>	--	13.5%	14.0%	12.0%	15.9%
<b>San Francisco (Central Business District)</b>	4.6%	16.3%	12.6%	10.2%	13.1%
<b>San Mateo County</b>	4.2%	24.5%	17.3%	12.0%	16.4%
<b>Santa Clara County</b>	3.4%	14.4%	12.5%	10.3%	17.3%

\*Annual data are 4th quarter vacancy rates.

^Includes tRichmond, Emeryville, Berkeley (central business district and West Berkeley), Oakland (central business districts and airport), and Alameda.

SOURCE: NAI BT Commercial, <http://www.btcommercial.com>.

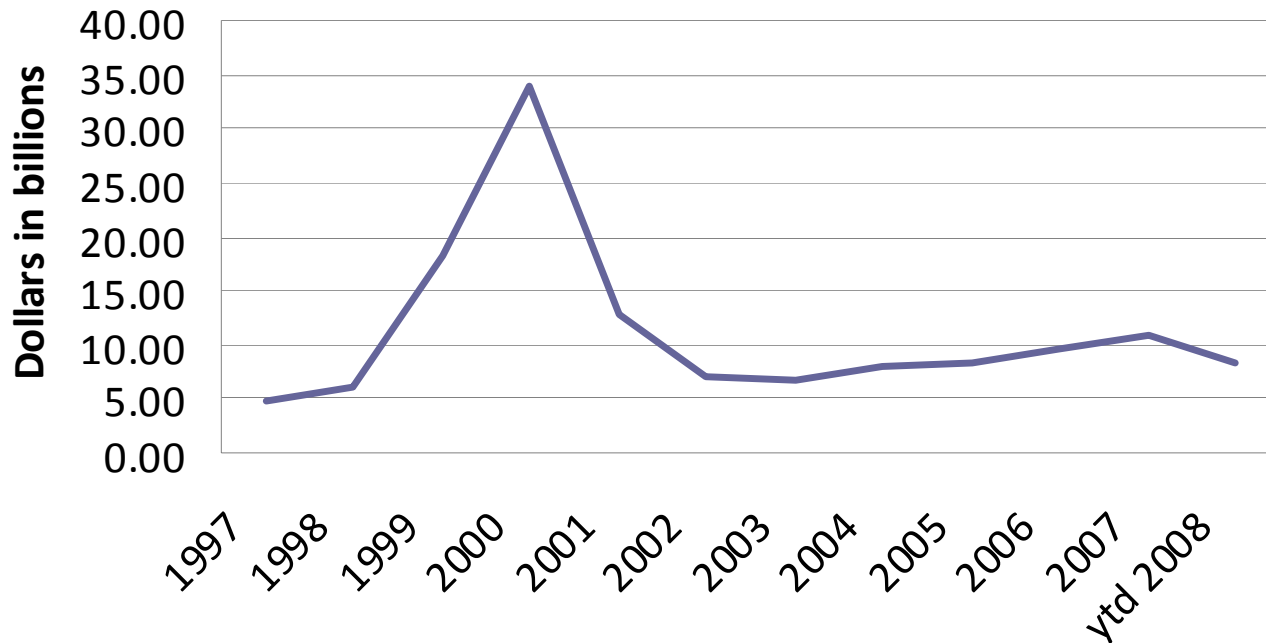
# 1st Quarter 2008 San Francisco Bay Area Venture Capital Investing by Region, by Value (\$2.5 billion, 305 deals)



SOURCE: PricewaterhouseCoopers MoneyTree Survey.

# Venture Capital Investment is Slowing along with the IPO Market

## Silicon Valley Venture Capital Investment



Data measure venture capital investment for the **San Francisco Bay Area**.  
SOURCE: PricewaterhouseCoopers MoneyTree Survey.

San Francisco Bay Area Venture Capital Investing by Major Industry  
(millions of dollars)

	2000	2007	3rd Q 2008	Change from 3rd Q 2007
	Percent of Total			
Biotechnology	3.4%	11.0%	\$ 600.4	151%
Software	27.1%	21.1%	735.5	29%
Medical Devices	2.9%	13.2%	290.5	17%
Industrial/Energy	0.9%	9.7%	257.9	-38%
Health Care	0.5%	0.1%	6.0	329%
Bay Area Total:	100.0%	100.0%	\$ 2,773.4	-3%

*Total includes other categories not shown separately.*

*Although investment in the Industrial/Energy category is volatile from one quarter to the next, the percent total VC investment in the industry has increased significantly.*

# The Bay Area Economy:

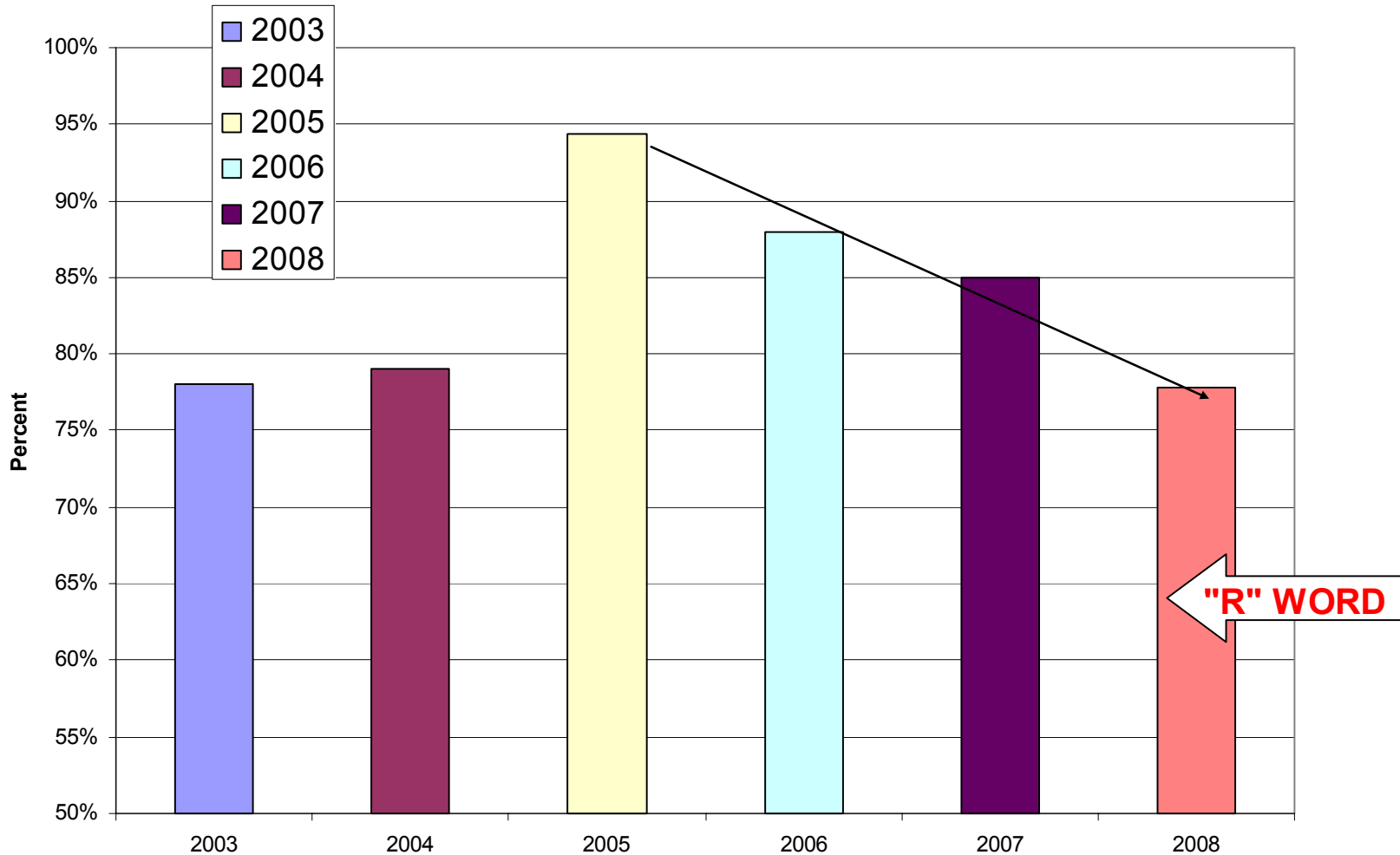
- Overall, has been hit by the burst of the residential investment bubble, due to declines especially in Contra Costa and Solano counties.
- Cannot escape the global recession. Many technology companies are beginning to forecast lower sales growth and earnings expectations.
- Will be hit hard by the strong dollar that is resulting from the international credit crisis.

# U.S. 3<sup>rd</sup> Quarter 2008 GDP Growth Came from Exports, but no more:

- In a nutshell: “The outlook for U.S. exports has changed dramatically with the expectation of global recession in 2009. The combination of weaker global demand, falling prices, and an appreciating dollar create a very unfavorable outlook for U.S. exports.”
- SOURCE: ***Outlook for U.S. Agricultural Trade***, United States Department of Agriculture, Foreign Agricultural Service, December 1, 2008.

***Wine sales have not fallen yet, but consumers are switching to mid-priced (\$5 to \$10) wines, ending growth the luxury wine segment:***

**5. 2008- Five Years of Respondents' Opinions About Positive Growth of Wine Sales Relative to the Previous Year**



**SOURCE: Wine Industry Symposium survey conducted by Wine Business Monthly.**

# The Bay Area Economy

- Will be helped by the continued growth in business services and health care employment.
  - Private education services are adding growth opportunities in the Napa, San Francisco and San Jose areas.
- Investment in “green” technologies will provide another area of growth, on top of continued growth in biotechnology.

# Home Foreclosures will slow but...

- Retail bankruptcies will rise.
- Commercial real estate will continue to experience rising vacancy rates, and defaults will begin to rise.
- Given the prolonged downturn forecast for the U.S. economy, and the slowdown overseas, employment will fall in 2009 and resume growth in 2010.

# The Outlook for 2009:

- Painful: Continued layoffs, even at technology companies that have weathered the recession until the financial meltdown in October-November 2008.
- Growth opportunities exist that will minimize the downturn in the Bay Area.
- The recession will be less severe here than nationally, a change from the 2001 recession and following structural adjustment.

## CALIFORNIA'S DEFINITION OF GREEN INDUSTRIES

Green or clean is any activity or service that performs at least one of the following:

**G**enerating and storing renewable energy

**R**ecycling existing materials

**E**nergy efficient product manufacturing, distribution, construction, installation, and maintenance

**E**ducation, compliance and awareness

**N**atural and sustainable product manufacturing

**SOURCE: Green Analyses of Occupations and Industries: "California's Definition of Green Industries," 12/3/2008, <http://www.labormarketinfo.edd.ca.gov/article.asp?articleid=1229>**

**Generating and storing renewable energy:** *Includes alternative energy generated by, but not limited to:*

- Wind
- Solar
- Water
- Biofuels
- Biomass
- Hydrogen fuel cells
- Geothermal

# Recycling Existing Materials

Recycling existing materials - Corporations involved in the collection and processing of recyclable materials, including firms running a recycling or wastewater plant.

Includes environmental clean-up and remediation (does not include companies that provide bins for recyclable paper, glass, and cans).

# Energy efficient product manufacturing, distribution, construction, installation, and maintenance:

- This includes companies involved in the research, development, and manufacturing of products such as solar panels, energy efficient light bulbs, and vehicles.
- Also includes construction companies that install and repair solar panels and other sources of renewable energy generation or saving equipment in new or existing residential or commercial real estate.
  - Real estate planning and land development.

# Education, compliance, and awareness

- Training providers for curricula such as solar panel installation, energy auditing, sustainability management, and environmental careers.
  - Environmental consulting
  - Governmental/legislative compliance
  - Conservation and wildlife programs
  - Trading and offsets
  - Social assistance

# Natural and sustainable product manufacturing

- Includes companies that create products using natural materials.
- Also includes businesses that produce safe, nontoxic products; bamboo products; products out of previously-recycled materials, and agricultural firms that practice sustainable farming.