THE SAN FRANCISCO BAY AREA ECONOMIC OUTLOOK

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The San Francisco Bay Area Economy: In-Sync with the U.S. Economy

Hit by the global economic slowdown, the Bay Area economy has stabilized.

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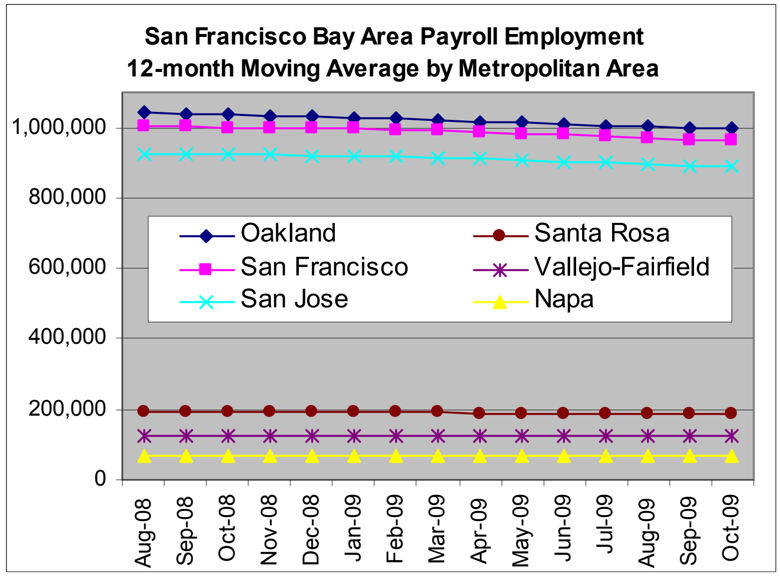
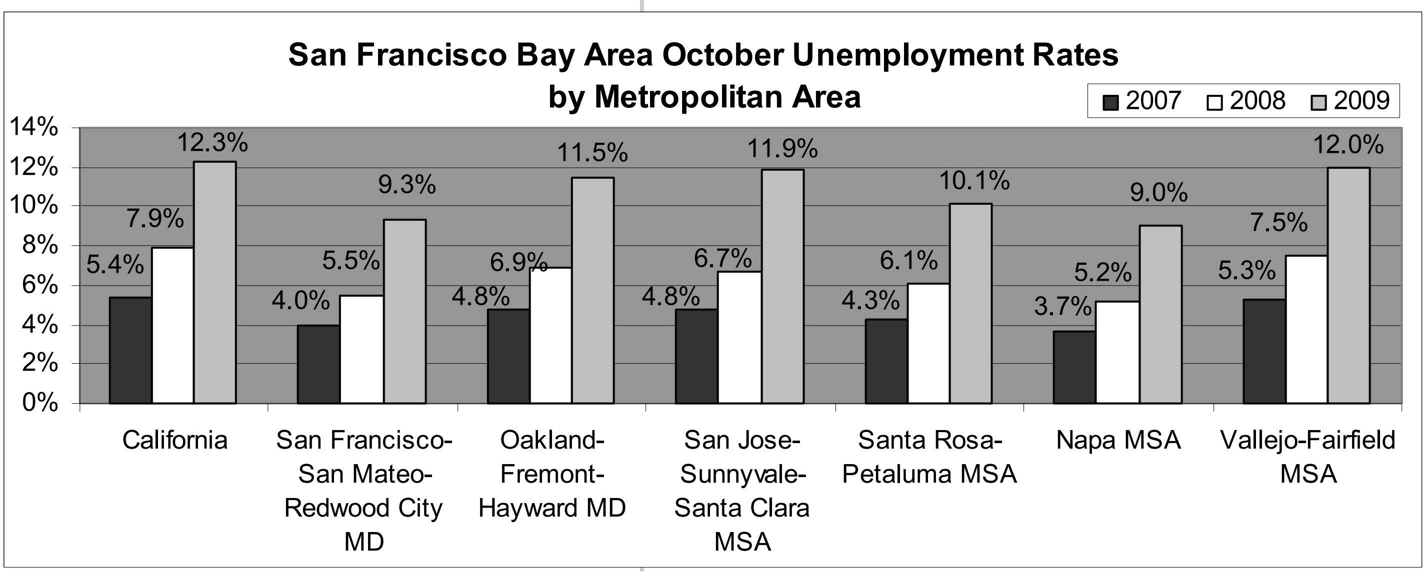
The San Francisco Bay Area economy entered into a deep recession along with the global economy beginning in November 2008. Bay Area unemployment was rising as the California and national economy fell into recession, but most counties, with the exception of Solano County, had unemployment rates well below the California average of 7.9% by October 2008 (see bar graph, below). By October 2009, however, unemployment rates averaged 12% for Santa Clara, Solano, Alameda and Contra Costa counties, on par with the California unemployment rate.

Employment has fallen throughout the 9-county San Francisco Bay Area region, and in all broad industry categories except health care. Health care industry employment growth was strongest at hospitals, and the industry will continue to grow and benefit from the year-end passage of *(continued, p. 2)*



*Data points represent the monthly average payroll employment for the year ending with month shown.
SOURCE: Econosystems, based on data obtained from the California Employment Development.



San Francisco Bay Area 2009 Payroll Employment by Metropolitan Area		
Metropolitan Area	**Number (Jan-Oct Avg.)**	**Growth***
San Francisco-San Mateo-Redwood City MD	956,060	-4.2%
Oakland-Fremont-Hayward MD	990,420	-4.2%
San Jose-Sunnyvale-Santa Clara MSA	884,040	-4.2%
Santa Rosa-Petaluma MSA	183,930	-4.8%
Napa MSA	65,800	-6.3%
Vallejo-Fairfield MSA	122,110	-3.2%
BAY AREA TOTAL:	3,202,360	-4.2%

*January through October 2009 percent change in average employment from 2008 levels. Excludes the self-employed.
SOURCE: California Employment Development Department.

the national health care reform bill currently being debated in Congress. While the final details of health care reform have yet to be worked out, expansion of health care services coverage is sure to result, thus expanding the health care industry further and providing additional jobs to the local economy.

The Internet/web portal industry has also been adding jobs, primarily on the San Francisco peninsula. Loss of business services jobs, however, has contributed significantly to the increasing unemployment rate: The business services industry provides 18% of payroll jobs in the San Francisco Bay Area, and 2009 employment is 4% below 2008 levels. Government is the 2nd leading industry employer in the Bay Area, providing 15% of all jobs, followed by the manufacturing (10%) and leisure and hospitality (10%) industries. Job losses in the government sector has been smaller than most industries, due to more stable federal government employment, but 2009 manufacturing and retail sector employment declines were significant (-5.9% and –6.8%, respectively: see table, page 3).

Construction industry employment has been declining most significantly in percentage terms, falling 15% in the San Francisco Bay Area in 2009 compared to 2008 levels. New home construction declines substantially worsened in 2008 and 2009. New permits issued for single family homes fell from 13,000 units in January through October 2003 (10-month total) to just 3,100 units in January through October 2009 (see table, right). Homebuilding will remain at low levels through 2010.

The Bay Area home resale market is recovering from its historically low levels. Although October 2009 sales volumes were up 4% when compared to October 2008 levels, the October 2009 sales level was still 40% below the peak sales level reached in October 2003. Year to date, home sales volume is up 16%

San Francisco Bay Area Housing Permits January through October Year-to-date					
	Number of Units Permitted, in Buildings with:			Total Permits:	
Year	One Unit/ Single Family Homes	2 to 4 Units	5 Units or more	Number	Percent Change from Prior Year
2000	13,309	667	7,404	21,380	-
2001	10,991	543	6,966	18,500	-13.5%
2002	12,221	600	5,436	18,257	-1.3%
2003	13,129	689	9,695	23,513	28.8%
2004	12,612	827	7,600	21,039	-10.5%
2005	12,387	576	7,925	20,888	-0.7%
2006	9,078	450	10,417	19,945	-4.5%
2007	7,532	461	6,390	14,383	-27.9%
2008	3,779	305	5,771	9,855	-31.5%
2009	3,101	140	1,160	4,401	-55.3%

SOURCE: Residential Construction Branch, U.S. Census Bureau

compared to January through October 2008.

According to DQNews.com, foreclosure resales accounted for 32 percent of all existing homes sold in the San Francisco Bay Area in October 2009, down from a peak of 52 percent of home resales in February this year. Between January 2000 and December 2007, foreclosure sales accounted for just 1% of home resales in the Bay Area each month.

Homes sold for a sale price greater than $500,000 made up 36% of total Bay Area home sales in October, up from a low of 23% in January 2009. Another significant market change pointed out by DQNews: From 2000 to 2007, 60% of mortgages purchased in the San Francisco Bay Area were adjustable rate mortgages (ARMs), but in October 2009 ARMs accounted for just 8% of mortgages purchased. Mortgage rates are at a historical low. The 30-year conventional mortgage interest rate averaged 4.9% in October-November 2009, down from an average of 6.4% from 2000 through 2008.

Home sales volumes increased as *(continued, p. 3)*

San Francisco Bay Area Payroll Employment and Annual Earnings by Industry Group

	January-October 2009*		2008 Average Annual Employee Earnings		
Industry	Number (thousands)	% change from 2008	SF-Oakland-Fremont MSA	SJ-Sunnyvale-Santa Clara MSA	Santa Rosa-Petaluma MSA
Construction	153	-15.4%	$65,773	$62,834	$52,684
Manufacting	328	-5.9%	$81,092	$119,881	$57,791
Retail	312	-6.8%	$35,370	$38,827	$30,124
Wholesale Trade	122	-5.4%	ND	$99,086	$55,685
Finance, Insurance & Real Estate	182	-6.4%	$119,530	$87,908	$56,239
Information^	110	-4.3%	$101,750	$169,567	$57,196
Business Services	567	-4.1%	$87,838	$96,761	$50,898
Health Services	310	1.1%	$57,877	$63,025	$50,468
Other Services#	193	-2.5%	$30,351	$29,748	$26,593
Leisure & Hospitality	326	-3.5%	$25,633	$22,996	$17,872
Government	476	-1.0%	not available	not available	not available
Total All Industries*	3,203	-4.2%	$65,046	$80,063	$43,757

ND: Not Disclosable -- data do not meet BLS or State agency disclosure standards.
*Average employment for January-October 2009. Total includes Mining employment of 2,390, Farm employment of 23,690, and Transportation, Warehousing & Public Utilities employment of 97,420.
^The Information industry includes publishing industries (including software), Internet service providers and web portals, motion picture & sound recording, broadcasting and telecommunications.
#Other services include private education, repairs and maintenance, personal and laundry services, religious and other civic and social organizations. 2008 Average Annual Employee Earnings data exclude average earnings for private education workers, which averaged $39,159 in the SF-Oakland-Fremont MSA, $64,643 in the SJ-Sunnyvale-Santa Clara MSA, and $29,078 in the Santa Rosa-Petaluma MSA.
SOURCES: Econosystems, based on data from the California Employment Development Department (all data except 2008 Average Annual Employee Earnings data).
U.S. Department of Labor, Bureau of Labor Statistics (2008 Average Annual Employee Earnings data).

foreclosure sales added to market supply, mortgage interest rates fell and a federal New Home Buyer tax credit was introduced. DQNews.com reports that the October 2009 San Francisco Bay Area median home sales price was $390,000, up 4% compared to the October 2008 median sales prices. The median sales price trend varied by county: Increased prices in Marin and Santa Clara counties were offset by continued price declines in other Bay Area counties (e.g., in Solano County, the October 2009 median home sales was 19% below October 2008 levels). Homes sales for million dollar plus properties were slow through the third quarter 2009 (the average number of days on the market increased through October), but price declines have led to an uptick in sales that is expected continue into 2010.

Apartment rents are falling. Marcus & Millichap (Encino, California) forecasts that 2009 effective apartment rents in San Francisco will fall 9.7% from 2008 levels, to an average of $1,649 per month (asking rents are forecasted to fall 8.3% to $1,773 per month). San Jose effective apartment rents are forecast to fall 9.5% from 2008, to $1,515 per month; Oakland area effective apartment rents are forecast to fall 7.5% to $1,297 per month. Apartment rents are expected to fall in all neighborhoods, and rental market weakness will continue until year-end 2010, when employment growth resumes. In the North Bay (Marin, Napa and Sonoma counties) , according to RealFacts (Novato, California), 3rd quarter occupancy rates have fallen 2.7% from the 3rd quarter 2008, to 95.1%; the average rent has fallen 2.7% to $1,351.

Office vacancy rates are rising, and rents are falling, in the San Francisco Bay Area. The average office vacancy rate fell steadily from peak of 20% in the 3rd quarter 2003, according to NAI BT Commercial, to a low of 11% in the 3rd quarter 2007. The average Bay Area office vacancy rates was17% for the 3rd quarter of 2009 (see http://www.naibtcommercial.com/btresearch.asp). As office space availability increased, average Bay Area rents fell from an average of $3.11 per square foot (monthly) in 2008 to $2.64 per square foot in the 3rd quarter 2009, a 15% drop. The monthly absorption rate remains low, and so rents will continue to fall, although at a slower rate, into 2010.

Venture capital investments in the San Francisco Bay Area fell by a dramatic 44% in 2009, after growing steadily 2003 - 2007, then falling slightly in 2008 (see graph, p. 6). For the first three quarters of (*continued, p. 4*)

San Francisco Bay Area Office Vacancy Rates by Area*								
County/Area:	**2000**	**2004**	**2005**	**2006**	**2007**	**2008**	**2008 3Q**	**2009 3Q**
East Bay^	5.6%	16.8%	14.5%	13.6%	13.9%	16.3%	14.5%	17.7%
Marin County	na	15.1%	13.8%	13.0%	12.0%	15.8%	15.4%	21.1%
Napa County	na	11.0%	11.4%	na	11.6%	13.0%	11.9%	13.1%
San Francisco County (CBD)	4.6%	16.3%	12.6%	10.7%	10.2%	13.1%	12.4%	15.3%
San Mateo County	4.2%	24.7%	17.6%	14.8%	12.0%	16.0%	15.1%	18.8%
Santa Clara County	3.4%	14.4%	12.1%	10.8%	10.3%	16.9%	13.6%	18.7%**
Sonoma County^^	na	13.9%	20.9%	21.8%	23.4%	27.3%	24.6%	29.2%

*Annual data are 4th quarther vacancy rates.
^Includes Richmond, Emeryville, Berkeley (central business district an West Berkeley), Oakland (central business districts and airport), and
**Santa Clara County vacancy rate is for second quarter 2009
^^Includes Petaluma, Rohnert Park/Cotati, Santa Rosa, and Santa Rosa Airport
SOURCES: NAI BT Commercial, http://w w w .btcommercial.com (all data except Napa County)
Keegan & Coppin Company, Inc., http://w w w .keegancoppin.com (Napa County)

2009, venture capital investment in the 9-county Bay Area was $4.9 billion dollars, down from $8.8 billion for the first three quarters of 2008, according to PriceWaterhouseCoopers MoneyTree Venture Capital Survey (www.pwcmoneytree.com). The San Francisco Bay Area continues to receive the largest share of the nation's venture capital. Of the $4.8 billion invested nationally in the 3rd quarter 2009, the Bay Area received 46.4% ($2.2 billion), while New England, the number 2 geographic area , received just 11.6% of the total ($0.6 billion). The software and biotechnology industries are the two largest funded sectors, but the energy and industrial sector has shot up to the number 3 slot; the industry received 15% of all Bay Area venture capital investment in 2008-2009, up from 1% in 2000 and 10% in 2007 (see table, page 6).

The San Francisco Bay Area economy is now in sync with the national economy and, despite challenging and uncertain business conditions, has stabilized. Semiconductor sales began increasing in June 2009, and the industry book-to-bill ratio was greater than 1.0 July through October 2009 (i.e., orders received continue to exceed the amount shipped each month). Personal computer shipments rose in the third quarter of 2009 and are expected to continue increasing into 2010. Overall, sales at the largest publicly traded firms in the Bay Area (as measured by employment), excluding Chevron, were flat during the 3rd quarter of 2009 when compared to 3rd quarter 2008 levels. Including Chevron, 2009 3rd quarter large Bay Area firm sales fell 11% from a year earlier, due to the fall in oil prices. U.S. spot crude oil prices fell from an average of $93 a barrel in 2008 to an average of $57 a barrel for January through October 2009. U.S. crude oil spot prices were $73 a barrel for the week ending November 27, 2009.

San Francisco Bay Area business confidence remains low but is improving substantially, according to the Bay Area Council's *Business Confidence Survey* released December 3, 2009 (based on a survey conducted between November 2-19, 2009). Almost half (47%) of the CEO's and executives surveyed expect the Bay Area economy to improve over the next year, while only 15% expect it to worsen (37% expect no change). The hiring outlook continues to be weak, however: only 18% surveyed expect to increase their workforce over the next 6 months, while 23% expect to reduce their workforce (56% expect no change). In Contra Costa and Solano counties, 35% of the CEOs and business executives surveyed expect reductions in their workforce, and a very low 8% expect increases (see http://www.bayareacouncil.org/news_releases.php). The retail industry outlook is bleak, with 40% of executives in the industry seeing workforce reductions and none anticipating hiring within the next 6 months.

The Federal Reserve's *Beige Book/Summary of Commentary on Current Business Conditions* for the Twelfth District--San Francisco (released December 2, 2009) found that fall retail sales remained at low levels but were slightly improved from the October summary. Traditional department stores, discount chains and sellers of furniture and household appliances reported improvements in demand. Retailers' expectations for holiday sales remain downbeat, however, with no change expected from 2008 holiday sales levels. Inventories are in line with expectations, and so retail prices should remain firm throughout the holiday shopping season.

Consumer confidence remains low, but a cautious optimism for the future is emerging. The Survey and Policy Research Institute at San Jose State University found that, of the 765 Silicon Valley adults (Santa Clara, San Mateo, and southern Alameda counties plus Scotts Valley in Santa Cruz County) surveyed between September 29 and October 7, 2009, more than half (52%) *(continued, p. 5)*

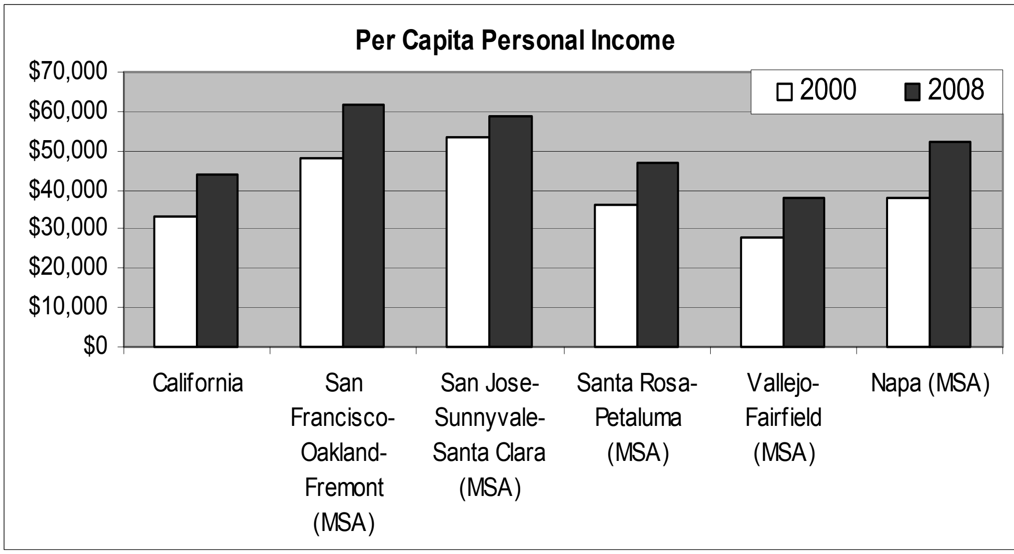
said their current financial situation was worse compared to one year ago. Only 1/3 of respondents (33%) expected to be better off a year from now; 10% thought they'd be worse off. Almost half of those surveyed expected their finances to be about the same in a year, and the same proportion (49%) anticipated that business conditions in Silicon Valley would be better a year from now. Only 8% thought business conditions would be worse, while 40% said they thought business conditions would be the same in one year.

The Recovery and Reinvestment Act of 2009 stimulated a moderate economic recovery in the U.S. economy in June. Tax cuts and tax rebates included in the Recovery Act will stimulate the economy into the first half of 2010. As the global economy recovers, private spending is expected to replace government spending as the driving force behind economic growth, beginning in the 2nd quarter of 2010. Improvements in the labor market will show up as declines in the unemployment rate, also beginning in the 2nd quarter of 2010. Job growth will accelerate by the 3rd quarter of 2010. For the remainder of 2009 and into the 1st quarter of 2010, however, many individuals and families will continue to deal with the fallout of falling home prices, home foreclosures and layoffs: The sentiment for many will be, "With economic growth like this, who needs recessions?"

The economic recovery will show up first as increased profits for many companies, especially in the banking sector.

San Francisco Bay Area Total Personal Income - Selected Years
(millions of dollars)

Year	San Francisco-Oakland-Fremont, CA (MSA)	San Jose-Sunnyvale-Santa Clara, CA (MSA)	Santa Rosa-Petaluma, CA (MSA)	Napa, CA (MSA)	Vallejo-Fairfield, CA (MSA)	Total
2000	199,989	92,947	16,778	4,714	10,953	325,381
2001	199,369	85,418	16,969	4,806	11,623	318,185
2002	193,010	79,124	16,967	4,899	12,029	306,028
2007	257,111	105,999	21,416	6,750	15,083	406,359
2008	263,941	106,973	21,928	6,994	15,494	415,329
Average Annual Percent Change						
2002-2007	5.9%	6.0%	4.8%	6.6%	4.6%	5.8%
2007-2008	2.7%	0.9%	2.4%	3.6%	2.7%	2.2%



SOURCE: Source: Regional Economic Information System, Bureau of Economic Analysis, US Department of Commerce

Once the health care legislation and climate policy is determined, more certainty will enter into small business and corporate planning and will likely translate into business expansion and employment gains. The construction industry and employment levels will stabilize as we enter 2010. Broad based business growth will strengthen beginning in the 3rd quarter of next year. By year-end 2010, moderate employment gains and real earnings growth will resume for the San Francisco Bay Area economy.

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Additional resources:

"East Bay Quarterly Forecast, Q4 2009," October 2009, East Bay Economic Development Alliance, http://www.edab.org/research_facts_figures/economic_forecasts_updates.htm.

Mann, Amar and Tony Nunes, "After the Dot-Com Bubble: Silicon Valley High-Tech Employment And Wages in 2001 and 2008," Regional Report, Summary 09-08, Bureau of Labor Statistics Office of Publications and Special Studies, U.S. Department of Labor, August 2009 (http://www.bls.gov/opub/regional_reports/200908_silicon_valley_high_tech.htm).

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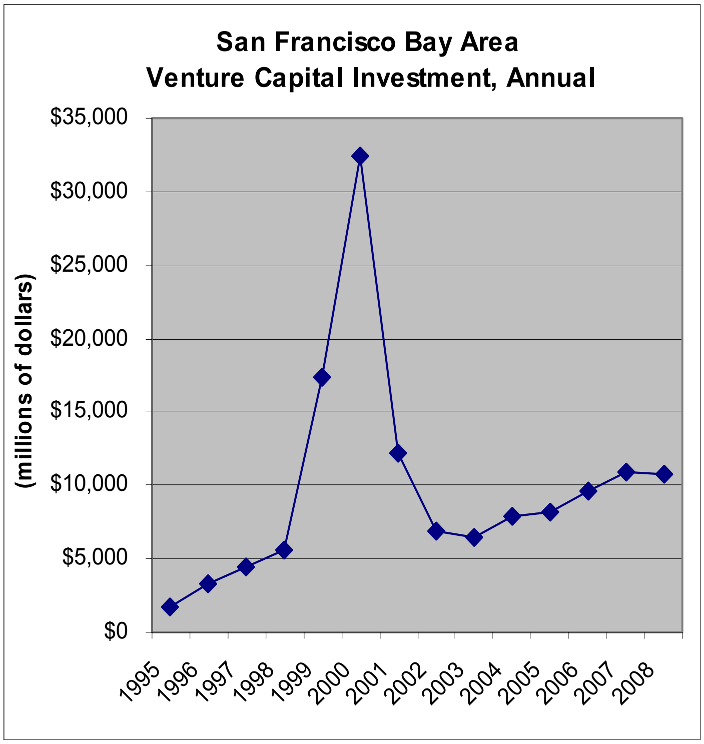

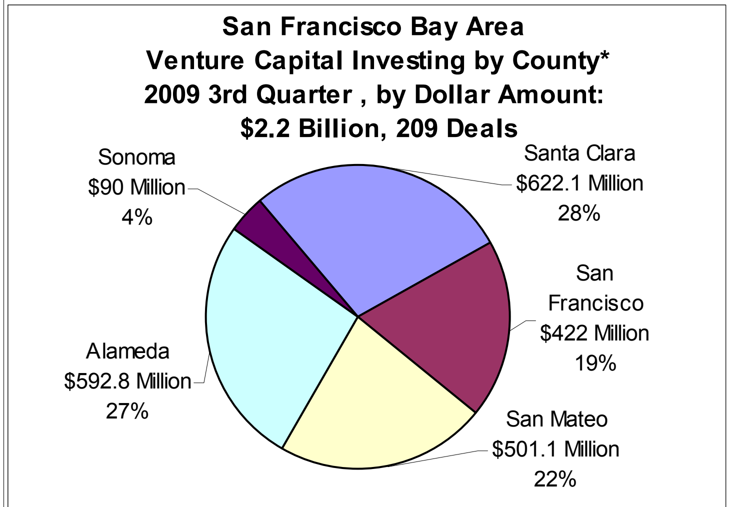

*According to the source, Contra Costa, Marin, and Napa counties received $3.3 million in 4 investment deals, less than 0.15%, of the total venture capital invested in the San Francisco Bay Area during the third quarter of 2009.
SOURCE: PricewaterhouseCoopers/Thomson Reuters/NVCA Money Tree Survey of Venture Capital.

San Francisco Bay Area Venture Capital Investment Amount by Industry

	Millions of Dollars					Percent Change:	
Industry	2000	2005	2008	YTD 3rdQ 2008	YTD 3rdQ 2009	Average Annual 2005-2008	YTD 2009 3rd Q*
Software	8,781	1,921	2,255	1,843	861	5.5%	-53.3%
Biotechnology	1,079	1,192	1,389	1,053	737	5.2%	-30.0%
Industrial/Energy	291	174	1,594	1,159	716	109.2%	-38.2%
Medical Devices and Equipment	809	701	1,076	958	619	15.3%	-35.4%
Media and Entertainment	2,355	391	932	734	455	33.6%	-38.0%
Semiconductors	1,988	1,092	915	763	393	-5.7%	-48.5%
Networking and Equipment	4,486	873	291	225	330	-30.7%	46.5%
IT Services	3,191	341	714	642	245	28.0%	-61.8%
Electronics/Instrumentation	161	139	154	140	128	3.4%	-8.4%
Telecommunications	4,401	728	735	608	126	0.3%	-79.2%
Computers and Peripherals	816	294	264	242	86	-3.5%	-64.5%
Financial Services	957	99	129	124	78	9.1%	-36.9%
Other#	3,095	232	332	262	140	12.7%	-46.5%
TOTAL	32,409	8,148	10,782	8,754	4,917	9.7%	-43.8%

*Percent change from 2008 3rd quarter year-to-date. ^Average annual percent change 2006-2008.
#Other includes Consumer Products and Services, Retailing/Distribution, Business Products and Services, and Healthcare Services.
SOURCE: Money Tree^{TM} Report, PricewaterhouseCoopers.

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