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BAY AREA ECONOMIC ENGINE

Many diverse economic drivers, most on independent trajectories

Traffic light colors to give current status. →↓↑ Arrows give likely direction for next 12 months. September 2009.

	Economic Sector	Status	Indicators & Developments
↑	Higher Education	Strong with renewed demand	A major economic sector – bringing the world's best and brightest and their cash. The Bay Area consistently has more graduate programs ranked in the top 10 nationwide than the consistently 2nd ranked metro area - Boston. Economic downturn is creating record applications for enrollment and record acceptance percentages.
→	Banking and Finance	Hard hit but local winners will be well positioned	Bay Area is still the West Coast's banking capital: Not immune to credit crises but has some winning employers. Biggest winner? Wells Fargo. And Bank of America will make it. Bay Area still the world's venture capital hub – but an oversupply of firms vs. good deals. Charles Schwab's total number of accounts up 4% in 6/09 from 6/08 even though asset value of accounts went down 14%. Franklin/Templeton #5 in funds. Visa #1 in credit brands.
↑	International Trade	At a bottom but trade is rising again	The Bay Area passed Detroit in the 1990's in the dollar value of its exports, most by air. Oakland is the fifth largest port in the US after LA, Long Beach, NYC and Savannah. The port just completed a $432 million dredging project to take ships to a 50 foot draft. 2008 & 2009 saw drastic downturn in trade but there are signs the bottom has passed. USA's exports up in May, June & July. Largest increase in imports on record for July 09.
↓	Tourism & Conventions	Upper end devastated, basic hotels limping.	Tourism is San Francisco's biggest industry. 16.4 million visitors in 08 spending $8.52 billion. First 5 months of 09 average occupancy is 67.9% down from 74.5% in 08. Price cutting is rampant: ADR is $158 down from $187. Worst pain? The high-end: Four Seasons & Stanford Court declared default. Clift Hotel is not breaking even before debt service. Starwood sells the W Hotel for $223K/key in 7/09 @ about 50% of cost, compares to the sale of Campton Place for $527K/key in 4/07. Hotel nights booked for Moscone Center: 992,843 in 08, 841,037 in 09 & 761,000 so far for 2010.
↑	Biotech & Medical Equipment	Slower but strong growth. Big Pharma buying Biotech companies.	Bay Area is the birth place of biotechnology. Biotech nodes are Berkeley/Emeryville, South San Francisco, Stanford/Menlo Park & emerging at SF's Mission Bay. Of 1,377 Bay Area life science companies 95 have gone public. 100,000 + employees. R&D is turning into medical applications. 560 products on the market with 463 products in clinical trials. Employment is up moderately in 2009 despite layoffs due to acquisitions, e.g. Roche digesting Genentech hiring scientists & laying off CPA's.
↑	Consumer Electronics	Consumers are cautious but intrigued.	World cell phone sales up 6.1% 09 Q2 vs. 08. Smartphones up 27% (Gartner). Both Apple & Palm are local. LCD screen/TV sales up 22% Q2 09 vs. 08. Locally developed top sellers on Amazon.com: iPod, Kindle, several Logitech products, Flip video recorder.

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→	Database Software & Middleware	Corporate sales stall. Market leaders buying all competitors.	Larry Ellison (Oracle) moves to #3 from #4 on the Forbes 400 by buying competitors – many are local. Purchase of People Soft in 2005, Siebel Systems in 2006, Hyperion in 2007 and BEA Systems in 2008 among others put millions of square feet of office on the Bay Area markets. Largest player in middleware, IBM, has large San Jose operation. Oracle sales down slightly, but operating cash up 12% in last quarter over prior year – wringing efficiencies out of acquisitions.
→	Enterprise Software	Corporate sales stall. Consolidation continues.	Applications customized for core business functions seem to be a worldwide business, with the top 10 scattered around the globe: Germany, Redwood City, UK, Georgia, Seattle, San Francisco, Minneapolis, Netherlands, and Norway. The Bay Area has #2 Oracle and #6 Salesforce.com.
→	Application Software	Generally slower sales. Game changes ahead.	Autodesk sales down 33%, Intuit up 4%, Adobe down 21%. Symantec up 18%. Google is giving their "Office" products away for free & offers outsourced corporate email for pennies: Look out Microsoft!
↑	Web	Video downloads a driver. On-line retail sales up so far in 2009.	20 million new users per month worldwide. Dot com bust is distant memory. Excitement about Twitter & mobile web. YouTube selling ads – could make a profit. Of the dozen most visited sites in June 2009 – 8 started in the Bay Area and 1 moved here, almost all have engineers here: 1 Google, 2 Yahoo, 3 Microsoft – Seattle (but large campus in Mountain View), 4 AOL (moved to Virginia and NYC), 5 Fox Interactive/MySpace – Beverly Hills, 6 Facebook, 7 ASK Network, 8 EBay, 9 Amazon - Seattle, 10.Wikipedia – Florida but moved to San Francisco, 11 Apple, 12 Glam Media.
↓	Computer Games	Falling from all-time peak. But PDA games offer new users & new crop of winners.	Through August 2009 YTD hardware sales $9.07 billion down 14% from 2008. Software down similar percentages. Bay Area operations; Electronic Arts, Lucas Games, SEGA, Ubisoft, Factor 5, Purple Moon, Nintendo, etc. Apple i-Phone, Blackberry and Palm apps are on fire – with many instant successes from small shops. Coming soon: Madden NFL 10 on your iPhone.
↑	Personal Computers and works stations	Stalled growth, but Bay Area firms doing better. PC sales to lead recovery.	PC sales were down 7% in 2008 & slow in early 2009 but expected to increase in Q4 when Microsoft releases Windows 7. 600 million PCs run on 8-year old Windows XP. Local HP is selling more PC's than Texas Dell. Apple's market share at 7.6% is slipping from lack of Asian growth. Sun is bought by Oracle. Contract manufacturers – Sanmina, Solectron have big operation in the Bay Area with sales down. Oracle "saves" Sun Micro.
↑	Semiconductors & Semicon. Equipment Manufacturers	Drastic cut in fab construction. Chip sales soft but ahead of projections. Bottom passed.	The Bay Area has INTEL inside (and AMD & National Semiconductor) with equipment from KLA-Tencor and Applied Materials. Worldwide chip sales: 6 months ending 6/09 were down 25% from 08 but up 5.3% in July over June 09. Wafer processing equipment will be down 53% in 09 vs. 08, but up 48% in 2010 vs. 2009 (SEMI). Given the lag times for producing semiconductor equipment, 2010 orders are already in place.

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→	Enterprise IT Hardware and Services	Companies cut back orders but “cloud” could push new racks out the door	HP’s last quarter sales down 3% from 08, Juniper Networks’ down 11%, NetApps’ down 7%, Juniper Networks’ down 11%, Cisco’s down 18%. Cisco is still buying up smaller companies. Computerized medical records a potential giant market. “Cloud Computing” could change everything.
↑	Telecom	Fixed landlines and longlines surpassed by data, broadband & content	The telecom meltdown of 2001 is distant memory. Excess fiber capacity is absorbed by broadband growth. Fastest growth: mobile broadband and IP Networks. $359 billion 08 service revenue to grow 2.5% in 09. Service revenue now includes movie downloads. Sony TVs selling with internet connections and NetFlix link built in.
→	Film and Media	Near record ticket sales. Studios cut production as funds are scarce.	Film, digital special effect = Fx, sound engineering, animation, commercials – all Bay Area strengths. Hollywood actors in front of Bay Area “Blue Screens”. ILM & Pixar spawning many rivals. Lucas moved to the Presidio from Marin. Disney leases 100,000sf in Novato to steal Lucas Fx talent. Dreamwork’s PDI has 400 people in Redwood City. Netflix stock doubles in 12 mos.
?	Health Care	Strong & entering new growth phase, but rules could change	Major Bay Area industry. The world sources patients to Stanford and UCSF transplant and cardiac centers. Health Care growing rapidly with the aging baby boomers. Hospitals rebuilding to meet the 2013 deadline for new seismic code. Demand for medical offices strong as old buildings are torn down. McKesson has near monopoly on wholesale drug distributions. Local chains; Sutter, Kaiser & CHW grow. Health care reform will expand user base but could restructure winners and losers.
→	Defense, Aerospace & War on Terror	Maybe shrinking, maybe not? Local boon if Obama chooses to update warheads.	Reversals at Raychem (Ruined by Tyco’s Kozlowski), Lockheed Martin (sold land for Juniper Networks) and Lawrence Livermore Labs (laid off 500 in 2008). BAE Systems has large contracts as does SRI. Worries fade about budget cuts under the new administration. Livermore & Sandia to benefit if decision to update nuclear warheads is finalized. Many Homeland Security projects in Silicon Valley but no statistics. CIA has its own VC fund.
→	On-line Advertising and Search	Explosive growth turning to steady growth. MS to help Yahoo.	Google is still dominant. Part of Mountain View is named “Googleplex”. Microsoft grows their Silicon Valley Campus – home of Bing. MS strikes JV with Yahoo. If you are in Search, you need to be here (Remember AOL-they moved away and sank.)

Unmentioned – the Bay Area One-Offs - outstanding companies who stand on their own: Chevron, Clorox, Gap, Levi, PG&E, Bechtel, Safeway, Fair Isaac, Del Monte, URS Corp., Ross Stores, Robert Half, Core-Mark.

Sources: Bay Area Economic Forum, SF Convention and Visitors Bureau, SF Chronicle, Consumer Electronics Association, SEMI, SIA, CEA, e3expo, Fortune, IEEE Spectrum, California EDD, Chronicle 500, company web sites.