BAY AREA ECONOMIC FORUM

A Partnership of the Association of Bay Area Governments and the Bay Area Council

THE FORUM REPORTS

A series of discussions on vital issues concerning the Bay Area

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From Boom to Recession:

Assessing the Bay Area's Prospects for Recovery and Growth

Panel Discussion

Bay Area Economic Forum
Fall 2001

From Boom to Recession

Assessing the Bay Area's Prospects for Recovery and Growth

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In a relatively short period the Bay Area has moved from accelerated growth and wealth creation to an implosion of the dot-com sector, large scale layoffs, growing office vacancies, and falling market capitalization for many of its leading companies. Though stock markets have recovered their losses, the effects of September 11 continue, including rising costs for security and insurance, and uncertainty regarding future terrorist attacks. While the shift in the region's economy isn't without its silver linings - rents for example are down, and falling lease rates make the Bay Area a more affordable location for many companies - the deceleration of the region's economy has been matched only by the speed of its earlier ascent.

While the impacts on the Bay Area community are deep, the longer-term implications for the region are less clear. Problems in the technology sector suggest that, at least in the near term, the region's recovery may lag the rest of the nation, particularly with regard to employment. Yet unemployment remains well below the levels reached in California's last recession in the early 1990s. Venture capital, though down sharply from its peak in 1999 and 2000, has returned to still substantial pre-bubble levels. In contrast to the last recession, interest rates and inflation, and oil prices are low, and the region's economy is more competitive nationally and globally.

To assess the recessionary environment in the Bay Area and the timing and prospects for economic recovery, the Bay Area Economic Forum recently met to discuss recent actions by the Federal Reserve Bank, economic cycles, the role of productivity in long-term recovery, and the business outlook for Silicon Valley.

Robert T. Parry

I'd like to focus on the national economic situation, and to cover it from several perspectives. First, I'd like to talk about the situation prior to September 11; then I'll discuss how things have changed, and finally I'll talk a little about the risks to the outlook. I'm not going to talk about regional issues. Instead, I would refer you to our publication, Western Economic Developments, which comes out following each of our Federal Open Market Committee [FOMC] meetings; it's available on the web, and you may find it of some interest because it's relevant to the western economy.

I think we all realize that growth was weakening significantly in the first half of this year, and it looked to us that the third-quarter pace of economic activity was actually flat. I didn't think we were going to see declining output in the third quarter, and that was largely because of the strength of consumer spending. Consumer spending has been remarkably strong in the face of some pretty adverse developments in other parts of the economy.

In terms of monetary policy, the Fed actually began to temper its pace of easing in both July and August. If you will recall, this year we reduced the fed funds rate five times, 50 basis points each, up until the meeting we had in late June. Then we shifted to cuts of 25 basis points at the end of June and 25 basis points at our August meeting. So we were beginning to get the feeling that we were nearing the end of this process and that some improvement in the economy was in the offing.

Just prior to September 11, there were signs that things were getting a little bit weaker. Employment plummeted in August, and the unemployment rate rose very sharply—by 0.4%. Housing starts fell, and industrial production fell very sharply—0.7%. In addition to this, we became more concerned about prospects in other nations, and the one that gave us the greatest concern, of course, was Japan.

> *"You're probably going to see the unemployment rate worsen until we start to see consistent growth rates in the economy of around 3%. And we're probably not going to see that for a while."*
>
> *–Robert Parry*

Now, what about prospects in the post-September 11 environment? I would say they are weaker—and more uncertain—at least in the short term. Declining output is likely in our view through at least year-end. With output declining in the third quarter and likely to be declining in the current quarter, it's clear that prospects for employment are quite poor. I think you're going to see poor numbers on average for quite a few months, and the unemployment rate is going to be moving up quite sharply. One thing people tend to forget is that, even as the economy begins to grow, the unemployment rate rises. It's only when you get growth up to and exceeding the economy's potential growth rate that you begin to make progress on the unemployment rate. So you're probably going to see the unemployment rate worsen until we start to see consistent growth rates in the economy of around 3%. And we're probably not going to see that for a while. I can't speculate with much conviction about how high the unemployment rate is going to be. Our forecast is going to have the number topping out at close to 6%.

However, I think you also ought to keep in mind that the economic weakness that we're likely to see over this period is probably going to be contained, and it's going to be contained by massive stimulus. First of all, there's monetary policy eleven times this year, for a total of 475 basis points. The fed funds rate is down to 1.75%, the first time you have seen it at that rate since 1962. This has really been a massive move. At the same time, fiscal policy is beginning to provide stimulus. The tax bill that was passed in June provided $75 billion in stimulus in fiscal 2001—that is, through September 30. The largest part actually wasn't the tax rebates—it was a change in the payment of corporate taxes that was pretty significant. In fiscal year 2002, which is the current fiscal year, we are estimating that between $140 billion and $170 billion additional dollars will be put into the economy from fiscal policy. This comprises a combination of a lot of things. The exact amount is a bit iffy; that range of $30 billion reflects the uncertainties associated with the Senate bill versus the House bill. My point is that there is a lot of pump-priming under way that probably will affect both how steep the fall-off is as well as how long it lasts.

The risks to the outlook clearly look greater than before September 11. I must admit that our confidence in our forecast is much less now than it has been for a long time. The impacts—direct and indirect—of all that has happened since September 11 are extremely complex and difficult to assess, so I would suggest that you take our forecast with an extra measure of caution, because there is a lot of uncertainty.

There are other risks; these are not new risks, but they look bigger. First of all, consumers, as I mentioned, have been a big part of the strength of the economy, and consumer and business confidence could suffer as these unemployment rates rise. You still have unemployment rates at fairly low levels—4.9%. I don't think they're going to stick there for long. As a matter of fact, the first Friday of November we'll get an unemployment rate for the month of October, and I think it's going to be up quite sharply. If this continues in subsequent months, you have to wonder how it's going to affect consumer confidence.

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> *–Robert Parry*

Second, global prospects for growth appear very fragile. Japan just can't seem to get it right. There are problems in many other countries throughout the world. The strains in South America, particularly in Argentina, as a result of our own troubles, are very significant, and Europe has its challenges as well. Over the longer term, however, I do believe that the underlying strengths of the U.S. economy that we were able to identify and talk very positively about in recent years, are still there. The elements, like technology, that have driven the higher productivity growth rates over the last five years are still in train, so we're likely to see good performance in terms of productivity, and that should be positive. This is not to say that the events of September 11 have not taken some toll on productivity. We're spending a lot of money on things that end up really not adding to productivity at all. But I think we can end up on a positive note, because the long-term strengths of the U.S. economy are still in place.

Lenny Mendonca

The Bay Area Economic Forum is sponsoring, together with the Bay Area Council (BAC) and the Association of Bay Area Governments (ABAG), an update of a longer-term more fundamental look at the Bay Area's economy. The report will be released in January, at the BAC's Outlook Conference. And the Bay Area Council's new Business Confidence Survey will be released next week. I'll give you a quick sense of what the report is likely to say, and exactly what the Confidence Survey says, since it has been completed.

On the report itself, it would be fair to say that in a long-run sense (meaning 6 or 9 months from now) there is good reason for optimism about the Bay Area's prospects. The Bay Area more than doubled its productivity lead relative to the rest of the nation in the last decade, from 25% in 1987 to roughly 60% in 2000. A significant part of that, obviously, was fueled by a little bit of excess optimism, and an over-investment in technology. The venture capital and technology boom was centered here. In fact, our estimate is that somewhere between 10 – 20% of the growth in output that occurred in the Bay Area in the last two years, and 20 – 25% of employment growth, was fueled by excessive (or above long-term trend) venture capital investment. Yet, when you peel that out—take out both the output and price effects of the bubble—they probably contributed something like 10% to the reported advantage of the Bay Area.

The acceleration of the Bay Area's productivity is still substantial. Our analysis shows the main drivers of fundamental productivity growth had little to do with the bubble. They were much more around technological innovation in computing electronics, competitive intensity in a variety of businesses, particularly large employers like retail, and the general trend in the Bay Area of companies increasingly concentrating their highest-value-added jobs here.

The methodology we're using to produce this report builds off of a report that the McKinsey Global Institute has just released, where we attempted to look at the same factors on a national basis, with particular emphasis on the impact of IT on the acceleration of US productivity. Our estimate is that at least half of the acceleration in productivity in the country in the last 5 years is sustainable and driven by events that were more fundamental, rather than the bubble. When we roll that up into what our sense of the intermediate to longer-term growth prospects in terms of productivity are for the nation, they probably center somewhere around 2%, with a wide-range of variances depending on things we can't predict. Our expectation is that for the Bay Area, the longer-term growth outlook for productivity is probably 50% higher than that again: Somewhere north of 3%. The reasons for that substantial lead in productivity advancement are things that are likely to be sustained beyond the near-term correction that is occuring. The amount of uncertainty that the local economy faces, like the national economy, is largely dependent on the confidence of consumers and to a lesser degree business.

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>
> *–Robert Parry*

I don't have any data on consumer confidence, but I do have something to report on Bay Area business confidence. We surveyed and got responses back from 500 business executives after September 11—this was the first week in October. Ninety-percent plus, feel the economy slowed down in the last six months—and I would be interested in knowing who are the ten percent that didn't think it did. That said, 70 percent believe the regional economy has reached bottom and will hold steady or improve over the next 6 months. Twenty-two percent of the respondents expect the number of employees they will be hiring in the next two quarters to increase, double the amount who expect to decrease their employment in the next two quarters. Unfortunately, we don't have a baseline, since this is the first time we've done the survey in the Bay Area; going forward, it will be repeated quarterly and published by the Council and the Forum in the PULSE. I, at least, was surprised by the relative optimism that many executives portrayed, and it wasn't fundamentally different by county or by the size of business either; it was pretty widespread.

Doug Henton

Working with Joint Venture: Silicon Valley Network, we started a project which will be producing a product in the next month or so, called "The Next Silicon Valley" because everybody is focused so much on what's happening right now that they don't see what's going to happened next. So we've been looking both at the past and the future, trying to gather a lot of information.

The facts are, and I'm going to use some Santa Clara data because it's easier to focus at the county level, that from a peak of last September of a million jobs in the civilian workforce, we've lost 40,000 jobs. Now that's net, mostly in manufacturing, and primarily in technology. As you know, there's been a whole series of layoffs and announcements of layoffs in that area, which amounts to about a 3.8% reduction. Now, what's interesting is that if you look back, this has happened 3 times to Silicon Valley since 1972: we lost about45,000 jobs in 1972, lost 45,000 in 1985, and 45,000 now. The Valley is a cyclical, volatile economy, and we have to remember that.

Last year the Valley reached an historic low of 1.7% unemployment. I don't think you can go much lower than this; people are always moving around, and from my perspective you create a lot of inflationary pressures—pressures on wages, pressures on housing. It was unsustainable. We're now up to what appears to be 5.9%. It's been a significant jump in unemployment and that's where people are focusing. The numbers show that at the beginning of January, we had 16,000 people unemployed and now it's up to 60,000; we're in a situation of losing jobs. The other statistic, which is interesting, is that in the third quarter venture capital placements declined by 21%. So everybody has been talking about the decline in venture capital. But it is interesting again, to put it in perspective, that the total amount of venture funded in that quarter was $2 billion dollars, and the annualized rate is equal to 1999. In 1999, there was $8 billion of venture capital invested; in 2000, there was $20 billion—the bubble. So we are back to where we were in 1999.

I looked at the venture numbers for the entire Bay Area and there was one segment of venture capital that increased 71%, which was bioinformatics. We've got to look at the region not as just one industry. Silicon Valley is made up of seven different industries: the semiconductor industry has it's own cyclical dynamic, which is global; the computer and communications industry is working in the telecommunications investment cycle; the software, Internet industry went into its "hyper" bubble; we have a bioscience industry, and we do medical instruments. We've got companies like Affymetrix and like Genencor that have now developed biochips, and we also have a defense industry. The defense industry went from 40,00 to 20,000 and they are now adding jobs again because of security. So, I think we have to be a little bit more flexible in our thinking about what's really going on.

This gets us into the question, "what comes next?" I think there are 3 things happening at once, and that's why it's so confusing to try to interpret. We just went through a boom and bust cycle; we've done it before. We actually had a bubble, there's no question about the fact that there was a bubble. But what we're also seeing is what is called a "hype" cycle, that when a new technology is introduced there is always going to be a sort of bubble. It happened with radio, with electricity, and with automobiles. Everybody got so excited about the Internet; they all thought they were going to go out and create companies overnight. Well, there was a fascinating book that was written in 1999 called, "The Internet Bubble," and it predicted this. It basically said the following, "Welcome to the Internet bubble, a world of a brash generation of entrepreneurs, who command thousands of Internet startups, loaded with venture capital, flush with capitalists from their IPOs. The mania surrounding the Internet bubble translates into too much venture capital, too many startups, too many IPOs driving public and private valuations to insane levels." And then it had this analysis, which I read at the time and thought was interesting. Again, this was in 1999 before the bubble broke. They identified 133 Internet startup companies funded by venture capital that would have to generate growth of 80% a year for the next 5 years to justify their market valuation. The simple math suggests that unless the economy was going to grow at some sort of hyper-speed, this is unsustainable.

So, the first point I want to make is, there are boom and bust cycles, especially around the introduction of new products and technology. There's not much we can do about it; they are part of the Schumpeterion process of "creative destruction," and all we can do is learn from them so we can deal with them in the future. We'd better quit mourning the bubble and move on.

The second point simply is that we have underneath that significant waves of innovation that come along about every 5 years, that really drive the Valley. We've had integrated circuits in the 70s, personal computers in the 80s, and the Internet in the 90s, and there's something coming now and I believe it's the convergence of information and biotechnology and nanotechnology, and it's about to take off. That's the next Silicon Valley. We've got to focus on that and quit worrying so much about the bubble.

> *"The main drivers of fundamental productivity growth had little to do with the bubble. They were much more around technological innovation in computing electronics, competitive intensity in a variety of businesses, particularly large employers like retail, and the general trend in the Bay Area of companies increasingly concentrating their highest-value-added jobs here."*
>
> –Lenny Mendonca

The third piece is what we've all pointed out, the shock of September 11, and that has thrown everything into uncertainty. But I would agree that's something that only government monetary and fiscal policy can really deal with in the short-term. There is not a lot we can do in the short-term about the shock, other than confidence.

In the Valley, among people that have just moved here, they've never seen anything like this before. I remember Jim Morgan, the head of Applied Materials, telling me that one time he spoke to a group of analysts at a semiconductor and IT meeting in New York, and he started the meeting by saying, "Have you ever been through a semiconductor downturn?" and not one person in the audience could raise their hand. So, we've got a group of people who came here in the last 5 years who never saw anything like this—who think we've just gone through a hurricane—and it's never going to come back.

So, the bottom line for the Bay Area Economic Forum and Joint Venture is that it's very important that we put good facts out on the table and really talk about the long-term issues, try to interpret what's going on and not be so caught up in the short term bubble. The information you've just put out about longer-term productivity is very valuable; that's the issue we've got to work on. And we've got problems there: sustaining our talent, and all the intellectual, human and physical infrastructure issues the Bay Area Economic Forum is dealing with.

DISCUSSION

William Nack

I was in Silicon Valley in 1991 and 1992, and certainly in the construction industry we went through some horrible times; and we made it out and we're still here. You asked about what industry might have optimism. We were at a union meeting the other night and the retail food industry is really taking-off because people aren't going out to restaurants; they're staying home and cooking dinner. So, all the Safeways and others have seen their sales skyrocket; they're hiring people.

Henton

The thing about it is, and it's inherent to the productivity numbers, that our region in Silicon Valley is really about innovation. We're not about chips or computers; we're about innovation. Innovation occurs in all kinds of interesting ways, and right now at this very moment, there are shifts going on. There are people developing tools for bio-terrorism. There are people developing security tools. We shouldn't be so stuck on the fact that we used to do one thing; so if they are developing new ways for people to have food, that is part of innovation. I'm agreeing with you in the sense that it's going to happen in interesting ways. It's not just going to be the computer business.

Mendonca

> *"There is good reason for optimism about the Bay Area's prospects. The Bay Area more than doubled its productivity lead relative to the rest of the nation in the last decade, from 25% in 1987 to roughly 60% in 2000."*
>
> *–Lenny Mendonca*

I'd like to add one point. Do you know what the single largest influence on the growth acceleration of the US economy was in the last 5 years—WALMART. In and of itself, it moved the national needle in terms of its growth and performance just because it's so much more productive and brought everybody else along with it.

Steven Roberti

You mentioned the early '90s. When we go into downturns it doesn't affect 100% of the economy. Certain segments get affected, and at that time it was construction trades, with 35% unemployment in my area. And what happened is a lot of people left crafts, and we're still suffering today, 10 years later. We still do not have enough electricians and carpenters, and for a lot of reasons, a lot of people are retiring because of the money they made during the late '90s. We've never recovered from having a lot of people to do the jobs in construction. Remember when Las Vegas was booming, they could never get enough people there.

Henton

You put your finger on a very important question. I think we're going to have long-term productivity with increasing job volatility. Part of it, is that we're more connected globally, so we're getting involved in a synchronization of things around the world. So, flexibility of the workforce and training absolutely is a premium, not just the skills of the workforce, but the ability of people to be able to move quickly from one area to another—and we're not so good at that. Our public training institutions are still quite weak in this area, so this flexibility issue should be an area of great interest for the Bay Area Council and the Economic Forum. I know you're doing work in these areas, but it's an area where we really need to rethink social innovation because people get stuck. I'll give you an example: employer-based benefits. People get stuck in a company because they want their benefits rather than being able to move quickly. This is a big problem to think about; how do you get people moving from an industry area without some sort of risk? It's a challenge, it really is.

Roberti

It's human nature. I saw in 1996, when I went to work for the Department of Labor, Mather Air Force Base closing down. There was a timetable for closing this place and the thousands of workers there, and the President came and said, "We're going to make this a model,"—which failed. I wondered, why are these people not using the Department of Labor's retraining program? They just hunkered down and stayed there until they got laid-off. And that was a human nature example to me of people not taking advantage of being mobile and changing, learning, and moving on.

Michael Covarrubias

Think about all that has been going on in the last year with job growth slowing down, the layoffs, then more layoffs, then more industries, then cars, technology, on and on. We always talk about consumers; we say the economy is going down, technologies are down, and there are layoffs, but the consumer is still holding on. I don't get that. The consumer is the product of what happens in front of him. Why do we call consumer confidence such a positive force, when to me, it seems like a reaction to what happened before?

> *"In 1999, there was $8 billion of venture capital invested; in 2000, there was $20 billion—the bubble. So we are back to where we were in 1999."*
> *–Doug Henton*

Parry

One interesting part of this economic adjustment is that consumer spending has remained stronger than it typically has been under such circumstances. The consumer makes up two-thirds of spending. This time, what seems to have kept us above a negative growth rate is the continued strong spending by consumers, so that's been a puzzle. We've looked at the impact of such things as the stock market and changes in housing to explain why consumer spending has held up. But, as I said, the risk is that consumers may change their attitudes. Consumer confidence is a reflection of real factors, so it is conceivable that we'll see consumers more reluctant to spend in the future.

Covarrubias

Before that, we said that housing is holding it up. The Federal Reserve months ago said, "Housing is doing a good job of holding up the economy." If people are losing their jobs, housing is going to fall, and it did. And now we're saying consumers are going to hold it up. It just seems like a domino.

Parry

Housing prices went up 12%. Housing is strong.

Henton

My sense of this is maybe we're in a special place in this report on the Bay Area's health. A lot of wealth has been accumulated here in housing, in assets. The stock market came down, but people still have wealth in their homes. Your consumption is a function of how much you think you really can spend. Maybe people are actually borrowing against assets, which are in their homes. Our homes right now are actually holding up.

Covarrubias

Apartment rents are down 20-25% during the first wave. All of a sudden, there are vacancies all over the place and rents have crashed, and you would assume that's the predictor of the next wave, which would be ownership housing.

Jerry Keyser

One area of vulnerability that concerns me a lot is the offshore weakness, in places such as Japan and Argentina, and I wonder whether it's the domino effect, just waiting to happen. The underlying concern is if that's true, then we've got some real concerns about what kind of political volatility that might introduce, and how that plays out.

Parry

I think it's a problem. At a number of recent FOMC meetings, we've had to change our assumptions about economic growth globally. This is mainly due to developments in Japan, but it applies to other areas as well. I think you can make a case that Asia is not out of the woods. Even in the most recent quarter, China's growth has slowed; it's still 7%, but slowing. In South America, you really wonder how a number of the countries there are going to come through it. Argentina is the greatest concern. There are areas of concern in Europe as well. I think this is a danger that could be an additional source of weakness, because we do sell goods to these countries.

Henton

We saw that in 1998, when the situation in Thailand became a domino in South East Asia, with effects that rippled across to Russia, which affected us. It affected our exports; semiconductors went down. We were in a fairly strong position and the Federal Reserve took some very strong actions at that time, and shored-up what was a very serious situation. You wonder now that we're weaker, whether we can do the same. You can see scenarios here that are not very positive; you don't want to think them all the way through, but we are interconnected. It's fascinating how just the currency in Thailand falling set off that whole reaction.

> *"There's something that's coming now and I believe it's the convergence of information and biotechnology and nanotechnology, and it's about to take off. That's the next Silicon Valley. We've got to focus on that and quit worrying so much about the bubble."*
>
> *–Mr. Doug Henton*

Mendonca

The connection is much more complicated than exports. Obviously, because there's intra-company activity that occurs both in terms of stages of production, as well as labor and intellectual property

Andrew Michael

What is the relationship between increasing capital and security? When you increase your focus on security, are you reducing your productivity because what is the productivity value of having more army and security out there?

Parry

I think when you look at the way we measure statistics, you are actually reducing productivity. Our productivity at the Fed depends on how efficiently we process cash, checks, etc. Our cost of doing that has just gone up because we're in the process of hiring 54 additional security people and have put barriers around the building. All of that adds to our cost, and we'll probably not process more cash or more checks. So doesn't that subtract from our productivity?

Sean Randolph

One of the big issues in the Bay Area is workforce. It came out of the Business Conference Survey, that one of the anchors that keeps businesses here, and keeps them investing, is that we have a uniquely diverse, talented workforce. In Silicon Valley, are you seeing people migrating away yet, or are you seeing the workforce holding in place?

Henton

I think that at the high-level, the Valley is still very attractive. The universities are training talent, and that's working. It's at the technician level that we have a problem, and there's always real pressure there—housing costs are so high that it's hard for people to live there, and a lot of decisions are being made by companies right now to move people out to places where they can live. It's a continuing problem, and I think training especially at community colleges is part of the answer, but we've got to deal with some fundamental community factors—if you have to live in a house you can't afford, you can move that part of your business elsewhere. Sun Microsystems and Hewlett Packard make decisions all the time on this, and have concluded they are where they need to be. So I think top-talent, yes, the Valley will have it; technician-level, there's a real challenge there.

Randolph

To finish this on a positive note, what are your particular thoughts about what regional leaders should be focusing on, other than continuing to communicate the more positive long-term prospects? Do you have any thoughts on what we ought to be doing regionally to help sustain growth and come out of this cycle faster than we would otherwise?

Henton

In 1992, there was this new technology (the Internet) that no one had ever heard of, by the Defense Department that was bouncing around inside laboratories. Everybody put a spotlight on it and initiatives like Smart Valley and other things helped get it going in the region. People don't remember, but Mark Andreesson was hired under a Federal grant that was procured by Smart Valley. He came out here and started Netscape. So, as much as we can put a spotlight on the new technologies like biotechnology and nanotechnology, and stir that up in a public way, I believe it helps. It keeps reminding people that we are the nation's most innovative region, and I think the report that the Bay Area Economic Forum did last year on the Bay Area's scientific infrastructure, highlighted this.

People forget this; we have the assets here, and it seems like they exist inside buildings but they don't—they're people. That's what you and other groups have done so well; you keep putting it out there that this is what we're really good at, and it's not just about physical assets. I think we can do a lot more of that and get out of this funk we're in. We've been hurt, no doubt about it. But I'm arguing, let's think about the next three years, and nobody can do that except groups like this because individual businesses and local governments are all going to be hunkered down. So it's an interesting time.

Parry

I think focusing on more longer-term considerations makes sense. My concern is that a lot of groups are looking for short-term fixes, and there aren't any.

"We're not about chips or computers; we're about innovation."
–Doug Henton

The Bay Area Business Confidence Survey can be accessed at www.bayareacouncil.org

The Next Silicon Valley can be accessed at www.jointventure.org

After the Bubble: Sustaining Economic Prosperity can be accessed at www.bayeconfor.org

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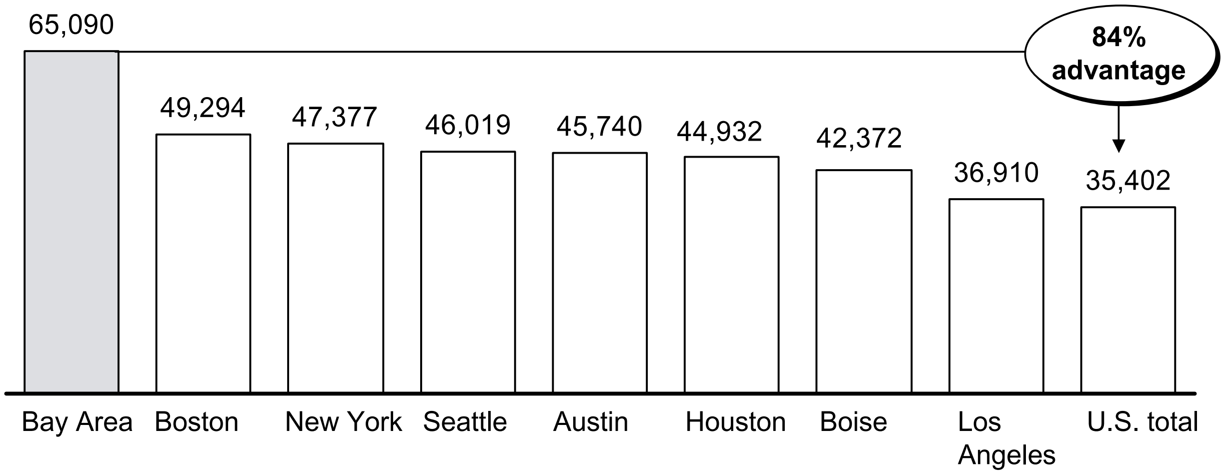
BAY AREA HOLDS AN IMPRESSIVE LEAD OVER COMPARATIVE REGIONS AND U.S. AVERAGE IN OUTPUT PER CAPITA – 2000

Dollars per capita

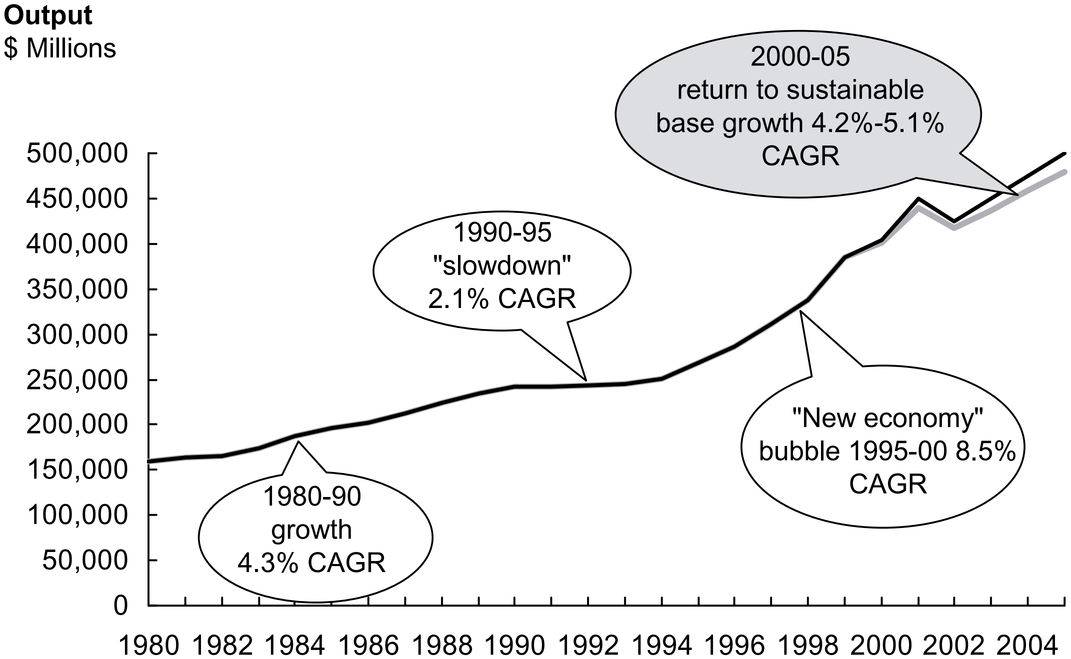


Note: All figures are nominal. Regions are consolidated metropolitan areas. Analysis by McKinsey & Company

BAY AREA POTENTIAL ECONOMIC GROWTH 4.2% to 5.1% ANNUALLY AFTER RECOVERY

Output

$ Millions



* CAGR=Compound Annual Growth Rate. All figures are inflation adjusted. Estimates based on productivity projections by McKinsey & Company and employment projections by ABAG.

The Bay Area Economic Forum, a partnership of business, government, university, and community leaders sponsored by the Bay Area Council and Association of Bay Area Governments, develops analysis and implements programs to strengthen the region's competitive economy and quality of life.

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