

# REGIONAL INTELLIGENCE REPORT™



BEACON ECONOMICS Prepared by Beacon Economics, LLC.

## Santa Clara County

Sixth Edition

December 2015

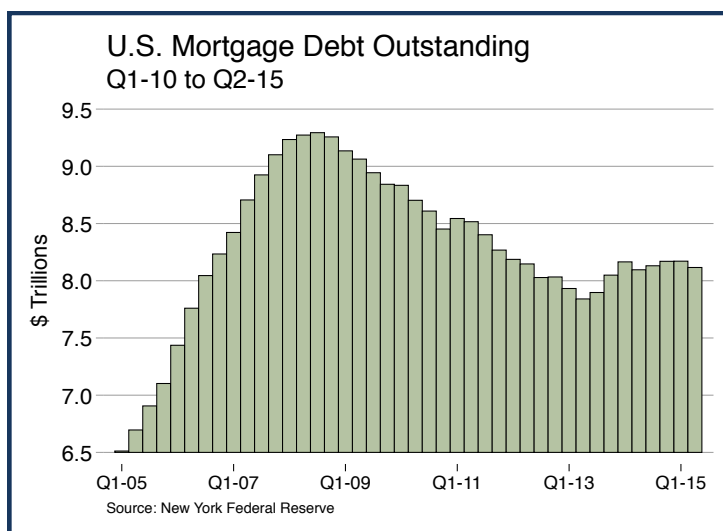
### U.S. Economic Outlook

Fall 2015 marked a notable recovery in the U.S. financial markets, ending a short period of increased volatility. The summer dip reaffirmed, to many, the ongoing fragility of the current economic expansion. Beacon Economics disagrees. While all eyes have been focused on global equity markets, a slew of new economic data has been coming out that point to a healthier U.S. economy:

- U.S. economic growth has averaged 2.5% through the first three quarters of 2015, a slight improvement over the 2.4% growth for all of 2014. The third quarter figure came in softer than the prior quarter (1.5% versus 3.9% annualized growth), but the longer-term trend is clearly continuing to rise.
- Consumers across the country continue to ramp up spending and remain a strong factor in the economy. Personal consumption expenditures in the third quarter of 2015 grew at an annualized rate of 3.2%, down from 3.6% in the second quarter, but still above the 1.8% in the first quarter.
- A closer look at the numbers reveals an economy that remains sure-footed. Due to a buildup in inventories during the second quarter, business did not need to restock in the third quarter, which acted as a drag on overall growth. Excluding the change in inventories, GDP would have grown by close to 3%.
- The slowdown in China and the overall global economy has been at the forefront of news headlines lately. Yet for all the noise international data has made in the press, the US economy has yet to feel the brunt of it. Net exports of goods and services were essentially flat during the third quarter, detracting just 0.03 percentage points from the headline number.

Yet despite these positive trends, there are still some risks to the national outlook that can hinder long-term economic growth. For example, the recovery of the U.S. economy over the past few years has not lifted all boats equally. Average wages have been rising, but median wages have not—suggesting that income gains are happening mainly among skilled workers. Similarly, gains in the financial markets have primarily benefitted the wealthiest households in the nation.

Similarly, mortgages remain difficult to access for many borrowers without relatively high credit scores. For many that can obtain a mortgage, finding an affordable home is difficult because housing remains undersupplied. While there are some positive numbers coming out of the housing market, the pace of new home construction remains very depressed relative to long run trends.



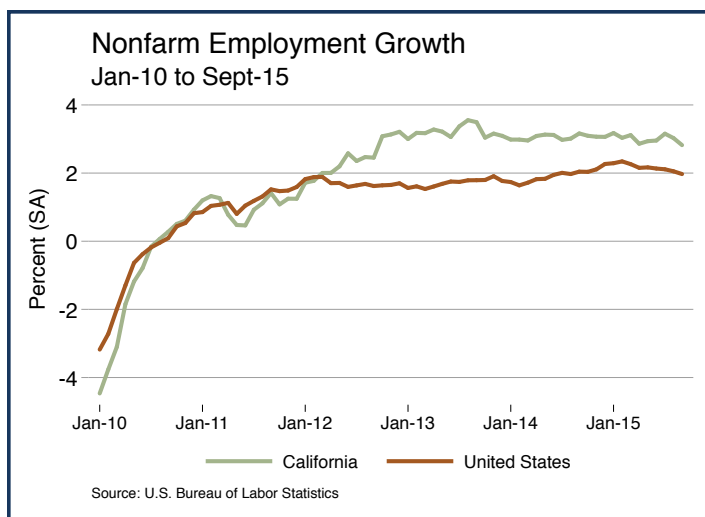
In addition, while the markets have not gone into 'bubble' mode, the recent swoon in prices is concerning. Valuations appear to make sense given high corporate profits and low interest rates and the rapid recovery in prices that has already occurred back this up. But what is really concerning was how the markets turned volatile for almost no reason and these episodes of volatility may become increasingly frequent.

Beacon Economics doesn't see any near-term risk of a recession in the data, despite choppiness in economic growth and these apparent risks. The current forecast has the nation's economy growing at just over 2.5% for all of 2015.

## California Economy

While trouble has plagued the international economy in recent months, domestic economic activity continues to move forward, especially in California. Over the past year, the Golden State has remained one of the bright spots in the national economy.

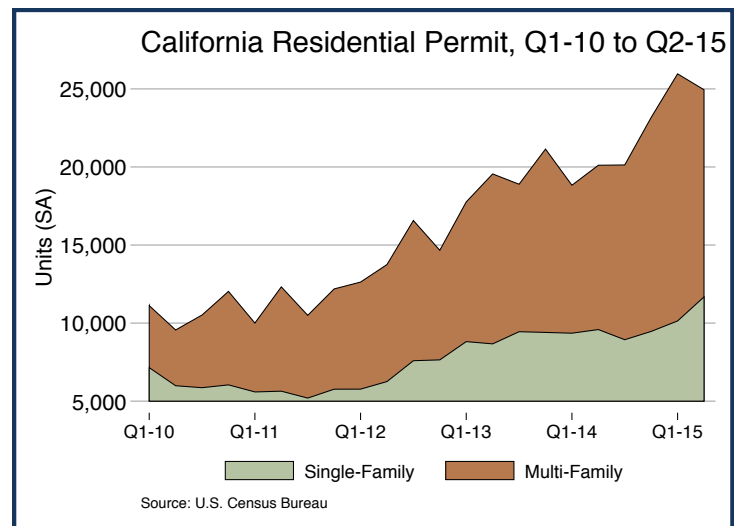
September 2015 marked the 43rd consecutive month that California has outpaced the U.S. overall in terms of nonfarm job growth. With a 3.0% expansion through the first nine months of 2015, California is growing half-again as fast as the nation.



Not only has California been generating a significant quantity of new jobs, but the quality of those jobs has been improving as well. Professional, Scientific, and Technical Services sector jobs, which generally offers above-average wages, have been the largest contributor over the past year, accounting for 78,000 (17.6%) of the 444,300 nonfarm jobs created during the past 12 months (period ending in September 2015).

San Francisco and San Jose continue to lead the pack in terms of employment gains, having each grown by 4.7% over the last year. San Diego County has climbed to the #3 spot for growth, expanding its employment base by 3.6% over the last 12 months. The state's Farm sector, which has been plagued by drought in recent years, is holding steady with 2.2% job growth as of September 2015 relative to the previous year.

Despite the uptick in the economy, home sales had been absent amidst a backdrop of rising home prices, new construction activity, and gradually improving labor markets. However, 2015 has seen the trend in home sales change from a disappointing one to one where transactions are once again on the rise. Through the first half of 2015, sales of existing single-family homes have climbed 9.8% more than at the same point in 2014. To date, nearly 170,000 homes have been sold in California.



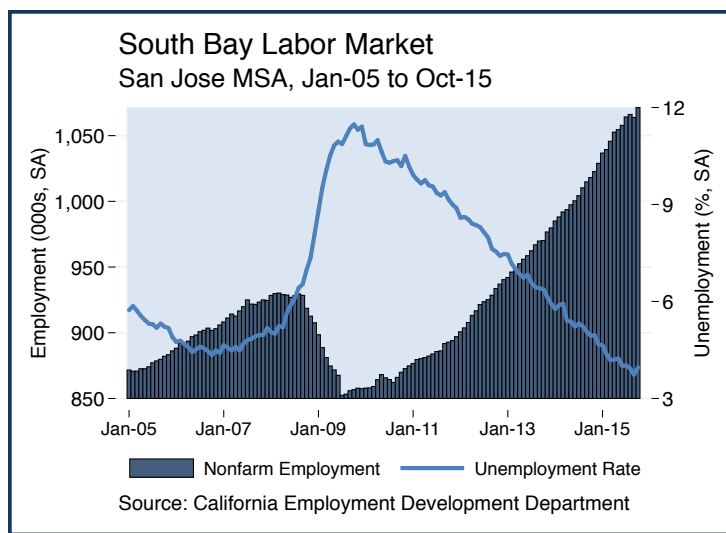
Recent troubles in Europe/Greece, and the downgraded outlook for Chinese economic growth, could impact exports at California's various air and seaports, however these external factors are not expected to greatly impact the state's economy. Through September 2015, loaded containers for export at the Ports of Los Angeles and Long Beach were down 11% over the same time last year. However, import traffic has held relatively steady, which will help to provide alternative demand for the state's Logistics industry.

Beacon Economics is optimistic about the current trajectory of the state economy. Nonfarm employment is projected to grow more than 2% per year over the next five years, while home sales gain momentum, and job growth will likely occur in both low- and high-skilled industries.

## Employment

Nonfarm employment in the South Bay rose 5.2% year over year to 1.07 million, and the unemployment rate fell 0.9 percentage points to 3.9% in October 2015. South Bay employment growth outpaced growth in California (2.9%) and in every other part of the Bay Area except San Rafael (5.6%). South Bay's unemployment rate is lower than California's (5.8%) and is the third lowest in the Bay Area, behind San Francisco's (3.1%) and San Rafael's (3.3%).

The nonfarm employment sectors that grew the most during the year were Professional, Scientific, & Technical (12.6%), Information (12.5%), Natural Resources/Construction (12.4%), and Transport/Warehouse (10.4%). Not surprisingly, the Information and Professional, Scientific, & Technical sectors—the region's flagship sectors and largest employers—accounted for 53.6% of the 47,200 nonfarm jobs added during the year. Together, the two sectors now provide 21.6% of the jobs in the South Bay.



The South Bay labor market continues to improve and to be one of the best in the country for a few key reasons. The first and most straightforward explanation is the expanding local and U.S. economies. Third-quarter GDP was just revised upward to 2.1% and 2014 GMP for the San Jose-Sunnyvale-Santa Clara MSA was 6.7%, according to the Bureau of Economic Analysis. During good economic times, companies engage in a variety of profit- and production-boosting activities: investing in R&D, acquiring more capital, and hiring more employees. In other words, a growing economy is a rising tide that lifts all boats.

The second reason for the South Bay's growing employment is that the Silicon Valley continues to thrive. It remains the tech hub and paragon of the United States by attracting capital, innovating, and branching out. New businesses are popping up and existing companies are expanding and developing new business, including cloud computing, big data, content creation, streaming, space exploration, drones, and driverless cars, to name a few. For example, Apple, Google, Facebook, LinkedIn, Snapchat, Jabil Circuit, Vander-Bend, ABB, and Dice have been leasing and/or building more office space. In particular, Apple has been on a "stunning shopping spree for office space, buildings and land in Silicon Valley." Currently, Apple has 25,000 employees in Silicon Valley, but because of its acquisitions in the last four years, the company will roughly double its workforce in the upcoming years.<sup>1</sup>

### Employment by Sector, San Jose MSA

Sector	15-Oct (000s)	YOY Chg. (000s)	YOY Chg. (%)
Prof, Sci, & Tech	153.9	17.3	12.6
Information	77.9	8.7	12.5
NR/Construction	44.8	4.9	12.4
Transport/Warehouse	14.7	1.4	10.4
Education/Health	161.0	8.9	5.8
Utilities	1.6	0.1	5.5
Management	12.2	0.5	4.2
Real Estate	14.2	0.5	3.7
Admin Support	62.0	2.1	3.5
Wholesale Trade	38.1	1.1	3.0
Manufacturing	165.0	4.6	2.9
Government	96.4	2.0	2.2
Leisure & Hospitality	94.0	1.1	1.1
Retail Trade	86.1	-0.3	-0.3
Finance & Insurance	21.8	-0.1	-0.5
<b>Total Nonfarm</b>	<b>1,071.4</b>	<b>53.3</b>	<b>5.2</b>

Source: California Employment Development Department

The third reason: South Bay jobs are increasing because San Francisco companies are moving and/or expanding to other parts of the Bay Area to get cheaper rents, larger spaces, and convenient campus-like amenities.<sup>2</sup> These companies are moving rather than renewing their leases and/or opening additional locations in the West Bay city. For example, Splunk, a software company, decided to expand to 500 Santana Row in San Jose rather than seek larger offices in San Francisco.

<sup>1</sup>George Avalos, "Apple earns 'wows' for massive office expansion", San Jose Mercury News, November 28, 2015, available at [http://www.mercurynews.com/news/ci\\_29067075/apple-earns-wows-for-massive-office-expansion](http://www.mercurynews.com/news/ci_29067075/apple-earns-wows-for-massive-office-expansion).

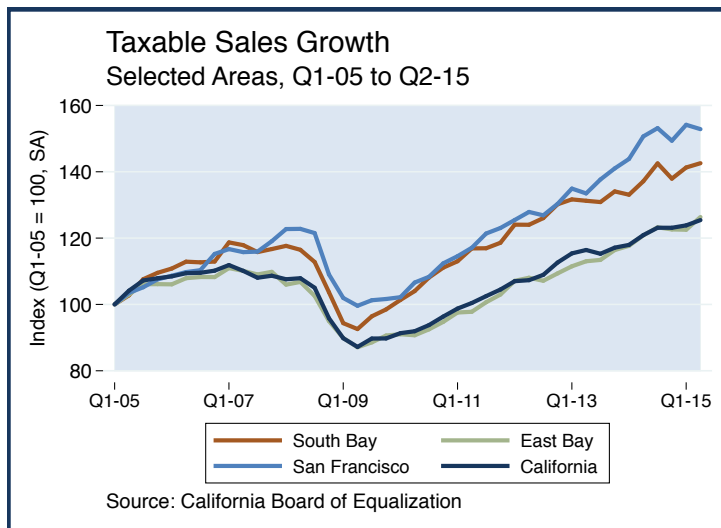
<sup>2</sup>George Avalos, "Splunk agrees to big lease in San Jose's Santana Row", San Jose Mercury News, November 28, 2015, available at [http://www.mercurynews.com/news/ci\\_28721238/splunk-agrees-to-big-lease-in-san-joses-santana-row](http://www.mercurynews.com/news/ci_28721238/splunk-agrees-to-big-lease-in-san-joses-santana-row).

Splunk’s vice president, Sherry Lowe, said the reasoning behind this decision was the company is growing<sup>3</sup> and “Santana Row is the premier location in the South Bay . . . With great dining, stores, and other amenities, our employees are excited to have such great options outside of their workplace.” The company will move in 2016 with as many as 1,100 employees.<sup>4</sup> As of the third quarter of 2015, office rent was \$35.76 per square foot in the South Bay and \$48.83 per square foot in San Francisco.

In the South Bay, most of the tech tycoons, mid-sized companies, and startups are in cities bordering the Bay. The increase in migration and expansion of tech companies is pushing San Jose metropolitan officials and planners to develop other South Bay areas, including downtown San Jose, to increase their appeal to tech companies and their employees; more information appears below.

### Local Spending

Taxable sales in the South Bay grew 3.9% year over year and 42.5% over the last ten years to \$10.2 billion. Despite the progress, South Bay continues to be in the middle of the pack in terms of spending growth. Taxable sales grew 3.7% year over year and 25% the last ten years in California, 4.5% and 26.3% in the East Bay, and 1.4% and 52.8% in San Francisco. Helping drive the South Bay’s topline number was significant year over year growth in the Restaurants & Hotels (13.5%), Building & Construction (11.2%), and Autos & Transportation (8.9%) spending categories. Fuel & Services Stations was the only spending category that declined dramatically (-13.5%) during the year.



Restaurants & Hotels and Autos & Transportation spending increased over the year in the South Bay because of the region’s rising employment and rising wages. As noted above, employment is buzzing along and most local jobs are highly skilled and high paying. Employees in the South Bay are seeing their wages increase. The average annual wage for all industries increased 6.9% year over year to \$104,350 in 2014. The average annual wage in Information and Professional, Scientific, & Technology—the region’s leading sectors—grew 3.7% to \$266,300 and 6.5% to \$146,700 respectively. Rising employment and rising incomes inspire financial security. Spending habits change when people have more disposable income for nonessential items, such as vacations and dining out, and for big-ticket items, including cars and kitchen appliances.

Restaurants & Hotel spending has also increased because, as the economy improves, more travelers are going to the Bay Area. These travelers are tourists visiting the Bay Area’s popular attractions and destinations and people meeting with companies and banks to conduct M&As, IPOs, share buybacks secondary stock offerings, extend credit lines, form business plans and new products, invest private equity, hold board meetings, attend forums, and annual shareholder meetings, job fairs, and conferences, etc. to expand existing Silicon Valley businesses, bring startups to life, and resolve controversial issues including drone aviation, cybercrime, and user privacy. For instance, thousands of investors travel to the South Bay to attend the annual shareholders meetings of companies which they own equity shares. The number of passengers who flew in and out of the San Jose International Airport rose 2.5% year over year to 798,271 in July 2015, according to Visit California, the state’s travel and tourism website. As a result, demand for hotel rooms increased which, in turn, put upward pressure on rates. The average daily hotel room rate rose 12.6% year over year to \$216.63 a night in San Jose in September 2015, according to PKF Consulting.

#### Taxable Receipts by Category, San Jose (MSA)

Category	Q2-15 (\$000s)	YOY Chg. (\$000s)	YOY Chg. (%)	3 Yr Chg. (%)
Restaurants & Hotels	11,890.7	1,416.0	13.5	33
Building & Construction	8,095.4	814.3	11.2	40.2
Autos & Transportation	13,073.8	1,048.5	8.7	26
Business & Industry	24,852.6	941.2	3.9	6.7
Food & Drugs	4,156.5	123.6	3.1	11.1
General Consumer Goods	19,943.9	371.2	1.9	4.9
Fuel & Service Stations	6,539.8	-1,022.3	-13.5	-15.2
<b>Total</b>	<b>105,150.6</b>	<b>5,664.2</b>	<b>5.7</b>	<b>15.5</b>

Source: HdL Companies

<sup>3</sup>Nathan Donato-Weinstein, “Santa Row snares Splunk, a big-data cruncher, with retail draw”, Silicon Valley Business Journal, November 28, 2015, available at <http://www.bizjournals.com/sanjose/news/2015/08/28/santana-row-snares-splunk-a-big-data-data-cruncher.html>.

<sup>4</sup>George Avalos, “Splunk agrees to big lease in San Jose’s Santana Row”, San Jose Mercury News, November 28, 2015, available at [http://www.mercurynews.com/news/ci\\_28721238/splunk-agrees-to-big-lease-in-san-joses-santana-row](http://www.mercurynews.com/news/ci_28721238/splunk-agrees-to-big-lease-in-san-joses-santana-row).

South Bay Building & Construction spending grew by double digits during the last year, mainly because of the many new offices and other commercial structures being built to accommodate the expansion of existing companies and migration of new companies. More residential and commercial developments are being built to cater to the growing number of employees on South Bay companies' payrolls. Over the year, for example, the value of permits for industrial space surged 148.5% to \$19.6 billion, office space escalated 32.0% to \$163.7 billion, and retail space increased 9.7% to \$38.7 billion in the third quarter of 2015. Meanwhile, the number of apartment units completed rose 75.9% year over year to 1,360 in that quarter.

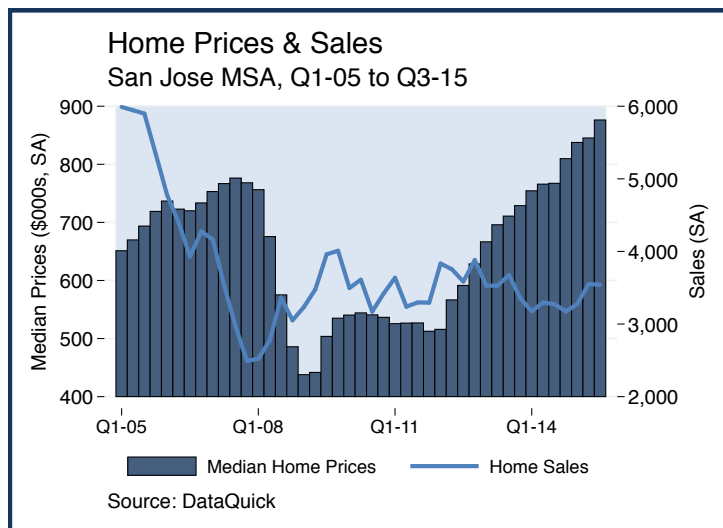
Fuel & Service Stations spending is down because of the steep drop in oil prices resulting from oversupply of oil in the market. However, lower energy prices provide more benefits than costs to the South Bay because its economic activity is not dependent on oil production and because consumers and businesses there can acquire the energy they need at a lower cost.

These spending trends are here to stay as their underlying drivers show no signs of decelerating or reversing course anytime soon. South Bay employment, wages, business activity, and economic growth should continue to rise and thus push most of the spending categories higher. The trajectory of Fuel & Service Station spending is less certain as forces outside the South Bay—OPEC regulations and policy enforcement, individual countries' energy production, green energy initiatives and production, and domestic production—can quickly change the price of oil and oil-related products.

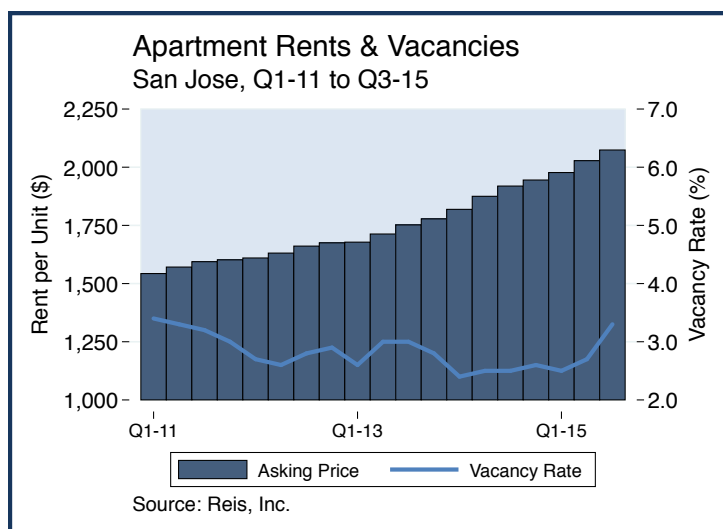
## Residential Real Estate

Median South Bay home prices rose year over year 14.2% (and 34.6% the last ten years) to \$876,270 while home sales rose 8.2% to 3,540 in the third quarter of 2015. South Bay homes continue to be some of the most expensive and fastest appreciating in the Bay Area and throughout California. Home prices rose 3.9% year over year to \$395,250 in California, 4.4% to \$568,190 in the East Bay, and 14.2% to \$1,080,300 in San Francisco.

All the South Bay cities have contributed to the surge in home prices. Year over year, median home prices jumped 13.6% to \$804,540 in San Jose, 14.9% to \$977,340 in Santa Clara, and 18.0% to \$1,316,970 in Sunnyvale in the third quarter of 2015. Home sales in the City of San Jose accounted for most of the home sales in the South Bay. Year over year, the number of homes sold increased 7.7% to 1,897 in the City of San Jose. The intensification of South Bay home prices and sales during the last few years has caused the housing market to rise above its pre-recession peak.



Meanwhile, apartment rents increased 8.1% year over year to \$2,074 and the vacancy rate increased 0.8 percentage points to 3.3% in the third quarter. Apartment rents and vacancies have also gone beyond their pre-recession levels. Home prices and apartment rents are rising so quickly that, although the cost remains within reach of highly paid workers, average incomes are not rising enough for the median worker, so more supply is needed. Inflation-adjusted mortgage payments are taking larger and larger chunks out of per capita incomes. In the South Bay, housing payments were 76.3% of an individual's per capita income in the first quarter of 2015. Five years ago, the portion was 64.1%, and Beacon Economics predicts it will rise to 84.1% by late 2020.



Home values, home sales, and apartment rents continue to increase while apartment vacancies remain low in the South Bay because of the region's small supply of residential real estate. As of September 2015, there were 2.1 months' worth of houses on the market and the three-year average was 1.9 months; a six- to nine-month housing inventory is normal. As of the third quarter, the three-year average for South Bay apartment vacancy rates was 2.7%. The housing situation in the South Bay is a classic economic story of demand outweighing supply. There are more employees who live outside of Silicon Valley and commute to work—but want to live in the South Bay—than there are available houses and apartments.

It is important to note that the South Bay housing and rental markets are not all demand and no supply. In response to the housing shortage, supply is being added. The ratio of apartment completions to absorptions has significantly improved over the last few years from nearly 0 to 2.2 as of the third quarter of 2015. In other words, new apartments are being built twice as fast as they are being rented. Additional relief is on the way as more supply will be built to help resolve the “out-of-whack jobs/housing balance”<sup>5</sup> and improve affordability, especially in the North Bayshore. For instance, up to 9,100 apartment units are planned for North Bayshore to help mitigate the area's major housing imbalance, combat unaffordability, and reduce Bay Area commuting.<sup>6</sup> Housing supply has been an issue for several decades and, although these additional units would be welcome, still more housing will be needed.

## Commercial Real Estate

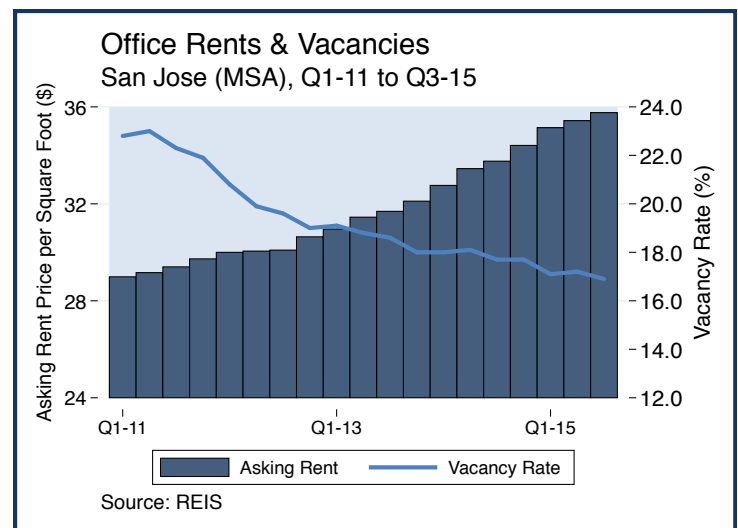
Over the last year, rents continued to increase and vacancy rates continued to fall in all commercial real estate categories in the South Bay:

- Office rents increased 5.9% year over year to \$35.76 per square foot while vacancy rates fell 0.8 percentage points to 16.9% in the third quarter of 2015. Rents in South Bay are still lower and rising more slowly than those in San Francisco (6.3% increase to \$48.83 per square foot) but higher and rising faster than those in the East Bay (3.6% to \$27.78) and in the entire Western Region (4.4% to \$30.45). Also, vacancy rates in the South Bay remain higher than those in San Francisco (10.7%) and whole Western Region (16.5%) but lower than those in the East Bay (17.0%).
- Retail rents increased 4.7% year over year to \$33.38 while vacancy rates remained unchanged at 4.4%. Rents in South Bay are still lower than those in San Francisco (4.2% increase to \$35.58 per square foot) but higher and rising faster than those in the East Bay (2.1% to \$29.09) and in the entire Western Region (2.3% to \$24.43).

Vacancy rates in the South Bay remain higher than those in San Francisco (3.3%) but lower than those in the East Bay (6.4%) and the Western Region (8.5%).

- Research & Development rents increased 2.6% year over year to \$14.42 while vacancy rates fell 1.4 percentage points to 16.1%. Rents in South Bay are still the same as in San Francisco (1.0% increase to \$14.42 per square foot) but higher and rising faster than those in the East Bay (2.3% to \$9.23) and in the entire Western Region (2.0% to \$10.88). Vacancy rates in the South Bay remain higher than those in San Francisco (4.7%), East Bay (13.5%), and the whole Western Region (11.0%).
- Warehouse/Distribution rents increased 1.9% to \$7.11 while vacancy rates fell 1.5 percentage points to 12.6%. Rents in South Bay are still lower than those in San Francisco (1.4% increase to \$8.71 per square foot) but higher than those in the East Bay (2.5% to \$5.34) and in the entire Western Region (1.9% to \$5.80). Vacancy rates in the South Bay remain higher than those in San Francisco (12.6%), East Bay (9.5%) and in the whole Western Region (9.4%).

Companies of all shapes, sizes, and specialties are moving to or expanding in the South Bay to take advantage of lower rents and the growing pool of consumers and businesses. One of these companies is Kaiser Permanente. The healthcare provider will be opening its first North San Jose medical office building.<sup>7</sup> Commercial real estate rents have been rising and vacancy rates have been declining in the South Bay because these companies are absorbing available inventory faster than supply is being added.



<sup>5</sup>Nathan Donato-Weinstein, “9,100 housing units next to Google? Mountain View council signals support for sweeping North Bayshore housing plans”, Silicon Valley Business Journal, November 28, 2015, available at <http://www.bizjournals.com/sanjose/news/2015/11/11/9-100-housing-units-next-to-google-mountain-view.html>

<sup>6</sup>Nathan Donato-Weinstein, “9,100 housing units next to Google? Mountain View council signals support for sweeping North Bayshore housing plans”, Silicon Valley Business Journal, November 28, 2015, available at <http://www.bizjournals.com/sanjose/news/2015/11/11/9-100-housing-units-next-to-google-mountain-view.html>.

<sup>7</sup>Allison Nagal, “Kaiser Reveals Plans for First North San Jose Facility”, Bisnow, November 28, 2015, available at <https://www.bisnow.com/silicon-valley/news/healthcare/kaiser-reveals-medical-office-plans-for-north-san-jose-52456>.

In the third quarter:

- 135,000 square feet of R&D space were absorbed while no new building were completed.
- 65,000 square feet of Warehouse/Distribution space were absorbed while no additional supply were completed.
- 62,000 square feet of Retail space were absorbed and 16,000 square feet were added to stock.
- 740,000 square feet of Office space were absorbed and 686,000 square feet were added to stock.

In the last three years, an average of:

- 70,380 square feet per quarter of R&D space were absorbed, compared to no space completed.
- 9,460 square feet per quarter of Warehouse/Distribution space were absorbed, compared to no space completed.
- 74,460 square feet per quarter of Retail space were absorbed, compared to 52,690 square feet completed.
- 488,230 square feet per quarter of Office space were absorbed, compared to 485,460 square feet completed.

Further contributing to tight supply of commercial real estate: In some South Bay areas, including downtown San Jose, there is no infrastructure in place. Thus, tech companies are not attracted to these areas and instead lease space in concentrated pockets of the South Bay.

The migration and expansion of companies—tech and non-tech—and their employees to the South Bay is spurring development of commercial real estate, especially in areas that do not have a strong tech presence. For example, in the past, “space constrictions and building height limitations because of [San Jose] downtown’s proximity to the airport have led major tech companies like Apple and eBay to build and expand their prestigious campuses in other parts of the city—mostly in north San Jose. Downtown is home to only one major tech company, Adobe Systems”.<sup>8</sup>

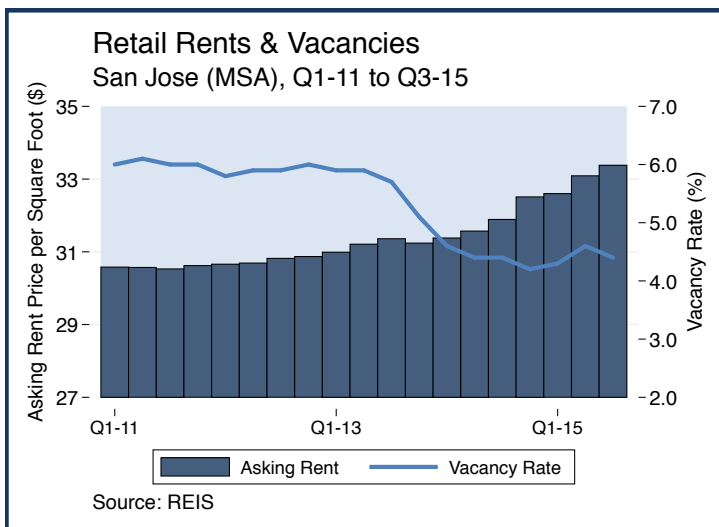
Among recent projects is the expansion of the Tech Museum of Innovation, “geared toward changing the downtown landscape by building innovative office spaces.” The Museum Place development project involves a 60,000 square-foot expansion of the museum and construction of a high-rise tower with 210,000 square feet of office space, 185 residential units, retail shops, and a hotel.<sup>9</sup> Soon more areas of the South Bay will be better equipped for companies and their employees, easing the tight supply of commercial real estate.

### Bubble Watch?

In total, the economic picture in the South Bay is impressive. The picture, however, may seem familiar. The late 1990s also saw strong growth trends, but they ended with the dot-com bust. Beacon Economics is optimistic and believes the expansion this time is very different.

Today’s solid trends look very little like the rapid jumps seen in the late 1990s. Unlike that period, there are no underlying fundamentals in today’s local market to suggest that the region is anywhere close to unsustainable levels.

*Venture Capital and Corporate Profits.* For example, during the first quarter of 1999, corporate profits were \$842.2 billion and by the end of the fourth quarter of 2000, they were \$753 billion. Meanwhile, the NASDAQ was skyrocketing and venture capital was flowing freely, yet corporate profits never took a positive upturn. This stands in stark contrast to trends in corporate profits over the last three years. Furthermore, in the 1990s, venture capital was flooding in across all the stages of a company’s development, while today the overwhelming majority comes in at the late stage.



<sup>8</sup>Ramona Giwargis, “Downtown San Jose development designed to lure high-tech companies”, San Jose Mercury News, November 28, 2015, available at [http://www.mercurynews.com/news/ci\\_29019106/downtown-san-jose-development-designed-to-lure-hightech-companies?source=infinite-up](http://www.mercurynews.com/news/ci_29019106/downtown-san-jose-development-designed-to-lure-hightech-companies?source=infinite-up).  
<sup>9</sup>Ramona Giwargis, “Downtown San Jose development designed to lure high-tech companies”, San Jose Mercury News, November 28, 2015, available at [http://www.mercurynews.com/news/ci\\_29019106/downtown-san-jose-development-designed-to-lure-hightech-companies?source=infinite-up](http://www.mercurynews.com/news/ci_29019106/downtown-san-jose-development-designed-to-lure-hightech-companies?source=infinite-up).

*Job Growth and Income.* From 1999 to 2000, South Bay's Information sector workforce increased by 23.4%, compared to a 3.6% increase across all industries. This huge jump in tech-related jobs was in no way tethered to the increases across the broader economy. In 2014, however, the increase in Information employment was up 15.6% in the South Bay, compared to an industry-wide increase of 5.0%. These numbers align more closely, suggesting that the current growth in the tech sector is part of a broader uptick in the economy at large. This stands in contrast to the late 1990s, when growth was being driven primarily by tech and the remaining sectors were growing more slowly.

Also, average wages for payroll workers in the South Bay jumped 24.8% to \$75,660 in 2000. Recent increases have been much more modest, with average wages growing 6.9% to \$104,350 in 2014.

*Broader Demand for Information Technology.* A rapid increase in demand for Information Technology products by the broader business community contributed to the overheating of the Bay Area economy in the late 1990s. Companies' increase in IT spending was met not by an increase in profits, but by reduced profits. The dotcom meltdown was not sparked by investors pulling back, but by a pullback from buyers. The financial markets then followed. Today the situation looks far more stable. Firms have not been rapidly increasing IT investment. Rather IT is a stable part of a growing base of business spending. And now firms know how to integrate IT into their production processes. Today's corporate and non-corporate business profits have never been higher in real terms.

The long-term economic outlook for the South Bay is very bright. The region remains one of the most successful and resilient in the nation. As sharp as the 2000 downturn was, the Bay Area quickly bounced back. And as Beacon Economics has previously reported, the region stood out against the backdrop of other regions in California during the Great Recession of 2007-08. The South Bay began feeling the effects of the recession later than peer regions and emerged from it sooner. This is because the South Bay is home to key growth industries and to one of the best educated, most highly skilled workforces in the world.



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## About Beacon Economics

Beacon Economics, LLC is a leading provider of economic research, forecasting, industry analysis, and data services. By delivering independent, rigorous analysis we give our clients the knowledge they need to make the right strategic decisions about investment, growth, revenue, and policy.

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