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2008 Bay Area Economic Profile Finds Region Gaining Strength in the New “Global” Economy

Presents New Policy Questions to the Region’s Leaders

BAY AREA, April 2, 2008 –The Bay Area Council Economic Institute today released the biannual *Bay Area Economic Profile*, which analyzes the Bay Area’s changing economy and benchmarks its performance against other major metropolitan centers. This year’s report, *Sustaining the Bay Area’s Competitiveness in a Globalizing World*, shifts from a national to a global scan – comparing the Bay Area with international as well as U.S. cities such as Boston, London, New York, Tel Aviv, Stockholm, Shanghai, Singapore and others.

“Increasingly, the world’s executives, entrepreneurs and researchers can choose to locate anywhere in the world, necessitating a broader study to accurately measure the Bay Area’s performance,” said Lenny Mendonca, Chairman of the Bay Area Council and Director of McKinsey & Company, which prepared the report on a pro bono basis.

The report finds that the region’s productive and educated workforce, deep venture capital pool, concentration of research organizations, culture of innovation, and receptivity to new ideas have made the Bay Area a major hub of the global economy. The Bay Area has the fourth highest concentration of Forbes 1,000 Global Companies with 21, ranking after only Tokyo, London and New York. It also has 645 foreign-owned company subsidiaries, and the amount is rapidly increasing.

“The fundamentals of the Bay Area remain very strong, despite the recent slowdown in the economy,” said Dr. Sean Randolph, President of the Bay Area Council Economic Institute. “The increasing ‘globalization’ of our economy will confront us with new competitive challenges, but the region’s economic assets place it in a strong position to compete and win as a global hub for business, technology and innovation.”

The Bay Area’s economic strength is rooted in its high concentration of talented and highly educated workers that produce an average of \$122,000 of goods and services each year, 30 percent higher than the U.S. average. These workers apply their contributions in many sectors, but disproportionately in high technology, information services, life sciences and financial services. The region has the largest share of population with a bachelor’s degree (42 percent) than any comparable metropolitan region. It attracts 35 percent of all venture capital invested in the U.S., amounting to \$9.5 billion in 2006, or about \$1,370 per resident – far more than second place Singapore with \$180 per capita or New York with \$107.

A recent poll by the Bay Area Council found that local residents endorse, by a wide majority of 88 percent, the rapid acceleration in global trade and economic and cultural connections between the Bay Area and other countries, in stark juxtaposition to immigration and globalization fears in many other parts of the United States. Some of this enthusiasm may stem from the fact that

many residents are themselves migrants. The percentage of Bay Area residents born outside the United States is more than twice the national average – 27 percent in the nine counties that make up the region, compared to 13 percent nationally. Forty percent of Bay Area residents speak a language other than English at home – twice the national average. A further indicator of this global connectivity is the fact that more and more foreign firms are choosing to locate subsidiaries in the Bay Area. The number of Japanese subsidiaries rose from 85 to 151 between 2002 and 2006, while those from the United Kingdom grew from 55 to 98. Overall, foreign subsidiaries grew by 67% in that period.

“In a time where knowledge-based business and global accessibility are central to economic success, the Bay Area stands at the forefront,” said Jim Wunderman, President and CEO of the Bay Area Council. “That said, we have serious – and in some cases shameful – weaknesses that can grow into a poison pill that kills the Bay Area’s golden economic goose.”

Despite the region’s central economic position, traditional and new weaknesses seriously challenge the Bay Area’s ability to maintain its elevated status. Residents must allocate a significantly higher portion of their income to housing than elsewhere in the U.S. (26% vs. 19%) and the multiple of home price to income (10:1) is twice as high as the national average (5:1). It is also much higher than in other global centers such as London and Shanghai. Roads are heavily congested during peak commute times. Education of schoolchildren from kindergarten through high school lags behind other international locations, leaving local students comparatively deficient in math, science, reading and problem solving. A large percentage of the population is approaching retirement over the next 15 years, making the area particularly susceptible to the challenges of financing an aging community. Restrictive immigration policies, including H-1B visa reductions, threaten to drive top talent to other locations. While the United States provides a relatively business friendly atmosphere, the cost of doing business in the Bay Area – including salary, rent, benefits and telecommunications – is higher than in any other major business center, except London.

“Despite the very good news about the region’s competitive positioning, high costs are a serious concern,” said Henry Gardner, Executive Director of the Association of Bay Area Governments. “Working together, the region simply must build more housing closer to where the jobs are and produce housing which is considerably more varied and affordable than it is today. If we don’t, transportation congestion will worsen and our environmental and energy problems will worsen.”

Amid these challenges, cities in Asia and Europe are raising the stakes as they compete to attract investment and critical knowledge workers. Some Asian cities are offering incentives such as subsidized rent, faster broadband connectivity or reduced corporate taxes to encourage companies to locate there. The report suggests that while the Bay Area is unlikely to take the same actions, its leaders must remain vigilant in the face of rising global competition for both companies and talent.

“The Bay Area should continue to invest in its core strengths; its research institutions, entrepreneurial networks, and its workforce,” said Mendonca. “The world’s economic landscape is changing rapidly and we cannot expect to remain competitive or to sustain our quality of life if we fail to invest in our infrastructure, our human capital and in a physical and business environment that supports innovation.”

“The message of this report is that while the Bay Area is well positioned for sustained long-term growth, we have no grounds to be complacent,” said Randolph. “Other regions around the world have taken a page from our playbook and are building their capacity to compete. This report suggests the dimension of that challenge and what we have to do to meet it.”

Sustaining the Bay Area’s Competitiveness in a Globalizing World can be viewed online at: www.bayareacouncil.org

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About the Bay Area Economic Profile

This report represents the sixth volume in the *Bay Area Economic Profile* series that began in 1996. For each report a research team led by McKinsey & Company analyzed the strengths and weaknesses of the Bay Area economy relative to other regional economies. Taken together, these volumes tell a remarkable story of how technology and innovation have helped the Bay Area achieve unprecedented levels of economic prosperity.

About the Bay Area Council

Founded in 1945, the Bay Area Council (www.bayareacouncil.org) is a business-backed public policy organization in the Silicon Valley-San Francisco-Oakland Bay Area. Led by CEOs, the Bay Area Council is the strong, united voice of more than 275 of the largest Bay Area employers, representing more than 500,000 workers, or 1 of every six private sector employee.

About the Bay Area Council Economic Institute

The Bay Area Council Economic Institute is a public-private partnership of business, labor, government and higher education that works to support the economic vitality and competitiveness of California and the Bay Area. Its work builds on the twenty-year record of fact-based economic analysis and policy leadership of the Bay Area Economic Forum, which merged with the Bay Area Council in January 2008. The Bay Area Council and the Association of Bay Area Governments (ABAG) are its leading institutional partners. The Economic Institute also supports and manages the Bay Area Science and Innovation Consortium (BASIC), a partnership of Northern California’s leading scientific research institutions and laboratories. Through its economic and policy research and partnerships, the Economic Institute addresses major issues impacting the competitiveness, economic development and quality of life of the region and the state, including infrastructure, globalization, science and technology, and governance. Its Board of Trustees, which oversees the development of its products and initiatives, is composed of leaders representing business, labor, government, higher education, science and technology, philanthropy and the community.

About the Association of Bay Area Governments (ABAG)

The Association of Bay Area Governments is the official comprehensive planning agency for the San Francisco Bay region. The ABAG mission is to strengthen cooperation and coordination among local governments. In doing so, ABAG addresses social, environmental, and economic issues that transcend local borders, such as land use, growth management, housing, and economic competitiveness. All nine counties and 99 of the 101 cities within the Bay Area are voluntary members of ABAG, representing nearly all the region’s population.

About McKinsey & Company

McKinsey & Company is a management consulting firm that helps many of the world’s leading corporations and organizations address their strategic challenges, from reorganizing for long-term growth to improving business performance and maximizing revenue. With consultants deployed in more than 50 countries across the globe, McKinsey advises companies on strategic, operational, organizational and

technological issues. For eight decades, the firm's primary objective has been to serve as an organization's most trusted external advisor on critical issues facing senior management.