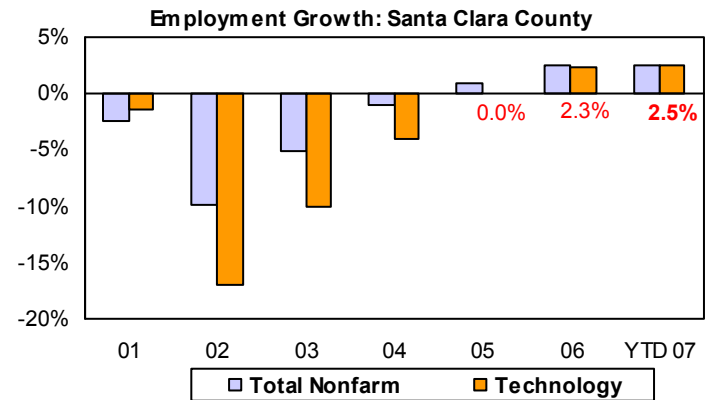


### Economic Data Show the Silicon Valley's Recovery Is Real

The much-talked-about (and eagerly awaited) recovery of the Silicon Valley has finally started to feel real. Job growth is no longer under the radar of official employment statistics, restaurants and clubs are fuller, freeway traffic is often bumper-to-bumper, and that optimistic can-do attitude of the Valley permeates the air once again. After a prolonged slump, things have turned around and the Valley is now one of the brightest spots in the state's economy.

The labor market has tightened considerably. Once significantly higher than the state average, the unemployment rate in Santa Clara County has been lower than that of California for the past fifteen months. The June unemployment rate for the county was 4.7%, unchanged from a year earlier. California's jobless rate, on the other hand, increased to 5.2% in June from 4.9% a year earlier.

one in every four workers in the county had a tech-related job. This ratio has come down somewhat from 29.4% in 2001, but there's no denying that the sector still dictates the direction of the Valley's economy.

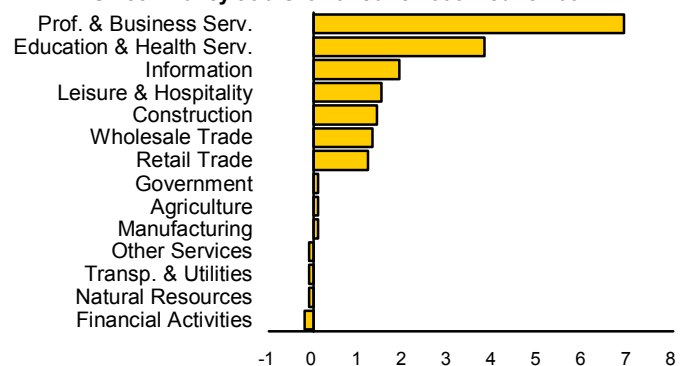


Not seasonally adjusted. Source: CA Employment Development Dept. (CAEDD)

The number of these technology jobs started to rise again in 2006, as shown in the preceding chart. During the first six months of 2007, technology employment in Santa Clara County was up 2.5% compared with the first half of 2006, while total nonfarm employment rose 2.6% during the same period. The annual growth rate of tech jobs in 2006 was 2.3%. (The rate was unchanged in 2005.)

Some of these technology jobs are in the manufacturing sector, and others are in the publishing or service categories. The recent growth of technology employment, however, has been almost exclusively in the professional service sector. The number of high-tech manufacturing positions is rising only gradually.

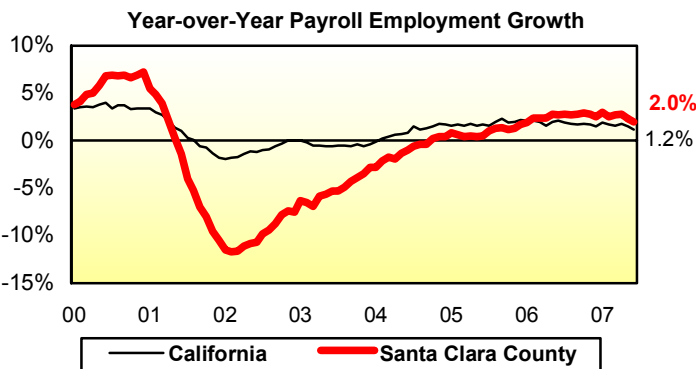
#### Silicon Valley Job Growth June 2006 – June 2007



Unit: Thousand jobs. Not seasonally adjusted. Source: CAEDD.

#### The Valley leads the whole Bay Area in growth.

The above chart indicates that the professional and business services sector added most jobs (+6,900) between June 2006



Not seasonally adjusted. Source: Bureau of Labor Statistics (BLS).

The preceding chart shows that job growth in the Silicon Valley has outpaced the state since 2006. The year-over-year increase in nonfarm employment in Santa Clara County was 2.0% as of June 2007, while the statewide average was 1.2%. The turnaround of the Valley is especially impressive, considering the fact that the area lost about 20% of its payroll jobs between 2001 and 2004.

#### In the Valley, tech still reigns supreme.

It was the technology-sector debacle that decimated jobs in the Silicon Valley earlier in the decade; it is also a tech-sector recovery that buoys the region now. In 2006, information technology-related jobs<sup>1</sup> accounted for 24.6% of payroll employment in Santa Clara County. In other words, almost

<sup>1</sup> For this report, we included "Industrial Machinery Manufacturing (NAICS code: 3332), Commercial & Service Industry Machinery Manufacturing" (3333), "Computer & Electronic Product Manufacturing" (334), "Software Publishers" (5112), "Telecommunications" (517), "Data Processing, Hosting and Related Services" (518), "Computer Systems Design & Related Services" (5415), and "Scientific Research & Development Services" (5417).

and June 2007 in Santa Clara County. Computer system designs and related services alone accounted for 2,300 of these new jobs. The education and health services sector gained 3,800 jobs over the same period. Employment and income growth in these sectors seems to be at least partially responsible for the addition of 1,400 workers at food service establishments and 2,500 workers in wholesale and retail trades in the county.

Within the San Francisco Bay Area, the resurgence of the technology sector has accelerated employment growth in other counties as well. The chart below shows that the Peninsula, the City of San Francisco, and the North Bay all enjoyed strong job growth during the first half of 2007. The only exception was the East Bay, where the housing slowdown seems to have taken a bigger bite out of economic momentum than in other counties.

declined by 18.0% over the year, but the median price rose by a healthy 5.5% to \$865,000.

In fact, Santa Clara was the second most expensive market in the state after Santa Barbara South Coast, where the median price was \$1,375,000. The rest of the Bay Area ranked third at \$842,600. The lack of affordability and sky-high housing costs remain pressing issues for the Silicon Valley, rather than the possibility of price declines.

**Global economic growth will prolong the current boom.**

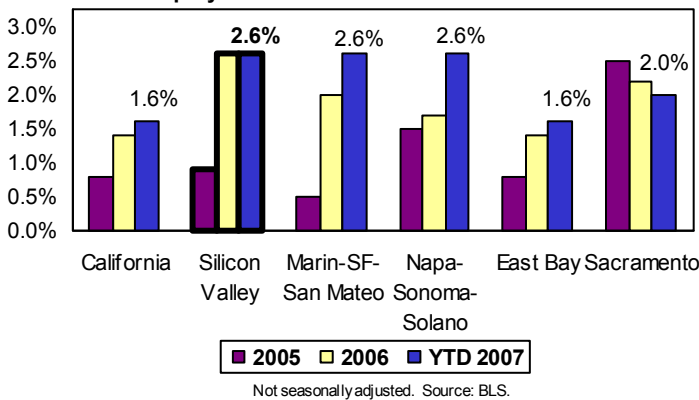
So how long will this expansion last? That, of course, is anybody's guess, but the United States is likely to maintain a moderate pace of economic growth through the rest of 2007 and in 2008. (Please refer to our forecast summary, below.) Investment in equipment and software accelerated during the second quarter of 2007 to an annualized rate of 2.3% from 0.3% during the first quarter. Many firms in the Valley—such as semiconductor manufacturers—will get a lift from sustained growth of the U.S. economy.

In addition, favorable global economic trends will likely extend the longevity of the current boom. Computers and electronic products are the most important exports of California, representing 35% of total exports, and manufacturing of these products is the most export-dependent industry in the state. The Census Bureau estimated in 2003 that the electronics industry in California shipped 37% of its output overseas and that 39% of jobs within the industry were export-related.

Because the Silicon Valley undoubtedly accounts for the largest share of this industry's output and employment in the state, continued global economic growth, especially in Asia, will likely benefit it more than any other regions in the state.

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San Francisco, California*

**Employment Growth: Northern California**



The June report from the California Association of Realtors (CAR) shows that the Valley housing market has also slowed, but it still remains one of the healthiest markets among the ones regularly tracked by the CAR. Unit sales in Santa Clara

**Economic Forecast – August 2007**

<b>UNITED STATES</b>	2005	2006	2007	2008
Real GDP Growth (%)	<b>3.1</b>	<b>2.9</b>	2.0	3.1
Unemployment (%)	<b>5.1</b>	<b>4.6</b>	4.6	4.8
Nonfarm Employment Growth (%)	<b>1.7</b>	<b>1.9</b>	1.4	1.0
CPI Change (%)	<b>3.4</b>	<b>3.2</b>	2.8	2.4
Federal Funds (%)	<b>3.2</b>	<b>5.0</b>	5.3	5.3
<b>CALIFORNIA</b>				
Real GDP Growth (%)	<b>3.8</b>	<b>4.2</b>	2.7	3.4
Nonfarm Employment Growth (%)	<b>1.8</b>	<b>1.9</b>	1.3	0.9
Personal Income Growth (%)	<b>5.3</b>	<b>6.4</b>	6.5	6.0

**Bold: Actual.**

The information in this report is based on data available as of July 31, 2007, and has been obtained from sources believed to be reliable, but its accuracy, completeness, and interpretation are not guaranteed. We do not think it should necessarily be relied on as a sole source of information and opinion.