

San Mateo County Labor Demand Analysis



Executive Summary

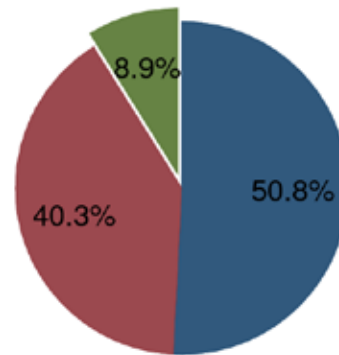
San Mateo County is no stranger to significant swings in overall employment. Indeed, between 1995 and 2000, overall employment increased by more than 30%, with the number of positions in particular sectors increasing by as much as 180%. Since 2000, employment has fallen, increased, and fallen again, so that by 2009 it was roughly 5% above its 1995 level. These dynamics are not unique to San Mateo County; both San Francisco and Santa Clara counties have been subject to even greater fluctuations in employment.

Knowing, however, that the county is dynamic and in good company is only so useful for developing appropriate programs and policies for either economic or workforce development. Of greater use is an understanding of the underlying influences on the overall employment dynamics of the region. That is, what are the sources of job creation and job destruction? How has each of these sources contributed to the overall employment picture in San Mateo County?

Jobs are created through the birth of new business establishments, the expansion of existing establishments, and the movement into the area of establishments. Similarly, jobs are destroyed by the death, contraction, or exit of existing local establishments. This job churn is enormous relative to the changes that are observed in aggregate employment. In an average year in San Mateo County, 9.1% of all jobs will disappear. At the same time, jobs amounting to 10% of existing employment will be created. In this, San Mateo County is again not unique, but it does exhibit more “churn” in its employment than any other county in the Bay Area.

Between 1995 and 2009, births and deaths played the biggest role in employment changes locally. The birth of new businesses accounted for just over 50% of all jobs created and business deaths were responsible for over 60% of all jobs destroyed. The actual movement of business establishments into or out

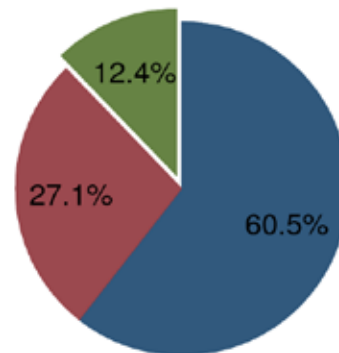
Job Creation in San Mateo County
Annual Average, 1995–2009



Birth of New Establishments
Expansion of Existing Establishments
Establishments Moving In

Source: NETS 2009, Calculations by Haveman Economic Consulting

Job Destruction in San Mateo County
Annual Average, 1995–2009

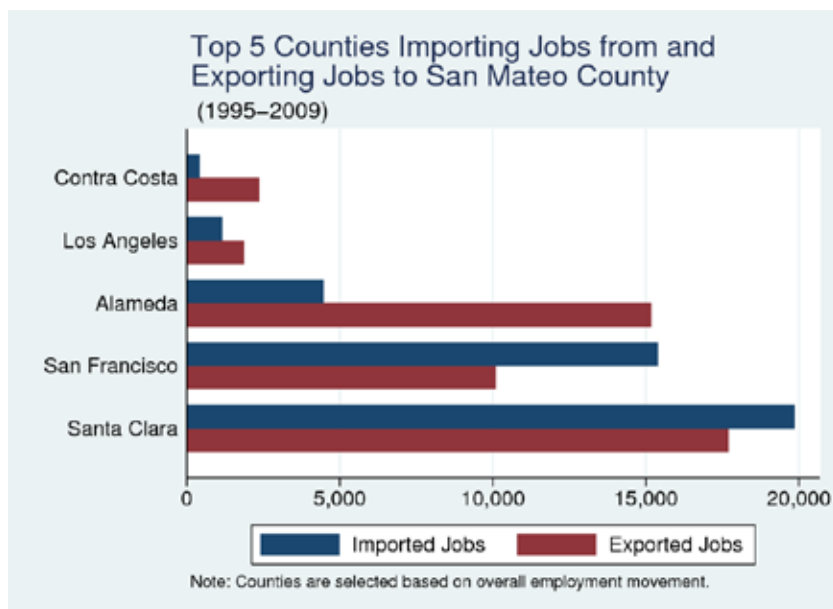


Death of Existing Establishments
Contraction at Existing Establishments
Establishments Moving Out

Source: NETS 2009, Calculations by Haveman Economic Consulting

of the county was the smallest source of job creation or destruction. In an average year, the number of jobs created by businesses moving into the county adds nearly 9% of total employment while the number of jobs lost when businesses move out of the county reduces employment by 12.4%. The county is therefore a net exporter of jobs.

Historically, Santa Clara County has been San Mateo County's largest jobs trading partner. Between 1994 and 2009, in excess of 20,000 jobs moved from Santa Clara County to San Mateo County, while just over 17,000 jobs moved from San Mateo County to Santa Clara County. San Mateo County has a large trade surplus (exports of jobs exceed imports) with the East Bay. Alameda and Contra Costa counties are the destinations of choice for many businesses moving out of San Mateo County; far fewer make the reverse move into San Mateo County.



Much of this churn is accounted for by three large sectors of San Mateo County's economy: manufacturing; professional, scientific, and technical services; and

information. Manufacturing contributes the largest outflow of jobs, exporting the equivalent of 2.3% of local manufacturing jobs and importing just 1.3%. At the same time, manufacturing establishments in the county contribute significantly to employment growth through expansion. However, because the death of businesses exceeds new business births, manufacturing continues to be a drag on overall county employment levels.

The information sector and the professional, scientific, and technical services sector (PSTS) are the two largest contributors to employment growth. They are both net importers of jobs, but where they really make their contribution is through the expansion of existing establishments. Existing information-related firms add 7% to employment in the sector even after accounting for employment declines. In the average year between 1995 and 2009, businesses in the information sector added five jobs through growth and expansion for every job lost because of a business contraction.

These sectors also contribute significantly to the churn in local employment through births and deaths. Over the period, the birth of businesses and business deaths were approximately equal in both sectors, but this overshadows the large number of both births and deaths that occur. In an average year, births and deaths create and destroy jobs at roughly the same rate of 6.7% of employment in the PSTS sector. The information sector has a slightly lower rate, but it is still high at 5.1%.

Business startups play a significant role in the underlying dynamics of the San Mateo County economy. In an average year, the number of new businesses is equivalent to about 10% of the existing number of establishments in the county. This is a bit below the average in both the Bay Area overall and the state, but it is nonetheless a high rate of business creation. Information is a key sector in which births occur, generating new establishments at a rate of 12.6% each year.

An important driver of this startup activity is venture capital funding. In 2010, establishments in San Mateo County received venture capital funding at a rate that is exceeded only by Santa Clara County. In terms of the dollar value of investments received, industries in the county rank in the top 10 nationwide in all but three of the industries tracked by the PwC MoneyTree web site. In 2010, biotech and computer software were particularly

Economy

large recipients, pulling in more than a half billion dollars each. Although these investments are not enough to drive growth in the county, they are significant in that they project good things for the county going forward. Local businesses are at the forefront of development in a wide variety of commercial areas. As indicated above, the number of establishments moving out of the county is relatively small. Another concern regarding the displaced generation of job growth in the county is when firms that are headquartered in San Mateo County make new location decisions as they grow larger. If firms headquartered locally are choosing to expand employment outside of the county, this is a sign that they perceive potential limitations in the local business environment.

In 1996, locally headquartered firms kept 24% of their employees in San Mateo County. In the subsequent eight years, this proportion declined significantly, to just 15% in 2004. More recently, the share has rebounded to just under 19% as of 2009. The recent trend has been favorable and is driven by a wide variety of industries in the county, suggesting that there has been widespread improvement in the local business environment.

Overall, such dynamism is important for an economy. The changes help to prevent the economy from growing old or soft, allowing it to continue to reinvent and reshape itself. An understanding of these phenomena leads to important lessons for the county: the primary contributors to job growth are existing established businesses, the county is a net exporter of jobs, and the primary source of exported jobs is the manufacturing sector. These and other salient facts from an analysis of business dynamics are vital to building a sound and successful economy that continuously create good, high-paying jobs.

San Mateo County VC Investment Rankings by Industry in 2010

Industry	Amount (\$Mill)	Share of U.S.	Rank
Other	10.2	24.9	1
Biotechnology	575.9	15.4	2
Computers and Peripherals	61.1	12.9	2
Financial Services	68.7	12.9	2
Software	533.8	13.9	2
Telecommunications	75.1	9.2	2
IT Services	164.7	10.3	3
Retailing Distribution	11.4	8.1	3
Medical Devices and Equipment	117.7	5.2	4
Semiconductors	33.8	3.4	5
Business Products and Services	17.0	4.5	6
Consumer Products and Services	23.1	5.0	7
Media and Entertainment	61.8	4.4	7
Health Care Services	14.1	5.6	9
Industrial Energy	50.2	1.5	11
Electronics Instrumentation	5.1	1.2	15
Networking and Equipment	7.0	1.4	20

Source: PwC MoneyTree, Calculations by Haveman Economic Consulting
 Note: Rankings are by county across the country.

Employment Patterns of Multi-Establishment Firms
 San Mateo County Headquarters – All Industries



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