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Recession Starts to Worry Silicon Valley, Report Finds

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The global recession came late to Silicon Valley, but the region is bracing for a rough year that may strain local social services.

A report to be released Tuesday by Joint Venture: Silicon Valley Network, an organization that assesses the region's social, economic and environmental health, warns that its social services network is outdated and "frayed." It also found that per-capita income fell slightly last year, down 0.8 percent from 2007.

The annual report, the 2009 Silicon Valley Index, also says that the current "patchwork" of educational and social programs will fail to meet the needs of the area when it eventually emerges from the recession and tries to prepare workers for new kinds of jobs.

After holding steady through most of 2008 while the rest of the country suffered, Silicon Valley had a spike in unemployment at the end of the year, the report said. Employment dropped 1.3 percent in December from a year ago as more tech companies laid off workers.

At the same time, demand for commercial real estate waned, while home foreclosures in the region rose 186 percent year over year, far more than the rate for the state as a whole.

But that comparative increase is largely a function of the region's real estate market experiencing the effect of the downturn long after the rest of the state had. The region is still faring better, with only 3 percent of California's home foreclosures. "We are not immune to the recession. We're just late, as opposed to 2000, when we were the recession," said Stephen Levy, director of the Center for Continuing Study of the California Economy in Palo Alto.

The California real estate market softened, then consumers reduced their "shopping at the mall," Mr. Levy said. "Finally, they have reduced their purchasing of iPods and flat-screen TVs."

The dot-com bust at the beginning of the decade and the recession that followed were felt most severely in Silicon Valley. But this recession is clearly different. The region's situation is exacerbated by the state government's enormous budget deficit, which last week stood at \$42 billion.

The State Assembly has been struggling to write a budget proposal that includes large tax increases and deep cuts in a huge range of services and public projects, including money for education, training programs and hospitals throughout the state.

One area of serious concern in the report is the state's community college system, which employers have long relied on to help train lower and middle-income workers for new jobs. Joint Venture believes the system is underfinanced, and it has been threatened with cutbacks in state support.

Joint Venture is among a number of California organizations calling for an overhaul of the state government to help solve California's financial problems. Last week, Joint Venture's 49-member board voted unanimously to support a convention to rewrite California's Constitution. The group and others are hoping to gain enough support to place a proposition on the ballot in June.

"This is a statement that the system is broken, and that inaction will lead to ruin," said Russell Hancock, chief executive and president of Joint Venture. "It's time to start over."

The report also showed that the gap between the wealthiest and the poorest residents continued to grow. The percentage of households earning more than \$100,000 a year rose to 42 percent in 2008, from 35 percent in 2002, while the number of households earning \$35,000 or less rose to 20 percent, from 19 percent in the same period.

During that period, the number of immigrants to Silicon Valley grew 9 percent.

The report highlighted reasons for optimism. Overall venture capital investment in Silicon Valley companies fell 7.7 percent during the year, but less than the decline of 11.4 percent nationwide.

Investment of nearly \$1.9 billion in clean technology during 2008 was nearly double that in 2007. The bulk of new technology jobs will be in clean technology businesses, according to the report. That sector has had job growth of 23 percent since 2005. In that sector, green construction has had the most growth, with a fourfold increase in jobs since 2005.

"Silicon Valley has a unique role to play in solving the climate crisis and bringing an end to this recession," Mr. Hancock said.