City and County of San Francisco

An Overview of San Francisco's Recent Economic Performance

Executive Summary

April 3, 2006

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Prepared for
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Executive Summary

The San Francisco Economic Strategy

In 2004, San Francisco voters approved Proposition I, which authorized the creation of an economic development strategy for the City. Proposition I directed the Mayor's Office of Economic and Workforce Development to develop the strategy and to focus on identifying and developing industries that have the potential to create good jobs that align with the skills and education of San Francisco's residents. The strategy will also focus on preserving and enhancing small business, creating job opportunities for disabled and vulnerable populations, and developing the City's tax base.

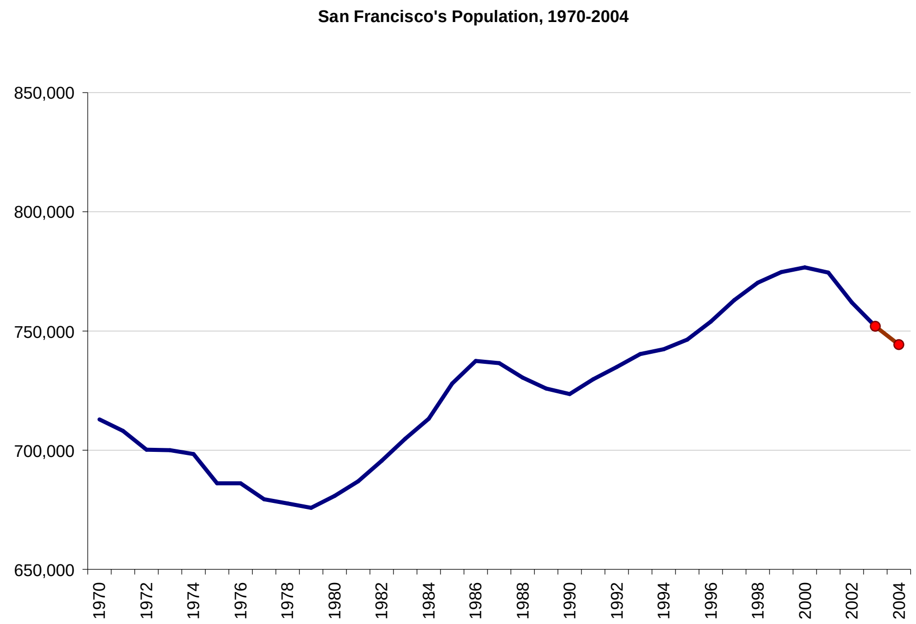
The twelve-month work plan is designed to answer three main questions:

- What are the City's most important long-term economic and workforce employment challenges?
- How can we best shape the City's economy to meet our challenges?
- What policies should the City government enact to meet our challenges?

This document summarizes the first analytical report prepared by ICF Consulting and its team of subcontractors. That report reviews recent changes in San Francisco's population, and the recent performance of San Francisco's economy. It will be used to stimulate conversation about the goals and objectives of the strategy in public meetings, focus groups, and via a web survey.

San Francisco's Changing Population

Until 2000, San Francisco experienced consistent population growth for most of the past twenty-five years, with population increasing by over 50,000 people in the 1990s alone. Between 2000 and 2004, however, the City has lost over 32,000 people.



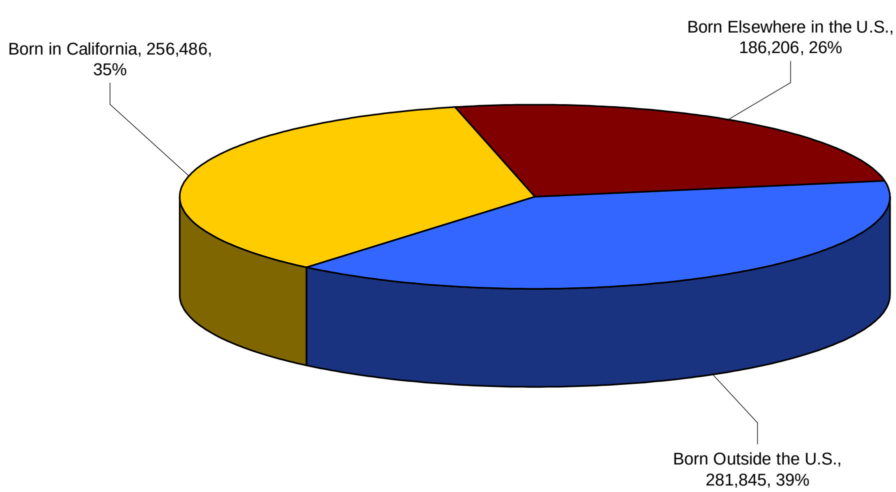
Source: US Census Bureau, Population Division; Bureau of Economic Analysis, Regional Economic Information System
Note: BEA figures are in blue; Census figures are in red (2003-2004)

Domestic and international migration trends underlie these significant population shifts. Domestic out-migration (San Francisco residents leaving San Francisco for other parts of the U.S.) is the factor most responsible for the City's decline in population. While domestic out-migration has exceeded domestic in-migration for many years, the gap has widened significantly between 2000 and 2004, with nearly 78,000 residents moving from San Francisco to another destination in the United States. Most of these people have relocated to other parts of the Bay Area.

A closer look at domestic migration patterns by age presents a revealing pattern. During the 1990s, San Francisco received a tremendous net in-migration of young adults aged 20-34. The arts, internet, media, and technology industries that were growing in San Francisco during the 1990s were heavily dependent on workers in that age range. The City experienced a net out-migration of almost every other age group, particularly school-age children and adults in their forties.

San Francisco's international migration trends present a notable contrast to domestic patterns. The City has benefited from a significant net increase in international migrants to San Francisco since at least the mid-1980s, adding 8,000 – 12,000 new international immigrants every year during that period.[1] In fact, international immigration has been so important to the City's population that, by 2004, there are now more San Franciscans who were born overseas than were born in California. Today, approximately 39% of San Franciscans were born in another country, while 35% of residents were born in California and 26% were born elsewhere in the United States.

Location of Birth of San Francisco Residents, 2004

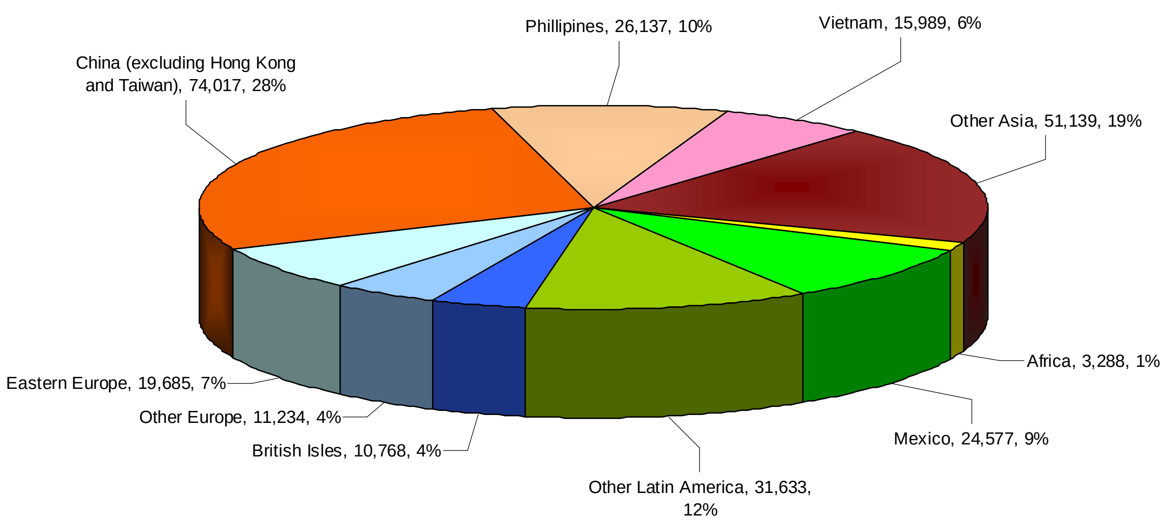


Source: US Census Bureau, 2004 American Community Survey

[1] This figure does not take into account undocumented immigrants.

Asia is the largest source of international immigration to San Francisco. In 2004, over 60% of San Francisco's immigrant population came from Asia, with 28% coming from one country: China. Immigration from the Americas—led by Mexico—accounted for another 20%, and European immigrants accounted for about another 20%. In an era in which global access and connectedness is central to the competitive advantage of companies and cities, San Francisco's many vibrant ethnic communities serve as bridges connecting us with sources of growth and development around the world. In particular, San Francisco's unique historical ties with China will continue to develop into a significant economic asset, as the trade and investment relations between the United States and China continue to develop and mature.

Place of Birth of San Francisco's Foreign-Born Population, 2004

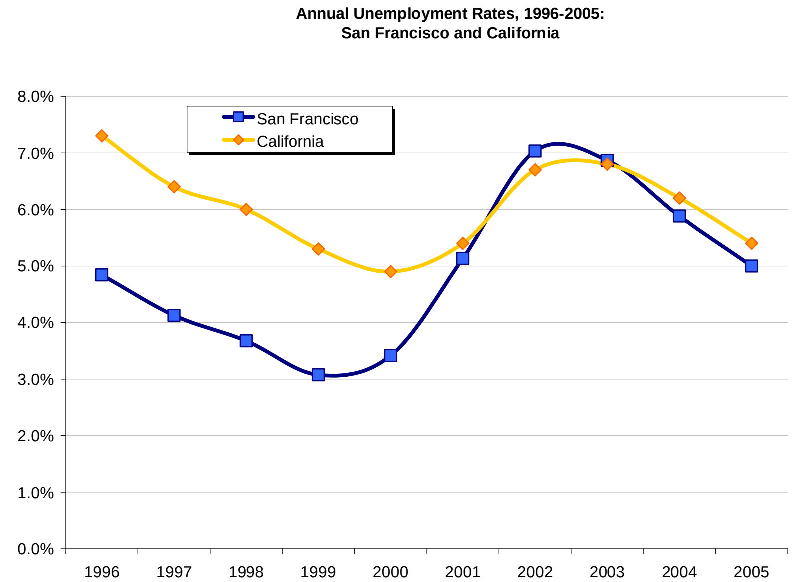


Source: US Census Bureau, 2004 American Community Survey

The immigrant population in San Francisco has given our city an impressive array of language skills. Forty-six percent of San Franciscans speak a native language other than English at home. Chinese is the most commonly spoken language after English, with over 125,000 San Franciscans speaking it at home. Other widely-spoken languages include Spanish (82,000 speakers), Tagalog (25,000 speakers), Russian (18,000 speakers), and Vietnamese (10,000 speakers)

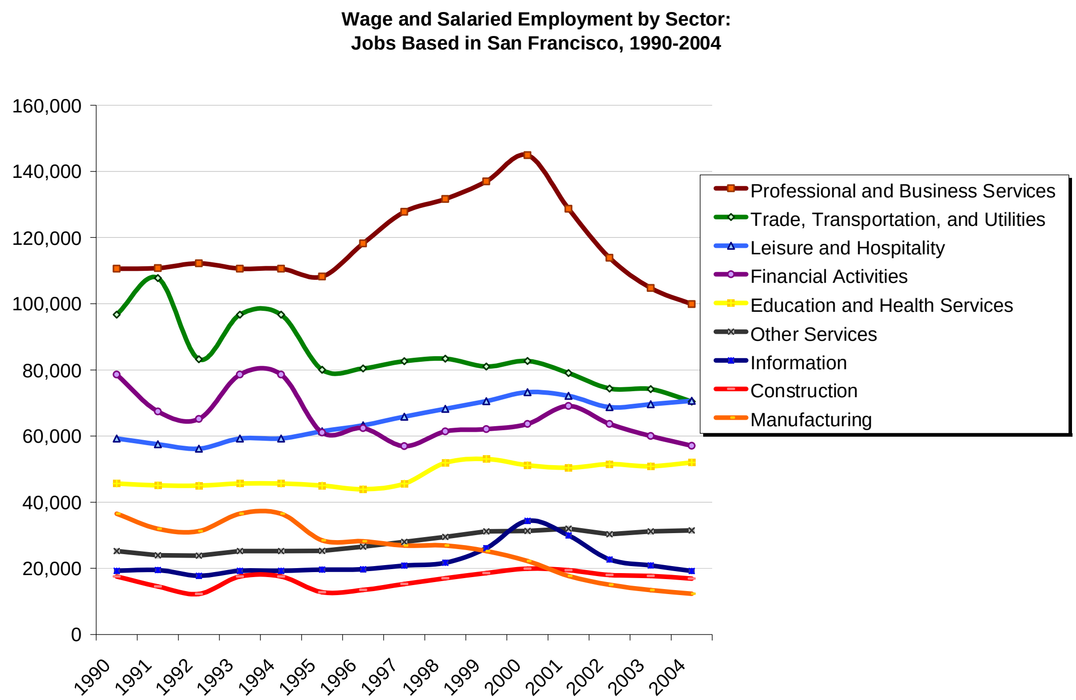
Employment and Economic Outcomes

It is clear that San Francisco's recession of the early 2000s is over. The average unemployment rate for 2005 was 5.0%--roughly the same percentage it was on the eve of the dot-com boom in 1996. The end of the recession has meant job growth in 2005, and overall employment is now back to where it was in 1999.



Source: Bureau of Labor Statistics, Local Area Unemployment Statistics
Note: 2005 annual figure is ICF estimate based on complete monthly statistics

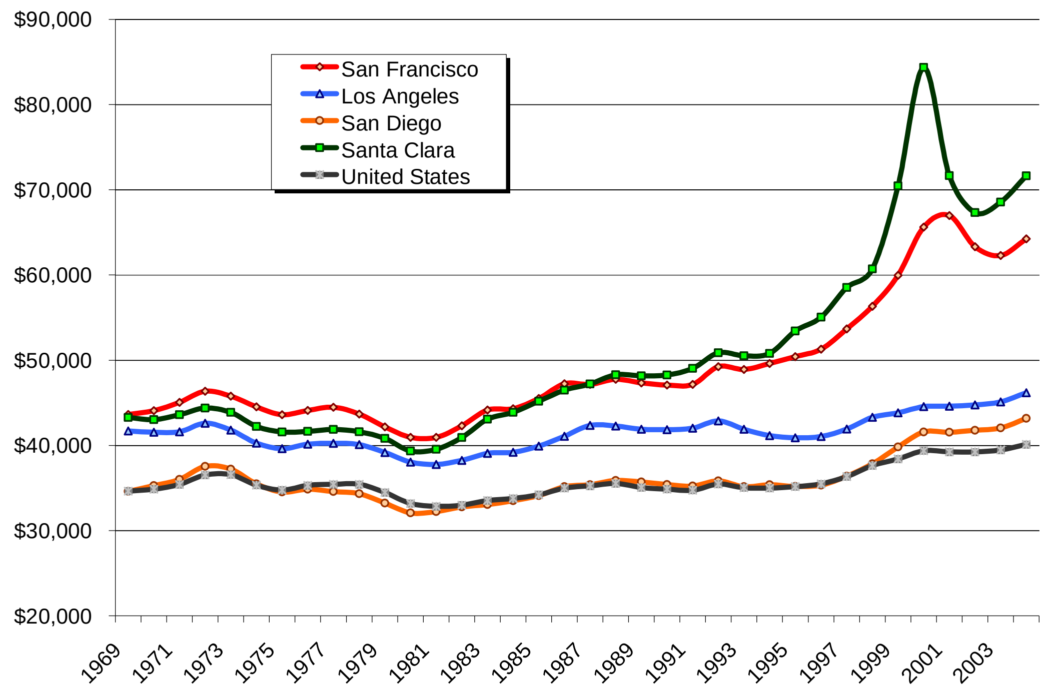
The employment picture by sector is more complex. Some of the industries that have traditionally dominated the San Francisco economy have lost jobs over the past fifteen years, including financial services, professional services, and trade, transportation, and utilities. Major job gainers included leisure and hospitality, educational and health services, and a host of arts, software, and internet-related industries.



Source: Bureau of Labor Statistics, Quarterly Census of Employment and Wages

Perhaps more significant than job growth, has been the growth in average wages of jobs in San Francisco. In real (inflation-adjusted) dollars, average wages rose by 30% between 1994 and 2004. By comparison, real wages in the United States as a whole grew by only 18% during the same period. Even in 1994, San Francisco was a high-wage, high-cost area, with average wages that were 42% higher than the U.S. average. Nevertheless, we compete on talent and innovation—not on low wages—and we have continued to raise average wages at nearly double the national rate.

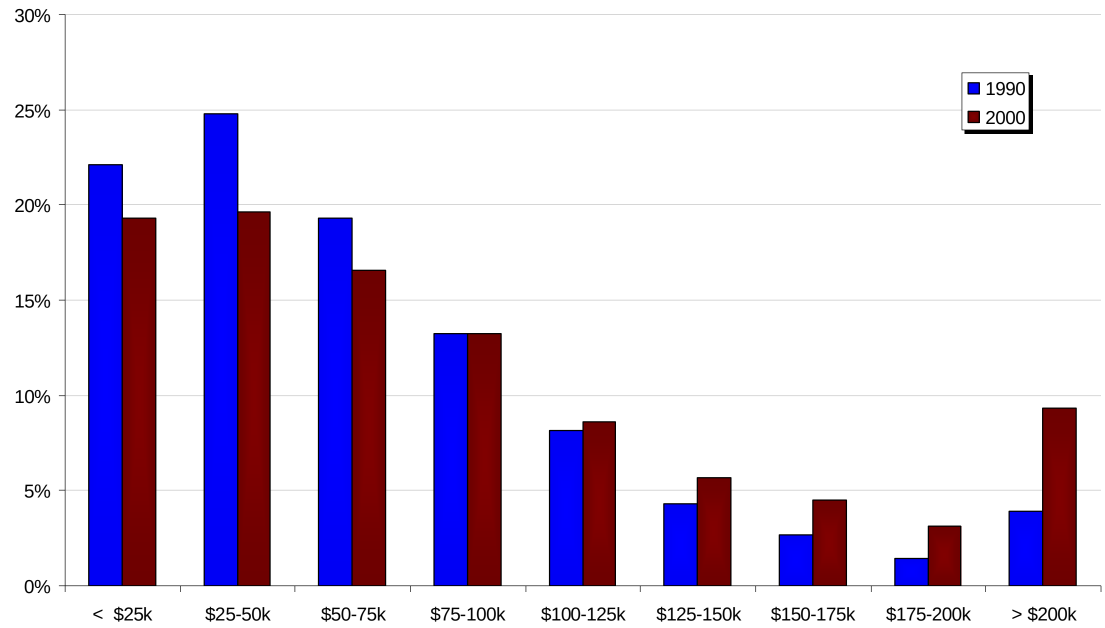
Real Average Wages per job:
San Francisco, Three Peer Counties in California, and the U.S.
1969-2004 (2005 $)



Source: Bureau of Economic Analysis, Regional Economic Information System

Although general economic growth has been substantial, significant disparities exist and have grown wider in the City. An analysis of income distribution between 1990 and 2000 reveals that the percentage of households earning less than $75,000 a year declined significantly during the 1990s, while the percentage earning over $100,000 increased significantly. While this trend toward growing income inequality is troubling, San Francisco's situation mirrors the likes of Seattle and Austin, among others. It also generally reflects an ongoing structural problem of growing income inequality that is taking place nationally.

Household Income Distribution in San Francisco, 1990 & 2000

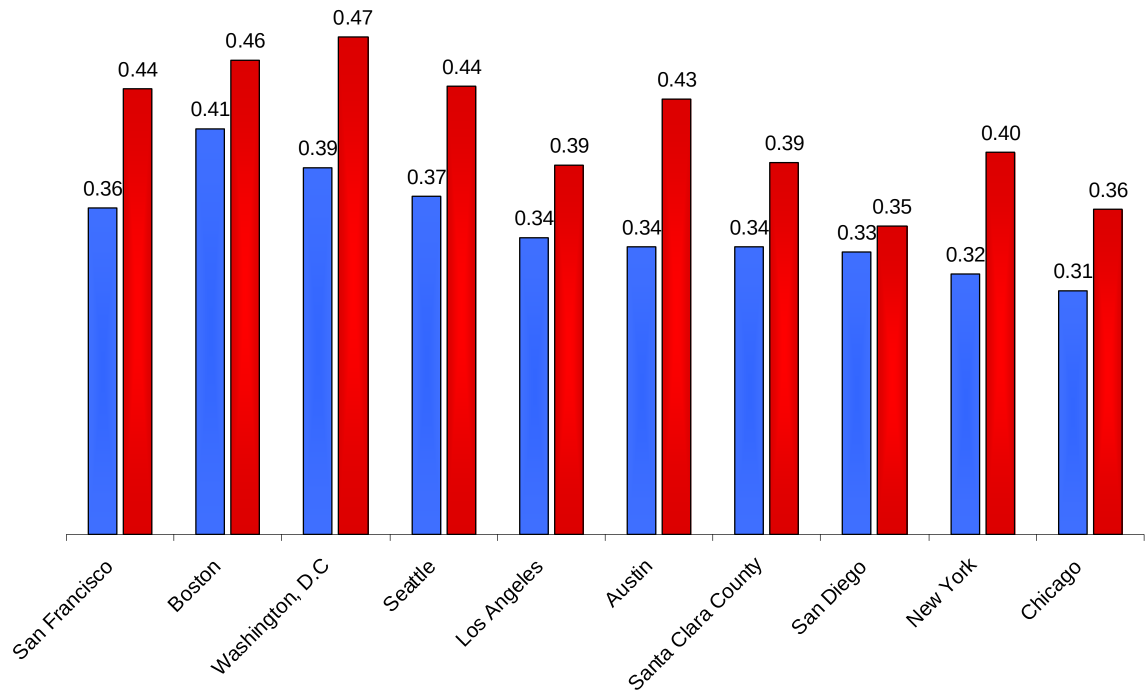


Source: Integrated Public Use Microdata Series 3.0 (www.ipums.org)

The economic reality behind these disparities is that San Francisco's occupational structure is changing, and has been for some time. The number of upper-income workers in managerial, technical, and professional services has grown significantly since the 1950s. Traditional middle-income occupations, on the other hand, like production and back-office jobs, have consistently declined. Production jobs have been on the decline since at least the 1950s, while the drop in back office jobs is a more recent trend, dating back to the 1970s.

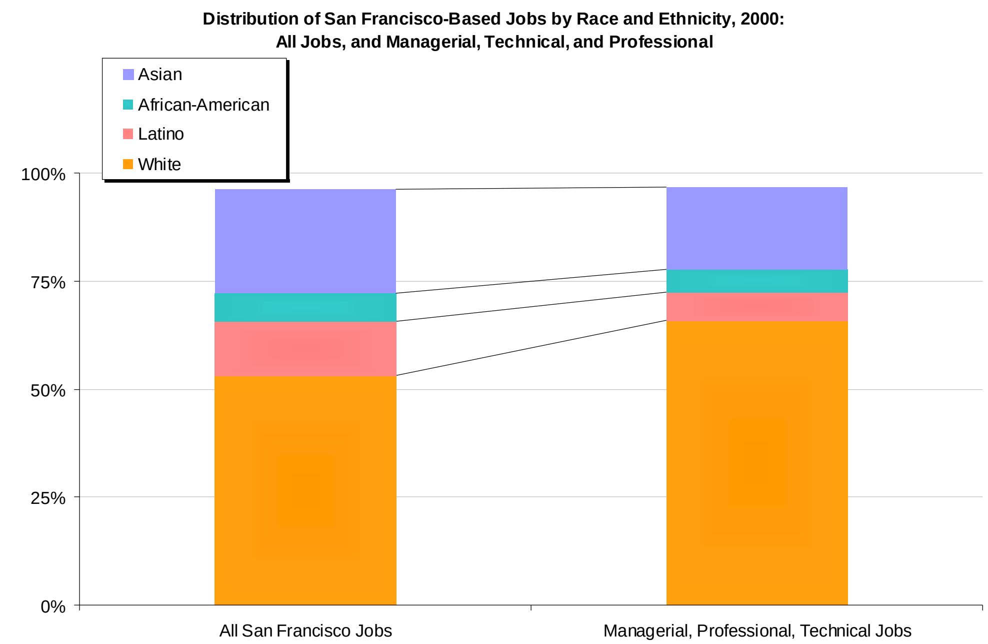
An analysis of income disparity by race shows that Asians, African-Americans, and Latinos all have a significantly lower per capita income than Whites in San Francisco and that the income gap for these groups in San Francisco is wider than it is nationally. An additional cause for concern is that the income inequality gap for these groups as compared to the White population is widening in San Francisco, even though it is generally closing on a national basis.

Household Income Gini Coefficient, San Francisco and Peer Cities and Counties, 1990-2000



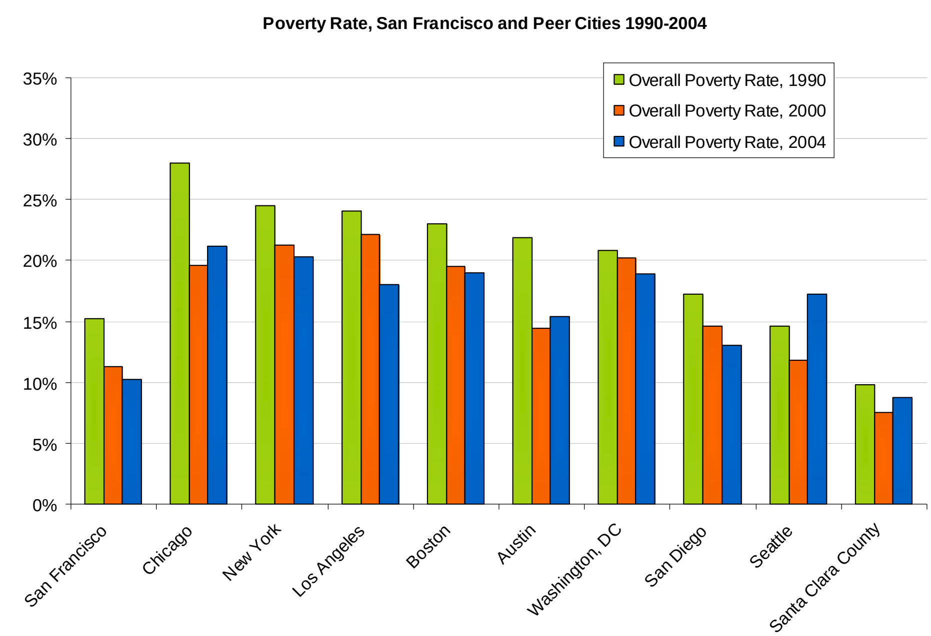
Source: Integrated Public Use Microdata Series 3.0 (www.ipums.org)
Note: Income inequality within an area is most commonly measured by the Gini Coefficient, a number ranging from zero (complete equality) to one (total inequality).

Inequalities in educational attainment across race are fundamentally associated with inequalities in earnings in San Francisco. Sixty three percent of White residents have a four-year university degree, compared to only 38% of Asian/Pacific Islanders, 25% of Latinos, and 21% of African-Americans. This is one critical reason why White residents are disproportionately represented in the managerial, technical, and professional service jobs that are the source of most of the high earnings in the City. White San Franciscans hold only about 50% of all jobs in San Francisco, but hold two-thirds of these managerial, professional, and technical service jobs.



Source: U.S. Census, 2000 Census Equal Employment Opportunity File

Another important socio-economic indicator is the poverty rate. San Francisco's poverty rate has fallen by about a third since 1990, and is now considerably lower than many other comparable cities including Seattle, Los Angeles, San Diego, and Boston. San Francisco has seen similar declining trends in child poverty and senior poverty.



Source: U.S. Census, 1990 STF3 Series, 2000 SF-3 Series, 2004 American Community Survey

Workforce, Education, and Earnings

Education is clearly central to increasing earnings in a knowledge-based economy. Over 50% of San Franciscans have a four-year university degree, among the highest levels of educational attainment of any county in the country. An analysis of the average salary of occupations typically held by people with different levels of educational attainment underscores the linkeage between educational attainment and earnings.

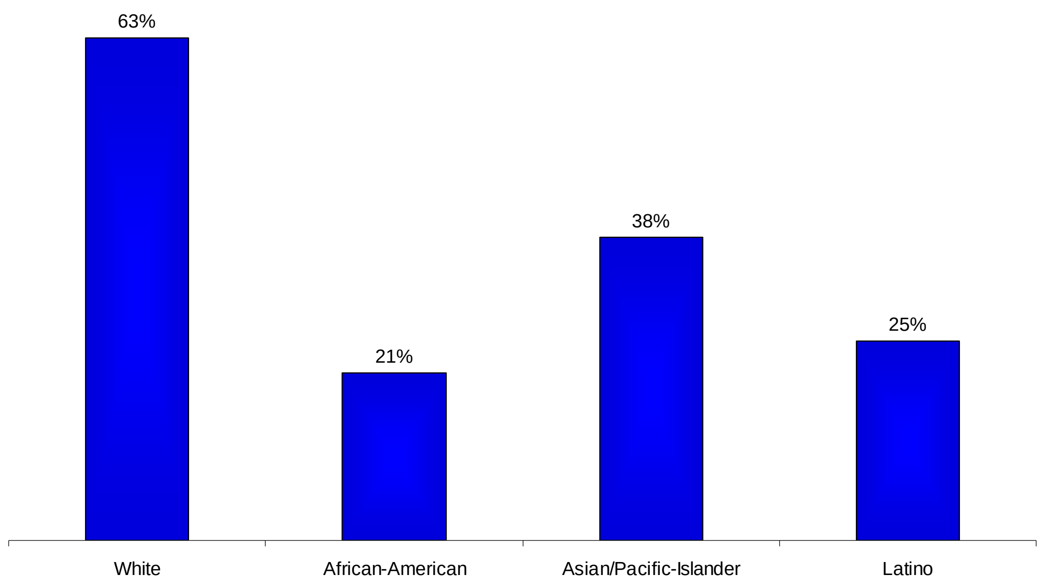
In San Francisco, the 16% of the total workforce that who lacks a high-school diploma have a narrow range of occupations open to them. In 2004, the average annual salary of jobs requiring less than a high school degree was less than $19,000 a year. Most of the jobs that pay above that level are in the construction sector.

For workers with a high school diploma, which represents 14% of the workforce, the options are somewhat more expanded. These workers typically hold occupations that pay, on average, $30,000 a year. The jobs that pay above-average wages for persons with a high school diploma are also largely in construction, but there are also some occupations in the production and transportation sectors.

Workers that have even some college experience (20% of the total workforce) do considerably better in San Francisco's labor market. The average salary for workers with some college education rises to $40,000 a year. The range of occupations open to workers at this level is also much wider than for workers with less education, with some managerial occupations paying as much as $80,000 a year.

The real premium, however, is the four-year degree. The average salary of jobs that were mainly held by university graduates is over $72,000 a year in San Francisco. Many occupations, across many fields, pay much higher than that. The premium rises even higher, to over $90,000 a year, for jobs typically held by workers with a graduate degree.

Percentage of San Francisco Adults With a Bachelors or Graduate Degree, by Race/Ethnicity, 2004

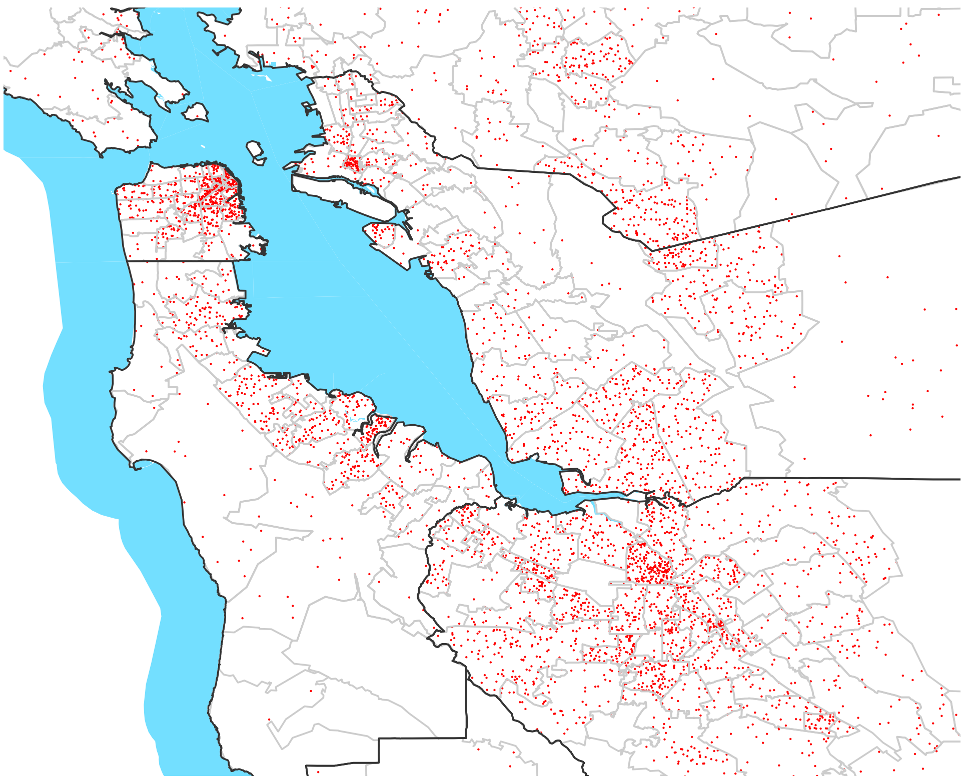


Source: U.S. Census, 2004 American Community Survey

Looking Forward

In prior decades, San Francisco had an economic structure that was distinct from the technology-based economy centered in the South Bay, and the manufacturing-based East Bay. For most of the second half of the twentieth century, San Francisco's economy was dominated by corporate headquarters operations and those industries that support them. During the 1980s and 1990s, however, some Fortune 500 companies either left San Francisco altogether or moved substantial portions of their back office operations to lower cost regions. At the same time, the City's economy has become increasingly linked with the booming Silicon Valley technology economy. Now, San Francisco has emerged both as a major regional center for high technology companies and a home to many thousands of skilled workers who are vital to these technology industries. The synergy between a skilled labor force that attracts and retains companies, and leading-edge companies that attract and retain the best workers has always been central to Silicon Valley's dynamism. San Francisco has now developed strengths on both sides of that equation.

Location of New High Technology Firms, 1994-2004

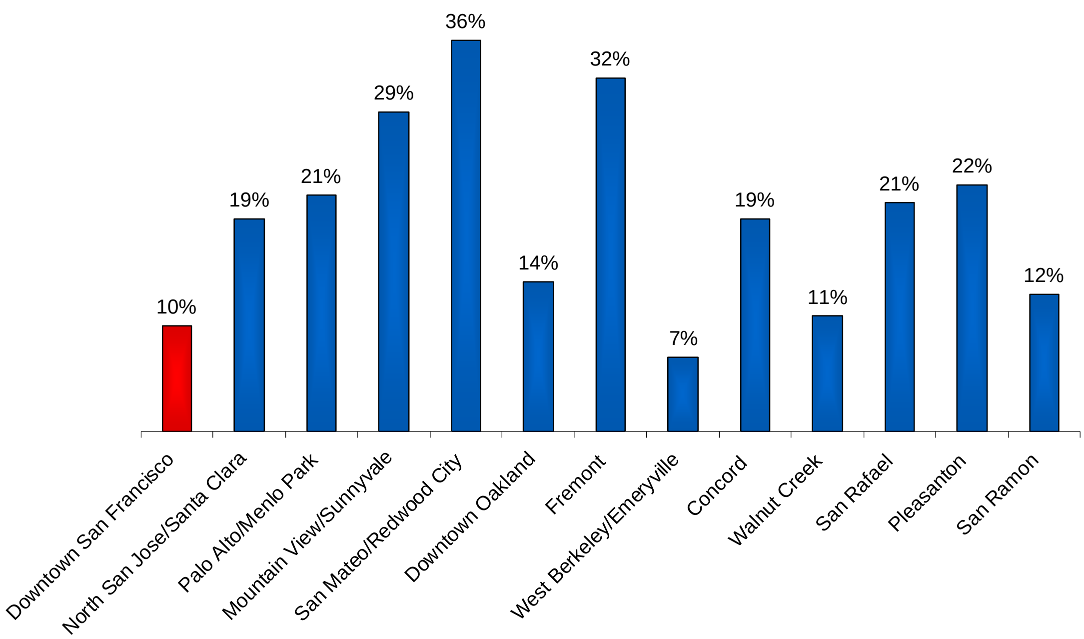


Source: U.S. Department of Commerce, County Business Patterns, Zip Code Series
Note: 1 Company per dot.

While this is generally good news for the San Francisco economy as a whole, a rising tide does not necessarily lift all boats, as illustrated by growing income inequality in the City. In the transition to a high tech, knowledge-based economy, it is more critical than ever to address those barriers that keep many San Franciscans from accessing high wage jobs in industries that are growing.

When looking at the long-term competitiveness of San Francisco within the region, it is critical to consider San Francisco in relation to suburban employment centers across the Bay Area. Over the past several decades, suburban employment centers in the Bay Area have added jobs much faster than San Francisco. This was spurred in large part by the relative accessibility of these suburban centers, to suburban workers, via the Bay Area's regional network of freeways. However, recent traffic data indicates that these suburban centers may have reached a point of diminishing returns when it comes to ease of commute. During the 1990s, average commute times to every employment center in the Bay Area increased. However, the average commute time to San Francisco increased by a modest 10%, while commute times to most East Bay and South Bay employment centers grew in excess of 20%, with some areas seeing increases of over 30%.

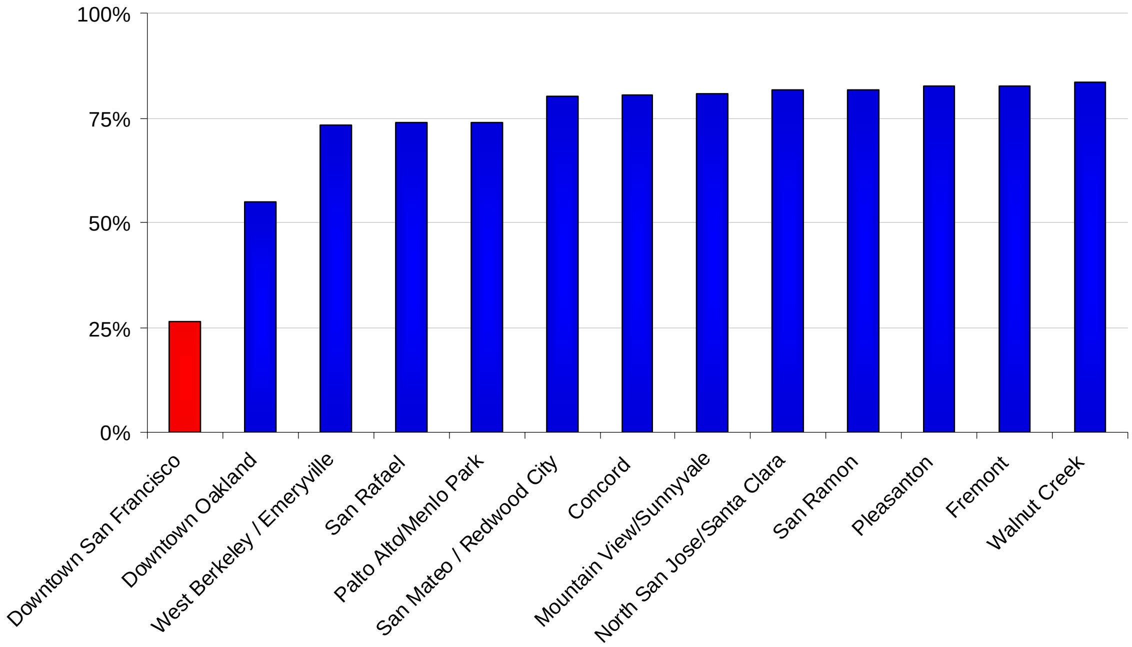
Percentage Change in Average Commuting Time:
Downtown San Francisco and 12 Competing Employment Centers, 1990-2000



Sources: U.S. Census Bureau, *Census Transportation Planning Package*, 1990 and 2000.
Note: Employment centers defined geographically by ICF Consulting using TAZs in 1990, Tracts in 2000.

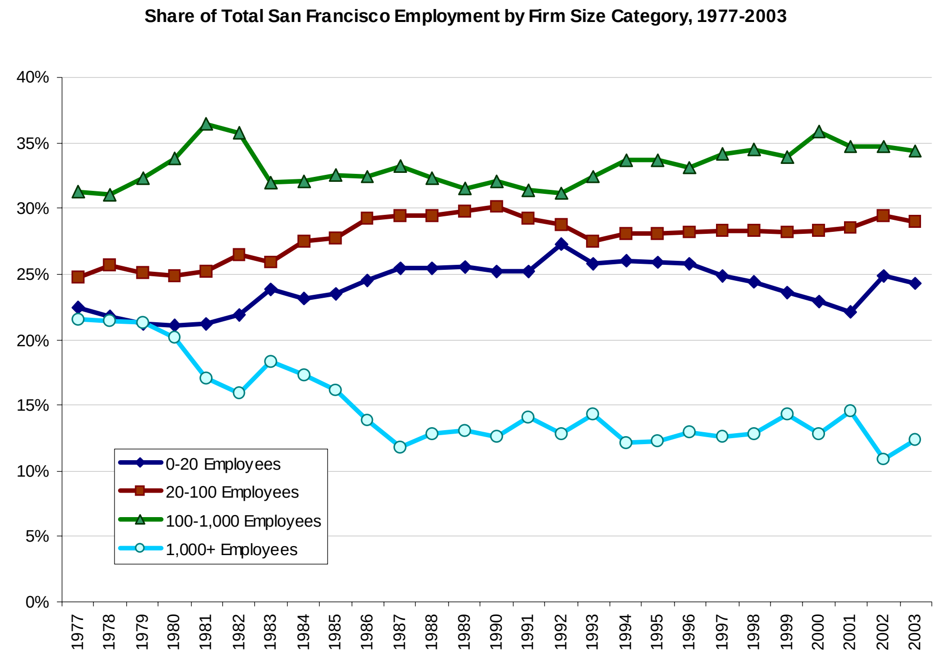
From 2000 to 2030, it is projected that the Bay Area will add 1.7 million new jobs. Where these jobs will go within the region is heavily dependent on how the workforce can get to work. Because our regional freeway system is already highly congested, it is likely that transit will need to become an increasingly important regional commuting method in the near future. San Francisco is the only major regional employment center where the majority of commuters either take transit or carpool. In virtually every other employment center in the Bay Area, at least three quarters of employees drive to work alone. In contrast, only 25% of commuters to San Francisco drive to work alone. Because of the density of employment in downtown San Francisco and the preponderance of transit options, far more workers can get to work in San Francisco via transit than to other centers. As freeways become even more congested, San Francisco is the logical place to add new jobs.

Percentage of Workers Who Commute by Driving Alone:
Downtown San Francisco and Twelve Competing Employment Centers, 2000



Sources: U.S. Census Bureau, *Census Transportation Planning Package*, 1990 and 2000.
Note: Employment centers defined geographically by ICF Consulting using TAZs in 1990, Tracts in 2000.

Another positive trend for the future is San Francisco's highly entrepreneurial, flexible and innovative economy. Small business has been growing in importance as an employer nationally and internationally. In San Francisco, this shift has been particularly pronounced and important. In 1977, companies with more than 1,000 workers employed 22% of San Francisco's total workforce. By 2003, that proportion had declined to only 12%. In 2003, the proportion of workers in companies with between 1 and 50 employees was 45%. Moreover, in 2003, over 122,000 San Franciscans are self-employed, representing 18% of all private sector employment in the City. San Francisco's very high reliance on small business and self-employment is typical of other dynamic, fast-growing, high-technology areas across the country.



Source: ICF estimates based on Department of Commerce, County Business Patterns: establishment counts by firm size

In the global economy, San Francisco's diverse population may be its strongest asset. The vitality and viability of so many different ethnic communities within the City has given San Francisco an unparalleled global reputation, made us a major international tourism location, and effectively connected us to important markets and partners around the world.

The magnitude of the changes San Francisco has experienced over the past fifteen years suggests that a new economic pattern is at work in the City. San Francisco's first economy was built first on its Port and manufacturing base. In the second half of the 20th century, the City transitioned to an economy based on advanced service jobs in the corporate headquarters and financial/business service sectors. These jobs still exist in strong numbers in San Francisco, but these sectors are more nimble and less dependent upon large San Francisco-based corporations to succeed. In the latter part of the 1990s to the present day, these traditional industries have been joined by new high tech companies. And now more than ever, San Francisco's competitiveness is more associated with networks of responsive and innovative small companies, across a range of industries, than the presence of large corporate headquarters.

San Francisco's economy is becoming more closely integrated with the broader Bay Area's innovation-driven technology economy. Thus far, this has been a mixed blessing for the City. The aggregate economic numbers are outstanding—low unemployment, and rapidly rising wages and declining poverty rates. But just focusing on the overall trends obscures an increasing disparity among San Francisco's haves and have-nots—a pattern set in motion by the profound importance of education and other factors key to an individual's economic success in a knowledge-based economy.

The challenges for the future—and for San Francisco's economic strategy going forward—will be to shape the possibilities afforded by our role in the center of the most dynamic economic region in the world. To succeed, we must continue to grow the economy while reducing inequality and increasing educational attainment for our residents. In this way, we will create a new and distinctive economic base that is capable of providing a secure and bright future for all San Franciscans.