



# DYNAMICS OF THE SILICON VALLEY ECONOMY

October 2004

➤ **Establishment of new firms has historically driven the Silicon Valley economy.**

Between 1990 and 2001, Silicon Valley's software industry grew by 136 percent. This growth was entirely due to new firms established during that time. Only four of the companies on the top-40 list of Silicon Valley technology firms in 1982 were still on the 2002 top-40 list (Hewlett-Packard, National Semiconductor, Intel, and Advanced Micro Devices). Half of the companies on the 1982 list no longer existed in 2002, while more than half of the companies (21) on the 2002 list had not been founded by 1982.

➤ **Very many Silicon Valley firms have been "spin-offs."**

Among 2,492 founders of firms during 1992-2001, many were previously employed at established companies or research institutions in the region: 117 from Hewlett-Packard, 101 from Sun Microsystems, 94 from Apple, 82 from IBM, 76 from Intel, 73 from Oracle, and 71 from Stanford.

➤ **The area's venture capital industry has also spurred the Silicon Valley economy.**

A total of 159 venture capital firms have headquarters or branches in Silicon Valley, and an additional 85 firms are located in Bay Area cities such as San Francisco and Oakland. In contrast, the state of Massachusetts, which is also known for an abundance of venture capital, has only 94 venture capital firms. This proximity to VC firms has enabled Silicon Valley start-ups to get venture capital at a younger age, complete more venture capital deals, and raise more money in each deal. In 2000, Silicon Valley received \$34.7 billion venture capital investment, 32 percent of the U.S. total (Figure 1). Although venture capital investment in Silicon Valley plummeted to \$6.1 billion in 2003, it still accounted for 33 percent of the U.S. total.

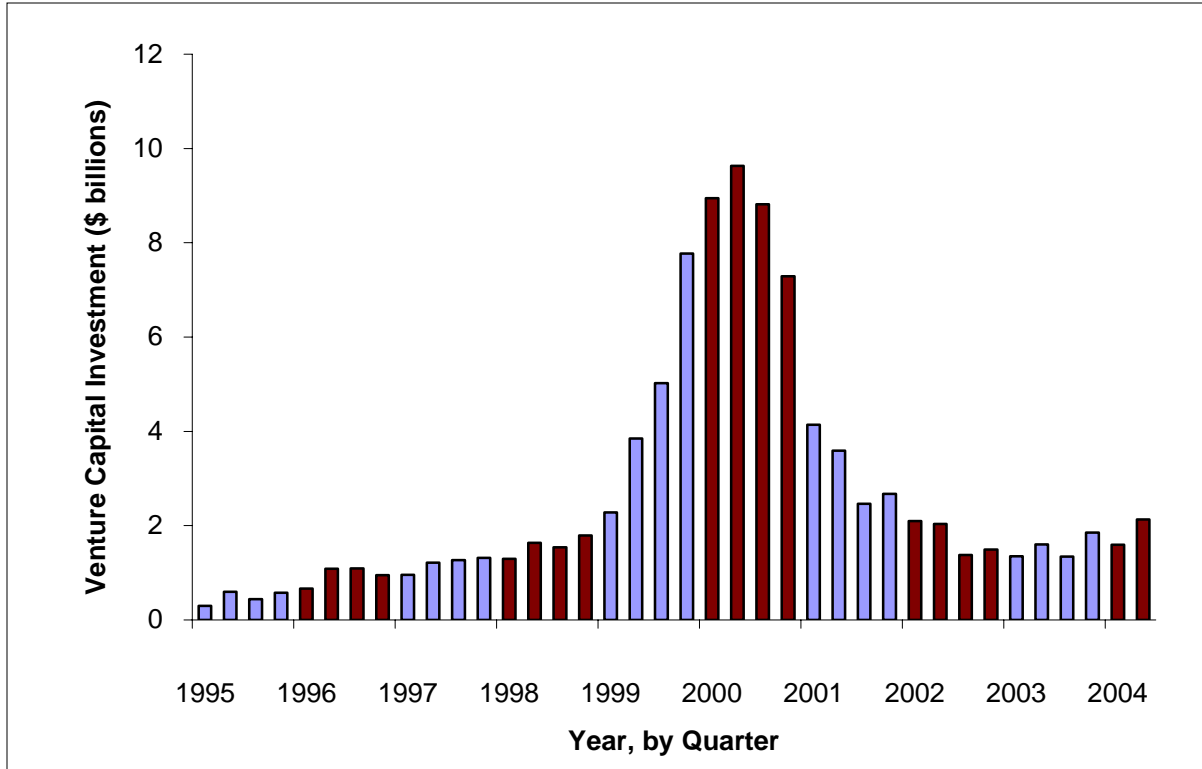
➤ **Although the Silicon Valley economy was hit hard by the "dot.com bust"...**

Between December 2000 and December 2001, Santa Clara County, the heart of Silicon Valley, lost 10 percent of all jobs and lost another 8 percent by January 2003. Between December 2000 and January 2003, the local unemployment rate climbed from 1.3 to 9.1 percent. Although it fell to 5.5 percent in August 2004, total employment was still lower than it was in January 2003 (Figure 2). In other words, the entire decline of the unemployment rate resulted from a reduction in the labor force when some of the unemployed stopped looking for work.

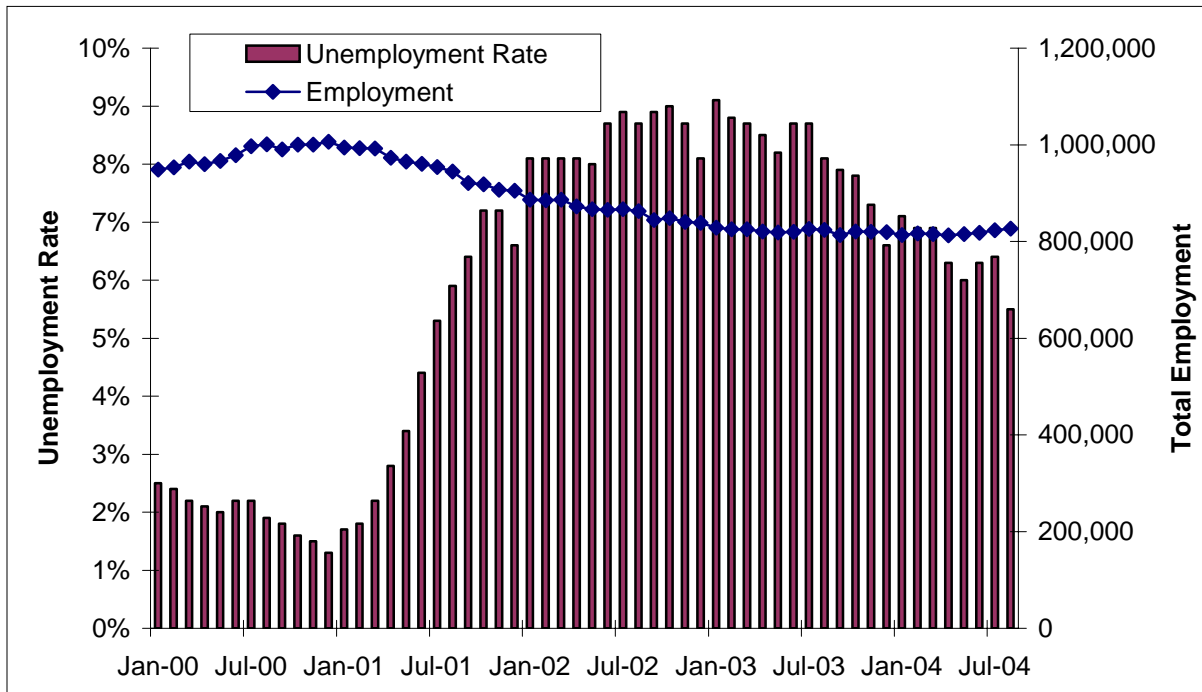
➤ **...evidence suggests that it is rebounding.**

In August 2004, employment had shown modest growth in Santa Clara, San Mateo, and Alameda counties (1.7%, 2.7%, and 2.7%, respectively), rebounding from the absolute lows each had experienced during the preceding 12 months. Among the top 150 companies in Silicon Valley, 61 percent (91 firms) reported profits in 2003, compared to 47 percent in 2002 and 36 percent in 2001. The number of IPOs (initial public offerings) in Silicon Valley dropped from 50 in 2000 to five in 2002. It rebounded slightly to seven in 2003, and nine IPOs had been completed by the end of the third quarter in 2004. In the first two quarters of 2004, venture capital investment increased by 26 percent over the same period in the previous year.

**Figure 1**  
**Quarterly Venture Capital Investment in Silicon Valley, 1995-2004**



**Figure 2**  
**Unemployment Rate and Total Employment in Santa Clara County, California, January 2000-August 2004**



Sources: California Employment Development Department, PricewaterhouseCoopers/Venture Economics/National Venture Capital Association MoneyTree™ Survey, *San Jose Mercury News*, [www.Hoovers.com](http://www.Hoovers.com), VentureOne.