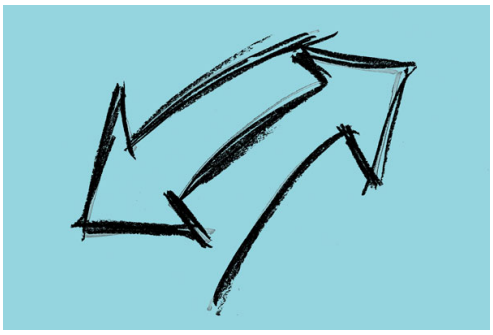
THE BIG PICTURE

We've been here before

By Russell Hancock | July 2024



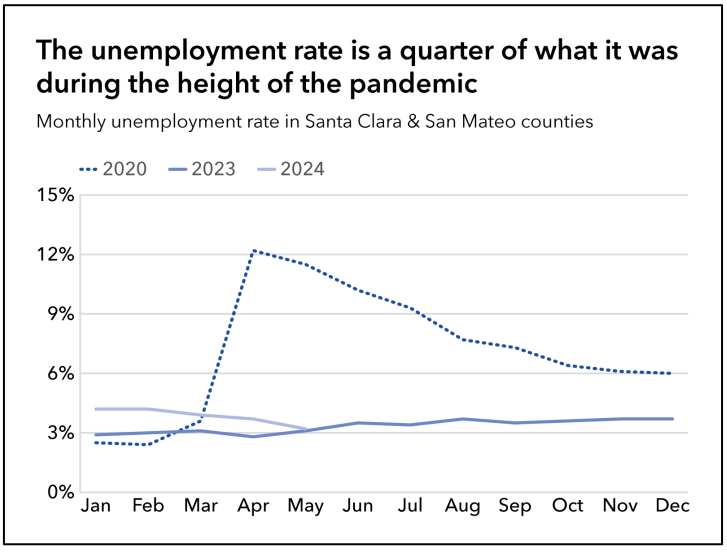
With our economic engine sputtering of late, is Silicon Valley a region in decline?

Some seem to think so, and they have some pretty good talking points: a run of layoffs, a slowdown in venture funding, less activity out there around transactions and deal flow, the relocation of X (formerly Twitter) to Texas, the departures of many in our workforce to other parts of the country, and a supposed doom loop facing our major downtowns.

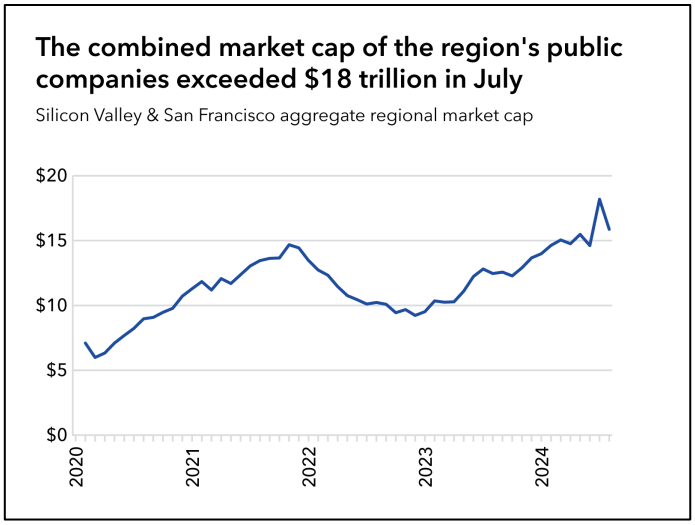
But old-timers have seen this movie before, and they know how it ends: with Silicon Valley cycling through the downturn into new waves of innovation and entrepreneurship. When our current numbers are put into a broader economic or historical context, that seems to be the case yet again.

Let's consider the layoffs. Since July of 2022, there have been more than 44,000 pink slips issued to Silicon Valley workers, most at our largest tech firms. That's not a small number, and it's driven by a new push for efficiency in the sector after some over-hiring during the pandemic. But when we look at the big picture we should also understand that:

- 44,000 is only 3 percent of Silicon Valley's 1.7 million workforce. It's 9 percent of our tech workforce.
- That number is nowhere close to the 150,000 jobs Silicon Valley lost during the dot-com bust.
- The Valley's overall unemployment rate continues to be low (hovering around 3.5 percent, a figure that most economists consider the equivalent of full employment). By comparison, unemployment during the pandemic reached 12.2 percent.



- If unemployment remains low, that means people are landing on their feet, and recent surveys by ZipRecruiter bear that out: 37 percent of those laid off have found a new job within one month; 79 percent within three months. They're moving to other parts of the tech ecosystem, including fintech, e-commerce, health tech, climate tech, and start-ups.



Layoffs notwithstanding, the market cap of Silicon Valley's publicly traded companies hit a mind-blowing $18 trillion, the highest number ever recorded. Whatever we're doing, it seems to be working. But let's also consider the drop in venture funding. Our most recent totals (roughly $30 billion) are a third of what the region generated in 2021 (a whopping $92 billion). With hindsight, however, that 2021 figure turns out to be a one-year anomaly, and if we were to take it out of the model entirely, Silicon Valley's trendlines would be viewed by anybody as robust. Don't forget that the nationwide numbers have dropped too, but—significantly—Silicon Valley continues to pull in the highest share of venture dollars (76 percent of the state and 34 percent of the nation).

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Now let's take a hard look at the "exodus." It's true that 68,000 people left the region during the pandemic, and a number like that is sure to grab headlines. But here is what is less understood:

- 25 percent of those leaving stayed in the Bay Area, holding onto their Silicon Valley job but moving to the perimeter where housing was more affordable. It made perfect sense in this new world of remote work.
- Another 22 percent of departures stayed in Northern California, going to even more affordable places like Greater Sacramento, and zooming into their jobs.
- The rash of departures had turned around by 2023, when the region began recording population gains once again (fueled especially by foreign immigration).

A trend that is equally important to track would be the departure of companies, because it is company formation and company growth that fuels the economy and creates opportunity. Is there a mass departure of Silicon Valley companies?

The answer is decidedly no, Mr. Musk's recent announcement notwithstanding. The departure of the X headquarters brings the grand total to five since the onset of the pandemic (including Palantir, HP Enterprise, Tesla, and Oracle). What's more telling is that most of those companies kept adding to their footprint and

headcount in Silicon Valley, building out labs, research and manufacturing facilities. For a host of reasons, it continues to be important—crucial, in fact—for companies to maintain a major presence here.

On this basis, it would seem that Silicon Valley is doing what it has always done: going through periods of creative destruction, weathering downturns, embracing new realities, and moving into new and promising areas.

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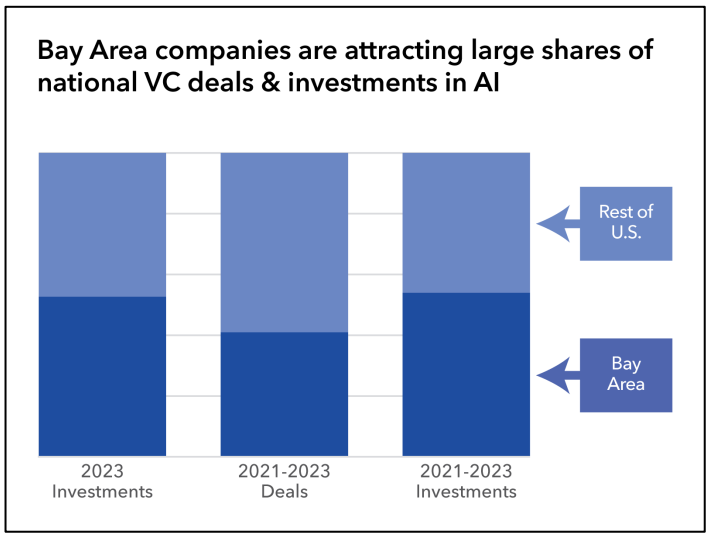
What are those new areas? For most prognosticators, it's artificial intelligence (AI). If that's the new benchmark, then here too Silicon Valley seems to be in the driver's seat once again:

- Of $20.2 billion invested in AI in the United States in 2023, more than half ($10.6 billion) came to the Bay Area.
- Since 2021, 54 percent of US AI funding and 41% of the deal flow has been in the Bay Area.
- Of the top 50 generative AI companies in the world, half are in the Bay Area.



When taken all together, it seems premature once again to be writing Silicon Valley's obituary. Innovation economies will always be subject to cycles and extremes, and we're in the throes of that right now. But old timers have learned that you should never be overly euphoric during the booms, nor overly despondent during the busts.