ALERT

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CalChamber
CALIFORNIA CHAMBER OF COMMERCE

CalChamber Renews Push for 4-Day Workweek Option

Individual Flexibility If Worker/Employer Both Agree

Assemblyman John J. Benoit

The California Chamber of Commerce is **sponsoring** legislation to permit individual workers and their employers to mutually agree to a four-day workweek.

The bill, AB 510 (Benoit; R-Bermuda Dunes), will help individual employees achieve greater flexibility in work schedules — something survey after survey shows employees want in a job.

The CalChamber sponsored similar legislation during the 2005-06 legislative session: AB 640 (Tran; R-Garden Grove), SB 1254 (Ackerman; R-Tustin) and AB 2217 (Villines; R-Clovis). The bills all failed in Assembly and Senate policy committees on party-line votes.

"Permitting individual flexibility is one way employers can help workers find some relief from hectic days, long commutes, high gasoline prices and conflicting work and personal schedules," said Marti Fisher, CalChamber policy advocate for labor and employment, health care and small business.

"To help employers provide that flexibility, California needs to change the law enough to permit four-day workweeks for individual workers who want to find a balance between their work and personal lives," she said.

AB 510 will permit an individual employee, with the consent of his/her employer, to work up to 10 hours per day within a 40-hour workweek without overtime pay. Overtime premium pay still would be required for more than 10 hours of work in a workday or 40 hours in a workweek, as would double-time after 12 work hours in a day.

Union Practice

The legislation notes that unionized workplaces already allow workers to choose to work four 10-hour days, but that it is virtually impossible for workers at non-unionized workplaces to enjoy the benefit.

"No compelling public policy reason exists for this discrepancy in the flexibility of work schedules between unionized and non-unionized workers," the legislation states.

Current Law

California law requires that overtime compensation be paid for work performed by an employee in excess of eight hours in a single day, regardless of whether the employee works fewer than 40 hours in that week.

California is one of only four states that do not conform wage laws to the national Fair Labor Standards Act (FLSA). The FLSA bases its overtime compensation requirements for salaried, non-exempt employees on total hours worked per week, rather than total hours worked per day.

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Proposition 1B Road Funds Still a Mile Away

Reading the newspapers over the last two weeks, it was hard to miss all the stories about billions of highway and transit dollars being passed out by the state following voter approval of California Chamber of Commerce-supported Proposition 1B last November. It sounded like the project ribbon cuttings would just be weeks away and we would all be driving in free flowing traffic conditions for the first time in years.

To be fair, the process undertaken by the California Transportation Commission, the state agency charged with passing out the money, was one of the quickest in history. The commission made the decision on allocating the first $4.5 billion in bond funds barely three months after voters approved Proposition 1B. This is record time for government work.

Money Not Awarded Yet

The money is far from being awarded for construction contracts, however, and it has not been an easy process to this point.

The Governor and the Legislature resisted the temptation to hand-pick the projects, fearing voter backlash at the creation of a "pork-barrel" list. The existing project selection process was followed, wherein local communities and agencies determined what was best for their area and submitted the projects to the Transportation Commission for approval.

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Labor Law Corner

Family Leave Law May Differ for Private Sector Businesses

Susan Kemp
Senior Labor Law Counsel

Our organization has fewer than 50 employees. Must we grant an employee a leave of absence for baby bonding?

Private sector employers with fewer than 50 employees are not subject to the state and federal family and medical leave laws that require employers to provide such a leave to eligible employees.

Although private sector employers with 50 or more employees are subject to state and federal family and medical leave laws, employees must meet eligibility requirements to actually be protected by the law. The employee must have worked for the employer for 12 months (need not be consecutive) and for 1,250 hours in the 12 months before the need for leave.

Company Policy

An employer's own practice or policy will govern if the company employs fewer than 50 employees or if an employee is not yet eligible for family and medical leave.

Employers should consider whether they have permitted other employees to take time off for the same or similar reasons. If the employee was granted the time off, did the employer guarantee reinstatement, or did the employer advise the employee that the time would be granted without guaranteed reinstatement?

Paid Family Leave

Employees often are confused by their ability to file for so-called Paid Family Leave (PFL) benefits, which are not a leave of absence. PFL benefits are administered by the state Employment Development Department (EDD).

Employees contribute to PFL through taxes, and may apply for the benefits when they are unable to work because they are needed to care for an ill family member, bond with a newborn adopted or foster care child, or care for the employee's registered domestic partner.

PFL benefits begin after a seven-day period of loss of wages, and eligible employees may receive the partial wage replacement for up to six weeks in a 12-month period.

If an employee is out for a reason that may qualify for PFL benefits, he/she should be provided with the required pamphlet about benefits and information about any leave available under the company's policy or practice.

If the employer does not offer a leave of absence, the employer should notify the employee that any absences are not protected by the employer's policy and that the person's job will not be held open.

Resources

Learn more about this topic with the following resources at ***www.calbizcentral.com***:

- *Pregnancy Disability Leave 201 Live Web Seminar* - March 22;
- *Paid Family Leave* pamphlet;
- *Managing Leaves of Absence* book; and
- *Leaves of Absence Primer*.

The Labor Law Helpline is a service to California Chamber of Commerce preferred and executive members. For expert explanations of labor laws and Cal/OSHA regulations, not legal counsel for specific situations, call (800) 348-2262 or submit your question at www.hrcalifornia.com.

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CalChamber Calendar

California Business Legislative Summit:
May 21-22, Sacramento

CalChamber-Sponsored Seminars/Trade Shows

For more information on the seminars listed below, visit *www.calchamber.com/events*.

Business Resources

Board Entrenchment. Wilcox Miller & Nelson. March 15, Sacramento. (916) 977-3700.

Labor Law

Pregnancy Disability Leave 201 Live Web Seminar. CalChamber. March 22. (916) 928-3585

International Trade

4th Annual Global California Conference. Monterey Bay International Trade Association. March 16, Sacramento. (831) 335-4780.

Sub-Saharan Africa Information and Communications Technology Conference. U.S. Trade and Development Agency. March 19-21, San Francisco. (305) 667-4705.

CalChamber Opposes Federal Proposal to Replace Secret Ballot in Union Elections

The California Chamber of Commerce has teamed up with the U.S. Chamber of Commerce in **opposing** the "card check bill," federal legislation seeking to significantly change the process for employees to form unions.

The CalChamber-**opposed** "card check bill" aims to replace secret ballot elections with a signature collection process for employees to organize and join unions. The bill also aims to increase penalties on employers for improper action taken against employees for forming unions.

The U.S. House of Representatives passed the card check bill on March 1 by a vote of 241-185. The vote of the California congressional delegation split along party lines with Democrats voting for the card check bill and Republicans voting against it (see box).

California Congressional Delegation Vote on Union 'Card Check' Bill

Ayes (34 of 241)

Joe Baca (D-Rialto)
Xavier Becerra (D-Los Angeles)
Howard L. Berman (D-Van Nuys)
Lois Capps (D-Santa Barbara)
Dennis Cardoza (D-Merced)
Jim Costa (D-Fresno)
Susan Davis (D-San Diego)
Anna G. Eshoo (D-Palo Alto)
Sam Farr (D-Carmel)
Bob Filner (D-San Diego)
Jane Harman (D-Venice)
Mike Honda (D-San Jose)
Tom Lantos (D-San Mateo/San Francisco)
Barbara Lee (D-Oakland)
Zoe Lofgren (D-San Jose)
Doris O. Matsui (D-Sacramento)
Jerry McNerney (D-Pleasanton)
Juanita Millender-McDonald (D-Carson)
George Miller (D-Martinez)
Grace F. Napolitano (D-Norwalk)
Nancy Pelosi (D-San Francisco)
Lucille Roybal-Allard (D-Los Angeles)
Linda T. Sánchez (D-Lakewood)
Loretta Sanchez (D-Garden Grove)
Adam Schiff (D-Burbank)
Brad Sherman (D-Sherman Oaks)
Hilda Solis (D-El Monte)
Pete Stark (D-Fremont)
Ellen Tauscher (D-Alamo)
Mike Thompson (D-St. Helena)
Maxine Waters (D-Los Angeles)
Diane Watson (D-Los Angeles)
Henry A. Waxman (D-Los Angeles)
Lynn C. Woolsey (D-Petaluma)

Noes (19 of 185)

Brian Bilbray (R-San Diego)
Mary Bono (R-Palm Springs)
Ken Calvert (R-Corona)
John Campbell (R-Irvine)
John T. Doolittle (R-Roseville)
David Dreier (R-San Dimas)
Elton Gallegly (R-Simi Valley)
Wally Herger (R-Marysville)
Duncan Hunter (R-Alpine)
Darrell Issa (R-Vista)
Jerry Lewis (R-Redlands)
Daniel E. Lungren (R-Gold River)
Kevin McCarthy (R-Bakersfield)
Gary G. Miller (R-Diamond Bar)
Howard "Buck" McKeon (R-Santa Clarita)
Devin Nunes (R-Tulare)
George P. Radanovich (R-Mariposa)
Dana Rohrabacher (R-Huntington Beach)
Ed Royce (R-Fullerton)

President Opposes

The day before the vote, the executive office of President George W. Bush issued a statement saying the President would veto the proposal if Congress sends the legislation to him.

U.S. Senate Republicans also have voiced opposition to the proposal.

Introduced by California Congressman George Miller (D-Martinez), chairman of the U.S. House Education and Labor Committee, as the "Employee Free Choice Act," the legislation allows workers to designate a union as their bargaining representatives by majority sign up — also known as card checks — rather than the current process of secret elections.

It also boosts penalties for employer violations of the National Labor Relations Act (NLRA) while workers are in the process of organizing a union or negotiating a first contract. No similar penalties are provided in the legislation for union organizers who intimidate workers, according to the administration.

Support for Secret Ballot

Opponents of the proposed card check process note that it provides seemingly endless ways to get workers to sign cards for reasons other than wanting a union to represent them, as the process would be open-ended — unions would have no deadlines by which to collect signatures.

By joining the U.S. Chamber in opposing the bill, the CalChamber supports the current system of secret ballots as the best way to make sure employees' wishes are met.

The administration's statement pointed out that the NLRA was amended in 1947 to provide workers the right to a private ballot following "widespread intimidation of workers during organizing drives in the 1930s and 1940s."

Action Needed

Contact U.S. Senators Barbara Boxer (D-Greenbrae) and Dianne Feinstein (D-San Francisco) and urge them to **oppose** the card check bill and support workers' right to secret ballot elections on forming unions.

Staff Contact: Marti Fisher

CalChamber Joins Call for Clarification of U.S. Family Leave Rules

The California Chamber of Commerce is among employer representatives across the nation that are seeking clarification of vague requirements in regulations implementing the federal family leave act.

In response to a request for comments from the U.S. Department of Labor (DOL), employers are requesting changes to the sometimes ambiguous and complex regulations implementing the federal Family and Medical Leave Act (FMLA).

The CalChamber has joined the U.S. Chamber in urging the DOL to revise portions of the FMLA regulations that are causing difficulties for employers seeking to comply while maintaining necessary and reliable workforce levels.

Concerns for Employers

Two significant areas of concern for employers include employees taking unscheduled intermittent leave for self-reported health conditions and leave granted to employees for the serious health condition of family members.

Employer representatives are recommending a number of regulatory changes to help employers administer the law, including:

- adjusting the process of applying for leave;
- granting employers sufficient time to determine whether employees are eligible for leave;
- requiring employees to provide notice of absence except in an emergency documented by a health care provider;
- requiring employees to obtain a release to work from their doctor or health care provider for certain intermittent leaves; and
- allowing an employer to require that a worker take on light duty if conditions permit.

The changes, employers argue, will make the regulations better reflect the intent of Congress in passing the FMLA while clarifying requirements so employers can accommodate legitimate leave requests while maintaining an adequate and predictable workforce.

Staff Contact: Marti Fisher

4-Day Workweek Option: CalChamber Renews Push for Change

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Under current and very detailed California Industrial Welfare Commission wage orders, employers may institute alternative work schedules only if the affected employees agree to the arrangement in writing and by secret ballot.

Employers must hold discussion meetings at least 14 days before voting. Two-thirds of the company's employees must agree to the change. Any deviation from the rigidly controlled process voids the election.

The rules also state that daily work schedules are limited to a maximum of 10 hours per day, with a four-hour daily minimum. Variances in schedules or the use of more than one schedule is prohibited without repeating the voting process.

Of the three states with overtime requirements, the state of Alaska has substantially similar overtime payment requirements as California. Nevada has an eight-hour requirement but also permits 10-hour days when a worker and employer have a specific agreement. Wyoming applies eight-hour overtime rules only to businesses not covered by the FLSA.

Few Use Complex Process

California's complex process in effect eliminates most employers and employees from choosing schedule options such as flextime, part-time, job sharing, telecommuting and compressed workweeks. Only a handful of California employers are trying to operate under the restrictive provisions in the Labor Code.

Employers that are offering a staggered work schedule without going through an election process are operating in violation of the law.

Exempt from daily overtime are employees covered by collective bargaining agreements — these include all state, county and city employees, such as those employed by school districts, water districts and a multitude of other governmental agencies.

Surrounding States

The states bordering California have more flexible rules.

- In Oregon, employees working overtime must be paid at 1.5 times their regular rate of pay after working 40 hours in a single week.
- In Washington, most employees paid hourly are entitled to 1.5 times their regular rate of pay for any time worked over 40 hours in a seven-day workweek. Some salary- or commission-based employees also must be paid overtime.
- Arizona does not have state-set overtime rules and instead requires employers to use the 40-hour requirements set out in the federal FLSA.
- In Nevada, an employer must pay 1.5 times an employee's regular rate of pay whenever an employee works more than 40 hours in a week or more than eight hours in any workday, unless the employee and employer have made a specific agreement providing for a scheduled 10-hour day with a four-day workweek.

CalChamber Position

The CalChamber strongly believes that permitting individual workers and their employers to arrange and use a four-day workweek will give employees more flexibility and employers the ability to be more responsive to employee work/life needs.

AB 510 awaits a hearing date in the Assembly Labor and Employment Committee.

Staff Contact: Marti Fisher

CalChamber Urges Support for U.S.-Peru, U.S.-Colombia Free Trade Agreements

As President George W. Bush begins a two-week visit to Latin America, the California Chamber of Commerce is urging support for pending trade agreements with two nations in the region.

President Bush has stated his intent to sign the U.S.-Peru Free Trade Agreement (FTA) and the U.S.-Colombia Trade Promotion Agreement (TPA), both **supported** by the CalChamber and pending approval by the U.S. Congress.

Both agreements are critical elements of the U.S. strategy to liberalize trade through multilateral, regional and bilateral initiatives. In addition, both complement the administration's goal of eventually creating a Free Trade Area of the Americas.

Peru

Peru is California's 49th largest trading partner, with exports to the nation of \$180 million. Total trade in 2006 between Peru and the United States was more than \$8 billion. The United States exported \$2.9 billion worth of goods to Peru.

Peru is the third largest country in South America and is approximately three times the size of California. It is the fifth most populous country in Latin America, and has an annual gross domestic product (GDP) of more than \$67 billion.

Peru's economy is one of the most dynamic in Latin America, showing particularly strong growth over the last three years. Recent economic expansion has been driven by construction, mining, investment, domestic demand and exports.

About 200,000 U.S. citizens visit Peru annually for business, tourism and study. Nearly 16,000 Americans reside in Peru, and more than 400 U.S. companies are represented in the country.

On April 12, 2006, former U.S. Trade Representative Rob Portman and Peruvian Minister of Foreign Trade Alfredo Ferrero Diez Canseco signed the U.S.-Peru FTA in a ceremony at the Organization of American States.

President Bush formally notified the U.S. Congress of his intent to sign the U.S.-Peru FTA in January 2006 in accordance with trade negotiating timelines.

In June 2006 the Peruvian Congress overwhelmingly approved the agreement by a vote of 79-14 with six abstentions.

The U.S-Peru FTA is currently pending before the U.S. Congress.

Colombia

Colombia is California's 46th largest trading partner. In 2006, the United States exported more than \$6.7 billion worth of goods to Colombia, with total trade amounting to nearly \$16 billion.

The United States and Colombia concluded their negotiations for a TPA in February 2006. On August 24, 2006, President Bush sent a formal letter to the U.S. Congress stating his intent to sign the U.S.-Colombia TPA. The agreement was signed in November 2006.

The U.S. Department of Commerce believes the Colombia TPA "will generate new export opportunities for U.S. agriculture, industry, service providers and workers. In Colombia, the agreement will attract new investment, create jobs and raise living standards."

The agreement serves as part of a wider strategy to advance free trade, fight drug trafficking and promote economic development in Colombia, according to the Office of the U.S. Trade Representative.

The U.S.-Colombia TPA was presented to the Colombian national congress in December 2006. The U.S. Congress is expected to review the agreement sometime this year.

Action Needed

The CalChamber, in keeping with long-standing policy, enthusiastically supports free trade worldwide, expansion of international trade and investment, fair and equitable market access for California products abroad and elimination of disincentives that impede the international competitiveness of California business. New multilateral, sectoral and regional trade agreements ensure that the United States may continue to gain access to world markets, resulting in an improved economy and additional employment of Americans.

The U.S.-Peru FTA and U.S.-Colombia TPA will increase momentum toward lowering trade barriers and set a positive example for other small economies in the Western Hemisphere.

Sample letters in support of the agreement are available in the Bill Tracking section at ***www.calchamber.com.***

For more information about the agreements, visit ***www.calchamber.com/international.***

Staff Contact: Susanne Stirling

Proposition 1B Road Funds Still a Mile Away

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No one was prepared to have more than $11 billion in projects proposed for just $4.5 billion in initial funding. The statewide backlog of unmet transportation needs is staggering, exceeding $100 billion, based on a state Senate study several years ago.

Strong Competition

Fierce competition between different geographic areas of the state ensued following publication of recommendations from the Transportation Commission staff to approve only $2.6 billion of the $4.5 billion available.

The Governor and legislative leadership demanded that the commission allocate all revenues available.

In the end, the process outlined in Proposition 1B and approved by a record number of California voters worked. Not all projects got funded — there just wasn't enough money this first time around — but the process whereby local government got to determine what was right for its community was kept intact.

Potential for 'Tinkering'

Two little-known facts were not apparent to the voters when they approved Proposition 1B:

- First, the Legislature retains the power to appropriate, and thus control, virtually all the bond funds. If the Legislature doesn't like the projects selected by the Transportation Commission, then the Legislature has the power to withhold all the funding for Proposition 1B. This is a risky strategy that would certainly raise questions with nearly 80 percent of the voters who approved Proposition 1B, believing that groundbreakings would take place immediately on key projects.
- Second, many of the provisions of Proposition 1B require implementing legislation to be passed by the Legislature in order to allow the funds to be spent. Here is where there is temptation for "tinkering" with the intent of Proposition 1B and the will of the voters.

While contemplating implementing legislation, legislators are hearing from many different interest groups that are suggesting to attach conditions or requirements for any community receiving funds from the bond act.

In spite of Proposition 1B's intent to fund projects that specifically reduce road congestion, some interests have stated that they will "demand that all our infrastructure spending will be specifically designed to reduce total vehicle miles traveled by 10 percent by the year 2030." These same groups also may push for requiring local agencies to adopt certain "smart growth" strategies to qualify for infrastructure funding.

In an ironic twist, the day after the Transportation Commission awarded $1.3 billion in road and transit projects to the San Francisco region, the annual Bay Area Poll was released and listed "traffic-choked roads across the region" as the number one problem issue facing Bay Area residents.

One-third of the poll's respondents cited transportation — traffic congestion, the condition of roads and bridges, and public transit — as the top issue. Those who took part in the poll want these problems addressed now with the money they voted for in November.

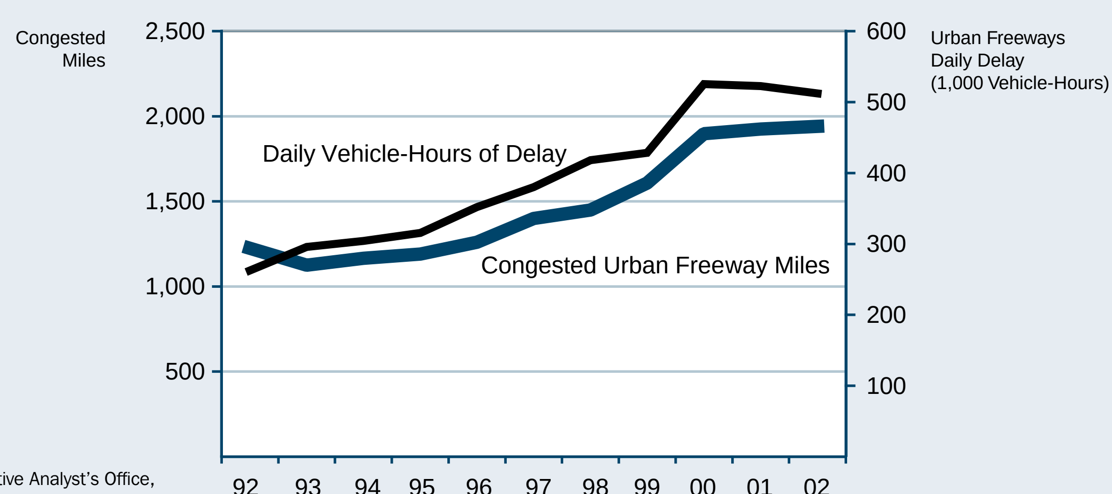
CalChamber Watchful

The CalChamber will continue to monitor legislative implementation of Proposition 1B and alert local chambers and businesses if the bond funds you voted for are being put at risk.

Swift and aggressive action may be necessary to maintain the faith with the voters that was clearly stated last November.

Staff Contacts: Dave Ackerman
Jason Schmelzer

Urban Highway Congestion Is Accelerating



Source: Legislative Analyst's Office, *California Travels* (January 2007).

Construction, Real Estate Slowdown Keeps California Job Growth Trailing Nation's

National Economy

The U.S. economy has entered 2007 with renewed vigor. Gross domestic product (GDP) expanded a respectable 3.4 percent in 2006, which is impressive considering that weakening home construction subtracted 1.2 percent from growth during the second half of the year.

Although off its peak, growth in consumer spending still looks healthy, with retail sales holding up nicely outside of the auto sector. Even housing-related sectors — such as home improvement and furniture — are proving resilient. January retail sales were further lifted by increased use of holiday gift cards, which have altered normal holiday sales patterns.

Consumer spending has been lifted by the decline in energy prices since mid-2006. But crude oil and gasoline prices have rebounded, and this likely will weigh on consumers in coming months. The rebound in energy prices is occurring at the same time we expect to see some pullback in spending because of lower home valuations.

Advisory council members are not forecasting a recession, but real consumer spending will likely slow somewhat from its 3.2 percent pace in 2006.

Business spending — which expanded a sub par 7.4 percent in 2006 — continues to disappoint. Firms are deploying their cash hoards for mergers and acquisitions (which set new records in 2006) and share repurchase, rather than investment in plants and equipment.

Business surveys indicate more caution in 2007. With earnings growth decelerating, investment spending likely will expand a bit more slowly than in 2006.

While investment spending has remained subdued, businesses have continued to hire new workers at a rapid pace. Outside of construction and manufacturing, net payroll job additions have been running at an annual pace of 2 million.

There was a smaller hiring number in January, but this could be revised upward in line with frequent upward revisions seen in recent employment reports. Nevertheless, the advisory council anticipates somewhat slower job growth in 2007, another reason to expect slower growth in consumer spending.

Interest Rates

The Federal Open Market Committee (FOMC) remains on hold following the last hike in the federal funds rate, to 5.25 percent in June 2006. FOMC members continue to express concern about inflation. Core inflation, as measured by the core personal consumption expenditure (PCE) deflator, was 2.2 percent in December, above the Federal Reserve's comfort zone of 1 to 2 percent.

But core inflation has decelerated since mid-2006, in part due to slower growth in rent. The government also revised its productivity and labor cost data to reflect less worrisome increases in unit labor costs. Still, the Fed remains wary of a potential up-tick in inflation due to tight labor markets.

There is considerable excess liquidity in global financial markets, making it very difficult for the Fed to consider cutting interest rates. Although most investors expect the Fed to remain on hold throughout 2007, there remains a prospect of a rate cut in the second half of the year if inflation continues to decelerate and economic growth moderates. But if core inflation were to revive unexpectedly, the Fed will not hesitate to raise interest rates.

The yield curve — measured by the difference between the 10-year Treasury note and the Fed funds rate — likely will remain inverted until the Fed reduces interest rates by 50 to 75 basis points. This probably implies the inversion will persist throughout 2007.

California Economy

The California economy slightly underperformed the national economy in 2006, after outperforming in 2005. California job growth slipped from 2 percent year/year in January 2006 to 1.1 percent year/year in December. Job gains totaled 170,300 for the year, only 9 percent of the U.S. job gain during that period.

California's unemployment rate stood at 4.8 percent at the end of 2006, down from 5.1 percent at the end of 2005. This is a bit higher than the national unemployment rate of 4.5 percent.

In March 2007, California will release its benchmark payroll job revisions for the year ending March 2006. Substantial upward revisions are anticipated in line with already-released national payroll job revisions, which exceeded 700,000 jobs.

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Construction, Real Estate Slowdown Keeps State Trailing U.S. Job Growth

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This would be consistent with other data — such as state tax revenue — indicating stronger growth than previously released job estimates would indicate.

California's job growth may remain subdued relative to the rest of the country, mainly because the state's recovery has been more dependent on construction and real estate jobs in recent years. Last year the state saw a net decline of 9,000 in construction and real estate jobs, following a 69,000 decline in these job categories in 2005.

This decline in construction and real estate was offset by a 180,000 increase in other jobs, with the biggest gains in leisure and hospitality, business services, health care and education.

But this increase fell below the prior year's gain of 219,000 jobs outside construction and real estate. With housing markets stabilizing, construction and real estate job growth may flatten in 2007, while job gains in other categories may slow somewhat.

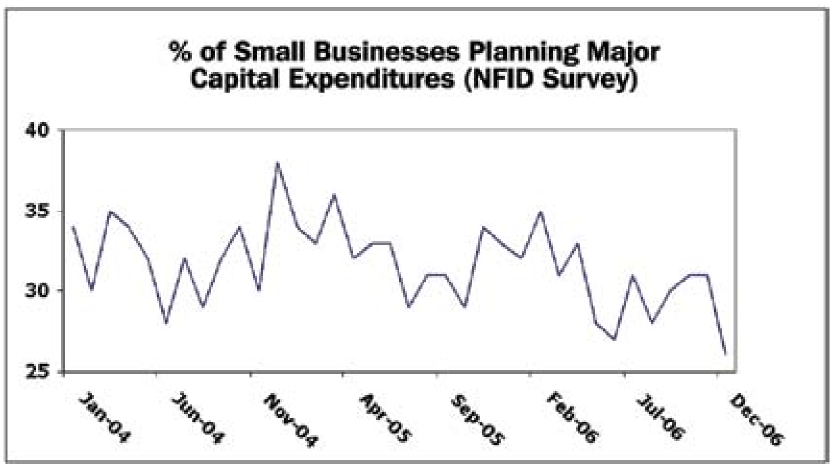
California growth has become more balanced across regions, with a notable improvement in the San Francisco Bay Area economy and labor market. While venture capital spending is well below levels seen during the dot-com boom, we observe increased start-up activity in Silicon Valley and subsequent increased demand for technically trained workers.

While the Southern California economy has seen a housing-induced slowdown, it continues to benefit from its diversity, with solid performances in international trade, technology, aerospace and tourism. Despite the recent slowdown, council members still believe that California's highly diverse business structure will enable it to withstand the ongoing slowdown in the housing market.

Going forward, regional growth differentials likely will reflect differences in housing market performance. For example, the Central Valley is seeing price declines, which are weighing on the economy in that region.

The ongoing pickup in non-residential construction in California should be sustained in 2007, and this should partly offset the slowdown in residential real estate markets. And although U.S. capital spending is expected to remain subdued, California will continue to benefit from its focus on high technology capital goods, which are in strong demand both nationally and abroad.

California exports expanded at a double-digit rate in 2006, although exports may slow somewhat in 2007. Higher interest rates likely will slow growth in Europe and Asia, but growth will remain strong enough to ensure California export growth of 7 to 8 percent in 2007.



Real Estate

The U.S. housing market recently has shown signs of stabilization. Existing home sales have settled at around a 6.2 million annual rate, well below the peak of 7.3 million in mid-2005, but still very healthy by historical standards. Declining home prices combined with stable mortgage rates have improved housing affordability, helping to cushion sales.

New home sales have begun to increase again as homebuilders steeply discount homes and provide other incentives to reduce their inventories. Existing and new home inventories are well above their cyclical lows, but below their peaks during previous housing cycles. This reflects the rapid price adjustment and the fact that interest rates are lower than previous cycles.

A negative implication of this adjustment is that home price depreciation erodes household wealth, which will have an impact on consumer spending. Effects of housing wealth usually take a couple of years to have an impact on the economy.

The combination of price depreciation and upward adjustments in variable rate mortgages is leading to increased mortgage delinquencies and foreclosures. There recently has been more severe pressure in the sub-prime mortgage market.

Advisory council members expect these problems to worsen, and possibly spread to prime mortgages. Furthermore, the council expects future home sales will be limited by more stringent mortgage lending standards. But the council does not expect a disaster in the mortgage markets, as long as growth in jobs and income growth remain healthy.

The California housing market also has shown signs of stabilization. But California's housing downturn remains more severe than the nation as a whole. Statewide home construction permitting was off more than 20 percent in 2006.

The California Association of Realtors (CAR) reports single-family home sales were down 15 percent year/year in December, compared to 7 percent decline at the national level. Median home prices were still up 3.7 percent year/year, according to CAR, compared to flat prices at the national level, but California home price inflation peaked at a much higher rate than the U.S. average.

Unsold single family home inventories equaled a 6.8-month supply in December, compared to only 3.5 months a year ago, but down from earlier year estimates of above a seven-month supply.

This is slightly above the national average of a 6.5-month supply. CAR reports that the sharpest sales declines have been concentrated in the Central Valley (-27

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Construction, Real Estate Slowdown Keeps State Trailing U.S. Job Growth

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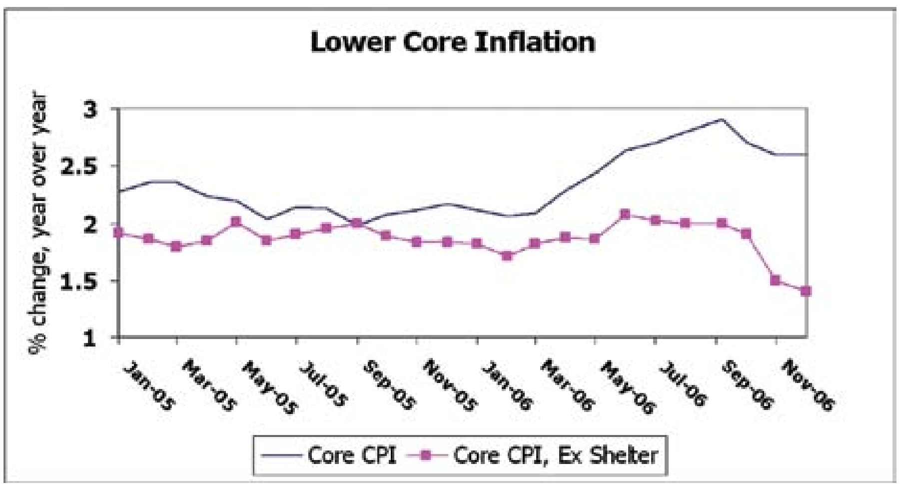
percent), Sacramento (-26 percent), High Desert (-39 percent) and Riverside/San Bernardino (-41 percent) regions.

U.S. commercial real estate markets have continued to improve and are providing an economic offset to the deteriorating residential real estate market. Non-residential construction activity has been rising at double-digit rates, with particular strength in office and hotel construction. The office sector should remain strong, with the main risk being a significant slowdown in payroll job growth. Construction of industrial facilities — which lagged during the current business cycle — also has picked up in recent quarters.

The council expects national industrial and office markets to maintain positive absorption trends into 2007. The apartment sector was very strong in 2006, but could soften somewhat in 2007 as the glut of condominiums leads to some reconversion to apartment rental units. Vacancy rates in the retail property sector may rise as consumer spending slows and new construction catches up with absorption. But the retail sector could surprise on the upside, if consumer spending sustains its recent rapid pace.

Similar trends are evident in California commercial real estate markets, with activity remaining vibrant throughout the state. Markets remain very healthy in Los Angeles and Orange County. Northern California markets generally are not as strong as Southern California, but have been improving rapidly. There has not been substantial over-supply in most regional markets, as high costs deter construction and rents still do not justify new commercial development. There also has been a recent pickup in public construction, both in California and nationwide.



Tourism

California's tourism sector remained strong in 2006, helped by sharp declines in gas prices during the second half of the year. Jobs increased 2.2 percent in California's leisure and hospitality industries last year, faster than any other sector. Hotel occupancy rates continued to rise and solid activity was reported at key Northern and Southern California tourist and convention destinations.

There is a considerable amount of hotel construction underway in the state, in large part to serve the convention business. But with the economy slowing, there likely will be somewhat slower growth in domestic tourism over the coming year. But this could be offset by foreign tourism as the weaker dollar (especially against the euro) encourages foreign visits to the United States.

Banking

Home equity lending and mortgage refinancing activity have declined over the past year, but recently have stabilized. Lending standards for households and business are a bit tighter, according to Fed surveys. Mortgage lending standards will tighten further as delinquencies rise and as lenders react to recent issuance of new regulatory guidance discouraging creative financing techniques such as interest-only loans and option-adjustable rate mortgages.

As home equity lending has declined, there is beginning to be a pickup in credit card borrowing, which has slowed considerably over the past couple of years. Commercial and industrial lending — which has lagged in the current business cycle — is growing more slowly but remains strong.

The slowdown in consumer lending, the flat yield curve and the deteriorating asset quality (due largely to rising mortgage delinquencies) has begun to weigh on bank profits, which have been heavily reliant on household sector lending. Although bank loan credit quality and profits likely will diminish in 2007, the council expects the banking sector to remain healthy. There likely will be additional fallout among non-bank, sub-prime mortgage lenders, a number of which are domiciled in California.

Agriculture and Resources

The big story in California agriculture has been the recent freeze, which destroyed approximately $1 billion of the state's citrus crop and had an impact on the avocado harvest. Consumers will face resultant higher prices for these commodities. Dairy and beef producers have faced higher feed costs, due to the rapid run-up in corn prices (due to rising ethanol demand), thus boosting prices for these commodities. This likely will be a permanent feature, given the rapid increase in demand for ethanol-based fuels.

Below-average rainfall has reduced California water supplies (snow pack is 40 percent of normal to date). But water supplies are sufficient following last year's wet winter. Without above-average late winter rain and snowfall, the state likely will experience some supply constraints in the coming year.

Electricity supplies look sufficient in the short term, due to some new capacity and rising electricity imports resulting from transmission line improvements. Still, California's medium- and long-term

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Construction, Real Estate Slowdown Keeps State Trailing U.S. Job Growth

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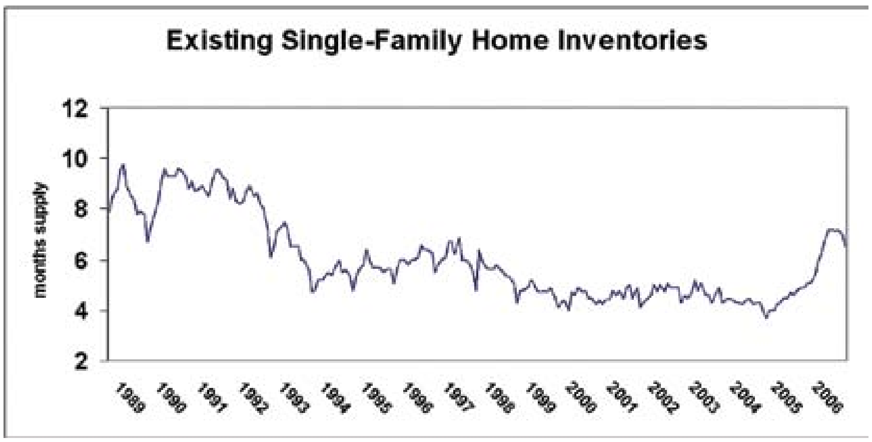
electric reliability problems and peak-capacity issues are unsolved.

Utilities are investing heavily in upgrading their distribution infrastructure. This much-needed investment, which will likely go on for five to 10 years, will result in higher power costs.



Risks

A key risk going forward is the sustainability of consumer spending. Although consumers have shown amazing resilience, home price depreciation and rising debt burdens will weigh on them in coming quarters. This risk could intensify if there is a rebound in energy prices. Although the market consensus on oil prices has moved lower, the oil market remains highly vulnerable to supply shocks in unstable oil-producing countries.

Another risk revolves around the Fed's interest rate policy. Although the Fed appears content with its current monetary setting, it would not hesitate to raise interest rates if inflation re-accelerates due to tightening labor markets or other causes.

Finally, there is a risk of a negative event in the credit markets, which could lead to widening spreads in mortgage corporate bond markets. Rising finance costs would weigh both on consumer and business spending.

Staff Contact: Dave Kilby

The California Chamber of Commerce Economic Advisory Council, made up of leading economists from the private and public sectors, presents a report each quarter to the CalChamber Board of Directors. The council is chaired by Sheldon Engler, vice president and head of fixed income research, Charles Schwab Investment Management, Inc.

Publication of this report is a project of the California Foundation for Commerce and Education.

Wellness Program Seeking Applications to Recognize Fit Businesses

The California Task Force on Youth and Workplace Wellness and the California 5 a Day — Be Active! Worksite program are accepting applications for the fourth annual California Fit Business Awards.

The award recognizes employers for excellence in providing healthy eating and physical activity programs at their workplaces and supporting and encouraging employees in making healthy choices.

Healthy Employees, Economy

According to the California Department of Health Services, physical inactivity, overweight and obesity cost employers $21.7 billion in lost productivity, workers' compensation, and direct and indirect medical costs in 2000 with an estimated increase to $28 billion in 2005.

These excessive costs have prompted employers and business owners to recognize the benefits of a "well" workplace and to begin providing healthy eating and physical activity opportunities for their employees.

Benefits received by encouraging healthy habits at the workplace include:

- reduced absenteeism and lost productivity;
- enhanced recruitment and retention; and
- cost savings on workers' compensation premiums.

Many employers are realizing how easy implementing a healthy workplace strategy can be. The Fit Business Award offers a chance for employers to be recognized for their often-innovative efforts.

Award Application

Employers demonstrating excellence in nutrition education, physical activity promotion and worksite wellness can apply for the Fit Business Award at the California task force website at ***www.wellnesstaskforce.org***.

The application deadline is June 15, and winners will be announced in October.

Winners are selected from applicants in five categories (based on number of employees) for their commitment to policies, programs and worksite environments that support employees in making healthy eating and physical activity choices throughout the workday.

Changes to create a healthy workplace may include:

- providing vending machine food choices that meet healthy nutritional standards;
- replacing doughnuts, coffee and sodas at meetings with 100 percent fruit or vegetable juice, fruits, vegetables and whole grain bagels; and
- allowing extended lunch hours for employees to engage in physical activities.

The award application asks for details on ways businesses encourage employees to maintain a healthy diet and regular physical activity, as well as how employers promote "healthy lifestyles" and create a culture of health and fitness.

Fit CalChamber Members

Seven CalChamber members received Fit Business Awards in 2006: USAA, Sacramento Municipal Utility District (SMUD), Anheuser-Busch Inc., Grundfos Pumps Manufacturing, The Lapham Company, Redi-Tag Corp. and Shimano American Corp. USAA has received the award for the last two years.

The companies exhibited several innovative and creative ways to create a healthy workplace, including revised cafeteria menus, on-site fitness centers, smoking cessation programs, nutrition seminars, health fairs and fun workplace fitness competitions.

Several of the businesses set up a Weight Watchers at Work program, and many arranged discounts for their employees at local gyms and fitness centers. Some also had set up their own wellness programs, designed specifically for the company or worksite.

Tools to Use in Workplace

For more information about the 2007 Fit Business Award application, contact Leah Cox, task force director, at *wellnesstaskforce@yahoo.com* or by calling (916) 760-7448.

Employers interested in creating a healthy workplace, increasing employee wellness and productivity, and improving their bottom line can use the tools provided in the California 5 a Day — Be Active! Worksite Program's *Fit Business Kit*, available at ***www.ca5aday.com/worksite.***

Information also is available on the California Task Force for Youth and Workplace Wellness website at ***www.wellnesstaskforce.org***.

Flex Your Power Award Applications Due

The Fifth Annual Flex Your Power Awards are still accepting applications to recognize organizations, governmental agencies and businesses in California that stand out in energy efficiency and conservation. The deadline is March 15.

The award distinguishes California's "star performers" in energy efficiency and conservation for four categories:

- Energy efficiency — For efforts to reduce total energy (electricity and/or natural gas) consumption through installation of energy-efficient equipment or through the completion of energy-efficient retrofits or construction projects.
- Education and leadership — For educational efforts or outstanding leadership activities that have had a significant impact in the areas of energy efficiency or demand/response.
- Innovative products and/or services — For development of products and services designed to help businesses or residents save energy, including vendor, contractor and consultant programs, as well as manufacturing and retail programs.
- Demand response/conservation — For efforts to reduce electricity use during certain times of the day.

Applications are available at ***www.fypower.org/feature/awards***. Winners are notified in early April.

Last year's Flex Your Power Awards recognized 34 organizations.

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