

ALERT

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Governor, Teachers Union Reach Tax Initiative Accord

Faced with the prospect of two rival tax increase measures on the November ballot, Governor Edmund G. Brown Jr. moved to eliminate part of that competition by striking a deal with one of the proponents, the California Federation of Teachers (CFT).

The Governor's new approach, announced on March 14, changes the mix of taxes, extends the term of the tax increase, and in the aggregate raises more money than his original proposal.

'Higher Probability of Victory'

"It's the tax program that balances the budget, and that's the key," Governor Brown told the Associated Press in Long Beach. "Joining the forces creates a higher probability of victory, and that's good for school kids, it's good for public safety."

Last December, the Governor proposed a tax plan to restore the state's
See Governor: Page 6

Fox News Political Analyst Juan Williams Comments on National Election Landscape



Juan Williams, political analyst for Fox Television, shares with the CalChamber Board of Directors observations on changing demographics in communities across America and their potential impact on the outcome of the presidential campaign.

June Ballot Measures: CalChamber Announces Positions

The California Chamber of Commerce is **supporting Proposition 28** on the June ballot and **opposing Proposition 29**.

Proposition 28

The CalChamber Board of Directors voted in March 2011 to **support** an initiative constitutional amendment that altered the term limits created when voters approved Proposition 140 in 1990. The initiative is on the June 2012 ballot as **Proposition 28: Limits on Legislators' Terms in Office. Initiative Constitutional Amendment**.

Proposition 28 reduces the total time a person may serve in the state Legislature from 14 years to 12 years. It allows a person to serve a total of 12 years in the Assembly or the Senate, or a combination of both.

Unlike a 2008 attempt to reform term limits (Proposition 93), Proposition 28 applies its revised limits only to legislators first elected after the proposition passes. Legislators elected before the passage of Proposition 28 would continue to be subject to existing term limits.

The CalChamber opposed Proposition 93 in 2008 because it did not include a companion reform measure on redistricting, a goal subsequently accomplished with the passage of Proposition 11 in 2008.

In announcing support for Proposition 28, CalChamber President and CEO Allan Zaremberg said it is "a much-

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Labor Law Corner

Labor Code Allows Choosing Pay Day to Allow Time to Process Payroll



Dale Louton
HR Adviser

What are the rules about how quickly a new hire must receive his/her first pay check? As an example, a company pays on the 15th and last day of the month and pays current. A non-exempt employee starts on the 15th. When must he/she be paid?

This employee must be paid on the 15th that is pay day for that payroll period.

Labor Code Section 204 provides that wages must be paid at least twice a month on pay days designated in advance. This section further provides that on semi-monthly periods ending on the 15th, the employer has until the 26th to pay wages.

On semi-monthly pay periods ending on the last day of the month, the employer has until the 10th to pay wages.

Your firm, however, has selected the 15th and end of the month, giving little or no time to process payroll.

Pay Day Notice

Labor Code Section 207 requires that a pay day notice be posted conspicuously at the place of work, specifying the regular pay days and the time and place of payment.

This Pay Day Notice is included in the California Chamber of Commerce poster, *2012 California and Federal Employment Notices*, which is part of the *Required Notices Kit*.

Labor Code Section 210 provides penalties for failure to pay wages on the designated pay day. This section provides for a civil penalty for any initial violation

and \$100 for each failure to pay each employee.

For subsequent violations, the amount is increased to \$200 plus 25% of the amount unlawfully withheld.

Option to Change Pay Day

This practice of paying on the last day of the payroll period may work for firms with few employees, but as your firm grows and for larger companies, a problem area exists.

You have the option of changing pay days, giving you time to process payroll. You need to post a new pay day notice giving your employees at least one payroll notice of the change.

You can pick any date up to the 26th and 10th, giving you enough time to collect time records and prepare payroll.

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-Sponsored Seminars/Trade Shows

More information at
www.calchamber.com/events.

Business Resources

21st Century Marketing: How to Grow Your Business. Institute for Women Entrepreneurs. March 22–23, Anaheim. (714) 480-7455.

REACH Workshop. Tetra Tech. March 27, Los Angeles. (734) 213-5057.

Labor Law

HR 101: Intro to HR Administration Seminar. CalChamber. April 11, Sacramento. (800) 331-8877.

Hiring, Onboarding and Recordkeeping 101. CalChamber. April 12, Sacramento. (800) 331-8877.

Performance Evaluations, Discipline and Termination. CalChamber. April 12, Sacramento. (800) 331-8877.

Paying and Scheduling Non-Exempt Employees Webinar. CalChamber. April 19. (800) 331-8877.

Pregnancy Disability Leave & Baby Bonding Webinar. CalChamber.

May 17. (800) 331-8877.
Paid or Unpaid—Leaves of Absence Webinar. CalChamber. June 21. (800) 331-8877.

Hiring and Onboarding Basics Webinar. CalChamber. July 19. (800) 331-8877

International Trade

Basics of Exporting - Webinars. U.S. Department of Commerce. March 21—Understanding Free Trade Agreements; April 4—How to Find HS Codes, Duties and Taxes; April 18—Understanding Export Controls; May 2—Duty Drawbacks;

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CalChamber Calendar

International Breakfast Forum:

March 30, Sacramento

Host Reception/Host Breakfast:

May 21–22, Sacramento



CalChamber Announces Positions on Pending Initiative Proposals

The California Chamber of Commerce Board of Directors has announced its positions on proposed initiatives dealing with taxes, health care and genetically engineered food.

Tax Initiatives

The CalChamber Board of Directors has voted to **oppose** both the **California Federation of Teachers (CFT)** and **Molly Munger tax initiatives**.

The CalChamber is opposing these measures because each would heavily impact small businesses, which are the source of most new jobs, by imposing steep, new taxes. Targeting taxes on job creators will hinder job growth in California at a time when unemployment in the state is 10.9%.

The CFT proposal would amount to a permanent 48% tax increase on the people who currently pay 40% of the income taxes collected in the state.

The Munger initiative is a virtually permanent tax increase that would make California's top marginal income tax rate the highest in the country. These proposals would further hurt California's competitiveness and discourage capital formation and business growth.

"These two measures create huge personal income tax increases on California businesses and job creators that will result in harm to our economy and increased volatility in a tax structure already too dependent on personal income taxes," said CalChamber President and CEO Allan Zarembeg. "There is little doubt that if passed, either of these measures would result in some people deciding to move their residency out of California, resulting in lower tax collections."

Health Care Initiatives

The CalChamber Board has voted to **oppose two health care initiatives sponsored by the Service Employees International Union (SEIU)**.

One would force nonunion, nonprofit hospitals to provide charity care services equal to at least 5% of the hospital's patient revenue. Most uncompensated care provided by hospitals would not

count toward the 5% requirement under this measure, making it impossible for the targeted hospitals to comply.

The other initiative would impose arbitrary price caps on targeted nonunion hospitals; but the exempted, unionized hospitals could still charge whatever they want.

"These measures are misleading and will do nothing to address the underlying reasons for rising health care costs," said Zarembeg. "The result of both arbitrary price caps and charity care requirements could result in fiscal troubles for many hospitals in our state."

The CalChamber Board also voted to **oppose a third health care measure, sponsored by Consumer Watchdog**. This measure proposes to regulate health insurance rates similar to the way that auto insurance and home insurance rates are regulated after passage of Proposition 103.

The Consumer Watchdog measure calls for special interest reforms of a large and complicated health system without the input of patients, doctors or hospitals. It fails to take into account the major causes of rising medical care costs.

"Instead of solving the problem of the rising costs of health care, this measure would create another state bureaucracy

at a time when we can least afford it," said Zarembeg. "Ultimately, it will be paid for with higher health insurance premiums."

Genetically Engineered Food Initiatives

The CalChamber Board voted to **oppose two versions of a proposal to require mandatory labeling of genetically modified foods**.

The CalChamber has a longstanding policy of supporting uniform national labeling laws. The proposed initiatives would impose state-only labeling requirements that present a myriad of problems for agriculture, food processors, food manufacturers and retailers.

"These measures are based on bad science and would place California at a competitive disadvantage to other states," said Zarembeg. "If passed, either of these measures would impose specific state-only labeling requirements which confuse and unnecessarily worry consumers. Based on the breadth of the definitions in the initiatives, almost every aspect of the food chain would be impacted, requiring needless labeling and sharply increasing the cost of food to consumers at a time when they can least afford it."



"The California Chamber of Commerce is the best way businesses in California can be represented effectively through strong advocacy and communication. In my opinion, no group is more reliable."

TED BALESTRERI
CHAIRMAN AND CHIEF EXECUTIVE OFFICER
CANNERY ROW COMPANY, MONTEREY

Legislative Budget Subcommittees Vote to Retain Cal/OSHA Board

The Occupational Safety and Health (Cal/OSHA) Standards Board serves as a successful and important function of Cal/OSHA in developing enforceable workplace safety regulations and therefore should not be eliminated, California Chamber of Commerce Policy Advocate Marti Fisher told two budget subcommittees last week.

Both the Senate and Assembly budget subcommittees voted to keep the Cal/OSHA Standards Board. An identical proposal was put forward in 2011, but was also rejected after strong opposition from the business and labor communities.

CalChamber Testimony

“We support the very important work of the Standards Board because they’re an independent board,” Fisher told the Assembly Budget Subcommittee Number 4 on March 7.

“Any regulations that come before them have to be fair and balanced, and they have to pass with labor and management at the table. They have created a very transparent

and participatory process so that anybody interested can participate and have the opportunity to be heard no matter which party is in the administration.”

The CalChamber and a coalition of more than 35 industry groups opposed the proposal to eliminate the Standards Board.

Without a board, the coalition pointed out, the value of the process would be diminished; public participation would become irrelevant and disappear along with transparency in rulemaking.

Although the research and development of standards could be performed by other entities, the significant value of an independent board in the adoption of regulations cannot be ignored, the coalition stated in its letter.

No Cost Savings

Pointing out that the Cal/OSHA Standards Board is funded primarily by an employer assessment with no General Fund money, the coalition said its members support the continued cost to fund the board.

Board members are virtually unpaid, receiving only a small stipend of \$100 per meeting and travel expenses.

The Cal/OSHA Standards Board has succeeded in balanced rulemaking and its elimination would not produce General Fund savings, Fisher reminded the committees.

Key Votes

On March 7 the Assembly Budget Subcommittee Number 4 unanimously voted to retain the board.

Noes: Allen (D-Santa Rosa), Buchanan (D-Alamo), Dickinson (D-Sacramento), Logue (R-Linda), Wagner (R-Irvine).

On March 8 the Senate Budget Subcommittee Number 5 voted 2-0 to maintain the board.

Noes: Anderson (R-El Cajon), Hancock (D-Berkeley).

Absent/abstaining/not voting: Wolk (D-Davis).

Staff Contact: Marti Fisher

CalChamber-Sponsored Seminars/Trade Shows

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May 16—Taking Advantage of NAFTA; May 30—Completing Certificates of Origin; June 13—Financing Your Exports and Getting Paid; June 27—Temporary Exports-Carnets and Other Tools. (800) 872-8723.

Global Cities Forum. Brookings and JPMorgan Chase. March 21, Los Angeles. (202) 797-6480.

Export Training Assistance Program (ETAP). Riverside County Economic Development Agency. March 21, Palm Springs; April 4, Riverside. (714) 564-5414.

China 2012 Trade Mission and Import Expo. California Asian Pacific Chamber and CalChamber. March 25–April 1, Kunshan, China. (916) 446-7883.

Border Legislative Conference. Council of State Governments. March 28–30, Sacramento. (916) 446-5760.

Sri Lanka Expo 2012. Sri Lanka Consulate. March 28–30, Colombo, Sri Lanka. (213) 387-0214.

Ag Trade Mission to Asia. California State Trade and Export Promotion (STEP) and Fresno Center for International Trade Development. April 21–28, China and South Korea. (559) 324-6401.

Export Green Trade Mission. Brazil-U.S. Business Council. April 22–27, São Paulo, Brazil. (202) 463-5496.

Hannover Messe—Technology Meets Progress. Deutsche Messe. April 23–27, Hannover, Germany.

Aquatech India. California STEP and World Trade Center San Diego. April 25–29, Delhi, India. (619) 615-0868.

U.S.-China Business Summit. China-U.S. Business Summit Committee, Global Times and China Light Industrial Corporation for Economic & Technical Co-Operation. April 29–May 1, Los Angeles. (312) 912-2502.

Annual Investment Meeting. United Arab Emirates Ministry of Foreign Trade. May 1–3, Dubai, United Arab Emirates. (714) 214-9749.

World Trade Week Kickoff Breakfast. Los Angeles Area Chamber of

Commerce. May 4, Los Angeles. (213) 580-7569.

International Fair of Technologies (IFT) Energy 2012. Chilean Ministry of Energy and CORFO. May 9–11, Santiago, Chile. (877) 492-7028.

Consular Corps Luncheon. Northern California World Trade Center. May 22, Davis. (916) 321-9146.

California Ag Trade Mission to China/South Korea. Fresno Center for International Trade Development. June 9–16, China and South Korea. (559) 324-6401.

California Pavilion at Chile-Expo Hospital 2012. Los Angeles Area Chamber of Commerce and CalChamber. June 27–29, Santiago, Chile. (213) 580-7570.

Food Taipei 2012. Taiwan Trade Center, San Francisco. June 27–30, Taiwan. (408) 988-5018.

Intersolar-North America. Northern California Regional Center for International Trade Development. July 10–12, San Francisco. (916) 563-3222.

U.S.-Korea Trade Agreement Now in Effect

March 15 marked the implementation day for the landmark U.S.-Korea Free Trade Agreement (FTA), the product of years of collaboration by the business community and both governments.

The California Chamber of Commerce-supported FTA is the biggest free trade pact the United States has reached since entering the North American Free Trade Agreement (NAFTA) in 1994.

Recognition goes to U.S. Trade Representative Ron Kirk for his leadership in getting the U.S.-Korea FTA to the finish line.

The United States has welcomed the newly appointed South Korean Ambassador to the United States, Choi Young-jin.

His Excellency Duk-Soo Han, former Prime Minister and Ambassador to the United States from the Republic of Korea, was instrumental in garnering support for the U.S.-Korea agreement. Han spoke to the CalChamber on several occasions, as did the Consuls General of Korea in San Francisco and Los Angeles.

Background

The CalChamber was part of a broad-based coalition that waged a multi-year campaign to secure congressional passage of the U.S.-Korea FTA. Congress approved the FTA on October 12, 2011. The South Korean Parliament followed suit on November 22, 2011.

The United States and the Republic of Korea announced on February 2, 2006 that they were beginning negotiations toward a bilateral FTA, with talks expected to take up to a year. Although the negotiations concluded on April 1, 2007, nearly five years passed before the FTA could be implemented.

California Benefits

For California, the FTA is a big win. Korea is California's fifth largest exporting partner, destination for \$8.4 billion of California exports in 2011.

With immediate removal of many tariffs, California exports will become more competitive and affordable to Koreans. California exports of machinery will benefit from U.S.-Korea FTA reductions as machinery manufactures accounted for \$2 billion of the state's



merchandise exports to Korea in 2011.

According to the International Trade Administration in the U.S. Department of Commerce, computer and electronic products accounted for \$1.5 billion of California's merchandise exports to Korea in 2011.

Transportation equipment accounted for \$535 million of the state's export sales to Korea in 2011 and most of these duties also will be eliminated. In addition, tariffs and other barriers will be eliminated on most agricultural products produced in California.

U.S. Benefits

Korea is a \$1.5 trillion economy and is the United States' seventh largest goods trading partner. Korea's commercial relationship with the United States is largely complementary. In 2011, two-way trade between the two countries totaled more than \$100 billion. In 2011, U.S. goods exports to Korea were \$43.5 billion, a steady increase over the previous five years.

In 2010, U.S. foreign direct investment in Korea totaled roughly \$30 billion, concentrated largely in the manufacturing, banking and wholesale trade sectors. Korea enjoys broad access to the U.S. market and the United States is one of Korea's larger exporting markets, importing 11% of Korea's worldwide exported goods.

The U.S. International Trade Commission estimates that with full implementation of the U.S.-Korea FTA, U.S. goods exports to Korea will likely increase by \$9.7 billion–\$10.9 billion and U.S. imports of goods from Korea will likely increase by \$6.4 billion–\$6.9 billion, enhancing the already-balanced trade partnership.

The FTA will greatly expand market access in Korea for U.S. farmers, manufacturers, service providers and financial services firms.

Under the FTA, more than half of current U.S. agricultural exports to Korea—with a value of more than

\$1.4 billion—became duty-free immediately, including high-value agricultural products such as almonds, pistachios, wine and cherries. For many other key agricultural goods, such as pork and citrus products, the FTA will provide unparalleled access to the

South Korean market and its prosperous consumer base.

Duty-Free Trade

Almost 95% of all bilateral trade in consumer and industrial products will become duty-free within three years under the agreement, and virtually all remaining tariffs on consumer and industrial goods will be eliminated in 10 years. Moreover, this agreement eliminates significant non-tariff market access barriers in Korea to U.S. goods, services and investment. Consumers in both countries stand to gain from the broad benefits of this agreement.

U.S. interests are protected through robust provisions on transparency, intellectual property rights, competition, investment and other rules, particularly in the area of services.

Preferential Position

The agreement also has important implications beyond bilateral trade and investment. By giving U.S. exporters and investors a preferential position in the world's 12th-largest economy (according to the International Monetary Fund), an FTA with Korea enhances U.S. businesses' ability to compete in the dynamic Northeast Asia regional economy. From a strategic vantage point, the FTA reinforces the critical partnership and alliance between the United States and Korea.

Korea is a significant market for U.S. small and medium-sized companies, which make up a majority of U.S. businesses exporting to Korea.

The Republic of Korea is a longstanding and close U.S. ally, and strong partner in advancing regional and global security. The U.S.-Korea FTA strengthens this 50-year-plus alliance while reinforcing the economic and political reforms South Korea has made over the past decade.

For more information, visit calchamber.com/korea.
Staff Contact: Susanne Stirling

Governor, Teachers Union Reach Tax Initiative Accord

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fiscal health over five years. If approved by the voters in November, it would have increased the state sales tax rate by one-half cent for four years, beginning in 2013, and increased income tax rates for high-income Californians for five years, beginning in 2012.

The income tax rates would have increased by one percentage point for joint filers with incomes over \$500,000, by 1.5 percentage points for joint filers with incomes over \$600,000, and by two percentage points for joint filers with incomes over \$1 million.

The California Federation of Teachers proposal would have permanently increased income tax rates on all taxpayers with incomes over \$1 million by three percentage points and by five percentage points for all taxpayers with incomes over \$2 million.

Compromise Proposal

The new “compromise” announced by the Governor, Democratic leaders in the Legislature, and the California Federation of Teachers reduces the sales tax increase to one-quarter cent, and bumps up the income tax rate increases on the top two brackets.

The new measure would increase rates on joint filers with incomes over \$600,000 by two percentage points and for joint filers with incomes over \$1 million by three percentage points. The income taxes would remain in effect for seven years, while the sales tax increase would expire after four years.

Last week, the California Chamber of Commerce Board of Directors voted to oppose both the CFT measure and another measure to hike income taxes for education programs proposed by philanthropist Molly Munger. Early indications are that the prospect of a well-funded opposition campaign gave the Governor ammunition in his efforts to get the CFT proposal off the ballot.

As of this week, Munger has indicated she is committed to pushing her measure all the way to November.

In opposing the measures, the CalChamber Board flagged the long-

Annual Income Tax Increases from Proposed Initiatives

Taxable Income	Brown 1	Munger	Brown/CFT
\$20,000		\$21	
\$40,000		\$117	
\$60,000		\$278	
\$80,000		\$510	
\$100,000		\$799	
\$200,000		\$2,398	
\$500,000		\$7,798	
\$600,000	\$1,000	\$9,698	\$1,000
\$1,000,000	\$7,000	\$17,298	\$9,000
\$2,000,000	\$28,000	\$37,298	\$39,000
\$3,000,000	\$48,000	\$58,298	\$69,000
\$5,000,000	\$88,000	\$100,298	\$129,000
\$10,000,000	\$188,000	\$210,298	\$279,000
\$100,000,000	\$1,988,000	\$2,190,298	\$2,979,000

A comparison of annual income tax increases on selected taxable income brackets for taxpayers filing jointly.

Source: California Foundation for Commerce and Education

term nature of the CFT (permanent) and Munger (12 years) measures. The CalChamber Board did not take up the Governor’s measure.

The chart above compares the income tax increases for the new proposal (Brown/CFT) with Governor Brown’s original proposal (Brown 1) and Molly Munger’s unchanged proposal, for joint filers in selected income tax brackets.

While an official fiscal analysis has yet to be completed, Senate President Pro Tem Darrell Steinberg (D-Sacramento) estimated that the new proposal would annually raise about \$2 billion more than the Governor’s original proposal. Including the two additional years of income taxes, the measure would raise about \$15 billion–\$20 billion more than the Governor’s original plan.

The proceeds of these new taxes would, as in the Governor’s original measure, directly benefit the General Fund, to be spent on restoring school

funding and reducing budgetary debt.

The Governor’s original measure differs from both the CFT and Munger proposals by giving the Legislature greater discretion in how to spend the proceeds of these taxes.

Short Time to Qualify

Qualifying the new initiative for the November ballot will be no small feat. The Governor and his allies will have only six to eight weeks to gather more than a million signatures to qualify a constitutional amendment for the ballot.

The Governor will need to raise additional funds for this effort, in addition to the \$3.5 million already raised for the original plan. Still unclear is whether the Governor and/or CFT will continue to attempt to qualify their original proposals, as a backstop if the compromise effort does not succeed.

Contact: Loren Kaye, President, California Foundation for Commerce and Education

U.S. Economy, Jobs Growing Slowly; State Export Growth Likely to Slow

When the California Chamber of Commerce Economic Advisory Council met on the phone in mid-February, the headline economic news arched to a less pessimistic view about the European sovereign debt crisis and was less anxious about economic growth in the United States.

The assessment of the CalChamber's economic advisers echoed this new public sentiment. However, the discussion also suggested that short and intermediate growth prospects will continue to be constrained by the decline of government spending and consumer sentiment, which is still very fragile.

Also, despite a balance of \$2.9 trillion on the Federal Reserve's book, the growth of money supply is still tepid. Commercial, industrial and auto loans, however, are beginning to show signs of life.

This report will focus on the current situation and convey forecasts about some key statistics, such as the expected economic and job growth in 2012, then it will discourse as always, about crucial California subsectors, agriculture, tourism, housing, water, and electricity issues.

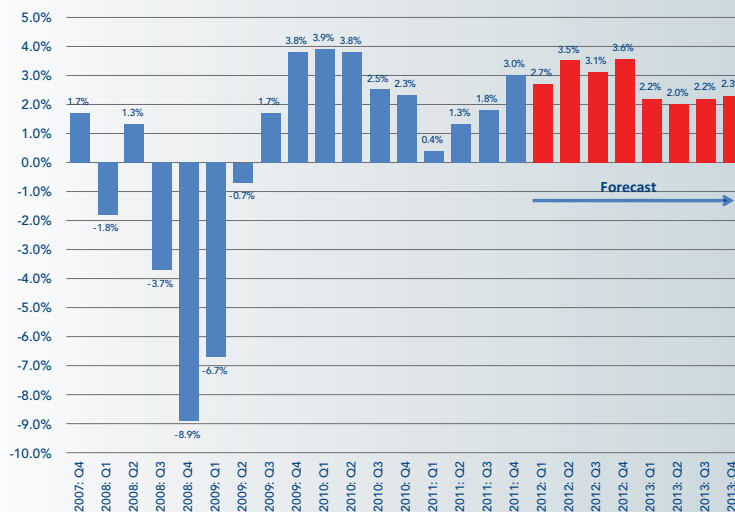
Following are the main notions about the current situation coming out of the discussions of the council's distinguished economists.

Foreign Sector

California exports have been the state's growth engine during the last two years. Merchandise exports in 2011 grew by 11.2% to \$159.3 billion, an all-time record that exceeded the previous high in the year 2000 by 2%.

However, the growth prospects of California's trading partners are likely to be lower this year, driven by an expected

Real GDP Growth in the U.S.



Sources: U.S. Bureau of Economic Analysis, HousingEcon.com

slowing in Europe and a moderate slowing of growth in China and India.

Nevertheless, global gross domestic product (GDP) growth will still be in the 3%-plus range, which means that California export growth will slow in 2012, but not decline:

- As suggested in the previous report, Europe is muddling through with its debt crisis. The Greek debt crisis seems to have been resolved with a recent deal that will provide a \$170 billion bailout package in exchange for a severe domestic austerity program. However, the trouble with Greece may re-emerge at some point since the country has a weak export sector.

- Portugal, Italy and Spain may be next on the rolling obsession of the financial markets with Europe, but these countries just passed massive austerity measures and much of their public debt tends to be owned domestically, such as is clearly the case in Italy.

- Furthermore, the European crisis seems to be less pressing since the European Central Bank's recent dramatic and decisive actions to shore up the

balance sheets of European banks. As far as crisis talk is concerned, Europe may be "out" in 2012, although the collateral damage of the crisis on its economies will be tepid growth, which will affect California export growth this year.

- Furthermore, Eastern Europe, particularly Poland, is still doing well. The CalChamber Economic Advisory Council members, therefore, agree that Europe is unlikely to collapse.

- Asia will continue to grow, albeit at slower rates. China's growth will go from 9.5% to 8.1% due to slowing exports. China's

consumers will be picking up the slack, however. Consumer spending has been growing 20% on an annual basis in recent years. India's growth also will slow from 7% to 8% in recent years to 4% to 5%.

- Latin America is still doing well. Particularly Brazil, and even Mexico, will continue to exhibit GDP growth in the 3% to 4% range. No financial crisis is on the horizon.

- Overall, world GDP will slow to around 3% in the near future, which is about a point lower than the average growth rate of recent years.

- As a result of this outlook, California export growth will slow down in 2012 but not collapse.

U.S. Situation

The U.S. economy has gained some moderate traction lately, which seems sustainable, but worries persist. Manufacturing is growing, construction is contributing to GDP growth again and consumers are spending again. However, fiscal drag will pose a problem in the short term and it is ironic that fiscal cuts

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U.S. Economy, Jobs Growing Slowly; State Export Growth Likely to Slow

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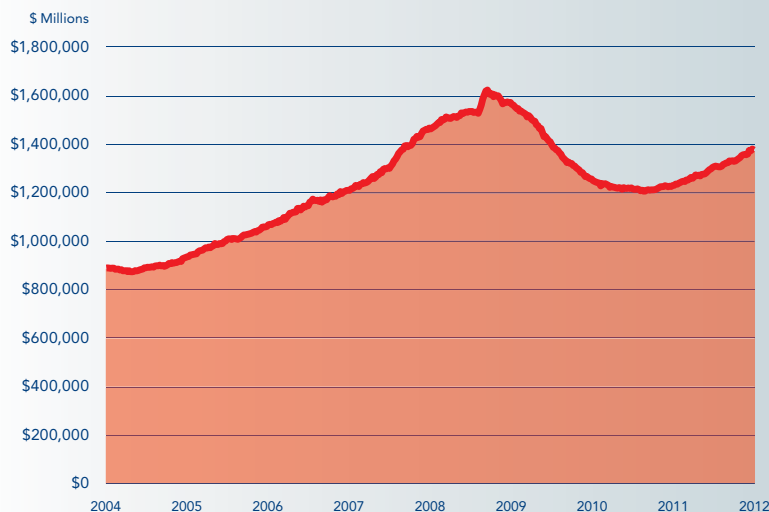
are occurring, while nothing is happening with fiscal deficits in the long term.

- GDP growth accelerated to 2.8% in the fourth quarter of 2011 from 1.8% in the third quarter of 2011. For the year, GDP growth was 1.7% after increasing 3% in 2010. The fourth-quarter pickup in U.S. growth was driven by inventory investment, consumer spending for cars and trucks, and nondurable goods. These contributions to growth were partially offset by a slowing in business investment and consumer spending for services, a pickup in imports, and a downturn in federal spending.

- Recent trends in U.S. job data may signal that U.S. businesses are beginning to hire again as payrolls have added about 200,000 jobs per month lately. Job gains are broad across industries, occupations, and U.S. regions. Furthermore, employment growth as measured by the household survey, which underlies the unemployment rate, has grown faster than the payroll numbers lately. This may indicate that employment is picking up steam in smaller and new companies, which are not registered in the payroll survey. Consistent with the signs of more hiring, the nation's official unemployment rate fell to 8.3% in January 2012, down from the 9.1% a year earlier.

- Fiscal drag now represents a short-term constraint to U.S. economic growth. The remaining stimulus from the 2009 recovery act is fading into the sunset. In the fourth quarter of 2011, declines of government spending shaved off almost a full percentage point from GDP growth, 0.6 percentage points from a slowing in federal spending and 0.32 percentage points coming from declines in spending at the state and local levels. As spending cuts from the August 2011 debt ceiling

Outstanding Commercial and Industrial Loans



Source: Federal Reserve Board, HousingEcon.com

agreement kick in, this is likely to continue in 2012.

- In light of the signs of more sustainable growth in the private sector and the expected fiscal drag, the economic advisers predict that GDP growth will be around 2%-plus this year, while the nation's unemployment rate could drop below 8% by the presidential elections in November. Should it materialize, this forecast will be unsatisfying for the political pundits, and won't be good or bad enough to make the presidential elections a "slam dunk" for either party.

California Economy

Slow But Continues to Recover

The state's job situation continued to gain traction in recent months, adding 240,000 jobs in December 2011 over the year before. California's job growth even started to outpace U.S. job growth by June 2011.

The improved job picture was broad-based in terms of industries and regions. Eight major industry sectors added jobs on a year-over-year basis in December 2011. They were:

- mining and logging;
- trade, transportation and utilities;

- construction;
- information;
- professional and business services;
- education and health;
- leisure and hospitality; and
- government.

The California economic recovery is also broadening on a regional basis. Twenty-one regions added jobs, while seven regions still lost payrolls on an annual basis. It is noteworthy and a very good sign that the jobs recovery is not confined anymore to urban coastal and high tech centers.

Looking forward, the CalChamber economic advisers were concerned about

California's high unemployment rate, which was still a very high 11.1% in December 2011, but was down from 12.5% in December 2010. They agreed on a forecast in the mid to high teens by November 2012. The state's overall job growth will continue to plug along at 1.5%-plus aided by relatively good income and taxable sales growth, both of which have picked up lately. Also, new home construction seems to be turning the corner and will contribute modestly to the state's economic activity in 2012, albeit not with the same vigor as in previous economic recoveries.

Housing Still in Limbo

But Will Improve in 2012

California housing is still sluggish. New housing production was up somewhat in 2011, but by just 0.8%. Multi-family construction, however, picked up in 2011, growing 28% for the year. Multi-family construction growth will continue to lead the state's housing market this year as more and more public builders have rediscovered the urban infill market.

The state's home resale market is still bouncing along the bottom with

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essentially no regional differentiation. A major positive is historically high ownership housing affordability plus surprisingly low inventory-to-sales ratios in the state's multiple listings systems, which might suggest that the worst of the California housing crisis is over.

Looking forward, the faster trajectory in economic fundamentals plus the higher quality of jobs in coastal areas should begin to trigger modest home price appreciation (3%-4%) in the urban areas of Southern California and the San Francisco Bay Area next year.

This will be supported by the fact that the housing system in those areas has a lot more positive homeowner equity than is usually recognized.

Furthermore, the pipeline for new foreclosures is shrinking. According to delinquency information of the Mortgage Bankers Association, delinquency rates have dropped fast in the recent two years.

California Agriculture

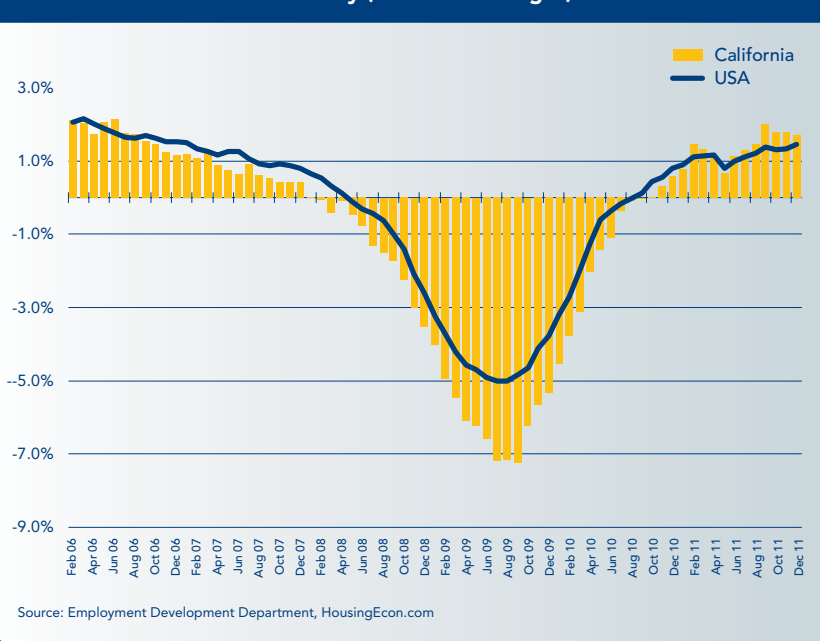
Improving

The value of California agricultural production in 2011 increased by 10%-plus because of higher yields and/or stronger prices. Export demand helped strengthen market prices. Overall growth in export demand for California agricultural and food products may slow slightly in 2012 because of moderating global economic growth and the recent strengthening of the U.S. dollar.

Livestock

While the livestock sector in California struggled with high hay and grain prices, increasing their production costs, beef and milk prices hovered at record levels for much of 2011. Milk prices have recently declined from their highs because of softening domestic demand and increasing inventories.

Modest California Jobs Recovery (Annual % Changes)



Grain prices have also fallen modestly with concern about global growth and increased reports of higher grain production in other global regions. Poultry producers have been especially burdened by high feed costs and are reducing their production. Beef prices may decline early this year, but they may return to record levels during the latter months of the year as the pipeline of fed cattle is cleared. Grazing conditions this year have suffered because of the lack of precipitation.

Fruits, Nuts, Vegetables

Producers of vegetables, nuts, grapes and other fruits generally enjoyed good production conditions and good prices last year. Even the producers of peaches, plums and nectarines had a good season in the latter half.

Practically all harvests were one to two weeks late, because of persistent wet, cool weather last spring. This resulted in considerable crop damage to grapes, because of unseasonable freezes last spring and rains during the harvest.

As usual, prospects for 2012 will depend on local and remote weather conditions in competing markets. The latter will help determine local market prices. There have been sufficient chilling

hours for dormant trees and vines, though temperatures have been costly for citrus growers this winter, especially for mandarin varieties.

Field Crops

Field crop producers were also challenged by delays in plantings and harvest. Yet, high prices for grains, hay and cotton benefited most producers last year. Such prices have declined, but the prospects for this year remain above historical averages.

Weather

Abundant rains and snow packs help replenish ground water basins and provided for nearly full surface water deliveries in

all California regions in 2011. Current reservoir storage is significantly higher than this time last year and higher-than-historical averages in almost all regions, other than the Colorado River reservoirs, though the latter is much improved over 2010.

Agricultural surface water users south of the Delta expect to get nearly 40% deliveries this year, even if current precipitation conditions do not return to normal patterns. Growers in the Friant delivery districts of the San Joaquin Valley may get only 80% of Class-1 water, if conditions do not improve.

These deliveries, combined with alternative supplies, should assure no significant changes in planted acreage, though the cost of irrigating their crops will increase.

Labor

Agricultural labor availability continues to be ample, though there were some difficulties during the late harvest last year, as poor weather threatened the harvest and other U.S. regions competed for the same workers.

California fruit and vegetable producers are apprehensive about the

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availability of labor in the near term, because of the possible changes in federal regulations requiring more stringent verification of workers' documentation.

California Tourism

California tourism continued to exhibit the positive trends reported about in the previous report as the tourism business overall was up 5% in 2011. Domestic airport travel is up 4%–5%, and international travel increased by several percentage points in 2011.

Furthermore, hotel occupancies are increasing, although hotel rates are still struggling. The strongest areas of tourism are San Francisco, which is booming, and the theme parks such as Disney, Legoland and Six Flags. The restaurant business is stabilizing, but profitability is still hurt by health care issues. The RV park business is fair.

Water/Electricity

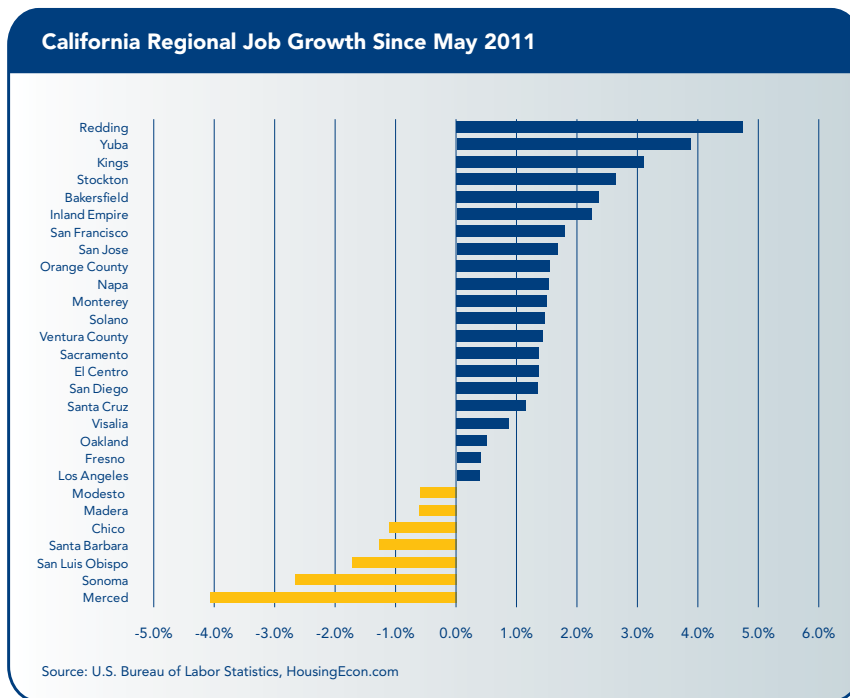
Conditions Fine

Last year's wet year has replenished both in-state reservoirs and those on the Colorado River. The Colorado River still has very low reservoirs, but compared to recent years they are much improved.

The current long-range forecast is predicting a wet winter for Northern California, which is where most of the state's water comes from. There is still a risk that the precipitation band would move north and leave the state dry, but there are no short-run supply issues.

Electricity demand is still reduced by the recession's aftermath, so supplies are good, even though permitting and financing for some of the planned renewable generation is progressing somewhat slower than had been hoped.

On October 20, 2011, the Air



Summation

The global economic outlook is that economic growth will slow in 2012 but will still run at 3% plus. While the California export business will slow down as a result, it will continue to be a growth engine.

Furthermore, the construction industry will provide a moderate growth stimulus. However, this will be a far cry from what it was capable of during previous recoveries in California.

California housing prices are likely to reach a trough in the first quarter of 2012 and then rise very gently. Tourism and

agriculture will also give the state an economic boost in the first quarter of 2012. Water and electricity concerns have abated, but the recent dry weather is causing concerns again, particularly in agriculture.

Declining government spending on the state and local levels will be a drag on overall output, but this will be offset by strengthening and sustainable business activity in the private sector.

Resources Board (ARB) adopted a cap-and-trade program that will require electric generators to purchase permits to emit greenhouse gases. These permits will be purchased through an auction that will be run by the ARB.

The revenue from the sale of the permits is supposed to be used to help the consumers adjust—by either giving them money or, for example, funding conservation or renewables programs. The details have not yet been ironed out.

People (including the Legislative Analyst's Office) are concerned about the complicated nature of the market, and worry that it could be susceptible to manipulation, perhaps with a repeat of the electric market start-up fiasco in the previous decade.

Delta issues are continuing to cause concern. There are ongoing problems with environmental decline and restrictions on taking water from the Delta. In addition, the levees on the Delta islands are at risk of failure, either through storms, earthquake, or other problems.

A large failure would put much of the state's water supply at risk, and Sacramento has been ranked the second city in the nation for flood risk (New Orleans is No. 1).



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 Gerd-Ulf (GU) Krueger, principal economist for HousingEcon.com.

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

Canadian Ambassador Gary Doer Visits Capitol for Canada Day

Canadian Ambassador Gary Doer visited Sacramento on March 12, designated as “Canada Day” at the State Capitol, to highlight California-Canada relations.

Accompanying the Ambassador were Consul General Cassie Doyle of San Francisco and Consul General David Fransen of Los Angeles.

On the Ambassador’s schedule were talks with government officials and private sector meetings, including one at the California Chamber of Commerce with Allan Zarembeg, president and CEO, and Susanne Stirling, vice president for international affairs.

California-Canada Trade

Canada has remained California’s second largest export market since 2006, with a total value of \$17.2 billion in 2011, representing 11% of all California exports.

Computers and electronic products remained California’s largest exports, accounting for 34% of all California exports to Canada last year. Exports of machinery and chemicals from California to Canada grew to total more than \$1.5 billion, with transportation equipment and agricultural products continuing to be strong export sectors as well.



Allan Zarembeg, CalChamber president and CEO, reiterates support to Canadian Ambassador Gary Doer (left) for Canada’s interest in joining the Trans-Pacific Partnership negotiations. Ambassador Doer stopped by the CalChamber offices on “Canada Day” (March 12) to speak with Zarembeg about the Trans-Pacific Partnership, energy issues and the California-Canada trade relationship.

According to the Canadian Consul General’s San Francisco office, there are almost 133,000 Canadians living in California—the most Canadian expatriots in any state.

In 2010, Canada provided about 19% of California’s natural gas, with a value of \$2.8 billion, and exported

\$110.4 million of electricity to California—all of which was produced in British Columbia, according to Doyle.

Trans-Pacific Partnership

On November 12, 2011, the leaders of the nine Trans-Pacific Partnership (TPP) countries—Australia, Brunei Darussalam, Chile, Malaysia, New Zealand, Peru, Singapore, Vietnam and the United States—announced achieving the broad outlines of an ambitious, 21st-century TPP agreement that will enhance trade and investment among the TPP partner countries, promote innovation, economic growth and development, and support the creation and retention of jobs.

Canada, Mexico and Japan have stated their intent to join the TPP negotiations, of which the CalChamber is supportive.

“Canada Day” allowed both the government and private sector to focus on the increasingly important

relationship between California and Canada. The two entities are partners in many areas, ranging from commerce and trade to tourism.

For more information on California-Canada trade, visit calchamber.com/Canada.

Staff Contact: Susanne Stirling

June Ballot Measures: CalChamber Announces Positions

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needed improvement to the current term limits law while keeping the original initiative intact.”

Proposition 29

The CalChamber Board voted in March 2011 to **oppose** an initiative statute described as imposing an additional tax on cigarettes for cancer research.

That initiative will appear on the June 2012 ballot as **Proposition 29: Imposes Additional Tax on Cigarettes for**

Cancer Research. Initiative Statute.

Proposition 29 imposes an additional \$1 per pack tax on cigarettes and an equivalent tax increase on other tobacco products to fund research for cancer and tobacco-related diseases.

It is estimated to raise nearly \$1 billion in new taxes, but nothing in Proposition 29 requires the funding to be spent in California or even in the United States.

Although cancer research is important, the CalChamber Board thought it was

inappropriate to create a new program when the state is slashing existing essential programs, such as education and courts.

In addition, the Legislative Analyst’s Office concluded that the revenue stream to fund these new programs would be declining and the Board was concerned that it would once again put existing programs at risk to keep the new programs.



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