Legislature Targets Business for Higher Property Taxes

Less than six months after Proposition 30 raised taxes by $7 billion, the Legislature is proposing higher taxes on business property, including a reassessment even when property doesn’t change hands.

The proposal, AB 188 (Ammiano; D-San Francisco), has been identified by the California Chamber of Commerce as a “job killer.” AB 188 unfairly targets commercial property by redefining “change of ownership” so such property is reassessed more frequently, which ultimately will lead to higher property taxes that will be passed on to tenants, consumers, and potentially employees.

AB 188 completely alters the definition of “change of ownership” for commercial property for the purpose of increasing property taxes.

Proposition 13

Currently, under Proposition 13, commercial property is reassessed only when there is an actual change of ownership in the entity that owns the property. That is, another entity or person has acquired at least 50% of the ownership interest of the entity that owns that property and therefore has a controlling interest in the property. This is the most common-sense interpretation of Proposition 13’s requirements.

It creates a bright line to determine when property ownership has changed, and is consistent with the underlying purpose of Proposition 13, which intended to provide property owners certainty and stability about the amount of property taxes due—on sale and thereafter.

See Legislature Targets: Page 4

Foundation Recommends Next Steps for Regulatory Reform

A California Chamber of Commerce-supported bill adopted in 2011 is a notable example of bipartisan, legislative-executive cooperation that will quietly make a difference in how government works, the head of a CalChamber-associated think tank told an Assembly committee on March 13.

The legislation, SB 617 (Calderon; D-Montebello; Chapter 496), among other things, requires a standard economic impact analysis for major regulations at the beginning of the regulatory process.

Loren Kaye, president of the California Foundation for Commerce and Education, said SB 617 is even bigger than government reforms made at the ballot, demonstrating that “elected and appointed officials and constituencies can in good faith hammer out productive solutions—building on the work of others—to improve government accountability and transparency.”

Previous bills established the legal framework for regulatory review and transparency by creating the Office of Administrative Law (OAL), and a regulatory review unit within a state agency to review economic analyses of new rules by the state agencies proposing them.

See Foundation Recommends: Page 4

Workers’ Comp Implementation in Spotlight

Senator Ted Lieu (D-Torrance), chair of the Senate Labor and Industrial Relations Committee, tells business representatives attending one session of a legislative day at the CalChamber offices that it is not prudent to reverse large parts of last year’s workers’ compensation reforms when there is no data yet on how implementation is affecting the system. The CalChamber has identified one such proposal, SB 626 (Beall; D-San Jose), as a “job killer” bill (see March 8 Alert) that unravels many of the employer cost-saving provisions in last year’s reform package (agreed to by labor unions and employers) and results in employers paying nearly $1 billion in benefit increases to injured workers without an expectation that the increases will be fully offset by system savings.

See Legislature Targets: Page 4
Can I require all new hires to show me their driver license?

Unless driving is an essential function of a job, an employer who requires employees to provide a driver license would likely be in violation of the state and federal disability discrimination laws.

In addition, requiring a driver license to show proof of employment eligibility could be an unfair immigration-related employment practice.

**Is Driving Required?**

An employer must evaluate each position carefully, and not just each job classification, to determine if driving really is required for a specific position.

When determining whether any function is essential, state and federal disability discrimination laws look to a specific position and not simply a classification or job title. Employees with the same job classification or title might nonetheless perform different essential functions, so driving may be an essential function for one person in a job classification, but not for another.

For example, a receptionist on a day shift might be required to drive several times a day to pick up packages from the post office, while a night shift receptionist’s duties likely would not include that driving function.

Furthermore, it is important to determine whether driving is the objective to be accomplished or an incidental means for accomplishing the true objective of the job. For example, a sales manager might need to work at two store locations each day, one in the morning and another in the afternoon. Although driving from one location to another might seem like an essential function, a manager who cannot drive due to a vision impairment could take a bus or taxi, or ride with another employee.

Although the cost of taking a taxi, or the additional time a bus ride might take could cause an expense for the employer, unless the cost causes an undue hardship, the employer must consider these methods of reasonable accommodation.

**Driver License for Form I-9**

Many employers regularly ask new hires for a driver license and Social Security card when completing the Form I-9 to verify employment eligibility. An employee, however, may choose which documents s/he wants to present from the extensive list of acceptable documents on the Form I-9.

If the employee chooses to present a document other than a driver license to show employment eligibility, the employer may not insist on seeing a driver license.

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8th World Chambers. International Chambers of Commerce World Chambers Federation. April 22–25, Doha, Qatar. (331) 495-3296.

Impact of Toyota, Japan-Affiliated Companies in Spotlight

Toyota executive James Lentz describes the economic and jobs impact of the automaker’s presence in the United States and California at the March 7 dinner gathering of the CalChamber Board of Directors, the day after being named to oversee all Toyota’s North America affiliates as senior managing officer of Toyota Motor Corporation, CEO North America Region, and president and COO of Toyota Motor North America.

Jun Niimi, consulate general of Japan, comments on the strong trade and investment ties between Japan and California at the CalChamber Board dinner. Top representatives of the Japan Business Association of Southern California also attended. Japan has remained California’s fourth largest export market since 2011 ($13.1 billion in 2012—8% of all state exports). Computers/electronic products accounted for 23% of total exports.

U.S. Agency Revises Form I-9 for Use in Verifying Eligibility to Work

The U.S. Citizenship and Immigration Services (USCIS) published a revised Form I-9 for use in verifying employment eligibility on March 8. All employers are required to complete a Form I-9 for each employee.

Revisions, Effective Dates

The USCIS stated that the revisions to the form include:
- A new field;
- Reformatting to reduce errors; and

According to the USCIS, effective March 8, 2013:
- Employers should begin using the newly revised Form I-9 (Rev. 03/08/13N) for all new hires and reverifications.
- Employers may continue to use previously accepted revisions (Rev. 02/02/09N and Rev. 08/07/09Y) until May 7, 2013.
- After May 7, 2013, employers must use only Form I-9 (Rev. 03/08/13N).

According to the USCIS, employers should not complete a new Form I-9 for current employees if a properly completed Form I-9 is already on file. HRCalifornia has been updated with the new form.

Spanish Version

A Spanish version of Form I-9 (Rev. 03/08/13N) is also available, and HRCalifornia is updated with the new form. The Spanish version is for use in Puerto Rico only. Spanish-speaking employers and employees in the 50 states, Washington, D.C., and other U.S. territories may use the Spanish version for reference, but must complete the English version of the form.

Handbook Updated

The USCIS has updated the Handbook for Employers: Guidance for Completing Form I-9 (M-274) to correspond to the new form. According to the USCIS, helpful new images have been added to illustrate how employees and employers can complete Sections 1–3 of the new form. The revised handbook is available at www.uscis.gov.

California Chamber of Commerce members can read more on recruiting and hiring, the I-9 form and verifying eligibility in HRCalifornia’s HR Library, which has been updated to reflect the recent changes.

Staff Contact: Gail Cecchettini Whaley

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Foundation Recommends Next Steps for Regulatory Reform

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Logical Next Step

SB 617 took the next logical and critical step, Kaye told the Assembly Accountability and Administrative Review Committee: to establish within an executive branch control agency the responsibility to not only systematize the analysis of economic impacts and regulatory alternatives, but to create a feedback loop to the agencies that both holds them accountable and improves regulatory outcomes.

SB 617 requires that agencies use “as a baseline” a regulatory analysis that is “the most cost-effective set of regulatory measures that are equally effective in achieving the purpose of the regulation in a manner that ensures full compliance with the authorizing statute.”

In other words, Kaye told the committee, “This isn’t an academic exercise. We need good analysis to inform our regulators and policy makers as to the most cost-effective regulatory approach that will meet the objectives of the law.”

Recommended Next Steps

Kaye recommended three next steps that the committee should consider:

● Add teeth to the alternatives analysis. Right now the law requires the state Department of Finance to develop methodologies to help agencies identify the most cost-effective alternative. Current law requires agencies to determine that no alternative considered by the agency would be more effective or less burdensome than the regulation proposed to be adopted. Legislation should close that loop by requiring agencies to demonstrate to the Finance Department that they have chosen the most cost-effective alternative that would meet the objectives of the statute and, if they did not, provide findings supported by substantial evidence in the record as to why they should not choose the most cost-effective alternative. OAL should be empowered to reject regulations if these steps are left undone.

● Use the analytical process to review existing regulations as it is standardized and road tested. The $50 million threshold for analyzing new major regulations is a fairly high bar; only the very top tier of regulatory proposals will be subjected to this analysis. This new capacity should therefore also be devoted in part to revisiting the economic impacts of existing regulations and determining if there is a more cost-effective regulatory approach to achieve the goals. Such an exercise could help inform the Legislature as to the efficacy of existing regulations in meeting the goals of the statutes, perhaps opening the door to legislative improvements.

● Have the Legislature begin its own institutional effort to examine the cost-effectiveness of proposed statutes. Congress has a long and fruitful history of using the Congressional Budget Office to determine economic and fiscal effects of federal legislation, and the Joint Committee on Taxation to examine the economic effects of tax proposals. Given that most of the economic impacts of public policies are attributable to the original legislation, the Legislature should create a deliberate, high-quality analytical capacity and process to ascertain the economic impacts of legislative proposals. Foreknowledge of serious economic impacts would be very helpful for the Legislature in mitigating unintended consequences of new laws, mandates and taxes. There is every reason for the Legislature to want to know these impacts before voting on these measures.

Contact: Loren Kaye

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‘Change of Ownership’

AB 188 drastically alters the definition of “change of ownership” under Proposition 13 by dictating that a “change of ownership” occurs whenever 100% of the ownership interests in the legal entity that owns the commercial property are sold within a three-year period, regardless of whether any person or entity actually obtains control through direct or indirect ownership of at least 50% of the voting stock or ownership interest in the entity owning the property.

This new definition that merely focuses on ownership rather than control will subject commercial property, especially property held by publicly traded corporations, to continuing reassessment that will at some point result in higher property taxes—the obvious intent of this legislation.

However, given that a reassessment could be triggered under this definition on a daily, weekly, or even monthly basis, the revenue gain anticipated by AB 188 is vastly overstated, as the market value of commercial property does not change within such a short time frame. AB 188 will provide a tool for harassing commercial property owners with constant reassessments, and an overwhelming workload for county assessors.

Detrimental Impacts

Ultimately, increasing property taxes for commercial property will have detrimental impacts on the general public, including small businesses, apartment residents, employees and consumers.

Any higher taxes imposed on companies that own commercial property likely will be passed on to tenants, including businesses and apartment renters, through higher rents. The increased costs could result in reduced employee benefits, workforce reductions, or even higher prices for consumers.

The proposed definition of “change of ownership” under AB 188 will trigger reporting requirements for multiple “owners” of these entities. Despite the percentage of ownership acquired, an individual or entity must report the change in ownership or face a penalty of up to 20% of the assessed fair market value of the commercial property.

A penalty for failure to file a statement is imposed even if the county assessor ultimately determines no “change of ownership” has occurred. This duplicative and onerous reporting requirement that AB 188 seeks to impose creates a potentially unfair monetary trap for a minority owner in a company who is unaware that a 100% change of ownership has even taken place within the previous three years.

The CalChamber will continue to add legislation to the “job killer” list as bills are amended or new language is introduced. For more information on past job killers, visit www.calchamber.com/jobkillers.

Staff Contact: Jennifer Barrera
Forecast: Modest Global Growth Ahead; State’s Economic Recovery Broadens

**Global/U.S. Review**

The global economy ended 2012 on a soft note, with growth in developing economies stagnating and many developing economies struggling to regain momentum. Much of this past year’s global economic slowdown stems from Europe’s continuing financial and economic crisis. Economic activity in the Eurozone contracted at a 2.4% annual rate during the fourth quarter.

Economic activity also contracted slightly in Japan, and the initial report for U.S. real gross domestic product (GDP) growth showed economic activity declining at a 0.1% annual rate.

Reports from China and emerging markets throughout Asia are somewhat more encouraging, however, and growth is holding up relatively well in Brazil and Mexico.

The latest Blue Chip Consensus forecast shows global economic growth is expected to improve modestly in 2013. Europe’s recession is expected to bottom out by midyear and growth is expected to strengthen in China and emerging economies throughout Asia. Growth in Brazil and Mexico is also expected to improve.

Slowing global economic growth weighed on the U.S. economy during 2012, reducing exports and cutting into overseas earnings at major multinational firms. The improved outlook for the global economy should allow the U.S. economy to regain momentum over the course of 2013.

The surprising 0.1 percentage point decline in fourth quarter 2012 real GDP growth looks like it will be revised away, as inventories did not decline as much as originally thought during the quarter and December’s trade figures were better than expected.

**Home Sales**

Home sales, housing prices and new home construction all improved considerably during 2012. Sales of new homes rose 19.9% to 367,000, while sales of existing homes, condominiums and townhomes rose 9.2% to 4.65 million homes. Home prices rebounded forcefully, with the National Association of Realtors median home price rising 6.3% on an annual average basis, ending the year with a whopping 10% year-over-year increase, based on a three-month moving average, in December.

Other price measures have also improved by varying amounts, with the Federal Housing Finance Agency (FHFA) price index climbing 3.4% in 2012 and the Case-Shiller index now on pace to rise 1% this year. Both indices are up much more on a year-over-year basis, with the FHFA price index up 5.6% through November and the Case-Shiller 10-city home price index up 4.5%.

New home prices also have improved, with the median price climbing 7.2% for the year as a whole. The rise in new home prices combined with a let-up in distressed transactions has bolstered builder confidence and opened the door to new development. Housing starts jumped 28.1% this past year, led by a 37.2% rise in multifamily past year, led by a 37.2% rise in multifamily starts, mostly apartments, and a 24.4% rise in single-family construction.

One of the critical questions about the housing outlook going into 2013 is how genuine has the improvement to date been? Some of the stabilization in home prices is undeniably tied to the influx of investors that have come in and purchased homes, many for cash.

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**Forecast:**

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Sources: U.S. Department of Commerce and Wells Fargo Securities, LLC

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Institutional investors have pushed this process into overdrive, as pension funds and private equity investors seek out higher returns. Many of these investor purchases have been clustered at the lower end of the market in parts of the country where housing was most overbuilt during the boom years, including Phoenix, Las Vegas, Atlanta and central and southern Florida.

The recent slide in distressed transactions also may be overstating the improvement in home prices. There has been a noticeable shift away from foreclosures and toward short sales following the National Mortgage Services settlement, which reset the timetable for foreclosures. Short sales tend to be completed at a smaller discount than foreclosures, creating less of a drag on prices.

Finally, the Federal Reserve is still purchasing $40 billion of mortgage-backed securities each month, which is keeping mortgage rates lower than they would be otherwise.

Low interest rates have also helped stabilize commercial real estate values and ignite a flurry of mergers and acquisitions. Mortgage refinancing activity has also remained strong, with millions of households able to significantly lower their monthly payments and strengthen their monthly cash flow and balance sheets.

There has been less fundamental improvement in commercial real estate, however. Operating fundamentals are excellent in the apartment market, improving in the industrial market, and stable at best in the office and retail markets.

There are some exceptions. Big global gateways cities like New York and Boston have held up well throughout the recovery, and demand for all types of real estate has been strong in major tech centers, such as Silicon Valley and San Francisco.

Spending, Investment

Consumer spending appears to be weathering the recent tax increases relatively well. Real personal consumption expenditures are on pace to rise at a 2% annual rate in the first quarter, although there have been some recent anecdotal reports that point to a slowdown in spending in February. The most likely culprits are higher Social Security taxes, delays in tax refunds and the recent spike in gasoline prices. Sales have also softened at the upper end, with department stores reporting slower sales in February.

Fortunately, the winter months are some of the slowest months of the year for retailers. The sting from higher taxes will likely taper off as the year progresses and gasoline prices will likely recede once refineries make the necessary changes to produce summer gasoline blends.

Business fixed investment finished the year on a strong note, with sales of tablet computers and smartphones paving the way. Businesses remain exceptionally cautious, however, and are unlikely to unleash a spending spree in 2013. Investment in equipment and software is expected to grow 5% to 8% this year, with the strongest growth occurring in the tech sector.

Commercial construction should also improve, with low rates leading to a handful of build-to-suit activity in the office market and rebounding international trade flows boosting construction of industrial space.

The broadening housing recovery is also good news for the industrial market, as demand for light manufacturing space from building subcontractors and distribution space for building materials suppliers increases.

The consensus view on the Economic Advisory Council is that real GDP will grow at between a 2% and 2.5% pace in 2013 on an annual average basis. The latest Blue Chip Economic Consensus puts real GDP growth at 1.9% for 2013. Fourth quarter to fourth quarter growth will be somewhat stronger given the weak base period, and the Economic Advisory Council sees growth at between 2.5% and 3%. The GDP data will be revised in early August and are expected to be revised up by around 0.3 percentage points going back to the end of the recession, indicating that the economy has not been on as perilous a footing as earlier believed.

California Economy Broadens

California’s economy broadened considerably in 2012, as continued strength in the state’s important technology sector has been joined by a revival in leisure and hospitality and retail trade. Homebuilding has also picked up, reflecting gains in home sales and surprisingly lean new and existing home inventories.

Even commercial construction is showing some signs of life, as strong demand from technology companies has boosted demand for office space in the Bay Area, and continued growth in
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international trade, life sciences, and the media and entertainment business continues to drive demand for office and industrial space in Southern California.

A broader economic expansion should prove more durable, but one caveat is that a larger proportion of new jobs are now being created in lower-paying industries. The preponderance of low-paying jobs may make it more difficult to reverse the long-running decline in California’s labor participation rate, as there are simply not enough high-paying jobs being created to draw workers back into the labor market.

One of the most encouraging aspects of California’s near-term economic outlook is the improved outlook for the state’s budget. The combination of the run up and resolution of the fiscal cliff and passage of Proposition 30 have produced a dramatic turnaround in California’s finances. With tax rates going up on the wealthy, there was a year-end rush to recognize income, which resulted in a surge in revenues in December.

The passage of Proposition 30 also improved the state’s financial outlook, although it raised concerns, most viscerally stated by professional golfer Phil Mickelson, that higher tax rates will chase businesses and higher-income households out of the state. There is little evidence of a mass exodus, but higher tax rates do introduce an element of volatility to the state’s revenues.

Given the improvement in California’s economy and new tax structure, we believe the state’s near-term budget projections are credible, which removes some of the uncertainty about the state’s economic outlook.

Housing Improvement

Housing is another area of considerable improvement. Home sales have increased, prices have risen, and the backlog of distressed properties has been reduced. The California Association of Realtors reports that sales of single-family homes rose 5.4% in 2012 to 525,120. Prices improved markedly, with the statewide median sales price rising 11.6% to $319,340 for the year.

There was a flurry of activity toward the end of the year, particularly at the upper end of the market where there was a rush to complete sales by the end of the year to avoid an expected increase in capital gains taxes. Sales of homes priced $500,000 and above rose nearly 42% on a December-to-December basis. The spike in sales of higher-priced homes sent median home prices for the month up 27% from their level a year ago. Values should slide back a bit during the early part of 2013.

The improvement in the housing market is evident in most other key metrics. The median number of days needed to sell a single-family home has fallen from 58.7 days a year ago to just 38.1 days today. Inventories of homes remain exceptionally lean. There is currently only a 2.6-month supply of single-family homes available statewide and just a 2.2-month supply of condominiums, compared to a 4.3-month and 4.7-month supply, respectively, one year ago. Supplies are tightest in the $300,000 to $750,000 range.

The improvement in the housing market is evident in most other key metrics. The median number of days needed to sell a single-family home has fallen from 58.7 days a year ago to just 38.1 days today. Inventories of homes remain exceptionally lean. There is currently only a 2.6-month supply of single-family homes available statewide and just a 2.2-month supply of condominiums, compared to a 4.3-month and 4.7-month supply, respectively, one year ago. Supplies are tightest in the $300,000 to $750,000 range.

By geography, the Bay Area and Silicon Valley in particular have the tightest supply of homes on the market. Supplies, however, have tightened throughout the state, falling from a 4.7-month supply a year ago to 2.4 months today in Los Angeles and from a 5.8-month supply in December 2011 to just 2.7 months today in Orange County. Improvement is also evident in the Central Valley but it is a bit more uneven. Fresno has seen its months’ supply fall from 4.1 months a year ago to 3.8 months today, while Sacramento has seen a much more dramatic plunge from 3.7 months one year ago to 1.6 months today.

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The sharp drop in existing home inventories is due to a variety of factors. The equity in a home typically provides a large proportion of funds needed for trade-up buyers and a large proportion of California homeowners are still in a negative equity or near-negative equity position.

The most recent data from CoreLogic shows that 28.3% of California home mortgages are currently in a negative equity position and another 4.5% are in a near-negative equity situation. Homeowners in such a situation are unlikely to put their current homes on the market, as they would likely face a greater financial challenge securing another home. Another factor driving inventories lower has been the influx of investors purchasing distressed properties throughout the state.

Cash Purchases of Homes

One way of quantifying investor purchases is to look at the proportion of homes purchased for cash. According to DataQuick, cash purchases accounted for a record 32.4% of California’s overall home sales last year, up from 30.4% in 2011. The proportion of homes purchased for cash in 2012 was more than double the annual average of 15.6% seen since 1991, when DataQuick first began compiling the data.

The firms also noted that investors and vacation-home buyers bought roughly 55% of all homes purchased with cash this past year. Moreover, multi-home buyers, those purchasing two or more properties, accounted for around 28% of last year’s sales, up from 24% the prior year. The influx of investor purchases may be exaggerating the extent of the improvement in the housing market, particularly in parts of the Central Valley.
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Private equity has become a major player in the single family market, particularly in severely overbuilt parts of the state. There also has been some genuine improvement, particularly in Northern California and bordering interior markets, which are beginning to see the return of the affordability migration that historically has driven residential development.

International Trade Improves

The final area showing improvement is international trade. The slowdown in global economic growth led to a reduction in traffic through the Port of Los Angeles, and Port of Long Beach slowed considerably during the second half of last year, with a reduction in exports responsible for much of the slowdown. Demand appears to be reviving in Asia and exports are expected to pick back up this year.

Import volumes should also improve, as the U.S. economy broadens and gains momentum. Growth in international trade has been a key driver in the industrial market in Los Angeles and the Inland Empire. The industrial market has tightened considerably over the past year, leading to an increase in construction of industrial space.

State Labor Market

California’s labor market gained solid momentum in 2012, even though nonfarm employment suffered a bit of a setback in December. California posted the second largest gain in new jobs in the country this past year, with nonfarm employment rising by 225,900 jobs. The unemployment rate fell 1.4 percentage points, compared to a 0.7 percentage point drop nationwide.

While growth is still solid on a year-to-year basis, nonfarm payrolls fell by 17,500 in December, which was the largest decline in the nation.

December’s drop is not as worrisome as it appears on the surface. State employment figures, even for exceptionally large states like California, tend to bounce around quite a bit due to the smaller sample size for both the employment and unemployment data. The longer-run trend in both series remains extremely positive, with job growth growing faster than the nation as a whole and the unemployment rate falling twice as fast as the country during the past year.

Another caveat to watch for in the employment data is that we are nearing the annual revisions, where the survey data is benchmarked to employment data from the Quarterly Census of Employment and Wages. The revised data for California was reported on March 8. Revisions often are quite large during the earlier stages of a recovery, particularly in trade, transportation and professional services, which are sectors where many new businesses are created.

These two areas were precisely where we saw the most significant pullbacks in December. Both areas have seen solid gains over the past year, with employment rising by 51,500 in trade, transportation and utilities, and by 49,500 in professional services.

Bolstered by a strengthening housing market, construction added 4,100 new jobs in December and 26,400 jobs over the past year. We expect homebuilding to maintain its momentum in 2013, which should lead to even stronger gains in construction payrolls and stronger job growth in general. Hiring in leisure and hospitality fell slightly in December but remains up solidly over the past year, adding more than 60,000 jobs.

Other notable areas of strength include the information sector, where employment has surged 4.7%, and education and health care, where hiring has increased 3.1%. After falling 0.3 percentage points the previous month, the unemployment rate remained unchanged at 9.8% in December.

Although the jobless rate was unchanged, both the civilian labor force and household measure of employment increased solidly during the month. Employment rose 0.4% during December and is up 1.5% over the past year. The civilian labor force rose by a nearly equal amount in December, continuing its recent strengthening trend.

The revival in California’s labor market appears to be drawing job seekers back into the labor market, which may make it a little harder to reduce the unemployment rate in 2013.

While the state is seeing stronger and more broadly based job growth, the improvement is most apparent along the coast. Conditions soften considerably the further inland. Virtually all the state’s metropolitan areas posted at least modest gains over the past year.

San Jose is a clear outlier in terms of job growth, with private-sector payrolls rising 3.6% over the past year. Naturally, those gains have been led by the information sector, where employment surged 9%, and professional and business

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services, where hiring is up 4%. The growth in the tech sector has also fueled gains in other areas, most notably construction, retailing, education and health care.

But, even much of this growth is likely tied to the tech sector. The broadening is more evident in other areas that have improved, most notably the job growth along the Central Coast and in Southern California, where the tech sector is less prevalent.

Until recently, the Bay Area metro areas all stood apart from most other areas of California and were the only parts of the state registering consistent, strong job growth. San Francisco and Oakland are still near the top, but the state’s other large metro areas are closing the gap.

Hiring in Los Angeles and San Diego has improved steadily, as more key areas of their economies have revived. Gains are not evident across the board. Job growth in the Inland Empire is clearly lagging behind, and Orange County also has seen less improvement.

Hiring in Los Angeles has been fueled by gains in retail trade and business/professional services. The financial sector has also turned the corner, but manufacturing remains sluggish and international trade has cooled a bit.

The media and entertainment business has been one of the stronger areas in greater Los Angeles recently, with motion picture and recording studios having a relatively good year. Travel and leisure also have improved, and homebuilding has started to recover, with most of the gains in the apartment sector.

The rebound in travel and leisure has been even more important to San Diego, where overall employment has risen 1.6% over the past year and private-sector payrolls are up 1.9%. The leisure and hospitality sector has added 2,800 jobs over the past year, accounting for approximately 14% of the increase. We suspect that San Diego’s job gains are slightly understated, given the recent expansion announcements in mobile telecommunications R&I and life sciences.

California’s unemployment rate fell 1.4 percentage points in 2012, ending the year at 9.8%. The improvement stems from stronger job growth and a continued drop in the state’s labor force participation rate.

California’s labor force participation rate has fallen well below the nation’s, indicating that the improvement in the state’s labor market has not been enough to draw workers back into the labor market. The drop in the labor force participation rate has coincided with a large increase in disability claims. Workers collecting disability payments likely face an even higher wage threshold to re-enter the workforce.

On a brighter note, higher education enrollment also has increased dramatically during this period, which should eventually bring more skilled workers into the labor market.

Tourism Improved

California’s tourist trade improved considerably this past year. Hotel occupancy rose 2.4 percentage points to 68.8% for all of 2012, and the average daily room rate increased 5.8% to $123.23. Revenue per available room (RevPAR) rose a solid 9.6%. The Bay Area posted the strongest increases, while the Central Coast and San Diego lagged a bit. Occupancy and RevPAR were up solidly in Los Angeles but less so in Orange County.

California airport passenger traffic rose 4.6% in 2012, according to the most recent data, which is from November 2012. Domestic travel accounted for the majority of California’s increase in traffic, rising by nearly 6 million passengers year-to-date in November. International travelers increased by approximately 1 million. Oakland and San Francisco saw the largest overall gains in passenger traffic, rising 9.2% and 11.3% respectively. These increases are in line with survey data from December 2012, which revealed that 39.6% of U.S. travelers intended to travel to California in the next 12 months, a 3.5 percentage point increase over December 2011.

Employment in the leisure and hospitality sector rose solidly in 2012, with overall payrolls climbing 3.1% to 1.5% or by 35,625 jobs. The bulk of that increase was at restaurants, with limited-service operations leading the way.

Hotels are also clearly adding to payrolls, with employment climbing 5% this past year, producing a net gain of 10,000 jobs. Amusement attractions also boosted hiring this past year, adding close to 4,700 new jobs, marking a 12.9% increase. Part of that growth likely reflects Disney’s $1 billion upgrade of its California Adventure attraction, which includes the popular Cars Land, which opened this past summer.

Another Strong Year for Ag

Overall, the California agriculture industry experienced another strong and profitable year in 2012, though some sectors still struggled. This has led to guarded optimism for 2013.
Modest Global Growth Ahead; State’s Economic Recovery Broadens

From Previous Page

Dairy
Milk prices are slowly stabilizing after several challenges in 2012, including severe temperatures and high feed costs that impaired production conditions. Many operators, especially those without their own feed crop production and/or other crop diversification, suffered notable losses in 2012. Dairy herds in California were already being culled, before feed costs skyrocketed with the Midwest drought. Hay prices have fallen only modestly. Overall margins are expected to improve in the latter half of 2013, as the U.S. herd is reduced, assuming exports and domestic demand remain strong and feed crop conditions improve worldwide.

Other Livestock
Poultry producers have reduced production and continue to be negatively affected by the high feed costs. Beef prices declined from their highs in 2012 as stockers were sent to feedlots earlier than in past years. Cattle prices are expected to rise to record levels this year, as the herd is reduced and the fed cattle pipeline is cleared. Grazing conditions improved with early rains this season. If feed conditions do not improve in the United States, livestock operators will find it necessary to reduce production levels.

Fruits, Nuts and Vegetables
Vegetable prices improved in summer 2012 as producers reduced plantings in response to poor prices during the first half of the year, and reduced production in the Midwest and East due to the drought. Fruit prices were stronger this past year, benefitting producers who did not suffer significantly from the hail and freezing conditions last spring.

Despite slowing economies locally and abroad, nut sales are expected to remain strong in 2013, due in part to robust exports. The 2012 almond harvest went extremely smooth with a good quality crop. The only drawback was high heat in September, which lowered production estimates from 2.1 billion pounds to 1.8-1.9 billion due to moisture loss. The 2012 pistachio crop is expected to be the largest in history, despite some downdrags in estimates.

The cold temperatures this winter have been good for most trees, but citrus producers are struggling with freezing temperatures. It is likely that crops will have similar damage levels as last year.

Wine and Wine Grapes
California wine grape growers will benefit from much higher prices this year, as wine sales improve and yields appear good during 2012. The weather problems in the wine grape crops on the coast in 2010 and 2011 have sharply reduced inventories. Plantings of new vineyards in California continue to increase.

Wineries report significant reductions in finished inventories, though consumers are resisting a full return to the higher retail prices wineries enjoyed before the recession.

Field Crops
Hay and cotton producers are enjoying solid prices above historical averages, although not as high as in 2011. Corn and other grain crops will do very well this year due to the continuing severe drought conditions across the Midwest.

Weather and Water
Temperatures finally moderated late last fall, providing relief to people and livestock. Harvest conditions were ideal, absent of any significant rains. Most reservoirs are at historical averages or better, despite the poor precipitation levels early last year. This is good news going into 2013, in case weather conditions prove to be dry again.

Labor
Many producers reported limited shortages of labor in California. Fruit and vegetable producers are apprehensive about future labor availability due to the improving economy in Mexico and possible federal regulatory changes requiring stricter worker documentation.

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 Mark Vitner, managing director and senior economist at Wells Fargo Securities, LLC, who prepared this report.

Publication of this report is a project of the California Foundation for Commerce and Education.
CalChamber Board Reviews Proposition 13 Impact, Race for L.A. Mayor

Joel Fox (left), Joel Fox Consulting, president, Small Business Action Committee; and Michael Shires, Ph.D., associate professor at Pepperdine University, explain at the CalChamber Board of Directors meeting on March 8 how Proposition 13, the property tax limitation initiative approved by California voters 35 years ago, has stabilized property tax collections while helping homeowners stay in their homes and keeping property tax increases in check for small businesses.

Asia Society Executive Shares Expertise at CalChamber International Breakfast Forum

Dr. N. Bruce Pickering, executive director of the Asia Society, Northern California, gives a sweeping overview of Asian history and how it affects trade relations of Asian economies with the United States and California at an international breakfast presented by the CalChamber Council for International Trade (CCIT) on March 8. From left are CalChamber Chair Fritz Hitchcock, Hitchcock Automotive Resources; Pickering; CCIT Chair Susan Corrales-Diaz, Systems Integrated; and CCIT Vice Chair Mark Jansen, Blue Diamond Growers.

Small Business Advocate Nominations Due April 15

The California Chamber of Commerce is seeking nominations for its Small Business Advocate of the Year Award.

The application should include information regarding how the nominee has significantly contributed as an outstanding advocate for small business and identify specific issues the nominee has worked on or advocated during the year.

Award nominations are due to the CalChamber Local Chamber Department by April 15. The nomination form is available on the CalChamber website at www.calchamber.com/smallbusiness or may be requested from the Local Chamber Department at (916) 444-6670.

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