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CalChamber

ALERT

Kaiser Foundation Executive to Chair Board in 2024


Janet A. Liang

Janet A. Liang, executive vice president, group president and chief operating officer (COO), care delivery, for Kaiser Foundation Health Plan, Inc. and Hospitals, has been elected as 2024 chair of the California Chamber of Commerce Board of Directors.

"It is an honor to serve in this important role as I work alongside the CalChamber Board and staff in advocating on behalf of California businesses and employers," said Liang.

"As a leader for one of the state's largest employers in the health care sector, I am reminded every day of the connection between the economic health of our communities and the well-being of the people who live in them. I am looking forward to leading critical discussions to promote a healthy business climate and jobs in California."

Serving with Liang as 2024 officers of the CalChamber Board are:

• **First Vice Chair Maryam S. Brown**, president, Southern California Gas Company.

• **Second Vice Chair John A. Stowell**, senior vice president, The Walt Disney Company.

• **Third Vice Chair Frank Washington**, CEO, Crossings TV.

See Kaiser Foundation: Page 4

State Budget Deficits Tagged at $68 Billion; Revenue Estimate May Worsen Next Year

California's famously volatile tax machine has delivered another dose of unpredictability.

According to the nonpartisan Legislative Analyst's Office (LAO), the state suffered a $26 billion revenue shortfall in the last fiscal year and faces a cumulative three-year shortfall of $58 billion through the 2024–25 fiscal year. These revenue shortfalls, combined with programmed spending obligations, may create annual budget deficits for a three-year period totaling $68 billion.

The income tax deadline for last year was postponed for most California taxpayers, leaving state leaders in the dark about revenue trends during a period of economic uncertainty.

Decline in Tax Collections

After payments were finally counted last month, tax officials revealed that income tax collections fell by a whopping 25% from the previous year.

According to the LAO experts, "This decline is similar to those seen during the Great Recession and dot-com bust."

Analysts attributed the downturn, which began in 2022, to the headwinds created by the Fed's relentless hikes

See California Budget: Page 7

CalChamber Supports Prop. 1 to Finance More Housing to Address Mental Health, Homelessness Crises

The California Chamber of Commerce Board of Directors has voted to endorse Proposition 1, a key element of Governor Gavin Newsom's response to the state's mental health and homelessness crises.

If approved by voters next March, Proposition 1 will authorize $6.38 billion in general obligation bonds to finance, among other things, more treatment beds and supportive housing units for Californians with severe behavioral health challenges and substance use disorders.

Interrelated Social Crises

In announcing the Board's decision on December 8, CalChamber President and CEO Jennifer Barrera said the measure will help address the mental health and homelessness crisis in the state.

"California employers are on the front lines of our state's homelessness crisis and many have been challenged with safety issues for both their work-

See CalChamber Supports: Page 8

Inside

Labor Law Corner

Use Caution When Granting Family Leave Before Employee Is Eligible

Ellen S. Savage
Employment Law Expert

My employee wants to take 12 weeks off for child bonding, but he has worked for us for only 11 months so he's not eligible for protected family leave time yet. Is there anything I need to be concerned about if we go ahead and grant his child bonding family leave time early?

Employees generally become eligible to take 12 weeks of job-protected child bonding time once they reach their one-year anniversary and have worked at least 1,250 hours in the previous 12 months. These laws apply to employers with 50 or more employees under the federal Family and Medical Leave Act (FMLA) and employers of 5 or more under the California Family Rights Act (CFRA).

An employer who allows an employee to start child bonding time prior to their one-year anniversary should be aware that the time taken before the anniversary date will *not* count toward the 12-week job-protected entitlement.

This means that as of your employee's one-year anniversary, assuming he also meets the 1,250 hours worked requirement on his one-year anniversary, his job will be protected for an additional 12 weeks, despite the employee having been gone already for 4 weeks.

Note that this means your new employee will actually be able to take a total of 16 weeks, which is more time off than the law allows for other long-term employees.

FMLA Regulations

The FMLA regulations are clear that only the time *after* the employee's one-year anniversary would count toward the 12 weeks of job-protected leave.

"An employee may be on non-FMLA leave at the time he or she meets the 12-month eligibility requirement, and in that event, any portion of the leave taken for an FMLA-qualifying reason after the employee meets the eligibility requirement would be FMLA leave." (Code of Federal Regulations, Title 29, Section 825.110 (d)).

The preamble to the FMLA regulations addresses the seeming unfairness of a rule that doesn't count the time granted by a generous employer before the one-year mark as family leave. It says that while "this would result in newly hired employees being treated more favorably than long-term employees" this is in fact "not the result of the FMLA, but rather would result from the employer's own policies" of choosing to grant leave before an employee meets the eligibility requirements. (67942 Federal Register, Vol. 73, No. 222, Monday, November 17, 2008)

In other words, the preamble says the FMLA regulations themselves are fair to everyone, and the employer is the one choosing to give more of a benefit to the new employee. The preamble goes on to say that an employer who feels this is unfair "could similarly voluntarily allow a more senior employee … to extend a leave beyond the legally required 12 weeks."

CFRA Regulations

The CFRA regulations do not address this issue in as much detail as do the FMLA regulations. However, the CFRA regulations do say: "The employer should designate the portion of the leave in which the employee has met the 12-month requirement as CFRA leave." (California Code of Regulations, Title 2, Section 11087(g)(3)(B)) In addition, where a California family leave issue is not addressed directly by the CFRA regulations, California employers are to follow the FMLA rules. (California Code of Regulations, Title 2, Section 11096)

Therefore, the time taken before the one-year anniversary would likely not be counted as CFRA either.

Column based on questions asked by callers on the Labor Law Helpline, a service to California Chamber of Commerce preferred members and

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CalChamber-Sponsored Seminars/Trade Shows

More information at www.calchamber.com/events.

Labor and Employment

2024 Employment Law Updates. CalChamber. January 5, 2024; January 9, 2024 (9 a.m.–12:30 p.m.) and (1 p.m.–4:30 p.m.), Online; January 11, 2024, Santa Clara; January 18, 2024, Costa Mesa; January 23, 2024, Online. (800) 331-8877.

International Trade

11th U.S.-Japan Hi-Tech Industrialization Forum. National Institute of Informatics and VisionX Foundation. December 18, San Jose (Qbay Center) and Online.

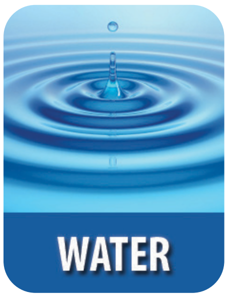
Arab Health. Governor's Office of Business and Economic Development (GO-Biz). January 29–February 1,

See CalChamber-Sponsored: Page 7

Next Alert: January 12, 2024

Delta Conveyance Project: CalChamber, Multiple Groups Voice Support

Project Essential to Protect State Water Supply for Two-Thirds of Californians



A project critical to protecting the water supply for millions of Californians reached a major milestone on December 8 when the state Department of Water Resources (DWR) released the final environmental report on the Governor's Delta Conveyance Project.

Voicing support for the project following the release of the final Environmental Impact Report (EIR) were the California Chamber of Commerce and other organizations representing thousands of business and labor groups, water agencies, family farmers and others.

"Today's release of the final environmental document is an important step forward in advancing this critical plan to protect California's water supply," said CalChamber President and CEO Jennifer Barrera. "California's economy relies on the success of its private sector businesses and agricultural operations which are dependent on stable, reliable water supplies. Improving California's water system and its infrastructure through the Delta Conveyance Project is urgently needed and we appreciate the Governor's leadership on this project."

This week, social justice advocates joined the coalition in signing a letter to Governor Gavin Newsom expressing support for the Delta Conveyance Project as completing an "all of the above" water security strategy.

Aging Infrastructure

A DWR fact sheet outlines the benefits of the Delta Conveyance Project to California's water supply system. According to DWR, predictions are that hotter temperatures will cause the state to lose 10% of its water supply by 2040 and the decades-old State Water Project was not built to withstand the intense swings between droughts and floods.

The system relies on aging levees in the Sacramento-San Joaquin Delta. Concerns of a catastrophic levee failure are high, considering U.S. Geological Survey projections that there is a 72% chance of a 6.7 or greater magnitude earthquake occurring in the San Francisco Bay Area by 2043.

If the Delta Conveyance Project had been in place during the January storms, it could have captured enough water to supply the annual needs of 2.3 million people, according to DWR.

Lengthy Process

Release of the final EIR was the last step of a long state regulatory process, including different drafts and revisions to the project.

Among the nine project alternatives reviewed in the EIR was no project option.

The conveyance option highlighted in the DWR fact sheet shows a single below-ground tunnel about 45 miles long extending from the North Delta to the existing Bethany Reservoir on the California Aqueduct.

The project still is subject to a federal environmental review and must secure state and federal permits, a process that is expected to take until 2026.

Californians for Water Security

Californians for Water Security is a growing coalition of more than 12,000 California citizens and more than 80 organizations, including the CalChamber, representing business leaders, labor, family farmers, local governments, water experts, infrastructure groups, taxpayer associations, and others who support the plan to fix California's broken water distribution system.

The coalition is waging an active advertising, grassroots lobbying, social media and public advocacy campaign to support this important project to fix the state's aging water distribution infrastructure and improve water reliability and security throughout the state.

For more information on Californians for Water Security, visit ***www.watersecurityca.com***.

Staff Contact: Brenda Bass

Kaiser Foundation Executive to Chair CalChamber Board in 2024

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Janet Liang

Janet Liang is executive vice president, group president of California, and COO of national care delivery operations for Kaiser Foundation Health Plan, Inc. and Hospitals.

Throughout her career, Liang has championed the adoption of new technologies and evidence-based practice to improve the lives of members. Her 30-year career has included numerous president and executive roles in Hawaii and Washington for Group Health Cooperative.

A native San Franciscan, Liang is an active community steward who has served on numerous community boards supporting socioeconomic advancement and Kaiser Permanente's efforts to close disparities in care among underserved populations. She serves on the executive committee of the Bay Area Council and is chair of the American Hospital Association's Institute for Diversity and Health Equity.

Liang is a founding board member of Futuro Health, an organization dedicated to growing the largest network of credentialed allied health care workers in the nation. Liang is also a board director at Lincoln Financial Group.

In 2022, Liang was named one of the Top 25 Women Leaders in Health Care by *Modern Healthcare* magazine. Liang has also been recognized as a Game Changer by the Silicon Valley Leadership Group and repeatedly honored by the *San Francisco Business Times* as one of the most influential women in Bay Area business.

Liang holds a bachelor's degree in political science from Boston University and a master's in health administration from the University of Washington.

2024 Officers of CalChamber Board of Directors

Maryam S. Brown

John A. Stowell

Frank Washington

2024 At-Large Members of CalChamber Executive Committee

Jennifer Haley

Fiona Hutton

Seth Oster

Executive Committee

The CalChamber Board also approved three directors as at-large members of the CalChamber Executive Committee:

- **Jennifer Haley**, president and CEO, Kern Energy;
- **Fiona Hutton**, founder and CEO, Fiona Hutton & Associates;
- **Seth Oster**, chief corporate affairs officer, The Wonderful Company.

In addition to the at-large members and current officers, the Executive Committee includes three past chairs of the CalChamber Board: **Gregory S. Bielli**, president and CEO, Tejon Ranch Company; **Kailesh Karavadra**, partner for Ernst & Young LLP; and **Donna L. Lucas**, CEO and founder, Lucas Public Affairs.

The Executive Committee works with top CalChamber management to determine policy, financial and program direction, including, when necessary, providing policy guidance between the regular quarterly meetings of the CalChamber Board.

Staff Contact: Nicole Wasylkiw

Strong EU-California Relations Help Strengthen Both Economies

California is the farthest state away from Europe geographically, yet the closest in terms of values, a European Union (EU) representative told a California Chamber of Commerce breakfast gathering last week.

The speaker at the December 8 breakfast of the CalChamber Council for International Trade (CCIT) was Gerard de Graaf, Head of the EU Office in San Francisco and senior envoy for digital to the U.S.

de Graaf was among the 15 San Francisco area diplomatic representatives of California's top trading partners who joined the CalChamber Board of Directors for dinner on Thursday, December 7. Also represented at the dinner were Canada, Japan, Taiwan, Germany, India, Singapore, the United Kingdom, France, Ireland, Italy, Switzerland, Spain, Chile and Ukraine.

(From left) Jennifer Haley, Kern Energy, outgoing chair, CalChamber Council for International Trade; Gerard de Graaf, Head of the EU Office in San Francisco; Sima Patel, Ridgemont Hospitality, incoming chair, CCIT; Susanne T. Stirling, CalChamber.

Breakfast Remarks

de Graaf, who has worked more than 30 years in the European Commission across a wide range of policy areas, told his breakfast audience that he can't remember a time when there wasn't a crisis in the EU. But today, it's as if Europe has "pulled 10 short straws."

The multiple current crises, he commented, include the Russia-Ukraine war, the serious economic situation and high inflation, climate change, energy dependency and costs to consumers, loss of biodiversity, the spread of disinformation and challenges to democracy, health/recovery from the COVID pandemic, and high immigration flows into the EU.

As a result of the multiple crises it faces, Europe has never been more united, de Graaf declared. Although the situation in Europe is challenging, he said, "it's not a mess…Europe is rising to the occasion."

European Response

He provided positive examples of how Europe is dealing with the multiple crises. The Pew Research Center found in its latest survey that 66% of Europeans approve of what the EU is doing.

The EU did relatively well in handling the pandemic, he said.

Moreover, when it comes to energy, the statistics show how far Europe has come from just a year ago, when some 45% of European total gas imports came from Russia, before the Russia-Ukraine war precipitated an energy crisis.

Residents responded to requests to lower their thermostats, yielding energy savings of 20%, with the Eiffel Tower going dark as the most visible example of the community effort. In just three months, a supply of U.S. liquid natural gas was provided via floating energy installations on boats coming to Germany and elsewhere in Europe.

Moreover, there has been an "explosion" in renewable energy, both solar and wind. Renewables now account for 22% of the EU energy mix — including 42% of electricity generation (more than 70% in five EU countries). Energy from solar sources has doubled since 2018 and will triple in the next four years.

People see that the EU is not avoiding these difficult problems and appreciate the government's determination to take the bull by the horns, de Graaf observed.

Technology is another strong area, he noted, citing that some 150 EU "unicorn" startup companies have been created in the last two years alone. "There is a wind of change in Europe," he said. "Europe is on the move."

Staff Contact: Susanne T. Stirling

Gerard de Graaf, Head of the EU Office in San Francisco

POLITICO Expert Outlines Multiple Scenarios for 2024 Elections

Jonathan Martin, politics bureau chief and senior political columnist, POLITICO, entertains the audience at the CalChamber Board of Directors dinner on December 7 with anecdotes from his coverage of national political figures and presidential election politics. He says the 2024 presidential election is going to be unlike any we've experienced in modern history and will be a test for democracy. His wide-ranging remarks touch on whether a third party candidate might emerge, as well as explaining how former President Donald Trump's standing as the front runner for the Republican Party nomination affects Democratic Party politics and protects President Joe Biden from criticism from Democratic stalwarts. Martin is the author of the book *This Will Not Pass: Trump, Biden and the Battle for America's Future*.

CalChamber Board Weighs Challenges in Age of Artificial Intelligence

Jonathan Brill, business futurist and transformation architect, describes for the CalChamber Board of Directors on December 8 his study of the "science of luck" —business decision making in times of uncertainty. He explains how artificial intelligence technology can help companies prepare for the "trillion-dollar opportunities" to be found amid the volatility in areas such as labor scarcity, geopolitics, climate change, energy, food security and health care. Brill is the author of *Rogue Waves: Future-Proof Your Business to Survive and Profit from Change*.

Congressman Adam Schiff Meets with CalChamber Board

Congressman Adam Schiff (D-Burbank), 12-term representative of the 30th District in the U.S. House of Representatives, gives a recap of his background for the CalChamber Board of Directors on December 8. Schiff, a candidate for U.S. Senate, describes how, if elected, he will work to make the federal government a better partner in addressing quality of life issues and providing businesses with answers in "a responsible period of time," commenting that "a quick 'no' is better than a long, lingering 'maybe.'"

California Budget Deficits Tagged at $68 Billion; May Worsen Next Year

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in interest rates, which has increased borrowing costs and cooled the real estate market, and a moribund stock market, which dampened capital gains.

According to the LAO, the number of California companies that went public in 2022 and 2023 is down more than 80% from 2021. California's enormous fiscal dependence on upper-income taxpayers means that any reversal of trends in asset transactions will have a disproportionate impact on the state budget.

These trends have also contributed to a slight worsening of the state's employment picture, which adds to the income tax shortfall. Budget analysts also raised red flags on taxable sales, revealing that sales tax collections have been essentially flat, despite inflation-fueled growth in consumer prices.

These economic red flags and revenue shortfalls have occurred even as the economy has not fallen into recession. LAO experts believe "there is a significant risk the current weakness could continue into next year." They further warn that their estimate is subject to substantial uncertainty, with a possibility that revenues next year could fall another $30 billion below these estimates.

Planning for Next Year

The Newsom administration is deeply involved in preparing next year's state budget proposal, and legislative budget committee staff are undoubtedly exploring options to present to legislative leaders.

The Governor's insistence over the past couple of years on directing revenues to reserves and one-time spending programs will somewhat reduce fiscal pressures, and some of the one-time spending may be simply eliminated or delayed. But if the trends identified by the LAO persist through next year, fights over spending priorities and tax increases will take center stage.

Contact: Loren Kaye

CalChamber-Sponsored Seminars/Trade Shows

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2024. *patricia.utterback@gobiz.ca.gov*.

California Pavilion at the Singapore Airshow. GO-Biz. February 20–25, 2024, Singapore. (916) 447-7946.

Journey to Panama. San Diego Diplomacy Council. April 1–5, 2024, Panama. (619) 291-8105.

Hannover Messe: California Pavilion. GO-Biz. April 22–26, 2024, Hannover, Germany. *patricia.utterback@gobiz.ca.gov*.

Annual Export Conference. National Association of District Export Councils. May 13–14, Washington, D.C.

Trade Winds – Europe. GO-Biz and U.S. Commercial Service. May 13–15, 2024 Istanbul, Turkey. Optional: May 9–10, 2024, Denmark or Romania; May 16–17, 2024, Poland or Italy. Register interest. *patricia.utterback@gobiz.ca.gov*.

Farnborough International Air Show: California Pavilion. GO-Biz. July 18–22, 2024, Farnborough, United Kingdom. *patricia.utterback@gobiz.ca.gov*.

Federal Framework, Not Patchwork of State Rules, Best Way to Foster AI Potential

The California Chamber of Commerce has joined the U.S. Chamber and a large coalition of chambers of commerce across the country to promote a federal framework on artificial intelligence (AI) development and adoption.

AI technologies, especially those with generative capabilities, have recently entered the public consciousness and have brought a new age of possibility for businesses and workers, with the potential to solve some of society's most pressing challenges.

Letter to Leaders

In an open letter to state leaders, the coalition pointed out that although AI is developing quickly, a patchwork of state-level proposals to regulate artificial intelligence could slow realization of its benefits and stifle innovation by making compliance complex and onerous, especially for small businesses that stand to benefit the most from the productivity boosts associated with AI.

A federal framework, the coalition stated, is the best option to provide American businesses with the certainty they need to invest in AI development and adoption.

"While there are roles for states to promote adoption of AI within schools, businesses, and government entities, the federal government should take the lead in developing a comprehensive framework for regulating AI," the coalition said.

Ways States Can Help

The coalition also urged state leaders to embrace the benefits of AI for their states, and to study whether legal gaps exist before pushing for new regulatory frameworks. States should assess existing laws to identify those that already protect consumers from harm and that work as well for AI as for other technologies.

States also should identify AI use cases that can make government more efficient and improve service delivery and constituent engagement.

Finally, the coalition said, states should consider how to strengthen support for computer science education and digital skilling initiatives to ensure that U.S. businesses can attract employees prepared to use AI technologies to improve their professional experience and increase their productivity.

"Artificial Intelligence presents an opportunity for U.S. businesses to continue to lead the world in innovation, opportunity, and economic development in a way that will be critical for America's future. It is vital that governments at all levels set policies that will inspire leadership and unleash the full potential that AI offers," the coalition stressed.

Staff Contact: Ronak Daylami

CalChamber Supports Prop. 1 to Address Mental Health, Homelessness

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ers and customers," she said. "Today, the CalChamber Board voted to support Proposition 1 because it provides an effective and ambitious plan that addresses three interrelated social crises: homelessness, untreated serious mental illness, and drug abuse in our state.

"Importantly, the measure includes accountability metrics that will ensure funds are spent in the most effective ways possible so that services that are foundational for treatment are successful."

In addition to support from the business community, Proposition 1 has been endorsed by health care entities and cities.

Proposition 1

Proposition 1 has two major components related to providing mental health care and drug/alcohol treatment to people, and addressing homelessness.

The proposition:

• Changes the Mental Health Services Act (MHSA) that was passed by voters in 2004 to require that counties spend more of their MHSA money on housing and personalized support services like employment assistance and education.

• Approves a $6.4 billion bond to build (1) more places for mental health care and drug or alcohol treatment and (2) more housing for people with mental health, drug, or alcohol challenges.

The state Legislative Analyst's Office (LAO) estimates the cost to repay the bond would be about $310 million annually over a 30-year period. Proposition 1 uses bond funds to give up to $4.4 billion to the state program that builds more places for mental health care and drug or alcohol treatment. The types of places that would be built with bond funds would depend on future decisions by the state.

The proposition also requires that at least $1.5 billion of the $4.4 billion go to local governments and tribes.

Another $2 billion would go to the state program that grants money to local governments to turn hotels, motels, and other buildings into housing and construct new housing. Local governments would get either grants or loans from the state.

The housing added by the measure would be for people who are (1) experiencing homelessness or at risk of becoming homeless and (2) have mental health, drug, or alcohol challenges.

Just over half of the $2 billion would be set aside for veterans.

For more information on Proposition 1, click here.

Consumer Spending, Labor Market Cool; Inflation Pattern Seems Similar to 1970s

Return Drivers in S&P 500

AI excitement has affected performance and valuation. The 7 Tech Titans have produced an average return of 88% in 2023 as investors chase the AI theme. In contrast, the remaining Standard & Poor's (S&P) 493 stocks have produced a modified market cap-weighted return of only 1%.

The 7 Tech Titans trade at an average next 12-month price-to-earnings (P/E) multiple of 32.0x, which represents a large premium to the median P/E multiple of 16.3x for the S&P 493. For context, the S&P 500 traded at a median P/E multiple of 15.4x over the past 15 years' returns.

10-Year Treasury Yields Rise Fast, Spooking Markets

The seven-year yield rose 0.64% during the 3rd quarter, while the 10-year and 30-year yields both rose by more than 0.75%. The sharp rise in yields was a big development during the quarter. Excluding the pandemic, the last two times the 10-year yield rose by more than 0.75% in a three-month period were in 2013 and 2016.

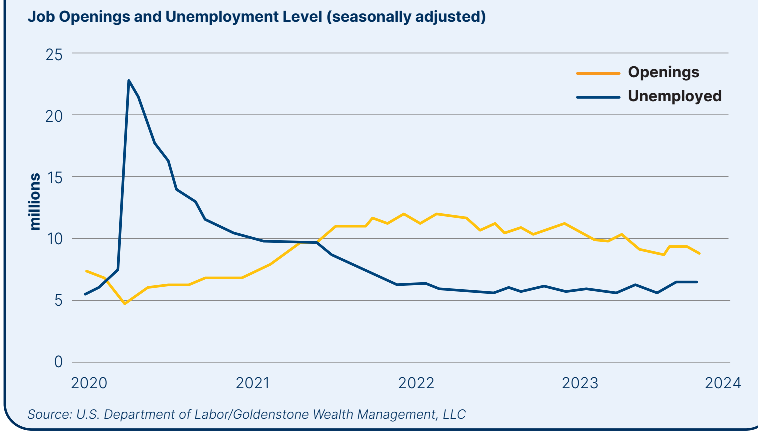
One contributing factor was the surge in oil prices and subsequent increase in inflation. While the economy remained stronger than expected and oil prices rose, there is a growing realization that the Federal Reserve may need to keep interest rates higher for longer to prevent inflation from becoming entrenched.

Another contributing factor was the increased issuance of Treasury bonds. Treasury bond issuance is forecast to increase in the coming quarters, and investors are concerned that the surge in supply will outpace investor demand and cause bond prices to decline.

Higher Borrowing Costs Affecting Consumers, Businesses

The rise in borrowing costs represents a significant change from the past decade, when interest rates were much lower. New borrowers face higher monthly payments, which changes the math behind how much they can afford.

Labor Market Cooling Off



Source: U.S. Department of Labor/Goldenstone Wealth Management, LLC

Businesses are paying higher interest rates on corporate bonds and loans. The rise in rates also will be difficult for borrowers with variable interest rate loans, which fluctuate based on an underlying benchmark or index. Those borrowers took out loans with a lower initial interest rate but are now paying significantly more interest.

Auto Loan Delinquencies Rising

The percentage of auto loan delinquencies, which is defined as loans 90 days or more overdue, is rising across every age group. In the 18–29 and 30–39 age groups, the percentage of delinquent loans is approaching levels from the 2008 financial crisis.

In addition to auto loans, there is a similar trend in the number of credit card delinquencies, as well as an increasing number of Chapter 11 business bankruptcy filings.

The U.S. consumer, which accounts for approximately two-thirds of total U.S. economic activity, boosted economic growth coming out of the pandemic. A tight labor market kept unemployment low and boosted wages, and consumers showed an unwavering desire to spend.

However, the rising number of delinquencies indicates that consumers are struggling to keep up with their loan payments. Savings from the pandemic are shrinking, and student loan borrowers will face the added pressure of loan repayments starting this fall.

Additionally, there are signs labor demand is starting to cool, with unemployment rising to 3.8% in August. We expect investors to pay close attention to loan delinquencies in the coming quarters for signs that the consumer is pulling back.

Housing Remains a Wild Card

Homebuyers now face the highest mortgage rates since early 2002 with resultant low affordability. Data shows the U.S. housing market has slowed from its pandemic peak.

The number of active listings is significantly below levels from the last decade. It's also approaching levels seen during the depths of the pandemic, when the economy was shut down.

Why are fewer homeowners listing their homes for sale? The effective rate on all outstanding mortgages is 3.6%, significantly below the 7% rate buyers would pay on a new mortgage. Homebuyers are simply not incentivized to sell and give up their low mortgage rate, especially with home prices still elevated.

Combining the impact of elevated

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mortgage rates, reduced affordability, and the shrinking inventory of homes, the number of mortgage applications is significantly below the average from 2017 to 2022. Home sales are still taking place, but the volume of sales has declined.

Inflation Fears Have a History Lesson

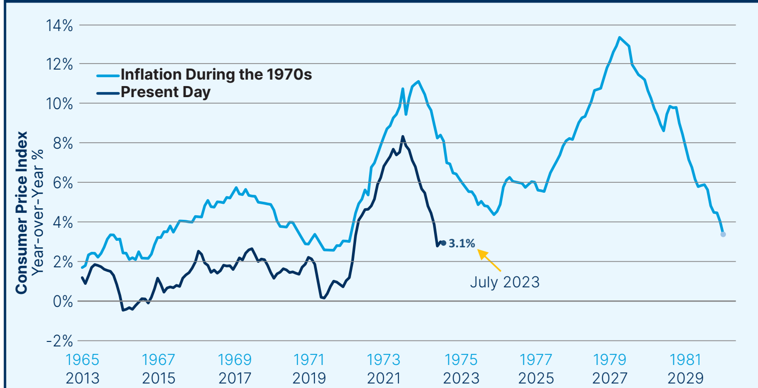
Comparing the path of inflation during the 1970s and today, the numbers differ, but a similar pattern emerges. In both periods, inflationary pressures began building early when interest rates were low in the 1960s and 2010s, respectively. Inflation subsequently eased as economic activity slowed around the 1970 recession and the 2020 pandemic.

However, inflation later reversed higher in both periods, with oil prices spiking in the early 1970s and supply chain disruptions following the pandemic. In both instances, the Fed responded by aggressively raising interest rates, causing inflation pressures to ease.

However, the 1970s serve as a cautionary tale, as inflation reaccelerated to more than 13% by the end of the decade. The rapid rise in inflation prompted the Fed to take drastic action and raise the federal funds rate to a staggering 20% in early 1980.

An inflation resurgence like the late 1970s is the primary risk today, which is why the Fed is hesitant to declare victory despite the recent dip in inflation. The Fed's fear is that the economy will reaccelerate and inflation will run away, like in the late 1970s.

Why Interest Rates Could Remain High



Source: U.S. Department of Labor/Goldenstone Wealth Management, LLC. Data is seasonally adjusted. December 1965 to December 1982 and December 2013 to July 2023. Latest available data as of 9/30/2023.

While this is not necessarily the Fed's forecast, the recent rise in oil prices highlights the risk of persistent inflation.

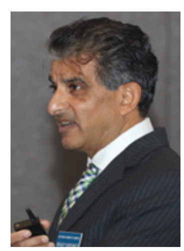
The Fed is determined to avoid repeating its errors from the 1970s, and the implication is that the Fed may decide to keep interest rates higher for longer. This could keep the cost of capital high, with monthly payments on homes and vehicles remaining elevated.

Likewise, businesses may continue to find it more expensive to fund operations, finance inventory, and reinvest in their businesses.

Given this uncertainty, it is wise to take a long-term perspective when dealing with interest rates. You can put yourself in a difficult position if you take out a loan with the expectation of refinancing, only to find that rates remain high.

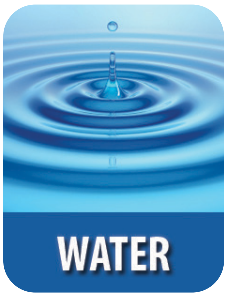
The worst may be behind us as uncertainty recedes. As consumer spending cools, all eyes are on the holiday retail sales, which are estimated to go up 5%. If inflation continues to descend, the consumer does not collapse, earnings grow as expected, and housing stays stable, we could see 2024 bring renewed enthusiasm and optimism about the economy and markets.

Staff Contact: Nicole Wasylkiw



This economic outlook report is adapted from the special report presented to the CalChamber Board of Directors by Dr. Sanjay Varshney, Ph.D., CFA, principal, founder and chief economist, Goldenstone Wealth Management, LLC.

Report Summarizes California's Water Year, Urges Better Water Management



In 2023, California experienced whiplash weather events — successive atmospheric rivers at the beginning of the year, an epic snowpack and a rare summer tropical storm.

The year's chaotic climate events are detailed by the Public Policy Institute of California (PPIC) in its latest water report, wherein the research institution urges more collaboration among stakeholders to improve water management during wet years.

"Californians are being asked to strike a strange balance between being prepared for both biblical droughts and unprecedented deluges. The happy medium—never a common experience for the state—is shrinking," states Letitia Grenier, director of the PPIC Water Policy Center.

The best way forward, she said, is to design projects that bring broad benefits, such as:

• Recharging groundwater, which can aid growers, city dwellers, and wildlife simultaneously;

• Investing in infrastructure to protect communities at risk of flooding, which also could assist wildlife, farmers and community water systems; and

• Finding and exploiting synergies to make state and federal dollars go farther and help more people.

Improving how the state manages its water supply is a challenge Californians can and must rise to meet, Grenier stresses.

"California's infrequent deluge years can be seen as a nuisance or as an opportunity that must be harnessed. Let's seize them, prepare for them, and make the best use of them possible," she said.

2023 Water Year

The 2023 water year, which ran from October 1, 2022 to September 30, 2023, continued the state's overall trend of increasing seasonal and annual precipitation volatility and rising temperatures, mirroring changes across the United States and around the world, the report finds.

The chaotic weather of 2023 can be summarized by five episodes, each of which brought its own challenges:

• **The 2020–22 drought continued.** The fall of 2022 was exceptionally warm and dry, with low reservoir storage in California and record lows in the Colorado River's main reservoirs, Lake Powell and Lake Mead. Seasonal forecasts—citing La Niña conditions—called for a continuation of drought conditions.

• **A "winter in three weeks."** From late December to mid-January, California was hit by nine significant atmospheric rivers. Flooding affected 24 counties, and at least 22 people died. Much of the state received more than a year's worth of precipitation in a matter of weeks; the Sierra Nevada snowpack in late January exceeded the April 1 average.

• **A dry mid-winter.** Very dry conditions then resumed, concerning water managers who were already worried about relatively low precipitation in the headwaters of the state's two largest reservoirs: Shasta and Oroville.

• **An epic snowpack.** The dry spell broke with a series of strong, relatively cool late-season storms. Prodigious snowfall covered the Sierra Nevada and Cascades, setting a record for snowpack in the headwaters of the Tulare Lake region in the southern San Joaquin Valley. An unusually cold spring slowed the snowmelt and prevented widespread spring flooding in the San Joaquin Valley, but portions of the ancestral Tulare Lake refilled for the first time since 1997.

• **A warm summer, with a surprise.** A cool spring gave way to a very hot summer, mirroring conditions throughout the northern hemisphere. In late August, a rare tropical storm—the remains of Hurricane Hilary—made landfall in Southern California and hit interior deserts and much of the intermountain West. Precipitation records were set in many places, with numerous damaging flash floods and debris flows.

The water year was chaotic and underscored the urgent need for better water management.

"It highlighted our need to better navigate multiple imperatives: storing more water during intense wet periods to build water supply reliability, protecting communities and infrastructure against the threat of increasingly damaging floods, and taking better advantage of wet years to improve the health of freshwater ecosystems and native fish and wildlife," the report stated.

Efforts to Store Water Faced Many Challenges

Water managers struggled to take full advantage of this wet year. Among the top issues the report cites are:

• **Insufficient opportunities to store water**. Most surface reservoirs filled while there were still ample supplies in the system. The Central Valley Project (CVP) and State Water Project (SWP) had to reduce exports from the Sacramento–San Joaquin Delta due to limited surface storage capacity and insufficient access to groundwater storage sites south of the Delta. The PPIC estimates that the projects could have diverted and stored more than 600,000 additional acre-feet of water from the Delta while meeting environmental regulations. Another 1.2 million acre-feet of San Joaquin River flows could have been captured upstream of the Delta while meeting these requirements.

• **Incomplete preparation for recharge**. Although interest has been growing in expanding recharge—especially in areas seeking to comply with the Sustainable Groundwater Management Act (SGMA)—many areas were not prepared to take full advantage of 2023's wet winter. Efforts were hampered by a lack of coordination between surface reservoir and recharge operations, limited infrastructure to move water to suitable areas, time-consuming permitting requirements, and a dearth of landowners and local agencies sufficiently organized—or even willing—to take water.

• **Unrealized potential to improve community water wells**. The abundance of water created an opportunity to improve drinking water wells affected by overpumping. Some strategic recharge efforts have begun—for example a

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partnership between Tulare Irrigation District, Self-Help Enterprises, and the community of Okieville. But for many reasons—including the constraints noted above and potential water quality concerns with recharge—community wells are unlikely to experience many benefits from actions in 2023.

• **Lack of strategic water storage for the environment**. During wet periods, environmental flow and water quality standards typically are met by natural runoff conditions, so water for the environment gets little attention. Yet the relaxation of environmental standards during the past two droughts highlights the need to do a better job of setting aside more water during wet years that can be used to support vital habitat during dry periods. In some areas, recharge efforts can improve habitat conditions.

Recommendations

The PPIC notes that many advances have been made in tackling increasing drought intensity, but the state has a lot of work to do on improving management during wet years. Some areas suggested for improvement include:

• **Better planning for wet years**: Water supply and flood management should be integrated at the regional level proactively before a wet year occurs, not reactively in the midst of one.

• **Infrastructure investment**: New reservoirs, such as Sites (an offstream storage project west of Colusa in Northern California), may be built and existing storage facilities can be upgraded.

• **Regulation and permitting**: Permitting of recharge, infrastructure and restoration efforts are still encumbered by frequent delays, high costs and changing regulations and policies.

To read the PPIC water report and full list of recommendations, click here.

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