ALERT

VOLUME 37, NUMBER 9 • MARCH 18, 2011

CalChamber
CALIFORNIA CHAMBER OF COMMERCE

CalChamber Releases Business Climate Study

The California Foundation for Commerce and Education has released its 2011 survey of business executives detailing current attitudes about the state's economy, business climate, and budget. The study was sponsored by the California Chamber of Commerce.

"This assessment of California's business climate shows that the economy, burdensome regulations and the state budget crisis continue to weigh heavily on the minds of business owners," said Allan Zaremberg, CalChamber president and CEO.

"Policy makers and elected officials must commit to the hard choices needed to create certainty for job creators so that California can turn things around," he said.

The California Business Executives Attitudes survey was conducted between February 22 and March 9. A total of 874 California business executives were polled for the survey.

Attitudes on the Economy

Overall, the survey revealed that widespread pessimism remains about the state's economy:

- 15 percent said that the state was headed in the right direction;
- 85 percent said the state is on the wrong track, an increase of 8 percent from 2008.

With respect to the current economy:

- 98 percent responded that it was fair or poor;
- 2 percent said the economy was good.

However, business leaders are relatively optimistic about an economic recovery compared to 2008:

- 20 percent believe that the economy will be better in one year, an increase of 10 percent from the 2008 survey;
- 49 percent believe it will be the same, compared to 46 percent in 2008;

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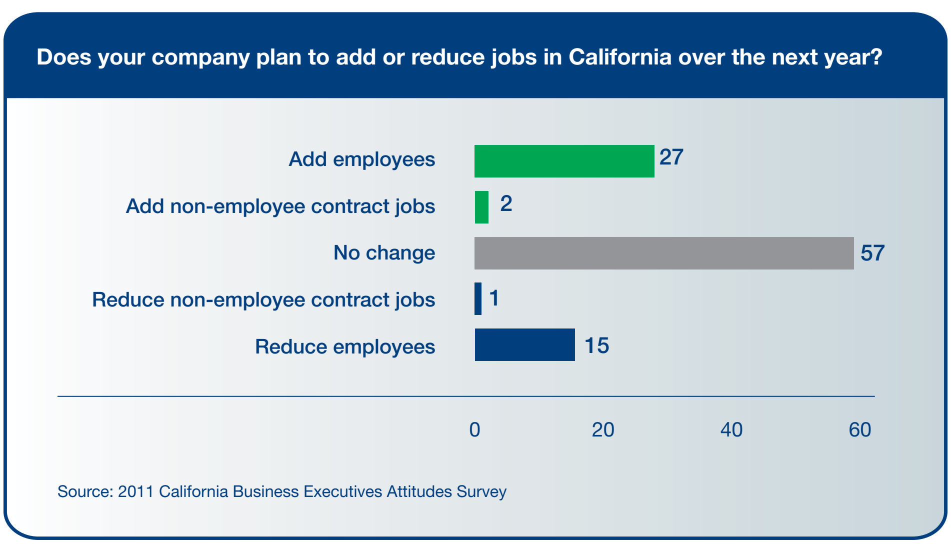

Does your company plan to add or reduce jobs in California over the next year?

Source: 2011 California Business Executives Attitudes Survey

Punitive Damages Protection for Business Fails to Pass Assembly Committee

Legislation to protect businesses that comply with government standards from excessive punitive damage awards failed to pass an Assembly committee on March 15.

AB 158 (Halderman; R-Fresno), supported by the California Chamber of Commerce, would have helped improve California's rock-bottom legal climate by protecting manufacturers, distributors and sellers of products from punitive damages if that product meets government requirements, unless there is sufficient evidence that the individual or entity intentionally withheld or misrepresented information from the regulating agency.

In addition to helping control runaway punitive damage awards, the bill would have provided more certainty for businesses and preserved resources for better uses, such as hiring new employees and improving benefits for existing ones.

Protecting Honest Employers

Existing punitive damage law authorizes plaintiffs to sue for damages for the sake of example and by way of punishing the defendant, in addition to actual damages if it is proven that the

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Inside

Labor Law Corner

Form I-9: More Answers about Verifying Employment Eligibility

Sunny Lee
HR Adviser

Following are the answers to common questions in addition to those appearing in the February 4 "Labor Law Corner."

● *Can I have an applicant complete an I-9?*

Yes, provided that you have made an offer of employment and the applicant has accepted that offer.

● *Can I have an employee complete an I-9 before starting work?*

Yes, employees may complete Section 1 of the I-9 Form at any time between acceptance of a job offer and the first day of work for pay. Employers must then review the employee's document(s) and fully complete Section 2 of Form I-9 within three business days of the first day of work for pay.

● *If I hire an employee for two days, must an I-9 be completed?*

Yes, the I-9 must be completed by the end of the first day of work any time employment is for less than three days.

● *What do I do if my employee says that she lost her driver license and she has no document to present to us to verify?*

If an employee states he/she has lost a document or if a document has been stolen or damaged, the employee may present a receipt showing that he/she has applied for a replacement document. The receipt will allow an employee to be employed for 90 days pending receipt of the original document. Receipts may be accepted for documents listed in List A, B or C. Receipts may never be accepted for employment lasting less than three business days.

● *How do I complete a certification with a receipt?*

When an employee presents an acceptable receipt, the employer would record the document title and write "receipt" and insert the document number. When the original document is obtained, the employer is permitted to cross out the word "receipt" and the document number and insert the new document number; initial and date the change.

● *May we accept a receipt showing that the employee has applied for an extension of an expired work authorization card?*

No, a receipt indicating that an individual has either applied for an initial Employment Authorization Document (Form I-766) or for an extension of an expiring Employment Authorization Document (Form I-766) is NOT acceptable proof of employment authorization on Form I-9.

● *Is there a grace period, such as 90 days, for an employee to bring in a new work authorization document after the original authorization has expired?*

When an employee's employment authorization document expires, you must reverify his or her employment authorization no later than the date employment authorization or employment authorization document expires, whichever is sooner.

If the employee is authorized to work for a specific employer, such as an H-1B or L-1 nonimmigrant, and has filed an application for an extension of stay, he or she may continue employment with the same employer for up to 240 days from the date the authorized period of stay expires.

Permanent Resident Cards with either an expiration date or no expiration date should not be reverified.

● *How do I determine whether an authorization document that appears to have expired has been extended?*

In some instances, employees will possess expired employment authorization documents that have been automatically extended by the Department of Homeland Security and must be accepted by employers.

The department notifies the public of all automatic extensions through a *Federal Register* notice describing how to determine if an employment authorization document has been automatically extended.

Extensions also are listed in the "Temporary Protected Status" action on the I-9 verification page at ***www.justice.gov/crt/about/osc/htm/I9_Verification.php***.

● *Do I have to recertify documents if an employee changes his/her name after completing the I-9?*

When an employee changes his/her name, you are not required under the I-9 regulations to update the I-9 Form; however, the U.S. Citizenship and Immigration Services recommends that you maintain correct information on I-9 Forms and keep copies of name changes with the I-9 Form.

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Alert (ISSN 0882-0929) is published weekly during legislative session with exceptions by California Chamber of Commerce, 1215 K Street, Suite 1400, Sacramento, CA 95814-3918. Subscription price is $50 paid through membership dues. Periodicals Postage Paid at Sacramento, CA.

POSTMASTER: Send address changes to Alert, 1215 K Street, Suite 1400, Sacramento, CA 95814-3918. Publisher: Allan Zaremberg. Executive Editor: Ann Amioka. Associate Editor: Sara Espinosa. Art Director: Marcy Wacker. Capitol Correspondent: Christine Haddon. Photographer: Megan Wood.

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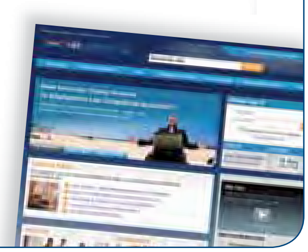
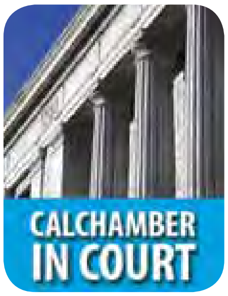


CalChamber Goes to Court of Appeal to Seek Clarification on Asbestos Litigation



The California Chamber of Commerce and the Civil Justice Association of California (CJAC) are asking the California Court of Appeal to determine the causation standard to use for manufacturers of non-asbestos products in asbestos-related cases.

To address that question, CalChamber and CJAC filed a friend-of-the-court brief in the case of *Crull v. 3M Company* with the 1st District California Court of Appeal on March 4.

There currently is a great deal of asbestos-related litigation in the courts against manufacturers whose products contain no asbestos and did not affect a plaintiff's exposure to asbestos. 3M is one of those manufacturers.

This issue is of concern for the business community because of the cost and uncertainty litigation imposes on non-asbestos manufacturers. Instead of spending resources on litigation, companies could be investing in research and development as well as expanding and hiring new employees.

Background

Denton Crull worked for 26 years as a U.S. Navy boiler technician handling and being around asbestos-containing materials. As a result, he was regularly exposed to dusty asbestos conditions, often without any protection from inhaling the dust. During his tenure, Crull sometimes wore a 3M mask or respirator that was provided to him by the Navy.

In 2008, soon after Crull was diagnosed with mesothelioma from his prolonged inhalation of asbestos dust while working for the Navy, he and his wife, Joyce, filed a personal injury and loss of consortium action seeking damages from 53 defendants. One of the defendants was 3M.

Plaintiffs claimed these 3M products were "defective" and, as such, contributed to his contracting cancer by breathing asbestos dust. Neither the mask nor respirator was designed to protect against asbestos inhalation at the rate to which Crull was exposed.

Further, plaintiffs claimed these 3M products failed to warn consumers properly, despite the fact that the products were properly labeled and Crull admitted that he has no recollection of having ever read the packaging or warnings.

Because 3M did not cause any harm to Crull, it sought dismissal from the case and was granted it.

The case then proceeded to trial against the three remaining asbestos defendants. The jury returned a verdict apportioning the total responsibility for Crull's injuries between the Navy (85 percent) and Crull (15 percent).

The plaintiffs did not appeal this judgment, but instead chose to appeal the order of nonsuit granted to 3M.

CalChamber Argument

In their friend-of-the-court brief, the CalChamber and CJAC said the trial court correctly found an absence of evidence showing any causation by 3M's products or its conduct for plaintiffs' injuries. The trial court's ruling on causation grounds was entirely fitting and proper.

The CalChamber and CJAC pointed out:

- 3M Products Did Not Cause Plaintiffs' Harm Nor Were They Designed To. 3M products did not contain asbestos nor did they harm the plaintiff. Crull was already exposed to asbestos years before using 3M products. Further, the mask was not designed for nor claimed to protect against asbestos inhalation, and the respirator was not designed to protect against that level of asbestos exposure.
- Failure-to-Warn Claim Does Not Hold Up. In addition to the fact that the 3M products were labeled, Crull admitted that he has no recollection of having ever read the packaging or warnings.

Staff Contact: Erika Frank

Form I-9

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- *Where can I find more I-9 information?* Visit ***www.hrcalifornia.com***, call the CalChamber Helpline or visit the U.S. Citizenship and Immigration Services government website at ***www.uscis.gov***. The USCIS national customer service center is at (800) 375-5283; hearing-impaired TDD service (800) 767-1833

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.

Heat Illness Prevention Network Seeks Data Updates

The state Heat Illness Prevention (HIP) Network is updating its membership database and is inviting organizations to join. The network is also urging existing members to confirm their continued participation.

The California Chamber of Commerce is a founding member of the network, which is administered by the California Division of Occupational Safety and Health (Cal/OSHA) in the state Department of Industrial Relations (DIR).

HIP Network

The HIP Network is a voluntary public/private partnership established to inform employers and employees on heat illness prevention measures in order to prevent fatalities and create a safer working environment in California.

Cal/OSHA provides timely information to network associations and employers, who in turn share that information with their associates and/or employees.

Members in the network are asked to:

- Receive and share information from Cal/OSHA regarding the prevention of heat illness, primarily if there is a heat wave. It is not necessary to establish new communication channels if existing distribution channels are in place and are effective.
- Encourage member employers to address the risk of heat illness through their injury and illness prevention program using information provided by Cal/OSHA.
- Track communications through the network to members or employees, and share general information about how many employers and employees are reached. This information is requested simply to demonstrate the reach and potential effectiveness of the HIP Network, and will be used only in the aggregate, unless expressly authorized otherwise.

Joining HIP

HIP Network membership is free and interested parties can join by submitting name, title, organization name, telephone number and e-mail to *communications@dir.ca.gov*.

Resources to Prevent Heat Illness

Cal/OSHA has created a webpage devoted to preventing heat illness, and has made publications available for download and distribution at ***www.dir.ca.gov***.

Information on the new heat illness regulations that took effect on November 4, 2010 is available at ***HRCalifornia.com*** and in the 2011 editions of the CalChamber's ***California Labor Law Digest*** and ***HR Handbook for California Employers***.

Also available at ***www.calchamber.com/heatillness*** are:

- a ***Heat Illness Safety Poster*** that reinforces safe work habits in hot environments and also serves as a reference to symptoms of heat illness. The poster is laminated and available in English or Spanish.
- ***Cal/OSHA Heat Stress***, a 30-minute online course that trains all workers on the basics of heat stress awareness in accordance with Cal/OSHA's Heat Illness Prevention standards. The course is available in English or Spanish. Quantity discounts are available.

The CalChamber also plans to offer a heat illness prevention webinar. Details will be available at the CalChamber Store when the webinar is scheduled.

Staff Contact: Marti Fisher

CalChamber-Sponsored Seminars/Trade Shows

More information at *www.calchamber.com/events*.

Business Resources

Ergonomics Workshop. State Compensation Insurance Fund. March 29, Sacramento. (916) 924-6812.

Workers' Compensation Legislative Day. Workers' Compensation Action Network, California Coalition on Workers' Compensation, CalChamber, California Manufacturers & Technology Association. April 4–5, Sacramento. (916) 554-3467.

International Trade

Berkeley Asia Business Center Conference 2011. UC Berkeley Haas School of Business. March 22, Shanghai. (510) 643-6883.

Chile Investment Opportunities. Chilean Economic Development Agency (CORFO). March 23, Davis.

U.S.-Balkans Business Summit. Maryland Office of Secretary of State, Maryland Department of Business and Economic Development, US-Balkans Business Alliance. March 23–24, University of Baltimore, Maryland. (410) 459-8644.

Your Bridge to Europe: Doing Business in Germany. German American Business Association. March 23, Palo Alto. (650) 386-5015.

Complying with U.S. Export Controls. U.S. Department of Commerce, Bureau of Industry Security. March 24–25, San Diego. (858) 467-7040.

Asia Pacific Business Outlook 2011. University of Southern California/U.S. Department of Commerce, U.S. Commercial Service. March 28–29, Los Angeles. (213) 740-7130.

Foreign Direct Investment Opportunities. Monterey Bay International Trade Association. March 31, Monterey. (831) 335-4780.

Import/Export Orientation Seminar. Sacramento Regional Center for International Trade Development. April 5, Sacramento; April 19, Roseville. (916) 563-3200.

Peru Moda 2011 and Peru Gift Show 2011. Trade and Investment Office of Peru, Los Angeles. April 28–30, Lima, Peru. (213) 632-1951.

Labor Law

Exempt – When You've Properly Classified. CalChamber. April 14, Webinar; April 25, On Demand. (800) 331-8877.

How to Hire Employees and Reduce Liability. CalChamber. May 12, Webinar; May 25, On Demand. (800) 331-8877.

How to Conduct Effective Performance Evaluations. CalChamber. June 9, Webinar; June 20, On Demand. (800) 331-8877.

How to Conduct Workplace Investigations. CalChamber. July 14, Webinar; July 25, On Demand. (800) 331-8877.

Punitive Damages Protection for Business Fails to Pass Assembly Committee

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defendant has been guilty of oppression, fraud or malice.

While AB 158 provides a degree of protection from punitive damage litigation, it does not protect businesses that commit fraud, or intentionally withhold and/or misrepresent information required by regulating government entities.

During the Assembly Judiciary Committee hearing, CalChamber Policy Advocate Mira Guertin pointed out that AB 158 in no way undermines consumer protections. Rather, it aims to protect those businesses that have made every effort to comply with product laws and regulations.

"Punitive damages are designed to punish a defendant above and beyond all of the things needed to help make a plaintiff whole," Guertin told the committee. "…how, if you have followed the standards, if you have met the guidelines, could you have engaged in fraud, oppression, or malice? You've tried to meet the rules, you've done everything that you were supposed to do, you've turned over information you needed to [give] to the government and you've done what [the government] said you needed to do to be safe…that is a good faith effort to protect consumers. And many manufacturers go above and beyond that."

Providing Certainty

Guertin stressed that regardless of the prevalence of cases filed for punitive damages, the awards are extremely volatile, and prevent businesses from being able to predict costs and liability.

"[Awards] can show up for $100,000 or they can show up for $100 million," Guertin said. Because of this unpredictability, businesses have no idea how big their liability will be and have no way of taking it into consideration, Guertin said.

AB 158 balances the need to protect consumers with the need to control ever-increasing litigation costs that harm California's economy and drive employers to other states. Excessive damage awards use resources that could be better spent putting more Californians back to work, drive up the costs of goods and services for struggling consumers, and do little to further individual protections.

Photo by Megan Wood

CalChamber Policy Advocate Mira Guertin (left) testifies in support of legislation to protect businesses that comply with government standards from excessive punitive damage awards. At the podium is the author of the bill, AB 158, Assemblymember Linda Halderman (R-Fresno).

Key Vote

AB 158 failed to pass Assembly Judiciary on a party-line vote of 3-7 on March 15.

Ayes: Gorell (R-Camarillo); Jones (R-Santee); Wagner (R-Irvine).

Noes: Atkins (D-South Park/Golden Hill); Dickinson (D-Sacramento); Feuer (D-Los Angeles); Huber (D-El Dorado Hills); Huffman (D-San Rafael); Monning (D-Carmel); Wieckowski (D-Fremont).

Staff Contact: Mira Guertin

Study Concludes Stalled Energy Projects Cost California Economy $59.1 Billion

In a first-of-its-kind economic study, the U.S. Chamber of Commerce has identified 31 stalled energy projects in California that, collectively, are costing the state's economy $59.1 billion in gross domestic product (GDP) and 142,100 jobs a year that could be created during the construction phase of the projects alone.

The economic study estimates the potential loss of investment and jobs in 351 proposed renewable, coal, natural gas, nuclear and transmission projects in 49 states.

The projects have been delayed or cancelled due to "Not in My Backyard" activism, a broken permitting process, and a system that allows for limitless lawsuits by opponents, according to the U.S. Chamber.

The study features a state-by-state analysis that details the economic output and jobs that could be created by acting on these stagnant projects.

Among the 31 California energy projects listed by the study is Sunrise Powerlink, a 117-mile transmission line from Imperial County to San Diego. Construction for the California Chamber of Commerce-supported project began on December 9, 2010, following several years of public education efforts and testimony before regulatory bodies. The line is expected to begin service in 2012.

GDP/Jobs Benefits

The study found that if the projects were built and operated for 20 years, the benefit would be an estimated $3.4 trillion in U.S. GDP. This benefit would include $1.4 trillion in employment earnings and an additional 1 million jobs per year.

Nearly half of the projects identified in the study are renewable energy projects.

Other findings include:

● **Investment Phase:** Planning and construction of the projects would generate $577 billion in direct investment and would result in an approximately $1.1 trillion increase in U.S. GDP. An estimated 1.9 million jobs would be required during each year of construction.

● **Operations Phase:** Operation of the projects would generate $99 billion in direct annual output and would yield $145 billion in increased GDP annually. An estimated average of 791,200 jobs would be created per year of operation.

Additional Information

The study by TeleNomic Research was conducted by Steve Pociask, president of the American Consumer Institute, and Joseph Fuhr, professor of economics at Widener University and senior fellow at the American Consumer Institute.

An in-depth breakdown of every stalled project appears at ***www.projectnoproject.com***.

The full study, "Project Denied: The Potential Economic Impact of Permitting Challenges Facing Proposed Energy Projects," is available at ***www.uschamber.com/reports***.

Staff Contact: Brenda Coleman

CalChamber Releases Business Climate Study

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● 31 percent say it will be worse, a decrease of 13 percent from 2008.

When asked about the state of their own businesses, respondents were more optimistic than in the 2008 survey:

● 37 percent of executives indicated that they believe their situation will be better in one year, an increase of 8 percent from 2008;

● 48 percent said their situation will likely be the same, compared to 57 percent in 2008;

● 15 percent said things will likely be worse, compared to 14 percent in 2008.

Biggest Disadvantages of Doing Business in California

The survey asked employers to assess the disadvantages of doing business in California:

● By far, respondents believed too much government regulation was a primary factor in creating a disadvantage for California companies (40 percent).

● Others cited high state and local taxes (13 percent) and the state budget deficit (12 percent).

Top Issues Leaders Should Address

Survey respondents believe the most important issues to be addressed by state leaders are:

● Far and away, resolving the state budget deficit, improving the economy and job creation were critical to business leaders. A combined total of 92 percent of respondents believe these items should be priorities for state leaders

● Changing labor regulations governing overtime, wages, rest periods and benefits was also important with a combined total of 21 percent of respondents ranking this as their first or second priority.

Resolving State Budget Crisis

The survey also asked respondents how California state government should deal with the budget deficit. Business leaders strongly supported tough budget medicine to address the state's fiscal mess once and for all:

● Net support of 94 percent for a balanced budget without gimmicks, no matter what the mix of spending cuts and tax increases.

● Net support of 89 percent for capping state spending growth to inflation plus population.

● Net support of 89 percent for reforming public pensions to resemble private sector 401(k) plans.

● Net support of 87 percent for ensuring that one-time revenues cannot finance ongoing programs.

● Net support of 84 percent to conform state overtime rules to federal rules.

● Net support of 78 percent for ensuring benefits of new regulations exceed the cost to the economy.

The entire survey can be found on CalChamber's website at ***www.calchamber.com/businessclimate***.

Staff Contact: Denise Davis

State Economic Signs Somewhat Better; Jobless Rate Highest Since Pre-World War II

U.S. Economic Upturn Continues

Many economic statistics for the nation improved during the past three months. Reflecting the improvement in underlying trends, the government's preliminary estimate of gross domestic product (GDP) in the fourth quarter came in at a +3.2 percent annual rate, after a +2.6 percent uptick in the third quarter.

Progress was fairly widespread in the fourth quarter. Consumer spending, exports, business investment in equipment and software, residential and non-residential investment all increased, while imports declined. Collectively these sectors contributed +6.9 percentage points to fourth-quarter GDP growth.

However, private-sector inventories edged up by only $7 billion last quarter, which had the effect of subtracting -3.7 percentage points from the economy's growth rate. Also on the downside, federal, state and local government spending declined a bit, taking –0.1 percentage point from GDP growth in the fourth quarter.

Growth

Final domestic demand (which includes spending by U.S. consumers, business firms, and all levels of government, but excludes changes in inventories and net exports) was up by +2.9 percent last quarter compared with fourth quarter 2009. This increase was the largest since early 2006 and marked the economy's sixth quarter of growth after six quarters of downturn.

Labor market conditions showed some improvement during the fourth quarter, as non-farm payroll employment across the nation grew by +128,000 jobs, after losing -46,000 jobs during the third quarter.

For the year ended December 2010, non-farm employers added +909,000 workers, an increase of +0.7 percent. Meanwhile, the nation's unemployment rate, which peaked at 10.1 percent in October 2009, fell to 9.4 percent in December 2010.

Consumer Confidence

Consumers became a bit more optimistic during the fourth quarter, but remain concerned about high unemployment and, lately, rising gasoline prices.

Other economic indicators recorded mixed gains in the fourth quarter. Industrial production grew by +0.7 percent, somewhat slower than the third quarter pace of +1.6 percent. However, the value of shipments by U.S. manufacturers accelerated, growing by +2.5 percent in the fourth quarter and marking the sixth consecutive quarterly increase. Growth in retail and food service sales also jumped by +3.3 percent last quarter, the strongest performance since early 2006.

Recent trends on the inflation front have continued generally favorable with the notable exception of energy. Excluding food and energy, the consumer inflation rate is running around 1 percent.

However, crude oil prices, always volatile, rose to the $85-$90 a barrel range in the fourth quarter, the highest level since third quarter 2008. The average regular gasoline price in California increased to $3.30 a gallon at year end 2010, up from $3/gallon three months earlier. Prices continued to rise in early 2011.

Concerns about the pace of the recovery abated during the fourth quarter. The California Chamber of Commerce Economic Advisory Council applauds the continued improvement in national economic activity, though there is still uncertainty as to the economy's underlying fundamental strength now that the impacts of expansionary monetary policy and federal stimulus programs are winding down.

In addition, other recoveries in the past were slowed by financial industry restructuring. A bit of caution still seems appropriate.

Interest Rates and Financial Markets

The Federal Reserve's main concern continues to be low levels of resource utilization (i.e., high unemployment rates and low capacity utilization). The Fed recently boosted its near-term economic forecast to reflect the improvement in incoming data.

Still, the Federal Open Market Committee feels no need to raise short-term rates from current rock-bottom levels, citing high unemployment and still-modest inflation rates among other factors. At its January meeting, the committee decided to continue its program of steady (about $80 billion a month) purchases of U.S. Treasury securities through June 2011.

Long-term interest rates edged up during the fourth quarter, though they were below rates early in 2010. Corporate bond rates followed suit. Outside of the capital markets, however, credit conditions for less-than-prime households and small to midsize business firms still remain tight.

Many of these firms face strict credit quality constraints when they apply for

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California Economic Signs Somewhat Better

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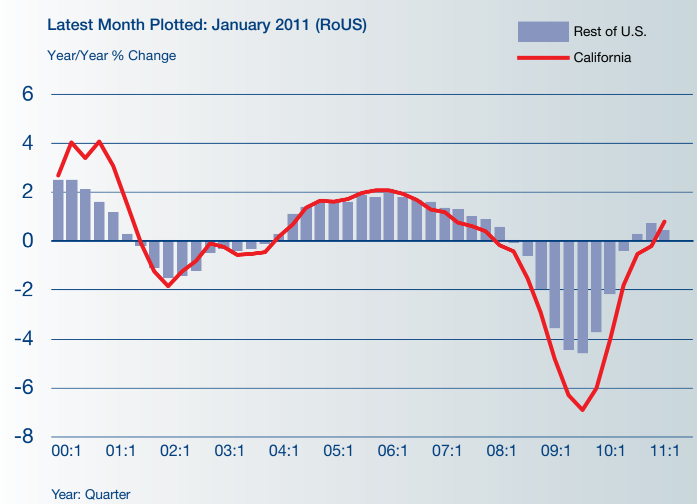
new or renewal business loans from commercial banks. A number of locally oriented and community banks are still wrestling with delinquency problems and consequently are reluctant to take on additional risks. Commercial banks' residential lending increased slightly in the fourth quarter, but commercial and industrial loans and commercial real estate loan balances decreased.

The Advisory Council's prognosis: the capital markets have improved significantly, but it remains unclear when the central bank will be able to return to traditional policymaking.

Job Counts—Still Weak But...



Sources: U.S. Bureau of Labor Statistics, California Employment Development Department

California Economic Signs: Somewhat Better

California's economy saw more positive signs in fourth quarter 2010. The state gained +84,300 farm and non-farm jobs last quarter. While the upturn was modest, the fourth quarter employment gain was the highest since autumn 2005. However, California's unemployment rate continued at 12.4 percent during the fourth quarter, compared with 12.3 percent a year earlier. Joblessness has been at or above 12 percent since August 2009, the highest since before World War II.

Other Indicators

Other broad-based indicators paint a somewhat more optimistic picture. Personal income earned in California increased by 3.4 percent during third quarter 2010, compared to third quarter 2009 (latest data available). This increase was the highest since second quarter 2008 and marked the third uptick in personal income following four quarters of decline.

On the plus side, personal income grew in professional and technical services, farming, finance, manufacturing, health care and several other sectors. Problems in the state's state/local government, construction and real estate sectors were a smaller drag on the state's earnings growth than in previous quarters [Note that the personal income figures are subject to revision].

Taxable sales sagged during the recession, plunging by -14 percent during 2009. Here too, the year-to-year comparisons turned positive in 2010 and reached +4.7 percent during the third quarter, another sign of progress.

While more tax receipts are coming into the General Fund, the Governor's Proposed Budget estimated the budget gap for fiscal years 2011 and 2012 (which ends June 30, 2012) at -$26.4 billion. Proposed "solutions" include spending reductions as well as tax increases. Since higher tax rates must be approved by the state's voters, some caution about the budget situation seems to be warranted at this time.

The state gained a total of +87,800 non-farm jobs over the 12 months to December. Nine sectors recorded year-over gains led by administrative services; leisure and hospitality; professional, scientific and technical services; health care; and manufacturing. Four sectors reported employment declines. Job counts fell the most in California's construction and government sectors.

Exports Up

International trade made an excellent comeback in 2010, as the value of total trade into and out of California jumped by +21.6 percent. Exports of goods made in California increased by +19.3 percent last year.

During the fourth quarter, total exports expanded by +15.2 percent compared with the fourth quarter of 2009. The largest category of exports—computers and electronic products (semiconductors, computer equipment and navigational instruments)—rose by +18.6 percent.

Exports of California's second largest export product—industrial machinery—leapt by +26.3 percent, the biggest gain of the top five export products. Meanwhile, exports of agricultural products (including fruits and nuts) rose by +20.9 percent.

Exports of miscellaneous manufactured commodities (including medical equipment and supplies) advanced by +14.2 percent. However, exports of transportation equipment dropped by -3.9 percent versus the same quarter last year.

Employment

Four of the state's major metro areas reported year-to-year gains in non-farm employment over the year to December, while the others recorded smaller rates of declines than in previous quarters.

Job gains were positive for Orange County (+1.5 percent over the year), the San Jose metro area (+1 percent), San Diego (+0.5 percent), and Modesto (+0.1 percent). Among the other areas, employment declined the least in Ventura (-100 non-farm jobs).

Job losses were moderate in three areas: Los Angeles (-0.1 percent), Fresno (-0.5 percent) and the Riverside-San Bernardino area (-0.8 percent). These were followed by Bakersfield, San Francisco and Stockton (at -1.1 percent, -1.4 percent and -1.5 percent respectively).

The Oakland and Sacramento metro areas recorded the deepest declines (of -1.7 percent and -2.2 percent respectively).

Bay Area employment declined overall during the fourth quarter compared with

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California Economic Signs Somewhat Better

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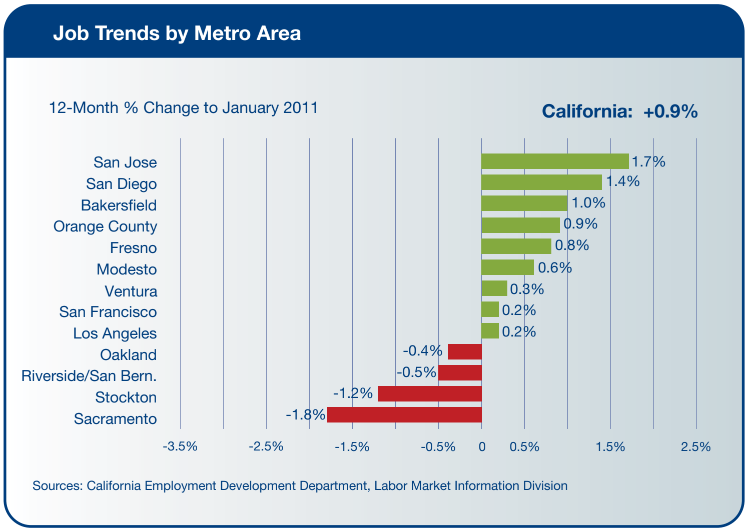
the previous quarter, as job losses in the San Francisco and Oakland areas exceeded the gains made in the San Jose metro area (using seasonally adjusted figures for all three areas).

Compared with December 2009, construction activity has fallen around the Bay, with employment declines ranging from -10 percent (in the East Bay area) to -7 percent (San Francisco) to -3 percent (San Jose area).

Manufacturing job declines in the Oakland area mostly reflected the loss of a major automotive manufacturer. However, high-tech provided a bright spot, especially in San Jose, but also in San Francisco and the East Bay.



Travel and tourism indicators looked a bit better this year, with higher international and domestic passenger traffic through San Francisco International Airport. Also, hotel occupancies were up around the Bay, while room rates moved up in the San Francisco and San Jose areas.

On the downside, local schools and city governments reduced employee counts, a drag on the regional economy that likely will continue in 2011.

Non-farm employment increased in Southern California during the fourth quarter (on a seasonally adjusted basis), as the gains made in Orange County and San Diego exceeded losses in the other four counties. Compared with December 2009, downturns were most pronounced in construction and government (especially local schools and city governments) combined with some manufacturing distress.

Trade Flows

International trade flows through the area's ports turned up strongly in 2010, with both exports and imports on the rise. The change impacted a wider area than the ports, including the region's transportation network and the wholesale trade and the distribution centers of Los Angeles, Orange County and the Inland Empire.

The Southern California tourism sector also made progress, with hotel occupancies up (though room rates were still flat to down). The region's entertainment sector performed markedly better in 2010, with increased local filming activity.

Aerospace firms are mostly stable but anxious about the future. New Department of Defense proposals for the 2012 fiscal year and forward include procurement declines in several programs of regional interest, which could have a negative impact on the region's key aerospace industry.

Agriculture and Resources

California's agriculture sector improved in 2010 after a difficult 2009. Prices of several products rose, including beef, nuts and tree fruits (except peaches). Demand for premium California grapes continues to be soft, but prices for lower-priced wines and raisins increased.

California-grown agricultural exports increased by +21 percent in 2010 compared with 2009. Feed costs are rising again, driven by higher wheat and corn prices, but increased export demand for beef and dairy products has helped. Water availability for California farms was better in 2010 after severe shortages in 2009.

Though the situation has eased somewhat, water continues to be a concern in California. Precipitation was decent in 2010, and runoff was nearly normal after a string of dry years. Storage levels recovered at many in-state reservoirs, though reservoirs along the Colorado River are still at low levels. The State Water Project and the Central Valley Project both increased water deliveries in 2010 and have promised more in 2011.

However, the supply of water that must transit the Delta is still at risk due to actual and threatened pumping cutbacks to protect native species of fish. These problems won't be solved soon.

The supply of electricity in California should be adequate in the near-term, as capacity has grown in recent years and industrial demand is just recovering from the recession.

The outlook for electricity prices is uncertain.

On the one hand, natural gas prices have fallen and many of the power contracts signed by the state during the energy crisis are unwinding. On the other, the state's utilities face increased costs associated with mandated investments to reduce their environmental footprints and to improve their distribution networks. This suggests prices will be stable at best and could well increase.

Real Estate and Construction

Existing home sales in California were quite healthy between late 2008 and the first half of 2010, but sales weakened after federal tax credits expired in June and didn't begin to recover until late in the year. Here are some recent statistics for the state's resale home market:

- Existing single-family homes sales in California increased by +5.2 percent over the year to January 2011, though condominium sales were down by -5.2 percent.
- Prices weakened somewhat in the second half of 2010. By January 2011, the median statewide price of single-family homes sold (at $278,900) was down by -2 percent compared with January 2010.
- The number of homes available for sale represented 6.7 months supply (at January's sales rate) compared with 5.7 months a year earlier.

The housing market's performance

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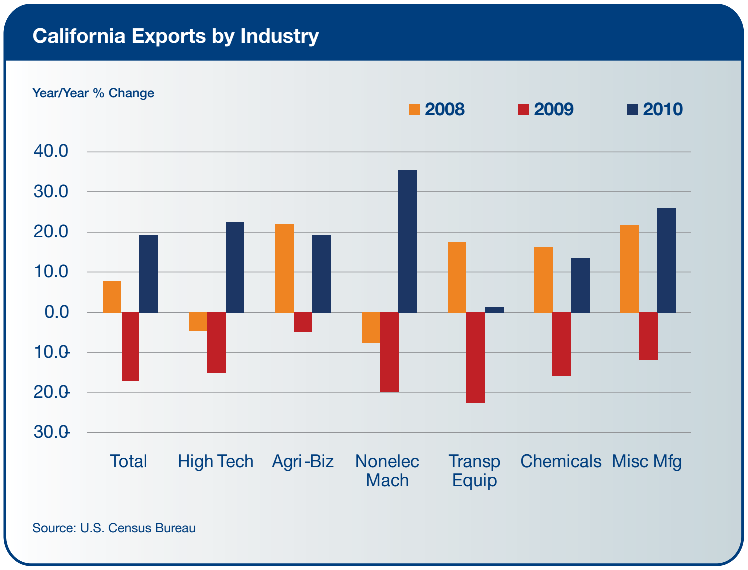
late in 2010 was a bit disappointing. Mortgage rates continued to be relatively low, and at current transaction prices, many home sales in California fall inside the government housing agencies' conforming loan limits (up to $729,750 in 2010), which increases the availability of mortgage loans to well-qualified buyers.

However, the federal government's temporary tax credit program clearly pulled a number of purchases forward in time, as home sales declined markedly in June, July and August, after the incentives expired.



California Exports by Industry

Existing Home Sales

While sales volumes picked up in the fourth quarter, the outlook for existing home sales is uncertain. On the supply side, the rate of new mortgage delinquencies and foreclosures has abated, though it remains relatively high.

Temporary foreclosure delays complicate the picture, however. It's unclear when lenders bring the rest of their distressed homes onto the market and in what volumes. In addition, private lenders are seeking higher down payments for home loans, and the administration has proposed increasing the required minimum down payment (to 10 percent) for loans that can be bought or guaranteed by Fannie Mae or Freddie Mac.

While these moves reduce lenders' risk, they also could dampen activity in the housing market. On the demand side, significant further improvement in the pace of sales seems unlikely until the economy—and buyers' confidence—begin to revive more strongly.

Residential Construction

Residential construction activity increased sharply at the end of 2010, bringing total housing permits to a preliminary annual rate of 52,200 units during the fourth quarter 2010, the highest rate since fourth quarter 2008.

However, December's surge in permits issued was likely a false signal, as new state building rules became effective in January 2011; a decline in new home permits early in 2011 would not come as a surprise.

For 2010 as a whole, a total of 44,601 housing permits were issued, a 22.5 percent increase from 2009. Unusually, all of the 2010 improvement came in the multifamily sector (apartments and condominiums). Permits issued for attached housing units surged by 78 percent, while single-family detached home permits ebbed by -1.5 percent in 2010.

While the increased pace of activity seen last year was certainly welcome, the industry is operating at an extremely low level. Even the fourth quarter rate of construction represented a decline of -75 percent from the peak permit level of 2004 (213,000 homes).

The near-term outlook for new home construction is just as uncertain as that for existing homes. For one thing, the state's homebuilders must work through any inventories of unsold homes built up earlier in 2010. Further, newly built dwellings will have to compete against low-priced, previously foreclosed homes, making them look unprofitable.

The more optimistic industry observers don't expect a significant upturn in new home construction until later in 2011 or 2012, while the pessimists worry that substantial improvement might take several years.

Commercial Real Estate

California's commercial real estate markets declined drastically during the recession. Vacancy rates increased, asking rents dropped and external development funding virtually disappeared. The situation was most problematic for retail, office and industrial space.

With most lenders and investors unwilling to commit new funds for commercial real estate development, construction of new commercial space plunged. The volume of transactions turned up in 2010, though the level of activity remained muted compared to the pre-recession period.

Demand for office space continued to be slow in the fourth quarter, reflecting weak employment trends in office-based industries. Many firms are still reluctant to hire new workers and those that are adding staff are reconfiguring existing space to accommodate them. Fewer firms are vacating space, but they are taking advantage of soft market conditions to negotiate concessions from landlords.

Office rents continued to weaken in most locations due to space overhang, but both rents and vacancy rates are showing signs of stabilization and may be near bottom. The office construction pipeline has nearly run dry and most companies have stopped shedding employees, but vacancy rates will remain elevated until employment turns up more strongly.

Office vacancy rates continued high in most California metro areas during the fourth quarter.

- In the **Inland Empire**, the average office vacancy rate held steady at 23.9 percent.
- **Orange County's** vacancy rate eased down to 20 percent.
- In **Sacramento**, the average office vacancy rate ticked up to 20.6 percent in fourth quarter 2010, just above **San Diego County's** 19.4 percent rate.
- **Silicon Valley** saw its vacancy rate edge up to 18.6 percent.

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● In **Oakland,** the average vacancy rate moved down to 17.7 percent in the fourth quarter from 17.9 percent the previous quarter, while the **San Francisco** rate fell to 17.4 percent from 17.7 percent.

● **Los Angeles** recorded a 17 percent rate for the quarter, unchanged from the previous quarter.

● Meanwhile, in **Ventura County**, the rate ticked up to 16.5 percent (third quarter 2010, latest data available).

Industrial vacancy rates were relatively high during the fourth quarter, but were on the decline in every area except Sacramento. The lowest vacancy rates were in Los Angeles County, at 3.2 percent, followed by the East Bay at 5.6 percent and Orange County at 6.3 percent.

Vacancy rates were highest in San Jose (15.3 percent), Sacramento (12.1 percent), San Diego (11.9 percent) and the Inland Empire (10 percent).

Non-Residential Building Permits

The total value of non-residential building permits in California increased by +7.7 percent in 2010 compared with 2009. Permits for office buildings increased by +4.6 percent, but the value of industrial permits fell by -2.1 percent.

The level of construction activity remained very low compared with the pre-recession period, with industrial permit values -62 percent below 2008 and the value of office permits down by -73 percent.

However, several metropolitan areas posted significant gains in total non-residential permit activity in 2010: San Francisco (+31.5 percent), Orange County (+19.8 percent), San Diego (+12.8 percent) and the Inland Empire (+10.2 percent). Lagging behind were Los Angeles (-3 percent), San Jose (-6.9 percent), Oakland (-8.3 percent) and Sacramento (-24 percent).

Lender financing for most types of commercial real estate projects continues to be difficult to obtain. However, traditional investors do have some funds available for well-priced, high-quality projects in favorable locations. Non-residential permit values are expected to continue at relatively low levels until the economic recovery gathers more strength.

Risks

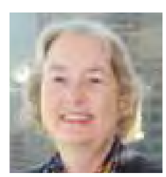
Risks appear to be about even, though the downside issues certainly receive more attention. The economy clearly has passed the bottom of the 2008–2009 recession; however, the level of activity is not visibly higher except in certain industries. Also, some observers are still unconvinced about the recovery's staying power.

One key event risk would be renewed volatility in global capital markets. Central banks and governments around the world have poured trillions of dollars into their financial sectors and some, like the Federal Reserve, continue to do so. While the results of their efforts are clear, markets are still fragile and easily upset. Instability in capital markets could spill over into the real economy if money-center banks cut back on lending to businesses and consumers.

Another identifiable risk concerns the state's still-troubled housing industry. Home sales slowed markedly after federal government tax credit programs expired. How long will the slowdown last? Is the industry—already weakened after several bad years—strong enough to weather another downturn?

There is also an upside risk best described as "Optimism Returns." Consumers and businesses have been worrying about the economy and their own financial situations for more than two years now. And yet the economy seems to be on the mend. Retail sales have improved and so have international trade flows. Industrial production rates are rising, especially in the state's high technology sector.

Attitudes have not improved as much as revenues, but they might yet catch up. Economic recoveries often begin slowly and then run faster than economists project. The Council would be delighted if this recovery follows such a path!



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 Nancy Sidhu, vice president and chief economist, Los Angeles County Economic Development Corporation.

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

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