Hitchcock Automotive CEO to Serve as 2013 Chair

Frederick E. “Fritz” Hitchcock, Jr., chairman and chief executive officer of Hitchcock Automotive Resources, has been elected as 2013 chair of the California Chamber of Commerce Board of Directors.

He succeeds Timothy S. Dubois, president of The Edward Thomas Collection, in the top volunteer position for the CalChamber.

“It is an honor to serve as CalChamber’s 2013 chair,” said Hitchcock. “I look forward to a year of working with my fellow board members on improving California’s job climate and strengthening our economy.”

Serving with Hitchcock as 2013 officers of the CalChamber Board are:

● First Vice Chair Anne Buettner, senior vice president, corporate tax, The Walt Disney Company.
● Second Vice Chair Joseph M. Otting, president and chief executive officer, OneWest Bank, FSB.
● Third Vice Chair Michael W. Murphy, president and chief executive officer, Sharp Health Care.

CalChamber Receives Korean Presidential Citation

Susanne Stirling, CalChamber vice president of international affairs, accepts the prestigious Presidential Citation from the government of the Republic of Korea from Consul General Jeong Gwan Lee (right) at the CalChamber Board of Directors dinner on December 6 in San Francisco. As translated by Consul Kwang Ho Lee (left), the citation recognizes CalChamber for promoting U.S.-Korea trade and commercial relations, and specifically for contributing to the passage of the U.S.-Korea Free Trade Agreement, which took effect March 15. More information at www.calchamber.com/korea.

New Taxes to Take Effect January 1 to Fund Health Care

Billions of dollars in new taxes will go into effect on January 1, 2013 to fund provisions in the health care law passed in 2010.

The new taxes include an increase in the payroll tax on wages, a tax on investment income (including interest, dividends and capital gains) and a new tax on medical devices.

Higher Medicare Tax

Currently, a 2.9% Medicare payroll tax (1.45% from employees and 1.45% from employers) is the primary financing source for Medicare’s hospital insurance trust fund, which pays hospital bills for beneficiaries, who are 65 and older or disabled.

Self-employed people pay the entire 2.9%, but are permitted to deduct half the amount for income tax purposes.

Starting January 1, 2013, single taxpayers earning more than $200,000 and married couples earning more than $250,000 will be taxed an additional 0.9% (2.35% total) for earnings over that base amount.

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Labor Law Corner
Employee Poster/Pamphlet Changes Set to Take Effect in 2013

Will there be changes to posters and pamphlets for 2013?
Yes. Anticipated changes for 2013 include:

Posters
- Notice to Employees — Injuries Caused by Work, Division of Workers’ Compensation (DWC).
- Discrimination and Harassment Notice, Department of Fair Employment and Housing (DFEH).
- Notice B—Family Care and Medical Leave and Pregnancy Disability Leave, DWC.
- Notice to Employees, Employment Development Department (EDD).
- Safety and Health Protection on the Job, Cal/OSHA.
- Notice Employee Polygraph Protection Act, U.S. Department of Labor (DOL).

Pamphlets
- Paid Family Leave, EDD.
- State Disability Insurance, EDD.
- Unemployment Insurance, EDD.
- Workers’ Compensation pamphlet, California Chamber of Commerce.
- Sexual Harassment Information, CalChamber.

The CalChamber has a complete list of required notices and posters available at www.HRCalifornia.com.

Some employers may be required to post notices that are unique, based on the type of business, geographical location, work done by employees, or types of hazards in the workplace. HRCalifornia’s “Posters for Unique Situations” contains a wizard that will help employers determine other posting requirements.

Through the CalChamber store, employers can order the 2013 Required Notices Kit—which includes all state and federal required employee notices, plus all five required employee pamphlets, updated as necessary for 2013.

Also available is a San Francisco poster that includes the notices required by city ordinances in English and five other languages.

Poster Protect
- There are potential additional mandatory changes after January 1, 2013, as implementation of workers’ compensation reform measures begin.
- Poster Protect® customers can opt for a no-cost, all-in-one poster. If mandatory changes occur during 2013, customers enrolled in Poster Protect will automatically receive a replacement poster, paying no shipping, handling or tax for the update.

For more information, visit www.calchamberstore.com.

CalChamber-Sponsored Seminars/Trade Shows

More information at www.calchamber.com/events.

Labor Law
HR 101: Intro to HR Administration.

Business Resources

International Trade
2013 North America Road Show. inPeru. January 31, San Francisco. (511) 619-3333, ext. 2169.
CeBit 2013: Shareconomy. Deutsche Messe. March 5–9, Hannover, Germany.

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.
Advocacy Return on Investment

2012 Sample Return on Investment for CalChamber Members

- Targeted Tax on Services Vetoed (AB 1963) $10.5 Billion Saved
- State Government-Run Health Care Defeated (SB 810) $10 Billion Saved
- California-Only Food Labeling Mandate Rejected (Proposition 37) $6.4 Billion Saved
- Repeal of Net Operating Loss (NOL) Carryback Deduction Stopped (AB 2408) $4.8 Billion Saved
- Ex-Im Bank Reauthorized (HR 2072) $4.7 Billion Saved
- Polystyrene Food Container Ban Defeated (SB 568) $2 Billion Saved
- Film Tax Credit Extended (SB 1197/AB 2026) $1.9 Billion Saved
- Workers’ Compensation System Reformed (SB 863) $830 Million Saved
- Hidden Tax Increase Stopped (AB 832) $100 Million Saved
- Health Care Mandate Vetoed (AB 1000) $3.5 Million Saved

Total Definable Return $41.2 Billion

Return Per California Employee $3,430

Other Savings from Legislation Stopped

- Exposure to Costly Discrimination Litigation Amended/Vetoed (AB 1450) up to $70,000 per lawsuit/
  $10,000 penalty per violation
- Expansion of Discrimination Litigation Stopped (AB 1999) $70,000 per lawsuit
- California-Only Mandated Benefit Stopped (AB 2039) $70,000 per lawsuit
- Uniform Requirement Vetoed (AB 2389) $70,000 per lawsuit
- Heat Illness Liability Vetoed (AB 2346) $70,000 per lawsuit
- Increased Cost for Agricultural Employers Defeated (AB 1313) $6,500 per agricultural employee
- Automatic Minimum Wage Hike Stopped (AB 1439) $360 per minimum wage employee

Passage of Permanent Normal Trade Relations with Russia

Will translate directly into new export sales and U.S. jobs. U.S. exports to Russia—topping an estimated $11 billion in 2011—could double or triple, according to the President’s Export Council.

"The involvement and voice of employers is more important than ever.”

Timothy S. DuBois
President
The Edward Thomas Collection
2012 CalChamber Chair

CAPITOL WATCHDOG
Each year, CalChamber tracks more than 3,000 legislative proposals on behalf of member businesses.

MAJOR VICTORIES
CalChamber scores major victories for employers through targeted advocacy and political action. See www.calchamber.com/majorvictories

ABOUT US
CalChamber is the largest broad-based business advocate in California, working at the state and federal levels to influence government actions affecting all California business. As a not-for-profit, we leverage our front-line knowledge of laws and regulations to provide affordable and easy-to-use compliance products and services.
Hitchcock Automotive CEO to Serve as 2013 Chair of CalChamber Board

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Frederick E. Hitchcock, Jr.

Hitchcock is owner and operator of four automobile dealerships located in Southern California: Puente Hills Toyota/Scion in City of Industry; Northridge Toyota/Scion in Northridge; Toyota/Scion of Santa Barbara in Santa Barbara; and South Bay BMW/MINI in Torrance.

He is also chairman and chief executive officer of Hitchcock Commercial Properties Inc., Hitchcock Commercial Properties LP, Hitchcock Real Estate Holdings and HAR Consulting, all in City of Industry.

Hitchcock began his automotive career as a management trainee with Chrysler’s Dodge Division in Anaheim, where he rose to be a district sales manager before leaving to join William’s Management Company, a multi-line auto dealer in Encino.

His first new auto dealership, acquired in 1969, was Leon Ames/Marina Ford in Redondo Beach, which he sold in 1979 to relocate to City of Industry.

Hitchcock has served as chairman of the 7,800 dealer-member American International Automobile Dealers Association (AIADA) and was a co-founder of the Automotive Free International Trade Political Action Committee (AFIT-PAC) based in Alexandria, Virginia. He also has served as president of the California New Car Dealers Association and chairman of the Toyota and Mazda National Dealer Councils.

Hitchcock is past president of the State of California’s New Motor Vehicle Board and was Southern California director of the National Automobile Dealers Association (NADA) and a 21-year President’s Club member of the Dealers Election Action Committee (DEAC).

His personal awards include the 1988 and 1995 All-Star Dealer Award from Sports Illustrated magazine, 1998 and 2011 Quality Dealer Award from Time magazine for the state of California. Hitchcock is also an ambassador of the National Automobile Dealer’s Charitable Foundation.

2013 Officers of CalChamber Board of Directors

Anne Buettner
Joseph M. Otting
Michael W. Murphy

2013 At-Large Members of CalChamber Executive Committee

Gaurdie E. Banister
Sandra O. Floyd
Mark Jansen

He is an Iowa native, a graduate of Sacred Heart High School in Oelwein, Iowa, and attended the University of Iowa in Iowa City, Iowa for three years.

Executive Committee

The CalChamber Executive Committee also named its three at-large members. Serving in the rotating position will be:

- Gaurdie E. Banister, president and chief executive officer of Aera Energy LLC;
- Sandra O. Floyd, president and chief executive officer of Outsource Consulting Services; and
- Mark Jansen, president and chief executive officer of Blue Diamond Growers.

In addition to the at-large members and current officers, the Executive Committee includes the last three Board chairs. The Executive Committee works with the CalChamber’s top management to determine policy, financial and program direction, including, when necessary, providing policy guidance between the Board’s regular quarterly meetings.

Staff Contact: Dave Kilby

New Laws Affect California Employers in 2013

See the videos at www.youtube.com/hrcalifornia

Next Alert:
January 11, 2013
GO-Biz Director Seeks Business Input on Troublesome Regulations

Officials from the Governor’s Office of Business and Economic Development (GO-Biz) said they can serve as advocates for business within the administration at an international breakfast forum presented by the California Chamber of Commerce Council for International Trade (CCIT).

Kish Rajan, named as the Go-Biz director in September, and Paul Oliva, deputy director, international affairs, GO-Biz, were featured speakers at the breakfast forum on December 7.

Oliva, founder and principal of his own global communications firm, served as senior adviser to the Bay Area Council and headed the California APEC 2011 Organizing Committee, which hosted meetings for the high-level diplomatic talks in San Francisco in September 2011 for delegates representing the Asia Pacific Economic Cooperation (APEC) economies.

The CCIT is chaired by Susan Corrales-Diaz of Systems Integrated; the vice chair is Mark Jansen of Blue Diamond Growers.

Commission: Consumers Need Answers on Renewable Energy Costs

A bipartisan and independent state agency charged with recommending ways to improve the efficiency and effectiveness of state programs has urged Governor Edmund G. Brown Jr. to help clarify the aggregated costs and consequences of the energy policies being implemented in California.

Energy Transformation

California is in the middle of a massive transformation from a system powered mostly by fossil fuels to one in which one-third of all electricity will come from renewable energy sources.

The report released December 3 by the Little Hoover Commission, Rewiring California: Integrating Agendas for Energy Reform, makes several recommendations focusing on ensuring that California succeeds in its transformation.

The commission recommends that the Governor task the appropriate parties to develop a comprehensive and prioritized action plan to attain its energy and environmental goals and minimize costs.

The commission also recommended the state begin the process of modernizing its energy governance structure and enhance consumers’ ability to better manage their own energy use and electricity bills.

The commission notes that as California implements policies to achieve its ambitious renewable energy goal, the state also is implementing groundbreaking legislation to reduce greenhouse gas emissions, is encouraging the expansion of distributed renewable energy, such as rooftop solar, and is implementing water quality rules that require major retrofitting for 19 coastal power plants, including the state’s two nuclear plants.

Concerns

The commission raises concerns about issues that increase the risk of policy failure, if unaddressed:

- In a short period, the state has adopted a series of transformative policy initiatives, any of which taken individually would take years of careful planning to implement. The policies were adopted one at a time without the benefit of a cohesive design. Now they are being implemented simultaneously without an overarching plan.
- The state has not produced a comprehensive assessment of the total cost of implementing this group of policies, inhibiting consumers and businesses in their ability to plan for this new future.
- The state lacks the ability to impose order on the multitude of proceedings that determine how these policies unfold, order which is essential to ensuring the state maximizes progress toward each of its policy goals.
- The commission specifically expresses concerns regarding reliability and the costs of integrating renewable energy onto the grid by the state’s self-imposed deadline of 2020.

In its report, the commission commends improvements that have occurred in the past decade: Various state organizations with a role in energy are communicating and collaborating as never before. The commission believes, however, that the current structure still lacks accountability.

Report on Website

The commission has submitted its recommendations to the Governor and the Legislature for their consideration and action. For a copy of the report, visit the commission’s website: www.lhc.ca.gov.
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Changing Political Landscape, ‘Fiscal Cliff’ Get Board Review

Willie Brown, two-term mayor of San Francisco and former speaker of the California Assembly, concludes an after-dinner talk filled with anecdotes from his days as the longest-serving Assembly speaker with an appeal to listeners to support new ways of giving students access to education.

Political columnist Dan Walters of The Sacramento Bee comments on issues likely to arise as the Democratic supermajority and largest number of freshmen legislators in recent history take office at the State Capitol.

Stephen F. Hayes, senior writer at The Weekly Standard, offers a Washington, D.C. perspective on how Congress might deal with the ‘fiscal cliff.’

New Taxes to Take Effect January 1 to Fund Health Care

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A questions-and-answers document available from the Internal Revenue Service (IRS) notes that an employer must withhold the additional Medicare taxes from wages paid in excess of $200,000 in a calendar year without regard to the individual’s filing status or wages paid by another employer.

The document recommends an individual make estimated tax payments and/or ask that additional income tax be withheld if he/she anticipates additional liability due to the new Medicare tax. If the taxpayer anticipates not meeting the tax threshold for joint filers, that individual cannot ask the employer to stop withholding the additional Medicare tax, according to the IRS document.

The document advises the individual to claim credit for any withheld additional Medicare tax on his/her income tax return.

New Tax on Investments

The new tax on investment income also is to support Medicare. That 3.8% tax will be imposed on the lesser of the individual’s net investment income or the amount by which the individual’s modified adjusted gross income (AGI) tops $200,000 (single) or $250,000 (married filing jointly).

Net investment income includes interest, dividends, royalties, rents, gross income from a trade or business involving passive activities or that trade in financial instruments and commodities, and net gains from the disposition of property held in a trade or business that is a passive activity or that trades in financial instruments and commodities.

Excluded from investment income are distributions from qualified retirement plans and any items taken into account for self-employment tax purposes.

New Tax on Medical Devices

A new 2.3% tax will be levied on the gross sales of medical devices intended for use in a medical institution or by a medical professional.

The law included an exception from the tax for retail items purchased by the general public (not medical professionals) for individual use, such as eyeglasses, contact lenses and hearing aids.

The final IRS regulations include a series of examples to illustrate how a device might qualify for the retail sale exemption.

Other Changes

Other changes due to the health care law that will affect taxes:

• Medical expenses deduction raised from 7.5% of AGI to 10%. Taxpayers currently can take an itemized deduction for unreimbursed medical expenses that exceed 7.5% of AGI. The floor is raised to 10% starting January 1, 2013.

• New limit on health care flexible spending plans. There had been no limit to the amount of contributions to a flexible spending arrangement (FSA), which allows an employee to set aside a portion of earnings to pay for qualified expenses as established in a cafeteria plan. Allowable contributions to health FSAs are capped at $2,500 per year starting January 1, 2013. The dollar amount will be indexed to inflation after 2013.
Looming ‘Fiscal Cliff’ a Major Concern as State Economy Continues to Improve

The California Chamber of Commerce Economic Advisory Council concluded that the U.S. economy will be in the 2%-plus growth mode for a while, which represents a slowdown from the approximately 3%-plus long-term growth rate that the United States has experienced since World War II. Moving forward, real world gross domestic product (GDP) is likely to grow at around 2.5% for several years, which is down from its long-term growth rate as well.

World growth has been decelerating in 2012 because of the euro crisis and the significant reduction in the speed of economic growth of formerly fast-growing Asian and Latin American economies. The economic weakness worldwide triggered export declines from California to Europe and China during the first half of this year. However, California exports were still positive in the first half because of relative export strength to Mexico, Canada, Japan and Korea.

With Europe muddling through, the biggest risk for the U.S. economy remains the U.S. “fiscal cliff,” which consists of about $728 billion of tax increases and spending cuts that could start hammering the U.S. economy by January 2013, unless Congress comes up with a deal to fix it. The fear is that uncertainty concerning these two risks may impact economic outcomes even more than has previously occurred. Major market turbulence beyond the day after President Barack Obama won the election should be expected.

With respect to the crisis in the eurozone, the European Central Bank’s (ECB) explicit policy to buy unlimited amounts of government bonds issued by countries struggling to pay their debts has eased market fears, despite the fact that the eurozone fell into a recession earlier this year.

This report will focus on the current situation and convey forecasts about some key statistics, such as the expected economic and job growth in 2012. Then, it will examine crucial California subsectors, namely agriculture, tourism and housing.

The main notions about the current situation coming out of the discussions of the council’s distinguished economists are the following.

U.S. Situation

The U.S. economy disappointed again in the third quarter of 2012, but it did not slip back into another recession. Real consumer spending increased 2% in the third quarter and was up from 1.5% the quarter before. Meanwhile, nonresidential fixed investment decreased 1.3%, while equipment and software was virtually flat. Exports declined by 1.6% in the third quarter. Residential fixed investment, however, increased 14.4% and government spending rose 0.71%, which was driven by sharp increases in defense spending.

Recent trends in U.S. job data exhibited job growth, but it was not strong. Just 171,000 payrolls were added in October this year and the unemployment rate stayed at 7.9%, unchanged from September 2012.

Since the beginning of this year, employment growth has averaged 157,000 jobs per month, a little more than the average monthly gain of 153,000 in 2011. In October, employment rose in professional and business services (+51,000), health care (+31,000), retail trade (+36,000), leisure and hospitality (+28,000), and construction (+17,000). Manufacturing showed little change and mining lost 9,000 jobs. Private sector employment growth, which excludes government, was 184,000 jobs for the month.

With respect to monetary policy, the Fed announced on September 13 that it would rev up the economy with its controversial QE3 (quantitative easing) program. The program will entail buying $40 billion in mortgage-backed securities each month for an unspecifiable duration. In tandem with its Operation Twist, the Fed will add $85 billion each month in long-term bonds to its balance sheet, which could reach $4 trillion by the end of this year, according to some estimates.

By keeping rates low and increasing the money supply the Fed hopes to boost the stock market and fuel more spending and more hiring. Meanwhile, banks are sitting on $1.6 trillion in reserves, while credit standards remain tight. While the ultimate impact may not be great, the Fed’s policy of two previous rounds of quantitative easing may already have...

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propelled increases in construction and home prices. The council worries that the expansion in the money supply could set up the U.S. economy for inflation in the future if the economy starts to grow faster.

In light of the signs of continued sustainable but subpar growth in the private sector and some anecdotal evidence of postponed hiring and investment plans due to the fiscal cliff danger, the economic advisers predict that GDP growth will be around 2%-plus this year, while the nation’s unemployment rate could drop just below 8% by the presidential elections this November. Looking forward, economic growth and job gains are likely to continue to be slow in 2013.

California Economy Subpar
But Better than Nation

On the surface it looks like California is maintaining a moderate momentum. In September the state added 262,000 jobs on a year-over-year basis. This was the second fastest year-over-year absolute nonfarm job growth in the nation behind Texas. On a seasonally adjusted basis, California added 8,500 jobs for a total gain of 508,600 jobs since the recovery began in February 2010. The California unemployment rate was still a high 9.7%, however, down from 10.4% in August this year and down from 11.5% a year ago.

The improved job picture was broad-based in terms of industries and regions. Ten major industry sectors added jobs on a year-over-year basis in September. Six categories (trade, transportation and utilities; information; financial activities; professional and business services; educational and health services; and leisure and hospitality) added jobs over the course of the month, gaining 28,300 jobs. Leisure and hospitality posted the largest increase over the course of the month, adding 10,700 jobs. Five categories (mining and logging; construction; manufacturing; other services; and government) reported job declines over the month. Government posted the largest monthly decrease in September, down 6,400 jobs.

The California economic recovery continued to broaden also on a regional basis.

High Unemployment

Looking forward, the CalChamber’s economic advisers continue to be concerned about California’s high unemployment rate. If there is no fiscal cliff accident, the state’s overall job growth will continue to plug along aided by relatively good income and taxable sales growth. Also, new home construction will turn the corner and will contribute to the state’s economic activity in 2013, albeit not with the same vigor as in previous economic recoveries.

A California-specific risk is represented by the passing of Proposition 30, which will result in the highest top marginal income tax rate on record in California. The small sales tax increase poses another risk. The top tax rates could curb so-called angel investor activities.

Business angels or informal investors are affluent individuals who provide capital for business start-ups, usually in exchange for convertible debt or ownership equity. A small but increasing number of angel investors organize themselves into angel groups or angel networks to share research and pool their investment capital.

The increase in the top bracket income tax rate could reduce financial support of new enterprises by California’s affluent, who are one of the most entrepreneurial groups in the nation. Also, the sales tax increase is regressive and will hurt the less affluent.

Housing Recovery Signs

The California housing recovery began this spring. New housing production was up on an annual running basis (adding up the last 12 months) by 25.3% in September from the year before. This was driven by a sharp rise in multi-family construction, which grew 38.2% during the same time period.

Multi-family construction growth will continue to lead the state’s housing market next year as more and more public builders rediscover the urban infill market. However, new housing development action will also result in more ownership housing construction next year as the housing market recovers. Many builders have underestimated the strength of demand for their product this spring and are running out of finished lots.

The state’s home resale market is growing again with heightened activity in the Bay Area. The new trend is that with economic growth, higher resale activity is spreading to all corners of the state. Major positives are historically high housing affordability and surprisingly low inventory to sales ratios in the state’s multiple listings systems. Both suggest that the worst of the California housing crisis is over. In some urban areas, we
Looming ‘Fiscal Cliff’ a Major Concern as State Economy Continues to Improve

Southern California Economy

The counties in the five-county Los Angeles metro area have seen growth so far this year, but the pattern of growth has varied, with Orange County leading the way. Unemployment rates have leveled out in recent months after showing some improvement in the last half of 2012. Job gains have been as good as or better than for the nation as a whole so far this year. The housing market is showing renewed life with good sales numbers and an increase in home prices, as more high-priced homes are being bought, fewer distressed properties figure into the mix, and high foreclosure discounts become history.

Los Angeles County lagged behind neighboring counties in recovery from the Great Recession over the last two years, but it has finally gathered momentum in 2012. The monthly seasonally adjusted unemployment rate fell by 2.3 percentage points to 10.2% in September 2012 from the year before. The overall rate of nonfarm job growth also picked up on a year-over-year basis in September this year, while a number of industries experienced an increase in activity and more robust job growth.

Orange County has led the region in the economic recovery from the Great Recession over the last two years, and has an unemployment rate that stood at 7.1% in September. The overall rate of job growth picked up slightly during the first few months of this year, with an average year-to-year growth rate of 1.8%.

The Inland Empire (Riverside and San Bernardino counties) has struggled in its recovery from the Great Recession over the past two years, and has a volatile unemployment rate that stood at 11.6% in September. The overall rate of nonfarm job growth picked up in September to 1.5% annually.

California Agriculture

2012 is generally wrapping up to be a good year for California agriculture, although there remain challenges for some sectors.

Dairy

Milk prices have bounced back from lows this year, as severe temperatures and high feed costs have impaired production conditions. Many operators, especially those without their own feed crop production and/or other crop diversification, have had losses so far this year.

Dairy herds in California were already being culled before feed costs skyrocketed with the Midwest drought. Hay prices have fallen only modestly. Overall margins are expected to improve in 2013, as the U.S. herd is reduced, assuming export and domestic demand remain strong and feed crop conditions improve worldwide.

Other Livestock

Poultry producers, impacted by high feed costs, have reduced production and have been negatively impacted by the higher feed costs again. Beef prices have declined from their highs as stockers are sent early to feedlots, but are expected to rise to record levels next year, as the herd is reduced and the fed cattle pipeline is cleared. Grazing conditions improved with late spring rain.

Fruits, Nuts, Vegetables

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

Wine/Wine Grapes

California wine grape growers will benefit from much higher prices this year, as wine sales improve and yields appear good during 2012. The weather problems in the wine grape crops on the coast in the last couple of years have sharply reduced inventories. Plantings of new vineyards in California continue to increase. Wineries report significant reductions in their finished inventories, though consumers are resisting a full return to the higher retail prices wineries enjoyed before the recession.

Field Crops

Hay and cotton producers are enjoying good prices above historical averages, although they are not as high as they were...
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in 2011. Corn and other grain crops will do very well this year because of the drought in the Midwest.

Weather and Water

Temperatures have finally moderated after record high averages for August and September, providing relief to people and livestock. Harvest conditions were ideal, absent of any significant rains. Most reservoirs are at historical averages or better, despite the poor precipitation levels earlier this year. This is good news going into the new water year, in case it proves to be dry again.

Labor

Many producers report the positive availability of labor in California for fruit and vegetable producers, but are apprehensive about labor availability due to the improved economy in Mexico and possible federal regulatory changes requiring stricter worker documentation.

Interest Rates and U.S. Dollar

Low interest rates continue to offset input cost increases and support recent agricultural real estate appreciation. Moderate U.S. economic growth and low U.S. interest rates will keep the U.S. dollar relatively weak, although stronger than 2011.

The U.S. dollar has recently appreciated, as investors seek a “safe haven” from the growing European financial turmoil. However, it is not expected to return to historical values until U.S. economic growth and interest rates rise significantly. Accordingly, U.S. agricultural and food products will remain relatively competitive this year for most importers.

California Tourism Doing Well

California tourism continues to recover and is doing well. The year-to-date hotel occupancy increased and so did the average daily room rate. Regionally, the Bay Area daily room rates are doing very well, followed by a good performance in Los Angeles County.

Travel numbers are also up year-over-year, in domestic travel and in international travel. California welcome centers also saw increases over the same period.

Overall, leisure and hospitality is one of the fastest-growing industries in California, adding 67,500 jobs between September 2011 and September 2012.

Summation

The crisis in the eurozone remains a risk, although the waves of panic of the recent past may be history. The fiscal cliff is a major concern and could push the U.S. economy into another recession if it does not get resolved.

Nevertheless, the outlook remains mildly positive as global economic growth is expected to continue to run at 2.5% to 3%. While California export growth will slow, it will continue to grow.

Furthermore, the construction industry will finally become a contributor to economic growth in the Golden State. California housing prices are already rising at a good pace and will continue to do so next year. Tourism and agriculture should also give the state an economic boost in 2013.

Water and electricity concerns have abated. Declining government will be a drag on the economy, but this will be offset by strengthening and sustainable business activity in the private sector. An encouraging sign is that the economic recovery is spreading to the California interior.

Staff Contact: Dave Kilby

The California Chamber of Commerce Economic Advisory Council, made up of leading economists from the private and public sectors, presents a report each quarter to the CalChamber Board of Directors. The council is chaired by Gerd-Ulf (GU) Krueger, principal economist for KruegerEconomics.

Publication of this report is a project of the California Foundation for Commerce and Education.
Business One Step Closer to Gaining Access to Russian Market as U.S. Senate OKs Bill

The U.S. Senate approved California Chamber of Commerce-supported legislation on December 6 that will enable U.S. companies to compete in the growing and profitable Russian marketplace.

H.R. 6156, establishing Permanent Normal Trade Relations (PNTR) with Russia, passed the Senate by a vote of 92-4. The CalChamber is urging U.S. President Barack Obama to sign the PNTR legislation.

Both of California’s U.S. senators, Dianne Feinstein (D-San Francisco) and Barbara Boxer (D-Rancho Mirage), voted for the bill. The U.S. House of Representatives approved the legislation on November 16.

Market-Opening Reforms

Passage of the PNTR legislation will enable U.S. companies to gain the benefits of the market-opening reforms that were part of Russia joining the World Trade Organization (WTO) in August.

Russia’s joining the WTO was a welcome development for American workers, farmers and companies. Joining the WTO includes a commitment by Moscow to further open its market, safeguard intellectual property and investments, and strengthen the rule of law. The result could be more U.S. exports and more American jobs, as U.S. companies see huge potential in Russia, by far the largest economy in the world that had yet to join the WTO.

The Russia PNTR legislation passed the U.S. House Ways and Means Committee and the U.S. Senate Finance Committee before the election. Supporters of PNTR for Russia encouraged the White House and Congress to work together to ensure passage of Russia PNTR this year.

The legislation is crucial in order for U.S. manufacturers, service providers, agricultural producers and their employees to take advantage of the many market-opening and transparency commitments that form Russia’s accession package to the WTO. PNTR also gives the United States a powerful tool by enabling the United States to ensure that Russia abides by those commitments through internationally binding WTO dispute settlement.

Trade Opportunities

Russia is the world’s ninth largest national economy with 140 million increasingly prosperous consumers. Russia also has exhibited a growing demand for high quality goods and services. Yet many of Russia’s WTO commitments that will greatly improve its business climate will be out of the United States’ reach—unless the Russia PNTR legislation is signed. These WTO commitments include Russia’s adherence to the rules of the international trading system regarding intellectual property rights, science- and risk-based regulation for animal and plant health, and liberalizations in key sectors such as services.

Of the top 15 U.S. trading partners, Russia was the market where American companies enjoyed the fastest export growth last year (38%). Approval of Russia PNTR legislation will translate directly into new export sales and jobs in the United States. The President’s Export Council estimates that U.S. exports to Russia—which, according to estimates, topped $11 billion in 2011—could double or triple following Russia’s membership in the WTO. Meanwhile, the United States gives up nothing—not a single tariff—in approving PNTR with Russia.

Russia is an important part of U.S. business’ global strategy to create and sustain jobs at home by enhancing long-term competitiveness abroad. Many U.S. companies have developed vibrant, profitable and rapidly growing businesses and trade with Russia, with clear strategic benefits to parent companies, exports from, and employment in, the United States. Without PNTR, U.S. companies and their employees will be left behind competitors in this growing and profitable market.

Moving Beyond Outdated Law

The short and simple bill establishing PNTR for Russia moves it beyond the outdated requirements of the Jackson-Vanik amendment to the Trade Act of 1974. The amendment was enacted with the chief purpose of ending the policy that prevented emigration of Jews from the then-Soviet Union. With respect to Russia, the Jackson-Vanik amendment has accomplished its objective. Russia terminated its exit fees on Jewish emigrants in 1991, and today Russian Jews freely emigrate to Israel and elsewhere.

Since 1992, U.S. presidents of both parties have certified annually that Russia complies with the Jackson-Vanik amendment’s provisions. This certification has allowed the United States to maintain Normal Trade Relations (NTR) status with Russia.

Because no other WTO member has a law similar to Jackson-Vanik, all of Russia’s trading partners except the United States are already benefitting from Russia joining the WTO. If PNTR with Russia is not signed, U.S. industry will continue to be on the sidelines of Russia’s market, at a disadvantage for lucrative contracts, and without the full tools provided by a WTO relationship.

CalChamber Position

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

The CalChamber supports extension of PNTR status and accession to the WTO for Russia as an important step toward greater respect for human rights and political freedom for the Russian people. U.S. trade and investment provide crucial support for the entrepreneurial forces in Russian society that advocate further economic and political reform.

For more information, see www.calchamber.com/RussiaPNTR.

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