

## POLICY WATCH – December 2014

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Happy Holidays! North Bay Leadership Council members and staff wish you a holiday season filled with joy! We end 2014, with a look ahead at the year to come. In this issue, we have collected a variety of predictions for 2015. Guessing what on the horizon is always a challenge and sometimes fun. We hope you agree that the predictions made are interesting, compelling and/or insightful.

As an employer-led public policy advocacy organization, NBLC is always seeking to learn more about what is happening in the workforce, our biggest asset. You will see that 2015 appears to be the year that the war for talent heats up, salaries increase, and the need for higher skillsets and training grows. We look forward to sharing the journey ahead.

Prepare for unknown blessings that are already on their way!

Best,

Cynthia

### Are You Ready for the New Year? Some of These Predictions Might Help!

The following are big and small predictions for 2015. Right or wrong, it will be a year of transition, change, new challenges and lots of opportunities, just like 2014! It is exciting to live in this time where the rules are changing, the past doesn't predict the future and things we never imagined would or could happen do on a fairly frequent basis. Fasten your seat belts and see what rings true for you below: *(29 predictions for 2015: Fortune's Crystal Ball by Fortune Editors, DECEMBER 4, 2014)*



#### The Price of Lattes Will Go Up

"Gas might be cheap, but a different American fuel is getting pricier: The cost of lattes is primed to increase in 2015 — potentially by as much as 30%. Prices of the morning salve's main inputs — coffee beans and milk — are both up, and likely to keep rising. But this is all a preamble to 2080, when the coffee bean might disappear from the planet all together. If morning commutes are still around by then, expect mayhem." *(29 predictions for 2015: Fortune's Crystal Ball by Fortune Editors, DECEMBER 4, 2014)*

#### Getting a Raise in 2015 Looks Good

In his blog, Daniel Gross says, "The median family income in 2013 was \$51,939 — essentially unchanged from the year before and down eight percent in real terms from 2007. In October, average hourly earnings

were up only 2 percent from the year before. A lot of factors come into play — the failure to raise the national minimum wage, a slack labor market with legions of underemployed people, global competition. Each of these conditions is changing. The ground has been slowly shifting over the past 12 months. And next year, many of us are likely to get higher wages.”

Gross elaborates on why he sees a raise in our future. He says, “First, the floor is rising. The federal minimum wage remains stuck at \$7.25. That’s not going to change next year. But there has been a great deal of activity in states and cities. The minimum hourly wage in California, where about 12 percent of Americans live, rose from \$8 to \$9 in July, and is slated to rise to \$10 by 2016. Second, companies are both responding to these changes and acting of their own volition. Increasingly, large employers — especially in consumer-facing service companies — are realizing that keeping wages as low as possible is bad for business. It’s bad optics. It reflects poorly on your brand, and can inhibit the ability to expand into new markets and retain employees. “



“There’s a third factor that should start pushing wages higher in 2015: the labor market is getting tighter,” says Gross. The steady growth in jobs is cause the market to “tilt slightly in the favor of job-seekers. In November, according to the Bureau of Labor Statistics, there were 139.7 million people with payroll jobs — the highest on record. At the end of September, there were 4.7 million job openings in the U.S. — up 787,000 from the year before, and the highest level seen since early 2001. It all adds up to more competition for employers in a range of areas — from computer programming to teachers. Human resources and talent acquisition managers — at all levels — will increasingly realize that if they really want to fill a position, they may have to offer higher pay.” (*Big Idea 2015: This Year, We’ll All Get Raises* by Daniel Gross in his blog - Dec 15, 2014)



### **Is the War for Talent back in full swing?**

Yes! Qualigence International’s Talent Acquisition Forecast 2015 states that “the competition for qualified talent at its highest peak since pre-recession hiring. In fact, it’s estimated that by 2015, 60% of the new jobs being created will require skills that only 20% of the population actually has. A recent report from the American Society for Training and Development says that in 2015, a staggering 76% of all U.S. jobs will require highly skilled workers in areas such as science, technology, engineering, and math. Additionally, Georgetown’s Center on Education and the Workforce estimates that the demand for college educated workers will surpass the supply of this population by 300,000 a year. In other words, there will be 3 million fewer graduates than needed.”

“Across the board, organizations are struggling to find qualified talent to fill positions. According to Robert Half International, more than half (6 out of 10) business owners are having a difficult time finding candidates that have the necessarily qualifications for the role. Managers are finding that posted jobs are not leading them to qualified candidates, according to the report. As a result, the role remains vacant and small businesses suffer – 43% of small business owners said unfilled jobs were hurting their business growth. This is up from 39% in 2012. Paired with a candidate driven market – in which the job applicant has their choice of where to work and not the other way around – organizations are in competition with one another to find and retain the best possible performers”. (*Talent Acquisition Forecast 2015* by Qualigence International [www.Qualigence.com](http://www.Qualigence.com))

### There will be a H1B Visa Lottery for the 2015 Quota

Despite the tightening of H1B Visa rules, with U.S. economy doing fairly well, U.S. unemployment rate decreasing, increase in international students seeking jobs both with masters and OPTs, and the unlucky applicants who were picked in H1B lottery last year, we will have Lottery for H1B Visa FY 2015 Quota. We could expect about 150K to 180 K petitions for this fiscal year. If you have not planned yet, check out the [H1B Visa 2015 Plan and Steps](#), including article on [How to find H1B Sponsors for FY 2015](#). (H1B Visa 2015 Lottery Predictions – USCIS Data, Trends by Kumar <http://redbus2us.com/h1b-visa-2015-lottery-predictions-uscis-data-trends/>)



### Mortgage Rates Will Head Back Up



“The flip side of the improving economy is that (sigh) mortgage rates will inevitably head up again. We've had a great run, but the honeymoon is over, and it's time to settle in for a relationship that balances job growth with higher-but-still-reasonable interest rates. The Federal Reserve has indicated it will increase the federal funds rate--which has an indirect but significant effect on mortgage rates--next year. The rate has remained near zero since December 2008.”

“Although the Fed might wait as late as early 2016, [realtor.com Chief Economist Jonathan Smoke](#) suggested the increase will come in mid-2015, and mortgage rates will increase ahead of the Fed's move. "Our forecast for housing assumes the 30-year fixed rate will reach 5% by the end of 2015," Smoke said. "The one-year adjustable rate will likely rise less if much at all, and accordingly, we are likely to see a shift into more adjustable and hybrid mortgages over fixed." (*Huffington Post "The Blog"*: Posted: 12/14/2014)

### Millennials Will Set Up House

“The millennial generation is beginning its ascent--and no, not all of these youngsters born between 1981 and 2000 are living with their parents as they struggle to pay off student loan debt. Sure, they've faced huge challenges in the job market, but employment is improving, and older millennials are planning ahead.”

“About 65% of first-time home buyers are part of this older millennial group (ages 25-34), Smoke noted, pointing out that these young adults are at an age when many marry and start families.

"Millennials make up around 65% of first-time home buyers," Smoke said. "Of the millennials who are buying a home, 86% indicate that their motivation is a change in family size."



“More than two-thirds of household growth in the next five years is expected to come from millennials, according to Smoke. This generation is bigger than the baby boomer generation, so even though its youngest members will be only 15 in 2015, the market is only beginning to feel its impact.” (*Huffington Post "The Blog"*: Posted: 12/14/2014)

## New Single Family Housing Construction Won't Recover until 2017



David Payne, Kilplinger's Economic Outlook, says, "With the exception of the building and sale of new single-family homes, the housing market is finally nearing normal. Sales of existing homes in 2015 are likely to match or exceed what would have been considered average before the housing boom of the last decade (1999-2002), and the strong rental market has pushed multifamily construction back to normal levels. New-home construction and sales, however, are still at about 50% of pre-bubble levels and will not recover fully until 2017, at least."

"With income and employment rising, demand for housing will increase. Other positives include a million more potential millennial home buyers and easing credit conditions. Down payments for Fannie and Freddie qualifying mortgages have recently been reduced from 5% to 3%, for example, and mortgage lenders are extending credit to borrowers with somewhat less desirable credit scores. Half of mortgage lenders expect improved access to credit for lower prime borrowers (with FICO scores of 620 to 720) over the next six months. Currently, about half of mortgages go to borrowers with FICO scores below 740, up a bit from the 40% level of 2013."

"New-home sales will rise a healthy 25% in 2015 after only a 4% rise in 2014, but that will still put yearly sales at just 560,000, well below the pre-bubble norm of 900,000. Though problems on both the demand and the supply sides are easing, they remain a constraint. There's a shortage of skilled tradesmen, such as carpenters and framers, because many found jobs outside the housing sector when the housing market crashed and construction dried up. Look for housing starts to pick up 20% in 2015, to 1.2 million, after an increase of 7% in 2014. We expect existing-home sales to increase by 8% in 2015, to 5.35 million units, after declining 2% in 2014 from a strong upward bump in 2013."

Payne predicts, "As for home prices, increases will continue to moderate from the big jumps in 2012 and 2013. We look for an average gain in the neighborhood of 3.5% in 2015, following an expected 4% increase this year. The sharp rebounds after the housing bust of last decade are over, and investors are again finding better returns in financial markets." And anyone could predict that in the pricey North Bay, the dearth of new housing will drive up the high costs of housing increasing the amount of people unable to afford to buy in this region. [[Dept. of Commerce: New-Home Sales](#), [National Assn. of Realtors: Existing-Home Sales](#), [Dept. of Commerce: Housing Starts](#)] (Kilplinger's Economic Outlook, TOOL)

## Solar Power Gets Cheaper



The next year may finally be the tipping point for solar. Panel prices have been coming down for a while. But a recent report from Deutsche Bank predicts that 2015 may finally be the year in which it costs less to produce a kilowatt-hour using solar energy than the traditional coal or oil powered electricity grid in a majority of U.S. states. The report predicts that solar power prices will drop nearly 20% in 2015. Deutsche Bank says by 2016 there will be 47 states in which it is cheaper all in to get your energy from the sun rather than

the grid, up from just 10 today. (29 predictions for 2015: Fortune's Crystal Ball by [Fortune Editors](#), DECEMBER 4, 2014)

### **And Other Energy Costs Drop, Too!**

Jim Patterson, in Kiplinger's Economic Outlook, writes, "The crude oil market has all but collapsed. Signs of slowing global demand, mounting stockpiles and continued strong production in the U.S. have driven West Texas Intermediate (WTI) — the U.S. benchmark for crude — below \$60 per barrel, a level not seen since 2009. Look for WTI to rebound modestly in a few months, to a range of \$75 to \$80 per barrel. That's still much cheaper than oil has averaged in recent years, of course."

Outside of California, Patterson predicts, "Motorists will save big bucks at the pump this winter. The national average price of regular unleaded gasoline, now down to \$2.60 per gallon, has fallen 32 cents in just the last month. Odds are, it'll slip below \$2.50 before year-end and hover near that level well into January. Diesel is also off: down 20 cents per gallon from a month ago to a national average of \$3.44. Look for it to slide a bit lower, though winter demand for chemically similar heating oil should keep the decline modest."

In California, the new cap & trade fee on fuel kick in and will increase prices. Luckily, the price increase will occur at a time when the rates are lower.



Patterson says, "Natural gas is also caught up in crude oil's slide, with the benchmark wellhead price down to \$3.73 per million British thermal units. That's below our expected trading range of \$4 to \$4.50 for the beginning of winter. But note that usage is up sharply, which has caused stockpiles of natural gas in storage to decline, even as production soars. That trend should continue as winter wears on, meaning natural gas is likely to return to \$4 fairly soon. [[Dept. of Energy: Price Statistics](#)] (Kiplinger's Economic Outlook, TOOL, December 2014)

### **Social Responsibility Becomes Old School**

In Landor's 2015 Trends Forecast, it says, "A few years ago brand purpose was all about social responsibility, doing good, and building best practices around diversity, environment, and ethical issues. Today, those factors are nonnegotiable for any successful brand, and consumers expect nothing less. In 2015, this conversation will expand to focus on value and quality with people seeking to work for and buy from companies that provide meaningful, authentic products and services. A standard of excellence beyond profitability will be the new norm." (Landor's 2015 Trends Forecast, edited by Trevor Wade, November 2014)

### **2015 Will be the Year of the Microbiome**

"The stool sample is about to go mainstream. Sounds gross, but poop is at the center of a medical revolution focused on the human microbiome — or the trillions of bacteria that reside in our stomachs, mouths, and skin. Now that technology has made it easier to study microbes, a growing community of researchers believes our bacterial ecosystems will unlock the secrets of some of the trickiest medical issues, from obesity to allergies. Data-rich stool is being used to develop successful treatments, and VCs, drug developers, and food manufacturers like Danone are very excited." (*29 predictions for 2015: Fortune's Crystal Ball* by [Fortune Editors](#), DECEMBER 4, 2014)

### **Big Data Getting Bigger**

Peter Sondergaard, Gartner Research, says that, "Big data — storing, securing, and making sense of large quantities of digital information (Forbes) — is slated to become a \$40 billion business in the next three years. This will be directly correlated to a significant increase in the amount of personal data that will be used per person in the next five years. Among these tech roles, Data Analysts will be in high demand to comb through the massive amount of information that companies will use and store. With this tech trend

will also come a need for hiring in related sectors to account for demand, such as sales, customer service, and marketing. “Every big data-related role in the U.S. will create employment for three people outside of IT.”

### **Expect massive spikes in global information security threats**

“Global security threats will continue to increase next year and are as certain as death and taxes. Increases of global information security threats remain as much a certainty as death and taxes, at least according to the latest [Information Security Survey from PWC](#). That report, which was published in October, highlights several troublesome trends and provides valuable information for those concerned with enterprise IT security.”



“PWC rightly points out that cyber security has become a persistent business risk and that threats (both to the economy and intellectual property) are on the rise.” Cybercrime incidents in 2014 show that “financial gain is a key motivator for attackers and that even the most secure organizations are still susceptible to threats, two realizations that should be game changers for those seeking

to protect IT assets from cybercrime.”

“PWC is forecasting that global security incidents are on track to grow some 48% in 2015, which should strike a dissonant chord with the majority of security professionals. (*“2015 prediction: Expect massive spikes in global information security threats,”* by [Frank Ohlhorst](#), TechRepublic, November 19, 2014)

### **Business Spending**

Glenn Somerville, Kiplinger’s Economic Outlook, says “A gradual pickup in the pace of U.S. economic activity next year will spur stronger investment to expand output, though it will fall short of a spending boom. Figure on about a 7% increase next year in total expenditures on new equipment and facilities to meet both more-vigorous consumer demand for factory-made items, ranging from new cars to home furnishings and appliances, as well as business demand for larger products, such as commercial aircraft and machinery destined for overseas markets.”

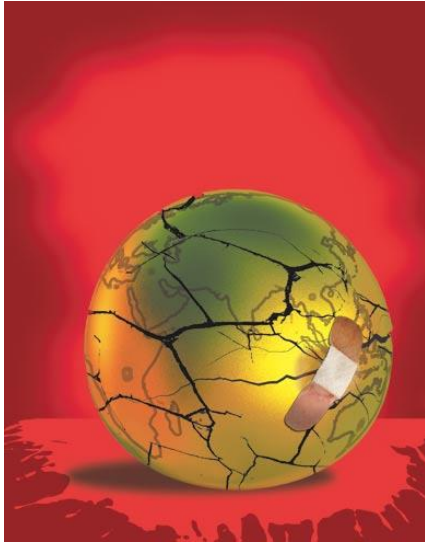
Somerville cautions, “Though that’ll be a modest jump from the 2014 gain (about 5%), it still falls short of the double-digit annual gains in business spending posted before the Great Recession. While the U.S. economy is securely on track for heftier expansion of about 3% GDP growth next year, concern about weakness abroad and the potential impact that will have on U.S. exports will dampen enthusiasm for spending. Japan is in recession, China’s growth rate is slowing, and Europe is struggling to avoid slipping back into recession.”



“The main impetus for more capital spending comes from the manufacturing sector”, says Somerville. Transportation products in particular will drive the increase. Sales of new cars and light trucks are headed for greater heights — in the neighborhood of 16.4 million to 16.5 million — in 2015. Aircraft makers have backlogs that stretch years into the future, and even railroads are cranking up business — adding locomotives and cars to meet demand for carrying oil, fuel and other petrochemical products.”

“Moreover, factories are running at 77.2% of capacity (as of October) — far ahead of the low point of 63.9% touched in 2009. Although that’s still short of the 80% mark that is generally seen as a potentially inflation-inducing bottleneck, it is an indication that factories are nearing the point where they must expand to supply increasing demand. That’s confirmed by other indicators of how busy factories are: Monthly shipments of finished goods have crept higher throughout the year. Unfilled orders continue to grow, and those backlogs will lead to more production in 2015, when economic activity picks up additional steam. And employment is rising in manufacturing industries.” [[Census Bureau: Durable Goods Report](#); [Census Bureau: Business Inventories](#); [Census Bureau: Construction Activity](#)] (Kiplinger’s Economic Outlook, TOOL, December 2014)

### There will Probably (Not) Be a Global Recession



The world economy is still recovering from the last financial crisis, but is another just on the horizon? The consensus view is no, but economist David Levy says yes. He argues that China has over-invested in its export sector for years now without commensurate growth in demand across the developed world, and that this dynamic could trigger a Chinese debt crisis in 2015 that takes down an already reeling Europe and ultimately the U.S. This isn’t a popular view, as plenty of China watchers see the globe’s second largest economy continuing to grow at twice the speed of the world at large. But if the global economy does suffer a major slowdown, trouble Middle Kingdom will be the culprit. (*29 predictions for 2015: Fortune’s Crystal Ball* by [Fortune Editors](#), DECEMBER 4, 2014)

Kiplinger’s **Economic Outlooks** agrees that 2015 looks like a strong year for the American economy. “Looking ahead, there are plenty of positives on the horizon: Hiring is on the rise, job openings are at a near-record level, and layoffs are scarce (indicated by a very low rate of initial unemployment claims since May). Spending on consumer services, such as recreation, is likely to strengthen as incomes rise. Odds are health care spending also will pick up as consumers and providers get used to the new rules. And spending on utilities will stabilize once energy prices stop falling.”

“Moreover, continued job growth and consumers who feel more secure may trigger more-robust income and spending increases, pushing growth over the 3% mark — if not in 2015, then in 2016. And though there’s a possibility that rising [interest rates](#) next year will have a depressive effect, knocking up to half a percentage point off growth, we don’t anticipate that.” [[Dept. of Commerce: GDP Data](#)] (Kiplinger’s Economic Outlook, TOOL, December 2014)

## Kiplinger's Economic Outlooks for 2015

<b><u>GDP</u></b> 2% growth in Q4, with 3% likely in '15	<b><u>Unemployment</u></b> 5.8% at end '14; 5.3% by end '15
<b><u>Interest rates</u></b> By end '15, 10-year T-notes at 3.1%; mortgages, 4.5%	<b><u>Inflation</u></b> 1.6% for this year; 1.9% for '15
<b><u>Business spending</u></b> Up about 5% in '14; increasing by 7% in '15	<b><u>Energy</u></b> Crude oil trading from \$75 to \$80/bbl. by Feb.
<b><u>Housing</u></b> Starts up 20% in '15; new-home sales up 25%	<b><u>Retail sales</u></b> Up 4.5% in both '14 and '15; noncar sales strengthening
<b><u>Trade deficit</u></b> Widening by 5% in '14; 10% increase in '15	<b><u>Practical Economics columns</u></b> Make sense of the latest data and trends

## The 2014-15 Budget: California's Fiscal Outlook

California Legislative Analyst (LAO) has prepared his Fiscal Outlook for the Budget Year 2014-2015. The LAO found that, "Under Current Policies, \$5.6 Billion Projected Reserve at End of 2014-15. The state's 2013-14 budget plan assumed a year-end reserve of \$1.1 billion. Our revenue forecast now anticipates \$6.4 billion in higher revenues for 2012-13 and 2013-14 combined. These higher revenues are offset by \$5 billion in increased expenditures, almost entirely due to greater required spending for schools and community colleges. Combined with a projected \$3.2 billion operating surplus for the state in 2014-15, these factors lead us to project that, absent any changes to current laws and policies, the state would end 2014-15 with a \$5.6 billion reserve."



The LAO said, "We assume continued economic growth in future years. In such a scenario, we project that, under current laws and policies, state General Fund revenues will grow faster than expenditures through 2017-18, when the state's projected operating surpluses reach \$9.6 billion. The state's temporary personal income tax rate increases under Proposition 30 (2012) expire at the end of 2018, resulting in a more gradual ramping down of these revenues over the last two fiscal years of our forecast. This helps prevent a "cliff effect" in our forecast, as our projected operating surpluses remain stable at just under \$10 billion per year in 2018-19 and 2019-20.

There was more good news for the state given the healthy local property tax growth. The LAO said, "Proposition 98 funding for schools and community colleges is provided by a combination of state General Fund spending and local property tax revenues. Throughout our forecast, healthy property tax growth—a byproduct of the recovering housing market—helps moderate the growth of required state General Fund spending on schools and community colleges. In addition to normal property tax growth, the state's fiscal situation is helped by additional increases in school property taxes due to the dissolution of redevelopment agencies and the expiration of the "triple flip." Both of these factors play a significant role in keeping annual state expenditure growth below revenue growth for much of our forecast period.



The LAO urged continued caution noting that “the state’s continued fiscal recovery is dependent on a number of assumptions that may not come to pass. For example, our forecast assumes continuing economic growth and slow, but steady, growth in stock prices. As we discuss in this forecast, an economic downturn within the next few years could quickly result in a return to operating deficits. Further, the normal volatility of capital gains could depress (or boost) annual revenues by billions of dollars. In addition, our forecast assumes that the state repays liabilities with payment schedules set in current law. Other liabilities, including some items on the Governor’s wall of debt and the state’s huge retirement liabilities (particularly those related to the California State Teachers’ Retirement System), remain unpaid under our forecast. If additional payments are made in the future to repay these liabilities or to provide inflation adjustments to universities, the courts, state employees, and other programs, the operating surpluses in our forecast would fall significantly below our projections. LAO’s California’s Fiscal Outlook [www.lao.ca.gov](http://www.lao.ca.gov) Legislative Analyst’s Office)

## Members in the News

### **Sonoma Raceway Has Nearly 300 Children Attend “Race to the Holidays” Christmas Party**

More than 400 people enjoyed a day of holiday cheer at Sonoma Raceway on Saturday at the 10th annual “Race to the Holidays” Children’s Christmas Party.

### **Sonoma State University's Wine Business Institute Earns WINnovation Award**

Sonoma State's Wine Business Institute was honored this month with the inaugural WINnovation Award at the North Coast Wine Industry Expo.

### **Wells Fargo Becomes Nation's Most Valuable Bank — Ever**

Wells Fargo CEO John Stumpf spent Monday basking in the limelight after his bank's long-running success passed another milestone, becoming the nation's most valuable bank ever.

### **Sonoma State University's STEM Students Recognized by LSAMP**

Four Sonoma State University students have been honored as part of the Louis Stoke Alliance for Minority Participation Program (LSAMP).

### **BioMarin’s Molecules Yield Miracles**

Pharmaceutical company’s drugs save, improve lives; garner \$700 million in revenue

### **Sonoma Raceway Toy Drive Benefits Sonoma Valley Children**

Sonoma Raceway has taken the green flag on its 12th annual High-Powered Toy Drive, which will raise the holiday spirits of Sonoma Valley children in need.

### **Sonoma Raceway Distributes More Than 7,700 Pounds of Food to Area Food Banks**

Sonoma Raceway is at full speed this holiday season, distributing more than 7,700 pounds of non-perishable food to Friends in Sonoma Helping (FISH) and the Food Bank of Contra Costa and Solano following the raceway's 14th annual Thanksgiving Food Drive.

Read more online at [www.northbayleadership.org/news](http://www.northbayleadership.org/news)



## Who We Are

Over twenty years ago, business leaders founded the North Bay Leadership Council on a simple premise: We can accomplish more by working together. Today, the Council includes 45 leading employers in the North Bay. Our members represent a wide variety of

businesses, non-profits and educational institutions, with a workforce in excess of 25,000. As business and civic leaders, our goal is to promote sound public policy, innovation and sustainability to make our region a better place to live and work. For more information: Call 707.283.0028 / E-mail [info@northbayleadership.org](mailto:info@northbayleadership.org)  
**[www.northbayleadership.org](http://www.northbayleadership.org)**