

POLICY WATCH – January 2015

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2015 is going to be a great year! We are seeing the U.S. economy continue to grow, especially in the Bay Area. See below to learn how California is rising as one of the best economies in the world. And enjoy the *schadenfreude* of California besting Texas!

Yes, we have our own economic issues like a lack of workforce housing, crumbling roads and income inequality, but things are brighter for us than in many years, and when compared with other regions, we are sitting pretty near the top of the charts.

While we bask in the glow of good times, It is the perfect point to look ahead and begin to prepare for the changes that will inevitably come. Save the date of May 8th for the North Bay Housing Summit which will look at the crisis in housing and what we can do to remove the barriers and create the housing so needed for a strong North Bay economy.

Best,

Cynthia

Who's #7? California Climbs to 7th Largest Economy in World – Bigger than Russia, Italy and Soon Brazil

In "California Zooms Past Russia, Italy and Soon Brazil in Economic Might," (Bloomberg News, Michael Marois and Shin Pei, Jan. 16, 2015) the authors say "California is overtaking Brazil as the world's seventh-largest economy, bolstered by rising employment, home values and personal and corporate income, a year after the most-populous state surpassed Russia and Italy."

Marois and Pei say that California had a GDP equivalent to \$2.20 trillion in 2013 which "expanded last year by almost every measure, according to data compiled by Bloomberg." This is a remarkable turnaround for a "failed state" as California was labeled during the recession. "California grew an average of 4.1 percent annually during Governor Brown's first term," who is credited with putting policies in place that help drive the state's dynamic recovery.



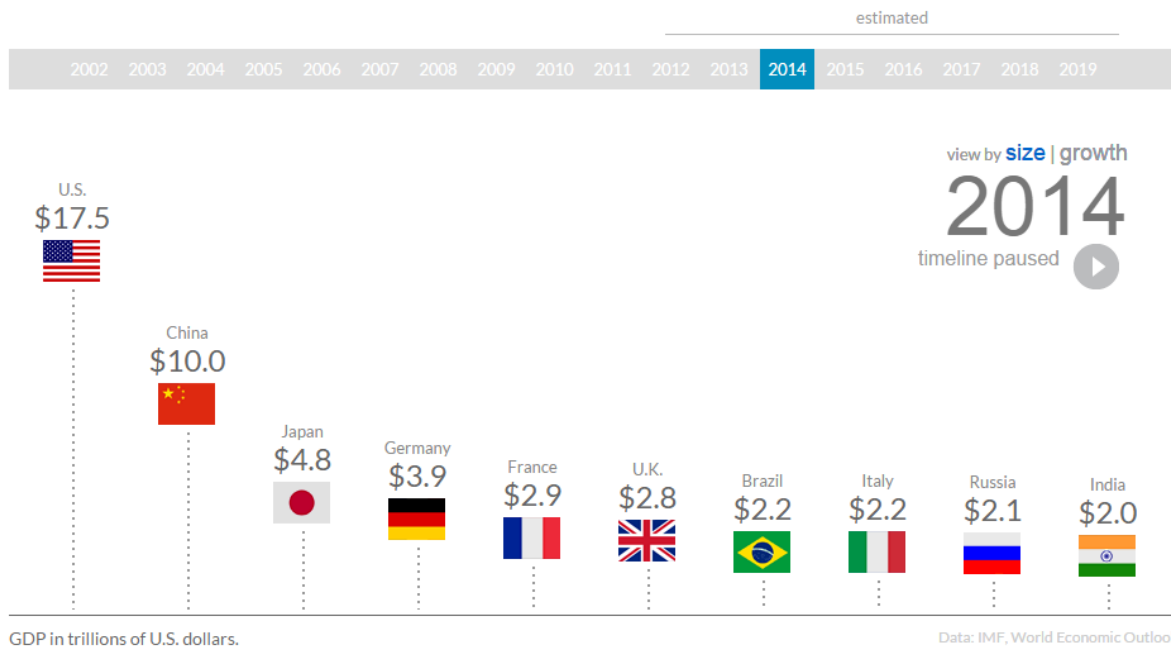
The rise of California in the global economy is another indicator of the U.S.'s ascendancy as the world economic leader. "California leads U.S. states in agriculture, technology and manufacturing revenue growth, Bloomberg data show. It's home to more companies on the S&P 500 than any other state. The state's job growth outpaced the nation in the first nine months of 2014. California's non-farm employment of 15.7 people is at an all-time high."

Sung Won Sohn, former Wells Fargo chief economist and now a professor at California State University-Channel Islands, said, "California is growing faster than the U.S. economy, which is a bright spot in the global economic situation." Marois and Pei said, "High technology jobs in the business and professional services sector in California were forecast to grow to 15.7 percent of the economy in 2014, up from 15.4 percent a year earlier." Looking to 2015, that growth trajectory should continue. The countries ranked above California should know that we have them in our sights. Look out United Kingdom, France and Germany - with the economic problems in the European Union, California may zoom past you this year!

World's largest economies

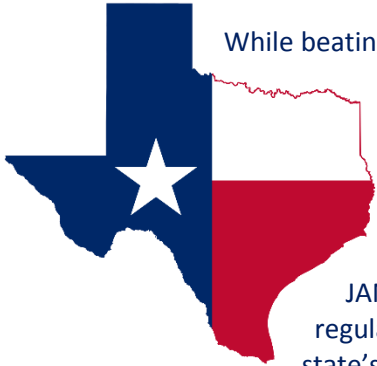
By Andrew Bergmann @dubly

Recommend 14k



Interactive Chart http://money.cnn.com/news/economy/world_economies_gdp/

Reveling in Besting Texas!



While beating out major countries' economies makes Californians proud, nothing thrills us more than besting Texas! We are far from the days of the "Texas Miracle" and Texas Gov. Rick Perry boasting that Texas has the best business climate. In "How California Bested Texas," by Vauhini Vara (New Yorker, January 8, 2015) we learn that Texas is faltering while California booms. Says Vara, "No one is talking about the lessons California should learn from Texas. One of the biggest reasons is revealed in "Booming Texas economy at risk," by Joseph Lawler (Washington Examiner, JANUARY 12, 2015), who says, "The vaunted "Texas model" of low taxes and light regulation will be tested in coming months by low oil prices, which are threatening the state's once-booming energy industry. The price of a barrel of West Texas Intermediate crude has dropped roughly 50 percent since the summer. That is a boon to the vast majority of Americans, who have seen prices plunge at the gas pump. But low prices are a problem for the parts of Texas that helped make the United States the world's top oil producer. The threat has led some analysts to suggest that Texas, which has led the country in job creation since the 2008 financial crisis, is headed for a regional recession."

Vara explains, "The concerns about Texas's fortunes speak to a misperception of the state's recent boom, and of California's bust. Texas's outperformance of California had a lot to do with factors beyond the control of politicians – namely, the importance of real estate to California's economy, and the importance of oil to Texas's. It was inevitable that California was hit hard by the housing crash that sparked the recession. At the same time, Texas benefitted disproportionately from a rise in oil prices in recent years." Despite attempts at diversification, Texas is heavily dependent on oil and natural gas production both for growing its GDP and jobs. And with the crash of that market, no matter how low the taxes are and how little businesses are regulated, looks like Texas is in for a tough ride at the rodeo.

Waiting for Liftoff: Wages, Housing and Fed Policy

The Wall Street Journal recently did a survey and found there are three areas to watch in 2015 ("WSJ Survey: Keep a Keen Eye on Wages, Housing and Fed in 2015," by Kathleen Madigan (WSJ, January 15, 2015). Madigan says, "When it comes to economy-watching, what are the professionals watching? Economists surveyed by The Wall Street Journal have a long list, but three items were mentioned most frequently: wages, housing and Fed policy."

While wage growth has been flat, Joel Naroff of Naroff Economic Advisors expects pay growth to pop up above 3% by the end of 2015, saying the failure of businesses to increase pay over the past few years has built up pressure. "That pressure will lead to a surge in wages as firms not only try to hire people but they make belated attempts to retain current employees," he said.

Steve Blitz of ITG Investment Research, says "Housing is the only sector poised for meaningful growth in 2015. Without a rebound, we get 2% growth in the overall economy." This hopeful forecast belies the importance of housing. Says Madigan, "Homebuilding was a disappointment in 2014 as home demand and construction activity did not increase as much as expected. The forecasters on average think housing starts will increase about 16% to 1.17 million in 2015."

Lastly, "how Fed officials communicate the coming move might be just as important as the move itself," said Tom Porcelli of RBC Capital Markets. In fact, Porcelli pointed to comments in the minutes of the

Fed's September policy meeting to show central bankers are well aware of the need for caution about sending unintended signals to the public.

Save the Date! North Bay Leadership Council's 2015 Signature Events

North Bay Housing Summit

May 8, 2015

Sheraton Hotel

745 Baywood Drive
Petaluma, CA 94954

8:30 a.m. Registration

9:00 a.m.—1:30 p.m. Program

**\$75 Per Person, \$600 Table of 8
(includes refreshments and lunch)**

Pre-Registration Required

Registration will open on March 30, 2015

2015 Leaders of the North Bay Awards Luncheon

October 23, 2015

Hyatt Vineyard Creek Hotel
170 Railroad Street
Santa Rosa, CA 95401

Members in the News

Buck Institute Researcher Honored With International Award

The Olav Thon Foundation, Norway's largest charitable organization, has awarded its first international research award in the medical and natural sciences field to Novato-based Buck Institute for Research on Aging faculty member Judith Campisi and Tel Aviv University professor Yosef Shiloh.

Sutter Health: A Look Back at 2014

A look back at some of Sutter Health's key milestones in 2014.

Sonoma Raceway Hosts John's March Against Stomach Cancer Raises \$15,500 for No Stomach For Cancer

Roaring engines were replaced by marching feet at Sonoma Raceway on Saturday, Jan. 17, as more than 300 people turned out for the 4th annual John's March Against Stomach Cancer fundraiser.

Buck Institute Begins Human Trial of New Alzheimer's Drug in Australia

The Buck Institute for Research on Aging in Novato has launched its first human clinical trial since research began at the institute in 1999 — testing the effectiveness of a drug to treat a type of cognitive impairment that often precedes Alzheimer's disease.

Marketplace Reopens in Rohnert Park

Sonoma Mountain Marketplace — billed as the largest indoor street fair in the North Bay — is back, revamped, reconfigured and hoping to become a Sonoma County destination.

PG&E Set To Give Mmore Than \$32 Million To Local Communities In 2015

PG&E Employees Pledge More than \$7 Million in Contributions

Ghilotti Construction is Honored With 4 Top Projects

North Bay Business Journal announced the 2014 winners of its ninth annual Top Real Estate Projects in the North Bay awards and Ghilotti Construction took home four of them.

Read more online at 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

www.northbayleadership.org