POLICY WATCH – August 2022

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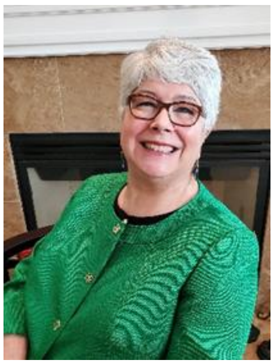


We live in unprecedented times. In this issue we look at some of things that are unprecedented starting with the economy and trying to read the tea leaves whether we are entering, or already in a recession. Normal guideposts aren't so illuminating which is leading to uncertainty and concern. Please read how some economists are trying to make sense of conflicting data and also plan to attend NBLC's State of the North Bay Conference on October 13th to learn is there is a recession now or later.

We also look at the myriad bills to improve our ability to build much needed housing which remains a crisis. The lack of workforce housing is a leading cause of employers not being able to fill open positions. We applaud the state legislature for trying to do more to remove barriers to new housing construction. We are also hopeful that a solution to relieve commute traffic on the Richmond-San Rafael Bridge can be reached to take advantage of the current ability to invest in infrastructure improvements. We have the same hope for the interim traffic relief solution for Highway 37 getting the funding it needs to progress.

The midterm elections are soon upon us. Take a moment to ensure that you are registered to vote and get to know the candidates and issues. For many cities and towns, this will be their first district elections. NBLC will be announcing its endorsements in a special issue of Policy Watch in September.

Best,

Cynthia Murray

Cynthia

Unprecedented Times

There are times when a word is used so much that it begins to lose its meaning. But in 2022, the word "unprecedented" is the only word to use when trying to describe the panoply of events that we are experiencing. We can't begin to cover them all but let's begin with the new normal of the metrics we rely on no longer being the indicators they once were. There are standard definitions of a recession. What we are seeing is not fitting into those metrics. For example, listen to what Chris Thornberg, Beacon Economics, says In We are Not in a Recession (At Least Not Yet) (Link), "In conversations about the economy, there are a lot of conventional wisdoms that are neither conventional nor wise. One very relevant example today is the idea that a recession is defined as two consecutive quarters of negative GDP growth, exactly what the United States experienced in the first half of 2022. This definition enjoys wide acceptance and shows up in all sorts of places—but a little logic quickly shows how slippery it is and why it shouldn't really apply to the U.S. economy at this time."

Thornberg says, "This isn't a universal definition. According to the National Bureau of Economic Research (NBER)—the self-appointed official daters of business cycles—a recession is "a significant decline in economic activity that is spread across the economy and that lasts more than a few months" and is "normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales." With that broader definition we can deduce that the NBER will not call the first half of 2022 a recession, because out of all those indicators only one, real GDP, is showing a negative trend in the first two quarters of the year, and that decline is minimal."

"But even NBER's definition, while more complete, leaves something to be desired," says Thornberg. "I would suggest that we need to be more specific about the dynamics behind the negative trends in an economy before we define it as a recession, as these dynamics will determine which policy tools the government should consider dealing with the economic difficulties. The distinction is whether the decline in output is a function of falling economic capacity (the maximum potential output of an economy) or a drop in the usage of that capacity (actual output falling well below maximum potential output)."

Thornberg says this cannot be a recession when the economic is running at full capacity, given "we have not seen the declines in other measures of economic activity. Industrial production remains near its all-time high level as of June, job growth has been surprisingly solid given ultra-low unemployment rates, job openings are still near record high levels, and inventory levels in many parts of the economy remain very low." He says, "If the economy is running at full capacity and output is falling, that suggests the problem is with the ability to produce output—a decline in capacity."

Thornberg lists many reasons for the decline in capacity: mass retirements, government stimulus, changes in business operations requiring retooling and retraining of employees, changes in demand and business investment, inflation and the rise in interest rates. He says, "With such violent starts, swerves, and stop is it really any wonder that the U.S. economy is running at full capacity and still shrinking in the aggregate? It's like driving an 18-wheel truck through an obstacle course designed for a dune buggy—the machine simply is not designed for this kind of terrain. And this explains why so much U.S. demand is being met by inventories or imports—the economy is unable to redeploy inputs to keep up with rapidly shifting demand and the wrong output gets produced."

"The good news is that if things calm down, the production side of the U.S. economy will sort itself out, improving efficiencies and returning to a solid growth path," says Thornberg. "The bad news is things aren't likely to calm down in the near future. After all, the Fed has yet to truly curb inflation, financial markets will soften further from their pandemic-stimulus-driven frenzied highs, business investment is grappling with the very sudden increase in interest rates, and the U.S. economy is about to see a strong dose of fiscal pain as higher interest rates quickly drive up the cost of the debt the Federal government is carrying. There is plenty to worry about in the months and years ahead, but one of those things is not that the U.S. economy is currently in a recession."

Of course, there is disagreement about that Thornberg's take on where we are and whether a recession is looming. In NPR's 3 warning signs about the economy coming out of America's top companies (Link), "At first look, American companies seem to be doing just fine in the face of high inflation and rising interest rates. But look underneath the surface, and there are potential warning signs about the economy – and it's got the country's top executives feeling a little bit nervous."

The article continues, "So far, 453 of the top 500 companies comprising the S&P 500 have reported earnings and about 75% did better over the April to June quarter than Wall Street expected, according to S&P Dow Jones Indices. It's a remarkable show of strength given they had to navigate a challenging economic environment — a time when the country was dealing with its highest inflation in around 40 years and the Federal Reserve was hiking interest rates."

NPR says "Here are three signs that could point to potential trouble ahead for the U.S. economy.

Companies are cutting advertising
"Historically, when companies are anxious about the future, they cut their ad budgets, making it a leading indicator about how companies view the economy. That's what happened in the last quarter. Social media companies have seen ad sales slow, and that dragged down their earnings. In the second quarter, Meta, Facebook's parent company, saw its revenue fall for the first time ever."

"Meanwhile, Snap sounded an alarm about declining ad sales. The social media company's share price is down more than 75% this year. Traditional media outlets have also seen reduced revenues from ads, including The New York Times Company and Gannett. BuzzFeed warned recession fears will put pressure on its ad business. In a letter to investors, Roku, which makes streaming media players, said 'there was a significant slowdown in TV advertising spend due to the macro-economic environment.' The company added that it expects 'these challenges to continue in the near term as economic concerns pressure markets worldwide.'"

Companies are cutting costs – and jobs
"As office workers know already, when companies start cutting costs or putting expansion plans on hold, it often means they see potential trouble ahead. Bed Bath & Beyond, for example, said it would cut its capital spending by 25%. Some companies are also slowing hiring, or even starting to announce job cuts, even if the latest economic data shows the overall labor market remains healthy."

"The job cuts have been more prominent in the technology sector, with companies such as Netflix, stock trading app Robinhood and e-commerce giant Shopify announcing layoffs recently. According to Layoffs.fyi, a site that tracks layoffs in the tech sector, tech companies have cut almost 70,000 jobs so far in 2022."

"Automakers are also growing cautious. GM CEO Mary Barra said recently the company is 'reducing some discretionary spending and limiting hiring to critical needs and positions that support growth.'
She also added GM has 'modeled several downturn scenarios, and we are prepared to take more deliberate action when and if necessary.'"

The Dallas Fed in its report on August 3rd said, "Increases in unemployment may also better match conceptually what is generally understood to mean a recession—an increase in slack or underutilization of resources rather than a decline in economic activity. As trend GDP growth slows due to aging demographics and slower productivity gains, there may be more frequent periods of negative GDP growth without an increase in unemployment, making the distinction between increasing slack and declining activity more relevant than in the past."

Spending habits are starting to change
"One of the positives of the economy has been that people have continued to spend even as inflation has been high. But companies say they are seeing evidence of changes in what people are buying, and that's contributing to a glut of unsold inventory. Last month, Walmart announced it was cutting its profit outlook for the whole year because high prices have changed spending habits. Walmart said its customers are spending less money on 'general merchandise' because food prices have gone up sharply. With more stuff on store shelves, the retailer has had to cut prices on inventory."

"On top of that, manufacturers — from car companies to smartphone manufacturers — continue to having trouble sourcing parts. 'Across the economy, supply chain issues have both limited the ability to meet demand in some areas and driven inventory well above normal levels in others,' Intel CEO Pat Gelsinger said recently.

Blackrock's 2022 Midyear Outlook – Back to a Volatile Future (Link) assesses where we are and where the company hopes to go. The outlook has three themes: Bracing for volatility, living with inflation, and positioning for net zero.

Blackrock surmises, "First, production constraints – stemming from a massive shift in spending and labor shortages – are hampering the economy and driving inflation. Second, record debt levels mean small changes in interest rates have an outsized impact – on governments, households and companies. Third, we find the hyper-politicization of everything amplifies simplistic arguments, making for poorer policy solutions. We are bracing for volatility."

Blackrock sees some inflation sticking around which will shape their investment strategies and weighting of their portfolios. But it is their third theme that caught my attention: positioning for net zero. They say, "investors should start positioning for net zero. We believe investors can be bullish on both fossil fuels and sustainable assets, as we see a key role for commodities in the transition. Yet our work finds that changing societal preferences can give sustainable assets a return advantage." With the passage of the Inflation Relief Bill, this seems to be a good way to take advantage of the new investments that this bill will spur.

We end with an opinion from Bloomberg Today, The State of Our Vibes Is Harsh, (August 3, 2022) that summarizes where we are: "As you know, the business of America is no longer business but vibes. And we may be experiencing our first vibes-based business downturn. The economy is in a weird place right now. Most Americans think we're in a recession, but the job market has never been stronger. Stocks are in a bear market, which **Aaron Brown** notes historically means a recession is either happening now or will simply be delayed and terrible. But corporate borrowers are raising money in the bond market like happy days are here again, writes **Jonathan Levin**."

"One issue could be that businesses are worried about — oh, just choose from a list of 24 existential worries — but aren't laying people off en masse the way they usually do, writes **Conor Sen**. Instead they're being stingy with raises and letting inflation take care of their labor costs. The result is what you might call a 'jobful recession,' in contrast to the 2010s' 'jobless recovery.' The youths sometimes call it a 'vibecession.' It's that thing where almost all the economic data are strong, but everybody feels bad anyway. This is why I am calling for the establishment of a Strategic Vibes Reserve. It's long past time America achieved vibe independence."

As we said, we are in unprecedented times. And that means we are going to have to figure it out together as we move forward.

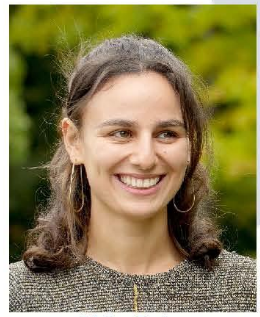
NBLC's State of the North Bay Conference: From Recovery to Recession? Tickets go on sale on in September!

We invite you to attend NBLC's State of the North Bay Conference: From Recovery to Recession? to learn more about what the research analysts at the Bay Area Council Economic Institute are seeing when they read the economic tea leaves for the North Bay. In addition to the original research that will be presented, we will also feature a panel of North Bay Leaders speaking on what they are seeing in the sectors they represent: Letitia Hanke, The LIME Foundation; Claudia Vecchio, Sonoma County Tourism; and Meghan Hardin, Hospital Council of Northern and Central California. The conference will be on Zoom on October 13th from 8:00 a.m. – 9:30 a.m. Tickets go on sale starting September 12th. For more information, please see below:

NORTH BAY LEADERSHIP COUNCIL

2022 State of the North Bay Conference
From Recovery to Recession?

Patrick Kallerman
Vice President of Research
Bay Area Council Economic Institute



Abby Raisz
Research Manager
Bay Area Council Economic Institute

Is a recession coming? Are we in one already? Get the latest on how the North Bay's economic ecosystem is faring from top research analysts at the Bay Area Council Economic Institute. Followed by a panel of leaders in key economic sectors on what they see coming: Letitia Hanke, The LIME Foundation; Claudia Vecchio, Sonoma County Tourism; and Meghan Hardin, Hospital Council of Central and Northern California. Don't miss getting a better lead on where the North Bay is headed!

SAVE THE DATE—October 13, 2022 *(Hosted on Zoom)*

8:00 a.m. - 9:30 a.m.

Tickets: $25

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Housing Legislation Advances

The Bay Area Council is a leader in the Bay Area for sponsoring and supporting legislation that will lead to new housing construction in our state. We applaud their efforts and ability to produce results and value our partnership in pursing public policy that helps and strengthens our communities and economy. Here is a list of housing-related legislation that has advanced in the Legislature – let's hope it makes it to the Governor's desk and he signs all of them into law!

Below are key bills the Bay Area Council is sponsoring and/or supporting that advanced out of the suspense files.

SB 897 (Wieckowski): Accessory dwelling units: junior accessory dwelling units
Sponsored by the Bay Area Council, SB 897 would reduce a number of obstacles that homeowners face when attempting to build accessory dwelling units (ADUs). It is the latest in a series of bills the Council has sponsored that have launched a tidal wave of ADU construction statewide.

AB 2097 (Friedman): Residential, commercial, or other development types: parking requirements
Co-sponsored by the Bay Area Council alongside California YIMBY, SPUR, the Council of Infill Builders, and Abundant Housing LA, AB 2097 would prohibit state and local public agencies from imposing or enforcing a minimum automobile parking requirement on residential, commercial, or other developments located within a half mile of public transit.

AB 2664 (Grayson) Planning and Zoning
Co-sponsored by the Bay Area Council, Sand Hill Properties Company, and Habitat for Humanity, this bill would make important technical improvements to SB 35 (Wiener), which streamlines the production of housing and has resulted in thousands of new homes.

AB 2234 (R.Rivas): Planning and zoning: housing: post entitlement phase permits
Sponsored by the Housing Action Coalition (HAC) and supported by the Bay Area Council, this bill establishes time limits and procedures for approval of, and requires online permitting of, post-entitlement permits.

SB 1338 (Umberg): Community Assistance, Recovery, and Empowerment (CARE) Court Program
SB 1338, a key step in California's efforts to combat homelessness, would establish the Community Assistance, Recovery, and Empowerment (CARE) court program (CARE court or CARE Act) and the CARE Act to provide comprehensive treatment, housing, and support services to Californians with complex behavioral health care needs. Supported by stakeholders throughout the state, this measure is a critical opportunity for California to finally provide meaningful care for people that need it, and the Bay Area Council is proud to support and advocate for its passage.

Relieving Traffic on the Richmond-San Rafael Bridge

Another initiative that NLBC is partnering with the Bay Area Council on is a plan to relieve commute traffic on the Richmond-San Rafael Bridge. The Bay Area Council says, "Almost every weekday morning, a backup of automobiles on the eastern Highway 580 approach to the Richmond-San Rafael Bridge frustrates commuters, causes wasteful delays, and sends harmful tailpipe emissions into nearby neighborhoods. To address the problem, the Bay Area Council for almost a year has been advocating for a commonsense solution to reconfigure the bridge."

"The plan would open a third lane on the upper deck to automobiles that is currently occupied fulltime by an underutilized bike and pedestrian pathway. Using moveable zipper lanes like those used on the Golden Gate Bridge, cyclists would instead travel on a third lane of the lower deck during the peak weekday morning commute when traffic there is light. During other times of the day and weekends, bike and pedestrian access would be restored on the upper deck. A coalition of business, elected and community leaders from both sides of the bridge, dubbed the Common Sense Transportation Coalition, has embraced the plan."

"The plan got a nice boost when a local newspaper columnist reported that Marin County Supervisor Damon Connolly is recommending the Metropolitan Transportation Commission embrace the reconfiguration consistent with what the Council has outlined. The Council has been working with the MTC to examine the plan, understand its costs and what other improvements would be needed. TV station KPIX also featured the plan in a report that highlighted MTC data showing how few bicyclists and pedestrians use the dedicated lane on the upper deck."

We hope that MTC approves this plan so we can make it easier for employees to get to and from work in our labor-strapped North Bay.

Members in the News

First 5 Sonoma County Seeks TK-12 Public Education Leader to Fill Vacancy on First 5 Commission
The First 5 Sonoma County Commission, on behalf of the Sonoma County Board of Supervisors, is seeking interested candidates to apply to fill a vacancy on the Commission.

The Buck Institute for Research on Aging Made the Health Tech World Top 50 Innovators of 2022
Health Tech World has announced its Top 50 health tech innovators of 2022.

Star Staffing Has a Full Lineup of Webinars to Help Your Business
Registration is now open for our 2022 webinar series.

Sonoma State University's Dr. Greg Sarris Receives Top Academic Honor
Sonoma State University has awarded the title and status of Distinguished Chair Emeritus to Dr. Greg Sarris in recognition of his years of exceptional academic and cultural contributions to the university.

NBLC Members Honored in San Francisco Business Times as one of the Bay Area's Top Corporate Philanthropists
NBLC is proud to have these members honored in San Francisco Business Times as one of the Bay Area's Top Corporate Philanthropists.

The Buck Institute for Research on Aging's Brain Health Registry
The dedicated scientists at the Buck Institute for Research on Aging have partnered with expert aging researchers at the University of California, San Francisco (UCSF) to offer you the opportunity to personally contribute to aging research by joining the Brain Health Registry (BHR).

Sutter Health Honored on Forbes Best Employers for Women 2022

One of the 2022 honorees includes Sutter Health, a not-for-profit, integrated healthcare network serving more than 3 million patients in Northern California.

Catholic Charities of Santa Rosa Announces Chief Program Officer Jennielynn Holmes has Been Selected to Become CEO

After reviewing candidates from across the nation, Jennielynn rose to the top given her extensive experience in this community and her deep commitment to helping the most vulnerable in our community.

Who We Are