The Chapman University Economic Forecast
For the U.S. and the Inland Empire

Riverside, CA — The A. Gary Anderson Center for Economic Research at Chapman University released today the results of its 16th annual economic forecast for the U.S. and the Inland Empire. The forecast was presented to 500 business leaders at a conference held at the Riverside Convention Center. Following are forecast highlights.

2008 U.S. Forecast:

- The Anderson Center is forecasting a recession in 2008. Although real GDP growth is forecasted to dip to −1.0 and −1.9 in the first and second quarters, respectively, a pick-up in the second half of the year is expected to lead to slow but positive annual growth of 0.9 percent.

- Gains in nonresidential construction are no longer offsetting losses in residential construction. Current estimates point to a decline of $91 billion in total real private construction spending in 2007, and we are projecting an even steeper decline of $125 billion in 2008.

- Much of the recent increase in consumer spending has been financed by households cashing out a portion of their home equity gains by refinancing their loans. But total home equity cashed out is estimated to decline by almost $60 billion in 2007. We are projecting
an additional decline of $130 billion in 2008. The resulting negative hit on consumer spending will be considerable, especially when it is coupled with the impact of higher energy costs on reducing spending.

- The only major positive trend, at least with regard to spending, is a continuation of rapid growth in exports that is forecasted to hit 10.2 percent in 2008. This growth is explained, in part, by the fact that global growth, spurred on by emerging nations, has far outpaced that of the U.S.. In addition, the sharp fall in the U.S. dollar has made U.S. goods and services more competitive in global markets.

- Declines in construction spending, coupled with continued job losses in the mortgage banking industry and other real estate services, will have a pronounced negative impact on job growth. After peaking at 1.9 percent in 2006 and declining to 1.3 percent this year, U.S. payroll job growth is forecasted to drop to 0.2 percent in 2008.

- With the inventory of unsold homes increasing sharply and the confidence level of home builders reaching an all-time low, housing starts are projected to decline for the third consecutive year to approximately 1.1 million in 2008. This would be the lowest level of housing starts since 1991.

- An increase in the supply of homes available for sale (new, foreclosed and resale) points to further declines in housing prices. Following an average decline of 2.1 percent in 2007, home prices are forecasted to decline 4.8 percent in 2008.

- It’s too late, however, for Fed action to significantly affect overall spending through the first half of 2008. Lower short-term interest rates are also unlikely to reverse the major negative forces hitting the economy in 2008.

- Chapman’s recessionary forecast is buttressed by a number of other leading indicators, including:
  - a drop in the consumer confidence index to below 100,
  - the growing difference in yields between junk bonds and treasuries,
  - a negative dip in the interest rate spread (difference between long-and short-term rates) and
  - a significant increase in the number of banks and financial institutions tightening lending standards.
2008 Inland Empire Forecast:

- A sharp drop in home sales, decreasing mortgage originations, and subsequent decline in new residential construction are leading to a sharp downturn in jobs in real estate-related sectors.

- In addition to weakness in the residential construction activity, nonresidential permit valuation is also dropping. Overall building permit valuation is projected to decline from an estimated level of $7.1 billion in 2007 to $6.4 billion in 2008. The forecasted figure of $6.4 billion is 49 percent lower than the peak level of $12.5 billion registered in 2005. The lagged effect of the steady decline in permit valuation is negatively affecting construction spending as well as demand for construction workers.

- Declining construction spending not only has a negative impact on construction jobs but on other sectors as well, particularly jobs in the retail and financial services sectors.

- On a quarterly basis, our forecast points to overall job growth dropping back steadily from an estimated 2.5 percent by year-end 2007 to 1.3 percent by year-end 2008. In annual terms, this points to 1.5 percent job growth or the creation of 19,000 jobs in 2008. This marks the weakest rate of job creation since 1993 when jobs grew by only 0.6 percent.

- A slower rate of job creation and higher unemployment rates will negatively impact personal income and taxable sales growth. Personal income is forecasted to increase by 4.6 percent. This increase in income will lead to taxable sales growth of 3.4 percent in 2008, exceeding our forecasted inflation rate of 2.8 percent by only 0.6 percent.
• Weakness in the construction industry is pushing down taxable sales in the building materials sector. Since 2005, spending growth in the building materials sector has declined steadily, and this trend is expected to continue in 2008. Total sales in this sector is forecasted to drop by an additional 2.5 percent in 2008 after decreasing 6.5 percent in 2007.

• Rapid home price appreciation over the 2001-06 period led to a steady drop in housing affordability. In 2006, a potential homebuyer with median family income of $60,700 needed 39.7 percent of income to purchase a median single-family home, even after taking into account the tax savings of deducting mortgage interest and property taxes from income. Although recent declines in home prices are improving the affordability problem, tighter credit along with problems in the subprime mortgage market have dampened demand for homes.

• The recent decline in short-term interest rates engineered by the Federal Reserve Board will not remedy borrowers' problems who are facing interest rate resets on their mortgages. Those borrowers who want to refinance need to obtain an appraisal for their property matching or exceeding their current mortgage. This will not be possible for those borrowers who used 100 percent loan-to-value mortgages and are faced with declining home prices. In addition, tighter lending standards require borrowers to document income and many potential borrowers will lack sufficient income to justify the size of their mortgages.

• Weak job and income growth, and housing affordability problem are leading into a soft housing demand. With high inventory of housing units, our forecast calls for the median selling price of single family unit to decline by 12.5 percent in 2008.
ABOUT THE ANDERSON CENTER FOR ECONOMIC RESEARCH

The A. Gary Anderson Center for Economic Research (ACER) was established in 1979 to provide data, facilities and support in order to encourage the faculty and students at Chapman University to engage in economic and business research of high quality, and to disseminate the results of this research to the community.

ANNUAL SCHEDULE OF CONFERENCES AND PRESS RELEASES

| JANUARY | Economic Forecast Conferences for Los Angeles County and the Inland Empire  
|         | California Purchasing Managers Survey  
| FEBRUARY| California Leading Employment Indicator  
| MARCH   | California Consumer Sentiment Survey  
| APRIL   | California Purchasing Managers Survey  
| MAY     | California Leading Employment Indicator  
| JUNE    | Economic Forecast Update Conference for the U.S., California, Orange and Los Angeles counties, and the Inland Empire  
|         | California Consumer Sentiment Survey  
| JULY    | California Purchasing Managers Survey  
| AUGUST  | California Leading Employment Indicator  
| SEPTEMBER| California Consumer Sentiment Survey  
| OCTOBER | California Purchasing Managers Survey  
| NOVEMBER| California Leading Employment Indicator  
| DECEMBER| Economic Forecast Conference for the U.S., California and Orange County  
|         | California Consumer Sentiment Survey  