



A. Gary Anderson Center for Economic Research

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The Chapman University Economic Forecast Update For the U.S., California and Orange County

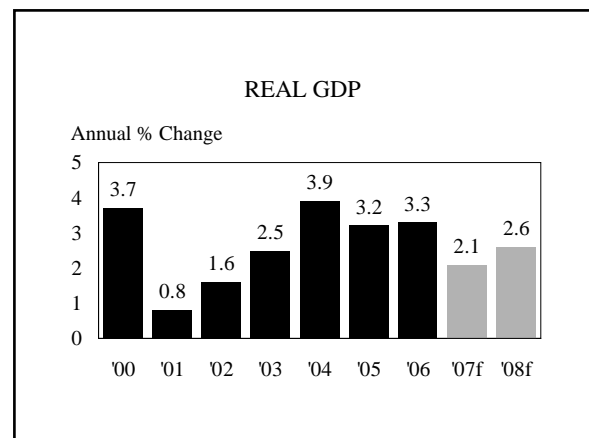
Orange, CA – The A. Gary Anderson Center for Economic Research at Chapman University released today an updated economic forecast for 2007 and its forecast for the year 2008. Forecasts of national, state and local economic performance were presented to Orange County business and community leaders assembled at The Westin South Coast Plaza, Costa Mesa, California.

Following are highlights of the forecasts. The complete results are reported in the *Economic and Business Review*.

U.S. Forecast: 2007-08

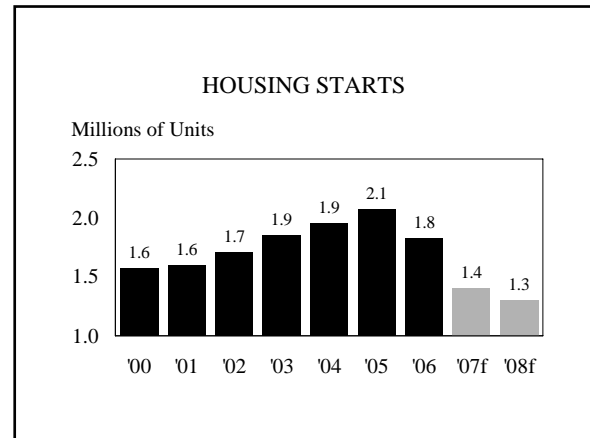
- Consistent with our forecast issued last December, real GDP growth declined in the first quarter of 2007. Given recent data revisions and emerging economic trends, we stand by our December forecast that real GDP growth will pickup in the second quarter and be followed by slower growth during the remainder of the year.

On an annual basis, we are now calling for real GDP growth of 2.1 percent in 2007 (no revision from our December forecast) and a modest pick-up to a 2.6 percent growth rate in 2008.



- The major concern now is the drop in residential construction that has been steeper and longer than most analysts projected, shaving off about one percent growth from real GDP over the last few quarters.

With housing starts forecasted to drop sharply from 1.8 million units in '06 to 1.4 million units in '07, this drag on the overall economy will continue. The downward pressure will be lessened considerably, however, by a much smaller decline to 1.3 million units forecasted for '08.



- Given faster growth in the global economy versus the U.S. and the sharply falling value of the U.S. dollar, export activity is increasing at rapid rates and is expected, by 2008, to represent 10 percent of real GDP. With export sales forecasted to increase by almost \$100 billion in both '07 and '08, exports will replace housing as a major engine of economic growth.
- The worst of the downward national housing price spiral is not over. Resale housing appreciation peaked at 14.2 percent in the third quarter of 2005 and then plummeted to -1.0 percent in the third quarter of 2006. Our forecast calls for housing prices to decline around five percent before relatively strong job growth helps to bring about a recovery by late 2008.
- Given our forecast that core inflation, as measured by the personal consumption expenditures index, will hover around two percent, we believe the Fed will be able to respond to slower real GDP growth by lowering the fed funds rate by a quarter point early next year. Weakness in the U.S. dollar, however, will prevent further interest rate cuts. In fact, that dollar weakness should cause long-term interest rates to increase by about 90 basis points by year-end 2008.
- The Anderson Center's forecast that real GDP growth will be relatively weak but above recessionary levels is buttressed by two highly reliable recessionary indicators:
 - The fed funds rate, after adjusting for inflation, is projected to be restrictive (above two percent) but not at a level to suggest that a recession is imminent.
 - Similarly, the difference between long-and short-term interest rates (interest rate spread) recently flirted with negative levels. While this trend was ominous, our projection that the spread will turn positive again this year reduces the likelihood of a recession in 2008.

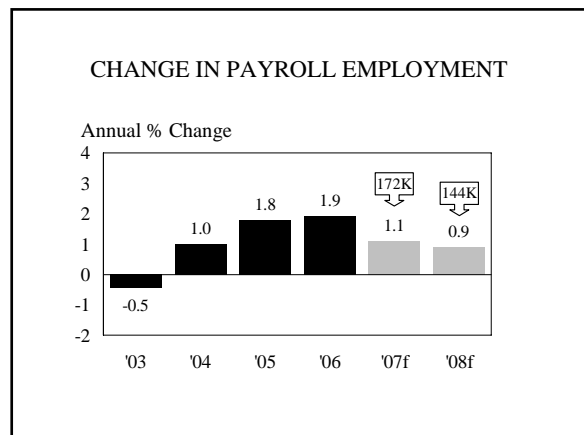
California Forecast: 2007-08

- The benchmark revisions issued in March, point to higher payroll employment growth last year—1.9 percent or 275,000 new payroll jobs. This rate of growth matches the 1.9 percent U.S. payroll employment growth in 2006.
- On an annual basis California payroll employment grew 0.6 percent since the 2001 recession as compared to 0.7 percent in the U.S.. The drag on California's economy was particularly dramatic in the manufacturing and services sectors. From 2001 to 2006, California lost about 287,000 manufacturing jobs at an average annual rate of 3.2 percent. In the services sector, California gained 305,000 jobs, an average annual increase of 1.0 percent.
- The construction and financial activity sectors experienced higher rates of job growth in California versus the U.S. over the 2001-06 period. The strength of home sales activity, both new and resale, coupled with a surge in subprime mortgage lending and refinancing activity, boosted employment in these sectors.
- With a decline in construction spending and real GDP growth, the only major engine of economic growth projected to be a positive stimulant on California's economy is real exports. A weaker value of the dollar and relatively stronger economies of our trading partners are positively influencing exports.
- While the effect of increased exports will be significant, it will not be sufficient to overcome the effects of lower growth in real GDP and construction spending. As a result, our projections call for a decline in quarterly employment growth from a rate of 1.7 percent in the first quarter of 2007 to about 0.7 percent in the first quarter of 2008. For the year, our forecast shows a gain of 172,000 payroll jobs in 2007, followed by a gain of 144,000 in 2008.
- Although overall annual job growth is positive, the goods-producing sector of the economy will experience recession. The construction sector is forecasted to lose 12,000 payroll jobs in 2007, followed by another 4,500 job losses in 2008. Manufacturing employment is also projected to decrease by 0.5 percent in 2007 and 0.7 percent in 2008.

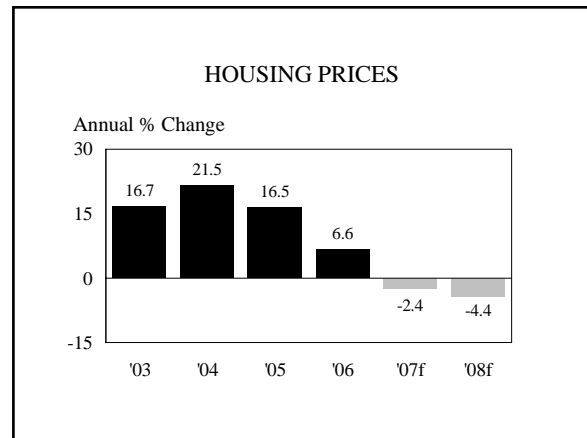
**AVERAGE ANNUAL PERCENTAGE CHANGE
IN PAYROLL JOBS: 2001 TO 2006**

Average Annual % Change

Category	U.S.	CA
Construction	+2.5	+3.9
Manufacturing	-2.7	-3.2
Trade, Transportation & Util.	+0.2	+0.9
Financial Activities	+1.4	+2.5
Services	+1.5	+1.0
Government	+0.8	+0.6
Total	+0.7	+0.6

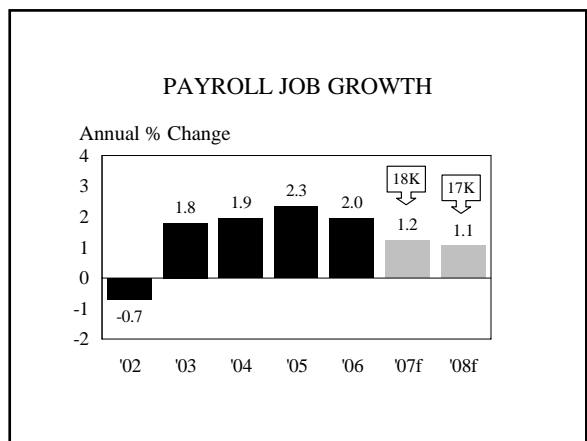


- The adjustment in the housing market that began in mid-2006 intensified in early 2007 with the meltdown of the subprime mortgage industry. Higher underwriting standards are shrinking the number of potential buyers. Homebuilders are responding rapidly to weaker demand by drawing fewer permits in 2007 and 2008. Increases in resale housing inventory, however, more than offset the slower growth of new housing units, and the overall inventory will remain high. The inventory overhang, weaker growth in personal income, low housing affordability rate, and absence of creative financing will place downward pressure on housing prices through 2008.



Orange County Forecast: 2007-08

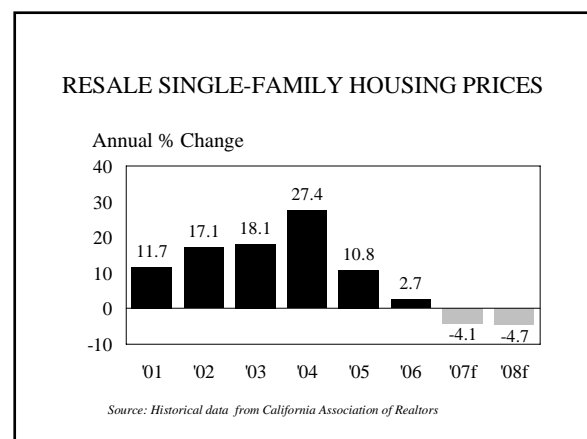
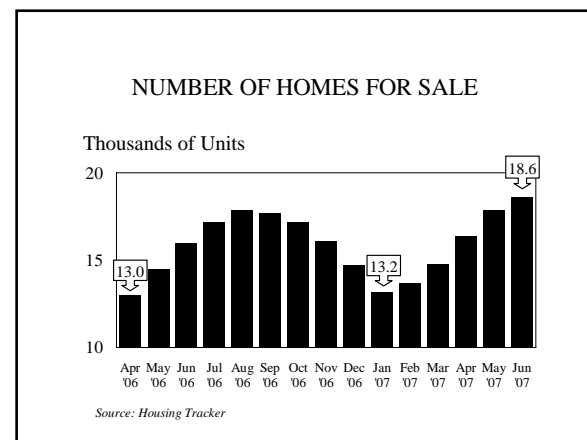
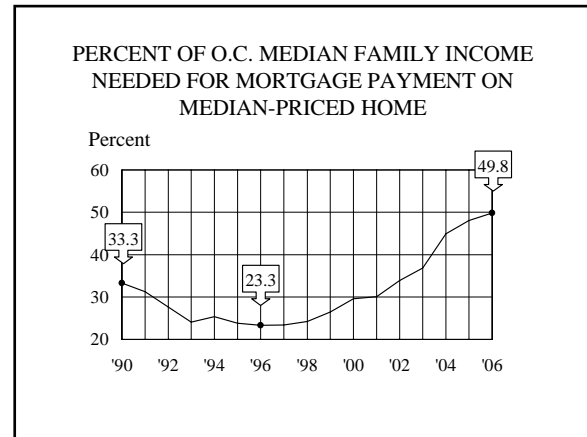
- The benchmark employment data released earlier this year revised upward Orange County's job growth in 2006 to 2.0 percent or 29,100 net new payroll jobs in 2006 – a higher growth rate than the 1.1 percent or 16,400 net new jobs reported at year end.
- The slowdown in real GDP and Orange County construction spending is partially offset by the strength of real exports. This trend suggests that quarterly payroll employment will increase within a narrow range of 1.0 to 1.3 percent over the 2007-08 period. This translates to an average annual percentage increase of 1.2 percent in 2007 and 1.1 percent in 2008 in payroll jobs, pointing to net job creation of 18,400 jobs in 2007 and 16,700 jobs in 2008.



Most of the net new jobs will be in the services sector (16,000 in 2007 and 13,000 in 2008), with the most rapid growth forecasted to take place in the education & health services sector increasing at a 4.5 percent rate in 2007 and 3.4 percent in 2008.

- Lower income growth results in lower taxable sales spending. Total taxable sales is forecasted to grow by 5.1 percent in 2007, increasing from an estimated level of \$58.2 billion in 2006 to \$61.2 billion, and is projected to reach \$63.9 billion in 2008—a 4.5 percent increase. A sharp decline in home sales activity and a drop in construction of new homes are adversely impacting spending. For example, spending on furniture and appliances is forecasted to increase by only 3.9 percent in 2007 and 3.2 percent in 2008. Similarly, sales of building materials will increase by 4.6 percent in 2007 and 3.4 percent in 2008.

- Our measure of housing affordability suggests that a home buyer with a median family income of \$77,000 in 2006 needed to allocate about \$38,000 annually to pay for property taxes, interest and principal payments on a loan to buy a median-priced home — 49.8 percent of gross family income, a historical high. This annual payment is based on the assumption that a homebuyer uses a 30-year fixed rate mortgage with 20 percent down payment and is computed after taking into account the federal and state tax savings resulting from the deduction of mortgage interest and property taxes from taxable income.
- Low housing affordability, a sharp decline in speculative purchases and change in potential homebuyers' expectation about the future direction of home prices has dampened home sales activity and that in turn caused the inventory of unsold homes to increase to 18,600 units in June from a low of 13,200 units in January '07.
- Tighter mortgage underwriting standards and a sharp decline in availability of subprime and Alt-A mortgage loans are reducing the pool of potential homebuyers. This is hitting first-time homebuyers particularly hard who, faced with a very low housing affordability rate, will not be qualified to purchase homes below or at the median price. As a result, there is more activity at prices above the median than below. The inventory of unsold homes below current median price increased much more rapidly than the inventory of housing units priced above the median price.
- Change in the mix of homes being sold explains why median home prices in early '07 have not declined at a faster rate in spite of a sharp drop in overall home sales activity and increasing inventory. And, partly because of that, our forecast update calls for a decline of 4.1 percent in housing prices in '07 versus our December '06 forecast of 6.4 percent.



A summary of the Chapman Forecast for California, Orange and Los Angeles counties and the Inland Empire is presented in the table below.

	California		Orange County	
	2007	2008	2007	2008
Payroll Employment (# of Jobs)	15,244,567	15,388,743	1,538,582	1,555,262
Job Creation	171,759	144,176	18,489	16,680
Yr/Yr Percent Change	1.1	0.9	1.2	1.1
Total Taxable Sales (Millions of \$)	\$596,341	\$621,764	\$61,195	\$63,968
Yr/Yr Percent Change	4.8	4.3	5.1	4.5
Total Building Permit Valuation (Millions of \$)	\$55,355	\$56,346	\$4,742	\$4,861
Yr/Yr Percent Change	-6.5	1.8	0.5	2.5
Resale Home Price Index (1990 = 100)	283.3	270.8	282.8	269.5
Yr/Yr Percent Change	-2.4	-4.4	-4.1	-4.7

	Los Angeles County		Inland Empire	
	2007	2008	2007	2008
Payroll Employment (# of Jobs)	4,133,467	4,166,535	1,306,811	1,334,254
Job Creation	40,925	33,068	35,594	27,443
Yr/Yr Percent Change	1.0	0.8	2.8	2.1
Total Taxable Sales (Millions of \$)	\$144,253	\$150,167	\$66,579	\$70,042
Yr/Yr Percent Change	4.4	4.1	5.7	5.2
Total Building Permit Valuation (Millions of \$)	\$10,260	\$10,106	\$8,914	\$8,299
Yr/Yr Percent Change	-3.6	-1.5	-16.0	-6.9
Resale Home Price Index (1990 = 100)	267.3	253.6	289.0	268.5
Yr/Yr Percent Change	-1.8	-5.1	-4.8	-7.1

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 Indicator

- MARCH** † California Consumer Sentiment Survey

- APRIL** † California Purchasing Managers Survey

- MAY** † California Leading 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 Indicator

- SEPTEMBER** † California Consumer Sentiment Survey

- OCTOBER** † California Purchasing Managers Survey

- NOVEMBER** † California Leading Indicator

- DECEMBER** † Economic forecast conference for the U.S., California and Orange County
- † California Consumer Sentiment Survey