



A. Gary Anderson Center for Economic Research

FOR RELEASE:

January 25, 2006; 3:00 p.m..

CONTACT:

James Doti, President and Donald Bren Distinguished Chair of Business and Economics, at (714) 997-6611, or Esmael Adibi, Director of the Anderson Center for Economic Research and Anderson Chair of Economic Analysis, at (714) 997-6693.

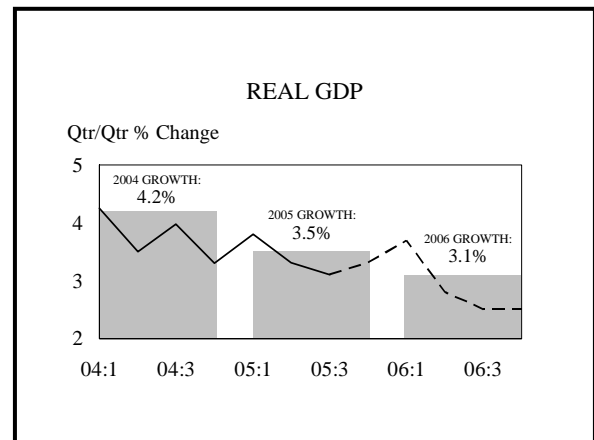
The Chapman University Economic Forecast for the U.S. and the Inland Empire

Riverside, CA — The A. Gary Anderson Center for Economic Research at Chapman University released today the results of its 14th annual economic forecast for the U.S. and the Inland Empire. The forecast was presented to 400 business leaders at a conference held at the Riverside Convention Center. Following are forecast highlights.

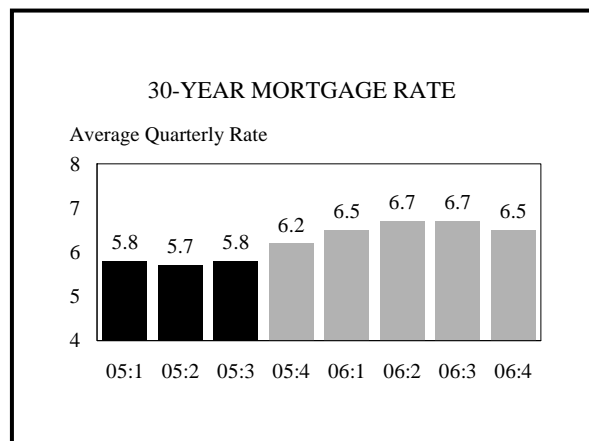
2006 U.S. Forecast:

- Last year, at its December 2004 conference, the Anderson Center forecasted real GDP growth of 3.5 percent in 2005. That turned out to be a bulls-eye.

Our forecast for 2006 calls for continuing positive real GDP growth of 3.1 percent. This would mark, however, a second year where the average annual rate of real GDP growth has slowed since the peak year during the current expansion of 4.2 percent registered in 2004.



- Much has been made about the Federal Reserve Board's seemingly aggressive action since mid-2004 in ratcheting up the fed funds rate. Our model for the U.S. economy suggests that it's not the nominal fed funds rate but rather the real (inflation-adjusted) fed funds rate that's important. And the real fed funds rate is still well within a range where it is acting to stimulate economic growth.
- The continuing availability of capital funds, as reflected by the positive difference between long-and short-term interest rates, and the extraction of home equity made possible by rapid housing appreciation and used to fund consumer spending are other very important factors explaining the strength of the national economy.
- There is increasing evidence that inflation is taking a toehold and is likely to build as higher energy prices work their way to final goods prices. Inflation, as measured by the CPI, is estimated at 3.4 percent for 2005, up significantly from the 2.7 percent registered in 2004. We believe that price pressure will begin to moderate next year as energy prices stabilize and even decline a bit. We are forecasting an average annual rate of inflation of 3.7 percent in 2006.
- We expect the Fed to continue increasing the fed funds rate from 4.0 percent currently to 4.75 percent by mid-2006. Given our forecast that price pressure will ease, the real federal funds rate is projected to increase through year-end 2006 and move into a restrictive range that will tend to dampen economic growth. It will mark the first time since the 2001 recession that the real fed funds rate will no longer be stimulative.
- Residential construction has been an important engine of economic growth since the end of the 2001 recession. But increasing mortgage rates, coupled with diminished expectations regarding future housing prices, suggest that housing construction will slow. Our forecast calls for the average annual rate of housing starts to decline from more than 2.0 million to 1.8 million units – a drop of about 12 percent.



2006 Inland Empire Forecast:

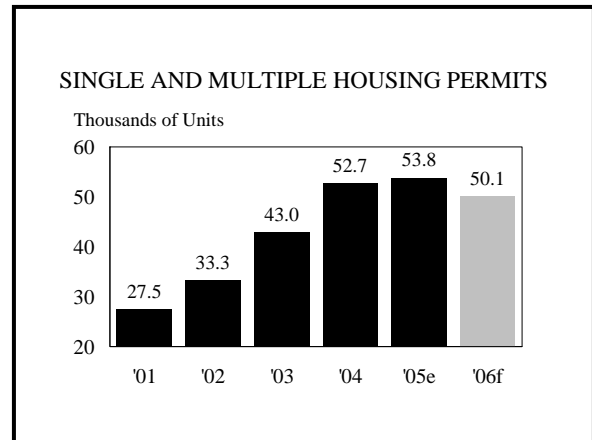
- Payroll employment, as reported by the Employment Development Department (EDD), showed an annual average growth rate of 2.1 percent in 2005. This compares to a growth rate of 4.6 percent in 2004. The reported slowdown in the Inland Empire's job growth

contrasts significantly with U.S. and California trends that show a pickup in growth in 2005 when compared to 2004.

- We believe that the EDD's current reported job figures, which are based on the payroll survey, are undercounting actual payroll jobs. This year, rather than using the current EDD statistics, we are adjusting payroll job numbers to conform to our projections.
- With steady real export growth, a moderate decline in real GDP growth and a sharp decline in the rate of growth of local construction spending, the Chapman Employment Indicator Series points to slower job growth in 2006 compared to 2005. On a quarterly basis, the Chapman forecast points to job growth dropping back steadily from an estimated 2.6 percent at year-end 2005 to 1.6 percent by year-end 2006. On average, our forecast calls for the creation of 25,000 additional payroll jobs — an increase of 2.1 percent.
- Trade, transportation & utilities, along with the services sectors will be the fastest growing sectors of the economy in 2006. Employment in the construction sector is forecasted to increase by 1.9 percent compared to an estimated growth rate of 7.7 percent in 2005.
- After three years of robust growth, total building permit valuation, both residential and nonresidential, is forecasted to hit \$12.4 billion — slightly lower than the estimated level of \$12.8 billion in 2005. This will be caused mainly by a forecasted decline in the number of residential permits from an estimated level of 53,800 units in 2005 to about 50,000 units in 2006.
- With moderate income growth, higher interest rates and a slowdown in home price appreciation, consumers will gradually cut back their spending throughout 2006. Our forecast calls for growth of 5.7 percent in total taxable sales, sharply lower than the estimated growth rate of 8.3 percent in 2005.

PAYROLL JOB GROWTH

Category:	Change in Jobs	% Change
Construction	2,298	1.9
Manufacturing	1,750	1.4
Trade, Transportation & Utilities	6,615	2.6
Financial Services	-290	-0.6
Services	10,207	2.4
Government	4,113	1.9
TOTAL	24,693	2.1



- Our projection of higher interest rates coupled with a moderate income growth calls for a softening in demand for housing. As a result, we are forecasting that median detached single family resale home prices will appreciate by only 1.0 percent in 2006.

