Chapman University

Press Release

A. Gary Anderson Center for Economic Research

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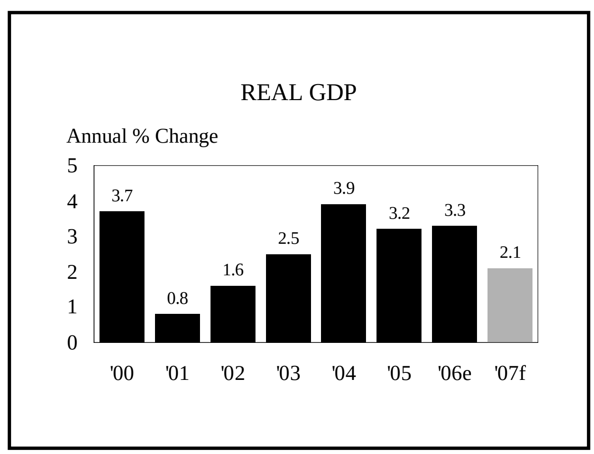
The Chapman University Economic Forecast For the U.S., California and the Inland Empire

Riverside, CA — The A. Gary Anderson Center for Economic Research at Chapman University released today the results of its 15th 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.

2007 U.S. Forecast:



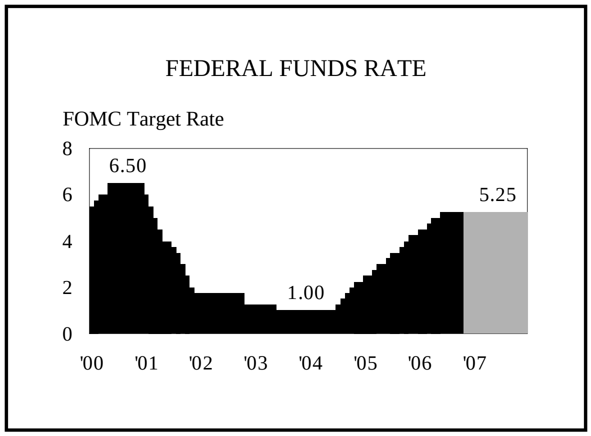
- Chapman's real GDP forecast calls for quarterly growth within a narrow range of 1.5 to 3.0 percent through 2007. On an annual basis, real GDP growth will decline from 3.3 percent currently estimated for 2006 to 2.1 percent in 2007.
- This forecast for a continuation of the current economic expansion is buttressed by two highly reliable recessionary indicators: the difference between long-and short-term interest rates and the real (inflation-adjusted) federal funds rate. While both indicators have been moving in a direction that suggests a slowdown in economic growth, neither has yet moved far enough to be a clear recessionary signal.

- While the residential construction sector appears to be in freefall, those spending losses have been offset by strong growth on the nonresidential side. Overall, total construction spending is virtually unchanged on a year-to-year basis.

- There is still a danger that declining housing prices could put a wrench in consumer spending – not unlike the negative wealth effect caused by the bursting of the dot-com bubble that led to the stock market crash and subsequent drop in consumer spending in 2001.

  To assess that danger, the Anderson Center developed a new model to forecast housing appreciation at the national level. The model points to housing prices dropping 2.2 percent, on average, in 2007. Such a moderate decline would not be expected to lead to a negative wealth effect, especially given the sharp run-up in average housing prices since the late 90s. For example, the median resale price of a home increased from $137,000 in 2000 to almost $225,000 by 2006.

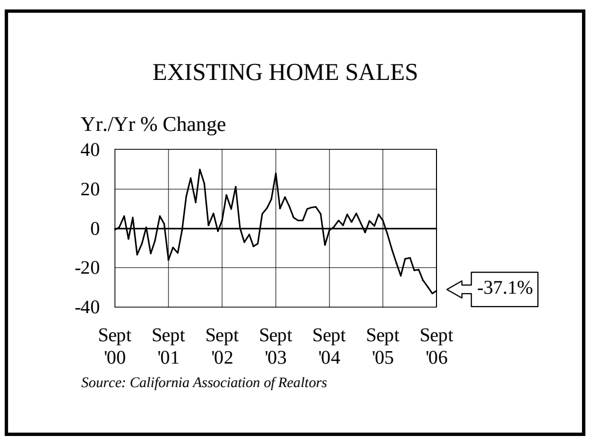
- Lower gas prices are expected to bring the all-items CPI down from a high of almost 5 percent quarter-to-quarter growth reached in the second quarter of 2006 to 2.6 percent by the second quarter of 2007. The Fed's preferred price gauge, however, is the personal consumption expenditures price index: less food and energy, which recently hit 2.5 percent – well above the Fed's target range of 1 to 2 percent. Our forecast points to core inflation moderating in 2007 to the top end of this range.



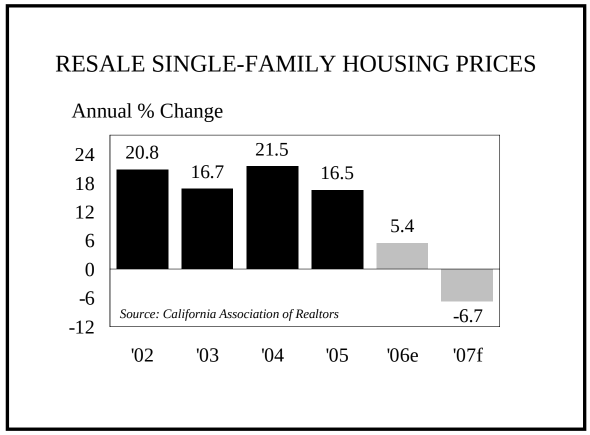
- Since lowering the fed funds rate will set off an inflationary alarm and raising it may be more than a weakening economy can take, we believe the Fed will hold this key interest rate constant at 5.25 percent in 2007. Other short-and long-term interest rates will follow suit and remain fairly stable through the end of next year.

2007 California Forecast:

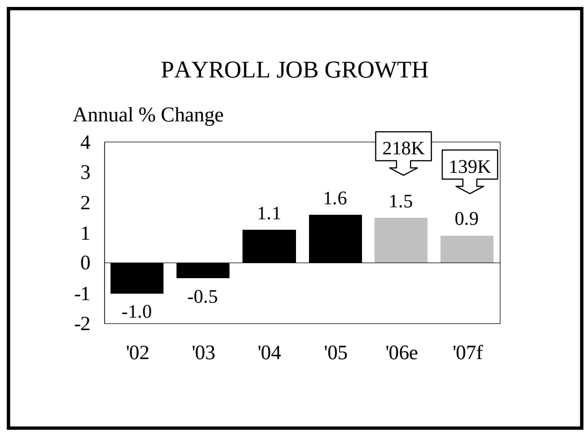
- After four consecutive years of robust demand for housing and double-digit home price appreciation, the housing market is showing a sharp decline in sales activity and price appreciation.



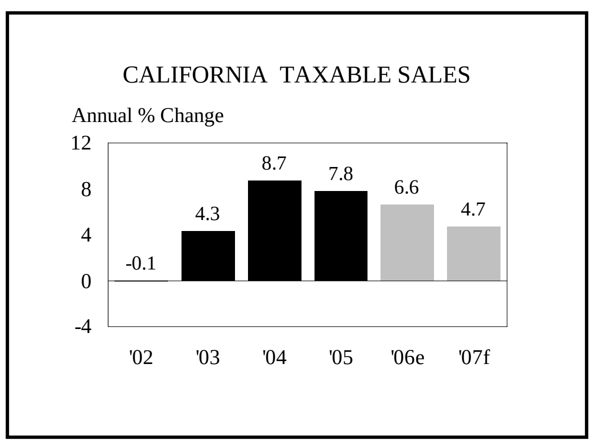
- Looking forward, the pace of job growth is slowing, the inventory of resale housing units is high, housing affordability is low, mortgage rates, particularly popular adjustable rate mortgages, have increased, and regulators are warning lenders to curtail easy lending practices. More importantly, expectations about future home price increases have turned negative. All of the above suggest that the housing market's adjustment process is gathering steam. Our model points to a decline of 6.7 percent in the median resale single-family detached home prices.



- The building industry is responding to the new market paradigm by drawing fewer permits. We are forecasting a decrease of 12.4 percent in total number of residential permits in 2007. This will mark three consecutive years of decline in the total number of permits issued since the peak of 213,000 units in 2004. In spite of relatively strong nonresidential construction activity, weakness in the residential sector will lead to 13,500 job losses in the construction sector in 2007.



- Overall, our forecast calls for net job creation of 139,000 in 2007 — a rate of increase of only 0.9 percent. Most of the net new jobs will be in the services sector. The most rapid growth is forecasted to take place in the professional & business sector increasing 2.1 percent, followed by growth of 1.8 percent in both leisure & hospitality and education & health services sectors.



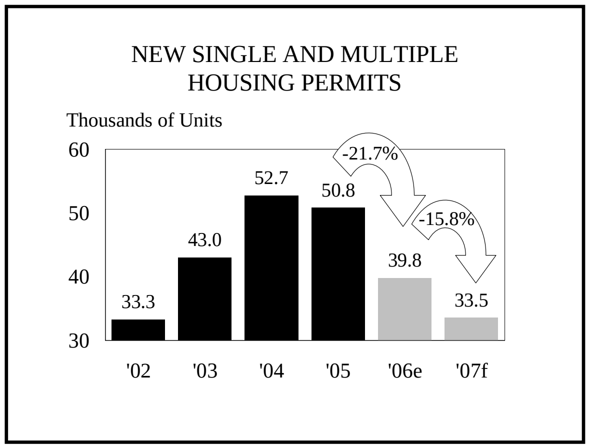
- The slowdown in California job growth in 2007 will be the major factor leading to a slowing in personal income growth from an estimated 6.4 percent in 2006 to 5.5 percent in 2007. Weak real income growth, a sharp reduction in cash-out refinancing activity and weakening of home price appreciation will negatively affect taxable sales activities. Our forecast calls for total taxable sales to increase by 4.7 percent in 2007, compared to an estimated growth rate of 6.6 percent in 2006. Spending growth on furniture and appliances, building materials and service stations are forecasted below the average growth rate of 4.7 percent.

2007 Inland Empire Forecast:

- Current data for 2006 show that Inland Empire's payroll employment grew at a 2.6 percent rate, higher than the average California job growth of 1.5 percent. We believe the benchmark employment revision that will be released in February will show an upward adjustment in the currently reported figures for the second half of 2006.

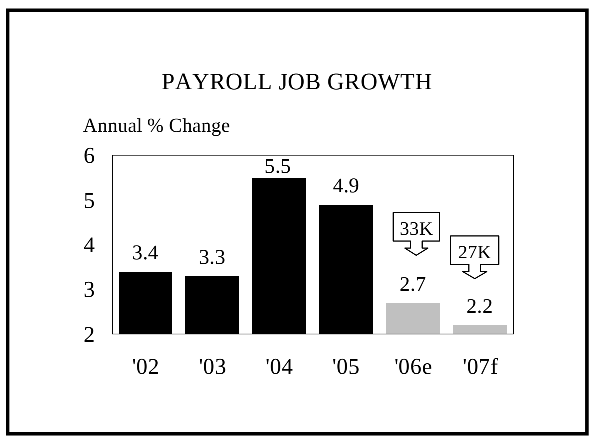
- A significant portion of the growth over 2004-05 period resulted from the strength of construction-related jobs and financial activities which in turn induced rapid job growth in the retail sector.

- The lagged effects of higher interest rates and slowdown in home sales activity are cutting into residential construction in the Inland Empire. The number of permits for single and multiple housing units is estimated to have declined by 21.7 percent in 2006 and is forecasted to decline by 15.8 percent to 33,500 units in 2007.



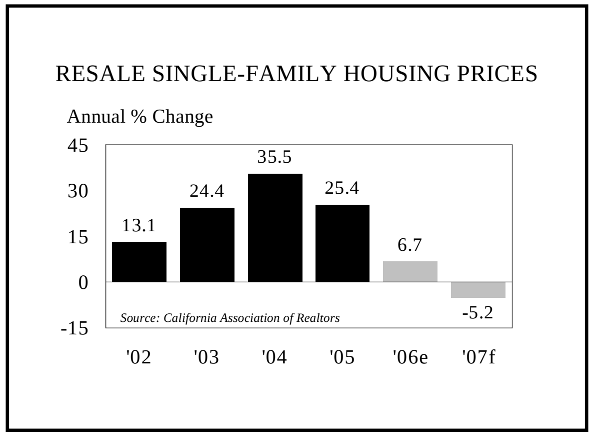
- Helped by lower vacancy rates and higher lease rates, nonresidential permit valuation grew to a historical high of $3.0 billion in 2006 and is forecasted to decline slightly to a level of $2.9 billion in 2007.

- On an annual basis, our forecast calls for payroll employment growth rate of 2.2 percent. This rate of growth translates to 27,000 new payroll jobs in 2007. Such job growth would be the weakest in the region since 1994. The trade, transportation & utilities sector with forecasted job growth of 3.7 percent in 2007 will be the strongest segment of the local economy followed by job growth of 3.1 percent in the services sector.



- Mirroring the forecasted decrease in payroll job growth, personal income and taxable sales growth are also expected to show a mild decline in 2007. Total personal income is forecasted to increase at a rate of 6.2 percent increasing from an estimated level of $115.7 billion in 2006 to $122.9 in 2007. Total taxable sales is forecasted to increase from an estimated level of $62.9 billion to $66.6 billion – an increase of 5.9 percent. This rate of increase is the weakest growth rate since the recession of 2001.

- A combination of low housing affordability, high unsold inventory and negative home buyers' expectations points to decreasing home prices in the Inland Empire in 2007. We are forecasting a decline of 5.2 percent in the median resale single-family home prices in 2007.



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	
	2006	**2007**	**2006**	**2007**
Payroll Employment (# of Jobs)	15,003,371	15,141,919	1,511,563	1,526,826
Job Creation	218,146	138,548	20,688	15,263
Yr/Yr Percent Change	1.5	0.9	1.4	1.0
Total Taxable Sales (Millions of $)	574,950	602,195	59,215	62,149
Yr/Yr Percent Change	6.6	4.7	6.8	5.0
Total Building Permit Valuation (Millions of $)	59,196	56,604	4,603	4,497
Yr/Yr Percent Change	-9.5	-4.4	28.0	-2.3
Resale Home Price Index (1990 = 100)	287.2	267.9	294.6`	275.7
Yr/Yr Percent Change	5.4	-6.7	2.6	-6.4

	Los Angeles County		Inland Empire	
	2006	**2007**	**2006**	**2007**
Payroll Employment (# of Jobs)	4,064,790	4,101,374	1,249,774	1,276,886
Job Creation	48,198	36,584	32,641	27,112
Yr/Yr Percent Change	1.2	0.9	2.7	2.2
Total Taxable Sales (Millions of $)	138,435	145,080	62,906	66,608
Yr/Yr Percent Change	5.9	4.8	8.8	5.9
Total Building Permit Valuation (Millions of $)	10,266	9,732	10,891	9,778
Yr/Yr Percent Change	-2.3	-5.2	-12.6	-10.2
Resale Home Price Index (1990 = 100)	270.7	254.2	300.1	284.5
Yr/Yr Percent Change	9.6	-6.1	6.7	-5.2

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