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The Recovery is Not Going to Stall

Anderson Center for Economic Research

Chapman University

Press Release

A. Gary Anderson Center for Economic Research

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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, at (714) 997-6693.

This Recovery is Not Going to Stall

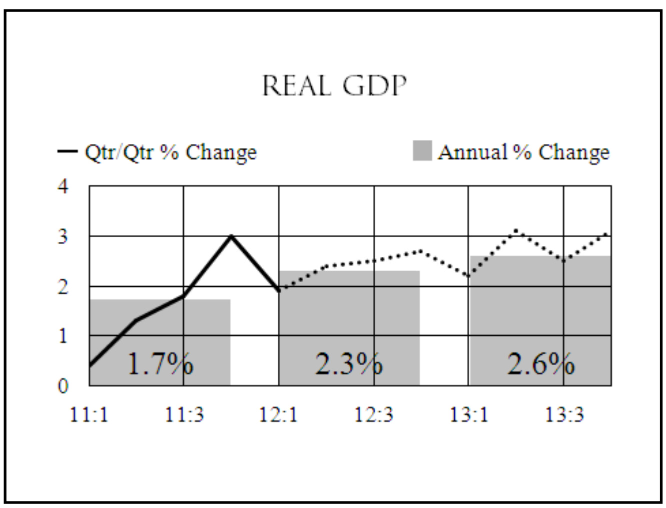
Orange, CA – The A. Gary Anderson Center for Economic Research at Chapman University released today an updated economic forecast for 2012 and its forecast for the year 2013. Forecasts of national, state and local economic performance were presented to Orange County business and community leaders assembled at The Hilton, Costa Mesa, California.

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

2012-13 U.S. Forecast

- Our December 2011 forecast for average real GDP growth of 2.3 percent in 2012 remains unchanged. For 2013, we are forecasting relatively weak economic growth of 2.6 percent.

  On a quarterly basis, real GDP growth will be constrained within a range of 2.0 to 3.0 percent. While we see no major negatives that are likely to push us back into recession, there are also no underlying forces strong enough to lead to a sustained pickup in the economy.

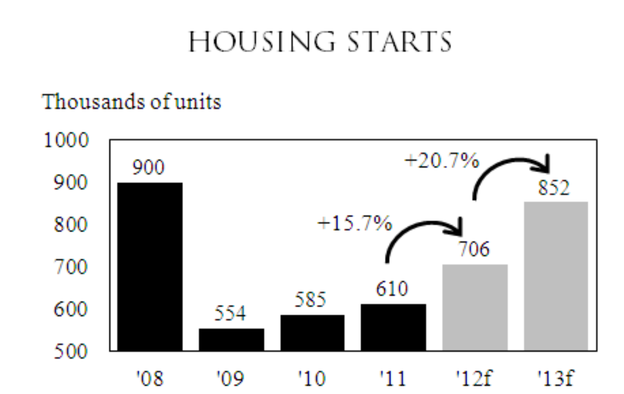


- In December, we forecasted a eurozone economic slowdown, but discounted the likelihood of a meltdown. We still don't anticipate a meltdown. But we believe Europe is now in a recession that will reduce global economic growth, including that of the United States. Our model suggests that problems in Europe will cut U.S. real GDP growth by one-half percent in 2013.

- Our current recovery has been constrained by the slow pace of housing starts, which have remained at historically low levels because of the bubble-related supply overhang. Finally, there are clear signs pointing to a meaningful housing recovery in 2013, including the following:

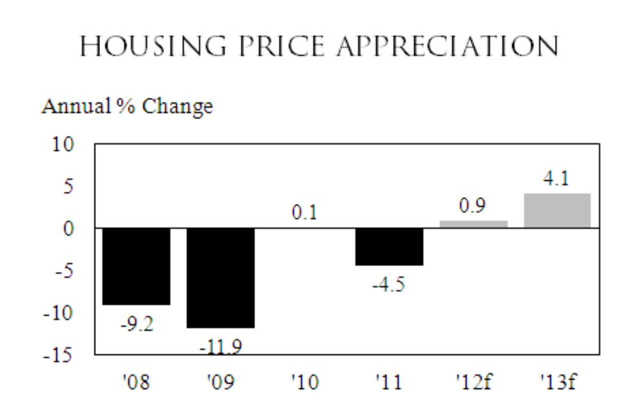
  – After peaking near the end of the recession, homeowner and rental vacancy rates have declined to their long-term averages.
  – Housing affordability has reached an all-time high of 205, indicating that median family income is more than double that necessary to qualify for the purchase of a median-priced home.
  – Foreclosures and 90+ days delinquent homes are sharply lower than their recession highs and are projected to be near their historic norm by the end of next year.

- Our forecast points to an increase of about 150,000 housing starts in 2013. That increase is projected to push real GDP growth up by about one-half percent, offsetting the loss resulting from the eurozone recession.



- The 852,000 housing starts we are forecasting in 2013 is still well below the projected demand of 1.4 million new households each year through 2020 – and that does not include an allowance for replacement housing. This suggests strength in residential housing construction beyond 2013.

  It also suggests a recovery in housing price appreciation. Our forecast calls for a 4.1 percent increase in resale single-family home prices in 2013—very close to the long-term average annual appreciation rate of 4.4 percent before the housing bubble began to grow and then burst.



- An increase in home prices will keep household net worth moving upward, which will help fuel consumer spending. We are forecasting a 2.1

percent increase in consumer spending in 2012, followed by a 2.7 percent increase in 2013. But our forecast assumes that the Bush tax cuts, which are set to expire in December 2012, will be extended for another year. We believe the economic recovery is too weak and job growth too low for Congress to do otherwise.

- Our model points to the creation of 1.9 million new payroll jobs in 2012 and other 2.1 million jobs in 2013, which will help bring the unemployment rate down to 7.2 percent by the end of next year.

- With relatively weak economic growth, interest rates will stay low with some pickup next year. Over our forecast horizon, short-term rates (like the 90-day treasury bill) are forecasted to increase about one-half percent, while long term rates (like the 10-year treasury bill) are forecasted to increase about one percent.

- Inflation, as measured by year-to-year percentage change in the all-items CPI, is forecasted to increase from about 2.8 percent currently to 3.3 percent by year-end 2013. The core personal consumption expenditures price index, which excludes food and energy costs, is also forecasted to increase about one-half percent.

2012 Presidential Election Forecast

- At our December 2011 Forecast Conference, we announced early results of our presidential indicator model, which suggested a Republican victory by 8.1 percent.

  Our update of that model, including President Obama's current approval rating and our revised forecasts for real GDP and employment growth in 2012, still points to a Republican victory, but by a more narrow margin of 3.2 percent.

2012-13 California and Orange County Forecast

- While by definition California entered the recovery phase in the third quarter of 2010, the disappointing pace of job growth leaves many sectors of the economy well below their pre-recession employment levels. Only educational and health services gained jobs through the recession and the recovery periods.

- Coastal regions of the state with more diversified economies are growing much faster than the inland areas. Santa Clara and San Francisco with a 2.7 percent and 1.7 percent job growth, respectively, outshined all the other regions of the state in 2011.

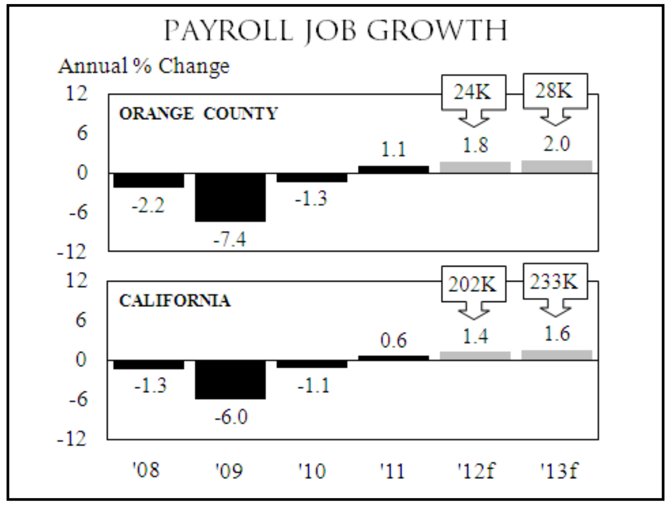
CALIFORNIA
CHANGE IN PAYROLL EMPLOYMENT

	07:4 to 10:2	10:2 to 12:1	07:4 to 12:1
Educational & Health Services	86,267	75,367	161,634
Leisure & Hospitality	-73,367	49,600	-23,767
Information	-47,900	21,167	-26,733
Professional & Business Services	-197,533	113,767	-83,766
Financial Activities	-115,700	6,133	-109,567
Government	-7,100	-114,467	-121,567
Manufacturing	-210,700	4,733	-205,967
Trade, Transportation & Utilities	-300,500	78,267	-222,233
Construction	-301,400	8,067	-293,333

- The good news is the performance of the goods-producing sector of the economy. Manufacturing jobs are growing. This is mainly the result of improvements in consumer spending and business investment along with a pickup in California's exports.

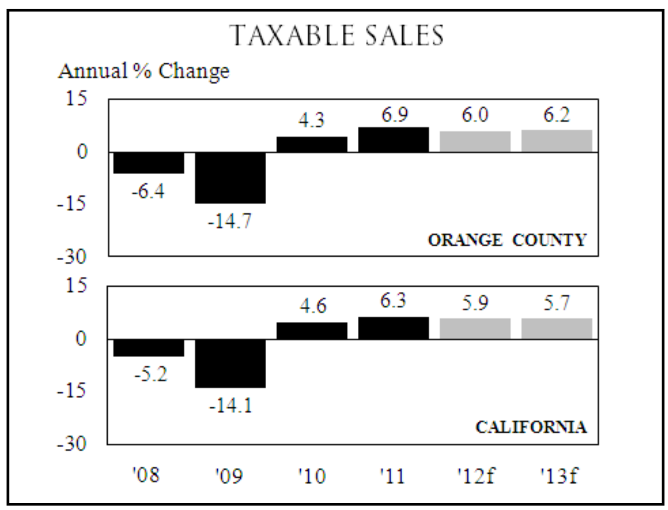
- Although, the financial crisis in the Eurozone and the recessionary conditions in some of the Eurozone countries will cut into California's export levels, only Germany and Netherlands are among California's ten largest export destinations. In the aggregate, we project total California merchandise exports to grow by about 9.0 percent over our forecast period, slightly lower than 11.3 percent growth in 2011.

- After four consecutive yearly declines, construction spending turned positive in early 2011 and is growing again. In other words, the brunt of the construction nosedive has already been felt in terms of lower employment and spending levels. The current rebound in construction should positively affect employment in this sector.



- Overall, our forecast calls for payroll job growth of 1.8 and 2.0 percent in Orange County in 2012 and 2013, respectively. This compares to a payroll job growth of 1.4 and 1.6 percent in California in 2012 and 2013.

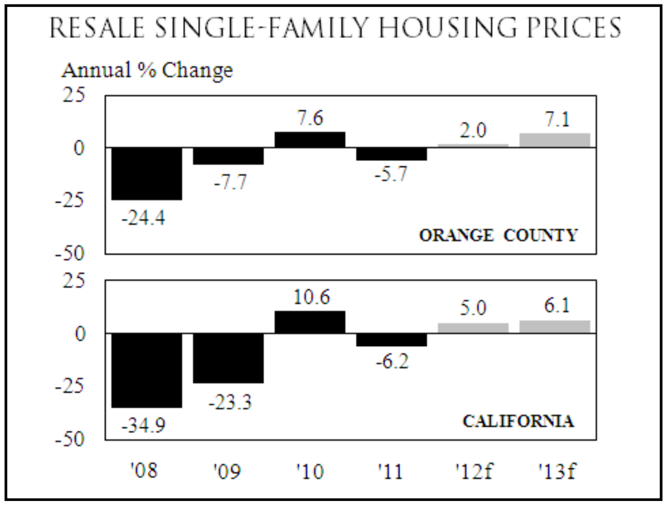
- Projected job growth along with declining unemployment rates should positively affect personal income growth over the 2012-13 period. That, in turn, will positively influence consumers' spending. Overall, total taxable sales spending in Orange County is forecasted to increase from an estimated level of $51.0 billion in 2011 to $57.3 billion in 2013, an increase of 6.0 percent and 6.2 percent in 2012 and 2013, respectively. As for California, taxable sales is also projected to improve at a slower rate of 5.9 percent in 2012 and 5.7 percent in 2013.



- The dramatic decline in home prices spells good news on the housing affordability front. When the price drop is coupled with low mortgage rates, housing affordability in Orange County and other regions of California is at historical high.

- The combination of job recovery and high housing affordability is gradually improving housing demand. On the supply side, the inventory of unsold homes is shrinking. And with recent declines in notices of default, the share of stressed properties in the market will decline as well and higher demand and shrinking supply are stabilizing prices.

- Our forecast calls for Orange County annual average median single-family home price to increase by 2.0 percent in 2012 and by 7.1 percent in 2013. This compares to 5.0 and 6.1 percent projected housing appreciation in California. The forecasted price increases are, however, mostly due to a significant shift in the mix of homes to be sold. This is mainly because there will be a decline in the share of all resale homes that are stressed properties and typically in lower price range.



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