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A Strong Housing Recovery Fuels Growth

Anderson Center for Economic Research

A. Gary Anderson Center for Economic Research

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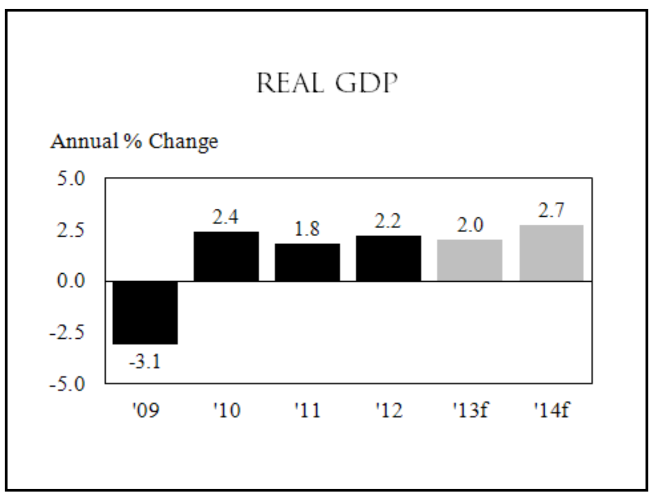
A Strong Housing Recovery Fuels Growth

Orange, CA – The A. Gary Anderson Center for Economic Research at Chapman University released today an updated economic forecast for 2013 and its forecast for the year 2014. Forecasts of national, state and local economic performance were presented to Orange County business and community leaders assembled at The Segerstrom Center for the Arts, Costa Mesa, California.

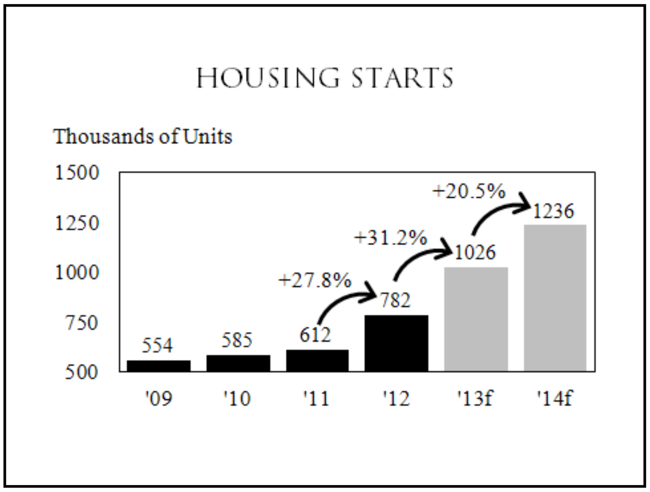
Following are highlights of the forecasts. The complete results are reported in the *Economic and Business Review*.

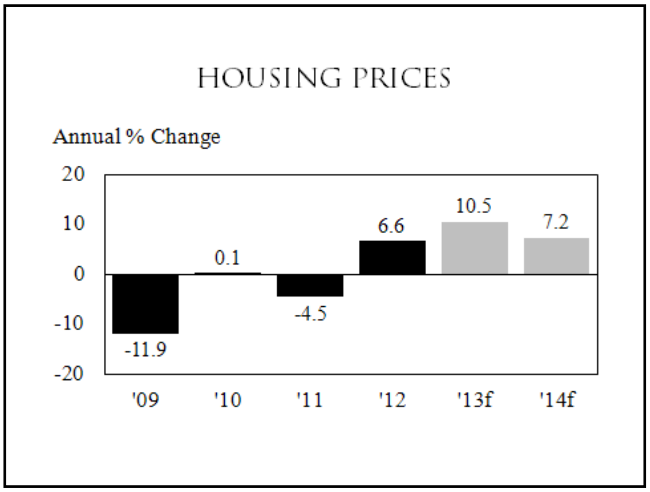
2013-14 U.S. Forecast



- Our December 2012 forecast that the recovery would remain in low gear at around 2.0 percent is supported by early trends in 2013. Extending the Chapman model through 2014 points to the recovery continuing for a fifth straight year and even gaining some momentum.
- Our call last June for a meaningful housing recovery in 2013 was right-on. In fact, that recovery is even more robust than we forecasted, as a result of the following trends:
    - Housing affordability is at all-time highs, where median family income is about double that necessary to qualify for the purchase of a median-priced home.

- Despite rapid growth in new residential housing stock, we see supply falling short of the potential demand of 1.4 million units per year from new household formation – and that's not even including the need for replacement housing.
- Since peaking in 2010, the supply of unsold homes has dropped sharply and is nearing record lows.
- Homeowner and rental vacancy rates have declined to historic norms.
- Foreclosures and 90+ days delinquent homes have continued to decline steadily since peaking in January 2010.





- Housing starts are forecasted to maintain the double-digit growth registered in 2012. Our model points to an increase of almost 250,000 housing starts in 2013 and another increase of 210,000 units in 2014.
- Growing demand for housing in a market where supply is tightening translates to upward pressure on home prices. We see housing appreciation hitting double digits this year before receding a bit in 2014.
- Consumer spending, which accounts for about 70 percent of total spending growth, is forecasted to increase 2.3 percent in 2013 and 2.6 percent in 2014. This increase in spending is partly the result of a positive wealth effect. Given the escalation of housing prices and the recent strength of the stock market, household net worth has returned to its pre-recession highs. In addition, debt payments as a percentage of income are at historically low levels.
- Our model points to the creation of 2.1 million new payroll jobs in 2013 and another 2.2 million jobs in 2014, which will help bring the unemployment rate down to 6.7 percent by the end of next year.
- The U.S. dollar has appreciated sharply in early 2013, which will negatively impact exports. On the positive side, a strong dollar will help keep inflation under control. In addition, the recovery we are projecting will not be strong enough to fuel inflationary pressure. We are forecasting that the key inflation measure used by the Fed, the core personal consumption expenditures price index, which excludes food and energy costs, will increase 1.4 percent in 2013 and 1.9 percent in 2014.

- The relatively weak recovery will also keep interest rates low. Our forecast calls for an increase of 50 basis points in short-term rates, like the 90-day treasury bill, and 100 basis points in long-term rates, like the 10-year treasury bond, by year-end 2014.

2013-14 California and Orange County Forecast

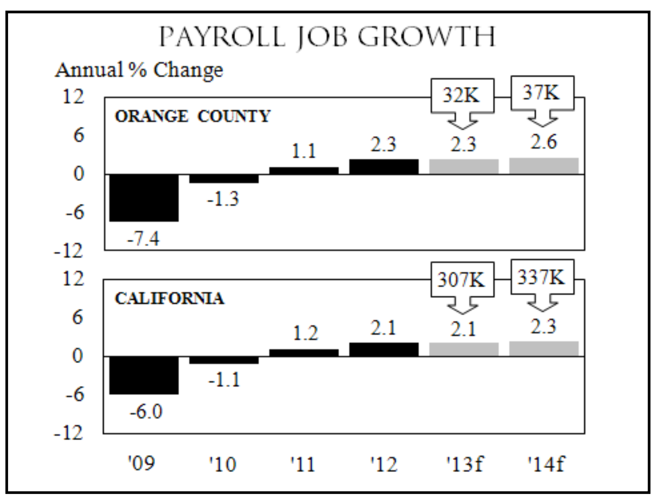
- The benchmark employment data released earlier this year by the Employment Development Department (EDD) revised upward payroll job growth in 2012 for California and many regions of the state. In the early stages of the recovery and expansion, the EDD generally underestimates the number of small firms that are launched and some of the new payroll jobs that are created by existing small businesses.

- Not only did the pace of job creation pick up steam, the recovery was broad-based. In Orange County, construction, financial activities, education & health, leisure & hospitality, and professional & business services showed above average growth of 2.3 percent in 2012.

- In spite of the pickup in job growth in 2012, both California and Orange County's payroll employment are well below the peak employment levels registered in the fourth quarter of 2007. California gained 700,000 jobs over the 2010-2012 period but is still 700,000 below its peak employment of 1.4 million jobs in the fourth quarter of 2007.

- Mainly as a result of continued strength in residential permit valuation, construction spending is projected to increase by about 16.0 percent over our forecast period. And, the rebound in the construction sector, when real GDP and exports growth are sluggish, is welcome news. Typically, a construction project with $1 million of spending induces at least $1.5 million of additional spending in the economy.

- Overall, in annual terms, our forecast calls for a gain of 32,000 jobs in Orange County and 307,000 jobs in California in 2013—a growth rate of 2.3 and 2.1 percent, respectively. With the pickup in real GDP growth in 2014, the forecast calls for job growth of 2.6 percent in Orange County and 2.3 percent in California in 2014.



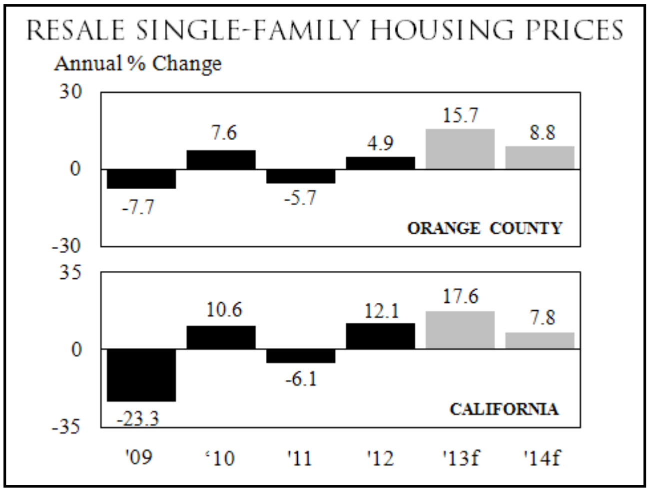
- While most of the net new jobs over this period will be in the services sector, the most rapid increase in jobs is forecasted to take place in the construction sector, increasing at 4.3 percent in Orange County and about 5.0 percent in California.

- The state and local government sector which was a major drag in overall job growth since the beginning of the recession is turning around. Overall improvements in the economy and the passage of Proposition 30 (higher sales and income taxes) are boosting personal income and sales taxes revenue.

- With a stronger job growth and a higher concentration of income from dividends and capital gains, personal income in Orange County is forecasted to grow at a stronger pace than California increasing at 5.3 and 5.9 percent in 2013 and 2014. This, in turn, will boost median family income in the county from an estimated level of $83,000 in 2012 to $88,800 in 2014.

- The combination of job creation and a high level of housing affordability caused by low mortgage rates and higher median family income should induce additional housing demand. Strong demand and limited supply will lead to higher home prices this year and next.

- On average, the median single-family home price, as measured by the California Association of Realtors, is forecasted to increase by 8.8 percent in Orange County and 7.8 percent in California in 2014. These projected appreciation rates are significantly lower than our projected double-digit increases in 2013 since the composition of homes sold are normalizing and trending toward normal historical patterns.



- The positive wealth effect generated by higher home prices and equity markets along with stronger job and income growth in 2014 will more than offset the negative effects of higher sales and payroll taxes. Hence, taxable sales in Orange County and California are projected to increase at 6.1 and 5.6 percent, respectively, in 2014.

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