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The Economy is Stuck in Low Gear

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A. Gary Anderson Center for Economic Research

FOR RELEASE:

November 25, 2013 2:00 p.m.

CONTACT:

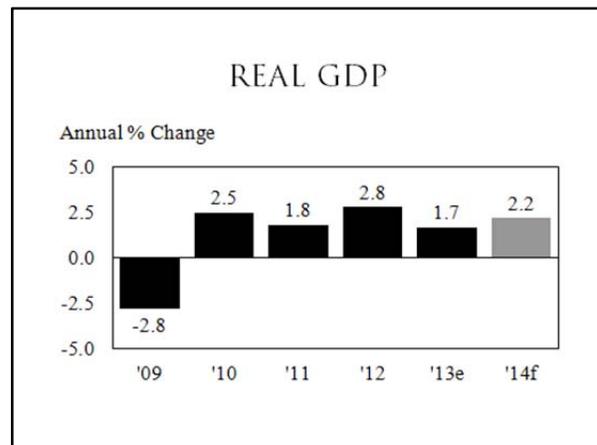
James Doti, President and Donald Bren Distinguished Chair of Business and Economics, at (714) 997-6611, or Esmael Adibi, Director of the Anderson Center for Economic Research, at (714) 997-6693.

The Economy is Stuck in Low Gear

Orange, CA – The A. Gary Anderson Center for Economic Research at Chapman University released today the results of its 36th annual economic forecast for the U.S., California and Orange County. The forecast was presented to about 1,500 Orange County business leaders at a conference held at the Segerstrom Center for the Arts, Costa Mesa. Following are highlights of the forecasts.

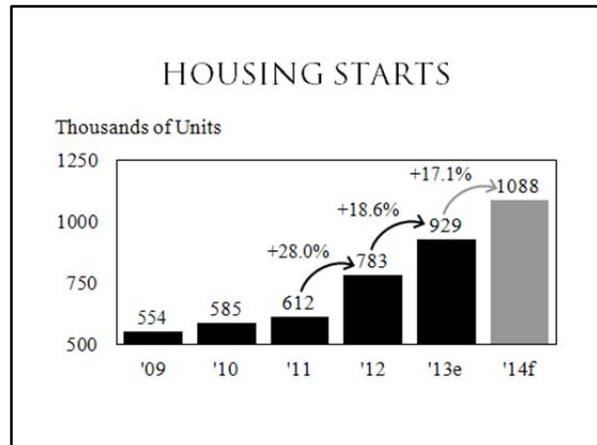
2014 U.S. Forecast

- The Chapman model points to another year of weak economic growth in 2014, with real GDP forecasted to grow at a 2.2 percent annual rate. Although this is an increase from the 1.7 percent growth currently estimated for 2013, it represents no change from the 2.2 percent average annual growth rate recorded during the first four years of the recovery from 2010 through 2013.
- Similarly, consumer spending, which comprises almost 70 percent of real GDP, will continue on a positive growth trajectory of around two percent.

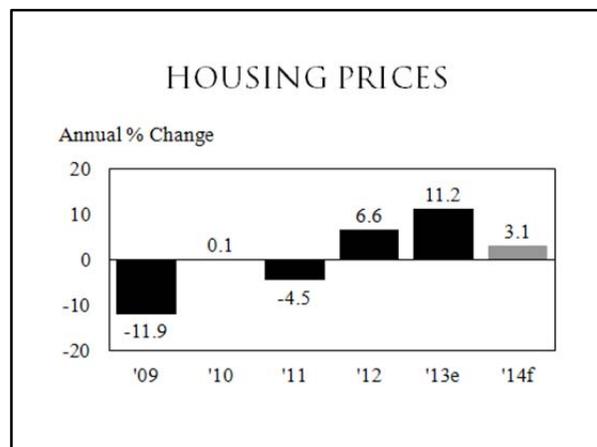


- The federal deficit will continue to shrink. The Congressional Budget Office recently announced that the annual federal budget deficit dropped from \$1,089 billion in 2012 to \$680 billion in 2013. The CBO projects an additional decline in the deficit to \$560 billion in 2014, which will drain \$120 billion in fiscal stimulus next year.
- The declining value of the U.S. dollar and stronger economic growth in Europe and Mexico will spur U.S. export activity. Our forecast calls for a reduction in the net export deficit from \$413 billion in 2013 to \$390 billion in 2014.

- The residential construction industry will continue to be a major engine of economic growth. Since 2009, annual housing starts have fallen short of the demand created by new household formations and demolitions of existing homes. Despite rapid growth in housing starts, the 929,000 new units in 2013 fell short of demand by about 550,000 units. For 2014, we are forecasting 1,088,000 housing starts, which represents an increase of 17.1 percent or 159,000 units.



- Declining housing affordability will lead to a slowdown in housing appreciation in 2014. After peaking at 11.2 percent in 2013, housing price appreciation is forecasted to drop sharply to 3.1 percent in 2014.

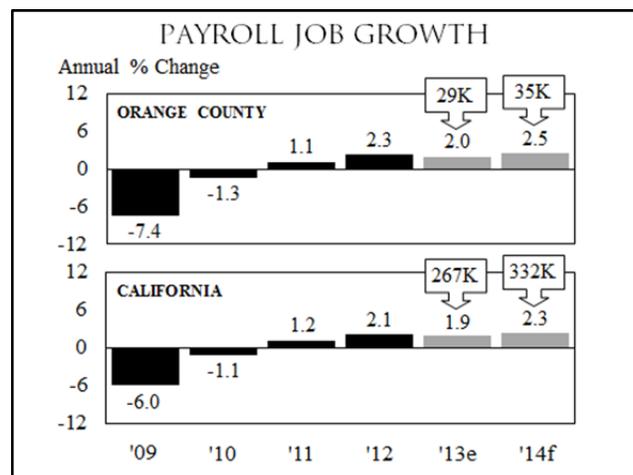


- Nonresidential investment will be another source of economic growth in 2014. Given declining commercial vacancy rates and increasing prices, coupled with an uptick in the ISM Manufacturing Purchasing Managers Index, we are forecasting growth in nonresidential investment from \$1,984 billion in 2013 to \$2,012 billion in 2014—an increase of 5.9 percent.

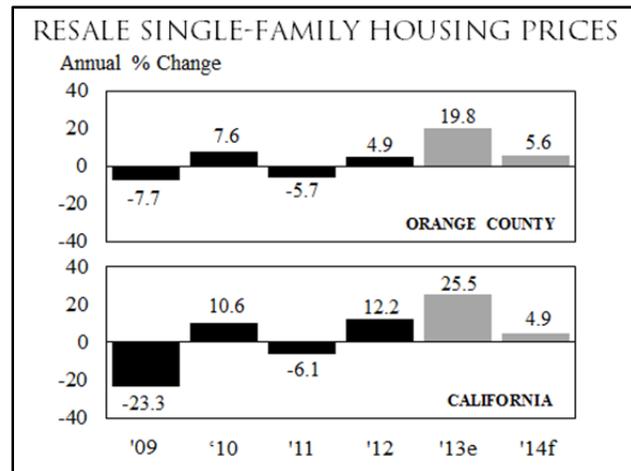
- As a result of investor concerns over the inevitable winding down of the Fed's bond buying program, we see long-term interest rates, like the 10-year treasury bond, increasing 100 basis points by the end of next year. Short-term rates, like the 90-day treasury bill, are forecasted to increase only 20 basis points.
- The current mild expansion pales in comparison to previous recoveries. But despite its weak nature, and perhaps because of it, the recovery is still in gear. It is going on 53 months. By now, most other recoveries would be experiencing accelerating inflation and tightening labor markets. Yet, there is no sign of those pressures. We are forecasting a 2.1 percent increase in the CPI in 2014.

2014 California and Orange County Forecasts:

- Our measure of construction spending, which is derived from the lagged moving average of total permit valuation, grew by 23.5 percent in early 2013. That explains why construction employment was the fastest growing job category in California and Orange County in early 2013.
- The upward trend in construction spending will continue for the remainder of 2013 and well into 2014. We are projecting the total value of building permit valuation to increase by about 15.0 percent in Orange County and 16.0 percent in California in 2014.
- California's largest trading partners' real GDP growth, particularly Mexico and Canada, slowed down in 2012 and early 2013. This, along with recession in the Eurozone, in large part explains why California's exports stagnated over this period.
- Although China and Japan are expected to experience slower growth rates in 2014 compared to 2013, Canada and Mexico, California's largest trading partners, are expected to show stronger growth rates in the coming year. And the largest economies of Europe—Germany, U.K., and France, are coming out of recession. This trend suggests that California's real merchandise exports should increase by about 5.0 percent in 2014, double the projected growth rate of 2.5 percent in 2013.
- The combination of strong construction spending, a pickup in U.S. real GDP growth along with rising California export growth points to an improved job outlook both in California and Orange County in 2014.
- Overall, we forecast payroll employment to grow by 2.3 percent in California and 2.5 percent in Orange County. This translates to total payroll job creation of 332,000 in California and 35,000 in Orange County in 2014.
- Job growth in the construction, education & health, professional & business services and leisure & hospitality sectors are forecasted to outperform all the other sectors.
- Improving consumer sentiment and a projected pickup in personal income growth point to taxable sales spending growth of 5.9 percent in California and 6.1 percent in Orange County in 2014, slightly better than the 2013 growth rates of 5.1 percent and 5.8 percent, respectively.



- In spite of continued payroll job growth, the decline in investors pool, lower housing affordability and increasing supply of new and resale housing units point to a significant slowdown in home price appreciation in California and Orange County.
- On an annual basis, median resale single-family home prices, as measured by California Association of Realtors, are forecasted to increase by 5.6 percent in Orange County and 4.9 percent in California, significantly lower than the double-digit increases in 2013.



California Healthcare Employment Outlook and the ACA:

- Demographic trends, along with the Affordable Care Act (ACA), will directly affect employment in the health care industry. This industry includes healthcare services, social assistance, and pharmaceutical & medical devices manufacturing sectors.
- As for 2014, we see a small incremental impact on job growth in the healthcare industry because of implementation of the ACA. While the act would generate higher demand, many healthcare providers, particularly hospitals, are consolidating to combat the expected decline in reimbursements received from Medicare, Medicaid and private insurance companies. Also, the number of inpatient hospital days stay has steadily decreased since 2007.
- Excluding the impact of the ACA, our forecast points to an increase of about 17.0 percent in employment in the healthcare services industry over the 2014-2020 period. With full implementation of the ACA, our projection shows that the increase in healthcare spending will result in an 8.0 percent additional employment growth in this sector over the 2014-2020 period. This translates to an annual average employment increase of about 23,000 jobs.
- Excluding the impact of the ACA, employment in the manufacturing of pharmaceutical and medical devices is forecasted to increase by about 10.0 percent over the 2014-2020 period. Employment in this sector is projected to increase by an annual average of about a thousand workers per year over the 2014-2020 period because of the implementation of the ACA.

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

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| JANUARY | ‣ Economic Forecast Conferences for 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, and Orange County
‣ 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
‣ Economic Forecast Conference for the U.S., California and Orange County |
| DECEMBER | ‣ California Consumer Sentiment Survey |