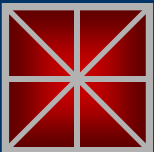


# Chapman University Economic Forecast



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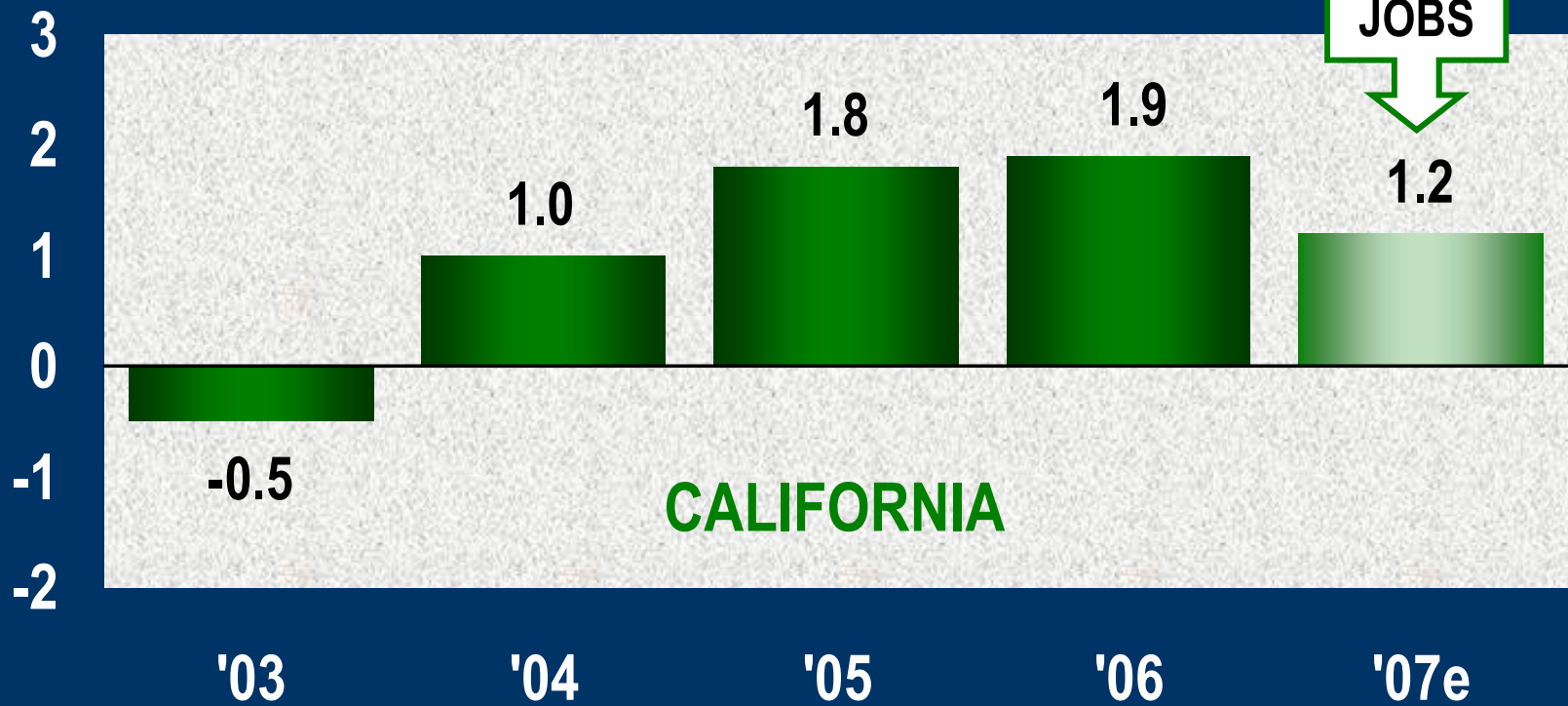
**California  
Hit Big by  
Freefall in  
Housing  
Market**



**HOW MUCH DAMAGE?**

# Job Growth

Annual % Change



# Job Outlook Looks Darker

- **Construction & Mining**
- **Financial Activities**
- **Trade, Transportation & Utilities**
- **Manufacturing**
- **Professional & Business Services**
- **Education & Health Services**
- **Leisure & Hospitality Services**
- **Government**

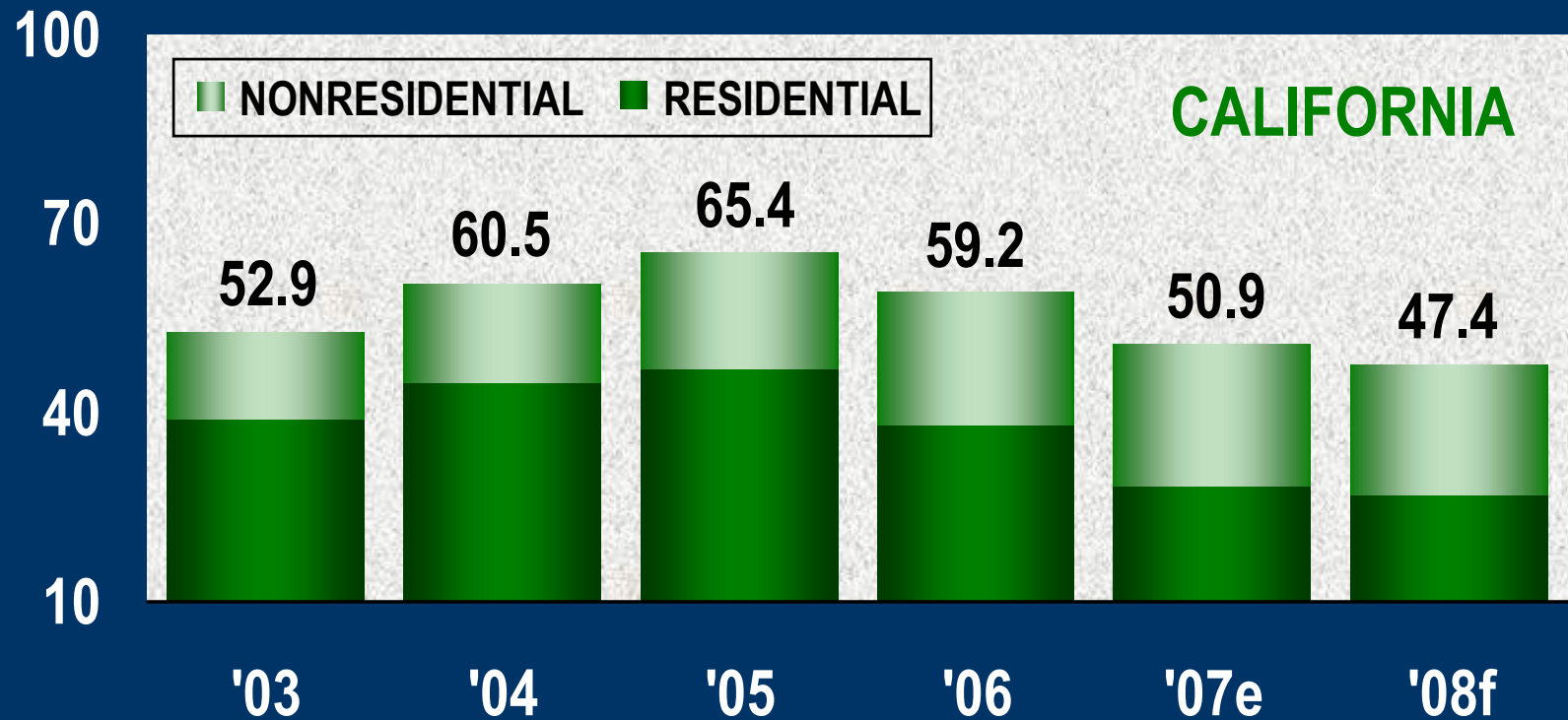
# New Multiple & Single Housing Permits

Thousands of Units



# Building Permit Valuation

Billions of \$



# Job Outlook Looks Darker

- Construction & Mining 
- Financial Activities 
- Trade, Transportation & Utilities 
- Manufacturing 
- Professional & Business Services 
- Education & Health Services 
- Leisure & Hospitality Services 
- Government

# Projected General Fund Revenue & Expenditures

Millions of \$	'06-07 Estimated	'07-08 Chapman Projections	'08-09 Chapman Projections
Total Revenue	95,541	98,818*	100,430
Total Expenditures	101,656	103,022	111,192
Balance	-6,115	-4,204	-10,762
Prior Year Balance	10,454	4,339	135
Net	4,339	135**	-10,627

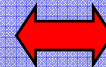
\* Includes \$500 million from sale of Education Fund vs. \$1 billion estimate by DOF

\*\* Does not include \$1.5 billion in Budget Stabilization Account



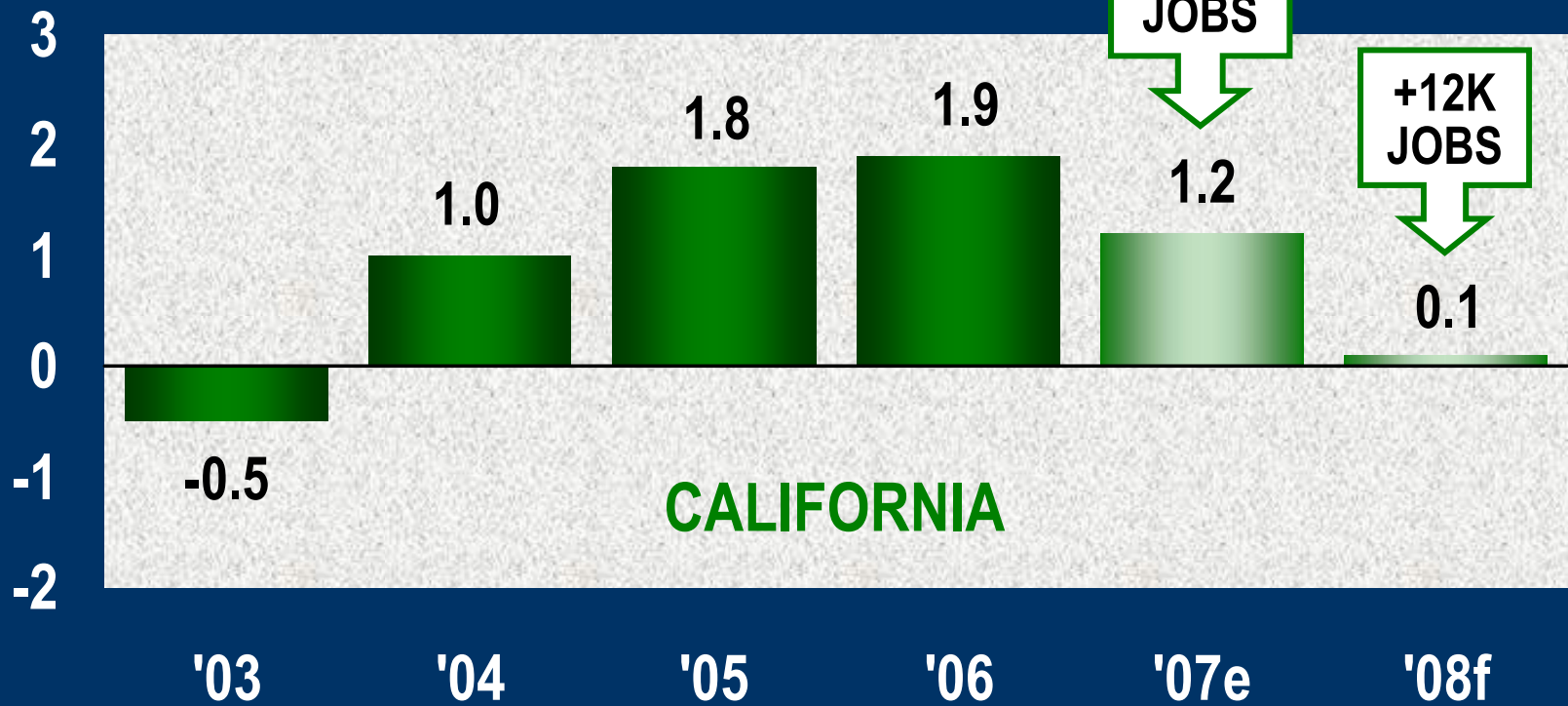
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- **Construction & Mining**
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# Job Growth

Annual % Change



# Unemployment Rate

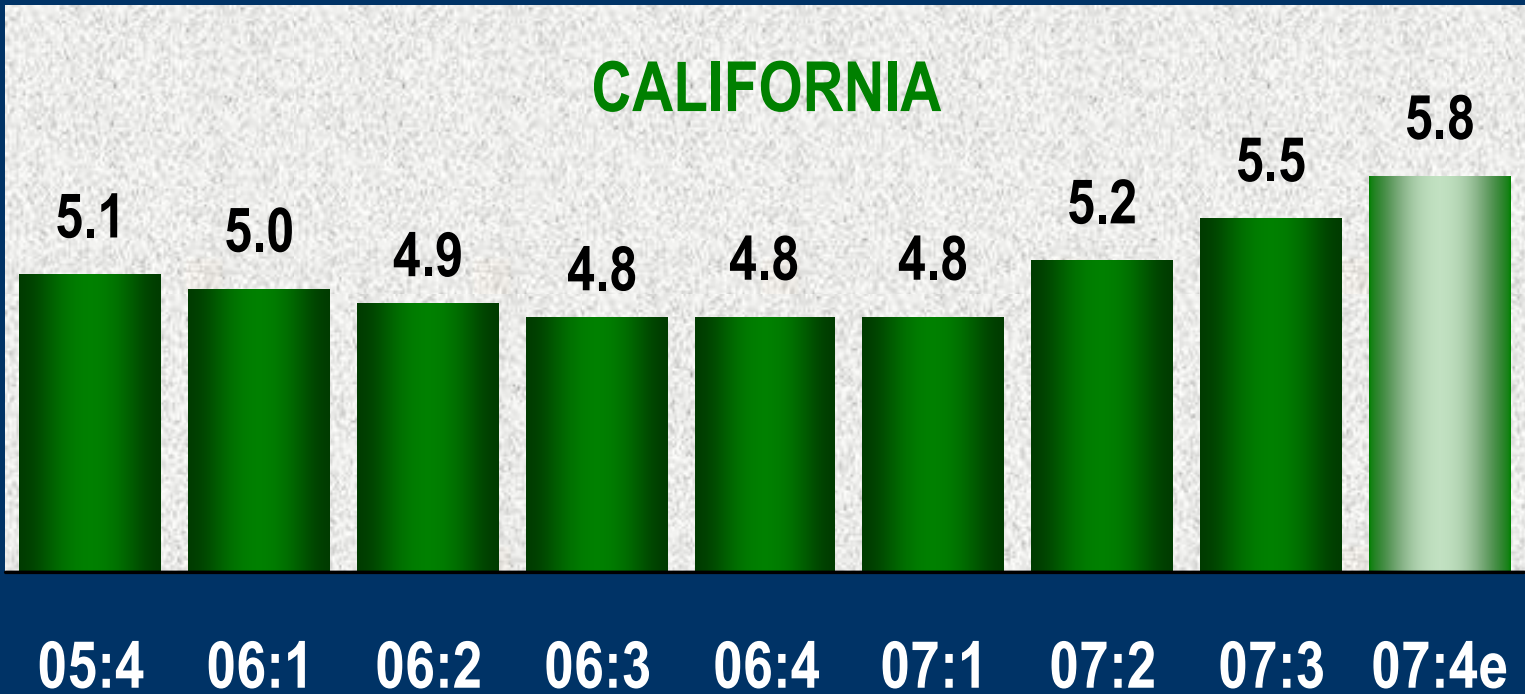
Percent

7

5

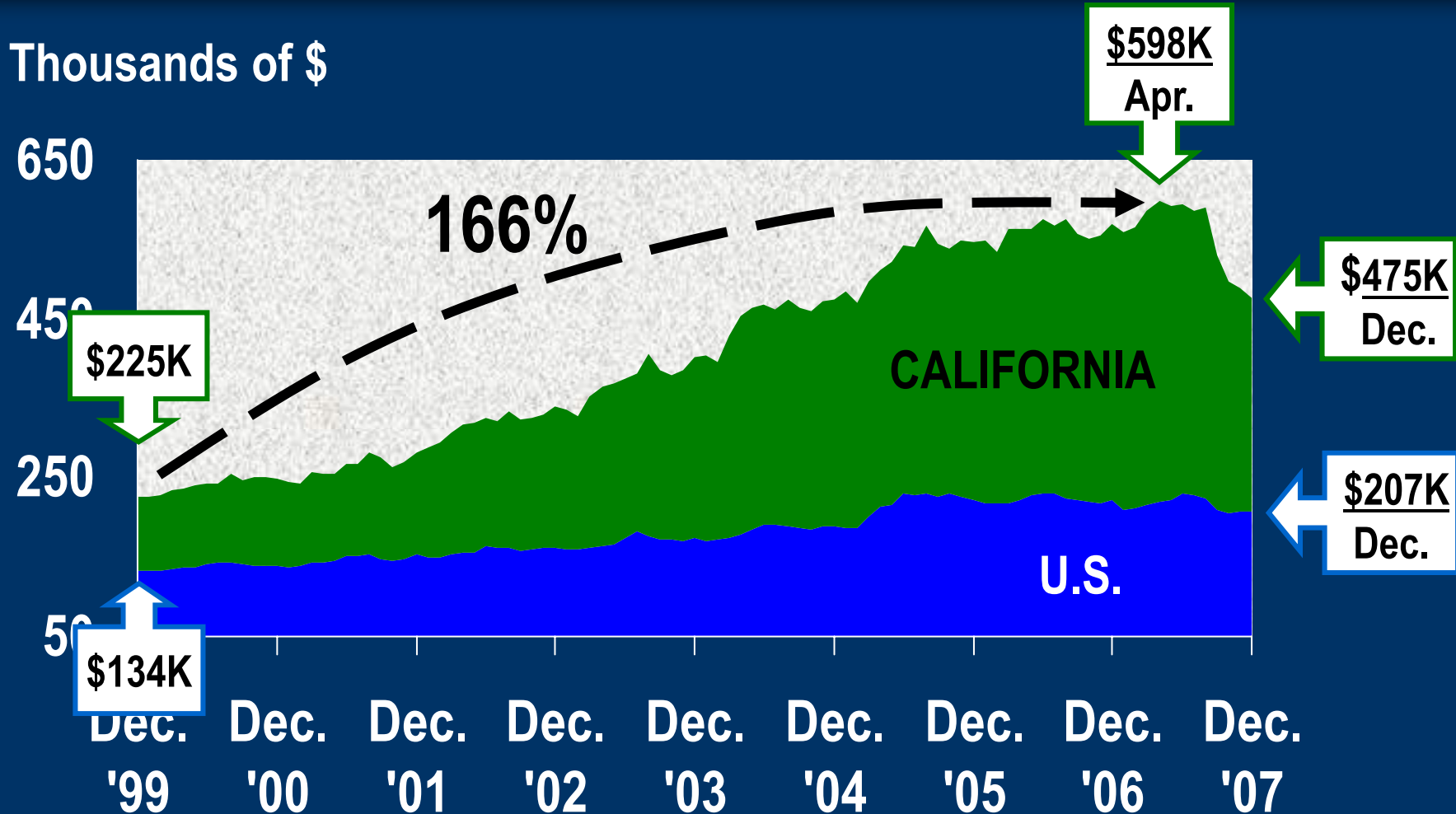
3

CALIFORNIA



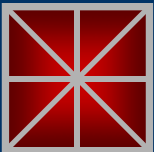
# Housing Prices

## Single-Family Detached Homes



Source: California Association of Realtors

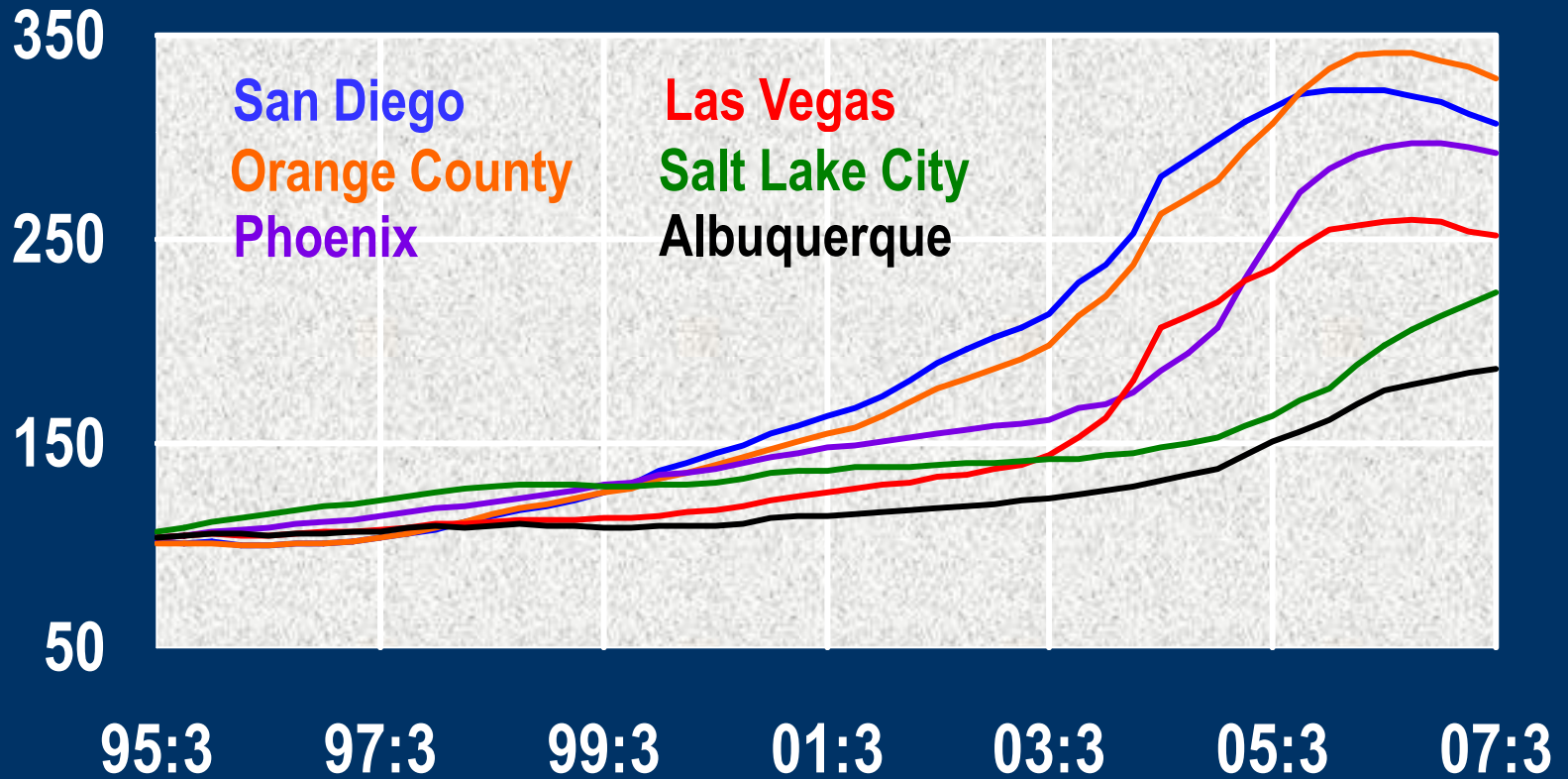
# A Housing Bubble?



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# Home Prices

Index

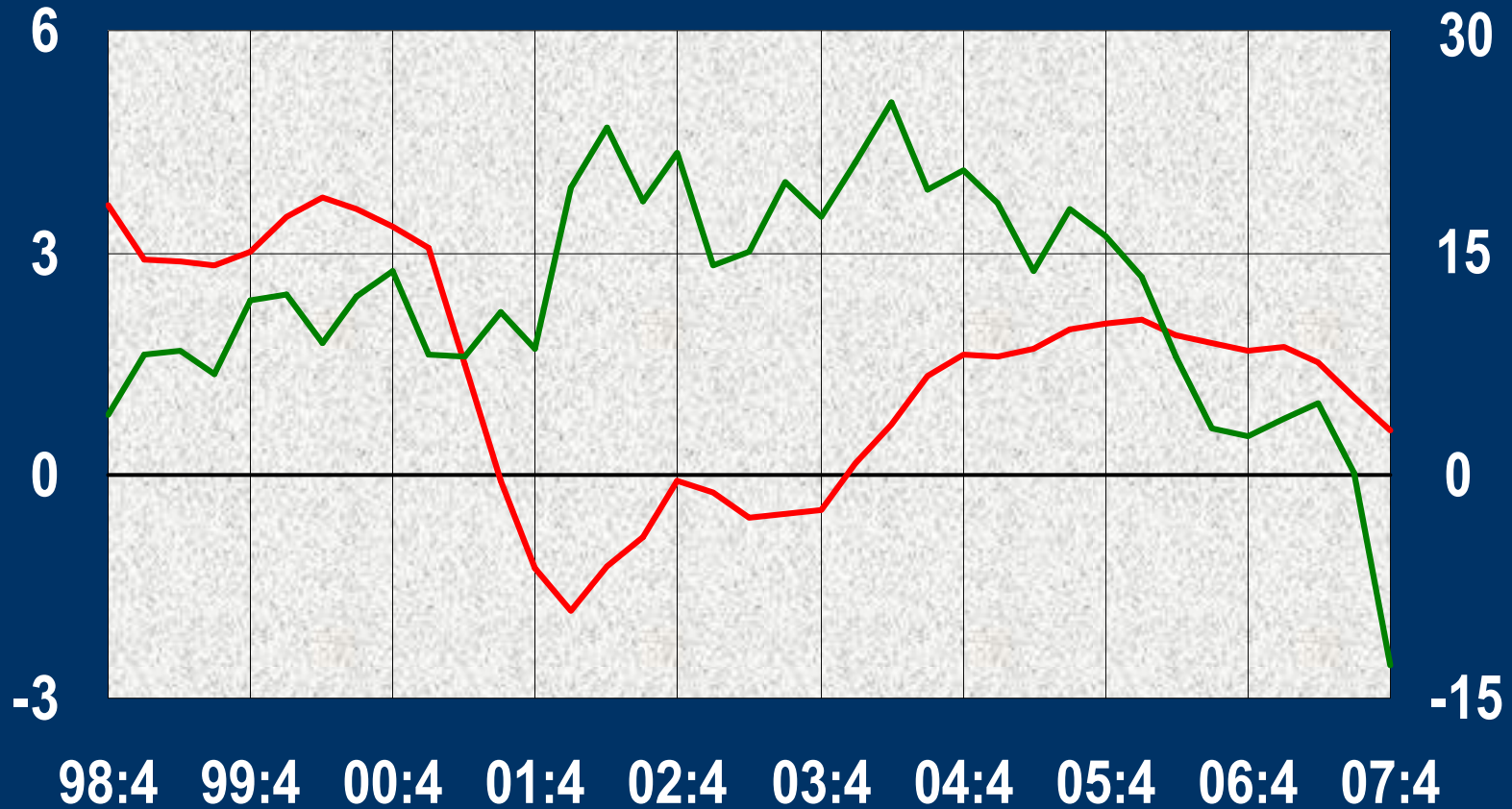


Source: OFHEO

# California Job Growth And Home Prices

**JOB GROWTH %**

**HOME PRICES %**



# California Job Creation & Pay

Year	Average Weekly Pay	# of Jobs Above Average Pay	# of Jobs Below Average Pay
2001	\$787	+67,977	-7,587
2002	\$784	-117,498	-26,928
2003	\$805	-60,260	+29,948
2004	\$847	+14,183	+131,817
2005	\$879	+120,801	+160,366
2006	\$919	+112,675	+159,227



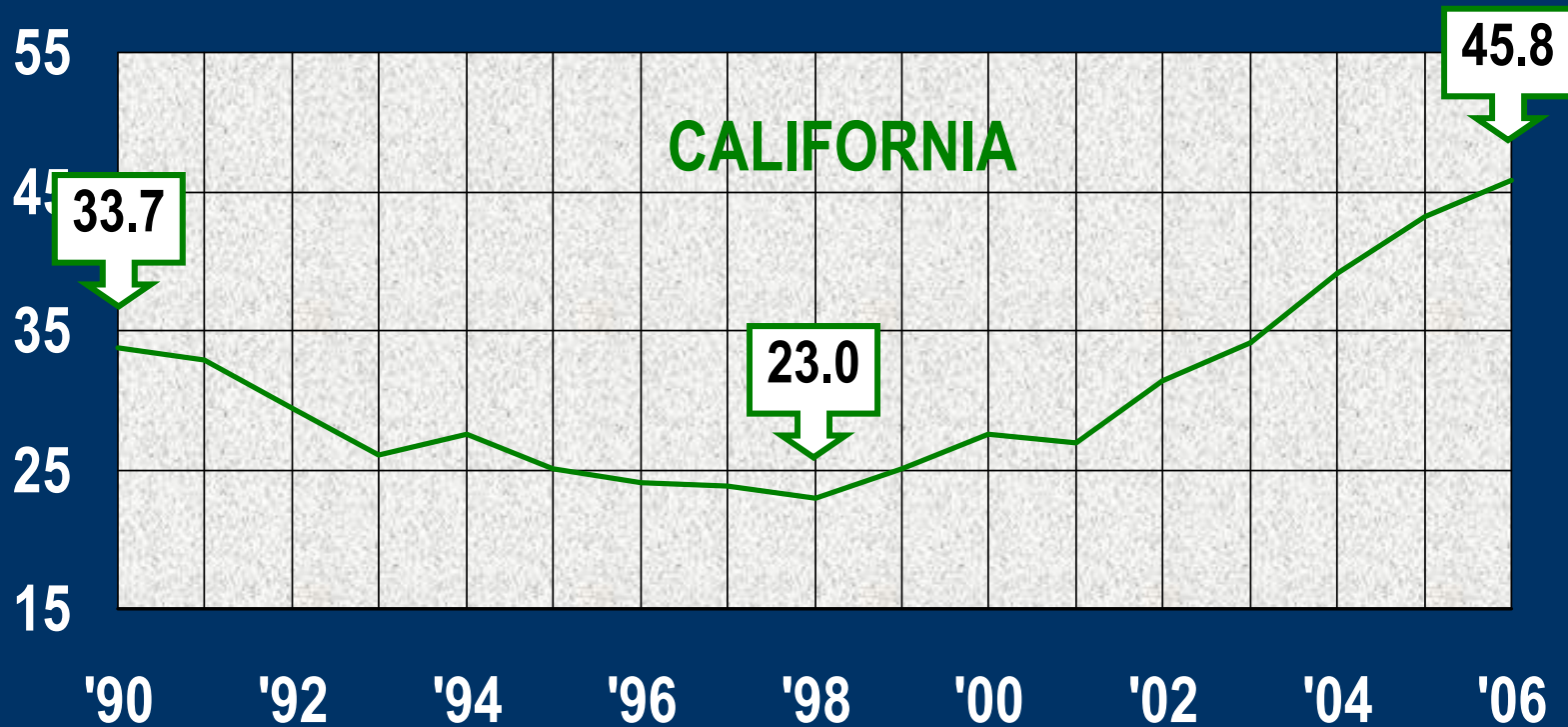
# Median Family Income

Thousands of \$



# Percent of Median Family Income Needed For Mortgage Payment On Median-Priced Home

Percent



# Arguments for Further Declines in Home Prices

- **Horrendous affordability problem.**
  - **Weakening job market.**
  - **High unsold inventory.**
- 

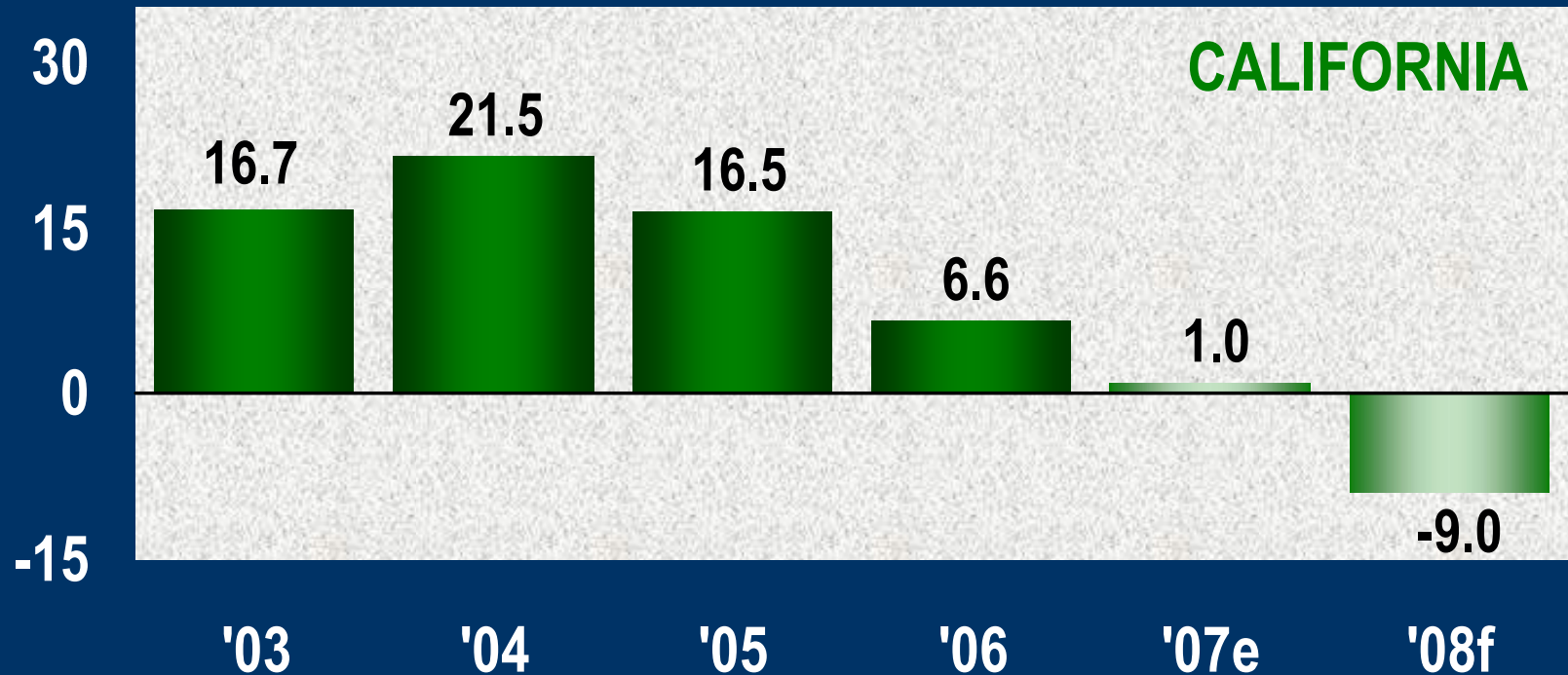
# Unsold Housing Inventory

Months of Supply



# Resale Single-family Housing Prices

Annual % Change



# Fed's Rate Cuts Will Help But It's No Cure

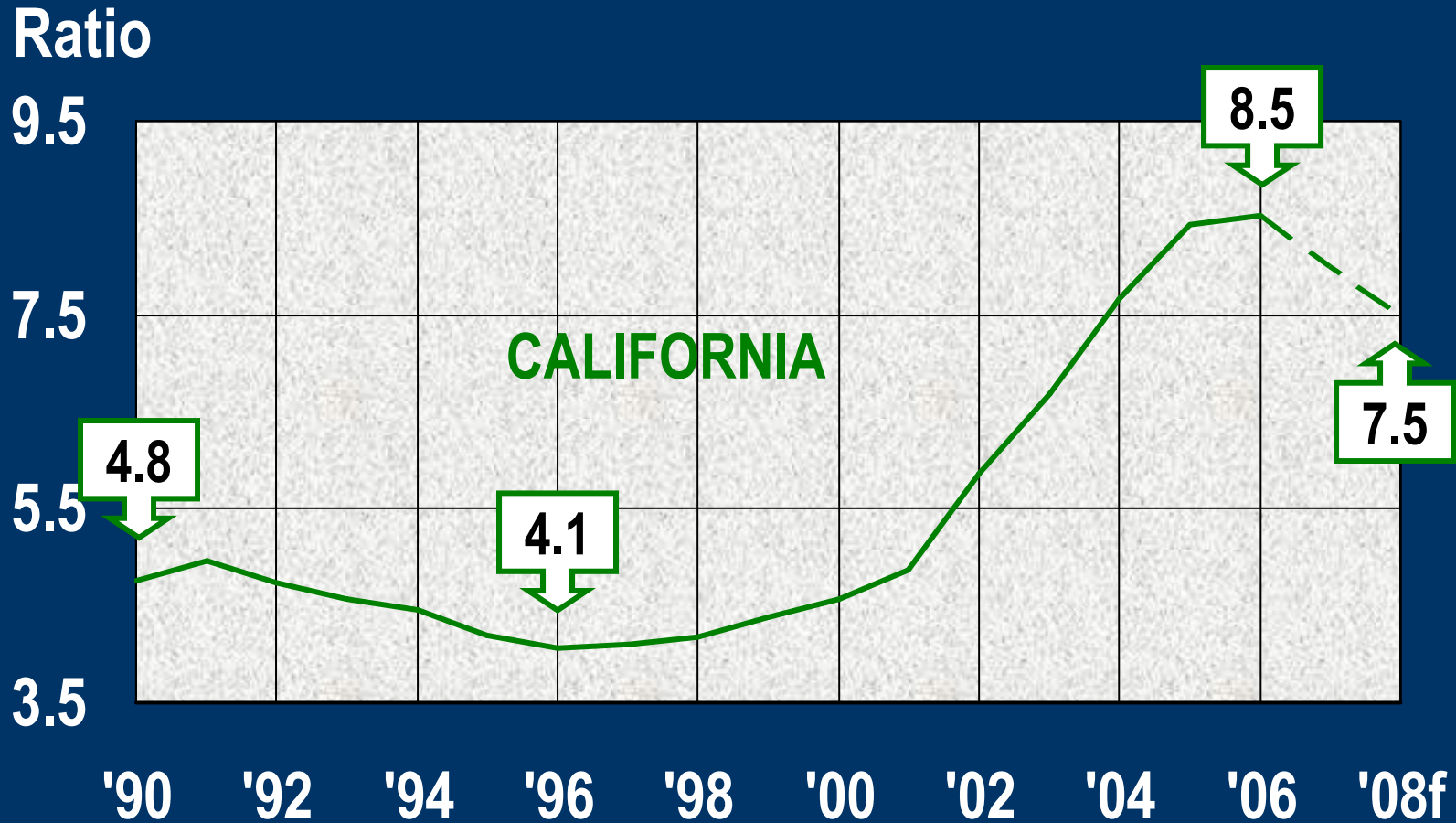
- **Appraisal values will not exceed or match the size of mortgages for homeowners seeking refinancing and who bought homes in 2005, 2006 and early 2007 with 100% financing.**
- **Subprime and Alt-A mortgage holders will not be able to document appropriate income to justify the size of their mortgages.**

# 1990s Housing Cycle

	<b>Peak to Trough decline</b>	<b>Duration in months</b>	<b>Duration to previous peak in months</b>
<b>Los Angeles</b>	<b>21.2%</b>	<b>51</b>	<b>63</b>
<b>Ventura</b>	<b>20.1%</b>	<b>57</b>	<b>54</b>
<b>Inland Empire</b>	<b>18.5%</b>	<b>36</b>	<b>63</b>
<b>Orange County</b>	<b>17.7%</b>	<b>54</b>	<b>51</b>
<b>Sacramento</b>	<b>14.0%</b>	<b>42</b>	<b>57</b>
<b>Santa Barbara</b>	<b>13.0%</b>	<b>51</b>	<b>42</b>
<b>San Jose</b>	<b>12.8%</b>	<b>60</b>	<b>27</b>
<b>San Francisco</b>	<b>11.5%</b>	<b>54</b>	<b>33</b>
<b>San Diego</b>	<b>10.8%</b>	<b>51</b>	<b>39</b>
<b>Oakland</b>	<b>9.7%</b>	<b>51</b>	<b>36</b>

# Multi-year Downward Spiral in Prices?

(Ratio of Median Home Prices to Median Family Income)

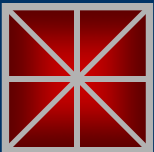




# BOTTOM LINE...

- **Job Growth is stalled.**
- **Income and spending growth will barely exceed inflation rate.**
- **Multi-year home price depreciation.**
- **State will face a large operating deficit.**

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