Cal State Fullerton – Economic Forecast Summary – 2008

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The National Economy

The U.S. economic outlook has unfolded broadly in line with our expectations since our last annual forecast of October 2006. At present, the U.S. economy is poised for a significant slowdown for the remainder of this year and the next and will undergo a painful ***"near-recession,"*** coming close to but ultimately sidestepping a full-blown recession.

With subprime mortgage meltdown continuing to reverberate through the system, we expect the Fed to lower interest rates one more time towards the end of the year and early into 2008.

The effect of housing on economic activity in its simplest form is twofold: 1) through consumer spending and 2) through construction investment. Both of these effects will put a drag on the economy in the coming year. While we expect real house prices nationally to decline further from their current levels, we do not think that an outright plunge in price is likely. .

We anticipate an overall U.S. GDP growth rate of 2.0 percent in 2007 and 2.4 percent in 2008. Unemployment rate is expected to rise from its current low level, averaging 4.6 percent for the current year and 4.8 percent in 2008.

Orange County

Much like the U.S. economy, Orange County's growth has slowed down this year compared to 2006.

There is little doubt that the current slowdown in housing is affecting all markets. It appears that the housing price increase in Orange County has been a part of the national trend as well as the worldwide asset price inflation more than a local phenomenon. Housing sales in Orange County were down 26.5 percent in 2006 compared to 2005. The current unsold inventory will take almost twenty months to clear at current sales levels.

Payroll employment in Orange County grew by 29,000 for a 2 percent increase in 2006. But the County economy has turned in a much weaker performance in the first eight months of this year compared to the same period last year. The Employment Development Department has revised up the Orange County employment growth in the past three years, casting doubt on its monthly estimates.

Nevertheless, we expect weaker job growth in 2007 and 2008 compared to the last two years. We are projecting payroll employment growth rates of 1.0 percent in 2007 and 0.9 percent in 2008.

We expect housing markets in Orange County to continue their downward adjustment over the next 12 to 18 months. In October 2006, we predicted a decline of 2 to 4 percent in 2007 in the median housing price in Orange County. The current trend seems to indicate that this forecast will come to bear. We anticipate this price adjustment to continue with a further 5 percent decline in the median price in 2008.

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