

Economic Forecast 2006 – from a Gobar Perspective

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For five years Dr. Gobar has been predicting that interest rates would rise. This may now be coming true! Most economic forecasters are predicting the bursting of the housing bubble, but not Dr. Gobar. The market may level out as interest rates begin to rise, but he does not predict a loud Ka-boom. Dr. Gobar forecasted that the median home value in southern California would rise 8-10% during the past year, when it looks like the actual number will be 13% to 14%.

	2004	2005
GDP Growth	3.5% to 4.0%	4.3%
Pctg. Population thinking economic recession	36%	43%
Unemployment		5%

Based upon the above statistics, 43% of the population thinks that the country is in an economic recession; however GDP growth in the US is above most of the industrialized economies of the world. The forecast for GDP growth for 2006 is above 3.5%, the average rate observed over the past 15 years.

The current budget deficit is 3.7% of GDP. This rate is not bad considering that the deficit observed during the later part of the 1980s and into the early 1990s was 4.0% to 5.0%. Some examples of budget deficits observed around the world are Japan, 6.5%, Italy 4.3%, Germany 3.9% and France 3.2%. It is also interesting to note that none of these countries is heavily involved in the war on terrorism.

As for job growth, the numbers don't make much sense. The October to October statistics are shown as:

	Establishment	Household	Difference
2003	45,600	80,000	75%
2004	107,300	217,000	102%
2005	79,080	286,000	262%

Historically job growth in southern California has been around 157,000. The household number is utilized for the estimate of the unemployment, because employers (establishment survey) can not state how many workers are unemployed. There always has been a gap between the two job growth projections, but never this large, and the gap seems to be growing. The establishment numbers are used for modeling projections, because they show where the jobs are, not where the employed live. Southern California has a larger job base that is reported in the published establishment statistics.

Job Growth and Employment Statistics (October 2004 to October 2005)		
	Pctg of Base (Total Employment)	Pctg Growth
Construction	6%	30%
Transportation, Trade	19%	12%
Information Tech	4%	2.3%
Professional, Administrative	15%	16%
Leisure, Hospitality	10%	15%
Government	15%	-0.6%

Before 1975 Orange County was a supplier of workers to Los Angeles County. It was during 1975 that Orange county became regarded as a self sustaining economy. The Inland Empire (San Bernardino and Riverside counties) are quickly moving towards that same goal. By using 1990 as the base year, employment in the inland empire has increased 65%.

What happens to the housing market when interest rates go up and adjustable rates adjust, and borrowers can not make the payments? Lenders do not want to own real estate, and borrowers generally do not want to give up their homes, so it is highly likely that lenders and borrowers will reach some agreement on the terms of the loans and work around the potential defaults.

What happens to Cap Rates when interest rates go up? Well, as cap rates rise as the result of rising interest rates, values go down. Owners will simply hold on until rents go up to the point that in their minds they achieve the necessary cap rate to justify a sale.

In closing, Dr. Gobar reiterated that he was not concerned about the housing bubble bursting, and did not believe that it would.

Submitted by: Wayne Foss, scribe