



**CITY OF HUNTINGTON BEACH**  
INTER-DEPARTMENT COMMUNICATION

REFERENCE  
PAMPHLET  
H.B.--  
Report

TO: MICHAEL T. UBERUAGA, City Administrator  
FROM: ROBERT J. FRANZ, Deputy City Administrator  
SUBJECT: ORANGE COUNTY ECONOMIC FORECAST - 1993  
DATE: DECEMBER 15, 1992

Attached is a copy of the Chapman University Economic Forecast for 1993. Highlights from the report include the following:

1. The recession not only hit Orange County harder than California or the United States, but the County is coming out of the recession more slowly.
2. A lethargic recovery appears to have been underway since the beginning of this year.
3. Orange County is still losing jobs, and the recovery will not become an expansion until jobs again begin to increase.
4. Selected 1993 Projections:

Chapman University Projections

<u>Economic Indicator</u>	<u>1993 Percent Change</u>
Employment	0.1%
Taxable Sales	2.1%
Building Permit Valuation	-6.2%
Housing Prices (Resale Homes)	-2.8%
Consumer Price Index (Inflation)	3.6%

The Chapman University Economic Forecasts are utilized by a wide variety of Orange County businesses and governmental agencies. Although such Economic Forecasts are rarely accurate for the purpose of projecting precise percentage increases or decreases, Chapman University has a good track record of projecting the "direction" (up or down) of economic activity.

**For Reference**

Not to be taken from this room

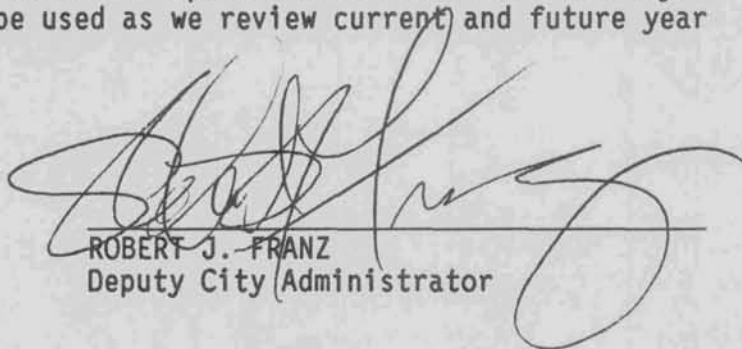


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Huntington Beach Data

The Chapman forecasts will be used by the City as we review our current year revenue projections and prepare projections for the next year. The forecasts for taxable sales will help us with our overall projections since sales tax revenue is about 18% of our General Fund revenue. The Chapman forecasts for employment and construction are important to us because they indicate the lethargic recovery that is occurring county wide. While Huntington Beach building permit valuation will increase in 1992 (see Attachment 1) compared to the county wide decrease of 17.1%, the Chapman forecast will be used by City staff to revise (downward) projections prepared by City staff of development of Huntington Beach residential units in the next 5 years (Attachment 2).

In summary, the Economic Forecast for 1993 by Chapman University will be used by City staff as a guideline for our basic assumptions about economic recovery. The specific forecasts will also be used as we review current and future year revenue projections for the City.



ROBERT J. FRANZ  
Deputy City Administrator

RJF:skd

Attachments

**HISTORICAL DATA****RESIDENTIAL & NON-RESIDENTIAL CONSTRUCTION**

	<b>YEAR</b>		<b>BUILDING PERMIT VALUATION</b>	
	1970		\$46,741,739	
	1971		74,290,771	
	1972		108,437,762	
	1973		79,644,056	
	1974		56,372,553	
	1975		97,536,375	
	1976		145,116,572	
	1977		155,943,680	
	1978		122,344,991	
	1979		113,372,369	
	1980		77,572,895	
	1981		97,690,675	
	1982		39,269,144	
	1983		85,757,069	
	1984		127,154,586	
	1985		148,022,323	
	1986		152,989,302	
	1987		142,666,505	
	1988		253,624,998	
	1989		150,142,732	
	1990		79,632,952	
	1991		73,062,242	
	1992	Through November	82,118,177	

**DEVELOPMENT ASSUMPTIONS**  
**FOR**  
**5 YEAR BUDGET PROJECTIONS**  
**(First Estimates)**

**DEVELOPMENT PROJECTIONS**  
**RESIDENTIAL UNITS**

PROJECT	91/92	92/93	93/94	94/95	95/96	96/97	97/98	TOTAL
Holly / Seacliff	50	90	160	475	590	600	600	2,565
Bolsa Chica			200	200	400	400	400	1,600
Meadowlark			120	120	120	120	60	540
Ascon				200	200	200		600
Waterfront			100	200	200	200	139	839
Downtown Core	50	50	100	100	150	100	100	650
Misc.	50	100	100	100	200	200	200	950
<b>TOTAL</b>	<b>150</b>	<b>240</b>	<b>780</b>	<b>1,395</b>	<b>1,860</b>	<b>1,820</b>	<b>1,499</b>	<b>7,744</b>

Source: Holly / Seacliff: H.B. Co. - 10/92

Others: Comm. Development Dept. - Fall '91

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Cover: The building elevation of Reeves Hall was created using a PASCAL program and a 2-D FORTRAN graphics system written at UCLA's Graduate School of Architecture and Urban Planning by Lori Oncea Haley. The program ran on an IBM 370/3033 mainframe computer. Initial images were viewed on Tektronic storage tube terminals and the final drawing was plotted on a CalComp 936 drum plotter. (The image on the cover has been photo-reduced from the CalComp plot.)



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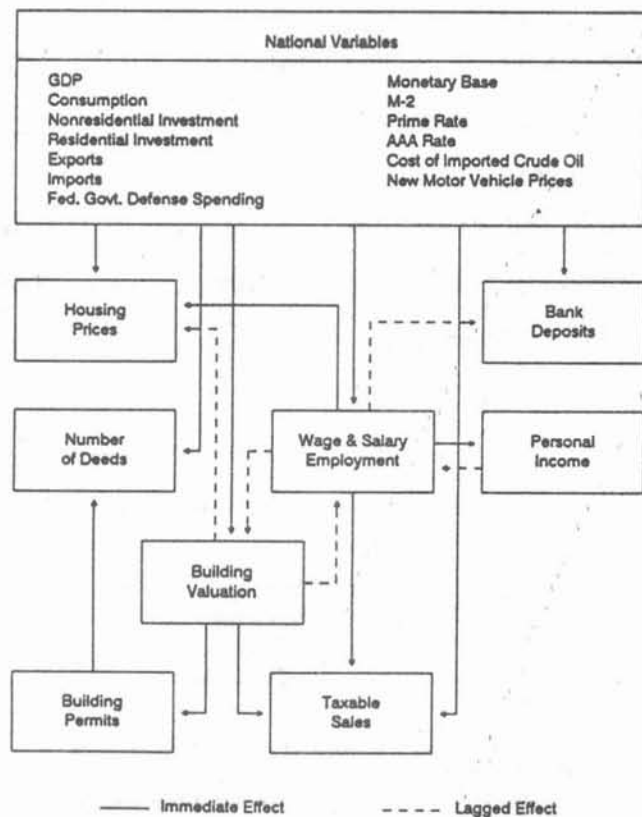
# The Chapman Model and Its Forecasting Record

## Introduction

As an integral part of the School of Business and Economics at Chapman University, the Center for Economic Research performs scholarly research relating to economic issues. The emphasis of this research is on analyzing the Orange County economy—both its structure and the economic implications of the policies which may affect it.

The Chapman Econometric Model is revised on a regular basis by students and faculty in the School of Business and Economics. As a result of this updating, the model can be expected to react more sensitively to the economic impact of explanatory variables which have been affected by recent structural changes. These structural changes in the 1980s include deregulation, lower marginal tax rates, shifting demographic patterns, and the growing importance of the international sector in explaining both national and local economic activity.

DIAGRAMMATIC REPRESENTATION  
OF THE CHAPMAN MODEL



## The Chapman Model – Its 1992 Forecasting Record

On December 12, 1991 forecasts for quarterly business activity were presented at our fourteenth annual Chapman University Economic Forecast Conference. (See the *Review*, Vol. 10, No. 1, December, 1991.) These forecasts for quarterly business activity were revised on June 18, 1992 at our annual Forecast Update Luncheon. (See the *Review*, Vol. 10, No. 2, June, 1992.)

While the values of many economic variables for the last half of 1992 are still uncertain and subject to the possibility of significant revision, it has been our practice at the December conference to use the most current data available in evaluating the accuracy of the year-earlier December forecasts. Given the longer reporting lags of Orange County data as compared to national data, it should be noted that the current estimates of local economic activity are likely to be subject to more significant revision.

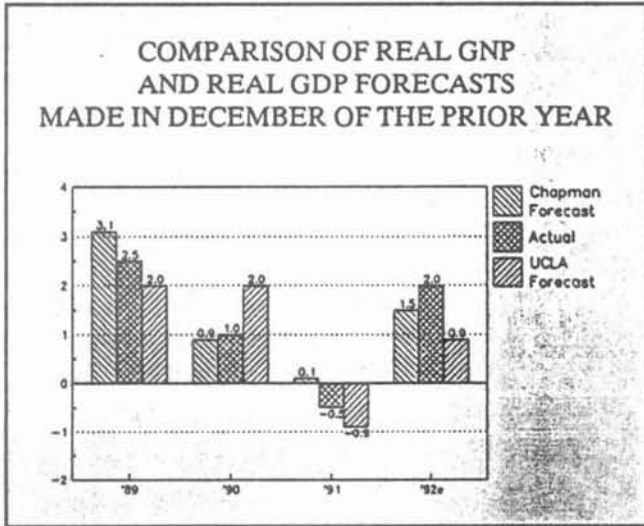
## Evaluating the U.S. Forecasts for 1992

The following table compares the forecasts for several key U.S. variables that Chapman presented last year at the December, 1991 forecast conference as compared to currently estimated actuals of those variables.

U.S. Variables	1991 Actual	1992	
		Chapman Forecast Presented Dec., 1991	1992 Estimate
Real GDP (% Change)	-1.2	1.5	2.0
CPI (% Change)	-4.2	3.2	3.0
Treasury Bill Rate, 91 Day (Level)	5.4	4.8	3.5
Prime Rate (Level)	8.5	7.1	6.3
AAA Corporate Bond Rate (Level)	8.8	8.0	8.2
Mortgage Rate (Level)	9.6	8.7	8.7

As was the case last year, the Chapman forecast correctly called the direction of change for every key U.S. variable. Most important, we correctly forecasted that 1992 would be a year of mild recovery. We were also correct in our forecast that inflation and interest rates would continue to decline. In fact, short-term interest rates (T-bill and prime rates) dropped more sharply than we had forecasted while our long-term interest rate (AAA and mortgage rates) forecasts were virtual bulls-eyes.

In the following figure, the Chapman real GNP and GDP forecasts made in December of each year are compared to the UCLA forecasts also made in December. Except for UCLA's forecast for 1990, notice that both forecasts have correctly called the direction of change in real GNP or GDP every year since 1989.



**Evaluating the Orange County Forecasts for 1992**

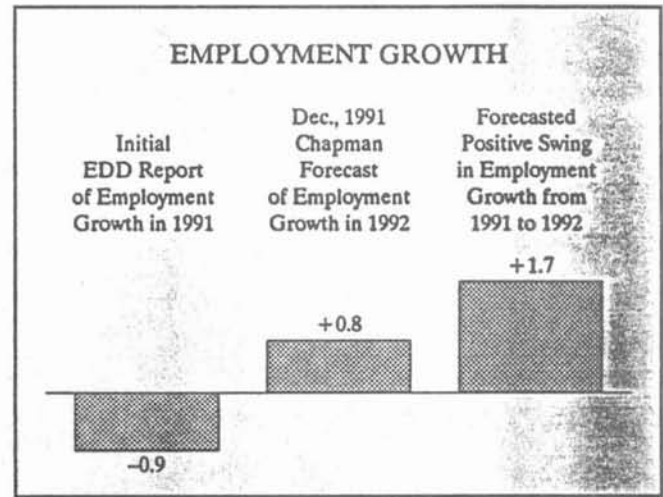
While our forecasts of directional change were correct for virtually every Orange County variable, the degree of forecasted changes were significantly different from currently estimated changes in the employment, taxable sales, and building valuation categories.

**A COMPARISON OF CHAPMAN FORECASTS AND CURRENT ESTIMATES**

Orange County Variables	1991 Actual	1992 Chapman Forecast	
		Presented Dec., 1991	1992 Estimate
Employment (% Change)	-3.8	0.8	-2.4
Taxable Sales (% Change)	-4.7	2.9	-1.0
Building Valuation (% Change)	-26.4	-1.1	-17.1
Deeds Recorded (% Change)	-0.7	3.3	5.6
Housing Appreciation (% Change)	-2.9	-3.1	-1.1

The major source of forecast error stems from a sharp downward revision in the March rebenchmarking of em-

ployment data by the Employment Development Department (EDD). At the time our forecast was issued in December, 1991, the rate of employment decline was being reported at about -0.9 percent by EDD. Our December, 1991 forecast of 0.8 percent employment growth in 1992 suggested a positive swing of 1.7 percent (i.e., -0.9 percent to +0.8 percent).



In fact, the March rebenchmarking by EDD indicated that employment had declined in 1991 at a -3.8 percent rate, sharply steeper than the earlier reported rate of -0.9 percent. With EDD estimates now indicating employment growth in 1992 at -2.4 percent, the positive swing currently being estimated is 1.4 percent (i.e., -3.8 percent to -2.4 percent). This is very close to the positive swing suggested by our December, 1991 forecast.

