



**The
Chapman University
Economic
Forecast**

*Presented to
Western Association of
Fastener Distributors
October 21, 2008*



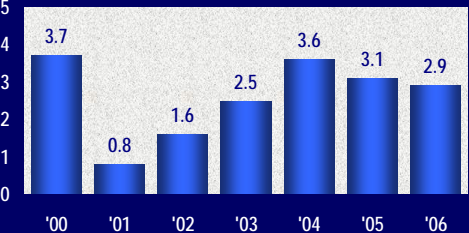
 A. GARY ANDERSON CENTER FOR ECONOMIC RESEARCH
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**Federal Reserve
Monetary Policy Objectives**

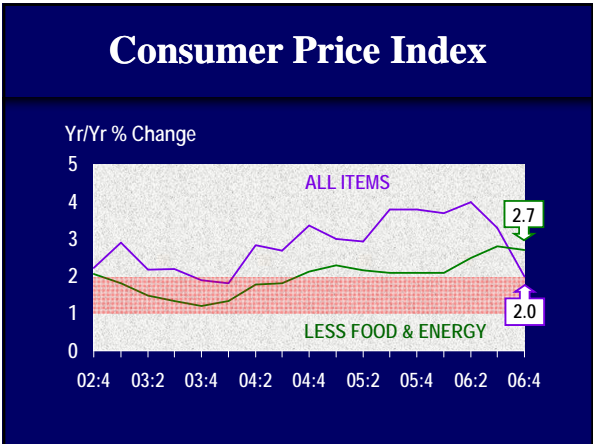
- Economic Growth
- Low Unemployment Rate/High Level Of Employment
- Price Stability

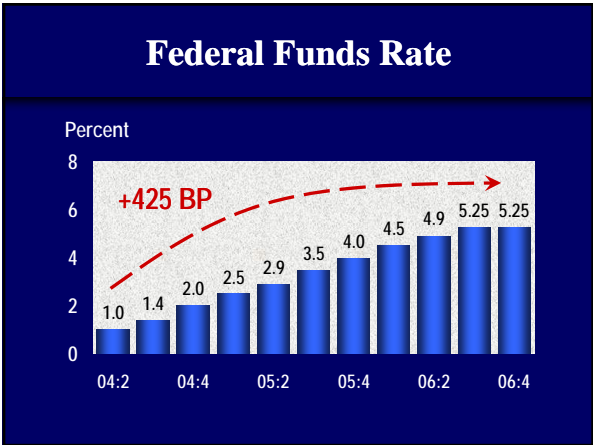
Real GDP

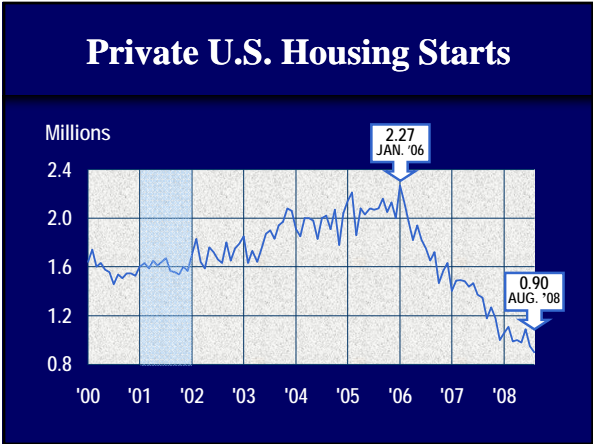
Annual % Change



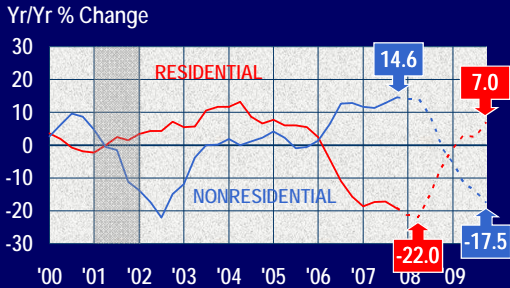
Year	Annual % Change
'00	3.7
'01	0.8
'02	1.6
'03	2.5
'04	3.6
'05	3.1
'06	2.9



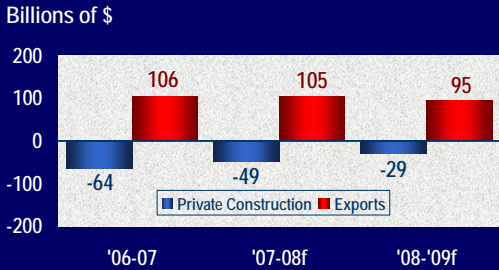




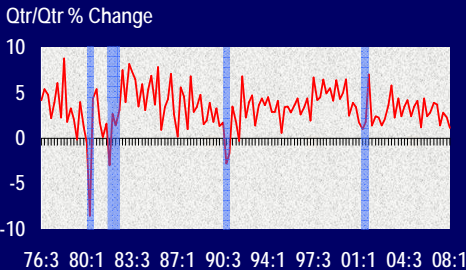
Real Private Construction Spending



Change in Real Expenditures for Exports and Private Construction

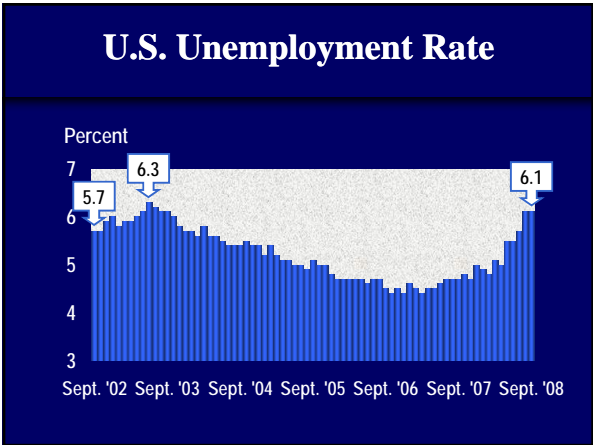


Real Personal Consumption Expenditures



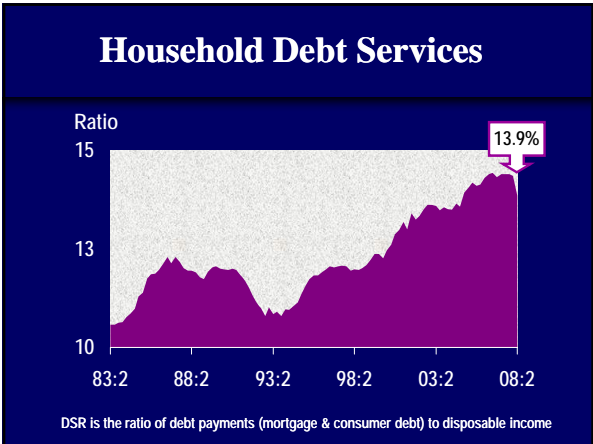
Negative Effects on Consumer Spending

- Home Equity Cashed Out
- Oil Price Hikes
- Drop in Housing Prices
- Weak Job Growth / Higher Unemployment Rate

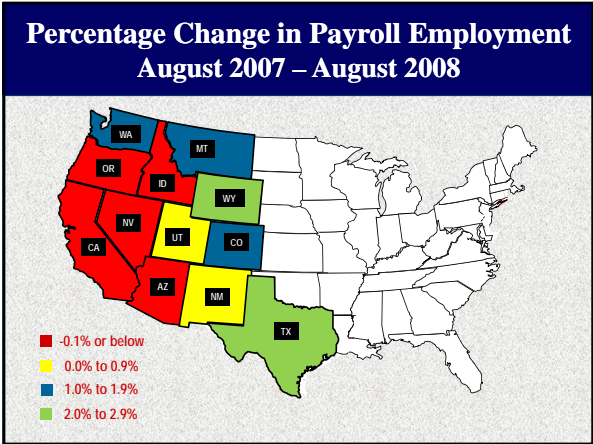


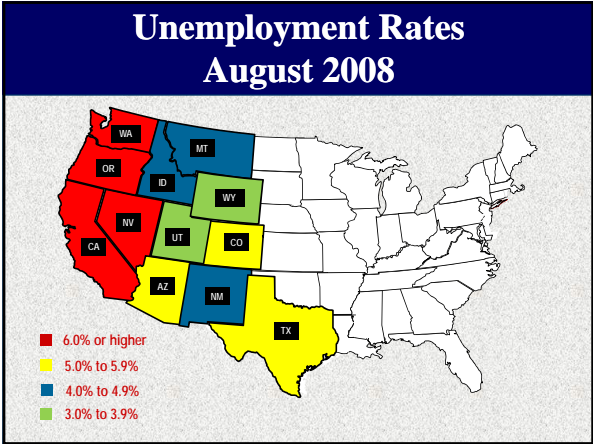
Negative Effects on Consumer Spending

- Home Equity Cashed Out
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- Weak Job Growth / Higher Unemployment Rate
- Household Debt Services









The Fed and The Treasury Are Pulling Out All the Stops

- Fiscal policy moved quickly with \$160 billion stimulus package.
- Played "White Knight" with a \$30 billion "loan" to J.P. Morgan to acquire Bear Stearns.
- Supplied \$400 billion in liquidity to financial firms in need of capital to shore up their shaky asset positions.

The Fed and The Treasury Are Pulling Out All the Stops


- Treasury Department took Fannie & Freddie into conservatorship, pledging \$200 billion in additional capital.
- Bailed out AIG with \$85 billion loan (LIBOR + 8.5%) for 2 years and government takes 79.9% stake in the company.
- Reduced the federal funds rate from 5.25 percent last September to 1.5 percent.

The Fed and The Treasury Are Pulling Out All the Stops


- \$700 billion to buy mortgages and other assets known as "Troubled Asset Relief Program," or TARP.
- The Fed started buying top-tier Commercial Paper.

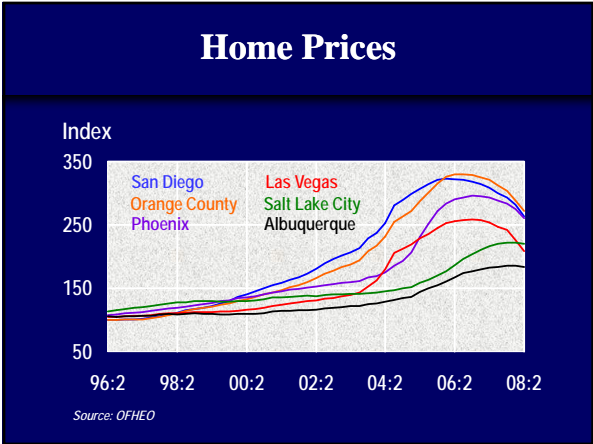


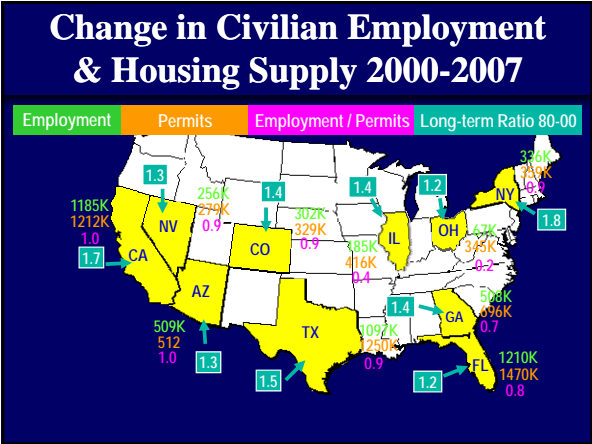
A Housing Bubble



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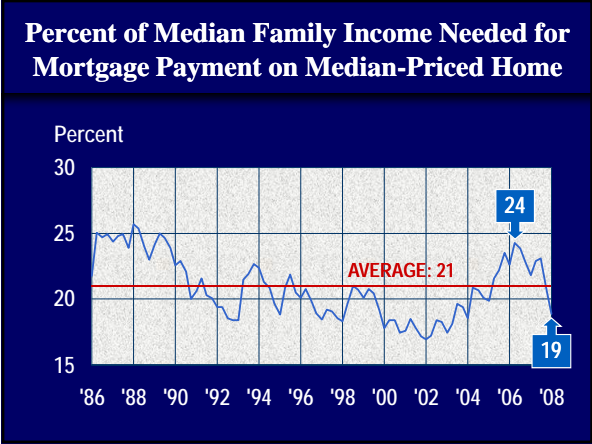




Factors Affecting Housing Prices

	2008-09 Outlook	Impact
Job Creation	Negative to weak growth	↓
Unemployment Rate	Remains high	↓
Housing Affordability	Improving but...	
Unsold Housing Inventory		

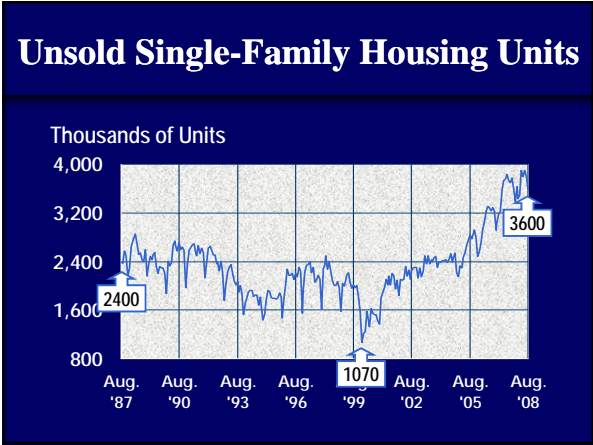
* Housing affordability is computed based on home prices, mortgage rates, and median family income.



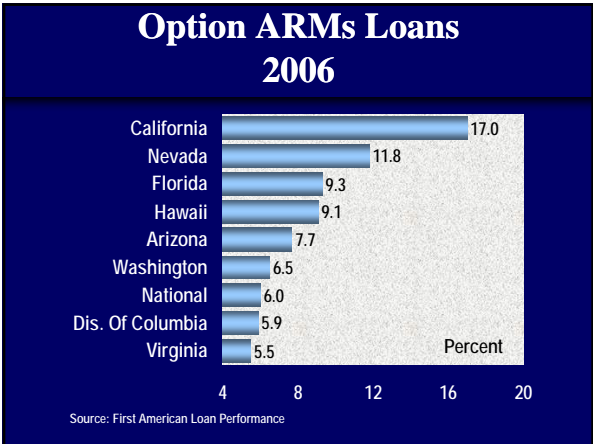
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 Senator McCain Domestic Economic Policy	
JOB CREATION	<ul style="list-style-type: none">> Extend tax cuts> Double exemptions for dependents> Lower corporate tax rate
HEALTH CARE	<ul style="list-style-type: none">> Lower healthcare costs> Give families \$5,000 tax credit for coverage> Tort reform
SOCIAL SECURITY	<ul style="list-style-type: none">> Supplementing the system with personal account
ENERGY	<ul style="list-style-type: none">> Expand drilling> Nuclear power / clean coal
BUDGET CONTROL	<ul style="list-style-type: none">> Stronger economy> Closing tax loopholes> Spending restraint

 Senator Obama Domestic Economic Policy	
JOB CREATION	<ul style="list-style-type: none">> Additional stimulus package of \$40 to \$50 billion> Infrastructure reinvestment bank \$60 billion over 10 years
HEALTH CARE	<ul style="list-style-type: none">> \$65 billion to cover uninsured
SOCIAL SECURITY	<ul style="list-style-type: none">> Increasing cap on payroll taxes
ENERGY	<ul style="list-style-type: none">> Expand drilling> Spend \$150 billion to develop alternative energy sources
BUDGET CONTROL	<ul style="list-style-type: none">> Stronger economy> Higher marginal taxes, capital gains and dividend taxes
