ECONOMIC FORECAST

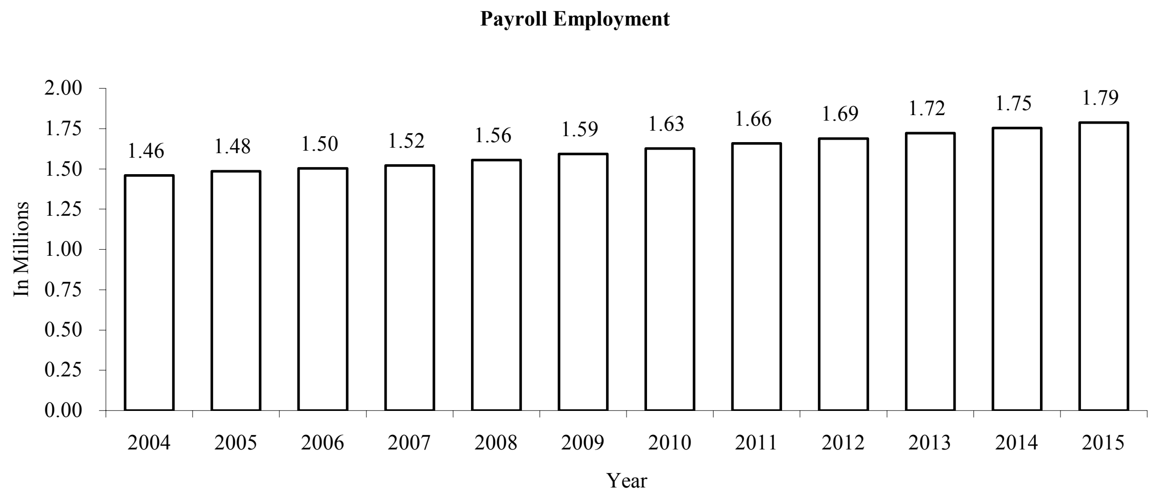
This section provides a summary of the projected outlook of the Orange County economy. The summary is based on the Economic and Business Review report (June 2005) and U.S. and Orange County Macroeconomics Assumptions and Forecasts produced by the A. Gary Anderson Center for Economic Research at Chapman University in Orange County, California. The Chapman economic report serves as a basis for developing the Orange County General Purpose Revenue Forecast.

Orange County Economy

Many factors contribute to the character of the Orange County economy. Geography, infrastructure, climate, demographics, educational resources, and industrial and employment diversity are among the factors that combine to produce an economic foundation that, relative to other municipalities throughout the U.S., is strong, dynamic and resilient to many of the economic downturns at the national and international level. The following section provides an overview of the projected trends in the local economy as reflected by three local economic indicators (payroll employment, building permit valuations, and taxable sales). These local economic indicators show the local economy will grow at a slower rate than previous years, following a similar pattern of other municipalities throughout the U.S., as a result of various national and local factors negatively impacting economic growth in Orange County.

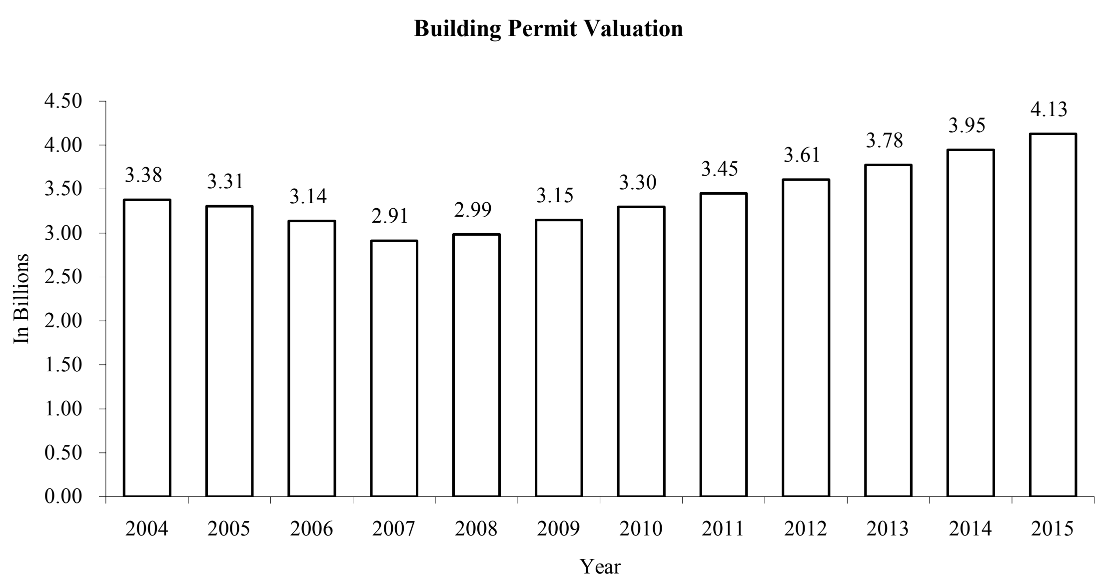
Payroll Employment. The Chapman forecast calls for a slowdown in the job growth rate over the forecasted period. Job growth will continue to increase but at a declining rate. Specifically, payroll employment (number of jobs) is estimated at 1.48 million in 2005, increasing to 1.50 million in 2006 and 1.52 million 2007, roughly a 1.2% annual increase (Figure 1). Construction will be the weakest link in job growth in Orange County. Job growth in the sector will take a hit, dropping from 10% in 2004 to 3% in 2005 and -0.3% in 2006, as interest rates rise, the economy slows and available land for development diminishes.

Figure 1



Building Permit Valuations. Residential and nonresidential building permit valuations are expected to decline the next few years. The annual decline is expected to reach up to 7.2% when building permit valuations fall to $2.91 billion in 2007 (Figure 2). Slower economic growth, increasing interest rates and decrease in the supply of land for development contribute to the decline in building permit valuation. The lack of available land for housing construction and housing affordability continue to be major challenges for the County of Orange.

Figure 2



Taxable Sales. Taxable sales are expected to follow a similar pattern as building permit valuations - growth, but at a decreasing rate. Taxable sales will increase from $51.83 billion in 2004 to $60.28 billion in 2007. This represents a sales growth rate of 6.4% in 2005, 4.6% in 2006 and 4.5% in 2007 (Figure 3). Higher gasoline prices caused total sales to grow rapidly in 2004. Prices have since moderated but growth is expected to continue, with the exception of the building materials sector.

Figure 3