



# FOURTEENTH ANNUAL AUTOMOTIVE OUTLOOK SYMPOSIUM

T H U R S D A Y   M A Y   3 1   /   F R I D A Y   J U N E   1

## Consensus Forecast 2007 and 2008

**Fourteenth Annual  
Automotive Outlook Symposium**  
Detroit, Michigan  
June 1, 2007

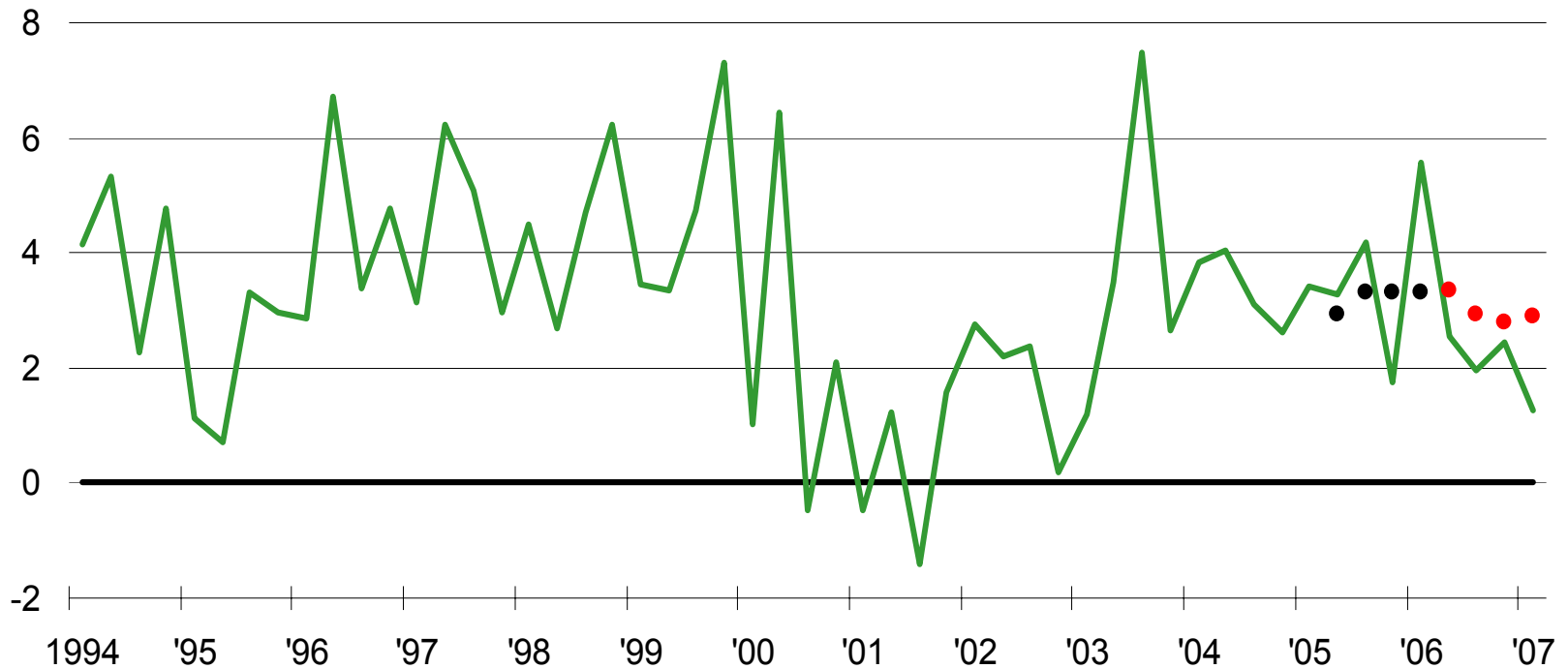
**William Strauss**  
Senior Economist  
and Economic Advisor  
Federal Reserve Bank of Chicago

# Review of past performance

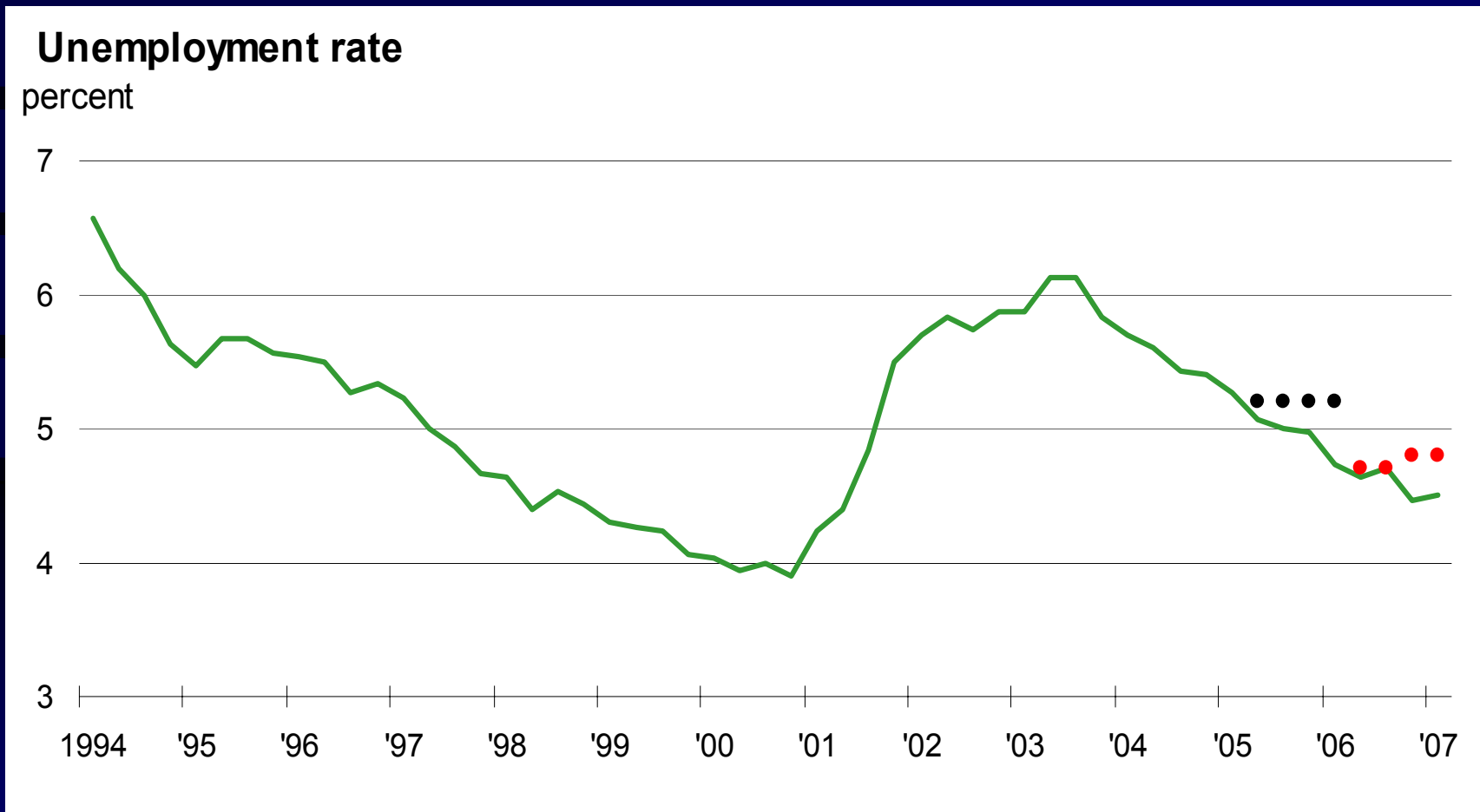
# GDP growth came in weaker than the consensus forecast

## Real GDP

percent change, annual rate



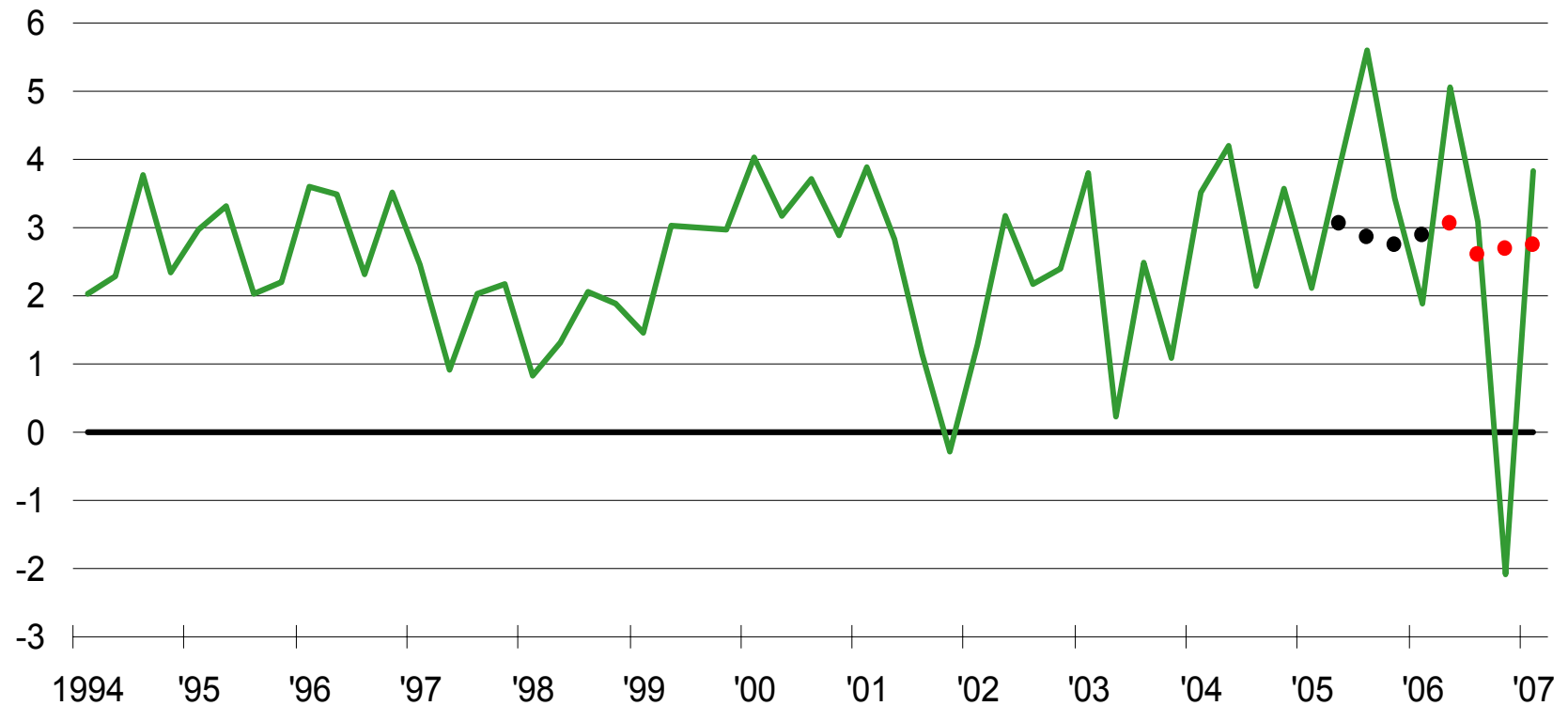
**Yet, even with a weaker economy,  
the unemployment rate was lower than expected**



# Inflation averaged what the group predicted, albeit with significantly more variance

## Inflation rate (CPI)

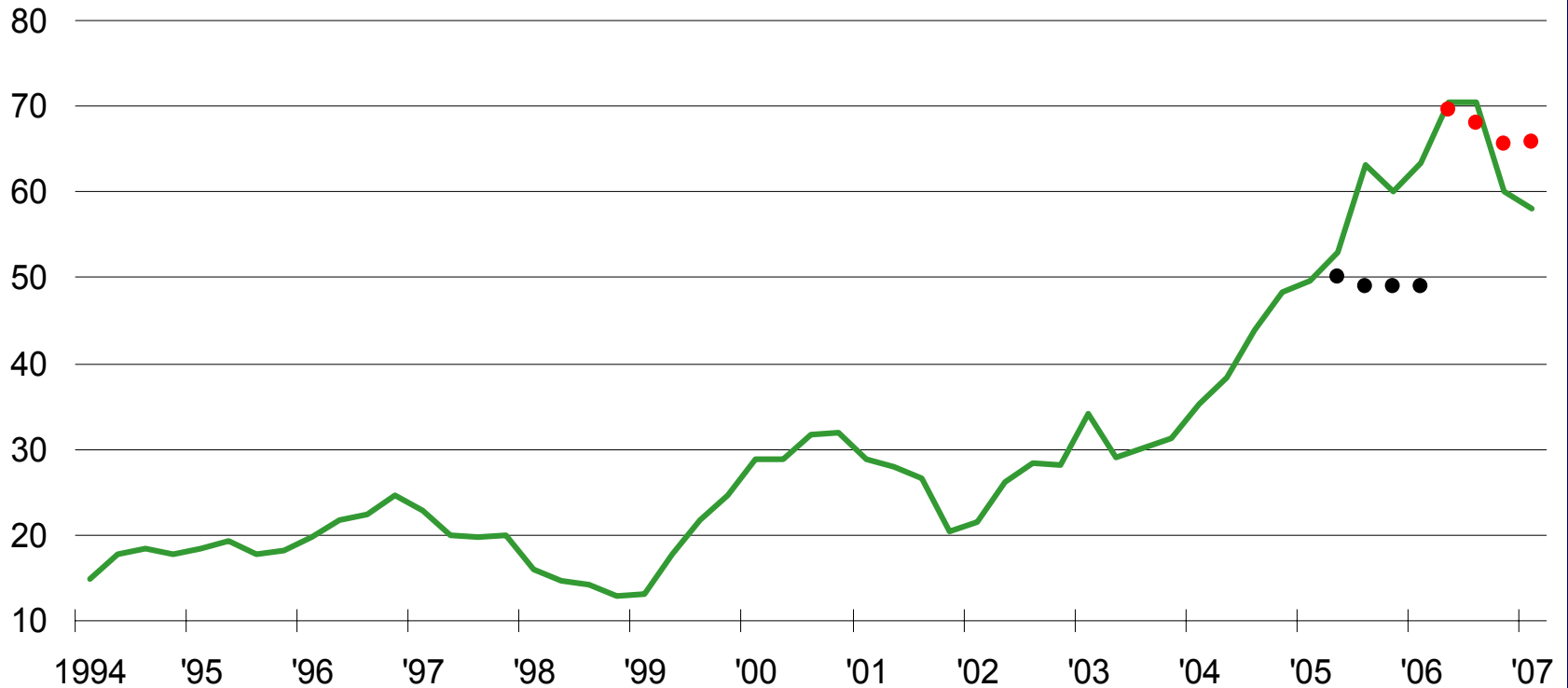
percent change, annual rate



**In part due to a fairly close forecast for energy prices**

### Oil prices - West Texas Intermediate

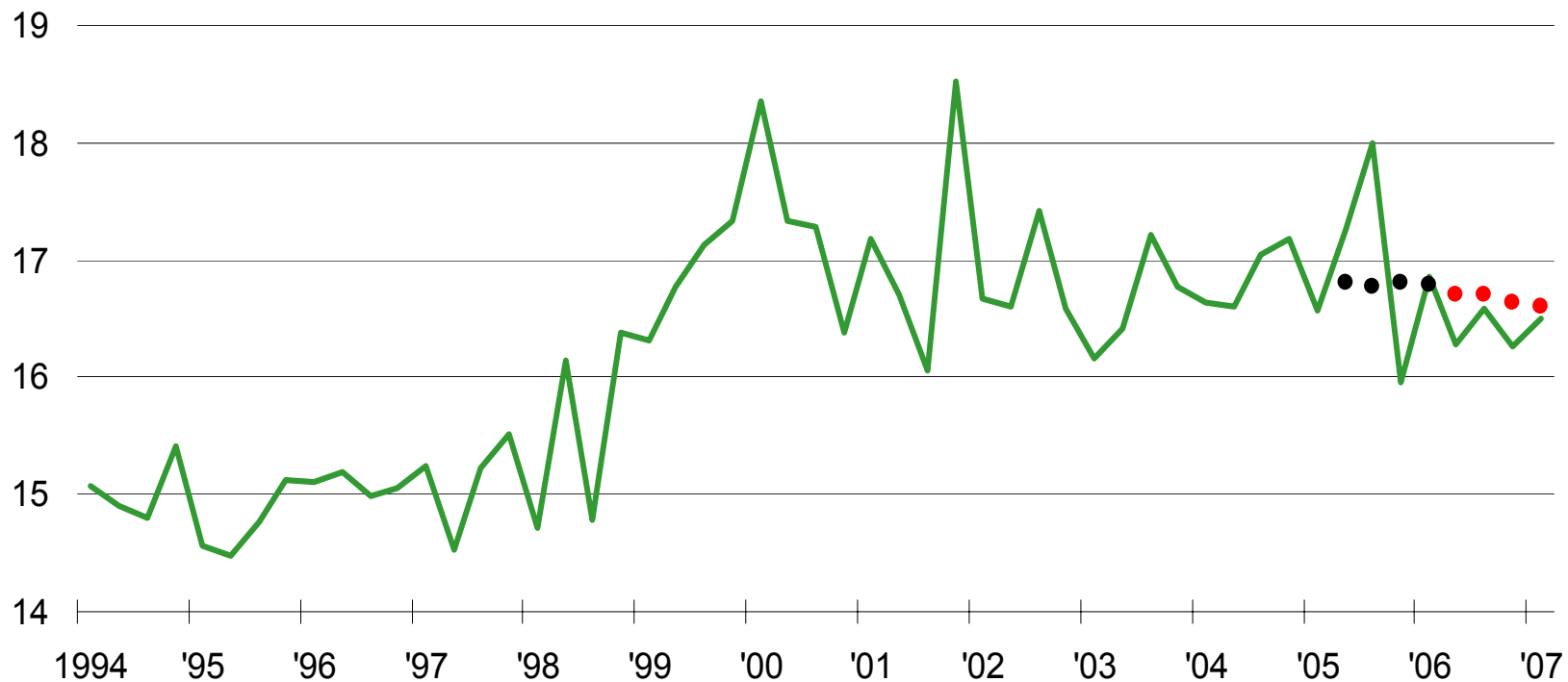
Dollars per barrel



# Car and light truck sales came in a bit lower than predicted

## Car and light truck sales

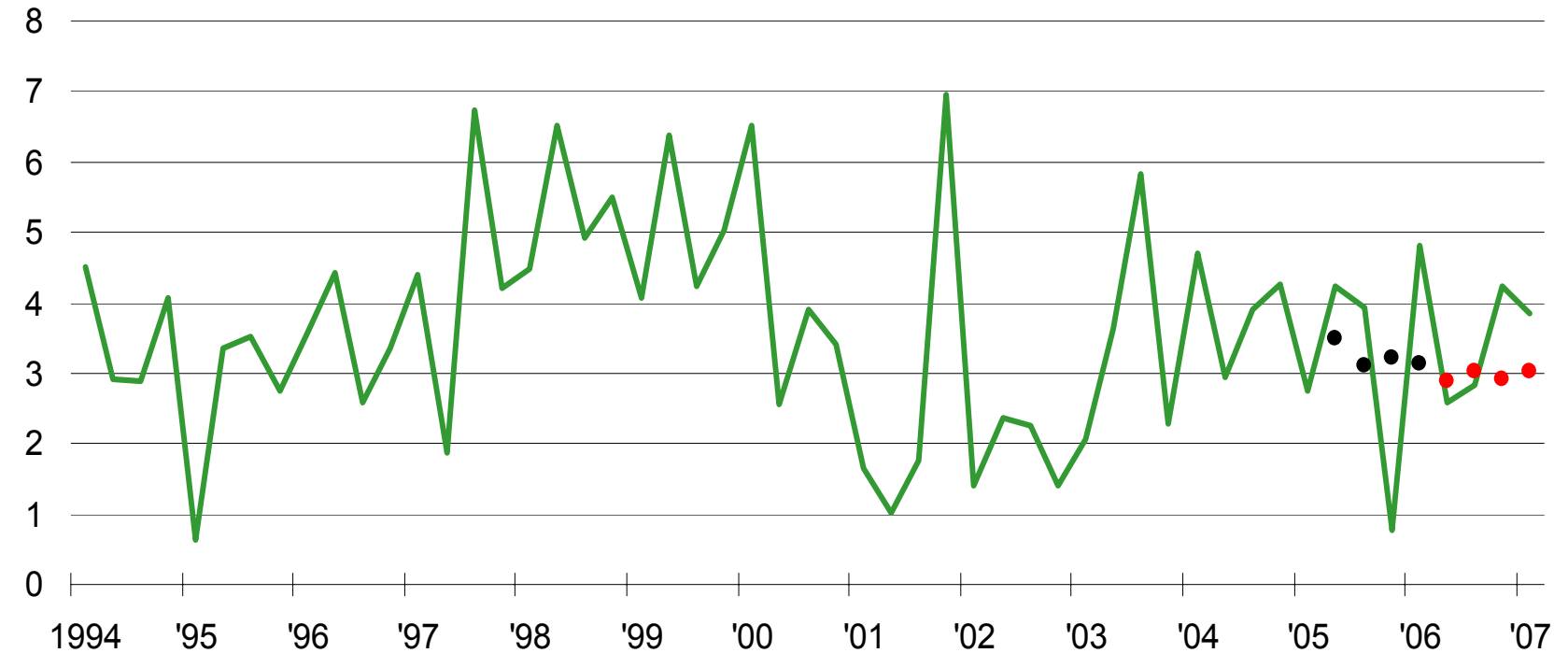
millions of units



# Consumer spending growth was bit stronger than anticipated over the last two quarters

## Personal consumption expenditures

percent change, annual rate

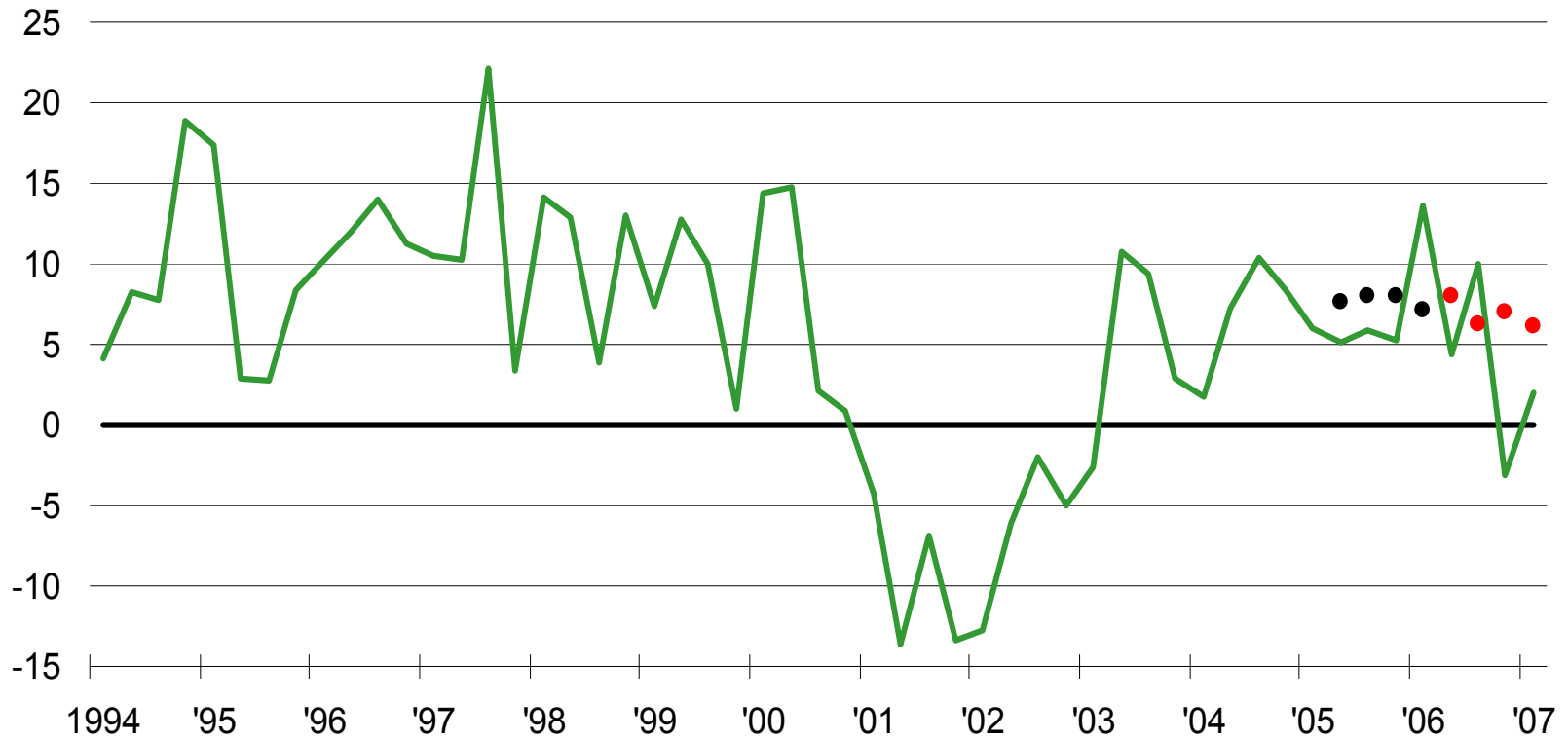




**On the other hand business spending growth weakened during the same period**

## Business fixed investment

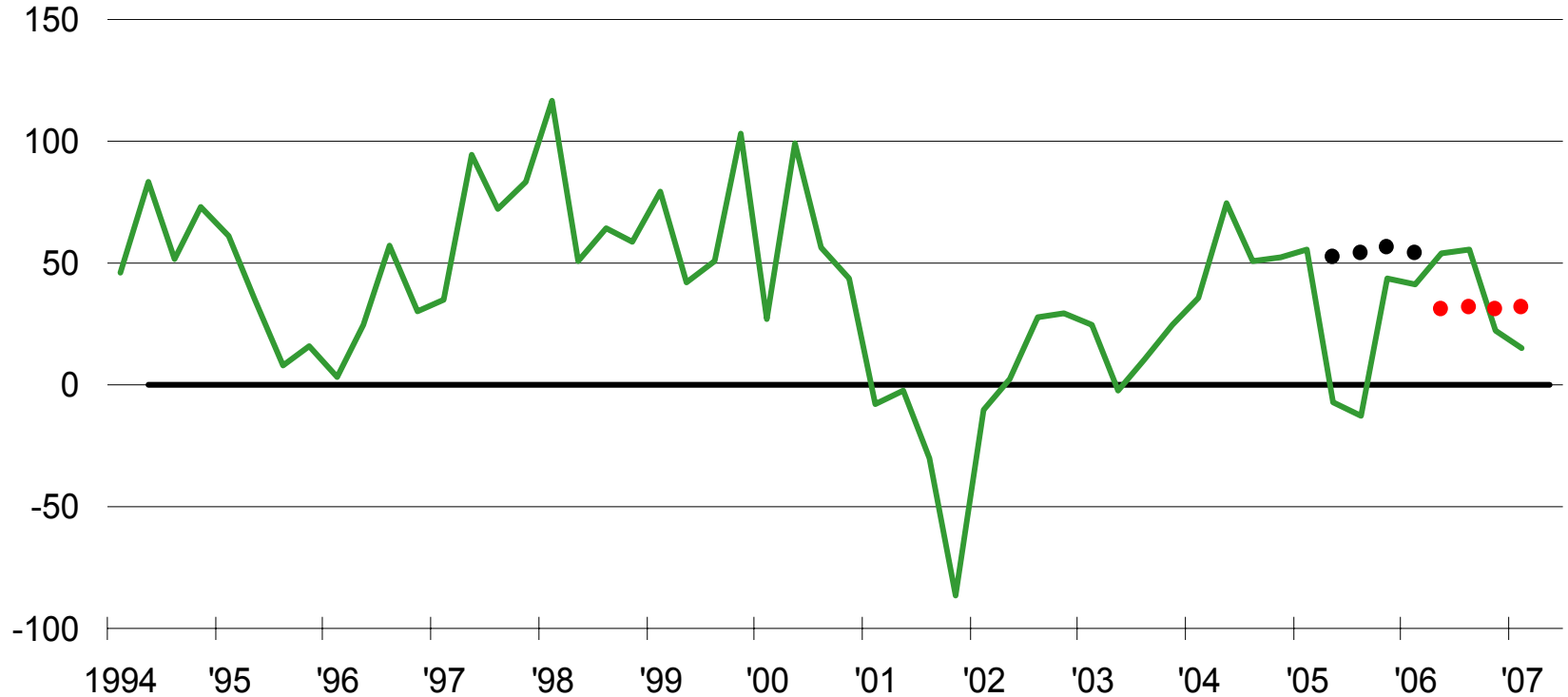
percent change, annual rate



# Business inventories were building at a faster rate early in the forecast and were worked down during the last two quarters

## Change in private inventories

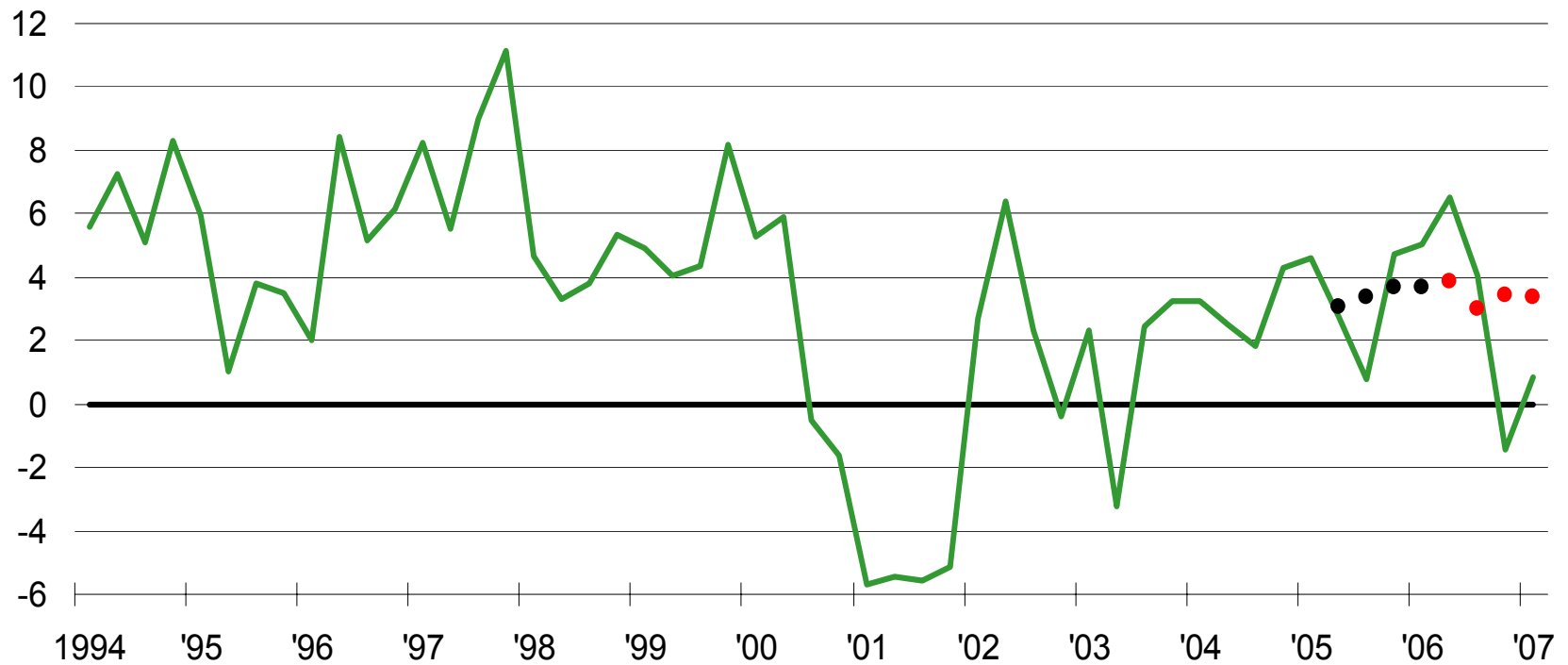
billions of constant dollars



# Industrial production growth pulled back over the last few quarters in order to bring excess inventories into balance

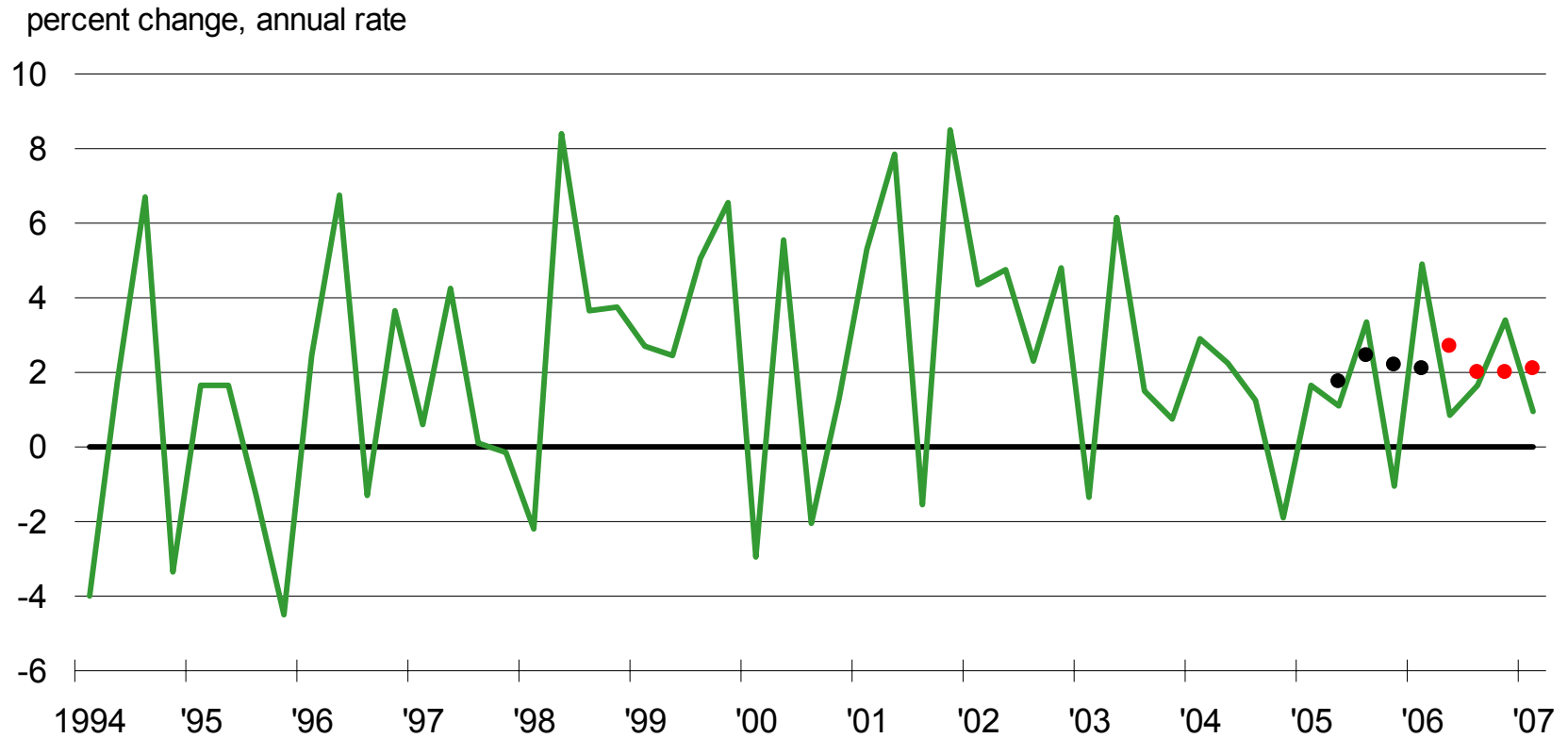
## Industrial production

percent change, annual rate



# Government spending was accurately predicted

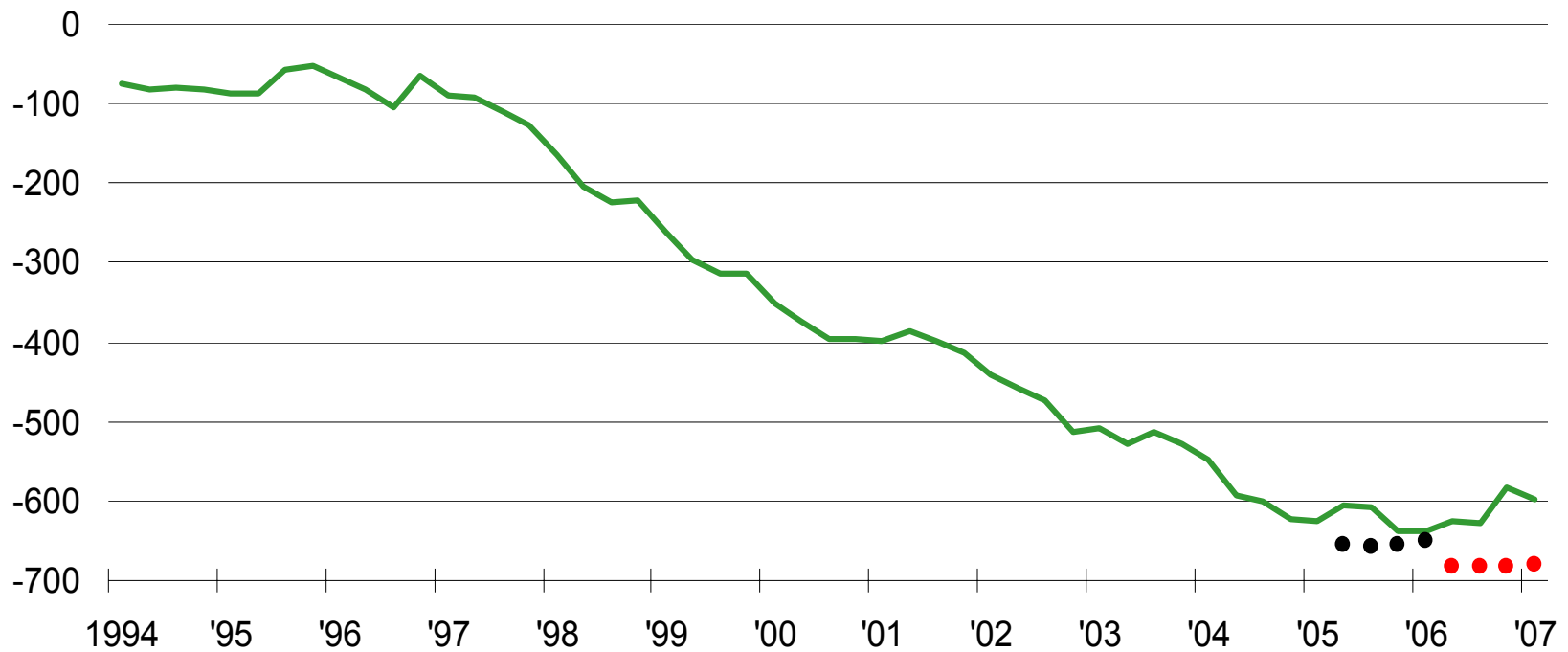
## Government consumption



# The trade deficit was not as large as forecast

## Net exports of goods and services

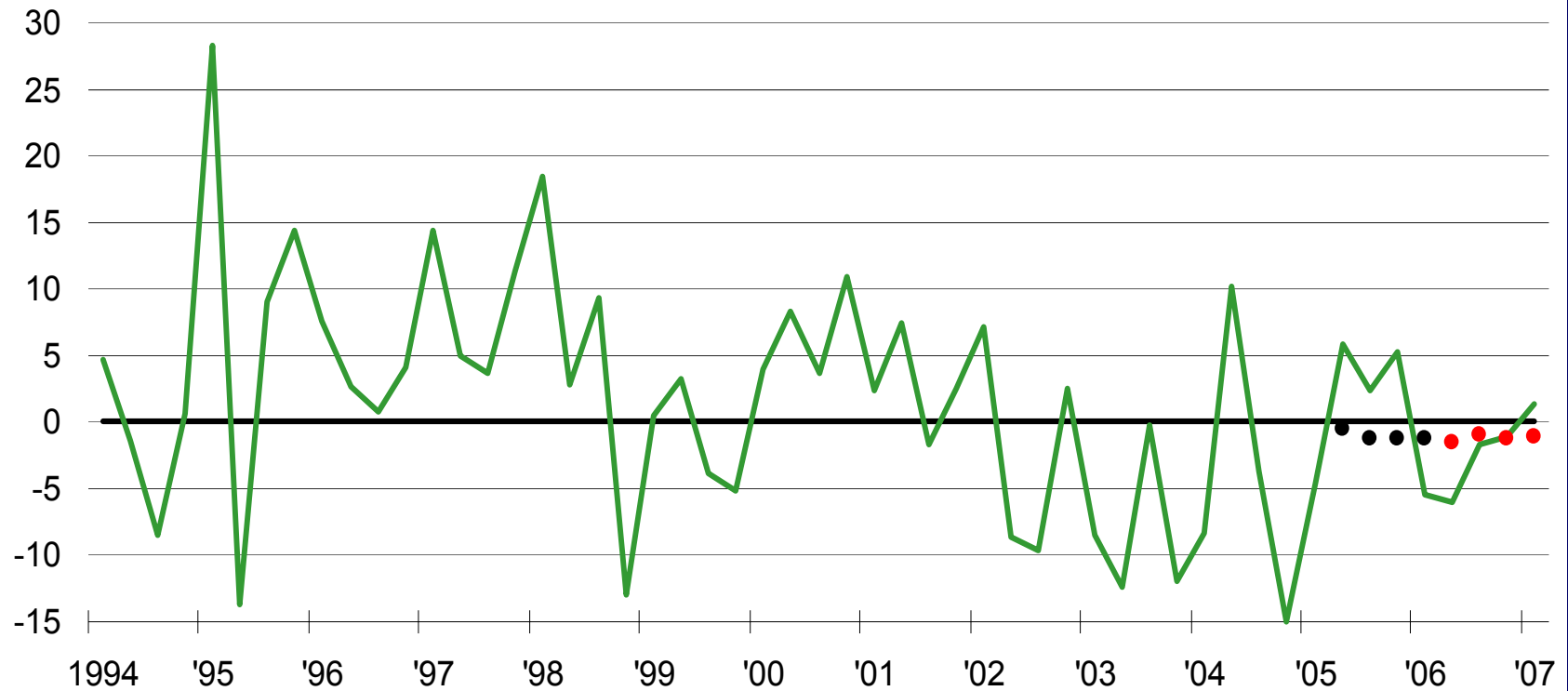
billions of constant dollars



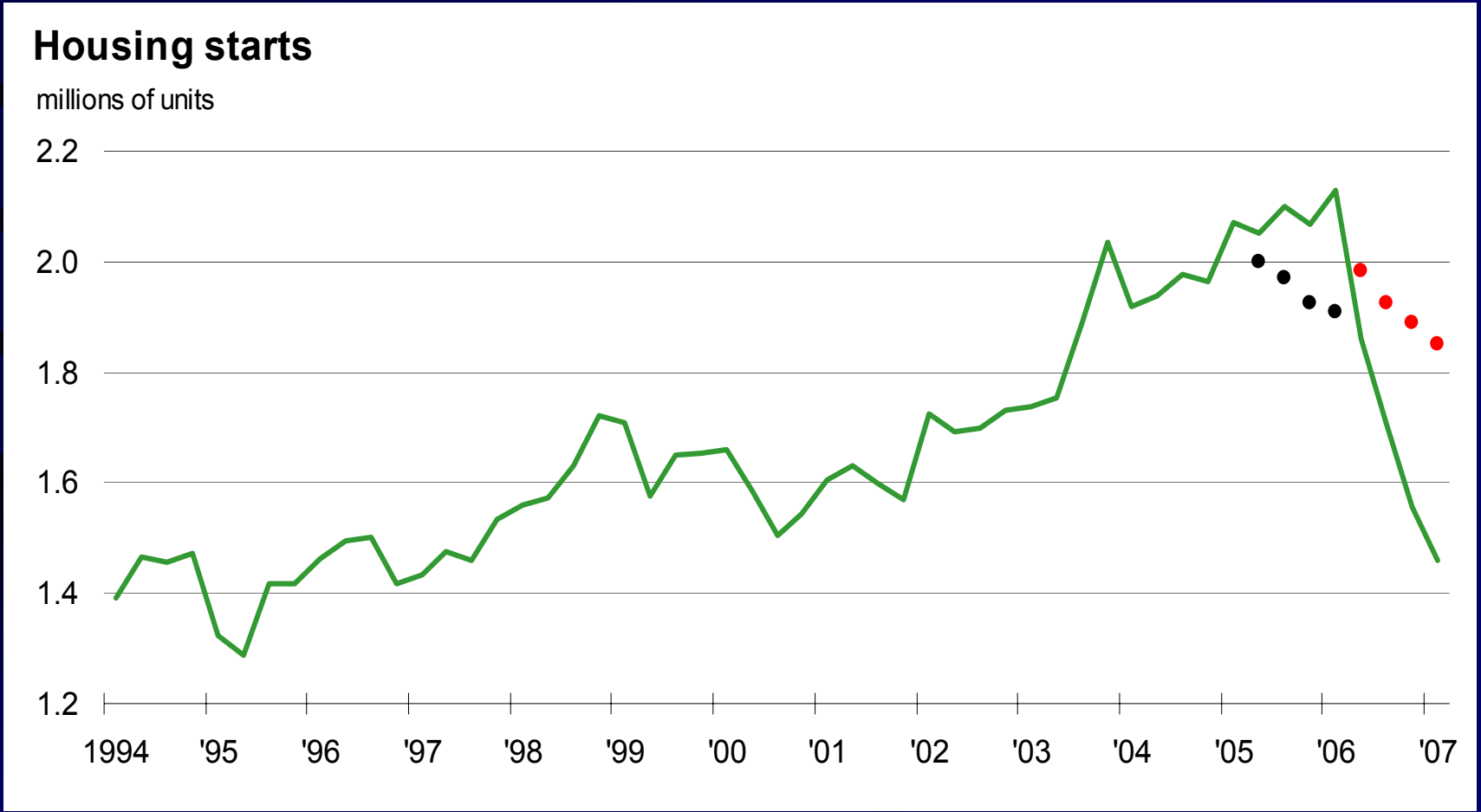
# The dollar was fairly accurately predicted

## J.P. Morgan trade weighted dollar

percent change, annual rate



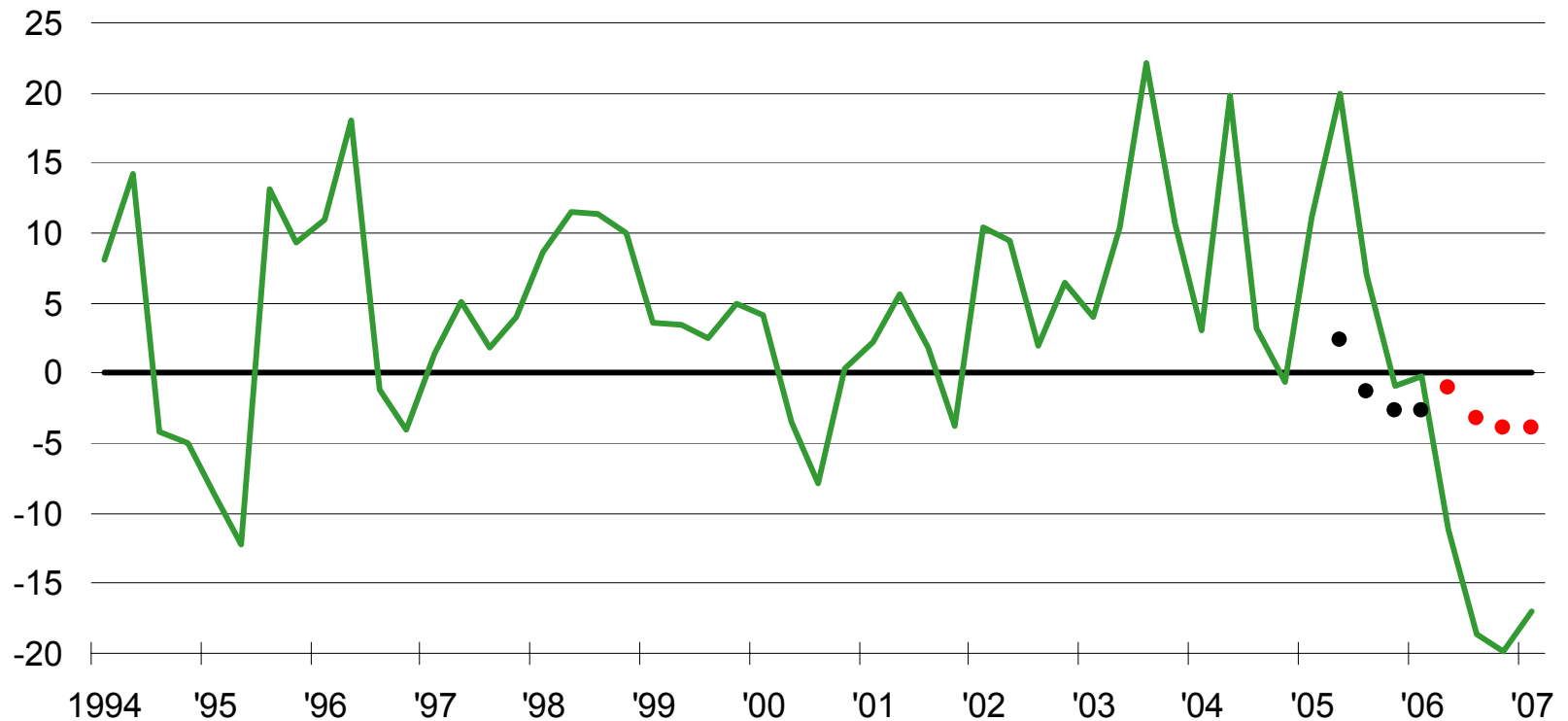
**The long-predicted softening  
in the housing market finally occurred,  
and surprised participants  
by decreasing at a faster pace than anticipated**



# The greater weakness in housing starts than predicted led to a large miss on residential investment

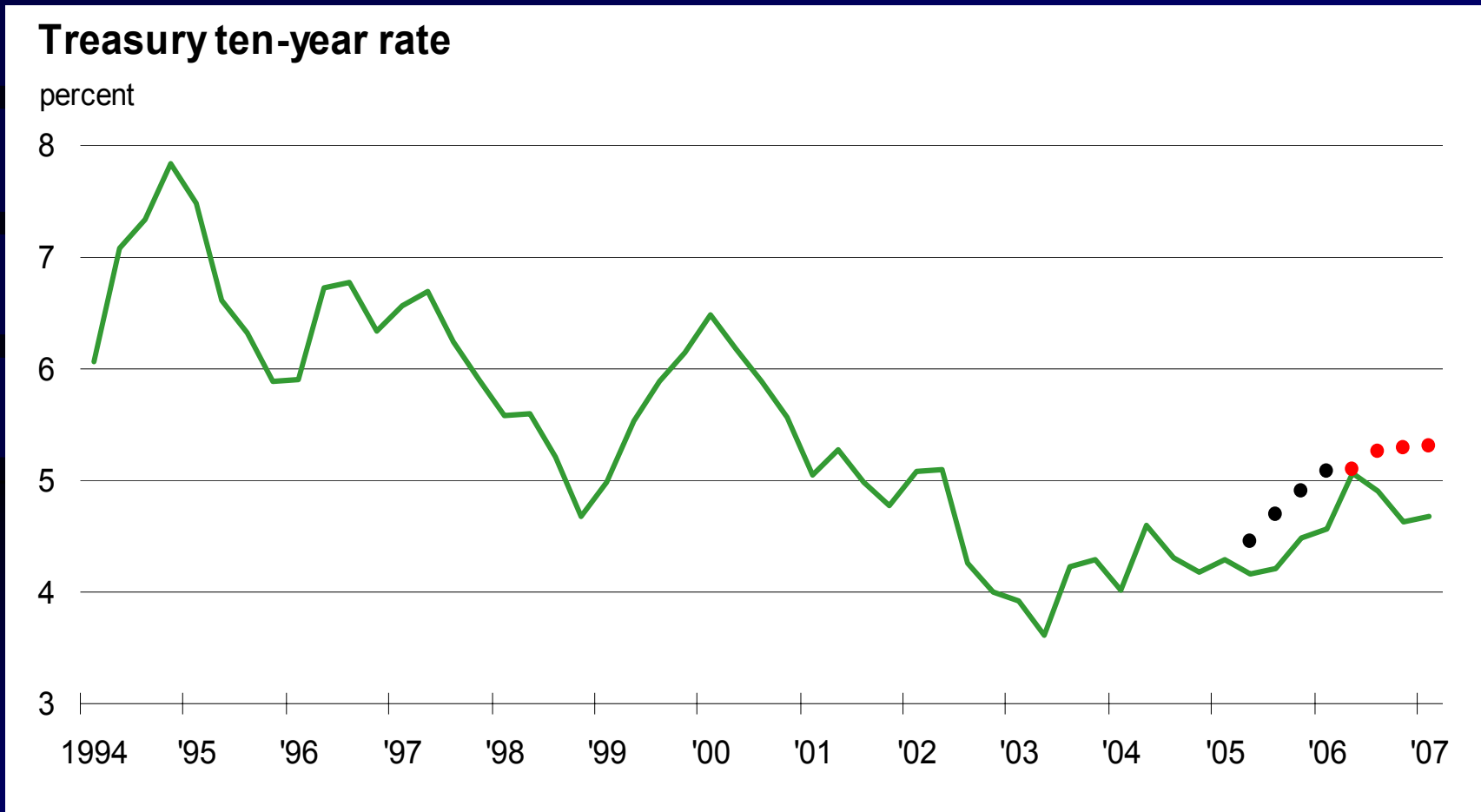
## Residential investment

percent change, annual rate





**Although it would be hard to place the blame on long-term interest rates which came in lower than expected**



# Short-term interest rates were nailed



# Forecast for 2007 and 2008

## Median forecast of GDP and related items (page 1 of book)

	2006	2007	2008
GDP, current dollars*	5.7%	<b>5.1%</b>	<b>5.3%</b>
GDP price index, chain-type*	2.5%	<b>2.8%</b>	<b>2.3%</b>
Real GDP, chained dollars*	3.3%	<b>2.3%</b>	<b>3.0%</b>
Personal consumption expenditures*	3.2%	<b>3.0%</b>	<b>2.8%</b>
Business fixed investment*	7.2%	<b>3.8%</b>	<b>4.8%</b>
Residential investment*	-4.2%	<b>-9.4%</b>	<b>2.7%</b>
Change in private inventories (billions of constant dollars)**	\$43.2	<b>\$28.0</b>	<b>\$38.0</b>
Net exports of goods and services (billions of constant dollars)**	-\$618.1	<b>-\$591.2</b>	<b>-\$579.4</b>
Government consumption expenditures and gross investment*	2.1%	<b>1.7%</b>	<b>1.7%</b>

\*Q4 over Q4

\*\*Annuals are Q4 value

## Median forecast of GDP and related items (page 1 of book)

	2006	2007	2008
Industrial production*	4.0%	<b>2.3%</b>	<b>2.8%</b>
Car & light truck sales (millions - calendar year including imports)***	16.5	<b>16.5</b>	<b>16.7</b>
Housing starts (millions)***	1.81	<b>1.46</b>	<b>1.53</b>
Oil price (dollars per barrel of West Texas Intermediate)**	\$66.10	<b>\$61.67</b>	<b>\$60.00</b>
Unemployment rate**	4.6%	<b>4.7%</b>	<b>4.7%</b>
Inflation rate (consumer price index)*	3.2%	<b>3.0%</b>	<b>2.4%</b>
Treasury constant maturity 1-year rate**	4.93%	<b>5.01%</b>	<b>5.02%</b>
Treasury constant maturity 10-year rate**	4.79%	<b>4.90%</b>	<b>5.20%</b>
J.P. Morgan trade weighted OECD dollar*	-1.2%	<b>0.2%</b>	<b>-0.1%</b>

\*Q4 over Q4

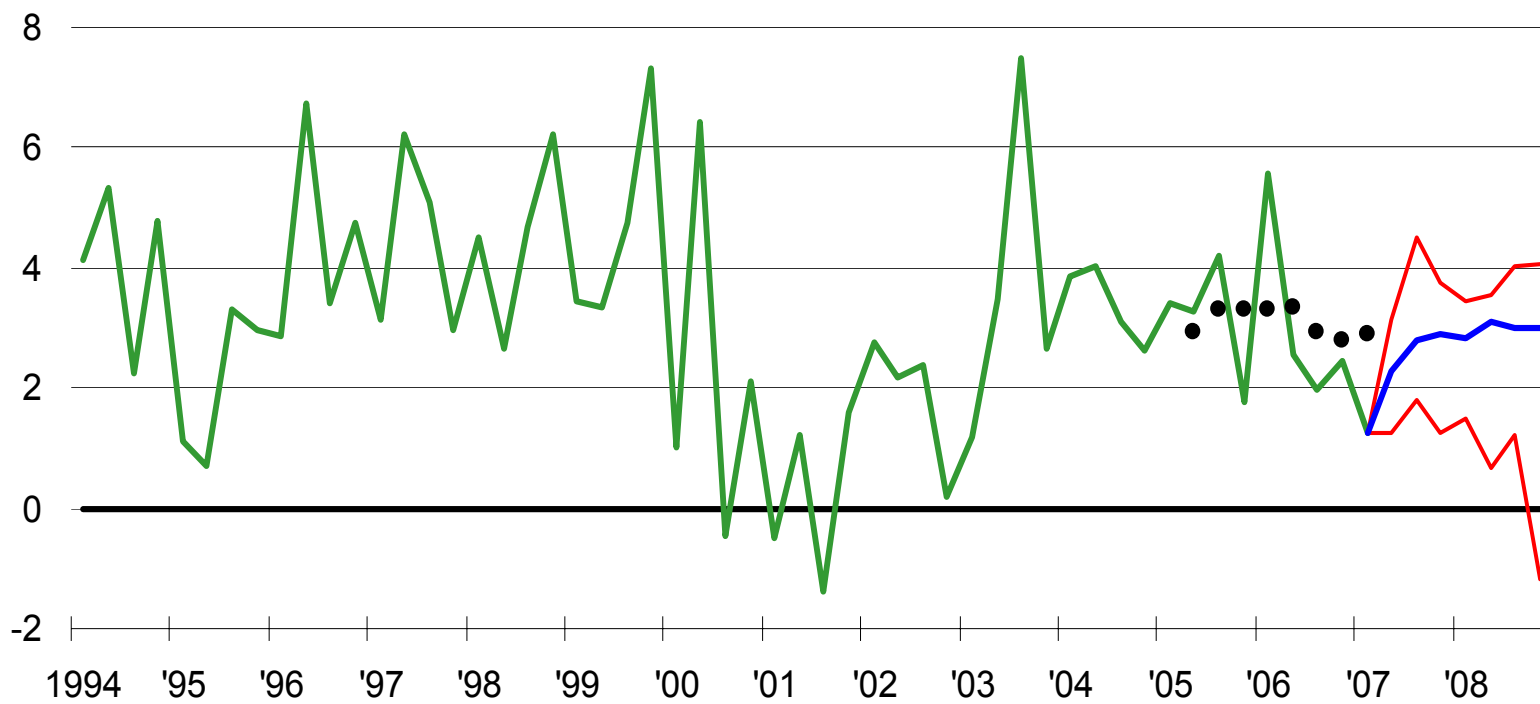
\*\*Annuals are Q4 value

\*\*\*Annuals are yearly average

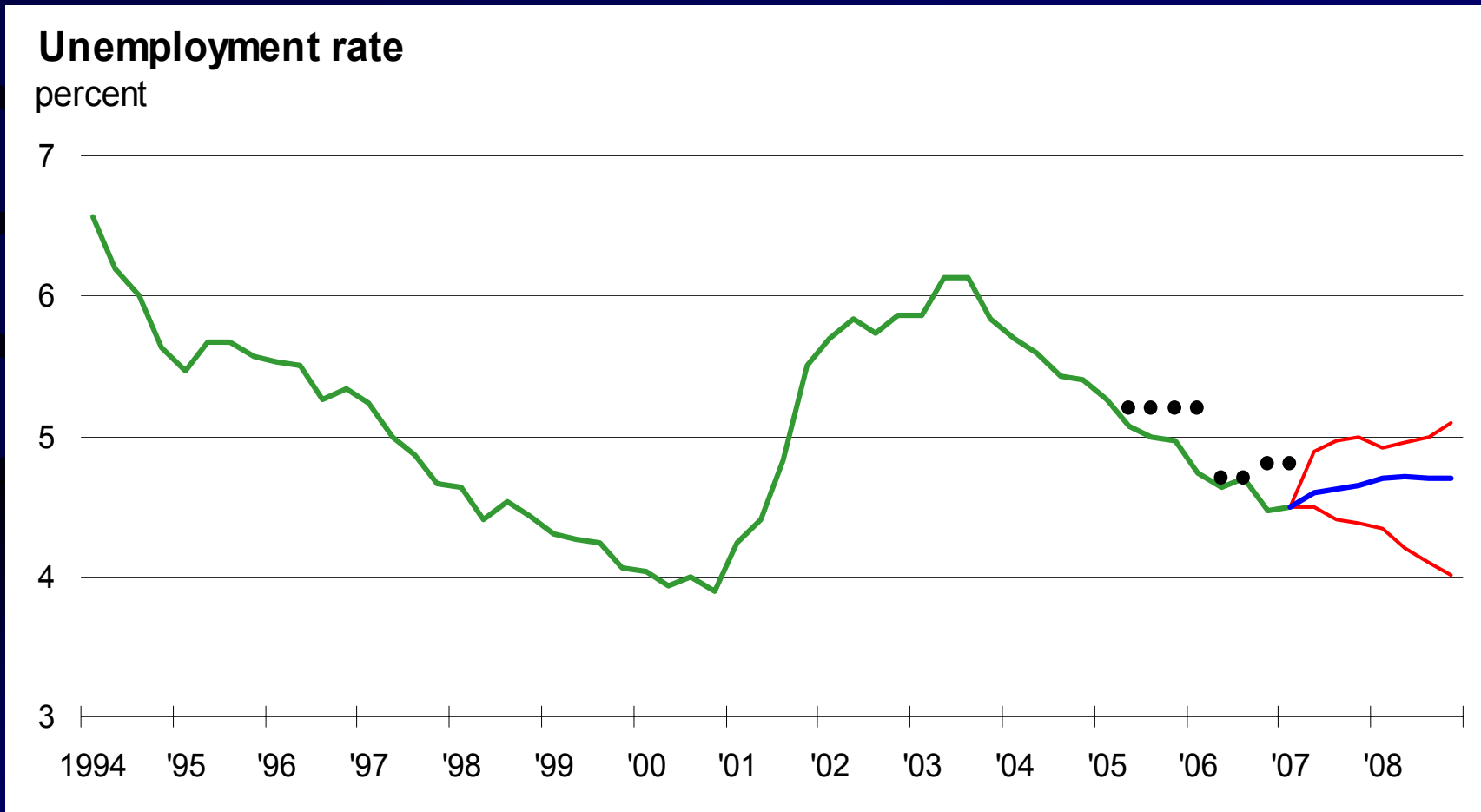
**Real GDP growth is expected to improve over the rest of this year reaching 2.9% by the fourth quarter and then edge a bit higher during 2008, averaging 3.0%, in line with potential growth for the economy**

## Real GDP

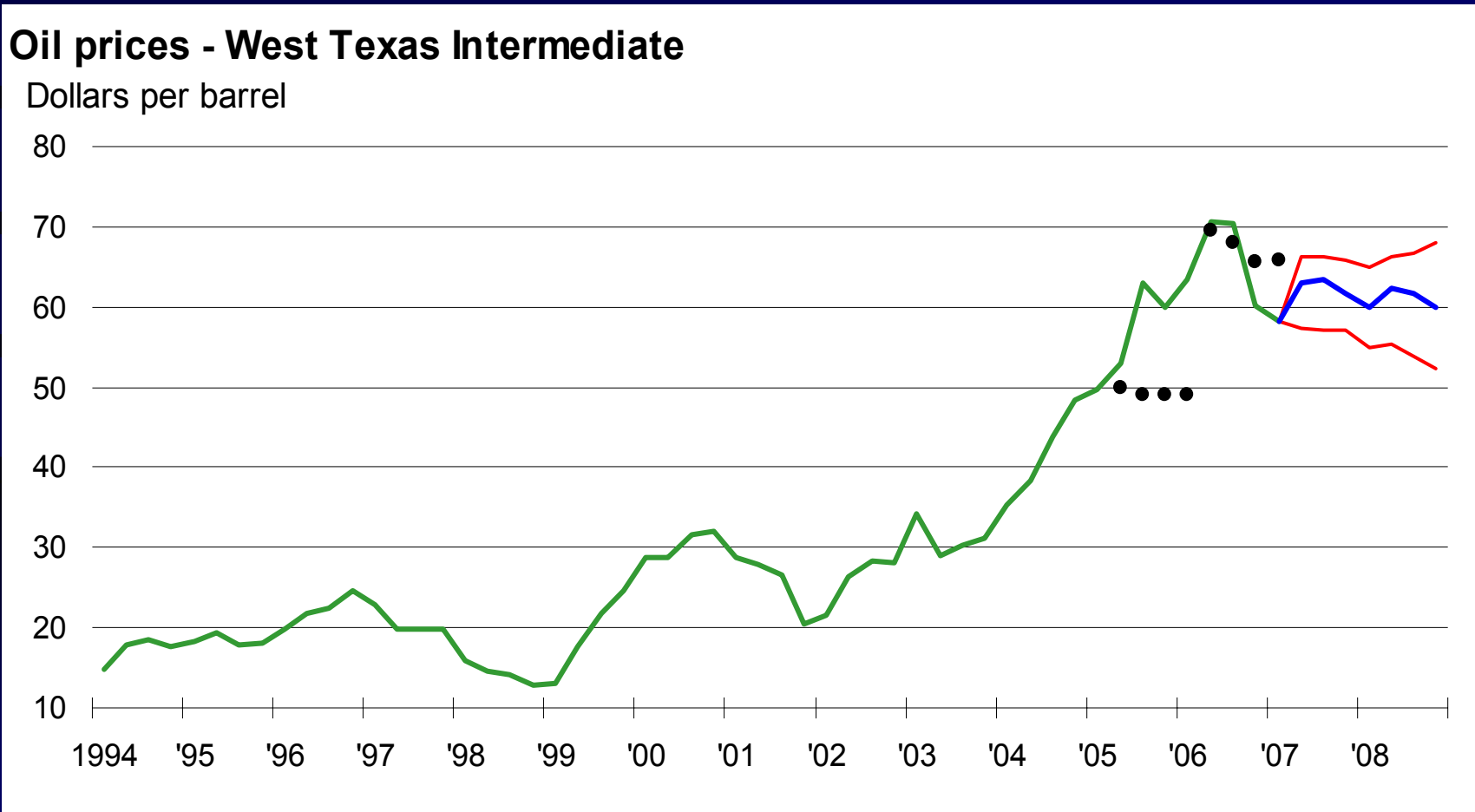
percent change, annual rate



**The unemployment rate is forecast to rise to 4.7% at the end of this year and then hold at that rate next year**



**Oil prices are expected to remain contained over the forecast horizon, falling to under \$62 per barrel at the end of this year and then edge a bit lower in 2008**

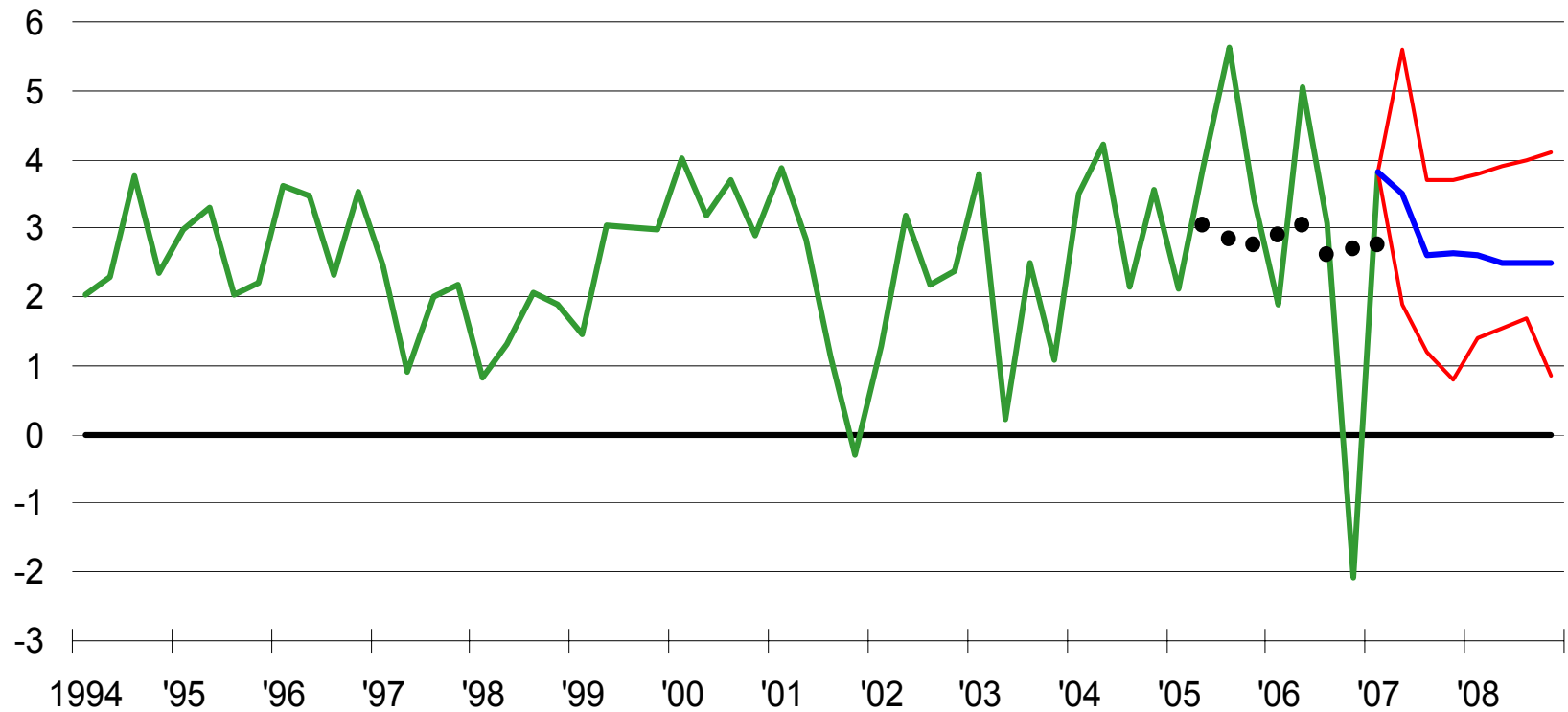




**The inflation rate is expected to ease to 2.6% in the third quarter of this year and then edge down to 2.5%**

### Inflation rate (CPI)

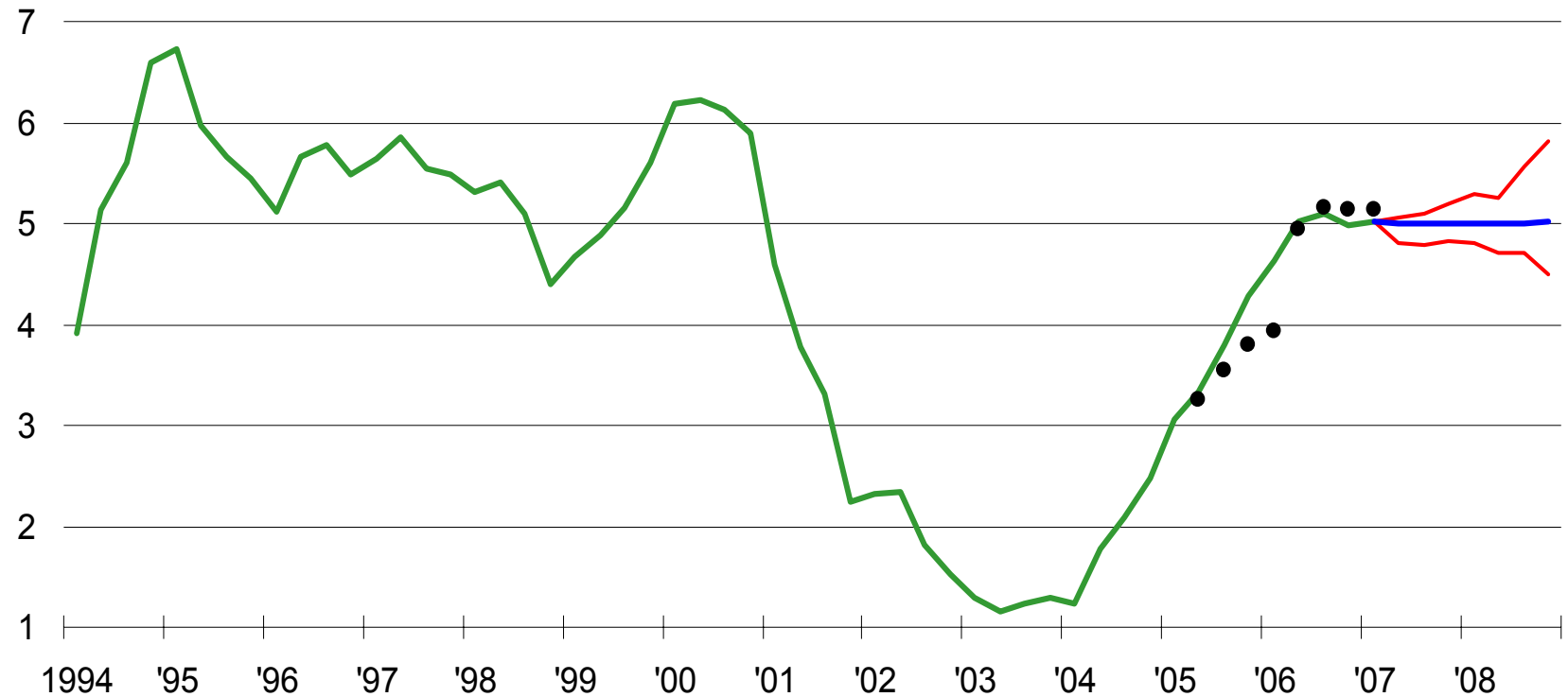
percent change, annual rate



## Short-term interest rates are forecast to remain flat over the next 18 months

### Treasury one-year rate

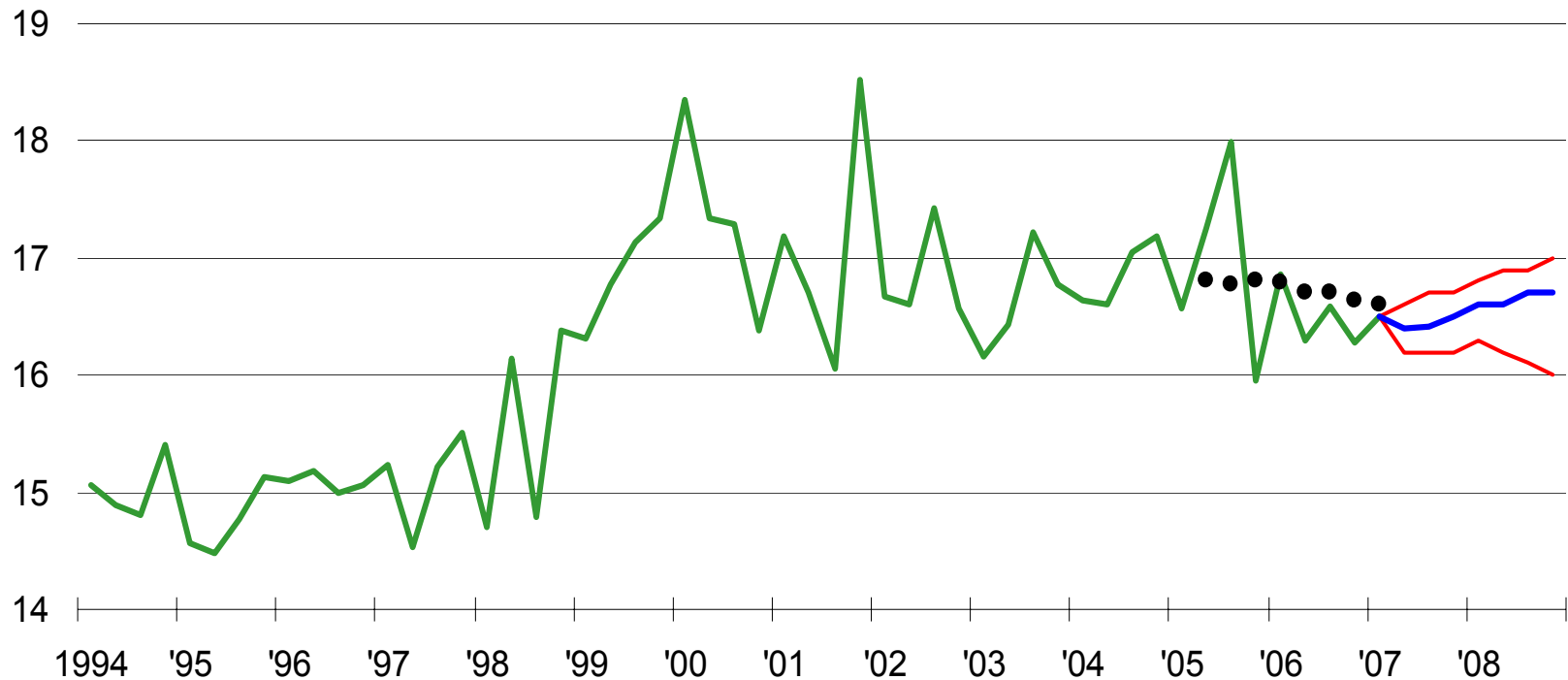
percent



**Light vehicle sales are forecast to improve over the forecast horizon, averaging 16.5 million units this year and then rise to 16.7 million units in 2008**

### Car and light truck sales

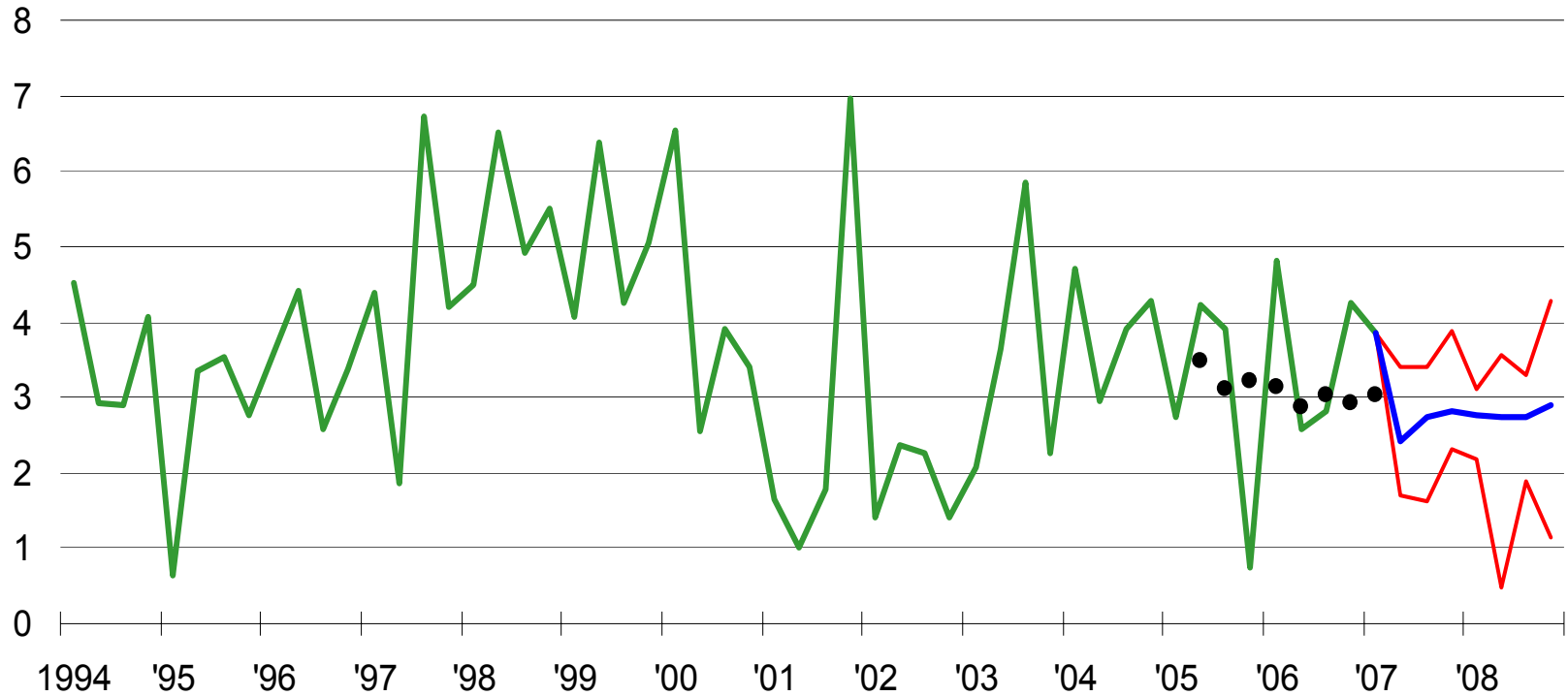
millions of units



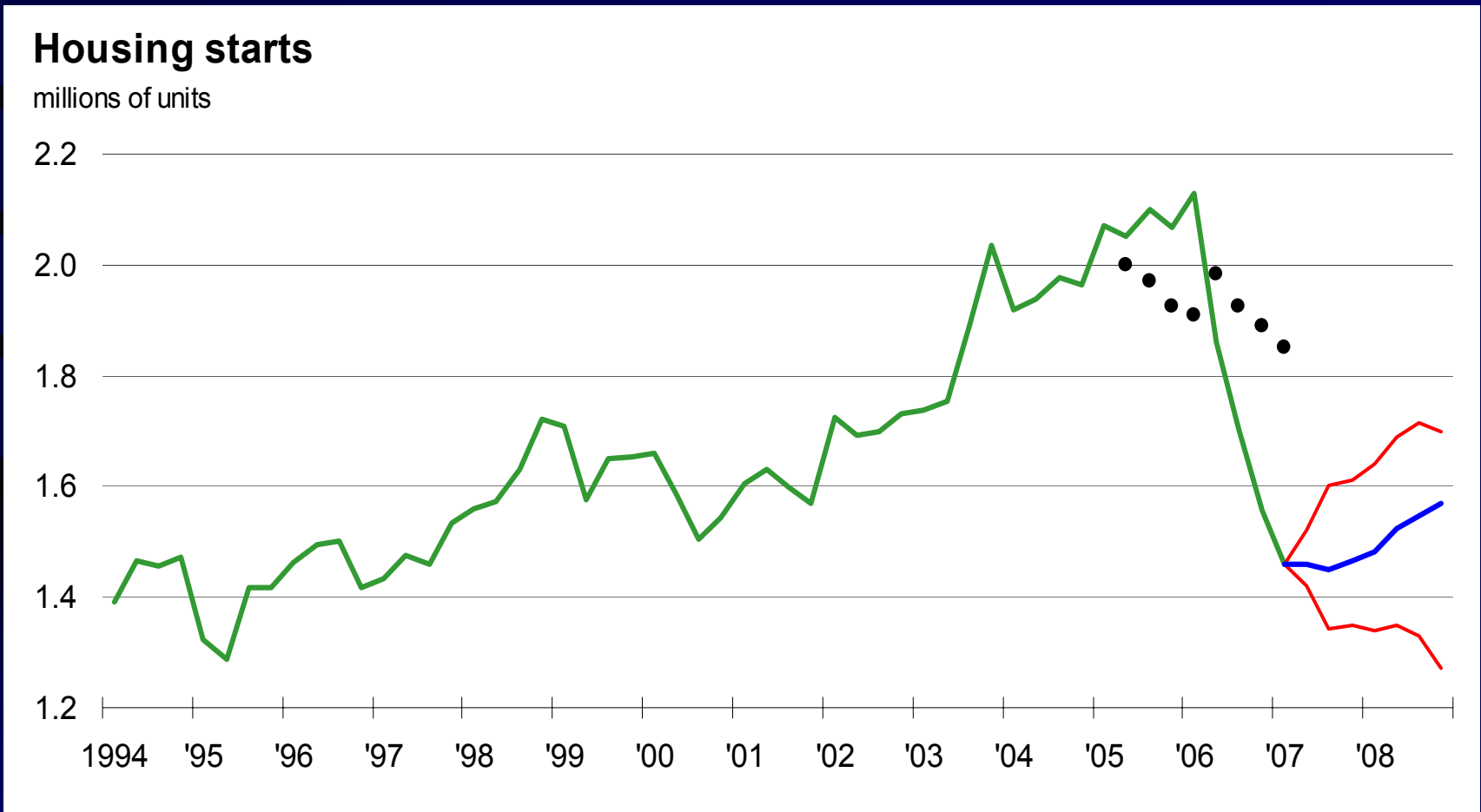
# Consumption growth is expected to remain steady at 3.0% in 2007 and 2.8% in 2008

## Personal consumption expenditures

percent change, annual rate



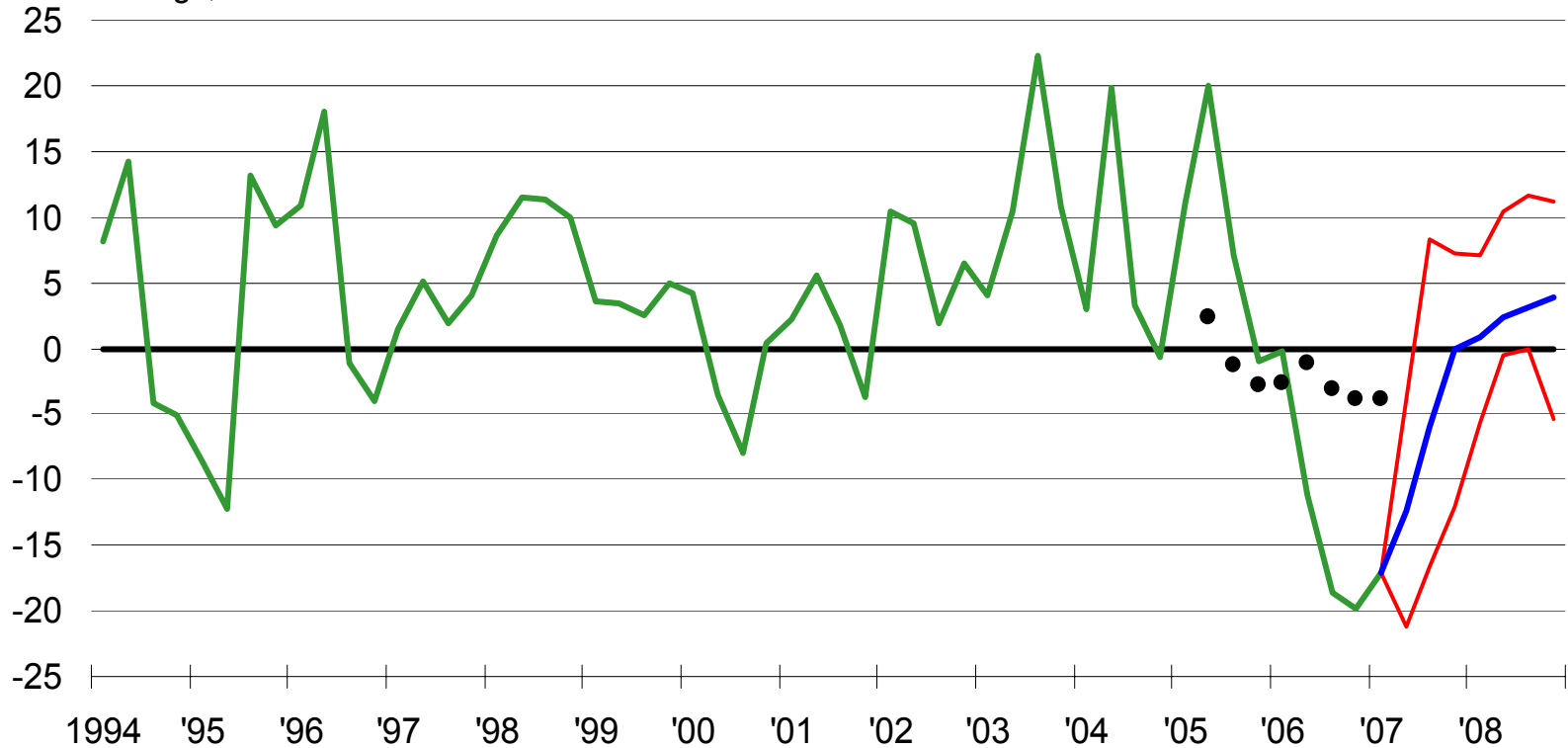
**Housing starts are expected to bottom  
in the third quarter of this year,  
and then improve over the rest of the forecast horizon**



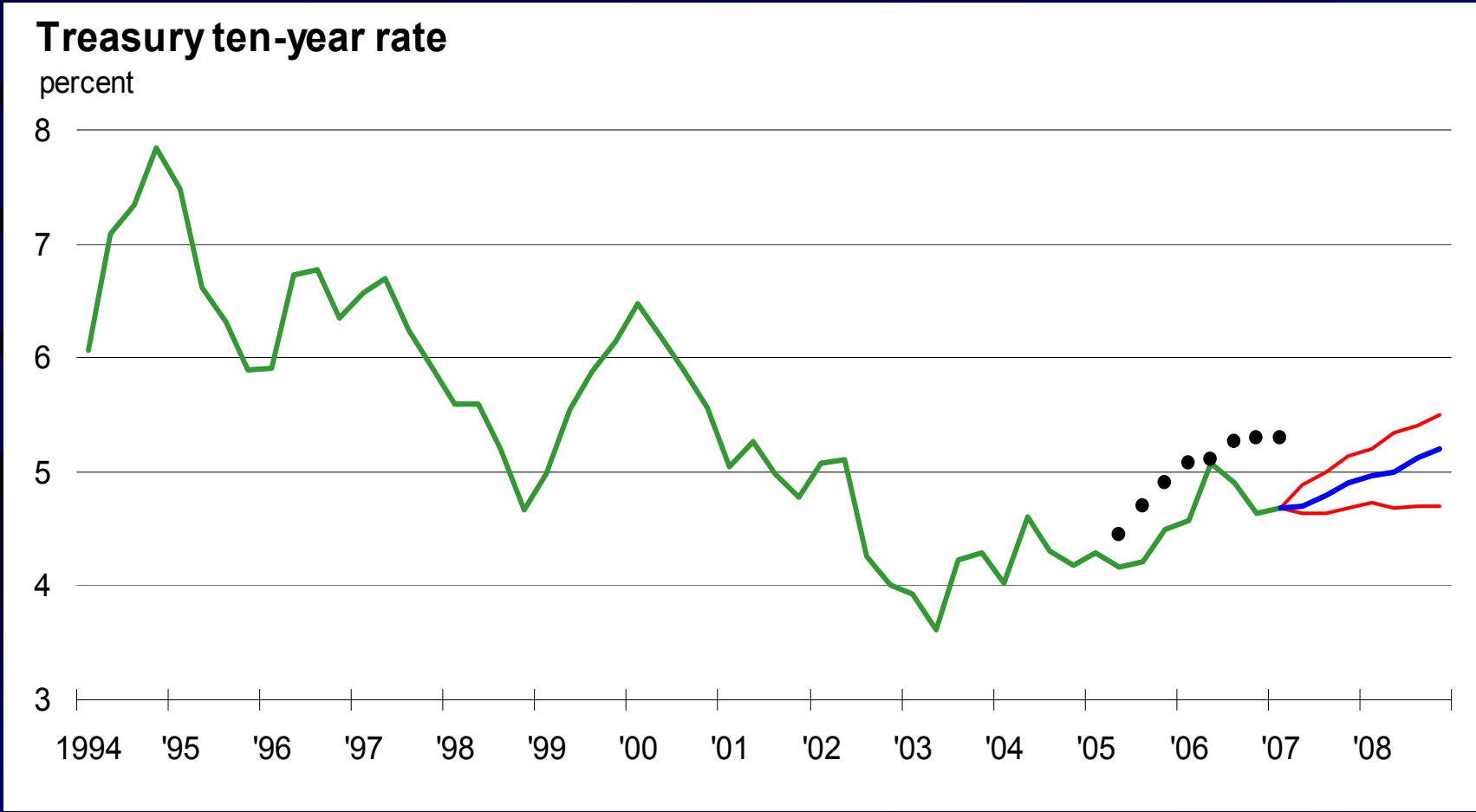
**Residential investment is forecast to continue reducing its drag on the overall economy, reaching zero growth in final quarter of this year, and rising 2.7% in 2008**

### Residential investment

percent change, annual rate



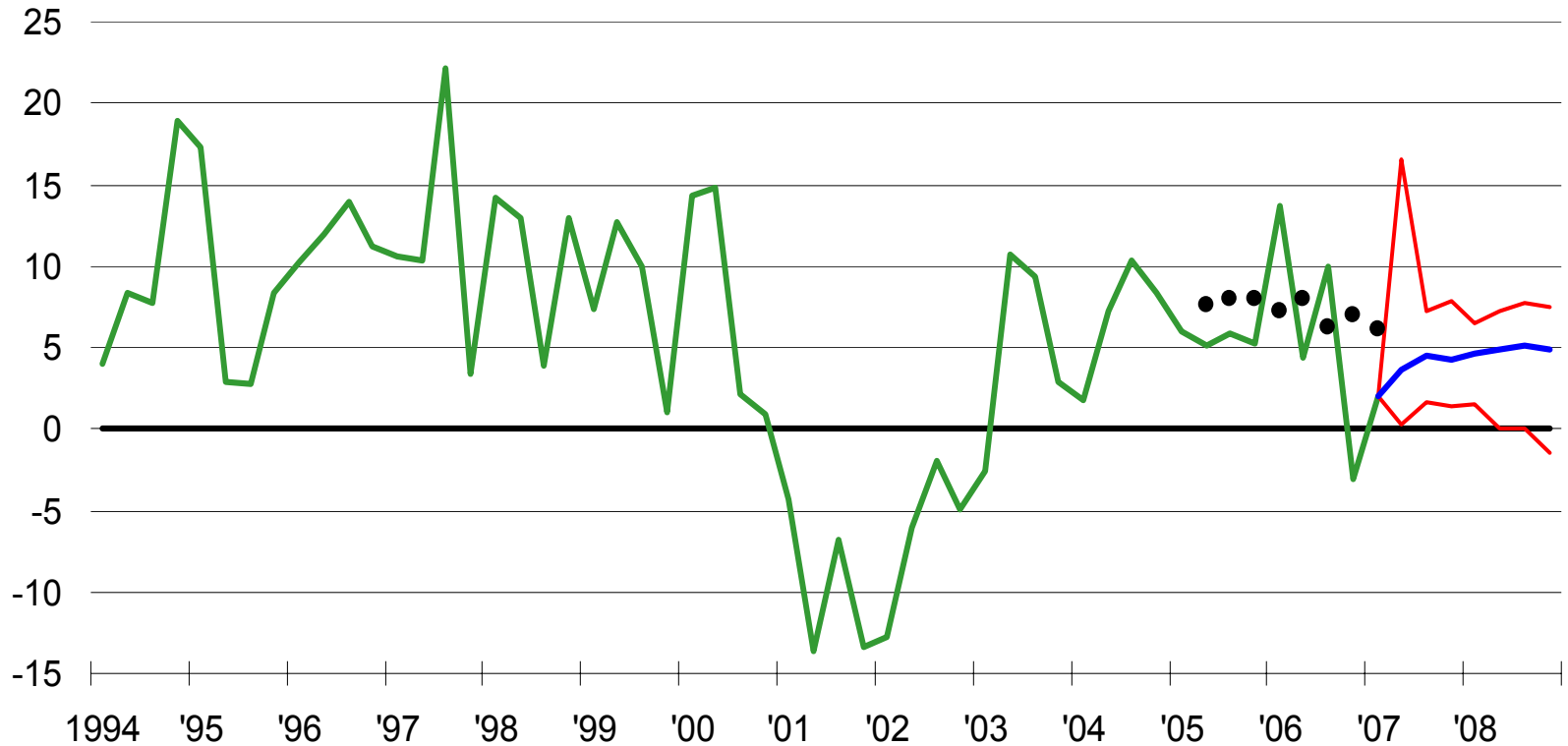
**Long-term interest rates are forecast  
to rise by 11 basis points in 2007  
and then by an additional 30 basis points in 2008**



**Business spending growth is anticipated to rise to 3.8% in 2007 and then improve to 4.8% next year**

### Business fixed investment

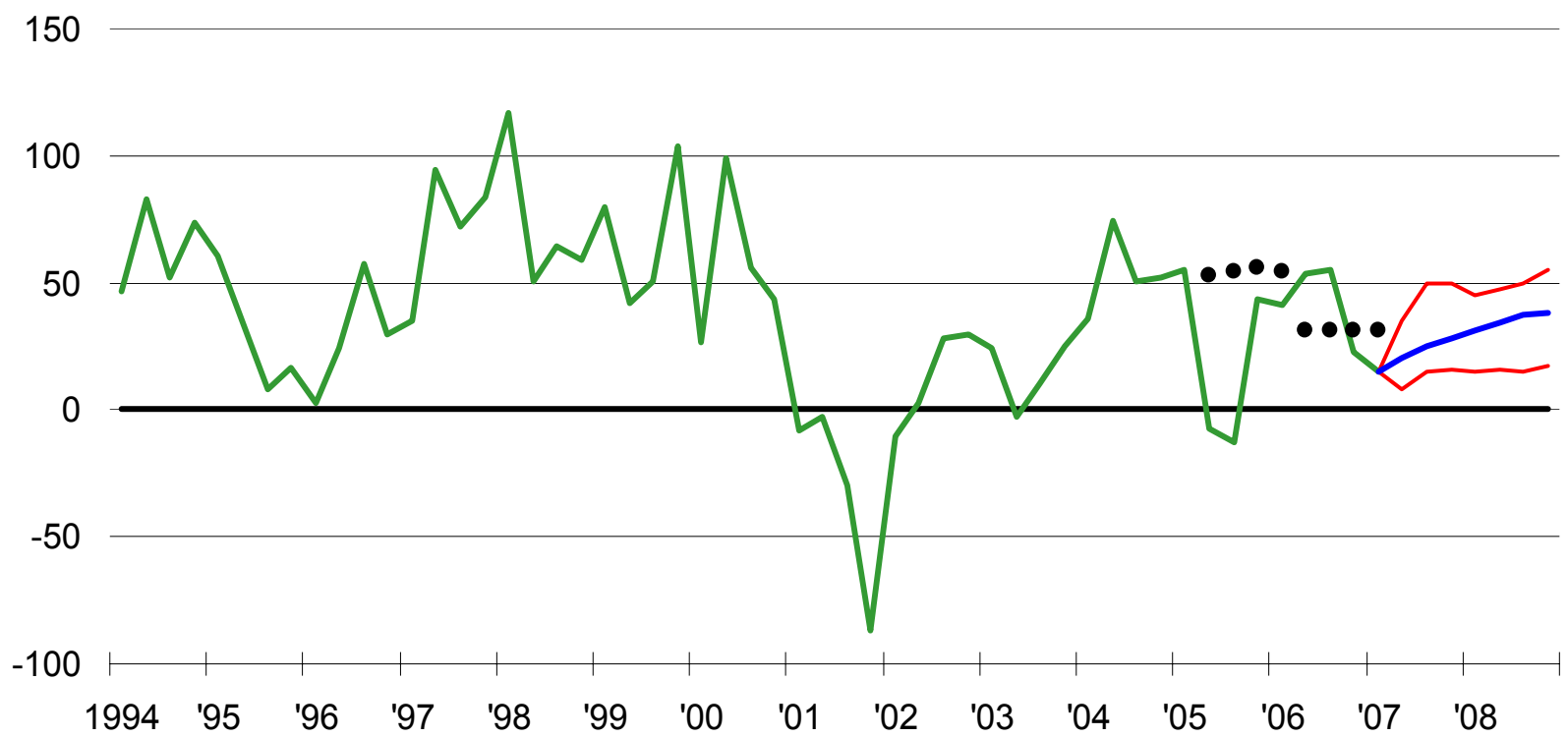
percent change, annual rate





# A relatively modest increase in inventories is expected to take place over the forecast horizon

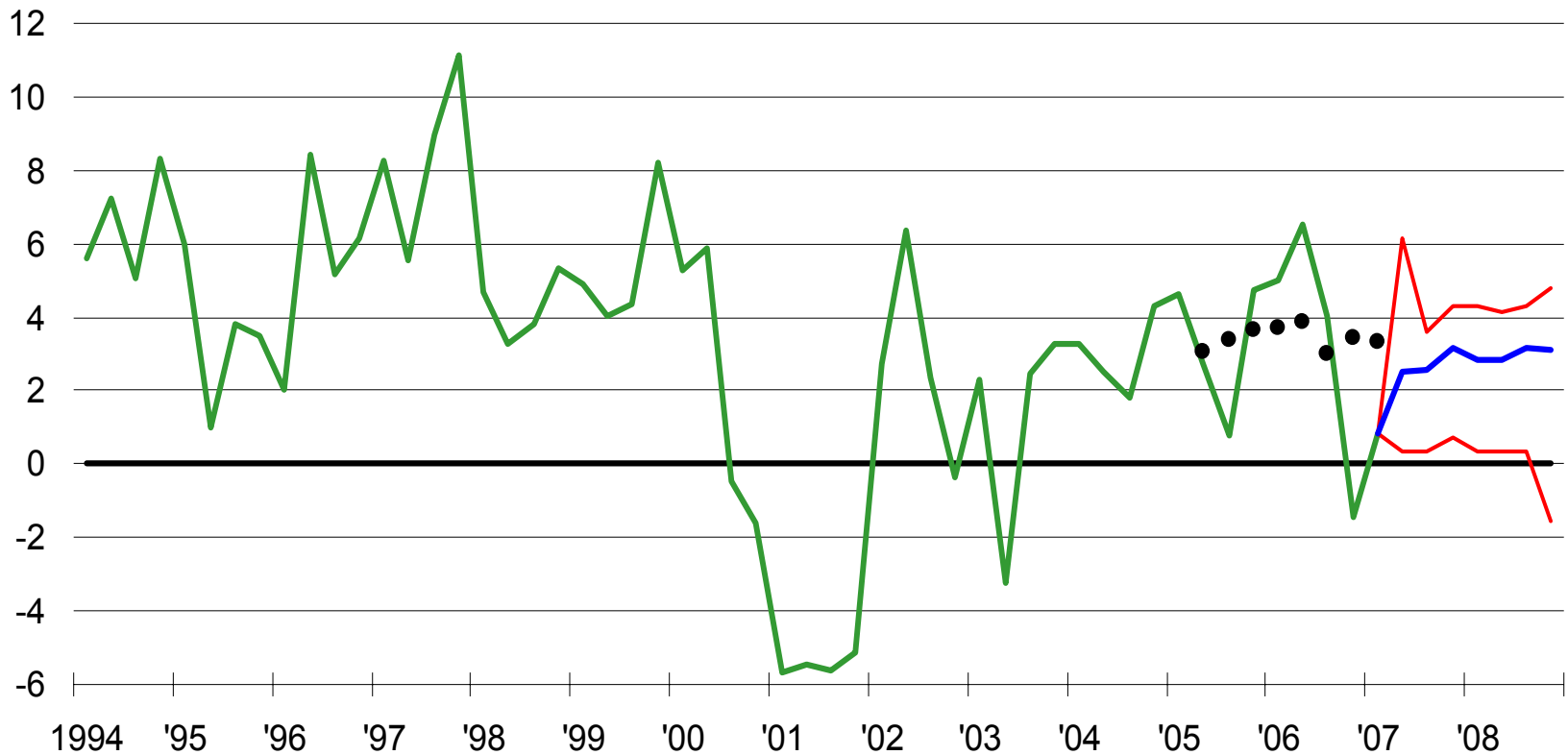
**Change in private inventories**  
billions of constant dollars



# Industrial output growth is forecast to improve, rising 2.3% this year and 2.8% next year

## Industrial production

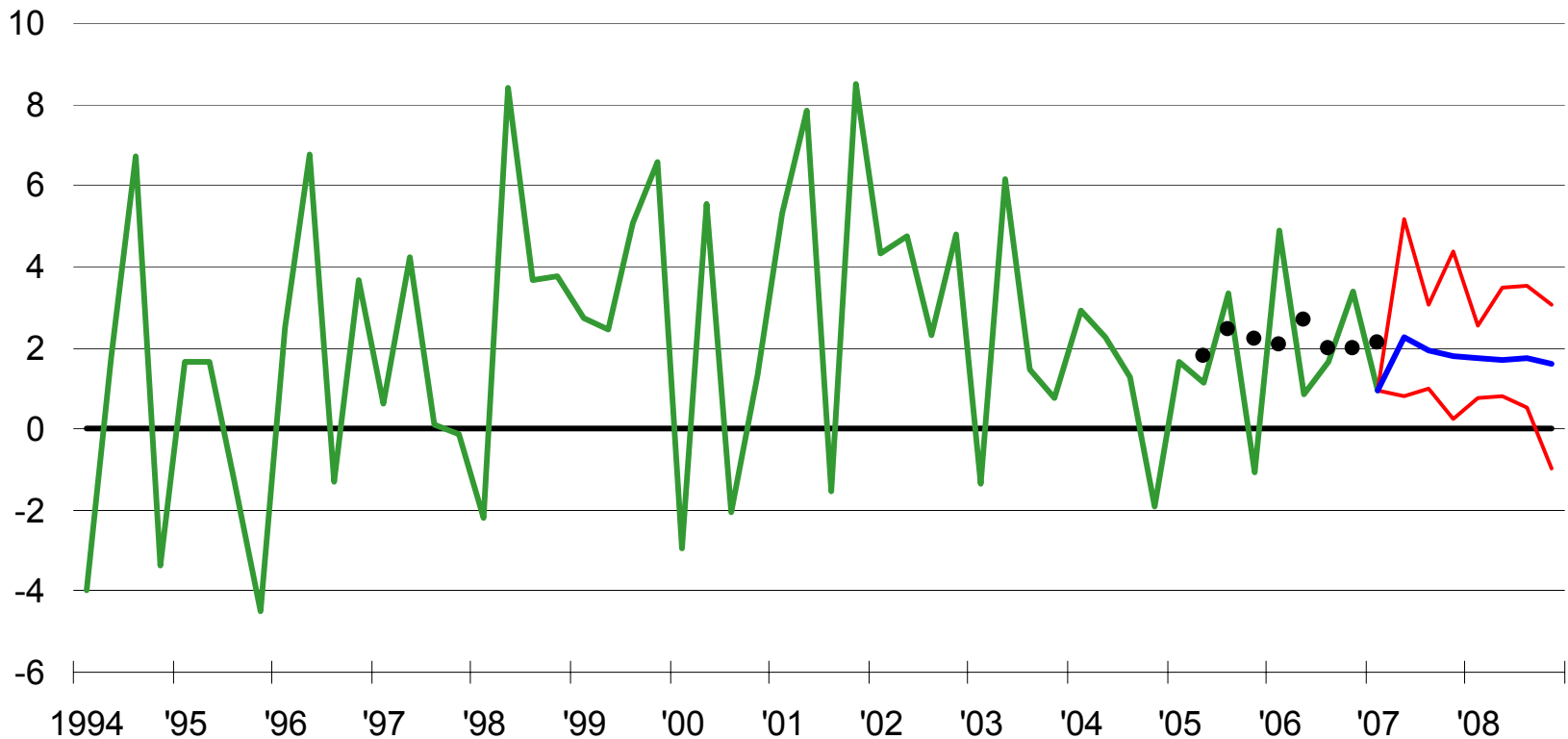
percent change, annual rate



# Government purchases growth is forecast to increase by 1.7% both this year and next

## Government consumption

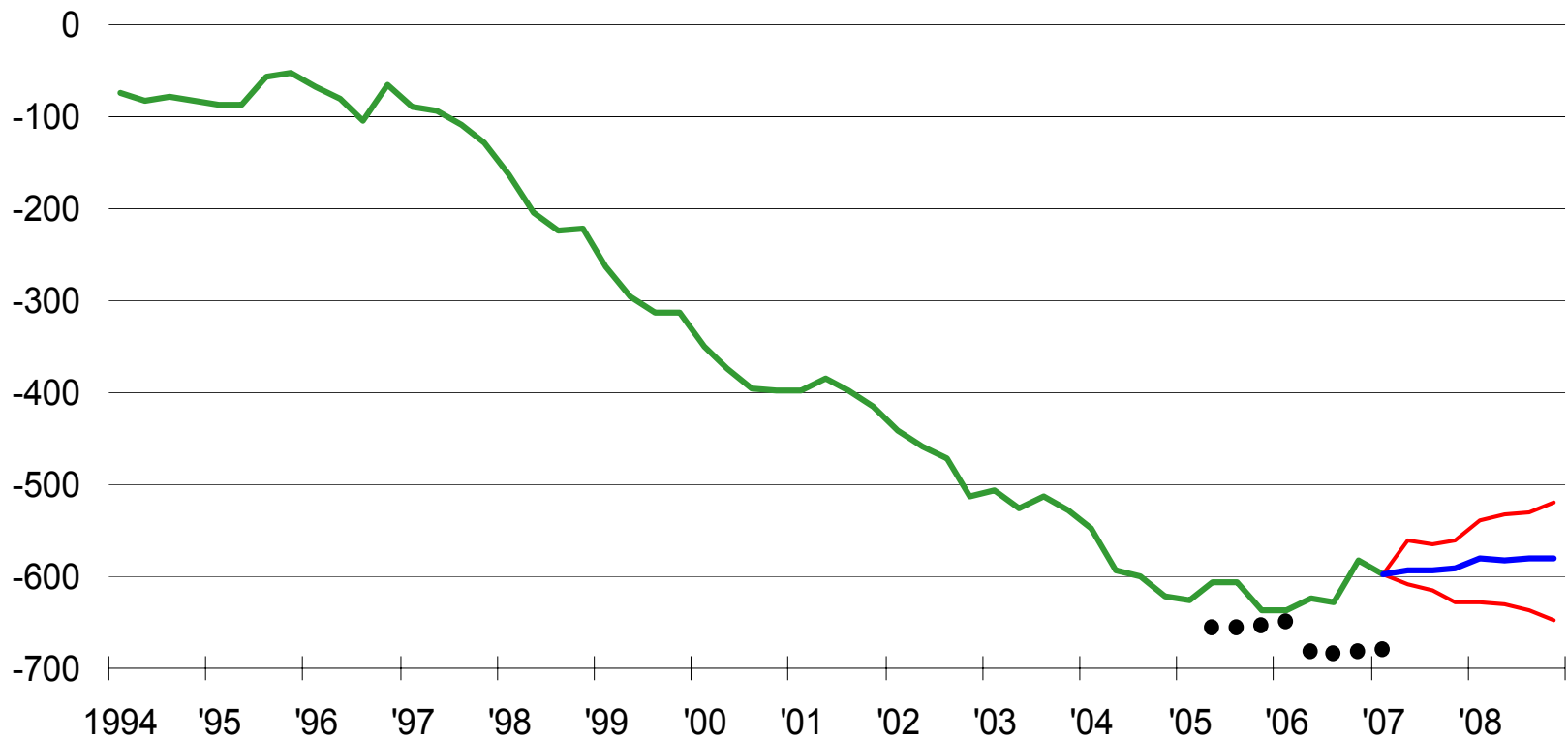
percent change, annual rate



# Net exports are expected to show only moderate improvement over the forecast horizon

## Net exports of goods and services

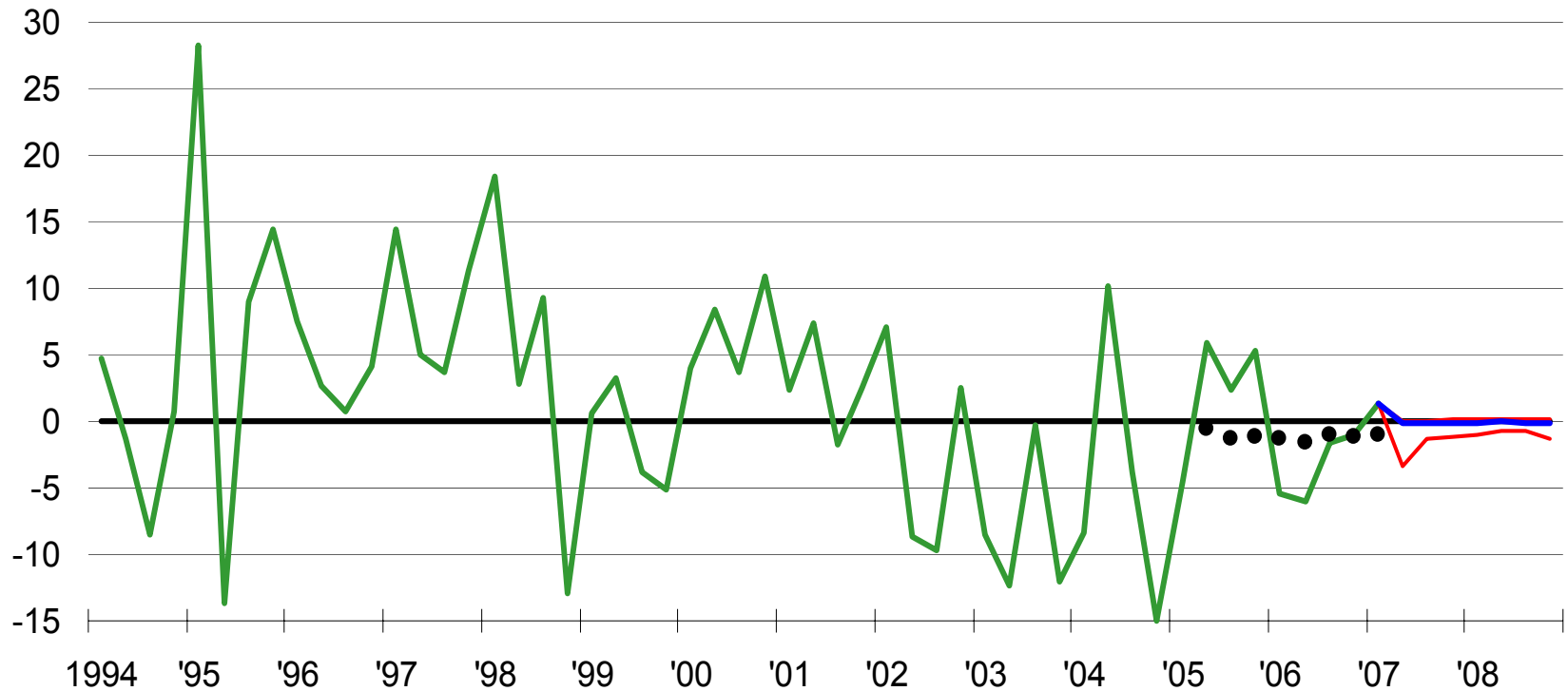
billions of constant dollars



# The dollar is forecast to remain relatively flat both this year and next

## J.P. Morgan trade weighted dollar

percent change, annual rate



# Summary

- **The economy is forecast to be soft this year with growth below potential with growth returning to potential in 2008**
- **Unemployment is expected to rise this year and then remain unchanged next year**
- **Inflation is expected to moderate this year and edge down in 2008**
- **Light vehicle sales are forecast to average 16.5 million units this year and then improve to 16.7 million in 2008**
- **[www.chicagofed.org](http://www.chicagofed.org)**