

22ND ANNUAL

ECONOMIC OUTLOOK SYMPOSIUM

FRIDAY, DECEMBER 5, 2008



# Consensus Forecast for 2009

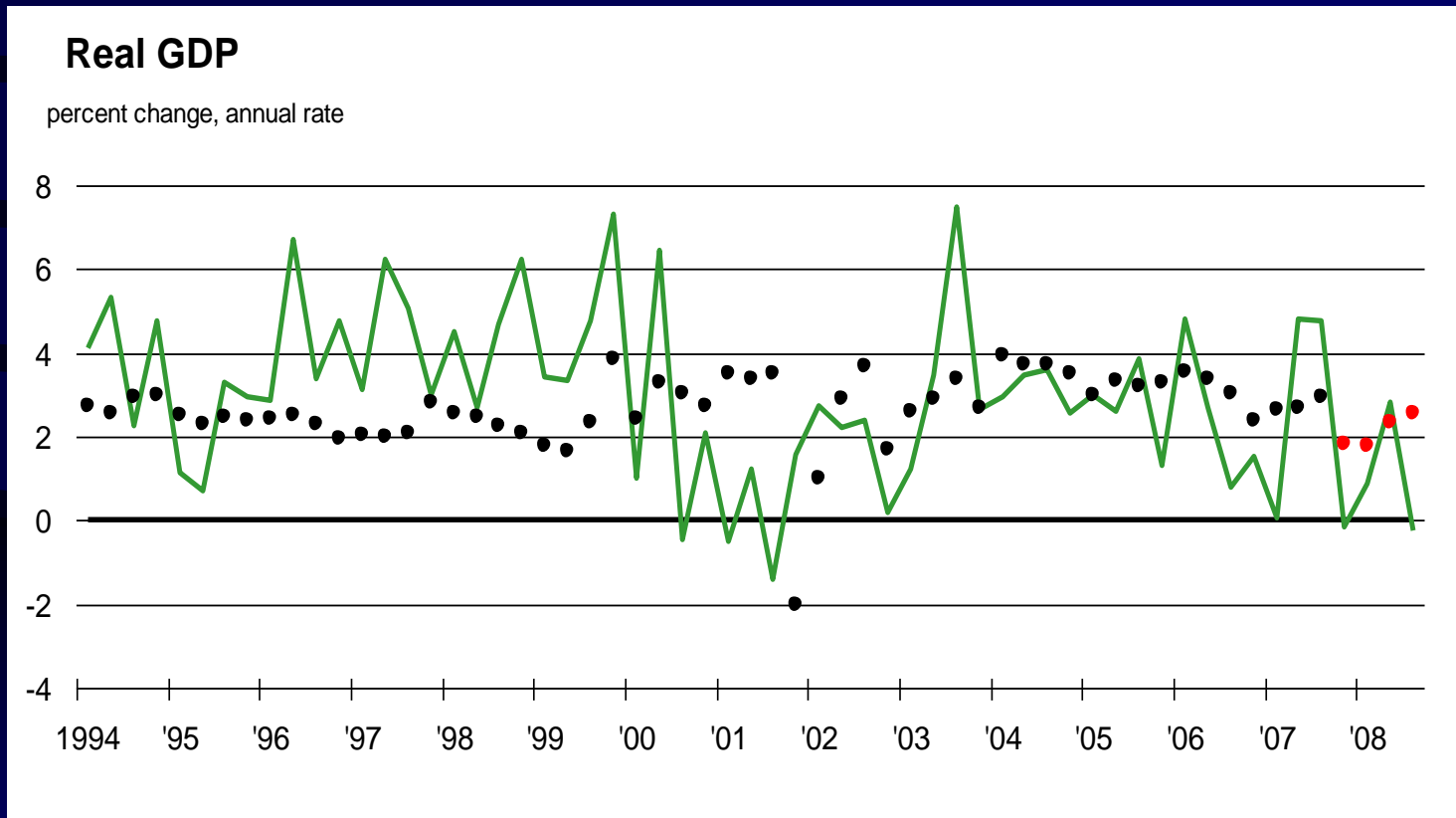
**William Strauss**

Senior Economist and Economic Advisor

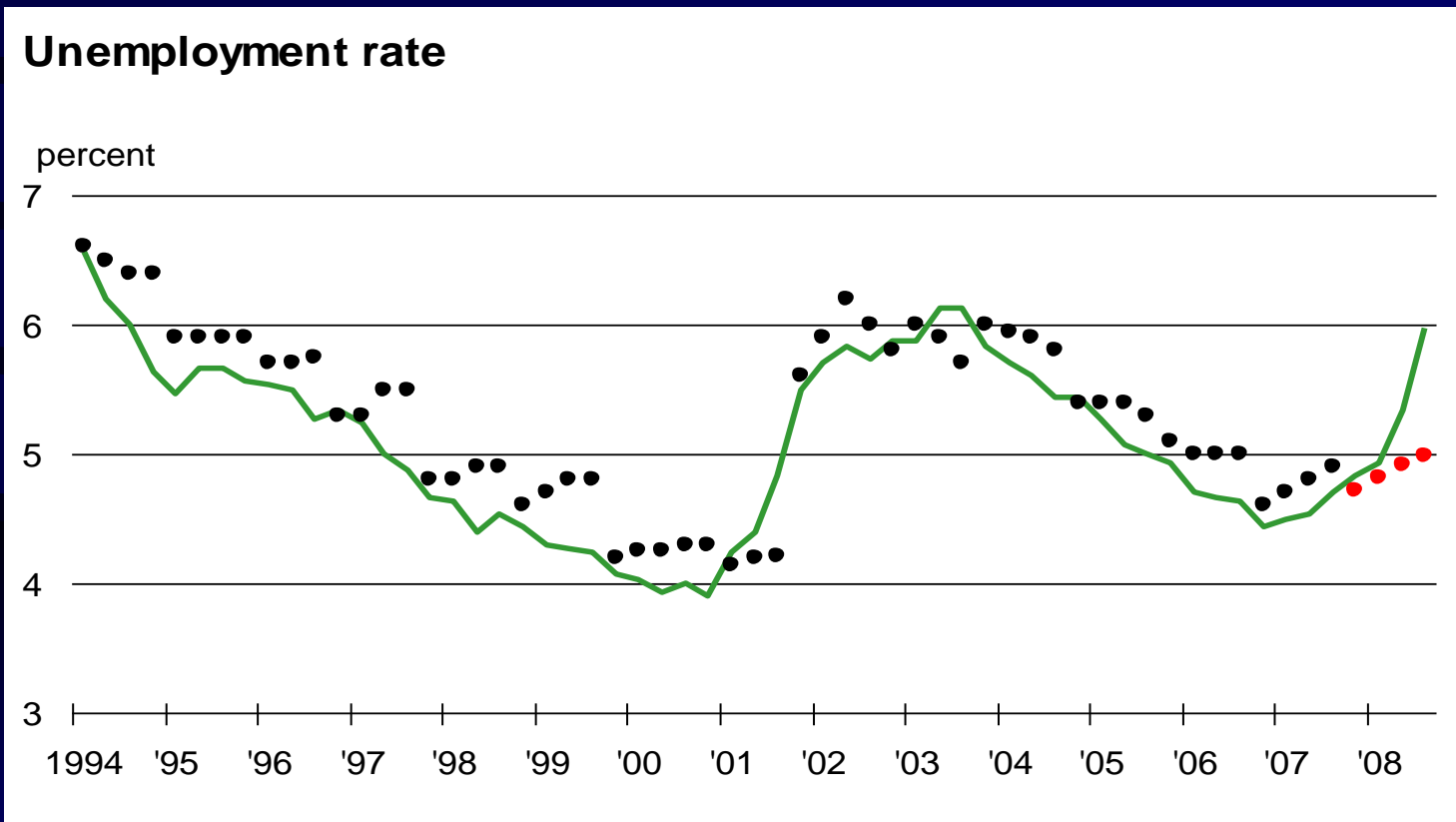
Federal Reserve Bank of Chicago

# Review of past performance

# Real GDP came in weaker than forecast



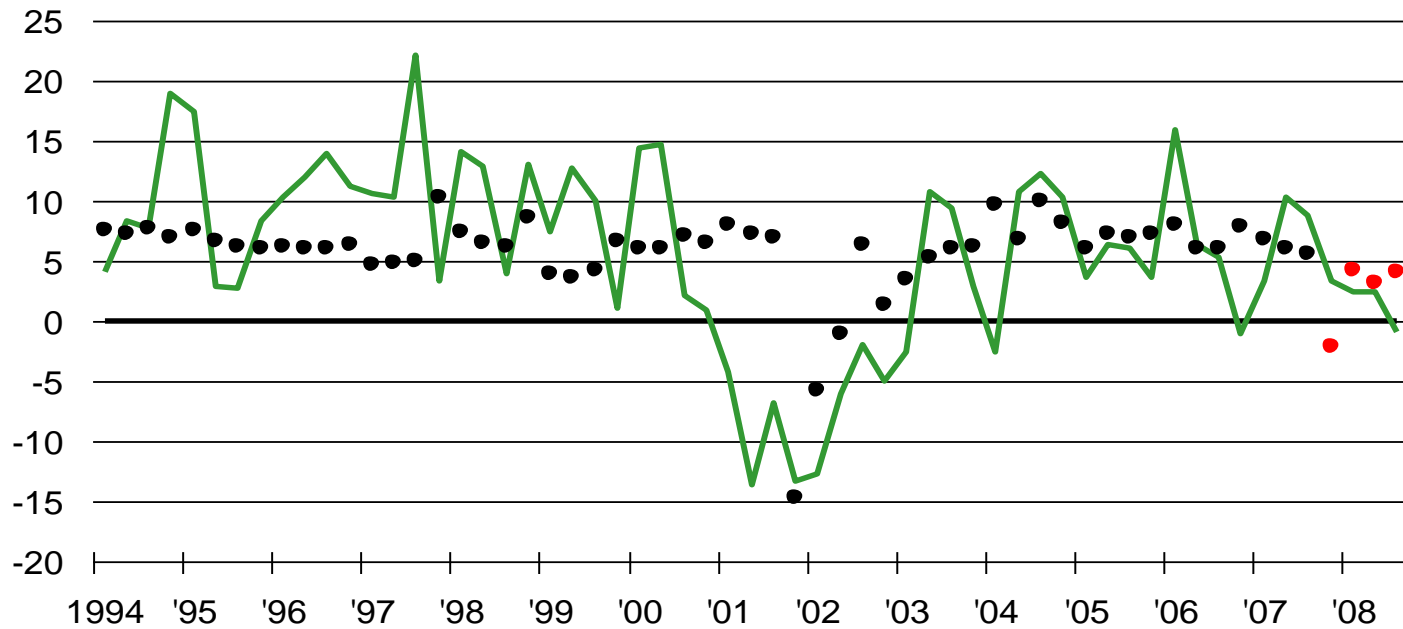
This lead to an under-prediction of the unemployment rate



# Business investment sector growth was slightly overestimated during 2008

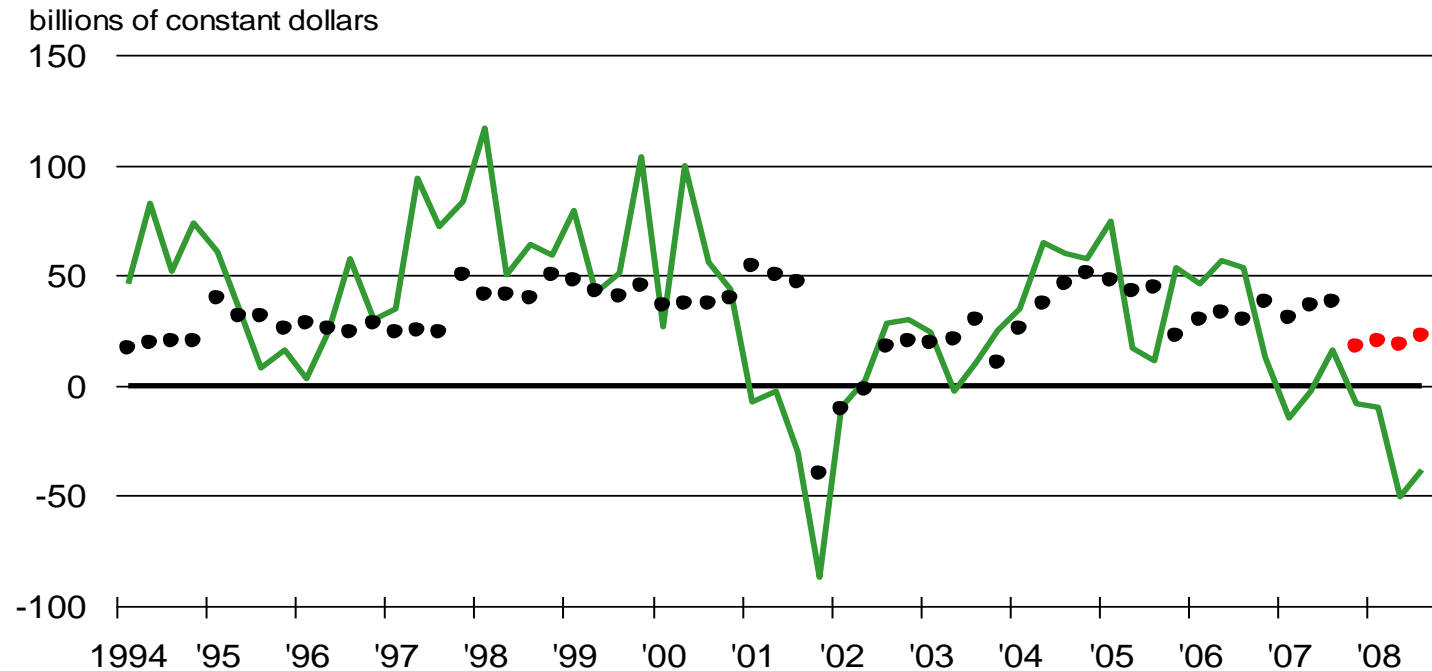
## Business fixed investment

percent change, annual rate



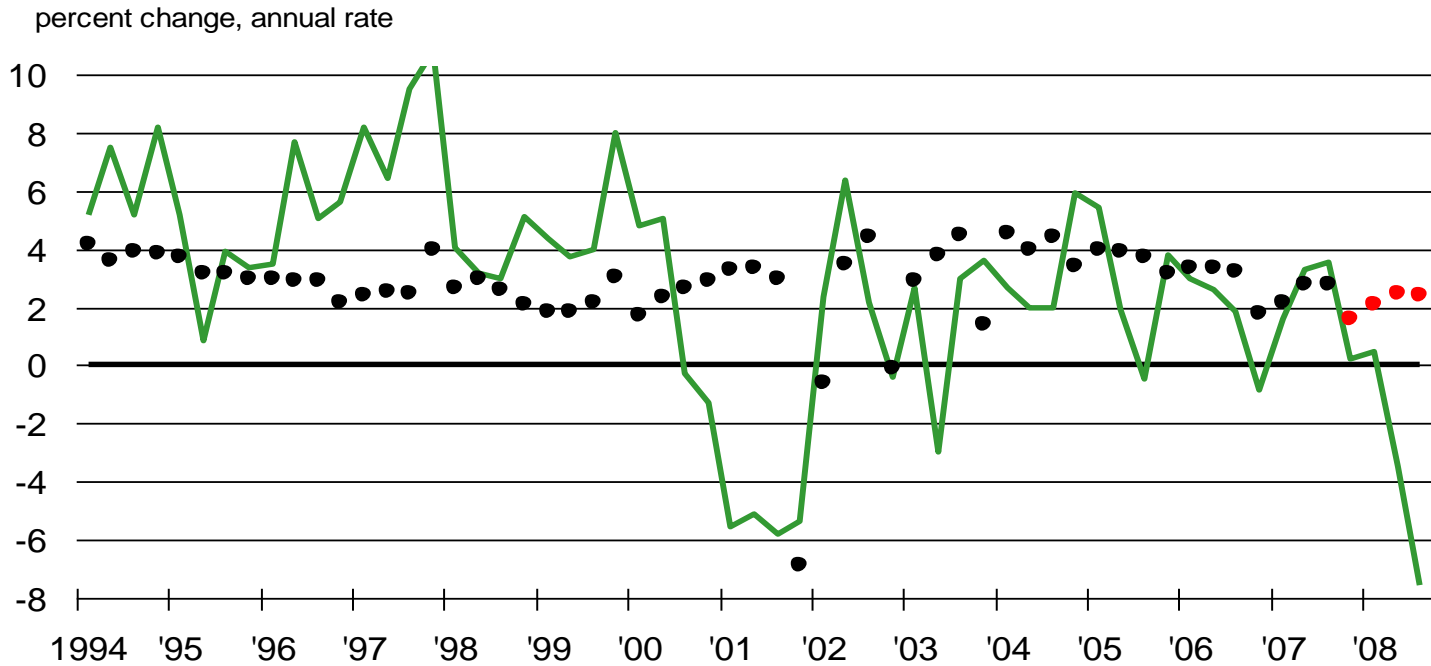
**Inventory accumulation was expected to show a slight gain, however, it fell throughout the past year**

### Change in private inventories



# The industrial sector's growth came in much lower than forecast, especially in recent quarters

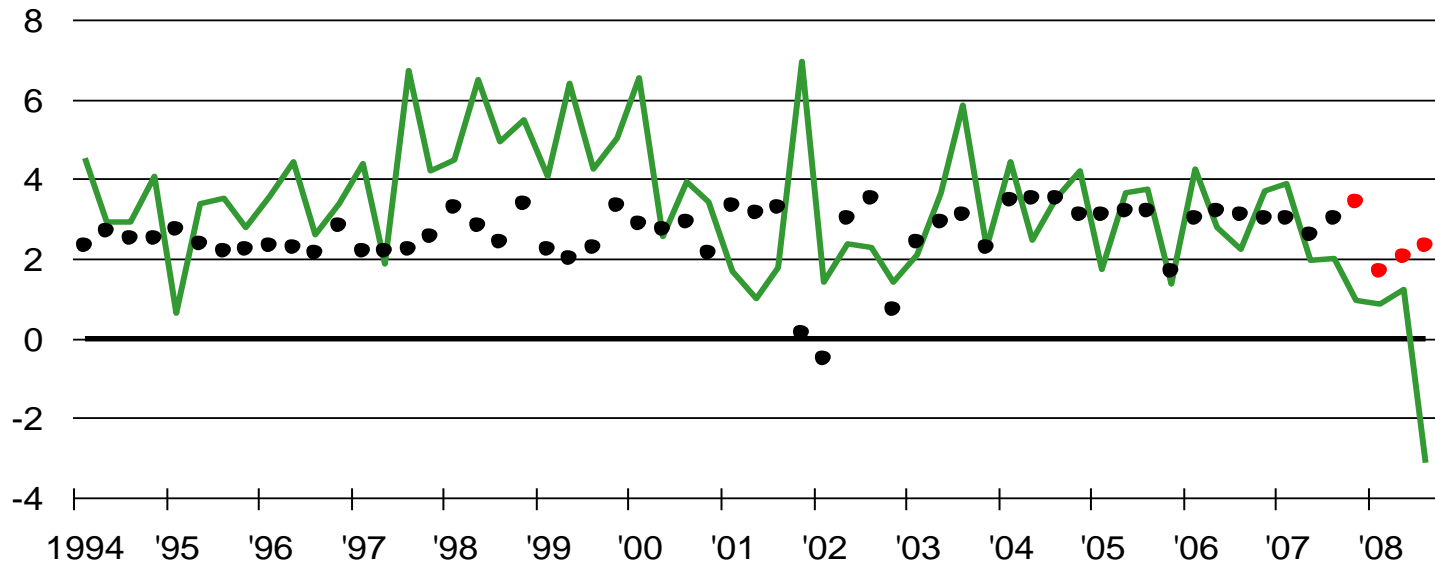
## Industrial production



# Consumer spending predictions were much more optimistic than the actual outcome

## Personal consumption expenditures

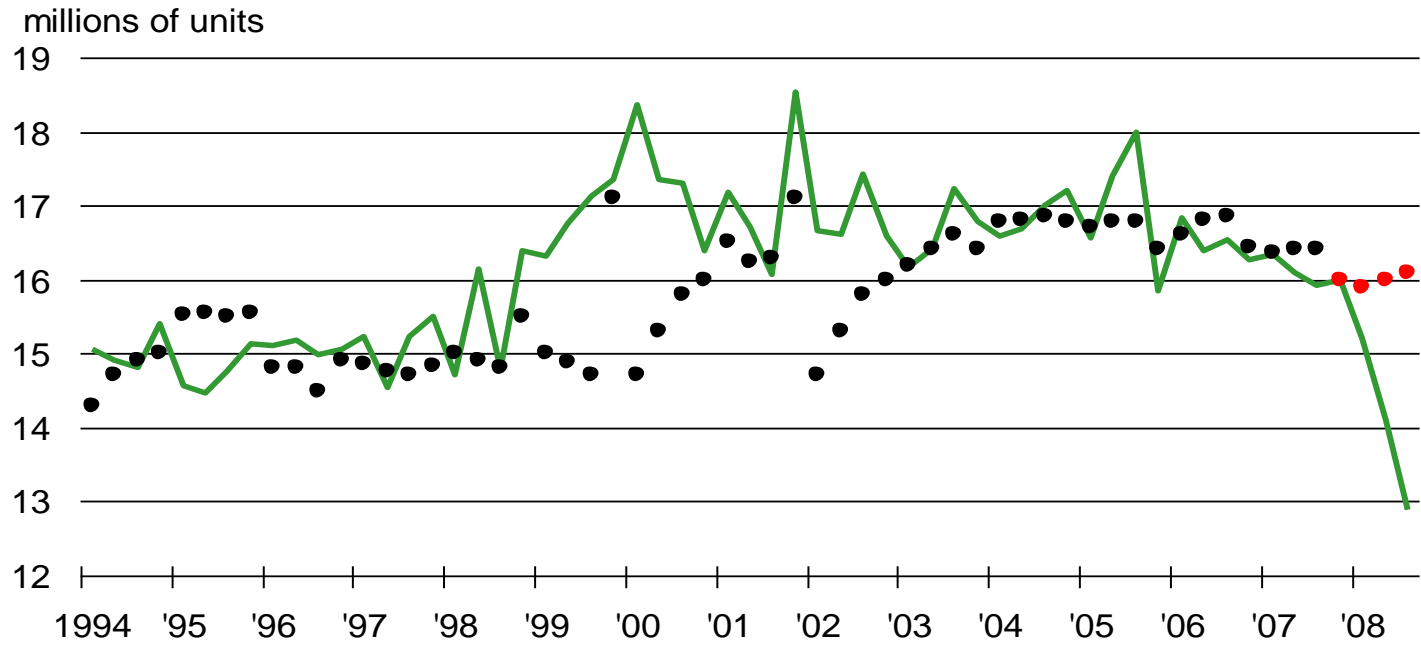
percent change, annual rate



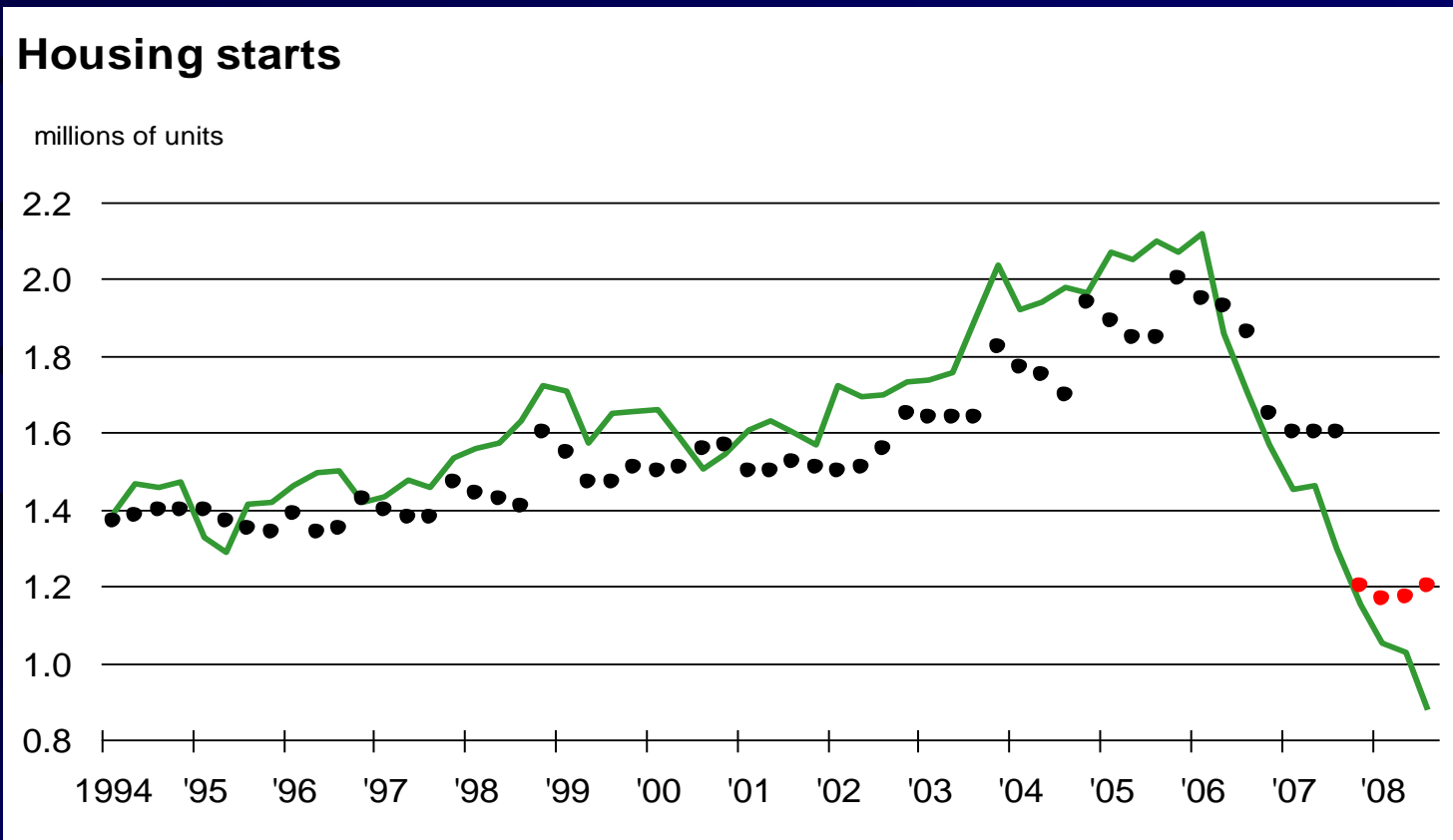


**While light vehicle sales in the fourth quarter of 2007 were accurately forecast, the predictions for 2008 were much too optimistic**

**Car and light truck sales**



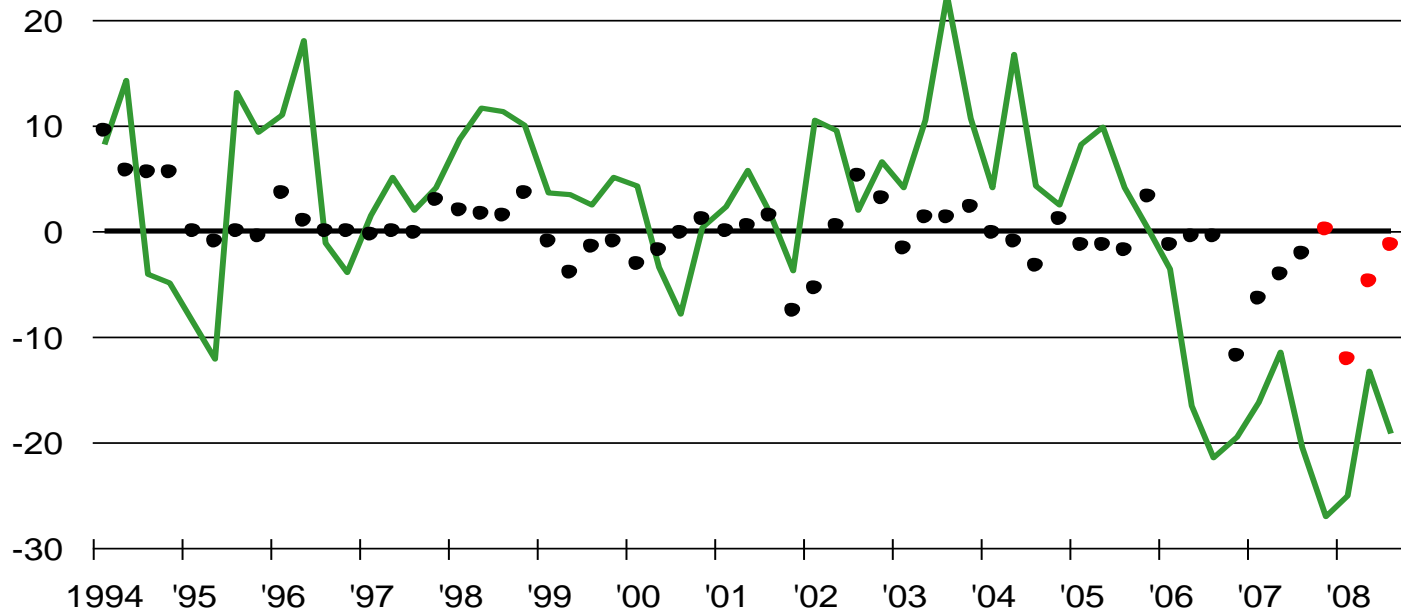
# Housing starts for 2008 were much worse than forecast



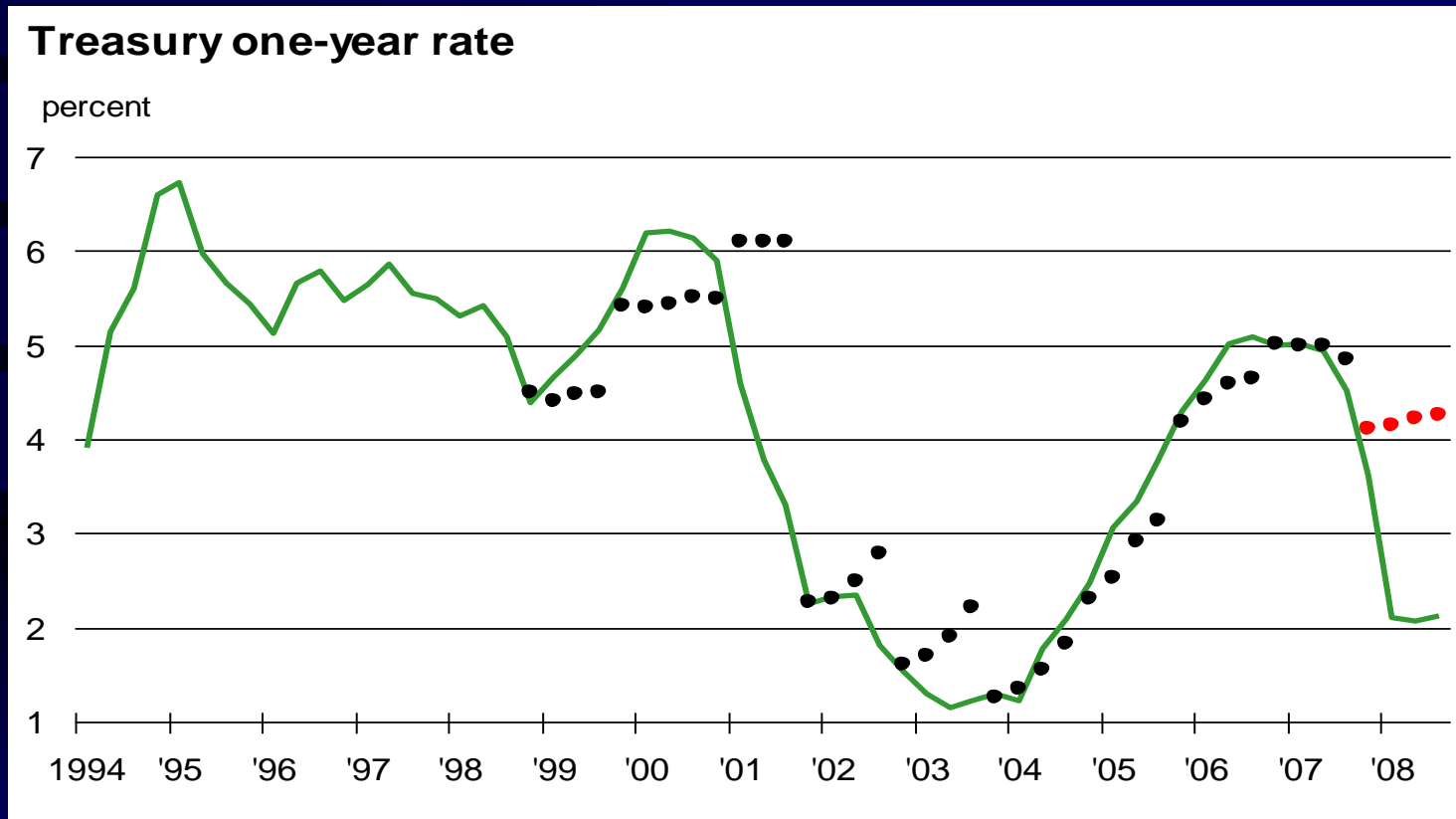
# The same was true for residential investment

## Residential investment

percent change, annual rate



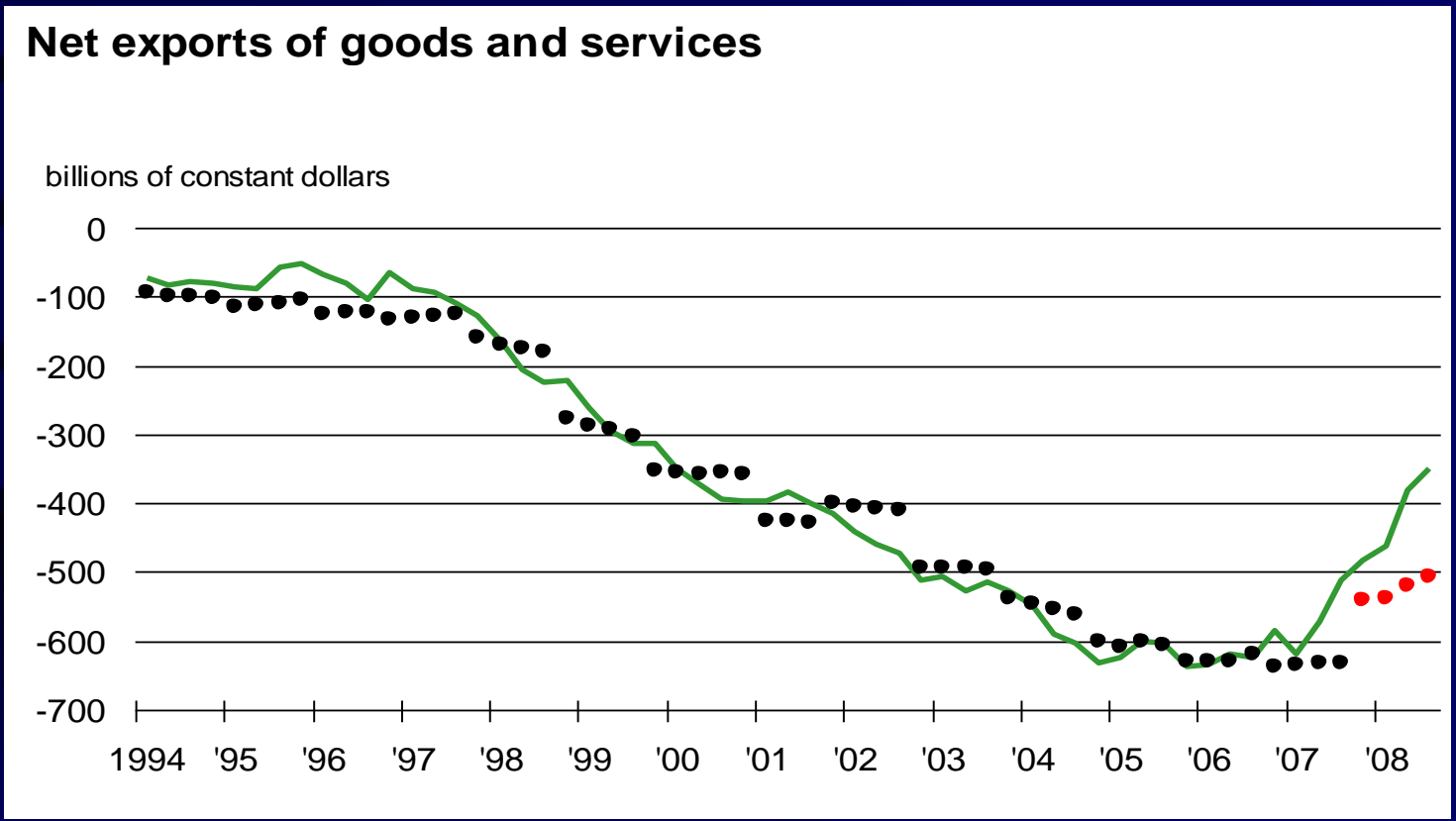
# Short-term interest rates came in much lower than predicted



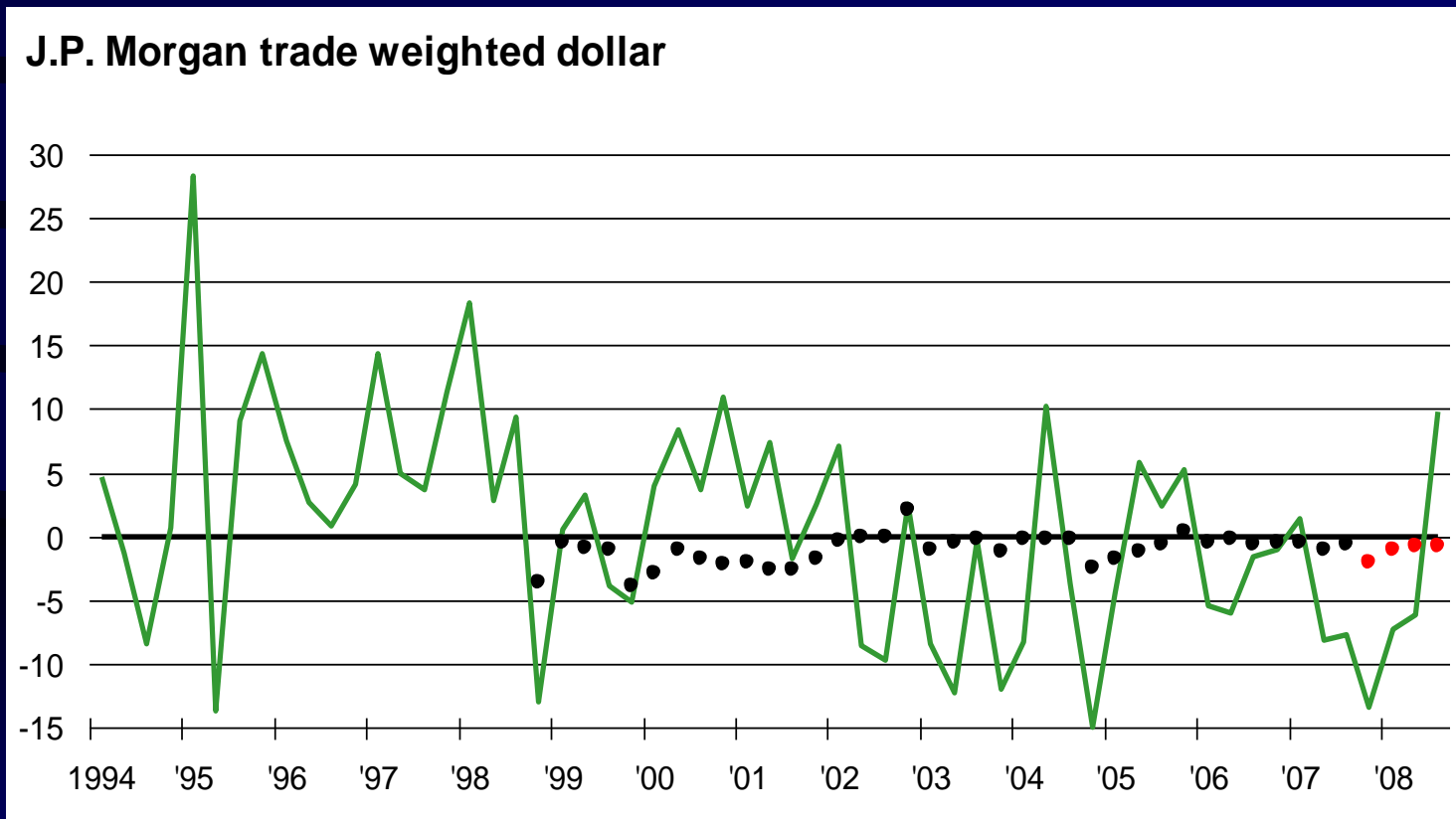
# Long-term interest rates were also lower than expected



# The trade deficit improved at a much faster rate than forecast



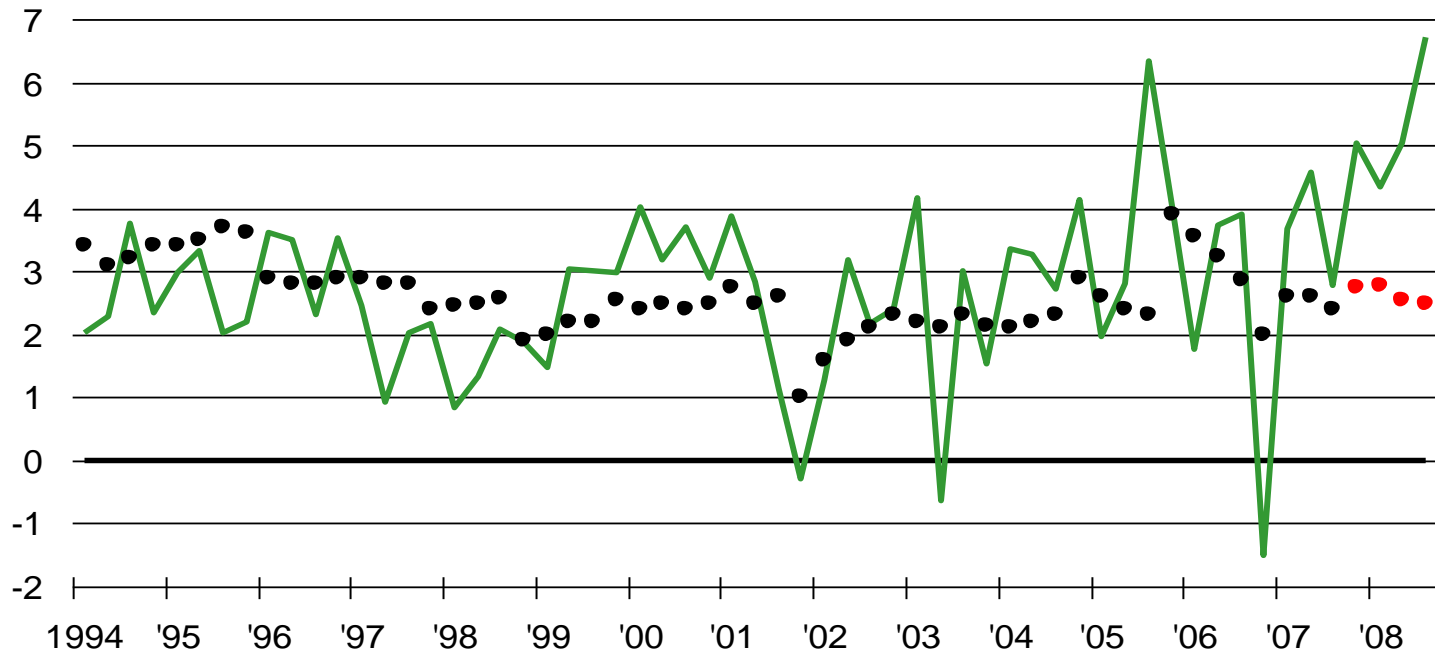
**With the exception of the most recent quarter, the dollar weakened by a greater extent than predicted**



# Inflation was much higher than forecast

## Inflation rate (CPI)

percent change, annual rate

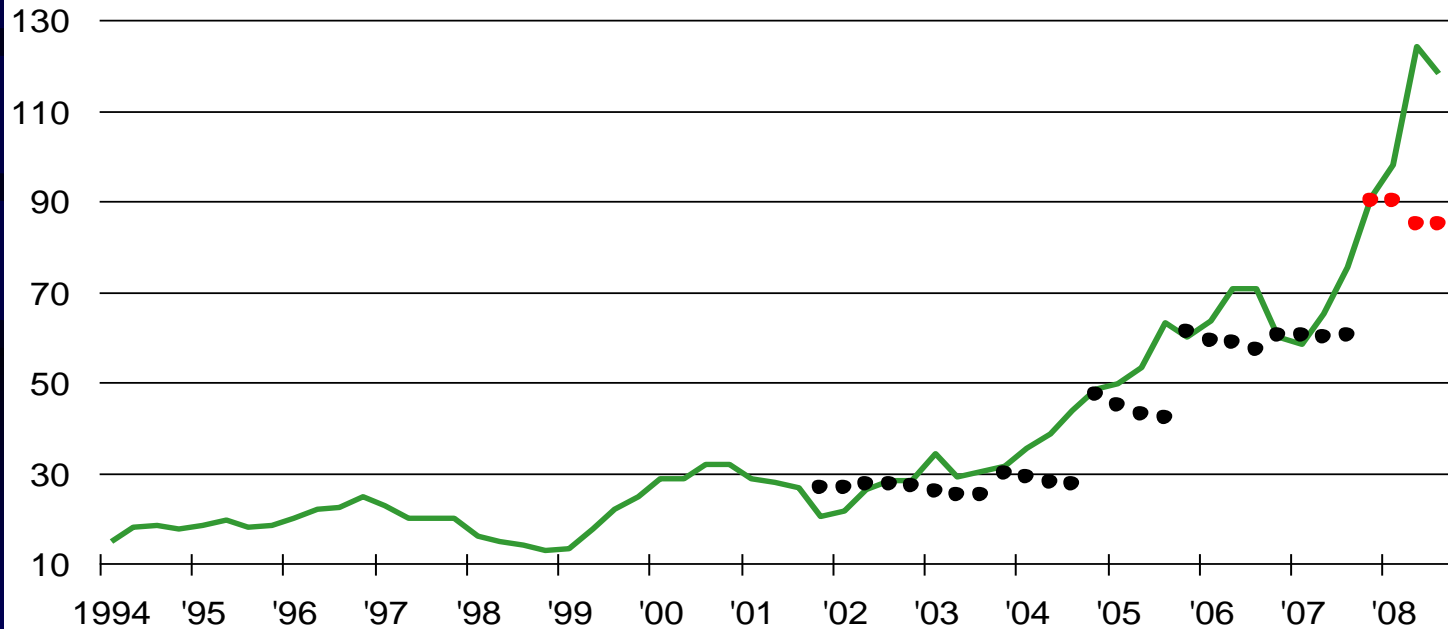




**In large part due to oil prices  
coming in much higher than expected**

### Oil prices - West Texas Intermediate

Dollars per barrel



# Forecast for 2009

## Median forecast of GDP and related items (page 1 in the Consensus Forecast book)

	2007	2008	2009
GDP, current dollars*	4.9%	<b>2.6%</b>	<b>2.2%</b>
GDP price index, chain-type*	2.6%	<b>2.5%</b>	<b>2.3%</b>
Real GDP, chained dollars*	2.3%	<b>0.2%</b>	<b>0.7%</b>
Personal consumption expenditures*	2.2%	<b>-0.9%</b>	<b>0.7%</b>
Business fixed investment*	6.4%	<b>-1.1%</b>	<b>-3.9%</b>
Residential investment*	-19.0%	<b>-19.2%</b>	<b>-1.7%</b>
Change in private inventories (billions of constant dollars)**	-\$8.1	<b>-\$26.6</b>	<b>\$15.0</b>
Net exports of goods and services (billions of constant dollars)**	-\$484.5	<b>-\$338.0</b>	<b>-\$315.5</b>
Government consumption expenditures and gross investment*	2.4%	<b>3.0%</b>	<b>1.3%</b>

\*Q4 over Q4

\*\*Q4 value

## Median forecast of GDP and related items (page 1 in the Consensus Forecast book)

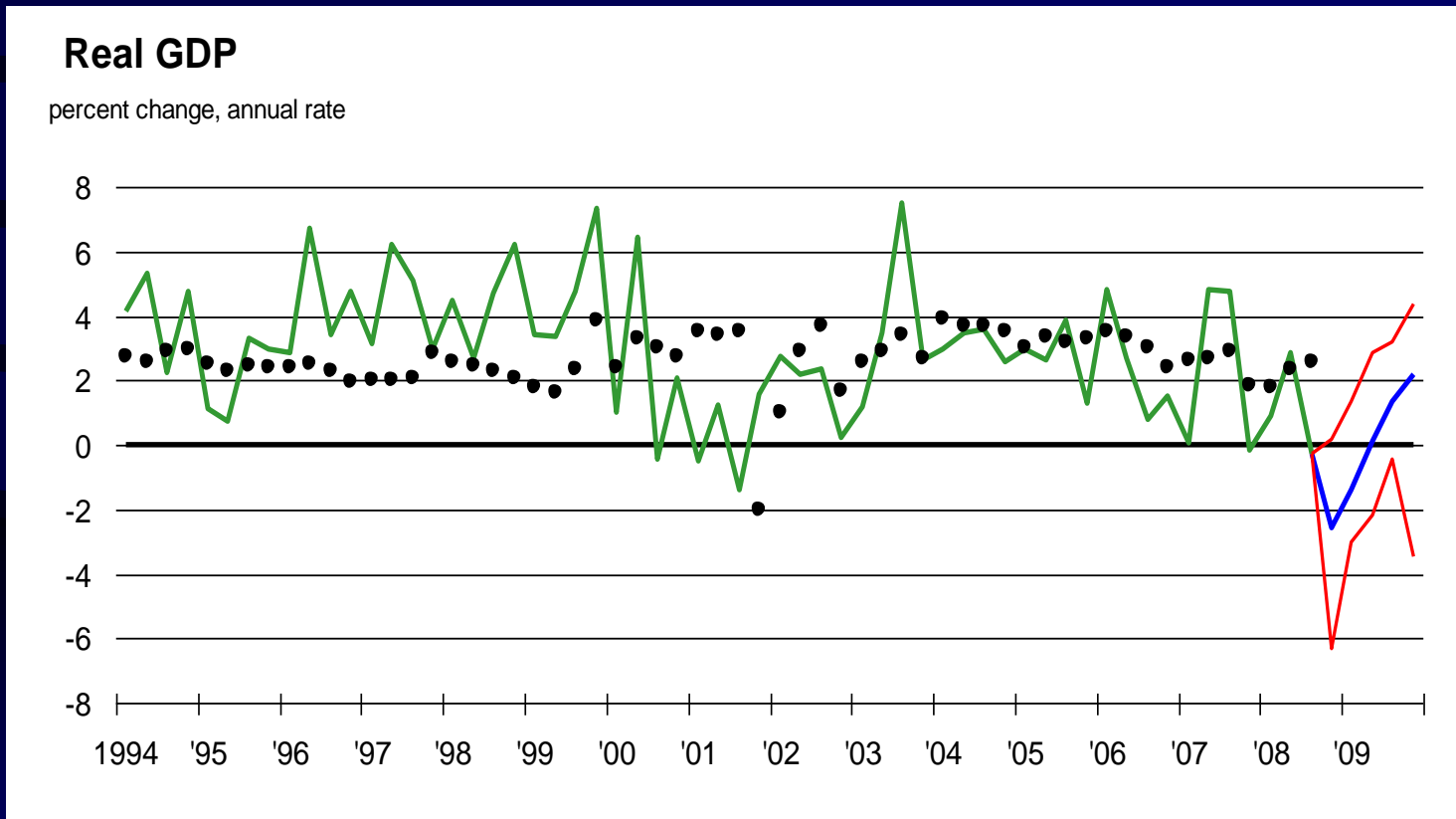
	2007	2008	2009
Industrial production*	2.2%	<b>-3.7%</b>	<b>0.4%</b>
Car & light truck sales (millions - calendar year including imports)***	16.1	<b>13.3</b>	<b>12.7</b>
Housing starts (millions)***	1.34	<b>0.94</b>	<b>0.87</b>
Oil price (dollars per barrel of West Texas Intermediate)**	\$90.85	<b>\$67.77</b>	<b>\$71.70</b>
Unemployment rate**	4.8%	<b>6.7%</b>	<b>7.8%</b>
Inflation rate (consumer price index)*	4.0%	<b>4.5%</b>	<b>2.0%</b>
Treasury constant maturity one-year rate**	3.62%	<b>1.67%</b>	<b>1.95%</b>
Treasury constant maturity ten-year rate**	4.26%	<b>3.80%</b>	<b>4.00%</b>
J.P. Morgan trade weighted OECD dollar*	-7.1%	<b>-0.6%</b>	<b>0.9%</b>

\*Q4 over Q4

\*\*Q4 value

\*\*\*Yearly average

**Real GDP growth is expected to:  
decline quite considerably in the current quarter;  
fall by nearly half as much in the first quarter of next year;  
remain unchanged in the second quarter;  
and then increase in the second half of 2009**



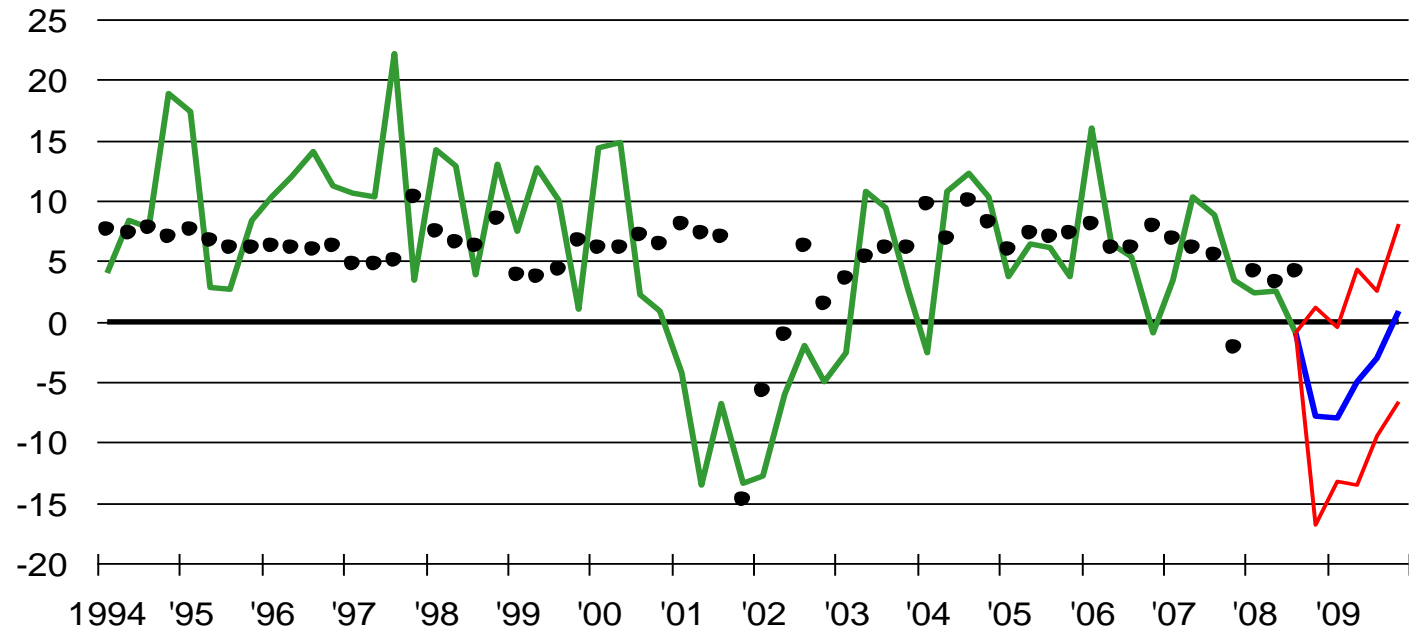
**With economic growth being well below trend, the unemployment rate is projected to continue rising throughout 2009, reaching 7.8% in the final quarter of next year**



# Business fixed investment growth is forecast to fall through most of next year

## Business fixed investment

percent change, annual rate

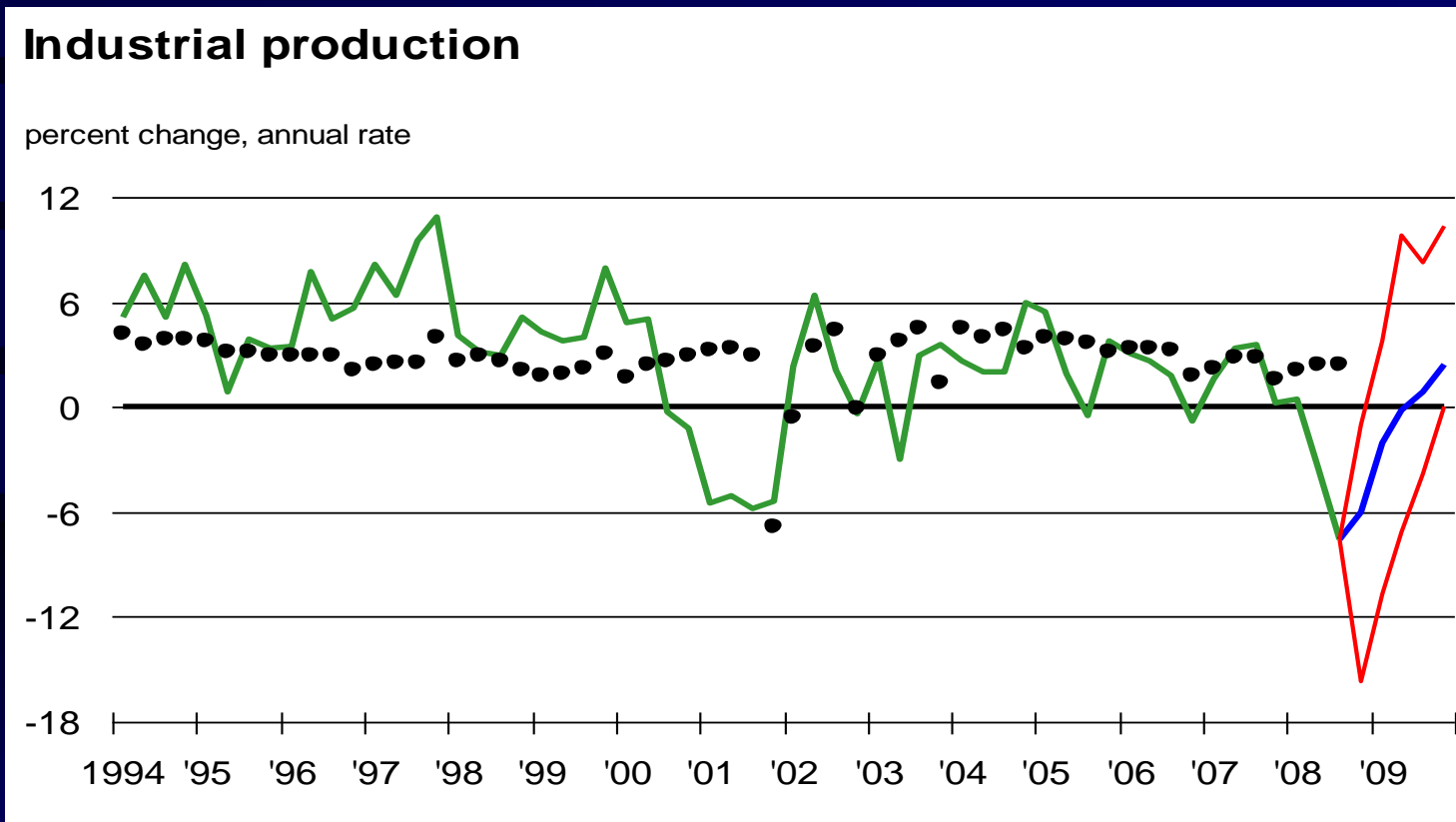


# Inventories are anticipated to shrink over the forecast horizon

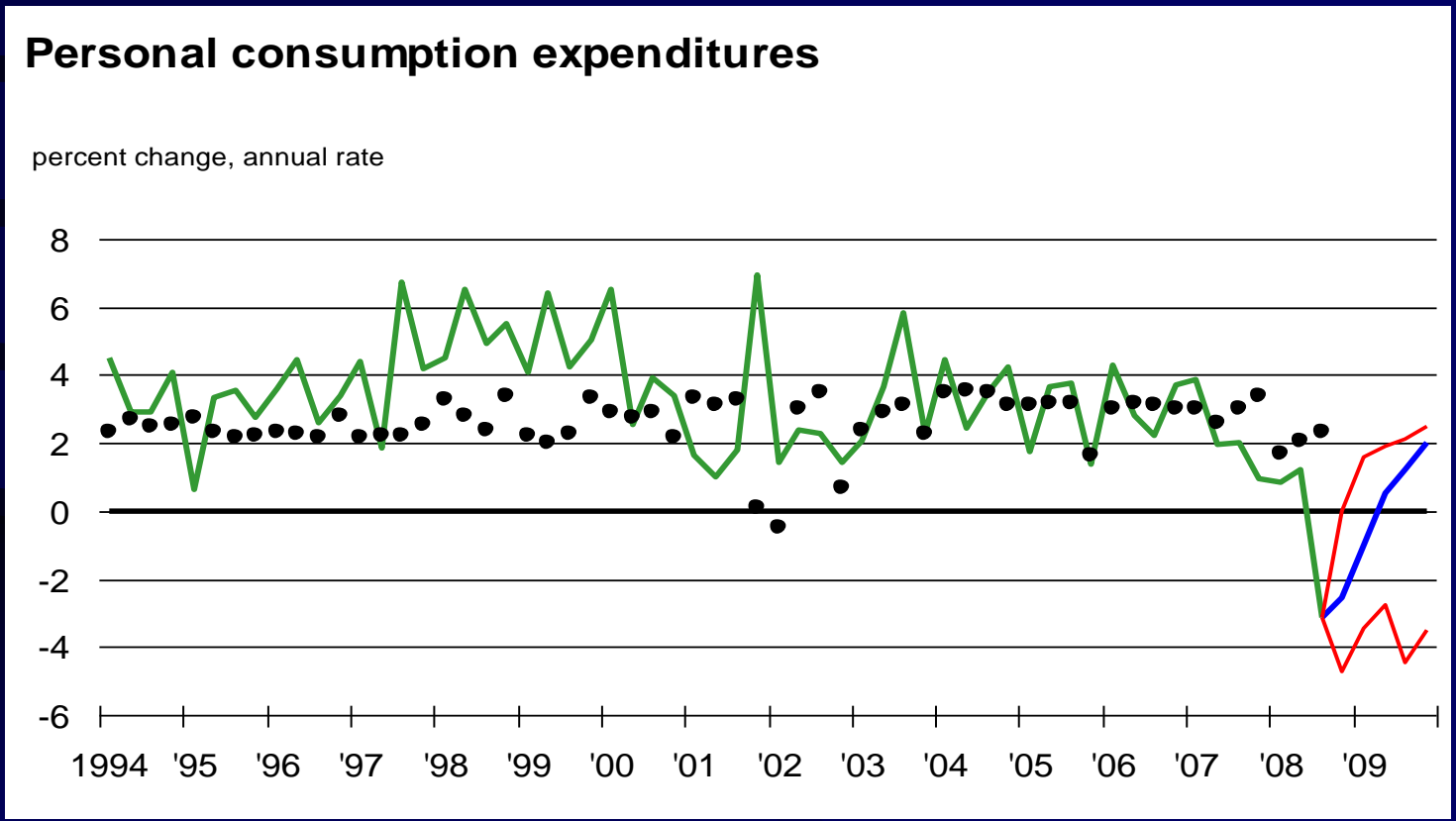




**After falling quite sharply in the third quarter of this year, industrial output growth is forecast to continue to decline through the first half of 2009, but at a slowing pace, and then improve in the second half of next year**

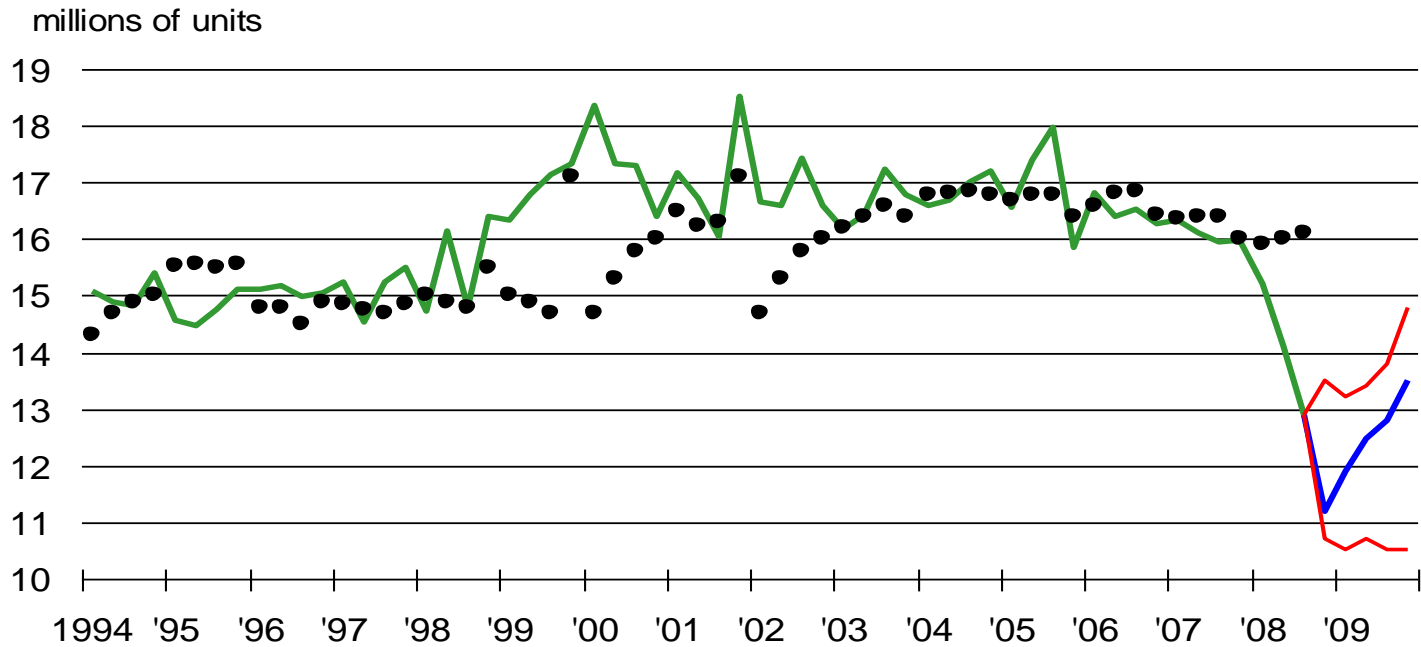


**Consumer spending growth is also expected to have a weak first half of next year, and then turn positive in the second half of 2009**

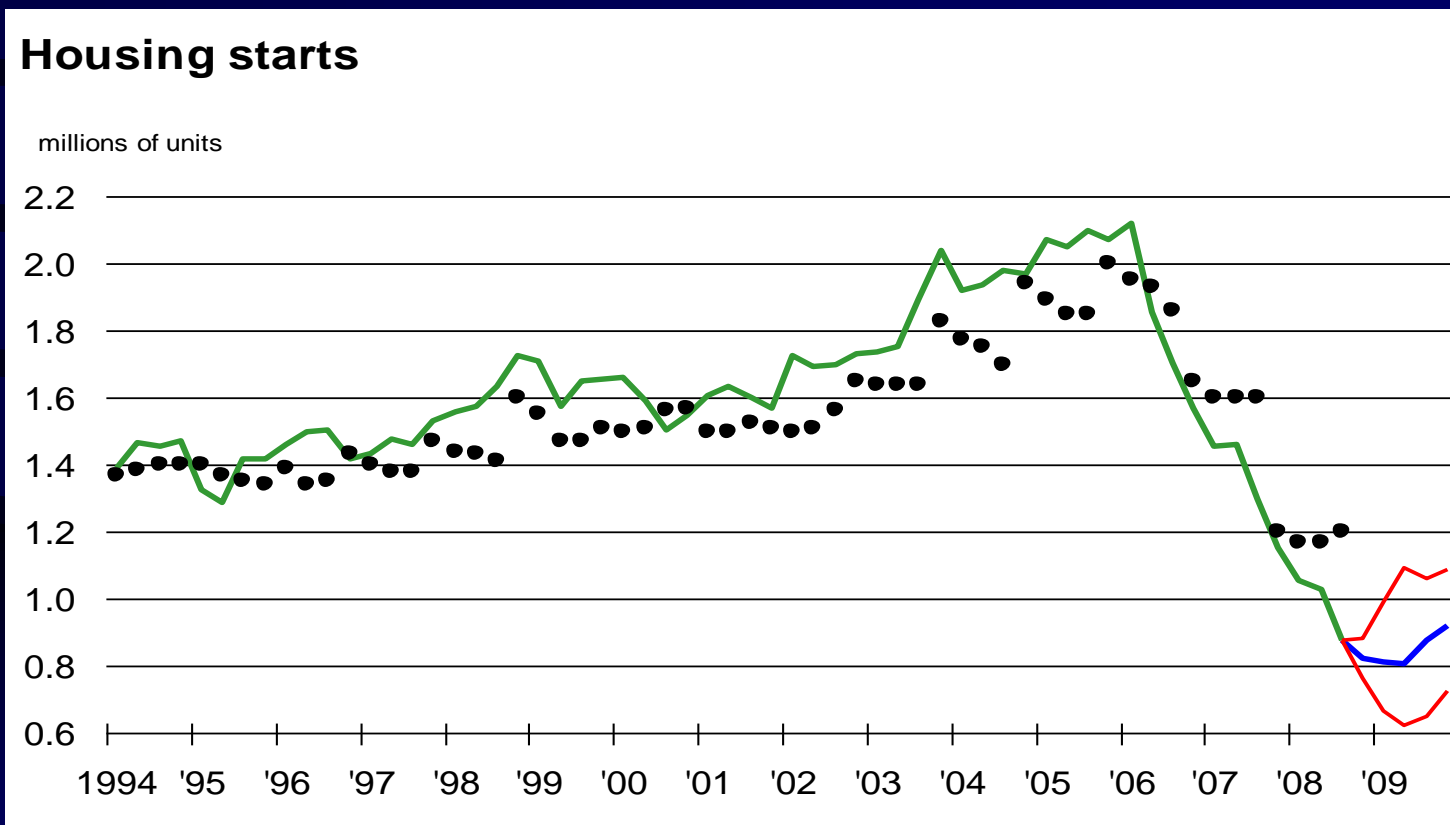


**Vehicle sales are forecast to average  
12.7 million units during next year,  
the slowest selling pace since 1991**

### Car and light truck sales



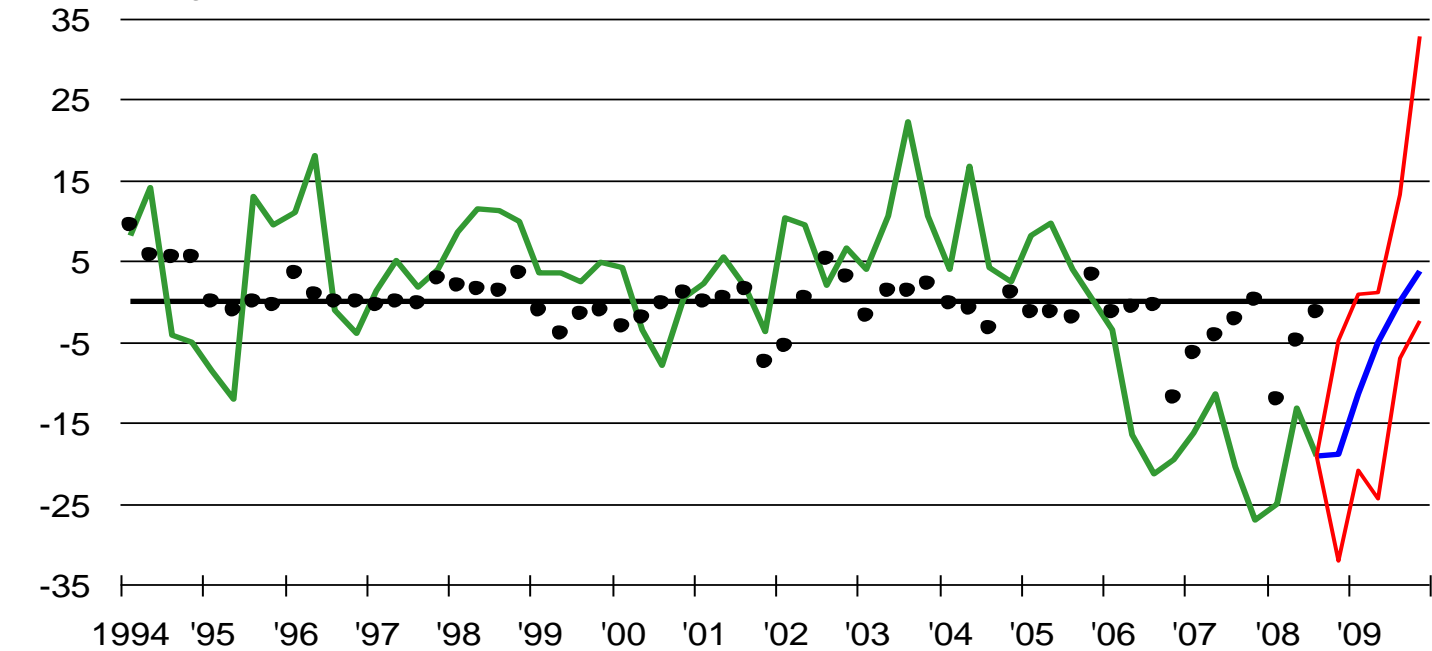
**Housing starts are forecast to remain very soft,  
with activity at its slowest pace  
since the data began to be collected in 1959  
However, starts are expected to  
bottom in the second quarter of next year**



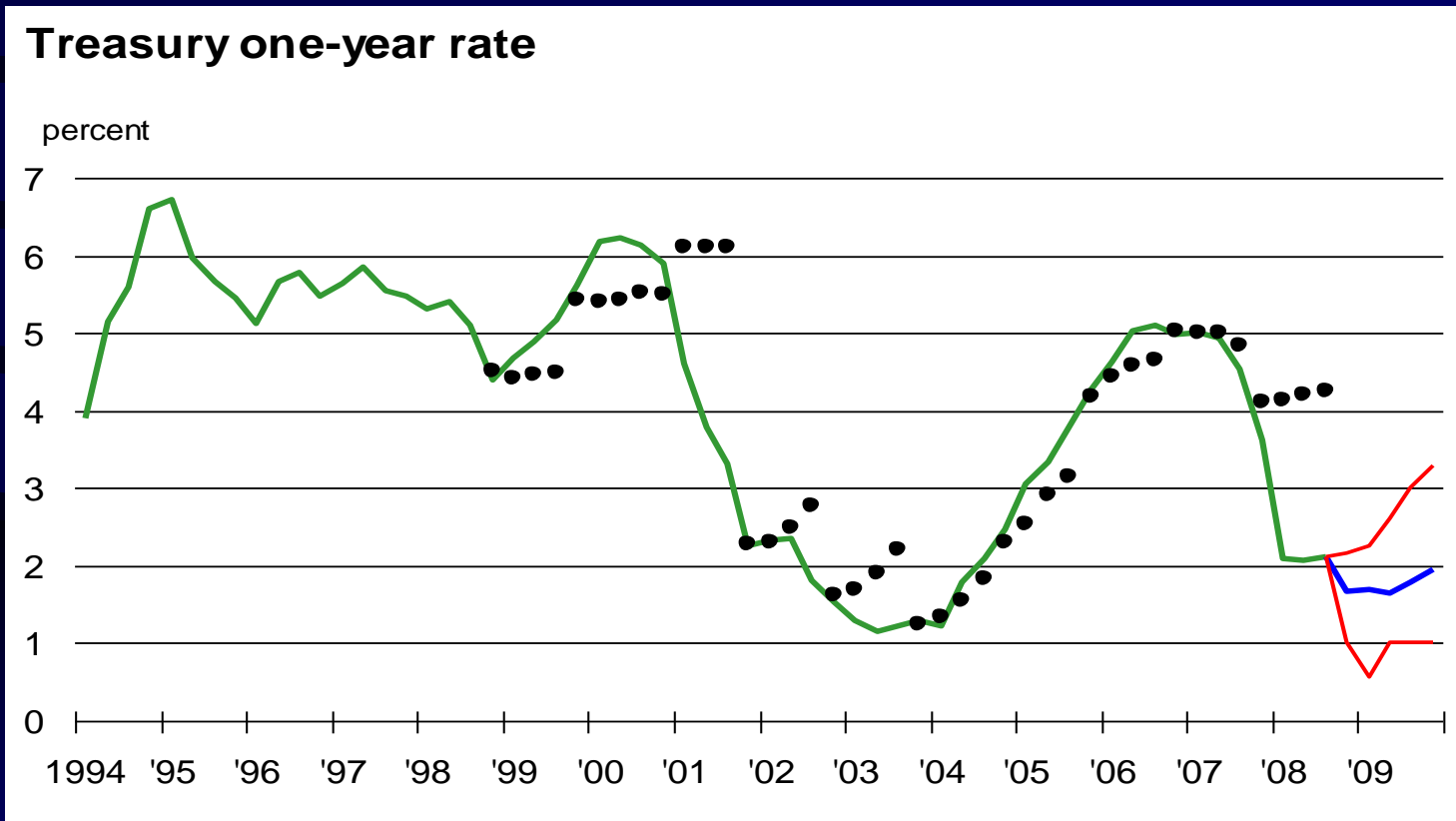
# The drag from residential investment is expected to abate at the end of next year

## Residential investment

percent change, annual rate



# Short-term interest rates are predicted to edge lower through most of next year

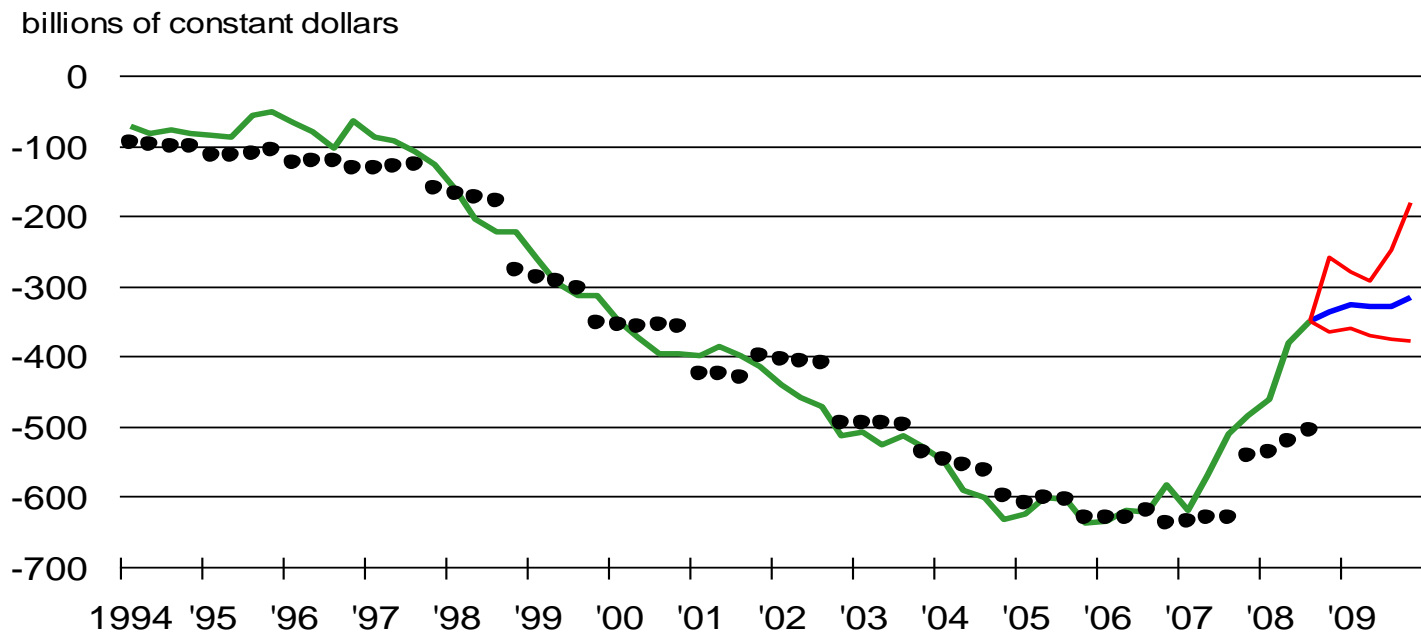


# Ten-year interest rates are expected to edge higher



# The trade balance is forecast to continue to improve, although at a slower rate

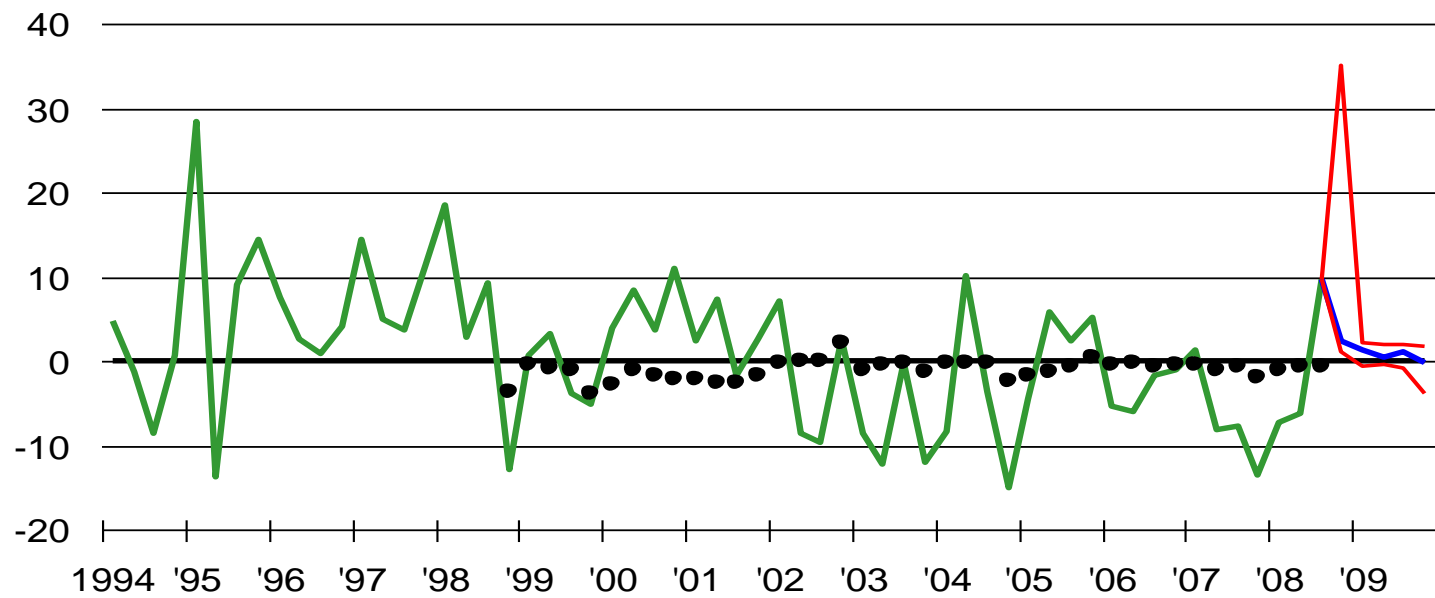
## Net exports of goods and services



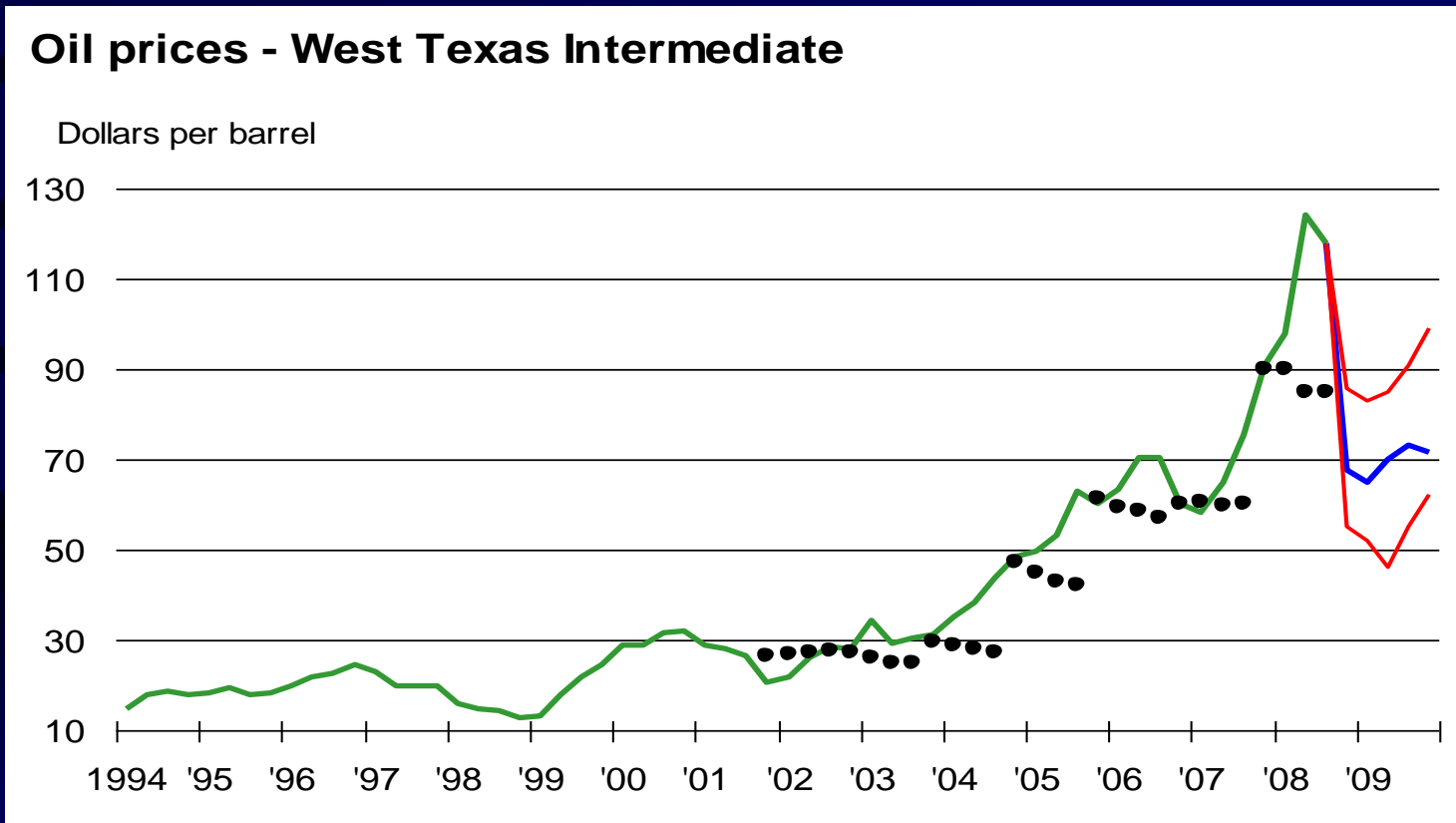


# The dollar is forecast increase somewhat

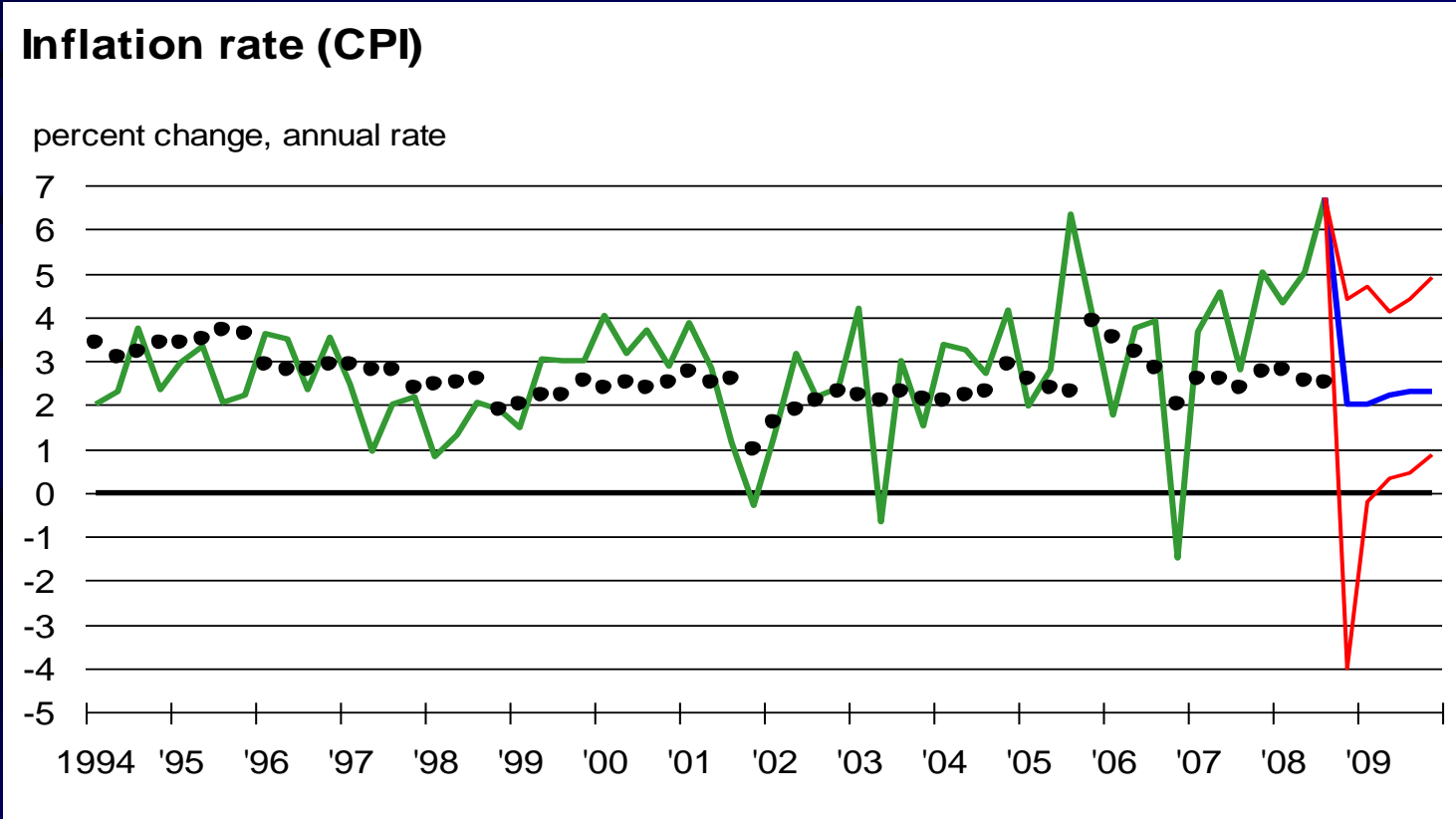
J.P. Morgan trade weighted dollar



**Oil prices are predicted to remain around \$70.00 per barrel**



# Inflation is forecast to bottom at 2.0% in early 2009, and then edge a bit higher



# Summary

- **The economic recession will continue into the first half of 2009, making this one of the longest recessions since the early 1980s. Growth towards the end of next year will still be below trend**
- **With economic growth well below potential, the unemployment rate is expected to continue rising**
- **Inflation is anticipated to remain fairly stable at 2.0%**
- **Most key GDP components are predicted to decline in the first half of the year, but then grow at a slow pace in the second half of 2009**
- **Light vehicle sales are forecast to average a very low 12.7 million units**
- **Housing starts are expected to bottom mid-year**
- **[www.chicagofed.org](http://www.chicagofed.org)**