

23RD ANNUAL

ECONOMIC OUTLOOK SYMPOSIUM



F R I D A Y , D E C E M B E R 4 , 2 0 0 9

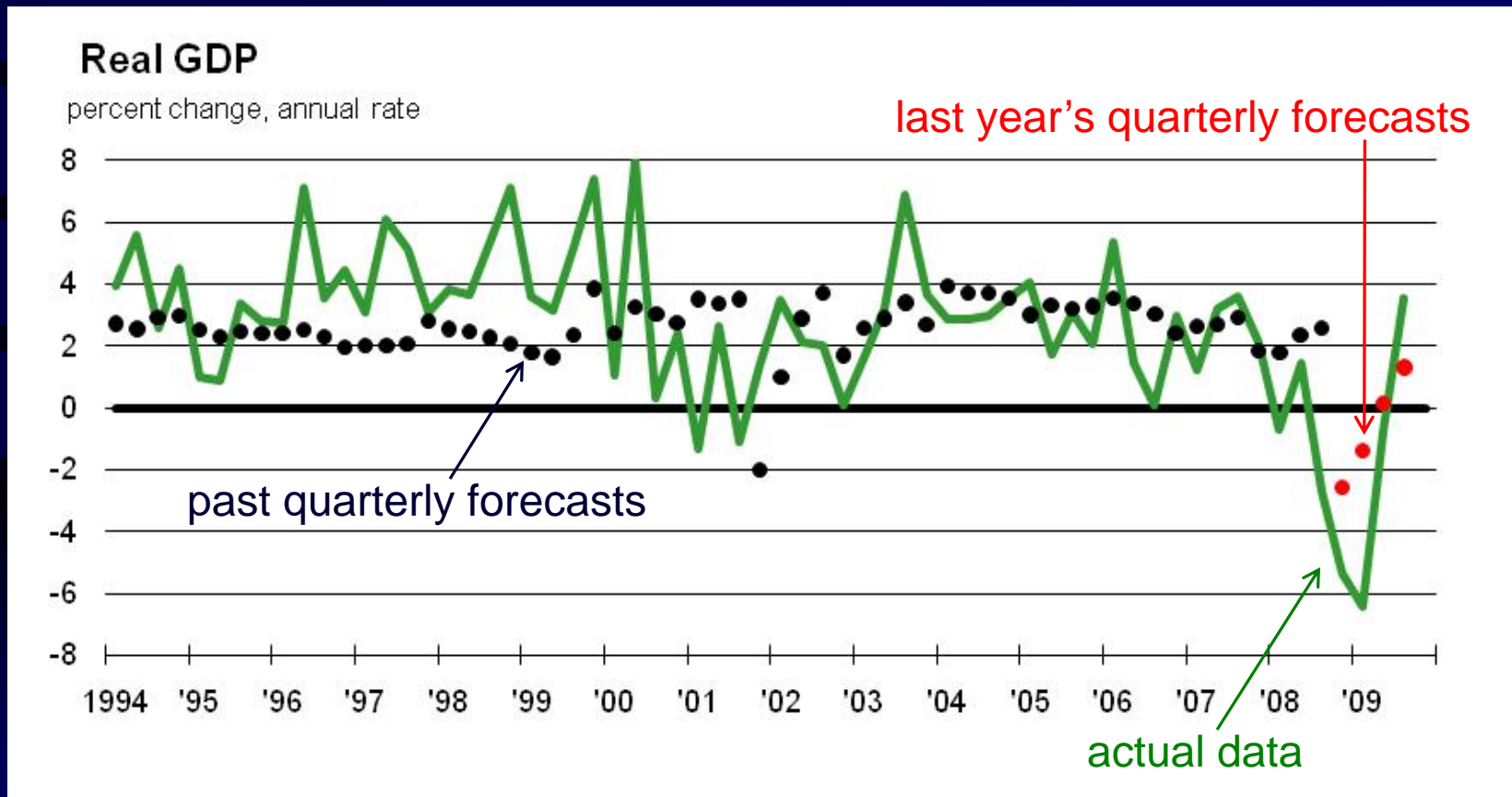
Consensus Forecast for 2010

William Strauss

Senior Economist and Economic Advisor
Federal Reserve Bank of Chicago

Review of past performance

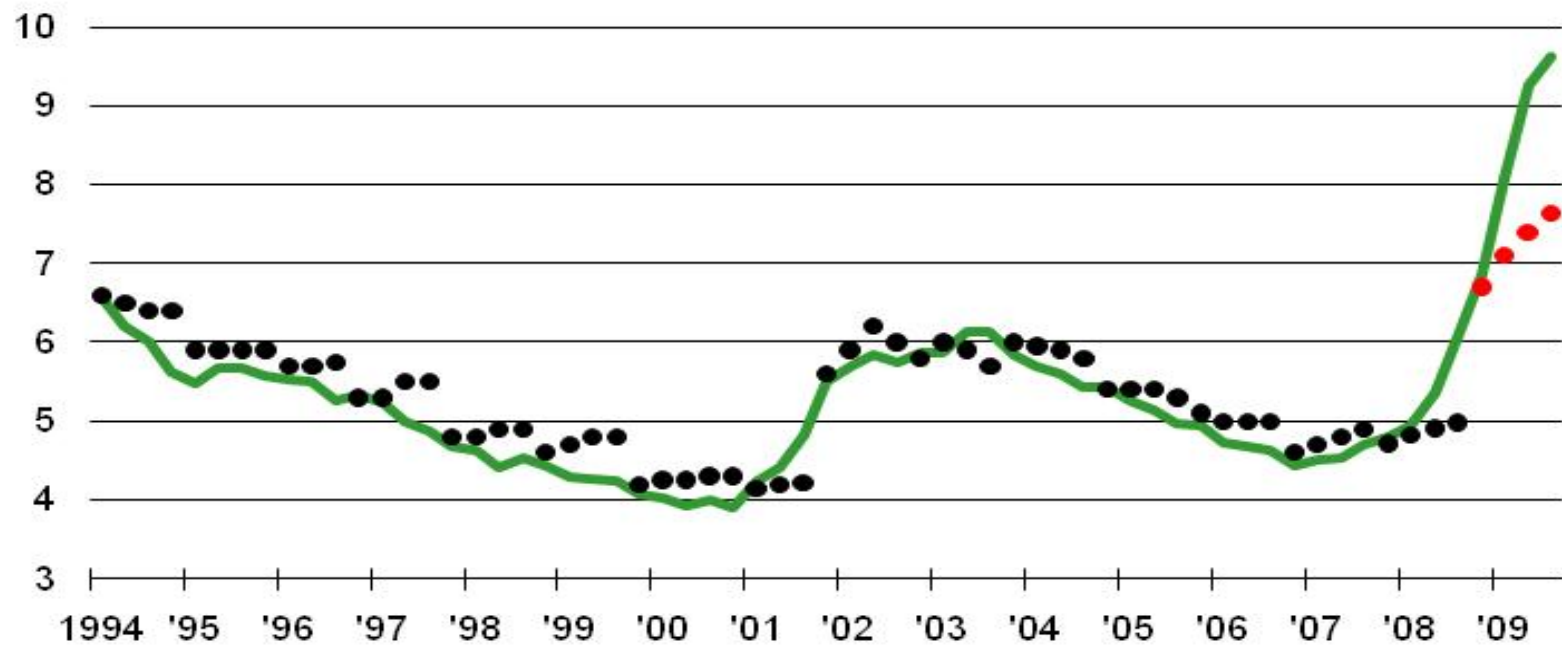
The decline in Real GDP was larger than anticipated



This lead to an under-prediction of the unemployment rate

Unemployment rate

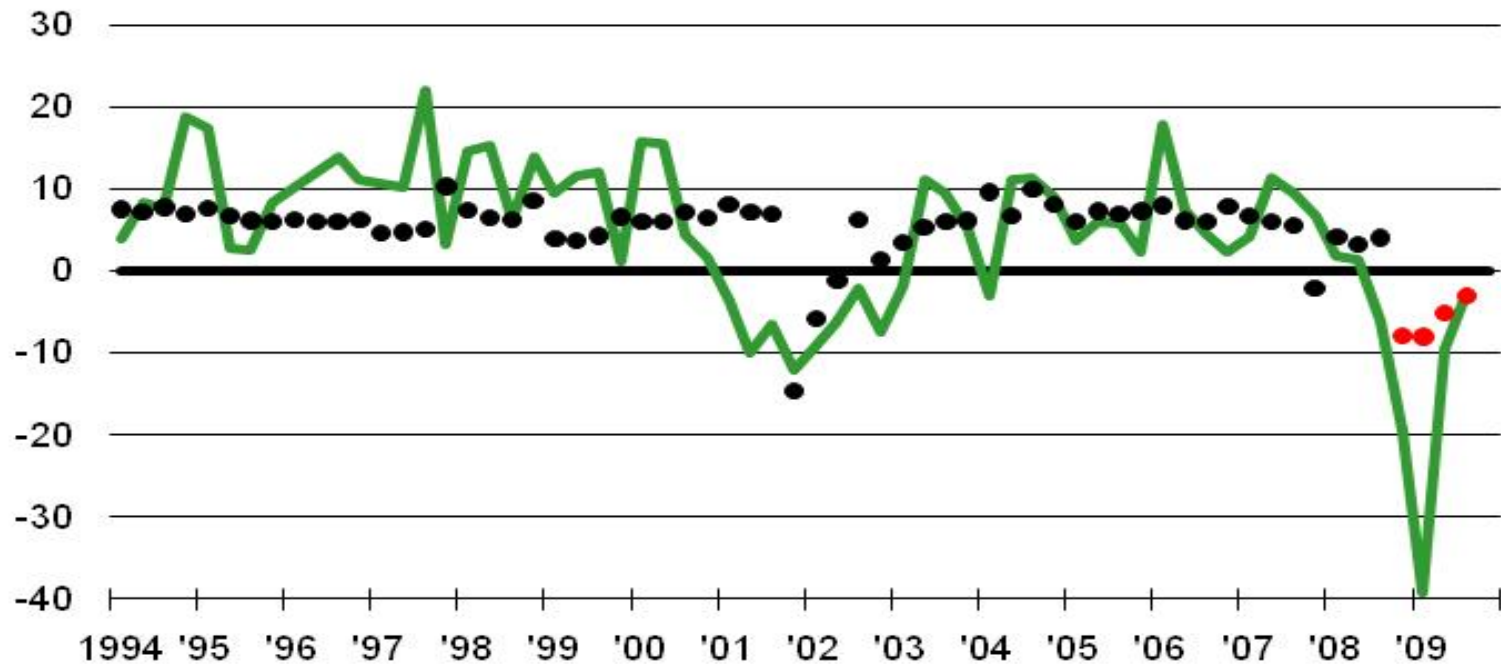
percent



Business investment growth fell at a more significant pace than predicted

Business fixed investment

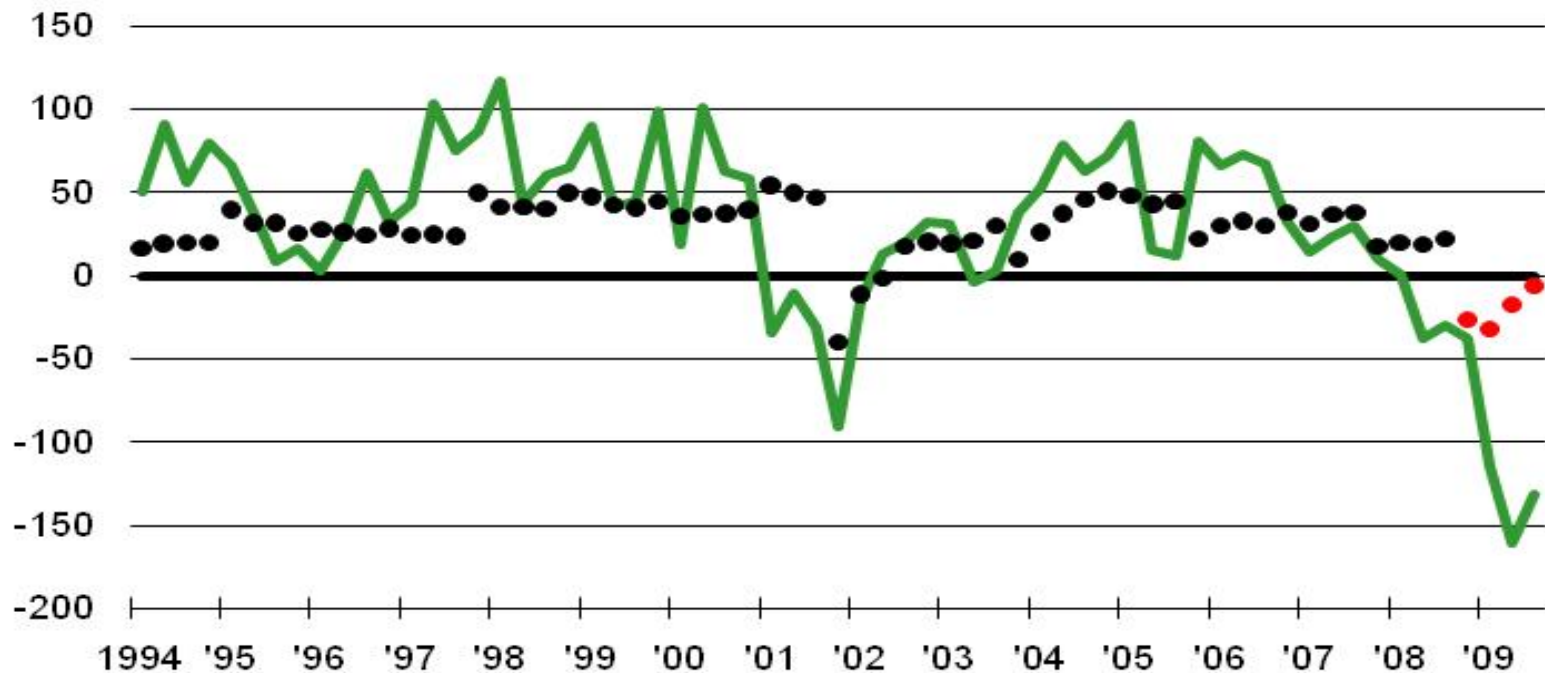
percent change, annual rate



The inventory destocking was even larger than forecast

Change in private inventories

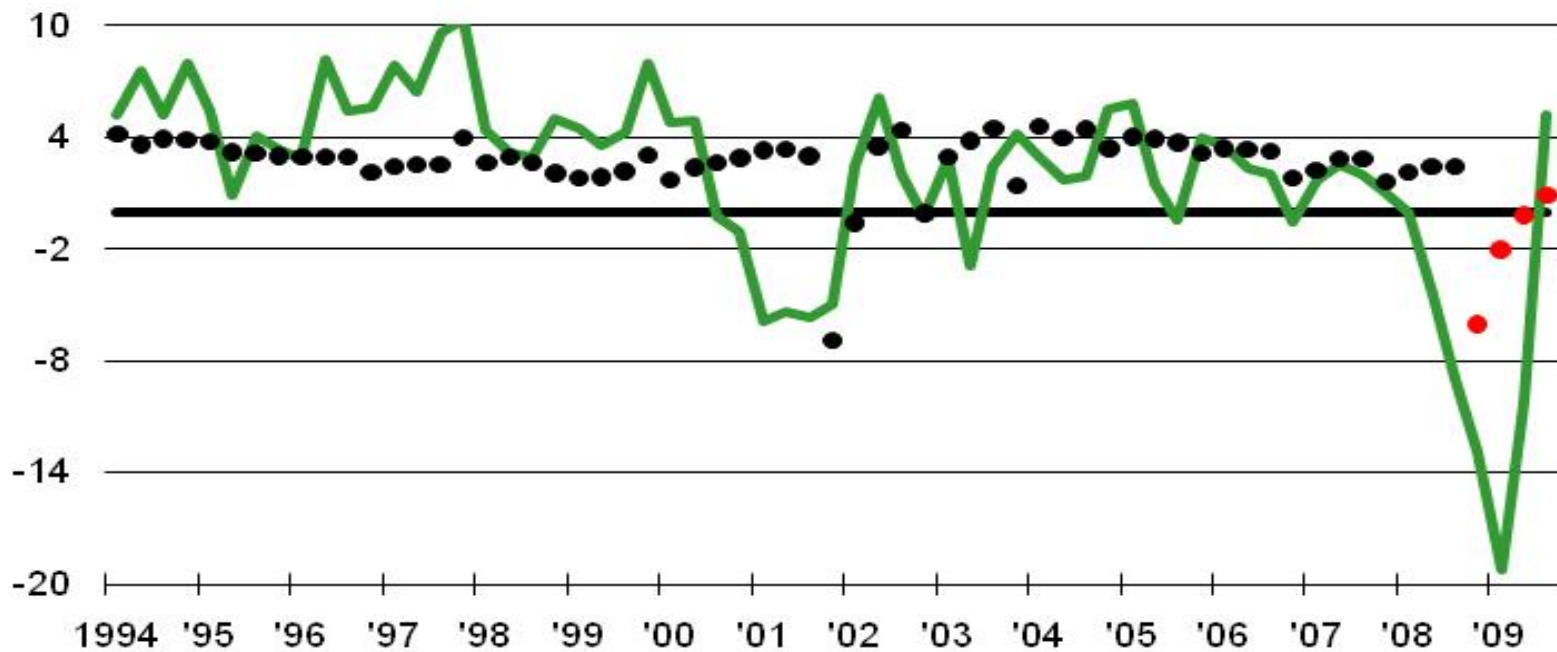
billions of constant dollars



The industrial sector was also much weaker than expected

Industrial production

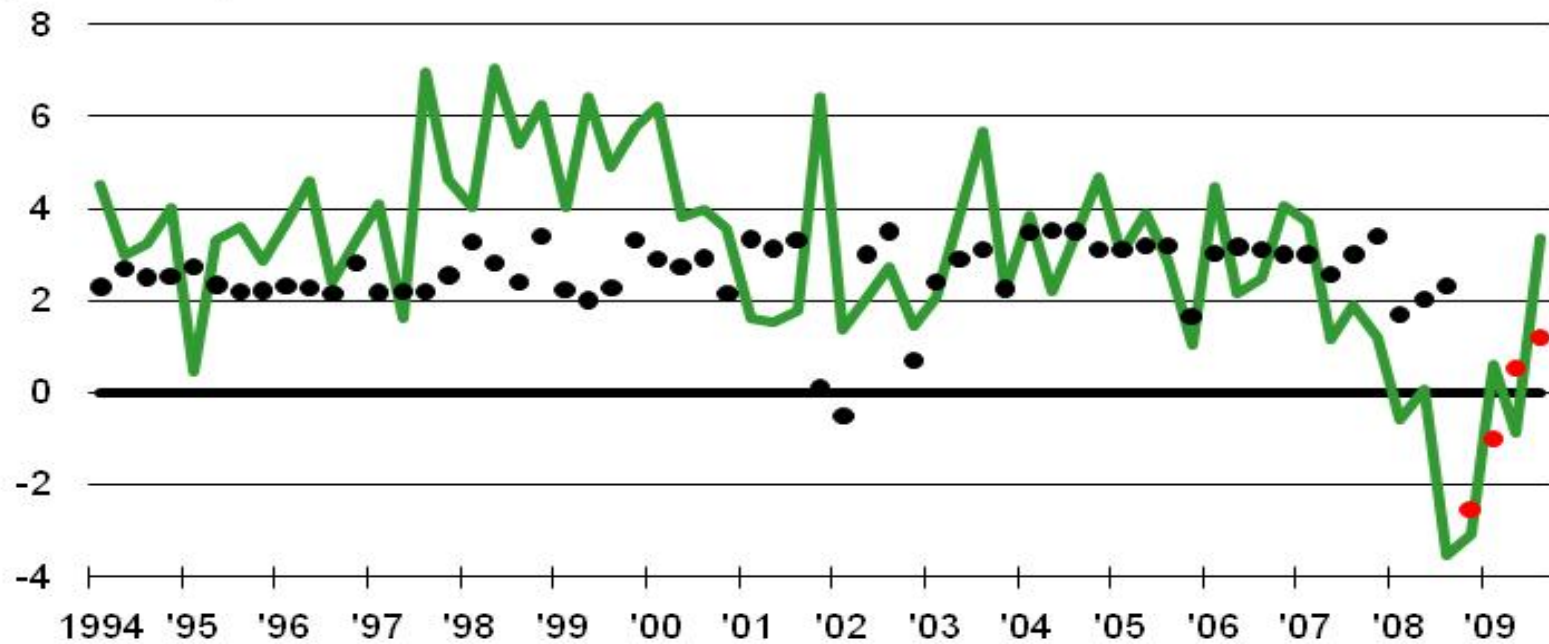
percent change, annual rate



Consumer spending predictions were In line with actual expenditures

Personal consumption expenditures

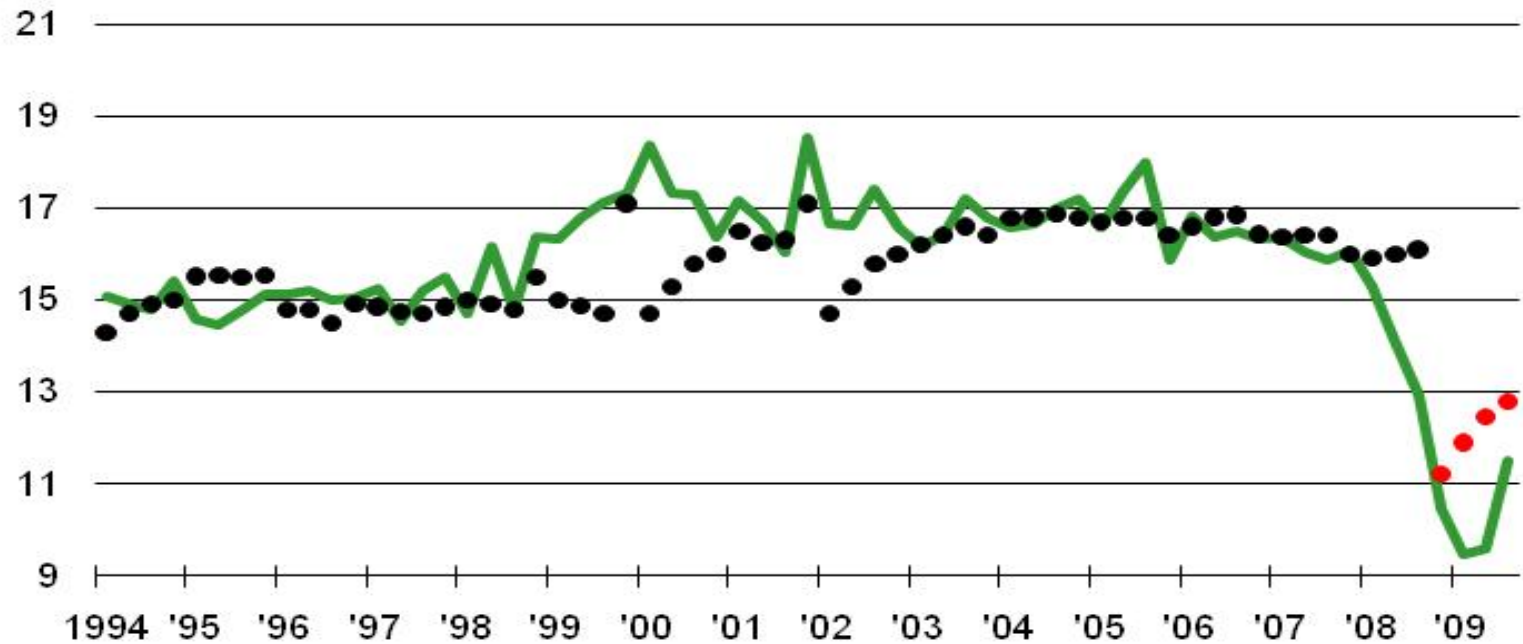
percent change, annual rate



Yet, light vehicle sales were lower than predicted

Car and light truck sales

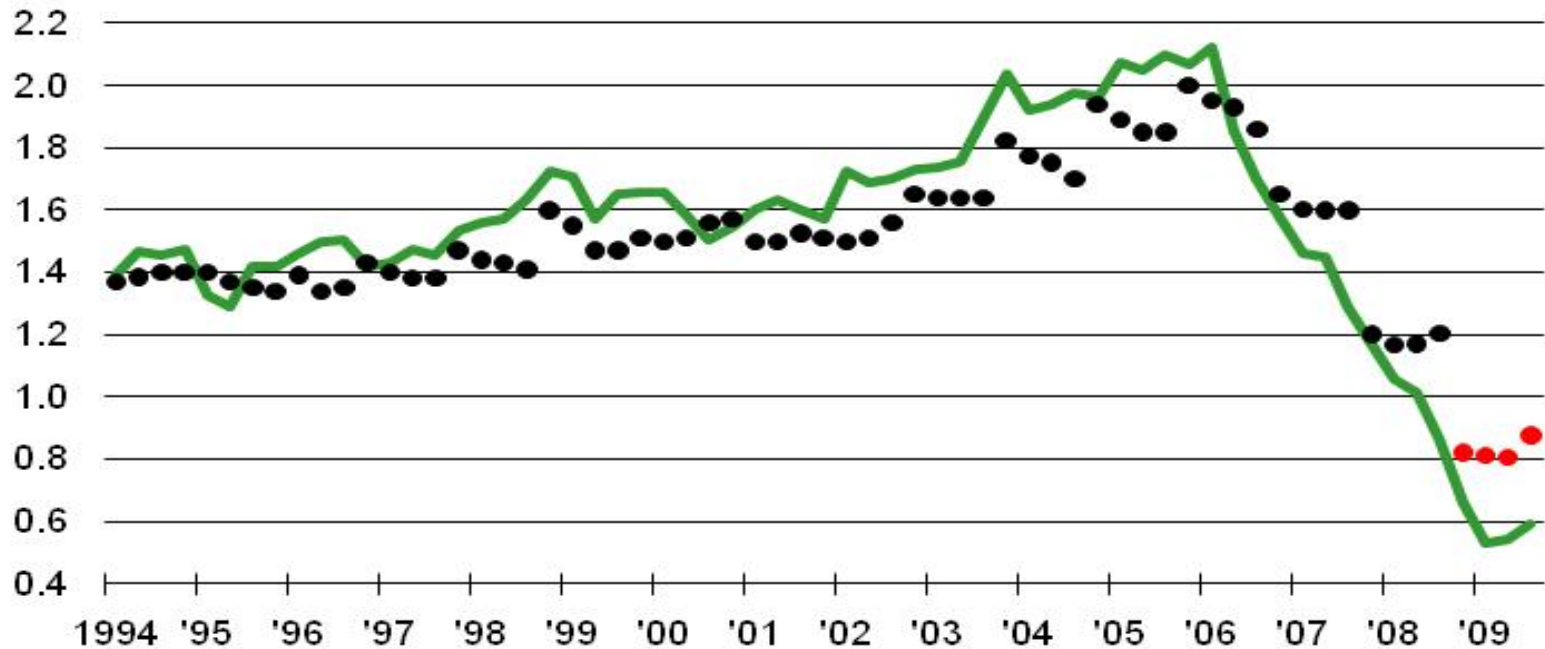
millions of units



While housing starts were weaker than anticipated, the improvement that was forecast appears to be underway

Housing starts

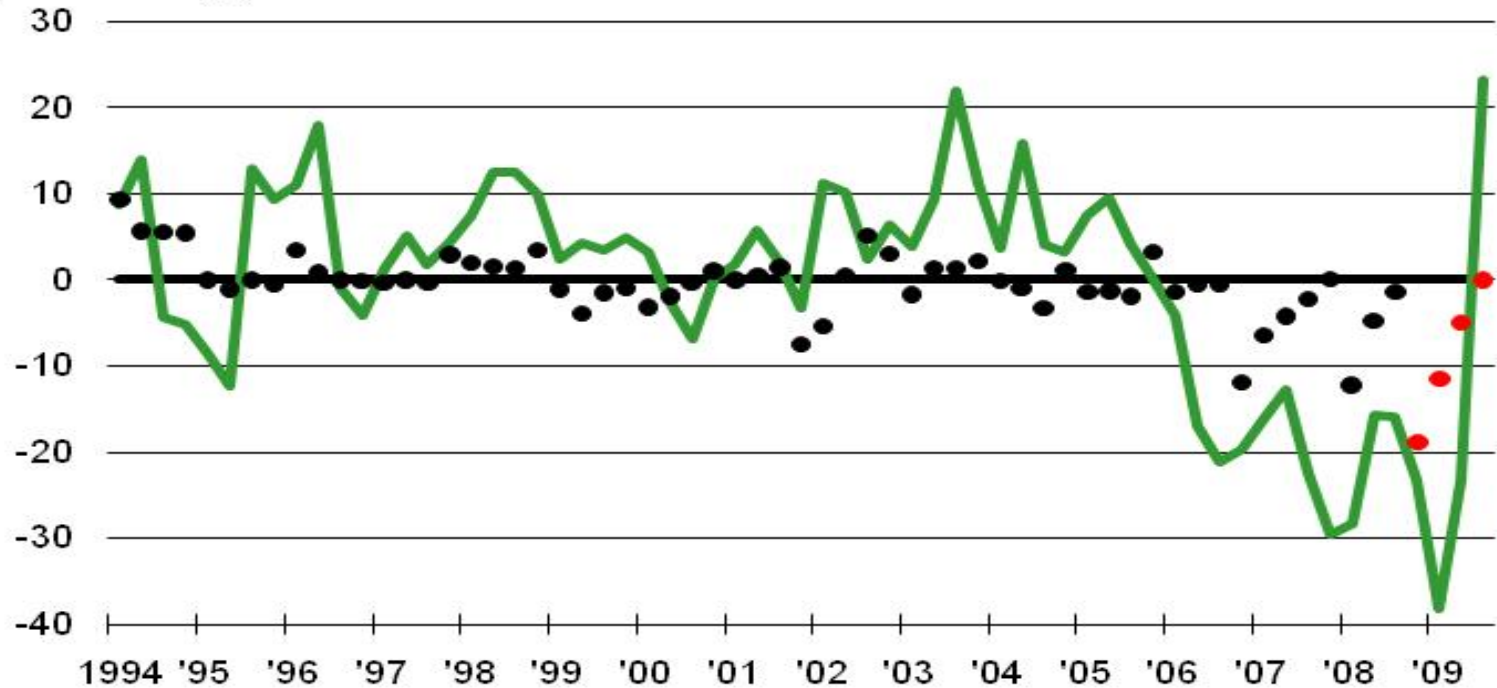
millions of units



The same pattern holds for residential investment

Residential investment

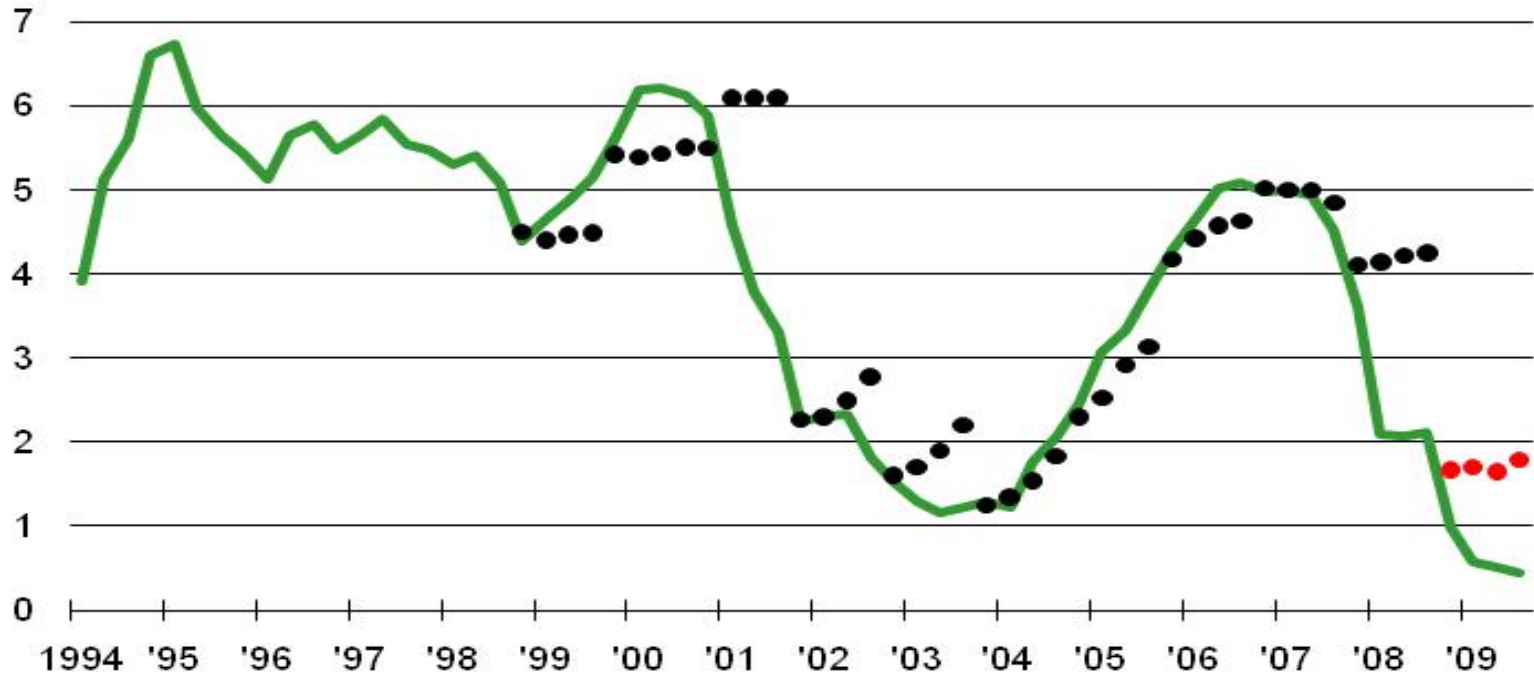
percent change, annual rate



Short-term interest rates were expected to be flat, but actually fell to very low levels

Treasury one-year rate

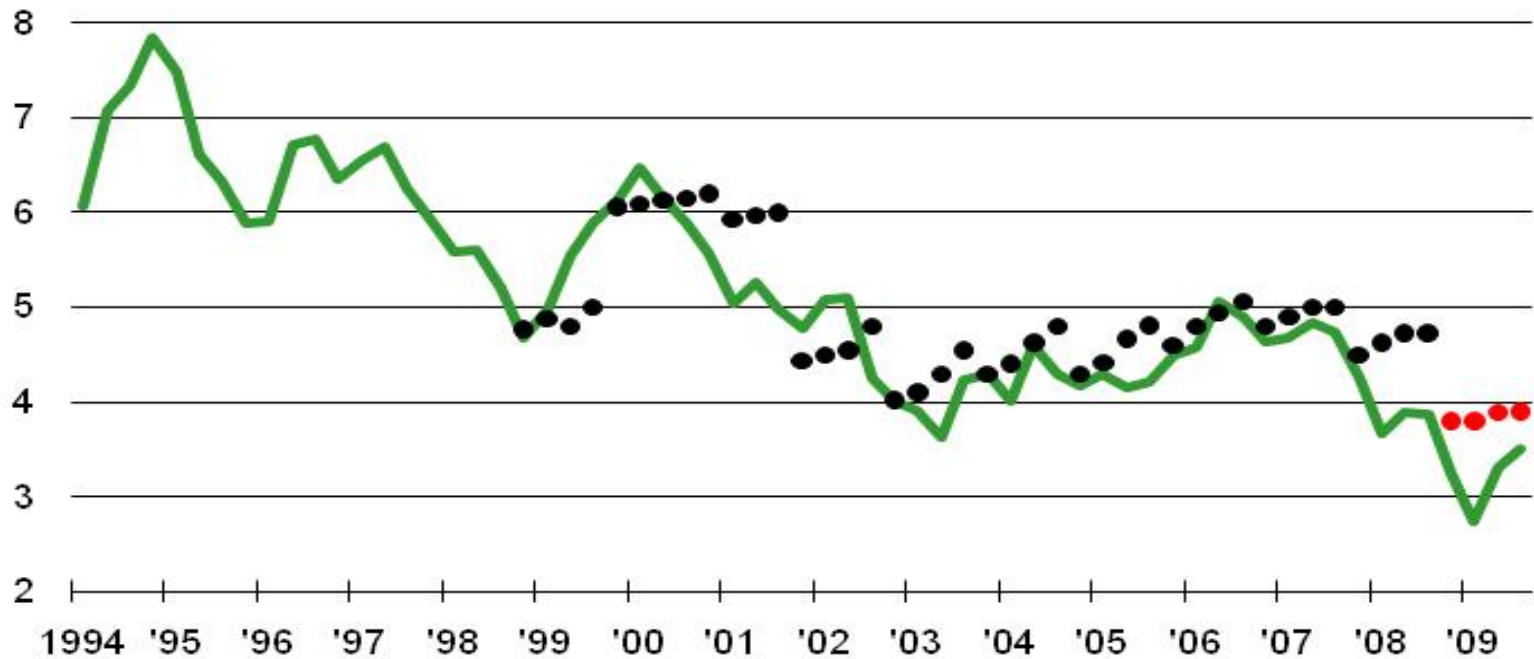
percent



Long-term interest rates were also lower than expected

Treasury ten-year rate

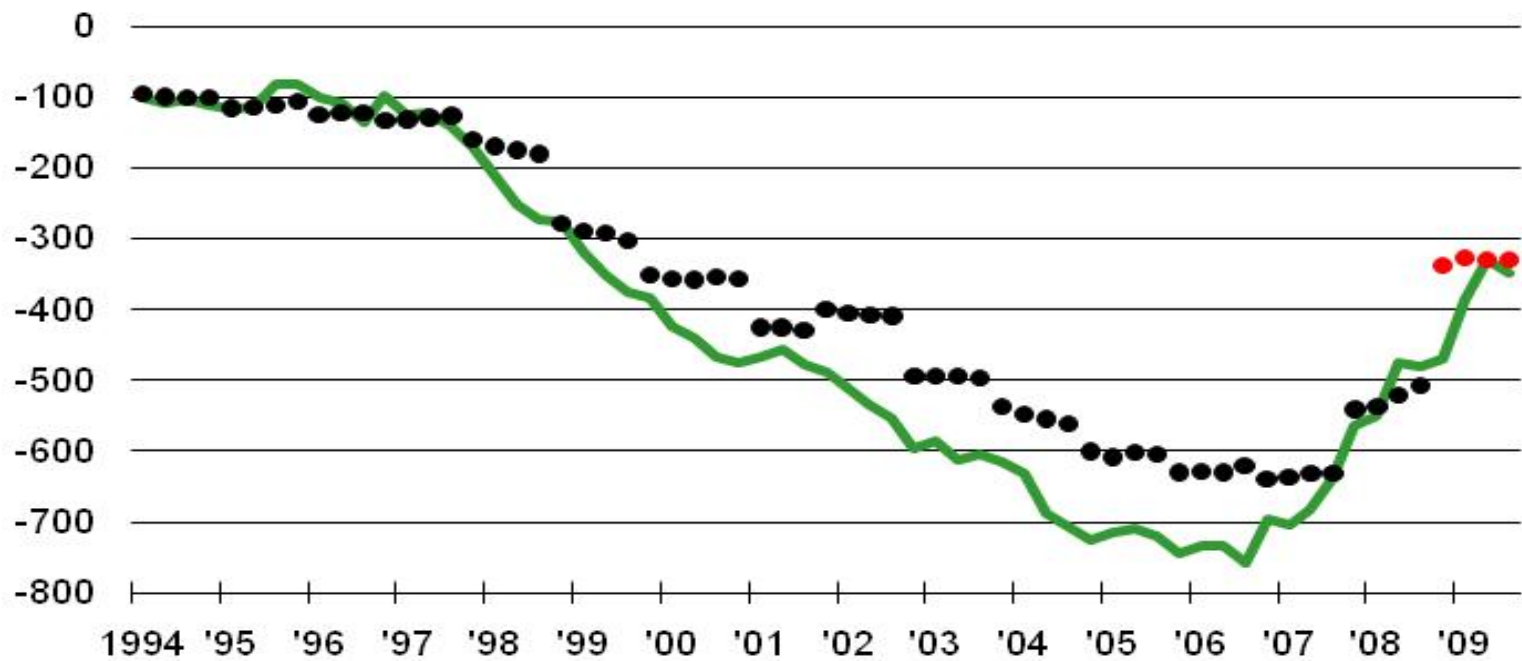
percent



The trade deficit was close to what was expected

Net exports of goods and services

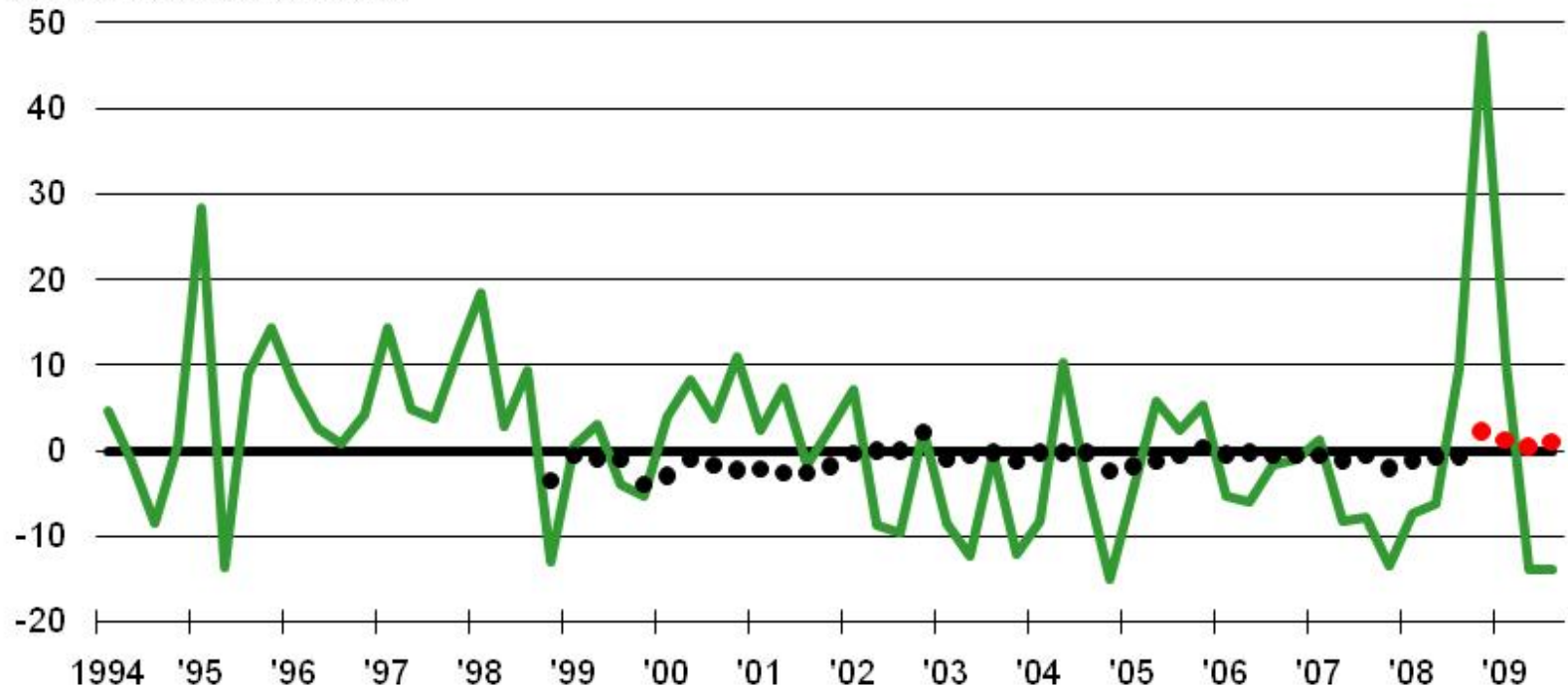
billions of constant dollars



**The dollar was predicted to rise by 5%
and outside of huge volatility, it rose by 5%**

J.P. Morgan trade weighted dollar

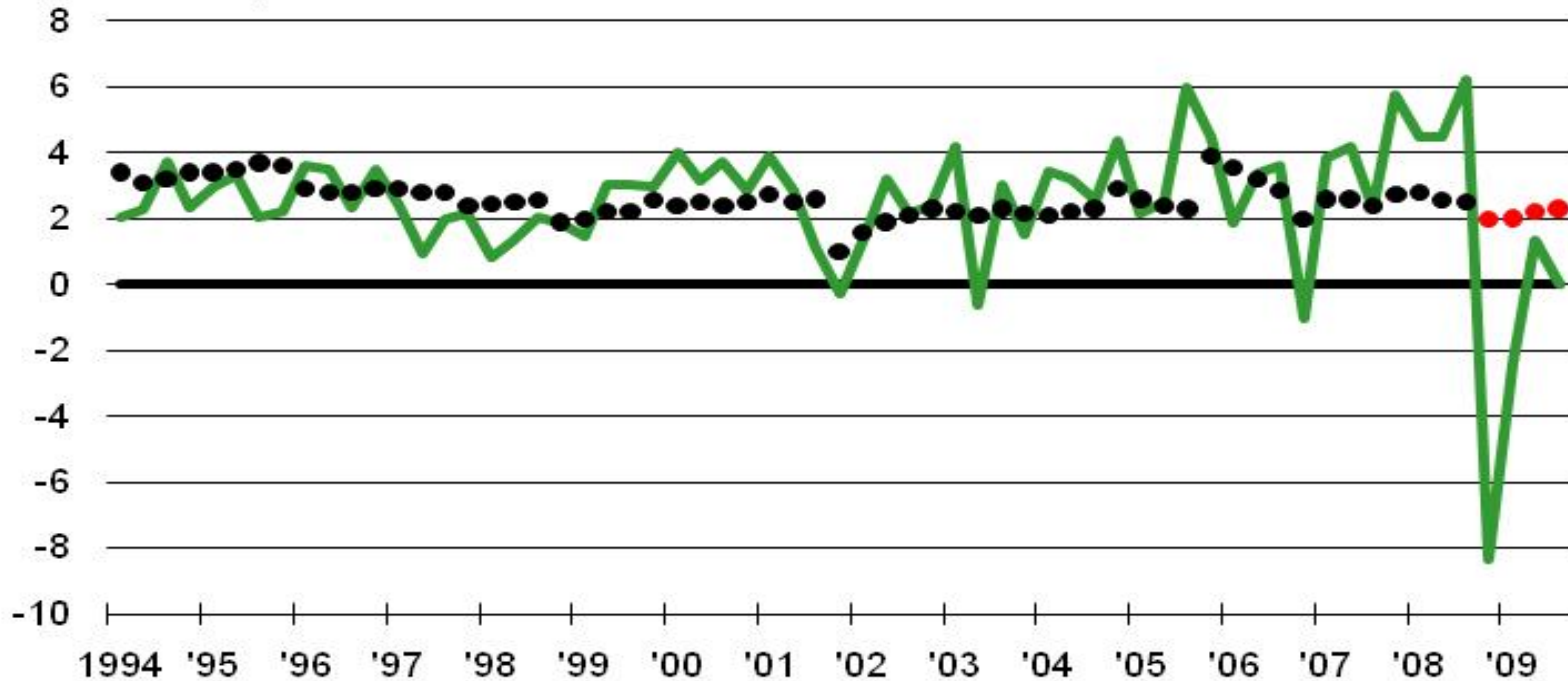
percent change, annual rate



Inflation was much lower than forecast

Inflation rate (CPI)

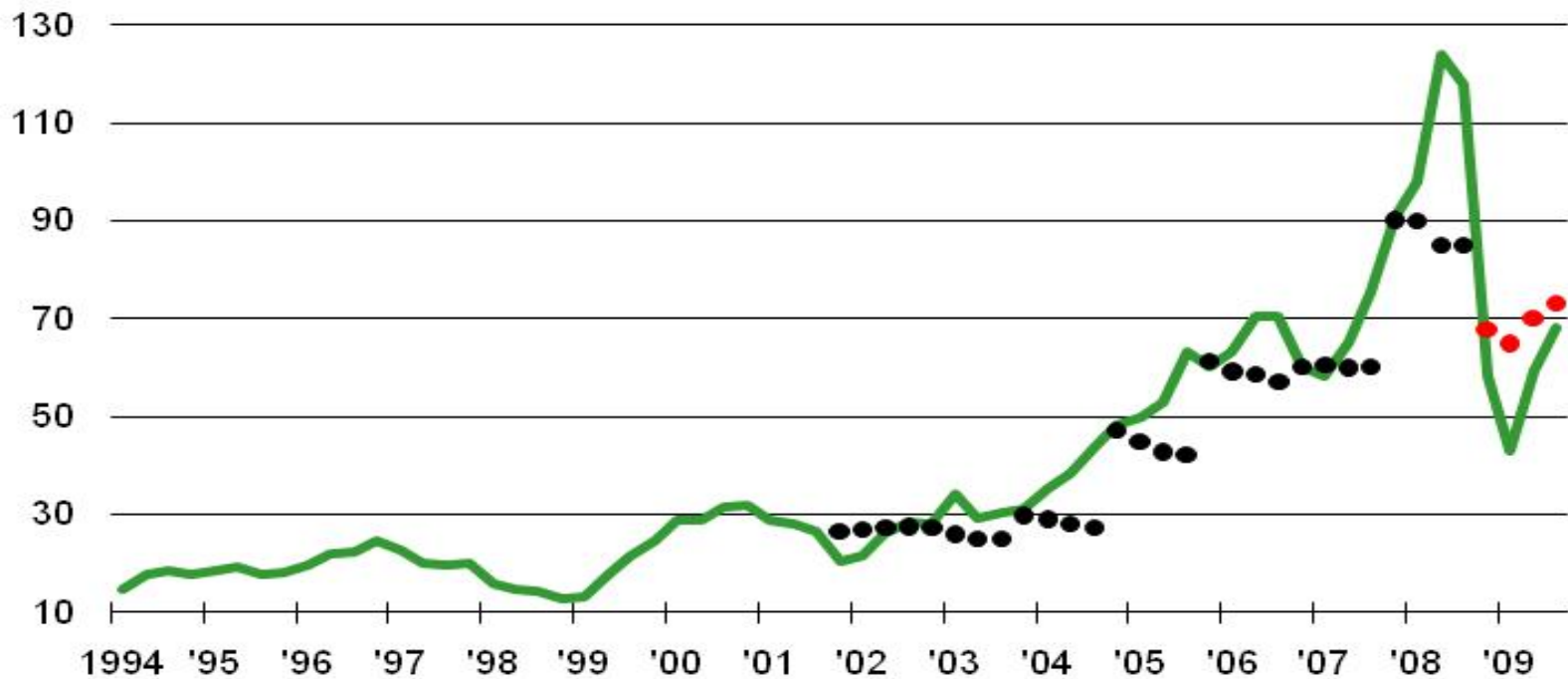
percent change, annual rate



**In part due to oil prices
coming in lower than expected**

Oil prices - West Texas Intermediate

Dollars per barrel



Forecast for 2010

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

	2008	2009	2010
GDP, current dollars*	0.1%	0.5%	4.3%
GDP price index, chain-type*	1.9%	0.9%	1.2%
Real GDP, chained dollars*	-1.9%	-0.4%	2.5%
Personal consumption expenditures*	-1.8%	1.0%	2.0%
Business fixed investment*	-6.0%	-14.8%	3.5%
Residential investment*	-21.0%	-11.8%	11.4%
Change in private inventories (billions of constant dollars)**	-\$37.4	-\$66.9	\$25.0
Net exports of goods and services (billions of constant dollars)**	-\$470.9	-\$355.0	-\$375.0
Government consumption expenditures and gross investment*	3.1%	2.0%	1.4%

*Q4 over Q4

**Q4 value

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

	2008	2009	2010
Industrial production*	-6.7%	-5.5%	4.0%
Car & light truck sales (millions - calendar year including imports)***	13.2	10.2	11.4
Housing starts (millions)***	0.90	0.57	0.74
Oil price (dollars per barrel of West Texas Intermediate)**	\$58.37	\$77.50	\$82.51
Unemployment rate**	6.9%	10.1%	9.8%
Inflation rate (consumer price index)*	1.5%	1.2%	2.2%
Treasury constant maturity one-year rate**	0.99%	0.45%	1.20%
Treasury constant maturity ten-year rate**	3.25%	3.41%	4.00%
J.P. Morgan trade weighted OECD dollar*	9.2%	-5.7%	-1.8%

*Q4 over Q4

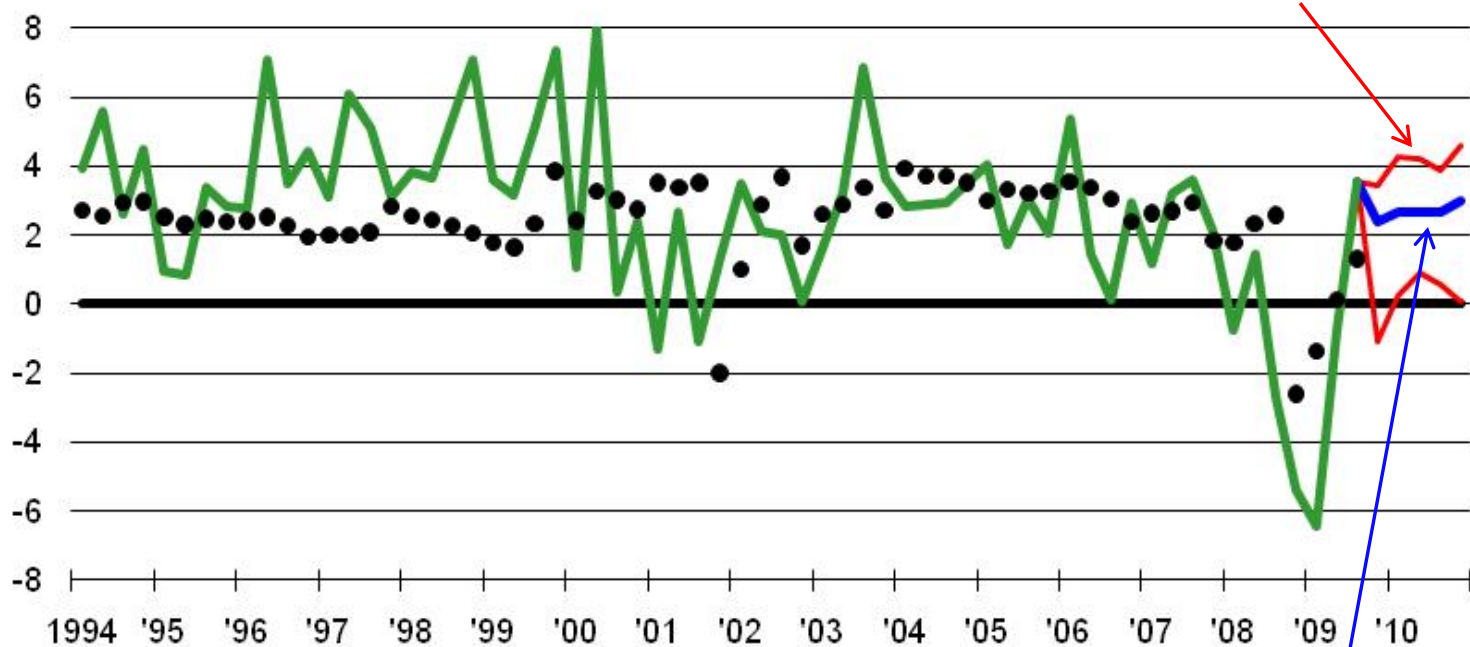
**Q4 value

***Yearly average

Real GDP growth is expected to increase by 2.5% next year

Real GDP

percent change, annual rate



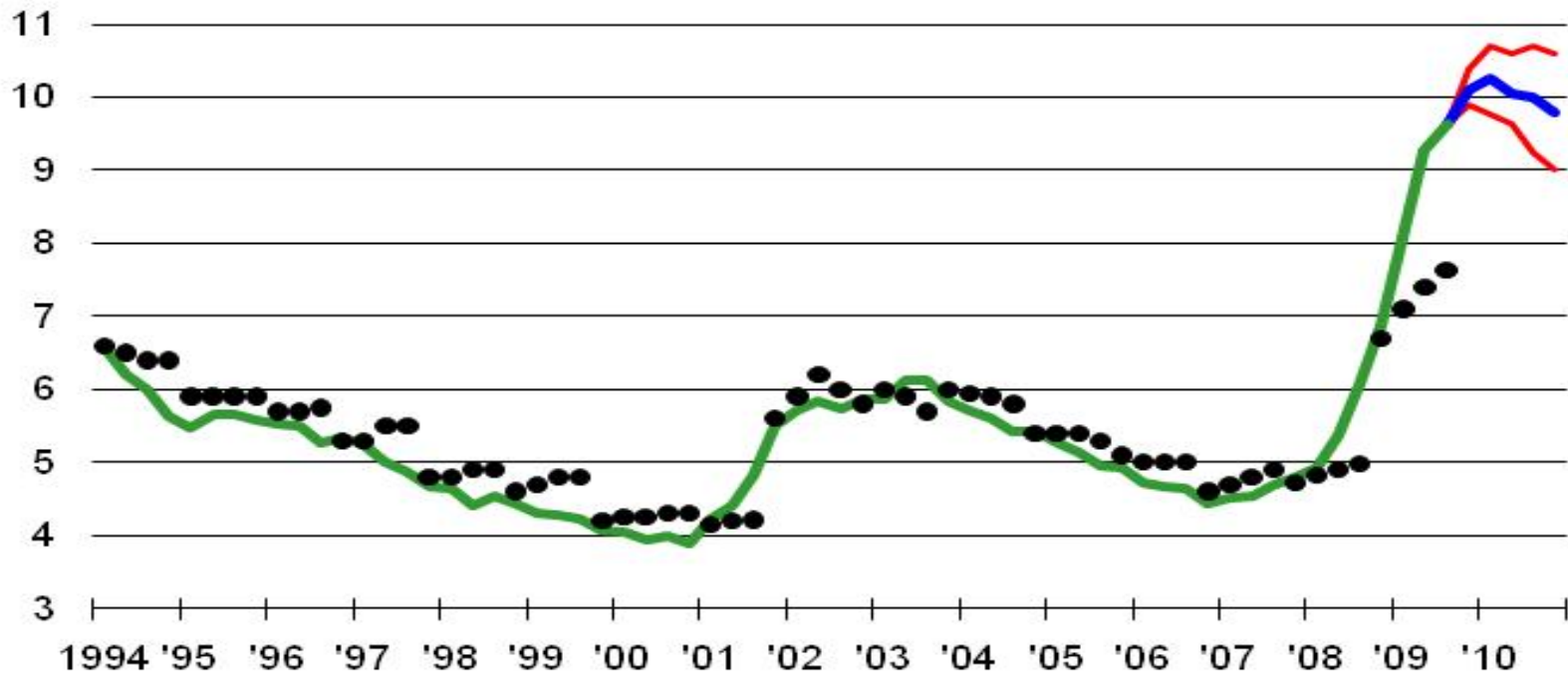
High and low forecast
(dropping the two extreme highest and lowest forecasts)

median quarterly forecast

**The unemployment rate is projected to peak
in the first quarter at 10.3%
and with economic growth running slightly above trend,
the unemployment rate is projected
to edge down to 9.8% in the final quarter of 2010**

Unemployment rate

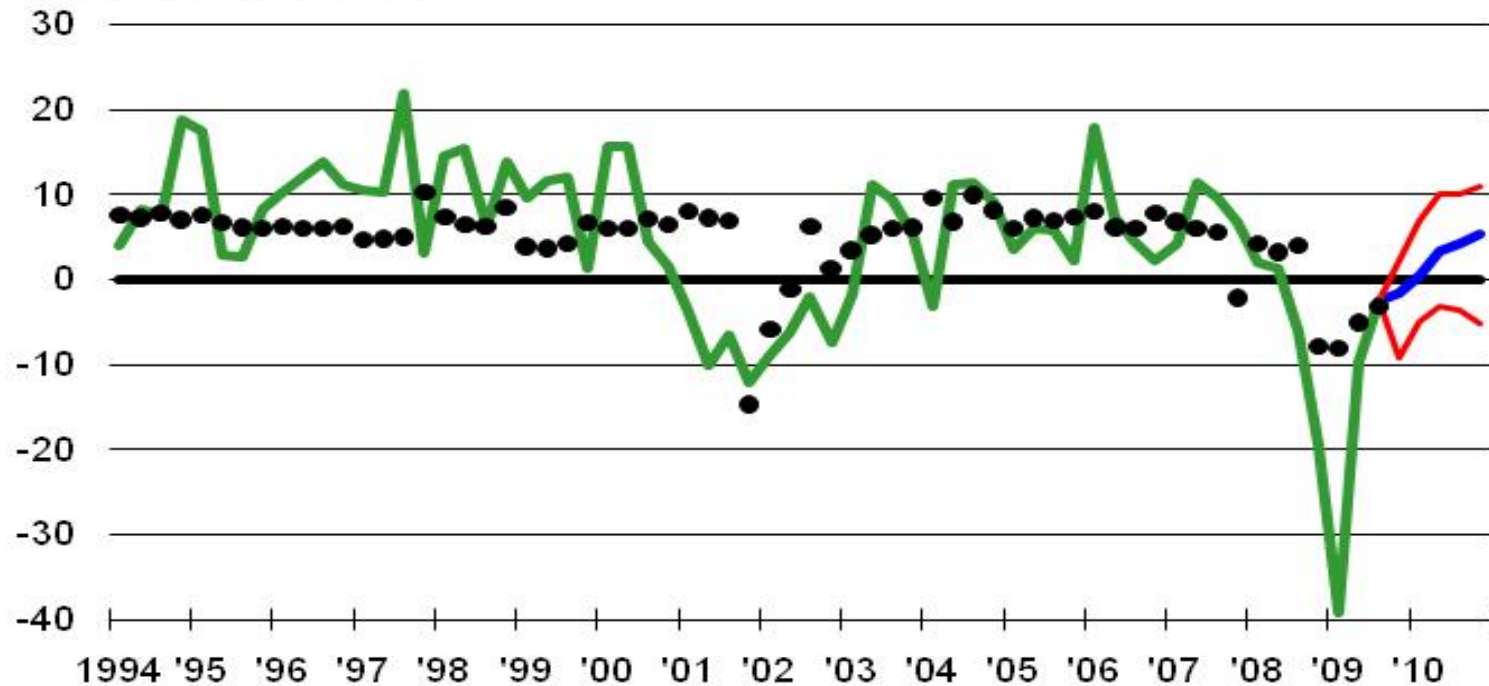
percent



Business fixed investment growth is forecast to continue to improve reaching 5.4% in the fourth quarter of 2010

Business fixed investment

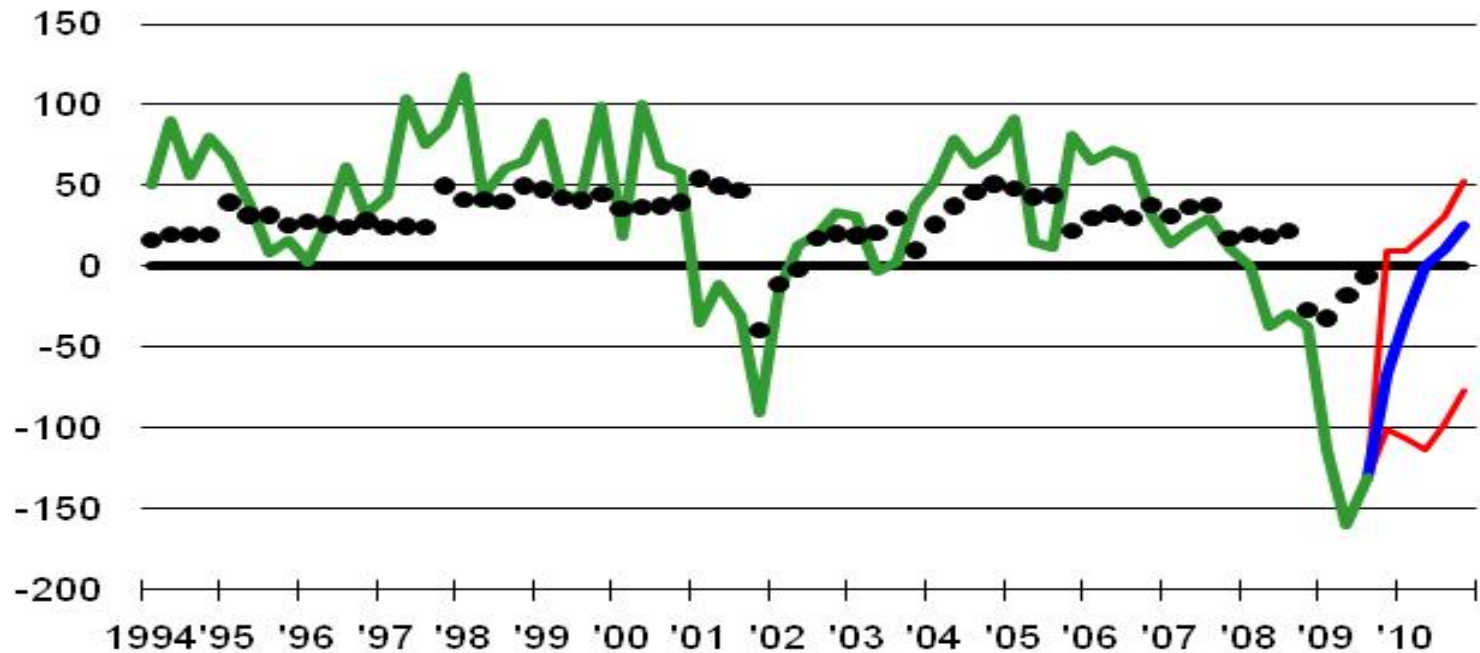
percent change, annual rate



Inventories are anticipated to continue to decline through the first half of 2010 and then increase by a moderate amount in the second half of the year

Change in private inventories

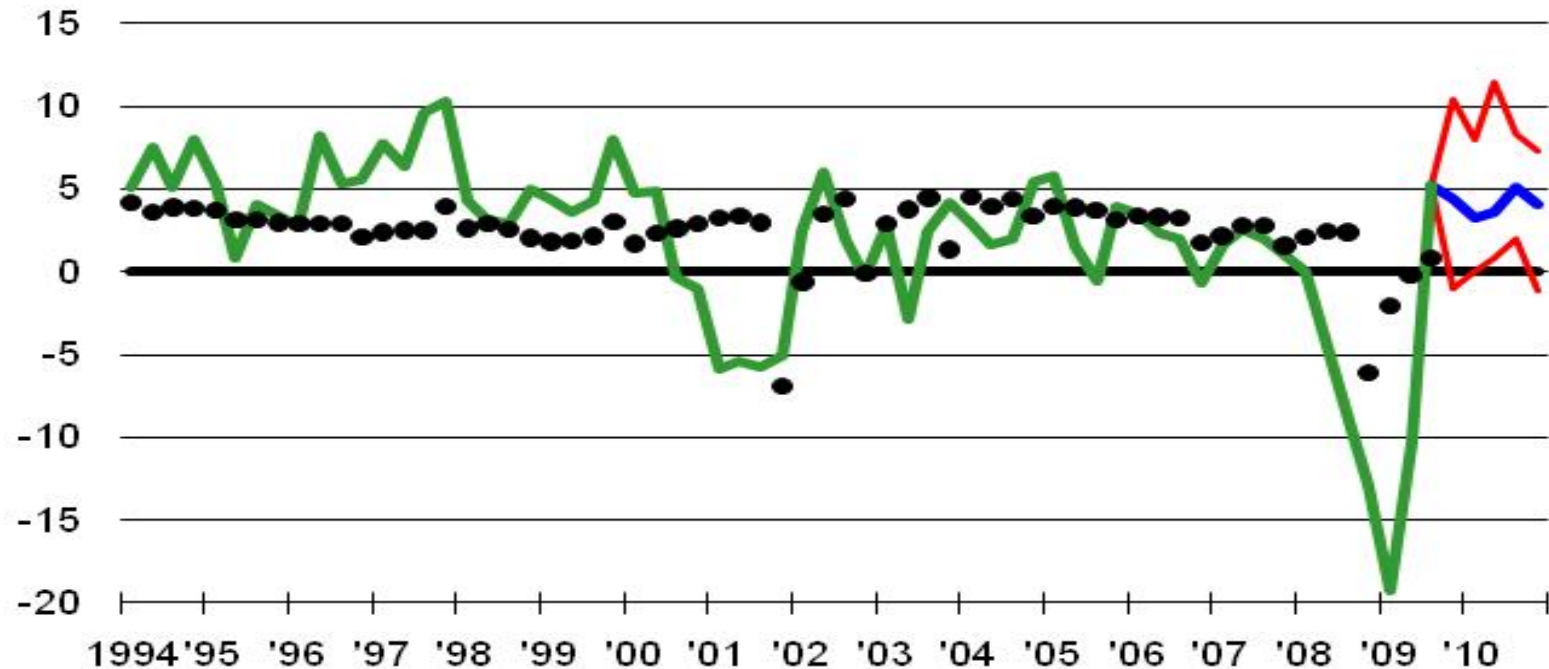
billions of constant dollars



After falling quite sharply, industrial output is forecast to increase by 4.0% next year

Industrial production

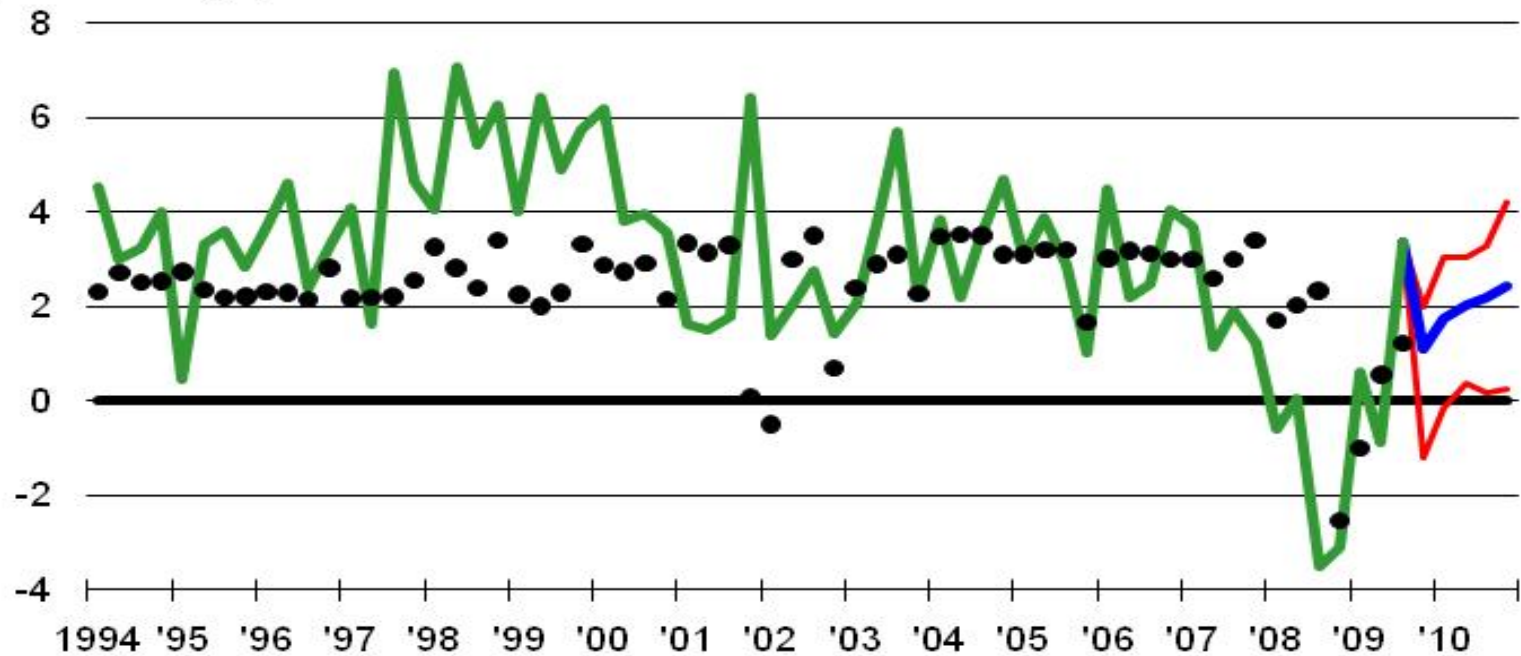
percent change, annual rate



Consumer spending growth is expected to show improvement throughout 2010

Personal consumption expenditures

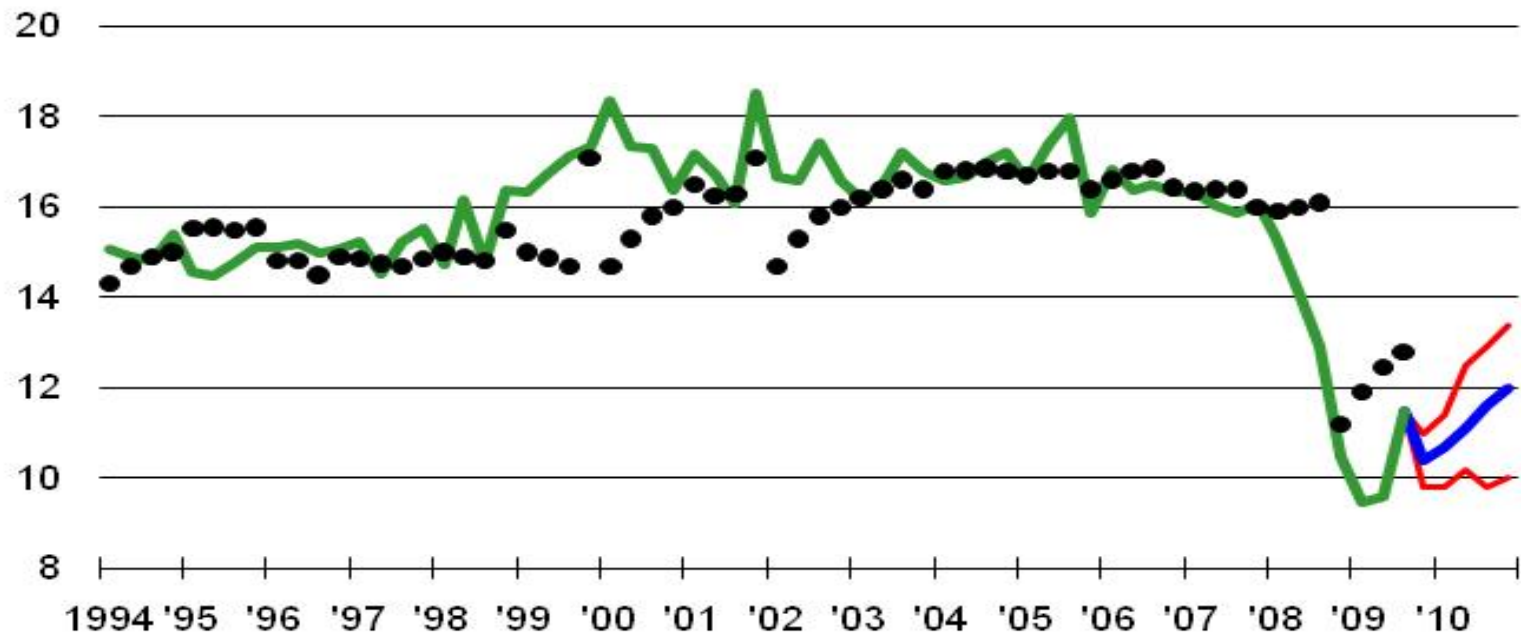
percent change, annual rate



**Vehicle sales are also forecast to improve
with sales of 11.4 million units next year**

Car and light truck sales

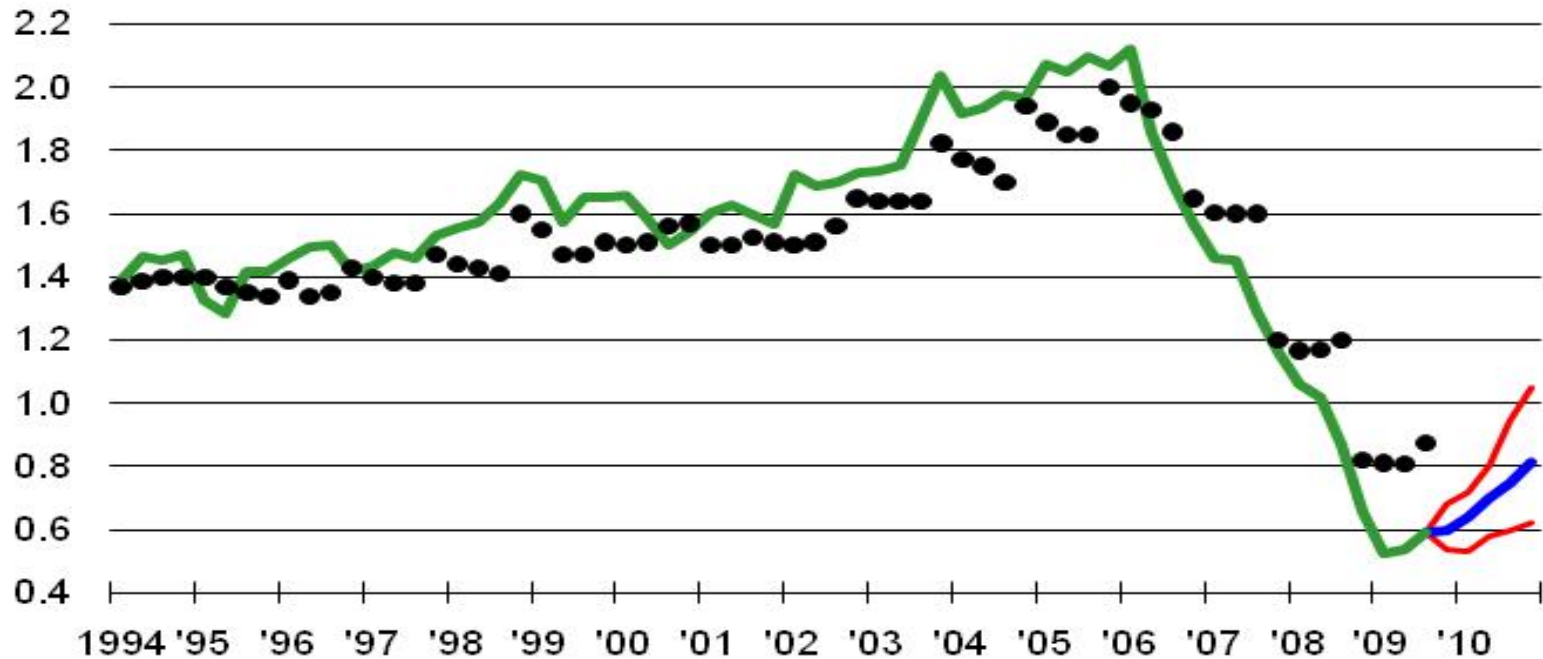
millions of units



Housing starts are forecast to rise at a solid pace in 2010, increasing by 36%

Housing starts

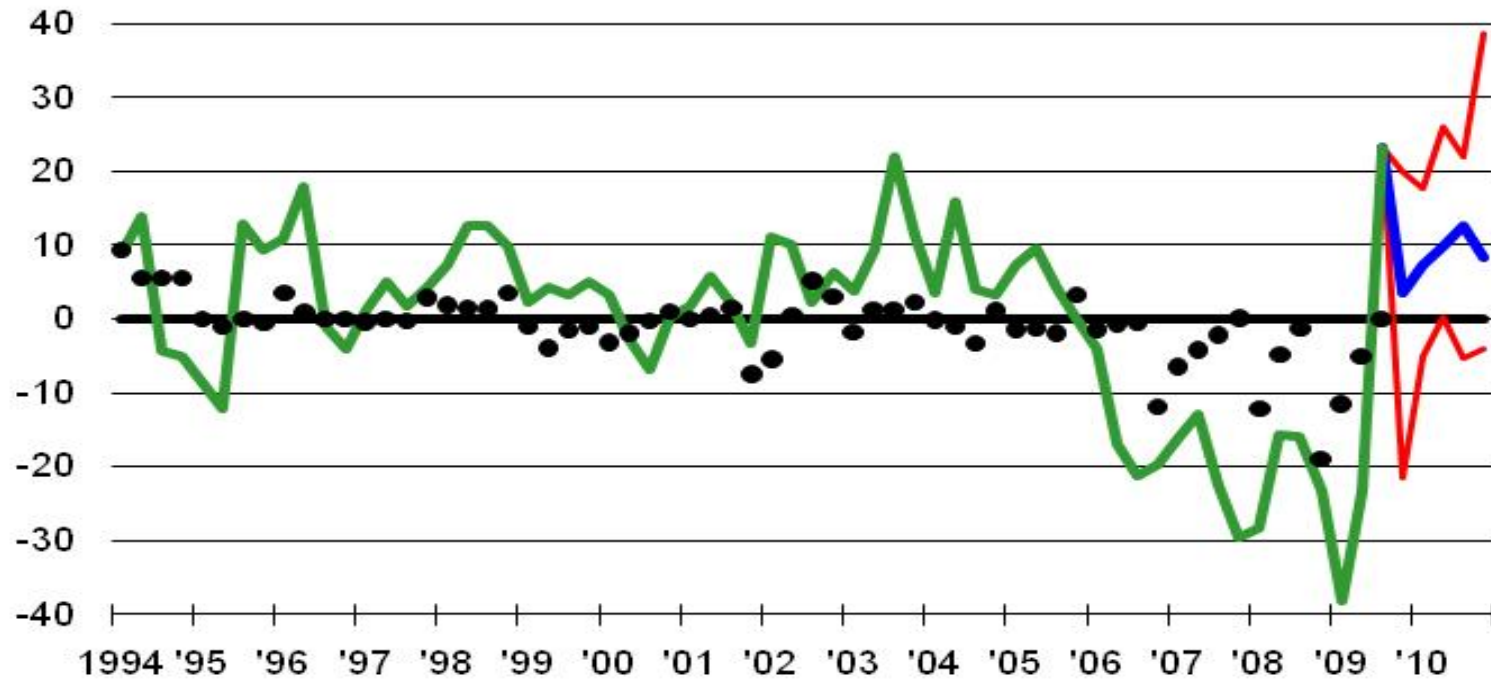
millions of units



For the first time since 2005, residential investment is expected to contribute to GDP growth next year with residential investment rising 11.4%

Residential investment

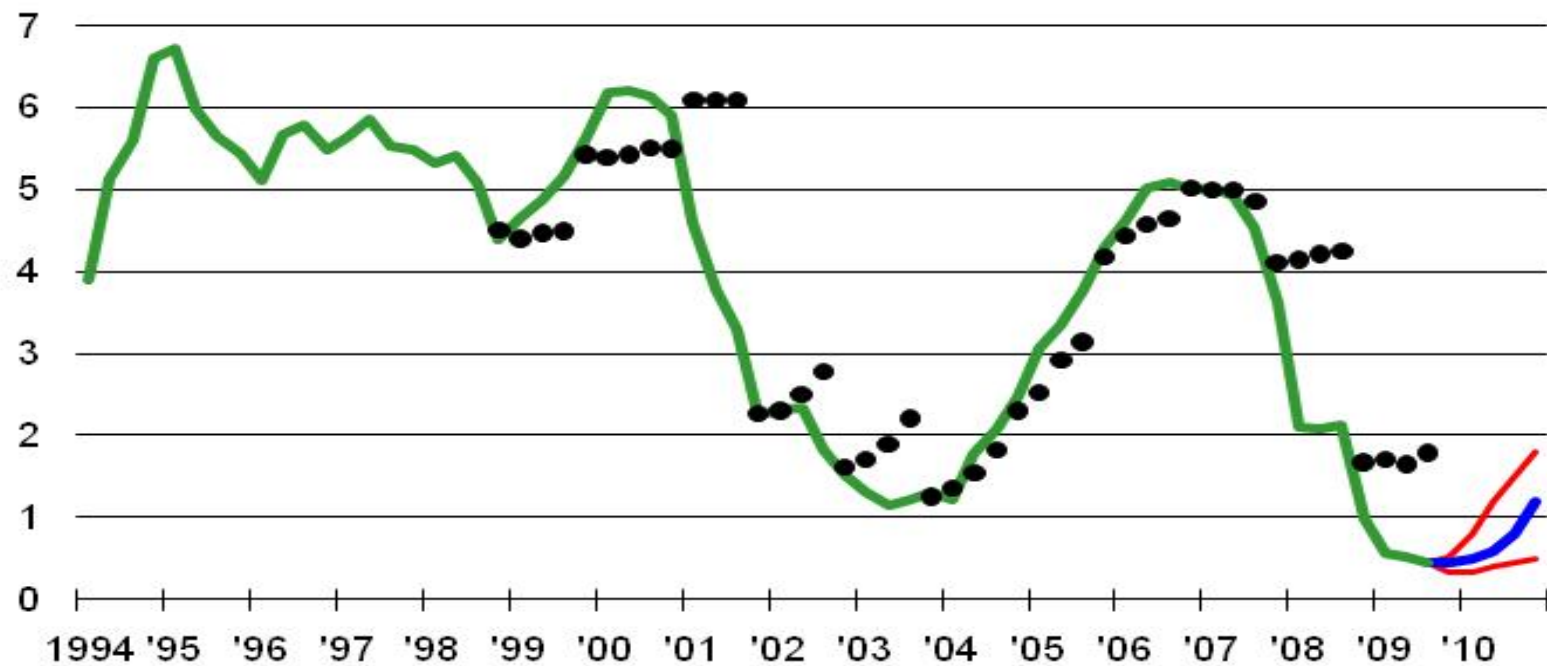
percent change, annual rate



Short-term interest rates are predicted to rise by 75 basis points next year

Treasury one-year rate

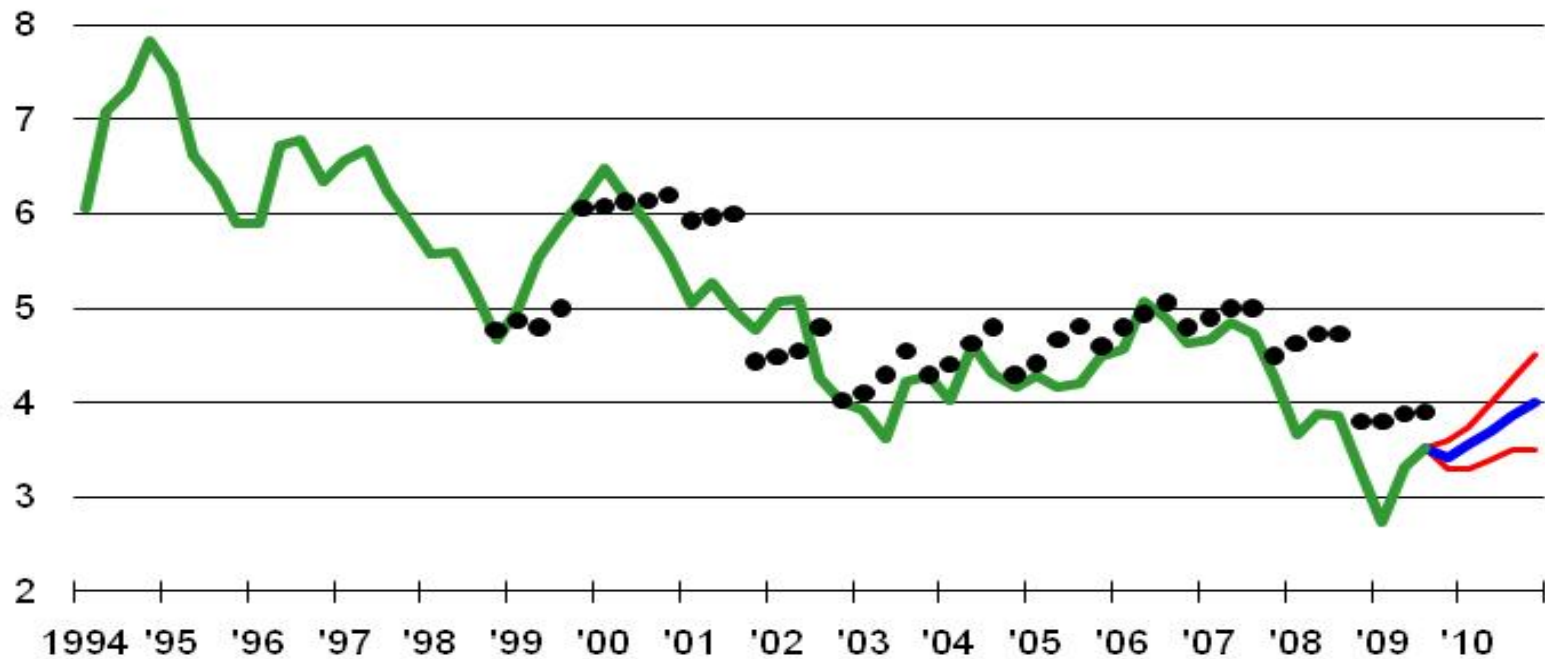
percent



Ten-year interest rates are expected to increase by 59 basis points, suggesting a slight flattening of the yield curve

Treasury ten-year rate

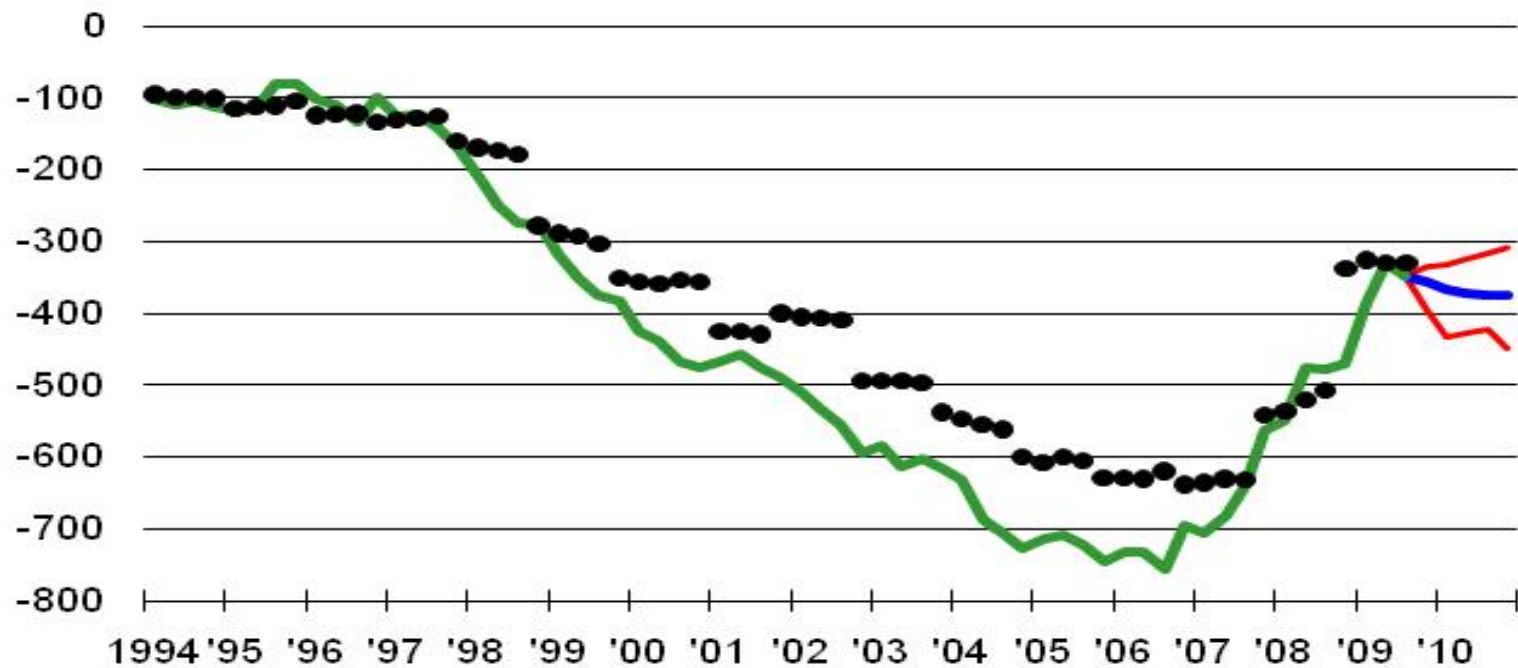
percent



The trade balance is forecast to deteriorate slightly

Net exports of goods and services

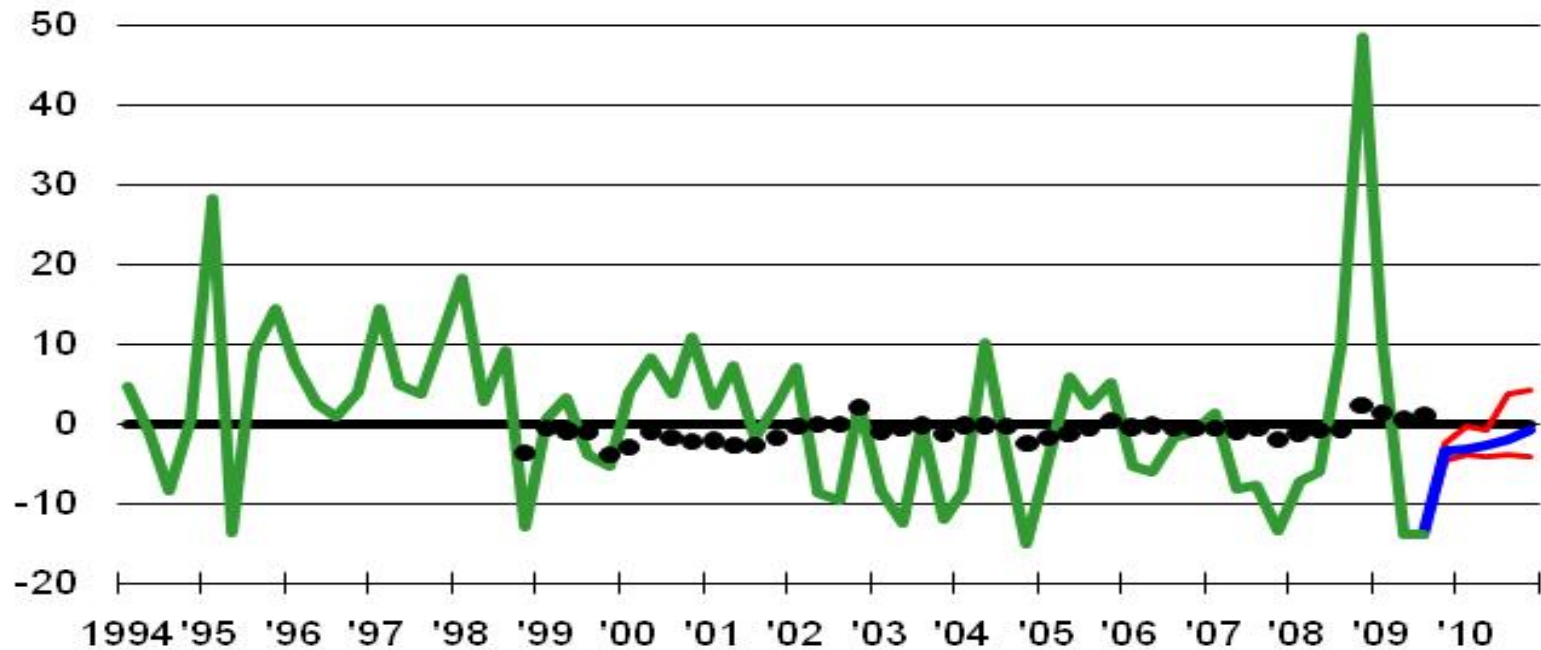
billions of constant dollars



While the dollar is forecast to fall 1.8%

J.P. Morgan trade weighted dollar

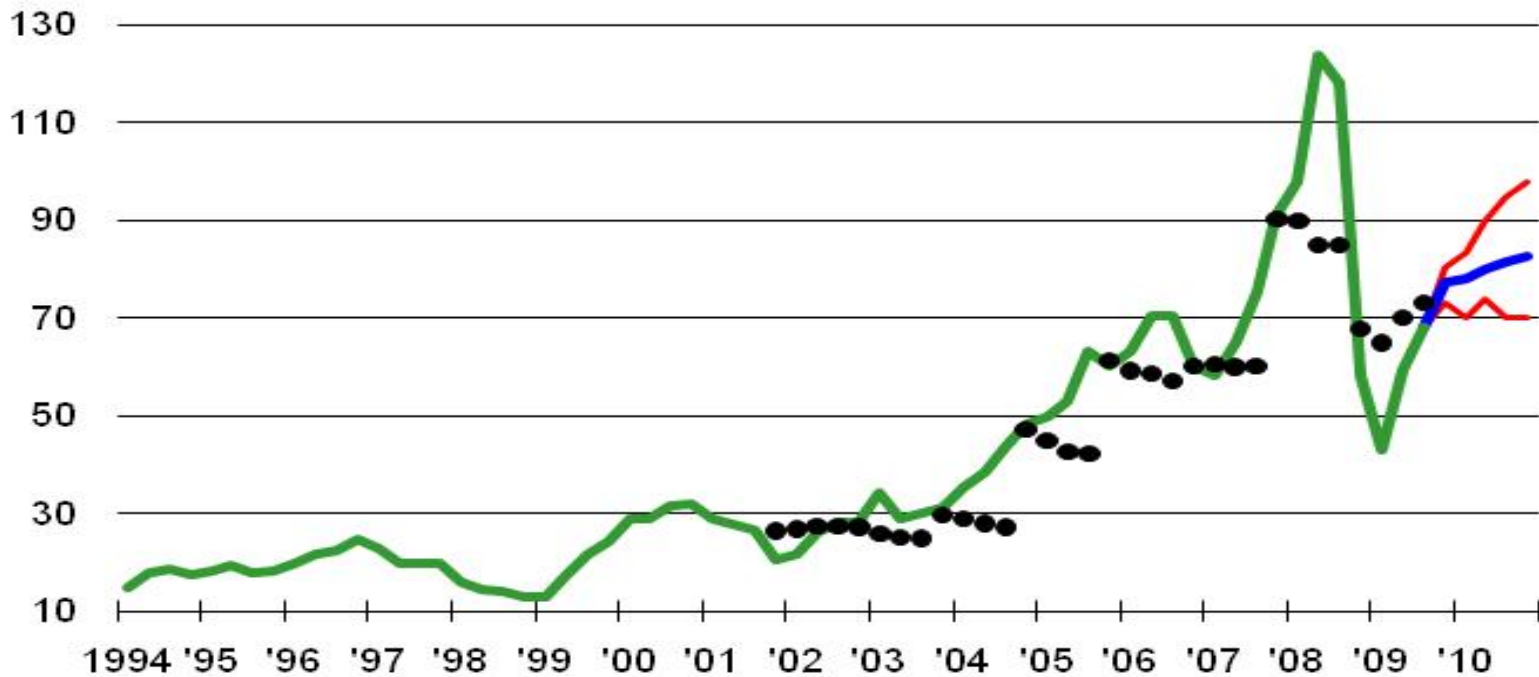
percent change, annual rate



Oil prices are predicted to rise moderately reaching around \$82.00 per barrel by the end of 2010

Oil prices - West Texas Intermediate

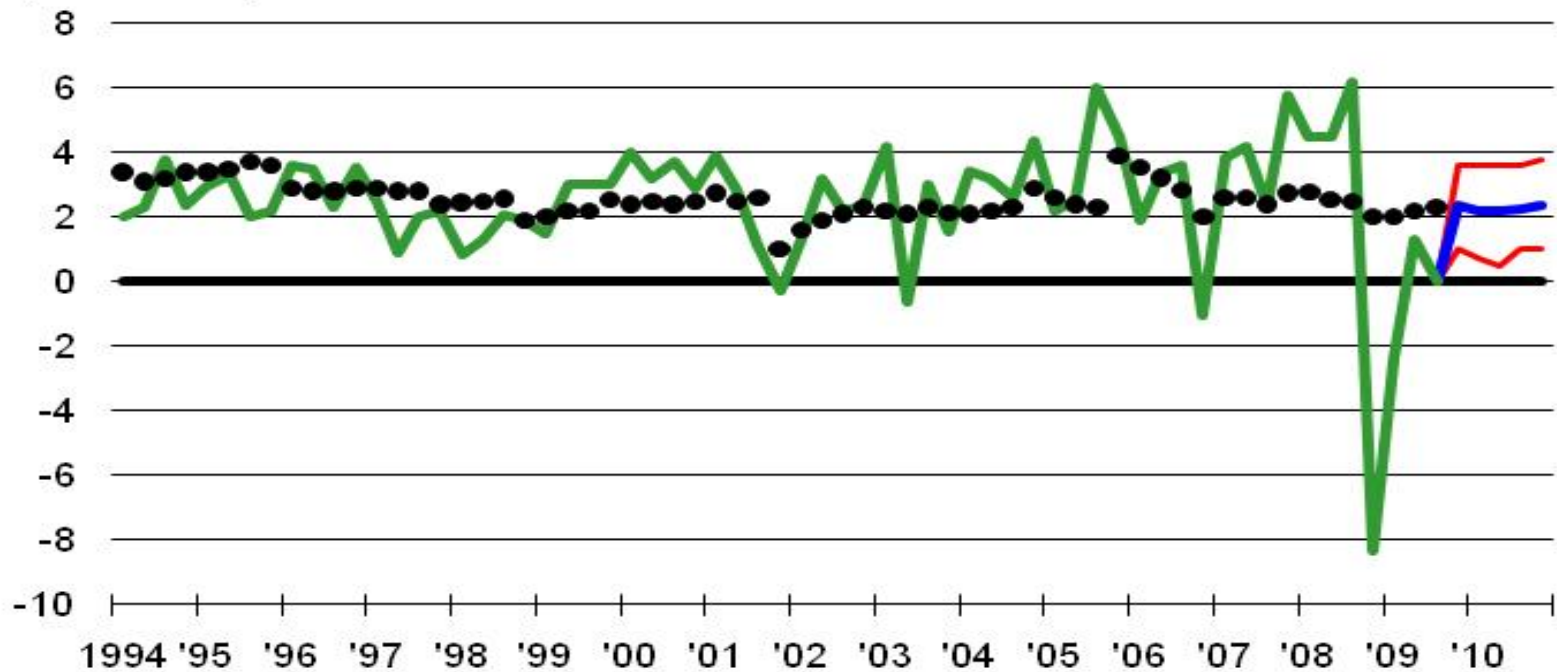
Dollars per barrel



Prices are forecast to rise 2.2% next year

Inflation rate (CPI)

percent change, annual rate



Summary

- **The economy is in the recovery phase with solid growth predicted for 2010**
- **With economic growth just slightly above potential, the unemployment rate does not show much improvement**
- **Inflation is anticipated to rise to 2.2%**
- **With the exception of the trade balance, the key GDP components are predicted to improve, with both business investment and residential investment leading the way with superior growth**
- **Light vehicle sales are forecast to average a very low 11.4 million units**
- **www.chicagofed.org**