



18TH ANNUAL  
**AUTOMOTIVE OUTLOOK  
SYMPOSIUM**

THURSDAY, JUNE 2 – FRIDAY, JUNE 3 / 2011

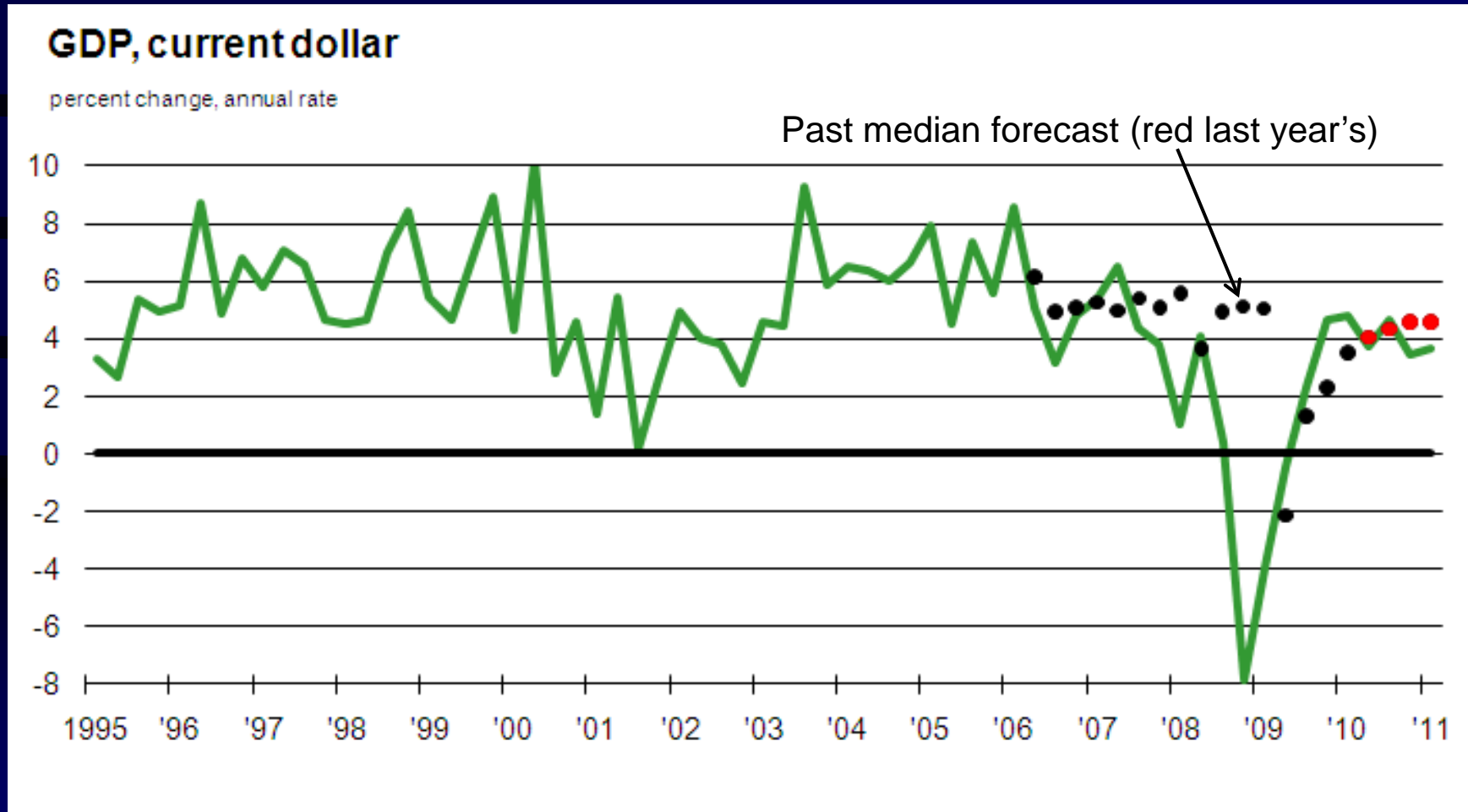
# Consensus Forecast 2011 and 2012

**Eighteenth Annual  
Automotive Outlook Symposium**  
Detroit, Michigan  
June 3, 2011

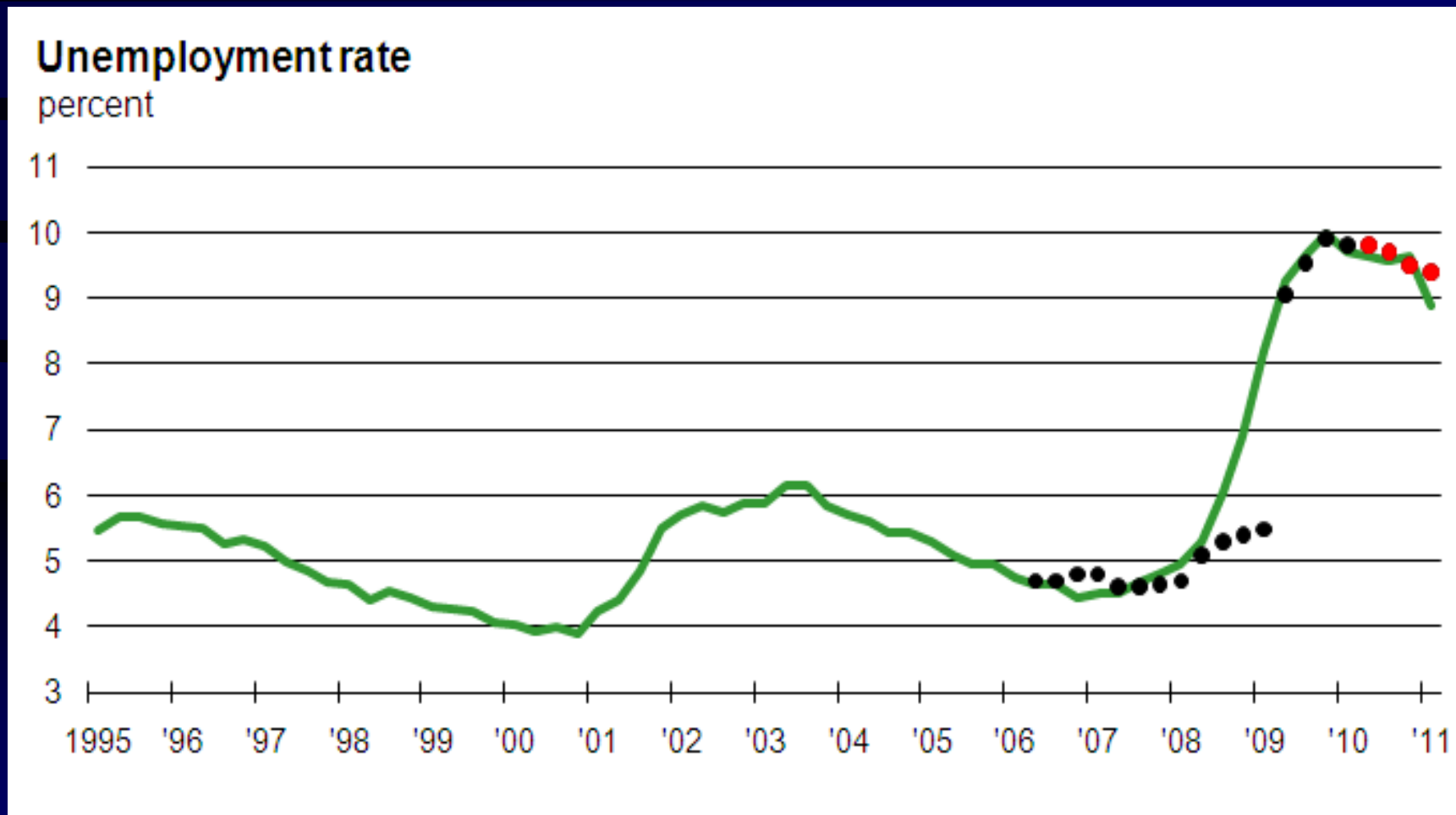
**William Strauss**  
Senior Economist  
and Economic Advisor  
Federal Reserve Bank of Chicago

# Review of past performance

# GDP growth was just slightly lower than the consensus forecast in the last two quarters

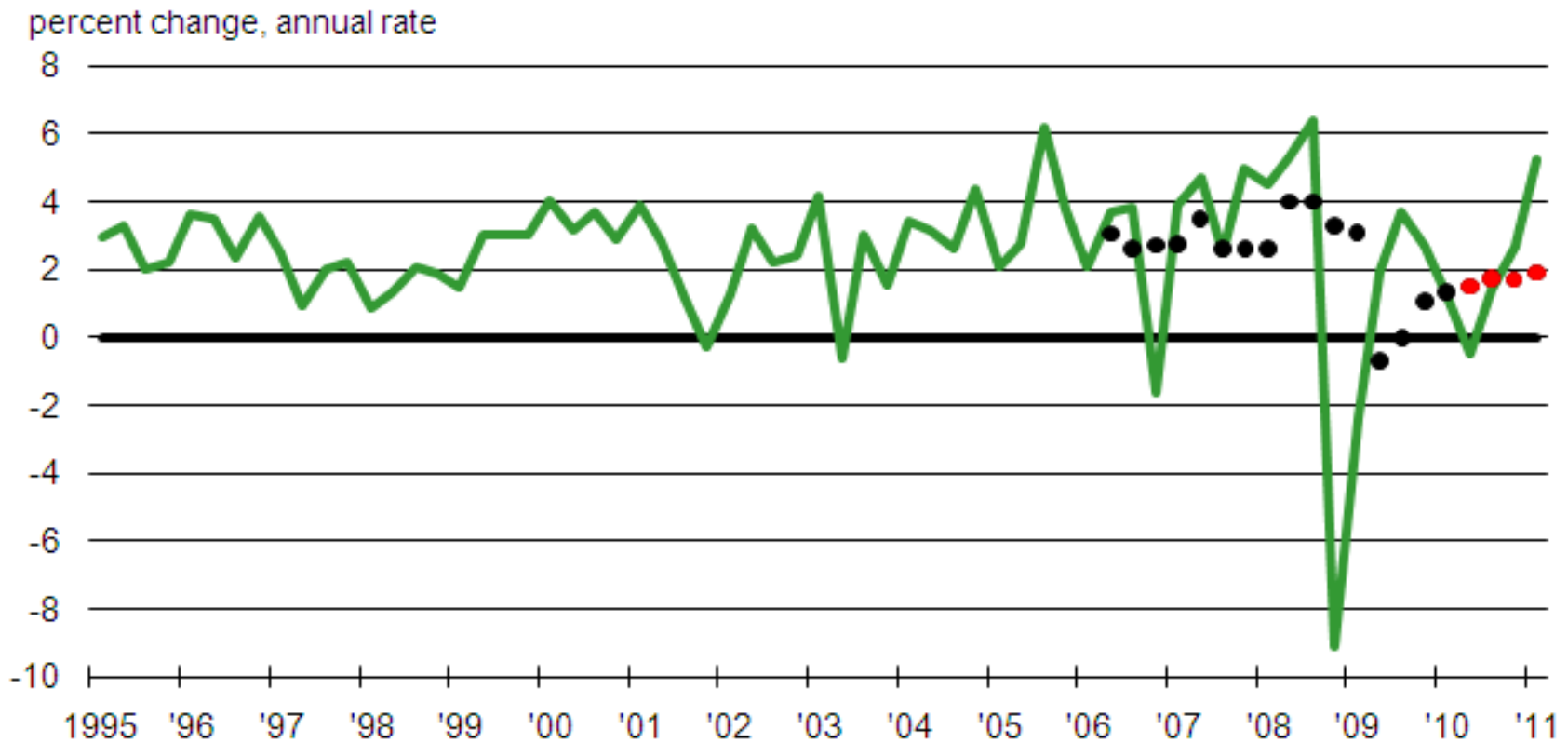


# The unemployment rate prediction was extremely accurate



# Inflation came in higher than the consensus group anticipated during the last two quarters

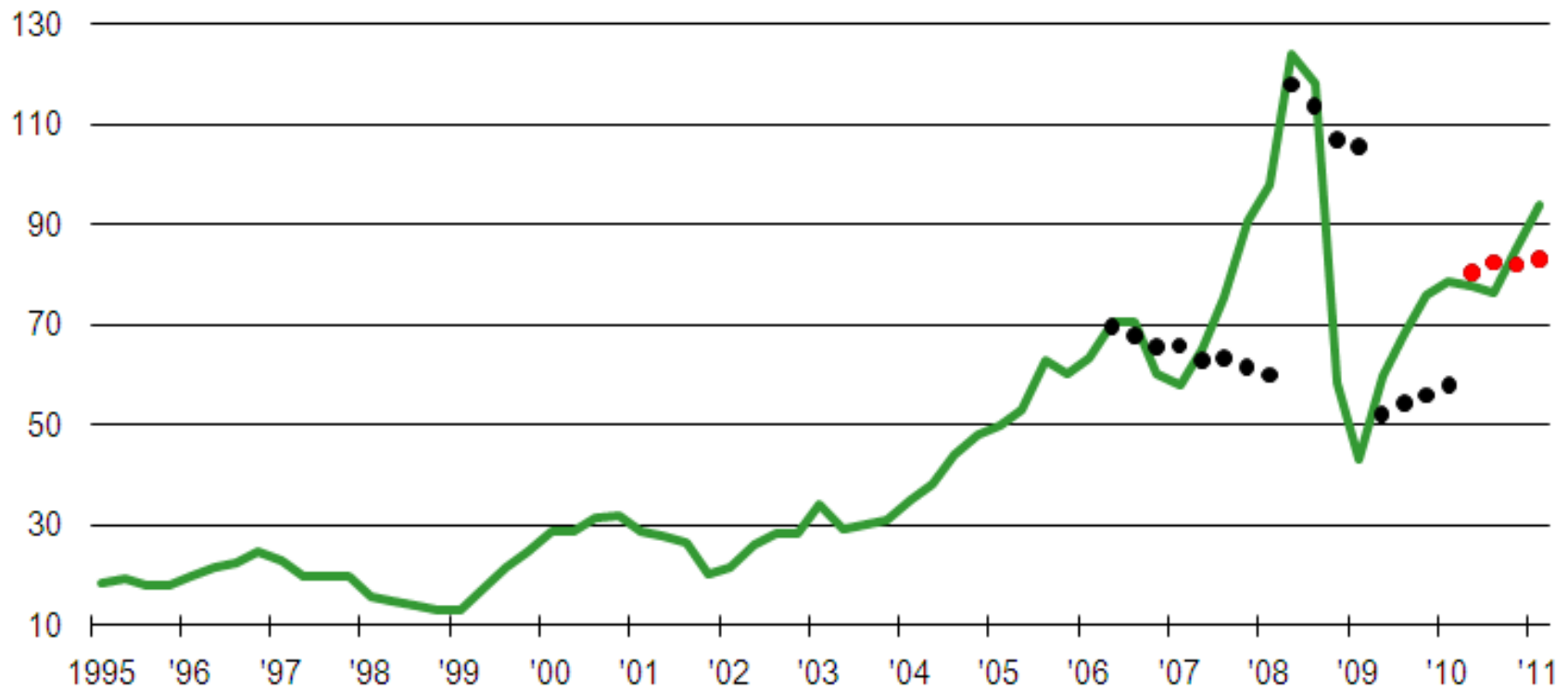
## Inflation rate (CPI)



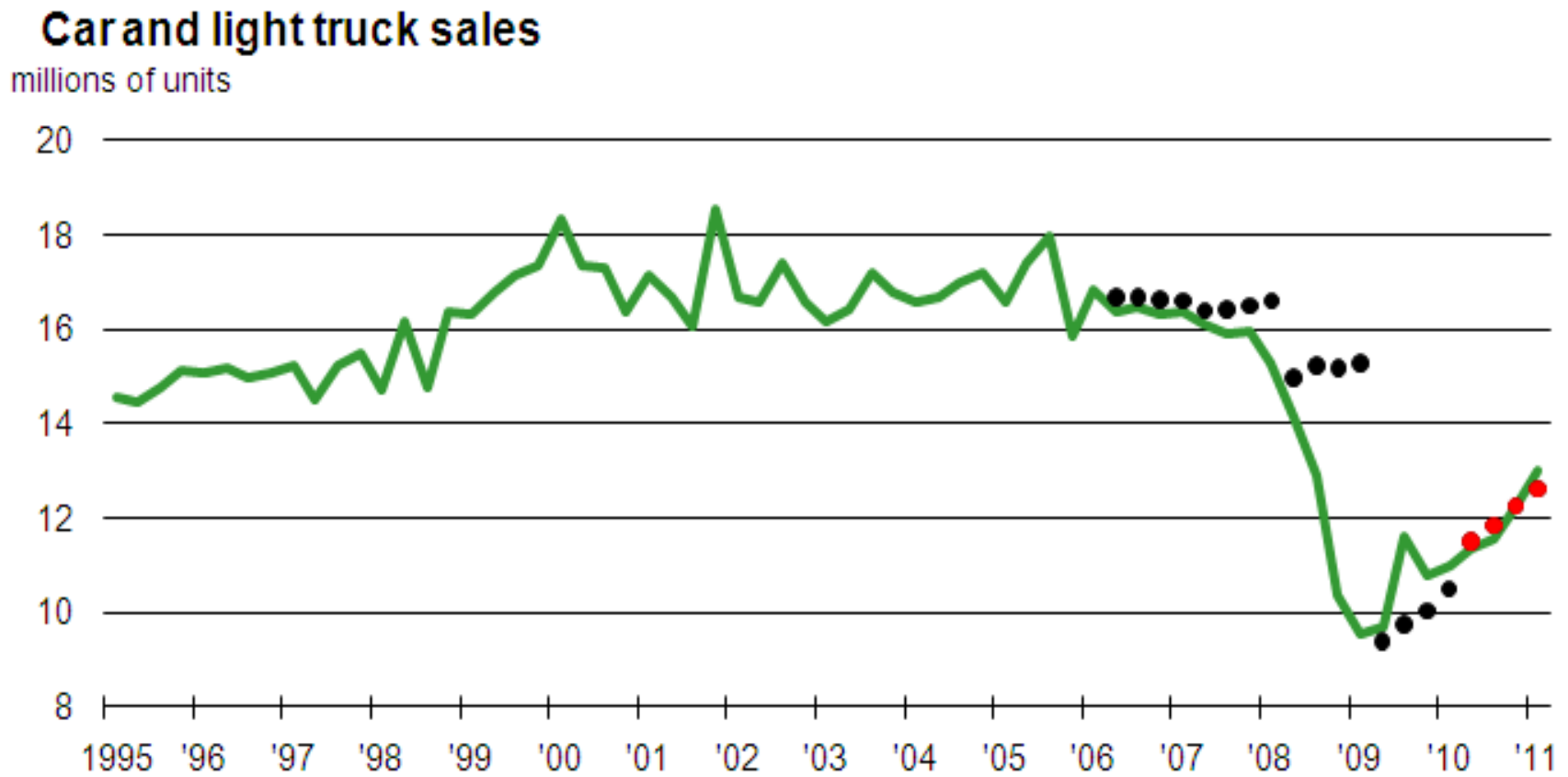
**This is not too surprising given the stronger than expected rebound in oil prices**

### Oil prices - West Texas Intermediate

Dollars per barrel



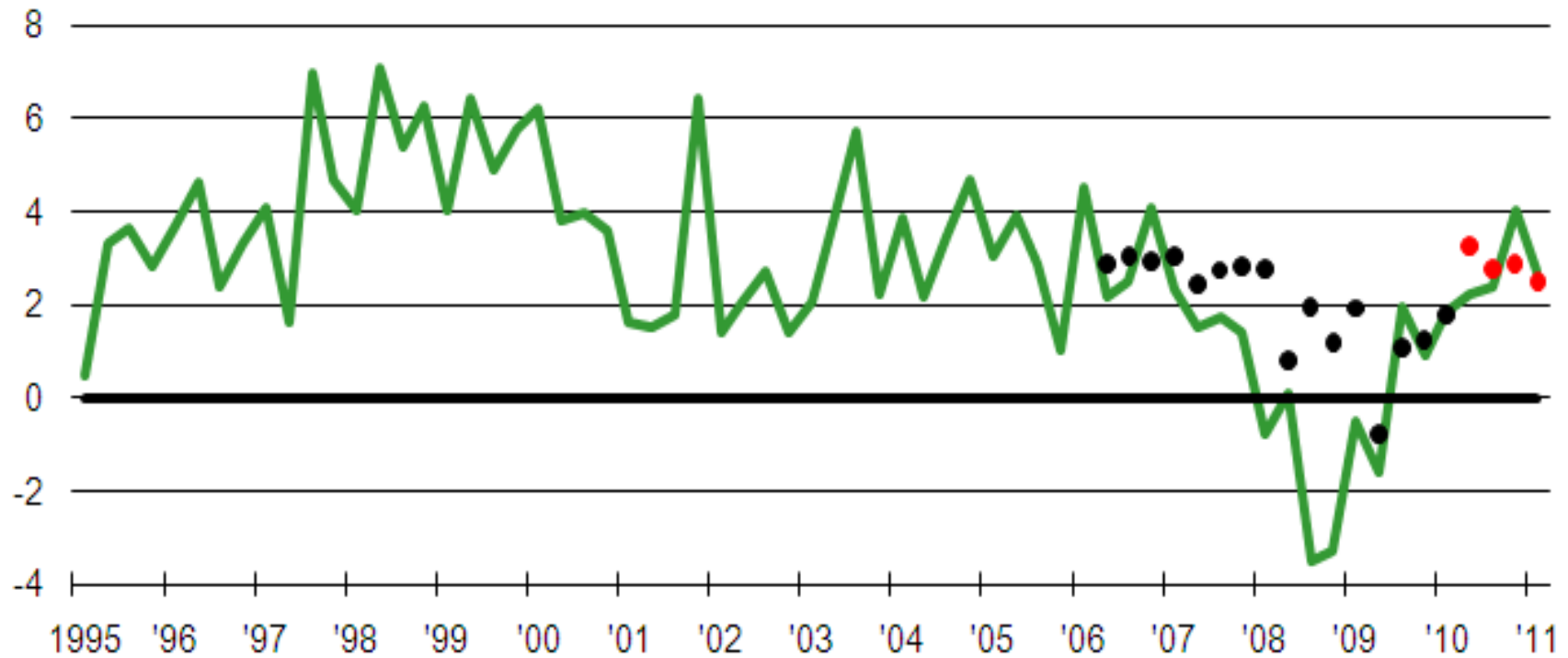
## Car and light truck sales were nailed



# Consumer spending was also accurately forecast

## Personal consumption expenditures

percent change, annual rate

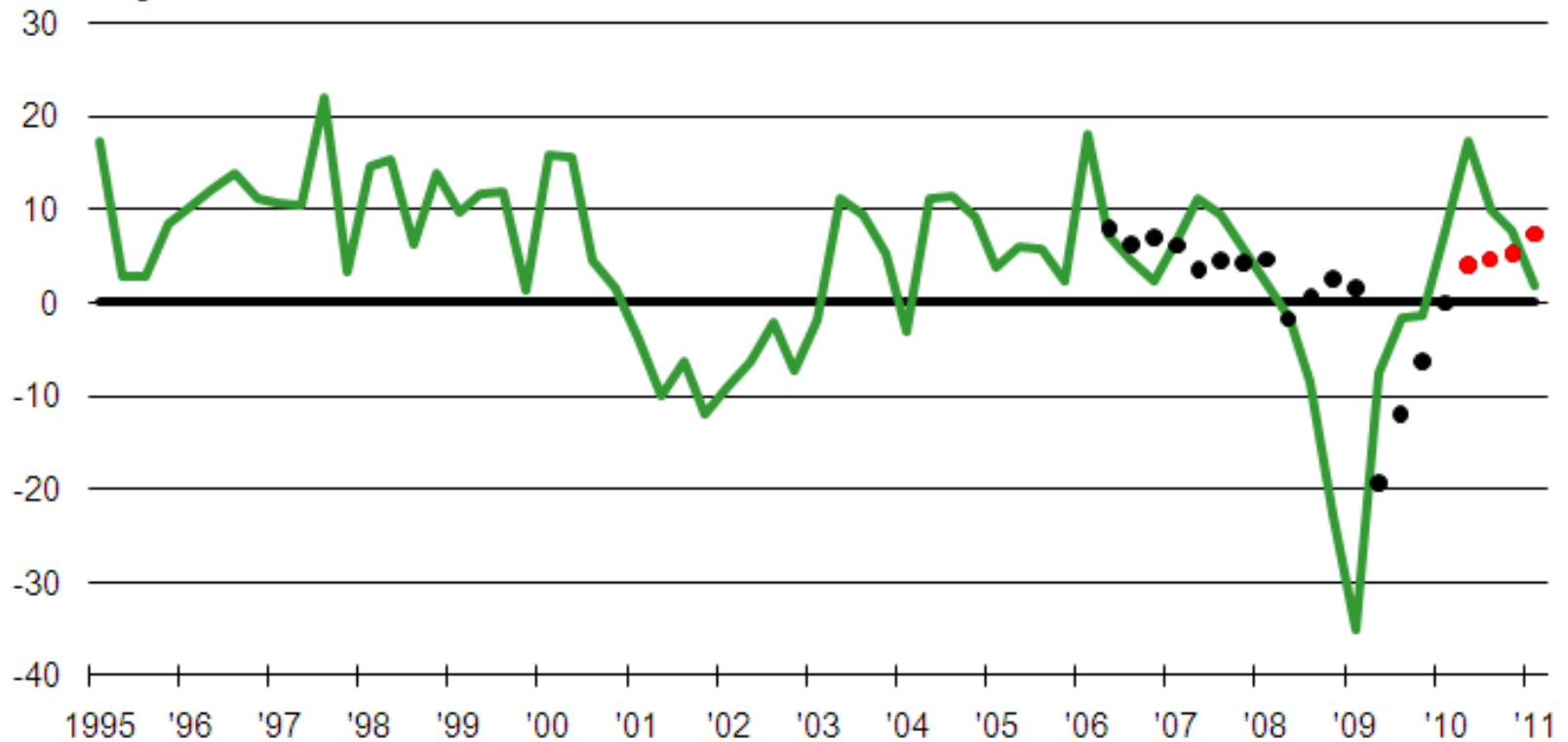




**Business investment growth improved initially at a much faster rate than expected, but slowed over the remaining quarters**

### Business fixed investment

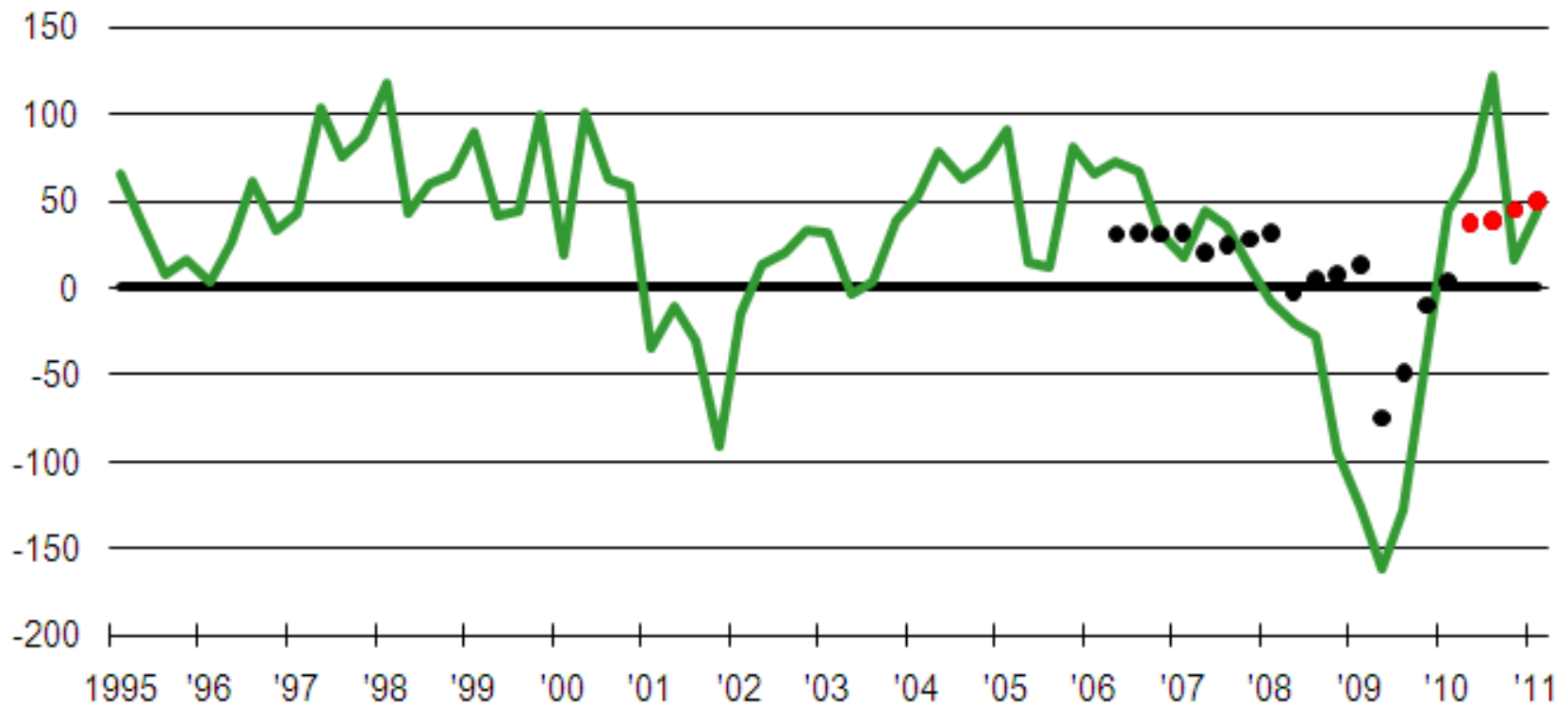
percent change, annual rate



# Business inventories initially increased at a faster pace than expected and then increases eased

## Change in business inventories

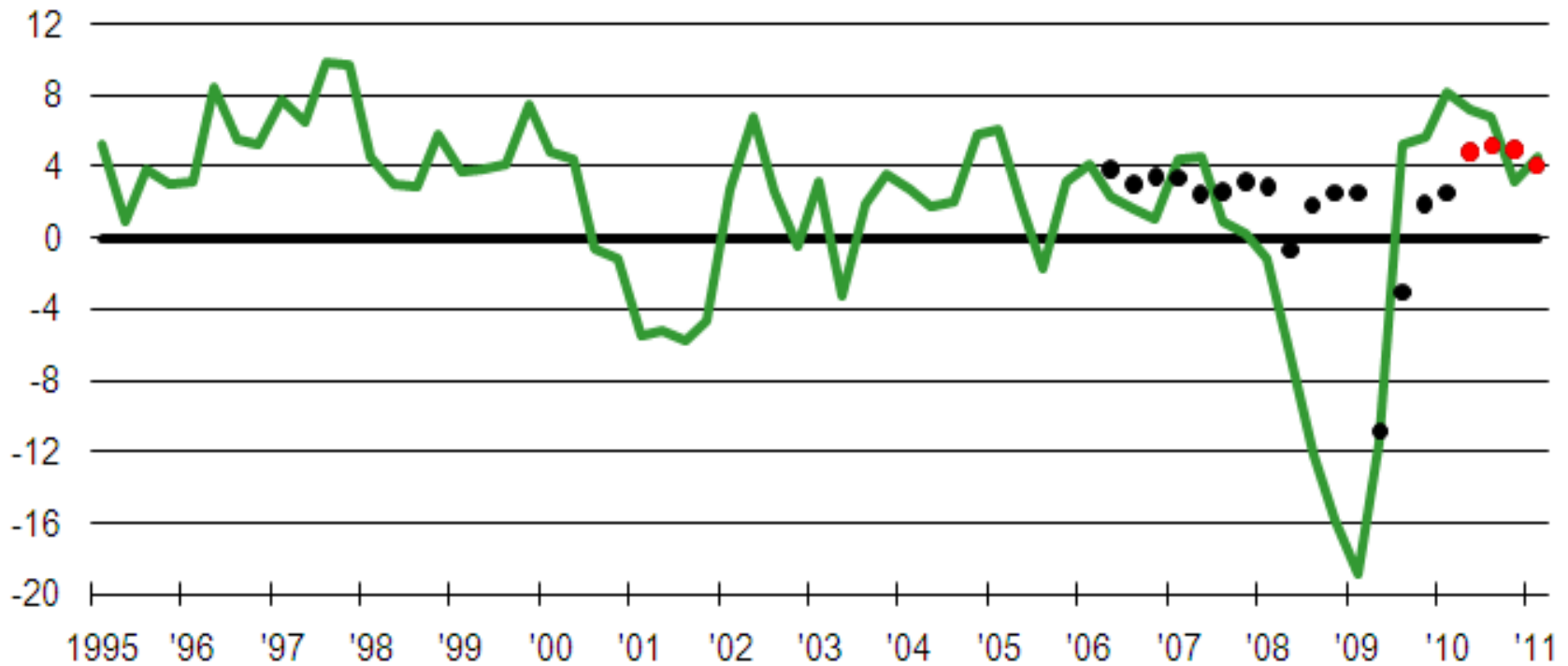
billions of constant dollars



# Industrial production growth was initially a bit stronger than expected

## Industrial production

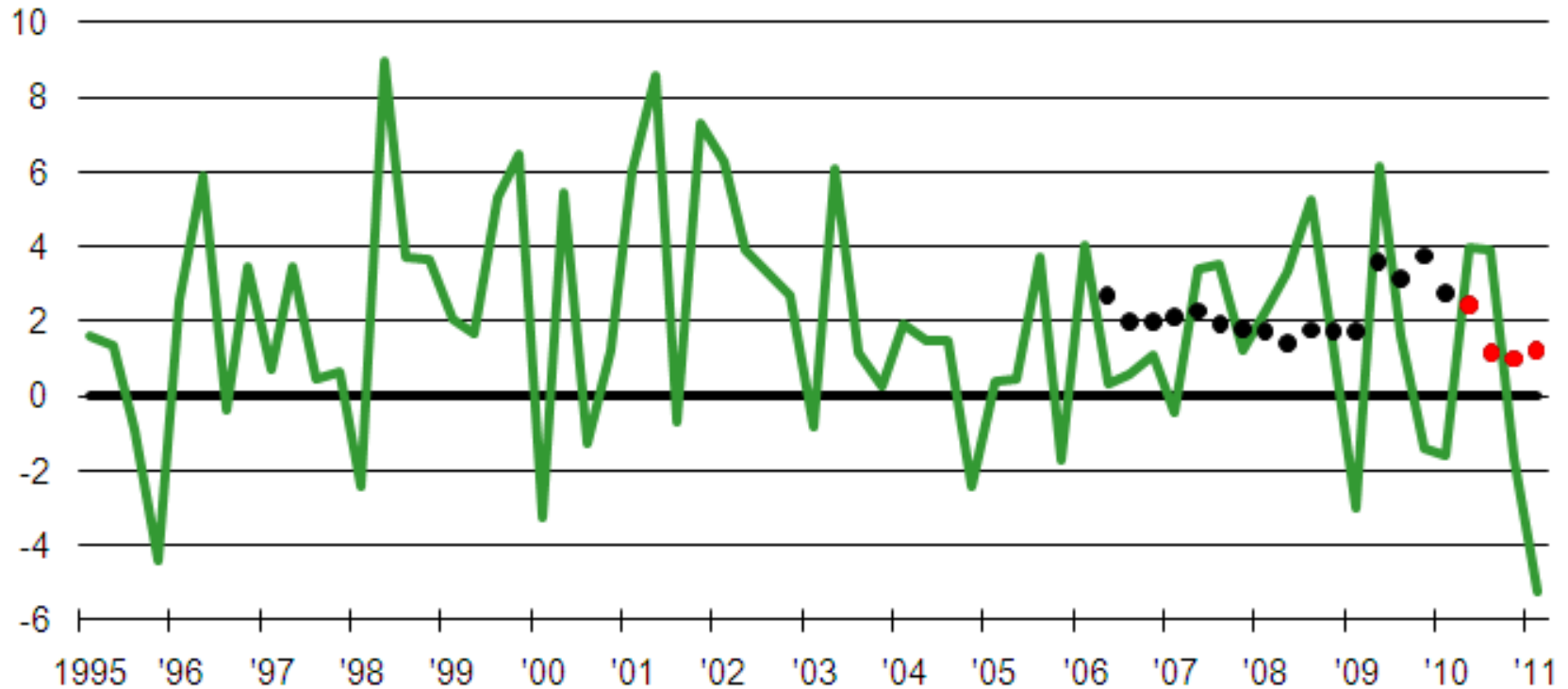
percent change, annual rate



**Government spending started off higher than predicted and then came in lower than forecast over the past two quarters**

## Government consumption

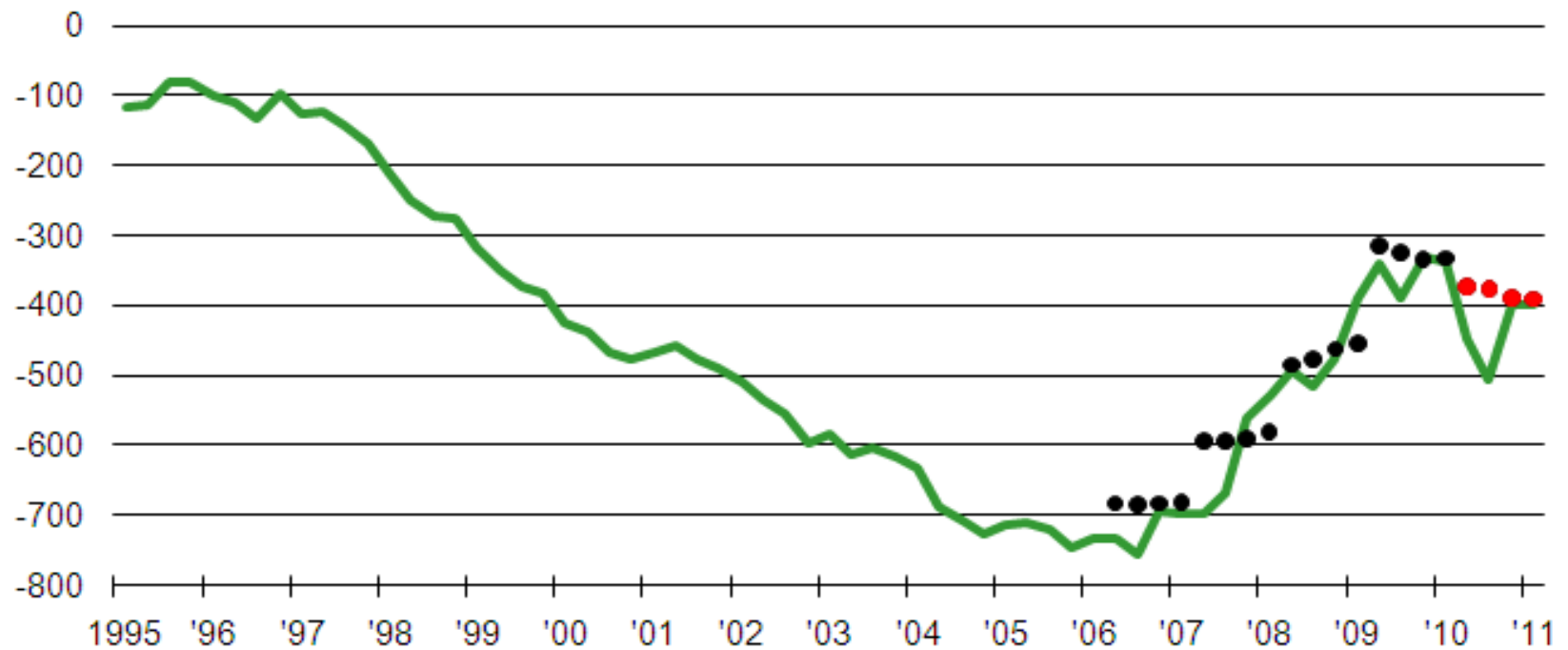
percent change, annual rate



# The trade deficit was below the level forecast

## Net exports of goods and services

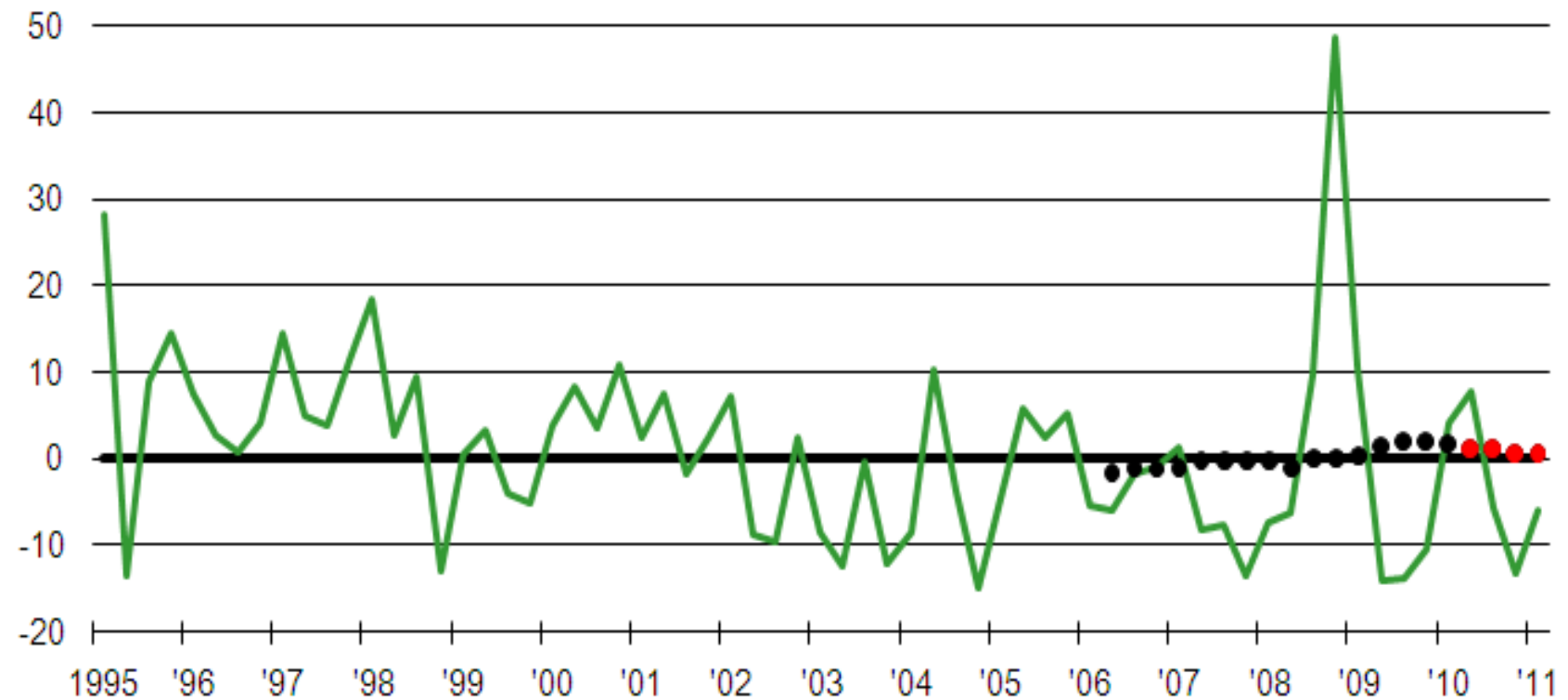
billions of constant dollars



# The dollar was weaker than expected

## J.P. Morgan trade weighted dollar

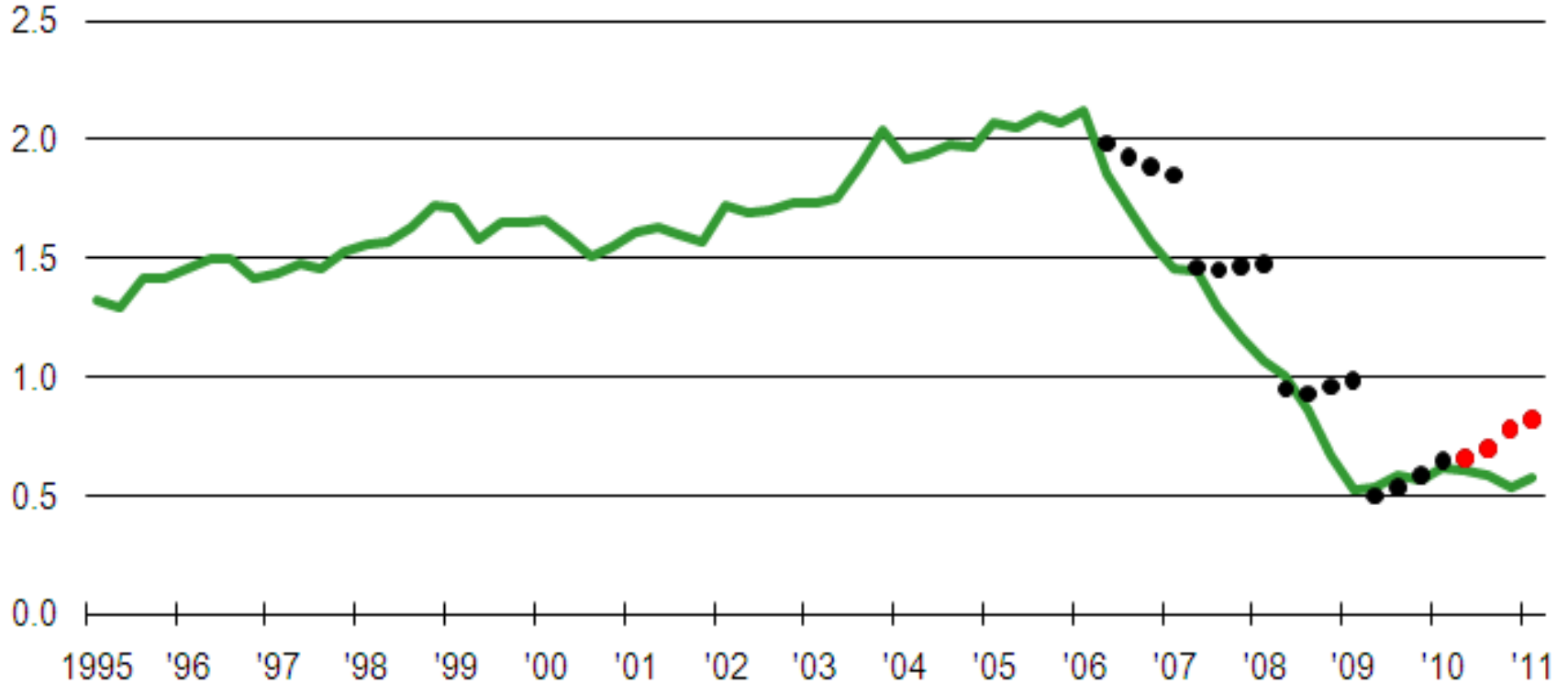
percent change, annual rate



# The housing sector returned to its pattern of disappointing the consensus outlook

## Housing starts

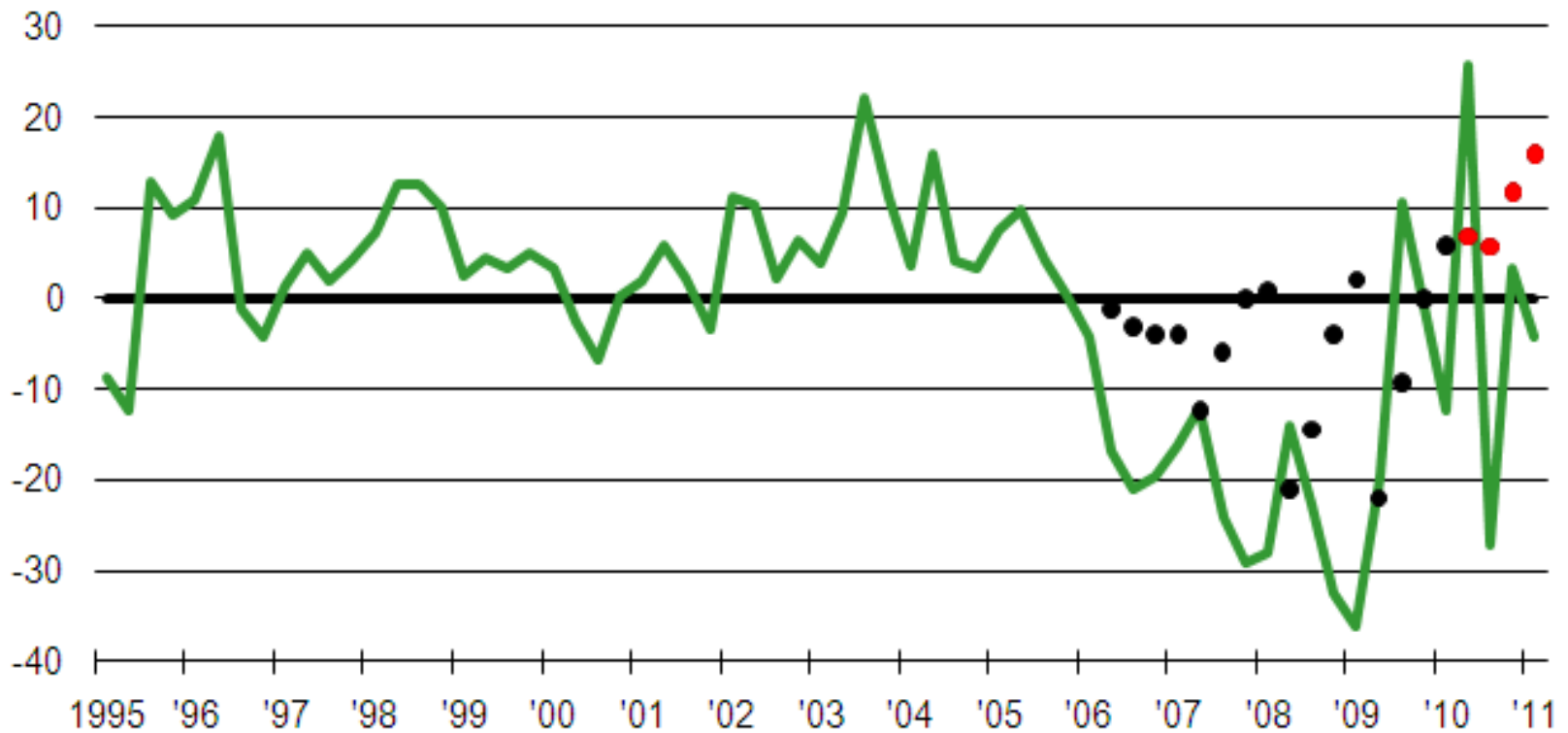
millions of units



# This led to an over-prediction for residential investment

## Residential investment

percent change, annual rate

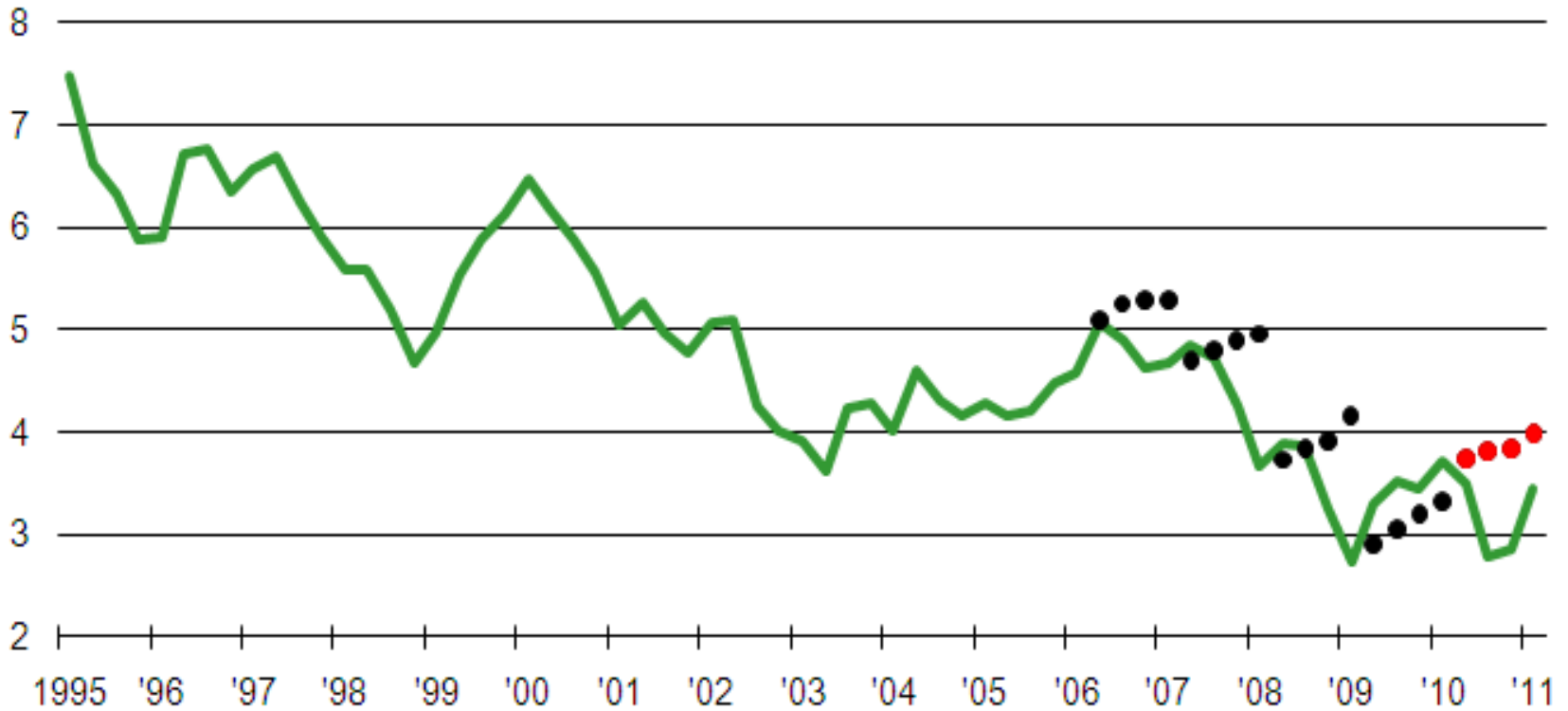




# Long-term interest rates were lower than expected

Treasury ten-year rate

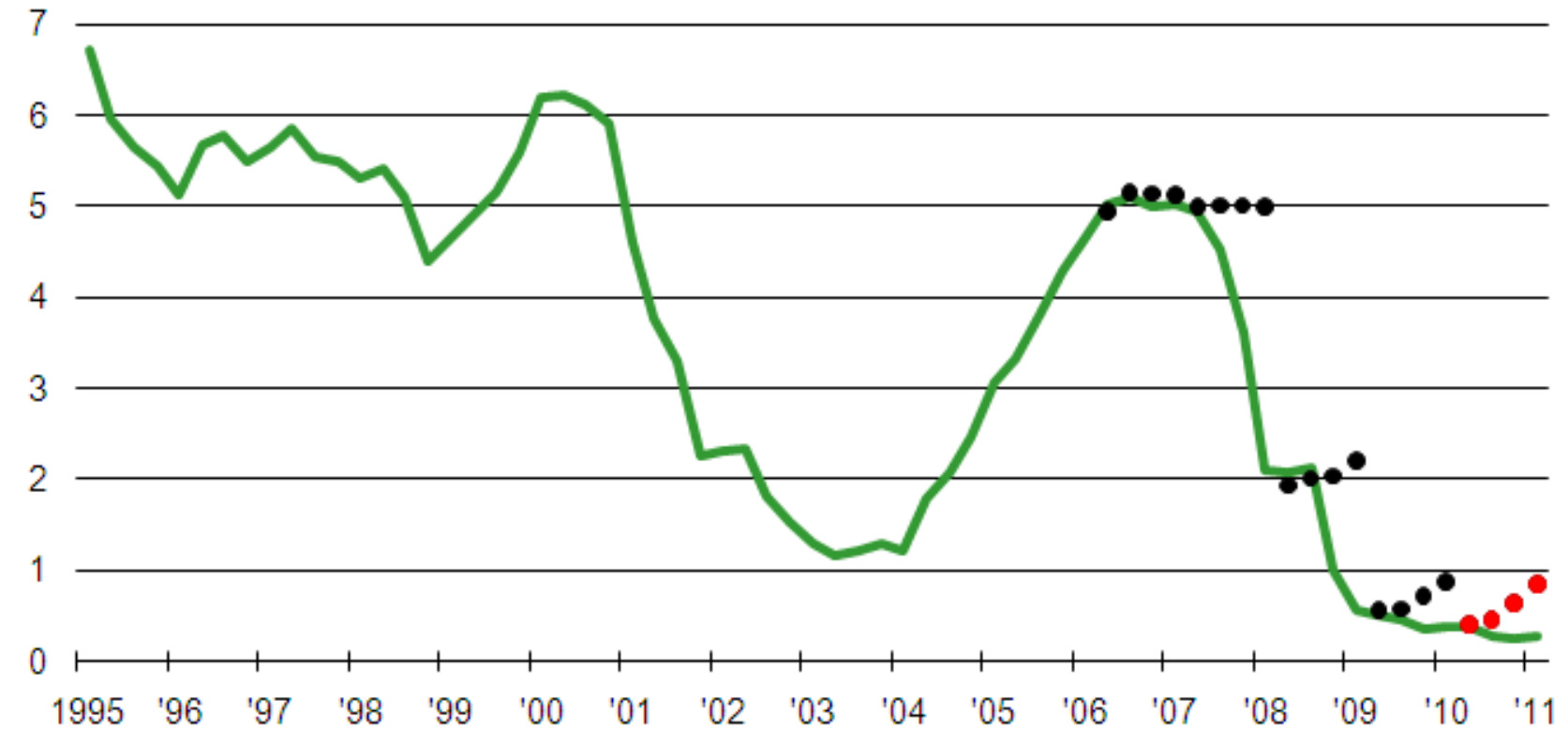
percent



**Short-term interest rates were expected to move higher,  
however they edged lower**

### Treasury one-year rate

percent



# Forecast for 2011 and 2012

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

	2010	2011	2012
GDP, current dollars*	4.2%	4.8%	4.7%
GDP price index, chain-type*	1.3%	1.9%	1.8%
Real GDP, chained dollars*	2.8%	2.6%	2.9%
Personal consumption expenditures*	2.6%	2.8%	2.6%
Business fixed investment*	10.6%	7.7%	6.8%
Residential investment*	-4.6%	3.8%	16.2%
Change in private inventories (billions of constant dollars)**	\$16.2	\$50.3	\$50.0
Net exports of goods and services (billions of constant dollars)**	-\$397.7	-\$405.5	-\$400.0
Government consumption expenditures and gross investment*	1.1%	-1.7%	-0.2%

\*Q4 over Q4

\*\*Q4 value

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

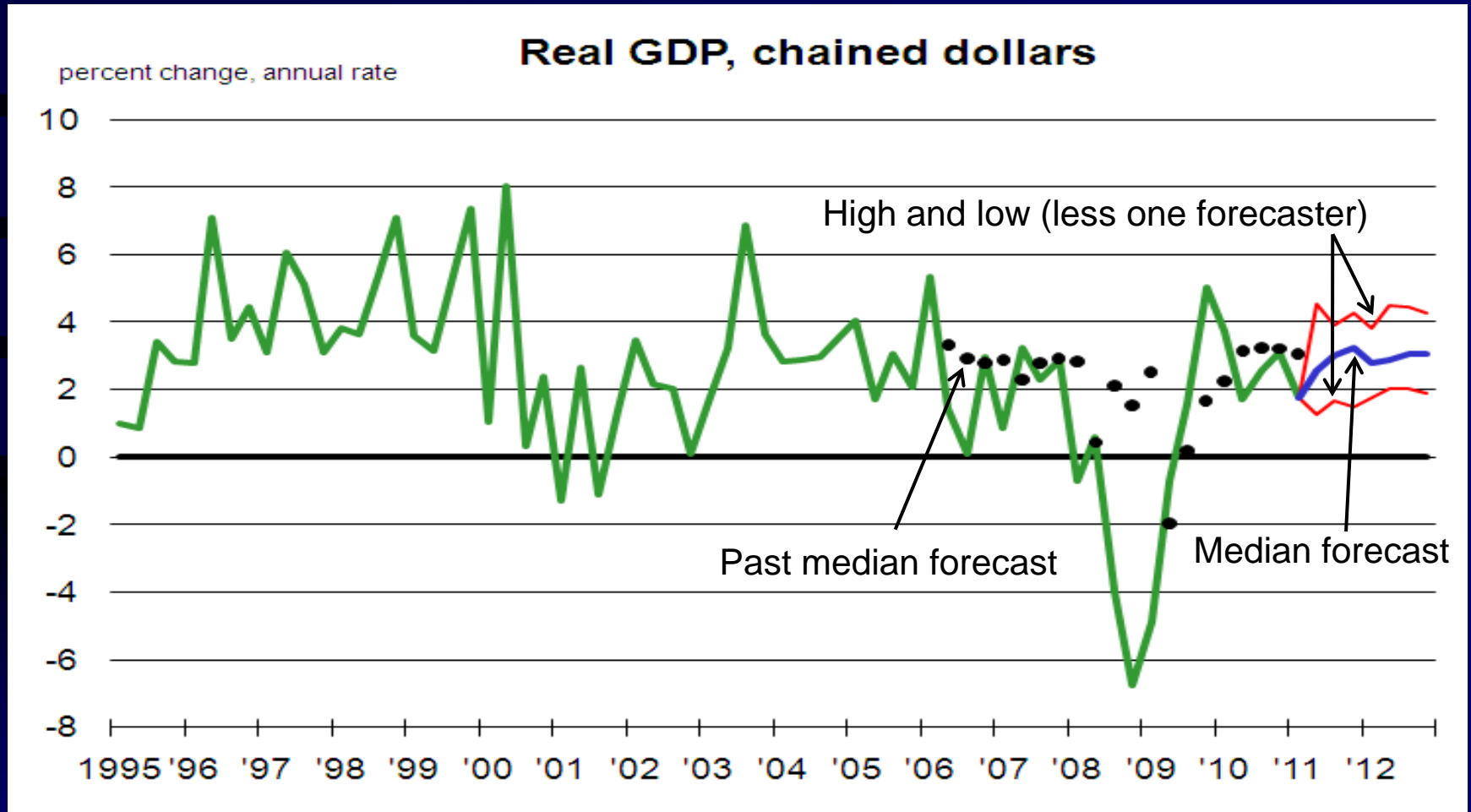
	2010	2011	2012
Industrial production*	6.3%	5.4%	4.1%
Car & light truck sales (millions - calendar year including imports)***	11.6	13.2	14.4
Housing starts (millions)***	0.58	0.59	0.78
Oil price (dollars per barrel of West Texas Intermediate)**	\$85.03	\$103.17	\$103.30
Unemployment rate**	9.6%	8.5%	8.2%
Inflation rate (consumer price index)*	1.2%	2.6%	2.2%
Treasury constant maturity 1-year rate**	0.26%	0.38%	1.36%
Treasury constant maturity 10-year rate**	2.86%	3.70%	4.20%
J.P. Morgan trade weighted OECD dollar*	-2.1%	-0.3%	0.7%

\*Q4 over Q4

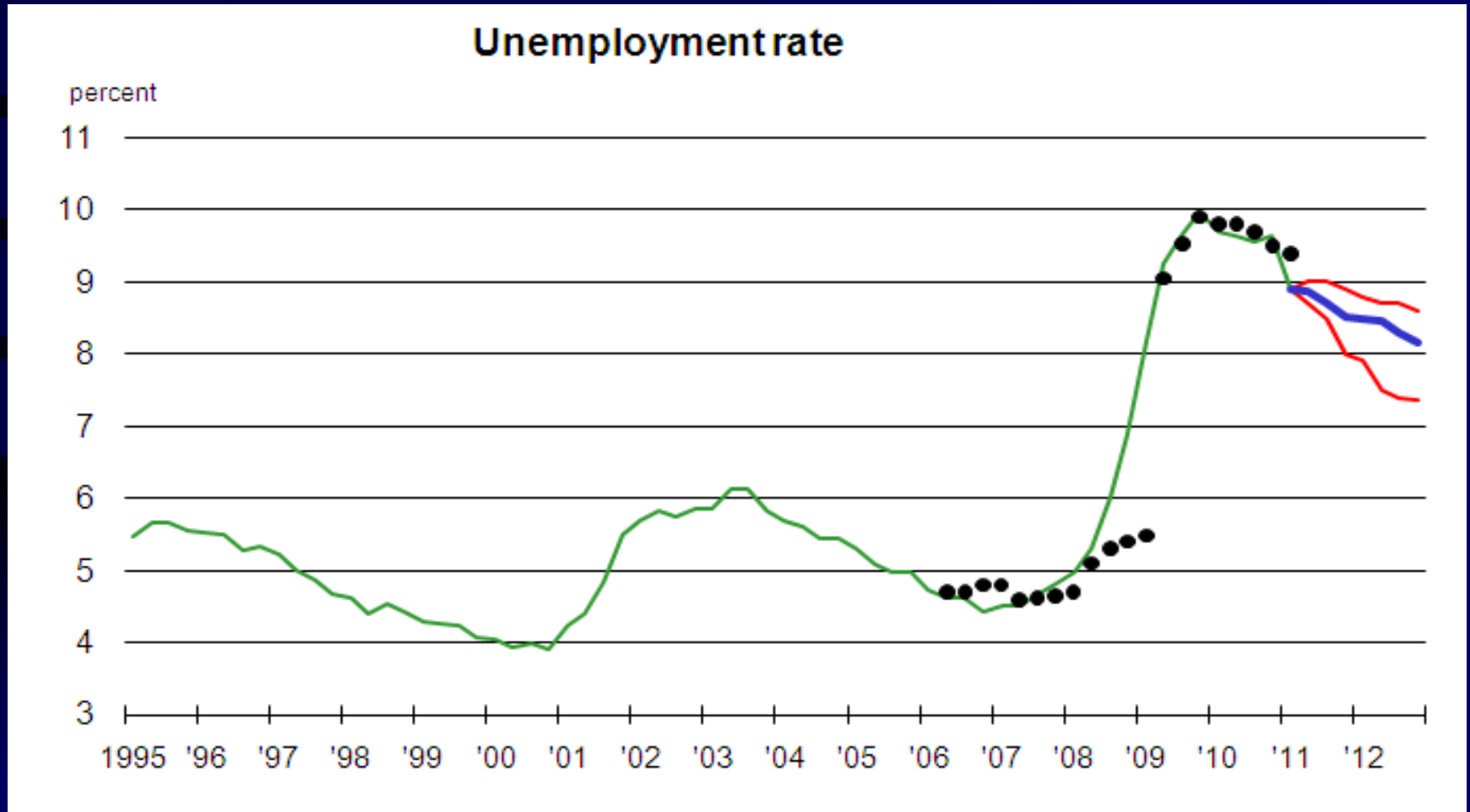
\*\*Q4 value

\*\*\*Yearly average

# Real GDP growth is forecast to rise at a rate that is just slightly above trend in 2011 and 2012



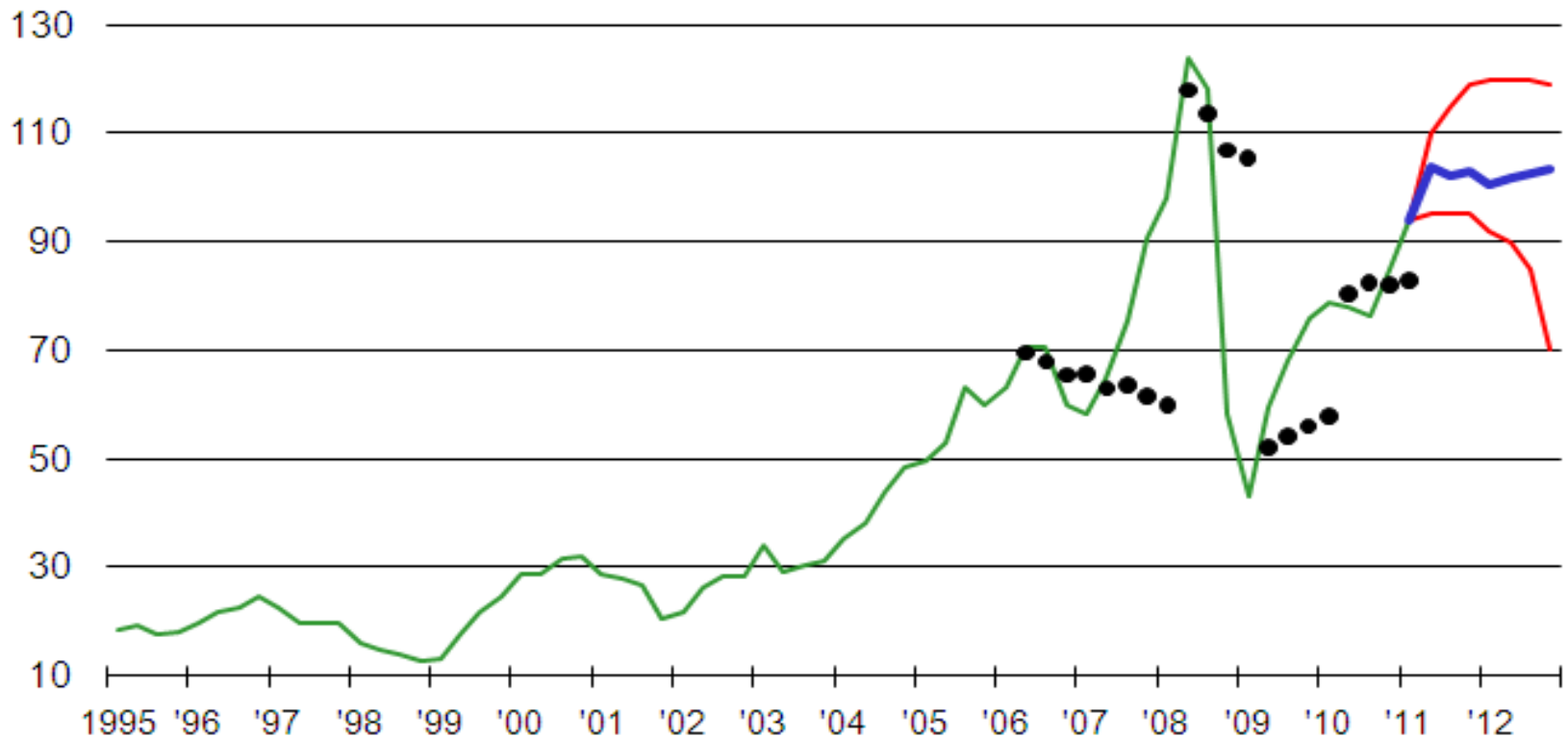
**The unemployment rate is forecast to edge down to 8.5% at the end of this year and to 8.2% by the end of next year**



**Oil prices are expected to remain relatively flat, although at an elevated level**

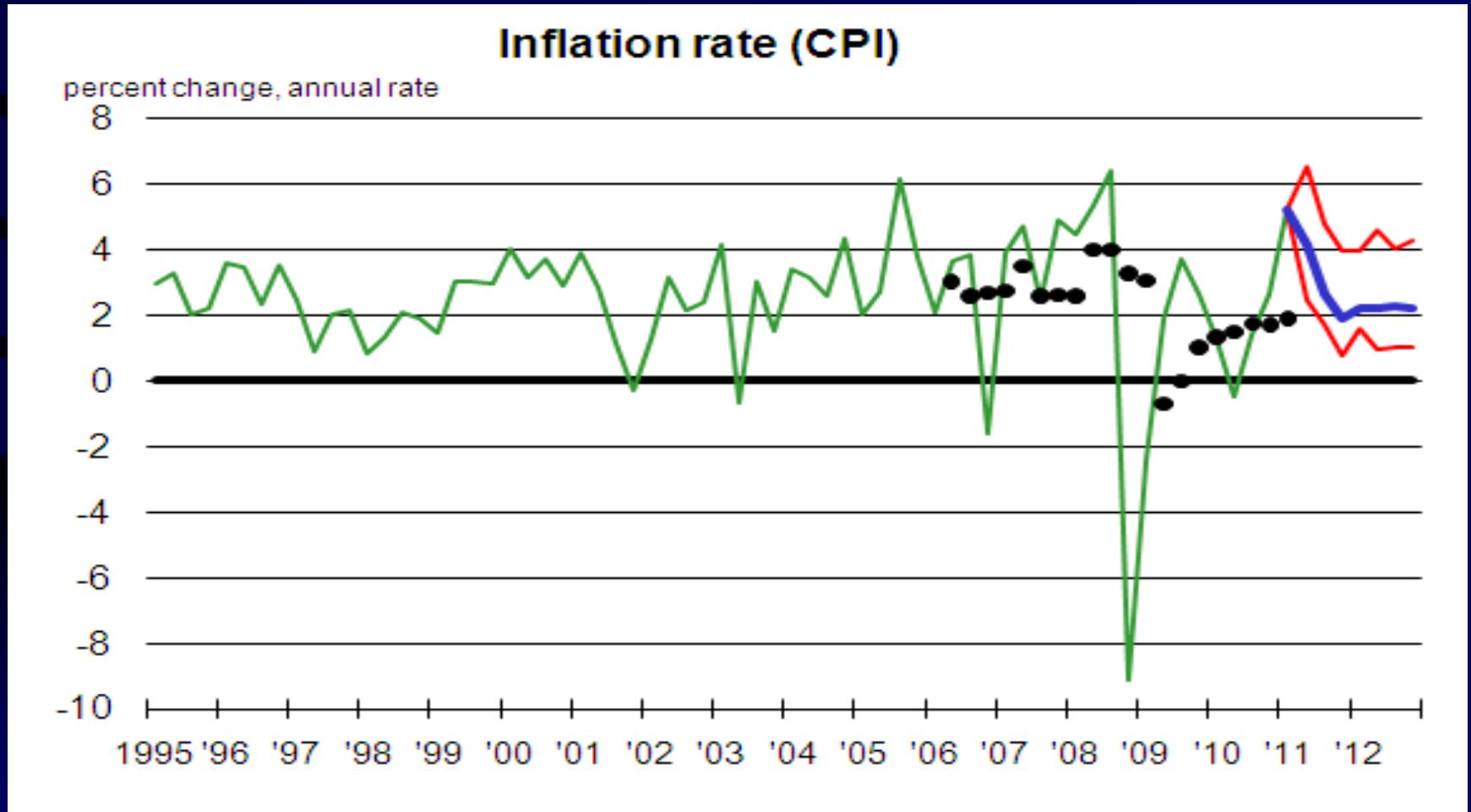
**Oil Prices - West Texas Intermediate**

Dollars per barrel

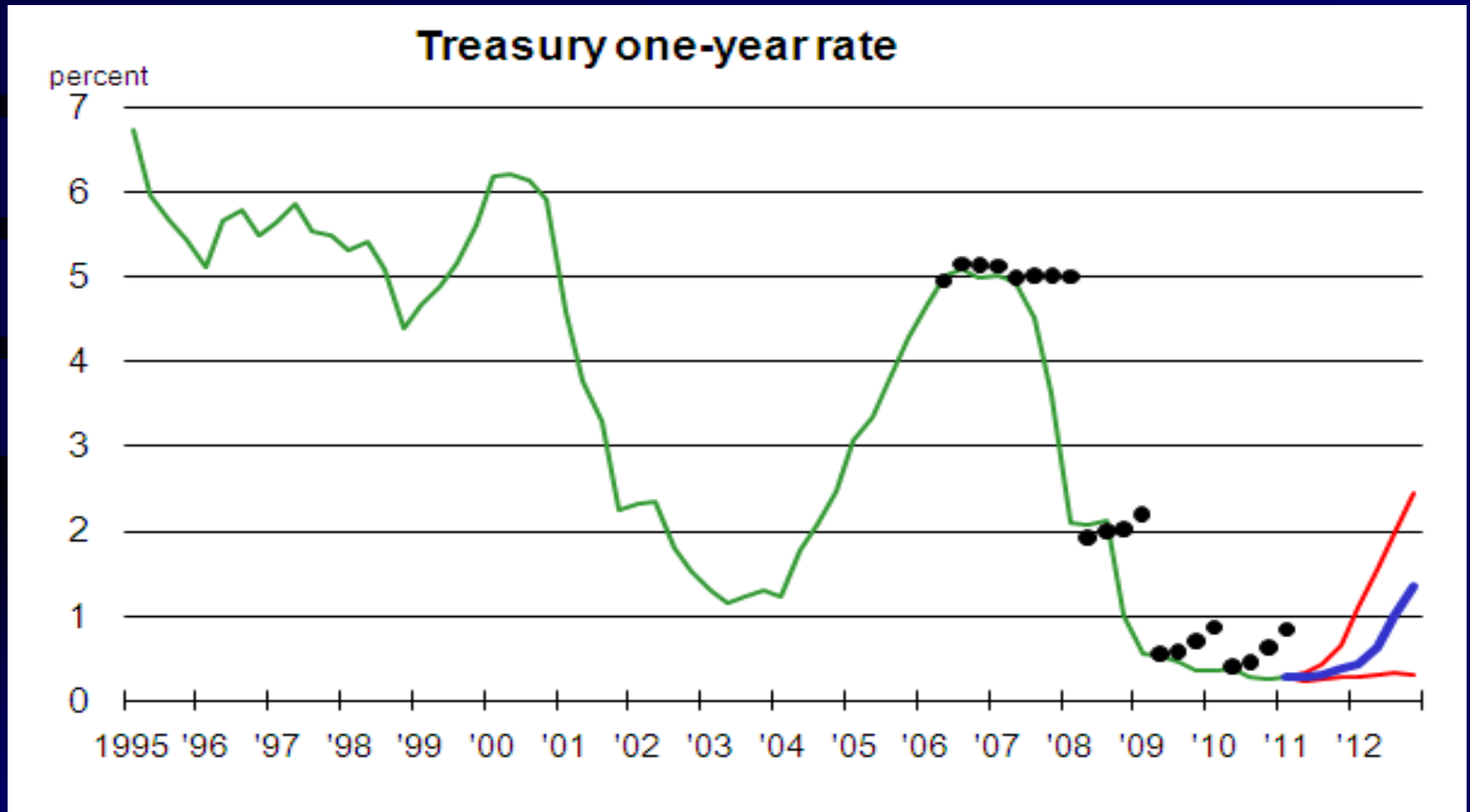




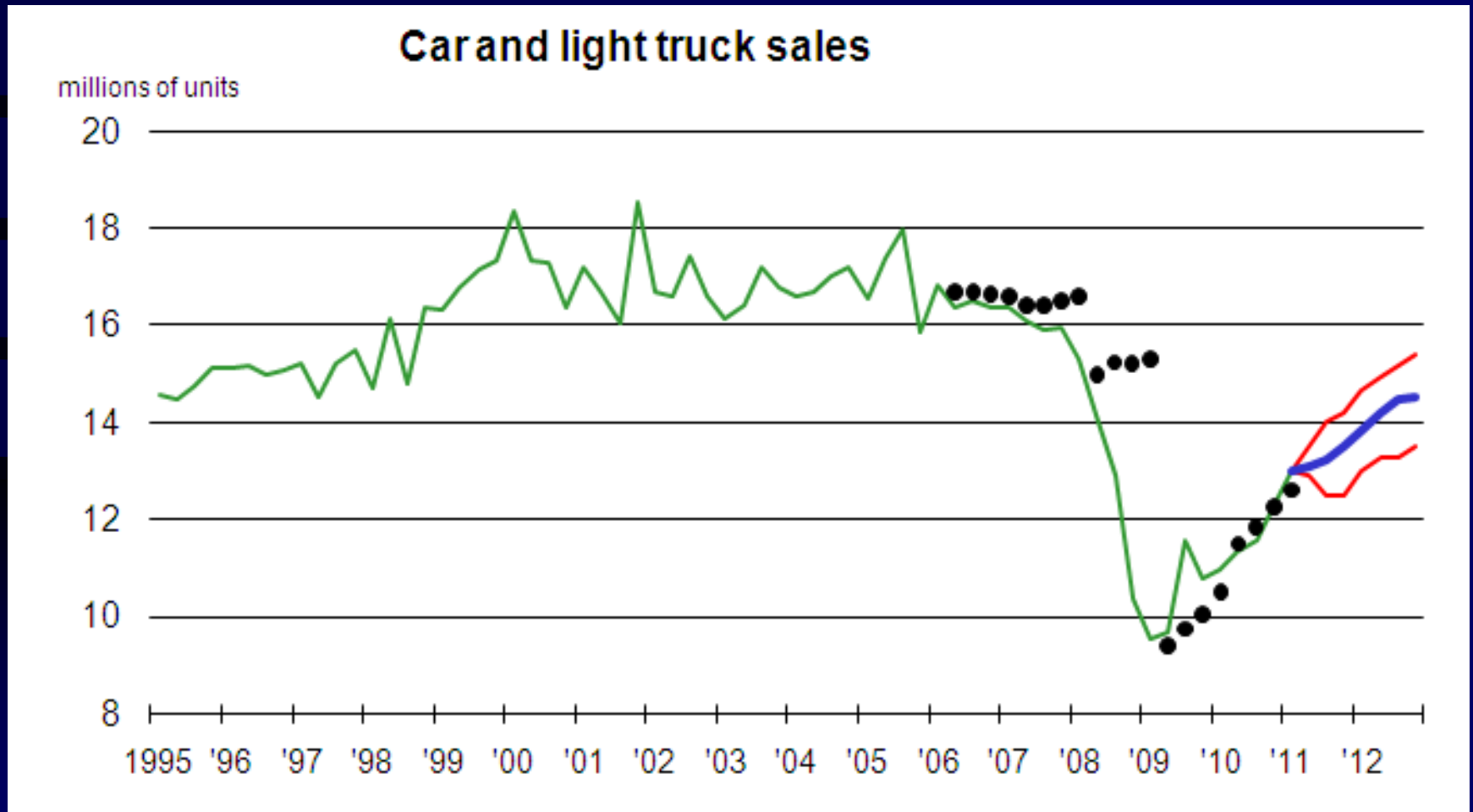
**The jump in inflation is viewed as transitory  
and is anticipated fall to 2.2% in 2012**



**Short-term interest rates are forecast to increase 109 basis points over the next year and a half reaching 1.36% by the end of 2012**



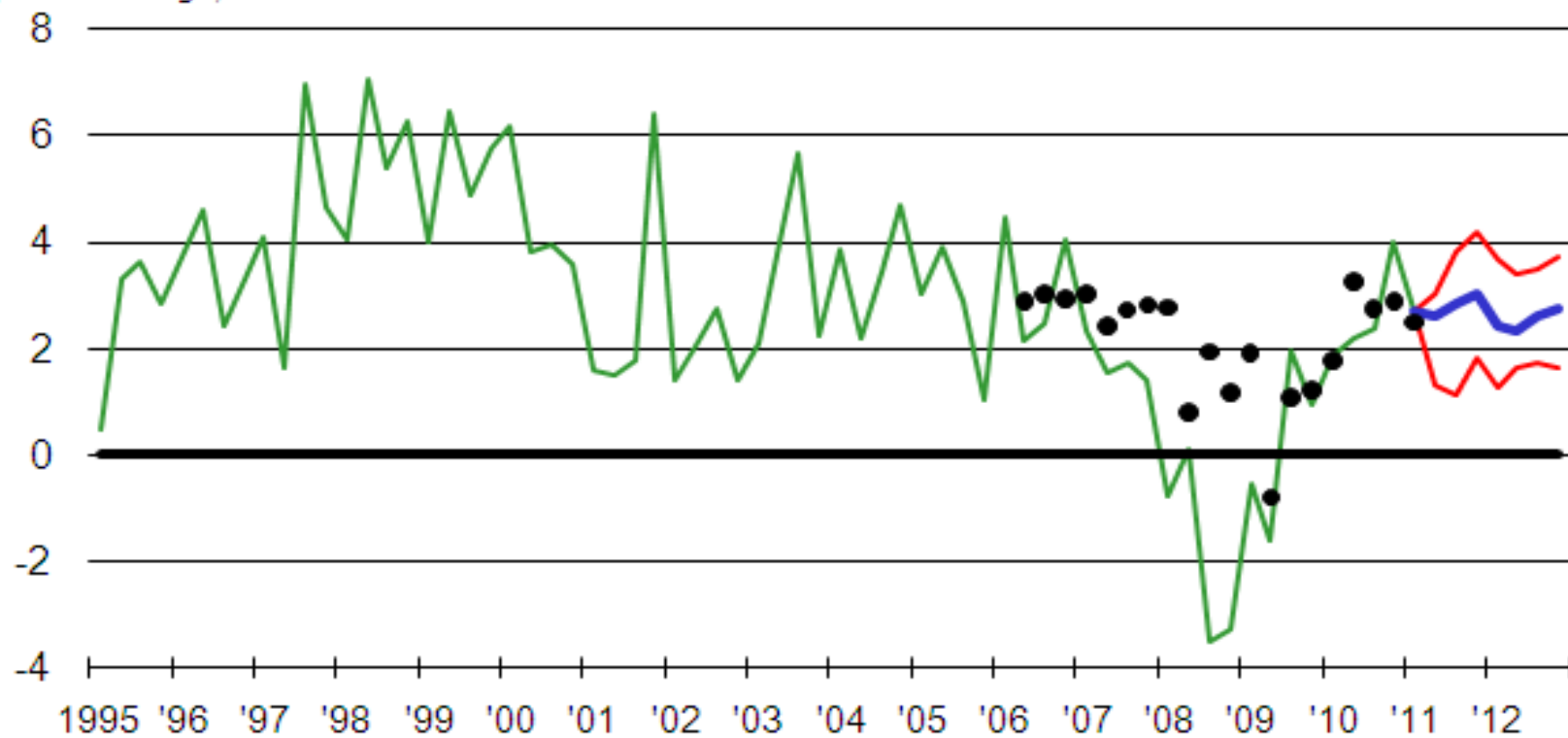
**Light vehicle sales are forecast to continue improving,  
coming in at 13.2 million units this year  
and 14.4 million units in 2012**



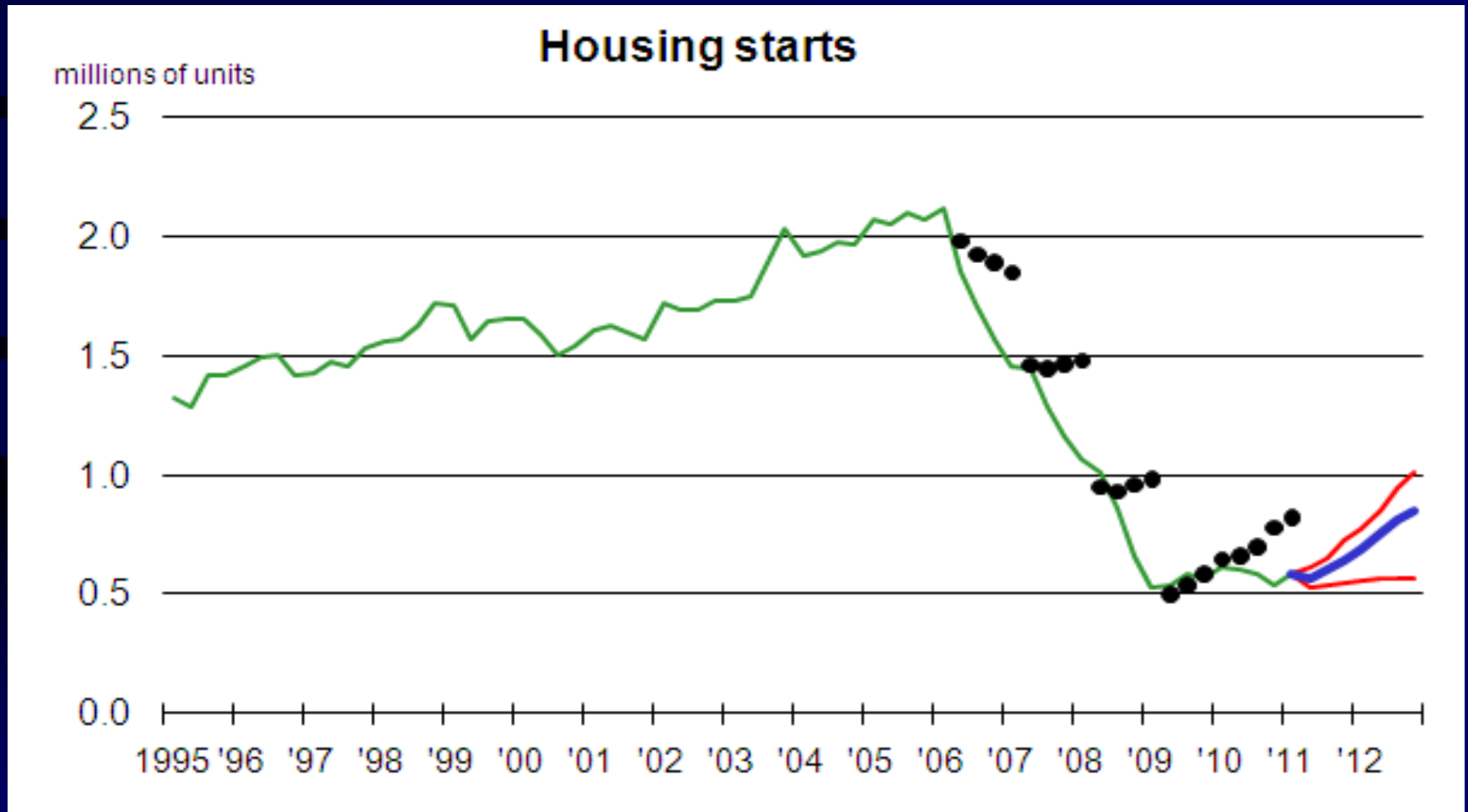
# Consumption growth is expected to rise at a solid pace

## Personal consumption expenditures

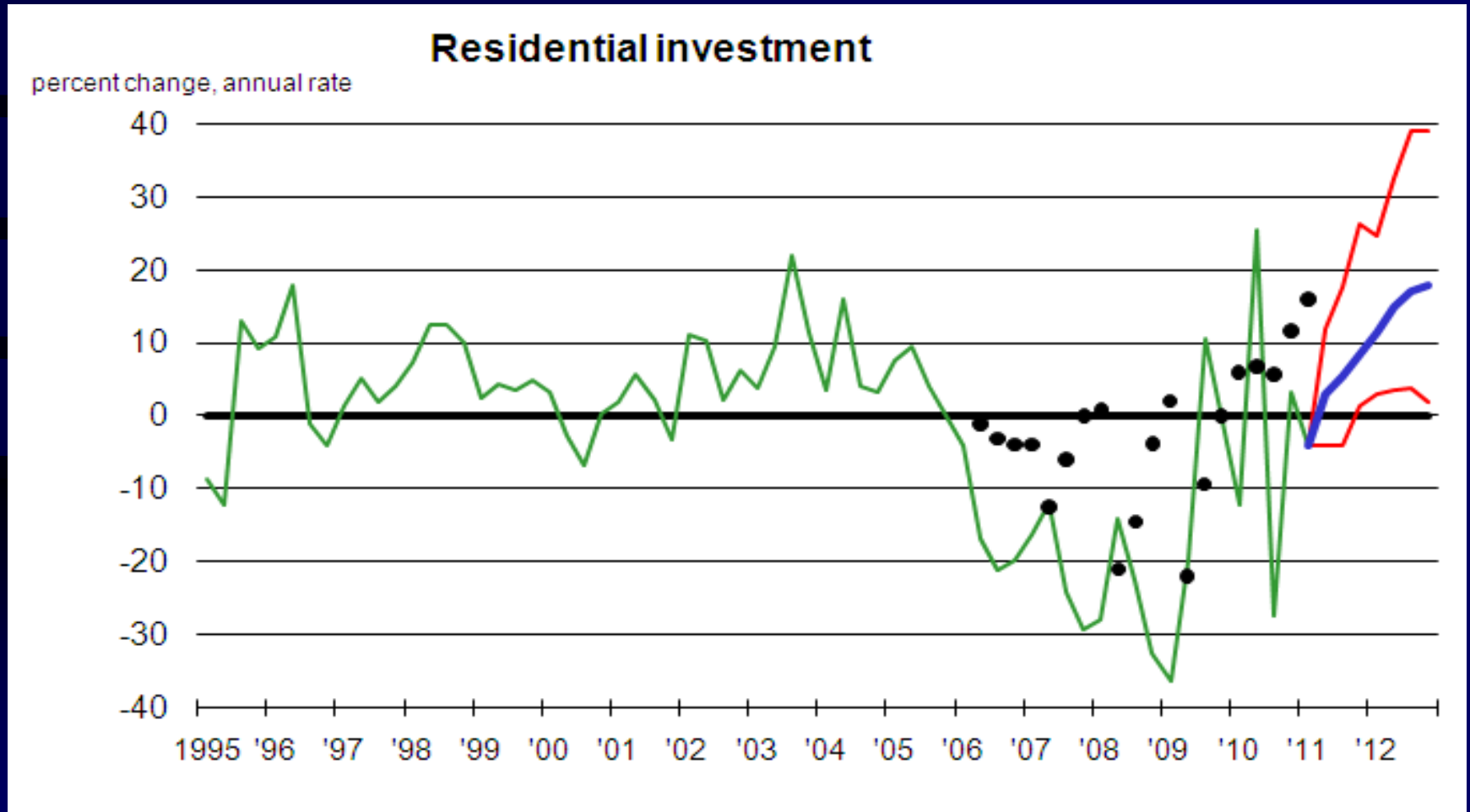
percent change, annual rate



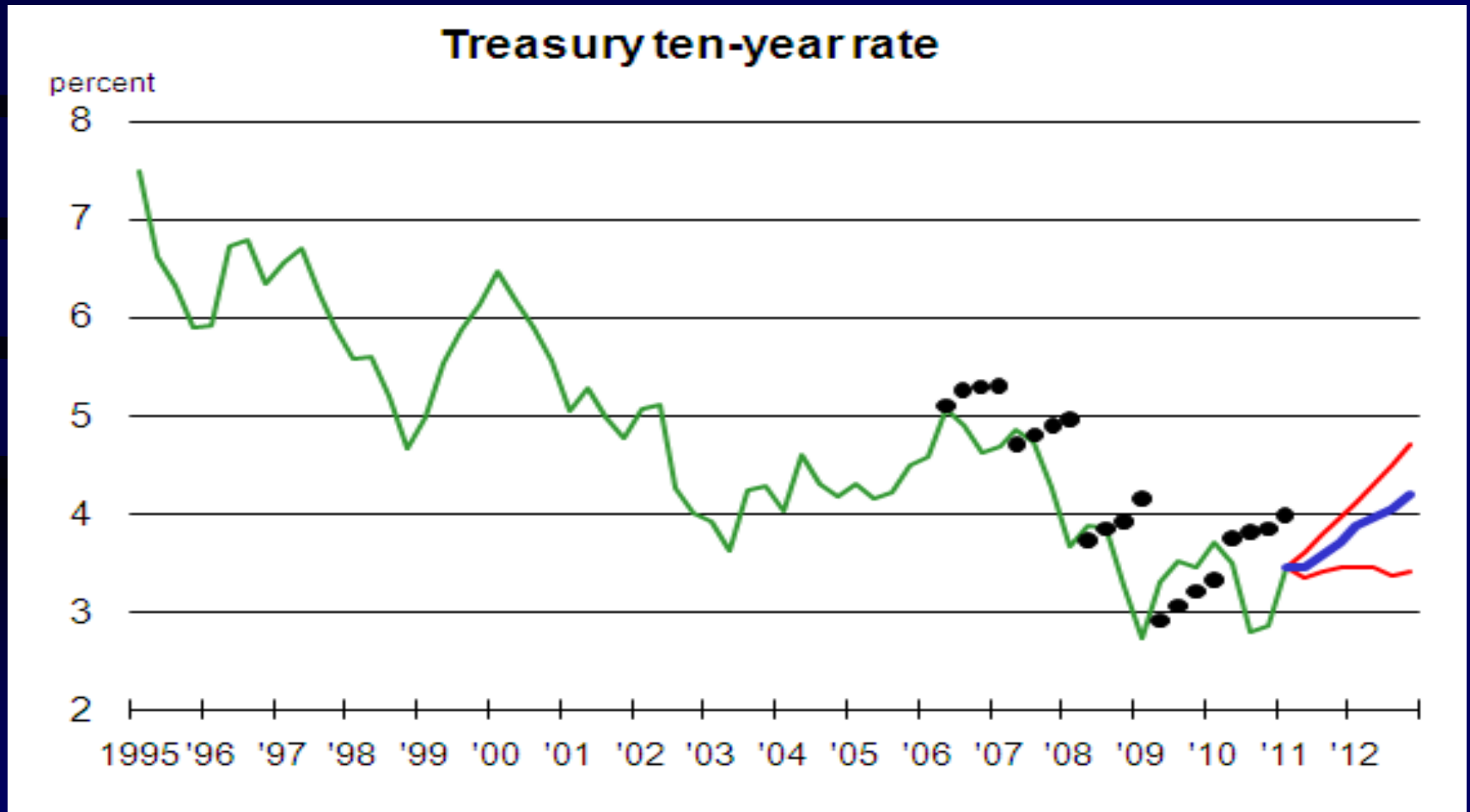
# Housing starts are once again expected to rise at a moderate pace



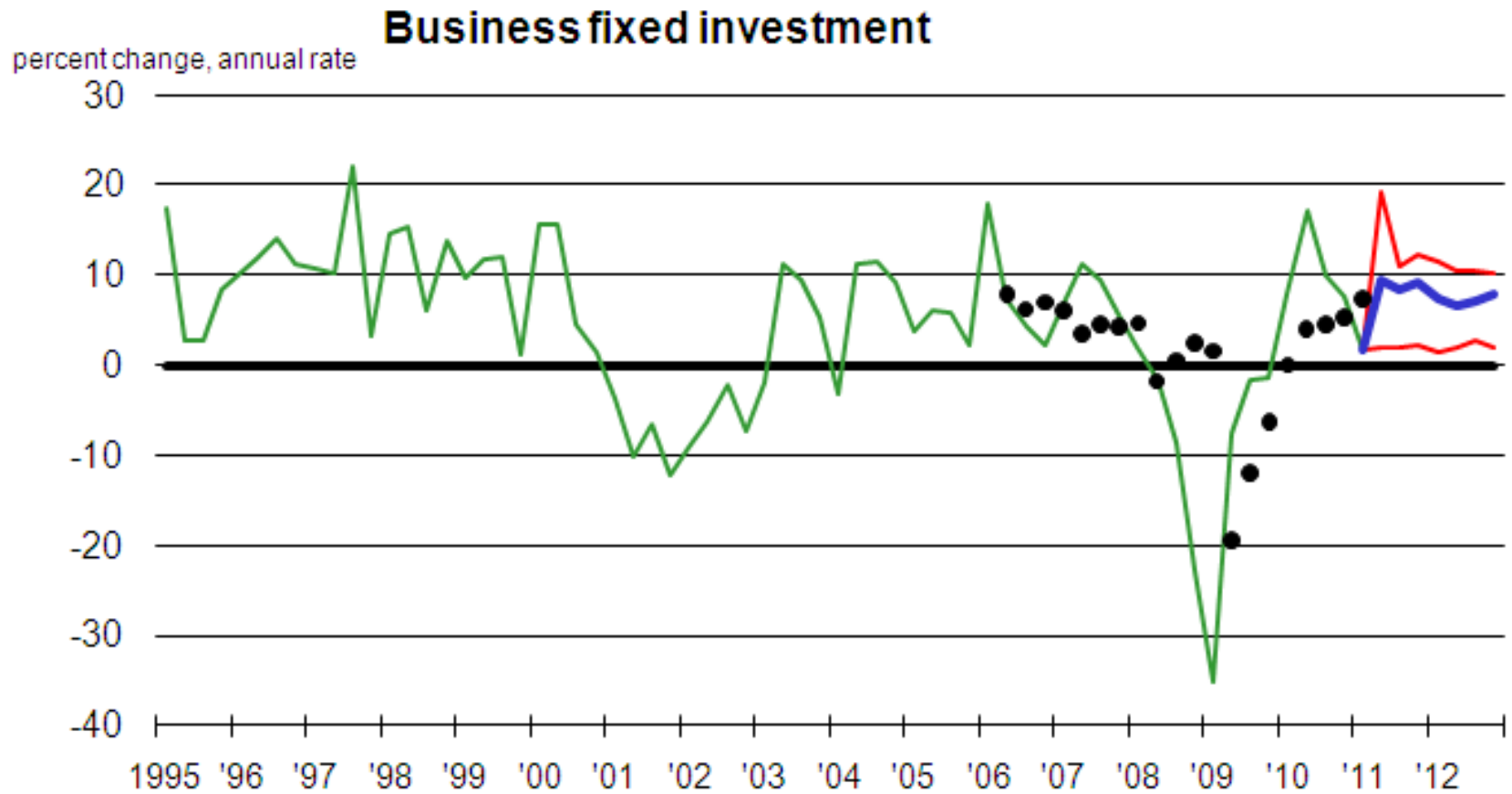
# Residential investment is forecast to rise at a strong pace through next year



**Long-term interest rates are forecast  
to rise by 84 basis points in 2011  
and then rise by 50 basis points in 2012**



**Business spending is anticipated to rise 7.7% in 2011 and then rise 6.8% next year**

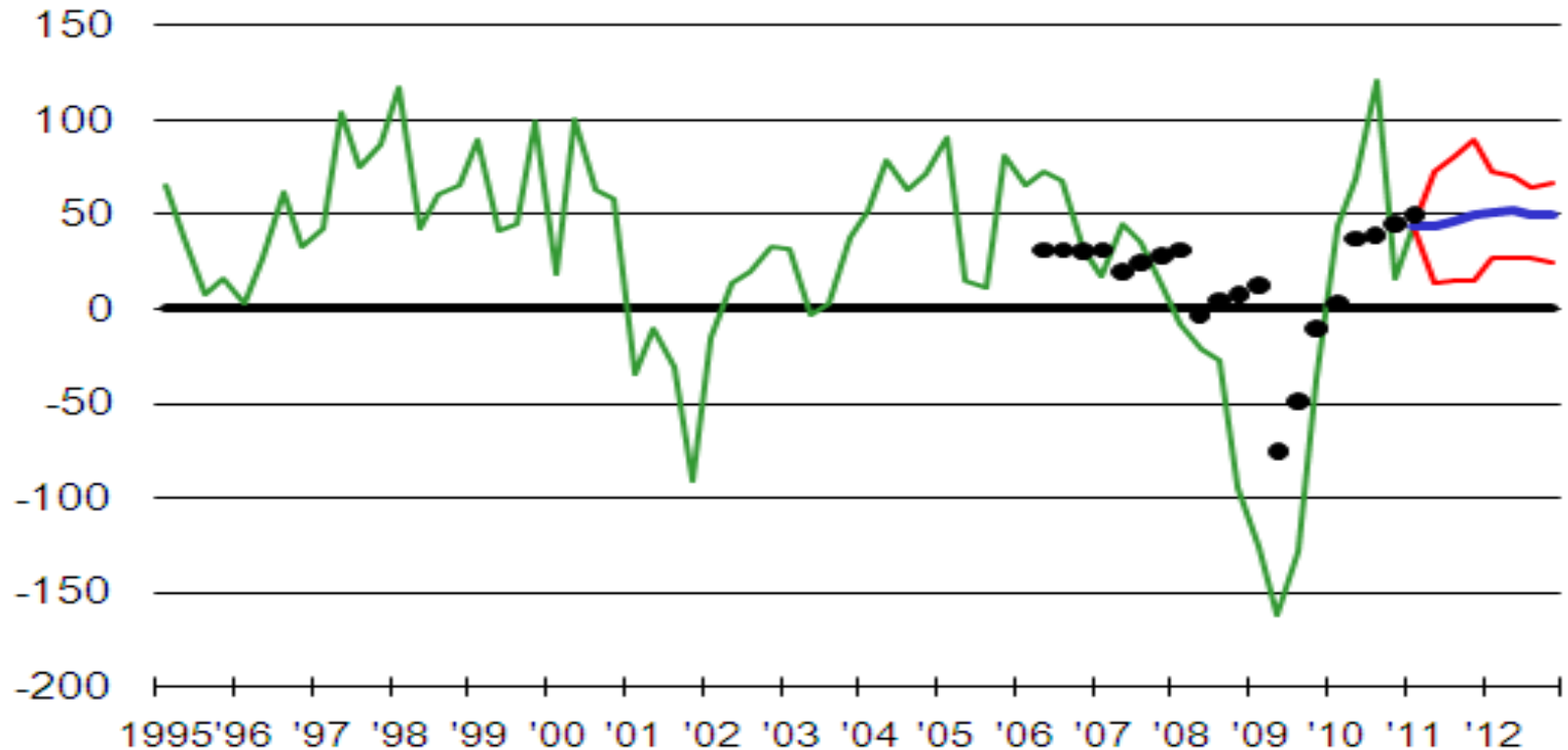




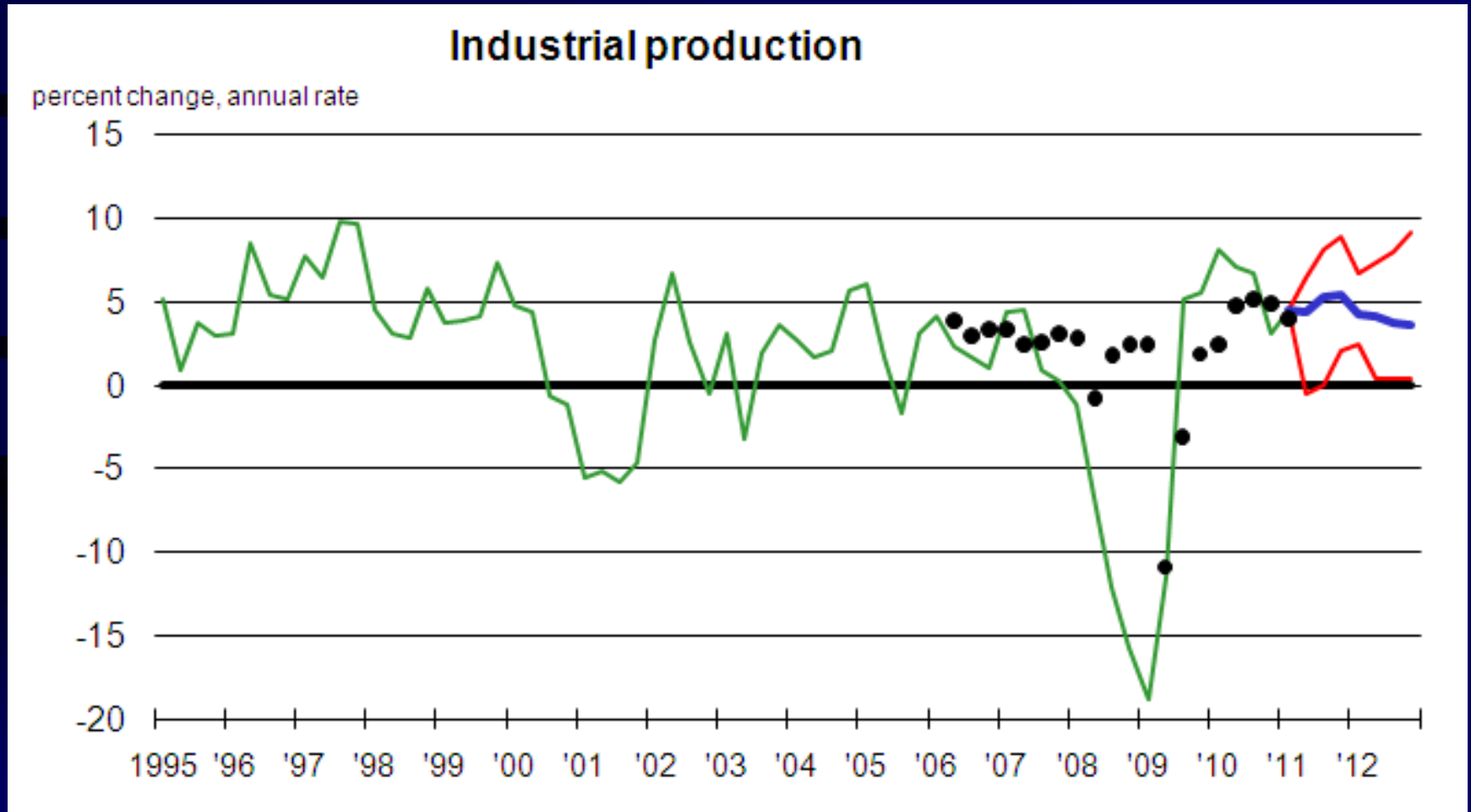
**Inventories are expected to rise at a pace that maintains the inventory to GDP ratio**

### Change in business inventories

billions of constant dollars



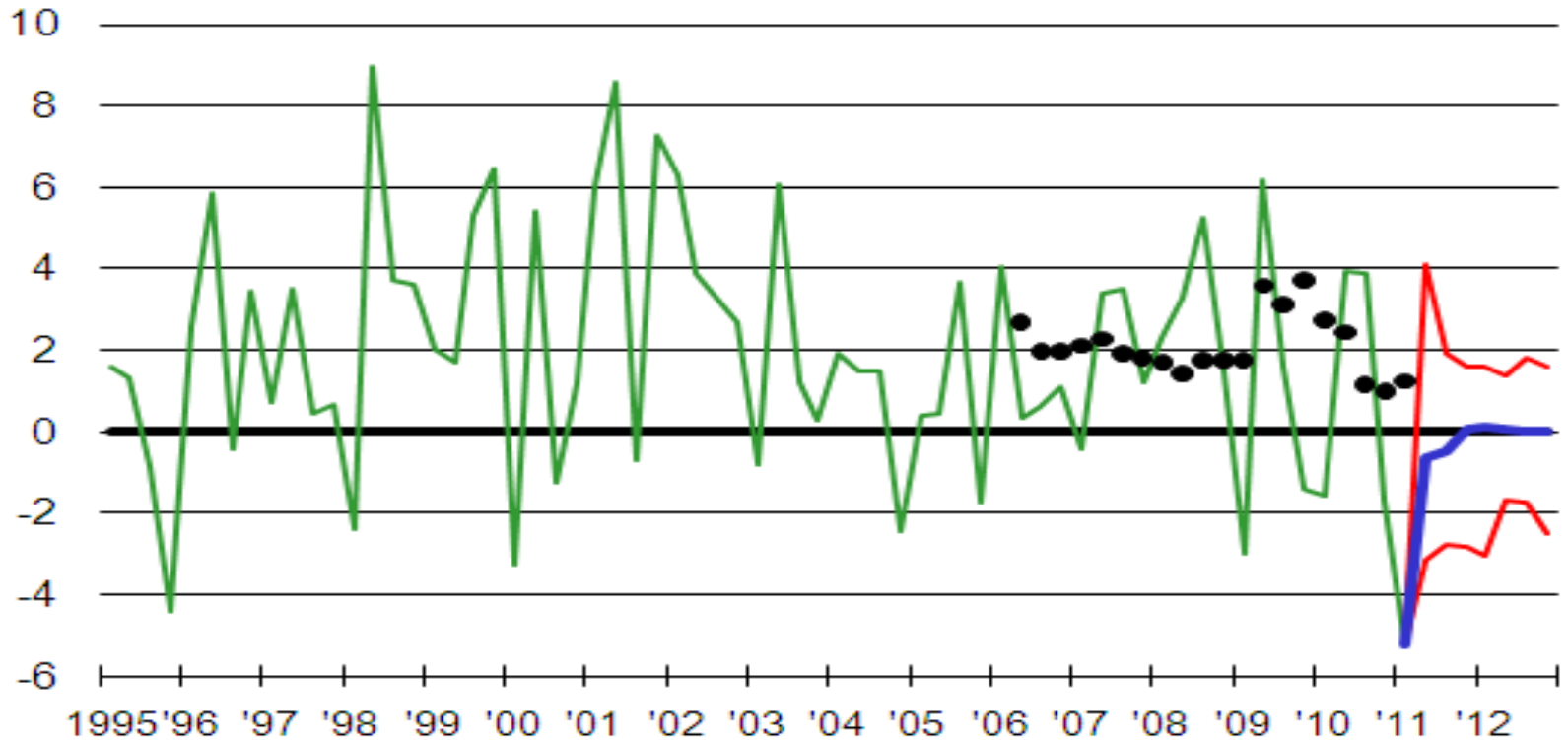
# Industrial output growth is forecast to increase at a strong although slower pace through next year



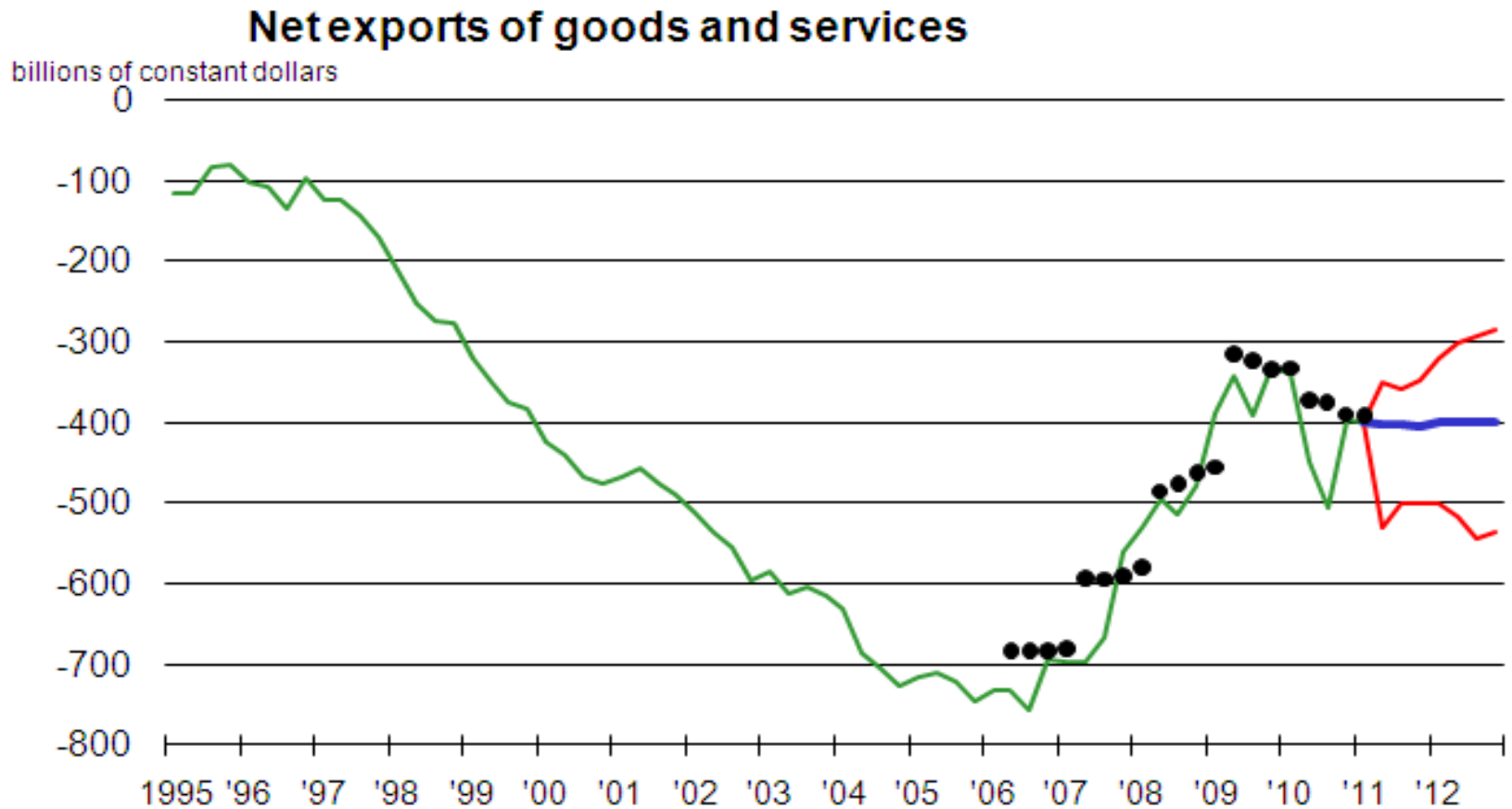
**Government purchases is forecast to edge lower, decreasing by 1.7% in 2011 and 0.2% in 2012**

### Government consumption

percent change, annual rate



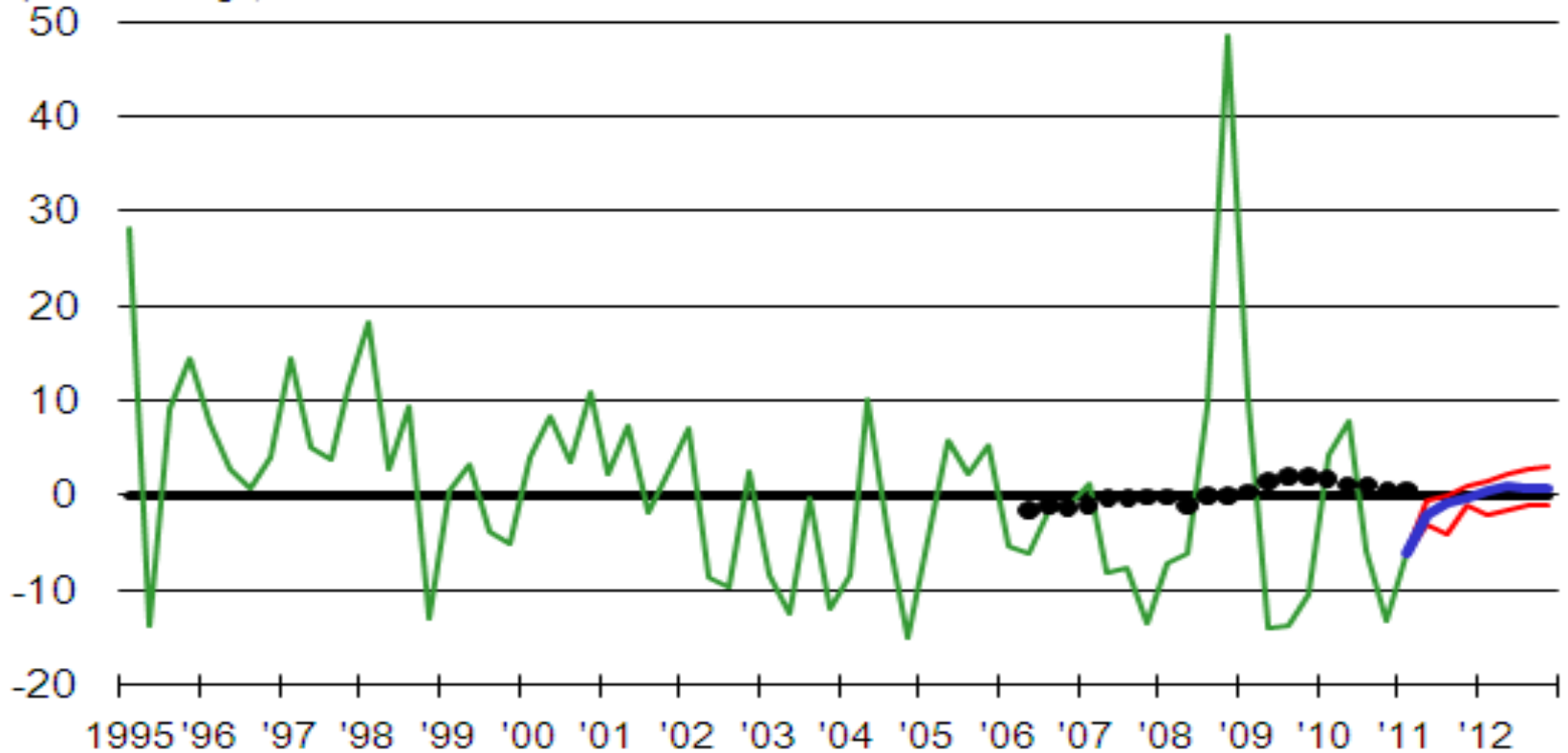
## Net exports are expected to remain flat over the forecast horizon



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

### J.P. Morgan trade weighted dollar

percent change, annual rate



# Summary

- **The economy is forecast to rise at a solid pace in 2011 and 2012 with growth slightly above potential**
- **The unemployment rate is expected to gradually improve falling to 8.5% at the end of this year and 8.2% at the end of next year**
- **Inflation is expected to come in at 2.6% in 2011 and then ease to 2.2% in 2012**
- **Light vehicle sales are forecast to be 13.2 million units this year and then improve to 14.4 million in 2012**
- **[www.chicagofed.org](http://www.chicagofed.org)**

