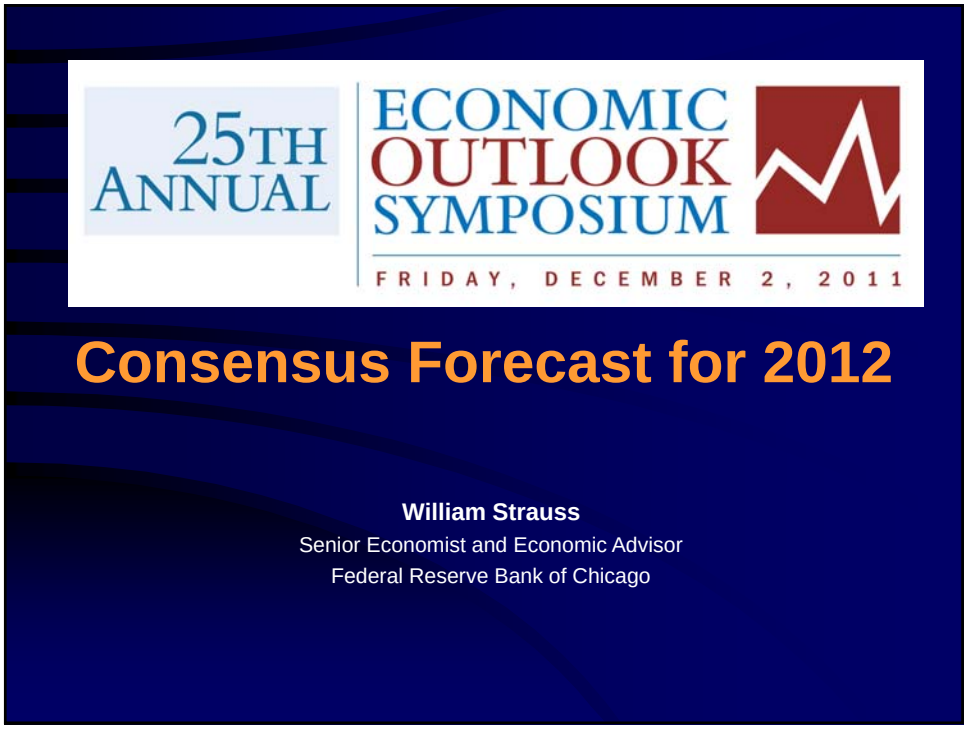
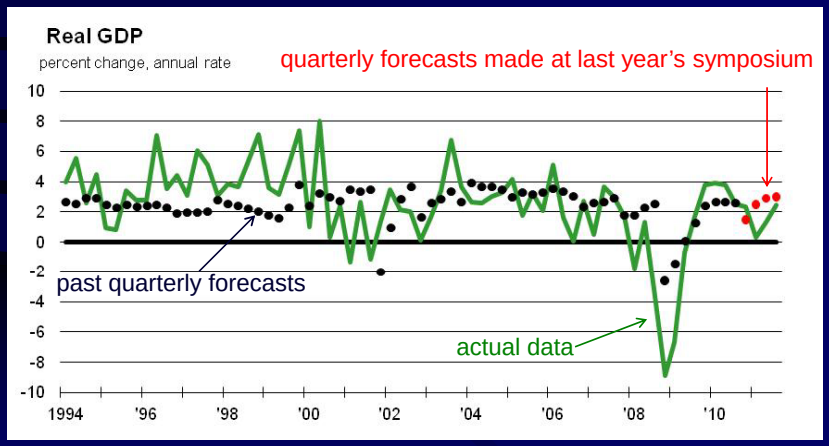
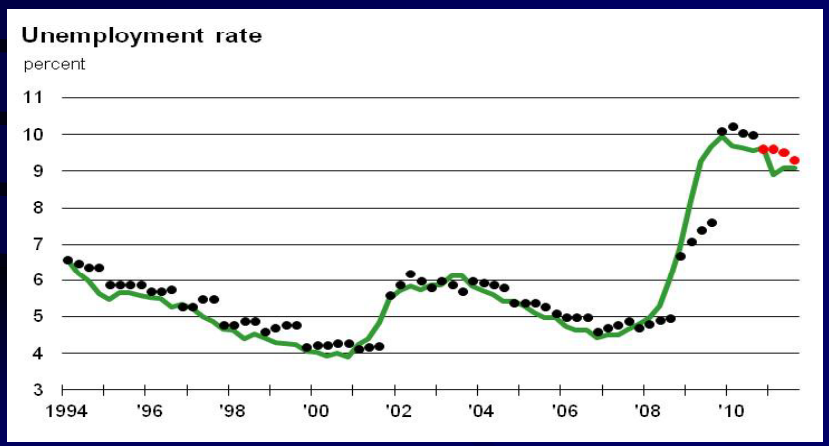

25TH ANNUAL
ECONOMIC OUTLOOK SYMPOSIUM
FRIDAY, DECEMBER 2, 2011
Consensus Forecast for 2012
William Strauss
Senior Economist and Economic Advisor
Federal Reserve Bank of Chicago

Review of past performance

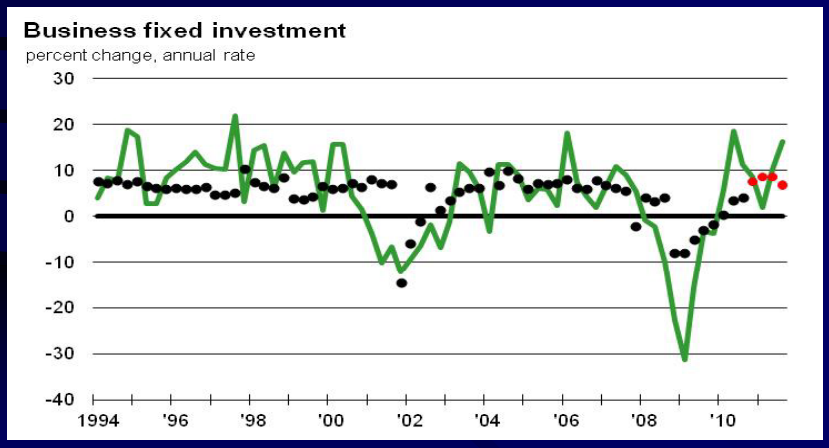
The growth in real GDP came in at a slower pace than was anticipated



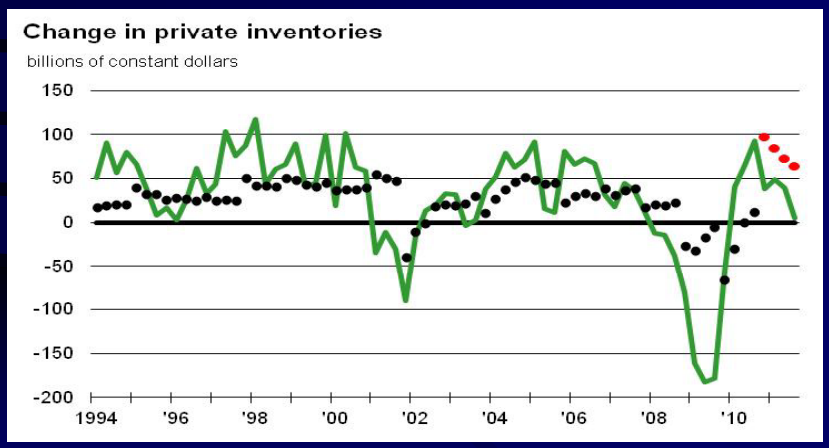
However, the unemployment rate came in a bit lower than predicted



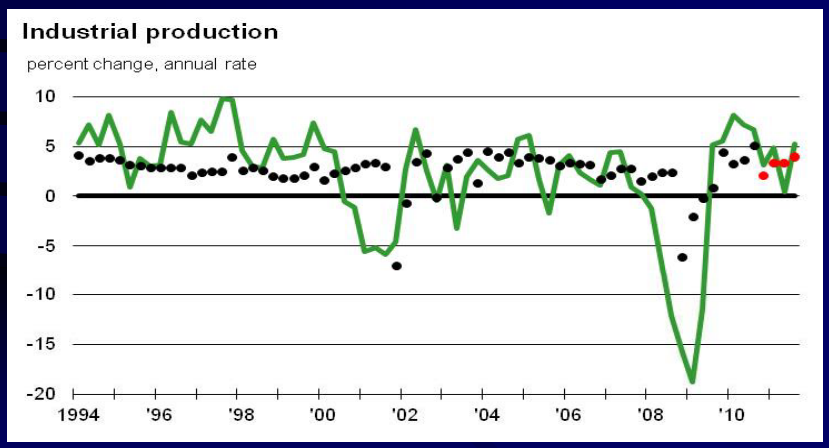
While the quarterly pattern had more volatility, strong business investment growth was forecast



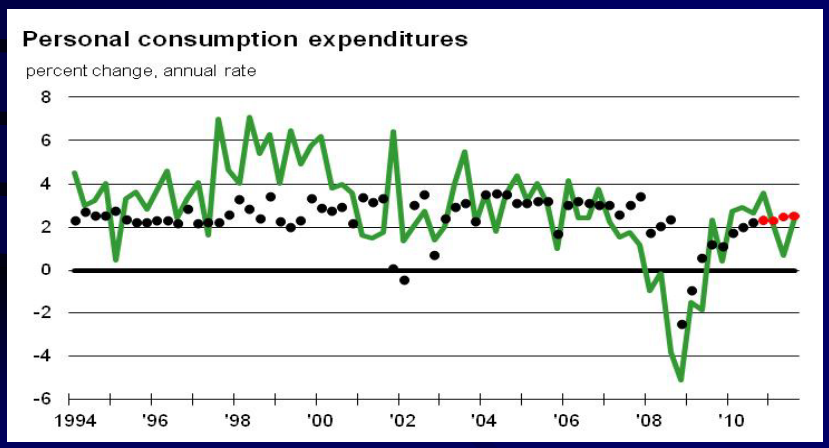
Inventory restocking was anticipated to moderate, however inventories increased at an even slower pace



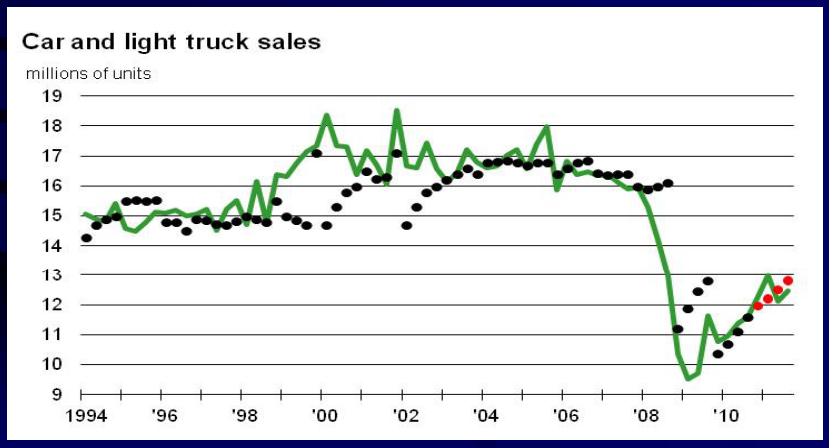
The industrial sector's growth was accurately forecast



Consumer spending predictions were In-line with actual expenditures

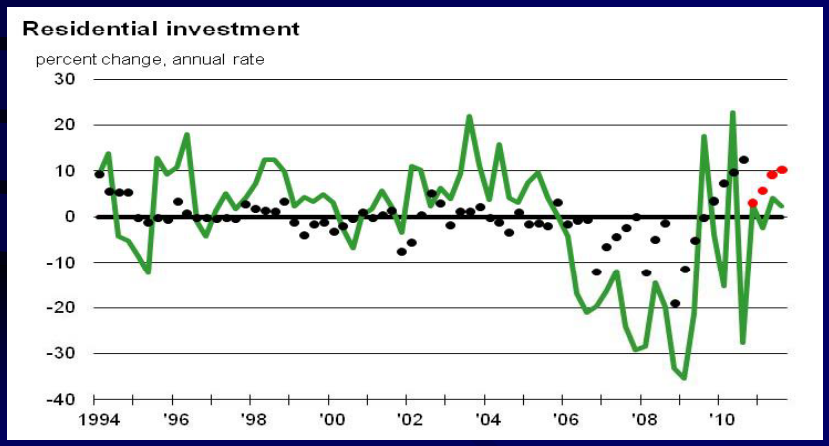


Light vehicle sales were also accurately predicted



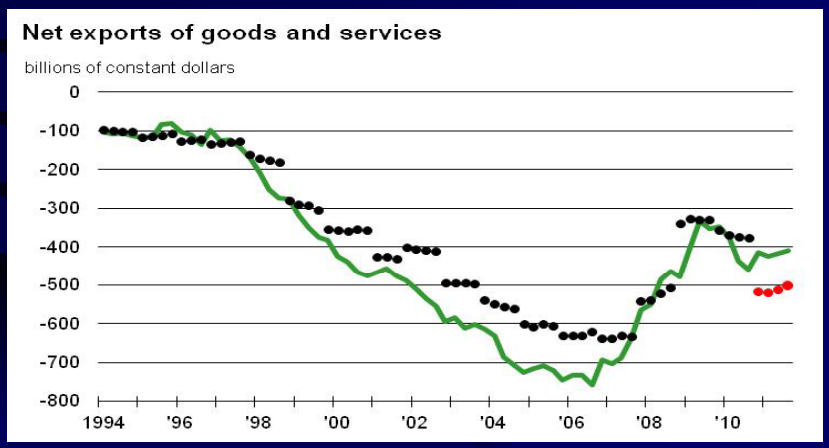
For the fifth year in a row, housing starts came in lower than anticipated

Similarly, residential investment increased at a more reduced pace than forecast

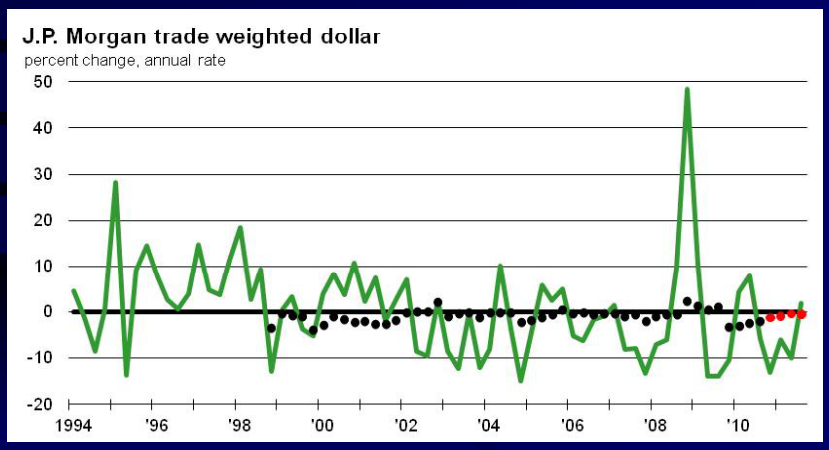


Long-term interest rates were also expected to rise, and while they initially increased, as the year progressed they declined sharply

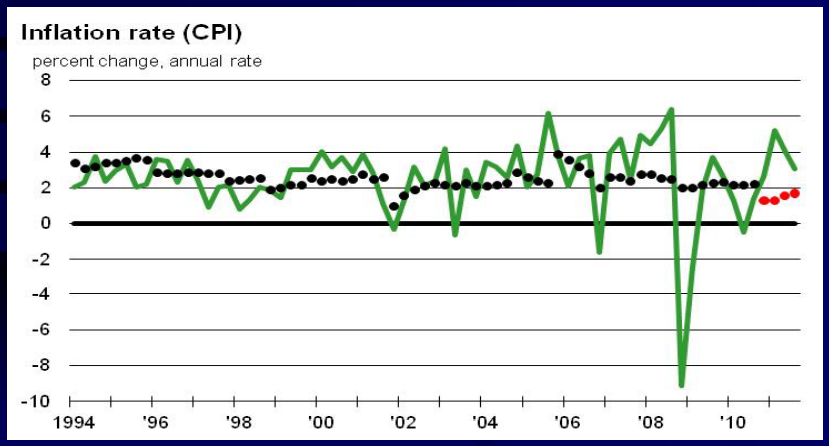
The balance of trade was predicted to remain flat, but it improved over the past year



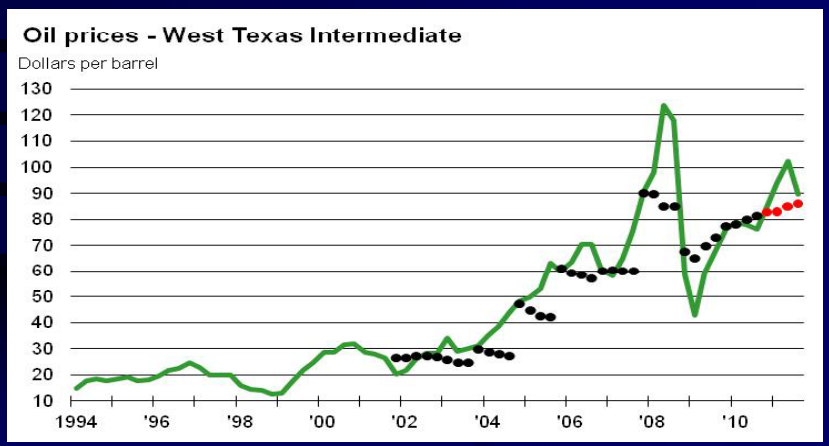
The dollar was predicted to edge lower, but declined at a more pronounced rate



Inflation was much higher than forecast



In large part due to oil prices rising more than was expected



Short-term interest rates were expected to increase slightly, but actually edged lower

Forecast for 2012

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

	2010	2011	2012
GDP, current dollars*	4.7%	**4.0%**	**3.8%**
GDP price index, chain-type*	1.6%	**2.3%**	**1.5%**
Real GDP, chained dollars*	3.1%	**1.6%**	**2.0%**
Personal consumption expenditures*	3.0%	**1.8%**	**2.0%**
Business fixed investment*	11.1%	**8.8%**	**4.7%**
Residential investment*	-6.3%	**1.6%**	**3.4%**
Change in private inventories (billions of constant dollars)**	$38.3	**$12.4**	**$30.0**
Net exports of goods and services (billions of constant dollars)**	-$414.2	**-$409.4**	**-$414.6**
Government consumption expenditures and gross investment*	0.1%	**-1.8%**	**-0.9%**

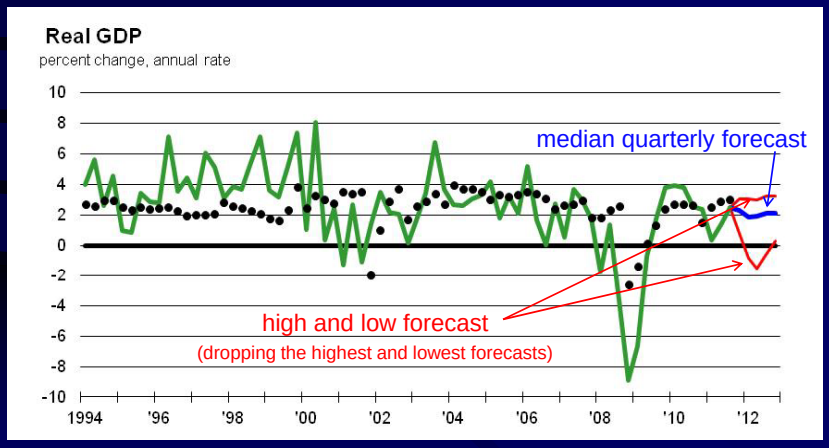
* Q4 over Q4
** Q4 value

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

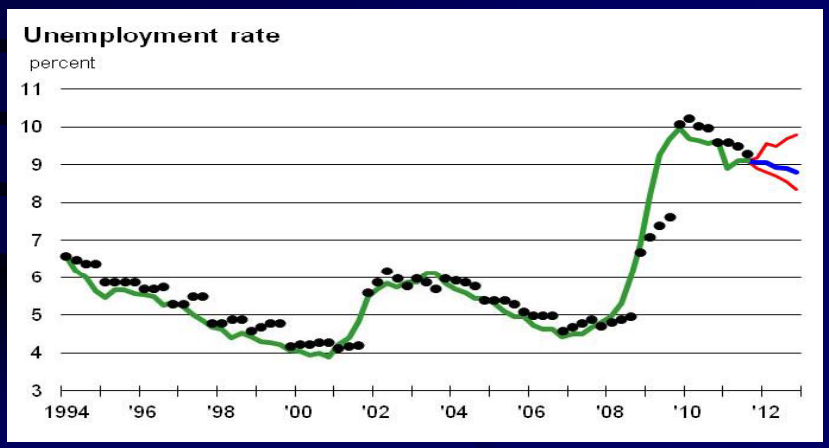
	2010	2011	2012
Industrial production*	6.3%	**3.2%**	**2.3%**
Car & light truck sales (millions - calendar year including imports)***	11.6	**12.6**	**13.4**
Housing starts (millions)***	0.58	**0.60**	**0.66**
Oil price (dollars per barrel of West Texas Intermediate)**	$85.03	**$88.88**	**$92.00**
Unemployment rate**	9.6%	**9.1%**	**8.8%**
Inflation rate (consumer price index)*	1.2%	**3.8%**	**2.4%**
Treasury constant maturity one-year rate**	0.26%	**0.15%**	**0.25%**
Treasury constant maturity ten-year rate**	2.86%	**2.09%**	**2.60%**
J.P. Morgan trade weighted OECD dollar*	-2.0%	**-3.4%**	**0.6%**

* Q4 over Q4
** Q4 value
*** Yearly average

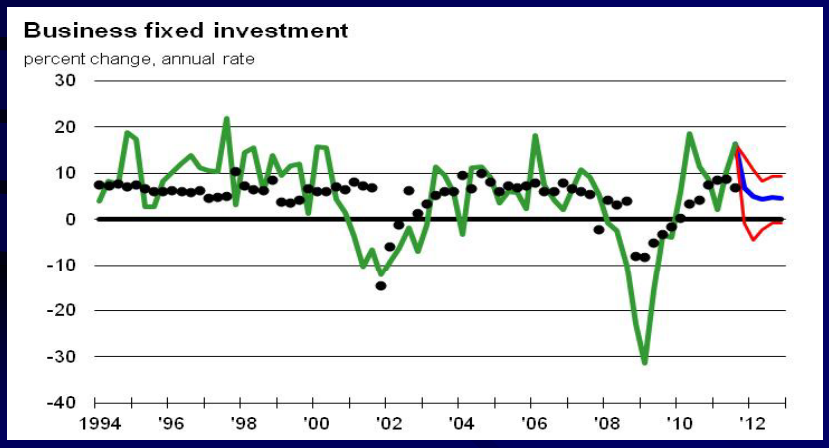
Real GDP growth is expected to increase by 2.0% next year



The unemployment rate is projected to edge lower, reaching 8.8% in the final quarter of next year



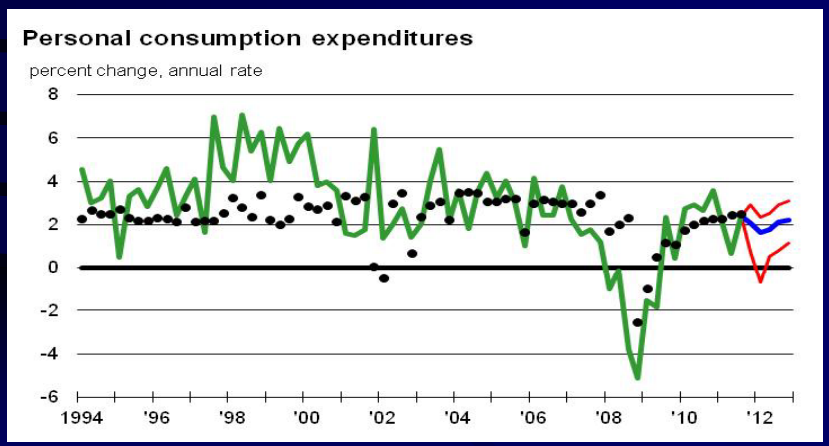
Business fixed investment growth is forecast to slow to a still solid 4.7% over the coming year



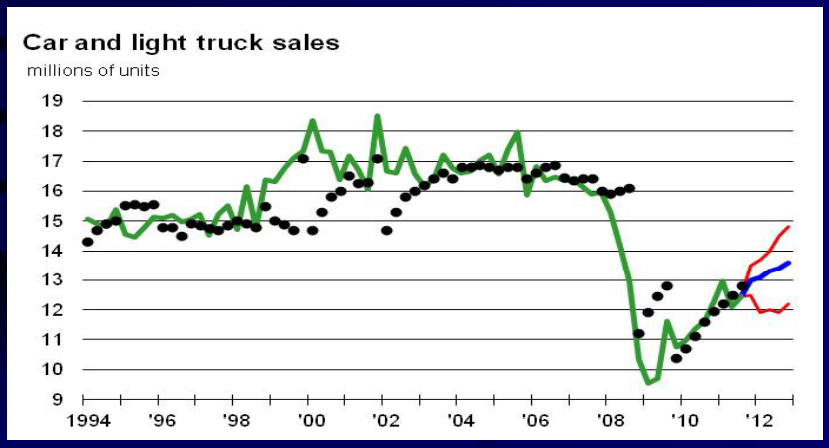
Inventories are anticipated to increase at a slow pace over the course 2012

Industrial output is forecast to increase 2.3% next year with the growth rate decreasing throughout the year

Consumer spending growth is expected to remain flat at a moderate rate during 2012

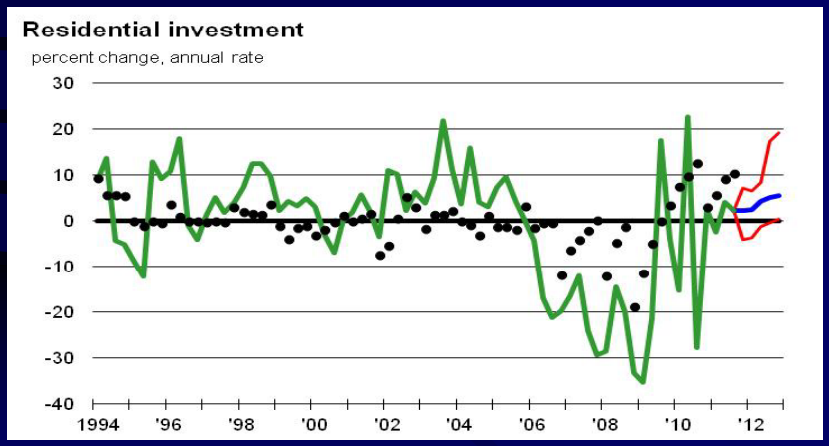


Vehicle sales are forecast to improve each quarter with sales of 13.4 million units next year

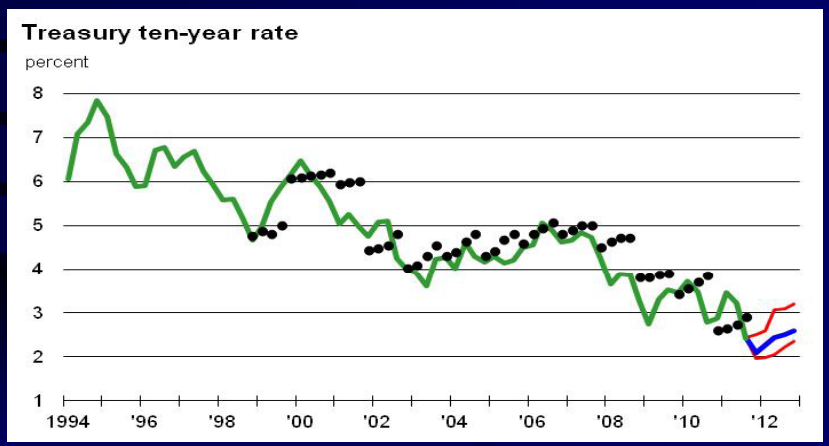


Housing starts are forecast to continue its tepid improvement

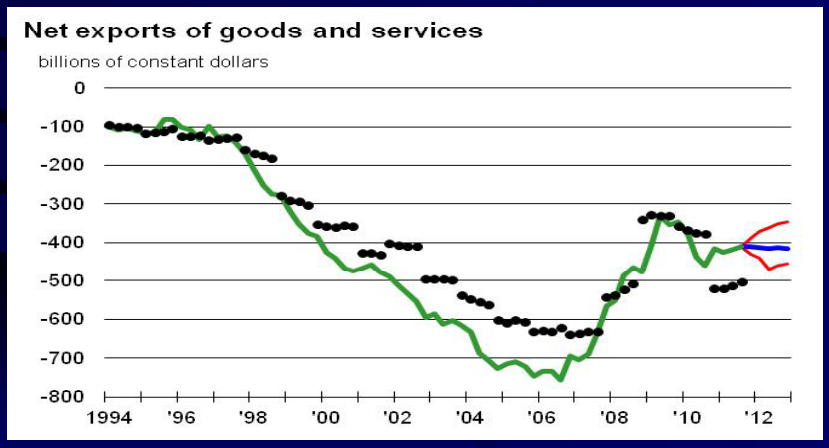
After rising by a forecasted 1.6% in 2011, residential investment is expected to rise 3.4%



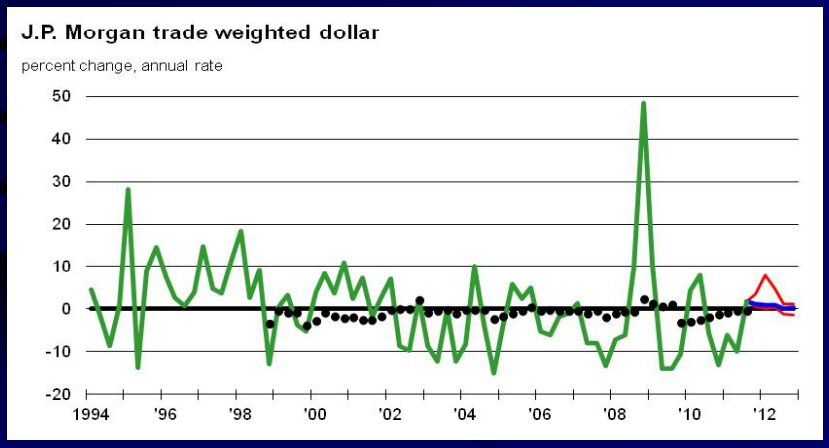
Ten-year interest rates are expected to increase modestly, rising 51 basis points in 2012



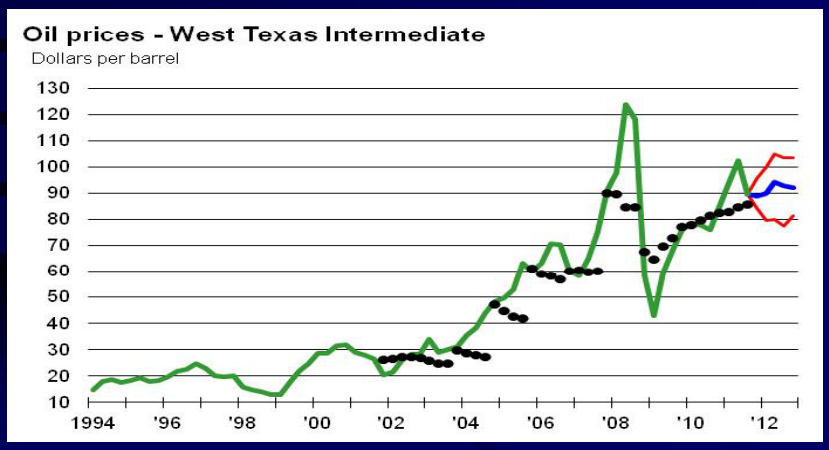
The trade balance is forecast to remain unchanged



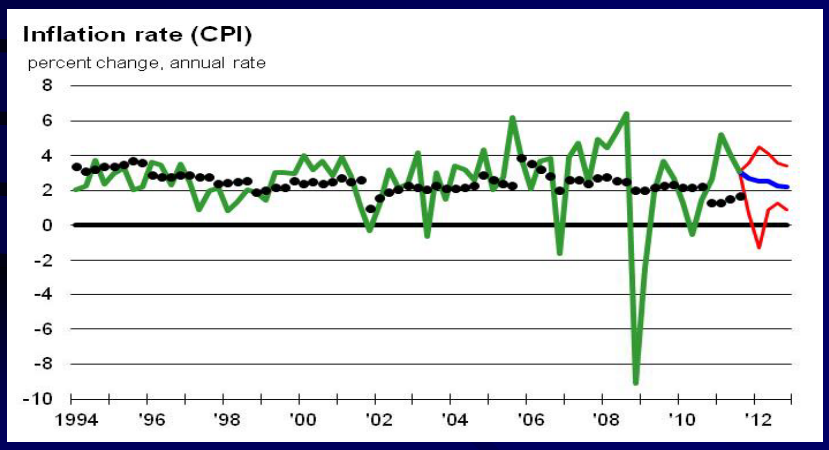
The dollar is forecast to remain unchanged



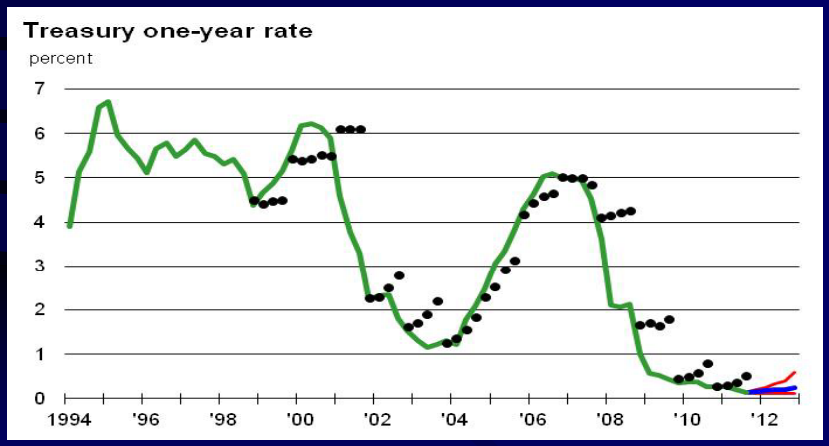
Oil prices are predicted to rise moderately, averaging $92 per barrel by the end of 2012



Inflation is forecast to ease to 2.4% next year



Short-term interest rates are predicted to remain low, edging higher by 10 basis points next year



Summary

- The economy is forecast to rise at a slow pace in 2012
- With economic growth slightly below potential, the unemployment rate does not show much improvement
- Inflation is anticipated to ease
- Manufacturing growth is expected to moderate
- Light vehicle sales are forecast to rise to 13.4 million units
- Housing starts are predicted to increase to 660,000 units
- www.chicagofed.org