

News Release

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U.S. Economic Growth Will Remain Solid in 2006 and Moderate in 2007, Chicago Fed Automotive Outlook Symposium Participants Say

The thirteenth annual Automotive Outlook Symposium of the Federal Reserve Bank of Chicago was held in Detroit on June 1 and 2. According to the median forecast of Symposium participants, the nation's economic growth in 2006 will be more moderate than in 2005, inflation will fall, and the unemployment rate will decrease. The consensus outlook shows that real gross domestic product (GDP), after having risen 3.5% last year, is forecasted to increase 3.5% this year and 3.0% in 2007. After having grown at 3.4% last year, inflation, as measured by the Consumer Price Index, is expected to rise 2.6% this year and 2.4% in 2007. The unemployment rate, after having averaged 5.1% in the fourth quarter of 2005, is forecasted to fall to 4.8% in 2006 and 4.9% in 2007.

The Symposium drew participants from manufacturing, banking, consulting, and service firms, as well as academia. One part of the Symposium involves the generation of a consensus economic outlook. This year, 28 individuals provided forecasts for major components of real GDP as well as several key statistics for the U.S. economy. The median forecast results are presented in the table below.

All major components of real GDP are expected to contribute to the moderation forecasted in economic growth from 2006 to 2007, particularly a projected decline in residential investment. Importantly, most major real GDP components are forecasted to continue expanding this year, approximately at the same pace as in 2005. Economic growth in 2007 is forecasted to be more of the same as in 2006, albeit at a little slower pace. Industrial production is forecast to rise at a solid rate in 2006 and 2007. Light vehicle sales are projected to be 16.7 million units in 2006 and then to edge higher to 16.8 million units in 2007. Symposium participants anticipate that interest rates will rise this year, which may be a factor contributing to the slowing in economic growth. Oil prices are expected average just over \$65 per barrel by the end of 2006 and then remain

relatively flat next year. The U.S. dollar is expected to weaken somewhat further over the forecast horizon.

A summary of the thirteenth annual Automotive Outlook Symposium will be published in an upcoming *Special Issue of the Chicago Fed Letter*.

—William A. Strauss • Senior Economist and
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Forecasts from Thirteenth Annual Automotive Outlook Symposium

	2005 (Actual)	2006 (Forecast)	2007 (Forecast)
Real Gross Domestic Product ^a	3.5	3.5	3.0
Real Personal Consumption Expenditures ^a	3.5	3.5	2.9
Real Business Fixed Investment ^a	8.6	8.9	5.9
Real Residential Investment ^a	7.1	-1.7	-0.9
Change in Private Inventories ^b	20.3	31.0	31.2
Net Exports of Goods and Services ^b	-633.1	-682.3	-681.7
Real Government Consumption Expenditures and Gross Investment ^a	1.8	2.4	1.7
Industrial Production ^a	3.2	3.6	3.3
Car & Light Truck Sales (millions of units) ^c	16.9	16.7	16.8
Housing Starts (millions of units) ^c	2.07	1.97	1.83
Unemployment Rate ^d	5.1	4.8	4.9
Consumer Price Index ^a	3.4	2.6	2.4
1-year Treasury Rate (constant maturity) ^d	3.62	5.14	5.05
10-year Treasury Rate (constant maturity) ^d	4.29	5.29	5.44
J.P. Morgan Trade Weighted Dollar Index ^a	-2.4	-1.2	-0.5
Oil Price (dollars per barrel of West Texas Intermediate)	56.47	65.51	66.00

^aFourth quarter over fourth quarter percent change.

^bBillions of chained (2000) dollars.

^cFourth quarter average.

^dPercent.

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