



# Consensus Forecast for 2007

**William Strauss**

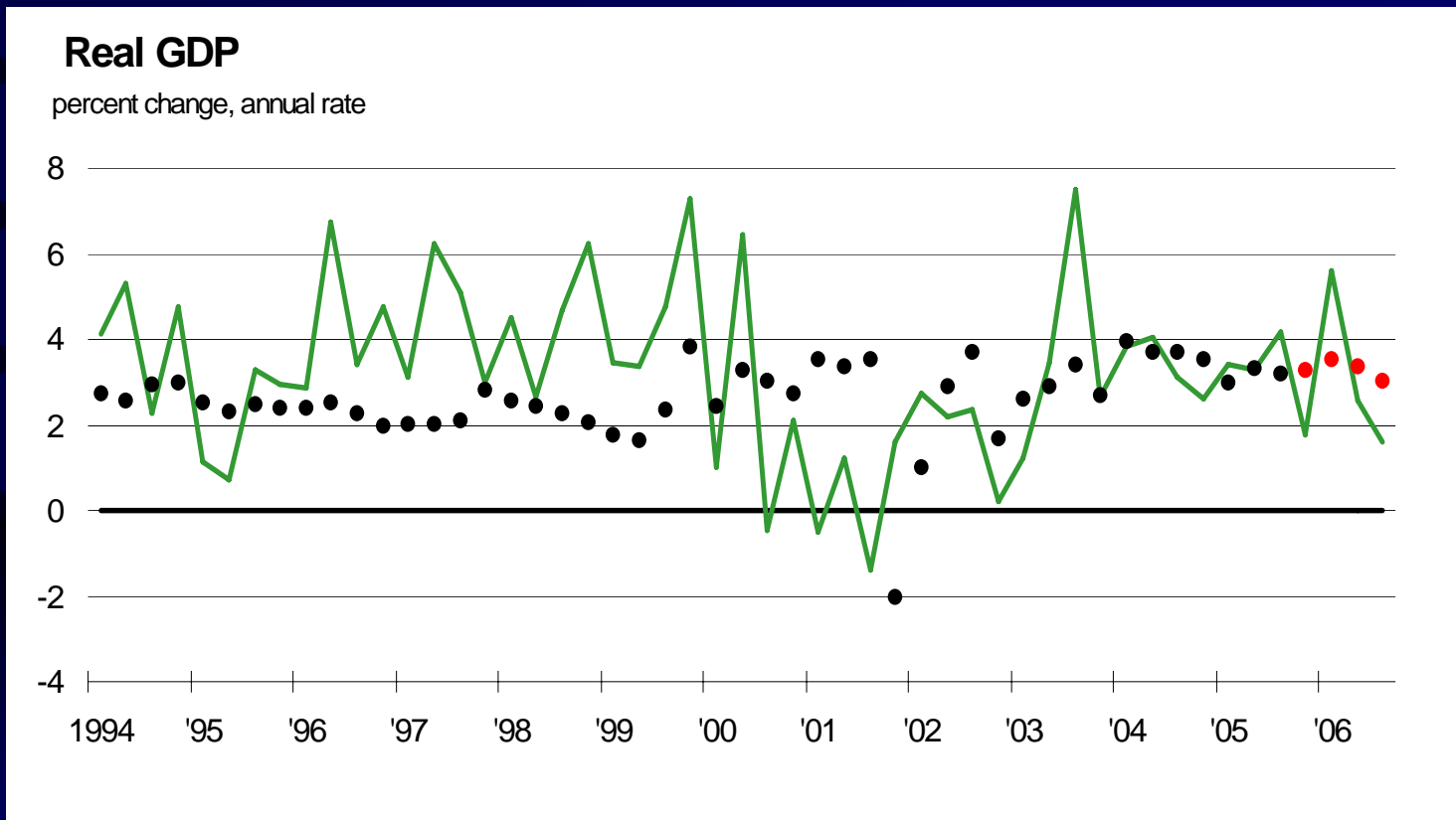
Senior Economist and Economic Advisor  
Federal Reserve Bank of Chicago

# Winners of last year's Economic Outlook Symposium forecast

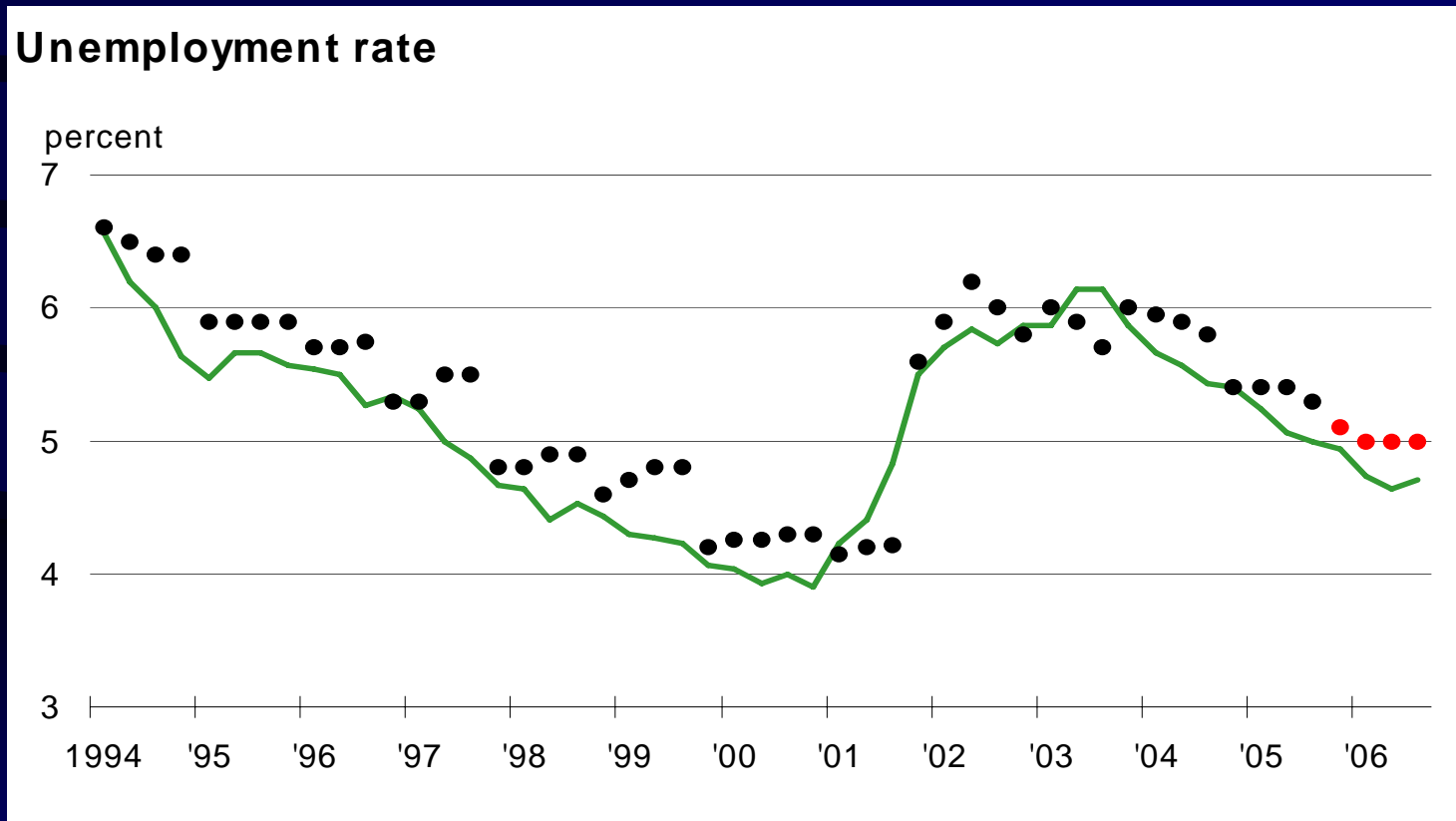
- **Best Overall Economic Forecast:** Bernard Paniak – BJP Economics
- **Real GDP:** Ken Mayland – Clearview Economics
- **Inflation:** Robert DiCianni – Mittal Steel USA, Inc.
- **Unemployment Rate:** Thomas Guthrie – FM Fincorp  
Bernard Paniak - BJP Economics

# Review of past performance

# While more volatile, real GDP growth was accurately forecast



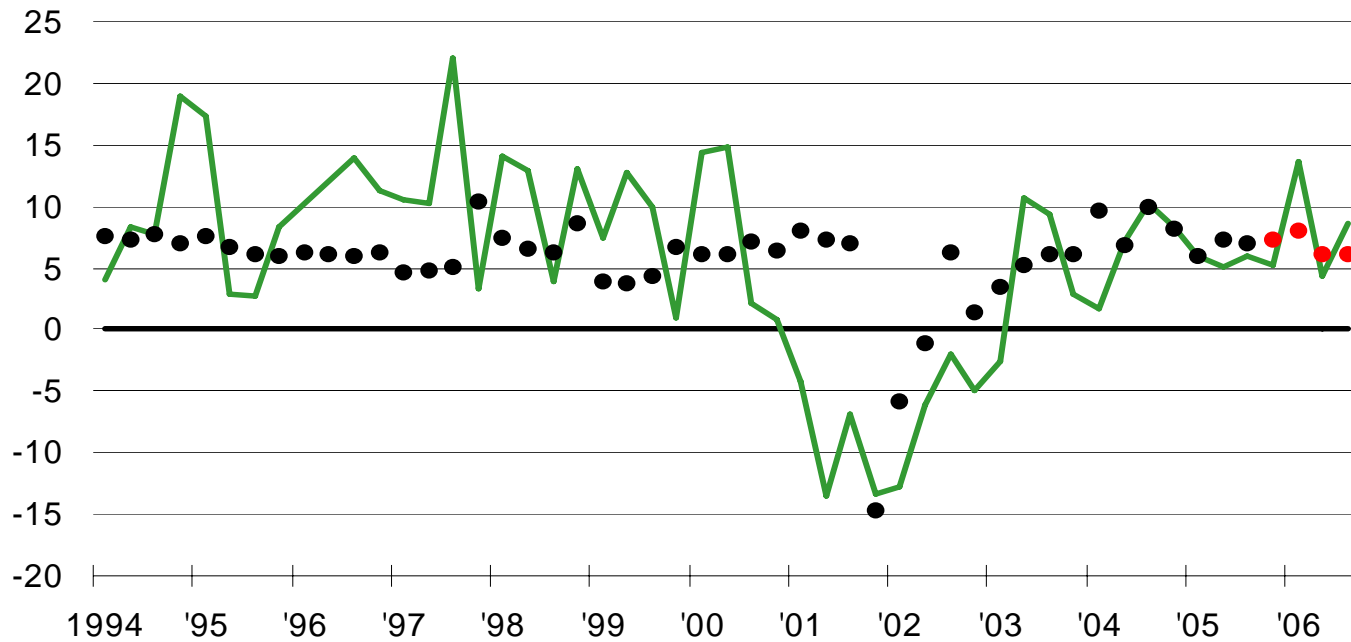
**As has been the case for the past three years, the unemployment rate was lower than predicted**



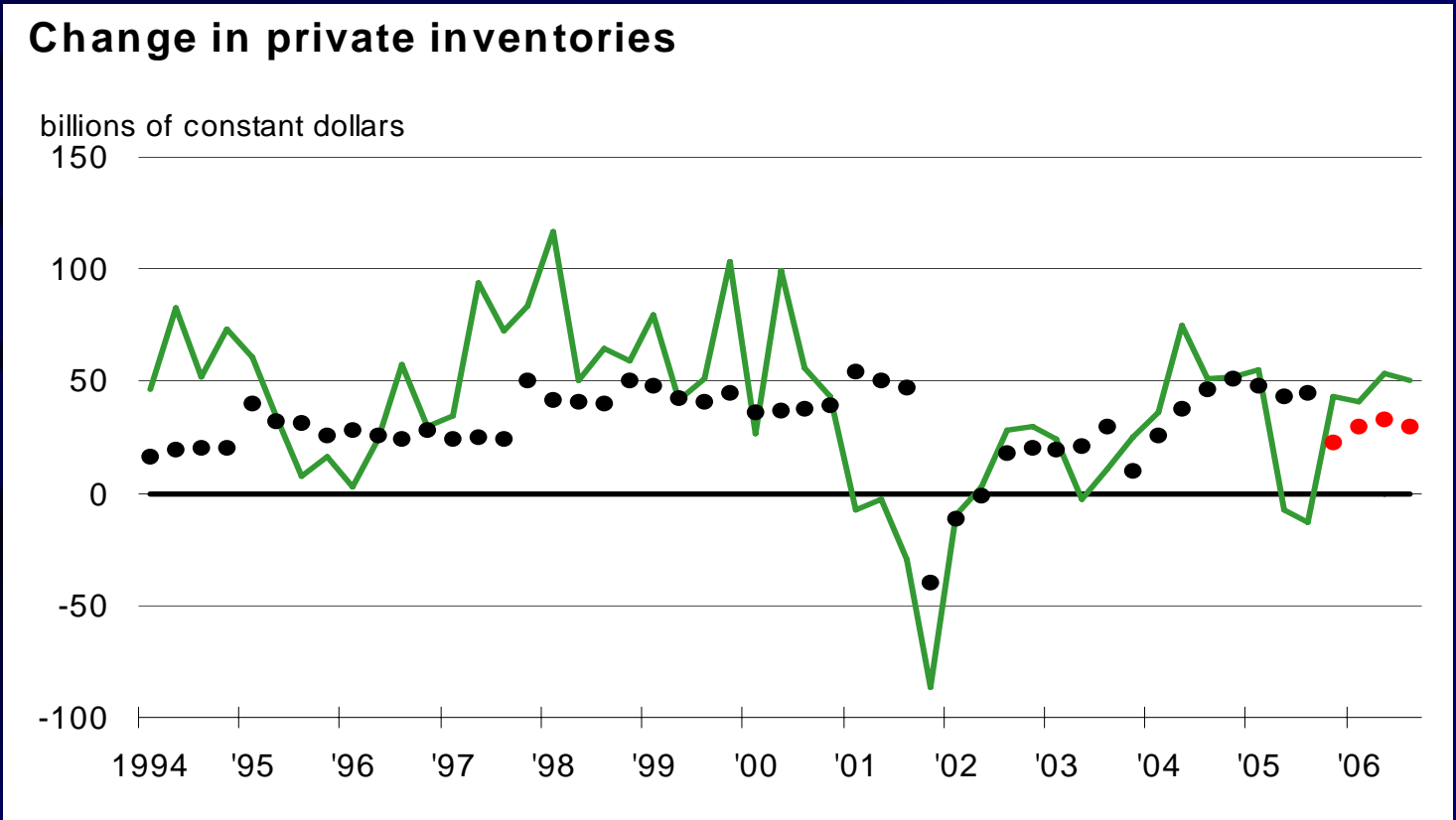
# The business investment sector growth was accurately forecast

## Business fixed investment

percent change, annual rate

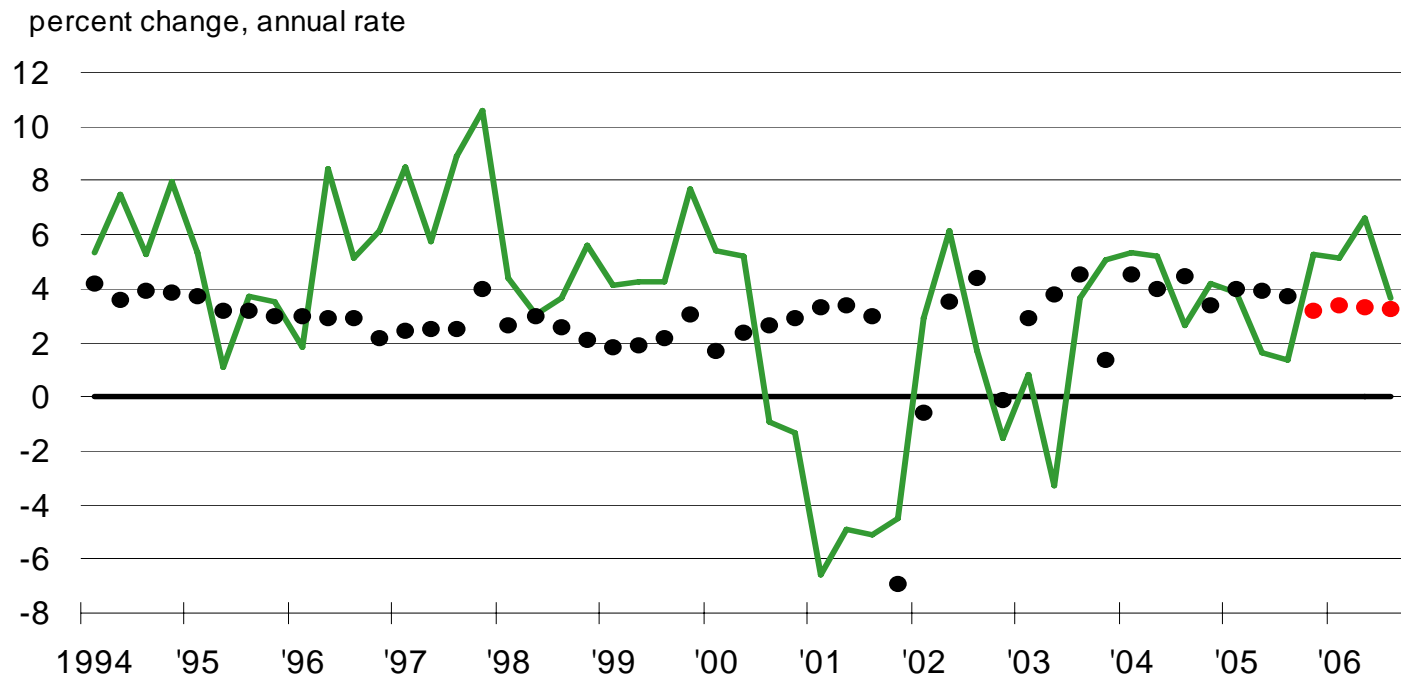


# Inventory accumulation was higher than expected



# The industrial sector expanded at a much stronger pace than forecast

## Industrial production

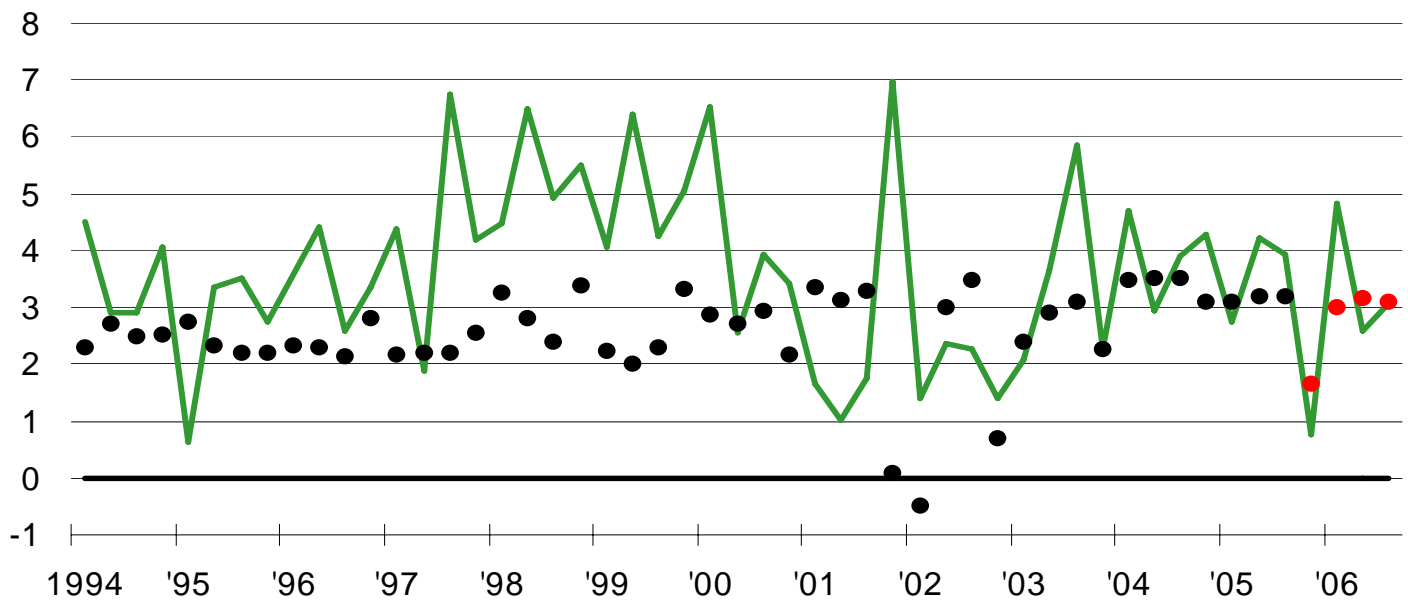




# Consumer spending predictions were on target

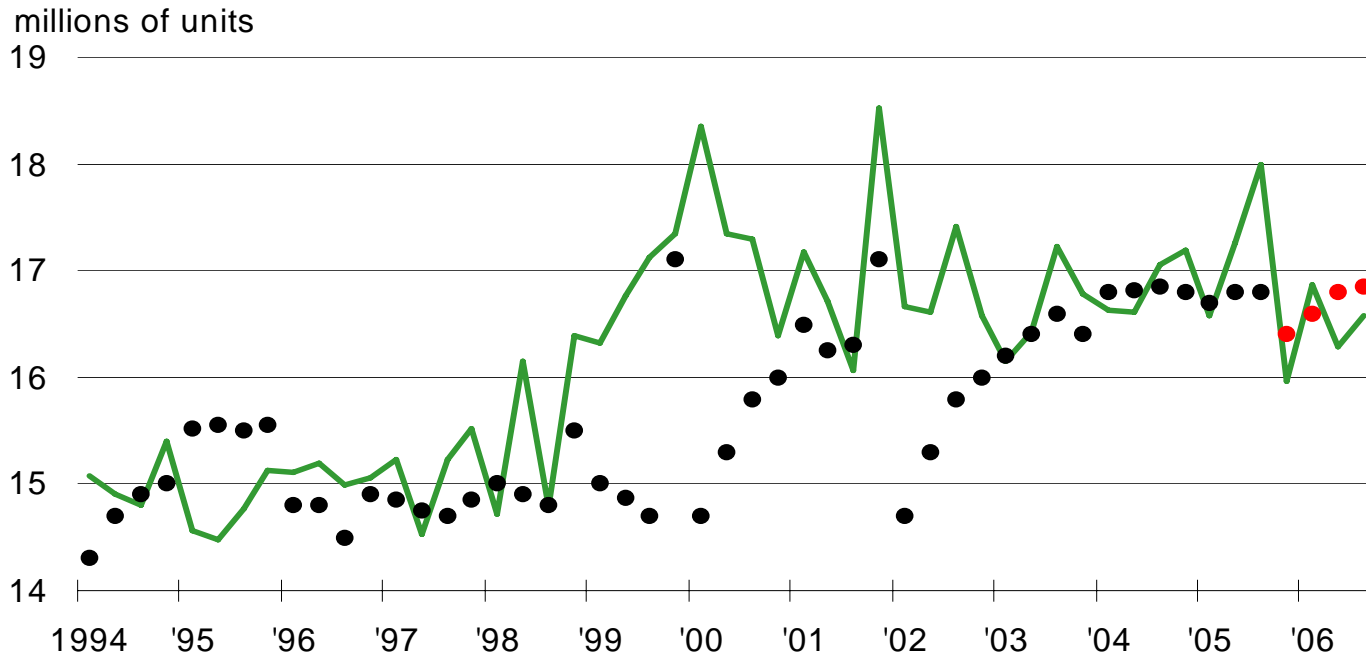
## Personal consumption expenditures

percent change, annual rate

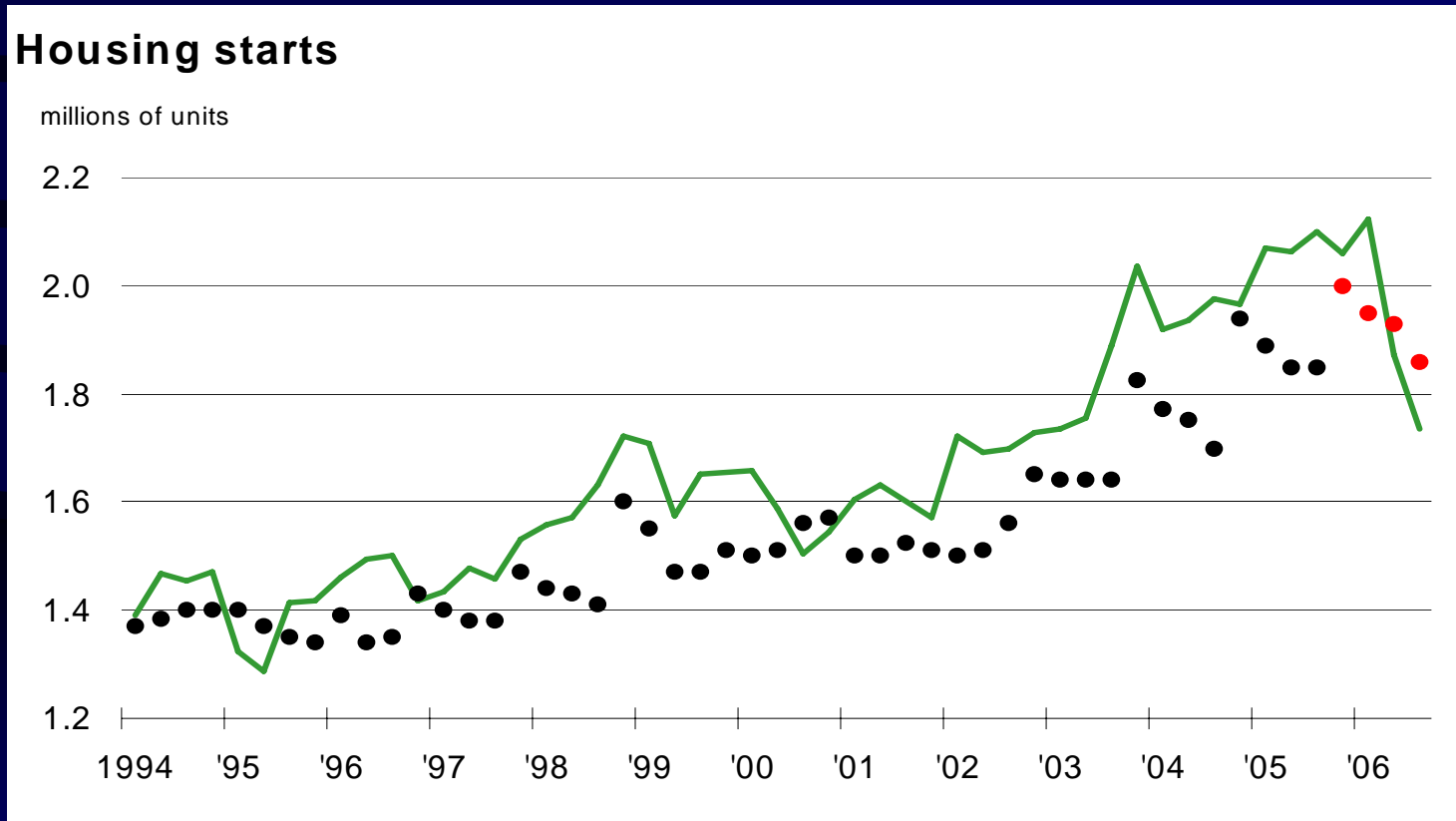


**While light vehicle sales in the fourth quarter of 2005 and first quarter of 2006 were accurately forecast, the second and third quarter predictions were too optimistic**

**Car and light truck sales**



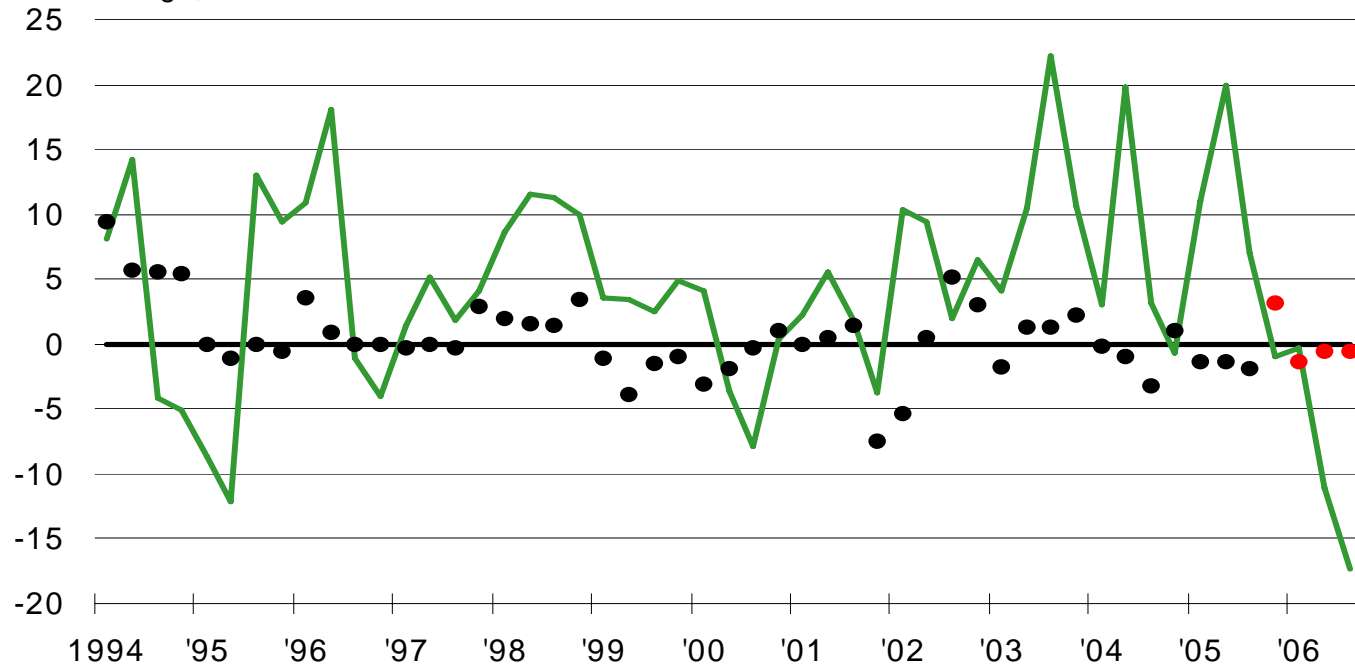
# The long anticipated decline in housing starts materialized over the past year, although it started later than predicted



# Declines in residential investment were larger than expected, especially in the second and third quarters

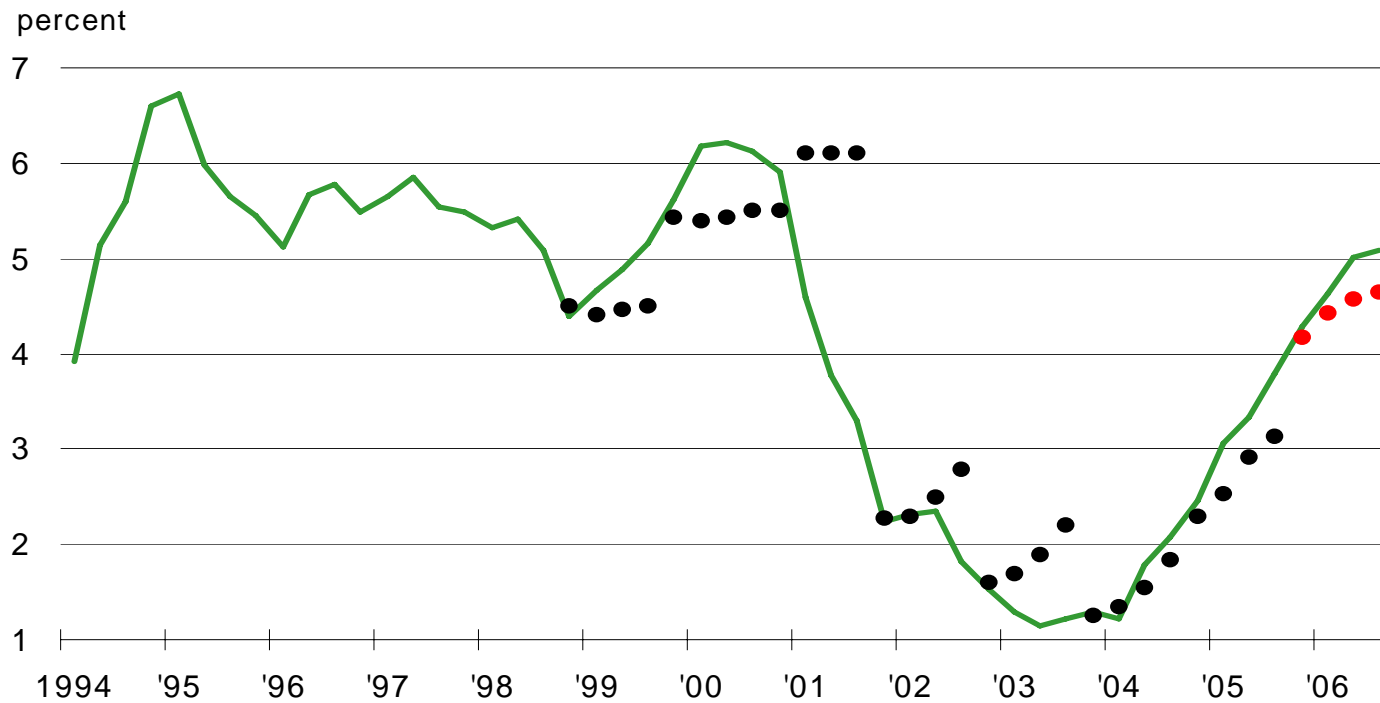
## Residential investment

percent change, annual rate

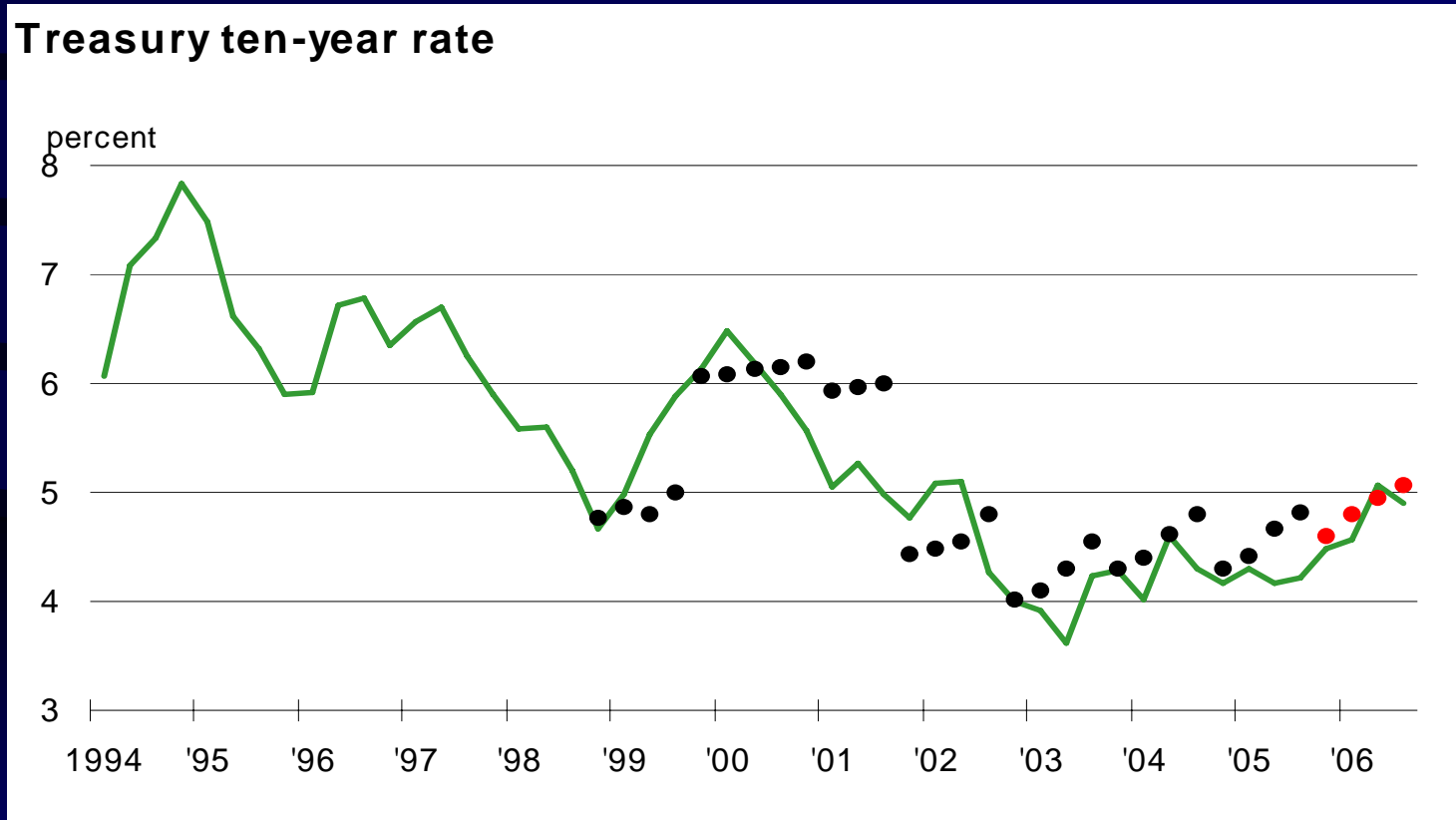


# Short-term interest rates increased at a slightly more rapid pace than predicted

Treasury one-year rate



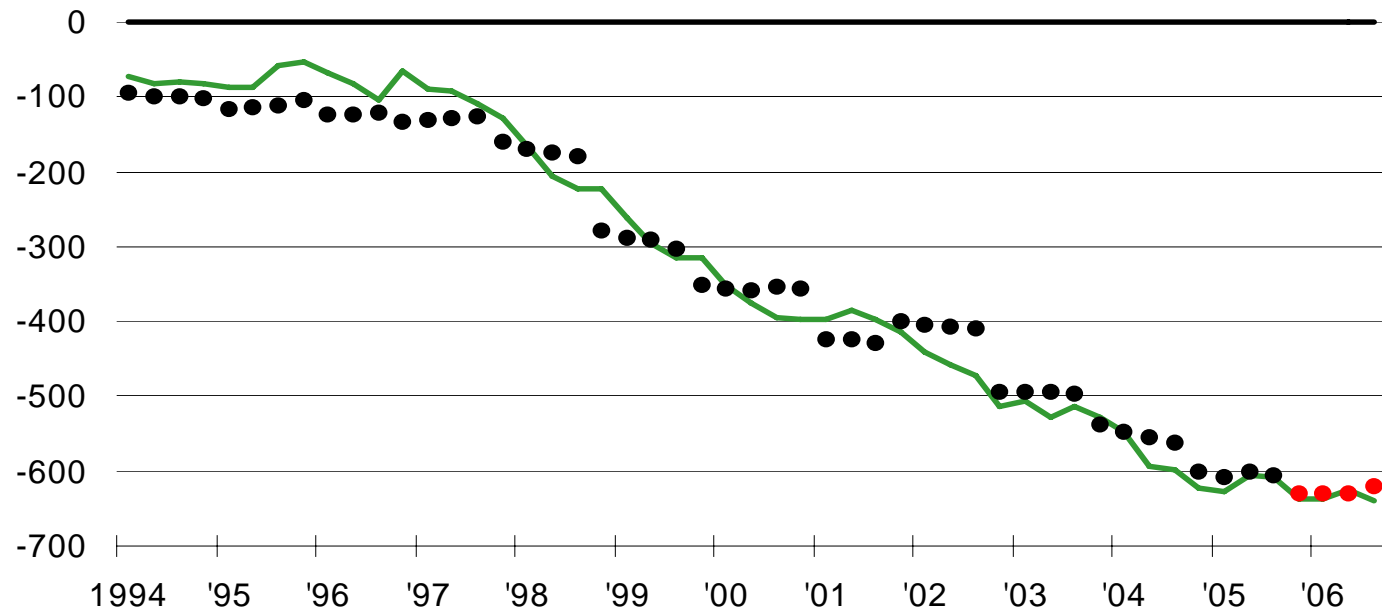
# The increase in long-term interest rates was expected



# The predicted flattening in the trade balance occurred

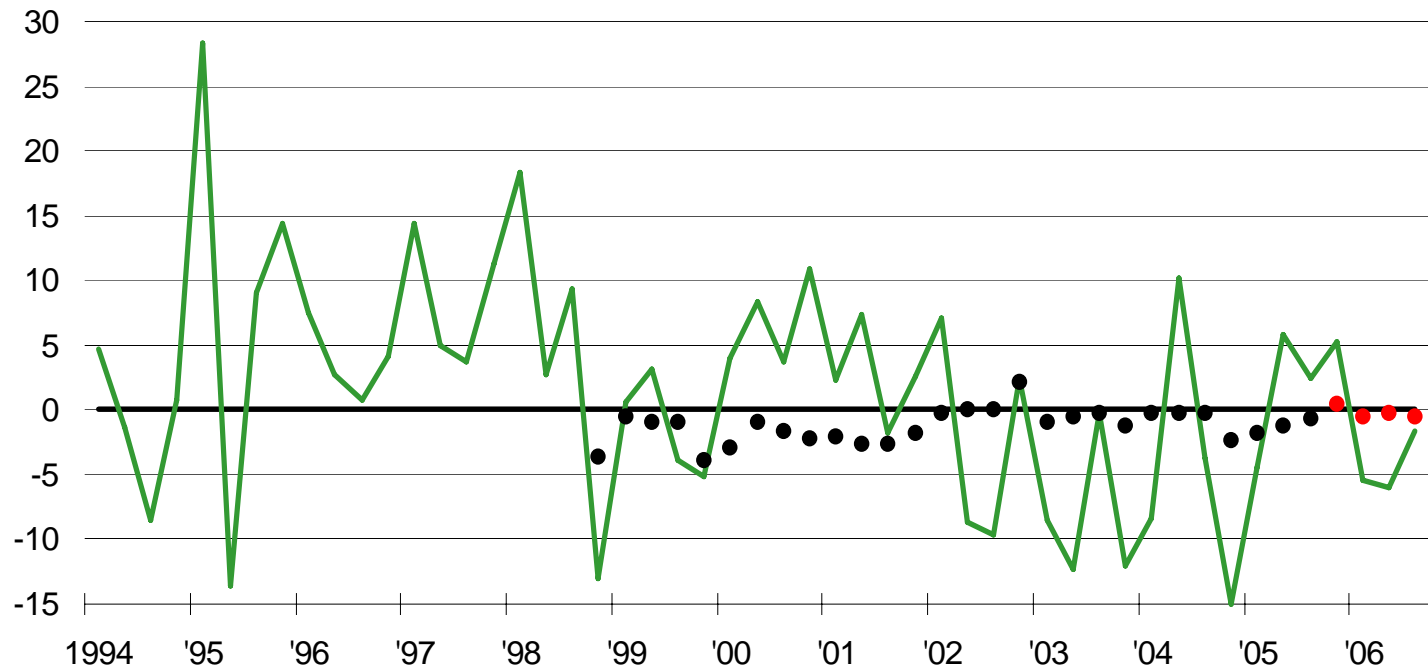
## Net exports of goods and services

billions of constant dollars



# The dollar lost more value than forecast

J.P. Morgan trade weighted dollar

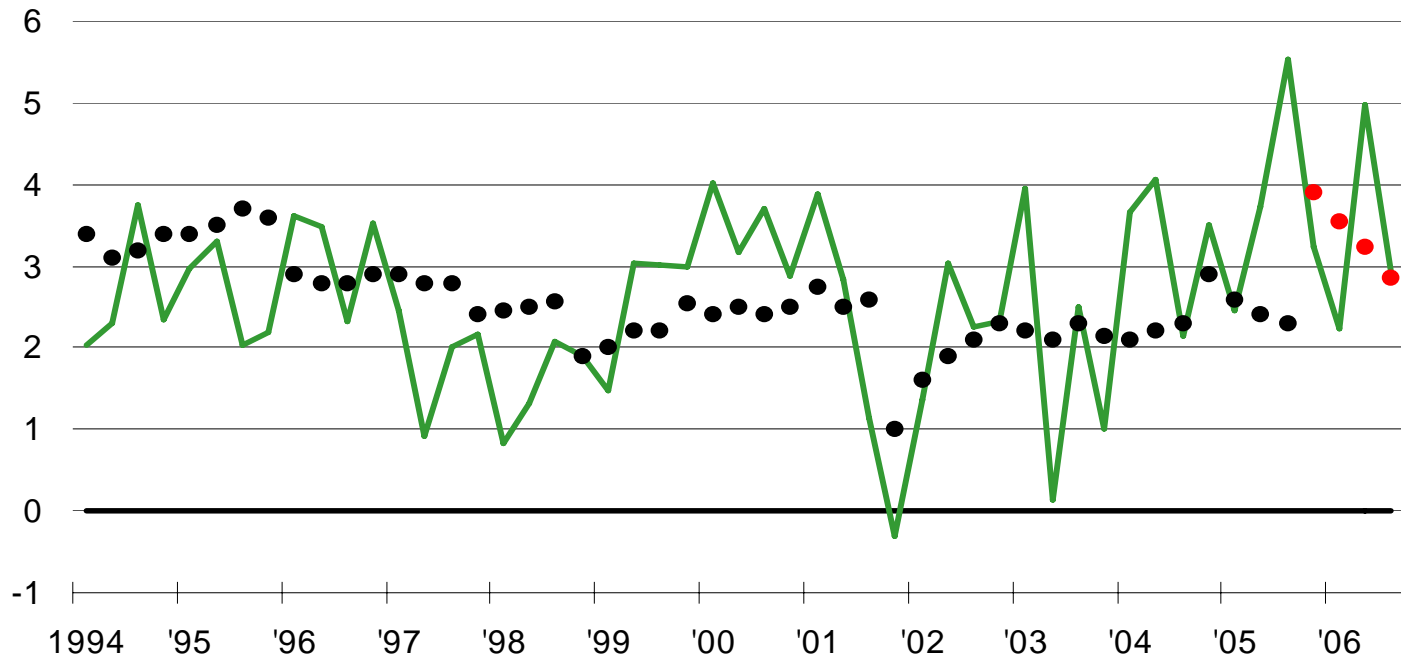




# Inflation was anticipated to ease over the past year, but it experienced significant volatility

## Inflation rate (CPI)

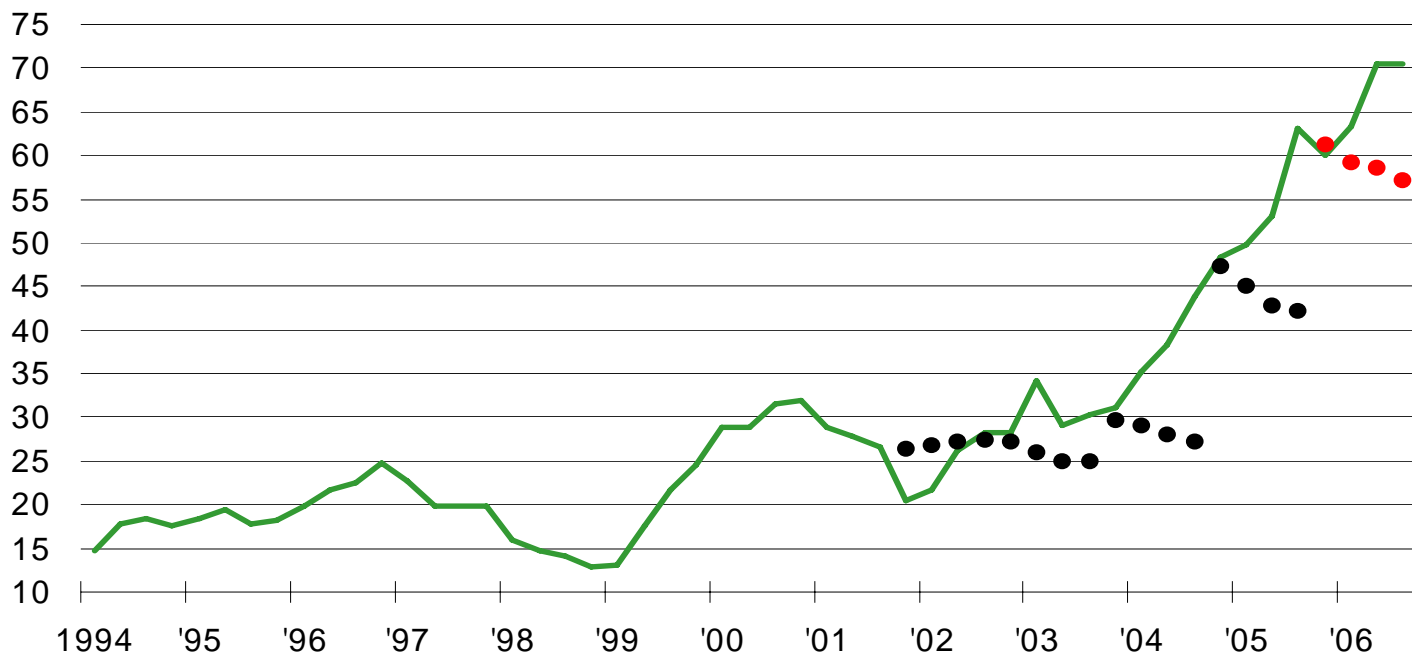
percent change, annual rate



This in large part was due to a much higher path for oil prices than predicted

### Oil prices - West Texas Intermediate

Dollars per barrel



# Forecast for 2007

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

	2005	2006	2007
GDP, current dollars*	6.7%	<b>5.6%</b>	<b>5.3%</b>
GDP price index, chain-type*	3.2%	<b>2.5%</b>	<b>2.4%</b>
Real GDP, chained dollars*	3.4%	<b>3.0%</b>	<b>2.8%</b>
Personal consumption expenditures*	4.0%	<b>3.4%</b>	<b>2.8%</b>
Business fixed investment*	6.9%	<b>8.6%</b>	<b>5.9%</b>
Residential investment*	6.1%	<b>-10.4%</b>	<b>-4.2%</b>
Change in private inventories (billions of constant dollars)**	\$52.0	<b>\$38.0</b>	<b>\$38.6</b>
Net exports of goods and services (billions of constant dollars)**	-\$621.9	<b>-\$638.4</b>	<b>-\$630.1</b>
Government consumption expenditures and gross investment*	1.1%	<b>2.4%</b>	<b>1.7%</b>

\***Annual:** Q4 over Q4    **Quarterly:** Quarter to Quarter change, annual rate  
 \*\*Annuals are Q4 value

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

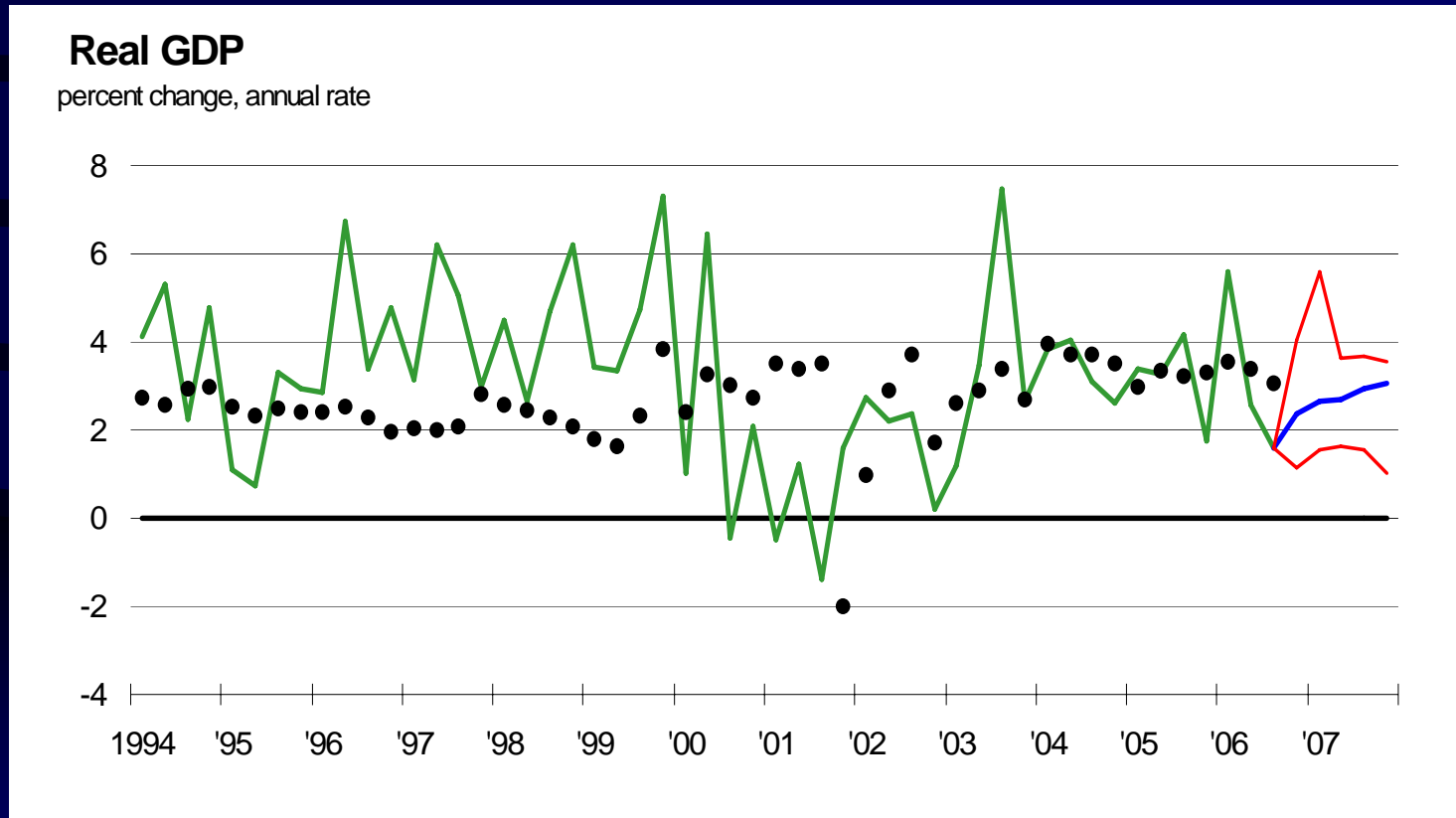
	2005	2006	2007
Industrial production*	4.3%	<b>4.3%</b>	<b>2.6%</b>
Car & light truck sales (millions - calendar year including imports)***	16.9	<b>16.6</b>	<b>16.4</b>
Housing starts (millions)***	1.95	<b>1.85</b>	<b>1.60</b>
Oil price (dollars per barrel of West Texas Intermediate)**	\$48.31	<b>\$60.17</b>	<b>\$59.05</b>
Unemployment rate**	5.4%	<b>4.6%</b>	<b>4.9%</b>
Inflation rate (consumer price index)*	3.3%	<b>3.0%</b>	<b>2.5%</b>
Treasury constant maturity 1-year rate**	2.47%	<b>5.02%</b>	<b>4.80%</b>
Treasury constant maturity 10-year rate**	4.17%	<b>4.80%</b>	<b>5.00%</b>
J.P. Morgan trade weighted OECD dollar*	-4.7%	<b>-3.4%</b>	<b>-0.6%</b>

\***Annual:** Q4 over Q4      **Quarterly:** Quarter to Quarter change, annual rate

\*\*Annuals are Q4 value

\*\*\*Annuals are yearly average

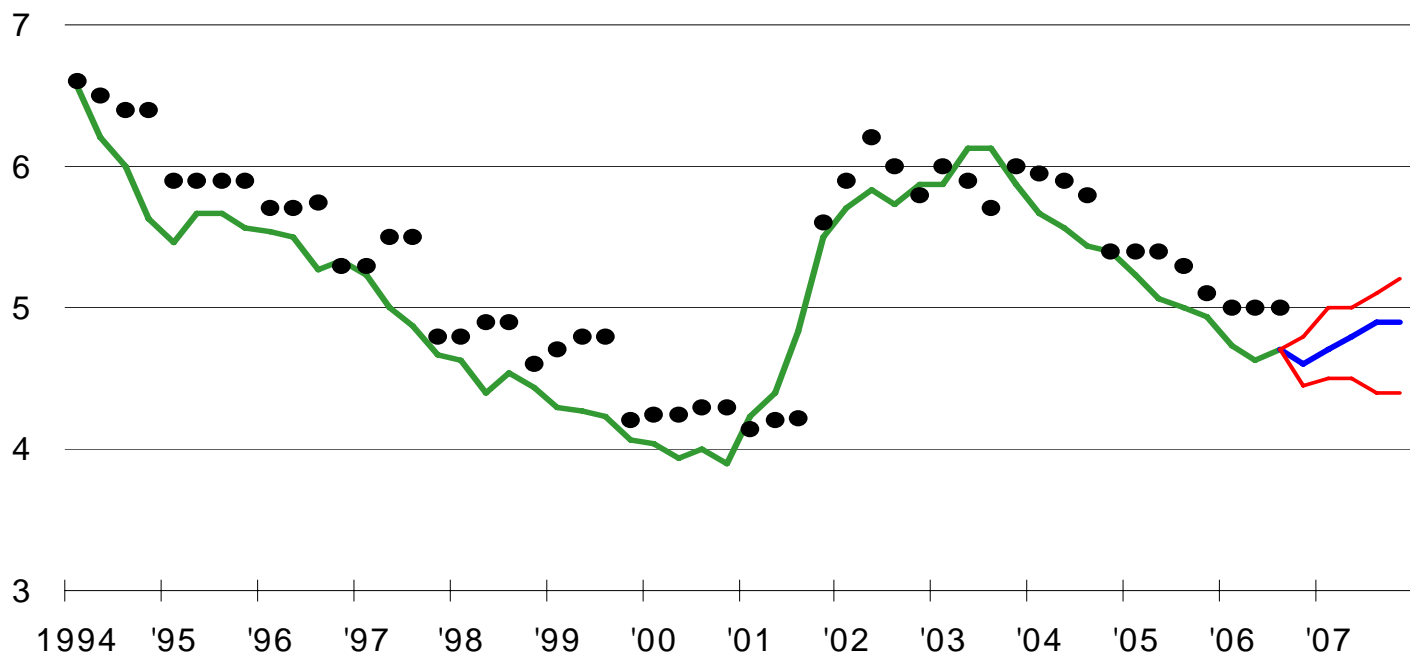
**GDP growth is expected to rise through 2007  
from 2.4% in the current quarter  
to 3.1% by the end of next year**



**This somewhat slower growth for the economy  
will lead to the unemployment rate  
edging higher over the next year**

### Unemployment rate

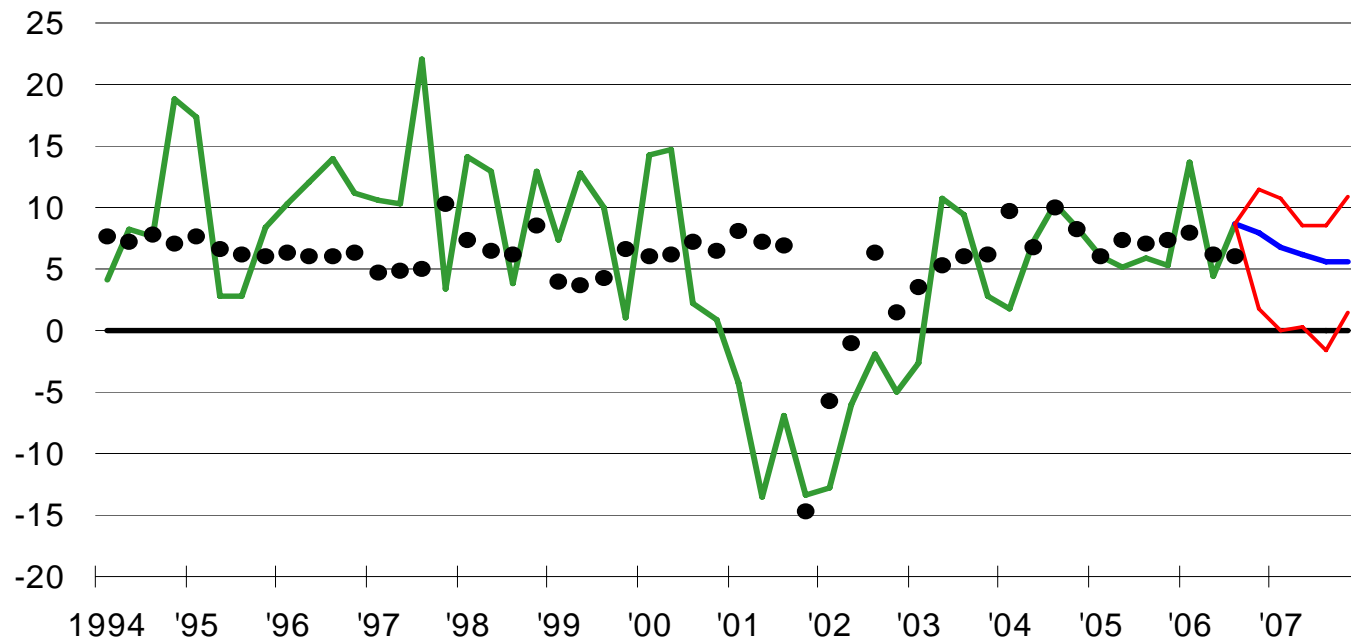
percent



**Business fixed investment growth is forecast to slow from a very strong 7.9% rate this quarter to a still strong 5.6% in the second half of next year**

### Business fixed investment

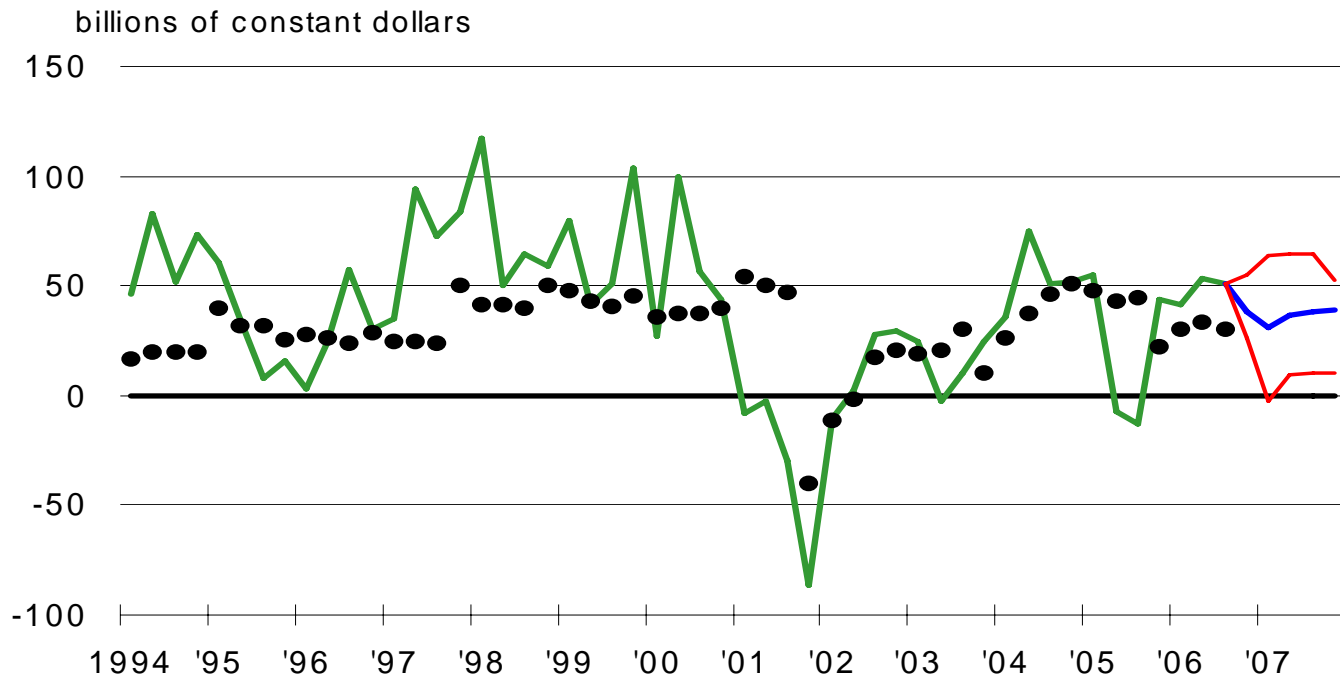
percent change, annual rate





**Inventories are anticipated to expand,  
but at a pace that will continue  
the fall in the inventory to GDP ratio**

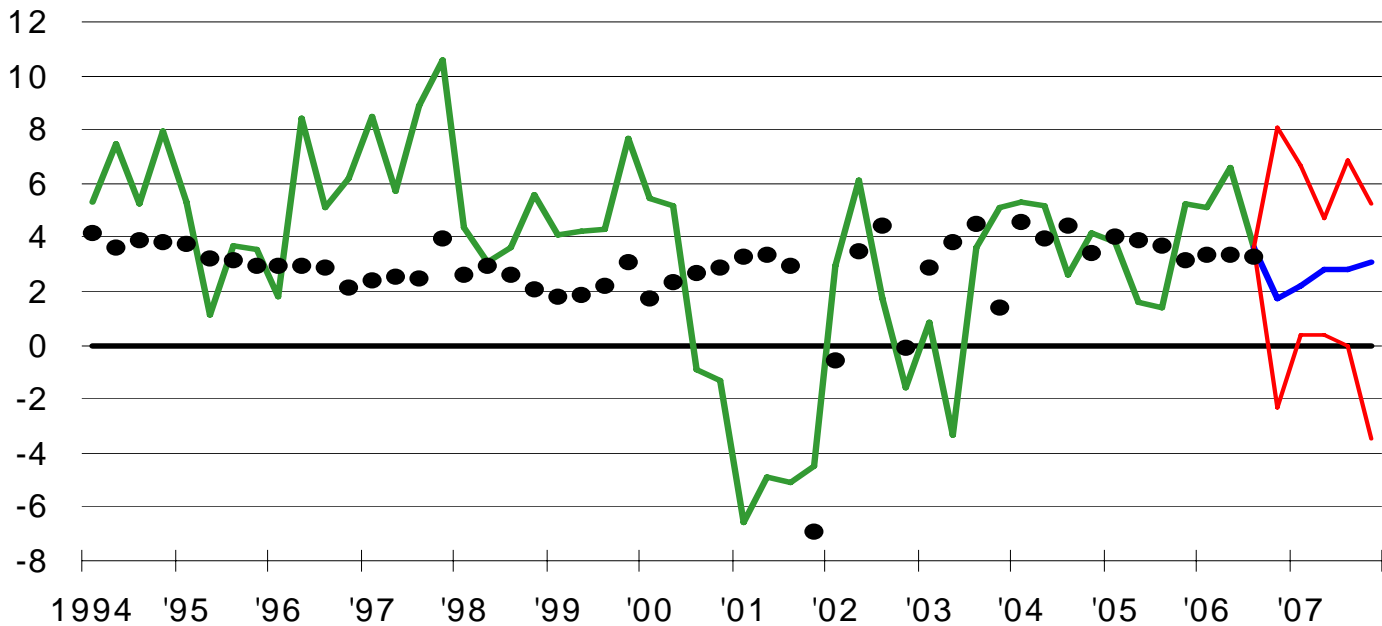
### Change in private inventories



**After a downbeat current quarter, industrial output growth is forecast to gradually improve to 3.1% by the end of next year**

### Industrial production

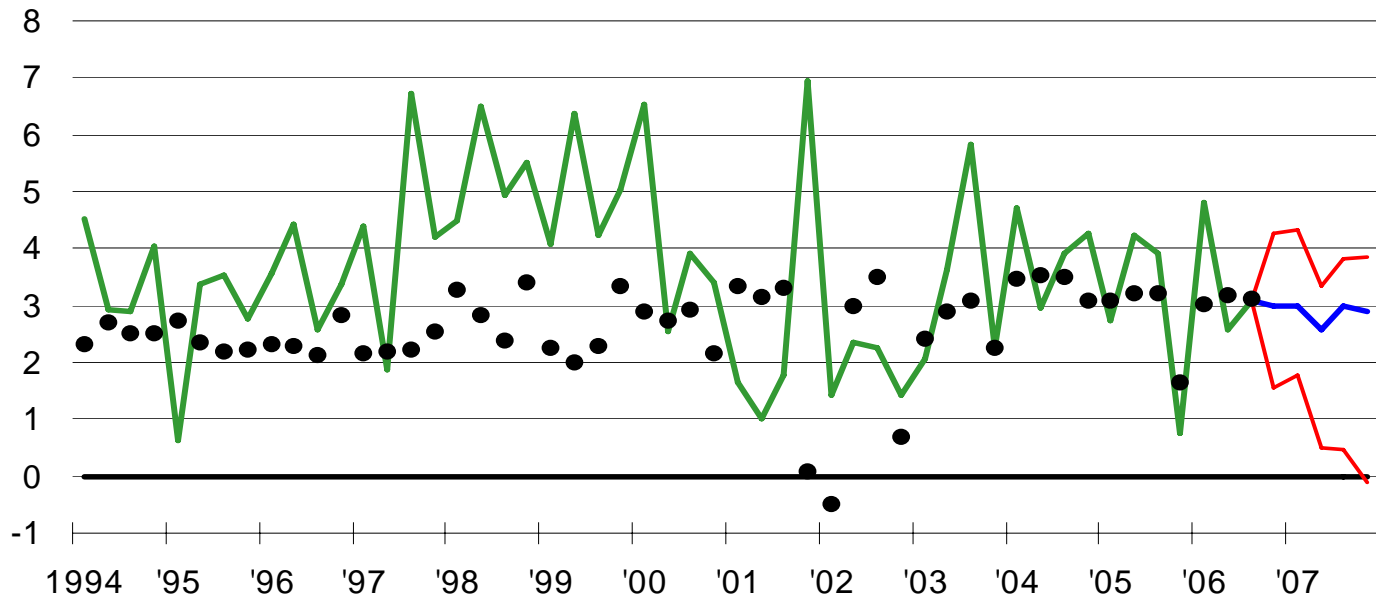
percent change, annual rate



# Consumer spending growth is expected remain solid at just under 3.0% next year

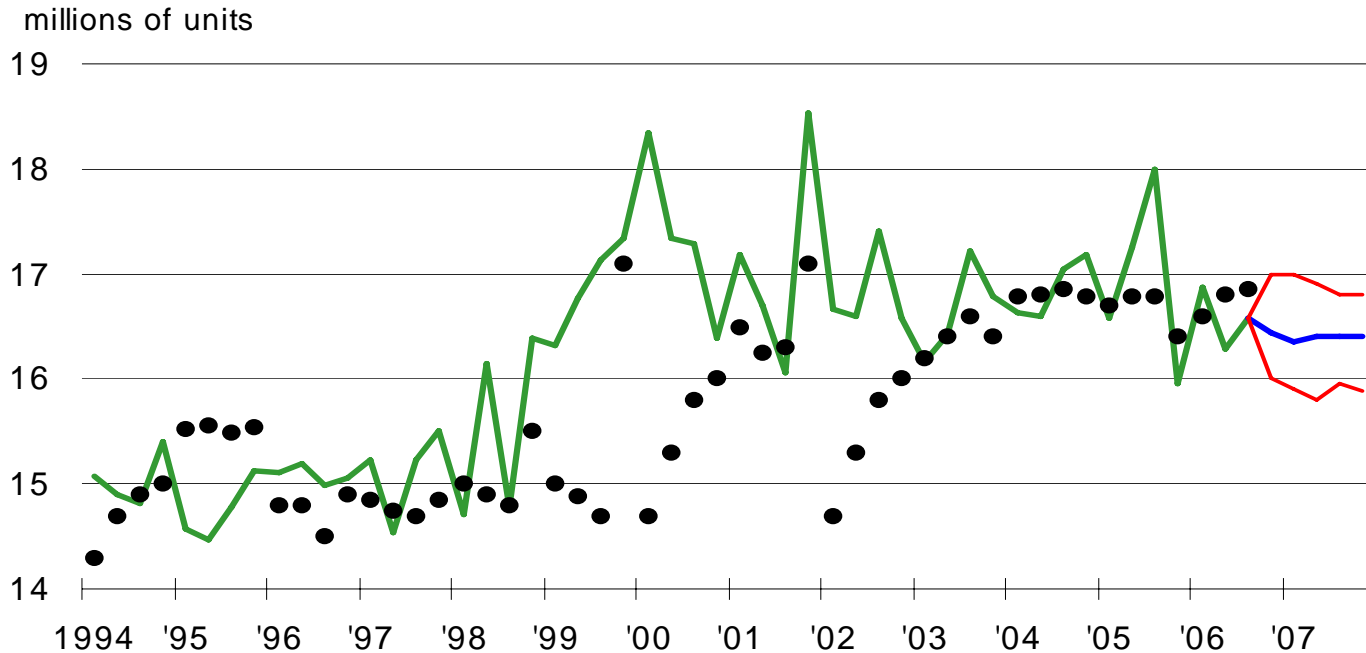
## Personal consumption expenditures

percent change, annual rate



**Vehicle sales are forecast to decrease slightly, averaging 16.4 million units during next year**

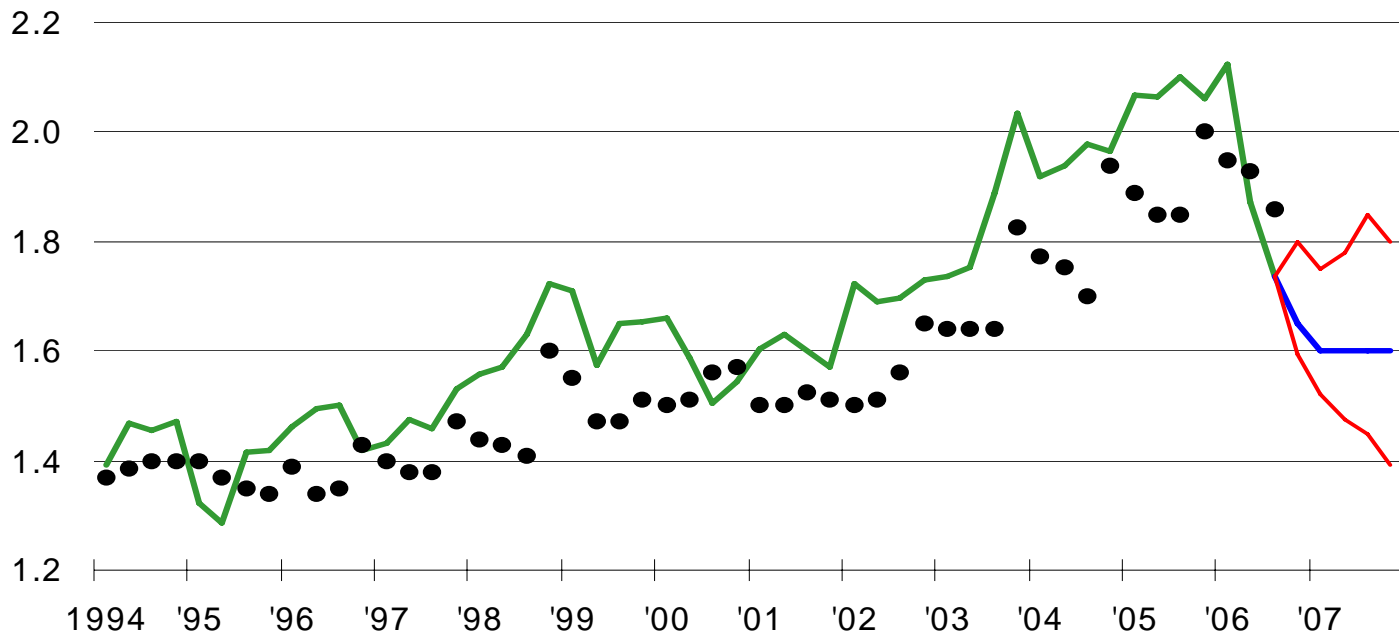
### Car and light truck sales



**Housing starts are forecast to continue to weaken through the first quarter reaching 1.6 million units and then hold steady at that pace for the rest of the year**

### Housing starts

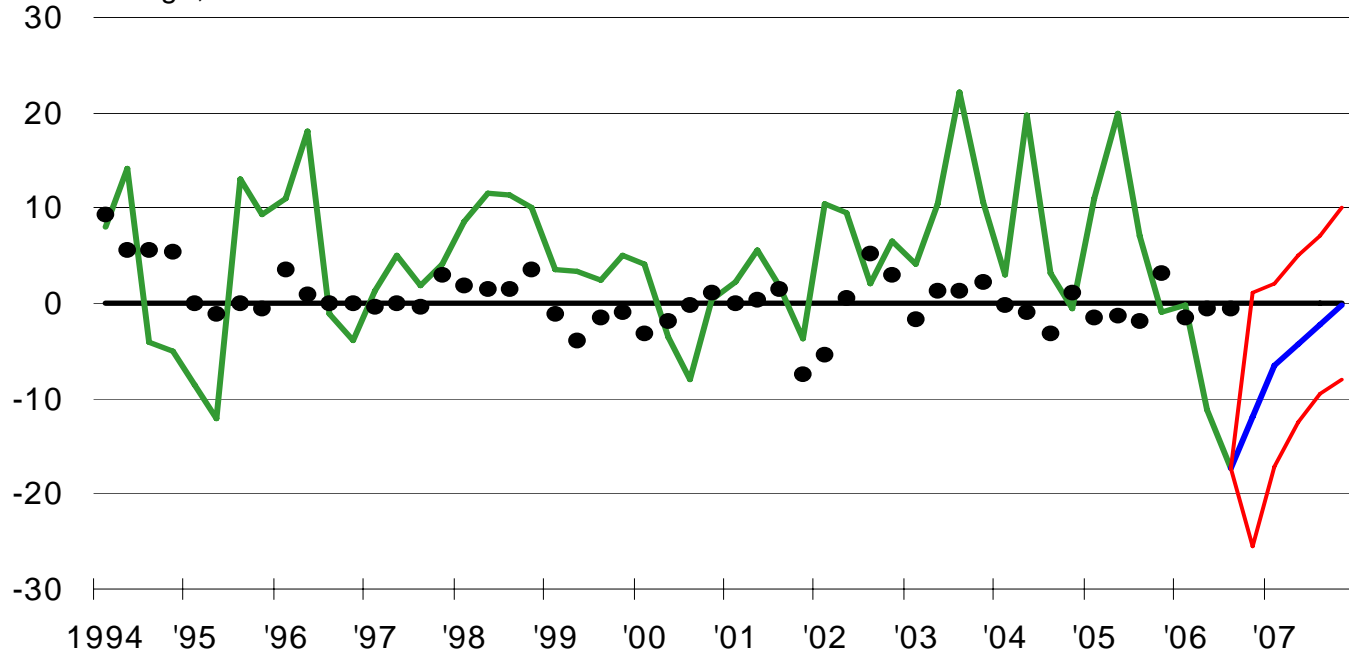
millions of units



# This predicted flattening in housing starts is also evident in the path of residential investment

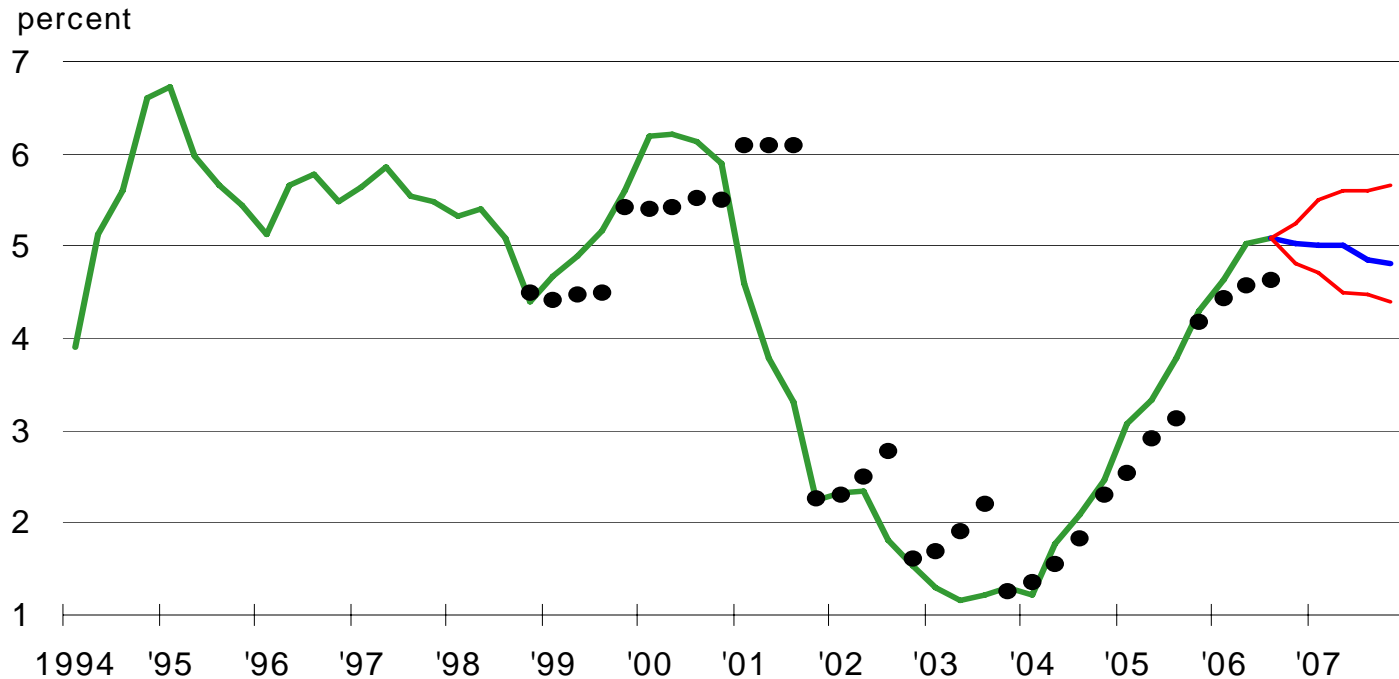
## Residential investment

percent change, annual rate

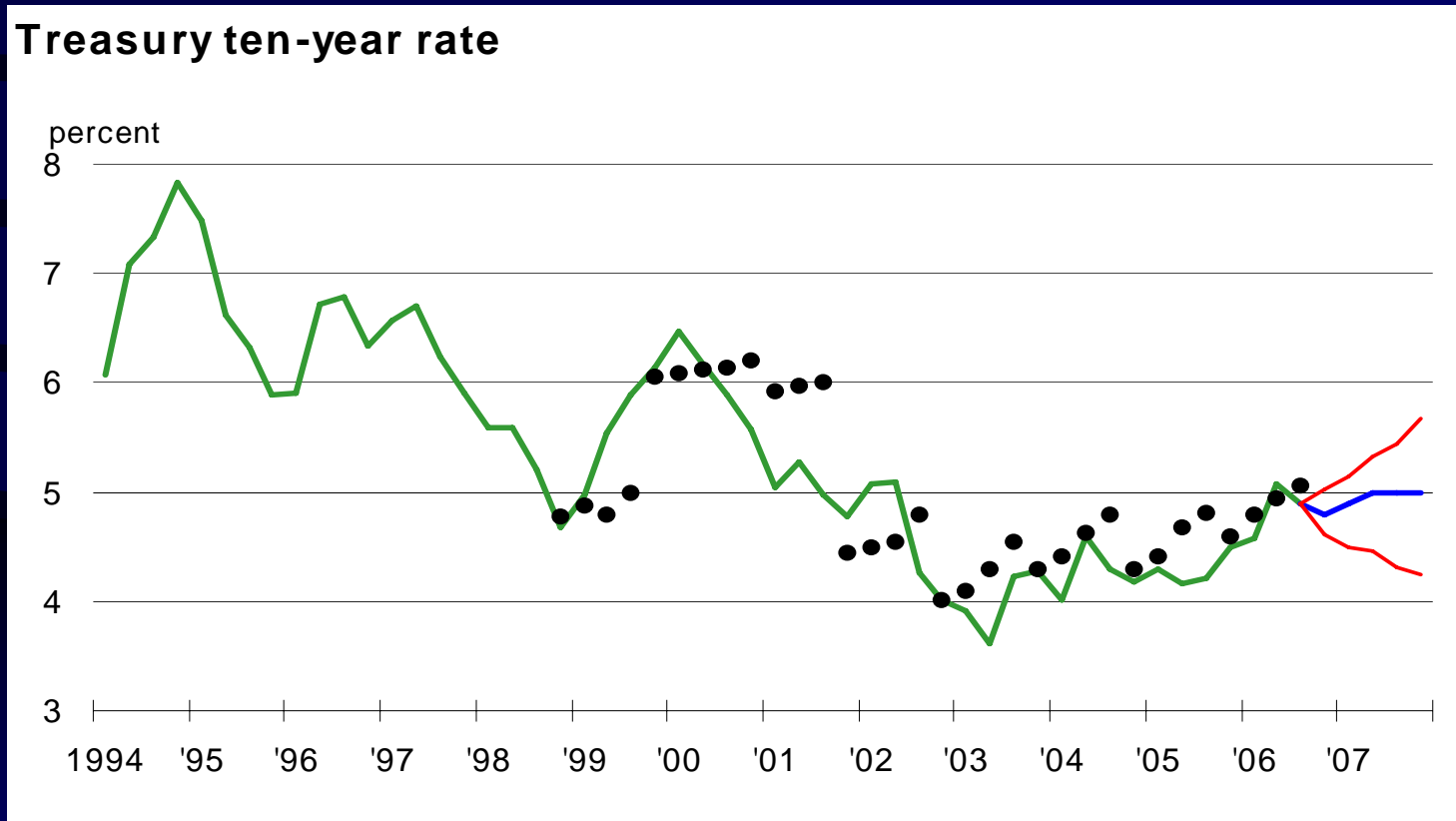


# Short-term interest rates are predicted to edge lower next year

Treasury one-year rate



# Ten-year interest rates are expected to edge higher

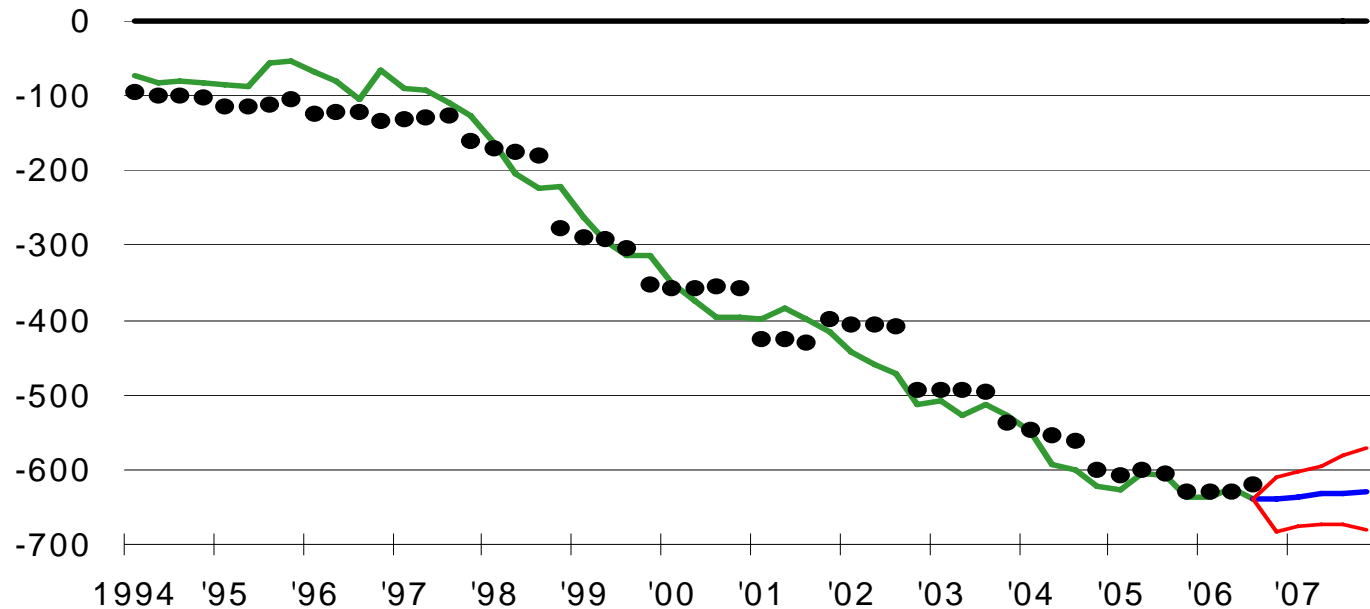




# The trade balance is forecast to remain at existing levels

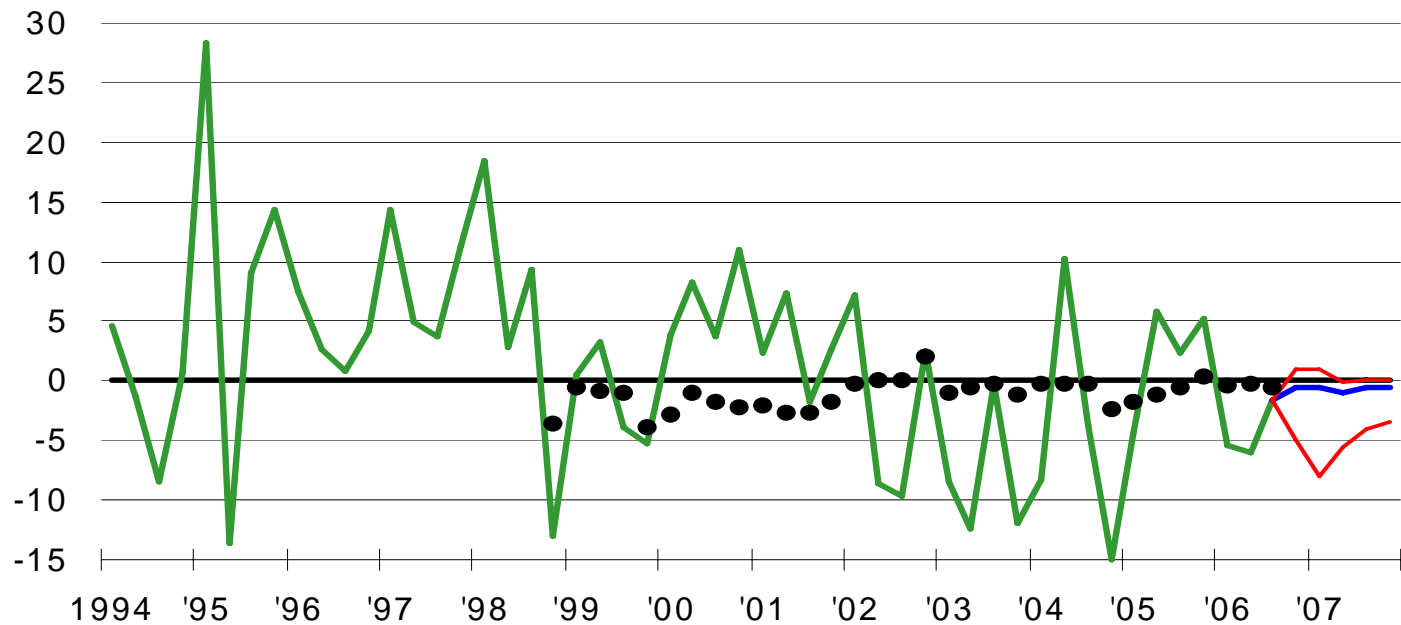
## Net exports of goods and services

billions of constant dollars



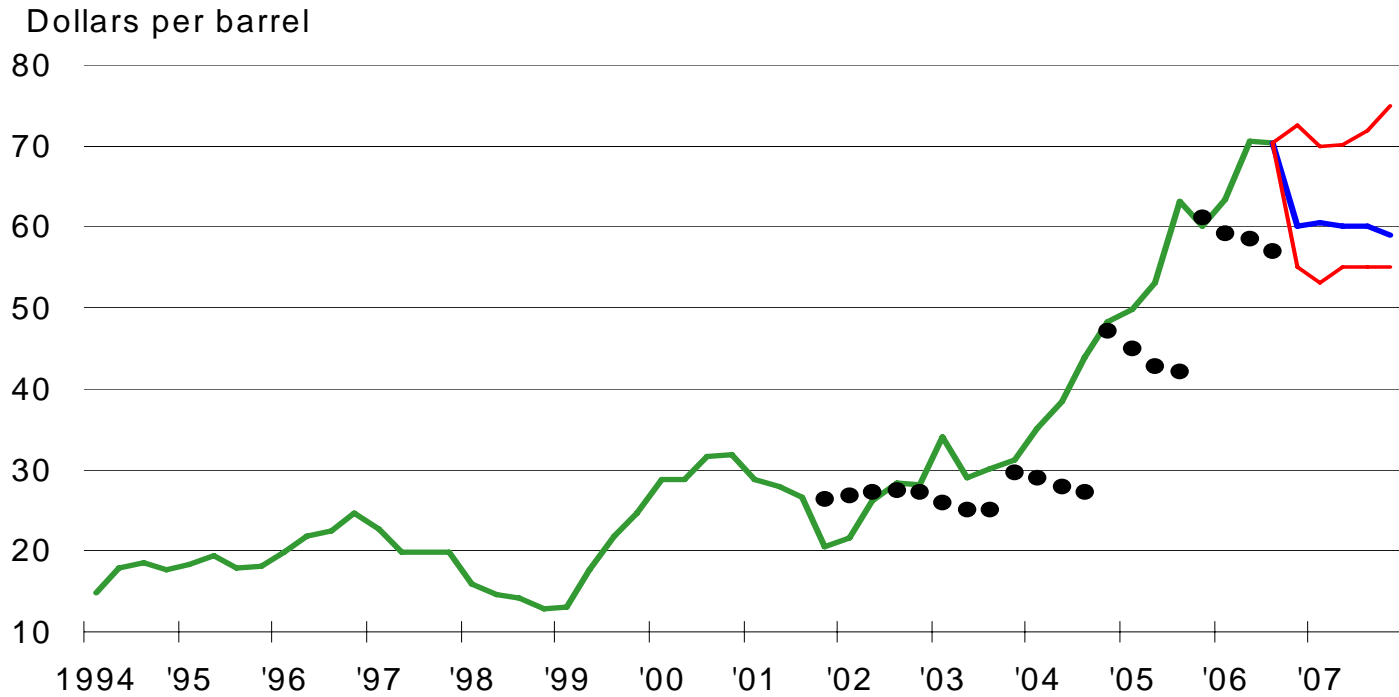
# The dollar is forecast fall moderately

J.P. Morgan trade weighted dollar



# Oil prices are anticipated to remain at current levels

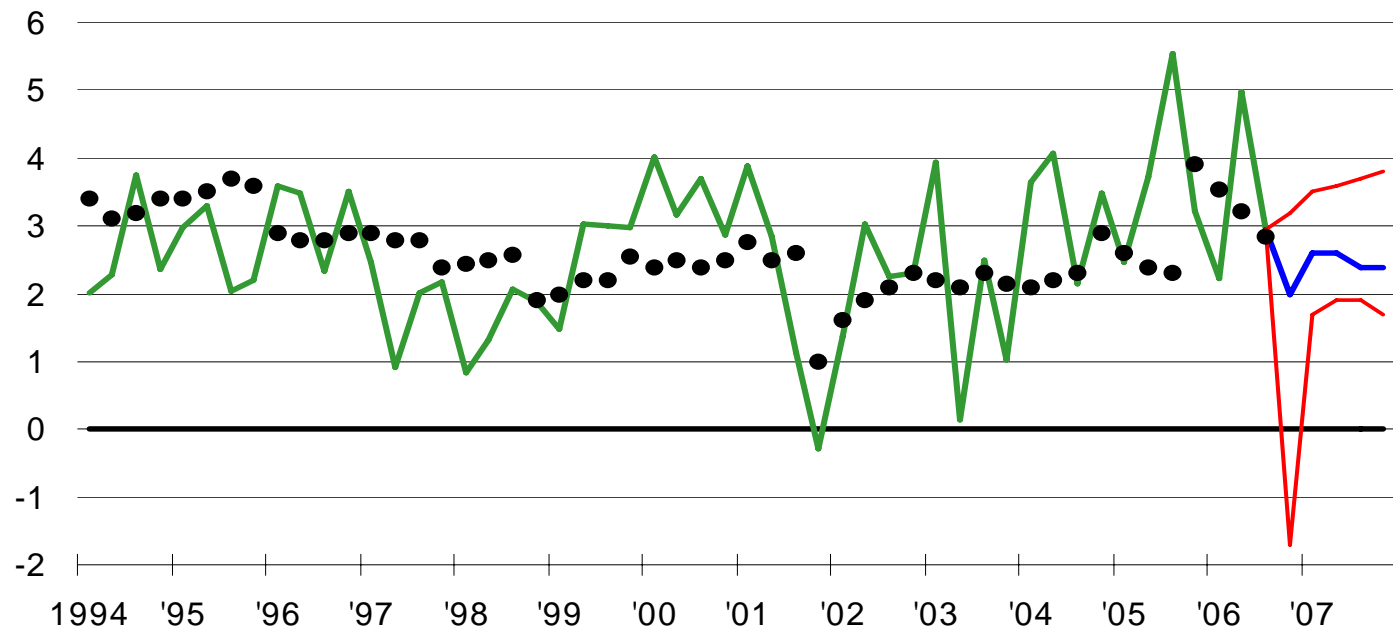
## Oil prices - West Texas Intermediate



# Inflation is forecast to remain fairly stable at around 2.5%

## Inflation rate (CPI)

percent change, annual rate



# Summary

- The economic expansion will continue into 2007, representing the sixth consecutive year of the expansion
- With growth just below potential, the unemployment rate is expected to edge higher
- Inflation is anticipated to remain stable at 2.5%
- Most key GDP components are predicted to expand at a more moderate pace in 2007 with residential investment declining at a slower pace than in 2006
- Light vehicle sales are forecast experience a slight pull-back next year, selling 16.4 million units
- Housing starts are expected to fall to the lowest rate since 2001
- [www.chicagofed.org](http://www.chicagofed.org)