

TWENTY-FIRST ANNUAL
ECONOMIC OUTLOOK SYMPOSIUM



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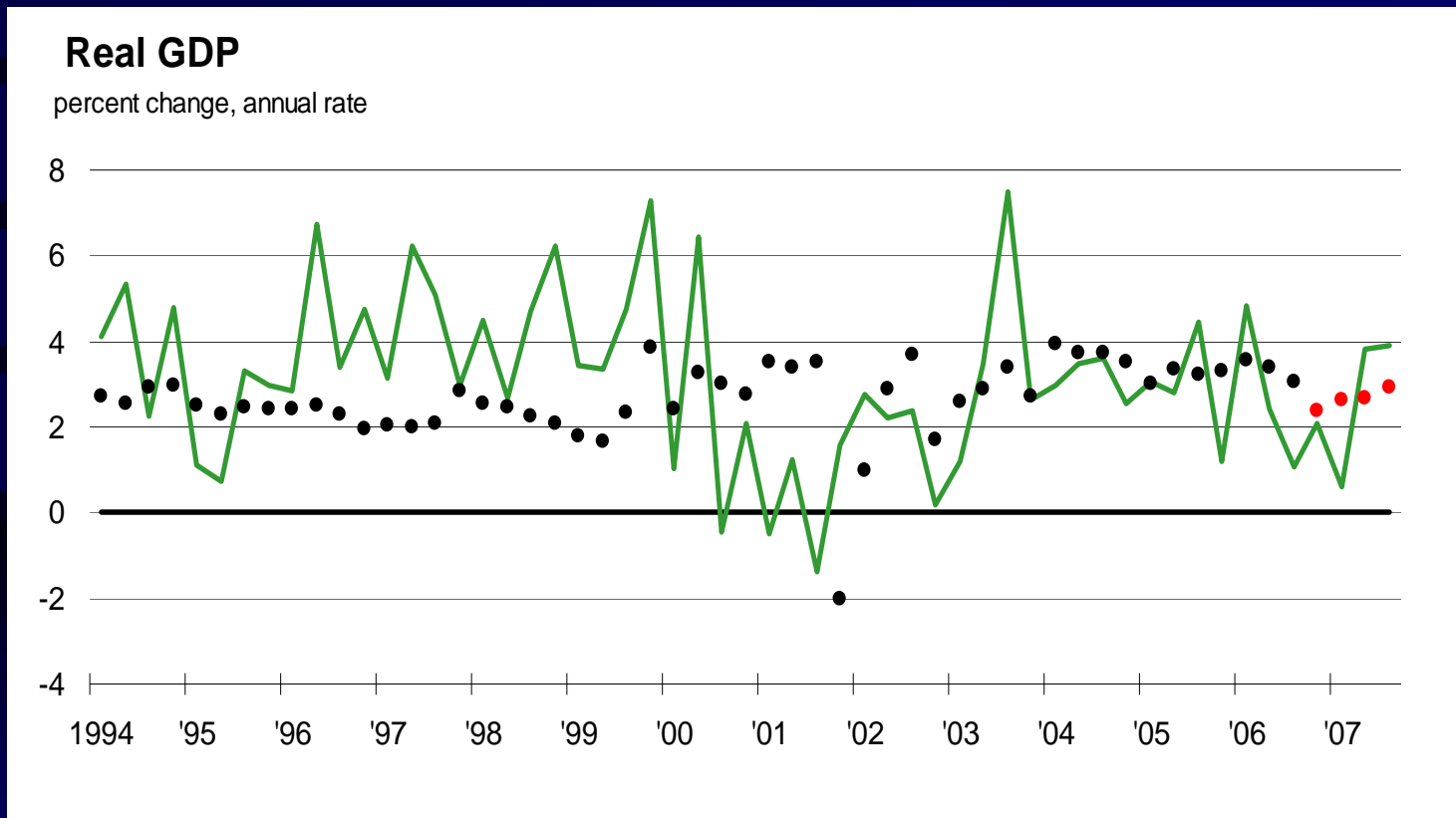
Consensus Forecast for 2008

William Strauss

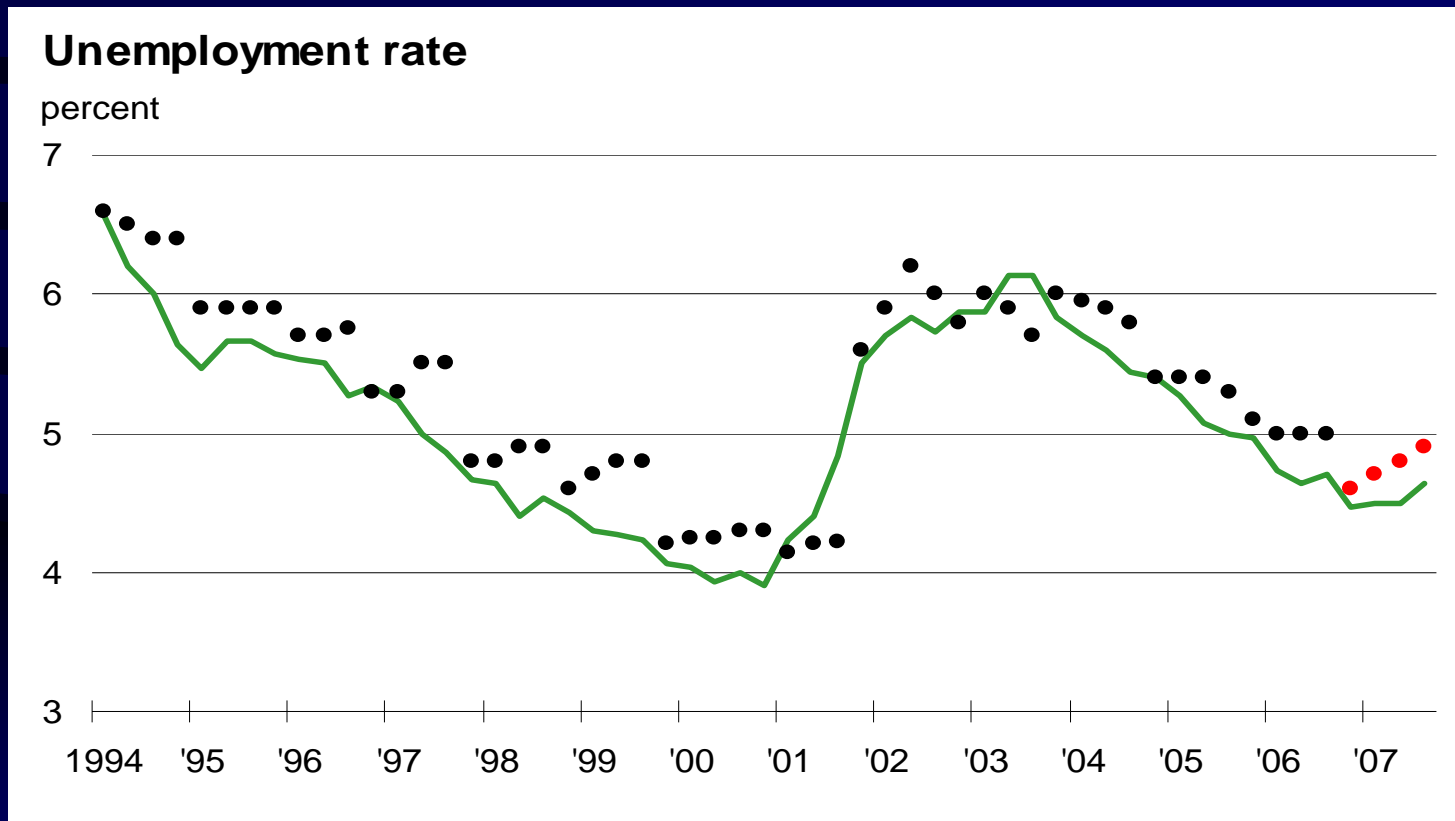
Senior Economist and Economic Advisor
Federal Reserve Bank of Chicago

Review of past performance

While more volatile than forecast, Real GDP was accurately forecast to improve during the year



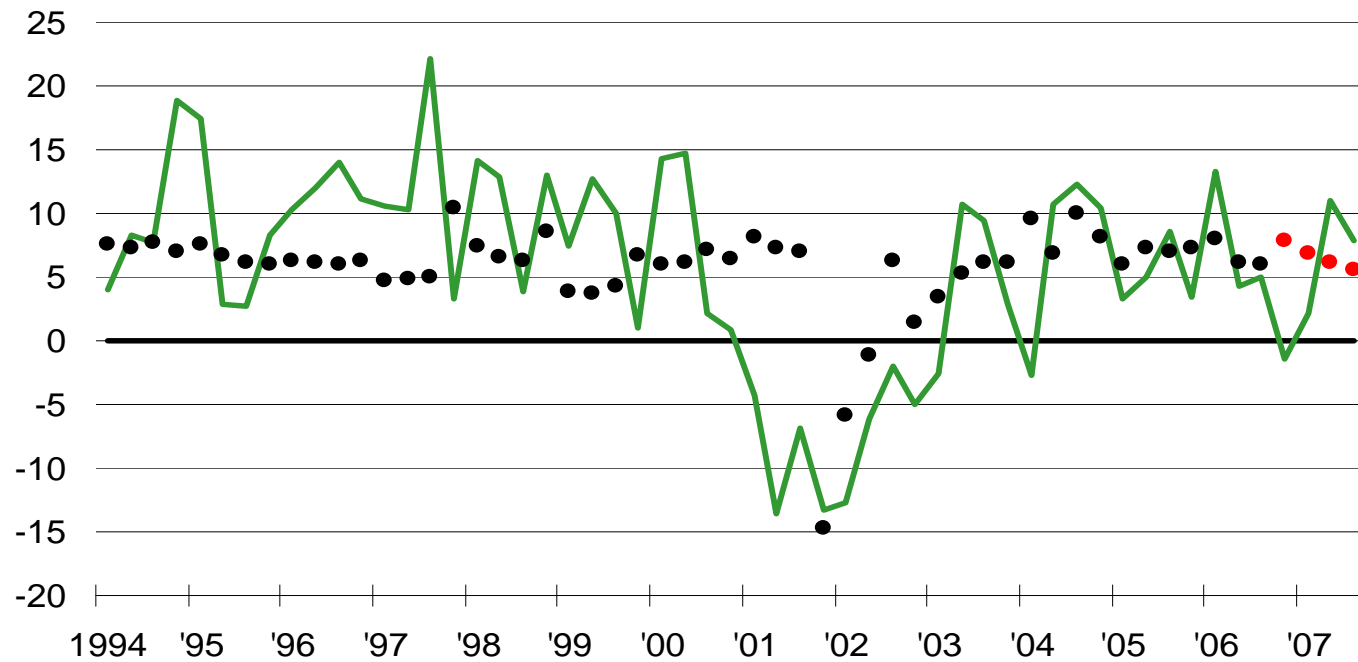
**As has been the case for the past four years,
the unemployment rate was lower than predicted**



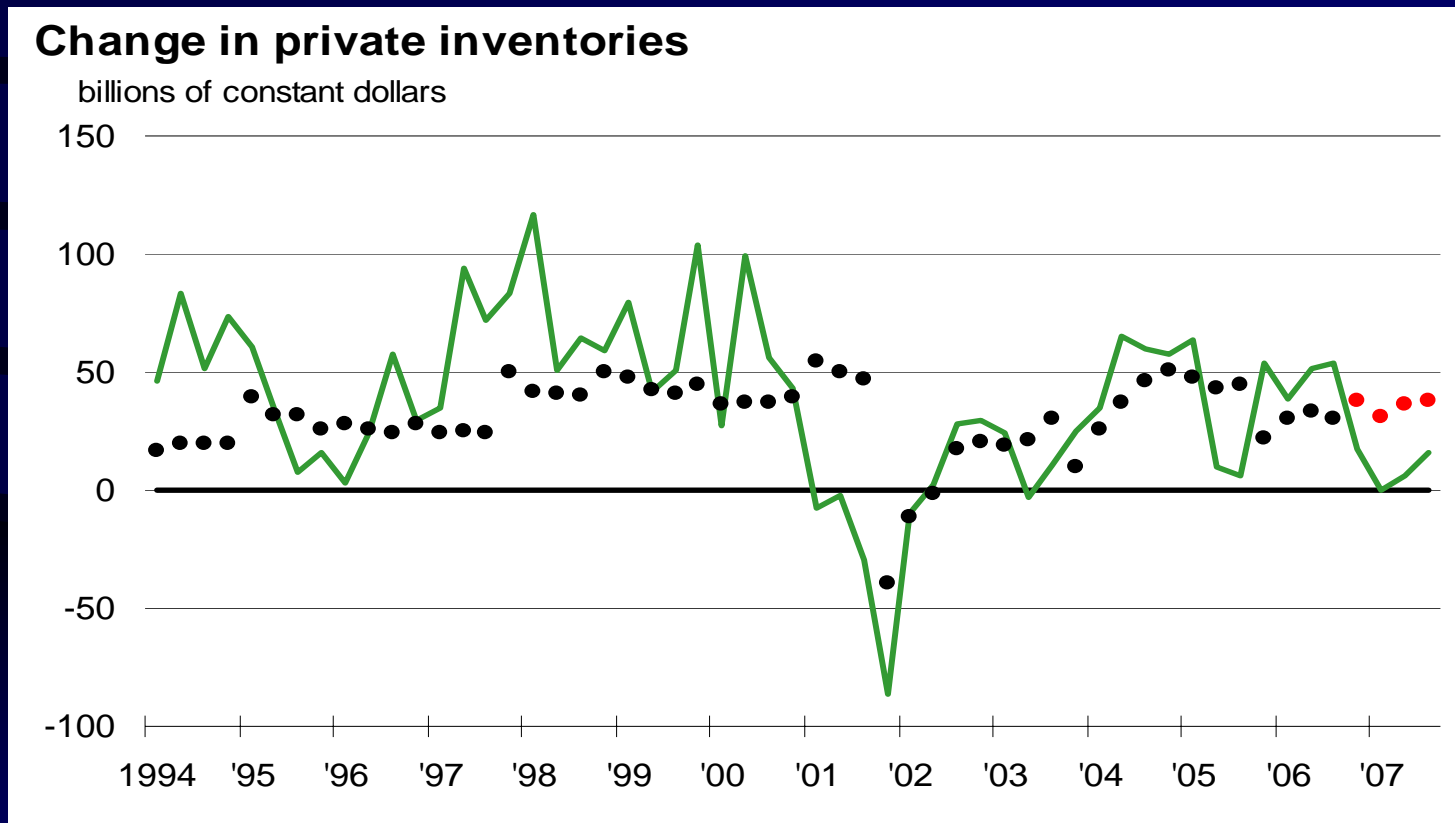
Business investment sector growth was overestimated for the first two quarters then underestimated in the last two quarters

Business fixed investment

percent change, annual rate



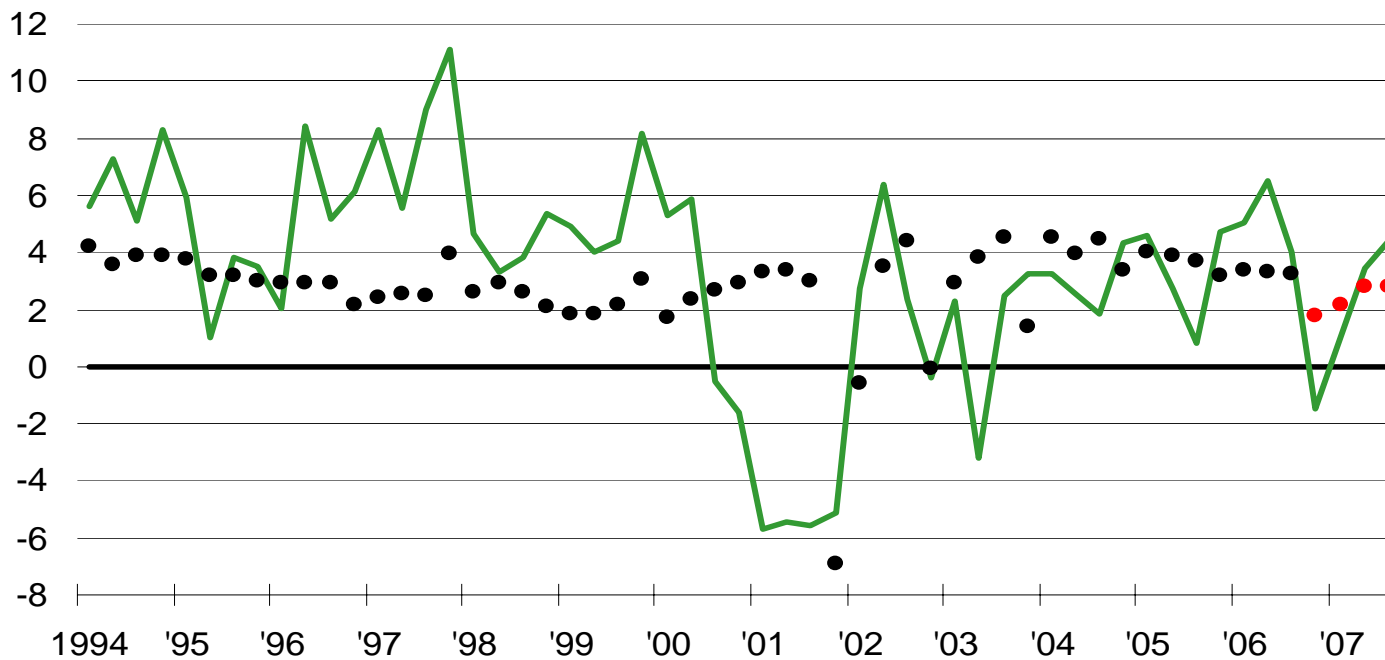
Inventory accumulation was lower than expected



The industrial sector's growth improved through the year as forecast

Industrial production

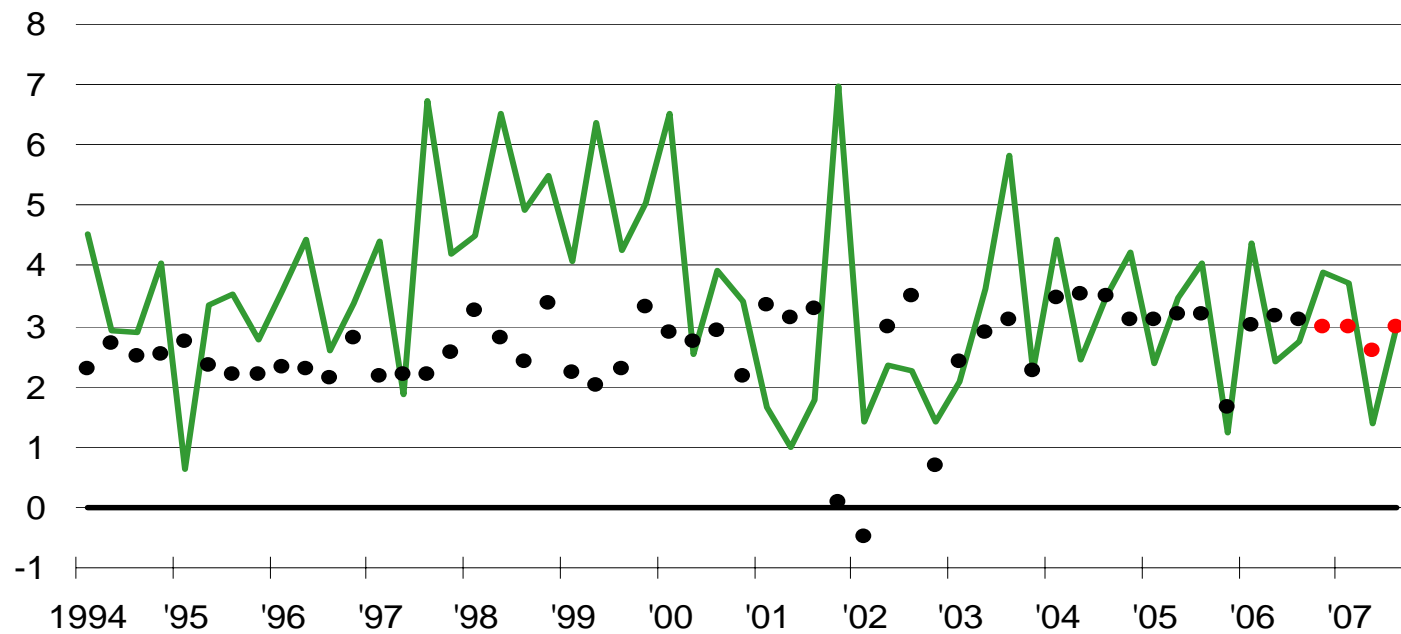
percent change, annual rate



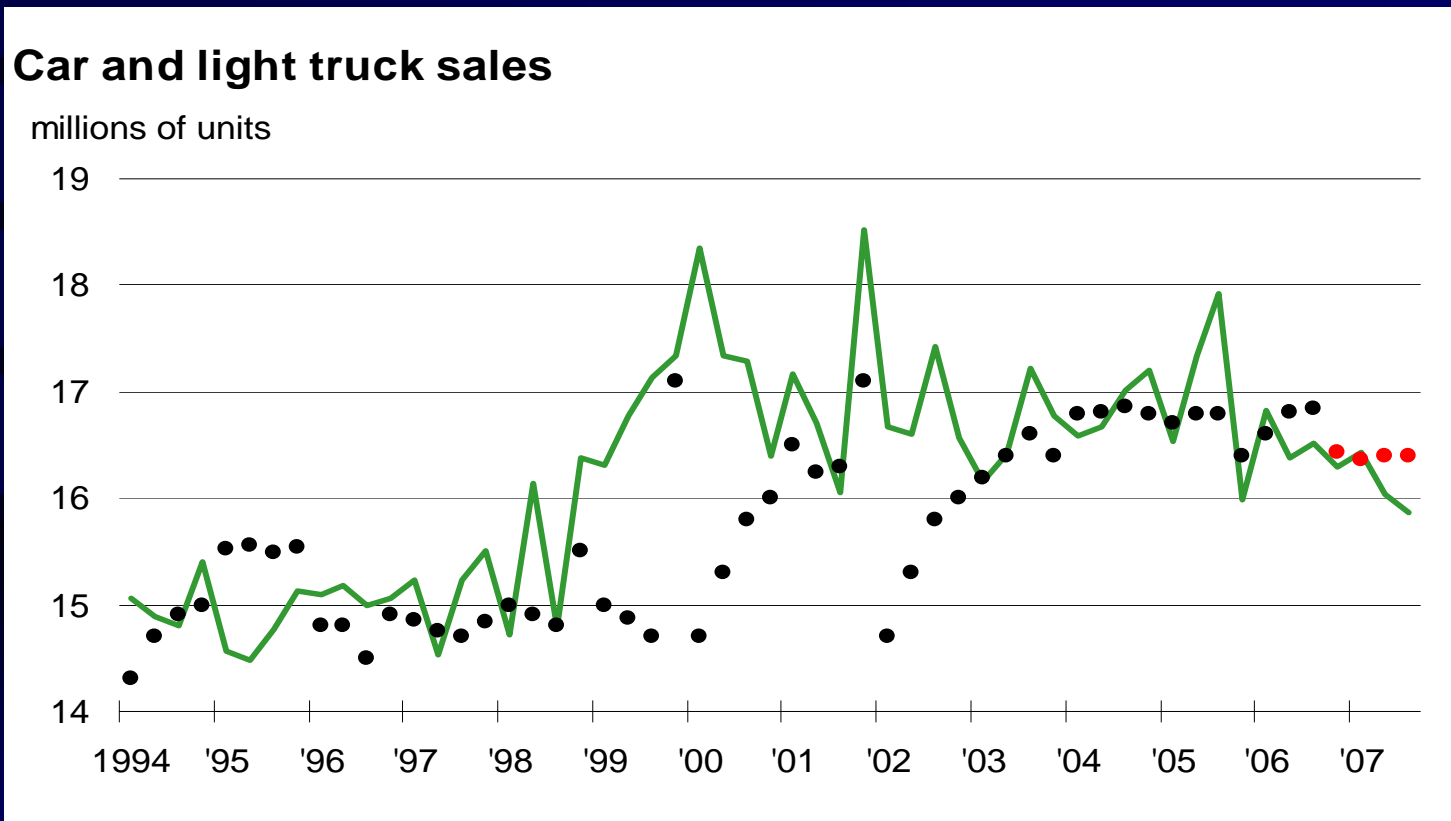
Consumer spending predictions were on target

Personal consumption expenditures

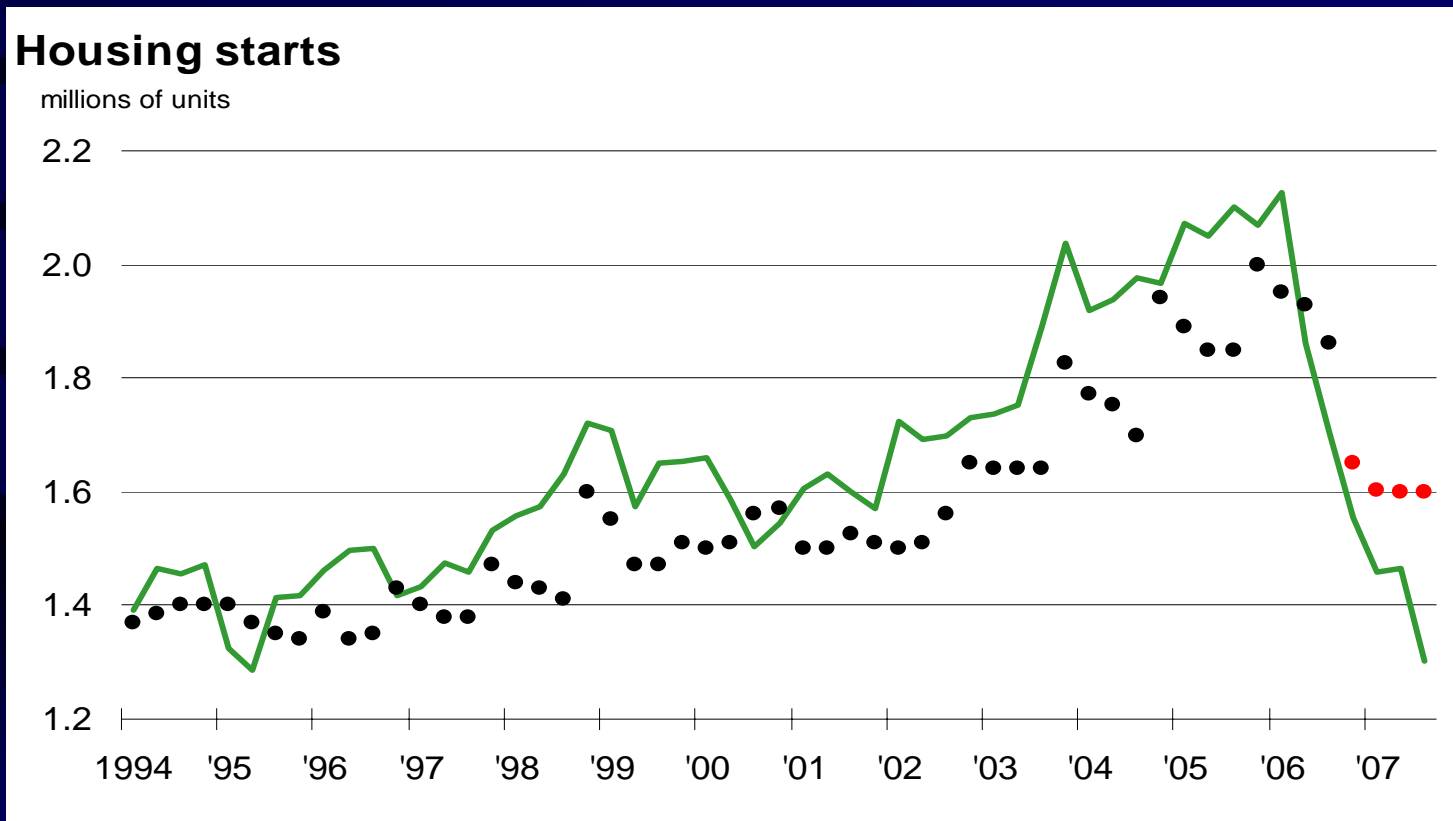
percent change, annual rate



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



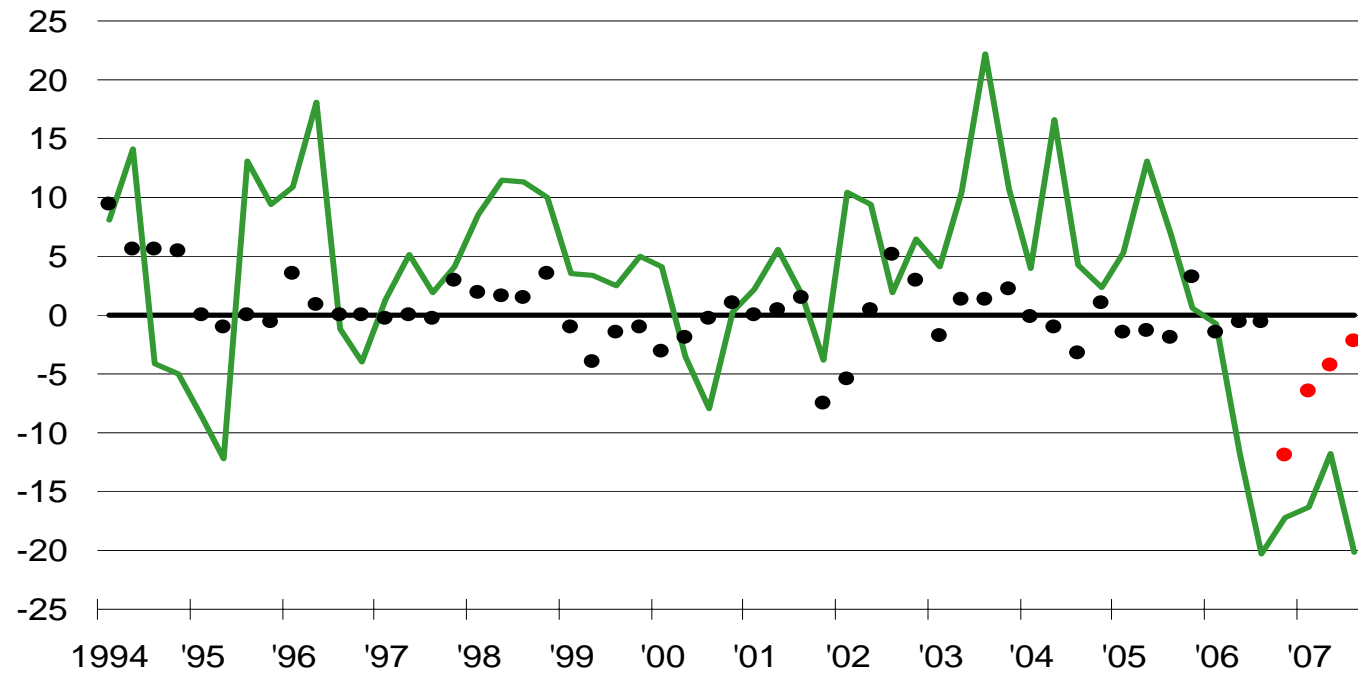
Housing starts were much worse than forecast



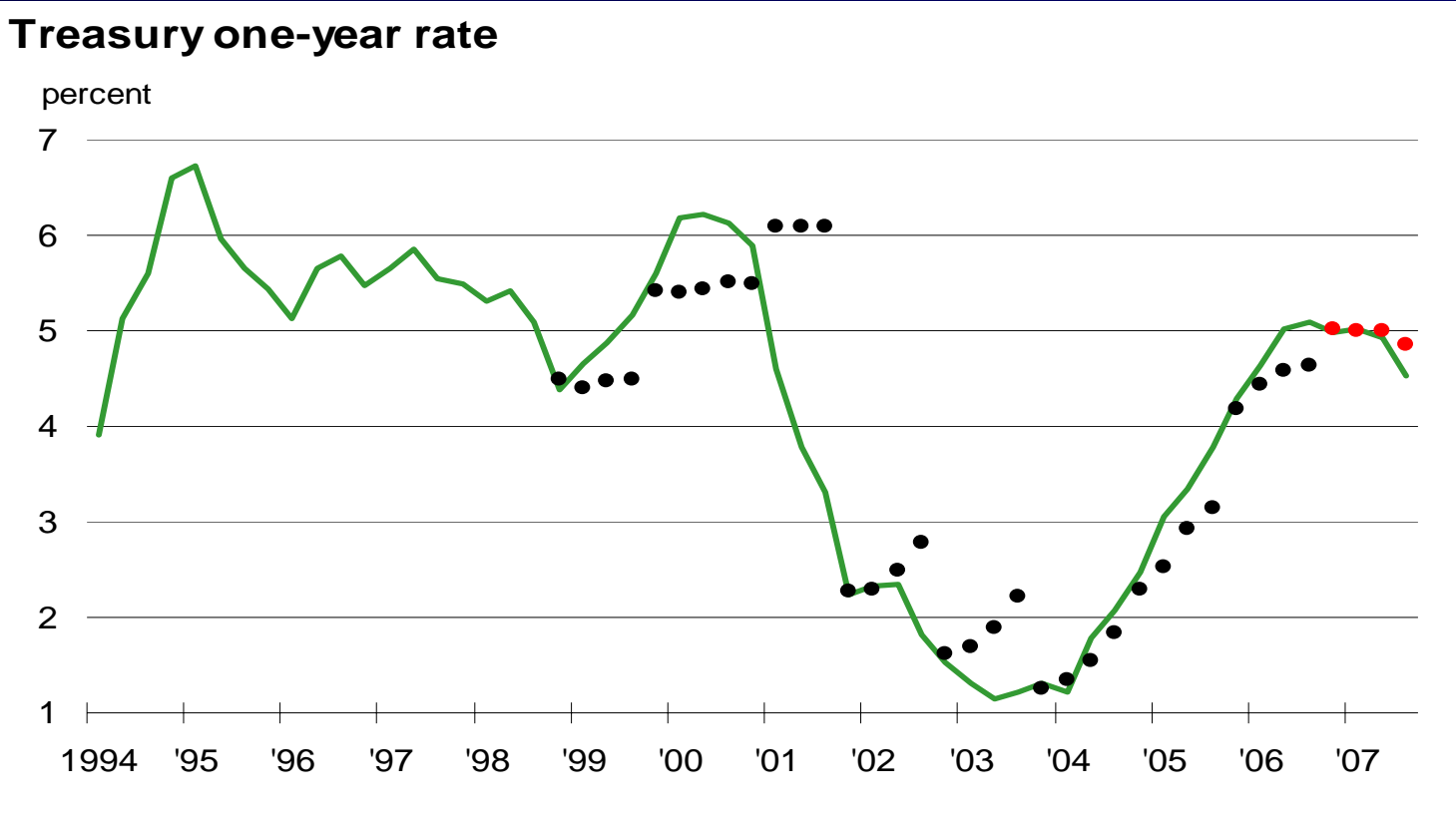
Declines in residential investment were much larger than expected

Residential investment

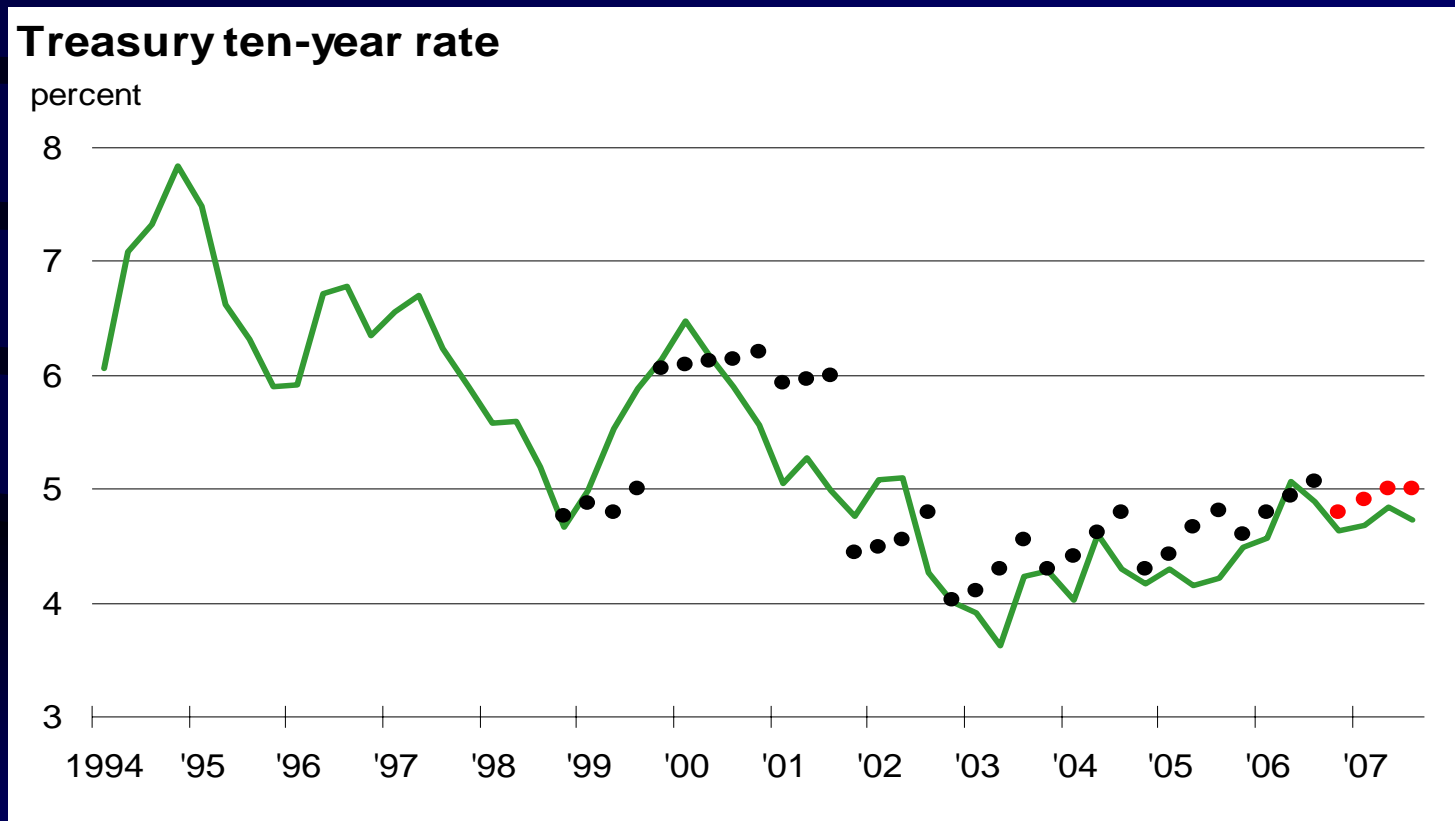
percent change, annual rate



Short-term interest rates were accurately predicted, through the second quarter



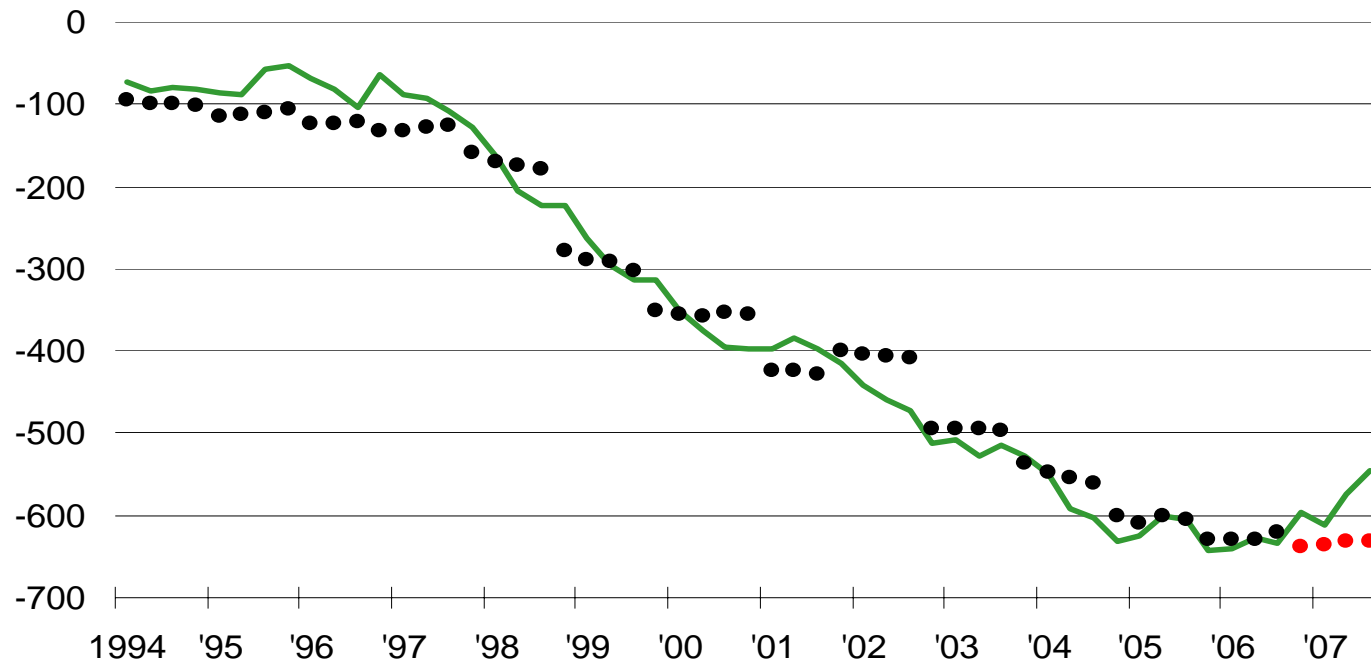
Long-term interest rates were just a bit lower than expected



The trade deficit improved at a much faster rate than forecast

Net exports of goods and services

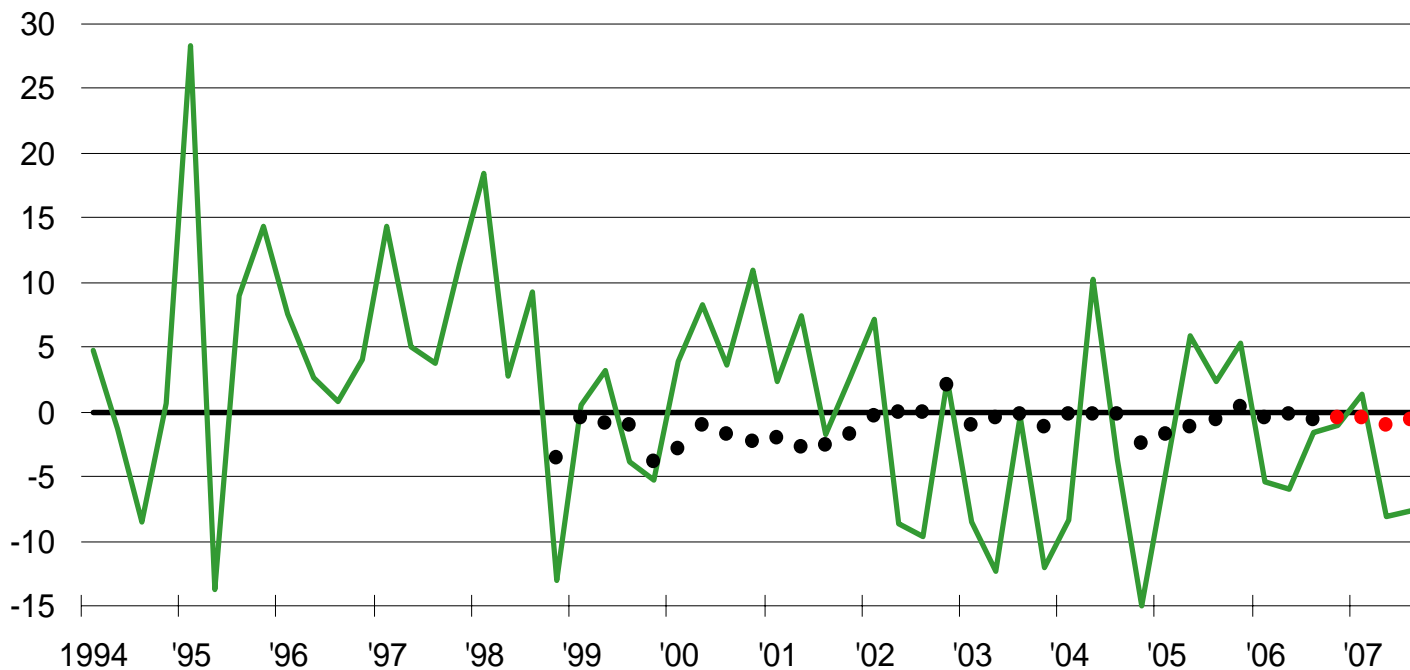
billions of constant dollars



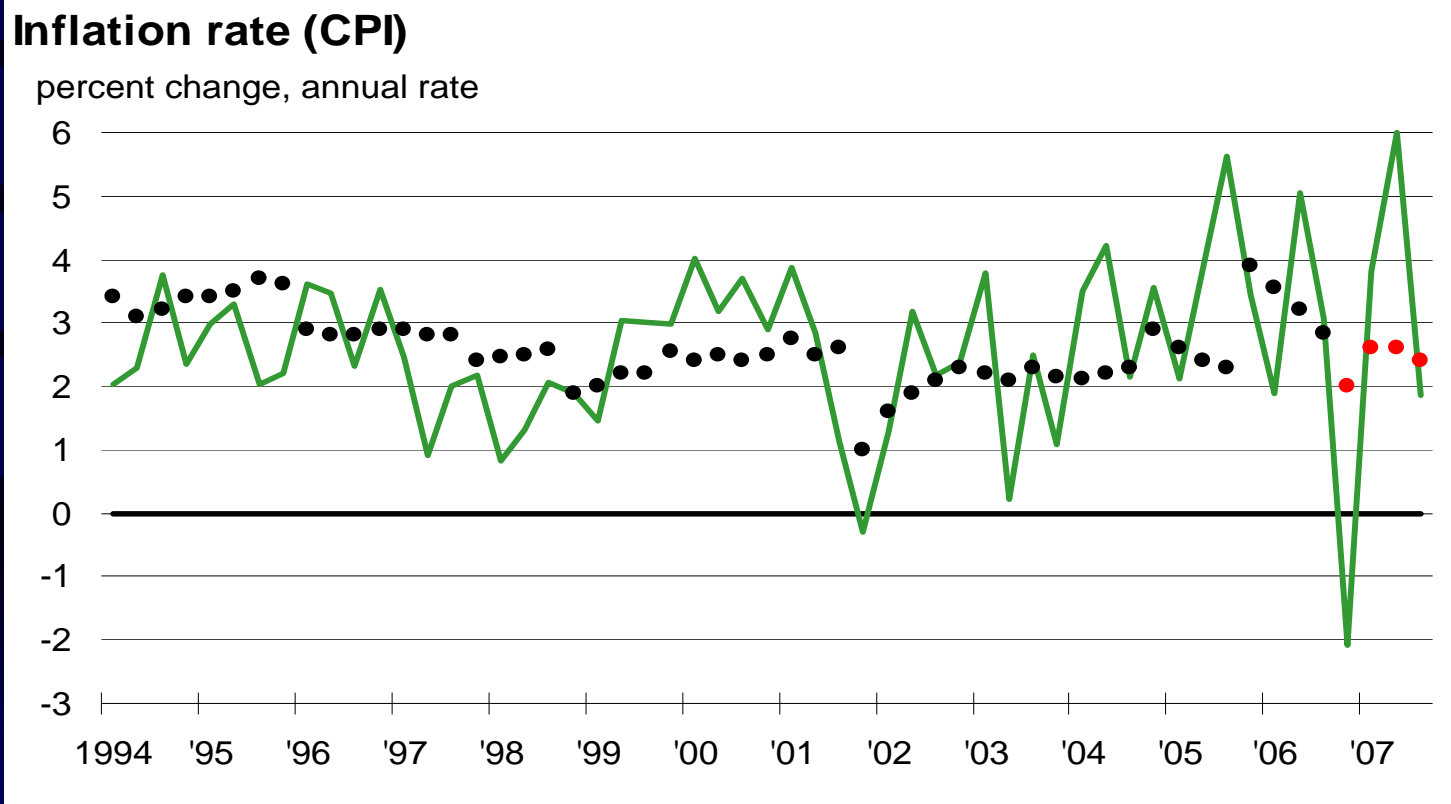
The dollar weakened by a greater extent over the last two quarters than predicted

J.P. Morgan trade weighted dollar

percent change, annual rate



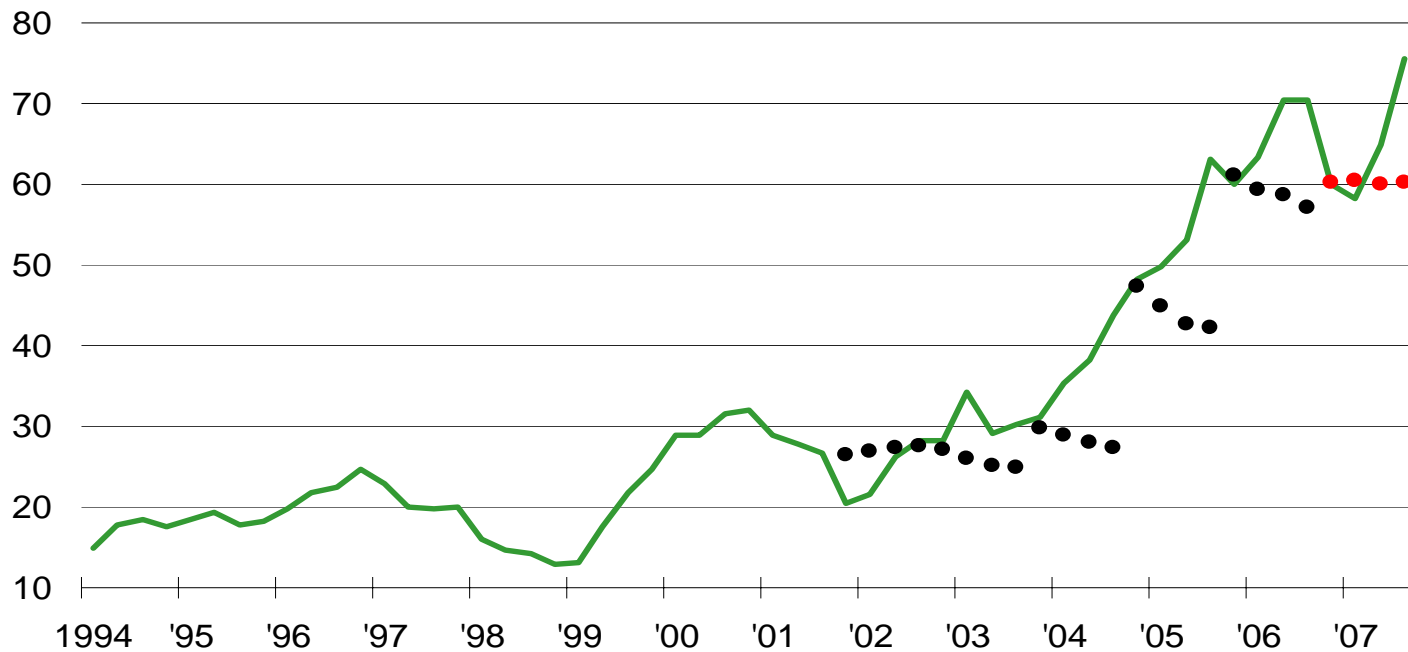
While more volatile, inflation averaged what was forecast



Oil prices increased more than expected over the last two quarter

Oil prices - West Texas Intermediate

Dollars per barrel



Forecast for 2008

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

	2006	2007	2008
GDP, current dollars*	5.4%	4.8%	4.4%
GDP price index, chain-type*	2.7%	2.3%	2.1%
Real GDP, chained dollars*	2.6%	2.5%	2.5%
Personal consumption expenditures*	3.4%	2.5%	2.2%
Business fixed investment*	5.2%	6.1%	3.7%
Residential investment*	-12.8%	-15.9%	-4.0%
Change in private inventories (billions of constant dollars)**	\$17.4	\$17.3	\$25.4
Net exports of goods and services (billions of constant dollars)**	-\$597.3	-\$541.4	-\$507.3
Government consumption expenditures and gross investment*	2.5%	2.3%	2.0%

*Q4 over Q4
**Q4 value

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

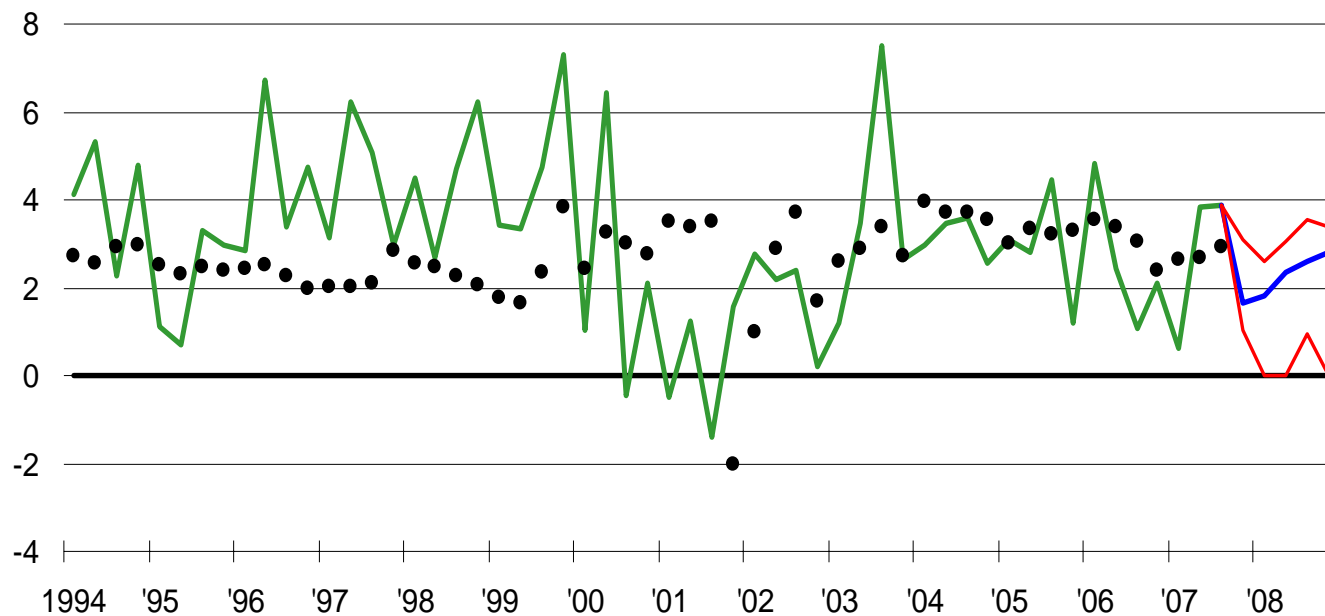
	2006	2007	2008
Industrial production*	3.5%	2.6%	2.5%
Car & light truck sales (millions - calendar year including imports)***	16.5	16.1	16.0
Housing starts (millions)***	1.81	1.35	1.21
Oil price (dollars per barrel of West Texas Intermediate)**	\$60.09	\$90.19	\$82.50
Unemployment rate**	4.5%	4.7%	5.0%
Inflation rate (consumer price index)*	1.9%	3.6%	2.6%
Treasury constant maturity 1-year rate**	4.99%	4.11%	4.28%
Treasury constant maturity 10-year rate**	4.63%	4.50%	4.80%
J.P. Morgan trade weighted OECD dollar*	-3.6%	-4.2%	-0.7%

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

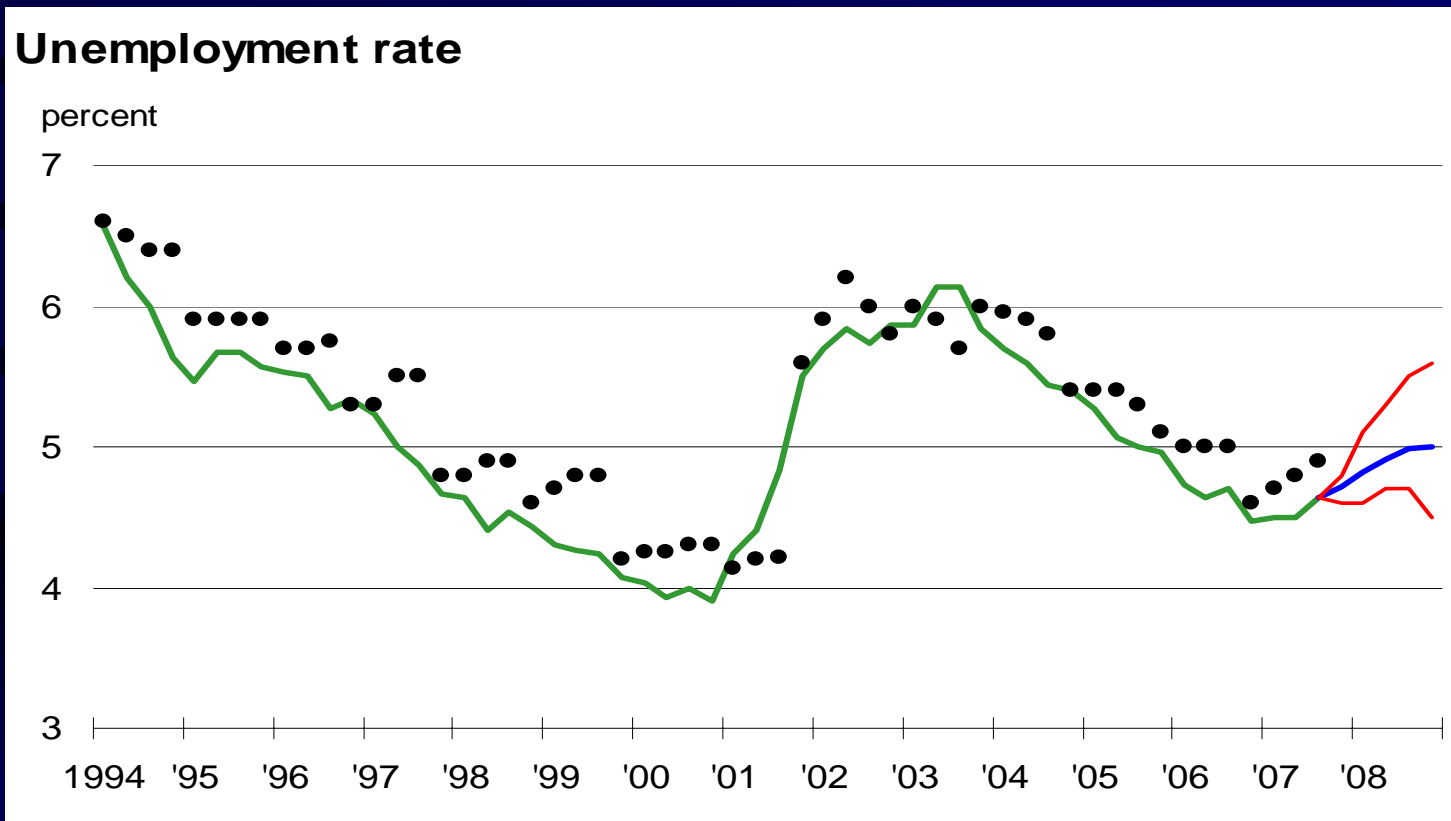
**GDP growth is expected to rise through 2008
from 1.7% in the current quarter
to 2.8% by the end of next year**

Real GDP

percent change, annual rate



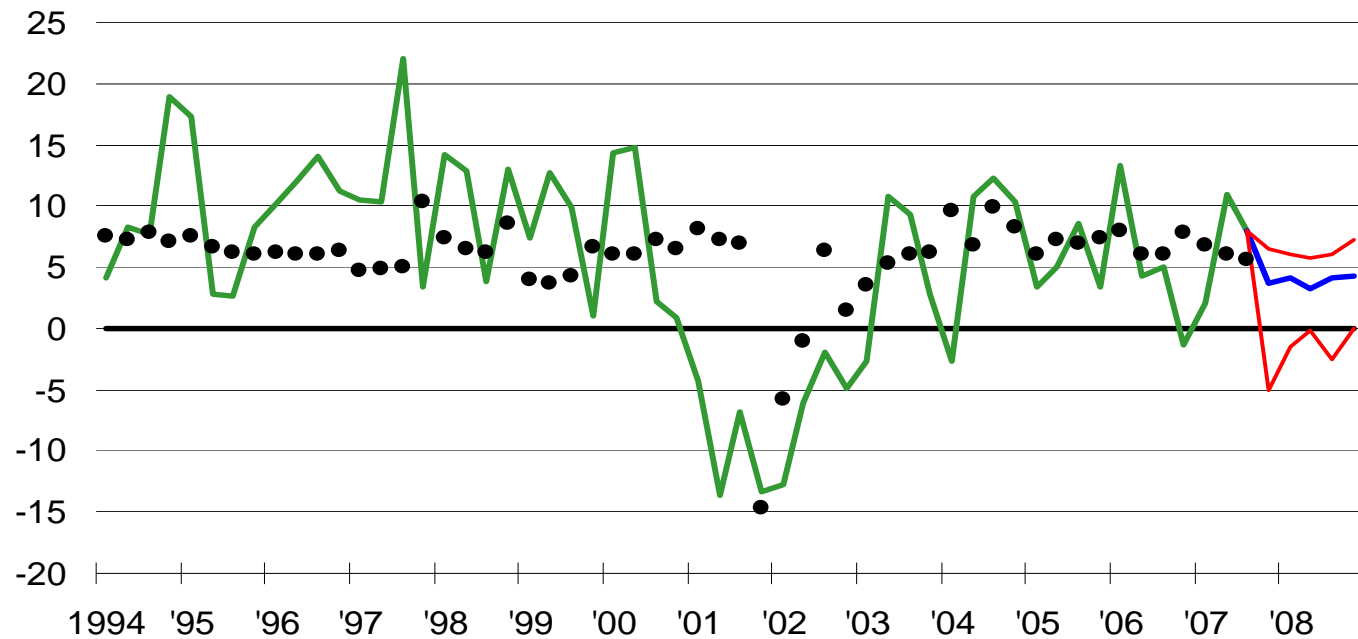
**This somewhat slower growth for the economy
will lead to the unemployment rate
continuing to edge higher through 2008**



Business fixed investment growth is forecast to slow to average 3.7% over the forecast horizon

Business fixed investment

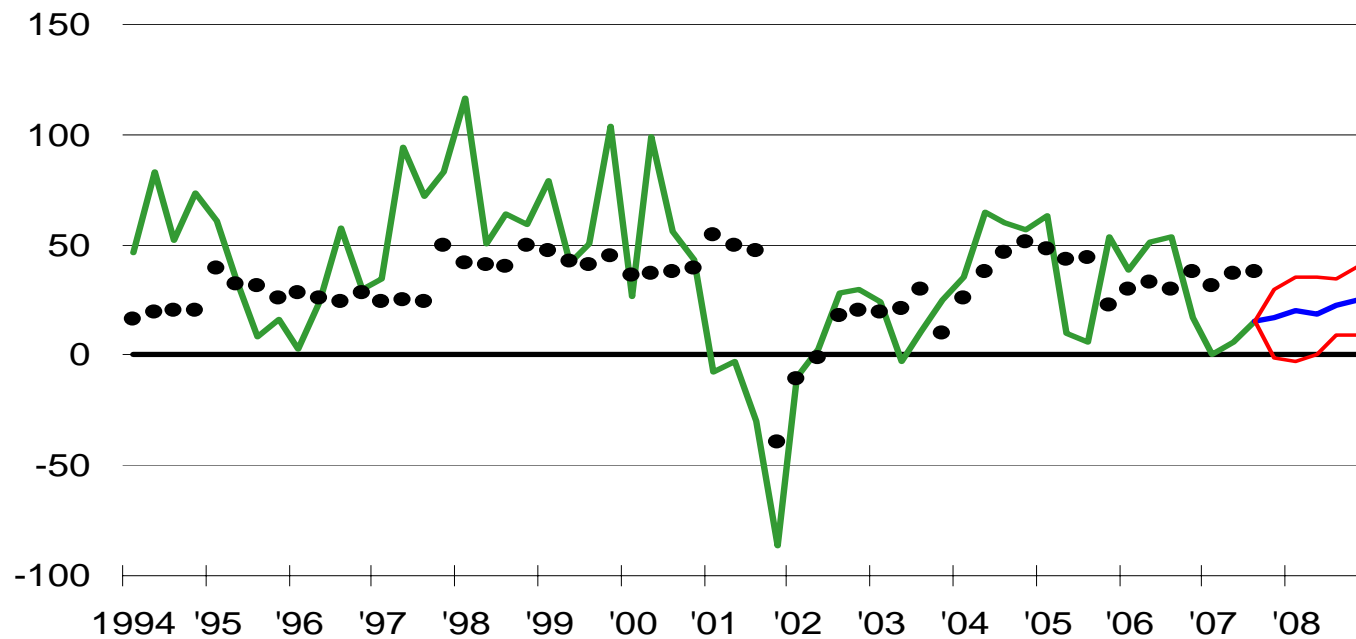
percent change, annual rate



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

Change in private inventories

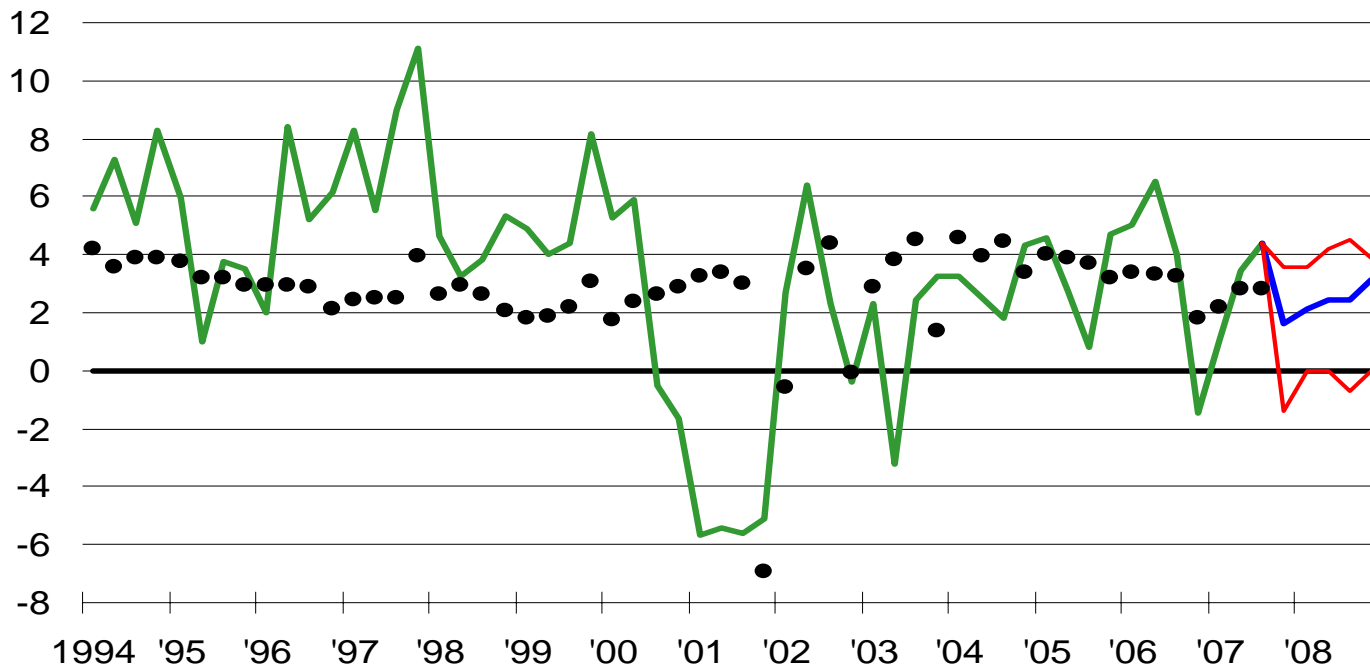
billions of constant dollars



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

Industrial production

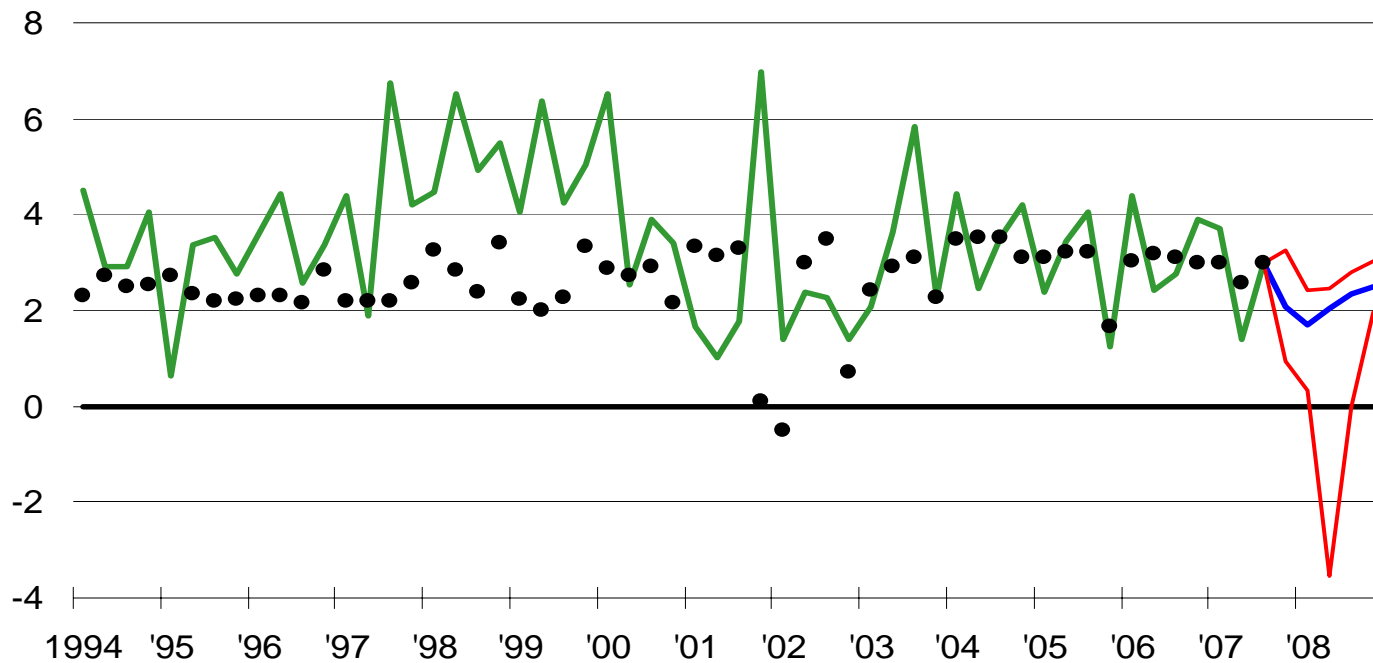
percent change, annual rate



Consumer spending growth is expected to soften over the next two quarters and then improve towards the end of next year

Personal consumption expenditures

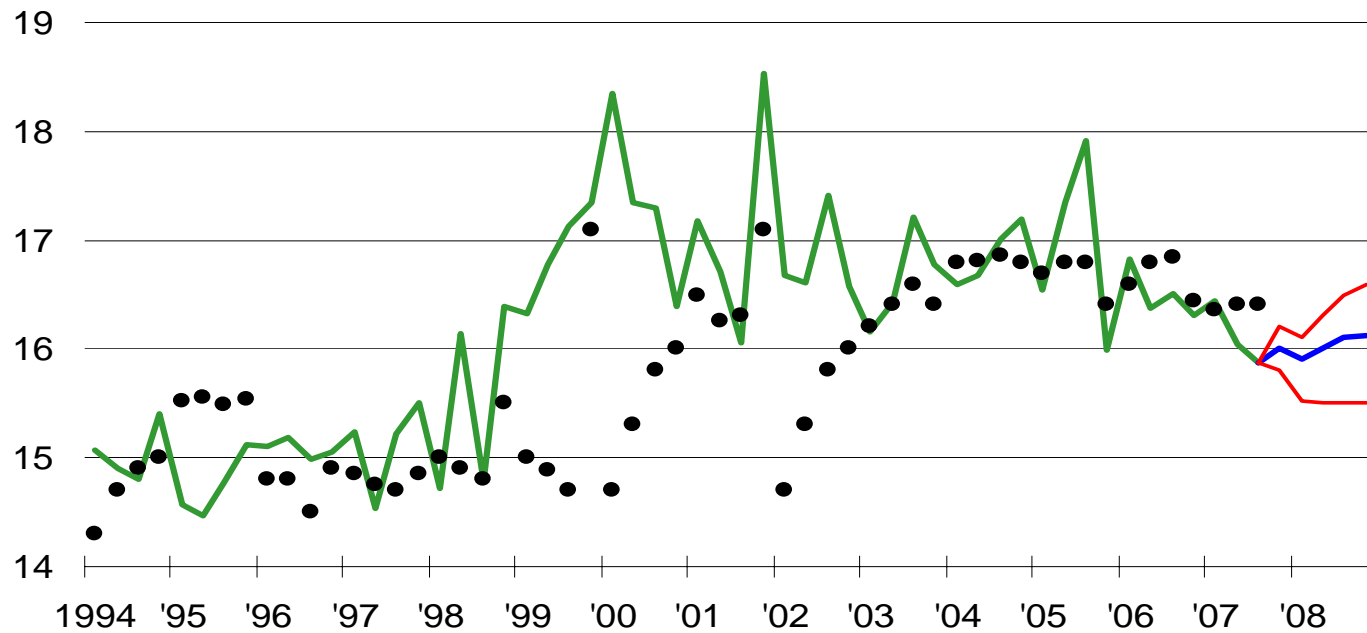
percent change, annual rate



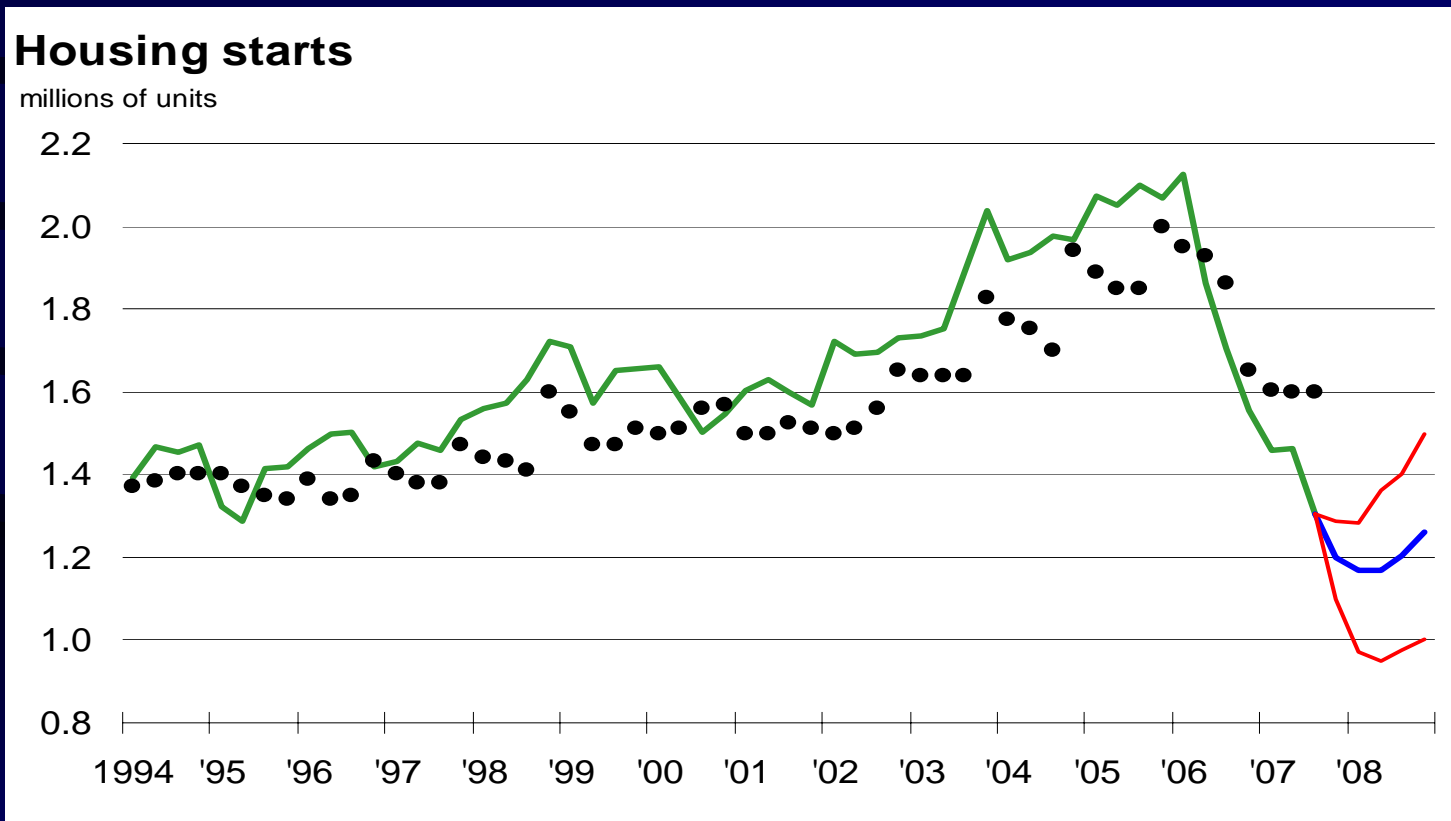
Vehicle sales are forecast to average 16.0 million units during next year

Car and light truck sales

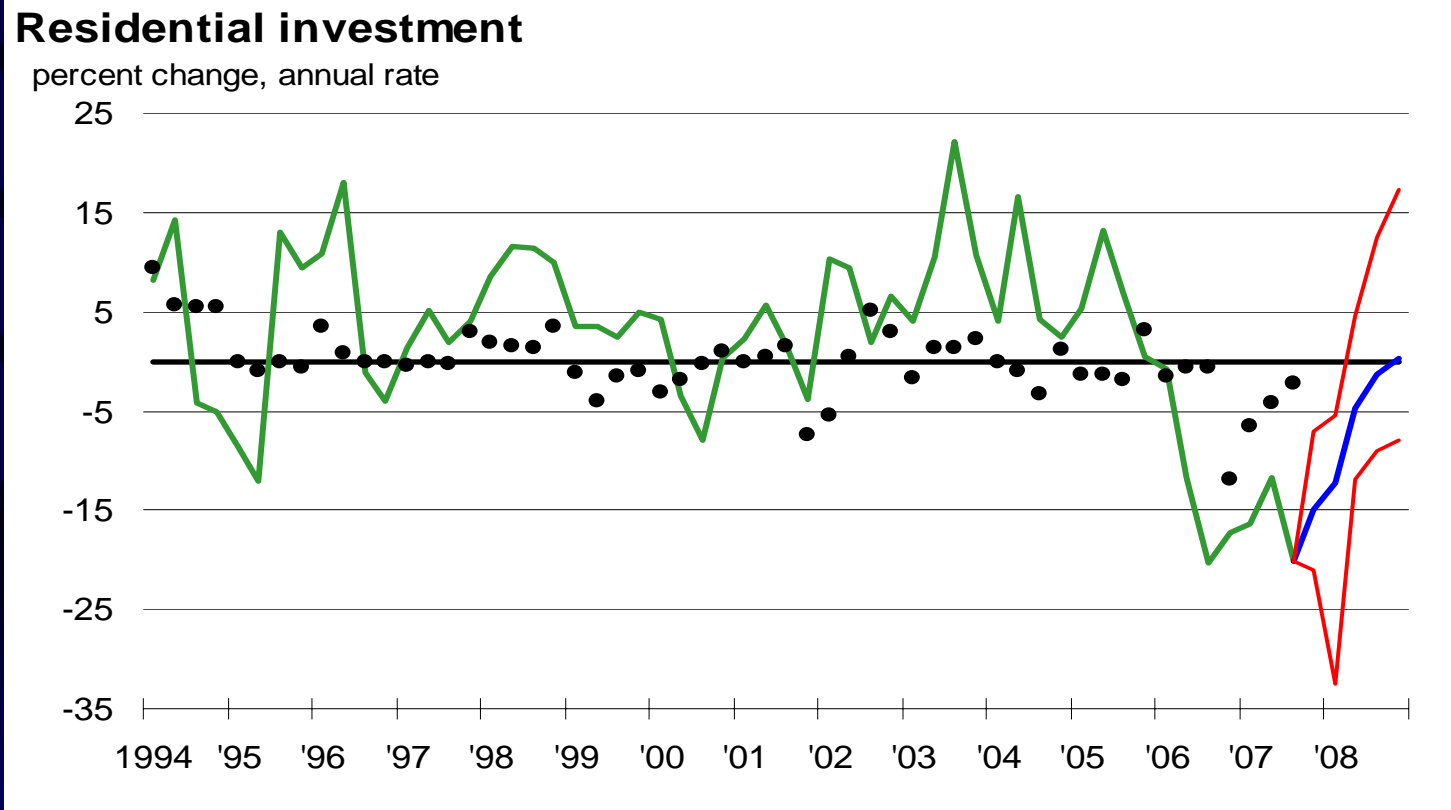
millions of units



Housing starts are forecast to continue to weaken through the first half of next year reaching 1.17 million units and then edge a bit higher in the second half of the year



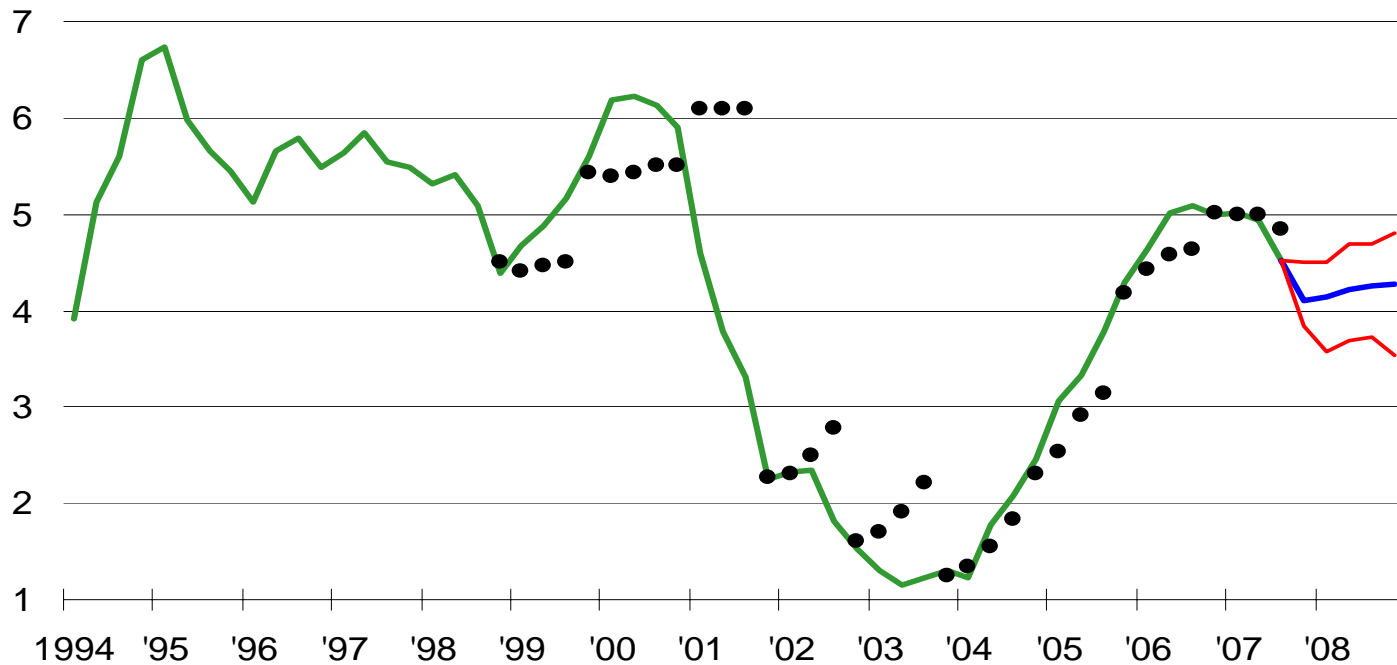
The drag from residential investment is expected to abate at the end of next year



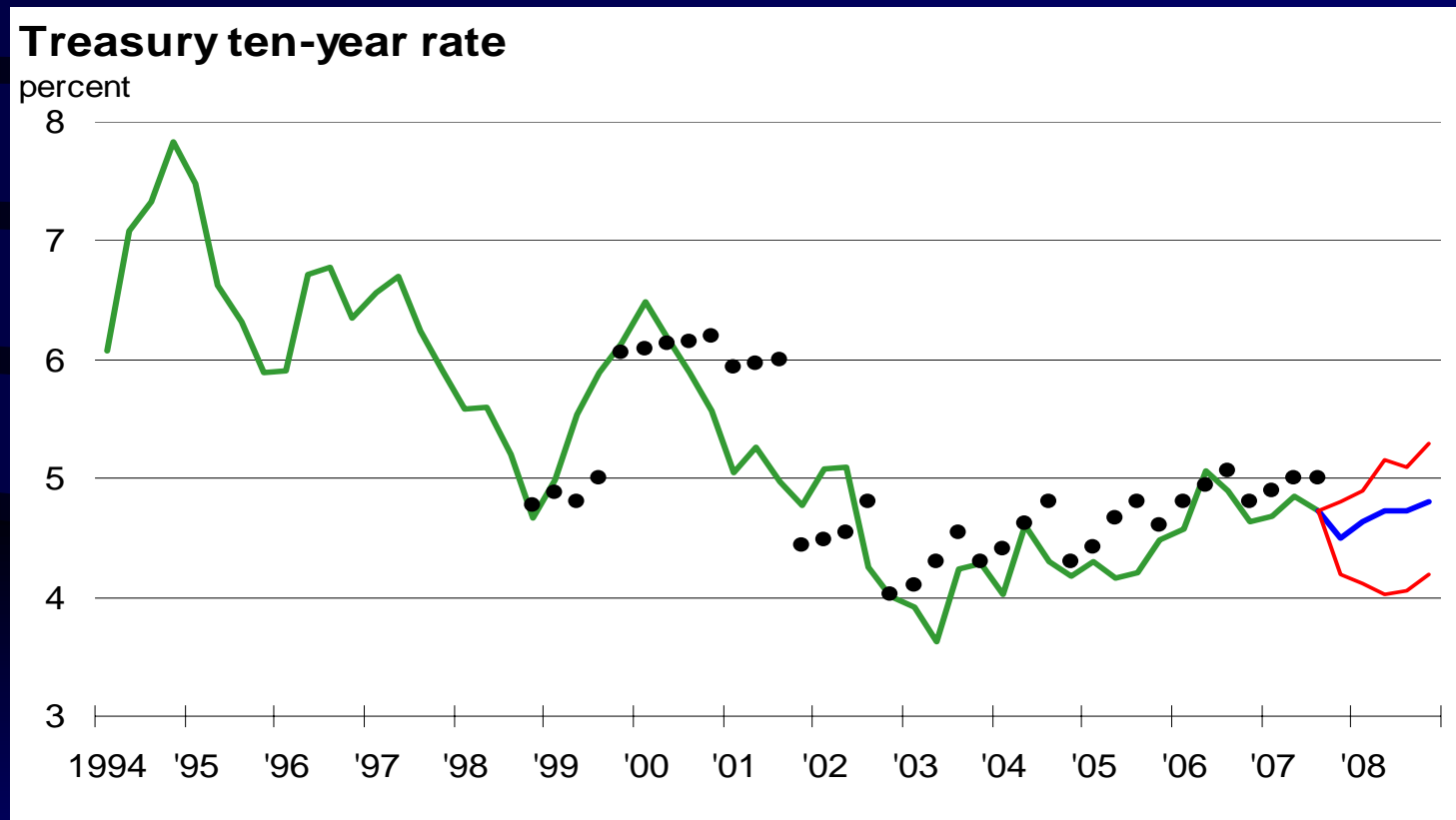
Short-term interest rates are predicted to remain fairly flat next year

Treasury one-year rate

percent



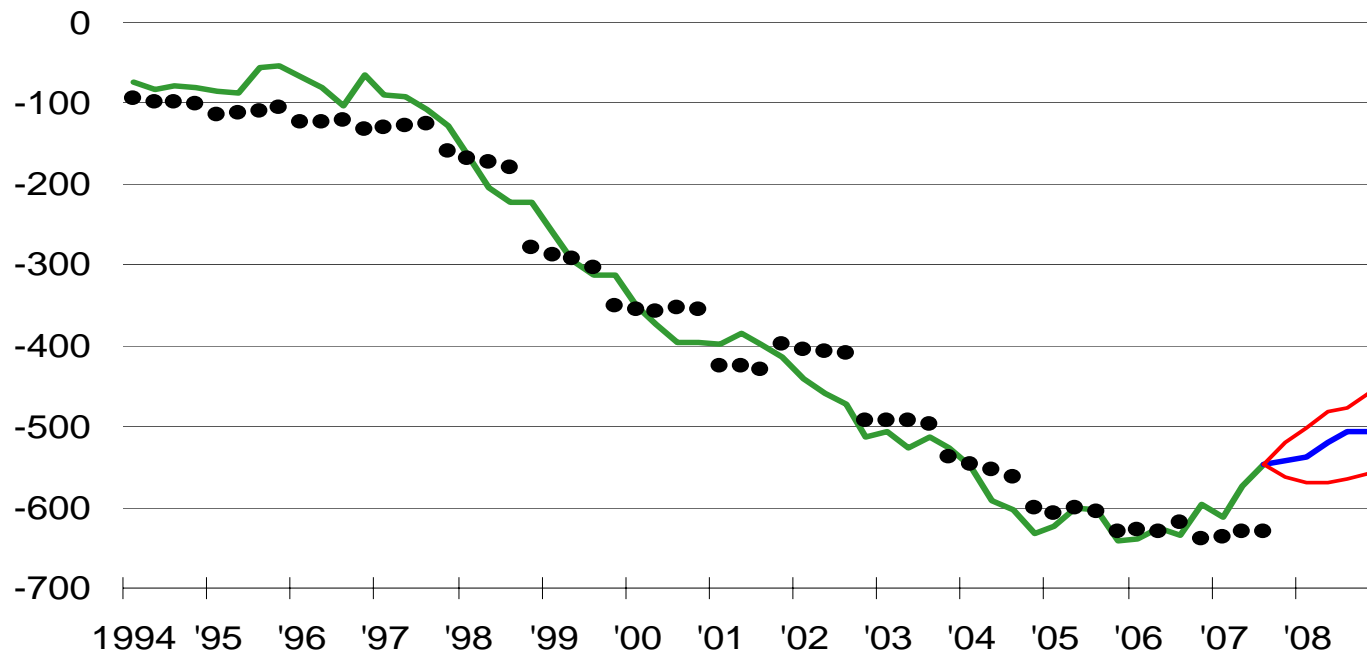
Ten-year interest rates are expected to edge higher



The trade balance is forecast to continue to improve

Net exports of goods and services

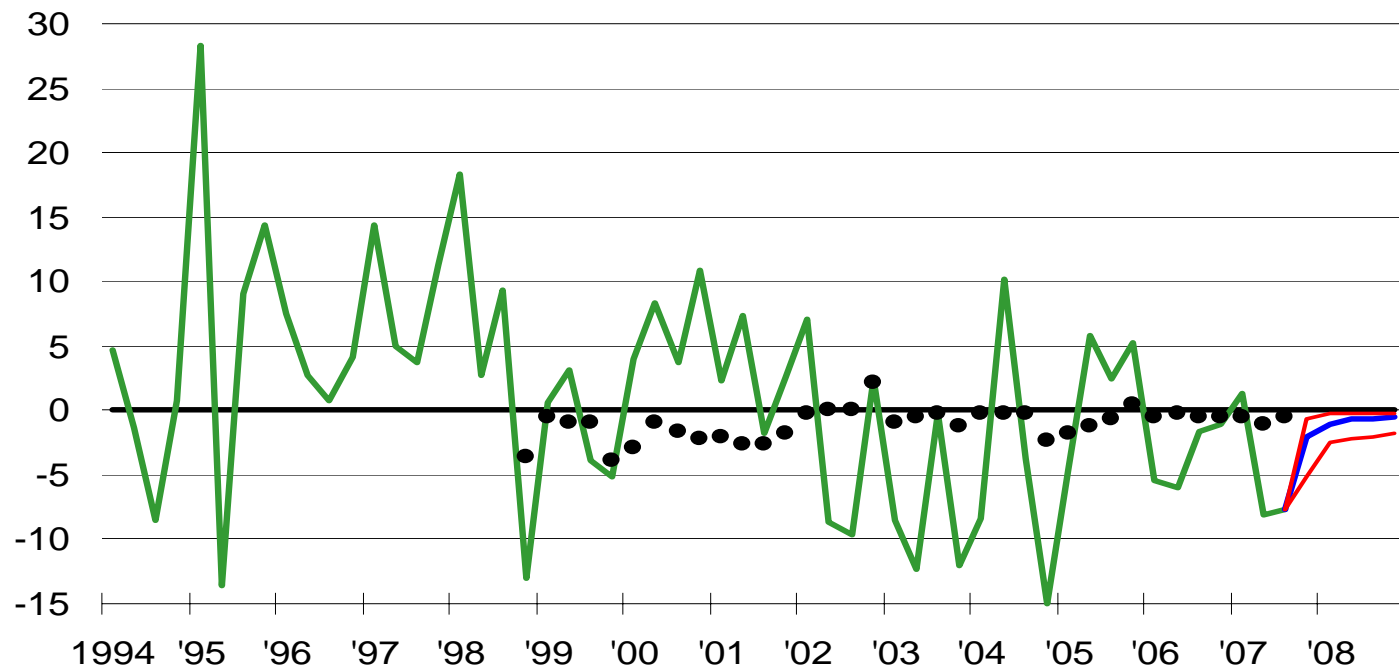
billions of constant dollars



The dollar is forecast fall moderately

J.P. Morgan trade weighted dollar

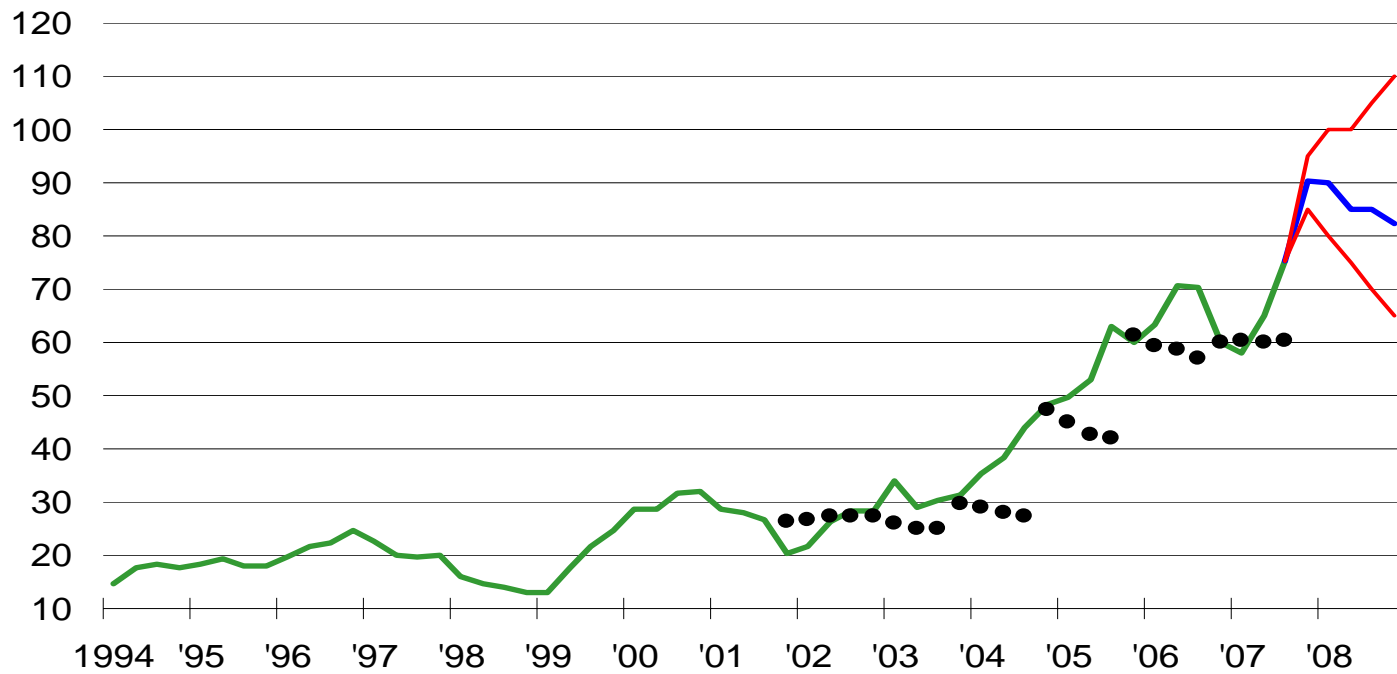
percent change, annual rate



Oil prices are predicted to move lower during 2008

Oil prices - West Texas Intermediate

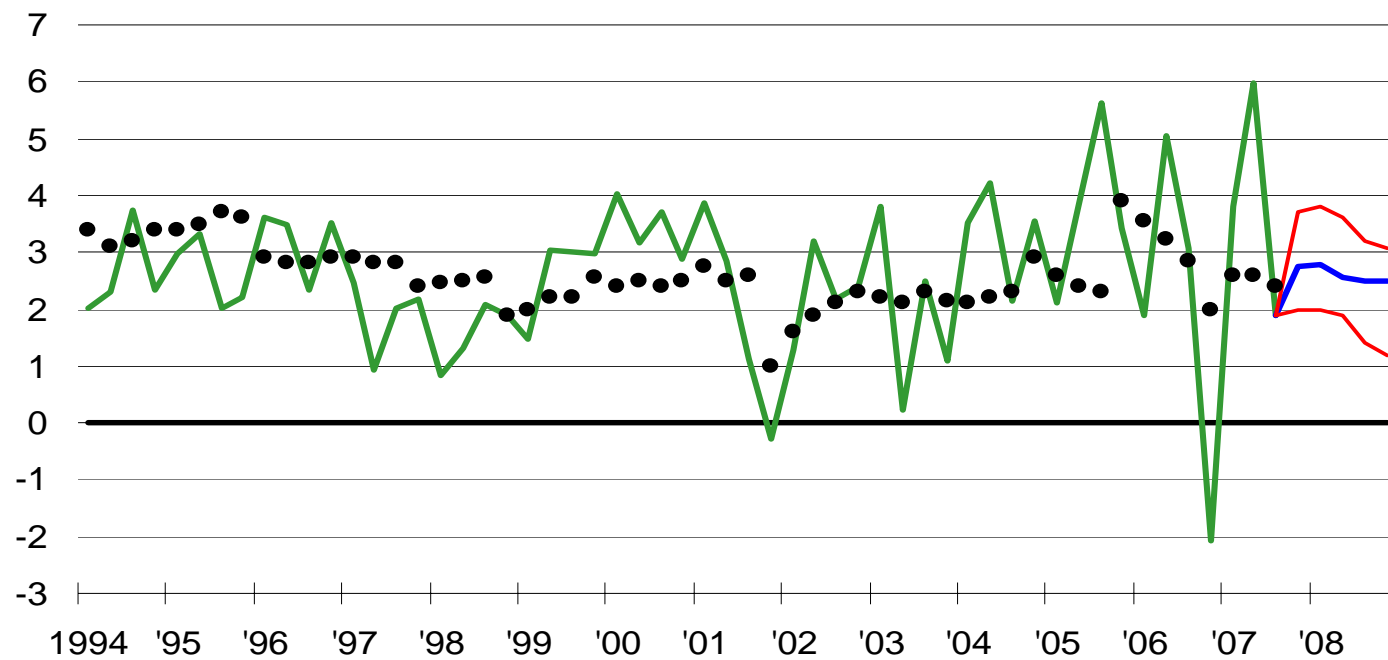
Dollars per barrel



Inflation is forecast to average 2.6% next year

Inflation rate (CPI)

percent change, annual rate



Summary

- **The economic expansion will continue into 2008, representing the seventh consecutive year of the expansion**
- **With economic growth below potential, the unemployment rate is expected to edge higher**
- **Inflation is anticipated to remain fairly stable at 2.6%**
- **Most key GDP components are predicted to expand at a more moderate pace in 2008 with the exception of residential investment and the trade deficit which are expected to represent a smaller drag on the U.S. economy next year**
- **Light vehicle sales are forecast average 16.0 million units, the slowest selling rate since 1998**
- **Housing starts are expected to fall to the lowest rate since 1992**
- **www.chicagofed.org**