



17TH ANNUAL

AUTOMOTIVE OUTLOOK SYMPOSIUM

THURSDAY JUNE 3 / FRIDAY JUNE 4 / 2010

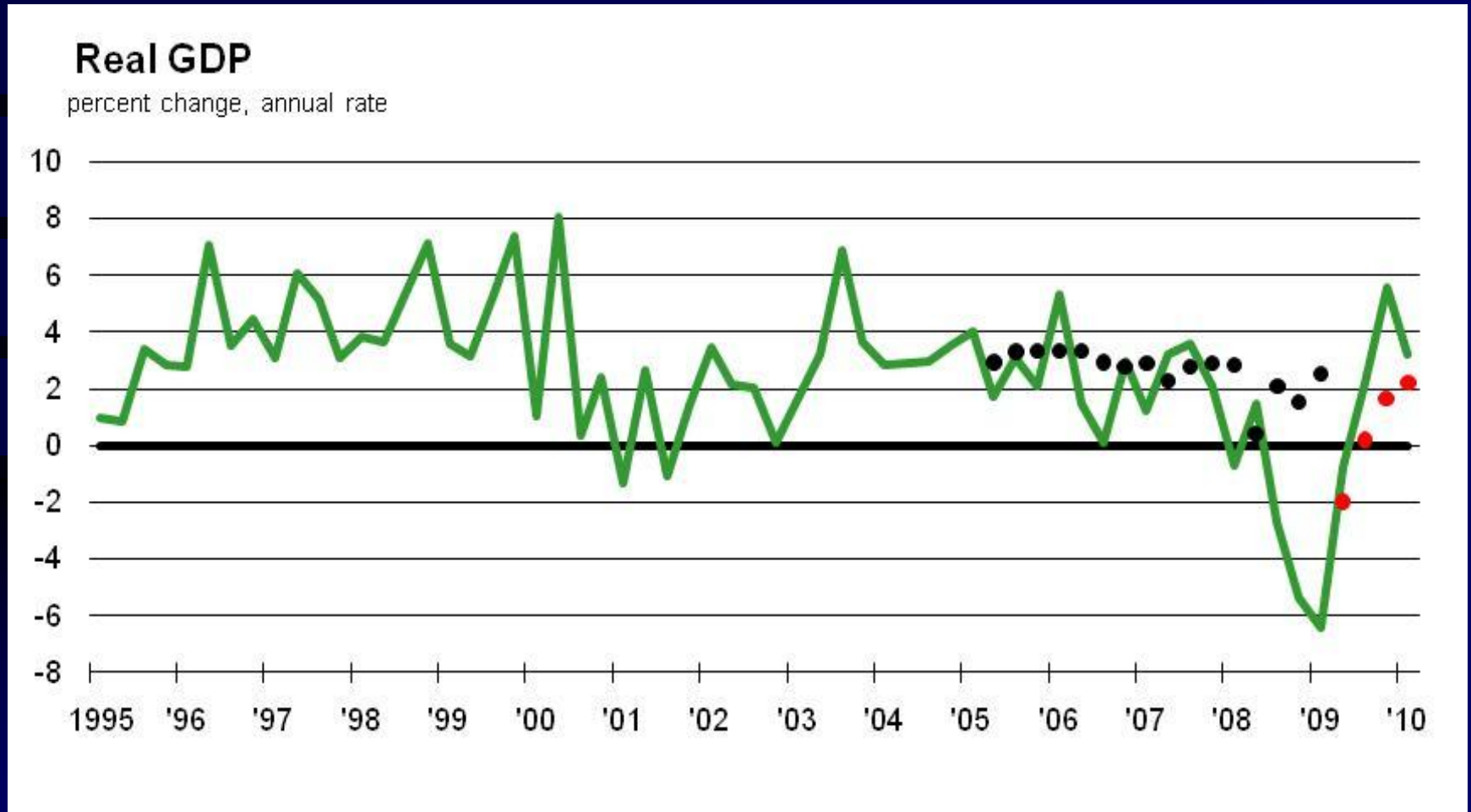
Consensus Forecast 2010 and 2011

**Seventeenth Annual
Automotive Outlook Symposium**
Detroit, Michigan
June 4, 2010

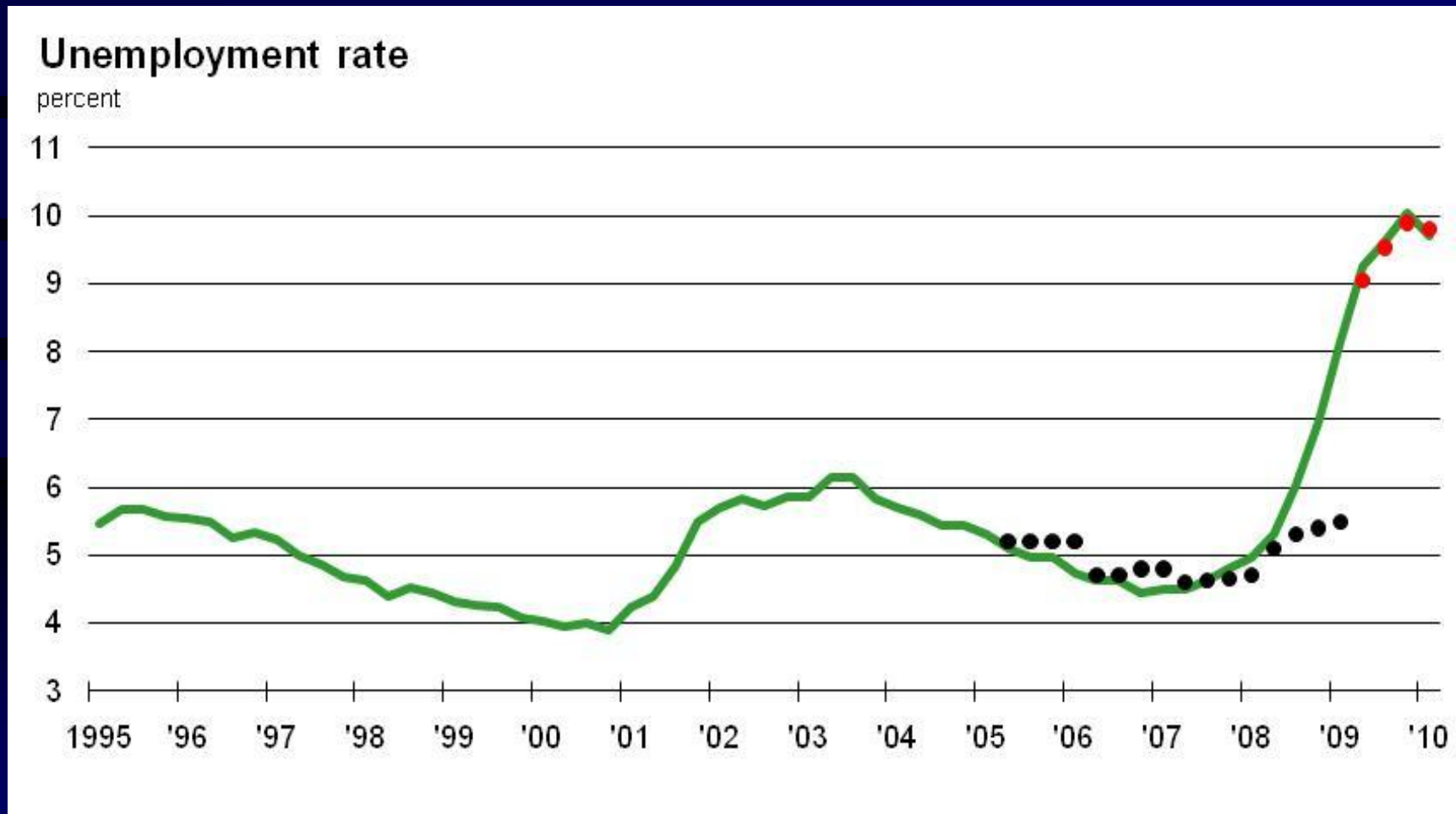
William Strauss
Senior Economist
and Economic Advisor
Federal Reserve Bank of Chicago

Review of past performance

GDP growth was a bit higher than the consensus forecast

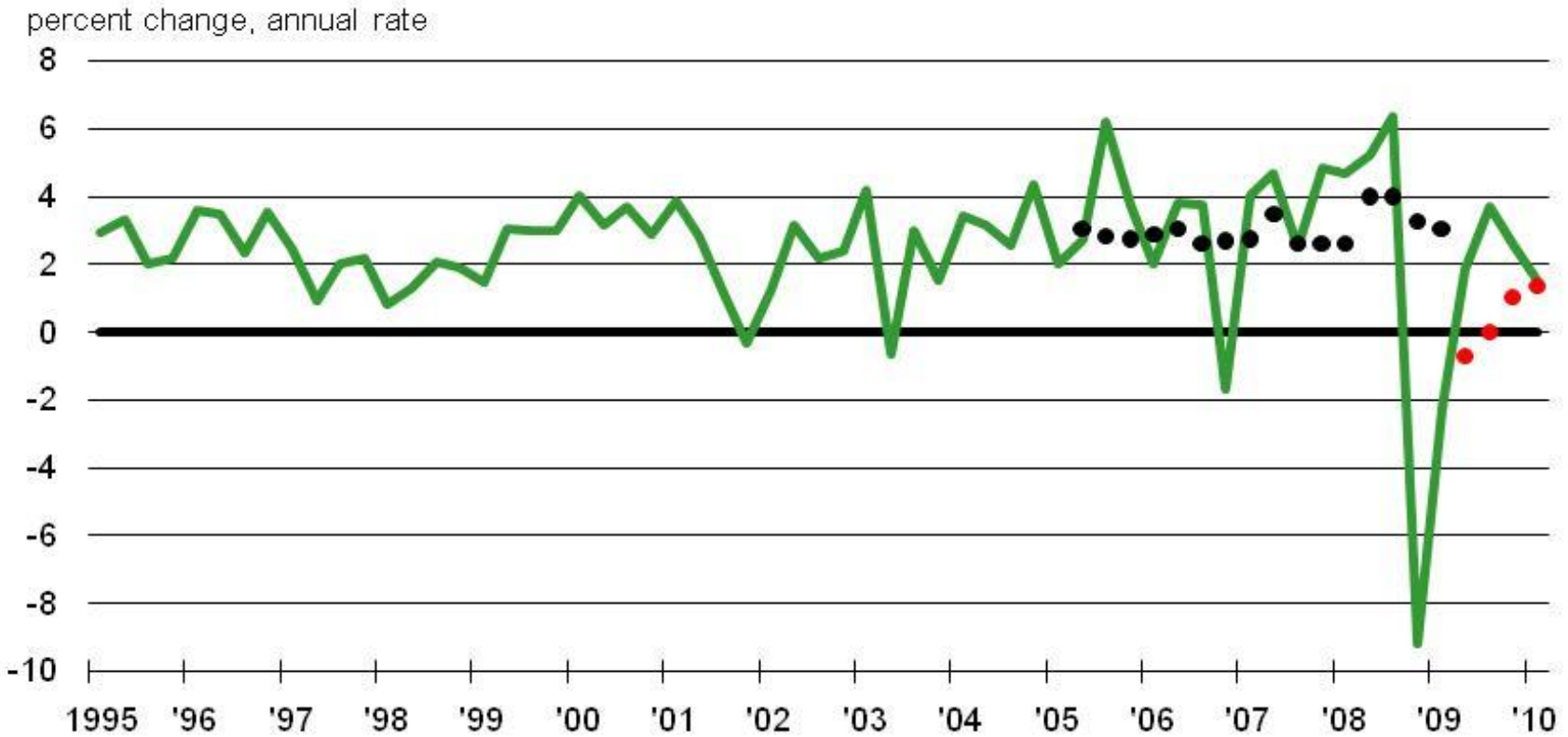


The unemployment rate prediction was extremely accurate



Inflation came in higher than the consensus group anticipated

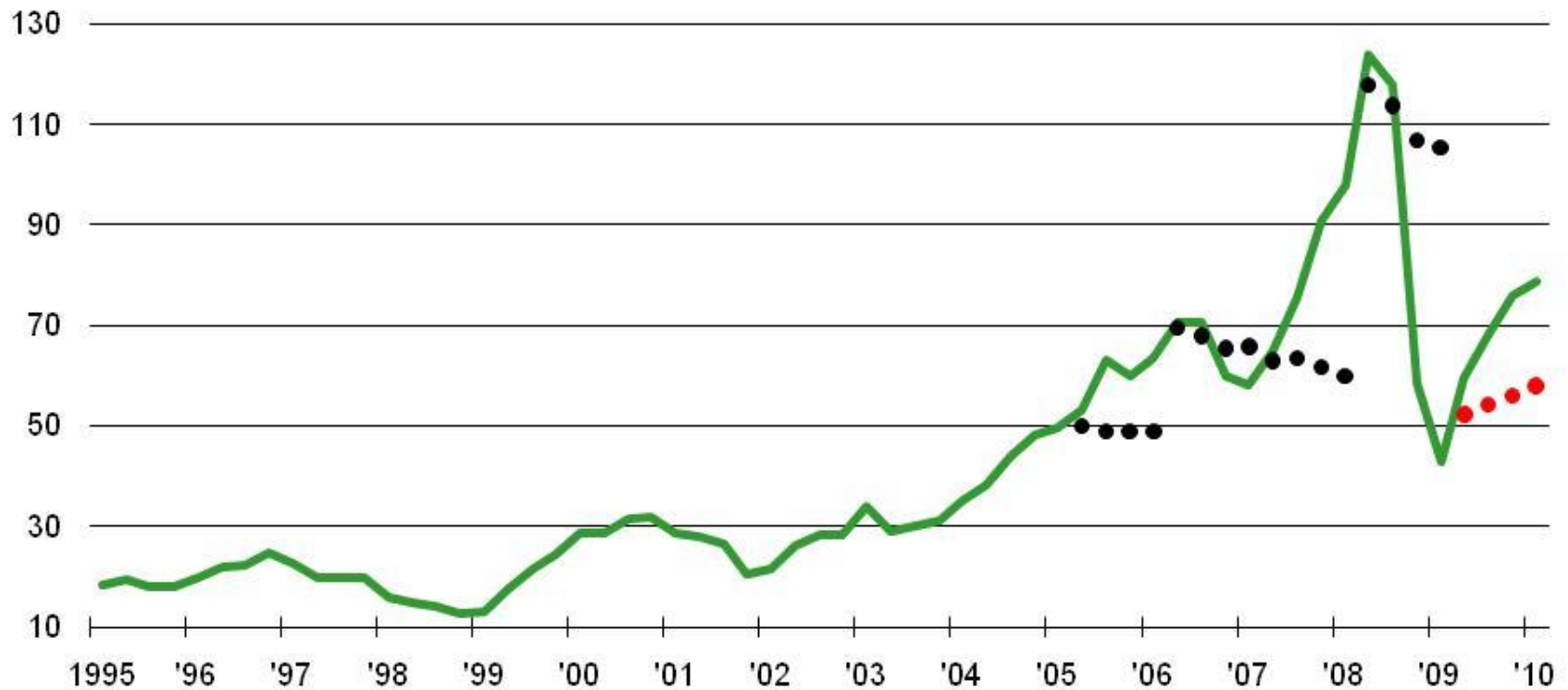
Inflation rate (CPI)



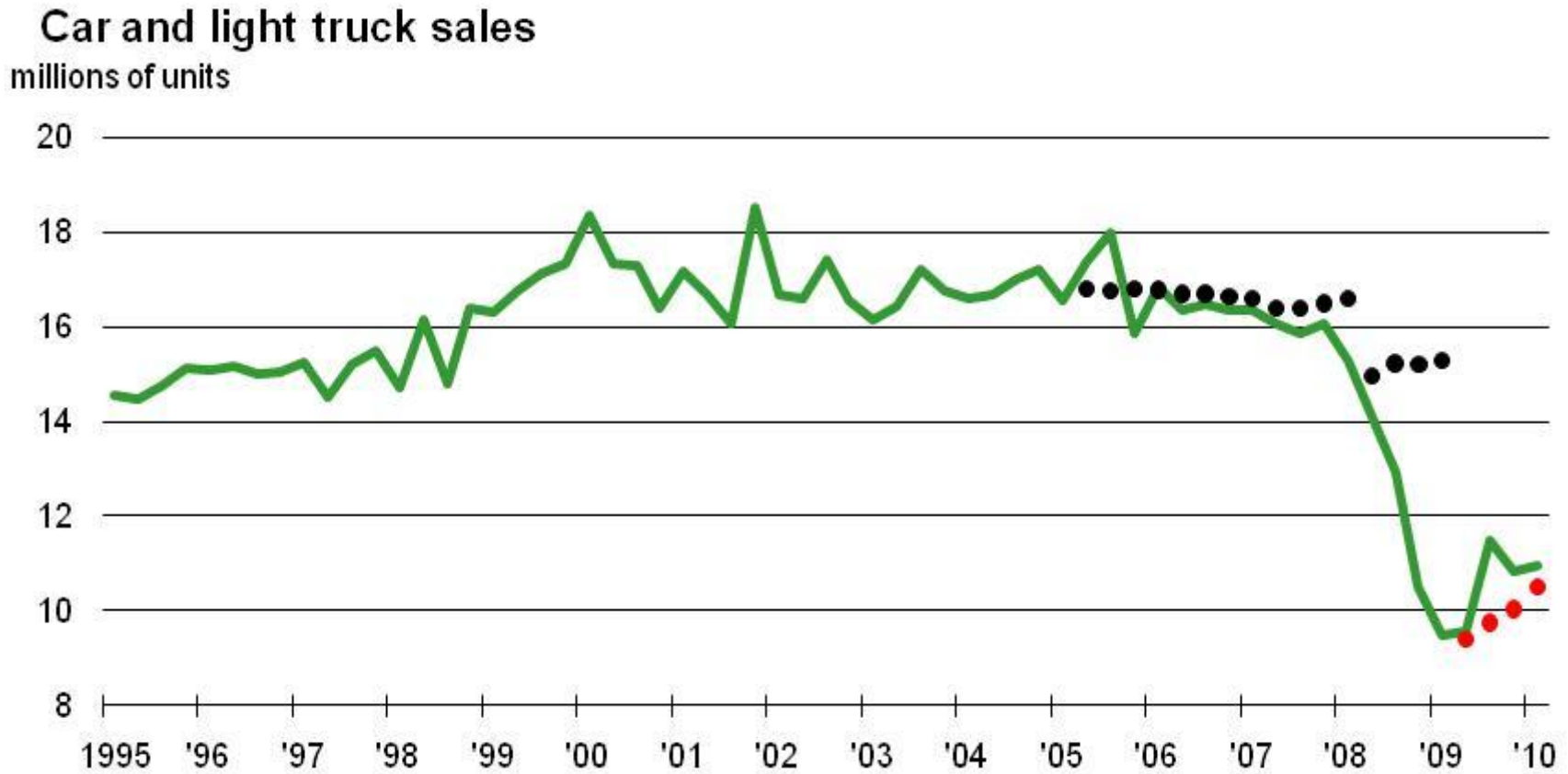
This is not too surprising given the stronger than expected rebound in oil prices

Oil prices - West Texas Intermediate

Dollars per barrel



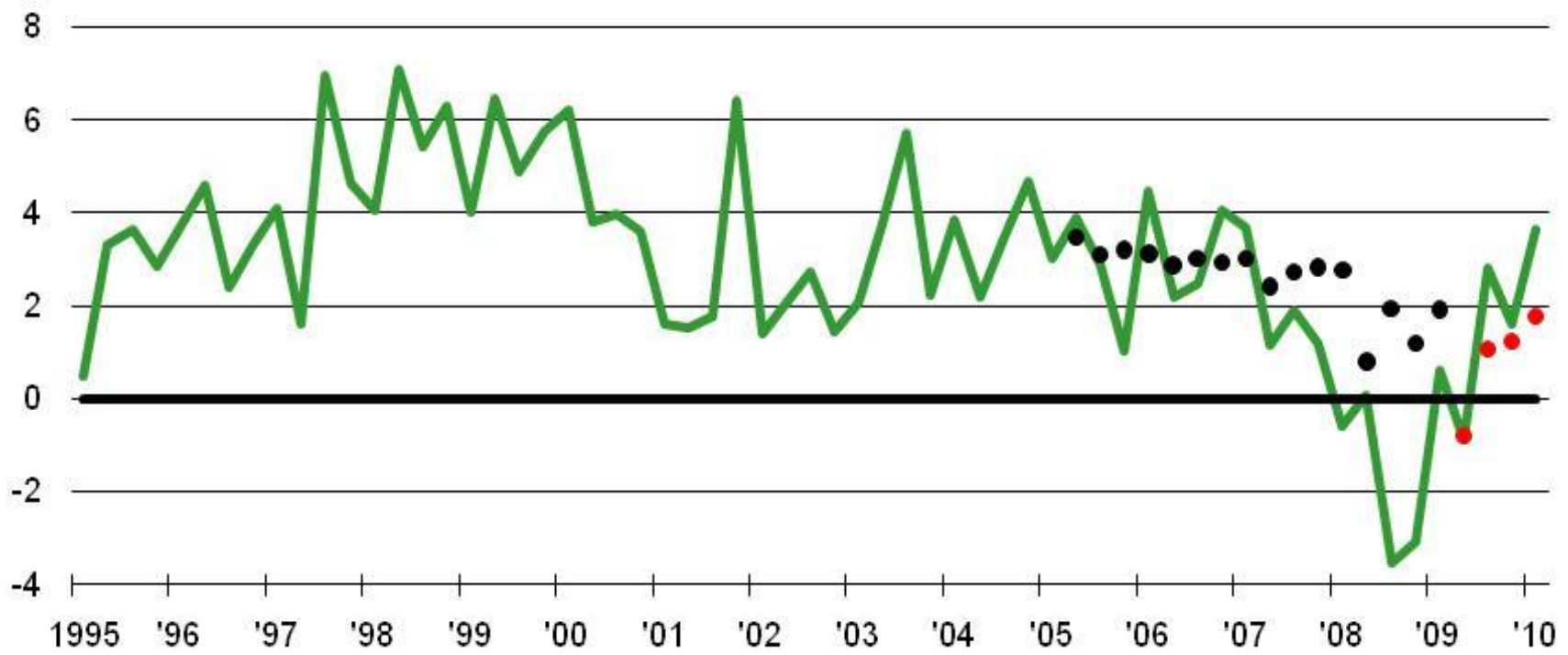
Car and light truck sales improved at a slightly faster pace than expected



Consumer spending growth showed a similar pattern

Personal consumption expenditures

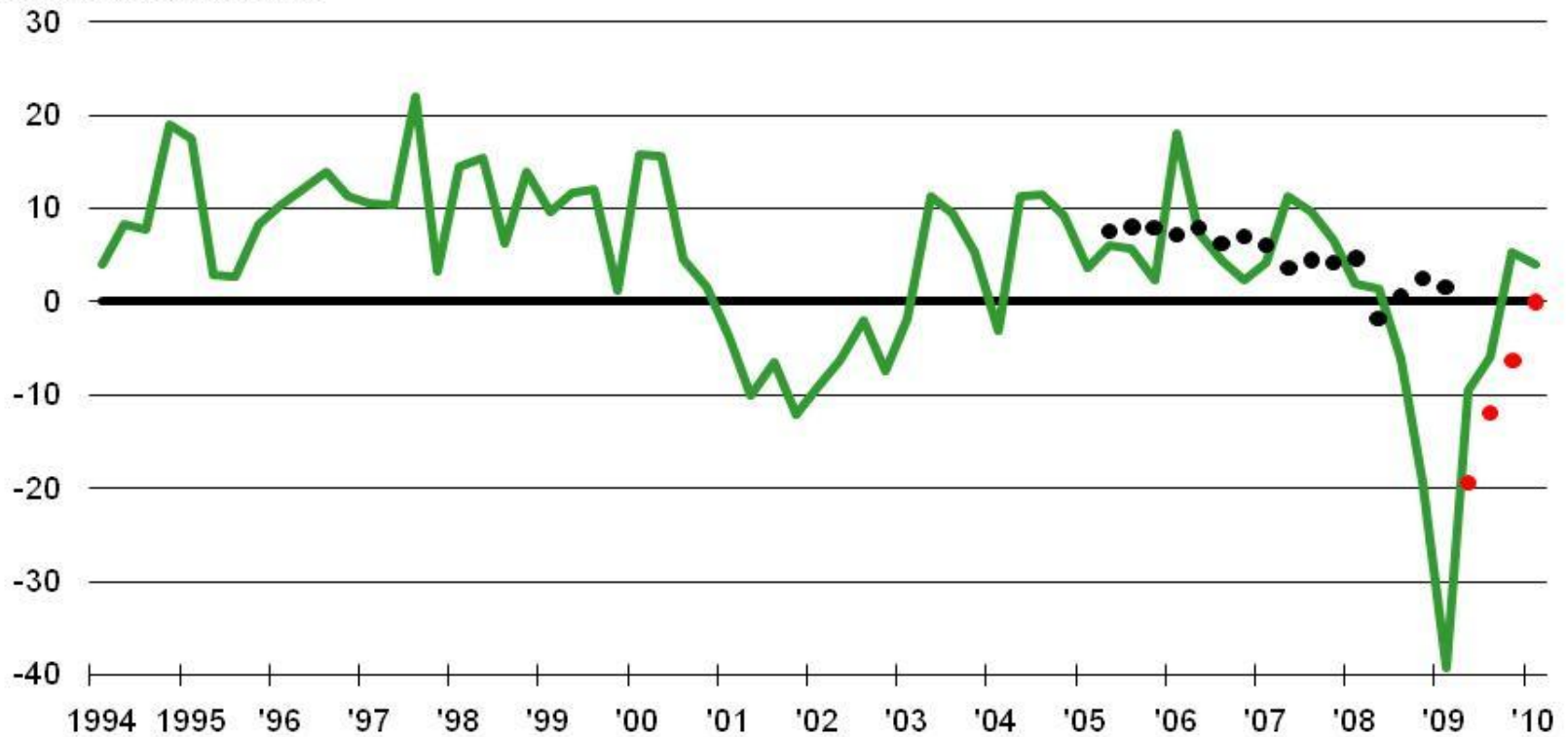
percent change, annual rate



Business investment growth improved at a slightly faster rate than expected

Business fixed investment

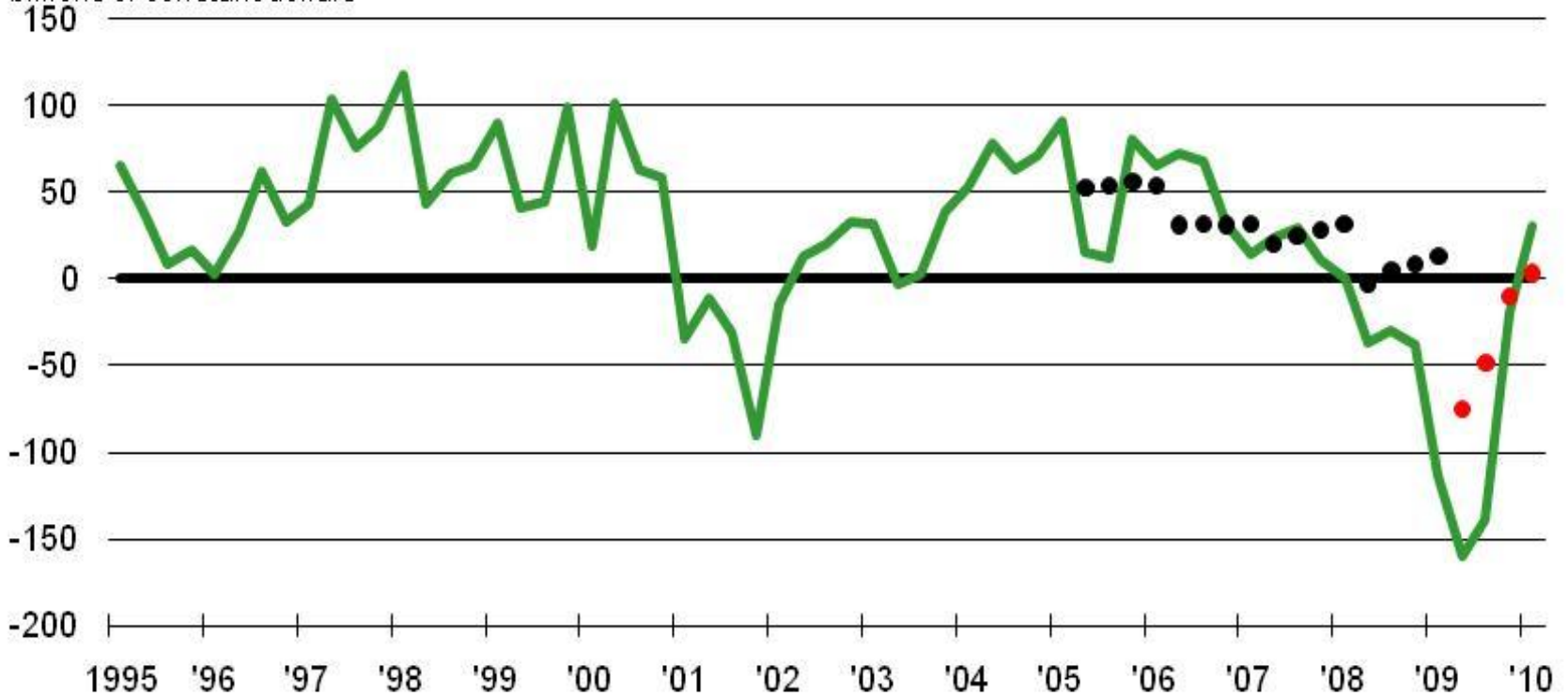
percent change, annual rate



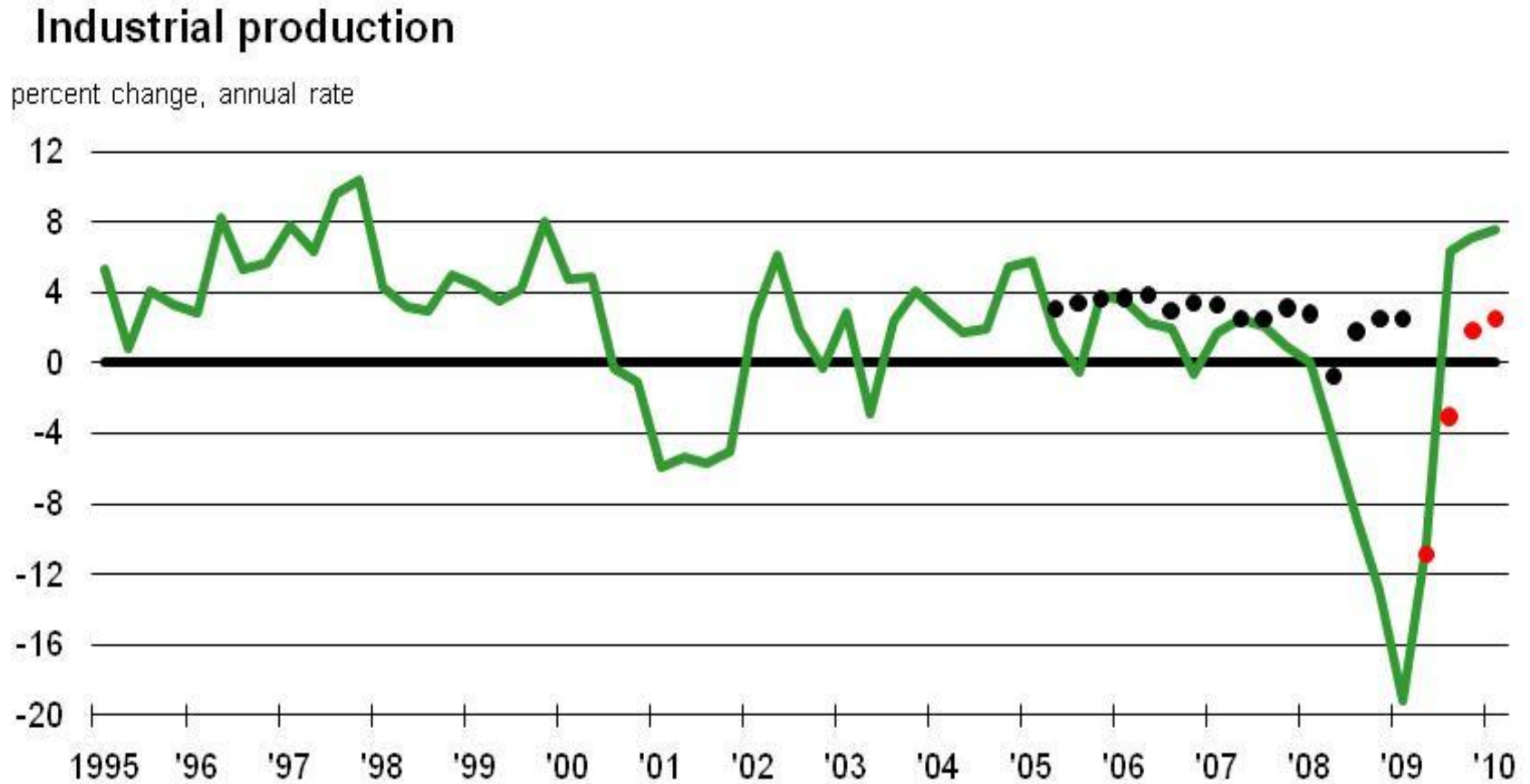
Businesses did not increase their inventories as much as forecast

Change in business inventories

billions of constant dollars



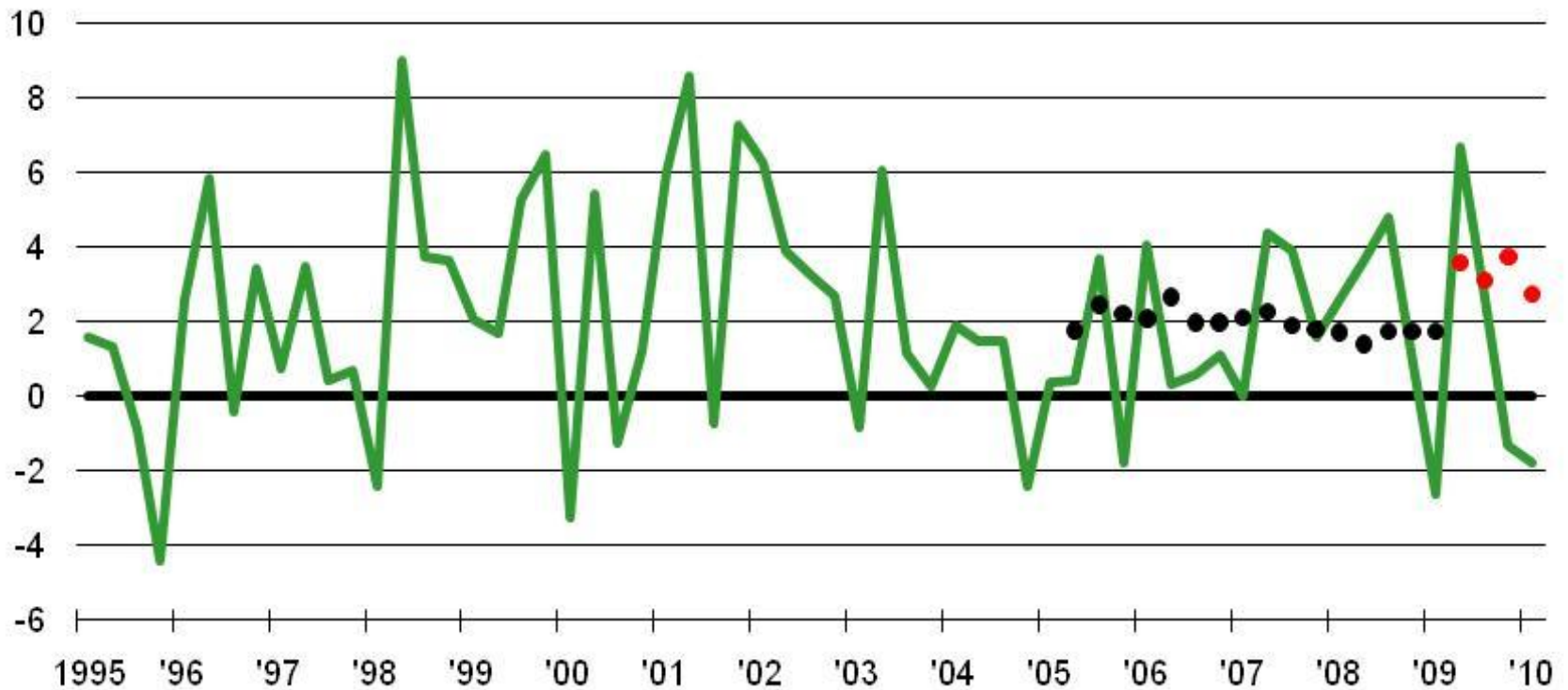
Industrial production growth was quite a bit stronger than expected



Even with large federal stimulus, government spending was lower than predicted

Government consumption

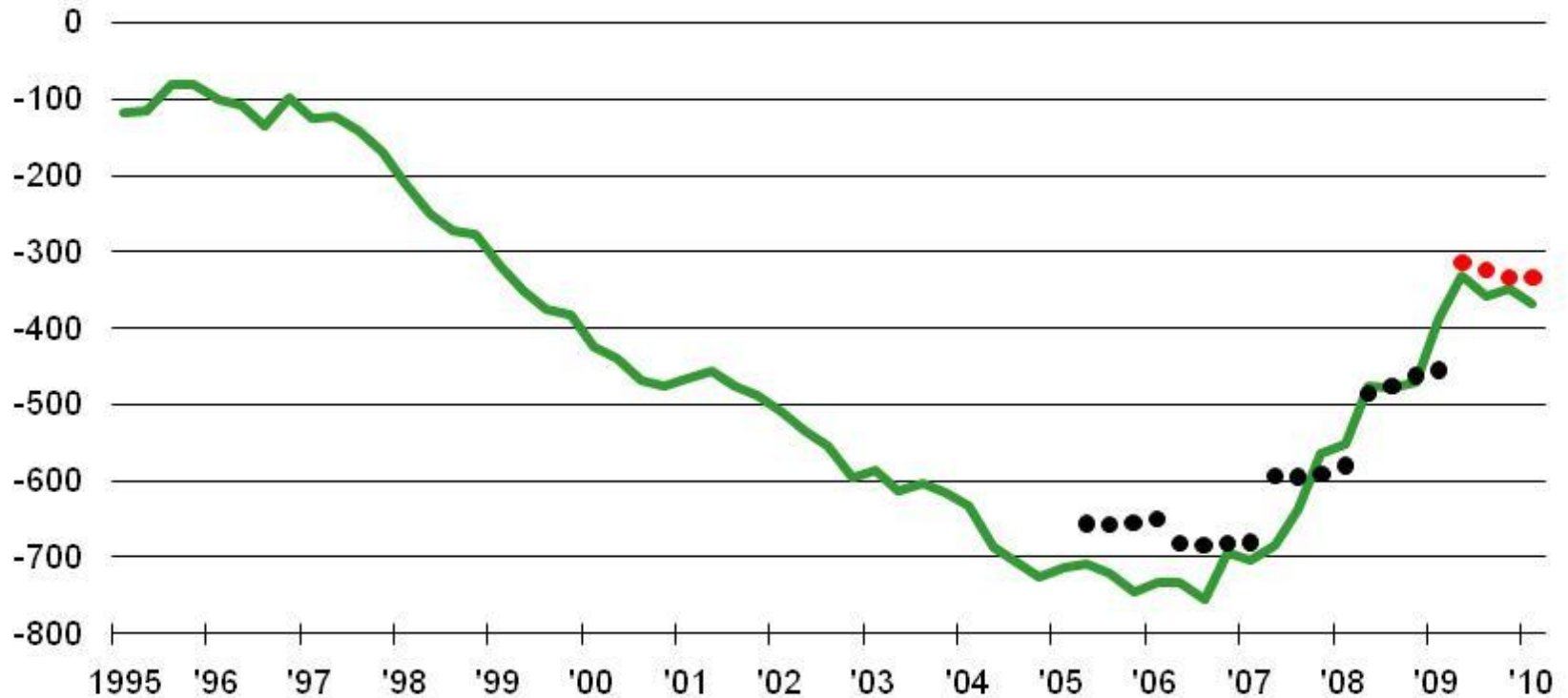
percent change, annual rate



The trade deficit was just a bit below the level forecast

Net exports of goods and services

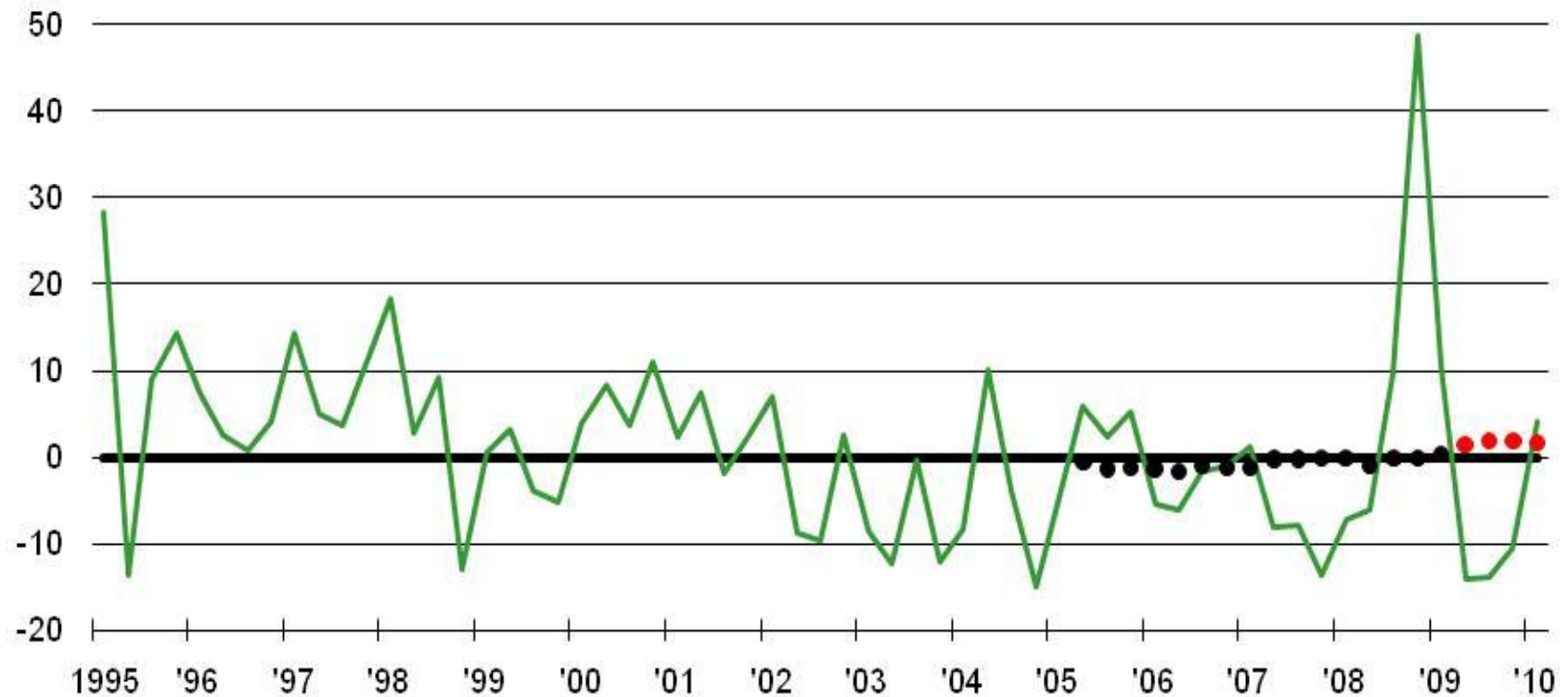
billions of constant dollars



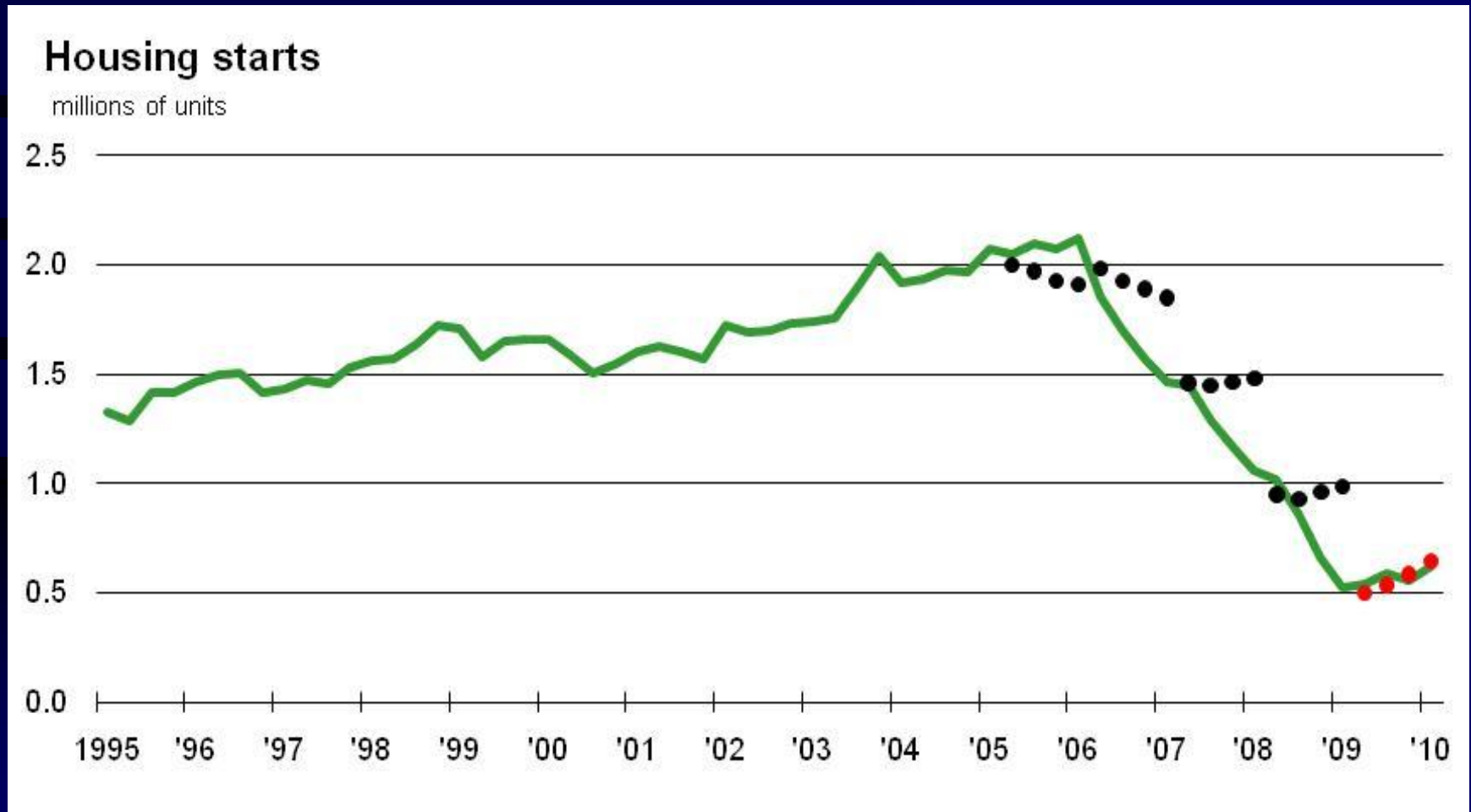
The dollar was weaker than expected

J.P. Morgan trade weighted dollar

percent change, annual rate



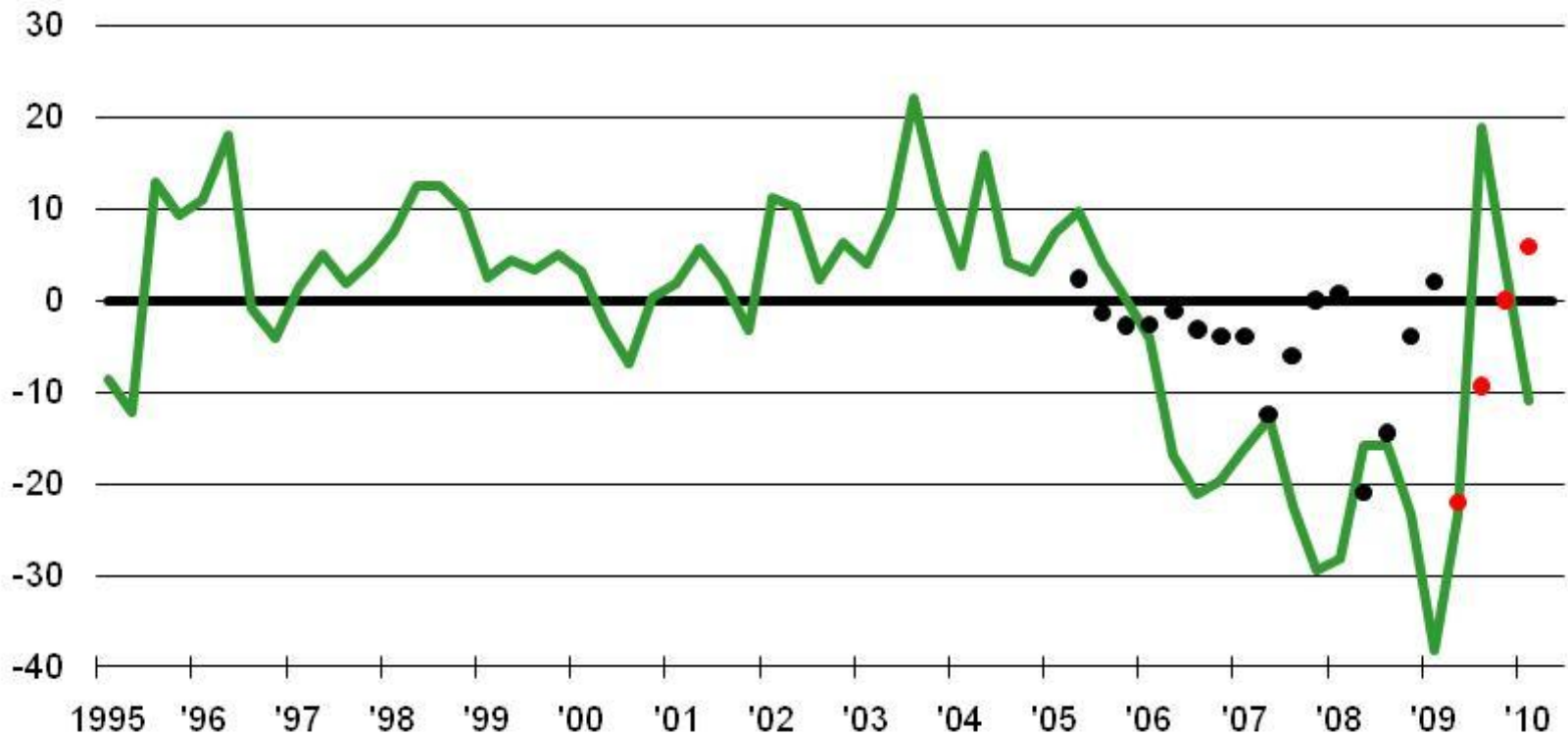
The consensus correctly anticipated that housing starts would bottom and begin to edge higher



While the pattern of residential investment was volatile, the improvement was predicted

Residential investment

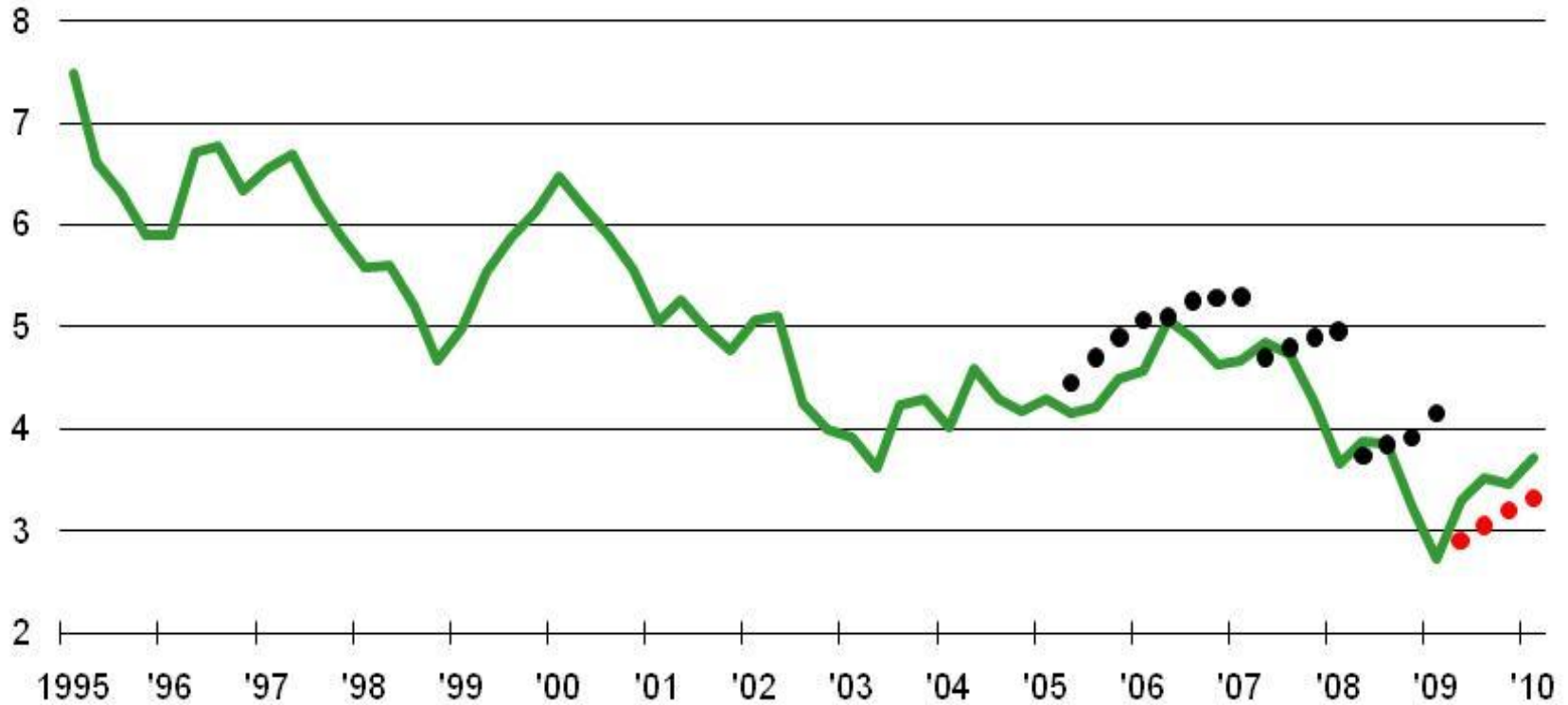
percent change, annual rate



Long-term interest rates increased at a faster pace than expected

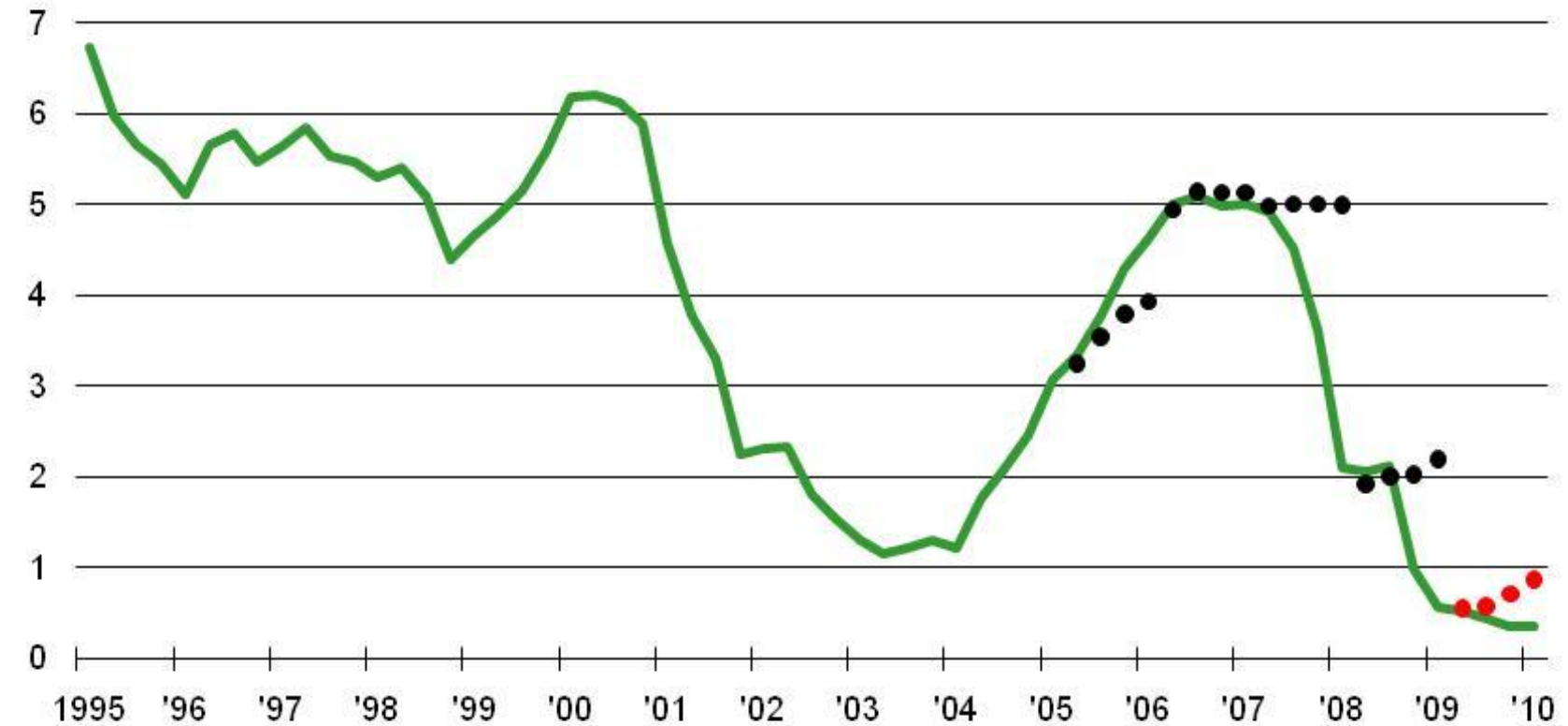
Treasury ten-year rate

percent



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

Treasury one-year rate
percent



Forecast for 2010 and 2011

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

	2009	2010	2011
GDP, current dollars*	0.7%	4.4%	4.7%
GDP price index, chain-type*	0.7%	1.1%	1.6%
Real GDP, chained dollars*	0.1%	3.1%	3.1%
Personal consumption expenditures*	1.0%	3.2%	2.6%
Business fixed investment*	-14.1%	4.6%	6.7%
Residential investment*	-12.6%	2.2%	14.3%
Change in private inventories (billions of constant dollars)**	-\$19.7	\$45.1	\$52.5
Net exports of goods and services (billions of constant dollars)**	-\$348.0	-\$389.7	-\$391.8
Government consumption expenditures and gross investment*	1.3%	0.6%	0.6%

*Q4 over Q4

**Q4 value

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

	2009	2010	2011
Industrial production*	-4.7%	5.7%	4.2%
Car & light truck sales (millions - calendar year including imports)***	10.4	11.6	13.3
Housing starts (millions)***	0.55	0.68	0.94
Oil price (dollars per barrel of West Texas Intermediate)**	\$76.07	\$82.00	\$87.81
Unemployment rate**	10.0%	9.5%	8.8%
Inflation rate (consumer price index)*	1.5%	1.7%	1.9%
Treasury constant maturity 1-year rate**	0.35%	0.63%	1.60%
Treasury constant maturity 10-year rate**	3.46%	3.85%	4.60%
J.P. Morgan trade weighted OECD dollar*	-7.5%	2.0%	0.3%

*Q4 over Q4

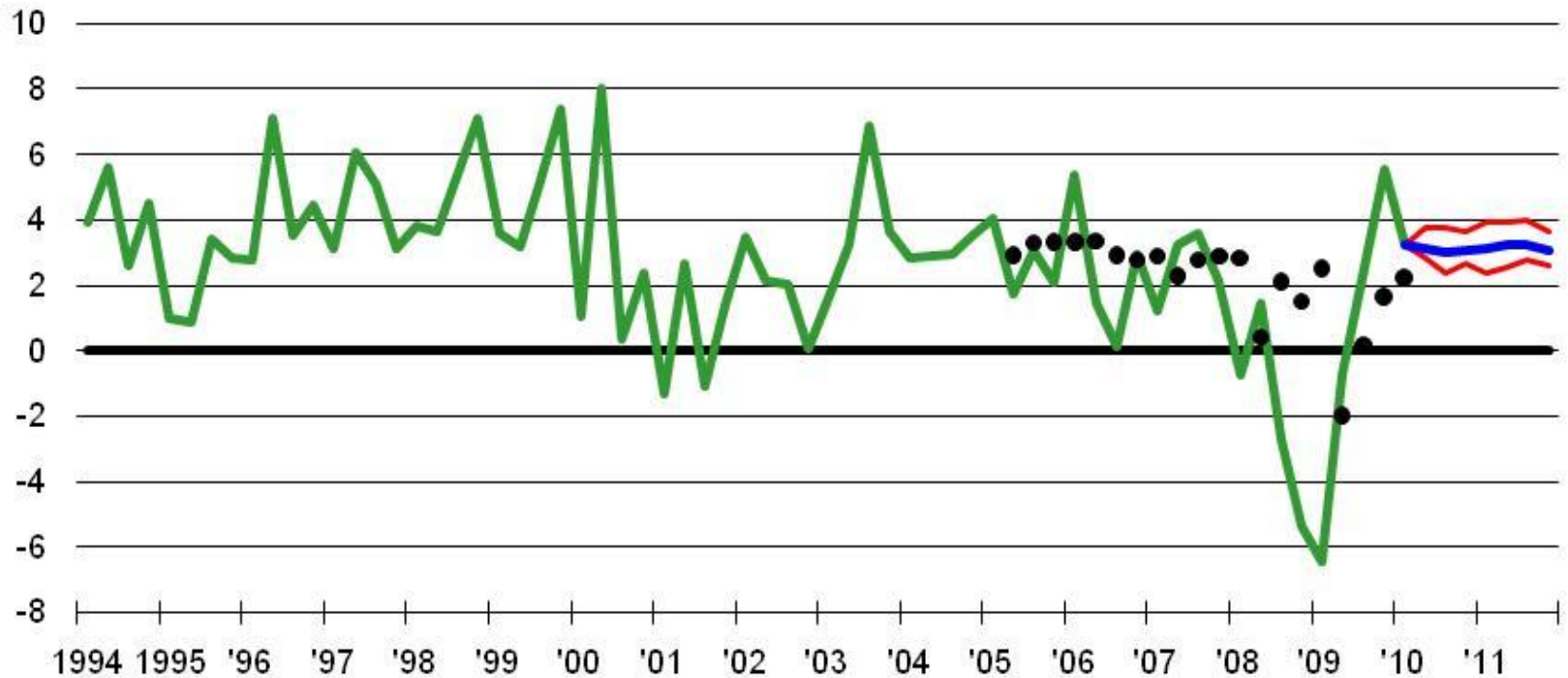
**Q4 value

***Yearly average

Real GDP growth is forecast to rise at a solid rate in 2010 and 2011

Real GDP

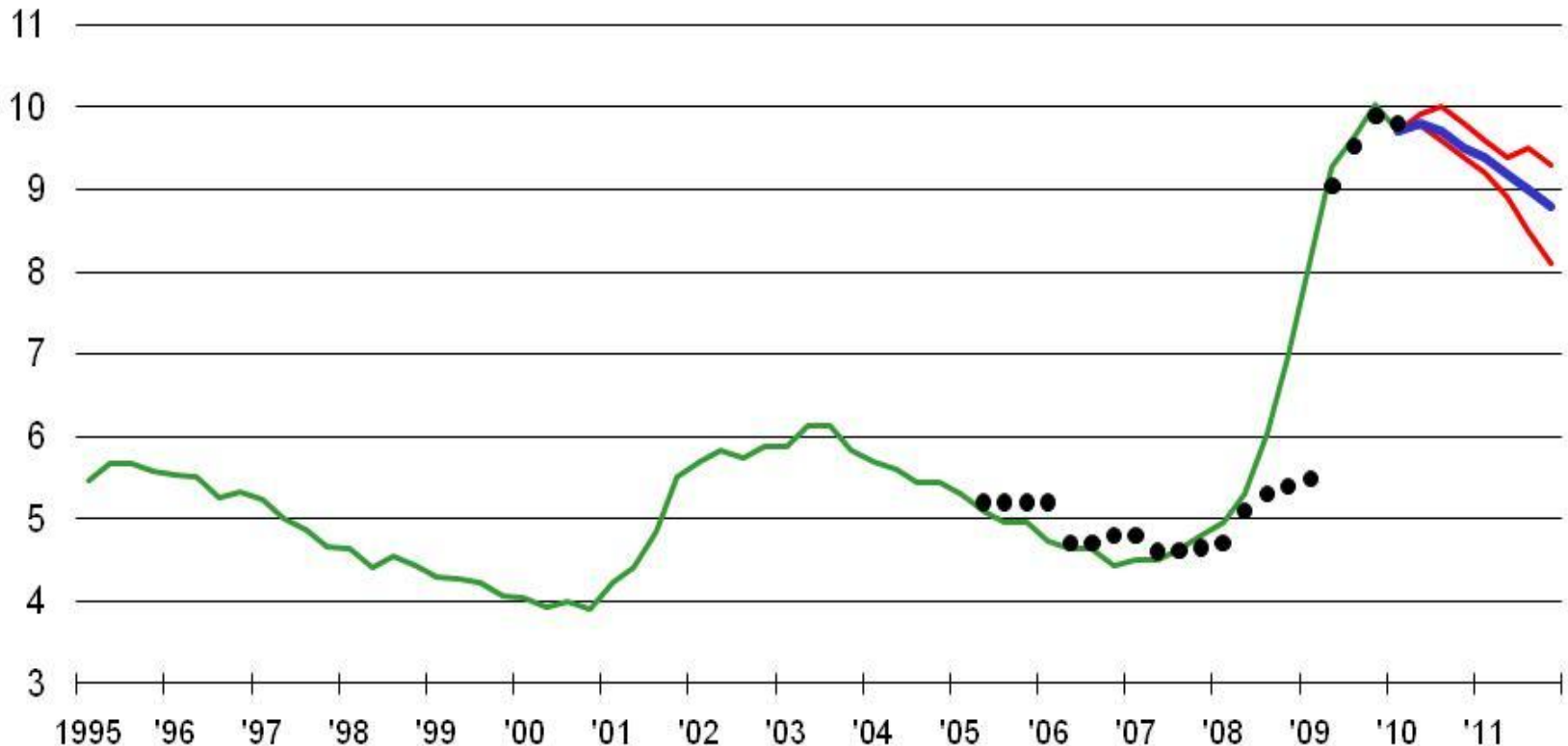
percent change, annual rate



The unemployment rate is forecast to edge down to 9.5% at the end of this year and to 8.8% by the end of the year

Unemployment rate

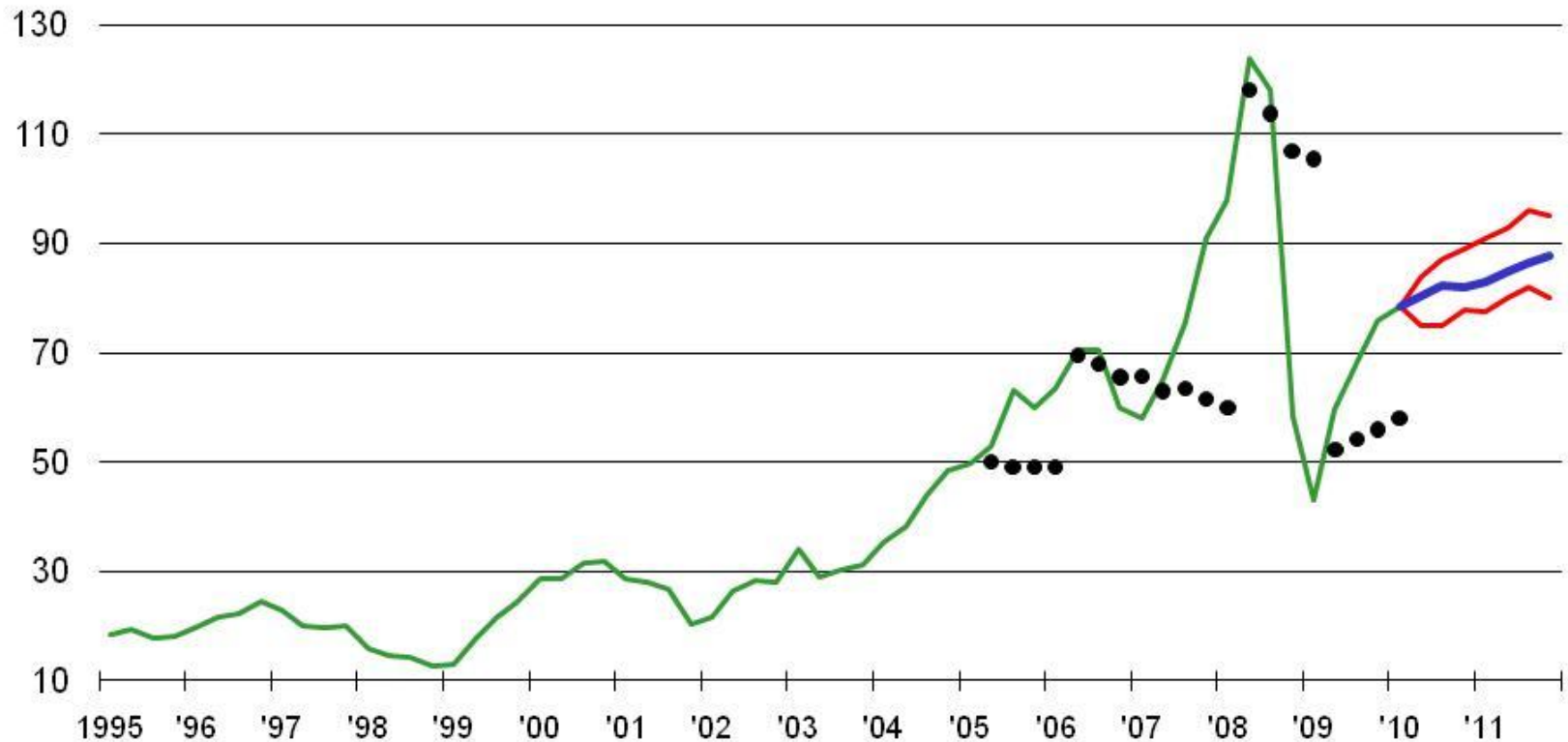
percent



Oil prices are expected to continue to rise, reaching \$88 in the final quarter of next year

Oil Prices - West Texas Intermediate

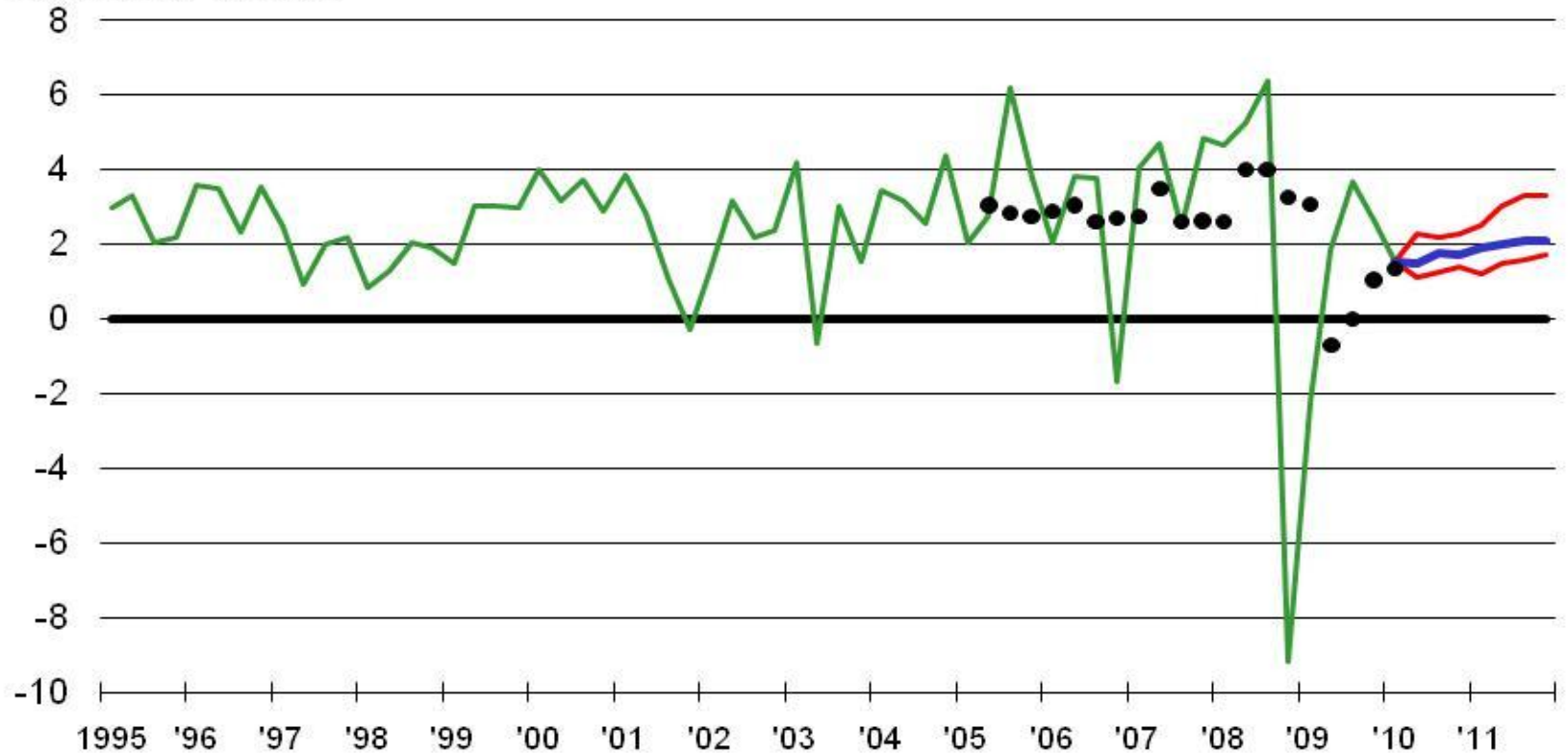
Dollars per barrel



The inflation rate is expected to edge higher reaching 2.1% by the end of 2011

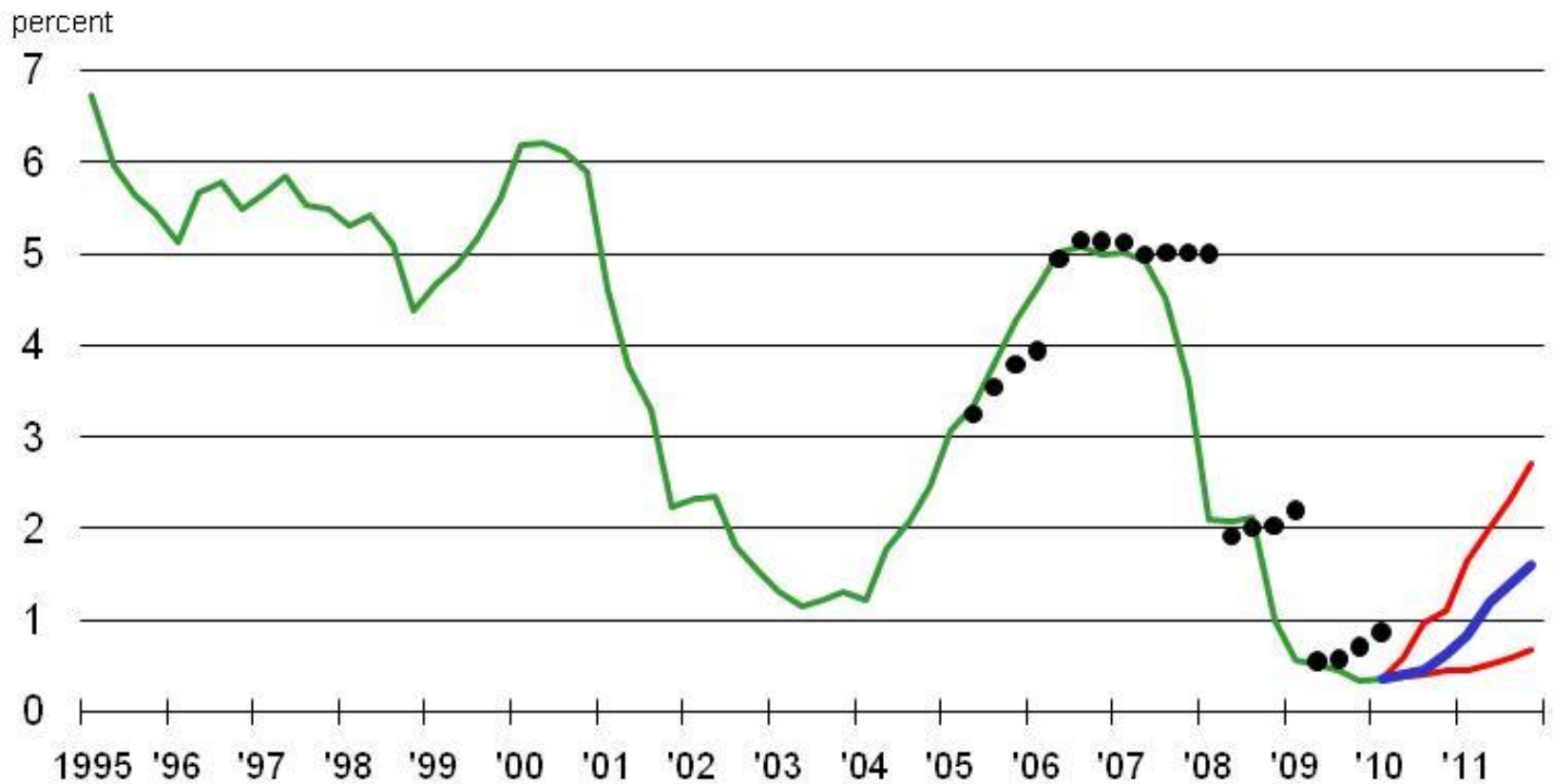
Inflation rate (CPI)

percent change, annual rate



Short-term interest rates are forecast to increase 123 basis points over the next year and a half reaching 1.6% by the end of 2011

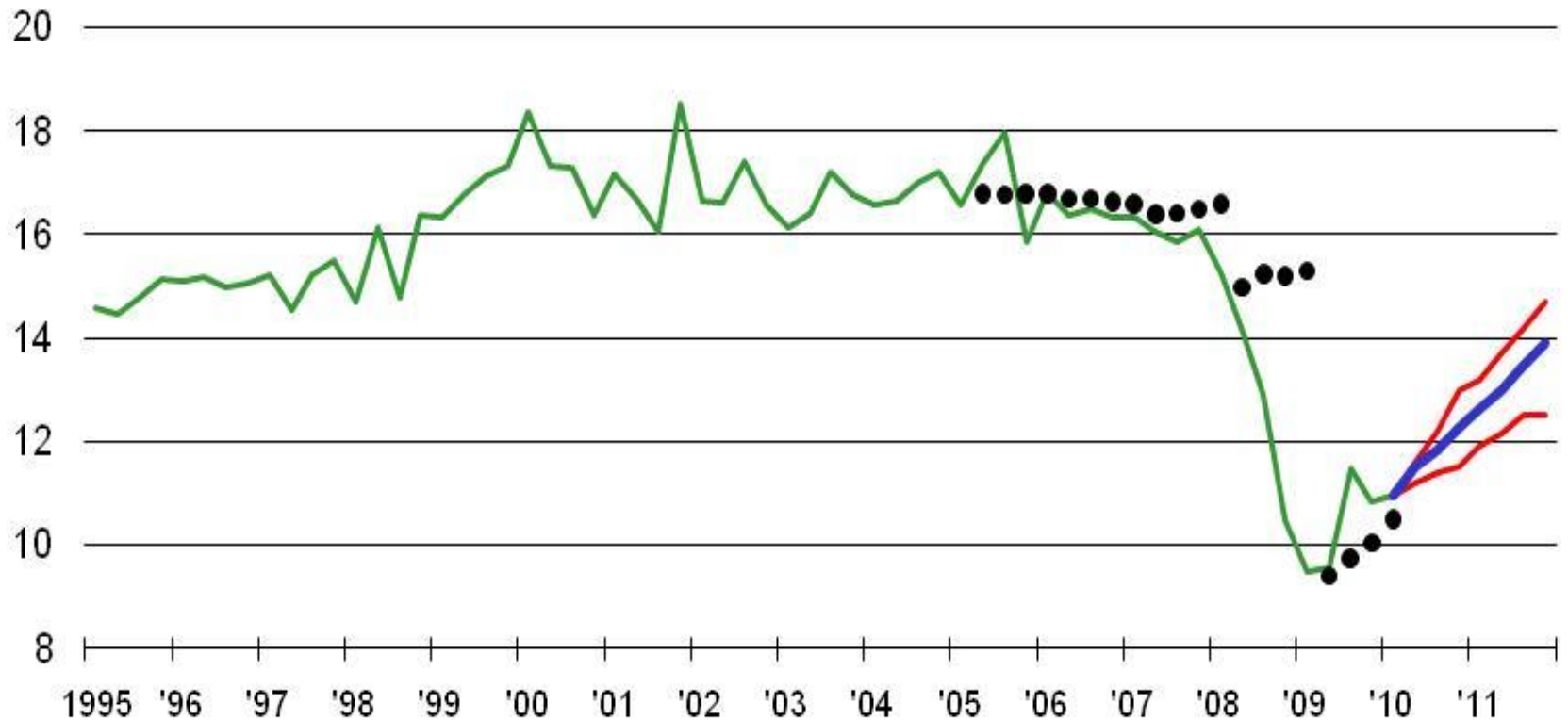
Treasury one-year rate



Light vehicle sales are forecast to improve, coming in at 11.6 million units this year and 13.3 million units in 2011

Car and light truck sales

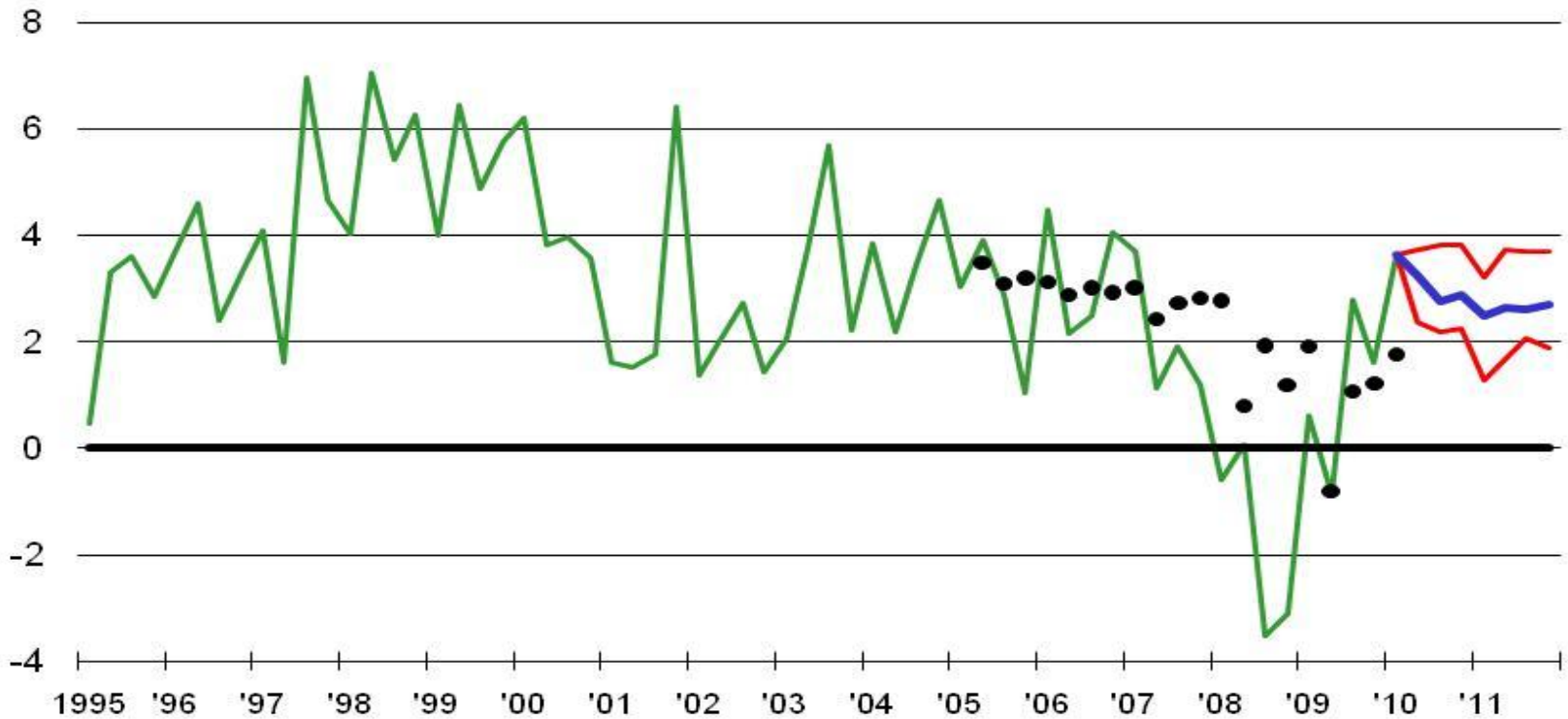
millions of units



Consumption growth is expected to rise at a slower pace

Personal consumption expenditures

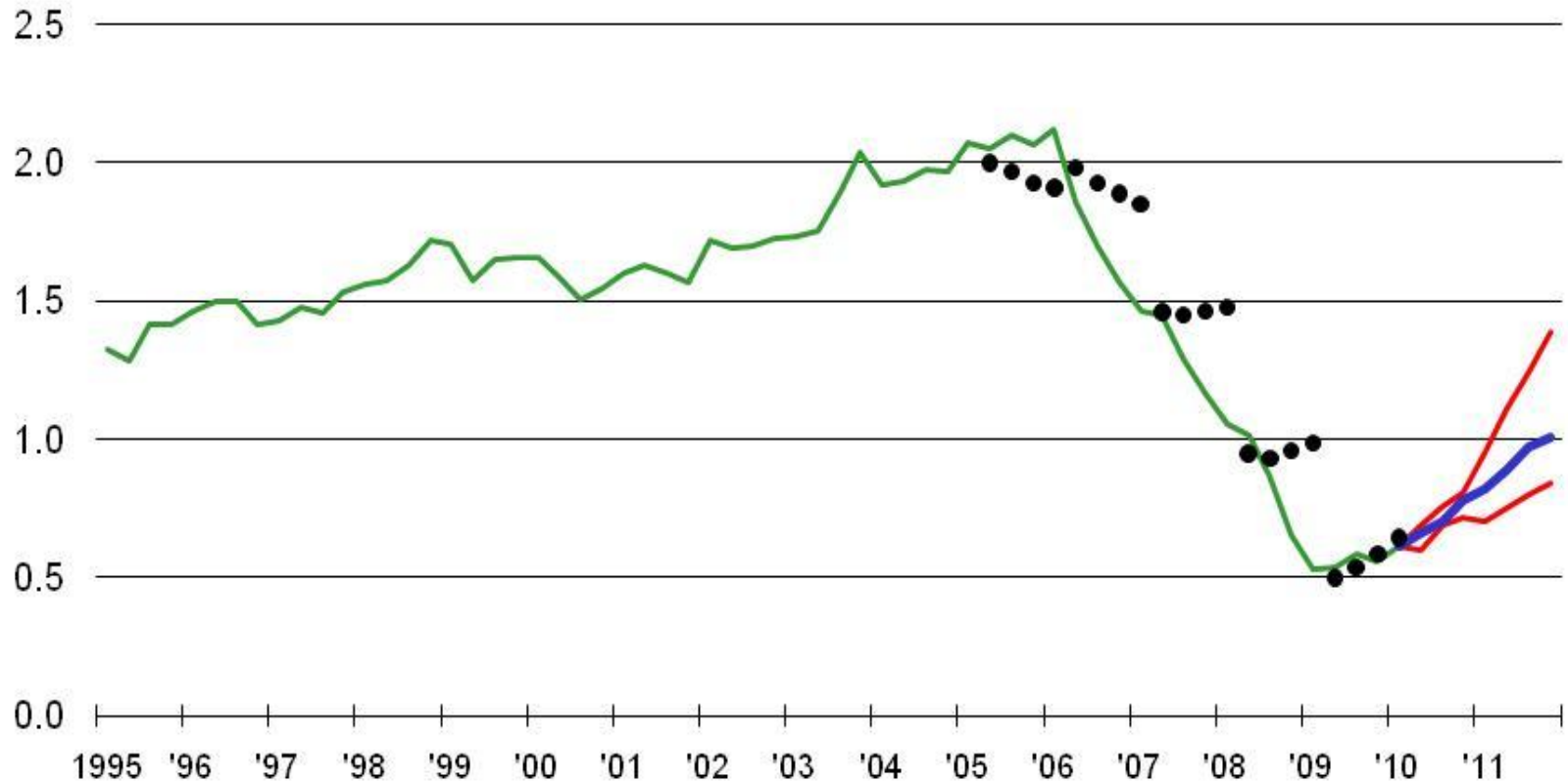
percent change, annual rate



Housing starts are expected to continue rising at a moderate pace, reaching just over a million housing starts at the end of next year

Housing starts

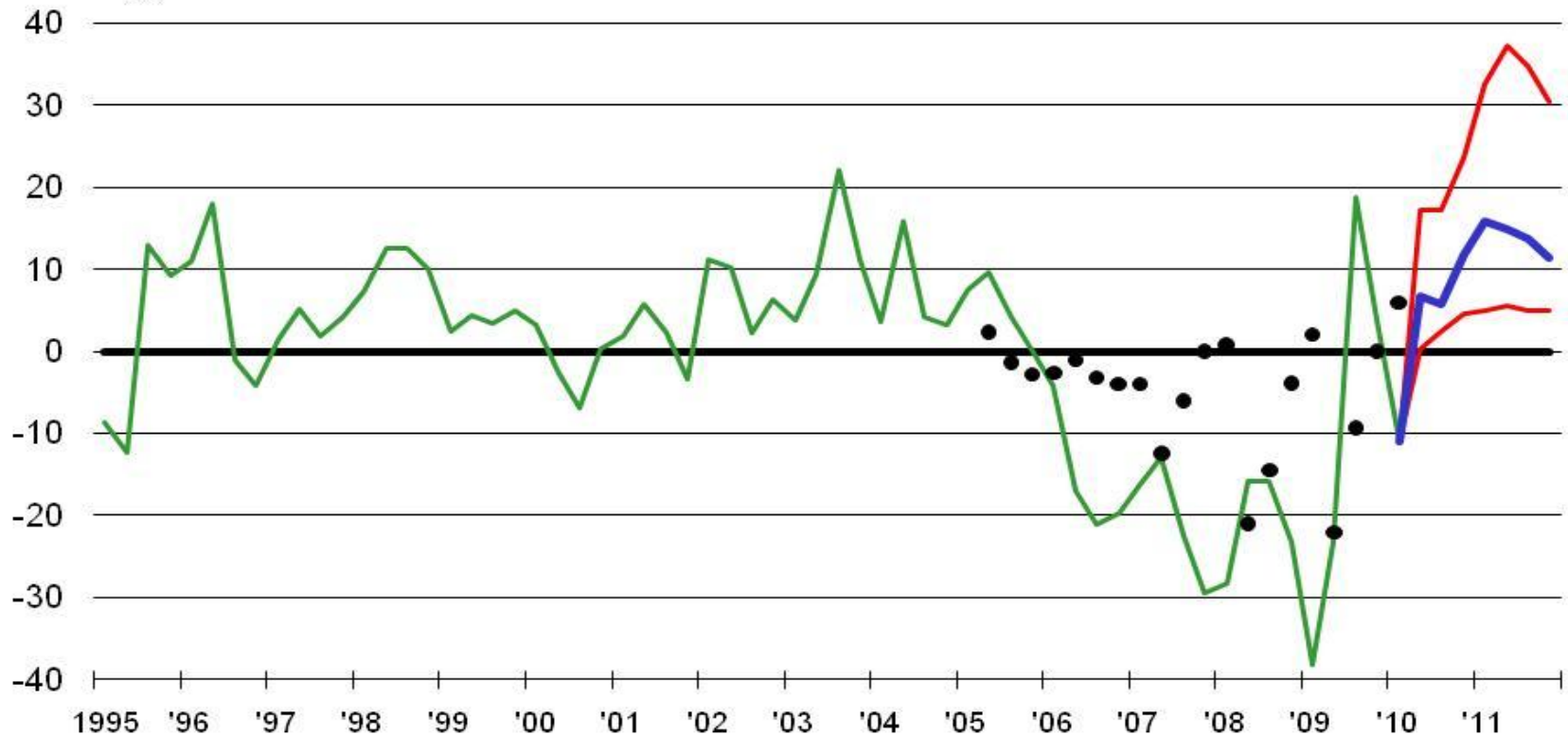
millions of units



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

Residential investment

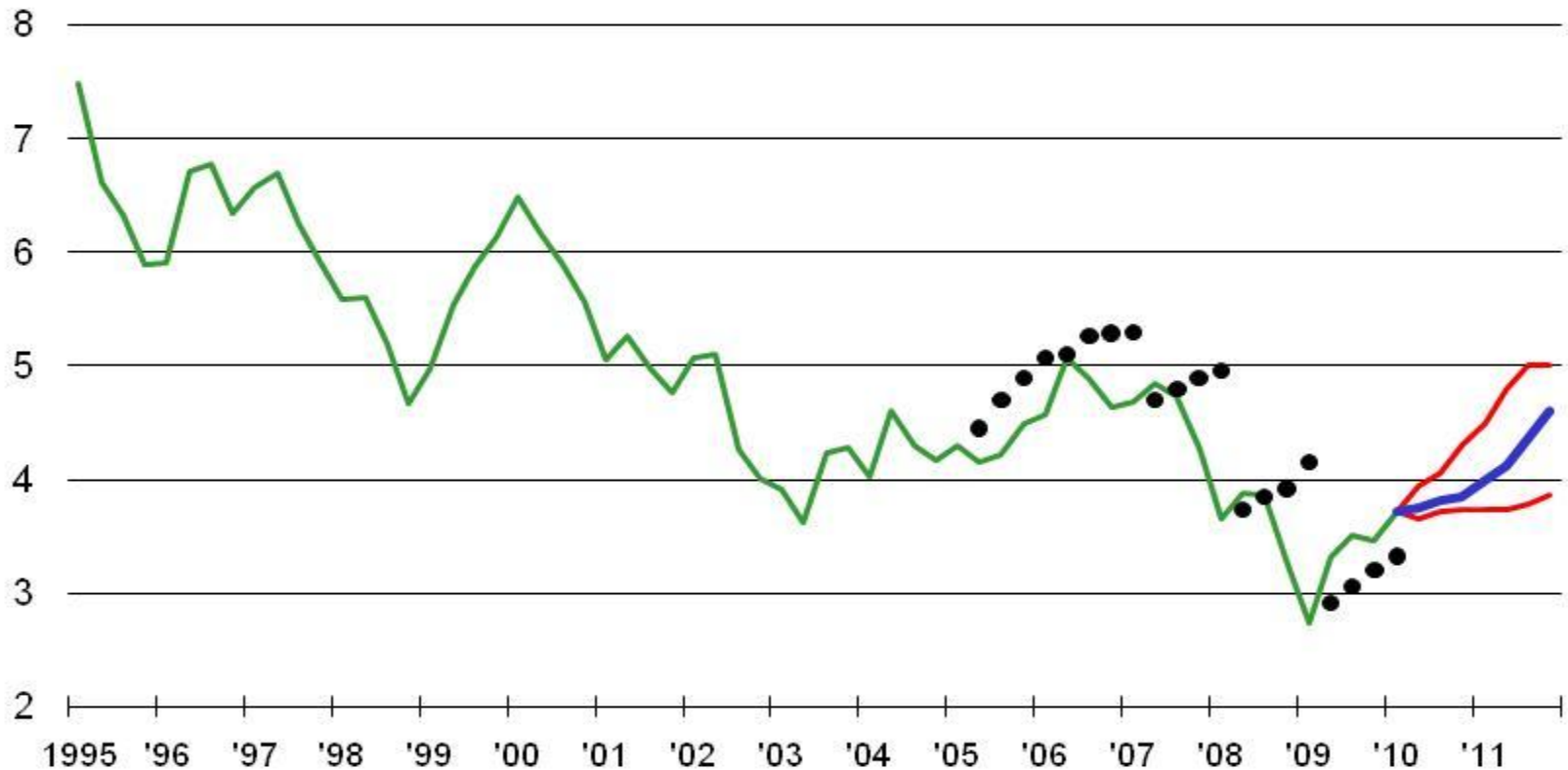
percent change, annual rate



**Long-term interest rates are forecast
to rise by 39 basis points in 2010
and then rise by 75 basis points in 2011**

Treasury ten-year rate

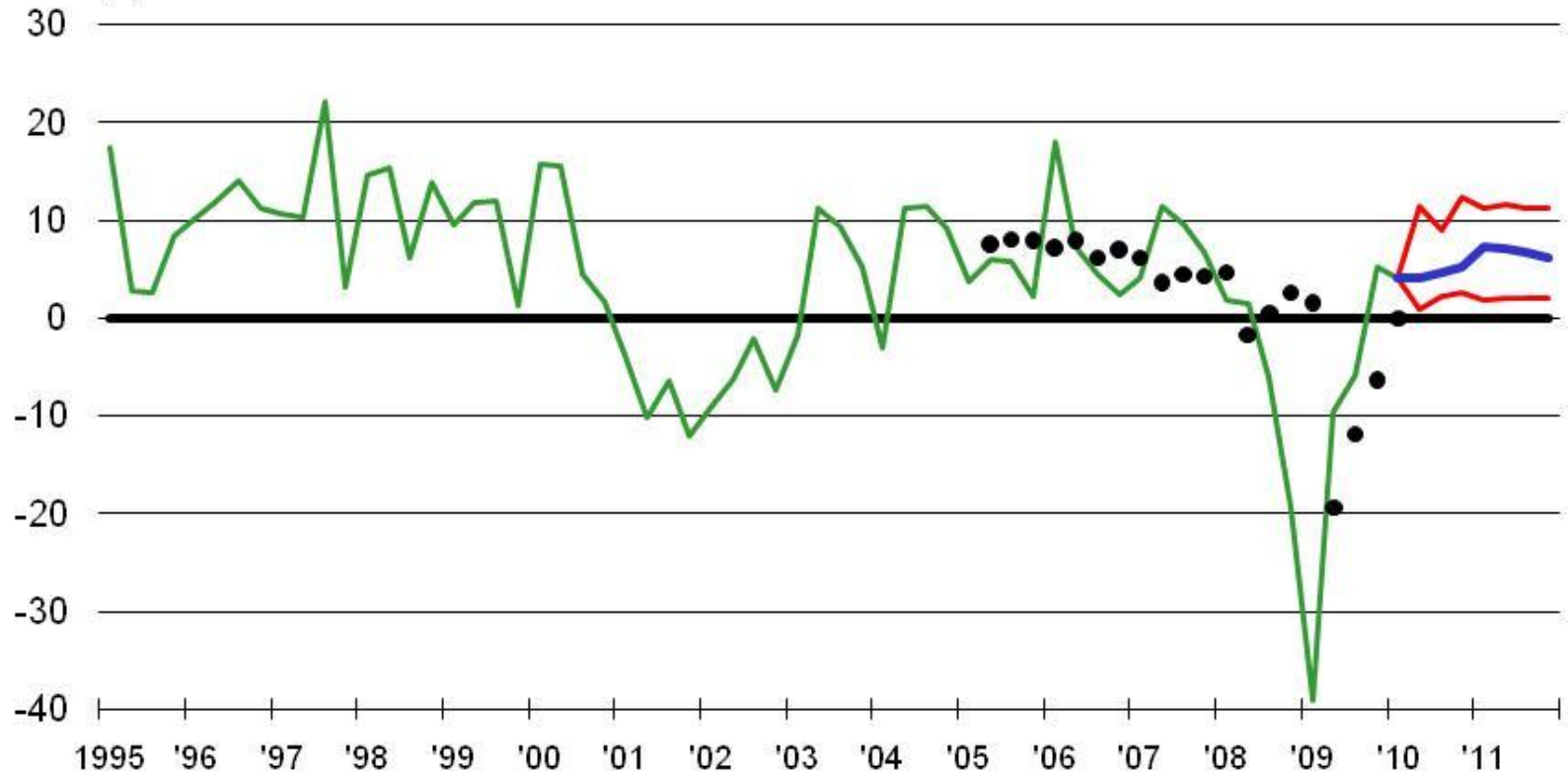
percent



Business spending is anticipated to rise 4.6% in 2010 and then rise 6.7% next year

Business fixed investment

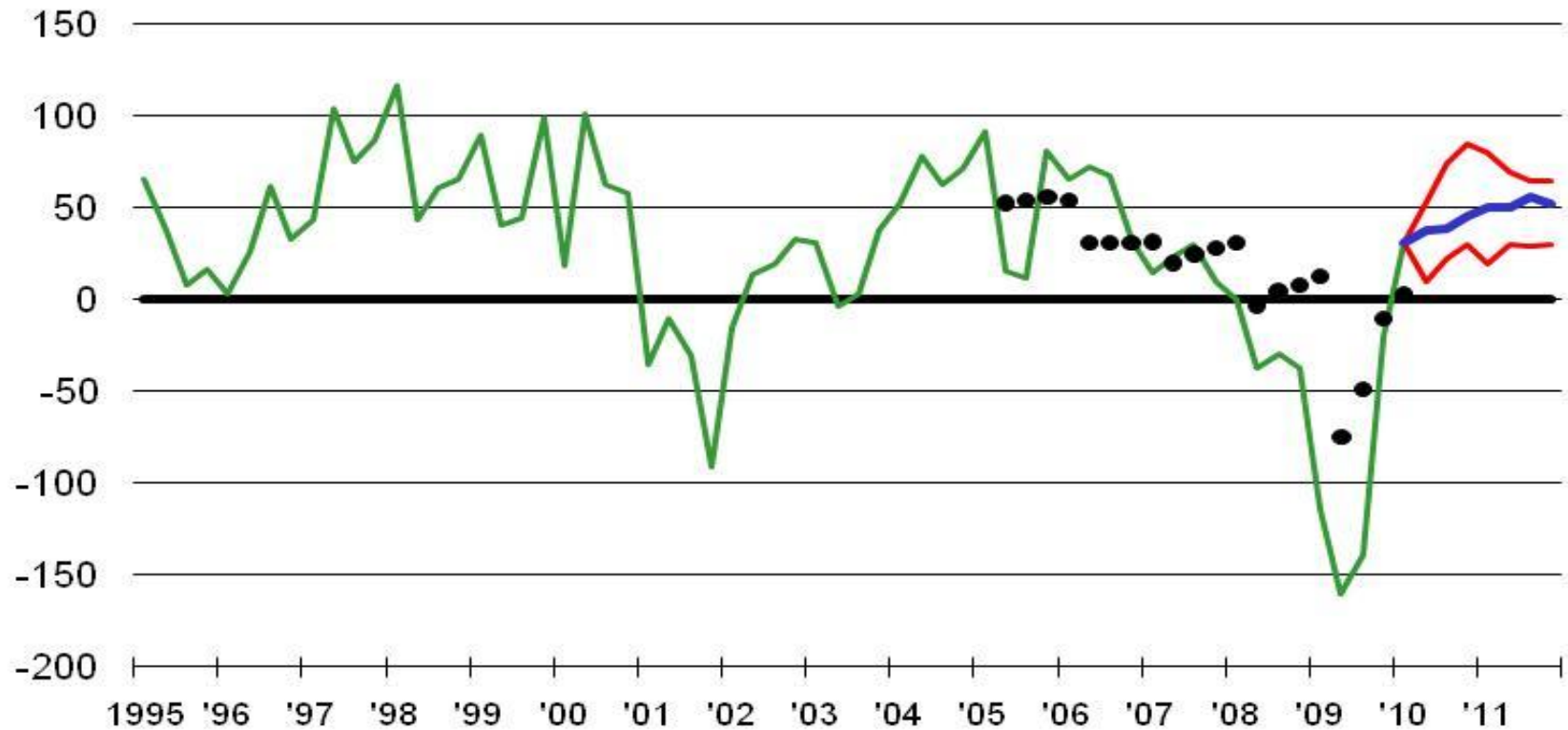
percent change, annual rate



A solid increase in inventories is expected to take place over the forecast horizon

Change in business inventories

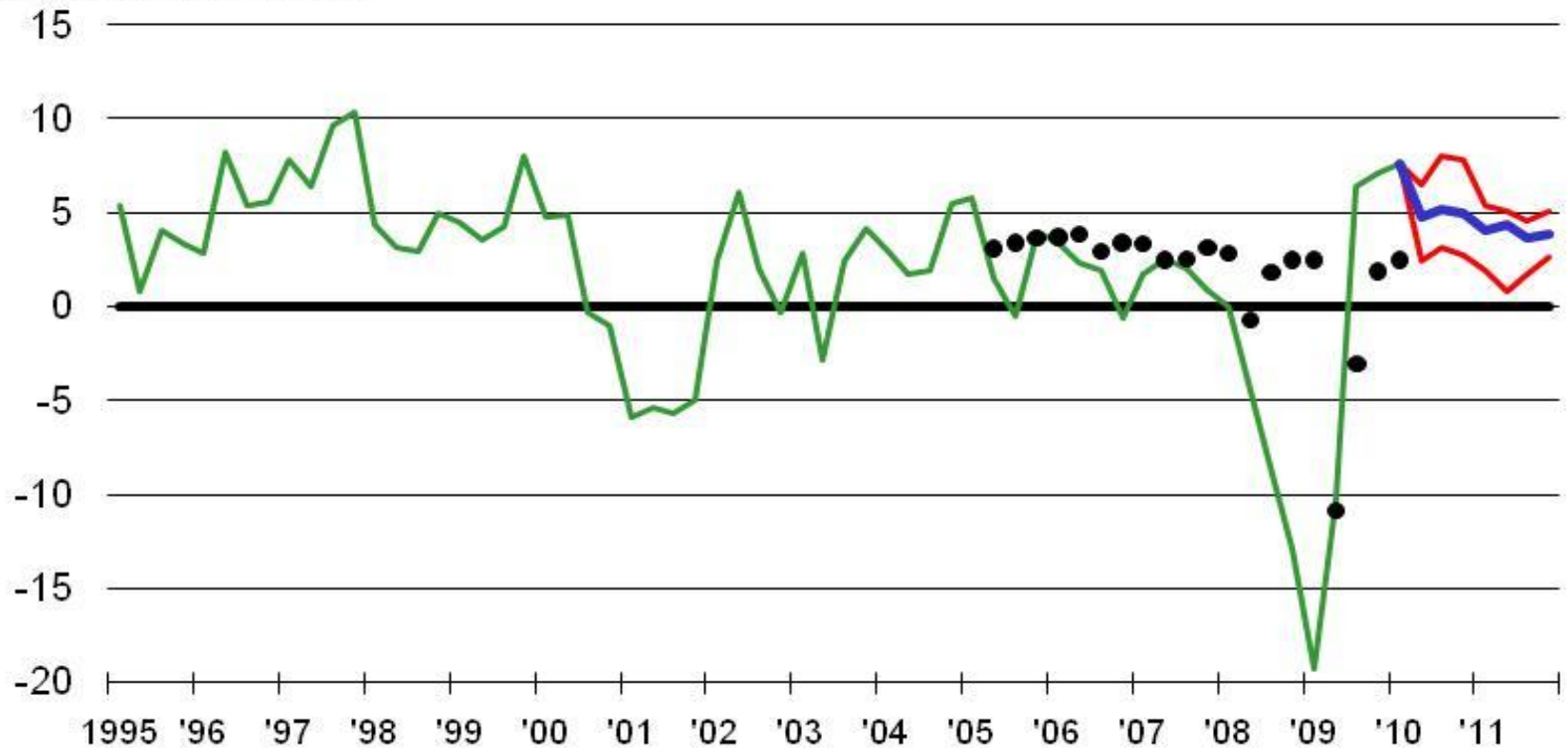
billions of constant dollars



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

Industrial production

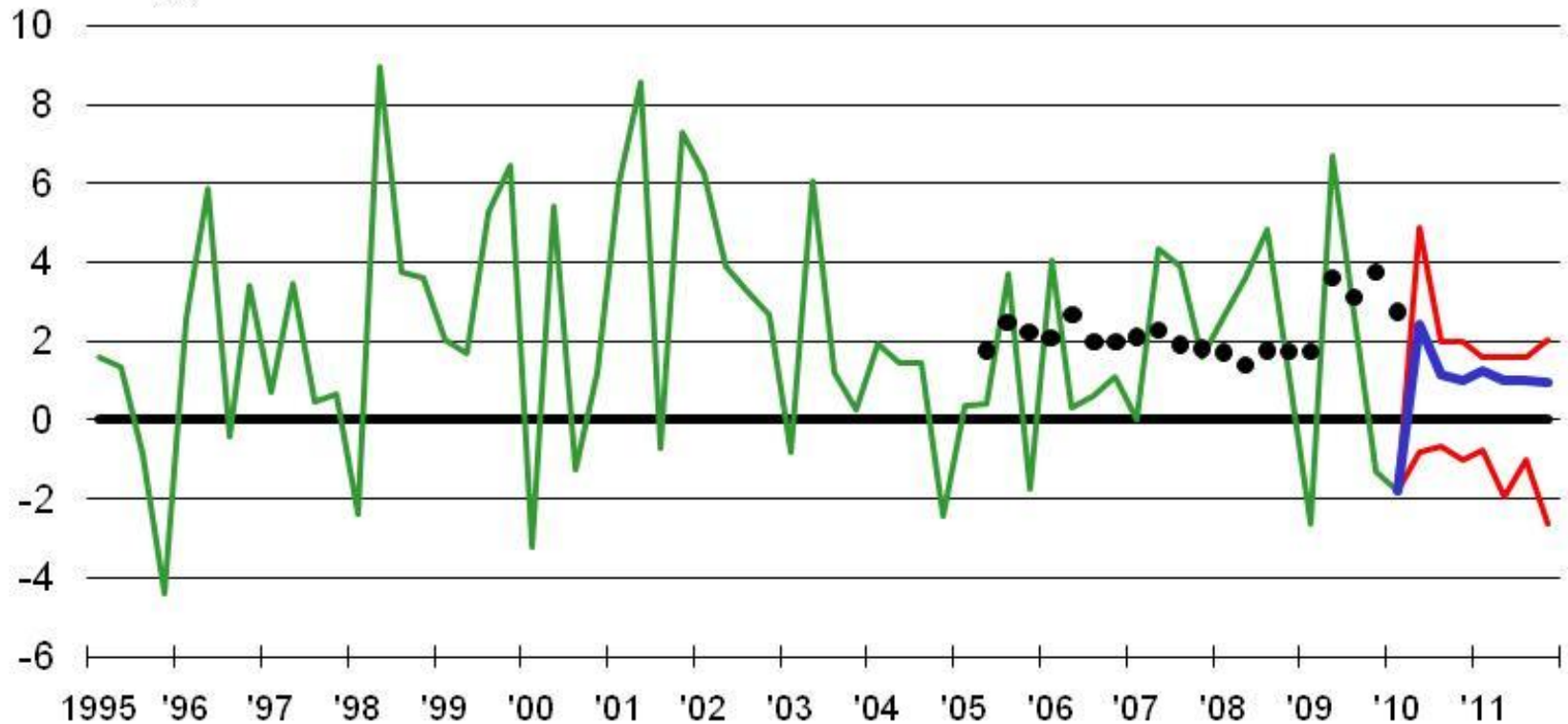
percent change, annual rate



Government purchases is forecast rise at a slow pace, increasing by 0.6% in both 2010 and 2011

Government consumption

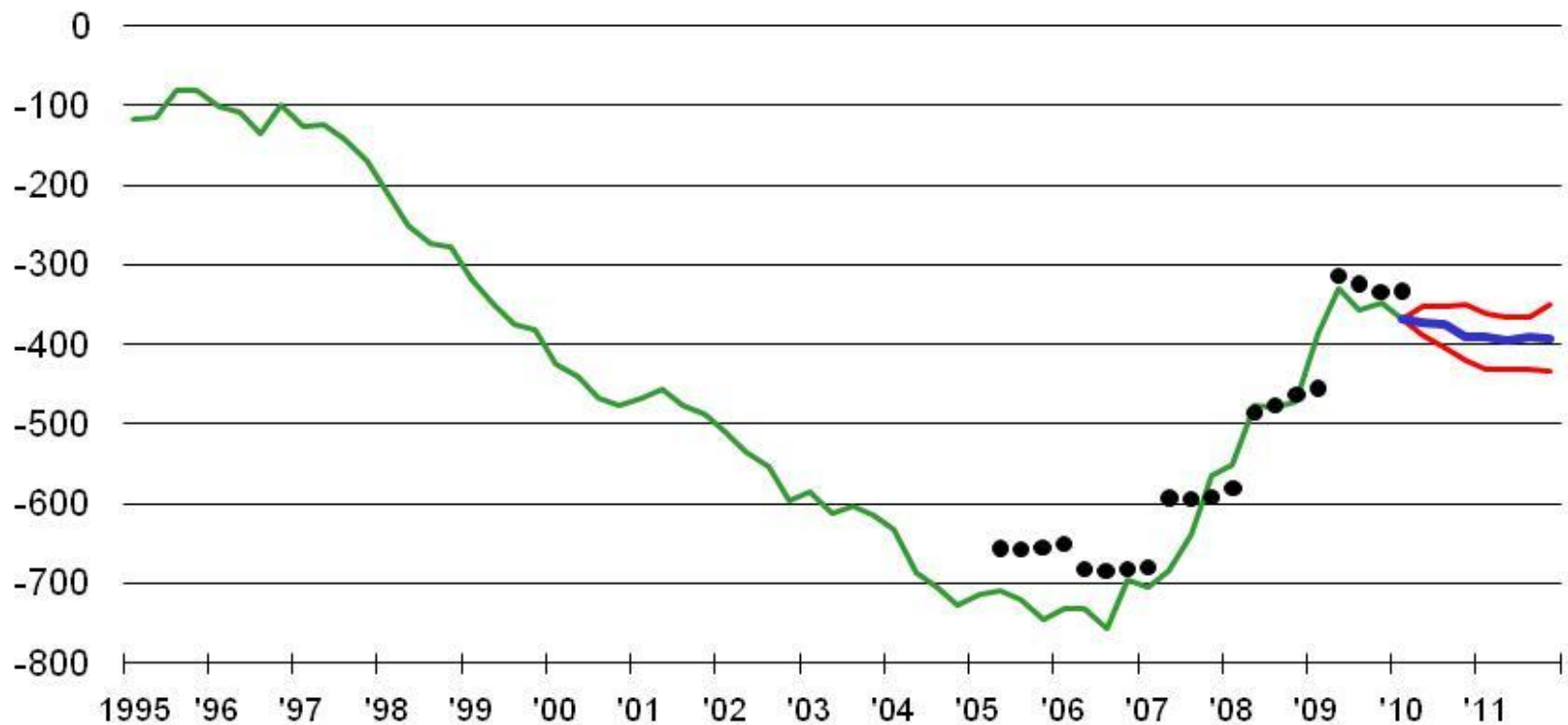
percent change, annual rate



Net exports are expected to edge lower over the forecast horizon

Net exports of goods and services

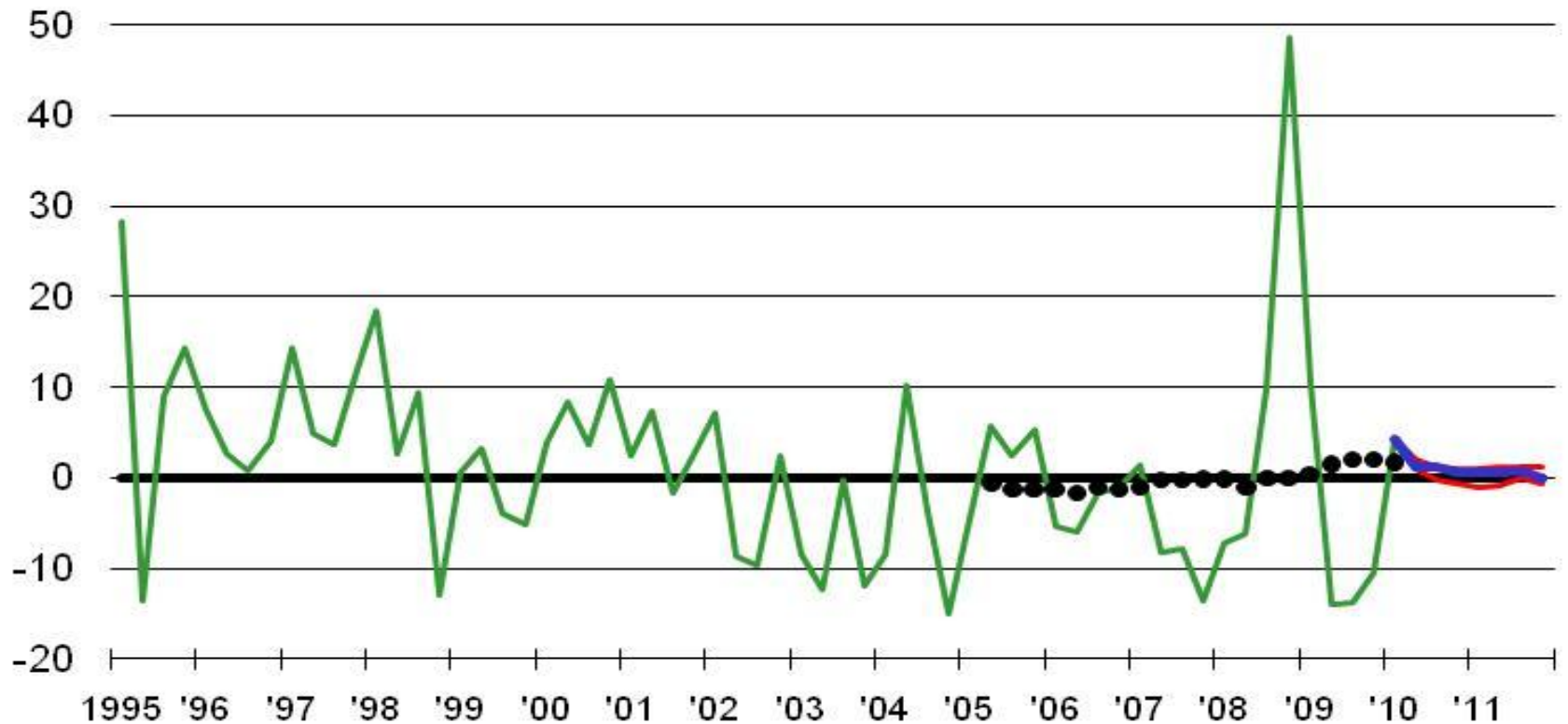
billions of constant dollars



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

J.P. Morgan trade weighted dollar

percent change, annual rate



Summary

- **The economy is forecast to rise at a solid pace in 2010 and 2011 with growth slightly above potential**
- **The unemployment rate is expected to gradually improve falling to 9.5% at the end of this year and 8.8% at the end of next year**
- **Inflation is expected to rise gradually through 2011**
- **Light vehicle sales are forecast to be 11.6 million units this year, the lowest level since 1983, and then improve to 13.3 million in 2011, the lowest level since 1992**
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