



21ST ANNUAL
**AUTOMOTIVE OUTLOOK
SYMPOSIUM**

FRIDAY, MAY 30, 2014

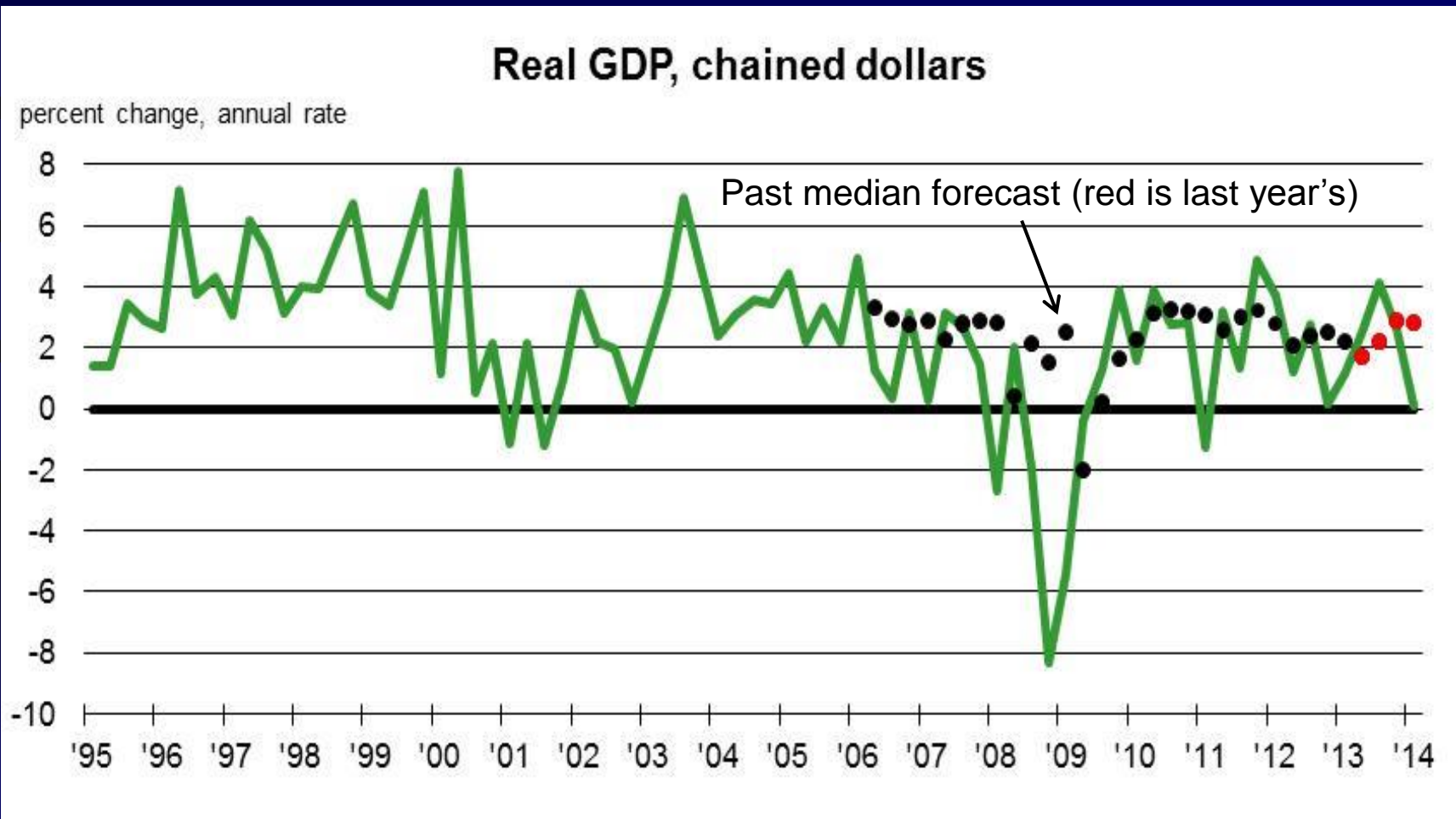
Consensus Forecast 2014 and 2015

**Twenty-first Annual
Automotive Outlook Symposium**
Detroit, Michigan
May 30, 2014

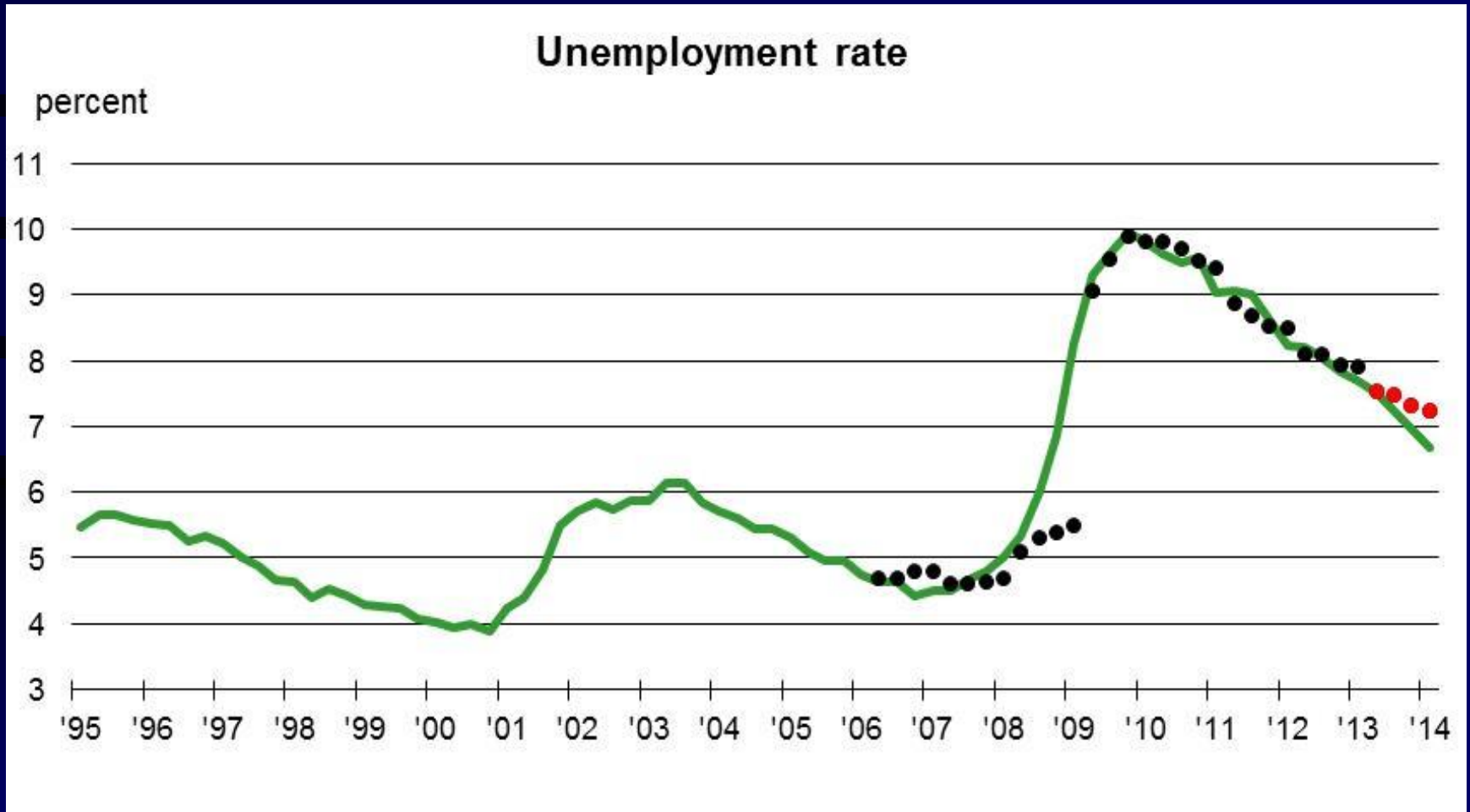
William Strauss
Senior Economist
and Economic Advisor
Federal Reserve Bank of Chicago

Review of past performance

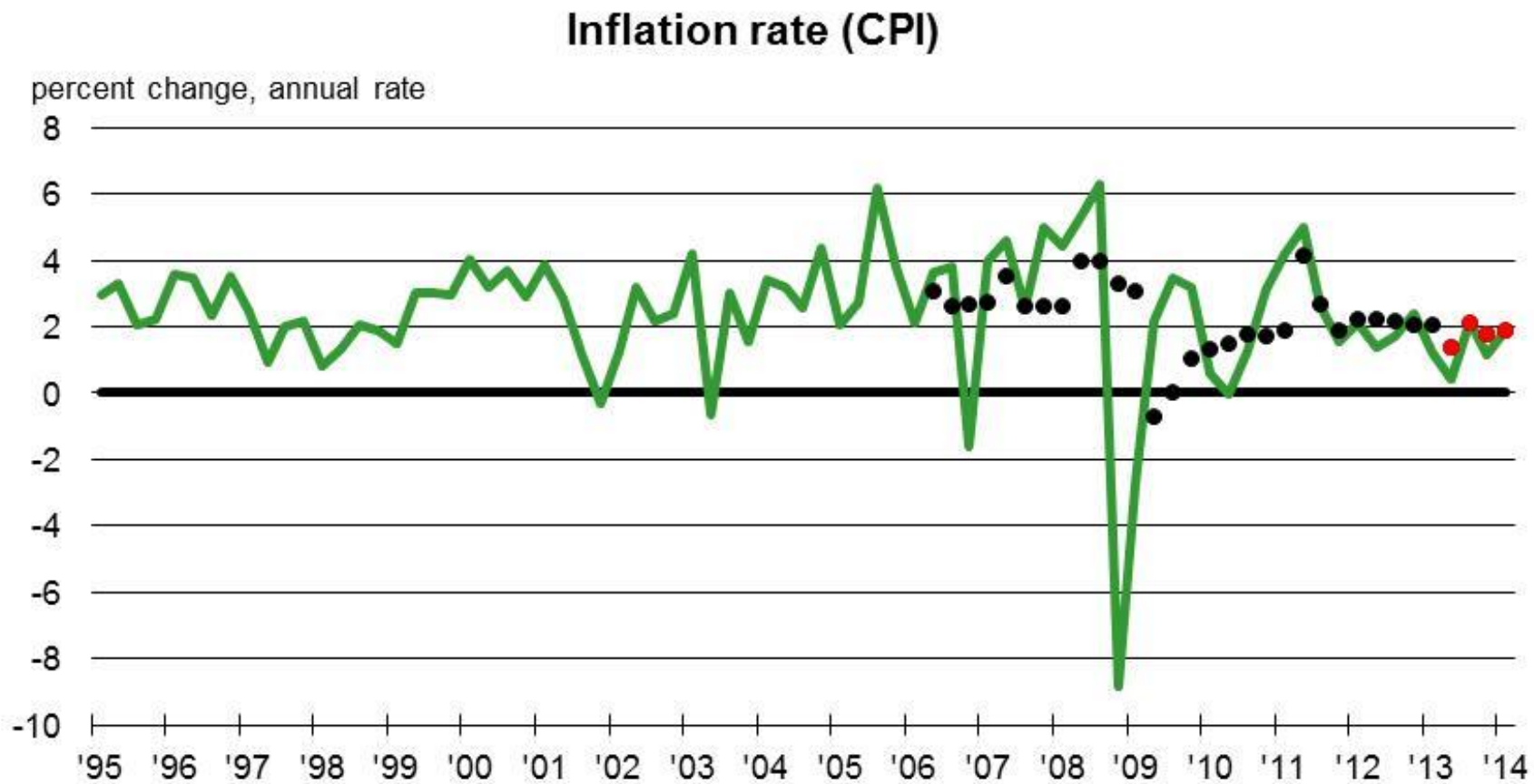
GDP growth was very close to the consensus



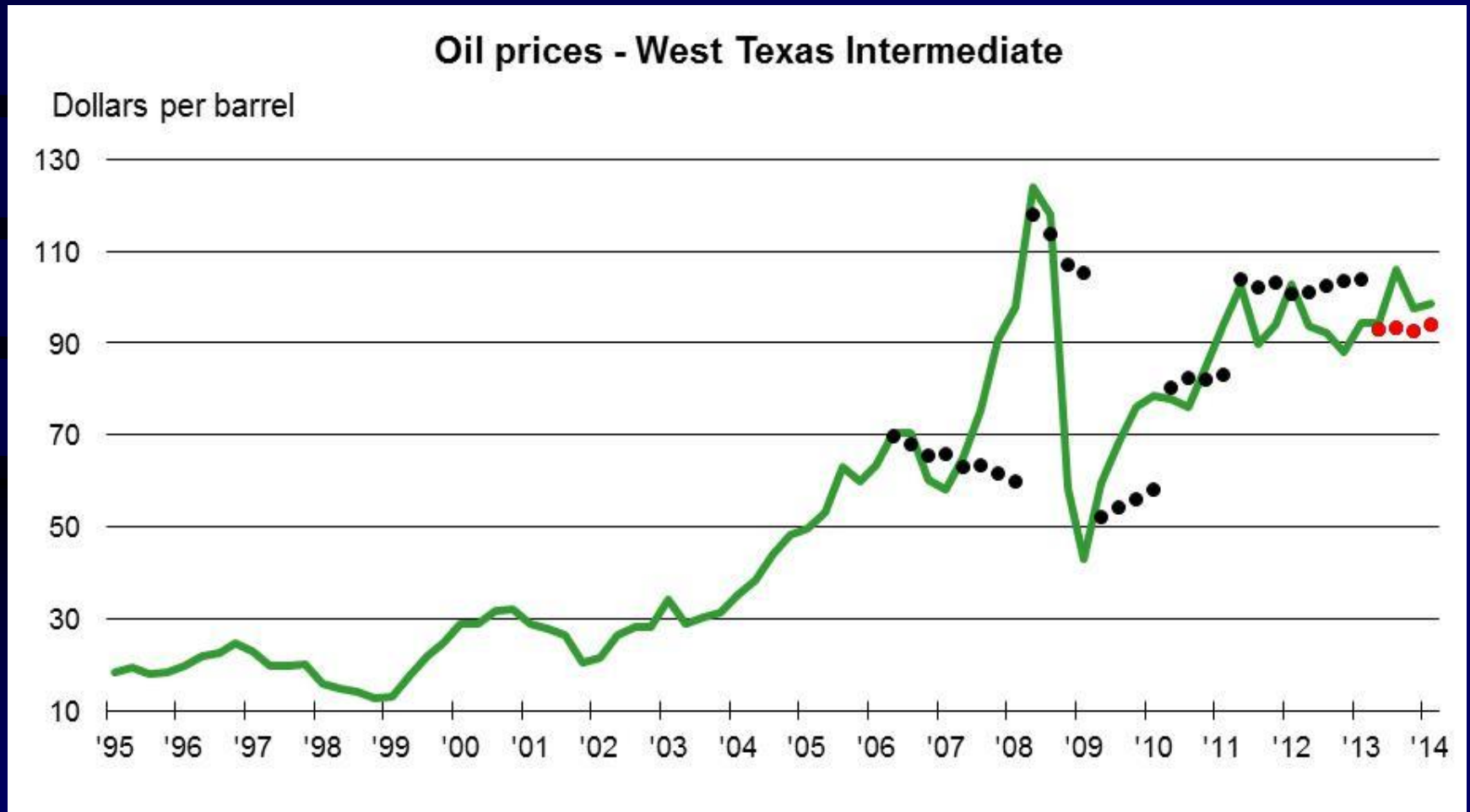
The unemployment rate declined more than predicted



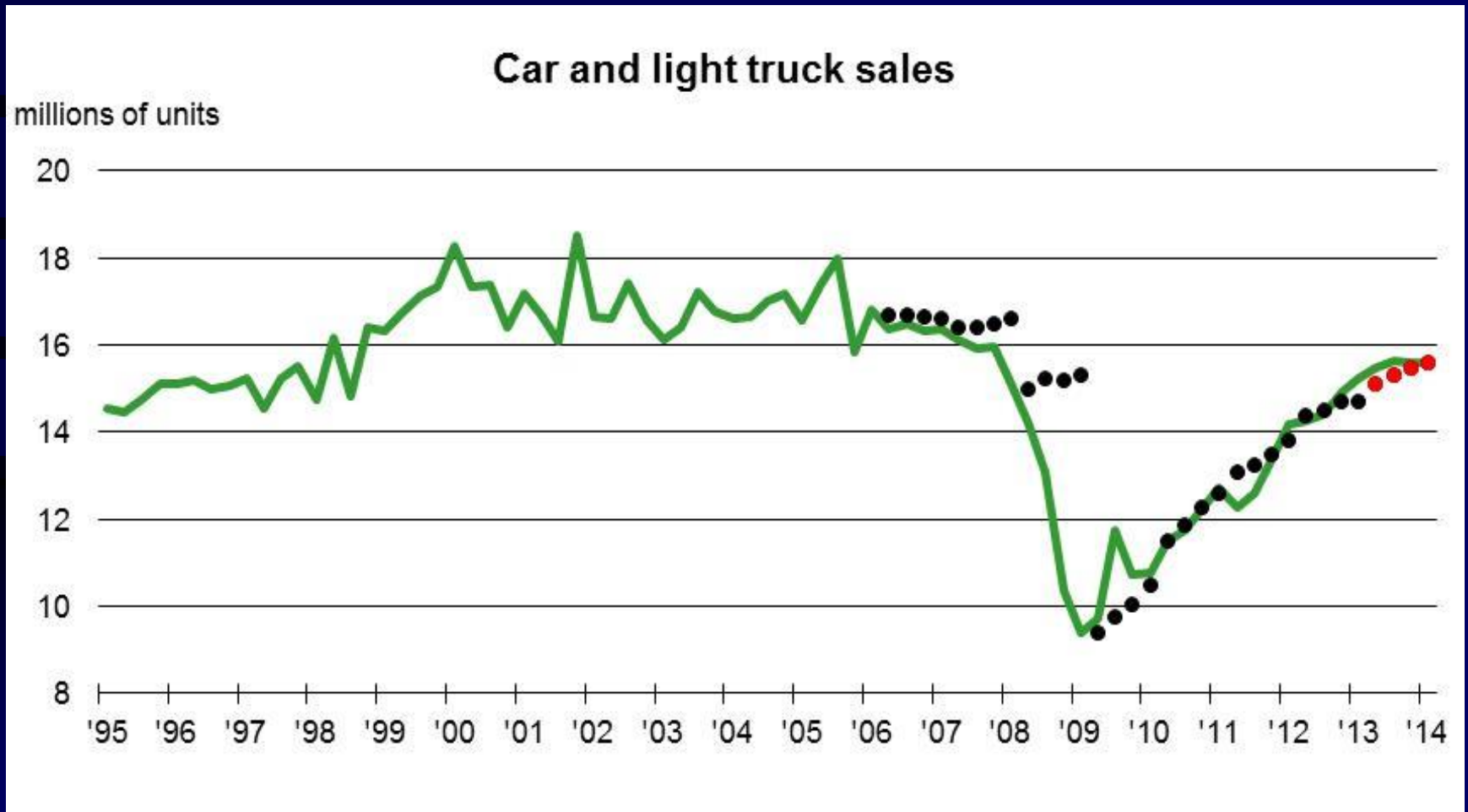
Inflation was accurately forecast



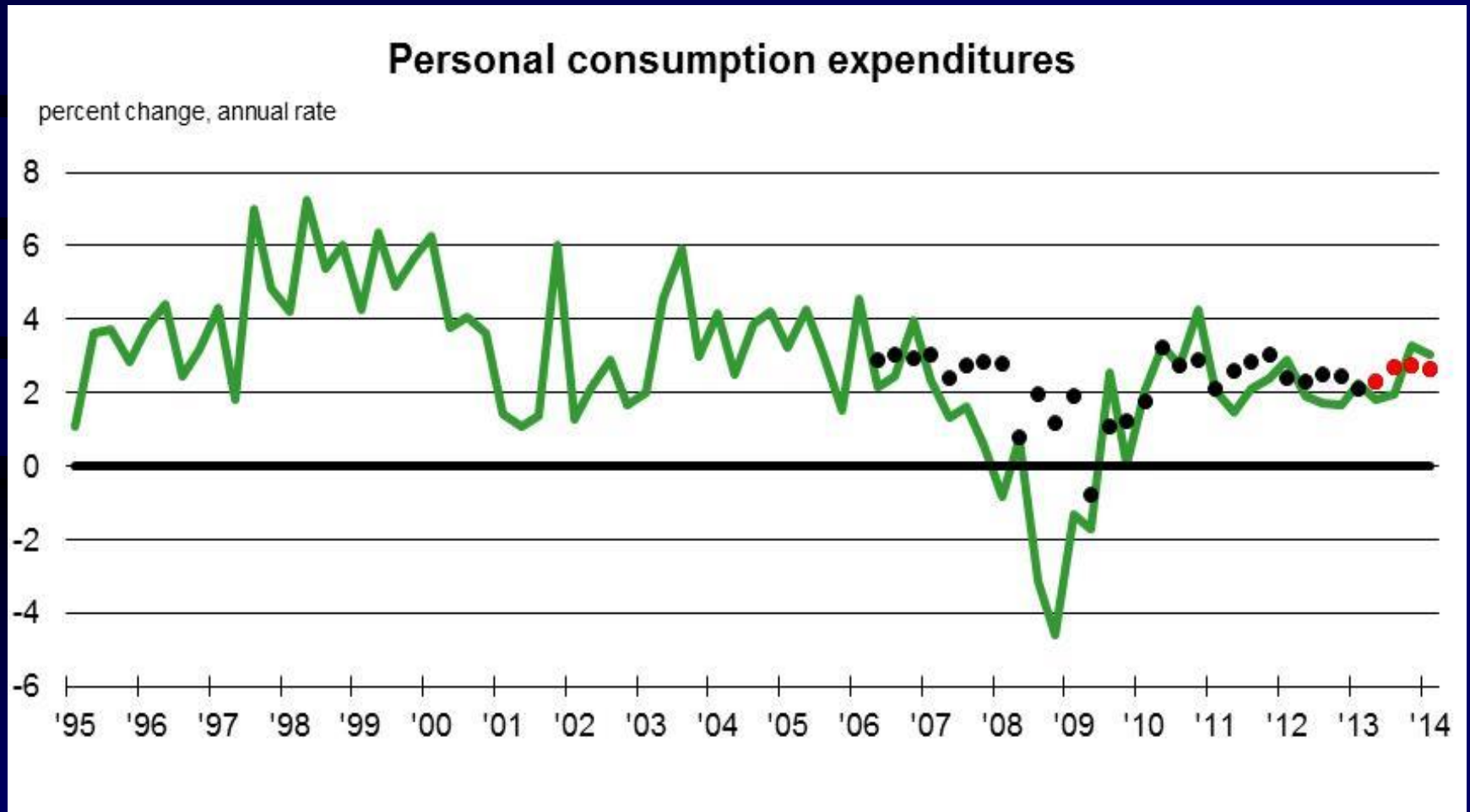
Even with oil prices higher than expected



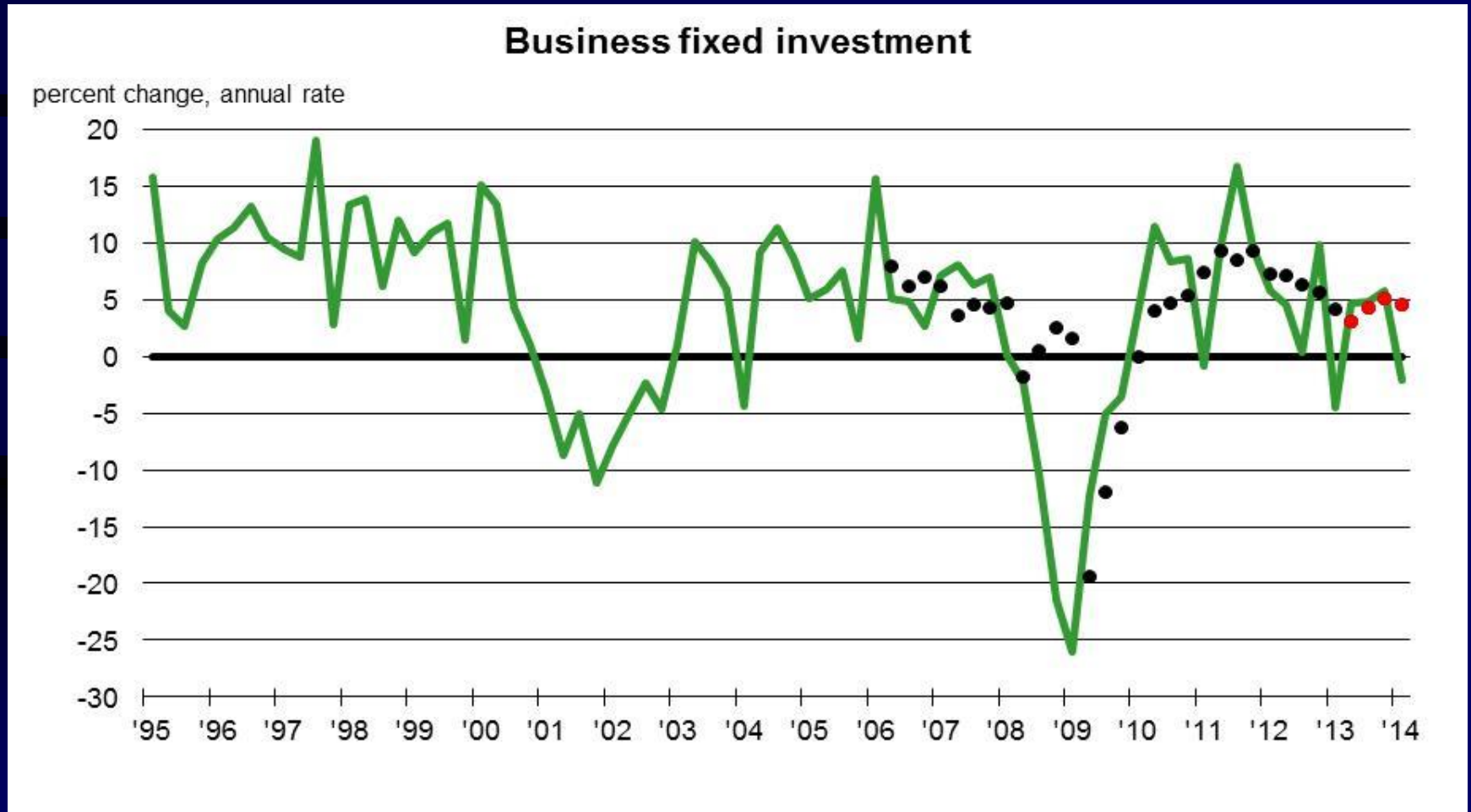
The general path for car and light truck sales were accurately predicted



Consumer spending was close to forecast



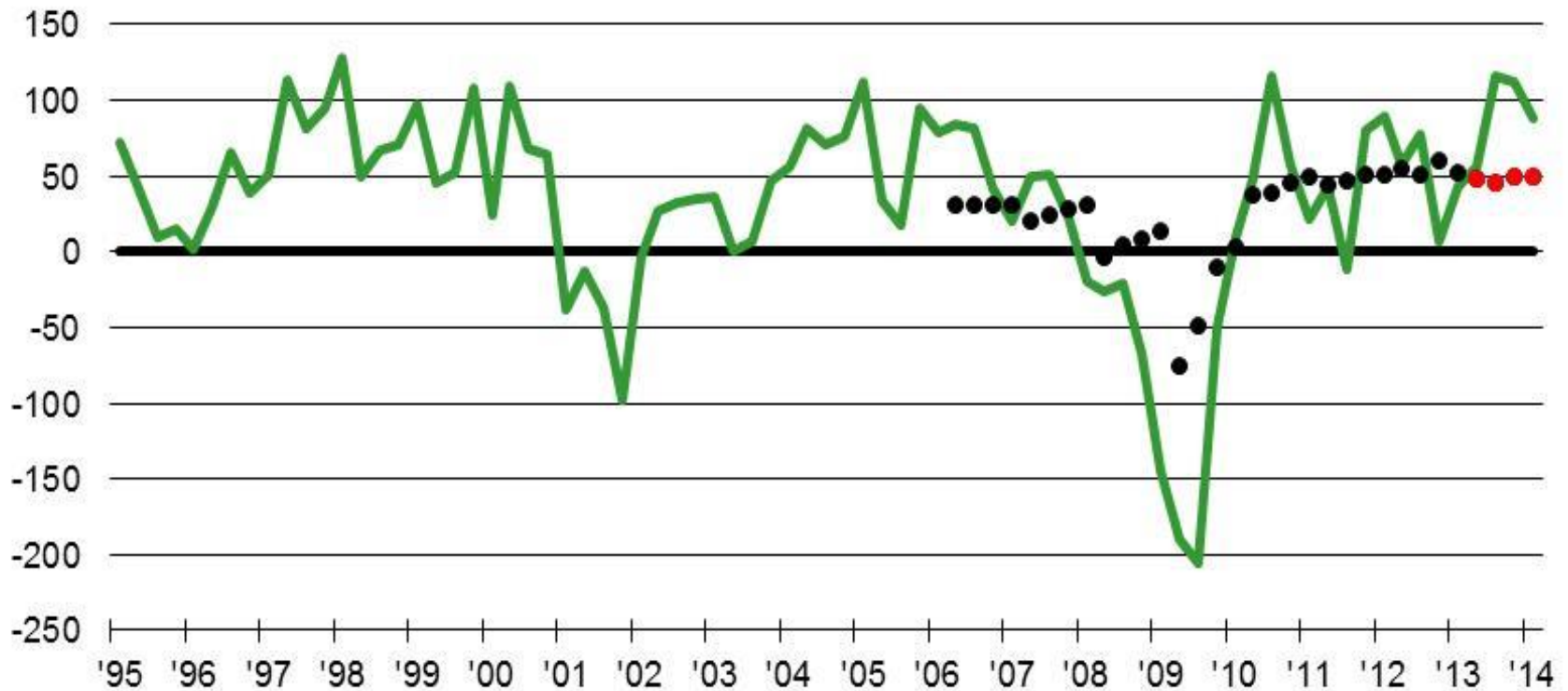
Outside of the weather impacted first quarter of 2014, business investment growth was accurately predicted to improve



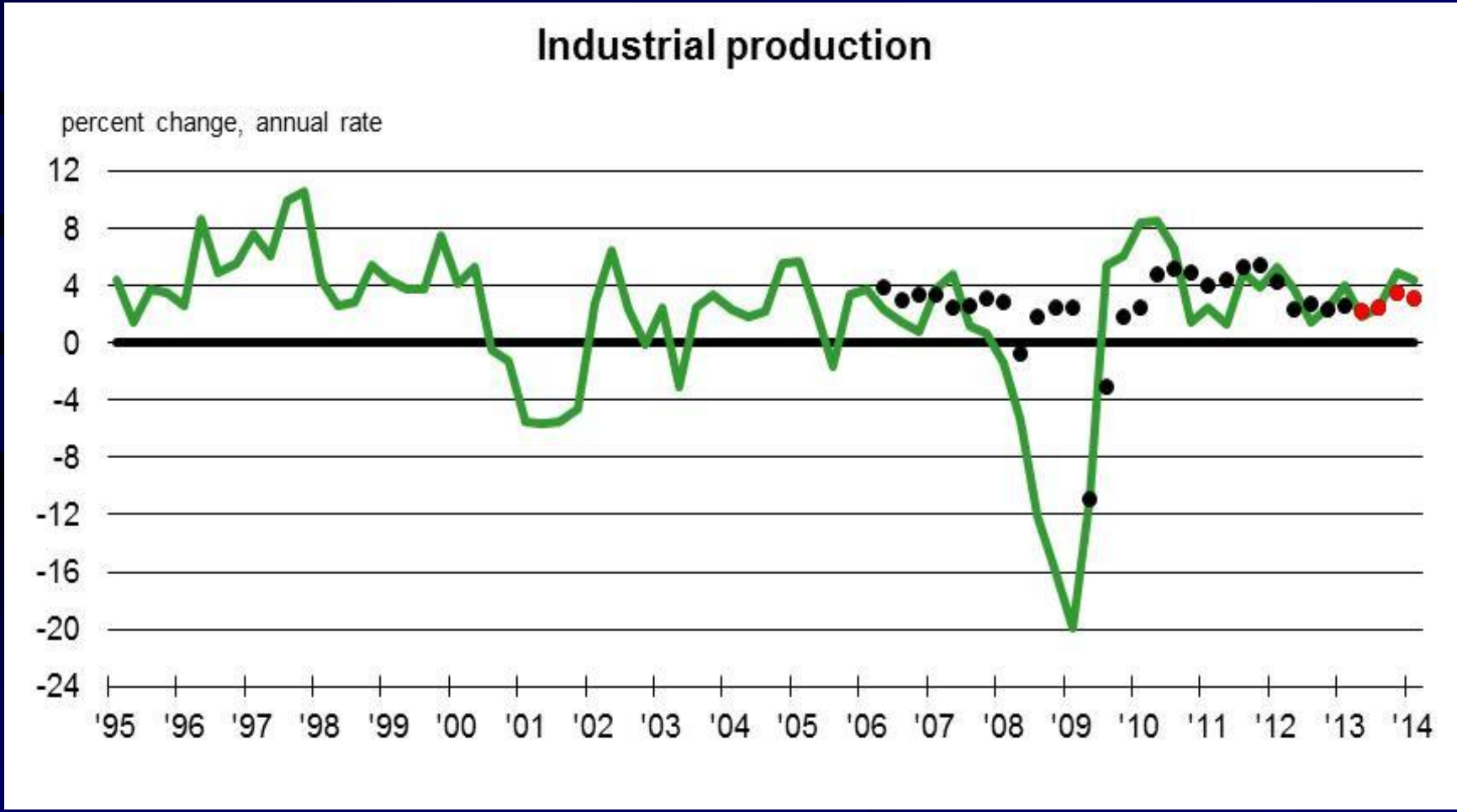
The big surprise over the past year was a large build in inventories

Change in business inventories

billions of constant dollars

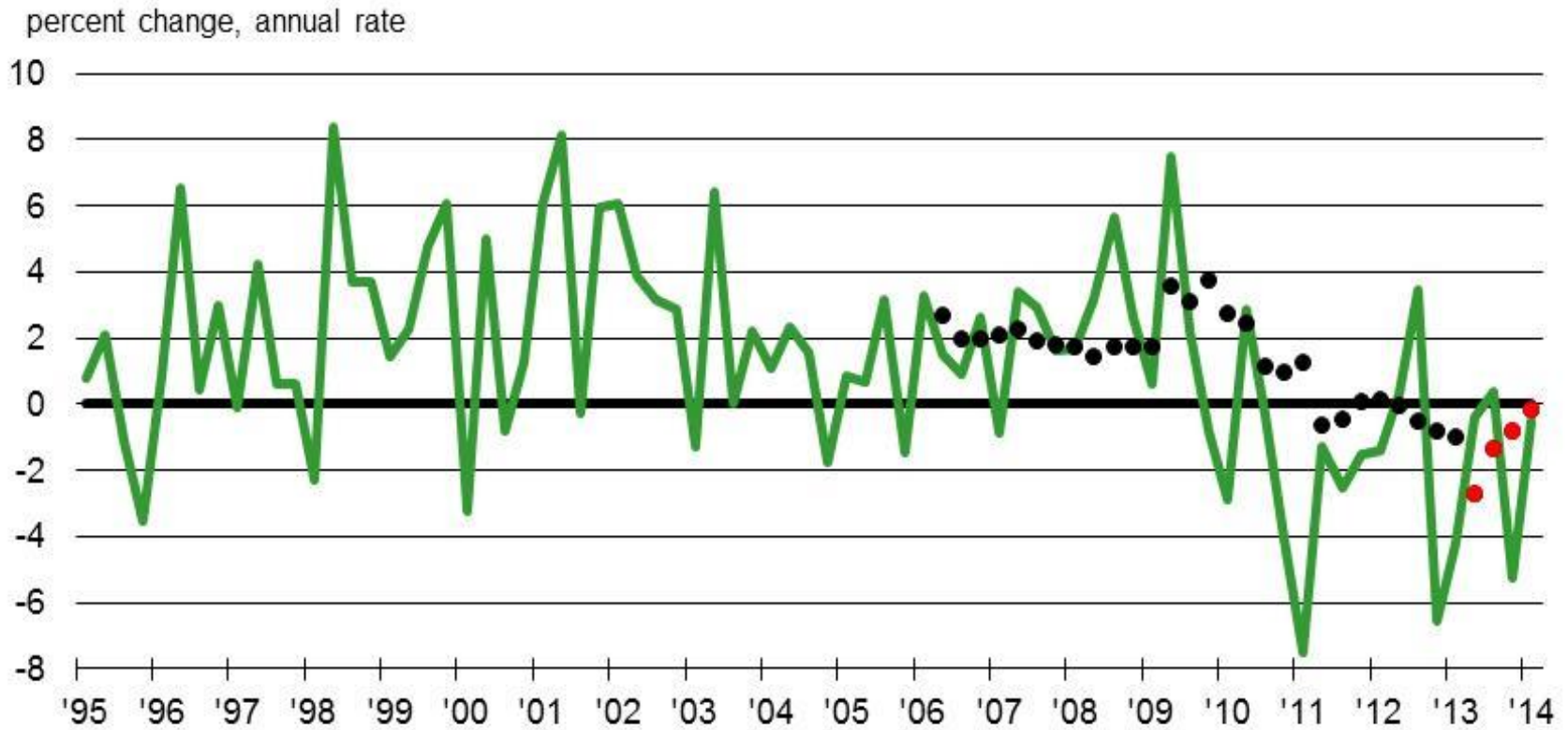


Industrial production growth was close to what was expected



While quite volatile government spending over the past year was close to what was predicted

Government consumption



The trade deficit accurately forecast

Net exports of goods and services

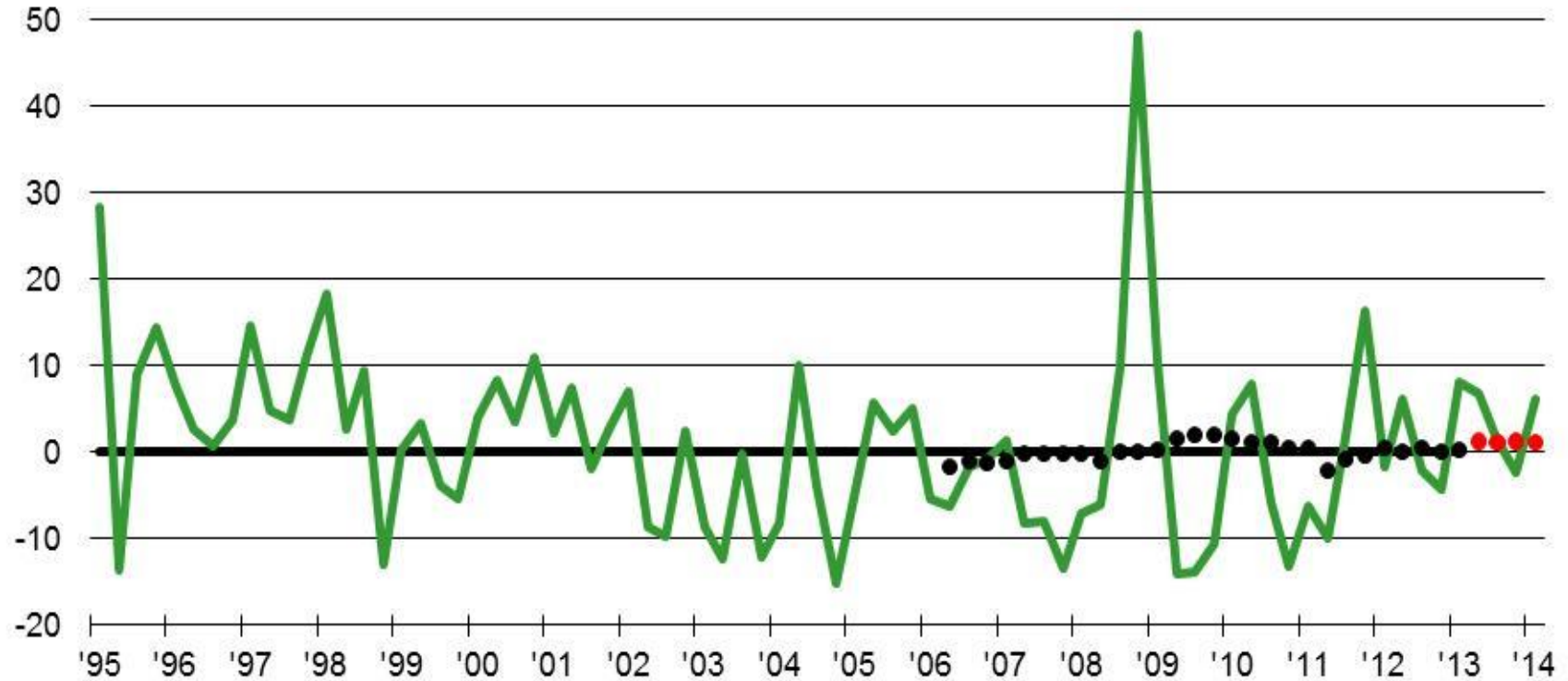
billions of constant dollars



The dollar was expected to increase by around 1% and it strengthened around 3% over the past year

J.P. Morgan trade weighted dollar

percent change, annual rate



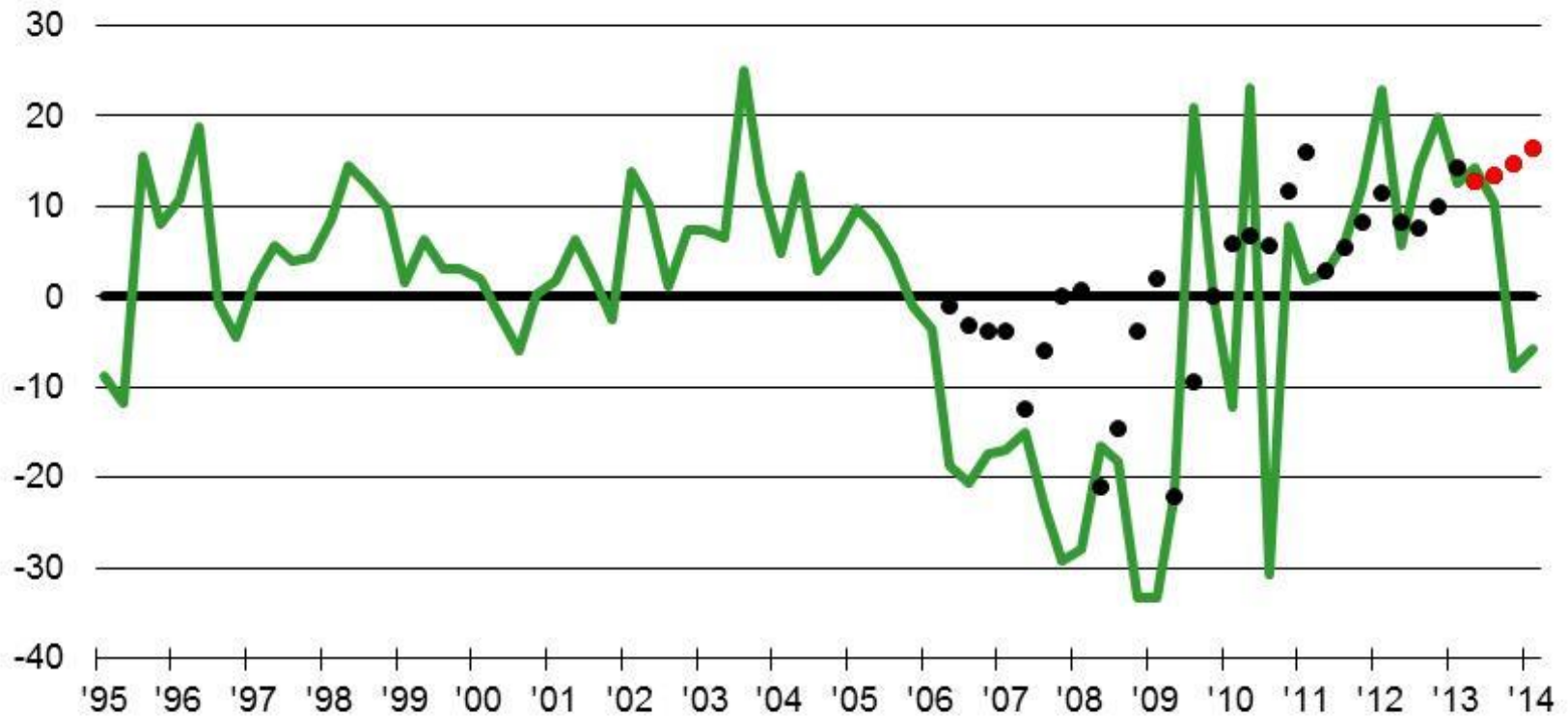
Housing starts improved at a slower pace than forecast



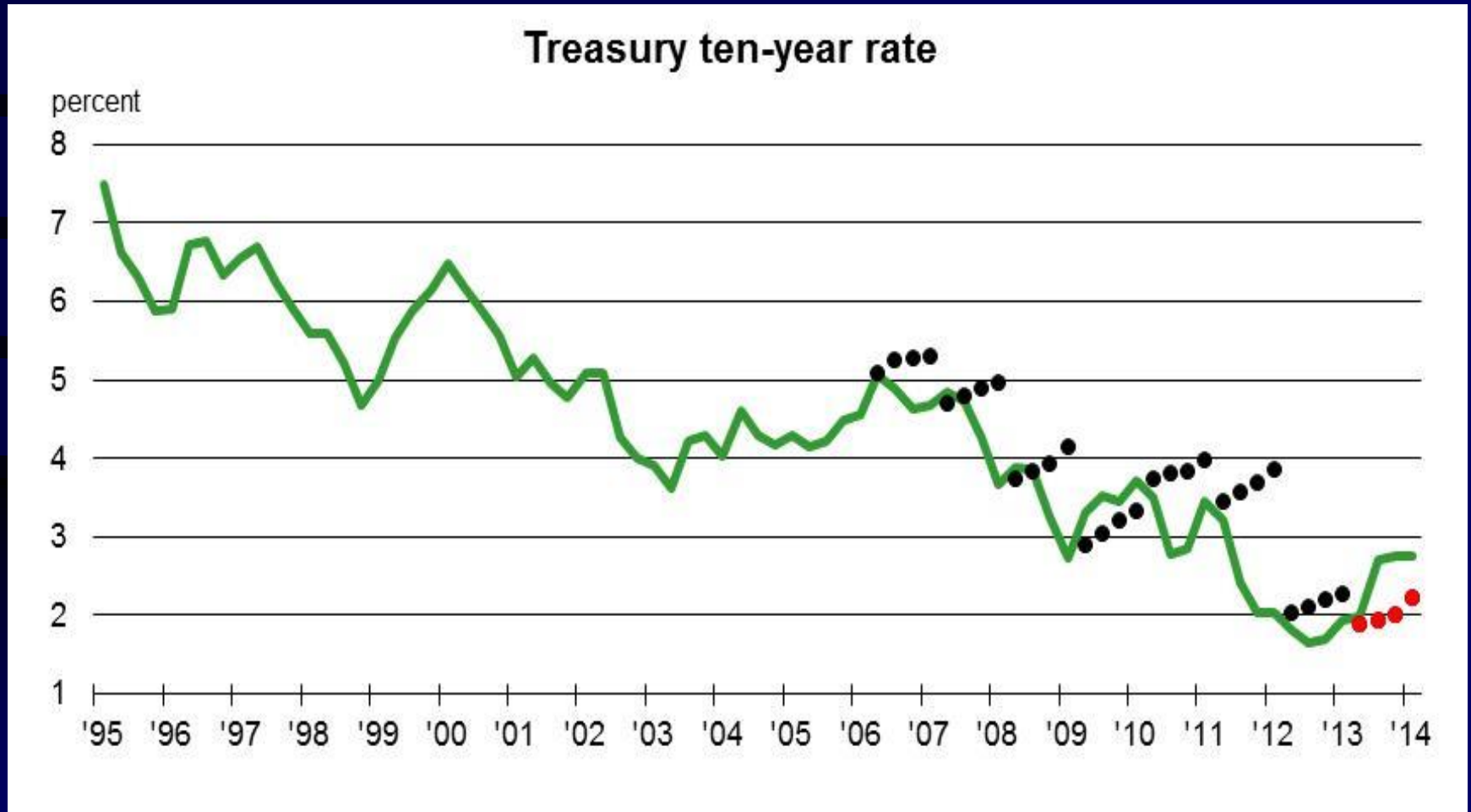
Hence, residential investment growth was well below what was predicted

Residential investment

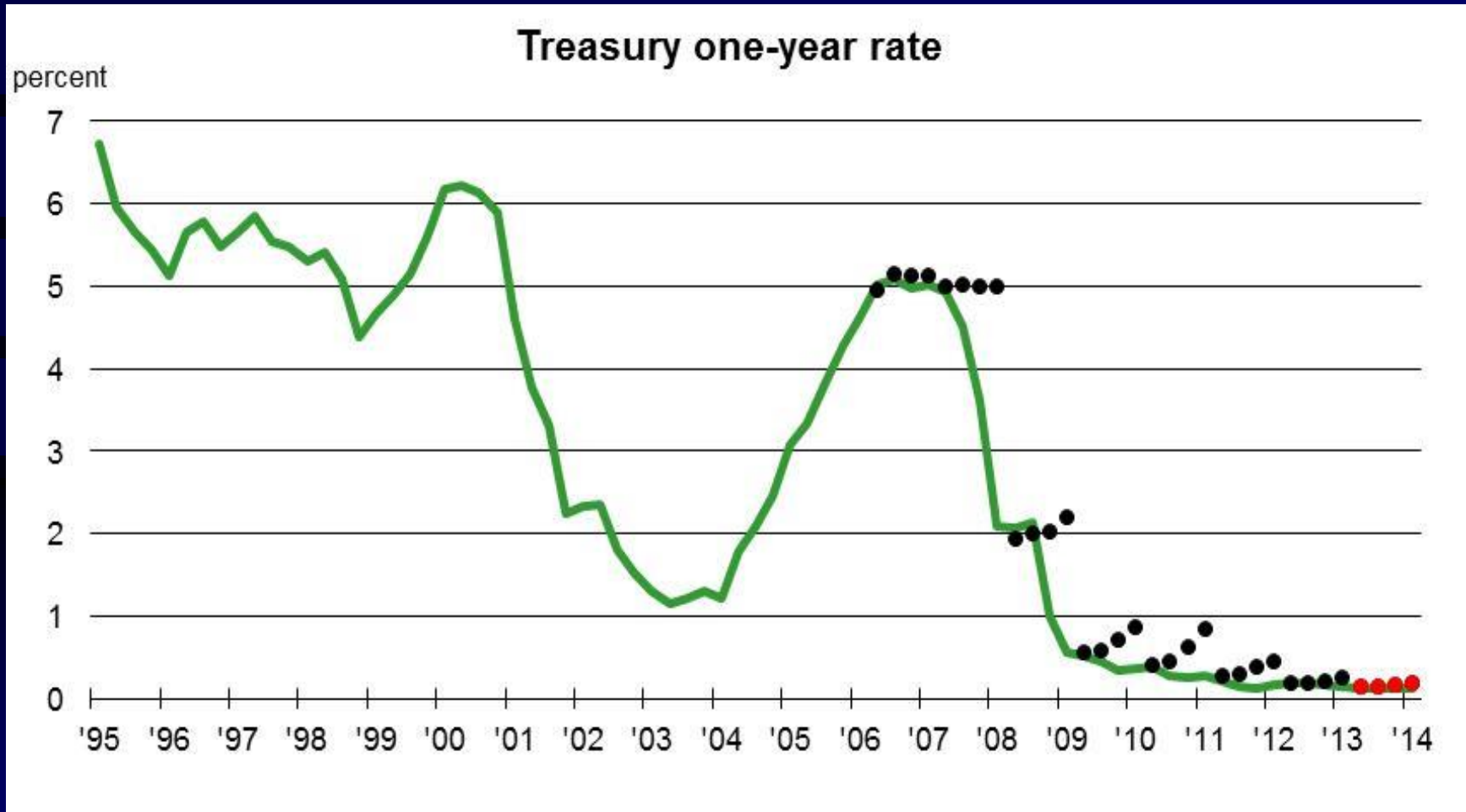
percent change, annual rate



Perhaps in part due to long-term interest rates rising more than expected



Short-term interest rates were expected to remain very low, and they did



Forecast for 2014 and 2015

Median forecast of GDP and related items

	2013	2014	2015
GDP, current dollars*	4.1%	4.0%	4.6%
GDP price index, chain-type*	1.4%	1.7%	1.8%
Real GDP, chained dollars*	2.6%	2.3%	2.8%
Personal consumption expenditures*	2.3%	2.8%	2.7%
Business fixed investment*	2.6%	3.4%	4.8%
Residential investment*	6.9%	5.4%	7.5%
Change in private inventories (billions of constant dollars)**	\$111.7	\$70.5	\$58.6
Net exports of goods and services (billions of constant dollars)**	-\$382.8	-\$409.5	-\$431.5
Government consumption expenditures and gross investment*	-2.4%	0.5%	0.4%

*Q4 over Q4

**Q4 value

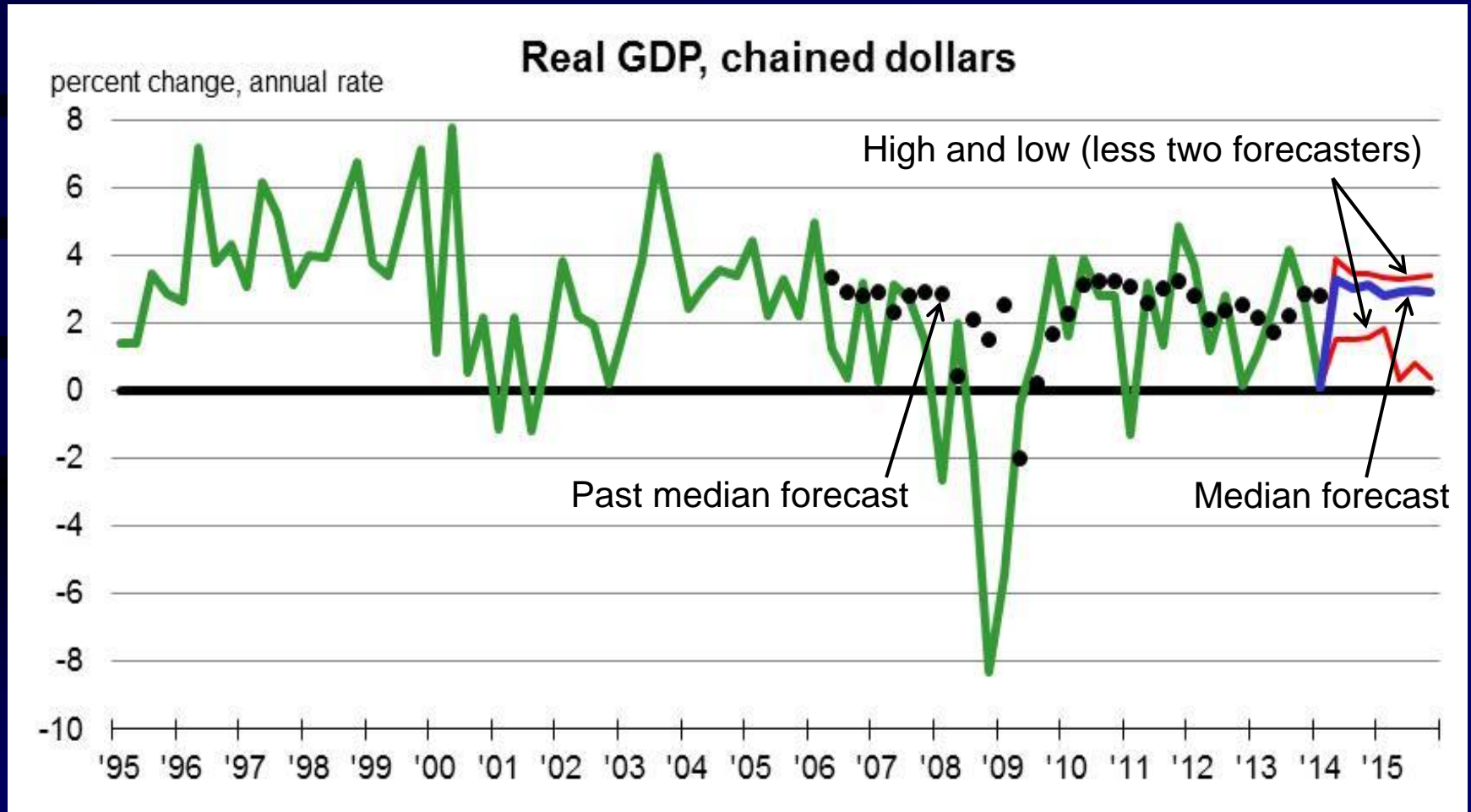
Median forecast of GDP and related items

	2013	2014	2015
Industrial production*	3.3%	3.6%	3.2%
Car & light truck sales (millions - calendar year including imports)	15.5	16.0	16.4
Housing starts (millions)	0.93	1.02	1.19
Oil price (dollars per barrel of West Texas Intermediate)**	\$97.39	\$99.00	\$97.08
Unemployment rate**	7.0%	6.3%	5.9%
Inflation rate (consumer price index)*	1.2%	2.0%	2.0%
Treasury constant maturity 1-year rate**	0.12%	0.15%	0.45%
Treasury constant maturity 10-year rate**	2.75%	2.96%	3.50%
J.P. Morgan trade weighted OECD dollar*	3.5%	2.8%	0.1%

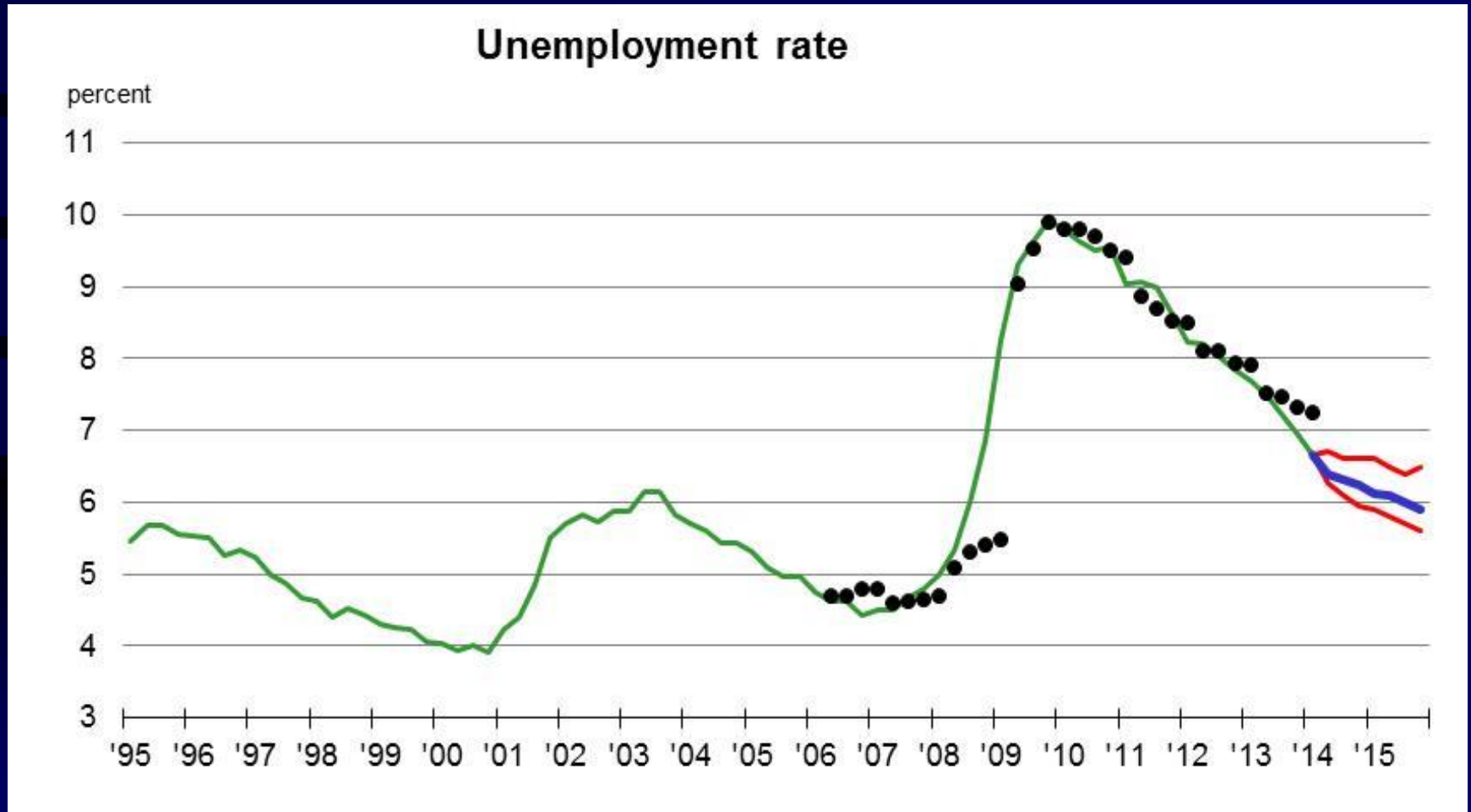
*Q4 over Q4

**Q4 value

Real GDP growth is forecast to bounce back in the current quarter and rise at a rate that is above trend through the end of 2015



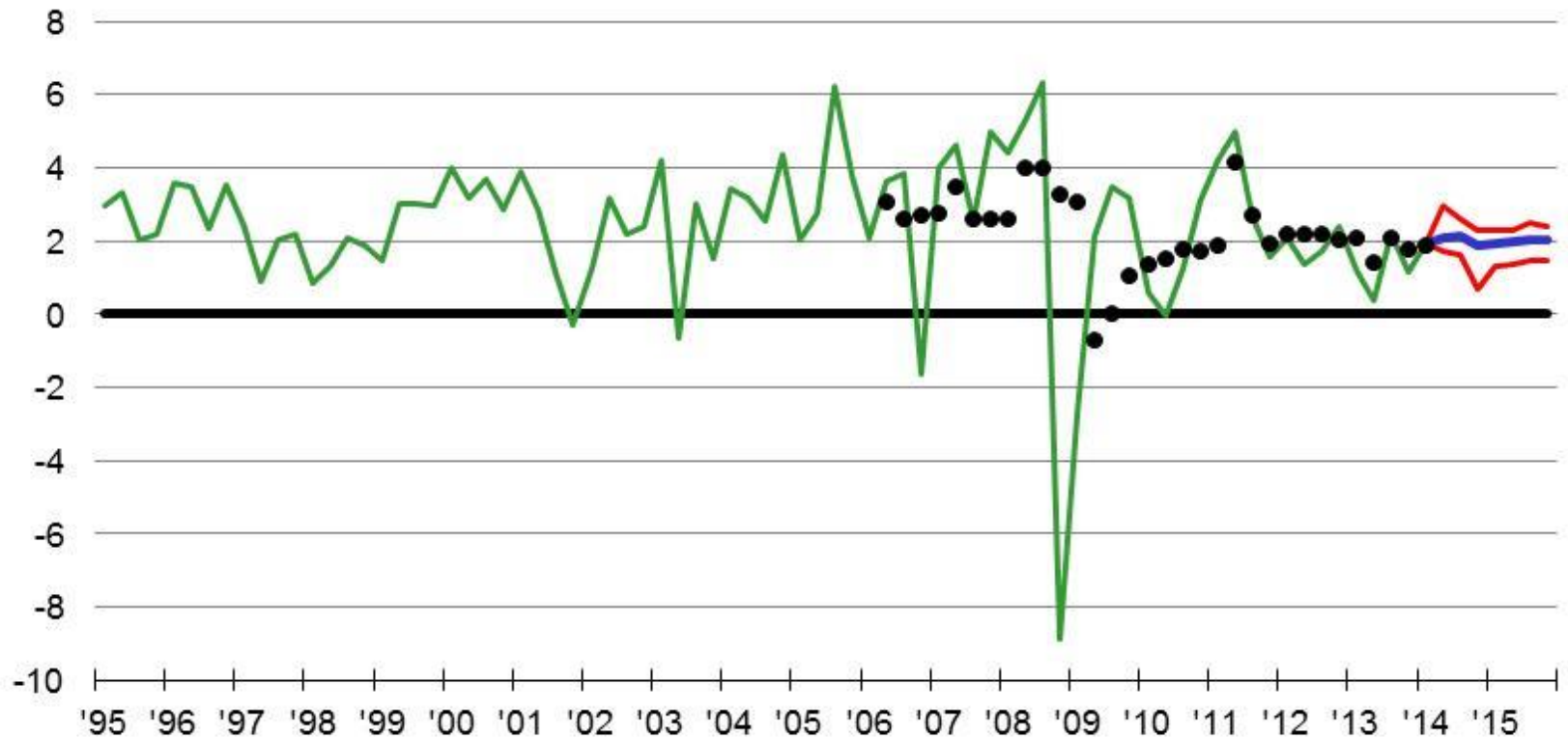
The unemployment rate is forecast to edge down to 6.3% at the end of this year and to 5.9% by the end of next year



Inflation is anticipated to remain restrained at 2.0% this year and in 2015

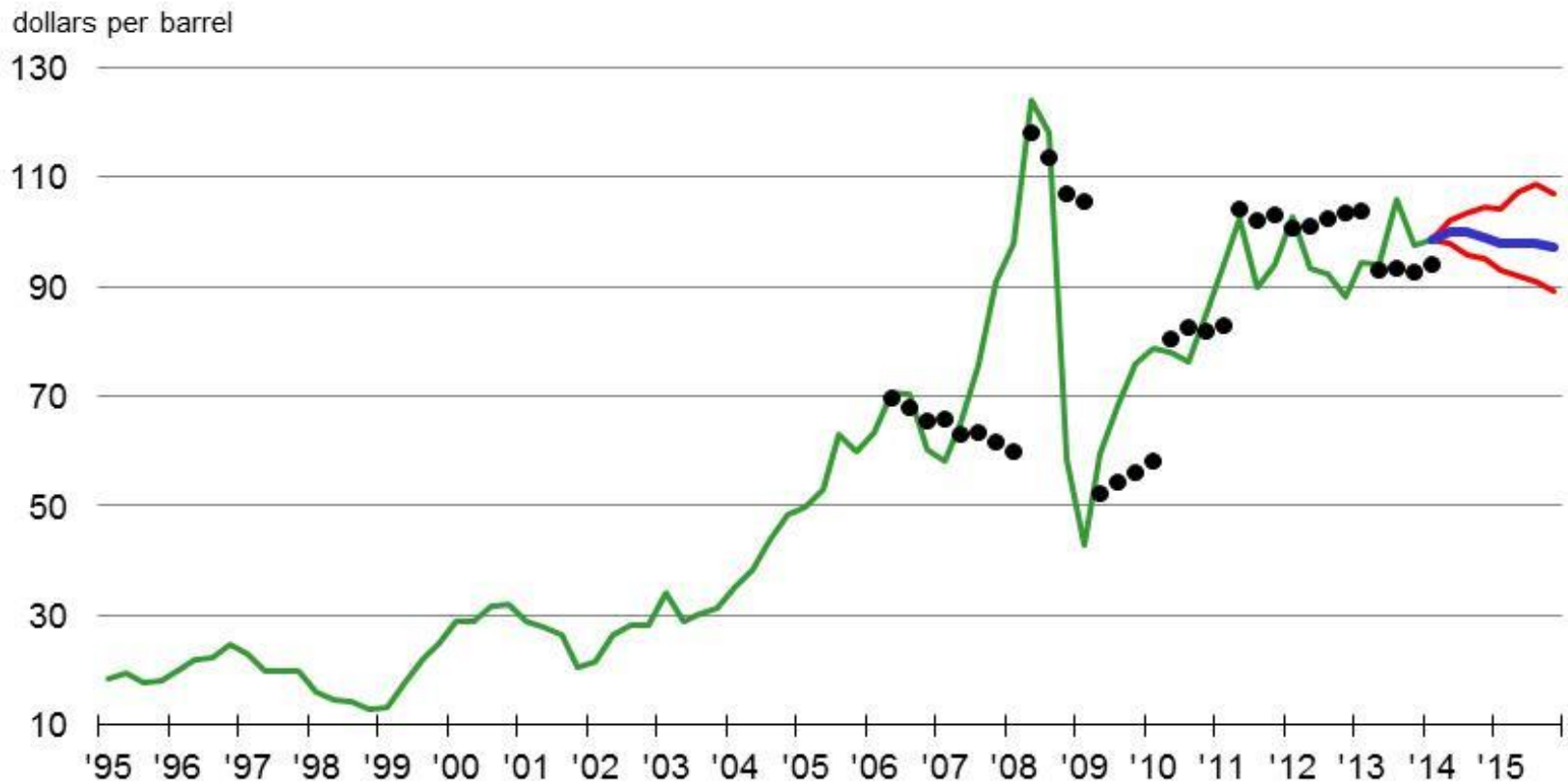
Inflation rate (CPI)

percent change, annual rate

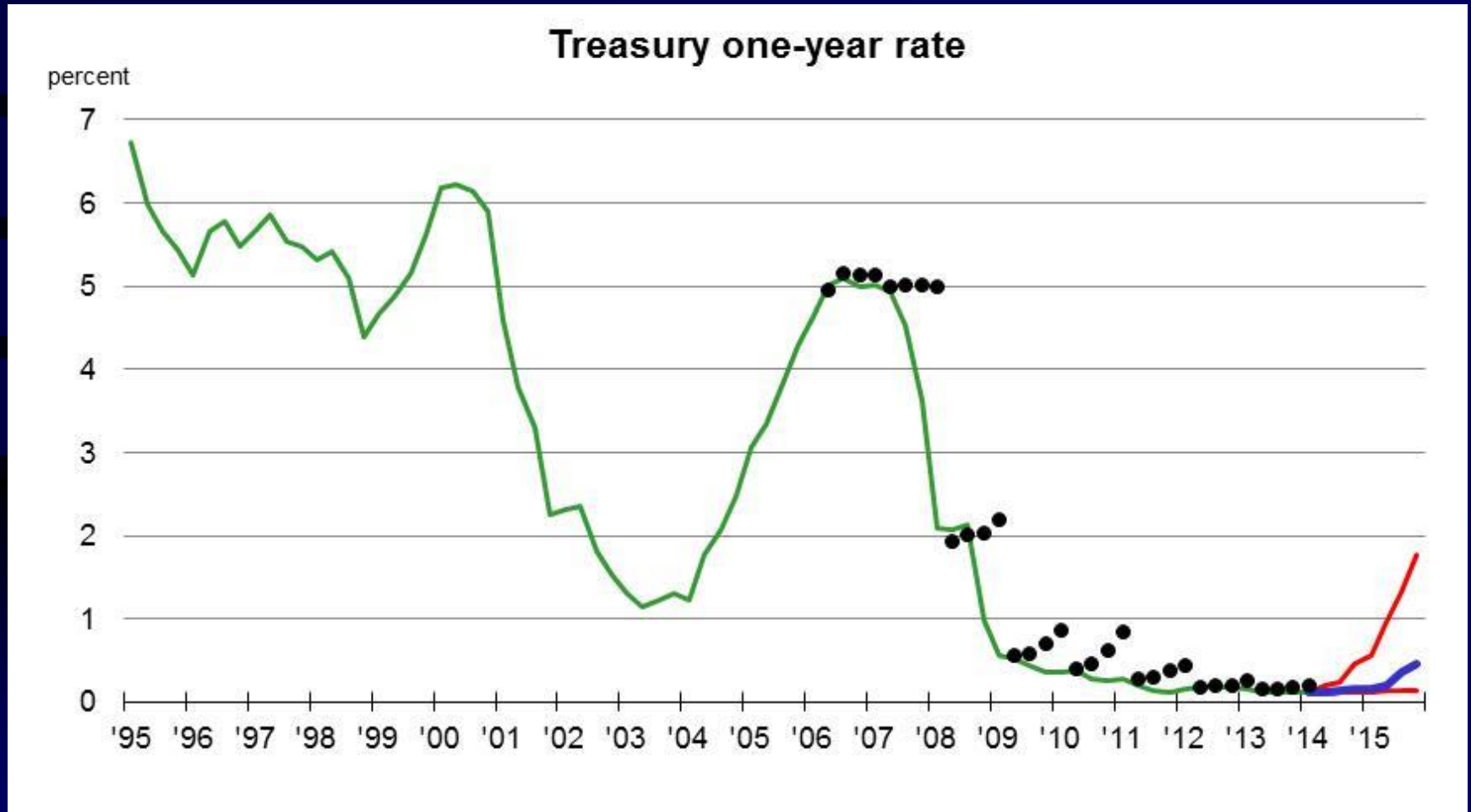


Oil prices are expected to tick lower, although at an elevated level

Oil Prices - West Texas Intermediate

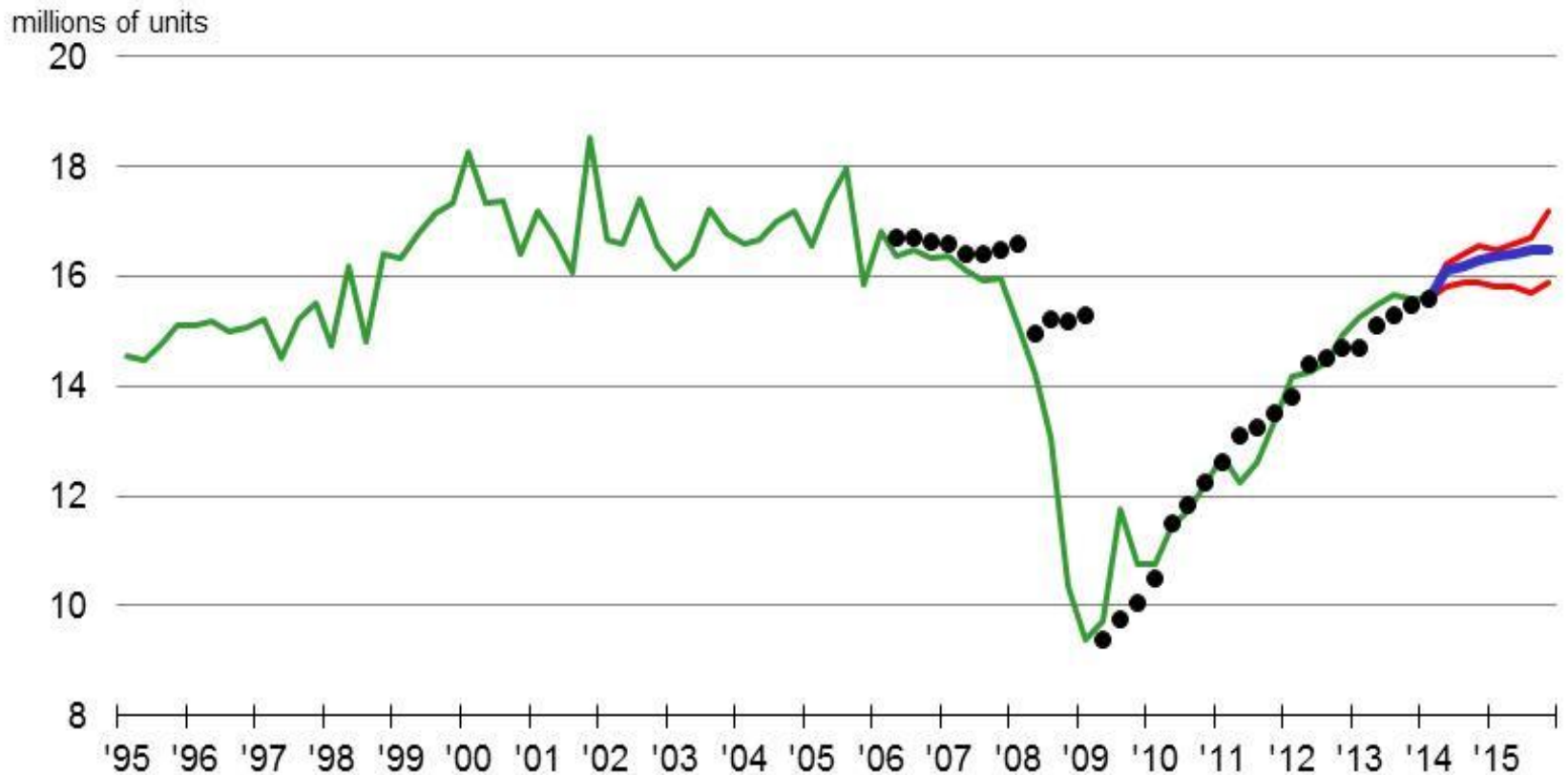


Short-term interest rates are forecast to remain unchanged through the first quarter of next year and then rise 30 basis points by the end of 2015

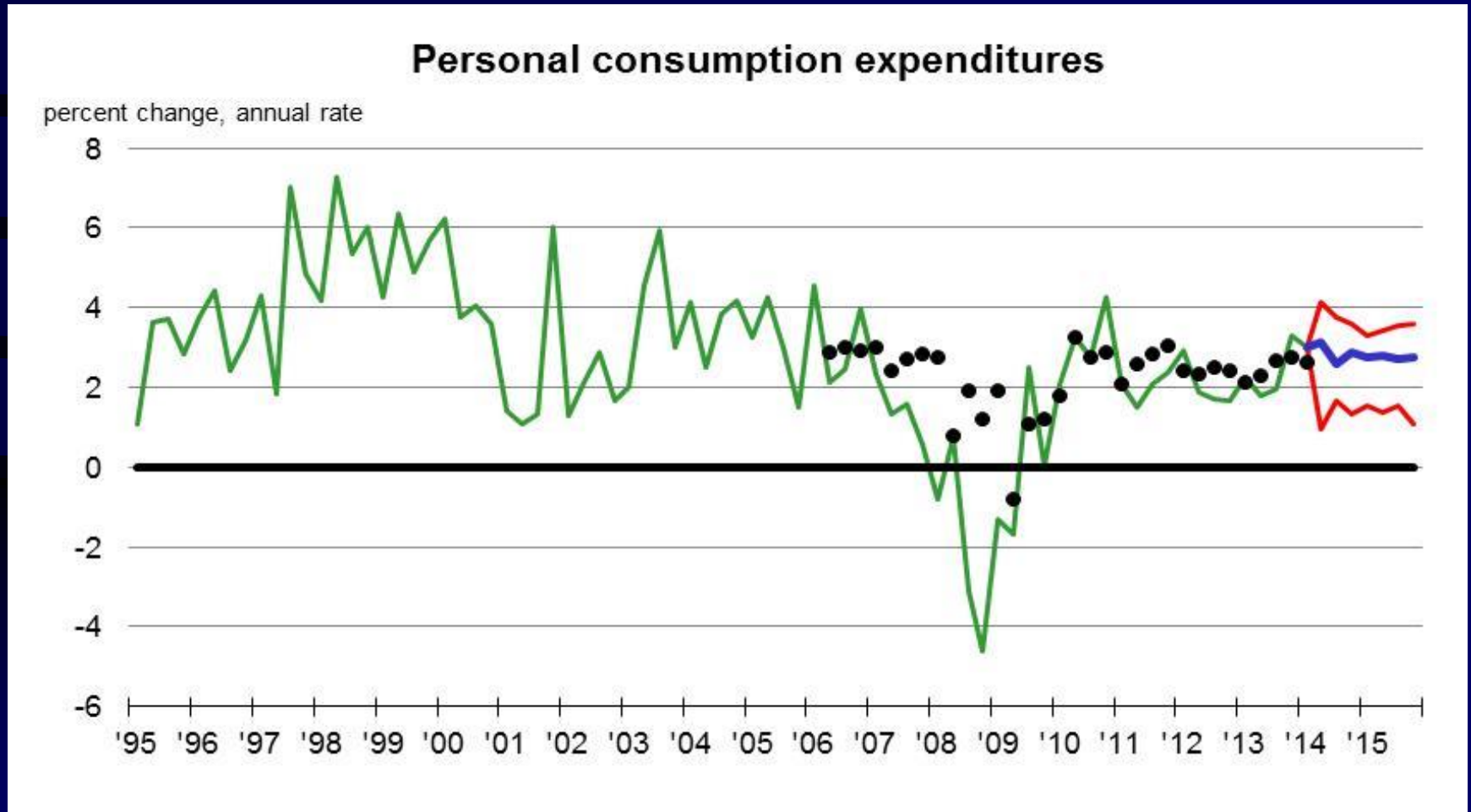


Light vehicle sales are forecast to continue improving, coming in at 16.0 million units this year and 16.4 million units in 2015

Car and light truck sales



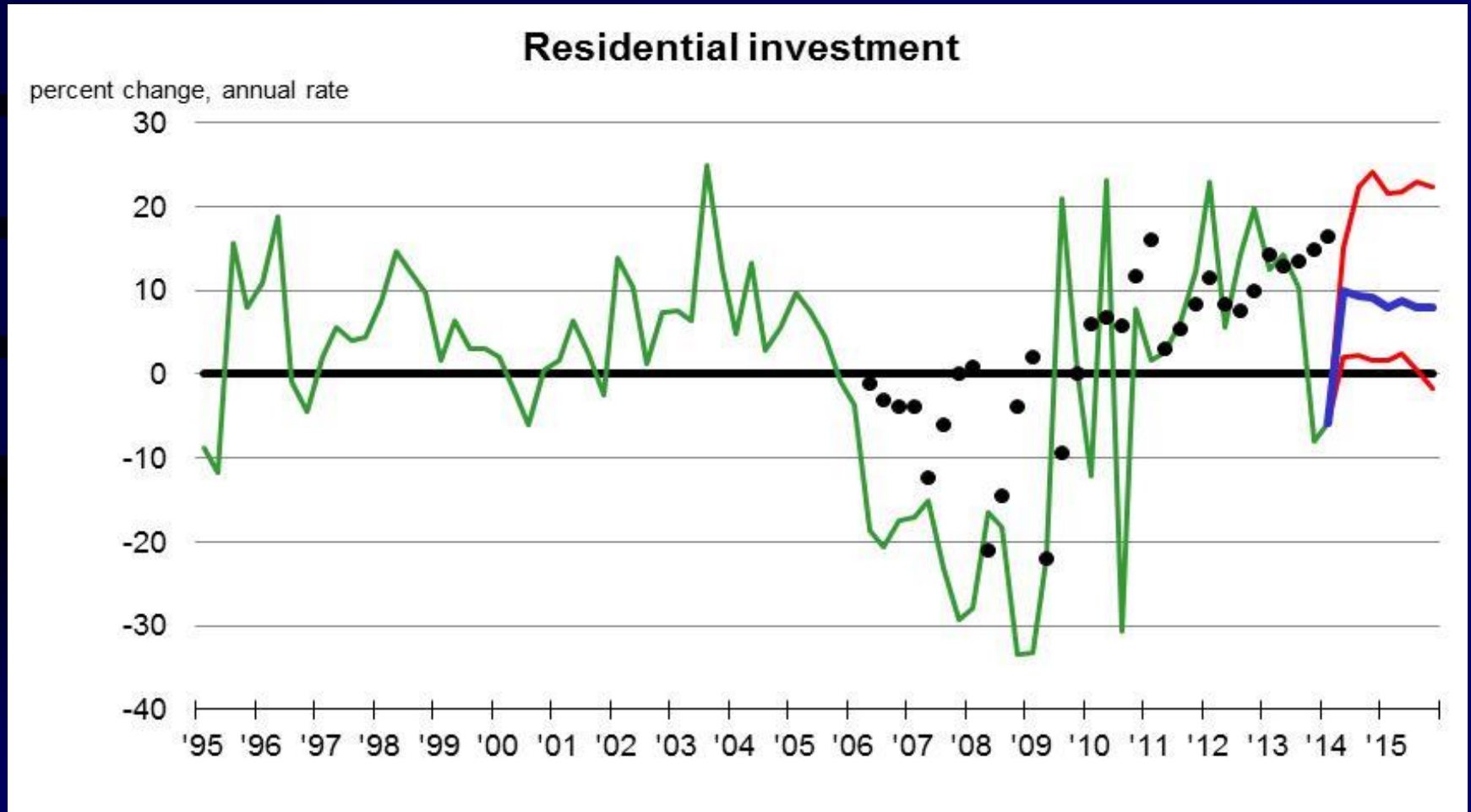
Consumption growth is expected to rise at a moderate pace



Housing starts are expected to continue to rise at a moderate pace



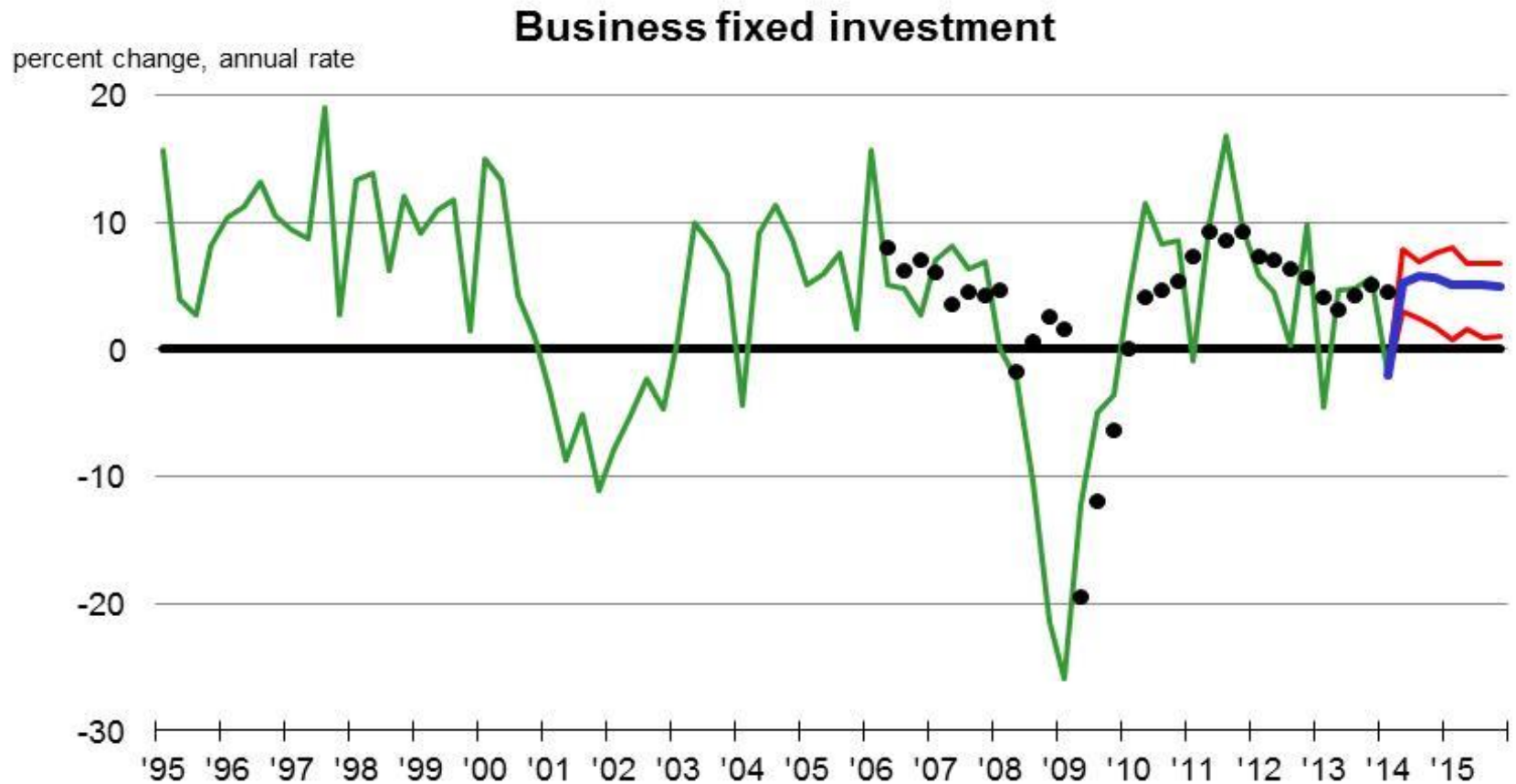
Residential investment is forecast to bounce back and rise at a strong pace through next year



**Long-term interest rates are forecast
to rise by 21 basis points in 2014
and then rise by 54 basis points in 2015**



Business spending is anticipated to rise 3.4% in 2014 and then rise 4.8% next year



Inventories gains are expected to slow this year and then rise at a pace that maintains the inventory to GDP ratio in 2015



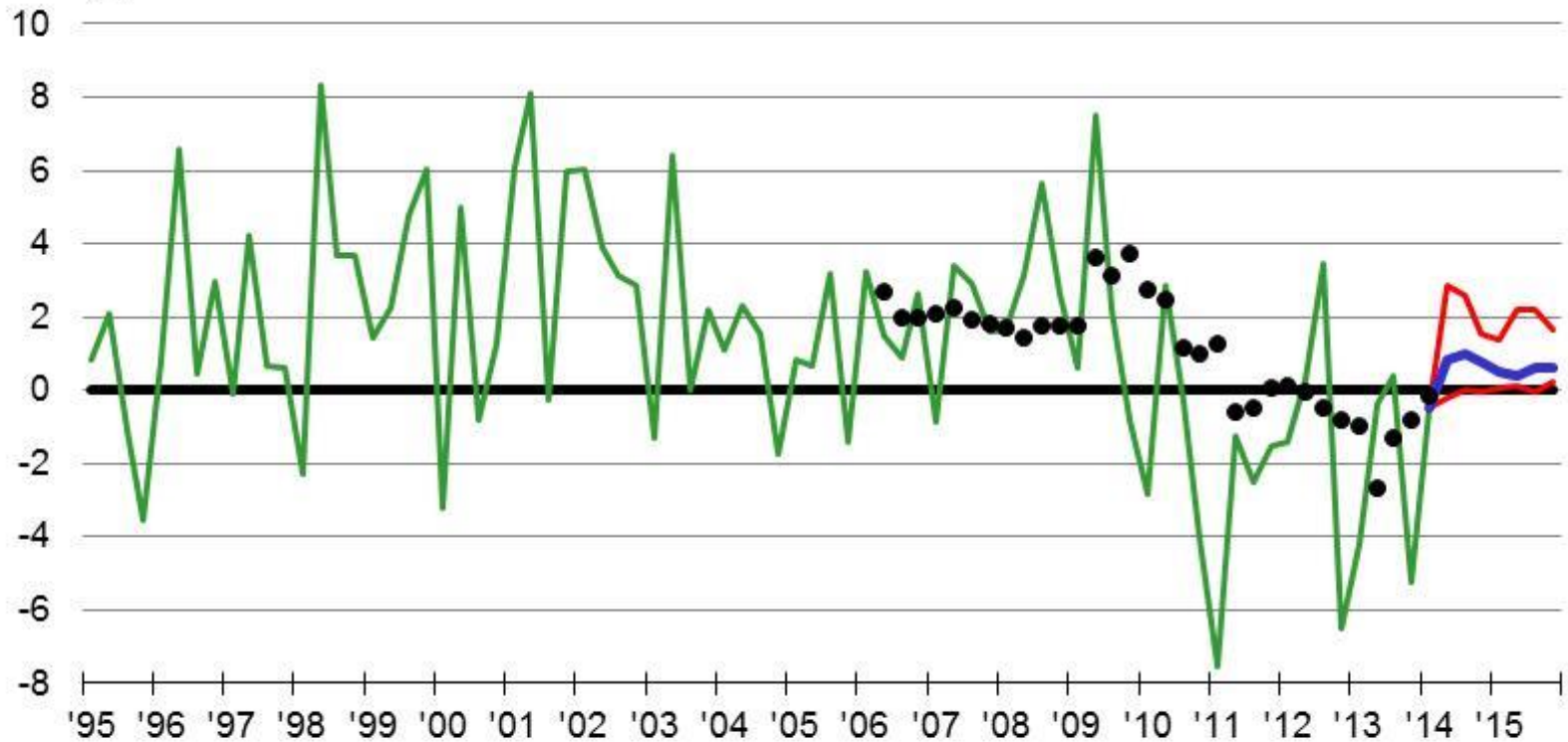
Industrial output growth is forecast to increase at a pace close to its historical rate through next year



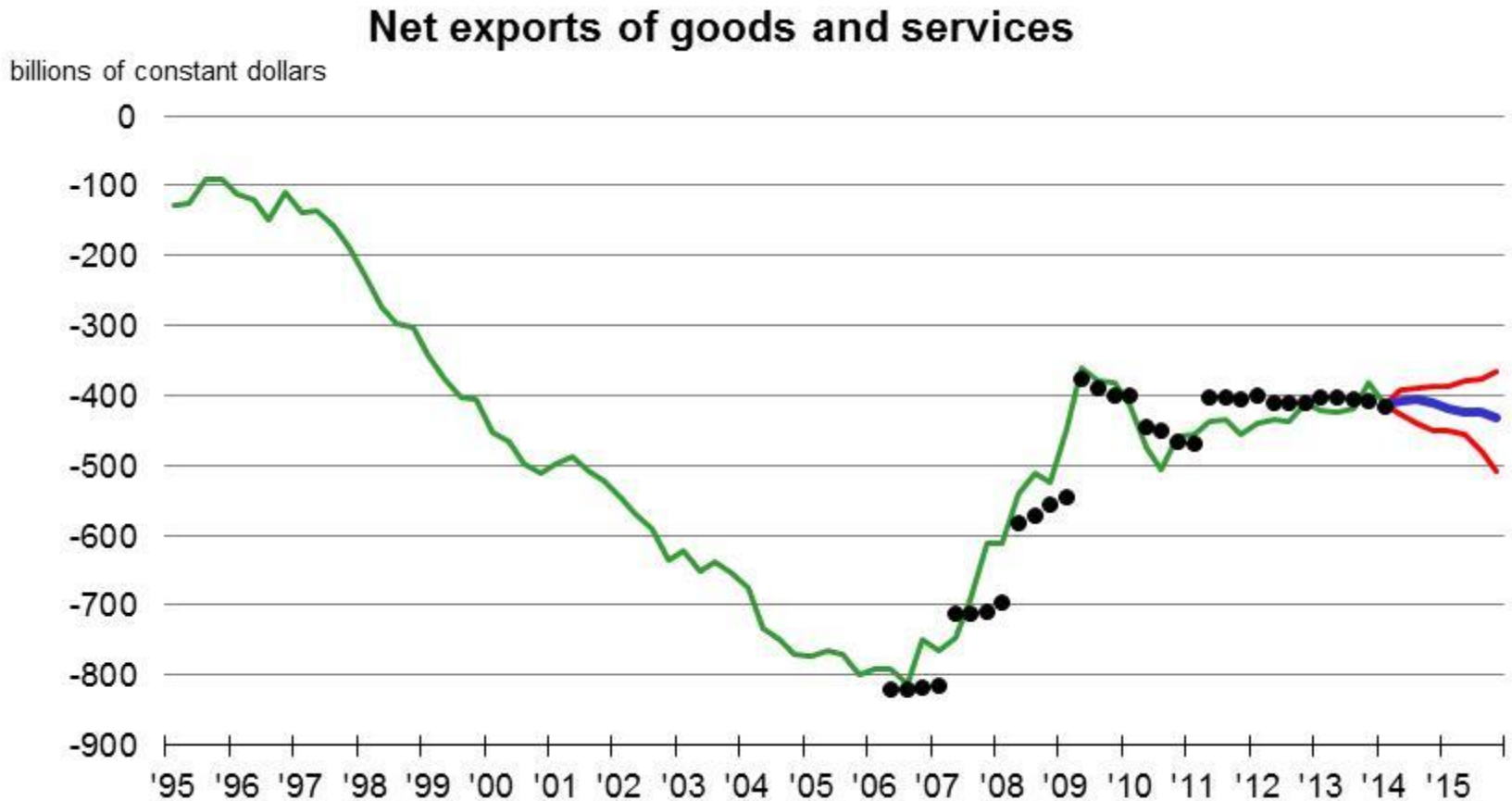
Government purchases is forecast to increase 0.5% this year and 0.4% in 2015

Government consumption

percent change, annual rate



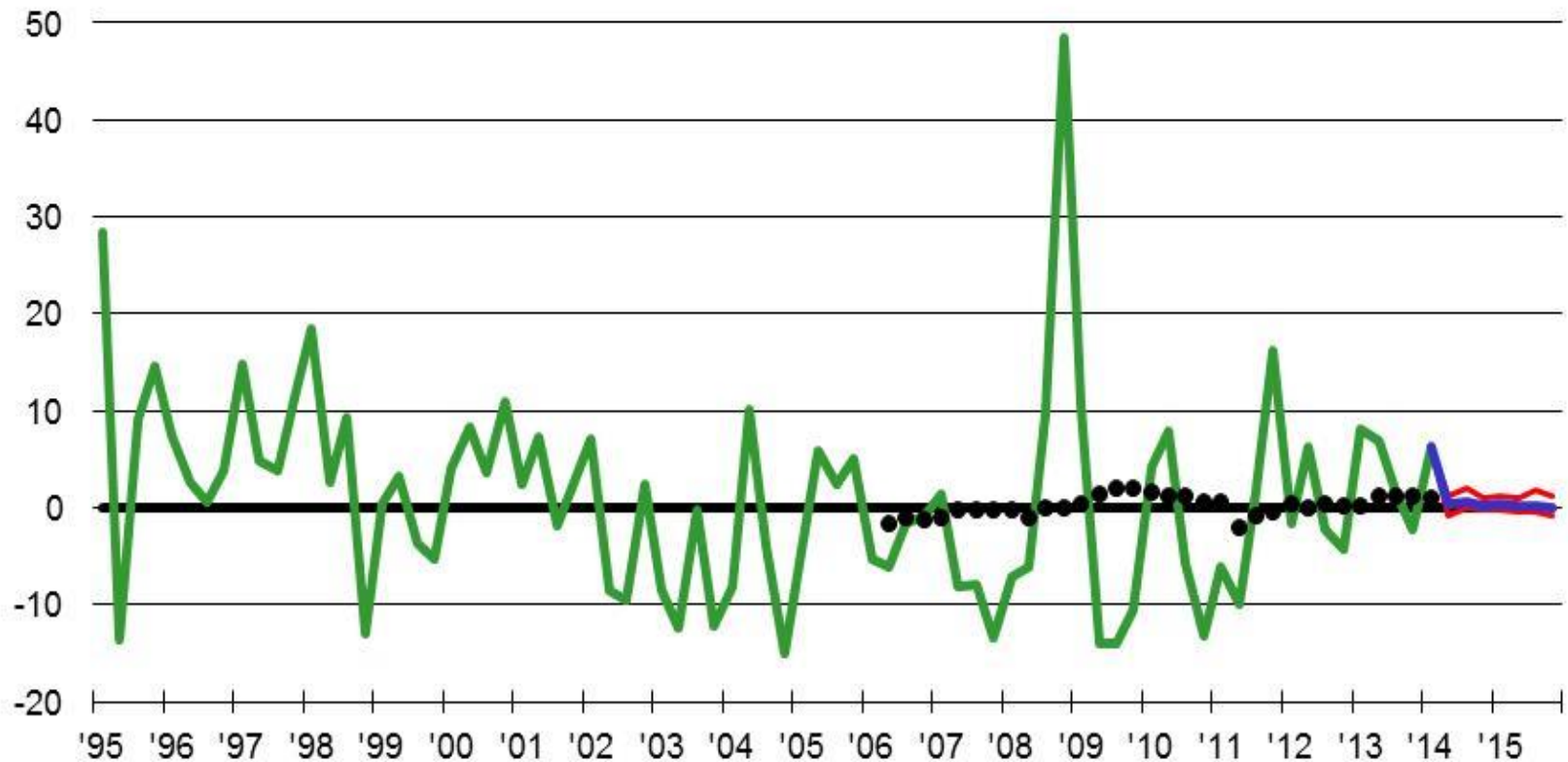
The trade deficit is expected to edge higher over the forecast horizon



Following a strong gain in the first quarter, the dollar is forecast to remain relatively flat through the end of next year

J.P. Morgan trade weighted dollar

percent change, annual rate



Summary

- **The economy is forecast to rise at a pace around potential in 2014 and somewhat above trend in 2015**
- **The unemployment rate is expected to gradually improve falling to 6.3% at the end of this year and 5.9% at the end of next year**
- **Inflation is expected to come in at 2.0% in 2014 and 2015**
- **Light vehicle sales are forecast to be 16.0 million units this year and then improve to 16.4 million in 2015**
- **www.chicagofed.org**