

29TH ANNUAL  
ECONOMIC  
OUTLOOK  
SYMPOSIUM



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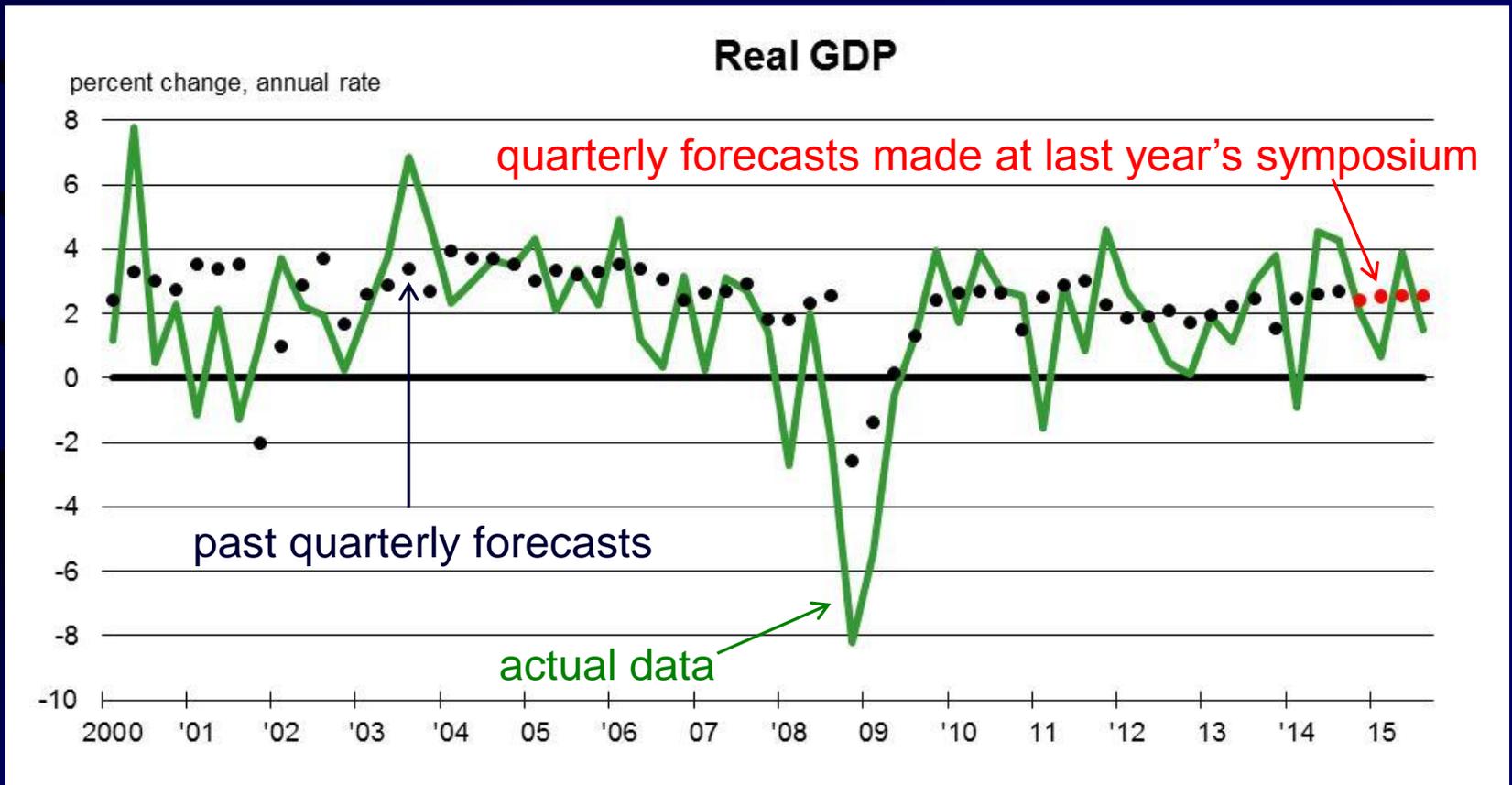
# Consensus Outlook for 2016

**William Strauss**

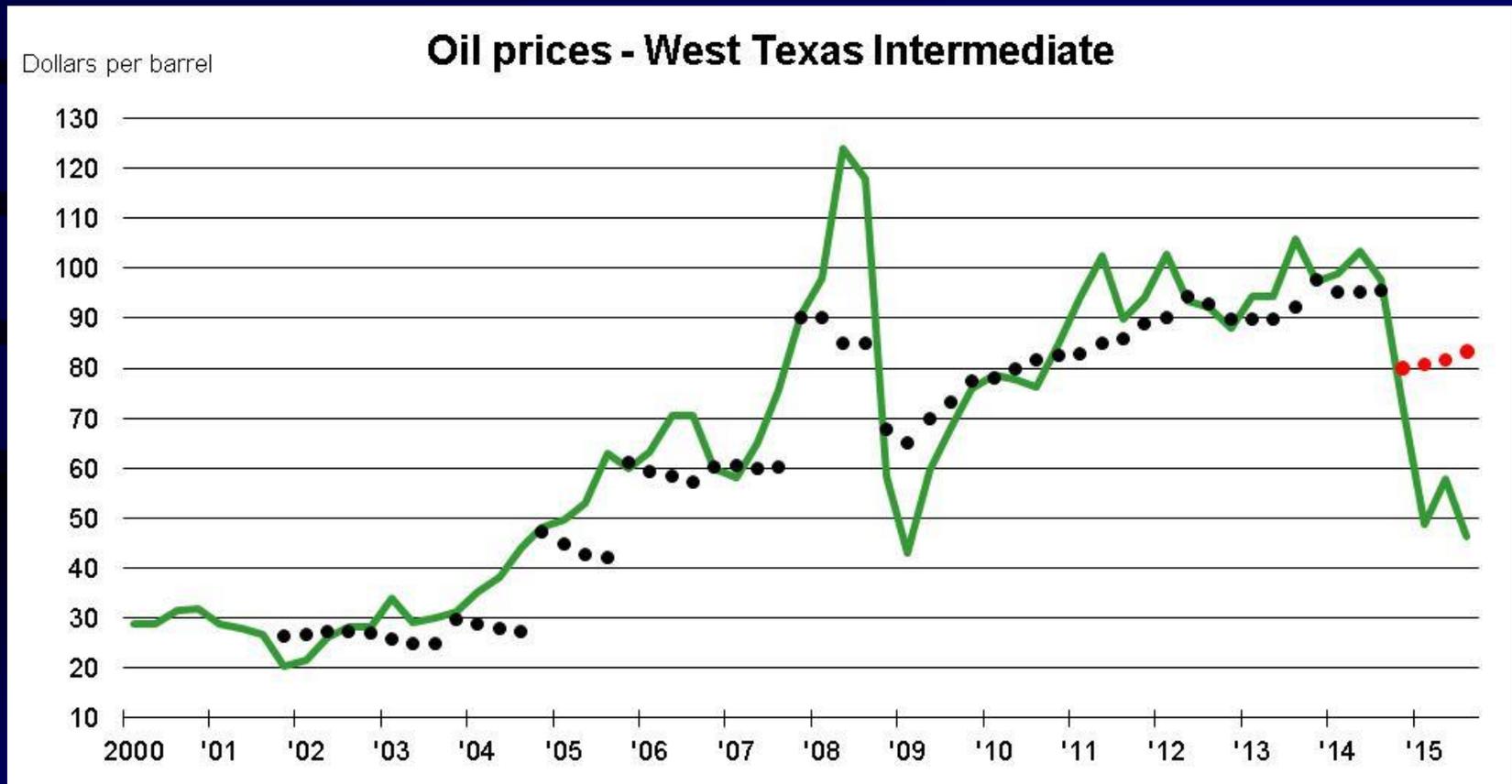
Senior Economist and Economic Advisor  
Federal Reserve Bank of Chicago

# Review of past performance

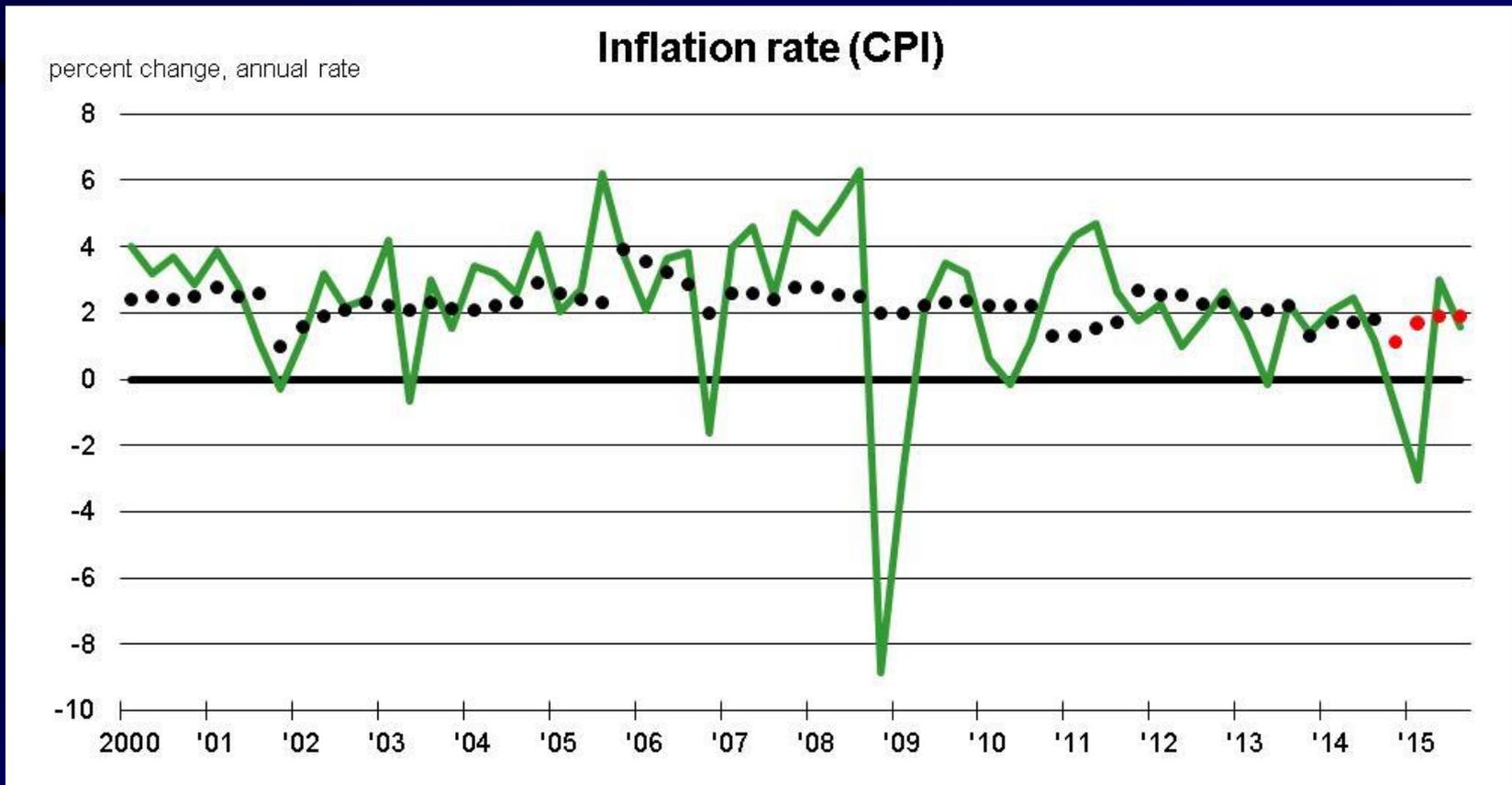
# Although more volatile, the growth in real GDP was close to the forecast



**Oil prices were expected to increase during 2015, but instead collapsed below \$60 early this year**



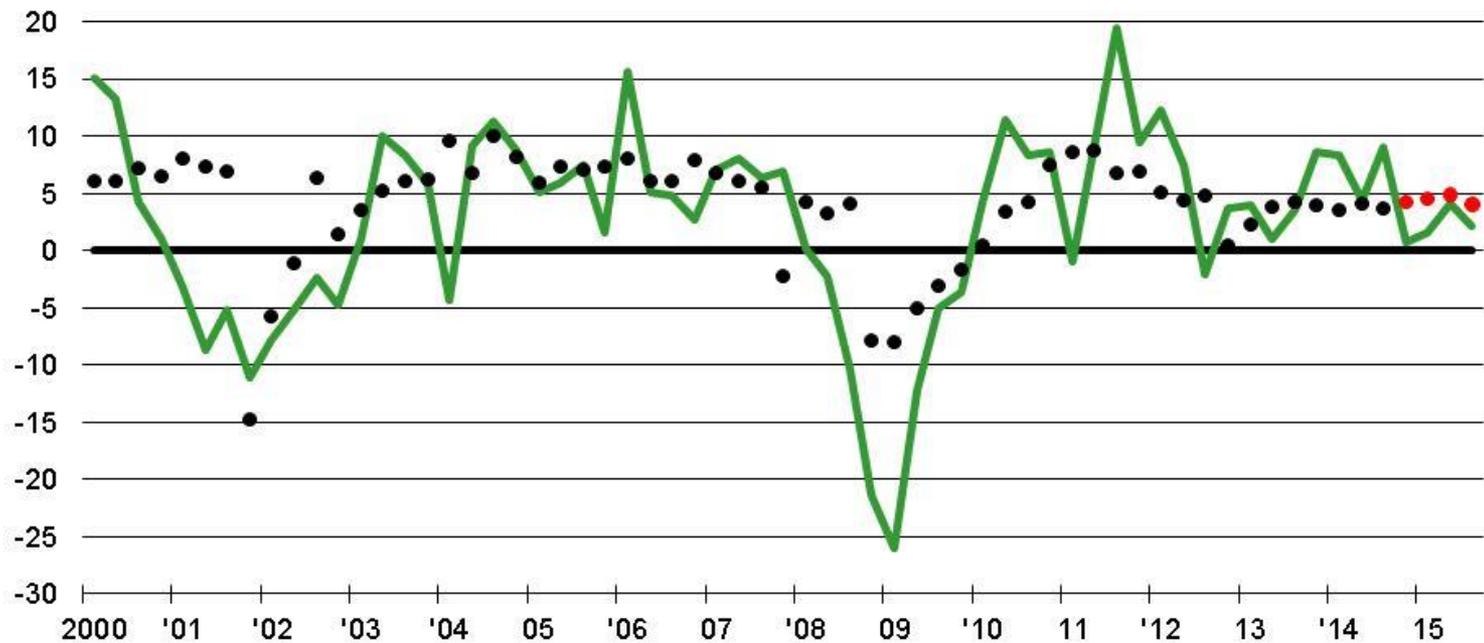
**This led to a big miss on inflation early in the forecast**



**In part the cuts in the energy sector led to a smaller increase in business fixed investment than predicted**

### Business fixed investment

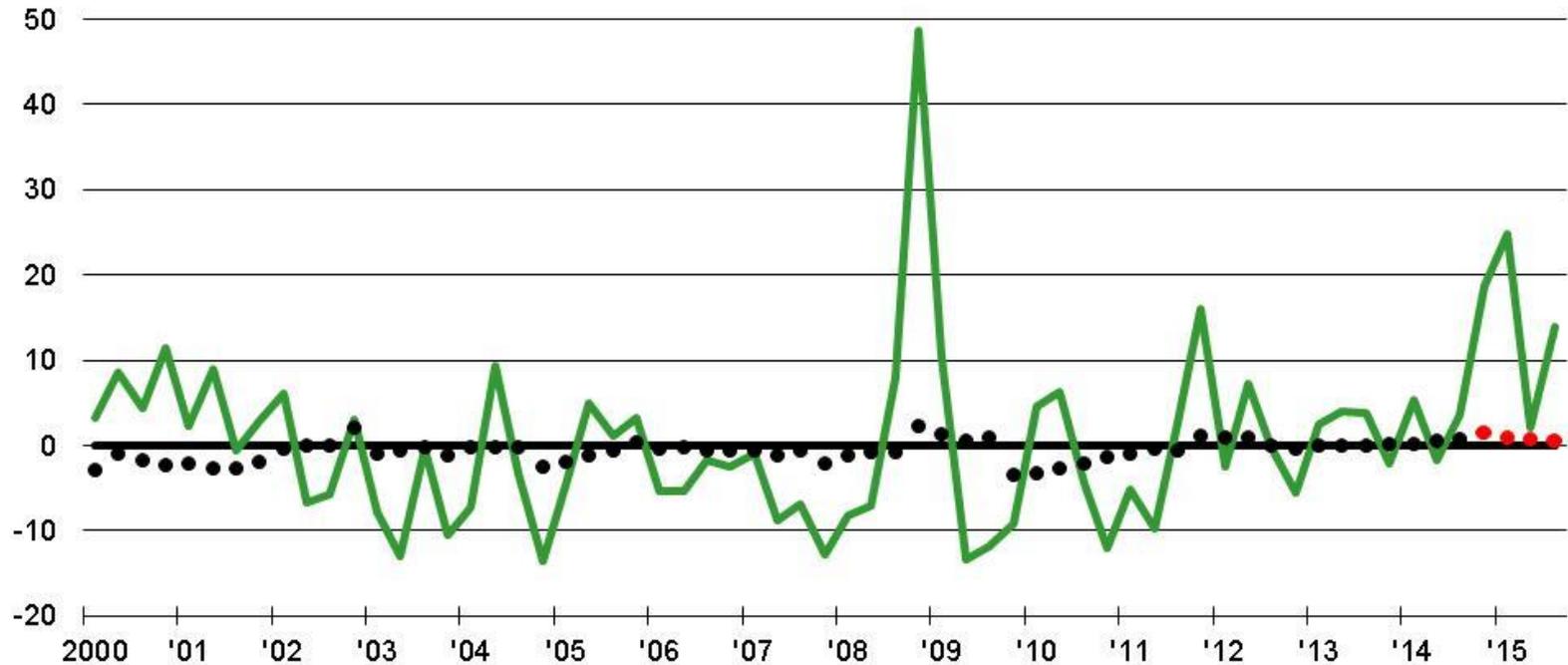
percent change, annual rate



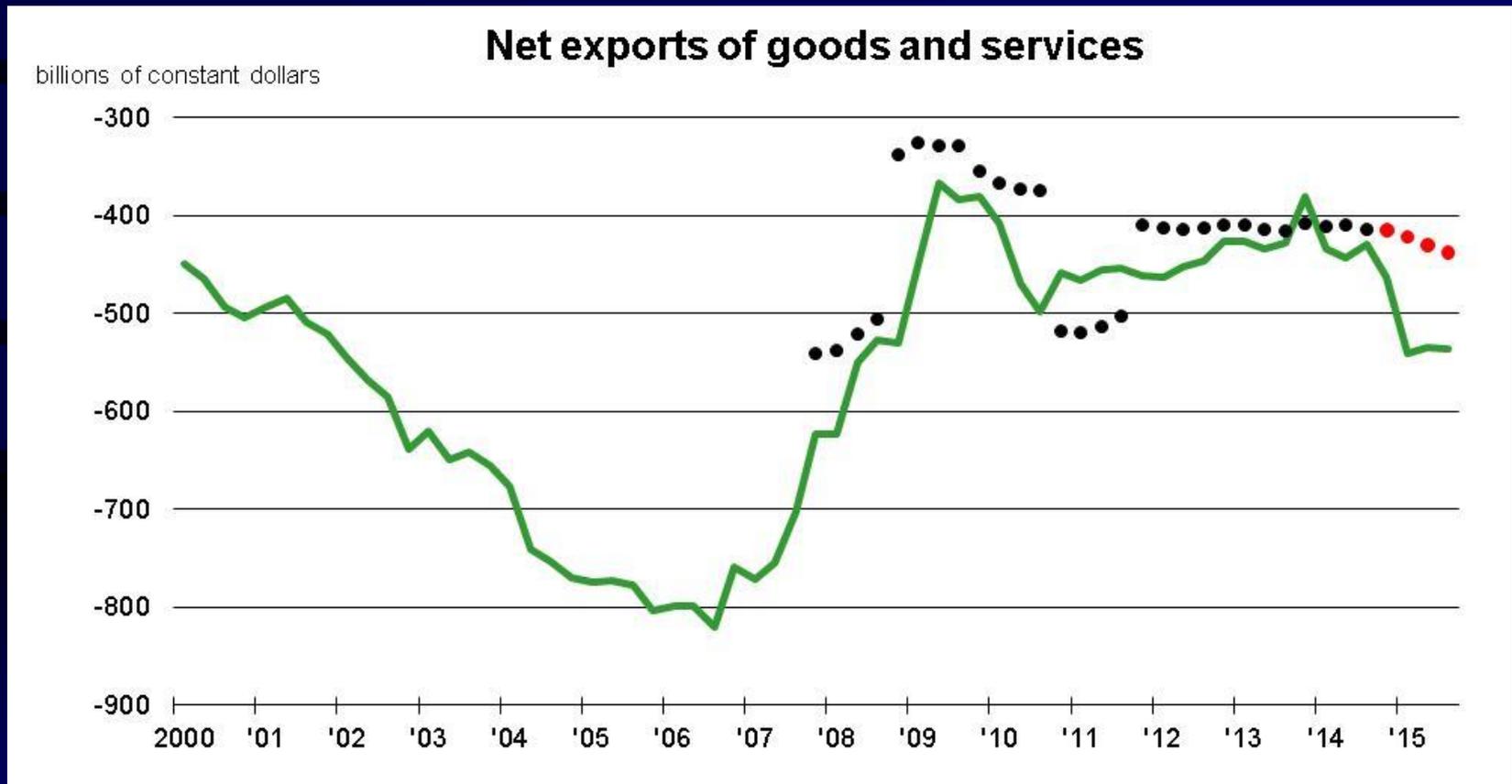
**The dollar was predicted to edge higher,  
but it surged over the past year**

### J.P. Morgan trade weighted dollar

percent change, annual rate



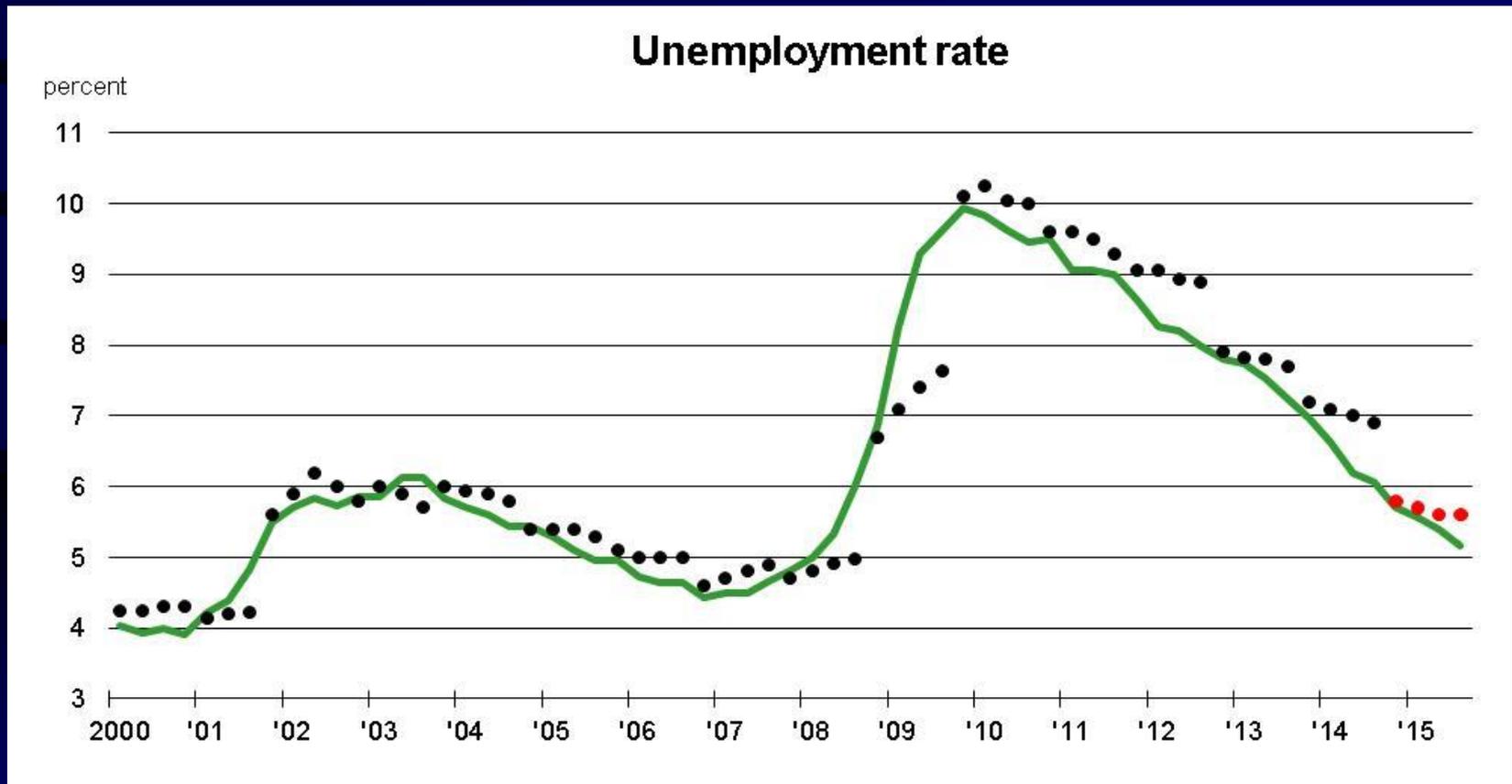
**This led to a balance of trade deficit that was significantly larger than forecast**



# The strong dollar in part contributed to a weaker path for industrial production growth than was forecast



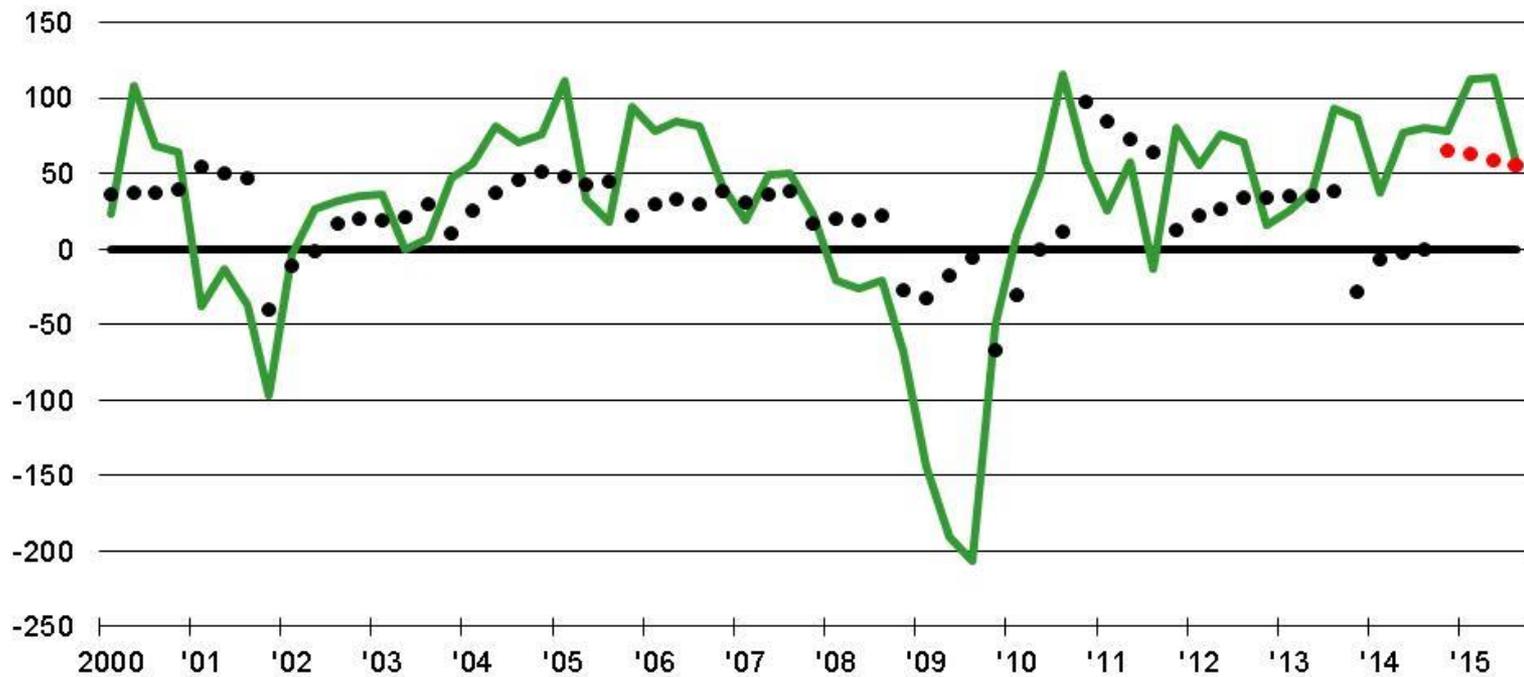
# Once again, the unemployment rate fell at a slightly faster pace than predicted



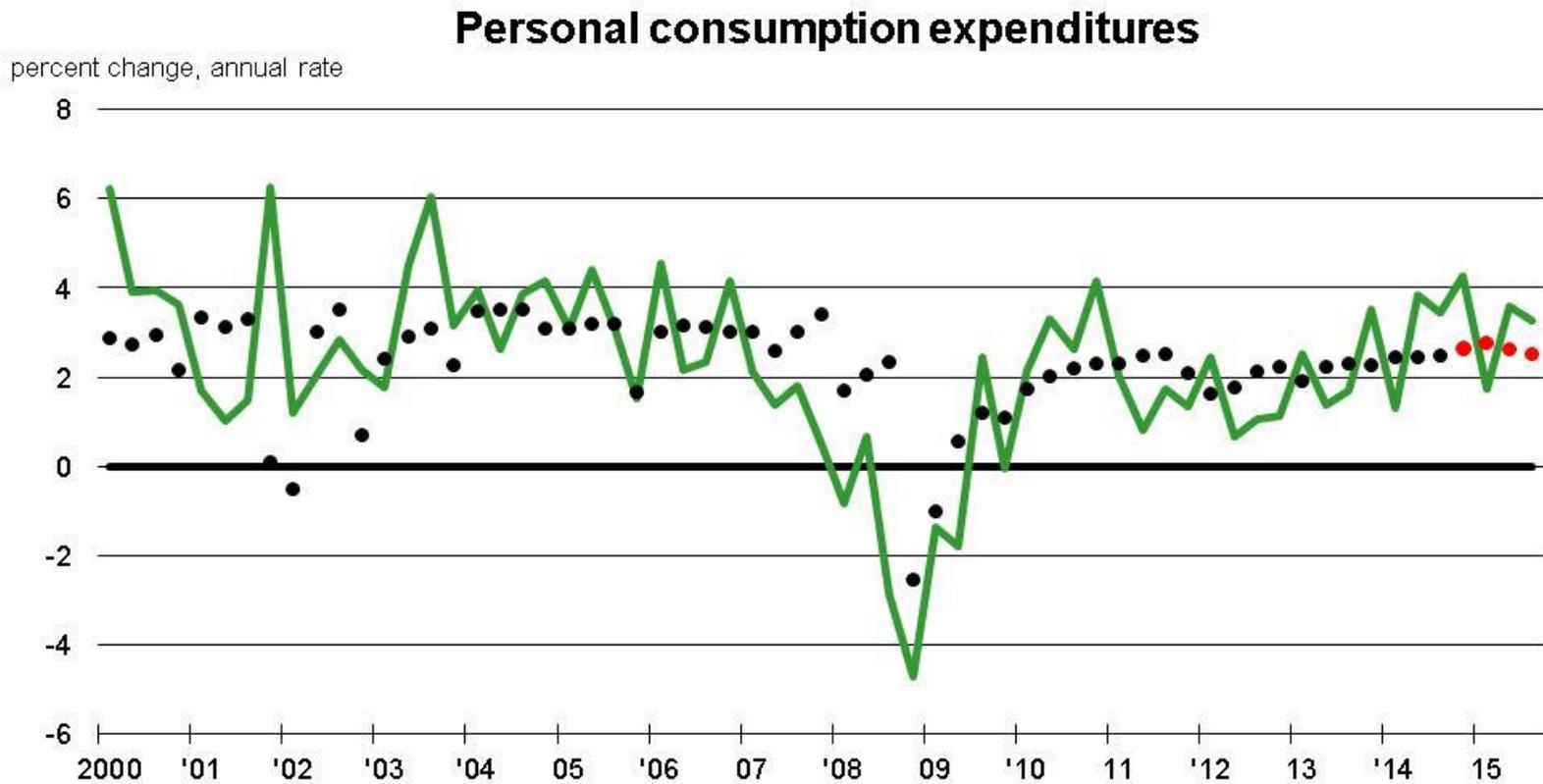
# Inventories built up at a faster rate than anticipated

## Change in private inventories

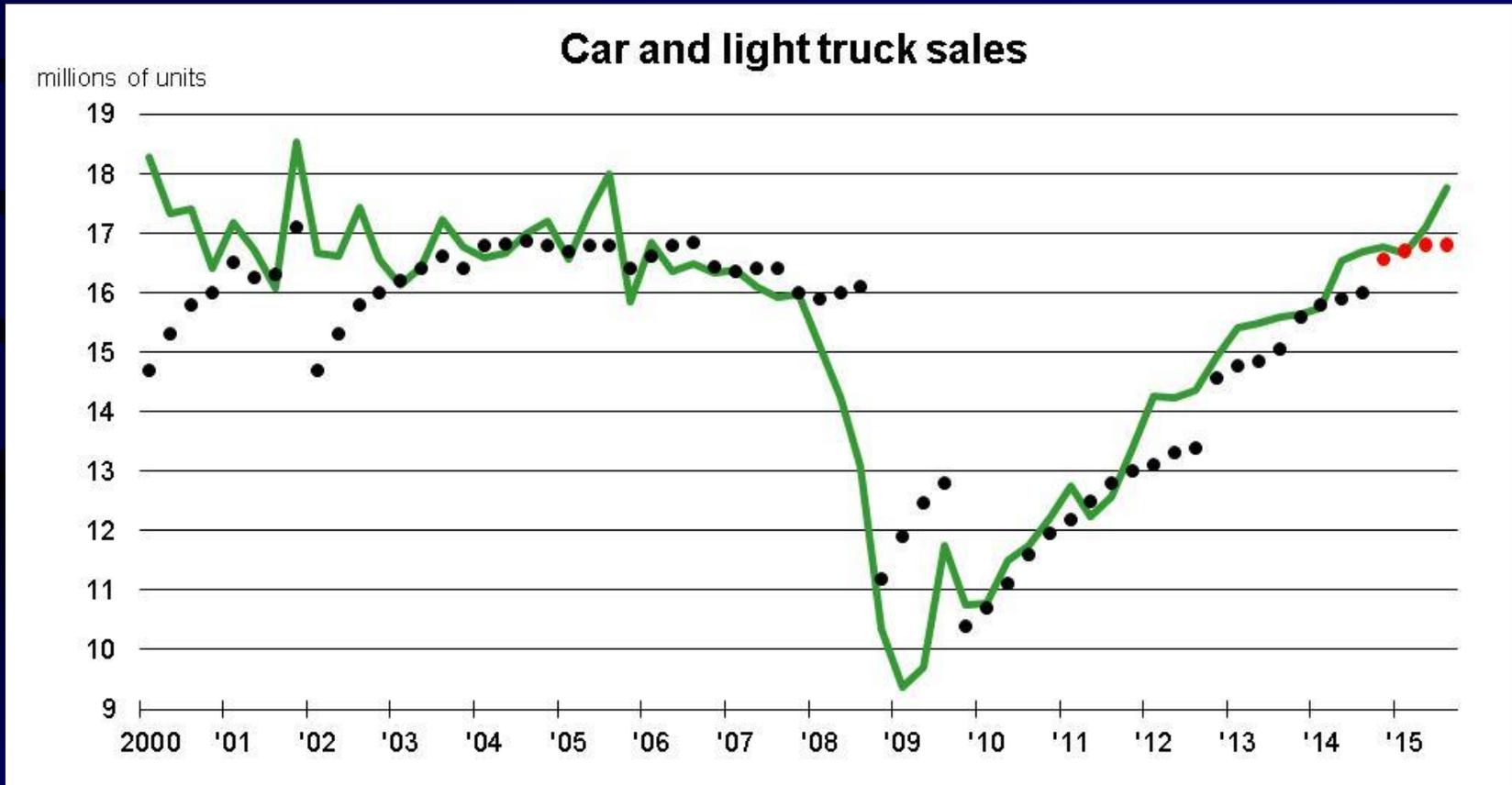
billions of constant dollars



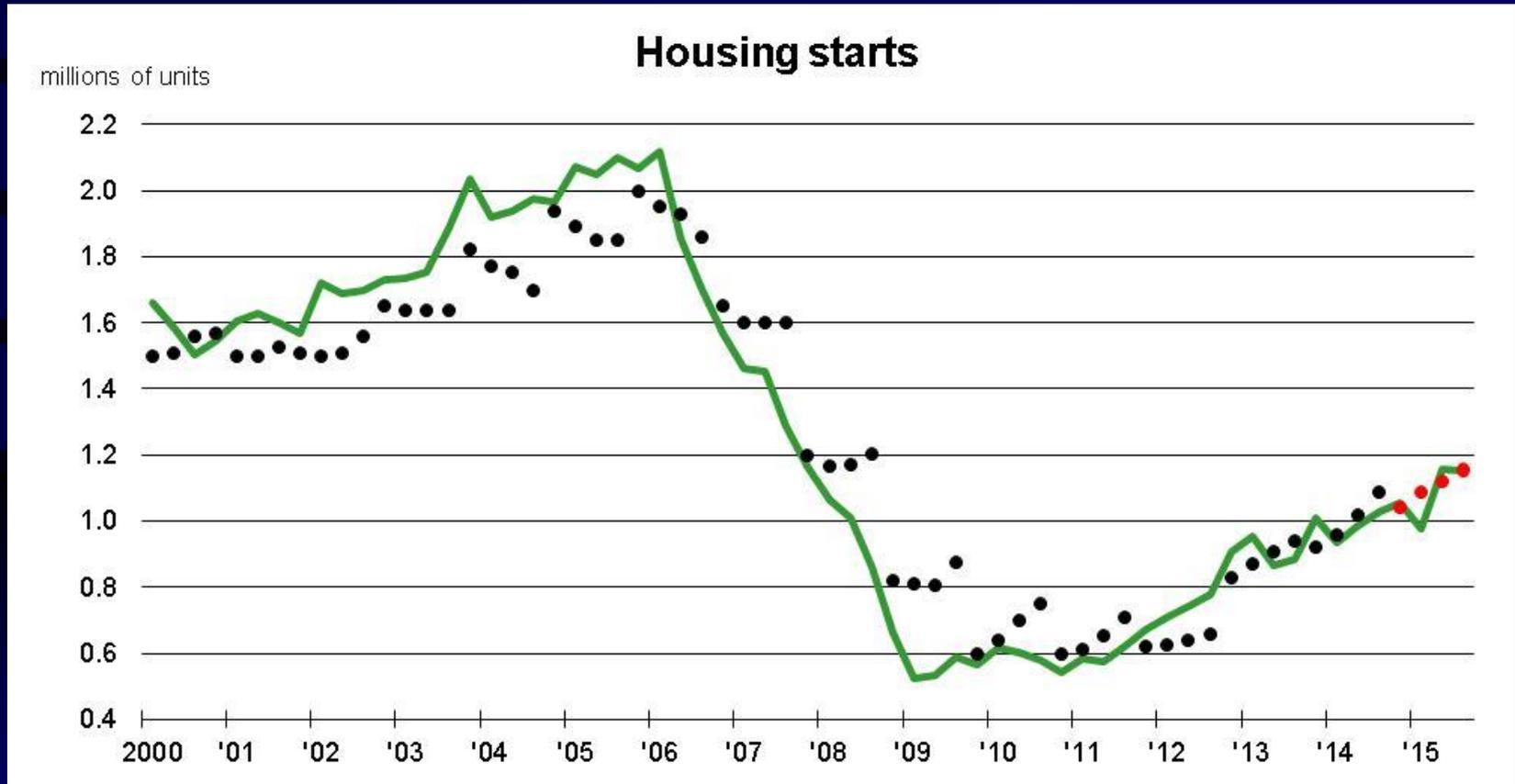
# Consumer spending was a bit stronger than what was expected



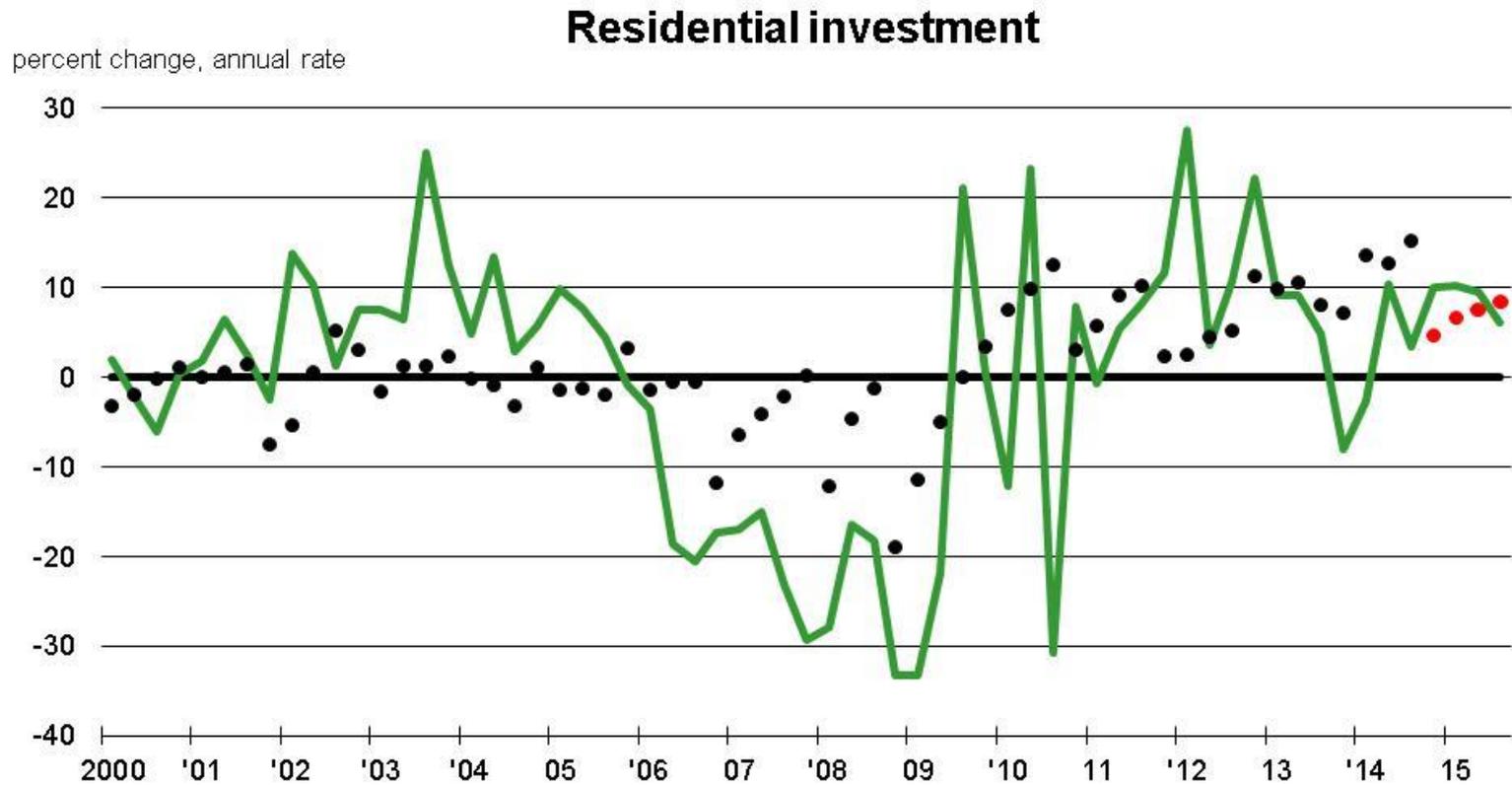
**Light vehicle sales accounts for a good deal of this, as sales were once again stronger than predicted**



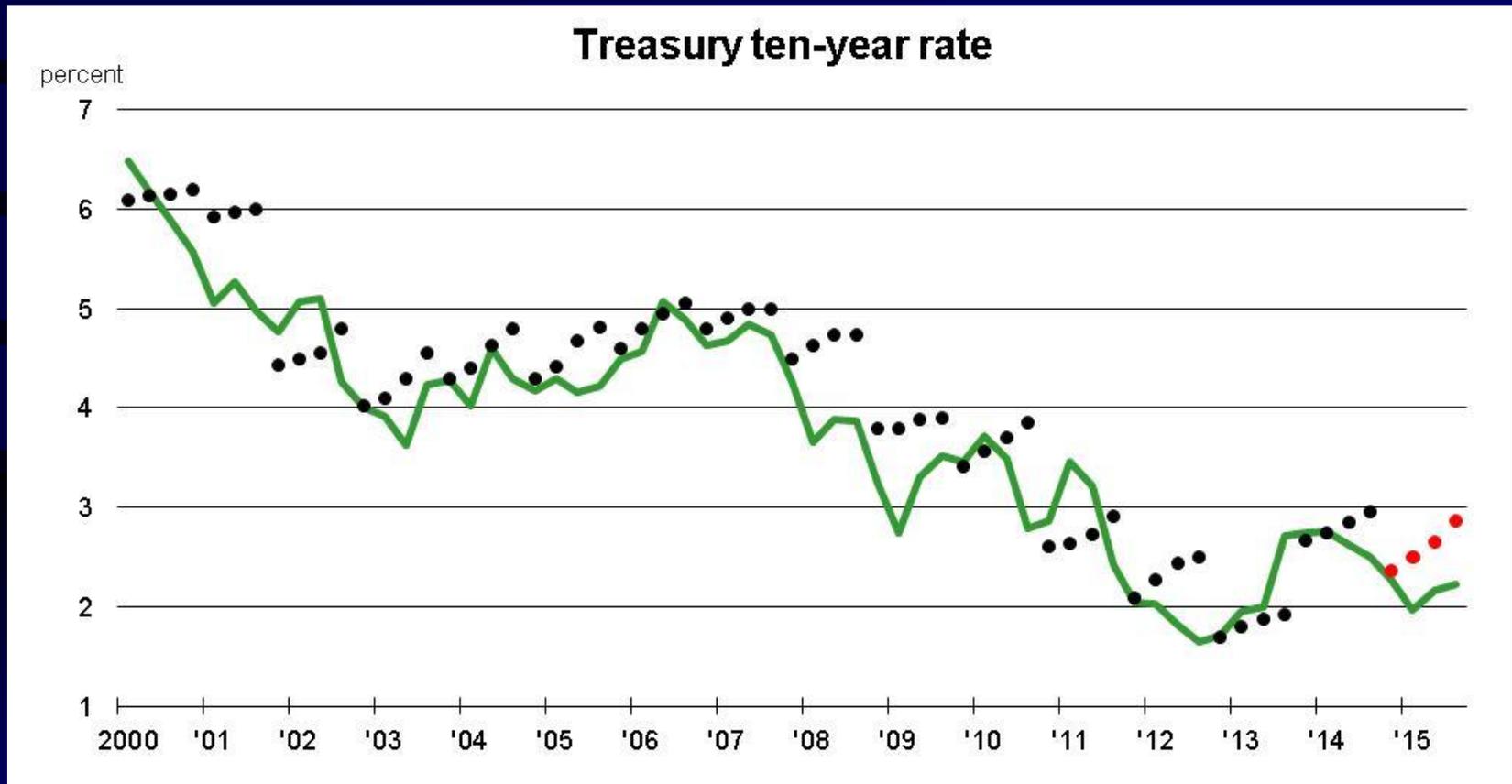
# Housing starts were fairly accurately forecast



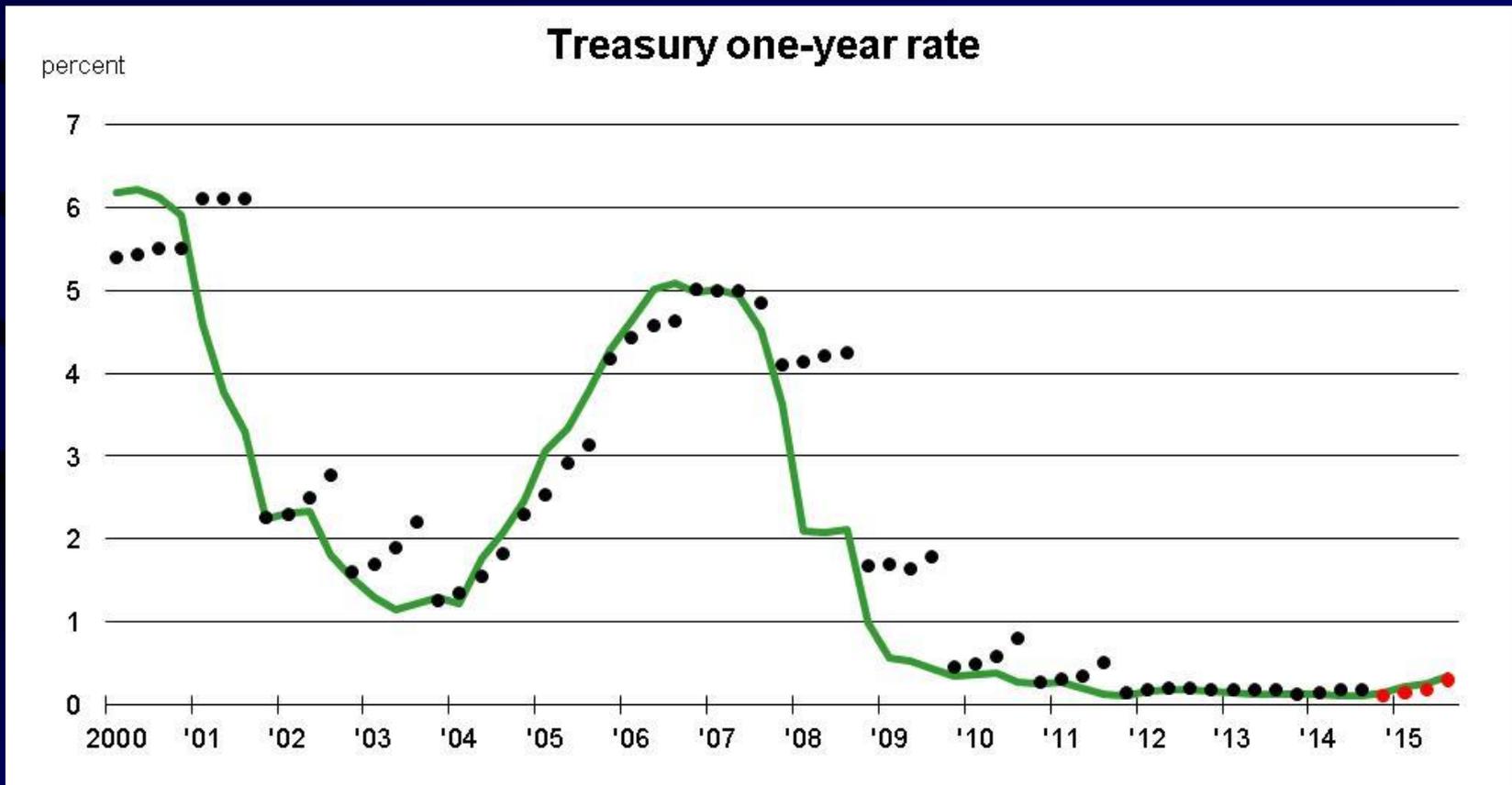
# Residential investment increased at a faster pace than anticipated



Perhaps in part by a lower actual path for the ten-year interest rate than was expected

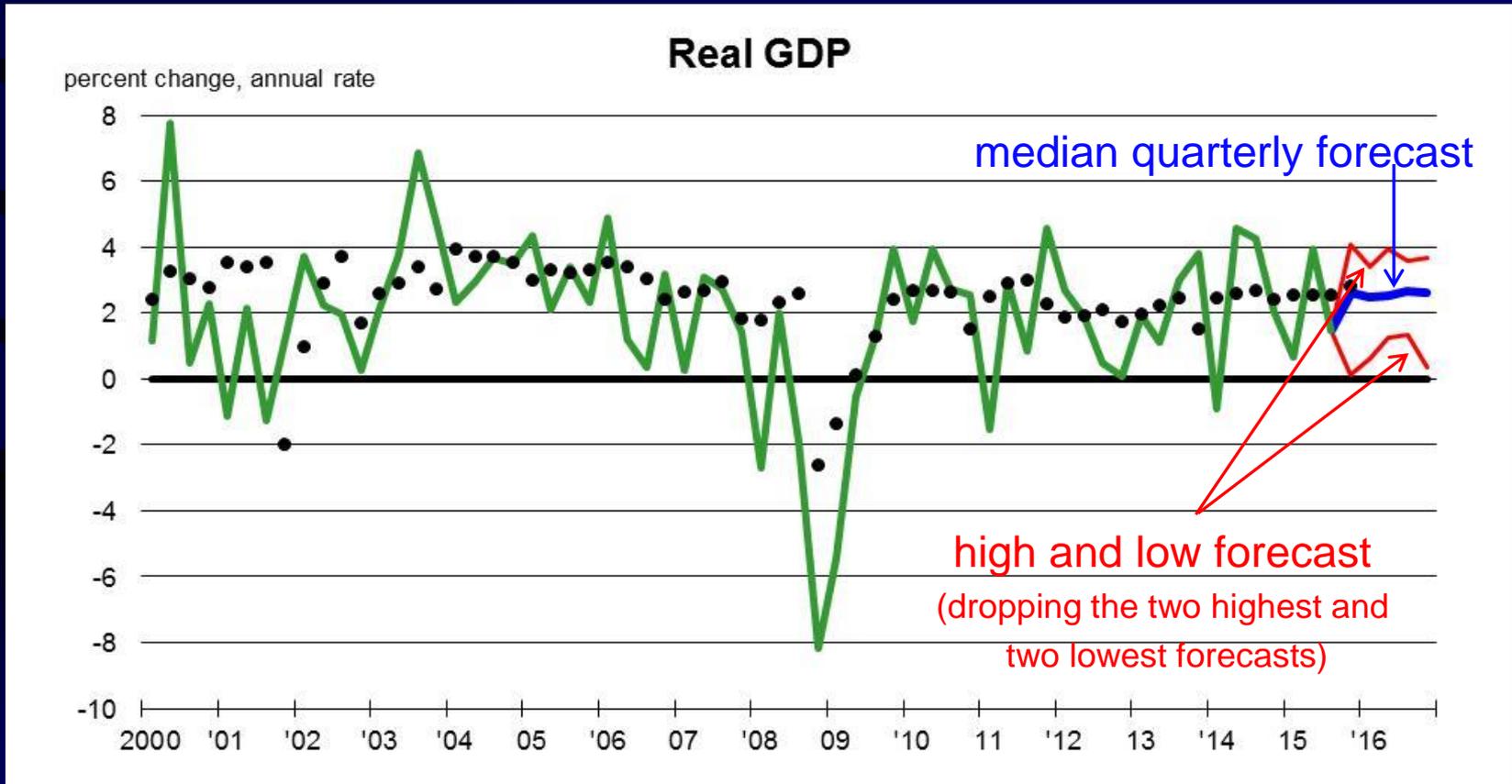


# Short-term interest rates were accurately forecast to remain low



# Forecast for 2016

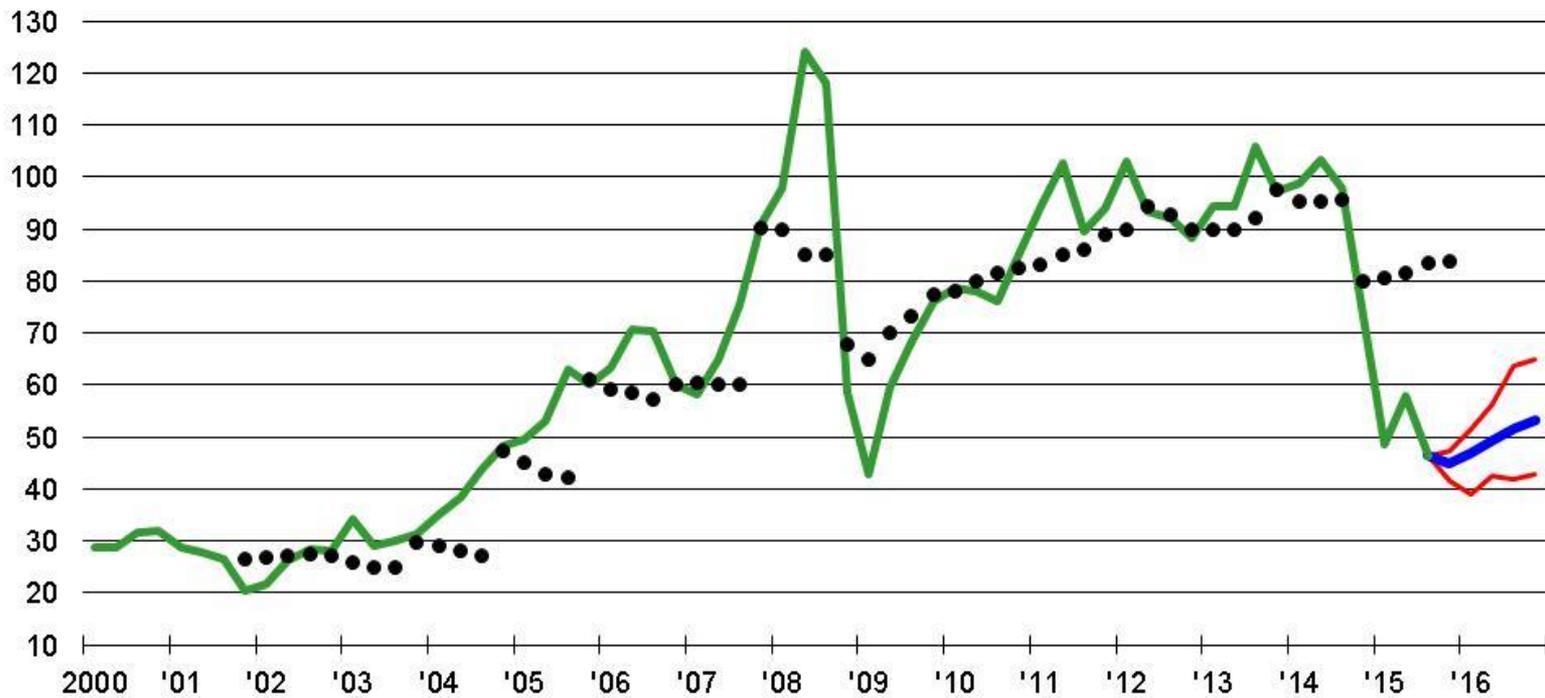
# Real GDP growth is expected to increase by 2.6% next year



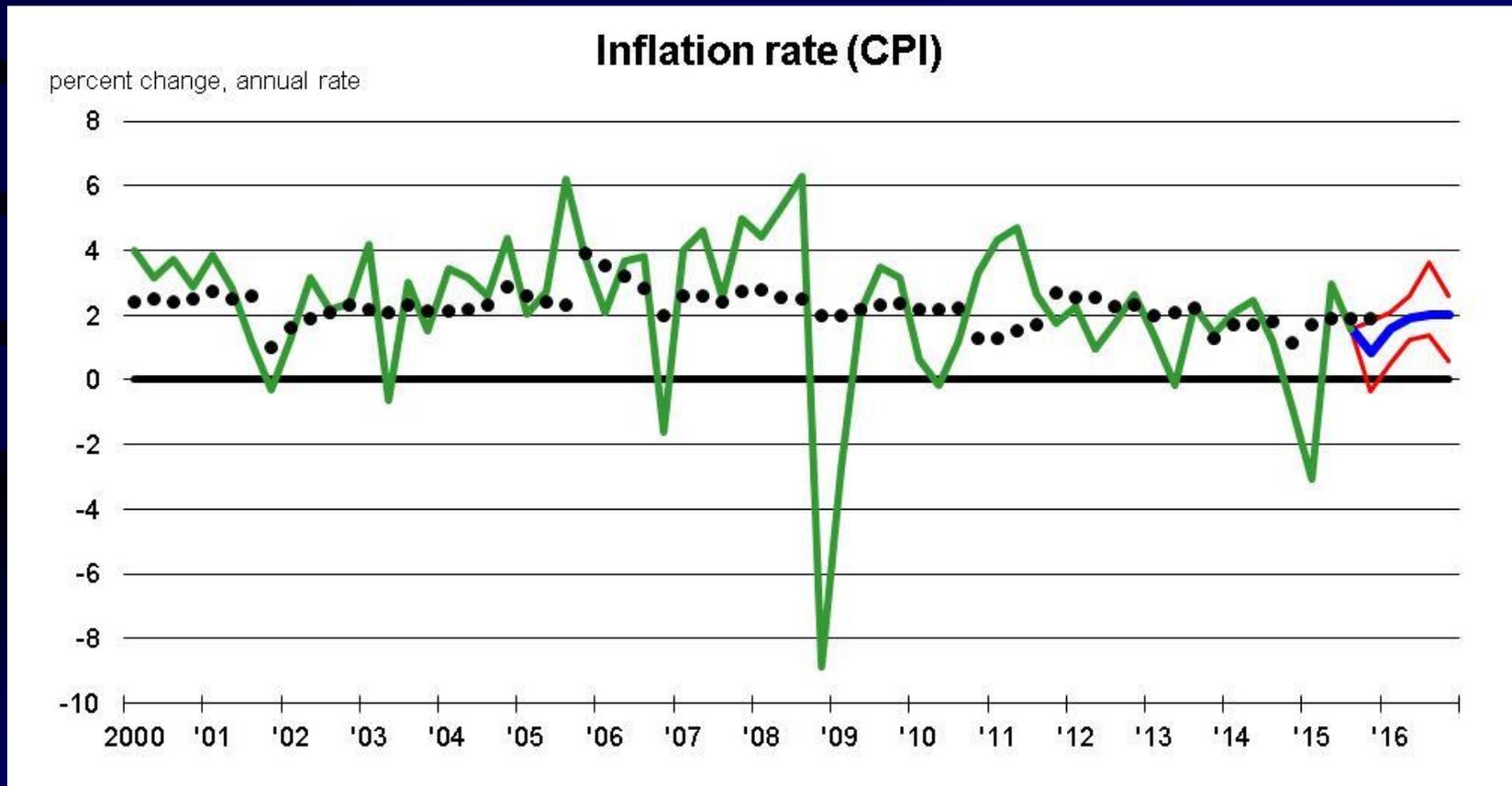
**Oil prices are predicted to remain low, averaging \$53.25 per barrel by the end of 2016**

**Oil prices - West Texas Intermediate**

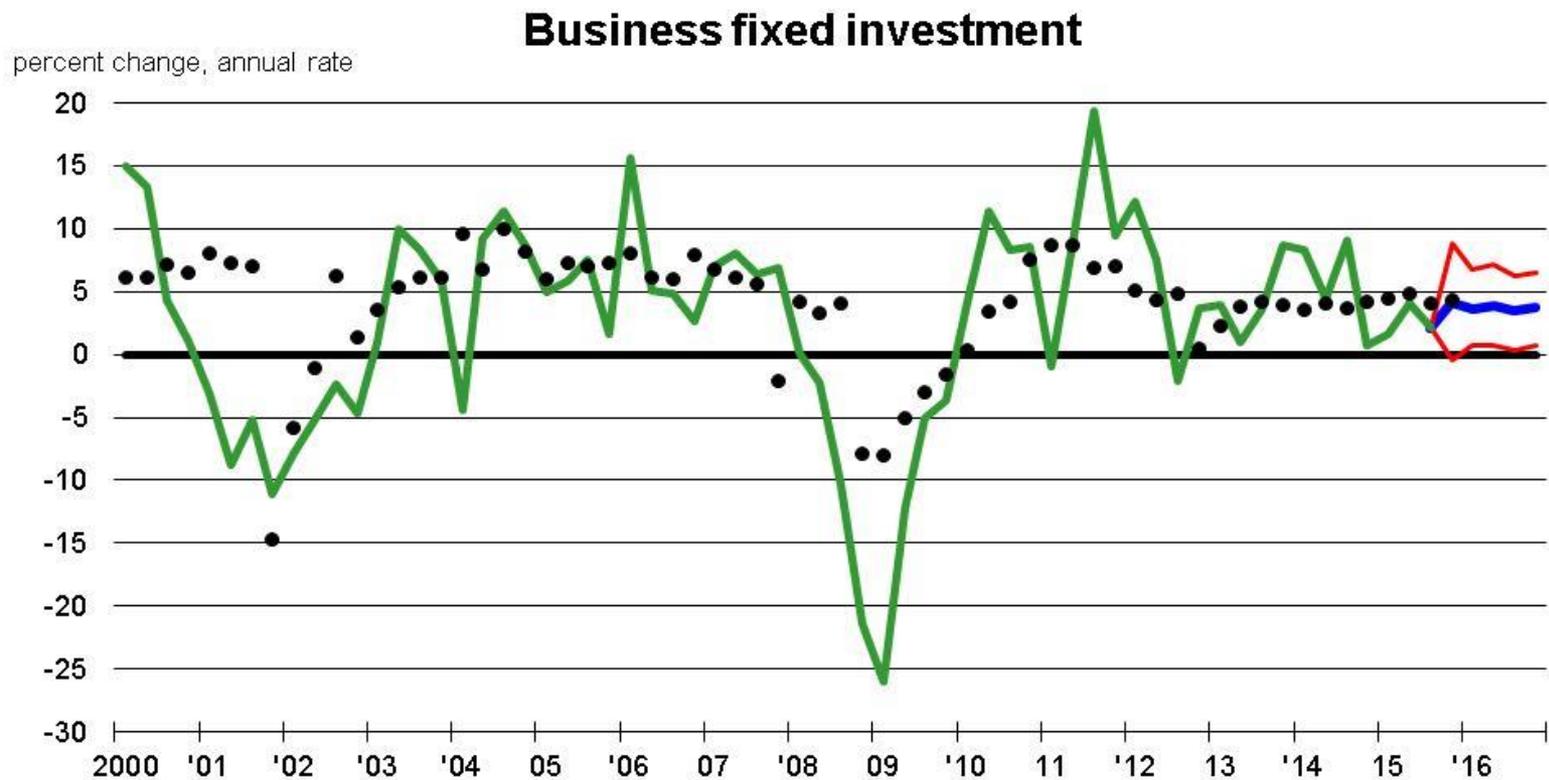
Dollars per barrel



# Inflation is forecast to rise 1.9% next year



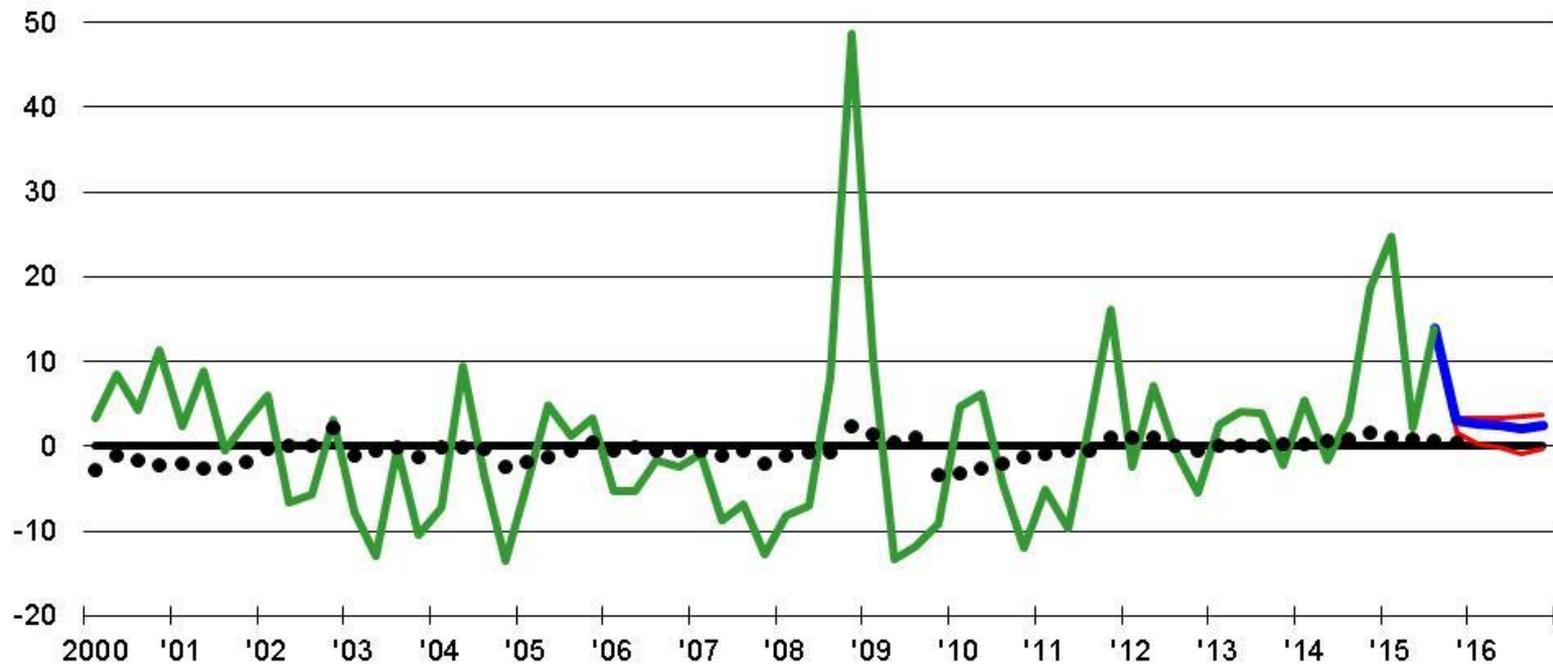
# Business fixed investment growth is forecast to increase to 3.5% over the coming year



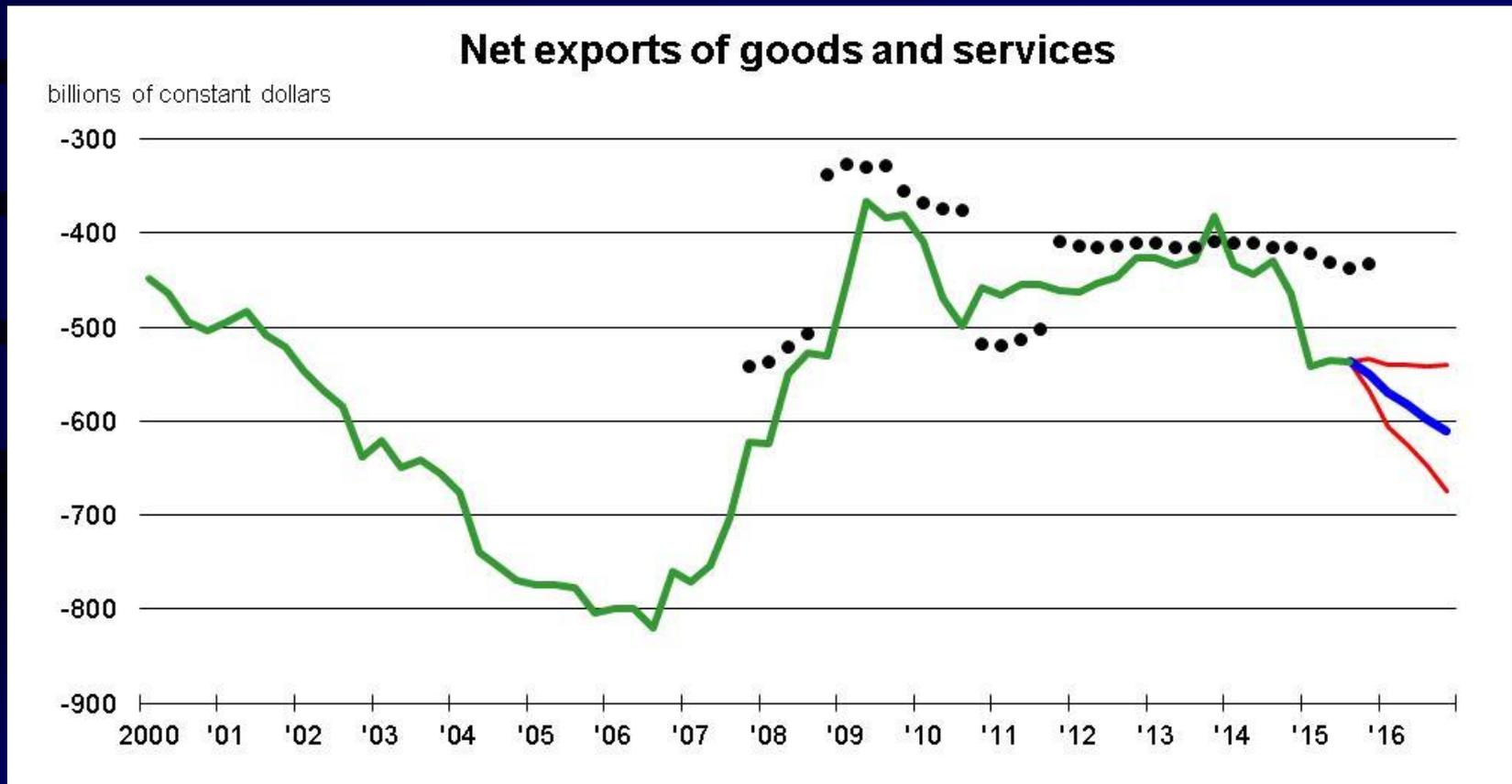
# The dollar is forecast to increase a further 2.5% in 2016

## J.P. Morgan trade weighted dollar

percent change, annual rate



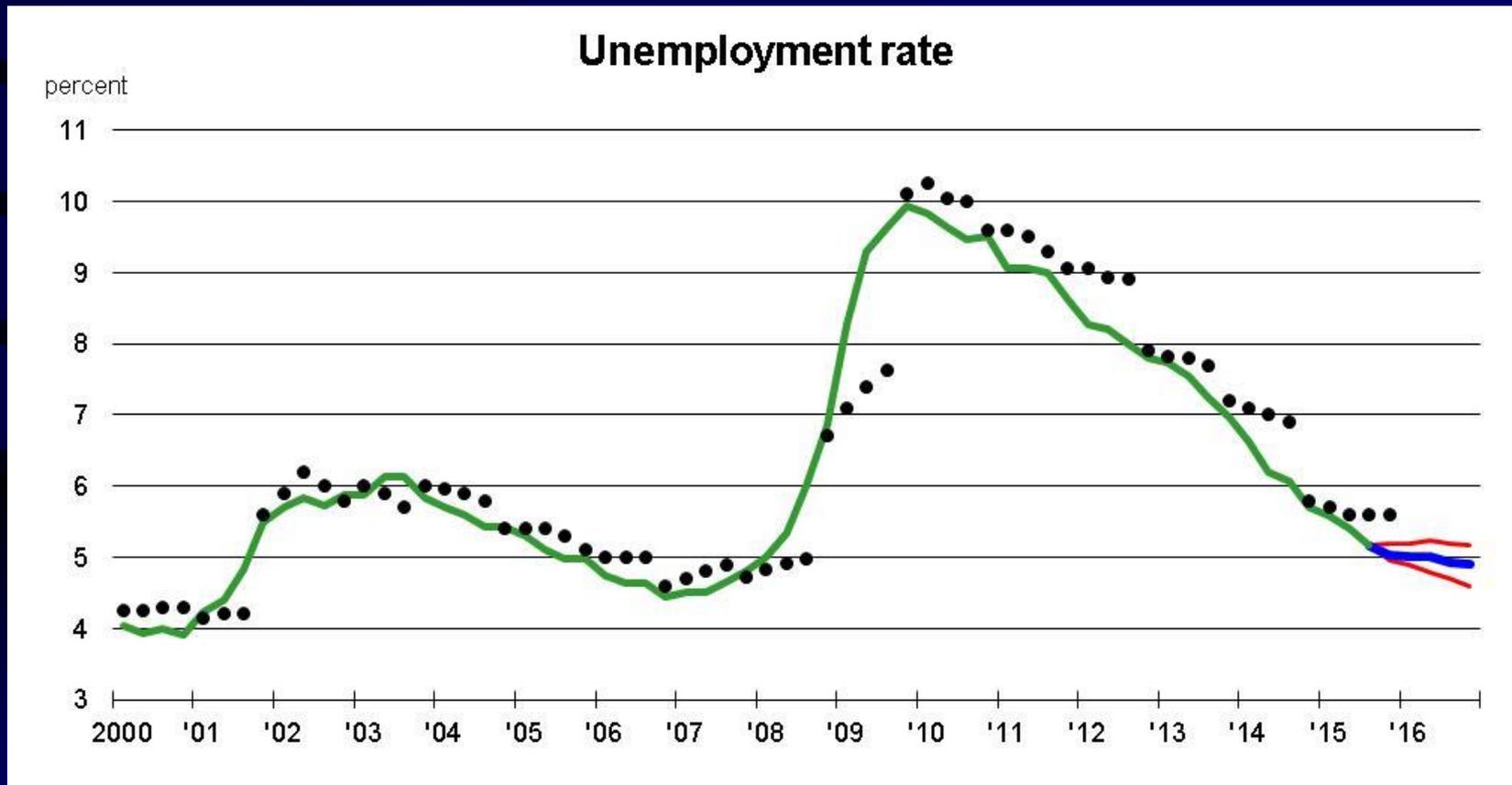
# The trade deficit is anticipated to continue to increase



# Industrial output is forecast to increase at a moderate 2.0% next year



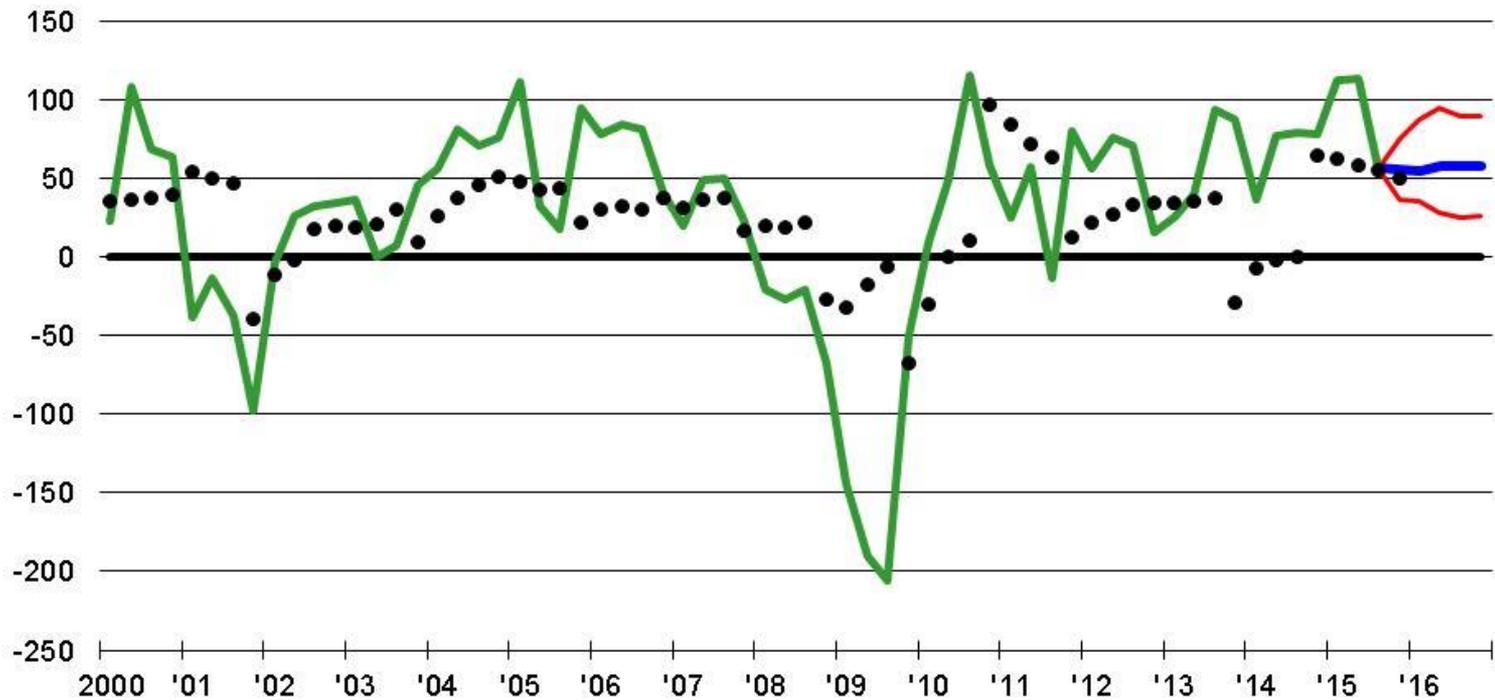
**The unemployment rate is projected to edge lower, reaching 4.9% in the final quarter of next year**



# Inventories are anticipated to continue to rise, but at a slower pace in 2016

## Change in private inventories

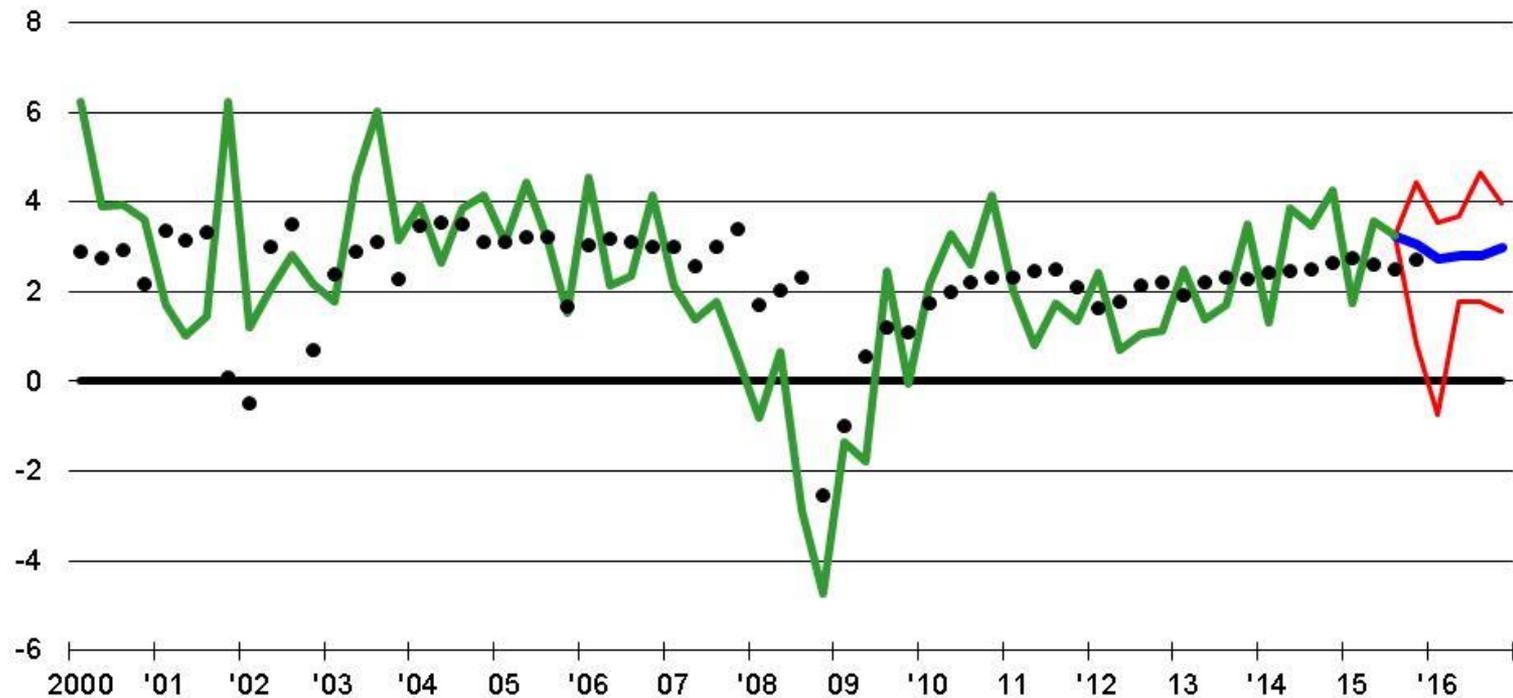
billions of constant dollars



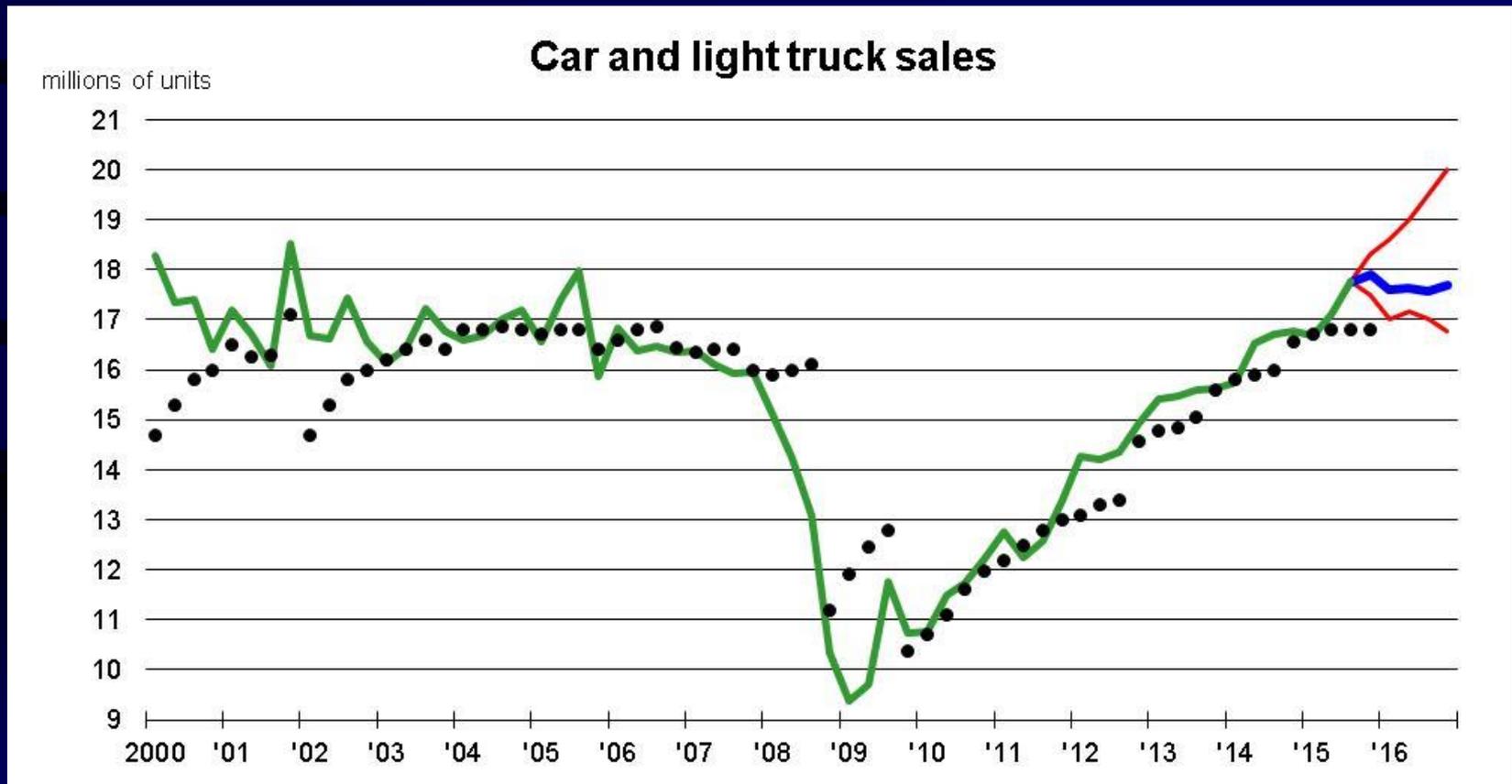
# Consumer spending growth is expected to edge down to 2.7% next year

## Personal consumption expenditures

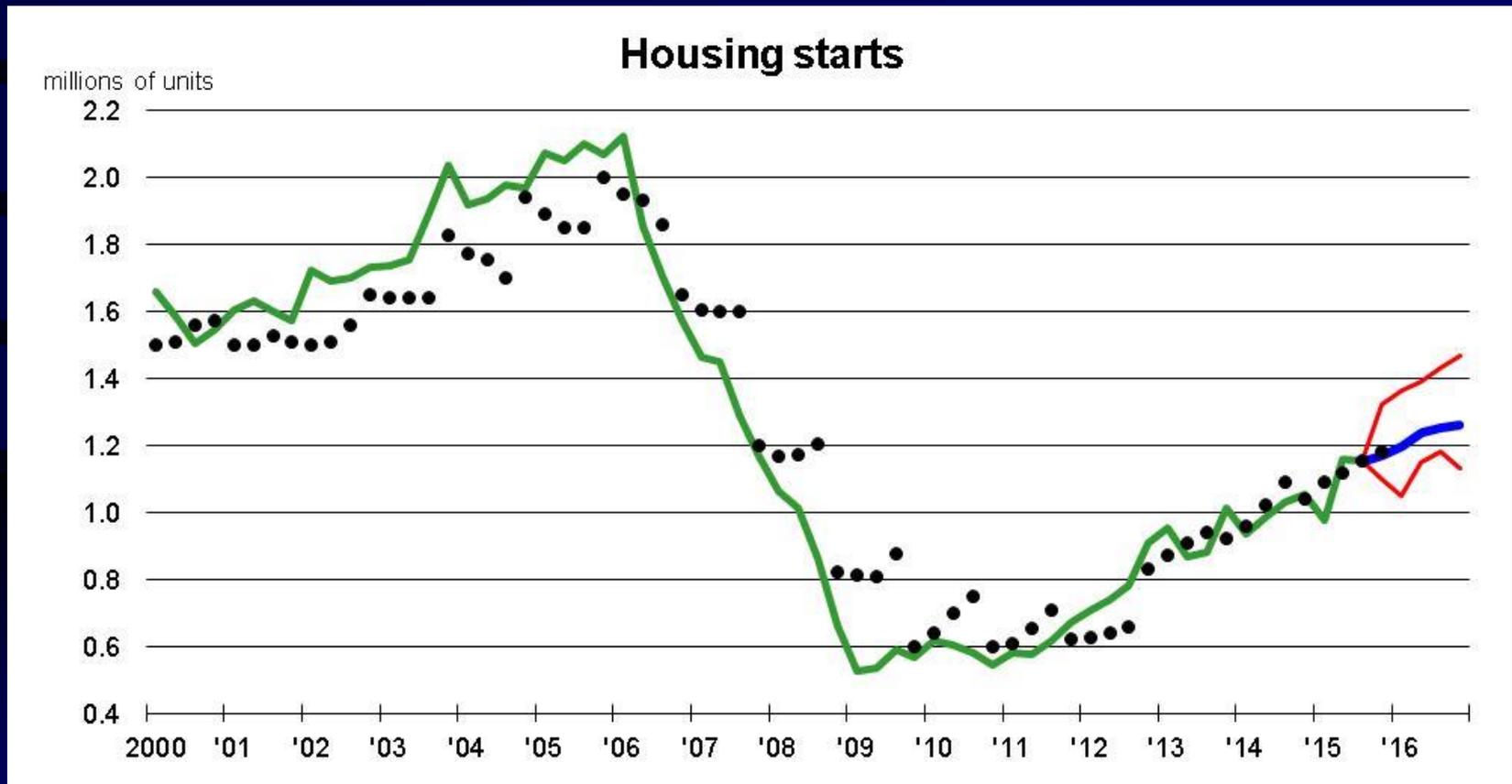
percent change, annual rate



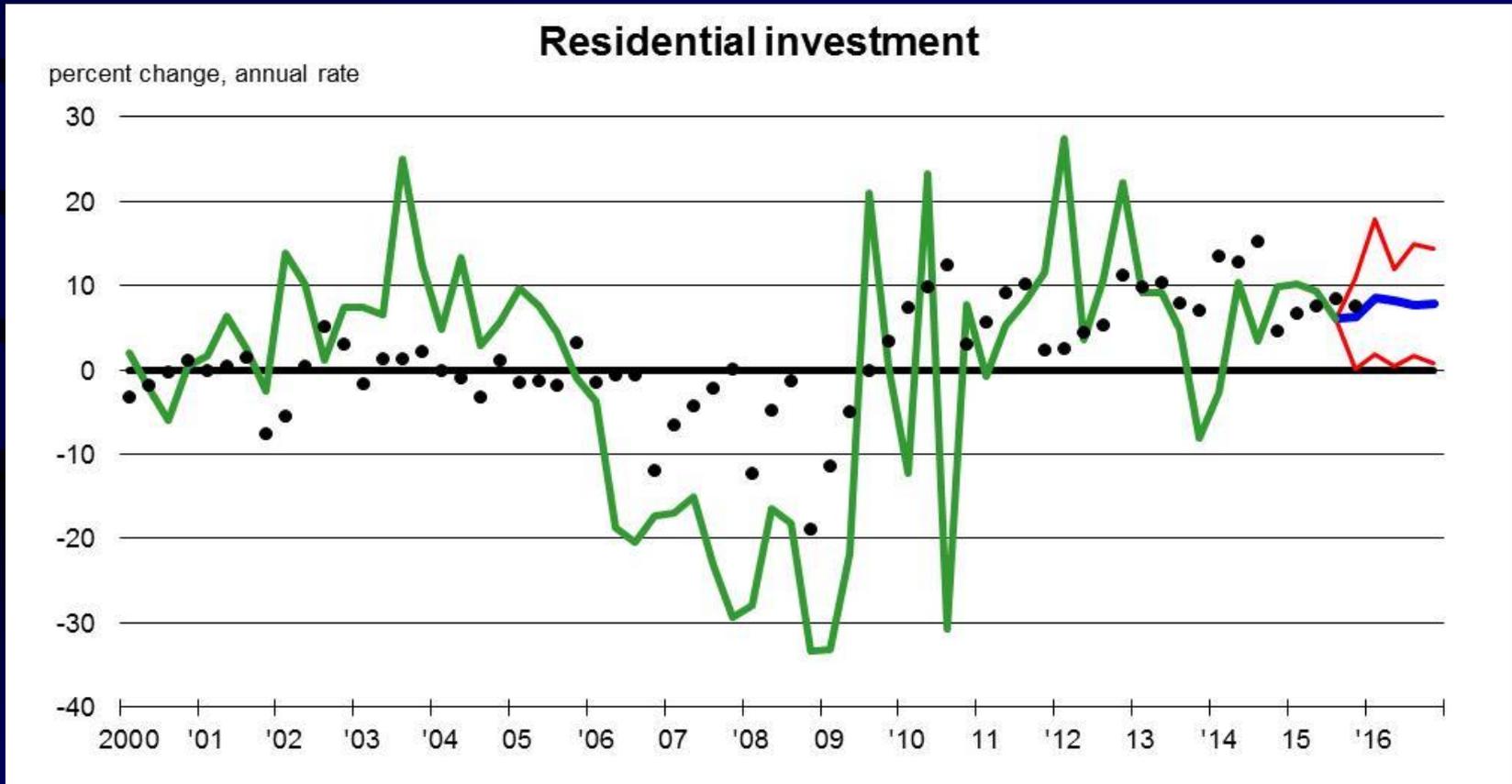
**Vehicle sales are forecast to increase to 17.6 million units in 2016, a 1.3% increase**



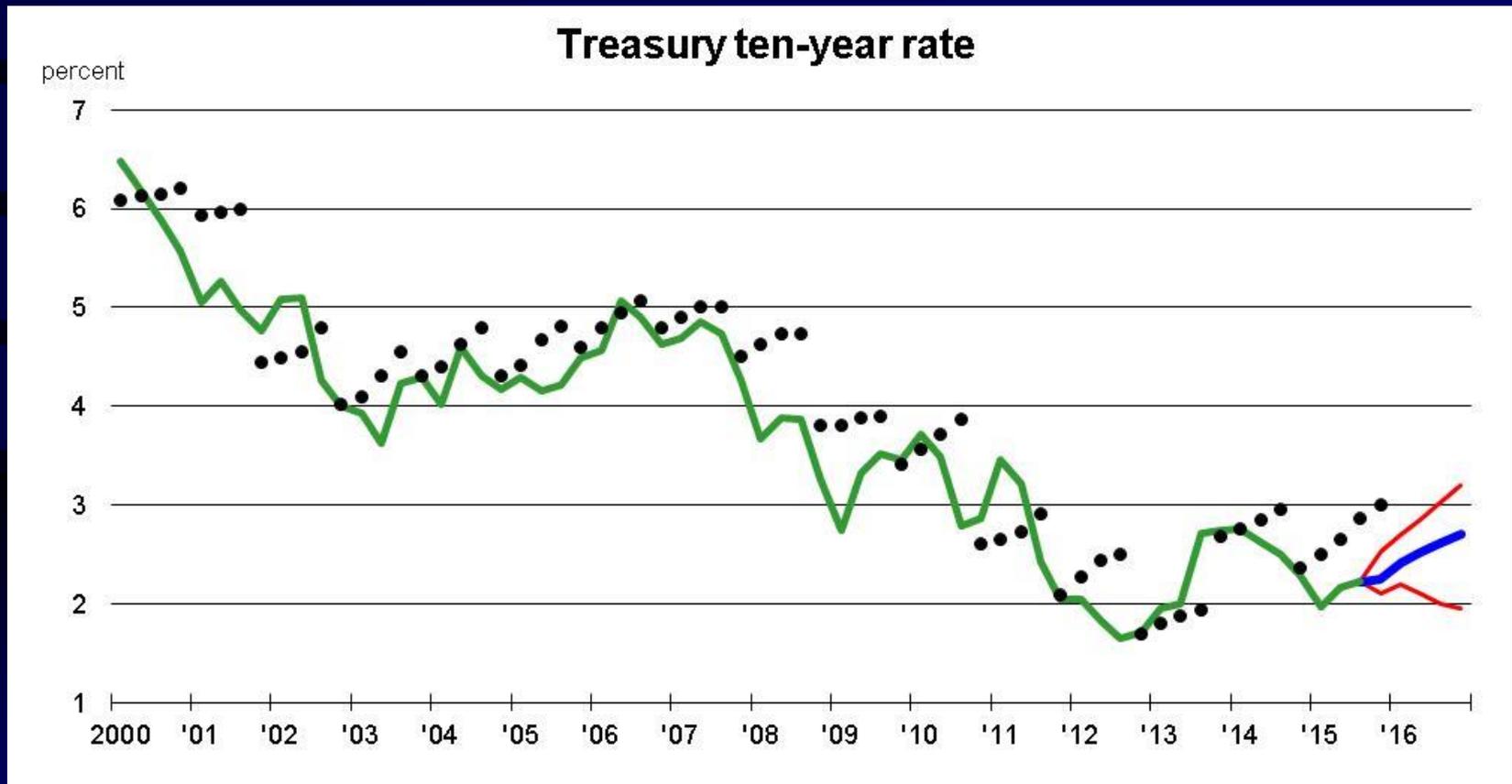
# Housing starts are forecast to continue increasing, rising to 1,244,000 starts in 2016



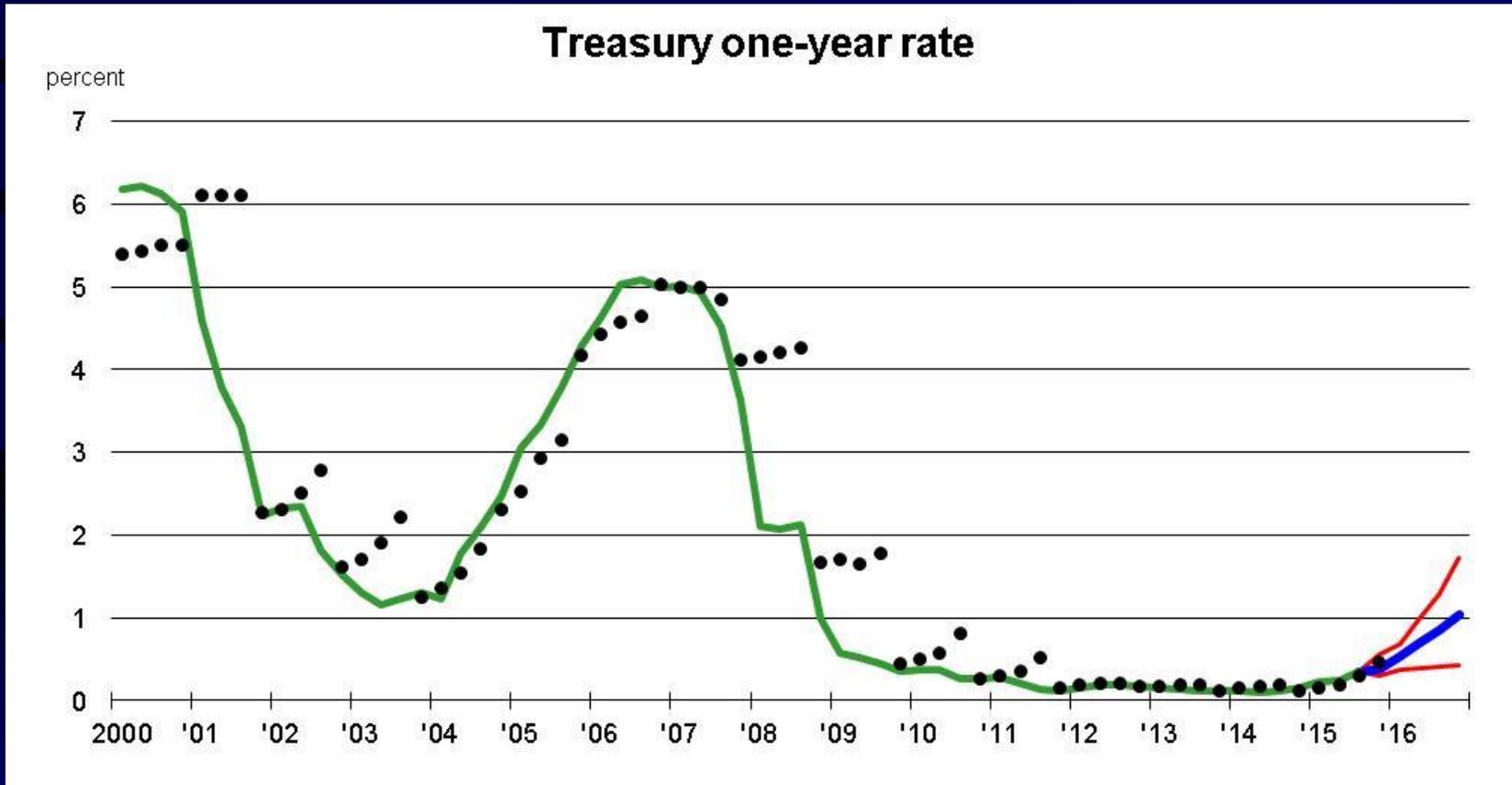
# Residential investment is expected to rise by a strong 7.7% in 2016



# Ten-year interest rates are expected to increase by 45 basis points next year



# Short-term interest rates are predicted to increase by 65 basis points next year



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

	2014	2015	2016
GDP, current dollars*	3.9%	<b>3.3%</b>	<b>4.3%</b>
GDP price index, chain-type*	1.3%	<b>1.2%</b>	<b>1.8%</b>
Real GDP, chained dollars*	2.5%	<b>2.2%</b>	<b>2.6%</b>
Personal consumption expenditures*	3.2%	<b>2.9%</b>	<b>2.7%</b>
Business fixed investment*	5.5%	<b>3.0%</b>	<b>3.5%</b>
Residential investment*	5.1%	<b>8.0%</b>	<b>7.7%</b>
Change in private inventories (billions of constant dollars)**	\$78.2	<b>\$56.0</b>	<b>\$58.1</b>
Net exports of goods and services (billions of constant dollars)**	-\$463.6	<b>-\$550.0</b>	<b>-\$610.2</b>
Government consumption expenditures and gross investment*	0.4%	<b>1.3%</b>	<b>1.4%</b>

\* Q4 over Q4

\*\* Q4 value

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

	2014	2015	2016
Industrial production*	4.4%	<b>0.0%</b>	<b>2.0%</b>
Car & light truck sales (millions - calendar year including imports)	16.4	<b>17.4</b>	<b>17.6</b>
Housing starts (millions)	1.00	<b>1.13</b>	<b>1.24</b>
Oil price (dollars per barrel of West Texas Intermediate)**	\$73.16	<b>\$45.00</b>	<b>\$53.25</b>
Unemployment rate**	5.7%	<b>5.0%</b>	<b>4.9%</b>
Inflation rate (consumer price index)*	1.2%	<b>0.4%</b>	<b>1.9%</b>
Treasury constant maturity one-year rate**	0.15%	<b>0.39%</b>	<b>1.04%</b>
Treasury constant maturity ten-year rate**	2.28%	<b>2.25%</b>	<b>2.70%</b>
J.P. Morgan trade weighted OECD dollar*	6.2%	<b>10.6%</b>	<b>2.5%</b>

\* Q4 over Q4

\*\* Q4 value

# Summary

- **The economy is forecast to rise at a pace slightly above trend in 2016**
- **The unemployment rate is expected to edge lower next year**
- **Inflation is anticipated to increase close to two percent next year**
- **Manufacturing growth is expected to improve at a pace below trend**
- **Light vehicle sales are forecast to rise to 17.6 million units**
- **Housing starts are predicted to increase to 1,244,000 units**
- **[www.chicagofed.org](http://www.chicagofed.org)**