



# THIRTEENTH ANNUAL AUTOMOTIVE OUTLOOK SYMPOSIUM

T H U R S D A Y   J U N E   1   /   F R I D A Y   J U N E   2

## Consensus Forecast 2006 and 2007

**Thirteenth Annual  
Automotive Outlook Symposium**  
Detroit, Michigan  
June 2, 2006

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

# Winners from last year's Automotive Outlook Symposium forecast

- **Real GDP:**

**Ed Sullivan** – Portland Cement Association

**Kenny Vieth** – A.C.T. Research Co., LLC

- **Inflation:**

**Jack L. Bishop** – Kingsbury International, Ltd.

# Winners from last year's Automotive Outlook Symposium forecast

- **Unemployment rate:**

**William Hickey** – DTE Energy

**Roman Pobaruyev** – Snap-on

**Robert Schnorbus** – J.D. Power and Associates

**Keith Schwer** – UNLV

**Carl Tannenbaum** – LaSalle Bank

**Evert Van Der Heide** – Calvin College

**Kenny Vieth** – A.C.T. Research Co., LLC

- **Car and light truck sales:**

**William Hickey** – DTE Energy

**Robert Schnorbus** – J.D. Power and Associates

**Paul Taylor** – National Automobile Dealers Association

# Winners from last year's Automotive Outlook Symposium forecast

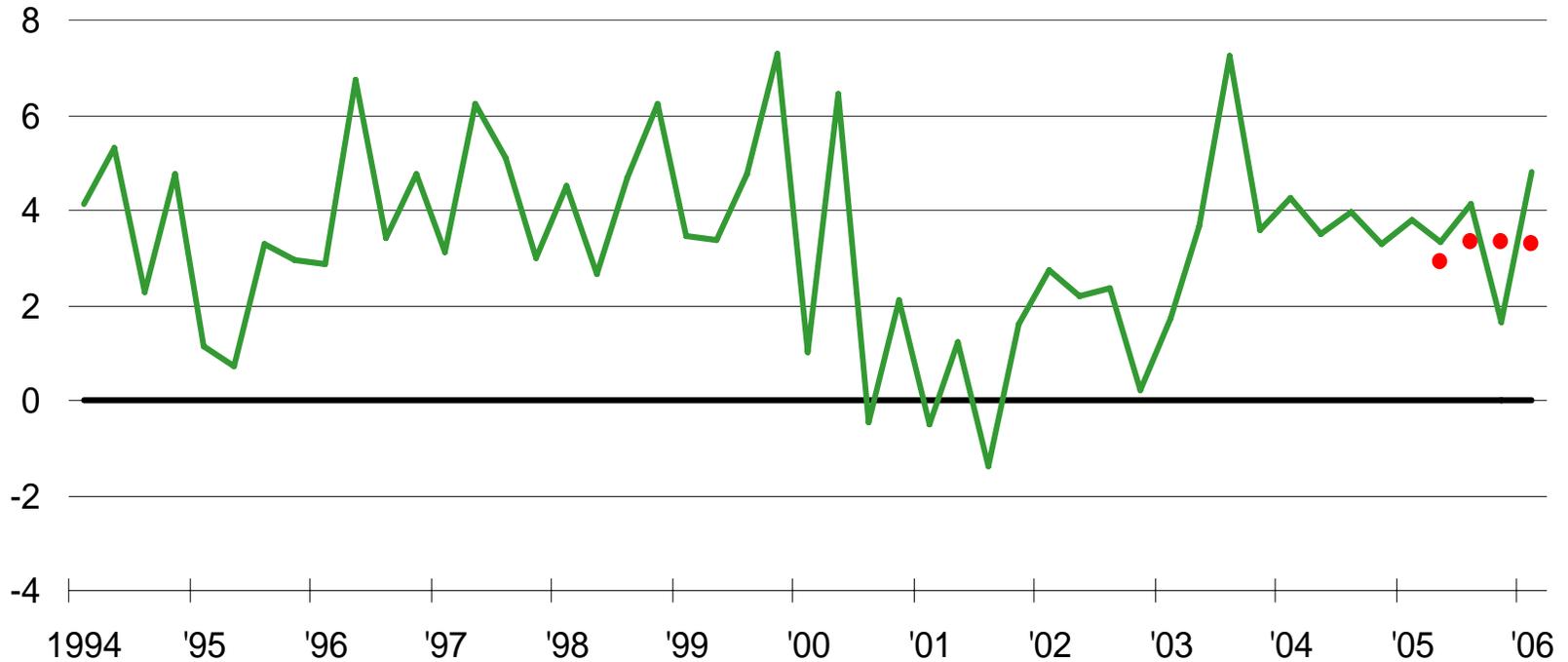
- **Best Overall Economic Forecast:**  
**Paul Taylor** – National Automobile Dealers Association

# Review of past performance

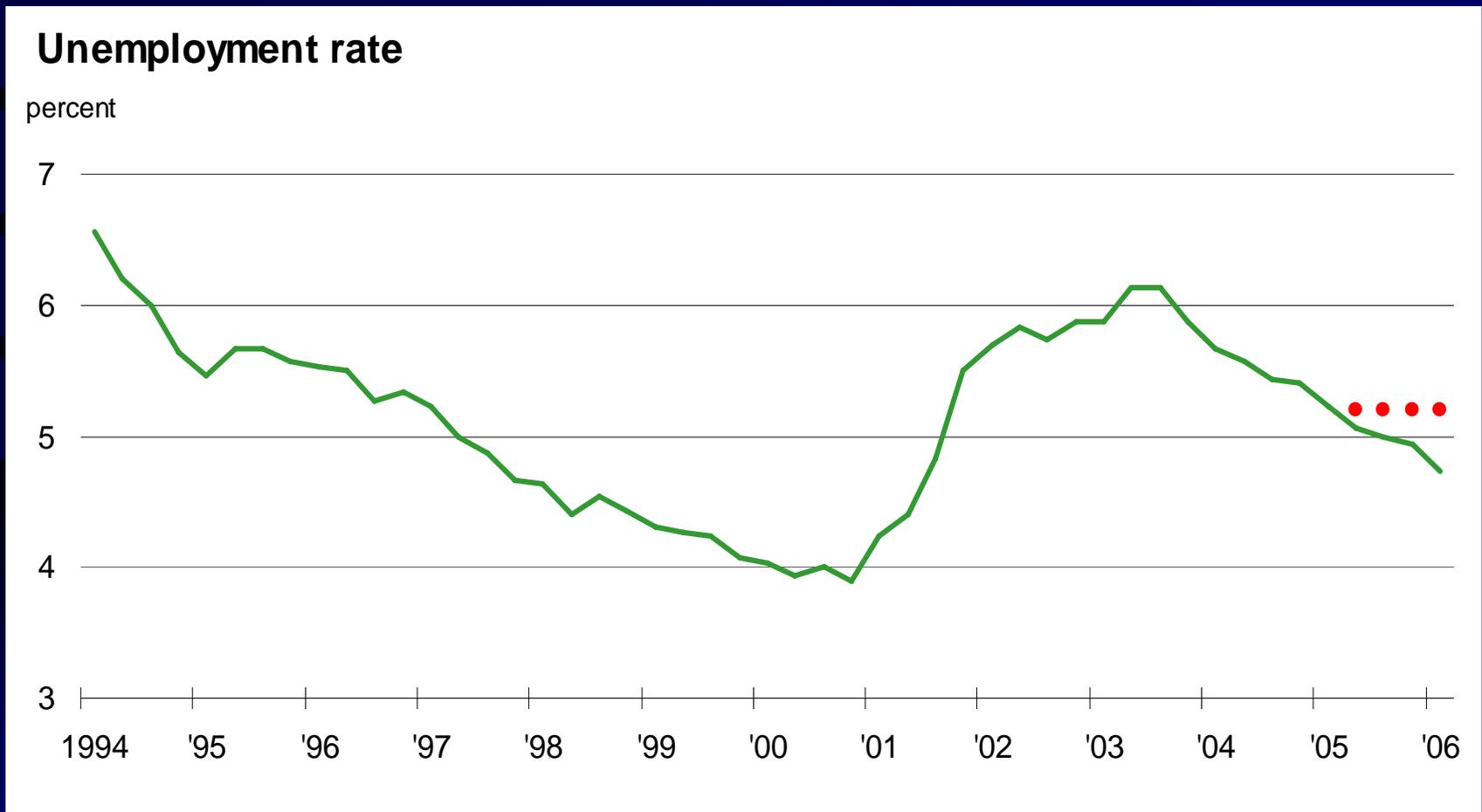
# The median forecast for real GDP growth was quite accurate

## Real GDP

percent change, annual rate



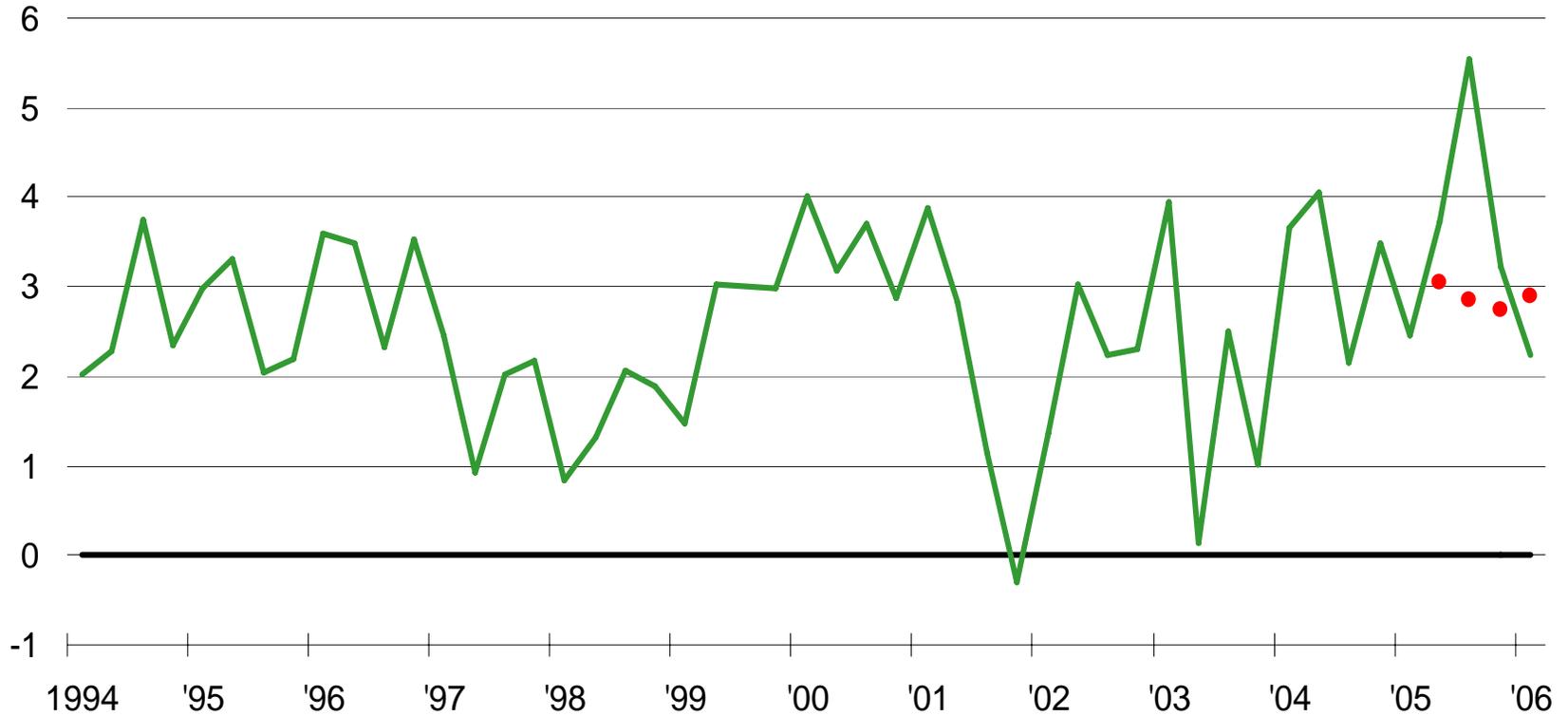
# The unemployment rate showed continued improvement compared with the consensus view of stability



# Inflation was higher than expected . . .

## Inflation rate (CPI)

percent change, annual rate



**In part due to much higher energy prices than forecasted**

## Oil prices - West Texas Intermediate

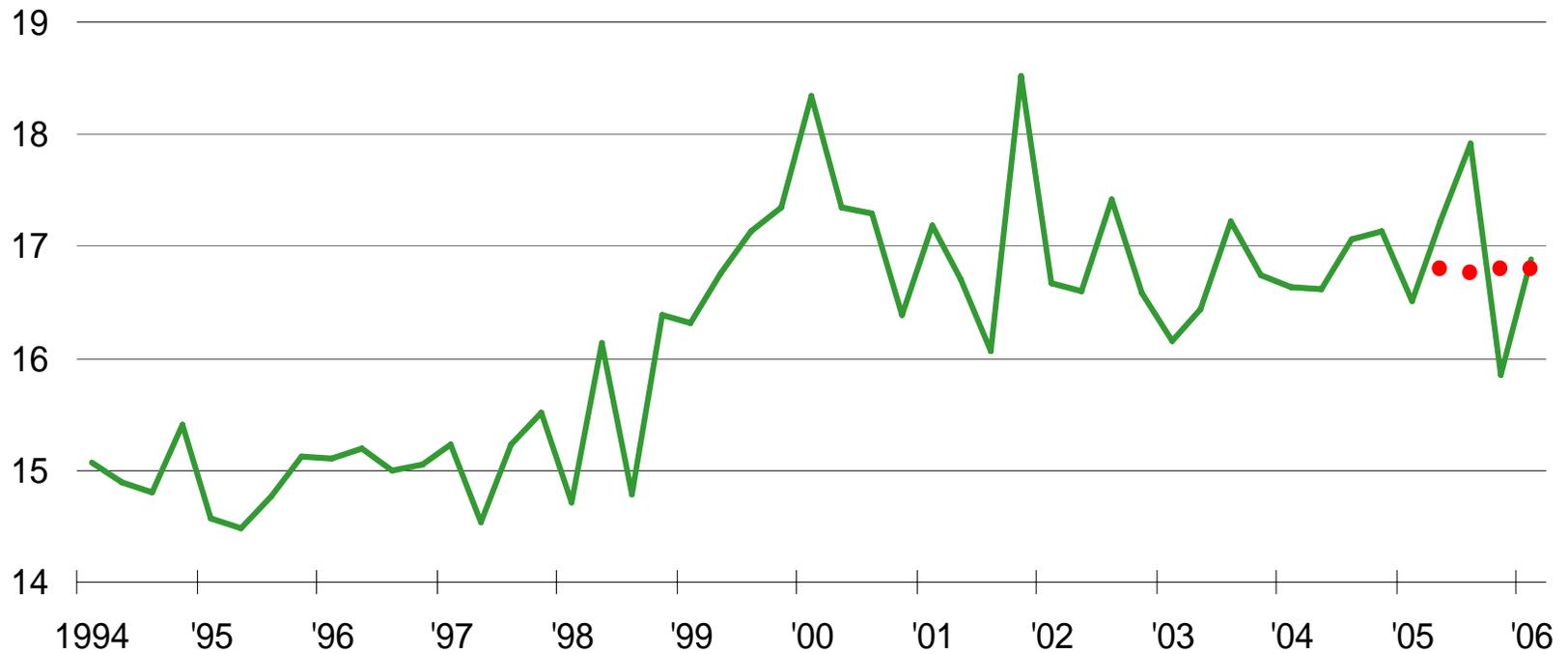
Dollars per barrel



# While volatile, car and light truck sales were nailed

## Car and light truck sales

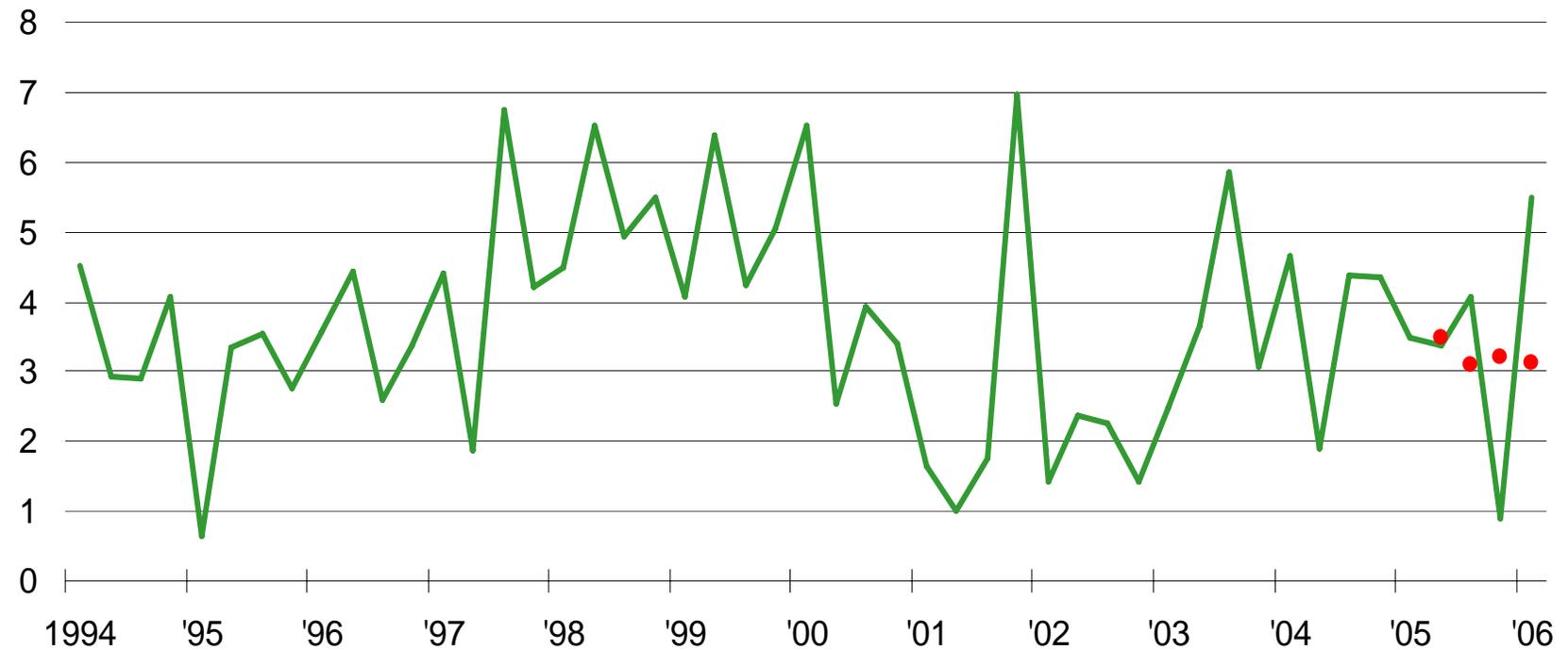
millions of units



# Consumer spending growth was predicted accurately

## Personal consumption expenditures

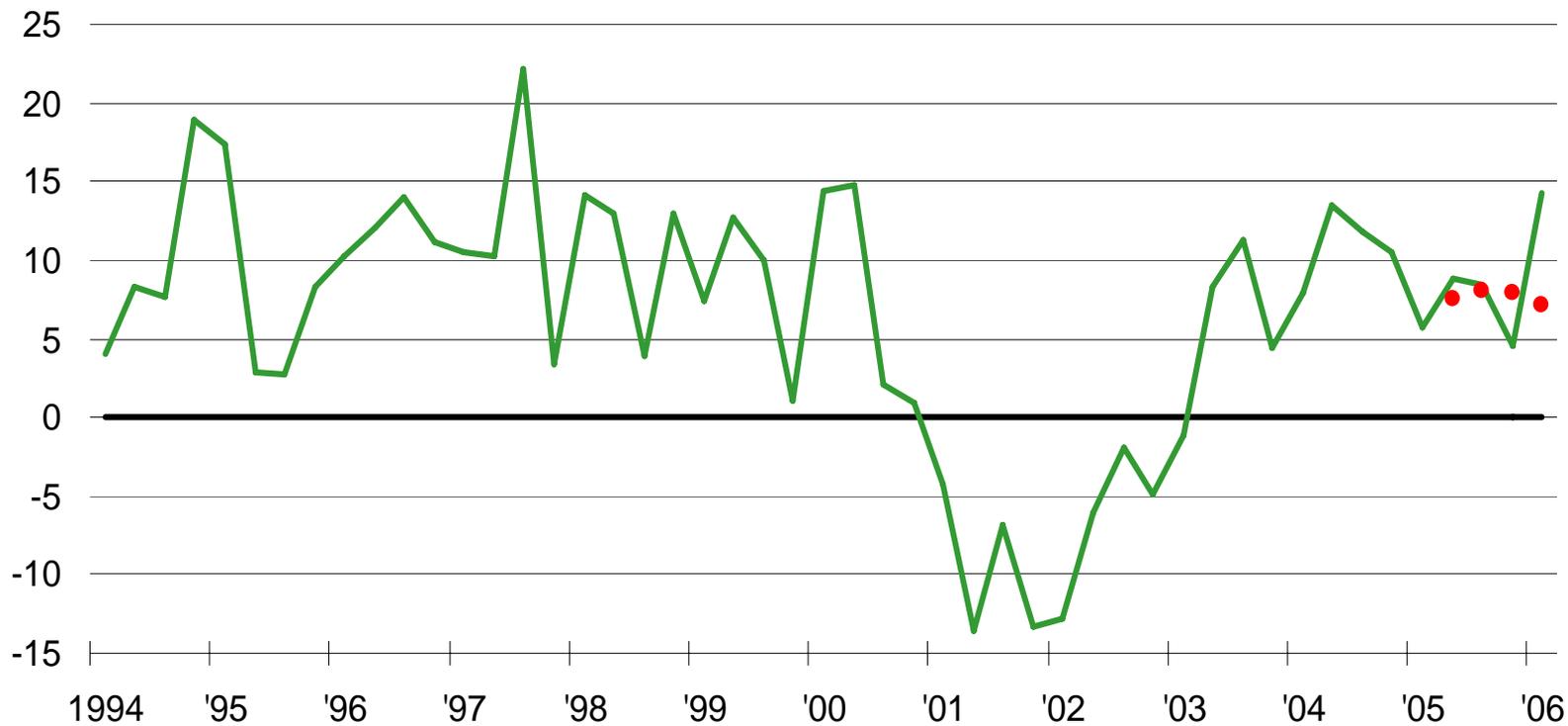
percent change, annual rate



# As was business spending growth

## Business fixed investment

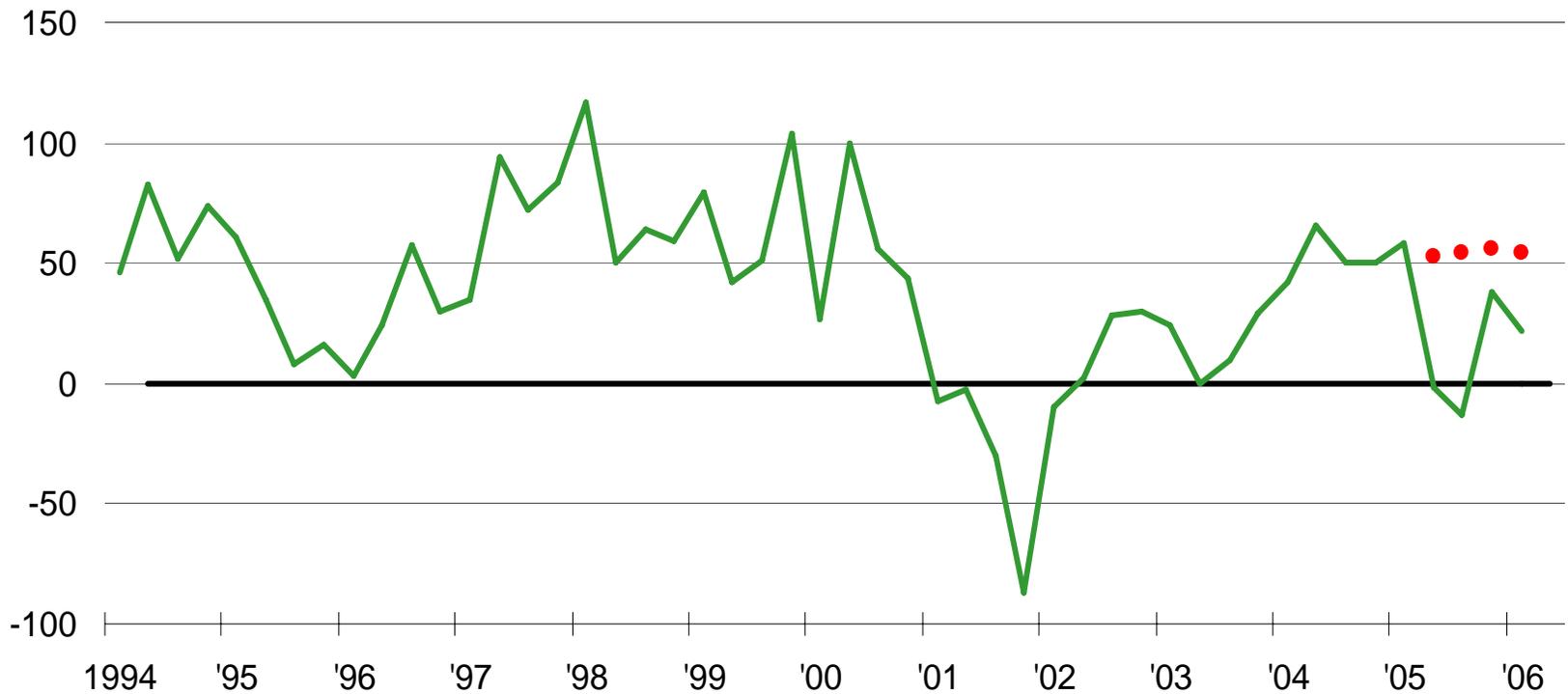
percent change, annual rate



## Business inventories grew at a less rapid pace than expected

### Change in private inventories

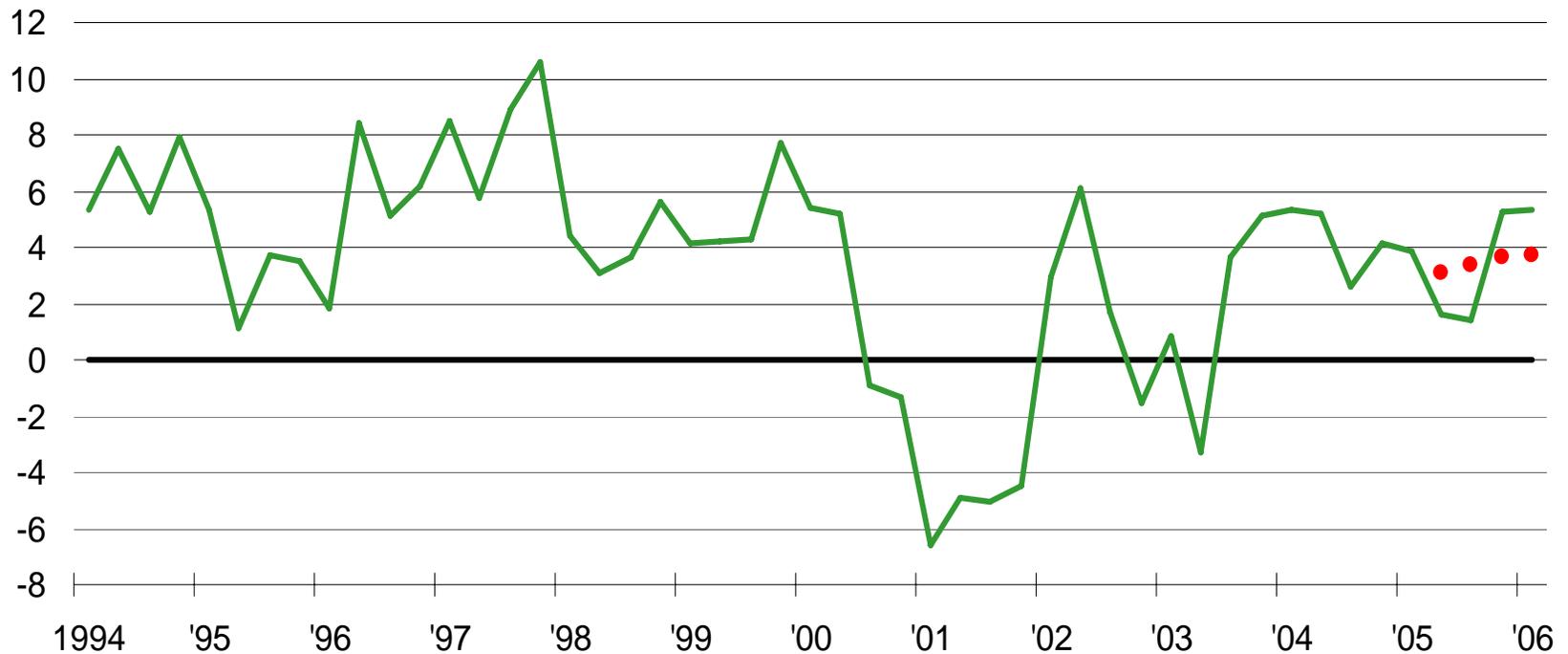
billions of constant dollars



**Industrial production began last year at a slower rate of growth than forecast, but then increased at a faster pace than expected**

### Industrial production

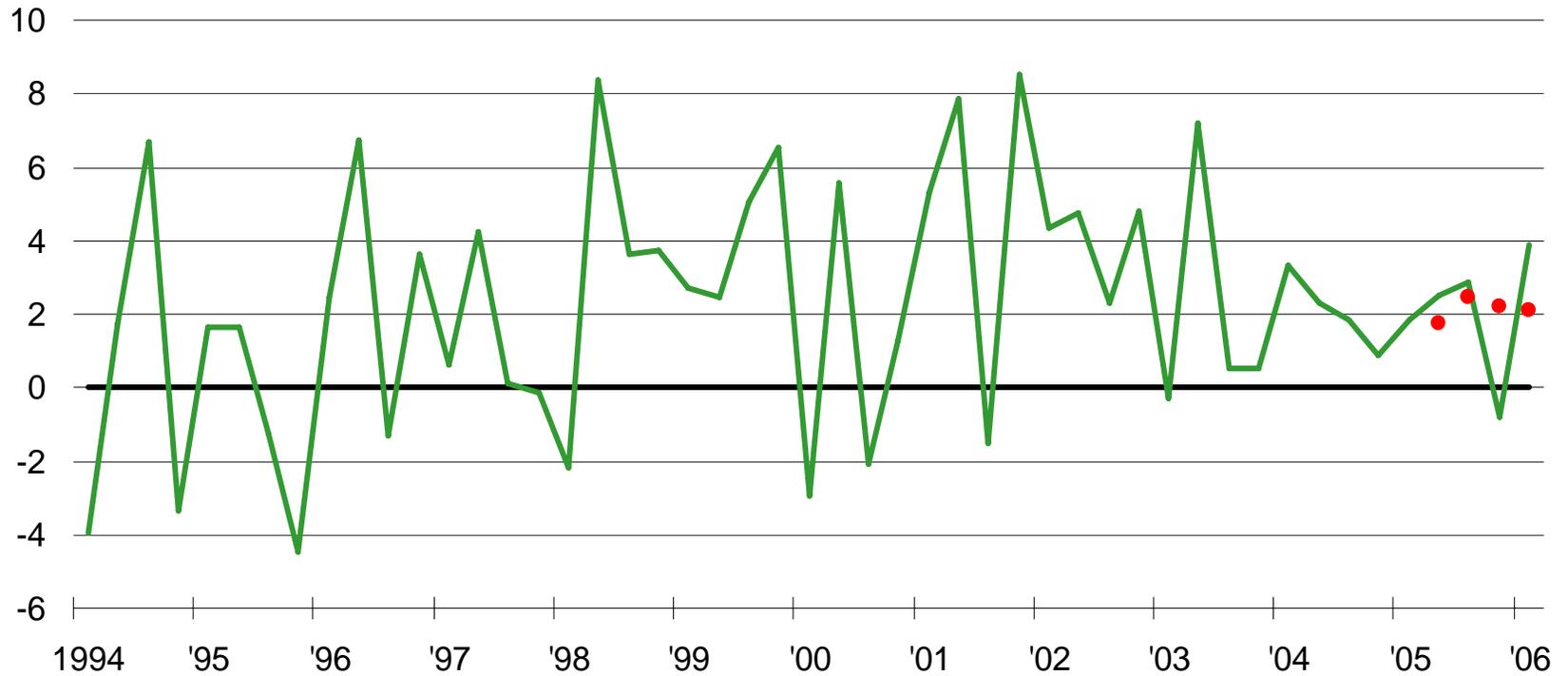
percent change, annual rate



# Government spending was accurately predicted

## Government consumption

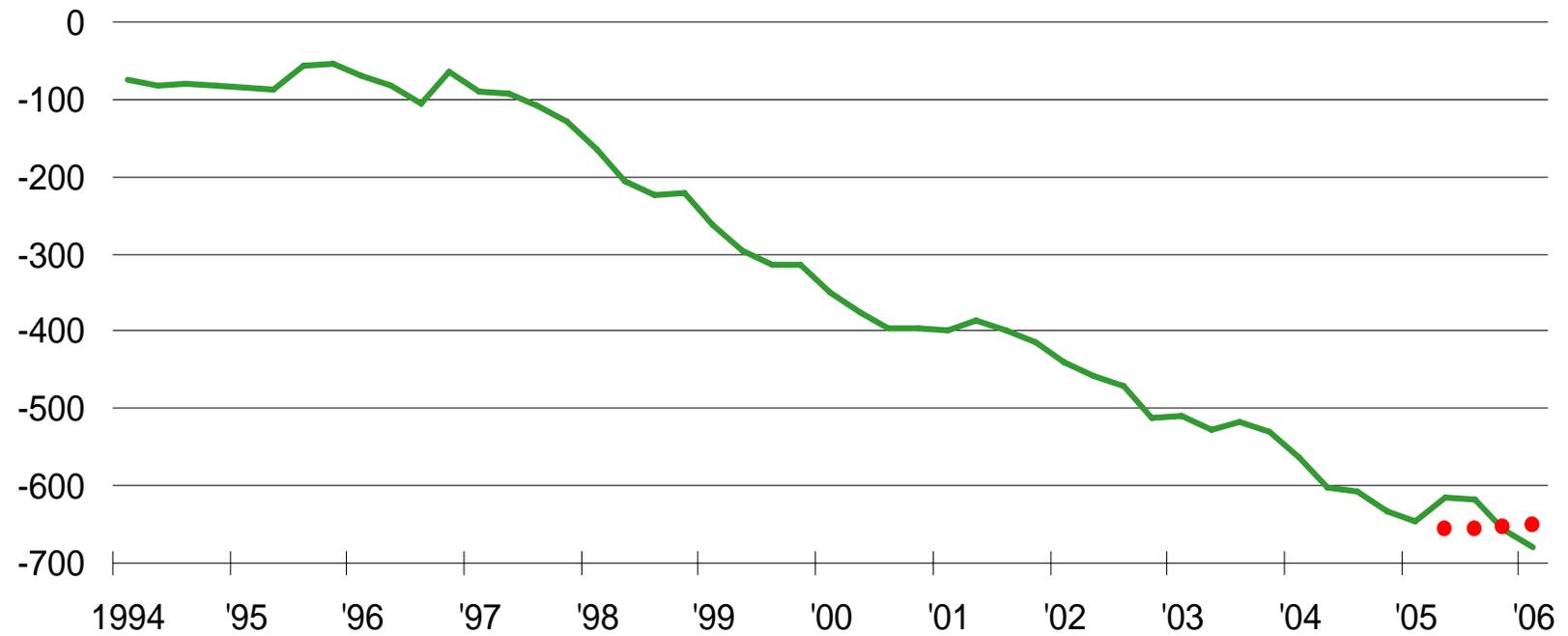
percent change, annual rate



# The trade deficit was fairly accurately predicted

## Net exports of goods and services

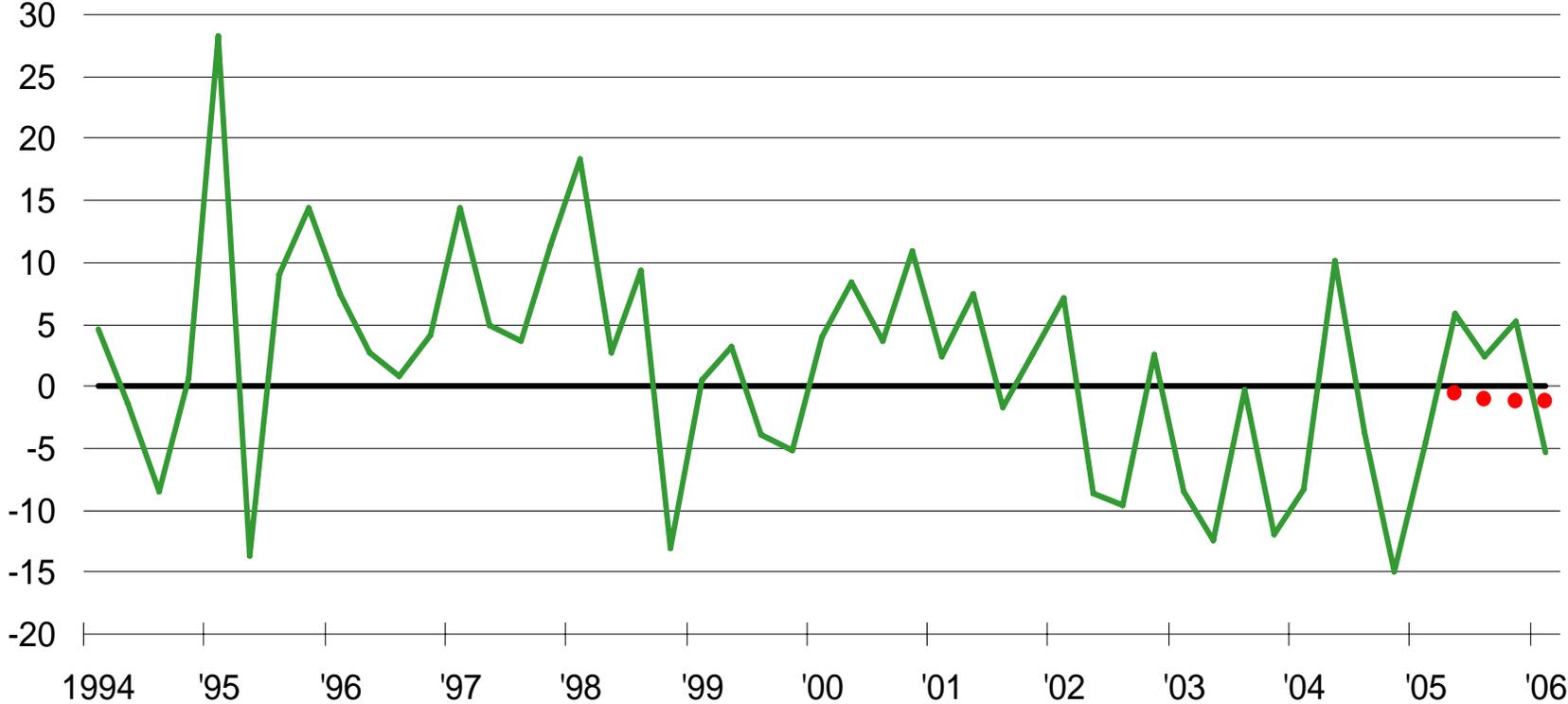
billions of constant dollars



# The dollar showed greater strength than forecast

## J.P. Morgan trade weighted dollar

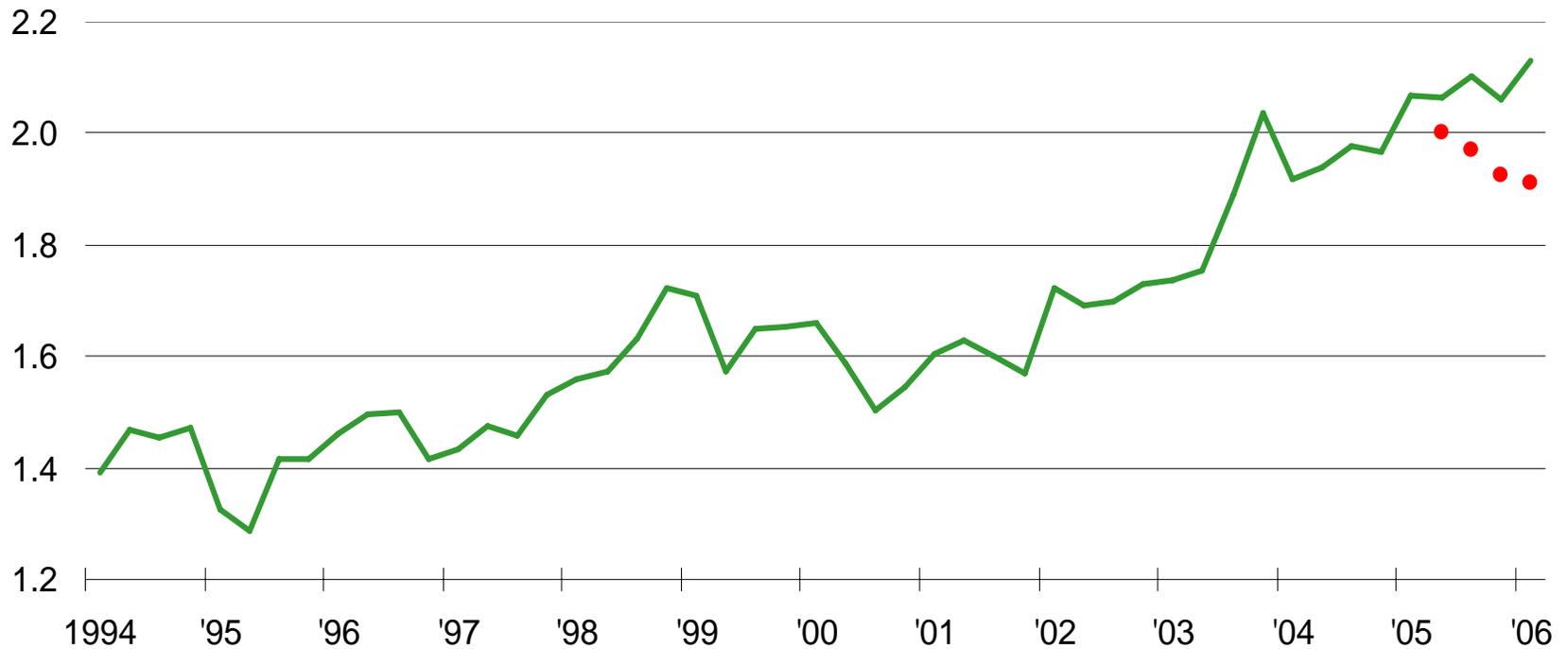
percent change, annual rate



# The housing market surprised participants by increasing at a higher level than anticipated

## Housing starts

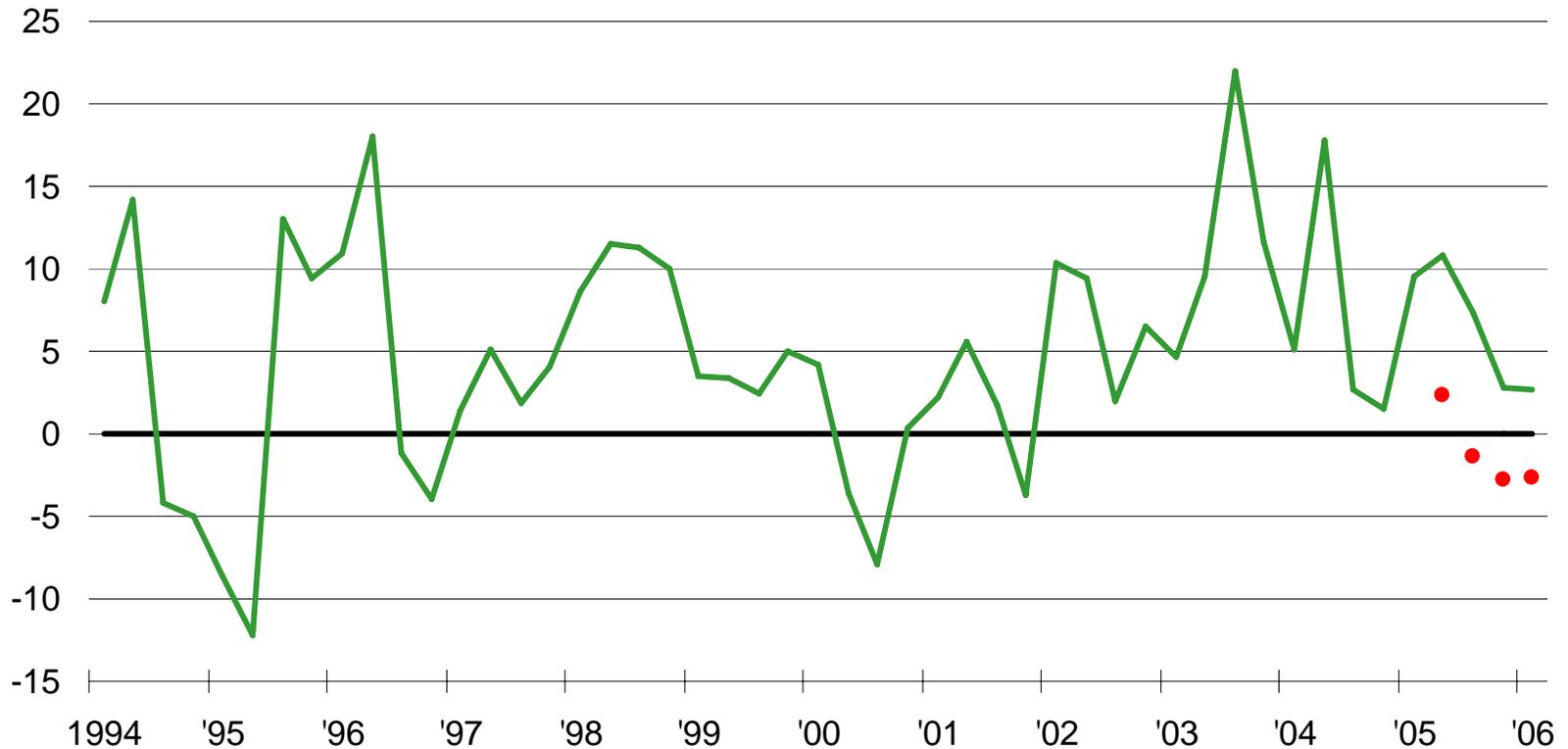
millions of units



# The poor housing prediction led to a large miss on residential investment . . .

## Residential investment

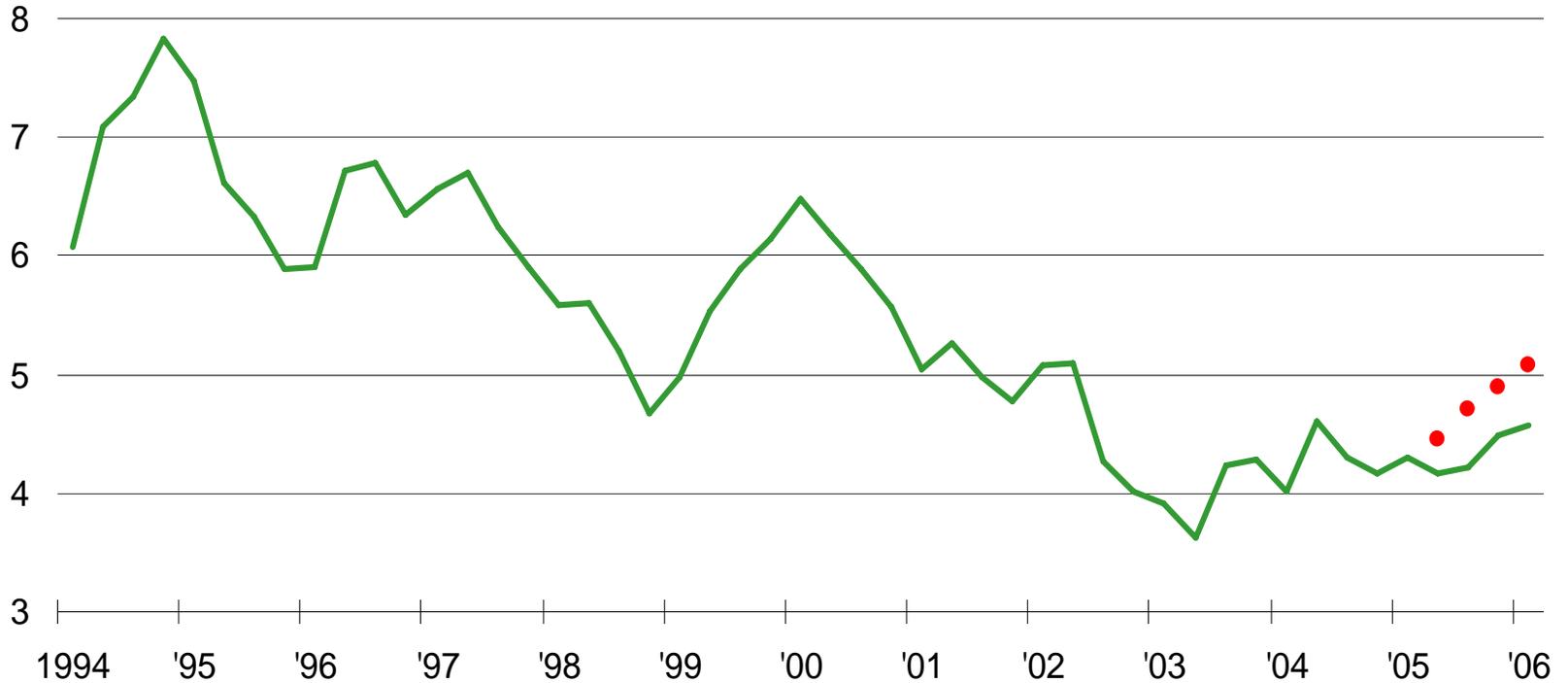
percent change, annual rate



Perhaps in part due to lower long-term interest rates than predicted

### Treasury ten-year rate

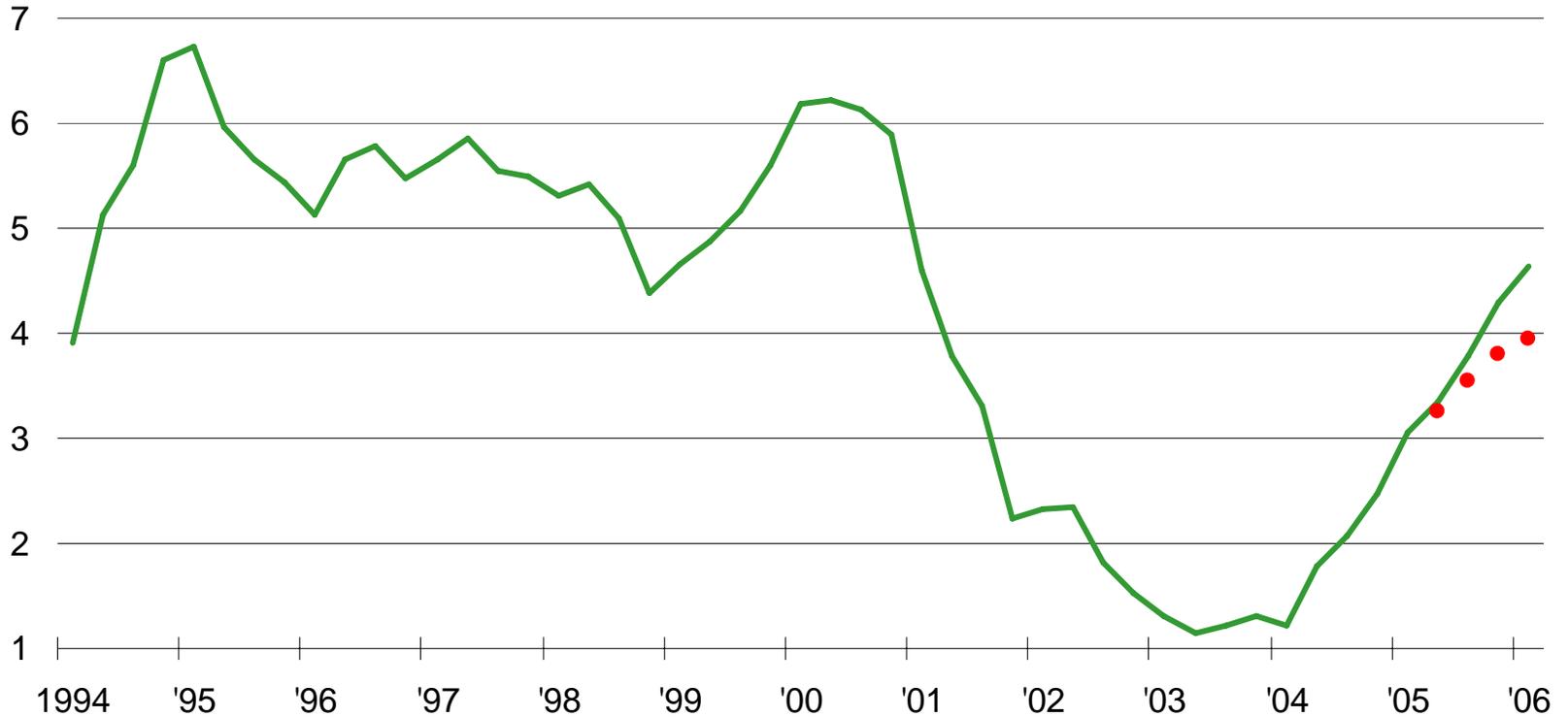
percent



# Short-term interest rates were a bit higher than forecast

## Treasury one-year rate

percent



# Forecast for 2006 and 2007

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

	2005	2006	2007
GDP, current dollars*	6.4%	<b>6.0%</b>	<b>5.2%</b>
GDP price index, chain-type*	3.1%	<b>2.4%</b>	<b>2.3%</b>
Real GDP, chained dollars*	3.5%	<b>3.5%</b>	<b>3.0%</b>
Personal consumption expenditures*	3.5%	<b>3.5%</b>	<b>2.9%</b>
Business fixed investment*	8.6%	<b>8.9%</b>	<b>5.9%</b>
Residential investment*	7.1%	<b>-1.7%</b>	<b>-0.9%</b>
Change in private inventories (billions of constant dollars)**	\$20.3	<b>\$31.0</b>	<b>\$31.2</b>
Net exports of goods and services (billions of constant dollars)**	-\$633.1	<b>-\$682.3</b>	<b>-\$681.7</b>
Government consumption expenditures and gross investment*	1.8%	<b>2.4%</b>	<b>1.7%</b>

\*Q4 over Q4

\*\*Q4 value

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

	2005	2006	2007
Industrial production*	3.2%	<b>3.6%</b>	<b>3.3%</b>
Car & light truck sales (millions - calendar year including imports)***	16.9	<b>16.7</b>	<b>16.8</b>
Housing starts (millions)***	2.07	<b>1.97</b>	<b>1.83</b>
Oil price (dollars per barrel of West Texas Intermediate)**	\$56.47	<b>\$65.51</b>	<b>\$66.00</b>
Unemployment rate**	5.1%	<b>4.8%</b>	<b>4.9%</b>
Inflation rate (consumer price index)*	3.4%	<b>2.6%</b>	<b>2.4%</b>
Treasury constant maturity 1-year rate**	3.62%	<b>5.14%</b>	<b>5.05%</b>
Treasury constant maturity 10-year rate**	4.29%	<b>5.29%</b>	<b>5.44%</b>
J.P. Morgan trade weighted OECD dollar*	-2.4%	<b>-1.2%</b>	<b>-0.5%</b>

\*Q4 over Q4

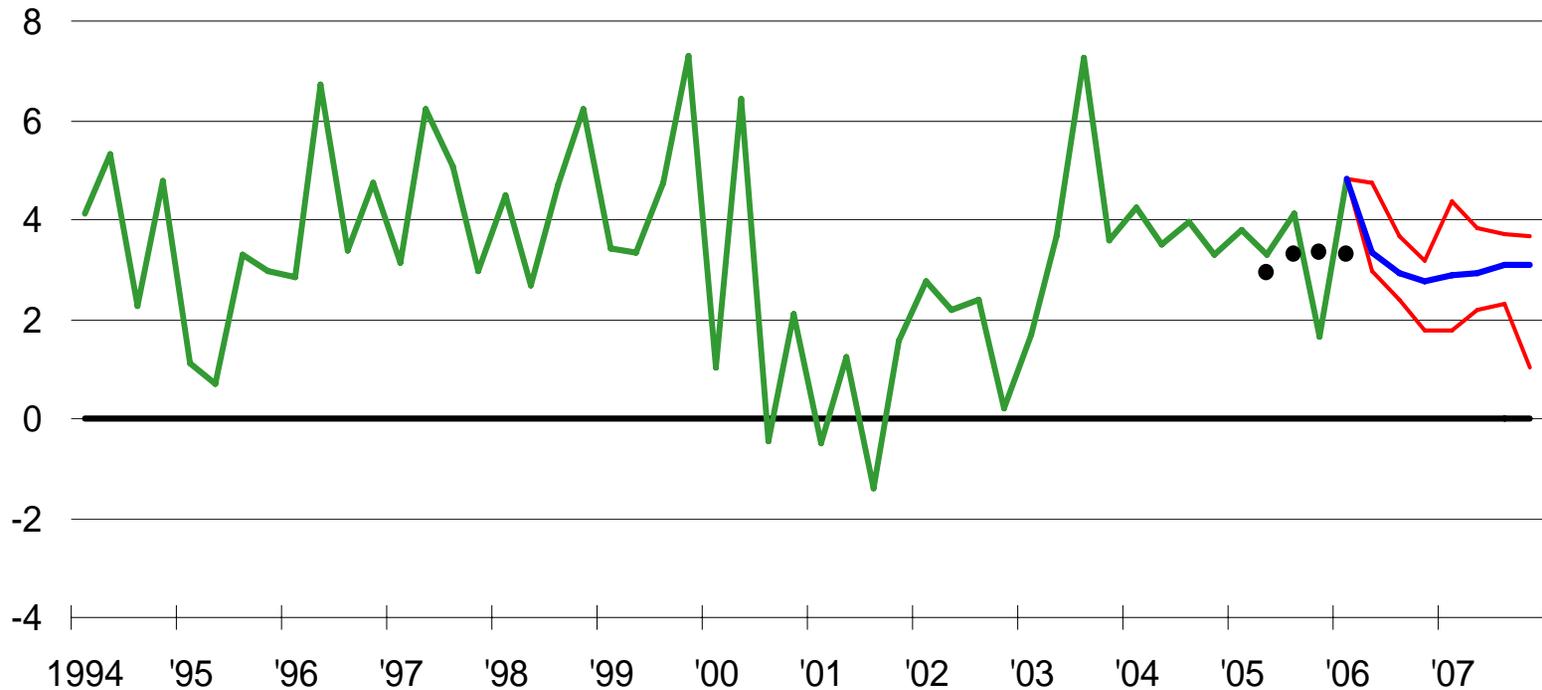
\*\*Q4 value

\*\*\*Yearly average

**Real GDP growth is expected to remain at 3.5% this year and then ease to 3.0% next year, moving from above potential growth to just below potential growth for the economy**

## Real GDP

percent change, annual rate



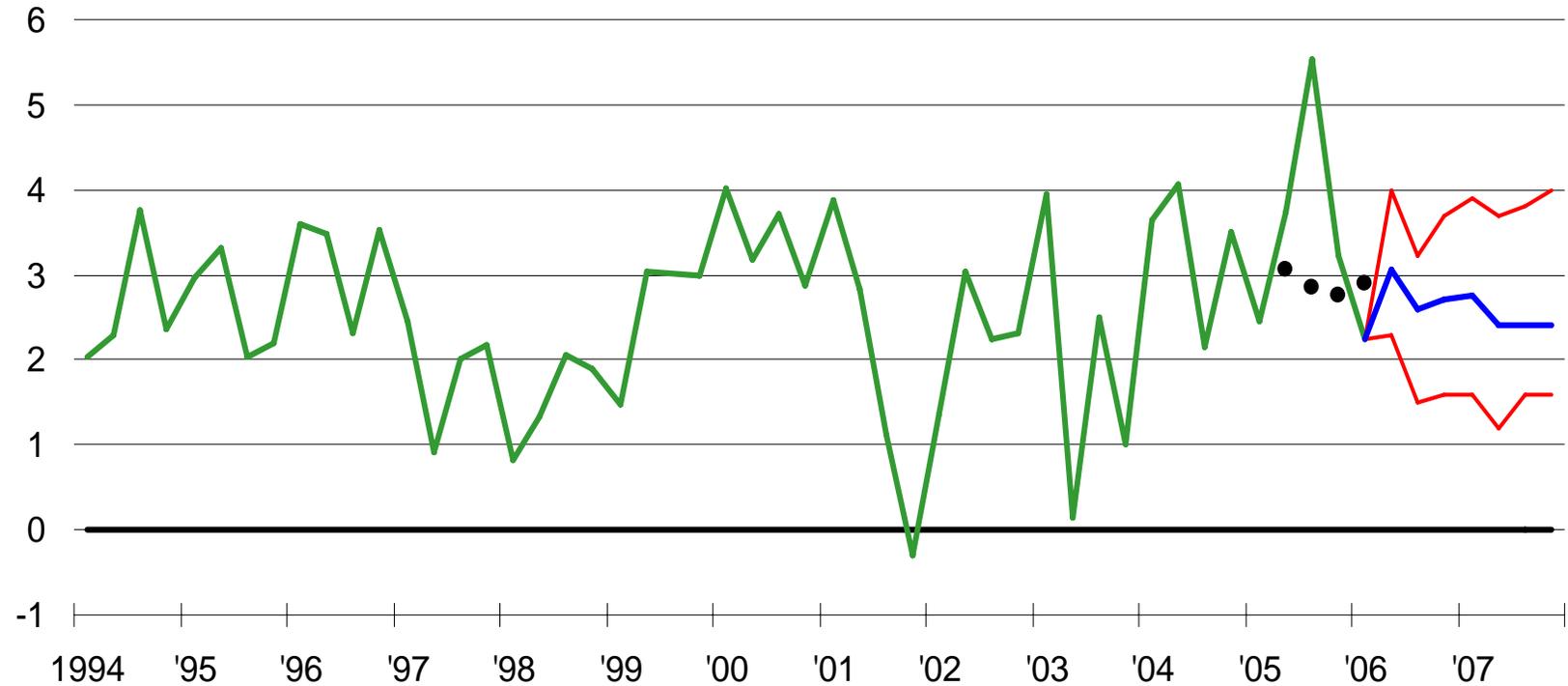
**The unemployment rate should average 4.8% at the end of this year and then edge just a bit higher next year**



# The inflation rate is expected to move lower over this year and next

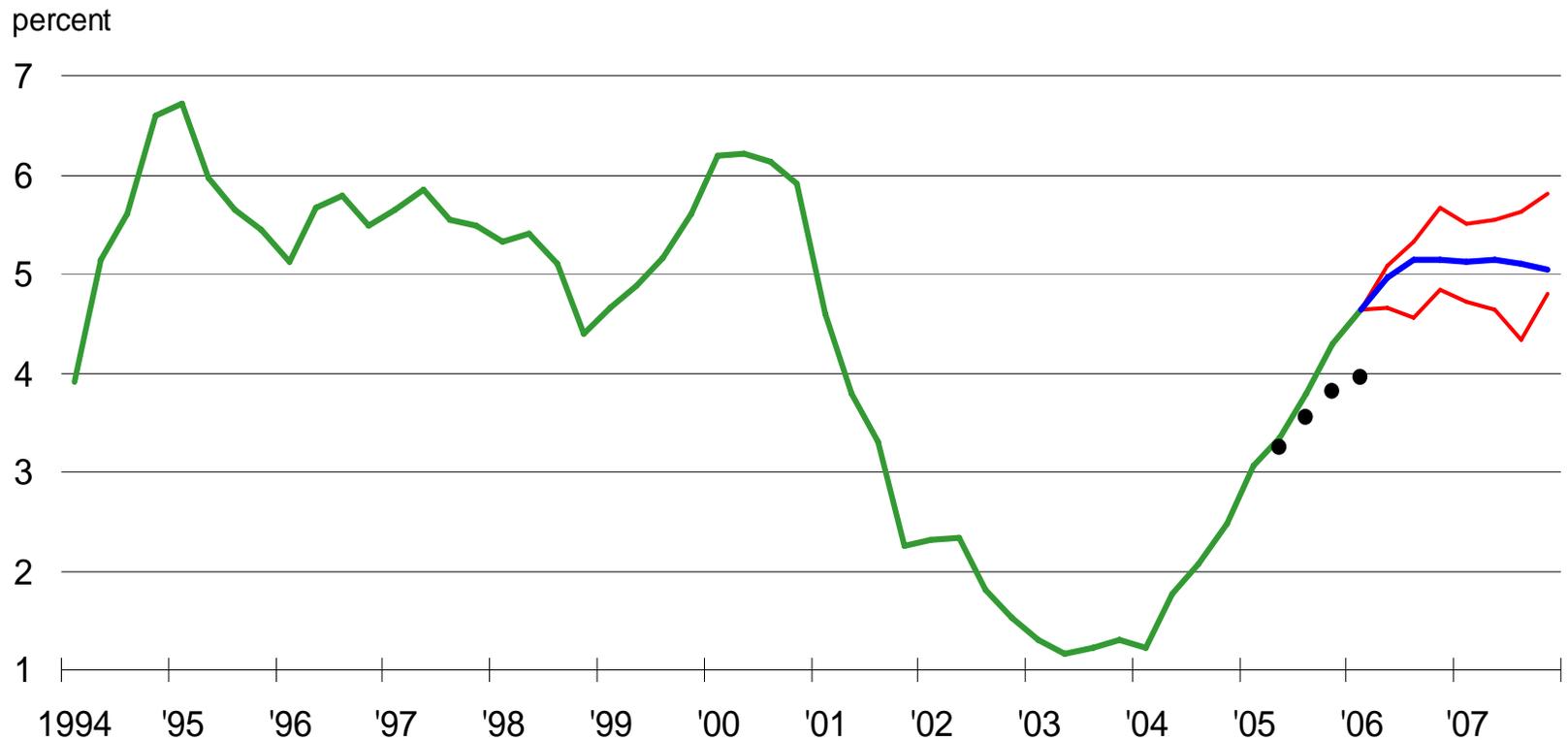
## Inflation rate (CPI)

percent change, annual rate



**Short-term interest rates are forecast to rise by 152 basis points in 2006 and then edge lower by 9 basis points in 2007**

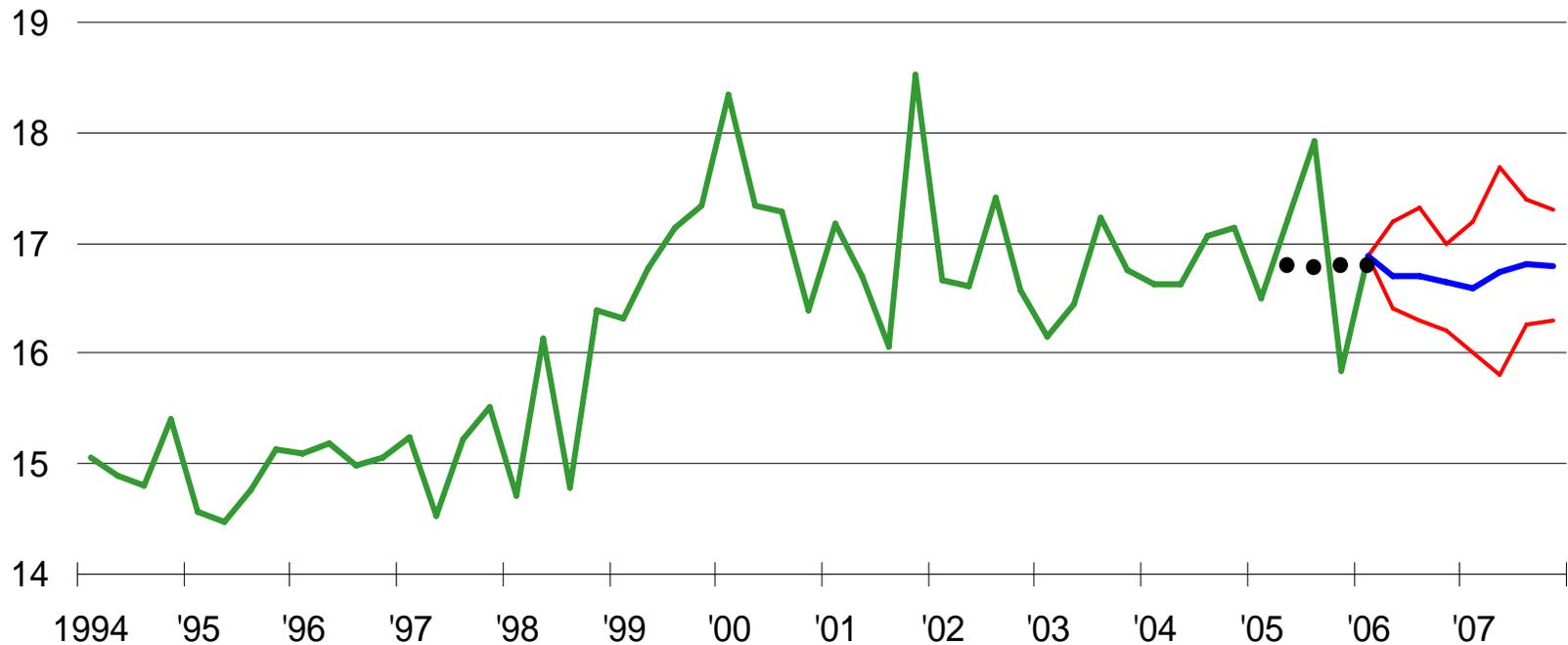
### Treasury one-year rate



**Light vehicle sales are forecast to move lower this year, averaging 16.7 million units and then rise to 16.8 million units in 2007**

## Car and light truck sales

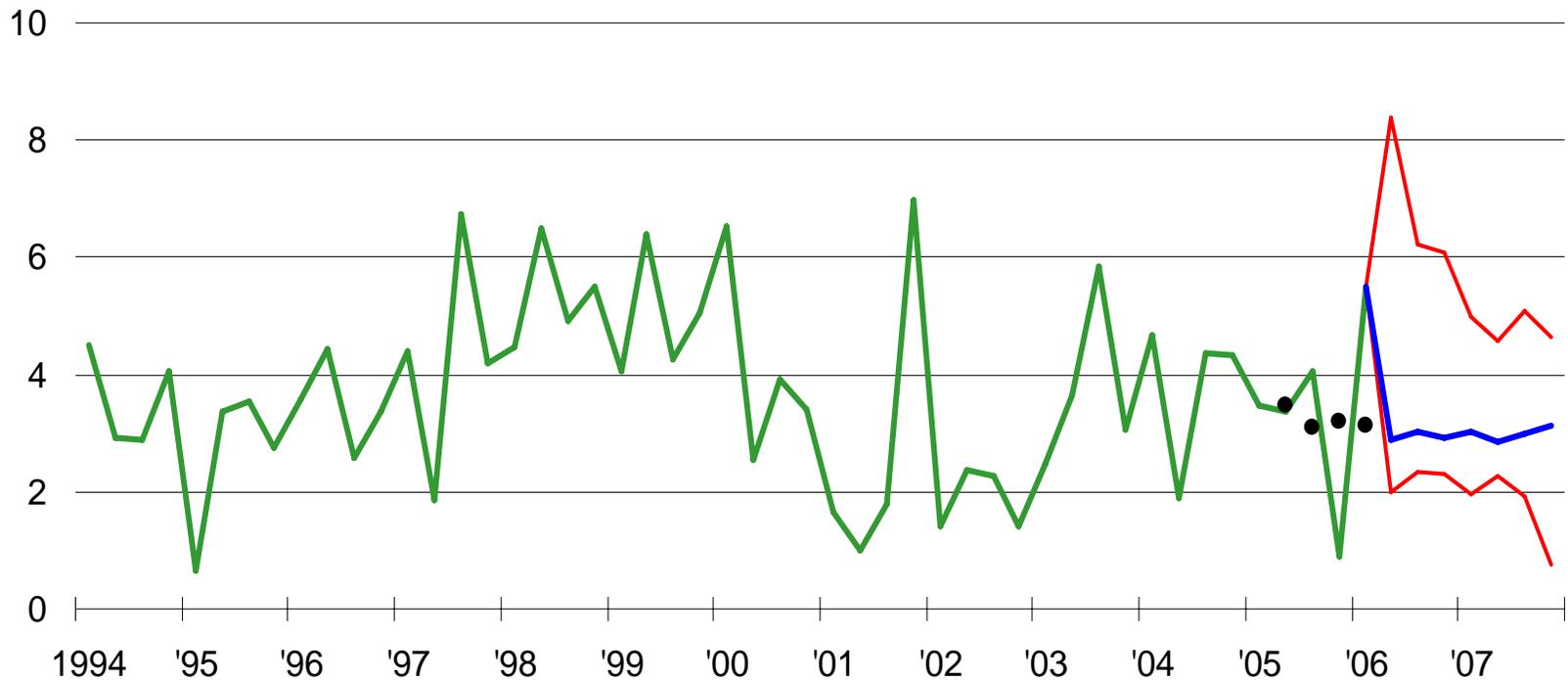
millions of units



**Consumption growth is expected to remain steady at 3.5% in 2006 and then move lower to 2.9% in 2007**

## Personal consumption expenditures

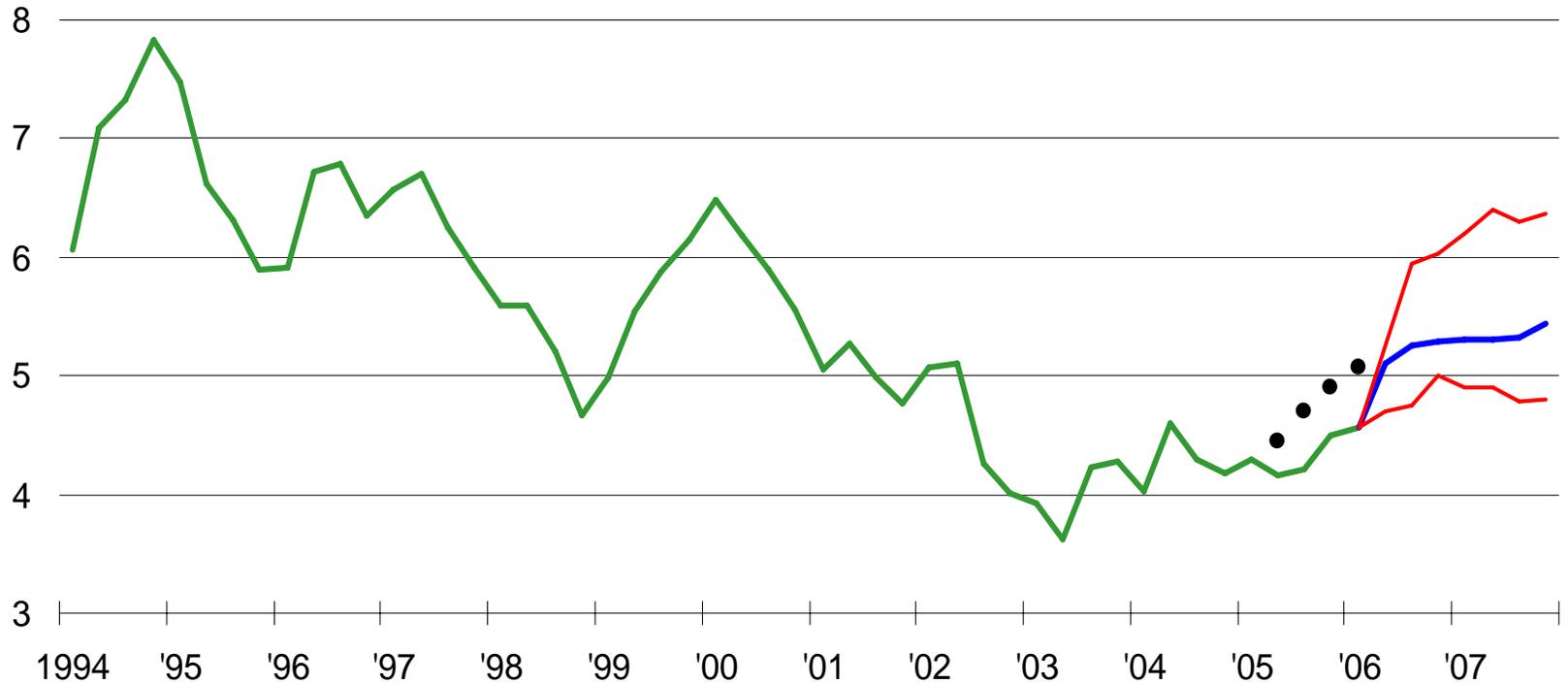
percent change, annual rate



**Long-term interest rates are forecast to rise by 100 basis points in 2006 and then by 15 basis points in 2007**

### Treasury ten-year rate

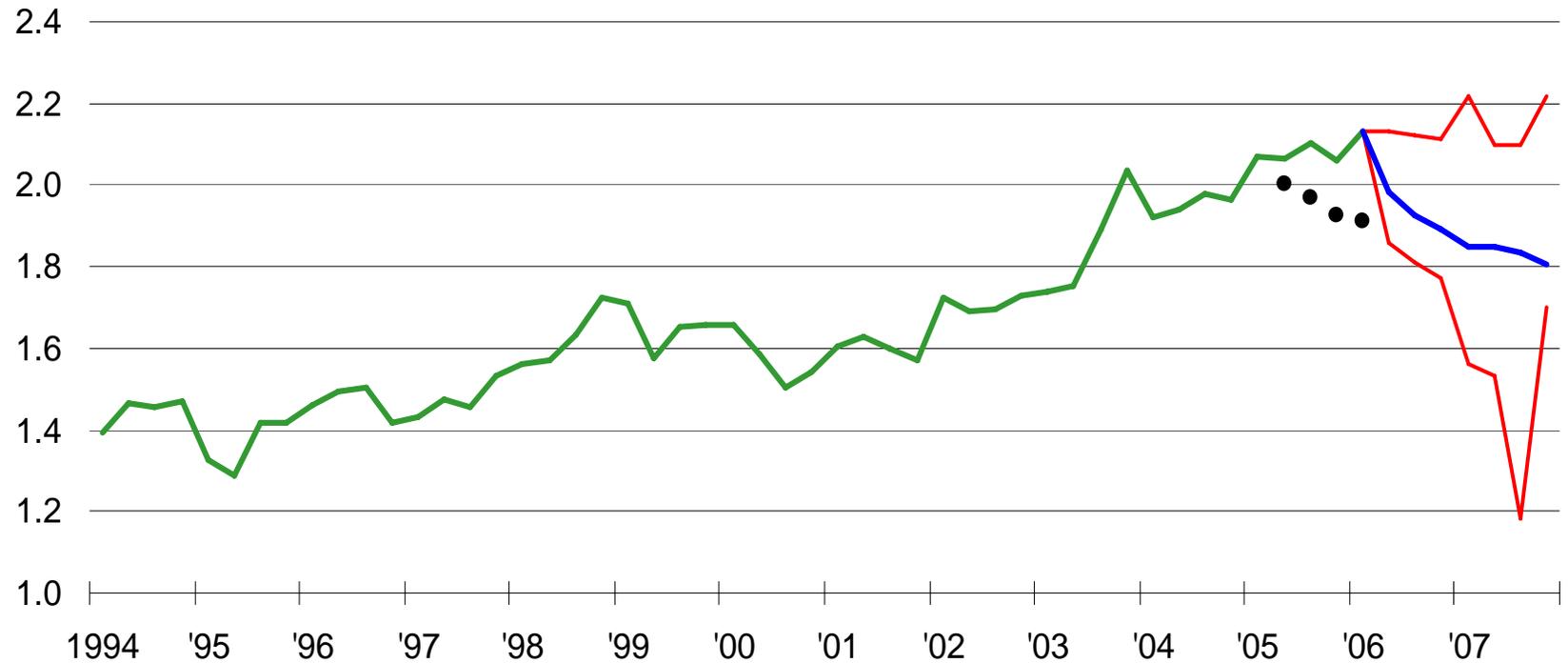
percent



# Housing starts are expected to decline over the forecast horizon

## Housing starts

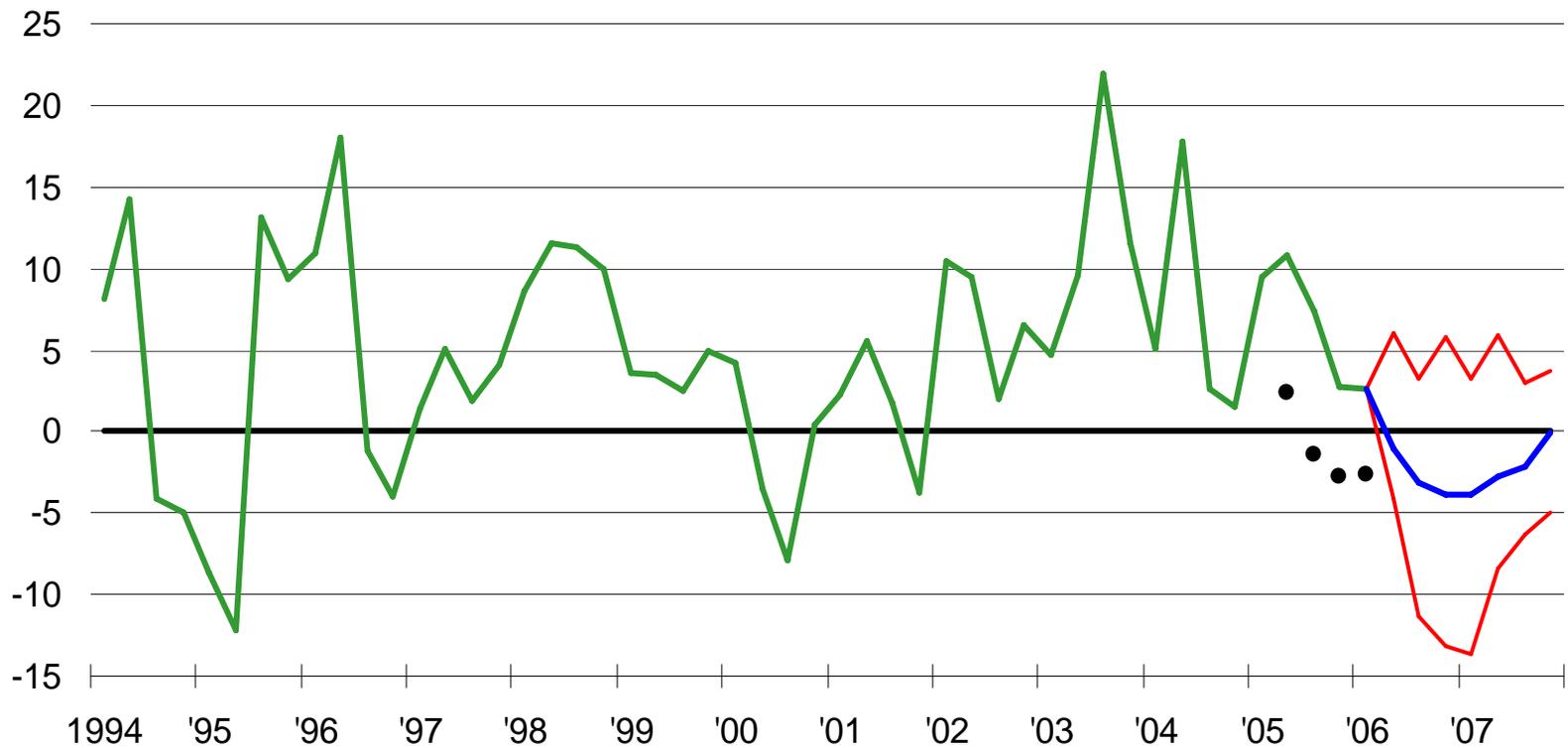
millions of units



# Residential investment growth is forecast to turn negative

## Residential investment

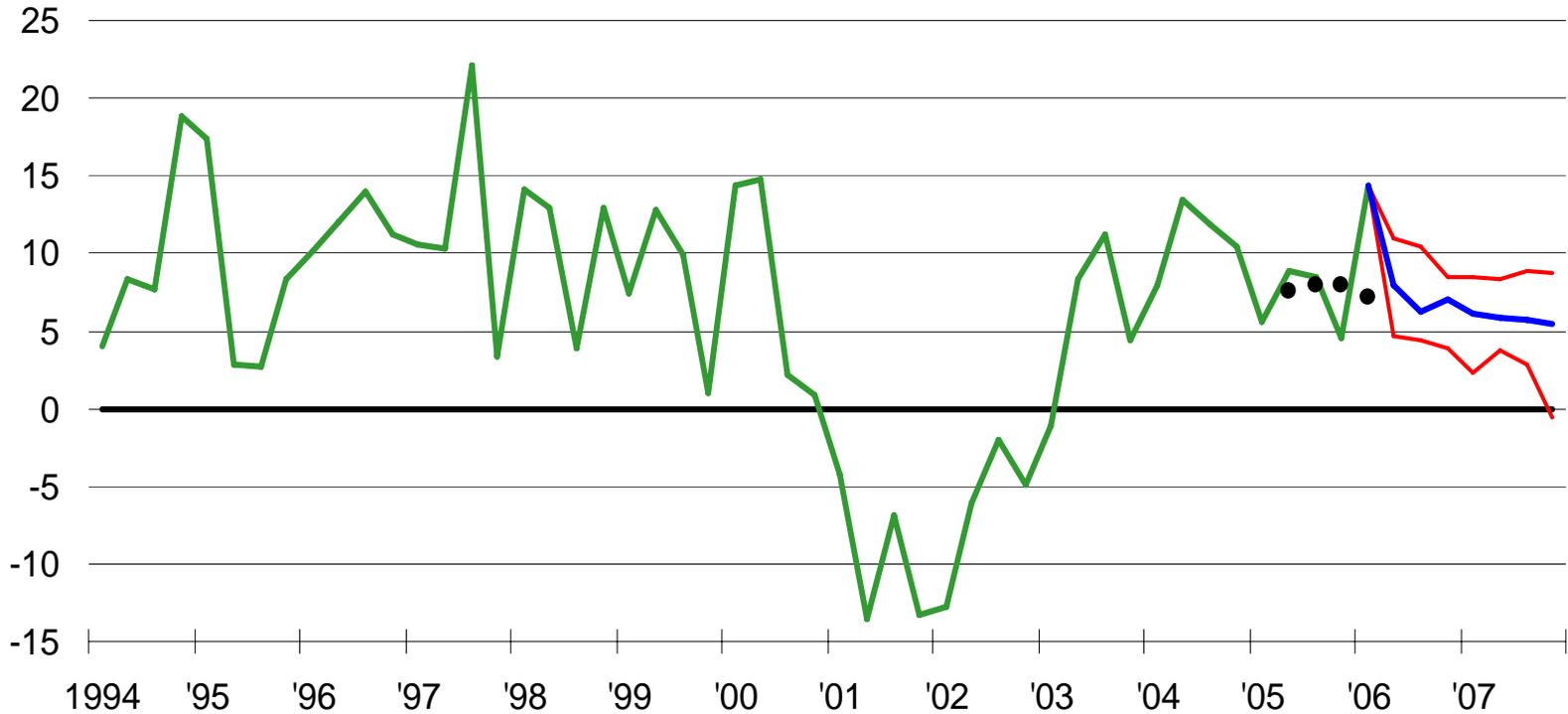
percent change, annual rate



**Business spending growth is anticipated to rise to 8.9% this year and then fall to 5.9% in 2007**

## Business fixed investment

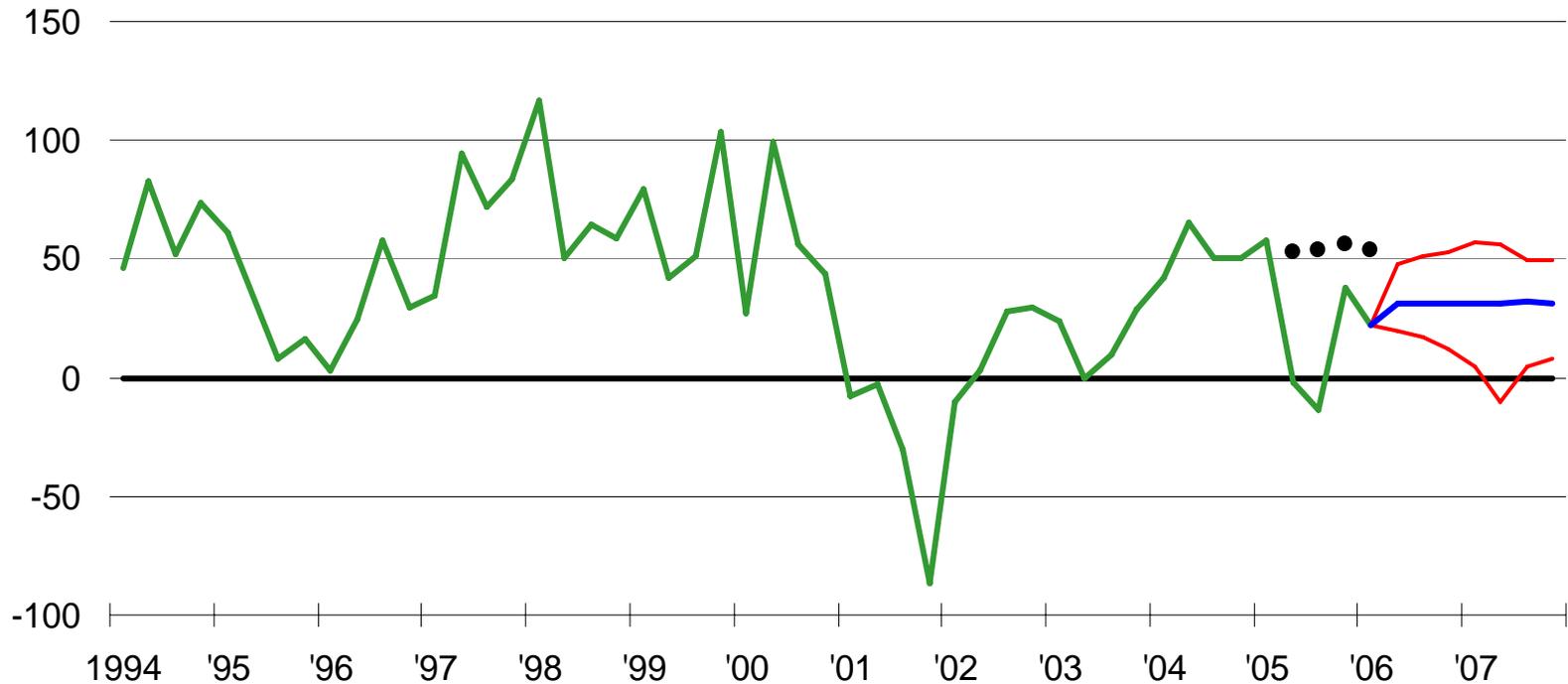
percent change, annual rate



# A relatively modest increase in inventories is expected to take place over the forecast horizon

## Change in private inventories

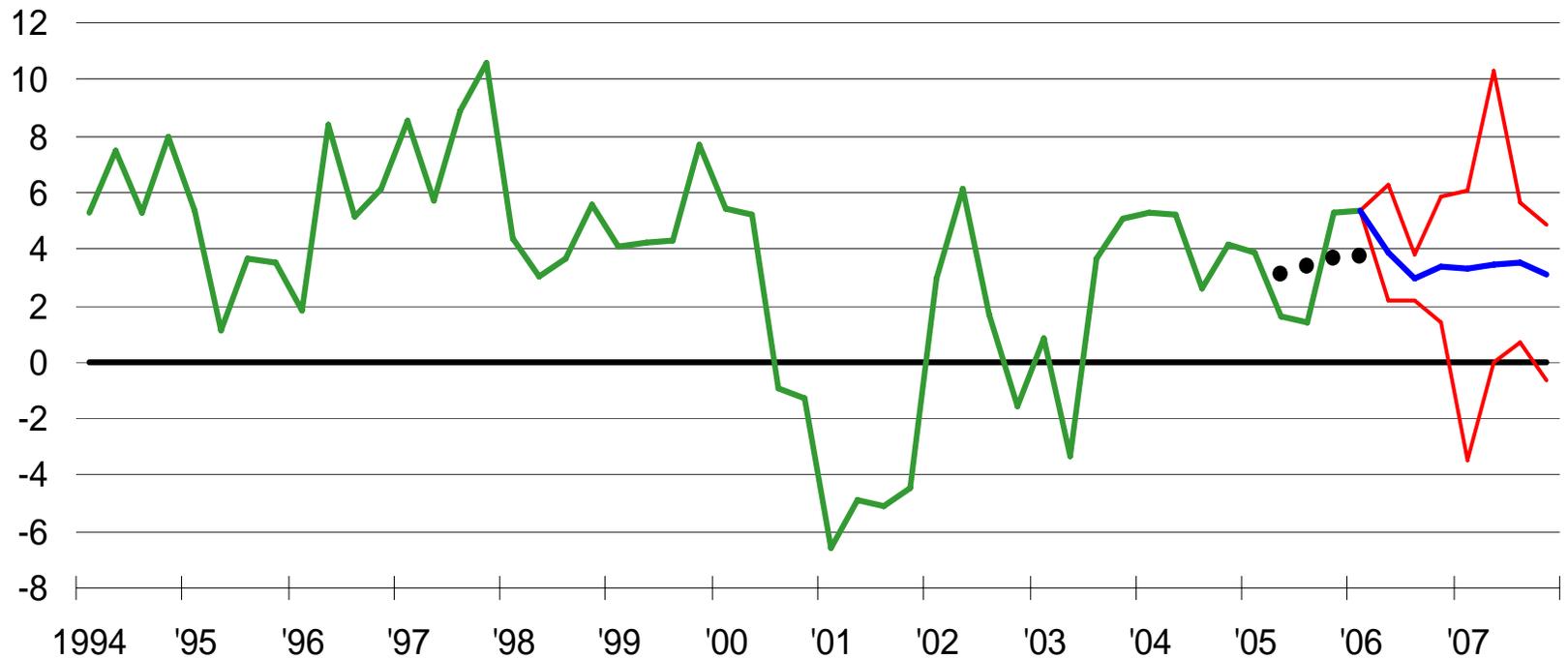
billions of constant dollars



# Industrial output growth is forecast to have solid years both this year and next

## Industrial production

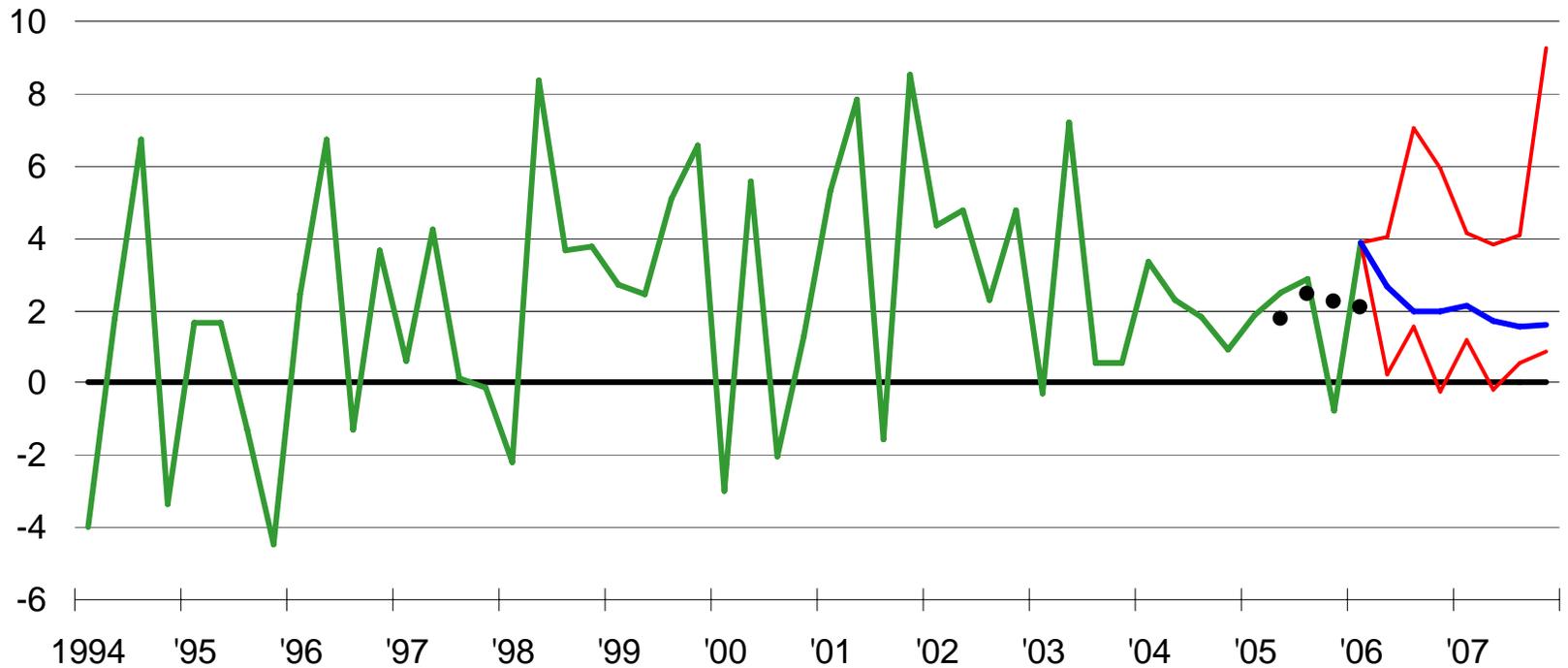
percent change, annual rate



# Government purchases growth is forecast to increase by 2.4% this year and then ease to 1.7% next year

## Government consumption

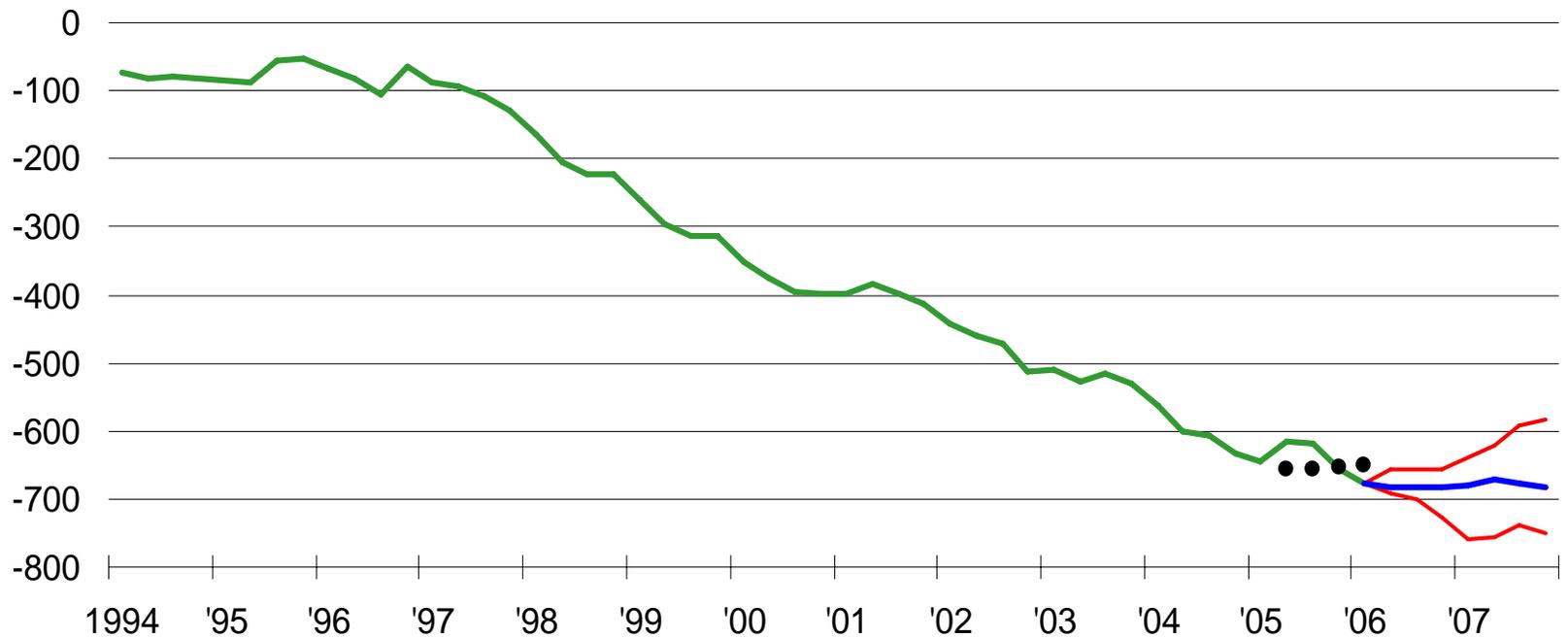
percent change, annual rate



# Net exports are expected to remain relatively flat over the forecast horizon

## Net exports of goods and services

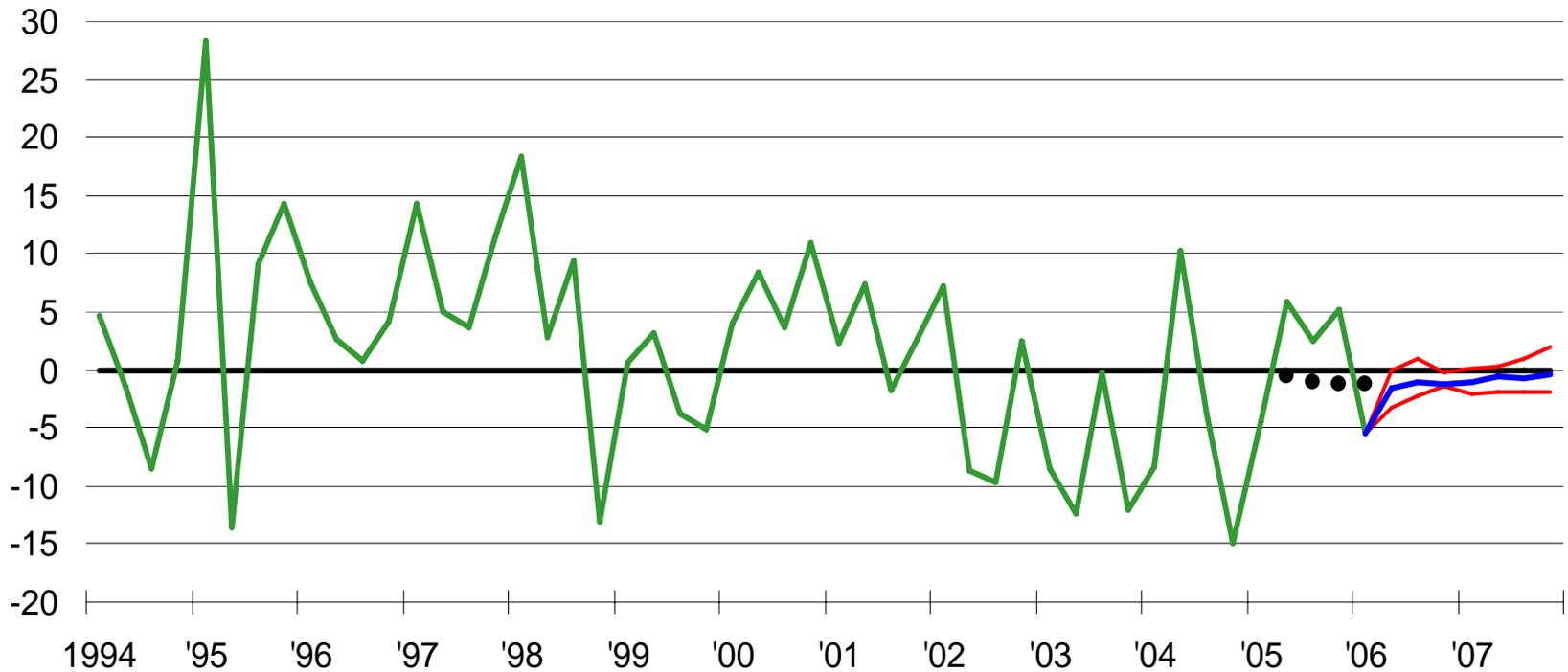
billions of constant dollars



**The dollar is forecast to fall by 1.2% this year  
and by 0.5% in 2007**

### J.P. Morgan trade weighted dollar

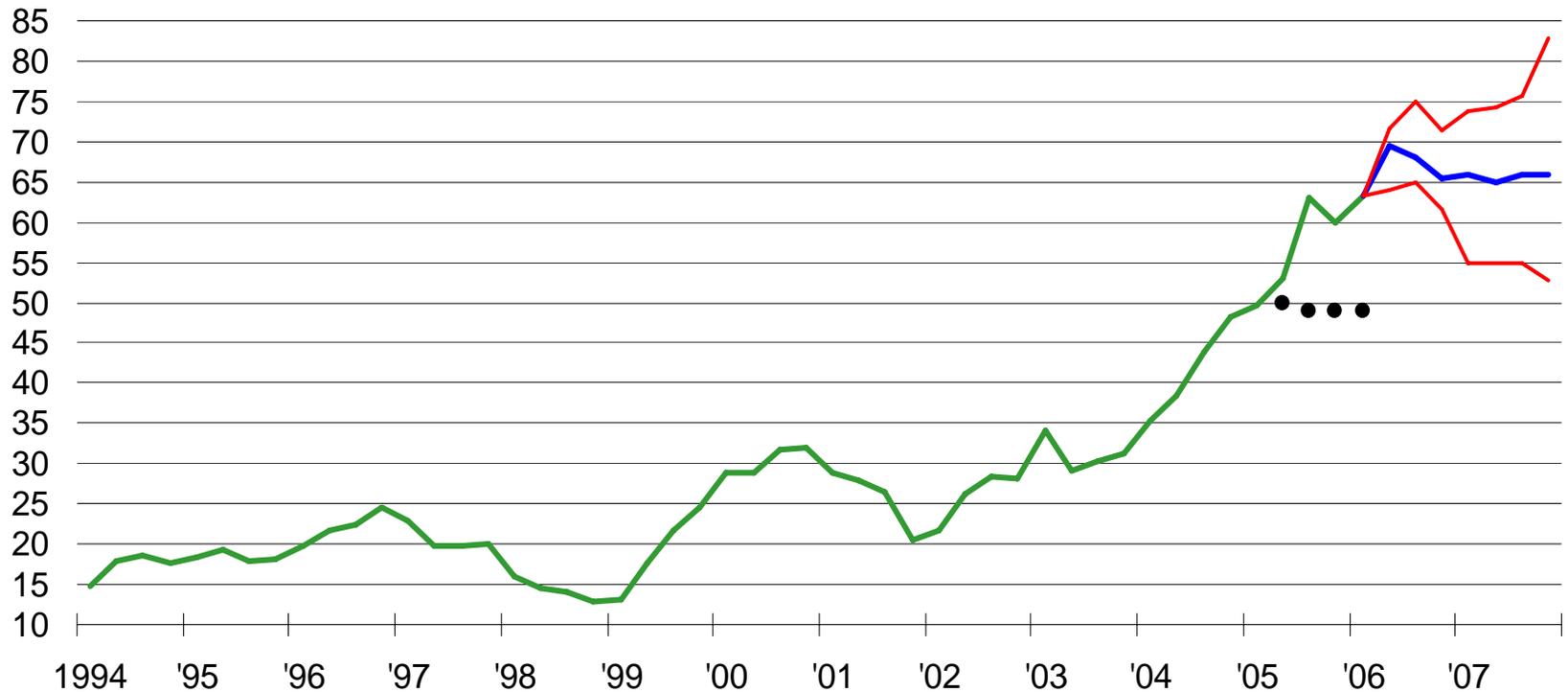
percent change, annual rate



**Oil prices are expected to average  
\$66 per barrel at the end of this year  
and then remain stable in 2007**

### Oil prices - West Texas Intermediate

Dollars per barrel



# Summary

- **The economy is forecast to have a solid year with growth around potential in 2006 and 2007**
- **Unemployment is expected to remain flat over the next two years**
- **Inflation is expected to fall over the next two years**
- **Light vehicle sales are forecast to average 16.7 million units this year and then edge up to 16.8 million in 2007**
- **[www.chicagofed.org](http://www.chicagofed.org)**