

News Release

Embargoed for release:
Monday, June 4, 2007—
12:00 p.m. (ET)
11:00 a.m. (CT)

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U.S. Economic Growth Will Edge Down in 2007 and Then Improve in 2008, Chicago Fed Automotive Outlook Symposium Participants Say

The fourteenth annual Automotive Outlook Symposium was held in Detroit on June 1 and drew more than 75 participants from manufacturing, banking, consulting and service firms, and academia. This year, 26 individuals provided a consensus outlook and forecasts for major components of real gross domestic product (GDP), as well as several key statistics for the U.S. economy. The median forecast results are presented in the table. The nation's economic growth in 2007 will be slower than in 2006, inflation will rise, and the unemployment rate will tick up, according to the median forecast of Symposium participants. Real GDP, after having risen 3.1% last year, is forecasted to increase 2.3% this year, and then rise to a trend rate of 3.0% in 2008, according to the consensus group. After rising 1.9% last year, inflation, as measured by the Consumer Price Index, is expected to rise to 3.0% this year and rise at a slower pace of 2.4% in 2008. The unemployment rate, after having averaged 4.5% in the fourth quarter of 2006, is forecasted to edge up to 4.7% in 2007 and then hold steady through 2008.

Most of the major components of real GDP are expected to contribute to the slower than usual forecast for economic growth in 2007, particularly a projected further decline in residential investment. Net exports are predicted to make a modest positive contribution to GDP in 2007. Economic growth is forecast to improve in 2008, in large part due to an expansion in spending in residential investment. Industrial production is forecast to grow at a slower pace in 2007 and then increase at a bit faster pace in 2008. Light vehicle sales are projected to be 16.5 million units in 2007, the same rate as 2006, and then to improve to 16.7 million units in 2008. Symposium participants anticipate that interest rates will edge higher this year and next with a greater increase for the 10-year rate leading to reversal in the inversion of the yield curve next year. Oil prices are expected to average just under \$62 per barrel by the end

of 2007 and then edge down a bit more next year. The U.S. dollar is expected to remain flat over the forecast horizon.

A summary of the fourteenth annual Automotive Outlook Symposium will be published in an upcoming Special Issue of the *Chicago Fed Letter*.

—William A. Strauss • *Senior Economist and Economic Advisor* • 312-322-8151

Forecasts from the Fourteenth Annual Automotive Outlook Symposium

	2006 (Actual)	2007 (Forecast)	2008 (Forecast)
Real Gross Domestic Product ^a	3.1	2.3	3.0
Real Personal Consumption Expenditures ^a	3.6	3.0	2.8
Real Business Fixed Investment ^a	6.0	3.8	4.8
Real Residential Investment ^a	-12.8	-9.4	2.7
Change in Private Inventories ^b	22.4	28.0	38.0
Net Exports of Goods and Services ^b	-582.6	-591.2	-579.4
Real Government Consumption Expenditures and Gross Investment ^a	2.7	1.7	1.7
Industrial Production ^a	3.5	2.3	2.8
Car & Light Truck Sales (Millions of Units) ^c	16.5	16.5	16.7
Housing Starts (Millions of Units) ^c	1.81	1.46	1.53
Unemployment Rate ^d	4.5	4.7	4.7
Consumer Price Index ^a	1.9	3.0	2.4
1-year Treasury Rate (Constant Maturity) ^d	4.99	5.01	5.02
10-year Treasury Rate (Constant Maturity) ^d	4.63	4.90	5.20
J.P. Morgan Trade Weighted Dollar Index ^a	-3.6	0.2	-0.1
Oil Price (Dollars per Barrel of West Texas Intermediate)	60.09	61.67	60.00

^aFourth quarter over fourth quarter percent change.

^bBillions of chained (2000) dollars.

^cFourth quarter average.

^dPercent.