

Consensus Forecast 2005 and 2006

**Twelfth Annual
Automotive Outlook Symposium**
Detroit, Michigan
June 3, 2005

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

Winners from 2004

- **Real GDP:**

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

- **Inflation:**

David Berson/Orawin Velz – Fannie Mae

Keith Schwer – UNLV

Evert Van Der Heide – Calvin College

Winners from 2004

- **Unemployment rate:**

David Berson/Orawin Velz – Fannie Mae

Jarlath Costello/Ellen Hughes-Cromwick – Ford Motor Co.

Dave Czechowski – Portland Cement Association

Rick Dziobak – Accuride Corp.

Peter G. Glassman – Bank One

Manuel Gutierrez – Kohler Co.

Paul Kasriel – Northern Trust

Bernard Lashinsky – Consulting Economist

Robert Schnorbus – J.D. Power and Associates

Paul Taylor – National Automobile Dealers Association

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

Winners from 2004

- **Car and light truck sales:**

Zachery Anderson – Nissan North America

Robert DiCianni – Mittal Steel

Van Jolissaint – DaimlerChrysler

Frank Kolbe – The Association for Manufacturing Technology

Don Nichols – University of Wisconsin – Madison

Robert Schnorbus – J.D. Power and Associates

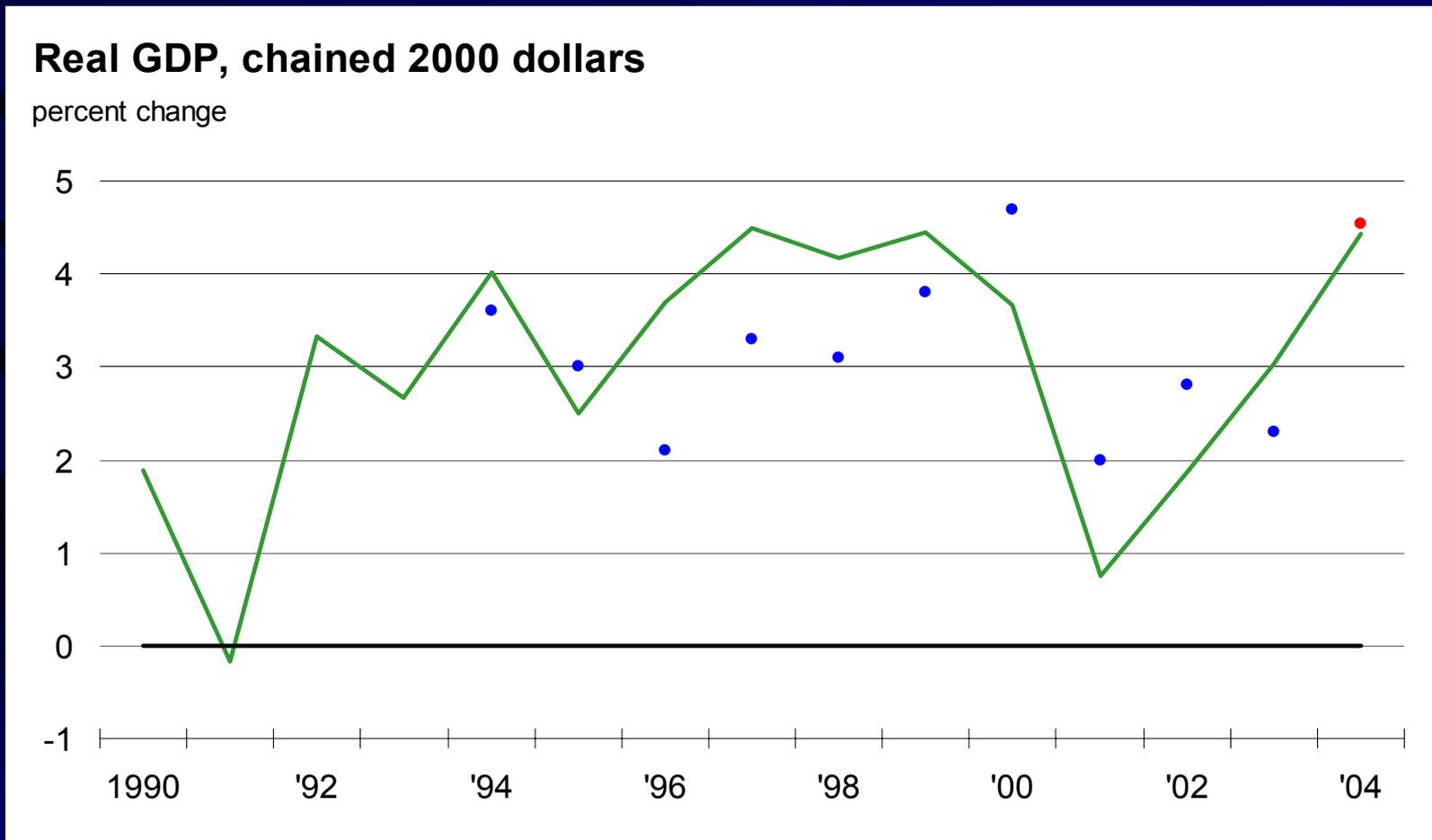
Carolyn Scott – McCoy Scott & Company

Winners from 2004

- **Best Overall Economic Forecast:**
Van Jolissaint – DaimlerChrysler

Review of past performance

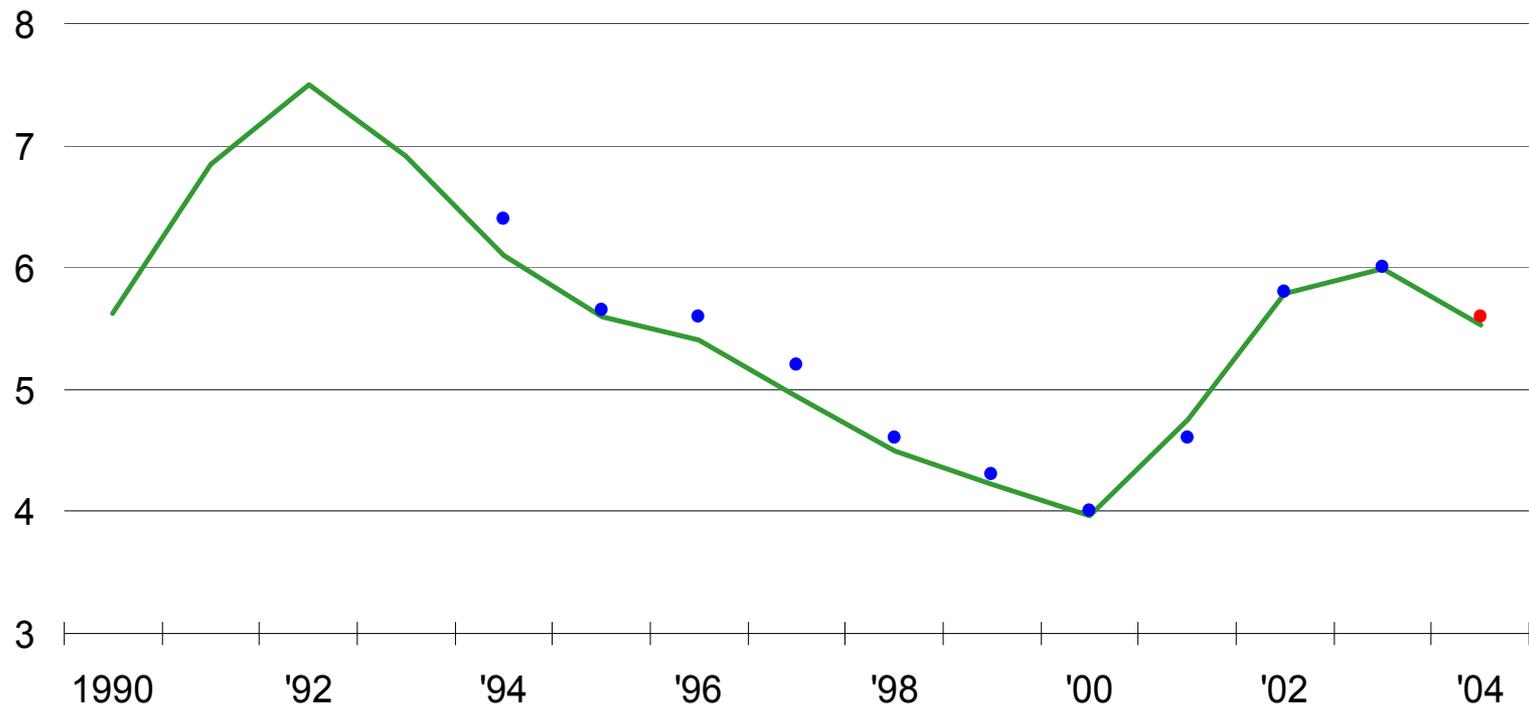
The median forecast for real GDP growth was quite accurate



The unemployment rate matched the forecast

Unemployment rate

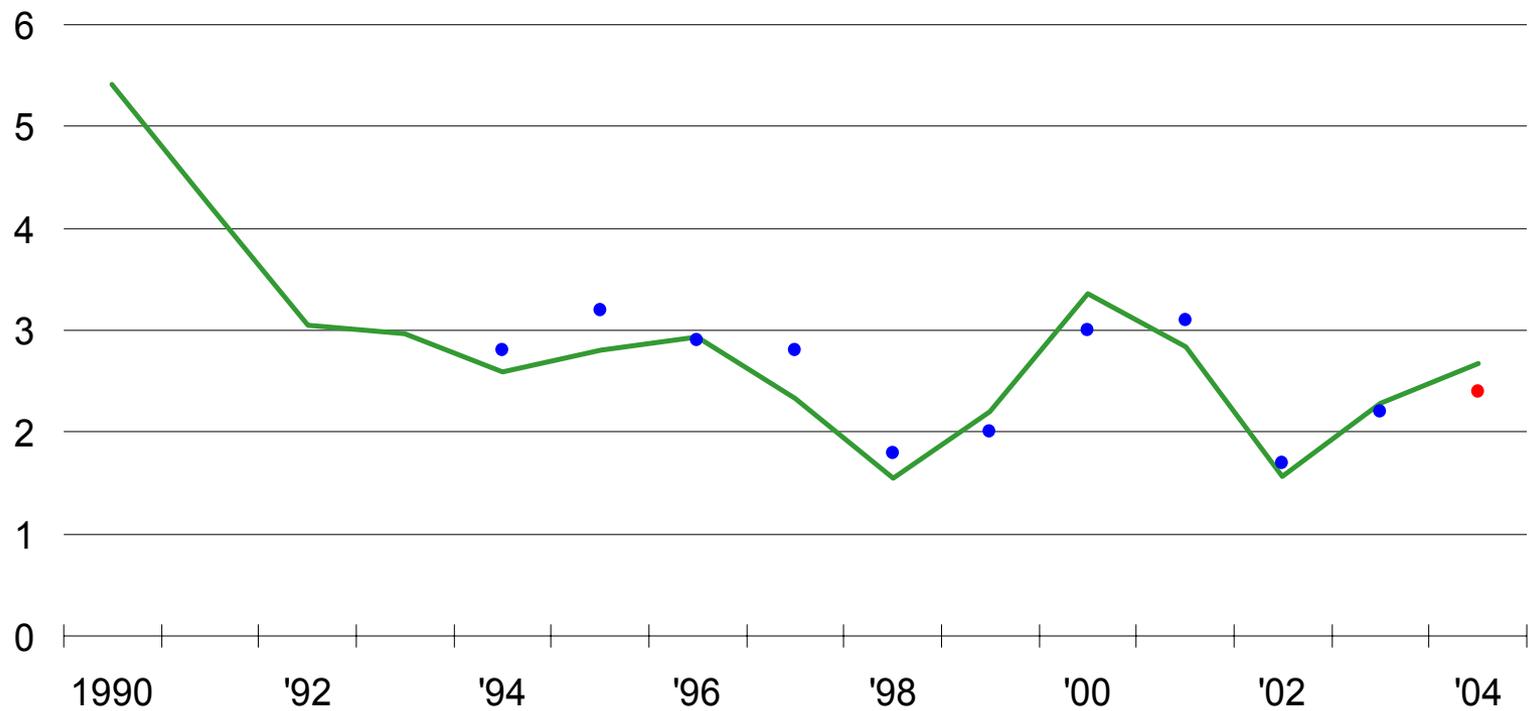
percent



Inflation was a bit higher than expected

Consumer price index

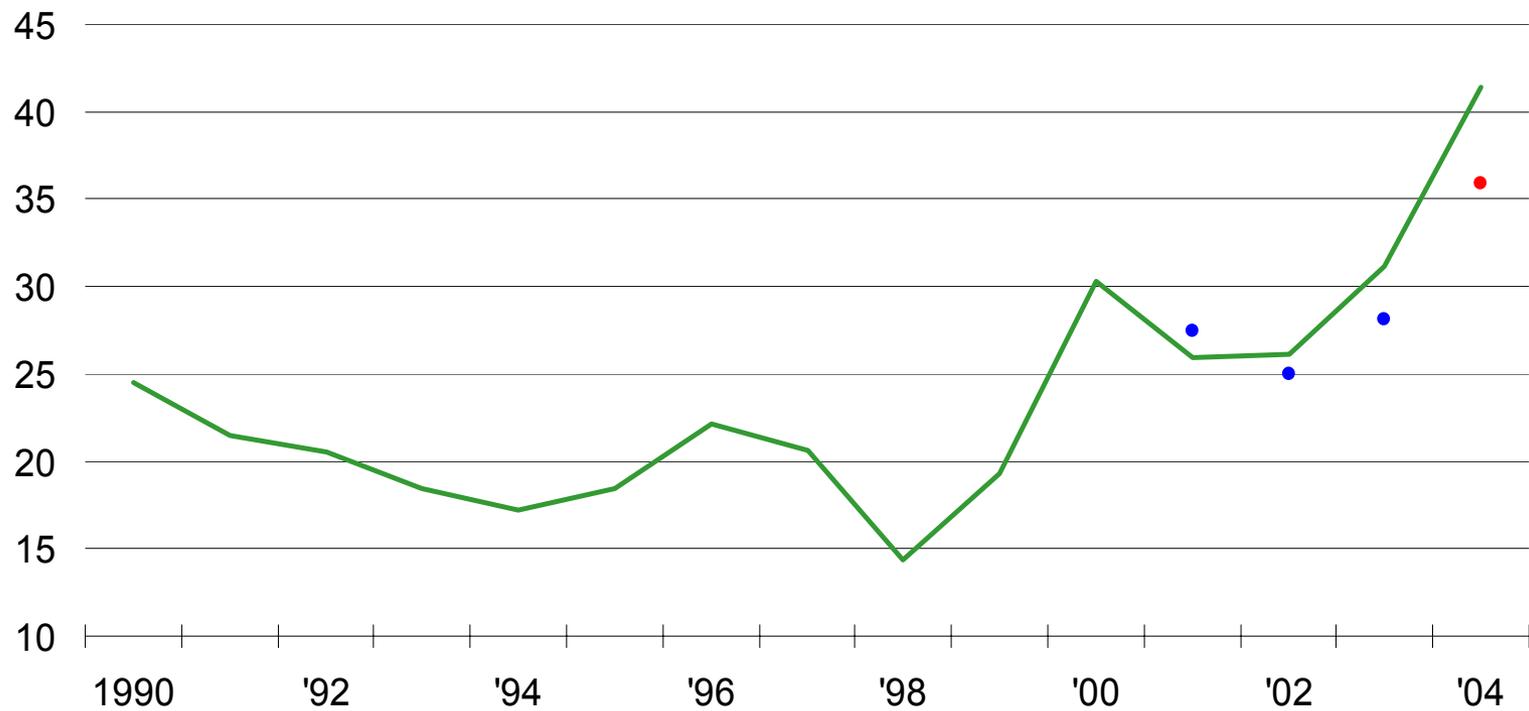
percent change



In part due to higher energy prices than forecast

Oil prices - West Texas intermediate

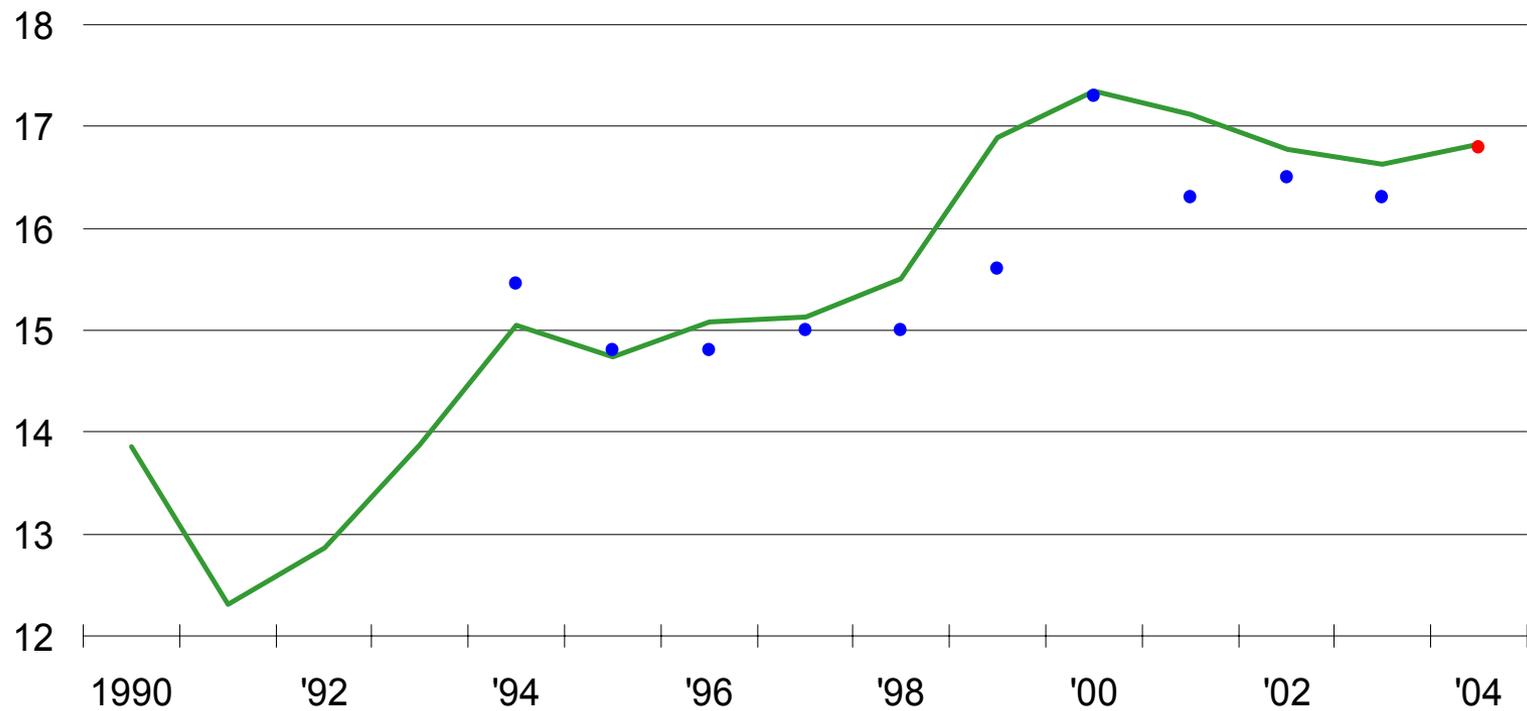
dollars per barrel



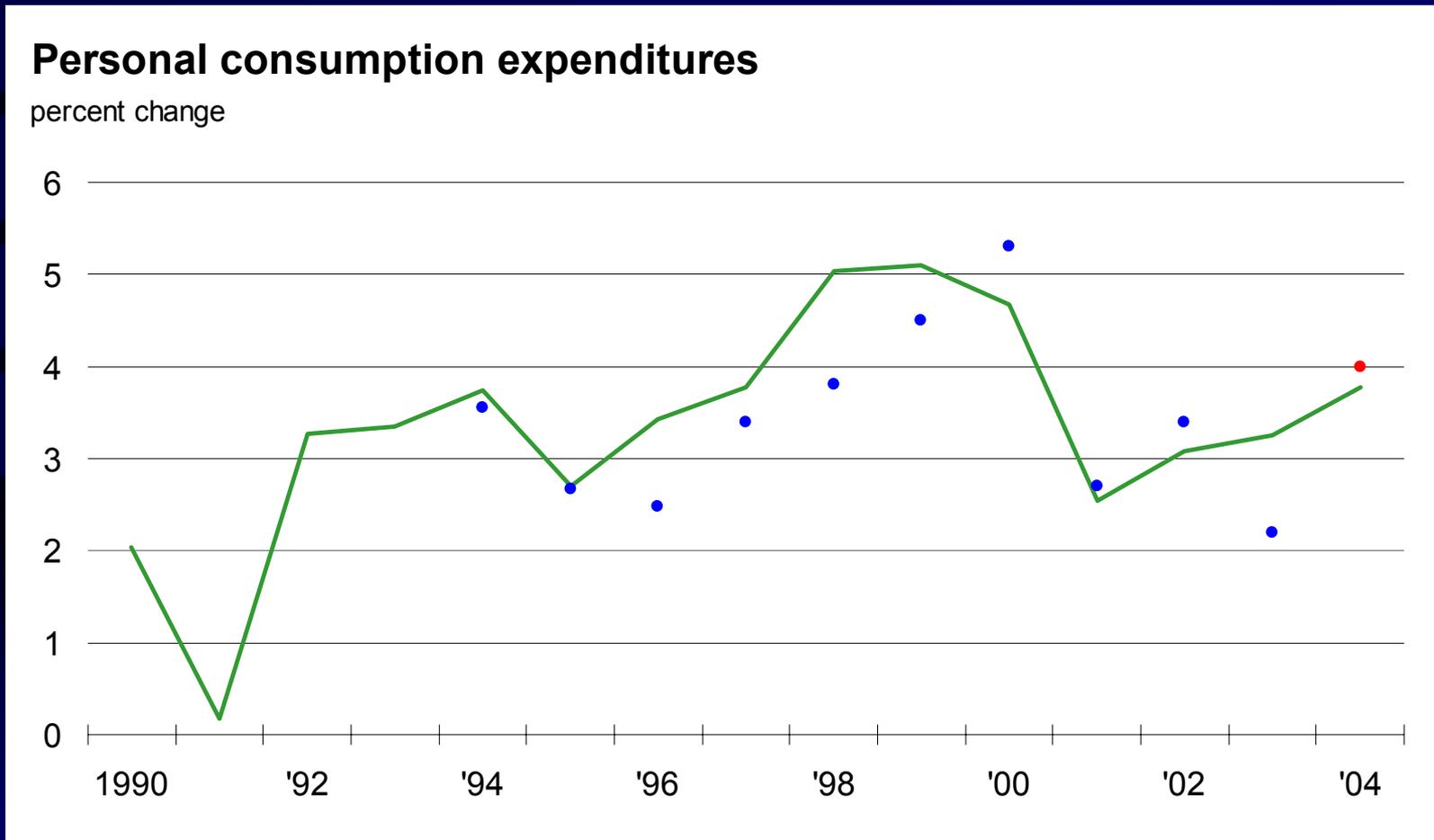
Car and light truck sales were nailed

Car and light truck sales

millions of units



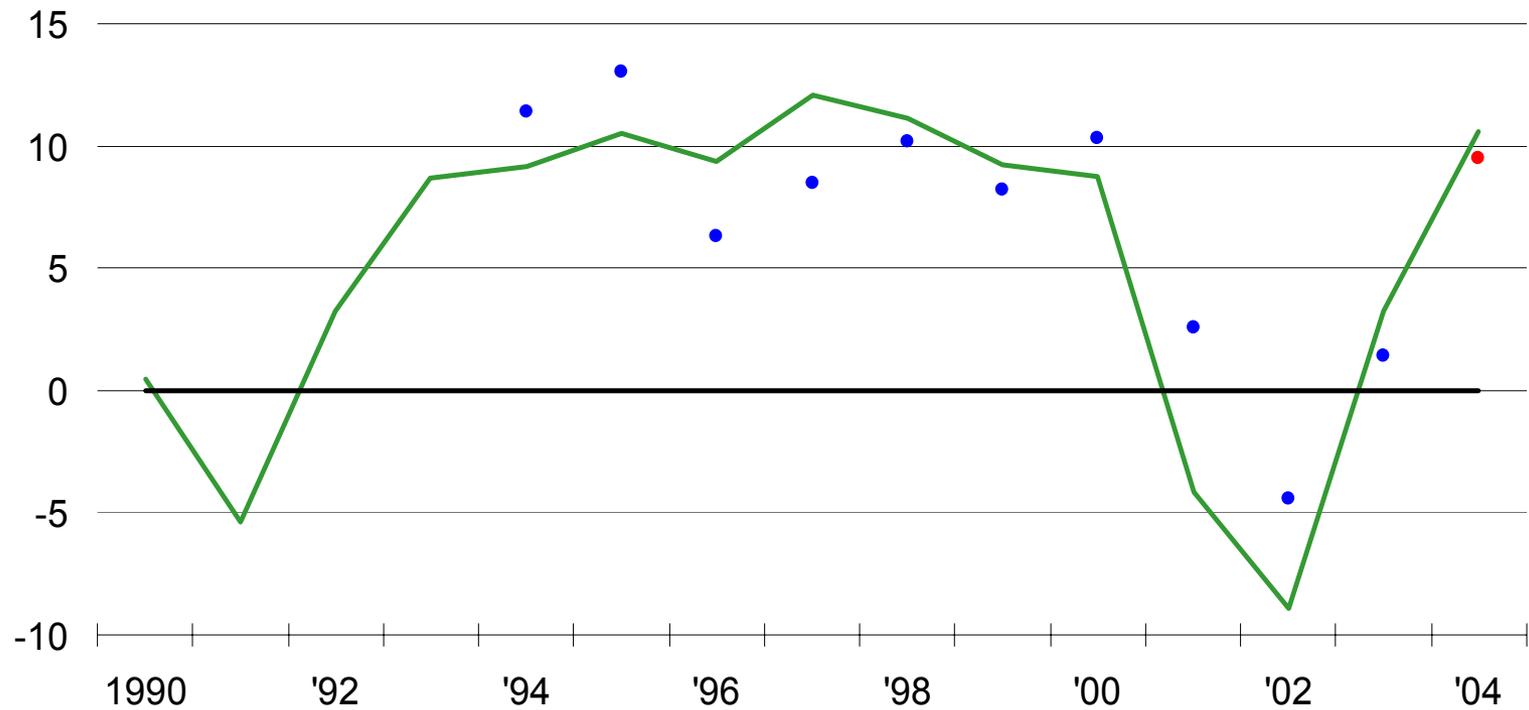
Consumer spending growth was accurately predicted



As was business spending growth

Nonresidential fixed investment

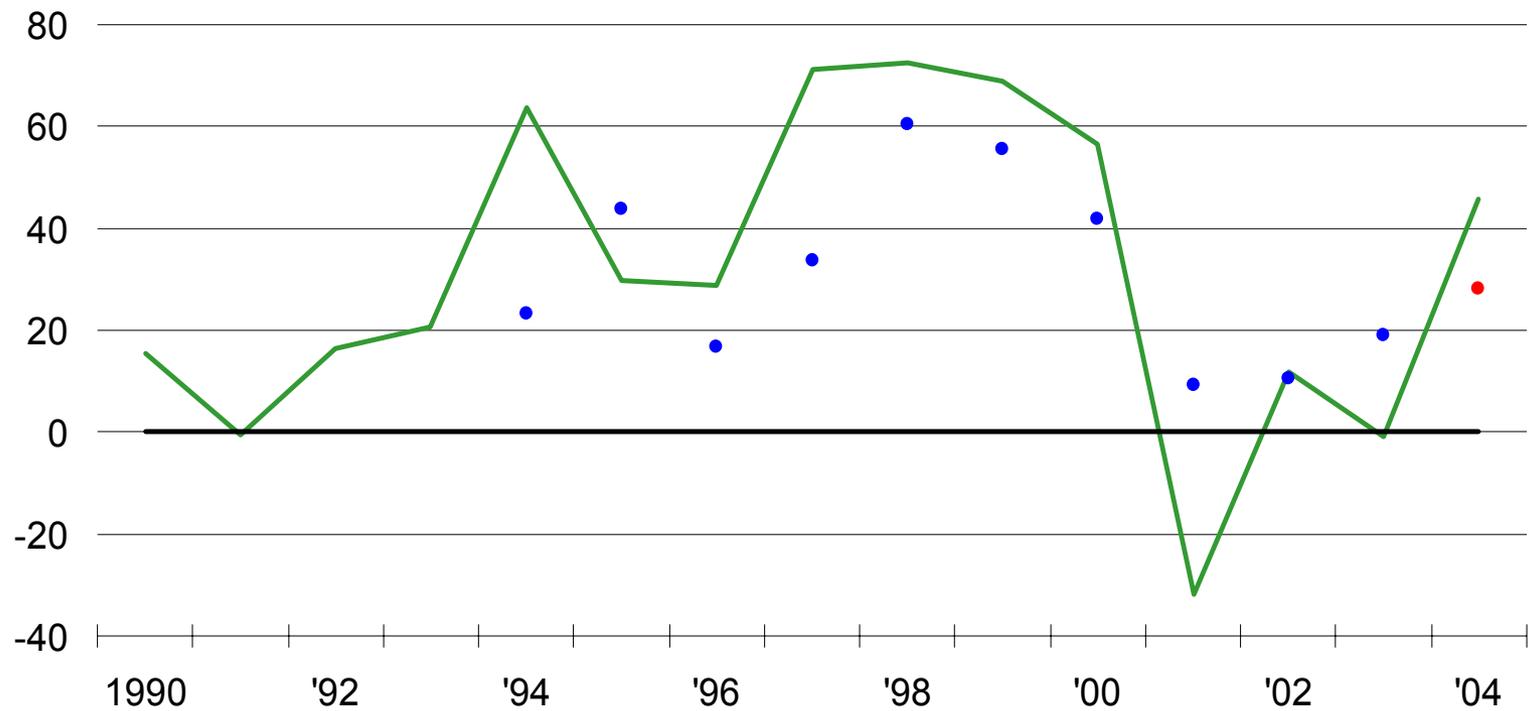
percent change



Business inventories grew at a more rapid pace than expected

Change in business inventories

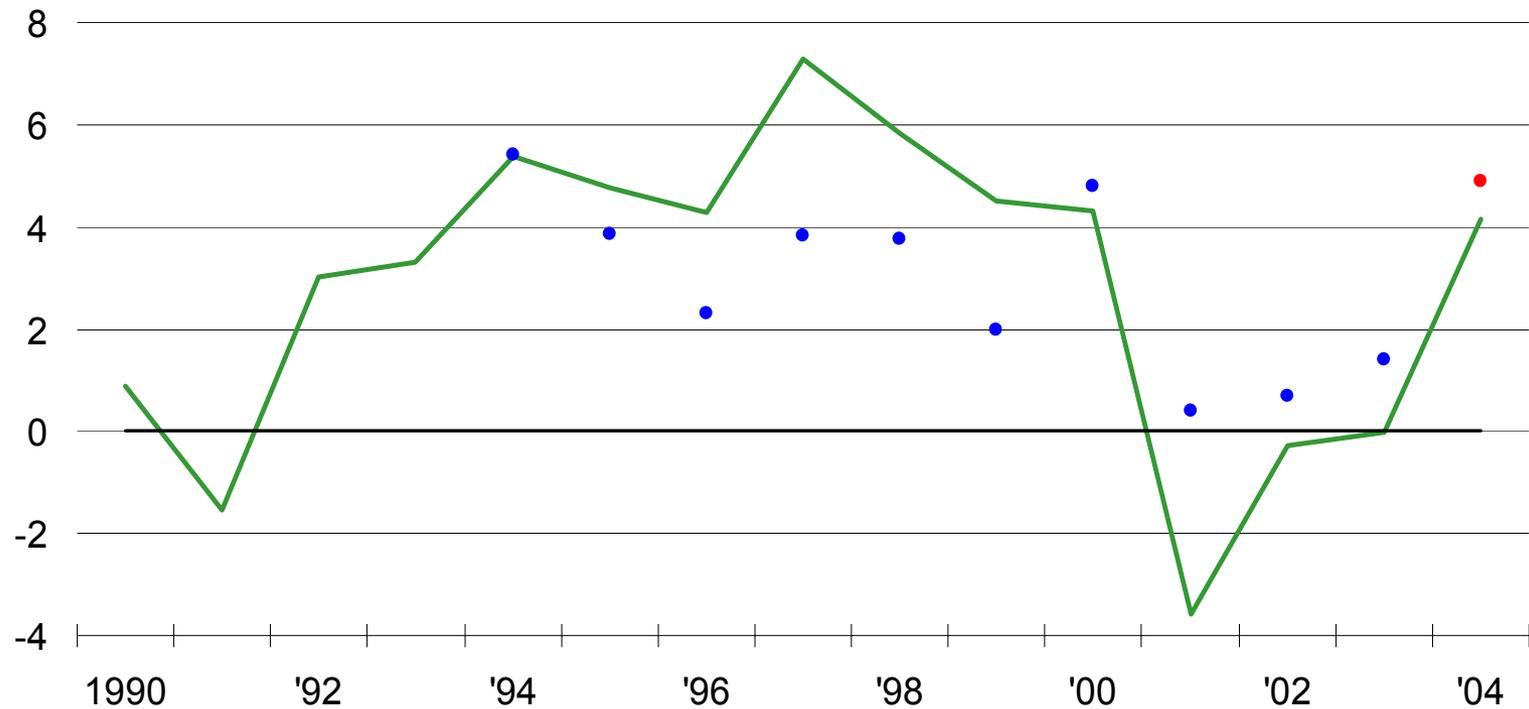
billions of constant dollars



**While industrial production increased
for the first time in three years,
the gain was just a bit below expectations**

Industrial production

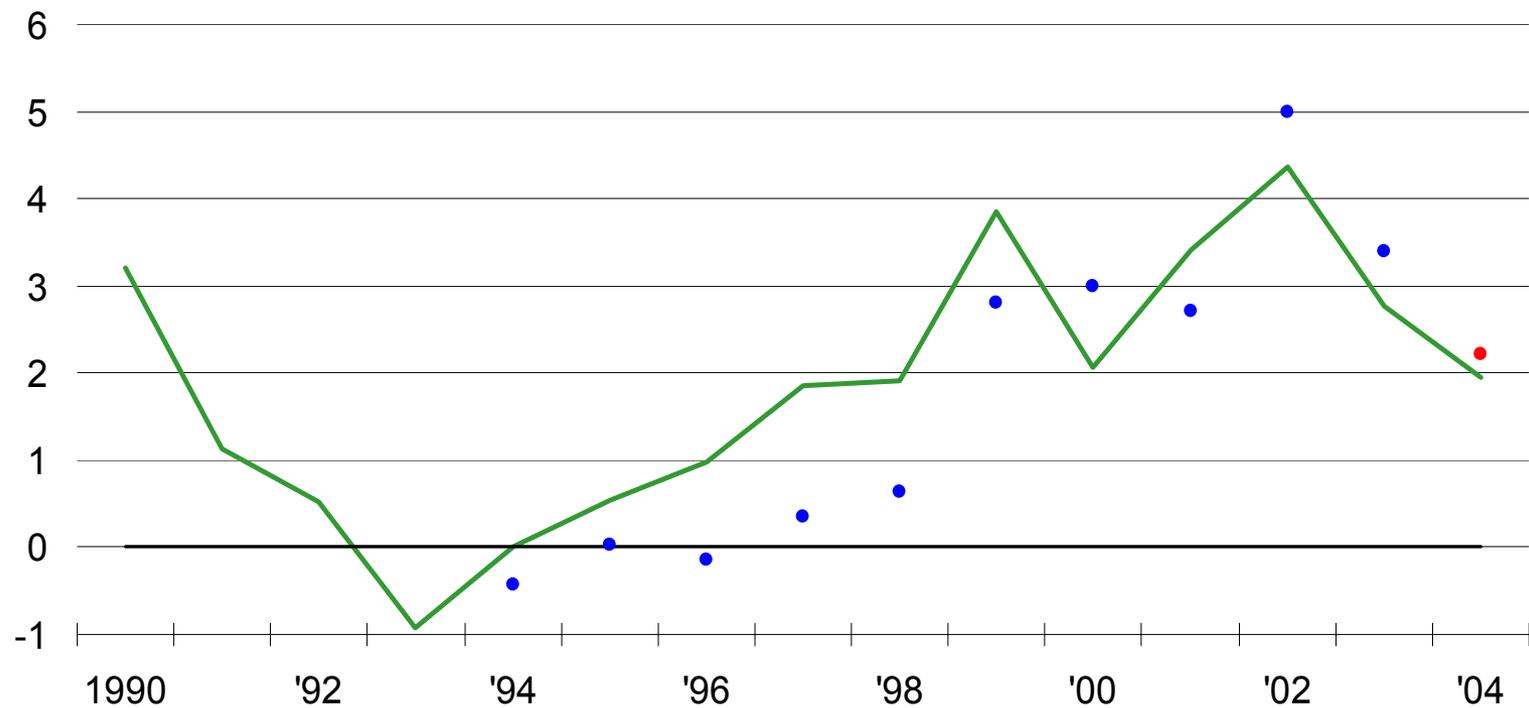
percent change



Government spending was accurately predicted

Government consumption

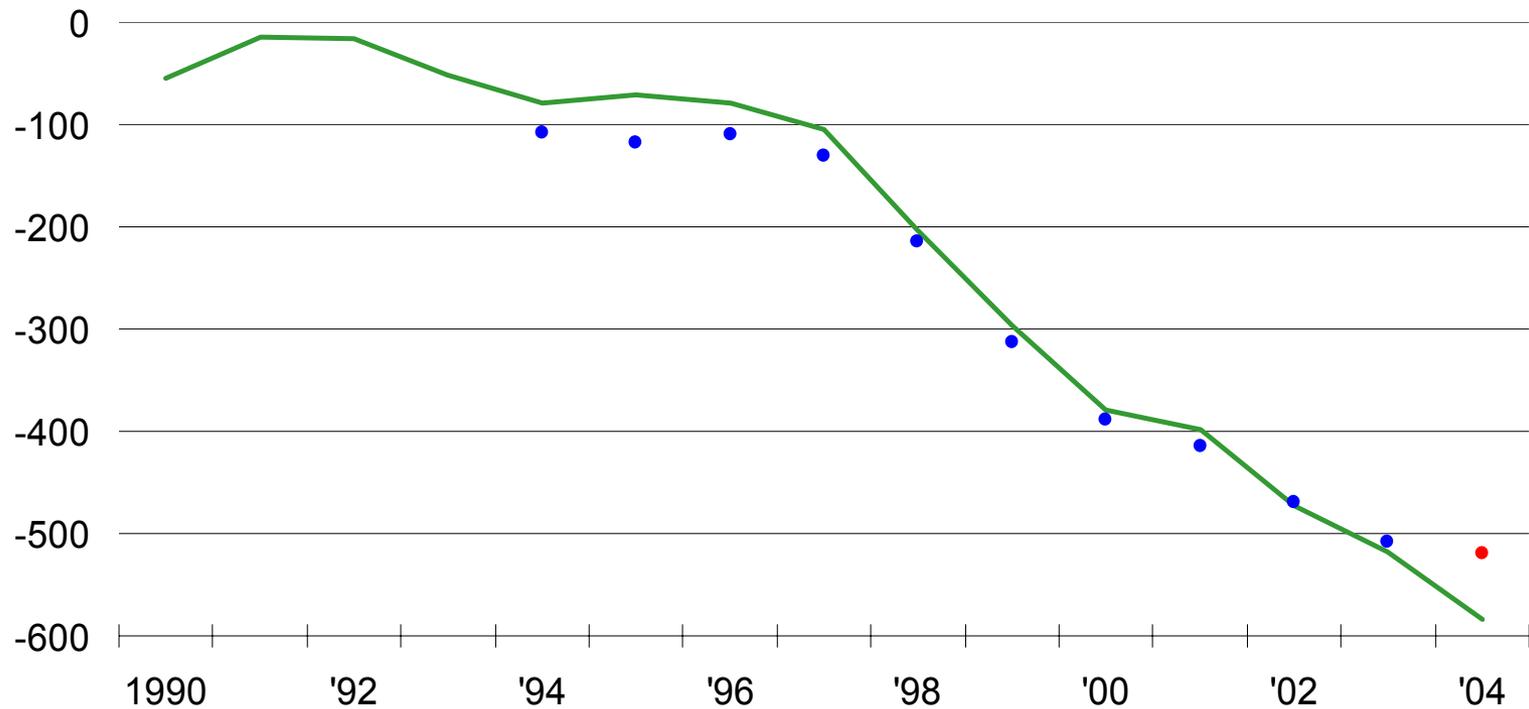
percent change



The trade deficit increased at a more rapid pace than forecast

Net exports of goods and services

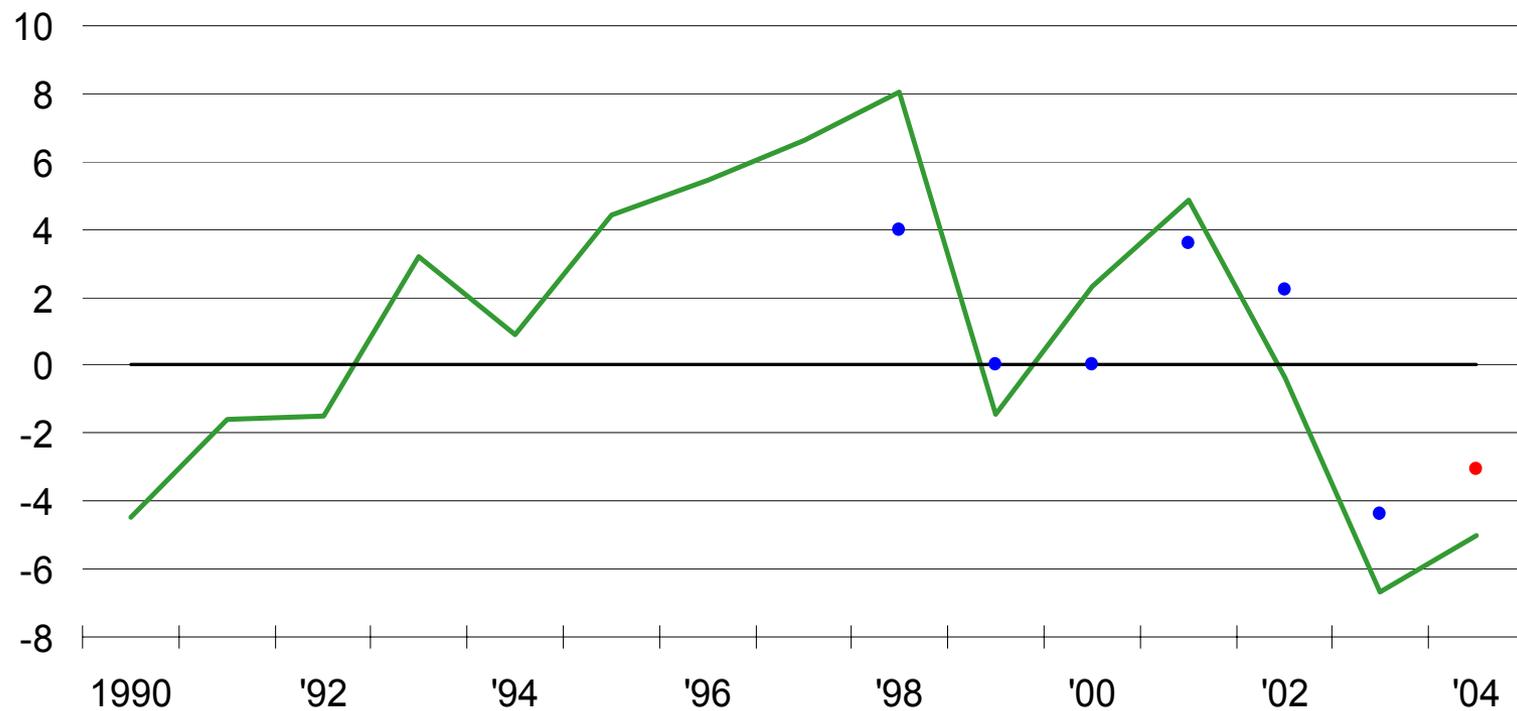
billions of constant dollars



The dollar moved lower than forecast

J.P. Morgan trade weighted dollar

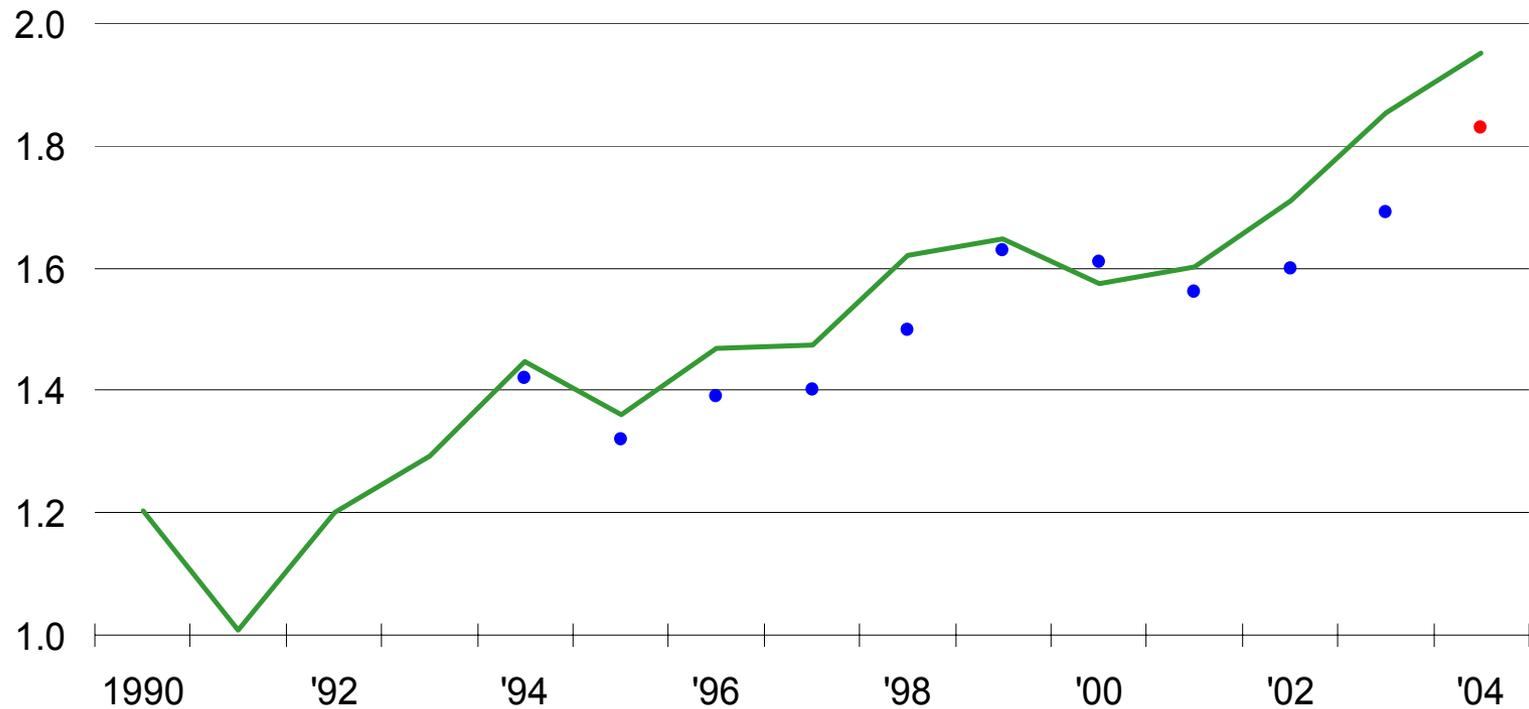
percent change



Once again, the housing market surprised participants by increasing at a higher level than forecast

Housing starts

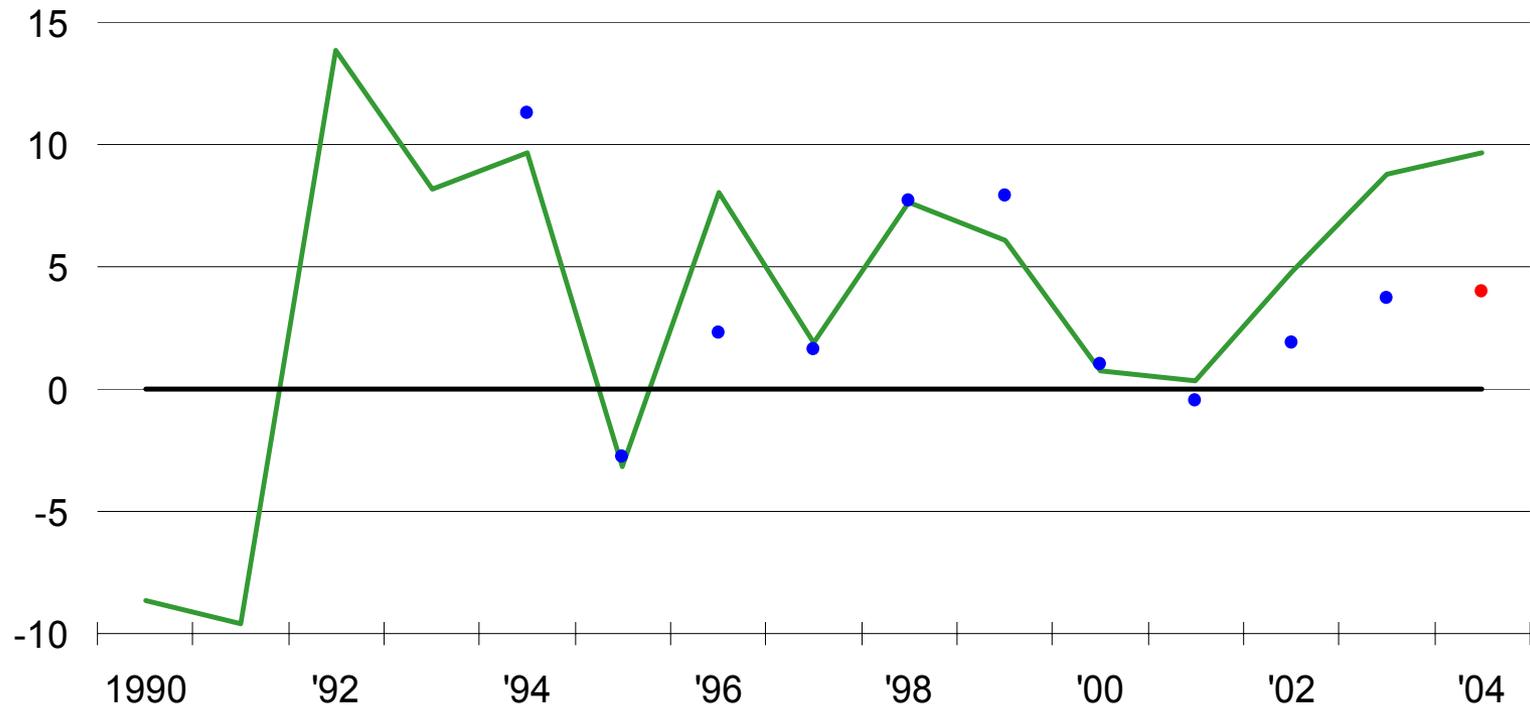
millions of units



This poor housing prediction led to a large miss on residential investment

Residential investment

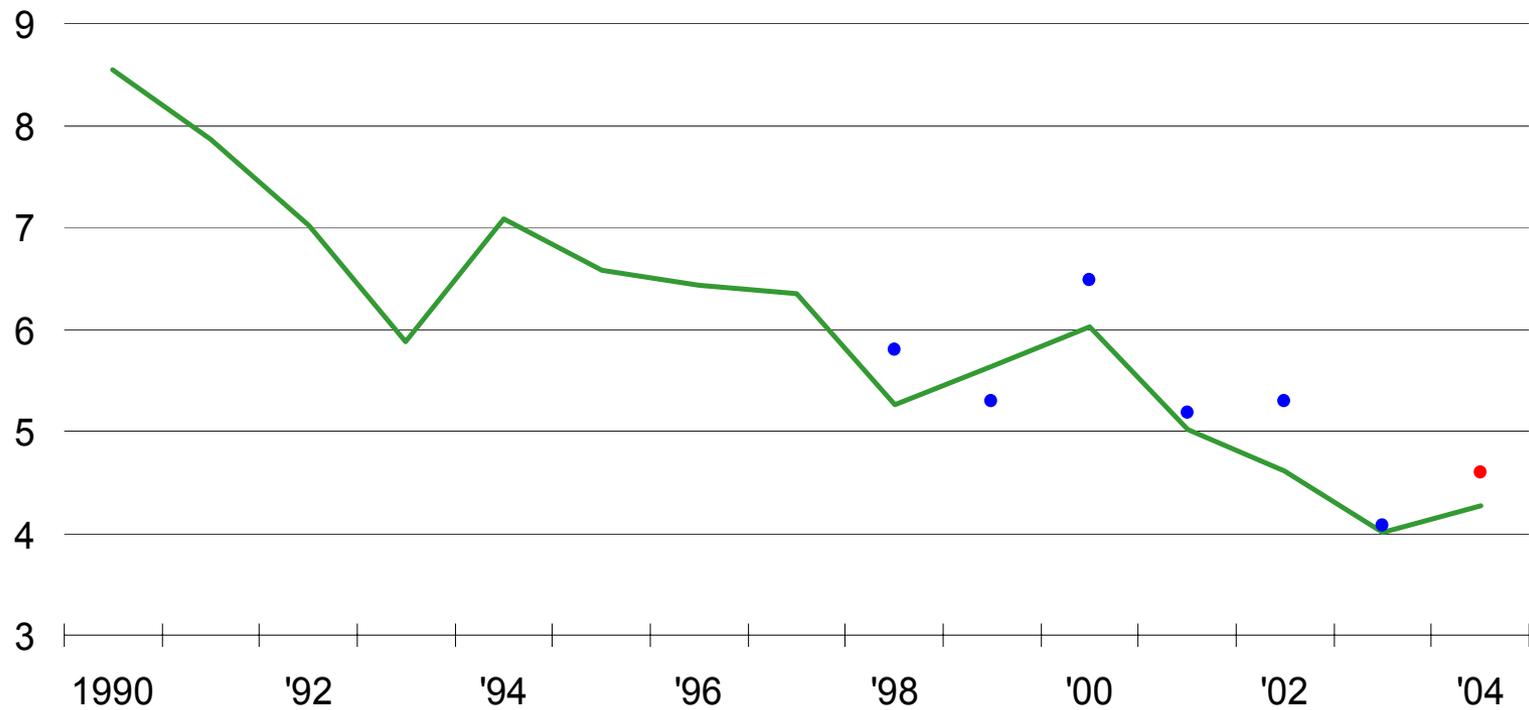
percent change



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

Treasury ten-year rate

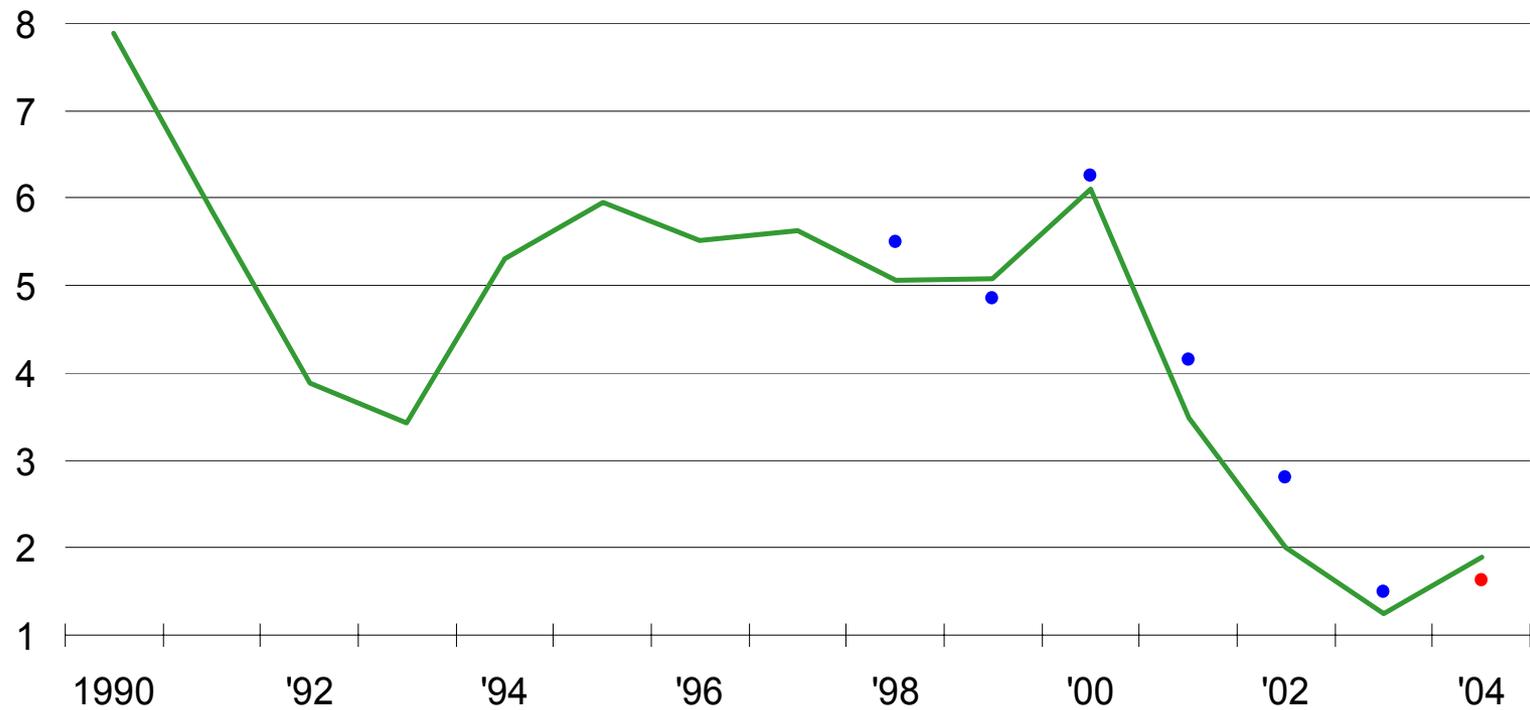
percent



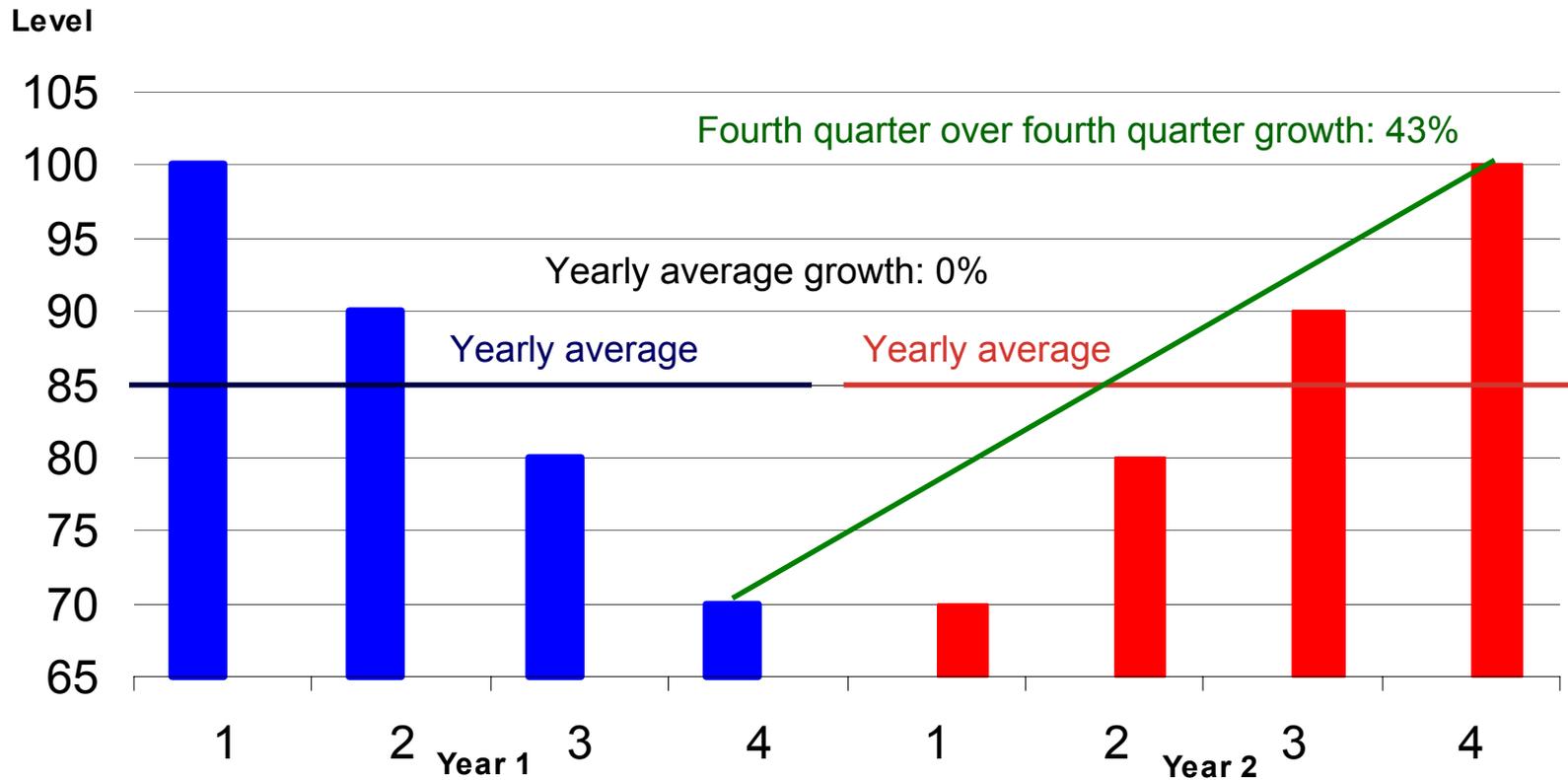
Short-term interest rates were a bit higher than forecast

Treasury one-year rate

percent



New approach for the consensus outlook



Forecast for 2005 and 2006

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

	2004	2005	2006
GDP, current dollars*	6.4%	5.7%	5.3%
GDP price index, chain-type*	2.4%	2.3%	2.2%
Real GDP, chained dollars*	4.4%	3.2%	3.3%
Personal consumption expenditures*	3.8%	3.3%	3.3%
Business fixed investment*	10.6%	7.1%	6.8%
Residential investment*	9.7%	1.0%	-2.1%
Change in private inventories (billions of constant dollars)**	\$45.7	\$56.0	\$55.0
Net exports of goods and services (billions of constant dollars)**	-\$583.7	-\$654.7	-\$629.4
Government consumption expenditures and gross investment*	1.9%	1.8%	1.9%

* Fourth quarter over fourth quarter

** Fourth quarter value

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

	2004	2005	2006
Industrial production*	4.1%	3.5%	3.7%
Car & light truck sales (millions - calendar year including imports)***	16.8	16.7	16.8
Housing starts (millions)***	1.95	2.00	1.84
Oil price (dollars per barrel of West Texas Intermediate)**	\$41.44	\$49.00	\$47.22
Unemployment rate**	5.5%	5.2%	5.2%
Inflation rate (consumer price index)*	2.7%	2.7%	2.7%
Treasury constant maturity 1-year rate**	1.89%	3.80%	4.45%
Treasury constant maturity 10-year rate**	4.27%	4.90%	5.21%
J.P. Morgan trade weighted OECD dollar*	-5.0%	-0.7%	-0.1%

* Fourth quarter over fourth quarter

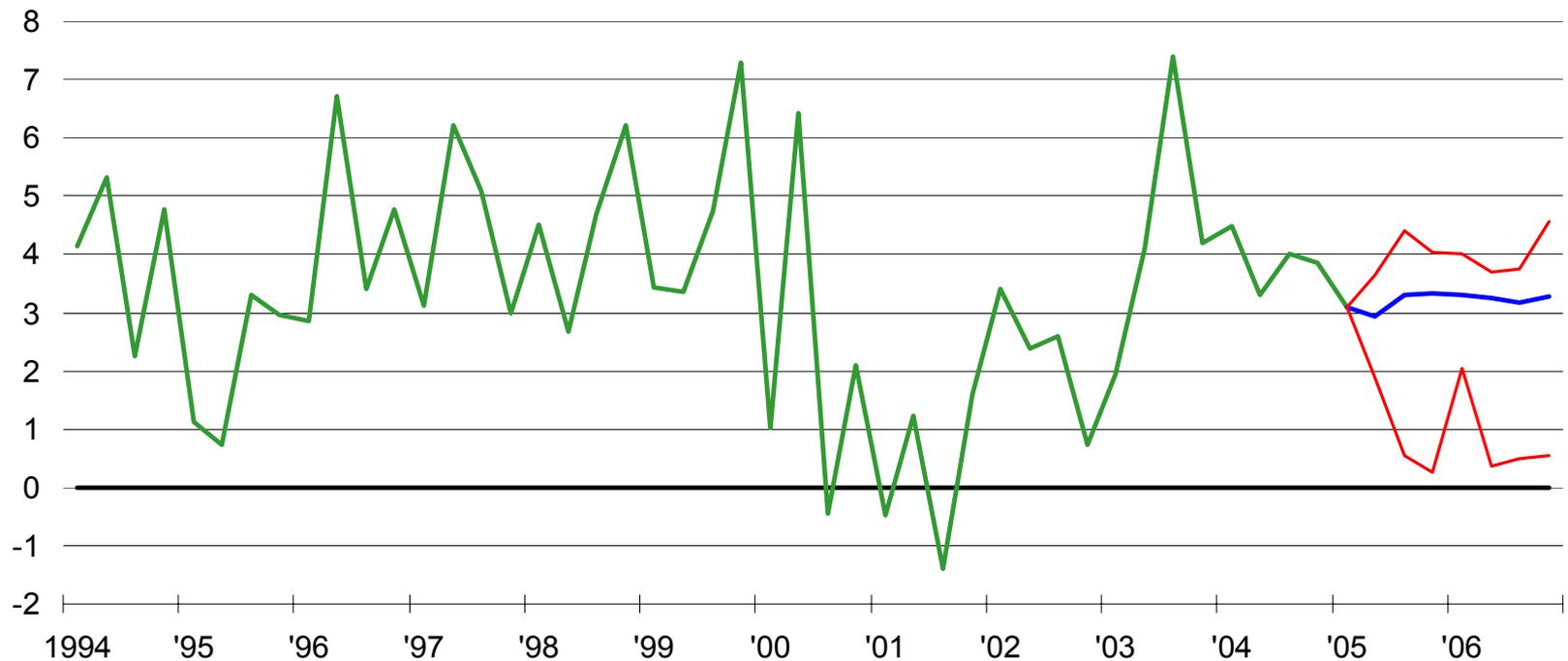
** Fourth quarter value

*** Yearly average

Real GDP growth is expected to slow to 3.2% this year and then edge up to 3.3% next year, within the bounds of potential growth for the economy

Real GDP, chained 2000 dollars

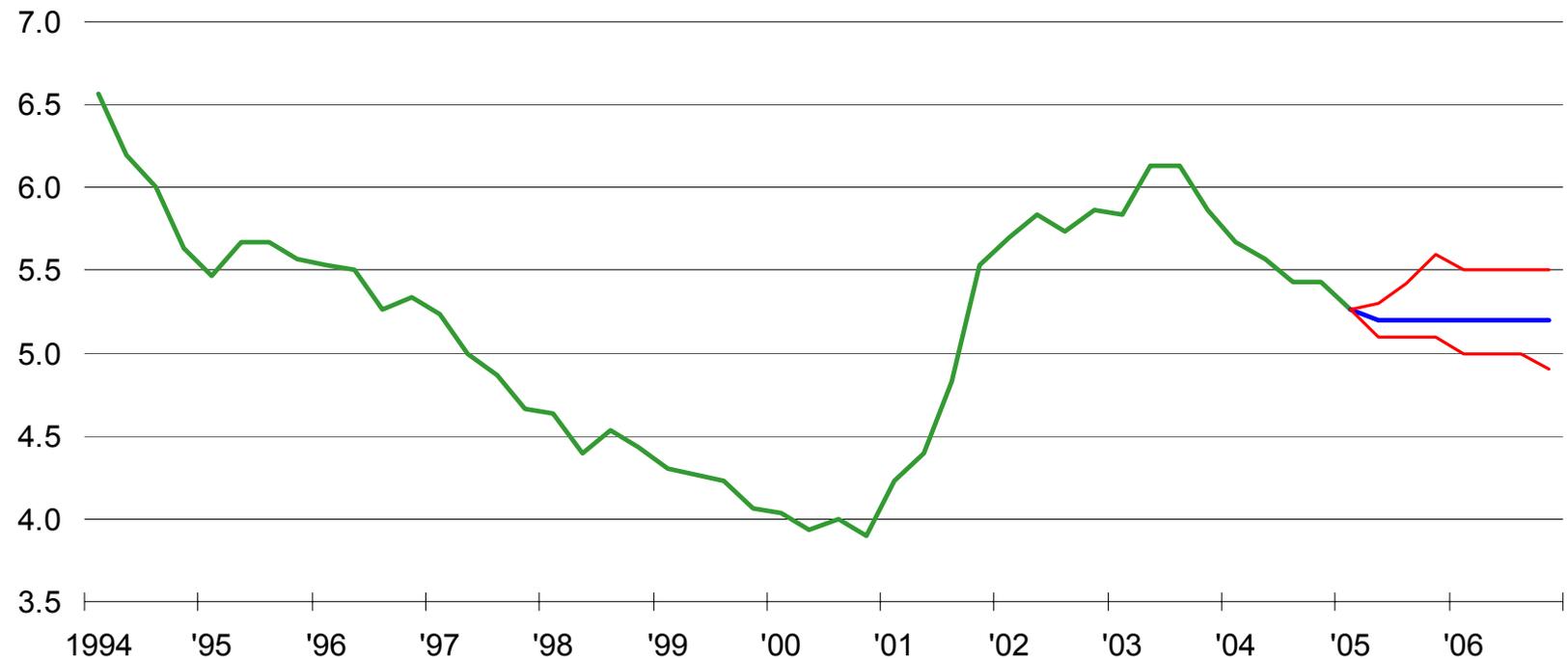
percent change, annual rate



The unemployment rate should average 5.2% at the end of this year and remain at that level next year

Unemployment rate

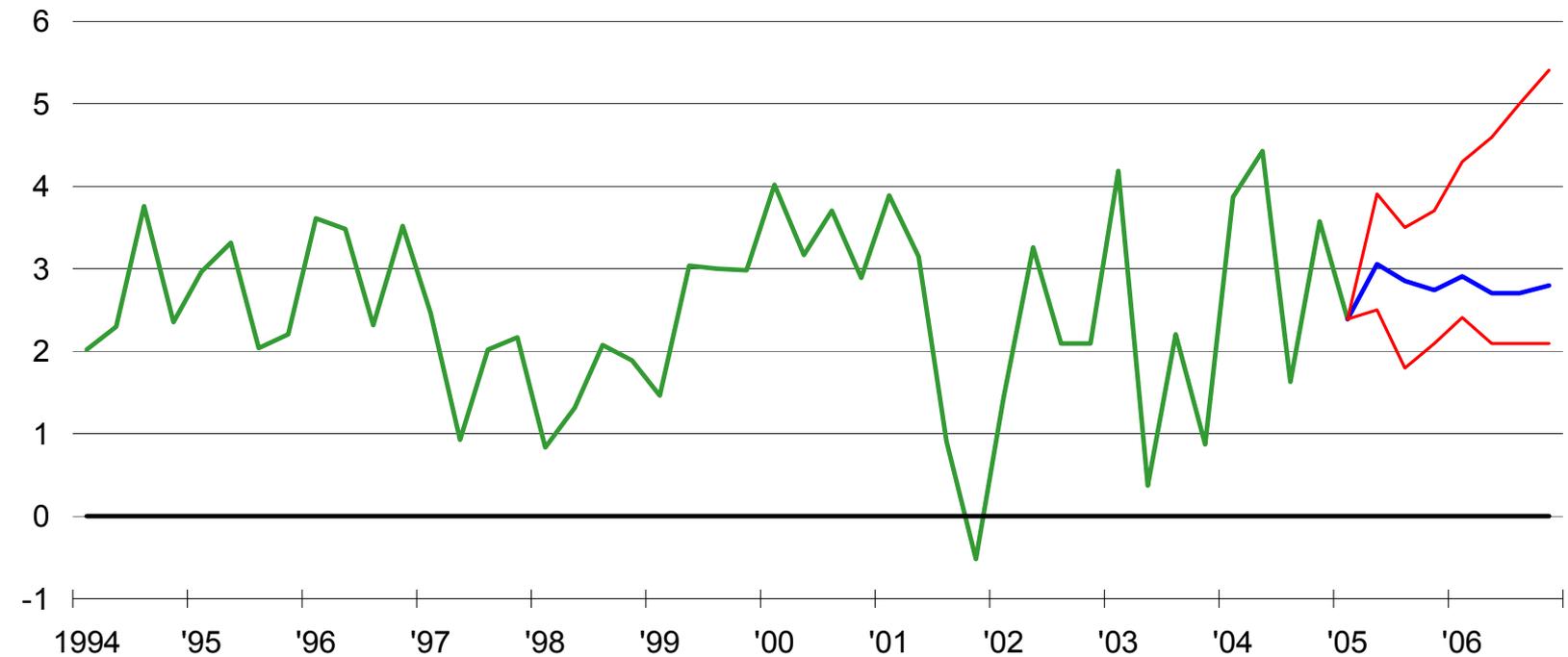
percent



The inflation rate is expected to remain fairly flat over this year and next

Consumer price index

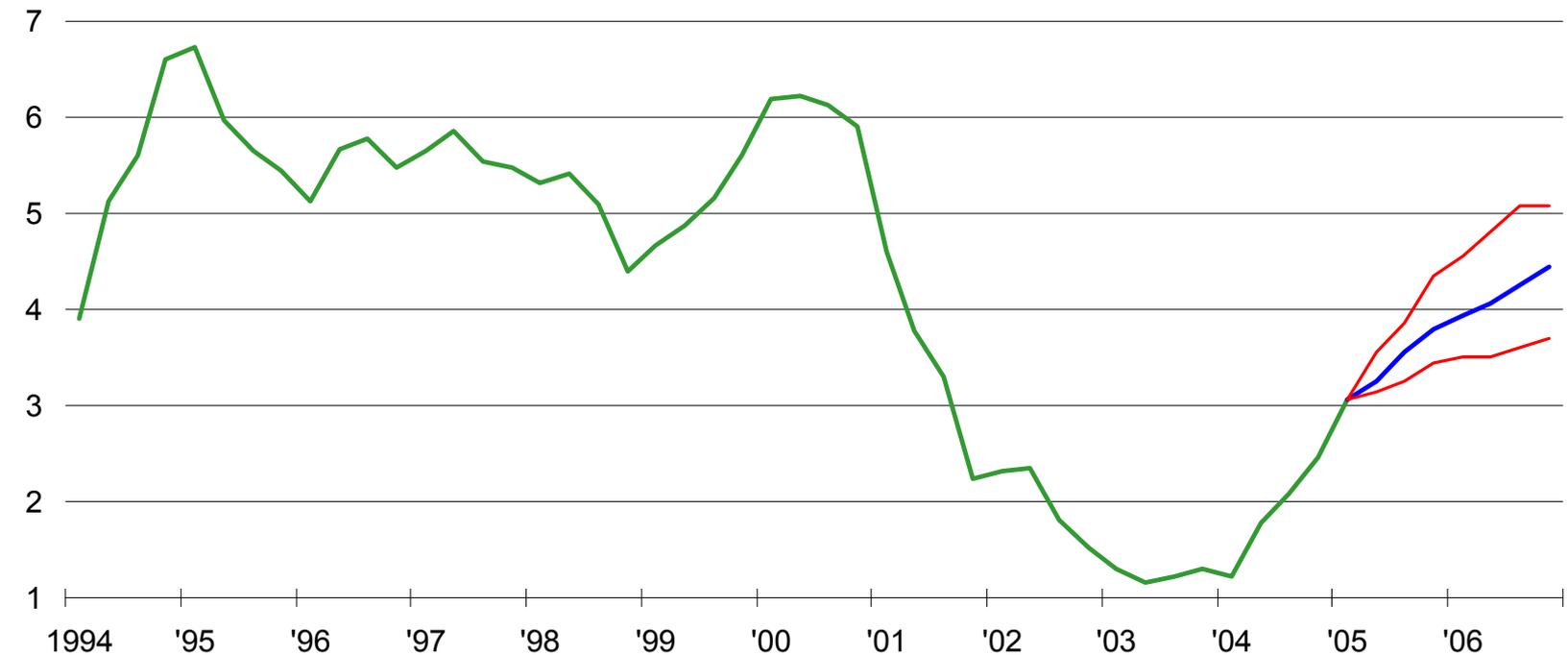
percent change, annual rate



Short-term interest rates are forecast to rise by 191 basis points in 2005 and then an additional 65 basis points in 2006

Treasury one-year rate

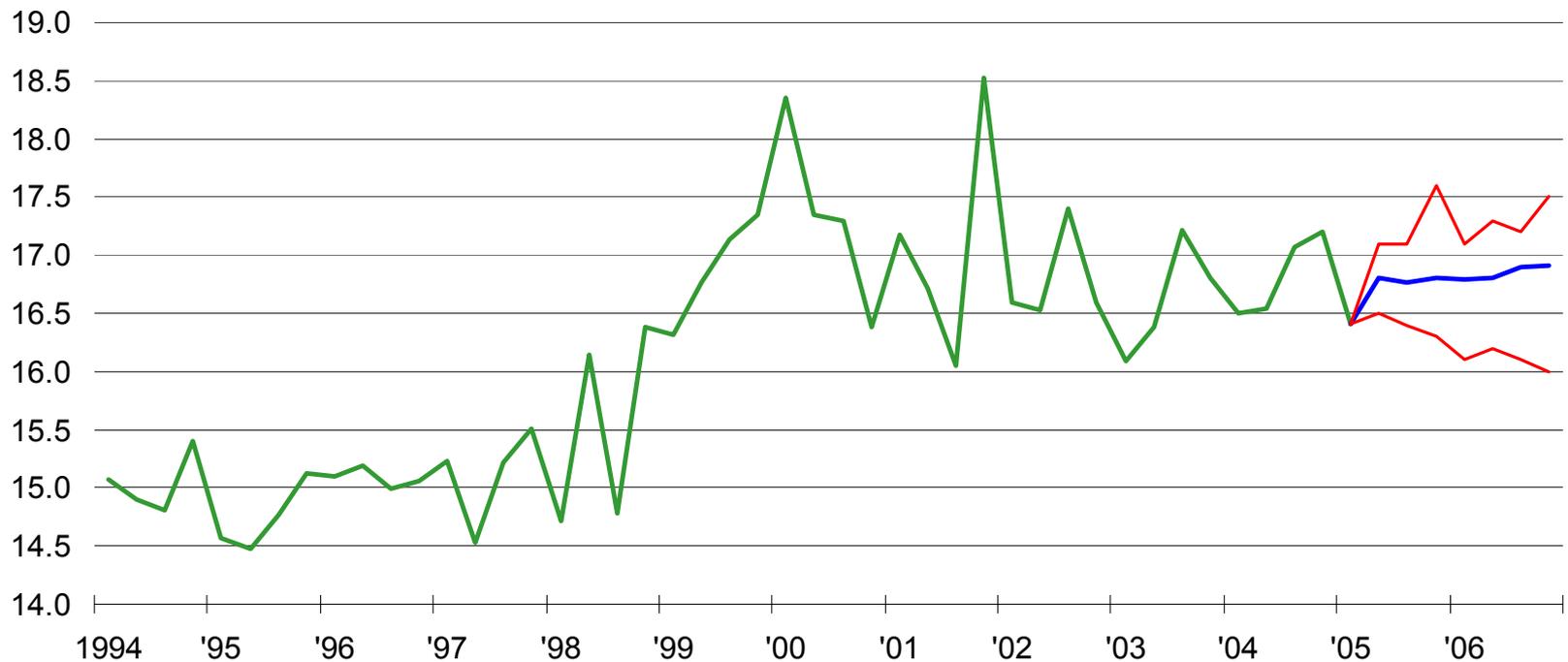
percent



Light vehicle sales are forecast to average 16.7 million units in 2005 and rise to 16.8 million units in 2006

Car and light truck sales

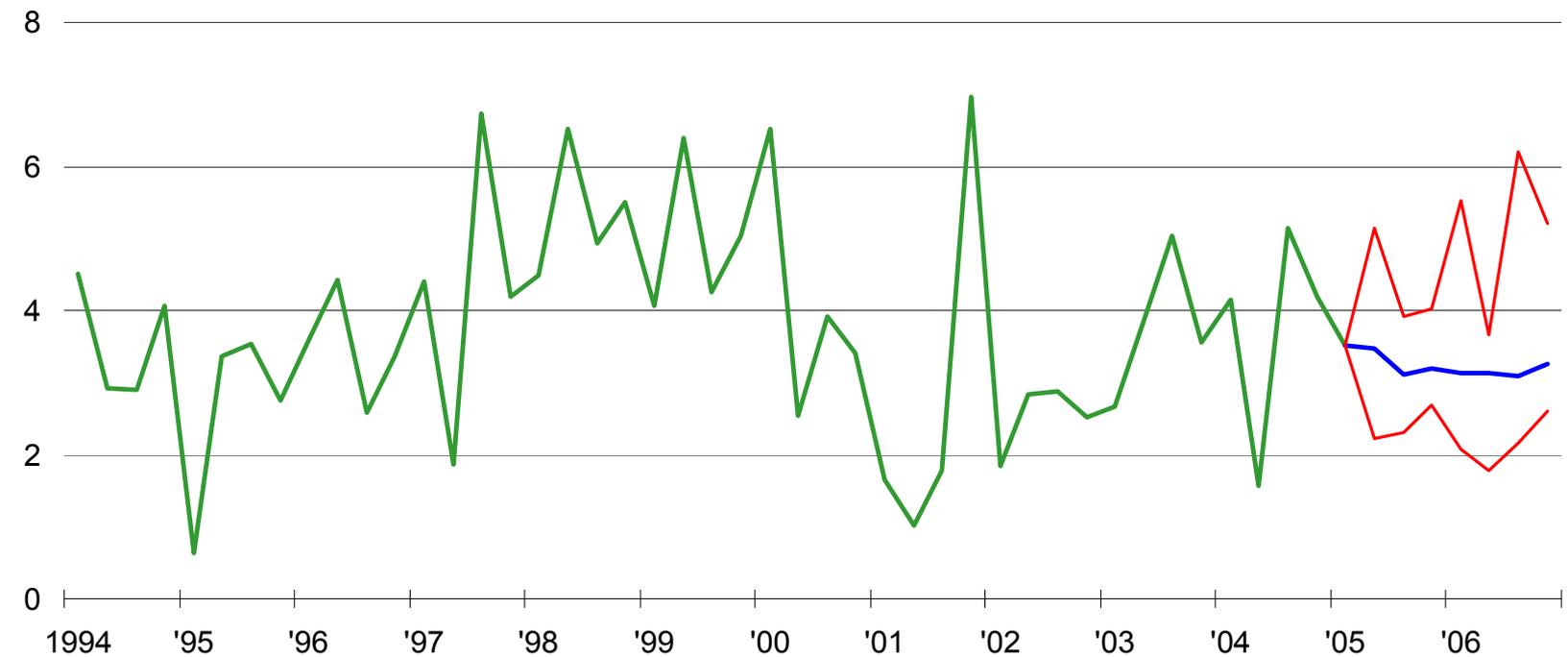
millions of units



Consumption growth is expected to ease to 3.3% both in 2005 and 2006

Personal consumption expenditures

percent change, annual rate



Long-term interest rates are forecast to rise by 63 basis points in 2005 and then by 31 basis points in 2006

Treasury ten-year rate

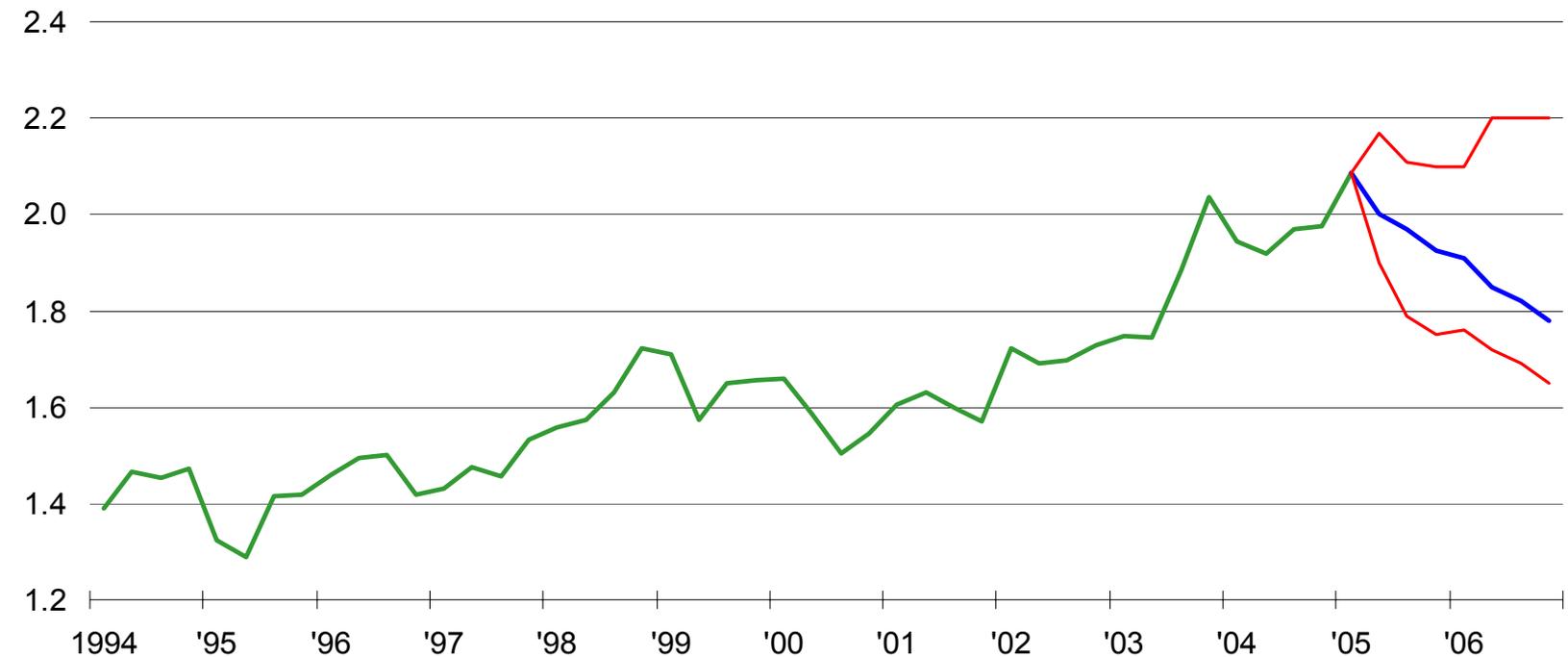
percent



Housing starts are expected to decline over the forecast horizon

Housing starts

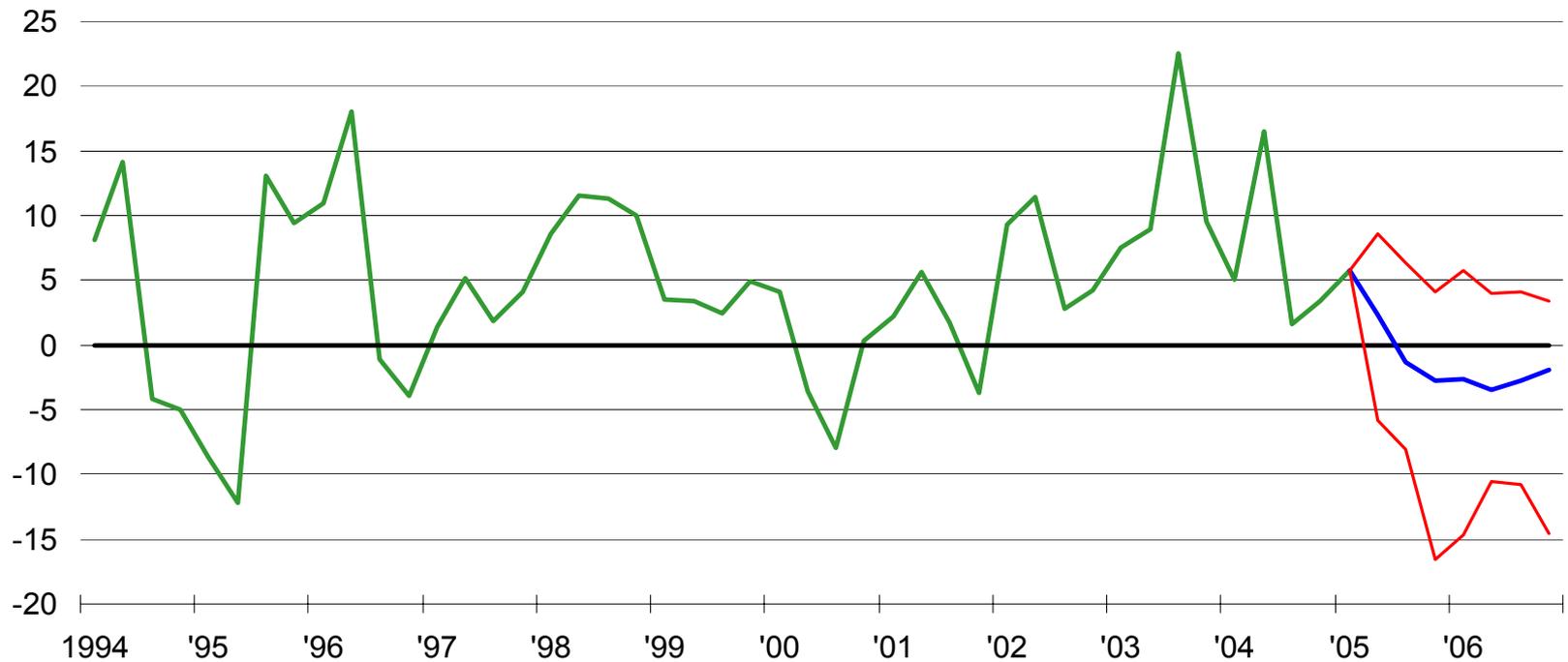
millions of units



Residential investment growth is also forecast to decline

Residential investment

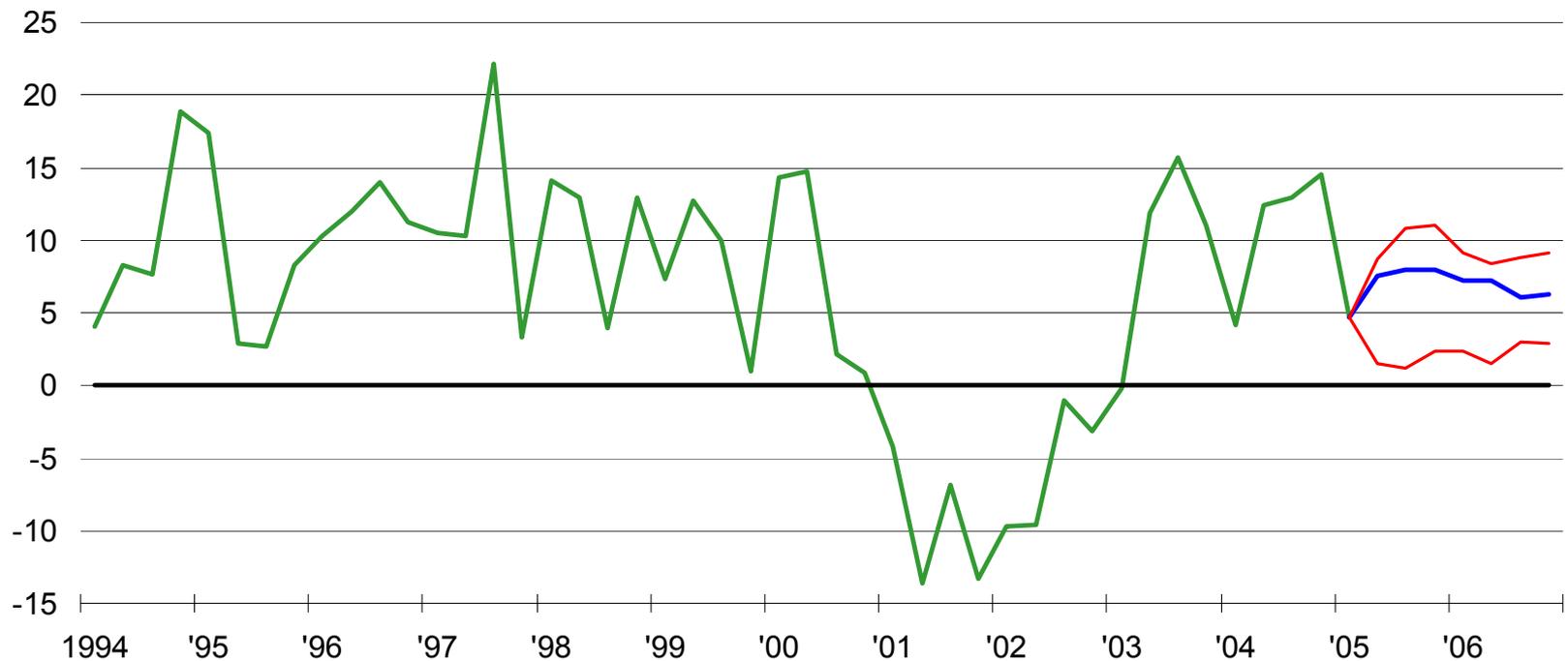
percent change, annual rate



Business spending growth is anticipated to slow to 7.1% this year and 6.8% in 2006

Business fixed investment

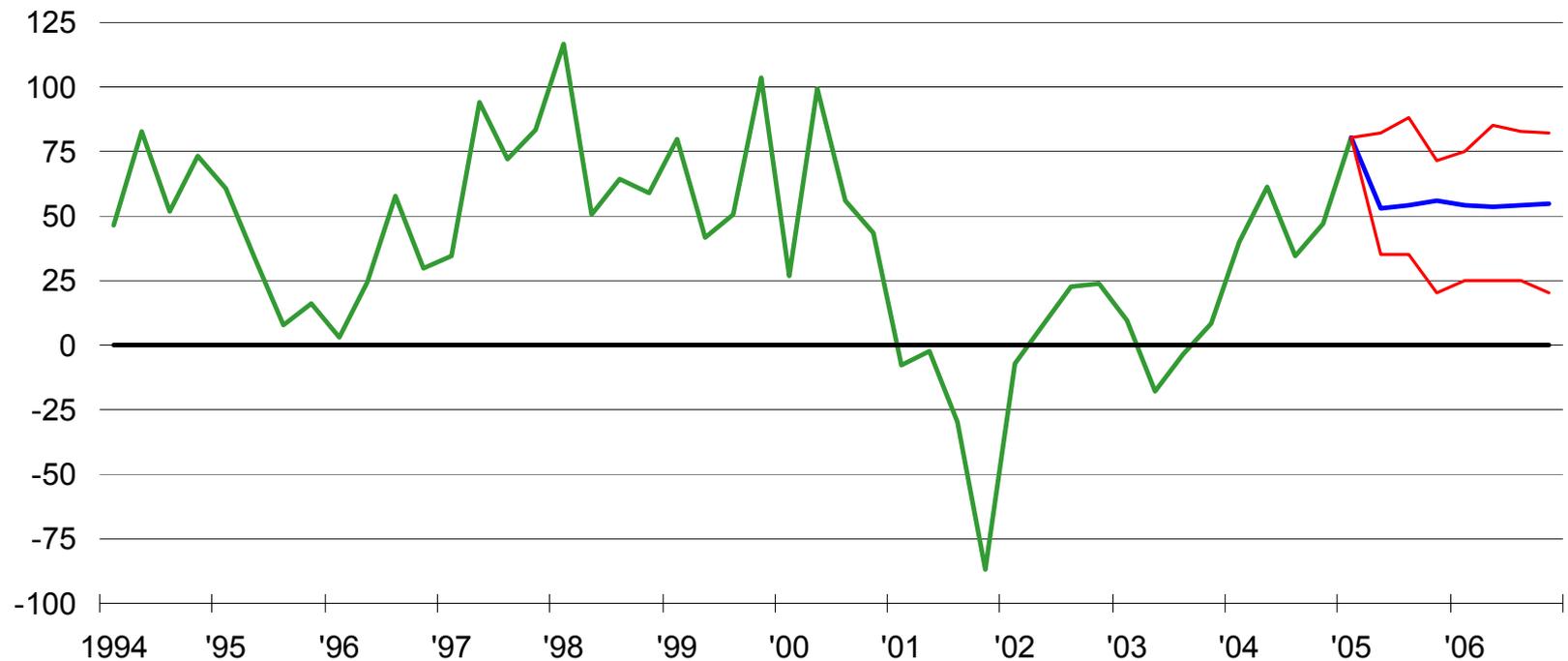
percent change, annual rate



A rebuilding of inventories is expected to take place over the forecast horizon

Change in business inventories

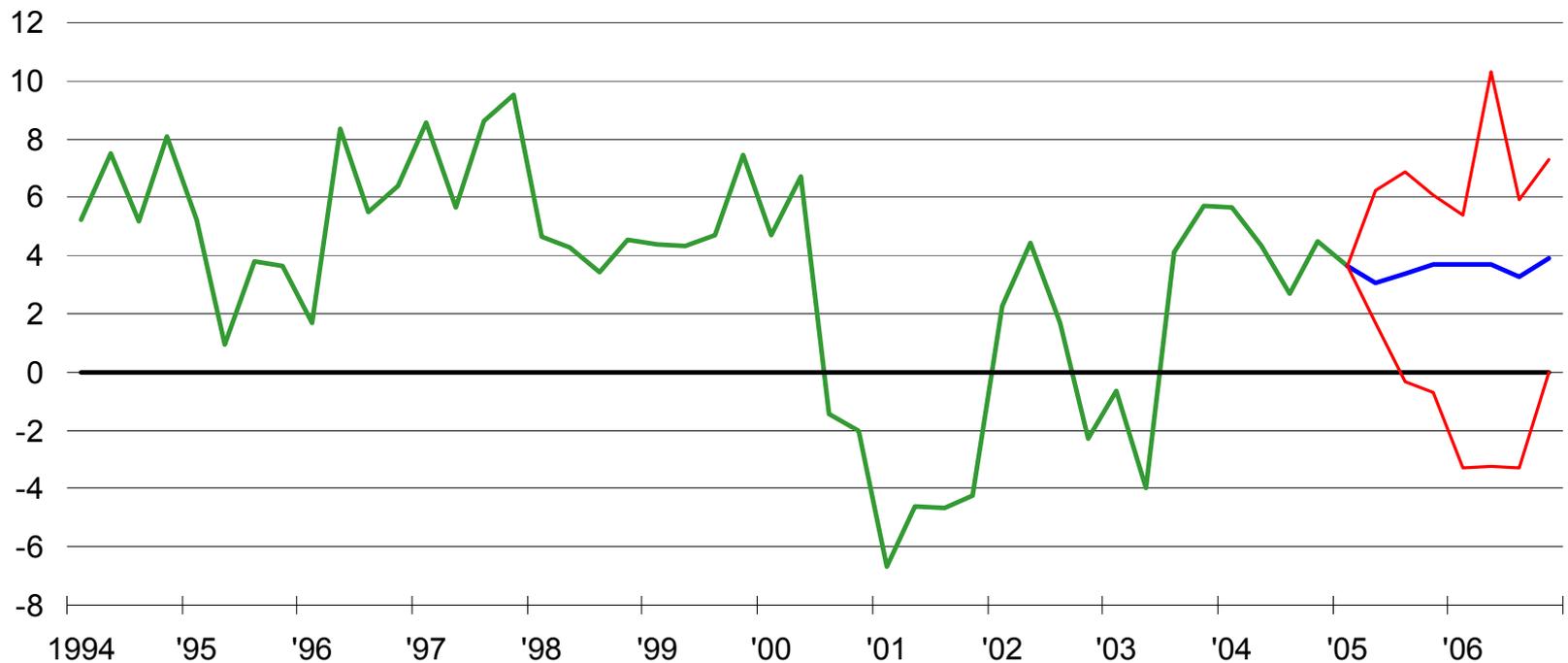
billions of constant dollars



Industrial output growth in 2004 is forecast to have solid years both this year and next

Industrial production

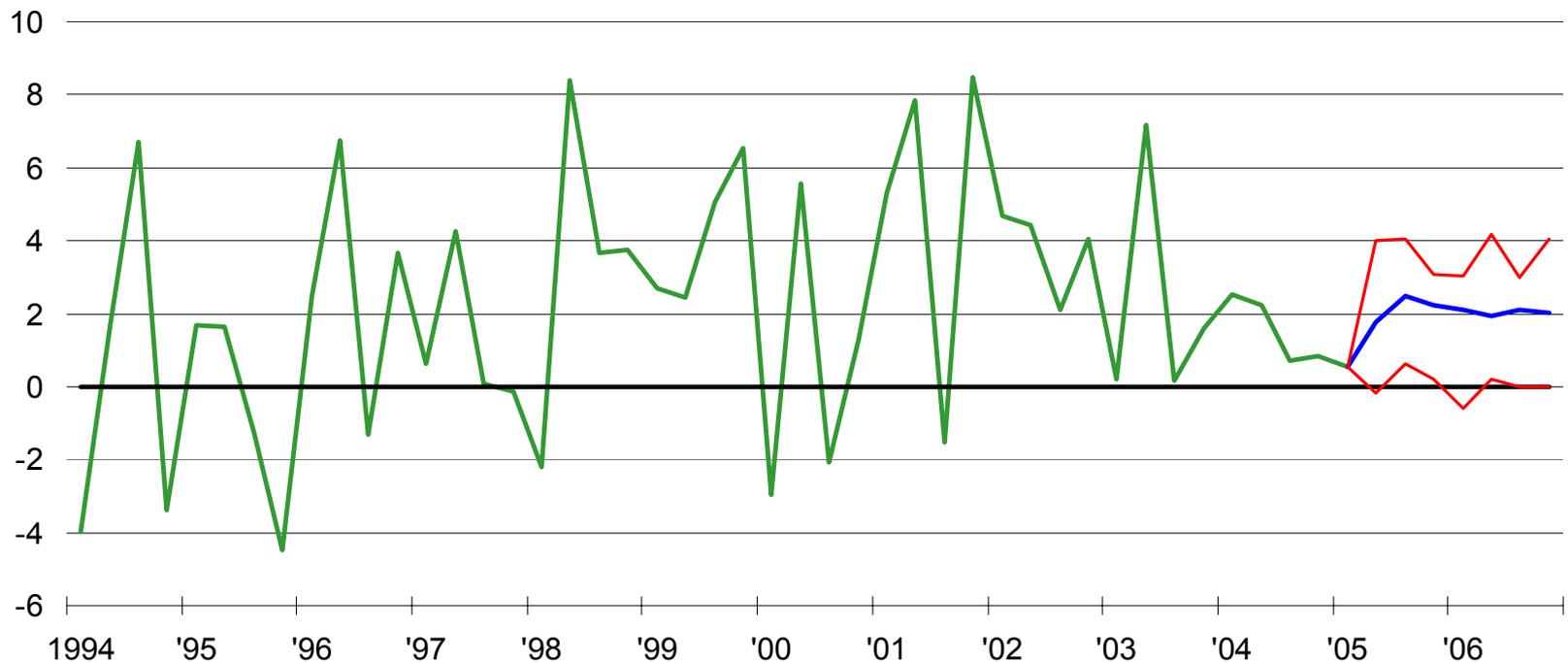
percent change, annual rate



Government purchases growth is forecast to average around 2% over the next two years

Government consumption

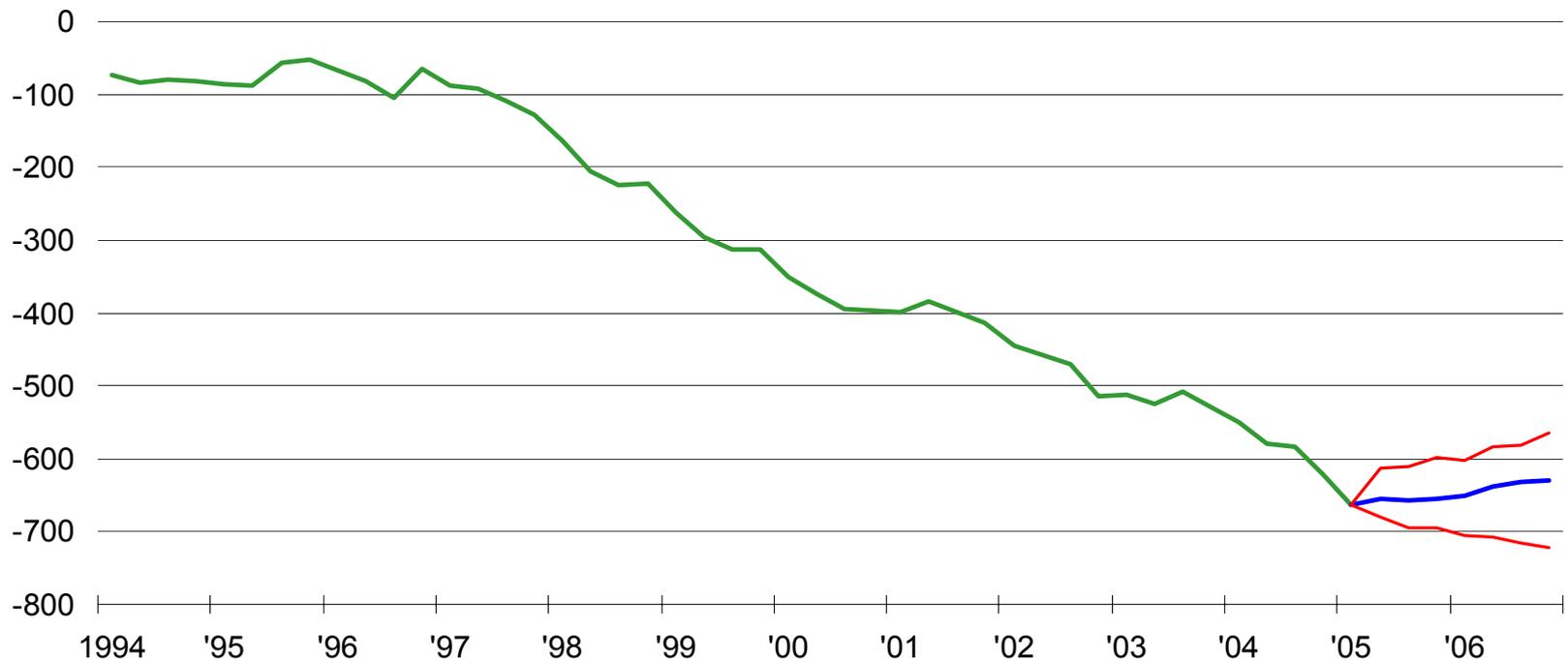
percent change, annual rate



Net exports are expected to improve slightly in 2006

Net exports of goods and services

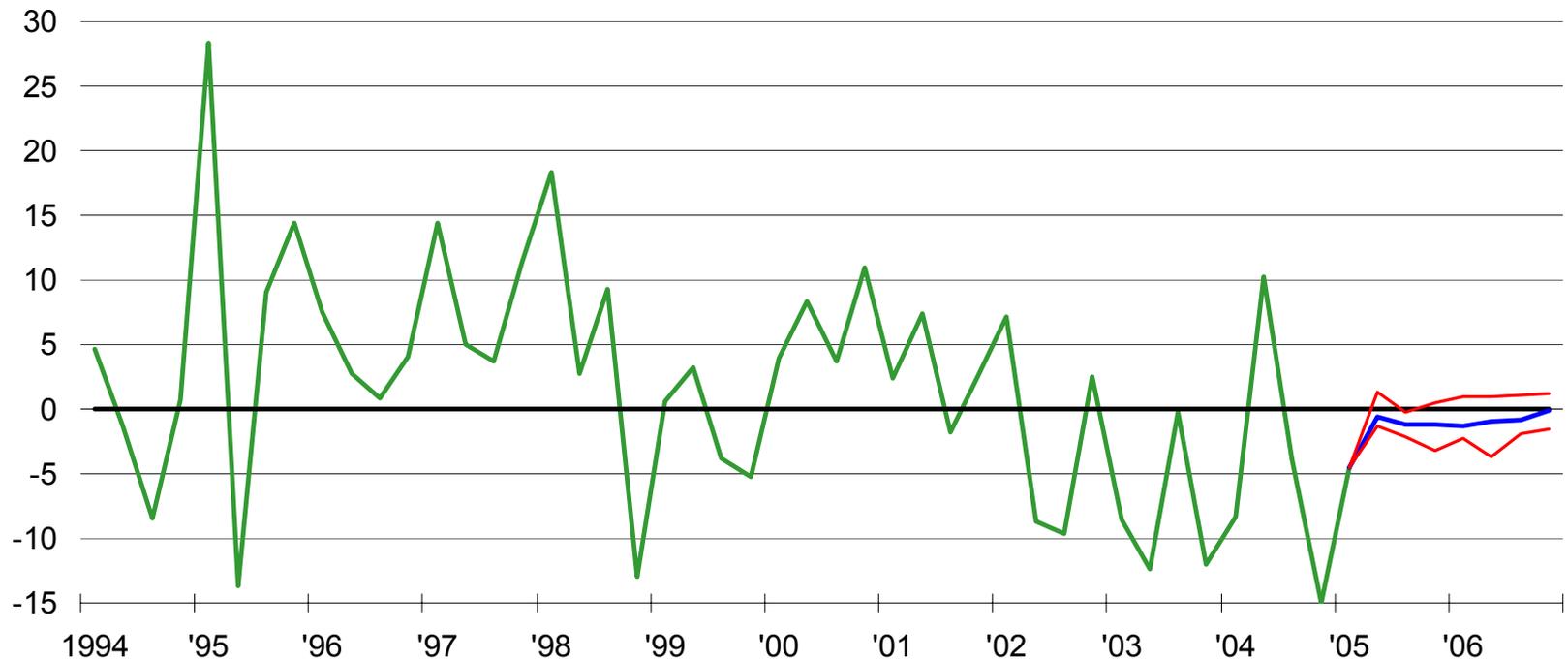
billions of constant dollars



**The dollar is forecast to fall by 0.7% this year
and by 0.1% in 2006**

J.P. Morgan trade weighted OECD dollar

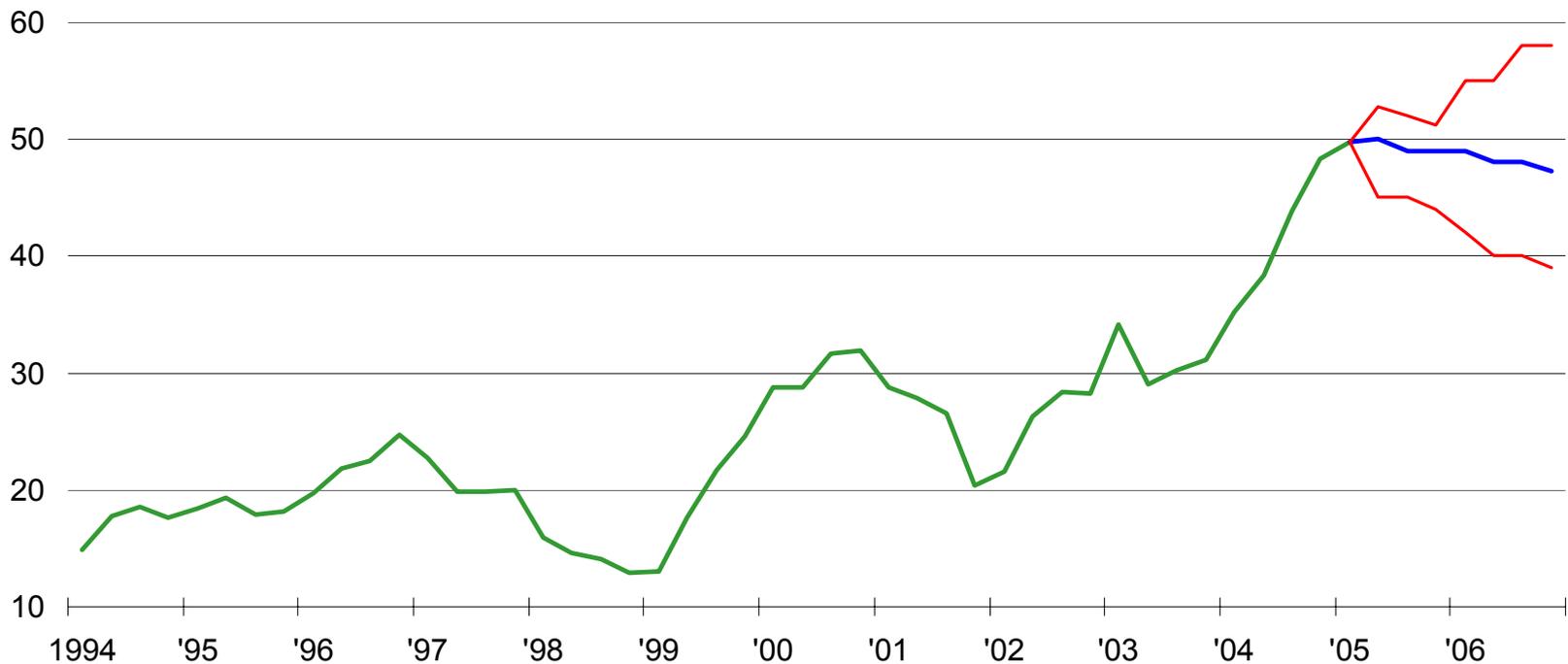
percent change, annual rate



**Oil prices are expected to average
\$49 per barrel at the end of this year
and then fall to around \$47 per barrel in 2006**

Oil prices: West Texas intermediate

dollars per barrel



Summary

- **The economy is forecast to have a solid year with growth around potential in 2005 and 2006**
- **Unemployment is expected to remain flat over the next two years**
- **Inflation is expected to average 2.7% over the next two years**
- **Light vehicle sales are forecast to edge down to 16.7 in 2005 and then edge up to 16.8 in 2006**
- **www.chicagofed.org**