

NINETEENTH ANNUAL
ECONOMIC OUTLOOK SYMPOSIUM



F R I D A Y , D E C E M B E R 2 , 2 0 0 5

Consensus Forecast for 2006

William A. Strauss

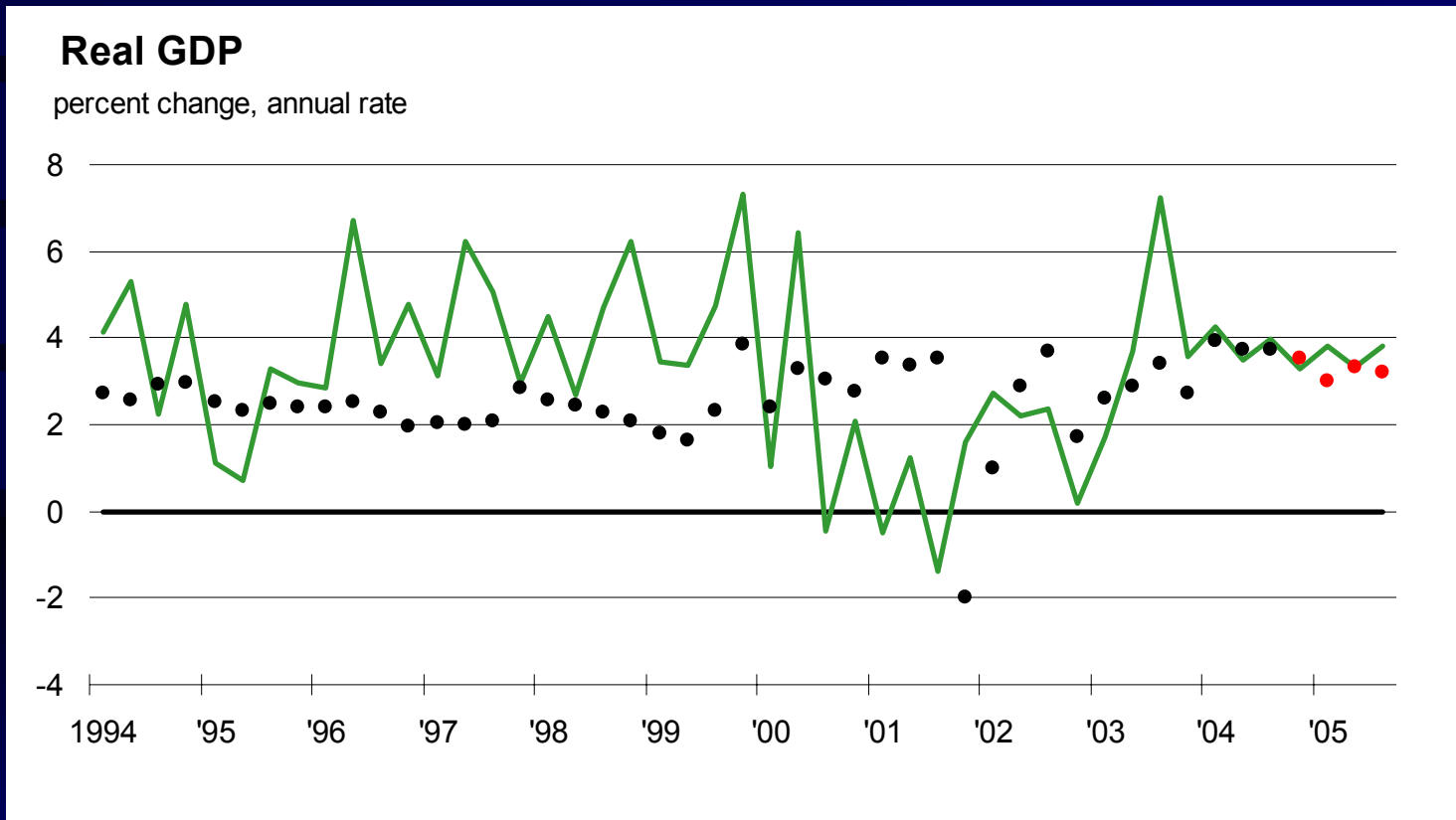
Senior Economist and Economic Advisor
Federal Reserve Bank of Chicago

Winners of last year's Economic Outlook Symposium forecast

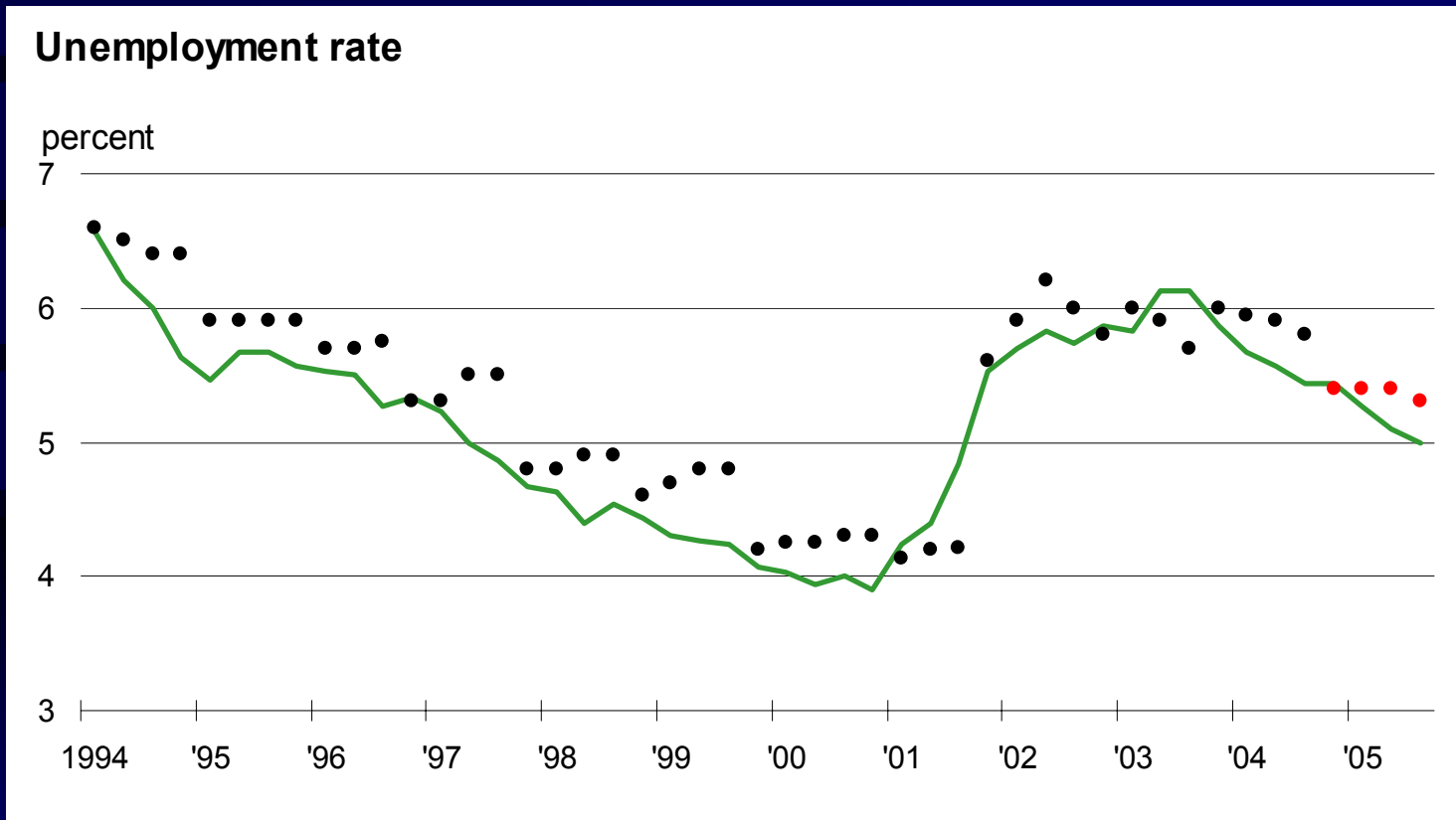
- **Best Overall Economic Forecast:** Thomas L. Guthrie – FM Fincorp
- **Real GDP:** Dave Czechowski – Portland Cement Association
Jack Kleinhenz – Kleinhenz & Associates
Hikaru Horiguchi – JETRO
- **Inflation:** Eric Starks, Jonathan Starks & Steve Graham – FTR Associates
- **Unemployment Rate:** Thomas Guthrie – FM Fincorp

Review of past performance

Real GDP growth was slightly stronger than forecast year



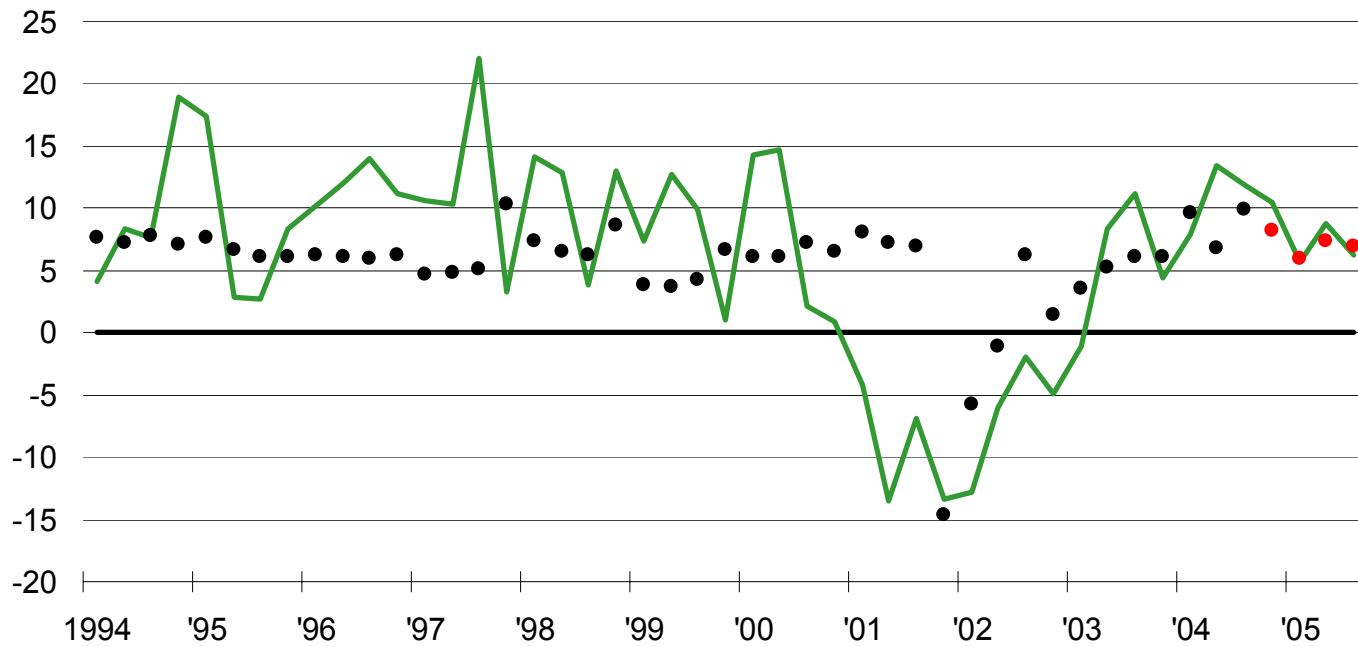
This better overall economic performance contributed to the unemployment rate declining at a more rapid pace than predicted



The business investment sector growth was very accurately predicted

Business fixed investment

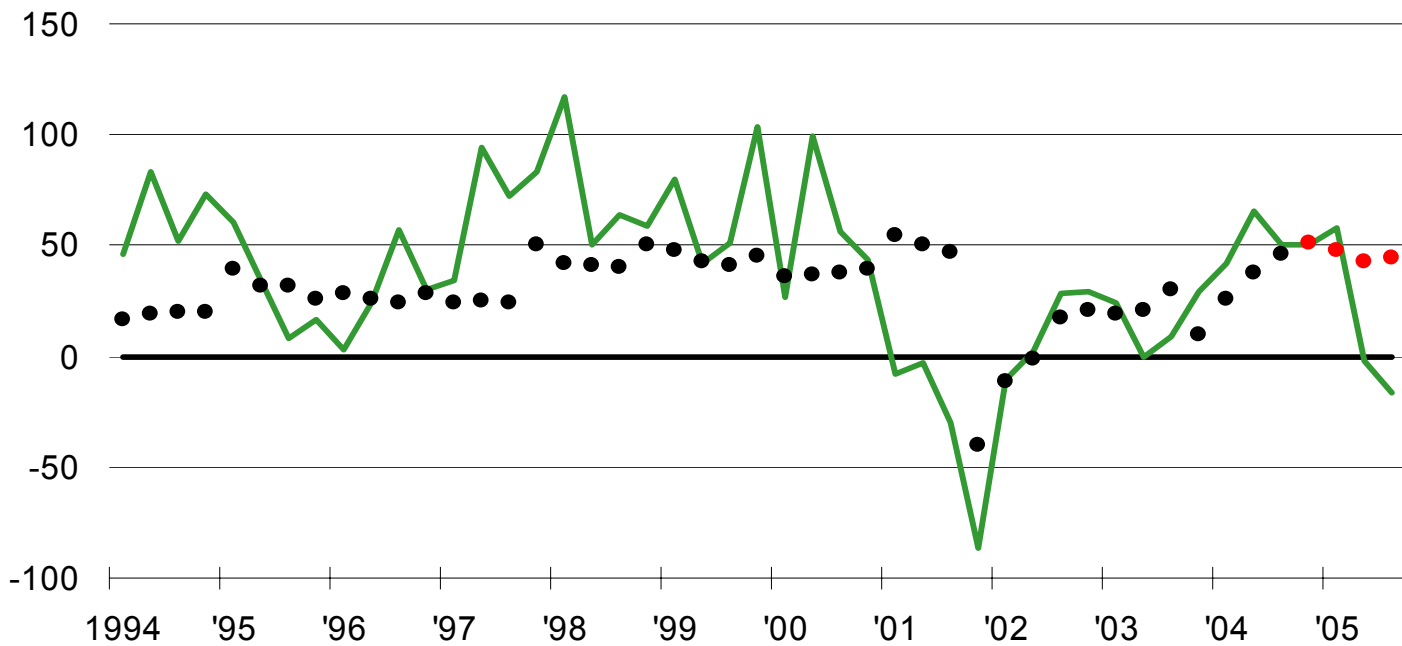
percent change, annual rate



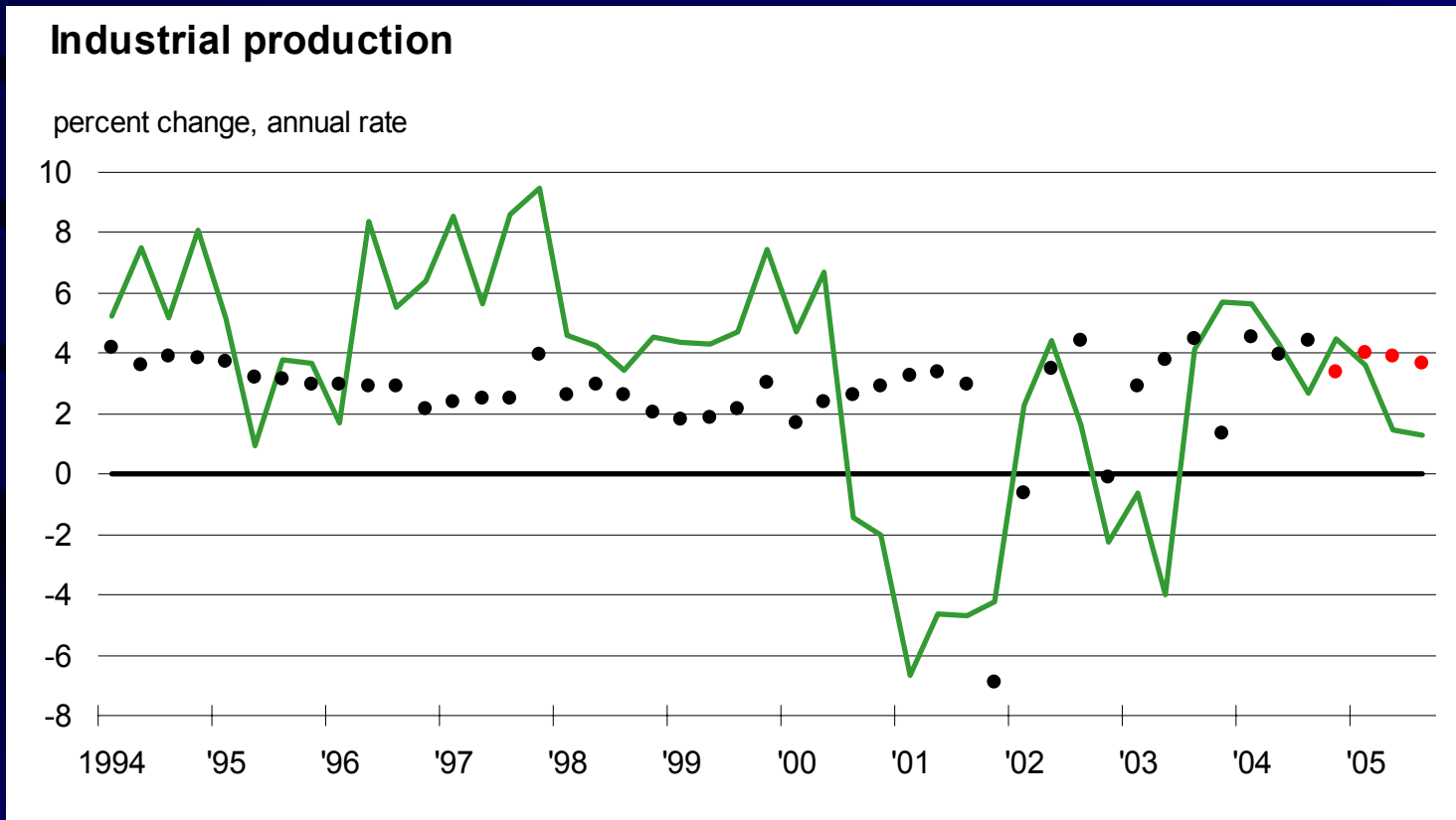
While inventory accumulation in the fourth quarter of 2004 and first quarter of 2005 was right on target – the expected continued increases faded in the second and third quarter of 2005

Change in private inventories

billions of constant dollars



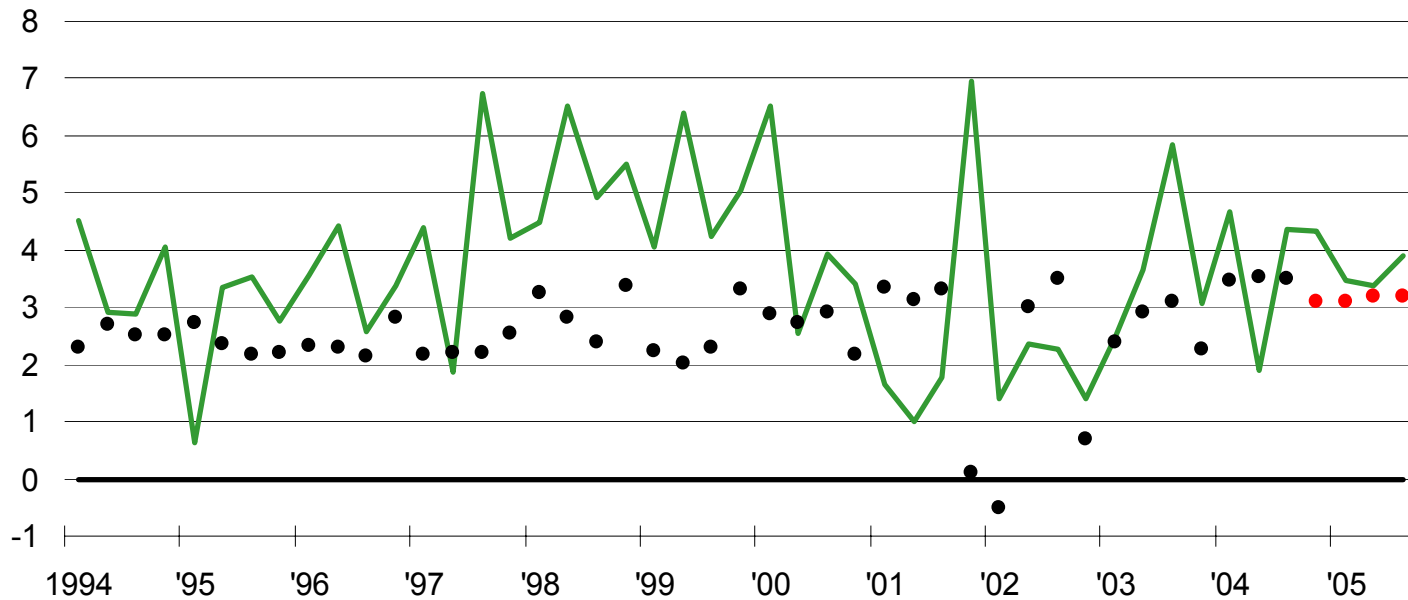
The industrial sector expanded at a slower pace than forecast for the middle of this year



Continued strength in consumer spending surprised the forecast group

Personal consumption expenditures

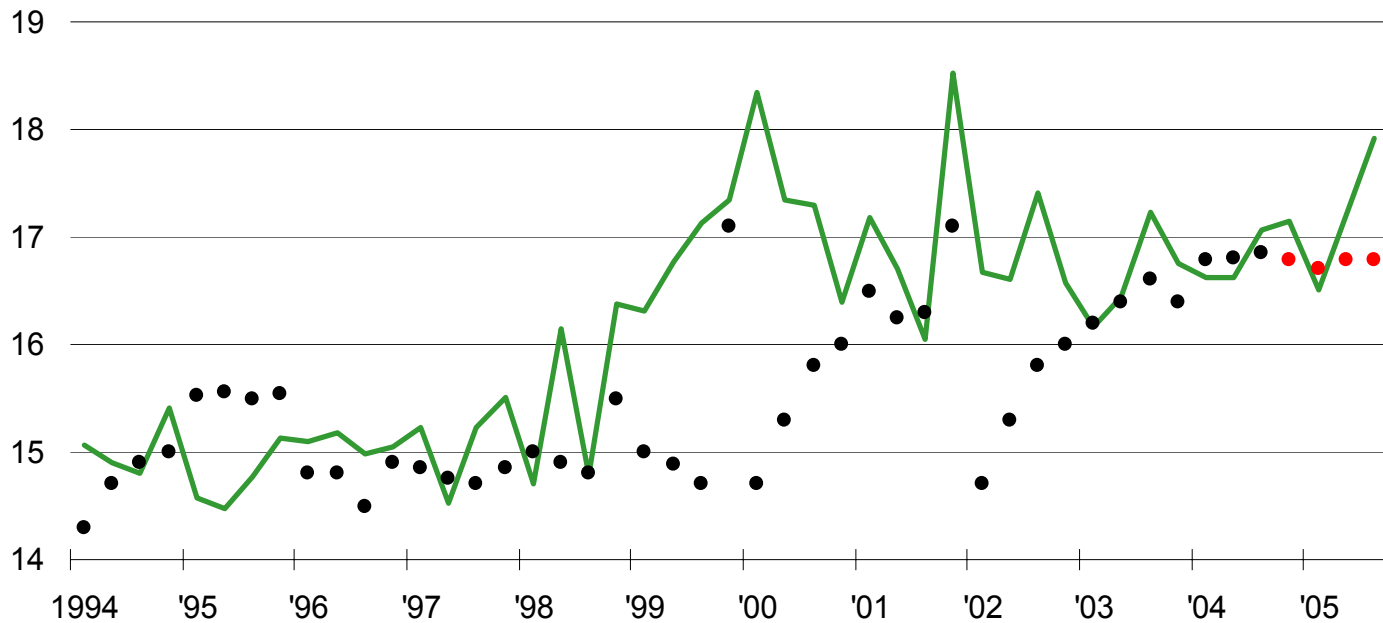
percent change, annual rate



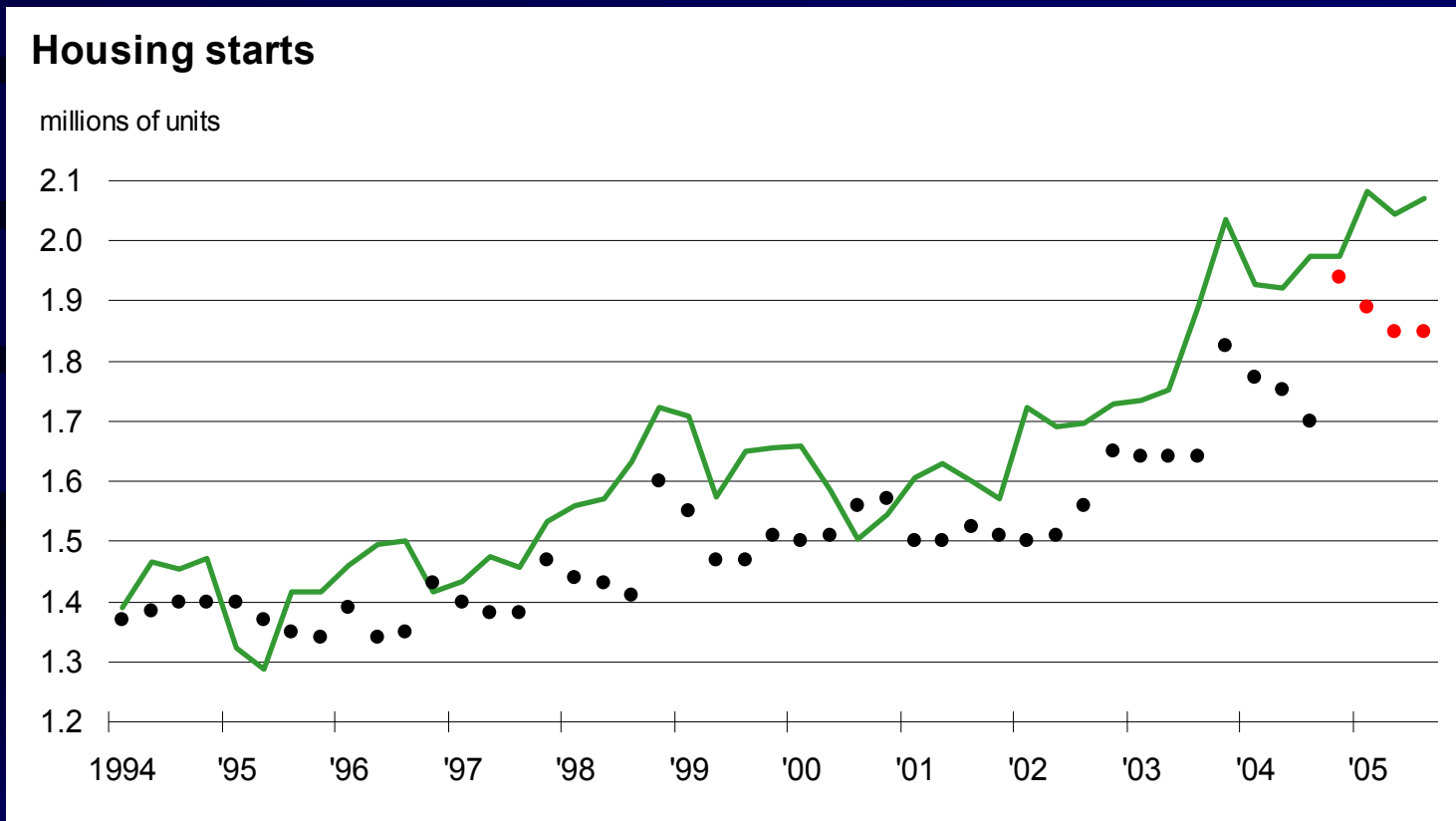
The success of “employee discount” pricing program pushed light vehicle sales well above predicted levels in the middle of this year

Car and light truck sales

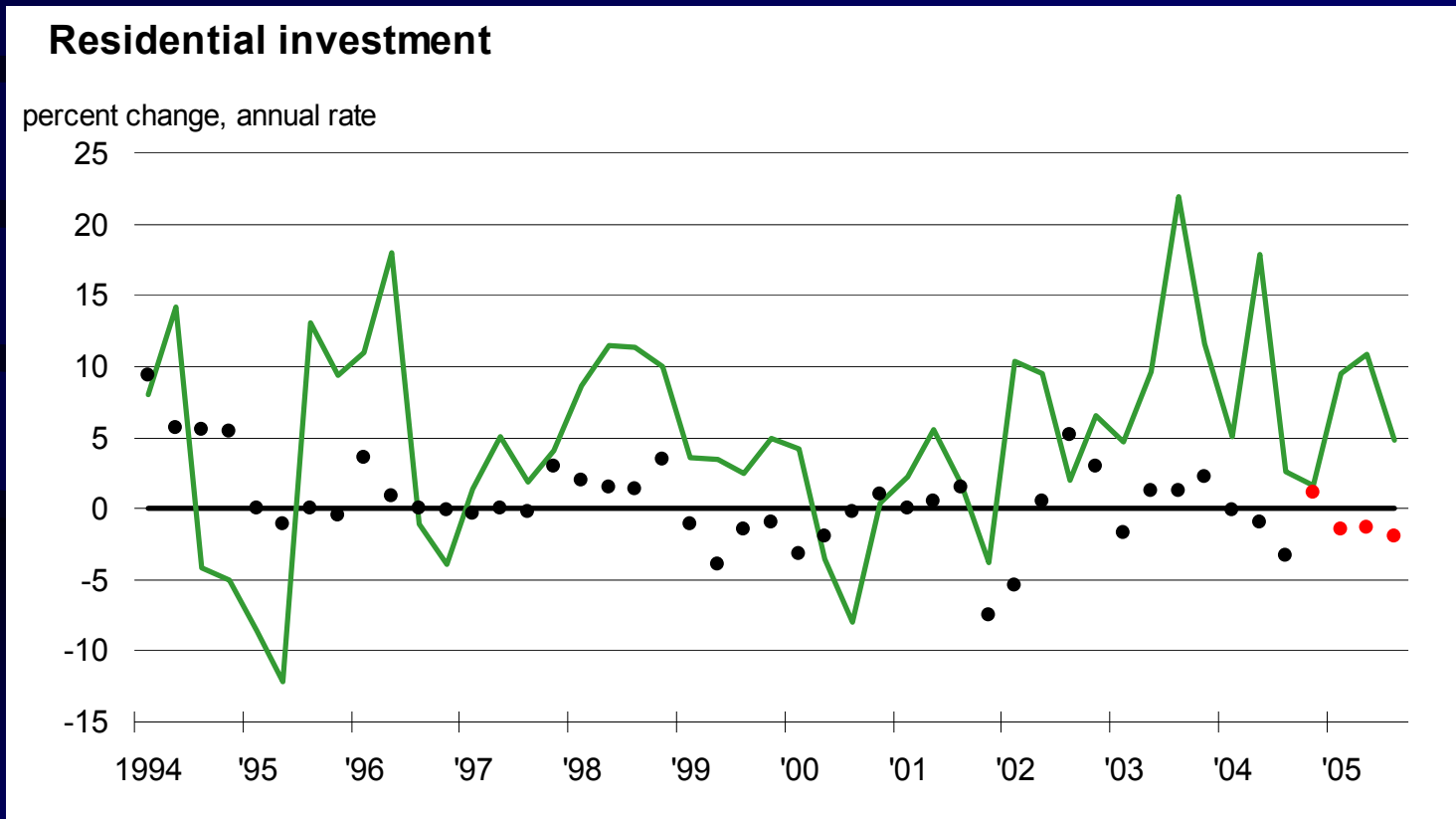
millions of units



**And for the fourth consecutive year,
housing starts were well above consensus expectations**

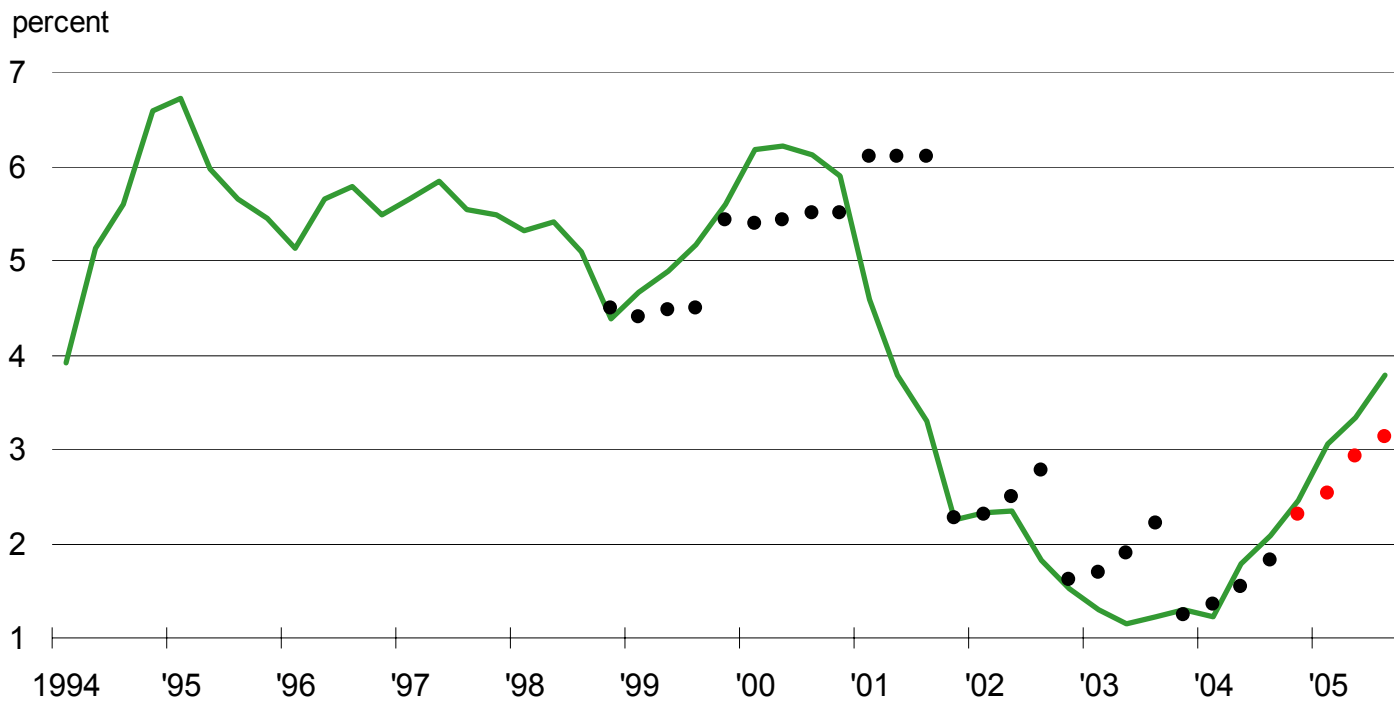


The poor forecasting of housing has translated into an equivalent miss in predicting residential investment



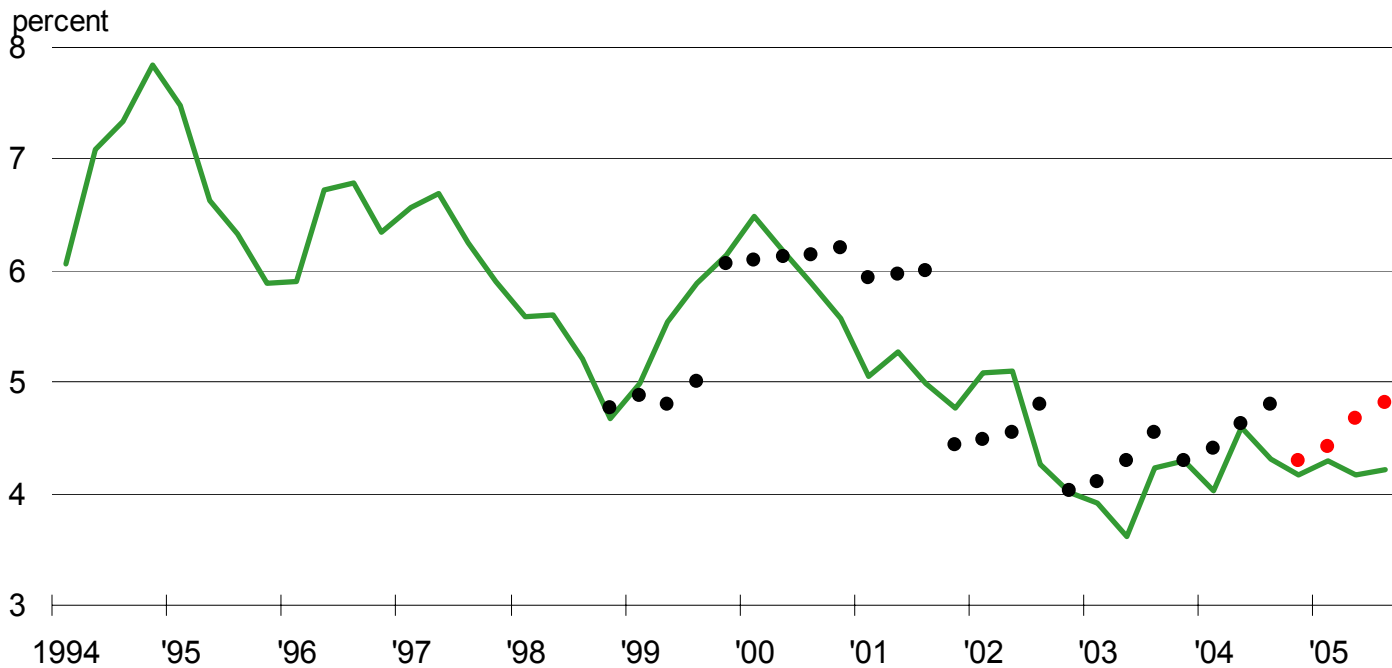
While short-term interest rates increased at a more rapid pace than predicted,

Treasury one-year rate



long-term interest rates remained unchanged and well below the rising path forecast

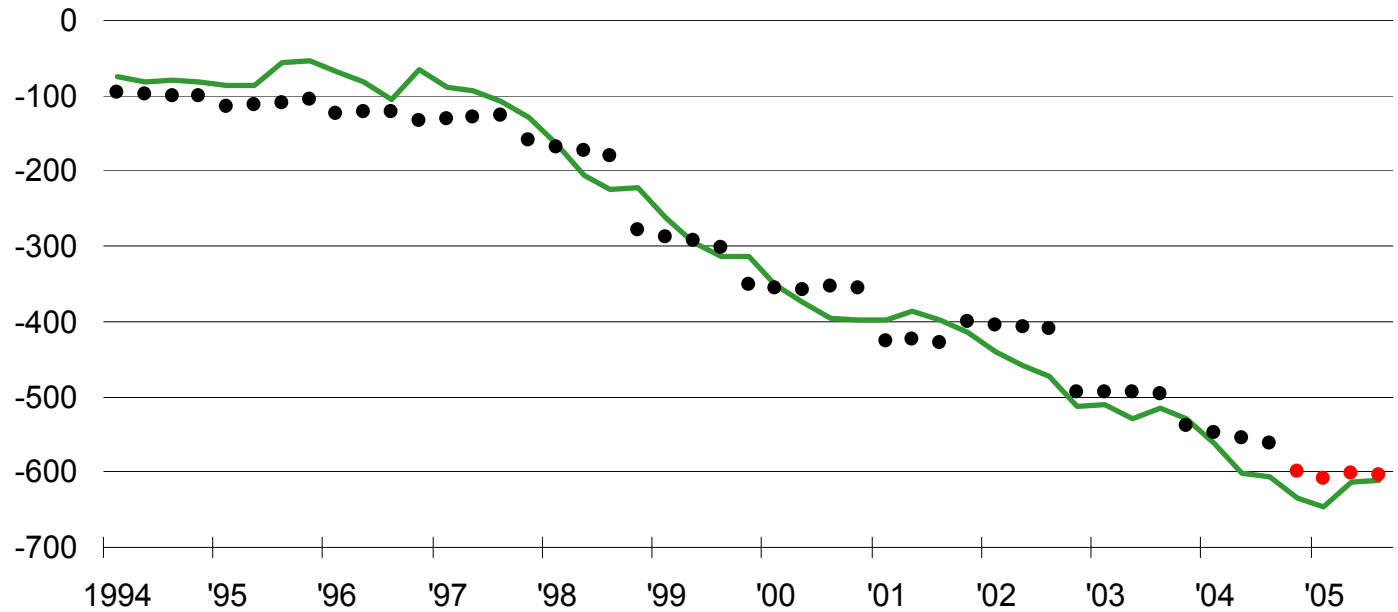
Treasury ten-year rate



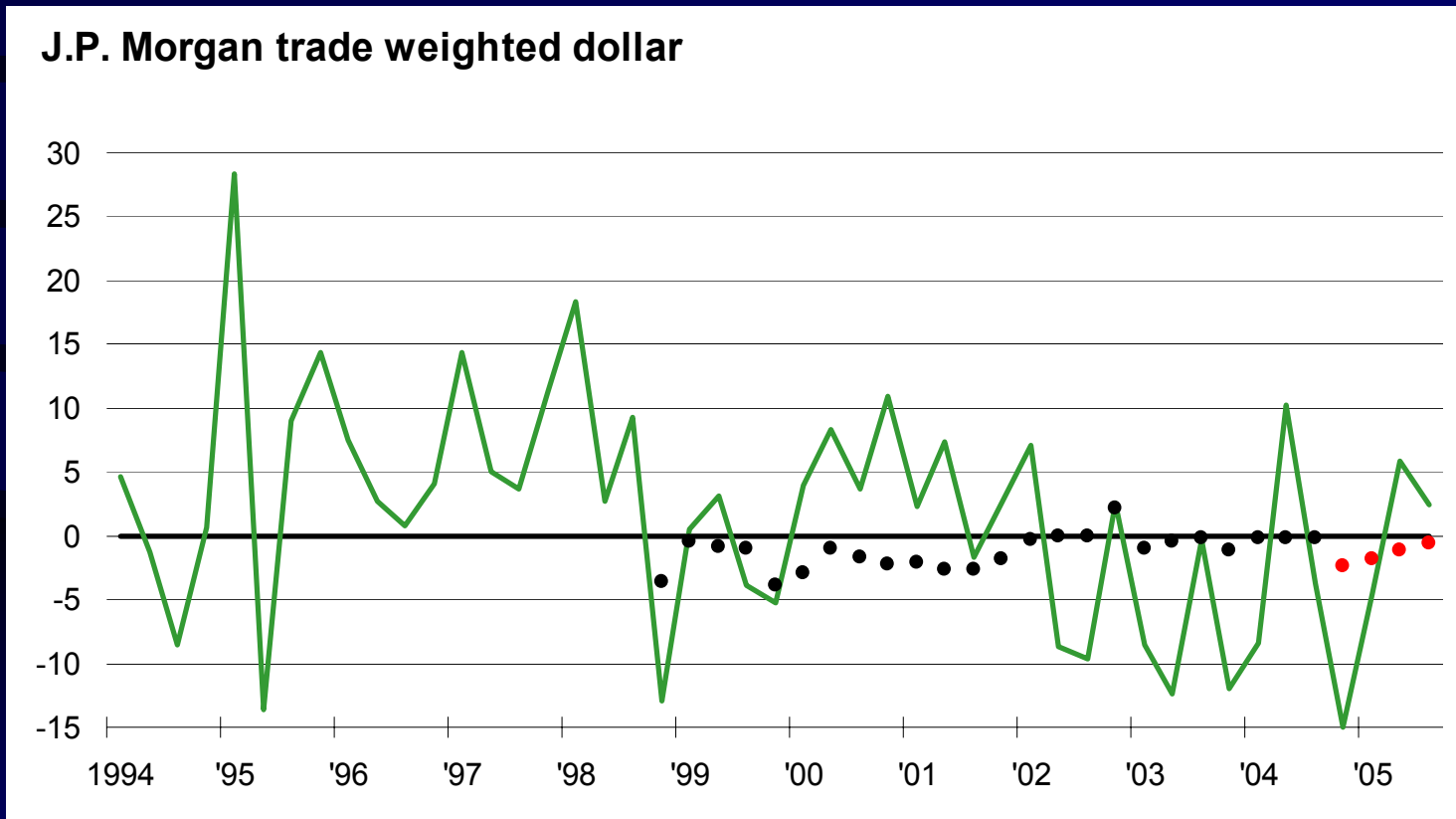
The expected flattening in the trade balance occurred

Net exports of goods and services

billions of constant dollars



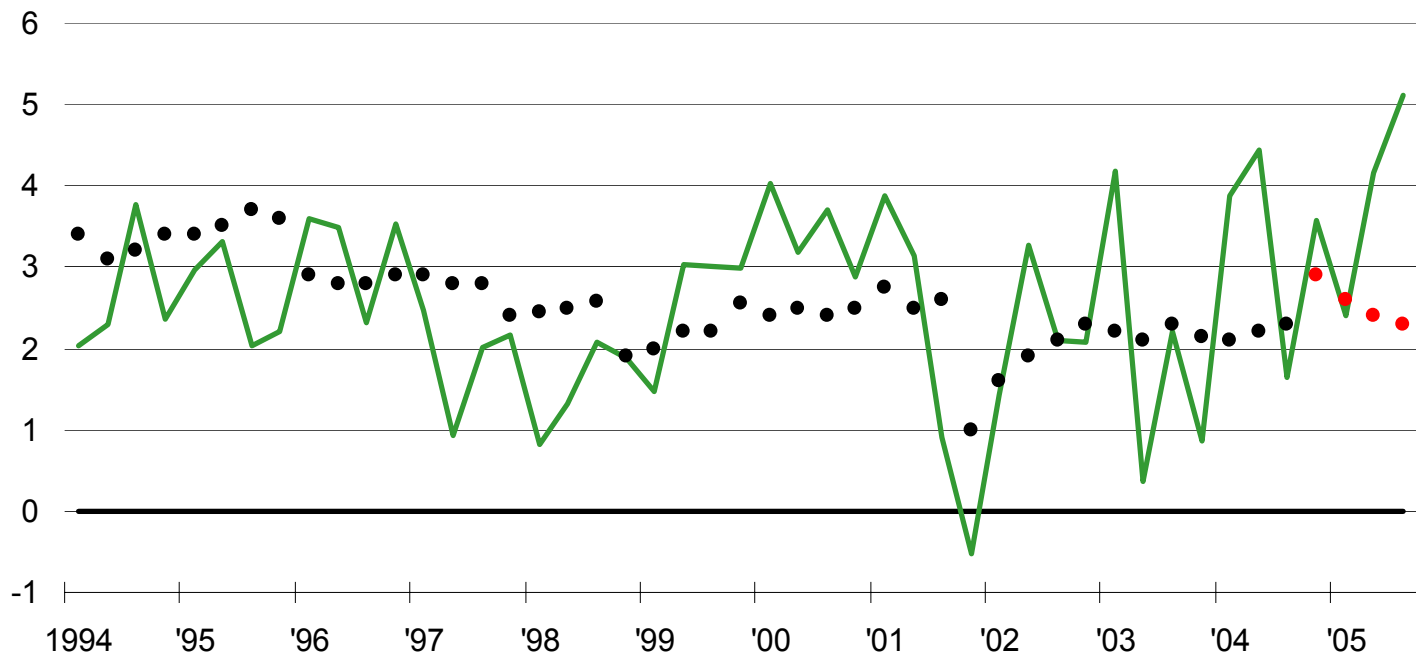
The consensus forecast called for a moderate decline in the value of the dollar and while the dollar's value followed a very volatile path, the end-result was that the dollar lost 3.2% of its value over the past year



Inflation was anticipated to ease over the past year, however it surged over the past two quarters

Inflation rate (CPI)

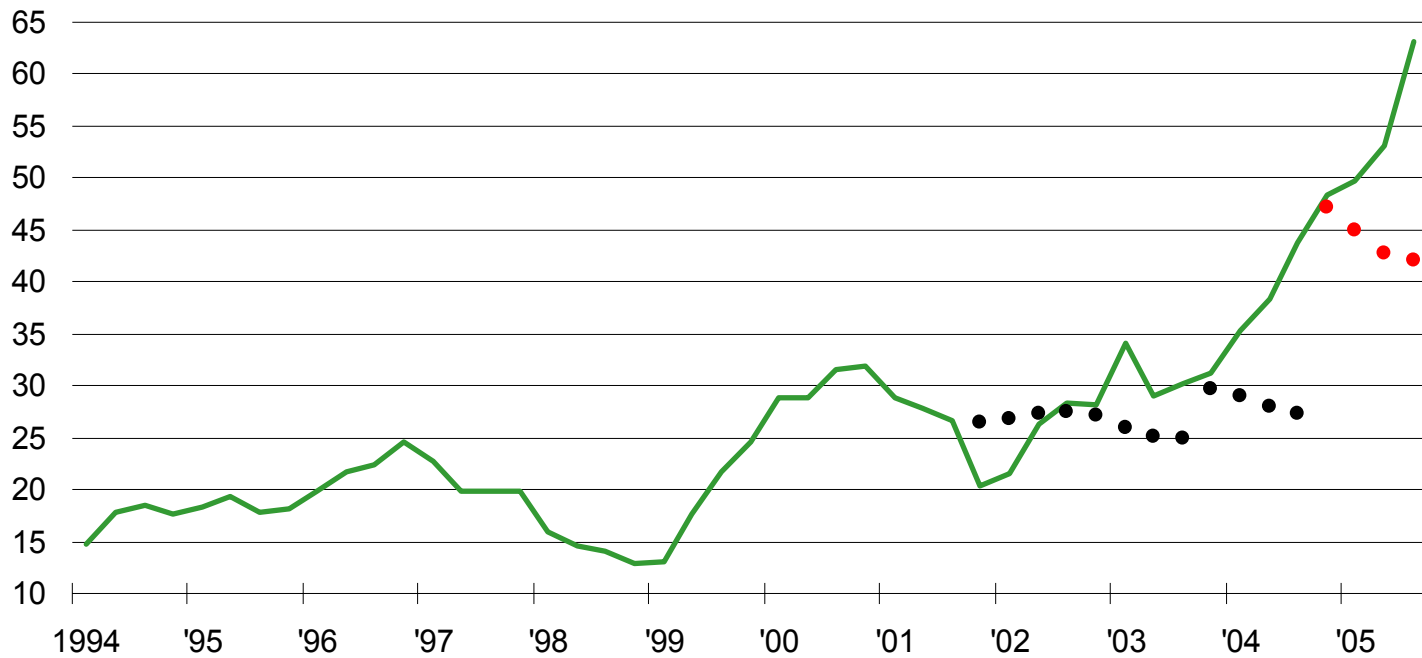
percent change, annual rate



This in large part was due to a much higher path for oil prices than predicted

Oil prices - West Texas Intermediate

Dollars per barrel



Forecast for 2006

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

	2004	2005	2006
GDP, current dollars	6.8%	6.5%	5.7%
GDP price index, chain-type	2.9%	2.8%	2.6%
Real GDP, chained dollars	3.8%	3.6%	3.2%
Personal consumption expenditures	3.8%	3.1%	3.0%
Business fixed investment	10.9%	7.0%	6.4%
Residential investment	6.6%	7.0%	-0.8%
Change in private inventories (billions of constant dollars)	\$50.1	\$22.3	\$30.0
Net exports of goods and services (billions of constant dollars)	-\$634.1	-\$629.8	-\$620.3
Government consumption expenditures and gross investment	2.1%	2.4%	2.0%

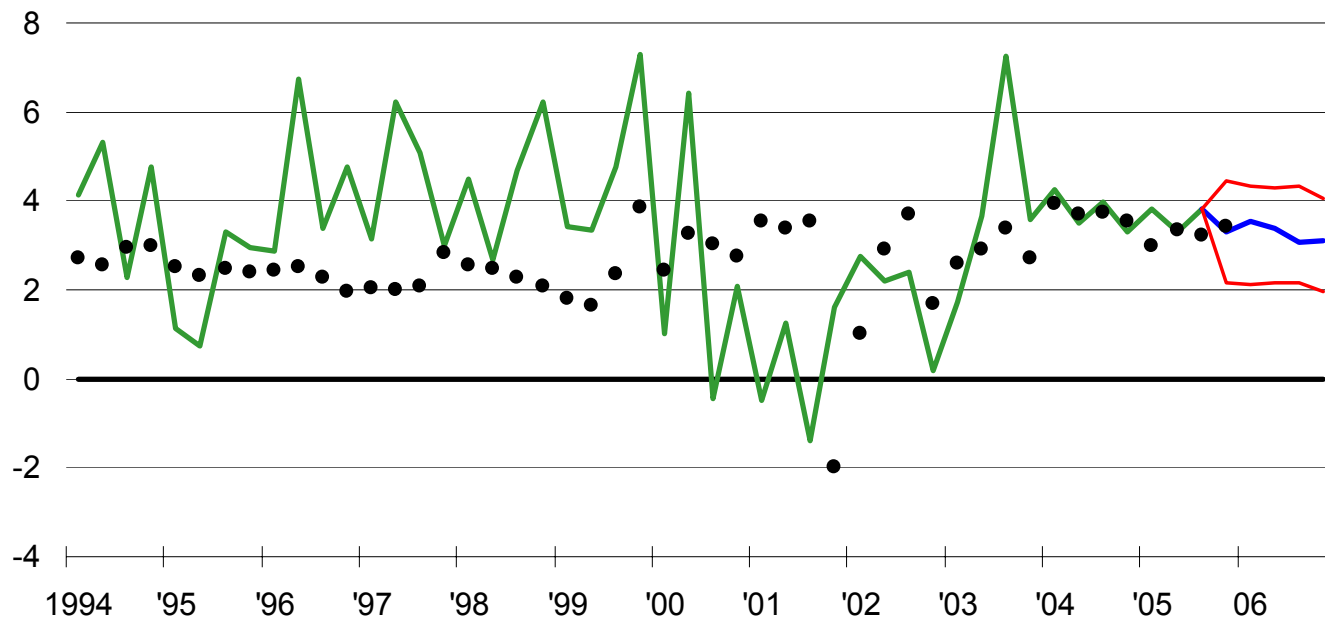
Median forecast of GDP and related items (page 1 in the Consensus Forecast book)

	2004	2005	2006
Industrial production	4.3%	2.4%	3.2%
Car & light truck sales (millions - calendar year including imports)	16.9	17.0	16.8
Housing starts (millions)	1.95	2.04	1.90
Oil price (dollars per barrel of West Texas Intermediate)	\$48.31	\$61.21	\$55.69
Unemployment rate	5.4%	5.1%	5.0%
Inflation rate (consumer price index)	3.4%	3.9%	3.0%
Treasury constant maturity 1-year rate	2.47%	4.18%	4.70%
Treasury constant maturity 10-year rate	4.17%	4.60%	5.11%
J.P. Morgan trade weighted OECD dollar	-4.7%	0.1%	-0.4%

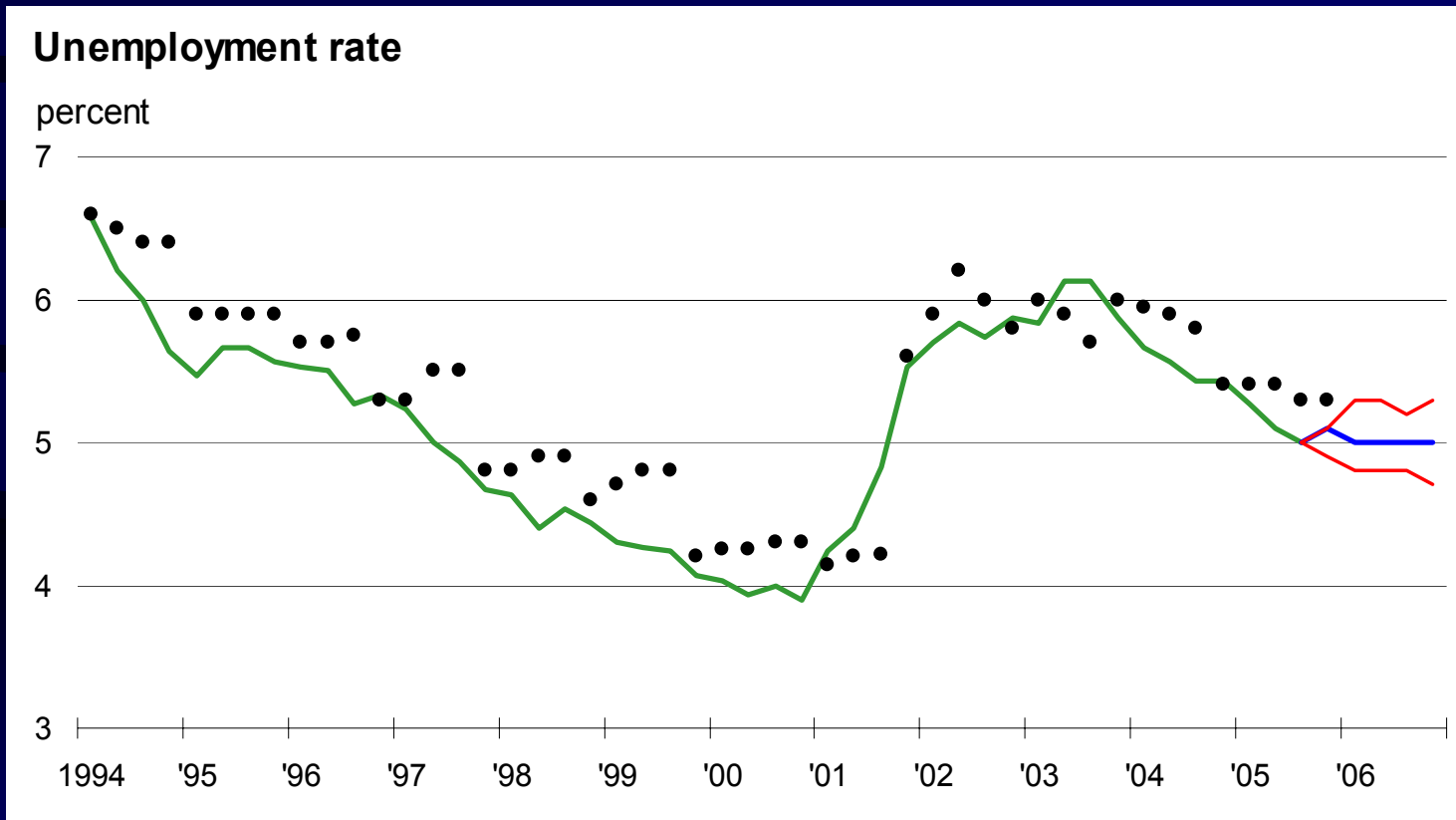
GDP growth is expected to average between 3.1% and 3.5% through 2006, roughly in-line with potential growth

Real GDP

percent change, annual rate



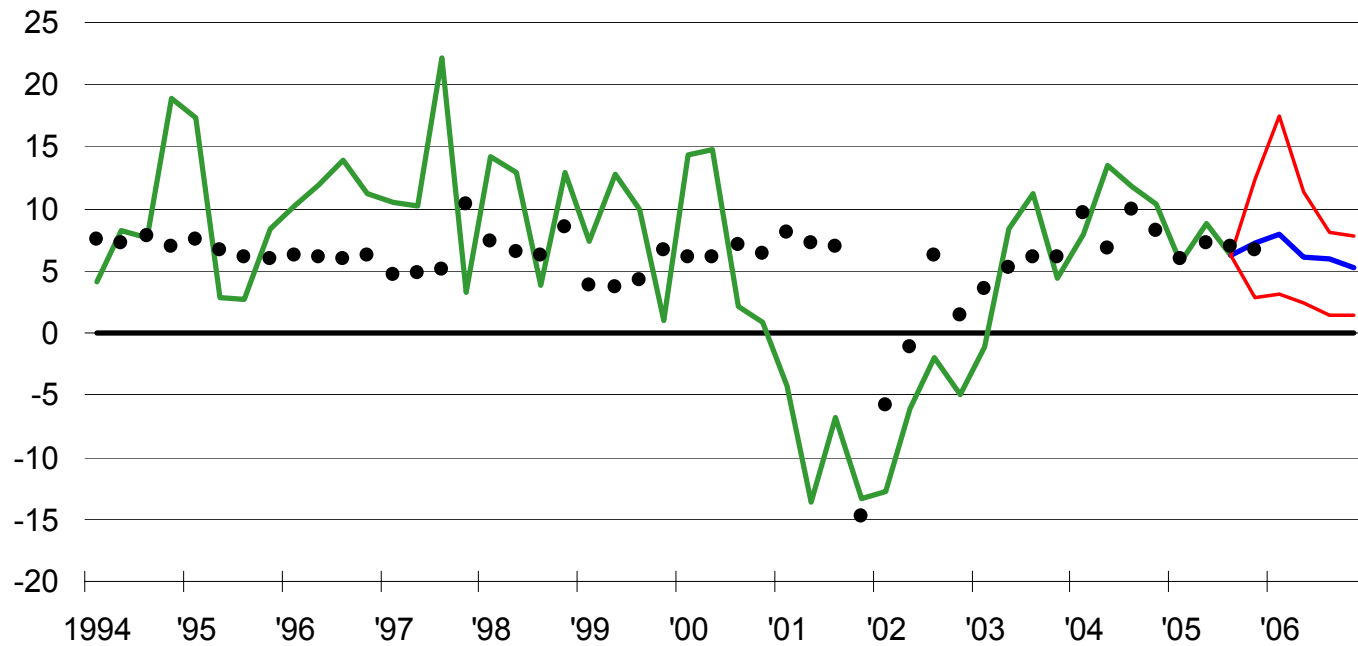
This will leave the unemployment rate unchanged over the next year



Business fixed investment growth is continue to do well, with growth slowing to 5.3% at the end of 2006

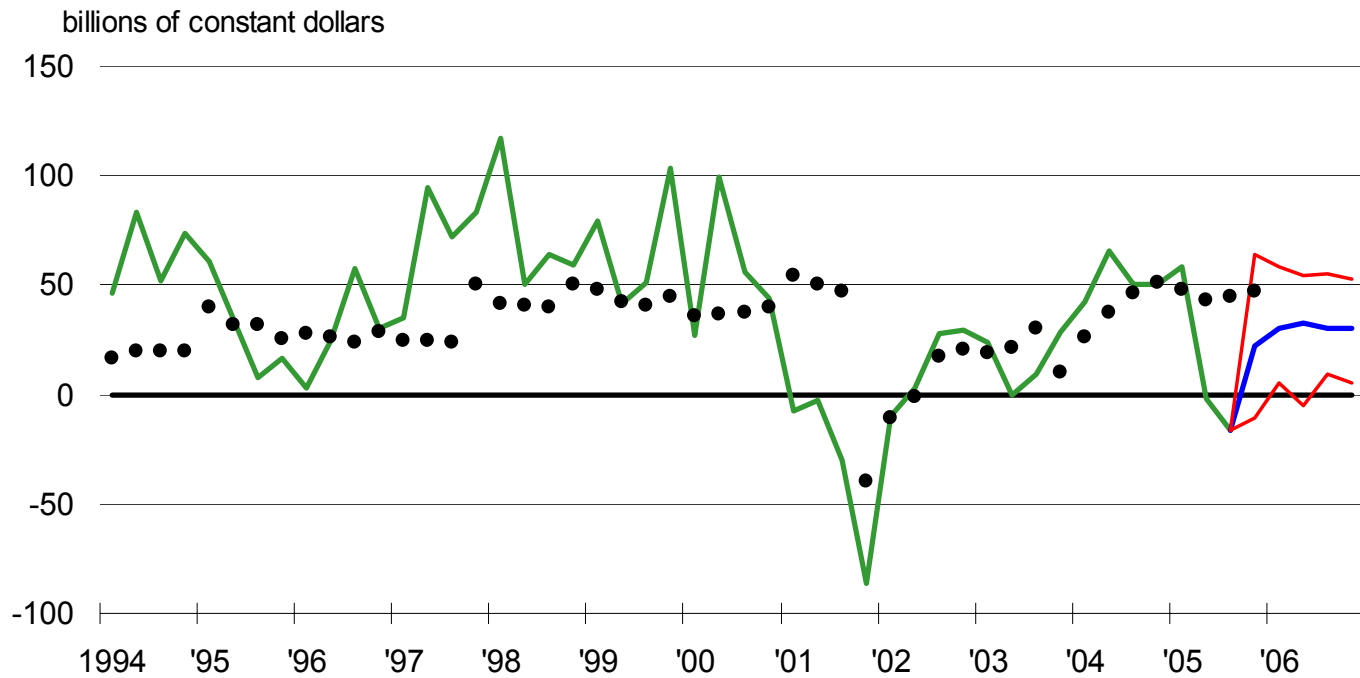
Business fixed investment

percent change, annual rate

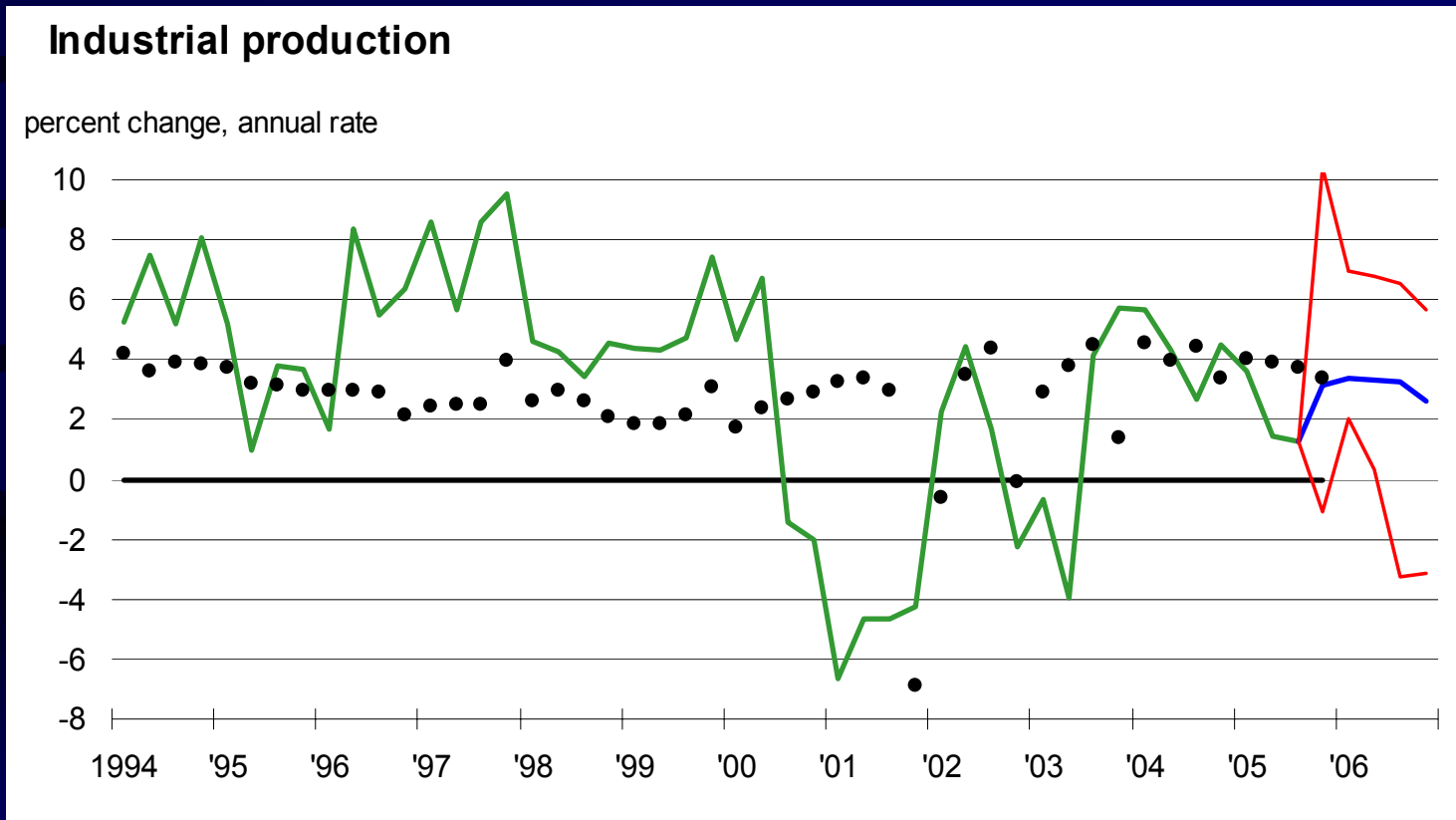


Inventories are anticipated to return to positive increases over forecast horizon

Change in private inventories



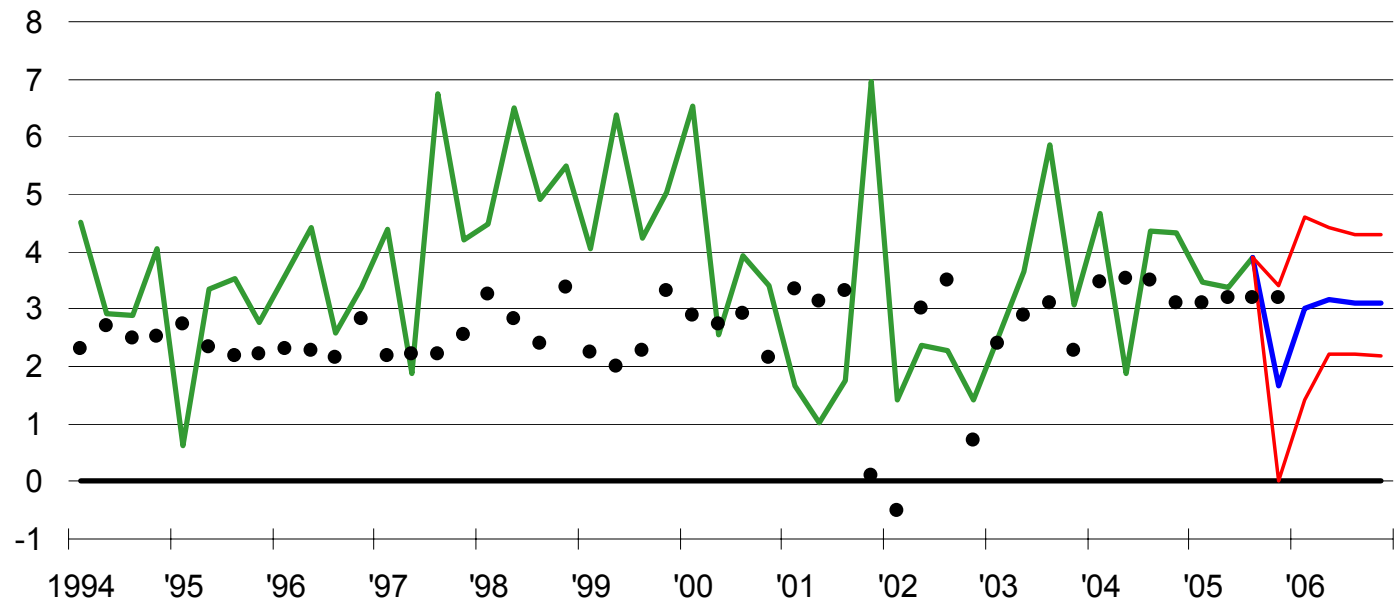
Industrial output growth is forecast to improve from 2005 rates, rising more than 3% in 2006



Consumer spending growth is expected to remain solid at 3.0% next year

Personal consumption expenditures

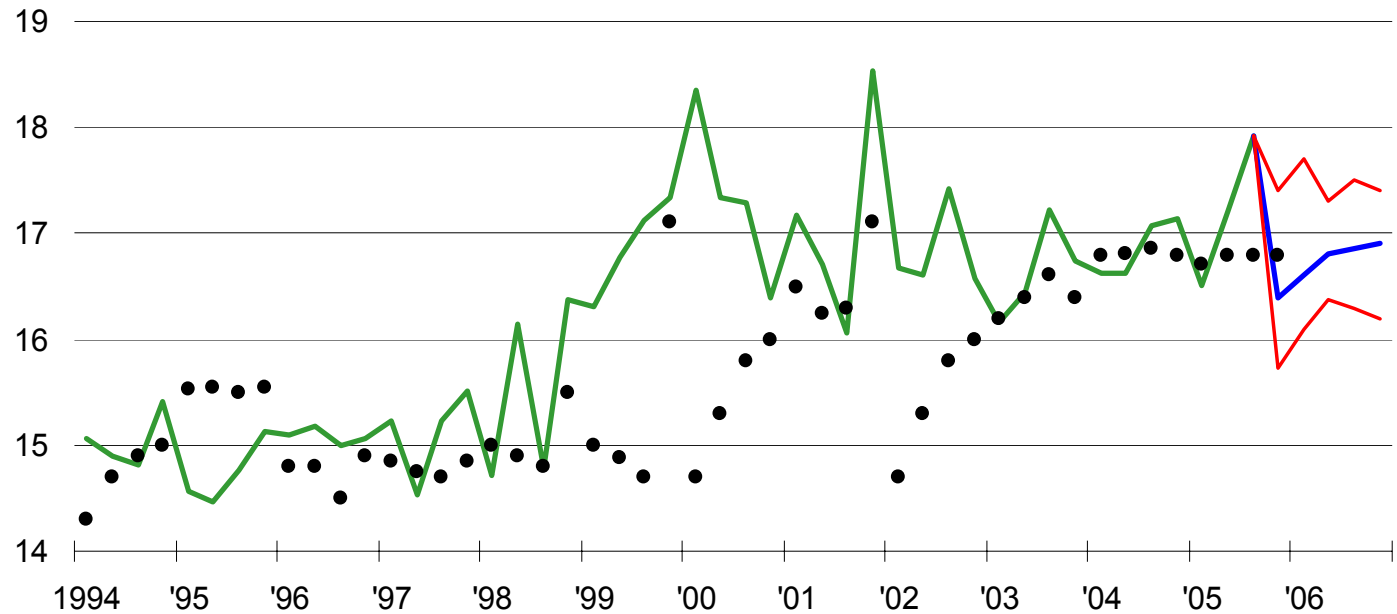
percent change, annual rate



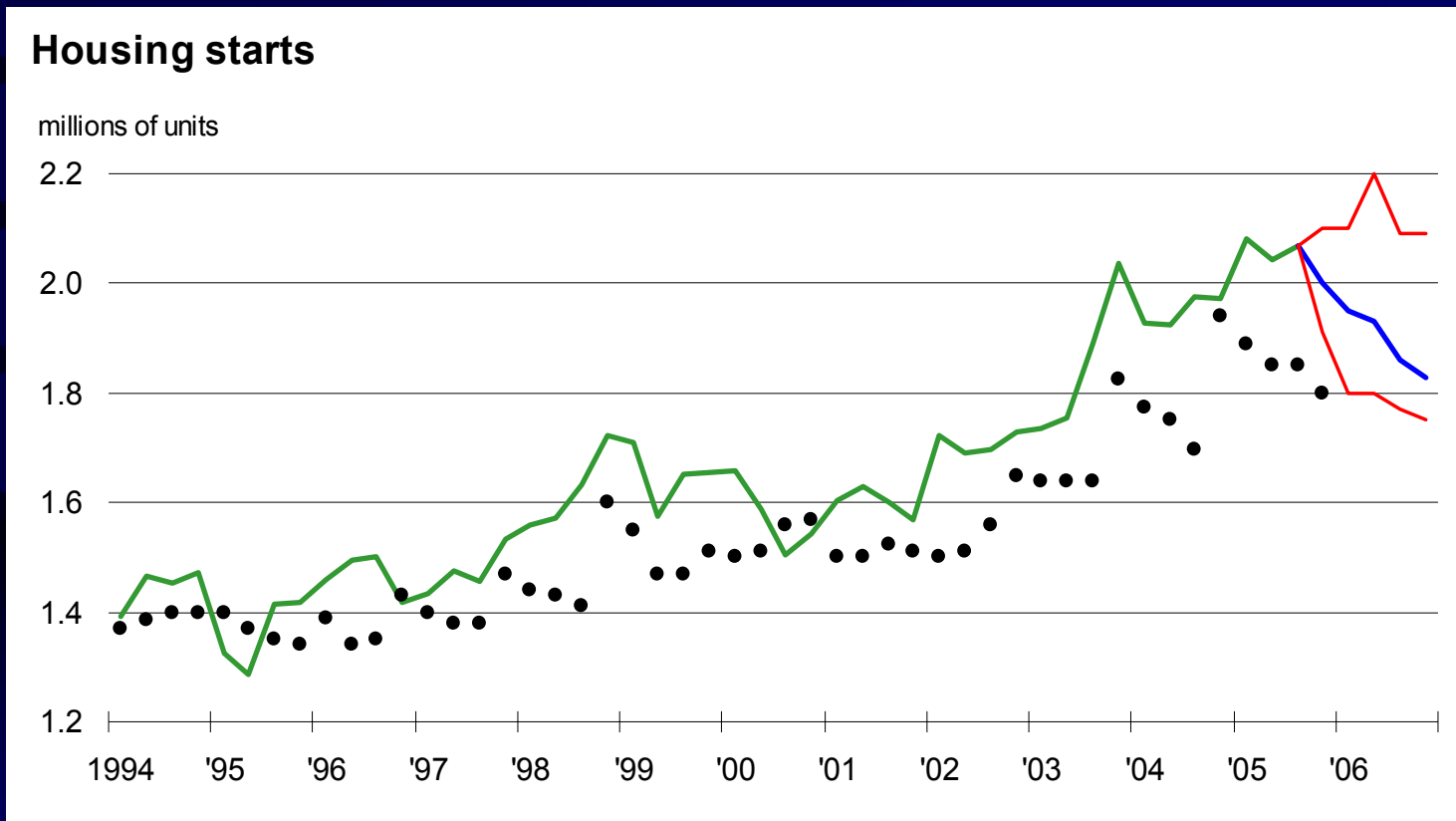
Vehicle sales are forecast to decrease slightly, averaging 16.8 million units during next year

Car and light truck sales

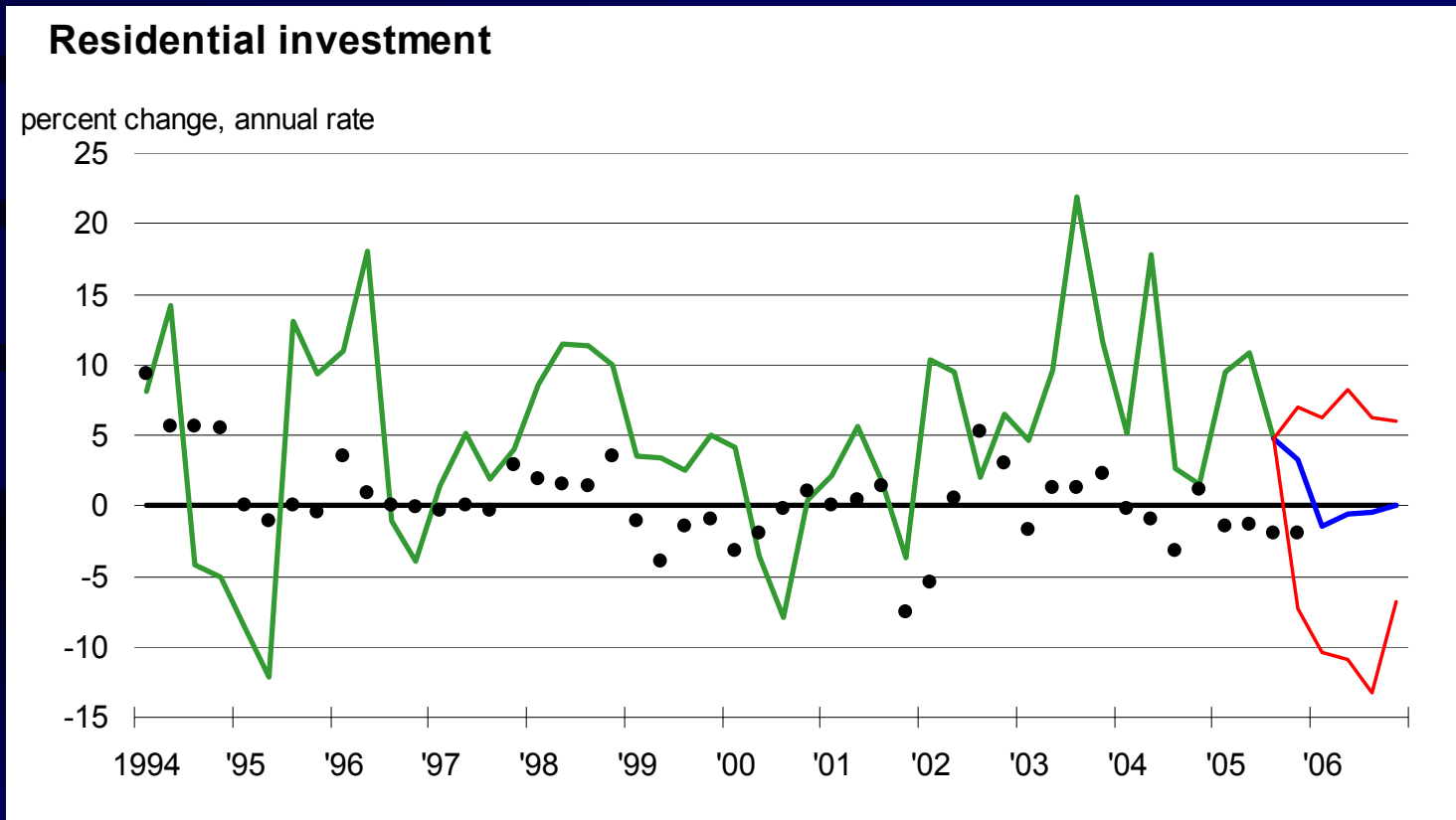
millions of units



Once again, housing starts are forecast to fall to 1.83 million units by the end of 2006

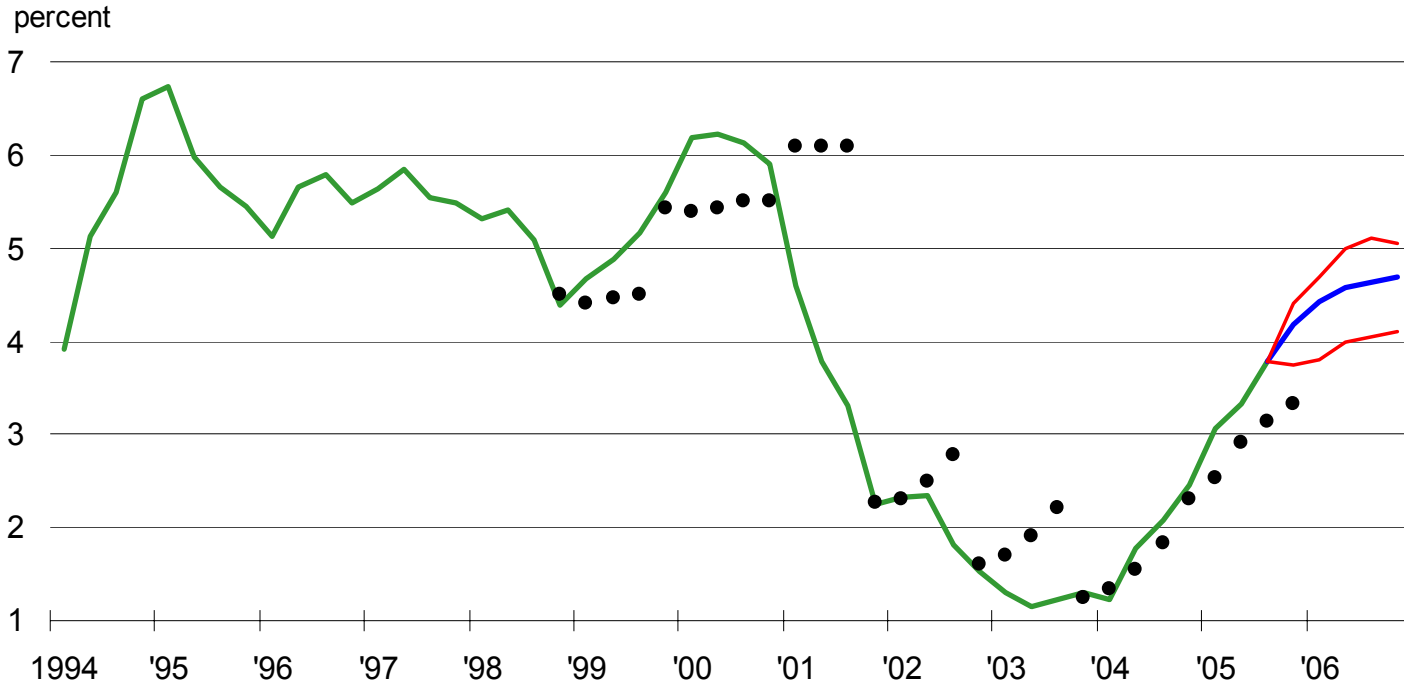


This predicted decline in housing is also evident with the fall in residential investment

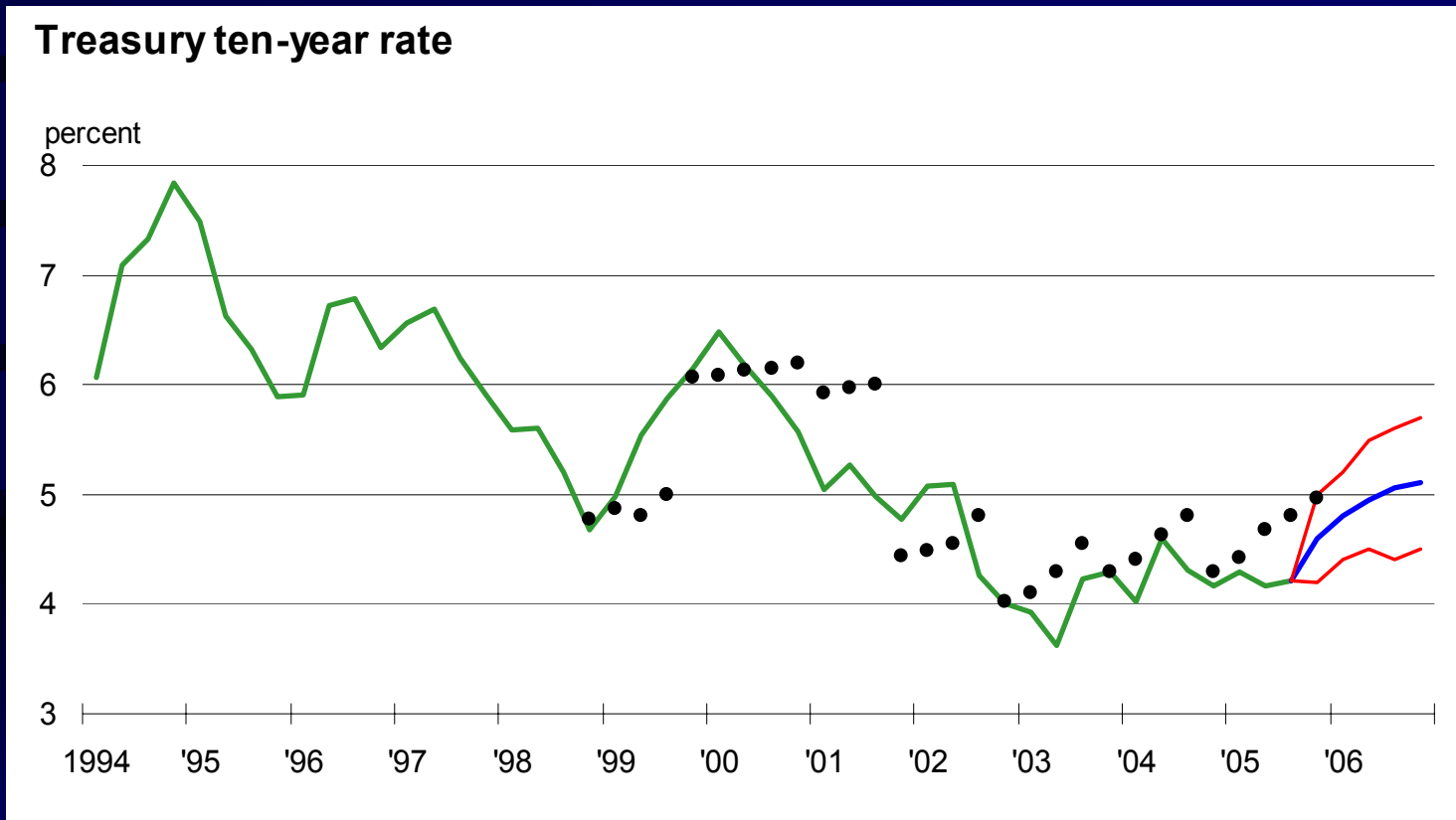


Short-term interest rates are predicted to increase 52 basis points next year, reaching 4.70% in the fourth quarter

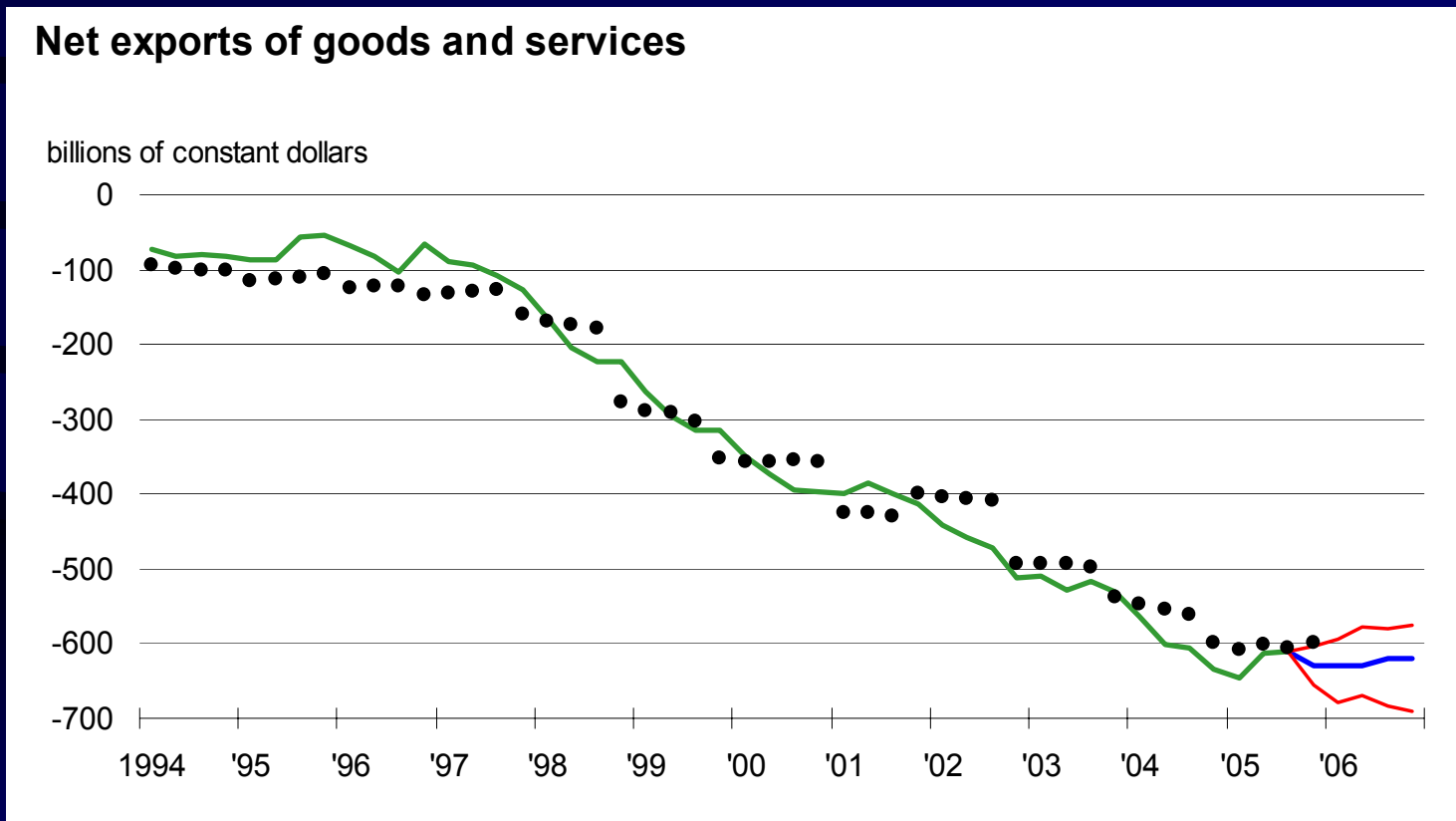
Treasury one-year rate



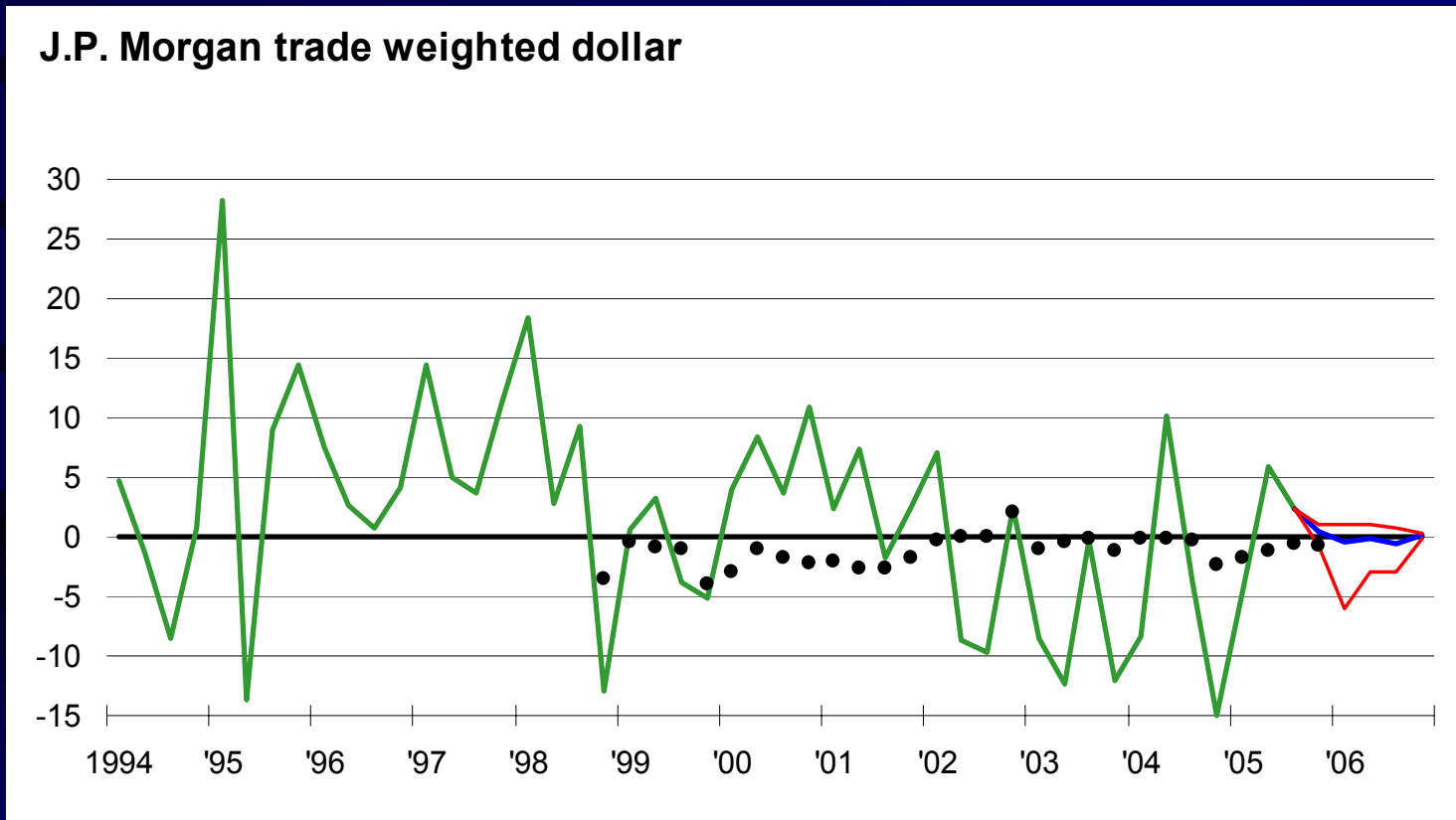
Ten-year interest rates are also expected to increase, rising by 51 basis points in 2006, leaving the yield curve unchanged



The trade balance is forecast to remain at existing levels

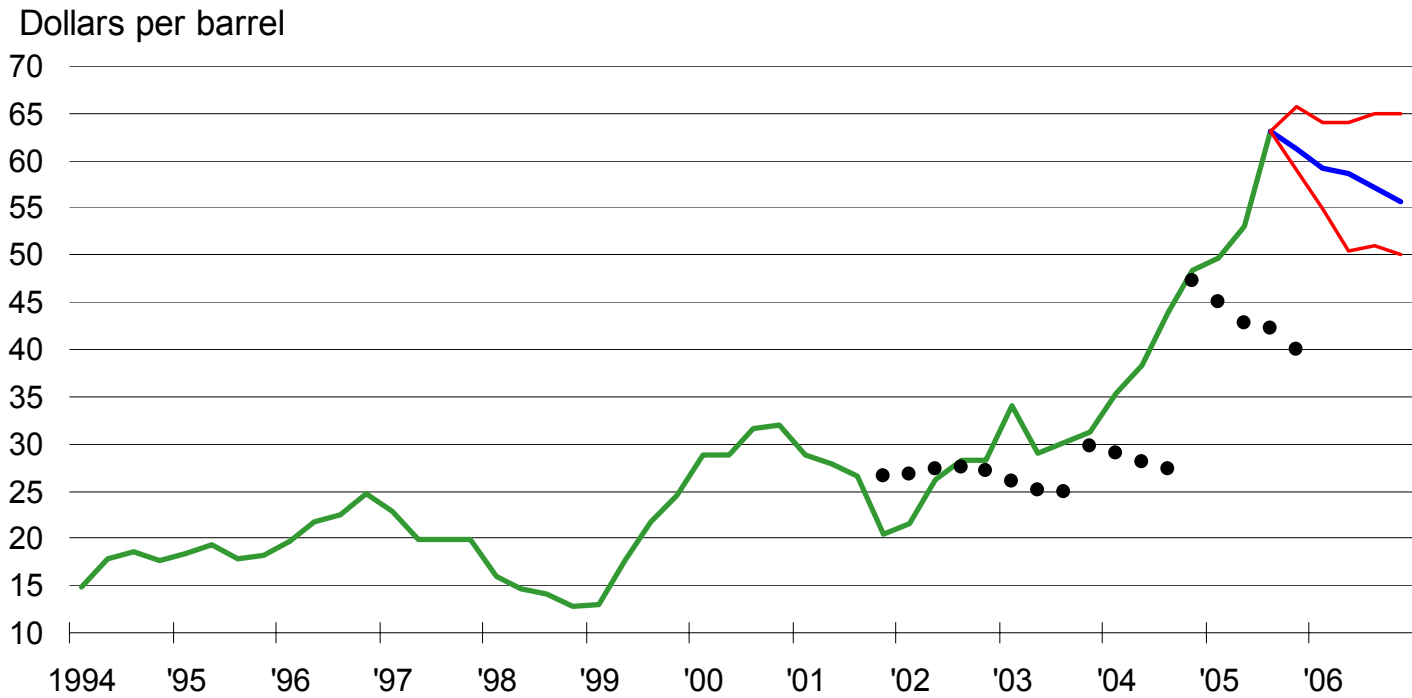


The dollar is forecast remain relatively unchanged



**Oil prices are anticipated to experience
a steady decline from current prices,
reaching \$55.69 by the end of 2006**

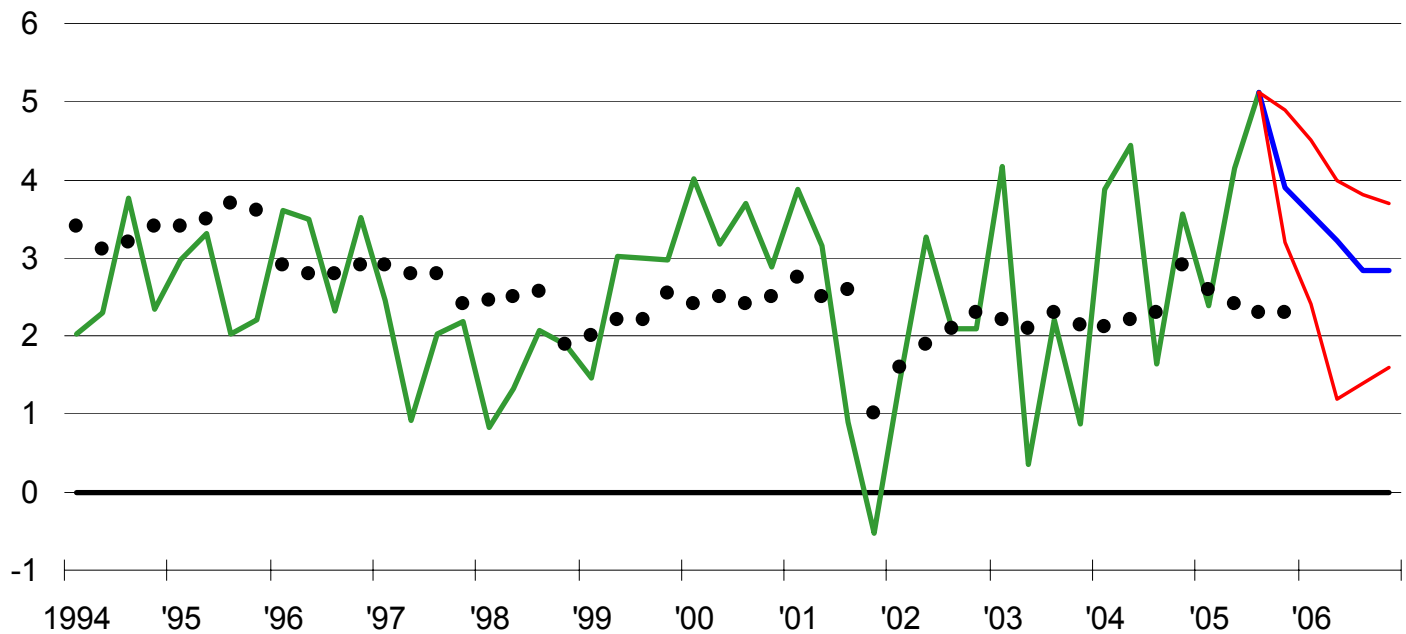
Oil prices - West Texas Intermediate



**Inflation is forecast to decrease next year,
although it is expected to average 2.7%
at the end of the year**

Inflation rate (CPI)

percent change, annual rate



Summary

- **The economic expansion will continue into 2006, representing the fifth consecutive year of the expansion**
- **Since growth is within the range of potential, the unemployment rate is expected to remain unchanged at 5.0%**
- **Inflation is anticipated to moderate from a forecast of 3.9% in the current quarter to 2.7% by the end of next year**
- **All key GDP components are predicted to expand at a more moderate pace in 2006 with residential investment showing the largest drop**
- **Light vehicle sales are forecast to experience a slight pull-back next year, selling 16.8 million units**
- **Housing starts are expected to fall to the lowest rate since the second quarter of 2003**
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