Consensus Forecast 2007 and 2008

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Review of past performance
GDP growth came in weaker than the consensus forecast.
Yet, even with a weaker economy, the unemployment rate was lower than expected.
Inflation averaged what the group predicted, albeit with significantly more variance.
In part due to a fairly close forecast for energy prices
Car and light truck sales came in a bit lower than predicted.
Consumer spending growth was bit stronger than anticipated over the last two quarters.

**Personal consumption expenditures**

percent change, annual rate
On the other hand, business spending growth weakened during the same period.
Business inventories were building at a faster rate early in the forecast and were worked down during the last two quarters.
Industrial production growth pulled back over the last few quarters in order to bring excess inventories into balance.

Industrial production

percent change, annual rate

1994  '95  '96  '97  '98  '99  '00  '01  '02  '03  '04  '05  '06  '07
Government spending was accurately predicted.
The trade deficit was not as large as forecast.
The dollar was fairly accurately predicted.
The long-predicted softening in the housing market finally occurred, and surprised participants by decreasing at a faster pace than anticipated.
The greater weakness in housing starts than predicted led to a large miss on residential investment.
Although it would be hard to place the blame on long-term interest rates which came in lower than expected.
Short-term interest rates were nailed

Treasury one-year rate

percent

1994 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07

1 2 3 4 5 6 7

1994 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07

1 2 3 4 5 6 7
Forecast for 2007 and 2008
### Median forecast of GDP and related items

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP, current dollars*</td>
<td>5.7%</td>
<td>5.1%</td>
<td>5.3%</td>
</tr>
<tr>
<td>GDP price index, chain-type*</td>
<td>2.5%</td>
<td>2.8%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Real GDP, chained dollars*</td>
<td>3.3%</td>
<td>2.3%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Personal consumption expenditures*</td>
<td>3.2%</td>
<td>3.0%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Business fixed investment*</td>
<td>7.2%</td>
<td>3.8%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Residential investment*</td>
<td>-4.2%</td>
<td>-9.4%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Change in private inventories (billions of constant dollars)**</td>
<td>$43.2</td>
<td>$28.0</td>
<td>$38.0</td>
</tr>
<tr>
<td>Net exports of goods and services (billions of constant dollars)**</td>
<td>-$618.1</td>
<td>-$591.2</td>
<td>-$579.4</td>
</tr>
<tr>
<td>Government consumption expenditures and gross investment*</td>
<td>2.1%</td>
<td>1.7%</td>
<td>1.7%</td>
</tr>
</tbody>
</table>

*Q4 over Q4

**Annuals are Q4 value
### Median forecast of GDP and related items

**Median forecast of GDP and related items**

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<th>2006</th>
<th>2007</th>
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<tr>
<td>Industrial production*</td>
<td>4.0%</td>
<td>2.3%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Car &amp; light truck sales (millions - calendar year including imports)***</td>
<td>16.5</td>
<td>16.5</td>
<td>16.7</td>
</tr>
<tr>
<td>Housing starts (millions)***</td>
<td>1.81</td>
<td>1.46</td>
<td>1.53</td>
</tr>
<tr>
<td>Oil price (dollars per barrel of West Texas Intermediate)**</td>
<td>$66.10</td>
<td>$61.67</td>
<td>$60.00</td>
</tr>
<tr>
<td>Unemployment rate**</td>
<td>4.6%</td>
<td>4.7%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Inflation rate (consumer price index)*</td>
<td>3.2%</td>
<td>3.0%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Treasury constant maturity 1-year rate**</td>
<td>4.93%</td>
<td>5.01%</td>
<td>5.02%</td>
</tr>
<tr>
<td>Treasury constant maturity 10-year rate**</td>
<td>4.79%</td>
<td>4.90%</td>
<td>5.20%</td>
</tr>
<tr>
<td>J.P. Morgan trade weighted OECD dollar*</td>
<td>-1.2%</td>
<td>0.2%</td>
<td>-0.1%</td>
</tr>
</tbody>
</table>

*Q4 over Q4  
**Annuals are Q4 value  
***Annuals are yearly average
Real GDP growth is expected to improve over the rest of this year reaching 2.9% by the fourth quarter and then edge a bit higher during 2008, averaging 3.0%, in line with potential growth for the economy.
The unemployment rate is forecast to rise to 4.7% at the end of this year and then hold at that rate next year.
Oil prices are expected to remain contained over the forecast horizon, falling to under $62 per barrel at the end of this year and then edge a bit lower in 2008.

Oil prices - West Texas Intermediate

Dollars per barrel
The inflation rate is expected to ease to 2.6% in the third quarter of this year and then edge down to 2.5%.
Short-term interest rates are forecast to remain flat over the next 18 months

**Treasury one-year rate**

percent

1994 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08
Light vehicle sales are forecast to improve over the forecast horizon, averaging 16.5 million units this year and then rise to 16.7 million units in 2008.
Consumption growth is expected to remain steady at 3.0% in 2007 and 2.8% in 2008.
Housing starts are expected to bottom in the third quarter of this year, and then improve over the rest of the forecast horizon.

**Housing starts**

millions of units
Residential investment is forecast to continue reducing its drag on the overall economy, reaching zero growth in final quarter of this year, and rising 2.7% in 2008.

![Residential investment graph](image)

- Residential investment
- percent change, annual rate
- 1994 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08
Long-term interest rates are forecast to rise by 11 basis points in 2007 and then by an additional 30 basis points in 2008.
Business spending growth is anticipated to rise to 3.8% in 2007 and then improve to 4.8% next year.
A relatively modest increase in inventories is expected to take place over the forecast horizon.
Industrial output growth is forecast to improve, rising 2.3% this year and 2.8% next year.
Government purchases growth is forecast to increase by 1.7% both this year and next.
Net exports are expected to show only moderate improvement over the forecast horizon.
The dollar is forecast to remain relatively flat both this year and next.

J.P. Morgan trade weighted dollar
percent change, annual rate

1994 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08
The economy is forecast to be soft this year with growth below potential with growth returning to potential in 2008.

Unemployment is expected to rise this year and then remain unchanged next year.

Inflation is expected to moderate this year and edge down in 2008.

Light vehicle sales are forecast to average 16.5 million units this year and then improve to 16.7 million in 2008.

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