Consensus Forecast for 2008

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Review of past performance
While more volatile than forecast, Real GDP was accurately forecast to improve during the year.
As has been the case for the past four years, the unemployment rate was lower than predicted.
Business investment sector growth was overestimated for the first two quarters then underestimated in the last two quarters.
Inventory accumulation was lower than expected

Change in private inventories
billions of constant dollars
The industrial sector’s growth improved through the year as forecast.
Consumer spending predictions were on target

Personal consumption expenditures
percent change, annual rate

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

-1  0  1  2  3  4  5  6  7  8
While light vehicle sales in the fourth quarter of 2005 and first quarter of 2006 were accurately forecast, the second and third quarter predictions were too optimistic.

Car and light truck sales
millions of units

[Graph showing car and light truck sales from 1994 to 2007]
Housing starts were much worse than forecast

**Housing starts**

millions of units

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

Graph showing the number of housing starts from 1994 to 2007.
Declines in residential investment were much larger than expected.

Residential investment
percent change, annual rate

1994 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07
Short-term interest rates were accurately predicted, through the second quarter.
Long-term interest rates were just a bit lower than expected.
The trade deficit improved at a much faster rate than forecast.
The dollar weakened by a greater extent over the last two quarters than predicted.
While more volatile, inflation averaged what was forecast.
Oil prices increased more than expected over the last two quarter
Forecast for 2008
# Median forecast of GDP and related items

*(page 1 in the Consensus Forecast book)*

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP, current dollars</strong></td>
<td>5.4%</td>
<td>4.8%</td>
<td>4.4%</td>
</tr>
<tr>
<td><strong>GDP price index, chain-type</strong></td>
<td>2.7%</td>
<td>2.3%</td>
<td>2.1%</td>
</tr>
<tr>
<td><strong>Real GDP, chained dollars</strong></td>
<td>2.6%</td>
<td>2.5%</td>
<td>2.5%</td>
</tr>
<tr>
<td><strong>Personal consumption expenditures</strong></td>
<td>3.4%</td>
<td>2.5%</td>
<td>2.2%</td>
</tr>
<tr>
<td><strong>Business fixed investment</strong></td>
<td>5.2%</td>
<td>6.1%</td>
<td>3.7%</td>
</tr>
<tr>
<td><strong>Residential investment</strong></td>
<td>-12.8%</td>
<td>-15.9%</td>
<td>-4.0%</td>
</tr>
<tr>
<td><strong>Change in private inventories (billions of constant dollars)</strong></td>
<td>$17.4</td>
<td>$17.3</td>
<td>$25.4</td>
</tr>
<tr>
<td><strong>Net exports of goods and services (billions of constant dollars)</strong></td>
<td>-$597.3</td>
<td>-$541.4</td>
<td>-$507.3</td>
</tr>
<tr>
<td><strong>Government consumption expenditures and gross investment</strong></td>
<td>2.5%</td>
<td>2.3%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

*Q4 over Q4

**Q4 value
## Median forecast of GDP and related items
(page 1 in the Consensus Forecast book)

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<th>2007</th>
<th>2008</th>
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</thead>
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<tr>
<td>Industrial production*</td>
<td>3.5%</td>
<td>2.6%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Car &amp; light truck sales (millions - calendar year including imports)***</td>
<td>16.5</td>
<td>16.1</td>
<td>16.0</td>
</tr>
<tr>
<td>Housing starts (millions)***</td>
<td>1.81</td>
<td>1.35</td>
<td>1.21</td>
</tr>
<tr>
<td>Oil price (dollars per barrel of West Texas Intermediate)**</td>
<td>$60.09</td>
<td>$90.19</td>
<td>$82.50</td>
</tr>
<tr>
<td>Unemployment rate**</td>
<td>4.5%</td>
<td>4.7%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Inflation rate (consumer price index)*</td>
<td>1.9%</td>
<td>3.6%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Treasury constant maturity 1-year rate**</td>
<td>4.99%</td>
<td>4.11%</td>
<td>4.28%</td>
</tr>
<tr>
<td>Treasury constant maturity 10-year rate**</td>
<td>4.63%</td>
<td>4.50%</td>
<td>4.80%</td>
</tr>
<tr>
<td>J.P. Morgan trade weighted OECD dollar*</td>
<td>-3.6%</td>
<td>-4.2%</td>
<td>-0.7%</td>
</tr>
</tbody>
</table>

*Q4 over Q4  
**Q4 value  
***Yearly average
GDP growth is expected to rise through 2008 from 1.7% in the current quarter to 2.8% by the end of next year.
This somewhat slower growth for the economy will lead to the unemployment rate continuing to edge higher through 2008.
Business fixed investment growth is forecast to slow to average 3.7% over the forecast horizon.

Business fixed investment

percent change, annual rate
Inventories are anticipated to expand, but at a pace that will continue to lower the inventory to GDP ratio.
After a downbeat current quarter, industrial output growth is forecast to gradually improve to 3.1% by the end of next year.
Consumer spending growth is expected to soften over the next two quarters and then improve towards the end of next year.

**Personal consumption expenditures**

percent change, annual rate

![Graph showing personal consumption expenditures from 1994 to 2008](image-url)
Vehicle sales are forecast to average 16.0 million units during next year.
Housing starts are forecast to continue to weaken through the first half of next year reaching 1.17 million units and then edge a bit higher in the second half of the year.
The drag from residential investment is expected to abate at the end of next year.
Short-term interest rates are predicted to remain fairly flat next year.

Treasury one-year rate

percent

1994 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08
Ten-year interest rates are expected to edge higher

Treasury ten-year rate

percent

1994 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08
The trade balance is forecast to continue to improve.
The dollar is forecast to fall moderately.

**J.P. Morgan trade weighted dollar**

Percent change, annual rate
Oil prices are predicted to move lower during 2008
Inflation is forecast to average 2.6% next year.
The economic expansion will continue into 2008, representing the seventh consecutive year of the expansion.

With economic growth below potential, the unemployment rate is expected to edge higher.

Inflation is anticipated to remain fairly stable at 2.6%.

Most key GDP components are predicted to expand at a more moderate pace in 2008 with the exception of residential investment and the trade deficit which are expected to represent a smaller drag on the U.S. economy next year.

Light vehicle sales are forecast average 16.0 million units, the slowest selling rate since 1998.

Housing starts are expected to fall to the lowest rate since 1992.

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