



FIFTEENTH ANNUAL

AUTOMOTIVE OUTLOOK SYMPOSIUM

THURSDAY JUNE 5 / FRIDAY JUNE 6 / 2008

Consensus Forecast 2008 and 2009

**Fifteenth Annual
Automotive Outlook Symposium**
Detroit, Michigan
June 6, 2008

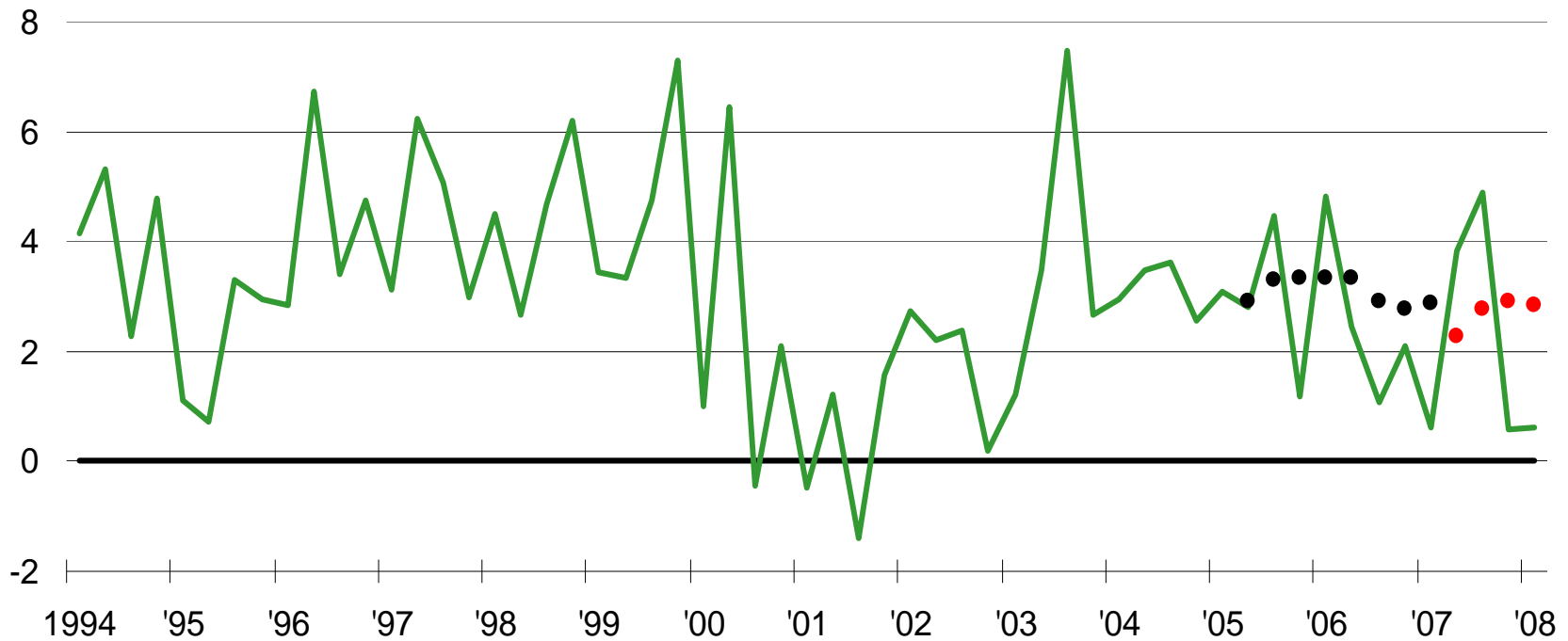
William Strauss
Senior Economist
and Economic Advisor
Federal Reserve Bank of Chicago

Review of past performance

GDP growth came in close to the consensus forecast

Real GDP

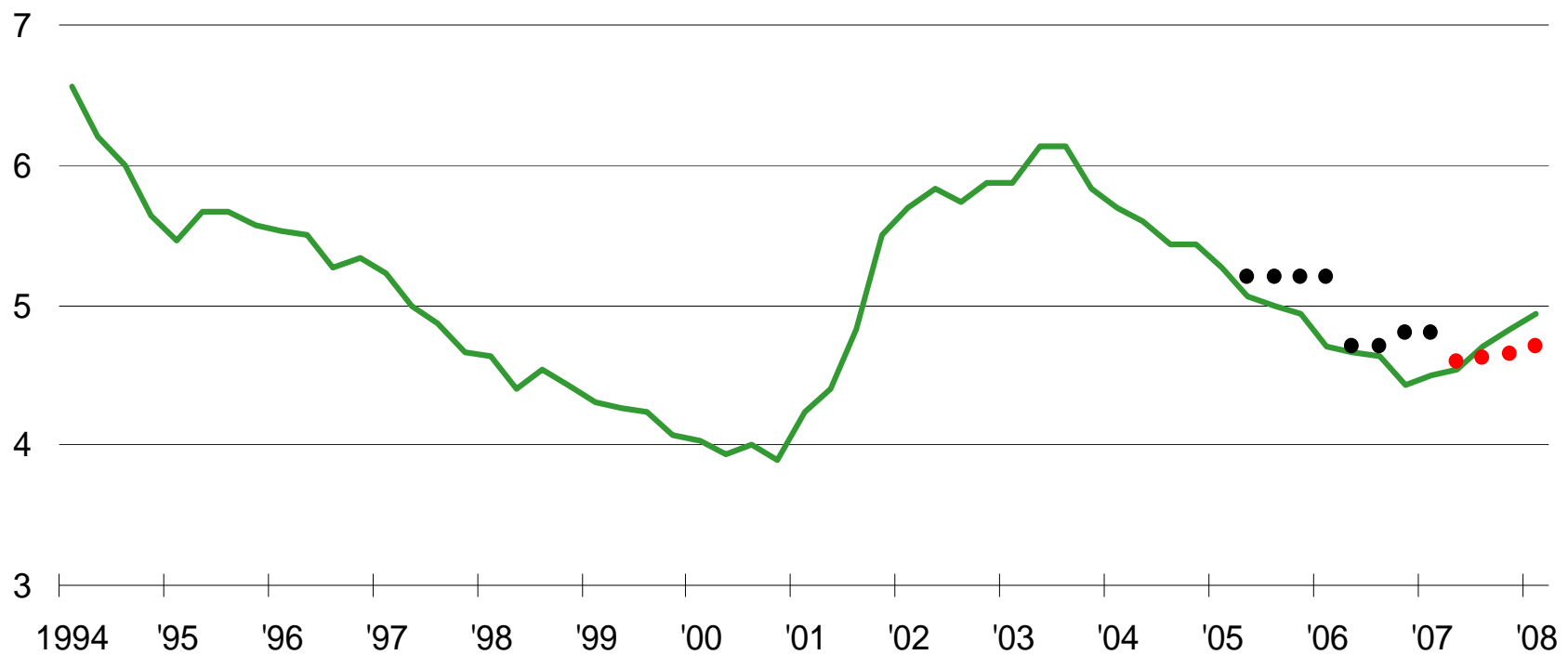
percent change, annual rate



The unemployment rate edged up just a bit more than expected

Unemployment rate

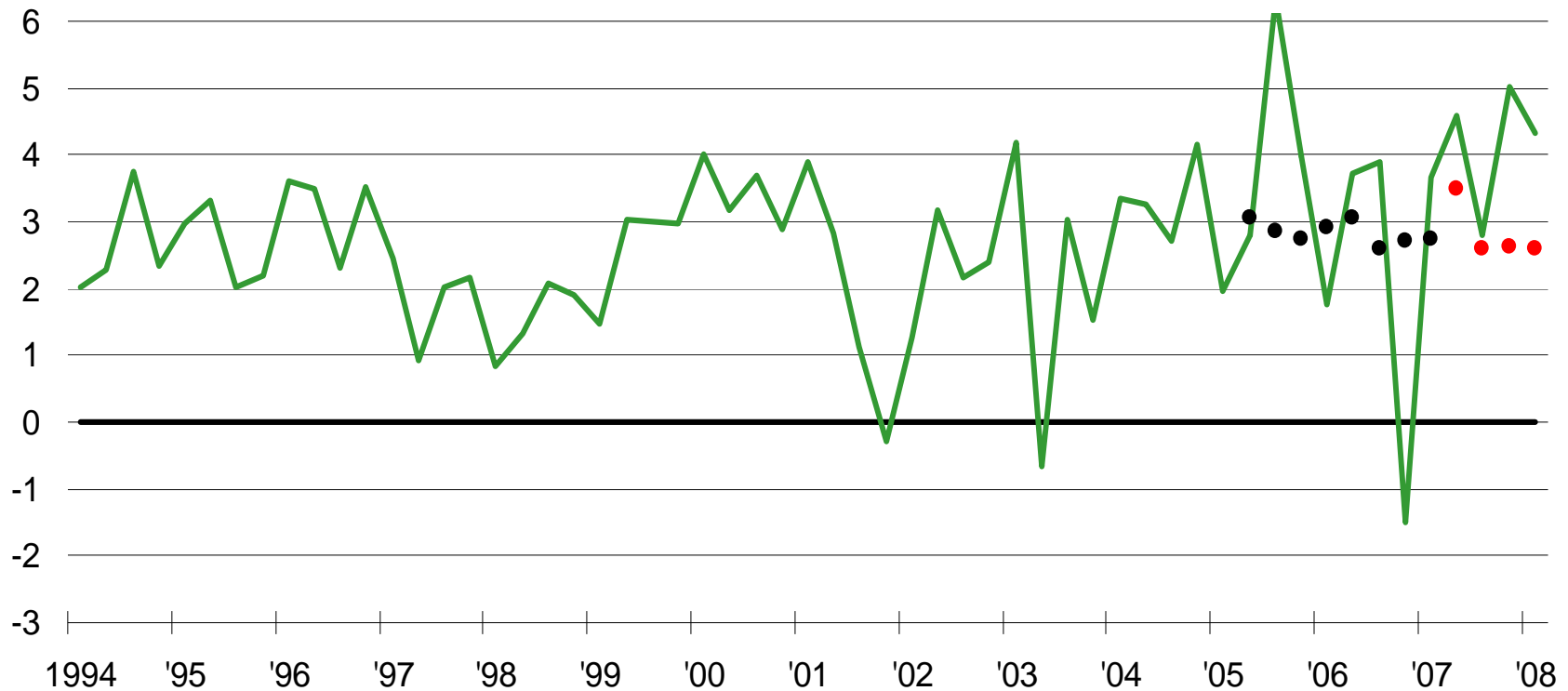
percent



Inflation came in higher than the consensus group anticipated

Inflation rate (CPI)

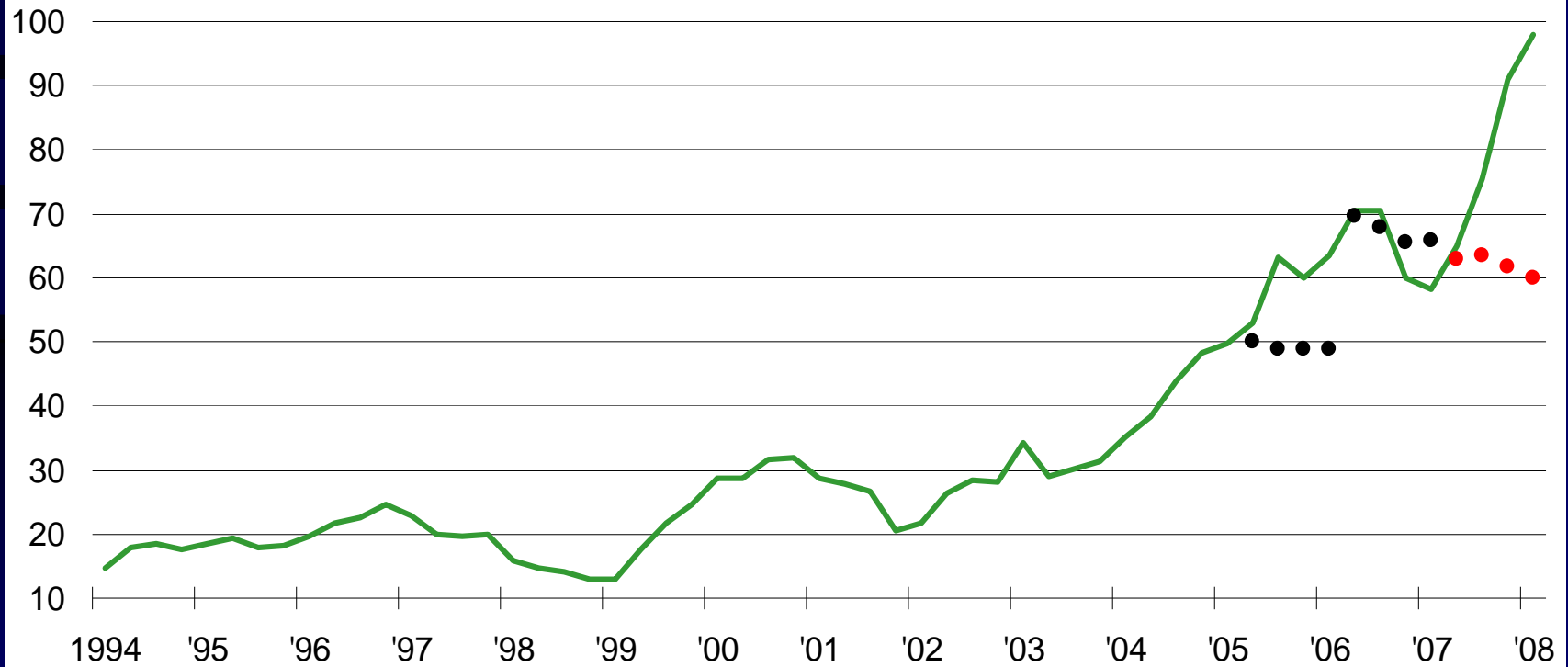
percent change, annual rate



This is not too surprising given the large miss on oil prices

Oil prices - West Texas Intermediate

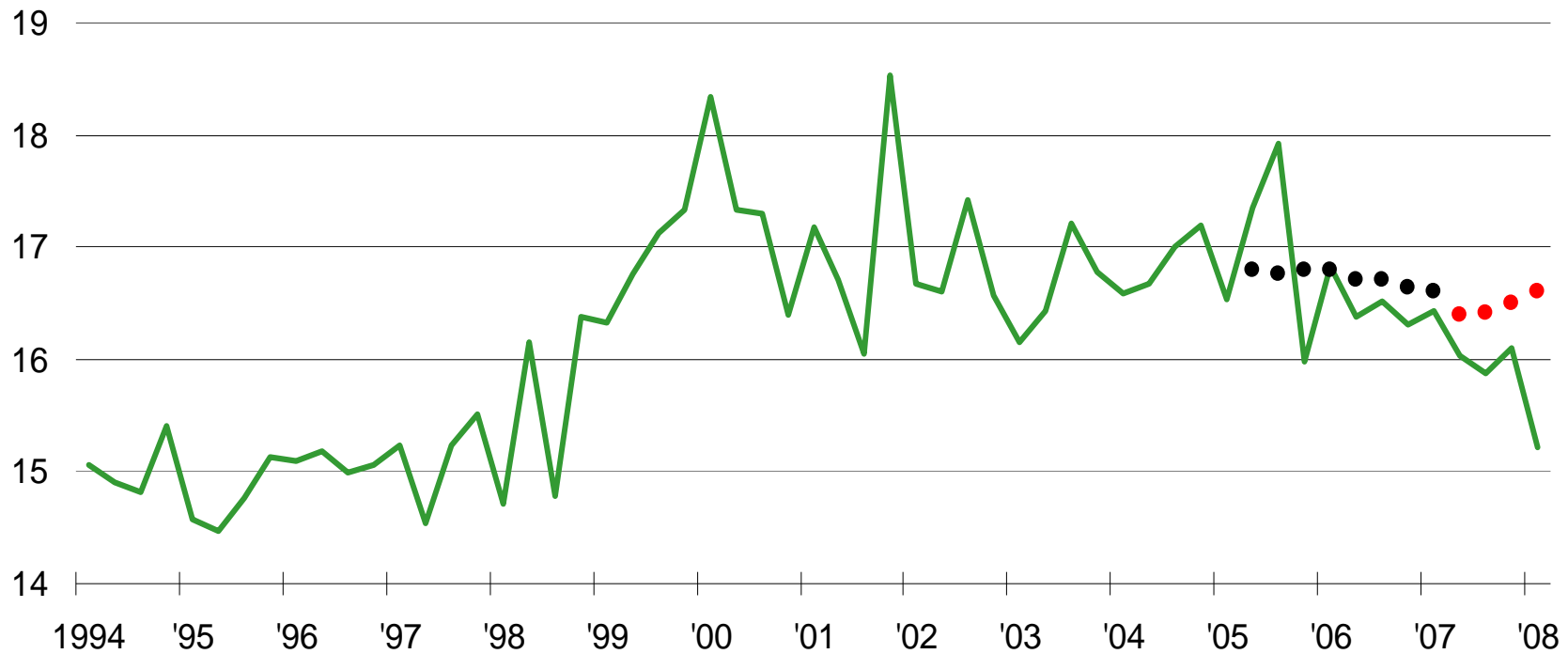
Dollars per barrel



Car and light truck sales were expected to edge higher, however they fell off quite sharply, especially over the past two quarters

Car and light truck sales

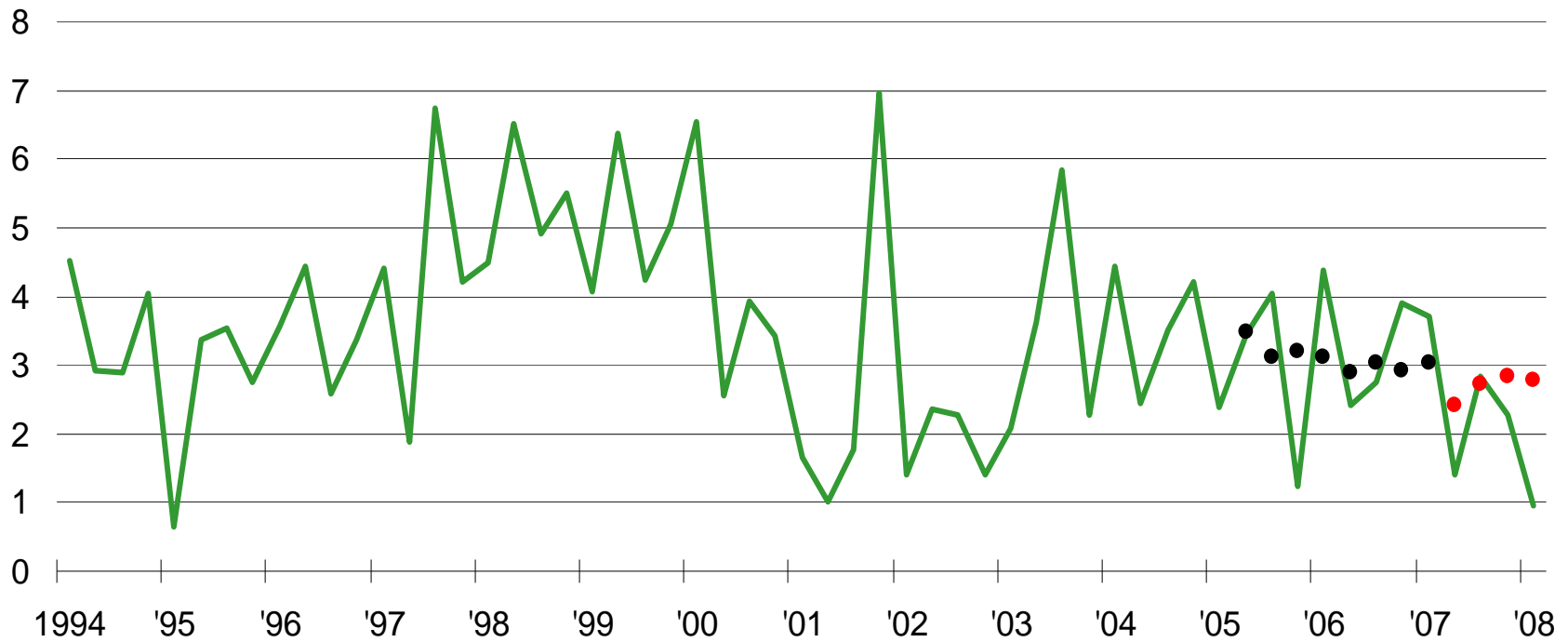
millions of units



Consumer spending growth showed a similar pattern

Personal consumption expenditures

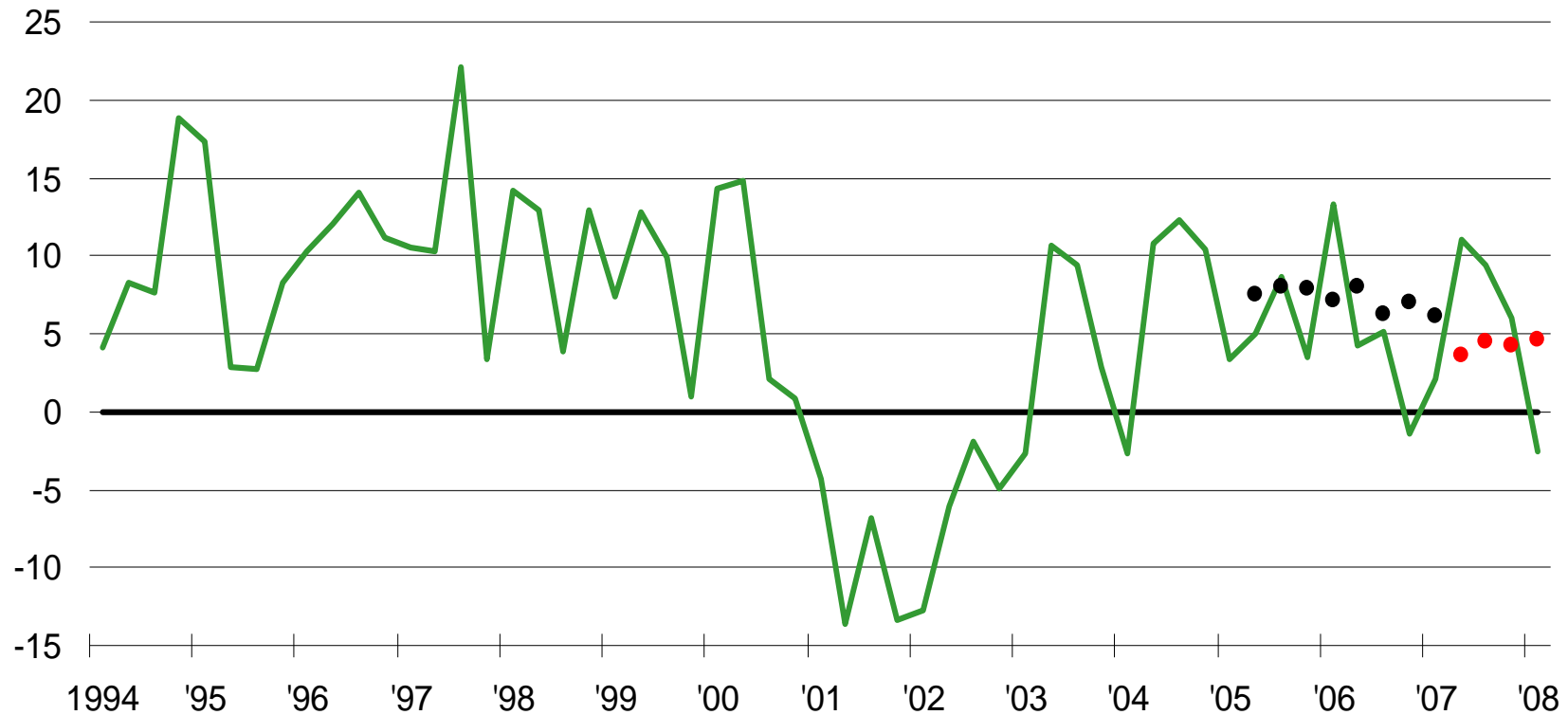
percent change, annual rate



Business investment growth was in-line with expectations, although it has been weakening since early last year

Business fixed investment

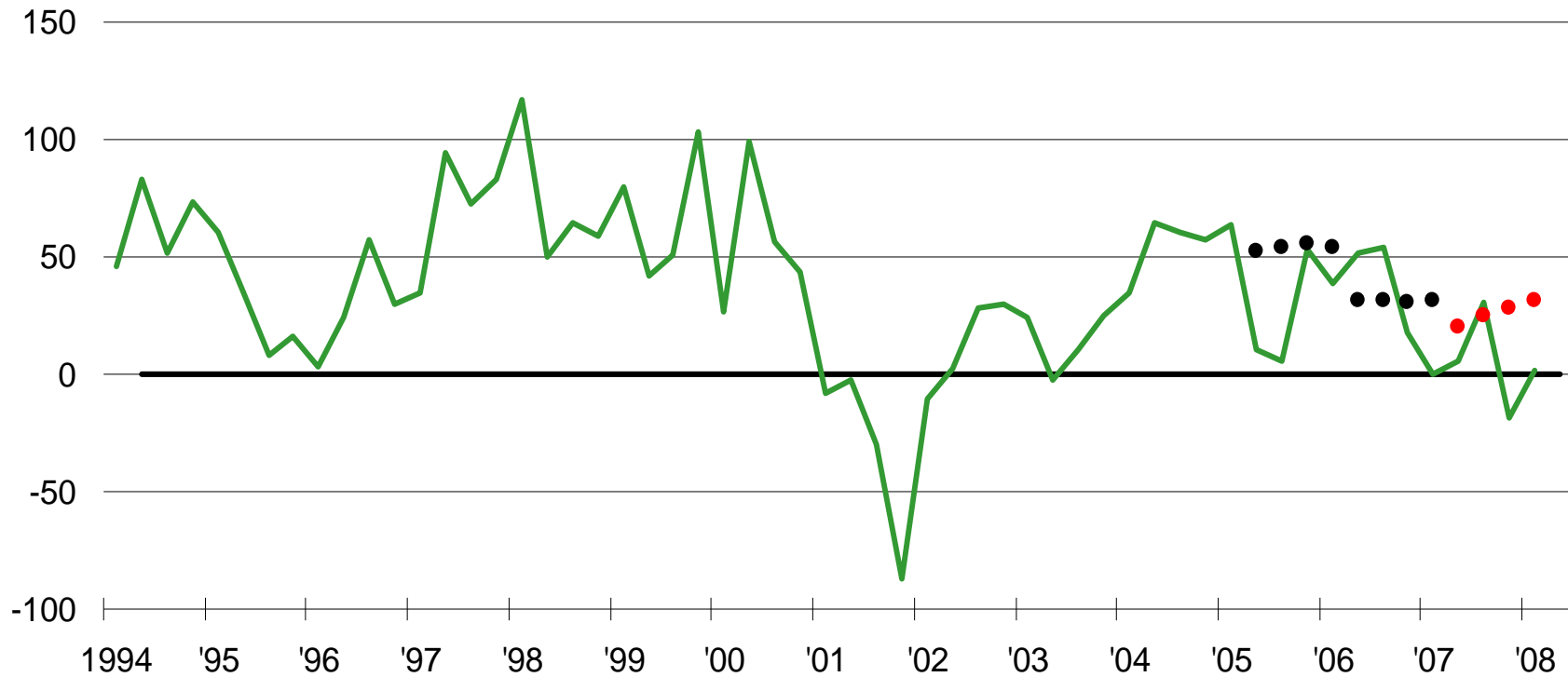
percent change, annual rate



With a slowing economy, businesses did not allow their inventories to rise as much as forecast

Change in private inventories

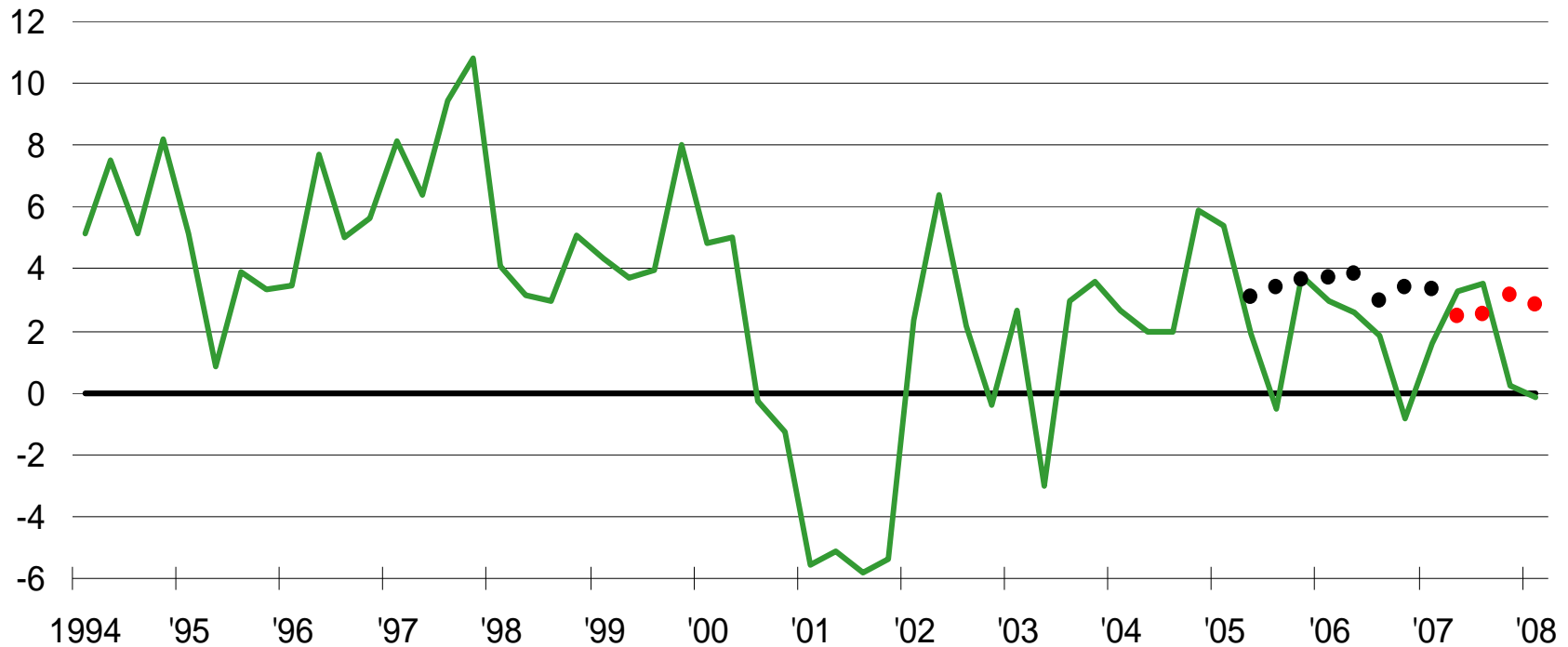
billions of constant dollars



Industrial production growth was close to expectations in the middle of last year, but came in lower over the past two quarters

Industrial production

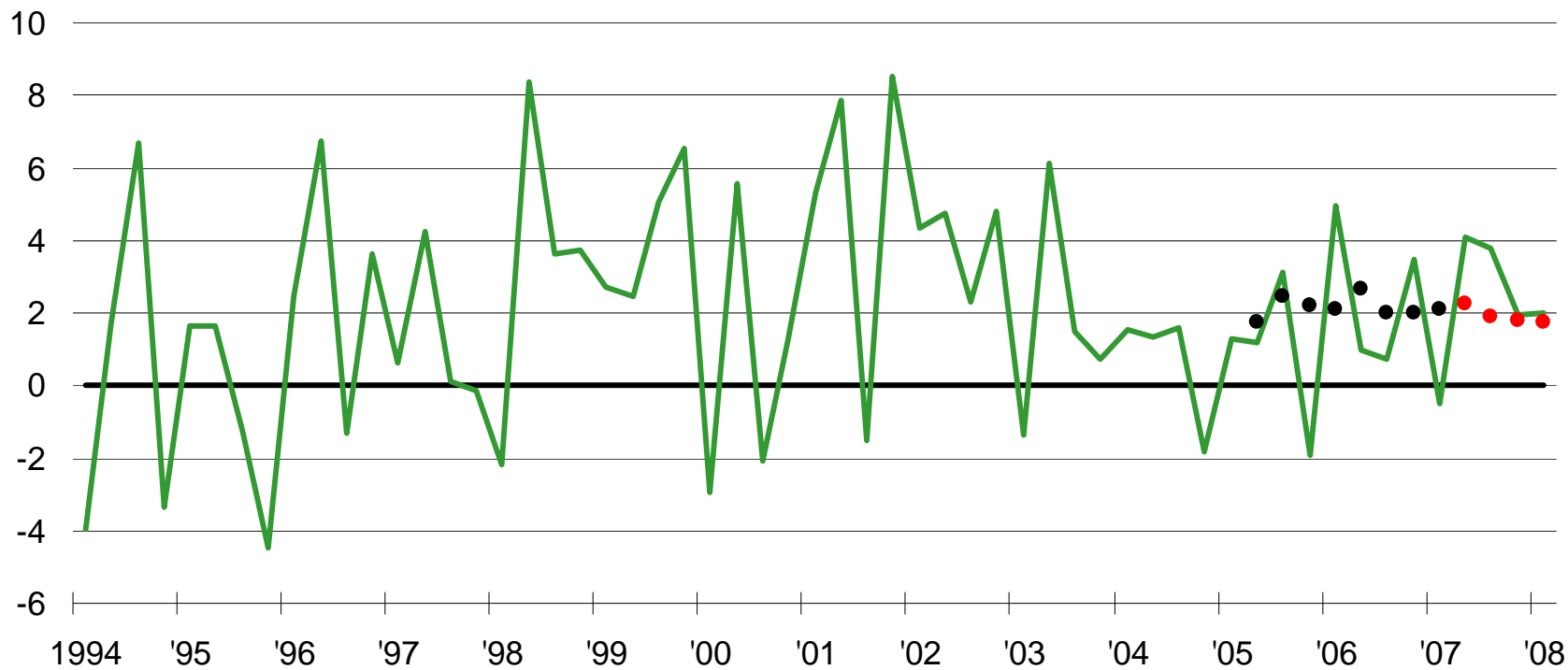
percent change, annual rate



Government spending was a bit higher than predicted

Government consumption

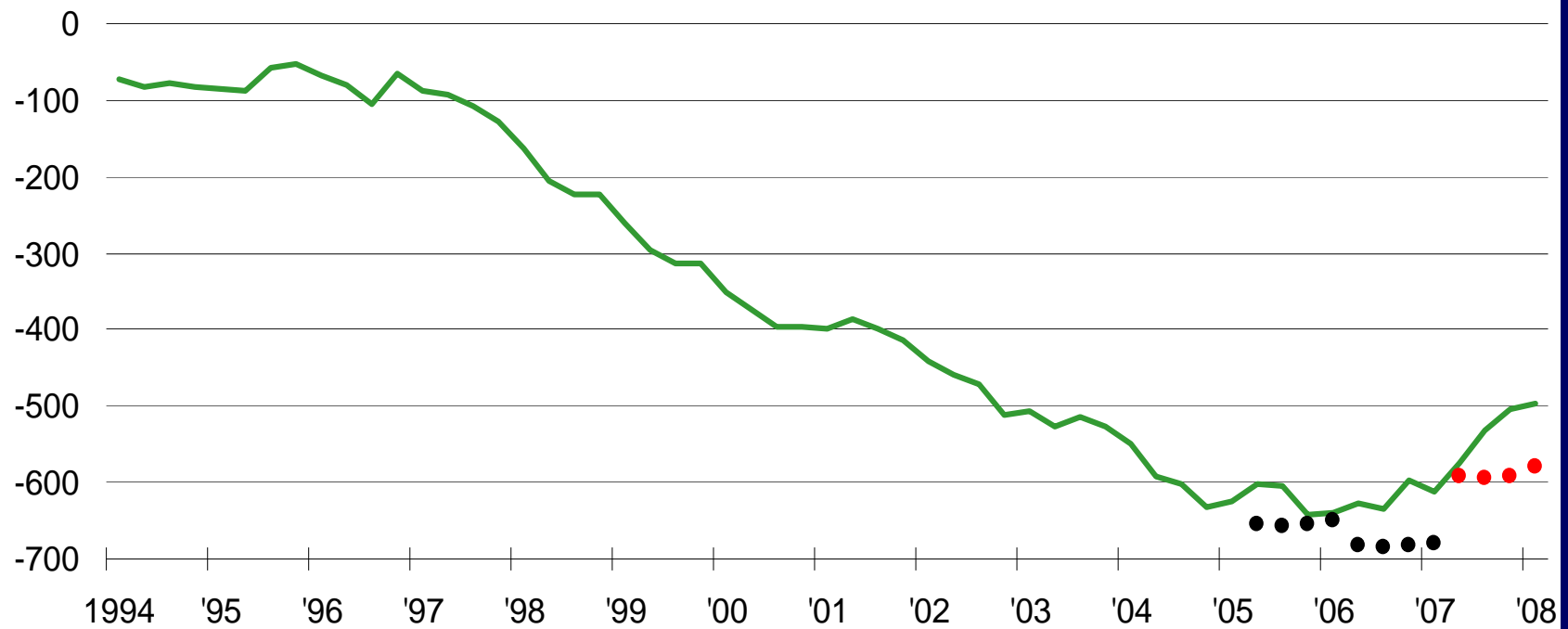
percent change, annual rate



The trade deficit improved at a much faster rate than forecast

Net exports of goods and services

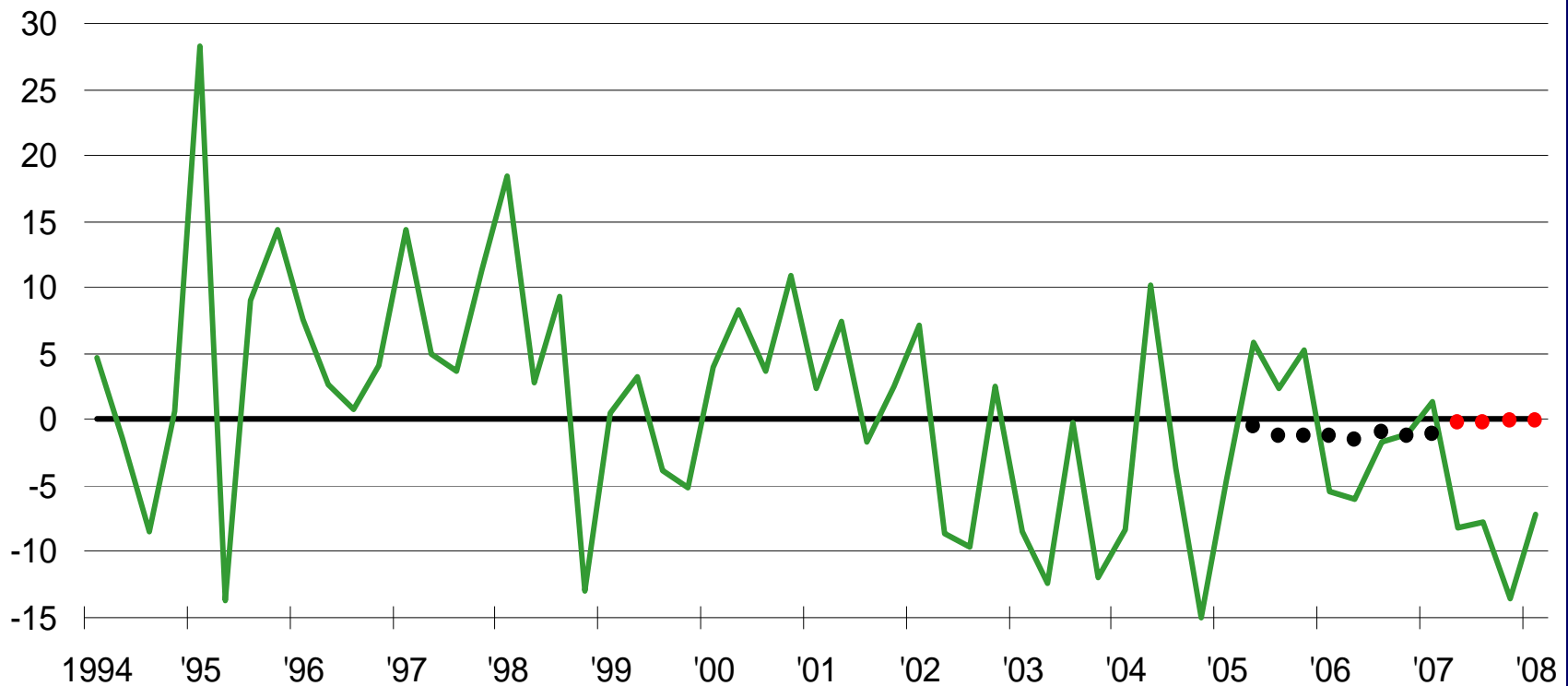
billions of constant dollars



Perhaps supported in part by a much weaker dollar

J.P. Morgan trade weighted dollar

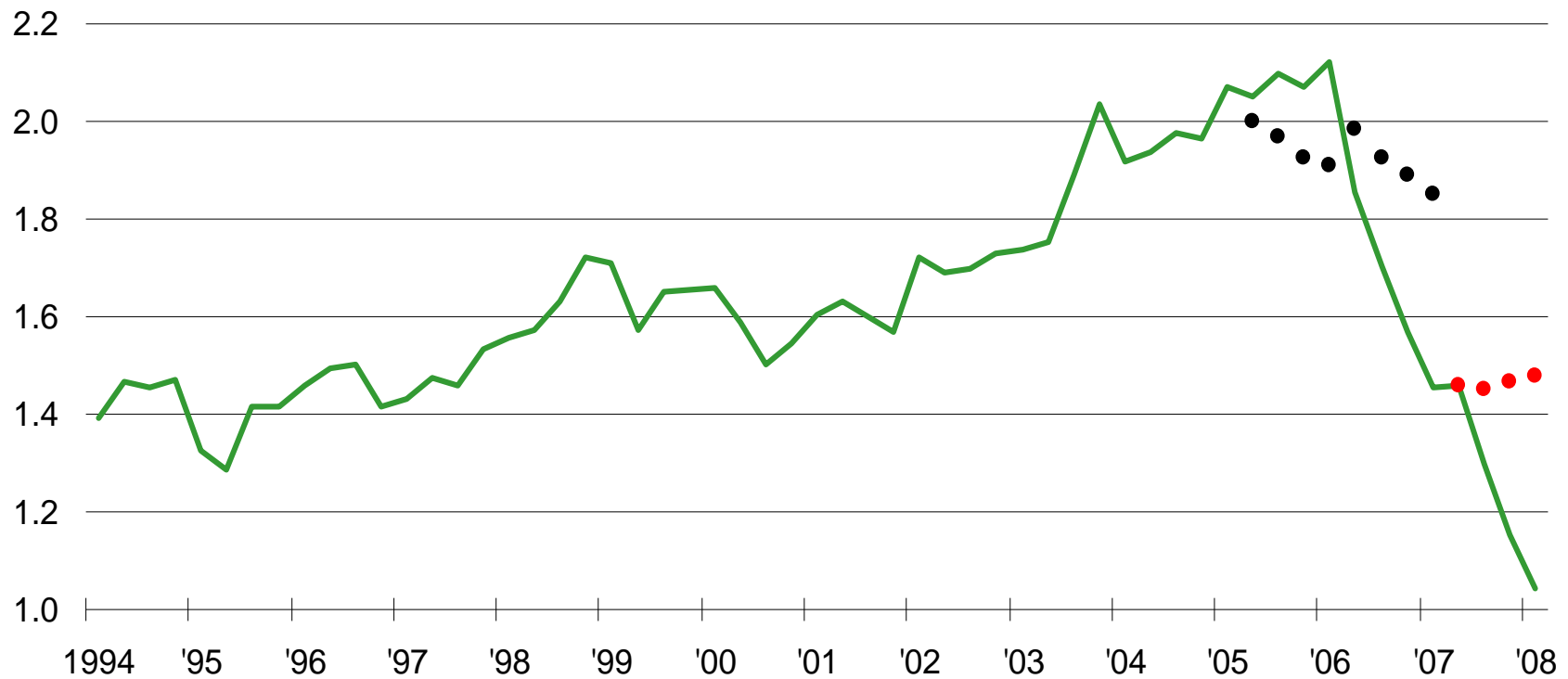
percent change, annual rate



The consensus expected housing starts to bottom, however it continued to fall at a substantial rate

Housing starts

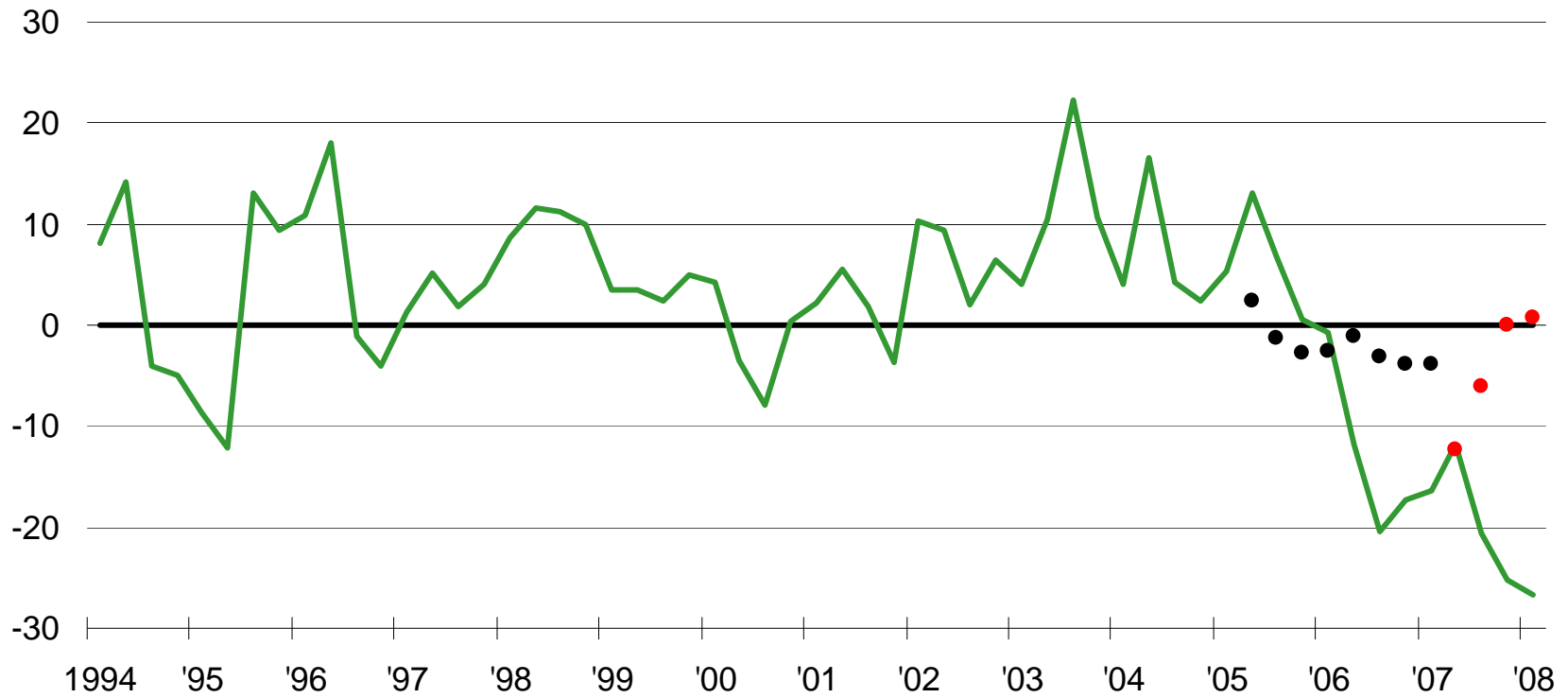
millions of units



The greater weakness in housing starts than predicted led to a large miss on residential investment

Residential investment

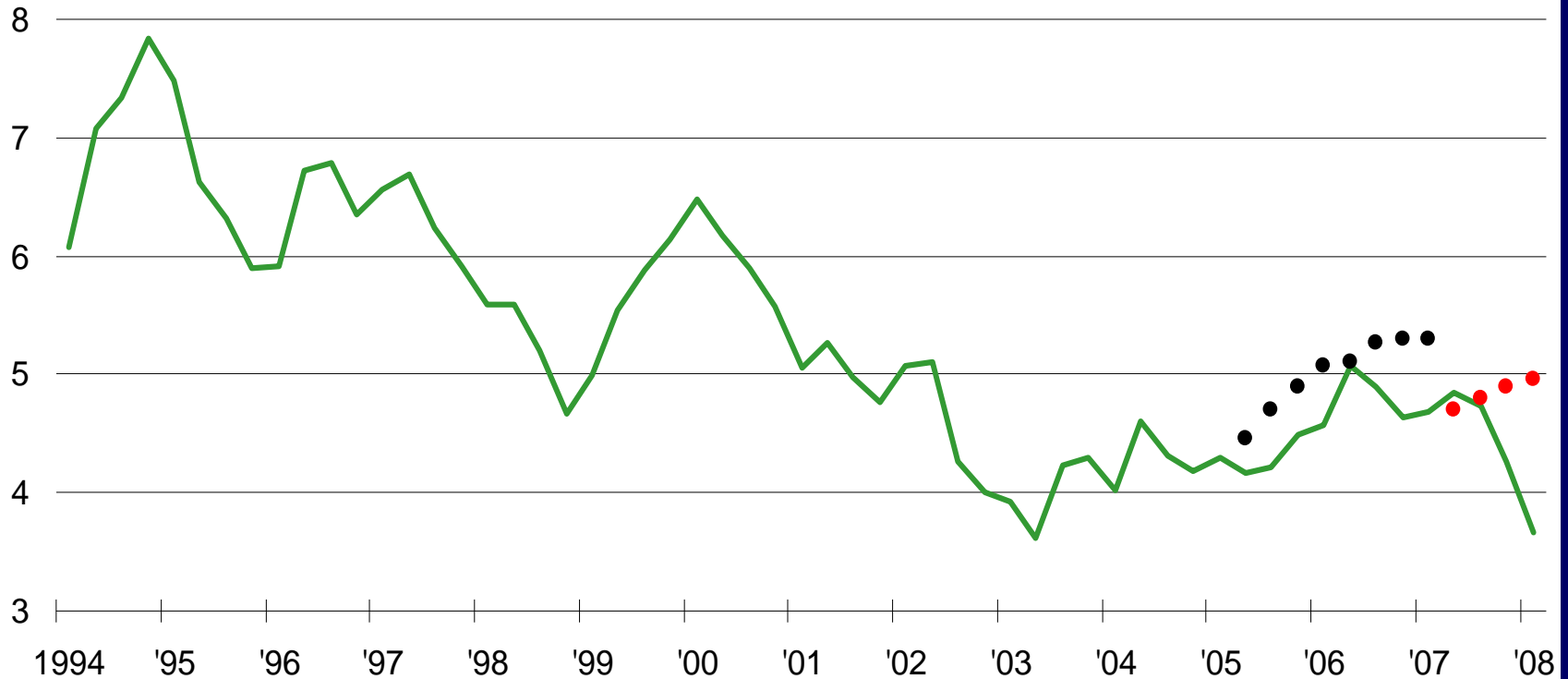
percent change, annual rate



Although it would be hard to place the blame on long-term interest rates which came in lower than expected

Treasury ten-year rate

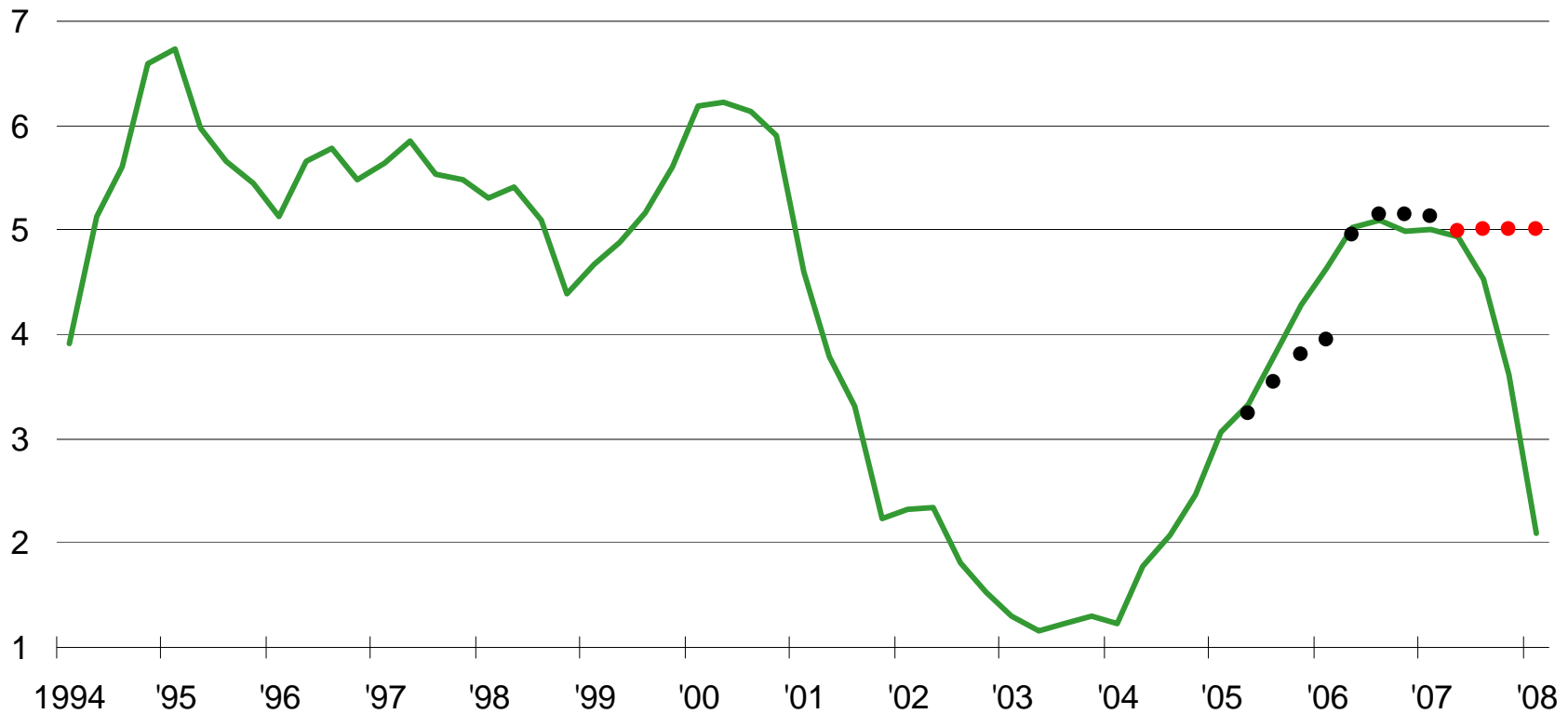
percent



Short-term interest rates were expected to remain flat, however they fell quite sharply

Treasury one-year rate

percent



Forecast for 2008 and 2009

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

	2007	2008	2009
GDP, current dollars*	5.1%	4.0%	5.3%
GDP price index, chain-type*	2.6%	2.6%	2.3%
Real GDP, chained dollars*	2.5%	1.2%	2.9%
Personal consumption expenditures*	2.6%	1.1%	2.2%
Business fixed investment*	7.1%	-0.3%	2.7%
Residential investment*	-18.6%	-16.3%	5.6%
Change in private inventories (billions of constant dollars)**	-\$18.3	\$8.2	\$24.2
Net exports of goods and services (billions of constant dollars)**	-\$503.2	-\$462.5	-\$435.0
Government consumption expenditures and gross investment*	2.3%	1.7%	1.6%

*Q4 over Q4

**Q4 value

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

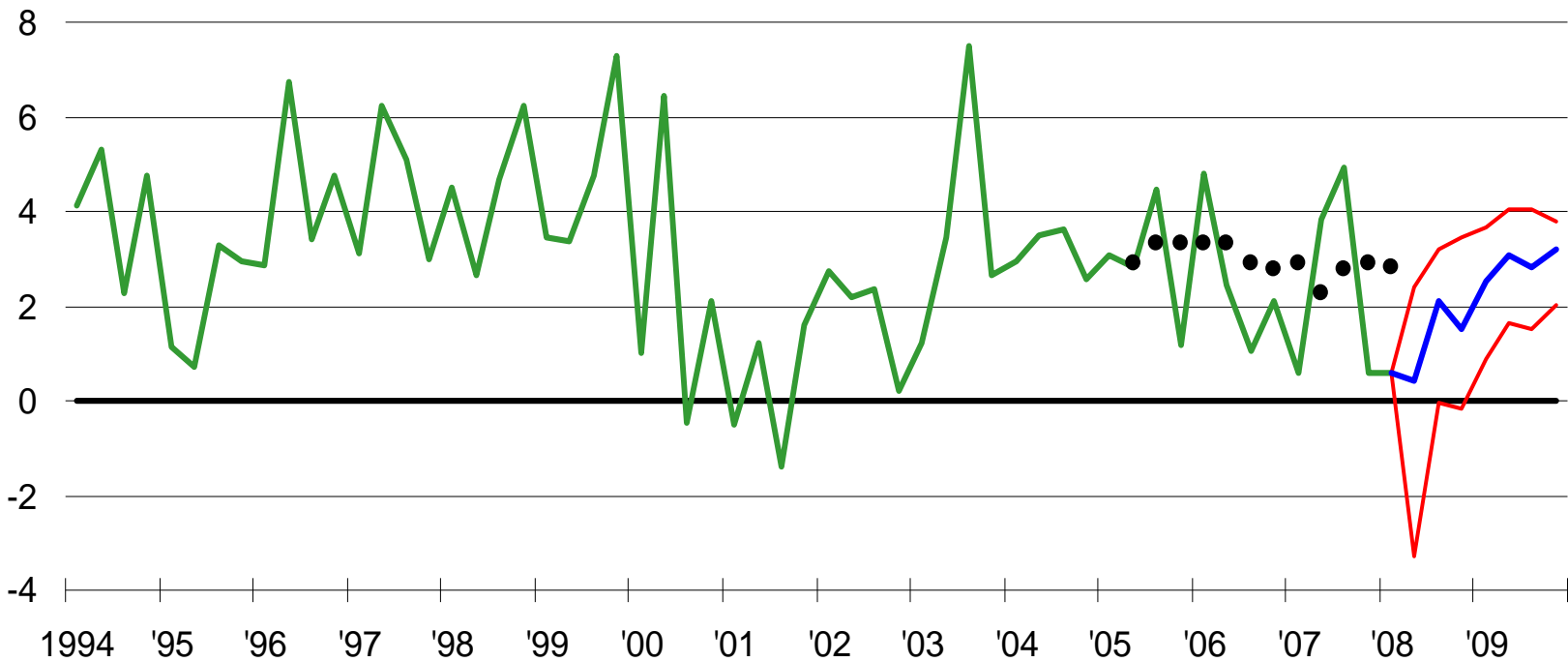
	2007	2008	2009
Industrial production*	2.2%	0.7%	3.0%
Car & light truck sales (millions - calendar year including imports)***	16.1	15.2	15.6
Housing starts (millions)***	1.34	0.97	1.06
Oil price (dollars per barrel of West Texas Intermediate)**	\$90.85	\$106.93	\$104.62
Unemployment rate**	4.8%	5.4%	5.3%
Inflation rate (consumer price index)*	4.0%	3.9%	2.8%
Treasury constant maturity 1-year rate**	3.62%	2.03%	2.90%
Treasury constant maturity 10-year rate**	4.26%	3.92%	4.50%
J.P. Morgan trade weighted OECD dollar*	-7.1%	-2.2%	0.5%

*Q4 over Q4
 **Q4 value
 ***Yearly average

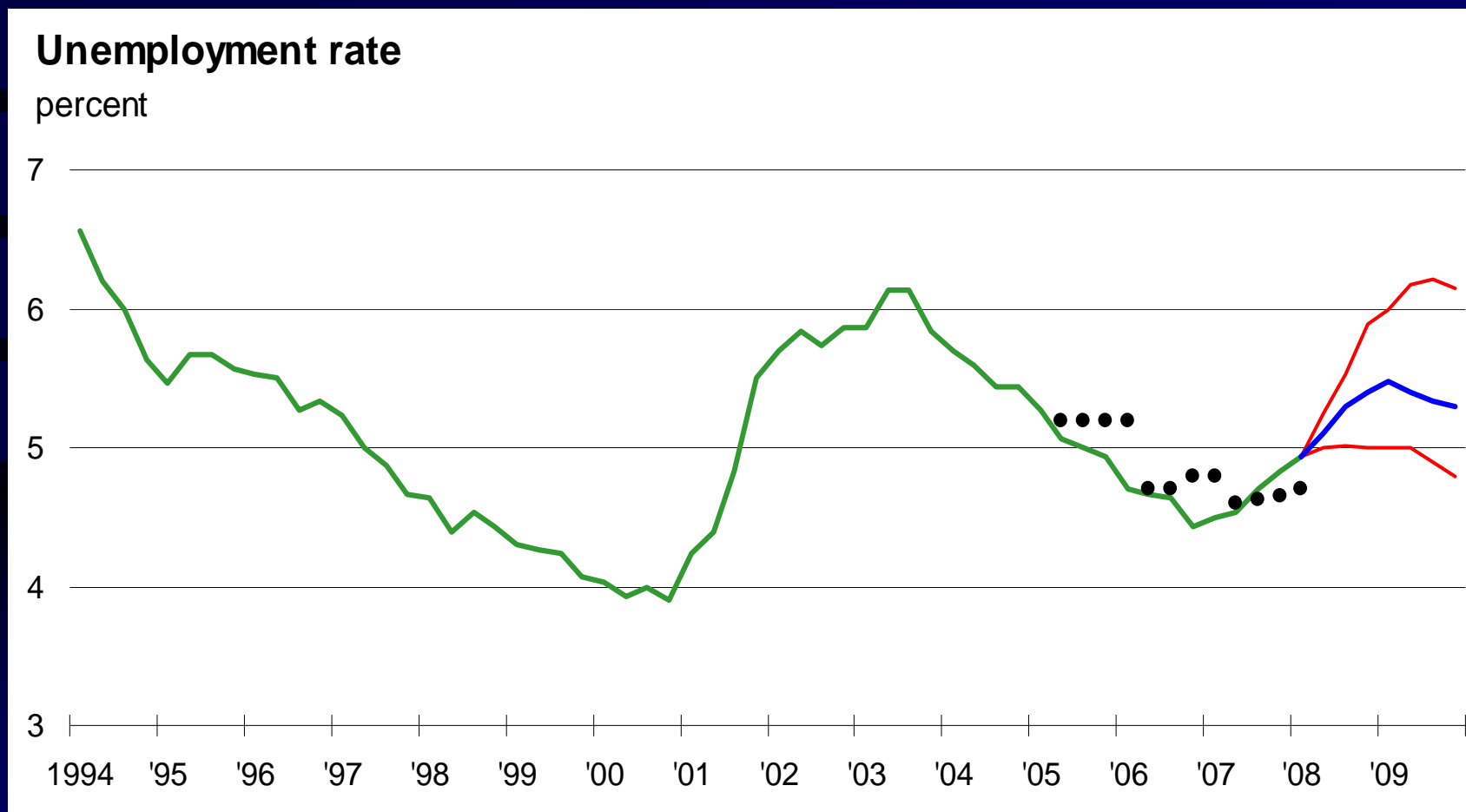
Real GDP growth is forecast to remain weak in the current quarter, but then improve in the second half of the year, averaging just under 2%, and then rising during 2009 averaging just under 3%

Real GDP

percent change, annual rate



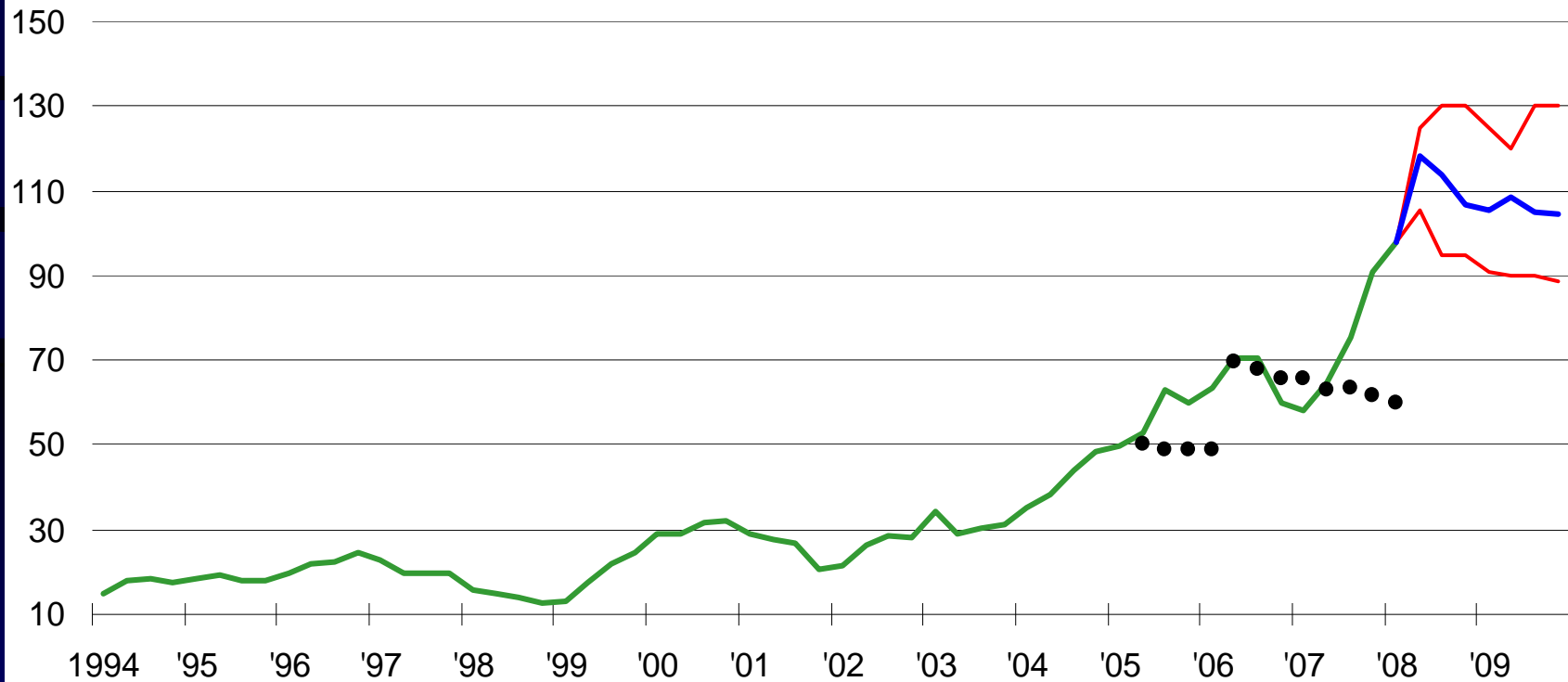
The unemployment rate is forecast to rise to 5.5% early next year and edge down to 5.3% by the end of the year



Oil prices are expected to peak in the current quarter and then move lower reaching \$105 in the second half of next year

Oil prices - West Texas Intermediate

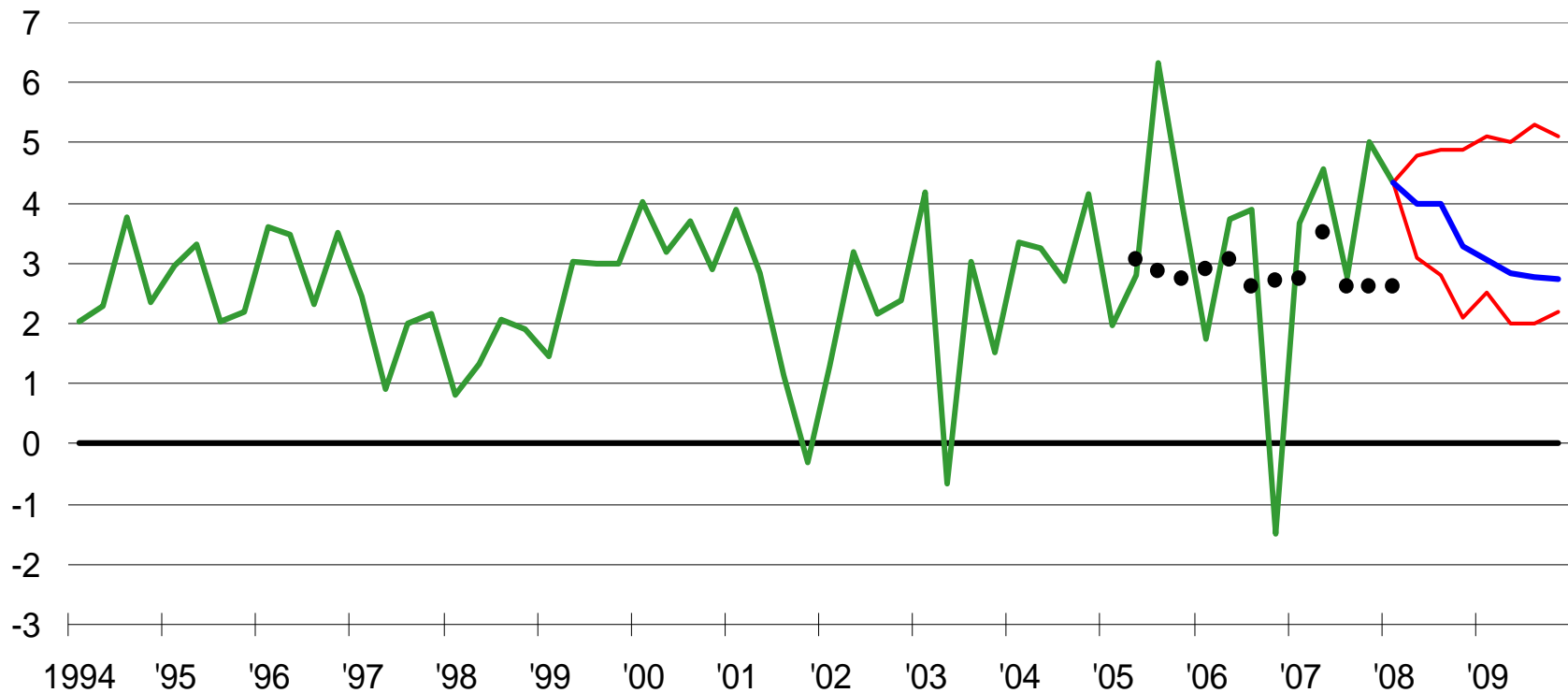
Dollars per barrel



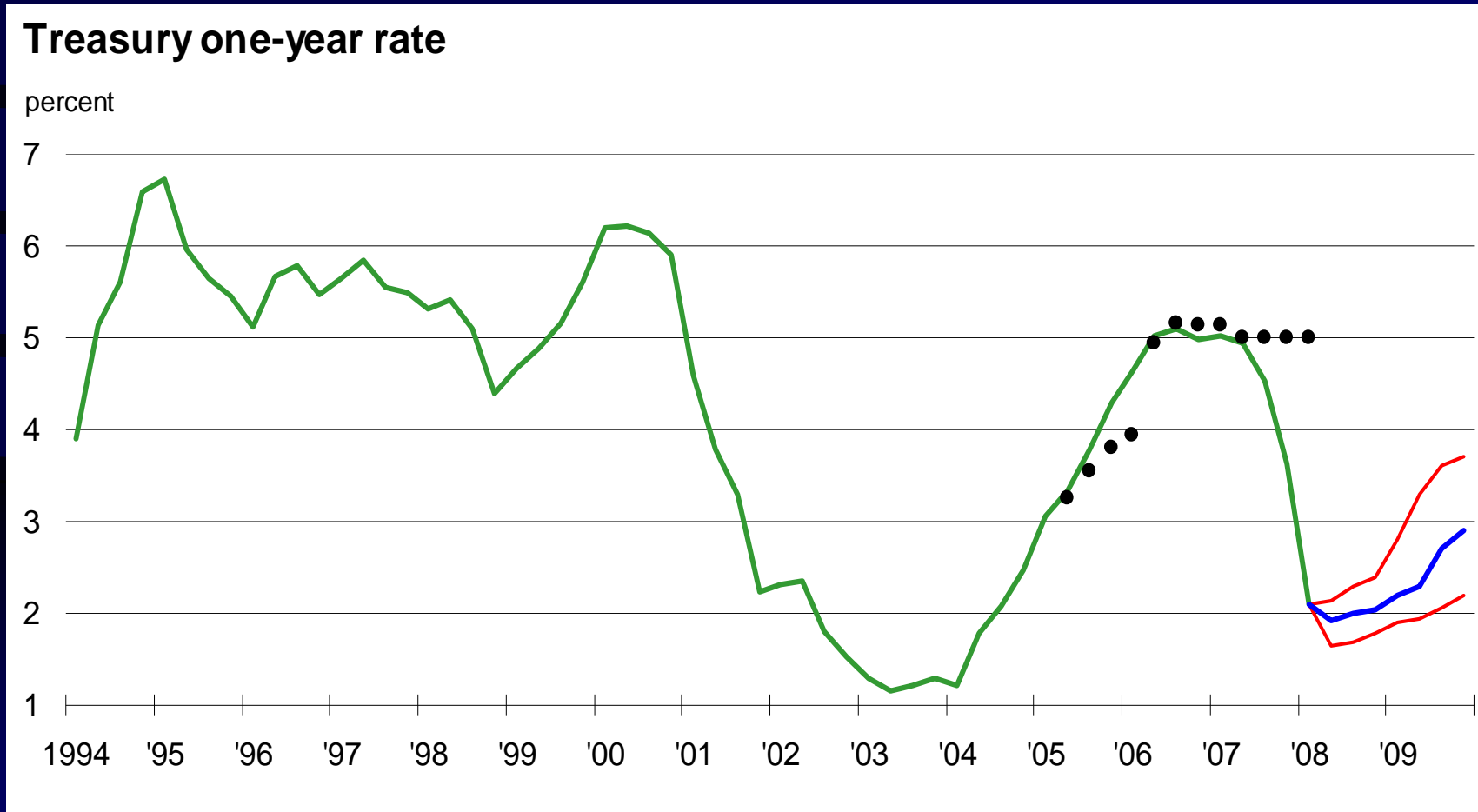
The inflation rate is expected to ease to 2.7% by the end of 2009

Inflation rate (CPI)

percent change, annual rate



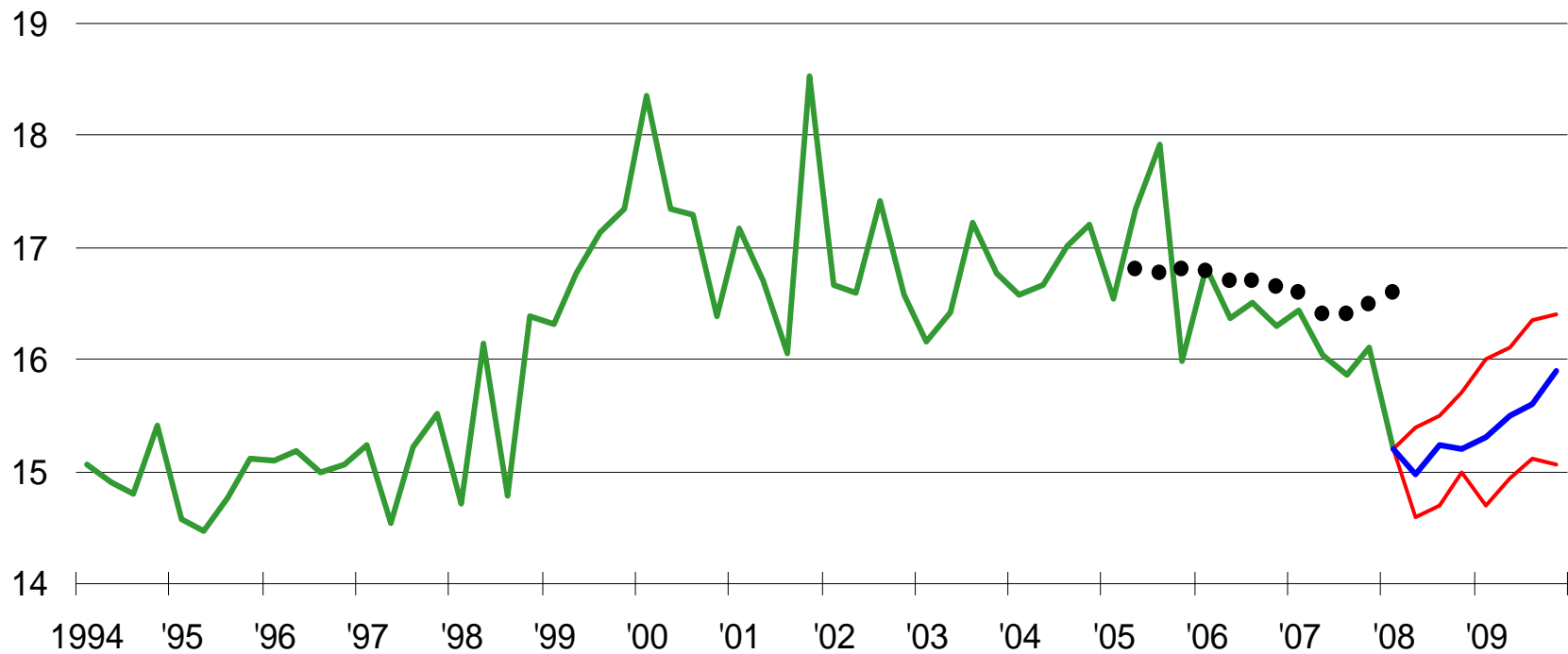
Short-term interest rates are forecast to remain flat through this year and then rise to 2.90% by the end of 2009



Light vehicle sales are forecast to improve over the forecast horizon, averaging 15.2 million units this year and then rise to 15.6 million units in 2009

Car and light truck sales

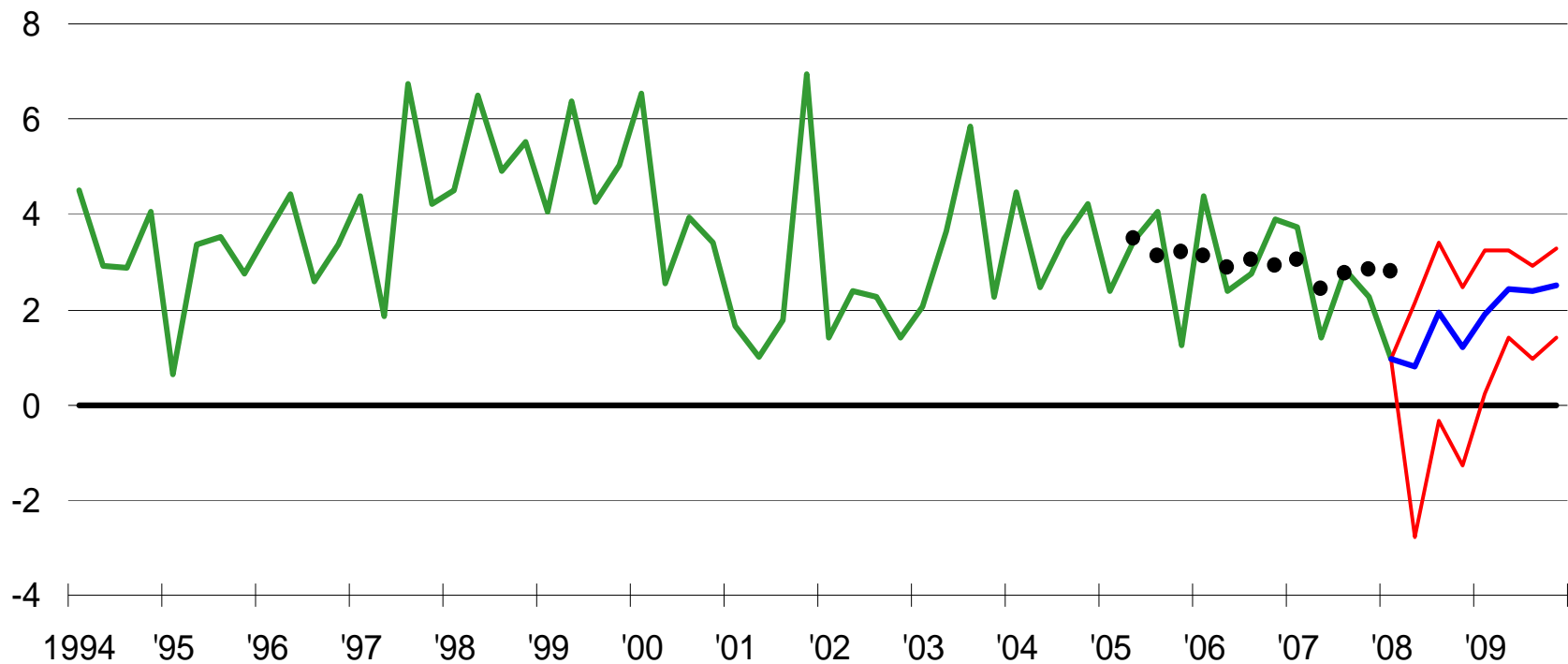
millions of units



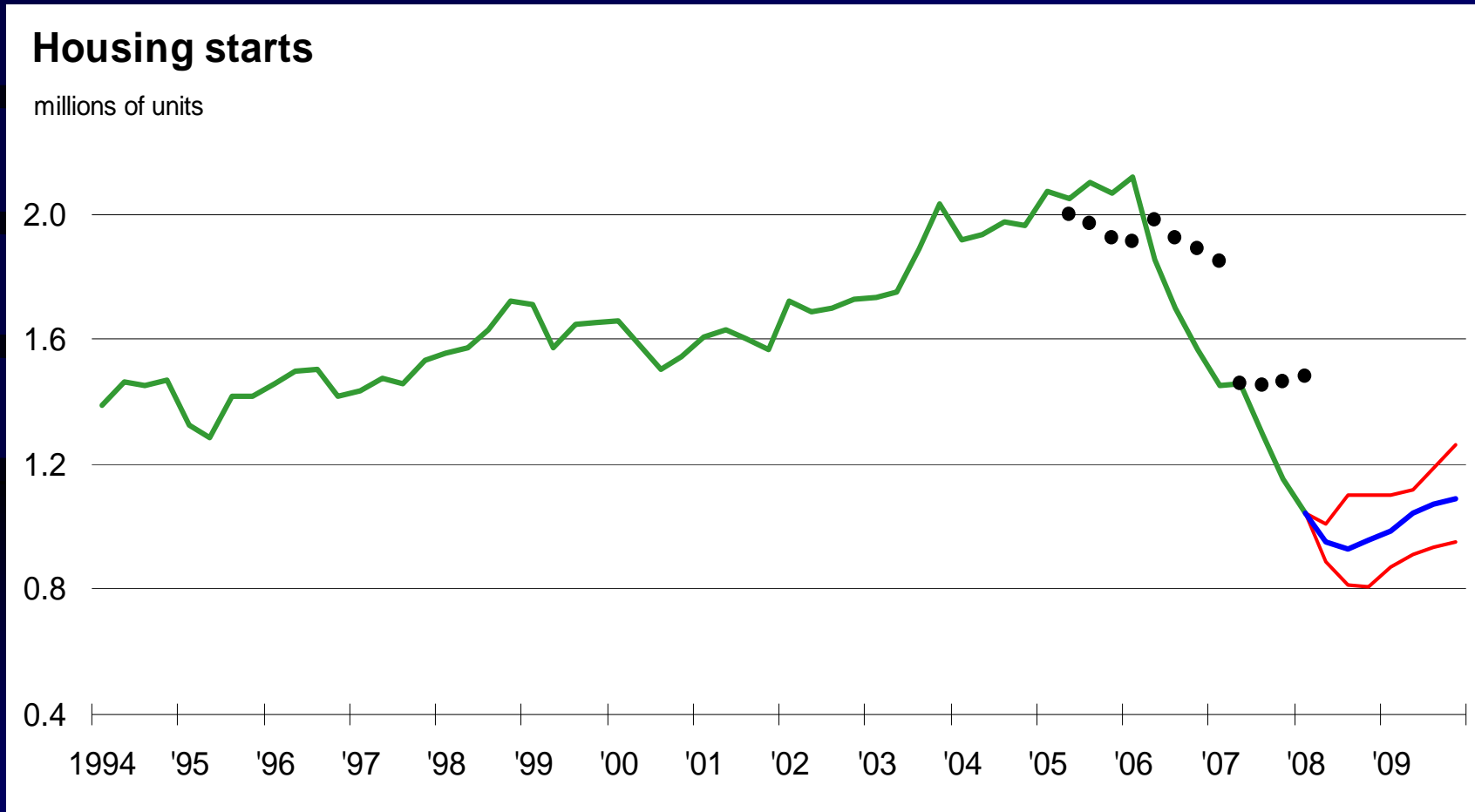
Similarly, consumption growth is expected to improve modestly through 2009

Personal consumption expenditures

percent change, annual rate



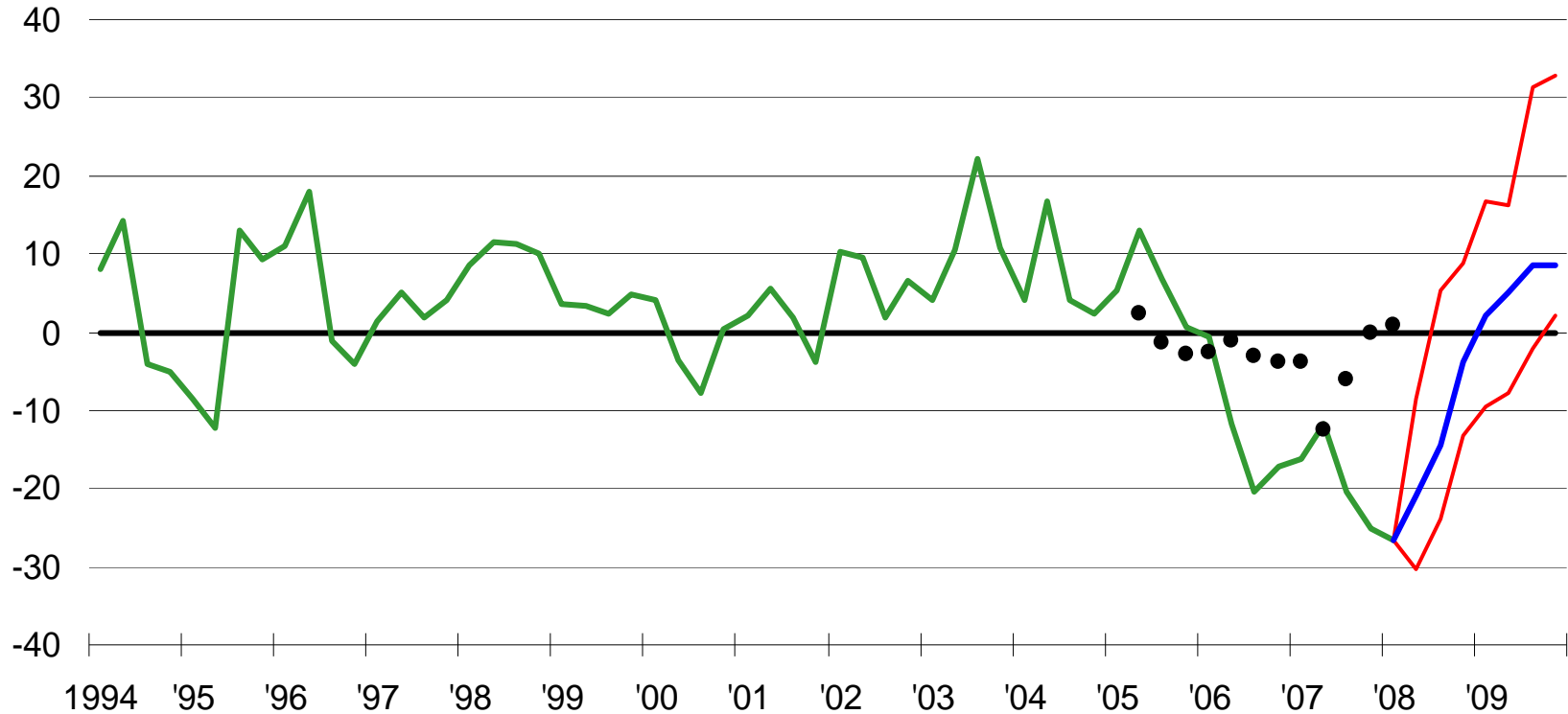
**Housing starts are expected to bottom
in the third quarter of this year,
and then edge higher over the rest of the forecast horizon**



Residential investment is forecast to continue reducing its drag on the overall economy, turning positive in the first quarter of next year

Residential investment

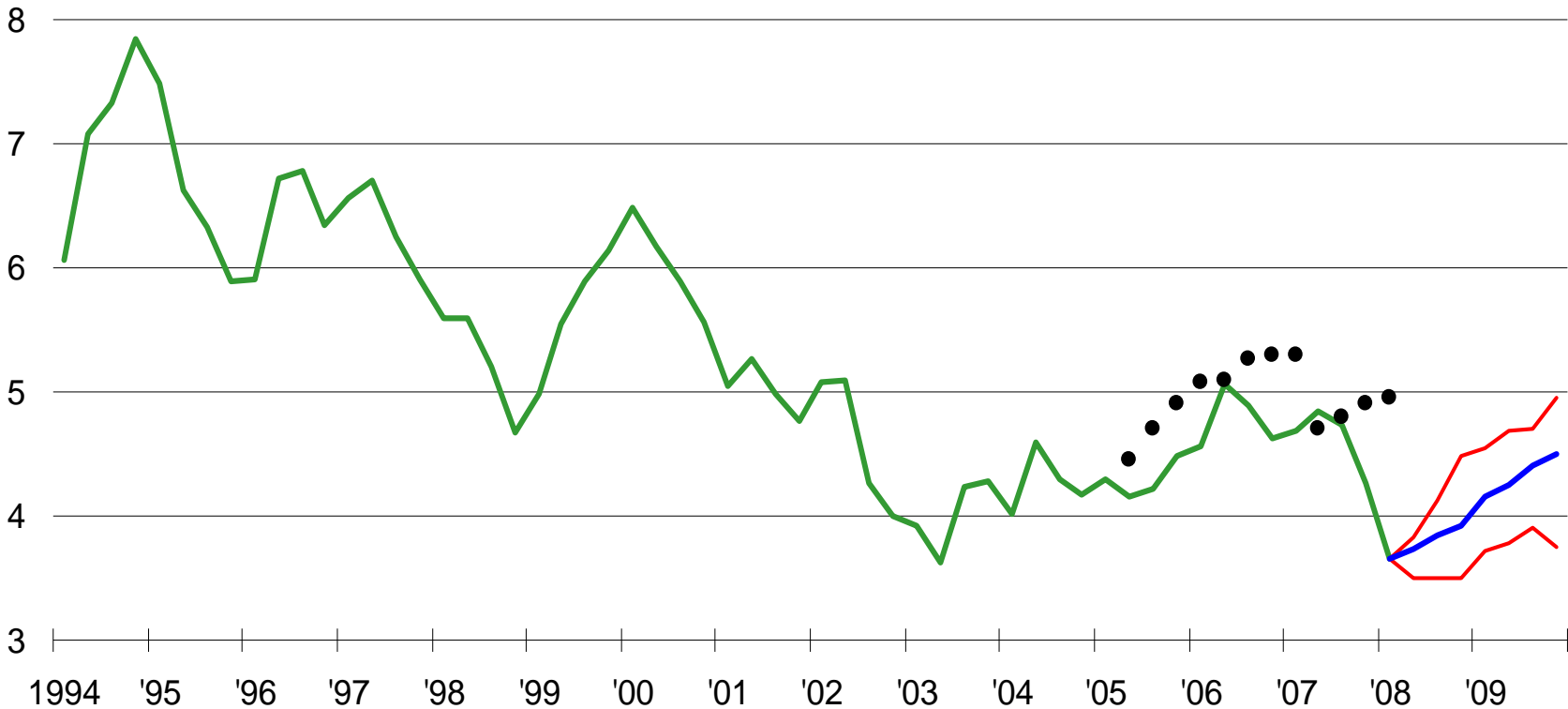
percent change, annual rate



**Long-term interest rates are forecast
to fall by 34 basis points in 2008
and then rise by 58 basis points in 2009**

Treasury ten-year rate

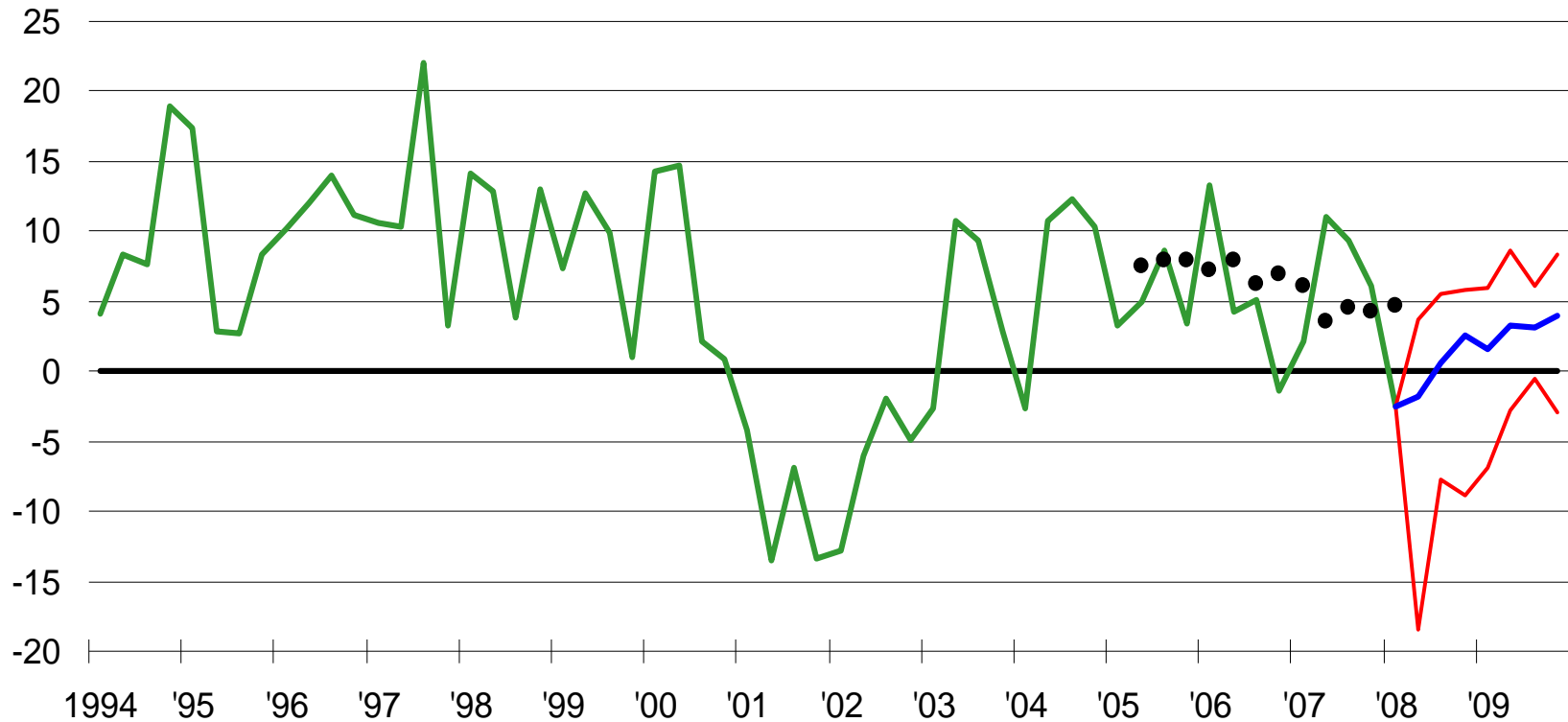
percent



Business spending is anticipated to be flat in 2008 and then rise 2.7% next year

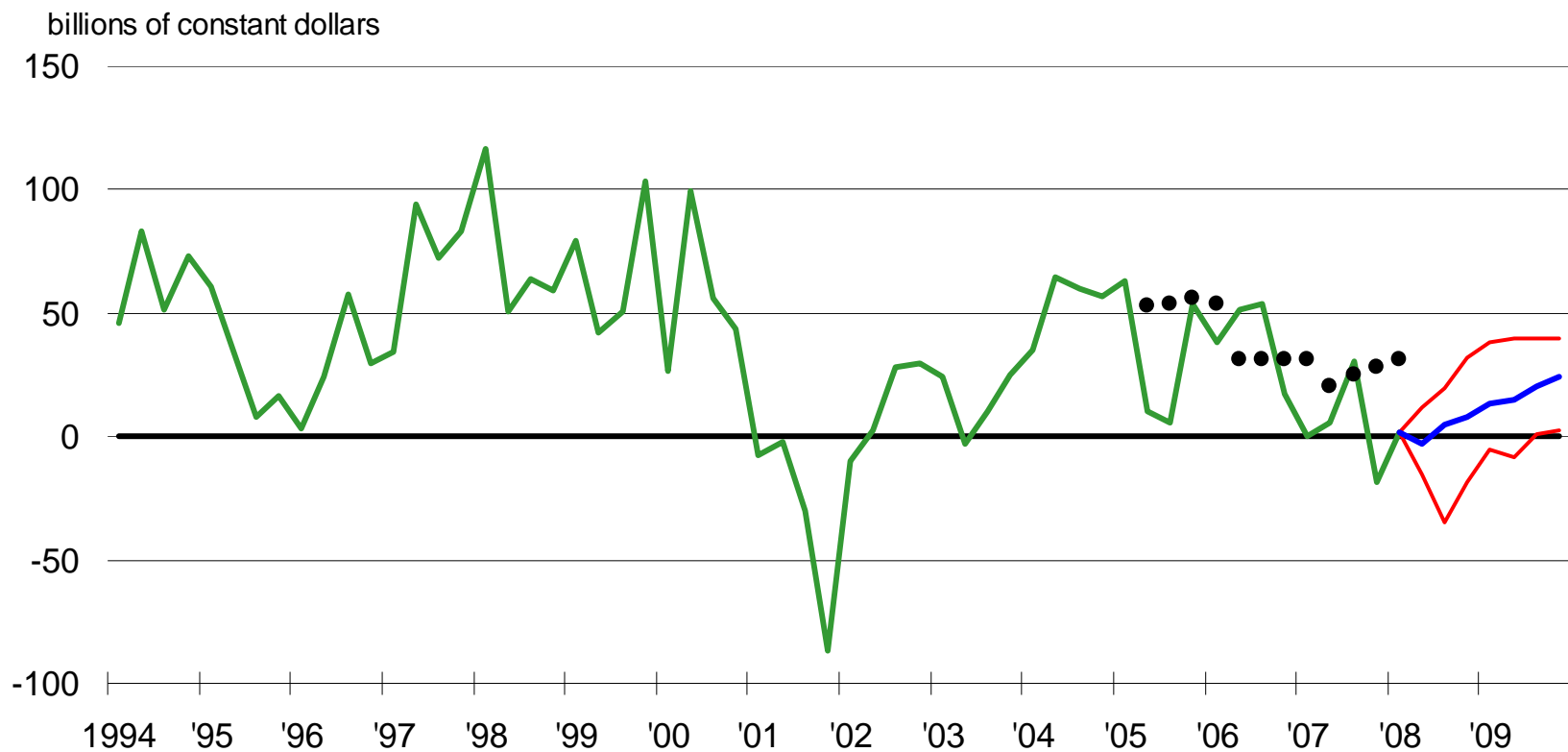
Business fixed investment

percent change, annual rate



A relatively modest increase in inventories is expected to take place over the forecast horizon

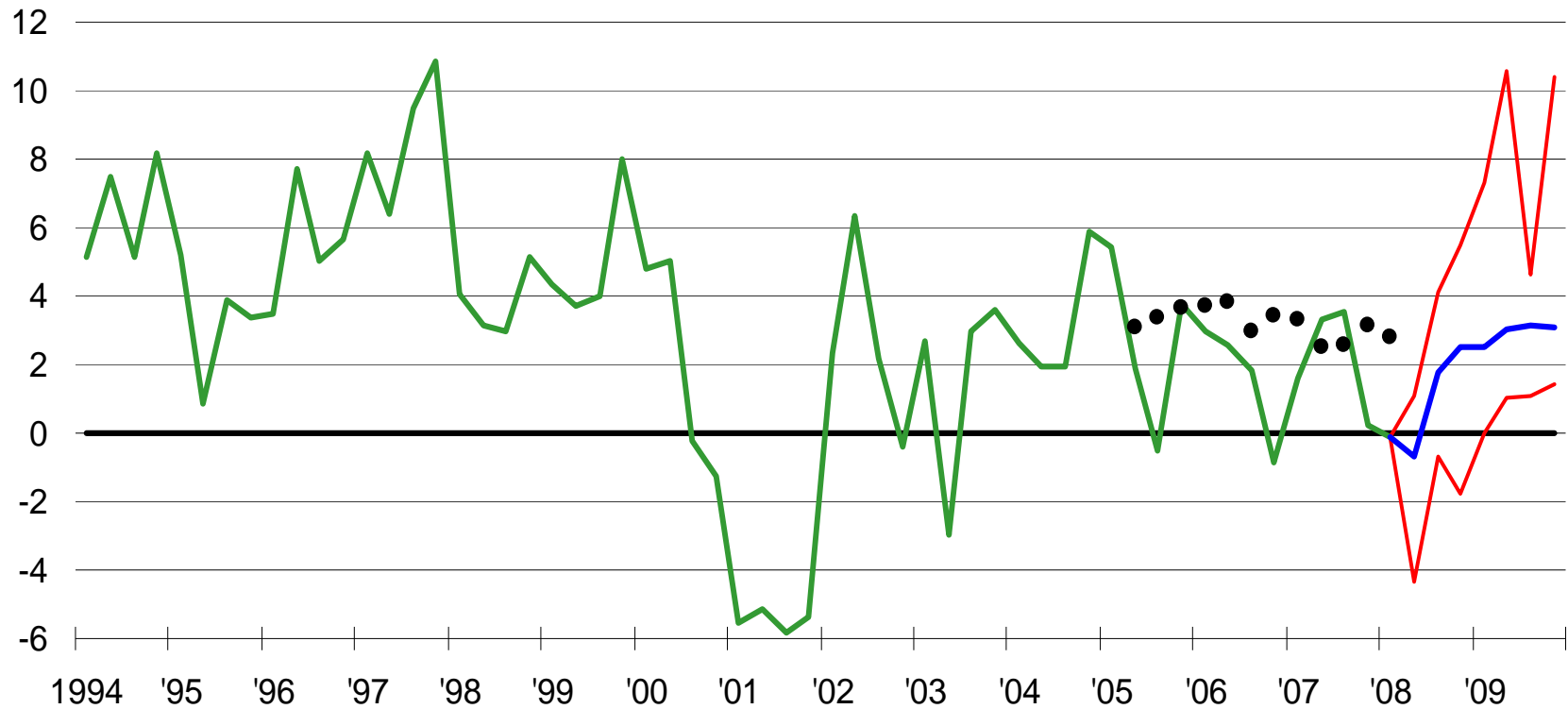
Change in private inventories



Industrial output growth is forecast to be soft this year, rising 0.7% and then increasing to 3.0% next year

Industrial production

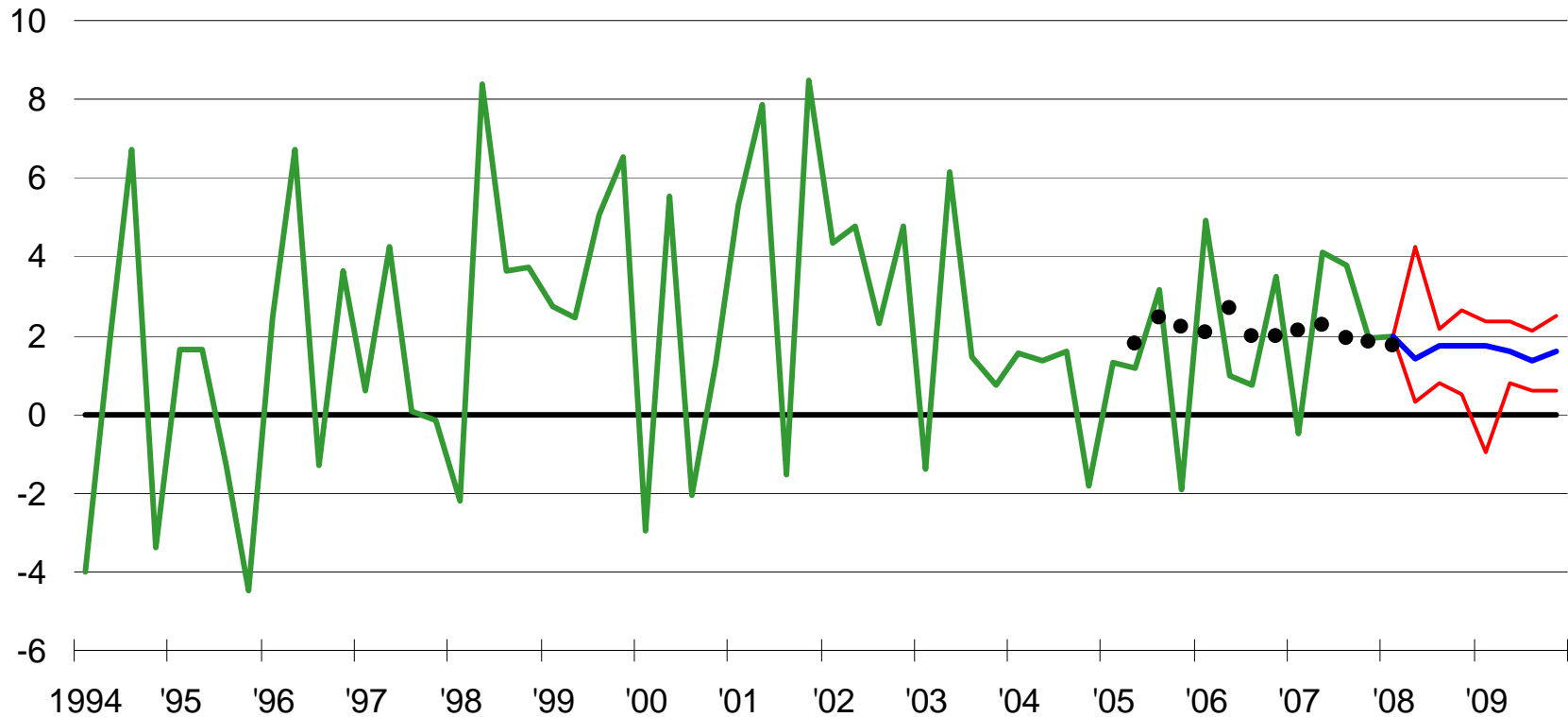
percent change, annual rate



Government purchases growth is forecast to remain steady increasing by 1.7% this year and 1.6% next year

Government consumption

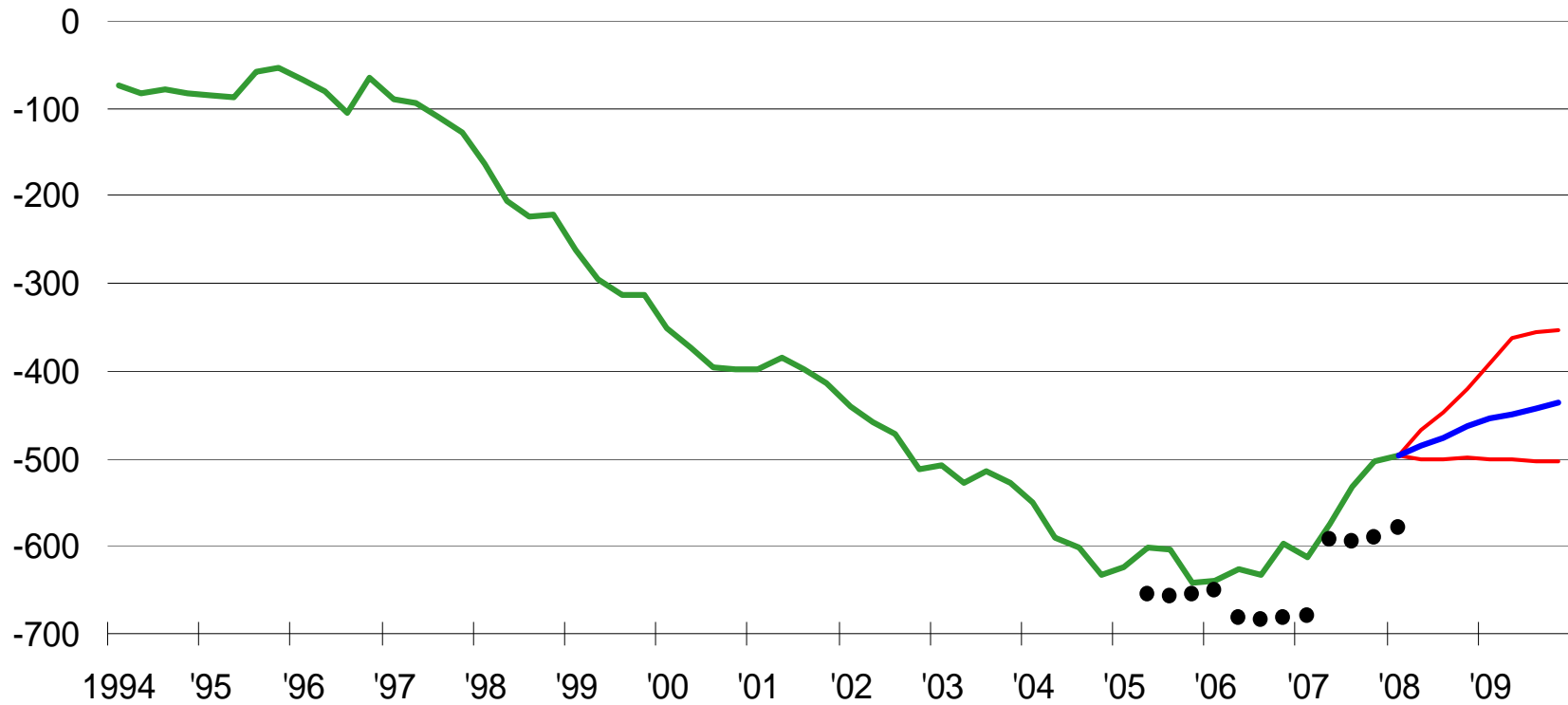
percent change, annual rate



Net exports are expected to continue improving over the forecast horizon

Net exports of goods and services

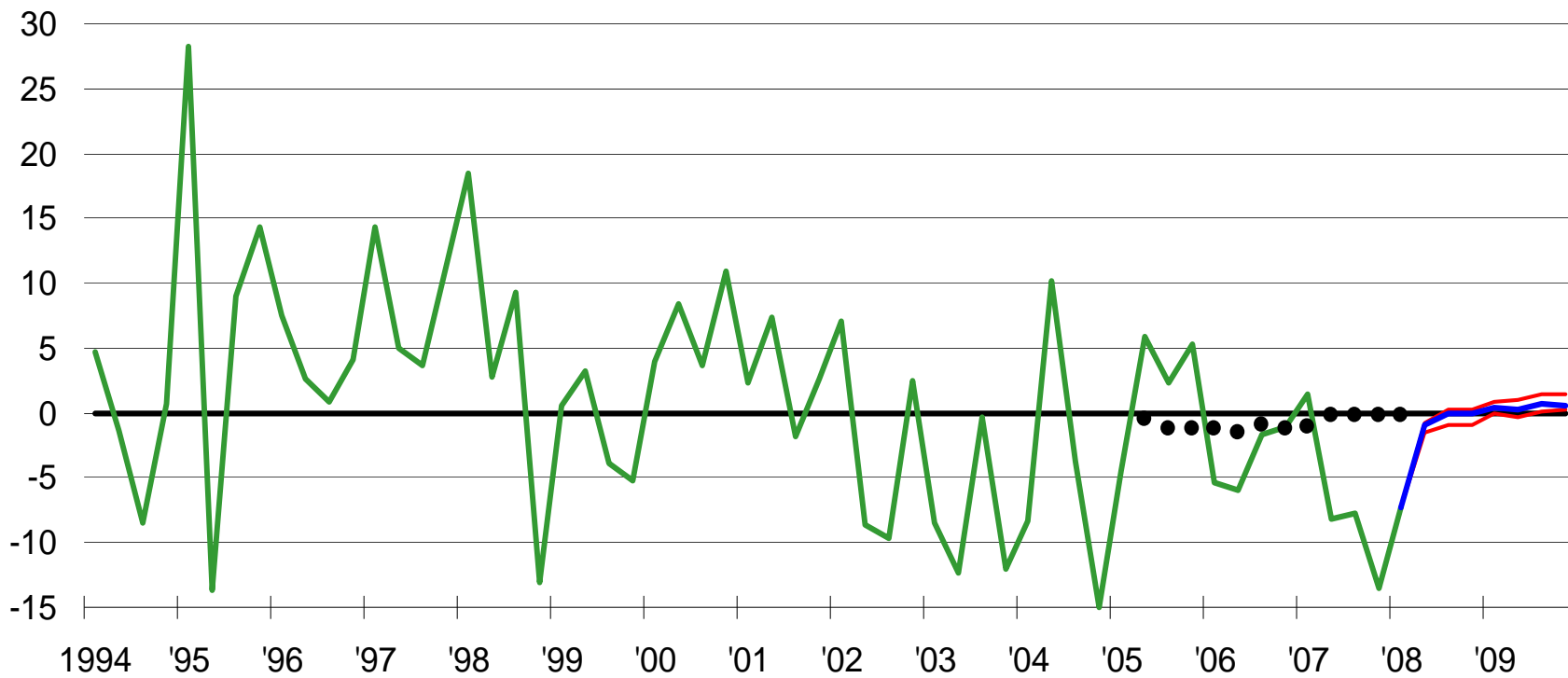
billions of constant dollars



The dollar is forecast to remain relatively flat both this year and next

J.P. Morgan trade weighted dollar

percent change, annual rate



Summary

- **The economy is forecast to be soft this year with growth below potential and then growth improves next year growing a bit above potential**
- **Unemployment is expected to rise this year and then edge lower next year**
- **Inflation is expected to moderate this year and in 2009**
- **Light vehicle sales are forecast to average 15.2 million units this year, the lowest level in ten years, and then improve to 15.6 million in 2009**
- **www.chicagofed.org**