Consensus Forecast for 2010

William Strauss
Senior Economist and Economic Advisor
Federal Reserve Bank of Chicago
Review of past performance
The decline in Real GDP was larger than anticipated.
This lead to an under-prediction of the unemployment rate.
Business investment growth fell at a more significant pace than predicted.
The inventory destocking was even larger than forecast

Change in private inventories
billions of constant dollars

1994 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09
The industrial sector was also much weaker than expected.
Consumer spending predictions were in line with actual expenditures.
Yet, light vehicle sales were lower than predicted
While housing starts were weaker than anticipated, the improvement that was forecast appears to be underway.
The same pattern holds for residential investment
Short-term interest rates were expected to be flat, but actually fell to very low levels.
Long-term interest rates were also lower than expected.
The trade deficit was close to what was expected.
The dollar was predicted to rise by 5% and outside of huge volatility, it rose by 5%
Inflation was much lower than forecast
In part due to oil prices coming in lower than expected.
Forecast for 2010
### Median forecast of GDP and related items

(page 1 in the Consensus Forecast book)

<table>
<thead>
<tr>
<th>Item</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP, current dollars*</td>
<td>0.1%</td>
<td>0.5%</td>
<td>4.3%</td>
</tr>
<tr>
<td>GDP price index, chain-type*</td>
<td>1.9%</td>
<td>0.9%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Real GDP, chained dollars*</td>
<td>-1.9%</td>
<td>-0.4%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Personal consumption expenditures*</td>
<td>-1.8%</td>
<td>1.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Business fixed investment*</td>
<td>-6.0%</td>
<td>-14.8%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Residential investment*</td>
<td>-21.0%</td>
<td>-11.8%</td>
<td>11.4%</td>
</tr>
<tr>
<td>Change in private inventories (billions of constant dollars)**</td>
<td>-$37.4</td>
<td>-$66.9</td>
<td>$25.0</td>
</tr>
<tr>
<td>Net exports of goods and services (billions of constant dollars)**</td>
<td>-$470.9</td>
<td>-$355.0</td>
<td>-$375.0</td>
</tr>
<tr>
<td>Government consumption expenditures and gross investment*</td>
<td>3.1%</td>
<td>2.0%</td>
<td>1.4%</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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<tr>
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<th>2008</th>
<th>2009</th>
<th>2010</th>
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<tr>
<td>Industrial production*</td>
<td>-6.7%</td>
<td>-5.5%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Car &amp; light truck sales (millions - calendar year including imports)***</td>
<td>13.2</td>
<td>10.2</td>
<td>11.4</td>
</tr>
<tr>
<td>Housing starts (millions)***</td>
<td>0.90</td>
<td>0.57</td>
<td>0.74</td>
</tr>
<tr>
<td>Oil price (dollars per barrel of West Texas Intermediate)**</td>
<td>$58.37</td>
<td>$77.50</td>
<td>$82.51</td>
</tr>
<tr>
<td>Unemployment rate**</td>
<td>6.9%</td>
<td>10.1%</td>
<td>9.8%</td>
</tr>
<tr>
<td>Inflation rate (consumer price index)*</td>
<td>1.5%</td>
<td>1.2%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Treasury constant maturity one-year rate**</td>
<td>0.99%</td>
<td>0.45%</td>
<td>1.20%</td>
</tr>
<tr>
<td>Treasury constant maturity ten-year rate**</td>
<td>3.25%</td>
<td>3.41%</td>
<td>4.00%</td>
</tr>
<tr>
<td>J.P. Morgan trade weighted OECD dollar*</td>
<td>9.2%</td>
<td>-5.7%</td>
<td>-1.8%</td>
</tr>
</tbody>
</table>

*Q4 over Q4
**Q4 value
***Yearly average
Real GDP growth is expected to increase by 2.5% next year.

High and low forecast (dropping the two extreme highest and lowest forecasts)
The unemployment rate is projected to peak in the first quarter at 10.3% and with economic growth running slightly above trend, the unemployment rate is projected to edge down to 9.8% in the final quarter of 2010.
Business fixed investment growth is forecast to continue to improve reaching 5.4% in the fourth quarter of 2010.
Inventories are anticipated to continue to decline through the first half of 2010 and then increase by a moderate amount in the second half of the year.
After falling quite sharply, industrial output is forecast to increase by 4.0% next year.
Consumer spending growth is expected to show improvement throughout 2010.
Vehicle sales are also forecast to improve with sales of 11.4 million units next year.
Housing starts are forecast to rise at a solid pace in 2010, increasing by 36%
For the first time since 2005, residential investment is expected to contribute to GDP growth next year with residential investment rising 11.4%
Short-term interest rates are predicted to rise by 75 basis points next year.
Ten-year interest rates are expected to increase by 59 basis points, suggesting a slight flattening of the yield curve.
The trade balance is forecast to deteriorate slightly.
While the dollar is forecast to fall 1.8%
Oil prices are predicted to rise moderately reaching around $82.00 per barrel by the end of 2010.
Prices are forecast to rise 2.2% next year
Summary

• The economy is in the recovery phase with solid growth predicted for 2010

• With economic growth just slightly above potential, the unemployment rate does not show much improvement

• Inflation is anticipated to rise to 2.2%

• With the exception of the trade balance, the key GDP components are predicted to improve, with both business investment and residential investment leading the way with superior growth

• Light vehicle sales are forecast to average a very low 11.4 million units

• www.chicagofed.org