Consensus Forecast 2012 and 2013

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Review of past performance
GDP growth was just slightly lower than the consensus
The unemployment rate was accurately predicted.
The disinflation was perfectly predicted
Oil prices were lower than expected, although ended near the amount forecast.
The general path for car and light truck sales were accurately predicted.
Consumer spending was somewhat weaker than forecast
Business investment growth improved initially at a much faster rate than expected, but slowed more recently.
Business inventories initially increased at a slower pace than expected and then rose more rapidly.
Industrial production growth was close to what was expected.
Government spending was a lot lower than predicted in the final past two quarters.
The trade deficit was nailed
The dollar was stronger than expected
Housing starts were accurately forecast
Residential investment was predicted to improve over the past year and it rose at a faster pace in the most recent quarter.
Long-term interest rates moved in the opposite direction than expected.
Short-term interest rates were expected to edge higher, however they edged lower.
Forecast for 2012 and 2013
<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP, current dollars*</td>
<td>3.8%</td>
<td>3.9%</td>
<td>4.5%</td>
</tr>
<tr>
<td>GDP price index, chain-type*</td>
<td>2.1%</td>
<td>1.6%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Real GDP, chained dollars*</td>
<td>1.6%</td>
<td>2.3%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Personal consumption expenditures*</td>
<td>1.6%</td>
<td>2.5%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Business fixed investment*</td>
<td>8.2%</td>
<td>4.0%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Residential investment*</td>
<td>3.5%</td>
<td>12.2%</td>
<td>13.0%</td>
</tr>
<tr>
<td>Change in private inventories (billions of constant dollars)**</td>
<td>$52.2</td>
<td>$60.6</td>
<td>$55.5</td>
</tr>
<tr>
<td>Net exports of goods and services (billions of constant dollars)**</td>
<td>-$410.8</td>
<td>-$412.0</td>
<td>-$395.0</td>
</tr>
<tr>
<td>Government consumption expenditures and gross investment*</td>
<td>-2.8%</td>
<td>-1.3%</td>
<td>-0.7%</td>
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</tbody>
</table>

* Q4 over Q4
** Q4 value
Median forecast of GDP and related items (page 1 of book)

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<tr>
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<th>2012</th>
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<tr>
<td>Industrial production*</td>
<td>4.0%</td>
<td>3.2%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Car &amp; light truck sales (millions - calendar year including imports)***</td>
<td>12.7</td>
<td>14.5</td>
<td>15.0</td>
</tr>
<tr>
<td>Housing starts (millions)***</td>
<td>0.61</td>
<td>0.71</td>
<td>0.85</td>
</tr>
<tr>
<td>Oil price (dollars per barrel of West Texas Intermediate)**</td>
<td>$94.06</td>
<td>$103.57</td>
<td>$104.25</td>
</tr>
<tr>
<td>Unemployment rate**</td>
<td>8.7%</td>
<td>7.9%</td>
<td>7.6%</td>
</tr>
<tr>
<td>Inflation rate (consumer price index)*</td>
<td>3.3%</td>
<td>2.1%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Treasury constant maturity 1-year rate**</td>
<td>0.11%</td>
<td>0.20%</td>
<td>0.25%</td>
</tr>
<tr>
<td>Treasury constant maturity 10-year rate**</td>
<td>2.05%</td>
<td>2.21%</td>
<td>2.52%</td>
</tr>
<tr>
<td>J.P. Morgan trade weighted OECD dollar*</td>
<td>0.0%</td>
<td>-0.4%</td>
<td>0.2%</td>
</tr>
</tbody>
</table>

* Q4 over Q4  
** Q4 value  
*** Yearly average
Real GDP growth is forecast to rise at a rate that is just around trend in 2012 and 2013.
The unemployment rate is forecast to edge down to 7.9% at the end of this year and to 7.6% by the end of next year.
Oil prices are expected to remain relatively flat, although at an elevated level.
The jump in inflation is anticipated to remain at 2.1% in 2012 and 2013
Short-term interest rates are forecast to remain very low, edging just 14 basis by the end of 2013
Light vehicle sales are forecast to continue improving, coming in at 14.5 million units this year and 15.0 million units in 2013.
Consumption growth is expected to rise at a moderate pace.
Housing starts are once again expected to rise at a moderate pace.
Residential investment is forecast to rise at a strong pace through next year.
Long-term interest rates are forecast to rise by 16 basis points in 2012 and then rise by 31 basis points in 2013.
Business spending is anticipated to rise 4.0% in 2012 and then rise 5.3% next year.
Inventories are expected to rise at a pace that maintains the inventory to GDP ratio.
Industrial output growth is forecast to increase at a solid although slower pace through next year.
Government purchases is forecast to move lower, decreasing by 1.3% in 2012 and 0.7% and 2013.

[Graph showing the percent change of government consumption from 1995 to 2013]
Net exports are expected to remain relatively flat over the forecast horizon.
The dollar is forecast to remain relatively flat both this year and next year.
Summary

- The economy is forecast to rise at a pace around potential in 2012 and 2013.

- The unemployment rate is expected to gradually improve, falling to 7.9% at the end of this year and 7.6% at the end of next year.

- Inflation is expected to come in at 2.1% in 2012 and 2013.

- Light vehicle sales are forecast to be 14.5 million units this year and then improve to 15.0 million in 2013.

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