



20TH ANNUAL
**AUTOMOTIVE OUTLOOK
SYMPOSIUM**

FRIDAY, MAY 31, 2013

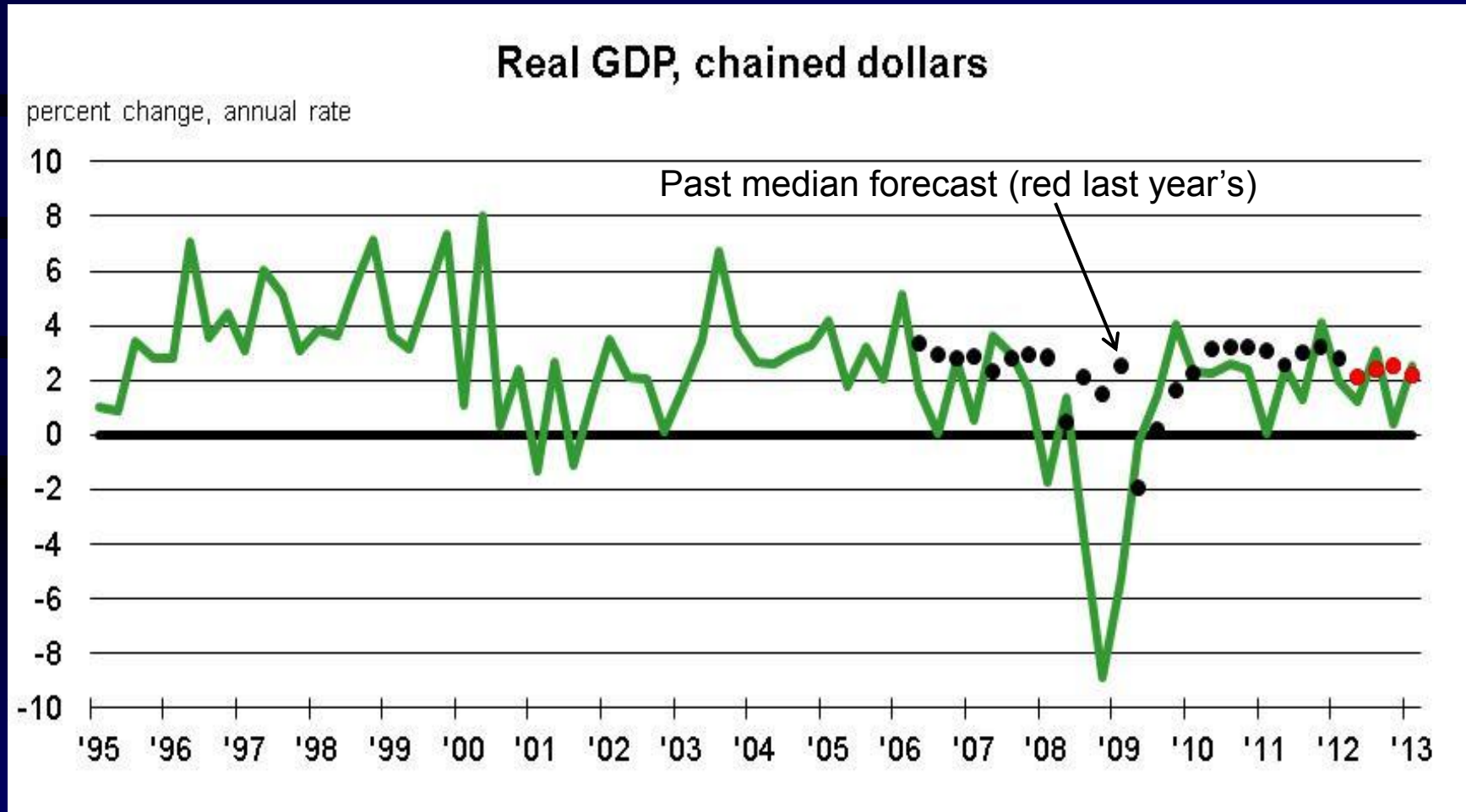
Consensus Forecast 2013 and 2014

**Twentieth Annual
Automotive Outlook Symposium**
Detroit, Michigan
May 31, 2013

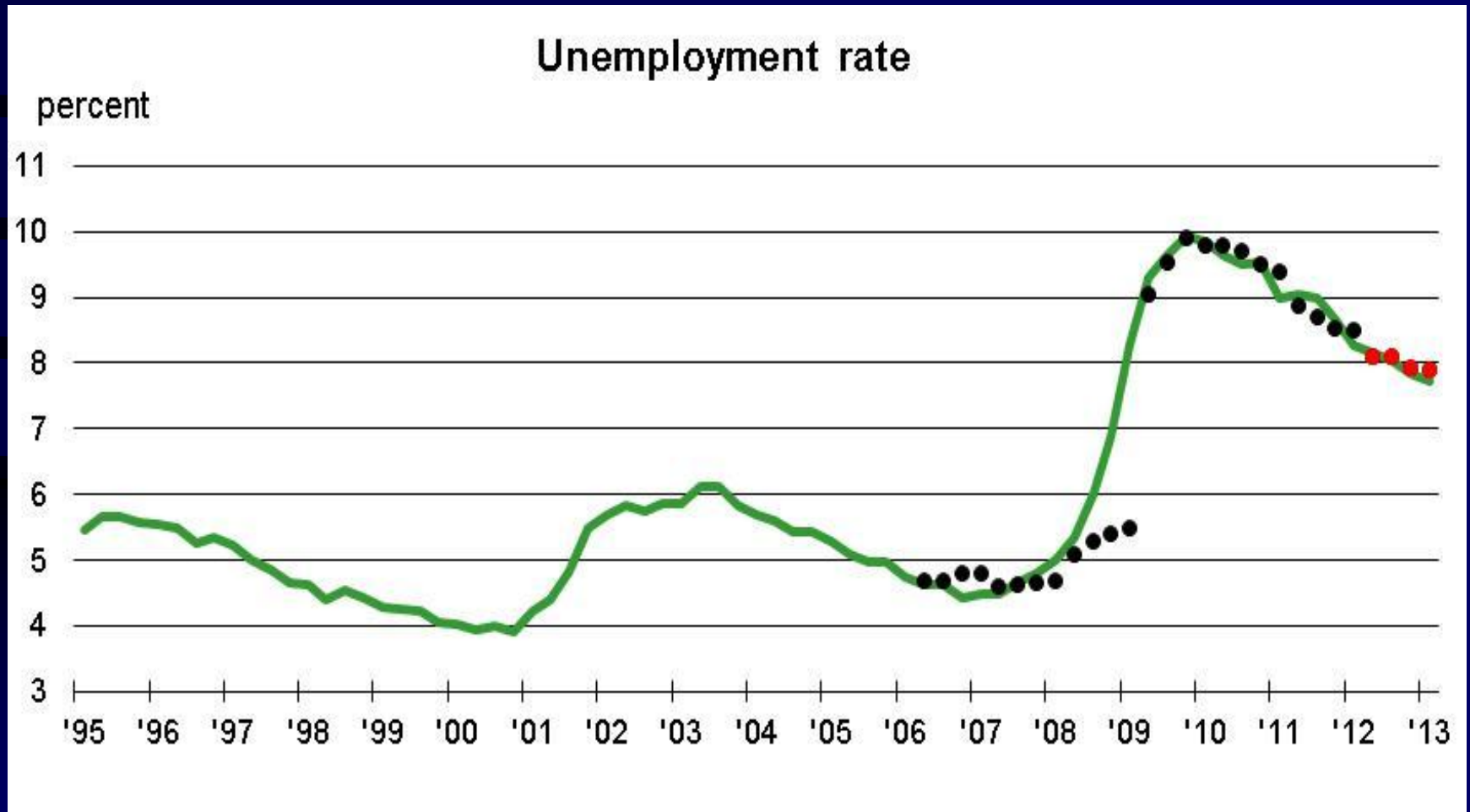
William Strauss
Senior Economist
and Economic Advisor
Federal Reserve Bank of Chicago

Review of past performance

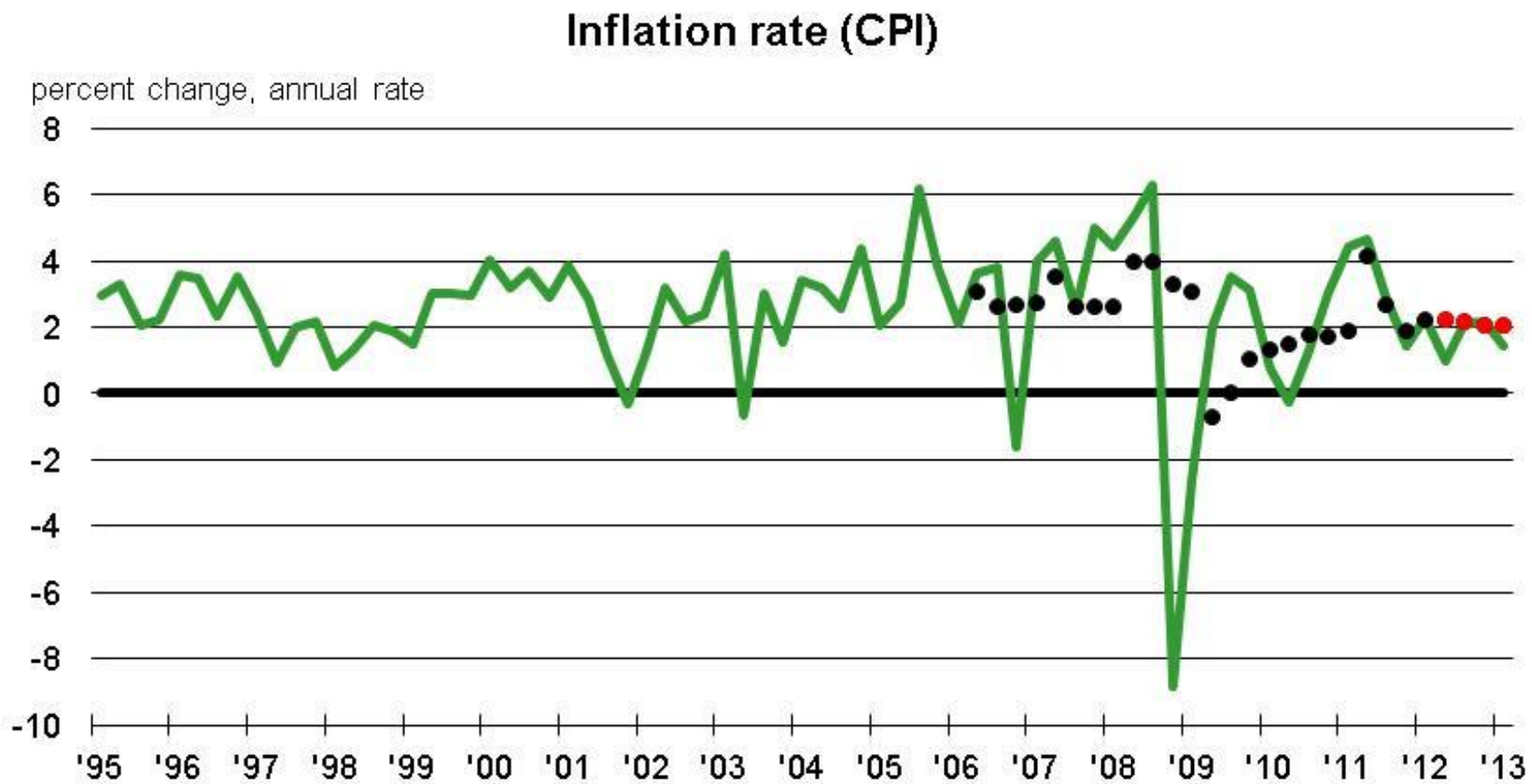
Once again, GDP growth was slightly lower than the consensus



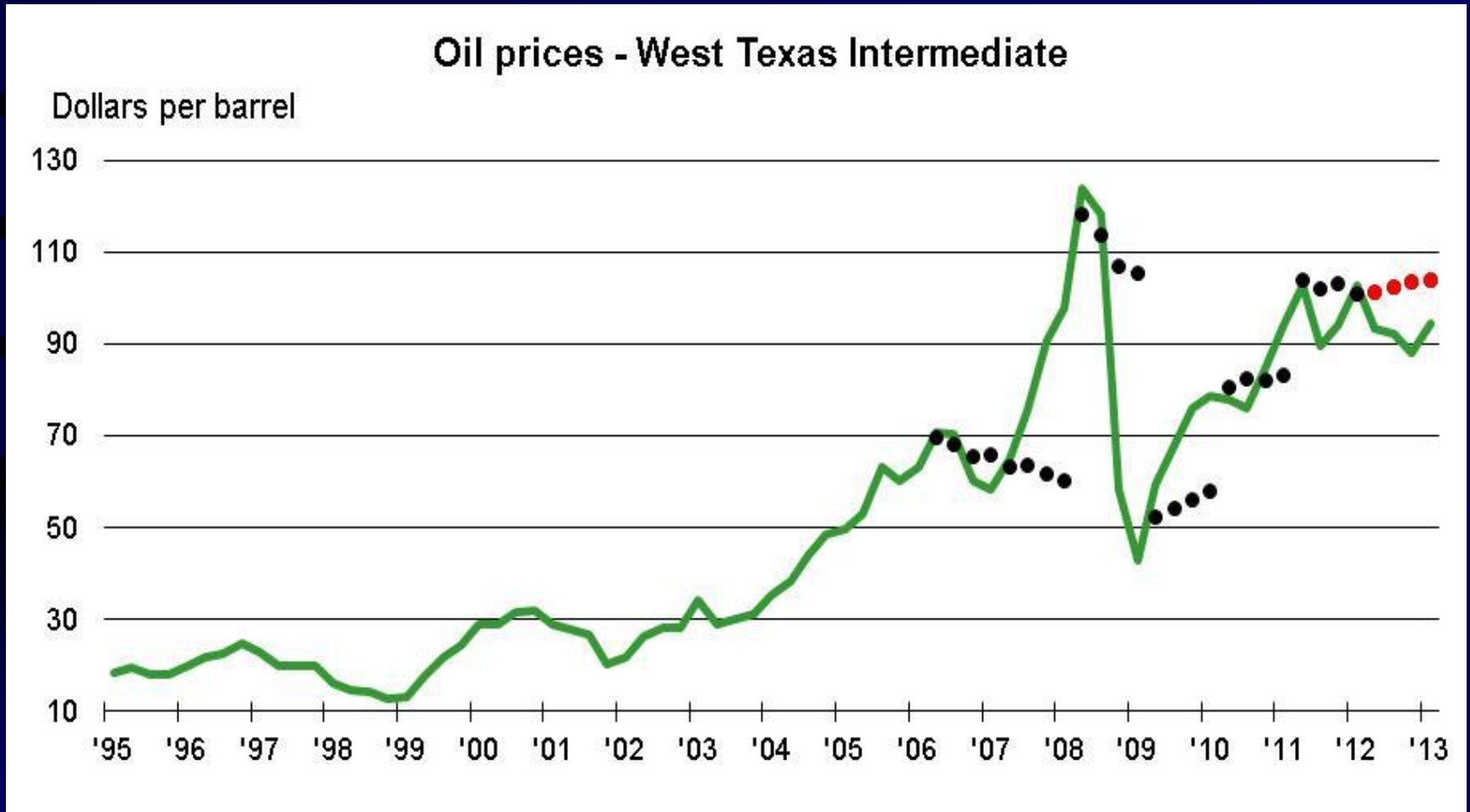
The unemployment rate was accurately predicted



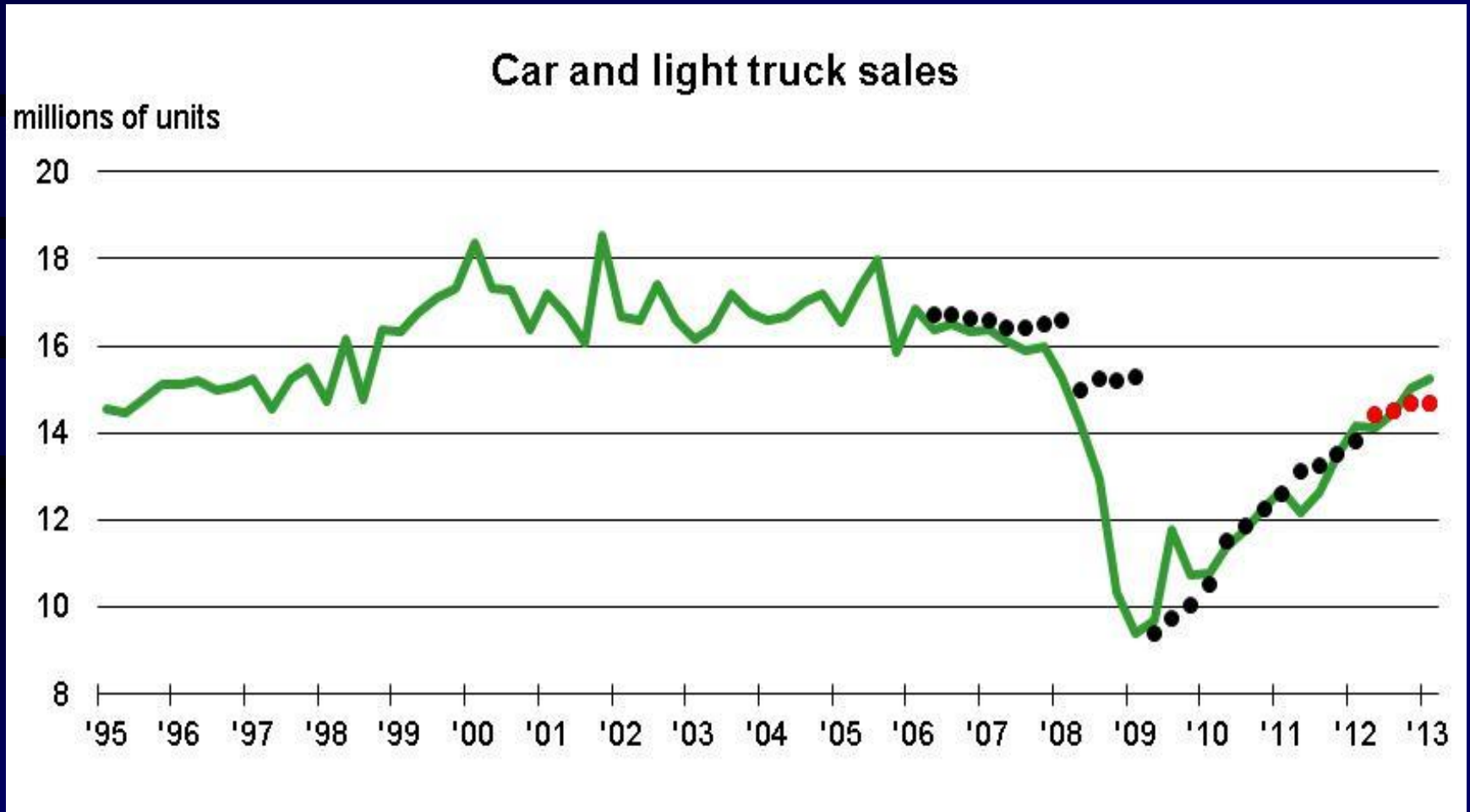
Inflation was lower than forecast



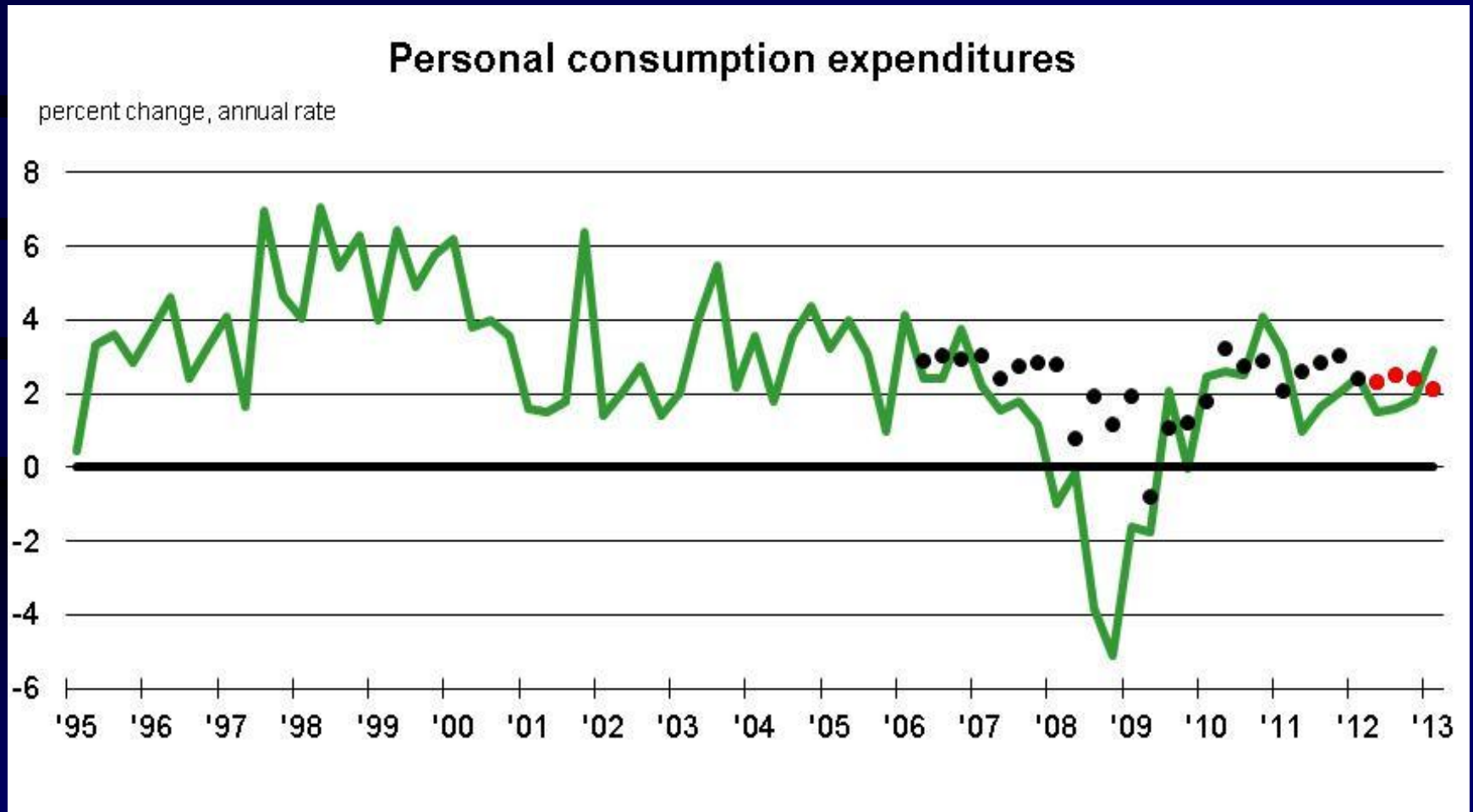
Perhaps in part because oil prices came in lower than expected



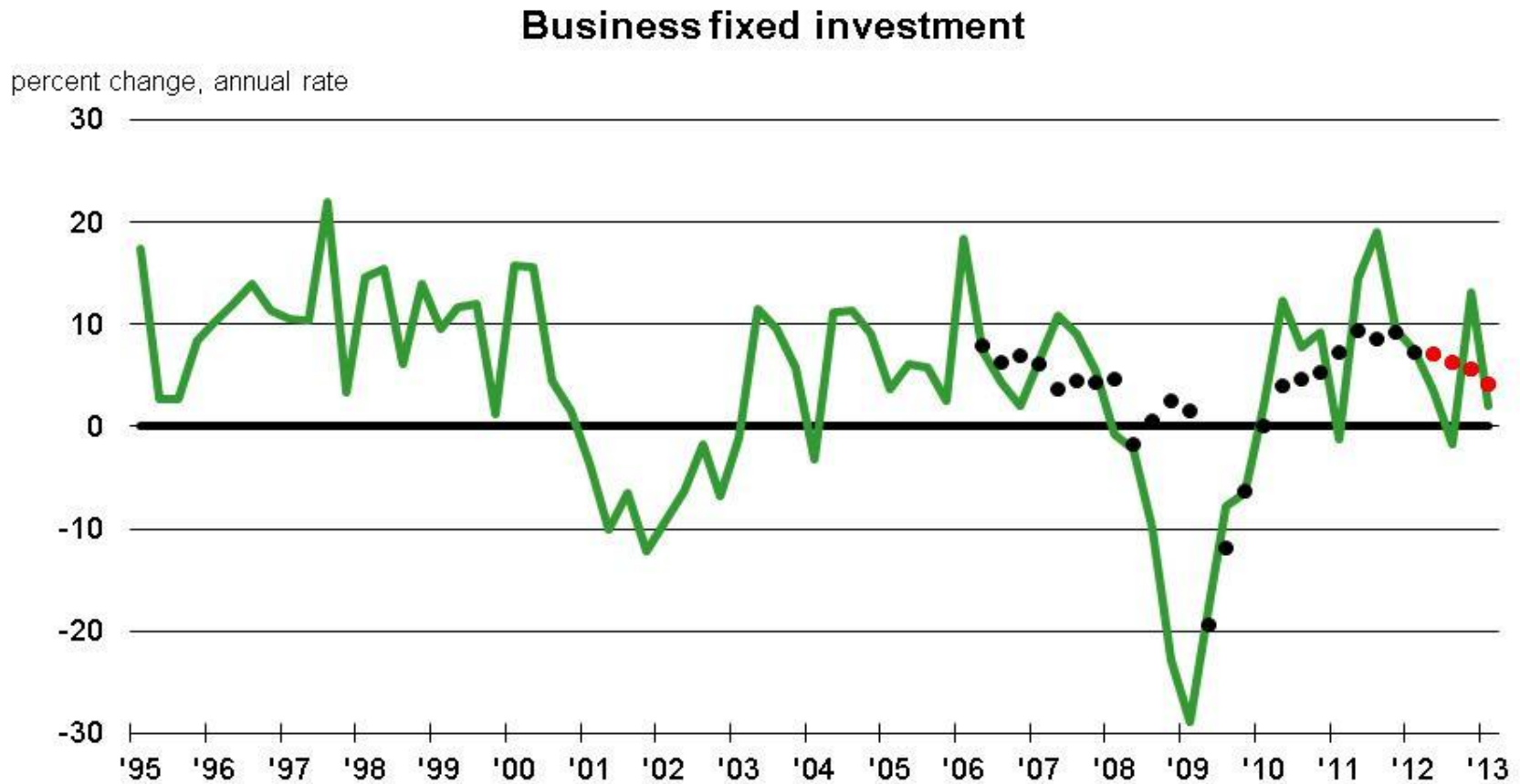
The general path for car and light truck sales were accurately predicted



Consumer spending was close to forecast



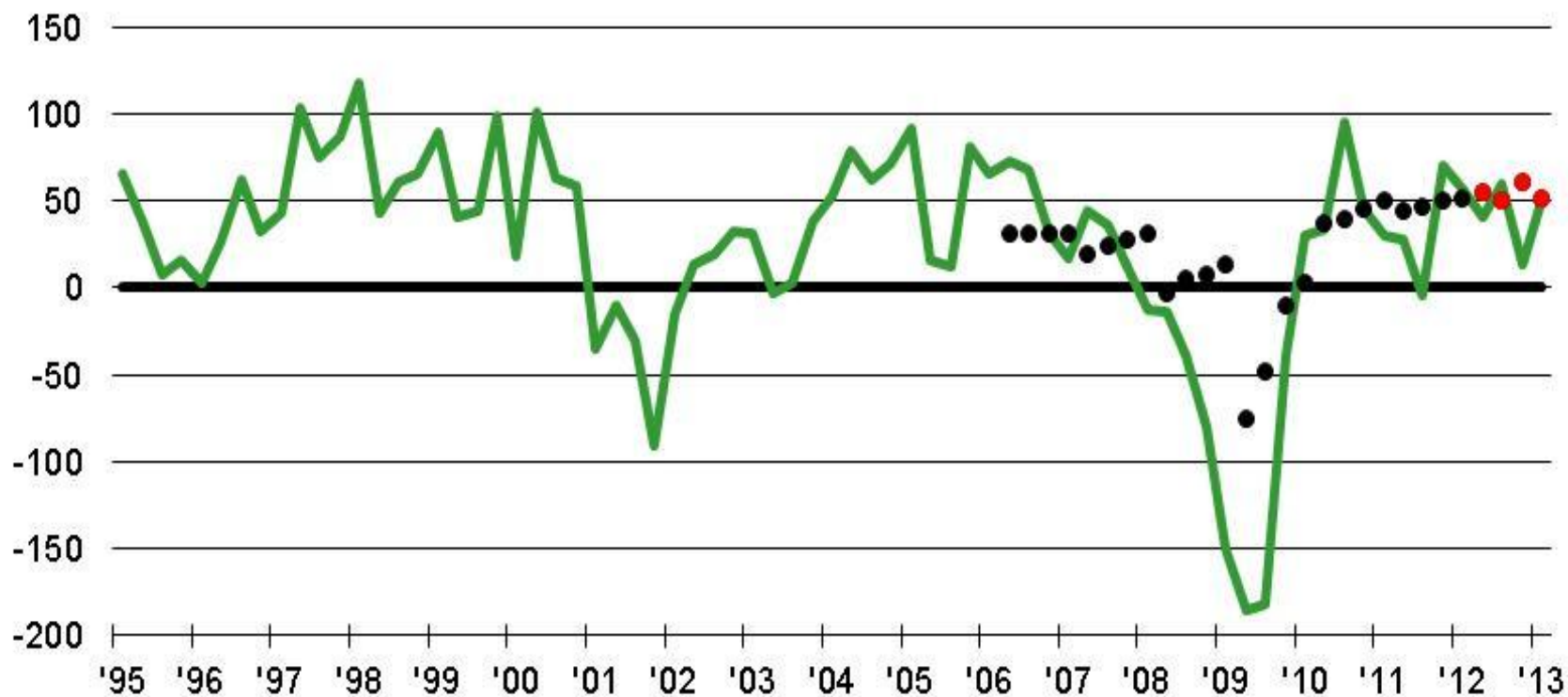
Business investment growth was somewhat slower than expected



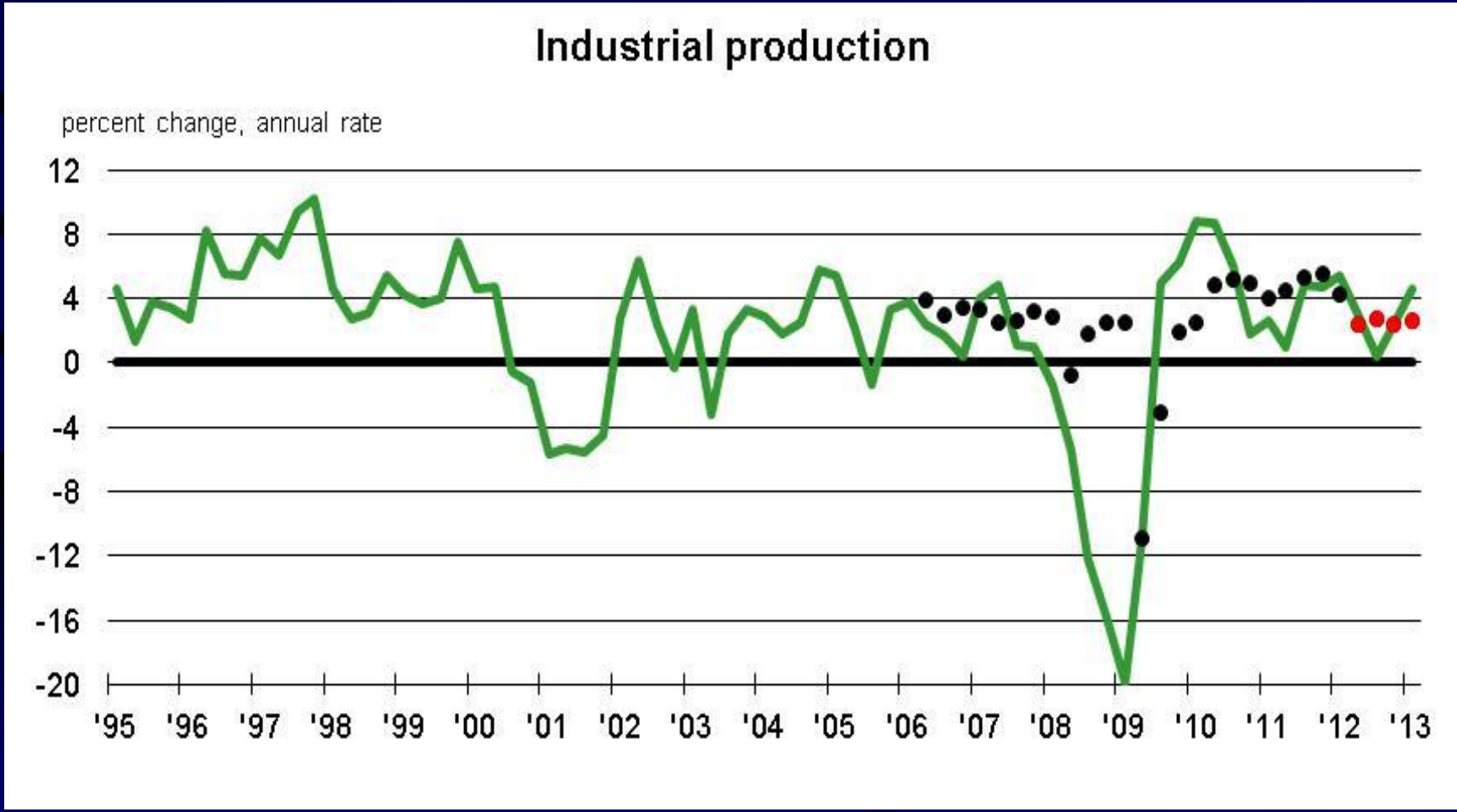
Business inventories grew at a slightly slower pace than expected

Change in business inventories

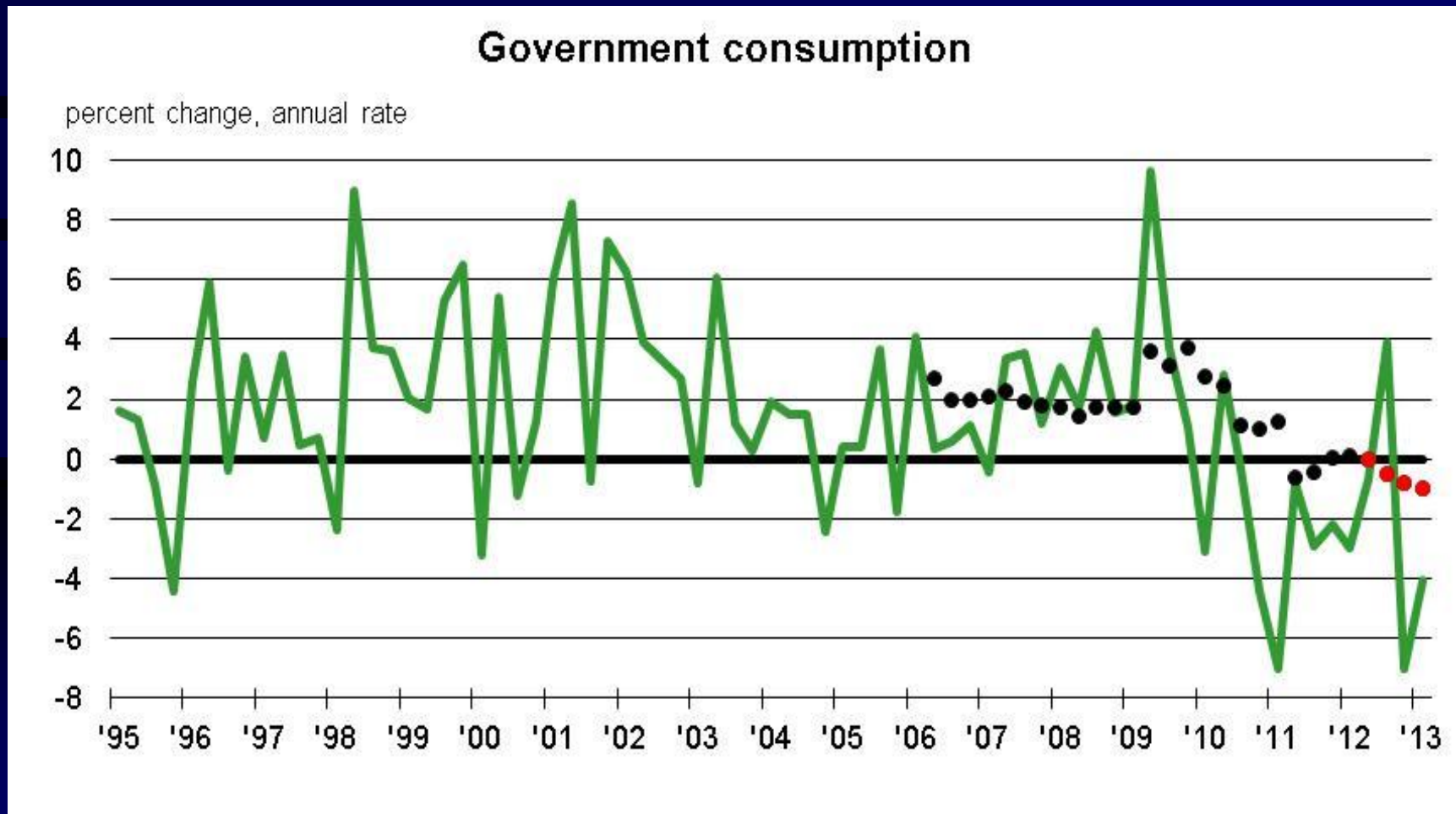
billions of constant dollars



Industrial production growth was close to what was expected



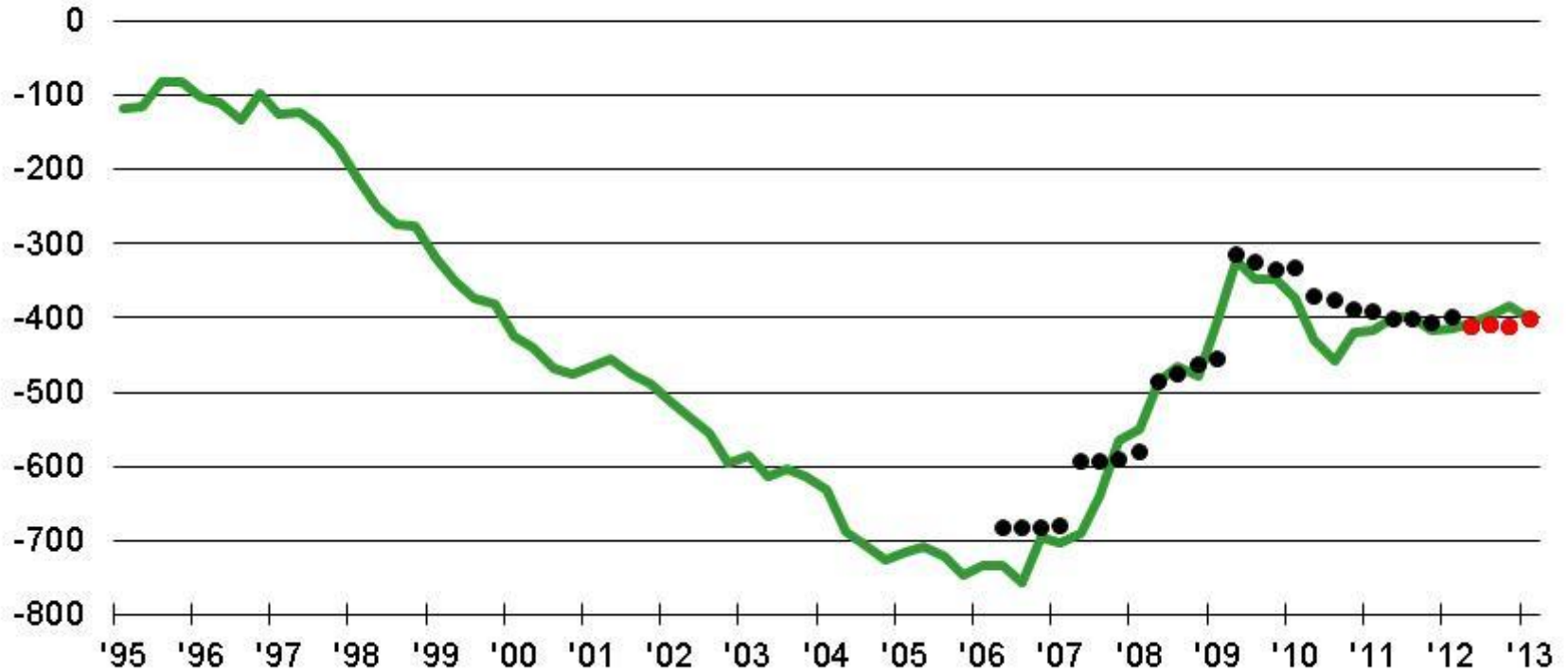
Government spending was quite a bit lower than predicted



The trade deficit accurately forecast

Net exports of goods and services

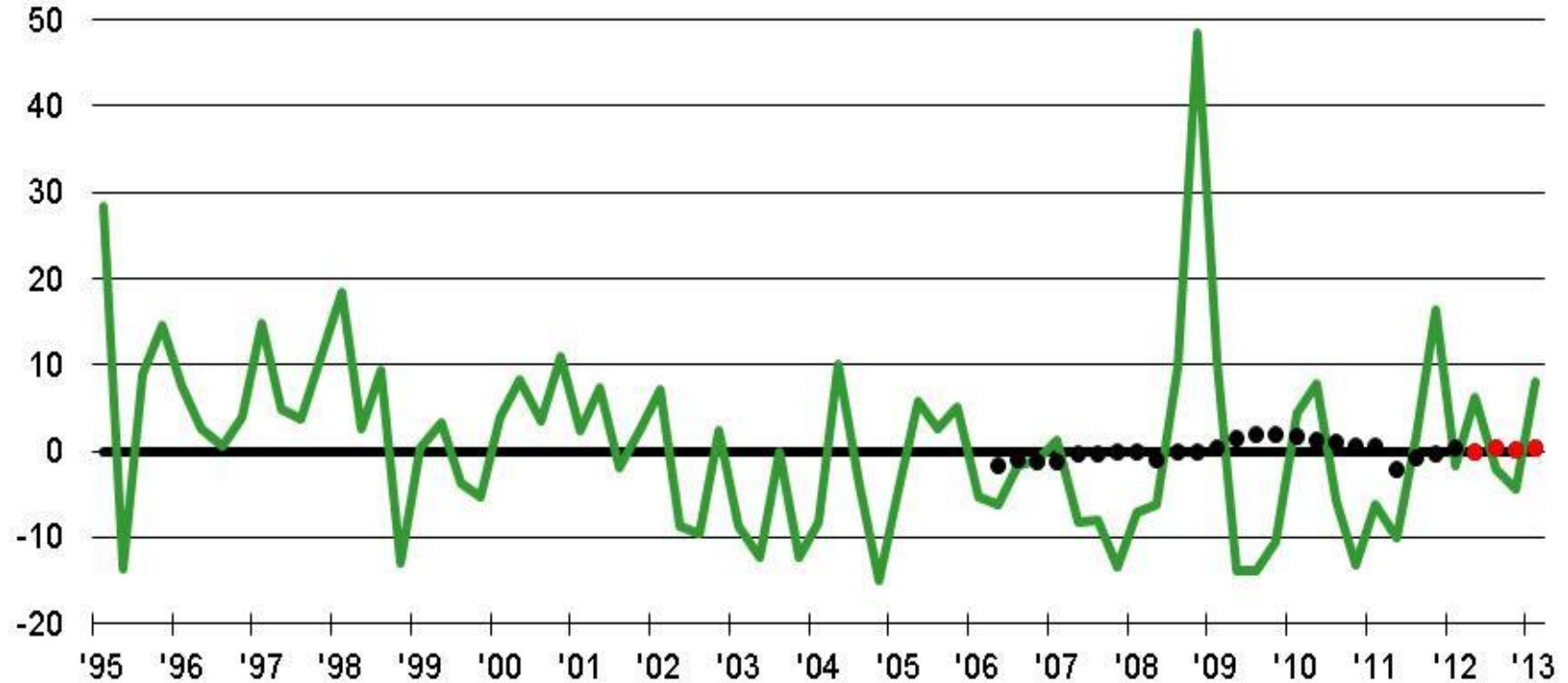
billions of constant dollars



While more volatile, the movement of the dollar was close to what was expected

J.P. Morgan trade weighted dollar

percent change, annual rate



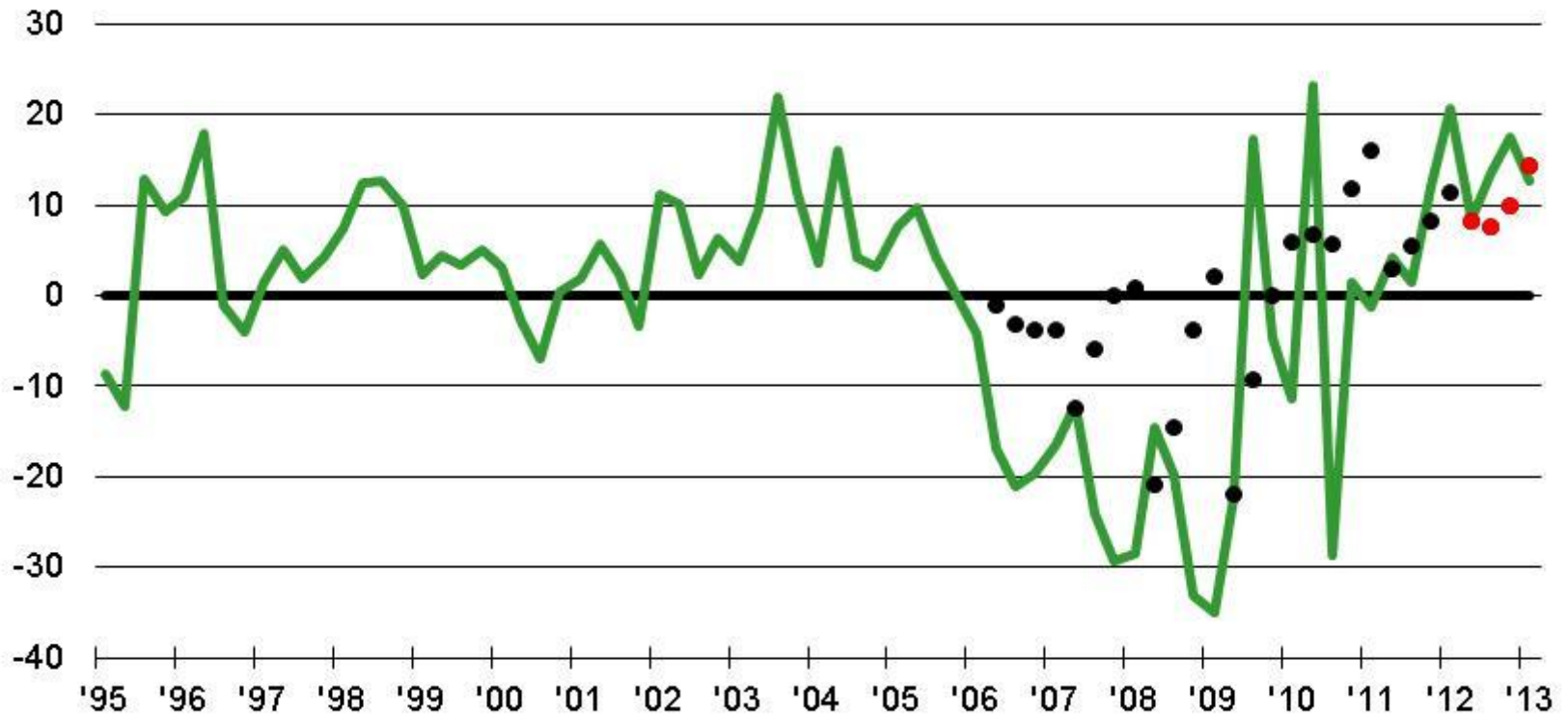
Housing starts improved at a faster pace than forecast



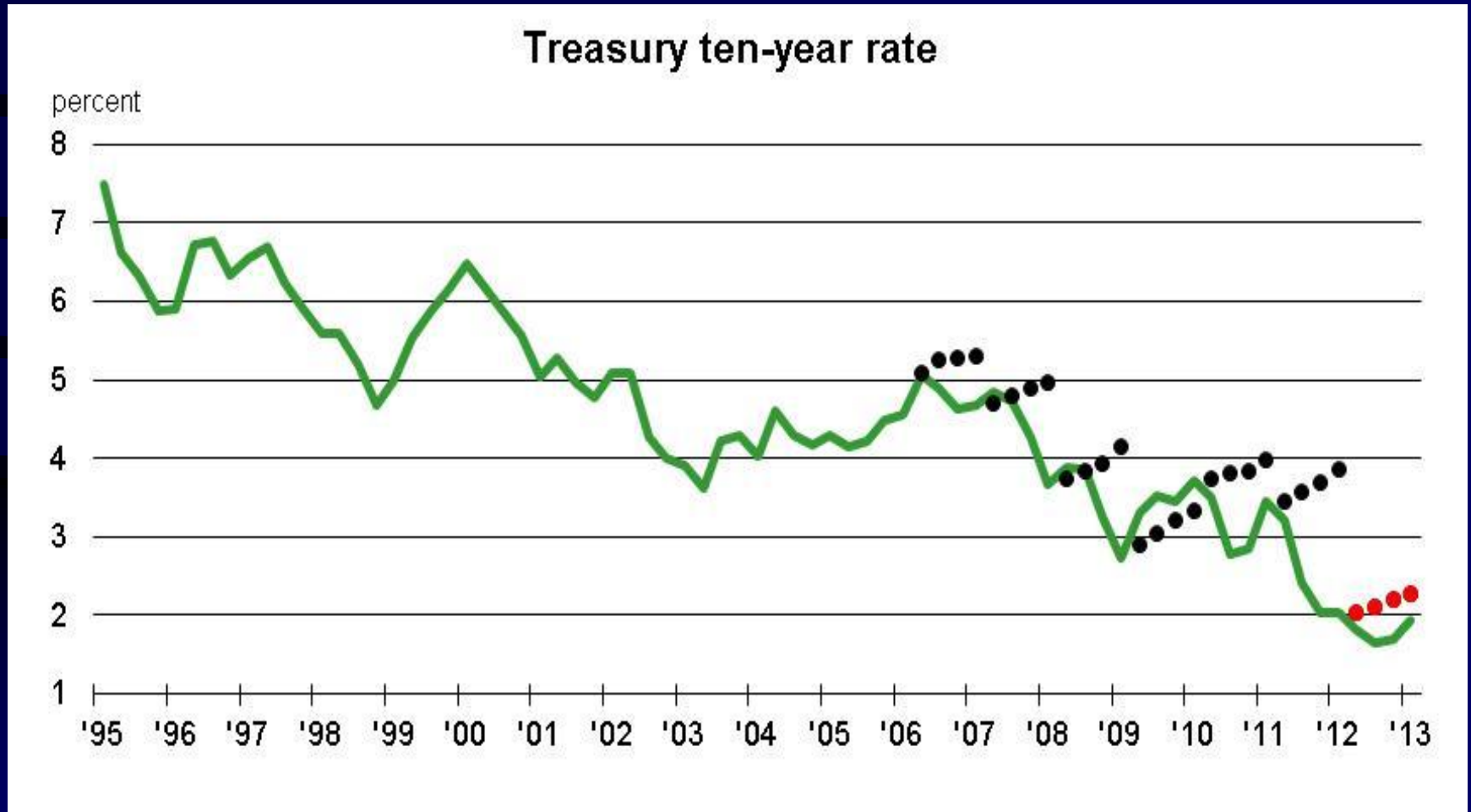
Residential investment rose at a faster pace than predicted

Residential investment

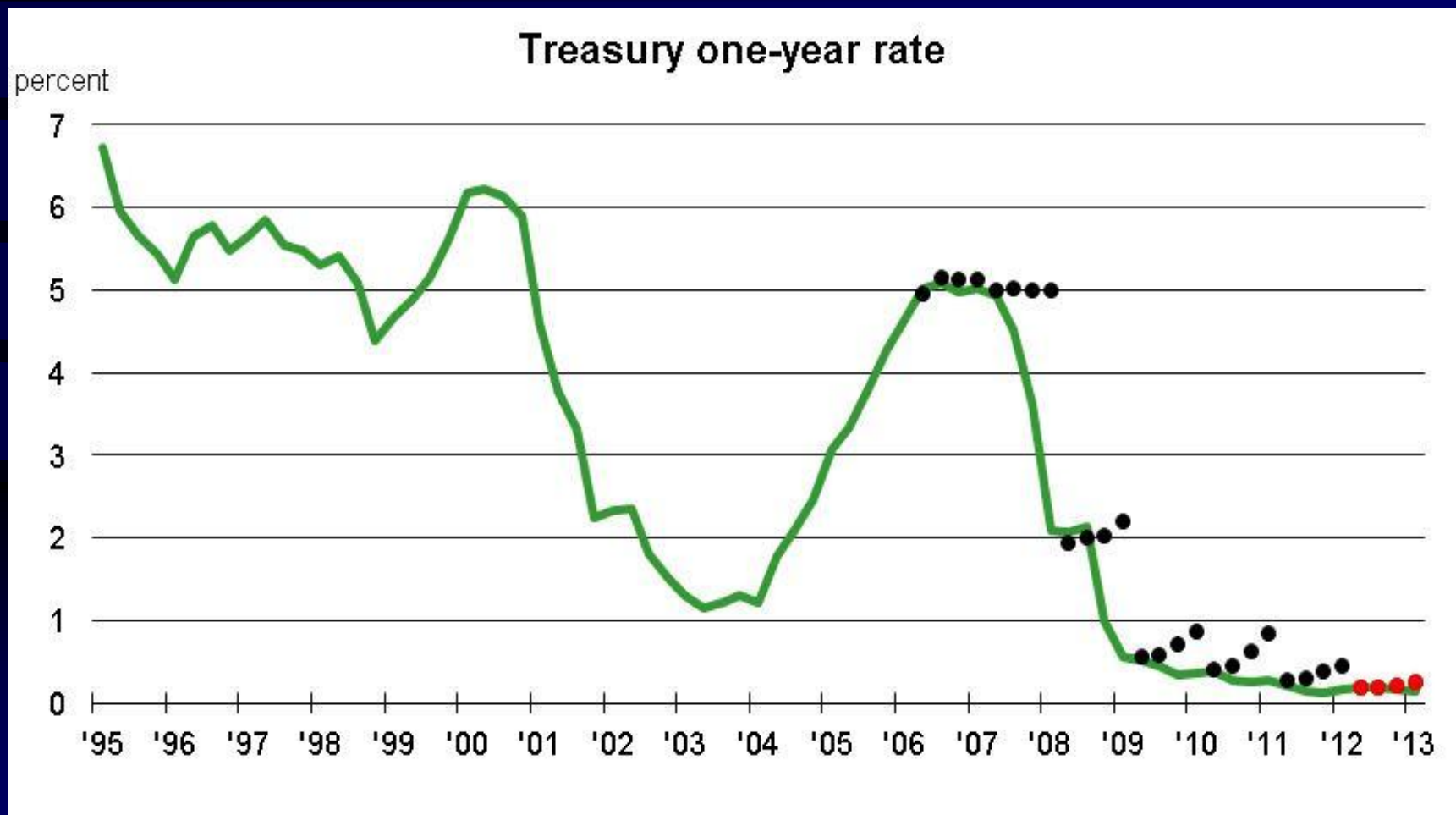
percent change, annual rate



Perhaps in part due to long-term interest rates coming in lower than expected



Short-term interest rates were expected to remain very low, and they did



Forecast for 2013 and 2014

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

	2012	2013	2014
GDP, current dollars*	3.5%	3.8%	4.7%
GDP price index, chain-type*	1.8%	1.3%	1.7%
Real GDP, chained dollars*	1.7%	2.3%	2.9%
Personal consumption expenditures*	1.8%	2.7%	2.7%
Business fixed investment*	5.5%	3.5%	4.6%
Residential investment*	14.9%	13.9%	15.1%
Change in private inventories (billions of constant dollars)**	\$13.3	\$50.0	\$42.0
Net exports of goods and services (billions of constant dollars)**	-\$384.7	-\$408.0	-\$417.8
Government consumption expenditures and gross investment*	-1.8%	-2.0%	0.1%

* Q4 over Q4

** Q4 value

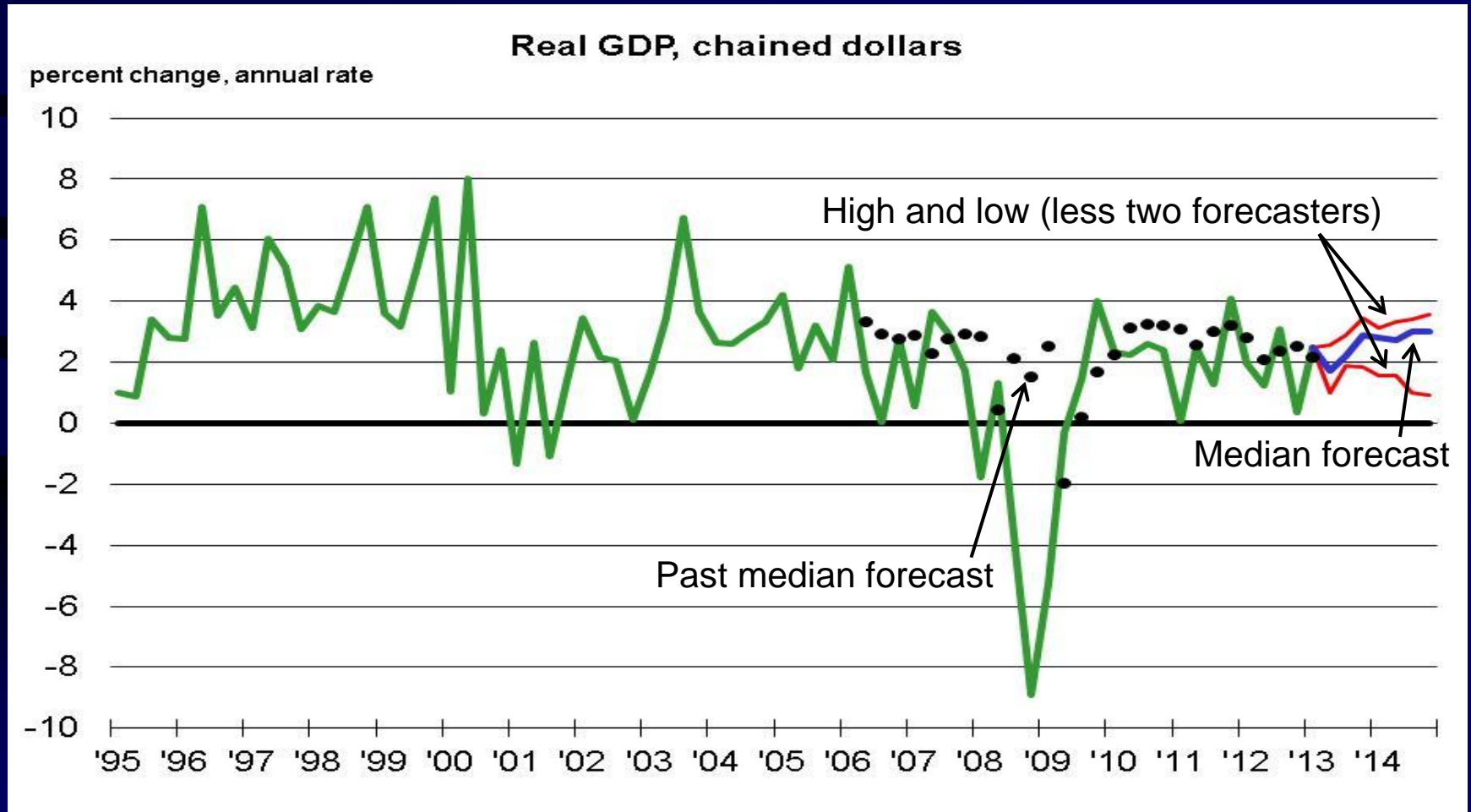
Median forecast of GDP and related items (page 1 of book)

	2012	2013	2014
Industrial production*	2.8%	3.2%	2.9%
Car & light truck sales (millions - calendar year including imports)	14.4	15.3	15.8
Housing starts (millions)	0.78	1.02	1.17
Oil price (dollars per barrel of West Texas Intermediate)**	\$88.16	\$92.96	\$93.50
Unemployment rate**	7.8%	7.3%	6.9%
Inflation rate (consumer price index)*	1.9%	1.8%	2.0%
Treasury constant maturity 1-year rate**	0.17%	0.17%	0.30%
Treasury constant maturity 10-year rate**	1.71%	2.00%	2.47%
J.P. Morgan trade weighted OECD dollar*	-0.5%	0.4%	0.5%

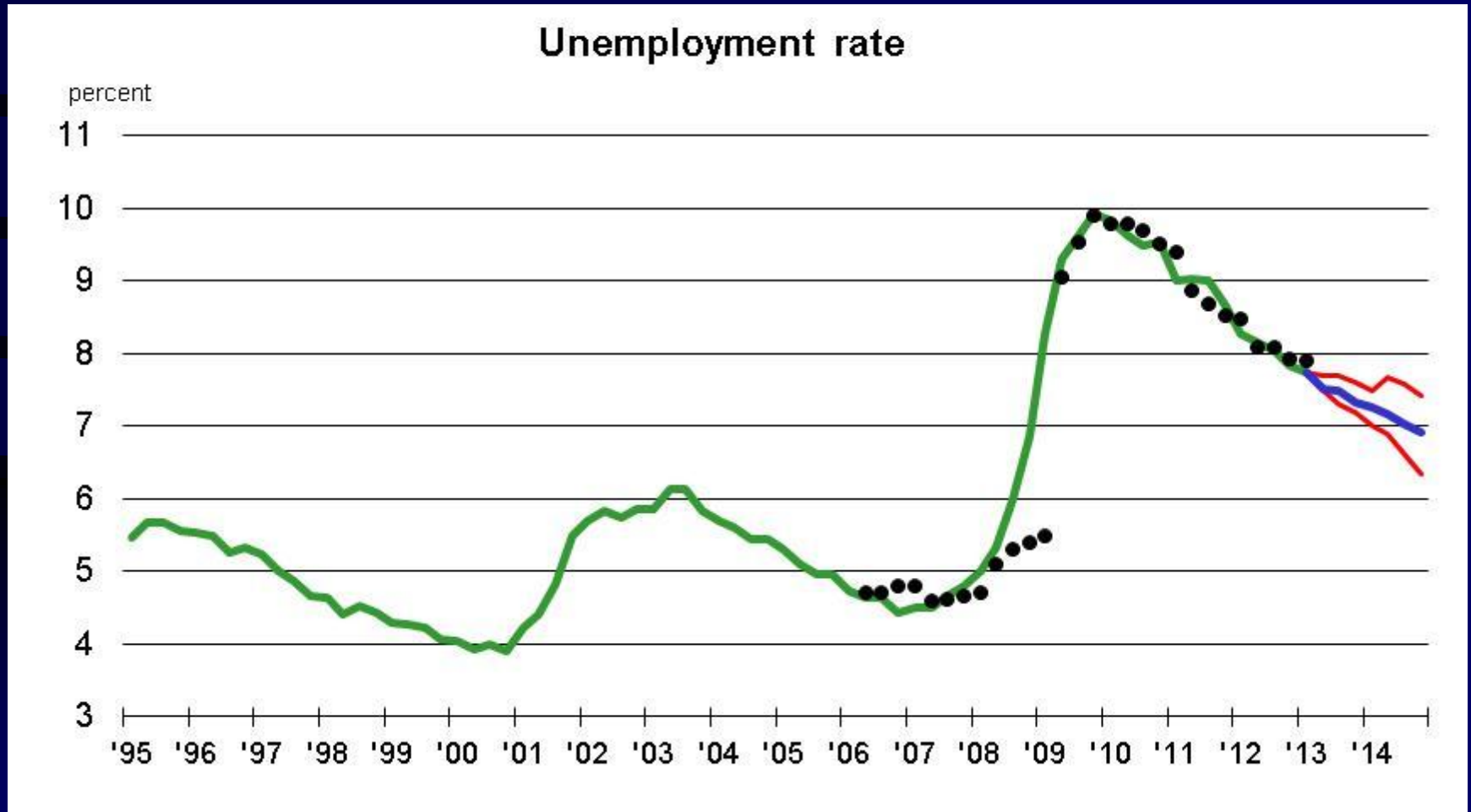
* Q4 over Q4

** Q4 value

Real GDP growth is forecast to rise at a rate that is close to trend this year and somewhat above trend in 2014

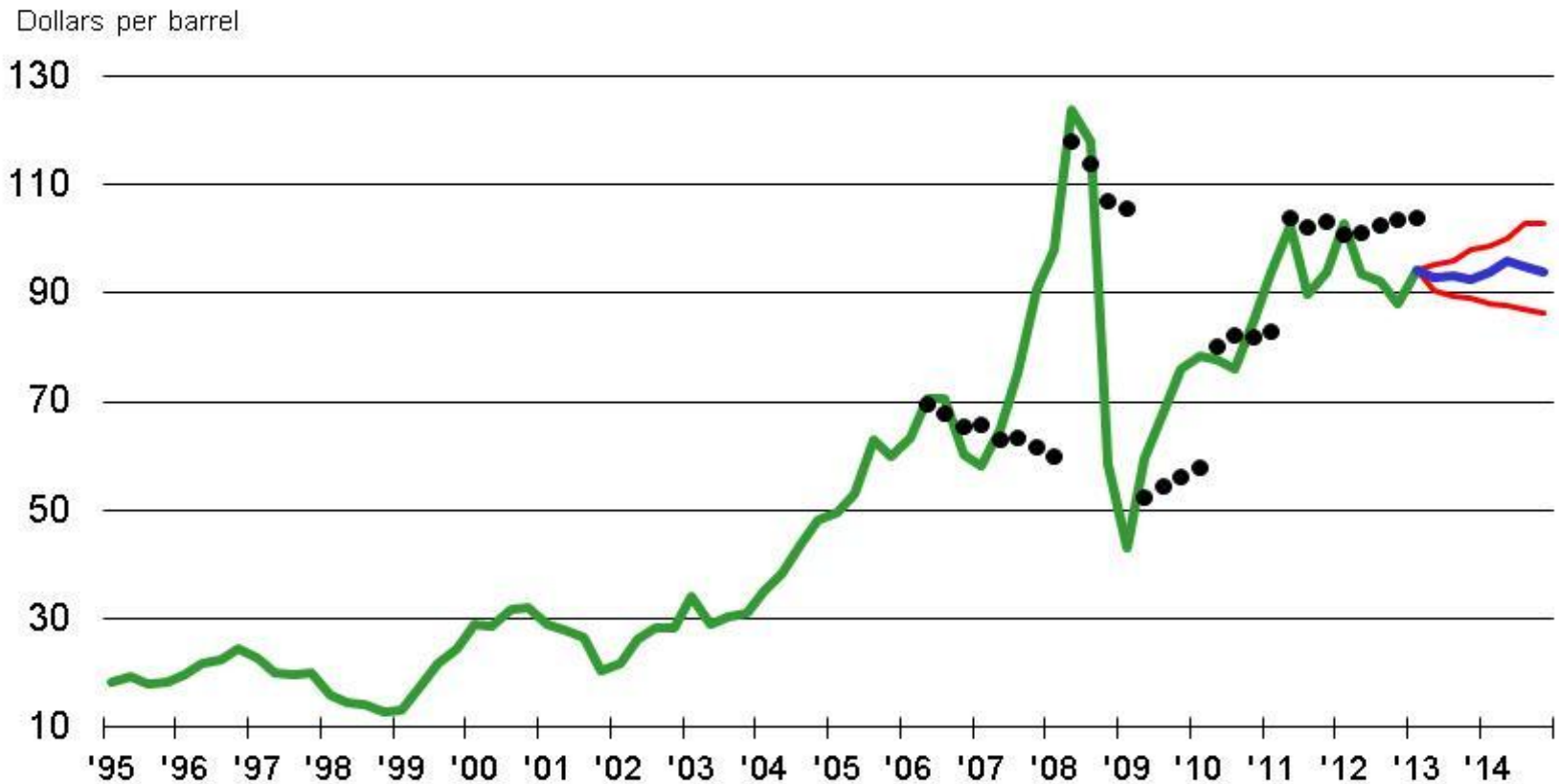


The unemployment rate is forecast to edge down to 7.3% at the end of this year and to 6.9% by the end of next year



Oil prices are expected to remain relatively flat, although at an elevated level

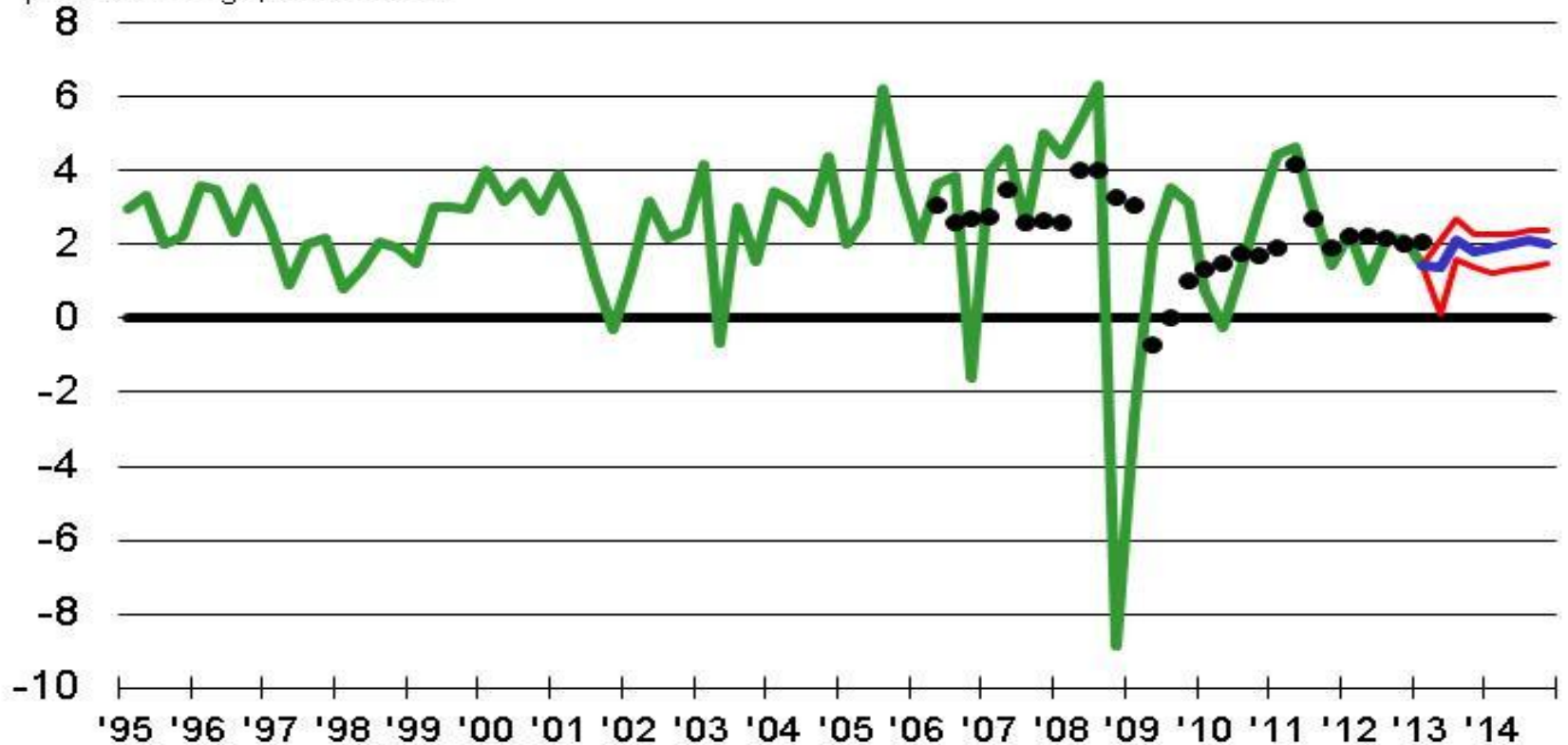
Oil Prices - West Texas Intermediate



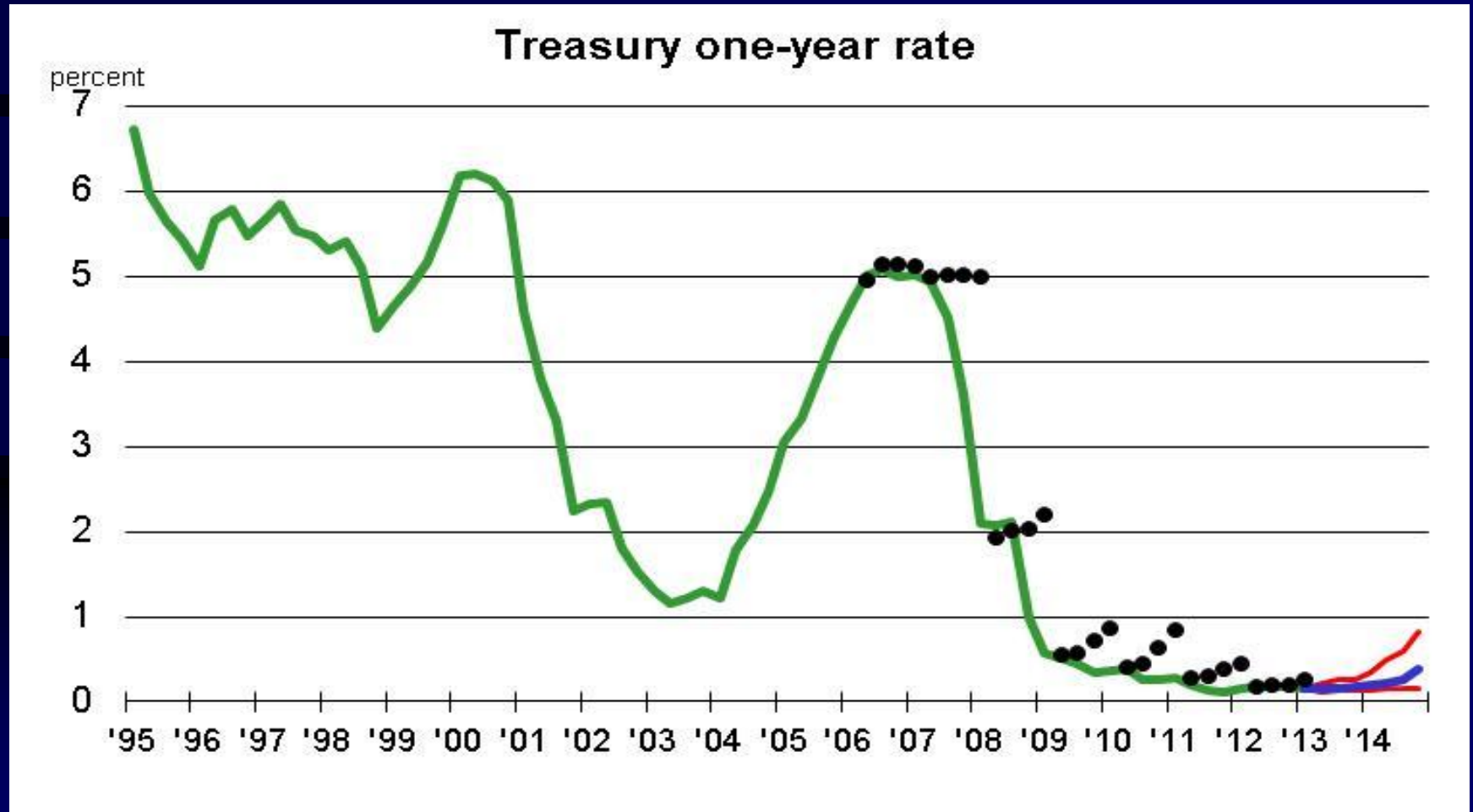
Inflation is anticipated to remain restrained at 1.8% this year and 2.0% in 2014

Inflation rate (CPI)

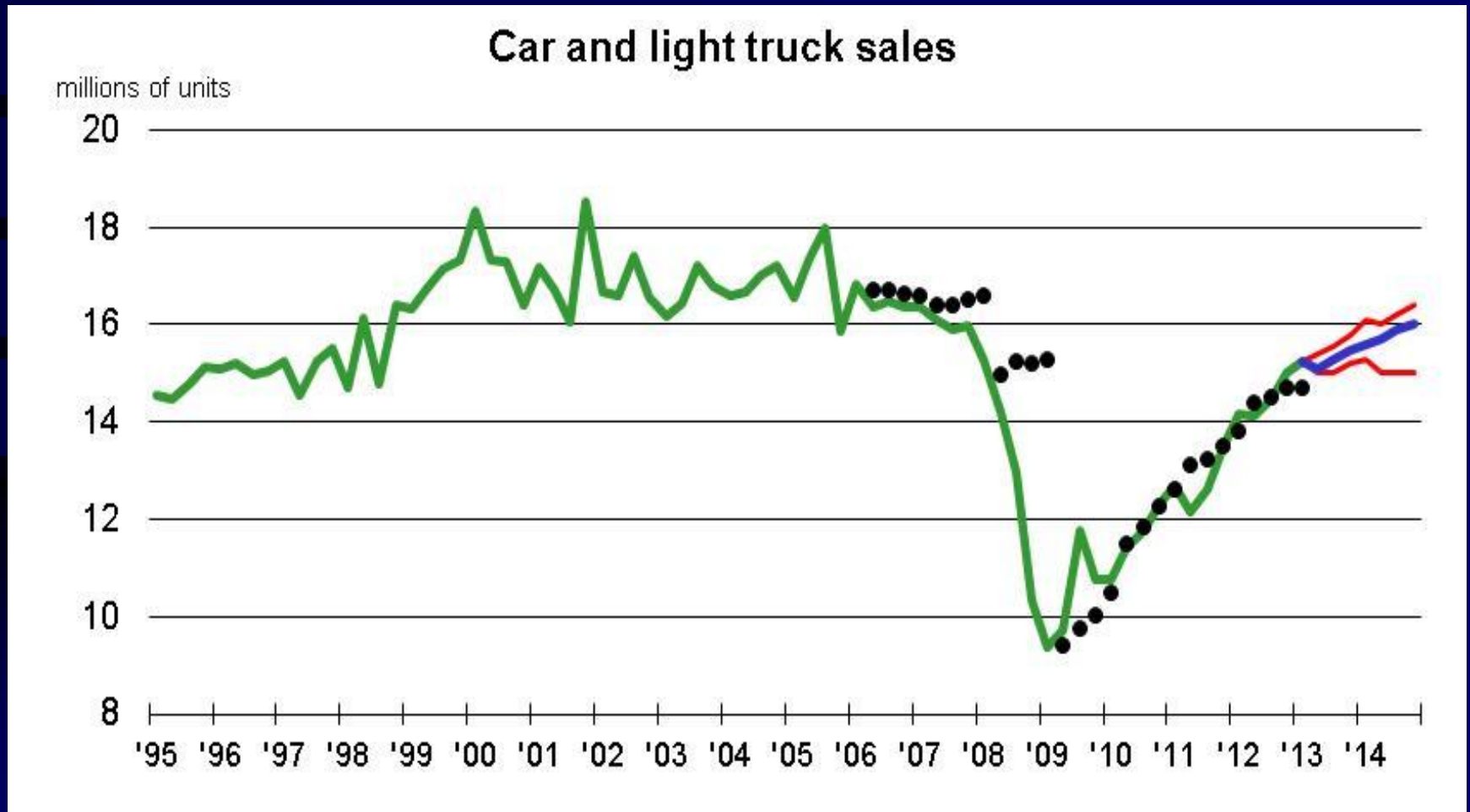
percent change, annual rate



Short-term interest rates are forecast to remain very low, edging up 20 basis points in the second half of 2014



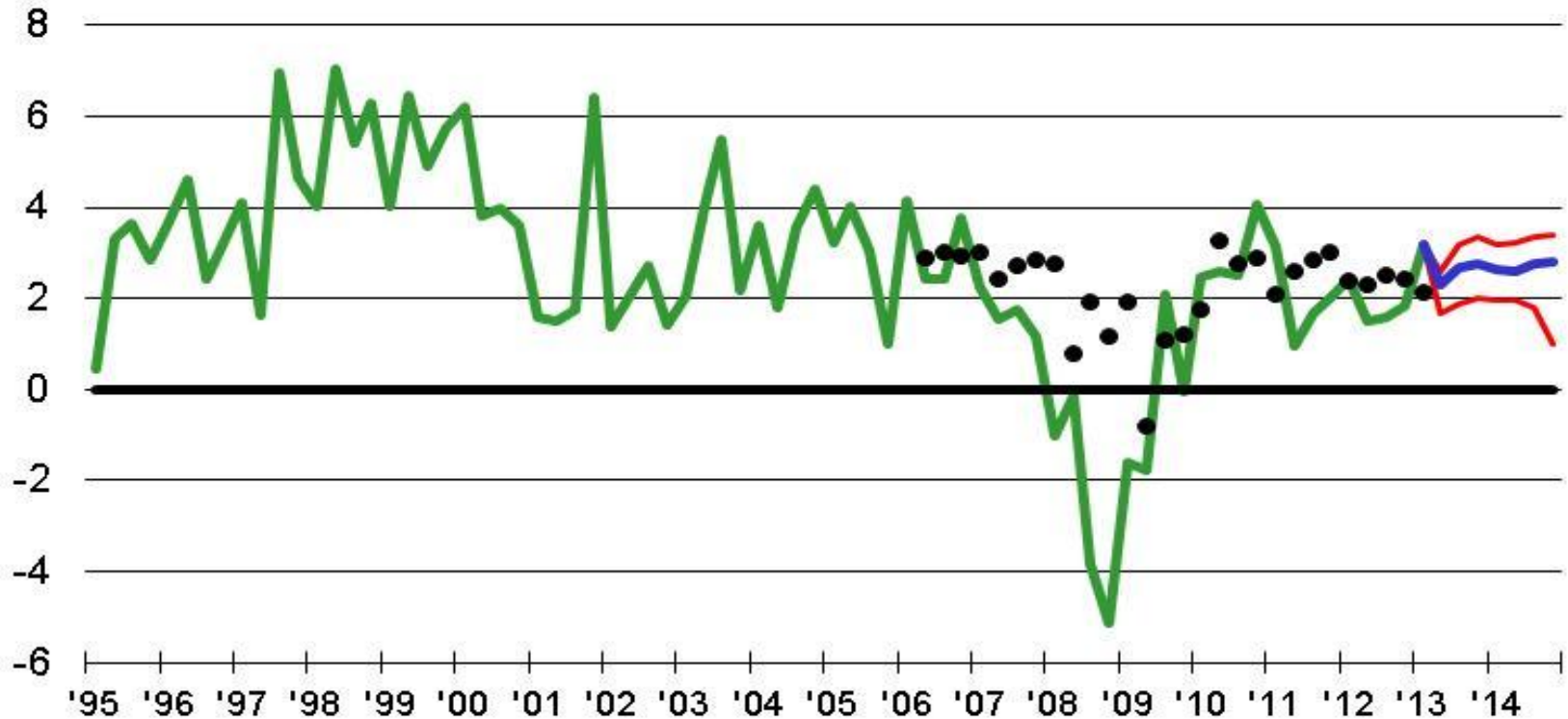
Light vehicle sales are forecast to continue improving, coming in at 15.3 million units this year and 15.8 million units in 2014



Consumption growth is expected to rise at a moderate pace

Personal consumption expenditures

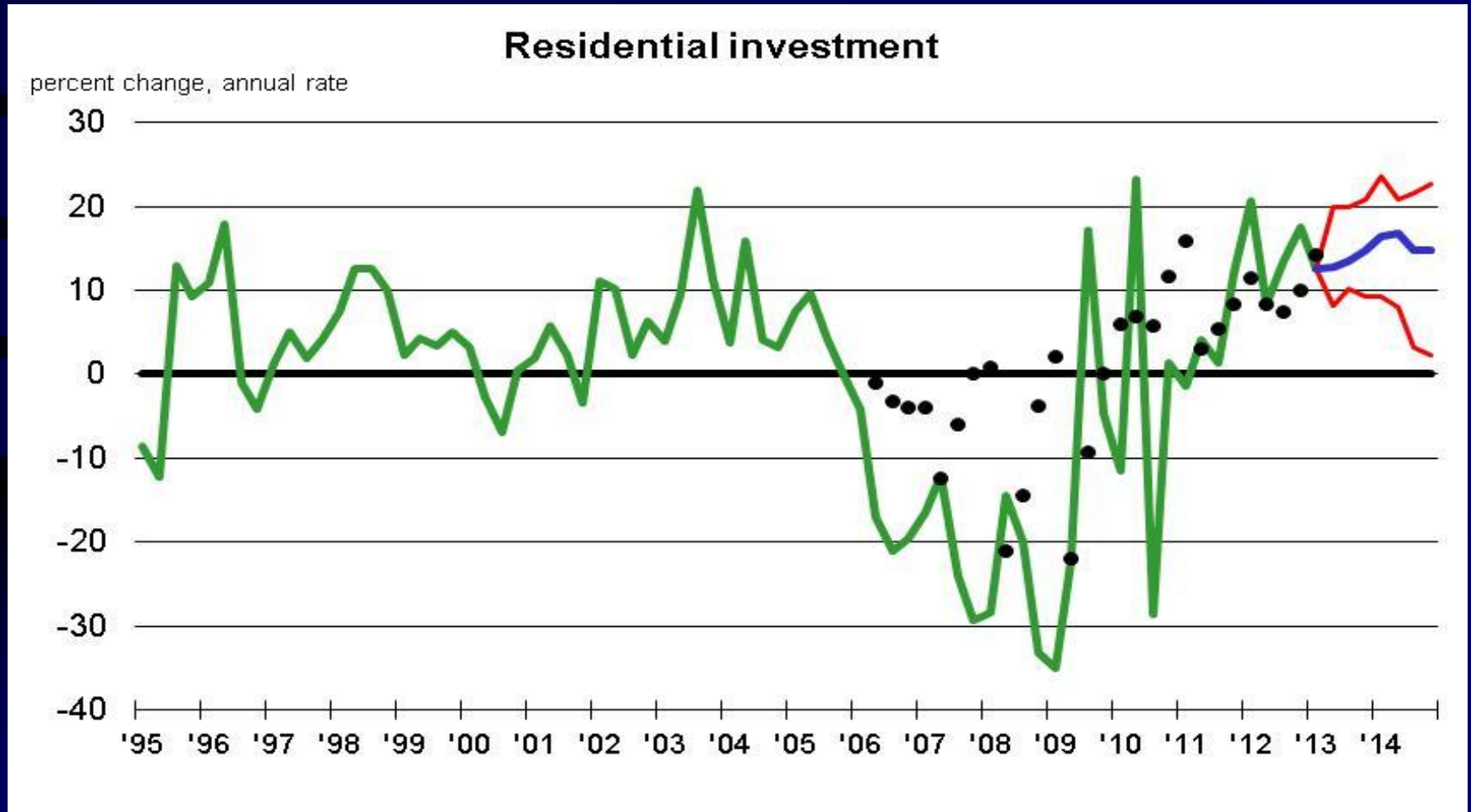
percent change, annual rate



Housing starts are expected to continue to rise at a moderate pace

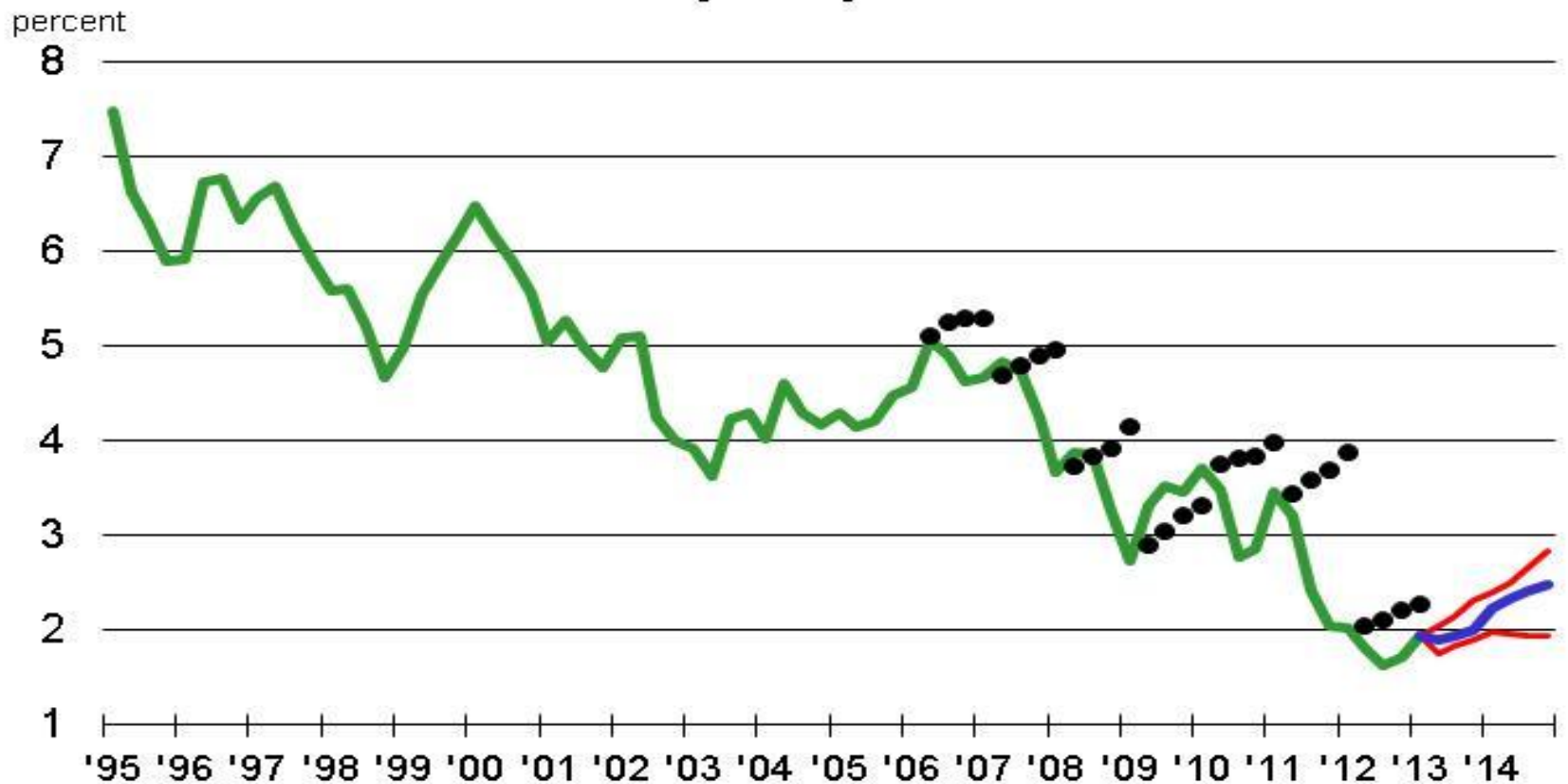


Residential investment is forecast to continue to rise at a strong pace through next year

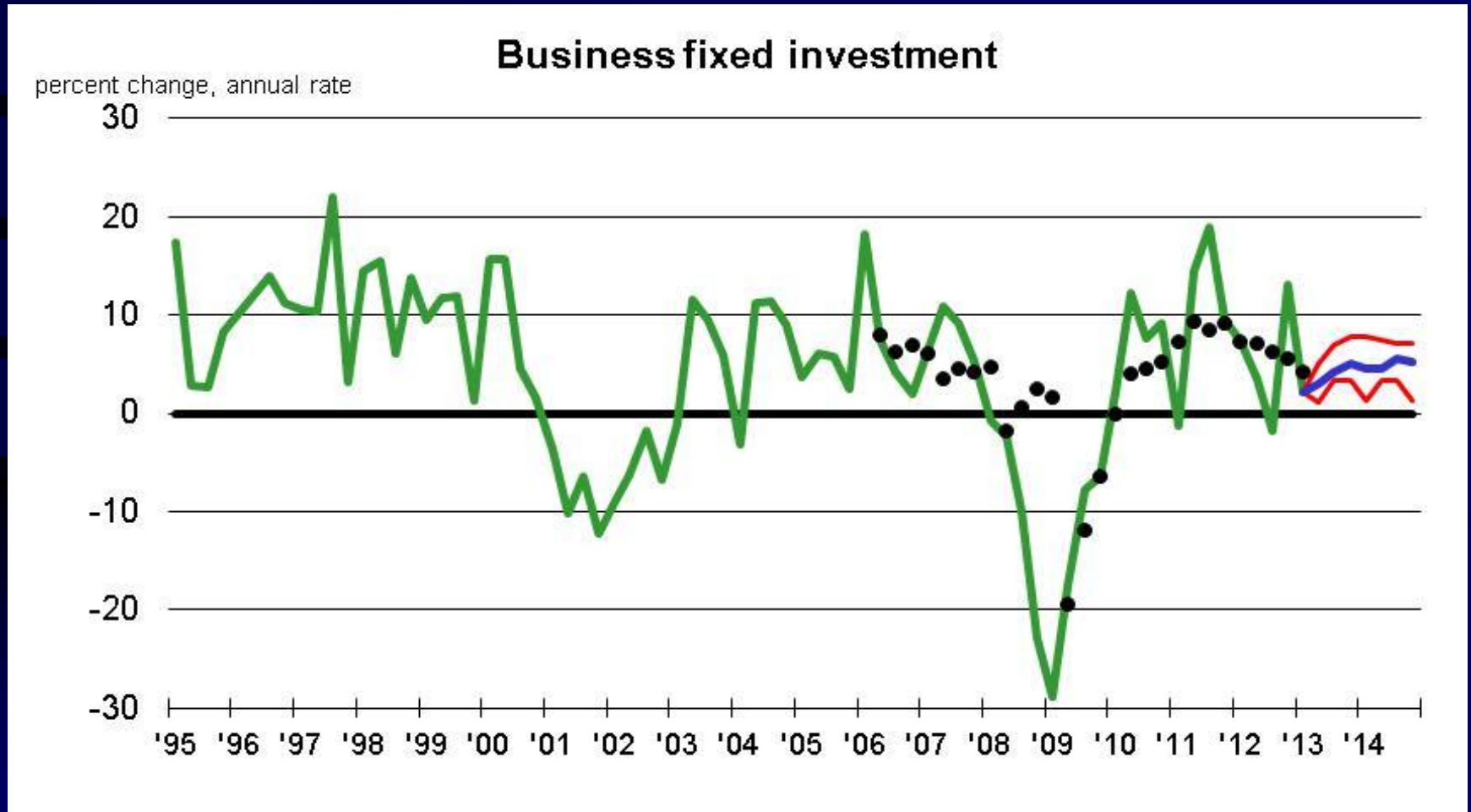


**Long-term interest rates are forecast
to rise by 29 basis points in 2013
and then rise by 47 basis points in 2014**

Treasury ten-year rate



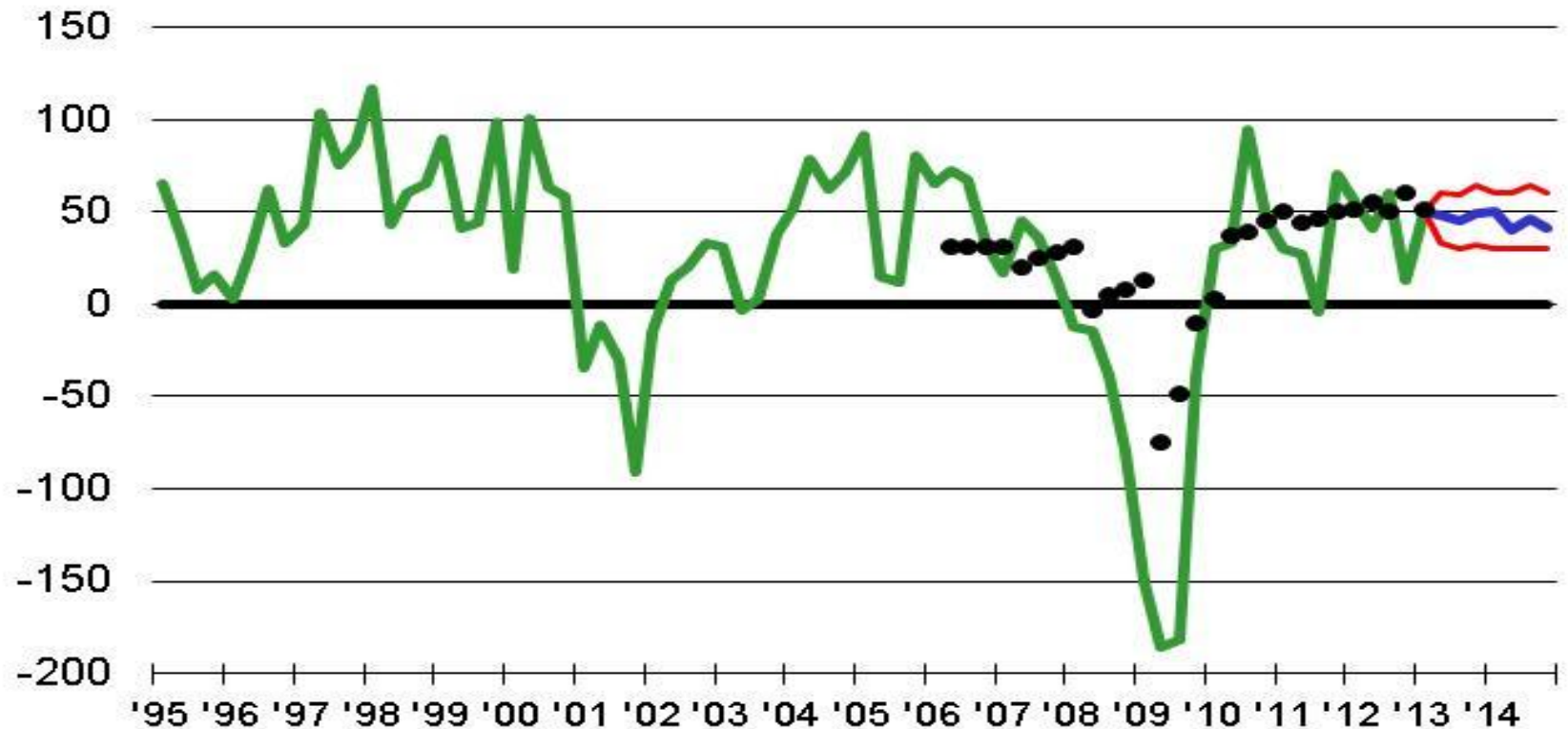
Business spending is anticipated to rise 3.5% in 2013 and then rise 4.6% next year



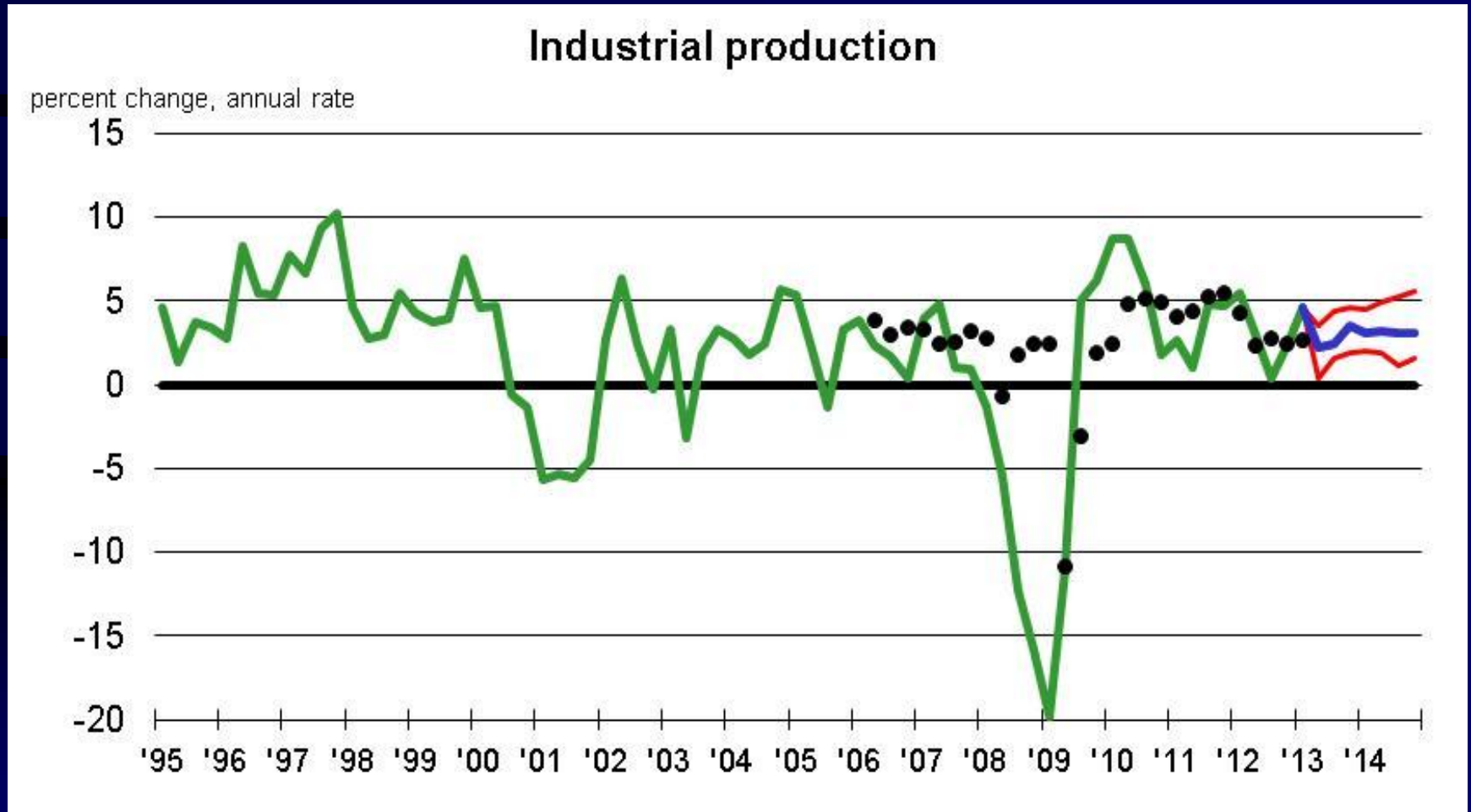
Inventories are expected to rise at a pace that maintains the inventory to GDP ratio

Change in business inventories

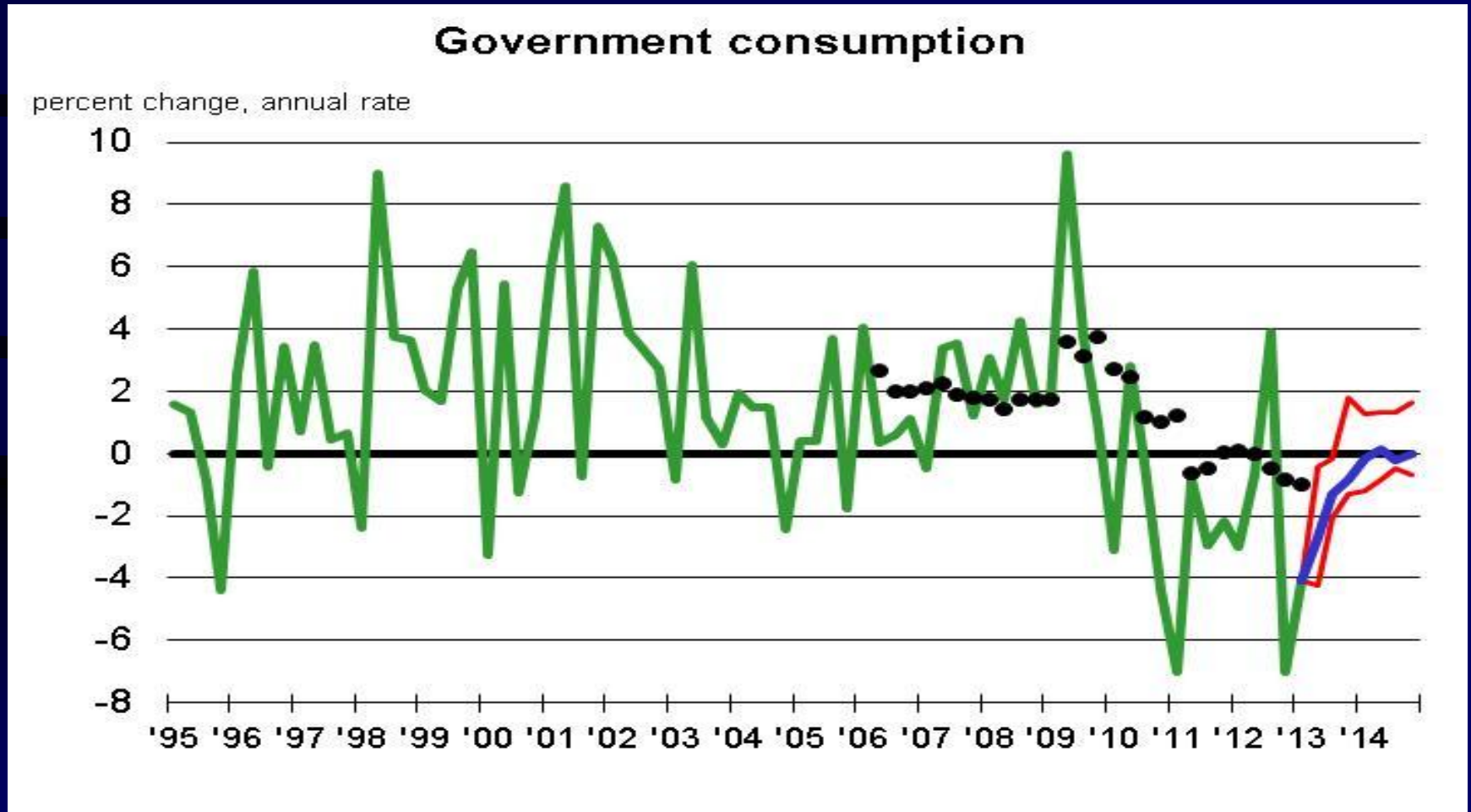
billions of constant dollars



Industrial output growth is forecast to increase at a pace close to its historical rate through next year

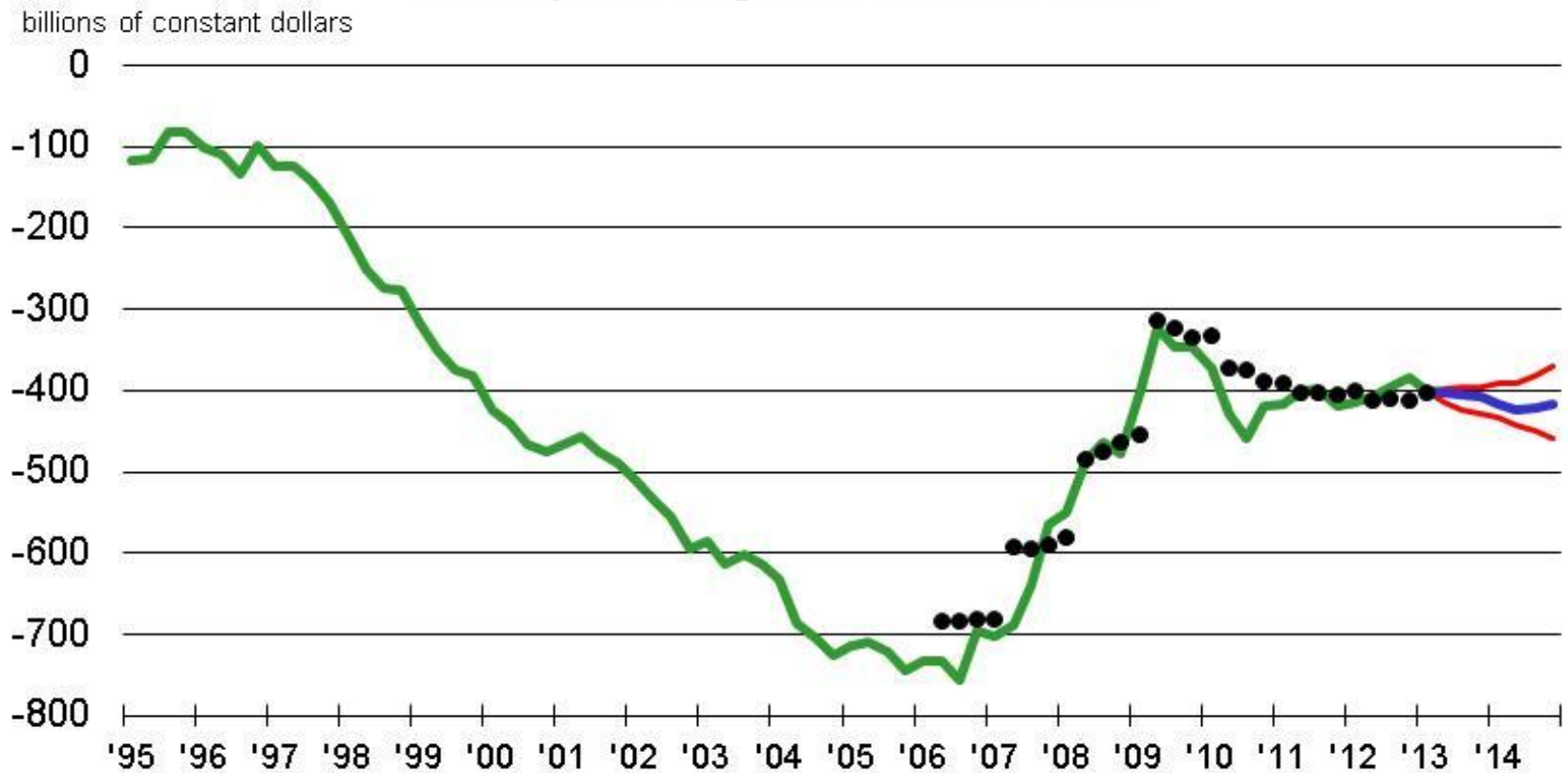


Government purchases is forecast to move lower this year, decreasing by 2.0% and remain relatively unchanged in 2014



Net exports are expected to remain relatively flat over the forecast horizon

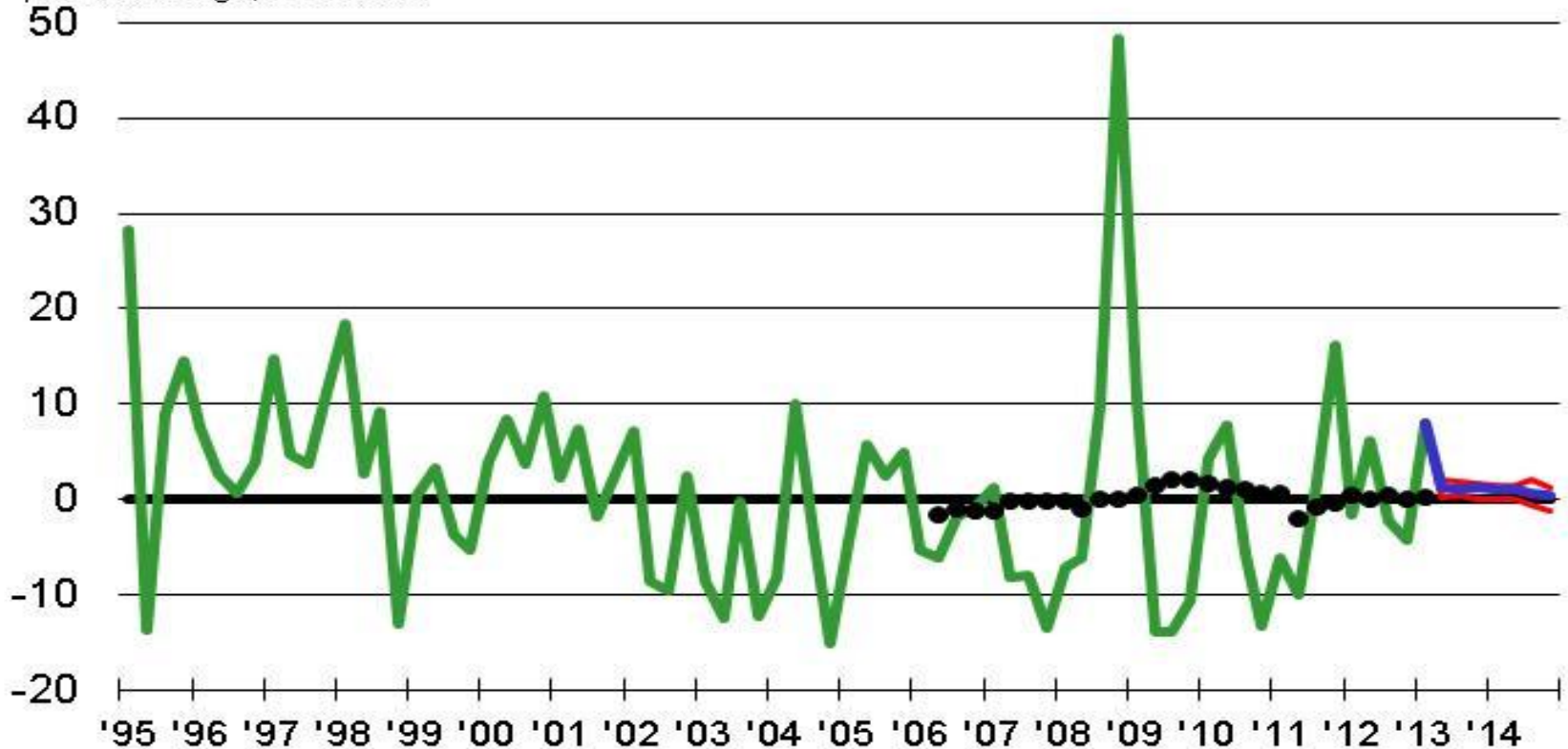
Net exports of goods and services



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

J.P. Morgan trade weighted dollar

percent change, annual rate



Summary

- **The economy is forecast to rise at a pace around potential in 2013 and somewhat above trend in 2014**
- **The unemployment rate is expected to gradually improve falling to 7.3% at the end of this year and 6.9% at the end of next year**
- **Inflation is expected to come in at 1.8% in 2013 and 2.0% next year**
- **Light vehicle sales are forecast to be 15.3 million units this year and then improve to 15.8 million in 2014**
- **www.chicagofed.org**