Consensus Forecast 2014 and 2015

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William Strauss
Senior Economist and Economic Advisor
Federal Reserve Bank of Chicago
Review of past performance
GDP growth was very close to the consensus
The unemployment rate declined more than predicted.
Inflation was accurately forecast
Even with oil prices higher than expected
The general path for car and light truck sales were accurately predicted.
Consumer spending was close to forecast
Outside of the weather impacted first quarter of 2014, business investment growth was accurately predicted to improve.
The big surprise over the past year was a large build in inventories
Industrial production growth was close to what was expected.
While quite volatile government spending over the past year was close to what was predicted.
The trade deficit accurately forecast
The dollar was expected to increase by around 1% and it strengthened around 3% over the past year.
Housing starts improved at a slower pace than forecast
Hence, residential investment growth was well below what was predicted.
Perhaps in part due to long-term interest rates rising more than expected.
Short-term interest rates were expected to remain very low, and they did
Forecast for 2014 and 2015
**Median forecast of GDP and related items**

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP, current dollars*</td>
<td>4.1%</td>
<td>4.0%</td>
<td>4.6%</td>
</tr>
<tr>
<td>GDP price index, chain-type*</td>
<td>1.4%</td>
<td>1.7%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Real GDP, chained dollars*</td>
<td>2.6%</td>
<td>2.3%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Personal consumption expenditures*</td>
<td>2.3%</td>
<td>2.8%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Business fixed investment*</td>
<td>2.6%</td>
<td>3.4%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Residential investment*</td>
<td>6.9%</td>
<td>5.4%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Change in private inventories (billions of constant dollars)**</td>
<td>$111.7</td>
<td>$70.5</td>
<td>$58.6</td>
</tr>
<tr>
<td>Net exports of goods and services (billions of constant dollars)**</td>
<td>-$382.8</td>
<td>-$409.5</td>
<td>-$431.5</td>
</tr>
<tr>
<td>Government consumption expenditures and gross investment*</td>
<td>-2.4%</td>
<td>0.5%</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

*Q4 over Q4

**Q4 value
## Median forecast of GDP and related items

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<tr>
<td>Industrial production*</td>
<td>3.3%</td>
<td>3.6%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Car &amp; light truck sales (millions - calendar year including imports)</td>
<td>15.5</td>
<td>16.0</td>
<td>16.4</td>
</tr>
<tr>
<td>Housing starts (millions)</td>
<td>0.93</td>
<td>1.02</td>
<td>1.19</td>
</tr>
<tr>
<td>Oil price (dollars per barrel of West Texas Intermediate)**</td>
<td>$97.39</td>
<td>$99.00</td>
<td>$97.08</td>
</tr>
<tr>
<td>Unemployment rate**</td>
<td>7.0%</td>
<td>6.3%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Inflation rate (consumer price index)*</td>
<td>1.2%</td>
<td>2.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Treasury constant maturity 1-year rate**</td>
<td>0.12%</td>
<td>0.15%</td>
<td>0.45%</td>
</tr>
<tr>
<td>Treasury constant maturity 10-year rate**</td>
<td>2.75%</td>
<td>2.96%</td>
<td>3.50%</td>
</tr>
<tr>
<td>J.P. Morgan trade weighted OECD dollar*</td>
<td>3.5%</td>
<td>2.8%</td>
<td>0.1%</td>
</tr>
</tbody>
</table>

*Q4 over Q4
**Q4 value
Real GDP growth is forecast to bounce back in the current quarter and rise at a rate that is above trend through the end of 2015.
The unemployment rate is forecast to edge down to 6.3% at the end of this year and to 5.9% by the end of next year.
Inflation is anticipated to remain restrained at 2.0% this year and in 2015
Oil prices are expected to tick lower, although at an elevated level
Short-term interest rates are forecast to remain unchanged through the first quarter of next year and then rise 30 basis points by the end of 2015.
Light vehicle sales are forecast to continue improving, coming in at 16.0 million units this year and 16.4 million units in 2015.
Consumption growth is expected to rise at a moderate pace
Housing starts are expected to continue to rise at a moderate pace.
Residential investment is forecast to bounce back and rise at a strong pace through next year.
Long-term interest rates are forecast to rise by 21 basis points in 2014 and then rise by 54 basis points in 2015.
Business spending is anticipated to rise 3.4% in 2014 and then rise 4.8% next year.
Inventories gains are expected to slow this year and then rise at a pace that maintains the inventory to GDP ratio in 2015
Industrial output growth is forecast to increase at a pace close to its historical rate through next year.
Government purchases is forecast to increase 0.5% this year and 0.4% in 2015
The trade deficit is expected to edge higher over the forecast horizon.
Following a strong gain in the first quarter, the dollar is forecast to remain relatively flat through the end of next year.
Summary

• The economy is forecast to rise at a pace around potential in 2014 and somewhat above trend in 2015

• The unemployment rate is expected to gradually improve falling to 6.3% at the end of this year and 5.9% at the end of next year

• Inflation is expected to come in at 2.0% in 2014 and 2015

• Light vehicle sales are forecast to be 16.0 million units this year and then improve to 16.4 million in 2015

• www.chicagofed.org