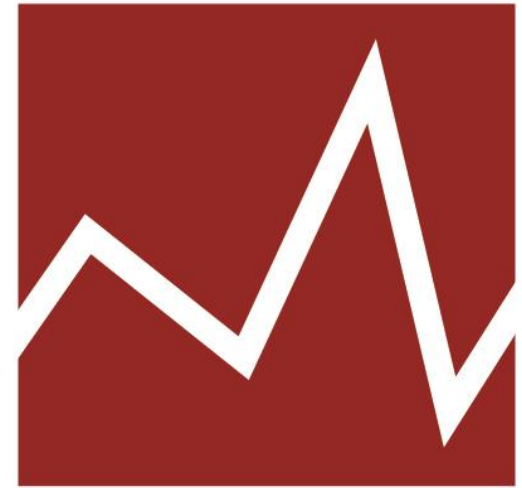


29TH ANNUAL
ECONOMIC
OUTLOOK
SYMPOSIUM



F R I D A Y , D E C E M B E R 4 , 2 0 1 5

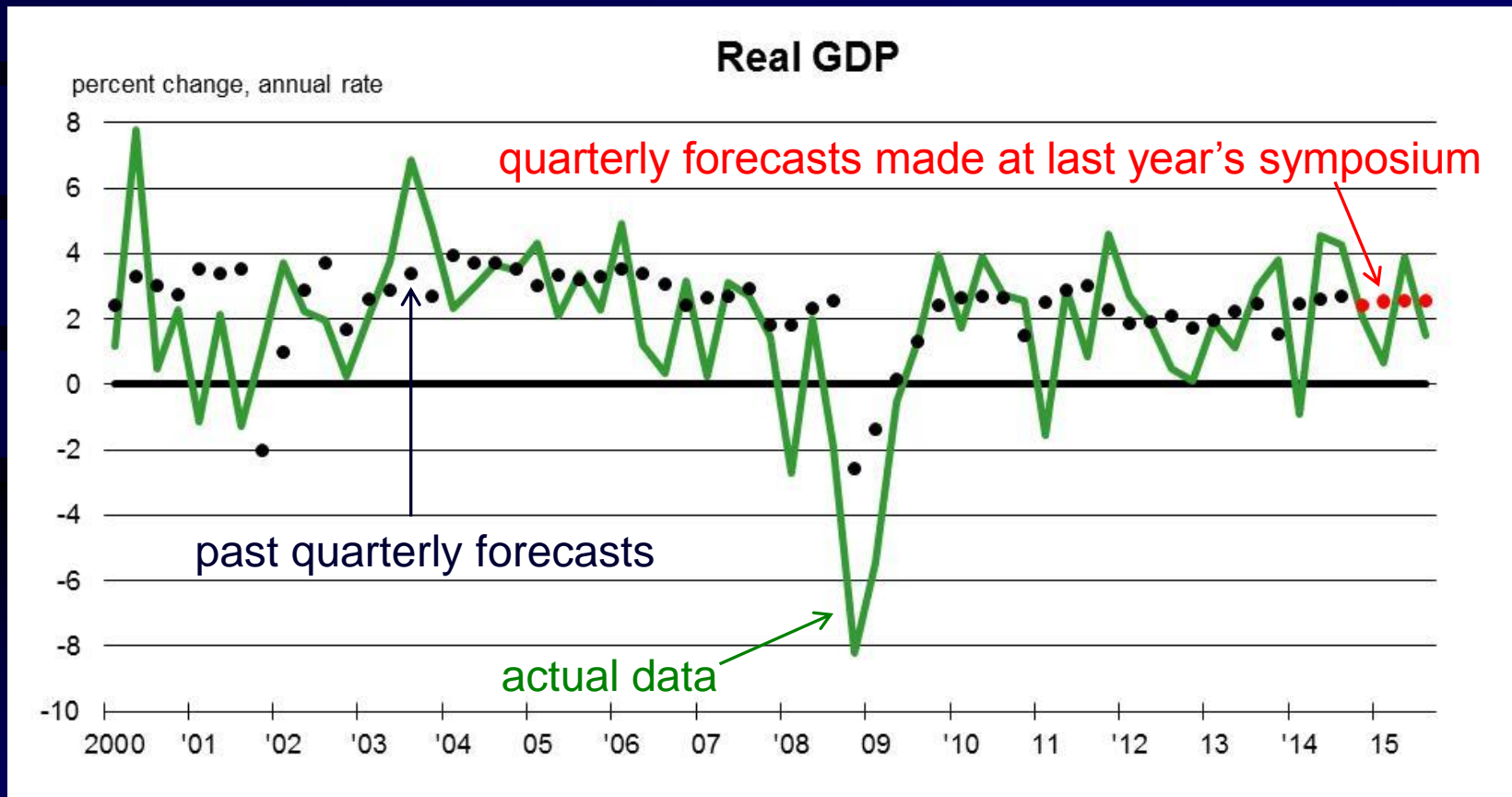
Consensus Outlook for 2016

William Strauss

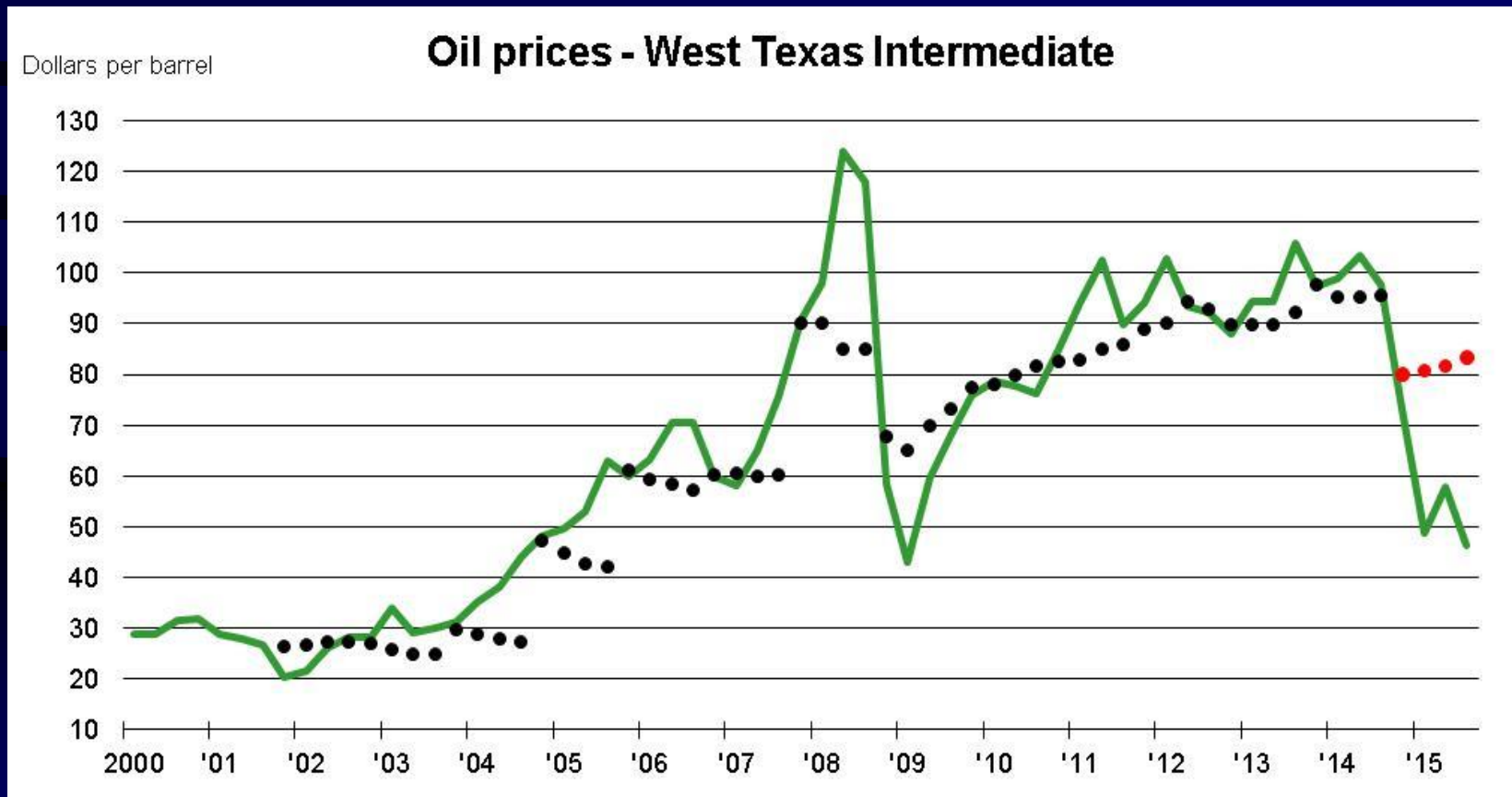
Senior Economist and Economic Advisor
Federal Reserve Bank of Chicago

Review of past performance

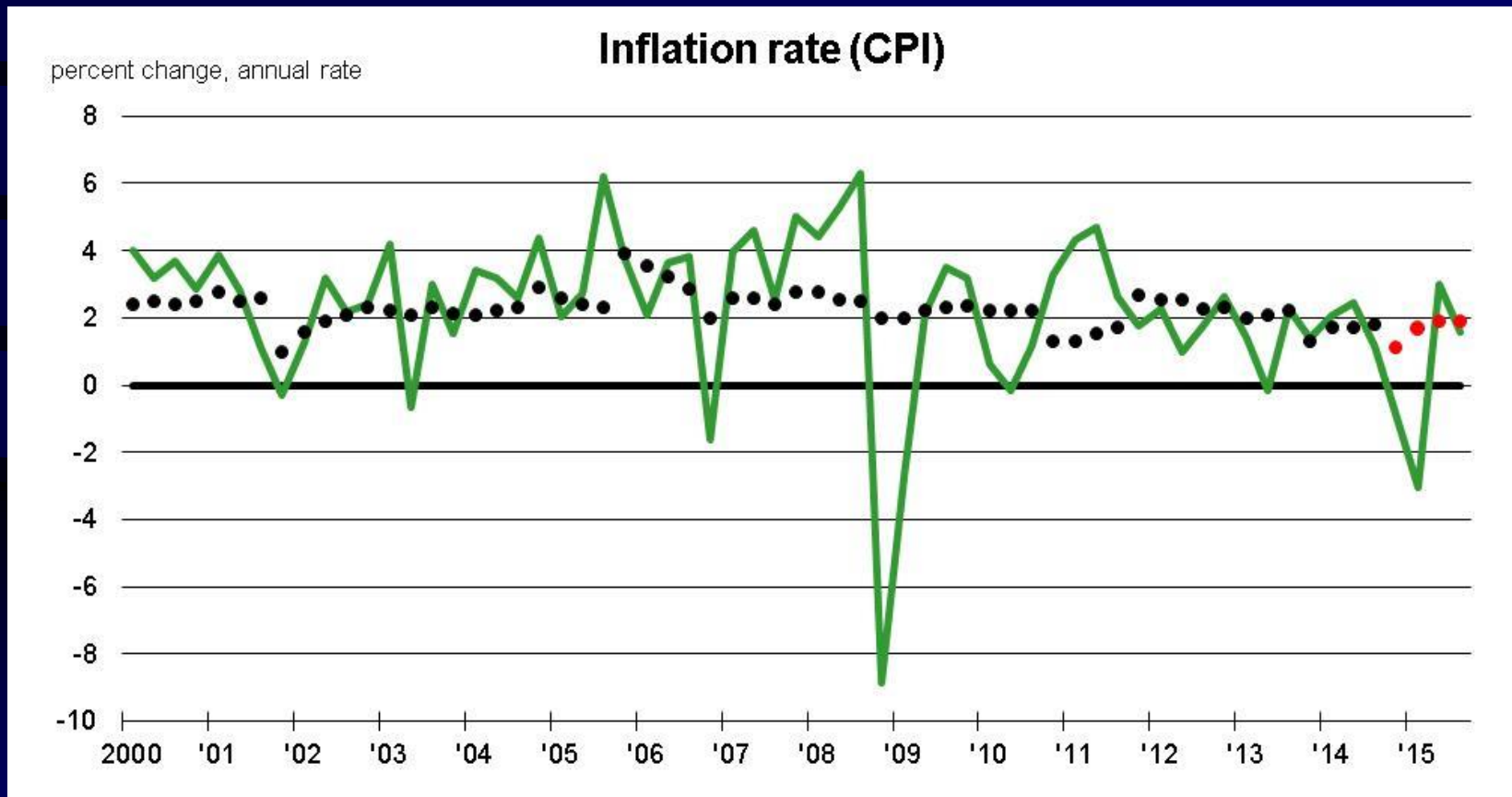
Although more volatile, the growth in real GDP was close to the forecast



Oil prices were expected to increase during 2015, but instead collapsed below \$60 early this year



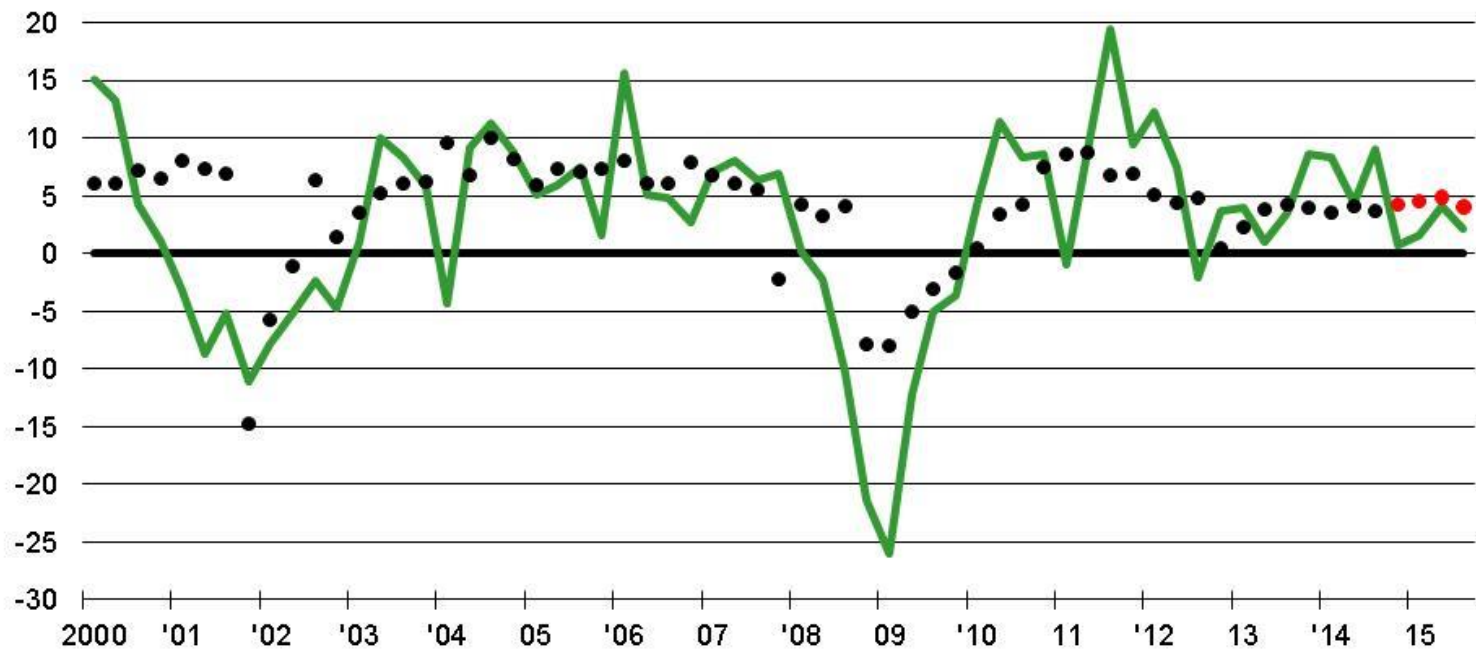
This led to a big miss on inflation early in the forecast



In part the cuts in the energy sector led to a smaller increase in business fixed investment than predicted

Business fixed investment

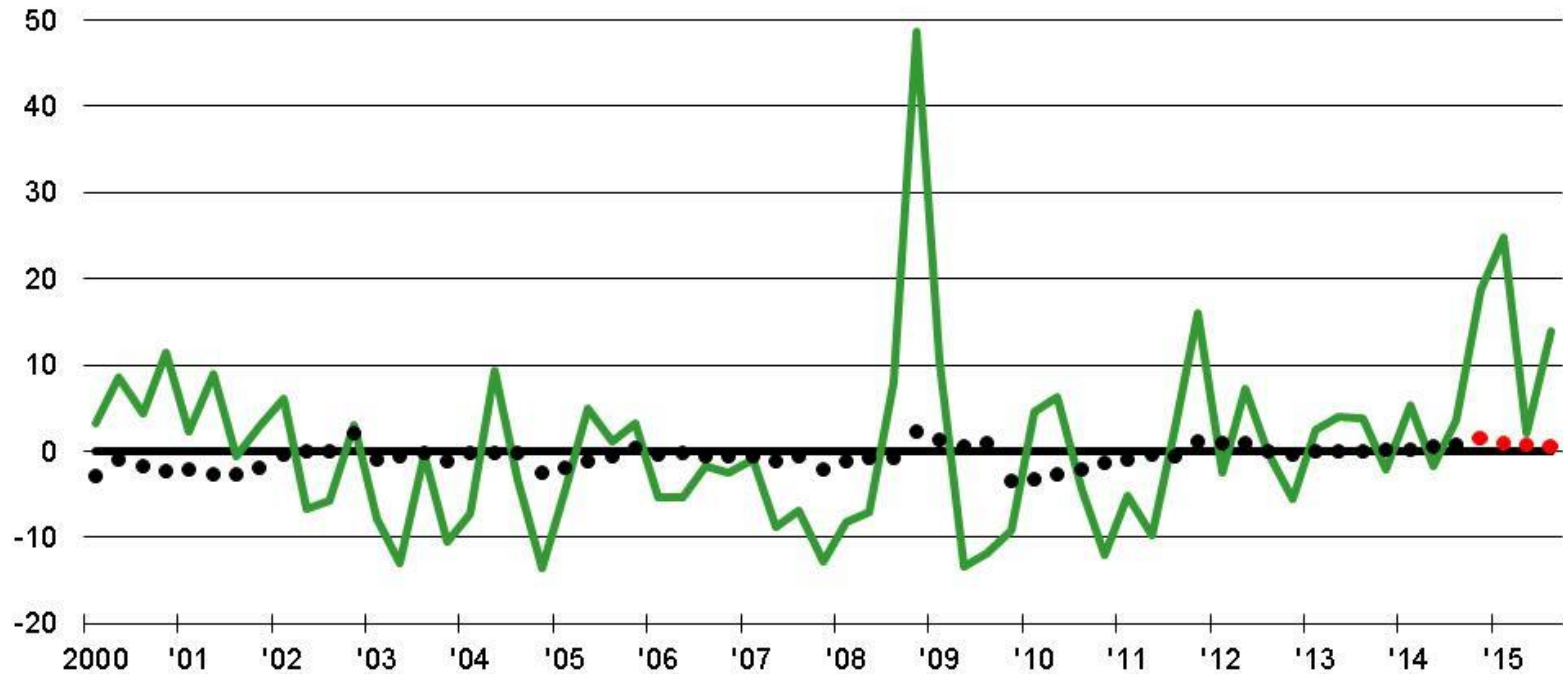
percent change, annual rate



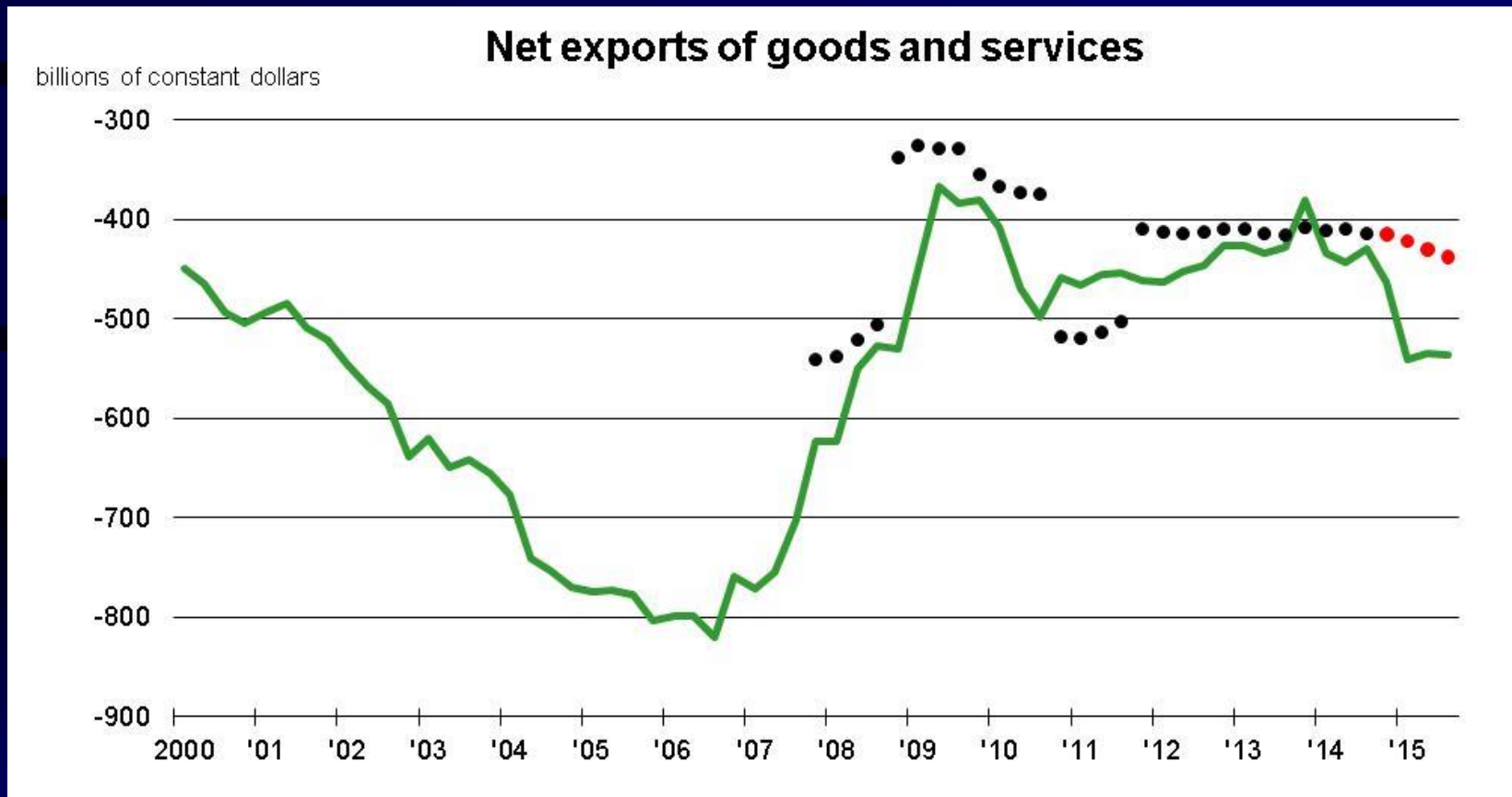
**The dollar was predicted to edge higher,
but it surged over the past year**

J.P. Morgan trade weighted dollar

percent change, annual rate



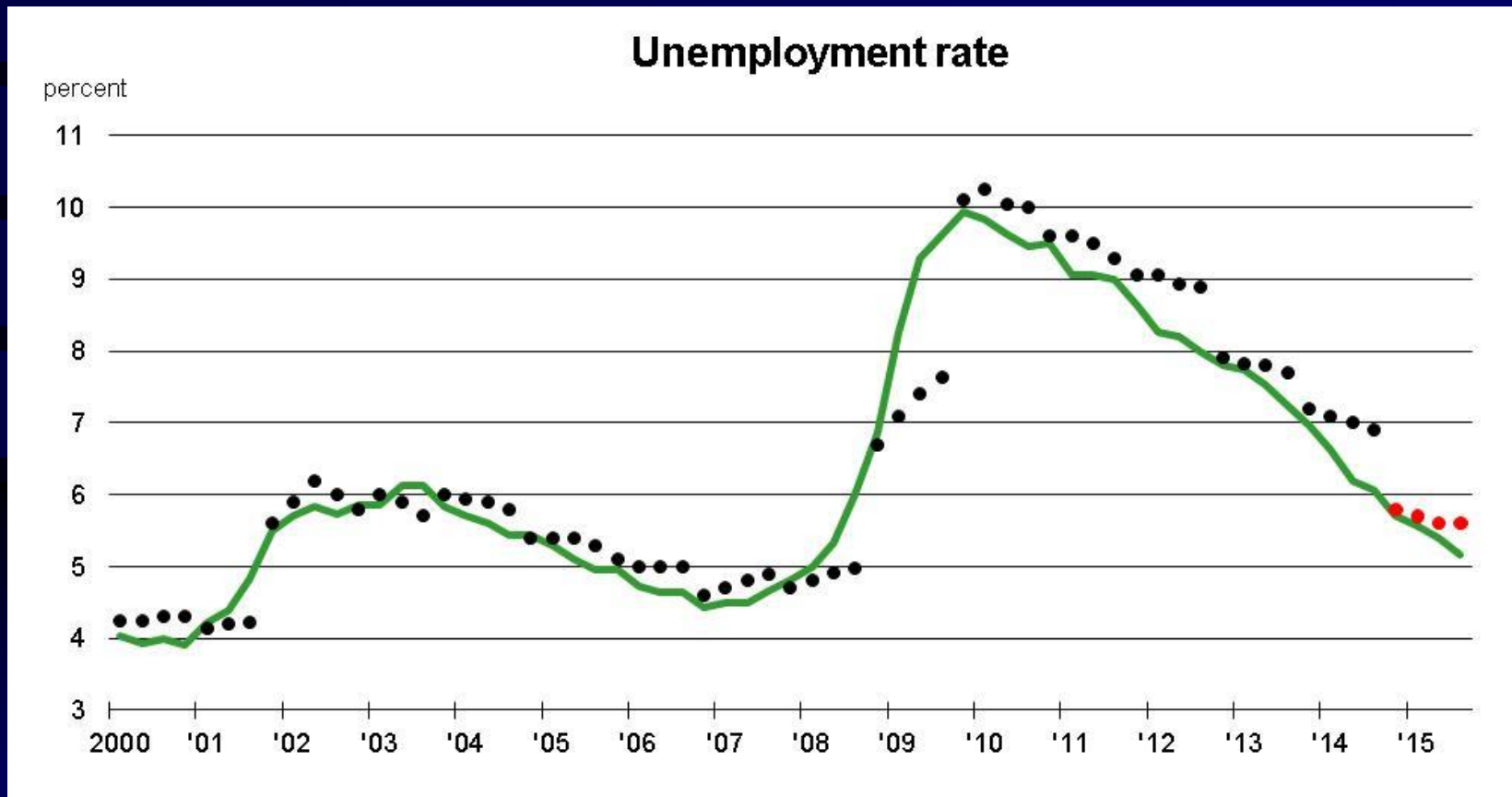
This led to a balance of trade deficit that was significantly larger than forecast



The strong dollar in part contributed to a weaker path for industrial production growth than was forecast



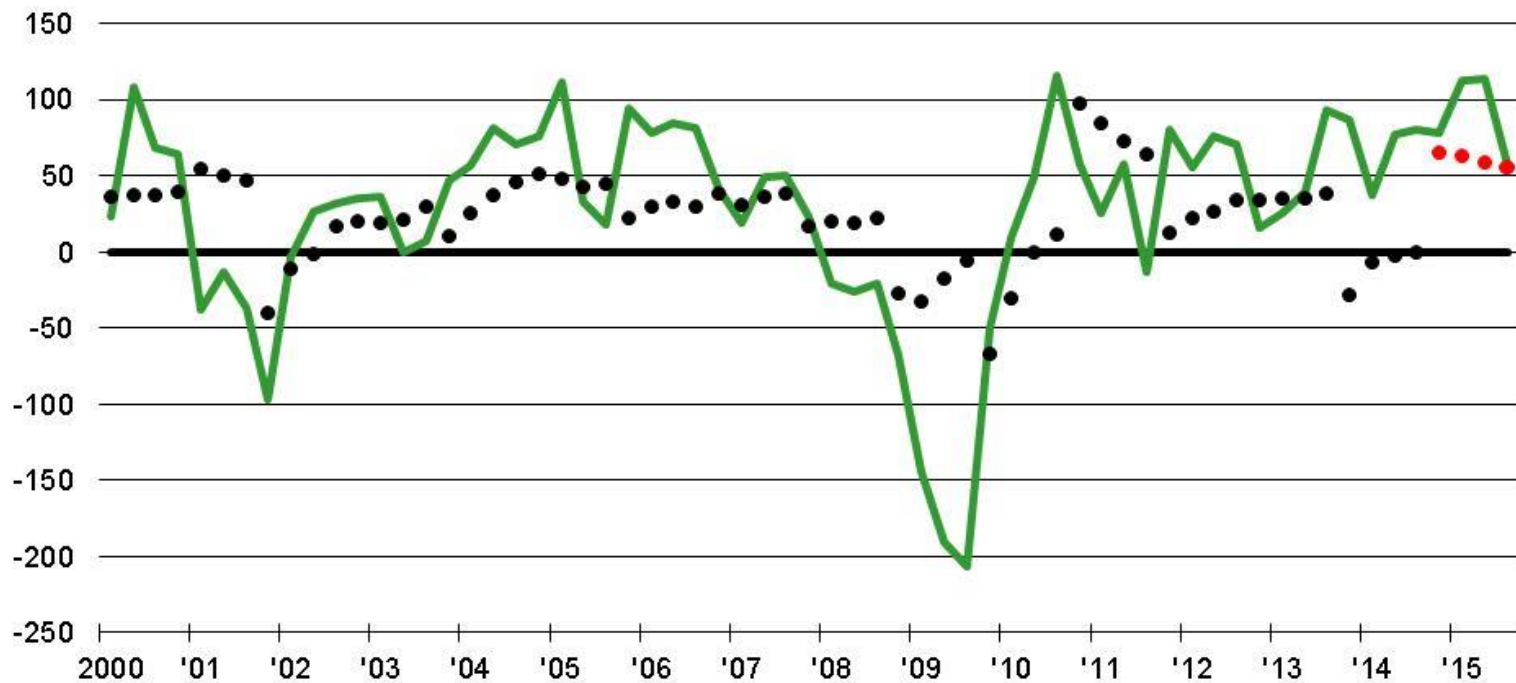
Once again, the unemployment rate fell at a slightly faster pace than predicted



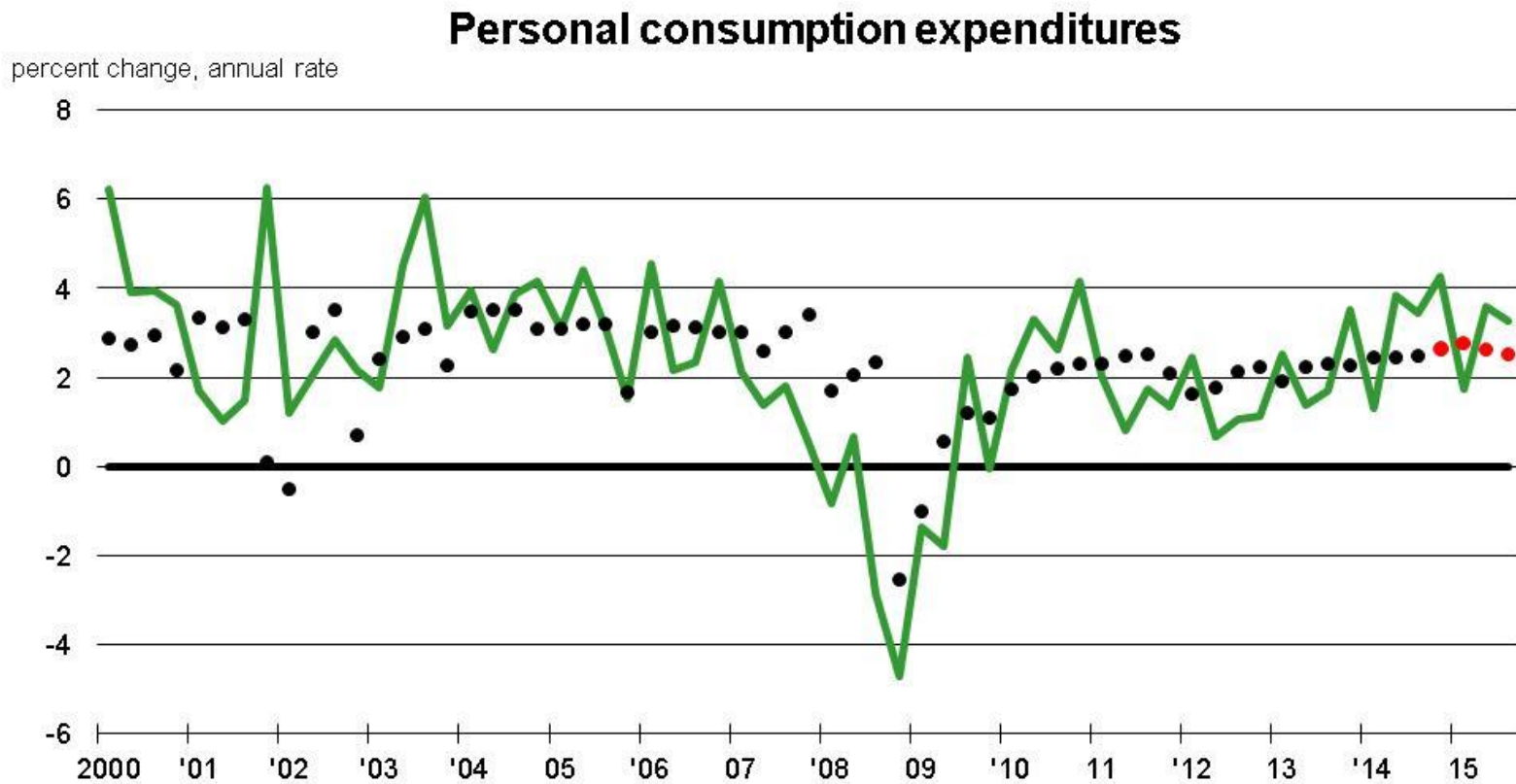
Inventories built up at a faster rate than anticipated

Change in private inventories

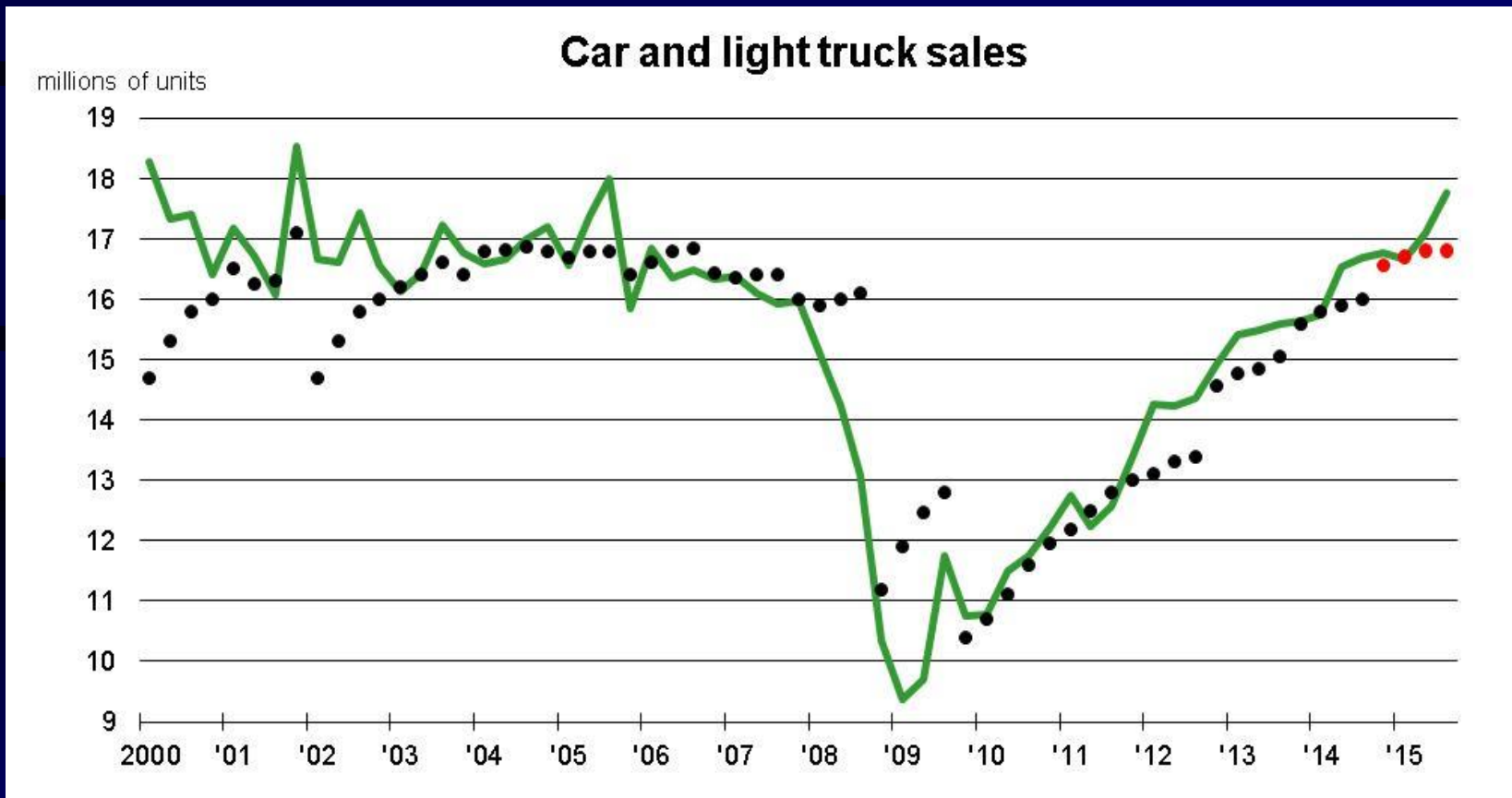
billions of constant dollars



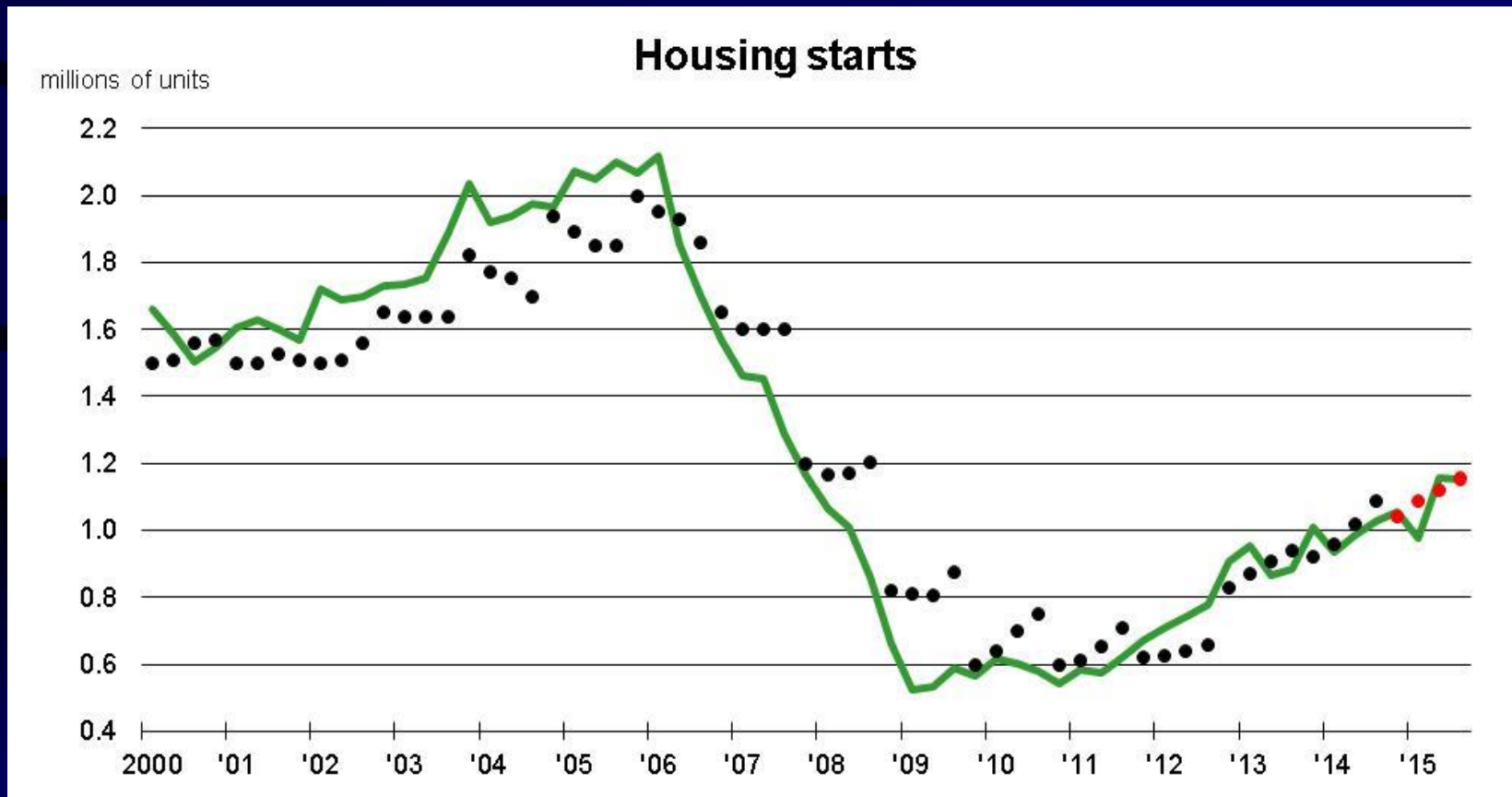
Consumer spending was a bit stronger than what was expected



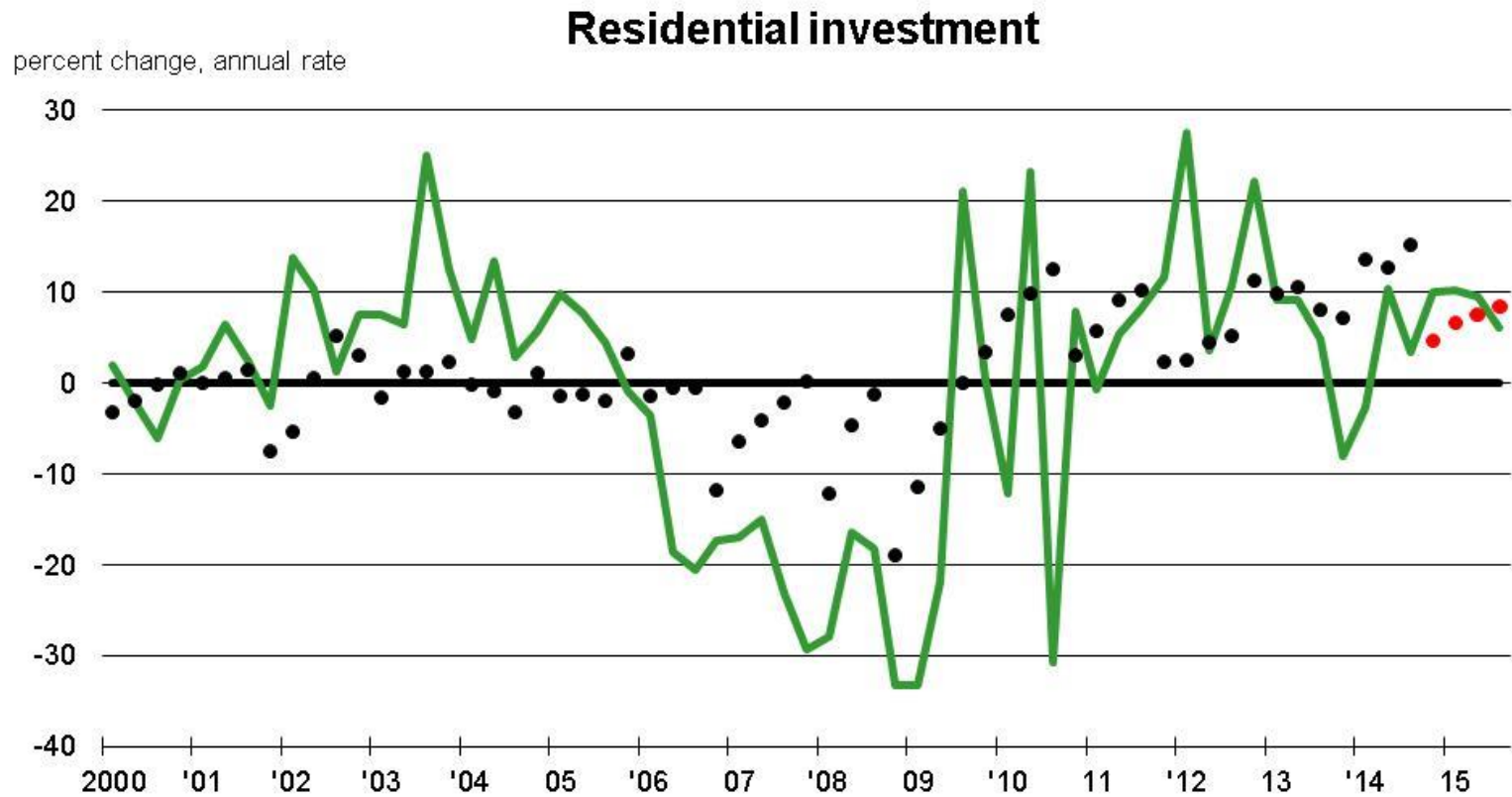
Light vehicle sales accounts for a good deal of this, as sales were once again stronger than predicted



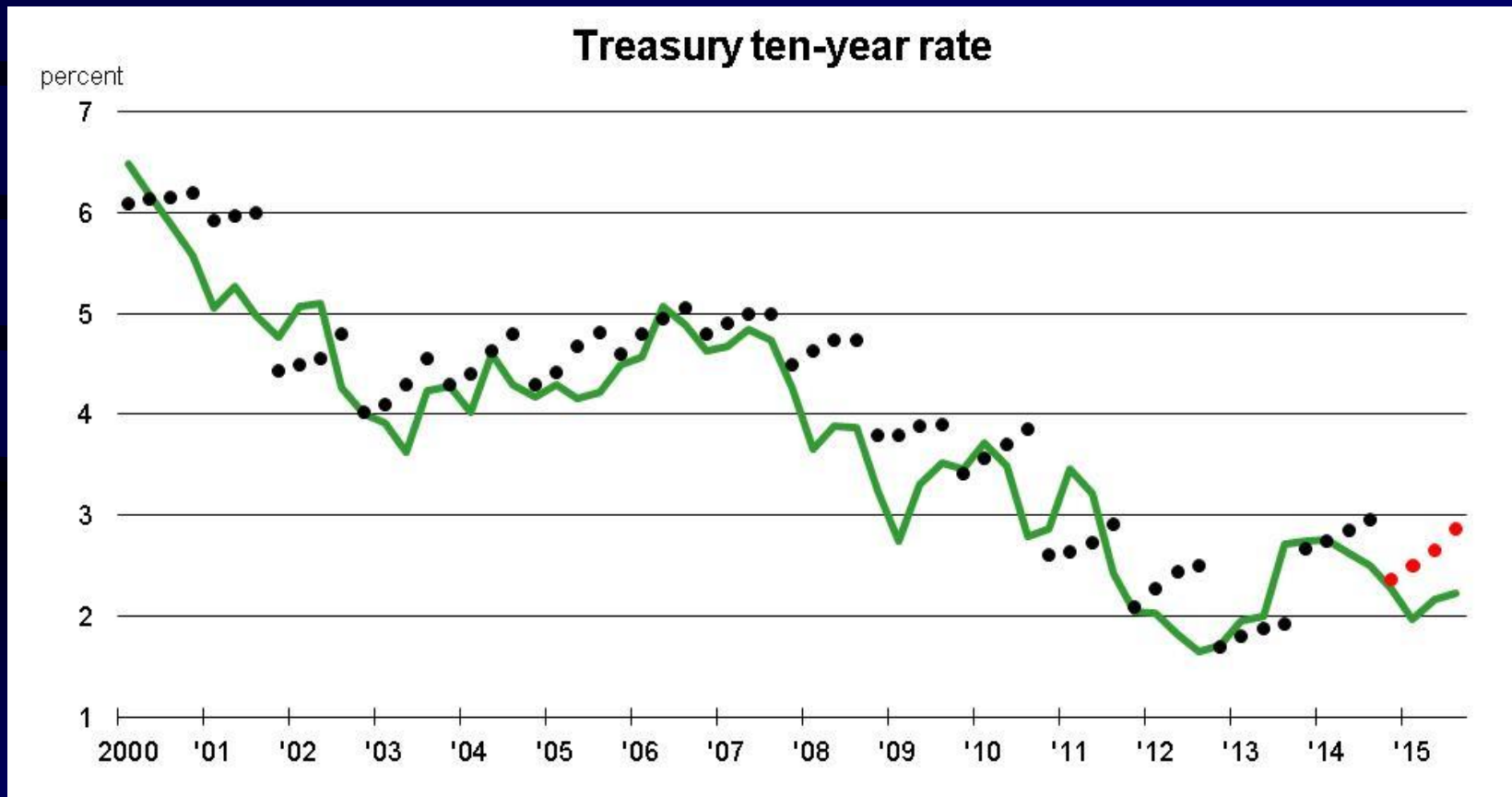
Housing starts were fairly accurately forecast



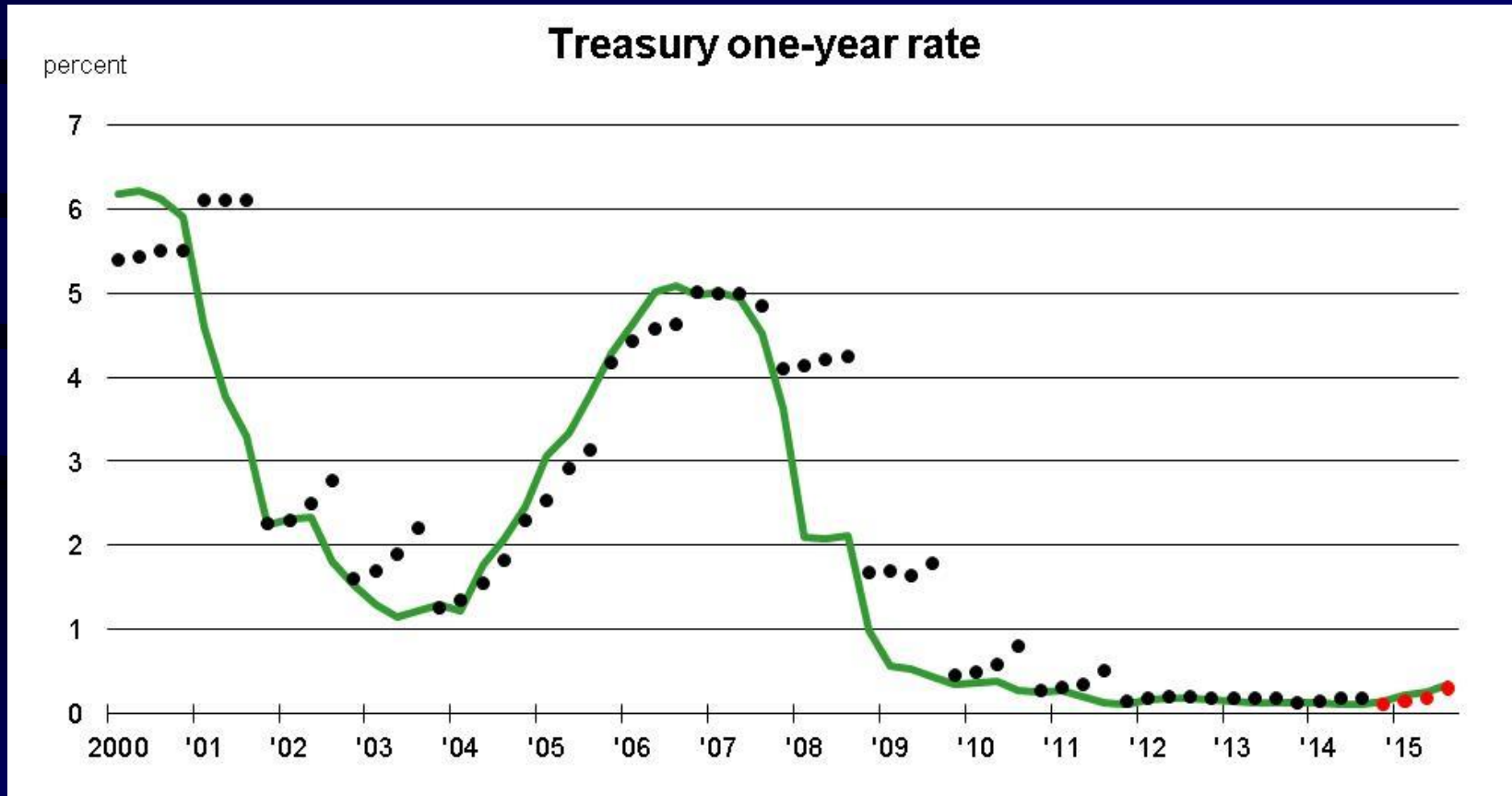
Residential investment increased at a faster pace than anticipated



Perhaps in part by a lower actual path for the ten-year interest rate than was expected

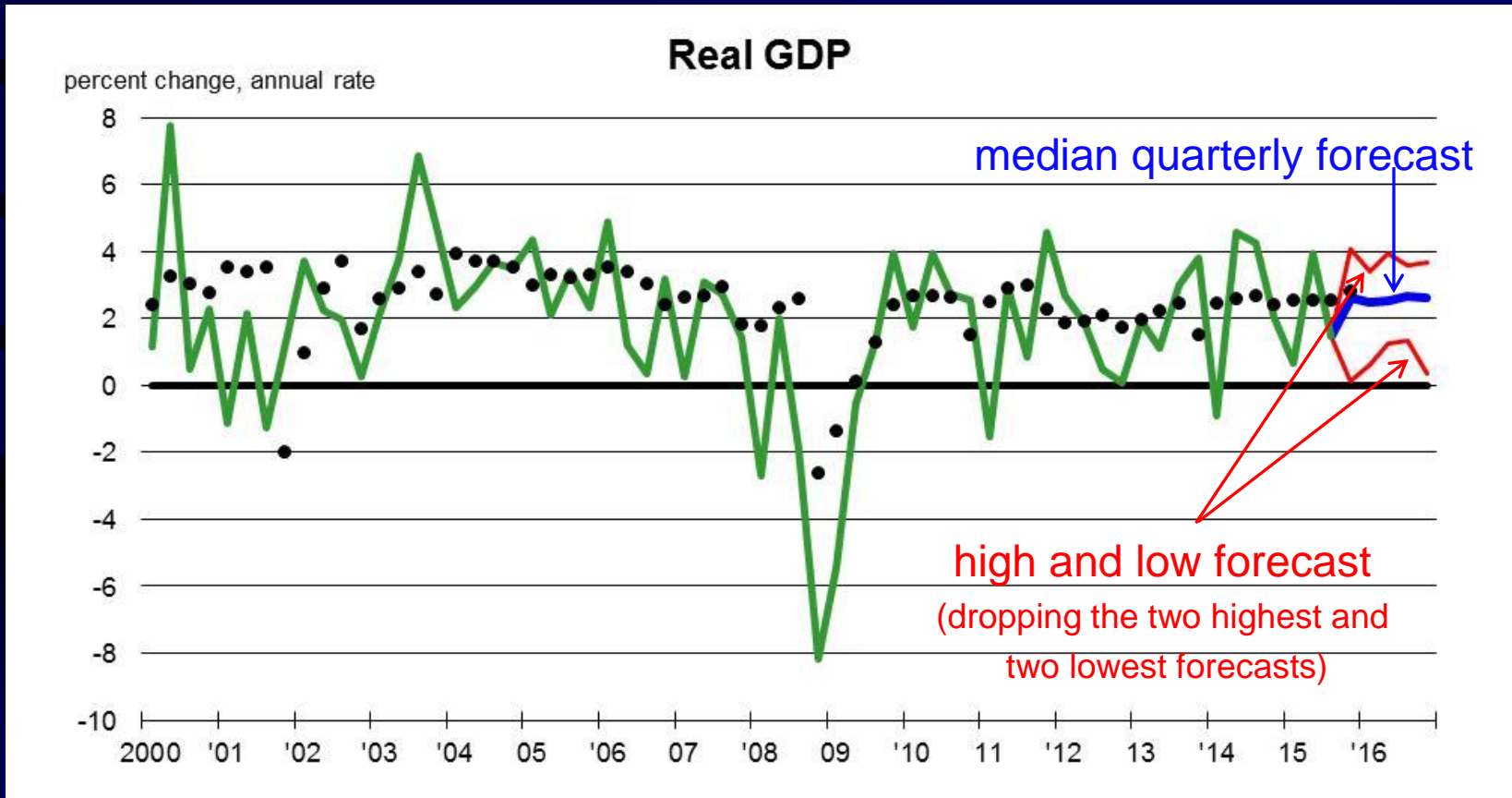


Short-term interest rates were accurately forecast to remain low



Forecast for 2016

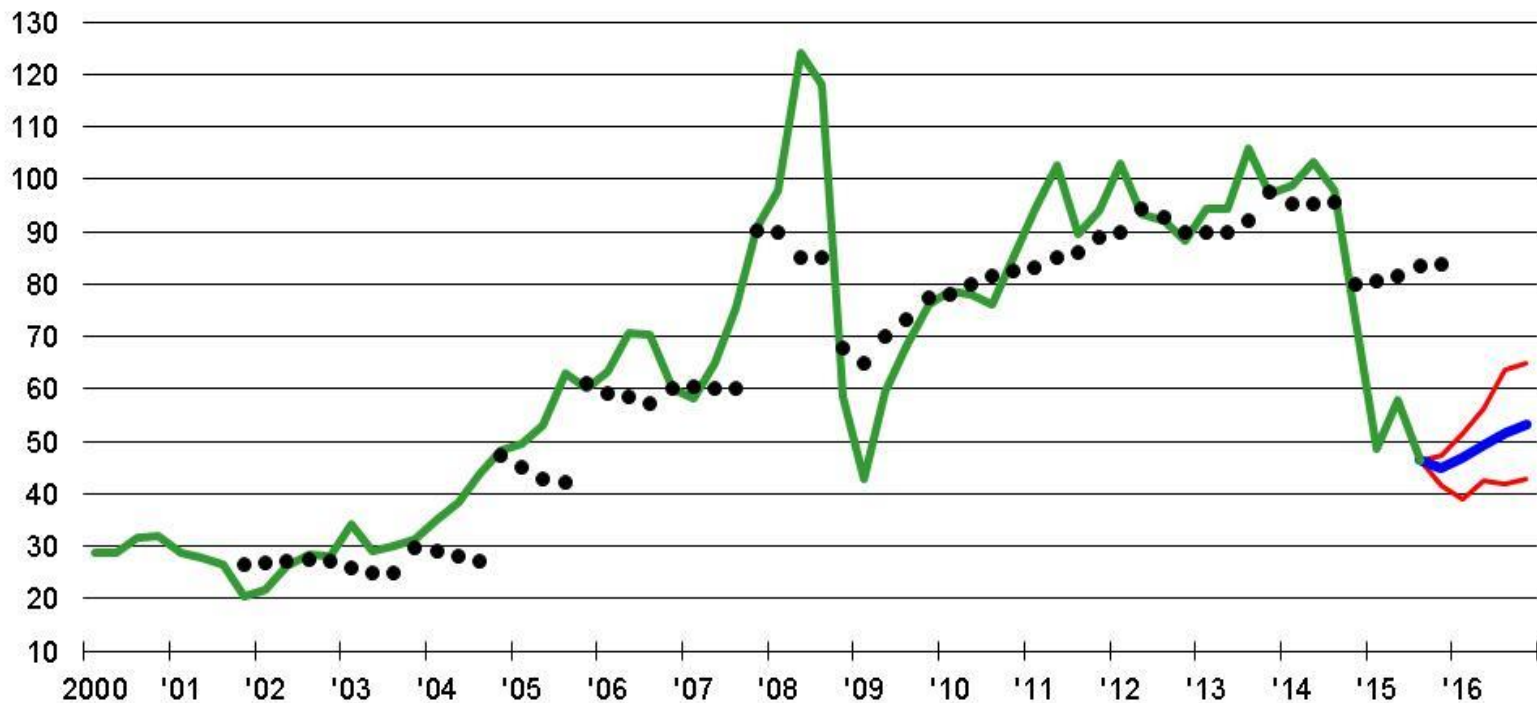
Real GDP growth is expected to increase by 2.6% next year



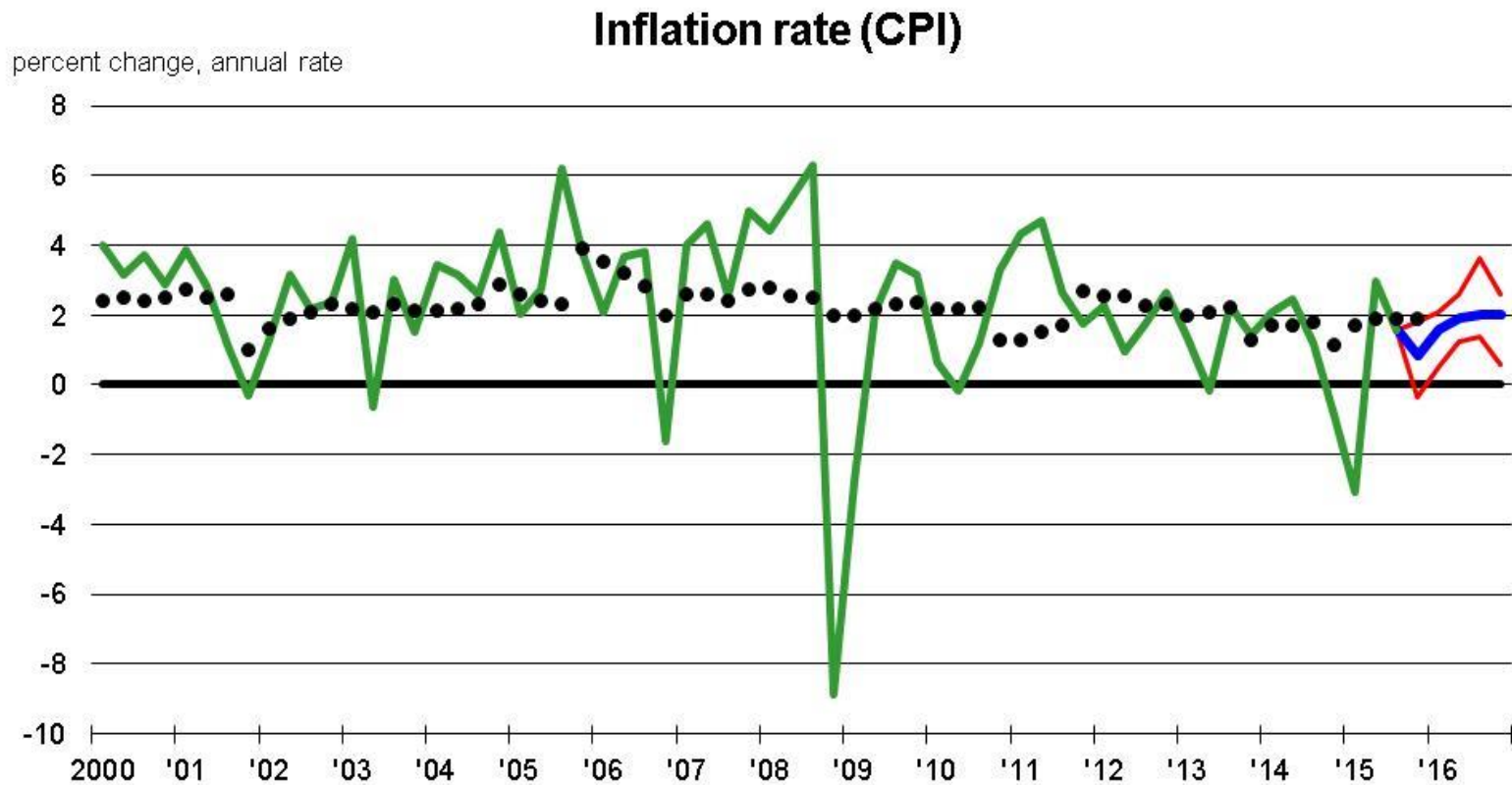
Oil prices are predicted to remain low, averaging \$53.25 per barrel by the end of 2016

Oil prices - West Texas Intermediate

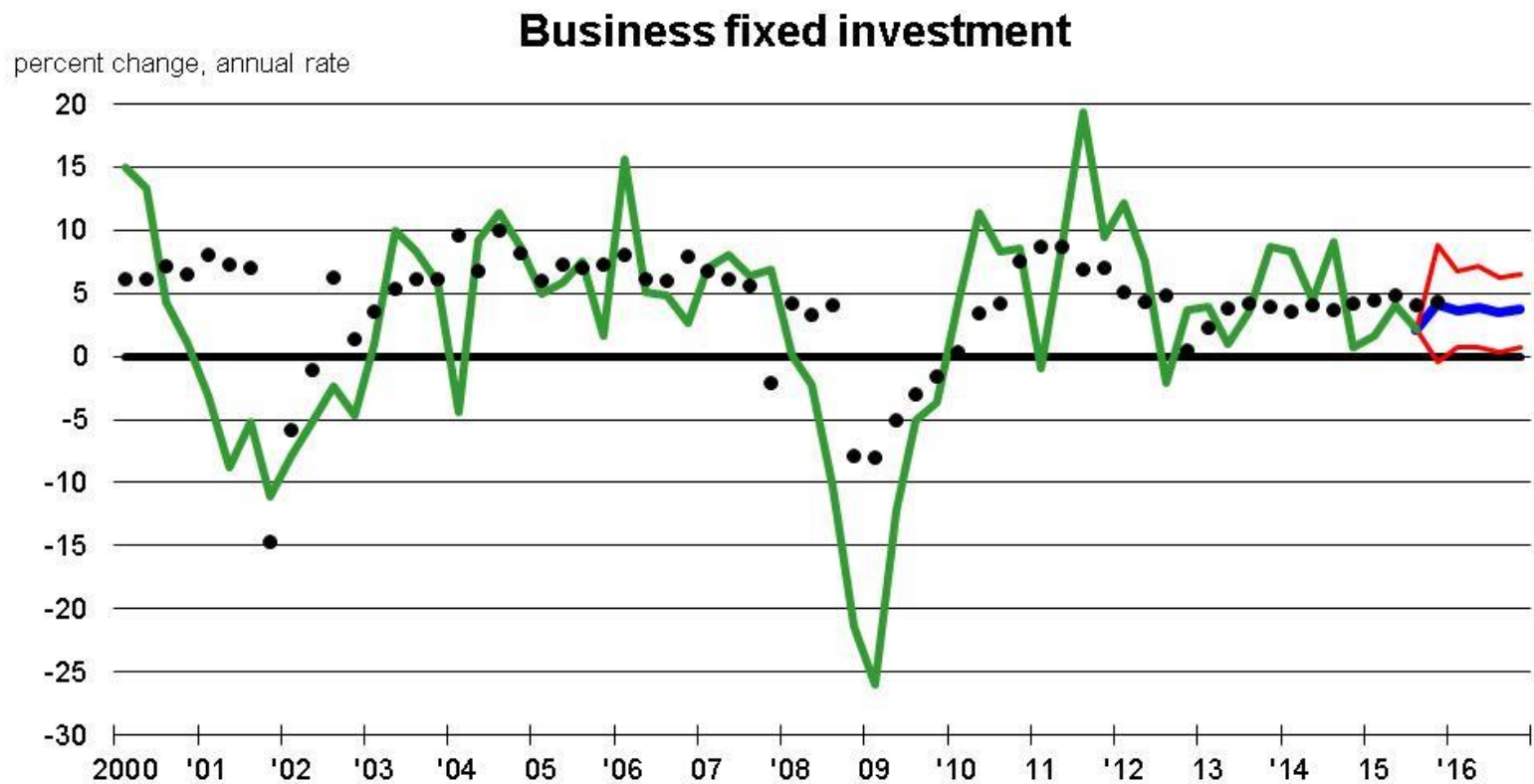
Dollars per barrel



Inflation is forecast to rise 1.9% next year



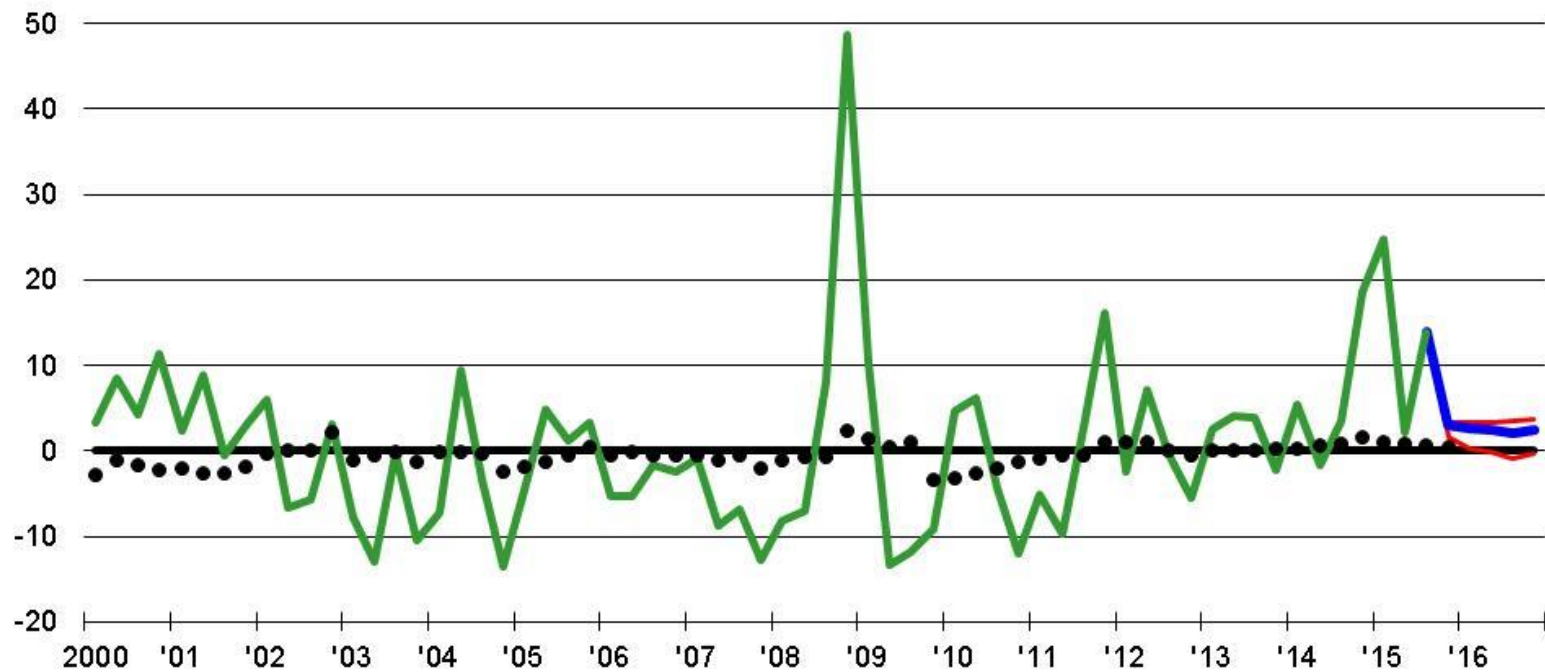
Business fixed investment growth is forecast to increase to 3.5% over the coming year



The dollar is forecast to increase a further 2.5% in 2016

J.P. Morgan trade weighted dollar

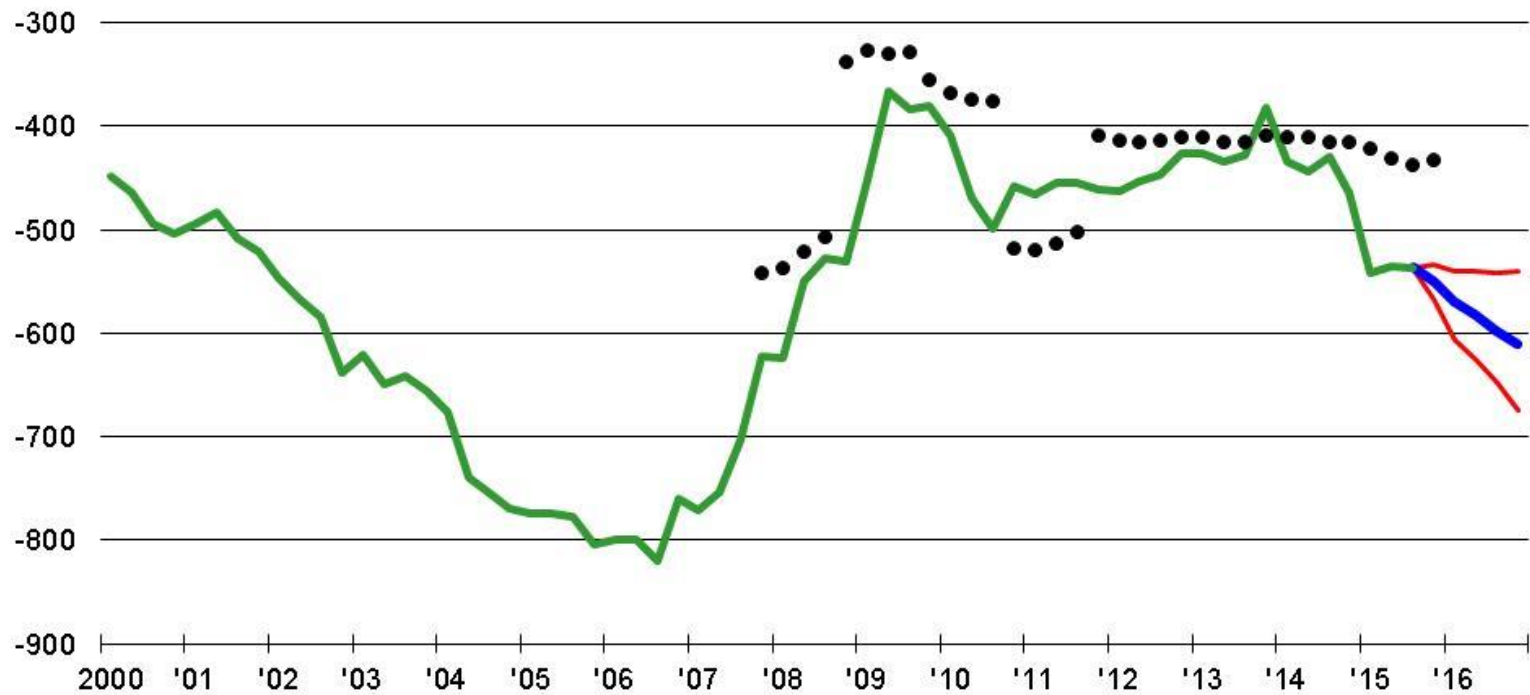
percent change, annual rate



The trade deficit is anticipated to continue to increase

Net exports of goods and services

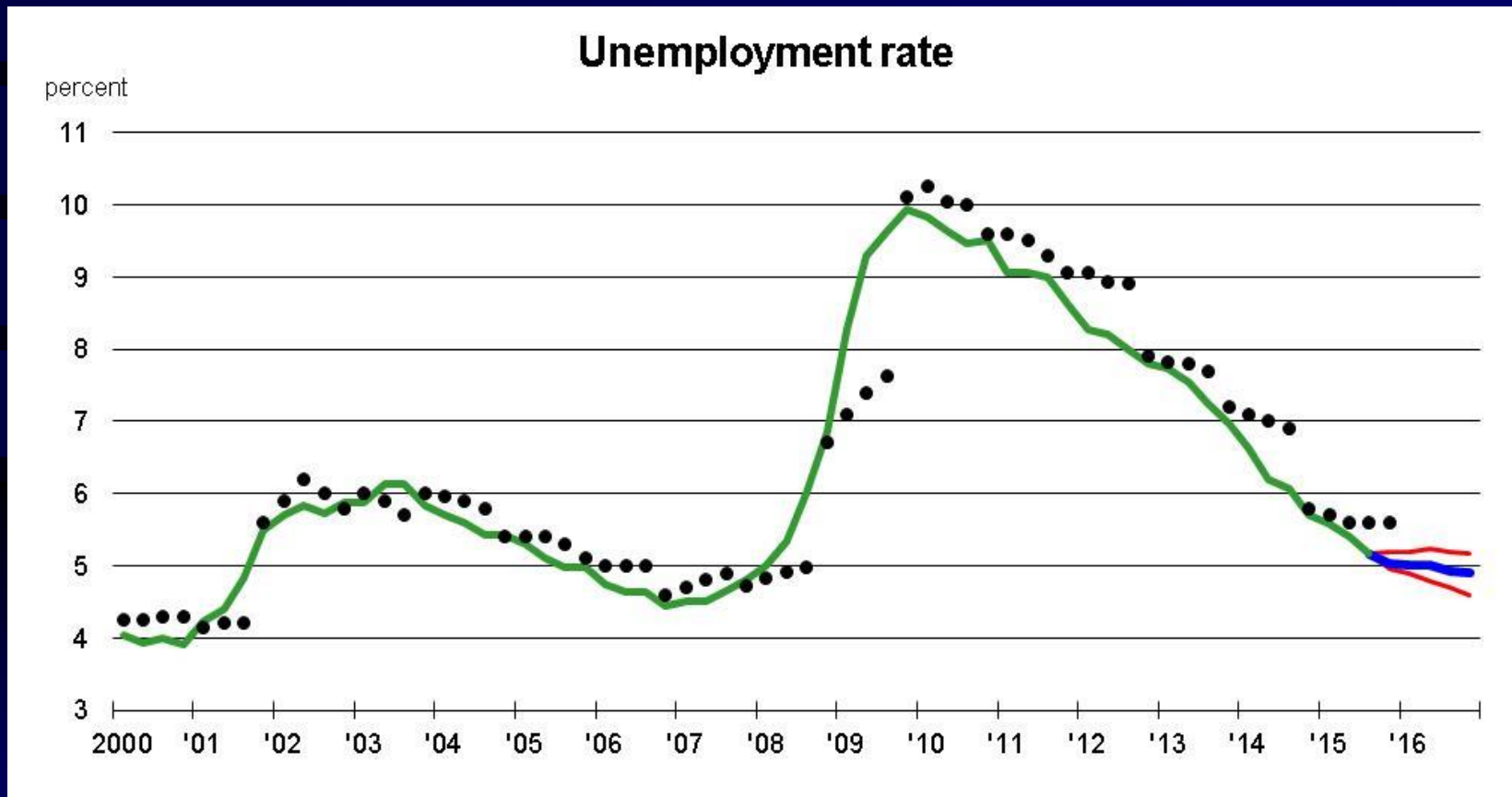
billions of constant dollars



Industrial output is forecast to increase at a moderate 2.0% next year



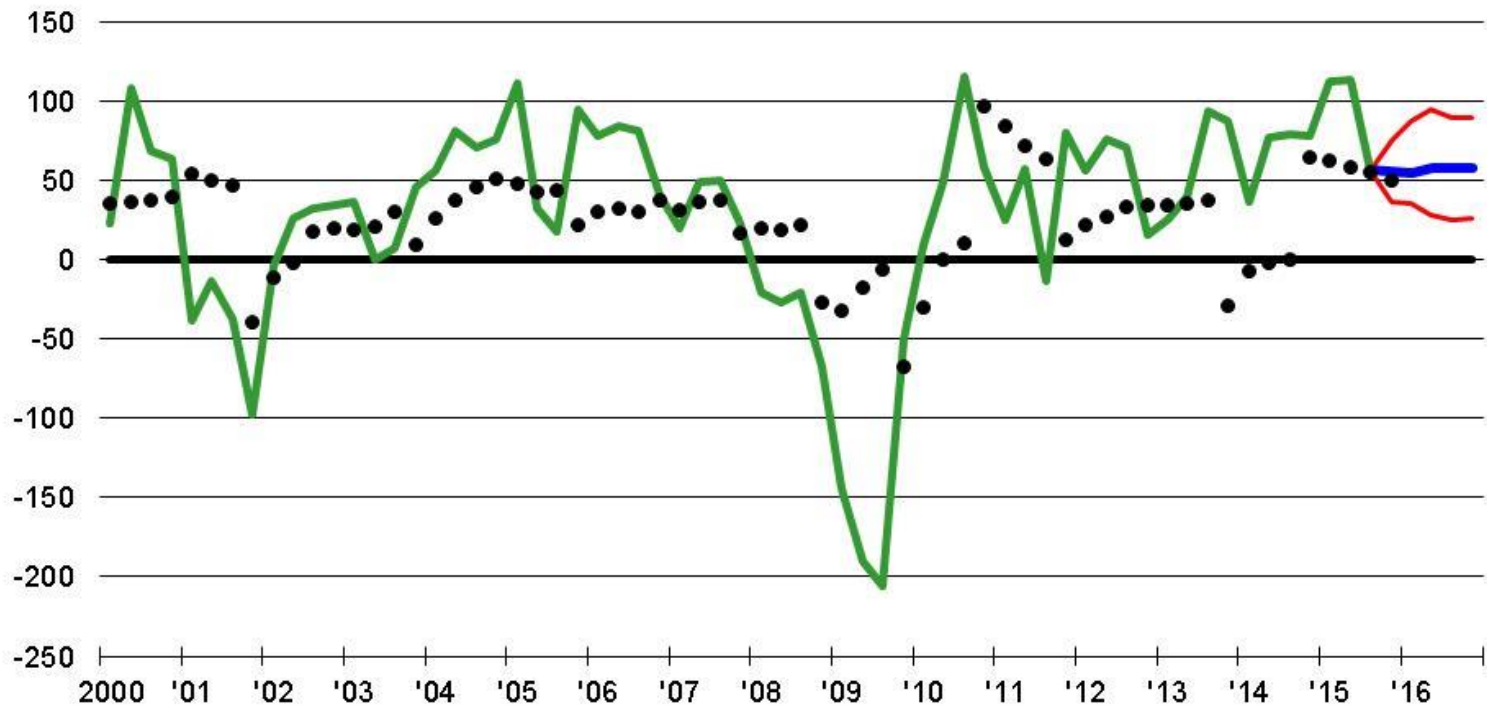
The unemployment rate is projected to edge lower, reaching 4.9% in the final quarter of next year



Inventories are anticipated to continue to rise, but at a slower pace in 2016

Change in private inventories

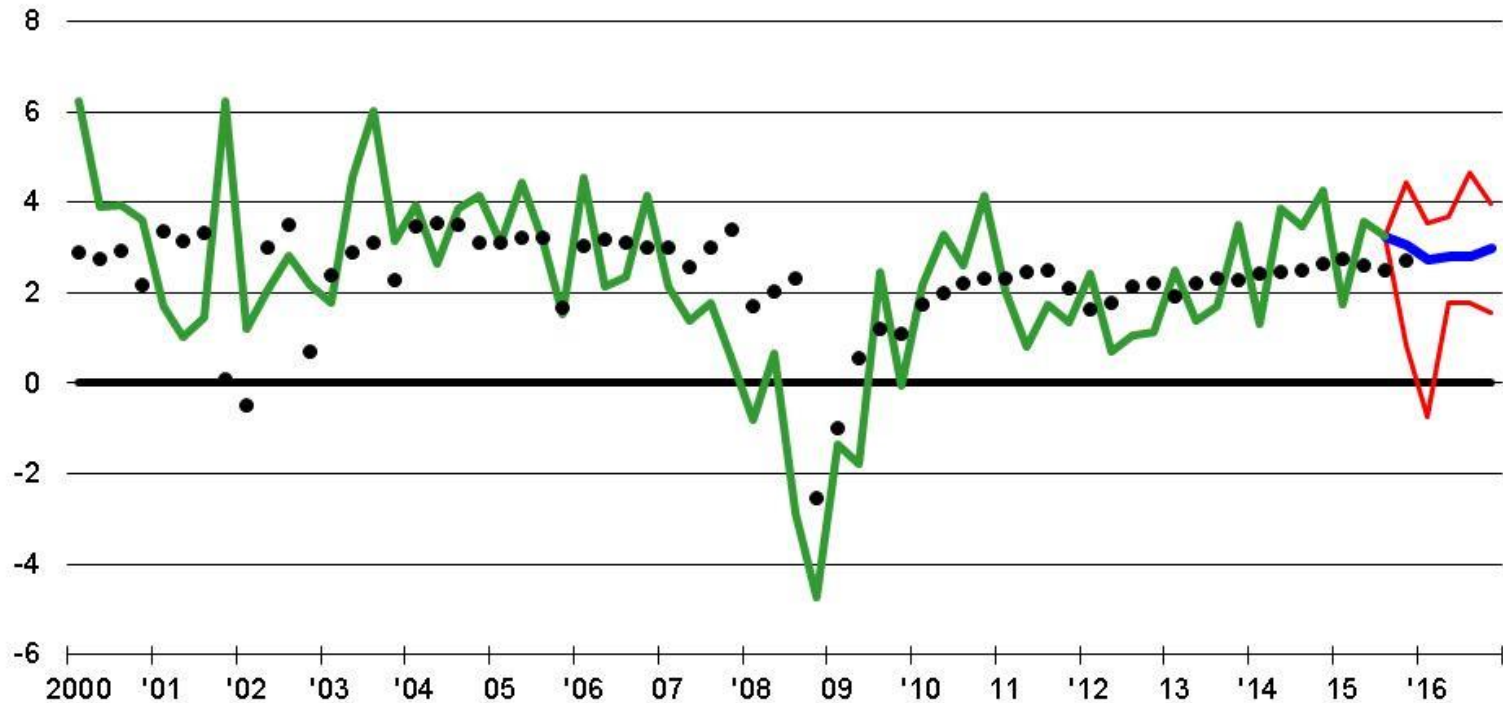
billions of constant dollars



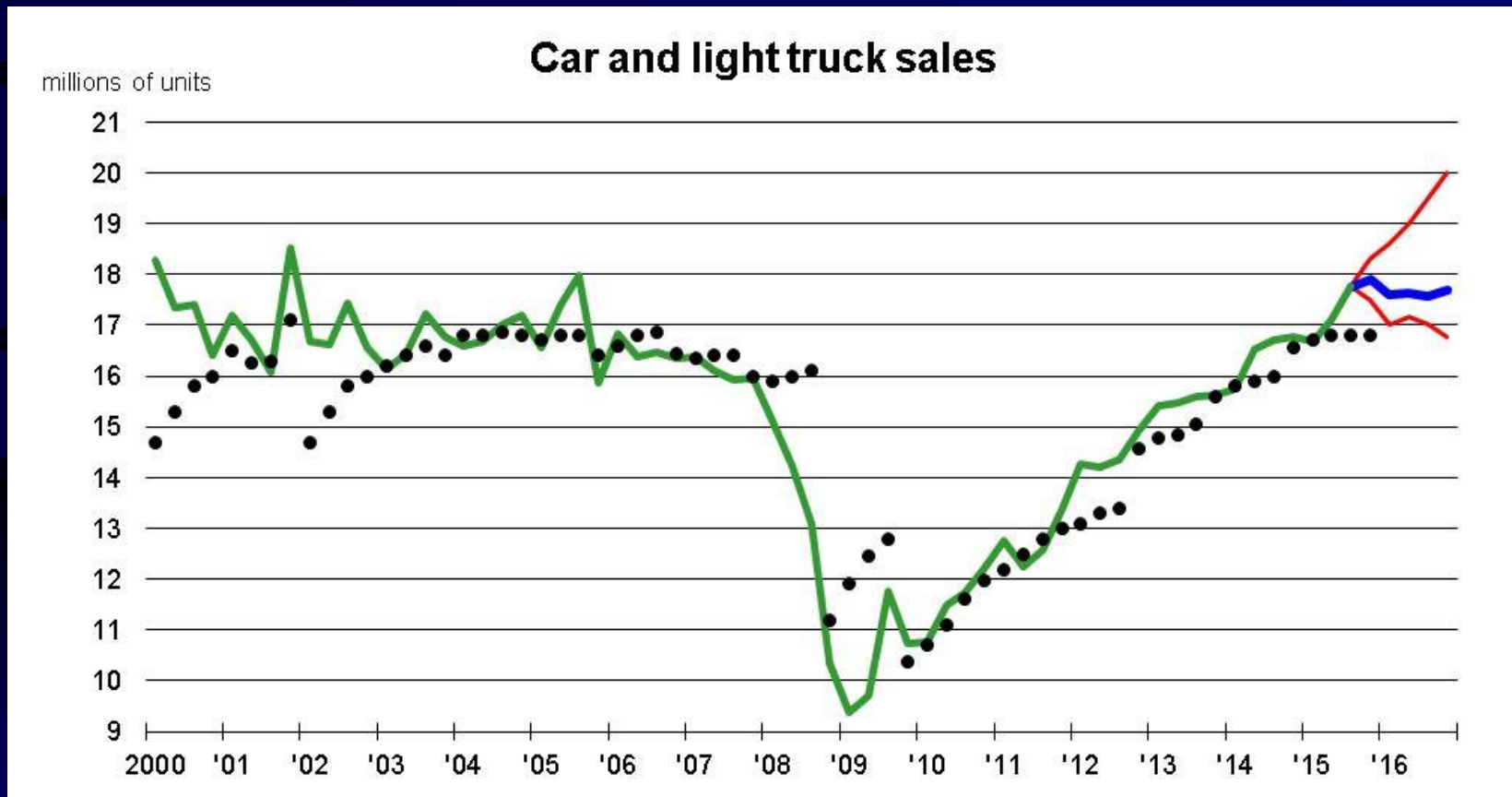
Consumer spending growth is expected to edge down to 2.7% next year

Personal consumption expenditures

percent change, annual rate



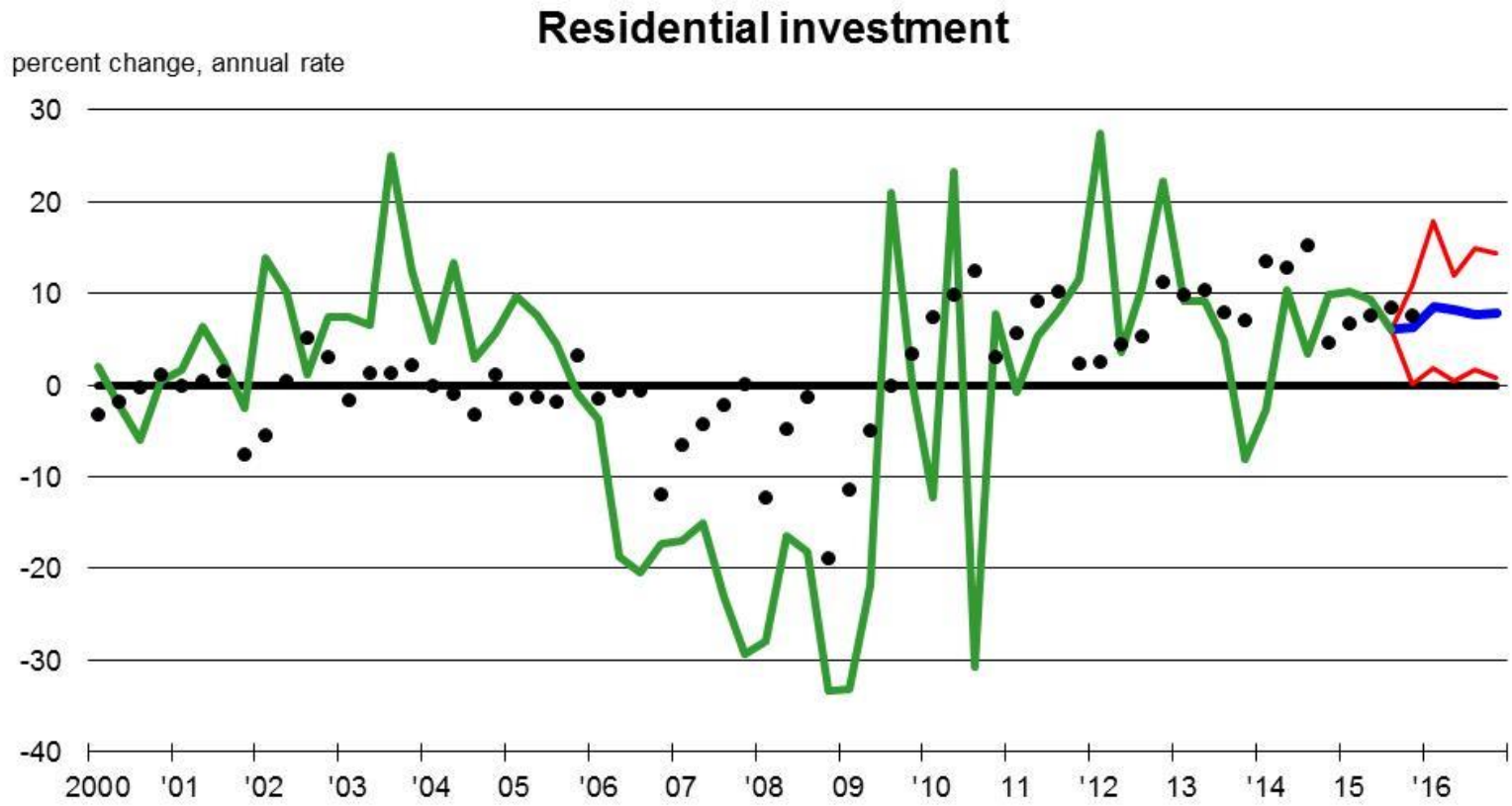
Vehicle sales are forecast to increase to 17.6 million units in 2016, a 1.3% increase



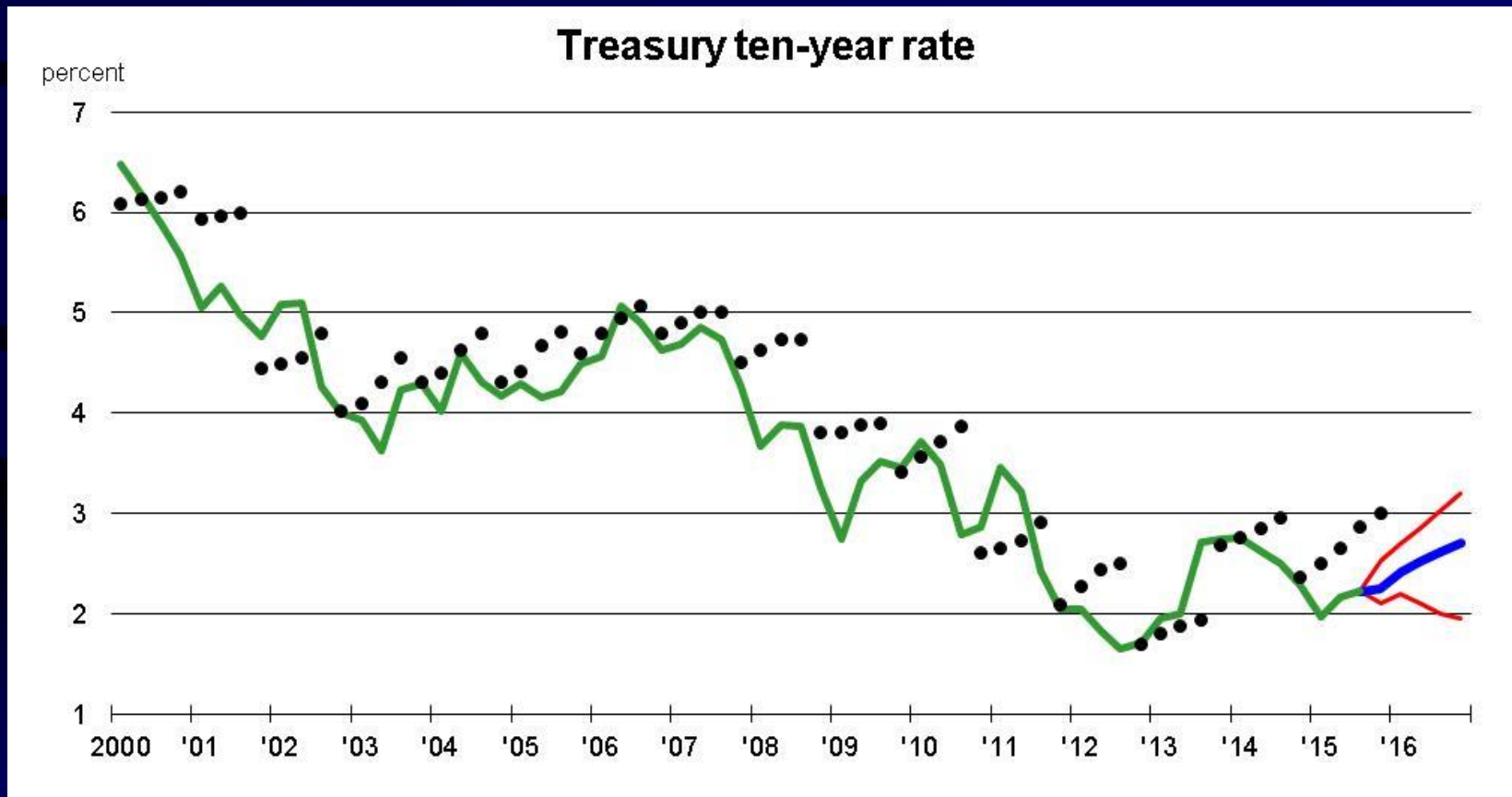
Housing starts are forecast to continue increasing, rising to 1,244,000 starts in 2016



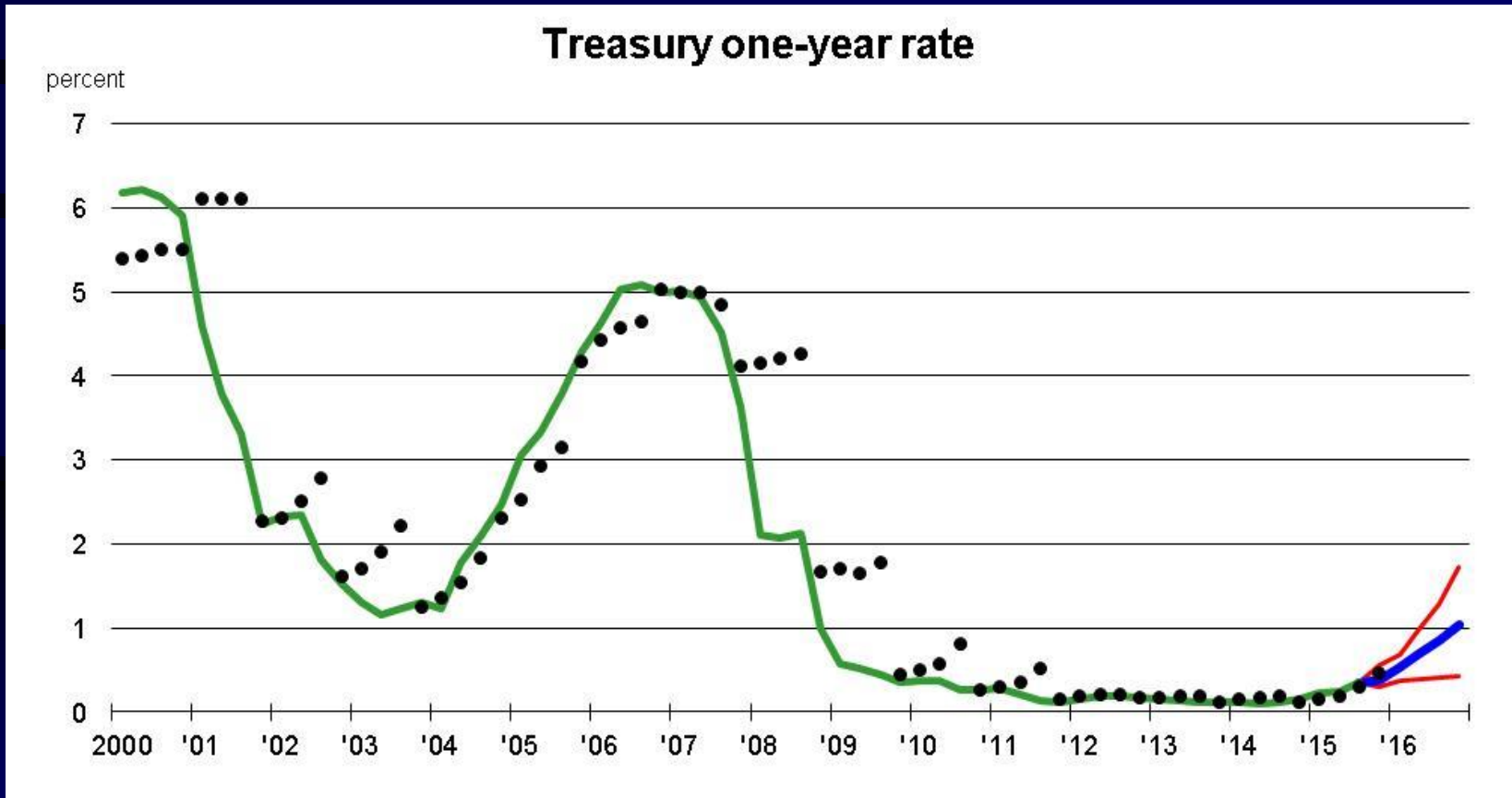
Residential investment is expected to rise by a strong 7.7% in 2016



Ten-year interest rates are expected to increase by 45 basis points next year



Short-term interest rates are predicted to increase by 65 basis points next year



Median forecast of GDP and related items (page 1 in the Consensus Forecast book)

	2014	2015	2016
GDP, current dollars*	3.9%	3.3%	4.3%
GDP price index, chain-type*	1.3%	1.2%	1.8%
Real GDP, chained dollars*	2.5%	2.2%	2.6%
Personal consumption expenditures*	3.2%	2.9%	2.7%
Business fixed investment*	5.5%	3.0%	3.5%
Residential investment*	5.1%	8.0%	7.7%
Change in private inventories (billions of constant dollars)**	\$78.2	\$56.0	\$58.1
Net exports of goods and services (billions of constant dollars)**	-\$463.6	-\$550.0	-\$610.2
Government consumption expenditures and gross investment*	0.4%	1.3%	1.4%

* Q4 over Q4

** Q4 value

Median forecast of GDP and related items (page 1 in the Consensus Forecast book)

	2014	2015	2016
Industrial production*	4.4%	0.0%	2.0%
Car & light truck sales (millions - calendar year including imports)	16.4	17.4	17.6
Housing starts (millions)	1.00	1.13	1.24
Oil price (dollars per barrel of West Texas Intermediate)**	\$73.16	\$45.00	\$53.25
Unemployment rate**	5.7%	5.0%	4.9%
Inflation rate (consumer price index)*	1.2%	0.4%	1.9%
Treasury constant maturity one-year rate**	0.15%	0.39%	1.04%
Treasury constant maturity ten-year rate**	2.28%	2.25%	2.70%
J.P. Morgan trade weighted OECD dollar*	6.2%	10.6%	2.5%

* Q4 over Q4

** Q4 value

Summary

- **The economy is forecast to rise at a pace slightly above trend in 2016**
- **The unemployment rate is expected to edge lower next year**
- **Inflation is anticipated to increase close to two percent next year**
- **Manufacturing growth is expected to improve at a pace below trend**
- **Light vehicle sales are forecast to rise to 17.6 million units**
- **Housing starts are predicted to increase to 1,244,000 units**
- **www.chicagofed.org**