Consensus Outlook – 2019 and 2020

Twenty-sixth Annual Automotive Outlook Symposium

May 31, 2019

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The views expressed herein are those of the author and do not necessarily represent the views of the Federal Reserve System or the Federal Reserve Bank of Chicago.
Review of Past Performance
Real GDP growth was in line with the forecast

Real GDP
(percent change, annualized)

Actual Data

Forecasts:
AOS 2018

Previous AOS Forecasts

-10 -8 -6 -4 -2 0 2 4 6 8

2000 '02 '04 '06 '08 '10 '12 '14 '16 '18
Oil prices were expected to ease off in early 2019 but they fell more sharply beginning in the fourth quarter of 2018.
This in part explains why inflation rose at a slower pace than forecast.
Business fixed investment was close to what was expected.
Inventories contribution to growth was more volatile than predicted with larger increases beginning in Q3 2018.

Change in Private Inventories
(billions of constant dollars)
The trade weighted value of the dollar was expected to tick higher, but it rose at a significant pace.
However, the trade deficit continued to deteriorate.

Net Exports of Goods and Services
(billions of constant dollars)

-1,000 -900 -800 -700 -600 -500 -400 -300

2000 '02 '04 '06 '08 '10 '12 '14 '16 '18
Industrial production improved at a pace close to what was expected

Industrial Production
(Percent change, annualized)
The unemployment rate was very accurately forecast.
Consumer spending was close to what was predicted

Personal Consumption Expenditures
(percent change, annualized)
Light vehicle sales were just a bit higher than what was anticipated.

Car and Light Truck Sales
(millions of units)
Housing starts were expected to continue its slow gains but activity fell

Housing Starts
(millions of units)
The same pattern can be seen in the declines in residential investment compared with the forecast
The shortfall in housing occurred even with longer-term rates coming in lower than what was predicted.
Short-term interest rates were fairly accurately forecast.
Forecast for 2019 and 2020
Real GDP growth is expected to be just above trend in 2019 and then moderate to around trend in 2020.

*Excludes the two highest and two lowest forecasts*
Oil prices are anticipated to increase this year and move lower next year.

Oil Prices - West Texas Intermediate
(dollars per barrel)
Inflation is expected to increase in the current quarter and average just below 2% through 2020.
Business fixed investment is anticipated to rise at a solid although slowing pace.
The change in business inventories are forecast to fall this year and then remain relatively flat in 2020.
The trade weighted dollar is predicted to edge higher

J.P. Morgan Trade Weighted Dollar
( percent change, annualized)
And the trade deficit is expected to continue increasing

Net Exports of Goods and Services
(billions of constant dollars)
Industrial output is forecast to rise at a slow pace through the end of next year.
The unemployment rate is predicted to remain flat at a very low rate.
Consumer spending is anticipated to increase at a solid pace.
Light vehicles sales are predicted to move lower through the end of next year.

Car and Light Truck Sales
(millions of units)
Housing starts are expected to edge higher through the end of 2020

Housing Starts
(millions of units)
Residential investment growth is predicted to turn positive and grow at a moderate pace through next year.
Ten-year interest rates are forecast to edge up to 2.85% by the end of next year.
Short-term interest rates are expected to remain flat at around 2.55% through the end of 2020.
## Median Forecasts: Consensus Book Page 1

<table>
<thead>
<tr>
<th>Metric</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP, current dollars*</td>
<td>5.2%</td>
<td>3.9%</td>
<td>3.9%</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>3.0%</td>
<td>2.3%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Real Personal Consumption Expenditures*</td>
<td>2.6%</td>
<td>2.0%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Real Business Fixed Investment*</td>
<td>7.0%</td>
<td>3.0%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Real Residential Investment*</td>
<td>-3.3%</td>
<td>0.5%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Change in Private Inventories**</td>
<td>$96.8</td>
<td>$76.9</td>
<td>$63.7</td>
</tr>
<tr>
<td>Net Exports of Goods and Services (billions of constant dollars)**</td>
<td>-$955.7</td>
<td>-$907.5</td>
<td>-$953.7</td>
</tr>
<tr>
<td>Real Government Consumption Expenditures and Gross Investment*</td>
<td>1.5%</td>
<td>2.1%</td>
<td>1.2%</td>
</tr>
</tbody>
</table>

* Q4 over Q4
** Q4 value
## Median Forecasts: Consensus Book Page 1

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Industrial Production</strong>*</td>
<td>4.0%</td>
<td>0.6%</td>
<td>0.7%</td>
</tr>
<tr>
<td><strong>Car and Light Truck Sales</strong></td>
<td>17.2</td>
<td>16.8</td>
<td>16.6</td>
</tr>
<tr>
<td>(millions – calendar year including imports)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Housing Starts (millions of units)</strong></td>
<td>1.25</td>
<td>1.21</td>
<td>1.24</td>
</tr>
<tr>
<td><strong>Oil Price (dollars per barrel of West Texas Intermediate)</strong>**</td>
<td>$58.97</td>
<td>$63.50</td>
<td>$60.00</td>
</tr>
<tr>
<td><strong>Unemployment Rate</strong>**</td>
<td>3.8%</td>
<td>3.6%</td>
<td>3.7%</td>
</tr>
<tr>
<td><strong>Consumer Price Index</strong>*</td>
<td>2.2%</td>
<td>1.6%</td>
<td>1.8%</td>
</tr>
<tr>
<td><strong>Treasury Constant Maturity One-year Rate</strong>**</td>
<td>2.67%</td>
<td>2.60%</td>
<td>2.55%</td>
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<tr>
<td><strong>Treasury Constant Maturity Ten-year Rate</strong>**</td>
<td>3.03%</td>
<td>2.75%</td>
<td>2.85%</td>
</tr>
<tr>
<td><strong>J.P. Morgan Trade Weighted OECD Dollar</strong>*</td>
<td>4.2%</td>
<td>1.5%</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

* Q4 over Q4  
** Q4 value
Summary

- The economy is forecast to rise at a solid rate in 2019 and then moderate to a pace around its long-term trend 2020.

- The unemployment rate is expected to remain very low falling this year and edging higher in 2020.

- CPI inflation is anticipated to ease to a 1.6% rate this year and then edge up to a 1.8% rate next year.

- Manufacturing growth is expected to increase at a slow pace that is well-below trend this year and in 2020.

- Light vehicles sales are forecast to decline to 16.8 million units in 2019 and 16.6 million units in 2020.

- Housing starts are predicted to move down to 1.21 million units pace this year and tick higher to 1.24 million next year.

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