

Consensus Forecast 2004 and 2005

Eleventh Annual Auto Outlook Symposium

Detroit, Michigan

June 4, 2004

William Strauss

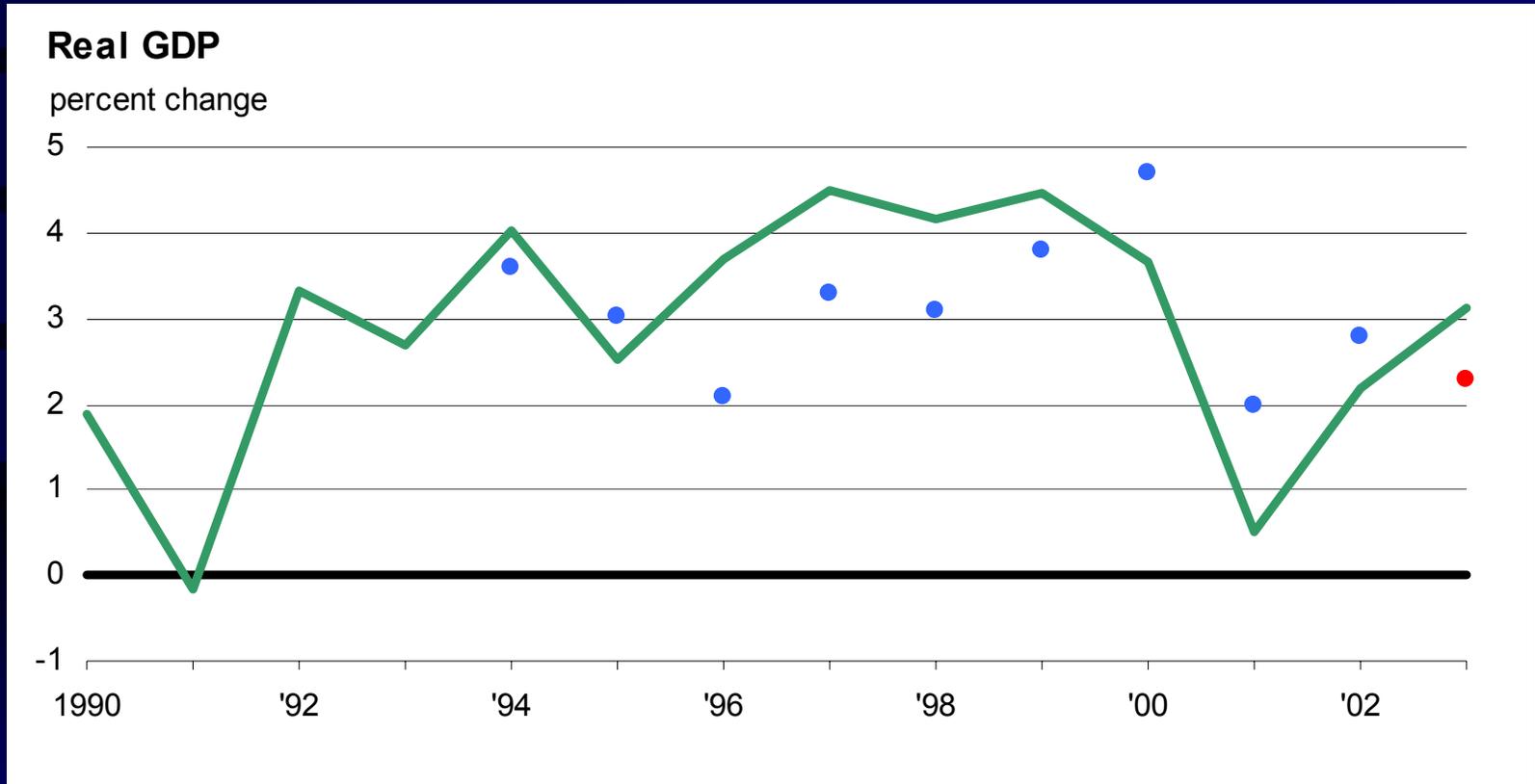
Senior Economist

and Economic Advisor

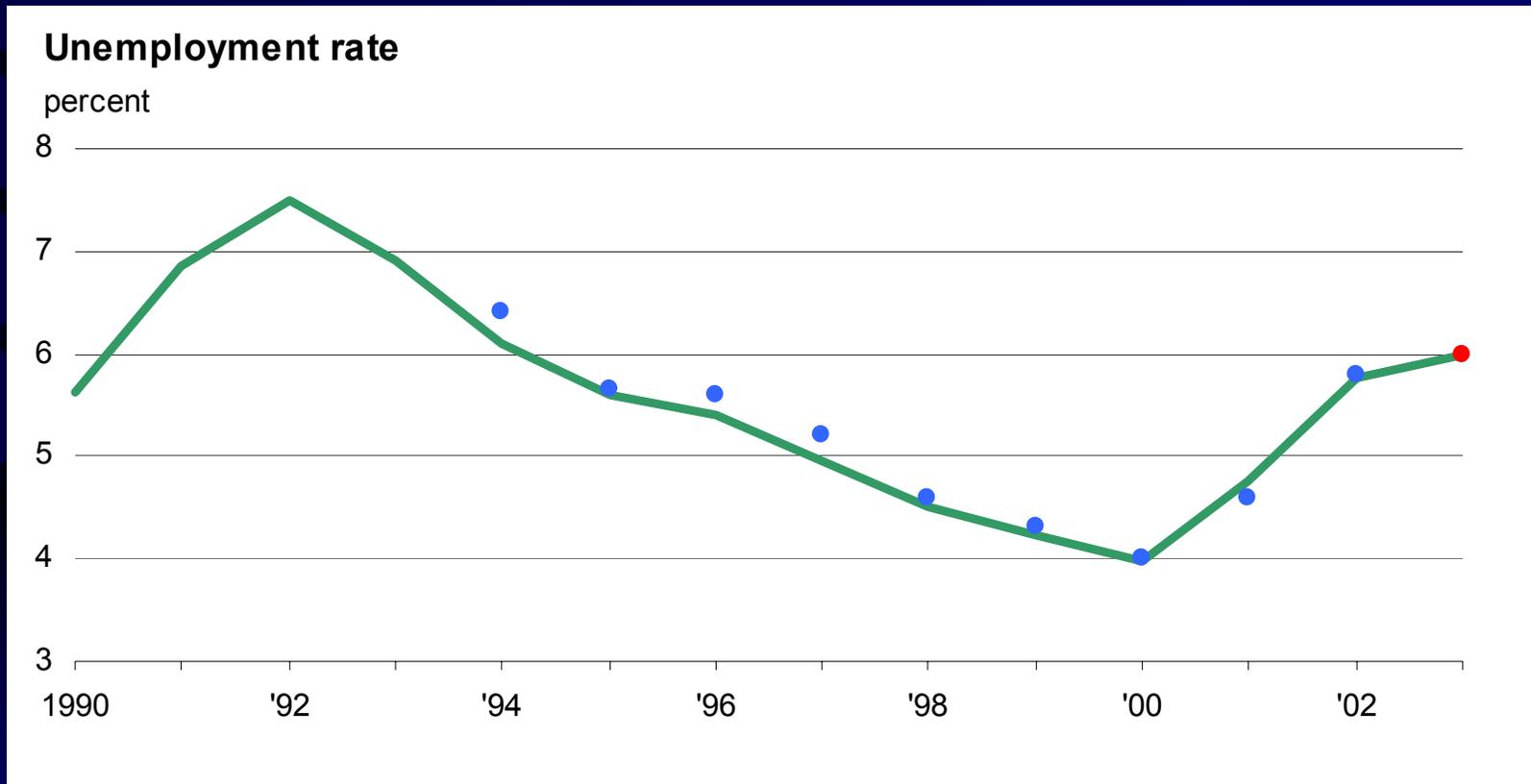
Federal Reserve Bank of Chicago

Review of past performance

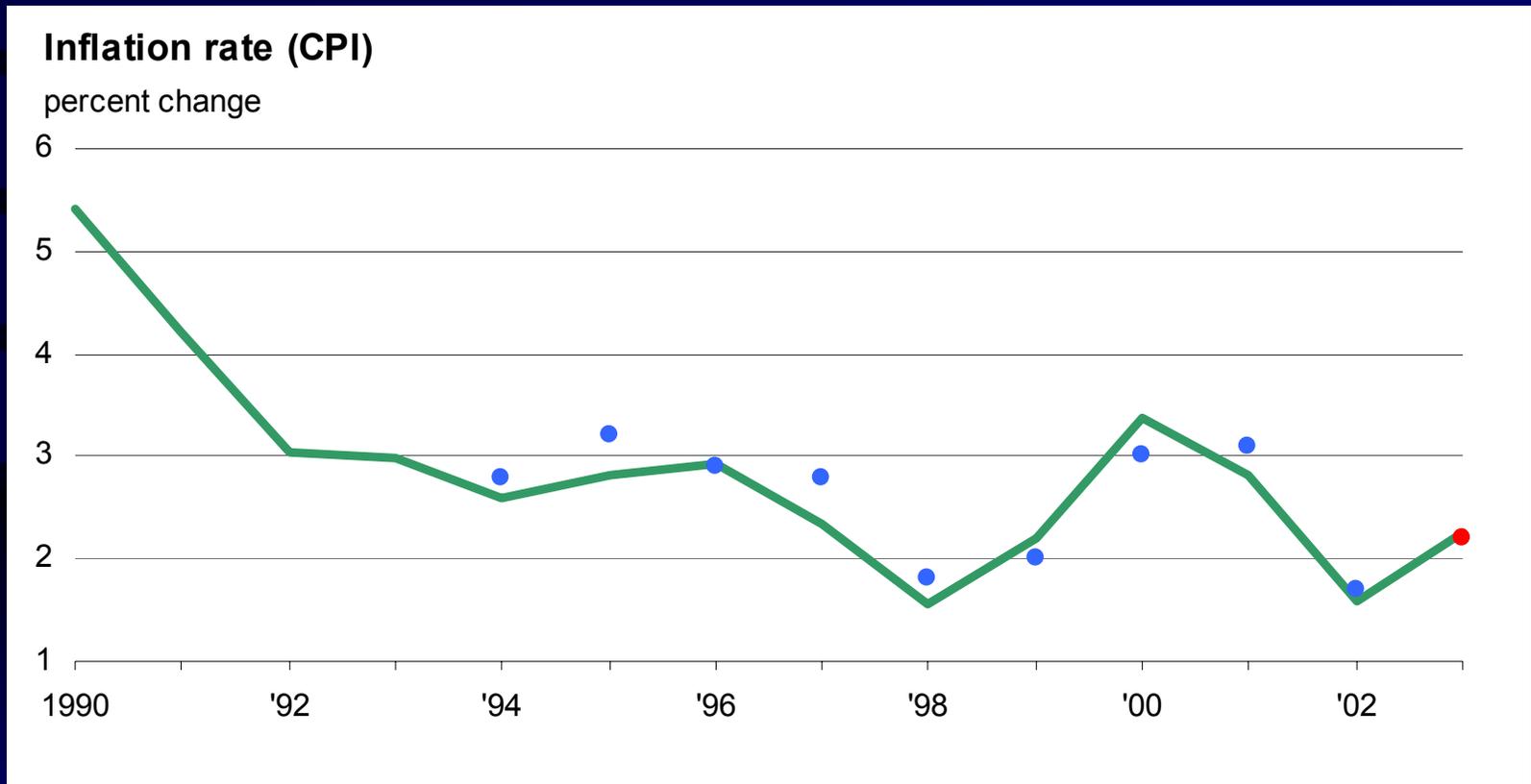
For the first time in four years, real output growth grew faster than forecast



The unemployment rate matched the forecast



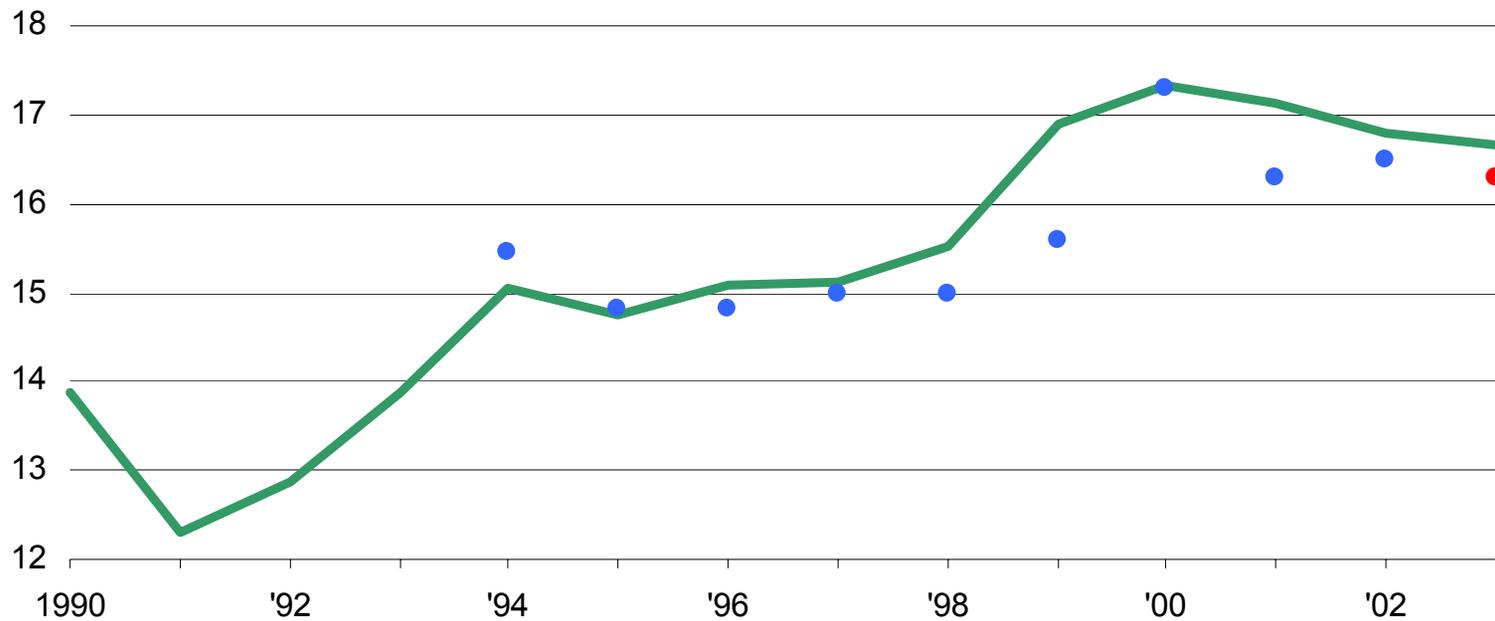
The same was true for inflation



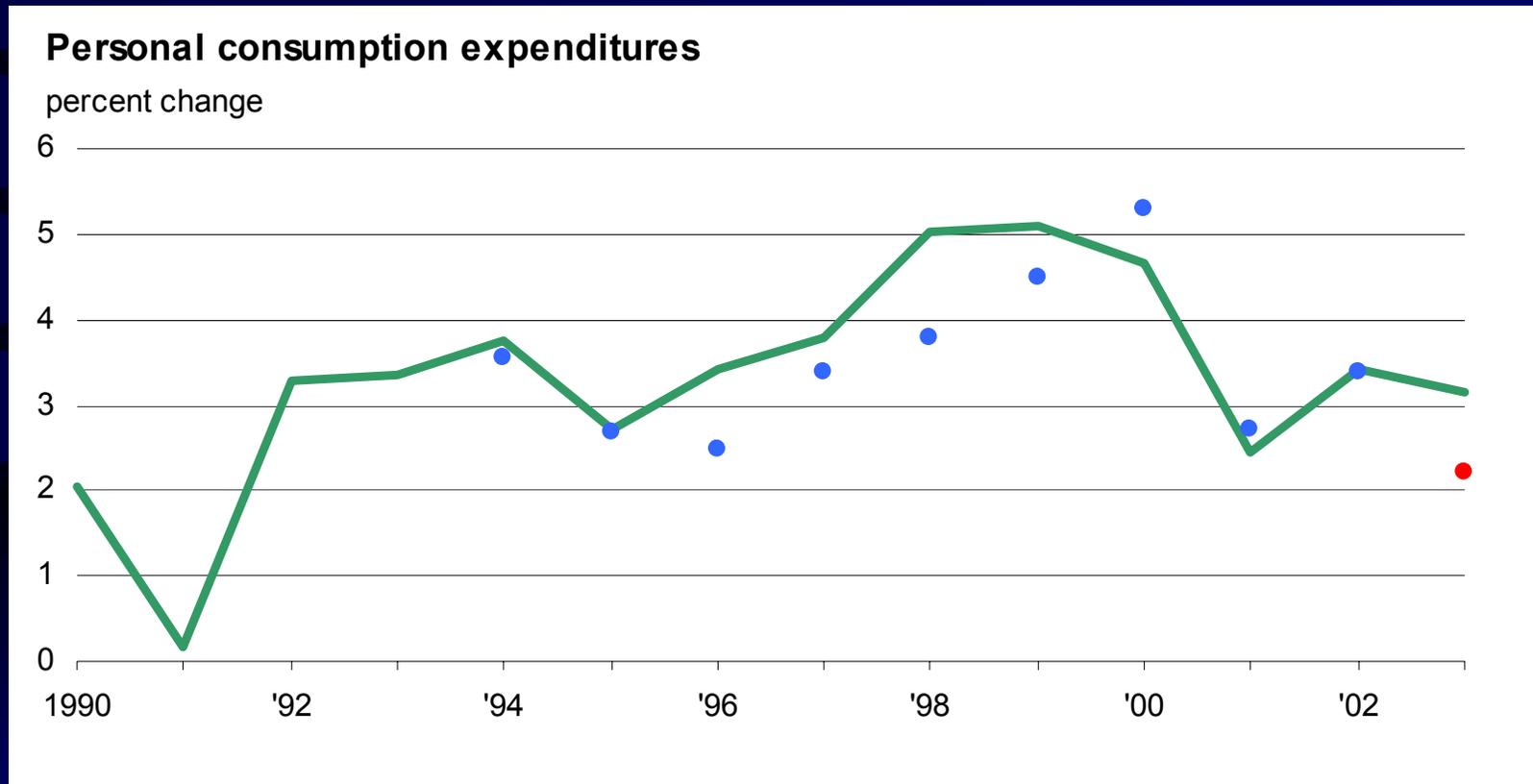
Car and light truck sales were slightly stronger than forecast

Car and light truck sales

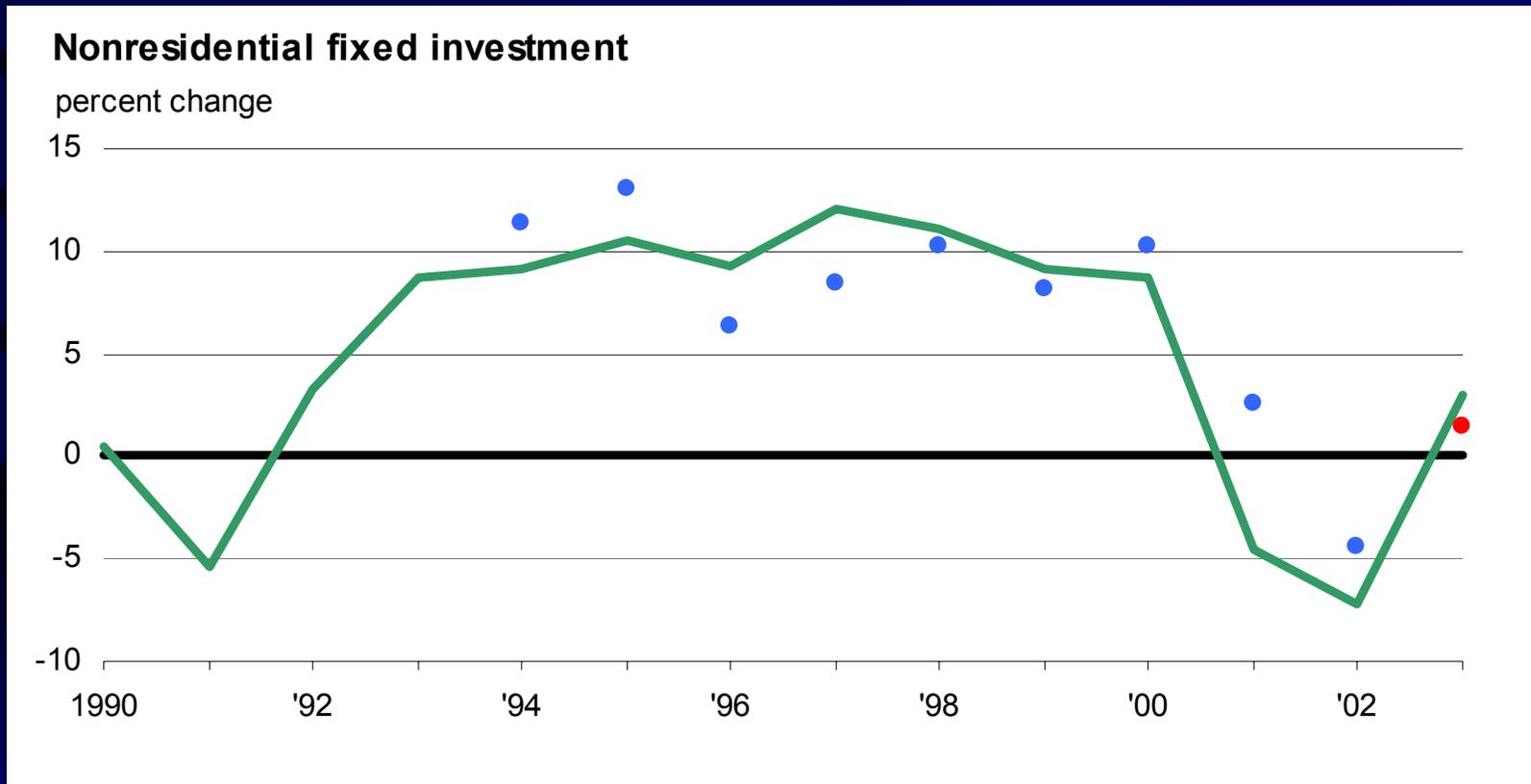
millions of units



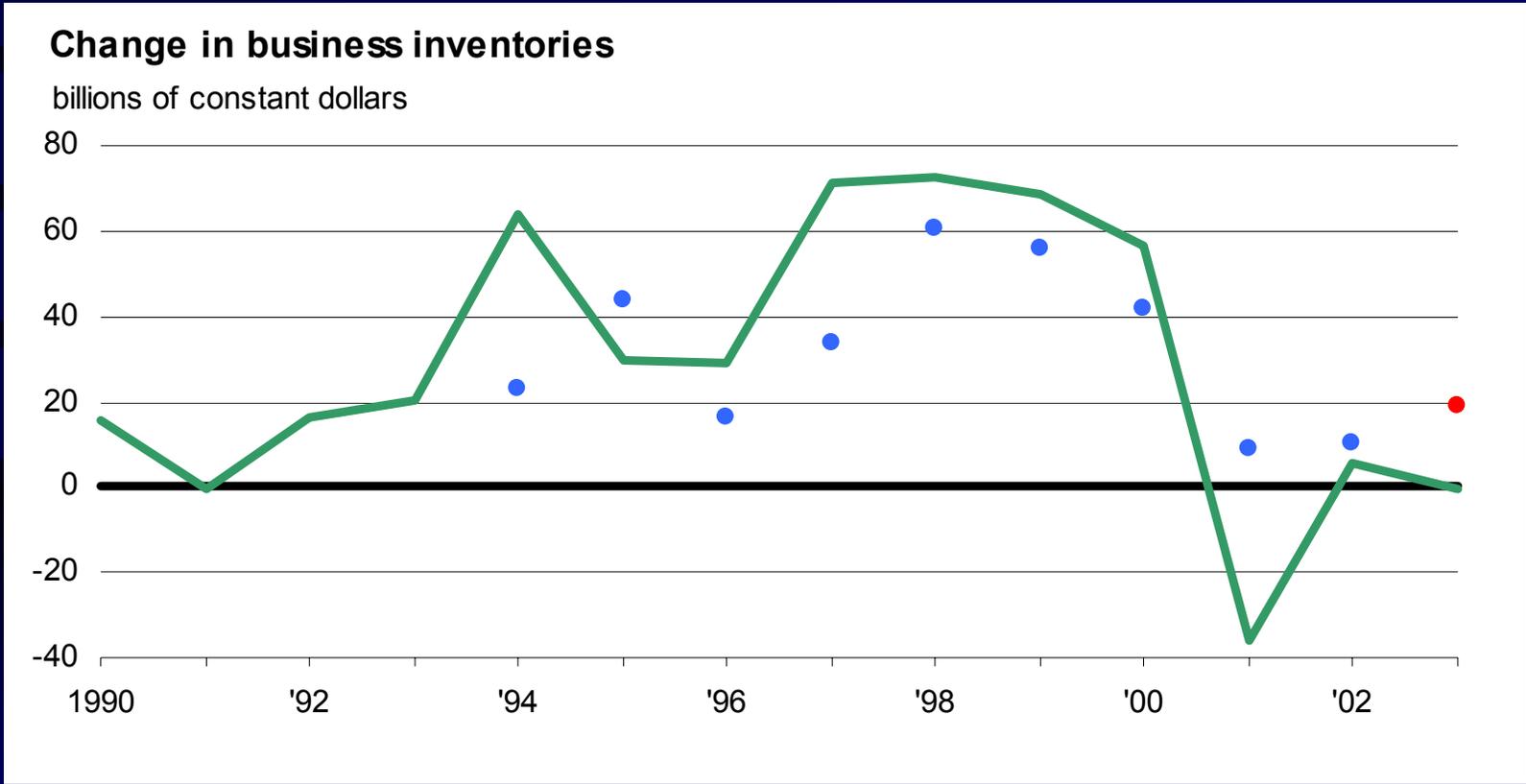
Consumer spending was also higher than expected



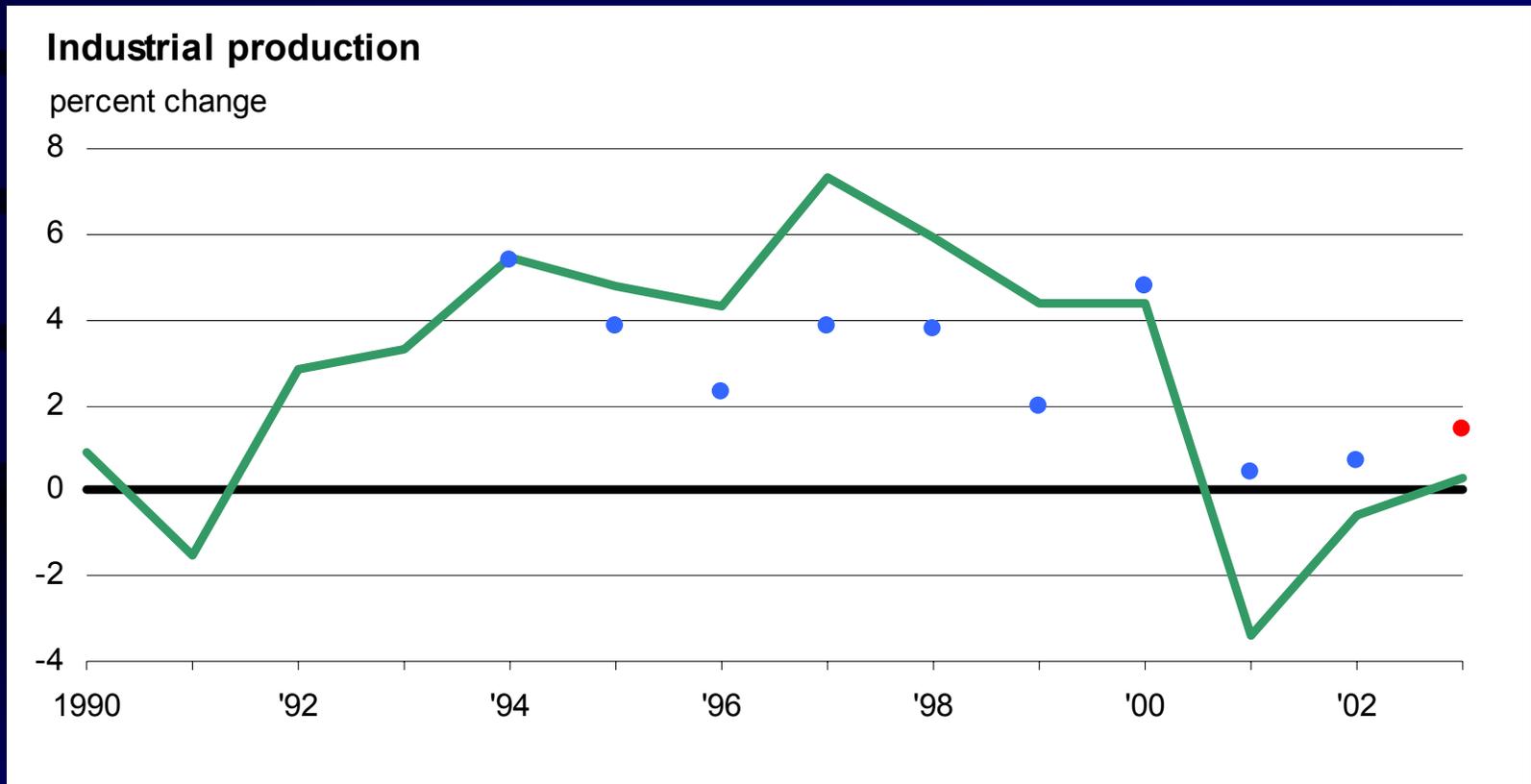
Business spending was forecast to improve moderately, and actual spending was just a bit higher



Business inventories growth remained restrained



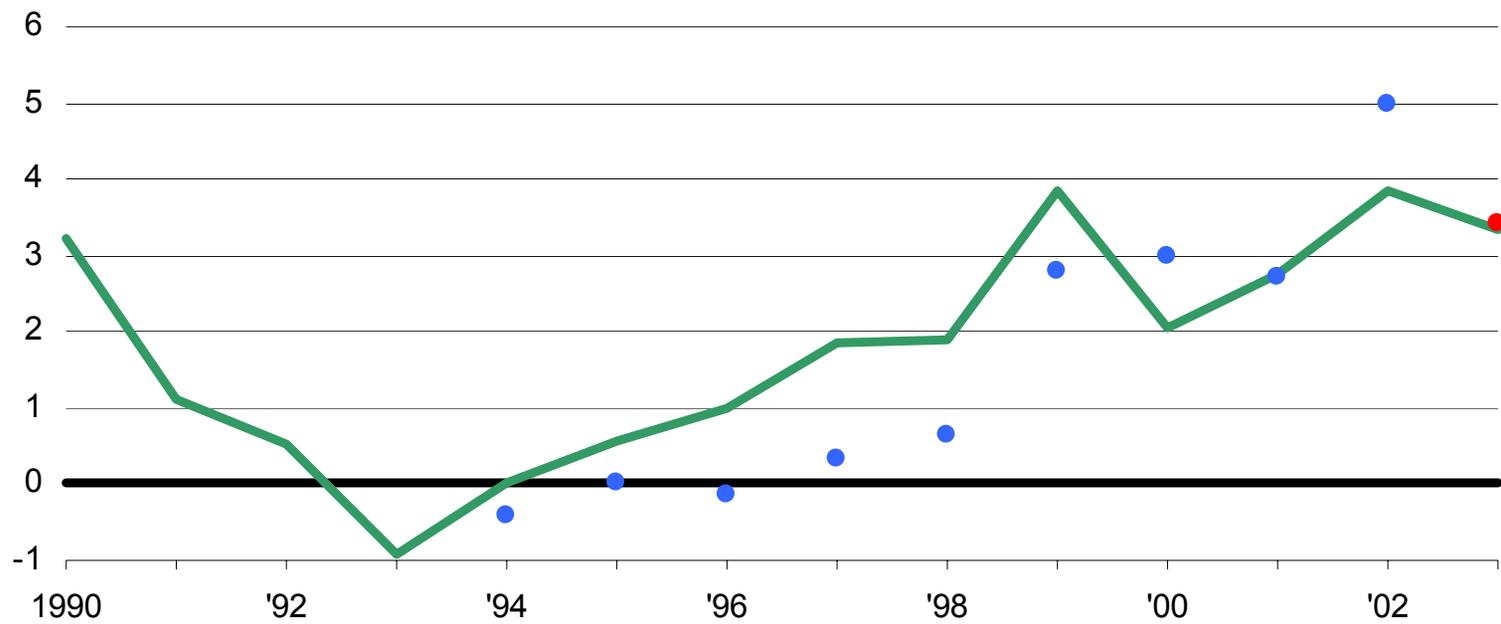
**While industrial production increased
for the first time in three years,
the gain was below expectations**



Government spending was accurately predicted

Government consumption and investment

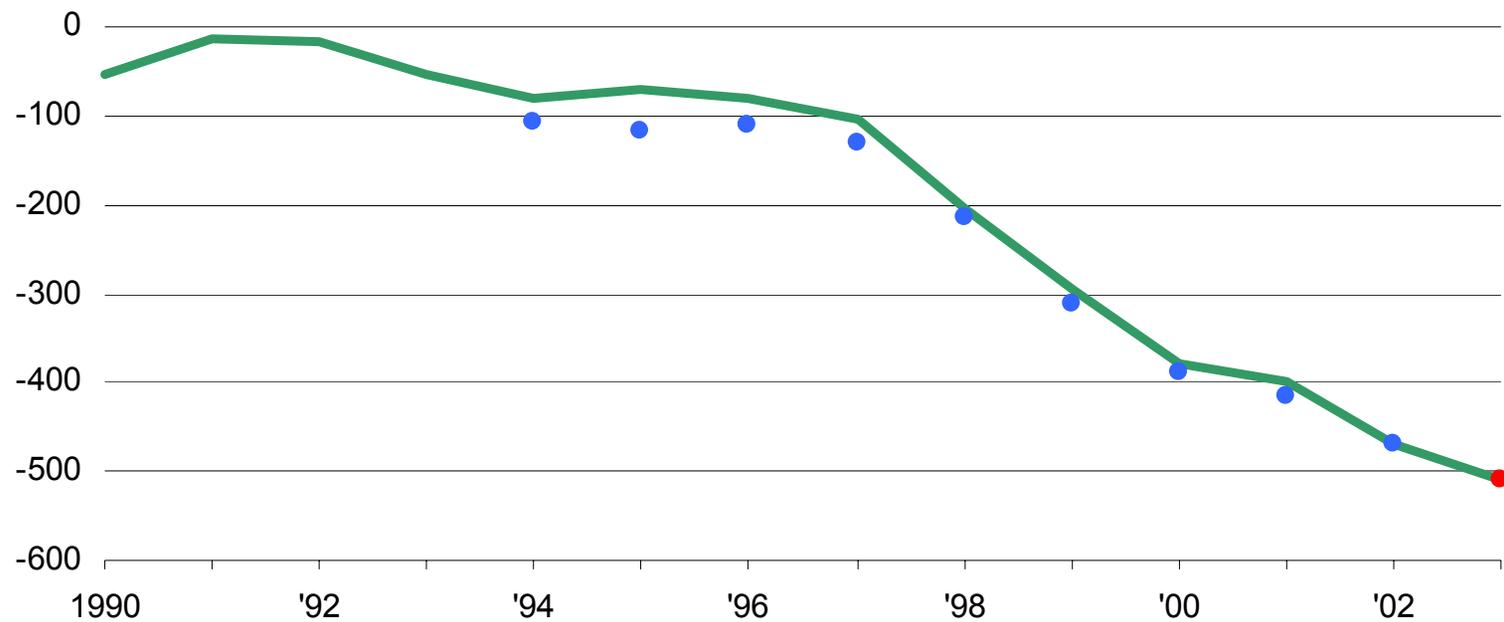
percent change



As were net exports

Net exports of goods and services

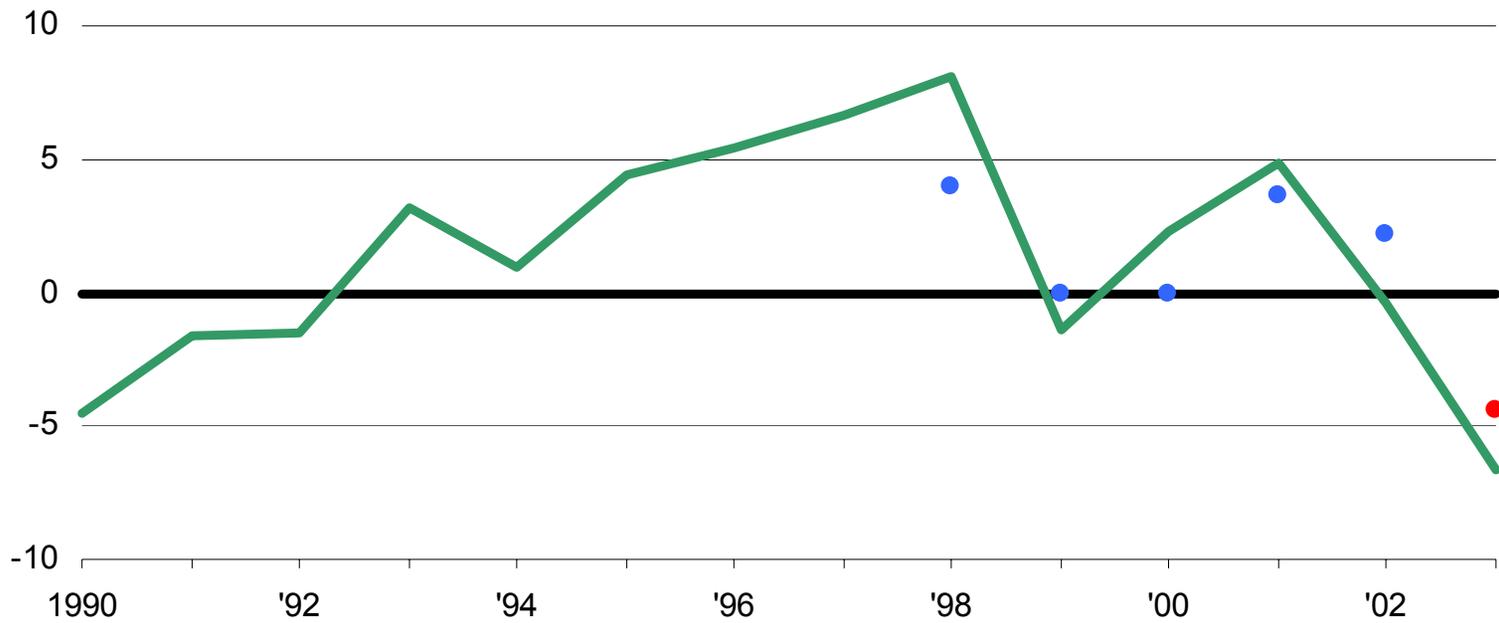
billions of constant dollars



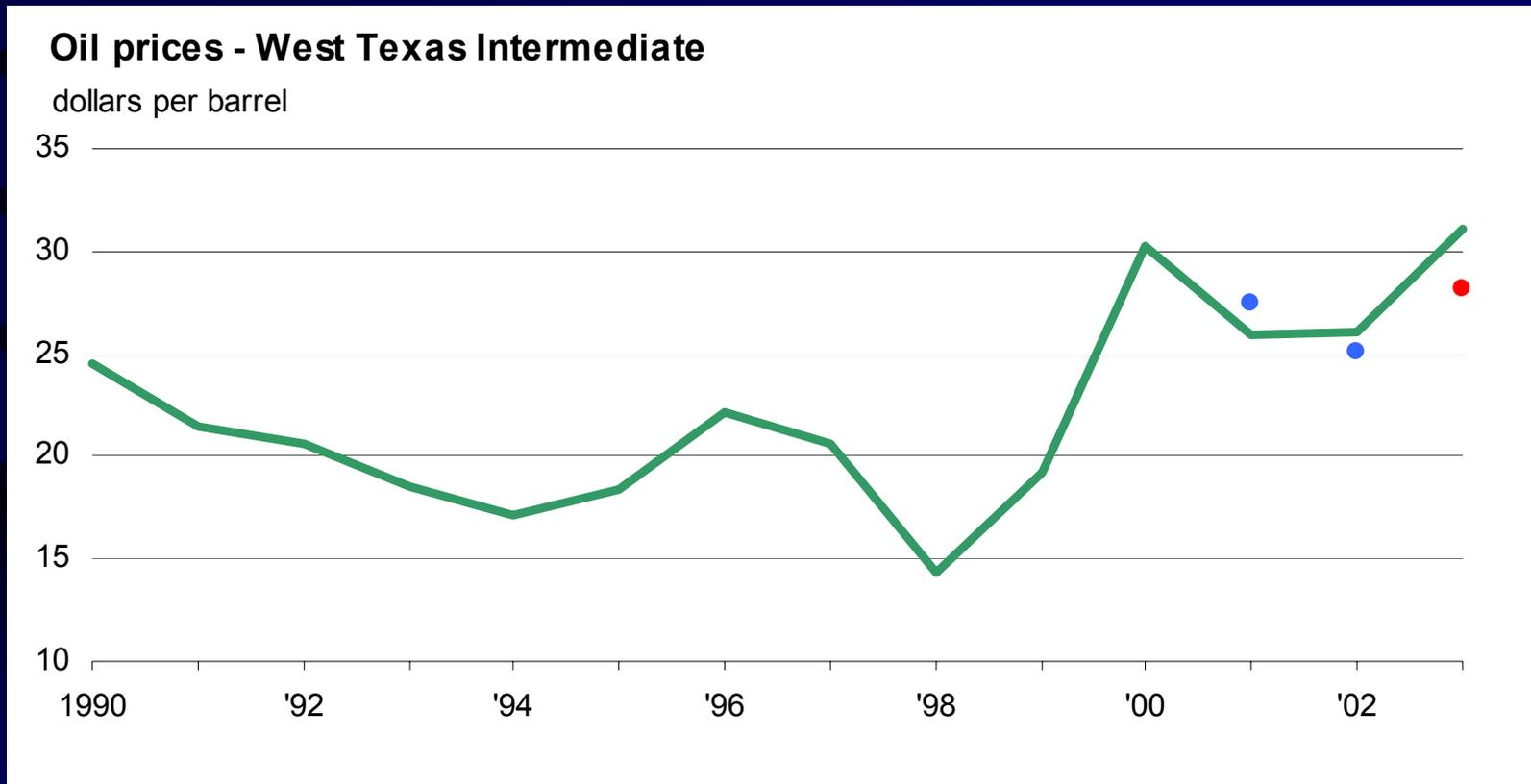
The dollar moved even lower than forecast

J.P. Morgan trade-weighted dollar

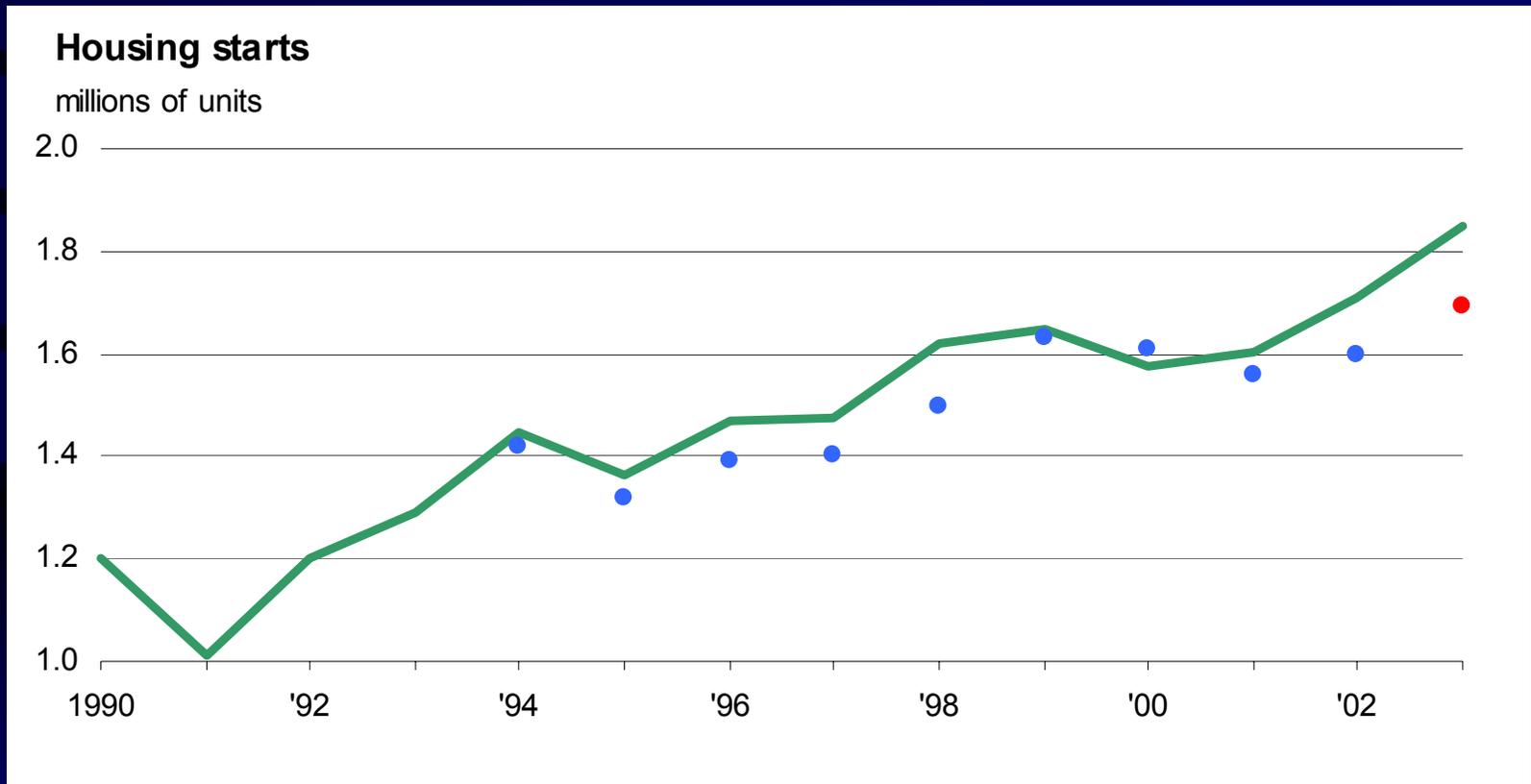
percent change



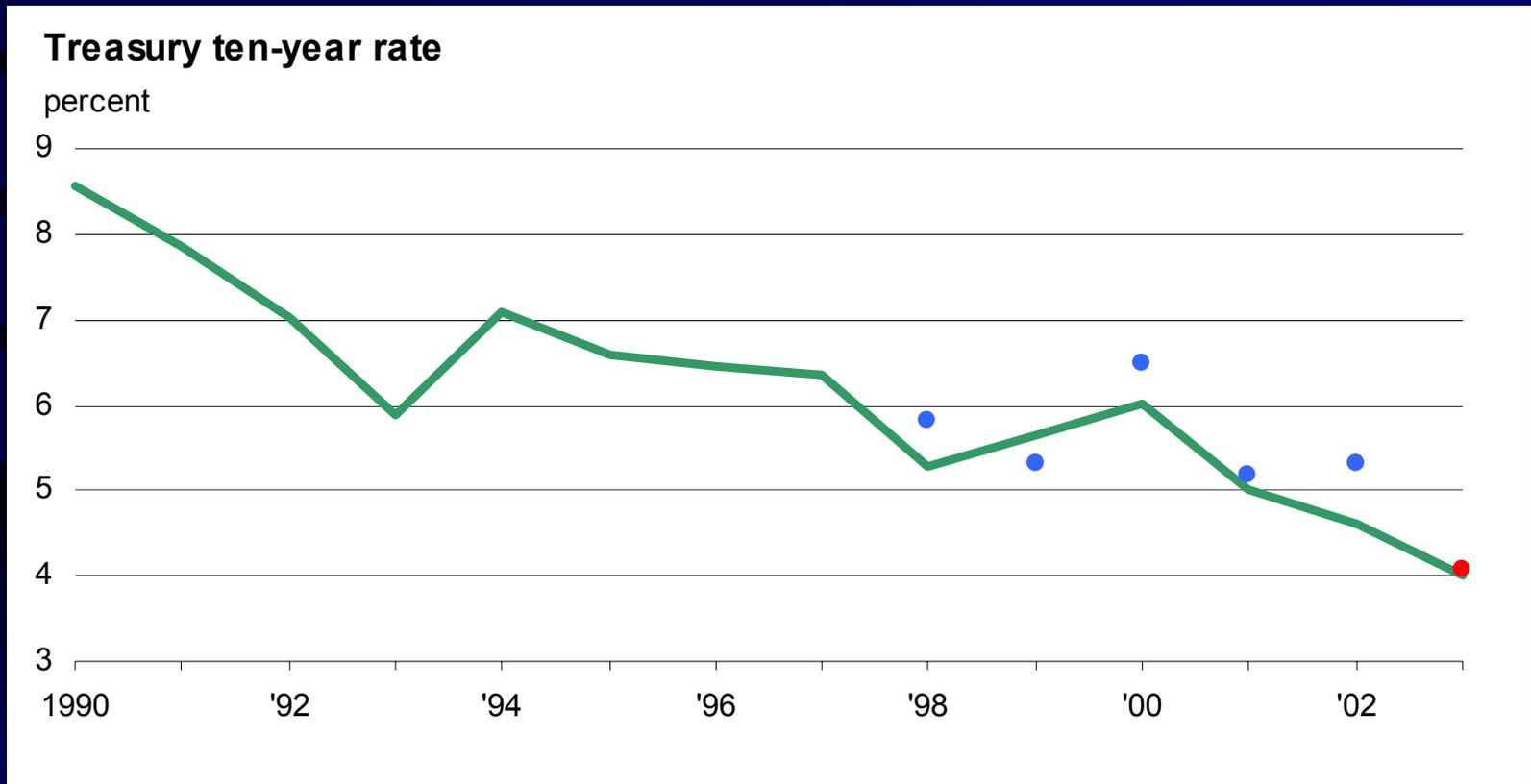
Oil prices averaged a higher amount than expected



The housing market surprised participants by increasing at a higher level than forecast



This occurred even with a very accurate interest rate forecast



Forecast for 2004 and 2005

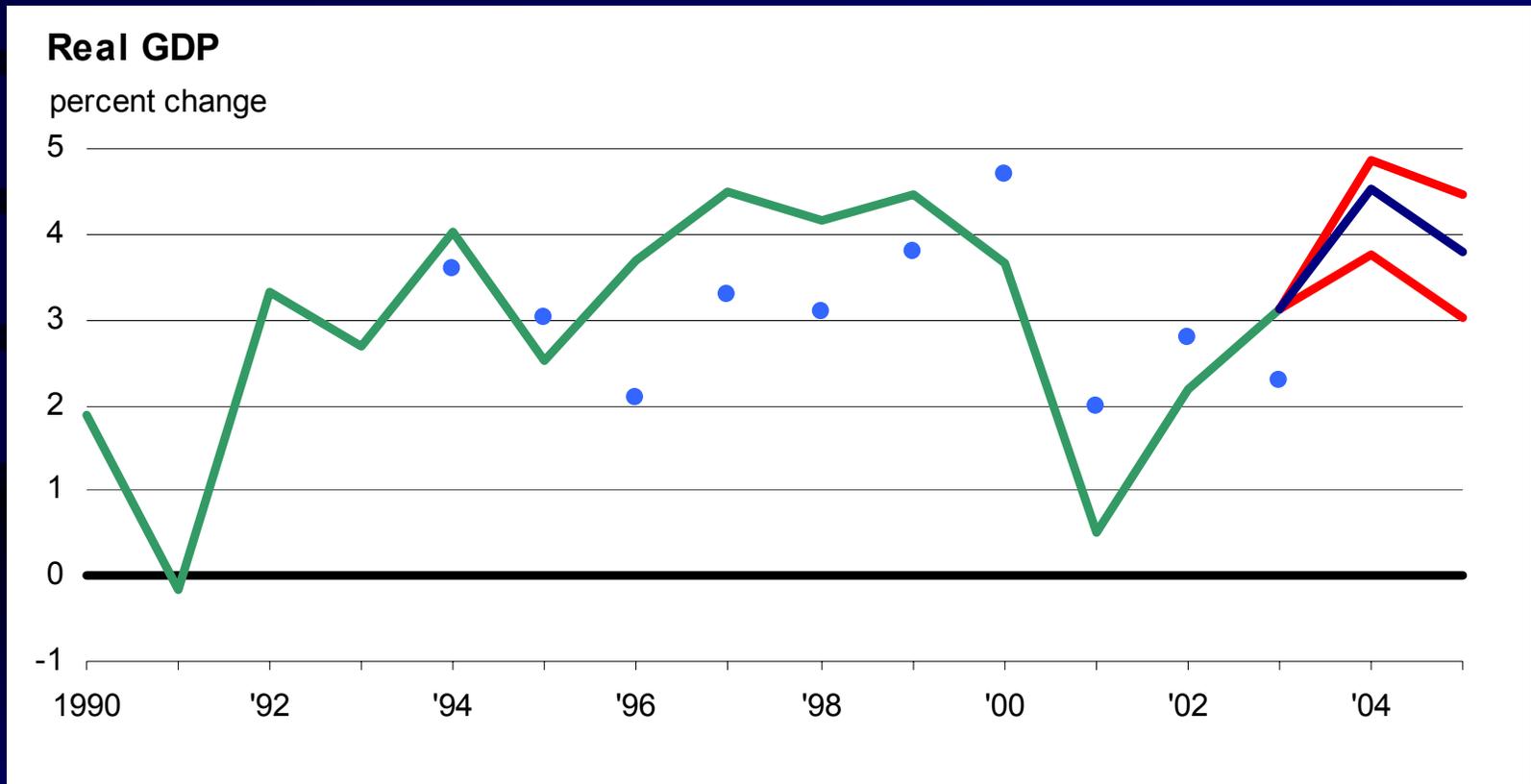
Median forecast of GDP and related items (page 1 of book)

	2003	2004	2005
GDP, current dollars	4.8%	6.5%	5.7%
GDP deflator, chain-type price index	1.7%	1.8%	1.9%
Real GDP, chained 2000 dollars	3.1%	4.5%	3.8%
Personal consumption expenditures	3.1%	4.0%	3.5%
Nonresidential fixed investment	3.0%	9.5%	8.6%
Residential investment	7.5%	4.0%	-1.1%
Change in business inventories (billions of constant dollars)	-\$0.8	\$28.2	\$40.0
Net exports of goods and services (billions of constant dollars)	-\$509.1	-\$520.0	-\$498.8
Government consumption expenditures and gross investment	3.3%	2.2%	2.0%

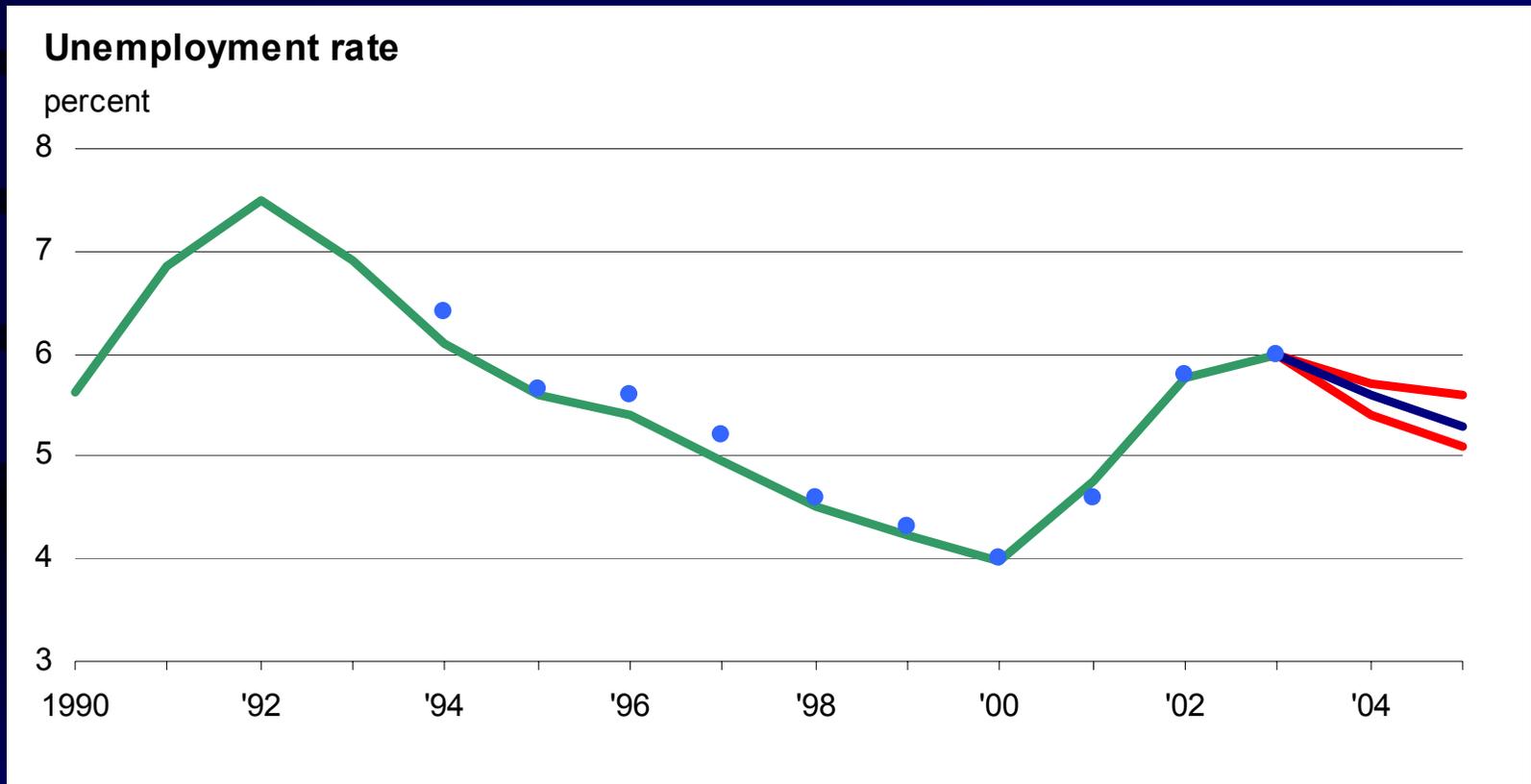
Median forecast of GDP and related items (page 1 of book)

	2003	2004	2005
Industrial production	0.3%	4.9%	5.2%
Car & light truck sales (millions)	16.6	16.8	16.9
Housing starts (millions)	1.85	1.83	1.70
Oil price (dollars per barrel of West Texas Intermediate)	\$31.14	\$35.90	\$31.25
Unemployment rate	6.0%	5.6%	5.3%
Inflation rate (consumer price index)	2.3%	2.4%	2.3%
Treasury constant maturity 1-year rate	1.24%	1.64%	2.75%
Treasury constant maturity 10-year rate	4.02%	4.60%	5.20%
Change in J.P. Morgan narrow nominal dollar index	-6.7%	-3.1%	-0.7%

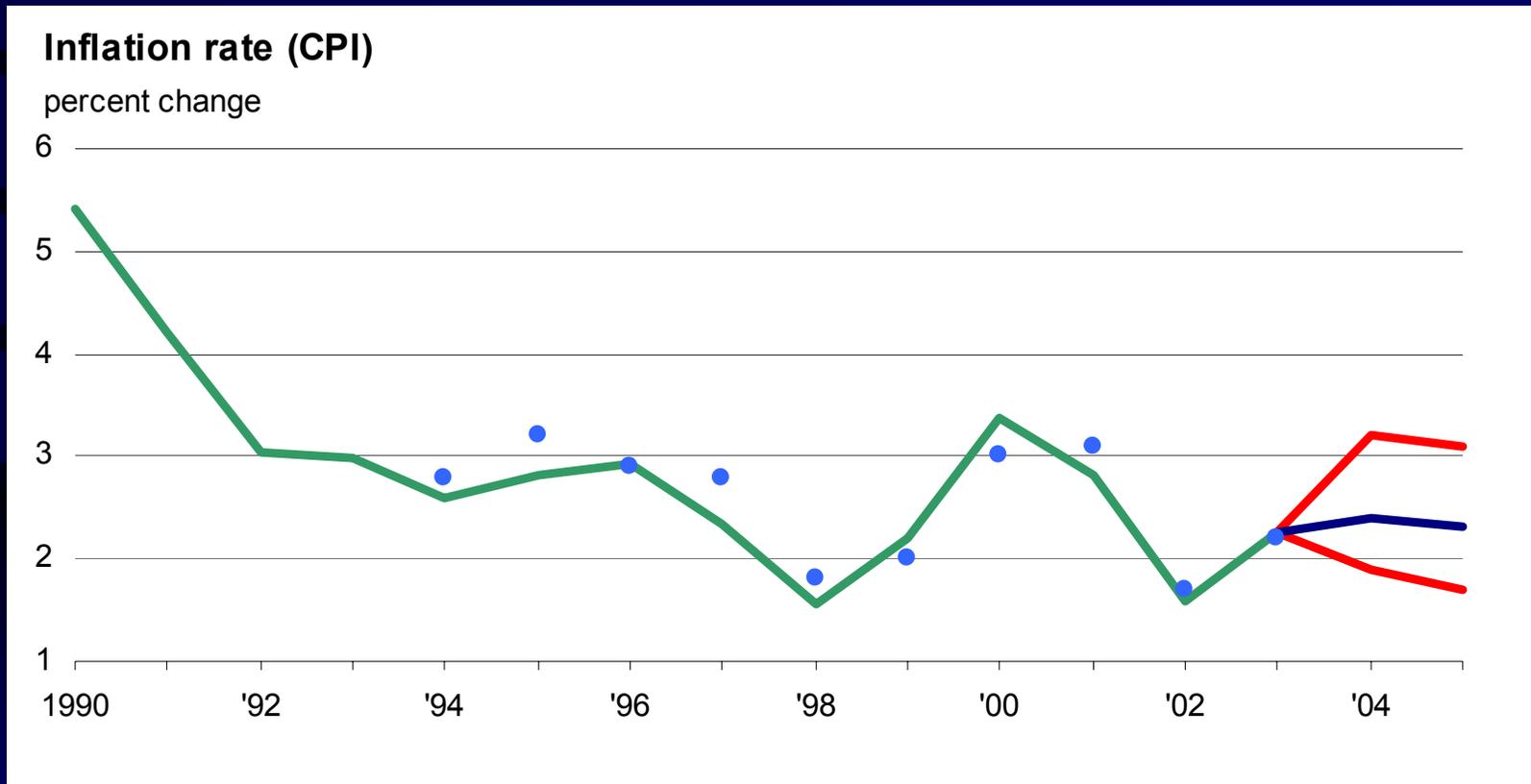
Real GDP growth is expected to increase this year at the fastest rate since 1997, and then ease to 3.8%, slightly above potential growth for the economy



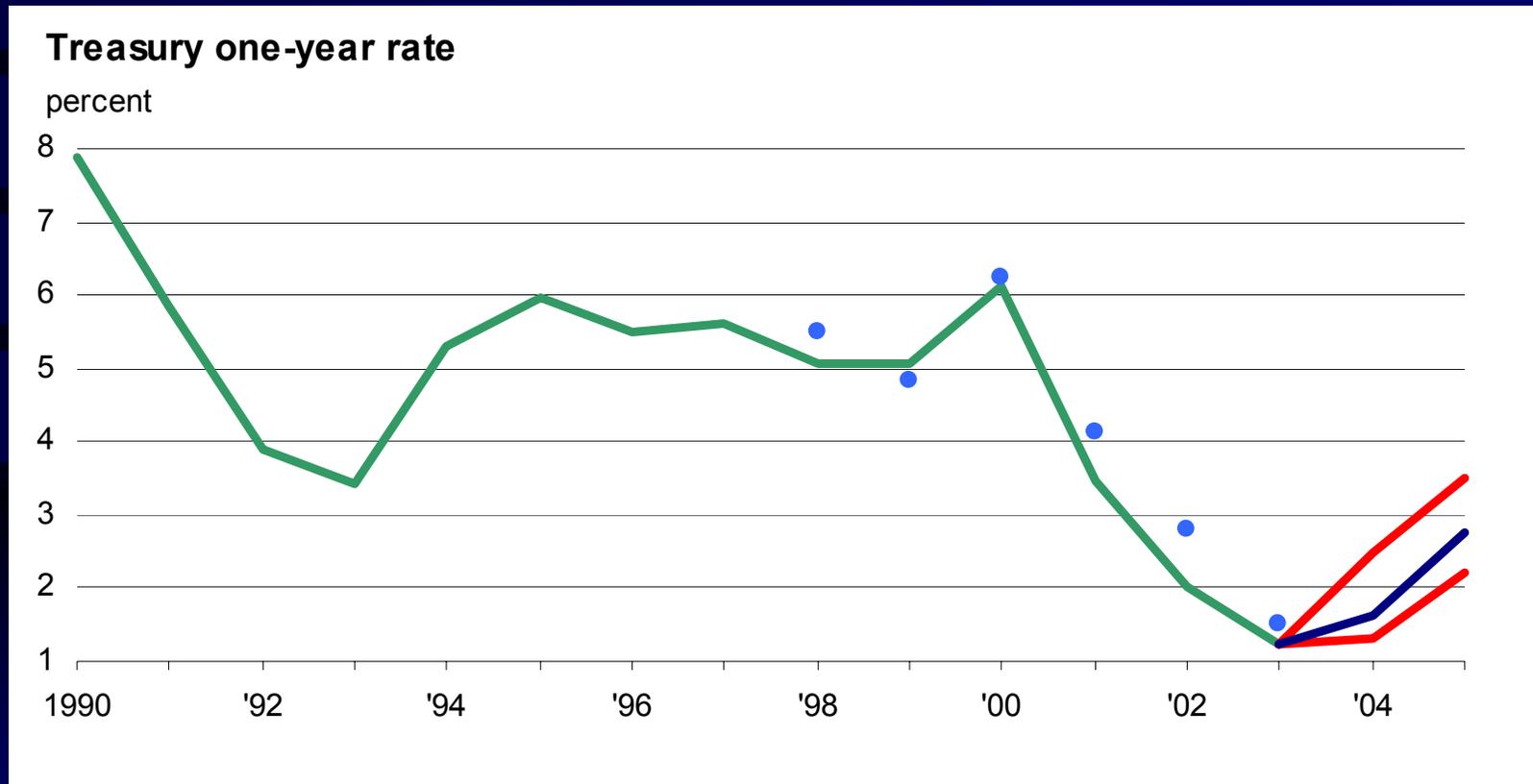
The unemployment rate should average 5.6% this year and ease to 5.3% next year



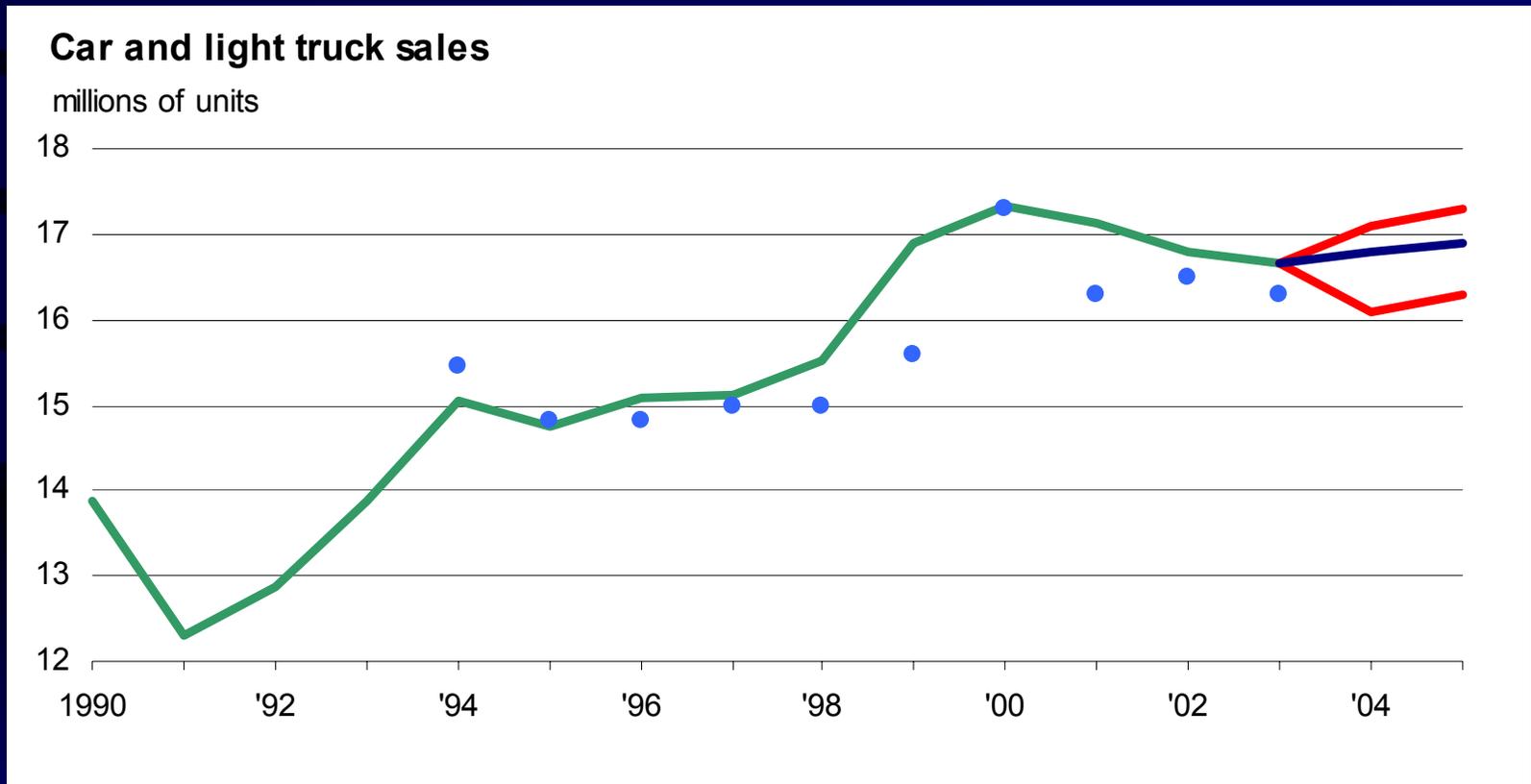
The inflation rate is expected to remain fairly flat over this year and next



Short-term interest rates are forecast to rise by 40 basis points in 2004 and then by 111 basis points in 2005



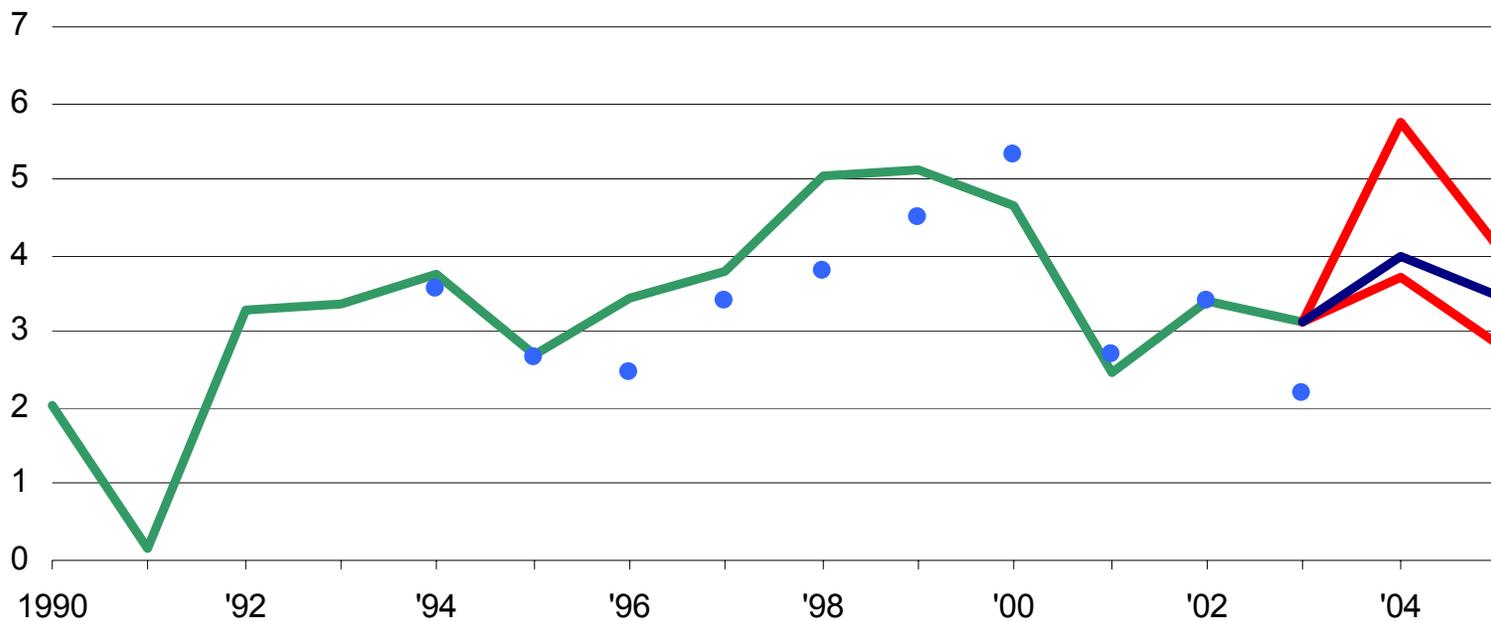
**Light vehicle sales are forecast to average
16.8 million units in 2004 and rise to
16.9 million units in 2005**



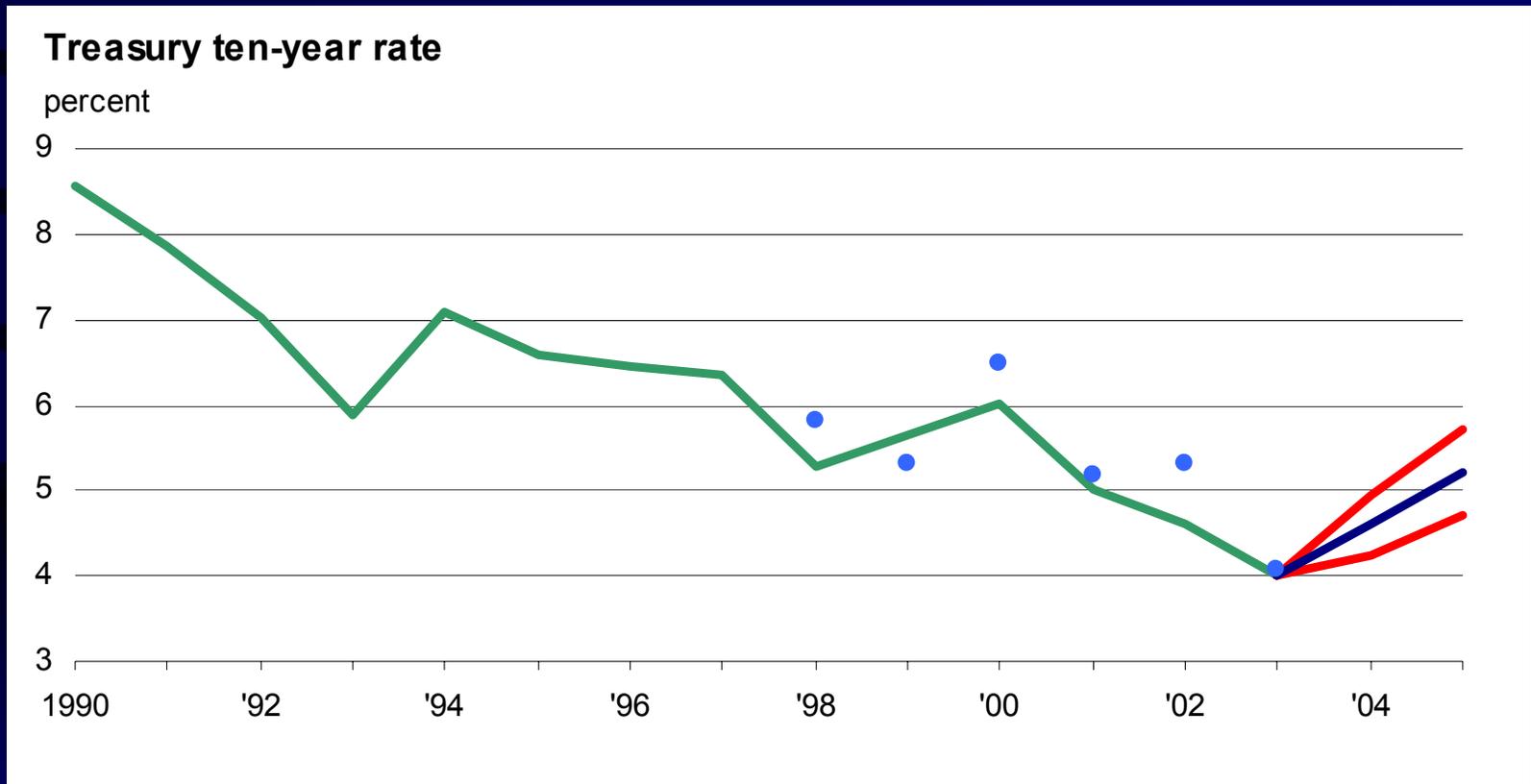
**Consumption growth is expected to
improve this year to 4.0%
and then ease to a still solid 3.5% next year**

Personal consumption expenditures

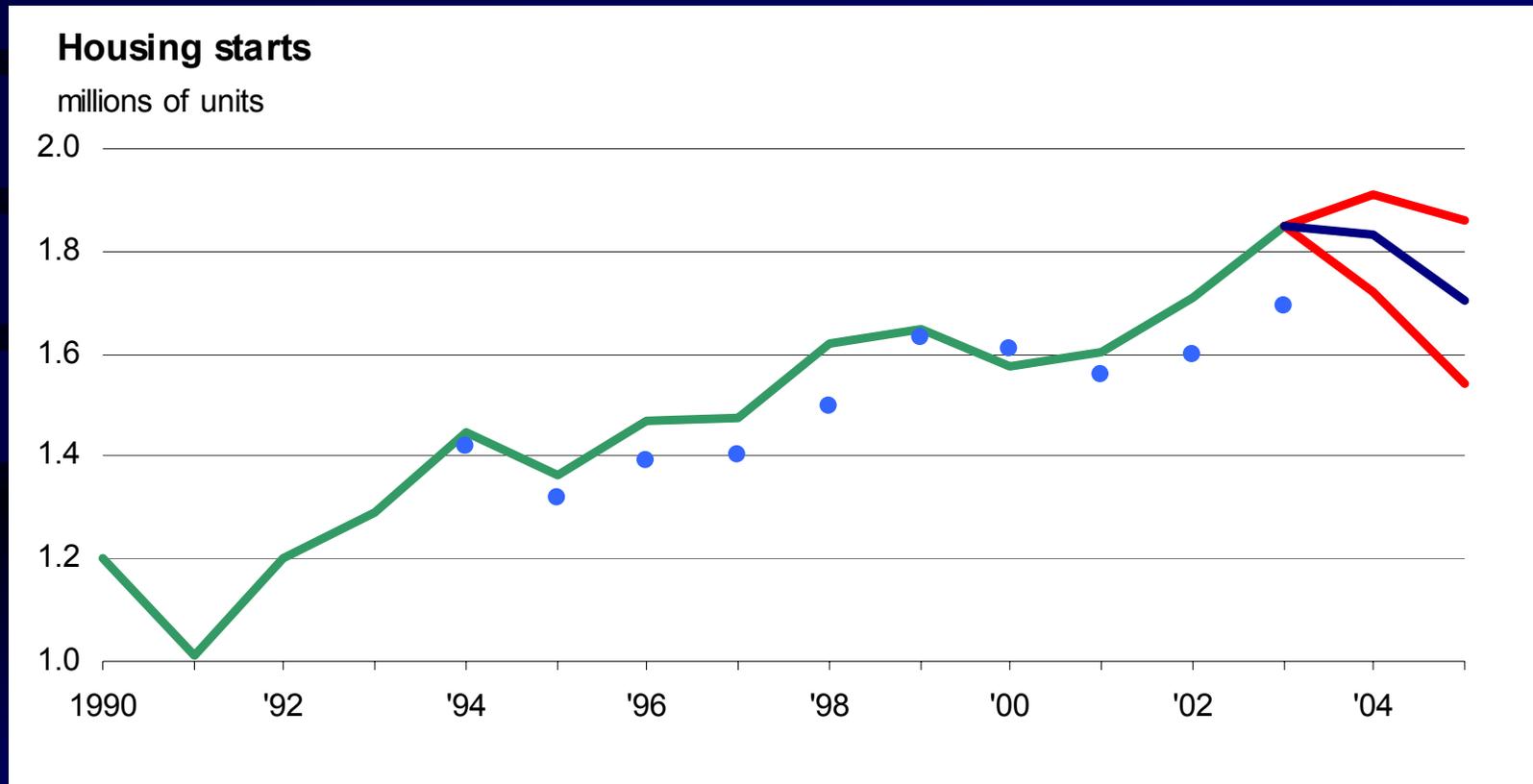
percent change



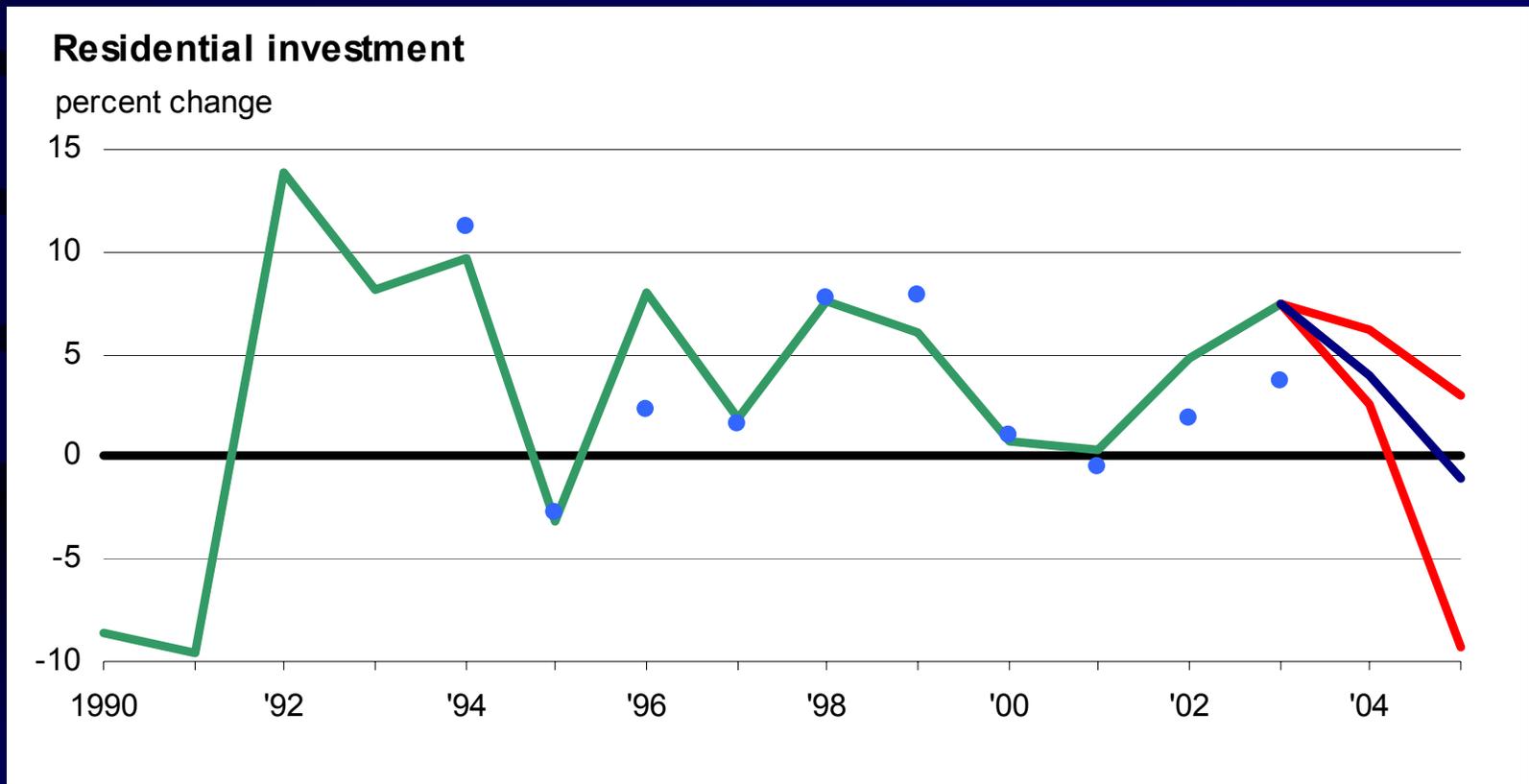
Long-term interest rates are forecast to rise by 58 basis points in 2004 and then by 60 basis points in 2005



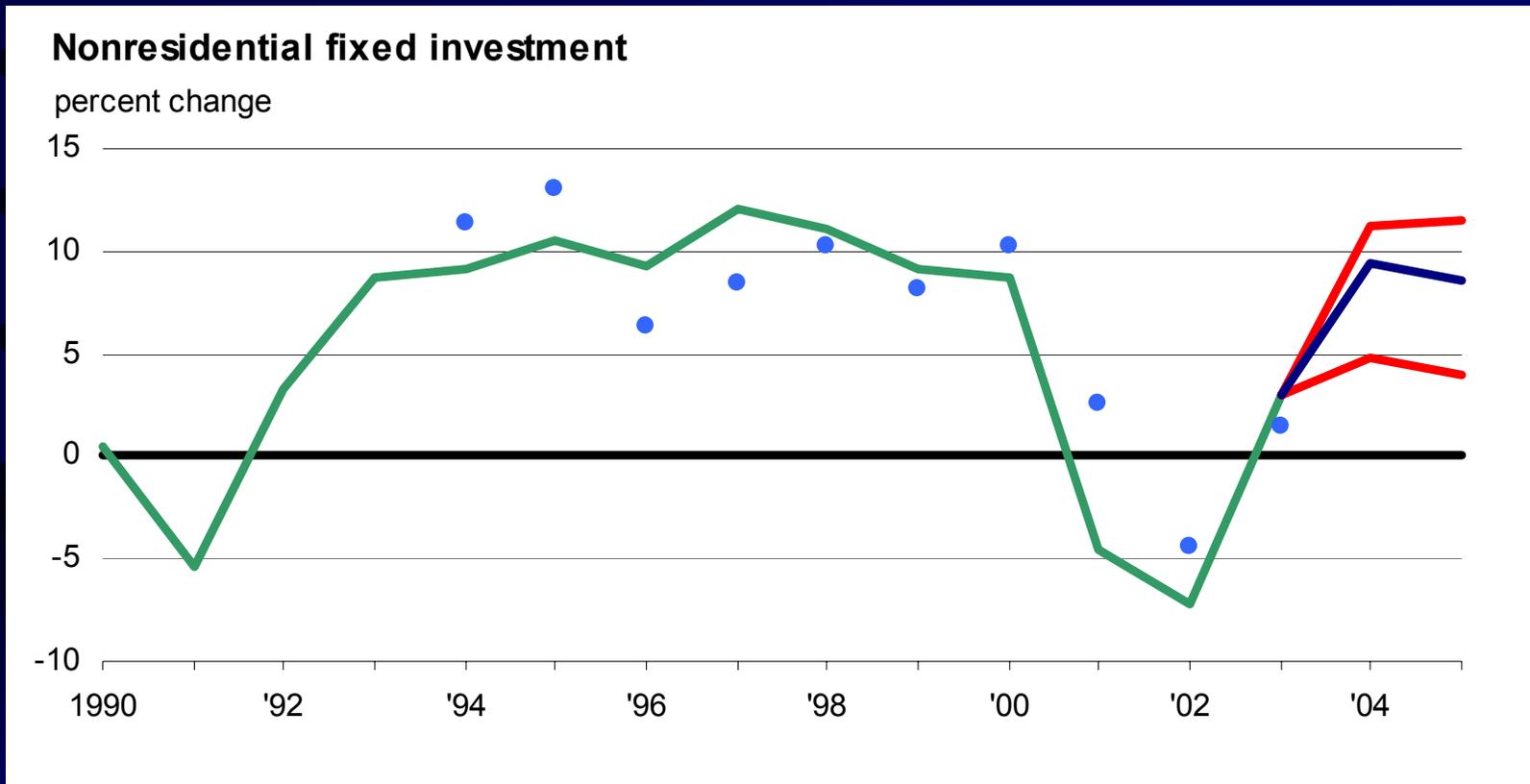
Housing starts are expected to decline over the forecast horizon



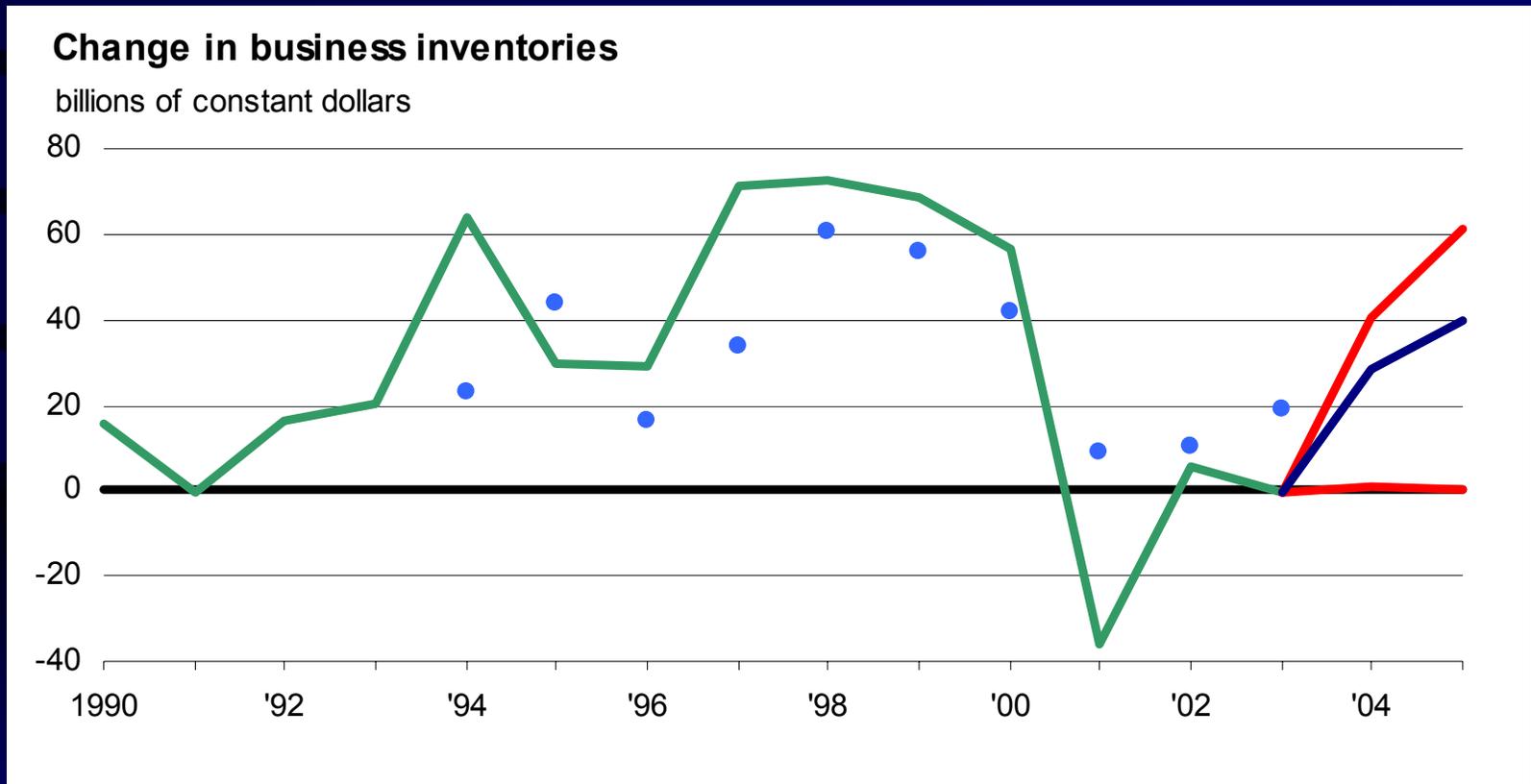
Residential investment growth is also forecast to decline



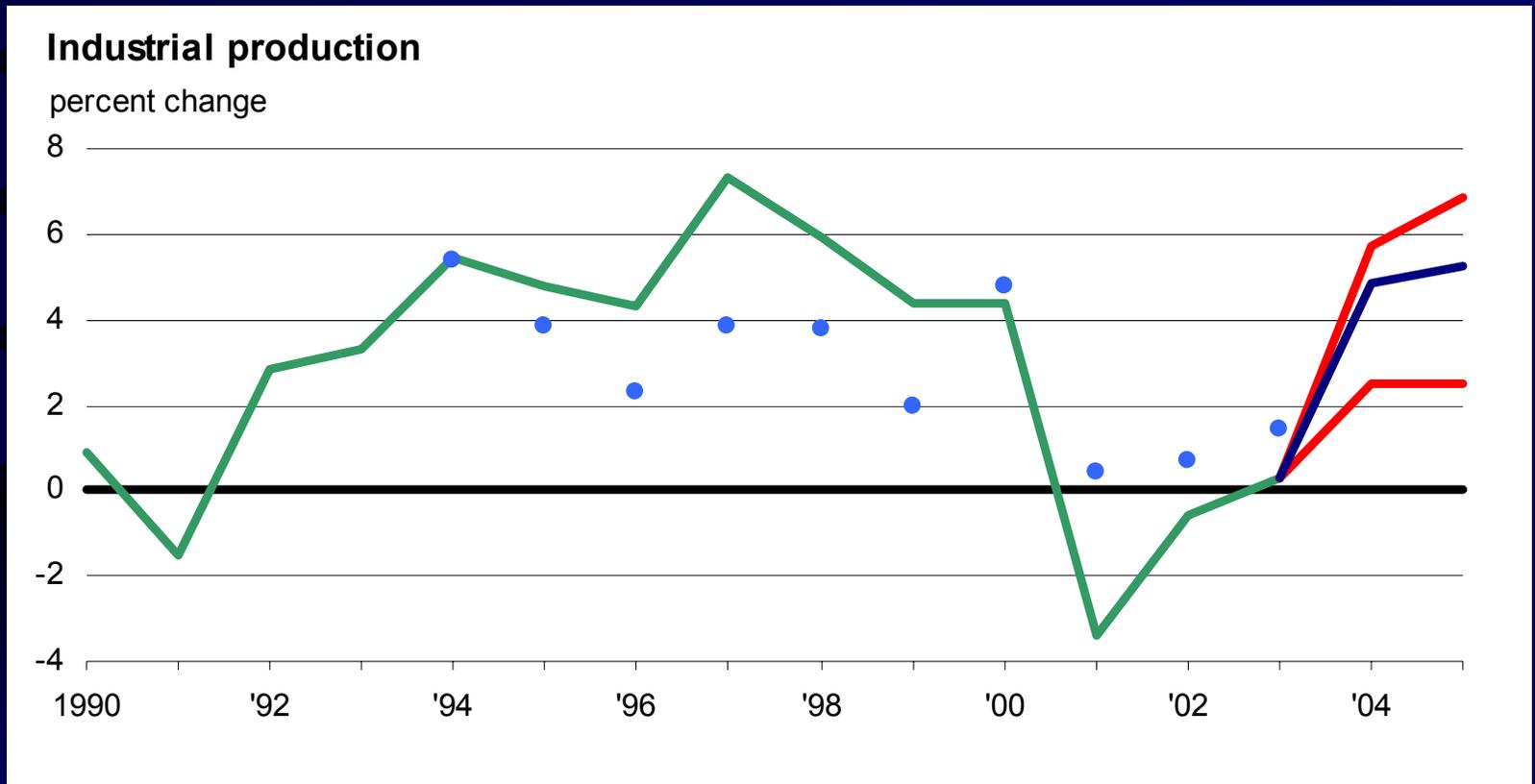
Business spending growth is anticipated to surge to 9.5% this year and then remain robust in 2005



A rebuilding of inventories is expected to take place over the forecast horizon



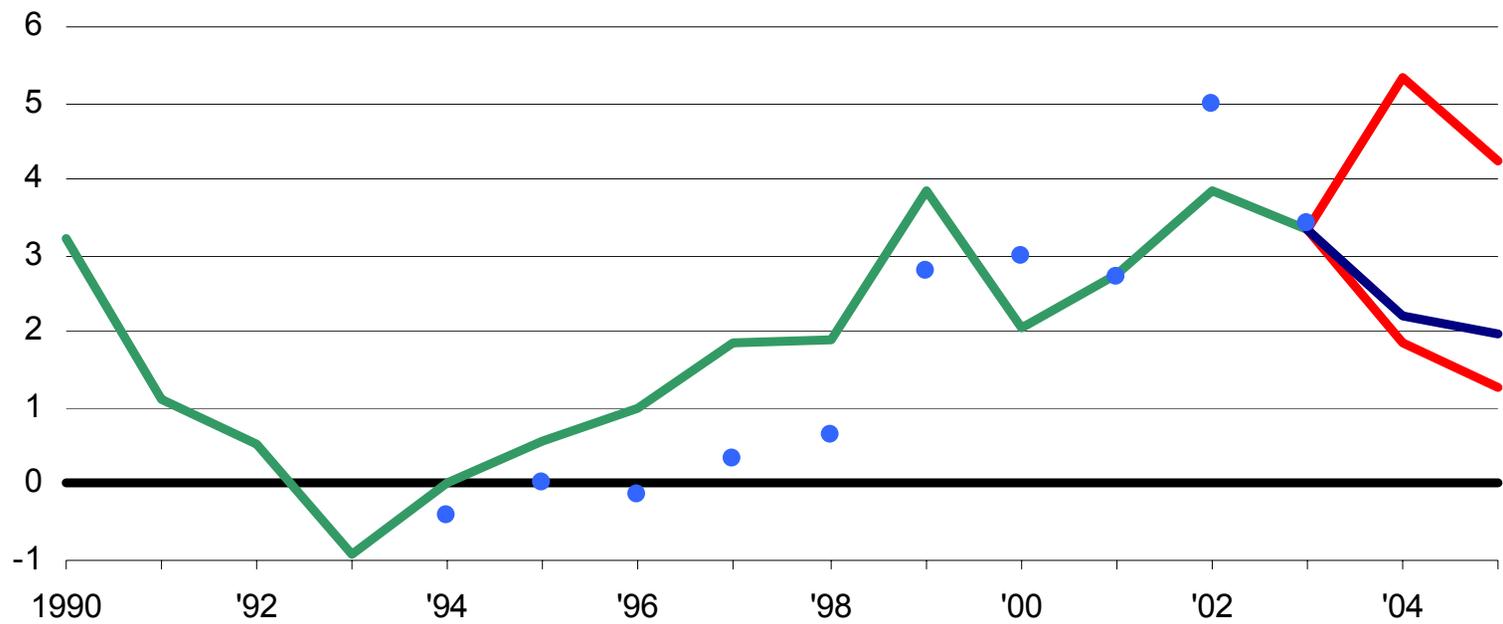
Industrial output growth in 2004 is forecast to have its best year since 1998, with even stronger growth in 2005



Government purchases growth is forecast to moderate this year and further in 2005

Government consumption and investment

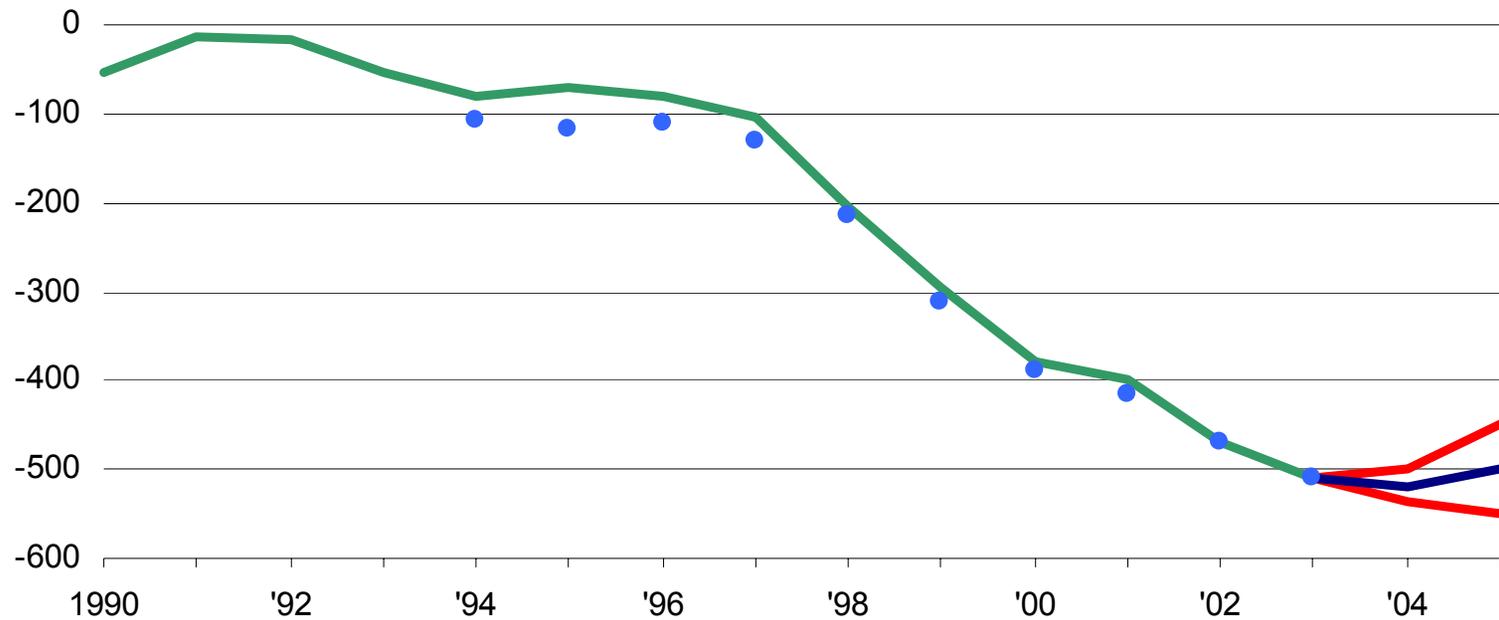
percent change



Net exports are expected to decline a bit in 2004 and then rise slightly in 2005

Net exports of goods and services

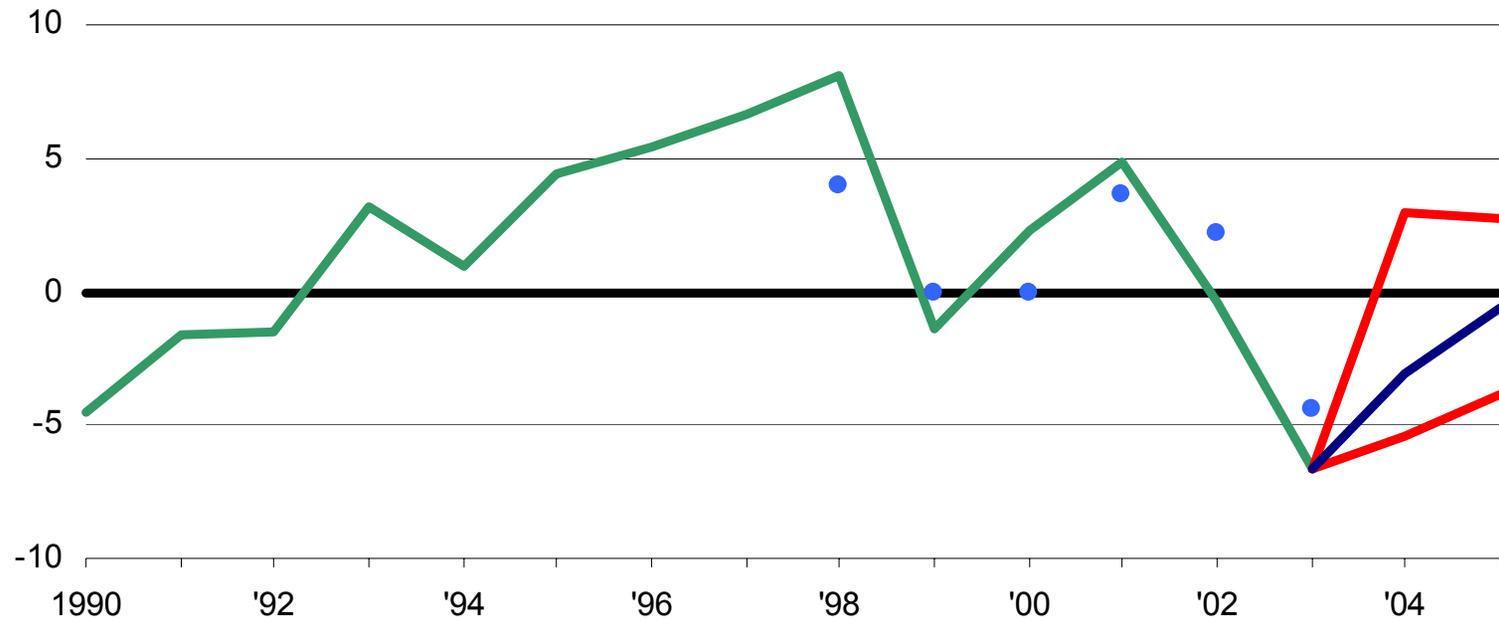
billions of constant dollars



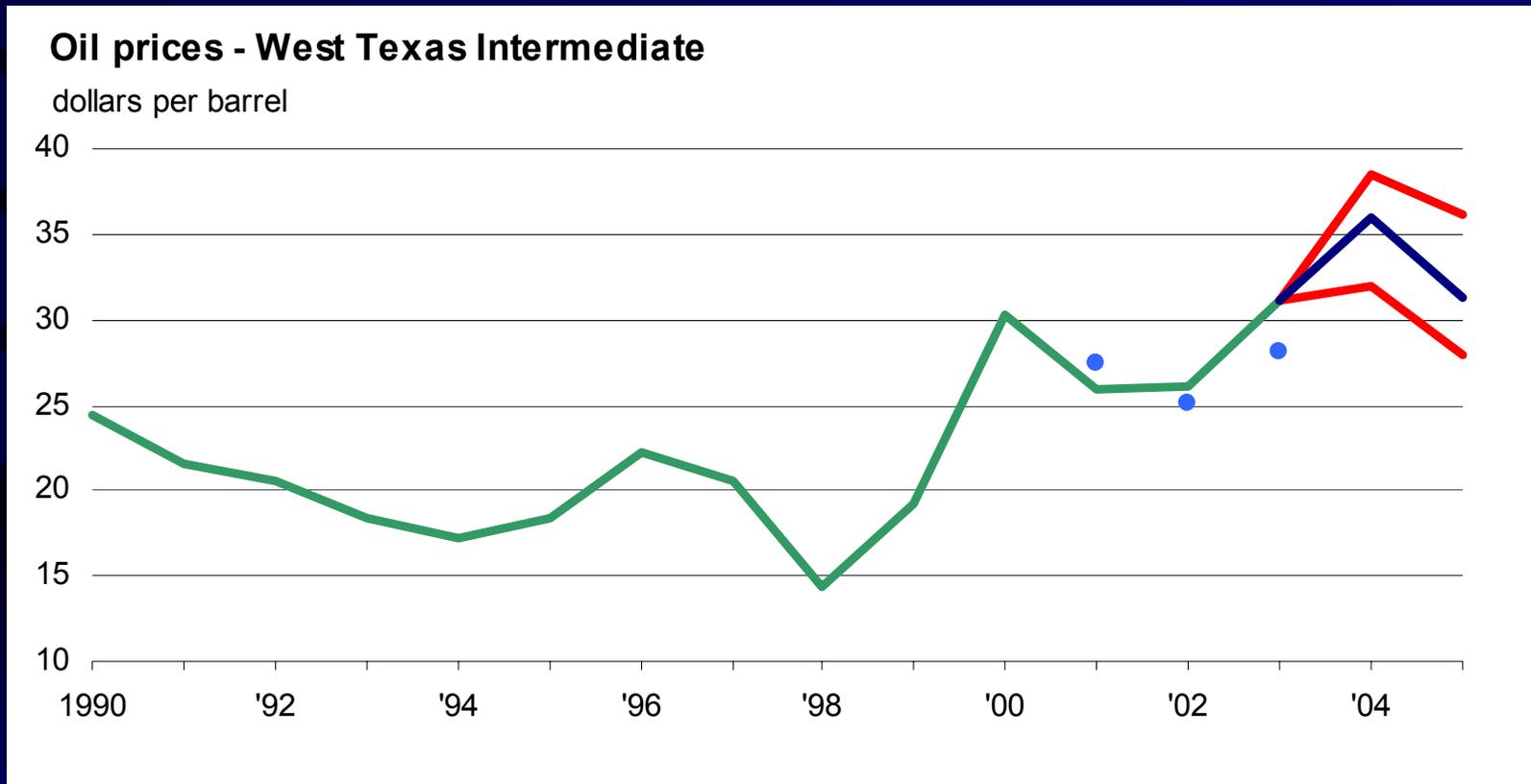
The dollar is forecast to fall by 3.1% this year and by 0.7% in 2005

J.P. Morgan trade-weighted dollar

percent change



**Oil prices are expected to average
just under \$36 per barrel this year
and then fall to around \$31 per barrel in 2005**



Summary

- **The economy is forecast to have a great year with above potential growth in 2004 and 2005**
- **Unemployment is expected to average 5.6% this year and then decline to 5.3% next year**
- **Inflation is expected to average 2.4% this year and 2.3% in 2005**
- **Light vehicle sales are forecast to rise to 16.8 in 2004 and 16.9 in 2005, making the years between 1999 and 2005 the seven strongest years for light vehicle sales**
- **www.chicagofed.org**