



16TH ANNUAL

AUTOMOTIVE OUTLOOK SYMPOSIUM

THURSDAY JUNE 4 / FRIDAY JUNE 5 / 2009

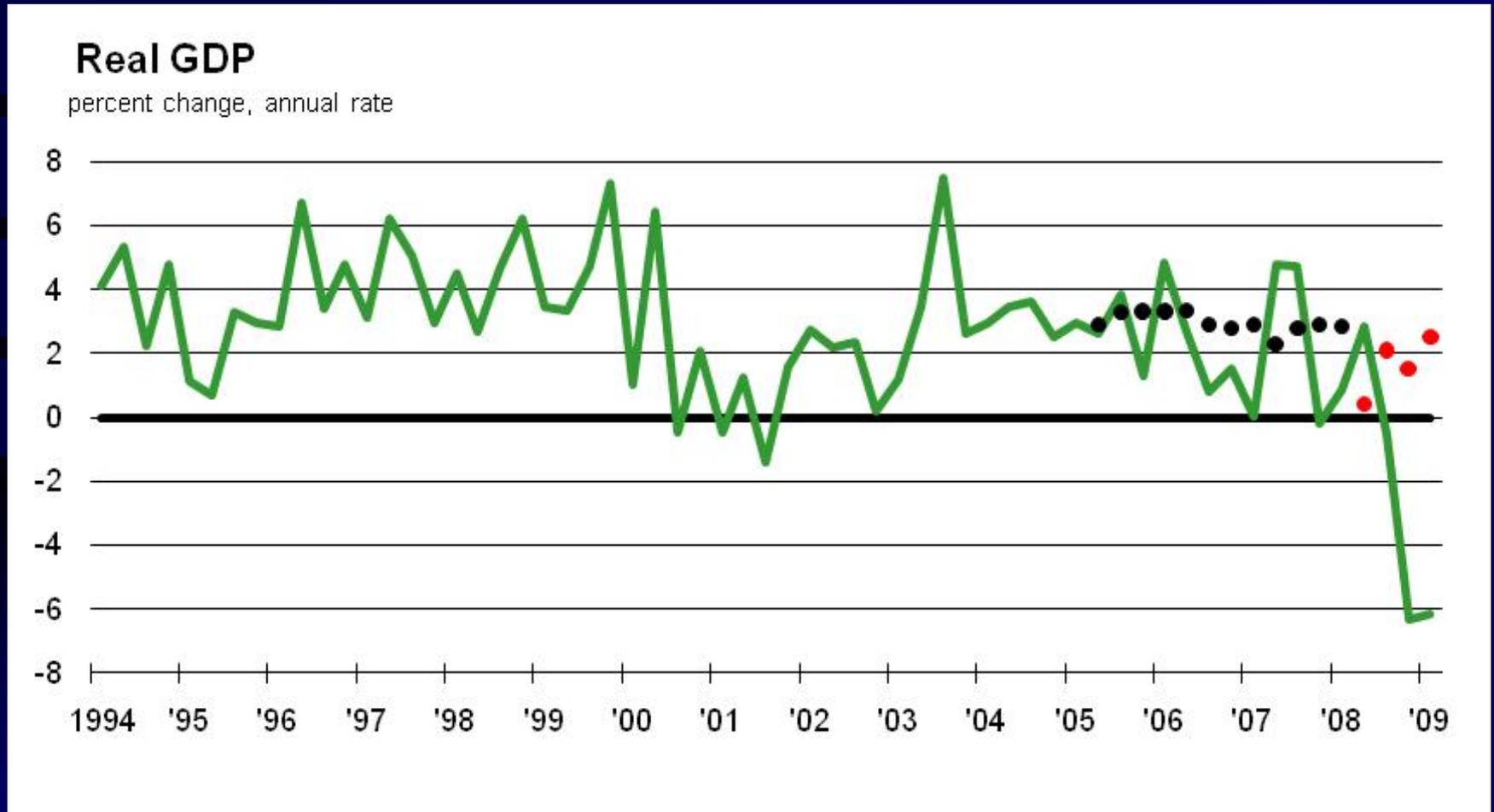
Consensus Forecast 2009 and 2010

**Sixteenth Annual
Automotive Outlook Symposium**
Detroit, Michigan
June 5, 2009

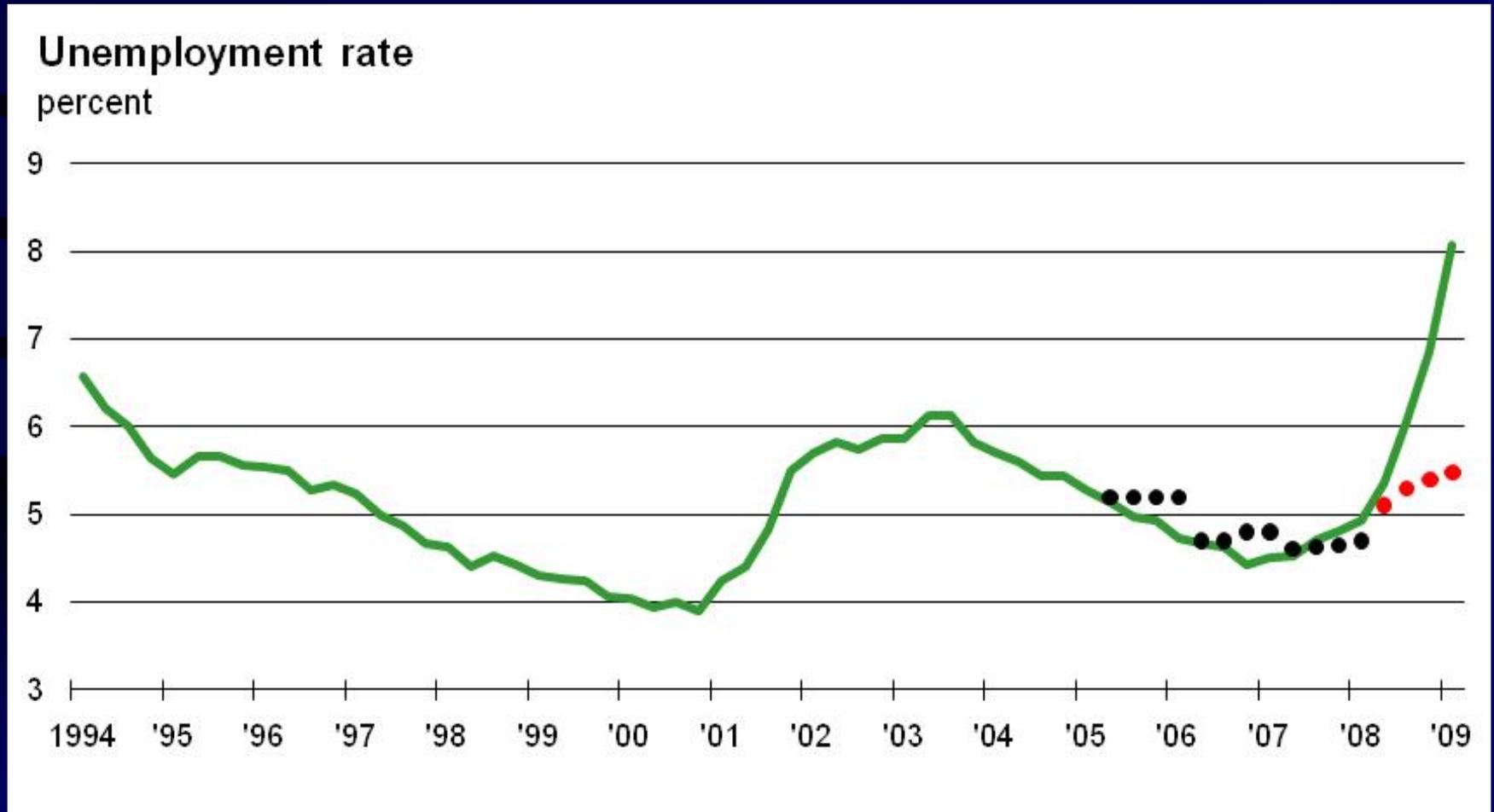
William Strauss
Senior Economist
and Economic Advisor
Federal Reserve Bank of Chicago

Review of past performance

The consensus group was forecasting a slower than trend pace for economic activity, but not too surprisingly, the consensus group did not anticipate the financial meltdown in September of last year and the ensuing collapse in GDP growth

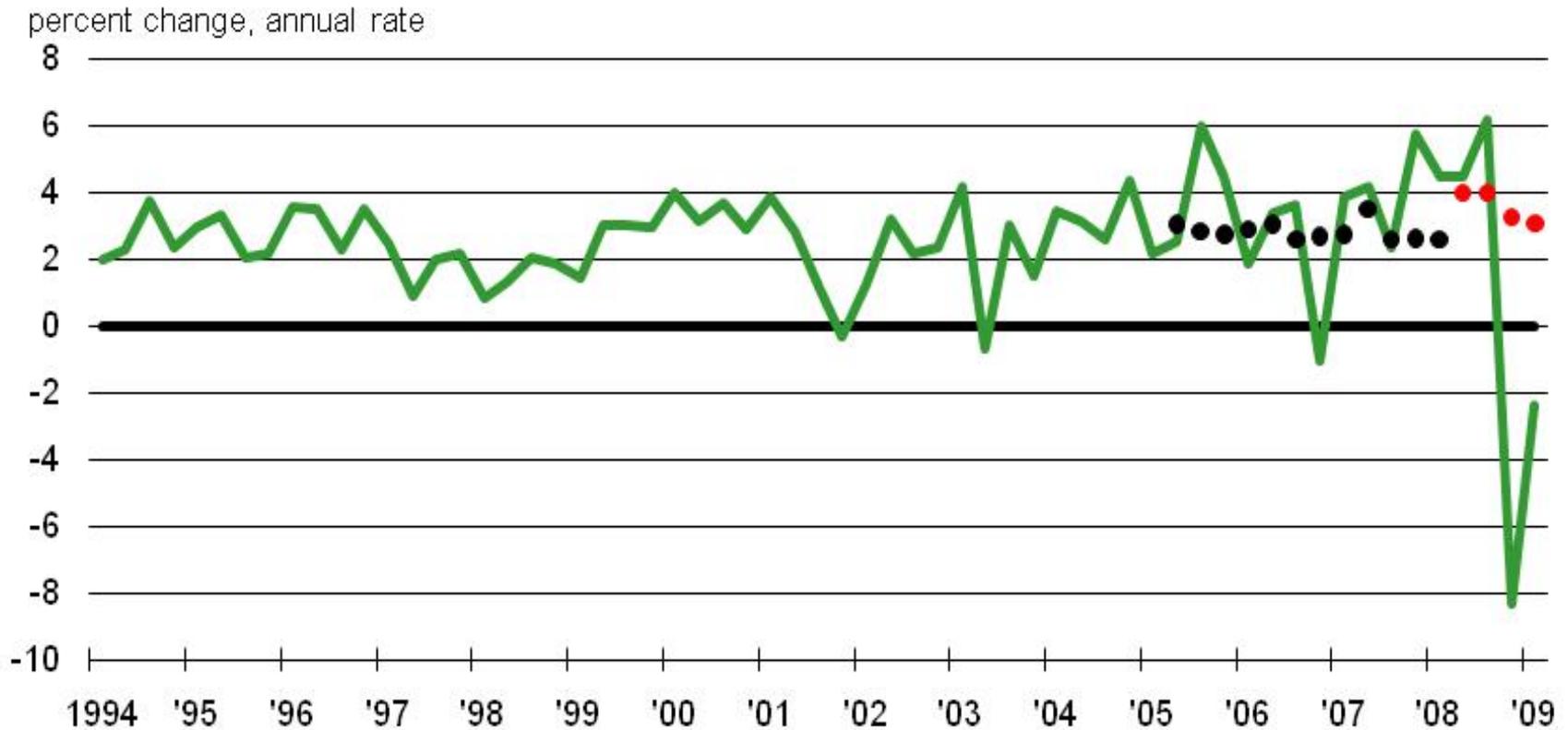


**Therefore the unemployment rate shot up
at a much faster pace than anticipated**



**Inflation was forecast to move lower,
but it went down at a more aggressive pace,
turning negative over the past two quarters**

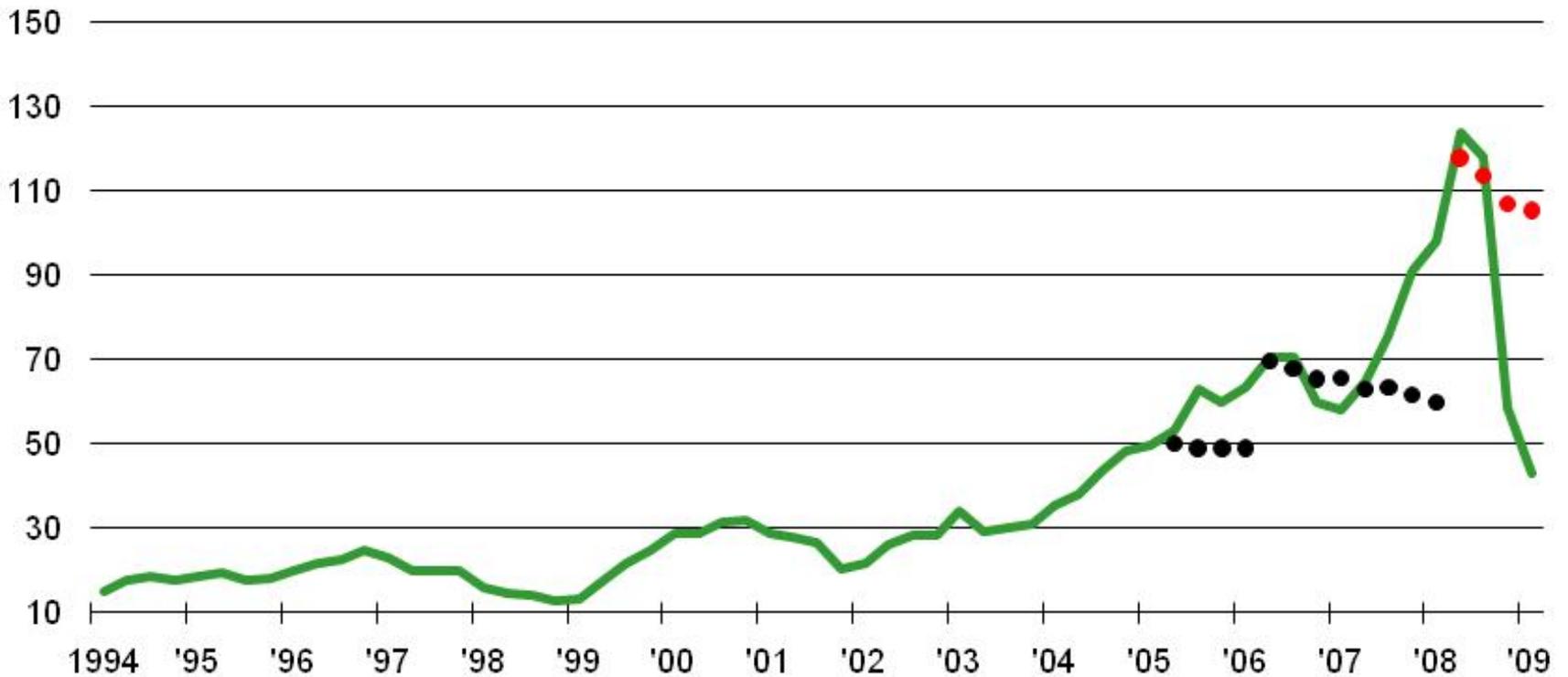
Inflation rate (CPI)



Of course this was in large part due to a collapse in energy prices

Oil prices - West Texas Intermediate

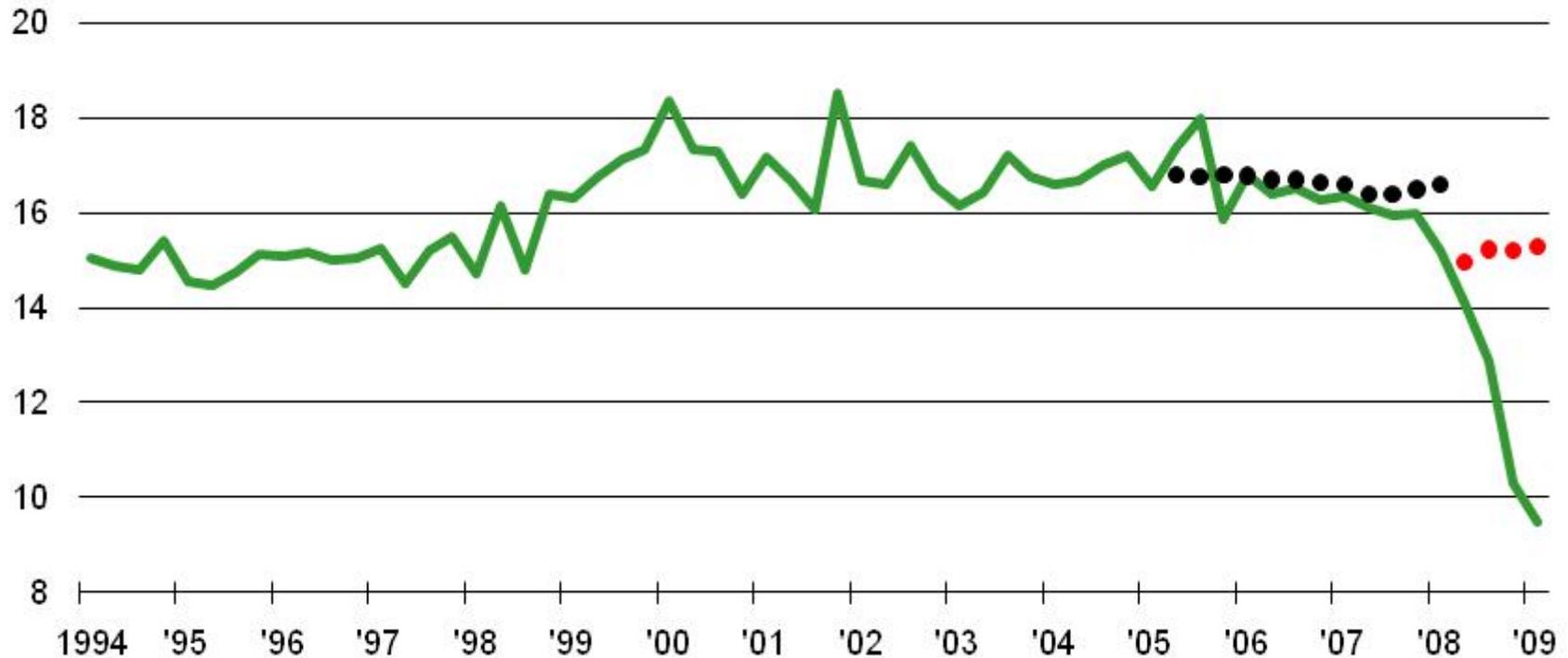
Dollars per barrel



Car and light truck sales were expected to hold steady, however they fell off quite sharply

Car and light truck sales

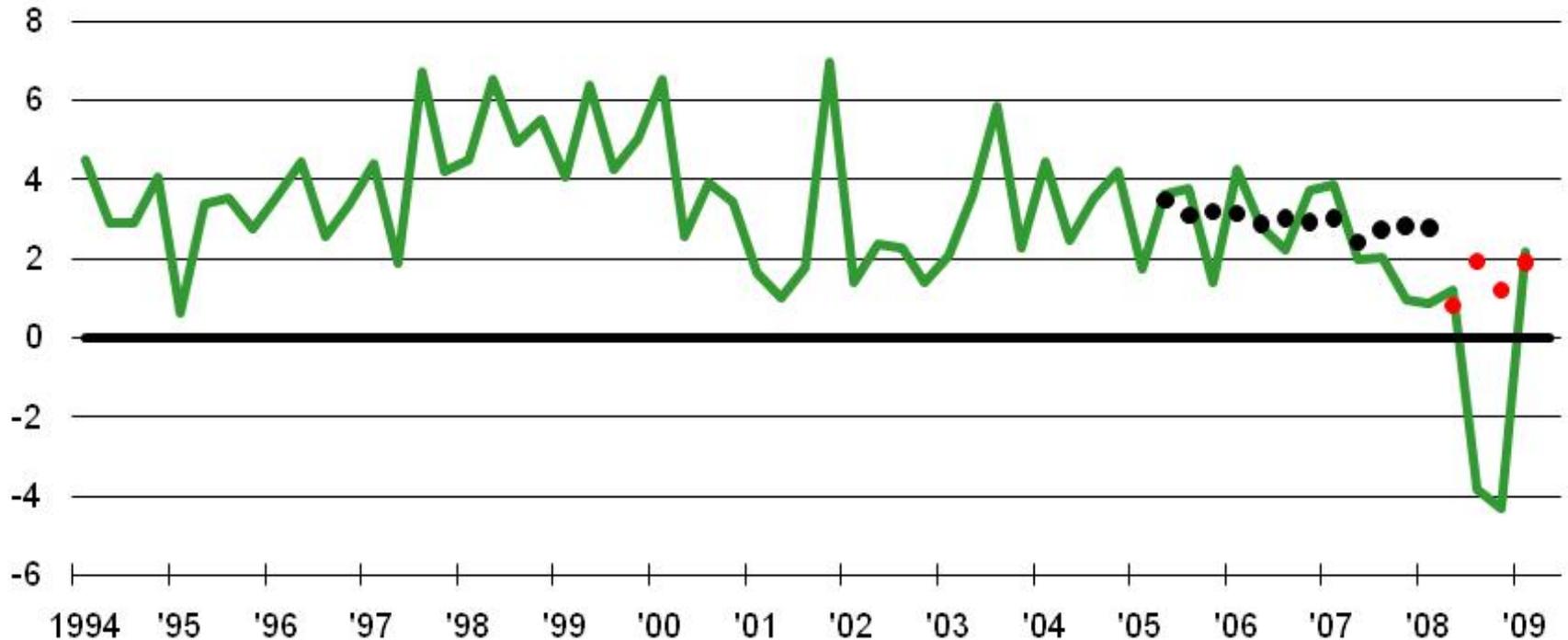
millions of units



Consumer spending growth was much weaker than predicted in the second half of last year

Personal consumption expenditures

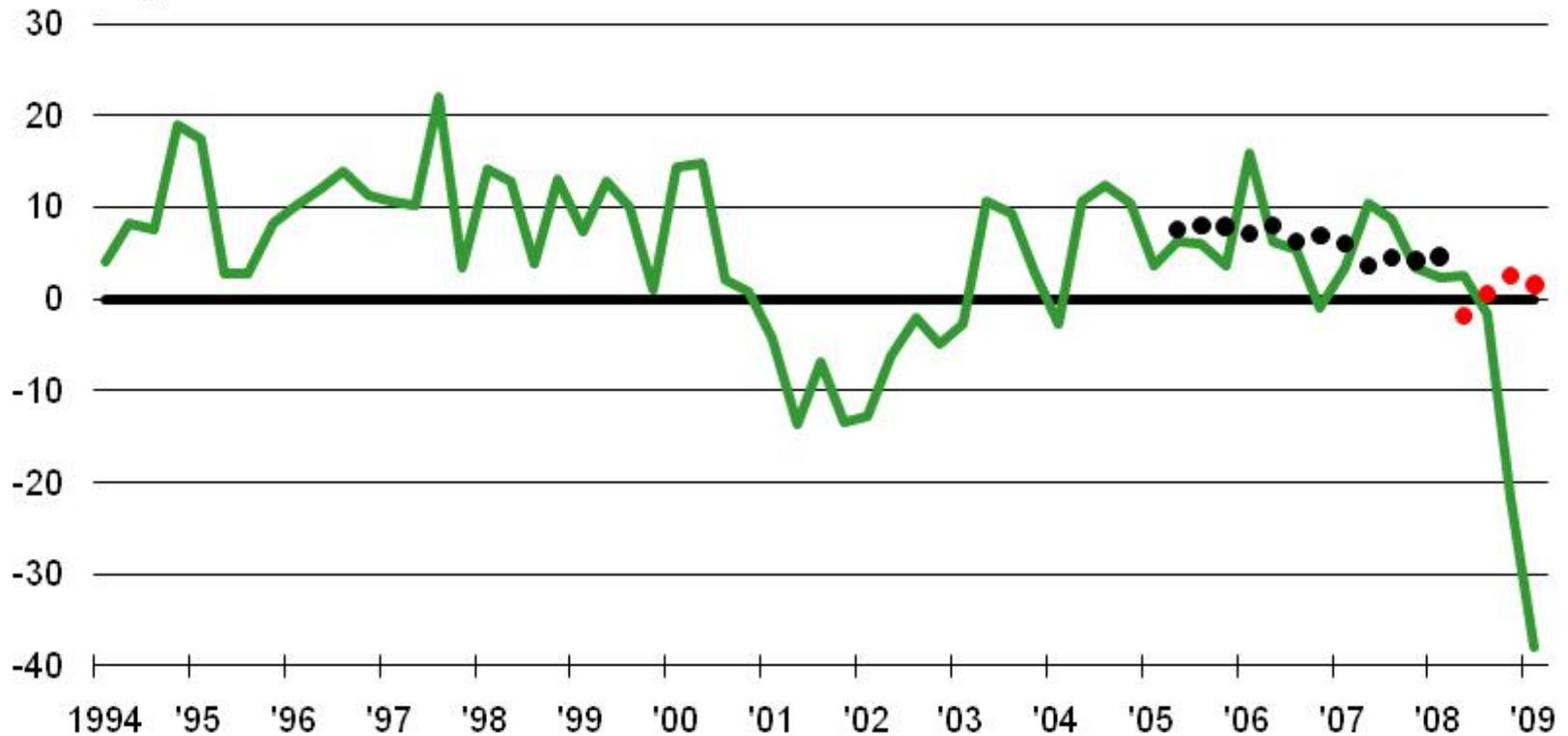
percent change, annual rate



Business investment growth fell rapidly over the past two quarters

Business fixed investment

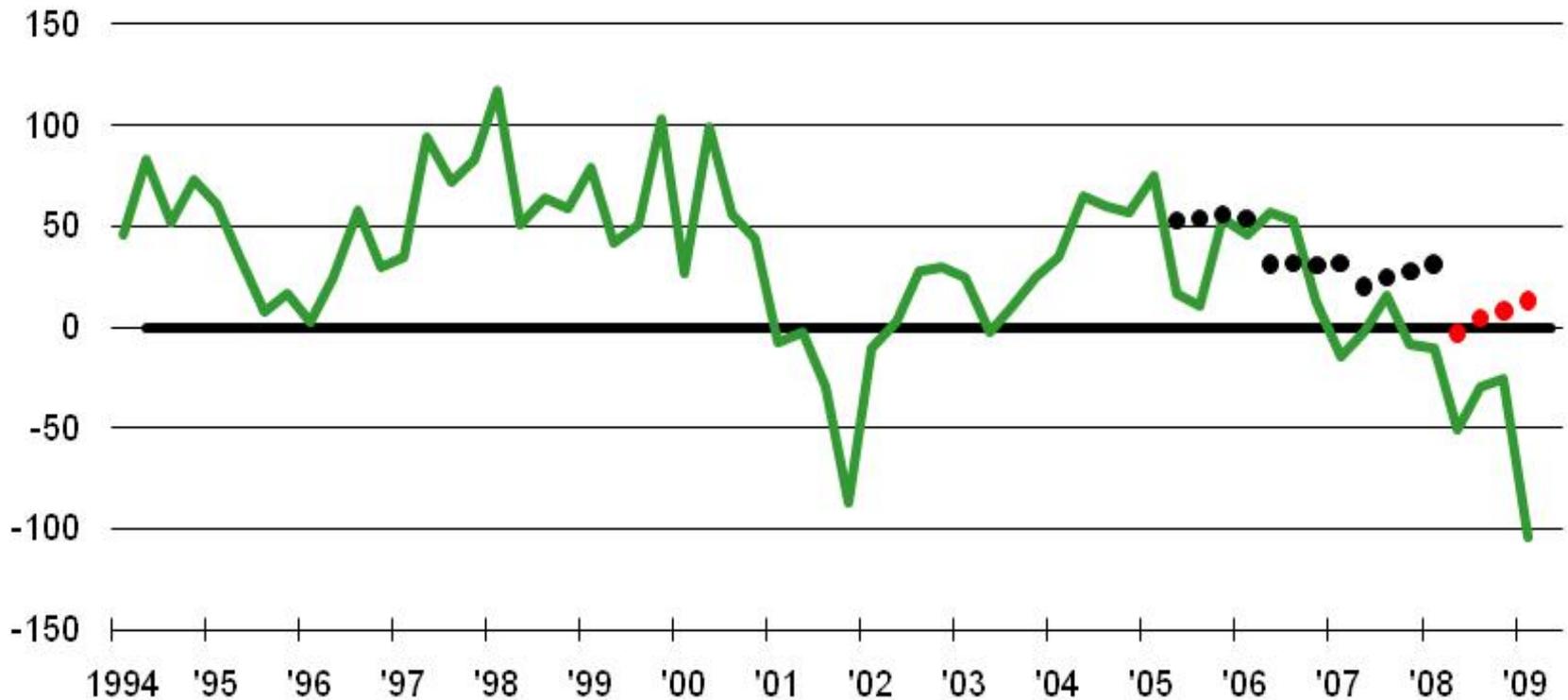
percent change, annual rate



Keeping up with declining sales, businesses cut their inventories at an aggressive pace

Change in private inventories

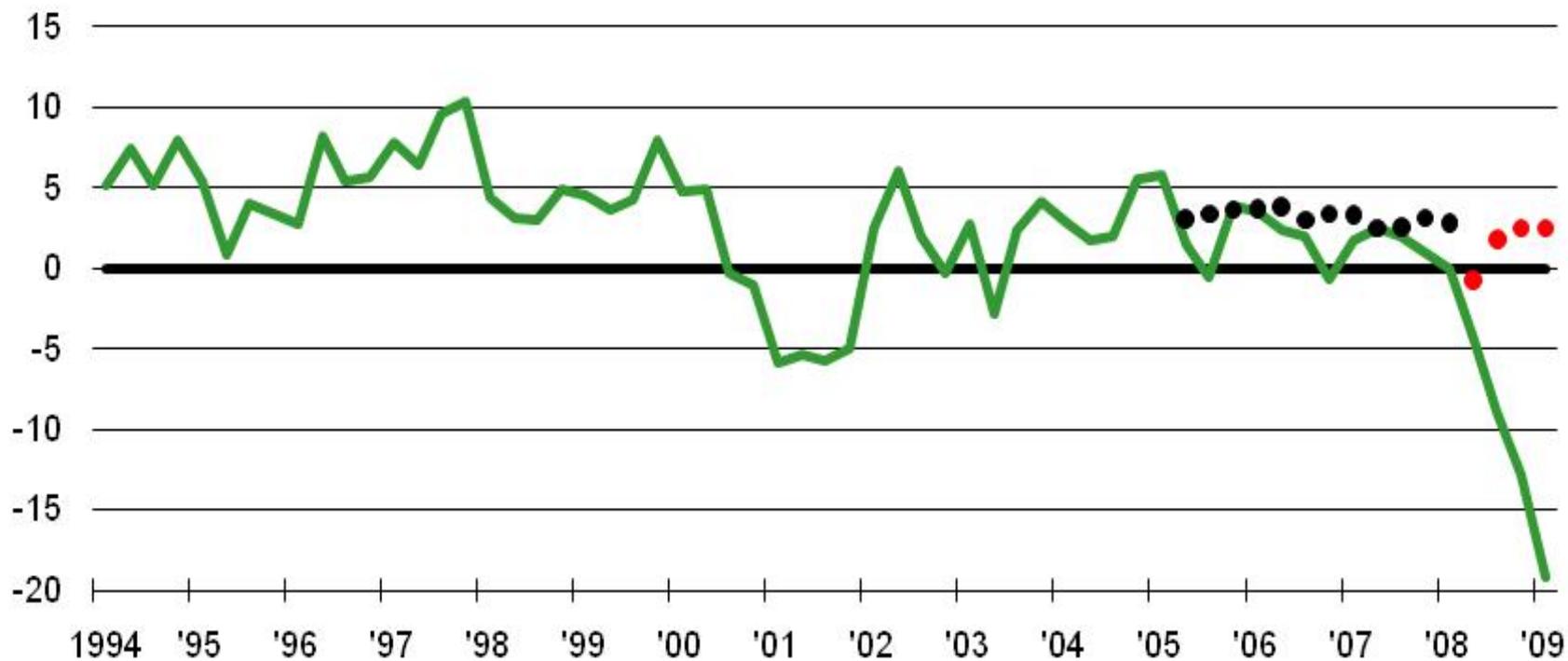
billions of constant dollars



Industrial production growth continued to weaken over each of the past four quarters

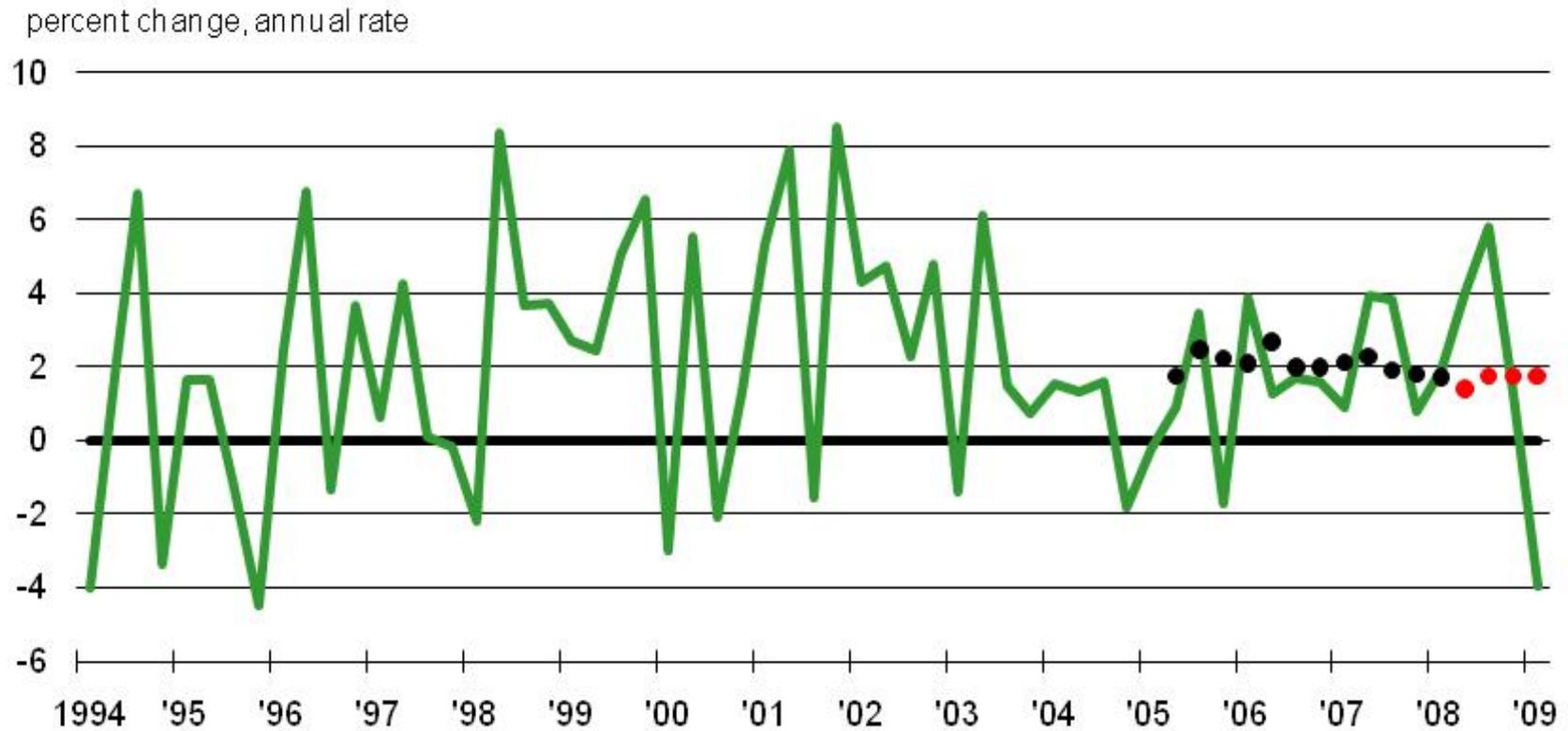
Industrial production

percent change, annual rate



While volatile, government spending has averaged around forecast

Government consumption



**For the third year in row,
the trade deficit improved
at a much faster rate than forecast**

Net exports of goods and services

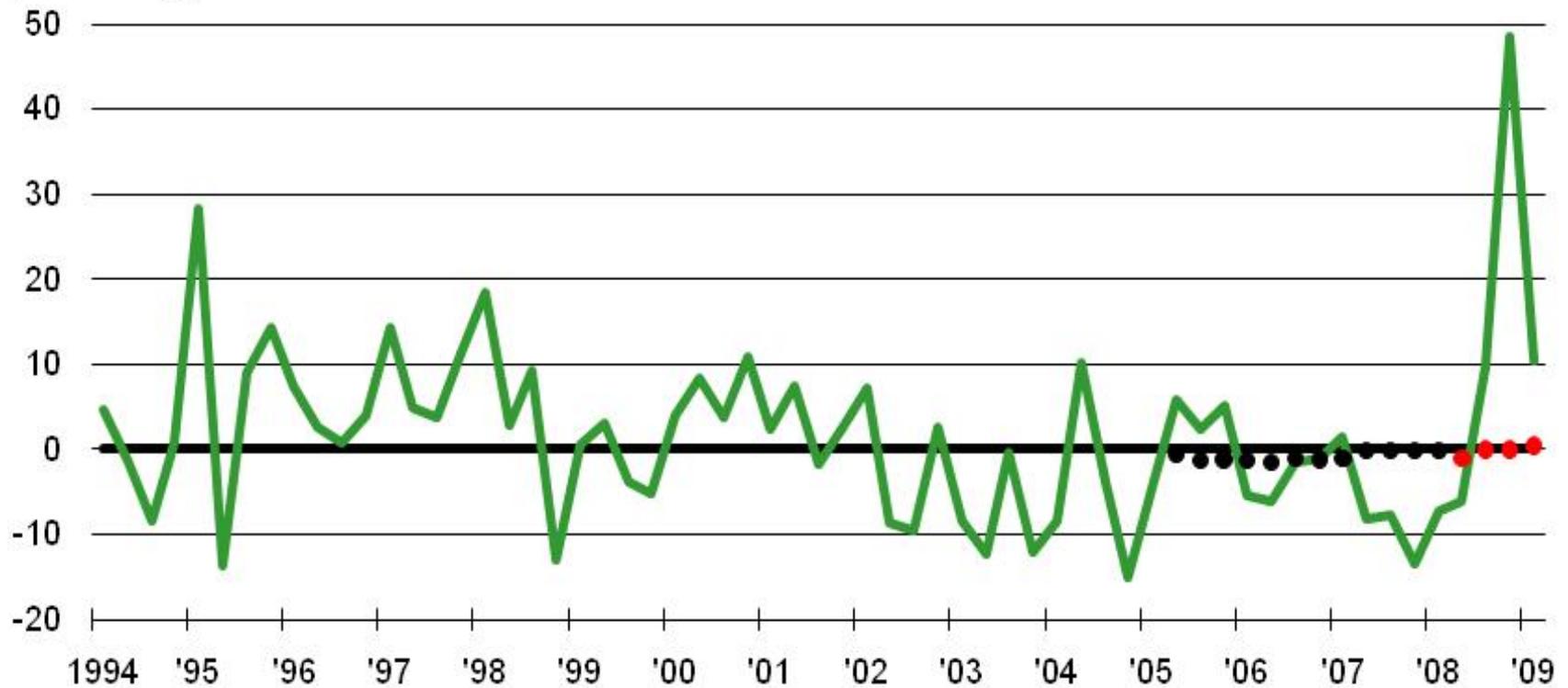
billions of constant dollars



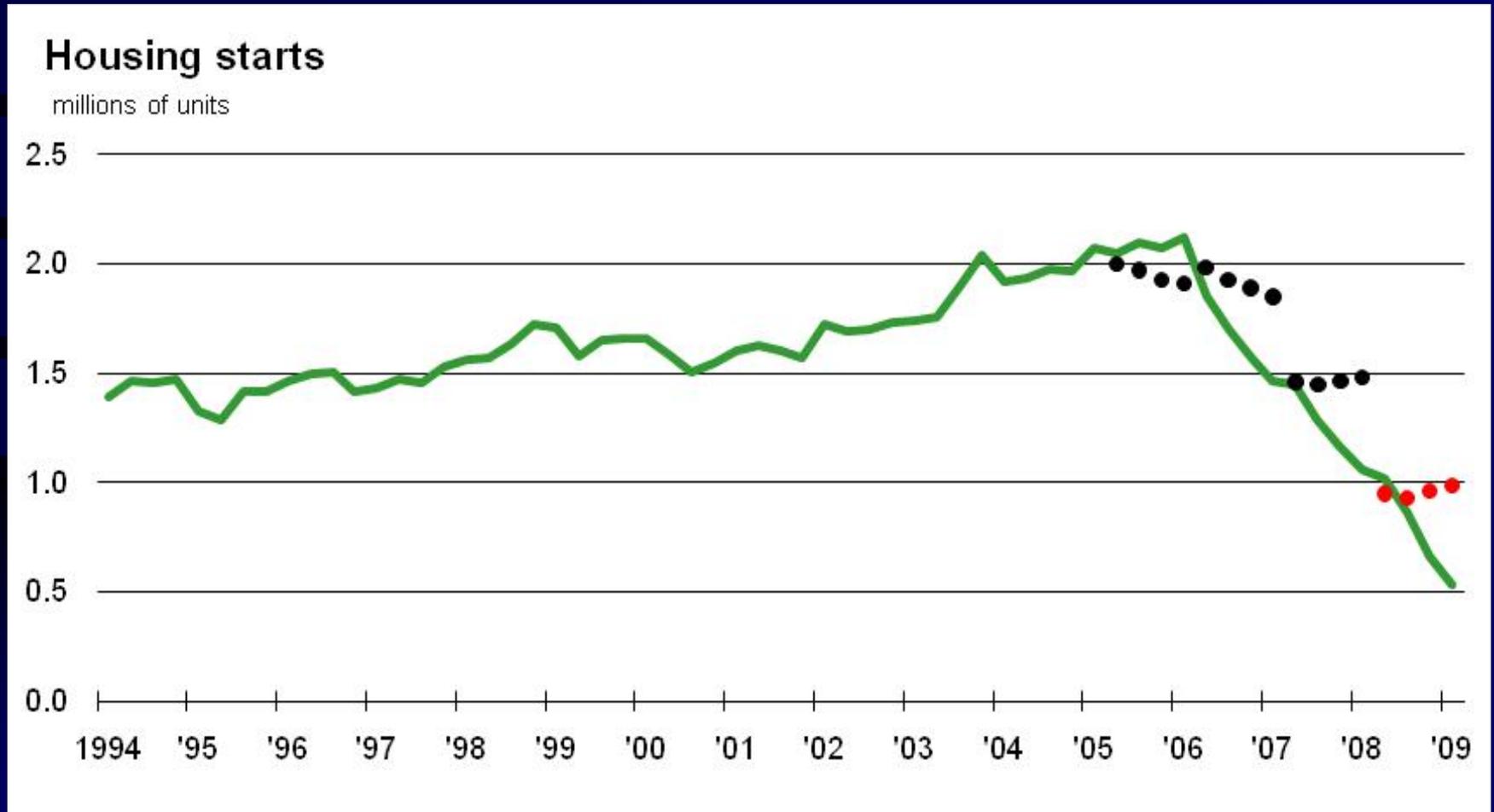
This improvement in trade might be challenged by weak growth around the world and a significant strengthening in the dollar

J.P. Morgan trade weighted dollar

percent change, annual rate



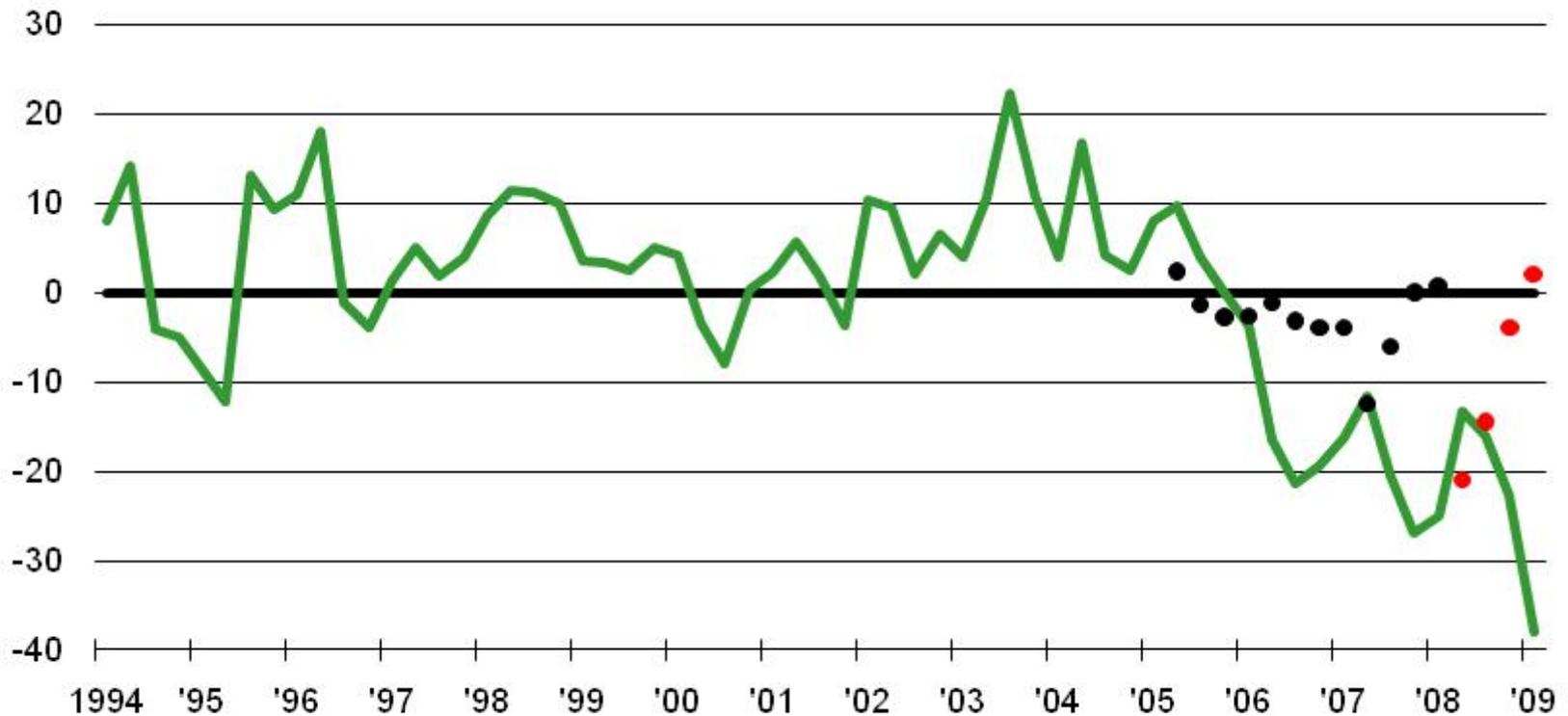
The consensus expected housing starts to bottom, however it continued to fall at a substantial rate, especially as the recession intensified



The greater weakness in housing starts than predicted led to a large miss on residential investment over the most recent two quarter

Residential investment

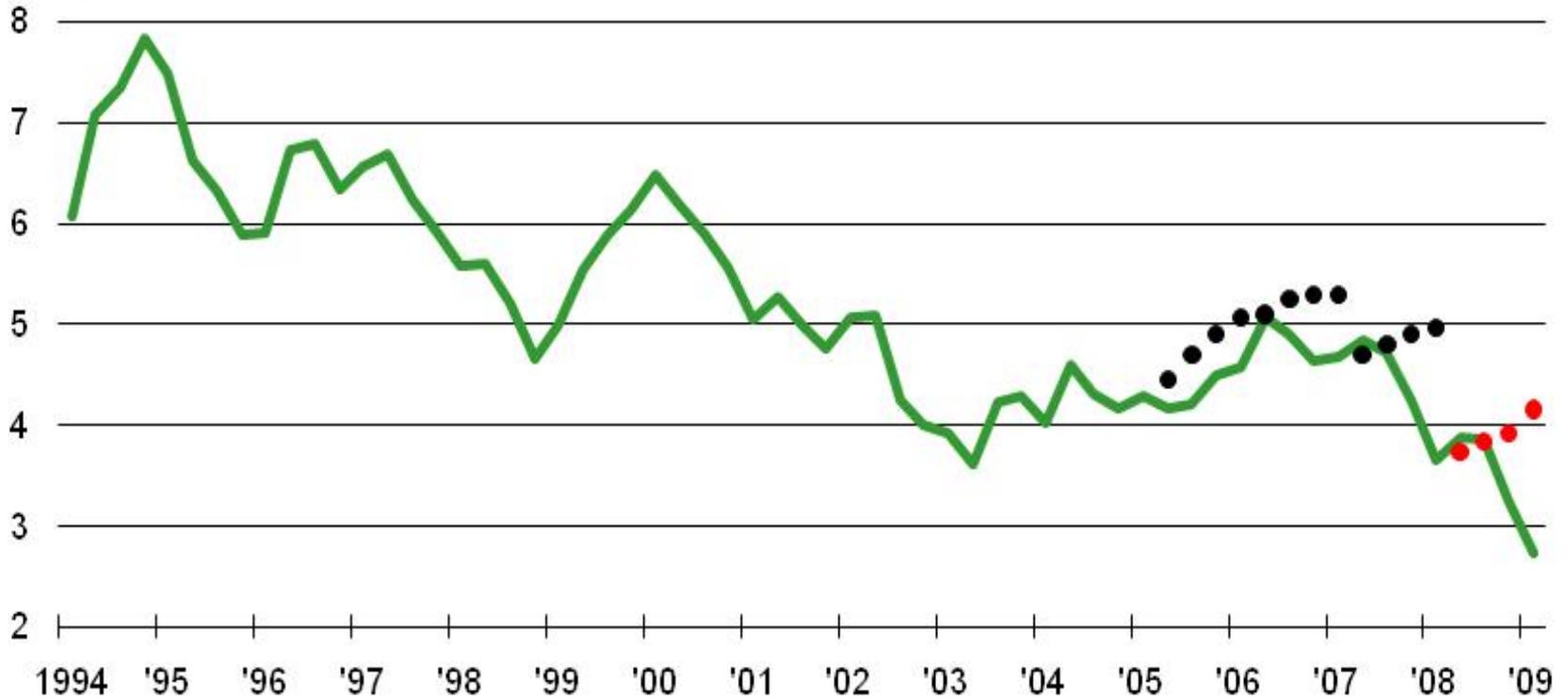
percent change, annual rate



Although it would be hard to place the blame on long-term interest rates which came in lower than expected

Treasury ten-year rate

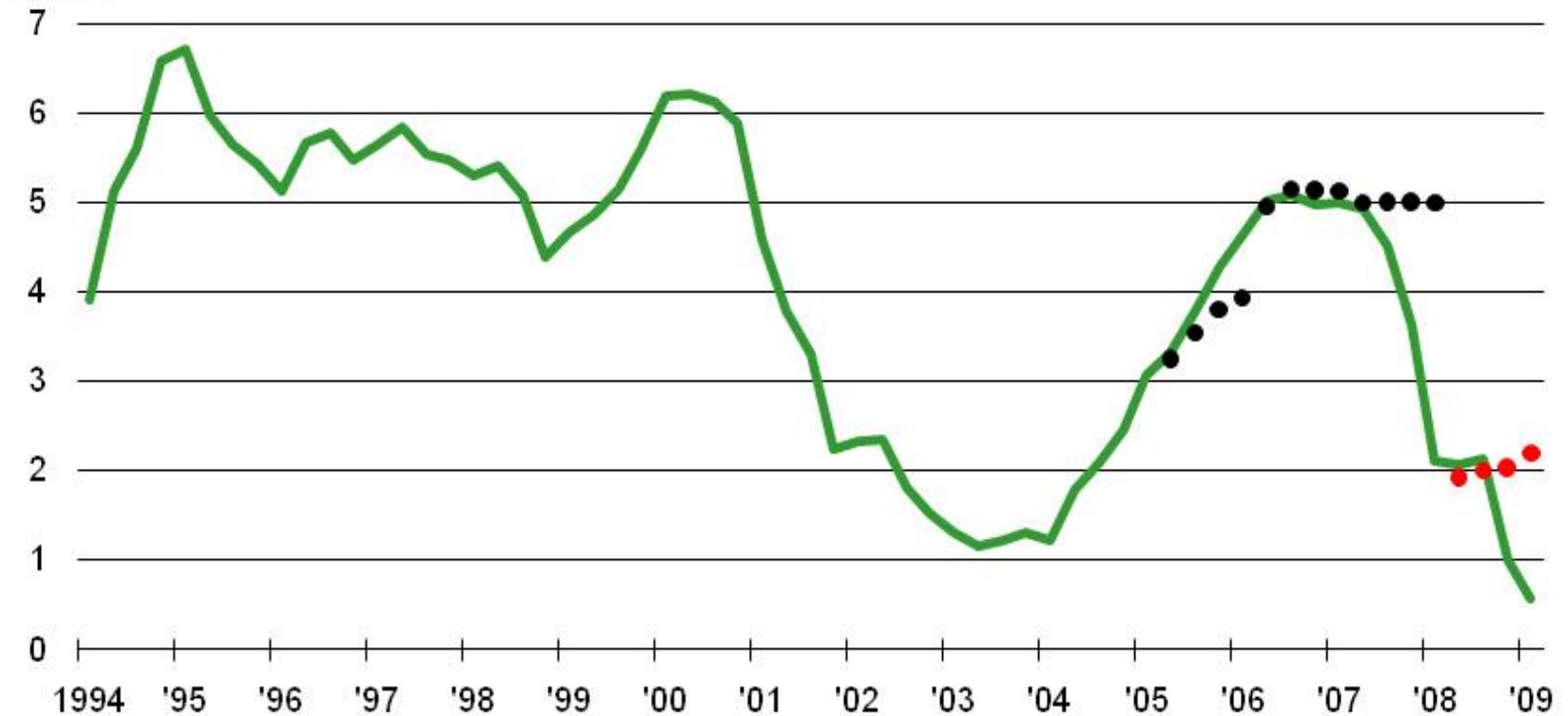
percent



Short-term interest rates were expected to remain flat, however they fell quite sharply

Treasury one-year rate

percent



Forecast for 2009 and 2010

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

	2008	2009	2010
GDP, current dollars*	1.2%	-0.7%	4.2%
GDP price index, chain-type*	2.0%	1.5%	1.9%
Real GDP, chained dollars*	-0.8%	-1.8%	3.2%
Personal consumption expenditures*	-1.5%	0.8%	2.3%
Business fixed investment*	-5.2%	-18.8%	2.0%
Residential investment*	-19.4%	-16.8%	5.8%
Change in private inventories (billions of constant dollars)**	-\$25.8	-\$10.0	\$28.1
Net exports of goods and services (billions of constant dollars)**	-\$364.5	-\$333.8	-\$339.2
Government consumption expenditures and gross investment*	3.2%	1.7%	2.9%

*Q4 over Q4

**Q4 value

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

	2008	2009	2010
Industrial production*	-6.7%	-7.5%	5.4%
Car & light truck sales (millions - calendar year including imports)***	13.2	9.7	11.3
Housing starts (millions)***	0.90	0.53	0.74
Oil price (dollars per barrel of West Texas Intermediate)**	\$58.37	\$56.00	\$65.50
Unemployment rate**	6.9%	9.9%	9.5%
Inflation rate (consumer price index)*	1.5%	-0.5%	1.6%
Treasury constant maturity 1-year rate**	0.99%	0.71%	1.30%
Treasury constant maturity 10-year rate**	3.25%	3.02%	3.75%
J.P. Morgan trade weighted OECD dollar*	9.2%	3.9%	0.9%

*Q4 over Q4

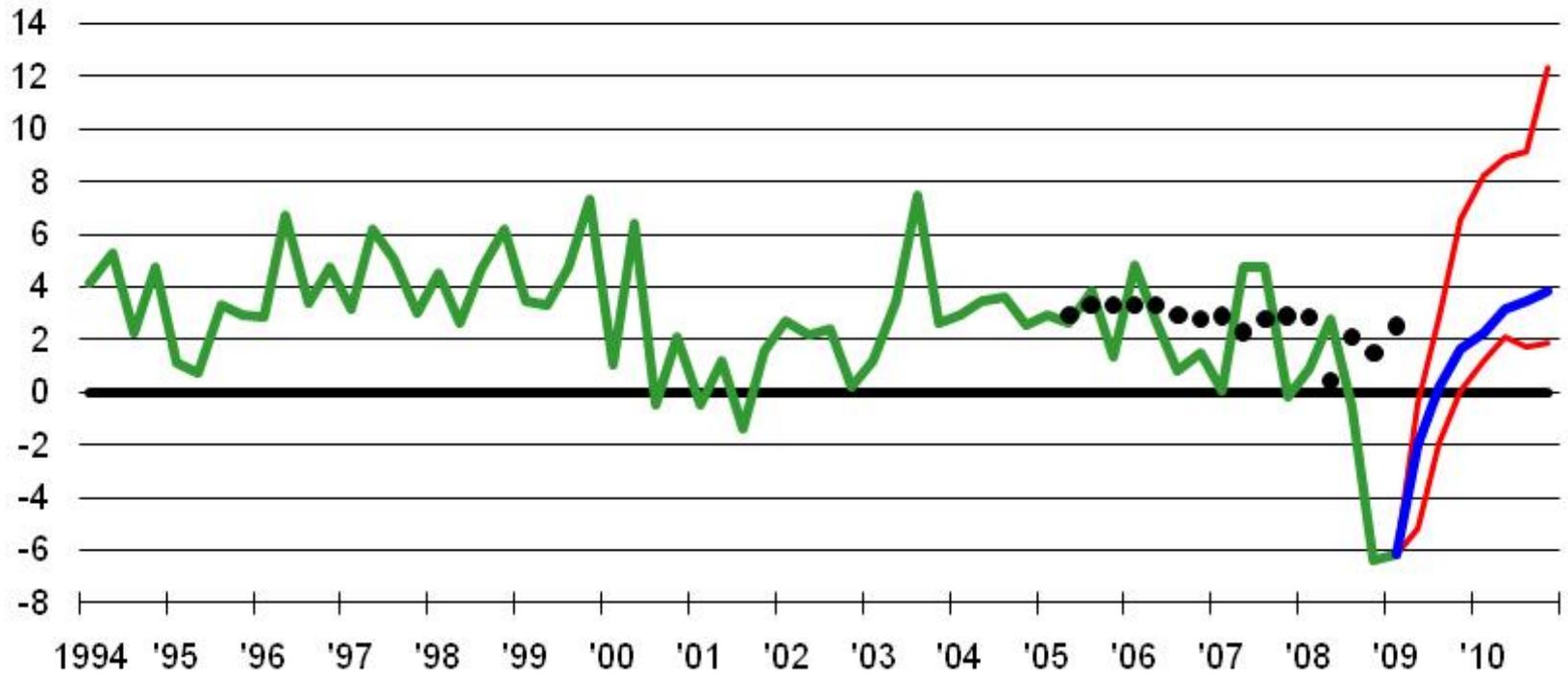
**Q4 value

*** Yearly average

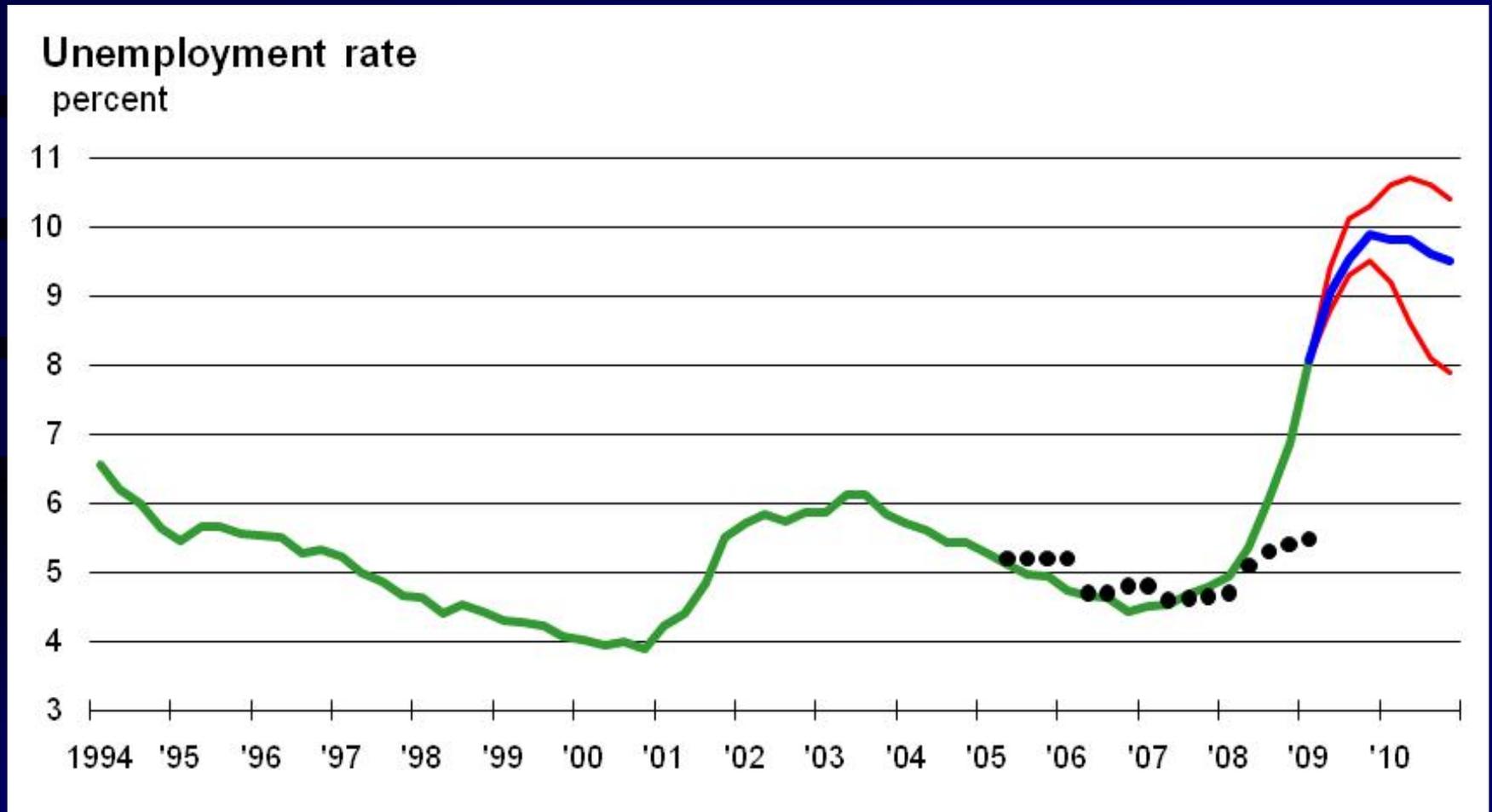
Real GDP growth is forecast to remain weak through the end of this year, turning positive in the third quarter, and then improve closer to trend growth in 2010

Real GDP

percent change, annual rate



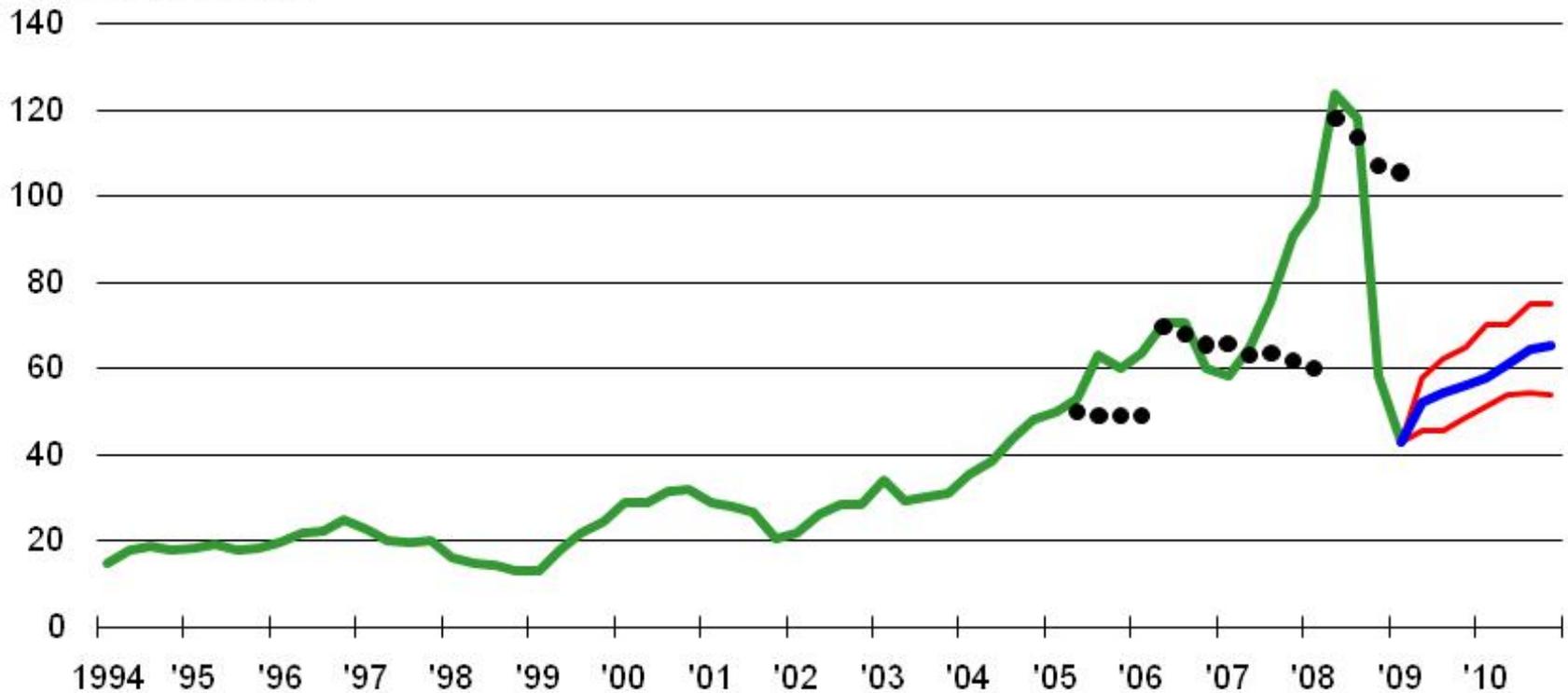
The unemployment rate is forecast to peak at 9.9% in the fourth quarter of this year and then edge lower to 9.5% by the end of next year



Oil prices are expected to move higher reaching \$65.50 by the end of next year

Oil prices - West Texas Intermediate

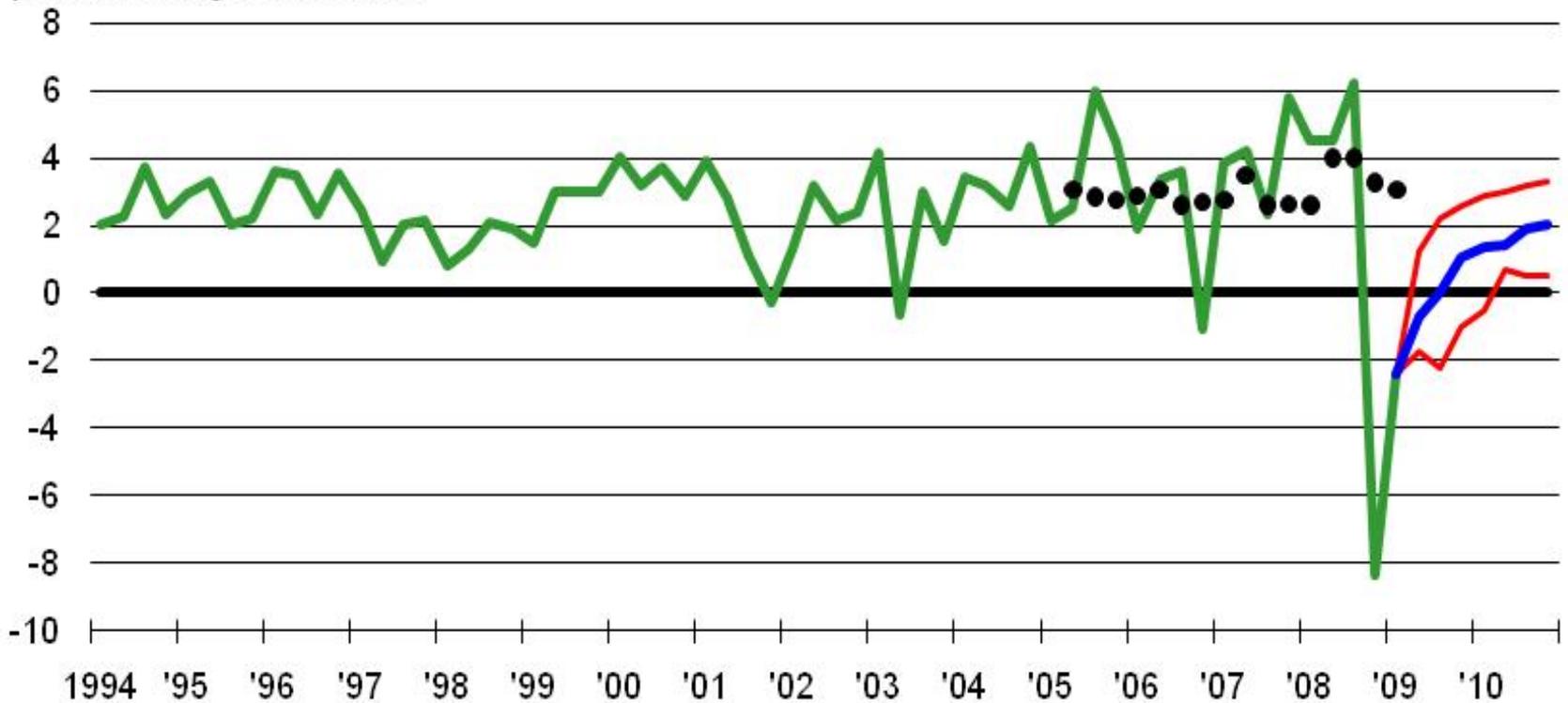
Dollars per barrel



The inflation rate is expected to rise to 2.1% by the end of 2010

Inflation rate (CPI)

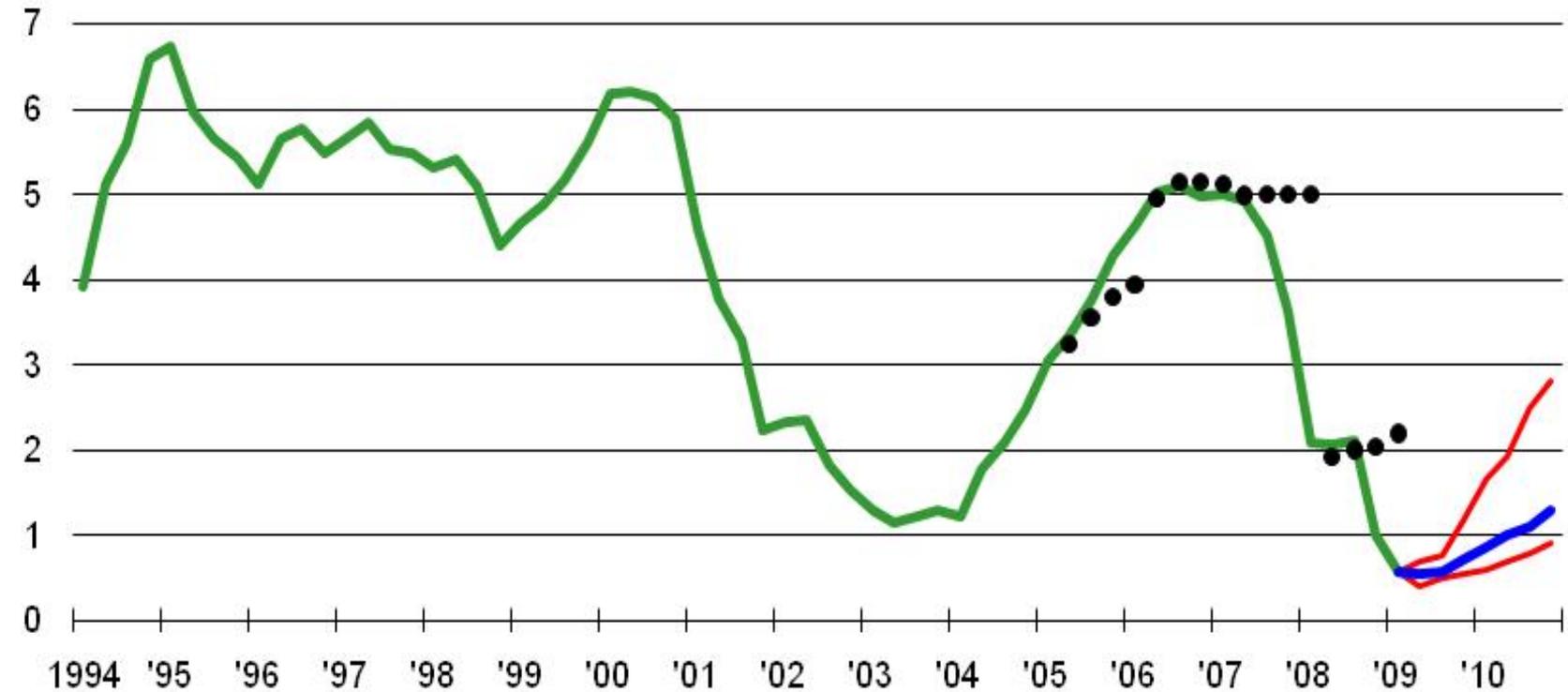
percent change, annual rate



Short-term interest rates are forecast to remain low over the next year and half rising to 1.3% by the final quarter of 2010

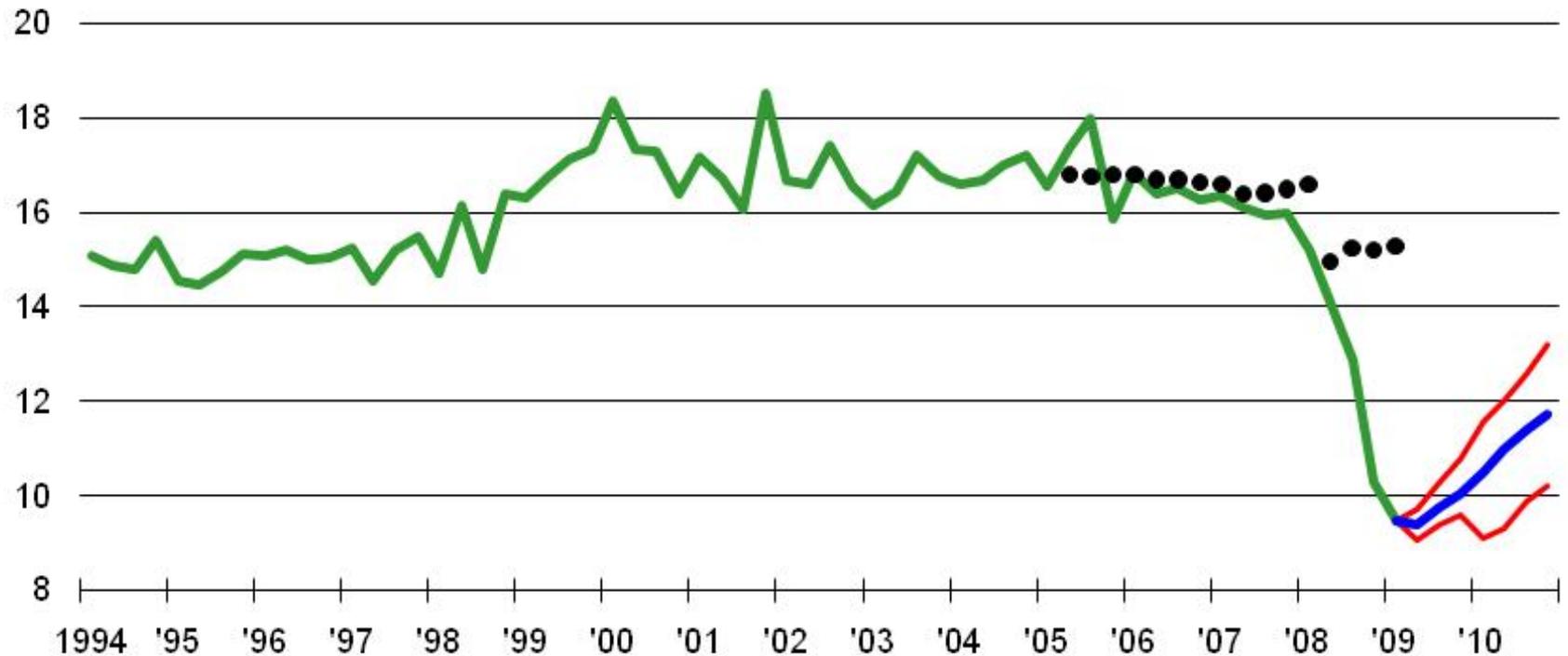
Treasury one-year rate

percent



Light vehicle sales are forecast to move higher over the forecast horizon, averaging 9.7 million units this year and then rise to a still very low 11.3 million units in 2010

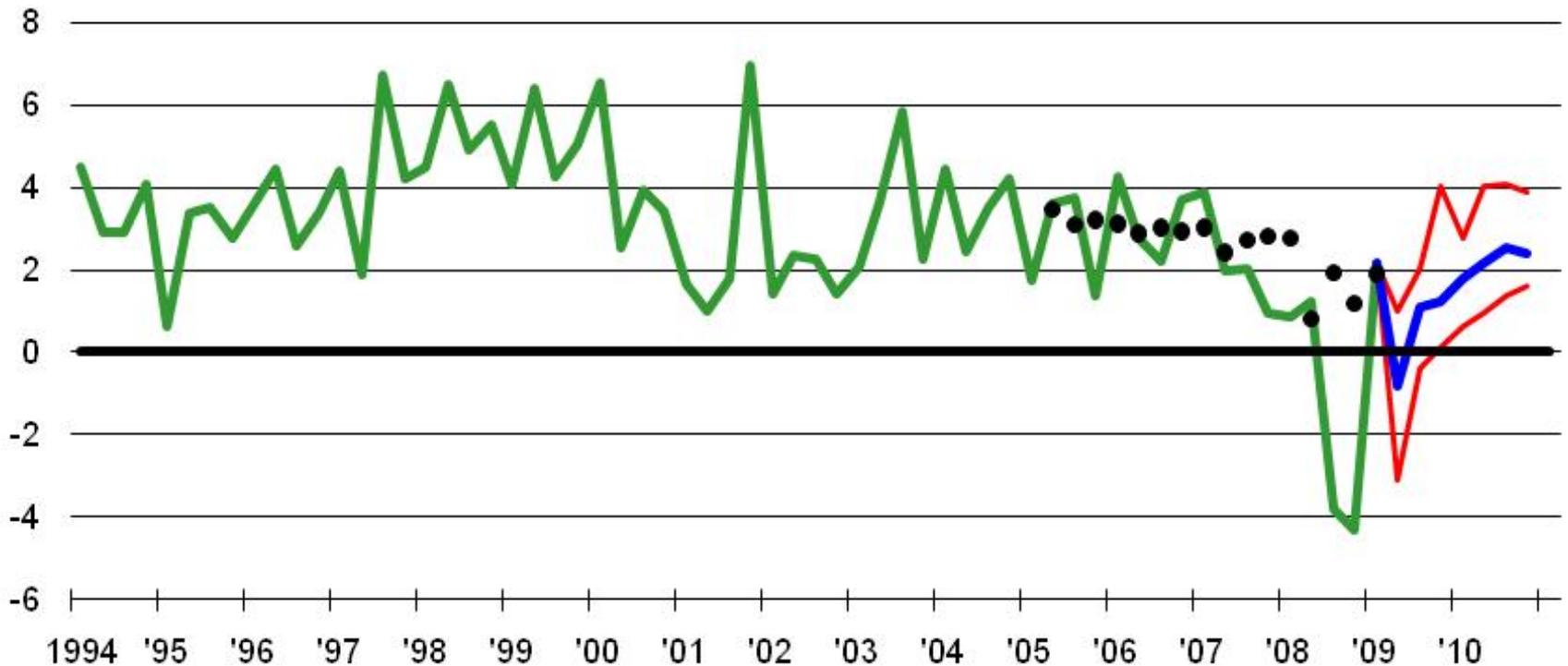
Car and light truck sales
millions of units



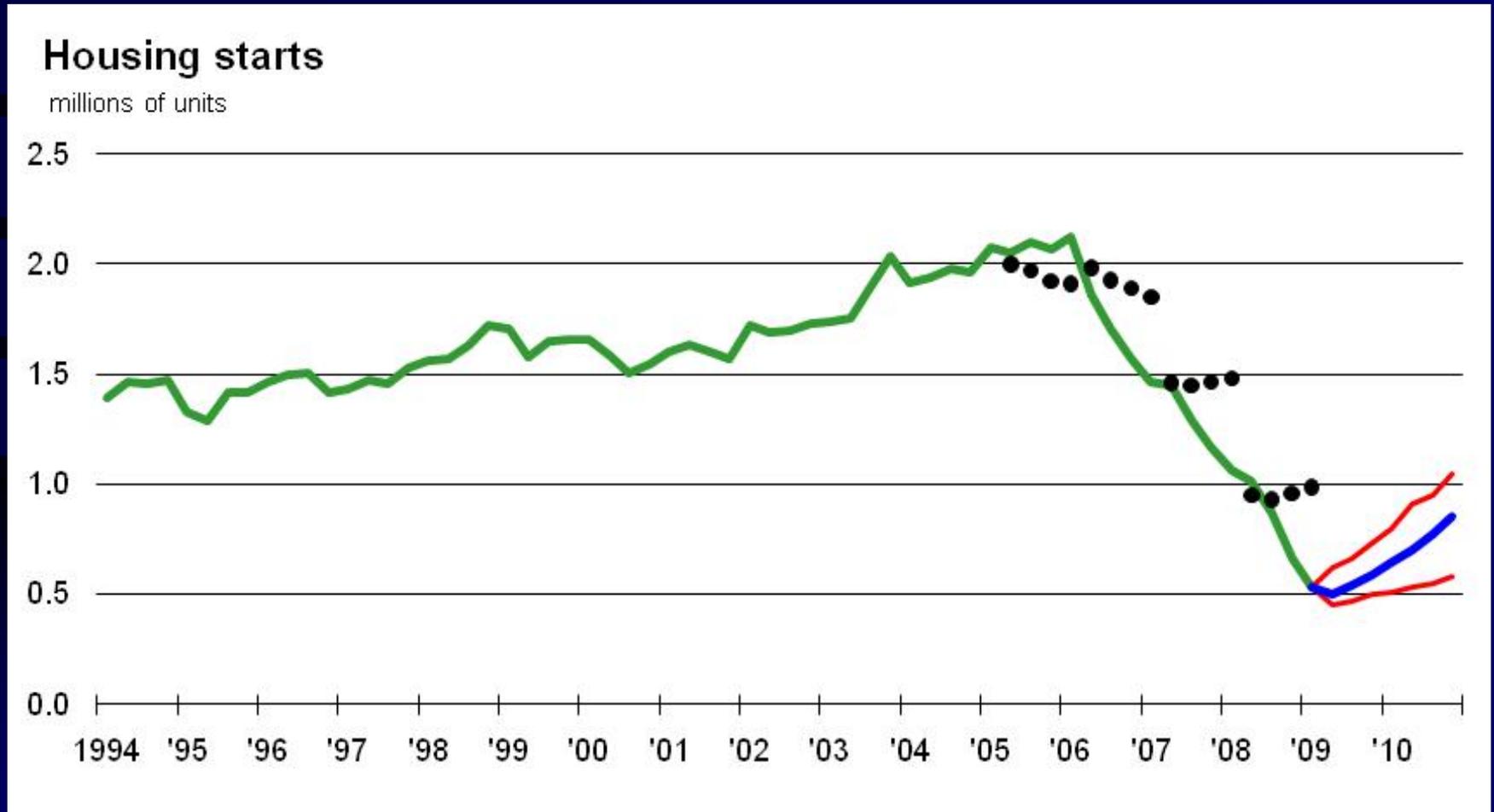
Similarly, consumption growth is expected to improve through 2010

Personal consumption expenditures

percent change, annual rate



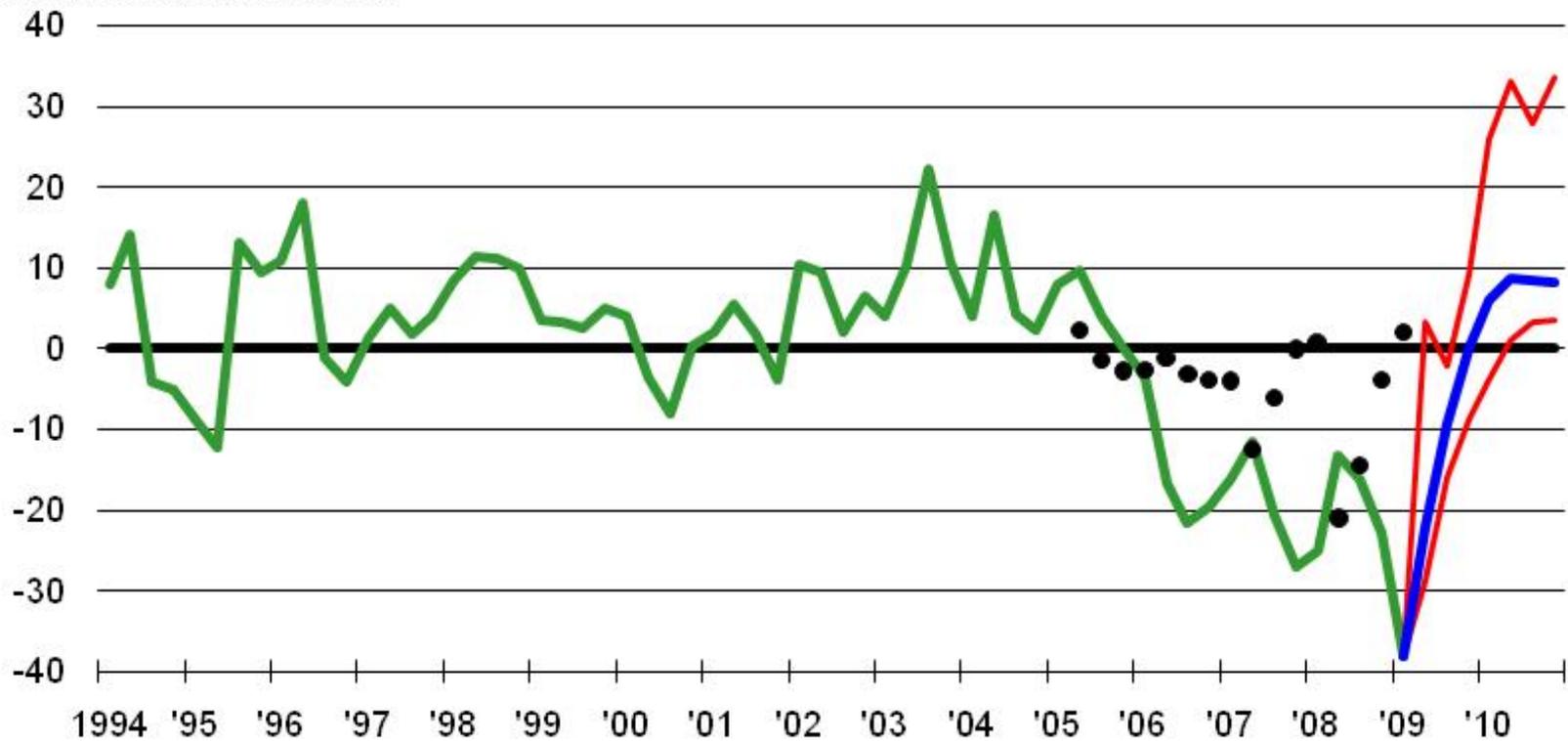
Housing starts are expected to bottom in the second quarter of this year, and then edge higher over the rest of the forecast horizon



Residential investment is forecast to turn positive in the first quarter of next year

Residential investment

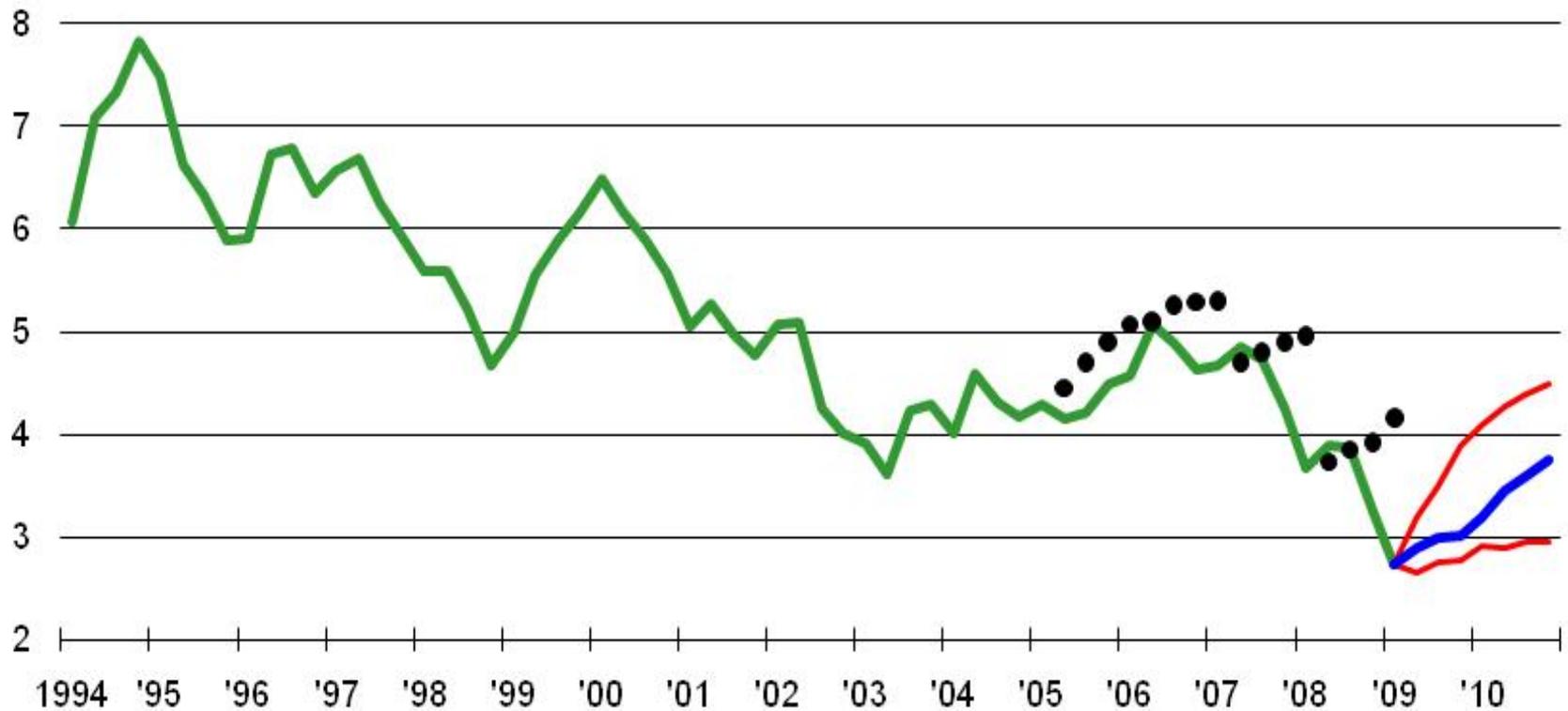
percent change, annual rate



Long-term interest rates are forecast to rise to 3.75% by the end of 2010

Treasury ten-year rate

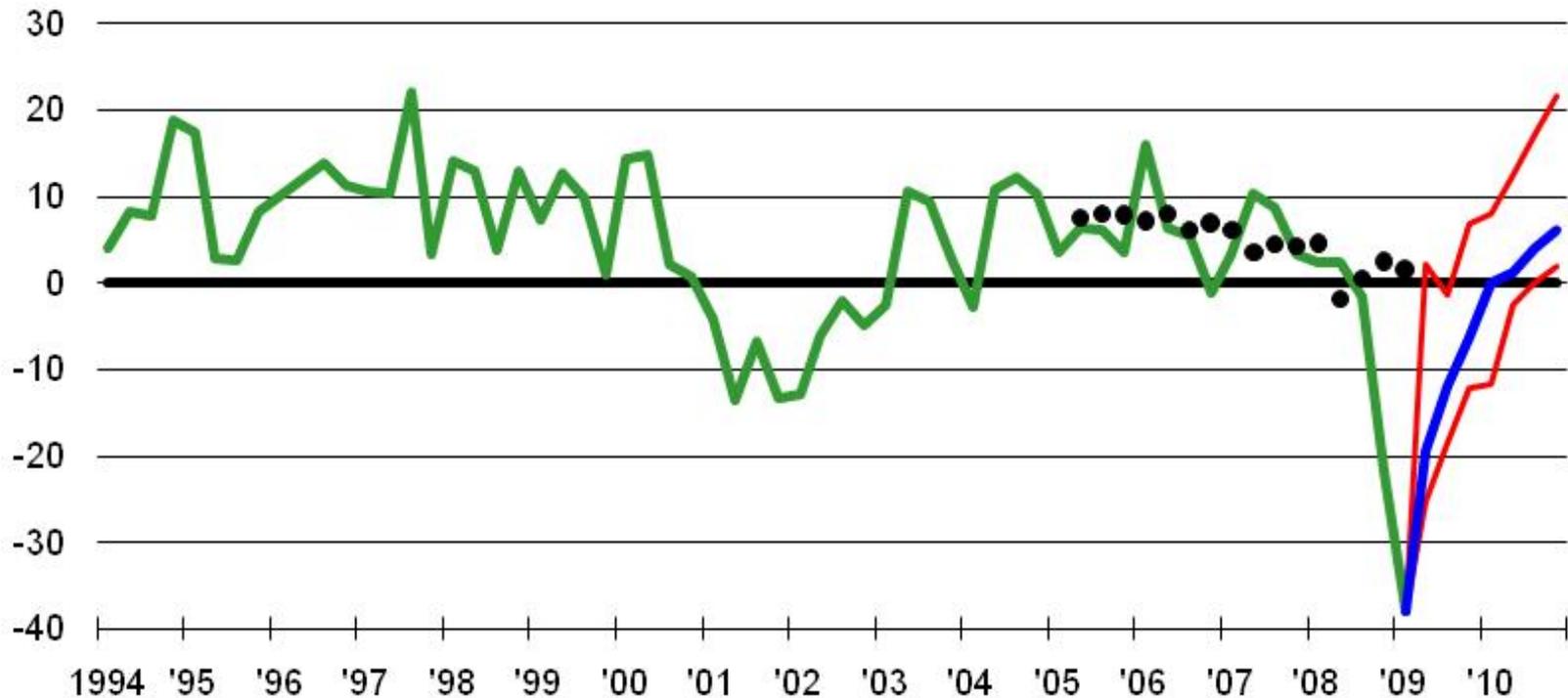
percent



Business spending is anticipated to continue to fall through the end of this year and then rise 2.0% next year

Business fixed investment

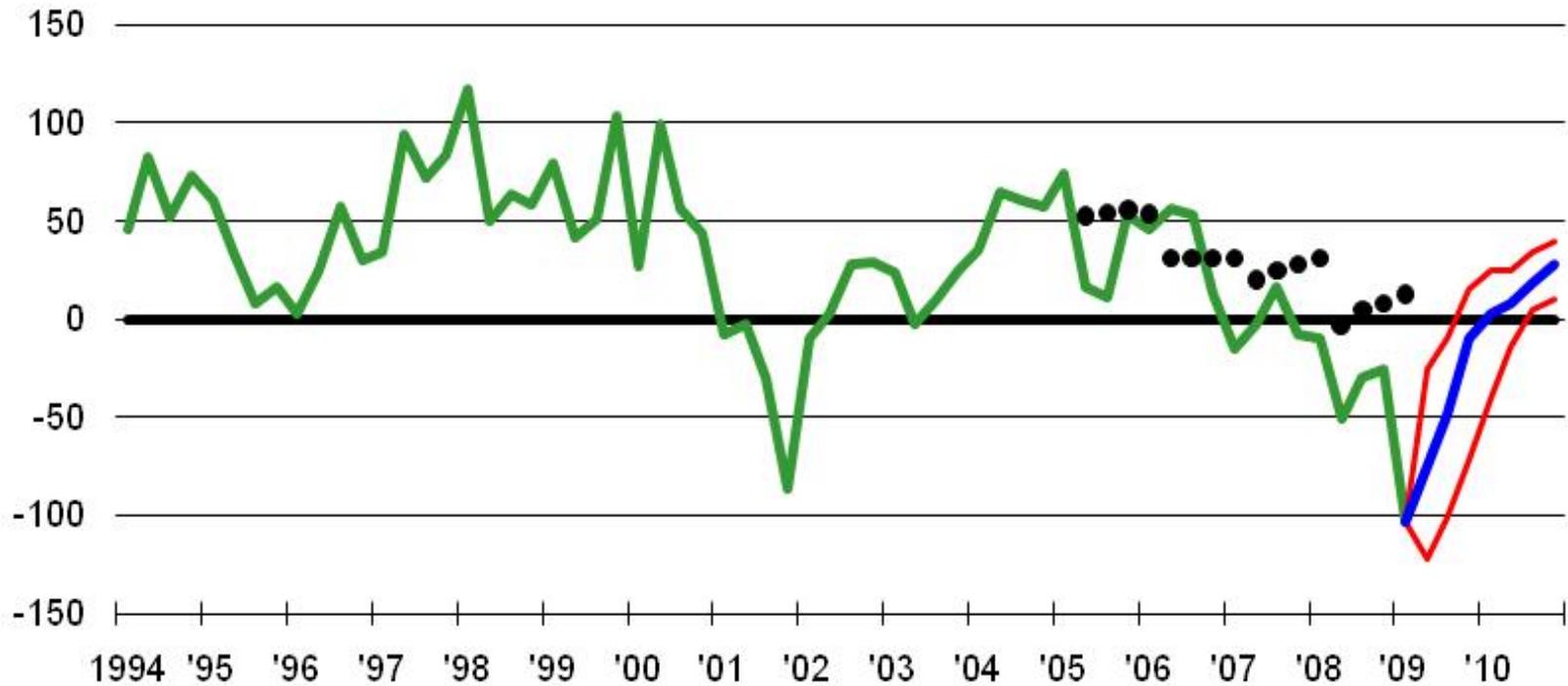
percent change, annual rate



Business is predicted to continue to shed inventories this year and then moderately add to inventories next year

Change in private inventories

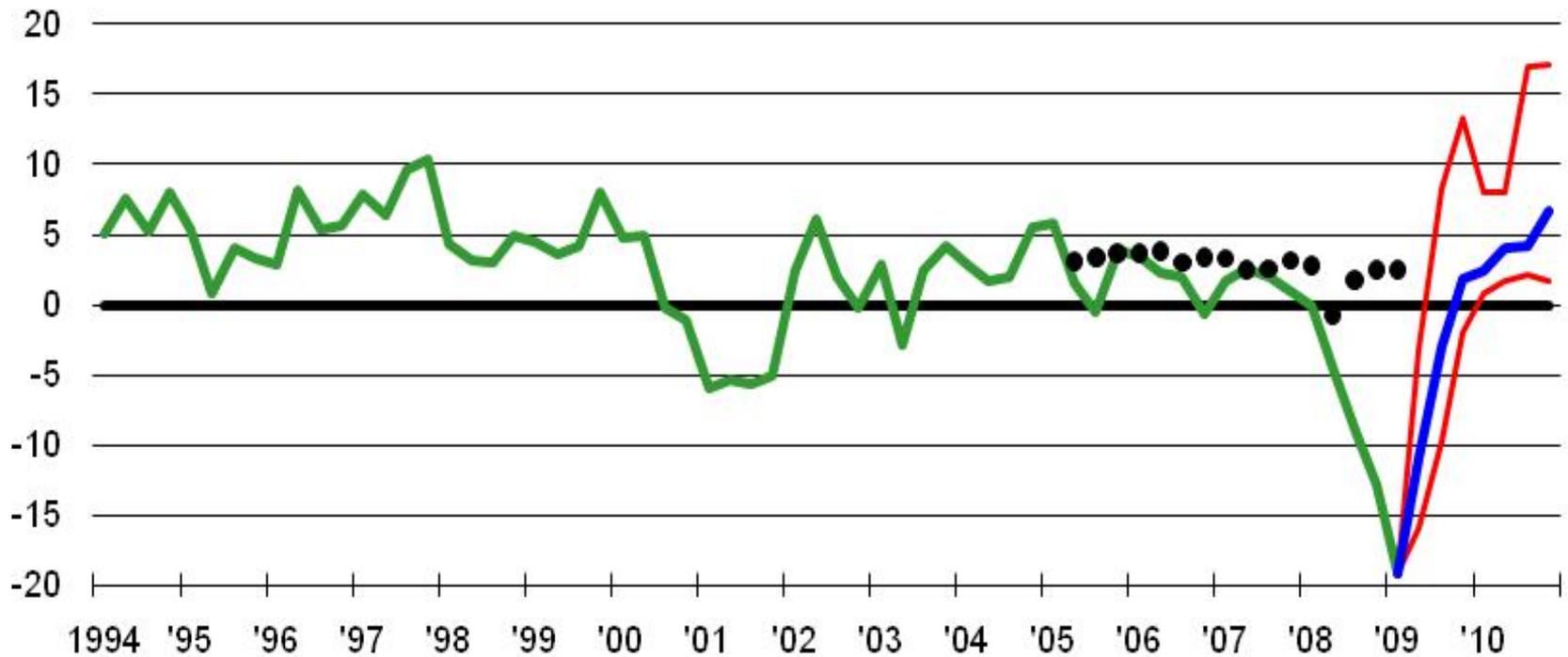
billions of constant dollars



Industrial output is forecast to be weak this year falling 7.5% and then improve by a relatively impressive 5.4% next year

Industrial production

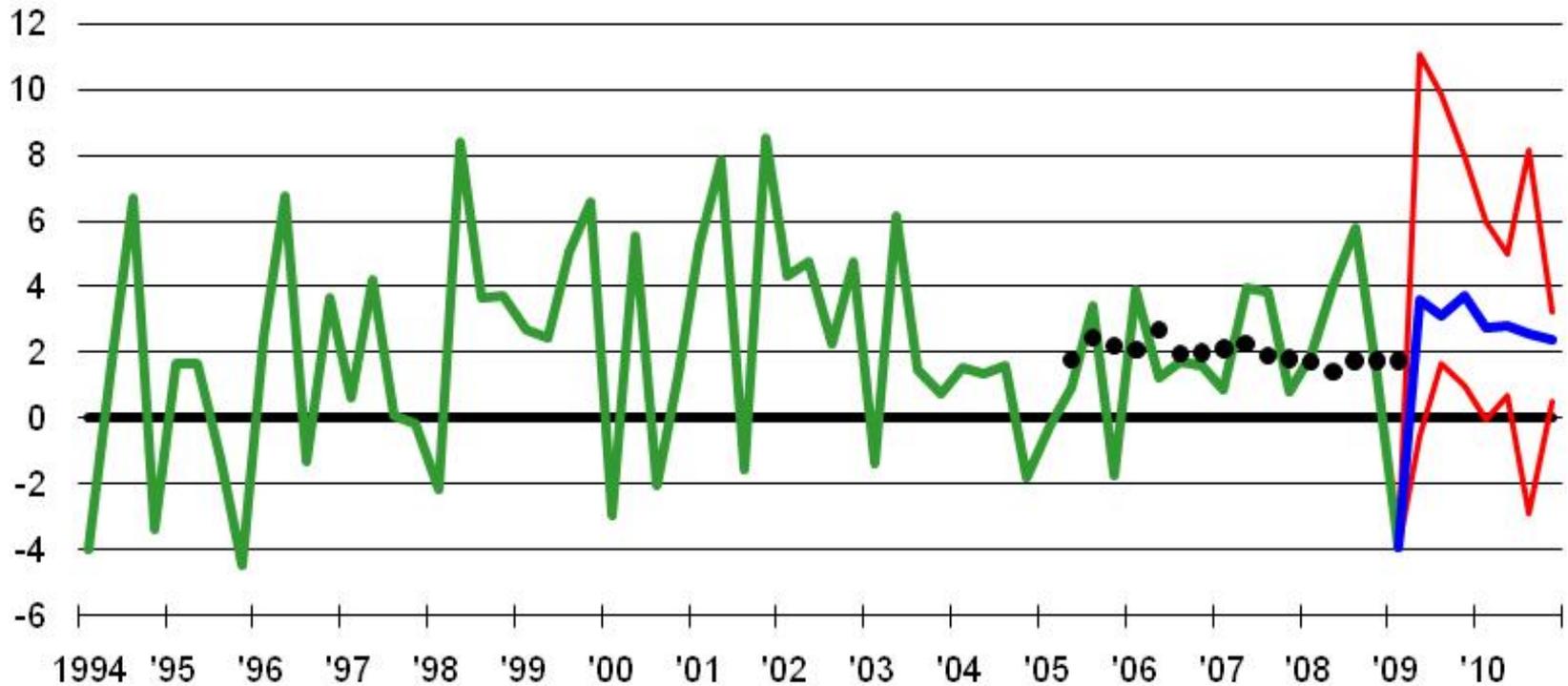
percent change, annual rate



Government purchases growth is forecast to remain solid increasing by 1.7% this year and 2.9% next year

Government consumption

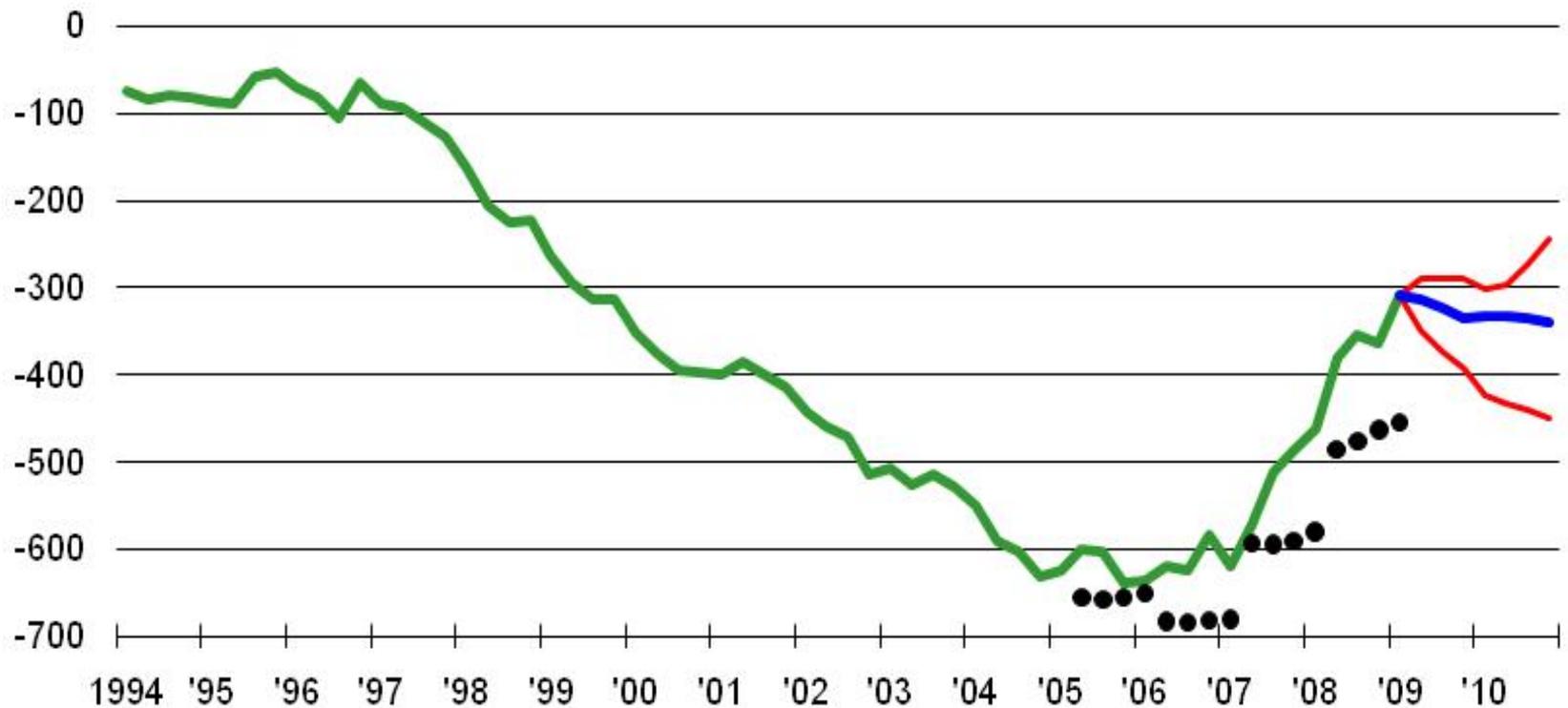
percent change, annual rate



Net exports are expected to edge lower over the forecast horizon

Net exports of goods and services

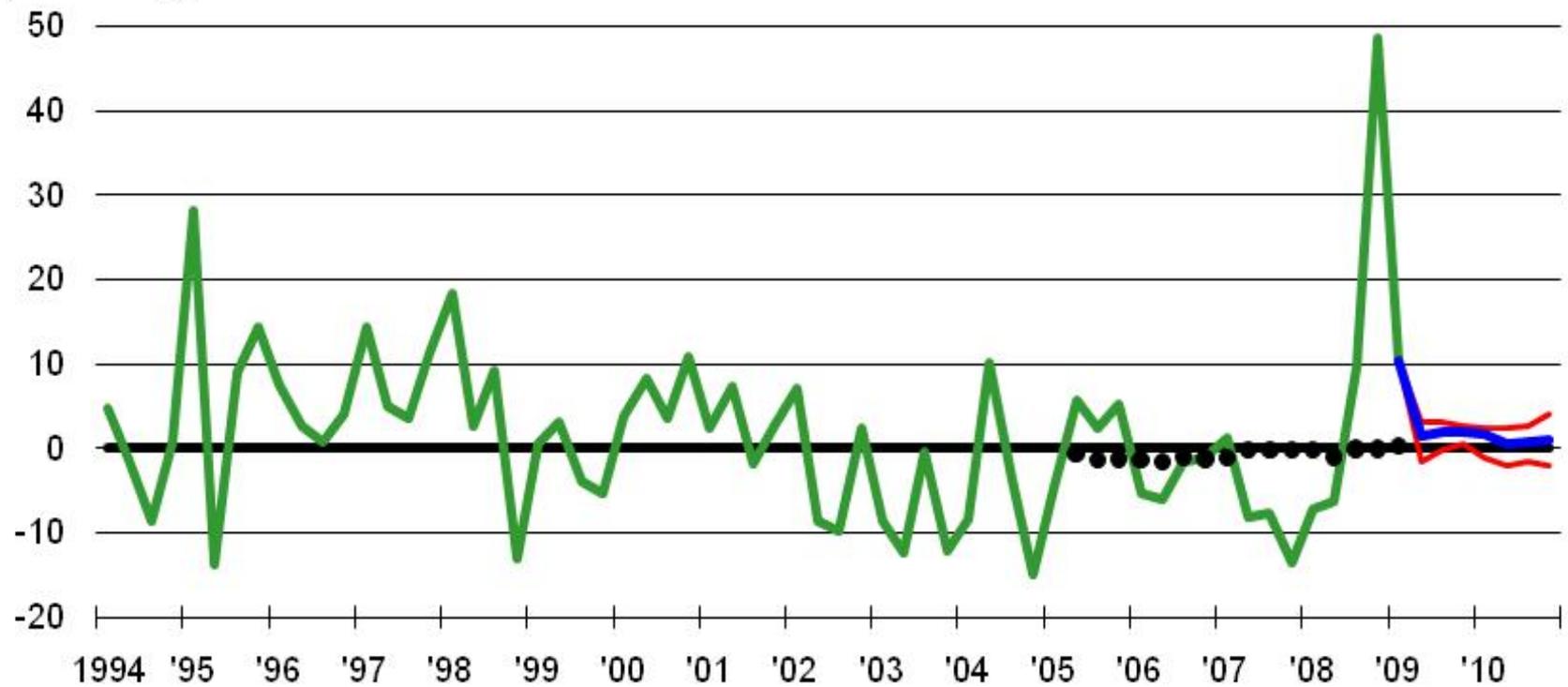
billions of constant dollars



The dollar is forecast to rise both this year and next

J.P. Morgan trade weighted dollar

percent change, annual rate



Summary

- **The economic downturn is forecast to end around the third quarter of this year with growth rising to above trend rates by the second quarter of next year**
- **The unemployment rate is expected to rise through the end of this year and then edge lower next year**
- **Inflation is expected to be negative this year and then rise by 1.6% in 2010**
- **Light vehicle sales are forecast to average 9.7 million units this year, the lowest level since 1967, and then rise to 11.3 million in 2010, the lowest level since 1982**
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