

Economic Outlook for 2008

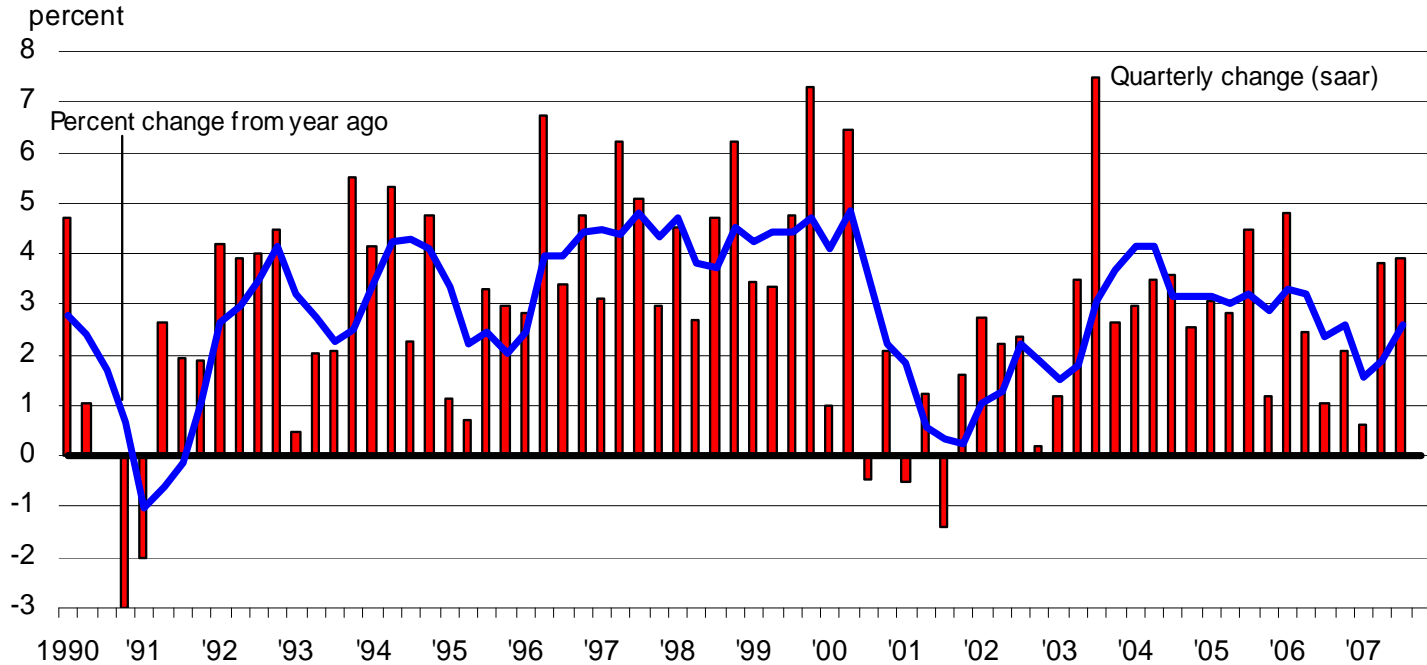
Federal Reserve Bank of Chicago
Community and Economic Development
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Chicago, IL
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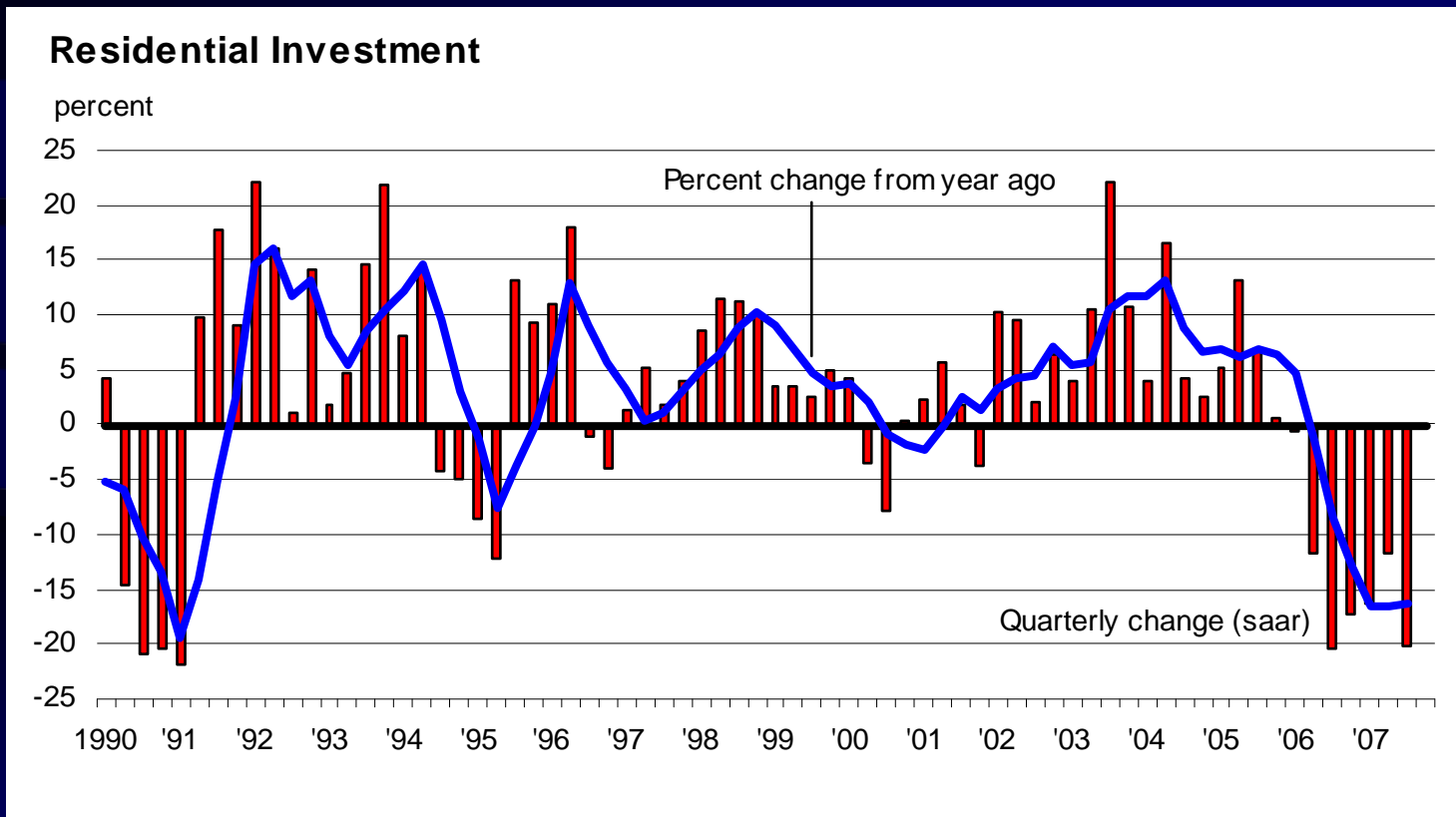


The economy has expanded for six years

Real gross domestic product



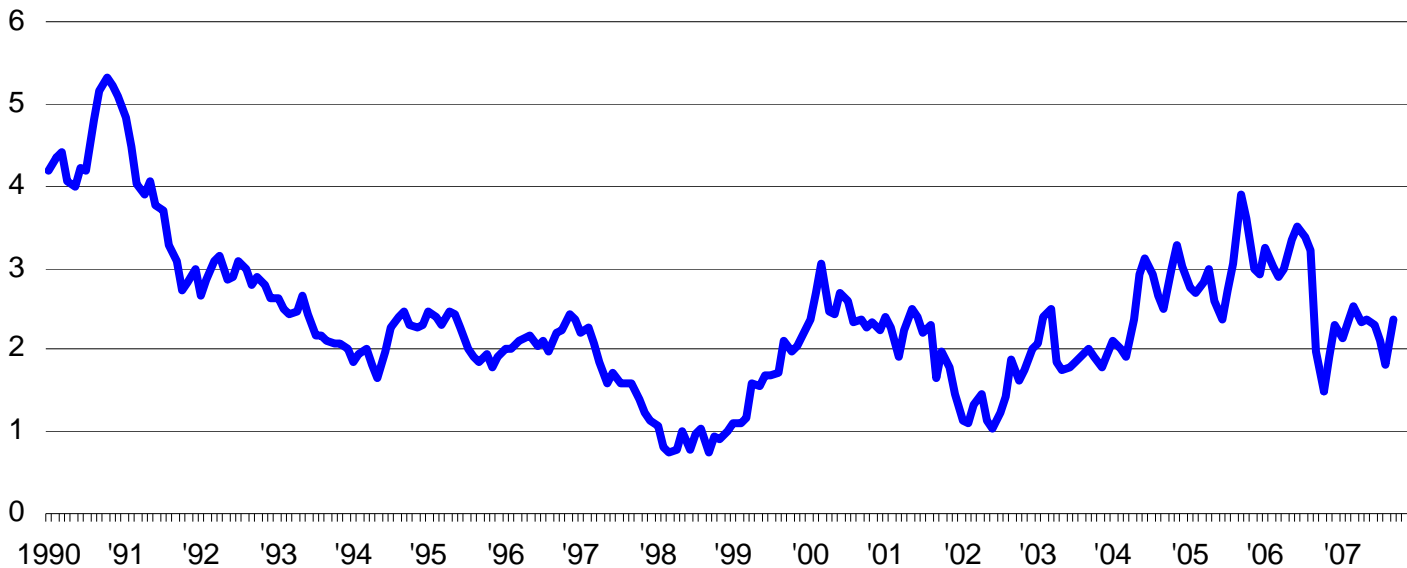
Residential investment growth fell off sharply, subtracting a full percentage point off of GDP growth over the past year



Inflation moderated beginning in the second half of 2006

Personal consumption expenditure chain price index

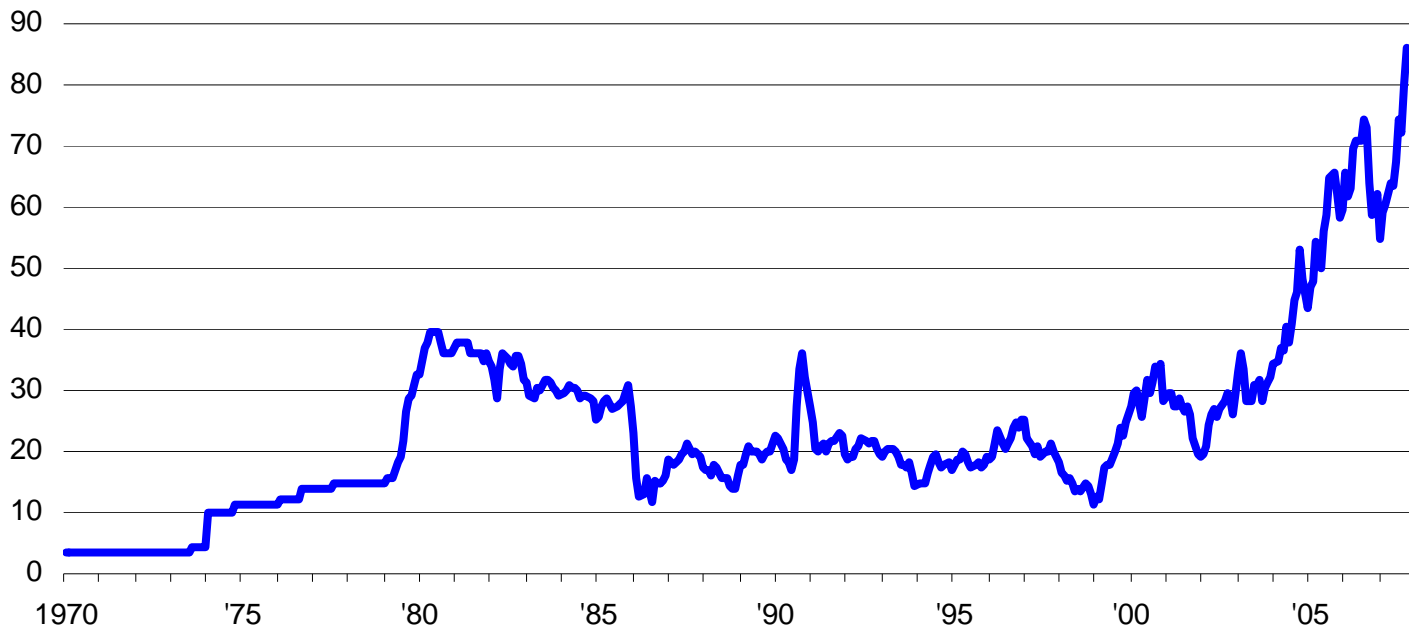
percent change from year ago



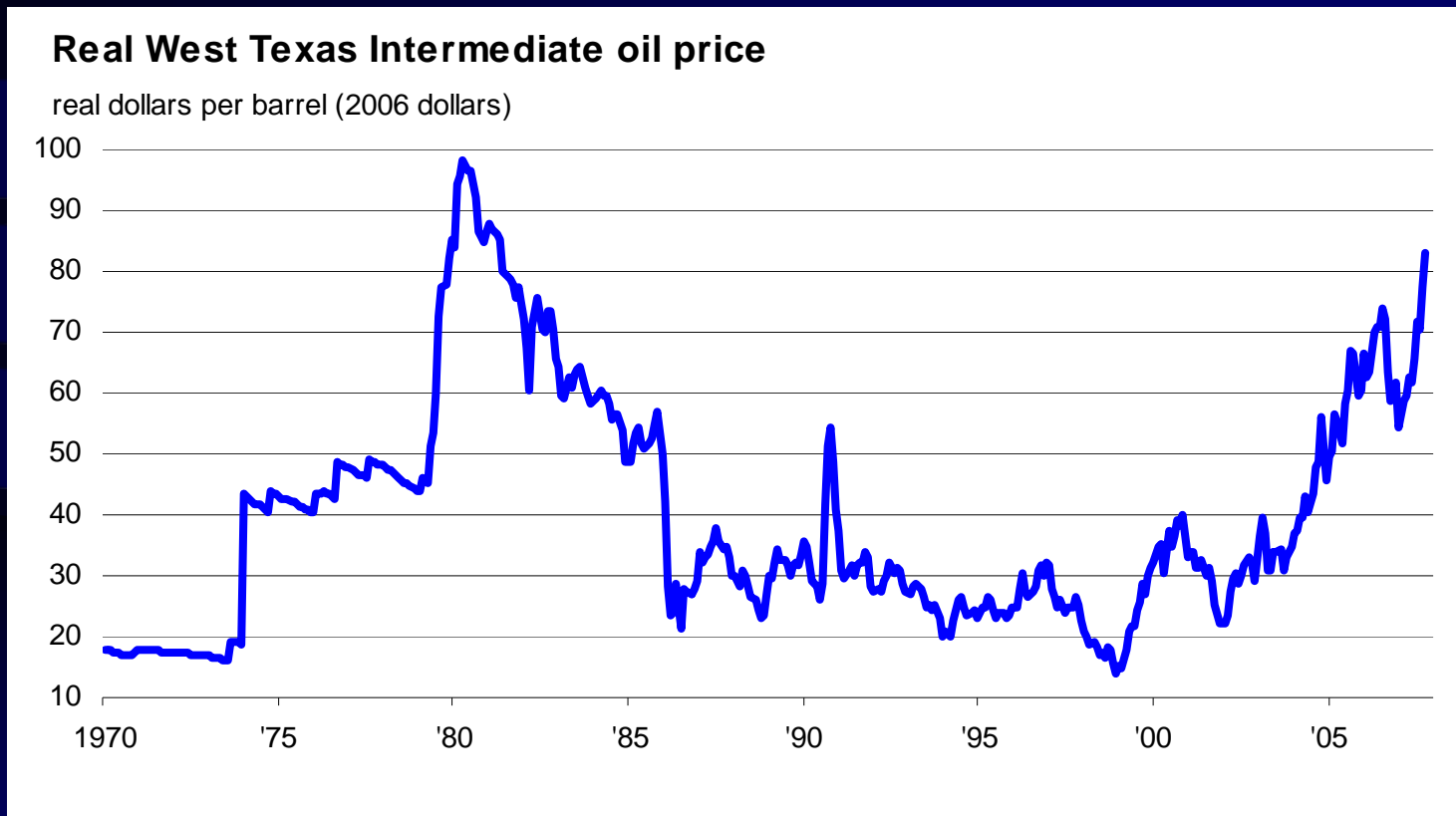
Oil prices are at all-time highs

West Texas Intermediate oil price

dollars per barrel



**However, adjusted for inflation -
current oil prices are still just below early 1980s prices**



Natural gas prices are well below the level of two years ago

Real natural gas price

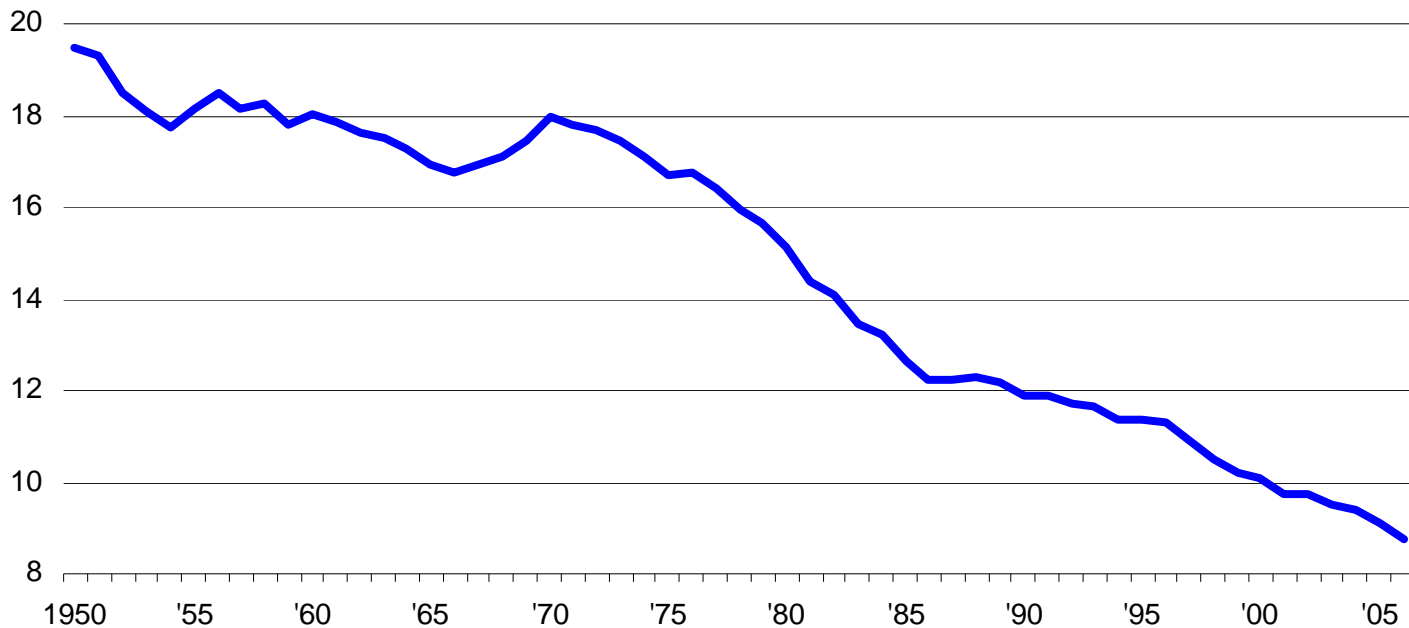
real dollars mmbtu (2006 dollars)



The United States has become more efficient in the use of energy over the past 50 years

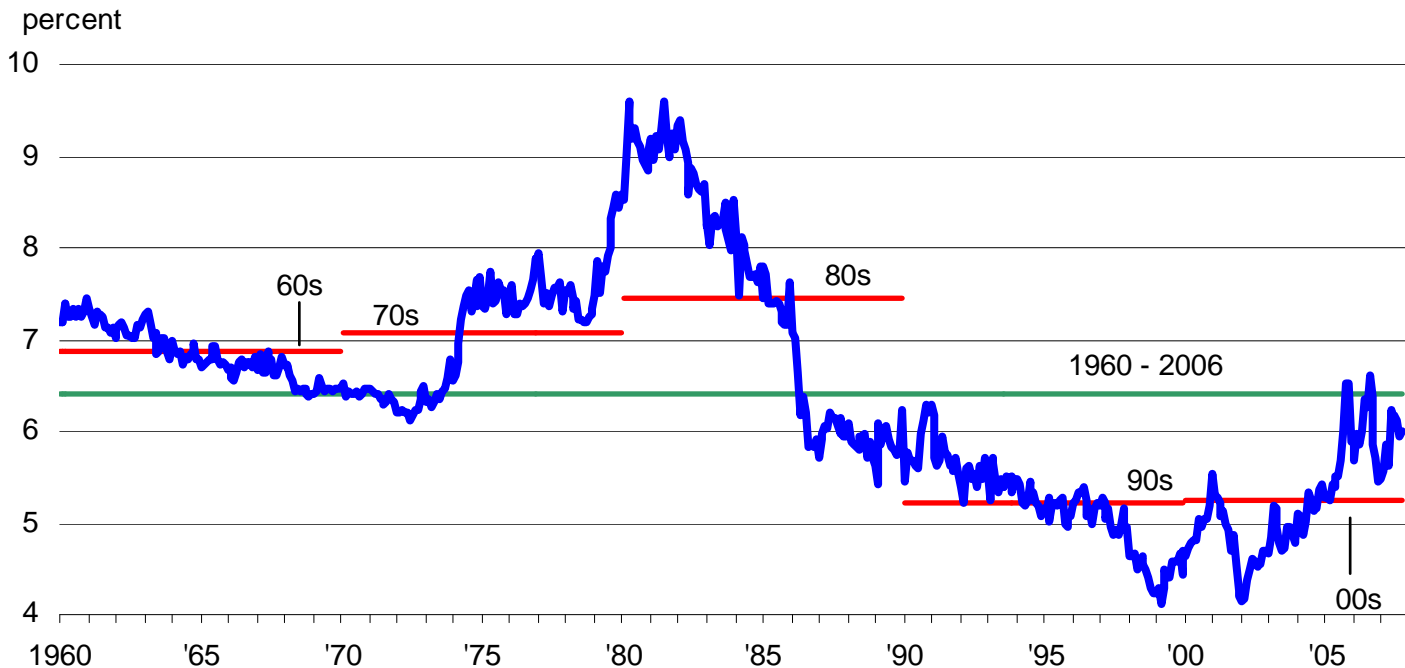
Energy consumption per dollar of GDP

Thousand Btu per chained (2000) dollar

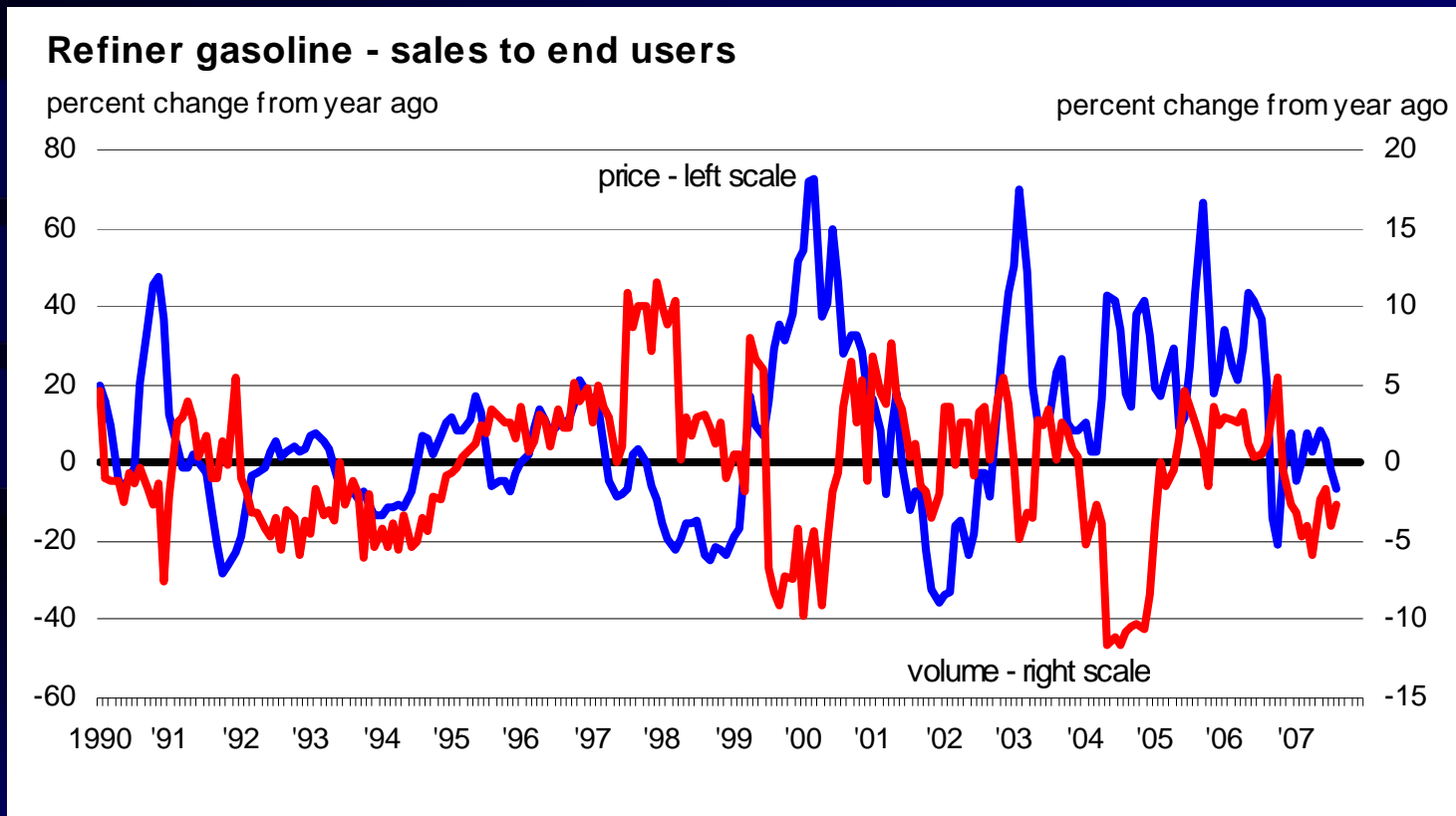


Expenditures on energy increased over the past few years, however they remain below the historical average

Energy goods and services expenditures as a share of total consumption



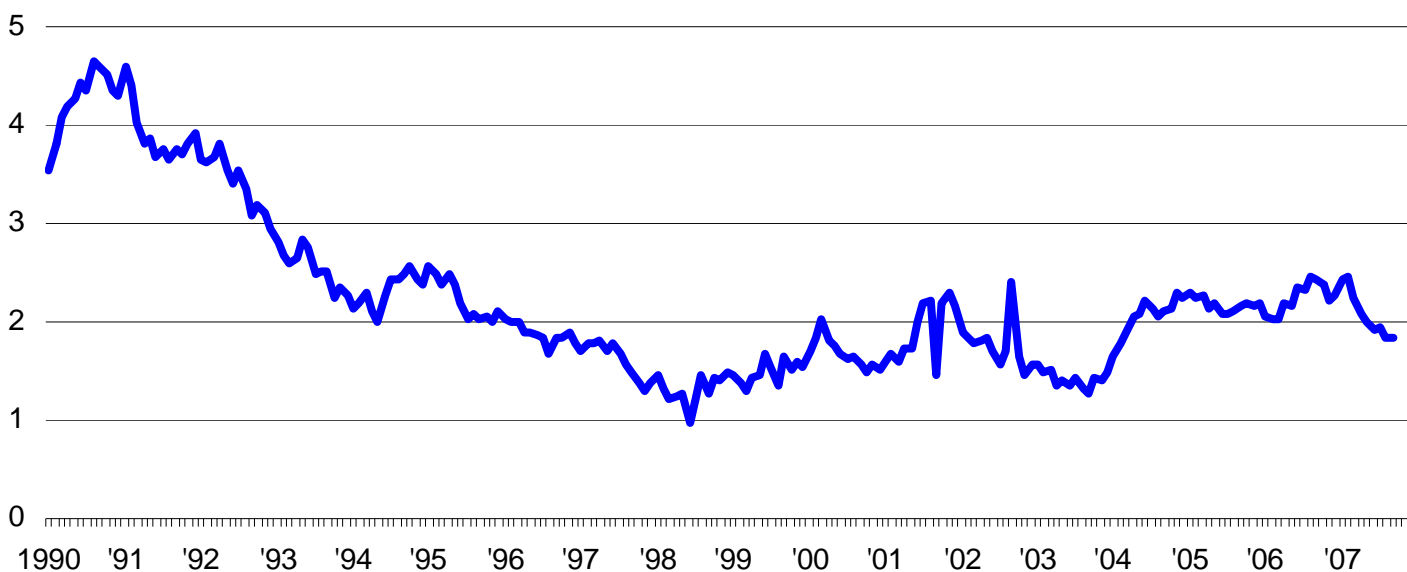
**Year-to-date, gasoline prices are 1.6% higher
and gasoline sales are 3.5% lower than a year earlier**



Removing the volatile food and energy components from the PCE, “core” inflation has been trending lower over the past year

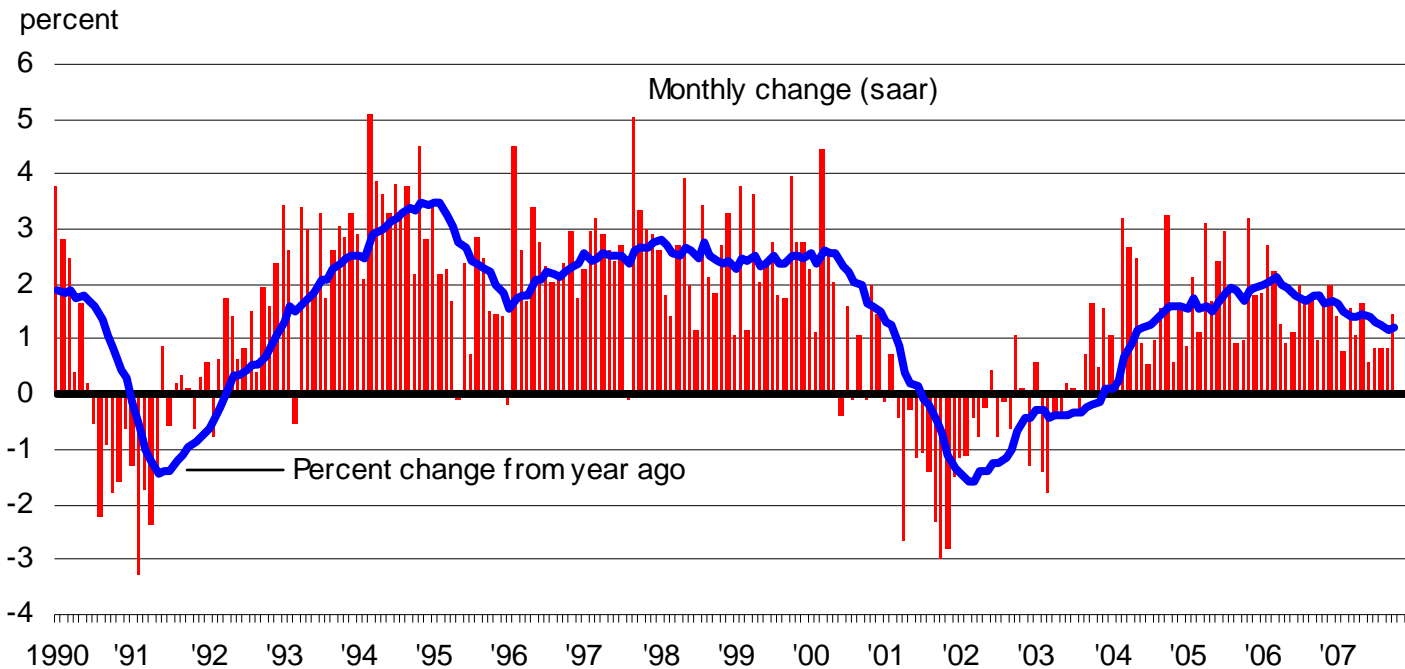
Personal consumption expenditure - less food and energy chain price index

percent change from year ago



**Employment increased by
over 1.6 million jobs over the past twelve months,
averaging 139,700 jobs per month**

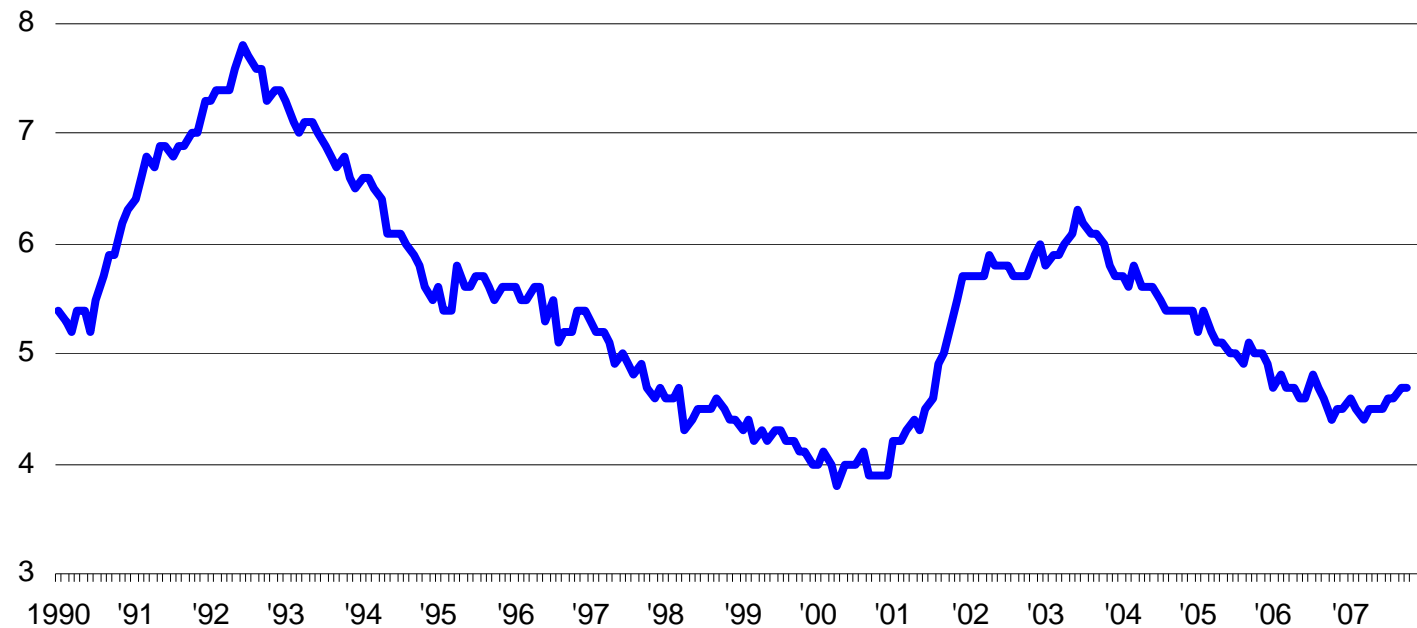
Employment



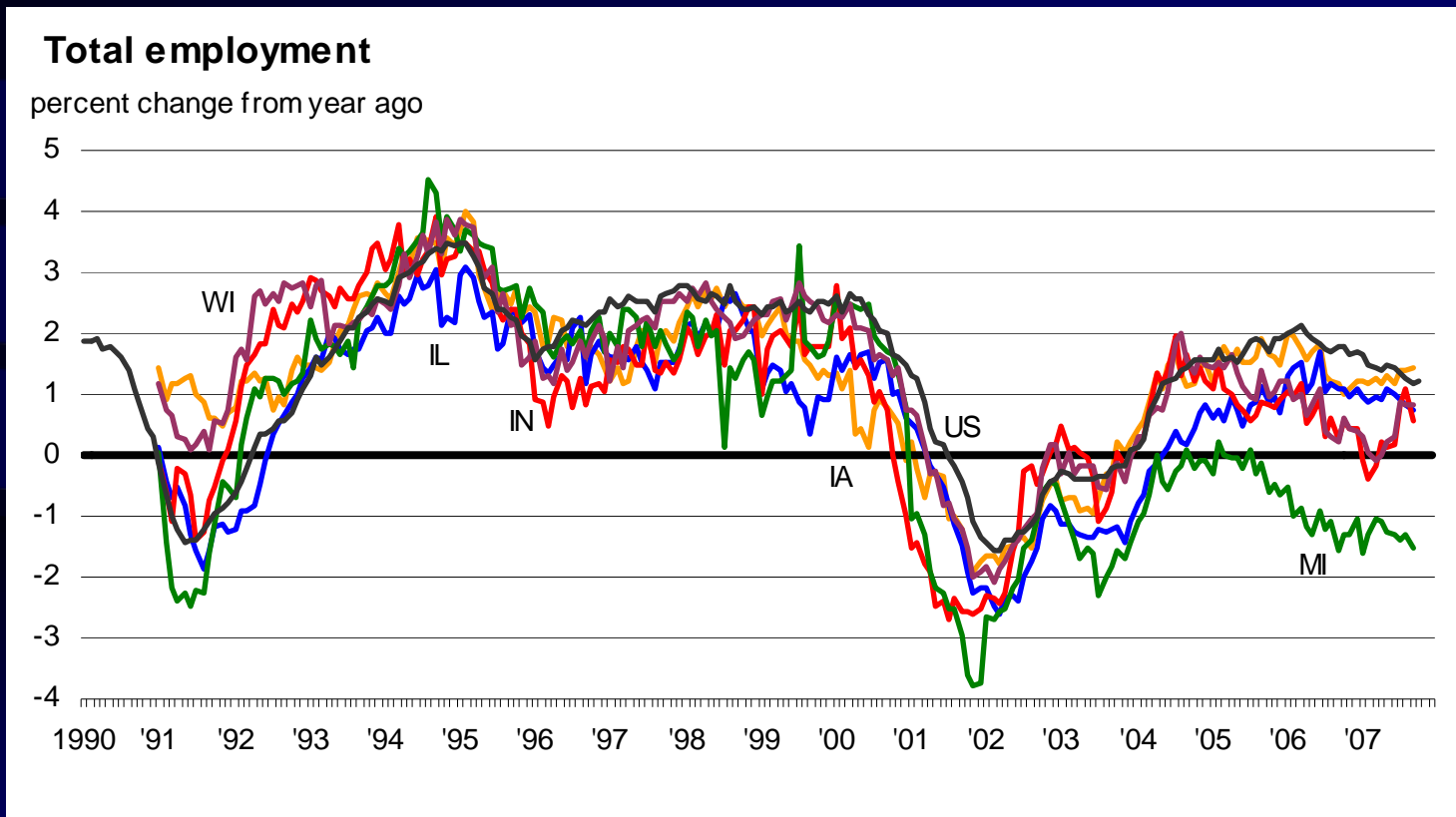
**Although it has been edging higher,
the unemployment rate remains low**

Unemployment rate

percent

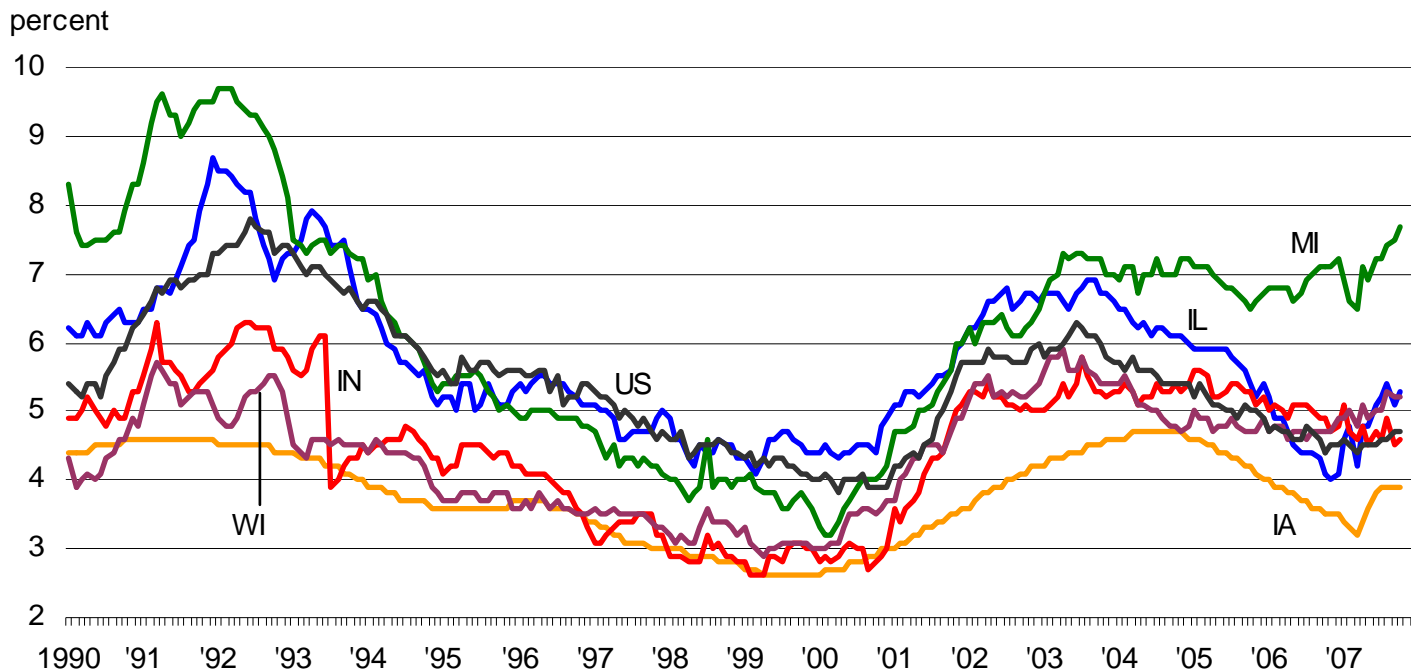


Michigan is the only state in the nation whose employment levels are lower than a year-earlier



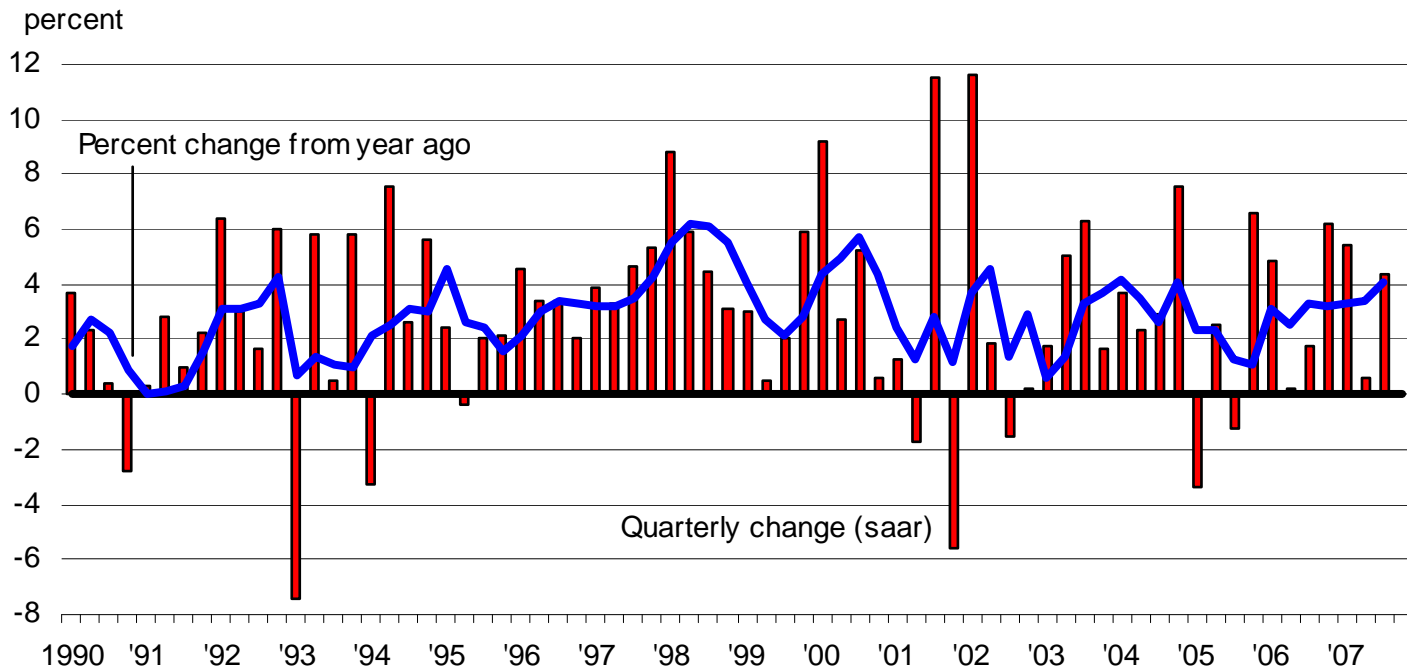
Michigan has the highest state unemployment rate in the nation

Unemployment rates



Income growth has been rising

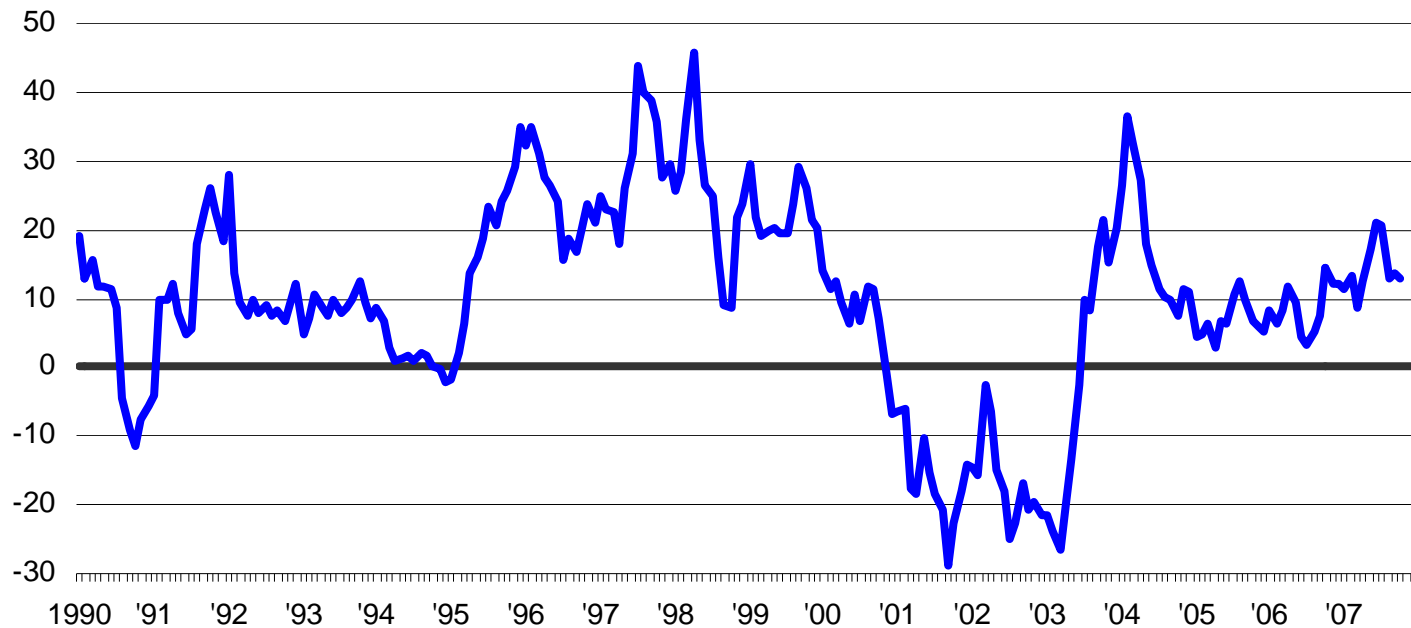
Real disposable personal income



The stock market continues to rise

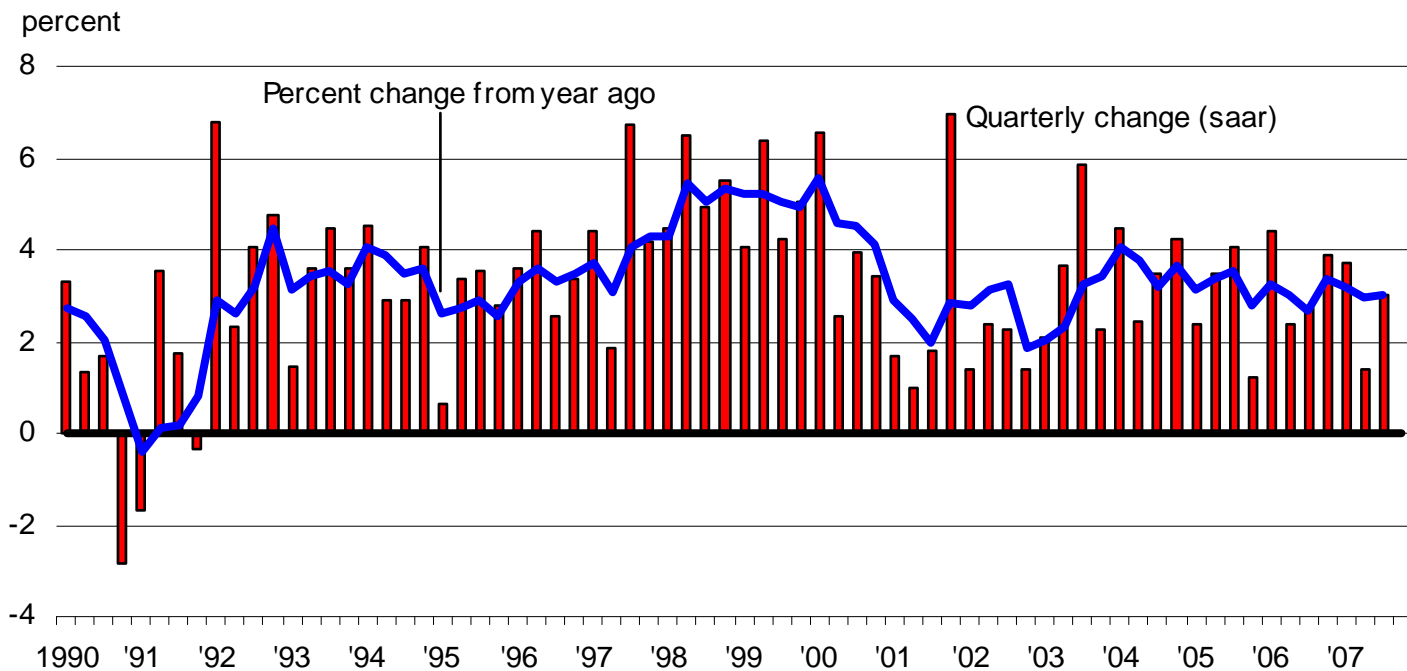
S&P 500 stock index

percent change from year ago



Consumer spending growth remains solid

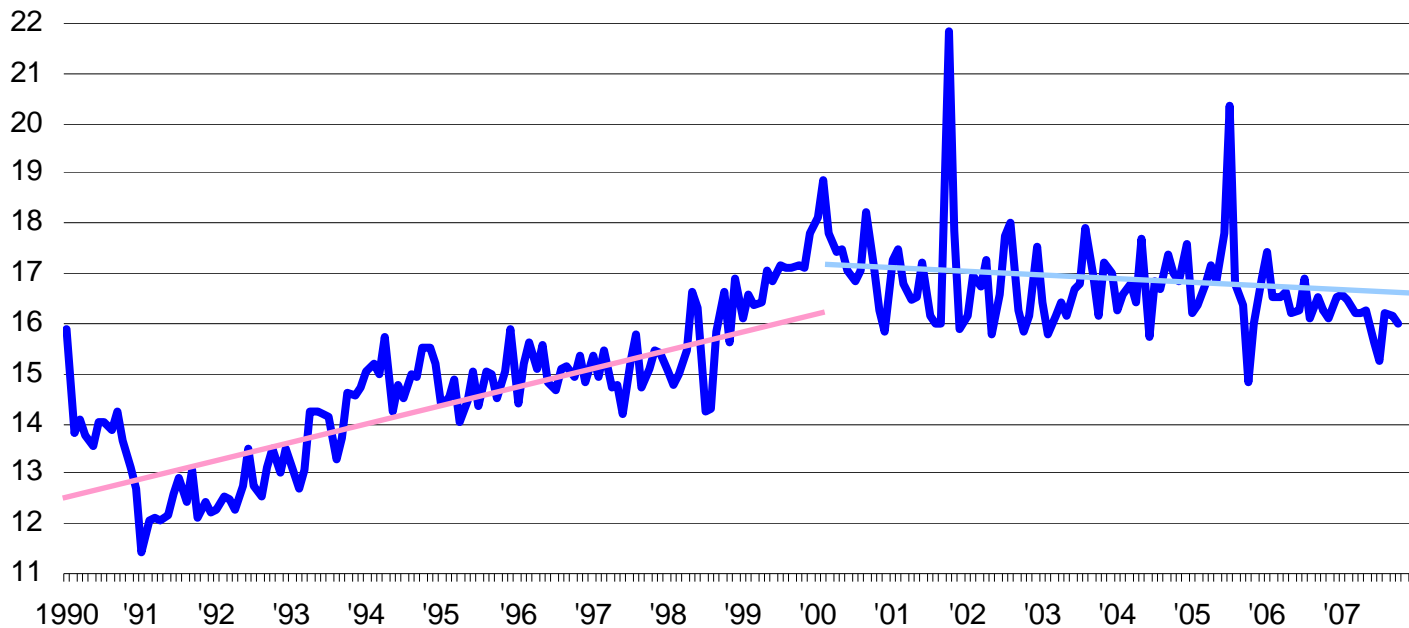
Real personal consumption expenditures



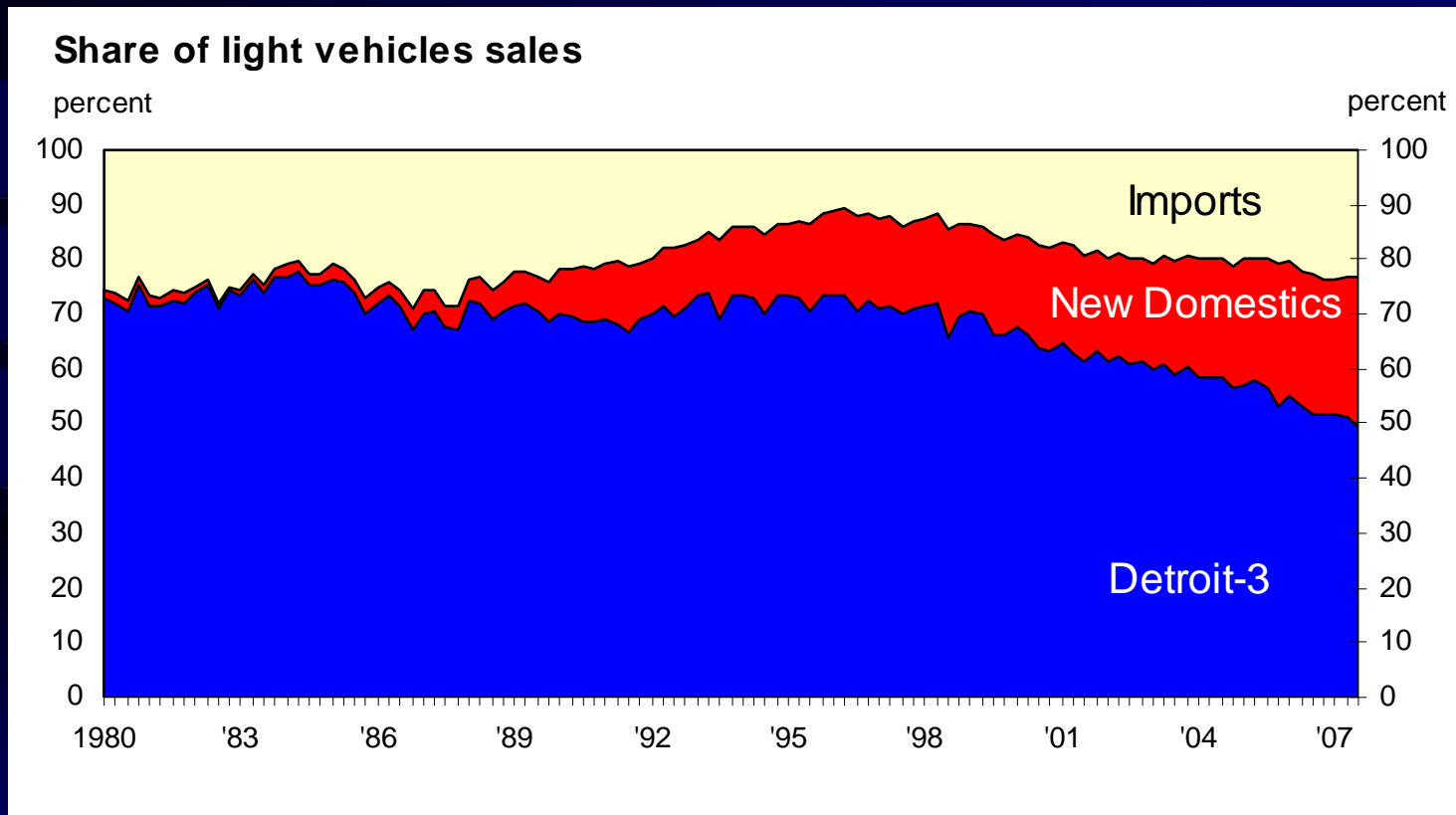
Light vehicle sales have been trending lower

Light Vehicle Sales

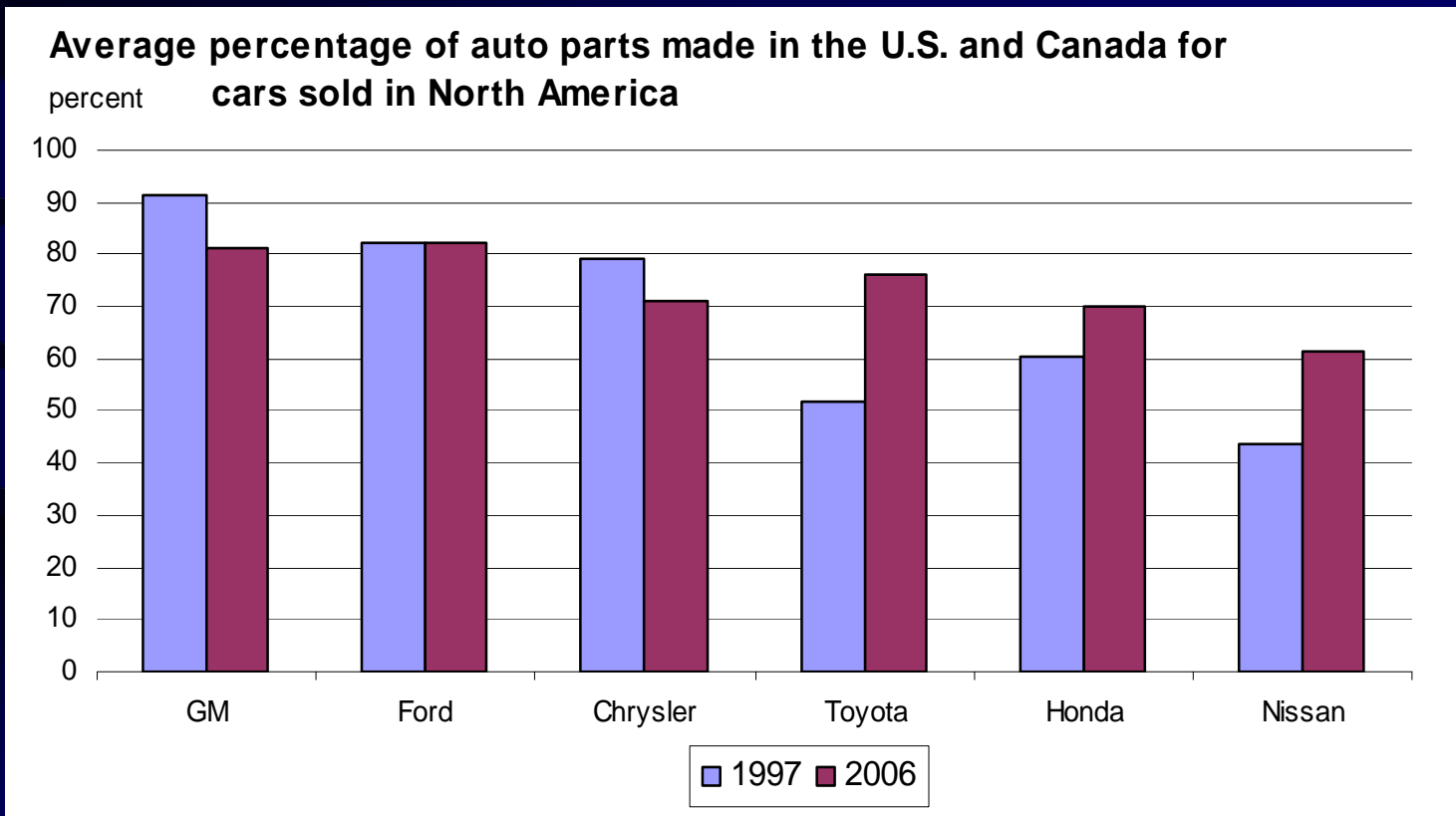
millions of units saar



Increases in new domestic production share has somewhat offset losses in Detroit-3 market share

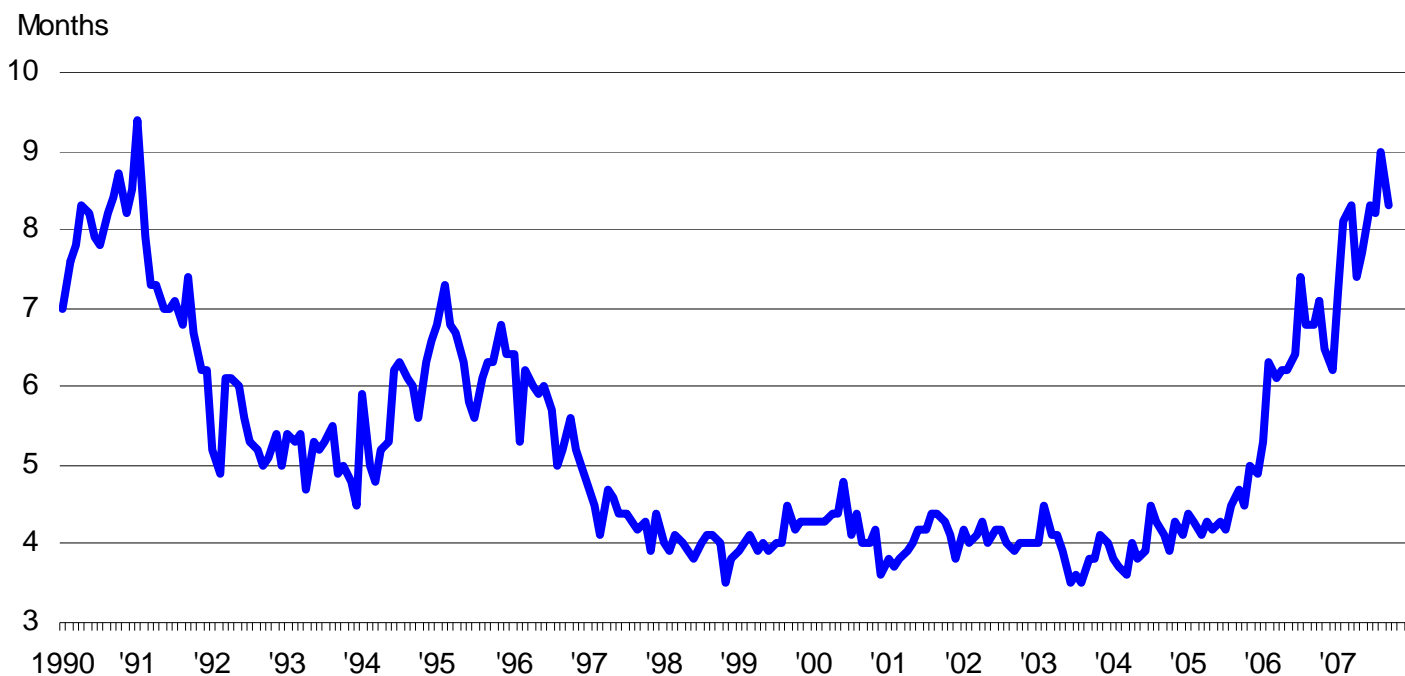


Domestic content for the Detroit-3 has been declining, while domestic content for the “new domestics” has been rising

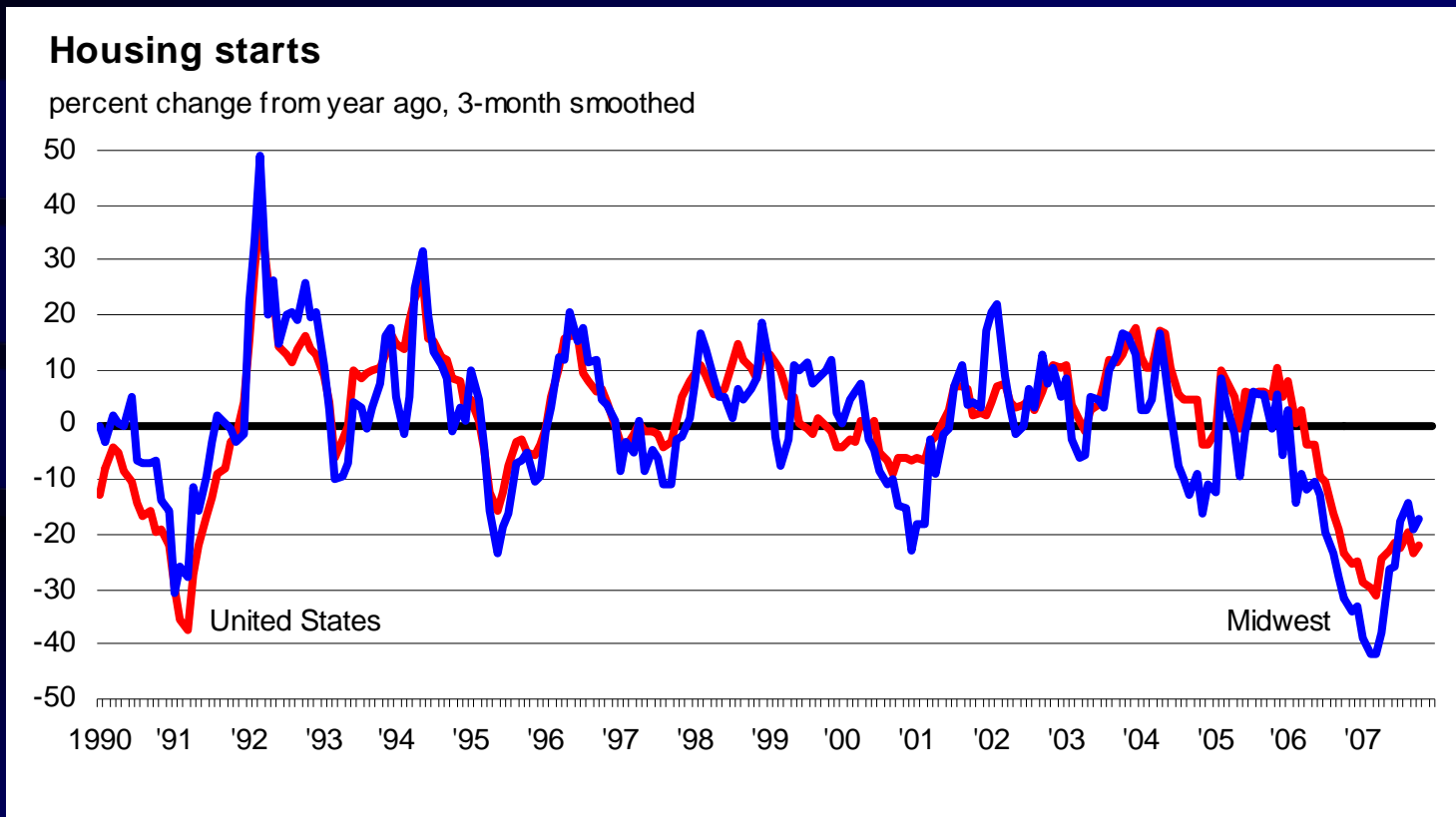


The supply of new single family homes remains elevated

Months supply of new single family homes



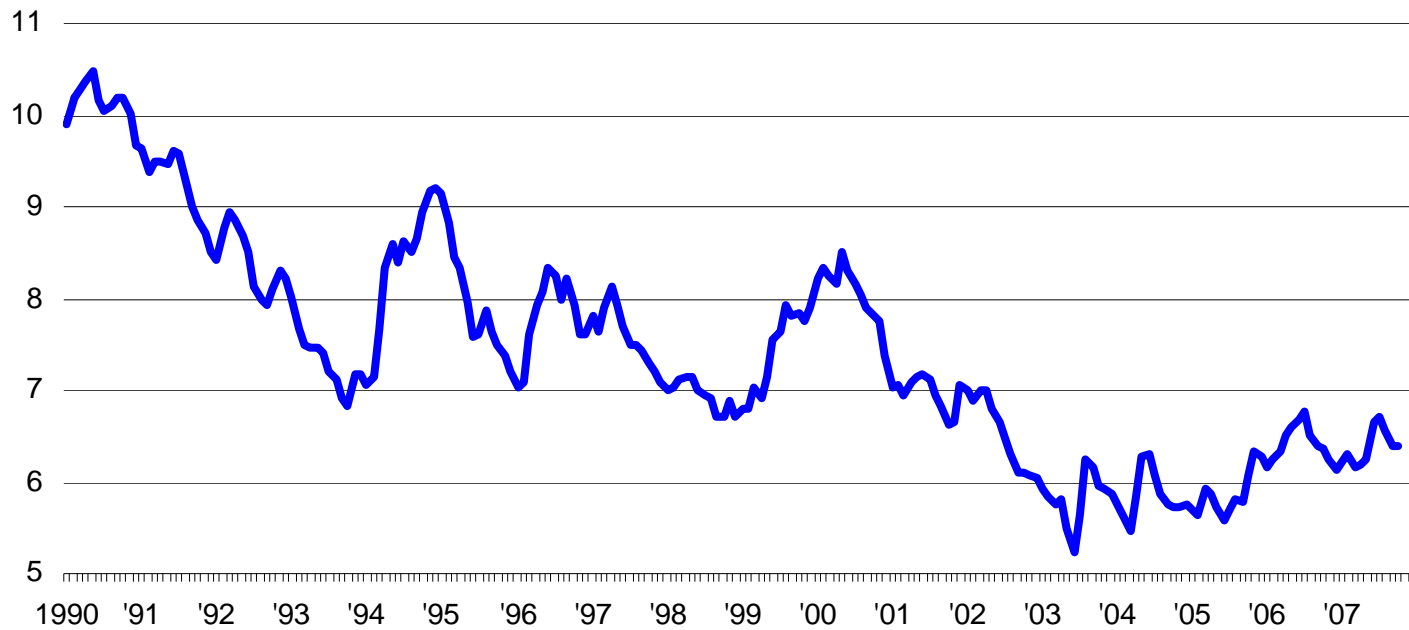
Housing starts have been declining for both the nation and the Midwest



Mortgage rates remain low

Mortgage rate - 30 year fixed

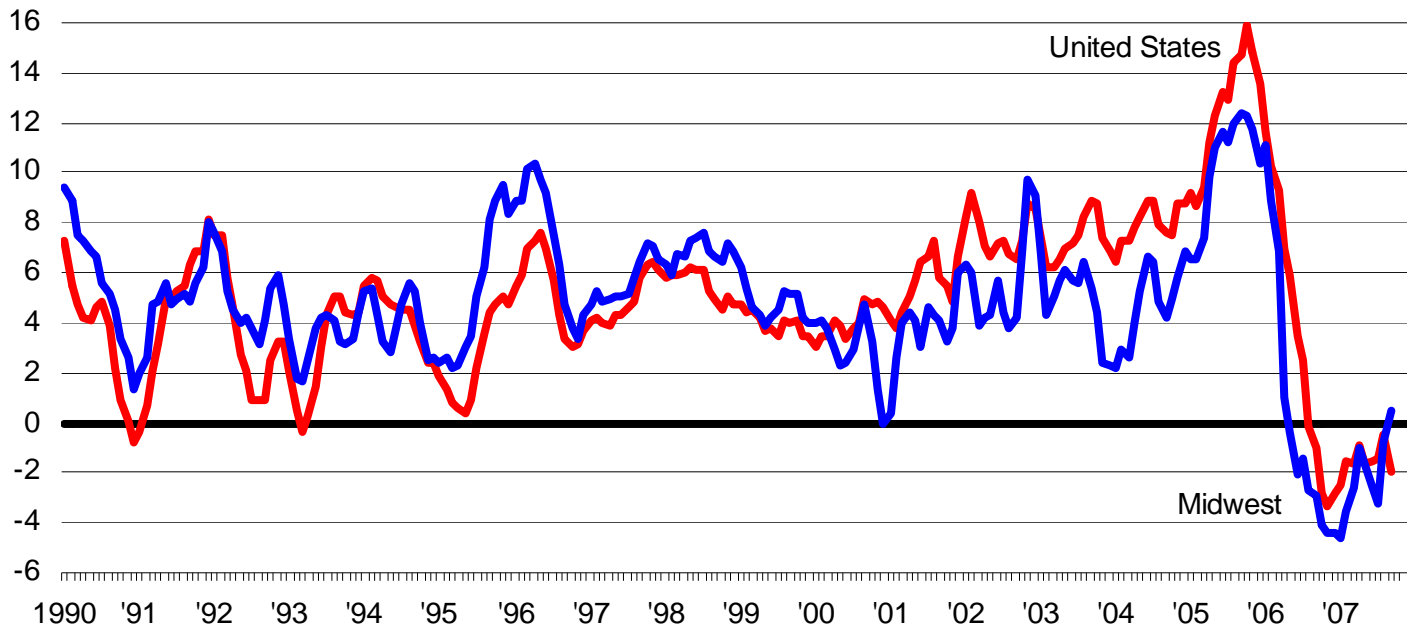
percent



Home price declines appear to be moderating

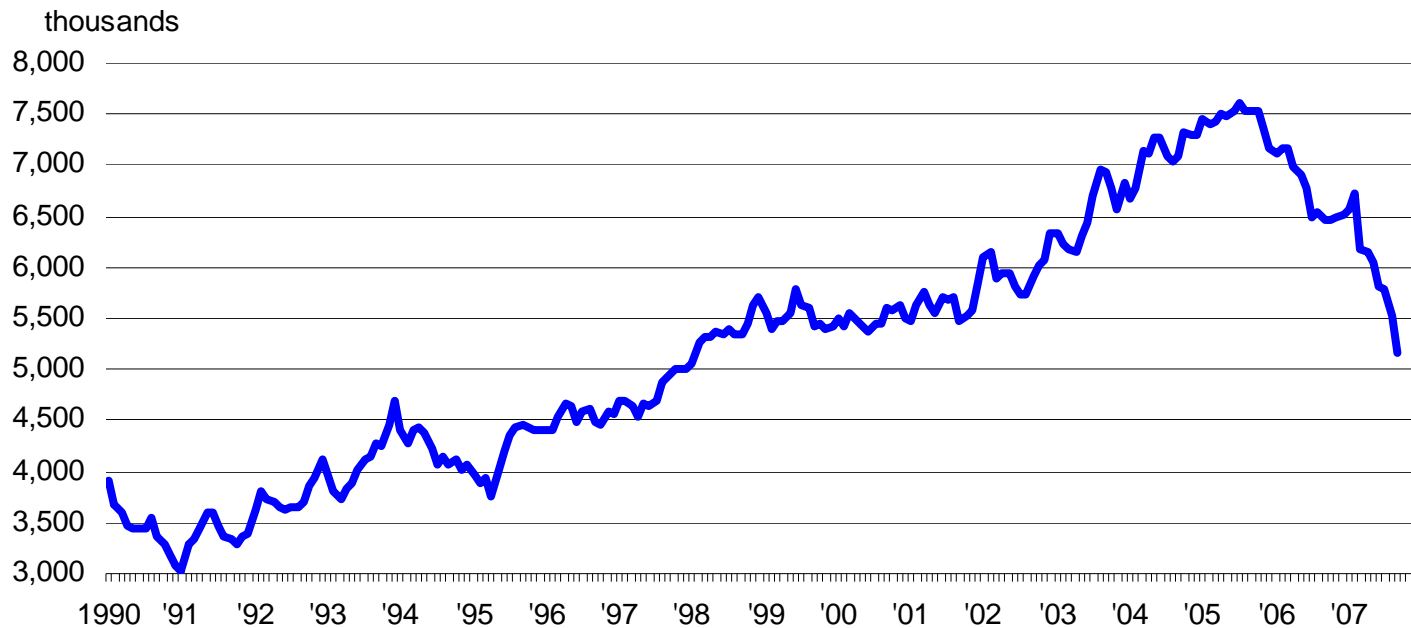
Existing single family home median sales price

percent change from year ago, 3-month smoothed



Home sales have fallen sharply

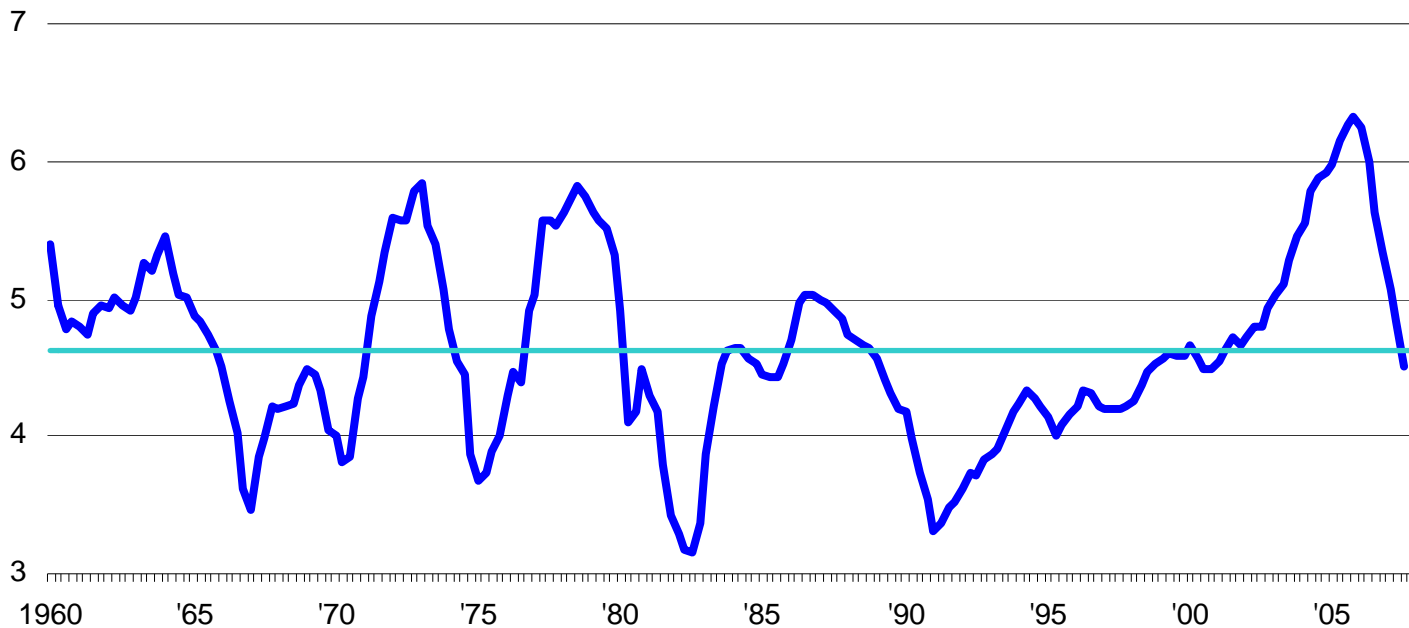
New and existing single family home sales



Residential investment as a share of GDP is just below its long-run average

Residential investment as a share of GDP

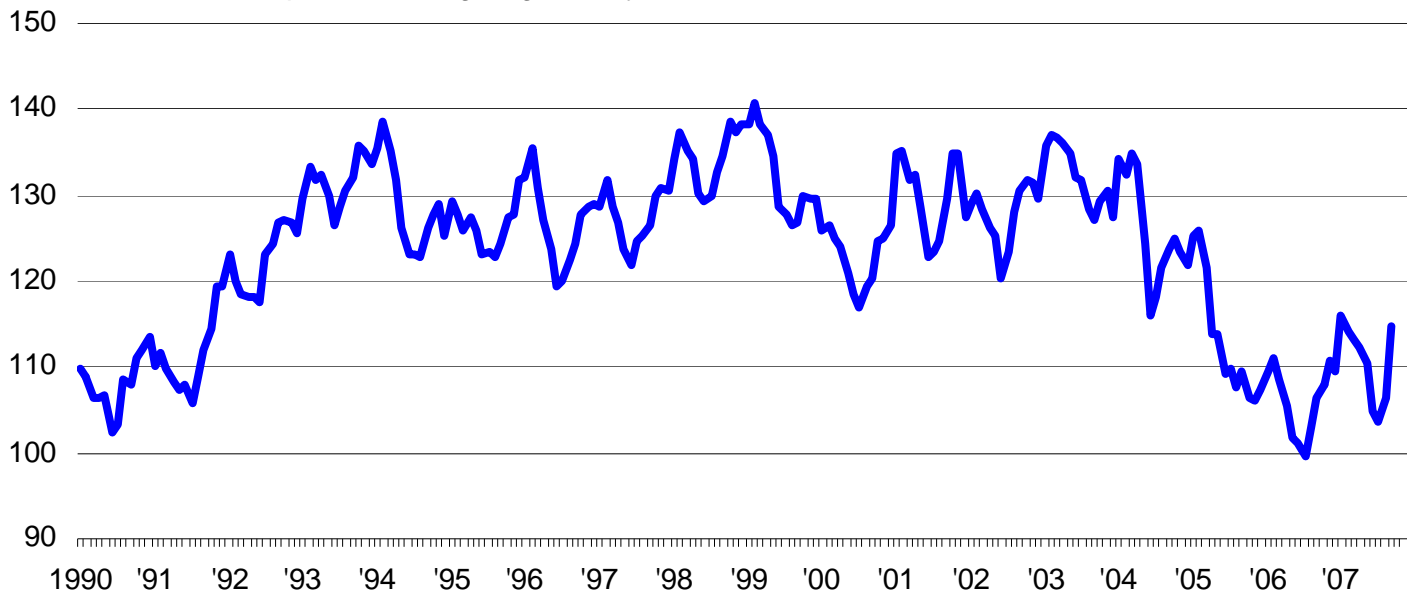
percent



Housing affordability remains low

Composite housing affordability index

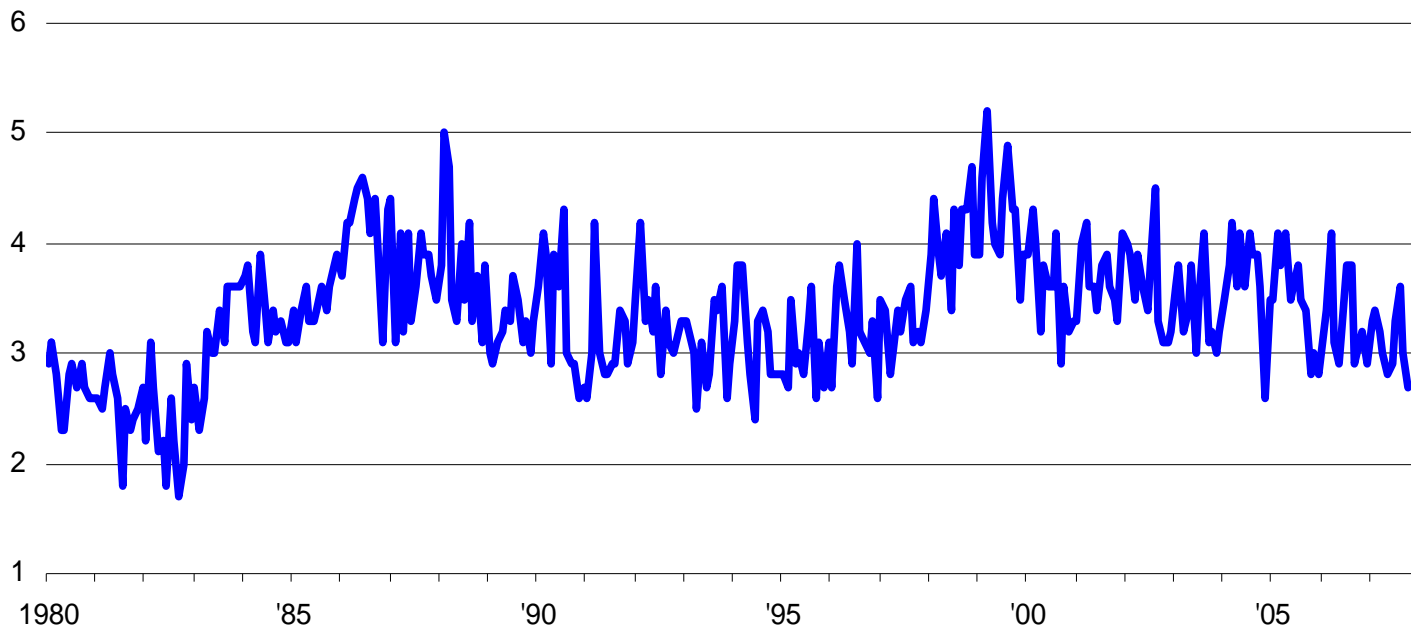
index = 100 when median family income qualifies for an 80% mortgage on a median priced existing single-family home



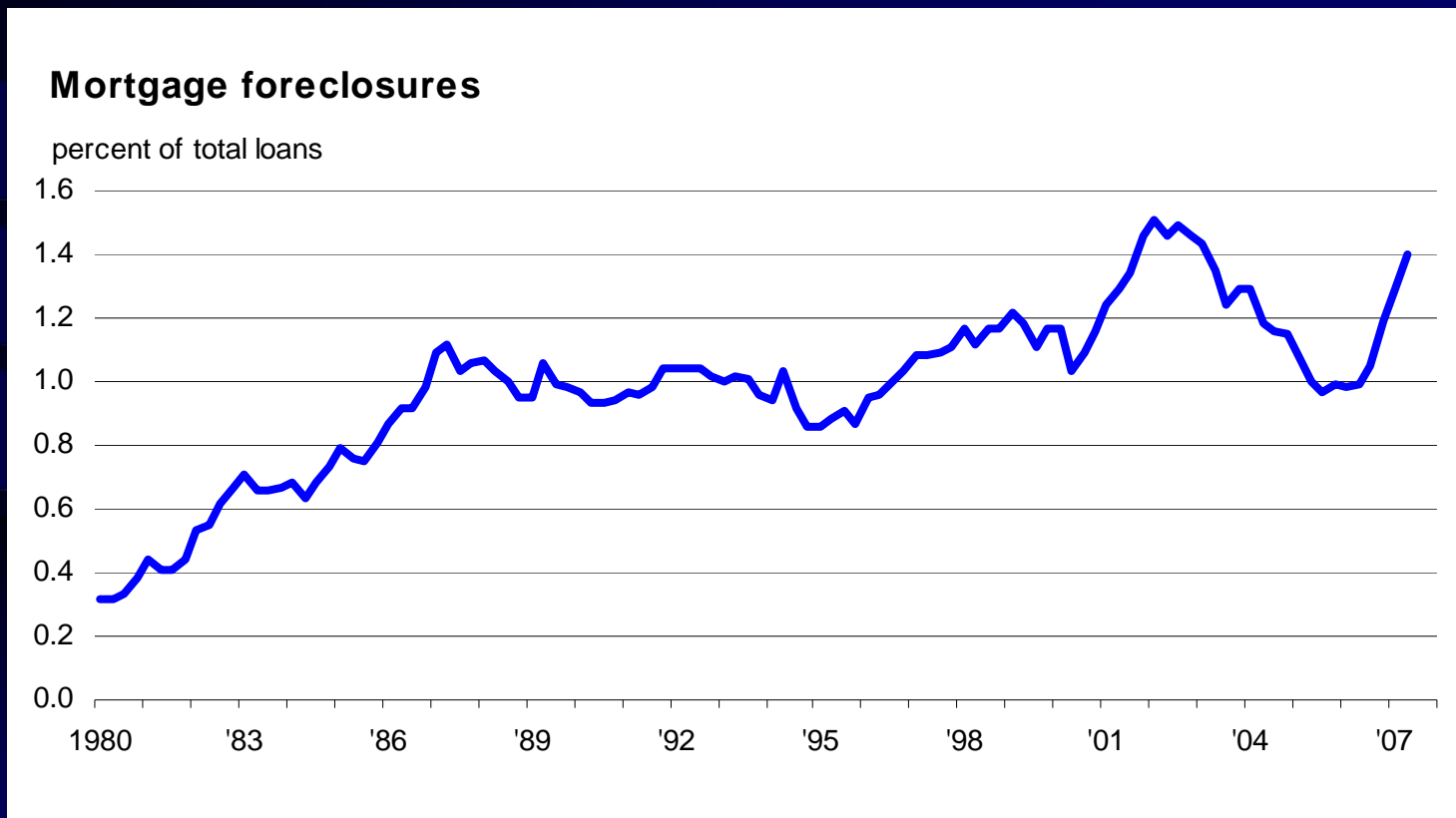
Consumer attitudes for buying a home remain low

Consumer attitudes - plan to buy home in next six months

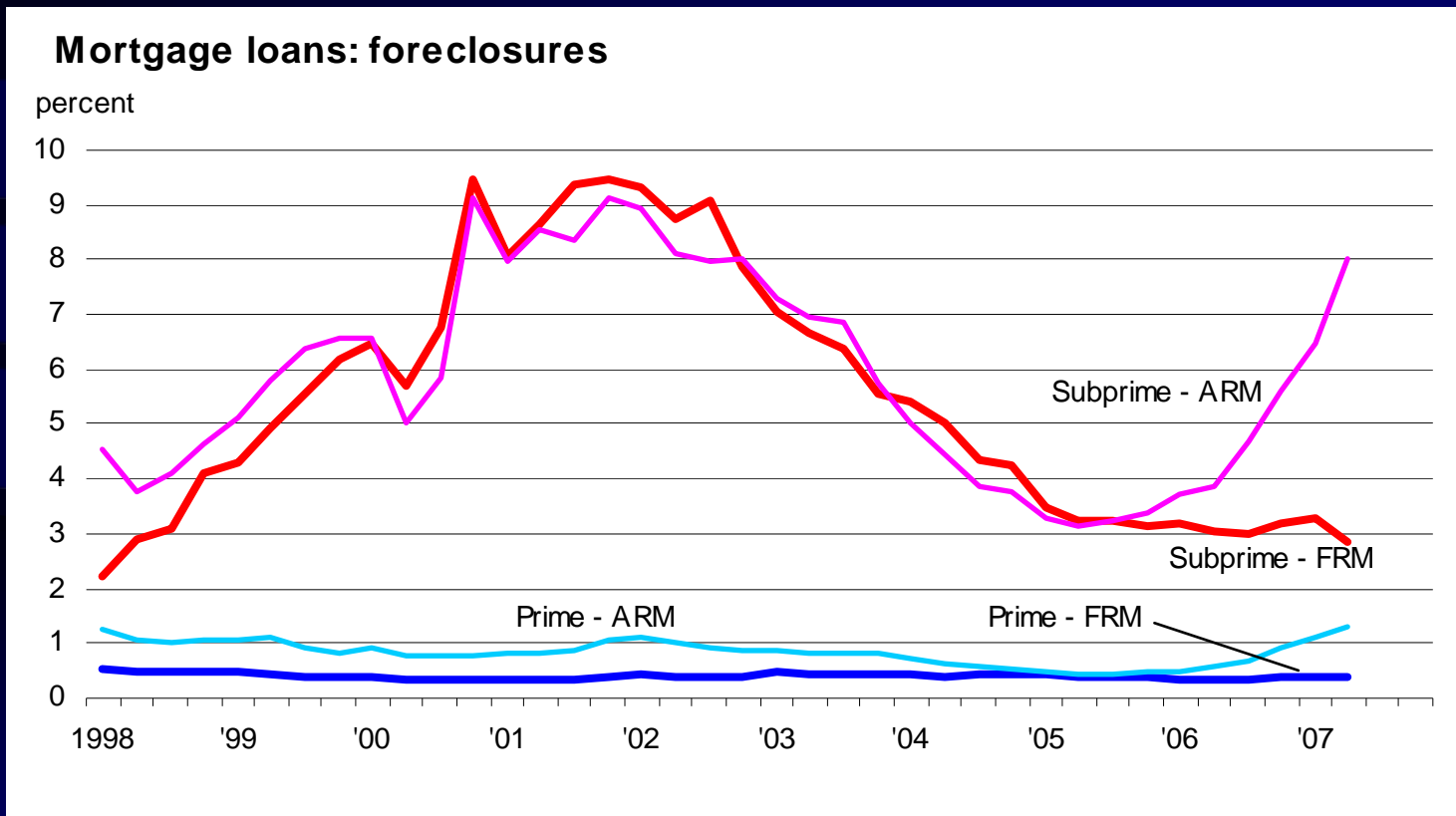
percent of repondents



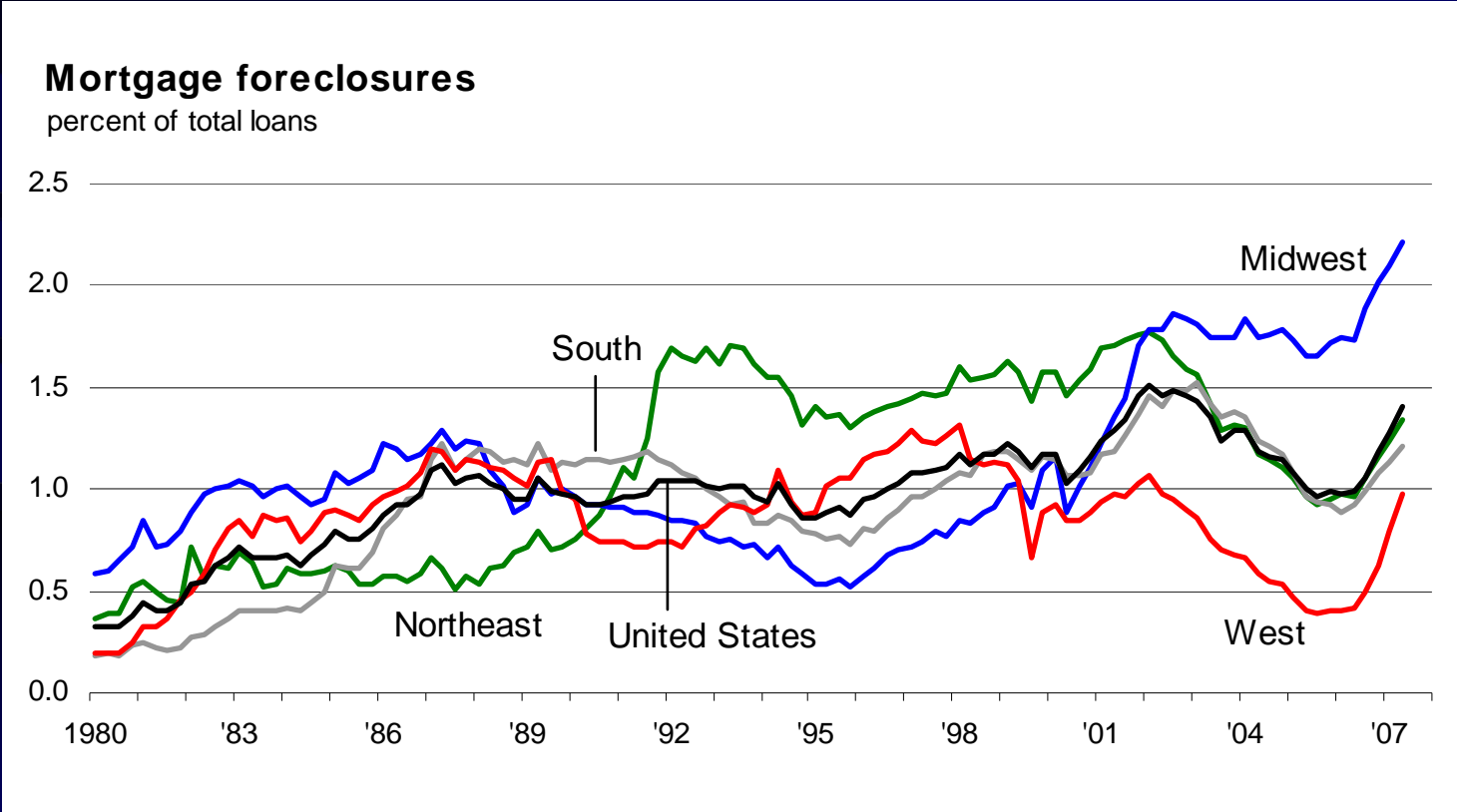
The mortgage foreclosure rate has been rising



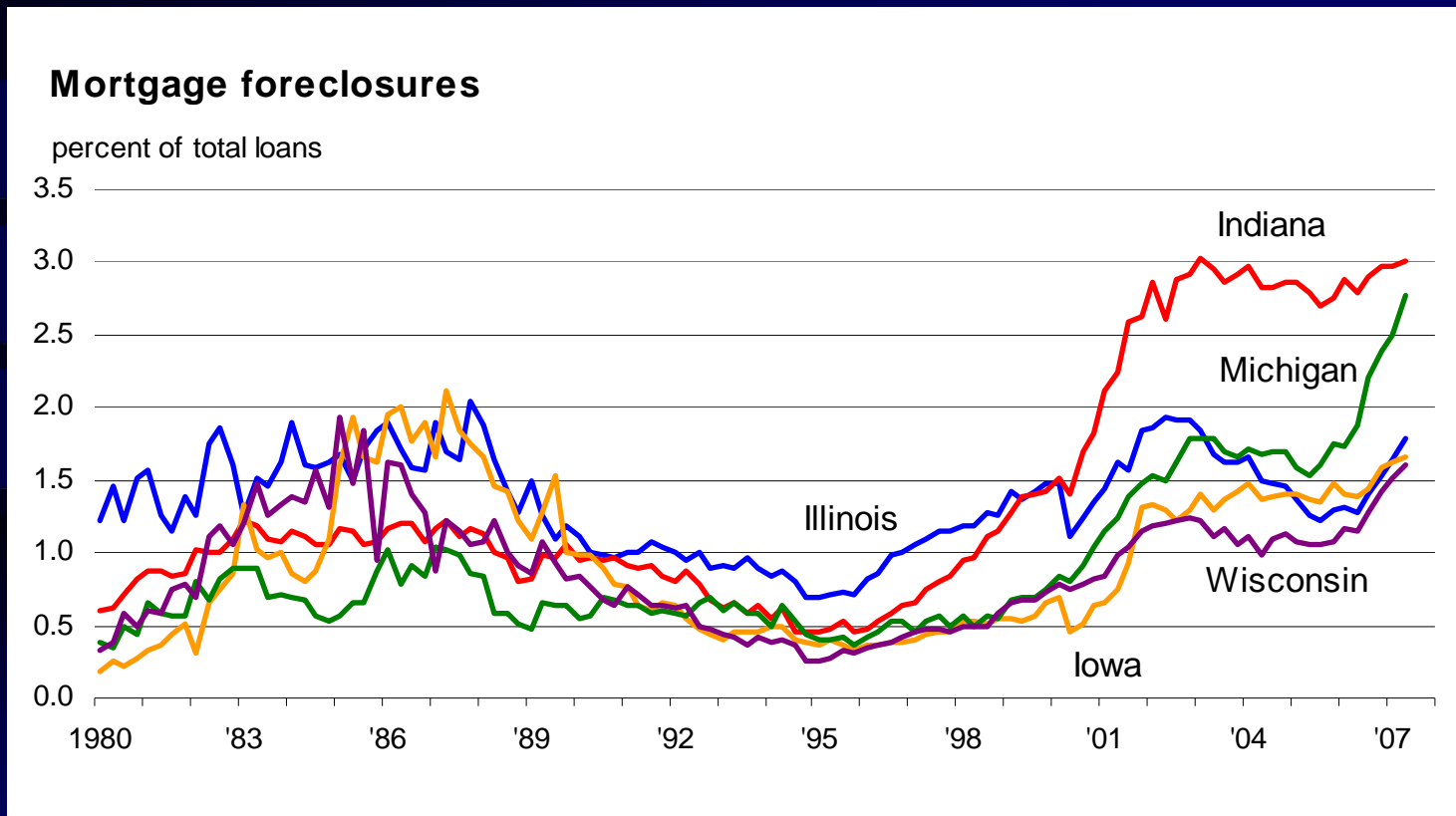
Mortgage foreclosure increases have also been limited to adjustable rate mortgages and largely in subprime mortgages



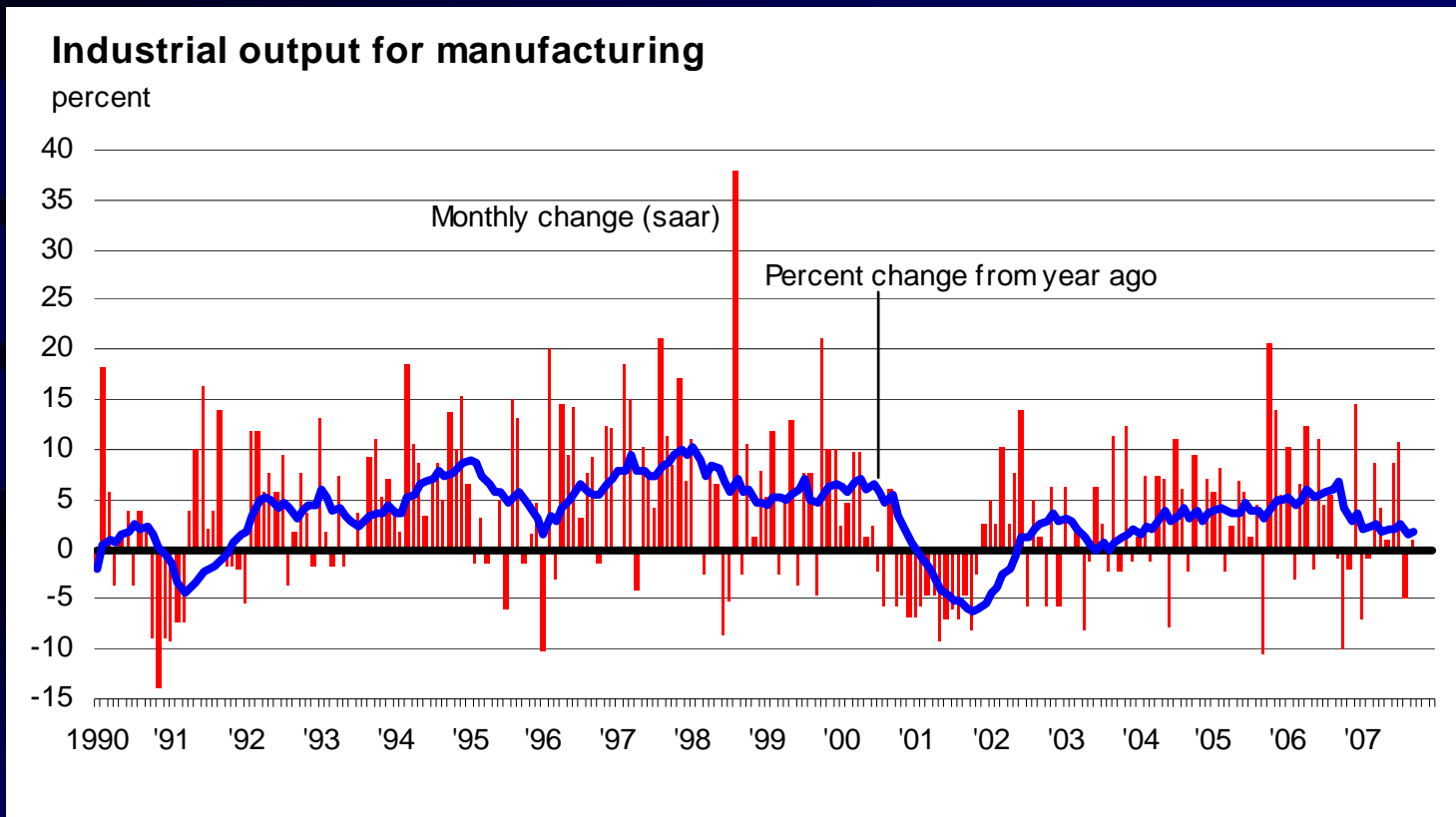
Mortgage foreclosures are higher in the Midwest than any other region of the country



Indiana has the highest number of foreclosures, but Michigan is catching-up



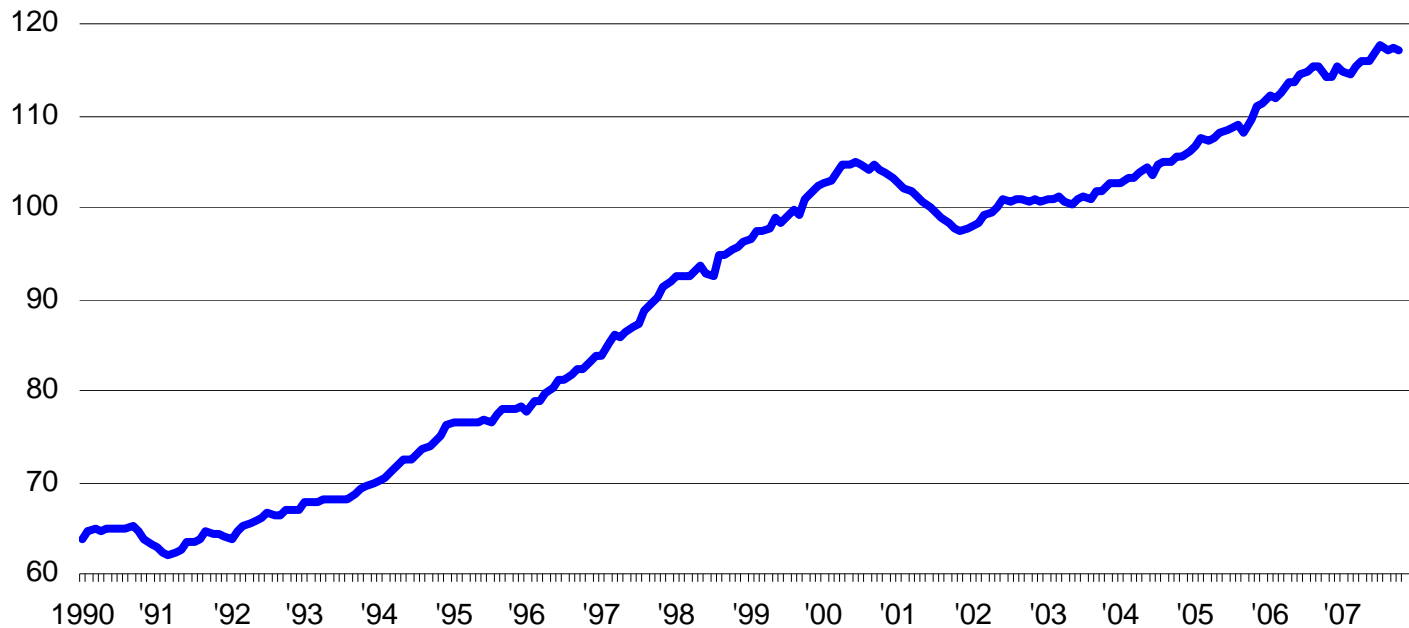
Manufacturing output growth has been moderating since the middle of 2006



Manufacturing output in the United States has never been higher

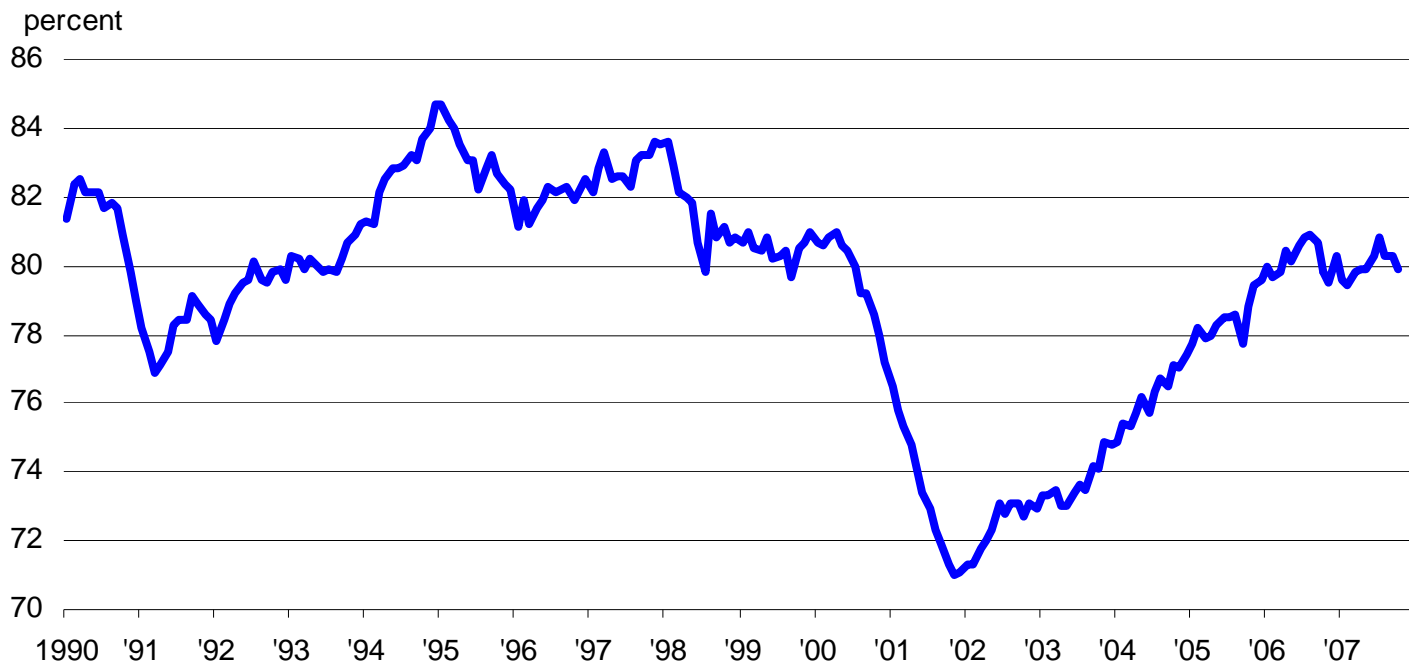
Industrial production - manufacturing

Index 2002=100

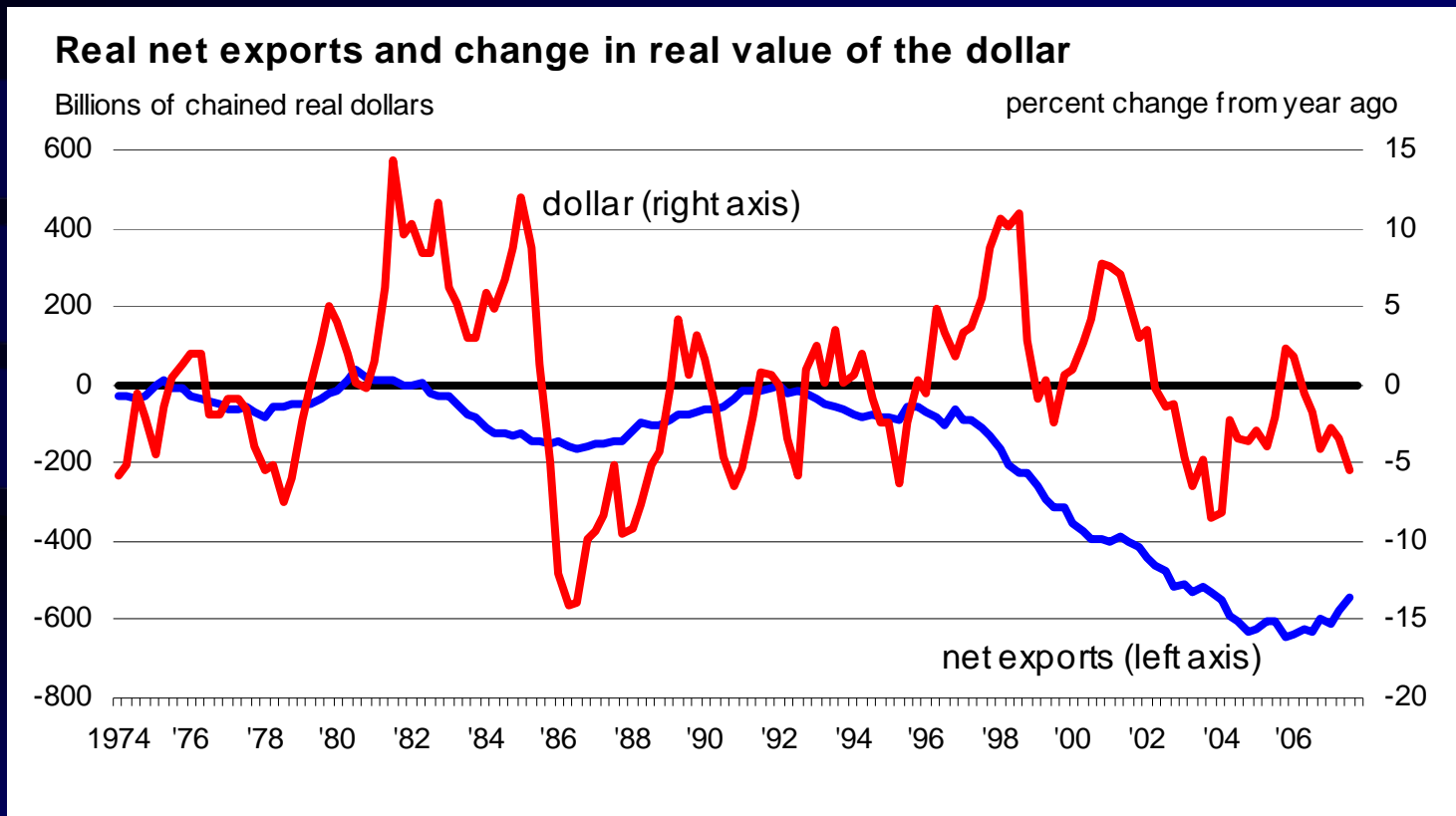


Manufacturing capacity utilization remains relatively high

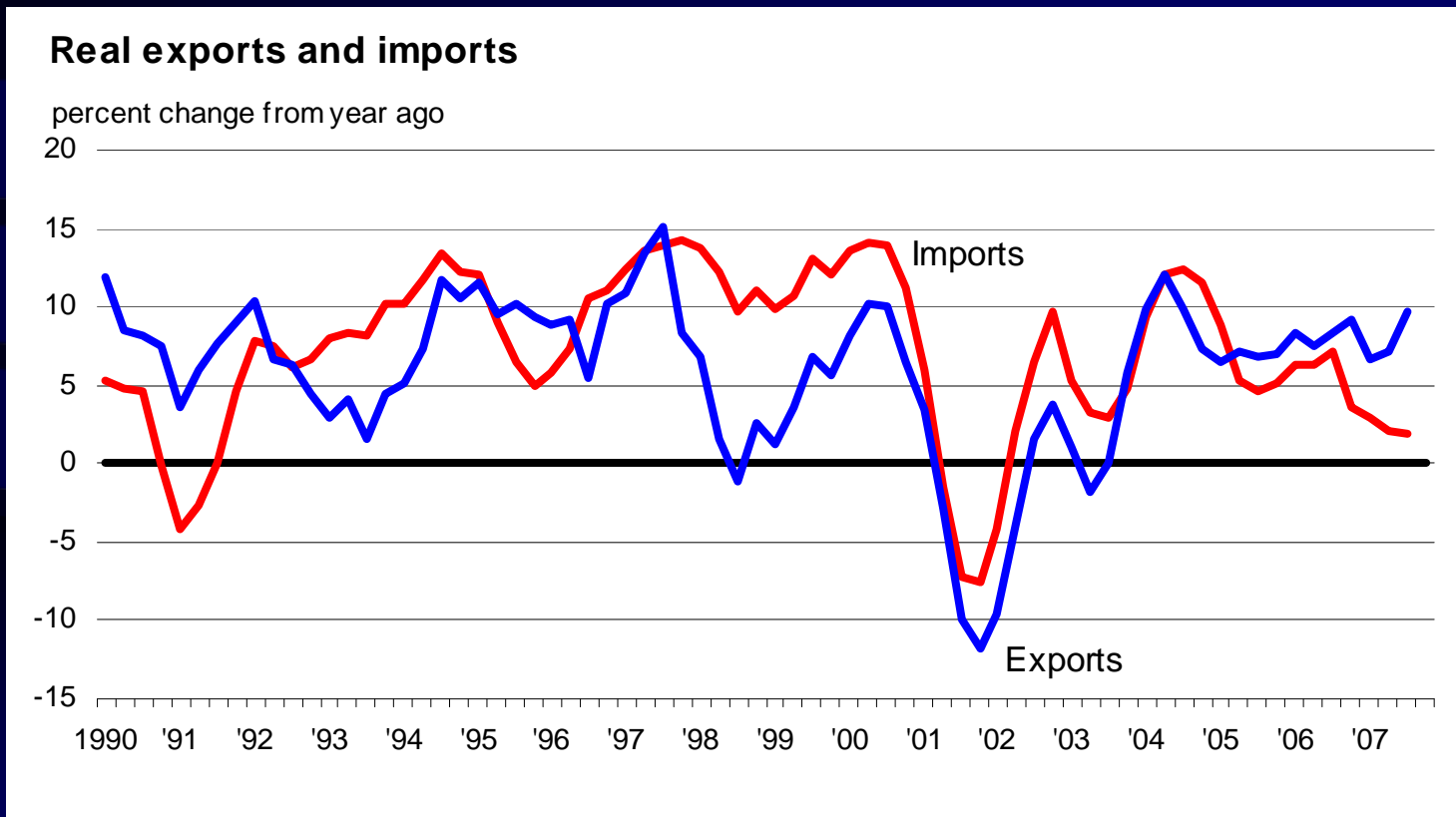
Capacity utilization - manufacturing



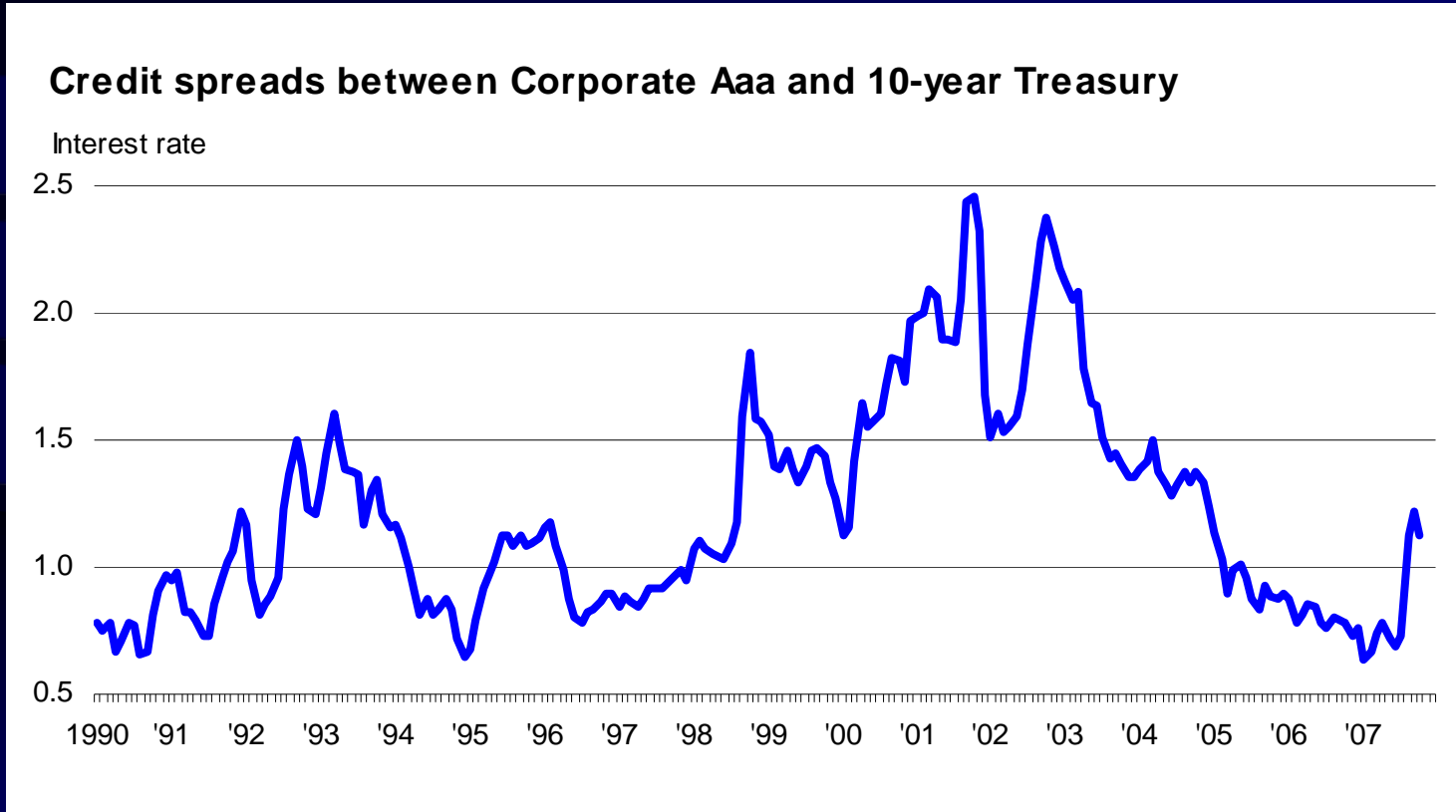
Given the large trade deficit, the dollar has been under pressure since the beginning of 2002, losing 22% of its value over this period



Import growth has been below export growth since early 2005



Credit spreads between corporate Aaa securities and Treasury securities also narrowed over the past several years



The flight to quality drove down Treasury yields



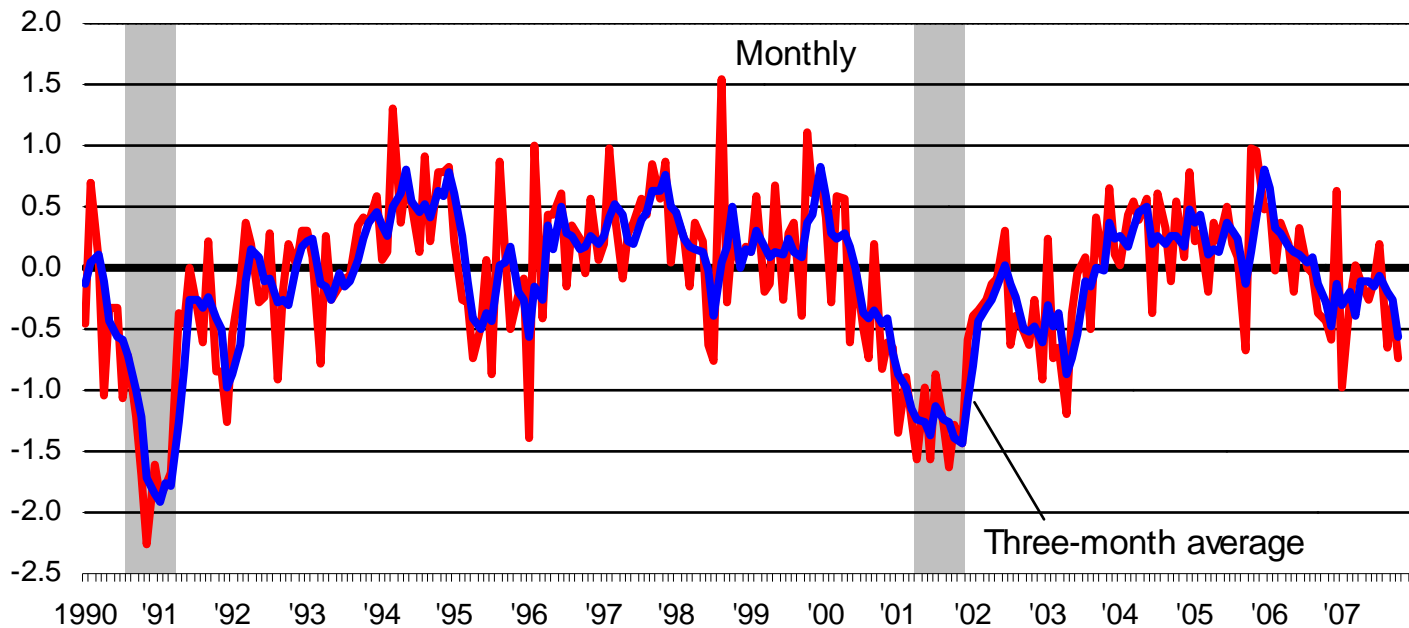
Causing the spread between them to increase by 50 basis points

Credit spreads between Corporate Aaa and 10-year Treasury

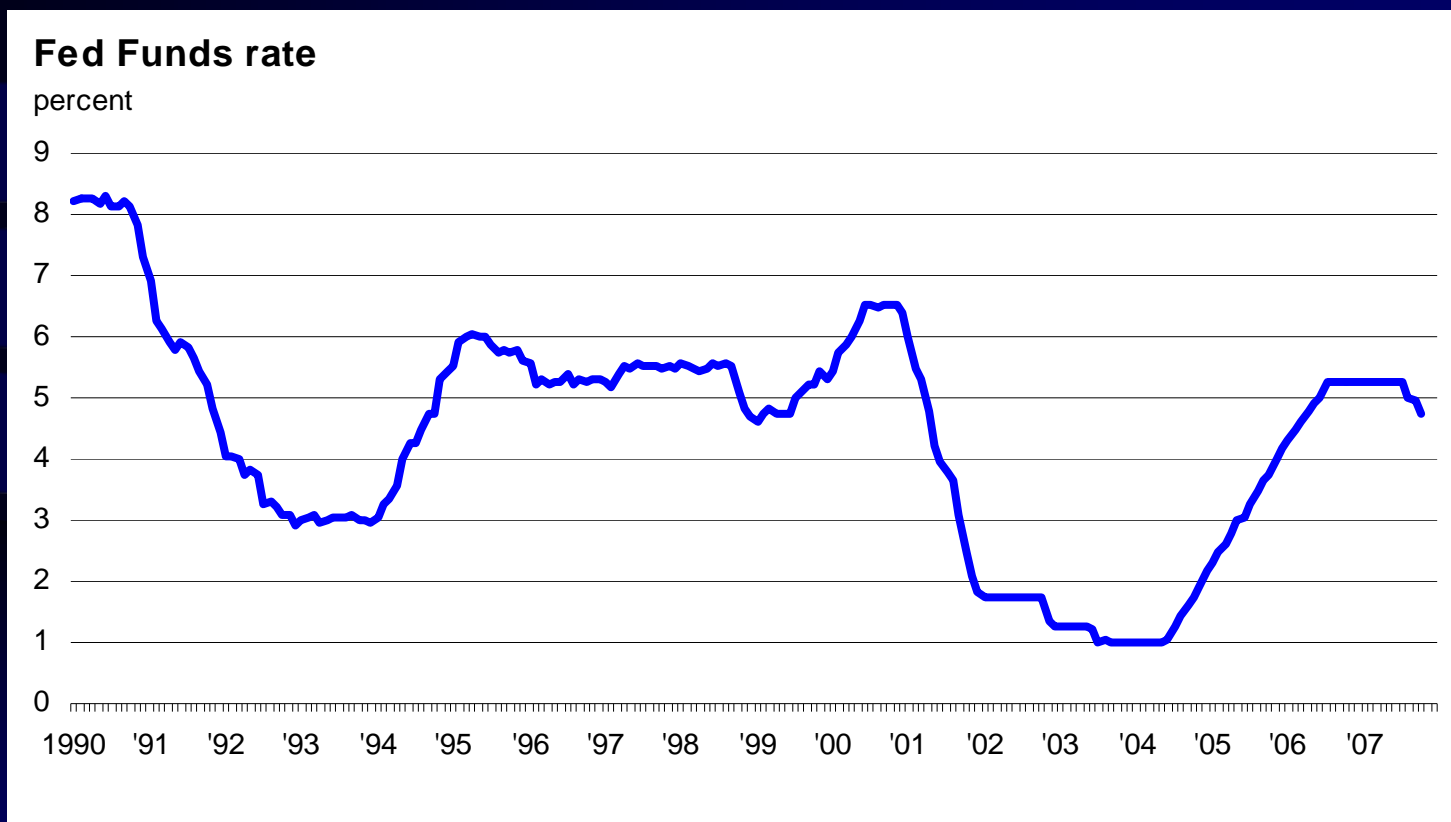


The three-month average of the Chicago Fed National Activity Index has weakened over the past few months

Chicago Fed National Activity Index



Concerned that the tightening of credit conditions has the potential to slow economic growth, the Fed lowered the Fed Funds rate by 50 basis points at its September meeting and another 25 basis points in October



Summary

- The outlook is for U.S. economic growth to expand at a rate below potential through the middle of next year and then grow at potential in the second half
- Employment is forecast to rise at a moderate pace leading to a small increase in the unemployment rate
- Credit markets are adjusting quite rapidly adding a large amount of uncertainty to outlook
- The housing market is expected to remain soft over the coming year and remains the biggest risk on the horizon



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