Survey of
PROFESSIONAL
FORECASTERS

Federal Reserve Bank of Philadelphia

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SECOND QUARTER 2000

Near-Term Outlook for Inflation Worsens—But Long-Term Outlook Holds Steady

The near-term outlook for inflation appears less promising now than it did just three months ago—but such deterioration seems confined to the next couple of years, according to 34 forecasters surveyed by the Federal Reserve Bank of Philadelphia. Over the near term, the forecasters now expect CPI inflation to average 3.1 percent in 2000 and 2.7 percent in 2001, marking increases from 2.5 percent and 2.6 percent, respectively, in the last survey. According to an alternative and more inclusive measure, based on the GDP price index, inflation is expected to average 2.1 percent in 2000, up from 1.8 percent in the last survey, and 2.2 percent in 2001, up from 2.0 percent.

Despite some deterioration in the near-term outlook for inflation, the forecasters see no reason to revise their previous expectations for inflation over the long run. Measured by the 10-year average rate of change in the CPI, inflation is expected to average 2.50 percent, the same rate expected in the last survey.

The following table compares forecasts for near-term inflation from the current survey with those from three months ago.

	CPI Inflation (%)		*GDP Inflation (%)*	
	Previous	*New*	*Previous*	*New*
Quarterly data:				
2000: Q2	2.5	3.2	1.7	2.4
Q3	2.4	2.5	2.2	2.1
Q4	2.5	2.6	2.0	2.1
2001: Q1	2.5	2.7	2.1	2.5
Q2	N.A.	2.6	N.A.	2.2
Annual average data:				
2000	2.5	3.1	1.8	2.1
2001	2.6	2.7	2.0	2.2

Output Growth Revised Sharply Upward in 2000

The persistent strength in the U.S. economy continues to surprise forecasters; therefore, the survey's panelists are, again, revising upward their expectations for growth in real GDP in 2000. In the current quarter, the forecasters expect real GDP to grow at an annual rate of 4.2 percent, marking an upward revision of 1.1 percentage points from the previous survey's estimate of 3.1 percent. Averaging over the second and third quarters of the year, the forecasters expect growth of 3.9 percent (annual rate), marking an upward revision of 0.7 percentage points. For the year as a whole, the forecasters now expect real GDP to grow at a rate of 4.9 percent, up from 3.8 percent in the last survey. Real GDP is expected to grow at an annual rate of 3.0 percent in 2001, up just one-tenth of a percentage point from the last survey's estimate.

The outlook for the nation's unemployment rate is about the same now as it was in the last survey. The rate is expected to average 4.0 percent in 2000, unchanged from the last survey's forecast, and 4.2 percent in 2001, down from 4.3 percent previously.

The following table compares forecasts for selected variables in the current survey with those from three months ago.

	Real GDP (%)		Unemployment Rate (%)	
	Previous	New	Previous	New
Quarterly data:				
2000: Q2	3.1	4.2	4.0	3.9
Q3	3.3	3.6	4.0	4.0
Q4	2.9	3.1	4.2	4.0
2001: Q1	2.8	2.6	4.3	4.0
Q2	N.A.	2.6	N.A.	4.2
Annual average data:				
2000	3.8	4.9	4.0	4.0
2001	2.9	3.0	4.3	4.2

Higher Short-Term Rates Are Seen

An upward revision to the outlook for short-term interest rates accompanies upward revisions to the forecasts for near-term output growth and inflation. The forecasters see short-term rates, as measured by the rate on three-month Treasury bills, averaging 6.0 percent in 2000, up from 5.7 percent in the last survey, and 6.1 percent in 2001, up from 5.6 percent previously. Over the next three quarters, the forecasters see the three-month rate averaging 5.9 percent in the current quarter, rising to 6.2 percent in the third quarter, and rising further to 6.4 percent in the fourth quarter. In contrast, the current outlook for long-term rates is roughly unchanged from that in the last survey. Long-term interest rates, as measured by the rate on 10-year Treasury bonds, will average 6.5 percent in 2000, the same rate expected in the last survey, and 6.4 percent in 2001, up just one-tenth of a percentage point from the last survey's forecast of 6.3 percent, as shown in the following table.

	3-Month Treasury Bill (%)		10-Year Treasury Bond (%)	
	Previous	New	Previous	New
Quarterly data:				
2000: Q2	5.7	5.9	6.6	6.4
Q3	5.8	6.2	6.5	6.5
Q4	5.8	6.4	6.4	6.6
2001: Q1	5.7	6.4	6.3	6.6
Q2	N.A.	6.2	N.A.	6.5
Annual average data:				
2000	5.7	6.0	6.5	6.5
2001	5.6	6.1	6.3	6.4

Probabilities Shift Toward Higher Growth and Inflation in 2000

The current survey's results for the near-term outlook can be summarized by comparing the probabilities that the forecasters are assigning to various possible ranges of growth in real GDP and in the GDP price index with those assigned in the last survey. As the following table shows, those probabilities have increased at the higher ranges of growth in real GDP, indicating that the forecasters think such growth is more likely now than it was three months ago. The forecasters are now assigning a probability of three-quarters (75.19 percent) to the possibility that real GDP will grow at a rate of 4 percent or better in 2000, up substantially from the probability of about one-third (36.43 percent) assigned in the last survey.

Probabilities For Year-Over-Year Growth
In Real GDP in 2000 (%)

Growth Rate Range (%)	*Previous*	*New*
6.0 or more	0.58	4.66
5.0 to 5.9	4.94	25.75
4.0 to 4.9	30.91	44.78
3.0 to 3.9	43.94	17.08
2.0 to 2.9	13.73	6.04
1.0 to 1.9	3.48	1.31
0.0 to 0.9	1.21	0.32
-1.0 to -0.1	0.82	0.05
-2.0 to -1.1	0.21	0.00
Less than -2.0	0.18	0.00

Similarly, the probability that inflation (as measured by the GDP price index) will average 2.0 percent or more in 2000 currently stands at about two-thirds (67.73 percent), up from the last survey's estimate of about one-half (45.88 percent), indicating that such a range for inflation is more likely now than it was in the last survey, as the following table shows.

Probabilities For Year-Over-Year Growth
In GDP Prices in 2000 (%)

Growth Rate Range (%)	*Previous*	*New*
8.0 or more	0.03	0.00
7.0 to 7.9	0.06	0.07
6.0 to 6.9	0.09	0.10
5.0 to 5.9	0.18	0.50
4.0 to 4.9	1.00	4.90
3.0 to 3.9	7.64	14.58
2.0 to 2.9	36.88	47.58
1.0 to 1.9	46.73	28.73
0.0 to 0.9	6.70	3.36
Will decline	0.70	0.18

The Philadelphia Fed's Survey of Professional Forecasters was formerly conducted by the American Statistical Association (ASA) and the National Bureau of Economic Research (NBER) and was known as the ASA/NBER survey. The survey, which began in 1968, is conducted each quarter. The Federal Reserve Bank of Philadelphia, in cooperation with the NBER, assumed responsibility for the survey in June 1990.

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To subscribe to the survey, contact the Research Department's Publications Desk at (215) 574-6428. This three-page writeup contains partial results of the survey. More detailed tables are available. These tables can be accessed on the Internet at: http://www.phil.frb.org/econ/spf/index.html.

SURVEY OF PROFESSIONAL FORECASTERS
MAJOR MACROECONOMIC INDICATORS, 2000-2001

	2000 Q2	Q3	Q4	2001 Q1	Q2	ANNUAL AVERAGE 2000	ANNUAL AVERAGE 2001
	FORECAST						
PERCENT GROWTH AT ANNUAL RATES							
1. REAL GDP (BILLIONS, CHAIN WEIGHTED)	4.2	3.6	3.1	2.6	2.6	4.9	3.0
2. GDP PRICE INDEX (1996=100)	2.4	2.1	2.1	2.5	2.2	2.1	2.2
3. GROSS DOMESTIC PRODUCT (GDP) ($ BILLIONS)	6.4	5.6	5.6	5.4	4.6	7.1	5.3
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	3.2	2.5	2.6	2.7	2.6	3.1	2.7
VARIABLES IN LEVELS							
5. UNEMPLOYMENT RATE (PERCENT)	3.9	4.0	4.0	4.0	4.2	4.0	4.2
6. 3-MONTH TREASURY BILL RATE (PERCENT)	5.9	6.2	6.4	6.4	6.2	6.0	6.1
7. 10-YEAR TREASURY BOND YIELD (PERCENT)	6.4	6.5	6.6	6.6	6.5	6.5	6.4

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2000.

NOTES: THE FIGURES ON EACH LINE ARE MEDIANS OF 34 INDIVIDUAL FORECASTS. NA = NOT APPLICABLE.

SURVEY OF PROFESSIONAL FORECASTERS

Second Quarter 2000

Tables

Note: Data in these tables listed as "actual" are the data that were available to the forecasters when they were sent the survey questionnaire on April 28; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before May 13.

TABLE ONE

MAJOR MACROECONOMIC INDICATORS, 2000-2001
MEDIANS OF FORECASTER PREDICTIONS

	NUMBER OF FORE-CASTERS	ACTUAL 2000 Q1	FORECASTS 2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	ACTUAL 1999	FORECAST 2000	FORECAST 2001
1. GROSS DOMESTIC PRODUCT (GDP) ($ BILLIONS)	33	9697.2	9849.2	9983.4	10120.1	10254.0	10371.0	9256.1	9910.1	10438.8
2. GDP PRICE INDEX (1996=100)	33	105.86	106.50	107.04	107.60	108.26	108.86	104.55	106.75	109.07
3. CORPORATE PROFITS AFTER TAXES ($ BILLIONS)	24	N.A.	635.9	644.5	649.8	659.5	671.2	589.1	636.8	665.4
4. UNEMPLOYMENT RATE (PERCENT)	34	4.1	3.9	4.0	4.0	4.0	4.2	4.2	4.0	4.2
5. INDUSTRIAL PRODUCTION (1992=100)	33	141.7	143.1	144.5	145.7	146.9	148.2	137.1	143.8	148.7
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	34	1.72	1.64	1.60	1.57	1.55	1.54	1.67	1.63	1.52
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	32	4.0	3.2	2.5	2.6	2.7	2.6	2.6	3.1	2.7
8. 3-MONTH TREASURY BILL RATE (PERCENT)	34	5.52	5.90	6.20	6.40	6.35	6.22	4.64	6.01	6.10
9. AAA CORPORATE BOND YIELD (PERCENT)	28	7.71	7.77	7.95	8.02	7.95	7.84	7.04	7.89	7.78
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	34	6.48	6.38	6.50	6.59	6.57	6.47	5.64	6.49	6.43

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2000.

TABLE ONE CONTINUED

MAJOR MACROECONOMIC INDICATORS, 2000-2001
MEDIANS OF FORECASTER PREDICTIONS

	NUMBER OF FORE-CASTERS	ACTUAL 2000 Q1	FORECASTS 2000 Q2	2000 Q3	2000 Q4	2001 Q1	2001 Q2	ACTUAL 1999	FORECAST 2000	FORECAST 2001
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	34	9156.6	9251.3	9333.5	9404.8	9465.1	9525.3	8848.2	9283.9	9563.0
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	33	6225.2	6282.0	6334.7	6385.9	6427.5	6467.3	5983.6	6305.6	6487.2
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	33	1304.6	1334.5	1360.7	1385.9	1404.8	1422.0	1215.8	1345.9	1430.0
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	33	382.9	381.4	380.0	379.0	375.5	378.8	376.1	381.0	380.6
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	32	535.2	539.1	541.4	543.8	543.3	545.8	540.8	540.5	549.3
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	31	1029.4	1035.8	1044.0	1050.2	1060.0	1066.8	993.1	1039.8	1067.0
17. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	34	31.1	40.0	41.4	40.0	40.0	40.0	42.2	38.6	40.0
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	34	-377.1	-383.0	-389.5	-389.8	-386.5	-378.0	-323.0	-385.5	-379.2

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2000.

TABLE TWO

MAJOR MACROECONOMIC INDICATORS, 2000-2001
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE-CASTERS	Q1 2000 TO Q2 2000	Q2 2000 TO Q3 2000	Q3 2000 TO Q4 2000	Q4 2000 TO Q1 2001	Q1 2001 TO Q2 2001	1999 TO 2000	2000 TO 2001
1. GROSS DOMESTIC PRODUCT (GDP) ($ BILLIONS)	33	6.4	5.6	5.6	5.4	4.6	7.1	5.3
2. GDP PRICE INDEX (1996=100)	33	2.4	2.1	2.1	2.5	2.2	2.1	2.2
3. CORPORATE PROFITS AFTER TAXES ($ BILLIONS)	24	3.7	5.5	3.4	6.0	7.3	8.1	4.5
4. UNEMPLOYMENT RATE (PERCENT)	34	-0.2	0.1	0.0	0.0	0.2	-0.2	0.2
5. INDUSTRIAL PRODUCTION (1992=100)	33	4.0	4.0	3.3	3.5	3.5	4.9	3.4
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	34	-16.2	-10.2	-6.7	-5.6	-2.2	-2.2	-7.0
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	32	-0.8	-0.7	0.1	0.1	-0.1	0.5	-0.4
8. 3-MONTH TREASURY BILL RATE (PERCENT)	34	0.38	0.30	0.20	-0.05	-0.13	1.37	0.09
9. AAA CORPORATE BOND YIELD (PERCENT)	28	0.06	0.18	0.07	-0.07	-0.11	0.85	-0.11
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	34	-0.11	0.13	0.09	-0.02	-0.10	0.86	-0.06

NOTE: FIGURES FOR UNEMPLOYMENT RATE, PERCENT CHANGE IN CONSUMER PRICE INDEX, TREASURY BILL RATE, AAA CORPORATE BOND YIELD, AND 10-YEAR TREASURY BOND YIELD ARE CHANGES IN THESE RATES, IN PERCENTAGE POINTS.
ALL OTHERS ARE PERCENTAGE CHANGES AT ANNUAL RATES.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2000.

TABLE TWO CONTINUED

MAJOR MACROECONOMIC INDICATORS, 2000-2001
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE-CASTERS	Q1 2000 TO Q2 2000	Q2 2000 TO Q3 2000	Q3 2000 TO Q4 2000	Q4 2000 TO Q1 2001	Q1 2001 TO Q2 2001	1999 TO 2000	2000 TO 2001
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	34	4.2	3.6	3.1	2.6	2.6	4.9	3.0
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	33	3.7	3.4	3.3	2.6	2.5	5.4	2.9
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	33	9.5	8.1	7.6	5.6	5.0	10.7	6.2
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	33	-1.6	-1.5	-1.0	-3.6	3.6	1.3	-0.1
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	32	2.9	1.7	1.7	-0.4	1.9	0.0	1.6
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	31	2.5	3.2	2.4	3.8	2.6	4.7	2.6
17. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	34	8.9	1.4	-1.4	0.0	0.0	-3.6	1.4
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	34	-5.9	-6.4	-0.3	3.3	8.5	-62.5	6.3

NOTE: FIGURES FOR PRIVATE INVENTORIES AND NET EXPORTS ARE CHANGES IN BILLIONS OF CHAIN-WEIGHTED DOLLARS.
ALL OTHERS ARE PERCENTAGE CHANGES AT ANNUAL RATES.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2000.

TABLE THREE

ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANCES IN 100)	Q1 2000 TO Q2 2000	Q2 2000 TO Q3 2000	Q3 2000 TO Q4 2000	Q4 2000 TO Q1 2001	Q1 2001 TO Q2 2001
	NUMBER OF FORECASTERS				
10 OR LESS	31	31	22	12	11
11 TO 20	0	0	8	15	11
21 TO 30	0	0	1	2	6
31 TO 40	0	0	0	2	2
41 TO 50	0	0	0	0	1
51 TO 60	0	0	0	0	0
61 TO 70	0	0	0	0	0
71 TO 80	0	0	0	0	0
81 TO 90	0	0	0	0	0
91 AND OVER	0	0	0	0	0
NOT REPORTING	3	3	3	3	3
MEDIAN PROBABILITY	0	5	10	15	15
MEAN PROBABILITY	2	5	9	15	18

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 31.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2000.

TABLE FOUR

MEAN PROBABILITY OF CHANGES IN GDP AND PRICES
1999-2000 AND 2000-2001

MEAN PROBABILITY ATTACHED TO POSSIBLE
PERCENT CHANGES IN REAL GDP:

	1999-2000	2000-2001
6.0 OR MORE	4.66	1.56
5.0 TO 5.9	25.75	4.50
4.0 TO 4.9	44.78	15.73
3.0 TO 3.9	17.08	32.33
2.0 TO 2.9	6.04	28.61
1.0 TO 1.9	1.31	10.81
0.0 TO 0.9	0.32	4.21
-1.0 TO -0.1	0.05	1.55
-2.0 TO -1.1	0.00	0.51
LESS THAN -2.0	0.00	0.18

MEAN PROBABILITY ATTACHED TO POSSIBLE
PERCENT CHANGES IN GDP PRICE INDEX:

	1999-2000	2000-2001
8.0 OR MORE	0.00	0.21
7.0 TO 7.9	0.07	0.28
6.0 TO 6.9	0.10	0.39
5.0 TO 5.9	0.50	1.24
4.0 TO 4.9	4.90	6.47
3.0 TO 3.9	14.58	18.95
2.0 TO 2.9	47.58	41.91
1.0 TO 1.9	28.73	24.69
0.0 TO 0.9	3.36	5.50
WILL DECLINE	0.18	0.35

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 32.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2000.

TABLE FIVE

LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI INFLATION RATE	
STATISTIC	
MINIMUM	2.000
LOWER QUARTILE	2.500
MEDIAN	2.500
UPPER QUARTILE	2.850
MAXIMUM	4.500
MEAN	2.677
STD. DEV.	0.466
N	30
MISSING	4

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2000.