SURVEY OF PROFESSIONAL FORECASTERS

Release Date: May 21, 2002

SECOND QUARTER 2002

Forecasters See Improved Prospects for Growth

The outlook for growth in the U.S. economy looks brighter now than it did just three months ago, according to 37 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The forecasters have nearly doubled their estimate of year-over-year growth in real GDP for 2002 compared to their estimate of the previous survey, taken in mid-February. Currently, the forecasters expect real GDP to grow at an annual rate of 2.7 percent in 2002, up sharply from their previous estimate of 1.4 percent. On a quarterly basis, the forecasters see the economy expanding at an annual rate of 2.5 percent in the current quarter, a rate nearly unchanged from the previous estimate of 2.6 percent, and growing at steadily faster rates over the following four quarters, reaching an annual rate of 3.6 percent in the second quarter of 2003. The economy is expected to expand at a rate of 3.4 percent in 2003, down slightly from the previous estimate of 3.5 percent.

The upward revision to growth in 2002 is accompanied by an improved outlook for the unemployment rate. Though the forecasters continue to expect the unemployment rate to peak over the middle of the year, they now see the rate peaking at a slightly lower level. Currently, the forecasters predict the unemployment rate will average 5.9 percent over the middle of the year, down slightly from their previous estimate of 6.0 percent. For the year as a whole, the unemployment rate will average 5.8 percent, down from 6.0 percent in the last survey. The forecasters see unemployment falling in 2003, to an annual average rate of 5.5 percent, the same rate they expected in the last survey.

Inflation, as measured by the fourth-quarter over fourth-quarter rate of change in the consumer price index, will average 2.2 percent in 2002 and 2.5 percent in 2003. Previously, the forecasters expected inflation to average 2.0 percent in 2002. The previous forecast for 2003 aligns with the current forecast of 2.5 percent.

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

	Real GDP (%)		*Unemployment Rate (%)*		*CPI Inflation (%)*	
	Previous	*New*	*Previous*	*New*	*Previous*	*New*
Quarterly data:						
2002: Q2	2.6	2.5	6.0	5.9	2.0	3.0
Q3	3.9	3.2	6.0	5.9	2.1	2.2
Q4	3.2	3.4	5.9	5.8	2.3	2.2
2003: Q1	3.4	3.5	5.7	5.6	2.4	2.5
Q2	N.A.	3.6	N.A.	5.6	N.A.	2.5
Annual average data:						
2002	1.4	2.7	6.0	5.8	2.0	2.2
2003	3.5	3.4	5.5	5.5	2.5	2.5

RESEARCH DEPARTMENT FEDERAL RESERVE BANK OF PHILADELPHIA
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Little Change in the Outlook for Interest Rates

The forecasters see little reason to change their views on the outlook for interest rates. The current outlook is similar to the outlook of three months ago. Currently, the forecasters expect short-term interest rates, as measured by the rate on three-month Treasury bills, to average 2.0 percent in 2002 and 3.4 percent in 2003. The forecast for 2002 is unchanged from the previous forecast, and that for 2003 is down just 0.1 percentage point from the previous forecast. Long-term rates, as measured by the rate on 10-year Treasury bonds, will average 5.3 percent in 2002, up from 5.2 percent in the last survey, and 5.7 percent in 2003, up from 5.5 percent previously, as the table below shows.

	3-Month Rate (%)		*10-Year Rate (%)*	
	Previous	*New*	*Previous*	*New*
Quarterly data:				
2002: Q2	1.8	1.8	5.1	5.2
Q3	2.1	2.0	5.2	5.3
Q4	2.5	2.3	5.3	5.5
2003: Q1	3.0	2.7	5.4	5.6
Q2	N.A.	3.3	N.A.	5.6
Annual average data:				
2002	2.0	2.0	5.2	5.3
2003	3.5	3.4	5.5	5.7

Stronger Growth Suggests Lower Chance of a Negative Quarter

The forecasters are cutting the chance assigned to a fall in real GDP in the second quarter. Currently, that chance is pegged at just 13 percent, down substantially from 29 percent in the survey of three months ago. Less dramatic downward revisions characterize the next few quarters, as the table below shows.

	Risk of a Negative Quarter (%)	
	Previous Survey	*New Survey*
Quarterly data:		
2002: Q2	29	13
Q3	20	14
Q4	14	12
2003: Q1	13	9
Q2	N.A.	9

Expectations for Long-Term Inflation Hold Steady

Long-term expectations for inflation are holding steady. The forecasters expect the annual average rate of change in the consumer price index over the next 10 years to be 2.50 percent, the same rate expected in the last survey. The middle range of forecasts is 2.38 percent to 2.75 percent.

The Federal Reserve Bank of Philadelphia thanks the following forecasters for their participation in the surveys of this year:

Joseph T. Abate, Lehman Brothers; **Maureen Allyn**, Scudder Kemper Investments; **David W. Berson**, Fannie Mae; **Brian A. Bethune**, Caterpillar, Inc.; **Joel I. Brest** and **Brian P. O'Connor**, MarketView Publishing Corp.; **Gary Ciminero, CFA**, Independent Economic Advisory; **Michael Cosgrove**, Econoclast; **Louis Crandall**, Wrightson Associates; **Richard DeKaser**, National City Corporation; **Rajeev Dhawan**, Georgia State University; **Michael R. Englund**, Standard & Poor's MMS; **James Glassman**, JP Morgan Chase & Co.; **James M. Goldberg**, Trust Company of the West; **William B. Hummer**, Wayne Hummer Investments; **Fred Joutz**, Benchmark Forecasts and Research Program on Forecasting, George Washington University; **Kurt Karl**, Swiss Re; **Dr. Irwin Kellner**, Hofstra University/CBS MarketWatch/North Fork Bank; **John Lonski**, Moody's Investors Service; **Edward F. McKelvey**, Goldman Sachs; **Jim Meil**, Eaton Corporation; **Joel L. Naroff**, Naroff Economic Advisors; **Herbert E. Neil**, Financial and Economic Strategies Corp.; **Michael P. Niemira**, Bank of Tokyo-Mitsubishi, Ltd.; **Martin A. Regalia**, U.S. Chamber of Commerce; **David Resler**, Nomura Securities International, Inc.; **David F. Seiders** and **Stanley F. Duobinis**, National Association of Home Builders; **Constantine G. Soras, Ph.D.**, Verizon Communications; **Bruce Steinberg**, Merrill Lynch; **Susan M. Sterne**, Economic Analysis Associates, Inc.; **Lea Tyler**, Oxford Economics USA, Inc.; **Albert M. Wojnilower**; **Richard Yamarone**, Argus Research Group; **Mark Zandi**, Economy.com.

This is a partial list of participants. We also thank those who wish to remain anonymous.

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.

For further information about the Survey of Professional Forecasters, contact:
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To subscribe to the survey, contact the 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, 2002-2003

	2002 Q2	Q3	Q4	2003 Q1	Q2	ANNUAL AVERAGE 2002	ANNUAL AVERAGE 2003
	FORECAST						
PERCENT GROWTH AT ANNUAL RATES							
1. REAL GDP (BILLIONS, CHAIN WEIGHTED)	2.5	3.2	3.4	3.5	3.6	2.7	3.4
2. GDP PRICE INDEX (1996=100)	1.6	1.7	2.0	2.2	1.8	1.2	2.0
3. GROSS DOMESTIC PRODUCT (GDP) ($ BILLIONS)	4.3	4.9	5.3	5.7	5.9	4.0	5.5
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	3.0	2.2	2.2	2.5	2.5	2.2	2.5
VARIABLES IN LEVELS							
5. UNEMPLOYMENT RATE (PERCENT)	5.9	5.9	5.8	5.6	5.6	5.8	5.5
6. 3-MONTH TREASURY BILL RATE (PERCENT)	1.8	2.0	2.3	2.7	3.3	2.0	3.4
7. 10-YEAR TREASURY BOND YIELD (PERCENT)	5.2	5.3	5.5	5.6	5.6	5.3	5.7

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2002.

NOTES: THE FIGURES ON EACH LINE ARE MEDIANS OF 37 INDIVIDUAL FORECASTS. NA = NOT APPLICABLE.

SURVEY OF PROFESSIONAL FORECASTERS

Second Quarter 2002

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 26; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before May 13.

TABLE ONE

MAJOR MACROECONOMIC INDICATORS, 2002-2003
MEDIANS OF FORECASTER PREDICTIONS

	NUMBER OF FORE-CASTERS	ACTUAL 2002 Q1	FORECASTS 2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	ACTUAL 2001	FORECAST 2002	FORECAST 2003
1. GROSS DOMESTIC PRODUCT (GDP) ($ BILLIONS)	36	10431.3	10542.2	10669.8	10807.3	10957.7	11115.3	10208.1	10613.8	11200.0
2. GDP PRICE INDEX (1996=100)	36	110.02	110.47	110.94	111.50	112.10	112.60	109.37	110.71	112.90
3. CORPORATE PROFITS AFTER TAXES ($ BILLIONS)	25	N.A.	468.1	473.7	484.4	494.0	505.5	482.5	476.4	521.2
4. UNEMPLOYMENT RATE (PERCENT)	36	5.6	5.9	5.9	5.8	5.6	5.6	4.8	5.8	5.5
5. INDUSTRIAL PRODUCTION (1992=100)	35	138.0	139.7	141.1	142.8	144.7	146.5	140.4	140.5	147.7
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	36	1.72	1.63	1.60	1.59	1.60	1.60	1.60	1.63	1.60
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	36	1.4	3.0	2.2	2.2	2.5	2.5	1.9	2.2	2.5
8. 3-MONTH TREASURY BILL RATE (PERCENT)	34	1.72	1.77	2.00	2.32	2.73	3.30	3.39	2.00	3.37
9. AAA CORPORATE BOND YIELD (PERCENT)	30	6.62	6.71	6.76	6.90	7.00	7.03	7.08	6.76	7.10
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	34	5.08	5.19	5.31	5.47	5.60	5.64	5.02	5.27	5.70

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2002.

TABLE ONE CONTINUED

MAJOR MACROECONOMIC INDICATORS, 2002-2003
MEDIANS OF FORECASTER PREDICTIONS

	NUMBER OF FORE-CASTERS	ACTUAL 2002 Q1	FORECASTS 2002 Q2	2002 Q3	2002 Q4	2003 Q1	2003 Q2	ACTUAL 2001	FORECAST 2002	FORECAST 2003
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	35	9482.1	9540.8	9616.9	9698.0	9781.8	9869.0	9333.8	9584.0	9914.1
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	35	6597.5	6640.9	6683.0	6732.3	6785.5	6842.2	6450.3	6663.2	6866.0
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	34	1226.8	1229.5	1238.1	1257.0	1273.5	1295.7	1308.0	1237.4	1308.3
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	34	390.0	391.0	390.4	391.5	392.0	394.4	376.9	390.0	395.8
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	32	591.9	597.9	603.5	608.5	614.0	620.0	560.3	600.0	625.4
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	32	1103.4	1108.9	1113.8	1118.4	1124.0	1130.0	1067.5	1111.2	1135.0
17. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	35	-36.2	0.8	18.3	36.0	40.0	43.4	-61.7	3.5	41.0
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	35	-448.5	-462.0	-470.0	-481.0	-486.0	-495.0	-408.7	-465.2	-497.4

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2002.

TABLE TWO

MAJOR MACROECONOMIC INDICATORS, 2002-2003
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE-CASTERS	Q1 2002 TO Q2 2002	Q2 2002 TO Q3 2002	Q3 2002 TO Q4 2002	Q4 2002 TO Q1 2003	Q1 2003 TO Q2 2003	2001 TO 2002	2002 TO 2003
1. GROSS DOMESTIC PRODUCT (GDP) ($ BILLIONS)	36	4.3	4.9	5.3	5.7	5.9	4.0	5.5
2. GDP PRICE INDEX (1996=100)	36	1.6	1.7	2.0	2.2	1.8	1.2	2.0
3. CORPORATE PROFITS AFTER TAXES ($ BILLIONS)	25	26.8	4.9	9.3	8.2	9.6	-1.3	9.4
4. UNEMPLOYMENT RATE (PERCENT)	36	0.3	0.0	-0.2	-0.2	0.0	1.0	-0.3
5. INDUSTRIAL PRODUCTION (1992=100)	35	5.0	4.0	5.0	5.3	5.2	0.1	5.1
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	36	-18.7	-8.0	-2.1	2.2	0.1	1.4	-1.8
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	36	1.6	-0.8	0.0	0.3	0.0	0.3	0.4
8. 3-MONTH TREASURY BILL RATE (PERCENT)	34	0.05	0.22	0.33	0.41	0.57	-1.39	1.37
9. AAA CORPORATE BOND YIELD (PERCENT)	30	0.09	0.05	0.14	0.10	0.03	-0.32	0.34
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	34	0.11	0.11	0.17	0.13	0.04	0.25	0.43

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 2002.

TABLE TWO CONTINUED

MAJOR MACROECONOMIC INDICATORS, 2002-2003
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE-CASTERS	Q1 2002 TO Q2 2002	Q2 2002 TO Q3 2002	Q3 2002 TO Q4 2002	Q4 2002 TO Q1 2003	Q1 2003 TO Q2 2003	2001 TO 2002	2002 TO 2003
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	35	2.5	3.2	3.4	3.5	3.6	2.7	3.4
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	35	2.7	2.6	3.0	3.2	3.4	3.3	3.0
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	34	0.9	2.8	6.3	5.4	7.2	-5.4	5.7
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	34	1.0	-0.6	1.2	0.5	2.4	3.5	1.5
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	32	4.1	3.8	3.3	3.7	4.0	7.1	4.2
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	32	2.0	1.8	1.7	2.0	2.2	4.1	2.1
17. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	35	37.0	17.5	17.7	4.0	3.4	65.2	37.5
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	35	-13.5	-8.0	-11.0	-5.0	-9.0	-56.5	-32.2

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 2002.

TABLE THREE

ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANCES IN 100)	Q1 2002 TO Q2 2002	Q2 2002 TO Q3 2002	Q3 2002 TO Q4 2002	Q4 2002 TO Q1 2003	Q1 2003 TO Q2 2003
	NUMBER OF FORECASTERS				
10 OR LESS	20	18	20	23	23
11 TO 20	7	8	8	7	8
21 TO 30	3	3	2	2	1
31 TO 40	0	2	2	0	0
41 TO 50	1	1	0	0	0
51 TO 60	1	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	5	5	5	5	5
MEDIAN PROBABILITY	10	10	10	10	10
MEAN PROBABILITY	13	14	12	9	9

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 32.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2002.

TABLE FOUR

MEAN PROBABILITY OF CHANGES IN GDP AND PRICES
2001-2002 AND 2002-2003

MEAN PROBABILITY ATTACHED TO POSSIBLE
PERCENT CHANGES IN REAL GDP:

	2001-2002	2002-2003
6.0 OR MORE	0.41	0.92
5.0 TO 5.9	1.58	3.22
4.0 TO 4.9	4.48	15.66
3.0 TO 3.9	27.11	41.19
2.0 TO 2.9	46.02	26.72
1.0 TO 1.9	15.69	8.94
0.0 TO 0.9	3.77	2.42
-1.0 TO -0.1	0.75	0.72
-2.0 TO -1.1	0.14	0.16
LESS THAN -2.0	0.06	0.06

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

	2001-2002	2002-2003
8.0 OR MORE	0.03	0.07
7.0 TO 7.9	0.04	0.16
6.0 TO 6.9	0.07	0.23
5.0 TO 5.9	0.17	0.51
4.0 TO 4.9	0.94	3.16
3.0 TO 3.9	4.59	12.33
2.0 TO 2.9	19.22	40.22
1.0 TO 1.9	55.78	33.23
0.0 TO 0.9	18.03	9.28
WILL DECLINE	1.13	0.81

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 32.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2002.

TABLE FIVE

LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI INFLATION RATE	
STATISTIC	
MINIMUM	2.000
LOWER QUARTILE	2.375
MEDIAN	2.500
UPPER QUARTILE	2.750
MAXIMUM	3.500
MEAN	2.546
STD. DEV.	0.316
N	34
MISSING	3

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2002.