



SURVEY OF PROFESSIONAL FORECASTERS

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SECOND QUARTER 2004

Forecasters Hold the Line on Their Projections for Output Growth

Not much has changed over the past three months to entice our panel of forecasters to alter their projections for economic growth over the next two years. According to 32 forecasters surveyed by the Federal Reserve Bank of Philadelphia, real GDP will grow at an annual rate of 4.5 percent in the second quarter, up a bit from the previous forecast of 4.3 percent. However, on a year-over-year basis, the forecasters see output growing at a rate of 4.6 percent this year, the same rate they predicted three months ago. Looking a bit further into the future, the forecasters expect the economy to grow at a rate of 3.9 percent in 2005, up just a bit from their previous projection of 3.8 percent.

Not surprisingly, the forecasters' projection for unemployment is little changed. In 2004, they see unemployment averaging 5.5 percent, down from 5.6 percent in the last survey, but their forecast of 5.3 percent in 2005 is the same rate they expected three months ago.

At the same time that the forecasters are holding the line on their projections for output and unemployment, they are raising their projections for near-term inflation. On a fourth-quarter over fourth-quarter basis, CPI inflation is expected to average 2.7 percent in 2004 and 2.2 percent in 2005, up from 1.6 percent and 1.9 percent, respectively, in the survey of three months ago. The forecasters are also revising upward their projections for an alternative, broader measure of inflation given by the price index for GDP. On a year-over-year basis, that index is expected to rise 1.9 percent in 2004, up from 1.4 percent previously, and 1.9 percent in 2005, up from 1.7 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
<i>Quarterly data:</i>						
2004: Q2	4.3	4.5	5.6	5.6	1.5	2.9
Q3	3.9	4.1	5.6	5.5	1.5	2.2
Q4	4.1	4.0	5.5	5.4	1.7	2.0
2005: Q1	3.6	3.8	5.4	5.4	1.8	2.1
Q2	N.A.	4.0	N.A.	5.3	N.A.	2.2
<i>Annual average data:</i>						
2004	4.6	4.6	5.6	5.5	1.6	2.7
2005	3.8	3.9	5.3	5.3	1.9	2.2

Slightly Larger Job Gains Seen in 2004

The forecasters are raising their projections for job gains in the current quarter and for the year, but they anticipate roughly the same rate of job gains in 2005 as they expected in the last survey. Nonfarm payroll employment will rise at

an annual rate of 2.2 percent in the second quarter, up from the previous estimate of 1.3 percent. On a year-over-year basis, the forecasters see the number of jobs rising 1.0 percent in 2004, an increase of 0.2 percentage point over their previous forecast of 0.8 percent. The forecasters expect payroll employment to grow at a rate of 1.7 percent in 2005, the same rate they expected in the previous survey. If we measure the flow of new jobs on an annual-average minus annual-average basis, the forecasters expect job gains at a rate of 111,000 per month in 2004 and 186,000 per month in 2005. Previously, the forecasters thought job gains would average 91,000 per month in 2004 and 188,000 per month in 2005, as the table below shows.

Nonfarm Payroll Employment

	Growth (%)		Average Change per Month (thousands of jobs)	
	Previous	New	Previous	New
<i>Quarterly data:</i>				
2004:Q2	1.3	2.2	142.7	240.0
Q3	1.7	1.5	184.3	157.7
Q4	1.7	1.9	190.0	211.0
2005:Q1	1.5	1.8	166.0	192.7
Q2	N.A.	1.6	N.A.	170.7
<i>Annual average data:</i>				
2004	0.8	1.0	91.1	111.0
2005	1.7	1.7	187.7	186.0

Little Risk of a Negative Quarter

The forecasters are cutting the chance of a decline in real GDP in the next two quarters. In the current quarter, the forecasters see only a 1 percent chance that real GDP will decline, down from 5 percent in the previous survey. In the third quarter, the chance stands at 4 percent, down a bit from the previous estimate of 6 percent.

	Risk of a Negative Quarter (%)	
	Previous Survey	New Survey
<i>Quarterly data:</i>		
2004: Q2	5	1
Q3	6	4
Q4	8	7
2005: Q1	10	10
Q2	N.A.	12

No Change in Expectations for Long-Term Inflation

Despite their upward revision to expectations for CPI inflation over the next two years noted above, the forecasters do not expect permanently higher inflation. Over the next 10 years, the forecasters continue to expect inflation to average 2.50 percent. The Philadelphia Fed's measure of long-term expectations for inflation has held steady at 2.50 percent since the late 1990s.

Short-Term Interest Rates Are Seen Rising at a Faster Pace

The forecasters see short-term interest rates, as measured by the rate on three-month Treasury bills, rising a bit faster over the next few quarters than they thought three months ago. In this survey, the forecasters see that rate rising from 1.0 percent in the second quarter to 2.0 percent in the first quarter of 2005. Previously, the forecasters expected that rate

to rise from 1.0 percent to 1.8 percent over the same period. For the year, the forecasters expect the three-month rate to average 1.2 percent, unchanged from the last survey. However, in 2005, the forecasters now expect three-month Treasury bills to average 2.5 percent, up from their previous forecast of 2.2 percent.

On the long end of the maturity spectrum, the forecasters expect the rate on 10-year Treasury bonds to average 4.6 percent in 2004, up a bit from their previous projection of 4.5 percent. Long-term rates will rise to 5.2 percent in 2005, but that forecast marks a revision downward from the previous forecast of 5.3 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; **David W. Berson**, Fannie Mae; **Joel I. Brest** and **Brian P. O'Connor**, Ridgewood Economic Associates ; **Gary Ciminero, CFA**, Independent Economic Advisory; **Michael Cosgrove**, Econoclast; **Richard DeKaser**, National City Corporation; **Rajeev Dhawan**, Georgia State University; **Michael R. Englund**, Action Economics, LLC; **Gerard F. Fuda**, Independent Economist; **James Glassman**, JP Morgan Chase & Co.; **William B. Hummer**, Wayne Hummer Investments; **Saul Hymans, Joan Crary**, and **Janet Wolfe**, RSQE, The University of Michigan; **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; **Joseph Liro**, Stone & McCarthy Research Associates; **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.; **Mark Nielson, Ph.D.**, MacroEcon Global Advisors; **Jacob I. Pasternak**, Chmura Economics & Analytics; **Martin A. Regalia**, U.S. Chamber of Commerce; **David Resler**, Nomura Securities International, Inc.; **David Rosenberg**, Merrill Lynch; **David F. Seiders** and **Stanley F. Duobinis**, National Association of Home Builders; **Constantine G. Soras, Ph.D.**, Verizon Communications; **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 found on the Internet at: <http://www.phil.frb.org/econ/spf/index.html>.

SURVEY OF PROFESSIONAL FORECASTERS
MAJOR MACROECONOMIC INDICATORS, 2004-2005

					ANNUAL AVERAGE		
	2004 Q2	Q3	Q4	2005 Q1	Q2	2004	2005
					FORECAST		
PERCENT GROWTH AT ANNUAL RATES							
1. REAL GDP (BILLIONS, CHAIN WEIGHTED)	4.5	4.1	4.0	3.8	4.0	4.6	3.9
2. GDP PRICE INDEX (2000=100)	2.2	1.7	1.8	2.0	1.9	1.9	1.9
3. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	6.5	5.9	5.8	5.5	5.5	6.6	5.8
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	2.9	2.2	2.0	2.1	2.2	2.7	2.2
VARIABLES IN LEVELS							
5. UNEMPLOYMENT RATE (PERCENT)	5.6	5.5	5.4	5.4	5.3	5.5	5.3
6. 3-MONTH TREASURY BILL RATE (PERCENT)	1.0	1.3	1.6	2.0	2.4	1.2	2.5
7. 10-YEAR TREASURY BOND YIELD (PERCENT)	4.6	4.8	5.0	5.2	5.3	4.6	5.2

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2004.

NOTES: THE FIGURES ON EACH LINE ARE MEDIANS OF 32 INDIVIDUAL FORECASTS. NA = NOT APPLICABLE.

SURVEY OF PROFESSIONAL FORECASTERS

Second Quarter 2004

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 29; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before May 14.

TABLE ONE

MAJOR MACROECONOMIC INDICATORS, 2004-2005 MEDIAN OF FORECASTER PREDICTIONS									
	NUMBER OF FORE- CASTERS	FORECASTS				ACTUAL 2003	FORECAST 2004	FORECAST 2005	
		ACTUAL 2004	Q1	Q2	Q3	Q4	Q1	Q2	
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	32	11447.8	11630.3	11797.9	11964.7	12127.3	12289.8	10987.9	11712.1
2. GDP PRICE INDEX (2000=100)	32	106.92	107.49	107.94	108.42	108.95	109.47	105.69	107.69
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	23	N.A.	739.4	750.0	774.6	882.3	918.2	631.5	744.5
4. UNEMPLOYMENT RATE (PERCENT)	32	5.6	5.6	5.5	5.4	5.4	5.3	6.0	5.5
5. INDUSTRIAL PRODUCTION (1997=100)	30	114.4	115.8	117.2	118.9	120.3	121.6	111.2	116.5
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	32	1.94	1.92	1.85	1.79	1.75	1.74	1.85	1.87
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	29	3.6	2.9	2.2	2.0	2.1	2.2	1.9	2.7
8. 3-MONTH TREASURY BILL RATE (PERCENT)	30	0.92	1.00	1.30	1.57	2.00	2.36	1.01	1.20
9. AAA CORPORATE BOND YIELD (PERCENT)	29	5.46	5.90	6.11	6.29	6.40	6.58	5.67	5.89
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	31	4.02	4.55	4.80	5.00	5.20	5.33	4.02	4.58

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2004.

TABLE ONE CONTINUED

MAJOR MACROECONOMIC INDICATORS, 2004-2005
MEDIANS OF FORECASTER PREDICTIONS

NUMBER OF FORE- CASTERS	ACTUAL 2004 Q1	FORECASTS				ACTUAL 2003	FORECAST 2004	FORECAST 2005			
		2004		2005							
		Q2	Q3	Q4	Q1						
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	32	10708.6	10827.0	10937.1	11045.2	11148.7	11257.3	10398.0			
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	32	7555.6	7627.3	7691.8	7754.3	7826.7	7890.8	7365.2			
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	32	1189.8	1217.1	1250.6	1281.7	1305.6	1340.0	1125.5			
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	31	529.3	533.1	530.5	529.0	528.2	529.3	505.3			
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	30	732.9	740.4	746.8	751.2	752.7	756.6	704.3			
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	30	1188.1	1192.7	1196.8	1201.7	1206.7	1212.0	1194.6			
17. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	32	15.3	25.8	35.7	42.1	45.7	45.0	-0.7			
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	32	-514.6	-522.1	-521.1	-518.5	-511.7	-505.0	-509.1			
							-520.4	-505.3			

TABLE TWO

MAJOR MACROECONOMIC INDICATORS, 2004-2005
PERCENTAGE CHANGES AT ANNUAL RATES

NUMBER OF FORE- CASTERS	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005	Q3 2005	Q4 2005	TO 2004	TO 2005	TO 2006
	TO Q2 2004	TO Q3 2004	TO Q4 2004	TO Q1 2005	TO Q2 2005	TO Q3 2005	TO Q4 2005	TO Q1 2006	TO Q2 2006	TO Q3 2006	TO Q4 2006
	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	3.2	6.5	5.9	5.8	5.5	5.5	5.5	6.6	5.8	5.8	5.8
2. GDP PRICE INDEX (2000=100)	3.2	2.2	1.7	1.8	2.0	1.9	1.9	1.9	1.9	1.9	1.9
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	2.3	8.3	5.9	13.8	68.4	17.3	17.3	17.9	19.3	19.3	19.3
4. UNEMPLOYMENT RATE (PERCENT)	3.2	0.0	-0.1	-0.1	0.0	-0.1	-0.1	-0.5	-0.3	-0.3	-0.3
5. INDUSTRIAL PRODUCTION (1997=100)	3.0	5.0	4.9	5.8	5.1	4.4	4.4	4.8	5.1	5.1	5.1
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	3.2	-4.8	-13.8	-12.8	-8.3	-2.0	-2.0	1.3	-7.6	-7.6	-7.6
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	2.9	-0.7	-0.7	-0.2	0.1	0.1	0.1	0.8	-0.5	-0.5	-0.5
8. 3-MONTH TREASURY BILL RATE (PERCENT)	3.0	0.08	0.30	0.27	0.43	0.36	0.19	1.30	1.30	1.30	1.30
9. AAA CORPORATE BOND YIELD (PERCENT)	2.9	0.44	0.21	0.18	0.11	0.18	0.18	0.22	0.68	0.68	0.68
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	3.1	0.53	0.25	0.20	0.20	0.13	0.13	0.56	0.66	0.66	0.66

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 2004.

TABLE TWO CONTINUED

**MAJOR MACROECONOMIC INDICATORS, 2004-2005
PERCENTAGE CHANGES AT ANNUAL RATES**

	NUMBER OF FORE- CASTERS	Q1 2004 TO Q2 2004	Q2 2004 TO Q3 2004	Q3 2004 TO Q4 2004	Q4 2004 TO Q1 2005	Q1 2005 TO Q2 2005	Q2 2005 TO 2004	2003 TO 2005
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	32	4.5	4.1	4.0	3.8	4.0	4.6	3.9
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	32	3.8	3.4	3.3	3.8	3.3	4.0	3.4
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	32	9.5	11.5	10.3	7.7	11.0	9.8	9.2
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	31	2.9	-1.9	-1.2	-0.6	0.8	4.7	0.0
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	30	4.2	3.5	2.4	0.8	2.1	5.5	1.8
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	30	1.6	1.4	1.6	1.7	1.8	0.0	1.7
17. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	32	10.5	9.9	6.4	3.6	-0.7	30.2	10.5
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	32	-7.5	1.0	2.6	6.8	6.7	-11.3	15.1

NOTE: FIGURES FOR CHANGE IN 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 2004.

TABLE THREE

ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANCES IN 100)	Q1 2004		Q2 2004		Q3 2004		Q4 2004		Q1 2005	
	TO Q2 2004	TO Q3 2004	TO Q4 2004	TO Q1 2005	TO Q2 2005	TO Q1 2005	TO Q2 2005	TO Q1 2005	TO Q2 2005	TO Q1 2005
NUMBER OF FORECASTERS										
10 OR LESS	29	29	24	18	17					
11 TO 20	0	0	4	10	9					
21 TO 30	0	0	1	0	2					
31 TO 40	0	0	0	1	1					
41 TO 50	0	0	0	0	0					
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	5	10	10					
MEAN PROBABILITY	1	4	7	10	12					

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 29.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2004.

TABLE FOUR

MEAN PROBABILITY OF CHANGES IN GDP AND PRICES
2003-2004 AND 2004-2005

MEAN PROBABILITY ATTACHED TO POSSIBLE
PERCENT CHANGES IN REAL GDP:

	2003-2004	2004-2005
6.0 OR MORE	4.31	2.83
5.0 TO 5.9	20.31	11.14
4.0 TO 4.9	54.17	30.31
3.0 TO 3.9	15.41	36.38
2.0 TO 2.9	4.34	14.48
1.0 TO 1.9	0.97	3.76
0.0 TO 0.9	0.28	0.90
-1.0 TO -0.1	0.10	0.14
-2.0 TO -1.1	0.07	0.03
LESS THAN -2.0	0.03	0.03

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

	2003-2004	2004-2005
8.0 OR MORE	0.00	0.03
7.0 TO 7.9	0.00	0.07
6.0 TO 6.9	0.00	0.31
5.0 TO 5.9	0.83	1.03
4.0 TO 4.9	4.62	5.79
3.0 TO 3.9	8.79	15.14
2.0 TO 2.9	34.10	36.34
1.0 TO 1.9	43.62	33.62
0.0 TO 0.9	7.69	7.03
WILL DECLINE	0.34	0.62

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 29.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2004.

TABLE FIVE

LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI INFLATION RATE	
STATISTIC	
MINIMUM	1.750
LOWER QUARTILE	2.275
MEDIAN	2.500
UPPER QUARTILE	2.775
MAXIMUM	3.100
MEAN	2.506
STD. DEV.	0.353
N	25
MISSING	7

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER
 2004.