SURVEY OF PROFESSIONAL FORECASTERS

Release Date: November 22, 2004

FOURTH QUARTER 2004

Forecasters See Slower Growth in 2005 and Improved Prospects for Inflation

Growth over the next five quarters looks slower now than it did three months ago, according to 34 forecasters surveyed by the Federal Reserve Bank of Philadelphia. In the current quarter, the forecasters expect real GDP to grow at an annual rate of 3.7 percent, a downward revision from their estimate of 4.0 percent in the last survey. The forecasters see year-over-year growth of 4.4 percent in 2004, up just a bit from their previous estimate of 4.3 percent. However, for the second consecutive survey, the forecasters are cutting their estimate for growth in 2005. In this survey that estimate stands at 3.5 percent, down from 3.7 percent in the survey of three months ago. As recently as the survey of six months ago, the forecasters were projecting growth of 3.9 percent in 2005.

Improvement on the near-term inflation front accompanies the downward revision to growth prospects. On a year-over-year basis, inflation in the GDP price index will average 2.1 percent in 2004 and decelerate to 2.0 percent in 2005. That marks a pronounced difference from the projection in the last survey, in which the forecasters thought inflation would average 2.2 percent in 2004 but accelerate to 2.3 percent in 2005. On a fourth-quarter over fourth-quarter basis, inflation in the consumer price index is expected to average 3.2 percent in 2004, down from 3.4 percent previously, and 2.2 percent in 2005, up just a bit from 2.1 percent in the previous survey.

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

	Real GDP (%)		*GDP Inflation (%)*		*CPI Inflation (%)*	
	Previous	*New*	*Previous*	*New*	*Previous*	*New*
Quarterly data:						
2004: Q4	4.0	3.7	2.2	1.8	2.3	2.5
2005: Q1	3.8	3.4	2.1	2.2	2.3	2.3
Q2	3.7	3.4	2.2	2.0	2.3	2.2
Q3	3.3	3.4	2.1	2.0	2.3	2.2
Q4	N.A.	3.4	N.A.	1.8	N.A.	2.3
Annual average data:						
2004	4.3	4.4	2.2	2.1	3.4	3.2
2005	3.7	3.5	2.3	2.0	2.1	2.2

Outlook for the Labor Market Holds Steady

Despite the downward revision to growth, the outlook for job gains over the next five quarters looks about the same now as it did three months ago. According to the forecasters, year-over-year growth in nonfarm payroll employment will average 1.0 percent in 2004 and rise to 1.7 percent in 2005. The current projection for 2004 is unchanged from that of the previous survey, while the projection for 2005 is down just a bit from the previous forecast of 1.8 percent.

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Translated into a monthly flow (using the annual average level of employment), the number of new jobs will increase at a rate of 110,000 per month in 2004 and 181,000 per month in 2005. Previously, the forecasters saw job gains at a rate of 112,000 per month in 2004 and 195,000 per month in 2005.

Likewise, the forecasters see little reason to adjust their forecast for the unemployment rate in this survey. Currently, they see that rate averaging 5.5 percent in 2004, falling gradually—but steadily—throughout 2005, to average 5.3 percent. These annual-average forecasts stand at the same rates the forecasters projected in the last survey.

The table below summarizes the survey's forecasts for the labor market.

	Nonfarm Payroll Employment				*Unemployment (%)*	
	Growth (%)		*Average Change per Month (thousands of jobs)*			
	Previous	*New*	*Previous*	*New*	*Previous*	*New*
Quarterly data:						
2004:Q4	2.0	1.6	217.0	179.2	5.5	5.4
2005:Q1	1.8	1.8	200.7	193.3	5.4	5.3
Q2	1.9	1.9	211.7	205.2	5.3	5.3
Q3	1.7	1.6	188.7	178.0	5.2	5.2
Q4	N.A.	1.4	N.A.	160.7	N.A.	5.2
Annual average data:						
2004	1.0	1.0	111.8	110.3	5.5	5.5
2005	1.8	1.7	195.2	181.1	5.3	5.3

Forecasters Peg Chance of a Negative Current Quarter at 3 Percent

At the same time that the forecasters are cutting their estimate for growth in the current quarter, they are also cutting the chance that such growth will be negative. In the current quarter, that estimate stands at just 3 percent, marking a downward revision from 6 percent in the previous survey. The forecasters have, however, raised the chance that real GDP will decline in the subsequent quarter, from 8 percent in the last survey to 10 percent in this survey, as the table below shows.

	Risk of a Negative Quarter (%)	
	Previous Survey	*New Survey*
Quarterly data:		
2004: Q4	6	3
2005: Q1	8	10
Q2	10	11
Q3	11	11
Q4	N.A.	12

No Change in Expectations for Long-Term Inflation

The annual average rate of inflation in the consumer price index over the next 10 years is expected to be 2.50 percent, the same rate forecasters have predicted for quite some time. The middle range of forecasts is 2.40 percent to 2.63 percent.

Little Change to Forecasts for Short-Term Rates, Even as Long-Term Rates Are Seen at Lower Levels

The forecasters have not revised their outlook for short-term interest rates. Currently, they see the rate on three-month Treasury bills averaging 1.3 percent in 2004 and rising to 2.7 percent in 2005. Both projections are unchanged from their levels of the previous survey. In contrast, the forecasters have reduced their projections for long-term rates. Measured by the rate on 10-year Treasury bonds, long-term rates will average 4.3 percent in 2004 and 4.8 percent in 2005. These projections represent markdowns from the survey of three months ago, when long-term rates were expected to average 4.5 percent in 2004 and 5.4 percent in 2005.

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

Joseph T. Abate, Lehman Brothers; **Ellen M. Beeson,** Bank of Tokyo – Mitsubishi; **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; **Allan R. Leslie**, Economic Consultant; **Joseph Liro**, Stone & McCarthy Research Associates; **John Lonski**, Moody's Investors Service; **Edward F. McKelvey**, Goldman Sachs; **Jim Meil**, Eaton Corporation; **Anthony Metz,** Pareto Optimal Economics; **Joel L. Naroff**, Naroff Economic Advisors; **Herbert E. Neil**, Financial and Economic Strategies Corp.; **Mark Nielson, Ph.D.**, MacroEcon Global Advisors; **Martin A. Regalia**, U.S. Chamber of Commerce; **David Resler**, Nomura Securities International, Inc.; **David Rosenberg**, Merrill Lynch; **David F. Seiders**, National Association of Home Builders; **Xiaobing Shuai, Ph.D.**, Chmura Economics & Analytics; **Constantine G. Soras, Ph.D.**, Verizon Communications; **Susan M. Sterne**, Economic Analysis Associates, Inc.; **Thomas Kevin Swift**, American Chemistry Council; **Gary Thayer**, A.G. Edwards; **Lea Tyler**, Oxford Economics USA, Inc.; **Chris Varvares** and **Christina Heddell,** Macroeconomic Advisers, LLC; **Albert M. Wojnilower**; **Jay N. Woodworth**, Woodworth Holdings, Ltd.; **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, go to www.phil.frb.org/forms/orderform.htm. 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

	2004 Q4	2005 Q1	Q2	Q3	Q4	ANNUAL AVERAGE 2004	ANNUAL AVERAGE 2005
	FORECAST						
PERCENT GROWTH AT ANNUAL RATES							
1. REAL GDP (BILLIONS, CHAIN WEIGHTED)	3.7	3.4	3.4	3.4	3.4	4.4	3.5
2. GDP PRICE INDEX (2000=100)	1.8	2.2	2.0	2.0	1.8	2.1	2.0
3. GROSS DOMESTIC PRODUCT (GDP) ($ BILLIONS)	5.5	5.6	5.6	5.2	6.1	6.6	5.6
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	2.5	2.3	2.2	2.2	2.3	3.2	2.2
VARIABLES IN LEVELS							
5. UNEMPLOYMENT RATE (PERCENT)	5.4	5.3	5.3	5.2	5.2	5.5	5.3
6. 3-MONTH TREASURY BILL RATE (PERCENT)	1.9	2.3	2.5	2.9	3.3	1.3	2.7
7. 10-YEAR TREASURY BOND YIELD (PERCENT)	4.3	4.5	4.7	5.0	5.1	4.3	4.8

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

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

SURVEY OF PROFESSIONAL FORECASTERS

Fourth 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 October 29; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before November 13.

TABLE ONE

MAJOR MACROECONOMIC INDICATORS, 2004-2005
MEDIANS OF FORECASTER PREDICTIONS

	NUMBER OF FORE-CASTERS	ACTUAL 2004 Q3	FORECASTS 2004 Q4	FORECASTS 2005 Q1	FORECASTS 2005 Q2	FORECASTS 2005 Q3	FORECASTS 2005 Q4	ACTUAL 2003	FORECAST 2004	FORECAST 2005
1. GROSS DOMESTIC PRODUCT (GDP) ($ BILLIONS)	34	11803.5	11962.6	12127.0	12292.2	12449.4	12633.8	11004.0	11726.3	12377.2
2. GDP PRICE INDEX (2000=100)	33	108.51	108.99	109.59	110.13	110.68	111.17	106.00	108.23	110.41
3. CORPORATE PROFITS AFTER TAXES ($ BILLIONS)	20	N.A.	749.6	787.3	796.0	812.0	826.0	639.6	722.1	807.3
4. UNEMPLOYMENT RATE (PERCENT)	34	5.4	5.4	5.3	5.3	5.2	5.2	6.0	5.5	5.3
5. INDUSTRIAL PRODUCTION (1997=100)	33	116.6	117.5	118.9	119.8	121.0	122.3	111.2	116.1	120.7
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	33	1.97	1.92	1.89	1.85	1.82	1.80	1.85	1.94	1.84
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	32	1.9	2.5	2.3	2.2	2.2	2.3	1.9	3.2	2.2
8. 3-MONTH TREASURY BILL RATE (PERCENT)	31	1.49	1.91	2.26	2.52	2.87	3.25	1.01	1.35	2.71
9. AAA CORPORATE BOND YIELD (PERCENT)	30	5.64	5.60	5.82	6.10	6.29	6.35	5.67	5.66	6.10
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	32	4.30	4.29	4.50	4.71	4.97	5.13	4.02	4.30	4.80

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

TABLE ONE CONTINUED

MAJOR MACROECONOMIC INDICATORS, 2004-2005
MEDIANS OF FORECASTER PREDICTIONS

	NUMBER OF FORE-CASTERS	ACTUAL 2004 Q3	FORECASTS 2004 Q4	FORECASTS 2005 Q1	FORECASTS 2005 Q2	FORECASTS 2005 Q3	FORECASTS 2005 Q4	ACTUAL 2003	FORECAST 2004	FORECAST 2005
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	33	10883.4	10982.7	11074.0	11167.9	11262.4	11356.0	10381.3	10837.7	11216.4
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	33	7658.9	7717.3	7772.9	7834.8	7900.1	7958.7	7355.5	7621.3	7864.1
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	32	1241.7	1271.6	1297.7	1326.8	1355.9	1376.3	1110.8	1223.6	1341.4
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	32	567.9	571.4	570.7	569.8	570.3	568.3	511.2	561.3	570.2
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	29	726.1	731.0	736.0	739.8	744.1	748.0	689.6	722.1	742.3
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	29	1226.9	1232.1	1238.2	1243.0	1249.2	1255.3	1219.8	1227.3	1245.8
17. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	32	48.1	48.7	44.2	42.9	43.4	42.5	-0.7	49.1	40.9
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	33	-598.0	-599.2	-593.8	-590.3	-585.0	-580.0	-518.5	-582.0	-589.4

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

TABLE TWO

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

	NUMBER OF FORE-CASTERS	Q3 2004 TO Q4 2004	Q4 2004 TO Q1 2005	Q1 2005 TO Q2 2005	Q2 2005 TO Q3 2005	Q3 2005 TO Q4 2005	2003 TO 2004	2004 TO 2005
1. GROSS DOMESTIC PRODUCT (GDP) ($ BILLIONS)	34	5.5	5.6	5.6	5.2	6.1	6.6	5.6
2. GDP PRICE INDEX (2000=100)	33	1.8	2.2	2.0	2.0	1.8	2.1	2.0
3. CORPORATE PROFITS AFTER TAXES ($ BILLIONS)	20	18.4	21.7	4.5	8.3	7.1	12.9	11.8
4. UNEMPLOYMENT RATE (PERCENT)	34	0.0	-0.1	0.0	-0.1	0.0	-0.5	-0.2
5. INDUSTRIAL PRODUCTION (1997=100)	33	3.2	4.6	3.2	3.9	4.5	4.4	3.9
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	33	-8.5	-7.4	-7.9	-6.9	-3.7	5.0	-5.4
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	32	0.6	-0.2	-0.1	0.0	0.1	1.3	-1.0
8. 3-MONTH TREASURY BILL RATE (PERCENT)	31	0.42	0.35	0.26	0.35	0.38	0.34	1.37
9. AAA CORPORATE BOND YIELD (PERCENT)	30	-0.04	0.22	0.27	0.19	0.06	-0.01	0.44
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	32	-0.01	0.21	0.21	0.26	0.16	0.28	0.50

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, FOURTH QUARTER 2004.

TABLE TWO CONTINUED

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

	NUMBER OF FORE-CASTERS	Q3 2004 TO Q4 2004	Q4 2004 TO Q1 2005	Q1 2005 TO Q2 2005	Q2 2005 TO Q3 2005	Q3 2005 TO Q4 2005	2003 TO 2004	2004 TO 2005
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	33	3.7	3.4	3.4	3.4	3.4	4.4	3.5
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	33	3.1	2.9	3.2	3.4	3.0	3.6	3.2
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	32	10.0	8.5	9.3	9.1	6.2	10.2	9.6
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	32	2.5	-0.5	-0.6	0.3	-1.4	9.8	1.6
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	29	2.7	2.8	2.1	2.3	2.1	4.7	2.8
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	29	1.7	2.0	1.6	2.0	2.0	0.6	1.5
17. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	32	0.6	-4.5	-1.3	0.5	-0.9	49.8	-8.2
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	33	-1.2	5.4	3.6	5.3	5.0	-63.5	-7.4

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, FOURTH QUARTER 2004.

TABLE THREE

ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANCES IN 100)	Q3 2004 TO Q4 2004	Q4 2004 TO Q1 2005	Q1 2005 TO Q2 2005	Q2 2005 TO Q3 2005	Q3 2005 TO Q4 2005
	NUMBER OF FORECASTERS				
10 OR LESS	31	20	20	19	19
11 TO 20	0	9	9	9	7
21 TO 30	0	2	1	3	4
31 TO 40	0	0	1	0	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	1	10	10	10	10
MEAN PROBABILITY	3	10	11	11	12

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 31.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FOURTH 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	0.55	1.23
5.0 TO 5.9	6.06	4.16
4.0 TO 4.9	74.61	21.52
3.0 TO 3.9	16.97	46.03
2.0 TO 2.9	1.42	18.65
1.0 TO 1.9	0.29	5.74
0.0 TO 0.9	0.03	1.87
-1.0 TO -0.1	0.03	0.39
-2.0 TO -1.1	0.03	0.13
LESS THAN -2.0	0.00	0.29

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	0.10
5.0 TO 5.9	0.00	0.31
4.0 TO 4.9	0.32	2.28
3.0 TO 3.9	10.86	12.71
2.0 TO 2.9	66.43	41.38
1.0 TO 1.9	20.96	36.84
0.0 TO 0.9	1.32	6.14
WILL DECLINE	0.11	0.14

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 31.

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

TABLE FIVE

LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI INFLATION RATE	
STATISTIC	
MINIMUM	1.750
LOWER QUARTILE	2.400
MEDIAN	2.500
UPPER QUARTILE	2.625
MAXIMUM	3.000
MEAN	2.500
STD. DEV.	0.290
N	25
MISSING	9

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