



SURVEY OF PROFESSIONAL FORECASTERS

Release Date: May 16, 2005

SECOND QUARTER 2005

Forecasters Cut Their Estimates of Growth in 2005

Growth in the nation's output in 2005 looks slower now than it did three months ago, according to 46 forecasters surveyed by the Federal Reserve Bank of Philadelphia. An expanded panel of forecasters now thinks that real GDP will grow 3.4 percent (year-over-year basis) in 2005, down 0.2 percentage point from the previous survey's estimate. However, much of that slowing occurs over the first half of the year. The forecasters overestimated the strength of growth in the first quarter, and they have now marked down their projection for second-quarter growth to 3.0 percent (annual rate) from 3.7 percent in the last survey. The second half of the year looks stronger. The forecasters see growth of 3.5 percent in the third quarter, up from their previous projection of 3.3 percent, and 3.4 percent in the fourth quarter. They project 3.3 percent growth in 2006, down slightly from their previous estimate of 3.4 percent.

The outlook for unemployment looks about the same now as it did three months ago. In 2005, the unemployment rate is expected to average 5.2 percent, the same rate the forecasters projected three months ago. Unemployment is expected to fall in 2006, but not as much as the forecasters thought previously. Currently, unemployment is seen averaging 5.1 percent next year, up from 5.0 percent in the last survey.

Upward revisions to the short-term inflation outlook accompany the downward revisions to growth. Measured on a fourth-quarter over fourth-quarter basis, CPI inflation will average 2.6 percent in 2005 and 2.5 percent in 2006. Previously, the forecasters thought CPI inflation would average 2.3 percent in each year.

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>						
2005: Q2	3.7	3.0	5.2	5.2	2.2	3.3
Q3	3.3	3.5	5.2	5.2	2.2	2.3
Q4	3.4	3.4	5.1	5.1	2.3	2.4
2006: Q1	3.6	3.2	5.1	5.1	2.3	2.4
Q2	N.A.	3.4	N.A.	5.1	N.A.	2.4
<i>Annual average data:</i>						
2005	3.6	3.4	5.2	5.2	2.3	2.6
2006	3.4	3.3	5.0	5.1	2.3	2.5

Forecasts for Nonfarm Payroll Employment Hold Steady

The forecasters see little reason to adjust their previous forecasts for nonfarm payrolls. Job growth is expected to average 1.6 percent over each of the next two years, just as in the last survey. Measured by the monthly flow (using the

annual average level of employment), the number of new jobs will increase at a rate of 179,000 per month in 2005 and 175,000 per month in 2006, as the table below shows.

Nonfarm Payroll Employment

	Growth (%)		Average Change per Month (thousands of jobs)	
	Previous	New	Previous	New
<i>Quarterly data:</i>				
2005:Q2	1.8	1.9	197.7	211.0
Q3	1.5	1.6	165.3	172.0
Q4	1.5	1.6	169.0	179.2
2006:Q1	1.7	1.4	185.7	156.3
Q2	N.A.	1.7	N.A.	191.3
<i>Annual average data:</i>				
2005	1.6	1.6	174.4	179.1
2006	1.6	1.6	178.3	175.4

Risk of a Negative Quarter Remains Low

Despite their call for slower growth over the first half of the year, the forecasters see less chance of an outright downturn. The forecasters peg that risk at 4 percent this quarter, down from 8 percent previously, and 7 percent next quarter, down from 10 percent. The following table provides these estimates and those for the next three quarters.

	Risk of a Negative Quarter (%)	
	Previous	New
	Survey	Survey
<i>Quarterly data:</i>		
2005: Q2	8	4
Q3	10	7
Q4	12	9
2006: Q1	13	11
Q2	N.A.	12

Forecasters Provide Additional Information on Their Outlook for Long-Term Inflation

Since 1991, the Philadelphia Fed has polled forecasters each quarter about their views on the 10-year annual average rate of CPI inflation. For quite some time, the survey's consensus (median) estimate has hovered around 2.50 percent. In the present survey—even though the panel has expanded by 16 forecasters—the consensus projection remains at the remarkably steady rate of 2.50 percent. Since a long horizon (10 years) could mask some interesting underlying variation in expectations, we decided to poll the forecasters about their views on inflation over the *first* five years of the standard 10-year horizon. Moreover, using a geometric-averaging technique applied to each forecaster's responses, we are able to infer each forecaster's implied projection for five-year average inflation beginning five years from now—that is, over the *last* five years of the 10-year horizon—and provide the corresponding consensus estimate. Forty-five forecasters provided a projection for 10-year average inflation, and 44 responded to the special question on the five-year horizon.

Computed over all responses, the median estimate for 10-year annual average CPI inflation is 2.50 percent, as noted above. Over the first five years of the 10-year horizon, the median estimate is also 2.50 percent. Over the last five years of the 10-year horizon, the implied median estimate is 2.45 percent, just a bit below the estimate for the first five years.

Twenty-one forecasters thought annual average inflation over the first five years would exceed annual average inflation over the following five years. Among this group, the median estimate over the first five years is 2.70 percent, and the median estimate for the second five years is 2.30 percent. Not every forecaster projected higher inflation over the first

five years. Nine thought inflation would be lower over the first period. Among this group, the median estimate for annual average inflation over the first five years is 2.30 percent; the median estimate for the following five years is 2.50 percent. The remaining 14 forecasters expect no difference in average inflation over the first and second five-year periods. For this group, the median estimate for average CPI inflation over the next 10 years is 2.50 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; **Scott Anderson**, Wells Fargo and Company; **Ellen M. Beeson**, Bank of Tokyo-Mitsubishi, Ltd.; **David W. Berson**, Fannie Mae; **Joseph Carson**, Alliance Capital Management; **Gary Ciminero, CFA**, Independent Economic Advisory; **Michael Cosgrove**, Econoclast; **Richard DeKaser**, National City Corporation; **Rajeev Dhawan**, Georgia State University; **Doug Duncan**, Mortgage Bankers Association; **Michael R. Englund**, Action Economics, LLC; **Gerard F. Fuda**, Independent Economist; **James Glassman**, JP Morgan Chase & Co.; **Global Insight**; **Keith Hembre**, First American Funds; **David Huether**, National Association of Manufacturers; **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; **L. Douglas Lee**, Economics from Washington; **Kevin G. Liddy**, IBM Corporate Economics; **Joseph Liro**, Stone & McCarthy Research Associates; **John Lonski**, Moody's Investors Service; **Dean Maki**, Barclays Capital; **Edward F. McKelvey**, Goldman Sachs; **Jim Meil**, Eaton Corporation; **Anthony Metz**, Pareto Optimal Economics; **Joel L. Naroff**, Naroff Economic Advisors; **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; **John Ryding**, Bear, Stearns, and Company, Inc.; **David F. Seiders**, National Association of Home Builders; **Xiaobing Shuai, Ph.D.**, Chmura Economics & Analytics; **Constantine G. Soras, Ph.D.**, Verizon Communications; **Neal Soss**, Credit Suisse First Boston; **Stephen Stanley**, RBS Greenwich Capital; **Susan M. Sterne**, Economic Analysis Associates, Inc.; **Edward Sullivan**, Portland Cement Association; **Kazuyoshi Tanaka**, Daiwa Institute of Research; **David Teolis**, General Motors Corporation; **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, go to www.philadelphiahed.org/forms/orderform.htm. 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.philadelphiahed.org/econ/spf/index.html>.

SURVEY OF PROFESSIONAL FORECASTERS
MAJOR MACROECONOMIC INDICATORS, 2005-2006

	2005 Q2	Q3	Q4	2006 Q1	Q2	2006 Q2	2005	2006 ANNUAL AVERAGE					
	FORECAST												
PERCENT GROWTH AT ANNUAL RATES													
1. REAL GDP (BILLIONS, CHAIN WEIGHTED)													
2.	2.4	2.1	2.3	2.2	2.4	2.4	2.5	2.2					
3.	5.7	5.6	5.8	5.8	5.7	6.0	6.0	5.7					
4.	3.3	2.3	2.4	2.4	2.4	2.6	2.6	2.5					
VARIABLES IN LEVELS													
5. UNEMPLOYMENT RATE (PERCENT)													
6.	3.0	3.4	3.8	4.0	4.1	4.1	3.2	4.1					
7.	4.4	4.6	4.8	5.1	5.2	4.6	4.6	5.2					

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2005.

NOTES: THE FIGURES ON EACH LINE ARE MEDIANS OF 46 INDIVIDUAL FORECASTS. NA = NOT APPLICABLE.

SURVEY OF PROFESSIONAL FORECASTERS

Second Quarter 2005

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 12, 2005.

TABLE ONE

MAJOR MACROECONOMIC INDICATORS, 2005-2006
MEDIANS OF FORECASTER PREDICTIONS

	NUMBER OF FORE- CASTERS	ACTUAL 2005 Q1	FORECASTS				ACTUAL 2004	FORECAST 2005	FORECAST 2006			
			2005		2006							
			Q2	Q3	Q4	Q1						
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	44	12182.7	12352.1	12521.0	12697.4	12877.1	13058.0	11735.0	12436.1	13142.4		
2. GDP PRICE INDEX (2000=100)	44	110.04	110.70	111.27	111.90	112.51	113.17	108.30	110.97	113.39		
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	11	N.A.	945.5	951.1	963.9	977.7	991.2	716.2	947.1	1013.1		
4. UNEMPLOYMENT RATE (PERCENT)	46	5.3	5.2	5.2	5.1	5.1	5.1	5.5	5.2	5.1		
5. INDUSTRIAL PRODUCTION (1997=100)	44	118.2	119.2	120.3	121.4	122.5	123.6	115.5	119.8	124.2		
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	42	2.09	1.99	1.94	1.93	1.88	1.84	1.96	1.98	1.83		
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	45	2.4	3.3	2.3	2.4	2.4	2.4	3.4	2.6	2.5		
8. 3-MONTH TREASURY BILL RATE (PERCENT)	42	2.54	3.00	3.43	3.78	3.95	4.06	1.37	3.20	4.11		
9. AAA CORPORATE BOND YIELD (PERCENT)	39	5.32	5.46	5.70	5.90	6.10	6.25	5.63	5.61	6.31		
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	44	4.30	4.40	4.62	4.85	5.05	5.20	4.27	4.57	5.20		

SOURCE : RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2005.

TABLE ONE CONTINUED

MAJOR MACROECONOMIC INDICATORS, 2005-2006
MEDIAN OF FORECASTER PREDICTIONS

	NUMBER OF FORE- CASTERS	ACTUAL 2005 Q1	FORECASTS				ACTUAL 2004 Q2	FORECAST 2005 Q2	FORECAST 2006			
			2005		2006							
			Q2	Q3	Q4	Q1						
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	46	11078.2	11160.4	11256.8	11352.2	11442.9	11538.3	10841.9	11212.2	11587.8		
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	46	7814.2	7879.8	7943.6	8006.6	8068.0	8131.7	7632.6	7911.0	8161.7		
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	45	1303.0	1329.6	1355.4	1389.0	1409.8	1435.8	1228.6	1343.8	1447.6		
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	45	578.6	582.2	581.5	581.5	579.4	572.7	560.7	580.9	571.3		
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	43	729.8	733.1	737.7	742.4	746.2	751.0	721.7	735.8	751.6		
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	44	1226.8	1231.9	1238.6	1244.6	1251.1	1257.5	1224.8	1235.8	1261.4		
17. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	46	80.2	52.8	54.5	51.9	51.4	51.2	45.7	59.7	48.8		
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	46	-663.2	-661.0	-665.3	-668.5	-662.4	-650.1	-583.7	-663.8	-648.5		

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2005.

TABLE TWO

MAJOR MACROECONOMIC INDICATORS, 2005-2006
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE- CASTERS	Q1 2005 TO Q2 2005	Q2 2005 TO Q3 2005	Q3 2005 TO Q4 2005	Q4 2005 TO Q1 2006	Q1 2006 TO Q2 2006	2004 TO 2005	2005 TO 2006
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	44	5.7	5.6	5.8	5.8	5.7	6.0	5.7
2. GDP PRICE INDEX (2000=100)	44	2.4	2.1	2.3	2.2	2.4	2.5	2.2
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	11	7.2	2.4	5.5	5.9	5.6	32.2	7.0
4. UNEMPLOYMENT RATE (PERCENT)	46	-0.1	0.0	-0.1	0.0	0.0	-0.3	-0.1
5. INDUSTRIAL PRODUCTION (1997=100)	44	3.4	3.8	3.9	3.4	3.8	3.7	3.7
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	42	-17.0	-9.5	-3.0	-10.2	-7.5	1.4	-7.8
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	45	0.9	-1.0	0.1	0.0	0.0	-0.8	-0.1
8. 3-MONTH TREASURY BILL RATE (PERCENT)	42	0.46	0.43	0.34	0.17	0.11	1.83	0.91
9. AAA CORPORATE BOND YIELD (PERCENT)	39	0.14	0.24	0.20	0.15	-0.02	0.70	
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	44	0.10	0.22	0.23	0.20	0.15	0.30	0.63

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 2005.

TABLE TWO CONTINUED

MAJOR MACROECONOMIC INDICATORS, 2005-2006
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE- CASTERS	Q1 2005 TO Q2 2005	Q2 2005 TO Q3 2005	Q3 2005 TO Q4 2005	Q4 2005 TO Q1 2006	Q1 2006 TO Q2 2006	2004 TO 2005	2005 TO 2006
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	46	3.0	3.5	3.4	3.2	3.4	3.4	3.3
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	46	3.4	3.3	3.2	3.1	3.2	3.6	3.2
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	45	8.4	8.0	10.3	6.1	7.6	9.4	7.7
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	45	2.5	-0.5	0.0	-1.4	-4.6	3.6	-1.7
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	43	1.8	2.5	2.6	2.1	2.6	1.9	2.1
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	44	1.7	2.2	2.0	2.1	2.1	0.9	2.1
17. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	46	-27.3	1.7	-2.6	-0.6	-0.2	14.0	-10.9
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	46	2.3	-4.4	-3.2	6.1	12.3	-80.1	15.3

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 2005.

TABLE THREE

ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANCES IN 100)	NUMBER OF FORECASTERS					
	Q1 TO Q2 2005	Q2 TO Q3 2005	Q3 TO Q4 2005	Q4 TO Q1 2006	Q1 TO Q2 2006	
10 OR LESS	42	38	31	28	26	
11 TO 20	2	5	12	14	14	
21 TO 30	1	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	1	1	1	1	1	
MEDIAN PROBABILITY	2	5	10	10	10	
MEAN PROBABILITY	4	7	9	11	12	

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 45.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2005.

TABLE FOUR

MEAN PROBABILITY OF CHANGES IN GDP AND PRICES
2004-2005 AND 2005-2006

MEAN PROBABILITY ATTACHED TO POSSIBLE
PERCENT CHANGES IN REAL GDP:

	2004-2005	2005-2006
6.0 OR MORE	0.29	0.78
5.0 TO 5.9	2.39	3.71
4.0 TO 4.9	17.51	16.35
3.0 TO 3.9	58.56	47.98
2.0 TO 2.9	16.87	21.84
1.0 TO 1.9	3.23	6.13
0.0 TO 0.9	0.73	1.87
-1.0 TO -0.1	0.24	0.79
-2.0 TO -1.1	0.09	0.26
LESS THAN -2.0	0.09	0.28

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

	2004-2005	2005-2006
8.0 OR MORE	0.04	0.09
7.0 TO 7.9	0.07	0.18
6.0 TO 6.9	0.09	0.30
5.0 TO 5.9	0.73	0.66
4.0 TO 4.9	4.43	3.11
3.0 TO 3.9	23.07	20.63
2.0 TO 2.9	57.82	47.70
1.0 TO 1.9	12.22	22.99
0.0 TO 0.9	1.48	3.77
WILL DECLINE	0.04	0.57

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 45.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2005.

TABLE FIVE

LONG-TERM (10 YEAR) FORECASTS

SERIES : CPI INFLATION RATE	
STATISTIC	
MINIMUM	1.750
LOWER QUARTILE	2.343
MEDIAN	2.500
UPPER QUARTILE	2.600
MAXIMUM	4.000
MEAN	2.523
STD. DEV.	0.366
N	45
MISSING	1

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER
2005.