

Survey of Professional Forecasters

August 24, 1994

Economic Research Division

THIRD QUARTER 1994

Forecasters See Slower Growth; Inflation Outlook Is Little Changed

The outlook for real GDP growth is less favorable now than it was three months ago, according to 30 forecasters surveyed by the Federal Reserve Bank of Philadelphia.

The forecasters now see real GDP growing at a 2.6 percent rate over the next two quarters, compared with 3.0 percent in the last survey. For the year, the forecasters see real GDP growing at a rate of 3.7 percent, up slightly from 3.6 percent in the last survey. GDP growth will decelerate to 2.5 percent in 1995, according to the forecasters.

The outlook for inflation, as measured by the Consumer Price Index, is little changed from that of the last survey. The forecasters continue to see inflation averaging 2.9 percent in 1994. Inflation will accelerate to 3.3 percent in 1995, up 0.1 percentage points from their forecast in the last survey.

The forecasters also expect rising short-term interest rates over the next year and a half. The three-month Treasury-Bill rate will average 4.1 percent in 1994 and 4.9 percent in 1995. The 10-year Treasury-Bond rate will hold steady at 7.2 percent over the remainder of this year and fall to 7.1 percent in 1995.

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

	Real GDP		CPI Inflation		3-month T-Bill Yield	
	Previous	New	Previous	New	Previous	New
Quarterly data:						
1994: Q3	3.1	2.6	3.2	3.3	4.2	4.4
Q4	2.8	2.6	3.3	3.3	4.4	4.7
1995: Q1	2.5	2.4	3.3	3.3	4.5	4.8
Q2	2.3	2.4	3.3	3.3	4.6	4.8
Q3	N.A.	2.5	N.A.	3.4	N.A.	4.8
Annual average data:						
1994	3.6	3.7	2.9	2.9	4.0	4.1
1995	2.7	2.5	3.2	3.3	4.6	4.9



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Long-Term Inflation Expectations Are Unchanged

Long-term inflation expectations continue to hover around 3.5 percent. Average inflation over the next 10 years, as measured by the Consumer Price Index, will be 3.48 percent, according to the forecasters. The middle range of the forecasts is 3.0 to 3.8 percent. This marks the fifth consecutive survey in which the forecasters expect long-term inflation to average around 3.5 percent. The following table shows long-term inflation expectations from the current and previous four surveys.

10-Year CPI Inflation Expectations

1993:	Q3	3.45
	Q4	3.45
1994:	Q1	3.45
	Q2	3.50
	Q3	3.48

Low but Increasing Risk of a Negative Quarter

The mean probability of a decline in real GDP is rising gradually from 6 percent to 17 percent over the next five quarters, according to the forecasters. For the current quarter, the forecasters are assigning a 6 percent probability to a decline in real GDP. The following table compares the probabilities from the current survey with those from three months ago:

Mean Probability of a Decline in Real GDP

	<i>Previous</i>	<i>New</i>
1994: Q3	6.0	6.0
Q4	9.0	8.0
1995: Q1	13.0	13.0
Q2	14.0	16.0
Q3	N.A.	17.0

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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**SURVEY OF PROFESSIONAL FORECASTERS
MAJOR MACROECONOMIC INDICATORS, 1994-95**

	1994				1995		ANNUAL AVERAGE	
	Q3	Q4	Q1	Q2	Q3	FORECAST	1994	1995
PERCENT GROWTH AT ANNUAL RATES								
1. REAL GDP (BILLIONS OF 1987 DOLLARS)								
2. GDP IMPLICIT PRICE DEFULATOR (1987=100)	2.9	3.1	2.9	3.1	3.0	3.0	3.0	N.A.
3. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	5.6	5.9	5.6	5.5	6.0	6.0	6.0	5.7
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	3.3	3.3	3.3	3.3	3.4	2.9	3.3	
VARIABLES IN LEVELS								
5. UNEMPLOYMENT RATE (PERCENT)	6.1	6.0	6.0	6.0	5.9	6.2	6.2	6.0
6. 3-MONTH TREASURY BILL RATE (PERCENT)	4.4	4.7	4.8	4.8	4.8	4.1	4.1	4.9
7. 10-YEAR TREASURY BOND YIELD (PERCENT)	7.2	7.2	7.1	7.1	7.1	6.9	6.9	7.1

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 1994.

NOTES: THE FIGURES ON EACH LINE ARE MEDIANS OF 30 INDIVIDUAL FORECASTS. NA = NOT APPLICABLE.
FOR THE GDP IMPLICIT PRICE DEFULATOR AND CONSUMER PRICE INDEX, THE ANNUAL AVERAGE IS THE PERCENT CHANGE IN THE
FOURTH QUARTER INDEX LEVEL FROM THE FOURTH QUARTER INDEX LEVEL OF THE PREVIOUS YEAR.

SURVEY OF PROFESSIONAL FORECASTERS

Third Quarter 1994

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 Aug. 1; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before August 18.

TABLE ONE

**MAJOR MACROECONOMIC INDICATORS, 1994-95
MEDIAN OF FORECASTER PREDICTIONS**

	NUMBER OF FORE- CASTERS	ACTUAL 1994 Q2	FORECASTS				ACTUAL 1993 1994	FORECAST 1994 1995	
			Q3	Q4	Q1	Q2			
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	29	6683.6	6775.3	6873.2	6967.0	7061.0	7164.6	6343.3	6724.0
2. GDP IMPLICIT PRICE DEFULATOR (1987=100)	29	125.9	126.8	127.8	128.7	129.7	130.7	123.5	126.3
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	20	N.A.	314.7	319.5	322.1	327.9	328.0	289.2	312.2
4. UNEMPLOYMENT RATE (PERCENT)	28	6.1	6.1	6.0	6.0	6.0	5.9	N.A.	6.2
5. INDUSTRIAL PRODUCTION (1987=100)	27	116.4	117.4	118.4	119.1	120.1	121.0	110.9	116.9
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	26	1.44	1.40	1.38	1.37	1.36	1.36	1.29	1.40
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	29	2.8	3.3	3.3	3.3	3.3	3.4	2.7	3.3
8. 3-MONTH TREASURY BILL RATE (PERCENT)	29	3.99	4.45	4.70	4.76	4.80	4.80	3.00	4.10
9. AAA CORPORATE BOND YIELD (PERCENT)	23	7.95	8.05	8.09	8.10	8.10	8.10	7.22	7.80
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	25	7.08	7.20	7.20	7.11	7.10	7.10	5.87	6.90
								7.10	

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 1994.

TABLE ONE CONTINUED

**MAJOR MACROECONOMIC INDICATORS, 1994-95
MEDIAN OF FORECASTER PREDICTIONS**

	NUMBER OF FORE- CASTERS	ACTUAL 1994 Q2	1994			FORECASTS 1995			ACTUAL 1993	FORECAST 1994	FORECAST 1995
			Q3	Q4	Q1	Q2	Q3				
11. REAL GDP (BILLIONS OF 1987 DOLLARS)	30	5309.2	5343.4	5377.6	5409.7	5441.3	5475.6	5134.5	5322.3	5457.6	—
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS OF 1987 DOLLARS)	30	3557.1	3584.6	3608.0	3630.4	3652.5	3674.1	3458.7	3574.2	3661.8	—
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	30	659.1	672.7	686.8	695.8	702.7	711.0	591.6	664.9	704.7	—
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	30	233.8	236.0	237.0	238.4	239.8	240.4	213.0	234.1	239.6	—
15. FEDERAL GOVERNMENT PURCHASES (BILLIONS OF 1987 DOLLARS)	29	337.5	337.1	335.5	332.7	331.5	330.7	356.6	338.0	330.9	—
16. STATE AND LOCAL GOVT PURCHASES (BILLIONS OF 1987 DOLLARS)	29	581.2	585.1	588.4	591.8	595.6	599.4	573.1	583.2	597.4	—
17. CHANGE IN BUSINESS INVENTORIES (BILLIONS OF 1987 DOLLARS)	29	54.0	34.6	28.0	30.2	23.0	23.0	15.3	34.5	24.0	—
18. NET EXPORTS (BILLIONS OF 1987 DOLLARS)	29	-113.4	-110.0	-106.0	-104.4	-102.8	-98.1	-73.9	-108.1	-100.1	—

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 1994.

TABLE TWO
MAJOR MACROECONOMIC INDICATORS, 1994-95
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE- CASTERS	Q2 '94 TO Q3 '94	Q3 '94 TO Q4 '94	Q4 '94 TO Q1 '95	Q1 '95 TO Q2 '95	Q2 '95 TO Q3 '95	1993 TO 1994	1994 TO 1995
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	29	5.6	5.9	5.6	5.5	6.0	6.0	5.7
2. GDP IMPLICIT PRICE DEFULATOR (1987=100)	29	2.9	3.1	2.9	3.1	3.0	2.3	3.1
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	20	-1.3	6.2	3.3	7.4	.1	8.0	5.4
4. UNEMPLOYMENT RATE (PERCENT)	28	.0	-.1	.0	.0	-.1	N.A.	-.2
5. INDUSTRIAL PRODUCTION (1987=100)	27	3.6	3.5	2.3	3.2	3.0	5.4	3.0
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	26	-10.7	-6.3	-3.6	-2.2	1.6	7.9	-2.0
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	29	.5	.0	.0	.0	.1	.1	.5
8. 3-MONTH TREASURY BILL RATE (PERCENT)	29	.46	.25	-.06	-.04	.00	1.10	.78
9. AAA CORPORATE BOND YIELD (PERCENT)	23	.10	.04	.01	.00	.00	.58	.25
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	25	.12	.00	-.09	-.01	.00	1.03	.20

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, THIRD QUARTER 1994.

TABLE TWO CONTINUED

MAJOR MACROECONOMIC INDICATORS, 1994-95
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE- CASTERS	Q2 '94 TO Q3 '94	Q3 '94 TO Q4 '94	Q4 '94 TO Q1 '95	Q1 '95 TO Q2 '95	Q2 '95 TO Q3 '95	Q3 '95 TO 1994	1993 TO 1994
11. REAL GDP (BILLIONS OF 1987 DOLLARS)	30	2.6	2.6	2.4	2.4	2.5	3.7	2.5
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS OF 1987 DOLLARS)	30	3.1	2.6	2.5	2.5	2.4	3.3	2.4
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	30	8.5	8.7	5.4	4.0	4.8	12.4	6.0
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	30	3.8	1.7	2.5	2.2	1.1	9.9	2.3
15. FEDERAL GOVERNMENT PURCHASES (BILLIONS OF 1987 DOLLARS)	29	-0.5	-1.8	-3.3	-1.4	-1.0	-5.2	-2.1
16. STATE AND LOCAL GOVT PURCHASES (BILLIONS OF 1987 DOLLARS)	29	2.7	2.3	2.3	2.6	2.6	1.8	2.4
17. CHANGE IN BUSINESS INVENTORIES (BILLIONS OF 1987 DOLLARS)	29	-19.4	-6.6	2.2	-7.2	.0	19.2	-10.5
18. NET EXPORTS (BILLIONS OF 1987 DOLLARS)	29	3.4	4.0	1.6	1.6	4.7	-34.2	8.0

NOTE: FIGURES FOR BUSINESS INVENTORIES AND NET EXPORTS ARE CHANGES IN BILLIONS OF 1987 DOLLARS.
 ALL OTHERS ARE PERCENTAGE CHANGES AT ANNUAL RATES.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 1994.

TABLE THREE

ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANCES IN 100)	Q2 TO Q3	94 94	Q3 TO Q4	94 94	Q4 TO Q1	94 95	Q1 TO Q2	95 95	Q2 TO Q3	95 95
10 OR LESS	23	21	15	13	12					
11 TO 20	4	4	10	9	7					
21 TO 30	1	3	0	4	7					
31 TO 40	0	0	3	1	1					
41 TO 50	0	0	0	1	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	2	2	2	2	2					
MEDIAN PROBABILITY	5	5	10	15	15					
MEAN PROBABILITY	6	8	13	16	17					

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 28.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 1994.

TABLE FOUR

MEAN PROBABILITY OF CHANGES IN GDP AND PRICES
1993-94 AND 1994-95

MEAN PROBABILITY ATTACHED TO POSSIBLE
PERCENT CHANGES IN REAL GDP:

	1993-94	1994-95
6.0 OR MORE	.25	.18
5.0 TO 5.9	.68	.60
4.0 TO 4.9	14.68	6.33
3.0 TO 3.9	65.44	22.94
2.0 TO 2.9	12.63	46.05
1.0 TO 1.9	4.79	16.97
0.0 TO 0.9	1.07	4.78
-1.0 TO -0.1	.32	1.55
-2.0 TO -1.1	.11	.43
LESS THAN -2.0	.04	.18

MEAN PROBABILITY ATTACHED TO POSSIBLE
PERCENT CHANGES IN GDP IMPLICIT PRICE DEFULATOR:

	1993-94	1994-95
8.0 OR MORE	.00	.00
7.0 TO 7.9	.00	.04
6.0 TO 6.9	.00	.30
5.0 TO 5.9	.37	2.70
4.0 TO 4.9	1.93	9.26
3.0 TO 3.9	18.30	44.02
2.0 TO 2.9	66.29	38.05
1.0 TO 1.9	10.11	5.09
0.0 TO 0.9	3.00	.44
WILL DECLINE	.00	.11

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 28.

SOURCE : RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 1994.

TABLE FIVE
LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI INFLATION RATE	
STATISTIC	
MINIMUM	2.500
LOWER QUARTILE	3.000
MEDIAN	3.475
UPPER QUARTILE	3.800
MAXIMUM	5.000
MEAN	3.398
STD. DEV.	.568
N	26
MISSING	4

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 1994.