Survey of
PROFESSIONAL FORECASTERS

Federal Reserve Bank of Philadelphia

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FOURTH QUARTER 1995

Long-Term Inflation Expectations Continue to Slide

Expectations for long-term inflation continue to fall, according to 47 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The forecasters now expect inflation, as measured by the Consumer Price Index, to average 3.0 percent over the next 10 years, down from their expectation of 3.2 percent in last quarter's survey, with half the forecasts falling in the range of 2.7 percent to 3.2 percent. As the following table shows, the Philadelphia Fed's measure of long-term inflation expectations has fallen 0.3 percentage points since the beginning of the year and 0.5 percentage points since the 1994 fourth-quarter survey.

Long-Term (CPI) Inflation Expectations

Survey Date	93Q4	94Q1	94Q2	94Q3	94Q4	95Q1	95Q2	95Q3	95Q4
	3.45	3.45	3.50	3.48	3.50	3.30	3.35	3.20	3.00

Improvement on the Near-Term Inflation Front

Optimism on the long-term inflation front is also carrying over to the near term. The forecasters now expect fourth-quarter CPI inflation to average an annual rate of 2.6 percent, down from last quarter's forecast of 3.2 percent. Although the forecasters see inflation rising to an annual rate of 2.9 percent over the first-half of 1996 and to an annual rate of 3.0 percent in the third quarter, these forecasts are lower than those from the last survey, as the following table shows.

Near-Term (CPI) Inflation Expectations

	Quarterly					*Annual*	
	1995	1996					
	Q4	Q1	Q2	Q3	Q4	1995	1996
Current Survey	2.6	2.9	2.9	3.0	3.0	2.8	3.0
Previous Survey	3.2	3.3	3.3	3.3	N.A.	3.2	3.2

Economic Research Division Ten Independence Mall, Philadelphia, PA 19106-1574

Slower Growth Over the Next Three Quarters

The forecasters are revising downward their expectations for real GDP growth over the next three quarters, following the unexpectedly strong third quarter. Real GDP is now expected to grow at an annual average rate of 2.3 percent in the fourth quarter, down from the previous survey's expectation of 2.8 percent. Growth will accelerate to 2.6 percent in the first quarter of 1996 and is expected to be 2.5 percent in the second quarter, both down 0.2 percentage points from last quarter's forecast.

The downward revisions to near-term real growth are having little effect on the forecasters' outlook for the unemployment rate, which will average 5.6 percent over the next two quarters, down from the forecast of 5.7 percent in the last survey. The unemployment rate will average 5.6 percent in 1995 and 5.7 percent in 1996.

A downward revision to the interest-rate forecast is accompanying the optimistic inflation outlook. The forecasters expect the rate on three-month Treasury bills to average 5.5 percent in 1995 and to fall to 5.1 percent in 1996, down 0.1 and 0.5 percentage points from the last survey. The rate on 10-year Treasury bonds is expected to average 6.6 percent in 1995 and 6.1 percent in 1996, down 0.2 and 0.4 percentage points from the last survey.

The following table compares this quarter's forecast for selected variables with that of last quarter's survey.

	Real GDP		*3-month T-bill Yield*		*10-year T-bond Yield*	
	Previous	*New*	*Previous*	*New*	*Previous*	*New*
Quarterly data:						
1995: Q4	2.8	2.3	5.5	5.3	6.5	6.0
1996: Q1	2.8	2.6	5.5	5.2	6.5	6.0
Q2	2.7	2.5	5.5	5.1	6.5	6.0
Q3	2.6	2.6	5.5	5.1	6.5	6.0
Q4	N.A.	2.3	N.A.	5.1	N.A.	6.1
Annual average data:						
1995	2.9	3.3	5.6	5.5	6.8	6.6
1996	2.5	2.6	5.6	5.1	6.5	6.1

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:
Dean Croushore, Assistant Vice President and Economist, Federal Reserve Bank of Philadelphia
Ten Independence Mall
Philadelphia, PA 19106 (215) 574-3809

To subscribe to the survey, contact the Research Department's 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.libertynet.org/~fedresrv/fedpage.html.

FEDERAL
RESERVE BANK OF
PHILADELPHIA

SURVEY OF PROFESSIONAL FORECASTERS
MAJOR MACROECONOMIC INDICATORS, 1995-96

	1995 Q4	1996 Q1	Q2	Q3	Q4	ANNUAL AVERAGE	
	FORECAST					1995	1996
PERCENT GROWTH AT ANNUAL RATES							
1. REAL GDP (BILLIONS OF 1987 DOLLARS)	2.3	2.6	2.5	2.6	2.3	3.3	2.6
2. GDP IMPLICIT PRICE DEFLATOR (1987=100)	2.0	2.3	2.3	2.3	2.4	1.7	2.3
3. GROSS DOMESTIC PRODUCT (GDP) ($ BILLIONS)	4.4	4.8	4.9	5.0	5.1	5.0	4.7
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	2.6	2.9	2.9	3.0	3.0	2.8	3.0
VARIABLES IN LEVELS							
5. UNEMPLOYMENT RATE (PERCENT)	5.6	5.6	5.7	5.6	5.6	5.6	5.7
6. 3-MONTH TREASURY BILL RATE (PERCENT)	5.3	5.2	5.1	5.1	5.1	5.5	5.1
7. 10-YEAR TREASURY BOND YIELD (PERCENT)	6.0	6.0	6.0	6.0	6.1	6.6	6.1

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FOURTH QUARTER 1995.

NOTES: THE FIGURES ON EACH LINE ARE MEDIANS OF 47 INDIVIDUAL FORECASTS. NA = NOT APPLICABLE.
FOR THE GDP IMPLICIT PRICE DEFLATOR 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

Fourth Quarter 1995

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 Oct. 30; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before November 20.

TABLE ONE

MAJOR MACROECONOMIC INDICATORS, 1995-96
MEDIANS OF FORECASTER PREDICTIONS

	NUMBER OF FORE-CASTERS	ACTUAL 1995 Q3	FORECASTS 1995 Q4	FORECASTS 1996 Q1	FORECASTS 1996 Q2	FORECASTS 1996 Q3	FORECASTS 1996 Q4	ACTUAL 1994	FORECAST 1995	FORECAST 1996
1. GROSS DOMESTIC PRODUCT (GDP) ($ BILLIONS)	44	7113.2	7190.0	7275.6	7362.6	7453.3	7545.9	6738.4	7075.5	7408.5
2. GDP IMPLICIT PRICE DEFLATOR (1987=100)	44	128.3	129.0	129.7	130.4	131.2	132.0	126.1	128.2	130.8
3. CORPORATE PROFITS AFTER TAXES ($ BILLIONS)	32	N.A.	358.5	364.4	368.0	372.1	374.5	322.0	355.1	370.3
4. UNEMPLOYMENT RATE (PERCENT)	44	5.6	5.6	5.6	5.7	5.6	5.6	6.1	5.6	5.7
5. INDUSTRIAL PRODUCTION (1987=100)	42	122.3	123.1	124.0	125.0	125.9	126.6	118.1	122.2	125.4
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	42	1.40	1.40	1.40	1.38	1.38	1.37	1.46	1.35	1.37
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	45	2.0	2.6	2.9	2.9	3.0	3.0	2.6	2.8	2.9
8. 3-MONTH TREASURY BILL RATE (PERCENT)	45	5.37	5.35	5.20	5.12	5.10	5.10	4.25	5.50	5.14
9. AAA CORPORATE BOND YIELD (PERCENT)	38	7.43	7.10	7.10	7.10	7.04	7.10	7.96	7.61	7.10
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	39	6.32	6.00	6.00	6.00	6.00	6.10	7.08	6.60	6.05

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FOURTH QUARTER 1995.

TABLE ONE CONTINUED

MAJOR MACROECONOMIC INDICATORS, 1995-96
MEDIANS OF FORECASTER PREDICTIONS

	NUMBER OF FORE-CASTERS	ACTUAL 1995 Q3	FORECASTS 1995 Q4	FORECASTS 1996 Q1	FORECASTS 1996 Q2	FORECASTS 1996 Q3	FORECASTS 1996 Q4	ACTUAL 1994	FORECAST 1995	FORECAST 1996
11. REAL GDP (BILLIONS OF 1987 DOLLARS)	45	5544.6	5576.2	5612.5	5646.6	5682.7	5715.6	5344.0	5519.8	5662.4
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS OF 1987 DOLLARS)	44	3701.1	3722.2	3744.2	3764.0	3784.2	3803.9	3579.6	3685.3	3774.2
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	44	779.0	791.8	802.2	811.8	819.6	830.3	672.4	769.3	814.1
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	44	227.0	231.3	233.5	234.6	234.7	233.4	231.3	227.2	234.0
15. FEDERAL GOVERNMENT PURCHASES (BILLIONS OF 1987 DOLLARS)	43	328.7	324.6	323.3	322.0	321.0	320.3	337.6	326.3	321.5
16. STATE AND LOCAL GOVT PURCHASES (BILLIONS OF 1987 DOLLARS)	43	599.3	602.0	605.3	608.3	611.0	614.0	585.2	597.7	609.5
17. CHANGE IN BUSINESS INVENTORIES (BILLIONS OF 1987 DOLLARS)	43	35.3	27.5	25.0	24.9	24.1	24.2	47.8	36.7	23.9
18. NET EXPORTS (BILLIONS OF 1987 DOLLARS)	43	-125.8	-123.5	-121.6	-119.4	-118.0	-112.4	-110.0	-123.6	-118.7

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FOURTH QUARTER 1995.

TABLE TWO

MAJOR MACROECONOMIC INDICATORS, 1995-96
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE-CASTERS	Q3 95 TO Q4 95	Q4 95 TO Q1 96	Q1 96 TO Q2 96	Q2 96 TO Q3 96	Q3 96 TO Q4 96	1994 TO 1995	1995 TO 1996
1. GROSS DOMESTIC PRODUCT (GDP) ($ BILLIONS)	44	4.4	4.8	4.9	5.0	5.1	5.0	4.7
2. GDP IMPLICIT PRICE DEFLATOR (1987=100)	44	2.0	2.3	2.3	2.3	2.4	1.7	2.0
3. CORPORATE PROFITS AFTER TAXES ($ BILLIONS)	32	1.9	6.7	4.1	4.6	2.6	10.3	4.3
4. UNEMPLOYMENT RATE (PERCENT)	44	.0	.0	.1	-.1	.0	-.5	.1
5. INDUSTRIAL PRODUCTION (1987=100)	42	2.5	3.0	3.2	3.2	2.0	3.5	2.6
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	42	-1.4	.0	-5.6	.0	-2.3	-7.3	1.6
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	45	.6	.3	.0	.1	.0	.2	.1
8. 3-MONTH TREASURY BILL RATE (PERCENT)	45	-.02	-.15	-.08	-.02	.00	1.25	-.36
9. AAA CORPORATE BOND YIELD (PERCENT)	38	-.33	.00	.00	-.06	.06	-.35	-.51
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	39	-.32	.00	.00	.00	.10	-.48	-.55

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 1995.

TABLE TWO CONTINUED

MAJOR MACROECONOMIC INDICATORS, 1995-96
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE-CASTERS	Q3 95 TO Q4 95	Q4 95 TO Q1 96	Q1 96 TO Q2 96	Q2 96 TO Q3 96	Q3 96 TO Q4 96	1994 TO 1995	1995 TO 1996
11. REAL GDP (BILLIONS OF 1987 DOLLARS)	45	2.3	2.6	2.5	2.6	2.3	3.3	2.6
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS OF 1987 DOLLARS)	44	2.3	2.4	2.1	2.2	2.1	3.0	2.4
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	44	6.7	5.4	4.9	3.9	5.3	14.4	5.8
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	44	7.7	4.0	1.7	.2	-2.3	-1.8	3.0
15. FEDERAL GOVERNMENT PURCHASES (BILLIONS OF 1987 DOLLARS)	43	-4.9	-1.6	-1.6	-1.2	-.9	-3.3	-1.5
16. STATE AND LOCAL GOVT PURCHASES (BILLIONS OF 1987 DOLLARS)	43	1.8	2.2	2.0	1.8	2.0	2.1	2.0
17. CHANGE IN BUSINESS INVENTORIES (BILLIONS OF 1987 DOLLARS)	43	-7.8	-2.5	-.1	-.8	.1	-11.1	-12.8
18. NET EXPORTS (BILLIONS OF 1987 DOLLARS)	43	2.3	1.9	2.2	1.4	5.6	-13.6	4.9

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, FOURTH QUARTER 1995.

TABLE THREE

ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANCES IN 100)	Q3 95 TO Q4 95	Q4 95 TO Q1 96	Q1 96 TO Q2 96	Q2 96 TO Q3 96	Q3 96 TO Q4 96
	NUMBER OF FORECASTERS				
10 OR LESS	33	26	16	10	10
11 TO 20	4	13	17	16	16
21 TO 30	4	0	5	12	8
31 TO 40	0	1	2	1	4
41 TO 50	1	2	0	2	3
51 TO 60	0	0	1	0	0
61 TO 70	0	0	0	1	1
71 TO 80	0	0	1	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	8	10	15	18	20
MEAN PROBABILITY	9	13	18	20	22

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 42.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FOURTH QUARTER 1995.

TABLE FOUR

MEAN PROBABILITY OF CHANGES IN GDP AND PRICES
1994-95 AND 1995-96

MEAN PROBABILITY ATTACHED TO POSSIBLE
PERCENT CHANGES IN REAL GDP:

	1994-95	1995-96
6.0 OR MORE	.00	.14
5.0 TO 5.9	.24	.72
4.0 TO 4.9	5.26	5.91
3.0 TO 3.9	71.47	18.84
2.0 TO 2.9	19.94	47.93
1.0 TO 1.9	2.33	19.05
0.0 TO 0.9	.52	4.80
-1.0 TO -0.1	.24	1.71
-2.0 TO -1.1	.00	.80
LESS THAN -2.0	.00	.10

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

	1994-95	1995-96
8.0 OR MORE	.00	.00
7.0 TO 7.9	.12	.27
6.0 TO 6.9	.12	.41
5.0 TO 5.9	1.67	1.95
4.0 TO 4.9	2.86	5.59
3.0 TO 3.9	7.90	14.39
2.0 TO 2.9	22.37	42.20
1.0 TO 1.9	63.01	31.27
0.0 TO 0.9	1.95	3.83
WILL DECLINE	.00	.10

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 42.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FOURTH QUARTER 1995.

TABLE FIVE

LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI INFLATION RATE	
STATISTIC	
MINIMUM	2.000
LOWER QUARTILE	2.700
MEDIAN	3.000
UPPER QUARTILE	3.213
MAXIMUM	4.000
MEAN	3.025
STD. DEV.	.411
N	42
MISSING	5

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FOURTH QUARTER 1995.