Survey of
PROFESSIONAL FORECASTERS

Federal Reserve Bank of Philadelphia

Release Date: May 28, 1997

SECOND QUARTER 1997

Forecasters Expect Growth at an Annual Rate of 2.5 Percent Over the Middle of the Year

Real GDP will grow at an annual rate of 2.5 percent over the second and third quarters, according to 40 forecasters surveyed by the Federal Reserve Bank of Philadelphia. Growth will then decelerate gradually to an annual rate of 1.9 percent in the second quarter of 1998. The forecasters expect real GDP to grow at a rate of 3.6 percent in 1997, up sharply from their expectation of 2.7 percent in last quarter's survey. Real GDP growth will fall to 2.1 percent in 1998, the same rate expected in last quarter's survey.

Inflation, as measured by the Consumer Price Index, is expected to average 2.5 percent in the current quarter, down from 3.0 percent in the last survey. Growth in the CPI will rise gradually to an annual rate of 3.1 percent over the first half of 1998. Measured on a fourth-quarter-over-fourth-quarter basis, consumer price inflation will average 2.7 percent in 1997 and 3.0 percent in 1998, down 0.3 percentage points and unchanged, respectively, from last quarter's survey. An alternative measure of inflation, based on the growth in the chain-weighted GDP price index, is expected to average 2.3 percent in 1997 and 2.5 percent in 1998. These forecasts are unchanged from those in last quarter's survey.

The forecasters are reducing their expectation for the rate of unemployment over the remainder of 1997. They now expect an unemployment rate of 5.0 percent in the current quarter and 5.1 percent for the year, both down from 5.3 percent in last quarter's survey. The unemployment rate will rise to 5.3 percent in 1998.

The following table compares median forecasts for selected variables from the current survey with those from three months ago. Annual average data are measured on a year-over-year basis for real GDP and the GDP price index and on a fourth-quarter-over-fourth-quarter basis for the CPI.

	Real GDP		*CPI Inflation*		*GDP Price Index Inflation*	
	Previous	*New*	*Previous*	*New*	*Previous*	*New*
Quarterly data:						
1997: Q2	2.4	2.5	3.0	2.5	2.5	2.2
Q3	2.0	2.5	3.0	2.8	2.5	2.4
Q4	2.4	2.3	3.1	3.0	2.6	2.6
1998: Q1	2.1	2.1	3.2	3.1	2.7	2.4
Q2	N.A.	1.9	N.A.	3.1	N.A.	2.3
Annual average data:						
1997	2.7	3.6	3.0	2.7	2.3	2.3
1998	2.1	2.1	3.0	3.0	2.5	2.5

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Forecasters Anticipate Higher Interest Rates

The forecasters are revising upward their expectations for short- and long-term interest rates. Short-term rates, as measured by the rate on three-month Treasury bills, are now expected to average 5.3 percent in the current quarter and to rise to 5.5 percent in the third quarter, both up from 5.1 percent in last quarter's survey. Long-term rates, as measured by the rate on 10-year Treasury bonds, will average 6.8 percent in the current quarter, up from 6.4 percent in last quarter's survey, and hold steady at that rate through the first quarter of 1998. The following table compares interest rate forecasts from the current survey with those from three months ago:

	Short- and Long-Term Interest Rate Forecasts			
	3-Month Rate		*10-Year Rate*	
	Previous	*New*	*Previous*	*New*
Quarterly data:				
1997: Q2	5.1	5.3	6.4	6.8
Q3	5.1	5.5	6.3	6.8
Q4	5.1	5.5	6.3	6.8
1998: Q1	5.0	5.5	6.3	6.8
Q2	N.A.	5.4	N.A.	6.7
Annual average data:				
1997	5.1	5.3	6.3	6.8
1998	5.0	5.3	6.4	6.6

Long-Term Inflation Expectations Fall

The forecasters are lowering their expectations for long-term inflation. They now expect inflation, as measured by the Consumer Price Index, to average 2.85 percent over the next 10 years, down from 3.0 percent in last quarter's survey. The middle range of forecasts is 2.5 to 3.2 percent. Long-term inflation expectations had been holding steady at 3.0 percent since the fourth quarter of 1995.

This survey asked participants whether they are adjusting their inflation forecasts in anticipation of changes to the methodology that the BLS uses to compute the Consumer Price Index. Ten of 40 forecasters responded that they are making such adjustments. These forecasters are reducing their long-term inflation forecasts an average of 0.4 percentage points. Their average long-term inflation expectation is 2.7 percent.

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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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.phil.frb.org/econ/spf/spfpage.html.

SURVEY OF PROFESSIONAL FORECASTERS
MAJOR MACROECONOMIC INDICATORS, 1997-98

	1997 Q2	Q3	Q4	1998 Q1	Q2	ANNUAL AVERAGE 1997	ANNUAL AVERAGE 1998
	FORECAST						
PERCENT GROWTH AT ANNUAL RATES							
1. REAL GDP (BILLIONS, CHAIN WEIGHTED)	2.5	2.5	2.3	2.1	1.9	3.6	2.1
2. GDP PRICE INDEX (1992=100)	2.2	2.4	2.6	2.4	2.3	2.3	2.5
3. GROSS DOMESTIC PRODUCT (GDP) ($ BILLIONS)	4.8	5.1	4.9	4.9	3.9	5.8	4.6
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	2.5	2.8	3.0	3.1	3.1	2.7	3.0
VARIABLES IN LEVELS							
5. UNEMPLOYMENT RATE (PERCENT)	5.0	5.1	5.1	5.2	5.3	5.1	5.3
6. 3-MONTH TREASURY BILL RATE (PERCENT)	5.3	5.5	5.5	5.5	5.4	5.3	5.3
7. 10-YEAR TREASURY BOND YIELD (PERCENT)	6.8	6.8	6.8	6.8	6.7	6.8	6.6

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 1997.

NOTES: THE FIGURES ON EACH LINE ARE MEDIANS OF 40 INDIVIDUAL FORECASTS. NA = NOT APPLICABLE.

SURVEY OF PROFESSIONAL FORECASTERS

Second Quarter 1997

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 May 1; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before May 17.

TABLE ONE

MAJOR MACROECONOMIC INDICATORS, 1997-98
MEDIANS OF FORECASTER PREDICTIONS

	NUMBER OF FORE-CASTERS	ACTUAL 1997 Q1	FORECASTS 1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	ACTUAL 1996	FORECAST 1997	FORECAST 1998
1. GROSS DOMESTIC PRODUCT (GDP) ($ BILLIONS)	36	7866.0	7959.5	8060.0	8157.0	8254.4	8334.5	7576.1	8013.1	8384.2
2. GDP PRICE INDEX (1992=100)	34	111.44	112.05	112.71	113.43	114.10	114.76	109.88	112.40	115.20
3. CORPORATE PROFITS AFTER TAXES ($ BILLIONS)	28	N.A.	425.6	429.2	428.3	429.0	433.3	406.8	427.3	432.8
4. UNEMPLOYMENT RATE (PERCENT)	40	5.3	5.0	5.1	5.1	5.2	5.3	5.4	5.1	5.3
5. INDUSTRIAL PRODUCTION (1987=100)	36	118.7	119.7	120.6	121.4	122.2	123.1	115.2	120.0	123.1
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	38	1.44	1.43	1.40	1.39	1.38	1.37	1.48	1.41	1.37
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	40	2.4	2.5	2.8	3.0	3.1	3.1	3.2	2.7	3.0
8. 3-MONTH TREASURY BILL RATE (PERCENT)	39	5.06	5.26	5.47	5.50	5.50	5.40	5.01	5.34	5.32
9. AAA CORPORATE BOND YIELD (PERCENT)	35	7.43	7.66	7.69	7.65	7.62	7.53	7.37	7.61	7.55
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	38	6.56	6.80	6.80	6.83	6.77	6.70	6.44	6.78	6.61

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 1997.

TABLE ONE CONTINUED

MAJOR MACROECONOMIC INDICATORS, 1997-98
MEDIANS OF FORECASTER PREDICTIONS

	NUMBER OF FORE-CASTERS	ACTUAL 1997 Q1	FORECASTS 1997 Q2	1997 Q3	1997 Q4	1998 Q1	1998 Q2	ACTUAL 1996	FORECAST 1997	FORECAST 1998
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	40	7089.4	7132.9	7177.1	7218.3	7256.3	7290.0	6906.8	7154.6	7306.6
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	39	4806.0	4833.0	4861.7	4891.4	4920.1	4943.9	4690.7	4846.8	4950.2
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	40	814.6	829.2	843.0	857.0	869.0	877.0	766.8	836.3	879.1
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	38	280.3	282.0	281.7	281.5	280.4	280.3	276.7	282.0	281.0
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	37	458.8	457.6	458.0	456.1	454.5	452.7	467.1	458.5	454.7
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	37	813.9	817.9	822.0	825.9	829.0	832.0	804.3	820.0	835.0
17. CHANGE IN BUSINESS INVENTORIES (BILLIONS, CHAIN WEIGHTED)	37	46.1	35.2	38.0	34.0	34.3	32.1	13.6	38.8	29.7
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	37	-130.3	-129.2	-129.5	-125.2	-129.0	-126.1	-113.6	-129.0	-122.3

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 1997.

TABLE TWO

MAJOR MACROECONOMIC INDICATORS, 1997-98
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE-CASTERS	Q1 97 TO Q2 97	Q2 97 TO Q3 97	Q3 97 TO Q4 97	Q4 97 TO Q1 98	Q1 98 TO Q2 98	1996 TO 1997	1997 TO 1998
1. GROSS DOMESTIC PRODUCT (GDP) ($ BILLIONS)	36	4.8	5.1	4.9	4.9	3.9	5.8	4.6
2. GDP PRICE INDEX (1992=100)	34	2.2	2.4	2.6	2.4	2.3	2.3	2.5
3. CORPORATE PROFITS AFTER TAXES ($ BILLIONS)	28	.8	3.4	-.9	.7	4.0	5.0	1.3
4. UNEMPLOYMENT RATE (PERCENT)	40	-.3	.1	.0	.1	.1	-.3	.2
5. INDUSTRIAL PRODUCTION (1987=100)	36	3.4	3.1	2.8	2.4	3.1	4.2	2.6
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	38	-3.7	-7.5	-2.1	-4.1	-3.7	-4.5	-2.9
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	40	.1	.3	.2	.1	.0	-.5	.3
8. 3-MONTH TREASURY BILL RATE (PERCENT)	39	.20	.21	.03	.00	-.10	.34	-.02
9. AAA CORPORATE BOND YIELD (PERCENT)	35	.23	.03	-.04	-.03	-.09	.24	-.06
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	38	.24	.00	.03	-.06	-.07	.34	-.17

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 1997.

TABLE TWO CONTINUED

MAJOR MACROECONOMIC INDICATORS, 1997-98
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE-CASTERS	Q1 97 TO Q2 97	Q2 97 TO Q3 97	Q3 97 TO Q4 97	Q4 97 TO Q1 98	Q1 98 TO Q2 98	1996 TO 1997	1997 TO 1998
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	40	2.5	2.5	2.3	2.1	1.9	3.6	2.1
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	39	2.3	2.4	2.5	2.4	2.0	3.3	2.1
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	40	7.4	6.8	6.8	5.7	3.7	9.1	5.1
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	38	2.4	-.4	-.2	-1.6	-.2	1.9	-.3
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	37	-1.0	.3	-1.6	-1.4	-1.6	-1.9	-.8
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	37	2.0	2.0	1.9	1.5	1.4	2.0	1.8
17. CHANGE IN BUSINESS INVENTORIES (BILLIONS, CHAIN WEIGHTED)	37	-10.9	2.8	-4.0	.3	-2.2	25.2	-9.2
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	37	1.1	-.3	4.3	-3.8	2.9	-15.4	6.7

NOTE: FIGURES FOR BUSINESS 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 1997.

TABLE THREE

ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANCES IN 100)	Q1 97 TO Q2 97	Q2 97 TO Q3 97	Q3 97 TO Q4 97	Q4 97 TO Q1 98	Q1 98 TO Q2 98
	NUMBER OF FORECASTERS				
10 OR LESS	27	26	21	14	9
11 TO 20	6	6	10	13	14
21 TO 30	1	1	3	4	7
31 TO 40	1	3	3	3	4
41 TO 50	2	0	0	2	2
51 TO 60	0	1	0	0	0
61 TO 70	0	0	0	1	0
71 TO 80	0	0	0	0	1
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	5	5	10	15	20
MEAN PROBABILITY	9	11	13	20	23

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 37.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 1997.

TABLE FOUR

MEAN PROBABILITY OF CHANGES IN GDP AND PRICES
1996-97 AND 1997-98

MEAN PROBABILITY ATTACHED TO POSSIBLE
PERCENT CHANGES IN REAL GDP:

	1996-97	1997-98
6.0 OR MORE	.41	.45
5.0 TO 5.9	1.34	.79
4.0 TO 4.9	12.14	2.13
3.0 TO 3.9	52.14	15.63
2.0 TO 2.9	25.84	42.99
1.0 TO 1.9	5.53	24.91
0.0 TO 0.9	1.82	7.30
-1.0 TO -0.1	.61	3.77
-2.0 TO -1.1	.12	1.34
LESS THAN -2.0	.05	.70

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

	1996-97	1997-98
8.0 OR MORE	.00	.01
7.0 TO 7.9	.03	.13
6.0 TO 6.9	.20	.43
5.0 TO 5.9	.67	1.05
4.0 TO 4.9	1.86	3.33
3.0 TO 3.9	12.62	19.99
2.0 TO 2.9	62.64	54.16
1.0 TO 1.9	19.59	17.84
0.0 TO 0.9	2.01	2.79
WILL DECLINE	.39	.28

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 37.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 1997.

TABLE FIVE

LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI INFLATION RATE	
STATISTIC	
MINIMUM	2.300
LOWER QUARTILE	2.500
MEDIAN	2.850
UPPER QUARTILE	3.200
MAXIMUM	3.800
MEAN	2.886
STD. DEV.	.427
N	36
MISSING	4

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 1997.