SURVEY OF PROFESSIONAL FORECASTERS

Release Date: November 24, 2003

FOURTH QUARTER 2003

Forecasters' Optimism Grows

The outlook for growth over the next few quarters looks stronger now than it did just three months ago, according to 34 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The forecasters see real GDP growing at an annual rate of 2.9 percent in 2003, marking an upward revision from their previous estimate of 2.3 percent. Much of that upward revision comes from surprisingly strong growth in this year's third quarter. The forecasters see improved prospects extending into next year, too. In 2004, the forecasters expect year-over-year growth at an annual rate of 4.3 percent, up from their estimate of 3.7 percent in the previous survey.

The forecasters' upward revision to growth is just strong enough to lead to a slight downward revision in their projection for the unemployment rate. Currently, the forecasters see unemployment averaging 6.0 percent in 2003 and falling to 5.8 percent in 2004. These forecasts are down 0.1 percentage point from those of the previous survey.

The forecasters expect a bit higher inflation this year than they did in the previous survey. The forecasters see CPI inflation (measured on a fourth-quarter over fourth-quarter basis) averaging 2.2 percent this year, up from their estimate of 1.8 percent in the last survey. Much of that upward revision, however, appears temporary, since the forecasters' outlook for next year is about the same as they predicted previously. Currently, they predict inflation will average 2.1 percent in 2004, up from 2.0 percent previously.

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*
Quarterly data:						
2003: Q4	3.9	4.0	6.1	6.0	1.4	2.2
2004: Q1	3.8	3.9	6.0	5.9	2.0	2.1
Q2	3.8	3.9	5.9	5.8	1.9	2.0
Q3	3.6	3.7	5.8	5.8	2.0	2.2
Q4	N.A.	3.8	N.A.	5.6	N.A.	2.2
Annual average data:						
2003	2.3	2.9	6.1	6.0	1.8	2.2
2004	3.7	4.3	5.9	5.8	2.0	2.1

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Forecasts for Employment Added to the Survey

This survey marks the first in which we report the forecasters' projections for nonfarm payroll employment. Economic analysts monitor this variable closely in assessing the economy's performance. When combined with projections for the unemployment rate, the projections for employment will give a better picture of the forecasters' views of the state of the U.S. labor market. We asked the forecasters to provide their projections for the quarterly average of the monthly level of employment, in thousands of jobs, as measured in the Bureau of Labor Statistics' monthly payroll survey. We report the annualized rate of growth in the median of the forecasts for the level of employment, just as we do with the other variables in the survey. Economic commentators, however, often analyze the monthly increases or decreases in the number of jobs, so we also show that measure—computed as the average monthly change in the median of the forecast for the quarterly average level, in thousands of jobs. Twenty-six of 34 forecasters provided their projections. We thank them for providing us with their projections for this important indicator of the health of the U.S. economy.

As the table below shows, the forecasters see employment growing at an annual rate of 1.1 percent in the fourth quarter. Growth will occur at even faster rates over the following quarters, reaching a peak of 1.8 percent in the third quarter of next year. Year-over-year growth in employment will average –0.2 percentage point in 2003 and 1.0 percent in 2004. The number of jobs will rise about 124,000 per month this quarter, but the forecasters see employment increasing at gradually faster rates by the third quarter of next year, when firms will add nearly 200,000 jobs per month. On an annual-average minus annual-average basis, the number of jobs will decline by about 25,000 per month in 2003 and rise 104,000 per month in 2004.

	Nonfarm Payroll Employment	
	Growth (%)	*Average Change per Month (thousands of jobs)*
Quarterly data:		
2003:Q4	1.1	123.7
2004:Q1	1.2	128.0
Q2	1.5	157.8
Q3	1.8	199.2
Q4	1.5	160.3
Annual average data:		
2003	-0.2	-24.6
2004	1.0	104.0

Little Risk of a Negative Quarter

The forecasters see almost no chance that real GDP will decline in the current quarter—and very little chance of a decline in the following four quarters. The forecasters peg that chance at 4 percent for this quarter, down from 7 percent in the previous survey. The table below shows that a similar downward revision characterizes the chance of a decline in the first quarter of next year.

	Risk of a Negative Quarter (%)	
	Previous Survey	*New Survey*
Quarterly data:		
2003: Q4	7	4
2004: Q1	9	6
Q2	9	8
Q3	10	9
Q4	N.A.	10

Long-Term Expectations for Inflation Hold Steady

Long-term expectations for inflation continue to hold steady. The forecasters expect the annual average rate of change in the Consumer Price Index over the next 10 years to be 2.50 percent, the same rate expected in the last survey. The middle range of forecasts is 2.20 percent to 2.80 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; **David W. Berson**, Fannie Mae; **Joel I. Brest** and **Brian P. O'Connor**, Ridgewood Economic Associates; **Kevin Caron** and **Joseph Battipaglia**, Ryan Beck & Company; **Gary Ciminero, CFA**, Independent Economic Advisory; **Michael Cosgrove**, Econoclast; **Louis Crandall**, Wrightson ICAP LLC; **Richard DeKaser**, National City Corporation; **Rajeev Dhawan**, Georgia State University; **Michael R. Englund**, MMS International; **Gerard F. Fuda**, Independent Economist; **James Glassman**, JP Morgan Chase & Co.; **James M. Goldberg**, Trust Company of the West; **William B. Hummer**, Wayne Hummer Investments; **Saul Hymans**, **Joan Crary**, and **Janet Wolfe**, RSQE, The University of Michigan; **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; **Joel L. Naroff**, Naroff Economic Advisors; **Herbert E. Neil**, Financial and Economic Strategies Corp.; **Mark Nielson, Ph.D.**, MacroEcon Global Advisors; **Michael P. Niemira**, Bank of Tokyo-Mitsubishi, Ltd.; **Jacob I. Pasternak**, Chmura Economics & Analytics; **Martin A. Regalia**, U.S. Chamber of Commerce; **David Resler**, Nomura Securities International, Inc.; **David Rosenberg**, Merrill Lynch; **David F. Seiders** and **Stanley F. Duobinis**, National Association of Home Builders; **Constantine G. Soras, Ph.D.**, Verizon Communications; **Susan M. Sterne**, Economic Analysis Associates, Inc.; **Gary Thayer**, A.G. Edwards; **Lea Tyler**, Oxford Economics USA, Inc.; **Chris Varvares** and **Brian Dieffenderfer**, 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, contact the 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/index.html.

SURVEY OF PROFESSIONAL FORECASTERS
MAJOR MACROECONOMIC INDICATORS, 2003-2004

	2003 Q4	2004 Q1	Q2	Q3	Q4	ANNUAL AVERAGE 2003	ANNUAL AVERAGE 2004
	FORECAST						
PERCENT GROWTH AT ANNUAL RATES							
1. REAL GDP (BILLIONS, CHAIN WEIGHTED)	4.0	3.9	3.9	3.7	3.8	2.9	4.3
2. GDP PRICE INDEX (1996=100)	1.5	1.8	1.7	1.7	1.8	1.6	1.7
3. GROSS DOMESTIC PRODUCT (GDP) ($ BILLIONS)	5.6	6.1	5.9	5.7	5.7	4.6	6.2
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	2.2	2.1	2.0	2.2	2.2	2.2	2.1
VARIABLES IN LEVELS							
5. UNEMPLOYMENT RATE (PERCENT)	6.0	5.9	5.8	5.8	5.6	6.0	5.8
6. 3-MONTH TREASURY BILL RATE (PERCENT)	1.0	1.0	1.1	1.3	1.5	1.0	1.3
7. 10-YEAR TREASURY BOND YIELD (PERCENT)	4.4	4.5	4.6	4.8	4.9	4.0	4.8

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FOURTH QUARTER 2003.

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

SURVEY OF PROFESSIONAL FORECASTERS

Fourth Quarter 2003

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 30; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before November 14. Between the time the survey was mailed to the panelists and when it was due, the Federal Reserve revised its series on industrial production. The results for industrial production should be viewed with caution.

TABLE ONE

MAJOR MACROECONOMIC INDICATORS, 2003-2004
MEDIANS OF FORECASTER PREDICTIONS

	NUMBER OF FORE-CASTERS	ACTUAL 2003 Q3	FORECASTS 2003 Q4	FORECASTS 2004 Q1	FORECASTS 2004 Q2	FORECASTS 2004 Q3	FORECASTS 2004 Q4	ACTUAL 2002	FORECAST 2003	FORECAST 2004
1. GROSS DOMESTIC PRODUCT (GDP) ($ BILLIONS)	34	11038.4	11189.8	11356.5	11520.5	11682.0	11844.0	10446.2	10928.7	11602.8
2. GDP PRICE INDEX (1996=100)	34	112.67	113.10	113.60	114.09	114.57	115.08	110.66	112.43	114.29
3. CORPORATE PROFITS AFTER TAXES ($ BILLIONS)	22	N.A.	524.0	537.0	548.9	570.0	584.0	451.9	499.2	563.0
4. UNEMPLOYMENT RATE (PERCENT)	34	6.1	6.0	5.9	5.8	5.8	5.6	5.8	6.0	5.8
5. INDUSTRIAL PRODUCTION (1997=100)	32	110.3	111.5	112.8	114.0	115.2	116.2	110.4	110.5	114.7
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	34	1.87	1.80	1.76	1.73	1.69	1.66	1.71	1.79	1.70
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	33	2.3	2.2	2.1	2.0	2.2	2.2	2.2	2.2	2.1
8. 3-MONTH TREASURY BILL RATE (PERCENT)	32	0.93	0.96	1.02	1.12	1.25	1.50	1.60	1.02	1.30
9. AAA CORPORATE BOND YIELD (PERCENT)	29	5.70	5.85	5.90	6.10	6.30	6.45	6.49	5.70	6.23
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	32	4.23	4.40	4.50	4.62	4.80	4.93	4.61	4.04	4.75

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FOURTH QUARTER 2003.

TABLE ONE CONTINUED

MAJOR MACROECONOMIC INDICATORS, 2003-2004
MEDIANS OF FORECASTER PREDICTIONS

	NUMBER OF FORE-CASTERS	ACTUAL 2003 Q3	FORECASTS 2003 Q4	FORECASTS 2004 Q1	FORECASTS 2004 Q2	FORECASTS 2004 Q3	FORECASTS 2004 Q4	ACTUAL 2002	FORECAST 2003	FORECAST 2004
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	34	9797.2	9893.7	9990.0	10085.4	10176.8	10271.7	9439.9	9718.0	10136.0
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	34	6842.1	6879.3	6941.8	7002.1	7060.3	7121.0	6576.0	6781.0	7030.7
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	34	1224.9	1255.0	1285.6	1315.4	1345.9	1369.0	1183.4	1210.6	1327.1
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	33	431.6	436.0	438.9	437.8	435.0	435.0	388.2	421.6	435.4
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	32	671.7	677.0	683.3	689.4	695.5	699.8	613.3	663.0	691.8
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	32	1107.6	1109.0	1112.3	1114.9	1119.9	1125.0	1099.7	1106.3	1116.3
17. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	34	-35.8	8.5	23.5	31.5	38.8	40.0	5.2	-10.0	34.3
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	34	-522.6	-537.7	-546.2	-555.3	-551.3	-545.8	-488.5	-529.1	-554.9

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FOURTH QUARTER 2003.

TABLE TWO

MAJOR MACROECONOMIC INDICATORS, 2003-2004
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE-CASTERS	Q3 2003 TO Q4 2003	Q4 2003 TO Q1 2004	Q1 2004 TO Q2 2004	Q2 2004 TO Q3 2004	Q3 2004 TO Q4 2004	2002 TO 2003	2003 TO 2004
1. GROSS DOMESTIC PRODUCT (GDP) ($ BILLIONS)	34	5.6	6.1	5.9	5.7	5.7	4.6	6.2
2. GDP PRICE INDEX (1996=100)	34	1.5	1.8	1.7	1.7	1.8	1.6	1.7
3. CORPORATE PROFITS AFTER TAXES ($ BILLIONS)	22	17.0	10.3	9.2	16.3	10.2	10.5	12.8
4. UNEMPLOYMENT RATE (PERCENT)	34	-0.1	-0.1	-0.1	-0.1	-0.2	0.2	-0.2
5. INDUSTRIAL PRODUCTION (1997=100)	32	4.5	4.5	4.4	4.4	3.7	0.1	3.8
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	34	-13.8	-8.4	-6.9	-9.3	-6.1	4.8	-4.9
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	33	-0.1	-0.1	-0.1	0.2	0.0	0.0	-0.1
8. 3-MONTH TREASURY BILL RATE (PERCENT)	32	0.03	0.06	0.10	0.13	0.25	-0.58	0.28
9. AAA CORPORATE BOND YIELD (PERCENT)	29	0.15	0.05	0.20	0.20	0.15	-0.79	0.53
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	32	0.17	0.10	0.12	0.18	0.13	-0.57	0.71

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 2003.

TABLE TWO CONTINUED

MAJOR MACROECONOMIC INDICATORS, 2003-2004
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE-CASTERS	Q3 2003 TO Q4 2003	Q4 2003 TO Q1 2004	Q1 2004 TO Q2 2004	Q2 2004 TO Q3 2004	Q3 2004 TO Q4 2004	2002 TO 2003	2003 TO 2004
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	34	4.0	3.9	3.9	3.7	3.8	2.9	4.3
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	34	2.2	3.7	3.5	3.4	3.5	3.1	3.7
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	34	10.2	10.1	9.6	9.6	7.1	2.3	9.6
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	33	4.1	2.7	-1.0	-2.5	0.0	8.6	3.3
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	32	3.2	3.8	3.6	3.6	2.5	8.1	4.3
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	32	0.5	1.2	0.9	1.8	1.8	0.6	0.9
17. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	34	44.3	15.0	8.0	7.3	1.3	-15.2	44.3
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	34	-15.1	-8.5	-9.2	4.0	5.6	-40.6	-25.8

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 2003.

TABLE THREE

ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANCES IN 100)	Q3 2003 TO Q4 2003	Q4 2003 TO Q1 2004	Q1 2004 TO Q2 2004	Q2 2004 TO Q3 2004	Q3 2004 TO Q4 2004
	NUMBER OF FORECASTERS				
10 OR LESS	29	28	27	23	19
11 TO 20	2	3	4	7	11
21 TO 30	0	0	0	1	1
31 TO 40	0	0	0	0	0
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	5	8	10	10
MEAN PROBABILITY	4	6	8	9	10

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 31.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FOURTH QUARTER 2003.

TABLE FOUR

MEAN PROBABILITY OF CHANGES IN GDP AND PRICES
2002-2003 AND 2003-2004

MEAN PROBABILITY ATTACHED TO POSSIBLE
PERCENT CHANGES IN REAL GDP:

	2002-2003	2003-2004
6.0 OR MORE	0.17	2.21
5.0 TO 5.9	0.70	8.41
4.0 TO 4.9	5.37	40.07
3.0 TO 3.9	38.10	32.10
2.0 TO 2.9	53.30	13.14
1.0 TO 1.9	2.30	2.69
0.0 TO 0.9	0.03	0.79
-1.0 TO -0.1	0.03	0.34
-2.0 TO -1.1	0.00	0.17
LESS THAN -2.0	0.00	0.07

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

	2002-2003	2003-2004
8.0 OR MORE	0.00	0.00
7.0 TO 7.9	0.00	0.00
6.0 TO 6.9	0.00	0.03
5.0 TO 5.9	0.00	0.40
4.0 TO 4.9	0.17	0.70
3.0 TO 3.9	1.90	6.23
2.0 TO 2.9	15.70	29.87
1.0 TO 1.9	77.43	49.47
0.0 TO 0.9	4.77	12.17
WILL DECLINE	0.03	1.13

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 30.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FOURTH QUARTER 2003.

TABLE FIVE

LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI INFLATION RATE	
STATISTIC	
MINIMUM	1.500
LOWER QUARTILE	2.200
MEDIAN	2.500
UPPER QUARTILE	2.800
MAXIMUM	3.500
MEAN	2.457
STD. DEV.	0.391
N	31
MISSING	3

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FOURTH QUARTER 2003.