



# SURVEY OF PROFESSIONAL FORECASTERS

Release Date: August 20, 2004

## THIRD QUARTER 2004

### ***Forecasters Cut Projections for Second-Half Growth and Raise Inflation Estimates***

Growth over the second half of the year looks a bit slower now than it did three months ago, according to 30 forecasters surveyed by the Federal Reserve Bank of Philadelphia. On average, the forecasters see real GDP expanding at an annual rate of 3.8 percent over the next two quarters, down from their previous estimate of 4.1 percent. A markdown of the forecasters' projection for the third quarter accounts for all of the second-half revision. In the third quarter, the forecasters see output expanding at an annual rate of 3.5 percent, down 0.6 percentage point from their previous estimate of 4.1 percent. Fourth-quarter growth is pegged at 4.0 percent, the same rate the forecasters expected in the last survey. On a year-over-year basis, growth will average 4.3 percent in 2004 and 3.7 percent in 2005, down from the forecasters' previous estimates of 4.6 percent and 3.9 percent, respectively.

Although the forecasters are cutting their estimates for growth, they do not see that slower growth translating into higher unemployment. Over the next four quarters, the forecasters see unemployment tailing off gradually, from 5.5 percent this quarter to 5.2 percent in the third quarter of 2005, a trajectory that is unchanged from the previous survey. On an annual average basis, the forecasters see unemployment averaging 5.5 percent this year and 5.3 percent next year. Both projections are unchanged from those of the previous survey.

The forecasters have raised their projections for inflation. On a fourth-quarter over fourth-quarter basis, CPI inflation will average 3.4 percent in 2004, up from the forecasters' previous projection of 2.7 percent. The forecasters see CPI inflation averaging 2.1 percent next year, down a bit from their projection of 2.2 percent previously. On an annual-average over annual-average basis, the GDP price index will rise 2.2 percent this year and 2.3 percent next year. Previously, the forecasters expected this alternative, broader measure of inflation would rise 1.9 percent this year and next 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>						
2004: Q3	4.1	3.5	5.5	5.5	2.2	3.0
Q4	4.0	4.0	5.4	5.5	2.0	2.3
2005: Q1	3.8	3.8	5.4	5.4	2.1	2.3
Q2	4.0	3.7	5.3	5.3	2.2	2.3
Q3	N.A.	3.3	N.A.	5.2	N.A.	2.3
<i>Annual average data:</i>						
2004	4.6	4.3	5.5	5.5	2.7	3.4
2005	3.9	3.7	5.3	5.3	2.2	2.1

## **Fewer Second-Half Job Gains Seen**

The forecasters are revising downward their projections for job gains over the second half of the year—but, as with their markdown for output growth, the third quarter accounts for all of the downward revision. Growth in nonfarm payroll employment will average just 1.0 percent (annual rate) in the third quarter. That represents a downward revision of the forecasters' previous projection for the quarter of 1.5 percent. Nonfarm payrolls will grow a projected 2.0 percent in the fourth quarter, up a bit from the previous projection of 1.9 percent. For the next two years, jobs will rise 1.0 percent this year and 1.8 percent next year, both on an annual-average over annual-average basis. Measured by the monthly flow (using the annual average of nonfarm payroll employment), the number of new jobs will increase at a rate 112,000 per month in 2004 and 195,000 per month in 2005, as shown in the table below.

### *Nonfarm Payroll Employment*

	<i>Growth (%)</i>		<i>Average Change per Month (thousands of jobs)</i>	
	<i>Previous</i>	<i>New</i>	<i>Previous</i>	<i>New</i>
<i>Quarterly data:</i>				
2004:Q3	1.5	1.0	157.7	104.3
Q4	1.9	2.0	211.0	217.0
2005:Q1	1.8	1.8	192.7	200.7
Q2	1.6	1.9	170.7	211.7
Q3	N.A.	1.7	N.A.	188.7
<i>Annual average data:</i>				
2004	1.0	1.0	111.0	111.8
2005	1.7	1.8	186.0	195.2

## **Forecasters Peg Equilibrium Unemployment at 5 Percent**

In third-quarter surveys, we ask the forecasters to provide their estimates of the natural rate of unemployment—the rate of unemployment that occurs when the economy reaches equilibrium. For the third-quarter surveys conducted since 1996, the following table tracks the median estimate of the natural rate (computed from the responses of those forecasters who use the natural rate concept in preparing their projections), as well as the percentage of forecasters who use the concept and the lowest and highest estimates (among those who use the concept). Thirteen of the 28 participants who answered the question report that they use the natural rate in their forecasts. Among these 13, the median estimate for the natural rate is 5.00 percent, the same estimate recorded in the survey of a year ago. The lowest estimate of the natural rate is 4.00 percent, and the highest estimate is 5.50 percent.

<i>Survey Date</i>	<i>Percentage Who Use The Natural Rate</i>	<i>Median Estimate (%)</i>	<i>Low (%)</i>	<i>High (%)</i>
1996:Q3	62	5.65	5.00	6.00
1997:Q3	59	5.25	4.50	5.88
1998:Q3	47	5.30	4.50	5.80
1999:Q3	43	5.00	4.13	5.60
2000:Q3	48	4.50	4.00	5.00
2001:Q3	34	4.88	3.50	5.50
2002:Q3	50	5.10	3.80	5.50
2003:Q3	41	5.00	4.31	5.40
2004:Q3	46	5.00	4.00	5.50

## **Little Change to Risk of a Negative Quarter Despite Downward Revision to Growth**

At the same time the forecasters are downgrading their estimate for growth this quarter, they are also leaving unchanged their estimate of the risk that the quarter will experience a fall in output. The forecasters peg that chance at 4 percent, the same rate they assigned previously. The chance of a decline in subsequent quarters rises, but it remains below the levels

the forecasters assigned in the last survey, as the table below shows.

*Risk of a Negative Quarter (%)*

	<i>Previous Survey</i>	<i>New Survey</i>
<i>Quarterly data:</i>		
2004: Q3	4	4
Q4	7	6
2005: Q1	10	8
Q2	12	10
Q3	N.A.	11

***No Change in Expectations for Long-Term Inflation***

Despite their upward revisions to near-term inflation noted above, the forecasters do not expect permanently higher inflation. Over the next 10 years, the forecasters continue to expect CPI inflation to average 2.50 percent. The Philadelphia Fed's measure of long-term expectations for inflation has held steady at 2.50 percent since the late 1990s.

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 ; **Gary Ciminero, CFA**, Independent Economic Advisory; **Michael Cosgrove**, Econoclast; **Richard DeKaser**, National City Corporation; **Rajeev Dhawan**, Georgia State University; **Michael R. Englund**, Action Economics, LLC; **Gerard F. Fuda**, Independent Economist; **James Glassman**, JP Morgan Chase & Co.; **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; **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; **Martin A. Regalia**, U.S. Chamber of Commerce; **David Resler**, Nomura Securities International, Inc.; **David Rosenberg**, Merrill Lynch; **David F. Seiders**, National Association of Home Builders; **Xiaobing Shuai, Ph.D.**, Chmura Economics & Analytics; **Constantine G. Soras, Ph.D.**, Verizon Communications; **Susan M. Sterne**, Economic Analysis Associates, Inc.; **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.

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To subscribe to the survey, go to [www.phil.frb.org/forms/orderform.htm](http://www.phil.frb.org/forms/orderform.htm). This three-page writeup contains partial results of the survey. More detailed tables are available. These tables can be found on the Internet at: <http://www.phil.frb.org/econ/spf/index.html>.

SURVEY OF PROFESSIONAL FORECASTERS  
MAJOR MACROECONOMIC INDICATORS, 2004-2005

	2004			2005			ANNUAL AVERAGE	
	Q3	Q4	Q1	Q2	Q3	FORECAST	2004	2005
<b>PERCENT GROWTH AT ANNUAL RATES</b>								
1. REAL GDP (BILLIONS, CHAIN WEIGHTED)								
3.5	4.0	3.8	3.7	3.3	4.3			
2. GDP PRICE INDEX (2000=100)								
2.0	2.2	2.1	2.2	2.1	2.2			
3. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)								
5.7	6.0	5.8	5.4	5.4	6.6			
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)								
3.0	2.3	2.3	2.3	2.3	3.4			
<b>VARIABLES IN LEVELS</b>								
5. UNEMPLOYMENT RATE (PERCENT)								
5.5	5.5	5.4	5.3	5.2	5.5			
6. 3-MONTH TREASURY BILL RATE (PERCENT)								
1.4	1.8	2.2	2.5	2.9	1.3			
7. 10-YEAR TREASURY BOND YIELD (PERCENT)								
4.6	4.8	5.1	5.3	5.5	4.5			

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 2004.

NOTES: THE FIGURES ON EACH LINE ARE MEDIANS OF 30 INDIVIDUAL FORECASTS. NA = NOT APPLICABLE.

## **SURVEY OF PROFESSIONAL FORECASTERS**

**Third Quarter 2004**

**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 July 30; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before August 13.

TABLE ONE

**MAJOR MACROECONOMIC INDICATORS, 2004-2005**  
**MEDIANS OF FORECASTER PREDICTIONS**

NUMBER OF FORE- CASTERS	ACTUAL 2004 Q2	FORECASTS				ACTUAL 2003	FORECAST 2004	FORECAST 2005			
		2004		2005							
		Q3	Q4	Q1	Q2						
<b>1. GROSS DOMESTIC PRODUCT (GDP)</b>											
(\$ BILLIONS)	30	11649.3	11812.5	11986.8	12157.7	12317.4	12480.7	11004.0	11730.3		
2. GDP PRICE INDEX (2000=100)	29	108.16	108.69	109.30	109.86	110.47	111.03	106.00	108.33		
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	20	N.A.	724.9	742.6	790.5	795.6	814.2	639.6	728.6		
4. UNEMPLOYMENT RATE (PERCENT)	30	5.6	5.5	5.4	5.3	5.2	6.0	5.5	5.3		
5. INDUSTRIAL PRODUCTION (1997=100)	27	116.1	117.3	118.6	119.9	121.1	122.5	111.2	116.6		
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	30	1.91	1.89	1.83	1.79	1.76	1.74	1.85	1.89		
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	29	4.7	3.0	2.3	2.3	2.3	1.9	3.4	2.1		
8. 3-MONTH TREASURY BILL RATE (PERCENT)	28	1.08	1.45	1.76	2.15	2.50	2.90	1.01	1.30		
9. AAA CORPORATE BOND YIELD (PERCENT)	26	5.93	5.92	6.16	6.39	6.55	6.73	5.67	5.89		
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	28	4.60	4.60	4.81	5.15	5.35	5.47	4.02	4.50		

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 2004.

TABLE ONE CONTINUED

MAJOR MACROECONOMIC INDICATORS, 2004-2005  
MEDIAN OF FORECASTER PREDICTIONS

	NUMBER OF FORE- CASTERS	FORECASTS				ACTUAL 2003	FORECAST 2004	FORECAST 2005			
		2004		2005							
		Q2	Q3	Q4	Q1						
11.	REAL GDP (BILLIONS, CHAIN WEIGHTED)	29	10778.0	10870.7	10978.2	11080.1	11181.0	11273.3			
12.	TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	29	7562.5	7619.9	7682.5	7743.3	7800.6	7863.7			
13.	NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	27	1198.1	1226.8	1258.9	1279.0	1306.6	1333.6			
14.	RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	27	562.3	563.5	566.0	566.5	568.0	568.0			
15.	FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	26	718.1	725.0	728.9	733.4	736.4	740.1			
16.	STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	26	1228.7	1233.0	1237.4	1242.2	1247.7	1252.7			
17.	CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	27	47.5	40.0	41.3	45.0	45.0	44.2			
18.	NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	29	-552.8	-552.4	-549.3	-545.0	-540.0	-535.0			

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 2004.

TABLE TWO

MAJOR MACROECONOMIC INDICATORS, 2004-2005  
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE- CASTERS	Q2 TO Q3 2004	Q3 TO Q4 2004	Q4 TO Q1 2005	Q1 TO Q2 2005	Q2 TO Q3 2005	Q2 TO Q3 2005	Q2 TO Q3 2005	2003 TO 2004	2004 TO 2005
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	30	5.7	6.0	5.8	5.4	5.4	6.6	5.7		
2. GDP PRICE INDEX (2000=100)	29	2.0	2.2	2.1	2.2	2.1	2.2	2.3		
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	20	-0.3	10.1	28.5	2.6	9.7	13.9	11.3		
4. UNEMPLOYMENT RATE (PERCENT)	30	-0.1	0.0	-0.1	-0.1	-0.1	-0.5	-0.3		
5. INDUSTRIAL PRODUCTION (1997=100)	27	4.1	4.6	4.5	4.1	4.6	4.9	4.4		
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	30	-4.5	-13.1	-7.5	-5.9	-5.1	2.3	-7.4		
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	29	-1.7	-0.7	0.0	0.0	0.0	1.5	-1.3		
8. 3-MONTH TREASURY BILL RATE (PERCENT)	28	0.37	0.32	0.39	0.35	0.40	0.29	1.41		
9. AAA CORPORATE BOND YIELD (PERCENT)	26	-0.01	0.24	0.23	0.16	0.18	0.22	0.74		
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	28	0.00	0.21	0.34	0.20	0.12	0.48	0.88		

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 2004.

TABLE TWO CONTINUED

**MAJOR MACROECONOMIC INDICATORS, 2004-2005**  
**PERCENTAGE CHANGES AT ANNUAL RATES**

	NUMBER OF FORE- CASTERS	Q2 2004 TO Q3 2004	Q3 2004 TO Q4 2004	Q4 2004 TO Q1 2005	Q1 2005 TO Q2 2005	Q2 2005 TO Q3 2005	Q3 2005 TO 2004	2003 TO 2005
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	29	3.5	4.0	3.8	3.7	3.3	4.3	3.7
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	29	3.1	3.3	3.2	3.0	3.3	3.3	3.1
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	27	9.9	10.9	6.5	8.9	8.5	9.4	8.6
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	27	0.9	1.8	0.3	1.1	-1.4	9.2	1.4
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	26	3.9	2.2	2.5	1.7	2.0	4.6	2.4
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	26	1.4	1.5	1.5	1.8	1.6	0.9	1.6
17. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	27	-7.5	1.3	3.7	0.0	-0.8	42.7	2.7
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	29	0.4	3.1	4.3	5.0	5.0	-31.0	12.5

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, THIRD QUARTER 2004.

TABLE THREE

## ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANCES IN 100)	Q2 2004		Q3 2004		Q4 2004		Q1 2005		Q2 2005	
	TO Q3 2004	TO Q4 2004	TO Q1 2005	TO Q2 2005	TO Q3 2005	TO Q4 2005	TO Q1 2005	TO Q2 2005	TO Q3 2005	TO Q4 2005
	NUMBER OF FORECASTERS									
10 OR LESS	28	24	23	18	18	16				
11 TO 20	0	4	5	8	8	10				
21 TO 30	0	0	0	2	2	2				
31 TO 40	0	0	0	0	0	0	0	0	0	0
41 TO 50	0	0	0	0	0	0	0	0	0	0
51 TO 60	0	0	0	0	0	0	0	0	0	0
61 TO 70	0	0	0	0	0	0	0	0	0	0
71 TO 80	0	0	0	0	0	0	0	0	0	0
81 TO 90	0	0	0	0	0	0	0	0	0	0
91 AND OVER	0	0	0	0	0	0	0	0	0	0
NOT REPORTING	2	2	2	2	2	2	2	2	2	2
MEDIAN PROBABILITY	3	5	8	10	10	10				
MEAN PROBABILITY	4	6	8	10	11	11				

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 28.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 2004.

TABLE FOUR

MEAN PROBABILITY OF CHANGES IN GDP AND PRICES  
2003-2004 AND 2004-2005

MEAN PROBABILITY ATTACHED TO POSSIBLE  
PERCENT CHANGES IN REAL GDP:

	2003-2004	2004-2005
6.0 OR MORE	1.07	2.04
5.0 TO 5.9	8.79	7.61
4.0 TO 4.9	60.93	26.50
3.0 TO 3.9	23.46	42.50
2.0 TO 2.9	4.36	14.04
1.0 TO 1.9	0.75	4.82
0.0 TO 0.9	0.32	1.50
-1.0 TO -0.1	0.11	0.57
-2.0 TO -1.1	0.07	0.21
LESS THAN -2.0	0.14	0.21

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

	2003-2004	2004-2005
8.0 OR MORE	0.00	0.04
7.0 TO 7.9	0.00	0.07
6.0 TO 6.9	0.00	0.11
5.0 TO 5.9	0.00	0.37
4.0 TO 4.9	2.85	4.11
3.0 TO 3.9	14.22	18.35
2.0 TO 2.9	60.37	46.22
1.0 TO 1.9	21.37	26.69
0.0 TO 0.9	1.19	3.93
WILL DECLINE	0.00	0.11

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 28.

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

2004.

TABLE FIVE

## LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI INFLATION RATE	
STATISTIC	
MINIMUM	1.750
LOWER QUARTILE	2.300
MEDIAN	2.500
UPPER QUARTILE	2.800
MAXIMUM	3.000
MEAN	2.513
STD. DEV.	0.327
N	20
MISSING	10

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER  
2004.