



SURVEY OF PROFESSIONAL FORECASTERS

Release Date: May 15, 2006

SECOND QUARTER 2006

Stronger Growth in 2006 Is Seen Coming at the Expense of Weaker Growth in 2007

Stronger growth in real GDP this year will come at the expense of weaker growth next year, according to 53 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The forecasters now see the U.S. economy growing 3.4 percent in 2006 (year-over-year basis), an upward revision of 0.2 percentage point over their previous estimate of 3.2 percent just three months ago. The upward revision to this year's growth is offset by a downward revision in 2007, when the forecasters expect growth to average 3.0 percent, a decrease from their previous estimate of 3.2 percent. Over the next two years as a whole, the forecasters see growth at an annual rate of 3.2 percent, the same rate they projected three months ago. The forecasters' quarterly projections suggest steady growth through the first half of 2007: Growth in the current quarter of 3.4 percent at an annual rate (unrevised from the previous estimate) will be followed by growth near 3.0 percent in each of the next four quarters.

A slightly lower path for the unemployment rate accompanies the outlook for growth. The forecasters now expect unemployment to average 4.7 percent in 2006, down marginally from their previous estimate of 4.8 percent. A similar downward revision characterizes the unemployment outlook in 2007, when the forecasters see unemployment averaging 4.8 percent, down from their earlier estimate of 4.9 percent. On the jobs front, the forecasters see nonfarm payroll employment increasing 1.5 percent in 2006 (year-over-year basis), unchanged from their estimate of three months ago, and 1.2 percent in 2007, down from 1.3 percent earlier. These projections translate into monthly jobs gains on a year-over-year basis of nearly 170,000 in 2006 and 138,000 in 2007. On a quarterly basis, the forecasters see monthly job gains starting off strongly at a pace of 170,000 this quarter, then trailing off gradually to a rate of 125,000 per month in the second quarter of 2007.

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

	Real GDP (%)		Unemployment Rate (%)		Change in Payrolls (000s/month)	
	Previous	New	Previous	New	Previous	New
<i>Quarterly data:</i>						
2006: Q2	3.4	3.4	4.8	4.7	178.7	170.0
Q3	3.0	3.1	4.8	4.7	157.8	165.5
Q4	3.2	3.0	4.8	4.8	140.8	146.3
2007: Q1	3.3	2.9	4.9	4.8	151.3	149.2
Q2	N.A.	3.0	N.A.	4.8	N.A.	124.5
<i>Annual average data:</i>						
2006	3.2	3.4	4.8	4.7	165.4	169.5
2007	3.2	3.0	4.9	4.8	149.0	138.4

Little Evidence of Rising Expectations for Inflation

The forecasters see little reason to increase their expectations for inflation, except at the shortest horizons. Measured by the CPI, inflation will average 3.4 percent this quarter, an increase of nearly a full percentage point over the previous survey's projection of 2.5 percent. Inflation will average 2.62 percent this year (fourth-quarter over fourth-quarter basis), up just 0.22 percentage point from the previous projection of 2.40 percent. Even smaller upward revisions characterize the outlook for 2007 and 2008: The forecasters now think inflation will rise 2.35 percent next year and in 2008, up just 0.05 percentage point from the forecasts of 2.30 percent in each year made three months ago. At the longest of horizons the projections are holding rock steady. On an annual average basis over the next five years, the forecasters peg the CPI inflation rate at 2.50 percent, the same rate they expected in the survey of three months ago. Over the next 10 years, they see inflation at an annual average rate of 2.50 percent, also unchanged from the last survey.

Median Forecasts for the Trajectory of CPI Inflation Over the Next 10 Years (%)

	<i>Previous</i>	<i>New</i>
<i>Quarterly data:</i>		
2006:Q2	2.5	3.4
Q3	2.5	2.6
Q4	2.4	2.4
2007:Q1	2.3	2.3
Q2	N.A.	2.3
<i>Annual average data:</i>		
2006	2.40	2.62
2007	2.30	2.35
2008	2.30	2.35
<i>Long-term (annual average):</i>		
2006-2010	2.50	2.50
2011-2015	2.50	2.50
2006-2015	2.50	2.50

Upward Revisions to the Path of Interest Rates Accompany the Outlook

The forecasters see interest rates—both short- and long-term—at levels higher than they projected three months ago. At the short end, the rate on three-month Treasury bills is projected to average 4.8 percent this year and also in 2007. Previously, the forecasters thought the short rate would average just 4.5 percent in 2006 and 4.6 percent in 2007. The forecasters' quarterly projections for this short-term rate, shown in the table below, call for it to rise from 4.8 percent this quarter to 5.0 percent next quarter, hold steady over the end of the year and early next year, before falling to 4.8 percent in next year's second quarter. The forecasters are boosting their estimates for 10-year Treasury rates, to an annual average of 5.1 this year and 5.2 percent next year, marking upward revisions of 0.3 and 0.2 percentage point, respectively, from their previous estimates.

	3-Month Treasury Bill (%)		10-Year Treasury Bond (%)	
	Previous	New	Previous	New
<i>Quarterly data:</i>				
2006: Q2	4.6	4.8	4.8	5.1
Q3	4.7	5.0	4.8	5.2
Q4	4.7	5.0	4.9	5.3
2007: Q1	4.6	5.0	5.0	5.3
Q2	N.A.	4.8	N.A.	5.2

Annual average data:

2006	4.5	4.8	4.8	5.1
2007	4.6	4.8	5.0	5.2

The Federal Reserve Bank of Philadelphia thanks the following forecasters for their participation in our surveys:

Joseph T. Abate, Lehman Brothers; **Scott Anderson**, Wells Fargo and Company; **Robert J. Barbera**, ITG; **David W. Berson**, Fannie Mae; **Joseph Carson**, Alliance Capital Management; **Gary Ciminero**, CFA, Rhode Island House Policy Office; **Richard DeKaser**, National City Corporation; **Rajeev Dhawan**, Georgia State University; **Doug Duncan**, Mortgage Bankers Association; **Michael R. Englund**, Action Economics, LLC; **Gerard F. Fuda**, Independent Economist; **Stephen Gallagher**, Societe Generale; **James Glassman**, JP Morgan Chase & Co.; **Global Insight**; **Keith Hembre**, First American Funds; **David Huether**, National Association of Manufacturers; **William B. Hummer**, Wayne Hummer Investments; **Saul Hymans**, **Joan Crary**, and **Janet Wolfe**, RSQE, The University of Michigan; **Fred Joutz**, Benchmark Forecasts and Research Program on Forecasting, George Washington University; **Kurt Karl**, Swiss Re; **Dr. Irwin Kellner**, Hofstra University/MarketWatch/North Fork Bank; **Thomas Lam**, UOB Group; **L. Douglas Lee**, Economics from Washington; **Joseph Liro**, Stone & McCarthy Research Associates; **John Lonski**, Moody's Investors Service; **Dean Maki**, Barclays Capital; **Edward F. McKelvey**, Goldman Sachs; **Jim Meil**, Eaton Corporation; **Anthony Metz**, Pareto Optimal Economics; **Michael Moran**, Daiwa Securities America; **Joel L. Naroff**, Naroff Economic Advisors; **Michael P. Niemira**, International Council of Shopping Centers; **Martin A. Regalia**, U.S. Chamber of Commerce; **David Resler**, Nomura Securities International, Inc.; **David Rosenberg**, Merrill Lynch; **John Ryding**, Bear, Stearns, and Company, Inc.; **David F. Seiders**, National Association of Home Builders; **Xiaobing Shuai**, Ph.D., Chmura Economics & Analytics; **Sean M. Snaith**, Ph.D., University of the Pacific; **Constantine G. Soras**, Ph.D., Verizon Communications; **Neal Soss**, Credit Suisse First Boston; **Stephen Stanley**, RBS Greenwich Capital; **Susan M. Sterne**, Economic Analysis Associates, Inc.; **Thomas Kevin Swift**, American Chemistry Council; **David Teolis**, General Motors Corporation; **Gary Thayer**, A.G. Edwards; **Lea Tyler**, Oxford Economics USA, Inc.; **Albert M. Wojnilower**; **Richard Yamarone**, Argus Research Group; **Mark Zandi**, Economy.com; **Ellen Beeson Zentner**, Bank of Tokyo-Mitsubishi UFJ, Ltd.

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, go to www.philadelphiahed.org/econ/respubs/index.html. 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.philadelphiahed.org/econ/spf/index.html>.

SURVEY OF PROFESSIONAL FORECASTERS
MAJOR MACROECONOMIC INDICATORS, 2006-2007

	2006 Q2	Q3	Q4	2007 Q1	Q2	FORECAST	2006	2007	ANNUAL AVERAGE							
PERCENT GROWTH AT ANNUAL RATES																
1. REAL GDP (BILLIONS, CHAIN WEIGHTED)	3.4	3.1	3.0	2.9	3.0	3.4	3.0	3.4	3.0							
2. GDP PRICE INDEX (2000=100)	2.7	2.4	2.2	2.3	2.2	2.3	3.0	3.0	2.3							
3. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	6.1	5.2	5.1	5.6	5.6	5.5	6.5	6.5	5.4							
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	3.4	2.6	2.4	2.3	2.3	2.3	2.6	2.6	2.4							
VARIABLES IN LEVELS																
5. UNEMPLOYMENT RATE (PERCENT)	4.7	4.7	4.8	4.8	4.8	4.7	4.7	4.7	4.8							
6. 3-MONTH TREASURY BILL RATE (PERCENT)	4.8	5.0	5.0	5.0	5.0	4.8	4.8	4.8	4.8							
7. 10-YEAR TREASURY BOND YIELD (PERCENT)	5.1	5.2	5.3	5.3	5.3	5.2	5.1	5.1	5.2							

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2006.

NOTES: THE FIGURES ON EACH LINE ARE MEDIANS OF 53 INDIVIDUAL FORECASTS. NA = NOT APPLICABLE.

SURVEY OF PROFESSIONAL FORECASTERS

Second Quarter 2006

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 April 28; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before May 10, 2006. **Note on forecasts for corporate profits:** This is the second survey to incorporate forecasts for corporate profits after tax *with* inventory valuation adjustment (IVA) and capital consumption adjustment (CCAdj). Previous surveys used the after-tax measure without these adjustments.

TABLE ONE

MAJOR MACROECONOMIC INDICATORS, 2006-2007
MEDIAN OF FORECASTER PREDICTIONS

NUMBER OF FORE- CASTERS	ACTUAL 2006 Q1	FORECASTS				ACTUAL 2005	FORECAST 2006	FORECAST 2007			
		2006		2007							
		Q2	Q3	Q4	Q1						
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	52	13020.9	13215.9	13383.6	13551.5	13738.4	13922.7	12487.2	13294.6		
2. GDP PRICE INDEX (2000=100)	50	114.45	115.20	115.88	116.50	117.17	117.81	112.18	115.50		
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	38	N.A.	1121.6	1132.9	1134.1	1144.7	1154.1	973.8	1122.2		
4. UNEMPLOYMENT RATE (PERCENT)	53	4.7	4.7	4.7	4.8	4.8	4.8	5.1	4.7		
5. INDUSTRIAL PRODUCTION (2002=100)	48	110.6	111.8	112.8	113.8	114.7	115.6	108.1	112.2		
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	47	2.13	1.97	1.89	1.84	1.85	1.81	2.07	1.95		
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	52	2.2	3.4	2.6	2.4	2.3	2.3	3.7	2.6		
8. 3-MONTH TREASURY BILL RATE (PERCENT)	47	4.39	4.80	5.00	4.98	4.96	4.85	3.15	4.80		
9. AAA CORPORATE BOND YIELD (PERCENT)	44	5.39	5.94	6.07	6.15	6.20	6.18	5.24	5.90		
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	49	4.57	5.10	5.23	5.25	5.25	5.20	4.29	5.05		

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2006.

TABLE ONE CONTINUED

MAJOR MACROECONOMIC INDICATORS, 2006-2007
MEDIAN OF FORECASTER PREDICTIONS

	NUMBER OF FORE- CASTERS	FORECASTS				ACTUAL 2005	FORECAST 2006	FORECAST 2007			
		2006		2007							
		Q1	Q2	Q3	Q4						
11.	REAL GDP (BILLIONS, CHAIN WEIGHTED)	53	11381.4	11476.9	11564.9	11650.6	11733.8	11821.5			
12.	TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	52	8032.0	8088.4	8145.9	8207.1	8264.3	8322.6			
13.	NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	51	1364.6	1391.8	1418.1	1444.7	1467.8	1490.1			
14.	RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	50	618.2	616.4	609.5	601.7	598.1	591.2			
15.	FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	50	764.0	766.7	771.3	775.4	779.8	782.7			
16.	STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	49	1249.3	1255.5	1261.7	1267.9	1274.9	1281.2			
17.	CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	52	21.9	30.9	35.0	35.0	35.0	35.0			
18.	NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	52	-678.2	-680.6	-680.4	-678.2	-671.3	-666.5			
							-633.1	-679.2			
							-664.1	-664.1			

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2006.

TABLE TWO

MAJOR MACROECONOMIC INDICATORS, 2006-2007
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE- CASTERS	Q1 2006 TO Q2 2006 TO Q3 2006 TO Q4 2006 TO	Q1 2007 TO Q2 2007 TO Q3 2007 TO Q4 2007 TO	Q1 2007 TO Q2 2007 TO Q3 2007 TO Q4 2007 TO	2005 TO 2006 TO 2007
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	52	6.1	5.2	5.1	5.6
2. GDP PRICE INDEX (2000=100)	50	2.7	2.4	2.2	2.2
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	38	5.9	4.1	0.4	3.8
4. UNEMPLOYMENT RATE (PERCENT)	53	0.0	0.0	0.1	0.0
5. INDUSTRIAL PRODUCTION (2002=100)	48	4.3	3.6	3.6	3.3
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	47	-27.7	-14.4	-10.2	2.2
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	52	1.2	-0.8	-0.1	-0.1
8. 3-MONTH TREASURY BILL RATE (PERCENT)	47	0.41	0.20	-0.02	-0.11
9. AAA CORPORATE BOND YIELD (PERCENT)	44	0.55	0.13	0.08	0.05
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	49	0.53	0.13	0.02	0.00
					-0.05
					0.76
					0.11

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 2006.

TABLE TWO CONTINUED

MAJOR MACROECONOMIC INDICATORS, 2006-2007
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE- CASTERS	Q1 2006 TO Q2 2006	Q2 2006 TO Q3 2006	Q3 2006 TO Q4 2006	Q4 2006 TO Q1 2007	Q1 2007 TO Q2 2007	2005 TO 2006	2005 TO 2007
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	53	3.4	3.1	3.0	2.9	3.0	3.4	3.0
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	52	2.8	2.9	3.0	2.8	2.8	3.3	3.0
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	51	8.2	7.8	7.7	6.6	6.2	9.0	6.7
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	50	-1.1	-4.4	-5.1	-2.4	-4.5	1.6	-3.1
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	50	1.4	2.4	2.2	2.3	1.5	3.8	1.8
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	49	2.0	2.0	2.0	2.2	2.0	1.0	2.0
17. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	52	9.0	4.1	0.0	0.0	0.0	11.1	3.6
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	52	-2.4	0.2	2.2	6.9	4.8	-46.1	15.1

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, SECOND QUARTER 2006.

TABLE THREE

ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANCES IN 100)	Q1 2006		Q2 2006		Q3 2006		Q4 2006		Q1 2007	
	TO Q2	TO Q3	TO Q2	TO Q3	TO Q4	TO Q3	TO Q4	TO Q1	TO Q2	TO Q1
NUMBER OF FORECASTERS										
10 OR LESS	47	39	30	20	20	15				
11 TO 20	1	9	17	22	22	22				
21 TO 30	1	1	1	5	5	10				
31 TO 40	0	0	1	1	1	0				
41 TO 50	0	0	0	1	1	1				
51 TO 60	0	0	0	0	0	1				
61 TO 70	0	0	0	0	0	0				
71 TO 80	0	0	0	0	0	0				
81 TO 90	0	0	0	0	0	0				
91 AND OVER	0	0	0	0	0	0				
NOT REPORTING	4	4	4	4	4	4				
MEDIAN PROBABILITY	1	5	10	15	15	16				
MEAN PROBABILITY	3	7	11	15	15	17				

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 49.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2006.

TABLE FOUR

MEAN PROBABILITY OF CHANGES IN GDP AND PRICES
2005-2006 AND 2006-2007

MEAN PROBABILITY ATTACHED TO POSSIBLE
PERCENT CHANGES IN REAL GDP:

	2005-2006	2006-2007
6.0 OR MORE	0.48	0.29
5.0 TO 5.9	1.98	1.88
4.0 TO 4.9	12.12	10.09
3.0 TO 3.9	61.22	38.01
2.0 TO 2.9	18.29	33.72
1.0 TO 1.9	3.81	10.32
0.0 TO 0.9	0.97	3.60
-1.0 TO -0.1	0.60	1.10
-2.0 TO -1.1	0.27	0.55
LESS THAN -2.0	0.27	0.43

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

	2005-2006	2006-2007
8.0 OR MORE	0.30	0.18
7.0 TO 7.9	0.36	0.31
6.0 TO 6.9	0.82	0.73
5.0 TO 5.9	1.87	1.96
4.0 TO 4.9	5.78	6.02
3.0 TO 3.9	37.69	23.50
2.0 TO 2.9	44.18	45.89
1.0 TO 1.9	7.37	17.67
0.0 TO 0.9	1.20	3.24
WILL DECLINE	0.43	0.49

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 50.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2006.

TABLE FIVE

LONG-TERM (10 YEAR) FORECASTS

SERIES : CPI INFLATION RATE	
STATISTIC	
MINIMUM	1.750
LOWER QUARTILE	2.225
MEDIAN	2.500
UPPER QUARTILE	2.700
MAXIMUM	3.500
MEAN	2.505
STD. DEV.	0.381
N	32
MISSING	21

2006.
SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER