



SURVEY OF PROFESSIONAL FORECASTERS

Release Date: August 14, 2006

THIRD QUARTER 2006

Forecasters Expect Lower Growth and Higher Inflation in the Near Term

Growth in U.S. real output over the near term looks a bit slower and inflation a bit higher than they did just three months ago, according to 51 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The forecasters peg current quarter growth in real GDP at an annual rate of 2.7 percent, down from 3.1 percent in the last survey. Growth in the fourth quarter will average 2.9 percent, down just a bit from the forecasters' previous estimate of 3.0 percent. Our panelists project growth on an annual-average over annual-average basis of 3.4 percent this year, unchanged from their previous estimate, and 2.8 percent in 2007, down from their previous estimate of 3.0 percent.

A slightly weaker near-term outlook for the labor market accompanies the outlook for slower growth. On the jobs front, the forecasters see nonfarm payroll employment expanding at a rate of 125,000 jobs per month this quarter, down from 166,000 in the last survey. Somewhat smaller downward revisions to job gains characterize the following two quarters. Over the next two years, the forecasters see jobs expanding at a pace of 154,000 per month in 2006, down from 170,000 previously, and 126,000 per month in 2007, down from 138,000. The forecasters see the rate of unemployment averaging 4.7 percent this quarter, the same rate they expected in the last survey, although they expect it to rise over the next few quarters at a pace that is a bit faster than they previously thought. Currently, the forecasters see unemployment rising to 4.9 percent in the second quarter of 2007. In the previous survey, unemployment was expected to rise to 4.8 percent over the same period, as the table below shows.

	<i>Real GDP (%)</i>		<i>Unemployment Rate (%)</i>		<i>Payrolls (000s/month)</i>	
	<i>Previous</i>	<i>New</i>	<i>Previous</i>	<i>New</i>	<i>Previous</i>	<i>New</i>
<i>Quarterly data:</i>						
2006: Q3	3.1	2.7	4.7	4.7	165.5	125.3
Q4	3.0	2.9	4.8	4.8	146.3	127.2
2007: Q1	2.9	2.9	4.8	4.8	149.2	118.5
Q2	3.0	2.7	4.8	4.9	124.5	126.4
Q3	N.A.	3.0	N.A.	4.9	N.A.	136.2
<i>Annual average data:</i>						
2006	3.4	3.4	4.7	4.7	169.5	153.6
2007	3.0	2.8	4.8	4.9	138.4	126.1

Upward revisions to inflation—measured by either the growth in the consumer price index or the price index for GDP—accompany the outlook for the real side of the economy. The forecasters have raised their projections for CPI inflation over each of the next four quarters. They now think CPI inflation will average 3.6 percent (annual rate) this quarter, up a full percentage point from their previous estimate. Smaller upward revisions characterize the next few quarters.

Similarly, projections for inflation in the GDP price index are also higher, particularly in the current quarter. On a fourth-quarter over fourth-quarter basis, CPI inflation will average 3.3 percent this year and 2.6 percent next year, up from 2.6 percent and 2.4 percent, respectively, in the last survey. As the table below shows, the forecasters have also revised upward their annual forecasts for the rate of inflation (annual-average over annual-average) in the GDP price index.

Near-Term Inflation Outlook

	<i>CPI (%)</i>		<i>GDP Price Index (%)</i>	
	<i>Previous</i>	<i>New</i>	<i>Previous</i>	<i>New</i>
<i>Quarterly data:</i>				
2006:Q3	2.6	3.6	2.4	2.8
Q4	2.4	2.8	2.2	2.4
2007:Q1	2.3	2.7	2.3	2.6
Q2	2.3	2.5	2.2	2.3
Q3	N.A.	2.5	N.A.	2.3
<i>Annual average data:</i>				
2006	2.6	3.3	3.0	3.1
2007	2.4	2.6	2.3	2.5

Little Change to Longer-Horizon Inflation Forecasts

Although the near-term outlook for CPI inflation has worsened in this survey, the outlook over longer horizons is holding relatively unchanged. As the table below shows, in answer to a special question, the forecasters have raised their expectations for CPI inflation in 2008, from 2.35 percent last survey to 2.50 percent this survey. However, the forecast for the annual average rate of inflation over the next 10 years is holding steady at 2.50 percent, the same rate the forecasters have expected since the late 1990s. Over the first five years of this horizon (2006-2010), CPI inflation is expected to average 2.60 percent, up marginally from the previous forecast of 2.50 percent. Over the second five years of the 10-year horizon (2011-2015), the forecasters have lowered their projection to 2.45 percent from their previous estimate of 2.50 percent. These results suggest that the factors the forecasters anticipate will increase inflation over the next few years will not persist and lead to permanently higher inflation.

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

	<i>Previous</i>	<i>New</i>
<i>Annual average data:</i>		
2006	2.62	3.34
2007	2.35	2.56
2008	2.35	2.50
<i>Long-term (annual average):</i>		
2006-2010	2.50	2.60
2011-2015	2.50	2.45
2006-2015	2.50	2.50

Equilibrium Unemployment Pegged at 4.95 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 2001, 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). Twenty-six of the 49 participants who answered the question report that they use the natural rate in their forecasts. Among these 26, the median estimate for the natural rate is 4.95 percent, nearly the same estimate recorded in the survey of a year ago, and close to the forecasters' projection for the annual average rate of actual unemployment in 2007. The lowest estimate of the natural rate is 4.00 percent, and the highest estimate is 5.50 percent.

Median Estimates of the Natural Rate of Unemployment

<i>Survey Date</i>	<i>Percentage Who Use The Natural Rate</i>	<i>Median Estimate (%)</i>	<i>Low (%)</i>	<i>High (%)</i>
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
2005:Q3	51	5.00	4.25	5.50
2006:Q3	53	4.95	4.00	5.50

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

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; **Mark Nielson, Ph.D.**, MacroEcon Global 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; **Allen Sinai**, Decision Economics, Inc.; **Tara M. Sinclair**, Research Program on Forecasting, The George Washington University; **Sean M. Snaith, Ph.D.**, University of Central Florida; **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.; **Edward Sullivan**, Portland Cement Association; **Thomas Kevin Swift**, American Chemistry Council; **David Teolis**, General Motors Corporation; **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.

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To subscribe to the survey, go to www.philadelphiafed.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.philadelphiafed.org/econ/spf/index.html>.

NEXT SURVEY RELEASE (2006Q4): November 13, 2006

SUMMARY TABLE
 SURVEY OF PROFESSIONAL FORECASTERS
 MAJOR MACROECONOMIC INDICATORS, 2006-2007

	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Q3	2006 (ANNUAL AVERAGE)	2007 (ANNUAL AVERAGE)
PERCENT GROWTH AT ANNUAL RATES							
1. REAL GDP (BILLIONS, CHAIN WEIGHTED)	2.7	2.9	2.9	2.7	3.0	3.4	2.8
2. GDP PRICE INDEX (2000=100)	2.8	2.4	2.6	2.3	2.3	3.1	2.5
3. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	5.6	4.8	5.5	5.2	5.4	6.6	5.3
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	3.6	2.8	2.7	2.5	2.5	3.3	2.6
5. NONFARM PAYROLL EMPLOYMENT (PERCENT CHANGE)	1.1	1.1	1.1	1.1	1.2	1.4	1.1
(AVG MONTHLY CHANGE)	125.3	127.2	118.5	126.4	136.2	153.6	126.1
VARIABLES IN LEVELS							
6. UNEMPLOYMENT RATE (PERCENT)	4.7	4.8	4.8	4.9	4.9	4.7	4.9
7. 3-MONTH TREASURY BILL RATE (PERCENT)	5.1	5.2	5.2	5.1	5.0	4.9	5.0
8. 10-YEAR TREASURY BOND YIELD (PERCENT)	5.1	5.2	5.2	5.2	5.2	5.0	5.2

THE FIGURES ON EACH LINE ARE MEDIANS OF 51 INDIVIDUAL FORECASTERS.

SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 2006.

SURVEY OF PROFESSIONAL FORECASTERS

Third 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 July 28; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before August 9, 2006. **Note on forecasts for corporate profits:** This is the third 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
 MEDIANS OF FORECASTER PREDICTIONS

	NUMBER OF FORECASTERS	ACTUAL 2006 Q2	FORECAST 2006 Q3	FORECAST 2006 Q4	FORECAST 2007 Q1	FORECAST 2007 Q2	FORECAST 2007 Q3	ACTUAL 2005 ANNUAL	FORECAST 2006 ANNUAL	FORECAST 2007 ANNUAL
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	48	13193.9	13373.8	13532.8	13714.5	13888.4	14072.9	12455.8	13277.9	13976.1
2. GDP PRICE INDEX (2000=100)	49	115.91	116.71	117.40	118.15	118.84	119.50	112.74	116.24	119.14
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	24	N.A.	1131.4	1145.7	1168.1	1173.9	1181.0	931.4	1124.2	1177.8
4. UNEMPLOYMENT RATE (PERCENT)	51	4.6	4.7	4.8	4.8	4.9	4.9	5.1	4.7	4.9
5. NONFARM PAYROLL EMPLOYMENT (THOUSANDS)	43	135119	135495	135877	136232	136611	137020	133459	135303	136816
6. INDUSTRIAL PRODUCTION (2002=100)	48	112.6	113.7	114.6	115.6	116.5	117.2	108.1	112.9	116.8
7. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	46	1.88	1.83	1.80	1.79	1.77	1.75	2.07	1.91	1.77
8. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	50	5.0	3.6	2.8	2.7	2.5	2.5	3.7	3.3	2.6
9. 3-MONTH TREASURY BILL RATE (PERCENT)	46	4.70	5.08	5.15	5.16	5.07	4.95	3.15	4.85	5.02
10. AAA CORPORATE BOND YIELD (PERCENT)	42	5.89	5.99	6.10	6.24	6.24	6.21	5.24	5.85	6.21
11. 10-YEAR TREASURY BOND YIELD (PERCENT)	48	5.07	5.11	5.24	5.20	5.21	5.22	4.29	5.01	5.21
12. REAL GDP (BILLIONS, CHAIN WEIGHTED)	51	11385.3	11462.2	11543.6	11625.5	11704.0	11790.0	11048.6	11426.3	11750.3
13. TOTAL CONSUMPTION EXPENDITURE (BILLIONS, CHAIN WEIGHTED)	48	8053.0	8108.8	8166.7	8219.7	8272.5	8333.6	7841.2	8083.9	8306.7
14. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	44	1297.5	1324.9	1349.6	1373.8	1393.8	1413.3	1223.8	1315.2	1406.0
15. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	46	608.5	598.1	590.3	584.5	578.3	575.8	608.0	605.0	577.5
16. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	44	738.7	743.2	747.0	750.3	753.6	755.7	727.6	744.0	754.7
17. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	45	1251.1	1257.4	1264.1	1272.1	1278.6	1284.2	1230.4	1253.8	1281.9
18. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	47	52.6	44.0	40.0	37.0	35.0	31.5	19.7	44.0	33.1
19. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	47	-627.1	-629.5	-630.0	-627.9	-624.1	-618.6	-619.2	-631.0	-620.5

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

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

	NUMBER OF FORECASTERS	Q2 2006 TO Q3 2006	Q3 2006 TO Q4 2006	Q4 2006 TO Q1 2007	Q1 2007 TO Q2 2007	Q2 2007 TO Q3 2007	2005 TO 2006	2006 TO 2007
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	48	5.6	4.8	5.5	5.2	5.4	6.6	5.3
2. GDP PRICE INDEX (2000=100)	49	2.8	2.4	2.6	2.3	2.3	3.1	2.5
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	24	4.1	5.1	8.1	2.0	2.4	20.7	4.8
4. UNEMPLOYMENT RATE (PERCENT)	51	0.1	0.1	0.0	0.1	0.0	-0.4	0.2
5. NONFARM PAYROLL EMPLOYMENT (PERCENT CHANGE) (AVG MONTHLY CHANGE)	43 43	1.1 125.3	1.1 127.2	1.1 118.5	1.1 126.4	1.2 136.2	1.4 153.6	1.1 126.1
6. INDUSTRIAL PRODUCTION (2002=100)	48	3.9	3.3	3.5	3.1	2.7	4.4	3.5
7. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	46	-10.3	-5.9	-1.5	-5.8	-3.6	-8.1	-7.1
8. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	50	-1.4	-0.8	-0.1	-0.2	-0.1	-0.4	-0.8
9. 3-MONTH TREASURY BILL RATE (PERCENT)	46	0.38	0.08	0.01	-0.09	-0.11	1.70	0.17
10. AAA CORPORATE BOND YIELD (PERCENT)	42	0.10	0.11	0.14	-0.01	-0.03	0.61	0.36
11. 10-YEAR TREASURY BOND YIELD (PERCENT)	48	0.04	0.13	-0.04	0.01	0.01	0.72	0.20
12. REAL GDP (BILLIONS, CHAIN WEIGHTED)	51	2.7	2.9	2.9	2.7	3.0	3.4	2.8
13. TOTAL CONSUMPTION EXPENDITURE (BILLIONS, CHAIN WEIGHTED)	48	2.8	2.9	2.6	2.6	3.0	3.1	2.8
14. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	44	8.7	7.6	7.4	5.9	5.7	7.5	6.9
15. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	46	-6.7	-5.1	-3.9	-4.2	-1.7	-0.5	-4.5
16. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	44	2.5	2.0	1.8	1.7	1.1	2.3	1.4
17. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	45	2.0	2.2	2.6	2.1	1.8	1.9	2.2
18. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	47	-8.6	-4.0	-3.0	-2.0	-3.5	24.4	-10.9
19. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	47	-2.4	-0.5	2.1	3.8	5.5	-11.8	10.5

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. 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 2006.

TABLE THREE

ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANGES IN 100)	Q2 2006 TO Q3 2006	Q3 2006 TO Q4 2006	Q4 2006 TO Q1 2007	Q1 2007 TO Q2 2007	Q2 2007 TO Q3 2007
NUMBER OF FORECASTERS					
10 OR LESS	39	32	17	11	10
11 TO 20	7	12	17	17	16
21 TO 30	0	2	10	15	13
31 TO 40	0	0	1	2	5
41 TO 50	0	0	0	1	1
51 TO 60	0	0	1	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	5	5	5	5	6
MEAN AND MEDIAN					
MEDIAN PROBABILITY	5.00	10.00	15.00	20.00	20.00
MEAN PROBABILITY	5.21	9.66	16.23	19.27	20.64

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 46.
SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA.
SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 2006.

TABLE FOUR

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

	2005-2006	2006-2007
6.0 OR MORE	0.44	0.49
5.0 TO 5.9	1.28	1.01
4.0 TO 4.9	7.46	6.37
3.0 TO 3.9	62.06	31.53
2.0 TO 2.9	22.01	39.81
1.0 TO 1.9	4.20	13.89
0.0 TO 0.9	1.47	4.23
-1.0 TO -0.1	0.55	1.82
-2.0 TO -1.1	0.25	0.94
LESS THAN -2.0	0.31	0.60

	2005-2006	2006-2007
8.0 OR MORE	0.22	0.22
7.0 TO 7.9	0.30	0.35
6.0 TO 6.9	0.58	1.13
5.0 TO 5.9	1.90	2.37
4.0 TO 4.9	8.35	5.89
3.0 TO 3.9	51.61	29.32
2.0 TO 2.9	31.88	46.47
1.0 TO 1.9	4.11	11.72
0.0 TO 0.9	0.84	2.11
WILL DECLINE	0.21	0.43

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 47.
SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA.
SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 2006.

TABLE FIVE
LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI INFLATION RATE

STATISTIC	
MINIMUM	1.75
LOWER QUARTILE	2.35
MEDIAN	2.50
UPPER QUARTILE	2.78
MAXIMUM	4.65
MEAN	2.63
STD. DEVIATION	0.55
N	48
MISSING	3

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