

Survey of Professional Forecasters

May 22, 1992

Economic Research Department

SECOND QUARTER 1992

A Stronger Recovery Than Previously Expected

The recovery is going to be stronger than was expected three months ago, according to 37 economic forecasters surveyed by the Federal Reserve Bank of Philadelphia. The economy grew faster in the first quarter than was expected, and the forecasters have increased their forecasts for overall real GDP growth for 1992 from 1.5 percent to 2.0 percent. There's good news on the inflation front, too, as the forecasts of inflation are unchanged from three months ago, with inflation expected to remain moderate over the next two years, at about 3.0 to 3.5 percent. The unemployment rate is now forecast to be slightly higher than before: 7.1 percent for 1992 compared with 7.0 percent in the forecast of three months ago.

According to the forecasters, interest rates will rise slightly over the next year. The median forecast calls for the three-month Treasury-bill rate to fall from 3.9 percent in the first quarter to 3.8 percent in the second quarter, then to rise gradually to 4.6 percent by the second quarter next year. The forecast for the 10-year Treasury-bond rate is similar, but it bottomed out in the first quarter of 1992 at 7.3 percent and is expected to rise gradually to 7.7 percent by the second quarter of 1993.

Long-Term Expected Inflation Rises Slightly

The median forecast of the average inflation rate (for the Consumer Price Index) over the next 10 years rose to 3.9 percent in this survey, up from 3.7 percent in the survey taken in the first quarter of 1992, but below the 4.0 percent forecast from the fourth quarter of 1991. Half of the forecasts were in the interval of 3.5 to 4.5 percent.



Other Inflation Information

Despite the higher long-term forecast of inflation, the forecasters are less worried about inflation over the next two years. Three months ago, the probability that inflation (in the GDP deflator) would exceed 4 percent was 11.56 percent for 1992 and 21.94 percent for 1993. Those probabilities have declined in the latest survey to 8.98 percent for 1992 and 21.11 percent for 1993.

Little Risk of Another Negative Quarter

In previous surveys, the forecasters thought there was a substantial risk that output in the economy would decline. Three months ago, the forecasters believed that the probability that real GDP would decline in the first quarter was 43 percent; but real GDP actually grew at a 2.0 percent annual rate. The first quarter result has greatly diminished the probability that the forecasters put on a drop in real GDP in the second quarter, as shown by the chart below.

<i>Mean Probability of a Decline in Real GDP</i>	<i>Fourth Quarter 1991 Survey</i>	<i>First Quarter 1992 Survey</i>	<i>Second Quarter 1992 Survey</i>
1992: Q2	15	25	9
Q3	13	13	11
Q4	11	10	11
1993: Q1	NA	9	11
Q2	NA	NA	12

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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SURVEY OF PROFESSIONAL FORECASTERS
MAJOR MACROECONOMIC INDICATORS, 1992-93

	1992	1993			ANNUAL AVERAGE			
	Q2	Q3	Q4	Q1	Q2	1992	1993	
	FORECAST							
PERCENT GROWTH AT ANNUAL RATES								
1. REAL GDP (BILLIONS OF 1987 DOLLARS)	2.9	3.4	3.1	3.0	3.1	2.0	3.1	
2. GDP IMPLICIT PRICE DEFLATOR (1987=100)	3.0	2.8	3.0	3.7	3.0	3.0	N.A.	
3. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	5.9	6.2	6.3	6.4	6.8	4.8	6.4	
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	3.3	3.3	3.5	3.5	3.7	3.4	3.6	
VARIABLES IN LEVELS								
5. UNEMPLOYMENT RATE (PERCENT)	7.2	7.1	6.9	6.8	6.6	7.1	6.5	
6. 3-MONTH TREASURY BILL RATE (PERCENT)	3.8	3.8	4.1	4.4	4.6	3.9	4.6	
7. 10-YEAR TREASURY BOND YIELD (PERCENT)	7.4	7.5	7.5	7.6	7.7	7.5	7.8	

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 1992.

NOTES: THE FIGURES ON EACH LINE ARE MEDIANS OF 37 INDIVIDUAL FORECASTS. NA = NOT APPLICABLE.
FOR THE GDP IMPLICIT PRICE DEFLATOR AND CONSUMER PRICE INDEX, THE ANNUAL AVERAGE IS THE PERCENT CHANGE IN THE FOURTH QUARTER INDEX LEVEL FROM THE FOURTH QUARTER INDEX LEVEL OF THE PREVIOUS YEAR.

SURVEY OF PROFESSIONAL FORECASTERS

Second Quarter 1992

Tables

TABLE ONE

MAJOR MACROECONOMIC INDICATORS, 1992-93
 MEDIANS OF FORECASTER PREDICTIONS

	NUMBER OF FORE- CASTERS	ACTUAL 1992 Q1	FORECASTS				ACTUAL 1991	FORECAST 1992	FORECAST 1993	
			1992 Q2	1992 Q3	1992 Q4	1993 Q1				1993 Q2
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	37	5809.3	5893.2	5982.9	6075.3	6170.9	6273.0	5672.6	5944.9	6325.2
2. GDP IMPLICIT PRICE DEFLATOR (1987=100)	37	118.8	119.7	120.5	121.4	122.5	123.4	117.0	120.1	123.8
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	24	N.A.	204.6	215.0	224.0	228.3	236.6	187.9	208.9	240.0
4. UNEMPLOYMENT RATE (PERCENT)	37	7.2	7.2	7.1	6.9	6.8	6.6	6.7	7.1	6.5
5. INDUSTRIAL PRODUCTION (1987=100)	34	106.8	108.0	109.4	110.7	112.0	113.1	107.1	108.8	113.8
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	33	1.28	1.28	1.30	1.32	1.35	1.35	1.01	1.29	1.39
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	33	3.5	3.3	3.3	3.5	3.5	3.7	3.1	3.2	3.6
8. 3-MONTH TREASURY BILL RATE (PERCENT)	37	3.89	3.75	3.83	4.10	4.36	4.60	5.38	3.89	4.64
9. AAA CORPORATE BOND YIELD (PERCENT)	32	8.28	8.32	8.32	8.38	8.50	8.50	8.77	8.32	8.55
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	35	7.30	7.45	7.47	7.50	7.57	7.70	7.86	7.46	7.75

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 1992.

TABLE ONE CONTINUED

MAJOR MACROECONOMIC INDICATORS, 1992-93
MEDIANS OF FORECASTER PREDICTIONS

	NUMBER OF FORE- CASTERS	ACTUAL 1992 Q1	FORECASTS				ACTUAL 1991	FORECAST 1992	FORECAST 1993	
			1992 Q2	1992 Q3	1992 Q4	1993 Q1				1993 Q2
11. REAL GDP (BILLIONS OF 1987 DOLLARS)	37	4891.9	4927.0	4968.0	5006.0	5043.5	5082.5	4848.8	4947.4	5100.3
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS OF 1987 DOLLARS)	37	3313.8	3328.5	3349.2	3370.8	3393.1	3419.3	3259.0	3341.1	3430.6
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	37	503.7	505.5	510.6	516.0	524.0	532.7	512.4	509.7	537.5
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	37	188.5	193.0	196.1	199.9	203.2	205.8	175.2	194.0	206.2
15. FEDERAL GOVERNMENT PURCHASES (BILLIONS OF 1987 DOLLARS)	34	372.8	371.9	371.7	369.5	366.3	364.0	384.9	371.8	363.7
16. STATE AND LOCAL GOVT PURCHASES (BILLIONS OF 1987 DOLLARS)	34	557.1	558.5	560.0	561.7	564.0	566.7	552.2	559.2	567.9
17. CHANGE IN BUSINESS INVENTORIES (BILLIONS OF 1987 DOLLARS)	37	-26.1	-7.0	4.0	10.0	13.3	16.0	-13.9	-5.0	17.8
18. NET EXPORTS (BILLIONS OF 1987 DOLLARS)	37	-17.8	-21.0	-24.1	-27.0	-25.0	-26.0	-20.9	-23.2	-25.6

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 1992.

TABLE TWO

MAJOR MACROECONOMIC INDICATORS, 1992-93
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE- CASTERS	Q1 92 TO Q2 92	Q2 92 TO Q3 92	Q3 92 TO Q4 92	Q4 92 TO Q1 93	Q1 93 TO Q2 93	Q1 93 TO Q2 93	Q1 93 TO Q2 93	Q1 93 TO Q2 93	1991 TO 1992	1992 TO 1993
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	37	5.9	6.2	6.3	6.4	6.8	6.4	6.4	6.8	4.8	6.4
2. GDP IMPLICIT PRICE DEFLATOR (1987=100)	37	3.0	2.8	3.0	3.7	3.0	3.7	3.0	3.0	2.6	3.1
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	24	10.5	21.7	17.9	7.9	15.5	7.9	15.5	15.5	11.2	14.9
4. UNEMPLOYMENT RATE (PERCENT)	37	.0	-.1	-.2	-.1	-.2	-.1	-.2	-.2	.4	-.6
5. INDUSTRIAL PRODUCTION (1987=100)	34	4.5	5.3	4.9	4.6	4.2	4.6	4.2	4.2	1.6	4.6
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	33	1.3	6.4	6.3	9.4	.0	9.4	.0	.0	27.1	7.4
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	33	-.2	.0	.2	.0	.2	.0	.2	.2	.1	.4
8. 3-MONTH TREASURY BILL RATE (PERCENT)	37	-.14	.08	.27	.26	.24	.26	.24	.24	-1.49	.75
9. AAA CORPORATE BOND YIELD (PERCENT)	32	.04	.00	.06	.12	.00	.12	.00	.00	-.45	.23
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	35	.15	.02	.03	.07	.13	.07	.13	.13	-.40	.29

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 1992.

TABLE TWO CONTINUED

MAJOR MACROECONOMIC INDICATORS, 1992-93
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE- CASTERS	Q1 92		Q2 92		Q3 92		Q4 92		Q1 93		Q2 93		Q1 93		Q2 93		Q1 93		Q2 93		1991 TO 1992		1992 TO 1993	
		TO	TO	TO	TO	TO	TO																		
11. REAL GDP (BILLIONS OF 1987 DOLLARS)	37	2.9	3.4	3.4	3.1	3.1	3.0	3.0	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	2.0	2.0	3.1	3.1
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS OF 1987 DOLLARS)	37	1.8	2.5	2.5	2.6	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.5	2.5	2.5	2.7	2.7
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	37	1.4	4.1	4.1	4.3	4.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	-5	-5	5.5	5.5	
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	37	9.9	6.6	6.6	8.0	8.0	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	10.7	10.7	6.3	6.3	6.3
15. FEDERAL GOVERNMENT PURCHASES (BILLIONS OF 1987 DOLLARS)	34	-1.0	-.3	-.3	-2.4	-2.4	-3.4	-3.4	-3.4	-3.4	-3.4	-3.4	-3.4	-3.4	-3.4	-3.4	-3.4	-3.4	-3.4	-3.4	-3.4	-3.4	-3.4	-2.2	-2.2
16. STATE AND LOCAL GOVT PURCHASES (BILLIONS OF 1987 DOLLARS)	34	1.0	1.1	1.1	1.2	1.2	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.3	1.3	1.3	1.6	1.6
17. CHANGE IN BUSINESS INVENTORIES (BILLIONS OF 1987 DOLLARS)	37	19.1	11.0	11.0	6.0	6.0	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	8.9	8.9	22.8	22.8	22.8
18. NET EXPORTS (BILLIONS OF 1987 DOLLARS)	37	-3.2	-3.1	-3.1	-2.9	-2.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	-2.3	-2.3	-2.3	-2.4	-2.4

NOTE: FIGURES FOR BUSINESS INVENTORIES AND NET EXPORTS ARE CHANGES IN BILLIONS OF 1987 DOLLARS.
ALL OTHERS ARE PERCENTAGE CHANGES AT ANNUAL RATES.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 1992.

TABLE THREE

ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANCES IN 100)	q1 92	q2 92	q3 92	q4 92	q1 93	q2 93
	TO	TO	TO	TO	TO	TO
	q2 92	q3 92	q4 92	q1 93	q2 93	q3 93
10 OR LESS	26	25	23	23	22	22
11 TO 20	6	4	6	11	10	10
21 TO 30	4	5	7	1	3	3
31 TO 40	0	1	0	1	1	1
41 TO 50	0	1	0	0	0	0
51 TO 60	0	0	0	0	0	0
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	1	1	1	1	1	1
MEDIAN PROBABILITY	5	10	10	10	10	10
MEAN PROBABILITY	9	11	11	11	11	12

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 36.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 1992.

TABLE FOUR

MEAN PROBABILITY OF CHANGES IN GDP AND PRICES
1991-92 AND 1992-93

MEAN PROBABILITY ATTACHED TO POSSIBLE
PERCENT CHANGES IN REAL GDP:

	1991-92	1992-93
	-----	-----
6.0 OR MORE	.11	.86
5.0 TO 5.9	.69	2.75
4.0 TO 4.9	3.81	12.03
3.0 TO 3.9	14.86	30.24
2.0 TO 2.9	42.08	32.46
1.0 TO 1.9	28.50	14.90
0.0 TO 0.9	8.14	4.64
-1.0 TO -0.1	1.31	1.19
-2.0 TO -1.1	.44	.53
LESS THAN -2.0	.06	.40

MEAN PROBABILITY ATTACHED TO POSSIBLE
PERCENT CHANGES IN GDP IMPLICIT PRICE DEFLATOR:

	1991-92	1992-93
	-----	-----
8.0 OR MORE	.00	.06
7.0 TO 7.9	.06	.58
6.0 TO 6.9	.28	2.44
5.0 TO 5.9	1.64	5.14
4.0 TO 4.9	7.00	15.33
3.0 TO 3.9	34.53	41.06
2.0 TO 2.9	47.36	29.39
1.0 TO 1.9	7.64	5.14
0.0 TO 0.9	1.36	.83
WILL DECLINE	.14	.03

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 36.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 1992.

TABLE FIVE
LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI INFLATION RATE	
STATISTIC	
MINIMUM	2.600
LOWER QUARTILE	3.500
MEDIAN	3.900
UPPER QUARTILE	4.500
MAXIMUM	6.800
MEAN	4.015
STD. DEV.	.870
N	36
MISSING	1

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 1992.