

Survey of Professional Forecasters

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Economic Research Department

THIRD QUARTER 1992

Feeble Recovery Expected to Bring Lower Inflation

The economic recovery is going to be significantly weaker than was expected three months ago, according to 36 economic forecasters surveyed by the Federal Reserve Bank of Philadelphia. The economy's fast growth in the first three months of 1992 has slowed sharply, and the forecasters have reduced their forecasts for future economic growth, especially for the remainder of 1992. The only benefit of this slower growth is lower inflation than previously forecast. The following chart compares the forecasts of key variables from the previous survey (taken in the second quarter 1992) and the new survey:

	Real GDP		CPI Inflation		10-yr. T-Bond Rate	
	Previous	New	Previous	New	Previous	New
<i>Quarterly data:</i>						
1992: Q3	3.4	2.1	3.3	3.0	7.5	6.7
Q4	3.1	2.4	3.5	3.3	7.5	6.8
1993: Q1	3.0	3.2	3.5	3.2	7.6	6.8
Q2	3.1	2.3	3.7	3.4	7.7	7.0
Q3	N.A.	2.8	N.A.	3.4	N.A.	7.1
<i>Annual average data:</i>						
1992	2.0	1.8	3.4	3.1	7.5	7.0
1993	3.1	2.5	3.6	3.4	7.8	7.0

This table shows that real GDP growth is expected to be only 2½ percent in the second half of 1992, compared with 3½ percent in the previous survey. Growth is expected to be slower in 1993 as well, growing only 2½ percent for the year, compared with over 3 percent growth in the previous forecast. The table shows a lower expected CPI inflation rate forecast for the next two years. Inflation is expected to remain between 3 and 3½ percent between now and the end of 1993. The lower expected inflation rate translates into lower expected interest rates as well, with the forecast for the 10-year Treasury-bond rate averaging 7 percent in both 1992 and 1993, compared with 7.5 and 7.8 percent in the previous forecast.



Lower Long-Term Inflation

The median forecast for the average inflation rate (in the Consumer Price Index) for the next 10 years dropped to 3.75 percent, compared with 3.9 percent in the previous survey. The middle half of the forecasts were in the range of 3.2 to 4.0 percent, though some forecasters think the inflation rate could be as low as 2½ percent over the next 10 years, while others think it could be as high as 6 percent.

Slower Growth Means Higher Unemployment

The reduced growth rate of output in the economy translates into higher unemployment. The forecasters see the unemployment rate peaking in the third quarter of 1992 at 7.6 percent (quarterly average), compared with 7.1 percent in the previous forecast. Unemployment is expected to decline slowly, averaging 7.4 percent in 1992 and 7.0 percent in 1993.

Low, but Increasing, Risk of Another Negative Quarter

There remains only a slight chance that real GDP growth will be negative in any of the quarters for which the forecasts were made. But that probability is a bit higher than in the previous forecast, as the following table shows:

Mean Probability of a Decline in Real GDP

	<i>Second Quarter 1992 Survey</i>	<i>Third Quarter 1992 Survey</i>
1992: Q3	11%	13%
Q4	11	16
1993: Q1	11	13
Q2	12	12
Q3	NA	11

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:
Dean Croushore
Research Officer and Economist
Federal Reserve Bank of Philadelphia
Ten Independence Mall
Philadelphia, PA 19106
(215) 574-3809

SURVEY OF PROFESSIONAL FORECASTERS
MAJOR MACROECONOMIC INDICATORS, 1992-93

	1992				1993		ANNUAL AVERAGE	
	Q3	Q4	Q1	Q2	Q3	FORECAST	1992	1993
PERCENT GROWTH AT ANNUAL RATES								
1. REAL GDP (BILLIONS OF 1987 DOLLARS)	2.1	2.4	3.2	2.3	2.8	1.8	2.5	
2. GDP IMPLICIT PRICE DEFULATOR (1987=100)	2.4	2.8	3.0	2.7	2.6	2.6	3.1	
3. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	4.9	4.8	5.3	5.7	5.6	4.5	5.1	
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	3.0	3.3	3.2	3.4	3.4	3.1	3.4	
VARIABLES IN LEVELS								
5. UNEMPLOYMENT RATE (PERCENT)	7.6	7.5	7.3	7.1	6.9	7.4	7.0	
6. 3-MONTH TREASURY BILL RATE (PERCENT)	3.2	3.2	3.4	3.6	3.8	3.5	3.7	
7. 10-YEAR TREASURY BOND YIELD (PERCENT)	6.7	6.8	6.8	7.0	7.1	7.0	7.0	

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

NOTES: THE FIGURES ON EACH LINE ARE MEDIANS OF 36 INDIVIDUAL FORECASTS. NA = NOT APPLICABLE.
FOR THE GDP IMPLICIT PRICE DEFULATOR 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

Third Quarter 1992

Tables

TABLE ONE

**MAJOR MACROECONOMIC INDICATORS, 1992-93
MEDIAN OF FORECASTER PREDICTIONS**

	NUMBER OF FORE- CASTERS	ACTUAL 1992 Q2	1992		FORECASTS 1993		ACTUAL 1991	FORECAST 1992	FORECAST 1993
			Q3	Q4	Q1	Q2			
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	36	5893.6	5964.1	6035.1	6112.9	6198.4	6284.1	5677.5	5933.5
2. GDP IMPLICIT PRICE DEFULATOR (1987=100)	36	120.5	121.2	122.0	123.0	123.8	124.6	117.8	120.9
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	22	N.A.	243.4	249.1	255.9	265.1	274.0	210.7	241.2
4. UNEMPLOYMENT RATE (PERCENT)	36	7.5	7.6	7.5	7.3	7.1	6.9	6.8	7.4
5. INDUSTRIAL PRODUCTION (1987=100)	34	108.3	109.1	110.1	111.4	112.5	113.9	107.1	108.7
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	34	1.15	1.20	1.25	1.30	1.33	1.35	1.01	1.22
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	35	2.6	3.0	3.3	3.2	3.4	3.4	3.1	3.4
8. 3-MONTH TREASURY BILL RATE (PERCENT)	35	3.68	3.18	3.20	3.40	3.60	3.83	5.38	3.50
9. AAA CORPORATE BOND YIELD (PERCENT)	32	8.28	7.95	7.98	8.05	8.18	8.19	8.77	8.12
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	32	7.38	6.70	6.78	6.80	6.97	7.09	7.86	7.02
									6.98

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

TABLE ONE CONTINUED

MAJOR MACROECONOMIC INDICATORS, 1992-93
MEDIANS OF FORECASTER PREDICTIONS

	NUMBER OF FORE- CASTERS	ACTUAL 1992 Q2	1992			FORECASTS 1993			ACTUAL 1991	FORECAST 1992	FORECAST 1993
			Q3		Q4	Q1		Q2			
			—	—	—	—	—	—			
11. REAL GDP (BILLIONS OF 1987 DOLLARS)	36	4,890.5	4,916.1	4,945.5	4,984.2	5,012.8	5,048.1	4,821.0	4,907.4	5,029.7	—
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS OF 1987 DOLLARS)	35	3,286.6	3,305.2	3,323.4	3,342.3	3,360.5	3,383.0	3,240.8	3,301.6	3,373.5	—
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	35	511.7	514.0	518.9	524.0	531.3	539.1	500.2	510.3	534.3	—
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	35	189.5	191.7	195.4	199.9	202.0	205.5	170.2	190.5	203.1	—
15. FEDERAL GOVERNMENT PURCHASES (BILLIONS OF 1987 DOLLARS)	33	375.6	374.7	371.3	368.0	367.0	365.0	388.3	374.2	366.0	—
16. STATE AND LOCAL GOVT PURCHASES (BILLIONS OF 1987 DOLLARS)	33	562.0	563.4	565.2	568.0	570.0	572.0	552.7	563.0	571.0	—
17. CHANGE IN BUSINESS INVENTORIES (BILLIONS OF 1987 DOLLARS)	35	1.0	5.0	9.0	11.1	15.0	16.7	-9.3	.4	15.3	—
18. NET EXPORTS (BILLIONS OF 1987 DOLLARS)	35	-35.9	-36.3	-37.1	-36.3	-35.3	-32.8	-21.8	-32.6	-34.6	—

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

TABLE TWO

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

	NUMBER OF FORE- CASTERS	Q2 '92 TO Q3 '92	Q3 '92 TO Q4 '92	Q4 '92 TO Q1 '93	Q1 '93 TO Q2 '93	Q2 '93 TO Q3 '93	Q3 '93 TO 1991	1991 TO 1992
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	36	4.9	4.8	5.3	5.7	5.6	4.5	5.1
2. GDP IMPLICIT PRICE DEFULATOR (1987=100)	36	2.4	2.8	3.0	2.7	2.6	2.6	2.8
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	22	11.4	9.7	11.3	15.4	14.0	14.5	13.7
4. UNEMPLOYMENT RATE (PERCENT)	36	.1	-.1	-.2	-.2	-.2	.6	-.4
5. INDUSTRIAL PRODUCTION (1987=100)	34	3.0	3.7	4.6	4.0	5.1	1.5	4.1
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	34	17.3	19.6	15.1	7.9	7.0	20.3	9.1
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	35	.4	.3	-.1	.2	.0	.0	.3
8. 3-MONTH TREASURY BILL RATE (PERCENT)	35	-.50	.02	.20	.20	.23	-1.88	.20
9. AAA CORPORATE BOND YIELD (PERCENT)	32	-.33	.03	.07	.13	.01	-.65	.05
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	32	-.68	.09	.02	.16	.12	-.84	-.04

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 1992.

TABLE TWO CONTINUED

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

	NUMBER OF FORE- CASTERS	Q2 92	Q3 92	Q4 92	Q1 93	Q2 93	Q3 93	Q4 93	Q1 94	Q2 94	Q3 94	Q4 94
		TO Q3	TO Q4	TO Q1	TO Q2	TO Q3	TO Q4	TO Q1	TO Q2	TO Q3	TO Q4	TO Q1
11. REAL GDP (BILLIONS OF 1987 DOLLARS)	36	2.1	2.4	3.2	2.3	2.8	1.8	1.8	2.5			
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS OF 1987 DOLLARS)	35	2.3	2.2	2.3	2.2	2.7	1.9	2.2				
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	35	1.8	3.9	4.0	5.7	6.0	2.0	4.7				
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	35	4.8	7.9	9.5	4.3	7.1	11.9	6.6				
15. FEDERAL GOVERNMENT PURCHASES (BILLIONS OF 1987 DOLLARS)	33	-1.0	-3.6	-3.5	-1.1	-2.2	-3.6	-2.2				
16. STATE AND LOCAL GOVT PURCHASES (BILLIONS OF 1987 DOLLARS)	33	1.0	1.3	2.0	1.4	1.4	1.9	1.4				
17. CHANGE IN BUSINESS INVENTORIES (BILLIONS OF 1987 DOLLARS)	35	4.0	4.0	2.1	3.9	1.7	9.7	14.9				
18. NET EXPORTS (BILLIONS OF 1987 DOLLARS)	35	.4	.8	.8	1.0	2.5	-10.8	-2.0				

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, THIRD QUARTER 1992.

TABLE THREE
ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANCES IN 1000)	NUMBER OF FORECASTERS					
	Q2 T0	Q2 Q3	Q3 T0	Q4 T0	Q4 Q1	Q1 T0
10 OR LESS	18	12	16	19	20	
11 TO 20	11	13	11	9	10	
21 TO 30	2	6	5	4	2	
31 TO 40	1	1	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	4	4	4	4	4	
MEDIAN PROBABILITY	10	15	12	10	10	
MEAN PROBABILITY	13	16	13	12	11	

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 32.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD 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	.03	.86
5.0 TO 5.9	.22	1.04
4.0 TO 4.9	.71	5.37
3.0 TO 3.9	4.06	21.96
2.0 TO 2.9	28.19	43.57
1.0 TO 1.9	55.38	20.48
0.0 TO 0.9	8.95	4.47
-1.0 TO -0.1	1.97	1.19
-2.0 TO -1.1	.45	.53
LESS THAN -2.0	.05	.53

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

	1991-92	1992-93
8.0 OR MORE	.00	.06
7.0 TO 7.9	.00	.10
6.0 TO 6.9	.15	.76
5.0 TO 5.9	1.06	2.38
4.0 TO 4.9	5.26	12.19
3.0 TO 3.9	23.94	37.58
2.0 TO 2.9	59.56	37.38
1.0 TO 1.9	9.63	8.39
0.0 TO 0.9	.39	.71
WILL DECLINE	.01	.46

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 34.

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

TABLE FIVE
LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI INFLATION RATE	
STATISTIC	
MINIMUM	2.500
LOWER QUARTILE	3.200
MEDIAN	3.750
UPPER QUARTILE	4.025
MAXIMUM	6.000
MEAN	3.762
STD. DEV.	.696
N	34
MISSING	2

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