

Survey of Professional Forecasters

Economic Research Department

March 1, 1993

FIRST QUARTER 1993

Short-Term Outlook Improves; Fiscal Stimulus Seen for '93

Current prospects for economic growth in 1993 look brighter now than they did just three months ago, according to 34 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The forecasters now see the economy expanding at a 3.1 percent rate in 1993, up from 2.6 percent in the last survey, and continuing to expand at that rate in 1994. The civilian unemployment rate is seen averaging 7.0 percent in 1993, unchanged from the last survey, but dropping in 1994 to an average level of 6.6 percent.

Higher growth in 1993 will not come at the expense of higher inflation, according to the forecasters. For 1993, they continue to see inflation averaging 3.2 percent as measured by the CPI, and rising slightly to 3.4 percent in 1994.

Prospects for interest rates are not quite as bright, however. Forecasters see rates bottoming-out over the first half of 1993 but rising thereafter. Three-month Treasury-bill rates are forecast to increase by 0.7 percentage points from mid-year 1993 to the first quarter of 1994.

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

	Real GDP		CPI Inflation		3-mo. T-Bill Rate	
	Previous	New	Previous	New	Previous	New
<i>Quarterly data:</i>						
1993: Q1		2.4	3.0	3.1	3.0	3.0
Q2		2.8	2.9	3.2	3.1	3.2
Q3		3.3	3.3	3.3	3.3	3.3
Q4		3.3	3.4	3.4	3.2	3.5
1994: Q1		N.A.	2.9	N.A.	3.3	N.A.
						3.7
<i>Annual average data:</i>						
1993		2.6	3.1	3.2	3.2	3.3
1994		N.A.	3.1	N.A.	3.4	N.A.
						3.7

On the fiscal policy front, the forecasts reflect a mild stimulus package in 1993 associated with President Clinton's economic program. Opinion on deficit reduction, however, is less clear-cut.

Forecasters See Lower Long-Term Returns to Stocks and Bonds

The forecasters have lowered their projections for average returns on stocks (S&P 500) and short and long-term government securities over the next 10 years. As the accompanying table shows, the return to equities and three month Treasury-bills is expected to average one percentage point less than forecasters thought at this time last year.

Long-Term (10-year) Forecasts

	92Q1 Survey	93Q1 Survey
Stock Return (S&P 500)	10.0%	9.0%
Bond Returns (10-yr T-bonds)	7.5	7.0
Bill Returns (3-mo T-bills)	5.0	4.1

Long-Term Inflation Expectations Continue to Fall

The forecasters continue to revise downward their inflation expectations (based on the Consumer Price Index). Inflation is currently projected to average 3.5 percent over the next 10 years, down from 3.6 percent in last quarter's survey. This marks the third consecutive survey in which the forecasts have been revised downward.

Minimal Risk of a Negative Quarter

The probability of a decline in real GDP over the next two quarters is substantially lower than forecasters thought three months ago. Currently, they see only a 3 percent chance of a decline in the first quarter followed by 6 percent in the second quarter, both down from 11 percent in the last survey.

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, 1993-94

	Q1	Q2	1993	Q3	Q4	1994 _q	ANNUAL AVERAGE							
	FORECAST						1993	1994						
PERCENT GROWTH AT ANNUAL RATES														
1. REAL GDP (BILLIONS OF 1987 DOLLARS)														
2. GDP IMPLICIT PRICE DEFULATOR (1987=100)	3.0	2.9	3.3	3.4	2.9	3.1	3.1	3.1						
3. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	2.8	2.5	2.9	3.0	2.7	2.8	N.A.	N.A.						
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	5.7	5.8	6.2	6.0	5.6	5.7	6.2	6.2						
VARIABLES IN LEVELS														
5. UNEMPLOYMENT RATE (PERCENT)	3.0	3.1	3.3	3.2	3.3	3.2	3.2	3.2						
6. 3-MONTH TREASURY BILL RATE (PERCENT)	6.5	6.6	6.6	6.7	6.8	6.7	6.6	6.6						
7. 10-YEAR TREASURY BOND YIELD (PERCENT)	7.2	7.0	6.9	6.8	6.8	7.0	7.0	7.0						

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FIRST QUARTER 1993.

NOTES: THE FIGURES ON EACH LINE ARE MEDIANS OF 34 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

First Quarter 1993

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 February 1; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before February 19.

TABLE ONE

MAJOR MACROECONOMIC INDICATORS, 1993-94
MEDIAN OF FORECASTER PREDICTIONS

	NUMBER OF FORE- CASTERS	ACTUAL 1992 Q4	FORECASTS				ACTUAL 1992	FORECAST 1993	FORECAST 1994
			Q1	Q2	Q3	Q4			
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	33	6061.9	6146.5	6233.7	6327.5	6420.6	6508.5	5945.7	6284.6
2. GDP IMPLICIT PRICE DEFULATOR (1987=100)	33	121.7	122.5	123.3	124.2	125.1	125.9	120.9	123.9
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	22	N.A.	248.0	257.9	269.0	274.0	276.0	N.A.	266.2
4. UNEMPLOYMENT RATE (PERCENT)	33	7.3	7.2	7.0	6.9	6.8	6.7	7.4	7.0
5. INDUSTRIAL PRODUCTION (1987=100)	31	110.1	111.2	112.3	113.3	114.6	115.5	108.7	112.8
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	32	1.25	1.28	1.31	1.33	1.35	1.37	1.21	1.32
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	32	2.9	3.0	3.1	3.3	3.2	3.3	2.9	3.0
8. 3-MONTH TREASURY BILL RATE (PERCENT)	32	3.07	3.00	3.03	3.24	3.49	3.65	3.43	3.20
9. AAA CORPORATE BOND YIELD (PERCENT)	30	8.02	7.81	7.80	7.90	8.00	8.05	8.14	7.90
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	31	6.74	6.50	6.55	6.60	6.70	6.82	7.01	6.56
									7.00

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FIRST QUARTER 1993.

TABLE ONE CONTINUED

**MAJOR MACROECONOMIC INDICATORS, 1993-94
MEDIAN OF FORECASTER PREDICTIONS**

	NUMBER OF FORE- CASTERS	ACTUAL 1992 Q4	FORECASTS				1994 Q1	ACTUAL 1992	FORECAST 1993	FORECAST 1994
			1993 Q1	Q2	Q3	Q4				
11. REAL GDP (BILLIONS OF 1987 DOLLARS)	34	4979.8	5016.6	5053.1	5094.4	5137.2	5173.5	4919.9	5072.8	5230.5
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS OF 1987 DOLLARS)	34	3353.6	3376.1	3399.4	3424.1	3448.6	3474.6	3312.4	3411.7	3513.5
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	34	530.8	538.2	549.3	560.1	567.9	574.6	515.0	553.8	584.3
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	34	203.9	207.4	211.5	215.3	219.4	222.5	193.0	213.4	226.4
15. FEDERAL GOVERNMENT PURCHASES (BILLIONS OF 1987 DOLLARS)	34	376.3	374.4	372.3	370.6	369.6	367.6	375.9	370.6	364.5
16. STATE AND LOCAL GOVT PURCHASES (BILLIONS OF 1987 DOLLARS)	34	562.6	564.3	567.0	569.8	572.2	574.7	562.3	568.4	580.0
17. CHANGE IN BUSINESS INVENTORIES (BILLIONS OF 1987 DOLLARS)	33	7.2	11.0	15.0	18.6	20.0	21.6	4.4	15.9	23.0
18. NET EXPORTS (BILLIONS OF 1987 DOLLARS)	34	-54.6	-56.0	-59.8	-61.8	-63.4	-63.7	-43.2	-59.9	-61.6

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FIRST QUARTER 1993.

TABLE TWO

**MAJOR MACROECONOMIC INDICATORS, 1993-94
PERCENTAGE CHANGES AT ANNUAL RATES**

	NUMBER OF FORE- CASTERS	Q4 '92 T0 '93 Q1 '93	Q1 '93 T0 '93 Q2 '93	Q2 '93 T0 '93 Q3 '93	Q3 '93 T0 '93 Q4 '93	Q4 '93 T0 '93 Q1 '94	1992 TO 1993	1993 TO 1994
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	33	5.7	5.8	6.2	6.0	5.6	5.7	6.2
2. GDP IMPLICIT PRICE DEFULATOR (1987=100)	33	2.8	2.5	2.9	3.0	2.7	2.5	2.7
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	22	15.0	16.9	18.4	7.6	2.9	14.9	9.1
4. UNEMPLOYMENT RATE (PERCENT)	33	-.1	-.2	-.1	-.1	-.1	-.4	-.4
5. INDUSTRIAL PRODUCTION (1987=100)	31	4.1	3.9	3.8	4.6	3.2	3.8	3.8
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	32	10.4	9.7	6.1	4.9	7.3	9.2	4.4
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	32	.1	.1	.2	.0	.1	.1	.4
8. 3-MONTH TREASURY BILL RATE (PERCENT)	32	-.07	.03	.21	.25	.16	-.23	.52
9. AAA CORPORATE BOND YIELD (PERCENT)	30	-.22	-.01	.10	.10	.05	-.24	.20
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	31	-.24	.05	.05	.10	.13	-.45	.44

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, FIRST QUARTER 1993.

TABLE THREE
ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANCES IN 100)	NUMBER OF FORECASTERS			
	Q4 TO Q1	Q1 TO Q2	Q2 TO Q3	Q3 TO Q4
10 OR LESS	28	27	24	20
11 TO 20	3	3	6	9
21 TO 30	0	1	1	2
31 TO 40	0	0	0	0
41 TO 50	0	0	0	0
51 TO 60	0	0	0	0
61 TO 70	0	0	0	0
71 TO 80	0	0	0	0
81 TO 90	0	0	0	0
91 AND OVER	0	0	0	0
NOT REPORTING	3	3	3	3
MEDIAN PROBABILITY	0	5	5	10
MEAN PROBABILITY	3	6	7	11

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 31.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FIRST QUARTER 1993.

TABLE FOUR

MEAN PROBABILITY OF CHANGES IN GDP AND PRICES
1992-93 AND 1993-94

MEAN PROBABILITY ATTACHED TO POSSIBLE
PERCENT CHANGES IN REAL GDP:

	1992-93	1993-94
6.0 OR MORE	.03	.22
5.0 TO 5.9	1.15	2.54
4.0 TO 4.9	13.23	13.15
3.0 TO 3.9	42.42	40.80
2.0 TO 2.9	33.20	32.67
1.0 TO 1.9	7.68	7.80
0.0 TO 0.9	2.00	2.27
-1.0 TO -0.1	.28	.51
-2.0 TO -1.1	.00	.03
LESS THAN -2.0	.00	.00

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

	1992-93	1993-94
8.0 OR MORE	.00	.03
7.0 TO 7.9	.00	.61
6.0 TO 6.9	.88	1.78
5.0 TO 5.9	4.01	5.13
4.0 TO 4.9	9.61	14.42
3.0 TO 3.9	29.20	35.45
2.0 TO 2.9	44.69	33.64
1.0 TO 1.9	8.71	7.32
0.0 TO 0.9	2.87	1.42
WILL DECLINE	.03	.20

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 32.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FIRST QUARTER 1993.

TABLE FIVE
LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI INFLATION RATE		SERIES: REAL GDP GROWTH RATE		SERIES: PRODUCTIVITY GROWTH	
STATISTIC		STATISTIC		STATISTIC	
MINIMUM	2.500	MINIMUM	2.000	MINIMUM	1.000
LOWER QUARTILE	3.000	LOWER QUARTILE	2.500	LOWER QUARTILE	1.450
MEDIAN	3.500	MEDIAN	2.700	MEDIAN	1.500
UPPER QUARTILE	4.000	UPPER QUARTILE	3.000	UPPER QUARTILE	2.000
MAXIMUM	5.000	MAXIMUM	4.500	MAXIMUM	3.400
MEAN	3.550	MEAN	2.847	MEAN	1.748
STD. DEV.	.624	STD. DEV.	.571	STD. DEV.	.526
N	31	N	31	N	29
MISSING	3	MISSING	3	MISSING	5
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SERIES: STOCK RETURNS (S&P 500)		SERIES: BOND RETURNS (10-YEAR)		SERIES: BILL RETURNS (3-MONTH)	
STATISTIC		STATISTIC		STATISTIC	
MINIMUM	4.500	MINIMUM	3.700	MINIMUM	2.500
LOWER QUARTILE	7.000	LOWER QUARTILE	6.000	LOWER QUARTILE	3.325
MEDIAN	9.000	MEDIAN	7.000	MEDIAN	4.100
UPPER QUARTILE	10.000	UPPER QUARTILE	7.688	UPPER QUARTILE	4.500
MAXIMUM	15.000	MAXIMUM	8.500	MAXIMUM	6.000
MEAN	8.952	MEAN	6.766	MEAN	3.995
STD. DEV.	2.318	STD. DEV.	1.097	STD. DEV.	.878
N	23	N	28	N	28
MISSING	11	MISSING	6	MISSING	6

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FIRST QUARTER 1993.