

Survey of

PROFESSIONAL FORECASTERS

Federal Reserve Bank
of Philadelphia

Release Date: August 25, 1995

THIRD QUARTER 1995

Improved Near- and Long-Term Inflation Prospects

The outlook for inflation over the next five quarters, as well as over the next 10 years, looks better now than it did just three months ago, according to 52 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The forecasters now expect inflation, as measured by the Consumer Price Index, to average 2.9 percent in the third quarter, down from 3.5 percent in last quarter's survey. While the forecasters see inflation rising to 3.3 percent in the first quarter of 1996, they have reduced their estimates for 1995 and 1996 compared with those in last quarter's survey, as the following table shows.

Near-Term Inflation Expectations

	Quarterly						Annual	
	1995		1996				1995	1996
	Q3	Q4	Q1	Q2	Q3			
Current Survey	2.9	3.2	3.3	3.3	3.3		3.2	3.2
Previous Survey	3.5	3.5	3.6	3.5	N.A.		3.4	3.5

The improved near-term inflation outlook will carry over to the long term, as the forecasters are reducing their estimate of average inflation over the next 10 years to 3.2 percent, down from 3.35 percent in the last survey. The current estimate is at its lowest level since the Philadelphia Fed began tracking long-term inflation expectations in the fourth quarter of 1991. The middle range of estimates is 3 to 3.5 percent. The following table shows long-term inflation expectations for the current and some previous surveys.

Long-Term Inflation Expectations

Survey Date	93Q3	93Q4	94Q1	94Q2	94Q3	94Q4	95Q1	95Q2	95Q3
	3.45	3.45	3.45	3.50	3.48	3.50	3.30	3.35	3.20

Little Risk of a Downturn; No Fed Action Anticipated

Growth in real GDP will rebound from the second-quarter slowdown, according to the forecasters. The forecasters expect real GDP growth to rise at an annual rate of 2.1 percent in the third quarter and accelerate to 2.8 percent by year-end. Growth will average 2.9 percent in 1995 and 2.5 percent in 1996, down 0.3 and up 0.1 percentage points, respectively, from the last survey.

The forecasters see a reduced likelihood of a downturn over the next five quarters. They are currently assigning a 10 percent chance to a downturn in third-quarter real GDP, down from 13 percent in the previous survey. Although they see a rising risk over the following four quarters, their estimates remain below those reported three months ago, as the following table shows.

Mean Probability of a Decline in Real GDP

		<i>Previous</i>	<i>New</i>
1995:	Q3	13.0	10.0
	Q4	13.0	12.0
1996:	Q1	17.0	16.0
	Q2	20.0	17.0
	Q3	N.A.	19.0

Fed monetary policy will remain in a holding pattern over the near term according to the forecasters, as short-term interest rates, measured by the rate on three-month Treasury bills, will hold steady at 5.5 percent over the next five quarters. Long-term interest rates, measured by the rate on 10-year Treasury bonds, will hold steady at 6.5 percent over the same period. The following table compares this quarter's forecast for selected variables with that of last quarter's survey.

	<i>Real GDP</i>		<i>3-month T-bill Yield</i>		<i>10-year T-bond Yield</i>	
	<i>Previous</i>	<i>New</i>	<i>Previous</i>	<i>New</i>	<i>Previous</i>	<i>New</i>
<i>Quarterly data:</i>						
1995: Q3	2.3	2.1	5.8	5.5	7.1	6.5
Q4	2.8	2.8	5.9	5.5	7.2	6.5
1996: Q1	2.7	2.8	5.9	5.5	7.2	6.5
Q2	2.3	2.7	6.0	5.5	7.2	6.5
Q3	N.A.	2.6	N.A.	5.5	N.A.	6.5
<i>Annual average data:</i>						
1995	3.2	2.9	5.8	5.6	7.1	6.8
1996	2.4	2.5	6.0	5.6	7.2	6.5

Special Question About the Natural Rate of Unemployment

The survey asked a question about the use by forecasters of the concept of the natural rate of unemployment, which is the unemployment rate when the economy reaches equilibrium, or the non-accelerating inflation rate of unemployment (NAIRU), which is the unemployment rate below which inflation begins to accelerate. Fifty-seven percent of the forecasters who responded use either the natural rate or NAIRU in formulating their forecasts, while 43 percent do not. Of those who use either concept in forecasting, 88 percent think the natural rate is equal to NAIRU, while 12 percent think they can take different values. The median value of the natural rate and NAIRU is an unemployment rate of 5.75 percent. Half the forecasters believe the natural rate or NAIRU is between 5.5 and 6.0 percent.

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, Assistant Vice President
 Federal Reserve Bank of Philadelphia, Ten Independence Mall
 Philadelphia, PA 19106 (215) 574-3809

To subscribe to the survey, contact the Research Department's Publications Desk at (215) 574-6428.

SURVEY OF PROFESSIONAL FORECASTERS
MAJOR MACROECONOMIC INDICATORS, 1995-96

	1995				1996		ANNUAL AVERAGE	
	Q3	Q4	Q1	Q2	Q3	FORECAST	1995	1996
PERCENT GROWTH AT ANNUAL RATES								
1. REAL GDP (BILLIONS OF 1987 DOLLARS)	2.1	2.8	2.8	2.7	2.6	2.9	2.9	2.5
2. GDP IMPLICIT PRICE DEFULATOR (1987=100)	2.5	2.5	2.5	2.8	2.5	2.1	2.1	N.A.
3. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	4.5	5.5	5.4	5.2	5.0	4.9	4.9	5.0
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	2.9	3.2	3.3	3.3	3.3	3.2	3.2	3.2
VARIABLES IN LEVELS								
5. UNEMPLOYMENT RATE (PERCENT)	5.7	5.7	5.7	5.7	5.8	5.7	5.7	5.7
6. 3-MONTH TREASURY BILL RATE (PERCENT)	5.5	5.5	5.5	5.5	5.5	5.6	5.6	5.6
7. 10-YEAR TREASURY BOND YIELD (PERCENT)	6.5	6.5	6.5	6.5	6.5	6.8	6.8	6.5

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 1995.

NOTES: THE FIGURES ON EACH LINE ARE MEDIANS OF 52 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 1995

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 31; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before August 22.

TABLE ONE

**MAJOR MACROECONOMIC INDICATORS, 1995-96
MEDIAN OF FORECASTER PREDICTIONS**

	NUMBER OF FORE- CASTERS	FORECASTS				ACTUAL 1994	FORECAST 1995	FORECAST 1996
		1995 Q2	Q3	Q4	Q1	Q2	Q3	Q3
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	49	7011.8	7089.2	7184.6	7279.0	7371.8	7463.0	6738.4
2. GDP IMPLICIT PRICE DEFULATOR (1987=100)	49	128.0	128.8	129.6	130.4	131.3	132.1	126.1
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	34	N.A.	350.9	356.7	364.0	370.9	375.6	322.0
4. UNEMPLOYMENT RATE (PERCENT)	50	5.7	5.7	5.7	5.7	5.7	5.8	6.1
5. INDUSTRIAL PRODUCTION (1987=100)	47	121.0	121.6	122.5	123.5	124.5	125.3	118.1
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	47	1.26	1.31	1.33	1.33	1.33	1.34	1.46
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	50	3.4	2.9	3.2	3.3	3.3	3.3	2.6
8. 3-MONTH TREASURY BILL RATE (PERCENT)	50	5.60	5.47	5.50	5.50	5.53	5.51	4.25
9. AAA CORPORATE BOND YIELD (PERCENT)	43	7.66	7.52	7.52	7.50	7.55	7.61	7.96
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	48	6.62	6.48	6.50	6.49	6.50	6.48	7.08

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 1995.

TABLE ONE CONTINUED

**MAJOR MACROECONOMIC INDICATORS, 1995-96
MEDIAN OF FORECASTER PREDICTIONS**

	NUMBER OF FORE- CASTERS	ACTUAL 1995 Q2	FORECASTS				ACTUAL 1994 Q3	FORECAST 1995	FORECAST 1996
			1995 Q3	Q4	Q1	Q2			
11. REAL GDP (BILLIONS OF 1987 DOLLARS)	52	5477.3	5505.6	5543.2	5581.3	5618.1	5654.0	5344.0	5499.0
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS OF 1987 DOLLARS)	49	3666.5	3688.1	3708.0	3728.9	3750.4	3771.0	3579.6	3676.9
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	50	764.6	778.8	789.1	798.8	808.2	817.1	672.4	768.6
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	50	220.9	219.5	222.1	224.0	225.3	225.5	231.3	223.1
15. FEDERAL GOVERNMENT PURCHASES (BILLIONS OF 1987 DOLLARS)	50	324.6	323.8	322.5	321.1	319.9	318.7	337.6	324.3
16. STATE AND LOCAL GOVT PURCHASES (BILLIONS OF 1987 DOLLARS)	50	595.4	598.1	601.3	604.3	607.3	610.2	585.2	597.0
17. CHANGE IN BUSINESS INVENTORIES (BILLIONS OF 1987 DOLLARS)	49	30.4	23.2	22.2	23.3	24.0	25.5	47.8	31.8
18. NET EXPORTS (BILLIONS OF 1987 DOLLARS)	49	-125.0	-123.0	-119.5	-116.0	-111.8	-106.7	-110.0	-121.1
									-109.4

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 1995.

TABLE TWO

**MAJOR MACROECONOMIC INDICATORS, 1995-96
PERCENTAGE CHANGES AT ANNUAL RATES**

	NUMBER OF FORE- CASTERS	Q2 '95 TO Q3 '95	Q3 '95 TO Q4 '95	Q4 '95 TO Q1 '96	Q1 '96 TO Q2 '96	Q2 '96 TO Q3 '96	Q3 '96 TO Q4 '96	Q4 '96 TO Q1 '97	Q1 '97 TO Q2 '97	Q2 '97 TO Q3 '97	Q3 '97 TO Q4 '97
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	49	4.5	5.5	5.4	5.2	5.0	4.9	5.0			
2. GDP IMPLICIT PRICE DEFULATOR (1987=100)	49	2.5	2.5	2.5	2.8	2.5	1.9	2.5			
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	34	5.1	6.8	8.4	7.8	5.2	8.9	6.6			
4. UNEMPLOYMENT RATE (PERCENT)	50	.0	.0	.0	.0	.1	-.4	.0			
5. INDUSTRIAL PRODUCTION (1987=100)	47	2.0	3.0	3.3	3.3	2.4	3.1	2.7			
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	47	15.0	6.6	-1.0	1.2	1.1	-10.6	2.9			
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	50	-.5	.3	.1	.0	.0	.4	.2			
8. 3-MONTH TREASURY BILL RATE (PERCENT)	50	-.13	.03	.00	.03	-.03	1.35	-.05			
9. AAA CORPORATE BOND YIELD (PERCENT)	43	-.14	.00	-.02	.05	.06	-.22	-.18			
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	48	-.14	.02	-.01	.01	-.02	-.33	-.22			

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 1995.

TABLE TWO CONTINUED

MAJOR MACROECONOMIC INDICATORS, 1995-96
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE- CASTERS	Q2 '95 TO Q3 '95	Q3 '95 TO Q4 '95	Q4 '95 TO Q1 '96	Q1 '96 TO Q2 '96	Q2 '96 TO Q3 '96	Q3 '96 TO 1994	1994 TO 1995	1995 TO 1996
11. REAL GDP (BILLIONS OF 1987 DOLLARS)	52	2.1	2.8	2.8	2.7	2.6	2.9	2.5	
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS OF 1987 DOLLARS)	49	2.4	2.2	2.3	2.3	2.2	2.7	2.3	
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	50	7.6	5.4	5.0	4.8	4.5	14.3	5.7	
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	50	-2.5	4.8	3.4	2.3	.4	-3.6	1.2	
15. FEDERAL GOVERNMENT PURCHASES (BILLIONS OF 1987 DOLLARS)	50	-1.0	-1.6	-1.7	-1.6	-1.4	-3.9	-1.5	
16. STATE AND LOCAL GOVT PURCHASES (BILLIONS OF 1987 DOLLARS)	50	1.8	2.1	2.0	2.0	1.9	2.0	1.9	
17. CHANGE IN BUSINESS INVENTORIES (BILLIONS OF 1987 DOLLARS)	49	-7.2	-1.0	1.0	.8	1.5	-16.0	-7.3	
18. NET EXPORTS (BILLIONS OF 1987 DOLLARS)	49	2.0	3.5	3.5	4.2	5.1	-11.1	11.7	

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 1995.

TABLE THREE
ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANCES IN 100)	Q2 95			Q3 95			Q4 95			Q1 96			Q2 96		
	TO Q3	95	Q4 95	TO Q1	95	TO Q2	96	TO Q3	96	TO Q4	96	TO Q1	96	TO Q2	96
	NUMBER OF FORECASTERS														
10 OR LESS	33		32		23		16		15						
11 TO 20		6		6		12		16		14					
21 TO 30		5		5		7		10		10					
31 TO 40		1		1		3		3		6					
41 TO 50		1		1		0		0		0					
51 TO 60		0		1		1		1		1					
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		6		6		6		6		6					
MEDIAN PROBABILITY	10	10		11		15		20							
MEAN PROBABILITY	10	12		16		17		19							

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 46.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 1995.

TABLE FOUR

**MEAN PROBABILITY OF CHANGES IN GDP AND PRICES
1994-95 AND 1995-96**

**MEAN PROBABILITY ATTACHED TO POSSIBLE
PERCENT CHANGES IN REAL GDP:**

	1994-95	1995-96
6.0 OR MORE	.35	.57
5.0 TO 5.9	.74	1.11
4.0 TO 4.9	2.46	4.22
3.0 TO 3.9	29.74	21.79
2.0 TO 2.9	51.24	48.00
1.0 TO 1.9	11.61	17.35
0.0 TO 0.9	3.13	5.21
-1.0 TO -0.1	.64	1.33
-2.0 TO -1.1	.09	.34
LESS THAN -2.0	.01	.09

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

	1994-95	1995-96
8.0 OR MORE	.00	.00
7.0 TO 7.9	.11	.16
6.0 TO 6.9	.17	.34
5.0 TO 5.9	.57	1.43
4.0 TO 4.9	4.21	6.78
3.0 TO 3.9	10.43	27.60
2.0 TO 2.9	45.05	47.86
1.0 TO 1.9	37.27	14.85
0.0 TO 0.9	2.07	.98
WILL DECLINE	.11	.01

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 46.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 1995.

TABLE FIVE
LONG- TERM (10 YEAR) FORECASTS

SERIES: CPI INFLATION RATE	
STATISTIC	
MINIMUM	2.000
LOWER QUARTILE	3.000
MEDIAN	3.200
UPPER QUARTILE	3.500
MAXIMUM	5.000
MEAN	3.216
STD. DEV.	.516
N	47
MISSING	5

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 1995.