Survey of
PROFESSIONAL
FORECASTERS

Federal Reserve Bank of Philadelphia

Release Date: May 24, 1996

SECOND QUARTER 1996

Forecasters Expect Stronger Growth in 1996

Following the economy's surprisingly strong performance in the first quarter, the outlook for 1996 looks better now than it did three months ago, according to 42 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The forecasters now expect real GDP to grow at an annual rate of 2.2 percent in 1996, 0.4 percentage points above the forecast in last quarter's survey. The economy will expand at an annual rate of 2.9 percent in the second quarter, up 0.8 percentage points from that in last quarter's survey. The upward revision to 1996 growth will come at the expense of slower growth in 1997, according to the forecasters. They currently expect real GDP to grow at an annual rate of 2.1 percent in 1997, down 0.4 percentage points from their expectation in last quarter's survey.

The forecasters are revising upward their expectation for inflation over the near term. They now expect inflation, as measured by the Consumer Price Index, to average 3.0 percent in 1996, up from their expectation of 2.8 percent in last quarter's survey. However, the bulk of that increase will come in the second quarter when the forecasters expect inflation to rise at a rate of 3.4 percent, up from their previous forecast of 2.7 percent. In 1997, the forecasters expect inflation to average 2.9 percent, up 0.1 percentage points from their expectation in the last survey.

A steeper term structure accompanies this quarter's forecasts. Three-month Treasury bills will average 5.0 percent in 1996 and 4.9 percent in 1997, both up 0.2 percentage points from last quarter's survey. The yield on 10-year Treasury bonds will hold steady at 6.3 percent in 1996 and 1997, up 0.6 and 0.5 percentage points from the previous survey.

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

	Real GDP		*CPI Inflation*		*3-Month T-Bill Yield*	
	Previous	*New*	*Previous*	*New*	*Previous*	*New*
Quarterly data:						
1996: Q2	2.1	2.9	2.7	3.4	4.8	5.0
Q3	2.4	2.3	2.7	2.8	4.7	5.1
Q4	2.4	1.9	2.8	2.7	4.7	5.1
1997: Q1	2.7	2.1	2.9	3.0	4.8	5.1
Q2	N.A.	1.9	N.A.	3.0	N.A.	5.0
Annual average data:						
1996	1.8	2.2	2.8	3.0	4.8	5.0
1997	2.5	2.1	2.8	2.9	4.7	4.9

Economic Research Division Ten Independence Mall, Philadelphia, PA 19106-1574

The Long-Term Inflation Outlook Is Holding Steady

The outlook for long-term inflation, as measured by the Consumer Price Index, is unchanged from that in the last two surveys, marking an end to the sizable declines registered over the four surveys in 1995. The forecasters continue to expect inflation, as measured by the Consumer Price Index, to average 3.0 percent over the next 10 years. The middle range of forecasts is 2.80 to 3.35 percent. The following table tracks long-term inflation expectations since 1994's second-quarter survey.

10-Year CPI Inflation Expectations

1994:	Q2	3.50
	Q3	3.48
	Q4	3.50
1995:	Q1	3.30
	Q2	3.35
	Q3	3.20
	Q4	3.00
1996:	Q1	3.00
	Q2	3.00

An Improved Outlook in 1996 Reduces the Chance of a Negative Quarter

Robust first-quarter growth in real GDP is leading the forecasters to cut their estimate of the chance of a negative quarter, particularly over the next couple of quarters. Currently, the forecasters are assigning a 5 percent chance to a decline in second-quarter real GDP and a 10 percent chance of a decline in the third quarter, down from 19 percent and 17 percent in the last survey. The following table compares the probabilities from the current survey with those from three months ago:

Mean Probability of a Decline in Real GDP

		Previous	*New*
1996:	Q2	19.0	5.0
	Q3	17.0	10.0
	Q4	18.0	15.0
1997:	Q1	21.0	19.0
	Q2	N.A.	23.0

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 and Economist, 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. 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.libertynet.org/ ~ fedresrv/spf/spfpage.html.

FEDERAL RESERVE BANK OF PHILADELPHIA

SURVEY OF PROFESSIONAL FORECASTERS
MAJOR MACROECONOMIC INDICATORS, 1996-97

	1996 Q2	Q3	Q4	1997 Q1	Q2	ANNUAL AVERAGE 1996	ANNUAL AVERAGE 1997
	FORECAST						
PERCENT GROWTH AT ANNUAL RATES							
1. REAL GDP (BILLIONS, CHAIN WEIGHTED)	2.9	2.3	1.9	2.1	1.9	2.2	2.1
2. GDP PRICE INDEX (1992=100)	2.6	2.4	2.4	2.8	2.5	2.5	N.A.
3. GROSS DOMESTIC PRODUCT (GDP) ($ BILLIONS)	5.6	4.7	4.2	4.4	4.6	4.5	4.5
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	3.4	2.8	2.7	3.0	3.0	3.0	2.9
VARIABLES IN LEVELS							
5. UNEMPLOYMENT RATE (PERCENT)	5.5	5.5	5.6	5.6	5.6	5.6	5.6
6. 3-MONTH TREASURY BILL RATE (PERCENT)	5.0	5.1	5.1	5.1	5.0	5.0	4.9
7. 10-YEAR TREASURY BOND YIELD (PERCENT)	6.6	6.6	6.5	6.4	6.3	6.3	6.3

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 1996.

NOTES: THE FIGURES ON EACH LINE ARE MEDIANS OF 42 INDIVIDUAL FORECASTS. NA = NOT APPLICABLE.
FOR THE GDP PRICE INDEX 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 1996

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 May 2; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before May 18.

TABLE ONE

MAJOR MACROECONOMIC INDICATORS, 1996-97
MEDIANS OF FORECASTER PREDICTIONS

	NUMBER OF FORE-CASTERS	ACTUAL 1996 Q1	FORECASTS 1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	ACTUAL 1995	FORECAST 1996	FORECAST 1997
1. GROSS DOMESTIC PRODUCT (GDP) ($ BILLIONS)	39	7430.7	7532.6	7619.6	7698.4	7782.0	7869.7	7245.8	7572.5	7913.3
2. GDP PRICE INDEX (1992=100)	34	109.2	109.9	110.6	111.2	112.0	112.7	107.6	110.2	113.0
3. CORPORATE PROFITS AFTER TAXES ($ BILLIONS)	30	N.A.	404.0	406.1	405.0	410.5	415.0	382.1	403.3	415.4
4. UNEMPLOYMENT RATE (PERCENT)	40	5.6	5.5	5.5	5.6	5.6	5.6	5.6	5.6	5.6
5. INDUSTRIAL PRODUCTION (1987=100)	39	123.3	124.5	125.3	126.1	126.9	127.8	121.9	124.7	128.1
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	39	1.47	1.43	1.40	1.37	1.35	1.34	1.35	1.40	1.35
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	41	3.2	3.4	2.8	2.7	3.0	3.0	2.7	2.9	2.9
8. 3-MONTH TREASURY BILL RATE (PERCENT)	41	4.93	5.00	5.09	5.10	5.07	5.00	5.49	5.00	4.95
9. AAA CORPORATE BOND YIELD (PERCENT)	36	7.05	7.60	7.51	7.50	7.41	7.39	7.59	7.39	7.38
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	37	5.91	6.60	6.55	6.50	6.40	6.30	6.58	6.35	6.30

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 1996.

TABLE ONE CONTINUED

MAJOR MACROECONOMIC INDICATORS, 1996-97
MEDIANS OF FORECASTER PREDICTIONS

	NUMBER OF FORE-CASTERS	ACTUAL 1996 Q1	FORECASTS 1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	ACTUAL 1995	FORECAST 1996	FORECAST 1997
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	42	6823.6	6873.0	6912.0	6944.0	6980.8	7013.4	6739.0	6889.1	7031.1
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	42	4653.5	4681.2	4705.6	4728.0	4753.5	4778.2	4578.6	4693.1	4791.6
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	42	746.3	755.5	762.0	767.9	772.6	778.0	715.0	758.0	781.0
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	42	269.3	271.0	270.6	270.1	268.5	268.3	262.8	270.2	268.4
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	39	464.3	462.3	461.0	457.7	456.3	453.8	472.7	461.7	452.3
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	39	792.5	796.4	800.4	804.8	808.2	811.9	788.6	799.6	813.2
17. CHANGE IN BUSINESS INVENTORIES (BILLIONS, CHAIN WEIGHTED)	40	7.9	15.0	20.0	23.0	23.0	21.4	33.7	16.8	22.0
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	40	-111.0	-109.7	-104.7	-101.0	-99.2	-95.2	-114.2	-106.7	-95.0

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 1996.

TABLE TWO

MAJOR MACROECONOMIC INDICATORS, 1996-97
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE-CASTERS	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	1995 TO 1996	1996 TO 1997
1. GROSS DOMESTIC PRODUCT (GDP) ($ BILLIONS)	39	5.6	4.7	4.2	4.4	4.6	4.5	4.5
2. GDP PRICE INDEX (1992=100)	34	2.6	2.4	2.4	2.8	2.5	2.4	2.6
3. CORPORATE PROFITS AFTER TAXES ($ BILLIONS)	30	5.0	2.1	-1.1	5.5	4.5	5.5	3.0
4. UNEMPLOYMENT RATE (PERCENT)	40	-.1	.0	.1	.0	.0	.0	.0
5. INDUSTRIAL PRODUCTION (1987=100)	39	4.0	2.5	2.6	2.6	2.9	2.3	2.8
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	39	-10.0	-8.1	-8.3	-5.4	-4.4	3.4	-3.6
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	41	.2	-.6	-.1	.3	.0	.2	.0
8. 3-MONTH TREASURY BILL RATE (PERCENT)	41	.07	.09	.01	-.03	-.07	-.49	-.05
9. AAA CORPORATE BOND YIELD (PERCENT)	36	.55	-.09	-.01	-.09	-.02	-.20	-.02
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	37	.69	-.05	-.05	-.10	-.10	-.23	-.05

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 1996.

TABLE TWO CONTINUED

MAJOR MACROECONOMIC INDICATORS, 1996-97
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE-CASTERS	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	1995 TO 1996	1996 TO 1997
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	42	2.9	2.3	1.9	2.1	1.9	2.2	2.1
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	42	2.4	2.1	1.9	2.2	2.1	2.5	2.1
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	42	5.0	3.5	3.1	2.5	2.8	6.0	3.0
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	42	2.5	-.5	-.8	-2.3	-.4	2.8	-.7
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	39	-1.8	-1.1	-2.8	-1.2	-2.2	-2.3	-2.0
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	39	2.0	2.0	2.2	1.7	1.8	1.4	1.7
17. CHANGE IN BUSINESS INVENTORIES (BILLIONS, CHAIN WEIGHTED)	40	7.1	5.0	3.0	.0	-1.6	-16.9	5.2
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	40	1.3	5.0	3.7	1.8	4.0	7.5	11.7

NOTE: FIGURES FOR BUSINESS 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, SECOND QUARTER 1996.

TABLE THREE

ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANCES IN 100)	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
	NUMBER OF FORECASTERS				
10 OR LESS	35	30	18	16	11
11 TO 20	2	6	14	8	11
21 TO 30	0	0	4	10	6
31 TO 40	0	1	1	2	5
41 TO 50	0	0	1	2	3
51 TO 60	0	1	0	0	1
61 TO 70	0	0	0	0	0
71 TO 80	1	0	0	0	1
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	1	8	15	18	20
MEAN PROBABILITY	5	10	15	19	23

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 38.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 1996.

TABLE FOUR

MEAN PROBABILITY OF CHANGES IN GDP AND PRICES
1995-96 AND 1996-97

MEAN PROBABILITY ATTACHED TO POSSIBLE
PERCENT CHANGES IN REAL GDP:

	1995-96	1996-97
6.0 OR MORE	.07	.22
5.0 TO 5.9	.34	.44
4.0 TO 4.9	2.51	1.74
3.0 TO 3.9	9.41	10.17
2.0 TO 2.9	54.81	37.87
1.0 TO 1.9	26.05	31.00
0.0 TO 0.9	5.27	12.95
-1.0 TO -0.1	1.30	4.76
-2.0 TO -1.1	.16	.67
LESS THAN -2.0	.07	.17

MEAN PROBABILITY ATTACHED TO POSSIBLE
PERCENT CHANGES IN GDP PRICE INDEX:

	1995-96	1996-97
8.0 OR MORE	.06	.08
7.0 TO 7.9	.11	.30
6.0 TO 6.9	.60	.97
5.0 TO 5.9	1.71	3.71
4.0 TO 4.9	6.16	7.17
3.0 TO 3.9	16.60	23.35
2.0 TO 2.9	59.07	47.04
1.0 TO 1.9	13.71	14.78
0.0 TO 0.9	1.59	2.24
WILL DECLINE	.39	.35

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 37.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 1996.

TABLE FIVE

LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI INFLATION RATE	
STATISTIC	
MINIMUM	2.500
LOWER QUARTILE	2.800
MEDIAN	3.000
UPPER QUARTILE	3.350
MAXIMUM	4.000
MEAN	3.051
STD. DEV.	.360
N	37
MISSING	5

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 1996.