

Survey of

PROFESSIONAL FORECASTERS

Federal Reserve Bank
of Philadelphia

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FIRST QUARTER 1997

Forecasters Peg First-Quarter Growth at 2.2 Percent

Real GDP growth will decelerate to an annual rate of 2.2 percent in the first quarter, down sharply from the fourth quarter's advance estimate of 4.7 percent, according to 38 forecasters surveyed by the Federal Reserve Bank of Philadelphia. On a year-over-year basis, the forecasters expect real GDP to grow at a rate of 2.7 percent in 1997, up from their expectation of 2.3 percent in last quarter's survey. Growth will decelerate to an annual rate of 2.1 percent in 1998.

Inflation, as measured by the Consumer Price Index, will average 3.0 percent at an annual rate in the first quarter and hold steady at that rate through the third quarter. Measured on a fourth-quarter-over-fourth-quarter basis, CPI inflation will hold steady at 3.0 percent over the next two years. The forecasters expect the GDP price index--a broader measure of the price level than the CPI--to increase at an annual rate of 2.3 percent in 1997 and 2.5 percent in 1998.

The unemployment rate is expected to remain within a range of 5.3 to 5.4 percent over the next five quarters. On an annual-average basis, the unemployment rate is expected to average 5.3 percent in 1997 and 5.4 percent in 1998.

The forecasters anticipate little movement in short-term interest rates. The rate on three-month Treasury bills is expected to hold steady within a range of 5.0 to 5.1 percent over the next five quarters. Long-term rates, as measured by the rate on 10-year Treasury bonds, are expected to edge downward over the middle of the year, from 6.5 percent in the current quarter to 6.3 percent in the third quarter, and to hold steady at 6.3 percent through the first quarter of 1998.

The following table compares median forecasts for selected variables from the current survey with those from three months ago. Annual average data are measured on a year-over-year basis for real GDP and the GDP price index and on a fourth-quarter-over-fourth-quarter basis for the CPI.

	Real GDP		CPI Inflation		GDP Price Index Inflation	
	Previous	New	Previous	New	Previous	New
<i>Quarterly data:</i>						
1997: Q1	2.4	2.2	3.1	3.0	2.6	2.2
Q2	2.1	2.4	3.0	3.0	2.5	2.5
Q3	2.0	2.0	3.0	3.0	2.6	2.5
Q4	2.3	2.4	3.0	3.1	2.6	2.6
1998: Q1	N.A.	2.1	N.A.	3.2	N.A.	2.7
<i>Annual average data:</i>						
1997	2.3	2.7	3.0	3.0	2.5	2.3
1998	N.A.	2.1	N.A.	3.0	N.A.	2.5

Forecasters Revise Downward the Risk of a Negative Quarter in 1997

The risk of a negative quarter in 1997 is lower now than in last quarter's survey. The forecasters are assigning a 7 percent chance to a decline in first-quarter real GDP, down from 11 percent in the previous survey. Although the risk of a negative quarter rises over the remainder of 1997, the probability is lower than that assigned in the last survey, as the following table shows.

<i>Mean Probability of a Decline in Real GDP</i>		
	<i>Previous</i>	<i>New</i>
1997:Q1	11.0	7.0
:Q2	16.0	11.0
:Q3	21.0	15.0
:Q4	23.0	19.0
1998:Q1	N.A.	22.0

Long-Term Inflation Outlook Holds Steady; Higher Long-Term Growth in Real GDP Is Expected

The forecasters expect inflation, as measured by the Consumer Price Index, to average 3.0 percent over the next 10 years, the same rate expected in each of the last five surveys. The middle range of forecasts is 2.50 to 3.29 percent.

Participants in first-quarter surveys provide long-term forecasts for an expanded set of variables, including real GDP growth, productivity growth, and returns to stocks and bonds. The forecasters have raised their expectation for real GDP growth over the next 10 years to 2.5 percent, up from 2.3 percent in last year's first-quarter survey. However, the forecasters are reducing their expectation for productivity growth, measured by the growth in output per hour, to 1.28 percent, down from 1.50 percent in last year's survey. On the financial side, the forecasters expect a long-run return of 9.0 percent on the S&P 500 index, unchanged from last year's survey; 10-year Treasury bonds will yield 6.5 percent and three-month Treasury bills 4.95 percent over the next 10 years.

The following table compares long-term forecasts from the current survey with those from last year's first-quarter survey.

	<i>Long-Term (10-year) Forecasts</i>	
	<i>First Quarter 1996 Survey</i>	<i>Current Survey</i>
<i>CPI Inflation</i>	3.00	3.00
<i>Real GDP Growth</i>	2.30	2.50
<i>Productivity Growth</i>	1.50	1.28
<i>Stock Returns (S&P 500)</i>	9.00	9.00
<i>Bond Returns (10-Year)</i>	6.00	6.50
<i>Bill Returns (3-Month)</i>	4.69	4.95

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:

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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.phil.frb.org/econ/spf/spfpage.html>.

**SURVEY OF PROFESSIONAL FORECASTERS
MAJOR MACROECONOMIC INDICATORS, 1997-98**

	1997				1998		ANNUAL AVERAGE
	Q1	Q2	Q3	Q4	Q1	1997	1998
	FORECAST						
PERCENT GROWTH AT ANNUAL RATES							
1. REAL GDP (BILLIONS, CHAIN WEIGHTED)	2.2	2.4	2.0	2.4	2.1	2.7	2.1
2. GDP PRICE INDEX (1992=100)	2.2	2.5	2.5	2.6	2.7	2.3	2.5
3. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	4.7	4.9	4.4	4.9	4.9	5.0	4.6
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	3.0	3.0	3.0	3.1	3.2	3.0	3.0
VARIABLES IN LEVELS							
5. UNEMPLOYMENT RATE (PERCENT)	5.3	5.3	5.3	5.4	5.3	5.3	5.4
6. 3-MONTH TREASURY BILL RATE (PERCENT)	5.0	5.1	5.1	5.1	5.0	5.1	5.0
7. 10-YEAR TREASURY BOND YIELD (PERCENT)	6.5	6.4	6.3	6.3	6.3	6.3	6.4

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FIRST QUARTER 1997.

NOTES: THE FIGURES ON EACH LINE ARE MEDIANES OF 38 INDIVIDUAL FORECASTS. NA = NOT APPLICABLE.

SURVEY OF PROFESSIONAL FORECASTERS

First Quarter 1997

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

TABLE ONE

**MAJOR MACROECONOMIC INDICATORS, 1997-98
MEDIAN OF FORECASTER PREDICTIONS**

	NUMBER OF FORE- CASTERS	ACTUAL 1996 Q4	FORECASTS				ACTUAL 1996 Q1	FORECAST 1997	FORECAST 1998
			1997 Q1	Q2	Q3	Q4			
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	36	7731.7	7821.5	7916.3	8001.5	8097.0	8194.0	7580.0	7960.0
2. GDP PRICE INDEX (1992=100)	33	110.7	111.3	112.0	112.7	113.4	114.2	109.9	112.4
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	31	N.A.	419.9	423.6	424.2	426.4	431.9	N.A.	424.2
4. UNEMPLOYMENT RATE (PERCENT)	38	5.3	5.3	5.3	5.4	5.4	5.4	5.3	5.4
5. INDUSTRIAL PRODUCTION (1987=100)	34	116.8	117.9	118.6	119.2	119.9	120.2	115.1	118.9
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	37	1.41	1.40	1.38	1.39	1.38	1.37	1.47	1.39
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	37	3.2	3.0	3.0	3.1	3.2	3.1	3.0	3.0
8. 3-MONTH TREASURY BILL RATE (PERCENT)	37	4.98	5.04	5.07	5.08	5.05	5.01	5.01	5.03
9. AAA CORPORATE BOND YIELD (PERCENT)	36	7.23	7.33	7.30	7.28	7.30	7.37	7.26	7.40
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	36	6.34	6.46	6.36	6.34	6.34	6.44	6.35	6.38

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FIRST QUARTER 1997.

TABLE ONE CONTINUED

**MAJOR MACROECONOMIC INDICATORS, 1997-98
MEDIAN OF FORECASTER PREDICTIONS**

	NUMBER OF FORE- CASTERS	ACTUAL 1996 Q4	FORECASTS				ACTUAL 1997 Q1	ACTUAL 1996 1997	ACTUAL 1997 1998	
			1997	Q1	Q2	Q3				
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	38	7008.7	7047.6	7088.9	7124.5	7166.5	7203.7	6911.0	7100.2	7251.5
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	38	4732.3	4765.5	4794.8	4820.3	4845.4	4870.6	4690.6	4803.3	4916.0
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	38	789.4	802.1	812.9	825.1	834.1	845.5	766.2	819.0	856.5
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	38	276.9	276.2	277.0	277.3	277.5	277.9	276.8	277.0	278.0
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	38	467.1	466.0	465.3	464.4	464.5	463.6	468.2	465.7	461.9
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	38	812.1	816.0	820.0	823.8	827.4	830.7	804.5	821.5	838.0
17. CHANGE IN BUSINESS INVENTORIES (BILLIONS, CHAIN WEIGHTED)	36	31.9	28.9	29.4	28.1	29.6	26.2	17.6	28.4	25.0
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	38	-100.7	-111.8	-115.3	-114.9	-112.1	-117.6	-114.2	-114.1	-111.0

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FIRST QUARTER 1997.

TABLE TWO

**MAJOR MACROECONOMIC INDICATORS, 1997-98
PERCENTAGE CHANGES AT ANNUAL RATES**

	NUMBER OF FORE- CASTERS	Q4 96 TO 97	Q1 97 TO 97	Q2 97 TO 97	Q3 97 TO 97	Q4 97 TO 97	1996 TO 97	1997 TO 98	1997 TO 98
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	36	4.7	4.9	4.4	4.9	4.9	5.0	5.0	4.6
2. GDP PRICE INDEX (1992=100)	33	2.2	2.5	2.5	2.6	2.7	2.3	2.3	2.5
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	31	10.9	3.6	.6	2.1	5.3	4.2	2.9	
4. UNEMPLOYMENT RATE (PERCENT)	38	.0	.0	.0	.1	-.1	-.1	-.1	.1
5. INDUSTRIAL PRODUCTION (1987=100)	34	3.8	2.2	2.1	2.7	.8	3.3	2.1	
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	37	-2.5	-5.3	2.0	-2.3	-2.9	-5.7	-1.3	
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	37	-.2	.0	.0	.1	.1	-.1	-.1	.0
8. 3-MONTH TREASURY BILL RATE (PERCENT)	37	.06	.03	.01	-.03	-.04	.08	.08	-.07
9. AAA CORPORATE BOND YIELD (PERCENT)	36	.10	-.03	-.03	.01	.02	-.11	-.11	.14
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	36	.12	-.10	-.02	.00	.01	-.09	-.09	.03

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 1997.

TABLE TWO CONTINUED

**MAJOR MACROECONOMIC INDICATORS, 1997-98
PERCENTAGE CHANGES AT ANNUAL RATES**

	NUMBER OF FORE- CASTERS	Q4 96 TO Q1 97	Q1 97 TO Q2 97	Q2 97 TO Q3 97	Q3 97 TO Q4 97	Q4 97 TO Q1 98	1996 TO 1997	1997 TO 1998
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	38	2.2	2.4	2.0	2.4	2.1	2.7	2.1
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	38	2.8	2.5	2.1	2.1	2.1	2.4	2.3
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	38	6.6	5.5	6.2	4.4	5.6	6.9	4.6
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	38	-1.0	1.2	.4	.3	.6	.1	.4
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	38	-1.0	-.6	-.8	.1	-.8	-.5	-.8
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	38	1.9	2.0	1.8	1.8	1.6	2.1	2.0
17. CHANGE IN BUSINESS INVENTORIES (BILLIONS, CHAIN WEIGHTED)	36	-3.0	.5	-1.3	1.5	-3.4	10.8	-3.4
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	38	-11.1	-3.4	.3	2.8	-5.5	.1	3.1

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, FIRST QUARTER 1997.

TABLE THREE

ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANCES IN 100)	Q4 96			Q1 97			Q2 97			Q3 97			Q4 97		
	TO Q1 97	TO Q2 97	TO Q3 97	TO Q4 97	TO Q1 98	TO Q2 98	TO Q3 98	TO Q4 98	TO Q1 98	TO Q2 98	TO Q3 98	TO Q4 98	TO Q1 98	TO Q2 98	TO Q3 98
	NUMBER OF FORECASTERS														
10 OR LESS	31	21	14	7	7	3									
11 TO 20	2	11	15	20	20	17									
21 TO 30	0	1	3	5	5	11									
31 TO 40	0	0	1	1	1	2									
41 TO 50	0	1	0	0	0	1									
51 TO 60	0	0	1	1	1	0									
61 TO 70	1	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	4	4	4	4	4	4									
MEDIAN PROBABILITY	5	10	15	20	20	20									
MEAN PROBABILITY	7	11	15	19	19	22									

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 34.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FIRST QUARTER 1997.

TABLE FOUR

MEAN PROBABILITY OF CHANGES IN GDP AND PRICES
1996-97 AND 1997-98

MEAN PROBABILITY ATTACHED TO POSSIBLE
PERCENT CHANGES IN REAL GDP:

	1996-97	1997-98
6.0 OR MORE	.42	.35
5.0 TO 5.9	.56	.87
4.0 TO 4.9	2.92	2.36
3.0 TO 3.9	24.35	13.56
2.0 TO 2.9	49.41	40.16
1.0 TO 1.9	16.20	28.18
0.0 TO 0.9	4.61	9.61
-1.0 TO -0.1	1.18	3.67
-2.0 TO -1.1	.24	.83
LESS THAN -2.0	.12	.41

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

	1996-97	1997-98
8.0 OR MORE	.06	.11
7.0 TO 7.9	.09	.13
6.0 TO 6.9	.15	.41
5.0 TO 5.9	.49	1.19
4.0 TO 4.9	2.45	5.18
3.0 TO 3.9	15.58	27.41
2.0 TO 2.9	55.05	43.92
1.0 TO 1.9	23.08	17.56
0.0 TO 0.9	2.65	3.46
WILL DECLINE	.41	.63

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 35.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FIRST QUARTER 1997.

TABLE FIVE
LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI INFLATION RATE		SERIES: REAL GDP GROWTH RATE		SERIES: PRODUCTIVITY GROWTH	
STATISTIC		STATISTIC		STATISTIC	
MINIMUM	2.000	MINIMUM	1.800	MINIMUM	.800
LOWER QUARTILE	2.500	LOWER QUARTILE	2.200	LOWER QUARTILE	1.100
MEDIAN	3.000	MEDIAN	2.500	MEDIAN	1.275
UPPER QUARTILE	3.287	UPPER QUARTILE	2.500	UPPER QUARTILE	1.500
MAXIMUM	4.000	MAXIMUM	3.000	MAXIMUM	3.200
MEAN	2.933	MEAN	2.426	MEAN	1.399
STD. DEV.	.474	STD. DEV.	.260	STD. DEV.	.475
N	36	N	36	N	36
MISSING	2	MISSING	2	MISSING	2
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SERIES: STOCK RETURNS (S&P 500)		SERIES: BOND RETURNS (10-YEAR)		SERIES: BILL RETURNS (3-MONTH)	
STATISTIC		STATISTIC		STATISTIC	
MINIMUM	3.000	MINIMUM	5.250	MINIMUM	3.000
LOWER QUARTILE	7.250	LOWER QUARTILE	6.000	LOWER QUARTILE	4.500
MEDIAN	9.000	MEDIAN	6.500	MEDIAN	4.950
UPPER QUARTILE	10.000	UPPER QUARTILE	6.850	UPPER QUARTILE	5.050
MAXIMUM	12.500	MAXIMUM	8.000	MAXIMUM	6.000
MEAN	8.691	MEAN	6.420	MEAN	4.706
STD. DEV.	2.078	STD. DEV.	.559	STD. DEV.	.679
N	29	N	34	N	35
MISSING	9	MISSING	4	MISSING	3
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SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FIRST QUARTER 1997.