

Survey of

PROFESSIONAL FORECASTERS

Federal Reserve Bank
of Philadelphia

THIRD QUARTER 2000

Release Date: August 21, 2000

Expectations for Near-Term Inflation Continue to Drift Upward

Continuing an adjustment first noted in the last survey, the survey's panelists are revising upward their expectations for inflation over the near term. According to 32 forecasters surveyed by the Federal Reserve Bank of Philadelphia, inflation over the next two years is expected to run at levels higher than those expected just three months ago. Currently, the forecasters expect CPI inflation to average 3.3 percent in 2000, up 0.2 percentage point from their estimate of 3.1 percent previously. In 2001, CPI inflation will average 2.8 percent, up from 2.7 percent in the last survey. The rate of growth of the GDP price index, an alternative and broader measure of inflation, will average 2.2 percent in 2000 and 2.4 percent in 2001. Previously, the forecasters pegged this inflation measure at 2.1 percent in 2000 and 2.2 percent in 2001.

As recently as the first survey of 2000 (conducted in mid-February and the first to record forecasts for both 2000 and 2001), the forecasters expected CPI inflation to average 2.5 percent in 2000 and 2.6 percent in 2001 and GDP inflation to average 1.8 percent and 2.0 percent, respectively. Thus, since mid-February, expectations for near-term CPI inflation in 2000 have drifted upward 0.8 percentage point. For the GDP measure, expectations for inflation in 2000 have drifted upward 0.4 percentage point.

Despite the upward movement in recent surveys in near-term expectations for inflation, expectations for long-term inflation continue to hold steady. Currently, the forecasters estimate the 10-year average rate of change in the CPI at 2.50 percent, the same rate expected in each of the last two surveys. The middle range of forecasts is 2.20 percent to 2.75 percent. The unchanged expectation for long-term inflation in the current and previous surveys suggests that the forecasters expect the worsening near-term outlook for inflation to be a temporary phenomenon—not a harbinger of permanently higher inflation.

The following table compares forecasts for near-term inflation from the current survey and the previous two surveys, conducted in February and May 2000.

The Near-Term Outlook for Inflation in the Current and Previous Two Surveys

	CPI Inflation (%)			GDP Inflation (%)		
	Feb. Survey	May Survey	Current Survey	Feb. Survey	May Survey	Current Survey
<i>Quarterly data:</i>						
2000:Q3	2.4	2.5	2.9	2.2	2.1	2.2
Q4	2.5	2.6	2.8	2.0	2.1	2.3
2001:Q1	2.5	2.7	2.8	2.1	2.5	2.6
Q2	N.A.	2.6	2.7	N.A.	2.2	2.3
Q3	N.A.	N.A.	2.6	N.A.	N.A.	2.4
<i>Annual data:</i>						
2000	2.5	3.1	3.3	1.8	2.1	2.2
2001	2.6	2.7	2.8	2.0	2.2	2.4

Forecasters Revise Upward Their Projections for Output Growth—Again

Continuing a persistent trend of upward revisions to their projections for near-term growth in real GDP, the forecasters are again pushing up their forecasts for economic growth. Currently, they see the U.S. economy growing at a 5.2 percent clip in 2000, up from their estimate of 4.9 percent in the last survey. For 2001, the forecasters see growth averaging 3.2 percent, 0.2 percentage point higher than their previous estimate of 3.0 percent. However, growth in the current quarter is likely to be a bit less than estimated previously: The forecasters see third-quarter growth of 3.4 percent, down slightly from their estimate of 3.6 percent in the last survey.

In contrast, there is no change in the outlook for the unemployment rate. The forecasters continue to expect that the rate of unemployment will average 4.0 percent in 2000 and rise a bit, to 4.2 percent, in 2001, the same outlook as in the last survey. The following table compares forecasts for selected variables in the current survey with those from three months ago.

	Real GDP (%)		Unemployment Rate (%)	
	Previous	New	Previous	New
<i>Quarterly data:</i>				
2000: Q3	3.6	3.4	4.0	4.0
Q4	3.1	3.2	4.0	4.0
2001: Q1	2.6	3.0	4.0	4.1
Q2	2.6	2.7	4.2	4.2
Q3	N.A.	3.2	N.A.	4.2
<i>Annual average data:</i>				
2000	4.9	5.2	4.0	4.0
2001	3.0	3.2	4.2	4.2

Interest Rates Seen at Lower Levels

The forecasters are cutting their estimates for the level of interest rates—at both ends of the maturity spectrum—over the next two years. At the short end, the forecasters now expect the rate on three-month Treasury bills to average 5.8 percent in 2000 and 5.9 percent in 2001, a reduction of 0.2 percentage point from the levels expected in the last survey. A slightly larger downward revision characterizes the current forecasts for the long end. The forecasters see the rate on 10-year Treasury bonds averaging 6.2 percent in 2000 and 6.1 percent in 2001, down 0.3 percentage point,

in both years, from the previous forecast. The following table compares these forecasts in the current survey with those from the previous survey.

	3-Month Treasury Bill (%)		10-Year Treasury Bond (%)	
	Previous	New	Previous	New
<i>Quarterly data:</i>				
2000: Q3	6.2	6.0	6.5	6.1
Q4	6.4	6.0	6.6	6.1
2001: Q1	6.4	6.0	6.6	6.1
Q2	6.2	6.0	6.5	6.1
Q3	N.A.	5.9	N.A.	6.1
<i>Annual average data:</i>				
2000	6.0	5.8	6.5	6.2
2001	6.1	5.9	6.4	6.1

Forecasters Cut Their Estimates of the Equilibrium Unemployment Rate

In third-quarter surveys, the forecasters are asked to provide their estimates of the natural rate of unemployment—the rate of unemployment that occurs when the economy is in equilibrium. Fifteen of the 31 forecasters (48 percent) who answered the question indicate that they use the natural rate in generating their forecasts. Among the 15 who use the concept, the median estimate of the natural rate is 4.50 percent, down rather substantially from the estimate of 5.00 percent recorded in 1999's third-quarter survey. The following table tracks the survey's estimate of the natural rate since 1996. The table also tracks the percentage of forecasters who use the natural-rate concept, a percentage that has fallen from above one-half to slightly below one-half in recent years, and the highest and lowest estimate among those who use the natural rate in preparing their forecasts.

<i>Survey Date</i>	<i>Percentage Who Use The Natural Rate (%)</i>	<i>Median Estimate (%)</i>	<i>Lowest Estimate (%)</i>	<i>Highest Estimate (%)</i>
1996:Q3	62	5.65	5.00	6.00
1997:Q3	59	5.25	4.50	5.88
1998:Q3	47	5.30	4.50	5.80
1999:Q3	43	5.00	4.13	5.60
2000:Q3	48	4.50	4.00	5.00

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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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/index.html>.

**SURVEY OF PROFESSIONAL FORECASTERS
MAJOR MACROECONOMIC INDICATORS, 2000-2001**

	2000				2001		ANNUAL AVERAGE	
	Q3	Q4	Q1	Q2	Q3	FORECAST	2000	2001
PERCENT GROWTH AT ANNUAL RATES								
1. REAL GDP (BILLIONS, CHAIN WEIGHTED)								
2. GDP PRICE INDEX (1996=100)	3.4	3.2	3.0	2.7	3.2	5.2	5.2	3.2
3. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	2.2	2.3	2.6	2.3	2.4	2.2	2.2	2.4
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	5.5	5.8	5.4	5.1	5.6	7.5	5.5	
VARIABLES IN LEVELS								
5. UNEMPLOYMENT RATE (PERCENT)	2.9	2.8	2.8	2.7	2.6	3.3	2.8	
6. 3-MONTH TREASURY BILL RATE (PERCENT)	4.0	4.0	4.1	4.2	4.2	4.0	4.0	4.2
7. 10-YEAR TREASURY BOND YIELD (PERCENT)	6.0	6.0	6.0	6.0	5.9	5.8	5.9	

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 2000.

NOTES: THE FIGURES ON EACH LINE ARE MEDIANs OF 32 INDIVIDUAL FORECASTS. NA = NOT APPLICABLE.

SURVEY OF PROFESSIONAL FORECASTERS

Third Quarter 2000

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 12.

TABLE ONE

**MAJOR MACROECONOMIC INDICATORS, 2000-2001
MEDIAN OF FORECASTER PREDICTIONS**

	NUMBER OF FORE- CASTERS	ACTUAL 2000	FORECASTS				ACTUAL 1999	FORECAST 2000	FORECAST 2001	
			2000		2001					
			Q3	Q4	Q1	Q2	Q3	Q4	Q5	
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	31	9937.3	10071.2	10215.0	10350.0	10479.6	10624.1	9299.2	995.1	10546.3
2. GDP PRICE INDEX (1996=100)	31	106.83	107.40	108.00	108.69	109.31	109.95	104.77	107.10	109.64
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	26	N.A.	660.4	664.2	670.8	676.5	682.2	567.1	649.7	680.0
4. UNEMPLOYMENT RATE (PERCENT)	31	4.0	4.0	4.0	4.1	4.2	4.2	4.2	4.0	4.2
5. INDUSTRIAL PRODUCTION (1992=100)	31	144.2	145.7	147.0	148.1	149.2	150.5	137.1	144.6	149.8
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	30	1.60	1.56	1.52	1.50	1.50	1.50	1.67	1.60	1.50
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	28	3.6	2.9	2.8	2.8	2.7	2.6	2.6	3.3	2.8
8. 3-MONTH TREASURY BILL RATE (PERCENT)	28	5.71	6.00	6.05	6.00	6.00	5.90	4.64	5.84	5.95
9. AAA CORPORATE BOND YIELD (PERCENT)	26	7.77	7.60	7.57	7.57	7.50	7.04	7.70	7.55	
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	27	6.18	6.08	6.10	6.10	6.10	5.64	6.20	6.10	

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 2000.

TABLE ONE CONTINUED

**MAJOR MACROECONOMIC INDICATORS, 2000-2001
MEDIAN OF FORECASTER PREDICTIONS**

	NUMBER OF FORE- CASTERS	ACTUAL 2000 Q2	FORECASTS				ACTUAL 1999	FORECAST 2000	FORECAST 2001			
			2000		2001							
			Q3	Q4	Q1	Q2						
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	31	9308.8	9386.9	9461.6	9531.3	9595.0	9671.2	8875.8	9336.2	9635.0		
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	29	6259.6	6312.1	6363.0	6411.0	6457.8	6497.6	5978.8	6287.0	6472.2		
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	29	1426.2	1467.5	1499.4	1525.7	1549.3	1572.9	1255.3	1438.8	1560.0		
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	30	375.0	371.7	367.0	365.5	364.4	366.0	368.3	371.1	365.0		
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	30	559.1	556.1	557.3	558.8	561.6	565.3	540.2	552.2	563.1		
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	30	1028.7	1034.6	1041.5	1049.0	1056.8	1063.6	995.6	1032.8	1060.0		
17. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	31	60.3	50.0	44.0	39.0	40.0	40.0	45.3	47.7	39.2		
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	31	-416.1	-421.8	-419.1	-419.9	-424.0	-421.0	-322.4	-408.5	-418.4		

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 2000.

TABLE TWO

**MAJOR MACROECONOMIC INDICATORS, 2000-2001
PERCENTAGE CHANGES AT ANNUAL RATES**

	NUMBER OF FORE- CASTERS	Q2 2000 TO Q3 2000	Q3 2000 TO Q4 2000	Q4 2000 TO Q1 2001	Q1 2001 TO Q2 2001	Q2 2001 TO Q3 2001	Q3 2001 TO 2000	1999 TO 2000	2000 TO 2001
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	31	5.5	5.8	5.4	5.1	5.6	7.5	5.5	5.5
2. GDP PRICE INDEX (1996=100)	31	2.2	2.3	2.6	2.3	2.4	2.2	2.4	2.4
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	26	4.3	2.3	4.0	3.4	3.4	14.6	4.7	4.7
4. UNEMPLOYMENT RATE (PERCENT)	31	0.0	0.0	0.1	0.1	0.0	-0.2	0.2	0.2
5. INDUSTRIAL PRODUCTION (1992=100)	31	4.2	3.6	3.1	3.0	3.4	5.5	3.6	3.6
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	30	-10.3	-9.8	-4.8	0.0	0.0	-4.0	-6.1	-6.1
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	28	-0.7	-0.2	0.0	-0.1	-0.1	0.7	-0.5	-0.5
8. 3-MONTH TREASURY BILL RATE (PERCENT)	28	0.29	0.05	-0.05	0.00	-0.10	1.20	0.11	0.11
9. AAA CORPORATE BOND YIELD (PERCENT)	26	-0.17	0.00	-0.03	0.00	-0.07	0.66	-0.15	-0.15
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	27	-0.10	0.02	0.00	0.00	0.00	0.56	-0.10	-0.10

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 2000.

TABLE TWO CONTINUED

MAJOR MACROECONOMIC INDICATORS, 2000-2001
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE- CASTERS	Q2 2000 TO Q3 2000	Q3 2000 TO Q4 2000	Q4 2000 TO Q1 2001	Q1 2001 TO Q2 2001	Q2 2001 TO Q3 2001	1999 TO 2000	2000 TO 2001
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	31	3.4	3.2	3.0	2.7	3.2	5.2	3.2
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	29	3.4	3.3	3.1	3.0	2.5	5.2	2.9
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	29	12.1	9.0	7.2	6.3	6.2	14.6	8.4
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	30	-3.5	-5.0	-1.6	-1.2	1.8	0.8	-1.6
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	30	-2.1	0.9	1.0	2.0	2.7	2.2	2.0
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	30	2.3	2.7	2.9	3.0	2.6	3.7	2.6
17. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	31	-10.3	-6.0	-5.0	1.0	0.0	2.4	-8.5
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	31	-5.7	2.7	-0.8	-4.1	3.0	-86.1	-9.9

NOTE: FIGURES FOR PRIVATE 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, THIRD QUARTER 2000.

TABLE THREE
ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANCES IN 100)	Q2 2000			Q3 2000			Q4 2000			Q1 2001			Q2 2001		
	TO Q3 2000	TO Q4 2000	TO Q1 2001	TO Q2 2001	TO Q3 2001	TO Q4 2001	TO Q1 2001	TO Q2 2001	TO Q3 2001	NUMBER OF FORECASTERS					
10 OR LESS	30	23	16	14	14	11									
11 TO 20	0	7	12	9	9	11									
21 TO 30	0	0	1	6	6	5									
31 TO 40	0	0	1	1	1	3									
41 TO 50	0	0	0	0	0	0									
51 TO 60	0	0	0	0	0	0									
61 TO 70	0	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	2	2	2	2	2	2									
MEDIAN PROBABILITY	1	5	10	15	15	15									
MEAN PROBABILITY	3	7	13	16	16	17									

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 30.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 2000.

TABLE FOUR

MEAN PROBABILITY OF CHANGES IN GDP AND PRICES
1999-2000 AND 2000-2001

MEAN PROBABILITY ATTACHED TO POSSIBLE
PERCENT CHANGES IN REAL GDP:

	1999-2000	2000-2001
6.0 OR MORE	2.98	0.48
5.0 TO 5.9	46.31	3.10
4.0 TO 4.9	35.48	16.93
3.0 TO 3.9	10.22	42.59
2.0 TO 2.9	4.24	24.59
1.0 TO 1.9	0.41	8.79
0.0 TO 0.9	0.14	2.09
-1.0 TO -0.1	0.07	1.01
-2.0 TO -1.1	0.07	0.14
LESS THAN -2.0	0.07	0.28

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

	1999-2000	2000-2001
8.0 OR MORE	0.04	0.07
7.0 TO 7.9	0.04	0.07
6.0 TO 6.9	0.04	0.28
5.0 TO 5.9	0.07	0.90
4.0 TO 4.9	1.00	2.38
3.0 TO 3.9	11.95	14.14
2.0 TO 2.9	61.62	50.66
1.0 TO 1.9	23.00	26.28
0.0 TO 0.9	2.14	4.69
WILL DECLINE	0.10	0.55

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 29.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 2000.

TABLE FIVE
LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI INFLATION RATE	
STATISTIC	
MINIMUM	1.800
LOWER QUARTILE	2.200
MEDIAN	2.500
UPPER QUARTILE	2.750
MAXIMUM	3.500
MEAN	2.531
STD. DEV.	0.430
N	31
MISSING	1

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 2000.