



SURVEY OF PROFESSIONAL FORECASTERS

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SECOND QUARTER 2003

Forecasters Cut Their Estimates for Growth in 2003

The U.S. economy will likely expand at a slower rate in 2003 than predicted just three months ago, according to 35 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The forecasters now expect year-over-year growth in real GDP to average 2.2 percent in 2003, down from their previous prediction of 2.5 percent. Much of the downward revision for the year comes from a cut in the projection for growth in the second quarter, now expected to average 1.8 percent at an annual rate, down from 2.7 percent in the survey of three months ago. The forecasters continue to expect a rebound over the second-half of the year: Currently, growth is expected to average 3.4 percent at an annual rate in each of the last two quarters of 2003. Previously, the forecasters thought growth would average 3.4 percent in the third quarter and 3.6 percent in the fourth quarter. The forecasters project growth of 3.6 percent in 2004, about the same rate they projected previously.

Measured on an annual-average basis, unemployment is expected to be 5.9 percent in 2003, unchanged from the forecast of three months ago—although the forecasters are associating slower growth this year with a higher forecast for unemployment next year. The current estimate for 2004 stands at 5.7 percent, marking an upward revision from 5.5 percent previously.

On the inflation front, the forecasters see prices rising at a slightly higher rate this year and a slightly lower rate next year than they predicted three months ago. Measured on a fourth-quarter over fourth-quarter basis, CPI inflation will average 2.4 percent in 2003, up from 2.2 percent previously, and 2.3 percent in 2004, down from 2.4 percent. On a year-over-year basis, inflation in the GDP price index will average 1.8 percent in 2003 and 2004. Previously, the forecasters thought GDP inflation would average 1.7 percent this year and 2.0 percent in 2004.

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

	Real GDP (%)		Unemployment Rate (%)		CPI Inflation (%)	
	Previous	New	Previous	New	Previous	New
<i>Quarterly data:</i>						
2003: Q2	2.7	1.8	6.0	6.0	2.1	2.0
Q3	3.4	3.4	5.9	6.0	2.0	1.8
Q4	3.6	3.4	5.7	5.9	2.2	2.1
2004: Q1	3.8	4.0	5.6	5.8	2.2	2.2
Q2	N.A.	3.4	N.A.	5.7	N.A.	2.3
<i>Annual average data:</i>						
2003	2.5	2.2	5.9	5.9	2.2	2.4
2004	3.5	3.6	5.5	5.7	2.4	2.3

Interest Rates Are Seen at Lower Levels

The forecasters see interest rates over the next two years at levels lower than they predicted three months ago. On the short end of the maturity spectrum, the forecasters now predict the rate on three-month Treasury bills will average 1.2 percent in 2003, down from the forecast of 1.4 percent in the last survey. An even larger downward revision characterizes the outlook for next year: Currently, the three-month rate is expected to average 2.1 percent in 2004, down from 2.8 percent previously. On the long end, the rate on 10-year Treasury bonds will average 4.1 percent this year and 4.7 percent in 2004, both down from the previous forecasts of 4.3 percent and 5.1 percent, respectively, as the table below shows.

	3-Month Treasury Bill (%)		10-Year Treasury Bond (%)	
	Previous	New	Previous	New
<i>Quarterly data:</i>				
2003: Q2	1.3	1.2	4.2	4.0
Q3	1.5	1.2	4.4	4.2
Q4	1.8	1.3	4.6	4.3
2004: Q1	2.3	1.4	4.9	4.5
Q2	N.A.	1.8	N.A.	4.6
<i>Annual average data:</i>				
2003	1.4	1.2	4.3	4.1
2004	2.8	2.1	5.1	4.7

Little Change in the Risk Assigned to a Negative Quarter

The current outlook is accompanied by little change in the forecasters' assessment of the risk of a negative quarter compared to their assessment in the previous survey. The forecasters are assigning a probability of 20 percent to a fall in real GDP in the current quarter, virtually unchanged from 21 percent in the previous survey. Though there is a bigger downward revision to the chance of negative growth in the third quarter—currently 14 percent, marking a downward revision from 18 percent previously—the risks over the following quarters are close to those assigned in the last survey, as the table below shows.

	Risk of a Negative Quarter (%)	
	Previous Survey	New Survey
<i>Quarterly data:</i>		
2003: Q2	21	20
Q3	18	14
Q4	14	13
2004: Q1	12	11
Q2	N.A.	10

No Change in Long-Term Expectations for Inflation

There is no change in the forecasters' long-term expectations for inflation. Measured by the annual average rate of change in CPI inflation over the next 10 years, the forecasters' current expectation stands at 2.50 percent, the same rate as in the last survey.

The Federal Reserve Bank of Philadelphia thanks the following forecasters for their participation in the surveys of this year:

Joseph T. Abate, Lehman Brothers; **David W. Berson**, Fannie Mae; **Brian A. Bethune**, Caterpillar, Inc.; **Joel I. Brest** and **Brian P. O'Connor**, MarketView Publishing Corp.; **Gary Ciminero, CFA**, Independent Economic Advisory; **Michael Cosgrove**, Econoclast; **Louis Crandall**, Wrightson ICAP LLC; **Richard DeKaser**, National City Corporation; **Rajeev Dhawan**, Georgia State University; **Michael R. Englund**, Standard & Poor's MMS; **Gerard F. Fuda**, Independent Economist; **James Glassman**, JP Morgan Chase & Co.; **James M. Goldberg**, Trust Company of the West; **William B. Hummer**, Wayne Hummer Investments; **Saul Hymans, Joan Crary**, and **Janet Wolfe**, RSQE, The University of Michigan; **Kurt Karl**, Swiss Re; **Dr. Irwin Kellner**, Hofstra University/CBS MarketWatch/North Fork Bank; **Joseph Liro**, Stone & McCarthy Research Associates; **John Lonski**, Moody's Investors Service; **Edward F. McKelvey**, Goldman Sachs; **Jim Meil**, Eaton Corporation; **Joel L. Naroff**, Naroff Economic Advisors; **Herbert E. Neil**, Financial and Economic Strategies Corp.; **Mark Nielson, Ph.D.**, MacroEcon Global Advisors; **Michael P. Niemira**, Bank of Tokyo-Mitsubishi, Ltd.; **Jacob I. Pasternak**, Chmura Economics & Analytics; **Martin A. Regalia**, U.S. Chamber of Commerce; **David Resler**, Nomura Securities International, Inc.; **David Rosenberg**, Merrill Lynch; **David F. Seiders** and **Stanley F. Duobinis**, National Association of Home Builders; **Susan M. Sterne**, Economic Analysis Associates, Inc.; **Lea Tyler**, Oxford Economics USA, Inc.; **Albert M. Wojnilower**; **Richard Yamarone**, Argus Research Group; **Mark Zandi**, Economy.com.

This is a partial list of participants. We also thank those who wish to remain anonymous.

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 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, 2003-2004

	2003				2004				ANNUAL AVERAGE	
	Q2	Q3	Q4	Q1	Q2	Q1	Q2	Q3	2003	2004
	FORECAST									
PERCENT GROWTH AT ANNUAL RATES										
1. REAL GDP (BILLIONS, CHAIN WEIGHTED)	1.8	3.4	3.4	4.0	3.4	2.2	3.4	3.6		
2. GDP PRICE INDEX (1996=100)	1.7	1.7	1.7	1.9	1.8	1.8	1.8	1.8		
3. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	3.6	5.0	5.3	5.7	5.3	4.1	5.3	5.3		
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	2.0	1.8	2.1	2.2	2.3	2.4	2.3	2.3		
VARIABLES IN LEVELS										
5. UNEMPLOYMENT RATE (PERCENT)	6.0	6.0	5.9	5.8	5.7	5.9	5.7	5.7		
6. 3-MONTH TREASURY BILL RATE (PERCENT)	1.2	1.2	1.3	1.4	1.8	1.2	1.8	2.1		
7. 10-YEAR TREASURY BOND YIELD (PERCENT)	4.0	4.2	4.3	4.5	4.6	4.1	4.6	4.7		

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2003.

NOTES: THE FIGURES ON EACH LINE ARE MEDIANS OF 35 INDIVIDUAL FORECASTS. NA = NOT APPLICABLE.

SURVEY OF PROFESSIONAL FORECASTERS

Second Quarter 2003

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 April 25; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before May 12.

TABLE ONE

**MAJOR MACROECONOMIC INDICATORS, 2003-2004
MEDIAN OF FORECASTER PREDICTIONS**

	NUMBER OF FORE- CASTERS	ACTUAL 2003 Q1	FORECASTS				ACTUAL 2002	FORECAST 2003	FORECAST 2004	
			2003		Q4	Q1				
			Q2	Q3	Q2	Q2				
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	34	10697.7	10792.4	10925.4	11066.9	11222.3	11367.2	10446.2	10872.8	11450.8
2. GDP PRICE INDEX (1996=100)	34	111.95	112.41	112.88	113.36	113.89	114.41	110.66	112.60	114.60
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	25	N.A.	493.0	505.0	525.0	542.9	556.4	451.9	500.0	558.2
4. UNEMPLOYMENT RATE (PERCENT)	34	5.8	6.0	6.0	5.9	5.8	5.7	5.8	5.9	5.7
5. INDUSTRIAL PRODUCTION (1997=100)	32	110.5	110.4	111.3	112.5	113.7	115.1	110.4	111.2	115.7
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	31	1.75	1.70	1.67	1.64	1.64	1.65	1.71	1.69	1.65
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	32	3.9	2.0	1.8	2.1	2.2	2.3	2.2	2.4	2.3
8. 3-MONTH TREASURY BILL RATE (PERCENT)	31	1.16	1.17	1.20	1.28	1.43	1.77	1.60	1.20	2.13
9. AAA CORPORATE BOND YIELD (PERCENT)	27	6.00	5.88	6.00	6.08	6.20	6.21	6.49	5.97	6.28
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	32	3.92	3.96	4.16	4.30	4.47	4.60	4.61	4.10	4.72

SOURCE : RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2003.

TABLE ONE CONTINUED

MAJOR MACROECONOMIC INDICATORS, 2003-2004
MEDIAN OF FORECASTER PREDICTIONS

	NUMBER OF FORE- CASTERS	ACTUAL 2003 Q1	FORECASTS				ACTUAL 2002	FORECAST 2003	FORECAST 2004			
			2003		2004							
			Q2	Q3	Q4	Q1						
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	34	9556.0	9598.7	9678.5	9758.7	9855.2	9938.0	9439.9	9650.9	9994.0		
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	34	6660.5	6693.2	6745.5	6800.6	6858.9	6908.7	6576.0	6724.1	6935.9		
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	32	1172.7	1180.0	1195.2	1218.7	1239.0	1266.5	1183.4	1192.8	1281.8		
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	32	407.3	407.6	407.7	407.6	406.6	408.1	388.2	408.0	406.5		
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	32	635.5	648.0	656.3	664.8	673.0	677.2	613.3	650.7	679.0		
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	32	1103.8	1106.3	1109.2	1112.0	1117.0	1121.0	1099.7	1107.2	1123.7		
17. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	33	12.8	13.0	19.6	30.3	36.0	37.8	5.2	17.3	37.8		
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	33	-508.2	-516.1	-517.7	-523.8	-521.0	-535.0	-488.5	-515.1	-528.3		

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2003.

TABLE TWO

MAJOR MACROECONOMIC INDICATORS, 2003-2004
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE- CASTERS	Q1 2003 TO Q2 2003	Q2 2003 TO Q3 2003	Q3 2003 TO Q4 2003	Q4 2003 TO Q1 2004	Q1 2004 TO Q2 2004	2002 TO 2003	2003 TO 2004
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	34	3.6	5.0	5.3	5.7	5.3	4.1	5.3
2. GDP PRICE INDEX (1996=100)	34	1.7	1.7	1.7	1.9	1.8	1.8	1.8
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	25	7.9	10.1	16.8	14.4	10.3	10.6	11.6
4. UNEMPLOYMENT RATE (PERCENT)	34	0.2	0.0	-0.1	-0.1	0.1	-0.2	
5. INDUSTRIAL PRODUCTION (1997=100)	32	-0.3	3.4	4.2	4.5	4.9	0.7	4.0
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	31	-11.6	-6.2	-7.7	1.2	1.2	-0.9	-2.4
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	32	-1.9	-0.2	0.2	0.1	0.1	0.2	-0.1
8. 3-MONTH TREASURY BILL RATE (PERCENT)	31	0.01	0.03	0.08	0.15	0.34	-0.40	0.93
9. AAA CORPORATE BOND YIELD (PERCENT)	27	-0.12	0.12	0.08	0.12	0.01	-0.51	0.31
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	32	0.04	0.20	0.14	0.17	0.13	-0.51	0.62

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 2003.

TABLE TWO CONTINUED

MAJOR MACROECONOMIC INDICATORS, 2003-2004
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE- CASTERS	Q1 2003 TO Q2 2003	Q2 2003 TO Q3 2003	Q3 2003 TO Q4 2003	Q4 2003 TO Q1 2004	Q1 2004 TO Q2 2004	2002 TO 2003	2003 TO 2004
1.1. REAL GDP (BILLIONS, CHAIN WEIGHTED)	34	1.8	3.4	3.4	4.0	3.4	2.2	3.6
1.2. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	34	2.0	3.2	3.3	3.5	2.9	2.3	3.1
1.3. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	32	2.5	5.3	8.1	6.8	9.2	0.8	7.5
1.4. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	32	0.3	0.0	-0.1	-1.0	1.5	5.1	-0.4
1.5. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	32	8.1	5.2	5.3	5.0	2.5	6.1	4.3
1.6. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	32	0.9	1.0	1.0	1.8	1.4	0.7	1.5
1.7. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	33	0.2	6.6	10.7	5.7	1.8	12.1	20.5
1.8. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	33	-7.9	-1.6	-6.1	2.8	-14.0	-26.6	-13.2

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, SECOND QUARTER 2003.

TABLE THREE

ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANCES IN 100)	NUMBER OF FORECASTERS					
	Q1 2003 TO Q2 2003	Q2 2003 TO Q3 2003	Q3 2003 TO Q4 2003	Q4 2003 TO Q1 2004	Q1 2004 TO Q2 2004	
1.0 OR LESS	13	17	16	19	19	
11 TO 20	8	7	11	9	8	
21 TO 30	2	6	4	3	4	
31 TO 40	3	1	0	0	0	
41 TO 50	3	0	0	0	0	
51 TO 60	1	0	0	0	0	
61 TO 70	0	0	0	0	0	
71 TO 80	1	0	0	0	0	
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	15	10	10	10	10	
MEAN PROBABILITY	20	14	13	11	10	

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 31.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2003.

TABLE FOUR

MEAN PROBABILITY OF CHANGES IN GDP AND PRICES
2002-2003 AND 2003-2004

MEAN PROBABILITY ATTACHED TO POSSIBLE
PERCENT CHANGES IN REAL GDP:

	2002-2003	2003-2004
6.0 OR MORE	0.24	1.17
5.0 TO 5.9	0.86	3.39
4.0 TO 4.9	2.26	12.91
3.0 TO 3.9	8.82	38.97
2.0 TO 2.9	50.63	25.97
1.0 TO 1.9	24.98	10.03
0.0 TO 0.9	8.38	4.45
-1.0 TO -0.1	2.32	1.74
-2.0 TO -1.1	0.72	0.61
LESS THAN -2.0	0.81	0.75

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

	2002-2003	2003-2004
8.0 OR MORE	0.16	0.35
7.0 TO 7.9	0.32	0.45
6.0 TO 6.9	0.52	0.71
5.0 TO 5.9	0.77	1.10
4.0 TO 4.9	1.03	1.81
3.0 TO 3.9	6.23	7.35
2.0 TO 2.9	26.45	33.32
1.0 TO 1.9	52.84	41.81
0.0 TO 0.9	10.45	11.65
WILL DECLINE	1.23	1.45

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 32.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2003.

TABLE FIVE

LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI INFLATION RATE	
STATISTIC	
MINIMUM	1.750
LOWER QUARTILE	2.200
MEDIAN	2.500
UPPER QUARTILE	2.725
MAXIMUM	3.500
MEAN	2.464
STD. DEV.	0.360
N	33
MISSING	2

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 2003.