



SURVEY OF PROFESSIONAL FORECASTERS

Release Date: August 22, 2003

THIRD QUARTER 2003

Forecasters See Little Reason to Change Their Outlook for Growth

The prospects for economic growth over the next two years look about the same now as they did three months ago, according to 30 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The forecasters expect real GDP to grow at an annual rate of 3.5 percent in the current quarter, not much different from their previous forecast of 3.4 percent. For the year, growth is expected to average 2.3 percent, up just a bit from the previous estimate of 2.2 percent. Growth will accelerate to 3.7 percent in 2004. Previously, the forecasters thought growth would average 3.6 percent in 2004.

Despite a roughly unchanged outlook for economic growth, the forecasters see the unemployment rate averaging a bit higher than they expected three months ago. In this survey, the forecasters see unemployment averaging 6.1 percent in 2003 and falling to 5.9 percent next year. In the survey of three months ago, the forecasters saw the unemployment rate averaging 5.9 percent in 2003 and 5.7 percent in 2004.

The forecasters are cutting their estimates for inflation over the near term. Measured by the fourth-quarter over fourth-quarter rate of change in the CPI, inflation is now expected to average 1.8 percent in 2003, down from 2.4 percent previously, and 2.0 percent in 2004, down from 2.3 percent in the last survey. Measured by the year over year percent change in the GDP price index, inflation will average 1.6 percent this year and in 2004. Previously, the forecasters thought this measure would average 1.8 percent in both years.

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: Q3	3.4	3.5	6.0	6.2	1.8	1.5
Q4	3.4	3.9	5.9	6.1	2.1	1.4
2004: Q1	4.0	3.8	5.8	6.0	2.2	2.0
Q2	3.4	3.8	5.7	5.9	2.3	1.9
Q3	N.A.	3.6	N.A.	5.8	N.A.	2.0
<i>Annual average data:</i>						
2003	2.2	2.3	5.9	6.1	2.4	1.8
2004	3.6	3.7	5.7	5.9	2.3	2.0

Outlook for Short-Term Rates Revised Down

The forecasters see short-term interest rates hovering at levels lower than they expected in the previous survey, even as the outlook for long-term rates remains roughly unchanged. The rate on three-month Treasury bills is expected to average 1.0 percent in 2003, down 0.2 percentage point from the previous estimate of 1.2 percent. Likewise, the forecast for the short-term rate in 2004 is now 1.5 percent, down from 2.1 percent in the last survey. In contrast, the forecasters are leaving their outlook for the rate on 10-year Treasury bonds roughly unchanged: That rate is expected to average 4.0 percent in 2003 and 4.6 percent in 2004, both down just 0.1 percentage point from the last survey.

A Lower Risk of a Negative Quarter Is Seen

The forecasters see very little chance that any of the next five quarters will experience a decline in real GDP. As the table below shows, the forecasters are assigning a mere 5 percent chance to negative growth in the current quarter and only a 7 percent chance in the following quarter. These estimates are below those of the previous survey. The forecasters see little chance of a downturn in the first three quarters of next year.

<i>Risk of a Negative Quarter (%)</i>		
	<i>Previous Survey</i>	<i>New Survey</i>
<i>Quarterly data:</i>		
2003: Q3	14	5
Q4	13	7
2004: Q1	11	9
Q2	10	9
Q3	N.A.	10

Long-Term Expectations for Inflation Hold Steady

Long-term expectations for inflation are holding steady. The forecasters expect the annual average rate of change in the Consumer Price Index over the next 10 years to be 2.50 percent, the same rate expected in the last survey. The middle range of forecasts is 2.25 percent to 2.70 percent.

Equilibrium Unemployment Holds Steady

In third-quarter surveys, we ask the forecasters to provide their estimates of the natural rate of unemployment—the rate of unemployment that occurs when the economy reaches equilibrium. For the third-quarter surveys conducted since 1996, the following table tracks the median estimate of the natural rate (computed from the responses of those forecasters who use the natural rate concept in preparing their projections), as well as the percentage of forecasters who use the concept, and the lowest and highest estimates (among those who use the concept). Eleven of the 27 participants who answered the question report that they use the natural rate in their forecasts. Among these 11, the median estimate for the natural rate is 5.00 percent, roughly the same estimate recorded in the survey of a year ago. The lowest estimate of the natural rate is 4.31 percent, and the highest estimate is 5.40 percent.

<i>Survey Date</i>	<i>Percentage Who Use The Natural Rate (%)</i>	<i>Median Estimate (%)</i>	<i>Low (%)</i>	<i>High (%)</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
2001:Q3	34	4.88	3.50	5.50
2002:Q3	50	5.10	3.80	5.50
2003:Q3	41	5.00	4.31	5.40

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

Joseph T. Abate, Lehman Brothers; **David W. Berson**, Fannie Mae; **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**, MMS International; **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; **John J. McAuley**, Wilkinson Boyd Capital Markets, Inc.; **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

	2004				ANNUAL AVERAGE	
	Q3	Q4	Q1	Q2		
	FORECAST				2003	2004
PERCENT GROWTH AT ANNUAL RATES						
1. REAL GDP (BILLIONS, CHAIN WEIGHTED)	3.5	3.9	3.8	3.8	3.6	2.3
2. GDP PRICE INDEX (1996=100)	1.4	1.5	1.9	1.8	1.8	1.6
3. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	5.1	5.7	6.0	5.3	5.3	4.0
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	1.5	1.4	2.0	1.9	2.0	1.8
VARIABLES IN LEVELS						
5. UNEMPLOYMENT RATE (PERCENT)	6.2	6.1	6.0	5.9	5.8	6.1
6. 3-MONTH TREASURY BILL RATE (PERCENT)	0.9	1.0	1.1	1.3	1.6	1.0
7. 10-YEAR TREASURY BOND YIELD (PERCENT)	4.2	4.3	4.4	4.5	4.8	4.0

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

NOTES: THE FIGURES ON EACH LINE ARE MEDIANS OF 30 INDIVIDUAL FORECASTS. NA = NOT APPLICABLE.

SURVEY OF PROFESSIONAL FORECASTERS

Third 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 July 31; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before August 16.

TABLE ONE

MAJOR MACROECONOMIC INDICATORS, 2003-2004
MEDIANS OF FORECASTER PREDICTIONS

	NUMBER OF FORE- CASTERS	FORECASTS								ACTUAL 2002	FORECAST 2003	FORECAST 2004		
		2003		2004		2004		Q1	Q2	Q3				
		ACTUAL 2003	Q2	Q3	Q4	Q1	Q2							
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	30	10777.3	10911.4	11063.4	11224.8	11371.8	11520.5	10446.2	10860.8	11465.5				
2. GDP PRICE INDEX (1996=100)	29	112.17	112.56	112.98	113.50	114.00	114.50	110.66	112.40	114.25				
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	20	N.A.	510.0	523.3	536.3	550.5	567.5	451.9	501.8	550.1				
4. UNEMPLOYMENT RATE (PERCENT)	30	6.2	6.2	6.1	6.0	5.9	5.8	5.8	6.1	5.9				
5. INDUSTRIAL PRODUCTION (1999=100)	29	109.6	110.5	111.6	112.8	114.0	115.0	110.4	110.6	114.9				
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	30	1.72	1.71	1.68	1.67	1.66	1.65	1.71	1.71	1.65				
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	28	0.6	1.5	1.4	2.0	1.9	2.0	2.2	2.2	1.8	2.0			
8. 3-MONTH TREASURY BILL RATE (PERCENT)	28	1.04	0.95	1.02	1.12	1.31	1.60	1.60	1.05	1.47				
9. AAA CORPORATE BOND YIELD (PERCENT)	27	5.31	5.70	5.84	6.00	6.01	6.00	6.49	5.70	6.04				
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	29	3.62	4.20	4.30	4.40	4.50	4.75	4.61	4.00	4.60				

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

TABLE ONE CONTINUED

MAJOR MACROECONOMIC INDICATORS, 2003-2004
MEDIAN OF FORECASTER PREDICTIONS

	NUMBER OF FORE- CASTERS	FORECASTS				ACTUAL 2002	FORECAST 2003	FORECAST 2004			
		2003		2004							
		Q2	Q3	Q4	Q1						
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	30	9608.1	9692.0	9784.2	9877.1	9970.8	10059.3	9439.9			
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	30	6726.0	6781.7	6836.8	6895.9	6950.1	7007.5	6576.0			
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	30	1191.7	1210.9	1231.0	1256.6	1271.4	1302.3	1183.4			
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	29	411.5	413.0	412.5	413.0	411.7	412.0	388.2			
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	27	668.9	673.7	677.6	683.7	685.5	690.6	613.3			
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	26	1100.5	1102.6	1105.1	1108.9	1110.2	1115.7	1099.7			
17. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	30	-17.9	9.5	24.4	31.2	39.2	40.6	5.2			
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	30	-553.6	-556.5	-560.7	-566.4	-571.5	-570.3	-488.5			

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

TABLE TWO

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

	NUMBER OF FORE- CASTERS	Q2 2003 TO Q3 2003	Q3 2003 TO Q4 2003	Q4 2003 TO Q1 2004	Q1 2004 TO Q2 2004	Q2 2004 TO Q3 2004	Q3 2004 TO 2003	2002 TO 2003	2002 TO 2004
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	30	5.1	5.7	6.0	5.3	5.3	4.0	5.6	
2. GDP PRICE INDEX (1996=100)	29	1.4	1.5	1.9	1.8	1.8	1.6	1.6	
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	20	15.0	10.8	10.3	11.1	12.9	11.0	9.6	
4. UNEMPLOYMENT RATE (PERCENT)	30	0.0	-0.1	-0.1	-0.1	-0.1	0.3	-0.2	
5. INDUSTRIAL PRODUCTION (1997=100)	29	3.4	4.0	4.4	4.1	3.8	0.2	3.9	
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	30	-3.0	-5.7	-3.6	-2.3	-1.8	0.4	-3.4	
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	28	0.9	-0.1	0.6	-0.1	0.1	-0.4	0.2	
8. 3-MONTH TREASURY BILL RATE (PERCENT)	28	-0.09	0.07	0.10	0.19	0.29	-0.55	0.42	
9. AAA CORPORATE BOND YIELD (PERCENT)	27	0.39	0.14	0.16	0.01	-0.01	-0.79	0.34	
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	29	0.58	0.10	0.10	0.25	-0.61	0.60		

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 2003.

TABLE TWO CONTINUED

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

		NUMBER OF FORE- CASTERS	Q2 2003 TO Q3 2003	Q3 2003 TO Q4 2003	Q4 2003 TO Q1 2004	Q1 2004 TO Q2 2004	Q2 2004 TO Q3 2004	Q3 2004 TO 2003	2002 TO 2003	2002 TO 2004
11.	REAL GDP (BILLIONS, CHAIN WEIGHTED)	30	3.5	3.9	3.8	3.8	3.6	2.3	3.7	
12.	TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	30	3.4	3.3	3.5	3.2	3.3	2.7		3.4
13.	NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	30	6.6	6.8	8.6	4.8	10.1	1.5		7.1
14.	RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	29	1.5	-0.5	0.5	-1.3	0.3	5.8	0.3	
15.	FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	27	2.9	2.3	3.7	1.1	3.0	8.3		3.5
16.	STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	26	0.8	0.9	1.4	0.4	2.0	0.3		1.1
17.	CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	30	27.4	14.9	6.8	8.0	1.4	-0.2		33.2
18.	NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	30	-2.9	-4.2	-5.7	-5.1	1.3	-56.0		-24.8

NOTE: FIGURES FOR CHANGE IN 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 2003.

TABLE THREE

ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANCES IN 100)	Q2 2003		Q3 2003		Q4 2003		Q1 2004		Q2 2004	
	TO Q3 2003	TO Q4 2003	TO Q1 2004	TO Q2 2004	TO Q3 2004	TO Q4 2004	TO Q1 2004	TO Q2 2004	TO Q3 2004	TO Q4 2004
	NUMBER OF FORECASTERS									
10 OR LESS	23	22	18	17	17	18				
11 TO 20	3	4	8	8	8	7				
21 TO 30	0	0	0	1	1	1				
31 TO 40	0	0	0	0	0	0				
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	4	4	4	4	4	4				
MEDIAN PROBABILITY	5	8	8	9	9	10				
MEAN PROBABILITY	5	7	9	9	9	10				

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 26.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD 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	0.04	0.76
5.0 TO 5.9	0.40	5.12
4.0 TO 4.9	2.12	18.88
3.0 TO 3.9	13.04	47.52
2.0 TO 2.9	64.80	18.92
1.0 TO 1.9	14.72	6.52
0.0 TO 0.9	4.12	1.72
-1.0 TO -0.1	0.60	0.44
-2.0 TO -1.1	0.16	0.08
LESS THAN -2.0	0.04	0.04

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

	2002-2003	2003-2004
8.0 OR MORE	0.00	0.04
7.0 TO 7.9	0.00	0.08
6.0 TO 6.9	0.00	0.12
5.0 TO 5.9	0.04	0.60
4.0 TO 4.9	1.76	1.60
3.0 TO 3.9	5.00	7.68
2.0 TO 2.9	16.48	34.20
1.0 TO 1.9	65.12	43.84
0.0 TO 0.9	11.04	10.88
WILL DECLINE	0.56	0.96

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 25.

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

TABLE FIVE

LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI INFLATION RATE		
STATISTIC		
MINIMUM	1.750	
LOWER QUARTILE	2.250	
MEDIAN	2.500	
UPPER QUARTILE	2.700	
MAXIMUM	3.000	
MEAN	2.459	
STD. DEV.	0.322	
N	27	
MISSING	3	

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