



# SURVEY OF PROFESSIONAL FORECASTERS

Release Date: August 15, 2005

## THIRD QUARTER 2005

### *Forecasters See an Economy Poised for Stronger Growth*

Measured on either the output side or the labor side, the economy in the second half of the year looks stronger now than it did three months ago, according to 53 forecasters surveyed by the Federal Reserve Bank of Philadelphia. On the output side, the forecasters have raised their estimates for growth in real GDP to 4.2 percent (annual rate) this quarter and 3.6 percent in the fourth quarter. These estimates represent upward revisions from the previous estimates of 3.5 percent and 3.4 percent in the last survey. For the year, the forecasters estimate annual-average over annual-average growth at 3.7 percent, up 0.3 percentage point from their previous estimate. Growth in 2006 will average 3.4 percent, according to the forecasters.

The forecasters also see a stronger labor market. Unemployment is now expected to average 5.0 percent over the next two quarters, down slightly from the projections of the last survey. Over the next two years, unemployment is projected to average 5.1 percent in 2005 and 4.9 percent in 2006, down 0.1 and 0.2 percentage point, respectively, from the survey taken three months ago. Growth in jobs also looks stronger in the second half than it did previously. The forecasters expect nonfarm payrolls to increase at a rate of 187,000 jobs per month this quarter and rise to 190,000 per month next quarter, up from 172,000 and 179,000 in the last survey. As the table below shows, the number of new jobs will increase at a rate of 184,000 per month in 2005 (based on forecasts for the annual-average level of employment) and 173,000 per month next year.

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

|                        | Real GDP (%) |     | Unemployment Rate (%) |     | Payrolls (000s/month) |       |
|------------------------|--------------|-----|-----------------------|-----|-----------------------|-------|
|                        | Previous     | New | Previous              | New | Previous              | New   |
| <i>Quarterly data:</i> |              |     |                       |     |                       |       |
| 2005: Q3               | 3.5          | 4.2 | 5.2                   | 5.0 | 172.0                 | 186.7 |
| Q4                     | 3.4          | 3.6 | 5.1                   | 5.0 | 179.2                 | 190.3 |
| 2006: Q1               | 3.2          | 3.3 | 5.1                   | 4.9 | 156.3                 | 183.3 |
| Q2                     | 3.4          | 3.4 | 5.1                   | 4.9 | 191.3                 | 167.7 |
| Q3                     | N.A.         | 3.3 | N.A.                  | 4.9 | N.A.                  | 148.3 |

### *Annual average data:*

|      |     |     |     |     |       |       |
|------|-----|-----|-----|-----|-------|-------|
| 2005 | 3.4 | 3.7 | 5.2 | 5.1 | 179.1 | 184.1 |
| 2006 | 3.3 | 3.4 | 5.1 | 4.9 | 175.4 | 173.2 |

### *Trajectory of Inflation Over the Next 10 Years Is Mapped*

Our standard survey questionnaire asks the panelists for their CPI inflation projections over the next five quarters, the current and following years (based on the fourth-quarter over fourth-quarter percent change of the quarterly average index level), and over the next 10 years (annual average). In this survey, we asked the forecasters to provide additional

information on their outlook: First, we asked for their projection for inflation in 2007, one year longer than the standard annual horizon. Second, we also asked for their projection for annual average inflation over the first five years (2005–2009) of our standard 10-year horizon. Using a geometric averaging technique applied to each response to the five-year and 10-year questions, we can infer each forecaster's implied forecast for the annual average rate of inflation over the period 2010–2014, that is, over the second five-year period of the 10-year horizon. All forecasts are for inflation measured by the consumer price index.

The forecasters think CPI inflation will average 2.9 percent in 2005 and fall to 2.4 percent in 2006. In 2007, inflation is projected to be 2.5 percent, which is the current estimate for average annual inflation over the next 10 years. Looking at the split of annual average inflation over the two five-year periods of the 10-year horizon, we see that the forecasters expect inflation at 2.50 percent over both periods, just as in the survey of three months ago. The trajectory that emerges from this forecast is one in which inflation is temporarily high in the current quarter (2.8 percent) but quickly approaches the current estimate of long-run average inflation of 2.50 percent.

*Median Forecasts for the Trajectory of CPI Inflation Over the Next 10 Years (%)*

|                        | Previous | New |
|------------------------|----------|-----|
| <i>Quarterly data:</i> |          |     |

|         |      |     |
|---------|------|-----|
| 2005:Q3 | 2.3  | 2.8 |
| Q4      | 2.4  | 2.4 |
| 2006:Q1 | 2.4  | 2.4 |
| Q2      | 2.4  | 2.5 |
| Q3      | N.A. | 2.4 |

*Annual average data:*

|      |      |     |
|------|------|-----|
| 2005 | 2.6  | 2.9 |
| 2006 | 2.5  | 2.4 |
| 2007 | N.A. | 2.5 |

*Long-Term (Annual Average):*

|           |      |      |
|-----------|------|------|
| 2005-2009 | 2.50 | 2.50 |
| 2010-2014 | 2.45 | 2.50 |
| 2005-2014 | 2.50 | 2.50 |

### ***Equilibrium Unemployment Pegged at 5 Percent***

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). Twenty-seven of the 53 participants who answered the question report that they use the natural rate in their forecasts. Among these 27, the median estimate for the natural rate is 5.00 percent, the same estimate recorded in the survey of a year ago. The lowest estimate of the natural rate is 4.25 percent, and the highest estimate is 5.50 percent.

*Median Estimates of the Natural Rate of Unemployment*

| <i>Survey Date</i> | <i>Percentage Who Use<br/>The Natural Rate</i> | <i>Median Estimate<br/>(%)</i> | <i>Low<br/>(%)</i> | <i>High<br/>(%)</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                |
| 2004:Q3            | 46   | 5.00                           | 4.00               | 5.50                |
| 2005:Q3            | 51   | 5.00                           | 4.25               | 5.50                |

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

**Joseph T. Abate**, Lehman Brothers; **Scott Anderson**, Wells Fargo and Company; **Ellen M. Beeson**, Bank of Tokyo-Mitsubishi, Ltd.; **David W. Berson**, Fannie Mae; **George Brinton**, Brinton Economics, Inc.; **Joseph Carson**, Alliance Capital Management; **Gary Ciminero**, CFA, Independent Economic Advisory; **Michael Cosgrove**, Econoclast; **Richard DeKaser**, National City Corporation; **Rajeev Dhawan**, Georgia State University; **Doug Duncan**, Mortgage Bankers Association; **Michael R. Englund**, Action Economics, LLC; **Gerard F. Fuda**, Independent Economist; **Stephen Gallagher**, Societe Generale; **James Glassman**, JP Morgan Chase & Co.; **Global Insight**; **Keith Hembre**, First American Funds; **David Huether**, National Association of Manufacturers; **William B. Hummer**, Wayne Hummer Investments; **Saul Hymans**, **Joan Crary**, and **Janet Wolfe**, RSQE, The University of Michigan; **Fred Joutz**, Benchmark Forecasts and Research Program on Forecasting, George Washington University; **Kurt Karl**, Swiss Re; **Dr. Irwin Kellner**, Hofstra University/CBS MarketWatch/North Fork Bank; **L. Douglas Lee**, Economics from Washington; **Joseph Liro**, Stone & McCarthy Research Associates; **John Lonski**, Moody's Investors Service; **Dean Maki**, Barclays Capital; **Edward F. McKelvey**, Goldman Sachs; **Jim Meil**, Eaton Corporation; **Anthony Metz**, Pareto Optimal Economics; **Michael Moran**, Daiwa Securities America; **Joel L. Naroff**, Naroff Economic Advisors; **Mark Nielson, Ph.D.**, MacroEcon Global Advisors; **Michael P. Niemira**, International Council of Shopping Centers; **Martin A. Regalia**, U.S. Chamber of Commerce; **David Resler**, Nomura Securities International, Inc.; **John Ryding**, Bear, Stearns, and Company, Inc.; **David F. Seiders**, National Association of Home Builders; **Xiaobing Shuai, Ph.D.**, Chmura Economics & Analytics; **Sean M. Snaith, Ph.D.**, University of the Pacific; **Constantine G. Soras, Ph.D.**, Verizon Communications; **Neal Soss**, Credit Suisse First Boston; **Stephen Stanley**, RBS Greenwich Capital; **Susan M. Sterne**, Economic Analysis Associates, Inc.; **Edward Sullivan**, Portland Cement Association; **Thomas Kevin Swift**, American Chemistry Council; **David Teolis**, General Motors Corporation; **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.

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To subscribe to the survey, go to [www.philadelphiafed.org/forms/orderform.htm](http://www.philadelphiafed.org/forms/orderform.htm). 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.philadelphiafed.org/econ/spf/index.html>.

SURVEY OF PROFESSIONAL FORECASTERS  
MAJOR MACROECONOMIC INDICATORS, 2005-2006

|  | Q3 | 2005 | Q4  | Q1  | 2006 | Q2  | Q3  | FORECAST | 2005 | 2006 | ANNUAL AVERAGE |
|--|----|------|-----|-----|------|-----|-----|----------|------|------|----------------|
| PERCENT GROWTH AT ANNUAL RATES                   |    |      |     |     |      |     |     |          |      |      |                |
| 1. REAL GDP<br>(BILLIONS, CHAIN WEIGHTED)        |    | 4.2  | 3.6 | 3.3 | 3.4  | 3.3 | 3.3 |          | 3.7  | 3.4  |                |
| 2. GDP PRICE INDEX<br>(2000=100)                 |    | 2.1  | 2.2 | 2.4 | 1.9  | 2.4 | 2.4 |          | 2.6  | 2.2  |                |
| 3. GROSS DOMESTIC PRODUCT (GDP)<br>(\$ BILLIONS) |    | 6.5  | 5.8 | 5.7 | 5.6  | 5.3 | 5.3 |          | 6.3  | 5.7  |                |
| 4. CONSUMER PRICE INDEX (CPI-U)<br>(ANNUAL RATE) |    | 2.8  | 2.4 | 2.4 | 2.5  | 2.4 | 2.4 |          | 2.9  | 2.4  |                |
| VARIABLES IN LEVELS                              |    |      |     |     |      |     |     |          |      |      |                |
| 5. UNEMPLOYMENT RATE<br>(PERCENT)                |    | 5.0  | 5.0 | 4.9 | 4.9  | 4.9 | 4.9 |          | 5.1  | 4.9  |                |
| 6. 3-MONTH TREASURY BILL RATE<br>(PERCENT)       |    | 3.4  | 3.9 | 4.1 | 4.3  | 4.3 | 4.3 |          | 3.2  | 4.3  |                |
| 7. 10-YEAR TREASURY BOND YIELD<br>(PERCENT)      |    | 4.4  | 4.6 | 4.8 | 5.0  | 5.0 | 5.0 |          | 4.4  | 5.0  |                |

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 2005.

NOTES: THE FIGURES ON EACH LINE ARE MEDIANS OF 53 INDIVIDUAL FORECASTS. NA = NOT APPLICABLE.

**SURVEY OF PROFESSIONAL FORECASTERS**

**Third Quarter 2005**

**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 29; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before August 11, 2005.

TABLE ONE

**MAJOR MACROECONOMIC INDICATORS, 2005-2006**  
**MEDIANS OF FORECASTER PREDICTIONS**

|  | NUMBER<br>OF FORE-<br>CASTERS | FORECASTS |         |         |         | ACTUAL,<br>2004 | FORECAST<br>2005 | FORECAST<br>2006 |  |  |  |
|--|-------------------------------|-----------|---------|---------|---------|-----------------|------------------|------------------|--|--|--|
|  |                               | 2005      |         | 2006    |         |                 |                  |                  |  |  |  |
|  |                               | Q1        | Q2      | Q3      | Q4      |                 |                  |                  |  |  |  |
| 1. GROSS DOMESTIC PRODUCT (GDP)<br>(\$ BILLIONS)         | 52                            | 12376.2   | 12572.6 | 12751.6 | 12930.4 | 13106.8         | 13277.9          | 11734.3          |  |  |  |
| 2. GDP PRICE INDEX<br>(2000=100)                         | 53                            | 111.61    | 112.20  | 112.80  | 113.48  | 114.03          | 114.72           | 109.10           |  |  |  |
| 3. CORPORATE PROFITS AFTER TAXES<br>(\$ BILLIONS)        | 23                            | N.A.      | 1041.2  | 1047.7  | 1052.8  | 1063.6          | 1078.5           | 788.2            |  |  |  |
| 4. UNEMPLOYMENT RATE<br>(PERCENT)                        | 53                            | 5.1       | 5.0     | 5.0     | 4.9     | 4.9             | 4.9              | 5.5              |  |  |  |
| 5. INDUSTRIAL PRODUCTION<br>(1997=100)                   | 49                            | 118.8     | 120.1   | 121.2   | 122.4   | 123.3           | 124.2            | 115.5            |  |  |  |
| 6. NEW PRIVATE HOUSING STARTS<br>(ANNUAL RATE, MILLIONS) | 49                            | 2.01      | 2.00    | 1.97    | 1.93    | 1.88            | 1.86             | 1.96             |  |  |  |
| 7. CONSUMER PRICE INDEX (CPI-U)<br>(ANNUAL RATE)         | 53                            | 4.2       | 2.8     | 2.4     | 2.4     | 2.5             | 2.4              | 3.4              |  |  |  |
| 8. 3-MONTH TREASURY BILL RATE<br>(PERCENT)               | 50                            | 2.86      | 3.39    | 3.85    | 4.09    | 4.28            | 4.31             | 1.37             |  |  |  |
| 9. AAA CORPORATE BOND YIELD<br>(PERCENT)                 | 45                            | 5.15      | 5.28    | 5.61    | 5.84    | 5.98            | 6.01             | 5.63             |  |  |  |
| 10. 10-YEAR TREASURY BOND YIELD<br>(PERCENT)             | 51                            | 4.16      | 4.35    | 4.60    | 4.80    | 4.95            | 5.04             | 4.27             |  |  |  |

SOURCE : RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 2005.

TABLE ONE CONTINUED

MAJOR MACROECONOMIC INDICATORS, 2005-2006  
MEDIAN OF FORECASTER PREDICTIONS

|   | NUMBER<br>OF FORE-<br>CASTERS | ACTUAL<br>2005 | 2005    |         |         |         | FORECASTS<br>2006 |         |         | ACTUAL<br>2004 | FORECAST<br>2005 | FORECAST<br>2006 |
|---|-------------------------------|----------------|---------|---------|---------|---------|-------------------|---------|---------|----------------|------------------|------------------|
|   |                               |                | Q3      |         | Q4      |         | Q1                |         | Q2      |                |                  |                  |
|   |                               |                | —       | —       | —       | —       | —                 | —       | —       | —              | —                | —                |
| 11. REAL GDP<br>(BILLIONS, CHAIN WEIGHTED)                        | 53                            | 11092.0        | 11206.7 | 11306.2 | 11397.2 | 11491.6 | 11583.9           | 10755.7 | 11151.2 | 11532.9        |                  |                  |
| 12. TOTAL CONSUMPTION EXPENDITURES<br>(BILLIONS, CHAIN WEIGHTED)  | 52                            | 7828.3         | 7900.1  | 7954.5  | 8020.3  | 8083.3  | 8146.3            | 7588.6  | 7861.8  | 8109.9         |                  |                  |
| 13. NONRESIDENTIAL FIXED INVESTMENT<br>(BILLIONS, CHAIN WEIGHTED) | 51                            | 1279.5         | 1308.6  | 1333.4  | 1360.0  | 1386.4  | 1411.3            | 1186.7  | 1293.5  | 1398.2         |                  |                  |
| 14. RESIDENTIAL FIXED INVESTMENT<br>(BILLIONS, CHAIN WEIGHTED)    | 51                            | 597.9          | 601.3   | 600.1   | 599.1   | 594.5   | 591.6             | 561.8   | 595.5   | 593.0          |                  |                  |
| 15. FEDERAL GOVERNMENT C & I<br>(BILLIONS, CHAIN WEIGHTED)        | 50                            | 734.2          | 738.0   | 742.0   | 746.5   | 750.2   | 753.5             | 723.7   | 736.8   | 752.3          |                  |                  |
| 16. STATE AND LOCAL GOVT C & I<br>(BILLIONS, CHAIN WEIGHTED)      | 50                            | 1247.2         | 1252.0  | 1257.9  | 1264.2  | 1271.0  | 1278.1            | 1228.4  | 1249.3  | 1273.8         |                  |                  |
| 17. CHANGE IN PRIVATE INVENTORIES<br>(BILLIONS, CHAIN WEIGHTED)   | 52                            | -6.4           | 21.0    | 40.9    | 44.4    | 45.0    | 41.0              | 52.0    | 29.0    | 42.2           |                  |                  |
| 18. NET EXPORTS<br>(BILLIONS, CHAIN WEIGHTED)                     | 52                            | -601.3         | -620.0  | -629.2  | -635.0  | -631.8  | -630.4            | -601.3  | -624.7  | -630.6         |                  |                  |

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 2005.

TABLE TWO

**MAJOR MACROECONOMIC INDICATORS, 2005-2006**  
**PERCENTAGE CHANGES AT ANNUAL RATES**

|  | NUMBER<br>OF FORE-<br>CASTERS | Q2 2005<br>TO<br>Q3 2005 | Q3 2005<br>TO<br>Q4 2005 | Q4 2005<br>TO<br>Q1 2006 | Q1 2006<br>TO<br>Q2 2006 | Q2 2006<br>TO<br>Q3 2006 | Q3 2006<br>TO<br>Q4 2006 | Q4 2006<br>TO<br>2005 | 2005<br>TO<br>2006 |
|--|-------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|-----------------------|--------------------|
| 1. GROSS DOMESTIC PRODUCT (GDP)<br>(\$ BILLIONS)         | 52                            | 6.5                      | 5.8                      | 5.7                      | 5.6                      | 5.3                      | 6.3                      | 5.7                   |                    |
| 2. GDP PRICE INDEX<br>(2000=100)                         | 53                            | 2.1                      | 2.2                      | 2.4                      | 1.9                      | 2.4                      | 2.6                      | 2.2                   |                    |
| 3. CORPORATE PROFITS AFTER TAXES<br>(\$ BILLIONS)        | 23                            | 2.0                      | 2.5                      | 1.9                      | 4.2                      | 5.7                      | 31.0                     | 3.7                   |                    |
| 4. UNEMPLOYMENT RATE<br>(PERCENT)                        | 53                            | -0.1                     | 0.0                      | -0.1                     | 0.0                      | 0.0                      | -0.4                     | -0.2                  |                    |
| 5. INDUSTRIAL PRODUCTION<br>(1997=100)                   | 49                            | 4.4                      | 3.8                      | 4.0                      | 3.0                      | 2.9                      | 3.5                      | 3.6                   |                    |
| 6. NEW PRIVATE HOUSING STARTS<br>(ANNUAL RATE, MILLIONS) | 49                            | -2.4                     | -6.1                     | -7.9                     | -9.2                     | -4.3                     | 3.0                      | -6.9                  |                    |
| 7. CONSUMER PRICE INDEX (CPI-U)<br>(ANNUAL RATE)         | 53                            | -1.4                     | -0.4                     | 0.0                      | 0.1                      | -0.1                     | -0.5                     | -0.5                  |                    |
| 8. 3-MONTH TREASURY BILL RATE<br>(PERCENT)               | 50                            | 0.54                     | 0.46                     | 0.24                     | 0.19                     | 0.03                     | 1.80                     | 1.10                  |                    |
| 9. AAA CORPORATE BOND YIELD<br>(PERCENT)                 | 45                            | 0.13                     | 0.33                     | 0.23                     | 0.13                     | 0.03                     | -0.27                    | 0.65                  |                    |
| 10. 10-YEAR TREASURY BOND YIELD<br>(PERCENT)             | 51                            | 0.19                     | 0.25                     | 0.20                     | 0.15                     | 0.09                     | 0.10                     | 0.63                  |                    |

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 2005.

TABLE TWO CONTINUED

MAJOR MACROECONOMIC INDICATORS, 2005-2006  
PERCENTAGE CHANGES AT ANNUAL RATES

|  | NUMBER<br>OF FORE-<br>CASTERS | Q2 2005<br>TO<br>Q3 2005 | Q3 2005<br>TO<br>Q4 2005 | Q4 2005<br>TO<br>Q1 2006 | Q1 2006<br>TO<br>Q2 2006 | Q2 2006<br>TO<br>Q3 2006 | Q2 2006<br>TO<br>Q3 2005 | 2004<br>TO<br>2005<br>TO<br>2006 |
|--|-------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|----------------------------------|
| 1.1. REAL GDP<br>(BILLIONS, CHAIN WEIGHTED)                        | 53                            | 4.2                      | 3.6                      | 3.3                      | 3.4                      | 3.3                      | 3.7                      | 3.4                              |
| 1.2. TOTAL CONSUMPTION EXPENDITURES<br>(BILLIONS, CHAIN WEIGHTED)  | 52                            | 3.7                      | 2.8                      | 3.4                      | 3.2                      | 3.2                      | 3.6                      | 3.2                              |
| 1.3. NONRESIDENTIAL FIXED INVESTMENT<br>(BILLIONS, CHAIN WEIGHTED) | 51                            | 9.4                      | 7.8                      | 8.2                      | 8.0                      | 7.4                      | 9.0                      | 8.1                              |
| 1.4. RESIDENTIAL FIXED INVESTMENT<br>(BILLIONS, CHAIN WEIGHTED)    | 51                            | 2.3                      | -0.8                     | -0.7                     | -3.0                     | -2.0                     | 6.0                      | -0.4                             |
| 1.5. FEDERAL GOVERNMENT C & I<br>(BILLIONS, CHAIN WEIGHTED)        | 50                            | 2.1                      | 2.2                      | 2.4                      | 2.0                      | 1.8                      | 1.8                      | 2.1                              |
| 1.6. STATE AND LOCAL GOVT C & I<br>(BILLIONS, CHAIN WEIGHTED)      | 50                            | 1.5                      | 1.9                      | 2.0                      | 2.2                      | 2.2                      | 1.7                      | 2.0                              |
| 1.7. CHANGE IN PRIVATE INVENTORIES<br>(BILLIONS, CHAIN WEIGHTED)   | 52                            | 27.4                     | 19.9                     | 3.5                      | 0.6                      | -4.0                     | -23.0                    | 13.2                             |
| 1.8. NET EXPORTS<br>(BILLIONS, CHAIN WEIGHTED)                     | 52                            | -18.7                    | -9.2                     | -5.8                     | 3.2                      | 1.4                      | -23.4                    | -6.0                             |

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 2005.

TABLE THREE  
ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

| ESTIMATED<br>PROBABILITY<br>(CHANCES IN 100) | Q2 2005       |               |               |               | Q3 2005       |               |               |               | Q4 2005       |                       |  |  | Q1 2006 |  |  |  | Q2 2006 |  |  |    |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------------|--|--|---------|--|--|--|---------|--|--|----|
|  | TO<br>Q3 2005 | TO<br>Q4 2005 | TO<br>Q1 2006 | TO<br>Q2 2006 | TO<br>Q3 2006 | TO<br>Q4 2005 | TO<br>Q1 2006 | TO<br>Q2 2006 | TO<br>Q3 2006 | NUMBER OF FORECASTERS |  |  |         |  |  |  |         |  |  |    |
| 10 OR LESS                                   | 50            | 46            | 38            | 28            |               |               |               |               |               |                       |  |  |         |  |  |  |         |  |  | 23 |
| 11 TO 20                                     | 1             | 4             | 11            | 17            |               |               |               |               |               |                       |  |  |         |  |  |  |         |  |  | 20 |
| 21 TO 30                                     | 0             | 1             | 2             | 5             |               |               |               |               |               |                       |  |  |         |  |  |  |         |  |  | 7  |
| 31 TO 40                                     | 0             | 0             | 0             | 1             |               |               |               |               |               |                       |  |  |         |  |  |  |         |  |  | 1  |
| 41 TO 50                                     | 0             | 0             | 0             | 0             |               |               |               |               |               |                       |  |  |         |  |  |  |         |  |  | 0  |
| 51 TO 60                                     | 0             | 0             | 0             | 0             |               |               |               |               |               |                       |  |  |         |  |  |  |         |  |  | 0  |
| 61 TO 70                                     | 0             | 0             | 0             | 0             |               |               |               |               |               |                       |  |  |         |  |  |  |         |  |  | 0  |
| 71 TO 80                                     | 0             | 0             | 0             | 0             |               |               |               |               |               |                       |  |  |         |  |  |  |         |  |  | 0  |
| 81 TO 90                                     | 0             | 0             | 0             | 0             |               |               |               |               |               |                       |  |  |         |  |  |  |         |  |  | 0  |
| 91 AND OVER                                  | 0             | 0             | 0             | 0             |               |               |               |               |               |                       |  |  |         |  |  |  |         |  |  | 0  |
| NOT REPORTING                                | 2             | 2             | 2             | 2             |               |               |               |               |               |                       |  |  |         |  |  |  |         |  |  | 2  |
| MEDIAN PROBABILITY                           | 1             | 5             | 10            | 10            |               |               |               |               |               |                       |  |  |         |  |  |  |         |  |  | 15 |
| MEAN PROBABILITY                             | 2             | 5             | 9             | 12            |               |               |               |               |               |                       |  |  |         |  |  |  |         |  |  | 14 |

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 51.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 2005.

TABLE FOUR

MEAN PROBABILITY OF CHANGES IN GDP AND PRICES  
2004-2005 AND 2005-2006

MEAN PROBABILITY ATTACHED TO POSSIBLE  
PERCENT CHANGES IN REAL GDP:

|                | 2004-2005 | 2005-2006 |
|----------------|-----------|-----------|
| -----          | -----     | -----     |
| 6.0 OR MORE    | 0.29      | 0.68      |
| 5.0 TO 5.9     | 2.23      | 2.62      |
| 4.0 TO 4.9     | 1.690     | 13.68     |
| 3.0 TO 3.9     | 65.44     | 47.34     |
| 2.0 TO 2.9     | 10.15     | 24.36     |
| 1.0 TO 1.9     | 2.97      | 7.00      |
| 0.0 TO 0.9     | 1.52      | 2.78      |
| -1.0 TO -0.1   | 0.23      | 0.74      |
| -2.0 TO -1.1   | 0.15      | 0.46      |
| LESS THAN -2.0 | 0.11      | 0.34      |

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

|              | 2004-2005 | 2005-2006 |
|--------------|-----------|-----------|
| -----        | -----     | -----     |
| 8.0 OR MORE  | 0.08      | 0.10      |
| 7.0 TO 7.9   | 0.14      | 0.16      |
| 6.0 TO 6.9   | 0.24      | 0.42      |
| 5.0 TO 5.9   | 0.49      | 0.82      |
| 4.0 TO 4.9   | 1.98      | 3.00      |
| 3.0 TO 3.9   | 20.08     | 17.61     |
| 2.0 TO 2.9   | 64.33     | 51.80     |
| 1.0 TO 1.9   | 10.61     | 21.13     |
| 0.0 TO 0.9   | 1.92      | 4.72      |
| WILL DECLINE | 0.14      | 0.24      |

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 52.

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

2005.

TABLE FIVE  
LONG-TERM (10 YEAR) FORECASTS

| SERIES: CPI INFLATION RATE |       |
|----------------------------|-------|
| STATISTIC                  |       |
| MINIMUM                    | 2.000 |
| LOWER QUARTILE             | 2.400 |
| MEDIAN                     | 2.500 |
| UPPER QUARTILE             | 2.750 |
| MAXIMUM                    | 6.000 |
| MEAN                       | 2.701 |
| STD. DEV.                  | 0.673 |
| N                          | 37    |
| MISSING                    | 16    |

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 2005.