



SURVEY OF PROFESSIONAL FORECASTERS

Release Date: November 13, 2006

FOURTH QUARTER 2006

Forecasters Lower Their Near-Term Estimates for Growth

The rate of growth in U.S. output over the next few quarters looks slower now than it did just three months ago, according to 51 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The largest downward revisions to growth occur in the next two quarters, when the forecasters expect real GDP to grow at an annual rate of 2.5 percent in the current quarter, down from their previous estimate of 2.9 percent, and 2.7 percent in the first quarter of next year, down from 2.9 percent. On an annual-average over annual-average basis, real GDP will grow 3.3 percent this year and 2.6 percent in 2007. Previously, the forecasters expected growth of 3.4 percent in 2006 and 2.8 percent in 2007. The forecasters have reduced their estimates for growth in 2007 in each of the surveys this year. They began the year, in February, expecting growth in 2007 of 3.2 percent. In each of the next three surveys—conducted in May, August, and November—the forecasters cut their estimates 0.2 percentage point, leading to this survey's current estimate of 2.6 percent.

Despite the forecasters' somewhat weaker outlook for growth, their outlook for the labor market is holding steady. They project the unemployment rate will average 4.7 percent this year, unchanged from their previous estimate, and 4.8 percent in 2007, down marginally from their previous estimate of 4.9 percent. On the jobs front, the forecasters see nonfarm payroll employment increasing at a rate of 155,000 per month in 2006 and 119,000 per month in 2007. Their previous estimates called for job growth at a rate of 154,000 per month in 2006 and 126,000 per month in 2007, as the table below shows.

	<i>Real GDP (%)</i>		<i>Unemployment Rate (%)</i>		<i>Payrolls (000s/month)</i>	
	<i>Previous</i>	<i>New</i>	<i>Previous</i>	<i>New</i>	<i>Previous</i>	<i>New</i>
<i>Quarterly data:</i>						
2006: Q4	2.9	2.5	4.8	4.5	127.2	122.8
2007: Q1	2.9	2.7	4.8	4.7	118.5	117.2
Q2	2.7	2.9	4.9	4.8	126.4	99.4
Q3	3.0	2.9	4.9	4.8	136.2	118.7
Q4	N.A.	2.9	N.A.	4.9	N.A.	118.1
<i>Annual average data:</i>						
2006	3.4	3.3	4.7	4.7	153.6	154.5
2007	2.8	2.6	4.9	4.8	126.1	119.0

The Near-Term Inflation Outlook Improves

Measured by either the rate of change in the consumer price index or the price index for GDP, the short-run inflation outlook looks better now than it did in the last survey. The forecasters expect CPI inflation to average 2.4 percent in 2006 (fourth-quarter over fourth-quarter), down almost a percentage point from their previous estimate of 3.3 percent,

and 2.6 percent in 2007, unchanged from the estimate of three months ago. An alternative, broader measure of inflation given by the rate of growth in the price index for GDP is expected to average 3.0 percent this year (annual-average over annual-average) and 2.3 percent next year. Previously, the forecasters thought GDP inflation would average 3.1 percent this year and 2.5 percent next year, as shown below.

Near-Term Inflation Outlook

	<i>CPI (%)</i>		<i>GDP Price Index (%)</i>	
	<i>Previous</i>	<i>New</i>	<i>Previous</i>	<i>New</i>
<i>Quarterly data:</i>				
2006:Q4	2.8	-0.3	2.4	2.2
2007:Q1	2.7	2.8	2.6	2.5
Q2	2.5	2.6	2.3	2.1
Q3	2.5	2.5	2.3	2.3
Q4	N.A.	2.5	N.A.	2.2
<i>Annual average data:</i>				
2006	3.3	2.4	3.1	3.0
2007	2.6	2.6	2.5	2.3

The Medium and Long-Term Inflation Outlook Holds Steady

At longer horizons, the forecasters see little reason to change their outlook for CPI inflation. As the table below shows, CPI inflation is expected to average 2.50 percent in 2008, 2.60 percent over the next five years, and 2.50 percent over the following five-year period. These estimates are nearly unchanged from those of the previous survey. On average, over the next 10 years, CPI inflation is expected to be 2.50 percent.

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

	<i>Previous</i>	<i>New</i>
<i>Annual average data:</i>		
2006	3.34	2.40
2007	2.56	2.60
2008	2.50	2.50
<i>Long-term (annual average):</i>		
2006-2010	2.60	2.60
2011-2015	2.45	2.50
2006-2015	2.50	2.50

Interest Rates Are Now Seen at Lower Levels

Projections for short-term interest rates, as measured by the rate on three-month Treasury bills, have been revised downward. The forecasters now see the three-month bill rate averaging 4.8 percent in each of the next two years, marking a downward revision from the previous estimates of 4.9 percent in 2006 and 5.0 percent in 2007. Notably, they see short rates holding steady at 5.0 percent over the next two quarters, before dropping in the second and third quarters of next year. The forecasters also see long-term interest rates, as measured by the rate on 10-year Treasuries, at lower levels than they thought previously. The 10-year rate will average nearly the same as the short-term rate over the next two years, 4.8 percent in 2006 and 4.9 percent in 2007, as shown in the table below.

Outlook for Interest Rates on Treasury Securities

	<i>3-Month Bill (%)</i>		<i>10-Year Bond (%)</i>	
	<i>Previous</i>	<i>New</i>	<i>Previous</i>	<i>New</i>
<i>Quarterly data:</i>				
2006:Q4	5.2	5.0	5.2	4.8
2007:Q1	5.2	5.0	5.2	4.8
Q2	5.1	4.9	5.2	4.9
Q3	5.0	4.8	5.2	5.0
Q4	N.A.	4.8	N.A.	5.0
 <i>Annual average data:</i>				
2006	4.9	4.8	5.0	4.8
2007	5.0	4.8	5.2	4.9

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

Joseph T. Abate, Lehman Brothers; **Scott Anderson**, Wells Fargo and Company; **Robert J. Barbera**, ITG Inc.; **David W. Berson**, Fannie Mae; **Joseph Carson**, Alliance Capital Management; **Gary Ciminero**, CFA, Rhode Island House Policy Office; **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; **Peter Jaquette**, Weyerhaeuser Company; **Fred Joutz**, Benchmark Forecasts and Research Program on Forecasting, George Washington University; **Kurt Karl**, Swiss Re; **Dr. Irwin Kellner**, Hofstra University/MarketWatch/North Fork Bank; **Thomas Lam**, UOB Group; **L. Douglas Lee**, Economics from Washington; **Allan R. Leslie**, Economic Consultant; **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.; **David Rosenberg**, Merrill Lynch; **John Ryding**, Bear, Stearns, and Company, Inc.; **David F. Seiders**, National Association of Home Builders; **Xiaobing Shuai, Ph.D.**, Chmura Economics & Analytics; **Julian Silk**, UMUC/GWU; **Allen Sinai**, Decision Economics, Inc; **Tara M. Sinclair**, Research Program on Forecasting, George Washington University; **Sean M. Snaith, Ph.D.**, University of Central Florida; **Constantine G. Soras, Ph.D.**, Verizon Communications; **Neal Soss**, Credit Suisse; **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; **Gary Thayer**, A.G. Edwards; **Lea Tyler**, Oxford Economics USA, Inc.; **Chris Varvares** and **Nandini Nagraj**, Macroeconomic Advisers, LLC; **Albert M. Wojnilower**; **Jay N. Woodworth**, Woodworth Holdings, Ltd.; **Richard Yamarone**, Argus Research Group; **Mark Zandi**, Economy.com; **Ellen Beeson Zentner**, Bank of Tokyo-Mitsubishi UFJ, Ltd.

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/phil_mailing_list/dsp_user_login.cfm.

NEXT SURVEY RELEASE (2007Q1): February 13, 2007

SUMMARY TABLE
 SURVEY OF PROFESSIONAL FORECASTERS
 MAJOR MACROECONOMIC INDICATORS, 2006-2007

	2006 Q4	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2006 (ANNUAL AVERAGE)	2007 (ANNUAL AVERAGE)
PERCENT GROWTH AT ANNUAL RATES							
1. REAL GDP (BILLIONS, CHAIN WEIGHTED)	2.5	2.7	2.9	2.9	2.9	3.3	2.6
2. GDP PRICE INDEX (2000=100)	2.2	2.5	2.1	2.3	2.2	3.0	2.3
3. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	4.5	5.3	5.2	5.1	5.4	6.3	4.9
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	-0.3	2.8	2.6	2.5	2.5	2.4	2.6
5. NONFARM PAYROLL EMPLOYMENT (PERCENT CHANGE) (AVG MONTHLY CHANGE)	1.1 122.8	1.0 117.2	0.9 99.4	1.0 118.7	1.0 118.1	1.4 154.5	1.1 119.0
VARIABLES IN LEVELS							
6. UNEMPLOYMENT RATE (PERCENT)	4.5	4.7	4.8	4.8	4.9	4.7	4.8
7. 3-MONTH TREASURY BILL RATE (PERCENT)	5.0	5.0	4.9	4.8	4.8	4.8	4.8
8. 10-YEAR TREASURY BOND YIELD (PERCENT)	4.8	4.8	4.9	5.0	5.0	4.8	4.9

THE FIGURES ON EACH LINE ARE MEDIANS OF 51 INDIVIDUAL FORECASTERS.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA.
 SURVEY OF PROFESSIONAL FORECASTERS, FOURTH QUARTER 2006.

SURVEY OF PROFESSIONAL FORECASTERS

Fourth Quarter 2006

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 October 27; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before November 8, 2006. **Note on forecasts for corporate profits:** This is the fourth survey to incorporate forecasts for corporate profits after tax *with* inventory valuation adjustment (IVA) and capital consumption adjustment (CCAdj). Previous surveys used the after-tax measure without these adjustments.

TABLE ONE
MAJOR MACROECONOMIC INDICATORS, 2006-2007
MEDIAN OF FORECASTER PREDICTIONS

	NUMBER OF FORECASTERS	ACTUAL 2006 Q3	FORECAST 2006 Q4	FORECAST 2007 Q1	FORECAST 2007 Q2	FORECAST 2007 Q3	FORECAST 2007 Q4	ACTUAL 2005 ANNUAL	FORECAST 2006 ANNUAL	FORECAST 2007 ANNUAL
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	50	13308.3	13455.7	13632.1	13807.0	13981.4	14167.8	12455.8	13242.4	13897.8
2. GDP PRICE INDEX (2000=100)	50	116.43	117.06	117.78	118.40	119.08	119.72	112.74	116.09	118.77
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	32	N.A.	1135.0	1154.2	1172.9	1176.8	1191.5	931.4	1119.2	1175.2
4. UNEMPLOYMENT RATE (PERCENT)	51	4.7	4.5	4.7	4.8	4.8	4.9	5.1	4.7	4.8
5. NONFARM PAYROLL EMPLOYMENT (THOUSANDS)	40	135516	135884	136236	136534	136890	137244	133459	135313	136741
6. INDUSTRIAL PRODUCTION (2002=100)	46	113.6	114.1	114.8	115.6	116.6	117.4	108.1	112.7	116.1
7. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	45	1.74	1.66	1.65	1.62	1.61	1.63	2.07	1.85	1.63
8. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	49	2.9	-0.3	2.8	2.6	2.5	2.5	3.7	2.4	2.6
9. 3-MONTH TREASURY BILL RATE (PERCENT)	47	4.91	4.96	4.96	4.90	4.83	4.75	3.15	4.75	4.84
10. AAA CORPORATE BOND YIELD (PERCENT)	41	5.68	5.60	5.70	5.75	5.80	5.81	5.24	5.64	5.76
11. 10-YEAR TREASURY BOND YIELD (PERCENT)	49	4.90	4.78	4.81	4.90	4.95	5.00	4.29	4.83	4.93
12. REAL GDP (BILLIONS, CHAIN WEIGHTED)	51	11432.9	11503.2	11580.6	11662.4	11747.3	11831.5	11048.6	11410.3	11705.1
13. TOTAL CONSUMPTION EXPENDITURE (BILLIONS, CHAIN WEIGHTED)	49	8116.2	8175.7	8231.0	8286.2	8339.2	8393.8	7841.2	8087.9	8312.8
14. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	46	1330.0	1355.2	1379.3	1400.8	1418.4	1435.6	1223.8	1319.3	1409.9
15. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	46	572.5	554.7	545.0	540.5	538.9	540.1	608.0	586.8	541.0
16. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	44	739.8	745.0	749.0	751.2	753.0	756.6	727.6	741.6	753.0
17. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	43	1260.8	1268.4	1275.5	1281.4	1286.9	1294.0	1230.4	1256.4	1284.4
18. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	47	50.7	35.2	33.3	35.4	38.0	40.0	19.7	45.2	36.2
19. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	47	-639.9	-635.0	-634.4	-630.3	-630.0	-630.1	-619.2	-634.0	-630.8

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA. SURVEY OF PROFESSIONAL FORECASTERS, FOURTH QUARTER 2006.

TABLE TWO
MAJOR MACROECONOMIC INDICATORS, 2006-2007
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORECASTERS	Q3 2006 TO Q4 2006	Q4 2006 TO Q1 2007	Q1 2007 TO Q2 2007	Q2 2007 TO Q3 2007	Q3 2007 TO Q4 2007	2005 TO 2006	2006 TO 2007
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	50	4.5	5.3	5.2	5.1	5.4	6.3	4.9
2. GDP PRICE INDEX (2000=100)	50	2.2	2.5	2.1	2.3	2.2	3.0	2.3
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	32	3.9	6.9	6.7	1.3	5.1	20.2	5.0
4. UNEMPLOYMENT RATE (PERCENT)	51	-0.2	0.2	0.1	0.0	0.1	-0.4	0.1
5. NONFARM PAYROLL EMPLOYMENT (PERCENT CHANGE)	40	1.1	1.0	0.9	1.0	1.0	1.4	1.1
(AVG MONTHLY CHANGE)	40	122.8	117.2	99.4	118.7	118.1	154.5	119.0
6. INDUSTRIAL PRODUCTION (2002=100)	46	1.7	2.4	3.1	3.2	3.0	4.3	2.9
7. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	45	-16.6	-1.9	-6.0	-2.7	5.3	-10.8	-12.1
8. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	49	-3.2	3.1	-0.2	-0.1	-0.0	-1.3	0.2
9. 3-MONTH TREASURY BILL RATE (PERCENT)	47	0.05	0.00	-0.06	-0.07	-0.08	1.60	0.09
10. AAA CORPORATE BOND YIELD (PERCENT)	41	-0.08	0.10	0.05	0.05	0.01	0.40	0.12
11. 10-YEAR TREASURY BOND YIELD (PERCENT)	49	-0.12	0.03	0.09	0.05	0.05	0.54	0.10
12. REAL GDP (BILLIONS, CHAIN WEIGHTED)	51	2.5	2.7	2.9	2.9	2.9	3.3	2.6
13. TOTAL CONSUMPTION EXPENDITURE (BILLIONS, CHAIN WEIGHTED)	49	3.0	2.7	2.7	2.6	2.6	3.1	2.8
14. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	46	7.8	7.3	6.4	5.1	4.9	7.8	6.9
15. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	46	-11.8	-6.8	-3.3	-1.2	0.9	-3.5	-7.8
16. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	44	2.8	2.2	1.2	1.0	2.0	1.9	1.5
17. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	43	2.4	2.3	1.9	1.7	2.2	2.1	2.2
18. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	47	-15.5	-1.9	2.1	2.6	2.0	25.5	-9.0
19. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	47	4.9	0.6	4.1	0.3	-0.1	-14.8	3.1

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.
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, FOURTH QUARTER 2006.

TABLE THREE
ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANGES IN 100)	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007
	TO Q4 2006	TO Q1 2007	TO Q2 2007	TO Q3 2007	TO Q4 2007
NUMBER OF FORECASTERS					
10 OR LESS	34	19	14	12	13
11 TO 20	8	18	19	19	17
21 TO 30	2	5	9	10	8
31 TO 40	0	1	2	3	4
41 TO 50	1	2	1	1	3
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	6	6	6	6	6
MEAN AND MEDIAN					
MEDIAN PROBABILITY	10.00	15.00	15.00	18.00	15.00
MEAN PROBABILITY	9.16	14.98	17.20	18.36	18.82

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 45.
SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA.
SURVEY OF PROFESSIONAL FORECASTERS, FOURTH QUARTER 2006.

TABLE FOUR
 MEAN PROBABILITY OF CHANGES IN GDP AND PRICES
 2005-2006 AND 2006-2007

MEAN PROBABILITY ATTACHED TO POSSIBLE
 PERCENT CHANGES IN REAL GDP:

	2005-2006	2006-2007
	-----	-----
6.0 OR MORE	0.11	0.39
5.0 TO 5.9	0.30	0.72
4.0 TO 4.9	2.41	3.30
3.0 TO 3.9	73.02	19.43
2.0 TO 2.9	19.49	48.30
1.0 TO 1.9	3.30	19.59
0.0 TO 0.9	0.92	5.43
-1.0 TO -0.1	0.21	1.88
-2.0 TO -1.1	0.16	0.62
LESS THAN -2.0	0.07	0.33

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

	2005-2006	2006-2007
	-----	-----
8.0 OR MORE	0.17	0.20
7.0 TO 7.9	0.28	0.28
6.0 TO 6.9	0.37	0.93
5.0 TO 5.9	1.17	1.59
4.0 TO 4.9	5.65	5.04
3.0 TO 3.9	40.48	23.96
2.0 TO 2.9	48.20	49.93
1.0 TO 1.9	3.13	15.63
0.0 TO 0.9	0.52	2.24
WILL DECLINE	0.02	0.20

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 46.
 SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA.
 SURVEY OF PROFESSIONAL FORECASTERS, FOURTH QUARTER 2006.

TABLE FIVE
LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI INFLATION RATE

STATISTIC	
MINIMUM	1.75
LOWER QUARTILE	2.40
MEDIAN	2.50
UPPER QUARTILE	2.70
MAXIMUM	4.55
MEAN	2.58
STD. DEVIATION	0.49
N	46
MISSING	5

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA.
SURVEY OF PROFESSIONAL FORECASTERS, FOURTH QUARTER 2006.