

Survey of Professional Forecasters

June 1, 1993

Economic Research Department

SECOND QUARTER 1993

Short-Term Output and Inflation Prospects Are Holding Steady

Forecasts for real GDP growth through 1993 and into 1994 are little changed from the first quarter survey, according to 36 forecasters surveyed by the Federal Reserve Bank of Philadelphia. In the second quarter the forecasters expect real GDP growth to rise to 2.7 percent, up from 1.8 percent in the first quarter. They see further acceleration over the second half of 1993. Average growth for 1993 and 1994 is 3 percent, down only 0.1 percentage point from three months ago. The civilian unemployment rate is seen decreasing gradually, averaging 6.9 percent in 1993 and 6.5 percent in 1994.

Inflation, as measured by the CPI, is expected to average 3.4 percent in 1993, only slightly higher than in the previous survey despite stronger growth in the CPI over the first quarter. In 1994, the forecasters see inflation continuing at a 3.4 percent rate, unchanged from three months ago.

Interest rate projections have been revised downward this quarter, particularly on the long end of the spectrum. The forecasters currently see 10-year Treasuries yielding 6.2 percent in 1993 and 6.3 percent in 1994, down from 6.6 percent and 7.0 percent, respectively, in the last survey.

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

	<i>Real GDP</i>		<i>CPI Inflation</i>		<i>10-yr. T-Bond Yield</i>	
	<i>Previous</i>	<i>New</i>	<i>Previous</i>	<i>New</i>	<i>Previous</i>	<i>New</i>
<i>Quarterly data:</i>						
1993: Q2	2.9	2.7	3.1	3.2	6.6	6.0
Q3	3.3	3.3	3.3	3.2	6.6	6.1
Q4	3.4	3.3	3.2	3.3	6.7	6.2
1994: Q1	2.9	3.1	3.3	3.5	6.8	6.3
Q2	N.A.	2.6	N.A.	3.5	N.A.	6.3
<i>Annual average data:</i>						
1993	3.1	3.0	3.2	3.4	6.6	6.2
1994	3.1	3.0	3.4	3.4	7.0	6.3



Higher Long-Term Inflation

The median forecast for the average inflation rate (based on the Consumer Price Index) for the next 10 years rose to 3.7 percent, from 3.5 percent in the last survey. This marks the first increase in long-term inflation expectations since the second quarter of 1992. The middle half of the forecasts are in the range of 3.4 percent to 4.0 percent.

Low and Unchanged Risk of a Negative Quarter

Forecasters continue to see only a slight chance of a decline in real GDP in the immediate future, as the following table shows:

Mean Probability of a Decline in Real GDP

	<i>First Quarter 1993 Survey</i>	<i>Second Quarter 1993 Survey</i>
1993: Q2	6.0%	7.0%
Q3	7.0	7.0
Q4	9.0	9.0
1994: Q1	11.0	12.0
Q2	N.A.	14.0

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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SURVEY OF PROFESSIONAL FORECASTERS
MAJOR MACROECONOMIC INDICATORS, 1993-94

	1993	1994			ANNUAL AVERAGE			
	Q2	Q3	Q4	Q1	Q2	1993	1994	
	FORECAST							
PERCENT GROWTH AT ANNUAL RATES								
1. REAL GDP (BILLIONS OF 1987 DOLLARS)	2.7	3.3	3.3	3.1	2.6	3.0	3.0	
2. GDP IMPLICIT PRICE DEFLATOR (1987=100)	2.7	2.5	2.9	2.6	3.0	2.9	N.A.	
3. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	5.5	6.1	6.3	6.0	5.6	5.7	5.9	
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	3.2	3.2	3.3	3.5	3.5	3.4	3.4	
VARIABLES IN LEVELS								
5. UNEMPLOYMENT RATE (PERCENT)	7.0	6.9	6.7	6.6	6.5	6.9	6.5	
6. 3-MONTH TREASURY BILL RATE (PERCENT)	3.0	3.1	3.2	3.3	3.5	3.1	3.5	
7. 10-YEAR TREASURY BOND YIELD (PERCENT)	6.0	6.1	6.2	6.3	6.3	6.2	6.3	

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 1993.

NOTES: THE FIGURES ON EACH LINE ARE MEDIANS OF 36 INDIVIDUAL FORECASTS. NA = NOT APPLICABLE.
FOR THE GDP IMPLICIT PRICE DEFLATOR AND CONSUMER PRICE INDEX, THE ANNUAL AVERAGE IS THE PERCENT CHANGE IN THE
FOURTH QUARTER INDEX LEVEL FROM THE FOURTH QUARTER INDEX LEVEL OF THE PREVIOUS YEAR.

SURVEY OF PROFESSIONAL FORECASTERS

Second Quarter 1993

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 May 3; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before May 20.

TABLE ONE

MAJOR MACROECONOMIC INDICATORS, 1993-94
 MEDIAN OF FORECASTER PREDICTIONS

NUMBER OF FORE- CASTERS	ACTUAL 1993 Q1	FORECASTS								ACTUAL 1992	FORECAST 1993	FORECAST 1994
		1993		1994								
		Q2	Q3	Q4	Q1	Q2	Q3	Q4				
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	35	6158.8	6241.8	6334.8	6432.3	6526.7	6616.6	6616.6	6616.6	5950.7	6290.0	6662.5
2. GDP IMPLICIT PRICE DEFLATOR (1987=100)	35	122.9	123.7	124.5	125.4	126.2	127.1	127.1	127.1	120.9	124.2	127.7
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	27	N.A.	257.1	268.5	274.5	279.6	285.4	285.4	285.4	231.4	262.0	283.5
4. UNEMPLOYMENT RATE (PERCENT)	36	7.0	7.0	6.9	6.7	6.6	6.5	6.5	6.5	7.4	6.9	6.5
5. INDUSTRIAL PRODUCTION (1987=100)	31	111.8	112.6	113.8	115.0	115.9	116.9	116.9	116.9	108.8	113.4	117.7
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	33	1.16	1.26	1.32	1.34	1.35	1.38	1.38	1.38	1.20	1.28	1.38
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	35	4.0	3.2	3.2	3.3	3.5	3.5	3.5	3.5	3.0	3.3	3.4
8. 3-MONTH TREASURY BILL RATE (PERCENT)	33	2.96	2.98	3.08	3.20	3.35	3.47	3.47	3.47	3.43	3.07	3.45
9. AAA CORPORATE BOND YIELD (PERCENT)	28	7.73	7.50	7.60	7.66	7.67	7.74	7.74	7.74	8.14	7.63	7.75
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	32	6.28	6.04	6.10	6.21	6.30	6.35	6.35	6.35	7.01	6.16	6.35

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 1993.

TABLE ONE CONTINUED

MAJOR MACROECONOMIC INDICATORS, 1993-94
MEDIANS OF FORECASTER PREDICTIONS

	NUMBER OF FORE- CASTERS	ACTUAL 1993 Q1	FORECASTS								ACTUAL 1992	FORECAST 1993	FORECAST 1994
			1993		1994		Q4	Q1	Q2	Q2			
			Q2	Q3	Q3	Q4							
11. REAL GDP (BILLIONS OF 1987 DOLLARS)	36	5013.1	5046.3	5087.4	5129.4	5168.2	5202.0	4922.6	5068.6	5222.4			
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS OF 1987 DOLLARS)	36	3369.9	3394.9	3421.4	3447.5	3472.7	3498.1	3314.0	3408.8	3509.0			
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	36	538.2	547.5	555.3	565.2	574.4	582.0	515.0	551.8	584.6			
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	36	202.4	207.0	211.5	216.1	220.2	223.0	192.6	209.2	223.1			
15. FEDERAL GOVERNMENT PURCHASES (BILLIONS OF 1987 DOLLARS)	35	359.7	363.8	361.0	361.0	357.8	358.0	375.6	361.6	359.3			
16. STATE AND LOCAL GOVT PURCHASES (BILLIONS OF 1987 DOLLARS)	34	561.8	565.0	567.1	571.3	572.6	575.7	562.2	566.6	578.6			
17. CHANGE IN BUSINESS INVENTORIES (BILLIONS OF 1987 DOLLARS)	33	35.8	17.4	20.4	21.0	23.1	22.3	5.0	22.9	23.0			
18. NET EXPORTS (BILLIONS OF 1987 DOLLARS)	35	-54.6	-54.5	-57.0	-56.2	-57.8	-58.5	-41.8	-55.2	-58.8			

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 1993.

TABLE TWO

MAJOR MACROECONOMIC INDICATORS, 1993-94
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE- CASTERS	q1 93 TO		q2 93 TO		q3 93 TO		q4 93 TO		q1 94 TO		q2 94 TO		q3 94 TO		q4 94 TO		1993 TO		1994 TO	
		q1 93	q2 93	q3 93	q4 93	q1 94	q2 94	q3 94	q4 94	1993	1994	1993	1994	1993	1994	1993	1994	1993	1994	1993	1994
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	35	5.5	6.1	6.3	6.0	5.6	5.7	5.9													
2. GDP IMPLICIT PRICE DEFLATOR (1987=100)	35	2.7	2.5	2.9	2.6	3.0	2.7	2.8													
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	27	13.7	19.0	9.2	7.6	8.6	13.2	8.2													
4. UNEMPLOYMENT RATE (PERCENT)	36	.0	-.1	-.2	-.1	-.1	-.5	-.4													
5. INDUSTRIAL PRODUCTION (1987=100)	31	3.0	4.2	4.3	3.3	3.4	4.2	3.8													
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	33	36.8	20.5	6.2	2.4	9.7	6.5	7.6													
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	35	-.8	.0	.1	.2	.0	.3	.1													
8. 3-MONTH TREASURY BILL RATE (PERCENT)	33	.02	.10	.12	.15	.13	-.36	.38													
9. AAA CORPORATE BOND YIELD (PERCENT)	28	-.23	.10	.07	.01	.07	-.52	.13													
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	32	-.24	.06	.11	.09	.05	-.85	.19													

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 1993.

TABLE TWO CONTINUED

MAJOR MACROECONOMIC INDICATORS, 1993-94
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE- CASTERS	Q1 93		Q2 93		Q3 93		Q4 93		Q1 94		Q2 94		Q3 94		Q4 94		Q1 95		Q2 95	
		TO	TO	TO	TO	TO	TO	TO	TO	TO	TO	TO	TO	TO	TO	TO	TO	TO	TO	TO	TO
11. REAL GDP (BILLIONS OF 1987 DOLLARS)	36	2.7	3.3	3.3	3.3	3.3	3.3	3.1	3.1	2.6	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS OF 1987 DOLLARS)	36	3.0	3.2	3.2	3.1	3.1	3.0	3.0	3.0	3.0	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	36	7.1	5.9	5.9	7.3	7.3	6.7	6.7	5.4	5.4	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	36	9.5	9.0	9.0	9.0	9.0	7.7	7.7	5.2	5.2	8.6	8.6	8.6	8.6	8.6	8.6	8.6	8.6	8.6	8.6	8.6
15. FEDERAL GOVERNMENT PURCHASES (BILLIONS OF 1987 DOLLARS)	35	4.6	-3.0	-3.0	.0	.0	-3.5	-3.5	.2	.2	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7
16. STATE AND LOCAL GOVT PURCHASES (BILLIONS OF 1987 DOLLARS)	34	2.3	1.5	1.5	3.0	3.0	1.0	1.0	2.2	2.2	.8	.8	.8	.8	.8	.8	.8	.8	.8	.8	.8
17. CHANGE IN BUSINESS INVENTORIES (BILLIONS OF 1987 DOLLARS)	33	-18.4	3.0	3.0	.6	.6	2.1	2.1	-.9	-.9	17.9	17.9	17.9	17.9	17.9	17.9	17.9	17.9	17.9	17.9	17.9
18. NET EXPORTS (BILLIONS OF 1987 DOLLARS)	35	.1	-2.5	-2.5	.8	.8	-1.6	-1.6	-.7	-.7	-13.4	-13.4	-13.4	-13.4	-13.4	-13.4	-13.4	-13.4	-13.4	-13.4	-13.4

NOTE: FIGURES FOR BUSINESS INVENTORIES AND NET EXPORTS ARE CHANGES IN BILLIONS OF 1987 DOLLARS.
ALL OTHERS ARE PERCENTAGE CHANGES AT ANNUAL RATES.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 1993.

TABLE THREE

ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANCES IN 100)	Q1 93		Q2 93		Q3 93		Q4 93		Q1 94		Q2 94	
	TO	TO	TO	TO	TO	TO						
	Q2 93	Q3 93	Q3 93	Q4 93	Q1 94	Q2 94	NUMBER OF FORECASTERS					
10 OR LESS	26	27	24	16	16	16						
11 TO 20	5	5	6	13	10	10						
21 TO 30	2	1	3	4	5	5						
31 TO 40	0	0	0	0	2	2						
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	3	3	3	3	3	3						
MEDIAN PROBABILITY	5	8	10	15	15	15						
MEAN PROBABILITY	7	7	9	12	14	14						

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 33.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 1993.

TABLE FOUR

MEAN PROBABILITY OF CHANGES IN GDP AND PRICES
1992-93 AND 1993-94

MEAN PROBABILITY ATTACHED TO POSSIBLE
PERCENT CHANGES IN REAL GDP:

	1992-93 -----	1993-94 -----
6.0 OR MORE	.34	.47
5.0 TO 5.9	.46	1.56
4.0 TO 4.9	6.06	9.01
3.0 TO 3.9	39.63	36.29
2.0 TO 2.9	43.30	37.98
1.0 TO 1.9	8.46	10.26
0.0 TO 0.9	1.31	2.61
-1.0 TO -0.1	.35	1.00
-2.0 TO -1.1	.07	.50
LESS THAN -2.0	.01	.33

MEAN PROBABILITY ATTACHED TO POSSIBLE
PERCENT CHANGES IN GDP IMPLICIT PRICE DEFLATOR:

	1992-93 -----	1993-94 -----
8.0 OR MORE	.14	.26
7.0 TO 7.9	.14	.62
6.0 TO 6.9	.40	1.09
5.0 TO 5.9	2.24	4.13
4.0 TO 4.9	8.69	16.42
3.0 TO 3.9	36.41	42.32
2.0 TO 2.9	45.93	30.86
1.0 TO 1.9	5.79	3.32
0.0 TO 0.9	.23	.50
WILL DECLINE	.01	.47

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 35.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 1993.

TABLE FIVE
LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI INFLATION RATE	
STATISTIC	
MINIMUM	2.500
LOWER QUARTILE	3.350
MEDIAN	3.700
UPPER QUARTILE	4.000
MAXIMUM	8.000
MEAN	3.874
STD. DEV.	1.037
N	33
MISSING	3

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND QUARTER 1993.