

Survey of Professional Forecasters

February 24, 1995

Economic Research Division

FIRST QUARTER 1995

The Short-Run Outlook

Growth in the nation's output will slow throughout 1995, according to 29 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The forecasters expect real GDP to grow at an annual rate of 3.0 percent in the first quarter and to slow gradually to a rate of 2.1 percent by year-end. The forecasters have reduced their 1995 forecast of 3.2 percent by 0.2 percentage points to reflect recent events in the Mexican economy. For 1996, the forecasters expect real GDP to grow by 2.4 percent.

Slower growth in real GDP will dampen the prospects for further improvement on the unemployment front. The forecasters expect the unemployment rate to fall to 5.4 percent by the second quarter but to hold steady at that rate for the remainder of the year. The unemployment rate will average 5.4 percent in 1995 and rise to an average rate of 5.6 percent in 1996.

Inflation, as measured by the Consumer Price Index, will increase over the next four quarters, from an annual rate of 3.2 percent in the current quarter to 3.5 percent at year-end. Inflation will average 3.3 percent in 1995 and rise to an average rate of 3.5 percent in 1996.

The forecasters also see additional tightening of monetary policy on the horizon. The federal funds rate will peak at 6.5 percent in the third quarter of this year and fall to 6 percent in the third quarter of 1996, according to the forecasters. The three-month Treasury-bill rate will average 6.2 percent in 1995 and 6.1 percent in 1996. The following table shows the forecasters' expectation for the federal funds rate over the next two years:

Federal Funds Rate							
1995				1996			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
5.89	6.30	6.50	6.50	6.30	6.18	6.00	6.01

The Long-Run Outlook

Real GDP growth over the next 10 years will average 2.7 percent, roughly unchanged from the forecasters' expectation four quarters ago. Long-term inflation, as measured by the Consumer Price Index, is expected to average 3.3 percent, down from 3.45 percent in last year's first-quarter survey.



The long-term average return to stocks is lower now than forecasters estimated last year, while the return to bonds is higher. The return to common stocks, as measured by the S&P 500, will be 8.25 percent over the next 10 years, down from 10 percent in last year's survey. Ten-year Treasury-bonds are now expected to yield 7 percent, up from 6.1 percent. The following table compares the current long-term forecasts with those from a year ago:

Long-Term Forecasts (10-Year Average)		
	<i>Four Quarters Ago</i>	<i>Current Survey</i>
<i>Real GDP Growth</i>	2.65	2.70
<i>CPI Inflation</i>	3.45	3.30
<i>Stock Returns (S&P 500)</i>	10.00	8.25
<i>Bond Returns (10-Year Treasuries)</i>	6.09	7.00

Lower Risk of a Negative Quarter

The forecasters see a reduced chance of a decline in real GDP over the next four quarters compared with that in last quarter's survey. Currently, they see only a 2 percent chance that real GDP will decline in the first quarter, compared with an 8 percent chance assigned in the last survey. The following table compares the probabilities from the current survey with those from three months ago:

Mean Probability of a Decline in Real GDP		
	<i>Last Quarter's Survey</i>	<i>Current Survey</i>
1995: Q1	8.0	2.0
Q2	13.0	7.0
Q3	16.0	11.0
Q4	20.0	15.0
1996: Q1	N.A.	17.0

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, 1995-96

	Q1	Q2	1995	Q3	Q4	1996 Q1	ANNUAL AVERAGE							
							1995	1996						
PERCENT GROWTH AT ANNUAL RATES														
1. REAL GDP (BILLIONS OF 1987 DOLLARS)														
2. GDP IMPLICIT PRICE DEFULATOR (1987=100)	2.9	2.5	2.8	3.0	3.3	3.3	2.8	N.A.						
3. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	5.8	5.5	5.3	5.3	4.4	4.4	5.8	5.2						
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	3.2	3.3	3.3	3.5	3.5	3.5	3.3	3.5						
VARIABLES IN LEVELS														
5. UNEMPLOYMENT RATE (PERCENT)	5.5	5.4	5.4	5.4	5.4	5.4	5.4	5.6						
6. 3-MONTH TREASURY BILL RATE (PERCENT)	5.9	6.3	6.3	6.2	6.2	6.2	6.2	6.1						
7. 10-YEAR TREASURY BOND YIELD (PERCENT)	7.7	7.8	7.6	7.5	7.3	7.3	7.6	7.4						

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FIRST QUARTER 1995.

NOTES: THE FIGURES ON EACH LINE ARE MEDIANS OF 29 INDIVIDUAL FORECASTS. NA = NOT APPLICABLE.
FOR THE GDP IMPLICIT PRICE DEFULATOR 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

First Quarter 1995

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 Jan. 30; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before February 21.

TABLE ONE

**MAJOR MACROECONOMIC INDICATORS, 1995-96
MEDIAN OF FORECASTER PREDICTIONS**

	NUMBER OF FORE- CASTERS	ACTUAL 1994 Q4	FORECASTS				ACTUAL 1994	FORECAST 1995	FORECAST 1996
			Q1	Q2	Q3	Q4			
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	28	6891.1	6989.0	7084.0	7176.2	7269.0	7347.4	6736.9	7128.3
2. GDP IMPLICIT PRICE DEFULATOR (1987=100)	28	127.0	127.9	128.7	129.6	130.6	131.6	126.1	129.2
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	20	N.A.	339.2	346.5	342.0	344.0	346.3	N.A.	346.6
4. UNEMPLOYMENT RATE (PERCENT)	29	5.6	5.5	5.4	5.4	5.4	5.5	6.1	5.4
5. INDUSTRIAL PRODUCTION (1987=100)	27	120.4	121.9	122.9	123.9	124.5	125.2	118.0	123.3
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	29	1.50	1.43	1.38	1.36	1.34	1.34	1.45	1.38
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	28	2.3	3.2	3.3	3.3	3.5	3.5	2.7	3.2
8. 3-MONTH TREASURY BILL RATE (PERCENT)	28	5.28	5.90	6.26	6.34	6.22	6.01	4.25	6.19
9. AAA CORPORATE BOND YIELD (PERCENT)	23	8.57	8.45	8.50	8.40	8.38	8.31	7.96	8.43
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	24	7.84	7.70	7.80	7.60	7.50	7.30	7.08	7.64
									7.45

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FIRST QUARTER 1995.

TABLE ONE CONTINUED

**MAJOR MACROECONOMIC INDICATORS, 1995-96
MEDIAN OF FORECASTER PREDICTIONS**

	NUMBER OF FORE- CASTERS	ACTUAL 1994 Q4	FORECASTS				ACTUAL 1994	FORECAST 1995	FORECAST 1996
			1995 Q1	Q2	Q3	Q4			
11. REAL GDP (BILLIONS OF 1987 DOLLARS)	29	5426.8	5467.1	5503.2	5533.6	5562.7	5599.6	5342.3	5515.6
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS OF 1987 DOLLARS)	29	3625.1	3651.9	3677.5	3699.5	3719.2	3742.3	3578.5	3686.6
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	29	708.2	726.9	741.0	754.7	763.6	768.7	672.4	746.1
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	28	228.7	229.1	228.1	226.6	225.1	223.4	230.6	226.9
15. FEDERAL GOVERNMENT PURCHASES (BILLIONS OF 1987 DOLLARS)	28	329.2	330.6	330.8	330.4	328.6	327.5	337.3	330.2
16. STATE AND LOCAL GOVT PURCHASES (BILLIONS OF 1987 DOLLARS)	28	591.8	595.8	599.8	603.7	607.0	610.9	585.2	601.6
17. CHANGE IN BUSINESS INVENTORIES (BILLIONS OF 1987 DOLLARS)	28	68.0	53.5	45.4	37.4	32.7	30.6	52.4	40.6
18. NET EXPORTS (BILLIONS OF 1987 DOLLARS)	28	-124.1	-122.0	-119.0	-115.1	-109.9	-107.7	-114.2	-115.8
									-104.3

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FIRST QUARTER 1995.

TABLE TWO

MAJOR MACROECONOMIC INDICATORS, 1995-96
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE- CASTERS	Q4 94 TO 95	Q1 95 TO 95	Q2 95 TO 95	Q3 95 TO 95	Q4 95 TO 95	1994 TO 1995	1995 TO 1996
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	28	5.8	5.5	5.3	5.3	4.4	5.8	5.2
2. GDP IMPLICIT PRICE DEFULATOR (1987=100)	28	2.9	2.5	2.8	3.0	3.3	2.5	3.1
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	20	6.1	8.9	-5.1	2.4	2.7	7.8	1.1
4. UNEMPLOYMENT RATE (PERCENT)	29	-.1	-.1	.0	.0	.1	-.7	.2
5. INDUSTRIAL PRODUCTION (1987=100)	27	5.0	3.4	3.3	2.0	2.3	4.5	2.6
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	29	-18.1	-13.3	-7.1	-3.8	-2.1	-5.0	-1.6
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	28	.9	.1	.0	.1	.1	.5	.4
8. 3-MONTH TREASURY BILL RATE (PERCENT)	28	.62	.36	.09	-.12	-.21	1.94	-.10
9. AAA CORPORATE BOND YIELD (PERCENT)	23	-.12	.05	-.10	-.02	-.07	.47	-.04
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	24	-.14	.10	-.20	-.10	-.20	.56	-.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, FIRST QUARTER 1995.

TABLE TWO CONTINUED

MAJOR MACROECONOMIC INDICATORS, 1995-96
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE- CASTERS	Q4 94 TO 95	Q1 95 TO 95	Q2 95 TO 95	Q3 95 TO 95	Q4 95 TO 95	1994 TO 1995	1995 TO 1996
11. REAL GDP (BILLIONS OF 1987 DOLLARS)	29	3.0	2.7	2.2	2.1	2.7	3.2	2.4
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS OF 1987 DOLLARS)	29	3.0	2.8	2.4	2.1	2.5	3.0	2.3
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	29	11.0	8.0	7.6	4.8	2.7	11.0	4.6
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	28	.8	-1.9	-2.5	-2.7	-2.9	-1.6	-1.2
15. FEDERAL GOVERNMENT PURCHASES (BILLIONS OF 1987 DOLLARS)	28	1.7	.2	-.5	-2.1	-1.4	-2.1	-1.3
16. STATE AND LOCAL GOVT PURCHASES (BILLIONS OF 1987 DOLLARS)	28	2.7	2.7	2.6	2.2	2.6	2.8	2.3
17. CHANGE IN BUSINESS INVENTORIES (BILLIONS OF 1987 DOLLARS)	28	-14.5	-8.1	-8.0	-4.8	-2.1	-11.8	-10.6
18. NET EXPORTS (BILLIONS OF 1987 DOLLARS)	28	2.1	3.0	3.9	5.2	2.2	-1.6	11.6

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, FIRST QUARTER 1995.

TABLE THREE
ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANCES IN 100)	NUMBER OF FORECASTERS					
	Q4 94 TO Q1 95	Q1 95 TO Q2 95	Q2 95 TO Q3 95	Q3 95 TO Q4 95	Q4 95 TO Q1 96	
10 OR LESS	26	23	17	13	12	
11 TO 20	1	3	6	8	8	
21 TO 30	0	1	2	2	2	
31 TO 40	0	0	2	4	4	
41 TO 50	0	0	0	0	1	
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	0	5	10	12	15	
MEAN PROBABILITY	2	7	11	15	17	

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 27.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FIRST QUARTER 1995.

TABLE FOUR

**MEAN PROBABILITY OF CHANGES IN GDP AND PRICES
1994-95 AND 1995-96**

**MEAN PROBABILITY ATTACHED TO POSSIBLE
PERCENT CHANGES IN REAL GDP:**

	1994-95	1995-96
6.0 OR MORE	.20	.19
5.0 TO 5.9	2.16	2.68
4.0 TO 4.9	9.72	4.10
3.0 TO 3.9	40.00	14.37
2.0 TO 2.9	37.82	44.11
1.0 TO 1.9	7.49	20.22
0.0 TO 0.9	2.01	8.70
-1.0 TO -0.1	.60	4.39
-2.0 TO -1.1	.00	.73
LESS THAN -2.0	.00	.54

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

	1994-95	1995-96
8.0 OR MORE	.00	.00
7.0 TO 7.9	.04	.04
6.0 TO 6.9	.81	2.62
5.0 TO 5.9	3.78	4.43
4.0 TO 4.9	4.15	9.83
3.0 TO 3.9	22.89	33.57
2.0 TO 2.9	54.12	37.62
1.0 TO 1.9	13.25	10.67
0.0 TO 0.9	.85	1.12
WILL DECLINE	.11	.12

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 27.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FIRST QUARTER 1995.

TABLE FIVE
LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI INFLATION RATE		SERIES: REAL GDP GROWTH RATE		SERIES: PRODUCTIVITY GROWTH	
STATISTIC		STATISTIC		STATISTIC	
MINIMUM	2.500	MINIMUM	2.300	MINIMUM	1.000
LOWER QUARTILE	3.000	LOWER QUARTILE	2.500	LOWER QUARTILE	1.375
MEDIAN	3.300	MEDIAN	2.700	MEDIAN	1.500
UPPER QUARTILE	3.500	UPPER QUARTILE	2.800	UPPER QUARTILE	1.650
MAXIMUM	4.500	MAXIMUM	3.200	MAXIMUM	3.500
MEAN	3.364	MEAN	2.705	MEAN	1.604
STD. DEV.	.473	STD. DEV.	.205	STD. DEV.	.502
N	28	N	28	N	26
MISSING	1	MISSING	1	MISSING	3
SERIES: STOCK RETURNS (S&P 500)		SERIES: BOND RETURNS (10-YEAR)		SERIES: BILL RETURNS (3-MONTH)	
STATISTIC		STATISTIC		STATISTIC	
MINIMUM	4.000	MINIMUM	6.000	MINIMUM	3.500
LOWER QUARTILE	8.000	LOWER QUARTILE	6.750	LOWER QUARTILE	4.875
MEDIAN	8.250	MEDIAN	7.000	MEDIAN	5.150
UPPER QUARTILE	9.500	UPPER QUARTILE	7.350	UPPER QUARTILE	6.000
MAXIMUM	11.000	MAXIMUM	8.500	MAXIMUM	6.500
MEAN	8.472	MEAN	7.076	MEAN	5.212
STD. DEV.	1.484	STD. DEV.	.636	STD. DEV.	.784
N	20	N	25	N	26
MISSING	9	MISSING	4	MISSING	3

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FIRST QUARTER 1995.