

Survey of

# PROFESSIONAL FORECASTERS

Federal Reserve Bank  
of Philadelphia

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## SECOND QUARTER 1995

### *Forecasters See a Second-Quarter Slowdown and a Rebound in the Second Half of '95*

Real GDP will grow at an annual rate of 1.8 percent in the second quarter, according to an expanded panel of 52 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The second-quarter projection is 0.9 percentage points lower than that in last quarter's survey. However, the forecasters anticipate a pickup over the second half of the year, with real GDP growing at an annual rate of 2.3 percent in the third quarter and 2.8 percent in the fourth quarter. Over the next two years, real GDP will grow at a rate of 3.2 percent in 1995 and slow to 2.4 percent in 1996.

The forecasters are predicting a slight increase in inflation, as measured by the Consumer Price Index, over the next five quarters. Inflation will average 3.3 percent in the second quarter and rise to an annual rate of 3.6 percent in the first quarter of 1996. Inflation will average 3.4 percent in 1995 and 3.5 percent in 1996.

The unemployment rate will hold steady at 5.6 percent over the next five quarters and rise over the latter part of 1996. The forecasters see unemployment averaging 5.6 percent in 1995 and 5.7 percent in 1996.

The forecasters anticipate only modest movements in interest rates over the next five quarters. The short-term interest rate, as measured by the rate on three-month Treasury bills, will rise from 5.8 percent in the second quarter to 6.0 percent in the second quarter of 1996. The yield on 10-year Treasury bonds will rise from 6.9 percent to 7.2 percent over the same period.

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

	Real GDP		CPI Inflation		3-month T-Bill Yield	
	Previous	New	Previous	New	Previous	New
<i>Quarterly data:</i>						
1995: Q2	2.7	1.8	3.3	3.3	6.3	5.8
Q3	2.2	2.3	3.3	3.5	6.3	5.8
Q4	2.1	2.8	3.5	3.5	6.2	5.9
1996: Q1	2.7	2.7	3.5	3.6	6.0	5.9
Q2	N.A.	2.3	N.A.	3.5	N.A.	6.0
<i>Annual average data:</i>						
1995	3.2	3.2	3.3	3.4	6.2	5.8
1996	2.4	2.4	3.5	3.5	6.1	6.0

### **No Major Change in the Long-Term Inflation Outlook**

The 52 forecasters expect inflation, as measured by the Consumer Price Index, to average 3.35 percent over the next 10 years. Half of the forecasts are in the range of 3.0 to 3.7 percent. The following table shows long-term inflation expectations for the current and previous eight surveys.

#### *10-Year CPI Inflation Expectations*

1993:	Q2	3.70
	Q3	3.45
	Q4	3.45
1994:	Q1	3.45
	Q2	3.50
	Q3	3.48
	Q4	3.50
1995:	Q1	3.30
	Q2	3.35

### **Higher Chance of a Negative Second Quarter**

The forecasters are increasing the probability of a decline in second-quarter real GDP. They are now assigning a 12 percent chance to a decline in real GDP in the current quarter, compared with 7 percent assigned three months ago. The forecasters also see an increasing risk of a decline in real GDP over the following four quarters, with the probability rising to 20 percent in the second quarter of 1996. 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>Previous</i>	<i>New</i>
1995:	Q2	7.0	12.0
	Q3	11.0	13.0
	Q4	15.0	13.0
1996:	Q1	17.0	17.0
	Q2	N.A.	20.0

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**

	1995				1996		ANNUAL AVERAGE	
	Q2	Q3	Q4	Q1	Q2	FORECAST	1995	1996
<b>PERCENT GROWTH AT ANNUAL RATES</b>								
1. REAL GDP (BILLIONS OF 1987 DOLLARS)	1.8	2.3	2.8	2.7	2.3	3.2	3.2	2.4
2. GDP IMPLICIT PRICE DEFULATOR (1987=100)	2.9	2.8	2.8	3.1	3.0	2.7	N.A.	
3. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	4.6	5.2	5.6	5.7	5.2	5.6	5.6	5.4
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	3.3	3.5	3.5	3.6	3.5	3.4	3.4	3.5
<b>VARIABLES IN LEVELS</b>								
5. UNEMPLOYMENT RATE (PERCENT)	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.7
6. 3-MONTH TREASURY BILL RATE (PERCENT)	5.8	5.8	5.9	5.9	6.0	5.8	5.8	6.0
7. 10-YEAR TREASURY BOND YIELD (PERCENT)	6.9	7.1	7.2	7.2	7.1	7.2	7.1	7.2

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

NOTES: THE FIGURES ON EACH LINE ARE MEDIANS OF 52 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**

**Second 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 May 1; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before May 22.

TABLE ONE

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

	NUMBER OF FORE- CASTERS	ACTUAL 1995 Q1	FORECASTS				ACTUAL 1995 Q1	FORECAST 1995 Q2	ACTUAL 1995 Q2	FORECAST 1996 —
			1995 Q2	1995 Q3	1995 Q4	1996 —				
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	48	6982.9	7061.9	7151.8	7250.1	7351.7	7445.0	6738.4	7112.8	7498.5
2. GDP IMPLICIT PRICE DEFULATOR (1987=100)	49	127.6	128.5	129.4	130.3	131.3	132.3	126.1	129.0	132.8
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	36	N.A.	345.4	350.3	354.9	358.3	361.1	322.0	347.6	362.2
4. UNEMPLOYMENT RATE (PERCENT)	51	5.5	5.6	5.6	5.6	5.6	5.6	6.1	5.6	5.7
5. INDUSTRIAL PRODUCTION (1987=100)	49	122.1	122.3	123.0	124.0	124.8	125.7	118.1	122.9	126.4
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	48	1.30	1.29	1.32	1.31	1.31	1.32	1.46	1.30	1.32
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	51	3.1	3.3	3.5	3.5	3.6	3.5	2.6	3.2	3.5
8. 3-MONTH TREASURY BILL RATE (PERCENT)	52	5.74	5.75	5.80	5.90	5.95	6.00	4.25	5.80	5.98
9. AAA CORPORATE BOND YIELD (PERCENT)	40	8.28	7.95	8.01	8.09	8.10	8.10	7.96	8.09	8.09
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	47	7.48	6.95	7.05	7.16	7.23	7.20	7.08	7.14	7.18

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

TABLE ONE CONTINUED

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

	NUMBER OF FORE- CASTERS	FORECASTS				ACTUAL 1994	FORECAST 1995	FORECAST 1996
		1995 Q1	Q2	Q3	Q4			
11. REAL GDP (BILLIONS OF 1987 DOLLARS)	52	5471.7	5495.6	5526.6	5564.8	5602.5	5634.7	5344.0
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS OF 1987 DOLLARS)	51	3642.0	3662.8	3684.5	3707.3	3728.5	3748.8	3579.6
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	51	740.1	757.6	772.9	780.0	789.6	798.1	672.4
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	51	227.6	224.6	223.2	224.0	224.0	224.4	231.3
15. FEDERAL GOVERNMENT PURCHASES (BILLIONS OF 1987 DOLLARS)	51	326.5	326.1	325.9	325.3	325.0	324.0	337.6
16. STATE AND LOCAL GOVT PURCHASES (BILLIONS OF 1987 DOLLARS)	50	592.1	596.0	599.8	603.2	606.2	610.0	585.2
17. CHANGE IN BUSINESS INVENTORIES (BILLIONS OF 1987 DOLLARS)	49	63.0	48.3	40.0	34.9	35.0	30.0	47.8
18. NET EXPORTS (BILLIONS OF 1987 DOLLARS)	49	-119.7	-117.0	-113.3	-108.9	-104.0	-102.1	-110.0
								-114.4
								-100.0

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

TABLE TWO

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

	NUMBER OF FORE- CASTERS	Q1 '95 TO Q2 '95	Q2 '95 TO Q3 '95	Q3 '95 TO Q4 '95	Q4 '95 TO Q1 '96	Q1 '96 TO Q2 '96	Q2 '96 TO Q3 '97	Q3 '97 TO Q4 '98	Q4 '98 TO Q1 '99	Q1 '99 TO Q2 '99	Q2 '99 TO Q3 '99	Q3 '99 TO Q4 '99	Q4 '99 TO Q1 '00	Q1 '00 TO Q2 '00	Q2 '00 TO Q3 '00	Q3 '00 TO Q4 '00	Q4 '00 TO Q1 '01	Q1 '01 TO Q2 '01	Q2 '01 TO Q3 '01	Q3 '01 TO Q4 '01	Q4 '01 TO Q1 '02
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	48	4.6	5.2	5.6	5.7	5.2	5.6	5.4													
2. GDP IMPLICIT PRICE DEFULATOR (1987=100)	49	2.9	2.8	2.8	3.1	3.0	2.3	2.9													
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	36	5.7	5.7	5.4	3.9	3.3	8.0	4.2													
4. UNEMPLOYMENT RATE (PERCENT)	51	.1	.0	.0	.0	.0	.0	.1													
5. INDUSTRIAL PRODUCTION (1987=100)	49	.5	2.5	3.3	2.6	2.9	4.1	2.8													
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	48	-1.4	8.8	-2.0	-.6	1.9	-10.5	1.3													
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	51	.2	.2	.0	.1	-.1	.6	.3													
8. 3-MONTH TREASURY BILL RATE (PERCENT)	52	.01	.05	.10	.05	.05	.05	.18													
9. AAA CORPORATE BOND YIELD (PERCENT)	40	-.33	.06	.07	.02	.00	.13	.01													
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	47	-.53	.10	.11	.07	-.03	.07	.03													

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 1995.

TABLE TWO CONTINUED

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

	NUMBER OF FORE- CASTERS	q1 95 TO q2 95	q2 95 TO q3 95	q3 95 TO q4 95	q4 95 TO q1 96	q1 96 TO q2 96	1994 TO 1995	1995 TO 1996
11. REAL GDP (BILLIONS OF 1987 DOLLARS)	52	1.8	2.3	2.8	2.7	2.3	3.2	2.4
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS OF 1987 DOLLARS)	51	2.3	2.4	2.5	2.3	2.2	2.7	2.2
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	51	9.8	8.3	3.7	5.0	4.4	13.3	4.9
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS OF 1987 DOLLARS)	51	-5.1	-2.5	1.4	.0	.7	-2.7	-.1
15. FEDERAL GOVERNMENT PURCHASES (BILLIONS OF 1987 DOLLARS)	51	-.5	-.2	-.8	-.4	-1.2	-3.4	-.9
16. STATE AND LOCAL GOVT PURCHASES (BILLIONS OF 1987 DOLLARS)	50	2.7	2.6	2.3	2.0	2.5	2.2	2.1
17. CHANGE IN BUSINESS INVENTORIES (BILLIONS OF 1987 DOLLARS)	49	-14.7	-8.3	-5.1	.1	-5.0	-1.6	-17.2
18. NET EXPORTS (BILLIONS OF 1987 DOLLARS)	49	2.7	3.7	4.4	4.9	1.9	-4.4	16.4

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 1995.

TABLE THREE  
ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANCES IN 100)	NUMBER OF FORECASTERS					
	Q1 TO Q2	95 TO 95	Q3 TO Q4	95 TO 95	Q4 TO Q1	95 TO 96
10 OR LESS	27	26	23	18	17	
11 TO 20	6	11	15	13	10	
21 TO 30	9	6	4	10	10	
31 TO 40	2	1	2	1	4	
41 TO 50	0	0	0	2	2	
51 TO 60	0	0	0	0	0	
61 TO 70	0	0	0	0	0	
71 TO 80	0	0	0	0	1	
81 TO 90	0	0	0	0	0	
91 AND OVER	0	0	0	0	0	
NOT REPORTING	8	8	8	8	8	
MEDIAN PROBABILITY	8	10	10	15	18	
MEAN PROBABILITY	12	13	13	17	20	

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 44.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, SECOND 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	.34	.36
5.0 TO 5.9	1.14	.97
4.0 TO 4.9	5.55	4.43
3.0 TO 3.9	40.18	18.58
2.0 TO 2.9	37.82	40.11
1.0 TO 1.9	10.33	22.02
0.0 TO 0.9	2.51	8.53
-1.0 TO -0.1	1.20	3.29
-2.0 TO -1.1	.66	1.09
LESS THAN -2.0	.27	.62

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

	1994-95	1995-96
.....	.....	.....
8.0 OR MORE	.16	.38
7.0 TO 7.9	.20	.53
6.0 TO 6.9	.40	1.11
5.0 TO 5.9	1.00	2.76
4.0 TO 4.9	6.23	14.54
3.0 TO 3.9	24.20	35.27
2.0 TO 2.9	53.18	34.44
1.0 TO 1.9	12.20	8.51
0.0 TO 0.9	2.03	2.17
WILL DECLINE	.40	.29

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 45.

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

TABLE FIVE  
LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI INFLATION RATE	
STATISTIC	
MINIMUM	2.500
LOWER QUARTILE	3.000
MEDIAN	3.350
UPPER QUARTILE	3.700
MAXIMUM	5.000
MEAN	3.364
STD. DEV.	.500
N	45
MISSING	7

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