Survey of
PROFESSIONAL
FORECASTERS

Federal Reserve Bank
of Philadelphia

Release Date: August 28, 1996

THIRD QUARTER 1996

Forecasters Expect a Second-Half Slowdown; See No Sign of a Buildup in Price Pressure

Economic growth over the second half of 1996 will decelerate from the first half's rapid pace, according to 42 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The forecasters expect real GDP to grow at an annual rate of 2.45 percent in the second half, down from the annual rate of 3.1 percent registered in the first half. Further deceleration is expected over the first three quarters of 1997, when real GDP will grow at an annual rate of 1.9 percent. On a year-over-year basis, real GDP will expand at an annual rate of 2.3 percent in 1996 and 2.2 percent in 1997.

Reduced price pressure will accompany the second-half slowdown. Inflation, as measured by the Consumer Price Index, will average 2.8 percent over the second half of 1996, down from an annual rate of 3.5 percent in the first half of the year. Inflation will average 3.2 percent for the year and fall to 3.0 percent in 1997.

The forecasters see the unemployment rate holding steady at 5.4 percent through the first quarter of 1997 and drifting upward to 5.6 percent by the third quarter.

The current outlook does not foresee major changes in interest rates. Short-term interest rates, as measured by the rate on three-month Treasury bills, will rise to 5.3 percent in the first half of 1997 and fall back toward current levels over the second half. The rate on 10-year Treasury bonds will hold steady at 6.7 percent through the first quarter of 1997 and fall over the remainder of the year.

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*
Quarterly data:						
1996: Q3	2.3	2.5	2.8	2.7	5.1	5.1
Q4	1.9	2.4	2.7	2.9	5.1	5.2
1997: Q1	2.1	2.1	3.0	3.1	5.1	5.3
Q2	1.9	1.9	3.0	3.0	5.0	5.3
Q3	N.A.	1.8	N.A.	3.0	N.A.	5.2
Annual average data:						
1996	2.2	2.3	3.0	3.2	5.0	5.1
1997	2.1	2.2	2.9	3.0	4.9	5.2

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Forecasters See Reduced Chance of a Negative Quarter

The slowdown in real GDP growth over the next five quarters does not raise the risk of a negative quarter compared with the risk assigned in last quarter's survey. Currently, the forecasters are assigning a 7 percent chance to a negative third quarter, down from 10 percent in last quarter's 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

		Previous	*New*
1996:	Q3	10.0	7.0
	Q4	15.0	10.0
1997:	Q1	19.0	16.0
	Q2	23.0	20.0
	Q3	N.A.	23.0

Forecasters Expect No Change in Long-Term Inflation

The forecasters continue to expect inflation, as measured by the Consumer Price Index, to average 3.0 percent over the next 10 years, marking the third consecutive survey in which long-term expectations are unchanged. The middle range of forecasts is 2.80 to 3.44 percent.

Forecasters Peg the Natural Rate at 5.65 Percent

This survey marks the second consecutive third-quarter survey in which we asked our forecasters about their use of the natural rate of unemployment--that rate of unemployment that occurs when the economy reaches equilibrium. Of those responding to our inquiry (39 forecasters), 62 percent indicate that they use the natural-rate concept in formulating their forecasts, up from 57 percent in 1995. These forecasters estimate that the natural rate is currently 5.65 percent, down from 5.75 percent in the 1995 survey. The middle range of estimates is 5.48 to 5.80 percent.

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, contact the Research Department's Publications Desk at (215) 574-6428. 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.libertynet.org/~fedresrv/spf/spfpage.html.

SURVEY OF PROFESSIONAL FORECASTERS
MAJOR MACROECONOMIC INDICATORS, 1996-97

	1996 Q3	Q4	1997 Q1	Q2	Q3	ANNUAL AVERAGE 1996	ANNUAL AVERAGE 1997
	FORECAST						
PERCENT GROWTH AT ANNUAL RATES							
1. REAL GDP (BILLIONS, CHAIN WEIGHTED)	2.5	2.4	2.1	1.9	1.8	2.3	2.2
2. GDP PRICE INDEX (1992=100)	2.6	2.2	2.9	2.5	2.4	2.3	N.A.
3. GROSS DOMESTIC PRODUCT (GDP) ($ BILLIONS)	5.3	4.8	5.0	3.8	4.4	4.5	4.6
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	2.7	2.9	3.1	3.0	3.0	3.2	3.0
VARIABLES IN LEVELS							
5. UNEMPLOYMENT RATE (PERCENT)	5.4	5.4	5.4	5.5	5.6	5.5	5.5
6. 3-MONTH TREASURY BILL RATE (PERCENT)	5.1	5.2	5.3	5.3	5.2	5.1	5.2
7. 10-YEAR TREASURY BOND YIELD (PERCENT)	6.7	6.7	6.7	6.6	6.5	6.5	6.6

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 1996.

NOTES: THE FIGURES ON EACH LINE ARE MEDIANS OF 42 INDIVIDUAL FORECASTS. NA = NOT APPLICABLE.
FOR THE GDP PRICE INDEX 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

Third Quarter 1996

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 August 2; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before August 21.

TABLE ONE

MAJOR MACROECONOMIC INDICATORS, 1996-97
MEDIANS OF FORECASTER PREDICTIONS

	NUMBER OF FORE-CASTERS	ACTUAL 1996 Q2	FORECASTS 1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	ACTUAL 1995	FORECAST 1996	FORECAST 1997
1. GROSS DOMESTIC PRODUCT (GDP) ($ BILLIONS)	41	7538.1	7635.5	7725.3	7820.7	7894.3	7980.0	7253.8	7580.8	7930.4
2. GDP PRICE INDEX (1992=100)	36	109.6	110.3	110.9	111.7	112.4	113.1	107.6	110.0	112.7
3. CORPORATE PROFITS AFTER TAXES ($ BILLIONS)	28	N.A.	415.4	416.3	424.0	428.6	428.5	380.2	416.5	426.9
4. UNEMPLOYMENT RATE (PERCENT)	41	5.4	5.4	5.4	5.4	5.5	5.6	5.6	5.5	5.5
5. INDUSTRIAL PRODUCTION (1987=100)	40	125.1	126.2	127.0	127.6	128.4	129.3	122.0	125.5	129.0
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	40	1.48	1.44	1.40	1.39	1.36	1.35	1.35	1.45	1.35
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	41	3.8	2.7	2.9	3.1	3.0	3.0	2.7	3.0	3.0
8. 3-MONTH TREASURY BILL RATE (PERCENT)	42	5.02	5.12	5.20	5.28	5.25	5.22	5.49	5.07	5.20
9. AAA CORPORATE BOND YIELD (PERCENT)	35	7.61	7.60	7.58	7.65	7.61	7.50	7.59	7.45	7.58
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	38	6.72	6.70	6.72	6.73	6.60	6.50	6.58	6.50	6.56

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 1996.

TABLE ONE CONTINUED

MAJOR MACROECONOMIC INDICATORS, 1996-97
MEDIANS OF FORECASTER PREDICTIONS

	NUMBER OF FORE-CASTERS	ACTUAL 1996 Q2	FORECASTS 1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	ACTUAL 1995	FORECAST 1996	FORECAST 1997
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	42	6885.1	6928.5	6969.1	7005.0	7038.0	7069.4	6742.9	6899.0	7049.9
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	41	4692.0	4717.6	4744.5	4770.2	4793.7	4818.8	4577.8	4700.9	4804.8
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	41	744.5	755.0	763.0	769.0	777.8	785.0	714.3	752.0	781.0
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	41	280.8	281.2	280.0	278.3	276.4	275.9	262.8	278.1	275.8
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	39	472.4	469.4	465.9	465.7	463.0	460.2	472.3	467.3	460.1
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	39	804.8	808.7	812.9	816.2	819.2	822.0	788.6	804.8	820.5
17. CHANGE IN BUSINESS INVENTORIES (BILLIONS, CHAIN WEIGHTED)	40	10.3	18.0	20.0	22.5	23.0	21.1	33.1	12.0	22.9
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	41	-121.7	-118.7	-114.0	-112.1	-109.6	-107.0	-107.6	-114.2	-109.0

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 1996.

TABLE TWO

MAJOR MACROECONOMIC INDICATORS, 1996-97
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE-CASTERS	Q2 96 TO Q3 96	Q3 96 TO Q4 96	Q4 96 TO Q1 97	Q1 97 TO Q2 97	Q2 97 TO Q3 97	1995 TO 1996	1996 TO 1997
1. GROSS DOMESTIC PRODUCT (GDP) ($ BILLIONS)	41	5.3	4.8	5.0	3.8	4.4	4.5	4.6
2. GDP PRICE INDEX (1992=100)	36	2.6	2.2	2.9	2.5	2.4	2.2	2.5
3. CORPORATE PROFITS AFTER TAXES ($ BILLIONS)	28	4.0	.9	7.6	4.4	-.1	9.5	2.5
4. UNEMPLOYMENT RATE (PERCENT)	41	.0	.0	.0	.1	.1	-.1	.0
5. INDUSTRIAL PRODUCTION (1987=100)	40	3.6	2.5	1.9	2.5	2.8	2.9	2.8
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	40	-11.3	-9.9	-3.9	-8.1	-2.6	7.1	-6.8
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	41	-1.1	.2	.2	-.1	.0	.3	.0
8. 3-MONTH TREASURY BILL RATE (PERCENT)	42	.10	.08	.08	-.03	-.03	-.42	.13
9. AAA CORPORATE BOND YIELD (PERCENT)	35	-.01	-.02	.07	-.05	-.11	-.14	.13
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	38	-.02	.02	.01	-.13	-.10	-.08	.06

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 1996.

TABLE TWO CONTINUED

MAJOR MACROECONOMIC INDICATORS, 1996-97
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE-CASTERS	Q2 96 TO Q3 96	Q3 96 TO Q4 96	Q4 96 TO Q1 97	Q1 97 TO Q2 97	Q2 97 TO Q3 97	1995 TO 1996	1996 TO 1997
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	42	2.5	2.4	2.1	1.9	1.8	2.3	2.2
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	41	2.2	2.3	2.2	2.0	2.1	2.7	2.2
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	41	5.8	4.3	3.2	4.7	3.8	5.3	3.9
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	41	.6	-1.7	-2.4	-2.7	-.8	5.8	-.8
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	39	-2.6	-2.9	-.2	-2.3	-2.4	-1.1	-1.6
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	39	1.9	2.1	1.7	1.5	1.3	2.1	1.9
17. CHANGE IN BUSINESS INVENTORIES (BILLIONS, CHAIN WEIGHTED)	40	7.7	2.0	2.5	.5	-1.9	-21.1	10.9
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	41	3.0	4.7	1.9	2.5	2.6	-6.6	5.2

NOTE: FIGURES FOR BUSINESS 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 1996.

TABLE THREE

ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANCES IN 100)	Q2 96 TO Q3 96	Q3 96 TO Q4 96	Q4 96 TO Q1 97	Q1 97 TO Q2 97	Q2 97 TO Q3 97
	NUMBER OF FORECASTERS				
10 OR LESS	32	26	17	11	9
11 TO 20	5	9	10	12	12
21 TO 30	0	1	9	10	9
31 TO 40	0	1	1	2	3
41 TO 50	0	1	1	2	3
51 TO 60	0	0	0	1	2
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	1	0	0	0	0
NOT REPORTING	4	4	4	4	4
MEDIAN PROBABILITY	1	10	15	20	20
MEAN PROBABILITY	7	10	16	20	23

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 38.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 1996.

TABLE FOUR

MEAN PROBABILITY OF CHANGES IN GDP AND PRICES
1995-96 AND 1996-97

MEAN PROBABILITY ATTACHED TO POSSIBLE
PERCENT CHANGES IN REAL GDP:

	1995-96	1996-97
6.0 OR MORE	.03	.05
5.0 TO 5.9	.23	.26
4.0 TO 4.9	2.00	2.17
3.0 TO 3.9	12.18	13.05
2.0 TO 2.9	69.64	43.84
1.0 TO 1.9	13.87	25.39
0.0 TO 0.9	1.59	10.11
-1.0 TO -0.1	.31	3.67
-2.0 TO -1.1	.13	1.17
LESS THAN -2.0	.03	.28

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

	1995-96	1996-97
8.0 OR MORE	.03	.03
7.0 TO 7.9	.03	.05
6.0 TO 6.9	.15	.19
5.0 TO 5.9	.72	1.39
4.0 TO 4.9	2.41	6.45
3.0 TO 3.9	11.54	24.85
2.0 TO 2.9	71.86	53.85
1.0 TO 1.9	12.37	11.87
0.0 TO 0.9	.72	1.15
WILL DECLINE	.18	.19

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 39.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 1996.

TABLE FIVE

LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI INFLATION RATE	
STATISTIC	
MINIMUM	2.200
LOWER QUARTILE	2.800
MEDIAN	3.000
UPPER QUARTILE	3.438
MAXIMUM	4.000
MEAN	3.034
STD. DEV.	.414
N	40
MISSING	2

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 1996.