

Survey of

PROFESSIONAL FORECASTERS

Federal Reserve Bank
of Philadelphia

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FOURTH QUARTER 1997

Expectations for Long-Term Inflation Fall to an All-Time Low; Outlook on Short-Term Inflation Also Improves

Expectations for inflation, measured by the Consumer Price Index, over the next 10 years are 2.65 percent, down from 3.0 percent just three months ago, according to 38 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The drop—which represents an unusually large quarterly change—leaves the expectation of long-term inflation at its lowest level since the Philadelphia Fed began tracking the measure in 1991. The middle range of forecasts has narrowed to 2.5 to 3.0 percent in the current survey from 2.5 to 3.15 percent in last quarter's survey. The following table tracks expectations for long-term inflation over the last nine surveys.

Expectations for Long-Term (CPI) Inflation in the Last Nine Surveys

<i>Survey Date</i>	<i>95Q4</i>	<i>96Q1</i>	<i>96Q2</i>	<i>96Q3</i>	<i>96Q4</i>	<i>97Q1</i>	<i>97Q2</i>	<i>97Q3</i>	<i>97Q4</i>
	3.00	3.00	3.00	3.00	3.00	3.00	2.85	3.00	2.65

The forecasters also anticipate improvement on the short-term inflation front. CPI inflation is expected to average 2.5 percent in the fourth quarter, down from 2.8 percent in the last survey. On a fourth-quarter-over-fourth-quarter basis, CPI inflation will average 2.0 percent in 1997 and 2.6 percent in 1998, down from 2.3 percent and 2.8 percent, respectively, in the last survey. Measured by the GDP chain-weighted price index, inflation will average 2.1 percent in 1997 and 1998. In last quarter's survey, forecasters anticipated that the GDP price index would grow 2.1 percent in 1997 and 2.5 percent in 1998. The following table compares short-term inflation forecasts from the current survey with those from last quarter's survey.

Expectations for Short-Term Inflation in the Previous and Current Surveys

<i>Quarterly data:</i>	<i>CPI Inflation</i>		<i>GDP Price Index Inflation</i>	
	<i>Previous</i>	<i>Current</i>	<i>Previous</i>	<i>Current</i>
1997: Q4	2.8	2.5	2.4	1.9
1998: Q1	2.7	2.5	2.4	2.3
Q2	3.0	2.6	2.5	2.3
Q3	2.9	2.7	2.5	2.4
Q4	N.A.	2.6	N.A.	2.2
<i>Annual average data:</i>				
1997	2.3	2.0	2.1	2.1
1998	2.8	2.6	2.5	2.1

Real GDP Growth Is Pegged at 2.7 Percent in the Fourth Quarter and 3.7 Percent for the Year

Real GDP will grow at an annual rate of 2.7 percent in the fourth quarter, down from the forecasters' expectation of 2.8 percent in the last survey. Growth will decelerate gradually over the next five quarters, from 2.7 percent in the current quarter to 2.2 percent in the fourth quarter of 1998. Surprisingly robust third-quarter growth, as reported in the BEA's third-quarter advance estimate, is leading forecasters to raise their estimate of real GDP growth in 1997 to 3.7 percent, up from 3.4 percent in the last survey. Growth will slow to a rate of 2.6 percent in 1998, essentially unchanged from last quarter's expectation of 2.5 percent.

The outlook for the unemployment rate is little changed compared with expectations in the previous survey.

Forecasters now expect the unemployment rate to average 4.8 percent in the fourth quarter, down from 4.9 percent in the previous survey. The unemployment rate is seen falling from an annual average rate of 5.0 percent in 1997 to 4.9 percent in 1998. Previously, the forecasters had anticipated that the unemployment rate would hold steady at 5.0 percent in 1997 and 1998.

The forecasters are cutting their expectations of short- and long-term interest rates. The rate on three-month Treasury bills will average 5.15 percent over the next two quarters, down from 5.35 percent in the last survey, and the rate on 10-year Treasury bonds will average 6.1 percent over the same period, down from 6.5 percent.

The following table compares median forecasts for selected variables from the current survey with those from the last survey.

	Real GDP		3-Month Treasury Rate		10-Year Treasury Rate	
	Previous	New	Previous	New	Previous	New
<i>Quarterly data:</i>						
1997: Q4	2.8	2.7	5.3	5.1	6.5	6.0
1998: Q1	2.6	2.5	5.4	5.2	6.5	6.2
Q2	2.4	2.4	5.3	5.3	6.5	6.3
Q3	2.0	2.3	5.2	5.3	6.4	6.2
Q4	N.A.	2.2	N.A.	5.2	N.A.	6.1
<i>Annual average data:</i>						
1997	3.4	3.7	5.1	5.1	6.5	6.4
1998	2.5	2.6	5.2	5.2	6.4	6.2

Reduced Risk of a Negative Quarter

The forecasters are assigning a lower chance than that assigned in the previous survey to the possibility that real GDP will decline in the fourth quarter. Currently, they see a 4 percent chance of a fourth-quarter decline, down from 8 percent previously. Although the risk of a decline in real GDP rises over the subsequent four quarters—to 19 percent in the fourth quarter of 1998—the risks are about three percentage points lower than those assigned in last quarter's survey.

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.phil.frb.org/econ/spf/spfpage.html>

**SURVEY OF PROFESSIONAL FORECASTERS
MAJOR MACROECONOMIC INDICATORS, 1997-98**

	1997				1998		ANNUAL AVERAGE	
	Q4	Q1	Q2	Q3	Q4	FORECAST	1997	1998
PERCENT GROWTH AT ANNUAL RATES								
1. REAL GDP (BILLIONS, CHAIN WEIGHTED)	2.7	2.5	2.4	2.3	2.2	3.7	3.7	2.6
2. GDP PRICE INDEX (1992=100)	1.9	2.3	2.3	2.4	2.2	2.1	2.1	2.1
3. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	4.8	4.5	4.6	4.9	4.4	5.8	5.8	4.8
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	2.5	2.5	2.6	2.7	2.6	2.0	2.0	2.6
VARIABLES IN LEVELS								
5. UNEMPLOYMENT RATE (PERCENT)	4.8	4.8	4.9	4.9	4.9	5.0	5.0	4.9
6. 3-MONTH TREASURY BILL RATE (PERCENT)	5.1	5.2	5.3	5.3	5.2	5.1	5.1	5.2
7. 10-YEAR TREASURY BOND YIELD (PERCENT)	6.0	6.2	6.3	6.2	6.1	6.4	6.4	6.2

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FOURTH QUARTER 1997.

NOTES: THE FIGURES ON EACH LINE ARE MEDIANs OF 38 INDIVIDUAL FORECASTS. NA = NOT APPLICABLE.

SURVEY OF PROFESSIONAL FORECASTERS

Fourth Quarter 1997

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 Nov. 3; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before November 19.

TABLE ONE

**MAJOR MACROECONOMIC INDICATORS, 1997-98
MEDIAN OF FORECASTER PREDICTIONS**

NUMBER OF FORE- CASTERS	ACTUAL 1997	1997	FORECASTS 1998			ACTUAL 1996	FORECAST 1997	FORECAST 1998
			Q4	Q1	Q2	Q3	Q4	
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	36	8131.7	8227.2	8319.2	8413.5	8514.5	8607.0	8636.0
2. GDP PRICE INDEX (1992=100)	34	112.66	113.20	113.84	114.48	115.17	115.80	110.22
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	26	N.A.	488.7	491.5	497.9	504.9	504.5	447.6
4. UNEMPLOYMENT RATE (PERCENT)	38	4.9	4.8	4.8	4.9	4.9	5.4	5.0
5. INDUSTRIAL PRODUCTION (1987=100)	37	121.6	122.8	123.5	124.5	125.1	126.0	115.2
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	38	1.45	1.45	1.44	1.43	1.41	1.40	1.48
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	37	2.0	2.5	2.5	2.6	2.7	2.6	3.2
8. 3-MONTH TREASURY BILL RATE (PERCENT)	38	5.05	5.10	5.20	5.26	5.28	5.24	5.01
9. AAA CORPORATE BOND YIELD (PERCENT)	34	7.17	7.00	7.10	7.16	7.10	7.01	7.37
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	36	6.24	6.02	6.17	6.26	6.24	6.12	6.44
								6.38
								6.20

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FOURTH QUARTER 1997.

TABLE ONE CONTINUED

**MAJOR MACROECONOMIC INDICATORS, 1997-98
MEDIAN OF FORECASTER PREDICTIONS**

	NUMBER OF FORE- CASTERS	ACTUAL 1997 Q3	FORECASTS 1998	FORECAST 1998				ACTUAL 1996	FORECAST 1997	FORECAST 1998
				Q4	Q1	Q2	Q3			
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	38	7221.8	7269.3	7314.3	7358.0	7400.2	7439.8	6928.4	7188.0	7378.0
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	38	4897.1	4927.4	4959.2	4991.9	5019.8	5047.2	4714.1	4868.0	5005.6
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	38	873.7	892.5	907.5	923.7	936.5	945.6	771.7	853.0	929.0
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	38	280.2	282.5	283.7	284.5	284.0	284.5	272.1	278.5	284.5
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	36	458.8	458.3	458.5	457.9	457.6	456.0	464.2	457.4	457.1
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	36	814.5	818.6	822.9	827.3	830.9	835.0	793.7	812.7	828.9
17. CHANGE IN BUSINESS INVENTORIES (BILLIONS, CHAIN WEIGHTED)	37	51.5	48.7	41.1	41.0	40.0	40.0	25.0	60.4	40.6
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	38	-160.0	-159.1	-164.9	-168.1	-171.3	-171.7	-114.4	-145.7	-168.4

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FOURTH QUARTER 1997.

TABLE TWO

MAJOR MACROECONOMIC INDICATORS, 1997-98
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE- CASTERS	Q3 97 10 Q4 97	Q4 97 10 Q1 98	Q1 98 10 Q2 98	Q2 98 10 Q3 98	Q3 98 10 Q4 98	1996 1997 10 1998
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	36	4.8	4.5	4.6	4.9	4.4	5.8
2. GDP PRICE INDEX (1992=100)	34	1.9	2.3	2.3	2.4	2.2	2.1
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	26	6.0	2.4	5.3	5.7	-.3	6.9
4. UNEMPLOYMENT RATE (PERCENT)	38	-.1	.0	.1	.0	.0	-.1
5. INDUSTRIAL PRODUCTION (1987=100)	37	4.0	2.4	3.2	1.9	2.9	4.7
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	38	-1.1	-3.0	-3.0	-4.8	-2.4	-1.4
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	37	.5	.0	.1	.1	-.1	-1.2
8. 3-MONTH TREASURY BILL RATE (PERCENT)	38	.05	.10	.06	.01	-.04	.05
9. AAA CORPORATE BOND YIELD (PERCENT)	34	-.17	.10	.07	-.07	-.09	-.07
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	36	-.22	.15	.09	-.02	-.12	-.06
							-.18

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, FOURTH QUARTER 1997.

TABLE TWO CONTINUED

MAJOR MACROECONOMIC INDICATORS, 1997-98
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE- CASTERS	Q3 TO Q4	97 Q1 97	Q4 TO Q1	97 Q2 98	Q1 TO Q2	98 Q3 98	Q2 TO Q3	98 Q4 98	Q3 TO Q4	98 1997 1998
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	38	2.7	2.5	2.4	2.4	2.3	2.3	2.2	2.2	3.7	2.6
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	38	2.5	2.6	2.7	2.7	2.3	2.3	2.2	2.2	3.3	2.8
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	38	8.9	6.9	7.3	7.3	5.6	5.6	4.0	4.0	10.5	8.9
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	38	3.3	1.8	1.2	1.2	-.7	-.7	.7	.7	2.4	2.2
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	36	-.4	.1	-.5	-.5	-.3	-.3	-1.3	-1.3	-1.5	-.1
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	36	2.0	2.1	2.1	2.1	1.8	1.8	2.0	2.0	2.4	2.0
17. CHANGE IN BUSINESS INVENTORIES (BILLIONS, CHAIN WEIGHTED)	37	-2.8	-7.6	-.1	-.1	-1.0	-1.0	.0	.0	35.4	-19.8
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	38	.9	-5.8	-3.2	-3.2	-3.2	-3.2	-.4	-.4	-31.3	-22.8

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, FOURTH QUARTER 1997.

TABLE THREE
ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANCES IN 100)	NUMBER OF FORECASTERS									
	Q3 TO Q4	97 97	Q4 TO Q1	97 98	Q1 TO Q2	98 98	Q2 TO Q3	98 98	Q3 TO Q4	98 98
10 OR LESS	33	26	16	13	13	11				
11 TO 20	2	5	15	12	12	13				
21 TO 30	0	4	3	9	9	7				
31 TO 40	0	0	1	0	0	2				
41 TO 50	0	0	0	0	0	1	2			
51 TO 60	0	0	0	0	0	0	0			
61 TO 70	0	0	0	0	0	0	0			
71 TO 80	0	0	0	0	0	0	0			
81 TO 90	0	0	0	0	0	0	0			
91 AND OVER	0	0	0	0	0	0	0			
NOT REPORTING	3	3	3	3	3	3	3			
MEDIAN PROBABILITY	1	10	15	15	15	15	15			
MEAN PROBABILITY	4	10	13	17	17	19				

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 35.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FOURTH QUARTER 1997.

TABLE FOUR

MEAN PROBABILITY OF CHANGES IN GDP AND PRICES
1996-97 AND 1997-98

MEAN PROBABILITY ATTACHED TO POSSIBLE
PERCENT CHANGES IN REAL GDP:

	1996-97	1997-98
6.0 OR MORE	.17	.03
5.0 TO 5.9	.89	.43
4.0 TO 4.9	12.07	4.55
3.0 TO 3.9	81.35	25.61
2.0 TO 2.9	5.11	47.36
1.0 TO 1.9	.31	16.93
0.0 TO 0.9	.03	3.43
-1.0 TO -0.1	.03	1.19
-2.0 TO -1.1	.03	.33
LESS THAN -2.0	.03	.14

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

	1996-97	1997-98
8.0 OR MORE	.03	.03
7.0 TO 7.9	.03	.03
6.0 TO 6.9	.03	.33
5.0 TO 5.9	.17	.81
4.0 TO 4.9	1.69	2.86
3.0 TO 3.9	4.69	11.19
2.0 TO 2.9	61.76	51.14
1.0 TO 1.9	29.87	29.72
0.0 TO 0.9	1.57	3.61
WILL DECLINE	.17	.28

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 36.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FOURTH QUARTER 1997.

TABLE FIVE
LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI INFLATION RATE	
STATISTIC	
MINIMUM	2.000
LOWER QUARTILE	2.500
MEDIAN	2.650
UPPER QUARTILE	3.000
MAXIMUM	3.500
MEAN	2.708
STD. DEV.	.405
N	36
MISSING	2

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FOURTH QUARTER 1997.