

Survey of

PROFESSIONAL

FORECASTERS

Federal Reserve Bank
of Philadelphia

Release Date: August 23, 2001

THIRD QUARTER 2001

Forecasters Grow a Bit More Pessimistic

The outlook for economic growth over the next two years looks less rosy than it did just three months ago, according to 33 forecasters surveyed by the Federal Reserve Bank of Philadelphia. In the current year, the forecasters see the economy expanding at a rate of just 1.7 percent—a downward revision of 0.3 percentage point from their forecast of 2.0 percent made three months ago. The outlook brightens a bit in 2002, since the forecasters expect growth to rebound to 2.6 percent. However, that projection is down from the forecasters' projection of 2.8 percent in the last survey. On a quarterly basis, the forecasters see growth recovering over the next five quarters, from 1.2 percent in the current quarter to 3.9 percent in the third quarter of 2002.

A slightly worse outlook for the unemployment rate accompanies the downward revision to real GDP growth. Currently, the forecasters expect that rate to average 4.6 percent in 2001, a bit higher than their previous projection of 4.5 percent. Unemployment will climb to an annual average rate of 4.9 percent in 2002, up 0.1 percentage point from the forecast of three months ago. Over the next five quarters, as the rate of growth in real GDP rebounds, the forecasters expect unemployment to follow a hump-shaped path, rising from a projected rate of 4.7 percent in the third quarter of 2001, peaking at 5.0 percent in the first quarter of 2002, and falling to a steady 4.9 percent thereafter.

The forecasters' expectation for near-term inflation in 2001 is unchanged from that of the last survey. Measured by the fourth-quarter over fourth-quarter rate of change in the CPI, inflation will average 3.0 percent in 2001, the same rate expected in the last survey. Deceleration is in the cards for 2002, as the forecasters currently project that CPI inflation will fall to 2.7 percent in that year. Previously, the forecasters thought CPI inflation would average 2.5 percent in 2002.

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

	Real GDP (%)		Unemployment Rate (%)		CPI Inflation (%)	
	Previous	New	Previous	New	Previous	New
<i>Quarterly data:</i>						
2001: Q3	2.0	1.2	4.7	4.7	2.5	2.4
Q4	2.6	2.8	4.8	4.9	2.5	2.5
2002: Q1	3.1	2.7	4.8	5.0	2.5	2.6
Q2	3.6	3.0	4.8	4.9	2.5	2.6
Q3	N.A.	3.9	N.A.	4.9	N.A.	2.7
<i>Annual average data:</i>						
2001	2.0	1.7	4.5	4.6	3.0	3.0
2002	2.8	2.6	4.8	4.9	2.5	2.7

Forecasters Continue to Boost Their Projection for the Yield Spread

In our description of the previous survey's results, we noted that the forecasters' projections for short- and long-term interest rates implied sizable upward revisions to the projected yield spread (measured as the difference between long- and short-term interest rates)—a variable that some analysts believe is useful for predicting future levels of economic activity. As the following table shows, that trend continues in the present survey. For 2001, the forecasters project that the rate on three-month Treasury bills will average 3.8 percent, down from 3.9 percent in the last survey, and the rate on 10-year Treasury bonds will average 5.2 percent, up from 5.1 percent previously. Thus, the implied projection for the yield spread in 2001 currently stands at 1.4 percent, marking an upward revision of 0.2 percentage point from the previous projection of 1.2 percent. A larger upward revision characterizes the outlook for 2002: the forecasters' current projection for the yield spread stands at 1.8 percentage points, an increase of 0.6 percentage point over the previous forecast.

	3-Month Rate (%)		10-Year Rate (%)		10-Year Minus 3-Month (%)	
	Previous	New	Previous	New	Previous	New
<i>Quarterly data:</i>						
2001: Q3	3.5	3.4	5.0	5.1	1.5	1.7
Q4	3.6	3.3	5.0	5.2	1.4	1.9
2002: Q1	3.7	3.3	5.1	5.3	1.4	2.0
Q2	3.8	3.5	5.1	5.3	1.3	1.8
Q3	N.A.	3.7	N.A.	5.4	N.A.	1.7
<i>Annual average data:</i>						
2001	3.9	3.8	5.1	5.2	1.2	1.4
2002	4.0	3.6	5.2	5.4	1.2	1.8

Expectations for Long-Term Inflation Hold Steady

The Philadelphia Fed's measure of expectations for long-term inflation remains unchanged. That measure, defined as the average rate of change in the CPI over the next 10 years, is 2.50 percent. The middle range of forecasts is 2.45 percent to 2.85 percent. With the exception of a minor blip in the estimate in the first-quarter 1999 survey, long-term expectations for inflation have held steady at 2.50 percent since the survey taken in the second quarter of 1998.

Forecasters Raise the Chance of a Negative Current Quarter

The forecasters see a slightly higher chance that real GDP will contract in the current quarter. Currently, the forecasters peg that chance at 35 percent, six percentage points higher than their estimate of 29 percent in the last survey. However, slightly smaller upward revisions characterize the chance of negative growth over the following few quarters, as the following table shows.

	Risk of a Negative Quarter (%)	
	Previous	New
	Survey	Survey
<i>Quarterly data:</i>		
2001: Q3	29	35
Q4	23	26
2002: Q1	18	20
Q2	13	16
Q3	N.A.	15

Equilibrium Unemployment Rises

In third-quarter surveys, we ask the forecasters to provide their estimates of the natural rate of unemployment—the rate of unemployment that occurs when the economy reaches equilibrium. For the third-quarter surveys conducted since 1996, the following table tracks the median estimate of the natural rate (computed on the basis of those forecasters who use the natural rate concept in preparing their forecasts), as well as the percentage of forecasters who use the concept, and the lowest and highest estimates (among those who use the concept). Ten of the 29 participants who answered the question report that they use the natural rate in their forecasts. Among these 10, the median estimate for the natural rate is 4.88 percent, marking an increase from the previous survey's estimate of 4.50 percent. The lowest estimate of the natural rate is 3.50 percent, and the highest estimate is 5.50 percent.

There is a dramatic reduction of the proportion of forecasters who use the natural rate: currently, that proportion stands at 34 percent, down from 48 percent in third-quarter survey of 2000. Interestingly, natural-rate usage among survey participants has dropped (almost) continuously over the years in which we have been polling the forecasters—from 62 percent in 1996 to 34 percent at present.

<i>Survey Date</i>	<i>Percentage Who Use The Natural Rate (%)</i>	<i>Median Estimate (%)</i>	<i>Low (%)</i>	<i>High (%)</i>
1996:Q3	62	5.65	5.00	6.00
1997:Q3	59	5.25	4.50	5.88
1998:Q3	47	5.30	4.50	5.80
1999:Q3	43	5.00	4.13	5.60
2000:Q3	48	4.50	4.00	5.00
2001:Q3	34	4.88	3.50	5.50

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.

For further information about the Survey of Professional Forecasters, contact:
Dean Croushore, Vice President and Economist, Federal Reserve Bank of Philadelphia,
Ten Independence Mall, Philadelphia, PA 19106 (215) 574-3809 email: dean.croushore@frb.org

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/index.html>.

**SURVEY OF PROFESSIONAL FORECASTERS
MAJOR MACROECONOMIC INDICATORS, 2001-2002**

	2001				2002				ANNUAL AVERAGE				
	Q3		Q4		Q1		Q2		Q3				
	FORECAST				2001				2002				
PERCENT GROWTH AT ANNUAL RATES													
1. REAL GDP (BILLIONS, CHAIN WEIGHTED)	1.2	2.8	2.7	3.0	3.9	1.7	2.2	2.1	2.3	2.0			
2. GDP PRICE INDEX (1995=100)	1.9	2.0	2.1	2.1	2.2	2.3	2.0	2.1	2.2	2.0			
3. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	3.0	4.9	5.1	5.0	6.3	4.0	4.9	5.1	5.3	4.9			
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	2.4	2.5	2.6	2.6	2.7	3.0	2.7	2.7	3.0	2.7			
VARIABLES IN LEVELS													
5. UNEMPLOYMENT RATE (PERCENT)	4.7	4.9	5.0	4.9	4.9	4.6	4.9	4.9	4.6	4.9			
6. 3-MONTH TREASURY BILL RATE (PERCENT)	3.4	3.3	3.3	3.5	3.7	3.8	3.6	3.4	3.5	3.6			
7. 10-YEAR TREASURY BOND YIELD (PERCENT)	5.1	5.2	5.3	5.3	5.4	5.2	5.4	5.1	5.3	5.4			

SOURCE : RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 2001.

NOTES : THE FIGURES ON EACH LINE ARE MEDIANS OF 33 INDIVIDUAL FORECASTS. NA = NOT APPLICABLE.

SURVEY OF PROFESSIONAL FORECASTERS

Third Quarter 2001

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 July 27; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before August 15.

TABLE ONE

**MAJOR MACROECONOMIC INDICATORS, 2001-2002
MEDIAN OF FORECASTER PREDICTIONS**

	NUMBER OF FORE- CASTERS	ACTUAL 2001 Q2	FORECASTS				ACTUAL 2000	FORECAST 2001	FORECAST 2002
			Q3	Q4	Q1	Q2			
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	33	10217.6	10293.7	10418.6	10550.2	10679.1	10844.3	9872.9	10266.5
2. GDP PRICE INDEX (1996=100)	32	109.26	109.76	110.30	110.88	111.45	112.06	107.04	109.50
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	24	N.A.	491.0	500.3	508.8	523.0	528.0	573.9	501.5
4. UNEMPLOYMENT RATE (PERCENT)	33	4.5	4.7	4.9	5.0	4.9	4.9	4.0	4.6
5. INDUSTRIAL PRODUCTION (1992=100)	31	143.4	142.3	143.2	144.1	145.3	146.5	147.0	143.6
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	32	1.63	1.60	1.58	1.58	1.59	1.58	1.57	1.61
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	33	3.1	2.4	2.5	2.6	2.6	2.7	3.4	3.0
8. 3-MONTH TREASURY BILL RATE (PERCENT)	31	3.66	3.40	3.30	3.30	3.50	3.66	5.82	3.80
9. AAA CORPORATE BOND YIELD (PERCENT)	30	7.22	7.10	7.10	7.08	7.10	7.20	7.62	7.13
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	31	5.27	5.10	5.20	5.30	5.30	5.37	6.03	5.18
									5.36

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 2001.

TABLE ONE CONTINUED

**MAJOR MACROECONOMIC INDICATORS, 2001-2002
MEDIAN OF FORECASTER PREDICTIONS**

	NUMBER OF FORE- CASTERS	ACTUAL 2001 Q2	FORECASTS				ACTUAL 2000	FORECAST 2001	FORECAST 2002			
			2001		2002							
			Q3	Q4	Q1	Q3						
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	33	9351.6	9380.0	9444.3	9507.7	9578.0	9670.3	9224.0	9380.0	9624.6		
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	33	6422.5	6459.8	6505.0	6547.3	6597.0	6644.0	6257.8	6445.0	6619.6		
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	33	1324.5	1307.6	1308.8	1318.6	1327.8	1346.1	1350.7	1328.0	1338.3		
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	32	379.6	381.0	382.3	382.5	383.4	383.9	371.4	379.0	384.0		
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	31	554.4	557.6	561.0	564.0	567.3	570.4	545.9	556.2	568.3		
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	31	1069.7	1076.3	1083.0	1090.0	1096.4	1101.3	1026.3	1070.0	1099.7		
17. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	33	-26.9	-10.8	5.7	20.0	26.6	30.0	50.6	-14.1	26.4		
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	33	-407.4	-409.6	-413.1	-420.0	-422.0	-425.1	-399.1	-408.0	-422.9		

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 2001.

TABLE TWO

**MAJOR MACROECONOMIC INDICATORS, 2001-2002
PERCENTAGE CHANGES AT ANNUAL RATES**

	NUMBER OF FORE- CASTERS	Q2 2001 TO Q3 2001	Q3 2001 TO Q4 2001	Q4 2001 TO Q1 2002	Q1 2002 TO Q2 2002	Q2 2002 TO Q3 2002	Q3 2002 TO 2000	2000 TO 2001	2001 TO 2002
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	33	3.0	4.9	5.1	5.0	6.3	4.0	4.9	
2. GDP PRICE INDEX (1996=100)	32	1.9	2.0	2.1	2.1	2.2	2.3	2.3	2.0
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	24	-6.5	7.8	7.0	11.6	3.9	-12.6	5.5	
4. UNEMPLOYMENT RATE (PERCENT)	33	0.2	0.2	0.1	-0.1	0.0	0.6	0.3	
5. INDUSTRIAL PRODUCTION (1992=100)	31	-3.0	2.6	2.6	3.5	3.2	-2.3	1.6	
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	32	-7.4	-4.9	-0.6	1.9	-1.3	2.6	-1.5	
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	33	-0.7	0.1	0.1	0.0	0.1	-0.4	-0.3	
8. 3-MONTH TREASURY BILL RATE (PERCENT)	31	-0.26	-0.10	0.00	0.20	0.16	-2.02	-0.25	
9. AAA CORPORATE BOND YIELD (PERCENT)	30	-0.12	0.00	-0.02	0.02	0.10	-0.49	0.05	
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	31	-0.17	0.10	0.10	0.00	0.07	-0.85	0.18	

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, THIRD QUARTER 2001.

TABLE TWO CONTINUED

**MAJOR MACROECONOMIC INDICATORS, 2001-2002
PERCENTAGE CHANGES AT ANNUAL RATES**

	NUMBER OF FORE- CASTERS	Q2 2001 TO Q3 2001	Q3 2001 TO Q4 2001	Q4 2001 TO Q1 2002	Q1 2002 TO Q2 2002	Q2 2002 TO Q3 2002	Q3 2002 TO 2001	2000 TO 2002
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	33	1.2	2.8	2.7	3.0	3.9	1.7	2.6
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	33	2.3	2.8	2.6	3.1	2.9	3.0	2.7
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	33	-5.0	0.3	3.1	2.8	5.6	-1.7	0.8
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	32	1.5	1.3	0.2	1.0	0.5	2.0	1.3
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	31	2.3	2.5	2.2	2.4	2.2	1.9	2.2
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	31	2.5	2.5	2.6	2.4	1.8	4.3	2.8
17. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	33	16.1	16.5	14.3	6.6	3.4	-64.7	40.5
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	33	-2.2	-3.5	-6.9	-2.0	-3.1	-8.9	-14.9

NOTE: FIGURES FOR PRIVATE 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 2001.

TABLE THREE
ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANCES IN 100)	Q2 2001		Q3 2001		Q4 2001		Q1 2002		Q2 2002	
	TO Q3 2001	TO Q4 2001	TO Q1 2002	TO Q2 2002	TO Q3 2002	TO Q4 2002	TO Q1 2003	TO Q2 2003	TO Q3 2003	TO Q4 2003
	NUMBER OF FORECASTERS									
10 OR LESS	3	4	6	11	11	16				
11 TO 20	1	5	11	12	12	7				
21 TO 30	11	11	11	6	6	5				
31 TO 40	7	9	0	0	0	0				
41 TO 50	5	0	1	0	0	1				
51 TO 60	0	0	0	0	0	0				
61 TO 70	1	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	1	0	0	0	0	0				
NOT REPORTING	4	4	4	4	4	4				
MEDIAN PROBABILITY	30	25	20	20	20	10				
MEAN PROBABILITY	35	26	20	16	16	15				

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 29.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 2001.

TABLE FOUR

MEAN PROBABILITY OF CHANGES IN GDP AND PRICES
2000-2001 AND 2001-2002

MEAN PROBABILITY ATTACHED TO POSSIBLE
PERCENT CHANGES IN REAL GDP:

	2000-2001	2001-2002
6.0 OR MORE	0.00	0.14
5.0 TO 5.9	0.00	0.93
4.0 TO 4.9	0.18	5.39
3.0 TO 3.9	1.18	22.64
2.0 TO 2.9	17.11	38.04
1.0 TO 1.9	62.11	22.29
0.0 TO 0.9	15.75	7.11
-1.0 TO -0.1	3.25	2.54
-2.0 TO -1.1	0.39	0.68
LESS THAN -2.0	0.04	0.25

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

	2000-2001	2001-2002
8.0 OR MORE	0.00	0.07
7.0 TO 7.9	0.00	0.19
6.0 TO 6.9	0.04	0.22
5.0 TO 5.9	0.25	0.56
4.0 TO 4.9	1.43	2.04
3.0 TO 3.9	11.21	14.19
2.0 TO 2.9	61.18	46.78
1.0 TO 1.9	23.21	28.30
0.0 TO 0.9	2.46	6.78
WILL DECLINE	0.21	0.89

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 28.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 2001.

TABLE FIVE
LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI INFLATION RATE	
STATISTIC	
MINIMUM	1.750
LOWER QUARTILE	2.450
MEDIAN	2.500
UPPER QUARTILE	2.850
MAXIMUM	3.500
MEAN	2.577
STD. DEV.	0.393
N	30
MISSING	3

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, THIRD QUARTER 2001.