

Survey of

PROFESSIONAL

FORECASTERS

Federal Reserve Bank
of Philadelphia

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FOURTH QUARTER 2001

Pessimism Increases

The U.S. economy is headed for a couple of rough quarters over the next six months, according to 29 forecasters surveyed by the Federal Reserve Bank of Philadelphia. In the current quarter, the forecasters expect real GDP to contract at an annual rate of 1.9 percent. In the first quarter of 2002, the forecasters expect the economy to grow at an annual rate of just 0.1 percent. These forecasts represent sharp downward revisions from the forecasts of three months ago, when the forecasters anticipated growth at an annual rate of 2.8 percent in the fourth quarter and 2.7 percent in the first quarter of 2002. On a year-over-year basis, growth is expected to average 1.1 percent in 2001 and 0.8 percent in 2002, down from 1.7 percent and 2.6 percent, respectively, in the survey of three months ago. As we describe in the section below, part of the forecasters' downward revision to growth prospects is related to the events of September 11.

Increased pessimism on the unemployment front accompanies the downgraded outlook for economic growth. The forecasters now expect the unemployment rate to average 4.8 percent in 2001, up from 4.6 percent in the last survey, and 6.0 percent in 2002, up sharply from 4.9 percent in the last survey. The forecasters calculate that the unemployment rate will rise gradually over the next four quarters, reaching a peak of 6.1 percent in the third quarter of 2002, before falling to 5.9 percent in the fourth quarter of 2002.

According to the forecasters, near-term inflation represents less of a threat than it did in the last survey. Measured by the fourth-quarter over fourth-quarter rate of change in the consumer price index, inflation will be 2.4 percent in 2001 and fall to 2.2 percent in 2002, down from 3.0 percent and 2.7 percent, respectively, in the survey of three months ago.

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: Q4	2.8	-1.9	4.9	5.6	2.5	1.6
2002: Q1	2.7	0.1	5.0	5.9	2.6	1.9
Q2	3.0	2.4	4.9	6.0	2.6	2.1
Q3	3.9	3.6	4.9	6.1	2.7	2.2
Q4	N.A.	4.0	N.A.	5.9	N.A.	2.5
<i>Annual average data:</i>						
2001	1.7	1.1	4.6	4.8	3.0	2.4
2002	2.6	0.8	4.9	6.0	2.7	2.2

Forecasters Cut Their Projections for Interest Rates

The forecasters are revising downward their outlook for short- and long-term interest rates. On the short side, the rate on three-month Treasury bills will average 3.4 percent in 2001 and fall to 2.3 percent in 2002. Three months ago, the forecasters thought the short rate would average 3.8 percent in 2001 and 3.6 percent in 2002. Similar revisions characterize the current outlook for the long rate. Measured by the rate on 10-year Treasury bonds, long rates will average 4.9 percent in 2001 and 4.6 percent in 2002, as the table below shows.

	3-Month Rate (%)		10-Year Rate (%)	
	Previous	New	Previous	New
<i>Quarterly data:</i>				
2001: Q4	3.3	1.9	5.2	4.4
2002: Q1	3.3	1.8	5.3	4.3
Q2	3.5	2.0	5.3	4.5
Q3	3.7	2.4	5.4	4.7
Q4	N.A.	3.1	N.A.	5.0
<i>Annual average data:</i>				
2001	3.8	3.4	5.2	4.9
2002	3.6	2.3	5.4	4.6

Expectations for Long-Term Inflation Register a Slight Increase

For the first time in the last few years, expectations for long-term inflation are higher in the current survey than they were in the previous survey—though the increase in the current survey is relatively minor. Measured by the median of the forecasters' expectation for the 10-year average rate of change in the consumer price index, expectations for long-term inflation now stand at 2.55 percent, up from 2.50 percent in the last survey.

Forecasters See a Much Higher Chance of a Negative Quarter

Dramatic hikes in the risk of a negative quarter of growth over the next two quarters accompany the current outlook. Currently, the forecasters are assigning a chance of 82 percent to the possibility that growth in the fourth quarter will be negative, up markedly from 26 percent in the last survey. Though the chance of a negative quarter of growth in the first quarter of 2002 falls to 49 percent, that chance stands well above that assigned in the previous survey, as the table below shows.

	Risk of a Negative Quarter (%)	
	Previous Survey	New Survey
<i>Quarterly data:</i>		
2001: Q4	26	82
2002: Q1	20	49
Q2	16	27
Q3	15	18
Q4	N.A.	16

Forecasters Assess the Effect of the Events of September 11

In this survey, we asked the forecasters to assess how the events of September 11 (and their aftermath, including the anthrax scares) are affecting their current projections. Twenty-four forecasters answered the question, and the table below summarizes the median response of those forecasters (in annualized percentage points). For each of the three macroeconomic variables listed below, we asked the forecasters to compute the difference between their current forecast for year-over-year growth and the forecast they would have prepared had the events of September 11 not

occurred. The forecasters estimate that the events of September 11 are reducing their projection for real GDP growth 0.5 percentage point in 2001 and 1.33 percentage points in 2002, and raising their projection 0.20 percentage point in 2003. The events of September 11 are having quantitatively similar effects on the forecasters' projections for the growth in households' real spending on goods and services (personal consumption expenditures) and firms' real investment spending on fixed capital (business fixed investment).

*Effect of the Events of September 11
(In Percentage Points)*

	2001	2002	2003
<i>Growth in GDP</i>	-0.50	-1.33	0.20
<i>Growth in Personal Consumption Expenditures</i>	-0.30	-1.00	0.05
<i>Growth in Business Fixed Investment</i>	-0.90	-2.35	0.45

The Federal Reserve Bank of Philadelphia thanks the following forecasters for their participation in this survey over the past year:

Maureen Allyn, Scudder Kemper Investments; **David Berson**, Orawin Velz, and **Madalin Campbell**, Fannie Mae; **Brian A. Bethune**, Caterpillar, Inc.; **David M. Blitzer**, Ph.D., Standard & Poor's; **Joel Brest** and **Brian O'Connor**, Marketview Publishing Corp.; **Chase Securities, Inc.**; **Gary L. Ciminero**, Investment Economics Advisory; **Michael Cosgrove**, The Econoclast; **Louis Crandall**, Wrightson Associates; **Richard Crump** and **Edward F. McKelvey**, Goldman Sachs; **Richard J. DeKaser**, National City Corporation; **Rajeev Dhawan**, Georgia State University; **Bill Dickens**, Florida Public Service Commission; **Michael R. Englund**, Standard & Poor's MMS; **Gerard F. Fuda**, Independent Economist; **James M. Goldberg**, Trust Company of the West; **Andrew Hodge**, DRI-WEFA; **William B. Hummer**, Wayne Hummer Investments, LLC.; **Saul Hymans**, **Joan Crary**, and **Janet Wolfe**, RSQE, The University of Michigan; **Frederick L. Joutz**, Benchmark Forecasts and George Washington University; **Kurt E. Karl**, Swiss Re; **Dr. Irwin Kellner**, Hofstra University & CBS MarketWatch; **Allan R. Leslie**, Economic Consultant; **John Lonski**, Moody's Investors Service; **Macroeconomic Advisers, LLC**; **James P. Meil**, Eaton Corporation; **Joel L. Naroff**, Naroff Economic Advisors; **Herbert E. Neil**, Financial and Economic Strategies Corp.; **Michael P. Niemira**, Bank of Tokyo-Mitsubishi, Ltd.; **John Pope**, Pope Investment Economics, Inc.; **David H. Resler** and **Carol A. Stone**, Nomura Securities Intl., Inc.; **Dick Rippe**, Prudential Securities; **David F. Seiders** and **Stanley F. Duobinis**, National Association of Home Builders; **Dr. Constantine Soras**, Bell Atlantic; **Bruce Steinberg**, Merrill Lynch; **Susan M. Sterne**, Economic Analysis Assoc., Inc.; **Lea Tyler**, Oxford Economics USA, Inc.; **Robert O. Welk**, RowTek Economics; **Albert M. Wojnilower**, Monitor-Clipper Partners; **Jay N. Woodworth**, Woodworth Holdings, Ltd.; **Richard Yamarone**, Argus Research Corp.; **Mark Zandi**, Economy.com.

This is a partial list of participants. We also thank those who wish to remain anonymous.

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/index.html>.

SURVEY OF PROFESSIONAL FORECASTERS
MAJOR MACROECONOMIC INDICATORS, 2001-2002

	2001				2002				ANNUAL AVERAGE			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2001	2002	
	FORECAST											
PERCENT GROWTH AT ANNUAL RATES												
1. REAL GDP (BILLIONS, CHAIN WEIGHTED)	-1.9	0.1	2.4	3.6	4.0	1.1	0.8					
2. GDP PRICE INDEX (1996=100)	1.5	1.8	1.7	1.2	2.2	2.2	1.7					
3. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	-0.5	1.8	4.3	4.9	5.2	3.4	2.5					
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	1.6	1.9	2.1	2.2	2.5	2.4	2.2					
VARIABLES IN LEVELS												
5. UNEMPLOYMENT RATE (PERCENT)	5.6	5.9	6.0	6.1	5.9	4.8	6.0					
6. 3-MONTH TREASURY BILL RATE (PERCENT)	1.9	1.8	2.0	2.4	3.1	3.4	2.3					
7. 10-YEAR TREASURY BOND YIELD (PERCENT)	4.4	4.3	4.5	4.7	5.0	4.9	4.6					

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

NOTES: THE FIGURES ON EACH LINE ARE MEDIANs OF 29 INDIVIDUAL FORECASTS. NA = NOT APPLICABLE.

SURVEY OF PROFESSIONAL FORECASTERS

Fourth 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 October 31; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before November 14.

TABLE ONE

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

	NUMBER OF FORE- CASTERS	ACTUAL 2001 Q3	ACTUAL 2001 Q4	FORECASTS 2002				ACTUAL 2000	FORECAST 2001	FORECAST 2002
				Q1	Q2	Q3	Q4			
				—	—	—	—			
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	29	10247.7	10234.9	10279.4	10388.7	10512.8	10648.2	9872.9	10205.0	10463.9
2. GDP PRICE INDEX (1992=100)	29	109.80	110.20	110.70	111.17	111.51	112.11	107.04	109.42	111.32
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	24	N.A.	466.5	472.8	488.5	509.7	526.6	573.9	496.3	494.6
4. UNEMPLOYMENT RATE (PERCENT)	29	4.8	5.6	5.9	6.0	6.1	5.9	4.0	4.8	6.0
5. INDUSTRIAL PRODUCTION (1992=100)	27	141.6	139.6	139.1	140.3	141.9	143.5	147.0	142.6	141.0
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	29	1.59	1.51	1.52	1.55	1.56	1.55	1.57	1.59	1.55
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	29	0.7	1.6	1.9	2.1	2.2	2.5	3.4	2.4	2.2
8. 3-MONTH TREASURY BILL RATE (PERCENT)	27	3.17	1.93	1.75	1.95	2.38	3.11	5.82	3.40	2.35
9. AAA CORPORATE BOND YIELD (PERCENT)	25	7.11	6.80	6.69	6.70	6.76	6.91	7.62	7.05	6.76
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	27	4.98	4.40	4.29	4.47	4.70	5.00	6.03	4.93	4.61

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

TABLE ONE CONTINUED

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

	NUMBER OF FORE- CASTERS	ACTUAL 2001 Q3	2001	FORECASTS 2002				ACTUAL 2000	FORECAST 2001	FORECAST 2002
				Q1	Q2	Q3	Q4			
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	29	9333.4	9287.9	9290.0	9344.2	9428.1	9521.2	9224.0	9324.9	9402.0
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	28	6447.8	6451.9	6431.7	6479.1	6536.7	6585.0	6257.8	6429.5	6514.5
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	28	1279.8	1229.6	1208.3	1205.3	1216.2	1235.0	1350.7	1300.9	1216.0
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	28	380.0	373.6	368.0	371.0	374.8	377.6	371.4	376.2	373.4
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	27	561.0	570.0	575.6	581.7	586.8	590.3	545.9	559.5	585.2
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	27	1068.4	1074.2	1080.6	1087.3	1094.4	1100.0	1026.3	1065.1	1090.8
17. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	29	-50.4	-40.2	-16.0	-1.7	12.9	23.7	50.6	-38.3	6.3
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	29	-395.0	-399.5	-399.3	-400.0	-407.0	-418.6	-399.1	-401.4	-402.8

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

TABLE TWO

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

	NUMBER OF FORE- CASTERS	Q3 2001 TO Q4 2001	Q4 2001 TO Q1 2002	Q1 2002 TO Q2 2002	Q2 2002 TO Q3 2002	Q3 2002 TO Q4 2002	Q4 2002 TO 2001	2001 TO 2002
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	29	-0.5	1.8	4.3	4.9	5.2	3.4	2.5
2. GDP PRICE INDEX (1996=100)	29	1.5	1.8	1.7	1.2	2.2	2.2	1.7
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	24	-19.6	5.5	13.9	18.6	13.9	-13.5	-0.3
4. UNEMPLOYMENT RATE (PERCENT)	29	0.8	0.3	0.1	0.1	-0.2	0.8	1.2
5. INDUSTRIAL PRODUCTION	27	-5.5	-1.4	3.5	4.5	4.7	-3.0	-1.1
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	29	-19.7	2.7	8.4	1.9	-0.8	1.3	-2.5
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	29	0.9	0.3	0.2	0.1	0.3	-1.0	-0.2
8. 3-MONTH TREASURY BILL RATE (PERCENT)	27	-1.24	-0.18	0.20	0.42	0.73	-2.42	-1.05
9. AAA CORPORATE BOND YIELD (PERCENT)	25	-0.31	-0.11	0.01	0.06	0.15	-0.57	-0.29
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	27	-0.58	-0.11	0.18	0.23	0.30	-1.10	-0.32

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 2001.

TABLE TWO CONTINUED

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

	NUMBER OF FORE- CASTERS	Q3 2001 TO Q4 2001	Q4 2001 TO Q1 2002	Q1 2002 TO Q2 2002	Q2 2002 TO Q3 2002	Q3 2002 TO Q4 2002	Q4 2002 TO 2001	2001 TO 2002
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	29	-1.9	0.1	2.4	3.6	4.0	1.1	0.8
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	28	0.3	-1.2	3.0	3.6	3.0	2.7	1.3
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	28	-14.8	-6.8	-1.6	4.3	6.3	-3.7	-6.5
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	28	-6.6	-5.9	3.3	4.2	3.0	1.3	-0.7
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	27	6.6	4.0	4.3	3.6	2.3	2.5	4.6
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	27	2.2	2.4	2.5	2.6	2.1	3.8	2.4
17. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	29	10.2	24.2	14.3	14.6	10.8	-88.9	44.6
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	29	-4.5	0.2	-0.7	-7.0	-11.7	-2.3	-1.4

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, FOURTH QUARTER 2001.

TABLE THREE
ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANCES IN 100)	NUMBER OF FORECASTERS					
	Q3 TO Q4 2001	Q4 2001 TO Q1 2002	Q1 2002 TO Q2 2002	Q2 2002 TO Q3 2002	Q3 2002 TO Q4 2002	
10 OR LESS	1	1	7	13	14	
11 TO 20	0	1	3	3	4	
21 TO 30	0	3	9	6	3	
31 TO 40	1	4	2	1	1	
41 TO 50	2	9	2	1	2	
51 TO 60	2	0	1	1	0	
61 TO 70	0	3	0	0	0	
71 TO 80	2	4	1	0	0	
81 TO 90	6	0	0	0	0	
91 AND OVER	11	0	0	0	0	
NOT REPORTING	4	4	4	4	5	
MEDIAN PROBABILITY	90	50	30	10	10	
MEAN PROBABILITY	82	49	27	18	16	

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 25.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FOURTH 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	0.08
5.0 TO 5.9	0.00	0.13
4.0 TO 4.9	0.00	0.79
3.0 TO 3.9	0.00	3.02
2.0 TO 2.9	1.65	12.75
1.0 TO 1.9	54.78	33.88
0.0 TO 0.9	31.26	29.88
-1.0 TO -0.1	10.35	13.33
-2.0 TO -1.1	1.78	3.88
LESS THAN -2.0	0.17	2.27

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

	2000-2001	2001-2002
8.0 OR MORE	0.00	0.00
7.0 TO 7.9	0.00	0.00
6.0 TO 6.9	0.00	0.09
5.0 TO 5.9	0.43	1.09
4.0 TO 4.9	1.74	2.39
3.0 TO 3.9	5.04	8.96
2.0 TO 2.9	69.87	34.09
1.0 TO 1.9	20.38	43.61
0.0 TO 0.9	2.52	7.61
WILL DECLINE	0.00	2.17

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 24.

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

TABLE FIVE
LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI INFLATION RATE	
STATISTIC	
MINIMUM	1.500
LOWER QUARTILE	2.300
MEDIAN	2.550
UPPER QUARTILE	2.820
MAXIMUM	3.100
MEAN	2.520
STD. DEV.	0.417
N	26
MISSING	3

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