



SURVEY OF PROFESSIONAL FORECASTERS

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FIRST QUARTER 2004

Forecasters Raise Their Projections for Real GDP Growth in 2004...

Prospects for economic growth look stronger now than they did just three months ago, according to 32 forecasters surveyed by the Federal Reserve Bank of Philadelphia. This survey marks the second in which the forecasters have raised their estimates for year-over-year growth in 2004. That estimate stands at 4.6 percent in this survey, revised up from the previous estimate of 4.3 percent. The contrast is even more pronounced in the survey participants' quarterly forecasts, which stand at 4.4 percent in the current quarter and 4.3 percent in the second quarter, up from 3.9 percent in both quarters in the survey of three months ago. Slightly smaller upward revisions characterize the outlook for the second half of 2004, when growth will average an annual rate of 4 percent, up from 3.75 percent in the previous survey.

Downward revisions in the projections for unemployment and inflation accompany the forecasters' call for stronger growth in 2004. The forecasters project unemployment will average 5.6 percent in 2004, down from 5.8 percent in the previous survey, and inflation, measured by the fourth-quarter over fourth-quarter percent change in the CPI, will average 1.6 percent in 2004, down from 2.1 percent previously.

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>						
2004: Q1	3.9	4.4	5.9	5.7	2.1	1.7
Q2	3.9	4.3	5.8	5.6	2.0	1.5
Q3	3.7	3.9	5.8	5.6	2.2	1.5
Q4	3.8	4.1	5.6	5.5	2.2	1.7
2005: Q1	N.A.	3.6	N.A.	5.4	N.A.	1.8
<i>Annual average data:</i>						
2004	4.3	4.6	5.8	5.6	2.1	1.6
2005	N.A.	3.8	N.A.	5.3	N.A.	1.9

... But See Fewer Job Gains

At the same time that the forecasters are raising their projections for economic growth, they are also lowering their projections for job gains, as measured by the Bureau of Labor Statistics' payroll employment survey. Currently, the forecasters see payroll employment increasing at a year-over-year rate of 0.8 percent in 2004. That estimate translates into a net gain of 91,000 jobs per month this year. These forecasts mark downward revisions from 1.0 percent and 104,000 jobs in the survey of three months ago. Job growth, however, is expected to double these rates in 2005. The forecasters project that the number of jobs will increase 1.7 percent in 2005, or about 188,000 jobs per month, as the table below shows.

Nonfarm Payroll Employment

	Growth (%)		Average Change per Month (thousands of jobs)	
	Previous	New	Previous	New
<i>Quarterly data:</i>				
2004:Q1	1.2	0.9	128.0	92.7
Q2	1.5	1.3	157.8	142.7
Q3	1.8	1.7	199.2	184.3
Q4	1.5	1.7	160.3	190.0
2005:Q1	N.A.	1.5	N.A.	166.0
<i>Annual average data:</i>				
2004	1.0	0.8	104.0	91.1
2005	N.A.	1.7	N.A.	187.7

Little Risk of a Negative Quarter

The forecasters see almost no chance that real GDP will decline in the current quarter—and very little chance of a decline in the following four quarters. The forecasters peg that chance at 2 percent for this quarter, down from 6 percent in the previous survey. The table below shows that a similar downward revision characterizes the chance of a decline in the second quarter of this year.

	Risk of a Negative Quarter (%)	
	Previous	New
	Survey	Survey
<i>Quarterly data:</i>		
2004: Q1	6	2
Q2	8	5
Q3	9	6
Q4	10	8
2005: Q1	N.A.	10

New Long-Term Projections

In first-quarter surveys, we ask the forecasters to provide long-term forecasts for an expanded set of variables, including growth in real GDP and productivity, and returns on financial assets. As the table below shows, the forecasters are raising their estimates for the annual average rate of growth in real GDP and productivity over the next 10 years. Those estimates stand at 3.40 percent and 2.50 percent, respectively, in this survey. They mark an upward revision of 0.2 percentage point from the estimates of one year ago. On the financial front, the forecasters see lower returns to equities, 10-year Treasury bonds, and three-month Treasury bills over the next 10 years. Equities, as measured by the S&P 500 index, are expected to return 7.75 percent over the next 10 years, down from 8.00 percent one year ago. Ten-year Treasuries will yield 5.25 percent, down from 5.43 percent, and three-month bills will return 3.50 percent, down from 4.00 percent previously. The current forecast for the annual average rate of CPI inflation over the next 10 years continues to hold rock-steady at 2.50 percent.

	<i>Long-Term (10-year) Forecasts (%)</i>	
	<i>First-Quarter 2003</i>	<i>Current Survey</i>
<i>Real GDP Growth</i>	3.20	3.40
<i>Productivity Growth</i>	2.30	2.50
<i>Stock Returns (S&P 500)</i>	8.00	7.75
<i>Bond Returns (10-year)</i>	5.43	5.25
<i>Bill Returns (3-month)</i>	4.00	3.50
<i>CPI Inflation</i>	2.50	2.50

The Federal Reserve Bank of Philadelphia thanks the following forecasters for their participation in our recent surveys:

Joseph T. Abate, Lehman Brothers; **David W. Berson**, Fannie Mae; **Joel I. Brest** and **Brian P. O'Connor**, Ridgewood Economic Associates; **Gary Ciminero, CFA**, Independent Economic Advisory; **Michael Cosgrove**, Econoclast; **Louis Crandall**, Wrightson ICAP LLC; **Richard DeKaser**, National City Corporation; **Rajeev Dhawan**, Georgia State University; **Michael R. Englund**, Action Economics, LLC; **Gerard F. Fuda**, Independent Economist; **James Glassman**, JP Morgan Chase & Co.; **William B. Hummer**, Wayne Hummer Investments; **Saul Hymans**, **Joan Crary**, and **Janet Wolfe**, RSQE, The University of Michigan; **Fred Joutz**, Benchmark Forecasts and Research Program on Forecasting, George Washington University; **Kurt Karl**, Swiss Re; **Dr. Irwin Kellner**, Hofstra University/CBS MarketWatch/North Fork Bank; **Joseph Liro**, Stone & McCarthy Research Associates; **John Lonski**, Moody's Investors Service; **Edward F. McKelvey**, Goldman Sachs; **Jim Meil**, Eaton Corporation; **Joel L. Naroff**, Naroff Economic Advisors; **Herbert E. Neil**, Financial and Economic Strategies Corp.; **Mark Nielson, Ph.D.**, MacroEcon Global Advisors; **Michael P. Niemira**, International Council of Shopping Centers; **Jacob I. Pasternak**, Chmura Economics & Analytics; **Martin A. Regalia**, U.S. Chamber of Commerce; **David Resler**, Nomura Securities International, Inc.; **David Rosenberg**, Merrill Lynch; **David F. Seiders** and **Stanley F. Duobinis**, National Association of Home Builders; **Constantine G. Soras, Ph.D.**, Verizon Communications; **Susan M. Sterne**, Economic Analysis Associates, Inc.; **Lea Tyler**, Oxford Economics USA, Inc.; **Albert M. Wojnilower**; **Richard Yamarone**, Argus Research Group; **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.

For further information about the Survey of Professional Forecasters, contact:
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To subscribe to the survey, contact the 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, 2004-2005

	2004			2005			ANNUAL AVERAGE
	Q1	Q2	Q3	Q4	Q1	Q1	2004 2005
	FORECAST						
PERCENT GROWTH AT ANNUAL RATES							
1. REAL GDP (BILLIONS, CHAIN WEIGHTED)	4.4	4.3	3.9	4.1	3.6	4.6	3.8
2. GDP PRICE INDEX (2000=100)	1.4	1.4	1.5	1.6	1.7	1.4	1.7
3. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	5.9	5.5	5.6	5.4	5.0	6.0	5.5
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	1.7	1.5	1.5	1.7	1.8	1.6	1.9
VARIABLES IN LEVELS							
5. UNEMPLOYMENT RATE (PERCENT)	5.7	5.6	5.6	5.5	5.4	5.6	5.3
6. 3-MONTH TREASURY BILL RATE (PERCENT)	0.9	1.0	1.2	1.5	1.8	1.2	2.2
7. 10-YEAR TREASURY BOND YIELD (PERCENT)	4.2	4.4	4.6	4.8	5.0	4.5	5.3

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FIRST QUARTER 2004.

NOTES: THE FIGURES ON EACH LINE ARE MEDIANs OF 32 INDIVIDUAL FORECASTS. NA = NOT APPLICABLE.

SURVEY OF PROFESSIONAL FORECASTERS

First Quarter 2004

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 January 30; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before February 13.

TABLE ONE

MAJOR MACROECONOMIC INDICATORS, 2004-2005
MEDIAN OF FORECASTER PREDICTIONS

NUMBER OF FORE- CASTERS	ACTUAL 2003 Q4	FORECASTS				ACTUAL 2003	FORECAST 2004	FORECAST 2005			
		2004		2005							
		Q1	Q2	Q3	Q4						
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	32	11246.3	11409.8	11564.6	11723.7	11880.3	12027.5	10983.9	11640.3		
2. GDP PRICE INDEX (2000=100)	32	106.16	106.53	106.90	107.30	107.74	108.20	105.66	107.14		
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	22	N.A.	694.1	717.0	746.0	762.7	804.2	N.A.	735.7		
4. UNEMPLOYMENT RATE (PERCENT)	32	5.9	5.7	5.6	5.6	5.5	5.4	6.0	5.6		
5. INDUSTRIAL PRODUCTION (1997=100)	29	112.7	114.3	115.7	117.2	118.5	120.0	111.3	116.5		
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	31	2.04	1.92	1.87	1.80	1.79	1.76	1.85	1.81		
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	31	0.9	1.7	1.5	1.5	1.7	1.8	1.9	1.6		
8. 3-MONTH TREASURY BILL RATE (PERCENT)	30	0.92	0.91	1.00	1.20	1.50	1.83	1.01	1.18		
9. AAA CORPORATE BOND YIELD (PERCENT)	25	5.66	5.60	5.77	5.92	6.10	6.30	5.67	5.85		
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	30	4.29	4.20	4.41	4.65	4.85	5.01	4.02	4.54		

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FIRST QUARTER 2004.

TABLE ONE CONTINUED

MAJOR MACROECONOMIC INDICATORS, 2004-2005
MEDIAN OF FORECASTER PREDICTIONS

NUMBER OF FORE- CASTERS	ACTUAL 2003 Q4	FORECASTS				2005 Q1	ACTUAL 2003	FORECAST 2004	FORECAST 2005				
		2004		Q2	Q3								
		Q1	Q4										
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	32	10597.1	10713.0	10825.8	10930.8	11040.7	11140.1	10397.2	10876.2				
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	32	7474.2	7543.1	7609.2	7673.7	7739.9	7800.4	7362.2	7641.1				
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	32	1158.7	1185.4	1213.5	1243.9	1276.8	1304.1	1122.8	1233.4				
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	32	529.8	536.0	536.5	536.7	537.4	529.9	506.1	536.5				
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	30	715.4	723.9	733.0	739.1	742.0	741.8	704.3	736.0				
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	30	1200.2	1203.0	1205.9	1209.9	1215.6	1219.4	1195.7	1209.2				
17. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	31	6.1	23.7	31.0	37.3	40.0	35.0	-1.5	32.7				
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	31	-500.7	-512.0	-518.9	-515.4	-510.5	-497.9	-505.5	-514.1				
									-490.4				

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FIRST QUARTER 2004.

TABLE TWO

MAJOR MACROECONOMIC INDICATORS, 2004-2005
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE- CASTERS	Q4 2003 TO Q1 2004	Q1 2004 TO Q2 2004	Q2 2004 TO Q3 2004	Q3 2004 TO Q4 2004	Q4 2004 TO Q1 2005	2003 TO 2004	2004 TO 2005
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	32	5.9	5.5	5.6	5.4	5.0	6.0	5.5
2. GDP PRICE INDEX (2000=100)	32	1.4	1.4	1.5	1.6	1.7	1.4	1.7
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	22	20.0	13.8	17.2	9.3	23.6	18.9	13.2
4. UNEMPLOYMENT RATE (PERCENT)	32	-0.2	-0.1	-0.1	-0.1	-0.1	-0.4	-0.3
5. INDUSTRIAL PRODUCTION (1997=100)	29	5.8	5.0	5.3	4.5	5.1	4.7	4.7
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	31	-21.0	-11.3	-13.6	-2.2	-6.5	-2.1	-5.8
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	31	0.8	-0.2	0.0	0.2	0.1	-0.3	0.3
8. 3-MONTH TREASURY BILL RATE (PERCENT)	30	-0.01	0.09	0.20	0.30	0.33	0.17	1.03
9. AAA CORPORATE BOND YIELD (PERCENT)	25	-0.06	0.17	0.15	0.18	0.20	0.18	0.54
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	30	-0.09	0.22	0.23	0.20	0.16	0.52	0.73

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, FIRST QUARTER 2004.

TABLE TWO CONTINUED

MAJOR MACROECONOMIC INDICATORS, 2004-2005
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE- CASTERS	Q4 TO Q1 2004	Q1 TO Q2 2004	Q2 TO Q3 2004	Q3 TO Q4 2004	Q4 TO Q1 2005	2003 TO 2004	2004 TO 2005
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	32	4.4	4.3	3.9	4.1	3.6	4.6	3.8
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	32	3.7	3.6	3.4	3.5	3.2	3.8	3.3
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	32	9.6	9.8	10.4	11.0	8.8	9.9	9.0
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	32	4.8	0.4	0.1	0.5	-5.4	6.0	-0.2
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	30	4.9	5.1	3.4	1.5	-0.1	4.5	1.0
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	30	0.9	0.9	1.4	1.9	1.2	1.1	1.7
17. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	31	17.6	7.3	6.3	2.7	-5.0	34.2	5.9
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	31	-11.3	-6.9	3.5	4.9	12.6	-8.6	23.7

NOTE: FIGURES FOR CHANGE IN 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, FIRST QUARTER 2004.

TABLE THREE

ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANCES IN 100)	NUMBER OF FORECASTERS					
	Q4 2003 TO Q1 2004	Q1 2004 TO Q2 2004	Q2 2004 TO Q3 2004	Q3 2004 TO Q4 2004	Q4 2004 TO Q1 2005	
10 OR LESS	28	27	26	22	19	
11 TO 20	0	1	2	6	8	
21 TO 30	0	0	0	0	1	
31 TO 40	0	0	0	0	0	
41 TO 50	0	0	0	0	0	
51 TO 60	0	0	0	0	0	
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	0	0	0	0	0	
NOT REPORTING	4	4	4	4	4	
MEDIAN PROBABILITY	1	5	5	10	10	
MEAN PROBABILITY	2	5	6	8	10	

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 28.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FIRST QUARTER 2004.

TABLE FOUR

MEAN PROBABILITY OF CHANGES IN GDP AND PRICES
2003-2004 AND 2004-2005

MEAN PROBABILITY ATTACHED TO POSSIBLE
PERCENT CHANGES IN REAL GDP:

	2003-2004	2004-2005
6.0 OR MORE	4.96	3.30
5.0 TO 5.9	17.74	9.89
4.0 TO 4.9	45.00	29.41
3.0 TO 3.9	19.67	34.07
2.0 TO 2.9	7.89	14.70
1.0 TO 1.9	2.59	5.07
0.0 TO 0.9	1.19	2.04
-1.0 TO -0.1	0.48	0.78
-2.0 TO -1.1	0.22	0.41
LESS THAN -2.0	0.26	0.33

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

	2003-2004	2004-2005
8.0 OR MORE	0.04	0.12
7.0 TO 7.9	0.04	0.19
6.0 TO 6.9	0.04	0.31
5.0 TO 5.9	0.21	0.52
4.0 TO 4.9	1.17	1.79
3.0 TO 3.9	5.42	8.31
2.0 TO 2.9	24.35	29.54
1.0 TO 1.9	48.65	41.54
0.0 TO 0.9	18.19	16.08
WILL DECLINE	1.88	1.62

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 27.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FIRST QUARTER 2004.

TABLE FIVE

LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI INFLATION RATE		SERIES: REAL GDP GROWTH RATE		SERIES: PRODUCTIVITY GROWTH	
STATISTIC		STATISTIC		STATISTIC	
MINIMUM	1.500	MINIMUM	2.500	MINIMUM	1.700
LOWER QUARTILE	2.100	LOWER QUARTILE	3.100	LOWER QUARTILE	2.000
MEDIAN	2.500	MEDIAN	3.400	MEDIAN	2.500
UPPER QUARTILE	2.800	UPPER QUARTILE	3.500	UPPER QUARTILE	3.100
MAXIMUM	3.000	MAXIMUM	4.300	MAXIMUM	3.800
MEAN	2.420	MEAN	3.380	MEAN	2.580
STD. DEV.	0.383	STD. DEV.	0.386	STD. DEV.	0.578
N	27	N	27	N	25
MISSING	5	MISSING	5	MISSING	7
<hr/>					
SERIES: STOCK RETURNS (S&P 500)		SERIES: BOND RETURNS (10-YEAR)		SERIES: BILL RETURNS (3-MONTH)	
STATISTIC		STATISTIC		STATISTIC	
MINIMUM	5.000	MINIMUM	2.000	MINIMUM	1.500
LOWER QUARTILE	7.000	LOWER QUARTILE	4.800	LOWER QUARTILE	2.650
MEDIAN	7.750	MEDIAN	5.250	MEDIAN	3.500
UPPER QUARTILE	8.050	UPPER QUARTILE	5.700	UPPER QUARTILE	4.000
MAXIMUM	10.000	MAXIMUM	6.500	MAXIMUM	5.600
MEAN	7.616	MEAN	5.102	MEAN	3.300
STD. DEV.	1.119	STD. DEV.	0.912	STD. DEV.	0.996
N	22	N	27	N	26
MISSING	10	MISSING	5	MISSING	6

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FIRST QUARTER