



SURVEY OF PROFESSIONAL FORECASTERS

Release Date: November 14, 2005

FOURTH QUARTER 2005

Downward Revision for Fourth Quarter Will Reverse Quickly in 2006

Growth in the current quarter looks slower now than it did just three months ago, according to the 51 forecasters surveyed by the Federal Reserve Bank of Philadelphia. The forecasters see real GDP growing this quarter at an annual rate of 3.2 percent, down from their estimate of 3.6 percent in the last survey. This markdown is expected to be temporary, as the forecasters are revising up their estimate for growth in the next quarter: The economy will enter 2006 growing at an annual rate of 3.7 percent, an increase over the previous estimate of 3.3 percent. Despite some changes in their estimates of the timing of growth over the next two quarters, the forecasters are not changing their projections much for growth over the next two years. On an annual-average over annual-average basis, real GDP is expected to grow 3.6 percent in 2005, down a bit from 3.7 percent previously, and 3.4 percent in 2006, unchanged from the previous estimate.

With very little change in the outlook for growth over the next two years, the forecasters see little reason to revise their outlook for unemployment. They see unemployment averaging 5.1 percent in 2005 and 4.9 percent in 2006. These are the same estimates the forecasters reported in last quarter's survey. The outlook for the growth in jobs parallels that for growth in real GDP—a downward revision to projected job gains this quarter, followed by upward revisions in 2006. The forecasters see the job recovery lasting a bit longer in 2006 than they estimate for the recovery in the growth of real GDP. Nonfarm payrolls will increase at a rate of 89,000 jobs per month this quarter, down from the previous estimate of 190,000. Job gains will rise to a rate of nearly 200,000 per month in the first quarter of 2006, up from 183,000 in the last survey. Larger upward revisions characterize the outlook for the middle quarters of the year. As the table below shows, job gains over the next two years (based on forecasts for the annual-average level of employment) will average 179,000 per month in 2005 and 172,000 per month in 2006.

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

	Real GDP (%)		Unemployment Rate (%)		Payrolls (000s/month)	
	Previous	New	Previous	New	Previous	New
<i>Quarterly data:</i>						
2005: Q4	3.6	3.2	5.0	5.0	190.3	89.0
2006: Q1	3.3	3.7	4.9	5.0	183.3	199.0
Q2	3.4	3.3	4.9	4.9	167.7	184.0
Q3	3.3	3.2	4.9	4.9	148.3	182.7
Q4	N.A.	3.2	N.A.	5.0	N.A.	147.3
<i>Annual average data:</i>						
2005	3.7	3.6	5.1	5.1	184.1	178.7
2006	3.4	3.4	4.9	4.9	173.2	172.1

Little Change in the Outlook for Inflation Beyond the Very Short Term

The forecasters are raising by a sizeable amount their projection for CPI inflation this quarter. The current estimate for the quarter stands at 3.9 percent, up from 2.4 percent in the last survey. However, the forecasters regard the projected run-up as a temporary phenomenon because their forecasts for the next three quarters stand at rates similar to those that they expected previously. Inflation in 2005, measured on a fourth-quarter over fourth-quarter basis, will average 3.9 percent, up one full percentage point from the estimate in the previous survey, reflecting unexpectedly higher inflation in the third quarter of the year as well as the forecasters' upward revision to their fourth-quarter estimate. As we noted in the projections for the next five quarters, there is little reason to think that the near-term run-up in inflation will stick: On an annual basis, the forecasters are calling for inflation to average 2.4 percent in 2006 and 2007. These projections are similar to those that the forecasters provided in the last survey.

In the past few surveys, we have been asking the forecasters to provide some additional details about their longer-run view of inflation. For quite some time the forecasters have projected that inflation would average 2.50 percent over the next 10 years. The 31 forecasters who provided a 10-year projection continue to hold that view in this survey. However, over the next five years (2005-2009), 47 forecasters see CPI inflation averaging 2.70 percent per year, an increase over the previous forecast of 2.50 percent. This upward revision is associated with the error the forecasters made last survey in projecting inflation for the third quarter of 2005 and the upward revision to this survey's projection for the fourth quarter of 2005.

Among those who provided projections for annual average inflation over the next five years and 10 years, we can compute each forecaster's implied projection for annual average inflation over the 2010-2014 period—that is, over the second five-year interval of the survey's standard 10-year horizon. As the table below shows, that projection stands at 2.50 percent, the same level the forecasters reported three months ago.

Median Forecasts for the Trajectory of CPI Inflation Over the Next 10 Years (%)

	<i>Previous</i>	<i>New</i>
<i>Quarterly data:</i>		
2005:Q4	2.4	3.9
2006:Q1	2.4	2.4
Q2	2.5	2.3
Q3	2.4	2.4
Q4	N.A.	2.4
<i>Annual average data:</i>		
2005	2.9	3.9
2006	2.4	2.4
2007	2.5	2.4
<i>Long-Term (Annual Average):</i>		
2005-2009	2.50	2.70
2010-2014	2.50	2.50
2005-2014	2.50	2.50

Little Chance of a Downturn

The forecasters see little chance of a downturn in real GDP over the next five quarters. As the table below shows, they have raised their estimate of a downturn in the current quarter, from 5 percent previously to 6 percent in this survey, reflecting their downward revision to projected growth for the quarter, but that estimate remains on the low side. The risk of a downturn in the first quarter rises to 8 percent, but that estimate is below the level assigned previously. The chance of a downturn rises two percentage points over each of the remaining three quarters.

Risk of a Negative Quarter (%)

	<i>Previous Survey</i>	<i>New Survey</i>
<i>Quarterly data:</i>		
2005: Q4	5	6
2006: Q1	9	8
Q2	12	10
Q3	14	12
Q4	N.A.	14

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

Joseph T. Abate, Lehman Brothers; **Scott Anderson**, Wells Fargo and Company; **Robert J. Barbera**, ITG; **Ellen M. Beeson**, Bank of Tokyo-Mitsubishi, Ltd.; **David W. Berson**, Fannie Mae; **Joseph Carson**, Alliance Capital Management; **Gary Ciminero, CFA**, Independent Economic Advisory; **Michael Cosgrove**, Econoclast; **Richard DeKaser**, National City Corporation; **Rajeev Dhawan**, Georgia State University; **Doug Duncan**, Mortgage Bankers Association; **Michael R. Englund**, Action Economics, LLC; **Gerard F. Fuda**, Independent Economist; **Stephen Gallagher**, Societe Generale; **James Glassman**, JP Morgan Chase & Co.; **Global Insight**; **Keith Hembre**, First American Funds; **David Huether**, National Association of Manufacturers; **William B. Hummer**, Wayne Hummer Investments; **Saul Hymans**, **Joan Crary**, and **Janet Wolfe**, RSQE, The University of Michigan; **Peter Jaquette**, Weyerhaeuser Company; **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; **L. Douglas Lee**, Economics from Washington; **Allan R. Leslie**, Economic Consultant; **Joseph Liro**, Stone & McCarthy Research Associates; **John Lonski**, Moody's Investors Service; **Dean Maki**, Barclays Capital; **Edward F. McKelvey**, Goldman Sachs; **Jim Meil**, Eaton Corporation; **Anthony Metz**, Pareto Optimal Economics; **Michael Moran**, Daiwa Securities America; **Joel L. Naroff**, Naroff Economic Advisors; **Mark Nielson, Ph.D.**, MacroEcon Global Advisors; **Michael P. Niemira**, International Council of Shopping Centers; **Martin A. Regalia**, U.S. Chamber of Commerce; **David Resler**, Nomura Securities International, Inc.; **David Rosenberg**, Merrill Lynch; **John Ryding**, Bear, Stearns, and Company, Inc.; **David F. Seiders**, National Association of Home Builders; **Xiaobing Shuai, Ph.D.**, Chmura Economics & Analytics; **Sean M. Snaith, Ph.D.**, University of the Pacific; **Constantine G. Soras, Ph.D.**, Verizon Communications; **Neal Soss**, Credit Suisse First Boston; **Stephen Stanley**, RBS Greenwich Capital; **Susan M. Sterne**, Economic Analysis Associates, Inc.; **Edward Sullivan**, Portland Cement Association; **Thomas Kevin Swift**, American Chemistry Council; **David Teolis**, General Motors Corporation; **Lea Tyler**, Oxford Economics USA, Inc.; **Chris Varvares** and **Nandini Nagraj**, Macroeconomic Advisers, LLC; **Albert M. Wojnilower**; **Jay N. Woodworth**, Woodworth Holdings, Ltd.; **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.

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To subscribe to the survey, go to www.philadelphiahed.org/forms/orderform.htm. 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.philadelphiahed.org/econ/spf/index.html>.

SURVEY OF PROFESSIONAL FORECASTERS
MAJOR MACROECONOMIC INDICATORS, 2005-2006

	2005 Q4	2006 Q1	Q2	Q3	Q4	FORECAST	2005	2006	ANNUAL AVERAGE
PERCENT GROWTH AT ANNUAL RATES									
1. REAL GDP (BILLIONS, CHAIN WEIGHTED)	3.2	3.7	3.3	3.2	3.2	3.6	3.6	3.4	
2. GDP PRICE INDEX (2000=100)	2.6	2.6	2.0	2.2	2.0	2.7	2.7	2.4	
3. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	6.1	5.7	5.9	5.5	5.6	6.4	6.4	6.0	
4. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	3.9	2.4	2.3	2.4	2.4	3.9	3.9	2.4	
VARIABLES IN LEVELS									
5. UNEMPLOYMENT RATE (PERCENT)	5.0	5.0	4.9	4.9	5.0	5.1	5.1	4.9	
6. 3-MONTH TREASURY BILL RATE (PERCENT)	3.9	4.3	4.5	4.6	4.6	3.2	3.2	4.5	
7. 10-YEAR TREASURY BOND YIELD (PERCENT)	4.6	4.9	5.2	5.2	5.2	4.3	4.3	5.1	

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FOURTH QUARTER 2005.

NOTES: THE FIGURES ON EACH LINE ARE MEDIANS OF 51 INDIVIDUAL FORECASTS. NA = NOT APPLICABLE.

SURVEY OF PROFESSIONAL FORECASTERS

Fourth Quarter 2005

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 28; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before November 8, 2005.

TABLE ONE

MAJOR MACROECONOMIC INDICATORS, 2005-2006
MEDIAN OF FORECASTER PREDICTIONS

NUMBER OF FORE- CASTERS	ACTUAL 2005	FORECASTS				ACTUAL 2004	FORECAST 2005	FORECAST 2006
		2005		2006				
		Q3	Q4	Q1	Q2	Q3	Q4	
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	50	12589.6	12777.6	12954.7	13140.4	13317.1	13499.3	11734.3
2. GDP PRICE INDEX (2000=100)	50	112.52	113.25	113.97	114.54	115.16	115.73	109.10
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	22	N.A.	1074.5	1097.5	1102.6	1098.6	1107.0	788.2
4. UNEMPLOYMENT RATE (PERCENT)	51	5.0	5.0	4.9	4.9	5.0	5.5	5.1
5. INDUSTRIAL PRODUCTION (1997=100)	50	119.0	119.7	120.8	121.8	123.0	124.0	115.5
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	48	2.07	2.01	1.97	1.93	1.88	1.84	1.96
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	50	5.1	3.9	2.4	2.3	2.4	2.4	3.4
8. 3-MONTH TREASURY BILL RATE (PERCENT)	46	3.36	3.90	4.29	4.50	4.56	4.56	3.37
9. AAA CORPORATE BOND YIELD (PERCENT)	42	5.09	5.50	5.90	6.10	6.22	6.30	5.63
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	49	4.21	4.60	4.90	5.15	5.20	5.20	4.27

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FOURTH QUARTER 2005.

TABLE ONE CONTINUED

**MAJOR MACROECONOMIC INDICATORS, 2005-2006
MEDIANS OF FORECASTER PREDICTIONS**

NUMBER OF FORE- CASTERS	ACTUAL 2005	FORECASTS 2005				ACTUAL 2004	FORECAST 2005	FORECAST 2006		
		Q3	Q4	Q1	Q2	Q3	Q4			
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	51	11193.2	11281.7	11385.3	11477.3	11568.1	11659.5	10755.7	11142.3	11521.8
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	50	7904.7	7926.9	7987.7	8053.2	8117.2	8179.4	7588.6	7855.9	8084.5
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	50	1298.4	1321.5	1349.2	1372.1	1400.1	1424.4	1186.7	1287.6	1385.4
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	50	606.3	610.4	608.1	601.6	602.5	600.3	561.8	600.0	602.2
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	50	749.9	754.5	760.9	765.7	769.0	772.9	723.7	743.1	766.5
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	50	1249.8	1255.8	1262.3	1268.5	1275.7	1283.6	1228.4	1248.1	1271.8
17. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	51	-16.6	30.0	35.0	33.4	38.1	37.0	52.0	17.5	36.5
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	51	-611.8	-625.0	-626.4	-628.4	-629.4	-627.1	-601.3	-624.1	-625.3

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FOURTH QUARTER 2005.

TABLE TWO

MAJOR MACROECONOMIC INDICATORS, 2005-2006
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE- CASTERS	Q3 2005 TO Q4 2005	Q4 2005 TO Q1 2006	Q1 2006 TO Q2 2006	Q2 2006 TO Q3 2006	Q3 2006 TO Q4 2006	Q4 2006 TO 2005	2005 TO 2006
1. GROSS DOMESTIC PRODUCT (GDP) (\$ BILLIONS)	50	6.1	5.7	5.9	5.5	5.6	6.4	6.0
2. GDP PRICE INDEX (2000=100)	50	2.6	2.6	2.0	2.2	2.0	2.7	2.4
3. CORPORATE PROFITS AFTER TAXES (\$ BILLIONS)	22	18.6	8.8	1.9	-1.4	3.1	32.8	5.7
4. UNEMPLOYMENT RATE (PERCENT)	51	0.0	0.0	-0.1	0.0	0.1	-0.4	-0.2
5. INDUSTRIAL PRODUCTION (1997=100)	50	2.5	3.5	3.4	3.9	3.5	3.0	3.0
6. NEW PRIVATE HOUSING STARTS (ANNUAL RATE, MILLIONS)	48	-11.2	-8.0	-7.6	-9.5	-7.6	4.8	-6.5
7. CONSUMER PRICE INDEX (CPI-U) (ANNUAL RATE)	50	-1.2	-1.5	-0.1	0.1	0.0	0.5	-1.5
8. 3-MONTH TREASURY BILL RATE (PERCENT)	46	0.54	0.39	0.21	0.06	0.00	1.82	1.30
9. AAA CORPORATE BOND YIELD (PERCENT)	42	0.41	0.40	0.20	0.12	0.08	-0.36	0.86
10. 10-YEAR TREASURY BOND YIELD (PERCENT)	49	0.39	0.30	0.25	0.05	0.00	0.04	0.79

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 2005.

TABLE TWO CONTINUED

MAJOR MACROECONOMIC INDICATORS, 2005-2006
PERCENTAGE CHANGES AT ANNUAL RATES

	NUMBER OF FORE- CASTERS	Q3 2005 TO Q4 2005	Q4 2005 TO Q1 2006	Q1 2006 TO Q2 2006	Q2 2006 TO Q3 2006	Q3 2006 TO Q4 2006	Q4 2006 TO 2005	2004 TO 2005
11. REAL GDP (BILLIONS, CHAIN WEIGHTED)	51	3.2	3.7	3.3	3.2	3.2	3.6	3.4
12. TOTAL CONSUMPTION EXPENDITURES (BILLIONS, CHAIN WEIGHTED)	50	1.1	3.1	3.3	3.2	3.1	3.5	2.9
13. NONRESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	50	7.3	8.7	7.0	8.4	7.1	8.5	7.6
14. RESIDENTIAL FIXED INVESTMENT (BILLIONS, CHAIN WEIGHTED)	50	2.7	-1.5	-4.2	0.6	-1.5	6.8	0.4
15. FEDERAL GOVERNMENT C & I (BILLIONS, CHAIN WEIGHTED)	50	2.5	3.5	2.5	1.7	2.0	2.7	3.2
16. STATE AND LOCAL GOVT C & I (BILLIONS, CHAIN WEIGHTED)	50	1.9	2.1	2.0	2.3	2.5	1.6	1.9
17. CHANGE IN PRIVATE INVENTORIES (BILLIONS, CHAIN WEIGHTED)	51	46.6	5.0	-1.6	4.7	-1.1	-34.5	19.0
18. NET EXPORTS (BILLIONS, CHAIN WEIGHTED)	51	-13.2	-1.4	-2.0	-1.0	2.3	-22.8	-1.2

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, FOURTH QUARTER 2005.

TABLE THREE

ESTIMATED PROBABILITY OF DECLINE IN REAL GDP

ESTIMATED PROBABILITY (CHANCES IN 100)	Q3 2005		Q4 2005		Q1 2006		Q2 2006		Q3 2006	
	TO Q4 2005	TO Q1 2006	TO Q2 2006	TO Q3 2006	TO Q4 2006	TO Q1 2006	TO Q2 2006	TO Q3 2006	TO Q4 2006	TO Q1 2006
	NUMBER OF FORECASTERS									
10 OR LESS	41	38	31	27	24					
11 TO 20	4	9	15	15	15					
21 TO 30	2	1	2	5	8					
31 TO 40	1	0	0	1	1					
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	3	3	3	3	3					
MEDIAN PROBABILITY	4	5	9	10	11					
MEAN PROBABILITY	6	8	10	12	14					

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 48.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FOURTH QUARTER 2005.

TABLE FOUR

MEAN PROBABILITY OF CHANGES IN GDP AND PRICES
2004-2005 AND 2005-2006

MEAN PROBABILITY ATTACHED TO POSSIBLE
PERCENT CHANGES IN REAL GDP:

	2004-2005	2005-2006
6.0 OR MORE	0.09	0.56
5.0 TO 5.9	0.68	2.14
4.0 TO 4.9	7.99	13.38
3.0 TO 3.9	83.79	49.91
2.0 TO 2.9	6.34	23.96
1.0 TO 1.9	0.68	6.64
0.0 TO 0.9	0.17	2.04
-1.0 TO -0.1	0.11	0.86
-2.0 TO -1.1	0.07	0.31
LESS THAN -2.0	0.09	0.19

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

	2004-2005	2005-2006
8.0 OR MORE	0.14	0.20
7.0 TO 7.9	0.17	0.34
6.0 TO 6.9	0.27	0.70
5.0 TO 5.9	1.43	1.83
4.0 TO 4.9	3.55	4.95
3.0 TO 3.9	18.81	25.69
2.0 TO 2.9	71.40	49.09
1.0 TO 1.9	3.85	14.91
0.0 TO 0.9	0.24	1.99
WILL DECLINE	0.14	0.30

NOTE: TOTAL NUMBER OF FORECASTERS REPORTING IS 47.

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FOURTH QUARTER 2005.

TABLE FIVE

LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI INFLATION RATE	
STATISTIC	
MINIMUM	1.750
LOWER QUARTILE	2.300
MEDIAN	2.500
UPPER QUARTILE	2.790
MAXIMUM	3.500
MEAN	2.533
STD. DEV.	0.331
N	31
MISSING	20

SOURCE: RESEARCH DEPARTMENT, FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS, FOURTH QUARTER 2005.