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Volume Title: Explorations in Economic Research, Volume 2, number 3
(Regional Stock Exchanges in a Central Market System)

Volume Author/Editor: NBER

Volume Publisher: NBER

Volume URL: <http://www.nber.org/books/conf75-1>

Publication Date: 1975

Chapter Title: ASA/NBER Business Outlook Survey: Second Quarter 1975

Chapter Author: ASA/NBER

Chapter URL: <http://www.nber.org/chapters/c9230>

Chapter pages in book: (p. 437 - 446)

ASA/NBER Business Outlook Survey: Second Quarter 1975

The following summary based on a quarterly survey, which is conducted jointly by the American Statistical Association and the National Bureau of Economic Research, is not a formal research report. These quarterly summaries will be published in each issue of Explorations in Economic Research for informational purposes only and therefore have been exempted from the rules governing submission to, and critical review by, the Board of Directors of the National Bureau of Economic Research.

Economic forecasters once more revised downward their previous estimates of the levels of GNP, industrial production, corporate profits, plant and equipment expenditures, housing starts, and change in business inventories. They revised upward their previous estimates of the unemployment rate. This reflects the fact that the recession continued to run deeper than was widely expected. However, there is still a strong consensus among the professional business analysts and forecasters that the economy will turn upward in the third quarter of 1975. The recovery, at least through mid-1976, is predicted to be relatively slow. Inflation will not be drastically reduced, but will continue at rates significantly lower than those that prevailed recently. These are the highlights of the May 1975 survey of the Business and Economic Statistics Section of the American Statistical Association. The quarterly ASA surveys have a membership of about fifty, including many leading economic forecasters (47 participated in May). The predictions are evaluated for the ASA by the National Bureau of Economic Research as part of its program of collection and study of economic forecasts conducted by Dr. Charlotte Boschan of NBER and Professor Victor Zarnowitz of the Graduate School of Business of the University of Chicago and NBER.

THE 1974-1975 COMPARISON: ECONOMIC ACTIVITY DOWN BUT INFLATION ALSO LOWER

The forecasters expect, on the average, a decline of more than 4 percent in real GNP and more than 10 percent in industrial production during 1975. The rate of inflation, in terms of the GNP implicit price index, will be 9 percent, according to the median of the individual member predictions (in 1974 it was above 10 percent). GNP in current dollars will increase by 4.6 percent. Unemployment will stay close to 9 percent of the labor force in the second, third, and fourth quarters of 1975. Corporate profits after taxes will fall by nearly 19 percent between 1974 and 1975. The decline in housing starts will be 21.5 percent. Investment in business inventories will shift from 14 billion dollars in 1974 to -7 billion dollars in 1975. Plant and equipment expenditures by business and outlays on durable goods by consumers will pick up slightly in current dollars, but will decline significantly in real terms. In fact, the only demand variable covered by the ASA forecasts to show a substantial rise in the current year is national defense purchases (predicted to increase 10.8 percent). In conclusion, 1975 compares unfavorably, on the whole, with 1974 in light of these forecasts, even though 1974 was a year of recession and 1975 is predicted to be divided in the middle by the anticipated upturn. This demonstrates that (1) this recession was initially mild and deteriorated into a sharp decline only in the fall of 1974; and (2) that the impending recovery is expected to be sluggish, resulting in serious underemployment in the economy in the year ahead.

CONSENSUS FORECAST: UPTURN IN THE THIRD QUARTER AND SLOW RECOVERY

Not only the median but also the "low" (first quartile) and "high" (third quartile) forecasts from the survey indicate the belief that the economy has hit the bottom in the second quarter of 1975. The widespread agreement among the forecasters on this point is rather remarkable in view of the generally gloomy news available at the time of the survey and the paucity of any firm signs of a recovery, but the consensus forecast is consistent with the fact that advance signals were few and their lead times were often very short at business upturns in the recent past. Real GNP (in 1958 dollars) is expected to rise from the trough of \$780 billion in Q2 1975 to \$821 billion a year later, i.e., by 5.3 percent. This would, however, leave it still well below the peak level of \$846 billion reached in Q4 1973. Similarly, the industrial production index (1967 = 100), while increasing from 110 to 120 in the same period according to the median forecast,

would fail to regain its highest past level (127 in Q4 1973). The unemployment rate, therefore, is expected to remain high—8.4 percent in Q2 1976 as compared with 4.8 percent in Q4 1973. This, of course, also reflects the continuing growth of the labor force and probably some rise in the participation rate (ratio of labor force to population).

CONSUMER SPENDING TO RISE MORE THAN BUSINESS SPENDING

The expected rises in consumer expenditures for durable goods range from 2.3 to 3.1 percent per quarter in the period Q2 1975–Q2 1976 and tend to exceed the relative increases in nominal GNP. Given the projected price level rises of 1.3 to 1.6 percent per quarter, we can conclude that this sector is seen as a source of relative strength by the forecasters. The same can be said about residential construction since housing starts are to increase from 1.06 to 1.68 million units at annual rate in the same period, i.e., on the average by slightly more than 12 percent per quarter (these predictions seem to be more optimistic than many recent ones in the housing area). In contrast, business plant and equipment expenditures are forecast to go up from \$111 billion to \$121 billion, or on the average by 2.2 percent per quarter, which is less than the corresponding gains in GNP (2.8 percent per quarter). These predictions are consistent with the historical patterns of cyclical behavior according to which consumer expenditures (not only for durables) often turn up early, while business fixed capital outlays tend to lag.

POLICY ASSUMPTIONS

Many forecasters anticipate an "easing" or "accommodative" monetary policy and none express opposite views. Some assume further tax reductions continuing through 1976, but most count only on the effects of the already enacted tax cuts. No new oil embargo or major international crises are foreseen.

TABLE 1 Projections of GNP and Other Economic Indicators, 1975-1976-Q2

| Indicator | Number of Fore- casters | Actual 1975 Q1 | 1975 | | | | 1976 | | Actual 1974 | Annual Forecast 1975 |
|--|----------------------------------|----------------------|-------|-------|-------|-------|-------|--------|----------------|----------------------------|
| | | | Q2 | Q3 | Q4 | Q1 | Q2 | | | |
| 1. Gross national product (\$ bil.) | 47 | 1419.2 | 1439 | 1473 | 1515 | 1558 | 1601 | 1397.4 | 1461.6 | |
| 2. GNP implicit price deflator (1958 = 100) | 47 | 181.4 | 184.1 | 187.0 | 189.7 | 192.1 | 194.7 | 170.2 | 185.6 | |
| 3. GNP in constant dollars (\$ bil. 1958) | 47 | 782.3 | 780 | 787 | 799 | 809 | 821 | 821.2 | 787.1 | |
| 4. Industrial production (1967 = 100) | 45 | 111.3 | 110 | 111 | 114 | 117 | 120 | 124.8 | 111.6 | |
| 5. Unemployment rate (percent) | 46 | 8.4 | 9.0 | 9.1 | 9.0 | 8.6 | 8.4 | 5.6 | 8.9 | |
| 6. Corporate profits after taxes (\$ bil.) | 42 | 66.9 ^a | 65.6 | 69.8 | 74.1 | 77.9 | 81.2 | 85.0 | 69.1 | |
| 7. Plant and equipment expenditures OBE-SEC (\$ bil.) | 39 | 113.22 ^b | 111.4 | 113.5 | 116.0 | 118.0 | 121.2 | 111.92 | 113.53 | |
| 8. New private housing units started (ann. rate mil.) | 44 | 0.988 | 1.06 | 1.23 | 1.42 | 1.57 | 1.68 | 1.336 | 1.175 | |
| 9. Change in bus. inventories GNP accounts (\$ bil.) | 44 | -18.0 | -10.2 | -2.5 | 1.5 | 4.2 | 5.9 | 14.2 | -7.3 | |
| 10. Consumer expenditures for durable goods (\$ bil.) | 43 | 125.5 | 126.4 | 129.3 | 133.3 | 137.4 | 141.4 | 127.5 | 128.6 | |
| 11. National defense purchases, GNP accounts (\$ bil.) | 45 | 85.2 | 86.2 | 87.4 | 90.0 | 91.0 | 92.2 | 78.7 | 87.2 | |

SOURCE: American Statistical Association and National Bureau of Economic Research, Median Forecasts of Business Outlook Survey, May 1975.
 NOTE: Median of individual forecasts of real GNP derived from predicted current dollar GNP and the price deflator.
^aActual not available. Based on average forecast.
^bAnticipated.

TABLE 2 Projected Percentage Changes in GNP and Other Economic Indicators, 1975-1976-Q2

| Indicator | Number of Fore- casters ^a | Q4 74 | | Q1 75 | | Q2 75 | | Q3 75 | | Q4 75 | | Q1 76 | | Q2 76 | | Q3 76 | | Q4 76 | | Q1 77 | | Q2 77 | | | |
|---|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | | to | to | to | to | to | to | to | to | to | to | to | to | to | to | to | to | to | to | to | to | to | to | to | |
| | | Q1 75 | Q2 75 | Q3 75 | Q4 75 | Q1 76 | Q2 76 | Q3 76 | Q4 76 | Q1 77 | Q2 77 | Q3 77 | Q4 77 | Q1 78 | Q2 78 | Q3 78 | Q4 78 | Q1 79 | Q2 79 | Q3 79 | Q4 79 | Q1 80 | Q2 80 | Q3 80 | Q4 80 |
| 1. Gross national product (\$ bil.) | 47 | -0.8 | +1.4 | +2.4 | +2.9 | +2.8 | +2.8 | +2.8 | +2.8 | +2.8 | +2.8 | +2.8 | +2.8 | +2.8 | +2.8 | +2.8 | +2.8 | +2.8 | +2.8 | +2.8 | +2.8 | +2.8 | +2.8 | +2.8 | +2.8 |
| 2. GNP implicit price deflator (1958 = 100) | 47 | +1.9 | +1.5 | +1.6 | +1.4 | +1.3 | +1.4 | +1.3 | +1.4 | +1.3 | +1.4 | +1.3 | +1.4 | +1.3 | +1.4 | +1.3 | +1.4 | +1.3 | +1.4 | +1.3 | +1.4 | +1.3 | +1.4 | +1.3 | +1.4 |
| 3. GNP in constant dollars (\$ bil. 1958) | 47 | -2.7 | -0.3 | +0.9 | +1.5 | +1.3 | +1.5 | +1.3 | +1.5 | +1.3 | +1.5 | +1.3 | +1.5 | +1.3 | +1.5 | +1.3 | +1.5 | +1.3 | +1.5 | +1.3 | +1.5 | +1.3 | +1.5 | +1.3 | +1.5 |
| 4. Industrial production (1967 = 100) | 45 | -8.2 | -1.2 | +0.9 | +2.7 | +2.6 | +2.6 | +2.6 | +2.6 | +2.6 | +2.6 | +2.6 | +2.6 | +2.6 | +2.6 | +2.6 | +2.6 | +2.6 | +2.6 | +2.6 | +2.6 | +2.6 | +2.6 | +2.6 | +2.6 |
| 5. Unemployment rate (percent) ^a | 46 | -1.8 | +0.6 | +0.1 | -0.1 | -0.4 | -0.2 | -0.4 | -0.2 | -0.4 | -0.2 | -0.4 | -0.2 | -0.4 | -0.2 | -0.4 | -0.2 | -0.4 | -0.2 | -0.4 | -0.2 | -0.4 | -0.2 | -0.4 | -0.2 |
| 6. Corporate profits after taxes (\$ bil.) | 42 | -17.5 | -1.9 | +6.4 | +6.2 | +5.1 | +4.2 | +5.1 | +4.2 | +5.1 | +4.2 | +5.1 | +4.2 | +5.1 | +4.2 | +5.1 | +4.2 | +5.1 | +4.2 | +5.1 | +4.2 | +5.1 | +4.2 | +5.1 | +4.2 |
| 7. Plant and equipment expenditures OBE-SEC (\$ bil.) | 39 | -2.6 | -1.6 | +1.9 | +2.2 | +1.7 | +2.7 | +1.7 | +2.7 | +1.7 | +2.7 | +1.7 | +2.7 | +1.7 | +2.7 | +1.7 | +2.7 | +1.7 | +2.7 | +1.7 | +2.7 | +1.7 | +2.7 | +1.7 | +2.7 |
| 8. New private housing units started (ann. rate mil.) | 44 | -1.3 | +7.3 | +16.0 | +15.4 | +10.6 | +7.0 | +10.6 | +7.0 | +10.6 | +7.0 | +10.6 | +7.0 | +10.6 | +7.0 | +10.6 | +7.0 | +10.6 | +7.0 | +10.6 | +7.0 | +10.6 | +7.0 | +10.6 | +7.0 |
| 9. Change in bus. inventories, GNP accounts (\$ bil.) ^b | 44 | -35.8 | +7.8 | +7.7 | +4.0 | +2.7 | +1.7 | +2.7 | +1.7 | +2.7 | +1.7 | +2.7 | +1.7 | +2.7 | +1.7 | +2.7 | +1.7 | +2.7 | +1.7 | +2.7 | +1.7 | +2.7 | +1.7 | +2.7 | +1.7 |
| 10. Consumer expenditures for durable goods (\$ bil.) | 43 | +4.0 | +0.7 | +2.3 | +3.1 | +3.1 | +2.9 | +3.1 | +2.9 | +3.1 | +2.9 | +3.1 | +2.9 | +3.1 | +2.9 | +3.1 | +2.9 | +3.1 | +2.9 | +3.1 | +2.9 | +3.1 | +2.9 | +3.1 | +2.9 |
| 11. National defense purchases, GNP accounts (\$ bil.) | 45 | +1.4 | +1.2 | +1.4 | +3.0 | +1.1 | +1.3 | +1.1 | +1.3 | +1.1 | +1.3 | +1.1 | +1.3 | +1.1 | +1.3 | +1.1 | +1.3 | +1.1 | +1.3 | +1.1 | +1.3 | +1.1 | +1.3 | +1.1 | +1.3 |

SOURCE: Computed from Table 1.
^aChange in rate, in percentage points.
^bChange in billions of dollars.

TABLE 3 Estimated Probability of Decline in GNP in Constant Dollars

| Estimated Probability (chances in 100) | Q1 75 | Q2 75 | Q3 75 | Q4 75 | Q1 76 |
|---|---------------------|-------------|-------------|-------------|-------------|
| | to Q2 75 | to Q3 75 | to Q4 75 | to Q1 76 | to Q2 76 |
| | Number of forecasts | | | | |
| Less than 1 | 0 | 1 | 7 | 12 | 14 |
| 1-10 | 1 | 8 | 19 | 20 | 21 |
| 11-20 | 1 | 10 | 8 | 5 | 6 |
| 21-30 | 3 | 11 | 3 | 6 | 1 |
| 31-40 | 3 | 4 | 6 | 1 | 3 |
| 41-50 | 12 | 8 | 1 | 1 | 0 |
| 51-60 | 5 | 2 | 2 | 0 | 0 |
| 61-70 | 5 | 0 | 0 | 0 | 0 |
| 71-80 | 8 | 1 | 0 | 1 | 0 |
| 81 and over | 8 | 1 | 0 | 0 | 0 |
| Median probability (chances in 100) | 56 | 24 | 9 | 6 | 5 |
| Mean probability (chances in 100) | 61.9 | 31.2 | 17.8 | 12.9 | 11.1 |

SOURCE: American Statistical Association and National Bureau of Economic Research, Business Outlook Survey, May 1975.

NOTE: The total number of forecasters included is 46.

TABLE 4 Mean Probability Distributions of Changes in GNP and Prices, 1974-1975

| Item | Mean Probability Attached to Possible Percent Changes, 1974-1975 | |
|----------------|--|-------------------------|
| | GNP in Current \$ | Implicit Price Deflator |
| +16 or more | 0.0 | 0.0 |
| +15.0 to +15.9 | 0.0 | 0.0 |
| +14.0 to +14.9 | 0.1 | 0.0 |
| +13.0 to +13.9 | 0.1 | 0.1 |
| +12.0 to +12.9 | 0.2 | 0.5 |
| +11.0 to +11.9 | 0.2 | 2.5 |
| +10.0 to +10.9 | 0.5 | 8.4 |
| + 9.0 to + 9.9 | 1.0 | 31.9 |
| + 8.0 to + 8.9 | 1.3 | 34.1 |
| + 7.0 to + 7.9 | 5.2 | 14.1 |
| + 6.0 to + 6.9 | 17.0 | 4.9 |
| + 5.0 to + 5.9 | 25.8 | 1.7 |
| + 4.0 to + 4.9 | 29.7 | 1.2 |
| + 3.0 to + 3.9 | 13.6 | 0.4 |
| + 2.0 to + 2.9 | 5.3 | 0.2 |

SOURCE: American Statistical Association and National Bureau of Economic Research, Business Outlook Survey, May 1975.

NOTE: The total number of forecasters included is 46.

TABLE 5 Forecasting Methods Used

| Methods | Number of Forecasters | | Number of Forecasters Using Each Method Who Ranked It | | | | |
|-----------------------------|-----------------------|-----------|---|-----------------------|----------------------|-----------------------|----------------------|
| | Using | Not Using | Most Important | Second Most Important | Third Most Important | Fourth Most Important | Fifth Most Important |
| Informal GNP model | 35 | 11 | 24 | 6 | 3 | 2 | 0 |
| Leading indicators | 27 | 19 | 2 | 12 | 7 | 5 | 1 |
| Anticipations surveys | 24 | 22 | 0 | 11 | 11 | 2 | 0 |
| Econometric model (outside) | 25 | 21 | 4 | 8 | 7 | 5 | 1 |
| Econometric model (own) | 11 | 35 | 8 | 3 | 0 | 0 | 0 |
| Other methods | 7 | 39 | 4 | 2 | 0 | 1 | 0 |

SOURCE: American Statistical Association and National Bureau of Economic Research, Business Outlook Survey, May 1975.

TABLE 6 Forecasters' Affiliation

| Primary Affiliation | Number of Forecasters |
|------------------------------|-----------------------|
| Manufacturing | 10 |
| Commercial banking | 5 |
| Other financial institutions | 7 |
| Consulting or research | 8 |
| Merchandising | 0 |
| Trade association | 0 |
| Academic | 8 |
| Government | 3 |
| Labor union | 0 |
| Other | 5 |
| Total | 46 |

SOURCE: American Statistical Association and National Bureau of Economic Research, Business Outlook Survey, May 1975.

TABLE 7 Key Assumptions Underlying Forecasts

| | Number of Forecasters |
|---|-----------------------|
| Energy Problem | |
| No new embargo or crisis | 14 |
| No tax or price increase | 5 |
| Tax will be increased | 4 |
| No restrictions | 3 |
| No change | 6 |
| Monetary Policy | |
| No change | 2 |
| Easing | 8 |
| Accommodative | 9 |
| Increase in M1 | |
| Below 7 percent | 4 |
| About 7 percent | 4 |
| Above 7 percent | 7 |
| Fiscal Policy | |
| No change | 12 |
| Reduction in tax continues through 1976 | 9 |
| Very stimulative | 3 |
| Large deficit | 6 |
| Deficit above \$70 billion | 2 |
| Deficit about \$70 billion | 3 |
| Deficit below \$70 billion | 2 |
| Some public service employment | 2 |
| Incomes Policy | |
| No policy | 8 |
| No controls | 4 |
| Other Assumptions | |
| No change in defense posture | 4 |
| No war in Middle East | 8 |
| No strikes | 3 |

SOURCE: American Statistical Association and National Bureau of Economic Research, Business Outlook Survey, May 1975.