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## **ASA/NBER Business Outlook Survey: First Quarter 1977**

*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.*

The harsh winter of 1977 reduced substantially the expected rate of economic growth for the current quarter but not for the year as a whole. Compared with the average forecasts from the November 1976 survey, real GNP is now projected to rise less in Q1 1977 but more in Q2 1977 and Q3 1977, the presumption being that the demand will be strong enough to call for increases in output to make up for the bad weather losses. This is shown by the following figures representing average predictions of percentage change in (seasonally adjusted) constant-dollar GNP, at quarterly rates:

	Q4 1976 to Q1 1977	Q1 1977 to Q2 1977	Q2 1977 to Q3 1977	Q3 1977 to Q4 1977	1976 to 1977	Q4 1976 to Q4 1977
November 1976 survey	1.3	1.2	1.3	1.3	5.0	5.3
February 1977 survey	1.0	1.7	1.6	1.3	4.8	5.7

While the year-to-year comparison, 1976-1977, yields a somewhat lower growth rate in the latest forecasts than in those made three months ago, the more up-to-date comparison between the fourth quarters of 1976 and 1977 reverses this result and depicts the near future in brighter colors. Further, the improved growth prospects are not to be achieved at the cost of higher inflation: the GNP implicit price deflator is predicted to rise 5.4 percent between 1976 and 1977 (the same as in the November 1976 survey) and 5.6 percent between Q4 1976 and Q4 1977 (in the November survey the corresponding figure was 5.7 percent). The unemployment rate is still seen as declining to 7 percent of the labor force by Q4 1977.

These summary observations are based on the medians of the individual predictions made in February 1977 by 39 members of the Business and Economic Statistics Section of the American Statistical Association. The ASA surveys, conducted quarterly since 1968, collect forecasts and related information from many leading business, academic, and government economists who are professionally engaged in monitoring business conditions and prospects. Data from the surveys are analyzed for the ASA by the National Bureau of Economic Research, an independent nonprofit research institution. Dr. Charlotte Boschan of the NBER and Professor Victor Zarnowitz of the Graduate School of Business of the University of Chicago and NBER are responsible for these evaluations.

### INCREASED RATES OF EXPANSION

Total output of final goods and services, measured by GNP in 1972 dollars, is expected to rise at an average annual rate of nearly 6.8 percent in the spring and summer of this year, a substantial jump upward from the rates reported or estimated for the past four quarters (which ranged from 2.4 to 4.5 percent). In Q4 1977 and Q1 1978 growth is projected at lesser rates averaging 5.3 percent per year, but over the year ahead (Q1 1977 through Q1 1978) the economy would perform about as well as hoped for, matching the administration's target growth rate of 6 percent.

Output of factories, mines, and utilities, measured by the index of industrial production, will expand much faster than real GNP after the first-quarter setback. The forecasters anticipate on the average that the index will gain 6.1 percent between 1976 and 1977, and 8.3 percent between Q1 1977 and Q1 1978.

### **INFLATION RATE STEADY**

The forecasts of inflation remain essentially unchanged. During the year ending in Q1 1978, the implicit price deflator is to rise 5.5 percent, again according to the median forecast. The 1975-1976 increase was 5.2 percent; the 1976-1977 increase is estimated at 5.4 percent. In general, then, the forecasters still see no clear trend for inflation to either wax or wane. The projected quarter-to-quarter changes in the price level vary narrowly and irregularly between 1.2 and 1.5 percent per quarter.

### **UNEMPLOYMENT RATE TO DECLINE**

The average rate of unemployment in 1976 was 7.7 percent of the labor force, 0.8 percentage points less than the average for 1975; the corresponding forecast for 1977 is 7.4 percent, i.e., only 0.3 percentage points down from 1976. But once more the annual figures alone are misleading and it is important to consider the intra-year movements. Actually, there was no net reduction at all in the unemployment rate *during* 1976: the rate declined from 7.8 percent to 7.3 percent between January and May, then rose again to 8.0 percent in November and 7.8 percent in December. In January 1977, it fell sharply to 7.3 percent but this is widely believed to be an aberration reflecting more the decline in the number of people seeking jobs than the rise in the number of new jobs. (The mid-month survey was taken too early to reflect adequately the impact of the freezing weather and fuel shortages on plant closings, layoffs, etc.) The median forecast from the February survey projects a gradual and steady decline in the jobless rate from 7.8 percent in Q1 1977 to 6.9 percent in Q1 1978.

### **GOOD PROSPECTS FOR BUSINESS INVESTMENT AND PROFITS**

Forecasters remain rather optimistic about business expenditures on plant and equipment, expecting them to be 12 percent higher in 1977 than in

1976. (In 1975–1976 these outlays rose only 7.5 percent.) From nearly \$130 billion in Q1 1977 business capital outlays are predicted to increase to \$146 billion in Q1 1978, a gain of 12.5 percent (perhaps a little more than half of it in real terms).

Inventory investment will turn upward in the spring and summer and change little in the fall and in next year's winter. Its average level in 1977 will be somewhat lower than in 1976 (\$11.8 billion as compared with \$13.5 billion). In Q1 1978 business inventories are projected to increase by \$14.8 billion at annual rate, which is still slightly below the accumulation rates observed in Q2 1976 and Q3 1973.

Corporate profits after taxes, estimated at about \$90 billion annual rate in Q1 1977 will come to exceed \$101 billion in Q1 1978, a gain of 12.3 percent. Here the median forecast implies increases similar to those recorded earlier in 1976. (The annual 1976–77 rise is projected to be 13.5 percent.)

### **FAIR TO MODERATE GAINS IN CONSUMER CAPITAL OUTLAYS**

Personal consumption expenditures for durable goods are seen as trending upward from approximately \$164 billion in Q1 1977 to \$184 billion in Q1 1978, i.e., at an annual rate of 11.7 percent. This is very much in line with previous forecasts and with the gains recorded in 1976. The projected annual rise 1976–1977 is 10.3 percent.

Housing starts have slipped from 1.82 million units in Q4 1976 to 1.76 million in Q1 1977, according to the new ASA-NBER median survey forecast. They are expected to recover the lost ground in Q2 1977 but then to level off at not much higher levels (of 1.86 to 1.89 million units) in the three following quarters. The 1976–1977 gain is high—19.2 percent—but the gain between Q1 1977 and Q1 1978 is only 5.7 percent, despite the initial low caused by the hardships of the 1977 winter.

### **PROBABILITIES AND ASSUMPTIONS**

Forecasters continue to regard the chances of a decline in real GNP during any quarter through Q1 1978 as very low, on the average less than 10 in 100. A large majority of them assume that the fiscal policy package of the new administration is going to be enacted (some believe it will be "boosted by Congress"). The monetary policy is seen by about half of the

respondents as unchanged and by half as "more accommodative" or "partially accommodative of the fiscal stimulus plan" or "on the high side of the target." A large number of the survey participants remark explicitly that the effect of bad weather in the first quarter of 1977 will be made up later. Other assumptions include the absence of price and wage controls, significant strikes and international disturbances, and the like (but a few forecasters have assumed large oil price increases and continued fuel shortages).

**TABLE 1 Projections of GNP and Other Economic Indicators, 1977-1978 Q1**

Indicator	Number of Fore- casters	1976				Forecast				Annual	
		Q4				1977				Forecast	
		Actual	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Actual
1. Gross national product (\$bil.)	39	1748.5	1791	1845	1899	1952	2001			1692.4	1871.8
2. GNP implicit price deflator (1972 = 100)	38	136.4	138.3	140.0	141.9	144.0	145.9			133.8	141.0
3. GNP in constant dollars (bil. 1972 \$)	37	1281.5	1294 <sup>a</sup>	1316 <sup>a</sup>	1337 <sup>a</sup>	1354 <sup>a</sup>	1372 <sup>a</sup>			1265.0	1325.2 <sup>a</sup>
4. Industrial production (1967 = 100)	38	131.7	133	137	139	142	144			129.8	137.8
5. Unemployment rate (percent)	38	8.0	7.8	7.5	7.3	7.0	6.9			7.7	7.4
6. Corporate profits after taxes (\$bil.)	33	88.3 <sup>b</sup>	90.2	94.4	96.9	99.5	101.3			83.95	95.2
7. Plant and equipment expenditures OBE-SEC (\$bil.)	35	127.87 <sup>c</sup>	129.8	133.4	137.7	142.4	146.0			121.23	135.8
8. New private housing units started (ann. rate mil.)	38	1.823	1.76	1.82	1.87	1.89	1.86			1.54	1.84
9. Change in bus. inventories, GNP accounts (\$bil.)	34	7.9	8.0	11.2	14.0	14.0	14.8			13.5	11.8
10. Consumer expenditures for durable goods (\$bil.)	37	161.2	164.3	169.8	176.0	179.5	183.5			156.3	172.4
11. National defense purchases, GNP accounts (\$bil.)	37	91.3	92.7	93.9	95.5	98.2	100.0			88.2	95.1

SOURCE: American Statistical Association and National Bureau of Economic Research, Median Forecasts of Business Outlook Survey, February 1977.

<sup>a</sup>Median of individual forecasts of real GNP derived from predicted current dollar GNP and the price deflator.

<sup>b</sup>Actual not available. Based on average forecast.

<sup>c</sup>Anticipated.

**TABLE 2 Projected Percentage Changes in GNP and Other Economic Indicators, 1977-1978 Q1**

Indicator	Number of Fore- casters	Q4 76		Q1 77		Q2 77		Q3 77		Q4 77		Q1 78		Q4 77		1975		1976		1977	
		to	to	to	to	to	to	to	to	to	to	to	to	to	to	to	to	to	to	to	to
1. Gross national product (\$bil.)	39	2.4	3.0	2.9	2.8	2.5	2.8	2.5	2.8	2.5	2.8	2.5	2.8	2.5	2.8	2.5	2.8	2.5	2.8	2.5	2.8
2. GNP implicit price deflator (1972 = 100)	38	1.4	1.2	1.4	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
3. GNP in constant dollars (bil. 1972 \$) <sup>a</sup>	37	1.0	1.7	1.6	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
4. Industrial production (1967 = 100)	38	1.0	3.0	1.5	2.2	1.4	2.2	1.4	2.2	1.4	2.2	1.4	2.2	1.4	2.2	1.4	2.2	1.4	2.2	1.4	2.2
5. Unemployment rate (percent) <sup>b</sup>	38	-0.2	-0.3	-0.2	-0.3	-0.1	-0.3	-0.1	-0.3	-0.1	-0.3	-0.1	-0.3	-0.1	-0.3	-0.1	-0.3	-0.1	-0.3	-0.1	-0.3
6. Corporate profits after taxes (\$bil.)	33	2.2	4.7	2.6	2.7	1.8	2.6	1.8	2.7	1.8	2.6	1.8	2.7	1.8	2.6	1.8	2.7	1.8	2.6	1.8	2.7
7. Plant and equipment expenditures OBE-SEC (\$bil.)	35	1.5	2.8	3.2	3.4	2.5	3.2	2.5	3.4	2.5	3.2	2.5	3.4	2.5	3.2	2.5	3.4	2.5	3.2	2.5	3.4
8. New private housing units started (ann. rate mil.)	38	-3.4	3.4	2.7	1.1	-1.6	2.7	1.1	1.1	-1.6	2.7	1.1	1.1	-1.6	2.7	1.1	1.1	-1.6	2.7	1.1	1.1
9. Change in bus. inventories, GNP accounts (\$bil.) <sup>c</sup>	34	0.1	3.2	2.8	0.0	0.8	2.8	0.8	0.0	0.8	2.8	0.8	0.0	0.8	2.8	0.8	0.0	0.8	2.8	0.8	0.0
10. Consumer expenditures for durable goods (\$bil.)	37	1.9	3.3	3.6	2.0	2.2	3.6	2.2	2.0	2.2	3.6	2.2	2.0	2.2	3.6	2.2	2.0	2.2	3.6	2.2	2.0
11. National defense purchases, GNP accounts (\$bil.)	37	1.5	1.3	1.7	2.8	1.8	1.7	2.8	1.8	1.7	2.8	1.8	1.7	2.8	1.8	1.7	2.8	1.8	1.7	2.8	1.8

SOURCE: Computed from Table 1.

<sup>a</sup>See Table 1.

<sup>b</sup>Change in rate, in percentage points.

<sup>c</sup>Change in billions of dollars.



**TABLE 3 Estimated Probability of Decline in GNP in Constant Dollars**

Estimated probability (chances in 100)	Q4 76	Q1 77	Q1 77	Q2 77	Q2 77	Q3 77	Q3 77	Q4 77	Q4 77
	to Q1 77	to Q2 77	to Q2 77	to Q3 77	to Q3 77	to Q4 77	to Q4 77	to Q4 77	to Q1 78
Less than 1	15	18	17	14	11				
1-10	15	16	19	21	20				
11-20	2	4	3	3	2				
21-30	4	1	0	2	3				
31-40	3	1	0	0	4				
41-50	0	0	0	0	0				
51-60	0	0	1	0	0				
61-70	0	0	0	0	0				
71-80	1	0	0	0	0				
81 and over	0	0	0	0	0				
Median probability (chances in 100)	4.0	2.0	2.0	3.0	5.0				
Mean probability (chances in 100)	10.6	5.4	5.5	6.3	11.0				

SOURCE: American Statistical Association and National Bureau of Economic Research, Business Outlook Survey, February 1977.  
NOTE: The total number of forecasters included is 40.

**TABLE 4 Mean Probability Distributions of Changes in GNP and Prices, 1976-1977**

Percent Changes 1976-1977	Mean Probability Attached to Possible Percent Changes, 1976-1977	
	GNP in Current \$	Price Deflator
+16 or more	0.0	0.0
+15.0 to +15.9	0.0	0.0
+14.0 to +14.9	0.3	0.0
+13.0 to +13.9	1.4	0.0
+12.0 to +12.9	6.9	0.0
+11.0 to +11.9	24.3	0.0
+10.0 to +10.9	28.8	0.1
+ 9.0 to + 9.9	14.2	0.3
+ 8.0 to + 8.9	7.6	0.6
+ 7.0 to + 7.9	7.0	4.5
+ 6.0 to + 6.9	2.4	7.3
+ 5.0 to + 5.9	2.0	25.6
+ 4.0 to + 4.9	0.8	41.1
+ 3.0 to + 3.9	0.8	15.1
+ 2.0 to + 2.9	1.0	3.9
		1.5

SOURCE: American Statistical Association and National Bureau of Economic Research, Business Outlook Survey, February 1977.  
NOTE: The total number of forecasters included is 40.

**TABLE 5 Forecasting Methods Used**

Method	Number of Forecasters		Number of Forecasters Using Each Method Who Ranked It				
	Using	Not Using	Most	Second	Third	Fourth	Fifth
			Important	Most Important	Most Important	Most Important	Most Important
Informal GNP model	28	12	23	3	1	1	0
Leading indicators	25	15	2	10	9	3	1
Anticipations surveys	25	15	0	11	11	3	0
Econometric model (outside)	24	16	3	12	3	6	0
Econometric model (own)	10	30	6	3	0	1	0
Other methods	5	35	3	1	1	0	0

SOURCE: American Statistical Association and National Bureau of Economic Research, Business Outlook Survey, February 1977.

**TABLE 6 Forecasters' Affiliation**

Primary Affiliation	Number of Forecasters
Manufacturing	13
Commercial banking	3
Other financial institutions	4
Consulting or research	10
Merchandising	0
Trade association	0
Academic	2
Government	6
Labor union	0
Other	2
Total	40

SOURCE: American Statistical Association and National Bureau of Economic Research, Business Outlook Survey, February 1977.

**TABLE 7 Key Assumptions Underlying Forecasts**

Assumption	Number of Forecasters
Monetary Policy	
No change	11
On target	3
On high side of target	3
More accommodative	3
Partial accommodation of fiscal stimulus plan	2
Fiscal Policy	
No change	3
President's package enacted	16
President's package boosted by Congress	5
Reduction in personal tax liabilities	8
Incomes Policy	
None	4
Some intervention, no controls	3
Energy Problem	
No oil embargo, no crisis	6
Increase in oil prices by more than 10%	3
Continued national gas shortage	4
Other	
No significant international disturbances	9
No significant strikes	3
No crop failure	2
Effect of bad weather in Q1 will be made up later	14

SOURCE: American Statistical Association and National Bureau of Economic Research, Business Outlook Survey, February 1977.