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ASA/NBER Business Outlook Survey: Third 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 price level will rise 5.6 percent this year relative to 1976, and real GNP will gain 5 percent, according to the medians of forecasts submitted by thirty-seven members of the Business and Economic Statistics Section of the American Statistical Association. The corresponding predictions from the previous survey released in May suggested a somewhat weaker performance of the economy in 1977, namely a rate of inflation of 5.8 percent in terms of the GNP implicit price deflator and a 4.8 percent growth rate in output. This upward revision of the forecasts, however, can be attributed to the strong showing of real GNP in the second quarter of the year (Q2 1977), which is now estimated at \$1,331 billion but which the forecasters three months ago projected at \$1,317 billion (seasonally adjusted annual rates in 1972 dollars). Apart from the effects of the recent revisions in the levels of the actual and predicted GNP data, the overall economic outlook has not changed much. However, fore-

casters on balance seem somewhat less fearful of a new inflation speedup and more fearful of a business slowdown.

The ASA/NBER surveys have been conducted quarterly since 1968. They represent the views of leading business, academic, and government economists who are professionally engaged in forecasting the movements of the economy in the near future. 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.

STEADY INFLATION, SLOWER GROWTH

Nominal GNP will rise from \$1,918 billion in Q3 1977 to \$2,129 billion in Q3 1978, that is, by 11 percent, according to the median of the August predictions. The concurrent rate of inflation, measured by the GNP price index, will be very near 6 percent, and the real rate of growth will be slightly in excess of 4.6 percent. Inflation will hold steady from quarter to quarter, while real growth will decline from 5.1 percent per year in the second half of 1977 to less than 4.5 percent in 1978.

The index of industrial production, which covers output of factories, mines, and utilities, is expected to rise by 5.7 percent in the year ending Q3 1978—significantly faster than total output as measured by GNP in 1972 dollars.

A SMALL DECLINE IN THE UNEMPLOYMENT RATE

The median forecast for the jobless rate remains the same as in the previous survey: a steady but slow decline by one-tenth of one percentage point per quarter. The rate is projected to be 6.9 percent of the labor force in Q3 1977 and to descend to 6.5 percent in Q3 1978. On average, the measured unemployment rate was 7.7 percent in 1976; it is anticipated to be 7 percent in 1977 and 6.6 percent or slightly less in 1978.

GAINS IN BUSINESS CAPITAL OUTLAYS AND PROFITS

Business spending on plant and equipment is expected to rise to \$136 billion in 1977, 13 percent over 1976; this is better than the 11.5 percent increase predicted in the May survey. By Q3 1978, these outlays will have reached

\$156 billion annual rate, also 13 percent up from Q3 1977. If capital goods prices were to rise at the expected general rate of inflation, these group consensus forecasts would imply constant-dollar gains in business fixed investment of about 7 percent in the year ahead. Thus, this sector continues to be viewed as a source of strength for the economy.

The annual increase in 1976-1977 of corporate profits after taxes in current dollars is now set at 10.5 percent. While less than the May forecast of a 12.7 percent rise, this would still include a real gain after allowing for the currently projected inflation rates. However, the returns are expected to grow less in the near future: the prediction for Q3 1978 is profits of \$112 billion at an annual rate, up 8.7 percent from Q3 1977.

NO BIG SWINGS IN INVENTORY INVESTMENT

The survey results indicate no major inventory adjustments either upward or downward. Change in business inventories, which in Q2 1977 rose to about \$20 billion at an annual rate, is expected to level off at \$16 billion or a little higher in each of the five quarters Q3 1977-Q3 1978. However, as usual, the dispersion of the individual forecasts is large for this volatile variable, as illustrated by the first- and third-quartile predictions of \$10 billion and \$23 billion, respectively, for Q3 1978. It is nevertheless interesting to observe that the prospect of an inventory decumulation (negative change) is heavily discounted.

HOUSING STATIONARY, CONSUMER DURABLES UP A LITTLE

New housing starts are seen as having reached a plateau at 1.9 million units (annual rate), to be maintained throughout the year ahead. The dispersion of the individual forecasts about that average level is unusually small. At least some of the predictions suggest that residential construction is near its peak in the current business expansion.

Consumer expenditures for durable goods are expected to increase from \$182 billion in Q3 1977 to nearly \$198 billion in Q3 1978, that is, by 8.6 percent. This spells a major slowdown in spending of this type when compared with recent gains (e.g., the 14 percent rise in 1976-1977).

PROBABILITIES AND ASSUMPTIONS

As assessed by the survey participants, the likelihood of a recession is rising. In fact, the distributions of the estimated probabilities that real GNP will decline

from Q2 1978 to Q3 1978 has a mean of 23 chances in 100. This mean probability is higher than any mean for a comparable horizon (i.e., four quarters ahead) since the assessments made in Q2 1973 (28 percent) and Q3 1973 (25 percent) for the second and third quarters of 1974, respectively. It will be remembered that this was indeed a period during which real GNP declined.

The forecasters hold highly concentrated expectations concerning the rate of inflation in 1976-1977. About 50 and 29 percent of the mean probability distribution of changes in the implicit price deflator fall in the intervals +5.0 to +5.9 percent and +6.0 to +6.9 percent, respectively.

Of the 20 respondents who referred to monetary policy, 8 assumed that it will continue unchanged, 9 that it will grow "slightly tighter," and 3 that it will be "on target." Half of the 18 respondents who referred to fiscal policy assumed that it will be moderately stimulative, half assumed little or no change. Very few expressed any fears of controls, increased "jaw boning," or new complications in the energy area.

TABLE 1 Projections of GNP and Other Economic Indicators, Q2 1977-Q3 1978

Indicator	No. of Fore-casters	Actual Q2 1977	1977				Forecast 1978				Annual	
			Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Actual 1976	Fore-cast 1977
Gross national product (\$ bil.)	37	1869	1918	1973	2030	2079	2129	1706.5	1893			
GNP implicit price deflator (1972 = 100)	37	140.4	142.5	144.6	146.7	148.8	151.0	133.9	141.4			
GNP in constant dollars (bil. 1972 \$)	37	1331.6	1347 ^a	1364 ^a	1379 ^a	1395 ^a	1409 ^a	1274.7	1338.4 ^a			
Industrial production (1967 = 100)	35	137.5	140	142	144	146	148	129.8	138.2			
Unemployment rate (percent)	37	7.0	6.9	6.8	6.7	6.6	6.5	7.7	7.0			
Corporate profits after taxes (\$ bil.)	34	100.4 ^b	103.0	106.4	108.3	109.6	112.0	92.1	101.8			
Plant and equipment expenditures OBE-SEC (\$ bil.)	33	134.5 ^c	137.9	142.5	147.5	152.0	156.0	120.5	136.3			
New private housing units started (ann. rate mil.)	33	1.889	1.91	1.92	1.92	1.91	1.89	1.538	1.87			
Change in business inventories, GNP accounts (\$ bil.)	35	19.7	17.0	16.3	16.0	17.4	16.0	13.3	16.7			
Consumer expenditures for durable goods (\$ bil.)	36	179.1	182.0	185.8	189.7	193.5	197.7	158.9	181.0			
National defense purchases, GNP accounts (\$ bil.)	34	94.2	95.7	98.4	100.3	102.5	105.0	86.8	94.5			

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

^aMedian of individual forecasts of real GNP derived from predicted current dollar GNP and the price deflator.

^bActual not available. Based on average forecast.

^cAnticipated.

TABLE 2 Projected Percent Changes in GNP and Other Economic Indicators, Q2 1977-Q3 1978

Indicator	No. of Fore-casters	Q2 77 to Q3 77		Q3 77 to Q4 77		Q4 77 to Q1 78		Q1 78 to Q2 78		Q2 78 to Q3 78		Q3 78 to Q4 78	
Gross national product (\$ bil.)	37	2.6	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
GNP implicit price deflator (1972 = 100)	37	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
GNP in constant dollars (bil. 1972 \$) ^a	37	1.2	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Industrial production (1967 = 100)	35	1.8	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Unemployment rate (percent) ^b	37	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Corporate profits after taxes (\$ bil.)	34	2.6	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Plant and equipment expenditures													
OBE-SEC (\$ bil.)	33	2.5	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
New private housing units started (ann. rate mil.)	33	1.1	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Change in business inventories, GNP accounts (\$ bil.) ^c	35	-2.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Consumer expenditures for durable goods (\$ bil.)	36	1.6	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
National defense purchases, GNP accounts (\$ bil.)	34	1.6	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8

SOURCE: Computed from Table 1.

^aSee Table 1.

^bChange in rate, in percentage points

^cChange in billions of dollars.

TABLE 3 Estimated Probability of Decline in GNP in Constant Dollars

Estimated Probability (chances in 100)	Q2 77	Q3 77	Q4 77	Q1 78	Q2 78
	to Q3 77	to Q4 77	to Q1 78	to Q2 78	to Q3 78
	Number of forecasts				
Less than 1	20	12	8	6	5
1-10	12	18	11	8	9
11-20	3	3	10	13	6
21-30	2	3	5	4	9
31-40	0	0	1	2	2
41-50	0	1	1	3	4
51-60	0	0	0	0	0
61-70	0	0	0	0	0
71-80	0	0	1	0	1
81 and over	0	0	0	1	1
Median probability (chances in 100)	0	4	10	14	19
Mean probability (chances in 100)	4.5	8.0	14.9	19.9	23.1

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

NOTE: The total number of forecasters included is 37.

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

Percent Increases, 1976-1977	Mean Probability Attached to Possible Percent Changes, 1976-1977	
	GNP in Current Dollars	Implicit Price Deflator
16 or more	0.1	0.0
15.0 to 15.9	0.1	0.0
14.0 to 14.9	0.7	0.0
13.0 to 13.9	2.1	0.0
12.0 to 12.9	12.1	0.1
11.0 to 11.9	33.6	0.1
10.0 to 10.9	34.9	0.2
9.0 to 9.9	8.9	0.5
8.0 to 8.9	1.2	4.9
7.0 to 7.9	0.4	7.4
6.0 to 6.9	3.2	28.9
5.0 to 5.9	2.0	50.4
4.0 to 4.9	0.6	6.8
3.0 to 3.9	0.0	0.6
2.0 to 2.9	0.0	0.2

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

NOTE: The total number of forecasters included is 36.

TABLE 5 Forecasting Methods Used

Method	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	28	9	20	6	2	0	0
Leading indicators	25	12	1	11	9	3	1
Anticipations surveys	20	17	0	6	10	3	1
Econometric model (outside)	22	15	3	9	2	6	2
Econometric model (own)	12	25	8	2	0	2	0
Other methods	5	22	3	1	1	0	0

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

TABLE 6 Forecasters' Affiliation

Primary Affiliation	Number of Forecasters
Manufacturing	8
Commercial banking	3
Other financial institutions	3
Consulting or research	11
Merchandising	0
Trade association	0
Academic	4
Government	5
Labor union	0
Other	3
Total	37

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

TABLE 7 Key Assumptions Underlying Forecasts

Assumption	Number of Forecasters
Monetary policy	
No change	8
Slightly tighter	9
Money growth on target	3
Fiscal policy	
No change	3
Lower deficit than anticipated	2
Moderately stimulative	3
No change in taxes	4
Slightly lower taxes	3
Tax reform and simplification	3
Incomes policy	
No controls	2
No policy	6
Increased "jaw boning"	3
Energy	
Most or all Carter's proposals pass	5
Higher prices	2
No embargo	2
Other	
No wars	4
No major strike	4
No drought or crop failure	3

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