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## ASA/NBER Business Outlook Survey: Fourth 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 growth in 1976 will be moderate, with GNP in constant dollars gaining 5.9 percent. Unemployment, though gradually declining, will continue to be high and a major problem (averaging 7.8 percent of the labor force in 1976). Inflation will also be serious but is not expected to accelerate; the GNP implicit price deflator will rise through the next year at an annual rate of about 6 percent. These are some major results of the latest survey of forecasts by members of the Business and Economic Statistics Section of the American Statistical Association, based on medians of the reported predictions. The survey is sufficiently representative for these results to be viewed as features of the current "consensus forecast" for the U.S. economy.

The ASA surveys have been conducted quarterly since 1968 and repre-

sent the views of about fifty members, including those of many leading economists (47 participated in November). The materials from the surveys are analyzed for the ASA by the National Bureau of Economic Research, an independent nonprofit research institution, as part of its program of studies in economic forecasting. Dr. Charlotte Boschan of the NBER and Professor Victor Zarnowitz of the Graduate School of Business of the University of Chicago and the NBER are responsible for these evaluations.

### **RATES OF GROWTH AND UNEMPLOYMENT**

Real GNP is expected to increase 5.4 percent between the current quarter and the corresponding (fourth) quarter of next year. This is about 1/2 of one percent less than the rise anticipated for calendar 1976 relative to calendar 1975 (the difference reflects a slight decline in the growth rates projected for the successive quarters of 1976). In this survey, the predicted levels of GNP are a little higher and the predicted rates of unemployment a little lower than in the previous survey taken in August. However, the expected pace of the expansion remains sluggish and is not calculated to reduce unemployment drastically in the year ahead. The overall unemployment rate is seen as declining steadily but slowly, from 8.4 percent in Q3 1975 to 7.4 percent in Q4 1976. At this rate, a return to full employment, as commonly understood, would not occur before 1978.

### **INFLATION FORECASTS**

According to the median forecast, the implicit price deflator (IPD) will rise 1.6 percent in the current quarter and 1.4 or 1.5 percent in each quarter of 1976, indicating that an annual rate of inflation of approximately 6 percent is expected to persist. Although this represents a change for the worse from the spring and summer quarters of this year, when the IPD rose 5.1 and 4.7 percent (annual rates), it is a one-time shift which is not immediately alarming. There seems to be little fear among the forecasters that strong inflationary pressures may soon flare up again. The May and August surveys this year offered very similar price-level forecasts. Predictions of relatively temperate inflation are consistent with the anticipated moderate rates of expansion in spending and output. Historically, inflation has been more restrained in the first year or two of expansions, when the productivity and cost developments tend to be most favorable, than in any other business-cycle phase. The survey forecasts which were due on November

13th could not have been influenced by the monthly price reports which were published November 20th and brought somewhat disturbing news from the sensitive inflation front.

### **CONSUMER CAPITAL OUTLAYS: MODEST GAINS**

Consumer expenditures for durable goods are expected to rise at rates of 3 to 3.3 percent per quarter through the next year, averaging \$154.7 billion in 1976 (up 15 percent from 1975) and reaching \$161.8 billion in Q4 1976 (up 13 percent from Q4 1975). This would be a steady advance, just about in line with the longer trend in this series but somewhat slower than the rise recorded earlier this year. In constant dollars, the implied gain next year is about 7 or 8 percent.

Housing starts are projected to increase from 1.3 to 1.6 million units (annual rates) between Q4 1975 and Q4 1976. The gain in the number of units would be much like the one made this year (from the nadir of about 1 million starts), but it would represent a considerable slowdown in percentage terms. The consensus of the forecasters, then, seems to be that by the end of 1976 investment in residential construction is apt to regain the ground lost since late 1973. This improvement, however, will not raise the investment level to its 1972 peak of 2.4 million units.

### **BUSINESS INVESTMENT SEEN AS WEAK BUT GAINING**

Plant and equipment expenditures are estimated at \$121.8 billion in 1976, up 7.2 percent from 1975, and at \$128 billion in Q4 1976, up 12.4 percent from Q4 1975. These figures are not adjusted for inflation. The gains for business fixed investment in constant dollars will probably be very small—about 1 or 2 percent for the next calendar year as a whole—but much larger—near 6 or 7 percent—for the interval between the current quarter and the fourth quarter of 1976. Business capital outlays are expected to grow at increasing rates in each successive quarter in the period covered by the survey.

Corporate profits after taxes, a variable that tends to show substantial positive associations with business investment, will score gains of 23 percent between 1975 and 1976 and 16 percent between Q4 1975 and Q4 1976. (Profits hit a low of \$62.3 billion in Q1 1975 and are projected to rise to \$96 billion in Q4 1976.)

Business inventories will continue to decline in the current quarter, but

by a very small amount, and will then begin to rise rather slowly. The median figures for the five successive quarters from Q4 1975 through Q4 1976, in billions of dollars, are -2.0, +2.5, +5.6, +8.2, and +9.0. Thus, the forecasters do not expect strong support for the expansion from an early wave of inventory accumulation.

### PROBABILITIES AND ASSUMPTIONS

Forecasters estimate the probabilities of decline in real GNP (of an "aborted" expansion) to be slowly rising but generally low—for example, the mean figures for Q1 1975 and for Q4 1976 are 10.1 and 18.7 chances in 100, respectively. The mean probability distribution of the expected 1975-1976 changes in the implicit price deflator shows a heavy concentration in three ranges: +5.0 to +5.9% change is given a probability of 23.6 (chances in 100); +6.0 to +6.9% a chance of 36.3; and +7.0 to +7.9% a chance of 21.8.

At the time of the survey, New York's financial problems were much debated and their political "solution" was uncertain. Some respondents explicitly assumed that the city would default; none assumed that there would be a default with a "major impact." A generally adopted premise was that "the present tax cut will continue." The stated assumptions about monetary policy maintained that it would be "mildly accommodating" or "on target"; only a few survey members thought that increases in the money supply would be "more accommodating" or "more than 7 1/2%."

**TABLE 1 Projections of GNP and Other Economic Indicators, 1975-1976 Q4**

Indicators	Number of Fore- casters	Forecast											
		1975				1976				Annual			
		Actual	Q4	Q1	Q2	Q3	Q4	1974	1975	1976	1975	1976	1976
1. Gross national product (\$bil.)	45	1497.8	1544	1588	1634	1680	1726	1394.4	1474.8	1657			
2. GNP implicit price deflator (1958 = 100)	44	186.2	189.2	191.9	194.8	197.8	200.6	170.2	185.2	196.3			
3. GNP in constant dollars (bil., 1958 \$)	42	804.6	814 <sup>a</sup>	826 <sup>a</sup>	837 <sup>a</sup>	848 <sup>a</sup>	858 <sup>a</sup>	821.2	795.6 <sup>a</sup>	842.2 <sup>a</sup>			
4. Industrial production (1967 = 100)	45	114.1	117	120	123	126	128	124.8	113.3	124.2			
5. Unemployment rate (percent)	47	8.4	8.3	8.1	7.9	7.6	7.4	5.6	8.5	7.8			
6. Corporate profits after taxes (\$bil.)	43	78.3 <sup>b</sup>	82.7	85.7	88.7	92.0	96.0	85.0	73.4	90.6			
7. Plant and equipment expenditures OBE-SEC (\$bil.)	42	113.48 <sup>c</sup>	113.9	116.3	119.6	123.4	128.0	111.92	113.6	121.8			
8. New private housing units started (ann. rate mil.)	47	1.248	1.32	1.42	1.50	1.57	1.62	1.336	1.158	1.527			
9. Change in bus. inventories GNP accounts (\$bil.)	46	-9.5	-2.0	2.5	5.6	8.2	9.0	14.2	-15.4	6.3			
10. Consumer expenditures for durable goods (\$bil.)	44	139.0	143.3	147.6	152.5	157.0	161.8	127.5	134.5	154.7			
11. National defense purchases, GNP accounts (\$bil.)	43	85.6	87.9	89.4	91.1	92.2	94.4	78.7	85.8	91.8			

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

<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, 1975-1976 Q4**

Indicator	Number of Fore- casters	Q2 75		Q3 75		Q4 75		Q1 76		Q2 76		Q3 76		Q4 76	
		to	to	to	to	to	to	to	to	to	to	to	to	to	to
1. Gross national product (\$bil.)	45	3.9	3.1	2.8	2.9	2.8	2.9	2.8	2.7	2.8	2.7	2.7	2.7	5.5	12.4
2. GNP implicit price deflator (1958 = 100)	44	1.3	1.6	1.4	1.5	1.5	1.5	1.5	1.4	1.5	1.4	1.4	1.4	8.8	6.0
3. GNP in constant dollars (bil. 1958 \$) <sup>a</sup>	42	2.7	1.1	1.5	1.3	1.3	1.3	1.3	1.2	1.3	1.2	1.2	1.2	-3.1	5.9
4. Industrial production (1967 = 100)	45	3.4	2.5	2.6	2.5	2.4	2.4	2.4	1.6	2.4	1.6	1.6	1.6	-9.2	9.6
5. Unemployment rate (percent) <sup>b</sup>	47	-0.5	-0.1	-0.2	-0.2	-0.3	-0.2	-0.2	-0.2	-0.3	-0.2	-0.2	-0.2	2.9	-0.7
6. Corporate profits after taxes (\$bil.)	43	11.3	5.6	3.6	3.5	3.7	3.5	3.7	4.3	3.7	4.3	4.3	4.3	-13.6	23.4
7. Plant and equipment expenditures OBE-SEC (\$bil.)	42	0.9	0.4	2.1	2.8	3.2	2.8	3.2	3.7	3.2	3.7	3.7	3.7	1.5	7.2
8. New private housing units started (ann. rate mil.)	47	16.9	5.8	7.6	5.6	4.7	5.6	4.7	3.2	4.7	3.2	3.2	3.2	-13.3	31.9
9. Change in bus. inventories, GNP accounts (\$bil.) <sup>c</sup>	46	21.5	7.5	4.5	3.1	2.6	3.1	2.6	0.8	2.6	0.8	0.8	0.8	-29.6	21.7
10. Consumer expenditures for durable goods (\$bil.)	44	6.4	3.1	3.0	3.3	3.0	3.3	3.0	3.1	3.0	3.1	3.1	3.1	5.5	15.0
11. National defense purchases, GNP accounts (\$bil.)	43	0.9	2.7	1.7	1.9	1.2	1.9	1.2	2.4	1.2	2.4	2.4	2.4	9.0	7.0

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)	Q3 75		Q4 75		Q1 76		Q2 76		Q3 76	
	to	Q4 75	to	Q1 76	to	Q2 76	to	Q3 76	to	Q4 76
Less than 1	42.6	25.5	23.4	17.0	19.1					
1-10	38.3	36.2	38.3	31.9	27.7					
11-20	8.5	23.4	21.3	27.7	19.1					
21-30	4.3	8.5	8.5	14.9	19.1					
31-40	2.1	0.0	4.3	4.3	6.4					
41-50	0.0	6.4	4.3	0.0	4.3					
51-60	0.0	0.0	0.0	4.3	0.0					
61-70	0.0	0.0	0.0	0.0	2.1					
71-80	0.0	0.0	0.0	0.0	2.1					
81 and over	4.3	0.0	0.0	0.0	0.0					
Median probability (chances in 100)	3.0	8.0	8.0	11.0	13.0					
Mean probability (chances in 100)	10.1	12.5	12.7	15.5	18.7					

Number of forecasts

SOURCE: American Statistical Association and National Bureau of Economic Research Business Outlook Survey, November 1975.  
NOTE: The total number of forecasters included is 47.

**TABLE 4 Mean Probability Distributions of Changes in GNP and Prices, 1975-1976**

Percent Changes 1975-1976	Mean Probability Attached to Possible Percent Changes, 1975-1976	
	GNP in Current \$	Implicit Price Deflator
+16 or more		
+15.0 to +15.9	0.2	0.0
+14.0 to +14.9	1.0	0.0
+13.0 to +13.9	3.4	0.1
+12.0 to +12.9	15.7	0.1
+11.0 to +11.9	25.6	0.1
+10.0 to +10.9	17.9	0.4
+ 9.0 to + 9.9	9.9	1.8
+ 8.0 to + 8.9	9.2	1.8
+ 7.0 to + 7.9	4.5	6.0
+ 6.0 to + 6.9	2.7	21.8
+ 5.0 to + 5.9	5.2	36.3
+ 4.0 to + 4.9	3.0	23.6
+ 3.0 to + 3.9	1.3	5.7
+ 2.0 to + 2.9	0.4	2.2
	0.0	0.1

SOURCE: American Statistical Association and National Bureau of Economic Research, Business Outlook Survey, November 1975.  
NOTE: The total number of forecasters included is 47.

**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	38	9	28	7	2	1	0
Leading indicators	28	19	1	15	10	1	1
Anticipations surveys	30	17	0	8	13	8	1
Econometric model (outside)	25	22	3	11	4	6	1
Econometric model (own)	10	37	6	3	1	0	0
Other methods	6	41	3	3	0	0	0

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

**TABLE 6 Forecasters' Affiliation**

Primary Affiliation	Number of Forecasters
Manufacturing	10
Commercial banking	6
Other financial institutions	5
Consulting or research	11
Merchandising	0
Trade association	1
Academic	5
Government	4
Labor union	0
Other	5
Total	47

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

**TABLE 7 Key Assumptions Underlying Forecasts**

Assumption	Number of Forecasters
New York's Problems	
City will default	4
City will default, but there will be no major impact	8
City's default will dampen state and local spending	2
State will not default	1
Energy Problem	
Controls will be phased out gradually	7
Domestic prices will rise	6
No major shortages	2
Monetary Policy	
Increase in money supply "on target"	14
Increase will be more than 7 ½%	4
Policy will be mildly accommodating	11
Policy will be more accommodating than before	2
Fiscal Policy	
Continuation of present tax cut	32
New tax cuts	4
Deficits above \$60 billion	4
Other Assumptions	
No incomes policy	14
No new wars, embargoes or crises	14
No strikes	4
No adverse weather	2

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

# EXPLORATIONS IN ECONOMIC RESEARCH

## CONTENTS

Volume 2—Year 1975

### *Number 1—Winter 1975*

- Productivity, Costs, and Prices: New Light  
from an Old Hypothesis  
Geoffrey H. Moore 1
- The Cyclical Timing of Labor Market Indicators  
in Great Britain and the United States  
Desmond J. O'Dea 18
- Changes in the Recession Behavior of Wholesale  
Prices in the 1920's and Post-World War II  
Phillip Cagan 54
- A Note on Sex Segregation in Professional  
Occupations  
Victor R. Fuchs 105
- ASA/NBER Business Outlook Survey:  
Fourth Quarter 1974 112

### *Number 2—Spring 1975*

- Slowdowns, Recessions, and Inflation:  
Some Issues and Answers  
Geoffrey H. Moore 125
- On the Classifications of Economic Fluctuations  
John R. Meyer and Daniel H. Weinberg 167
- Inflation and Market Structure, 1967–1973  
Phillip Cagan 203
- The Finances of American Unions, 1962–1969  
Leo Troy 217
- ASA/NBER Business Outlook Survey:  
First Quarter 1975 252

*Number 3—Summer 1975*

Symposium Volume—Regional Stock Exchanges in a Central Market System	
Views from Washington	265
Impact of Composite Tape on Regional Market Centers	303
Impact of Composite Quotations of Regional Market Centers	326
Development of a National System for Clearing and Settling Securities Transactions	353
The Historical Evolution of Today's Bond Market	378
Views from Regional Exchanges	390
Address by Congressman John E. Moss	412
Postscripts by Academic Participants	417
ASA/NBER Business Outlook Survey: Second Quarter 1975	437

*Number 4—Fall 1975*

The U.S. Railroad Industry in the Post-World War II Period: A Profile	
John R. Meyer and Alexander L. Morton	449
The Effect of School Quality on Achievement, Attainment Levels, and Lifetime Earnings	
Paul Wachtel	502
The Definition of College Quality and Its Impact on Earnings	
Lewis C. Solmon	537
An Evaluation of ASA/NBER Business Outlook Survey Forecasts	
Vincent Su and Josephine Su	588
ASA/NBER Business Outlook Survey: Third Quarter 1975	619

# EXPLORATIONS IN ECONOMIC RESEARCH

## AUTHORS INDEX

Volume 2—Year 1975

- ASA/NBER Business Outlook Survey: Fourth Quarter 1974. 112  
ASA/NBER Business Outlook Survey: First Quarter 1975. 252  
ASA/NBER Business Outlook Survey: Second Quarter 1975. 437  
ASA/NBER Business Outlook Survey: Third Quarter 1975. 619  
CAGAN, PHILLIP. Changes in the Recession Behavior of Wholesale Prices  
in the 1920's and Post-World War II. 54  
———. Inflation and Market Structure, 1967–1973. 203  
FARRAR, DONALD E., editor. Symposium Volume—Regional Stock Ex-  
changes in a Central Market System. 263  
FUCHS, VICTOR R. A Note on Sex Segregation in Professional Occupa-  
tions. 105  
MEYER, JOHN R. and WEINBERG, DANIEL H. On the Classifications of  
Economic Fluctuations. 167  
——— and MORTON, ALEXANDER L. The U.S. Railroad Industry in the  
Post-World War II Period: A Profile. 449  
MOORE, GEOFFREY H. Productivity, Costs, and Prices: New Light from  
an Old Hypothesis. 1  
———. Slowdowns, Recessions, and Inflation: Some Issues and  
Answers. 125  
MORTON, ALEXANDER L. See MEYER, JOHN R.  
O'DEA, DESMOND J. The Cyclical Timing of Labor Market Indicators in  
Great Britain and the United States. 18  
SOLMON, LEWIS C. The Definition of College Quality and Its Impact on  
Earnings. 537  
SU, JOSEPHINE. See SU, VINCENT.  
SU, VINCENT and SU, JOSEPHINE. An Evaluation of ASA/NBER Business  
Outlook Survey Forecasts. 588  
TROY, LEO. The Finances of American Unions, 1962–1969. 217  
WACHTEL, PAUL. The Effect of School Quality on Achievement, Attain-  
ment Levels, and Lifetime Earnings. 502  
WEINBERG, DANIEL H. See MEYER, JOHN R.

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### **HUMAN CAPITAL, Second Edition**

**Gary S. Becker**

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This pioneer study of investment in human capital was first published eleven years ago. Since then the literature on the subject has grown rapidly and now includes work on schooling, on-the-job training, medical care, migration, and the search for information about prices and incomes. The attention the subject has attracted and the interest in Professor Becker's first edition has prompted this new release. The study has been updated and enlarged; the second edition contains four additional articles, while preserving the original text intact.

### **THE ALLOCATION OF TIME AND GOODS OVER THE LIFE CYCLE**

**Gilbert R. Ghez and Gary S. Becker**

**\$10.00**

In this book, which deals with the allocation of resources by families over the lifetime of their members, the authors develop a theoretical model. They use this model to explain changes in the patterns of consumption and labor supply over a lifetime and to test the model against a variety of empirical evidence.

### **AN ECONOMETRIC ANALYSIS OF THE URBAN HOUSING MARKET**

**Mahlon R. Straszheim**

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The major objective of this book is to provide a better understanding of the economics of the housing market and its role in metropolitan development. The author applies econometric procedures to better assess the huge variations that exist in the characteristics and prices of available housing. A model is developed to explain the spatial variation in prices and incomes of occupants of the existing housing stock by neighborhood.

## **ECONOMIC ANALYSIS OF ENVIRONMENTAL PROBLEMS**

**Edwin S. Mills, editor**

**\$17.50**


Despite the quantity of material recently published about environmental problems, careful economic research on the subject is still scarce. This collection of papers and comments is presented in an attempt to help fill that gap. In the long run, Mills feels, the most important environmental issue is the relationship between environmental quality and economic growth in a finite world. The essence of economic activity is the removal of materials from the environment, their transformation by production and consumption, and their eventual return to the environment. The author notes that anti-growth bias in both popular environmental literature and technical environmental literature by noneconomists stems from failure to realize that resources can be devoted to environmental protection as well as to direct production. This volume as a whole represents an effort to reconcile the sometimes conflicting demands made on our resources.

## **HOUSING MARKETS AND RACIAL DISCRIMINATION**

**John F. Kain and John M. Quigley**

**\$17.50**

Theoretical and empirical investigations of urban housing markets have generally viewed housing as a homogeneous good, which is produced competitively in a market characterized by long-run equilibrium, and have ignored the existence or implications of racial discrimination. In this study Kain and Quigley present a detailed analysis of a single housing market using a more general approach that more accurately represents market conditions. The authors assert that the demand for housing and the behavior of urban housing markets can be better understood if housing is viewed as "bundles" of heterogeneous attributes rather than as some single-valued commodity, "housing services". They also recognize that major market imperfections, chiefly discrimination and residential segregation, have important implications in the market for "bundles" of housing attributes.

Another  Journal

ANNALS OF  
ECONOMIC AND SOCIAL MEASUREMENT

*The Annals of Economic and Social Measurement*, a journal of computers, information retrieval, and research methodology, was created in 1972 to promote the exchange of ideas in quantitative research. This quarterly journal contains articles generated within the National Bureau's research program, mainly but not solely dealing with data generation, computer application, and methodological problems. Although research methodology is stressed, descriptions of computer programs, information retrieval techniques, and data sets are also published. Such an emphasis means that scientists can benefit from work in fields outside their immediate range of research. The journal's objective, therefore, is to provide rapid and wide dissemination of advances in the state of the art—resulting in more effective use of the computer in quantitative analysis.

Participants in workshops held by the NBER's *Conference on the Computer in Economic and Social Research* and researchers affiliated with the NBER's *Computer Research Center for Economics and Management Science* are encouraged to contribute papers. Throughout the coming year, special issues will focus on such topics as the analysis of consumer demand data, stochastic control theory applications, and data documentation techniques.

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