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ASA/NBER Business Outlook Survey: Third Quarter 1974

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.

Forecasts of inflation have been revised upward and forecasts of the nation's output of goods and services (GNP in constant dollars) downward in the August survey of the Business and Economics Statistics Section of the American Statistical Association as compared with the May survey. This repeats what happened three months ago when the change in outlook from the previous (February) survey was also predominantly in the more pessimistic direction. Yet the forecasters still anticipate gradual improvements in the general economic situation beginning in the last quarter of 1974, in the form of a slow recovery in output and declining rates of inflation. These are some of the main characteristics of the median forecast by 53 members of the quarterly ASA panel among whom are many of the leading analysts of the United States economy. The results of these surveys are evaluated for the ASA by the National Bureau of Economic Research as part of a continuing study of economic forecasts conducted by Dr. Charlotte Bos-

chan of NBER and Professor Victor Zarnowitz of the Graduate School of Business of the University of Chicago and NBER.

A SOMBER VIEW OF GNP AND PRICES, BUT IMPROVEMENTS FORESEEN

GNP in current dollars will increase from \$1,295 billion in 1973 to \$1,401 billion in 1974, i.e., by 8.2 per cent, according to the new median forecast. (The dollar figures are some \$6 billion higher, but the relative gain is about the same as in the May survey.) However, the GNP implicit price deflator is expected to rise 9.4 per cent in 1974, i.e., a full percentage point more than was predicted three months ago. Accordingly, real GNP in 1974, set at \$829 billion in 1958 prices, is seen as 1.2 per cent lower than in 1973, whereas in May it was seen as only 0.3% lower.

In quarterly terms, the median forecast posts no change in constant-dollar GNP in the third quarter of 1974. In Q4 1974, Q1 1975, and Q2 1975, the projected rises in real GNP, are 0.4, 0.6, and 0.7 per cent per quarter, respectively. The corresponding figures for the relative changes in the GNP price index are 1.9, 1.7, and 1.7 per cent per quarter, down from the estimated 2.1 per cent for the current quarter. A closer look at the distributions of the individual forecasts indicates that there is considerable agreement about the most likely near-term course of the economy as represented by these average predictions for GNP and prices.

It is worth noting that the darkest part of the picture conveyed by the survey lies in the recent past and in the present, not in the immediate future. A comparison of the last reported "actual" figures for Q2 1974 with the median forecasts for Q2 1975 yields more favorable results (a 7.6 per cent inflation and 1.7 per cent growth in real GNP) than the 1973-74 annual comparison.

ESTIMATED PROBABILITIES OF RECESSION AND PRICE CHANGES

Forecasters did raise significantly their estimates of the probabilities of a decline in constant-dollar GNP during the current and each of the three quarters ahead. The means of these assessed probabilities, however, decrease steadily, from 46 chances in 100 in the third quarter of 1974 to 35, 24, and 19 for the three subsequent quarters through Q2 1975. (The corresponding figures in the May survey were likewise decreasing, from 30 for Q3 1974 to 7 for Q2 1975.)

The estimates of inflation were not only once more sharply increased,

but also their probability distribution became tighter. This is shown by the following tabulation of the mean probabilities attached to possible percentage changes, 1973-74, in the GNP implicit price deflator:

	May 1974 Survey	August 1974 Survey
+10 per cent or more	6.0	26.4
+9.0 to +9.9	22.4	50.7
+8.0 to +8.9	42.0	17.5
+7.0 to +7.9	18.7	4.8
+6.0 to +6.9	5.7	0.5
Less than +6 per cent	4.3	0.1

BUSINESS INVESTMENT AND PROFITS

Plant and equipment expenditures are to increase throughout, but somewhat less than previously expected in the second half of 1974 and more in the first half of 1975. Much larger changes, however, are seen in the course of corporate after-tax profits, which are now predicted to decline from about \$88 billion in Q2 1974 to \$82 billion in Q2 1975, that is, by 7 per cent, and in the course of investment in business inventories, which is predicted to fall from \$15 billion to \$8.5 billion in the same period.

OUTLAYS BY OTHER SECTORS, INDUSTRIAL PRODUCTION, AND UNEMPLOYMENT

Consumer expenditures for durable goods are viewed as firming up a little and increasing in the year ahead at a pace similar to that of GNP. National defense purchases, too, continue to be scheduled for a gradual rise. The level of industrial production in 1974 is projected as approximately the same as in the year before; but a small increase, of 2.2 per cent, is forecast in that index between Q2 1974 and Q2 1975. The rate of unemployment is to creep up but slowly, from 5.1 per cent of the labor force in the second quarter of 1974 to 5.9 per cent a year hence.

BACKGROUND AND ASSUMPTIONS

The May survey turned out to be rather accurate in estimating the second-quarter rise in the GNP price index at 2 per cent and in perceiving a small concurrent decline in real GNP (the median forecast understated that decline somewhat). The present revisions in the forecasts are therefore not

due to corrections of any apparent errors in recent predictions; they presumably reflect instead the impact of intervening news, notably about the disappointing inflationary developments, and of statistical revisions, notably in the inventory data. The prevailing expectation of a sluggish economy in the year ahead is in part also attributable to the assumption by most of the survey participants that monetary policy will be "tight" (though not very much so, hence another "crunch" is not being foreseen). Few forecasters assume any major changes in fiscal policy, that is, in either tax rates or federal spending, and none indicate the likelihood of new price and wage controls. There is little expressed concern about the energy problem; some respondents anticipate shortages, others do not.

TABLE 1 Projections of GNP and Other Economic Indicators, 1974-1975-Q2

Indicator	Number of Fore-casters ^a	1974		1974 Forecast		1975 Forecast		Annual 1974	
		Actual	Q2	Q3	Q4	Q1	Q2	Actual	Forecast
1. Gross national product (\$ bil.)	53	1383.5	1414	1447	1481	1515	1294.9	1400.8	
2. GNP implicit price deflator (1958 = 100)	53	167.1	170.6	173.9	176.8	179.8	154.3	168.8	
3. GNP in constant dollars (bil. 1958 \$) ^b	53	828.0	828	831	836	842	839.2	829.4	
4. Industrial production (1967 = 100)	50	125.3	126	126	127	128	125.6	125.6	
5. Unemployment rate (per cent)	53	5.1	5.4	5.7	5.8	5.9	4.9	5.4	
6. Corporate profits after taxes (\$ bil.)	49	88.3 ^c	86.4	83.2	82.0	82.0	72.9	85.8	
7. Plant and equipment expenditures OBE-SEC (\$ bil.)	48	110.58 ^d	113.2	115.6	119.0	121.7	100.08	111.7	
8. New private housing units started (ann. rate mil.)	50	1.567	1.50	1.51	1.62	1.71	2.042	1.551	
9. Change in bus. inventories	50	15.1	10.6	9.4	8.8	8.5	15.4	13.0	
10. GNP accounts (\$ bil.)	48	130.2	133.1	136.9	139.4	142.8	130.3	131.0	
11. Consumer expenditures for durable goods (\$ bil.)	51	76.1	77.3	79.1	80.3	81.6	74.4	77.1	
11. National defense purchases, GNP accounts (\$ bil.)									

SOURCE: American Statistical Association and National Bureau of Economic Research. Median Forecasts of Business Outlook Survey, August 1974.

^aThere are 1-2 fewer forecasters for 1975 Q1, Q2.

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

^cActual not available. Based on average forecast.

^dAnticipated.

TABLE 2 Projected Percentage Changes in GNP and Other Economic Indicators, 1974-1975-Q2

Indicator	Number of Fore-casters ^a	Q1 74		Q2 74		Q3 74		Q4 74		Q1 75		Q2 75		Q3 75		Q4 75	
		to	to	to	to	to	to	to	to	to	to	to	to	to	to	to	to
1. Gross national product (bil.)	53	+1.8	+2.2	+2.3	+2.3	+2.3	+2.3	+2.3	+2.3	+2.3	+2.3	+2.3	+2.3	+2.3	+2.3	+2.3	+2.3
2. GNP implicit price deflator (1958=100)	53	+2.1	+2.1	+2.1	+1.9	+1.7	+1.7	+1.7	+1.7	+1.7	+1.7	+1.7	+1.7	+1.7	+1.7	+1.7	+1.7
3. GNP in constant dollars (bil. 1958 \$) ^b	53	-0.3	0.0	+0.4	+0.4	+0.6	+0.6	+0.6	+0.6	+0.6	+0.6	+0.6	+0.6	+0.6	+0.6	+0.6	+0.6
4. Industrial production (1967 = 100)	50	+0.3	+0.6	0.0	0.0	+0.8	+0.8	+0.8	+0.8	+0.8	+0.8	+0.8	+0.8	+0.8	+0.8	+0.8	+0.8
5. Unemployment rate (per cent) ^c	53	-0.1	+0.3	+0.3	+0.3	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1
6. Corporate profits after taxes (\$ bil.)	49	+3.8	-2.2	-3.7	-3.7	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5
7. Plant and equipment expenditures OBE-SEC (\$ bil.)	48	+3.1	+2.4	+2.1	+2.1	+2.9	+2.9	+2.9	+2.9	+2.9	+2.9	+2.9	+2.9	+2.9	+2.9	+2.9	+2.9
8. New private housing units started (ann. rate mil.)	50	-3.7	-4.3	+0.7	+0.7	+7.3	+7.3	+7.3	+7.3	+7.3	+7.3	+7.3	+7.3	+7.3	+7.3	+7.3	+7.3
9. Change in bus. inventories, GNP accounts (\$ bil.) ^d	50	-1.8	-4.5	-1.2	-1.2	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
10. Consumer expenditures for durable goods (\$ bil.)	48	+5.1	+2.2	+2.9	+2.9	+1.8	+1.8	+1.8	+1.8	+1.8	+1.8	+1.8	+1.8	+1.8	+1.8	+1.8	+1.8
11. National defense purchases, GNP accounts (\$ bil.)	51	+0.4	+1.6	+2.3	+2.3	+1.5	+1.5	+1.5	+1.5	+1.5	+1.5	+1.5	+1.5	+1.5	+1.5	+1.5	+1.5

SOURCE: Computed from Table 1.
^aThere are 1-2 fewer forecasters for 1975 Q1, Q2.
^bSee Table 1.
^cChange in rate, in percentage points.
^dChange in billions of dollars.

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

Estimated Probability (chances in 100)	Q2 74 to Q3 74	Q3 74 to Q4 74	Q4 74 to Q1 75	Q1 75 to Q2 75
Less than 1	0.0	1.9	1.9	7.4
1-10	1.9	3.7	22.2	40.7
11-20	5.6	16.7	29.6	22.2
21-30	14.8	22.2	25.6	16.7
31-40	24.1	31.5	11.1	7.4
41-50	29.6	16.7	7.4	1.9
51-60	9.3	5.6	1.9	1.9
61-70	7.4	0.0	0.0	0.0
71-80	3.7	1.9	0.0	1.9
81 and over	3.7	0.0	0.0	0.0
Median probability	42	32	19	11
Mean probability	45.6	34.8	23.8	18.6

SOURCE: American Statistical Association and National Bureau of Economic Research Business Outlook Survey, August 1974.

NOTE: The total number of forecasters included is 54.

**TABLE 4 Mean Probability Distributions of Changes in
GNP and Prices, 1973-1974**

Item	Mean Probability Attached to Possible Per Cent Changes, 1973-1974	
	GNP in Current \$	Implicit Price Deflator
+12.0 or more	0.6	0.9
+11.0 to +11.9	2.1	3.5
+10.0 to +10.9	5.0	22.0
+9.0 to +9.9	16.3	50.7
+8.0 to +8.9	44.6	17.5
+7.0 to +7.9	23.2	4.8
+6.0 to +6.9	4.8	0.5
+5.0 to +5.9	1.2	0.1
+4.0 to +4.9	0.2	0.0
+3.0 to +3.9	0.0	0.0
+2.0 to +2.9	0.0	0.0
+1.0 to +1.9	0.0	0.0

SOURCE: American Statistical Association and National Bureau of Economic Research, Business Outlook Survey, August 1974.

NOTE: The total number of forecasters included is 51.

TABLE 5 Forecasting Methods Used

Item	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	41	13	27	9	3	2	0
Leading indicators	34	20	4	17	5	7	1
Anticipations surveys	27	27	0	9	14	2	2
Econometric model (outside)	33	21	7	14	6	5	1
Econometric model (own)	14	40	9	2	1	1	1
Other methods	5	39	4	0	1	0	0

SOURCE: American Statistical Association and National Bureau of Economic Research, Business Outlook Survey, August 1974.

TABLE 6 Forecasters' Affiliation

Primary Affiliation	Number of Forecasters
Manufacturing	14
Commercial banking	7
Other financial institutions	5
Consulting or research	7
Merchandising	0
Trade association	1
Academic	8
Government	4
Labor union	0
Other	8
Total	54

SOURCE: American Statistical Association and National Bureau of Economic Research, Business Outlook Survey, August 1974.

TABLE 7 Key Assumptions Underlying Forecasts

Assumptions	Number of Forecasters
Energy Problem	
No new embargo	3
Shortages	5
No shortage, but price increase	3
No shortages	2
No price change	2
Price decrease	2
Monetary Policy	
Unchanged	5
Moderately tight	16
Tight but easing by year end	8
Tight but no crunch	2
Too tight	2
Increase in money supply:	
5.5-6.5%	4
6-8%	3
at least 7%	1
Fiscal Policy	
No change	5
No change in tax policy	25
Some investment incentives	2
Substantial cut in spending	3
No cut in spending	3
Moderate deficit	3
Incomes Policy	
No new controls	13
No new "policy"	3
Some guidelines	3
Other Assumptions	
Coal and other strikes	1
No major strikes	5
Presidential shift will have no effect	2
Presidential shift will benefit economy	1
No energy crisis	1
No monetary crisis	1
No collapse of banking system	1
No new disasters	1

SOURCE: American Statistical Association and National Bureau of Economic Research, Business Outlook Survey, August 1974.

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.

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SCHOOLING, EXPERIENCE, AND EARNINGS

Jacob Mincer

In this seminal attempt at a systematic analysis of personal income distribution, Jacob Mincer seeks to illuminate relationships between schooling investments and earnings over the life cycle. These findings are contrasted with the effect job training and other human capital investments have upon the individual's earning ability. Conclusions reached include the following—where age and work experience are statistically separable, increases in earnings are due more to experience than to age, and rates of return on investment in schooling decline as the schooling level rises.

A DISEQUILIBRIUM MODEL OF DEMAND FOR FACTORS OF PRODUCTION

M. Ishaq Nadiri and Sherwin Rosen

This volume presents a systematic investigation of investment, employment, utilization rates, and inventories in manufacturing industries since World War II. The authors develop and estimate a dynamic model for all input demand functions, allowing interactions among these variables over time. This model provides a framework for interpreting and estimating demand functions for labor, capital, and inventories, and for examining the role of utilization rates in these functions as well as explaining variations in these utilization rates.

THE ROLE OF THE COMPUTER IN ECONOMIC AND SOCIAL RESEARCH IN LATIN AMERICA

Nancy D. Ruggles, editor

The computer has radically changed the technology of data processing, storage, and retrieval, and has had significant effects on research methodology in both macro- and microeconomics. These articles provide a contemporary overview of the role of the computer, its almost limitless possibilities, and the day-to-day frustrations and achievements as economists and social scientists interact with programmers to advance the frontiers of research.

ESSAYS IN THE ECONOMICS OF CRIME AND PUNISHMENT

Gary S. Becker and William M. Landes, editors

An unusual and pathbreaking group of essays which approaches the systematic study of law enforcement as an economic problem. The core of the economic approach to enforcement, the studies indicate, is the application of the principle of scarcity. From the fundamental notion of scarcity together with the specification of decision rules for governments and individuals, the economic theory of resource allocation can be used to analyze enforcement, provide insights into the operation of the legal system, and derive testable hypotheses for empirical analysis.

FORECASTS WITH QUARTERLY MACROECONOMETRIC MODELS

Yoel Haitovsky, George Treyz, and Vincent Su

In this exhaustive statistical study the authors analyze the models and forecasts of the Office of Business Economics and the Wharton School of Finance and Commerce. Their findings lead them to warn against overselling the reliability of forecasts made with structural quarterly macroeconomic models in preference to predictions made by using other forecasting techniques. The appendix material appears in microfiche.

INCOME INEQUALITY: REGIONAL ANALYSES WITHIN A HUMAN CAPITAL FRAMEWORK

Barry R. Chiswick

This human capital analysis focuses on differences in the amount of investment in schooling and in the rate of return from this investment, to explain variations in inequality of labor income in the United States and other countries. The study confirms the hypotheses that income inequality is larger the higher the rate of return from schooling and the greater the inequality of schooling.