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ASA/NBER Business Outlook Survey: Third 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.

Higher levels of economic activity in the year ahead are being predicted now than three months ago, indicating some rise in optimism among the forecasters and putting an end to a string of downward forecast revisions in 1974-1975. An increase of 6.1 percent in real GNP is expected between the second quarter of 1975 and the second quarter of 1976, according to the median forecast from the August 1975 survey of the Business and Economic Statistics Section of the American Statistical Association. The rise in the nation's output of goods and services predicted for the same period in the May 1975 survey was 5.3 percent. The corresponding forecasts of inflation (relative increase in the GNP implicit price deflator) have remained virtually unchanged: 5.8 percent in the May survey, 5.9 percent in the new (August) survey. The quarterly ASA surveys, conducted regularly since 1968, represent the views of about 50 members, including those of many leading economic forecasters. In summer the number of submitted predictions usually declines (39 participated in August). The results of the surveys are evaluated for the

ASA by the National Bureau of Economic Research, an independent nonprofit research institution, as part of its program of collection and study of economic forecasts conducted by Dr. Charlotte Boschan of the NBER and Professor Victor Zarnowitz of the Graduate School of Business of the University of Chicago and the NBER.

THE EXPECTED PACE OF THE RECOVERY

The average gain in real GNP will be about 1.5 percent in each of the five quarters from the current one through Q3 1976, and the total advance during this 15-month period is estimated to be slightly over 7.6 percent. Industrial production gains will be larger: 2.3 percent per quarter and 12 percent for the total period. The unemployment rate is expected to decline gradually as follows (in percent of labor force):

Q2 1975	8.9	(9.0)	Q1 1976	8.4	(8.6)
Q3 1975	8.6	(9.1)	Q2 1976	8.1	(8.4)
Q4 1975	8.5	(9.0)	Q3 1976	7.8	(n.a.)

The figures in parentheses represent the corresponding median forecasts from the May 1975 survey; it will be noticed that they are systematically higher. In sum, expectations of a moderate recovery tend to dominate the current forecasts. (In the past, forecasters have generally underestimated rather than overestimated the growth of the economy in the recovery phases of the business cycle.)

SOURCES OF STRENGTH AND WEAKNESS

Consumer spending is viewed as the main force behind the impending recovery. Household expenditures for durable goods are expected to increase at the average rate of 3.5 percent per quarter, total GNP at slightly less than 3.0 percent (about half of that representing inflation). Housing starts, in million units at annual rates, will increase from 1.06 in Q2 1975 to 1.71 in Q3 1976. Housing starts have dropped to such an extraordinarily depressed level that even this very large gain of 61.3 percent will not restore them to the levels prevailing in 1971-1973. Business fixed investment is seen as a weak area. Unlike the other expenditure categories covered, plant and equipment outlays are expected to decline rather than rise in the third quarter of 1975. They should then increase, at rates of 1.7, 1.7, 2.2, and 2.9 percent per quarter, for a total advance of 8.7 percent during the period October 1975-September 1976. This is much less than the estimated concurrent rise in

GNP (12.3 percent), and in real terms the gain may be just 2½ to 3 percent. In the year 1975 as a whole, business expenditures for new plant and equipment will grow nominally by only 1.6 percent (GNP, by 4.6 percent). The drop in after-tax corporate profits, which started late in 1974, is anticipated to reverse sharply in mid-1975. In 1975 profits will be nearly 24 percent lower than in 1974, but they will rise from \$61.5 billion (annual rate) in Q2 1975 to \$84 billion in Q3 1976—a gain of more than 36 percent. Forecasters also predict a sharp upturn in the change in business inventories, from a nadir of \$-33.7 billion (annual rate) in Q2 1975 to \$-11.1 billion in the current quarter, and from \$6.7 billion to \$9.6 billion in the corresponding quarters next year. Such a development would restore business inventory investment approximately to its 1971–1972 levels.

KEY ASSUMPTIONS

Few forecasters assume that monetary policy will be "tight"; most of those reporting their working premises expect a "moderately easy" policy—one in which the money supply (M1) will grow by 5 to 7½ percent per annum or more. The most frequent assumption about fiscal policy is that the tax reduction act will be extended. More survey participants expect the federal budget deficit to be "large" (in excess of \$60 billion) rather than "limited" (held to \$60 billion). Most anticipate oil price increases (some note the likelihood of decontrols), but none hint that these increases will be "drastic" or that a threat of a new "energy crisis" is being considered; indeed, a few respondents explicitly rule out such emergencies.

TABLE 1 Projections of GNP and Other Economic Indicators, 1975-1976 Q3

Indicator	Number of Fore-casters	1975		Forecast				Annual	
		Actual	Q2	Q3	Q4	Q1	Q2	Q3	Actual 1974
1. Gross national product (\$bil.)	39	1433.5	1476	1522	1566	1611	1658	1397.4	1462.0
2. GNP implicit price deflator (1958 = 100)	39	183.9	186.7	189.6	192.3	194.8	197.8	170.2	185.4
3. GNP in constant dollars (bil. 1958 \$) ^a	39	779.4	790	802	816	827	839	821.2	787.8
4. Industrial production (1967 = 100)	38	109.8	112	114	117	120	123	124.8	111.85
5. Unemployment rate (percent)	38	8.9	8.6	8.5	8.4	8.1	7.8	5.6	8.6
6. Corporate profits after taxes (\$bil.)	37	61.5 ^b	65.5	70.4	74.9	79.0	84.0	85.0	64.9
7. Plant & equipment expenditures OBE-SEC (\$bil.)	34	113.4 ^r	112.6	114.5	116.4	119.0	122.4	111.92	113.76
8. New private housing units started (ann. rate mil.)	36	1.06	1.18	1.33	1.45	1.60	1.71	1.336	1.14
9. Change in bus. inventories, GNP accounts (\$bil.)	37	-33.7	-11.1	.7	3.7	6.7	9.6	14.2	-15.8
10. Consumer expenditures for durable goods (\$bil.)	38	130.0	135.1	138.3	142.4	147.2	152.9	127.5	132.1
11. National defense purchases, GNP accounts (\$bil.)	38	85.4	86.9	89.5	90.9	92.2	93.5	78.7	86.6

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

TABLE 2 Projected Percentage Changes in GNP and Other Economic Indicators, 1975-1976 Q3

Indicator	Number of Forecasters	Q1 75	Q2 75	Q3 75	Q4 75	Q1 76	Q2 76	1974
		to Q2 75	to Q3 75	to Q4 75	to Q1 76	to Q2 76	to Q3 76	to 1975
1. Gross national product (\$bil.)	39	+1.2	+3.0	+3.1	+2.9	+2.9	+2.9	+4.6
2. GNP implicit price deflator (1958 = 100)	39	+1.3	+1.5	+1.6	+1.4	+1.3	+1.5	+8.9
3. GNP in constant dollars (bil. 1958 \$) ^a	39	-0.1	+1.4	+1.5	+1.7	+1.3	+1.5	-4.1
4. Industrial production (1967 = 100)	38	-1.6	+2.0	+1.8	+2.6	+2.6	+2.5	-10.4
5. Unemployment rate (percent) ^b	38	+0.5	-0.3	-0.1	-0.1	-0.3	-0.3	+3.0
6. Corporate profits after taxes (\$bil.)	37	-1.3	+6.5	+7.5	+6.4	+5.5	+6.3	-23.6
7. Plant and equipment expenditures OBE-SEC (\$bil.)	34	-1.0	-0.7	+1.7	+1.7	+2.2	+2.9	+1.6
8. New private housing units started (ann. rate, mil.)	36	+6.5	+11.3	+12.7	+9.0	+10.3	+6.9	-14.6
9. Change in bus. inventories, GNP accounts (\$bil.) ^c	37	-14.5	+22.6	+10.4	+3.0	+3.0	+2.9	-30.0
10. Consumer expenditures for durable goods (\$bil.)	38	+4.1	+3.9	+2.4	+3.0	+3.4	+3.9	+3.6
11. National defense purchases, GNP accounts (\$bil.)	38	+0.8	+1.8	+3.0	+1.6	+1.4	+1.4	+10.0

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 75		Q3 75		Q4 75		Q1 76		Q2 76	
	to	Q3 75	to	Q4 75	to	Q1 76	to	Q2 76	to	Q3 76
Less than 1										
1-10	8		11		9		10		26	
11-20	18		22		22		14		13	
21-30	10		2		5		11		0	
31-40	2		4		2		1		0	
41-50	1		0		1		2		0	
51-60	0		0		0		1		0	
61-70	0		0		0		0		0	
71-80	0		0		0		0		0	
81 and over	0		0		0		0		0	
Median probability (chances in 100)										
Mean probability (chances in 100)	7		5		5		8		0	
	10.8		8.3		8.6		11.4		0.5	

SOURCE: American Statistical Association and National Bureau of Economic Research, Business Outlook Survey, August 1975.
NOTE: The total number of forecasters included is 39.

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

Percent Changes 1974-1975	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	0.1
+14.0 to +14.9	0.0	0.3
+13.0 to +13.9	0.0	0.8
+12.0 to +12.9	0.0	0.9
+11.0 to +11.9	0.1	1.9
+10.0 to +10.9	0.3	8.9
+ 9.0 to + 9.9	1.9	35.5
+ 8.0 to + 8.9	2.3	35.4
+ 7.0 to + 7.9	3.5	10.0
+ 6.0 to + 6.9	11.5	4.7
+ 5.0 to + 5.9	26.2	1.4
+ 4.0 to + 4.9	39.5	0.1
+ 3.0 to + 3.9	12.3	0
+ 2.0 to + 2.9	2.4	0

SOURCE: American Statistical Association and National Bureau of Economic Research, Business Outlook Survey, August 1975.
NOTE: The total number of forecasters included is 39.

TABLE 5 Forecasting Methods Used

Method	Number of Forecasters		Number of Forecasters Using Each Method Who Ranked It								
	Using	Not Using	Most Important	Second		Third		Fourth		Fifth	
				Most Important	Most Important	Most Important	Most Important	Most Important	Most Important		
Informal GNP model	25	14	3	13	6	2	1				
Leading indicators	18	21	1	8	6	3	0				
Anticipations surveys	4	35	2	2	0	0	0				
Econometric model (outside)	29	10	17	5	4	3	0				
Econometric model (own)	20	19	4	8	5	1	2				
Other methods	25	14	10	6	3	6	0				

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

TABLE 6 Forecasters' Affiliation

Primary Affiliation	Number of Forecasters
Manufacturing	9
Commercial banking	6
Other financial institutions	4
Consulting or research	6
Merchandising	0
Trade association	0
Academic	7
Government	2
Labor union	0
Other	5
Total	39

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

TABLE 7 Key Assumptions Underlying Forecasts

Assumption	Number of Forecasters
Energy Problem	
Oil price increases	20
Oil prices decontrolled	9
No energy crisis	5
No drastic increase in oil prices	2
Monetary Policy	
No change in policy	2
Expansion of M1	
5-7.5 percent	9
more than 7.5 percent	7
Tight monetary policy	5
Moderately easy monetary policy	11
Fiscal Policy:	
No change in policy	9
Tax reduction act extended	16
Budget deficit limited (\$60 billion)	4
Budget deficit large (more than \$60 billion)	8
No additional tax cuts	2
Investment tax cuts	2
Incomes Policy	
No change in incomes policy	2
No wage and price controls	5
Other assumptions	
Good crop season	
No wars	4
No strikes (major)	9
Limits on grain exports	5
	2

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