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Volume Title: Explorations in Economic Research, Volume 2, number 1

Volume Author/Editor: NBER

Volume Publisher: NBER

Volume URL: <http://www.nber.org/books/moor75-1>

Publication Date: December 1975

Chapter Title: ASA/NBER Business Outlook Survey: Fourth Quarter 1974

Chapter Author: ASA/NBER

Chapter URL: <http://www.nber.org/chapters/c9458>

Chapter pages in book: (p. 112 - 124)

ASA/NBER Business Outlook Survey: Fourth 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.

Economists professionally engaged in forecasting business and financial developments in the United States are now in substantial agreement that the nation finds itself in the midst of a serious and still deepening recession, which is expected to bottom out in the first half of 1975. The recovery to follow in the second half will not be vigorous: the majority of the forecasters predict that real GNP and industrial production at the end of 1975 will be below the peak levels of late 1973. At the same time, a significant gain is anticipated on the inflation front in the form of a decline in the annual rate of increase in the GNP implicit price deflator from nearly 12 per cent in the third quarter 1974 to about 7 per cent a year later.

These are among the main results of the latest quarterly survey of the Business and Economic Statistics Section of the American Statistical Association. The ASA panel includes many of the leading economic forecasters. Its predictions are evaluated for the ASA by the National Bureau of Economic Research, an independent nonprofit research institution, as part

of a continuing program of collection and study of economic forecasts conducted by Dr. Charlotte Boschan of NBER and Professor Victor Zarnowitz of the Graduate School of Business of the University of Chicago and NBER.

THE EXPECTED DECLINE AND RISE IN REAL GNP

GNP in current dollars will rise from \$1,398 billion in 1974 to \$1,512 billion in 1975, that is, by 8.1 per cent or at about the same rate as between 1973 and 1974. However, after allowing for inflation, both the current year and the next will mark declines in the nation's output of goods and services. According to the median forecast from the survey, real GNP in 1974 will be \$823.6 billion in 1958 prices, down 1.9 per cent from the 1973 level, and real GNP in 1975 will be \$816.7 billion, down 0.8 per cent from the 1974 level. These figures represent a much more pessimistic outlook for the economy's near future than was expressed in the August ASA-NBER survey.

The quarterly forecasts of constant-dollar GNP project the largest declines (averaging 1.1 per cent per quarter) for the last three months of 1974; in the first quarter of 1975, the median decline predicted is 0.6 per cent, similar to that experienced in the third quarter of 1974. Thereafter, real GNP is expected to turn up and start rising, first slowly and then gradually picking up speed; in Q2, Q3, and Q4 1975, the projected rises are 0.4, 0.7, and 1.2 per cent per quarter, respectively.

MORE ON THE SIZE AND SHAPE OF RECESSION AND RECOVERY

Industrial production, which declined less than constant-dollar GNP in the first nine months of 1974, is expected to fall faster in the subsequent phase of the recession. The projected average quarterly changes in the index of output of manufacturing, mining, and public utilities are -1.9, -1.6, and 0 per cent in Q4 1974, Q1 1975, and Q2 1975, respectively. In the last two quarters of 1975, industrial production (1967 = 100) will increase from a low point of 121 to 123 and 125 (i.e., at rates of about 1.6 per cent per quarter).

The rate of unemployment is seen as rising to 6.9 per cent of the labor force in the first quarter of 1975, and to 7.3 per cent in the second. The median forecasts from the survey then imply a slow improvement, with

unemployment reduced to 7.2 and 7.0 per cent in the third and fourth quarters.

Sharp drops in corporate profits after taxes (in current dollars), averaging 9 per cent per quarter, are expected in October-December 1974 and January-March 1975. The slump will bring profits down from \$95 billion in the third quarter of 1974 to \$74 billion in the second quarter of 1975. By the end of 1975 profits will improve (to \$79 billion), but for the year as a whole they are anticipated to fall by 11.6 per cent as compared with 1974. (In contrast, the change in corporate after-tax profits during 1974 is now estimated at +19.1 per cent.)

OUTLOOK FOR BUSINESS INVESTMENT, CONSUMER CAPITAL OUTLAYS, AND DEFENSE SPENDING

Through mid-1975, current-dollar business expenditures for plant and equipment will rise at quarterly rates varying between 1.1 and 2.1 per cent—lower than the corresponding estimated rates of inflation. In the second half of 1975, investment of this type is seen as gaining by 1.7 per cent per quarter, which is about the rate of the projected increase in the general price level during the same period.

The cyclical contraction in business inventory investment will continue through the second quarter of 1975, to end at a trough figure of \$3.2 billion (annual rate). Note that the change in business inventories at this point, while small, is still positive (no absolute decline in stocks is projected). An increase to \$6 billion or slightly more should follow in the second half of 1975, but for the year as a whole this component of GNP would register a decline of nearly \$7 billion.

The forecasters set housing starts at an annual rate of 1.1 million in the last quarter of 1974, and see a subsequent gradual increase in the starts, which will bring them up to 1.6 million units at the end of 1975. The total in 1975 will be a fraction higher (0.8 of one per cent) than the estimated total of 1.37 million units in 1974 (but, let us recall, the latter figure is nearly 33 per cent below that for 1973).

Consumer expenditures for durable goods which, in current dollars, reached a current high value of \$136 billion in the third quarter of 1974, are expected to fall slightly, to levels around \$130 billion, in Q4 1974 and Q1 1975, then to rise slowly to \$140 billion in Q4 1975. Here the dollar gains projected for the second half of 1975 exceed the corresponding forecasts of inflation, thus implying some increases in the constant-dollar volume of these outlays.

National defense purchases are forecast to rise by 4.3 per cent in 1974, 6.7 per cent in 1975.

PROBABILITIES AND ASSUMPTIONS

Forecasters estimate the chances that the decline in real GNP will continue in the first quarter of 1975 as very high (74 in 100 according to the mean of the assessed probability distribution), but they view the chances that it will last beyond mid-1975 as rather low (the means are 49, 28, and 18 for Q2, Q3, and Q4 1975, respectively).

Virtually all of the estimates of the probable change in the implicit price deflator, 1974-75, lie in the range of 8 to 11.9 per cent p.a., with 32 and 44 chances in 100 attached to the inflation ranges of 9 to 9.9 and 10 to 10.9 per cent, respectively.

Most forecasters assumed "continued easing" in monetary policy. The prevailing expectations on fiscal policy were either "no change" or "more expansionary" (larger deficit, tax cut).

TABLE 1 Projections of GNP and Other Economic Indicators, 1974-1975-Q4

Indicator	Number of 1974 Fore-Actual casters		Forecast 1975				Actual 1973	Annual Forecast 1974	Forecast 1975	
	Q3	Q4	Q1	Q2	Q3	Q4	1973	1974	1975	
1. Gross national product (\$ bil.)	53	1415.4	1436	1459	1491	1529	1568	1294.9	1398.5	1511.7
2. GNP implicit price deflator (1958 = 100)	52	172.0	176.4	180.2	183.7	186.8	189.9	154.3	169.8	185.2
3. GNP in constant dollars (\$ bil. 1958)	51	822.7	814 ^a	809 ^a	812 ^a	818 ^a	828 ^a	839.2	823.6	816.7 ^a
4. Industrial production (1967 = 100)	50	125.4	123	121	121	123	125	125.6	124.7	122.5
5. Unemployment rate (per cent)	53	5.5	6.4	6.9	7.3	7.2	7.0	4.9	5.6	7.1
6. Corporate profits after taxes (\$ bil.)	46	94.9	86.2	78.5	74.1	75.2	79.1	72.9	86.8	76.7
7. Plant and equipment expenditures OBE-SEC (\$ bil.)	45	113.0 ^b	115.4	117.7	119.0	121.0	123.0	100.08	111.77	120.2
8. New private housing units started (ann. rate mil.)	50	1,201	1,100	1,130	1,310	1,500	1,600	2,042	1,374	1,385
9. Change in bus. inventories GNP accounts (\$ bil.)	47 ^c	8.7	6.3	3.8	3.2	5.8	6.4	15.4	11.4	4.8
10. Consumer expenditures for durable goods (\$ bil.)	49	136.1	130.7	129.7	132.4	136.7	140.5	130.3	130.0	134.8
11. National defense purchases, GNP accounts (\$ bil.)	47	78.4	79.7	80.9	81.8	83.4	85.0	74.4	77.6	82.8

SOURCE: American Statistical Association and National Bureau of Economic Research. Median Forecasts of Business Outlook Survey, December 1974.
^aMedian of individual forecasts of real GNP derived from predicted current dollar GNP and the price deflator.
^bAnticipated.
^cFor some quarters, there were only 42 forecasters.

TABLE 2 Projected Percentage Changes in GNP and Other Economic Indicators, 1974-1975-Q4

Indicator	Number of Fore- casters	Q2 74	Q3 74	Q4 74	Q1 75	Q2 75	Q3 75	Q4 75	1973 to 1974	1974 to 1975
		to Q3 74	to Q4 74	to Q1 75	to Q2 75	to Q3 75	to Q4 75	to Q4 75	to 1974	to 1975
1. Gross national product (\$ bil.)	53	+2.3	+1.5	+1.6	+2.2	+2.5	+2.6	+8.0	+8.1	+8.1
2. GNP implicit price deflator (1958 = 100)	52	+2.8	+2.6	+2.2	+1.9	+1.7	+1.7	+10.0	+9.1	+9.1
3. GNP in constant dollars (\$ bil. 1958) ^b	51	-0.5	-1.1	-0.6	+0.4	+0.7	+1.2	-1.9	-0.8	-0.8
4. Industrial production (1967 = 100)	50	-0.1	-1.9	-1.6	0.0	+1.7	+1.6	-0.7	-1.8	-1.8
5. Unemployment rate (per cent) ^c	53	+0.4	+0.9	+0.5	+0.4	-0.1	-0.2	+0.7	+1.5	+1.5
6. Corporate profits after taxes (\$ bil.)	46	+14.2	-9.2	-8.9	-5.6	+1.5	+5.2	+19.1	-11.6	-11.6
7. Plant and equipment expenditures OBE-SEC (\$ bil.)	45	+1.4	+2.1	+2.0	+1.1	+1.7	+1.7	+11.7	+7.5	+7.5
8. New private housing units started (ann. rate mil.)	50	-23.3	-8.4	+2.7	+15.9	+14.5	+6.7	-32.7	+0.8	+0.8
9. Change in bus. inventories, GNP accounts (\$ bil.) ^d	47 ^a	-4.8	-2.4	-2.5	-0.6	+2.6	+0.6	-4.0	-6.6	-6.6
10. Consumer expenditures for durable goods (\$ bil.)	49	+5.1	-4.0	-0.8	+2.1	+3.2	+2.8	-0.2	+3.7	+3.7
11. National defense purchases, GNP accounts (\$ bil.)	47	+2.3	+1.7	+1.5	+1.1	+2.0	+1.9	+4.3	+6.7	+6.7

SOURCE: Computed from Table 1.

^aFor some quarters there are only 42 forecasters.

^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)	Q3 74 to Q4 74		Q4 74 to Q1 75		Q1 75 to Q2 75		Q2 75 to Q3 75		Q3 75 to Q4 75	
	Number of Forecasts									
Less than 1	0		0		0		1			1
1-10	0		0		0		10			20
11-20	0		0		3		10			10
21-30	0		1		9		15			11
31-40	0		1		11		9			4
41-50	2		5		13		7			1
51-60	3		12		7		0			0
61-70	5		7		3		0			0
71-80	8		9		4		0			1
81 and over	35		18		3		1			0
Median probability (chances in 100)	92		72		44		24			11
Mean probability (chances in 100)	88.5		74.1		48.9		28.2			17.9

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

NOTE: The total number of forecasters included is 53.

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
+ 16 or more	0.0	0.0
+ 15.0 to +15.9	0.0	0.0
+ 14.0 to +14.9	0.0	0.2
+ 13.0 to +13.9	0.1	0.5
+ 12.0 to +12.9	0.3	1.9
+ 11.0 to +11.9	0.7	6.3
+ 10.0 to +10.9	2.2	45.5
+ 9.0 to +9.9	11.4	32.9
+ 8.0 to +8.9	42.2	10.8
+ 7.0 to +7.9	35.0	1.4
+ 6.0 to +6.9	7.1	0.3
+ 5.0 to +5.9	0.8	0.1
+ 4.0 to +4.9	0.2	0.1
+ 3.0 to +3.9	0.0	0.0
+ 2.0 to +2.9	0.0	0.0

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

NOTE: The total number of forecasters included is 49.

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	35	16	23	7	3	2	0
Leading indicators	33	18	2	19	7	5	0
Anticipations surveys	26	25	1	12	10	1	0
Econometric model (outside)	29	23	2	16	7	4	2
Econometric model (own)	14	37	7	6	0	4	0
Other methods	7	44	3	3	0	1	0

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

TABLE 6 Forecasters' Affiliation

Primary Affiliation	Number of Forecasters
Manufacturing	15
Commercial banking	6
Other financial institutions	6
Consulting or research	6
Merchandising	0
Trade association	1
Academic	8
Government	4
Labor union	0
Other	7
Total	53

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

TABLE 7 Key Assumptions Underlying Forecasts

Assumptions	Number of Forecasters
Energy Problem	
No new embargo	10
No crisis	4
Moderate shortages	3
Rationing, reduced consumption	5
Tax increase	2
No rationing, no tax increase	2
No price changes	3
Persisting problem, no solution	2
Monetary Policy	
Moderately tight	3
Continued easing	31
Fiscal Policy	
No change	8
More expansionary, larger deficit	8
No change in tax policy	15
Tax cut	10
Investment tax credit	2
Tax increase	2
Tax reform	2
Public employment measure	3
Incomes Policy	
No controls	14
No policy	4
Some guidelines	4
Other assumptions	
No Mid-East war	13
No major strikes	4
Coal strike to end in 30 days	3

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

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