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## **ASA/NBER Business Outlook Survey: First 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.*

Professional forecasters of business developments have substantially lowered their estimates of the levels of real GNP, industrial production, and other measures of U.S. economic activity for each quarter of 1975, but they still expect that these indicators will stop declining in the second quarter of the year and start increasing, though quite slowly, in the second half. This can be inferred from the February 1975 survey of the Business and Economic Statistics Section of the American Statistical Association and the comparison of its results with those of the preceding (December 1974) survey. The quarterly ASA surveys are the consensus of about 50 members representing a cross-section of reputable economic forecasters. The 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 con-

ducted by Dr. Charlotte Boscharr of NBER and Professor Victor Zarnowitz of the Graduate School of Business of the University of Chicago and NBER.

### **RECESSION DEEPENING BUT ENDING; SLOW RECOVERY IN SECOND HALF OF 1975**

According to the medians of the individual member forecasts, GNP in current dollars will rise 6.6 per cent in 1975, considerably less than in 1974 when it increased about 8 per cent. The concurrent rise in the GNP implicit price deflator, however, is expected to be 9.9 per cent (somewhat higher than the 9.1 per cent rate of inflation predicted in December 1974). Thus the forecasters anticipate that real GNP will decline by 3 per cent in 1975, continuing the 2.2 per cent decline estimated for 1974. The quarterly median predictions of real GNP (in billions of 1958 dollars at annual rates) reach their lowest values in the first and second quarters of 1975 at \$791, then rise to \$807 in Q4 1975 and to \$818 in Q1 1976; the level for 1975 as a whole is \$796 billion. Should these forecasts prove correct, then a year from now constant-dollar GNP would still be about \$28 billion below its last peak value (\$845.7 billion in the last quarter of 1973). Similarly, the index of industrial production (1967 = 100) is seen as descending to a trough of 117 in the first and second quarters of 1975, then rising slowly to 123 in Q1 1976, and so remaining throughout below its last peak value (127 in Q4 1973). And the rate of unemployment is to stay at 8.2 per cent of the labor force in the second and third quarters of 1975, then to fall but slightly to 8 per cent in Q1 1976.

### **STAGNANT BUSINESS INVESTMENT; MODERATE INVENTORY ADJUSTMENT**

Expenditures on plant and equipment will increase by 4.4 per cent in 1975 as compared with a 12.2 per cent gain in 1974. Such a rise in the dollar volume of business capital outlays implies a decline in real terms (after allowing for the effects of inflation on costs of capital goods). Investment in business inventories, expressed in billions of dollars at annual rate, is seen as falling from \$14.4 in Q4 1974 to \$0.7 in Q2 1975, then rising slowly to \$8.0 in Q1 1976. Movements in this low range have often been associated with the recent business recessions, but it is worth noting that these median forecasts involve no actual *liquidation* of (i.e., negative change in) business inventories. Some observers, of course, anticipate such a liquidation, but the forecasts here considered predict a less painful and rather swift end to the current process of downward inventory adjustment.

### **EARLY BUT WEAK UPTURNS IN HOUSING AND CONSUMER DURABLES**

Housing starts in the first quarter of 1975 are expected to be at about the level of the preceding quarter (a little below 1 million units at annual rate), which is seen as their nadir in the current recession. The starts will then pick up and rise to 1.5-1.6 million units late in 1975 and early in 1976. In conformity with past cyclical patterns, then, residential construction will once more lead the other processes in the impending business recovery. However, the predicted upturn in housing starts is a weak one, accounting for a little less than half of the decline in 1973-1974. The starts in 1975 would still be 6 per cent lower than in 1974. Consumer expenditures for durable goods, measured in current dollars at annual rate, are forecast to increase from \$121.4 billion in Q1 1975 (down a mere fraction from the preceding quarter) to \$137.8 billion a year later. However, this would still leave these outlays about 0.7 of 1 per cent lower in 1975 than in 1974 and would certainly amount to a further decline when expressed in constant dollars.

### **CORPORATE PROFITS TO DECLINE LESS THAN IN EARLIER RECESSIONS**

Corporate profits after taxes, which reached a peak annual rate of \$94.3 billion in the third quarter of 1974, will fall in each of the next three quarters and reach their lowest level in this recession at slightly less than \$72 billion in Q2 1975, according to the median forecast from the February ASA/NBER survey. In previous recessions, the downturns in profits occurred much earlier, before rather than after the peak in general business activity, and the declines in profits were typically larger than the one now predicted. The different behavior of current-dollar profits in the present recession is presumably attributable mainly to inflation and its distorting effects on inventory valuation. In the second half of 1975, profits are expected to rise again, at first very slightly, to reach \$81 billion in Q1 1976; their level in the year 1975 as a whole is to be 14 per cent below that of 1974.

### **ASSUMPTIONS UNDERLYING THE FORECAST OF AN UPTURN**

With no recorded exceptions, the forecasters assume that fiscal policy will support the recovery by tax rebates and reductions, increased investment

credits, and larger government deficits. They generally foresee an expansionist monetary policy as well. Other assumptions, less frequently reported but apparently unopposed, are that there will be no new wage-price controls and no new oil embargo and military conflict. The views on the energy problem are more differentiated; some of the panelists anticipate increases in taxes on, and prices of, gasoline, but no rationing is expected and problems in this area do not seem to receive much emphasis. A rise of nearly 11 per cent in national defense purchases during the year 1975 is forecast.

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

Indicator	Number of Fore-casters <sup>a</sup>	1974		Forecast 1975			Annual Forecast		
		Actual	Q4	Q1	Q2	Q3	Q4	Actual 1974	Forecast 1975
1. Gross national product (\$bil.)	44	1428	1438	1464	1506	1548	1589	1396.7	1489.0
2. GNP implicit price deflator (1958 = 100)	45	177.7	181.7	185.4	188.7	191.9	194.6	170.1	186.9
3. GNP in constant dollars (bil. 1958 \$)	44	803.7	791 <sup>b</sup>	791 <sup>b</sup>	797 <sup>b</sup>	807 <sup>b</sup>	818 <sup>b</sup>	821.1	796.5 <sup>b</sup>
4. Industrial production (1967 = 100)	42	121.6	117	117	119	121	123	124.8	118.5
5. Unemployment rate (per cent)	37	6.5	8.0	8.2	8.2	8.1	8.0	5.6	8.13
6. Corporate profits after taxes (\$bil.)	42	82.7 <sup>c</sup>	72.9	71.7	72.4	76.8	81.0	85.8	73.45
7. Plant and equipment expenditures OBE-SEC (\$bil.)	40	114.4 <sup>d</sup>	115.3	116.0	117.0	119.0	120.5	111.92	116.82
8. New private housing units started (ann. rate mil.)	44	0.989	0.99	1.17	1.37	1.49	1.63	1.336	1.255
9. Change in bus. inventories, GNP accounts (\$bil.)	43	14.4	3.6	0.7	2.3	5.7	8.0	13.4	3.08
10. Consumer expenditures for durable goods (\$bil.)	43	121.5	121.4	123.8	127.7	134.5	137.8	127.8	126.85
11. National defense purchases, GNP accounts (\$bil.)	43	83.5	84.6	86.1	87.4	89.5	90.7	78.6	86.9

SOURCE: American Statistical Association and National Bureau of Economic Research, Median Forecasts of Business Outlook Survey, February 1975.  
<sup>a</sup>For some quarters, there were 1-3 fewer forecasters.  
<sup>b</sup>Median of individual forecasts of real GNP derived from predicted current dollar GNP and the price deflator.  
<sup>c</sup>Actual not available. Based on average forecast.  
<sup>d</sup>Anticipated.

**TABLE 2 Projected Percentage Changes in GNP and Other Economic Indicators, 1975-Q1 1976**

Indicator	Number of Fore- casters <sup>a</sup>	Q4 74	Q1 75	Q2 75	Q3 75	Q4 75	Q1 76	1973	1974
		to Q1 75	to Q2 75	to Q3 75	to Q4 75	to Q1 76	to Q1 76	to 1974	to 1975
1. Gross national product (\$ bil.)	44	+0.7	+1.8	+2.9	+2.8	+2.6	+7.9	+6.6	
2. GNP implicit price deflator (1958 = 100)	45	+2.2	+2.0	+1.8	+1.7	+1.4	+10.2	+9.9	
3. GNP in constant dollars (bil. 1958 \$) <sup>b</sup>	44	-1.6	0.0	+0.8	+1.3	+1.4	-2.16	-3.0	
4. Industrial production (1967 = 100)	42	-3.8	0.0	+1.7	+1.7	+1.7	-0.64	-5.0	
5. Unemployment rate (per cent) <sup>c</sup>	37	+1.5	+0.2	0.0	-0.1	-0.1	+0.7	+2.53	
6. Corporate profits after taxes (\$bil.)	42	-11.9	-1.6	+1.0	+6.1	+5.5	+17.70	-14.39	
7. Plant and equipment expenditures OBE-SEC (\$ bil.)	40	+0.8	+0.6	+0.9	+1.7	+1.3	+12.21	+4.4	
8. New private housing units started (ann. rate mil.)	44	+0.1	+18.2	+17.1	+8.8	+9.4	-34.57	-6.1	
9. Change in bus. inventories, GNP accounts (\$ bil.) <sup>d</sup>	43	-10.8	-2.9	+1.6	+3.4	+2.3	-2.0	-10.32	
10. Consumer expenditures for durable goods (\$ bil.)	43	-0.1	+2.0	+3.2	+5.3	+2.5	-1.92	-0.7	
11. National defense purchases, GNP accounts (\$ bil.)	43	+1.3	+1.8	+1.5	+2.4	+1.3	+5.65	+10.6	

SOURCE: Computed from Table 1.

<sup>a</sup>For some quarters, there were 1-3 fewer forecasters.

<sup>b</sup>See Table 1.

<sup>c</sup>Change in rate, in percentage points.

<sup>d</sup>Change in billions of dollars.

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

Estimated probability (chances in 100)	Q4 74	Q1 75	Q2 75	Q3 75	Q4 75
	to Q1 75	to Q2 75	to Q3 75	to Q4 75	to Q1 76
Less than 1	1	1	1	3	9
1-10	0	0	6	17	18
11-20	0	2	6	6	9
21-30	1	0	12	9	8
31-40	0	3	5	6	0
41-50	0	12	7	4	0
51-60	1	8	5	0	0
61-70	1	8	1	0	0
71-80	9	8	2	0	2
81 and over	33	4	1	1	0
Median probability (chances in 100)	92	57	29	15	8
Mean probability (chances in 100)	88.7	60.5	36.2	22.3	15.0

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

NOTE: The total number of forecasters included is 46.

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

Per Cent Changes 1974-1975	Mean Probability Attached to Possible Per Cent Changes, 1974-1975	
	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	0.0
+13.0 to +13.9	0.0	0.7
+12.0 to +12.9	0.1	2.8
+11.0 to +11.9	1.0	10.7
+10.0 to +10.9	2.0	25.3
+9.0 to +9.9	7.7	26.7
+8.0 to +8.9	15.4	18.3
+7.0 to +7.9	28.0	9.9
+6.0 to +6.9	22.3	4.4
+5.0 to +5.9	13.0	0.8
+4.0 to +4.9	6.8	0.3
+3.0 to +3.9	2.8	0.1
+2.0 to +2.9	1.1	0.0

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

NOTE: The total number of forecasters included is 41.

**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	32	14	25	4	1	2	0
Leading indicators	28	18	1	17	6	4	0
Anticipations surveys	26	20	1	10	11	3	1
Econometric model (outside)	26	20	2	12	6	5	1
Econometric model (own)	11	35	5	5	1	0	0
Other methods	6	40	3	3	0	0	0

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

**TABLE 6 Forecasters' Affiliation**

Primary Affiliation	Number of Forecasters
Manufacturing	12
Commercial banking	5
Other financial institutions	4
Consulting or research	9
Merchandising	0
Trade association	1
Academic	9
Government	3
Labor union	0
Other	3
Total	46

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

**TABLE 7 Key Assumptions Underlying Forecasts**

Assumption	Number of Forecasters
Monetary Policy	
Accommodating	20
Too restrictive	2
Increase in money supply	
5-6%	4
6-8%	4
8-10%	4
Energy Problem	
No new embargo	9
Increase in tax	5
Ford's program adopted	5
Tariff	4
No big taxes	3
Increase in prices	3
No rationing	3
Fiscal Policy	
Tax rebate	19
Tax cut	20
Increased investment credit	5
Large deficit	6
Other assumptions	
No wage-price controls	9
No incomes policy	2
No military conflict	9

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

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