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## **ASA/NBER Business Outlook Survey: Second Quarter 1977**

*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.*

Forecasters generally anticipate a moderately higher rate of inflation and a somewhat greater reduction in unemployment this year than they did three months ago, while their predictions of growth in real GNP show very little change. In the previous survey, released in February, the harsh freeze during the past winter has been correctly diagnosed as a disturbance that will have only transitory effect. Subsequent events included the cancellation of the tax rebate, which evoked mostly positive reactions from business spokesmen but may have increased caution on the part of consumers, and large price rises, which were adverse but not entirely unexpected and were also regarded largely as transitory. The most recent upward revision of the first-quarter growth rate came out too late to affect the present forecasts.

This report refers to the medians of detailed numerical predictions submitted in May 1977 by 41 members of the Business and Economic Statistics Section of

the American Statistical Association. The ASA surveys, which have been conducted quarterly since 1968, are designed to elicit the views of leading business, academic, and government economists whose professional duties include forecasting the near-term movements of the economy. Data from the surveys are analyzed for the ASA by the National Bureau of Economic Research, an independent nonprofit research institution. Dr. Charlotte Boschan of the NBER and Professor Victor Zarnowitz of the Graduate School of Business of the University of Chicago and NBER are responsible for these evaluations.

### **PROSPECTS FOR TOTAL SPENDING AND INFLATION**

GNP in current prices will rise above two trillion dollars early in 1978. The present consensus forecast (median of the most recent survey predictions) is that GNP will reach \$2,063 billion in Q2 1978, up 11.5 percent from \$1,851 billion in Q2 1977. The GNP implicit price deflator (1972 = 100) will rise from 140.5 to 149.2 in the same period, or by 6.2 percent. The same price index rose 5.2 percent in 1976 over 1975 and is projected to rise 5.8 percent in 1977 over 1976. Thus forecasters envisage an increase in the inflation rate, but this development is seen as fairly gradual rather than as threatening an impending rapid acceleration.

### **CONTINUING EXPANSION IN THE YEAR AHEAD**

GNP in 1972 dollars is expected to increase from \$1,317 billion in Q2 1977 to \$1,385 billion in Q2 1978, or by 5.2 percent. This would be the same growth rate as that recorded in 1975-1976 and somewhat less than the rates projected for the year 1977 relative to 1976 (5.8 percent in the present survey, 5.4 percent in the February survey). In the first half of 1978 real GNP will be growing more slowly according to the average of the survey responses, at annual rates between 4 and 5 percent.

Industrial production—output of factories, mines, and utilities—is expected to rise faster than the total product of the economy (real GNP). The index of industrial production is expected to gain 6.1 percent in 1976-1977 and 6.6 percent between Q2 1977 and Q2 1978.

### **UNEMPLOYMENT TO DECLINE, BUT SLOWLY**

The rates of joblessness predicted in the May survey are on the average about one-third of 1 percent lower than those predicted in February. But this appears

to be essentially a level adjustment reflecting the larger than expected drop in the unemployment rate since the winter freeze. About the pace at which unemployment is to decrease forecasters remain rather pessimistic (in fact, a little more so than they were in the February survey). The decline from 7.1 percent to 6.6 percent of the labor force between Q2 1977 and Q2 1978 is quite modest, consistent with the projected slowdown of real GNP growth to little more than 4 percent per annum in Q2 1978. Maintained growth of over 5 percent in national output is estimated to be needed for the unemployment-reduction goals of the Administration. The figures below compare the most recent median forecasts of the unemployment rates:

	Q1 1977	Q2 1977	Q3 1977	Q4 1977	Q1 1978	Q2 1978	1977
May 1977 survey	7.4 (act.)	7.1	7.0	6.8	6.7	6.6	7.0
February 1977 survey	7.8	7.5	7.3	7.0	6.9	n.a.	7.4

### STRENGTH IN BUSINESS INVESTMENT, CORPORATE PROFITS

Business expenditures on plant and equipment will register good gains in 1977 relative to 1976 (11.5 percent) and between Q2 1977 and Q2 1978 (14.2 percent). These rates of expansion in business capital outlays are not significantly different from those projected in the previous survey. After allowing for inflation, they indicate a constant-dollar gain of 7 to 8 percent in the year ahead, which is considerably more than the 5 percent expected growth in real GNP. Business investment, then, is definitely viewed as a source of strength for the economy in the near future.

Change in business inventories will rise strongly in the current and the next quarter, then vary little in the following three quarters through Q2 1978, as shown by the following figures (all in billions of current dollars at annual rates): 7.5 (Q2 1977), 11.4, 14.0, 14.7, 13.2, 14.8 (Q2 1978). At the end of this period, inventory investment would be just a little below its most recent peak values of mid-1976.

Corporate profits after taxes, at annual rates, will rise from about \$93 billion to \$104 billion during the year ahead (Q2 1977-Q2 1978) or by nearly 12 percent. The annual increase in 1976-1977 is estimated to be similar (12.7 percent). In the first two quarters of 1978, however, smaller gains in current-dollar profits of 7.4 and 8.7 percent at annual rates are foreseen.

### LIMITED GAINS IN CONSUMER DURABLES AND HOUSING

Expenditures for consumer durable goods will increase approximately 9 percent, from \$176 billion in Q2 1977 to nearly \$192 billion in Q2 1978, accord-

ing to the average forecasts from the May survey. In real terms, this would probably amount to a rise of less than 3 percent, much less than the expected gain in total constant-dollar GNP.

Housing starts will increase to an annual rate of 1.88 million units in the current quarter, as much as 6 percent above the Q1 1977 rate of 1.78 million, but will then vary narrowly between 1.93 and 1.96 million units in each of the four following quarters. The gain between Q2 1977 and Q2 1978 will therefore be a modest 3.7 percent.

These forecasts imply a major slowdown in the rates of growth in consumer capital outlays, as shown by the following predictions of increases in 1977 compared with 1976: +14 percent for expenditures on consumer durables, +22 percent for housing starts.

National defense purchases (current dollars) will rise above \$100 billion at an annual rate in 1978. Their growth will exceed 7 percent in 1976-1977, 9 percent in Q2 1977-Q2 1978.

### PROBABILITIES AND DISPERSION

The participants in the survey attach low probabilities to the onset of a recession during the year ahead. The distributions of their assessments of the probability that real GNP will decline have means increasing from 4 to 17 chances in 100 over the four quarters Q3 1977-Q2 1978.

All but 13 percent of the mean probability distribution of expected changes in the GNP price deflator between the years 1976 and 1977 fall in three intervals as follows: +5 to +5.9 percent, 41 (chances per 100); +6 to +6.9 percent, 34; and +7 to +7.9 percent, 12.

The dispersion of the forecasts is relatively small for most variables, even over the longest span, i.e., for Q2 1978. Thus, the first and third quartiles of the distribution of real GNP predictions for Q3 1977 are \$1,332 billion and \$1,340 billion, respectively, and the corresponding figures for Q2 1978 are \$1,375 billion and \$1,391 billion. (The quartiles bracket the central half of the predictions, leaving out the extreme top and bottom quarters of the distribution.) For the price level, similarly, the quartile forecasts are very close, e.g., 148.4 and 149.8 for Q2 1978. As usual, the dispersion is substantially greater in relative terms for the more volatile variables such as profits, business fixed investment and the change in inventories. In general, the median figures appear to represent well the consensus of many forecasters at the present time.

**ASSUMPTIONS**

Of the 25 respondents who referred to monetary policy, 10 assumed that it will continue unchanged, 8 that it will be more accommodative, and 7 that it will grow tighter toward the end of the forecast period. Nearly two-thirds (20) of those who referred to fiscal policy assumed that it will be in some degree stimulative.

**TABLE 1 Projections of GNP and Other Economic Indicators, Q1 1977-Q2 1978**

Indicator	No. of Fore-casters	Actual Q1 1977	Forecast				1978		Annual	
			Q2	Q3	Q4	Q1	Q2	Actual 1976	Forecast 1977	
Gross national product (\$ bil.)	40	1792.5	1851	1905	1960	2013	2063	1691.6	1877	
GNP implicit price deflator (1972 = 100)	40	138.2	140.5	142.5	144.7	146.9	149.2	133.8	141.5	
GNP in constant dollars (bil. 1972 \$)	38	1296.8	1317 <sup>a</sup>	1335 <sup>a</sup>	1355 <sup>a</sup>	1371 <sup>a</sup>	1385 <sup>a</sup>	1264.7	1325.8 <sup>a</sup>	
Industrial production (1967 = 100)	40	133.5	137	139	142	144	146	129.8	137.8	
Unemployment rate (%)	41	7.4	7.1	7.0	6.8	6.7	6.6	7.7	7.0	
Corporate profits after taxes (\$ bil.)	38	88.9 <sup>b</sup>	92.7	95.7	99.7	101.5	103.6	83.6	94.2	
Plant and equipment expenditures OBE-SEC (\$ bil.)	38	129.2 <sup>c</sup>	132.7	137.2	141.8	146.0	151.5	121.2	135.2	
New private housing units started (ann. rate mil.)	39	1.775	1.88	1.93	1.95	1.96	1.95	1.54	1.88	
Change in bus. inventories, GNP accounts (\$ bil.)	39	7.5	11.4	14.0	14.7	13.2	14.8	11.9	11.9	
Consumer expenditures for durable goods (\$ bil.)	39	173.4	176.0	180.1	184.0	188.0	191.6	156.5	178.4	
National defense purchases, GNP accounts (\$ bil.)	37	91.5	93.6	95.4	98.2	100.5	102.2	88.2	94.7	

SOURCE: American Statistical Association and National Bureau of Economic Research. Median. Forecasts of Business Outlook Survey, May 1977.  
<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 Percent Changes in GNP and Other Economic Indicators, Q1 1977-Q2 1978**

Indicator	No. of Fore-casters	Q177	Q277	Q377	Q477	Q178	1975	1976
		to Q277	to Q377	to Q477	to Q178	to Q278	to 1976	to 1977
Gross national product (\$ bil.)	40	3.3	2.9	2.9	2.7	2.5	11.6	11.0
GNP implicit price deflator (1972 = 100)	40	1.7	1.4	1.5	1.5	1.6	5.2	5.8
GNP in constant dollars (bil. 1972 \$) <sup>a</sup>	38	1.6	1.4	1.5	1.2	1.0	6.1	4.8
Industrial production (1967 = 100)	40	2.6	1.5	2.2	1.4	1.4	10.2	6.1
Unemployment rate (%) <sup>b</sup>	41	-0.3	-0.1	-0.2	-0.1	-0.1	-0.8	-0.7
Corporate profits after taxes (\$ bil.)	38	4.3	3.2	4.2	1.8	2.1	28.0	12.7
Plant and equipment expenditures								
OBE-SEC (\$ bil.)	38	2.7	3.4	3.4	3.0	3.8	7.5	11.5
New private housing units started (ann. rate mil.)	39	5.9	2.7	1.0	0.5	-0.5	32.8	22.2
Change in bus. inventories, GNP accounts (\$ bil.) <sup>c</sup>	39	3.9	2.6	0.7	-1.5	1.6	26.5	0
Consumer expenditures for durable goods (\$ bil.)	39	1.5	2.3	2.2	2.2	1.9	18.8	14.0
National defense purchases, GNP accounts (\$ bil.)	37	2.3	1.9	2.9	2.3	1.7	4.6	7.4

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)	Q1 77	Q2 77	Q3 77	Q4 77	Q1 78
	to Q2 77	to Q3 77	to Q4 77	to Q1 78	to Q2 78
	Number of forecasts				
Less than 1	30	20	13	5	3
1-10	10	19	20	20	17
11-20	0	1	7	9	11
21-30	1	1	0	5	6
31-40	0	0	1	0	2
41-50	0	0	0	2	1
51-60	0	0	0	0	1
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)	0	1	4	8	11
Mean probability (chances in 100)	1.6	4.0	7.6	13.3	16.8

SOURCE: American Statistical Association and National Bureau of Economic Research, Business Outlook Survey, May 1977.

NOTE: The total number of forecasters included is 41

**TABLE 4 Mean Probability Distributions of Changes in GNP and Prices, 1976-1977**

Percent Increases 1976-1977	Mean Probability Attached to Possible Percent Increases, 1976-1977	
	GNP in Current \$	Implicit Price Deflator
16 or more	0.0	0.0
15.0 to 15.9	0.1	0.0
14.0 to 14.9	0.9	0.0
13.0 to 13.9	3.6	0.0
12.0 to 12.9	13.3	0.0
11.0 to 11.9	34.1	0.1
10.0 to 10.9	30.1	0.2
9.0 to 9.9	10.0	1.1
8.0 to 8.9	2.3	5.5
7.0 to 7.9	0.5	11.6
6.0 to 6.9	0.6	34.3
5.0 to 5.9	4.1	41.3
4.0 to 4.9	0.3	5.6
3.0 to 3.9	0.0	0.3
2.0 to 2.9	0.0	0.0

SOURCE: American Statistical Association and National Bureau of Economic Research, Business Outlook Survey, May 1977.

NOTE: The total number of forecasters included is 40.

**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	31	10	21	7	2	1	0
Leading indicators	26	15	1	10	10	3	2
Anticipations surveys	24	17	0	7	11	6	0
Econometric model (outside)	24	17	5	12	2	5	0
Econometric model (own)	14	27	8	1	2	1	2
Other methods	6	35	4	2	0	0	0

SOURCE: American Statistical Association and National Bureau of Economic Research, Business Outlook Survey, May 1977.

**TABLE 6 Forecasters' Affiliation**

Primary Affiliation	Number of Forecasters
Manufacturing	12
Commercial banking	4
Other financial institutions	3
Consulting or research	10
Merchandising	0
Trade association	0
Academic	2
Government	6
Labor union	0
Other	4
Total	41

SOURCE: American Statistical Association and National Bureau of Economic Research, Business Outlook Survey, May 1977.

**TABLE 7 Key Assumptions Underlying Forecasts**

Assumption	Number of Forecasters
Monetary policy	
No change	10
Tight policy toward end of forecast period	7
Moderately accommodative policy	5
Money growth "above target"	3
Fiscal policy	
No change	7
No change in tax rate	4
Some tax reduction	8
Some tax reform	2
Business tax incentives to continue	2
Deficit in line with budget	3
Some public works program	3
Stimulative policy through 1977	2
Incomes policy	
No controls	8
Some "jawboning"	2
Energy	
No embargo, no crisis	6
Adoption of Carter's program	4
Carter's program will not affect forecast period	2
Energy costs will rise	4
There will be great confusion	2
Other	
No wars	4
No major strikes	3
No welfare reform, no health program	3
Better weather	3

SOURCE: American Statistical Association and National Bureau of Economic Research, Business Outlook Survey, May 1977.