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ASA/NBER Business Outlook Survey: Second 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.

The Third Quarter 1974 Survey, released August 23, was completed after this issue went to press. It will appear in the Fall issue. Meanwhile, copies are available on request from the National Bureau.

Total output of goods and services, as measured by GNP in constant dollars, will decline slightly in the current quarter after a much larger fall in the first quarter of 1974. In the second half of the year, real GNP is expected to rise but sluggishly and its level in 1974 is projected at \$835.2 billion, a little below the 1973 figure of \$837.4 billion. The previous (February) survey was less pessimistic in that it predicted a milder decline in aggregate economic activity in the first half of 1974 and a somewhat larger increase in the second half, resulting in a small gain for the year as a whole (constant-dollar GNP in 1974 was set at \$842 billion). Also, the price level measured by the implicit GNP deflator is now expected to increase by 8.4 per cent in 1974 as against a 7 per cent forecast in February. However, the projected rates of inflation are still seen as declining gradu-

ally in the quarters ahead. These are the broad outlines of the median forecast by 49 economists who participated in the latest quarterly survey conducted by the Business and Economic Statistics Section of the American Statistical Association. The ASA panel includes many of the leading professional forecasters of the economy's course. The results of the surveys are evaluated for the ASA by the National Bureau of Economic Research, an independent nonprofit research organization, as part of a systematic study of economic forecasts directed by Dr. Charlotte Boschan of NBER and Professor Victor Zarnowitz of the Graduate School of Business of the University of Chicago and NBER.

MORE INFLATION AND SLUGGISHNESS, BUT LITTLE CHANCE OF A PERSISTENT RECESSION

Forecasts made in February greatly underestimated the rate of inflation in the first quarter (the implicit price deflator rose 2.6 per cent instead of the predicted 1.8 per cent) as well as the concurrent decline in real GNP (which turned out to be 1.5 per cent instead of the predicted 0.6 per cent, at quarterly rates). The results of the May survey suggest that the forecasters reacted to these errors by revising their price predictions upward and their real GNP predictions downward more or less in proportion to the recent surprises (thus there are elements here of the error-learning process of "adaptive" forecasting). However, forecasters have not raised significantly their estimates of the probabilities of a decline in constant-dollar GNP during the current and each of the four quarters ahead. The means of these assessed probabilities decline from 51 chances in 100 in the second quarter of 1974 to 30, 21, 17 and 13 for the four subsequent quarters (through Q2 1975). Thus the likelihood that the economy will fail to live up to the still prevalent forecast of a mid-year upturn and will instead be declining in the second half of the year is being assessed as rather low by most participants in the survey.

PROBABILITY DISTRIBUTIONS OF CHANGES IN GNP AND PRICES

Continuing the trend indicated in our report on the February survey, the forecasters increased dramatically their estimates of inflation in 1974, as shown by the tabulation below:

MEAN PROBABILITY ATTACHED TO POSSIBLE PER CENT CHANGES, 1973-74, IN THE GNP IMPLICIT PRICE DEFLATOR

Per Cent Change	December 1973	February 1974	May 1974
+9 per cent or more	3.8	5.6	29.3
+8.0 to +8.9	4.0	14.0	42.0
+7.0 to +7.9	13.7	36.7	18.7
+6.0 to +6.9	34.5	26.7	5.7
+5.0 to +5.9	26.1	10.5	3.3
+4.0 to +4.9	9.8	4.8	0.9
Less than +4 per cent	8.1	1.7	0.1

According to the corresponding distribution for nominal GNP, the odds are about 3 to 1 that the value of the nation's output in current dollars will go up by 7-10 per cent in 1974; the weighted mean and the median both slightly exceed 8 per cent and are just a little below their counterparts for the price-level expectations. These probabilistic assessments, then, confirm the point forecasts by the same individuals that the year will be one of zero or slightly negative growth in real terms.

BUSINESS STILL TO LEAD IN CAPITAL SPENDING

Plant and equipment expenditures are expected to increase steadily at rates of 2-3 per cent per quarter, from \$109 billion in Q2 1974 to \$121 billion in Q2 1975.* The forecast for 1974 as a whole is \$111.3 billion, up 11.2 per cent from the year before. In relative terms, business capital outlays should rise considerably faster than total GNP and the price level.

In contrast, the capital outlays of the household sector are seen as weak now and in the near future, lower in 1974 than in 1973, but gaining as the year unfolds and in the first half of 1975. Housing starts would turn up in the next quarter but are still anticipated to run at the level of 1.6 million units this year, down nearly 20 per cent from 1973. Consumer expenditures for durable goods are projected to increase from \$125 billion in Q2 1974 to \$136 billion in Q2 1975. In the year 1974, however, their level is set at \$126.6 billion, down 3.2 per cent from 1973.

*The quarterly projections, here and elsewhere, are group medians, at annual rates.

FORECASTS OF OTHER VARIABLES: A MIXED PICTURE

The sharp drop in business inventory investment in the first quarter was largely but not fully predicted in the previous ASA survey. The forecasters now anticipate further, though less dramatic, declines in this volatile factor, from \$8.2 billion in Q1 1975, and an average level of \$7.6 billion for the current year as a whole (just a little lower than in 1973).

Industrial production, like real GNP only with somewhat larger relative amplitudes first of decline and then of rise, is seen as turning upward in mid-1974 but being slightly lower in the current than in the previous year. Its recovery in the near future would be very gradual according to the average forecast from the May survey, with quarterly gains of about 0.8 of one per cent.

Corporate profits after taxes are expected to be unusually stable, with all median forecasts for the current and the next four quarters falling into the narrow range of \$71–75 billion (annual rates).

The unemployment rate is predicted to rise to 5.8 per cent of the labor force in the last quarter of the year, then to decline to 5.5 per cent in Q2 1975. This would be a much smaller increase in unemployment than in any of the five business recessions of the post-World War II period.

Expenditures for national defense are projected to rise steadily in each quarter, from the recent level of approximately \$76 billion to \$83 billion in Q2 1975. Their level for 1974 is estimated at \$78.4 billion, up 6 per cent from the year before.

ASSUMPTIONS

Few forecasters find reasons to expect new embargoes and new major shortages of energy; more frequent are references to spot shortages and further oil price increases with a limited impact on the economy. No changes in tax rates and no new price or wage controls are anticipated. The assumptions about monetary policy vary considerably, from "more expansionary" through "unchanged" to "tighter" or "tight, but no crunch." There is no clear-cut preponderance in favor of any of these views.

TABLE 1 Projections of GNP and Other Economic Indicators, 1974-1975-Q11

Indicator	Number of Fore-casters ^a	1974		1974 Forecast			1975 Forecast		Annual	
		Actual	Q1	Q2	Q3	Q4	Q1	Q2	1973 Actual	1974 Forecast
1. Gross national product (\$bil.)	49	1351.8	1378	1406	1440	1473	1508	1289.1	1394.5	
2. GNP implicit price deflator (1958 = 100)	47	162.5	165.8	168.5	170.9	173.3	175.3	153.9	166.9	
3. GNP in constant dollars (\$bil. 1958)	47	832.0	831.0 ^b	835.0 ^b	843.0 ^b	850.0 ^b	858.0 ^b	837.4	835.2	
4. Industrial production (1967 = 100)	46	124.6	124	125	126	127	129	125.6	125	
5. Unemployment rate (per cent)	48	5.2	5.4	5.6	5.8	5.7	5.5	4.9	5.5	
6. Corporate profits after taxes (\$bil.)	41	72.5 ^c	71.9	71.5	72.0	73.5	74.5	70.4	72.0	
7. Plant and equipment expenditures OBE-SEC (\$bil.)	40	107.18 ^d	109.3	112.7	116.3	118.7	121.0	100.08	111.3	
8. New private housing units started (ann. rate mil.)	44	1.595	1.57	1.64	1.72	1.81	1.88	2.042	1.64	
9. Change in bus. inventories GNP accounts (\$bil.)	42	7.8	8.2	7.4	7.2	6.5	7.2	8.0	7.6	
10. Consumer expenditures for durable goods (\$bil.)	46	124.5	125.0	127.0	129.5	132.5	136.3	130.8	126.6	
11. National defense purchases, GNP accounts (\$bil.)	45	76.2	77.7	79.0	80.8	82.1	83.4	73.9	78.4	

SOURCE: American Statistical Association and National Bureau of Economic Research, Median Forecasts of Business Outlook Survey, May 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, 1974-75

Indicator	Number of Fore- casters ^a	Q 4 73	Q 1 74	Q 2 74	Q 3 74	Q 4 74	Q 1 75	Q 2 75	Q 3 75	Q 4 75	1972	1973
		to	to	to								
1. Gross national product (\$bil.)	49	+1.1	+1.9	+2.0	+2.4	+2.3	+2.4	+2.4	+2.4	+2.3	+11.6	+8.2
2. GNP implicit price deflator (1958 = 100)	47	+2.6	+2.0	+1.6	+1.4	+1.4	+1.2	+1.2	+1.2	+1.4	+5.3	+8.4
3. GNP in constant dollars (bil. 1958 \$) ^b	47	-1.5	-0.1	+0.5	+1.0	+0.8	+0.9	+0.9	+0.9	+0.8	+5.9	-0.3
4. Industrial production (1967 = 100)	46	-1.9	-0.5	+0.8	+0.8	+0.8	+1.6	+1.6	+1.6	+0.8	+9.0	-0.5
5. Unemployment rate (per cent) ^c	48	-0.1	+0.2	+0.2	+0.2	-0.1	-0.2	-0.2	-0.2	-0.1	-0.7	-0.6
6. Corporate profits after taxes (\$bil.)	41	+1.3	-0.8	-0.6	+0.7	+2.1	+1.4	+1.4	+1.4	+2.1	+27.1	+2.3
7. Plant and equipment expenditures OBE-SEC (\$bil.)	40	+3.3	+2.0	+3.1	+3.2	+2.1	+1.9	+1.9	+1.9	+2.1	+13.2	+11.2
8. New private housing units started (ann. rate. mil.)	44	+0.7	-1.6	+4.4	+4.9	+5.2	+3.9	+3.9	+3.9	+5.2	-13.4	-19.7
9. Change in bus. inventories, GNP accounts (\$bil.) ^d	42	-10.2	+0.4	-0.8	-0.2	-0.7	+0.7	+0.7	+0.7	-0.7	+2.0	-0.4
10. Consumer expenditures for durable goods (\$bil.)	46	-0.9	+0.4	+1.6	+2.0	+2.3	+2.9	+2.9	+2.9	+2.3	+11.4	-3.2
11. National defense purchases, GNP accounts (\$bil.)	45	+4.4	+2.0	+1.7	+2.3	+1.6	+1.6	+1.6	+1.6	+1.6	-0.7	+6.1

^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**

Item	Number of Forecasts				
	Q1 74 to Q2 74	Q2 74 to Q3 74	Q3 74 to Q4 74	Q4 74 to Q1 75	Q1 75 to Q2 75
	Estimated probability (chances in 100)				
Less than 1	1	1	4	6	9
1-10	1	7	14	18	24
11-20	1	11	10	10	5
21-30	7	15	12	11	8
31-40	5	5	5	3	1
41-50	15	5	4	0	2
51-60	8	2	0	1	0
61-70	3	1	0	0	0
71-80	5	2	0	0	0
81 and over	3	0	0	0	0
Total number of forecasters	49	49	49	49	49
Median probability (chances in 100)	47	24	17	11	7
Mean probability (chances in 100)	50.9	30.2	21.1	16.7	13.1

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

**TABLE 4 Mean Probability Distributions of Changes
in GNP and Prices, 1973-74**

Item	Mean Probability Attached to Possible Per Cent Changes, 1973-1974	
	GNP in Current \$	Implicit Price Deflator
+12.0 or more	0.5	0.3
+11.0 to +11.9	1.7	0.7
+10.0 to +10.9	8.0	5.0
+ 9.0 to + 9.9	18.0	22.4
+ 8.0 to + 8.9	35.6	42.0
+ 7.0 to + 7.9	21.6	18.7
+ 6.0 to + 6.9	8.3	5.7
+ 5.0 to + 5.9	5.6	3.3
+ 4.0 to + 4.9	0.6	0.9
+ 3.0 to + 3.9	0.1	0.1
+ 2.0 to + 2.9	0.0	0.0
+ 1.0 to + 1.9	0.0	0.0
Total	100.0	100.0

NOTE: The total number of forecasters included is 47.

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

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	14	25	6	2	1	1
Lead indicators	28	21	3	14	7	4	0
Anticipations Surveys	23	26	1	8	12	2	0
Econometric Model (outside)	24	25	5	11	3	4	1
Econometric Model (own)	11	38	9	1	1	0	0
Other methods	6	43	4	1	0	1	0

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

TABLE 6 Forecasters' Affiliation

Primary Affiliation	Number of Forecasters
Manufacturing	13
Commercial banking	4
Other financial institutions	5
Consulting or research	7
Merchandising	1
Trade association	1
Academic	8
Government	4
Labor union	0
Other	6
Total	49

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

TABLE 7 Key Assumptions Underlying Forecasts

Assumptions	Number of Forecasters
Energy Problem	
No new embargoes	5
Oil price increase	5
Spot shortages, but no major ones	10
No solution will be found in forecast period	2
Problems will impede economic activity	5
Problems will have little impact on economy	2
Monetary Policy	
Will become more expansionary	9
Unchanged	8
Will become tighter	2
Tight, but no crunch	10
Accommodating, but not stimulating	2
Increase in money supply:	
4-6%	3
6-7%	4
Fiscal Policy	
No change in tax rates	33
Large deficit	4
Incomes Policy	
No new controls	21
Some guidelines	5
Other	
Continued Mid-East disengagement	2
No domestic crisis	3

NOTE: Assumptions which were specified by not more than one forecaster are not shown.

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

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