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ASA/NBER Business Outlook Survey: First Quarter 1976

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 who are professionally engaged in forecasting business conditions have not substantially altered their predictions of next year's rate of growth in the nation's output of goods and services (GNP). They again predict a 12.4 percent increase between 1975 and 1976, just as they did in December 1975. However, because of the recent revisions in national income and product accounts, the forecasts for the level of GNP have been correspondingly revised upward—by an average of about \$30 billion. The economists now project that GNP will reach \$1,757 billion by the end of the year, instead of the \$1,726 billion predicted three months ago. For 1976 as a whole, GNP is expected to reach \$1,685 billion, instead of \$1,657 billion. In general, the outlook is definitely optimistic—the anticipated inflation decreased slightly from 6 percent to 5.9 percent for the year, and the predicted growth in real output during 1976 was raised from 5.9 to 6.1 percent. But these are small changes, and the most prominent features of the recent forecasts are their remarkable stability and close consensus.

This report is based on the medians of all forecasts from the latest survey by the Business and Economic Statistics Section of the American Statistical Association. Predictions were submitted by 47 members. The ASA surveys have been conducted quarterly since 1968, and their participants include many leading business, academic, and government economists. Data from the surveys are analyzed for the ASA by the National Bureau of Economic Research, an independent nonprofit research organization, as part of its program of studies in economic forecasting. 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.

OUTPUT FORECASTS: STEADY GROWTH

Real GNP will increase by 1.3 or 1.4 percent in each quarter through Q1 1977; its rise between the fourth quarters of 1975 and 1976 will be 5.6 percent, as it will be between the first quarters of 1976 and 1977. The industrial production index will gain 9.8 percent between Q4 1975 and Q4 1976 and 9.2 percent between Q1 1976 and Q1 1977. It follows that output of factories, mines, and public utilities is expected to increase much faster than output of the rest of the economy (mainly construction, transportation, farming, trade, finance, and other services). This inference from the forecasts is consistent with theory and historical facts for this stage of the business cycle (the demand for manufactured, particularly durable, goods is highly elastic, postponable, and cyclical). It is also consistent with the expected rise in business inventory investment (much of industrial production, other than equipment and utilities output, serves in the first instance to maintain and increase stocks of goods in various stages of fabrication). The predicted changes in business inventories during each of the five successive quarters of the forecast period, Q1 1976–Q1 1977, are (in \$ bil.) 2.8, 5.6, 9.3, 10.9, and 12.0. These gains are significantly larger than those projected in the December 1975 ASA survey, and they would bring inventory investment back to the early 1973 level.

UNEMPLOYMENT FORECASTS: SLOW DECLINE

The rates of unemployment predicted for the five quarters ending in Q1 1977 are 7.9, 7.7, 7.5, 7.3, and 7.2 (percent of the labor force). The average for the year 1976 is 7.6 percent. These forecasts are but a fraction

(0.1 or 0.2 of one percent) lower than those made in the previous survey, and they imply that full employment is still considered unlikely in the next couple of years. However, it is clear that the prediction for Q1 1976 is high in light of the most recent figures for January and February (7.8 and 7.6 percent), and it seems likely that, had the survey been taken a few weeks later, some of the panelists would have revised their unemployment forecasts downward and their output forecasts upward.

INFLATION FORECASTS: NEITHER BETTER NOR WORSE

The projected rises in the general price level represented by the GNP implicit price deflator held steady at quarterly rates of roughly 1.5 percent. Between Q4 1975 and Q4 1976, prices are expected to increase from 129.2 to 137.0 (1972 = 100), or 6 percent; between Q1 1976 and Q1 1977, from 131.0 to 139.0, or 6.1 percent. Most forecasters do not anticipate any large changes in the pace of inflation during the year ahead as they (1) project a moderate business expansion and (2) assume cautious economic policies at home and no major disturbances abroad (see below). There are few signs of either hope for further reductions in the rate of inflation or fear of a return to higher rates.

EXPANDING PROFITS, LAGGING INVESTMENT SEEN

Corporate profits after taxes will reach \$93.8 billion in 1976, up 28.8 percent from their 1975 level, and \$103 billion (annual rate) in Q1 1977, up 17 percent from Q1 1976. These gains are substantial, but much smaller in relative terms than the increases recorded in 1975 after profits had descended to a trough of \$60 billion during the first quarter of that year.

Business expenditures for plant and equipment will increase to \$122 billion in 1976, a gain of 7.5 percent over 1975, and they will reach \$131.5 billion at an annual rate in Q1 1977, up 12.4 percent from Q1 1976. Their rise is expected to accelerate from 1.9 percent per quarter in Q1 1976 to 2.6, 2.8, 3.5, and 3.0 percent in the next four quarters. These forecasts are significantly more optimistic than the latest capital spending anticipations reported in government surveys of business plans, but, as many forecasters recall, these anticipations have often underestimated

actual business capital outlays in periods of expansion. And even the ASA forecasts suggest that plant and equipment expenditures in the year ahead will expand but weakly in real terms.

CONTINUING GAINS EXPECTED IN CONSUMER DURABLES AND HOUSING

Consumer expenditures for durable goods will rise from \$127.7 billion in 1975 to \$148.1 billion in 1976, or 16 percent. Their level in Q1 1977 is predicted to be \$162 billion, 15.5 percent higher than in Q1 1976, after increases of 3.5 to 4 percent in each of the intervening quarters. While the levels have been lowered by the data revision, the percentage increases are even higher than the corresponding forecasts from the December 1975 ASA survey, indicating that consumer durables will continue to be an area of strength.

New private housing starts are expected to register a large gain of 32.5 percent in 1976 over the depressed level of 1975. At an annual rate, there would be 1.69 million starts in Q1 1977, nearly 21 percent above the figure for Q1 1976. The forecasts describe a continuing expansion, but one that is not rapid and that weakens toward the end of the year covered.

The national defense purchases are estimated to rise to 90.9 billion in 1976 (up 8.2 percent from 1975) and to \$94.8 billion in Q1 1977 (up 6.9 percent from Q1 1976).

THE DISPERSION OF INDIVIDUAL FORECASTS RELATIVELY SMALL

The median figures are typical of expectations widely held at the time, since the survey participants' forecasts are rather closely clustered. Thus, when the top and bottom quarters of the distribution of real GNP forecasts for Q1 1977 are eliminated, the central half of these predictions is found to lie between \$1,291 billion and \$1,309 billion (annual rates in 1972 dollars). For unemployment rate forecasts, the corresponding quartiles are 7.0 and 7.4 percent; for the implicit price deflator, 138.2 and 139.5 (1972 = 100). There are, of course, much higher and much lower extreme forecasts but these are rare, atypical "outliers." As usual, the standard deviations of the forecasts increase systematically with the predictive span; e.g., for Q2 1976 and Q1 1977, respectively, they are approximately \$26 billion and \$53 billion for predictions of real GNP, and 12 and 41 index points for predictions of the implicit price deflator.

PROBABILITIES AND ASSUMPTIONS

Forecasters see little probability that real GNP will decline at any point during the year ahead, the highest mean figure being 16.3 chances in 100 for Q1 1977. Those reporting their assumptions state that the monetary policy will be "mildly accommodative" or that the increase in money supply will be "on target." They anticipate that fiscal policy will be moderately stimulative, with "tax cuts extended at least through 1976" or "expenditures above target," and that no major obstacles to continuing expansion, such as new wars and energy crises, will develop abroad.

TABLE 1 Projections of GNP and Other Economic Indicators, 1976-1977 Q1

Indicator	Number of Fore- casters	1975	Forecast				Annual		
		Q4 Actual	Q1	Q2	Q3	Q4	1977 Q1	Actual 1975	Forecast 1976
1. Gross national product (\$bil.)	46	1573.2	1615	1660	1707	1757	1804	1499	1685
2. GNP implicit price deflator (1972 = 100)	46	129.2	131.0	132.8	134.8	137.0	139.0	126.4	133.9
3. GNP in constant dollars (bil. 1972 \$)	46	1217.4	1233 ^a	1250 ^a	1268 ^a	1285 ^a	1302 ^a	1186.4	1259 ^a
4. Industrial production (1967 = 100)	45	117.5	120	123	126	129	131	113.8	124.5
5. Unemployment rate (percent)	48	8.4	7.9	7.7	7.5	7.3	7.2	8.5	7.6
6. Corporate profits after taxes (\$bil.)	41	85.3 ^b	88.0	91.9	95.6	99.6	103.0	72.8	93.8
7. Plant and equipment expenditures OBE-SEC (\$bil.)	43	114.8 ^c	117.0	120.0	123.4	127.7	131.5	113.5	122.0
8. New private housing units started (ann. rate mil.)	46	1.372	1.40	1.50	1.59	1.67	1.69	1.162	1.540
9. Change in bus. inventories, GNP accounts (\$bil.)	44	-0.2	2.8	5.6	9.3	10.9	12.0	-14.2	7.2
10. Consumer expenditures for durable goods (\$bil.)	43	136.1	140.3	145.3	150.4	156.4	162.0	127.7	148.1
11. National defense purchases, GNP accounts (\$bil.)	44	87.4	88.7	90.0	91.5	93.5	94.8	84.0	90.9

SOURCE: American Statistical Association and National Bureau of Economic Research, Median Forecasts of Business Outlook Survey, March 1976.

^aMedian of individual forecasts of real GNP derived from predicted current dollar GNP and the price deflator.

^bActual not available. Based on average forecast.

^cAnticipated.

TABLE 2 Projected Percentage Changes in GNP and Other Economic Indicators, 1976-Q1 1977

Indicator	Number of Fore-casters	Q4 75 to Q1 76		Q2 76 to Q3 76		Q3 76 to Q4 76		Q4 76 to Q1 77		Q1 77 to 1975		1975 to 1976	
		Q4 75 to Q1 76	Q2 76 to Q3 76	Q3 76 to Q4 76	Q4 76 to Q1 77	Q1 77 to 1975	1975 to 1976						
1. Gross national product (\$bil.)	46	2.7	2.8	2.8	2.9	2.7	6.5	12.4					
2. GNP implicit price deflator (1972 = 100)	47	1.4	1.5	1.5	1.6	1.5	8.8	6.0					
3. GNP in constant dollars (bil. 1972 \$) ^a	46	1.3	1.4	1.4	1.3	1.3	-2.0	6.1					
4. Industrial production (1967 = 100)	45	2.1	2.5	2.4	2.4	1.6	-8.8	9.4					
5. Unemployment rate (percent) ^b	48	-0.5	-0.2	-0.2	-0.2	-0.1	2.9	-0.9					
6. Corporate profits after taxes (\$bil.)	41	3.2	4.4	4.0	4.2	3.4	-8.4	28.8					
7. Plant and equipment expenditures OBE-SEC (\$bil.)	43	1.9	2.6	2.8	3.5	3.0	1.0	7.5					
8. New private housing units started (ann. rate mil.)	46	2.0	7.1	6.0	5.0	1.2	-13.0	32.5					
9. Change in bus. inventories, GNP accounts (\$bil.) ^c	44	3.0	2.8	3.7	1.6	1.1	-23.9	21.4					
10. Consumer expenditures for durable goods (\$bil.)	43	3.1	3.6	3.5	4.0	3.6	4.8	16.0					
11. National defense purchases, GNP accounts (\$bil.)	44	1.5	1.5	1.7	2.2	1.4	8.5	8.2					

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)	Q4 75	Q1 76	Q2 76	Q3 76	Q4 76
	to Q1 76	to Q2 76	to Q3 76	to Q4 76	to Q1 77
Less than 1	58.3	31.3	22.9	18.8	18.8
1-10	33.3	54.2	54.2	47.9	31.3
11-20	4.2	10.4	18.8	18.8	22.9
21-30	2.1	2.1	2.1	12.5	18.8
31-40	0.0	0.0	0.0	0.0	2.1
41-50	2.1	2.1	2.1	0.0	4.2
51-60	0.0	0.0	0.0	2.1	0.0
61-70	0.0	0.0	0.0	0.0	0.0
71-80	0.0	0.0	0.0	0.0	2.1
81 and over	0.0	0.0	0.0	0.0	0.0
Median probability (chances in 100)	0	4.0	5.0	7.0	10.0
Mean probability (chances in 100)	4.3	6.9	8.2	11.6	16.3

Number of forecasts

SOURCE: American Statistical Association and National Bureau of Economic Research Business Outlook Survey, March 1976.
NOTE: The total number of forecasters included is 47.

TABLE 4 Mean Probability Distributions of Changes in GNP and Prices, 1975-1976

Percent Changes 1975-1976	Mean Probability Attached to Possible Percent Changes, 1975-1976	
	GNP in Current \$	Implicit Price Deflator
+16 or more		
+15.0 to +15.9	0.6	0.0
+14.0 to +14.5	2.2	0.0
+13.0 to +13.9	5.5	0.0
+12.0 to +12.9	17.5	0.0
+11.0 to +11.9	31.8	0.0
+10.0 to +10.9	20.5	0.0
+9.0 to +9.9	12.5	0.2
+8.0 to +8.9	4.1	0.8
+7.0 to +7.9	1.5	2.0
+6.0 to +6.9	0.9	3.9
+5.0 to +5.9	0.7	12.5
+4.0 to +4.9	1.3	41.1
+3.0 to +3.9	0.6	29.9
+2.0 to +2.9	0.2	7.9
	0.0	1.3
		0.4

SOURCE: American Statistical Association and National Bureau of Economic Research, Business Outlook Survey, March 1976.
NOTE: The total number of forecasters included is 47.

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	37	10	27	6	2	2	0
Leading indicators	29	18	1	18	8	2	0
Anticipations surveys	29	18	0	9	13	6	1
Econometric model (outside)	27	20	5	12	4	6	0
Econometric model (own)	12	35	6	2	2	0	2
Other methods	6	41	4	1	1	0	0

SOURCE: American Statistical Association and National Bureau of Economic Research, Business Outlook Survey, March 1976.

TABLE 6 Forecasters' Affiliation

Primary Affiliation	Number of Forecasters
Manufacturing	13
Commercial banking	4
Other financial institutions	4
Consulting or research	10
Merchandising	0
Trade association	1
Academic	8
Government	3
Labor union	0
Other	5
Total	48

SOURCE: American Statistical Association and National Bureau of Economic Research, Business Outlook Survey, March 1976.

TABLE 7 Key Assumptions Underlying Forecasts

Assumption	Number of Forecasters
Energy Problem	
No embargo, no shortage, no crisis	8
Price increases	4
Monetary Policy	
Increase in money supply "on target"	12
Policy will be mildly accommodative	12
Fiscal Policy	
No change	7
Tax cut extended at least through 1976	16
Expenditures will be above target	15
Incomes Policy	
None	5
Limited restraints	2
Other	
No major wars or shocks	9
Poor food crop	3
Republican administration	2

SOURCE: American Statistical Association and National Bureau of Economic Research, Business Outlook Survey, March 1976.