



What Economists are Forecasting for the Second Half of 2004

Each January and July, 55 economists and assorted pundits participate in the Wall Street Journal's semi-annual economic forecasting survey. The mid-year survey for 2004 hit the papers earlier this month. Alongside current forecasts were those made by survey participants in January 2004. Both surveys are summarized in the attached tables.

Perhaps the "Nifty 55" have taken to copying from each others' homework, or maybe the economy is getting easier to figure, but this past January's forecasts were eerily prescient (see page two's second table), and the current surveys' forecasts for the remainder of 2004 and into 2005 are pretty much bunched together. The bunching of estimates suggests some increased certitude by this group, but one could also read it as the reverse – an unwillingness by many to adopt too much of a nonconforming position, because of personal uncertainty.

The group consensus in January foresaw the three month T-bill yield as of June 30th at 1.32%, which was *exactly* correct. And, if the 10-year Treasury bond hadn't rallied during the last two days of June, dropping its yield down to 4.53%, they would have nailed that number as well. Finally, the consensus projected both the Yen and the Euro would be little changed in June from their December values, and this was the case (the Yen fell from 107/\$ to 109/\$, and the Euro fell from \$1.26/€ to \$1.22/€).

What primary economic developments have taken forecasters by surprise during the first half of 2004? The rate of Inflation was their big miss, as consumer prices were much higher for the year ended in May (+3.1%), than economists thought they would be (+1.9%). This was altogether due to the very sharp rise in 1st quarter CPI (+5.1% on an annualized basis). Also, the group continues to experience problems in their guesses (okay, their *educated* guesses) about quarterly GDP growth rates, as reflected by the following table –

	Last Forecast	Actual GDP
1Q '03	3.6%	1.4%
2Q '03	2.4	3.3
3Q '03	3.5	8.2
4Q '03	3.8	4.1
1Q '04	4.5	3.9
2Q '04	4.3	???

Which brings us to the current survey. Despite May's CPI, economists don't think inflation will be very much in evidence for the 12 months ending in November – they predict a 2.9% year/year change. This would be higher than last year (+1.8%), but not much above the last five year's average of 2.6%. When it comes to economic growth over the next four quarters, the group remain quite optimistic, even though the 1st quarter fell a bit short of their expectations. They're forecasting quarterly GDP growth in the range of 3.7% to 4.4% annualized, which would work out to an overall rate of over 4% for the next year. For perspective, growth during each year of the late 1990's fell in this range. Notably, the forecast implies that GDP growth rates will be gradually slowing down from now through June 2005, with the 4.4% figure predicted for the remainder of 2004, and the 3.7% for 2005.

Two other shifts are predicted for the rest of 2004 –

- short term and long term interest rates are expected to rise less than 1% from current levels, with long-term yields rising less than short term;
- the unemployment rate is forecast to fall to 5.3% (it's been at 5.6% for the last six months).

Our take on all this? The term "sweet spot" still comes to mind for the time being. Unless our massive trade and budget deficits tank the Dollar and accelerate the rise in real interest rates, the next year is forecasted to present a benign-to-favorable economic environment.



-- Second Half 2004 Forecasts -- (Posted on July 2, 2004)

	3 month T-Bills @ DEC '04	10 year T-Bonds @ DEC '04	GDP 3 rd Qtr 2004	GDP 4 th Qtr 2004	GDP 1 st Qtr 2005	GDP 2 nd Qtr 2005	CPI Yr/Yr Chg. @ NOV '04	¥en / \$ Spot rate @ DEC '04	\$ / Euro Spot rate @ DEC '04	Unempl. Rate @ NOV '04
Survey Average	2.08%	5.14%	+4.4% <i>(was 4.1%)</i>	+4.2%	+3.7%	3.7%	2.9%	108.2 ¥/\$	1.20 \$/€	5.3%
Survey Range *	1.40 – 2.50	4.53 – 5.60	3.2 – 6.0	3.1 – 5.6	2.8 – 5.3	2.8 – 5.3	2.0 – 3.6	96 - 120	1.08 – 1.33	4.7 – 5.8
ACTUAL <i>(as of 12/31/03)</i>	0.91%	4.25%	???	???	???	???	1.8%	107 ¥/\$	1.26 \$/€	5.9%

-- First Half 2004 Forecasts -- (as of January 9, 2004)

	3 month T-Bills @ JUN '04	10 year T-Bonds @ JUN '03	GDP 1 st Qtr 2004	GDP 2 nd Qtr 2004	GDP 3 rd Qtr 2004	CPI Yr/Yr Chg. @ MAY '04	¥en / \$ Spot rate @ JUN '04	\$ / Euro Spot rate @ JUN '04	Unempl. Rate @ MAY '04
Survey Average	1.32%	4.75%	4.5% <i>(was 3.8%)</i>	4.3% <i>(was 3.7%)</i>	4.1%	1.9%	106 ¥/\$	1.23 \$/€	5.7%
Survey Range *	0.95 – 2.50	4.00 – 5.50	2.7 – 6.3	3.0 – 6.3	3.0 – 5.7	1.2 – 2.6	95 - 117	0.98 – 1.34	5.4 – 6.2
ACTUAL <i>(as of 6/30/04)</i>	1.32%	4.59%	3.9%	???	???	3.1%	108.83 ¥/\$	1.2196 \$/€	5.6%

* Excluding outliers

Sources:

“The Wall Street Journal Forecasting Survey for 2004 and 2005”, 7/2/2004

“The Wall Street Journal Forecasting Survey for 2004”, 1/2/2004