Chartwell Consulting

July 2, 2002 **Briefing Note**

Richard D. Shaffer, CFA
Director of Research

An Economic Forecast for Mid-Year 2002

Each January and July, about 50 economists and assorted pundits participate in the Wall Street Journal's semi-annual economic forecasting survey. The newspaper dutifully splashes their forecasts onto a page 2 article around the first trading day of the new half. The occasion gives the WSJ reporting staff a chance to poke fun at how poorly economists foretell future economic developments (like this is something anybody can do very well). Then, we all pretty much forget what was said. Often times, it's the participants themselves who want the forecasts forgotten quickest of all.

We like to capture the moment. Sure, the predictions seldom prove entirely correct and individually can be quite wide of the mark. But it's fair to say these educated guesses are highly representative of the business communities' consensus thinking on the issues. You might even say the range of answers encompasses the countries' best thinking on the topics.

Let's get to why the WSJ can take its potshots – the blue ribbon economic group expected real GDP to shrink by more than 1% in last year's 4th quarter, yet it grew by nearly 2%. They expected modest growth of 0.9% in this year's 1st quarter, but the actual growth rate was a robust 6.1%.

Currently, the second quarter's GDP growth rate is estimated to have been 2.4%, which is the same consensus figure from six months ago. Then, growth in the second half of this year is expected to pick up modestly to an annualized rate of 3.5% (previous estimate was for 3.6%).

As we've noted previously, compared to previous recoveries these are anemic numbers. In the nine previous economic recoveries since WWII, real GDP grew at an average annualized rate of 7% in the first nine months after the economy reached a trough. In the five recessions since 1970, the average annualized rate was 5% during the recoveries' first nine months.

Not only are GDP growth rates expected to be modest during the next 6-9 months, but so are other changes in key economic factors. Interest rates on short term T-bills, currently 1.7%, are forecasted to rise to just over 2% by the end of the year, although few expect the fed funds rate to be lifted from today's 1.75% level. Long-term Treasury bond rates, currently 4.80%, are expected to rise slightly to 5.2% by December.

The consensus sees forward unemployment rates reaching no higher than current levels. Perhaps the biggest consensus shift sees year/year inflation (CPI) rising to 2.2% by November, up from only 1.4% at the end of May.

-- First Half 2002 Survey Results [1] -- *(Originally posted on January 2, 2002)*

	3 month Treasury Bills @ June 2002	10 year Treasury Bonds @ June 2002	GDP Growth 1st Qtr 2002	CPI Yr/Yr Chg. @ May 2002	US$ vs. ¥en Spot rate @ June '02	US$ / Euro Spot rate @ June '02	Unemployment Rate @ May 2002
Survey Average	1.89%	5.06%	0.9%	1.4%	133 ¥/$	0.90 $/€	6.2%
Survey Range	1.25 - 2.50	3.75 - 6.00	(2.8) - 5.4	(0.5) - 2.9	117 - 155	0.81 – 1.06	5.5 - 6.8
ACTUAL as of 6/29/02	1.68%	4.80%	6.1%	1.2%	120	0.99	5.8%

-- Second Half 2002 Forecasts [1] -- *(Posted on July 1, 2002)*

	3 month T-Bills @ DEC '02	10 year T-Bonds @ DEC '02	GDP 3rd Qtr 2002	GDP 4th Qtr 2002	GDP 1st Qtr 2003	CPI Yr/Yr Chg. @ NOV '02	¥en / $ Spot rate @ DEC '02	$ / Euro Spot rate @ DEC '02	Unempl. Rate @ NOV '02
Survey Average	2.20%	5.20%	3.3% (was 3.4%)	3.7% (was 3.8%)	3.6%	2.2%	122 ¥/$	0.98 $/€	5.8%
Survey Range	1.50 - 3.00	4.00 - 6.25	1.8 - 5.0	(1.0) - 6.2	(1.0) - 5.5	0.5 - 3.0	110 - 135	0.84 - 1.10	5.2 - 6.5

[1] Source – "The Wall Street Journal Mid-Year Forecasting Survey", July 1, 2002