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Briefing Note

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An Economic Forecast for 2002

Each January and July, about 50 economists and assorted pundits participate in the Wall Street Journal's semi-annual economic forecasting survey. The results make for a nifty page 2 article, and then risk being promptly forgotten. Often times, it's the participants themselves who wish to have the results promptly forgotten.

But not us. While the predictions seldom prove entirely correct, and individually can be quite wide of the mark, it is fair to say they are highly representative of the business communities' consensus thinking on the issues. Heck, these are the people others go to for this stuff. It occurs to us that you might need some educated inputs for any internal forecasts or budgets you're pulling together. If so, the following summary might prove useful.

As a group these folks are expecting the just-completed 4th quarter to be the trough for changes in real gross domestic product – the value of our nation's output, adjusted for inflation. They expect it to have contracted in the 4th quarter at a seasonally adjusted annualized rate of more than 1% (you'll recall it fell at a 1.3% rate in 3Q01). This is seen as the trough because consensus has real GNP *rising* at an annual rate of 0.9% in the 1st quarter of 2002, and 2.4% in the 2nd quarter. Then, the consensus is for the economy to pick up some momentum in the second half of the year, with annualized growth at +3.6%.

Compared to previous recoveries, these are rather 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 the growth rates economists forecast for 2002 expected to be modest, but so are changes in other economic factors. On average, short-term interest rates are expected to remain below 2% at the end of June, with the fed funds rate staying at today's 1.75% level. Long-term rates, currently 5.05%, are expected to remain there by June and rise only slightly to 5.3% by December. The consensus sees unemployment rising only moderately during the first half of 2002, to 6.2% from the current 5.8% level.



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The Wall Street Journal Forecasting Surveys

-- 2nd Half 2001 Survey – (Completed June 30, 2001)

	3 month Treasury Bills @ DEC. 2001	30 year Treasury Bonds @ DEC. 2001	GDP Growth 1st – 3rd Qtr 2001	CPI Yr/Yr Chg. @ NOV. 2001	US\$ vs. ¥en Spot rate @ DEC. 2001	Unemployment Rate @NOV. 2001
Survey Average	3.39%	5.30%	1.9%	2.9%	126 ¥/\$	5.0%
Survey Range	2.70 – 5.35	4.40 – 6.00	(2.7) – 4.1	1.8 – 4.4	113 - 140	4.4 – 5.5
Actual Numbers as of 12/31/01	1.70	5.05	0.1	1.9	131	5.7

-- New Forecasts for 2002 – (Completed December 31, 2001)

	3 month T-Bills @ JUNE '02	30 year T-Bonds @ JUNE '02	GDP 1st Qtr 2002	GDP 2nd Qtr 2002	GDP 3rd Qtr 2002	CPI Yr/Yr Chg. @ MAY '01	¥en / \$ Spot rate @ JUNE '02	US\$ / Euro Spot rate @ JUNE '02	Unemploy Rate @ MAY '02
Survey Average	1.89%	5.06%	0.9%	2.4%	3.4%	1.4%	133 ¥/\$	0.90 \$/€	6.2%
Survey Range	1.25 – 2.5	3.75 – 6.00	(2.8) – 5.4	(2.5) – 5.5	(2.3) – 6.8	(0.5) – 2.9	117 – 155	0.81 – 1.06	5.5 – 6.8