Forecasts for 1984 Economy

Most economists are predicting that economic growth in 1984 will exceed 5%. In fact, according to one forecasting service, Blue Chip Economic Indicators of Sedona, Ariz., real GNP growth for the year is expected to be 5.3%. That’s the consensus of 44 economists from across the United States tracked by Robert J. Eggert, Blue Chip head, who sums up the results as a “hale and hearty economy all around.”

When 1984’s forecasted growth is compared with the average growth over the past 10 years, predictions for the year are more than double the 2.3% growth of the earlier period. “If there are clouds on the horizon,” adds Eggert, “they don’t appear in 1984. In fact, the lowest forecasts were 4.7%—a healthy rate for any year.”

Data Resources, Inc., a major economic prediction service based in Lexington, Mass., forecasts a slightly higher growth rate for 1984, while a membership survey of the National Association of Business Economists, reporting out of Cleveland, shows a slightly lower rate.

Predictions for Strong Recovery

“The 1984 economy should be fundamentally strong for most of the year,” observes Lawrence Chimerine, chairman and chief economist of Chase Econometrics, another well-known economic forecasting service of Bala Cynwyd, Pa., “although the pace of the recovery is likely to be slower than the recent performance in the second and third quarters of 1983.”

On the inflation front, forecasts for 1984 range from 5% to 6%, slightly up from the 4.3% rate the economy experienced last year. There are small differences in the interest rate predictions for 1984. Data Resources looks for slight declines, and the National Association of Business Economists slight increases.

Even those U.S. regions that have been experiencing slow growth now appear to be picking up and demonstrating some economic strength. In
“Most economists are predicting that economic growth in 1984 will exceed 5%. In fact . . . one service (sees) real Gross National Product growth for the year of 5.3%.”

the Cleveland area, which had been especially hard hit by the recent recessions, “the 1984 economy could come with a real bang after the slow development of [1983].” says W. Frederick Bartz, Jr., chairman of the Business Survey Committee of the Purchasing Management Association of Cleveland, Inc. Ninety-five percent of the Association’s membership think 1984 will be a year of increased growth, with substantially higher orders and a large number of rushed orders in the first quarter.

Rocky Road to the Present

During all of the 1970s, there were only two recessions. In the first two years of this decade, the economy has already experienced two recessions. A year ago, economic forecasters, as well as the Administration, were predicting a slow rate of recovery in 1983. Since then, the forecasts have been adjusted upward by 1% to 1½%.

“The numbers now speak for themselves,” says Barry K. Rogstad, C&L chief economist. “Based on the current indicators, this is a strong recovery, with some capital investment getting under way, adding depth and breadth to the current expansion.”

High interest rates and uncertain inflationary expectations clouded the economic horizon during the past several years, but the inflation outlook has improved dramatically since then.

Economic Weaknesses on the Horizon?

The generally rosy outlook for 1984 economic indicators doesn’t inhibit economic forecasters from looking deeper into their crystal ball for trouble spots. The size of projected federal government deficits is a concern of many. Blue Chip’s Eggert reports that
“one-third of the economic forecasters polled have expressed a concern about the size of the deficits in future years.” These concerns are based on a theory that substantial demands for funds by the federal government will “crowd out” the business investment that might otherwise provide an impetus to economic recovery. On the other hand, suggests Rogstad, “Large deficits don’t automatically trip the crowding-out wire. Although there might be a problem down the road, there’s no ironclad correlation between interest rates and federal deficits.”

Another aspect of the current economic situation that could yield problems down the road is the currently elevated real rate of interest. After adjusting current interest rates for inflation, the “real” rate of interest, by any historical comparison, remains high. How much of a disincentive this interest rate premium is, remains to be seen. Until now, it hasn’t impeded the current recovery, and some forecasters are predicting a decline in interest rates. So, the high real interest rates may not be a prolonged weakness in the economy.

**Monitoring the 1984 Economy**

As the 1984 economy unfolds, interest rates, the federal budget deficit and inflation will bear careful watching. “Interest rates are critical to the longer term forecast,” observes Rogstad, “and it remains a puzzle why real short-term interest rates have remained so high.”

The large federal government deficits projected for the next several years inspire some caution to most of the long-term forecasts. However, the concern appears to be centered on 1985 rather than 1984. Most forecasters believe that there’s little prospect the deficits will be cut during the election year.

Although the inflation picture has been looking good recently, it should be monitored closely since it could provide an indication that the economy is heating up. Chase Econometrics’ Chimerine observes, “There are some troublesome spots on the horizon—with the high interest rates, the highly valued dollar depressing exports and the large deficits.”

Even this early in the year, it’s prudent for business to look beyond the next 12 months—with their special political emphasis—at the economic trends shaping up for 1985. Gazing into the crystal ball is meant to produce clear vision, not induce myopia.

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