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Volume 7, No. 7 1113 West Armitage, Chicago IL 60614 www.biancoresearch.com

Market Facts

The Wall Street Journal Forecasting Survey: As Close to Unanimous As You'll See

By James A. Bianco, CMT (847) 304-1511
July 2, 2002

Yesterday, the *Wall Street Journal* published its semi-annual forecasting survey of economists. The overwhelming consensus of the 55 economists surveyed is predicting **higher** 10-year interest rates at the end of December 2002.

As the table below shows, fully 93% (51 of 55) of all economists surveyed are looking for interest rates to be higher by the end of the year. **This is far and away the most one-sided survey in over a decade.** Likewise, the consensus is looking for rates to increase 40 basis points – the largest expected move since January 1991.

Historically, the results of this survey are not a good predictor of interest rates. Only two times over the last eleven polls (back to July 1996) has the consensus correctly predicted the direction of interest rates.

As bad as their track record has been over the last 5 years, it is not much better since the inception of this poll in 1982. They have only correctly forecasted the direction of interest rates 32% of the time (42 surveys, 13 correct). A complete history can be found on the next page.

No economist is looking for yields to top 6.25% or dip below 4.00%.

Given the extreme one-sided nature of this poll and its poor track record, these results should give the bond bulls great comfort.

Keep in mind, however, that this poll is predicting rates for the last day of the year. A lot can happen before that date. For example, the January poll was looking for rates to rise to 5.06%. As late as June 6, this poll appeared to be correct.

Table 1

The Wall Street Journal Forecasting Survey

Long-Term Interest Rate Forecasts for the Next Six Months[1]

Date of Survey	Forecasted Change in Yield	Actual Change in Yield	Was the Forecast in Direction Correct?	% Of Respondents That Were Forecasting Long-Rates To Be:		
				Higher	Lower	Unchanged
Jul-95	-0.04%	-0.70%	YES	48%	52%	0%
Jan-96	0.06%	0.95%	YES	56%	42%	2%
Jul-96	-0.03%	-0.25%	YES	48%	46%	5%
Jan-97	-0.12%	0.14%	NO	30%	70%	0%
Jul-97	0.01%	-0.86%	NO	49%	51%	0%
Jan-98	0.10%	-0.28%	NO	58%	42%	0%
Jul-98	0.08%	-0.55%	NO	62%	35%	3%
Jan-99	-0.05%	0.89%	NO	37%	54%	9%
Jul-99	-0.15%	0.50%	NO	28%	67%	6%
Jan-00	-0.10%	-0.58%	YES	36%	49%	15%
Jul-00	0.11%	-0.40%	NO	64%	16%	6%
Jan-01	-0.15%	***0.30%*** [1]	NO	20%	69%	11%
Jul-01	-0.10%	-0.38%	YES	39%	59%	2%
Jan-02	-0.10%	-0.38%	NO	42%	58%	0%
Jul-02	**0.40%**	**????**	**????**	**93%**	**7%**	**0%**

1 = Starting with the July 2001survey, the benchmark interest rate changed from the 30-year bond to the 10-year note. The actual change for January 2001 reflects the change of the 30-year bond.

Source: *The Wall Street Journal*

The Wall Street Journal Forecasting Survey

Long-Term Interest Rate Forecasts for the Next Six Months[1]

Date of Survey	Yield When Survey Published	Yield Forecast for 6 mos. Forward	Forecasted Change in Yield	Actual Change in Yield	Absolute Difference between Forecast and Actual	Was the Forecast in Direction Correct?
Jan-82	13.45%	13.05%	-0.40%	0.47%	0.87%	
Jul-82	13.92%	13.27%	-0.65%	-3.51%	2.86%	YES
Jan-83	10.41%	10.07%	-0.34%	0.57%	0.91%	
Jul-83	10.98%	10.54%	-0.44%	0.89%	1.33%	
Jan-84	11.87%	11.39%	-0.48%	1.77%	2.25%	
Jul-84	13.64%	13.78%	0.14%	-2.11%	2.25%	
Jan-85	11.53%	11.56%	0.03%	-1.09%	1.12%	
Jul-85	10.44%	10.50%	0.06%	-1.17%	1.23%	
Jan-86	9.27%	9.42%	0.15%	-1.99%	2.14%	
Jul-86	7.28%	7.41%	0.13%	0.21%	0.08%	YES
Jan-87	7.49%	7.05%	-0.44%	1.01%	1.45%	
Jul-87	8.50%	8.45%	-0.05%	0.48%	0.53%	
Jan-88	8.98%	8.65%	-0.33%	-0.13%	0.20%	YES
Jul-88	8.85%	9.36%	0.51%	0.14%	0.37%	YES
Jan-89	8.99%	9.25%	0.26%	-0.95%	1.21%	
Jul-89	8.04%	8.12%	0.08%	-0.07%	0.15%	
Jan-90	7.97%	7.62%	-0.35%	0.43%	0.78%	
Jul-90	8.40%	8.16%	-0.24%	-0.16%	0.08%	YES
Jan-91	8.24%	7.65%	-0.59%	0.17%	0.76%	
Jul-91	8.41%	8.22%	-0.19%	-1.02%	0.83%	YES
Jan-92	7.39%	7.30%	-0.09%	0.39%	0.48%	
Jul-92	7.78%	7.61%	-0.17%	-0.39%	0.22%	YES
Jan-93	7.39%	7.44%	0.05%	-0.72%	0.77%	
Jul-93	6.67%	6.83%	0.16%	-0.33%	0.49%	
Jan-94	6.34%	6.26%	-0.08%	1.27%	1.35%	
Jul-94	7.61%	7.30%	-0.31%	0.26%	0.57%	
Jan-95	7.87%	7.94%	0.07%	-1.23%	1.30%	
Jul-95	6.64%	6.60%	-0.04%	-0.70%	0.66%	YES
Jan-96	5.94%	6.00%	0.06%	0.95%	0.89%	YES
Jul-96	6.89%	6.86%	-0.03%	-0.25%	0.22%	YES
Jan-97	6.64%	6.52%	-0.12%	0.14%	0.26%	
Jul-97	6.78%	6.79%	0.01%	-0.86%	0.87%	
Jan-98	5.92%	6.02%	0.10%	-0.28%	0.38%	
Jul-98	5.64%	5.72%	0.08%	-0.55%	0.63%	
Jan-99	5.09%	5.04%	-0.05%	0.89%	0.94%	
Jul-99	5.98%	5.83%	-0.15%	0.50%	0.65%	
Jan-00	6.48%	6.38%	-0.10%	-0.58%	0.48%	YES
Jul-00	5.90%	6.01%	0.11%	-0.40%	0.51%	
Jan-01	5.50%	5.35%	-0.15%	***0.30%*** [1]	0.45%	
Jul-01	5.40%	5.30%	-0.10%	-0.38%	0.28%	YES
Jan-02	5.02%	5.06%	0.04%	-0.22%	0.26%	
Jul-02	4.80%	5.20%	0.40%	????	????	***????***
Difference Between Forecast And Actual (average of all periods)						0.83%
Batting Average						0.300

note. The actual change for January 2001 reflects the change of the 30-year bond.

Source: *The Wall Street Journal*

Bianco Research L.L.C.

1113 West Armitage, Suite 4
Chicago IL 60614

Phone: (847) 304-1511 Fax (847) 304-1749
e-mail: research@biancoresearch.com
http://www.biancoresearch.com

For more information about the contents/ opinions contained in these reports:

President (847) 304-1511
James A. Bianco jbianco@biancoresearch.com

Research Analysts (847) 304-1506/1534
John J. Kosar jkosar@biancoresearch.com
Greg Blaha gblaha@biancoresearch.com
Scott Mikkelsen smikkelsen@biancoresearch.com

For subscription/service Information:

Arbor Research & Trading, Inc.
Director of Sales & Marketing (800) 876-1825
Fritz Handler fritz.handler@arborresearch.com
Patrick Lovett pat.lovett@arborresearch.com

Arbor Research & Trading, Inc.

1000 Hart Road, Suite 260
Barrington IL 60010

Phone (847) 304-1560 Fax (847) 304-1595
e-mail inforequest@arborresearch.com
http://www.arborresearch.com

For more information about Arbor Research & Trading and its services:

Director of Fixed-Income Sales (800) 876-1825
Daniel Lustig dan.lustig@arborrersearch.com
Director of International Sales (847) 304-1560
James L. Perry james.perry@arborresearch.com
Anne Schultz anne.schultz@arborresearch.com

Arbor Research & Trading (UK) LTD

75 Cannon Street London England EC4N 5BN
Phone 44-207-556-7309 Fax 44-207-896-1887

For more information:

Director of Arbor (UK) 44-207-556-7309
Neil Tritton neil.tritton@arborresearch.com
Sean Fletcher sean.fletcher@arborresearch.com