

THE LIVINGSTON SURVEY

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Forecasters Call for Slower Economic Growth and Rising Unemployment

Forecasters see the economy slowing down significantly in 2001 and 2002 from its rapid pace in 2000. The forecasters, who are surveyed by the Federal Reserve Bank of Philadelphia twice a year for the Livingston Survey, are projecting that the economy's output, which they forecast to have grown 5.1 percent in 2000 (based on the growth rate of the average annual level of real GDP), will slow down to just 3.1 percent growth in 2001 and 3.4 percent in 2002. However, the growth rates in both 2000 and 2001 are a bit higher than they were in the last survey, taken six months ago in June 2000, as the table below indicates.

In the forecasts, the unemployment rate is expected to rise over the next two years, in line with the projection of slower output growth. Unemployment is expected to average 4.0 percent this year, to rise slightly to 4.3 percent in 2001, and to rise still further to 4.5 percent in 2002. The forecast for 2000 is the same as it was six months ago, but the 2001 forecast was revised up slightly.

	<i>Growth Rate of Real GDP (%)</i>			<i>Unemployment Rate (%)</i>	
	<i>Previous</i>	<i>New</i>		<i>Previous</i>	<i>New</i>
<i>Annual average data:</i>					
1999 to 2000	4.9	5.1	2000	4.0	4.0
2000 to 2001	3.0	3.1	2001	4.2	4.3
2001 to 2002	N.A.	3.4	2002	N.A.	4.5

Inflation Will Decline in 2001 and 2002

The slowing of the economy will bring some benefits on the inflation front, according to the 27 forecasters. Consumer price inflation will average 3.4 percent in 2000, then drop to 2.8 percent in 2001 and 2.5 percent in 2002. However, the forecast for 2001 is slightly higher than the forecast made six months ago, as the table below shows. A similar pattern is true for producer prices, as shown in the table.

	<i>CPI Inflation (%)</i>		<i>PPI Inflation (%)</i>	
	<i>Previous</i>	<i>New</i>	<i>Previous</i>	<i>New</i>
<i>Annual average data:</i>				
1999 to 2000	3.4	3.4	3.2	3.7
2000 to 2001	2.5	2.8	1.8	2.1
2001 to 2002	N.A.	2.5	N.A.	1.5

Short-Term Interest Rates Will Fall, While Long-Term Interest Rates Will Be Stable

The forecasters think that the interest rate on three-month Treasury bills will decline over the coming years. They expect the T-bill interest rate to end 2000 at 6.1 percent, drop to 5.8 percent by the end of June 2001, decline further to 5.6 percent at the end of 2001, and fall still further to 5.4 percent by the end of 2002. In the survey taken six months ago, the forecasters expected the interest rate to fall over time, but not as much, as the table below indicates.

Long-term interest rates aren't expected to change very much, however. The interest rate on 30-year Treasury bonds is now projected to remain fairly steady over the next few years, falling only slightly from 5.7 percent this month to 5.6 percent by June 2001 and remaining there through December 2002. Note, however, that this is a much lower level of the interest rate than was expected in the previous survey.

	<i>3-Month Treasury Bill</i>		<i>30-Year Treasury Bond</i>	
	<i>Interest Rate</i>		<i>Interest Rate</i>	
	<i>Previous</i>	<i>New</i>	<i>Previous</i>	<i>New</i>
Dec. 2000	6.3	6.1	6.3	5.7
June 2001	6.0	5.8	6.2	5.6
Dec. 2001	6.0	5.6	6.2	5.6
Dec. 2002	N.A.	5.4	N.A.	5.6

Long-Term Outlook: Higher Inflation and Output Growth Than in Previous Forecasts

The forecasters now think that inflation (in the Consumer Price Index) will average 2.6 percent over the next 10 years. This marks an uptick from the 2.5 percent expected in the last two surveys taken in June 2000 and in December 1999.

However, the forecasters also see faster output growth in the long run than they did previously. The average annual growth rate of real GDP will be 3.4 percent, compared with 3.2 percent in the previous survey.

2000 Livingston Survey Participants

J. Benderly	Benderly Economic Associates	I. Kellner	Hofstra University
R. Berner	Morgan Stanley Dean Witter	D. Knop	Transcontinental Gas Pipeline Corp.
D. Berson	Federal National Mortgage Association	J. Lonski	Moody's Investors Service Inc.
K. Bockman	National Association of Realtors	K. Mayland	ClearView Economics
W. Brown	Morgan Guaranty Trust Company	R. Monaco	University of Maryland
J. Butkiewicz	University of Delaware	J. Mueller	Lehrman Bell Mueller Cannon Inc.
R. Chandross	Republic National Bank of New York	M. Niemira	Bank of Tokyo-Mitsubishi, Ltd.
R. Chase	Chase Economics	F. Rafeld	Ashland University
A. Crescenzi	Miller Tabak Hirsch & Co.	D. Ratajczak	Georgia State University
R. DeKaser	National City Bank	M. Regalia	U.S. Chamber of Commerce
R. Dhawan	UCLA Anderson Forecasts	D. Rippe	Prudential Securities
F. Dixon	Economic Insights	D. Seiders	National Association of Home Builders
M. Englund	MMS Intl.	J. Skorburg	American Farm Bureau Federation
G. Fosler	Conference Board	D. Torgerson	U.S. Department of Agriculture
J. Gonzalez	Tennessee Valley Authority	R. Welk	Rowtek Economics
J. Hall	Thomson Financial Services	M. Willoughby	BVS
S. Hickok	Prudential Insurance Company of America	M. Wohar	University of Nebraska-Omaha
S. Hoffman	PNC Bank	D. Wyss	Data Resources, Inc.
B. Horrigan	Loomis Sayles & Co.	R. Yamarone	Argus Research Corp.
S. Hymans	University of Michigan	J. Young	BellSouth Corp.

Forecasts for Corporate Profits and Stock Prices Are Lower Than Before

The forecasters have become less optimistic about corporate profits. In line with this view, they also see lower stock prices than they did six months ago.

For 2000, after-tax corporate profits are expected to be 14.4 percent higher than in 1999. But the forecasters think the growth rate of profits will drop to just 3.5 percent in 2001. In 2002, corporate profits are expected to rise a bit faster, at 5.0 percent. The forecasts for 2000 and 2001 are both slightly lower than they were in the forecast made six months ago.

Stock prices (as measured by the S&P 500 index) are expected to finish 2000 at a level of 1385, a drop of 5.7 percent from one year earlier. The forecasters project that the index will then rise to 1470 at the end of June 2001 and to 1490 by the end of the year, an increase of 7.6 percent for the year. But stocks should appreciate more in 2002, rising to 1639.5 by the end of the year, an increase of 11.6 percent.

	<i>Growth Rate of After-Tax Corporate Profits (%)</i>			<i>Stock Prices (end of year) S&P 500 Index</i>	
	<i>Previous</i>	<i>New</i>		<i>Previous</i>	<i>New</i>
1999 to 2000	8.3	14.4	Dec. 31, 2000	1480.0	1385.0
2000 to 2001	3.8	3.5	June 30, 2001	1531.1	1470.0
2001 to 2002	N.A.	5.0	Dec. 31, 2001	1564.0	1490.0
			Dec. 31, 2002	N.A.	1639.5

Technical Notes

This news release reports the median value across the 27 forecasters on the survey's panel rather than the mean value reported in prior years.

Also, between the time the survey was mailed out to the panelists and when it was due, the Federal Reserve revised its series on industrial production. Since some forecasters provided forecasts based on the old series and others used the new series, to make the forecasts comparable, all forecasts based on the old series were modified to a scale consistent with the new series, preserving growth rates across the six-month and annual forecast horizons. However, the results should be viewed with caution.

The Philadelphia Fed's Livingston Survey is the oldest continuous survey of economists' expectations. The survey was started in 1946 by the late columnist Joseph A. Livingston. It summarizes the forecasts of economists from industry, government, banking, and academia. It is published twice a year, in June and December.

To subscribe to the survey, contact the Research Department's Publications Desk at (215) 574-6428.

LIVINGSTON SURVEY
MAJOR MACROECONOMIC INDICATORS, 2000-2002

QUARTERLY INDICATORS (percentage changes at annual rates)	Q2 2000 TO Q4 2000	Q4 2000 TO Q2 2001	Q2 2001 TO Q4 2001	1999 TO 2000	2000 TO 2001	2001 TO 2002
Real Gross Domestic Product	2.6	3.1	3.2	5.1	3.1	3.4
Nominal Gross Domestic Product	4.8	5.2	5.5	7.4	5.4	5.6
Nonresidential Fixed Investment	7.6	5.3	6.0	13.2	6.7	6.1
Corporate Profits After Taxes	2.4	4.7	2.1	14.4	3.5	5.0
MONTHLY INDICATORS (percentage changes at annual rates)	JUN 2000 TO DEC 2000	DEC 2000 TO JUN 2001	JUN 2001 TO DEC 2001	1999 TO 2000	2000 TO 2001	2001 TO 2002
Industrial Production	1.9	3.2	3.4	5.7	3.2	3.2
Producer Prices - Finished Goods	1.9	1.6	1.1	3.7	2.1	1.5
Consumer Price Index (CPI-U)	2.5	2.7	2.5	3.4	2.8	2.5
Average Weekly Earnings in Mfg.	2.6	2.9	3.2	2.9	3.0	2.7
Retail Trade	4.9	4.7	4.9	8.2	4.3	5.2
(levels of variables)	DEC 2000	JUN 2001	DEC 2001	2000	2001	2002
Total Private Housing Starts (annual rate, millions)	1.530	1.500	1.500	1.600	1.520	1.519
Unemployment Rate (percent)	4.1	4.3	4.4	4.0	4.3	4.5
Automobile Sales (incl. foreign) (annual rate, millions)	8.4	8.2	8.1	8.9	8.2	8.3
FINANCIAL INDICATORS (levels of variables)	DEC 2000	JUN 2001	DEC 2001	DEC 2002		
Prime Interest Rate	9.5	9.0	9.0	8.9		
30-Year Treasury Bond Yield	5.7	5.6	5.6	5.6		
3-Month Treasury Bill Rate	6.1	5.8	5.6	5.4		
Stock Prices (S&P500)	1385.0	1470.0	1490.0	1639.5		

LONG-TERM OUTLOOK

Average Annual Growth Rate for the Next Ten Years

Real GDP	3.4
Consumer Price Index	2.6

Source: Research Department, Federal Reserve Bank of Philadelphia, Livingston Survey, December 2000

LIVINGSTON SURVEY

December 2000

Tables

Note: Data in these tables listed as “actual” are the data that were available to the forecasters when they were sent the survey questionnaire on November 16; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before December 13.

TABLE ONE
MAJOR MACROECONOMIC INDICATORS, 2000-2002
MEDIAN OF FORECASTER PREDICTIONS

QUARTERLY INDICATORS	NUMBER OF FORE- CASTERS	ACTUAL	FORECASTS		ACTUAL	FORECASTS			
		2000 Q2	2000 Q4	2001 Q2	2001 Q4	1999	2000	2001	2002
1. Real Gross Domestic Product (billions, chain weighted)	27	9318.9	9440.0	9583.3	9734.8	8875.8	9332.0	9625.0	9953.4
2. Nominal Gross Domestic Product (\$ billions)	27	9945.7	10183.0	10445.9	10731.5	9299.2	9986.0	10521.8	11109.0
3. Nonresidential Fixed Investment (billions, chain weighted)	24	1412.5	1464.9	1503.1	1547.3	1255.3	1421.0	1516.3	1608.3
4. Corporate Profits After Taxes (\$ billions)	19	650.4	658.0	673.2	680.3	567.1	649.0	672.0	705.5
MONTHLY INDICATORS		ACTUAL	FORECASTS		ACTUAL	FORECASTS			
		JUN 2000	DEC 2000	JUN 2001	DEC 2001	1999	2000	2001	2002
5. Industrial Production (1992=100)	24	147.9	149.3	151.6	154.2	139.2	147.1	151.8	156.6
6. Total Private Housing Starts (annual rate, millions)	24	1.571	1.530	1.500	1.500	1.676	1.600	1.520	1.519
7. Producer Prices - Finished Goods (index level)	19	138.6	139.9	141.0	141.8	133.0	137.9	140.8	142.9
8. Consumer Price Index (CPI-U) (index level)	24	172.4	174.5	176.8	179.0	166.6	172.3	177.1	181.4
9. Unemployment Rate (percent)	25	4.0	4.1	4.3	4.4	4.2	4.0	4.3	4.5
10. Average Weekly Earnings in Mfg. (\$)	10	598.0	605.8	614.5	624.3	580.1	596.7	614.8	631.7
11. Retail Trade (\$ billions)	16	268.4	275.0	281.3	288.2	249.6	270.0	281.5	296.0
12. Automobile Sales (incl. foreign) (annual rate, millions)	18	8.8	8.4	8.2	8.1	8.7	8.9	8.2	8.3

TABLE ONE (CONTINUED)

INTEREST RATES & STOCK PRICES (end of period)		ACTUAL		FORECASTS		
		JUN 2000	DEC 2000	JUN 2001	DEC 2001	DEC 2002
13. Prime Interest Rate (percent)	24	9.5	9.5	9.0	9.0	8.9
14. 30-Year Treasury Bond Yield (percent)	25	5.9	5.7	5.6	5.6	5.6
15. 3-Month Treasury Bill Rate (percent)	25	5.7	6.1	5.8	5.6	5.4
16. Stock Prices (S&P500) (index level)	20	1454.6	1385.0	1470.0	1490.0	1639.5

Source: Research Department, Federal Reserve Bank of Philadelphia, Livingston Survey, December 2000

TABLE TWO
 MAJOR MACROECONOMIC INDICATORS, 2000-2002
 PERCENTAGE CHANGES AT ANNUAL RATES

QUARTERLY INDICATORS	NUMBER OF FORE- CASTERS	Q2 2000	Q4 2000	Q2 2001	1999	2000	2001
		TO Q4 2000	TO Q2 2001	TO Q4 2001	TO 2000	TO 2001	TO 2002
1. Real Gross Domestic Product	27	2.6	3.1	3.2	5.1	3.1	3.4
2. Nominal Gross Domestic Product	27	4.8	5.2	5.5	7.4	5.4	5.6
3. Nonresidential Fixed Investment	24	7.6	5.3	6.0	13.2	6.7	6.1
4. Corporate Profits After Taxes	19	2.4	4.7	2.1	14.4	3.5	5.0
MONTHLY INDICATORS		JUN 2000	DEC 2000	JUN 2001	1999	2000	2001
		TO DEC 2000	TO JUN 2001	TO DEC 2001	TO 2000	TO 2001	TO 2002
5. Industrial Production	24	1.9	3.2	3.4	5.7	3.2	3.2
6. Total Private Housing Starts	24	-0.041	-0.030	0.000	-0.076	-0.080	-0.001
7. Producer Prices - Finished Goods	19	1.9	1.6	1.1	3.7	2.1	1.5
8. Consumer Price Index (CPI-U)	24	2.5	2.7	2.5	3.4	2.8	2.5
9. Unemployment Rate	25	0.1	0.2	0.1	-0.2	0.3	0.2
10. Average Weekly Earnings in Mfg.	10	2.6	2.9	3.2	2.9	3.0	2.7
11. Retail Trade	16	4.9	4.7	4.9	8.2	4.3	5.2
12. Automobile Sales (incl. foreign)	18	-0.5	-0.2	-0.1	0.2	-0.7	0.1

INTEREST RATES & STOCK PRICES		JUN 2000 TO DEC 2000	DEC 2000 TO JUN 2001	JUN 2001 TO DEC 2001	DEC 2001 TO DEC 2002
13. Prime Interest Rate	24	0.0	-0.5	0.0	-0.1
14. 30-Year Treasury Bond Yield	25	-0.2	-0.1	0.0	0.0
15. 3-Month Treasury Bill Rate	25	0.3	-0.3	-0.2	-0.2
16. Stock Prices (S&P500)	20	-9.3	12.7	2.7	10.0

Note: Figures for housing starts, unemployment rate, auto sales, prime interest rate, 30-year Treasury bond, and 90-day Treasury bill are changes in levels. All others are percentage changes at annual rates.

Source: Research Department, Federal Reserve Bank of Philadelphia, Livingston Survey, December 2000

TABLE THREE
LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI Inflation Rate

STATISTIC	
Minimum	2.000
Lower Quartile	2.500
Median	2.600
Upper Quartile	2.800
Maximum	3.500
Mean	2.604
Std. Deviation	0.304
N	23
Missing	4

SERIES: Real GDP

STATISTIC	
Minimum	2.600
Lower Quartile	3.000
Median	3.400
Upper Quartile	3.600
Maximum	4.000
Mean	3.326
Std. Deviation	0.349
N	23
Missing	4

Source: Research Department, Federal Reserve Bank of Philadelphia, Livingston Survey, December 2000