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DECEMBER 2003

Forecasters Predict Continued Economic Growth Through 2004

The 25 participants in the December Livingston Survey see sustained output growth through the end of 2004. The forecasters, who are surveyed by the Federal Reserve Bank of Philadelphia twice a year, project that the economy's output will surge at an annual rate of 6.1 percent in the second half of 2003. Furthermore, they think that economic output (real GDP) will grow at an annual rate of 4.3 percent in the first half of 2004 and continue to rise at an annual rate of 4.1 percent in the second half of the year. These forecasts are significantly higher than in the previous survey, suggesting that forecasters are becoming more optimistic.

The unemployment rate is expected to fall from 5.9 percent in December 2003 to 5.7 percent in June 2004, then continue to decline to 5.5 percent by the end of 2004. On an annual average basis, the unemployment rate will be 6.0 percent in 2003, 5.7 percent in 2004, and 5.4 percent in 2005. These forecasts suggest that the unemployment rate will decrease gradually over the next two years.

	<i>Growth Rate of Real GDP (%)</i>			<i>Unemployment Rate (%)</i>	
	<i>Previous</i>	<i>New</i>		<i>Previous</i>	<i>New</i>
<i>Half-year data:</i>					
2003 Q2 to 2003 Q4	3.5	6.1	December 2003	5.9	5.9
2003 Q4 to 2004 Q2	3.8	4.3	June 2004	5.7	5.7
2004 Q2 to 2004 Q4	N.A.	4.1	December 2004	N.A.	5.5

Inflation Continues to Fall Through 2005

Consumer price (CPI) inflation will average 2.3 percent in 2003, then fall to 1.9 percent in 2004, and tick down to 1.8 percent in 2005. These forecasts suggest that the economy will not be subject to inflationary pressures over the next two years. Producer price (PPI) inflation will plunge from 3.2 percent in 2003 to 1.2 percent in 2004. The forecasters then believe that producer price inflation will increase slightly in 2005, reaching a rate of 1.4 percent.

	<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>				
2002 to 2003	2.2	2.3	2.8	3.2
2003 to 2004	2.0	1.9	0.9	1.2
2004 to 2005	N.A.	1.8	N.A.	1.4

Interest Rates Climb Over the Next Two Years

Interest rates on three-month Treasury bills will rise over the next two years, according to the forecasters. They expect the interest rate to be 1.0 percent at the end of 2003, rise slightly to 1.3 percent by June 2004, rise further to 1.7 percent by December 2004, and continue to rise in 2005, finishing the year at 2.5 percent. In the current survey, forecasters predict that interest rates will not rise as quickly as previously forecast six months ago.

Long-term interest rates are also expected to rise over the next two years. The interest rate on 10-year Treasury notes is now projected to be 4.4 percent at the end of 2003, rising to 4.8 percent by June 2004. The long-term rate will continue to climb to 5.2 percent by the end of 2004, then reach 5.6 percent by the end of 2005. This increase, unlike the short-term interest rate forecasts, is faster than the forecasters predicted in June of this year.

	<i>3-Month T-Bill</i>		<i>10-Year T-Notes</i>	
	<i>Interest Rate</i>	<i>Interest Rate</i>	<i>Interest Rate</i>	<i>Interest Rate</i>
	<i>Previous</i>	<i>New</i>	<i>Previous</i>	<i>New</i>
Dec. 31, 2003	1.3	1.0	4.0	4.4
June 30, 2004	1.7	1.3	4.3	4.8
Dec. 31, 2004	2.3	1.7	4.6	5.2
Dec. 31, 2005	N.A.	2.5	N.A.	5.6

2003 Livingston Survey Participants Participants in December Survey

R. Berner	Morgan Stanley & Co.	D. Knop	Williams Gas Pipeline
J. Butkiewicz	University of Delaware	C. Leahey	Deutsche Bank
R. Chase	Huckell/Weinman Associates, Inc.	D. Lereah	National Association of Realtors
G. Ciminero	Independent Economic Advisory	J. Lonski	Moody's Investors Service, Inc.
R. DeKaser	National City Corporation	F. Nothaft	Federal Home Loan Mortgage Corp.
R. Dhawan	Georgia State University	R. Rippe	Prudential Equity Group
F. Dixon	Economic Insights	T. Schaap	BellSouth Corp.
M. Englund	Standard & Poor's MMS	J. Silvia	Wachovia Corporation
B. Fabbri	BNP Paribas	J. Smith	University of North Carolina
J. Gonzalez	Tennessee Valley Authority	D. Torgerson	U.S. Department of Agriculture
B. Horrigan	Loomis Savles & Co.	M. Wohar	University of Nebraska-Omaha
S. Hymans	University of Michigan	R. Yamarone	Argus Research Corporation
I. Kellner	Kellner Economic Advisors		

Long-Term Outlook: Same Level of Inflation and Higher Output Growth Than in Previous Survey

The forecasters still think that inflation (as measured by the Consumer Price Index) will average 2.5 percent over the next 10 years. This has been the expected level of inflation in the last four surveys, dating back to December 2001. However, the forecasters see faster output growth over the next 10 years than they did previously. The average annual growth rate of real GDP will be 3.5 percent, compared with 3.2 percent in the previous survey. This increase clearly shows that the forecasters are more optimistic than they were six months ago.

Forecasters Predict a Rise in Corporate Profits and Stock Prices

The forecasters have also become more optimistic about growth in corporate profits and the level of stock prices than they were six months ago. Forecasters see these numbers at higher levels than they did back in June of this year.

For 2003, after-tax corporate profits are expected to be 10.9 percent higher than in 2002. Forecasters think that corporate profits will rise at a rate of 14.7 percent in 2004, then soar to an even higher rate of 19.4 percent in 2005.

Stock prices (as measured by the S&P 500 index) are expected to finish 2003 at a level of 1072.5, a substantial increase from the last survey, as shown in the table below. The forecasters project a steady increase in stock prices over the next two years, with the index rising to 1142.5 by the end of June 2004 and to 1195 by the end of 2004. The index will rise to 1256.2 by the end of 2005.

	<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>
2002 to 2003	10.6	10.9	Dec. 31, 2003	1002.0	1072.5
2003 to 2004	12.4	14.7	June 30, 2004	1083.1	1142.5
2004 to 2005	N.A.	19.4	Dec. 31, 2004	1145.4	1195.0
			Dec. 31, 2005	N.A.	1256.2

Technical Notes

This news release reports the median value across the 25 forecasters on the survey's panel.

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 Publications Desk at (215) 574-6428. This four-page write-up contains partial results of the survey; more-detailed tables are available. These tables can be accessed on the Internet at: <http://www.phil.frb.org/econ/liv/index.html>.

LIVINGSTON SURVEY
MAJOR MACROECONOMIC INDICATORS, 2003-2005

QUARTERLY INDICATORS (percentage changes at annual rates)	Q2 2003 TO Q4 2003	Q4 2003 TO Q2 2004	Q2 2004 TO Q4 2004	2002 TO 2003	2003 TO 2004	2004 TO 2005
Real Gross Domestic Product	6.1	4.3	4.1	3.1	4.6	3.9
Nominal Gross Domestic Product	7.7	5.9	5.7	4.7	6.2	5.5
Nonresidential Fixed Investment	12.1	9.9	11.7	2.7	10.9	9.7
Corporate Profits After Taxes	30.7	13.1	12.2	10.9	14.7	19.4
MONTHLY INDICATORS (percentage changes at annual rates)	JUN 2003 TO DEC 2003	DEC 2003 TO JUN 2004	JUN 2004 TO DEC 2004	2002 TO 2003	2003 TO 2004	2004 TO 2005
Industrial Production	5.1	5.6	6.4	0.3	4.8	5.6
Producer Prices - Finished Goods	2.5	0.8	0.1	3.2	1.2	1.4
Consumer Price Index (CPI-U)	1.9	2.0	2.4	2.3	1.9	1.8
Average Weekly Earnings in Mfg.	3.3	3.2	4.0	2.7	3.4	2.9
Retail Trade	6.3	3.8	4.9	5.4	5.7	4.4
(levels of variables)	DEC 2003	JUN 2004	DEC 2004	2003	2004	2005
Total Private Housing Starts (annual rate, millions)	1.869	1.742	1.700	1.808	1.720	1.651
Unemployment Rate (percent)	5.9	5.7	5.5	6.0	5.7	5.4
Automobile Sales (incl. foreign) (annual rate, millions)	7.5	7.7	7.7	7.6	7.7	7.7
FINANCIAL INDICATORS (levels of variables at end of month)	DEC 2003	JUN 2004	DEC 2004	DEC 2005		
Prime Interest Rate	4.00	4.25	4.75	5.25		
10-Year Treasury Note Yield	4.40	4.75	5.18	5.64		
3-Month Treasury Bill Rate	0.95	1.25	1.71	2.52		
Stock Prices (S&P500)	1072.5	1142.5	1195.0	1256.2		
LONG-TERM OUTLOOK						
Average Annual Growth Rate for the Next Ten Years						
Real GDP	3.5					
Consumer Price Index	2.5					

Source: Research Department, Federal Reserve Bank of Philadelphia, Livingston Survey, December 2003

LIVINGSTON SURVEY

December 2003

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 19; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before December 9.

TABLE ONE
MAJOR MACROECONOMIC INDICATORS, 2003-2005
MEDIAN OF FORECASTER PREDICTIONS

QUARTERLY INDICATORS	NUMBER OF FORE- CASTERS	ACTUAL				FORECASTS			
		2003 Q2	2003 Q4	2004 Q2	2004 Q4	2002	2003	2004	2005
1. Real Gross Domestic Product (billions, chain weighted)	25	9629.4	9918.1	10128.0	10334.5	9439.9	9730.0	10180.6	10579.1
2. Nominal Gross Domestic Product (\$ billions)	24	10802.7	11208.5	11536.5	11858.3	10446.3	10939.5	11621.0	12259.5
3. Nonresidential Fixed Investment (billions, chain weighted)	24	1193.0	1263.2	1324.4	1400.1	1183.4	1215.0	1348.0	1478.2
4. Corporate Profits After Taxes (\$ billions)	19	465.9	532.7	566.5	600.0	451.9	501.0	574.8	686.3
MONTHLY INDICATORS		ACTUAL		FORECASTS		ACTUAL		FORECASTS	
		JUN 2003	DEC 2003	JUN 2004	DEC 2004	2002	2003	2004	2005
5. Industrial Production (1997=100)	22	110.0	112.8	115.9	119.5	110.9	111.2	116.5	123.0
6. Total Private Housing Starts (annual rate, millions)	22	1.844	1.869	1.742	1.700	1.711	1.808	1.720	1.651
7. Producer Prices - Finished Goods (index level)	17	143.0	144.8	145.4	145.5	138.9	143.3	145.0	147.0
8. Consumer Price Index (CPI-U) (index level)	22	183.7	185.4	187.2	189.4	179.9	184.1	187.6	191.0
9. Unemployment Rate (percent)	23	6.4	5.9	5.7	5.5	5.8	6.0	5.7	5.4
10. Average Weekly Earnings in Mfg. (\$)	9	635.5	645.9	656.2	669.3	618.9	635.5	657.3	676.3
11. Retail Trade (\$ billions)	12	313.1	322.8	328.8	336.8	298.2	314.2	332.0	346.5
12. Automobile Sales (incl. foreign) (annual rate, millions)	20	7.6	7.5	7.7	7.7	8.1	7.6	7.7	7.7

TABLE ONE (CONTINUED)

INTEREST RATES & STOCK PRICES (end of period)		ACTUAL	FORECASTS			
		JUN 2003	DEC 2003	JUN 2004	DEC 2004	DEC 2005
13. Prime Interest Rate (percent)	23	4.00	4.00	4.25	4.75	5.25
14. 10-Year Treasury Note Yield (percent)	25	3.54	4.40	4.75	5.18	5.64
15. 3-Month Treasury Bill Rate (percent)	24	0.89	0.95	1.25	1.71	2.52
16. Stock Prices (S&P500) (index level)	16	974.5	1072.5	1142.5	1195.0	1256.2

Source: Research Department, Federal Reserve Bank of Philadelphia, Livingston Survey, December 2003

TABLE TWO
 MAJOR MACROECONOMIC INDICATORS, 2003-2005
 PERCENTAGE CHANGES AT ANNUAL RATES

QUARTERLY INDICATORS	NUMBER OF FORE- CASTERS	Q2 2003	Q4 2003	Q2 2004	2002	2003	2004
		TO Q4 2003	TO Q2 2004	TO Q4 2004	TO 2003	TO 2004	TO 2005
1. Real Gross Domestic Product	25	6.1	4.3	4.1	3.1	4.6	3.9
2. Nominal Gross Domestic Product	24	7.7	5.9	5.7	4.7	6.2	5.5
3. Nonresidential Fixed Investment	24	12.1	9.9	11.7	2.7	10.9	9.7
4. Corporate Profits After Taxes	19	30.7	13.1	12.2	10.9	14.7	19.4
MONTHLY INDICATORS		JUN 2003	DEC 2003	JUN 2004	2002	2003	2004
		TO DEC 2003	TO JUN 2004	TO DEC 2004	TO 2003	TO 2004	TO 2005
5. Industrial Production	22	5.1	5.6	6.4	0.3	4.8	5.6
6. Total Private Housing Starts	22	0.025	-0.128	-0.041	0.097	-0.088	-0.069
7. Producer Prices - Finished Goods	17	2.5	0.8	0.1	3.2	1.2	1.4
8. Consumer Price Index (CPI-U)	22	1.9	2.0	2.4	2.3	1.9	1.8
9. Unemployment Rate	23	-0.5	-0.2	-0.2	0.2	-0.3	-0.3
10. Average Weekly Earnings in Mfg.	9	3.3	3.2	4.0	2.7	3.4	2.9
11. Retail Trade	12	6.3	3.8	4.9	5.4	5.7	4.4
12. Automobile Sales (incl. foreign)	20	-0.1	0.2	0.0	-0.5	0.1	0.0

INTEREST RATES & STOCK PRICES		JUN 2003 TO DEC 2003	DEC 2003 TO JUN 2004	JUN 2004 TO DEC 2004	DEC 2004 TO DEC 2005
13. Prime Interest Rate	23	0.00	0.25	0.50	0.50
14. 10-Year Treasury Note Yield	25	0.86	0.35	0.43	0.47
15. 3-Month Treasury Bill Rate	24	0.06	0.30	0.46	0.81
16. Stock Prices (S&P500)	16	21.1	13.5	9.4	5.1

Note: Figures for housing starts, unemployment rate, auto sales, prime interest rate, 10-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 2003

TABLE THREE
LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI Inflation Rate

STATISTIC	
Minimum	1.30
Lower Quartile	2.22
Median	2.50
Upper Quartile	2.50
Maximum	2.80
Mean	2.35
Std. Deviation	0.35
N	20
Missing	5

SERIES: Real GDP

STATISTIC	
Minimum	2.90
Lower Quartile	3.30
Median	3.50
Upper Quartile	3.69
Maximum	5.00
Mean	3.56
Std. Deviation	0.44
N	20
Missing	5

Source: Research Department, Federal Reserve Bank of Philadelphia, Livingston Survey, December 2003