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**JUNE 2003**

***Forecasters (Still) See an Economic Pick-Up***

Forecasters across the nation see an economic pick-up beginning in the second half of 2003 and continuing through 2004. The forecasters are less optimistic than they were in the previous survey six months ago; however, they continue to predict a slowly strengthening economy. The Federal Reserve Bank of Philadelphia polls forecasters twice a year for the Livingston Survey; 30 forecasters responded to this survey. The respondents believe the economy's output will grow 3.5 percent at an annual rate in the second half of 2003, then strengthen to 3.8 percent in the first half of 2004.

In the forecasts, the unemployment rate is expected to decline from 6.1 percent in June 2003 to 5.9 percent in December 2003 and continue to fall to 5.7 percent the following June. Those figures are somewhat higher than forecast in the December 2002 survey.

	<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>					
2002 Q4 to 2003 Q2	2.8	1.9	June 2003	5.9	6.1
2003 Q2 to 2003 Q4	3.6	3.5	December 2003	5.5	5.9
2003 Q4 to 2004 Q2	N.A.	3.8	June 2004	N.A.	5.7

***Inflation Will Fall in 2004***

Consumer price (CPI) inflation forecasts are lower than in the previous survey, as evidenced by the predicted 2.0 percent inflation in 2004, down from the 2.6 percent forecast in the December survey. Respondents to the survey also see inflation averaging an annualized 1.3 percent in the second half of 2003. Forecasts for producer prices on finished goods, however, offer a mixed bag in this survey. Forecasters predict a 2.8 percent increase in the PPI during 2003, and they predict that producer prices will increase only 0.9 percent in 2004.

	<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	2.3	2.2	1.3	2.8
2003 to 2004	2.6	2.0	1.5	0.9

***Interest Rates Will Rise in 2003 and 2004***

Compared with their projections in the December 2002 survey, the forecasters think that short-term and long-term interest rates will be lower than previously believed. Both short-term and long-term interest rates are expected to edge up over the next two years.

The forecasters expect the interest rate on the three-month T-bill to rise from 1.1 percent in June 2003 to 1.3 percent at year-end 2003, then rise throughout 2004, ending the year at 2.3 percent. These forecasts are consistently lower than those of the previous survey, as shown in the table below.

Long-term interest rates are expected to rise over the next year and a half. The interest rate on 10-year Treasury bonds is now projected to climb from 3.5 percent in June 2003 to 4.0 percent by year-end. It is expected to increase further in 2004, finishing the year at 4.6 percent. Again, these forecasts for long-term interest rates are considerably lower than those of the previous survey, as the table shows.

	<i>3-Month Treasury Bill</i>		<i>10-Year Treasury Bond</i>	
	<i>Interest Rate</i>		<i>Interest Rate</i>	
	<i>Previous</i>	<i>New</i>	<i>Previous</i>	<i>New</i>
June 30, 2003	1.5	1.1	4.4	3.5
Dec. 31, 2003	2.1	1.3	4.8	4.0
June 30, 2004	N.A.	1.7	N.A.	4.3
Dec. 31, 2004	3.2	2.3	5.3	4.6

**2003 Livingston Survey Participants  
Participants in June Survey**

<b>R. Berner</b>	<b>Morgan Stanley &amp; Co.</b>	<b>C. Leahey</b>	<b>Global Markets Research</b>
<b>D. Bernson</b>	<b>Federal National Mortgage Association</b>	<b>J. Lonski</b>	<b>Moody's Investors Service, Inc.</b>
<b>J. Butkiewicz</b>	<b>University of Delaware</b>	<b>E. McKelvey</b>	<b>Goldman Sachs &amp; Company</b>
<b>R. Chase</b>	<b>Huckell/Weinman Associates, Inc.</b>	<b>H. Neil</b>	<b>Financial &amp; Economic Strategies Corp.</b>
<b>G. Ciminero</b>	<b>Independent Economic Advisory</b>	<b>M. Niemira</b>	<b>Bank of Tokyo-Mitsubishi, Ltd.</b>
<b>R. DeKaser</b>	<b>National City Corporation</b>	<b>F. Nothaft</b>	<b>Federal Home Loan Mortgage Corp.</b>
<b>R. Dhawan</b>	<b>Georgia State University</b>	<b>M. Regalia</b>	<b>U.S. Chamber of Commerce</b>
<b>F. Dixon</b>	<b>Economic Insights</b>	<b>J. Silvia</b>	<b>Wachovia Corporation</b>
<b>S. Duobinis</b>	<b>National Association of Home Builders</b>	<b>J. Skorkburg</b>	<b>American Farm Bureau Federation</b>
<b>J. Gonzalez</b>	<b>Tennessee Valley Authority</b>	<b>P. Taylor</b>	<b>National Automobile Dealers Association</b>
<b>J. Hall</b>	<b>Thomson Financial Services</b>	<b>D. Torgerson</b>	<b>U.S. Department of Agriculture</b>
<b>B. Horrigan</b>	<b>Loomis Sayles &amp; Co.</b>	<b>M. Wohar</b>	<b>University of Nebraska-Omaha</b>
<b>S. Hymans</b>	<b>University of Michigan</b>	<b>R. Yamarone</b>	<b>Argus Research Corporation</b>
<b>I. Kellner</b>	<b>Kellner Economic Advisors</b>	<b>J. Young</b>	<b>BellSouth Corp.</b>
<b>D. Knop</b>	<b>Williams Gas Pipeline</b>	<b>L. Yun</b>	<b>National Association of Realtors</b>

### ***Long-Term Outlook Steady***

The forecasters' views of long-term inflation and output growth have been fairly steady over the last year. The panelists think that real GDP will grow 3.2 percent annually over the next 10 years, the same as in the previous survey. Inflation (in the Consumer Price Index) will average 2.5 percent over the next 10 years, unchanged from the last three surveys.

### ***Corporate Profits Set to Rise in 2003; Stock Prices Rise Modestly in Second Half of 2003, Dramatically in 2004***

For 2003, after-tax corporate profits are expected to rise 10.6 percent, a decrease from the December survey's prediction of a 12.3 percent increase. In 2004, however, corporate profits are expected to increase 12.4 percent, a faster pace than projected in the earlier survey.

Stock prices (as measured by the S&P 500 index) are forecast to rise slowly over the remainder of 2003. However, they are predicted to rise by annual rates of 16.8 percent and 11.8 percent in the first and second halves of 2004, respectively.

	<i>Growth Rate of After-Tax Corporate Profits (%)</i>			<i>Stock Prices S&amp;P 500 Index</i>	
	<i>Previous</i>	<i>New</i>		<i>Previous</i>	<i>New</i>
2002 to 2003	12.3	10.6	June 30, 2003	1001.3	975.0
2003 to 2004	10.8	12.4	Dec. 31, 2003	1076.1	1002.0
			June 30, 2004	N.A.	1083.1
			Dec. 31, 2004	1138.5	1145.4

### ***Technical Notes***

This news release reports the median value across the 30 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 Research Department's Publications Desk at (215) 574-6428, or e-mail [phil.liv@phil.frb.org](mailto:phil.liv@phil.frb.org). 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, 2003-2004

QUARTERLY INDICATORS (percentage changes at annual rates)	Q4 2002	Q2 2003	Q4 2003	2002	2003
	TO Q2 2003	TO Q4 2003	TO Q2 2004	TO 2003	TO 2004
Real Gross Domestic Product	1.9	3.5	3.8	2.3	3.6
Nominal Gross Domestic Product	4.0	5.2	6.0	4.1	5.6
Nonresidential Fixed Investment	0.3	6.0	10.1	1.1	8.7
Corporate Profits After Taxes	9.4	10.9	13.8	10.6	12.4
MONTHLY INDICATORS (percentage changes at annual rates)	DEC 2002	JUN 2003	DEC 2003	2002	2003
	TO JUN 2003	TO DEC 2003	TO JUN 2004	TO 2003	TO 2004
Industrial Production	0.5	3.2	5.1	0.4	4.2
Producer Prices - Finished Goods	4.4	1.6	1.4	2.8	0.9
Consumer Price Index (CPI-U)	3.3	1.3	2.7	2.2	2.0
Average Weekly Earnings in Mfg.	-3.9	3.6	3.0	1.8	3.2
Retail Trade	3.1	3.8	5.5	4.2	4.5
(levels of variables)	JUN 2003	DEC 2003	JUN 2004	2003	2004
Total Private Housing Starts (annual rate, millions)	1.680	1.687	1.680	1.685	1.657
Unemployment Rate (percent)	6.1	5.9	5.7	6.0	5.6
Automobile Sales (incl. foreign) (annual rate, millions)	7.6	7.9	8.0	7.7	8.0
FINANCIAL INDICATORS (levels of variables, end-of-month)	JUN 2003	DEC 2003	JUN 2004	DEC 2004	
Prime Interest Rate	4.2	4.3	4.5	5.1	
10-Year Treasury Note Yield	3.5	4.0	4.3	4.6	
3-Month Treasury Bill Rate	1.1	1.3	1.7	2.3	
Stock Prices (S&P500)	975.0	1002.0	1083.1	1145.4	

## LONG-TERM OUTLOOK

Average Annual Growth Rate for the Next Ten Years

Real GDP	3.2
Consumer Price Index	2.5

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

# **LIVINGSTON SURVEY**

**June 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 May 19; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before June 10.**

TABLE ONE  
MAJOR MACROECONOMIC INDICATORS, 2003-2004  
MEDIAN OF FORECASTER PREDICTIONS

QUARTERLY INDICATORS	NUMBER OF FORE- CASTERS	ACTUAL	FORECASTS				FORECASTS		
		2002 Q4	2003 Q2	2003 Q4	2004 Q2	2002	2003	2004	
1. Real Gross Domestic Product (billions, chain weighted)	30	9518.2	9609.8	9777.7	9961.3	9439.8	9660.7	10005.0	
2. Nominal Gross Domestic Product (\$ billions)	30	10588.8	10799.0	11077.3	11406.0	10446.3	10873.5	11483.6	
3. Nonresidential Fixed Investment (billions, chain weighted)	26	1185.3	1186.8	1221.8	1282.0	1183.4	1196.7	1300.8	
4. Corporate Profits After Taxes (\$ billions)	24	472.5	494.1	520.3	555.0	451.9	500.0	561.8	
MONTHLY INDICATORS		ACTUAL DEC 2002	JUN 2003	FORECASTS DEC 2003	JUN 2004	ACTUAL 2002	2003	FORECASTS 2004	
5. Industrial Production (1992=100)	26	109.9	110.1	111.9	114.7	110.4	110.8	115.4	
6. Total Private Housing Starts (annual rate, millions)	26	1.815	1.680	1.687	1.680	1.711	1.685	1.657	
7. Producer Prices - Finished Goods (index level)	22	139.0	142.0	143.1	144.1	138.9	142.8	144.1	
8. Consumer Price Index (CPI-U) (index level)	27	180.9	183.9	185.1	187.6	179.9	183.8	187.5	
9. Unemployment Rate (percent)	27	6.0	6.1	5.9	5.7	5.8	6.0	5.6	
10. Average Weekly Earnings in Mfg. (\$)	13	646.6	633.8	645.1	654.8	625.7	636.8	657.5	
11. Retail Trade (\$ billions)	16	305.8	310.5	316.4	325.0	298.5	311.1	325.1	
12. Automobile Sales (incl. foreign) (annual rate, millions)	22	8.4	7.6	7.9	8.0	8.1	7.7	8.0	

TABLE ONE (CONTINUED)

INTEREST RATES & STOCK PRICES (end of period)		ACTUAL		FORECASTS		
		DEC 2002	JUN 2003	DEC 2003	JUN 2004	DEC 2004
13. Prime Interest Rate (percent)	28	4.3	4.2	4.3	4.5	5.1
14. 10-Year Treasury Note Yield (percent)	30	3.8	3.5	4.0	4.3	4.6
15. 3-Month Treasury Bill Rate (percent)	30	1.2	1.1	1.3	1.7	2.3
16. Stock Prices (S&P500) (index level)	21	879.8	975.0	1002.0	1083.1	1145.4

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

TABLE TWO  
 MAJOR MACROECONOMIC INDICATORS, 2003-2004  
 PERCENTAGE CHANGES AT ANNUAL RATES

QUARTERLY INDICATORS	NUMBER OF FORE- CASTERS	Q4 2002	Q2 2003	Q4 2003	2002	2003
		TO Q2 2003	TO Q4 2003	TO Q2 2004	TO 2003	TO 2004
1. Real Gross Domestic Product	30	1.9	3.5	3.8	2.3	3.6
2. Nominal Gross Domestic Product	30	4.0	5.2	6.0	4.1	5.6
3. Nonresidential Fixed Investment	26	0.3	6.0	10.1	1.1	8.7
4. Corporate Profits After Taxes	24	9.4	10.9	13.8	10.6	12.4
MONTHLY INDICATORS		DEC 2002	JUN 2003	DEC 2003	2002	2003
		TO JUN 2003	TO DEC 2003	TO JUN 2004	TO 2003	TO 2004
5. Industrial Production	26	0.5	3.2	5.1	0.4	4.2
6. Total Private Housing Starts	26	-0.135	0.007	-0.007	-0.026	-0.028
7. Producer Prices - Finished Goods	22	4.4	1.6	1.4	2.8	0.9
8. Consumer Price Index (CPI-U)	27	3.3	1.3	2.7	2.2	2.0
9. Unemployment Rate	27	0.1	-0.2	-0.2	0.2	-0.4
10. Average Weekly Earnings in Mfg.	13	-3.9	3.6	3.0	1.8	3.2
11. Retail Trade	16	3.1	3.8	5.5	4.2	4.5
12. Automobile Sales (incl. foreign)	22	-0.8	0.3	0.1	-0.4	0.3

		DEC 2002	JUN 2003	DEC 2003	JUN 2004
		TO	TO	TO	TO
INTEREST RATES & STOCK PRICES		JUN 2003	DEC 2003	JUN 2004	DEC 2004
13. Prime Interest Rate	28	-0.1	0.1	0.3	0.6
14. 10-Year Treasury Note Yield	30	-0.3	0.5	0.3	0.3
15. 3-Month Treasury Bill Rate	30	-0.1	0.2	0.5	0.6
16. Stock Prices (S&P500)	21	22.8	5.6	16.8	11.8

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, June 2003

TABLE THREE  
LONG-TERM (10 YEAR) FORECASTS

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SERIES: CPI Inflation Rate

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STATISTIC	
Minimum	1.500
Lower Quartile	2.200
Median	2.500
Upper Quartile	2.500
Maximum	2.900
Mean	2.372
Std. Deviation	0.297
N	23
Missing	7

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SERIES: Real GDP

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STATISTIC	
Minimum	2.700
Lower Quartile	3.000
Median	3.200
Upper Quartile	3.400
Maximum	3.600
Mean	3.172
Std. Deviation	0.241
N	23
Missing	7

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