

The

LIVINGSTON

S U R V E Y

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Inflation forecasts are lower

Forecasts of long-term inflation have been revised downward, according to the 57 economists responding to this month's Livingston Survey. For the next 10 years, the consumer price index is expected to rise at an average annual rate of 3.0 percent, substantially lower than the 3.4 percent of the previous two surveys. Growth in the price level has not remained this low over a 10-year period since the 1960s.

In the short run, economists see very little pressure on prices as well. Inflation forecasts for the first half of 1996 are lower than those in June's survey. The consumer price index is expected to grow at an annual rate of 2.9 percent during this period, and the producer price index is expected to grow at 2.1 percent. In June's survey, prices during this period were expected to grow at an annual rate of 3.5 percent at the consumer level (CPI) and 2.7 percent at the producer level (PPI). For the second half of 1996 the CPI is expected to grow at 2.9 percent and the PPI at 2.4 percent.

Forecasters see moderate growth

The economy will experience moderate growth in the short run, according to the panel of forecasters. Real gross domestic product is expected to grow at an annual rate of 2.5 percent in 1996. The forecast for the current quarter calls for growth at an annual rate of 2.1 percent. For the next 10 years, real GDP is expected to grow at an annual rate of 2.5 percent.

A portion of this return to trend growth

can be attributed to a slowdown in business fixed investment. Business fixed investment, which is made up of nonresidential investment in structures and durable equipment, is expected to grow at an annual rate of 5.7 percent in the first half of 1996 and 5.1 percent in the remaining half. This component of GDP, which began to slow last quarter, has experienced double-digit growth since the first quarter of 1993.

Housing starts are expected to average 1.36 million units in 1996, an improvement over the current year, but less than the 1.45 million units in 1994. For 1997, forecasters see a smaller number of housing starts, with an average of 1.33 million units.

Interest rates will remain low

Survey respondents expect interest rates to remain low, but the yield curve will steepen somewhat from its currently flat shape. The forecast is for short-term yields to fall moderately and for long-term yields to rise. The yield on the three-month Treasury bill is expected to be 5.3 percent at the end of December, with the 30-year Treasury bond at 6.2 percent. In 1996 the short rate is seen falling to 5.1 percent by the end of June, then rising slightly to 5.2 percent by year end. The long bond is expected to yield 6.2 percent in June and 6.3 percent in December.

Unemployment rate will rise slightly

The unemployment rate, which was 5.6 percent in November and has remained below 6 percent since September 1994,

is expected to rise to 5.7 percent by June 1996 and to hold steady through 1997. This relatively low unemployment rate does not seem to be putting upward pressure on inflation expectations.

Stock prices won't rise much more

The S&P 500 index is expected to increase only marginally during 1996. For the first half of the new year, stock prices are expected to increase 2.4 percent. For the second half, the index is expected to grow at an even slower pace of 1.4 percent.

Economists are forecasting a slowdown in the growth of after-tax corporate profits. Growth in profits, which began to slow in the second quarter, has averaged about 10.5 percent per year since 1985. For the first half of 1996, they are expected to grow at an annual pace of 3.6 percent. For the second half, forecasters expect a growth rate of 4.8 percent.

The Livingston Survey was started in 1946 by the late columnist Joseph A. Livingston. The Livingston Survey is the oldest continuous survey of economists' expectations. It summarizes the forecasts of economists from industry, government, banking, and academia. It is now published by the Federal Reserve Bank of Philadelphia in June and December. To subscribe to this publication, call (215) 574-6428. This publication can be found on the World Wide Web at <http://libertynet.org/~fedresrv/respage.html>

1995 Livingston Survey Participants

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THE LIVINGSTON SURVEY, December 1995

(mean forecast)

annualized growth rates of selected variables

OUTPUT

	<u>95Q4</u> <u>Q3 to Q4</u>	<u>96H1</u> <u>Q4 to Q2</u>	<u>96H2</u> <u>Q2 to Q4</u>	<u>1995</u> <u>Q4 to Q4</u>	<u>1996</u> <u>Q4 to Q4</u>
Real Gross Domestic Product	2.1	2.5	2.5	2.6	2.5
Gross Domestic Product	4.3	4.7	4.7	4.2	4.7

INFLATION

	<u>96H1</u> <u>Dec. to June</u>	<u>96H2</u> <u>June to Dec.</u>	<u>1995</u> <u>Dec. to Dec.</u>	<u>1996</u> <u>Dec. to Dec.</u>
Producer Prices - Finished Goods	2.1	2.4	2.0	2.2
Consumer Prices	2.9	2.9	3.0	2.9

10-YEAR FORECASTS

Real Gross Domestic Product	2.5
Consumer Price Index	3.0

UNEMPLOYMENT and INTEREST RATES

(Levels, end of period)

	<u>Dec. 1995</u>	<u>June 1996</u>	<u>Dec. 1996</u>
Civilian Unemployment Rate (%)	5.6	5.7	5.7
90-Day U.S. Treasury Bill (%) (End-of-Month)	5.3	5.1	5.2

THE LIVINGSTON SURVEY, DECEMBER 1995

(mean forecast)

<u>Quarterly Indicators</u>	Q4	Q2	Q4	Annual Average	1997	
	<u>1995</u>	<u>1996</u>	<u>1996</u>			<u>1995</u>
Real Gross Domestic Product (billions, SAAR)	\$5574.1	5642.6	5712.4	5518.8	5661.8	5801.3
Gross Domestic Product (bil. '87, SAAR)	\$7188.9	7356.5	7528.8	7077.9	7402.9	7767.7
Real Nonresidential Fixed Investment (bil. '87, SAAR)	\$791.5	813.7	834.1	769.7	818.5	859.8
Corporate Profits after taxes (billions, SAAR)	\$360.2	366.7	375.3	354.6	368.3	382.4
<u>Monthly Indicators</u>	Dec	June	Dec	Annual Average	1997	
	<u>1995</u>	<u>1996</u>	<u>1996</u>			<u>1995</u>
Industrial Production (1987 = 100)	123.0	124.9	126.9	122.1	125.3	128.5
Total Private Housing Starts (millions, SAAR)	1.383	1.370	1.346	1.344	1.362	1.333
Producer Prices - Finished Goods	128.7	130.1	131.6	127.8	130.4	133.4
Consumer Prices	154.2	156.4	158.6	152.4	156.8	161.6
Unemployment Rate (%)	5.6	5.7	5.7	5.7	5.6	5.7
Average Weekly Earnings in Manufacturing	\$520.01	526.59	534.18	513.73	528.38	542.51
Retail Trade (billions, SAAR)	\$198.5	203.2	207.8	195.9	204.3	213.8
Automobile Sales, including foreign (millions, SAAR)	8.7	8.9	8.9	8.8	8.9	8.9
<u>Interest Rates & Stock Prices</u> (End-of-Period)	Dec	June	Dec	Dec		
	<u>1995</u>	<u>1996</u>	<u>1996</u>	<u>1997</u>		
Prime Interest Rate (%)	8.6	8.3	8.3	8.3		
30-Yr U.S. Treasury Bond (%)	6.2	6.2	6.3	6.3		
90-Day U.S. Treasury Bill (%)	5.3	5.1	5.2	5.3		
Stock Prices (S&P 500)	609.0	623.6	632.0	643.3		

SAAR - Seasonally Adjusted Annual Rate