The
LIVINGSTON
S U R V E Y

Federal Reserve Bank of Philadelphia

June 1995

Economy will grow at a more sustainable level

The 59 economists responding to this month's Livingston Survey expect the economy to grow an an annual rate of 1.3 percent during the current quarter. That would be the slowest growth since the first quarter of 1993, when the economy grew at 1.2 percent. But after the second quarter, growth will resume at a faster but more sustainable pace. The mean forecast is for 2.3 percent growth during the remainder of 1995 and 2.4 percent growth into the first half of 1996. Over the next 10 years, real GDP is seen rising at an average annual rate of 2.6 percent.

Automobile sales will be a contributing factor to the slower growth in GDP Sales in 1995 are expected to decrease from 1994 levels, but they are expected to pick up from the weak number reported in April. June sales are expected to reach a seasonally adjusted level of 8.6 million. By December 1995, the level will increase slightly to 8.8 million, where it will remain through 1996.

Total private housing starts are also expected to decrease from 1994 levels. The consensus is for a seasonally adjusted number in June of 1.274 million new starts. This number is seen rising gradually through June 1996, to a level of 1.32 million.

Inflation will remain low

Inflation will remain low, according to the panel of forecasters. The producer price index (PPI) will grow at an annual rate of 2.4 percent for the second half of 1995, and the consumer price index (CPI) will grow at 3.0 percent. This is a downward revision from December's survey, in which the PPI and the CPI for the second half of 1995 were expected to grow at 3.3 percent and 3.6 percent. Pressure on producer and consumer prices is not expected to increase until 1996. In the first half of 1996, the rate of growth for the PPI will increase three-tenths of a point, to 2.7 percent. Growth in the CPI will increase by a half point, to 3.5 percent. In the long term, the CPI will grow at an annual rate of 3.4 percent. This represents no change from the December survey's 10-year forecast.

Respondents expect steeper yield curve

Respondents are expecting a change in the slope of the yield curve. Two forces will be pulling at opposite ends of the curve. Consistent with the forecasts for a slowing economy, downward pressure is seen on short-term interest rates. The yield on the 90-day U.S. Treasury bill is expected to fall to 5.6 percent by December 1995, and it will shed another tenth of a point, falling to 5.5 percent, by June 1996. The prime rate is currently at 9 percent. It is seen falling to 8.7 percent by December 1995, and to 8.5 percent by December 1996.

Long-term interest rates will move in the opposite direction. The yield on the 30-year U.S. Treasury bond is expected to increase to 6.8 percent by December 1995 and then to 6.9 percent by June 1996, where it will remain through the following December. By June of next year the spread between the 30-year T-bond and the 90-day T-bill is expected to increase four-tenths of a percentage point.

Forecasters see no change in unemployment rate

The unemployment rate is expected to move up to 5.8 percent in June and to hold steady at that rate through June 1996. In December's survey, the economists expected the unemployment rate to remain at 5.6 percent through their entire forecast horizon, which ended in December 1995. The expected increase in the unemployment rate is consistent with the expectation of a slowing economy.

Forecasters expect sluggish year for stock market

Stock prices are expected to remain stagnant for the rest of the year. The S&P 500 index is expected to shed a couple of points and end the year in December at 532.9. It is then expected to crawl up to a level of 541.3 by June 1996 and to finish up in December 1996 at 554.0

Corporate profits after taxes will remain high through 1996, averaging $346 billion in 1995 and $355 billion in 1996.

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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. Historical data from past surveys are available. For further information, contact the Economic Research Department, Federal Reserve Bank of Philadelphia.

FEDERAL RESERVE BANK OF PHILADELPHIA

THE LIVINGSTON SURVEY, JUNE 1995

(mean forecast)

Quarterly Indicators	Q2 1995	Q4 1995	Q2 1996	Annual Average 1995	Annual Average 1996
Real Gross Domestic Product (billions, SAAR)	$5489.5	5551.7	5618.6	5506.1	5637.2
Gross Domestic Product (bil. '87, SAAR)	$7061.6	7240.4	7429.5	7105.0	7482.0
Real Nonresidential Fixed Investment (bil. '87, SAAR)	$755.0	778.9	796.8	757.3	797.5
Corporate Profits after taxes (billions, SAAR)	$349.4	360.6	361.8	345.5	354.9

Monthly Indicators	June 1995	Dec 1995	June 1996	Annual Average 1995	Annual Average 1996
Industrial Production (1987 = 100)	121.2	122.7	124.4	121.9	124.5
Total Private Housing Starts (millions, SAAR)	1.274	1.304	1.320	1.295	1.311
Producer Prices - Finished Goods	128.3	129.8	131.5	128.5	131.7
Consumer Prices	152.7	155.0	157.6	152.9	157.9
Unemployment Rate (%)	5.8	5.8	5.8	5.7	5.8
Average Weekly Earnings in Manufacturing	$503.14	513.19	520.74	511.56	523.14
Retail Trade(billions,SAAR)	$193.9	198.1	201.1	194.4	201.2
Automobile Sales, including foreign (millions, SAAR)	8.6	8.8	8.8	8.7	8.8

Interest Rates & Stock Prices (End-of-Period)	June 1995	Dec 1995	June 1996	Dec 1996
Prime Interest Rate (%)	9.0	8.7	8.6	8.5
30-Yr U.S. Treasury Bond (%)	6.7	6.8	6.9	6.9
90-Day U.S. Treasury Bill (%)	5.7	5.6	5.5	5.5
Stock Prices (S&P 500)	535.0	532.9	541.3	554.0

SAAR - Seasonally Adjusted Annual Rate

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(mean forecast)

annualized growth rates of selected variables

OUTPUT

	95Q2 Q1 to Q2	95H2 Q2 to Q4	96H1 Q4 to Q2	1995 Q4 to Q4	1996 Q2 to Q2
Real Gross Domestic Product	1.3	2.3	2.4	2.2	2.4
Gross Domestic Product	4.6	5.2	5.3	5.0	5.3

INFLATION

	95H2 June to Dec.	96H1 Dec. to June	1995 Dec. to Dec.	1996 June to June
Producer Prices - Finished Goods	2.4	2.7	2.9	2.5
Consumer Prices	3.0	3.5	3.5	3.2

10-YEAR FORECASTS

Real Gross Domestic Product	2.6
Consumer Price Index	3.4

UNEMPLOYMENT and INTEREST RATES

(Levels, end of period)

	June 1995	Dec. 1995	June 1996
Civilian Unemployment Rate (%)	5.8	5.8	5.8
90-Day U.S. Treasury Bill (%) (End-of-Month)	5.7	5.6	5.5