



FEDERAL RESERVE BANK OF PHILADELPHIA

Ten Independence Mall
Philadelphia, Pennsylvania 19106-1574
(215) 574-6428, www.phil.frb.org

Livingston Survey

Research Department

Federal Reserve Bank of Philadelphia

Dec. 21, 2001

Release Date: December 21, 2001

DECEMBER 2001

Forecasters Call for Economic Recovery by Mid-2002

The 31 participants in the December Livingston Survey see the economy recovering from recession by the middle of 2002, then growing rapidly in 2003. The forecasters, who are surveyed by the Federal Reserve Bank of Philadelphia twice a year, project that the economy's output has declined 1.3 percent in the second half of 2001. But they think that economic output (real GDP) will grow at an annual rate of 1.5 percent in the first half of 2002 and rise at an even faster pace of 3.5 percent in the second half of the year.

In the forecasts, the unemployment rate is expected to rise from 5.8 percent in December 2001 to 6.0 percent by June 2002, then decline to 5.8 percent by the end of 2002. As the table below indicates, the unemployment rate forecasts are about one percentage point higher than they were in the June survey. On an annual average basis, the unemployment rate will be 4.8 percent in 2001, 6.0 percent in 2002, and 5.8 percent in 2003.

	<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>					
2001 Q2 to 2001 Q4	2.7	-1.3	December 2001	4.8	5.8
2001 Q4 to 2002 Q2	3.5	1.5	June 2002	4.9	6.0
2002 Q2 to 2002 Q4	N.A.	3.5	December 2002	N.A.	5.8

Inflation Will Decline in 2002 and Rise in 2003

If there is any good news from the recession, it comes on the inflation front, but only temporarily. Consumer price (CPI) inflation will average 3.0 percent in 2001, then drop to 1.8 percent in 2002. However, as the economy begins to grow more strongly in 2003, inflation will increase to 2.5 percent. Compared with the June 2001 survey, these inflation forecasts are all lower than before, as shown in the table below. Similarly, inflation in producer prices (PPI) will fall in 2002, then rise in 2003. The PPI inflation forecasts are also lower than in the survey taken six months ago, 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>				
2000 to 2001	3.3	3.0	3.0	2.2
2001 to 2002	2.6	1.8	1.8	0.1
2002 to 2003	N.A.	2.5	N.A.	1.8

Interest Rates Will Rise in 2002 and 2003

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 1.8 percent at the end of 2001, rise slightly to 2.0 percent by June 2002, rise further to 2.8 percent by December 2002, and then continue to rise in 2003, finishing the year at 4.0 percent. In the survey taken six months ago, the forecasters also expected the short-term interest rate to rise, but not by as much, as the table below indicates.

Long-term interest rates are also expected to rise, but the increase is not as dramatic. The interest rate on 30-year Treasury bonds is now projected to be 5.3 percent at the end of 2001, then rise slightly to 5.4 percent by June 2002. The rate climbs a bit more, to 5.6 percent, by the end of 2002, then keeps rising and reaches 5.9 percent by the end of 2003. Despite these increases, the levels of the interest rate are lower than expected in the previous survey, as shown in the table below.

	<i>Three-Month T-Bill</i>		<i>30-Year T-Bond</i>	
	<i>Interest Rate</i>		<i>Interest Rate</i>	
	<i>Previous</i>	<i>New</i>	<i>Previous</i>	<i>New</i>
Dec. 2001	3.5	1.8	5.8	5.3
June 2002	3.7	2.0	5.7	5.4
Dec. 2002	3.9	2.8	5.9	5.6
Dec. 2003	N.A.	4.0	N.A.	5.9

**2001 Livingston Survey Participants
Participants in June and December Surveys**

R. Berner	Morgan Stanley	I. Kellner	Hofstra University
D. Berson	Federal National Mortgage Association	D. Knop	Transcontinental Gas Pipeline Corp.
J. Butkiewicz	University of Delaware	R. Lemmon	General Motors
R. Chase	Huckell/Weinman & Associates	D. Lereah	National Association of Realtors
G. Ciminero	Independent Economic Advisory	J. Lonski	Moody's Investors Service, Inc.
R. DeKaser	National City Corp.	E. McKelvey	Goldman Sachs & Company
R. Dhawan	Georgia State University	R. Monaco	University of Maryland
F. Dixon	Economic Insights	W. Peterson	University of Nebraska
S. Duobinis	National Association of Home Builders	M. Regalia	U.S. Chamber of Commerce
R. Eggert	Eggert Economic Enterprises	D. Rippe	Prudential Securities
M. Englund	Standard & Poor's MMS	D. Seiders	National Association of Home Builders
B. Fabbri	Paribas Capital Markets	J. Skorburg	American Farm Bureau Federation
G. Fosler	Conference Board	P. Taylor	National Automobile Dealers Assoc.
K. Goldstein	Conference Board	D. Torgerson	U.S. Department of Agriculture
J. Gonzalez	Tennessee Valley Authority	M. Willoughby	Business Valuation Services
J. Hall	Thomson Financial Services	M. Wohar	University of Nebraska-Omaha
S. Hickok	Prudential Insurance Company of America	R. Yamarone	Argus Research Corp.
B. Horrigan	Loomis Sayles & Co.	J. Young	BellSouth Corp.
S. Hymans	University of Michigan	L. Yun	National Assoc. of Realtors

Long-Term Outlook: Slightly Lower Inflation and Higher Output Growth Than in Previous Survey

The forecasters now think that inflation (in the Consumer Price Index) will average 2.5 percent over the next 10 years. This marks a slight decline from the 2.6 percent expected in the last two surveys, taken in June 2001 and in December 2000. The forecasters also see slightly faster output growth over the next 10 years than they did previously. The average annual growth rate of real GDP will be 3.3 percent, compared with 3.2 percent in the previous survey.

Forecasts for Corporate Profits and Stock Prices Are Lower Than Before

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

For 2001, after-tax corporate profits are expected to be 14.8 percent lower than in 2000. The forecasters expect a slight rebound in profits in 2002, with profits growing 1.8 percent. In 2003, however, corporate profits are expected to rise 7.0 percent, a significant increase. The forecasts for 2001 and 2002 are both much lower than they were in the forecast made six months ago, as the table below indicates.

Stock prices (as measured by the S&P 500 index) are expected to finish 2001 at a level of about 1150, a substantial decline from the last survey, as shown in the table below. The forecasters project a slow and steady increase in stock prices over the next two years, with the index rising to 1245 at the end of June 2002 and to 1260 by the end of 2002. The index will rise to about 1350 by the end of 2003, but even that level is far less than the index's value at its peak of just over 1500 in early 2000.

	<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>
2000 to 2001	-4.0	-14.8	Dec. 31, 2001	1315.0	1150.2
2001 to 2002	7.0	1.8	June 30, 2002	1395.0	1245.0
2002 to 2003	N.A.	7.0	Dec. 31, 2002	1455.0	1260.0
			Dec. 31, 2003	N.A.	1352.8

Technical Notes

This news release reports the median value across the 31 forecasters on the survey's panel. Also, between the time the survey was mailed to the panelists and when it was due, the Federal Reserve revised its series on industrial production and it is not clear which panelists used the old series and which used the revised series; thus, the results for industrial production 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 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, 2001-2003**

QUARTERLY INDICATORS (percentage changes at annual rates)	Q2 2001 TO Q4 2001	Q4 2001 TO Q2 2002	Q2 2002 TO Q4 2002	2000 TO 2001	2001 TO 2002	2002 TO 2003
Real Gross Domestic Product	-1.3	1.5	3.5	1.0	0.9	3.6
Nominal Gross Domestic Product	0.5	3.1	5.5	3.3	2.7	5.8
Nonresidential Fixed Investment	-11.2	-4.4	4.4	-3.3	-5.3	6.3
Corporate Profits After Taxes	-20.3	11.5	17.2	-14.8	1.8	7.0
MONTHLY INDICATORS (percentage changes at annual rates)	JUN 2001 TO DEC 2001	DEC 2001 TO JUN 2002	JUN 2002 TO DEC 2002	2000 TO 2001	2001 TO 2002	2002 TO 2003
Industrial Production	-7.8	2.6	4.4	-4.4	-0.9	4.7
Producer Prices - Finished Goods	-3.1	1.4	1.7	2.2	0.1	1.8
Consumer Price Index (CPI-U)	0.2	2.2	2.1	3.0	1.8	2.5
Average Weekly Earnings in Mfg.	3.5	2.6	2.7	0.9	3.3	3.1
Retail Trade	9.3	0.1	3.9	3.7	3.6	5.4
(levels of variables)	DEC 2001	JUN 2002	DEC 2002	2001	2002	2003
Total Private Housing Starts (annual rate, millions)	1.520	1.530	1.570	1.596	1.536	1.581
Unemployment Rate (percent)	5.8	6.0	5.8	4.8	6.0	5.6
Automobile Sales (incl. foreign) (annual rate, millions)	9.0	8.1	8.5	8.7	8.4	8.8
FINANCIAL INDICATORS (levels of variables)	DEC 2001	JUN 2002	DEC 2002	DEC 2003		
Prime Interest Rate	4.8	5.3	6.2	7.2		
30-Year Treasury Bond Yield	5.3	5.4	5.6	5.9		
3-Month Treasury Bill Rate	1.8	2.0	2.8	4.0		
Stock Prices (S&P500)	1150.2	1245.0	1260.0	1352.8		

LONG-TERM OUTLOOK

Average Annual Growth Rate for the Next Ten Years

Real GDP	3.3
Consumer Price Index	2.5

Source: Research Department, Federal Reserve Bank of Philadelphia, Livingston Survey,
December 2001

LIVINGSTON SURVEY

December 2001

Tables

Note: All forecasts were received on or before December 12.

TABLE ONE
 MAJOR MACROECONOMIC INDICATORS, 2001-2003
 MEDIANS OF FORECASTER PREDICTIONS

QUARTERLY INDICATORS	NUMBER OF FORECASTERS	ACTUAL	2001 Q4	FORECASTS		ACTUAL	2001	FORECASTS	
		2001 Q2		2002 Q2	2002 Q4	2000		2002	2003
1. Real Gross Domestic Product (billions, chain weighted)	30	9341.7	9282.0	9350.1	9510.2	9224.0	9319.2	9405.3	9739.5
2. Nominal Gross Domestic Product (\$ billions)	30	10202.6	10229.8	10385.8	10668.5	9872.9	10201.3	10472.3	11078.3
3. Nonresidential Fixed Investment (billions, chain weighted)	28	1320.9	1244.5	1217.0	1243.6	1350.7	1305.7	1236.8	1315.0
4. Corporate Profits After Taxes (\$ billions)	22	510.3	455.5	480.9	520.5	574.0	488.8	497.5	532.1
MONTHLY INDICATORS		ACTUAL	DEC 2001	FORECASTS		ACTUAL	2001	FORECASTS	
		JUN 2001		JUN 2002	DEC 2002	2000		2002	2003
5. Industrial Production (1992=100)	28	142.8	137.1	138.9	141.9	147.0	140.6	139.4	146.0
6. Total Private Housing Starts (annual rate, millions)	26	1.630	1.520	1.530	1.570	1.570	1.596	1.536	1.581
7. Producer Prices - Finished Goods (index level)	22	142.2	140.0	141.0	142.2	138.0	141.1	141.3	143.8
8. Consumer Price Index (CPI-U) (index level)	29	178.0	178.2	180.1	182.0	172.2	177.3	180.4	185.0
9. Unemployment Rate (percent)	29	4.5	5.8	6.0	5.8	4.0	4.8	6.0	5.6
10. Average Weekly Earnings in Mfg. (\$)	13	603.4	614.0	622.0	630.4	597.9	603.1	622.9	642.4
11. Retail Trade (\$ billions)	14	291.7	305.0	305.1	311.0	282.2	292.6	303.0	319.4
12. Automobile Sales (incl. foreign) (annual rate, millions)	21	8.4	9.0	8.1	8.5	8.9	8.7	8.4	8.8

TABLE ONE (CONTINUED)

INTEREST RATES & STOCK PRICES (end of period)		ACTUAL		FORECASTS		
		JUN 2001	DEC 2001	JUN 2002	DEC 2002	DEC 2003
13. Prime Interest Rate (percent)	28	6.8	4.8	5.3	6.2	7.2
14. 30-Year Treasury Bond Yield (percent)	27	5.8	5.3	5.4	5.6	5.9
15. 3-Month Treasury Bill Rate (percent)	28	3.6	1.8	2.0	2.8	4.0
16. Stock Prices (S&P500) (index level)	18	1224.4	1150.2	1245.0	1260.0	1352.8

Source: Research Department, Federal Reserve Bank of Philadelphia, Livingston Survey, December 2001

TABLE TWO
 MAJOR MACROECONOMIC INDICATORS, 2001-2003
 PERCENTAGE CHANGES AT ANNUAL RATES

QUARTERLY INDICATORS	NUMBER OF FORE- CASTERS	Q2 2001	Q4 2001	Q2 2002	2000	2001	2002
		TO Q4 2001	TO Q2 2002	TO Q4 2002	TO 2001	TO 2002	TO 2003
1. Real Gross Domestic Product	30	-1.3	1.5	3.5	1.0	0.9	3.6
2. Nominal Gross Domestic Product	30	0.5	3.1	5.5	3.3	2.7	5.8
3. Nonresidential Fixed Investment	28	-11.2	-4.4	4.4	-3.3	-5.3	6.3
4. Corporate Profits After Taxes	22	-20.3	11.5	17.2	-14.8	1.8	7.0
MONTHLY INDICATORS		JUN 2001	DEC 2001	JUN 2002	2000	2001	2002
		TO DEC 2001	TO JUN 2002	TO DEC 2002	TO 2001	TO 2002	TO 2003
5. Industrial Production	28	-7.8	2.6	4.4	-4.4	-0.9	4.7
6. Total Private Housing Starts	26	-0.110	0.010	0.040	0.026	-0.060	0.046
7. Producer Prices - Finished Goods	22	-3.1	1.4	1.7	2.2	0.1	1.8
8. Consumer Price Index (CPI-U)	29	0.2	2.2	2.1	3.0	1.8	2.5
9. Unemployment Rate	29	1.3	0.2	-0.2	0.8	1.2	-0.4
10. Average Weekly Earnings in Mfg.	13	3.5	2.6	2.7	0.9	3.3	3.1
11. Retail Trade	14	9.3	0.1	3.9	3.7	3.6	5.4
12. Automobile Sales (incl. foreign)	21	0.6	-0.9	0.4	-0.2	-0.3	0.4

INTEREST RATES & STOCK PRICES		JUN 2001 TO DEC 2001	DEC 2001 TO JUN 2002	JUN 2002 TO DEC 2002	DEC 2002 TO DEC 2003
13. Prime Interest Rate	28	-2.0	0.5	0.9	1.0
14. 30-Year Treasury Bond Yield	27	-0.5	0.1	0.3	0.3
15. 3-Month Treasury Bill Rate	28	-1.8	0.3	0.8	1.2
16. Stock Prices (S&P500)	18	-11.8	17.2	2.4	7.4

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 2001

TABLE THREE
LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI Inflation Rate

STATISTIC	
Minimum	1.800
Lower Quartile	2.362
Median	2.500
Upper Quartile	2.675
Maximum	3.700
Mean	2.521
Std. Deviation	0.353
N	24
Missing	7

SERIES: Real GDP

STATISTIC	
Minimum	2.600
Lower Quartile	3.000
Median	3.265
Upper Quartile	3.475
Maximum	3.600
Mean	3.208
Std. Deviation	0.275
N	24
Missing	7

Source: Research Department, Federal Reserve Bank of Philadelphia, Livingston Survey, December 2001