



THE

LIVINGSTON SURVEY

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DECEMBER 2008

Forecasters Predict Economic Contraction Through Middle of 2009

The 36 participants in the December Livingston Survey see negative output growth through the second quarter of 2009. The forecasters, who are surveyed by the Federal Reserve Bank of Philadelphia twice a year, project that the economy's output (real GDP) will fall at an annual rate of 2.2 percent in the second half of 2008. They also see negative growth in the first half of 2009, with growth falling at an annual rate of 0.9 percent. These projections are lower than those made in the June survey. Growth is predicted to turn positive in the second half of 2009.

The unemployment rate is expected to rise from 6.8 percent in December 2008 to 7.8 percent in December 2009. These forecasts are higher than those of the survey six months ago, reflecting a weaker outlook in the labor market. On an annual average basis, the unemployment rate will be 5.7 percent in 2008, 7.6 percent in 2009, and 7.8 percent in 2010.

	<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>					
2008 Q2 to 2008 Q4	1.7	-2.2	December 2008	5.5	6.8
2008 Q4 to 2009 Q2	2.1	-0.9	June 2009	5.5	7.6
2009 Q2 to 2009 Q4	N.A.	1.8	December 2009	N.A.	7.8

Inflation Outlook Reduced for 2009

The forecasters' projections for inflation in 2009 are lower than those of six months ago. Consumer price (CPI) inflation is expected to average 0.5 percent in 2009, a downward revision from the 2.6 percent estimated in the previous survey. Consumer prices are then expected to increase 2.1 percent in 2010. The forecasters predict that producer prices (PPI) will fall by 0.8 percent in 2009, and then rise 1.1 percent in 2010.

	<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>				
2007 to 2008	3.9	4.1	6.4	6.8
2008 to 2009	2.6	0.5	2.4	-0.8
2009 to 2010	N.A.	2.1	N.A.	1.1

Interest Rates Revised Downward But Will Climb Over the Next Two Years

Forecasts for interest rates on three-month Treasury bills and 10-year Treasury notes are lower than those made in our last survey. At the end of June 2009, the interest rate on three-month Treasury bills is predicted to be 0.5 percent, revised down from 2.45 percent in the survey of six months ago. Livingston forecasters predict that the rate will then rise to 1.0 percent at the end of 2009, and then to 2.45 percent at the end of 2010. The interest rate on 10-year Treasury notes is predicted to be 3.5 percent at the end of June 2009, down from the previous estimate of 4.29 percent. According to forecasters, it will then rise to 4.00 percent at the end of 2009, and to 4.7 percent at the end of 2010.

	<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>
Dec. 31, 2008	1.90	0.29	4.00	3.07
June 30, 2009	2.45	0.50	4.29	3.50
Dec. 31, 2009	3.00	1.00	4.50	4.00
Dec. 31, 2010	N.A.	2.45	N.A.	4.70

2008 Livingston Survey Participants

S. Anderson	Wells Fargo and Company	P. Hooper	Deutsche Bank
E. Beeson Zentner	Bank of Tokyo-Mitsubishi, Ltd.	M. Levy	Bank of America
J. Butkiewicz	University of Delaware	J. Lonski	Moody's Investors Service, Inc.
J. Carson	Alliance Capital Management	D. Maki	Barclays Capital
R. Chase	Chase Economics	E. McKelvey	Goldman Sachs
R. DeKaser	National City Corporation	M. Moran	Daiwa Securities America
R. Dhawan	Georgia State University	F. Nothaft	Federal Home Loan Mortgage Corp.
F. Dixon	Economic Insights	M. Regalia	U.S. Chamber of Commerce
D. Duncan	Mortgage Bankers Association	D. Seiders	National Association of Home Builders
M. Englund	Action Economics, LLC	J. Silvia	Wachovia Corporation
S. Gallagher	Societe Generale	A. Sinai	Decision Economics, Inc.
K. Goldstein	The Conference Board	J. Smith	Parsec Financial Management, Inc.
J. Gonzalez	Tennessee Valley Authority	S. Snaith	University of Central Florida
J. Hall	Thomson Financial IFR	S. Stanley	RBS Greenwich Capital
S. Hymans	University of Michigan	B. Wesbury	First Trust Advisors, L.P.
D. Knop	Williams Gas Pipeline Corp.	D. Wyss	Standard & Poor's
T. Lam	United Overseas Bank, Ltd.	R. Yamarone	Argus Research Group
E. Leamer	University of California, Los Angeles	L. Yun	National Association of Realtors

Slight Change in the Long-Term Outlook

The forecasters' views of long-term output growth are slightly lower, while their predictions for long-term inflation continue to hold steady. The panelists think that real GDP will grow 2.6 percent on average over the next 10 years, down slightly from the 2.7 percent estimated in the previous survey. Inflation (as measured by the consumer price index) is predicted to average 2.5 percent over the next 10 years, unchanged from the last 15 surveys dating back to December 2001.

Stock-Price Projections Revised Downward

The forecasters predict that the S&P 500 index will finish 2008 at a level of 869.3, a downward revision from the previous estimate of 1447.0. The forecasters project an increase in stock prices over the next two years, with the index rising to 950 by the end of June 2009 and then to 1052.5 by the end of 2009.

Stock Prices (end of year)

S&P 500 Index

Previous New

Dec. 31, 2008	1447.0	869.3
June 30, 2009	1496.5	950.0
Dec. 31, 2009	1555.0	1052.5
Dec. 31, 2010	N.A.	1165.0

Technical Notes

This news release reports the median value across the 36 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, go to: http://www.philadelphiafed.org/philscriber/user/dsp_content.cfm. 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.philadelphiafed.org/research-and-data/real-time-center/livingston-survey/>.

LIVINGSTON SURVEY
MAJOR MACROECONOMIC INDICATORS, 2008-2010

QUARTERLY INDICATORS (percentage changes at annual rates)	Q2 2008	Q4 2008	Q2 2009	2007	2008	2009
	TO Q4 2008	TO Q2 2009	TO Q4 2009	TO 2008	TO 2009	TO 2010
Real Gross Domestic Product	-2.2	-0.9	1.8	1.3	-0.8	2.2
Nominal Gross Domestic Product	1.3	0.8	3.4	3.7	1.5	3.6
Nonresidential Fixed Investment	-4.8	-9.7	-2.6	2.7	-6.9	0.3
Corporate Profits After Taxes	-8.6	-0.9	2.3	-4.8	-4.9	6.4

MONTHLY INDICATORS (percentage changes at annual rates)	JUN 2008	DEC 2008	JUN 2009	2007	2008	2009
	TO DEC 2008	TO JUN 2009	TO DEC 2009	TO 2008	TO 2009	TO 2010
Industrial Production	-8.1	-1.9	0.5	-1.2	-3.8	1.5
Producer Prices - Finished Goods	-7.2	1.9	1.5	6.8	-0.8	1.1
Consumer Price Index (CPI-U)	-2.2	1.7	2.1	4.1	0.5	2.1
Average Weekly Earnings in Mfg.	-1.0	1.1	0.7	1.6	0.8	2.6
Retail Trade	-12.3	2.1	3.7	0.4	-3.4	4.7

(levels of variables)	DEC 2008	JUN 2009	DEC 2009	2008	2009	2010
Total Private Housing Starts (annual rate, millions)	0.760	0.775	0.852	0.930	0.791	1.010
Unemployment Rate (percent)	6.8	7.6	7.8	5.7	7.6	7.8
Automobile Sales (incl. foreign) (annual rate, millions)	5.5	6.0	6.5	6.8	6.0	7.0

FINANCIAL INDICATORS (levels of variables at end of month)	DEC 2008	JUN 2009	DEC 2009	DEC 2010
Prime Interest Rate	3.50	3.50	4.00	5.00
10-Year Treasury Note Yield	3.07	3.50	4.00	4.70
3-Month Treasury Bill Rate	0.29	0.50	1.00	2.45
Stock Prices (S&P500)	869.3	950.0	1052.5	1165.0

LONG-TERM OUTLOOK Average Annual Growth Rate for the Next Ten Years	
Real GDP	2.6
Consumer Price Index	2.5

Source: Research Department, Federal Reserve Bank of Philadelphia, Livingston Survey, December 2008

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December 2008

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 20; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before December 2.

TABLE ONE
MAJOR MACROECONOMIC INDICATORS, 2008-2010
MEDIAN OF FORECASTER PREDICTIONS

QUARTERLY INDICATORS	NUMBER OF FORE- CASTERS	ACTUAL				FORECASTS			
		2008 Q2	2008 Q4	2009 Q2	2009 Q4	2007	2008	2009	2010
1. Real Gross Domestic Product (billions, chain weighted)	36	11727.4	11599.9	11549.7	11651.3	11523.9	11673.2	11583.6	11833.7
2. Nominal Gross Domestic Product (\$ billions)	35	14294.5	14384.4	14443.0	14684.9	13807.6	14313.0	14530.0	15057.9
3. Nonresidential Fixed Investment (billions, chain weighted)	35	1431.8	1397.0	1327.5	1310.1	1383.0	1419.9	1321.9	1326.0
4. Corporate Profits After Taxes (\$ billions)	23	1126.5	1077.2	1072.6	1085.0	1192.1	1135.0	1079.4	1148.6
MONTHLY INDICATORS		ACTUAL		FORECASTS		ACTUAL		FORECASTS	
		JUN 2008	DEC 2008	JUN 2009	DEC 2009	2007	2008	2009	2010
5. Industrial Production (2002=100)	31	111.3	106.7	105.7	106.0	111.4	110.1	105.9	107.4
6. Total Private Housing Starts (annual rate, millions)	32	1.089	0.760	0.775	0.852	1.341	0.930	0.791	1.010
7. Producer Prices - Finished Goods (index level)	27	181.7	175.0	176.6	178.0	166.6	178.0	176.6	178.6
8. Consumer Price Index (CPI-U) (index level)	33	217.4	215.0	216.8	219.1	207.3	215.7	216.9	221.4
9. Unemployment Rate (percent)	33	5.5	6.8	7.6	7.8	4.6	5.7	7.6	7.8
10. Average Weekly Earnings in Mfg. (\$)	12	729.7	726.0	730.0	732.5	711.3	722.4	728.5	747.3
11. Retail Trade (\$ billions)	16	384.1	359.7	363.4	370.0	374.2	375.9	363.0	380.0
12. Automobile Sales (incl. foreign) (annual rate, millions)	23	7.5	5.5	6.0	6.5	7.6	6.8	6.0	7.0

TABLE ONE (CONTINUED)

INTEREST RATES & STOCK PRICES (end of period)		ACTUAL	FORECASTS			
		JUN 2008	DEC 2008	JUN 2009	DEC 2009	DEC 2010
13. Prime Interest Rate (percent)	31	5.00	3.50	3.50	4.00	5.00
14. 10-Year Treasury Note Yield (percent)	34	3.99	3.07	3.50	4.00	4.70
15. 3-Month Treasury Bill Rate (percent)	33	1.87	0.29	0.50	1.00	2.45
16. Stock Prices (S&P500) (index level)	18	1280.0	869.3	950.0	1052.5	1165.0

Source: Research Department, Federal Reserve Bank of Philadelphia, Livingston Survey, December 2008

TABLE TWO
 MAJOR MACROECONOMIC INDICATORS, 2008-2010
 PERCENTAGE CHANGES AT ANNUAL RATES

QUARTERLY INDICATORS	NUMBER OF FORE- CASTERS	Q2 2008	Q4 2008	Q2 2009	2007	2008	2009
		TO Q4 2008	TO Q2 2009	TO Q4 2009	TO 2008	TO 2009	TO 2010
1. Real Gross Domestic Product	36	-2.2	-0.9	1.8	1.3	-0.8	2.2
2. Nominal Gross Domestic Product	35	1.3	0.8	3.4	3.7	1.5	3.6
3. Nonresidential Fixed Investment	35	-4.8	-9.7	-2.6	2.7	-6.9	0.3
4. Corporate Profits After Taxes	23	-8.6	-0.9	2.3	-4.8	-4.9	6.4
MONTHLY INDICATORS		JUN 2008	DEC 2008	JUN 2009	2007	2008	2009
		TO DEC 2008	TO JUN 2009	TO DEC 2009	TO 2008	TO 2009	TO 2010
5. Industrial Production	31	-8.1	-1.9	0.5	-1.2	-3.8	1.5
6. Total Private Housing Starts	32	-0.329	0.015	0.077	-0.411	-0.139	0.219
7. Producer Prices - Finished Goods	27	-7.2	1.9	1.5	6.8	-0.8	1.1
8. Consumer Price Index (CPI-U)	33	-2.2	1.7	2.1	4.1	0.5	2.1
9. Unemployment Rate	33	1.3	0.8	0.2	1.1	1.9	0.2
10. Average Weekly Earnings in Mfg.	12	-1.0	1.1	0.7	1.6	0.8	2.6
11. Retail Trade	16	-12.3	2.1	3.7	0.4	-3.4	4.7
12. Automobile Sales (incl. foreign)	23	-2.0	0.5	0.5	-0.8	-0.8	1.0

		JUN 2008	DEC 2008	JUN 2009	DEC 2009
		TO	TO	TO	TO
INTEREST RATES & STOCK PRICES		DEC 2008	JUN 2009	DEC 2009	DEC 2010
13. Prime Interest Rate	31	-1.50	0.00	0.50	1.00
14. 10-Year Treasury Note Yield	34	-0.92	0.43	0.50	0.70
15. 3-Month Treasury Bill Rate	33	-1.58	0.21	0.50	1.45
16. Stock Prices (S&P500)	18	-53.9	19.4	22.7	10.7

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 2008

TABLE THREE
LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI Inflation Rate

STATISTIC	
Minimum	1.30
Lower Quartile	2.20
Median	2.50
Upper Quartile	2.70
Maximum	3.50
Mean	2.43
Std. Deviation	0.50
N	33
Missing	3

SERIES: Real GDP

STATISTIC	
Minimum	2.25
Lower Quartile	2.50
Median	2.60
Upper Quartile	2.95
Maximum	3.50
Mean	2.71
Std. Deviation	0.31
N	33
Missing	3
