

The Livingston Survey

December 1993

Economic Research Division

Growth eases in 1994 from the current quarter's strong pace.

Output growth will resume a moderate pace in the year ahead, after a strong showing in the current quarter, according to the 61 economists responding to December's Livingston Survey. The recovery appears to be on firm ground as the economy enters the new year. The economists expect real Gross Domestic Product (GDP) to grow at a 4 percent annual rate in the fourth quarter of 1993, an increase from the 2.9 percent growth posted in the third quarter. Underlying growth of about 3 percent is expected to be sustained in 1994. For the first half of the coming year, the forecasters predict real GDP growth of 2.8 percent, rising to 2.9 percent growth in the second half. The forecasters do not expect the growth pattern for the coming year to repeat that of early 1993. At the end of 1992 the economy was growing at a strong 5.7 percent pace, only to weaken early in the new year: for the first half of 1993 real GDP grew at an average pace of only 1.35 percent.

Inflation remains in check.

Price level increases are expected to be restrained in the coming year, with a slight pickup in inflation in the second half of 1994 relative to the first half. The Consumer Price Index (CPI) is expected to rise at a 3.1 percent annual rate through June 1994, rising to an average growth of 3.3 percent in the second half of the year. The story is much the same for the Producer Price Index: 2.7 percent inflation in the first half of the year, rising to 2.9 percent in the second half.

Long-term inflation expectations are revised down.

Expectations of long-term inflation continue to be revised down by survey respondents. In the latest survey, the forecasters expect CPI inflation to average 3.6 percent over the next 10 years. One year ago, expectations were that long-term inflation would average about 3.9 percent; in the June 1993 survey, long-term inflation expectations stood at 3.8 percent.



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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 Economic Research Department, Federal Reserve Bank of Philadelphia.

Employment rate shows modest decline.

In November, the unemployment rate dropped sharply, to 6.4 percent, compared to 6.8 percent in October. The survey economists expect a slight upturn in December's unemployment rate, to 6.5 percent. Little progress is expected to be made on lowering the unemployment rate through the first half of the year, as the unemployment rate is predicted to average 6.4 percent in June. However, consistent with the general forecast of slightly stronger economic activity in the second half of the year, the survey respondents expect the unemployment rate to fall to 6.2 percent by the end of the year.

Interest rates begin moving up.

The forecasters also see a trend of slightly higher interest rates over the course of 1994. The prime rate is predicted to rise to 6.4 percent in December 1994 from the current 6 percent. In addition, the economists expect the yield curve to flatten over the coming year as short-term interest rates rise more than long-term. However, the expected increase in bond yields is quite modest in 1994, with long-term rates averaging 6.4 percent and short-term rates averaging 3.7 percent by year-end.

1993 Livingston Survey Participants

Tucker Hart Adams, The Adams Group, Inc.; Kermit Baker, Cahners Publishing Co., Inc.; Richard Berner, Mellon Bank; David Berson and Leonard Mills, Federal National Mortgage Association; Paul W. Boltz, T. Rowe Price Associates; Ian Borsook, Merrill Lynch; William A. Brown, Morgan Guaranty Trust Company; Wynn V. Bussmann, Chrysler Corporation; James L. Butkiewicz, University of Delaware; Edward J. Campbell, Brown Brothers Harriman & Co.; Gary L. Ciminero, Fleet Financial Group; Phil Cummins, Pennzoil Company; Frederick T. Dixon, Economic Insights; Joseph W. Duncan, Dun & Bradstreet Corporation; Stanley Duobinis, National Association of Home Builders; G. C. Eads, General Motors Corporation; Robert J. Eggert, Eggert Economic Enterprises, Inc.; Joe K. Elling, Weyerhaeuser Company; Rebekah M. Fickling, PNC Bank; Gail Fosler, Conference Board; Robert Giordano, Goldman, Sachs & Company; John Godfrey, Barnett Banks Inc.; George A. Guy, Fremont Mutual Insurance Company; Brian Horrigan, Loomis Sayles & Co.; Lacy H. Hunt, HSBC Holdings; Joseph D. Hurd, Pacific Bell; Saul H. Hymans, University of Michigan; Samuel Kahan, Fuji Securities Inc.; Howard Keen, Consolidated Rail Corporation; Irwin L. Kellner, Chemical Banking Corp.; Nancy Kimelman, Thomson Financial Services; Donald Knop, Shell Oil Co.; Ray Lamm, Coffee, Sugar, & Cocoa Exchange; Carol Leisenring, CoreStates Financial Corporation; Alan Levenson, UBS Securities; John G. Lonski, Moody's Investors Service, Inc.; Ram Mahidhara, Amoco Corporation; Kenneth T. Mayland, Society National Bank; Frank McCormick, Bank of America; Ralph M. Monaco, University of Maryland; John Mueller, Lehrman Bell Mueller Cannon Inc.; Diann H. Painter, Mobil Corporation; Richard Peterson, Continental Bank; Wallace C. Peterson, University of Nebraska; Elliot Platt, Donaldson, Lufkin, & Jenrette; Joel Popkin, Joel Popkin & Company; Donald Ratajczak, Georgia State University; Charles B. Reeder, Charles Reeder Associates; Martin Regalia, U.S. Chamber of Commerce; Richard D. Rippe, Prudential Securities; Stephen S. Roach, Morgan Stanley & Co., Inc.; Barry Rogstad, American Business Conference; Ron Schreiber, National Association of Wholesaler-Distributors; Dan Seto, Nikko Securities Co. International; John Silvia, Kemper Financial Services Inc.; John W. Skorburg, Chicagoland Chamber of Commerce; Herman Starobin, Int. Ladies' Garment Workers' Union; Thomas W. Synnott, United States Trust Co. of New York; David Torgerson, U.S. Department of Agriculture; John Tuccillo, National Association of Realtors; Theodore H. Tung, National City Bank; Joseph V. Vincenzino, Metropolitan Life Insurance Company; Michael Willoughby, Jassoy Graff & Douglas; Mark Wohar, University of Nebraska-Omaha; Seymour Wolfbein; David A. Wyss, Data Resources, Inc.; Howard York, Exxon Co. USA; Jim Young, BellSouth Corp.

THE LIVINGSTON SURVEY, December 1993

(mean forecast)
annualized growth rates of selected variables

OUTPUT

	93Q4 <u>Q3 to Q4</u>	94H1 <u>Q4 to Q2</u>	94H2 <u>Q2 to Q4</u>	1993 <u>Q4 to Q4</u>	1994 <u>Q4 to Q4</u>
Real Gross Domestic Product	4.0	2.8	2.9	2.3	2.8
Gross Domestic Product	6.5	5.2	5.7	4.9	5.4

INFLATION

	94H1 <u>Dec. to June</u>	94H2 <u>June to Dec.</u>	1993 <u>Dec. to Dec.</u>	1994 <u>Dec. to Dec.</u>
Producer Prices-				
Finished Goods	2.7	2.9	0.6	2.8
Consumer Prices	3.1	3.3	2.9	3.2

10-YEAR FORECAST

Real Gross Domestic Product	2.6
Gross Domestic Product	3.6

UNEMPLOYMENT and INTEREST RATES

(Levels, End of Period)

	<u>Dec. 1993</u>	<u>June 1994</u>	<u>Dec. 1994</u>
Civilian Unemployment Rate (%)	6.5	6.4	6.2
90-Day U.S. Treasury Bill (%)	3.1	3.4	3.7

THE LIVINGSTON SURVEY, DECEMBER 1993
(mean forecast)

<u>Quarterly Indicators</u>	<u>Q4 1993</u>	<u>Q2 1994</u>	<u>Q4 1994</u>	<u>Annual Average</u>		<u>1995</u>
	<u>1993</u>	<u>1994</u>	<u>1994</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Real Gross Domestic Product (billions, SAAR)	\$5186.1	5257.3	5333.2	5125.2	5278.6	5421.3
Gross Domestic Product (bil. '87, SAAR)	\$6496.2	6661.9	6849.4	6370.9	6721.8	7112.2
Real Nonresidential Fixed Investment (bil. '87, SAAR)	\$607.1	627.1	646.4	587.0	632.7	668.7
Corporate Profits after taxes (billions, SAAR)	\$281.7	291.4	301.2	268.7	292.5	308.5
<u>Monthly Indicators</u>	<u>Dec 1993</u>	<u>June 1994</u>	<u>Dec 1994</u>	<u>Annual Average</u>		<u>1995</u>
	<u>1993</u>	<u>1994</u>	<u>1994</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Industrial Production (1987=100)	113.3	115.2	117.1	111.0	115.3	118.9
Total Private Housing Starts (millions, SAAR)	1.390	1.402	1.408	1.281	1.395	1.420
Producer Prices - Finished Goods	124.5	126.2	128.0	124.8	126.8	130.5
Consumer Prices	146.0	148.2	150.6	144.7	148.9	154.0
Unemployment Rate (%)	6.5	6.4	6.2	6.8	6.4	6.1
Average Weekly Earnings in Manufacturing	\$498.10	505.57	516.33	483.61	503.51	523.20
Retail Trade (billions, SAAR)	\$179.4	184.3	189.8	173.7	184.4	193.9
Automobile Sales, including foreign (millions, SAAR)	9.1	9.2	9.2	8.7	9.2	9.4
<u>Interest Rates & Stock Prices</u> <u>(End-of-Period)</u>	<u>Dec 1993</u>	<u>June 1994</u>	<u>Dec 1994</u>	<u>Dec</u>		<u>1995</u>
	<u>1993</u>	<u>1994</u>	<u>1994</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Prime Interest Rate (%)	6.0	6.1	6.4	6.8		
30-Yr U.S. Treasury Bond (%)	6.2	6.3	6.4	6.7		
90-Day U.S. Treasury Bill (%)	3.1	3.4	3.7	4.2		
Stock Prices (S&P 500)	466.6	476.3	484.4	502.8		

SAAR - Seasonally Adjusted Annual Rate

THE LIVINGSTON SURVEY, DECEMBER 1993
(mean forecast)

<u>Quarterly Indicators</u>	<u>Q4</u>	<u>Q2</u>	<u>Q4</u>	Annual Average		<u>1995</u>
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(End-of-Month)