

The Livingston Survey

December 1994

Economic Research Division

Expect higher inflation in 1995

The 49 economists responding to this month's Livingston Survey expect higher inflation in 1995 at both the consumer and the producer level. The consumer price index (CPI) inflation rate is projected to run at an annual rate of 3.5 percent in 1995, compared with 2.7 percent in 1994. The forecasters expect higher CPI inflation of 3.6 percent in the second half of 1995, compared with 3.4 percent in the first half.

A similar pattern of price level increases is evident at the producer stage. The producer price index (PPI) is expected to rise at an annual rate of 3 percent in 1995, compared with an increase of 1.9 percent in 1994. As with the CPI, the PPI shows faster growth in the second half of 1995, rising at an annual rate of 3.3 percent, compared with growth of 2.8 percent in the first half of the year.

The forecasters believe that the economy is currently growing at a pace that is faster than that consistent with stable inflation. Consequently, there is some inflationary pressure already built into the economy as a result of tight resource utilization. These pressures will manifest

themselves in more rapid rates of price level increases in the months ahead.

Looking further ahead, the economists project that CPI inflation will average 3.4 percent over the next 10 years, a slight downward revision from the 3.5 percent average 10-year inflation reported in the June survey.

Real output growth will moderate in 1995

The forecasters project that real gross domestic product (GDP) will rise at an annual rate of 2.4 percent in 1995, compared with an expected growth rate of 3.7 percent in 1994. For the fourth quarter of 1994, the survey respondents see real GDP rising at an annual rate of 3.3 percent.

Much of the economy's recent strength has come from a rapid accumulation of inventories on the part of businesses. Projections are that this inventory accumulation will ease somewhat in the months ahead, which in turn will lead to slower growth of production, income, and consumption. In addition, higher interest rates will work to restrain both investment spending and the interest-sensitive components of consumption.



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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.

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For the first half of 1995, the forecasters predict that real GDP will grow at an annual rate of 2.6 percent. The growth rate then eases further in the second half of the year, falling to 2.2 percent average growth.

The unemployment rate holds steady through the forecast horizon

The survey respondents see virtually no movement in the unemployment rate over the next year. The unemployment rate for November was 5.6 percent, and the forecasts project that the unemployment rate for December 1994 will also be 5.6 percent. Further, the unemployment for December 1995 is projected to be 5.6 percent as well.

The relatively low unemployment rate is consistent with the forecasters' expectations of

rising inflation in 1995. Most forecasters place NAIRU (non-accelerating inflation rate of unemployment) at around 6 percent. With the rate of unemployment at 5.6 percent through the forecast horizon, upward pressure on inflation remains.

Interest rates will climb in the first half of 1995

The economists expect that the yield on three-month Treasury bills will rise to 6.2 percent by June 1995, then remain steady through the end of the year. The prime rate is expected to rise to 9.1 percent by June 1995, then remain steady through the end of 1995. The yield on 30-year Treasury bonds is expected to rise to 8.2 percent by June 1995, then decline slightly to 8.1 percent by year-end.

1994 Livingston Survey Participants

Richard Berner, Mellon Bank; David Berson, Federal National Mortgage Association; Paul W. Boltz, T. Rowe Price Associates; Ian Borsook, Merrill Lynch; William A. Brown, Morgan Guaranty Trust Company; James L. Butkiewicz, University of Delaware; Edward J. Campbell, Brown Brothers Harriman & Co.; Gary L. Ciminero, Fleet Financial Group; Frederick T. Dixon, Economic Insights; Joseph W. Duncan, Dun & Bradstreet Corporation; Stanley Duobinis, National Association of Home Builders; 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; 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, Transcontinental Gas Pipeline Corp.; Carol Leisenring, CoreStates Financial Corporation; Richard Lemmons, General Motors Corporation; John G. Lonski, Moody's Investors Service, Inc.; Ram Mahidhara, Amoco Corporation; Kenneth T. Mayland, Key Corp; Ralph M. Monaco, University of Maryland; John Mueller, Lehrman Bell Mueller Cannon Inc.; Richard Peterson, Continental Bank; Wallace C. Peterson, University of Nebraska; Joel Popkin, Joel Popkin & Company; Donald Ratajczak, Georgia State University; Martin Regalia, U.S. Chamber of Commerce; Richard D. Rippe, Prudential Securities; William W. Ross, Fu Associates Ltd.; Ron Schreiber, National Association of Wholesaler-Distributors; Dan Seto, Nikko Securities Co. International; John Silvia, Kemper Financial Services Inc.; Herman Starobin, Int. Ladies' Garment Workers' Union; Thomas W. Synnott, United States Trust Co. of New York; John Tuccillo, National Association of Realtors; Theodore H. Tung, National City Bank; Michael Willoughby, Jassoy Graff & Douglas; Mark Wohar, University of Nebraska-Omaha; Seymour Wolfbein, T.W.O.; David A. Wyss, Data Resources, Inc.; Jim Young, BellSouth Corp.

THE LIVINGSTON SURVEY, DECEMBER 1994

(mean forecast)

Quarterly Indicators	Q4	Q2	Q4	Annual Average		
	1994	1995	1995	1994	1995	1996
Real Gross Domestic Product (billions, SAAR)	\$5408.8	5479.1	5539.0	5336.9	5495.7	5629.9
Gross Domestic Product (bil. '87, SAAR)	\$6872.0	7093.7	7254.7	6736.5	7121.9	7517.9
Real Nonresidential Fixed Investment (bil. '87, SAAR)	\$690.5	716.7	737.5	666.8	721.3	751.9
Corporate Profits after taxes (billions, SAAR)	\$338.4	338.4	343.6	322.6	339.7	347.0
Monthly Indicators	Dec	June	Dec	Annual Average		
	1994	1995	1995	1994	1995	1996
Industrial Production (1987=100)	120.5	122.7	124.4	117.4	122.4	125.5
Total Private Housing Starts (millions, SAAR)	1.407	1.358	1.335	1.415	1.359	1.342
Producer Prices - Finished Goods	126.6	128.3	130.4	125.6	128.9	132.8
Consumer Prices	150.3	152.8	155.5	147.9	152.9	158.0
Unemployment Rate (%)	5.6	5.6	5.6	6.1	5.7	5.8
Average Weekly Earnings in Manufacturing	\$514.59	509.09	531.48	507.30	523.97	542.67
Retail Trade (billions, SAAR)	\$195.3	195.2	204.9	187.0	201.5	213.0
Automobile Sales, including foreign (millions, SAAR)	9.3	9.2	9.1	9.2	9.2	9.1
Interest Rates & Stock Prices (End-of-Period)	Dec	June	Dec	Dec		
	1994	1995	1995	1996		
Prime Interest Rate (%)	8.5	9.1	9.1	8.8		
30-Yr U.S. Treasury Bond (%)	8.1	8.2	8.1	7.8		
90-Day U.S. Treasury Bill (%)	5.6	6.2	6.2	5.8		
Stock Prices (S&P 500)	455.2	456.5	466.9	491.7		

SAAR - Seasonally Adjusted Annual Rate

THE LIVINGSTON SURVEY, December 1994

(mean forecast)

annualized growth rates of selected variables

OUTPUT

	94Q4 <u>Q3 to Q4</u>	95H1 <u>Q4 to Q2</u>	95H2 <u>Q2 to Q4</u>	1994 <u>Q4 to Q4</u>	1995 <u>Q4 to Q4</u>
Real Gross Domestic Product	3.3	2.6	2.2	3.7	2.4
Gross Domestic Product	5.1	6.6	4.7	6.1	5.6

INFLATION

	95H1 <u>Dec. to June</u>	95H2 <u>June to Dec.</u>	1994 <u>Dec. to Dec.</u>	1995 <u>Dec. to Dec.</u>
Producer Prices-Finished Goods	2.8	3.3	1.9	3.0
Consumer Prices	3.4	3.6	2.7	3.5

10-YEAR FORECASTS

Real Gross Domestic Product	2.7
Consumer Price Index	3.4

UNEMPLOYMENT and INTEREST RATES

(Levels, end of period)

	<u>Dec. 1994</u>	<u>June 1995</u>	<u>Dec. 1995</u>
Civilian Unemployment Rate (%)	5.6	5.6	5.6
90-Day U.S. Treasury Bill (%) (End-of-Month)	5.6	6.2	6.2