

The

LIVINGSTON

S U R V E Y

Federal Reserve Bank
of Philadelphia

Economy will grow 4 percent this quarter

The 64 forecasters in the semi-annual Livingston Survey forecast a growth rate of 4 percent for the economy in the second quarter (April-June). Growth will then slow to a more moderate pace (2.4 percent) in the second half of the year. This leaves real GDP growth on a fourth-quarter over fourth-quarter basis at 2.8 percent for 1996. The forecasters expect growth to slow still further, to 2.2 percent, in the first half of next year.

In this survey economists were asked to start forecasting real GDP and real business fixed investment using the new chain-weighted 1992 dollar basis instead of the old fixed 1987 dollar basis. Over the next 10 years, real GDP is forecast to grow 2.4 percent, down from 2.5 percent in the last survey. But participants in the last survey made their forecasts in fixed 1987 dollars, which typically results in higher reported growth rates.

Unemployment rate holds steady

Economists forecast the unemployment rate for June 1996 to be 5.5 percent. A marginal increase to 5.6 percent is forecast for December 1996, and it will remain the same in June 1997. This slight increase can also be seen in the forecast of annual averages: 5.6 percent for 1996 and 5.7 percent for 1997.

Inflation expectations are revised slightly upward

Survey participants forecast an increase in inflation over the next year and a half. Consumer price inflation (CPI) is expected to jump to 4.3 percent in the first half of 1996 because of temporary increases in food and energy prices. From June to December, economists forecast moderate inflation of just 2.4 percent. The inflation forecast for the first half of 1997 returns to a bit above 3 percent.

The long-term inflation forecast rose to 3.1 percent, a slight upward revision from that in the last survey, which forecast long-term inflation at 3 percent.

The Producer Price Index (PPI) also shows increased inflation. Economists forecast the PPI growth rate to be 1.7 percent over the second half of this year, and it will grow at an annual rate of 2.6 percent for the year.

Interest rates change little

Survey forecasters predict a slight drop in the U.S. Treasury bond's interest rate: 7 percent for the end of June 1996 and 6.9 percent by year's end. The forecasters predict a marginal increase in the Treasury bill's interest rate, from 5.1 percent for the end of June to 5.2 percent at the end of December.

Housing starts will decline

Housing starts had grown earlier this year but are now expected to decline over the next year. The forecast shows the annual average of housing starts falling from 1.415 million units this year to 1.355 million units for 1997.

Real business fixed investment on the rise

Real business fixed investment, a component of GDP, is forecast to grow to \$769.1 billion by the end of the year, with an annual average of \$757.0 billion for 1996 and \$785.6 billion in 1997. The fourth-quarter over fourth-quarter growth rate for 1996, which was 5.4 percent in the last survey, has now jumped to 6 percent.

The Livingston Survey is the oldest continuous survey of economists' expectations. The Livingston 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 now being published by the Federal Reserve Bank of Philadelphia in June and December. To subscribe to this publication, call (215) 574-6428. This publication can be found on the Internet at <http://libertynet.org/~fedresrv/respage.html>

1996 Livingston Survey Participants

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THE LIVINGSTON SURVEY, JUNE 1996
(mean forecast)

| <u>Quarterly Indicators</u> | <u>Q2</u> | <u>Q4</u> | <u>Q2</u> | <u>Annual Average</u> | |
|---|-------------|-------------|-------------|-----------------------|-------------|
| | <u>1996</u> | <u>1996</u> | <u>1997</u> | <u>1996</u> | <u>1997</u> |
| Real Gross Domestic Product (bil., '92 CW, SAAR) | 6882.0 | 6964.3 | 7040.4 | 6877.4 | 7025.3 |
| Gross Domestic Product (billions, SAAR) | 7534.6 | 7712.1 | 7882.9 | 7575.2 | 7929.2 |
| Real Nonresidential Fixed Investment (bil., '92CW, SAAR) | 753.8 | 769.1 | 782.8 | 757.0 | 785.6 |
| Corporate Profits after taxes (billions, SAAR) | 410.9 | 416.4 | 422.1 | 412.1 | 426.0 |
| <u>Monthly Indicators</u> | <u>June</u> | <u>Dec</u> | <u>June</u> | <u>Annual Average</u> | |
| | <u>1996</u> | <u>1996</u> | <u>1997</u> | <u>1996</u> | <u>1997</u> |
| Industrial Production (1987 = 100) | 125.1 | 126.8 | 128.4 | 125.1 | 128.7 |
| Total Private Housing Starts (millions, SAAR) | 1.456 | 1.373 | 1.357 | 1.415 | 1.355 |
| Producer Prices - Finished Goods | 131.3 | 132.4 | 134.2 | 131.2 | 134.3 |
| Consumer Prices | 156.8 | 158.7 | 161.2 | 157.1 | 161.8 |
| Unemployment Rate (%) | 5.5 | 5.6 | 5.6 | 5.6 | 5.7 |
| Average Weekly Earnings in Manufacturing | 526.34 | 534.72 | 541.04 | 527.53 | 541.95 |
| Retail Trade (billions, SAAR) | 209.3 | 214.4 | 219.4 | 208.4 | 219.1 |
| Automobile Sales, including foreign (millions, SAAR) | 8.6 | 8.6 | 8.5 | 8.7 | 8.5 |
| <u>Interest Rates & Stock Prices</u> (End-of-Period) | <u>June</u> | <u>Dec</u> | <u>June</u> | <u>Dec</u> | |
| | <u>1996</u> | <u>1996</u> | <u>1997</u> | <u>1997</u> | |
| Prime Interest Rate (%) | 8.3 | 8.4 | 8.4 | 8.3 | |
| 30-Yr U.S. Treasury Bond (%) | 7.0 | 6.9 | 6.8 | 6.8 | |
| 90-Day U.S. Treasury Bill (%) | 5.1 | 5.2 | 5.3 | 5.2 | |
| Stock Prices (S&P 500) | 668.3 | 672.0 | 684.9 | 689.7 | |

SAAR - Seasonally Adjusted Annual Rate

THE LIVINGSTON SURVEY, June 1996
 (mean forecast)
 annualized growth rates of selected variables

OUTPUT

| | <u>96Q2</u> <u>Q1 to Q2</u> | <u>96H2</u> <u>Q2 to Q4</u> | <u>97H1</u> <u>Q4 to Q2</u> | <u>1996</u> <u>Q4 to Q4</u> |
|-----------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Real Gross Domestic Product | 4.0 | 2.4 | 2.2 | 2.8 |
| Gross Domestic Product | 6.2 | 4.8 | 4.5 | 5.1 |

INFLATION

| | <u>96H1</u> <u>Dec. to June</u> | <u>96H2</u> <u>June to Dec.</u> | <u>97H1</u> <u>Dec. to June</u> | <u>1996</u> <u>Dec. to Dec.</u> |
|-------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Producer Prices - Finished Goods | 3.4 | 1.7 | 2.7 | 2.6 |
| Consumer Prices | 4.3 | 2.4 | 3.2 | 3.4 |

10-YEAR FORECASTS

| | |
|-----------------------------|-----|
| Real Gross Domestic Product | 2.4 |
| Consumer Price Index | 3.1 |

UNEMPLOYMENT and INTEREST RATES

(Levels, end of period)

| | <u>June 1996</u> | <u>Dec. 1996</u> | <u>June 1997</u> |
|---|------------------|------------------|------------------|
| Civilian Unemployment Rate (%) | 5.5 | 5.6 | 5.6 |
| 90-Day U.S. Treasury Bill (%) (End-of-Month) | 5.1 | 5.2 | 5.3 |