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Forecasters Predict Continued Economic Growth Through 2003

The 28 participants in the December Livingston Survey see sustained output growth through the first half of 2003, then an increase in the second half of 2003 and continuing through 2004. The forecasters, who are surveyed by the Federal Reserve Bank of Philadelphia twice a year, project that the economy's output has increased 2.6 percent in the second half of 2002. Furthermore, they think that economic output (real GDP) will grow at an annual rate of 2.8 percent in the first half of 2003 and rise at an even faster pace of 3.6 percent in the second half of the year.

In the forecasts, the unemployment rate is expected to remain at 5.9 percent from December 2002 to June 2003, then decline to 5.5 percent by the end of 2003. As the table below indicates, the unemployment rate forecasts for December 2002 are relatively similar to the previous survey (taken in June 2002) and are half a percentage point higher for June 2003 than in the previous survey. On an annual average basis, the unemployment rate will be 5.8 percent in 2002, 5.8 percent in 2003, and 5.3 percent in 2004.

	<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>					
2002 Q2 to 2002 Q4	3.5	2.6	December 2002	5.8	5.9
2002 Q4 to 2003 Q2	3.6	2.8	June 2003	5.4	5.9
2003 Q2 to 2003 Q4	N.A.	3.6	December 2003	N.A.	5.5

Inflation Will Rise in 2003

Consumer price (CPI) inflation will average 1.6 percent in 2002, then rise to 2.3 percent in 2003. However, as the economy begins to grow more strongly in 2004, inflation will increase to 2.6 percent. Compared with the June 2002 survey, these inflation forecasts are all slightly lower than before, as shown in the table below. Similarly, 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>				
2001 to 2002	1.8	1.6	-0.8	-1.2
2002 to 2003	2.7	2.3	1.9	1.3
2003 to 2004	N.A.	2.6	N.A.	1.5

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 1.3 percent at the end of 2002, rise slightly to 1.5 percent by June 2003, rise further to 2.1 percent by December 2003, and then continue to rise in 2004, finishing the year at 3.2 percent. In the current survey, forecasters predict interest rates will not rise as quickly as previously forecast six months ago.

Long-term interest rates are also expected to rise, but the increase is not as dramatic. In previous surveys, the 30-year Treasury bond was the benchmark for the long-term interest rate. Since the government no longer sells 30-year bonds, the 10-year T-note will be used to forecast long-term interest rates instead. The interest rate on 10-year Treasury notes is now projected to be 4.1 percent at the end of 2002, then rise slightly to 4.4 percent by June 2003. The rate climbs a bit more, to 4.8 percent, by the end of 2003, then keeps rising and reaches 5.3 percent by the end of 2004.

	<i>Three-Month T-Bill</i>		<i>10-Year T-Notes</i>	
	<i>Interest Rate</i>	<i>Interest Rate</i>	<i>Interest Rate</i>	<i>Interest Rate</i>
	<i>Previous</i>	<i>New</i>	<i>Previous</i>	<i>New</i>
Dec. 2002	2.4	1.3	N.A.	4.1
June 2003	3.4	1.5	N.A.	4.4
Dec. 2003	3.6	2.1	N.A.	4.8
Dec. 2004	N.A.	3.2	N.A.	5.3

**2002 Livingston Survey Participants
Participants in June and December Surveys**

R. Berner	Morgan Stanley & Co.	J. Lonski	Moody's Investors Service, Inc.
J. Butkiewicz	University of Delaware	E. McKelvey	Goldman Sachs & Company
R. Chase	Huckell/Weinman Associates, Inc.	J. Mueller	Lehrman Bell Mueller Cannon, Inc.
G. Ciminero	Independent Economic Advisory	F. Nothaft	Federal Home Loan Mortgage Corp.
D. Daane	Vanderbilt University	M. Regalia	U.S. Chamber of Commerce
R. DeKaser	National City Corporation	J. Smith	University of North Carolina
R. Dhawan	Georgia State University	J. Silvia	Wachovia Corporation
F. Dixon	Economic Insights	J. Skorkburg	American Farm Bureau Federation
S. Duobinis	National Association of Home Builders	P. Taylor	National Automobile Dealers Association
J. Gonzalez	Tennessee Valley Authority	D. Torgerson	U.S. Department of Agriculture
J. Hall	Thomson Financial Services	M. Wohar	University of Nebraska-Omaha
B. Horrigan	Loomis Sayles & Co.	R. Yamarone	Argus Research Corporation
S. Hymans	University of Michigan	J. Young	BellSouth Corp.
I. Kellner	Kellner Economic Advisors	L. Yun	National Association of Realtors
D. Knop	Williams Gas Pipeline		

Long-Term Outlook: Same Level of Inflation and Lower Output Growth Than in Previous Survey

The forecasters still think that inflation (as measured by the Consumer Price Index) will average 2.5 percent over the next 10 years. This was the expected level of inflation in the last two surveys, taken in June 2002 and in December 2001. However, the forecasters see slightly slower output growth over the next 10 years than they did previously. The average annual growth rate of real GDP will be 3.2 percent, compared with 3.3 percent in the previous survey.

Forecasters Predict a Rise in Corporate Profits; Stock Prices Decline

The forecasters have become more optimistic about corporate profits in the short run, but they also see significantly lower stock prices than they did six months ago.

For 2002, after-tax corporate profits are expected to be 4.3 percent lower than in 2001. The forecasters expect a significant rebound in profits in 2003, with profits growing 12.3 percent. Corporate profits are expected to continue to increase in 2004 by 10.8 percent, a pace somewhat slower than in 2003. The forecast for 2002 is slightly more pessimistic than the forecast made six months ago, but the 2004 forecast is slightly more optimistic than previously, as evidenced by the table below.

Stock prices (as measured by the S&P 500 index) are expected to finish 2002 at a level of about 922.5, 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 1001.3 at the end of June 2003 and to 1076.1 by the end of 2003. The index will rise to about 1138.5 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>
2001 to 2002	-4.1	-4.3	Dec. 31, 2002	1140.0	922.5
2002 to 2003	11.6	12.3	June 30, 2003	1200.0	1001.3
2003 to 2004	N.A.	10.8	Dec. 31, 2003	1252.8	1076.1
			Dec. 31, 2004	N.A.	1138.5

Technical Notes

This news release reports the median value across the 28 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, 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, 2002-2004

QUARTERLY INDICATORS (percentage changes at annual rates)	Q2 2002	Q4 2002	Q2 2003	2001	2002	2003
	TO	TO	TO	TO	TO	TO
	Q4 2002	Q2 2003	Q4 2003	2002	2003	2004
Real Gross Domestic Product	2.6	2.8	3.6	2.4	2.7	3.6
Nominal Gross Domestic Product	4.0	4.9	5.5	3.6	4.6	5.9
Nonresidential Fixed Investment	0.5	3.7	9.3	-5.7	4.1	9.2
Corporate Profits After Taxes	9.0	13.9	12.5	-4.3	12.3	10.8

MONTHLY INDICATORS (percentage changes at annual rates)	JUN 2002	DEC 2002	JUN 2003	2001	2002	2003
	TO	TO	TO	TO	TO	TO
	DEC 2002	JUN 2003	DEC 2003	2002	2003	2004
Industrial Production	-0.4	3.7	4.5	-0.6	2.6	5.8
Producer Prices - Finished Goods	2.0	0.3	1.0	-1.2	1.3	1.5
Consumer Price Index (CPI-U)	2.1	2.1	2.2	1.6	2.3	2.6
Average Weekly Earnings in Mfg.	0.7	2.9	3.3	3.6	2.9	3.3
Retail Trade	1.8	4.4	4.6	3.3	3.7	5.3

(levels of variables)	DEC 2002	JUN 2003	DEC 2003	2002	2003	2004
Total Private Housing Starts (annual rate, millions)	1.62	1.62	1.60	1.68	1.61	1.65
Unemployment Rate (percent)	5.9	5.9	5.5	5.8	5.8	5.3
Automobile Sales (incl. foreign) (annual rate, millions)	7.6	7.9	7.8	8.0	7.9	8.0

FINANCIAL INDICATORS (levels of variables)	DEC 2002	JUN 2003	DEC 2003	DEC 2004
Prime Interest Rate	4.3	4.5	5.0	6.0
10-Year Treasury Note Yield	4.1	4.4	4.8	5.3
3-Month Treasury Bill Rate	1.3	1.5	2.1	3.2
Stock Prices (S&P500)	922.5	1001.3	1076.1	1138.5

LONG-TERM OUTLOOK

Average Annual Growth Rate for the Next Ten Years

Real GDP	3.2
Consumer Price Index	2.5

Source: Research Department, Federal Reserve Bank of Philadelphia, Livingston Survey, December 2002

TABLE ONE
 MAJOR MACROECONOMIC INDICATORS, 2002-2004
 MEDIANS OF FORECASTER PREDICTIONS

QUARTERLY INDICATORS	NUMBER OF FORE- CASTERS	ACTUAL				FORECASTS			
		2002 Q2	2002 Q4	2003 Q2	2003 Q4	2001	2002	2003	2004
1. Real Gross Domestic Product (billions, chain weighted)	28	9392.4	9513.3	9647.3	9821.3	9214.6	9437.8	9695.8	10043.8
2. Nominal Gross Domestic Product (\$ billions)	28	10376.9	10584.4	10839.3	11131.3	10082.2	10443.9	10919.1	11562.2
3. Nonresidential Fixed Investment (billions, chain weighted)	24	1181.1	1184.2	1206.1	1260.9	1255.1	1183.4	1232.4	1345.3
4. Corporate Profits After Taxes (\$ billions)	21	444.3	463.8	495.0	525.0	470.9	450.5	506.0	560.5
MONTHLY INDICATORS		ACTUAL		FORECASTS		ACTUAL		FORECASTS	
		JUN 2002	DEC 2002	JUN 2003	DEC 2003	2001	2002	2003	2004
5. Industrial Production (1992=100)	22	140.3	140.0	142.6	145.8	140.4	139.6	143.3	151.5
6. Total Private Housing Starts (annual rate, millions)	27	1.692	1.620	1.620	1.600	1.600	1.680	1.610	1.650
7. Producer Prices - Finished Goods (index level)	21	139.0	140.4	140.6	141.3	140.7	139.0	140.8	142.9
8. Consumer Price Index (CPI-U) (index level)	27	179.9	181.8	183.7	185.8	177.1	179.9	184.0	188.7
9. Unemployment Rate (percent)	28	5.9	5.9	5.9	5.5	4.8	5.8	5.8	5.3
10. Average Weekly Earnings in Mfg. (\$)	13	631.1	633.2	642.2	652.5	604.1	625.8	643.8	665.1
11. Retail Trade (\$ billions)	18	300.6	303.4	310.0	317.0	290.8	300.5	311.6	328.2
12. Automobile Sales (incl. foreign) (annual rate, millions)	20	8.0	7.6	7.9	7.8	8.4	8.0	7.9	8.0

TABLE ONE (CONTINUED)

INTEREST RATES & STOCK PRICES (end of period)		ACTUAL	FORECASTS			
		JUN 2002	DEC 2002	JUN 2003	DEC 2003	DEC 2004
13. Prime Interest Rate (percent)	27	4.8	4.3	4.5	5.0	6.0
14. 10-Year Treasury Note Yield (percent)	28	4.9	4.1	4.4	4.8	5.3
15. 3-Month Treasury Bill Rate (percent)	28	1.7	1.3	1.5	2.1	3.2
16. Stock Prices (S&P500) (index level)	18	989.8	922.5	1001.3	1076.1	1138.5

Source: Research Department, Federal Reserve Bank of Philadelphia, Livingston Survey, December 2002

TABLE TWO
 MAJOR MACROECONOMIC INDICATORS, 2002-2004
 PERCENTAGE CHANGES AT ANNUAL RATES

QUARTERLY INDICATORS	NUMBER OF FORE- CASTERS	Q2 2002	Q4 2002	Q2 2003	2001	2002	2003
		TO Q4 2002	TO Q2 2003	TO Q4 2003	TO 2002	TO 2003	TO 2004
1. Real Gross Domestic Product	28	2.6	2.8	3.6	2.4	2.7	3.6
2. Nominal Gross Domestic Product	28	4.0	4.9	5.5	3.6	4.6	5.9
3. Nonresidential Fixed Investment	24	0.5	3.7	9.3	-5.7	4.1	9.2
4. Corporate Profits After Taxes	21	9.0	13.9	12.5	-4.3	12.3	10.8
MONTHLY INDICATORS		JUN 2002	DEC 2002	JUN 2003	2001	2002	2003
		TO DEC 2002	TO JUN 2003	TO DEC 2003	TO 2002	TO 2003	TO 2004
5. Industrial Production	22	-0.4	3.7	4.5	-0.6	2.6	5.8
6. Total Private Housing Starts	27	-0.072	0.000	-0.020	0.080	-0.070	0.040
7. Producer Prices - Finished Goods	21	2.0	0.3	1.0	-1.2	1.3	1.5
8. Consumer Price Index (CPI-U)	27	2.1	2.1	2.2	1.6	2.3	2.6
9. Unemployment Rate	28	0.0	0.0	-0.4	1.0	0.0	-0.5
10. Average Weekly Earnings in Mfg.	13	0.7	2.9	3.3	3.6	2.9	3.3
11. Retail Trade	18	1.8	4.4	4.6	3.3	3.7	5.3
12. Automobile Sales (incl. foreign)	20	-0.3	0.3	-0.1	-0.4	-0.1	0.1

INTEREST RATES & STOCK PRICES		JUN 2002 TO DEC 2002	DEC 2002 TO JUN 2003	JUN 2003 TO DEC 2003	DEC 2003 TO DEC 2004
13. Prime Interest Rate	27	-0.5	0.3	0.5	1.0
14. 10-Year Treasury Note Yield	28	-0.8	0.3	0.4	0.5
15. 3-Month Treasury Bill Rate	28	-0.5	0.3	0.6	1.1
16. Stock Prices (S&P500)	18	-13.1	17.8	15.5	5.8

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 2002

TABLE THREE
LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI Inflation Rate

STATISTIC	
Minimum	0.840
Lower Quartile	2.313
Median	2.500
Upper Quartile	2.575
Maximum	3.000
Mean	2.429
Std. Deviation	0.443
N	24
Missing	4

SERIES: Real GDP

STATISTIC	
Minimum	2.250
Lower Quartile	3.000
Median	3.200
Upper Quartile	3.300
Maximum	3.500
Mean	3.152
Std. Deviation	0.286
N	24
Missing	4

Source: Research Department, Federal Reserve Bank of Philadelphia, Livingston Survey, December 2002