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Forecasters Predict Economic Growth Through 2005

The 23 participants in the December Livingston Survey see sustained output growth through the end of 2005. The forecasters, who are surveyed by the Federal Reserve Bank of Philadelphia twice a year, project that the economy's output will rise at an annual rate of 3.9 percent in the second half of 2004. Furthermore, they think that economic output (real GDP) will grow at an annual rate of 3.5 percent in the first half of 2005 and continue at the same annual rate of 3.5 percent in the second half of the year. These forecasts are slightly lower than in the previous survey, suggesting that forecasters are just a bit less optimistic.

The unemployment rate is expected to fall from 5.4 percent in December 2004 to 5.2 percent in June 2005 and then remain at 5.2 percent until the end of 2005. These forecasts are identical to those of the survey six months ago, suggesting no change in the employment situation. On an annual average basis, the unemployment rate will be 5.5 percent in 2004, 5.3 percent in 2005, and 5.1 percent in 2006. These forecasts suggest that the unemployment rate will decrease gradually over the next two years.

	<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>					
2004 Q2 to 2004 Q4	4.1	3.9	December 2004	5.4	5.4
2004 Q4 to 2005 Q2	3.8	3.5	June 2005	5.2	5.2
2005 Q2 to 2005 Q4	N.A.	3.5	December 2005	N.A.	5.2

Deceleration in Inflation Is Expected

The forecasters' projections for inflation are somewhat higher than those of six months ago, particularly for producer prices, although the forecasters continue to expect some deceleration. Consumer price (CPI) inflation will average 2.7 percent in 2004, then fall to 2.4 percent in 2005, and remain at 2.4 percent in 2006. These forecasts are slightly higher than in the previous survey. Forecasters predict an increase of 3.5 percent in the PPI in 2004, higher than the forecast of 2.9 percent made six months ago. Respondents to the survey also see producer prices rising 2.4 percent in 2005, up from the 1.7 percent forecast in the June survey. However, they predict that producer price inflation will slow in 2006, rising a more modest 1.3 percent.

	<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>				
2003 to 2004	2.5	2.7	2.9	3.5
2004 to 2005	2.3	2.4	1.7	2.4
2005 to 2006	N.A.	2.4	N.A.	1.3

Interest Rates Climb Over the Next Two Years

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 2.3 percent at the end of 2004, rise to 2.8 percent by June 2005, rise further to 3.4 percent by December 2005, and continue to rise in 2006, finishing the year at 3.8 percent. The forecasts for December 2004 and June 2005 have increased since the last survey, while the forecast for December 2005 remains the same.

Long-term interest rates are also expected to rise over the next two years. The interest rate on 10-year Treasury notes is now projected to be 4.4 percent at the end of 2004, rising to 4.8 percent by June 2005. The long-term rate will continue to climb to 5.2 percent by the end of 2005 and then reach 5.5 percent by the end of 2006. The current forecasts are lower than those made six months ago.

	<i>3-Month Treasury Bill</i>		<i>10-Year Treasury Notes</i>	
	<i>Interest Rate</i>		<i>Interest Rate</i>	
	<i>Previous</i>	<i>New</i>	<i>Previous</i>	<i>New</i>
Dec. 31, 2004	1.8	2.3	5.1	4.4
June 30, 2005	2.6	2.8	5.4	4.8
Dec. 30, 2005	3.4	3.4	5.6	5.2
Dec. 29, 2006	N.A.	3.8	N.A.	5.5

**2004 Livingston Survey Participants
Participants in December Survey**

E. Beeson	Bank of Tokyo-Mitsubishi, Ltd.	C. Leahey	Deutsche Bank
R. Berner	Morgan Stanley & Co.	J. Lonski	Moody's Investors Service, Inc.
J. Butkiewicz	University of Delaware	F. Nothaft	Federal Home Loan Mortgage Corp.
R. Chase	Huckell/Weinman Associates, Inc.	M. Regalia	U.S. Chamber of Commerce
R. DeKaser	National City Corporation	R. Rippe	Prudential Equity Group, LLC
F. Dixon	Economic Insights	J. Silvia	Wachovia Corporation
K. Goldstein	The Conference Board	J. Smith	University of North Carolina
J. Gonzalez	Tennessee Valley Authority	D. Torgerson	U.S. Department of Agriculture
B. Horrigan	Loomis Sayles & Co.	M. Wohar	University of Nebraska-Omaha
S. Hymans	University of Michigan	R. Yamarone	Argus Research Corporation
I. Kellner	Kellner Economic Advisors	J. Young	BellSouth Corporation
D. Knopp	Williams Gas Pipeline		

Long-Term Outlook: Steady Inflation and Lower Output Growth Than in Previous Survey

The forecasters' views of long-term inflation have been fairly steady over the last few years. Inflation (as measured by the Consumer Price Index) will average 2.5 percent over the next 10 years, unchanged from the last six surveys dating back to December 2001. However, the forecasters see 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 3.5 percent in the previous survey.

Forecasts for Corporate Profits and Stock Prices Revised Downward

For 2004, after-tax corporate profits are expected to rise 12.8 percent, a decrease from the June survey's prediction of 15.5 percent. Similarly, forecasters see corporate profits rising 12.3 percent in 2005, down from the 13.4 percent increase forecast in June. Finally, corporate profits are expected to rise a modest 7.1 percent in 2006.

Stock prices (as measured by the S&P 500 index) are expected to finish 2004 at a level of 1192.9. The forecasters project an increase in stock prices over the next two years, with the index rising to 1221.5 by the end of June 2005 and to 1263.6 by the end of 2005. However, these forecasts are lower than in the previous survey, as shown in the table below. The index will rise to 1323.6 by the end of 2006.

	<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>
2003 to 2004	15.5	12.8	Dec. 31, 2004	1200.0	1192.9
2004 to 2005	13.4	12.3	June 30, 2005	1250.0	1221.5
2005 to 2006	N.A.	7.1	Dec. 30, 2005	1291.0	1263.8
			Dec. 29, 2006	N.A.	1323.6

Technical Notes

This news release reports the median value across the 23 forecasters on the survey's panel.

This survey marks the first in which we asked the forecasters for their projections for the *seasonally adjusted* CPI and PPI. In previous surveys, the forecasters provided their projections for the not seasonally adjusted index levels. Over the course of a year, the seasonally adjusted and not seasonally adjusted index levels give almost identical measures of inflation.

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/forms/orderform.htm>. 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/econ/liv/index.html>.

LIVINGSTON SURVEY
MAJOR MACROECONOMIC INDICATORS, 2004-2006

QUARTERLY INDICATORS (percentage changes at annual rates)	Q2 2004 TO Q4 2004	Q4 2004 TO Q2 2005	Q2 2005 TO Q4 2005	2003 TO 2004	2004 TO 2005	2005 TO 2006
Real Gross Domestic Product	3.9	3.5	3.5	4.4	3.6	3.3
Nominal Gross Domestic Product	5.7	5.6	5.6	6.6	5.7	5.5
Nonresidential Fixed Investment	11.7	7.6	8.0	10.3	8.8	7.8
Corporate Profits After Taxes	8.6	16.0	3.0	12.8	12.3	7.1
MONTHLY INDICATORS (percentage changes at annual rates)	JUN 2004 TO DEC 2004	DEC 2004 TO JUN 2005	JUN 2005 TO DEC 2005	2003 TO 2004	2004 TO 2005	2005 TO 2006
Industrial Production	4.4	4.6	4.0	4.5	4.3	4.0
Producer Prices - Finished Goods	3.8	1.2	0.8	3.5	2.4	1.3
Consumer Price Index (CPI-U)	2.1	1.8	2.2	2.7	2.4	2.4
Average Weekly Earnings in Mfg.	1.7	4.0	4.3	3.5	3.1	3.1
Retail Trade	6.3	4.8	5.6	7.2	5.0	5.2
(levels of variables)	DEC 2004	JUN 2005	DEC 2005	2004	2005	2006
Total Private Housing Starts (annual rate, millions)	1.949	1.880	1.800	1.948	1.857	1.740
Unemployment Rate (percent)	5.4	5.2	5.2	5.5	5.3	5.1
Automobile Sales (incl. foreign) (annual rate, millions)	7.4	7.4	7.5	7.4	7.4	7.4
FINANCIAL INDICATORS (levels of variables at end of month)	DEC 2004	JUN 2005	DEC 2005	DEC 2006		
Prime Interest Rate	5.13	5.75	6.25	6.50		
10-Year Treasury Note Yield	4.39	4.79	5.22	5.53		
3-Month Treasury Bill Rate	2.25	2.80	3.35	3.75		
Stock Prices (S&P500)	1192.9	1221.5	1263.8	1323.6		
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 2004

LIVINGSTON SURVEY

December 2004

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 18; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before December 10.

TABLE ONE
 MAJOR MACROECONOMIC INDICATORS, 2004-2006
 MEDIANS OF FORECASTER PREDICTIONS

QUARTERLY INDICATORS	NUMBER OF FORE- CASTERS	ACTUAL				FORECASTS			
		2004 Q2	2004 Q4	2005 Q2	2005 Q4	2003	2004	2005	2006
1. Real Gross Domestic Product (billions, chain weighted)	22	10784.7	10994.1	11186.8	11383.0	10381.3	10841.4	11235.1	11601.1
2. Nominal Gross Domestic Product (\$ billions)	21	11657.5	11983.0	12314.9	12656.6	11004.1	11730.7	12402.6	13085.9
3. Nonresidential Fixed Investment (billions, chain weighted)	20	1207.9	1276.4	1323.8	1375.8	1110.8	1225.3	1333.0	1437.0
4. Corporate Profits After Taxes (\$ billions)	15	717.1	747.3	805.0	817.1	639.6	721.4	810.3	867.6
MONTHLY INDICATORS		ACTUAL		FORECASTS		ACTUAL		FORECASTS	
		JUN 2004	DEC 2004	JUN 2005	DEC 2005	2003	2004	2005	2006
5. Industrial Production (1997=100)	19	115.9	118.4	121.1	123.5	111.2	116.2	121.2	126.0
6. Total Private Housing Starts (annual rate, millions)	22	1.817	1.949	1.880	1.800	1.853	1.948	1.857	1.740
7. Producer Prices - Finished Goods (index level)	18	148.3	151.1	152.0	152.6	143.3	148.4	151.9	153.9
8. Consumer Price Index (CPI-U) (index level)	21	189.4	191.4	193.1	195.2	184.0	188.9	193.4	198.1
9. Unemployment Rate (percent)	22	5.6	5.4	5.2	5.2	6.0	5.5	5.3	5.1
10. Average Weekly Earnings in Mfg. (\$)	7	659.7	665.3	678.6	693.0	636.2	658.3	678.5	699.2
11. Retail Trade (\$ billions)	11	333.5	343.8	352.0	361.7	313.0	335.7	352.6	370.9
12. Automobile Sales (incl. foreign) (annual rate, millions)	17	7.1	7.4	7.4	7.5	7.6	7.4	7.4	7.4

TABLE ONE (CONTINUED)

INTEREST RATES & STOCK PRICES (end of period)		ACTUAL	FORECASTS			
		JUN 2004	DEC 2004	JUN 2005	DEC 2005	DEC 2006
13. Prime Interest Rate (percent)	20	4.00	5.13	5.75	6.25	6.50
14. 10-Year Treasury Note Yield (percent)	22	4.62	4.39	4.79	5.22	5.53
15. 3-Month Treasury Bill Rate (percent)	22	1.31	2.25	2.80	3.35	3.75
16. Stock Prices (S&P500) (index level)	16	1140.8	1192.9	1221.5	1263.8	1323.6

Source: Research Department, Federal Reserve Bank of Philadelphia, Livingston Survey, December 2004

TABLE TWO
 MAJOR MACROECONOMIC INDICATORS, 2004-2006
 PERCENTAGE CHANGES AT ANNUAL RATES

QUARTERLY INDICATORS	NUMBER OF FORE- CASTERS	Q2 2004	Q4 2004	Q2 2005	2003	2004	2005
		TO Q4 2004	TO Q2 2005	TO Q4 2005	TO 2004	TO 2005	TO 2006
1. Real Gross Domestic Product	22	3.9	3.5	3.5	4.4	3.6	3.3
2. Nominal Gross Domestic Product	21	5.7	5.6	5.6	6.6	5.7	5.5
3. Nonresidential Fixed Investment	20	11.7	7.6	8.0	10.3	8.8	7.8
4. Corporate Profits After Taxes	15	8.6	16.0	3.0	12.8	12.3	7.1
MONTHLY INDICATORS		JUN 2004	DEC 2004	JUN 2005	2003	2004	2005
		TO DEC 2004	TO JUN 2005	TO DEC 2005	TO 2004	TO 2005	TO 2006
5. Industrial Production	19	4.4	4.6	4.0	4.5	4.3	4.0
6. Total Private Housing Starts	22	0.132	-0.069	-0.080	0.095	-0.091	-0.117
7. Producer Prices - Finished Goods	18	3.8	1.2	0.8	3.5	2.4	1.3
8. Consumer Price Index (CPI-U)	21	2.1	1.8	2.2	2.7	2.4	2.4
9. Unemployment Rate	22	-0.2	-0.2	0.0	-0.5	-0.2	-0.2
10. Average Weekly Earnings in Mfg.	7	1.7	4.0	4.3	3.5	3.1	3.1
11. Retail Trade	11	6.3	4.8	5.6	7.2	5.0	5.2
12. Automobile Sales (incl. foreign)	17	0.3	0.0	0.1	-0.2	0.0	0.0

		JUN 2004	DEC 2004	JUN 2005	DEC 2005
		TO	TO	TO	TO
INTEREST RATES & STOCK PRICES		DEC 2004	JUN 2005	DEC 2005	DEC 2006
13. Prime Interest Rate	20	1.13	0.63	0.50	0.25
14. 10-Year Treasury Note Yield	22	-0.23	0.40	0.43	0.30
15. 3-Month Treasury Bill Rate	22	0.94	0.55	0.55	0.40
16. Stock Prices (S&P500)	16	9.3	4.8	7.1	4.7

Note: Figures for housing starts, unemployment rate, auto sales, prime interest rate, 10-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 2004

TABLE THREE
LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI Inflation Rate

STATISTIC	
Minimum	1.30
Lower Quartile	2.17
Median	2.50
Upper Quartile	2.56
Maximum	3.30
Mean	2.41
Std. Deviation	0.42
N	18
Missing	5

SERIES: Real GDP

STATISTIC	
Minimum	2.40
Lower Quartile	3.07
Median	3.22
Upper Quartile	3.50
Maximum	3.90
Mean	3.28
Std. Deviation	0.34
N	18
Missing	5

Source: Research Department, Federal Reserve Bank of Philadelphia, Livingston Survey, December 2004