

The LIVINGSTON SURVEY

Federal Reserve Bank
of Philadelphia

December 1996

Economy is holding steady

The 52 forecasters in the semi-annual Livingston Survey forecast a growth rate of 2.3 percent for the economy in the last quarter of 1996. Growth for the first half of 1997 is forecast to be 2.0 percent, with a slight increase to 2.3 percent in the second half of the year. Average growth for all of 1997 is forecast to be 2.1 percent.

Unemployment rate shows little change

Economists forecast little change in the unemployment rate over the next year: 5.3 percent in June and 5.4 percent in December 1997. Only a modest increase is forecast for 1998 when the unemployment rate is expected to average 5.6 percent.

Inflation expectations are revised slightly downward

Survey participants forecast a decline in inflation over the next year. Consumer price inflation as measured by the Consumer Price Index is expected to be 3.1 percent in the first half of 1997. Economists forecast a moderate drop in

inflation, to 2.9 percent, in the second half.

The forecast for inflation over the next 10 years fell to 3.0 percent, a 0.1 percent decrease from the forecast in the last survey.

The Producer Price Index (PPI) also shows little change in inflation. Economists forecast that the PPI growth rate will be 2.4 percent in both the first and second halves of 1997.

Wage growth is expected to rise

Wages stay in line with the inflation rate — 3.1 percent — for the first half of the year. But in the second half of 1997, wage growth is expected to increase to a rate of 3.3 percent, slightly higher than inflation.

Interest rates change little

Survey forecasters predict a slight increase in the U.S. Treasury bond's interest rate, from 6.6 percent at the end of 1996 to 6.7 percent by the end of June 1997. However, they forecast that rates will fall back to 6.6 by the end of 1997 and fall further, to 6.4 percent, by the end of 1998. Forecasts for the Treasury

bill show the same pattern: 5.1 percent at the end of 1996, 5.2 percent at the end of 1997, and 4.9 percent at the end of 1998.

Stock market will continue to expand

Economists forecast continued expansion in the S&P 500 at a level of 738.5 for the end of 1996, 750.6 for the end of 1997, and 763.4 for the end of 1998. This translates into a growth rate of 1.6 percent for 1997 and 1.7 percent for 1998.

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 using the World Wide Web at '<http://www.phil.frb.org>'.

1996 Livingston Survey Participants

Jason Benderly, Benderly Economic Associates; Richard Berner, Mellon Bank; Paul W. Boltz, T. Rowe Price Associates; William A. Brown, Morgan Guaranty Trust Company; James L. Butkiewicz, University of Delaware; Edward Campbell, Brown Brothers Harriman & Co.; Robert H. Chandross, Republic National Bank of New York; Robert Chase, Chase Economics; Gary L. Ciminero, Independent Economic Advisory; Anthony Crescenzi, Miller Tabak Hirsch & Company; Daryl Delano, Cahners Publishing Co., Inc.; Frederick Dixon, Economic Insights; D. M. Drury, Regis University; Stanley Duobinis, National Association of Home Builders; Robert J. Eggert, Eggert Economic Enterprises, Inc.; Michael R. Englund, MMS International; Brian J. Fabbri, Paribas Capital Markets; Rebekah McCahan Fickling, PNC Bank; Gail Fosler, Conference Board; Deana Froerer, Key Corporation; Juan E. Gonzalez, Tennessee Valley Authority; Brian Horrigan, Loomis Sayles & Co.; Lacy H. Hunt, HSBC Holdings; Saul H. Hymans, University of Michigan; Samuel Kahan, Economist; Cheryl Katz, Merrill Lynch; 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 Corp.; Richard Lemmon, General Motors Corporation; Alan Levenson, UBS Securities; David Littmann, Comerica Bank; John G. Lonski, Moody's Investors Service, Inc.; Ram Mahidhara, Amoco Corporation; Kenneth T. Mayland, KeyCorp; John McAulery, Wilkinson Boyd Capital Markets; Frank McCormick, Bank of America; Ed McKelvey, Goldman, Sachs & Company; Ralph Monaco, University of Maryland; John Mueller, Lehrman Bell Mueller Cannon Inc.; Herbert E. Neil, Jr., Financial & Economic Strategies Corp.; Diann H. Painter, Mobil Corporation; Wallace C. Peterson, University of Nebraska; Joel Popkin, Joel Popkin & Company; Marisa Puglisi, U.S. Department of Labor; Elliot Platt, Donaldson Lufkin & Jenrette; Frederick J. Rafeld, Ashland University; Donald Ratajczak, Georgia State University; Charles Reeder, Charles Reeder Associates; Richard D. Rippe, Prudential Securities; Stephen S. Roach, Morgan Stanley & Co., Inc.; Donna Scheck, Honeywell, Inc.; Ron Schreiber, National Association of Wholesaler-Distributors; Dan Seto, Nikko Securities Co. International; Arnold Shindler, Bankers Trust Company; John Silvia, Kemper Financial Services Inc.; Jeff K. Thredgold, KeyCorp; David Torgerson, U.S. Department of Agriculture; John Tuccillo, National Association of Realtors; Theodore H. Tung, National City Bank; Thomas Webb, National Automobile Dealers Association; Robert O. Welk, Rowtek Economics; Michael Willoughby, Bruno Mack & Barclay; Mark Wohar, University of Nebraska-Omaha; Seymour Wolfbein, T.W.O.; Harold York, Exxon Co. USA; Jim Young, BellSouth Corp.

THE LIVINGSTON SURVEY, December 1996

(mean forecast)

annualized growth rates of selected variables

OUTPUT

	<u>96Q4</u> <u>Q3 to Q4</u>	<u>97H1</u> <u>Q4to Q2</u>	<u>97H2</u> <u>Q2 to Q4</u>	<u>1996</u> <u>Q4 to Q4</u>	<u>1997</u> <u>Q4 to Q4</u>
Real Gross Domestic Product	2.3	2.0	2.3	2.7	2.1
Gross Domestic Product	4.1	5.1	4.6	4.6	4.9

INFLATION

	<u>97H1</u> <u>Dec. to June</u>	<u>97H2</u> <u>June to Dec.</u>	<u>1996</u> <u>Dec. to Dec.</u>	<u>1997</u> <u>Dec. To Dec.</u>
Producer Prices - Finished Goods	2.4	2.4	2.9	2.4
Consumer Prices	3.1	2.9	3.5	3.0

10-YEAR FORECASTS

Real Gross Domestic Product	2.4
Consumer Price Index	3.0

UNEMPLOYMENT and INTEREST RATES

(Levels, end of period)

	<u>Dec. 1996</u>	<u>June 1997</u>	<u>Dec. 1997</u>
Civilian Unemployment Rate (%)	5.3	5.3	5.4
90-Day U.S. Treasury Bill (%) (End-of-Month)	5.1	5.2	5.2

THE LIVINGSTON SURVEY, DECEMBER 1996

(mean forecast)

<u>Quarterly Indicators</u>	<u>Q4</u>	<u>Q2</u>	<u>Q4</u>	<u>Annual Average</u>		
	<u>1996</u>	<u>1997</u>	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Real Gross Domestic Product (bil., '92 CW, SAAR)	\$6966.2	7035.6	7114.9	6917.5	7090.2	7299.1
Gross Domestic Product (billions, SAAR)	\$7689.4	7879.9	8060.8	7598.0	7945.0	8297.5
Real Nonresidential Fixed Investment (bil., '92CW, SAAR)	\$788.1	809.1	827.7	768.1	814.9	851.9
Corporate Profits after taxes (billions, SAAR)	\$408.4	417.9	429.4	410.3	422.5	438.1
<u>Monthly Indicators</u>	<u>Dec</u>	<u>June</u>	<u>Dec</u>	<u>Annual Average</u>		
	<u>1996</u>	<u>1997</u>	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>
Industrial Production (1987 = 100)	127.3	128.9	130.3	125.8	129.0	132.0
Total Private Housing Starts (millions, SAAR)	1.405	1.381	1.363	1.460	1.386	1.342
Producer Prices - Finished Goods	132.8	134.4	136.0	131.3	134.5	137.8
Consumer Prices	158.8	161.3	163.6	156.9	161.6	166.2
Unemployment Rate (%)	5.3	5.3	5.4	5.4	5.4	5.6
Average Weekly Earnings in Manufacturing	542.69	550.96	560.11	530.73	550.78	566.81
Retail Trade (billions, SAAR)	209.6	213.4	217.9	206.5	215.1	223.4
Automobile Sales, including foreign (millions, SAAR)	8.2	8.3	8.3	8.5	8.3	8.2
<u>Interest Rates & Stock Prices</u> (End-of-Period)	<u>Dec</u>	<u>June</u>	<u>Dec</u>	<u>Dec</u>		
	<u>1996</u>	<u>1997</u>	<u>1997</u>	<u>1998</u>		
Prime Interest Rate (%)	8.3	8.4	8.4	8.0		
30-Yr U.S. Treasury Bond (%)	6.6	6.7	6.6	6.4		
90-Day U.S. Treasury Bill (%)	5.1	5.2	5.2	4.9		
Stock Prices (S&P 500)	738.5	732.7	750.6	763.4		

SAAR - Seasonally Adjusted Annual Rate