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Forecasters See Economy Recovering

Forecasters across the nation see the economy recovering in 2002 from the recession of 2001. The forecasts for 2002 are much more optimistic than they were six months ago. The Federal Reserve Bank of Philadelphia polls forecasters twice a year for the Livingston Survey; 27 forecasters responded to this survey. They think the economy's output will grow 2.7 percent in 2002, then strengthen in 2003 to 3.6 percent. The figure for 2002 is much higher than in the previous survey, taken in December 2001, while the forecast for 2003 is the same as in the previous survey, as the table below indicates.

In the forecasts, the unemployment rate is expected to decline in both years, averaging 5.8 percent in 2002 and 5.4 percent in 2003. Those figures are both 0.2 percentage point lower than in the December 2001 survey.

	<i>Growth Rate of Real GDP (%)</i>			<i>Unemployment Rate (%)</i>	
	<i>Previous</i>	<i>New</i>		<i>Previous</i>	<i>New</i>
<i>Annual average data:</i>					
2001 to 2002	0.9	2.7	2002	6.0	5.8
2002 to 2003	3.6	3.6	2003	5.6	5.4

Inflation Expected to Rise in 2003

The forecasters now see inflation rising in 2003, after declining in 2002. Consumer prices will rise 1.8 percent in 2002 (the same as in the previous survey). But in 2003, they will rise 2.7 percent, an increase of 0.9 percentage point from 2002 and up 0.2 percentage point from the previous survey. Producer prices are expected to fall 0.8 percent in 2002, almost 1 percentage point less than the expected increase of 0.1 percentage point in the previous survey. But producer prices are expected to reverse course in 2003, rising 1.9 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>				
2001 to 2002	1.8	1.8	0.1	-0.8
2002 to 2003	2.5	2.7	1.8	1.9

Short-Term Interest Rates Lower Than Before, Long-Term Interest Rates Higher

Compared to what they projected in the December 2001 survey, the forecasters think that short-term interest rates will be a bit lower and long-term interest rates will be a bit higher. Both short-term and long-term interest rates are expected to increase over the next two years.

The forecasters expect the three-month T-bill interest rate to rise from 1.8 percent in June 2002 to 2.4 percent at year-end 2002, then rise throughout 2003, ending the year at 3.6 percent. These forecasts are several tenths of a percentage point lower than in the previous survey, as shown in the table below.

Long-term interest rates are expected to rise about 0.4 percentage point over the next year and a half. The interest rate on 30-year Treasury bonds is now projected to rise from 5.7 percent in June 2002 to 6.0 percent by year-end. It is expected to rise slightly in 2003, finishing the year at 6.1 percent. These forecasts for long-term interest rates are several tenths of a percentage point higher than in the previous survey, as the table shows.

	<i>3-Month Treasury Bill</i>		<i>30-Year Treasury Bond</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>
June 2002	2.0	1.8	5.4	5.7
Dec. 2002	2.8	2.4	5.6	6.0
June 2003	N.A.	3.4	N.A.	6.0
Dec. 2003	4.0	3.6	5.9	6.1

2002 Livingston Survey Participants			
Participants in June Survey			
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.
R. DeKaser	National City Corporation	M. Regalia	U.S. Chamber of Commerce
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 Steady

The forecasters' views of long-term inflation and output growth have been fairly steady over the last year. The panelists think that real GDP will grow 3.2 percent annually over the next 10 years, down slightly from the 3.3 percent in the previous survey. Inflation (in the Consumer Price Index) will average 2.5 percent over the next 10 years, unchanged from the previous survey.

Corporate Profits Fall in 2002, Rise in 2003; Stock Price Forecasts Lower Than Before

For 2002, after-tax corporate profits are expected to decline 4.1 percent from their level in 2001. But profits will rebound strongly in 2003, growing 11.6 percent, as shown in the table below.

Stock prices (as measured by the S&P 500 index) are forecast to rise slowly over the next year and a half. However, the forecasts are considerably below those from the previous survey, as shown in the table.

	<i>Growth Rate of After-Tax Corporate Profits (%)</i>			<i>Stock Prices S&P 500 Index</i>	
	<i>Previous</i>	<i>New</i>		<i>Previous</i>	<i>New</i>
2001 to 2002	1.8	-4.1	June 30, 2002	1245.0	1080.0
2002 to 2003	7.0	11.6	Dec. 31, 2002	1260.0	1140.0
			June 30, 2003	N.A.	1200.0
			Dec. 31, 2003	1352.8	1252.8

Technical Notes

This news release reports the median value across the 27 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 Research Department's Publications Desk at (215) 574-6428, or e-mail phil.liv@phil.frb.org. 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, 2002-2003

QUARTERLY INDICATORS (percentage changes at annual rates)	Q4 2001 TO Q2 2002	Q2 2002 TO Q4 2002	Q4 2002 TO Q2 2003	2001 TO 2002	2002 TO 2003
Real Gross Domestic Product	4.3	3.5	3.6	2.7	3.6
Nominal Gross Domestic Product	5.5	5.3	5.9	4.0	5.7
Nonresidential Fixed Investment	-2.7	4.8	9.2	-5.3	7.4
Corporate Profits After Taxes	21.4	5.9	10.9	-4.1	11.6
MONTHLY INDICATORS (percentage changes at annual rates)	DEC 2001 TO JUN 2002	JUN 2002 TO DEC 2002	DEC 2002 TO JUN 2003	2001 TO 2002	2002 TO 2003
Industrial Production	5.4	4.7	5.2	0.3	4.9
Producer Prices - Finished Goods	3.2	1.7	1.8	-0.8	1.9
Consumer Price Index (CPI-U)	4.2	1.9	2.5	1.8	2.7
Average Weekly Earnings in Mfg.	-1.0	2.7	3.9	3.4	3.3
Retail Trade	4.7	3.7	4.4	4.0	4.2
(levels of variables)	JUN 2002	DEC 2002	JUN 2003	2002	2003
Total Private Housing Starts (annual rate, millions)	1.590	1.564	1.582	1.610	1.588
Unemployment Rate (percent)	6.0	5.8	5.4	5.8	5.4
Automobile Sales (incl. foreign) (annual rate, millions)	8.3	8.4	8.5	8.3	8.5
FINANCIAL INDICATORS (levels of variables)	JUN 2002	DEC 2002	JUN 2003	DEC 2003	
Prime Interest Rate	4.8	5.5	6.3	6.6	
30-Year Treasury Bond Yield	5.7	6.0	6.0	6.1	
3-Month Treasury Bill Rate	1.8	2.4	3.4	3.6	
Stock Prices (S&P500)	1080.0	1140.0	1200.0	1252.8	

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, June 2002

LIVINGSTON SURVEY

June 2002

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 May 16; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before June 6.

TABLE ONE
MAJOR MACROECONOMIC INDICATORS, 2002-2003
MEDIAN OF FORECASTER PREDICTIONS

QUARTERLY INDICATORS	NUMBER OF FORE- CASTERS	ACTUAL	FORECASTS				FORECASTS		
		2001 Q4	2002 Q2	2002 Q4	2003 Q2	2001	2002	2003	
1. Real Gross Domestic Product (billions, chain weighted)	27	9348.6	9546.0	9710.3	9884.4	9333.8	9587.8	9931.4	
2. Nominal Gross Domestic Product (\$ billions)	27	10263.3	10543.4	10819.4	11135.0	10208.1	10619.8	11229.8	
3. Nonresidential Fixed Investment (billions, chain weighted)	23	1245.0	1228.0	1257.0	1313.5	1308.0	1238.4	1330.1	
4. Corporate Profits After Taxes (\$ billions)	20	425.2	468.5	482.1	507.8	482.5	462.5	516.0	
MONTHLY INDICATORS		ACTUAL DEC 2001	JUN 2002	FORECASTS		ACTUAL 2001	2002	FORECASTS 2003	
5. Industrial Production (1992=100)	24	136.7	140.4	143.6	147.3	140.4	140.9	147.8	
6. Total Private Housing Starts (annual rate, millions)	27	1.580	1.590	1.564	1.582	1.600	1.610	1.588	
7. Producer Prices - Finished Goods (index level)	20	137.4	139.6	140.7	141.9	140.7	139.6	142.2	
8. Consumer Price Index (CPI-U) (index level)	26	176.7	180.4	182.1	184.4	177.1	180.2	185.1	
9. Unemployment Rate (percent)	26	5.8	6.0	5.8	5.4	4.8	5.8	5.4	
10. Average Weekly Earnings in Mfg. (\$)	11	626.9	623.8	632.2	644.3	604.0	624.4	644.8	
11. Retail Trade (\$ billions)	13	295.2	302.0	307.6	314.3	290.6	302.2	315.0	
12. Automobile Sales (incl. foreign) (annual rate, millions)	19	7.4	8.3	8.4	8.5	8.4	8.3	8.5	

TABLE ONE (CONTINUED)

INTEREST RATES & STOCK PRICES (end of period)		ACTUAL	FORECASTS			
		DEC 2001	JUN 2002	DEC 2002	JUN 2003	DEC 2003
13. Prime Interest Rate (percent)	23	4.8	4.8	5.5	6.3	6.6
14. 30-Year Treasury Bond Yield (percent)	23	5.5	5.7	6.0	6.0	6.1
15. 3-Month Treasury Bill Rate (percent)	26	1.7	1.8	2.4	3.4	3.6
16. Stock Prices (S&P500) (index level)	19	1148.1	1080.0	1140.0	1200.0	1252.8

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

TABLE TWO
 MAJOR MACROECONOMIC INDICATORS, 2002-2003
 PERCENTAGE CHANGES AT ANNUAL RATES

QUARTERLY INDICATORS	NUMBER OF FORE- CASTERS	Q4 2001	Q2 2002	Q4 2002	2001	2002
		TO Q2 2002	TO Q4 2002	TO Q2 2003	TO 2002	TO 2003
1. Real Gross Domestic Product	27	4.3	3.5	3.6	2.7	3.6
2. Nominal Gross Domestic Product	27	5.5	5.3	5.9	4.0	5.7
3. Nonresidential Fixed Investment	23	-2.7	4.8	9.2	-5.3	7.4
4. Corporate Profits After Taxes	20	21.4	5.9	10.9	-4.1	11.6
MONTHLY INDICATORS		DEC 2001 TO JUN 2002	JUN 2002 TO DEC 2002	DEC 2002 TO JUN 2003	2001 TO 2002	2002 TO 2003
5. Industrial Production	24	5.4	4.7	5.2	0.3	4.9
6. Total Private Housing Starts	27	0.010	-0.026	0.018	0.010	-0.022
7. Producer Prices - Finished Goods	20	3.2	1.7	1.8	-0.8	1.9
8. Consumer Price Index (CPI-U)	26	4.2	1.9	2.5	1.8	2.7
9. Unemployment Rate	26	0.2	-0.2	-0.4	1.0	-0.4
10. Average Weekly Earnings in Mfg.	11	-1.0	2.7	3.9	3.4	3.3
11. Retail Trade	13	4.7	3.7	4.4	4.0	4.2
12. Automobile Sales (incl. foreign)	19	0.9	0.1	0.1	-0.1	0.2

INTEREST RATES & STOCK PRICES		DEC 2001 TO JUN 2002	JUN 2002 TO DEC 2002	DEC 2002 TO JUN 2003	JUN 2003 TO DEC 2003
13. Prime Interest Rate	23	0.0	0.8	0.8	0.3
14. 30-Year Treasury Bond Yield	23	0.2	0.3	0.0	0.1
15. 3-Month Treasury Bill Rate	26	0.0	0.7	1.0	0.2
16. Stock Prices (S&P500)	19	-11.5	11.4	10.8	9.0

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, June 2002

TABLE THREE
LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI Inflation Rate

STATISTIC	
Minimum	2.000
Lower Quartile	2.500
Median	2.500
Upper Quartile	2.800
Maximum	3.200
Mean	2.589
Std. Deviation	0.266
N	23
Missing	4

SERIES: Real GDP

STATISTIC	
Minimum	2.800
Lower Quartile	3.000
Median	3.150
Upper Quartile	3.300
Maximum	3.750
Mean	3.207
Std. Deviation	0.235
N	23
Missing	4
