

The Livingston Survey

June 1994

Economic Research Division

Inflation will remain in check over the forecast horizon

The 58 economists responding to this month's Livingston Survey expect inflation, at the level of both the consumer and the producer, to remain well under control over the next 12 months. The forecasters see the consumer price index (CPI) rising at an annual rate of 2.5 percent through the fourth quarter of 1994, which represents a downward revision of inflationary expectations from the December 1993 survey. At that time, survey respondents expected CPI inflation in the second half of 1994 to run at an annual rate of 3.3 percent. For the first half of 1995, the economists expect a moderate increase in CPI inflation, to 3.3 percent.

Projections for the producer price index (PPI) also reflect expectations of restrained inflation. Survey respondents expect PPI inflation to average a steady 2.5 percent over the forecast horizon, which also represents a ratcheting down from the December survey.

Long-term inflationary expectations continue to be revised downward as well. The June survey

shows that CPI inflation over the next 10 years is expected to average 3.5 percent, compared with 3.6 percent in the December survey.

Stronger second-quarter growth will moderate in the second half

The modest projection for inflation over the next 12 months is, in part, based on a belief that growth in the real economy will be easing. The economists expect second-quarter growth of real gross domestic output (GDP) to come in at 3.5 percent, up moderately from real GDP growth of 3 percent in the first quarter. However, survey respondents expect real GDP growth to average 2.8 in the second half of 1994 and 2.7 percent in the first half of 1995. The forecasts for retail sales, housing starts, and investment reflect the slowdown in real GDP growth.

Over the next 10 years the survey respondents expect real GDP growth to average 2.7 percent, which represents a slight upward adjustment of the December forecast of 2.6 percent average growth.



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Started in 1946 by the late columnist Joseph A. Livingston, The Livingston Survey is the oldest continuous survey of economists' expectations. It summarizes the forecasts of economists from industry, government, banking, and academia. It is now published by the Federal Reserve Bank of Philadelphia in June and December. Historical data from past surveys are available. For further information, contact the Economic Research Department, Federal Reserve Bank of Philadelphia.

Downward movement in the unemployment rate is very modest

The forecast of little downward movement in the civilian unemployment rate over the next 12 months reflects the easing in economic activity. The economists expect an unemployment rate of 6.2 percent for June, falling to 6.1 percent in December, and 6 percent one year from now. The path for the unemployment rate is largely unchanged from what forecasters projected in the December survey. At that time, the expectation was for an unemployment rate of 6.2 percent in December 1994.

Interest rates continue to climb

The economists believe that interest rates will continue to climb in conjunction with moderating real growth and low inflation. At year-end, survey respondents expect the 90-day Treasury bill rate to stand at 4.5 percent, compared with 4.2 percent in June. The upward trend in short-term yields is expected to continue through June 1995, when the Treasury bill rate will average 4.9 percent. The forecasters see the prime rate standing at about 7.5 percent in December 1994, rising to 7.75 percent one year from now. At the long end of the yield curve, the economists expect the Treasury bond yield to average 7.4 percent in December, rising to 7.5 percent in June 1995.

1994 Livingston Survey Participants

Kermit Baker, Cahners Publishing Co., Inc.; Richard Berner, Mellon Bank; Paul W. Boltz, T. Rowe Price Associates; Ian Borsook, Merrill Lynch; William A. Brown, Morgan Guaranty Trust Company; Wynn V. Bussmann, Chrysler Corporation; James L. Butkiewicz, University of Delaware; Edward J. Campbell, Brown Brothers Harriman & Co.; Gary L. Ciminero, Fleet Financial Group; Frederick T. Dixon, Economic Insights; Joseph W. Duncan, Dun & Bradstreet Corporation; Stanley Duobinis, National Association of Home Builders; Robert J. Eggert, Eggert Economic Enterprises, Inc.; Joe K. Elling, Weyerhaeuser Company; Rebekah M. Fickling, PNC Bank; Gail Fosler, Conference Board; Robert Giordano, Goldman, Sachs & Company; George A. Guy, Fremont Mutual Insurance Company; Brian Horigan, Loomis Sayles & Co.; Lacy H. Hunt, HSBC Holdings; Joseph D. Hurd, Pacific Bell; Saul H. Hymans, University of Michigan; Samuel Kahan, Fuji Securities Inc.; Irwin L. Kellner, Chemical Banking Corp.; Nancy Kimelman, Thomson Financial Services; Donald Knop, Transcontinental Gas Pipeline Corp.; Ray Lamm, Coffee, Sugar, & Cocoa Exchange; Carol Leisenring, CoreStates Financial Corporation; Richard Lemmons, General Motors Corporation; Alan Levenson, UBS Securities; David L. Littmann, Comerica Bank; John G. Lonski, Moody's Investors Service, Inc.; Ram Mahidhara, Amoco Corporation; Kenneth T. Mayland, Society National Bank; Frank McCormick, Bank of America; Ralph M. Monaco, University of Maryland; John Mueller, Lehman Bell Mueller Cannon Inc.; Diann H. Painter, Mobil Corporation; Richard Peterson, Continental Bank; Wallace C. Peterson, University of Nebraska; Elliot Platt, Donaldson, Lufkin, & Jenrette; Joel Popkin, Joel Popkin & Company; Donald Ratajczak, Georgia State University; Charles B. Reeder, Charles Reeder Associates; Martin Regalia, U.S. Chamber of Commerce; Richard D. Rippe, Prudential Securities; Stephen S. Roach, Morgan Stanley & Co., Inc.; William W. Ross, Fu Associates Ltd.; Dan Seto, Nikko Securities Co. International; John Silvia, Kemper Financial Services Inc.; John W. Skorburg, Chicagoland Chamber of Commerce; Herman Starobin, Int. Ladies' Garment Workers' Union; Thomas W. Synnott, United States Trust Co. of New York; Jeff K. Thredgold, KeyCorp; David Torgerson, U.S. Department of Agriculture; John Tuccillo, National Association of Realtors; Theodore H. Tung, National City Bank; Michael Willoughby, Jassoy Graff & Douglas; Mark Wohar, University of Nebraska-Omaha; Seymour Wolfbein, T.W.O.; David A. Wyss, Data Resources, Inc.; Harold York, Exxon Co. USA; Jim Young, BellSouth Corp.;

THE LIVINGSTON SURVEY, June 1994

(mean forecast)
annualized growth rates of selected variables

OUTPUT

	94Q2 <u>Q1 to Q2</u>	94H2 <u>Q2 to Q4</u>	95H1 <u>Q4 to Q2</u>	1994 <u>Q4 to Q4</u>	1995 <u>Q2 to Q2</u>
Real Gross Domestic Product	3.5	2.8	2.7	3.0	2.8
Gross Domestic Product	6.6	4.7	6.2	5.4	5.4

INFLATION

	94H2 <u>June to Dec.</u>	95H1 <u>Dec. to June</u>	1994 <u>Dec. to Dec.</u>	1995 <u>June to June</u>
Producer Prices-Finished Goods	2.5	2.5	2.5	2.5
Consumer Prices	2.5	3.3	2.9	2.9

10-YEAR FORECASTS

Real Gross Domestic Product	2.7
Consumer Price Index	3.5

UNEMPLOYMENT and INTEREST RATES

(Levels)

	<u>June 1994</u>	<u>Dec. 1994</u>	<u>June 1995</u>
Civilian Unemployment Rate (%)	6.2	6.1	6.0
90-Day U.S. Treasury Bill (%) (End-of-month)	4.2	4.5	4.9

THE LIVINGSTON SURVEY, June 1994
(mean forecast)

<u>Quarterly Indicators</u>	<u>Q2 1994</u>	<u>Q4 1994</u>	<u>Q2 1995</u>	<u>Annual Average</u>	
				<u>1994</u>	<u>1995</u>
Real Gross Domestic Product (bil. '87, SAAR)	\$5309.1	5381.9	5455.1	5329.7	5477.9
Gross Domestic Product (billions, SAAR)	\$6724.0	6879.8	7088.4	6771.1	7150.8
Real Nonresidential Fixed Investment (bil. '87, SAAR)	\$652.8	677.0	698.8	657.2	704.4
Corporate Profits after taxes (billions, SAAR)	\$300.5	310.2	315.0	303.2	316.2
<u>Monthly Indicators</u>	<u>June 1994</u>	<u>Dec 1994</u>	<u>June 1995</u>	<u>Annual Average</u>	
				<u>1994</u>	<u>1995</u>
Industrial Production (1987=100)	116.8	118.8	120.8	116.9	120.9
Total Private Housing Starts (millions, SAAR)	1.432	1.419	1.409	1.414	1.413
Producer Prices - Finished Goods	125.6	127.2	128.8	126.1	129.2
Consumer Prices	148.2	150.0	152.4	148.3	153.4
Unemployment Rate (%)	6.2	6.1	6.0	6.3	6.0
Average Weekly Earnings in Manufacturing	\$510.76	516.19	526.58	510.40	528.57
Retail Trade (billions, SAAR)	\$185.1	189.7	193.9	185.3	194.0
Automobile Sales, including foreign (millions, SAAR)	9.4	9.4	9.4	9.4	9.4
<u>Interest Rates & Stock Prices</u> (End of Period)	<u>June 1994</u>	<u>Dec 1994</u>	<u>June 1995</u>	<u>Dec 1995</u>	
Prime Interest Rate (%)	7.3	7.5	7.8	7.8	
30-Yr U.S. Treasury Bond (%)	7.4	7.4	7.5	7.5	
90-Day U.S. Treasury Bill (%)	4.2	4.5	4.9	5.0	
Stock Prices (S&P 500)	458.8	466.1	471.8	475.9	

SAAR - Seasonally Adjusted Annual Rate