

The LIVINGSTON SURVEY

Federal Reserve Bank
of Philadelphia

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Economic growth continues, but at a slower pace

The 55 participants in the Livingston Survey project continued growth in the U.S. economy. After growing 3.6 percent in 1997, real GDP will increase just 2.2 percent in 1998. Accompanying this slower output growth will be slower growth of investment by businesses, less rapid growth of industrial production, a decline in housing starts, a slight rise in the unemployment rate, slower growth of corporate profits, and not much change in interest rates. The slowing of real GDP growth will occur gradually: the economy will grow at an annual rate of 2.9 percent in the fourth quarter of 1997, 2.5 percent in the first half of 1998, and 1.9 percent in the second half of 1998.

Inflation rises a little

With the economy slowing in 1998 from its torrid pace in 1997, inflation rates are expected to rise just a little. Consumer prices are expected to rise 2.5 percent in 1998, after rising just 2.2 percent in 1997. Producer prices will rise more, climbing 1.6 percent in 1998 after declining slightly in 1997.

Unemployment rises slowly

The unemployment rate, which hit a 24-year low of 4.6 percent in November, isn't expected to remain there. As the economy slows, the forecasters see the unemployment rate rising gradually to 4.8 percent by June 1998 and to 4.9 percent by December 1998. As the unemployment rate rises, upward pressure on wages will subside somewhat. Average weekly earnings in manufacturing are expected to grow 5.5

percent in the second half of 1997, 3.6 percent in the first half of 1998, and 3.4 percent in the second half of 1998.

The stock market continues to rise; interest rates change little

Despite the slowing of the economy and less rapid growth of corporate profits, the stock market is expected to continue to rise, with the S&P500 index up 4.7 percent in the first half of 1998 and 2.3 percent in the second half of the year. While the stock market continues to rise, the forecasters see little action in the bond market. The interest rate on 30-year Treasury bonds is expected to tick up just a bit from 6.2 percent at the end of December 1997 to 6.3 percent in June 1998, then stay there through the end of the year. Short-term interest rates also hold steady over the period: the 90-day T-bill interest rate will rise from 5.2 percent at the end of December 1997 to 5.3 percent in June 1998, then stay at that level through December 1998.

Housing starts decline; auto sales are flat

With the slowing economy next year, the outlook for housing starts is weak. The forecast calls for the annual pace of starts to average 1,471,000 units in December 1997, dropping to 1,440,000 units in June 1998, then to 1,406,000 in December 1998. Over the same period, auto sales will remain roughly flat, running at an annual pace of 8.1 to 8.2 million cars.

Forecasters take a glimpse at 1999

In this survey, the forecasters provide a peek at what the economy may look like

in 1999. They foresee the economy continuing to grow, but at a slower pace than in 1998. In 1999, growth will be slightly slower for real GDP, business investment, corporate profits, and industrial production. Housing starts and auto sales will decline slightly. Both short-term and long-term interest rates will decline a bit.

Lower inflation is expected in the long run

Over the next 10 years, the CPI inflation rate is expected to average 2.8 percent, the lowest rate since the survey started asking for a long-term forecast in 1990. The forecast had been 2.9 percent in the June 1997 survey and 3.0 percent in the December 1996 survey. Also, the forecasters see real GDP growing 2.5 percent over the next 10 years, a slight increase over the 2.4 percent growth forecast in both the June 1997 and December 1996 surveys.

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 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 at '<http://www.phil.frb.org>'

1997 Livingston Survey Participants

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THE LIVINGSTON SURVEY, DECEMBER 1997

(mean of forecasted level)

<u>Quarterly Indicators</u>	Q4	Q2	Q4	Annual Averages		
	<u>1997</u>	<u>1998</u>	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Real Gross Domestic Product (Bil., '92 CW SAAR)	7272.8	7361.6	7432.7	7191.3	7367.6	7527.5
Gross Domestic Product (billions, SAAR)	8230.1	8408.7	8588.0	8078.9	8450.8	8809.8
Real Nonresidential Fixed Investment (bil., '92CW SAAR)	890.7	923.0	946.6	853.0	925.3	974.5
Corporate Profits After Taxes (billions, SAAR)	491.4	498.1	503.5	479.8	498.9	514.0

<u>Monthly Indicators</u>	Dec	June	Dec	Annual Averages		
	<u>1997</u>	<u>1998</u>	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Industrial Production	123.4	125.1	126.8	120.6	124.9	127.9
Total Private Housing Starts (millions, SAAR)	1.471	1.440	1.406	1.464	1.421	1.397
Producer Prices – Finished Goods	132.5	133.6	134.7	132.0	133.5	135.8
Consumer Prices	162.2	164.3	166.3	160.7	164.4	168.7
Unemployment Rate (%)	4.7	4.8	4.9	4.9	4.9	5.0
Average Weekly Earnings in Manufacturing	565.24	575.23	584.87	552.69	575.68	595.71
Retail Trade (billions, SAAR)	215.7	220.8	225.1	212.5	221.0	229.7
Automobile Sales, including foreign (millions, SAAR)	8.1	8.2	8.1	8.2	8.2	8.1

<u>Interest Rates & Stock Prices</u>	Dec	June	Dec	Dec
(End of Period)	<u>1997</u>	<u>1998</u>	<u>1998</u>	<u>1999</u>
Prime Interest Rate (%)	8.5	8.6	8.6	8.3
30-Year U.S. Treasury Bond (%)	6.2	6.3	6.3	6.2
90-Day U.S. Treasury Bill (%)	5.2	5.3	5.3	5.1
Stock Prices (S&P 500)	960.4	982.5	993.8	1027.5

SAAR – Seasonally Adjusted Annual Rate

THE LIVINGSTON SURVEY, DECEMBER 1997

(growth rates of means)

Quarterly Indicators	1997Q2 to	1997Q4 to	1998Q2 to	Annual Averages		
	1997Q4	1998Q2	1998Q4	1996 – 97	1997 – 98	1998 – 99
Real Gross Domestic Product (Bil., '92 CW SAAR) (% Change)	3.2	2.5	1.9	3.8	2.5	2.2
Gross Domestic Product (billions, SAAR) (% Change)	4.9	4.4	4.3	5.8	4.6	4.2
Real Nonresidential Fixed Investment (bil., '92CW SAAR) (% Change)	13.3	7.4	5.2	10.5	8.5	5.3
Corporate Profits After Taxes (billions, SAAR) (% Change)	6.9	2.7	2.2	7.2	4.0	3.0

Monthly Indicators	June '97 to	Dec '97 to	June '98 to	Annual Averages		
	Dec '97	June '98	Dec '98	1996 – 97	1997 – 98	1998 – 99
Industrial Production (% Change)	6.0	2.8	2.7	4.7	3.6	2.4
Total Private Housing Starts (millions, SAAR) (Change in Level)	-0.032	-0.031	-0.034	-0.013	-0.042	-0.024
Producer Prices – Finished Goods (% Change)	1.4	1.5	1.7	0.5	1.2	1.7
Consumer Prices (% Change)	2.3	2.6	2.5	2.4	2.3	2.6
Unemployment Rate (%) (Change in Level)	-0.3	0.1	0.1	-0.5	0.0	0.1
Average Weekly Earnings in Manufacturing (% Change)	5.5	3.6	3.4	4.0	4.2	3.5
Retail Trade (billions, SAAR) (% Change)	4.6	4.7	4.0	4.5	4.0	3.9
Automobile Sales, including foreign (millions, SAAR) (Change in Level)	0.2	0.1	-0.1	-0.3	0.0	-0.1

Interest Rates & Stock Prices (End of Period)	June 1997 to	Dec 1997 to	June 1998 to	Dec 1998 to
	Dec 1997	June 1998	Dec 1998	Dec 1999
Prime Interest Rate (%) (Change in Level)	0.0	0.1	0.0	-0.3
30-Year U.S. Treasury Bond (%) (Change in Level)	-0.6	0.1	0.0	-0.1
90-Day U.S. Treasury Bill (%) (Change in Level)	0.1	0.1	0.0	-0.2
Stock Prices (S&P 500) (% Change)	17.7	4.7	2.3	3.4

SAAR – Seasonally Adjusted Annual Rate

