

# The LIVINGSTON SURVEY

Federal Reserve Bank  
of Philadelphia

June 1997

## **Economy will slow**

The 50 forecasters in the semi-annual Livingston Survey predict real gross domestic product (GDP) will slow from the rapid pace in the first quarter of 1997 (5.8 percent) to 2.4 percent in the second half of the year. Real GDP will then grow 2.2 percent in the first six months of 1998. Over the next 10 years, real GDP is forecast to increase 2.4 percent annually.

## **Housing starts decline**

Survey participants forecast housing starts will drop 6.5 percent in the second half of 1997, with a further drop of 2.2 percent over the first half of 1998.

## **Retail sales continue to increase**

Retail sales will grow steadily according to survey participants. They forecast sales will increase at an annual rate of 5.0 percent over the next six months. Sales will show similar growth over the first half of 1998, rising at a rate of 4.5 percent.

## **Unemployment rate remains low**

The forecasters predict little change in the unemployment rate over the next 12 months. By the end of 1997, the unemployment rate is expected to be 5.0 percent and is forecast to rise modestly, to 5.1 percent, in June 1998.

## **Wage growth is expected to increase**

Survey participants forecast

upward pressure on wage inflation as a result of a tight labor market.

Wages are expected to increase 4.2 percent at an annual rate from June to December 1997. Wages will then rise 2.8 percent in the first half of 1998.

## **Long-term inflation continues to decline**

The forecast for inflation over the next 10 years fell to 2.9 percent, a 0.1 percentage point decrease from the forecast in the December 1996 survey and a 0.2 percentage point decrease from last June.

In the short term, survey participants predict inflation will creep up over the next year. The consumer price index (CPI) is forecast to increase at an annual rate of 2.7 percent over the second half of 1997, then rise at a rate of 3.1 percent in the first half of 1998.

Survey participants' forecasts for the producer price index (PPI) show a slight decrease in inflation. The PPI is forecast to grow 3.0 percent at an annual rate over the second half of this year, but it will drop to 2.1 percent over the first half of next year.

## **Interest rates will change little**

Survey forecasters predict a minimal change in the interest rate on 30-year Treasury bonds; the rate will rise from 7.0 percent at the end of June 1997 to 7.1 percent by the end of the year. Interest rates on bonds will drop to 6.8 percent by the

end of 1998. The interest rate on three-month Treasury bills is forecast to increase, from 5.2 percent in June 1997 to 5.5 percent in December 1997. In June 1998, the interest rate on Treasury bills is expected to remain at 5.5 percent, but then drop to 5.3 percent by the end of the year.

## **Stock market expands despite a minor correction**

Stock prices of 500 major industrial firms are represented by the S&P 500. Economists forecast this index will continue to grow from its December 1996 level of 743.3 to 848.8 by June 30, then decline to 838.8 by year-end.

Corporate profits are predicted to increase, rising 3.6 percent over the second half of the year and 2.5 percent in the first half of 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 at '<http://www.phil.frb.org>'.

## 1997 Livingston Survey Participants

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## THE LIVINGSTON SURVEY, June 1997

(mean forecast)

annualized growth rates of selected variables

### OUTPUT

	97Q2	97H2	98H1	1997
	<u>Q1 to Q2</u>	<u>Q2 to Q4</u>	<u>Q4 to Q2</u>	<u>Q4 to Q4</u>
Real Gross Domestic Product	2.3	2.4	2.2	3.2
Gross Domestic Product	4.6	4.9	4.7	5.6

### INFLATION

	97H1	97H2	98H1	1997
	<u>Dec. to June</u>	<u>June to Dec.</u>	<u>Dec. to June</u>	<u>Dec. to Dec.</u>
Producer Prices - Finished Goods	-0.8	3.0	2.1	1.1
Consumer Prices	2.9	2.7	3.1	2.8

### 10-YEAR FORECASTS

Real Gross Domestic Product	2.4
Consumer Price Index	2.9

### UNEMPLOYMENT and INTEREST RATES

(Levels, end of period)

	<u>June 1997</u>	<u>Dec. 1997</u>	<u>June 1998</u>
Civilian Unemployment Rate (%)	4.9	5.0	5.1
90-Day U.S. Treasury Bill (%)	5.2	5.5	5.5

## THE LIVINGSTON SURVEY, JUNE 1997

(mean forecast)

<b><u>Quarterly Indicators</u></b>	<b>Q2</b>	<b>Q4</b>	<b>Q2</b>	<b>Annual Averages</b>	
	<b><u>1997</u></b>	<b><u>1997</u></b>	<b><u>1998</u></b>	<b><u>1997</u></b>	<b><u>1998</u></b>
Real Gross Domestic Product (bil., '92CW SAAR)	\$7,130	7215.7	7295.1	7153.7	7309.2
Gross Domestic Product (billions, SAAR)	\$7,954	8148.1	8335.7	8009.7	8388.0
Real Nonresidential Fixed Investment (bil., '92CW SAAR)	\$828	855.6	876.7	833.6	880.8
Corporate Profits after taxes (billions, SAAR)	\$430	437.9	443.3	431.8	444.0

<b><u>Monthly Indicators</u></b>	<b>June</b>	<b>Dec</b>	<b>June</b>	<b>Annual Average</b>	
	<b><u>1997</u></b>	<b><u>1997</u></b>	<b><u>1998</u></b>	<b><u>1997</u></b>	<b><u>1998</u></b>
Industrial Production (1987=100)	119.8	121.8	123.4	120.3	123.4
Total Private Housing Starts (millions SAAR)	1.433	1.384	1.367	1.417	1.361
Producer Prices - Finished Goods	132.2	134.1	135.6	132.9	136.1
Consumer Prices	160.9	163.1	165.6	161.3	166.1
Unemployment Rate (%)	4.9	5.0	5.1	5.0	5.2
Average Weekly Earnings in Manufacturing	552.96	564.50	572.41	552.93	573.39
Retail Trade (billions, SAAR)	215.1	220.5	225.4	215.9	226.1
Automobile Sales, including foreign (mlions, SAAR)	8.2	8.2	8.1	8.3	8.1

<b><u>Interest Rates &amp; Stock Prices</u></b>	<b>June</b>	<b>Dec</b>	<b>June</b>	<b>Dec</b>
(End of Period)	<b><u>1997</u></b>	<b><u>1997</u></b>	<b><u>1998</u></b>	<b><u>1998</u></b>
Prime Interest Rate (%)	8.4	8.8	8.7	8.5
30-Yr U.S. Treasury Bond (%)	7.0	7.1	6.9	6.8
90-Day U.S. Treasury Bill (%)	5.2	5.5	5.5	5.3
Stock Prices (S&P 500)	848.8	838.8	848.5	867.1

SAAR - Seasonally Adjusted Annual Rate