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Forecasters Predict Economic Growth and Falling Unemployment Through Mid- 2005

The 26 participants in the June Livingston Survey see sustained output growth well into 2005. The forecasters, who are surveyed by the Federal Reserve Bank of Philadelphia twice a year, project that the economy's output will rise at an annual rate of 4.5 percent in the first half of 2004. Furthermore, they think that economic output (real GDP) will grow at an annual rate of 4.1 percent in the second half of 2004 and continue at an annual rate of 3.8 percent in the first half of 2005. The forecast for the first half of 2004 is somewhat higher than in the previous survey, suggesting that forecasters are becoming even more optimistic.

The unemployment rate is expected to fall from 5.6 percent in June 2004 to 5.4 percent in December 2004 and then continue to decline, to 5.2 percent, by the middle of 2005. These forecasts are slightly lower than in the survey six months ago, suggesting that the employment situation is improving. On an average annual basis, the unemployment rate will be 5.5 percent in 2004 and 5.2 percent in 2005.

	<i>Growth Rate of Real GDP (%)</i>			<i>Unemployment Rate (%)</i>	
	<i>Previous</i>	<i>New</i>		<i>Previous</i>	<i>New</i>
<i>Half-year data:</i>					
2003 Q4 to 2004 Q2	4.3	4.5	June 2004	5.7	5.6
2004 Q2 to 2004 Q4	4.1	4.1	December 2004	5.5	5.4
2004 Q4 to 2005 Q2	N.A.	3.8	June 2005	N.A.	5.2

Inflation on the Rise in 2004 and 2005

Forecasts for consumer price inflation, as measured by the Consumer Price Index, are higher than in the previous survey, as evidenced by the predicted inflation rate of 2.5 percent in 2004, up from the 1.9 percent forecast in the December survey. Respondents to the survey also see consumer prices rising by 2.3 percent in 2005, also higher than the forecast made in December. Forecasters predict an increase of 2.9 percent in the PPI in 2004, a striking increase from the forecast made six months ago. However, they predict that producer price inflation will slow in 2005, rising a more modest 1.7 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>				
2003 to 2004	1.9	2.5	1.2	2.9
2004 to 2005	1.8	2.3	1.4	1.7

Interest Rates Will Climb Considerably in 2004 and 2005

Forecasters see both short-term and long-term interest rates rising sharply over the next two years. These paths are similar to those predicted in the December survey.

The forecasters expect the three-month T-bill interest rate to rise from 1.3 percent in June 2004 to 1.8 percent at year-end 2004, then rise throughout 2005, ending the year at 3.4 percent. The forecasts for 2005 have increased since the last survey.

Long-term interest rates are also expected to rise over the next two years. The interest rate on 10-year Treasury bonds is now projected to climb from 4.8 percent in June 2004 to 5.1 percent by year-end. It is expected to increase further in 2005, finishing the year at 5.6 percent. These forecasts are almost identical to those made six months ago.

	<i>3-Month Treasury Bill</i>		<i>10-Year Treasury Bond</i>	
	<i>Interest Rate</i>		<i>Interest Rate</i>	
	<i>Previous</i>	<i>New</i>	<i>Previous</i>	<i>New</i>
June 30, 2004	1.3	1.3	4.8	4.8
Dec. 31, 2004	1.7	1.8	5.2	5.1
June 30, 2005	N.A.	2.6	N.A.	5.4
Dec. 31, 2005	2.5	3.4	5.6	5.6

**2004 Livingston Survey Participants
Participants in June Survey**

R. Berner	Morgan Stanley & Co.	C. Leahey	Deutsche Bank
J. Butkiewicz	University of Delaware	D. Lereah	National Association of Realtors
R. Chase	Huckell/Weinman Associates, Inc.	J. Lonski	Moody's Investors Service, Inc.
R. DeKaser	National City Corporation	J. Mueller	Lehrman Bell Mueller Cannon, Inc.
R. Dhawan	Georgia State University	H. Neil	Financial & Economic Strategies Corp.
F. Dixon	Economic Insights	F. Nothaft	Federal Home Loan Mortgage Corp.
M. Englund	Standard & Poor's MMS	M. Regalia	U.S. Chamber of Commerce
K. Goldstein	The Conference Board	T. Schaap	BellSouth Corp.
J. Gonzalez	Tennessee Valley Authority	J. Silvia	Wachovia Corporation
J. Hall	Thomson Financial Services	J. Smith	University of North Carolina
B. Horrigan	Loomis Sayles & Co.	P. Taylor	National Automobile Dealers Assoc.
S. Hymans	University of Michigan	D. Torgerson	U.S. Department of Agriculture
I. Kellner	Kellner Economic Advisors	M. Wohar	University of Nebraska-Omaha
D. Knopp	Williams Gas Pipeline	R. Yamarone	Argus Research Corporation

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 3.5 percent annually over the next 10 years, the same as in the previous survey. Inflation (as measured by the Consumer Price Index) will average 2.5 percent over the next 10 years, unchanged from the last five surveys dating back to December 2001.

Corporate Profits Set to Rise; Stock Prices Rise Consistently Over the Next Two Years

For 2004, after-tax corporate profits are expected to rise 15.5 percent, an increase from the December survey's prediction of 14.7 percent. On the other hand, forecasters see corporate profits rising 13.4 percent in 2005, a decrease from the 19.4 percent increase forecast in December.

Stock prices (as measured by the S&P 500 index) are forecast to rise in 2004 and 2005. The projection for the S&P 500 at the end of 2005 is about 2.8 percent higher than the forecasters previously predicted.

	<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>
2003 to 2004	14.7	15.5	June 30, 2004	1142.5	1141.3
2004 to 2005	19.4	13.4	Dec. 31, 2004	1195.0	1200.0
			June 30, 2005	N.A.	1250.0
			Dec. 31, 2005	1256.2	1291.0

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, go to www.phil.frb.org/forms/orderform.htm and scroll down to Research Publications. This four-page write-up contains partial results of the survey; more-detailed tables are available. These tables can be accessed at: www.phil.frb.org/econ/liv/index.html.

LIVINGSTON SURVEY
MAJOR MACROECONOMIC INDICATORS, 2004-2005

QUARTERLY INDICATORS (percentage changes at annual rates)	Q4 2003 TO Q2 2004	Q2 2004 TO Q4 2004	Q4 2004 TO Q2 2005	2003 TO 2004	2004 TO 2005
Real Gross Domestic Product	4.5	4.1	3.8	4.7	3.9
Nominal Gross Domestic Product	6.7	6.2	5.4	6.7	5.6
Nonresidential Fixed Investment	8.5	11.7	7.8	9.8	8.4
Corporate Profits After Taxes	2.2	15.9	13.4	15.5	13.4
MONTHLY INDICATORS (percentage changes at annual rates)	DEC 2003 TO JUN 2004	JUN 2004 TO DEC 2004	DEC 2004 TO JUN 2005	2003 TO 2004	2004 TO 2005
Industrial Production	6.1	5.4	5.1	5.0	5.2
Producer Prices - Finished Goods, NSA	4.9	1.0	1.7	2.9	1.7
Consumer Price Index (CPI-U, NSA)	4.9	1.7	2.3	2.5	2.3
Average Weekly Earnings in Mfg., NSA	-2.0	4.3	1.9	3.3	3.4
Retail Trade	8.1	4.7	3.3	7.4	4.3
(levels of variables)	JUN 2004	DEC 2004	JUN 2005	2004	2005
Total Private Housing Starts (annual rate, millions)	1.900	1.800	1.725	1.880	1.703
Unemployment Rate (percent)	5.6	5.4	5.2	5.5	5.2
Automobile Sales (incl. foreign) (annual rate, millions)	7.6	7.6	7.8	7.6	7.6
FINANCIAL INDICATORS (levels of variables at end of month)	JUN 2004	DEC 2004	JUN 2005	DEC 2005	
Prime Interest Rate	4.25	4.75	5.50	6.00	
10-Year Treasury Note Yield	4.78	5.10	5.44	5.60	
3-Month Treasury Bill Rate	1.25	1.82	2.58	3.42	
Stock Prices (S&P500)	1141.3	1200.0	1250.0	1291.0	
LONG-TERM OUTLOOK Average Annual Growth Rate for the Next Ten Years					
Real GDP	3.5				
Consumer Price Index	2.5				

Source: Research Department, Federal Reserve Bank of Philadelphia, Livingston Survey, June 2004

LIVINGSTON SURVEY

June 2004

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 19; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before June 9.

TABLE ONE
MAJOR MACROECONOMIC INDICATORS, 2004-2005
MEDIAN OF FORECASTER PREDICTIONS

QUARTERLY INDICATORS	NUMBER OF FORE- CASTERS	ACTUAL	FORECASTS		ACTUAL	FORECASTS		
		2003 Q4	2004 Q2	2004 Q4	2005 Q2	2003	2004	2005
1. Real Gross Domestic Product (billions, chain weighted)	25	10600.1	10834.0	11051.9	11258.0	10398.0	10886.4	11311.9
2. Nominal Gross Domestic Product (\$ billions)	26	11262.0	11632.5	11985.3	12305.9	10987.9	11720.8	12376.7
3. Nonresidential Fixed Investment (billions, chain weighted)	24	1169.4	1217.9	1287.0	1336.0	1125.5	1235.6	1339.8
4. Corporate Profits After Taxes (\$ billions)	18	714.5	722.2	777.5	828.1	631.5	729.7	827.6
MONTHLY INDICATORS		ACTUAL DEC 2003	FORECASTS		ACTUAL 2003	FORECASTS		
			JUN 2004	DEC 2004	JUN 2005	2004	2005	
5. Industrial Production (1997=100)	23	113.1	116.5	119.6	122.6	111.2	116.8	122.8
6. Total Private Housing Starts (annual rate, millions)	23	2.067	1.900	1.800	1.725	1.853	1.880	1.703
7. Producer Prices - Finished Goods (index level, NSA)	20	144.5	148.0	148.7	150.0	143.3	147.4	150.0
8. Consumer Price Index (CPI-U) (index level, NSA)	23	184.3	188.8	190.4	192.6	184.0	188.6	192.8
9. Unemployment Rate (percent)	23	5.7	5.6	5.4	5.2	6.0	5.5	5.2
10. Average Weekly Earnings in Mfg. (\$, NSA)	11	662.9	656.2	670.0	676.5	636.2	657.4	679.5
11. Retail Trade (\$ billions)	14	322.3	335.1	342.8	348.5	312.9	336.0	350.5
12. Automobile Sales (incl. foreign) (annual rate, millions)	18	7.6	7.6	7.6	7.8	7.6	7.6	7.6

TABLE ONE (CONTINUED)

INTEREST RATES & STOCK PRICES (end of period)		ACTUAL	FORECASTS			
		DEC 2003	JUN 2004	DEC 2004	JUN 2005	DEC 2005
13. Prime Interest Rate (percent)	25	4.00	4.25	4.75	5.50	6.00
14. 10-Year Treasury Note Yield (percent)	26	4.27	4.78	5.10	5.44	5.60
15. 3-Month Treasury Bill Rate (percent)	26	0.93	1.25	1.82	2.58	3.42
16. Stock Prices (S&P500) (index level)	19	1111.9	1141.3	1200.0	1250.0	1291.0

Source: Research Department, Federal Reserve Bank of Philadelphia, Livingston Survey, June 2004

TABLE TWO
 MAJOR MACROECONOMIC INDICATORS, 2004-2005
 PERCENTAGE CHANGES AT ANNUAL RATES

QUARTERLY INDICATORS	NUMBER OF FORE- CASTERS	Q4 2003	Q2 2004	Q4 2004	2003	2004
		TO Q2 2004	TO Q4 2004	TO Q2 2005	TO 2004	TO 2005
1. Real Gross Domestic Product	25	4.5	4.1	3.8	4.7	3.9
2. Nominal Gross Domestic Product	26	6.7	6.2	5.4	6.7	5.6
3. Nonresidential Fixed Investment	24	8.5	11.7	7.8	9.8	8.4
4. Corporate Profits After Taxes	18	2.2	15.9	13.4	15.5	13.4
MONTHLY INDICATORS		DEC 2003	JUN 2004	DEC 2004	2003	2004
		TO JUN 2004	TO DEC 2004	TO JUN 2005	TO 2004	TO 2005
5. Industrial Production	23	6.1	5.4	5.1	5.0	5.2
6. Total Private Housing Starts	23	-0.167	-0.100	-0.075	0.027	-0.177
7. Producer Prices - Finished Goods (NSA)	20	4.9	1.0	1.7	2.9	1.7
8. Consumer Price Index (CPI-U) (NSA)	23	4.9	1.7	2.3	2.5	2.3
9. Unemployment Rate	23	-0.1	-0.2	-0.2	-0.5	-0.3
10. Average Weekly Earnings in Mfg. (NSA)	11	-2.0	4.3	1.9	3.3	3.4
11. Retail Trade	14	8.1	4.7	3.3	7.4	4.3
12. Automobile Sales (incl. foreign)	18	0.0	0.0	0.2	0.0	0.0

INTEREST RATES & STOCK PRICES		DEC 2003	JUN 2004	DEC 2004	JUN 2005
		TO	TO	TO	TO
		JUN 2004	DEC 2004	JUN 2005	DEC 2005
13. Prime Interest Rate	25	0.25	0.50	0.75	0.50
14. 10-Year Treasury Note Yield	26	0.51	0.32	0.34	0.16
15. 3-Month Treasury Bill Rate	26	0.32	0.57	0.76	0.85
16. Stock Prices (S&P500)	19	5.4	10.5	8.5	6.7

Note: Figures for housing starts, unemployment rate, auto sales, prime interest rate, 10-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 2004

TABLE THREE
LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI Inflation Rate

STATISTIC	
Minimum	1.30
Lower Quartile	2.30
Median	2.50
Upper Quartile	2.57
Maximum	3.40
Mean	2.48
Std. Deviation	0.39
N	24
Missing	2

SERIES: Real GDP

STATISTIC	
Minimum	2.80
Lower Quartile	3.20
Median	3.45
Upper Quartile	3.57
Maximum	4.10
Mean	3.42
Std. Deviation	0.31
N	24
Missing	2

Source: Research Department, Federal Reserve Bank of Philadelphia, Livingston Survey, June 2004