

Release Date: December 8, 2005

**DECEMBER 2005**

**Forecasters Predict Economic Growth Through 2006**

The 42 participants in the December Livingston Survey see sustained output growth through the end of 2006. The forecasters, who are surveyed by the Federal Reserve Bank of Philadelphia twice a year, project that the economy's output (real GDP) will rise at an annual rate of 3.7 percent in the second half of 2005. They see the growth rate of economic output decreasing slightly to 3.6 percent in the first half of 2006, and they predict it will then slow to an annual rate of 3.1 percent in the second half of the year. These forecasts are higher than in the previous survey, particularly for the first half of 2006, suggesting increasing optimism among the forecasters.

The unemployment rate is expected to remain steady at 5.0 percent from December 2005 to June 2006 and then fall to 4.9 percent by the end of 2006. These forecasts are slightly lower than those of the survey six months ago, suggesting a small improvement in the employment situation. On an annual average basis, the unemployment rate will be 5.1 percent in 2005, 5.0 percent in 2006, and 4.9 percent in 2007. These forecasts suggest that the unemployment rate will decrease gradually over the next two years.

	<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>					
2005 Q2 to 2005 Q4	3.6	3.7	December 2005	5.1	5.0
2005 Q4 to 2006 Q2	3.1	3.6	June 2006	5.1	5.0
2006 Q2 to 2006 Q4	N.A.	3.1	December 2006	N.A.	4.9

**Short-Run Inflation Outlook Worsens**

The forecasters' projections for inflation are higher than those of six months ago, particularly for producer prices, although the forecasters continue to expect some deceleration. Consumer price (CPI) inflation will average 3.4 percent in 2005, then fall to 2.9 percent in 2006, and continue downward to 2.5 percent in 2007. These forecasts are higher than in the previous survey. Forecasters predict an increase of 4.9 percent in the producer price index in 2005, higher than the forecast of 4.2 percent made six months ago. Even more pronounced is the forecasters' projection for the PPI in 2006: 3.8 percent, which is considerably higher than the 2.1 percent predicted six months ago. However, they see the PPI inflation decelerating in 2007, to a more modest rate of 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>				
2004 to 2005	2.9	3.4	4.2	4.9
2005 to 2006	2.7	2.9	2.1	3.8
2006 to 2007	N.A.	2.5	N.A.	1.9

***Interest Rates Will Rise in 2006 and Level Off in 2007***

Interest rates on three-month Treasury bills will rise next year and then level off in 2007, according to the forecasters. They expect the interest rate to be 4.2 percent at the end of 2005, rise to 4.6 percent by June 2006, and hold steady at 4.7 from December 2006 through December 2007. The current forecasts have all increased since the last survey, but the forecasters' expectation that the rates will flatten over the last two forecasting periods has not changed.

Long-term interest rates are also expected to rise over the next two years. The interest rate on 10-year Treasury notes is now projected to be 4.7 percent at the end of 2005, rising to 5.0 percent by June 2006. The long-term rate will continue to climb to 5.2 percent by the end of 2006 and then reach 5.3 percent by the end of 2007. The forecasts for December 2005 and June 2006 are slightly lower than those made six months ago, and the December 2006 forecast remains unchanged.

	<i>3-Month Treasury Bill</i>		<i>10-Year Treasury Notes</i>	
	<i>Interest Rate</i>		<i>Interest Rate</i>	
	<i>Previous</i>	<i>New</i>	<i>Previous</i>	<i>New</i>
Dec. 30, 2005	3.8	4.2	4.8	4.7
June 30, 2006	4.2	4.6	5.1	5.0
Dec. 29, 2006	4.2	4.7	5.2	5.2
Dec. 31, 2007	N.A.	4.7	N.A.	5.3

**2005 Livingston Survey Participants**

<b>S. Anderson</b>	<b>Wells Fargo and Company</b>	<b>D. Knop</b>	<b>Williams Gas Pipeline</b>
<b>E. Beeson Zentner</b>	<b>Bank of Tokyo-Mitsubishi, Ltd.</b>	<b>E. Leamer</b>	<b>University of California, Los Angeles</b>
<b>R. Berner</b>	<b>Morgan Stanley &amp; Co., Inc.</b>	<b>D. Lereah</b>	<b>National Association of Realtors</b>
<b>J. Butkiewicz</b>	<b>University of Delaware</b>	<b>J. Lonski</b>	<b>Moody's Investors Service, Inc.</b>
<b>J. Carson</b>	<b>Alliance Capital Management</b>	<b>D. Maki</b>	<b>Barclays Capital</b>
<b>R. Chase</b>	<b>Chase Economics</b>	<b>E. McKelvey</b>	<b>Goldman Sachs and Company</b>
<b>G. Ciminero</b>	<b>Independent Economic Advisory</b>	<b>J. Mueller</b>	<b>Lehrman Bell Mueller Cannon, Inc.</b>
<b>R. DeKaser</b>	<b>National City Corporation</b>	<b>M. Moran</b>	<b>LBMC LLC</b>
<b>R. Dhawan</b>	<b>Georgia State University</b>	<b>F. Nothaft</b>	<b>Federal Home Loan Mortgage Corp.</b>
<b>F. Dixon</b>	<b>Economic Insights</b>	<b>M. Regalia</b>	<b>U.S. Chamber of Commerce</b>
<b>D. Duncan</b>	<b>Mortgage Bankers Association</b>	<b>J. Ryding</b>	<b>Bear, Stearns and Company</b>
<b>M. Englund</b>	<b>Action Economics, LLC</b>	<b>J. Silvia</b>	<b>Wachovia Corporation</b>
<b>S. Gallagher</b>	<b>Societe Generale</b>	<b>S. Snaith</b>	<b>University of the Pacific</b>
<b>K. Goldstein</b>	<b>The Conference Board</b>	<b>S. Stanley</b>	<b>RBS Greenwich Capital</b>
<b>J. Gonzalez</b>	<b>Tennessee Valley Authority</b>	<b>D. Teolis</b>	<b>General Motors Corporation</b>
<b>J. Hall</b>	<b>Thomson Financial Services</b>	<b>D. Torgerson</b>	<b>U.S. Department of Agriculture</b>
<b>K. Hembre</b>	<b>First American Funds</b>	<b>B. Wesbury</b>	<b>Claymore Advisors, LLC</b>
<b>B. Horrigan</b>	<b>Loomis Sayles &amp; Co.</b>	<b>M. Wohar</b>	<b>University of Nebraska, Omaha</b>
<b>S. Hymans</b>	<b>University of Michigan</b>	<b>D. Wyss</b>	<b>Standard &amp; Poor's</b>
<b>P. Jaquette</b>	<b>Weyerhaeuser Company</b>	<b>R. Yamarone</b>	<b>Argus Research Group</b>
<b>I. Kellner</b>	<b>North Fork Bank</b>	<b>J. Young</b>	<b>BellSouth Corporation</b>

### ***No Change in the Long-Term Outlook***

The forecasters' views of long-term inflation are continuing to hold steady. The panelists think that real GDP will grow 3.2 percent annually over the next 10 years, the same as in the previous two surveys. Inflation (as measured by the consumer price index) will average 2.5 percent over the next 10 years, unchanged from the last nine surveys dating back to December 2001.

### ***Stock-Price Projections Revised Upward***

Stock prices (as measured by the S&P 500 index) are expected to finish 2005 at a level of 1270. The forecasters project an increase in stock prices over the next two years, with the index rising to 1300 by the end of June 2006 and to 1343.4 by the end of 2006. These forecasts are higher than in the previous survey, as shown in the table below. The index will rise to 1419.9 by the end of 2007.

*Stock Prices (end of year)*  
*S&P 500 Index*  
*Previous      New*

Dec. 30, 2005	1250.0	1270.0
June 30, 2006	1294.9	1300.0
Dec. 29, 2006	1325.0	1343.4
Dec. 31, 2007	N.A.	1419.9

### ***Technical Notes***

This news release reports the median value across the 42 forecasters on the survey's panel.

This is the third survey in which we asked forecasters for their projections for the *seasonally adjusted* CPI and PPI. In surveys prior to December 2004, the forecasters provided their projections for the index levels not seasonally adjusted.

The survey's forecast for the growth in corporate profits after tax (without inventory valuation and capital consumption adjustments) from 2004 to 2005 reflects a large change in the first-quarter 2005 capital consumption adjustment.

According to the Bureau of Economic Analysis's press release of May 26, this change reflects "the expiration of the 'bonus' depreciation provisions of both the Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003."

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: <http://www.philadelphiafed.org/forms/orderform.htm>. 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.philadelphiafed.org/econ/liv/index.html>.

LIVINGSTON SURVEY  
MAJOR MACROECONOMIC INDICATORS, 2005-2007

QUARTERLY INDICATORS (percentage changes at annual rates)	Q2 2005 TO Q4 2005	Q4 2005 TO Q2 2006	Q2 2006 TO Q4 2006	2004 TO 2005	2005 TO 2006	2006 TO 2007
Real Gross Domestic Product	3.7	3.6	3.1	3.6	3.4	3.1
Nominal Gross Domestic Product	6.6	5.9	5.4	6.4	6.0	5.5
Nonresidential Fixed Investment	7.3	8.9	6.9	8.7	8.1	6.6
Corporate Profits After Taxes*	11.9	-0.9	1.7	33.1	5.2	2.7
MONTHLY INDICATORS (percentage changes at annual rates)	JUN 2005 TO DEC 2005	DEC 2005 TO JUN 2006	JUN 2006 TO DEC 2006	2004 TO 2005	2005 TO 2006	2006 TO 2007
Industrial Production	1.0	3.8	4.0	3.0	3.2	3.2
Producer Prices - Finished Goods	9.3	1.1	1.8	4.9	3.8	1.9
Consumer Price Index (CPI-U)	4.6	2.2	2.5	3.4	2.9	2.5
Average Weekly Earnings in Mfg.	6.9	2.7	3.0	2.2	4.2	3.7
Retail Trade	2.4	4.7	5.0	7.4	4.8	5.0
(levels of variables)	DEC 2005	JUN 2006	DEC 2006	2005	2006	2007
Total Private Housing Starts (annual rate, millions)	2.000	1.890	1.800	2.054	1.890	1.800
Unemployment Rate (percent)	5.0	5.0	4.9	5.1	5.0	4.9
Automobile Sales (incl. foreign) (annual rate, millions)	7.4	7.5	7.6	7.7	7.6	7.6
FINANCIAL INDICATORS (levels of variables at end of month)	DEC 2005	JUN 2006	DEC 2006	DEC 2007		
Prime Interest Rate	7.25	7.75	7.75	7.72		
10-Year Treasury Note Yield	4.65	5.00	5.20	5.33		
3-Month Treasury Bill Rate	4.16	4.58	4.70	4.69		
Stock Prices (S&P500)	1270.0	1300.0	1343.4	1419.9		
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, Dec-05

\*See the discussion in the Technical Notes for information on the forecasts for this variable.

# **LIVINGSTON SURVEY**

**December 2005**

## **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 November 18; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before December 1.**

TABLE ONE  
MAJOR MACROECONOMIC INDICATORS, 2005-2007  
MEDIAN OF FORECASTER PREDICTIONS

QUARTERLY INDICATORS	NUMBER OF FORE- CASTERS	ACTUAL	FORECASTS				ACTUAL	FORECASTS		
		2005 Q2	2005 Q4	2006 Q2	2006 Q4	2004	2005	2006	2007	
1. Real Gross Domestic Product (billions, chain weighted)	42	11089.2	11289.9	11492.0	11670.5	10755.7	11143.6	11526.7	11883.9	
2. Nominal Gross Domestic Product (\$ billions)	42	12378.0	12778.5	13151.6	13501.3	11734.3	12488.0	13240.0	13970.1	
3. Nonresidential Fixed Investment (billions, chain weighted)	40	1279.0	1324.9	1382.5	1429.3	1186.7	1290.0	1394.0	1485.7	
4. Corporate Profits After Taxes (\$ billions)	23	1039.7	1100.0	1095.0	1104.0	788.2	1048.8	1102.8	1132.6	
MONTHLY INDICATORS		ACTUAL JUN 2005	DEC 2005	FORECASTS JUN 2006	DEC 2006	ACTUAL 2004	2005	FORECASTS 2006	2007	
5. Industrial Production (2002=100)	27	108.3	108.8	110.9	113.1	104.7	107.8	111.2	114.7	
6. Total Private Housing Starts (annual rate, millions)	38	2.065	2.000	1.890	1.800	1.950	2.054	1.890	1.800	
7. Producer Prices - Finished Goods (index level)	29	153.7	160.7	161.6	163.1	148.5	155.8	161.7	164.7	
8. Consumer Price Index (CPI-U) (index level)	36	194.1	198.5	200.7	203.2	188.9	195.3	201.0	206.1	
9. Unemployment Rate (percent)	39	5.0	5.0	5.0	4.9	5.5	5.1	5.0	4.9	
10. Average Weekly Earnings in Mfg. (\$)	13	669.1	691.8	701.2	711.8	658.5	673.2	701.5	727.5	
11. Retail Trade (\$ billions)	21	351.3	355.5	363.7	372.6	324.0	348.1	364.7	383.1	
12. Automobile Sales (incl. foreign) (annual rate, millions)	26	7.5	7.4	7.5	7.6	7.5	7.7	7.6	7.6	

TABLE ONE (CONTINUED)

INTEREST RATES & STOCK PRICES (end of period)		ACTUAL	FORECASTS			
		JUN 2005	DEC 2005	JUN 2006	DEC 2006	DEC 2007
13. Prime Interest Rate (percent)	37	6.25	7.25	7.75	7.75	7.72
14. 10-Year Treasury Note Yield (percent)	41	3.94	4.65	5.00	5.20	5.33
15. 3-Month Treasury Bill Rate (percent)	41	3.06	4.16	4.58	4.70	4.69
16. Stock Prices (S&P500) (index level)	27	1191.0	1270.0	1300.0	1343.4	1419.9

Source: Research Department, Federal Reserve Bank of Philadelphia, Livingston Survey, Dec-05

TABLE TWO  
 MAJOR MACROECONOMIC INDICATORS, 2005-2007  
 PERCENTAGE CHANGES AT ANNUAL RATES

QUARTERLY INDICATORS	NUMBER OF FORE- CASTERS	Q2 2005	Q4 2005	Q2 2006	2004	2005	2006
		TO Q4 2005	TO Q2 2006	TO Q4 2006	TO 2005	TO 2006	TO 2007
1. Real Gross Domestic Product	42	3.7	3.6	3.1	3.6	3.4	3.1
2. Nominal Gross Domestic Product	42	6.6	5.9	5.4	6.4	6.0	5.5
3. Nonresidential Fixed Investment	40	7.3	8.9	6.9	8.7	8.1	6.6
4. Corporate Profits After Taxes	23	11.9	-0.9	1.7	33.1	5.2	2.7
MONTHLY INDICATORS		JUN 2005	DEC 2005	JUN 2006	2004	2005	2006
		TO DEC 2005	TO JUN 2006	TO DEC 2006	TO 2005	TO 2006	TO 2007
5. Industrial Production	27	1.0	3.8	4.0	3.0	3.2	3.2
6. Total Private Housing Starts	38	-0.065	-0.110	-0.090	0.104	-0.164	-0.090
7. Producer Prices - Finished Goods	29	9.3	1.1	1.8	4.9	3.8	1.9
8. Consumer Price Index (CPI-U)	36	4.6	2.2	2.5	3.4	2.9	2.5
9. Unemployment Rate	39	0.0	0.0	-0.1	-0.4	-0.1	-0.1
10. Average Weekly Earnings in Mfg.	13	6.9	2.7	3.0	2.2	4.2	3.7
11. Retail Trade	21	2.4	4.7	5.0	7.4	4.8	5.0
12. Automobile Sales (incl. foreign)	26	-0.1	0.1	0.1	0.2	-0.1	0.0

		JUN 2005	DEC 2005	JUN 2006	DEC 2006
		TO	TO	TO	TO
INTEREST RATES & STOCK PRICES		DEC 2005	JUN 2006	DEC 2006	DEC 2007
13. Prime Interest Rate	37	1.00	0.50	0.00	-0.03
14. 10-Year Treasury Note Yield	41	0.71	0.35	0.20	0.13
15. 3-Month Treasury Bill Rate	41	1.10	0.42	0.12	-0.01
16. Stock Prices (S&P500)	27	13.7	4.8	6.8	5.7

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, Dec-05

TABLE THREE  
LONG-TERM (10 YEAR) FORECASTS

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SERIES: CPI Inflation Rate

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STATISTIC	
Minimum	2.00
Lower Quartile	2.33
Median	2.50
Upper Quartile	2.70
Maximum	3.50
Mean	2.54
Std. Deviation	0.30
N	36
Missing	6

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SERIES: Real GDP

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STATISTIC	
Minimum	2.50
Lower Quartile	3.00
Median	3.20
Upper Quartile	3.50
Maximum	3.75
Mean	3.23
Std. Deviation	0.26
N	37
Missing	5

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