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Forecasters Predict Economic Growth into 2006

An expanded panel of 39 participants in the June Livingston Survey sees sustained output growth into 2006. 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 3.3 percent in the first half of 2005. They see the growth rate of economic output (real GDP) increasing to 3.6 percent in the second half of 2005, and they predict it will then slow to an annual rate of 3.1 percent in the first half of 2006. In contrast to the last survey, where the output growth forecasts for both halves of 2005 were identical, this survey's forecast is stronger for the second half than for the first half of 2005, suggesting increasing optimism as the year progresses.

The unemployment rate is expected to fall from 5.2 percent in June 2005 to 5.1 percent in December 2005 and remain at 5.1 percent through the middle of 2006. These forecasts are nearly identical to those of the survey six months ago, suggesting very little change in the employment situation. On an annual average basis, the unemployment rate is predicted to be 5.2 percent in 2005 and 5.1 percent in 2006. 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>					
2004 Q4 to 2005 Q2	3.5	3.3	June 2005	5.2	5.2
2005 Q2 to 2005 Q4	3.5	3.6	December 2005	5.2	5.1
2005 Q4 to 2006 Q2	N.A.	3.1	June 2006	N.A.	5.1

Short-Run Inflation Outlook Worsens

The forecasters' projections for inflation are much higher than those of six months ago, particularly for producer prices, although they continue to expect deceleration. Consumer price (CPI) inflation will average 2.9 percent in 2005, then fall to 2.7 percent in 2006. These forecasts are higher than in the previous survey. Even more pronounced is the forecasters' projection for producer price inflation in 2005: 4.2 percent, which is considerably higher than the 2.4 percent predicted six months ago. However, they see the PPI inflation decelerating dramatically in 2006, to a more modest rate of 2.1 percent. Yet this is still higher than the previous survey's prediction of 1.3 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	2.4	2.9	2.4	4.2
2005 to 2006	2.4	2.7	1.3	2.1

Interest Rates Will Rise Steadily in 2005 and Level Off in 2006

Interest rates on three-month Treasury bills will rise this year, then level off in 2006, according to the forecasters. They expect the interest rate to be 3.2 percent by the end of June 2005, rise to 3.8 percent by the end of 2005, and then hold steady at 4.2 percent during the second half of 2006. The current forecasts have all 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 be 4.3 percent by the end of June 2005 and to rise to 4.8 percent by December 2005. The long-term rate will continue to climb in 2006, to 5.1 percent by June, inching up 5.2 percent by December. The current forecasts are lower than the December 2004 forecasts, which were, in turn, lower than the June 2004 forecasts.

	<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, 2005	2.8	3.2	4.8	4.3
Dec. 30, 2005	3.4	3.8	5.2	4.8
June 30, 2006	N.A.	4.2	N.A.	5.1
Dec. 29, 2006	3.8	4.2	5.5	5.2

2005 Livingston Survey Participants

S. Anderson	Wells Fargo and Company	E. Leamer	University of California, Los Angeles
E. Beeson	Bank of Tokyo-Mitsubishi, Ltd.	D. Lee	Economics from Washington
R. Berner	Morgan Stanley & Co., Inc.	K. Liddy	IBM Corporate Economics
G. Brinton	Brinton Economics	J. Lonski	Moody's Investors Service, Inc.
J. Butkiewicz	University of Delaware	D. Maki	Barclays Capital
J. Carson	Alliance Capital Management	J. Mueller	Lehrman Bell Mueller Cannon, Inc.
R. Chase	Chase Economics	F. Nothaft	Federal Home Loan Mortgage Corp.
R. DeKaser	National City Corporation	R. Rippe	Prudential Equity Group, LLC
R. Dhawan	Georgia State University	J. Ryding	Bear, Stearns, and Company
D. Duncan	Mortgage Bankers Association	J. Silvia	Wachovia Corporation
M. Englund	Action Economics, LLC	J. Smith	University of North Carolina
S. Gallagher	Societe Generale	S. Stanley	RBS Greenwich Capital
K. Goldstein	The Conference Board	D. Teolis	General Motors Corporation
J. Gonzalez	Tennessee Valley Authority	D. Torgerson	U.S. Department of Agriculture
K. Hembre	First American Funds	B. Wesbury	Claymore Advisors, LLC
B. Horrigan	Loomis Sayles & Co.	M. Wohar	University of Nebraska, Omaha
S. Hymans	University of Michigan	D. Wyss	Standard & Poor's
P. Jaquette	Weyerhaeuser Company	R. Yamarone	Argus Research Group
I. Kellner	North Fork Bank	J. Young	BellSouth Corporation
D. Knop	Williams Gas Pipeline	L. Yun	National Association of Realtors

No Change in the Long-Term Outlook

The forecasters' views of long-term inflation and output growth are holding steady. The panelists think that real GDP will grow 3.2 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 six surveys dating back to December 2001.

Stock-Price Projections for 2005 Revised Downward

The forecasters see the S&P 500 at 1200.0 at the end of June. They project an overall increase in stock prices for the next two years, with the index rising to 1250 by the end of 2005. These forecasts for 2005 are lower than those of the previous survey, as shown in the table below. However, the index is projected to rise to 1294.9 by June 2006 and 1325 by the end of 2006, up slightly from the previous survey.

	<i>Stock Prices</i>	
	<i>S&P 500 Index</i>	
	<i>Previous</i>	<i>New</i>
June 30, 2005	1221.5	1200.0
Dec. 30, 2005	1263.8	1250.0
June 30, 2006	N.A.	1294.9
Dec. 29, 2006	1323.6	1325.0

Technical Notes

This news release reports the median value across the 39 forecasters on the survey's panel. This survey's results reflect the addition of 16 new forecasters to our panel.

This is the second 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.

This 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.

LIVINGSTON SURVEY
MAJOR MACROECONOMIC INDICATORS, 2005-2006

QUARTERLY INDICATORS (percentage changes at annual rates)	Q4 2004 TO Q2 2005	Q2 2005 TO Q4 2005	Q4 2005 TO Q2 2006	2004 TO 2005	2005 TO 2006
Real Gross Domestic Product	3.3	3.6	3.1	3.5	3.3
Nominal Gross Domestic Product	6.2	5.6	5.7	6.0	5.6
Nonresidential Fixed Investment	6.3	9.0	7.6	9.3	8.2
Corporate Profits After Taxes*	63.1	3.5	3.9	36.4	3.5
MONTHLY INDICATORS (percentage changes at annual rates)	DEC 2004 TO JUN 2005	JUN 2005 TO DEC 2005	DEC 2005 TO JUN 2006	2004 TO 2005	2005 TO 2006
Industrial Production	2.2	4.0	4.0	3.6	3.8
Producer Prices - Finished Goods	4.4	2.1	1.9	4.2	2.1
Consumer Price Index (CPI-U)	3.7	2.3	2.2	2.9	2.7
Average Weekly Earnings in Mfg.	-3.4	2.9	1.7	1.6	2.2
Retail Trade	5.8	4.9	6.3	7.1	5.3
(levels of variables)	JUN 2005	DEC 2005	JUN 2006	2005	2006
Total Private Housing Starts (annual rate, millions)	2.010	1.900	1.835	1.985	1.825
Unemployment Rate (percent)	5.2	5.1	5.1	5.2	5.1
Automobile Sales (incl. foreign) (annual rate, millions)	7.7	7.6	7.6	7.6	7.6
FINANCIAL INDICATORS (levels of variables at end of month)	JUN 2005	DEC 2005	JUN 2006	DEC 2006	
Prime Interest Rate	6.18	6.75	7.25	7.50	
10-Year Treasury Note Yield	4.30	4.75	5.10	5.20	
3-Month Treasury Bill Rate	3.15	3.80	4.19	4.20	
Stock Prices (S&P500)	1200.0	1250.0	1294.9	1325.0	
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, June 2005

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

LIVINGSTON SURVEY

June 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 May 19; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before June 1.

TABLE ONE
 MAJOR MACROECONOMIC INDICATORS, 2005-2006
 MEDIANS OF FORECASTER PREDICTIONS

QUARTERLY INDICATORS	NUMBER OF FORE- CASTERS	ACTUAL	FORECASTS		ACTUAL	FORECASTS		
		2004 Q	2005Q2	2005 Q4	2006 Q2	2004	2005	2006
1. Real Gross Domestic Product (billions, chain weighted)	39	10994.3	11173.9	11374.0	11548.9	10841.9	11224.9	11595.4
2. Nominal Gross Domestic Product (\$ billions)	38	11994.8	12359.9	12703.1	13060.1	11735.0	12444.4	13143.5
3. Nonresidential Fixed Investment (billions, chain weighted)	38	1288.3	1328.6	1386.8	1438.6	1228.6	1342.8	1453.2
4. Corporate Profits After Taxes (\$ billions)	19	762.1	973.2	989.9	1009.3	716.2	977.0	1011.0
MONTHLY INDICATORS		ACTUAL DEC 2004	JUN 2005	FORECASTS		ACTUAL 2004	FORECASTS	
				DEC 2005	JUN 2006		2005	2006
5. Industrial Production (1997=100)	36	117.9	119.2	121.6	124.0	115.5	119.6	124.3
6. Total Private Housing Starts (annual rate, millions)	35	2.050	2.010	1.900	1.835	1.950	1.985	1.825
7. Producer Prices - Finished Goods (index level)	31	151.7	155.0	156.6	158.1	148.5	154.8	158.0
8. Consumer Price Index (CPI-U) (index level)	37	191.2	194.7	196.9	199.1	188.9	194.4	199.6
9. Unemployment Rate (percent)	38	5.4	5.2	5.1	5.1	5.5	5.2	5.1
10. Average Weekly Earnings in Mfg. (\$)	17	678.2	666.5	676.2	682.0	658.5	669.0	683.8
11. Retail Trade (\$ billions)	23	336.6	346.2	354.5	365.5	323.9	347.0	365.2
12. Automobile Sales (incl. foreign) (annual rate, millions)	27	8.3	7.7	7.6	7.6	7.5	7.6	7.6

TABLE ONE (CONTINUED)

INTEREST RATES & STOCK PRICES (end of period)		ACTUAL		FORECASTS		
		DEC 2004	JUN 2005	DEC 2005	JUN 2006	DEC 2006
13. Prime Interest Rate (percent)	34	5.25	6.18	6.75	7.25	7.50
14. 10-Year Treasury Note Yield (percent)	38	4.24	4.30	4.75	5.10	5.20
15. 3-Month Treasury Bill Rate (percent)	37	2.18	3.15	3.80	4.19	4.20
16. Stock Prices (S&P500) (index level)	28	1211.9	1200.0	1250.0	1294.9	1325.0

Source: Research Department, Federal Reserve Bank of Philadelphia, Livingston Survey, June 2005

TABLE TWO
 MAJOR MACROECONOMIC INDICATORS, 2005-2006
 PERCENTAGE CHANGES AT ANNUAL RATES

QUARTERLY INDICATORS	NUMBER OF FORE- CASTERS	Q4 2004	Q2 2005	Q4 2005	2004	2005
		TO Q2 2005	TO Q4 2005	TO Q2 2006	TO 2005	TO 2006
1. Real Gross Domestic Product	39	3.3	3.6	3.1	3.5	3.3
2. Nominal Gross Domestic Product	38	6.2	5.6	5.7	6.0	5.6
3. Nonresidential Fixed Investment	38	6.3	9.0	7.6	9.3	8.2
4. Corporate Profits After Taxes	19	63.1	3.5	3.9	36.4	3.5
MONTHLY INDICATORS		DEC 2004	JUN 2005	DEC 2005	2004	2005
		TO JUN 2005	TO DEC 2005	TO JUN 2006	TO 2005	TO 2006
5. Industrial Production	36	2.2	4.0	4.0	3.6	3.8
6. Total Private Housing Starts	35	-0.040	-0.110	-0.065	0.035	-0.160
7. Producer Prices - Finished Goods	31	4.4	2.1	1.9	4.2	2.1
8. Consumer Price Index (CPI-U)	37	3.7	2.3	2.2	2.9	2.7
9. Unemployment Rate	38	-0.2	-0.1	0.0	-0.3	-0.1
10. Average Weekly Earnings in Mfg.	17	-3.4	2.9	1.7	1.6	2.2
11. Retail Trade	23	5.8	4.9	6.3	7.1	5.3
12. Automobile Sales (incl. foreign)	27	-0.6	-0.1	0.1	0.1	0.0

		DEC 2004	JUN 2005	DEC 2005	JUN 2006
		TO	TO	TO	TO
INTEREST RATES & STOCK PRICES		JUN 2005	DEC 2005	JUN 2006	DEC 2006
13. Prime Interest Rate	34	0.93	0.57	0.50	0.25
14. 10-Year Treasury Note Yield	38	0.06	0.45	0.35	0.10
15. 3-Month Treasury Bill Rate	37	0.97	0.65	0.39	0.02
16. Stock Prices (S&P500)	28	-2.0	8.5	7.3	4.7

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 2005

TABLE THREE
LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI Inflation Rate

STATISTIC	
Minimum	1.30
Lower Quartile	2.40
Median	2.50
Upper Quartile	2.70
Maximum	3.01
Mean	2.50
Std. Deviation	0.34
N	35
Missing	4

SERIES: Real GDP

STATISTIC	
Minimum	2.50
Lower Quartile	3.00
Median	3.20
Upper Quartile	3.50
Maximum	3.90
Mean	3.26
Std. Deviation	0.29
N	35
Missing	4

Source: Research Department, Federal Reserve Bank of Philadelphia, Livingston Survey, June 2005