



THE

LIVINGSTON SURVEY

Release Date: December 7, 2006

DECEMBER 2006

Forecasters Lower Their Estimates for Growth and Unemployment

The 40 participants in the December Livingston Survey see sustained output growth through the end of 2007. 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 2.1 percent in the second half of 2006. They see the growth rate of economic output increasing to 2.8 percent in the first half of 2007, and they predict it will then increase to an annual rate of 3.1 percent in the second half of the year. These forecasts are lower than in the previous survey, particularly for the second half of 2006, suggesting output growth might not be as strong in the very short run.

The unemployment rate is expected to rise from 4.5 percent in December 2006 to 4.8 percent in June 2007 and then increase slightly to 4.9 percent by the end of 2007. These forecasts are lower than those of the survey six months ago, suggesting a small overall improvement in the employment situation. On an annual average basis, the unemployment rate will be 4.6 percent in 2006, 4.8 percent in 2007, and 4.9 percent in 2008. These forecasts suggest that the unemployment rate will increase 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>					
2006 Q2 to 2006 Q4	2.9	2.1	December 2006	4.7	4.5
2006 Q4 to 2007 Q2	3.0	2.8	June 2007	4.9	4.8
2007 Q2 to 2007 Q4	N.A.	3.1	December 2007	N.A.	4.9

Short-Run Inflation Outlook Improves

The forecasters' projections for inflation are lower than or unchanged from their predictions of six months ago and they continue to expect a deceleration in inflation in 2007. Consumer price (CPI) inflation will average 3.3 percent in 2006, then fall to 2.1 percent in 2007, and rise slightly to 2.3 percent in 2008. Compared to the previous survey, the forecast for 2006 is unchanged, whereas the forecast for 2007 is lower. The forecasters project deceleration in the producer price index from 2006 to 2007, as they did six months ago. They predict PPI inflation will drop from 2.9 percent in 2006 to 1.4 percent in 2007. Last survey's forecasted deceleration was from 3.3 to 2.1 percent over the same period. For 2008, forecasters predict PPI inflation will increase to 2.0 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>				
2005 to 2006	3.3	3.3	3.3	2.9
2006 to 2007	2.6	2.1	2.1	1.4
2007 to 2008	N.A.	2.3	N.A.	2.0

Short-Term Interest Rates Will Hold Steady, While Long-Term Rates Will Rise

Interest rates on three-month Treasury bills will remain level at 5.0 percent from the end of 2006 through the end of 2008, according to the forecasters. The forecast for December 2006 is slightly lower compared to the previous survey and the forecasts for 2007 remain the same.

Long-term interest rates are expected to rise over the next year. The interest rate on 10-year Treasury bonds is now projected to be 4.7 percent at the end of 2006, rising to 4.9 percent by June 2007. The long-term rate will climb past the short-term rate to 5.1 percent by the end of 2007 and hold steady at 5.1 percent through the end of 2008. The forecasts have all been revised downward from 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>
Dec. 29, 2006	5.1	5.0	5.3	4.7
June 29, 2007	5.0	5.0	5.4	4.9
Dec. 31, 2007	5.0	5.0	5.3	5.1
Dec. 31, 2008	N.A.	5.0	N.A.	5.1

2006 Livingston Survey Participants

E. Beeson Zentner	Bank of Tokyo-Mitsubishi, Ltd.	D. Lee	Economics from Washington
R. Berner	Morgan Stanley & Co., Inc.	D. Lereah	National Association of Realtors
J. Butkiewicz	University of Delaware	J. Lonski	Moody's Investors Service, Inc.
J. Carson	Alliance Capital Management	E. McKelvey	Goldman Sachs and Company
R. Chase	Chase Economics	M. Moran	Daiwa Securities America
G. Ciminero	State House Policy Office	F. Nothaft	Federal Home Loan Mortgage Corp.
R. DeKaser	National City Corporation	M. Regalia	U.S. Chamber of Commerce
R. Dhawan	Georgia State University	J. Ryding	Bear, Stearns and Company
F. Dixon	Economic Insights	D. Seiders	National Association of Home Builders
D. Duncan	Mortgage Bankers Association	J. Silvia	Wachovia Corporation
M. Englund	Action Economics, LLC	A. Sinai	Decision Economics, Inc.
K. Goldstein	The Conference Board	J. Smith	Parsec Financial Management, Inc.
J. Gonzalez	Tennessee Valley Authority	S. Snaith	University of Central Florida
J. Hall	Thomson Financial	S. Stanley	RBS Greenwich Capital
B. Horrigan	Loomis Sayles & Co.	P. Taylor	National Automobile Dealers Assoc.
S. Hymans	University of Michigan	D. Teolis	General Motors Corporation
P. Jaquette	Weyerhaeuser Company	D. Torgerson	U.S. Department of Agriculture
I. Kellner	North Fork Bank	B. Wesbury	First Trust Advisors, L.P.
T. Lam	United Overseas Bank, Ltd.	D. Wyss	Standard & Poor's
E. Leamer	University of California, Los Angeles	R. Yamarone	Argus Research Group

Slight Change in the Long-Term Outlook

The forecasters' views of long-term output growth are slightly lower, while their predictions for long-term inflation are continuing to hold steady. The panelists think that real GDP will grow 3.1 percent annually over the next 10 years, down slightly from the 3.2 percent annual growth rate predicted in the previous four surveys. Inflation (as measured by the consumer price index) will average 2.5 percent over the next 10 years, unchanged from the last 11 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 2006 at a level of 1404.6. The forecasters project an increase in stock prices over the next two years, with the index rising to 1433.6 by the end of June 2007 and to 1475 by the end of 2007. These forecasts are higher than in the previous survey, as shown in the table below. The index will rise to 1563.7 by the end of 2008.

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

Dec. 29, 2006	1330.0	1404.6
June 29, 2007	1363.0	1433.6
Dec. 31, 2007	1415.0	1475.0
Dec. 31, 2008	N.A.	1563.7

Technical Notes

This news release reports the median value across the 40 forecasters on the survey's panel.

This is the second survey in which we asked forecasters for their projections for corporate profits after tax *with inventory valuation and capital consumption adjustments*. (Previously, the survey used the after-tax measure without the adjustments.)

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/phil_mailing_list/dsp_user_login.cfm. 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, 2006-2008

QUARTERLY INDICATORS (percentage changes at annual rates)	Q2 2006 TO Q4 2006	Q4 2006 TO Q2 2007	Q2 2007 TO Q4 2007	2005 TO 2006	2006 TO 2007	2007 TO 2008
Real Gross Domestic Product	2.1	2.8	3.1	3.3	2.6	3.0
Nominal Gross Domestic Product	3.8	5.5	5.2	6.3	5.0	5.3
Nonresidential Fixed Investment	8.4	7.4	4.8	7.8	6.9	5.6
Corporate Profits After Taxes	6.4	5.5	5.7	21.0	5.1	5.7
MONTHLY INDICATORS (percentage changes at annual rates)	JUN 2006 TO DEC 2006	DEC 2006 TO JUN 2007	JUN 2007 TO DEC 2007	2005 TO 2006	2006 TO 2007	2007 TO 2008
Industrial Production	1.6	2.8	2.8	4.3	2.9	3.3
Producer Prices - Finished Goods	-2.3	2.1	2.6	2.9	1.4	2.0
Consumer Price Index (CPI-U)	0.4	2.8	2.5	3.3	2.1	2.3
Average Weekly Earnings in Mfg.	3.6	1.4	3.2	2.7	2.8	2.1
Retail Trade	2.8	5.3	4.5	6.3	3.5	5.1
(levels of variables)	DEC 2006	JUN 2007	DEC 2007	2006	2007	2008
Total Private Housing Starts (annual rate, millions)	1.550	1.571	1.600	1.821	1.581	1.650
Unemployment Rate (percent)	4.5	4.8	4.9	4.6	4.8	4.9
Automobile Sales (incl. foreign) (annual rate, millions)	7.5	7.5	7.6	7.7	7.5	7.6
FINANCIAL INDICATORS (levels of variables at end of month)	DEC 2006	JUN 2007	DEC 2007	DEC 2008		
Prime Interest Rate	8.25	8.25	8.25	8.00		
10-Year Treasury Note Yield	4.65	4.91	5.05	5.05		
3-Month Treasury Bill Rate	4.99	4.99	4.98	4.97		
Stock Prices (S&P500)	1404.6	1433.6	1475.0	1563.7		
LONG-TERM OUTLOOK						
Average Annual Growth Rate for the Next Ten Years						
Real GDP	3.1					
Consumer Price Index	2.5					

Source: Research Department, Federal Reserve Bank of Philadelphia, Livingston Survey, December 2006

LIVINGSTON SURVEY

December 2006

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 17; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before November 30.

TABLE ONE
 MAJOR MACROECONOMIC INDICATORS, 2006-2008
 MEDIANS OF FORECASTER PREDICTIONS

QUARTERLY INDICATORS	NUMBER OF FORE- CASTERS	ACTUAL				FORECASTS			
		2006 Q2	2006 Q4	2007 Q2	2007 Q4	2005	2006	2007	2008
1. Real Gross Domestic Product (billions, chain weighted)	40	11388.1	11506.6	11668.1	11844.9	11048.6	11412.0	11712.6	12069.1
2. Nominal Gross Domestic Product (\$ billions)	39	13197.3	13446.2	13812.2	14170.0	12455.8	13241.8	13902.5	14643.2
3. Nonresidential Fixed Investment (billions, chain weighted)	37	1302.8	1356.5	1406.0	1439.1	1223.8	1319.6	1411.3	1490.8
4. Corporate Profits After Taxes (\$ billions)	23	1115.7	1151.0	1182.0	1215.0	931.4	1127.2	1184.6	1251.9
MONTHLY INDICATORS		ACTUAL		FORECASTS		ACTUAL		FORECASTS	
		JUN 2006	DEC 2006	JUN 2007	DEC 2007	2005	2006	2007	2008
5. Industrial Production (2002=100)	35	113.4	114.3	115.9	117.5	108.1	112.8	116.1	119.9
6. Total Private Housing Starts (annual rate, millions)	35	1.833	1.550	1.571	1.600	2.073	1.821	1.581	1.650
7. Producer Prices - Finished Goods (index level)	32	161.7	159.8	161.5	163.6	155.7	160.2	162.5	165.7
8. Consumer Price Index (CPI-U) (index level)	37	202.3	202.7	205.6	208.1	195.3	201.7	206.0	210.8
9. Unemployment Rate (percent)	37	4.6	4.5	4.8	4.9	5.1	4.6	4.8	4.9
10. Average Weekly Earnings in Mfg. (\$)	13	693.0	705.2	710.0	721.2	673.6	691.7	711.0	725.8
11. Retail Trade (\$ billions)	21	362.4	367.4	377.1	385.4	342.8	364.1	377.1	396.3
12. Automobile Sales (incl. foreign) (annual rate, millions)	29	7.7	7.5	7.5	7.6	7.7	7.7	7.5	7.6

TABLE ONE (CONTINUED)

INTEREST RATES & STOCK PRICES (end of period)		ACTUAL		FORECASTS		
		JUN 2006	DEC 2006	JUN 2007	DEC 2007	DEC 2008
13. Prime Interest Rate (percent)	35	8.25	8.25	8.25	8.25	8.00
14. 10-Year Treasury Note Yield (percent)	39	5.15	4.65	4.91	5.05	5.05
15. 3-Month Treasury Bill Rate (percent)	39	4.87	4.99	4.99	4.98	4.97
16. Stock Prices (S&P500) (index level)	25	1270.2	1404.6	1433.6	1475.0	1563.7

Source: Research Department, Federal Reserve Bank of Philadelphia, Livingston Survey, December 2006

TABLE TWO
 MAJOR MACROECONOMIC INDICATORS, 2006-2008
 PERCENTAGE CHANGES AT ANNUAL RATES

QUARTERLY INDICATORS	NUMBER OF FORE- CASTERS	Q2 2006	Q4 2006	Q2 2007	2005	2006	2007
		TO Q4 2006	TO Q2 2007	TO Q4 2007	TO 2006	TO 2007	TO 2008
1. Real Gross Domestic Product	40	2.1	2.8	3.1	3.3	2.6	3.0
2. Nominal Gross Domestic Product	39	3.8	5.5	5.2	6.3	5.0	5.3
3. Nonresidential Fixed Investment	37	8.4	7.4	4.8	7.8	6.9	5.6
4. Corporate Profits After Taxes	23	6.4	5.5	5.7	21.0	5.1	5.7
MONTHLY INDICATORS		JUN 2006	DEC 2006	JUN 2007	2005	2006	2007
		TO DEC 2006	TO JUN 2007	TO DEC 2007	TO 2006	TO 2007	TO 2008
5. Industrial Production	35	1.6	2.8	2.8	4.3	2.9	3.3
6. Total Private Housing Starts	35	-0.283	0.021	0.029	-0.252	-0.240	0.069
7. Producer Prices - Finished Goods	32	-2.3	2.1	2.6	2.9	1.4	2.0
8. Consumer Price Index (CPI-U)	37	0.4	2.8	2.5	3.3	2.1	2.3
9. Unemployment Rate	37	-0.1	0.3	0.1	-0.5	0.2	0.1
10. Average Weekly Earnings in Mfg.	13	3.6	1.4	3.2	2.7	2.8	2.1
11. Retail Trade	21	2.8	5.3	4.5	6.3	3.5	5.1
12. Automobile Sales (incl. foreign)	29	-0.2	0.0	0.1	0.0	-0.2	0.1

		JUN 2006	DEC 2006	JUN 2007	DEC 2007
		TO	TO	TO	TO
INTEREST RATES & STOCK PRICES		DEC 2006	JUN 2007	DEC 2007	DEC 2008
13. Prime Interest Rate	35	0.00	0.00	0.00	-0.25
14. 10-Year Treasury Note Yield	39	-0.50	0.26	0.14	-0.01
15. 3-Month Treasury Bill Rate	39	0.12	0.00	-0.01	-0.01
16. Stock Prices (S&P500)	25	22.3	4.2	5.9	6.0

Note: Figures for housing starts, unemployment rate, auto sales, prime interest rate, 30-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, December 2006

TABLE THREE
LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI Inflation Rate

STATISTIC	
Minimum	1.10
Lower Quartile	2.10
Median	2.50
Upper Quartile	2.60
Maximum	3.30
Mean	2.41
Std. Deviation	0.40
N	35
Missing	5

SERIES: Real GDP

STATISTIC	
Minimum	2.40
Lower Quartile	2.90
Median	3.10
Upper Quartile	3.30
Maximum	3.60
Mean	3.12
Std. Deviation	0.27
N	35
Missing	5

Source: Research Department, Federal Reserve Bank of Philadelphia, Livingston Survey, December 2006