



THE

LIVINGSTON SURVEY

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Forecasters Predict Economic Growth into 2007

The 44 participants in the June Livingston Survey see strong output growth in the first half of 2006, followed by a more moderate performance from the second half of 2006 through the first half of 2007. The forecasters, who are surveyed by the Federal Reserve Bank of Philadelphia twice a year, project that the economy's output will grow at an annual rate of 4.2 percent in the first half of 2006. They see the growth rate of economic output (real GDP) cooling off to 2.9 percent in the second half of 2006 and then rising slightly to an annual rate of 3.0 percent in the first half of 2007. The forecast for the first half of 2006 is higher than in the previous survey, whereas the forecast for the second half of 2006 is lower, suggesting an increase in the deceleration of real GDP growth as the year progresses.

The unemployment rate is expected to remain steady at 4.7 percent from June 2006 to December 2006 and increase to 4.9 percent in June 2007. These forecasts are lower than those of the survey six months ago, suggesting an improvement in the employment situation. On an annual average basis, the unemployment rate is predicted to be 4.7 percent in 2006 and 4.9 percent in 2007. These forecasts suggest that the unemployment rate will increase gradually over the horizon.

	<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 Q4 to 2006 Q2	3.6	4.2	June 2006	5.0	4.7
2006 Q2 to 2006 Q4	3.1	2.9	December 2006	4.9	4.7
2006 Q4 to 2007 Q2	N.A.	3.0	June 2007	N.A.	4.9

Short-Run Inflation Outlook Diverges

The forecasters' projections for inflation are higher than those of six months ago for consumer prices but lower for producer prices. Consumer price (CPI) inflation will average 3.3 percent in 2006, then fall to 2.6 percent in 2007. These forecasts are higher than in the previous survey. However, forecasters project that producer price inflation in 2006 will be 3.3 percent, noticeably lower than the 3.8 percent predicted six months ago. They see PPI inflation decelerating sharply in 2007, to 2.1 percent. This is slightly higher than the previous survey's prediction 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>				
2005 to 2006	2.9	3.3	3.8	3.3
2006 to 2007	2.5	2.6	1.9	2.1

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

Interest rates on three-month Treasury bills will rise slightly this year and then stay level in 2007, according to the forecasters. They expect the interest rate to be 4.9 percent by the end of June 2006, rise to 5.1 percent by the end of 2006, and then hold steady at 5.0 percent in 2007. The current forecasts have all increased since the last survey.

Long-term interest rates are expected to hover around 5.3 percent over the next year and a half. The interest rate on 10-year Treasury bonds is now projected to be 5.2 percent by the end of June 2006 and to inch up to 5.3 percent by December 2006. The long-term rate will rise slightly, to 5.4 percent, by June 2007, returning to 5.3 percent by December. The current forecasts are slightly higher, on average, than the December 2005 forecasts.

	<i>3-Month Treasury Bill</i>		<i>10-Year Treasury Bond</i>	
	<i>Interest Rate</i>	<i>Interest Rate</i>	<i>Interest Rate</i>	<i>Interest Rate</i>
	<i>Previous</i>	<i>New</i>	<i>Previous</i>	<i>New</i>
June 30, 2006	4.6	4.9	5.0	5.2
Dec. 29, 2006	4.7	5.1	5.2	5.3
June 29, 2007	N.A.	5.0	N.A.	5.4
Dec. 31, 2007	4.7	5.0	5.3	5.3

2006 Livingston Survey Participants

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

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 three surveys. Inflation (as measured by the consumer price index) will average 2.5 percent over the next 10 years, unchanged from the last 10 surveys dating back to December 2001.

Stock-Price Projections for 2006 Revised Downward

The forecasters see the S&P 500 at 1285.0 at the end of June 2006. They project an overall increase in stock prices over the next two years, with the index rising to 1330.0 by the end of 2006. These forecasts for 2006 are lower than those of the previous survey, as shown in the table below. The index is projected to rise to 1363.0 by June 2007 and 1415.0 by the end of 2007, slightly lower than in the previous survey.

	<i>Stock Prices</i>	
	<i>S&P 500 Index</i>	
	<i>Previous</i>	<i>New</i>
June 30, 2006	1300.0	1285.0
Dec. 29, 2006	1343.4	1330.0
June 29, 2007	N.A.	1363.0
Dec. 31, 2007	1419.9	1415.0

Technical Notes

This news release reports the median value across the 44 forecasters on the survey's panel.

This is the first 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.)

This is the fourth 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 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, 2006-2007

QUARTERLY INDICATORS (percentage changes at annual rates)	Q4 2005	Q2 2006	Q4 2006	2005	2006
	TO Q2 2006	TO Q4 2006	TO Q2 2007	TO 2006	TO 2007
Real Gross Domestic Product	4.2	2.9	3.0	3.5	3.0
Nominal Gross Domestic Product	7.4	5.0	5.2	6.6	5.3
Nonresidential Fixed Investment	11.0	8.2	5.7	9.0	6.6
Corporate Profits After Taxes	17.2	3.6	3.9	17.7	3.5
MONTHLY INDICATORS (percentage changes at annual rates)	DEC 2005	JUN 2006	DEC 2006	2005	2006
	TO JUN 2006	TO DEC 2006	TO JUN 2007	TO 2006	TO 2007
Industrial Production	4.4	3.9	3.0	4.3	3.7
Producer Prices - Finished Goods	1.4	2.2	1.9	3.3	2.1
Consumer Price Index (CPI-U)	4.3	2.2	2.4	3.3	2.6
Average Weekly Earnings in Mfg.	-4.2	4.7	1.5	2.1	2.5
Retail Trade	8.4	4.5	4.2	6.9	4.5
(levels of variables)	JUN 2006	DEC 2006	JUN 2007	2006	2007
Total Private Housing Starts (annual rate, millions)	1.876	1.796	1.776	1.915	1.780
Unemployment Rate (percent)	4.7	4.7	4.9	4.7	4.9
Automobile Sales (incl. foreign) (annual rate, millions)	7.7	7.6	7.7	7.7	7.6
FINANCIAL INDICATORS (levels of variables at end of month)	JUN 2006	DEC 2006	JUN 2007	DEC 2007	
Prime Interest Rate	8.00	8.25	8.00	8.00	
10-Year Treasury Note Yield	5.20	5.30	5.40	5.31	
3-Month Treasury Bill Rate	4.90	5.10	5.00	4.95	
Stock Prices (S&P500)	1285.0	1330.0	1363.0	1415.0	
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 2006

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June 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 May 18; the tables do not reflect subsequent revisions to the data. All forecasts were received on or before May 31.

TABLE ONE
 MAJOR MACROECONOMIC INDICATORS, 2006-2007
 MEDIANS OF FORECASTER PREDICTIONS

QUARTERLY INDICATORS	NUMBER OF FORE- CASTERS	ACTUAL	FORECASTS		ACTUAL	FORECASTS		
		2005 Q4	2006 Q2	2006 Q4	2007 Q2	2005	2006	2007
1. Real Gross Domestic Product (billions, chain weighted)	44	11248.3	11479.8	11646.8	11821.6	11134.8	11522.0	11864.1
2. Nominal Gross Domestic Product (\$ billions)	43	12766.1	13231.5	13556.0	13904.7	12487.2	13307.0	14009.8
3. Nonresidential Fixed Investment (billions, chain weighted)	41	1319.7	1390.6	1446.6	1487.5	1289.0	1404.7	1496.9
4. Corporate Profits After Taxes (\$ billions)	27	1061.8	1149.3	1170.0	1192.7	973.8	1145.7	1185.9
MONTHLY INDICATORS		ACTUAL DEC 2005	JUN 2006	FORECASTS		ACTUAL 2005	FORECASTS	
				DEC 2006	JUN 2007		2006	2007
5. Industrial Production (2002=100)	38	110.4	112.8	115.0	116.7	108.1	112.7	116.9
6. Total Private Housing Starts (annual rate, millions)	38	2.002	1.876	1.796	1.776	2.073	1.915	1.780
7. Producer Prices - Finished Goods (index level)	32	159.9	161.0	162.8	164.4	155.7	160.9	164.3
8. Consumer Price Index (CPI-U) (index level)	38	197.7	201.9	204.1	206.6	195.3	201.7	206.9
9. Unemployment Rate (percent)	39	4.9	4.7	4.7	4.9	5.1	4.7	4.9
10. Average Weekly Earnings in Mfg. (\$)	14	695.9	681.0	696.8	702.0	673.6	687.4	704.4
11. Retail Trade (\$ billions)	24	351.1	365.6	373.8	381.5	342.7	366.3	382.7
12. Automobile Sales (incl. foreign) (annual rate, millions)	29	7.7	7.7	7.6	7.7	7.7	7.7	7.6

TABLE ONE (CONTINUED)

INTEREST RATES & STOCK PRICES (end of period)		ACTUAL	FORECASTS			
		DEC 2005	JUN 2006	DEC 2006	JUN 2007	DEC 2007
13. Prime Interest Rate (percent)	40	7.25	8.00	8.25	8.00	8.00
14. 10-Year Treasury Note Yield (percent)	43	4.39	5.20	5.30	5.40	5.31
15. 3-Month Treasury Bill Rate (percent)	43	3.99	4.90	5.10	5.00	4.95
16. Stock Prices (S&P500) (index level)	27	1248.3	1285.0	1330.0	1363.0	1415.0

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

TABLE TWO
 MAJOR MACROECONOMIC INDICATORS, 2006-2007
 PERCENTAGE CHANGES AT ANNUAL RATES

QUARTERLY INDICATORS	NUMBER OF FORE- CASTERS	Q4 2005	Q2 2006	Q4 2006	2005	2006
		TO Q2 2006	TO Q4 2006	TO Q2 2007	TO 2006	TO 2007
1. Real Gross Domestic Product	44	4.2	2.9	3.0	3.5	3.0
2. Nominal Gross Domestic Product	43	7.4	5.0	5.2	6.6	5.3
3. Nonresidential Fixed Investment	41	11.0	8.2	5.7	9.0	6.6
4. Corporate Profits After Taxes	27	17.2	3.6	3.9	17.7	3.5
MONTHLY INDICATORS		DEC 2005	JUN 2006	DEC 2006	2005	2006
		TO JUN 2006	TO DEC 2006	TO JUN 2007	TO 2006	TO 2007
5. Industrial Production	38	4.4	3.9	3.0	4.3	3.7
6. Total Private Housing Starts	38	-0.126	-0.080	-0.020	-0.158	-0.135
7. Producer Prices - Finished Goods	32	1.4	2.2	1.9	3.3	2.1
8. Consumer Price Index (CPI-U)	38	4.3	2.2	2.4	3.3	2.6
9. Unemployment Rate	39	-0.2	0.0	0.2	-0.4	0.2
10. Average Weekly Earnings in Mfg.	14	-4.2	4.7	1.5	2.1	2.5
11. Retail Trade	24	8.4	4.5	4.2	6.9	4.5
12. Automobile Sales (incl. foreign)	29	0.0	-0.1	0.0	0.0	-0.1

		DEC 2005	JUN 2006	DEC 2006	JUN 2007	
		TO	TO	TO	TO	
INTEREST RATES & STOCK PRICES		JUN 2006	DEC 2006	JUN 2007	DEC 2007	
13.	Prime Interest Rate	40	0.75	0.25	-0.25	0.00
14.	10-Year Treasury Note Yield	43	0.81	0.10	0.10	-0.09
15.	3-Month Treasury Bill Rate	43	0.91	0.20	-0.10	-0.05
16.	Stock Prices (S&P500)	27	6.0	7.1	5.0	7.8

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, June 2006

TABLE THREE
LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI Inflation Rate

STATISTIC	
Minimum	1.40
Lower Quartile	2.10
Median	2.50
Upper Quartile	2.70
Maximum	3.20
Mean	2.43
Std. Deviation	0.34
N	39
Missing	5

SERIES: Real GDP

STATISTIC	
Minimum	2.10
Lower Quartile	3.00
Median	3.20
Upper Quartile	3.50
Maximum	3.70
Mean	3.21
Std. Deviation	0.31
N	39
Missing	5

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