



THE

LIVINGSTON SURVEY

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DECEMBER 2007

Forecasters Predict Economic Growth Through 2008

The 36 participants in the December Livingston Survey see continued output growth through the end of 2008. 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 2.9 percent in the second half of 2007. They see the growth rate of economic output slowing to 1.9 percent in the first half of 2008, and they predict that it will then increase to an annual rate of 2.8 percent in the second half of the year. The forecast for the first half of 2008 is lower than in the previous survey, suggesting output growth might not be as strong in the short run.

The unemployment rate is expected to rise from 4.8 percent in December 2007 to 5.0 percent in June 2008 and then decrease slightly to 4.9 percent by the end of 2008. These forecasts are higher than those of the survey six months ago, suggesting a small weakening in the labor market. On an annual average basis, the unemployment rate will be 4.6 percent in 2007, 4.9 percent in 2008, and 4.9 percent in 2009.

	<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>					
2007 Q2 to 2007 Q4	2.6	2.9	December 2007	4.7	4.8
2007 Q4 to 2008 Q2	2.9	1.9	June 2008	4.8	5.0
2008 Q2 to 2008 Q4	N.A.	2.8	December 2008	N.A.	4.9

Short-Run Inflation Outlook Worsens

The forecasters' projections for inflation are higher than those of six months ago for consumer prices and producer prices. Consumer price (CPI) inflation will average 2.8 percent in 2007, then increase to 3.0 percent in 2008, and fall back to 2.1 percent in 2009. The forecasters predict inflation of 3.5 percent in the PPI in 2007, higher than the forecast of 3.2 percent made six months ago. Respondents to the survey also see producer prices rising 2.8 percent in 2008, up from the 2.4 percent forecast in the June survey. For 2009, forecasters predict PPI inflation will slow to 2.4 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>				
2006 to 2007	2.6	2.8	3.2	3.5
2007 to 2008	2.3	3.0	2.4	2.8
2008 to 2009	N.A.	2.1	N.A.	2.4

Interest Rates Revised Downward But Will Climb Over the Next Two Years

The current forecasts for interest rates on three-month Treasury bills and 10-year Treasury notes are lower than those made six months ago. The interest rate on three-month Treasury bills will rise over the next two years, according to the forecasters. They expect the interest rate to be 3.35 percent at the end of 2007, rise to 3.50 percent by June 2008, rise further to 3.84 percent by December 2008, and continue to rise in 2009 to 4.1 percent. 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 4.25 percent at the end of 2007 and to rise to 4.41 percent by June 2008. The long-term rate will continue to climb to 4.68 percent by the end of 2008 and then reach 5.00 percent by the end of 2009.

	<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. 31, 2007	4.93	3.35	4.95	4.25
June 30, 2008	4.92	3.50	5.00	4.41
Dec. 31, 2008	4.95	3.84	5.05	4.68
Dec. 31, 2009	N.A.	4.10	N.A.	5.00

2007 Livingston Survey Participants

S. Anderson	Wells Fargo and Company	D. Lereah	National Association of Realtors
E. Beeson Zentner	Bank of Tokyo-Mitsubishi, Ltd.	M. Levy	Bank of America
R. Berner	Morgan Stanley & Co., Inc.	J. Lonski	Moody's Investors Service, Inc.
J. Butkiewicz	University of Delaware	D. Maki	Barclays Capital
J. Carson	Alliance Bernstein	E. McKelvey	Goldman Sachs and Company
R. Chase	Chase Economics	M. Moran	Daiwa Securities America
R. DeKaser	National City Corporation	J. Mueller	LBMC LLC
R. Dhawan	Georgia State University	F. Nothaft	Federal Home Loan Mortgage Corp.
F. Dixon	Economic Insights	M. Regalia	U.S. Chamber of Commerce
D. Duncan	Mortgage Bankers Association	J. Ryding	Bear, Stearns and Company
M. Englund	Action Economics, LLC	D. Seiders	National Association of Home Builders
K. Goldstein	The Conference Board	J. Silvia	Wachovia Corporation
J. Gonzalez	Tennessee Valley Authority	A. Sinai	Decision Economics, Inc.
J. Hall	Thomson Financial	J. Smith	Parsec Financial Management, Inc.
B. Horrigan	Loomis Sayles & Co.	S. Snaith	University of Central Florida
S. Hymans	University of Michigan	S. Stanley	RBS Greenwich Capital
P. Jaquette	Weyerhaeuser Company	P. Taylor	National Automobile Dealers Association
I. Kellner	Hofstra University	D. Torgerson	U.S. Department of Agriculture
D. Knop	Williams Gas Pipeline Corp.	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
D. Lee	Economics from Washington	L. Yun	National Association of Realtors

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 2.9 percent annually over the next 10 years, down slightly from 3.0 percent 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 13 surveys dating back to December 2001.

Stock-Price Projections Revised Downward

Stock prices (as measured by the S&P 500 index) are expected to finish 2007 at a level of 1525. The forecasters project an increase in stock prices over the next two years, with the index rising to 1550 by the end of June 2008 and to 1619 by the end of 2008. These forecasts are lower than in the previous survey, as shown in the table below. The index will rise to 1700 by the end of 2009.

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

Dec. 31, 2007	1557.4	1525.0
June 30, 2008	1600.0	1550.0
Dec. 31, 2008	1635.0	1619.1
Dec. 31, 2009	N.A.	1700.0

Technical Notes

This news release reports the median value across the 36 forecasters on the survey's panel.

This is the fourth 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/philscriber/user/dsp_content.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, 2007-2009

QUARTERLY INDICATORS (percentage changes at annual rates)	Q2 2007 TO Q4 2007	Q4 2007 TO Q2 2008	Q2 2008 TO Q4 2008	2006 TO 2007	2007 TO 2008	2008 TO 2009
Real Gross Domestic Product	2.9	1.9	2.8	2.2	2.4	2.8
Nominal Gross Domestic Product	4.4	4.3	4.9	4.9	4.6	4.9
Nonresidential Fixed Investment	7.0	2.4	3.9	4.6	4.5	4.6
Corporate Profits After Taxes	-0.7	5.1	3.8	3.4	4.5	4.3
MONTHLY INDICATORS (percentage changes at annual rates)	JUN 2007 TO DEC 2007	DEC 2007 TO JUN 2008	JUN 2008 TO DEC 2008	2006 TO 2007	2007 TO 2008	2008 TO 2009
Industrial Production	1.9	2.6	2.6	2.1	2.4	2.9
Producer Prices - Finished Goods	2.4	2.0	1.9	3.5	2.8	2.4
Consumer Price Index (CPI-U)	2.4	2.6	2.5	2.8	3.0	2.1
Average Weekly Earnings in Mfg.	1.9	2.3	3.0	2.8	3.1	2.6
Retail Trade	4.8	3.6	4.0	4.1	3.9	4.5
(levels of variables)	DEC 2007	JUN 2008	DEC 2008	2007	2008	2009
Total Private Housing Starts (annual rate, millions)	1.185	1.157	1.225	1.350	1.169	1.313
Unemployment Rate (percent)	4.8	5.0	4.9	4.6	4.9	4.9
Automobile Sales (incl. foreign) (annual rate, millions)	7.4	7.5	7.6	7.5	7.5	7.6
FINANCIAL INDICATORS (levels of variables at end of month)	DEC 2007	JUN 2008	DEC 2008	DEC 2009		
Prime Interest Rate	7.25	7.13	7.25	7.50		
10-Year Treasury Note Yield	4.25	4.41	4.68	5.00		
3-Month Treasury Bill Rate	3.35	3.50	3.84	4.10		
Stock Prices (S&P500)	1525.0	1550.0	1619.1	1700.0		
LONG-TERM OUTLOOK						
Average Annual Growth Rate for the Next Ten Years						
Real GDP	2.9					
Consumer Price Index	2.5					

Source: Research Department, Federal Reserve Bank of Philadelphia, Livingston Survey, December 2007.

LIVINGSTON SURVEY

December 2007

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

TABLE ONE
MAJOR MACROECONOMIC INDICATORS, 2007-2009
MEDIAN OF FORECASTER PREDICTIONS

QUARTERLY INDICATORS	NUMBER OF FORE- CASTERS	ACTUAL	FORECASTS		ACTUAL	FORECASTS			
		2007 Q2	2007 Q4	2008 Q2	2008 Q4	2006	2007	2008	2009
1. Real Gross Domestic Product (billions, chain weighted)	36	11520.1	11686.5	11794.2	11959.4	11319.4	11568.2	11848.7	12174.9
2. Nominal Gross Domestic Product (\$ billions)	36	13768.8	14070.2	14367.7	14717.8	13194.7	13837.3	14473.3	15175.3
3. Nonresidential Fixed Investment (billions, chain weighted)	34	1356.6	1403.1	1419.8	1447.0	1306.8	1366.4	1428.6	1494.7
4. Corporate Profits After Taxes (\$ billions)	24	1152.2	1148.4	1177.2	1199.1	1099.8	1137.3	1188.9	1240.0
MONTHLY INDICATORS		ACTUAL JUN 2007	DEC 2007	FORECASTS JUN 2008	DEC 2008	ACTUAL 2006	2007	FORECASTS 2008	2009
5. Industrial Production (2002=100)	33	113.5	114.6	116.1	117.6	111.2	113.5	116.3	119.6
6. Total Private Housing Starts (annual rate, millions)	32	1.468	1.185	1.157	1.225	1.812	1.350	1.169	1.313
7. Producer Prices - Finished Goods (index level)	30	166.8	168.8	170.5	172.1	160.4	166.0	170.6	174.7
8. Consumer Price Index (CPI-U) (index level)	34	207.8	210.3	213.0	215.6	201.6	207.2	213.4	217.9
9. Unemployment Rate (percent)	34	4.5	4.8	5.0	4.9	4.6	4.6	4.9	4.9
10. Average Weekly Earnings in Mfg. (\$)	13	715.9	722.8	731.1	742.0	690.8	710.5	732.8	752.0
11. Retail Trade (\$ billions)	19	374.7	383.6	390.4	398.2	361.4	376.3	391.0	408.8
12. Automobile Sales (incl. foreign) (annual rate, millions)	25	7.6	7.4	7.5	7.6	7.8	7.5	7.5	7.6

TABLE ONE (CONTINUED)

INTEREST RATES & STOCK PRICES (end of period)		ACTUAL	FORECASTS			
		JUN 2007	DEC 2007	JUN 2008	DEC 2008	DEC 2009
13. Prime Interest Rate (percent)	33	8.25	7.25	7.13	7.25	7.50
14. 10-Year Treasury Note Yield (percent)	35	5.03	4.25	4.41	4.68	5.00
15. 3-Month Treasury Bill Rate (percent)	35	4.68	3.35	3.50	3.84	4.10
16. Stock Prices (S&P500) (index level)	23	1503.3	1525.0	1550.0	1619.1	1700.0

Source: Research Department, Federal Reserve Bank of Philadelphia, Livingston Survey, December 2007

TABLE TWO
 MAJOR MACROECONOMIC INDICATORS, 2007-2009
 PERCENTAGE CHANGES AT ANNUAL RATES

QUARTERLY INDICATORS	NUMBER OF FORE- CASTERS	Q2 2007	Q4 2007	Q2 2008	2006	2007	2008
		TO Q4 2007	TO Q2 2008	TO Q4 2008	TO 2007	TO 2008	TO 2009
1. Real Gross Domestic Product	36	2.9	1.9	2.8	2.2	2.4	2.8
2. Nominal Gross Domestic Product	36	4.4	4.3	4.9	4.9	4.6	4.9
3. Nonresidential Fixed Investment	34	7.0	2.4	3.9	4.6	4.5	4.6
4. Corporate Profits After Taxes	24	-0.7	5.1	3.8	3.4	4.5	4.3
MONTHLY INDICATORS		JUN 2007	DEC 2007	JUN 2008	2006	2007	2008
		TO DEC 2007	TO JUN 2008	TO DEC 2008	TO 2007	TO 2008	TO 2009
5. Industrial Production	33	1.9	2.6	2.6	2.1	2.4	2.9
6. Total Private Housing Starts	32	-0.283	-0.028	0.068	-0.462	-0.181	0.143
7. Producer Prices - Finished Goods	30	2.4	2.0	1.9	3.5	2.8	2.4
8. Consumer Price Index (CPI-U)	34	2.4	2.6	2.5	2.8	3.0	2.1
9. Unemployment Rate	34	0.3	0.2	0.0	0.0	0.3	0.0
10. Average Weekly Earnings in Mfg.	13	1.9	2.3	3.0	2.8	3.1	2.6
11. Retail Trade	19	4.8	3.6	4.0	4.1	3.9	4.5
12. Automobile Sales (incl. foreign)	25	-0.2	0.1	0.1	-0.3	0.0	0.1

		JUN 2007 TO DEC 2007	DEC 2007 TO JUN 2008	JUN 2008 TO DEC 2008	DEC 2008 TO DEC 2009
INTEREST RATES & STOCK PRICES					
13. Prime Interest Rate	33	-1.00	-0.13	0.13	0.25
14. 10-Year Treasury Note Yield	35	-0.78	0.16	0.27	0.32
15. 3-Month Treasury Bill Rate	35	-1.33	0.15	0.34	0.26
16. Stock Prices (S&P500)	23	2.9	3.3	9.1	5.0

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 2007

TABLE THREE
LONG-TERM (10 YEAR) FORECASTS

SERIES: CPI Inflation Rate

STATISTIC	
Minimum	1.10
Lower Quartile	2.20
Median	2.50
Upper Quartile	2.70
Maximum	3.20
Mean	2.45
Std. Deviation	0.46
N	35
Missing	1

SERIES: Real GDP

STATISTIC	
Minimum	2.25
Lower Quartile	2.69
Median	2.90
Upper Quartile	3.05
Maximum	3.50
Mean	2.86
Std. Deviation	0.31
N	35
Missing	1
