Board of Governors of the Federal Reserve System

Division of Monetary Affairs

FOMC Secretariat

Date: October 22, 2010

To: Governors and Reserve Bank Presidents

From: Deborah J. Danker

Subject: Request for November Projections

As part of the upcoming policy cycle, FOMC meeting participants are requested to submit their quarterly economic projections. Attached to this cover note is a timeline of the projections process (Attachment 1), which runs from today's request through the publication of the Summary of Economic Projections on November 23 (one day earlier than usual, owing to the Thanksgiving holiday).

This request is similar to that for June, except for two changes: At this point in the year we typically extend the projection period, so we have added 2013; and we have made some changes to Question 3a. That question used to say, "Does your view of the appropriate path of interest rates differ materially from the interest rate path assumed by the staff in the Greenbook?" To update and generalize the question, it was changed to, "Does your view of the appropriate path of monetary policy differ materially from that assumed by the staff in the Tealbook?" The broadening of the question allows for differences in other assumptions, such as LSAPs, in addition to the interest rate path. A description of the full scope of the projections is included in Attachment 2. Attachment 3 is an updated version of the usual table providing background information on forecast uncertainty.

Please note that your projections are due by **5:00 pm Eastern Time on Friday, October 29** (a link to the electronic collection system will be sent to users early next week).

Attachment 1

November Projections Timeline

October 22 (Friday)	Request for participants' projections
October 25 (Monday)	Projections template made available via Lotus Notes email link
October 29 (Friday)	Initial projections due by **5:00 pm ET**; Advance release of Q3 GDP data
November 1 (Monday)	Initial summary projections package distributed to FOMC participants
November 2 (Tuesday)	First day of FOMC meeting; Briefing on participants' projections and narratives
November 3 (Wed.)	Second day of FOMC meeting
November 4 (Thursday)	Final projections due by **5:00 pm ET**
November 5 (Friday)	Final summary projections package distributed to FOMC participants
November 10 (Wed.)	First draft of the minutes and Summary of Economic Projections (SEP) distributed to participants
November 16 (Tuesday)	Second draft of the minutes and SEP distributed to participants
November 18 (Thursday)	Final version of the minutes and SEP distributed for notation vote
November 22 (Monday)	Voting on minutes and SEP closes at noon ET
November 23 (Tuesday)	Minutes and SEP published at 2:00 pm ET

Attachment 2

Scope of the November Projections

Variables and Periods:

2010-2013: Please provide your projections of the most likely outcomes for the percent change in **real GDP** (Q4/Q4), the percent change in the chain-weighted price index for **PCE** and for **core PCE** (Q4/Q4), and the level of the **unemployment rate** (Q4 average) for 2010, 2011, 2012 and 2013. Please also provide your current estimates for the annualized percent change in real GDP, the total PCE price index, and the core PCE price index in the first half of 2010, i.e. $Q2^{2010}/Q4^{2009}$. Please express all of these projections to the nearest tenth of a percentage point (for example, 2.5 percent).

Longer Run: Please provide your best assessment of the rate to which the variables below would converge over the longer run (say, five to six years from now) in the absence of shocks and assuming appropriate monetary policy. If you anticipate that the convergence process will take shorter or longer than about five or six years, please indicate your best estimate of the duration of the convergence process. Please provide your estimates as single numbers (that is, not as ranges), rounded to tenths of a percentage point. You may also include in your submission any explanatory comments that you think would be helpful.

1. Change in real GDP (percent, annual rate)
2. Civilian unemployment rate (percent)
3. Total PCE inflation rate (percent, annual rate)

Judgments about Uncertainty and Risks:

Please also indicate whether you judge that the uncertainty attached to your projections for each variable is higher/lower/broadly similar to levels of uncertainty over the past 20 years, and also whether the risks around your projections for each variable are weighted to the upside/downside/broadly balanced. As with your modal projections, these judgments concerning the uncertainty and risks attached to your projections should be based on the assumption that the System pursues an appropriate monetary policy. We have provided an updated table summarizing a range of alternative measures of past forecast uncertainty as background for your judgments.

Underlying Assumptions: As before, no common assumptions are proposed for fiscal policy and other exogenous factors, such as energy prices. However, if your assumptions for these types of variables differ materially from those in the Tealbook forecast, it would be helpful if this was noted in your narrative. With respect to monetary policy, projections should be based on the assumption that the System pursues what, in your judgment, would be an appropriate monetary policy, i.e., a policy that is most likely to achieve paths for economic activity and inflation that best satisfy your interpretation of the dual economic objectives. To aid the interpretation of your projections, it would be appreciated if you would indicate whether your monetary policy path deviates materially from the path assumed by the staff in the Tealbook and, if so, in what way. These deviations can be described qualitatively or, if you prefer, quantitatively.

Narrative: The value of the projections process would be increased greatly if you could supply a narrative of the key considerations shaping your outlook. Some possible headings to help structure your narrative are suggested below (and are included in the online template for submitting projections).

- Please describe the key factors shaping your central economic outlook and the uncertainty and risks around that outlook.
- Please describe any important differences between your current economic forecast and the Tealbook.
- Please describe the key factors causing your forecasts to change since the projections submitted for the **June** FOMC meeting.

Attachment 3

Table 1: Historical Projection Errors
Root Mean Squared Errors of Fall Projections for 1990 to 2009[1]

Source	Real GDP[2] (percent change, Q4 to Q4)				Unemployment Rate (Q4 average)				Consumer prices[3] (percent change, Q4 to Q4)			
	2010	2011	2012	2013	2010	2011	2012	2013	2010	2011	2012	2013
Monetary Policy Report[4]	0.48	1.32	—	—	0.17	0.92	—	—	—	—	—	—
Federal Reserve staff (Greenbook)	0.64	1.44	1.65	—	0.20	0.96	1.51	—	0.33	1.08	1.09	—
Congressional Budget Office	0.60	1.43	1.95[5]	1.89[5]	0.09[6]	0.66[6]	1.26[6]	1.40[6]	0.61	0.98	1.02[5]	1.05[5]
Administration	0.70	1.56	1.80	1.78	0.25	1.03	1.51	1.58	0.41	0.98	1.11	1.07
Blue Chip	0.66	1.42	—	—	0.17	0.88	—	—	0.49	1.01	—	—
Survey of Professional Forecasters	0.65	1.42	—	—	0.13	0.86	—	—	0.49	0.99	—	—
Average	0.62	1.43	1.80	1.84	0.18	0.89	1.43	1.49	0.46	1.01	1.08	1.06

1. For methodological details and discussion see "Gauging the Uncertainty of the Economic Outlook from Historical Forecasting Errors" by David Reifschneider and Peter Tulip (Finance and Economics Discussion Series 2007-60). The table above is updated to include forecasts and outcomes for 2007 through 2009 (data which became available subsequent to the FEDS paper) and minor methodological changes.
2. Real GNP before 1992.
3. Based on the total consumer price index. Evidence based on Federal Reserve staff projections suggests that, on average, forecast errors for CPI inflation are slightly larger than those for PCE inflation.
4. Monetary Policy Report projections equal the mid-points of the published central tendency ranges. Results for inflation are not reported because the forecast price measure has changed over time.
5. Percent change, calendar year over calendar year.
6. Annual average. CBO results are included in unemployment rate averages for 2011, 2012, and 2013, but not 2010.