

Table 1: Economic Projections of Federal Reserve Governors and Reserve Bank Presidents, January 2011

Percent

Variable	Central tendency ¹				Range ²			
	2011	2012	2013	Longer run	2011	2012	2013	Longer run
Change in real GDP.	3.4 to 3.9	3.5 to 4.4	3.7 to 4.6	2.5 to 2.8	3.2 to 4.2	3.4 to 4.5	3.0 to 5.0	2.4 to 3.0
November projection. . .	3.0 to 3.6	3.6 to 4.5	3.5 to 4.6	2.5 to 2.8	2.5 to 4.0	2.6 to 4.7	3.0 to 5.0	2.4 to 3.0
Unemployment rate.	8.8 to 9.0	7.6 to 8.1	6.8 to 7.2	5.0 to 6.0	8.4 to 9.0	7.2 to 8.4	6.0 to 7.9	5.0 to 6.2
November projection. . .	8.9 to 9.1	7.7 to 8.2	6.9 to 7.4	5.0 to 6.0	8.2 to 9.3	7.0 to 8.7	5.9 to 7.9	5.0 to 6.3
PCE inflation.	1.3 to 1.7	1.0 to 1.9	1.2 to 2.0	1.6 to 2.0	1.0 to 2.0	0.7 to 2.2	0.6 to 2.0	1.5 to 2.0
November projection. . .	1.1 to 1.7	1.1 to 1.8	1.2 to 2.0	1.6 to 2.0	0.9 to 2.2	0.6 to 2.2	0.4 to 2.0	1.5 to 2.0
Core PCE inflation ³	1.0 to 1.3	1.0 to 1.5	1.2 to 2.0		0.7 to 1.8	0.6 to 2.0	0.6 to 2.0	
November projection. . .	0.9 to 1.6	1.0 to 1.6	1.1 to 2.0		0.7 to 2.0	0.6 to 2.0	0.5 to 2.0	

NOTE: Projections of change in real gross domestic product (GDP) and of inflation are from the fourth quarter of the previous year to the fourth quarter of the year indicated. PCE inflation and core PCE inflation are the percentage rates of change in, respectively, the price index for personal consumption expenditures (PCE) and the price index for PCE excluding food and energy. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated. Each participant's projections are based on his or her assessment of appropriate monetary policy. Longer-run projections represent each participant's assessment of the rate to which each variable would be expected to converge under appropriate monetary policy and in the absence of further shocks to the economy. The November projections were made in conjunction with the FOMC meeting on November 2-3, 2010.

1. The central tendency excludes the three highest and three lowest projections for each variable in each year.
2. The range for a variable in a given year includes all participants' projections, from lowest to highest, for that variable in that year.
3. Longer-run projections for core PCE inflation are not collected.

Table 1a
Economic Projections for the First Half of 2011*
(in percent)

Central Tendencies and Ranges

	Central Tendency	Range
Change in Real GDP	3.3 to 3.7	3.1 to 4.0
PCE Inflation	1.3 to 1.8	0.9 to 2.0
Core PCE Inflation	0.9 to 1.2	0.7 to 1.6

Participants' Projections

Projection	Change in Real GDP	PCE Inflation	Core PCE Inflation
1	4.0	1.4	0.9
2	3.4	0.9	0.8
3	3.6	1.3	1.0
4	3.7	1.6	1.0
5	3.5	1.8	1.2
6	3.6	1.8	1.6
7	3.7	1.6	1.0
8	3.9	2.0	1.1
9	3.1	1.8	1.2
10	3.7	1.5	0.9
11	3.5	1.3	1.0
12	3.5	1.0	1.0
13	3.1	1.1	1.0
14	3.6	1.9	0.9
15	3.5	2.0	1.0
16	3.3	1.5	1.2
17	4.0	1.4	0.9
18	3.3	1.3	0.7

* Growth and inflation are reported at annualized rates.

Table 1b
Economic Projections for the Second Half of 2011*
(in percent)

Central Tendencies and Ranges

	Central Tendency	Range
Change in Real GDP	3.5 to 4.1	3.3 to 4.4
PCE Inflation	1.1 to 1.9	0.7 to 2.2
Core PCE Inflation	1.0 to 1.4	0.7 to 2.0

Participants' Projections

Projection	Change in Real GDP	PCE Inflation	Core PCE Inflation
1	4.4	1.2	1.1
2	3.6	1.1	1.0
3	3.8	1.3	1.0
4	3.9	1.0	1.0
5	3.5	2.2	2.0
6	3.6	2.2	2.0
7	3.9	1.0	1.0
8	3.9	1.4	1.3
9	3.3	1.4	1.4
10	4.3	1.1	0.9
11	3.9	1.3	1.0
12	3.3	1.6	1.0
13	3.5	1.5	1.0
14	4.4	1.5	1.1
15	3.5	2.0	2.0
16	3.3	1.9	1.2
17	3.6	1.8	1.1
18	4.1	0.7	0.7

* Projections for the second half of 2011 implied by participants' January projections for the first half of 2011 and for 2011 as a whole. Growth and inflation are reported at annualized rates.

**Table 2: January Economic Projections
(in percent)**

Projection	Year	Change in Real GDP	Unemployment Rate	PCE Inflation	Core PCE Inflation
1	2011	4.2	8.6	1.3	1.0
2	2011	3.5	8.9	1.0	0.9
3	2011	3.7	8.9	1.3	1.0
4	2011	3.8	8.9	1.3	1.0
5	2011	3.5	9.0	2.0	1.6
6	2011	3.6	8.4	2.0	1.8
7	2011	3.8	8.9	1.3	1.0
8	2011	3.9	9.0	1.7	1.2
9	2011	3.2	8.9	1.6	1.3
10	2011	4.0	8.8	1.3	0.9
11	2011	3.7	8.9	1.3	1.0
12	2011	3.4	9.0	1.3	1.0
13	2011	3.3	9.0	1.3	1.0
14	2011	4.0	8.6	1.7	1.0
15	2011	3.5	9.0	2.0	1.5
16	2011	3.3	9.0	1.7	1.2
17	2011	3.8	8.8	1.6	1.0
18	2011	3.7	8.9	1.0	0.7
1	2012	4.4	7.5	1.3	1.2
2	2012	3.7	8.0	1.3	1.3
3	2012	4.2	8.0	1.4	1.1
4	2012	4.4	7.8	1.0	1.0
5	2012	4.0	8.1	2.0	2.0
6	2012	3.4	7.2	2.2	2.0
7	2012	4.4	7.8	1.1	1.1
8	2012	4.0	8.0	1.5	1.4
9	2012	3.4	8.1	1.5	1.5
10	2012	4.5	7.6	1.0	1.0
11	2012	3.8	8.0	1.5	1.4
12	2012	3.5	8.3	0.9	0.9
13	2012	4.3	7.9	1.5	1.1
14	2012	4.0	7.4	1.8	1.5
15	2012	4.4	8.0	2.0	2.0
16	2012	3.4	8.4	1.9	1.5
17	2012	4.0	7.8	1.5	1.0
18	2012	4.2	7.7	0.7	0.6

Table 2 (continued): January Economic Projections

Projection	Year	Change in Real GDP	Unemployment Rate	PCE Inflation	Core PCE Inflation
1	2013	4.0	6.6	1.4	1.4
2	2013	3.5	7.3	1.7	1.6
3	2013	4.5	7.0	1.4	1.2
4	2013	4.6	7.0	1.2	1.2
5	2013	4.0	7.2	2.0	2.0
6	2013	3.0	6.5	2.0	2.0
7	2013	4.6	7.0	1.2	1.2
8	2013	4.0	7.0	1.5	1.4
9	2013	3.7	7.2	1.8	1.8
10	2013	4.3	6.8	1.1	1.1
11	2013	3.8	7.0	1.6	1.6
12	2013	4.0	7.9	1.0	1.0
13	2013	4.6	7.0	1.5	1.3
14	2013	5.0	6.0	2.0	2.0
15	2013	3.8	7.0	1.5	1.5
16	2013	3.1	7.9	2.0	2.0
17	2013	4.0	6.8	1.5	1.2
18	2013	4.4	6.9	0.6	0.6
1	LR	2.5	5.2	2.0	
2	LR	2.6	6.0	2.0	
3	LR	2.5	5.4	2.0	
4	LR	2.8	5.0	2.0	
5	LR	3.0	5.0	2.0	
6	LR	2.8	5.5	1.7	
7	LR	2.5	5.2	2.0	
8	LR	2.5	6.0	1.5	
9	LR	2.5	5.2	2.0	
10	LR	2.5	5.3	2.0	
11	LR	2.5	5.5	1.8	
12	LR	3.0	5.2	1.6	
13	LR	2.5	5.0	2.0	
14	LR	2.4	5.0	2.0	
15	LR	2.8	6.0	1.5	
16	LR	2.7	6.2	1.9	
17	LR	2.7	5.3	1.5	
18	LR	2.5	5.3	2.0	

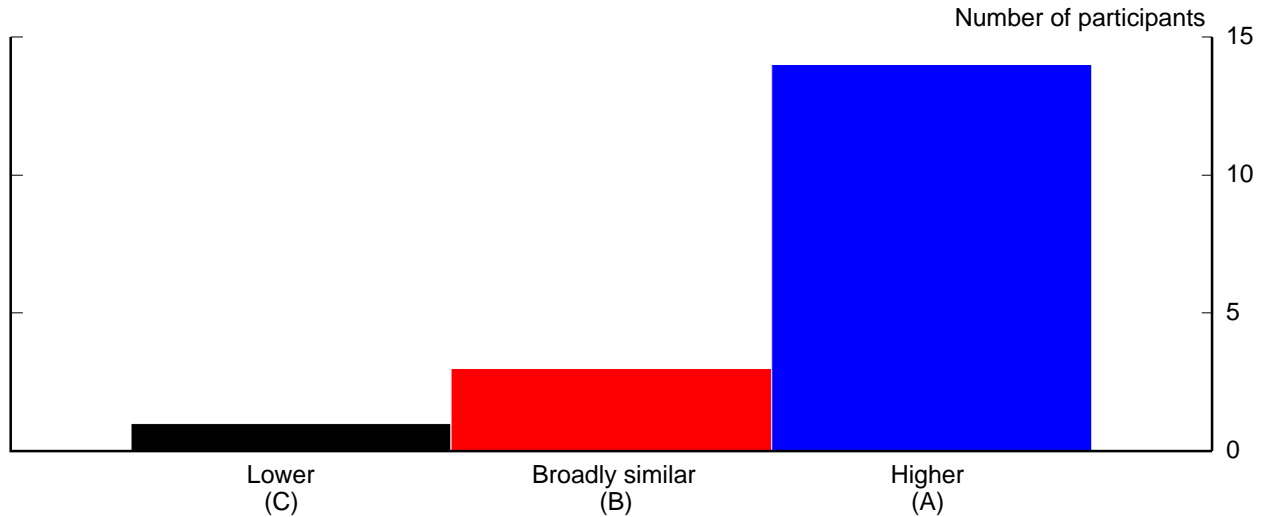
Figure 1. Central tendencies and ranges of economic projections, 2011–13 and over the longer run



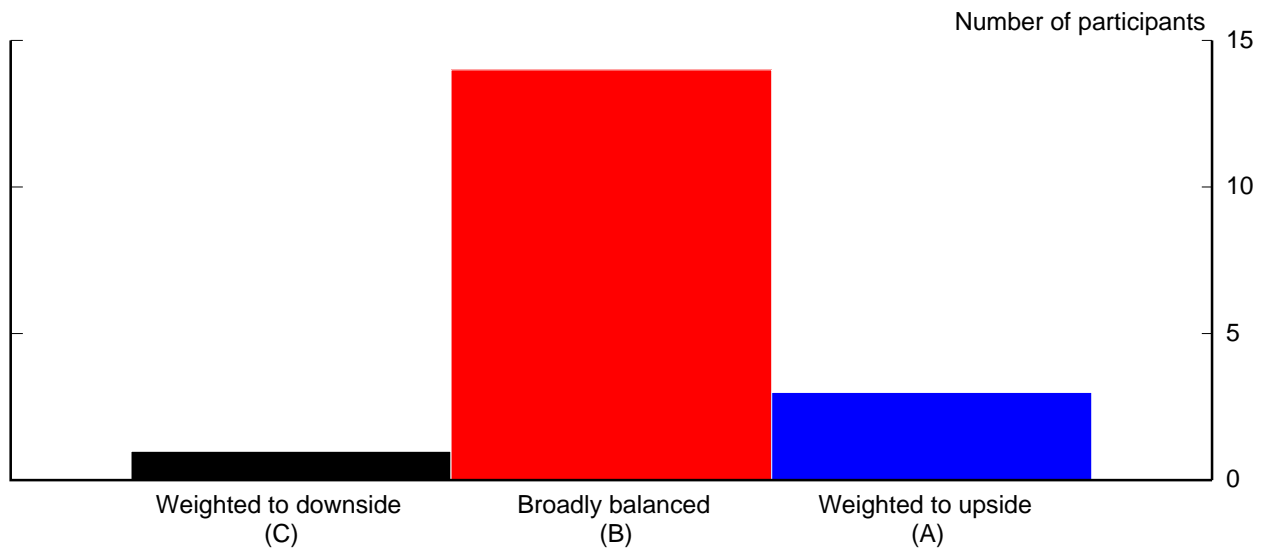
NOTE: Definitions of variables are in the notes to table 1. The data for the actual values of the variables are annual. The data for the change in real GDP, PCE inflation, and core PCE inflation shown for 2010 incorporate the advance estimate of GDP for the fourth quarter of 2010, which the Bureau of Economic Analysis released on January 28, 2011. This information was not available to FOMC meeting participants at the time of their meeting.

Uncertainty and Risks - GDP Growth

2(a): Please indicate your judgment of the uncertainty attached to your projections relative to levels of uncertainty over the past 20 years.



2(b): Please indicate your judgment of the risk weighting around your projections.

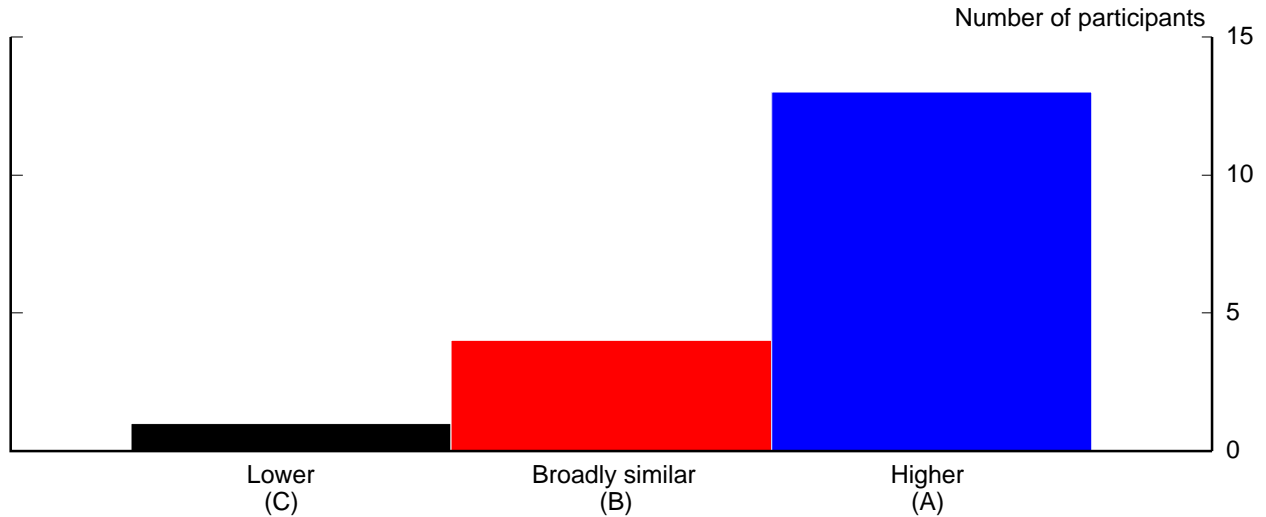


Individual Responses

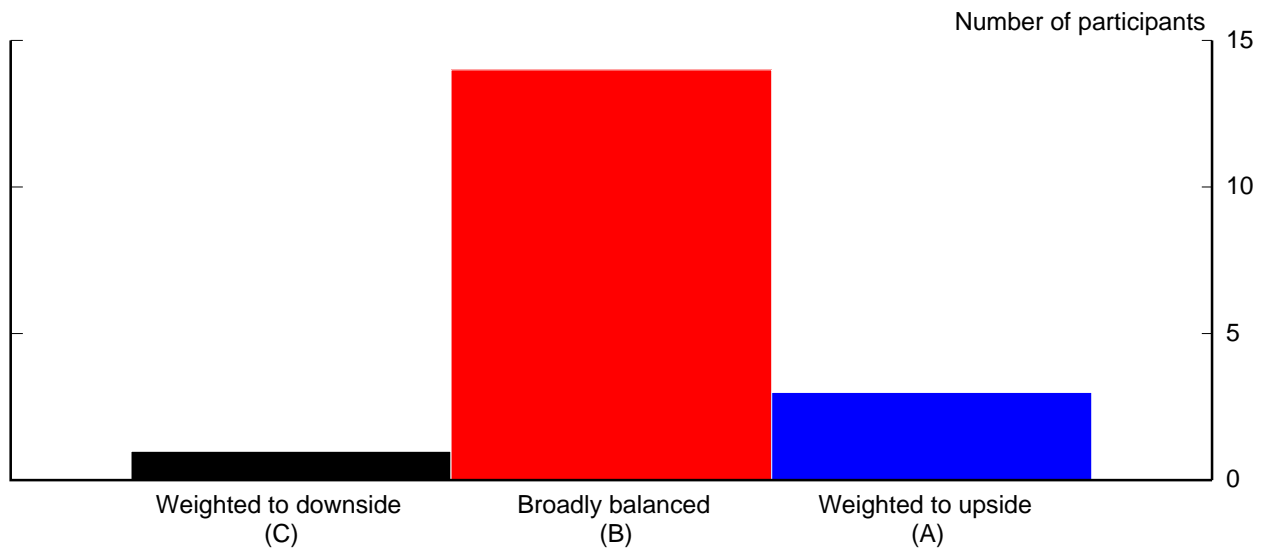
Respondent	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
2(a)	A	A	A	A	A	A	A	C	A	B	A	A	B	A	B	A	A	A
2(b)	B	B	B	B	A	A	B	B	B	B	A	B	B	C	B	B	B	B

Uncertainty and Risks - Unemployment Rate

2(a): Please indicate your judgment of the uncertainty attached to your projections relative to levels of uncertainty over the past 20 years.



2(b): Please indicate your judgment of the risk weighting around your projections.

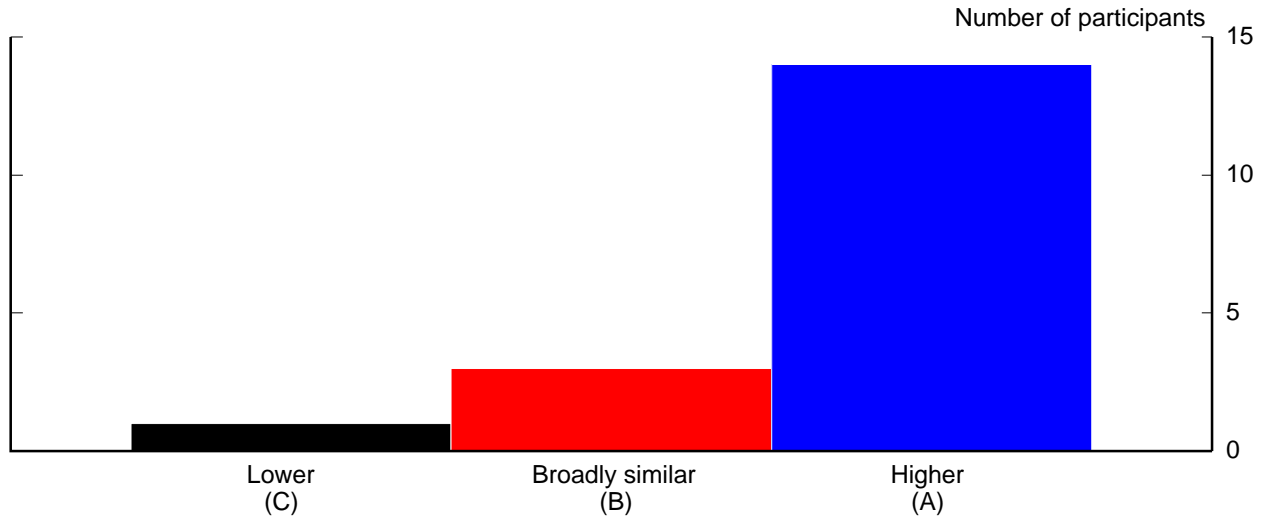


Individual Responses

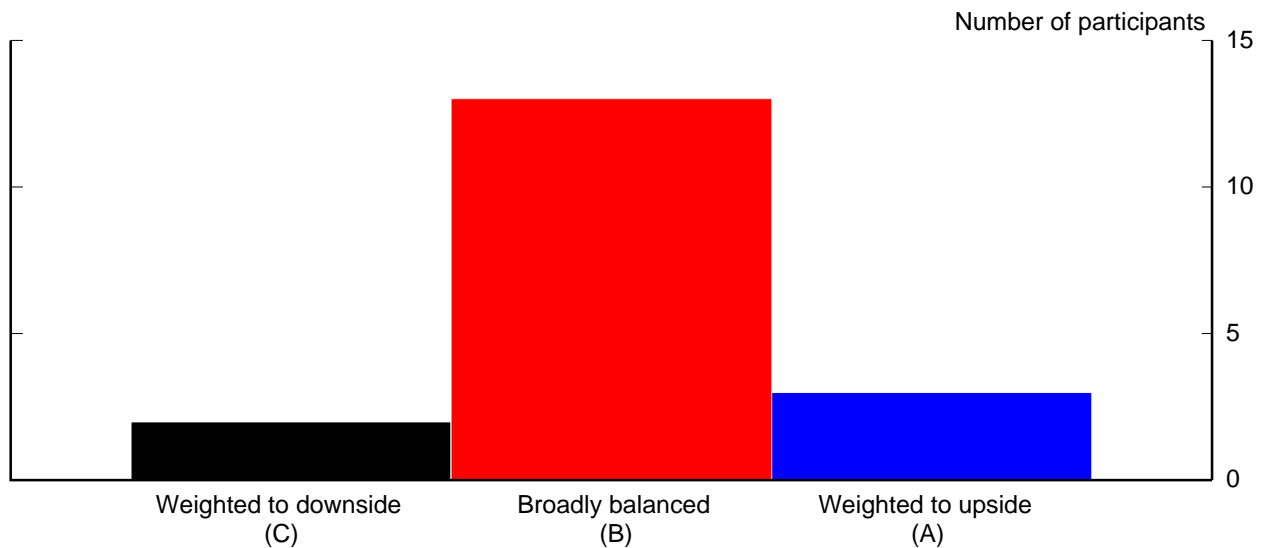
Respondent	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
2(a)	A	A	A	A	A	B	A	C	A	B	A	A	B	A	B	A	A	A
2(b)	A	B	B	A	C	B	B	B	B	B	B	B	B	A	B	B	B	B

Uncertainty and Risks - PCE Inflation

2(a): Please indicate your judgment of the uncertainty attached to your projections relative to levels of uncertainty over the past 20 years.



2(b): Please indicate your judgment of the risk weighting around your projections.

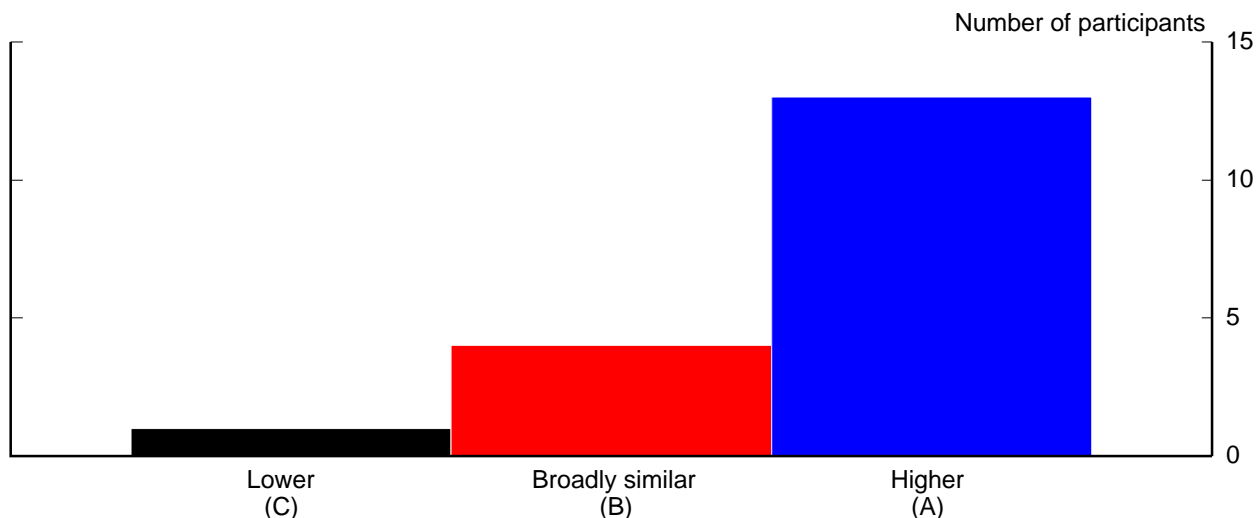


Individual Responses

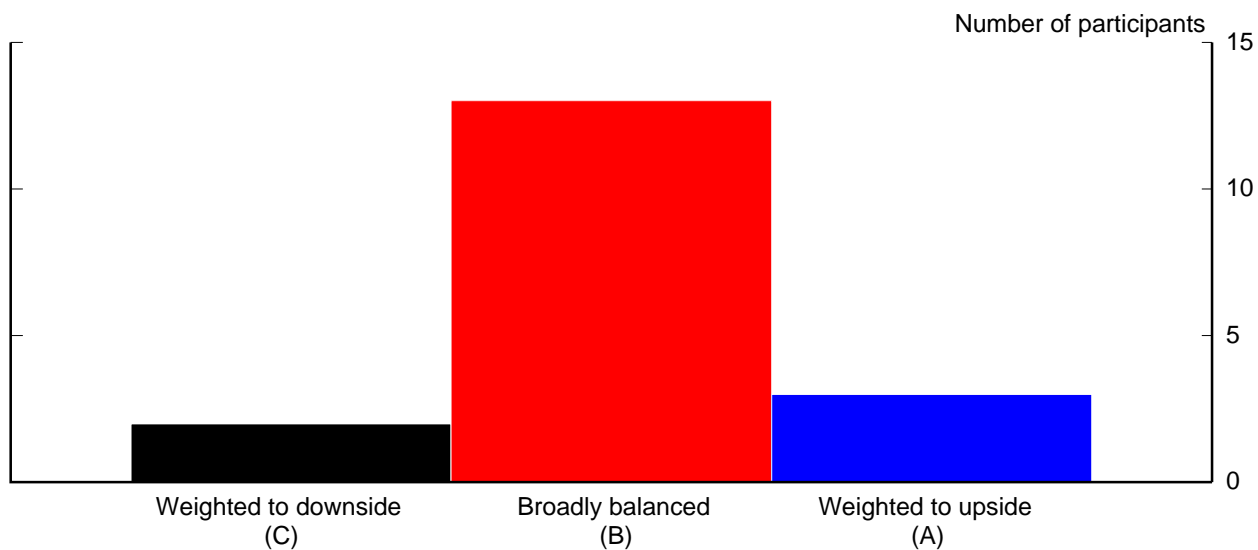
Respondent	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
2(a)	A	A	B	A	A	A	A	C	A	B	A	A	A	A	B	A	A	A
2(b)	B	B	B	A	B	A	B	B	B	B	A	B	B	C	B	B	B	C

Uncertainty and Risks - Core PCE Inflation

2(a): Please indicate your judgment of the uncertainty attached to your projections relative to levels of uncertainty over the past 20 years.



2(b): Please indicate your judgment of the risk weighting around your projections.



Individual Responses

Respondent	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
2(a)	A	A	B	A	A	A	A	C	A	B	A	A	B	A	B	A	A	A
2(b)	B	B	B	A	B	A	B	B	B	B	A	B	B	C	B	B	B	C

Longer-run Projections

1(c). If you anticipate that the convergence process will take shorter or longer than about five or six years, please indicate below your best estimate of the duration of the convergence process. You may also include below any other explanatory comments that you think would be helpful.

Respondent 1:

N/A

Respondent 2:

In my baseline projection, the economy converges to the long-run trend by the end of 2015.

Respondent 3:

N/A

Respondent 4:

N/A

Respondent 5:

Unemployment will take at least 7 years..

Respondent 6:

The convergence process may be slightly shorter than 5-6 years.

Respondent 7:

N/A

Respondent 8:

N/A

Respondent 9:

N/A

Respondent 10:

I expect the convergence process will be similar to that outlined in the long-run projection reported in the Tealbook, with the output and unemployment gaps reaching zero in about five years, and the PCE price inflation rate reaching its long-run value of 2 percent sometime thereafter.

Respondent 11:

For several reasons, I expect the convergence process for unemployment will likely take longer than five to six years. These factors include the severity of the recession, the historical norms of jobless recoveries and recoveries that follow financial crises, and structural adjustments that need to take place such as the deleveraging of consumers, businesses, and financial institutions. In addition, I am concerned that a delay in the removal of the extraordinary level of monetary policy accommodation will lead to financial imbalances that could eventually destabilize the economy and further prolong the convergence process. These same monetary forces could also cause long-term inflation expectations to become unanchored and lengthen the convergence process.

Respondent 12:

A number of unpredictable developments – here in the mortgage market and abroad in Europe – continue to complicate this recovery's depth and duration. Accordingly, it may take longer than five or six years to converge to some equilibrium. In addition, the pacing in which the exit strategy is executed and communicated

may lengthen the convergence process to seven or eight years. In other words the necessity of unwinding accommodative policy faster than would be warranted by the unemployment rate alone could end up slowing the downdrift in the unemployment rate.

Respondent 13:

N/A

Respondent 14:

Our current estimate of the economy's potential growth rate is in the 2.5% to 2.7% range. By 2015-16 we anticipate potential growth to slow to 2.4%, reflecting slower growth of hours worked as the baby boomers retire. A reasonable estimate for the long-run unemployment rate is 4% to 6%. We expect, with appropriate policy and no further adverse shocks, the unemployment rate to be in this range and the output gap to be around zero by 2015-2016.

We assume that long-term inflation expectations will continue to be anchored around 2.5% on a CPI basis and that the FOMC's inflation objective is and will be about 2% for the PCE deflator and around 2.5% for the CPI. Under these conditions, with the output gap anticipated to be near zero, we expect inflation as measured by the PCE deflator to be around 2% in 2015-16.

Respondent 15:

I anticipate that the convergence process for real GDP growth will be substantially shorter than 5-6 years, perhaps on the order of 3-4 years for real growth (with a period of overshoot of real growth in the interim during recovery), and an overshoot (above 1.5%) in the interim in inflation as a consequence of significant past growth in the monetary base supported by longer term asset purchases that cannot be sold off over a very short time period. I anticipate that the decline in the unemployment rate will lag behind the recovery of real growth.

Respondent 16:

Expect convergence to take somewhat longer

Respondent 17:

Convergence within 5-to-6 years now appears likely. The danger is that the economy will overshoot the sustainable unemployment rate and that inflation will overshoot the desired level.

Respondent 18:

While the economy is anticipated to revert back to maximum employment within a five-year horizon, inflation is likely to remain below the target.

Uncertainty and Risks

2(a). (Optional) If you have any explanatory comments regarding your judgment of the uncertainty attached to your projections relative to levels of uncertainty over the past 20 years, you may enter them below.

Respondent 1:

The liquidity trap conditions we find ourselves in today add considerable uncertainty to the outlooks for both growth and inflation. Notably, there is substantial uncertainty over the ability of unconventional policies to buoy expected inflation and reduce real interest rates. Also, our forecast is premised on the assumption that household and business caution will diminish with the aging and firming of economic recovery. Forecasts of how such sentiment will evolve and translate into higher activity are, by their very nature, subject to extreme uncertainty.

Respondent 2:

N/A

Respondent 3:

Uncertainty about output and unemployment is increased by uncertainties related to 1) the extent to which a post-financial crisis recovery differs from a normal recovery 2) the effects on recovery and employment of structural change, permanent discharges, and high rates of long-term unemployment 3) the dependence of US recovery on global growth and economic policies.

Respondent 4:

N/A

Respondent 5:

Uncertainty was surprisingly low over the past 20 years.

Respondent 6:

The incoming data has generally been consistent with my October projection. Financial market conditions continue to improve and the economic recovery has gained momentum. It remains the case that the effect of the extraordinary monetary policy in place and uncertainties surrounding the future path of policy, including the timing of the exit from accommodative policy, contribute to uncertainty around my inflation forecast.

Respondent 7:

N/A

Respondent 8:

With the recovery process more firmly in place, uncertainty for GDP and unemployment projections is below average. Inflation expectations would be more firmly anchored under an appropriate monetary policy, and uncertainty would therefore be lower than the historical average.

Respondent 9:

N/A

Respondent 10:

This is a close call, but uncertainty appears to have fallen to more average levels. Importantly, our forecast errors have been relatively small since the recovery began a year and half ago, which is consistent with less, not more, uncertainty.

Respondent 11:

The uncertainty surrounding my projections remains higher than normal. I generally agree with Tealbook's assessment of the sources of uncertainty, but I would add fiscal policy to the list. Various aspects of fiscal policy – such as questions of fiscal sustainability – add considerable uncertainty to the outlook. The public's uncertainty about the conduct of monetary policy is also adding to uncertainty in the economic outlook.

Respondent 12:

N/A

Respondent 13:

N/A

Respondent 14:

Quantitative judgment based on the standard deviation of the FRBNY forecast distribution for GDP growth and core PCE inflation relative to the forecast errors over the last 20 years.

Respondent 15:

N/A

Respondent 16:

N/A

Respondent 17:

N/A

Respondent 18:

N/A

Uncertainty and Risks

2(b). (Optional) If you have any explanatory comments regarding your judgment of the risk weighting around your projections, you may enter them below.

Respondent 1:

Even though our forecast for growth is balanced, we still feel that the risks to the unemployment rate are somewhat weighted to the upside. Businesses continue to be very hesitant to expand work forces until they are more certain of the staying power of final demand. They can only push productivity so far and eventually will have to hire, but the timing of this is uncertain. In addition, we may have underestimated the degree (and persistence) to which reduced matching efficiency is influencing labor markets. Note that we see both of these factors as modest risks and are most relevant for the earlier part of the forecast period.

Respondent 2:

N/A

Respondent 3:

(Risks to output and unemployment) The strong projected rates of output growth are dependent on a steadily improving labor market and an absence of further shocks, including financial shocks. Either of these assumptions could prove wrong. On the other hand, recent data suggest a recovery that is more durable and broader based than was apparent at the time of the last projection, mitigating downside risk. (Risks to inflation) Upward pressures from commodity prices, the dollar, and strengthening global growth counterweigh disinflationary risks from slack and the zero lower bound on nominal interest rates.

Respondent 4:

N/A

Respondent 5:

By weighted to the downside, I mean that I put some weight on the possibility that unemployment may fall more rapidly than I expect. Here, a big issue is LFP. Will it continue to fall surprisingly quickly?

Respondent 6:

I view the risks to growth and inflation as weighted to the upside. Historical patterns in the data suggest the rebound might be stronger than my baseline forecast. Over the longer term, inflation risk is tilted to the upside reflecting uncertainty about the timing and efficacy of the Fed's withdrawal of accommodation.

Respondent 7:

N/A

Respondent 8:

N/A

Respondent 9:

I have adjusted my weighting of risks around the inflation projection from "weighted to the downside" to "broadly balanced". The likelihood of further unwanted disinflation has lessened.

Respondent 10:

The risks to our projections for real activity and inflation appear to be broadly balanced. Of course, despite a symmetric forecast distribution, the costs of downside outcomes (slower growth or lower inflation) would be relatively more severe.

Respondent 11:

When easing into a recovery, one is more likely to see growth and inflation surprise to the upside. Thus far, the recovery has been moderate. But as headwinds dissipate, I expect the normal business cycle dynamics to take hold at some point. The timing of this phenomenon is uncertain, but as the economic recovery continues to strengthen, there is a greater chance of an upside surprise and less of a chance of another soft patch going forward.

Respondent 12:

N/A

Respondent 13:

N/A

Respondent 14:

Quantitative judgment based on the difference between the projection and the expected value from the FRBNY forecast distribution.

Respondent 15:

N/A

Respondent 16:

N/A

Respondent 17:

N/A

Respondent 18:

N/A

Appropriate Monetary Policy

3. Does your view of the appropriate path for monetary policy differ materially from that assumed by the staff in the Tealbook?

YES

11

NO

7

Respondent 1: Yes

For the purpose of our baseline forecast, we have chosen to condition on the futures markets' expected path for the funds rate. Similarly, we condition on the implied market expectations for the evolution of the 10-year Treasury rate, which are a touch higher than the Tealbook's and may be premised on a somewhat earlier start to redemption of SOMA securities. However, these differences are small, and we would not be surprised if the economy were to evolve in a manner such that the appropriate policy outcome is more in line with the Tealbook assumptions.

Respondent 2: Yes

My economic projection is consistent with a target federal funds rate that rises above the 0 to 0.25 percent range in the middle of 2012. We assume no further LSAP purchases beyond those already announced in November.

Respondent 3: No

N/A

Respondent 4: No

N/A

Respondent 5: Yes

I believe that we are likely to tighten earlier than first quarter 2013. We will be led to do so by increases in the rate of inflation.

Respondent 6: Yes

My forecast continues to assume a less accommodative policy than in the Tealbook baseline. I view the appropriate monetary policy as one that begins raising the funds rate sometime in the second half of 2011.

Respondent 7: No

N/A

Respondent 8: Yes

I believe that under an appropriate monetary policy the committee would adopt a numerical inflation objective. In accordance with that objective, the committee would want to begin to shrink the size of the Federal Reserve's balance sheet and raise the federal funds rate sooner than the Tealbook projects.

Respondent 9: No

N/A

Respondent 10: No

N/A

Respondent 11: Yes

In my view, under the appropriate path, policy would immediately begin the normalization process. I would stop the purchases of longer-term Treasury securities and remove the commitment to maintaining the funds

rate target at exceptionally low levels for an extended period. I would allow our balance sheet to shrink as mortgage-backed securities are redeemed.

Respondent 12: No
N/A

Respondent 13: Yes
Earlier resumption of run-off of securities holdings than assumed by Tealbook

Respondent 14: No
N/A

Respondent 15: Yes
While the pattern of recovery from the recession is uncertain, I believe that under appropriate monetary policy to maintain price stability we will have to move away from the current target range for the funds rate and allow the SOMA portfolio to run off sooner than assumed in the Tealbook. In the interim, depending on how the economy evolves, it may be appropriate to accelerate or slow down the growth of the SOMA portfolio.

Respondent 16: Yes
Would prefer that Fed balance sheet grow substantially less, and its level fall materially faster than Staff forecast. Would also prefer that policy rates move up sooner and with more force than staff forecast

Respondent 17: Yes
Yes, it differs both with respect to timing and with respect to the order in which stimulus measures are reversed. My long-term inflation objective is lower than the 2-percent rate assumed in the Tealbook's projections. Accordingly, I expect to begin removing monetary-policy accommodation earlier than is called for in those projections. Also, I doubt that recent moves to expand our balance sheet have been as effective as is assumed in the Tealbook and, so, see little reason not to allow our security holdings to begin to run off in advance of short-term interest rate increases. It seems only logical that we would begin to reverse first the stimulus measures that were applied last.

Respondent 18: Yes
With inflation still well below target in 2013, the Federal funds rate's lift off from the zero lower bound occurs later in the forecast horizon.

Forecast Narratives

4(a). Please describe the key factors shaping your central economic outlook and the uncertainty around that outlook.

Respondent 1:

The incoming data and anecdotal evidence suggest that growth late last year was somewhere in the range of 4 percent and that activity currently appears to be rising at a similar pace. Over time, increasing household and business confidence should add momentum to the recovery. Importantly, household spending already has picked up and more businesses seem to be planning for an increase in activity. Inventories appear well aligned with sales, and so production should move up in line with demand. In addition, banks appear more ready to lend, capital market conditions are supportive of growth, and monetary policy is accommodative.

Some continued business caution could hold back hiring and capital investment some, but this should diminish over time—particularly as firms see their sales being generated from final demands and not transitory factors such as an inventory cycle. Nonetheless, continued overhangs in real estate markets will hold back both residential and nonresidential construction, and the budget difficulties of state and local governments will be a negative factor for growth.

Resource gaps remain large throughout the projection period, and could pull inflation down further. However, supported by our recent monetary policy actions, markets have down weighted the risks of very low (or negative) inflation rates. This anchoring of inflation expectations and the resumption of more solid growth are expected to contribute to a small updrift in inflation over the projection period. Still, we think inflation will end 2013 below a rate consistent with our price stability mandate.

Respondent 2:

The incoming information on economic activity has been recently upbeat and has placed the economy on a firmer footing. My fourth-quarter GDP estimate has been marked up accordingly. Momentum from these positive surprises also pushes output higher in 2011.

Nevertheless, the economy is still confronted by necessary structural adjustments and resource reallocations that will impede growth, particularly in 2011. These are evident in housing, commercial construction, and the labor market.

In light of the recent strength in the incoming data, I now characterize the risks to my growth outlook as ‘balanced’ rather than as weighted to the downside. I have also moved the risks to my inflation outlook to ‘balanced’ from being skewed to the downside. Recent firming in measures of underlying inflation produced by the Federal Reserve Bank of Cleveland suggest that the disinflation trend may be drawing to an end. Furthermore, my preferred measures of inflation expectations have moved into the “mandate-consistent” range.

Respondent 3:

We seem to have gotten past a soft patch in the recovery that lasted from the spring through September or so. In particular, consumer spending, notably including spending on automobiles, picked up in the fourth quarter. Household spending both supports and is being supported by what appears to be an improving labor market (see, e.g., UI claims, unemployment rate, help wanted index, surveys) despite still-limited gains in payroll employment. Household spending, business spending on equipment and software, and employment are collectively providing momentum to what increasingly appears to be a broadly diffused, private-sector-led recovery. Industrial production data also indicate a broadening cyclical recovery.

Conditions in capital markets have improved further, reflecting greater market comfort with the European situation, more confidence in global growth, and the effects of the LSAP program on risk assets. Banks

continue to face challenges (foreclosure documentation, putback risk, regulatory limits on earnings capacity) but continue to build capital. Credit is loosening a bit for smaller firms and households but remains relatively tight. Higher equity prices, lower volatility, and tighter spreads are both a sign of increasing confidence and a spur to further expansion.

Fiscal policy is modestly more expansionary than expected, due to the lame-duck agreement. However, fiscal stimulus on net is small and will likely turn to drag later this year or early next. Moribund residential and nonresidential construction are a drag on recovery and a problem for the balance sheets of banks, households, and firms. Global growth adds to growth through net exports but subtracts through the effects of higher commodity prices on household real incomes.

Deflation risks are now very low, as commodity prices (energy, food, metals) have risen sharply, TIPS breakevens are stable to up, and the risk that the recovery might falter has receded. The dollar is also down but only very modestly. On the other hand, core inflation remains very low and might even decline a bit further, reflecting slow growth in unit labor costs and slack in labor and product markets. Core inflation seems likely to remain low and stable; what happens to headline inflation depends on commodity prices, which in turn will be heavily influenced by global growth and demand.

Respondent 4:

N/A

Respondent 5:

My outlook for inflation is shaped by the assumption that the recovery will continue on track. A slowing in the pace of economic recovery might lead to disinflationary pressures.

Respondent 6:

The recent economic data has mostly been in line with what I anticipated in my October forecast. The economy is rebounding from its recent soft patch and is poised for moderately above-trend growth in 2011 and 2012.

As the recovery strengthens, I expect an above-trend pace of 3.6 percent growth in 2011, only a shade higher than in my October forecast. Factors that contribute to my growth projection include improving financial market conditions, greater credit availability to households and firms, the affects of policy accommodation, and normal recovery dynamics.

In 2012 and 2013, I expect growth to moderate somewhat, though it remains slightly above my long-run trend. The labor market recovery is gradual — I expect the unemployment rate to move down to about 6.5 percent by the end of the forecast horizon, at which time it remains above my estimate of the natural rate of unemployment. I anticipate that inflation will rise into 2012 and then pull back a bit in 2013 in response to tighter monetary policy than anticipated in the Tealbook.

In my view, the substantial liquidity that is now in the financial system continues to imply a risk that inflation will rapidly accelerate to unacceptable levels and that inflation expectations may become unanchored. To ward off these developments, the FOMC will need to commence a steady tightening of monetary policy that begins some time in the second half of 2011.

Respondent 7:

Household spending remains constrained by very slow growth in employment and wages but the process of

household deleveraging appears to be proceeding and, over time, I expect the drag on consumer spending from the negative wealth effect to abate. Consumer spending has shown some unanticipated strength in recent months and there are signs that the saving rate is stabilizing. Investment spending also seems to be gaining some momentum. Spending is being supported by The recently passed fiscal package will also boost growth somewhat in 2011. Although the package is temporary, and there will be payback in 2012, I anticipate that private spending will be robust enough for the recovery to continue. Although I project that the economy will grow at an above-trend pace over the forecast horizon, I anticipate that unemployment will decline only gradually. A sizeable margin of labor market slack, coupled with stable inflation expectations, will keep wage growth and core inflation in check over the entire forecast horizon. I see both upside and downside risks to the forecast for growth and inflation. On the downside, I am particularly concerned about the potential for further declines in home prices to undermine consumer confidence and spending and to negatively impact financial institutions and credit availability. Fiscal austerity in advanced nations may also undermine growth. The potential for sovereign debt restructurings in Europe also poses risks to financial markets and institutions. On the upside, recent surprises in consumer spending suggest that the recovery may have more momentum than I had anticipated. With respect to inflation, recent large increases in food and energy prices create some upside risk to my inflation forecast.

Respondent 8:

I believe the recovery is firmly in place, and will be led by consumer spending and business investment. GDP growth is likely to be above trend. Residential investment is likely to contribute little to growth in overall activity. The stock of federal debt will grow much more rapidly than GDP under current legislation, leading to uncertainty on the nature and timing of policy actions that will put the stock of debt on a more sustainable path. That uncertainty could make firms and households more cautious in their spending plans.

Respondent 9:

The recovery is proceeding at a moderate pace.

The prevailing headwinds continue to work against the recovery, restraining consumer spending and business investment from their cyclical norms. Excess inventory of residential real estate is weighing on housing prices and the net worth of households. I expect the rate of personal savings to remain elevated as households continue to repair their balance sheets. Uncertainty is working against the growth of business fixed investment and employment, and firms continue to streamline their channels of distribution to keep inventory positions lean.

Commodity price pressures are still being absorbed at various stages along the production pipeline, and inflation expectations remain relatively well anchored. Nevertheless, it is likely that conventional measures of economic slack are missing important changes in the labor market that have created a mismatch between labor supply and demand in some sectors.

Respondent 10:

The economic recovery is gathering notable momentum, although labor markets are improving only gradually. Monetary stimulus and improvements in banking and financial market conditions provide key drivers for economic expansion over the next few years, as fiscal stimulus wanes. Still, it will take several years of robust growth to return the economy to full employment. In the meantime, significant slack in labor and goods markets will keep inflation low, but well-anchored inflation expectations should help avoid significant further disinflation.

Respondent 11:

Overall, the economy continues to expand at a moderate pace. In light of the major re-balancing still underway, the current transition from a stimulus-supported recovery to a self-sustaining recovery driven by consumer and business spending is encouraging. Consumer spending appears to have increased at a solid

pace in the fourth quarter. Based on solid consumer demand, businesses are expanding investment in equipment and software, providing further impetus to GDP growth.

Under these economic conditions, I expect core consumer price inflation to remain low in the near term but to eventually move higher. Disinflationary pressure from the sharp recession will eventually dissipate and be dominated by the influences of rising commodity and producer prices, a depreciating dollar, and long-run inflation expectations that are anchored at more than 2 percent.

The risks surrounding the outlook for growth remain considerable and I now see the risks as tilted toward the upside. Fiscal policy, uncertainty about regulatory policies, and problems in real estate continue to pose downside risks to GDP growth. However, the resiliency of the U.S. economy and traditional business cycle dynamics—the tendency of strong recoveries to follow severe recessions—pose larger upside risks.

As for inflation, in the near term, the severe recession and recent consumer price trends pose some small downside risks to core inflation. Based in part on trends in commodity and producer prices, I see little or no risk of deflation. Longer term, the expansion of our balance sheet and federal borrowing needs create a risk to the stability of long-term inflation expectations and, in turn, inflation. In addition, there is a risk that monetary policy will remain too accommodative for too long, creating further upside risks to inflation. On balance, I see inflation risks as weighted toward the upside.

Respondent 12:

Although the economy appears to have entered 2011 with a bit more momentum, that momentum appears right now to be tepid and not yet robust. That part of the momentum that is stronger appears related entirely to business investment in equipment and software, and increases in industrial production. Appearing positive but not yet definitively propelling are improvements in auto sales and net exports which have moved demand, although net exports seem to be driven primarily by a drop in imports.

Conditions in the labor market have improved only modestly.

The housing market shows no signs of emerging from the significant overhang of real estate that is in foreclosure or entering the foreclosure process. The day of reckoning in which institutions that service loans address their significant loan servicing process and system failures seems to have not yet occurred, meaning that the process by which home sales are cleared in the market will remain fitful, and therefore unpredictable. The properties subject to foreclosure that were held back by financial institutions during the “robo-signing” period will most likely come to market, and these surges will enhance the uncertainty of supply resulting in further uncertainty regarding home equity values.

Inflationary expectations have remained anchored, despite the fact that core inflation continues to remain low. This stickiness benefits the recovery by preventing a contraction that would occur were real interest rates to rise. Although core inflation remains low, consumer prices may rise because of increases in energy costs – which will be experienced by households at the pump and in heating over the winter.

Respondent 13:

Broad improvement in economic indicators and sentiment suggests a better-grounded recovery than was apparent as recently as last fall. Commercial real estate debt problems, one of the more prominent headwinds over the last couple of years, appear to be bottoming out, further reducing risks for banking system. Even so, I anticipate that the likely pace of job creation and ongoing problems in the housing market will continue to exert some drag on growth of personal consumption. Housing problems may offset some of the good news for banking sector.

Major risk continues to be a Eurozone shock. My projections assume no major shock, but the realization of the non-trivial possibility that one occurs could significantly and adversely affect growth prospects.

Respondent 14:

After a mid-year “soft patch”, the pace of growth of the US economy strengthened over the closing months of 2010 to a greater extent than anticipated in November. Based on available data, we estimate that real GDP grew at a $3\frac{1}{4}\%$ annual rate in 2010H2, one-half percentage point faster than over the first half of the year. The upside surprise to growth was heavily concentrated in consumer spending, with real PCE estimated to have increased at a $3\frac{1}{4}\%$ annual rate over 2010H2 versus 2% over 2010H1. One contributor to this stronger growth was a notable increase in light-weight vehicle sales in 2010Q4, to 12.3 million units (annual rate) versus an average of just 11.2 million units over the first half of the year. Factors behind this rise were some improvement in labor market conditions and an overall improvement in financial conditions, as well as (according to reports) some easing of lending standards for vehicle financing. In addition to the relatively strong pace of consumer spending, export growth remained robust over the second half of 2010. The growth contribution from government increased, in part because the state and local sector has ramped up as stimulus projects finally get underway. In contrast, growth of business fixed investment slowed somewhat relative to the first half of the year. Housing market activity also turned out to be even weaker than expected, with real residential investment declining at a $12\frac{1}{2}\%$ annual rate over the final six months of 2010. Overall, real final sales increased around $3\frac{1}{2}\%$ (annual rate) over the second half versus just 1% over the first half of the year.

Despite the fact that growth surprised to the upside, the improvement in labor market conditions has been grudging. Private nonfarm payroll employment increased an average of around 125,000 per month over the second half, only modestly above the 100,000 per month average of the first half. Moreover, the growth of hours worked over the second half of 2010 was slightly slower than that over the first half, reflecting a marked pick-up in productivity growth. The unemployment rate averaged 9.6% in 2010Q4, about where it was at the beginning of the year. Consistent with this continued large amount of slack in the economy, trend inflation moved lower over the second half of 2010. The core PCE deflator increased around 0.5% (annual rate) in 2010H2 versus 1.1% over 2010H1.

We continue to believe that conditions are now in place for a self-reinforcing recovery generating above-potential growth, a declining unemployment rate, and some firming of core inflation. The stronger growth over the second half of 2010 is certainly consistent with that view. Specifically, we expect growth of real GDP of 4% (Q4/Q4) in both 2011 and 2012, with the unemployment rate approaching 7% by the end of 2012. Moreover, with slack being absorbed, import prices rising, and inflation expectations well anchored, core inflation is expected to begin moving higher over this forecast horizon, reaching around $1\frac{1}{2}\%$ by the end of 2012.

Several factors underlie this projection. First, aided by the second installment of large scale asset purchases announced by the FOMC in early November, overall financial conditions have improved in recent months. The S&P500 is up about 22% since late August. Moreover, as measured by the Senior Loan Officer Survey, bank lending standards have begun to ease modestly and C&I loans on bank balance sheets finally have started to increase. Second, the household deleveraging process appears to be quite far along. Based on historical relationships, the current level of the personal saving rate appears to be about where it should be given the level of household net worth. Indeed, according to the Flow of Funds data for 2010Q3, the rate of decline of household liabilities has begun to slow while more recent data indicate that non revolving consumer debt (excluding mortgages) has begun to expand. Third, while currently quite low, housing market activity is likely to begin to pick up as the labor market improves and housing affordability remains high. Fourth, continued favorable growth prospects among our major trading partners along with a lower exchange value of the dollar are expected to produce sustained strong export growth. Fifth, improving domestic and foreign demand is likely to induce stronger growth of business investment. Sixth, with incomes rising, tax revenues of state and local governments have begun to recover, which should help put that sector in a more solid fiscal position. Lastly, the passage of the fiscal agreement enhances growth prospects for 2011. In particular, the 2 percentage point reduction of the employee’s share of the OASDI payroll tax is likely to boost consumer spending and the immediate expensing of business investment probably will raise investment in equipment

and software.

The underlying economic fundamentals are expected to continue to improve in 2012, with a more firmly established recovery of the housing sector and modest growth of business investment of nonresidential structures. However, the federal fiscal impulse will turn negative as the payroll tax rate and depreciation rates return to previous levels. Thus, growth of real GDP in 2012 is likely to be about the same as in 2011.

The balance of risks to our real activity projection remains skewed to the downside but less so than in November. Housing market activity generally remains weak and there is evidence of renewed downward pressure on home prices. If sustained, a negative wealth effect through this channel could induce households to boost their desired saving, resulting in a lower trajectory for consumer spending. Another downside risk is that growth prospects among major trading partners in Europe turn out to be weaker than expected as the full force of fiscal contraction begins to be felt.

An important risk over the medium term remains our assumption regarding the economy's potential growth rate. While labor productivity growth is running close to the rate underlying our modal projection, we have not acquired any increased confidence in our long-run assumption on productivity growth. Given the low level of overall business investment and the possible misallocation of labor and capital, the economy's potential growth rate may have slowed significantly. Nonetheless, our analysis of recent labor market developments continues to suggest a decline in the share of unemployment related to mismatch between job seekers and job openings.

The risks around the central scenario for inflation are also slightly skewed to the downside. The downside risks to the growth projection combined with the possibility of no meaningful decline in potential implies downside inflation risks. Nevertheless, with the aggressive monetary policy response, higher commodity prices, and the possibility of a stronger-than-expected rebound, there remains a risk of higher inflation than our modal projection.

The heightened uncertainty associated with the shape of recoveries from periods of banking and financial crisis, the uncertainty associated with the synchronization of global policy actions, and the lingering uncertainties associated with the peripheral European debt crisis result in greater uncertainty around our central projection compared to typical levels over the last twenty years. In particular, we still have retained significant tail risks in our forecast risk assessment, in part reflecting the possibilities that the European debt crisis (where developments have frequently surprised us through the past year) could have a much more severe impact on the global economy, as well as that public confidence in monetary and fiscal policy actions deteriorates significantly, leading to unmoored inflation expectations and prompting an unexpectedly severe tightening of policy on both fronts.

Respondent 15:

In 2011 through 2013 I anticipate that real growth will occur at greater than steady-state rates, reflecting normal cyclical patterns reinforced by a modest ongoing impact of the fiscal stimulus package, and the substantial monetary stimulus that has been in train since late 2008. I expect that beginning in 2013 real growth will slow and subsequently approach steady-state rates. I expect that core PCE inflation over all of 2011 to be somewhat higher than that of 2010 and increases in food and energy prices to drive headline inflation somewhat above the core rate for 2011. Subsequently, under appropriate monetary policy, inflation should approach my preferred long-run rate of 1.5 percent, though I believe that it will rise above that rate in an interim period. I do not believe that future energy shocks can be forecasted, so with available information I expect that the core and headline inflation will be roughly equal in the out years of the projection period.

Respondent 16:

Macroeconomic policies have improved somewhat in the last quarter. This has caused a mark-up of GDP

and employment forecasts. Policies, however, are still far less supportive of long-term growth than optimal.

Respondent 17:

The economy is entering 2011 with significantly improved upward momentum. It is tempting to extrapolate this momentum forward over the entire year and into 2012. Once upon a time it was certainly the case that economic recoveries were characterized by a powerful “virtuous cycle” in which pent-up demand for consumer durables and housing would trigger strong business investment and hiring that would feed back to encourage additional growth in consumer demand etc., etc. That’s still a plausible scenario, but there are several mitigating factors, among them:

- Given past overbuilding and the consequent low price of existing homes relative to new homes, residential construction isn’t going to rebound robustly anytime soon.
- Households have revised sharply downward their estimates of their long-run income prospects, which will mute the rebound in consumer demand.

People fear cuts in benefits and increases in taxes and tax rates.

People have seen what they had thought was real wealth evaporate.

- The political reality is that government purchases are much more likely to be a drag on growth than a contributor to growth.
- The goods-producing sector has become much less cyclically sensitive as it has become more globalized. There is a much greater “leakage” of employment, CAPEX, and demand across international borders.

On this last point, although the contribution of net exports to GDP growth is just as volatile as ever, the correlation between net-exports growth and GDP growth has become much more negative over the years. That is to say, the dampening effect of net exports on the U.S. business cycle is much stronger these days. (Specifically, the 1955-1983 correlation coefficient is -0.25. The 1984-2010 correlation coefficient is -0.64.) And this dampening was especially evident in the recent recession and recovery: net exports provided an unusually large boost to growth during the recession, and were responsible for an unusually large drag on growth during the first year of recovery.

Respondent 18:

Incoming data suggest that the recovery is somewhat firmer than previously anticipated. While some of the strength in consumer spending seen in late 2010 was transitory, we expect private demand to accelerate over the course of this year and next. Real interest rates remain supportive of growth, their recent increase notwithstanding. The release of pent-up demand for spending and investment accelerator effects also contribute to growth over the forecast horizon. In addition, firms are expected to step up hiring not just to meet increasing demand, but also to catch up with the hiring that was postponed in the early stages of the recovery. In all, these factors should contribute to demand growing about $1\frac{1}{4}$ percentage point above potential this year. A more vigorous pace of growth is expected in 2012, despite the waning impact from the fiscal stimulus, as residential investment and investment in structures contribute more significantly to growth.

Risks to the real outlook are becoming more balanced. The potential downside, however, remains much more costly than the potential upside, as significant inflationary pressures are unlikely to materialize any time soon. Even a relatively small negative shock to the baseline outlook would move GDP growth closer to potential, thus yielding little or no improvement in the unemployment rate. In this regard, the housing sector continues to be a significant downside risk to the outlook. The recent declines in housing prices and the high vacancy rates do not bode well for the sector. Moreover, there is evidence suggesting that residential

investment has an effect on GDP that is far greater than its small nominal share. This linkage between housing and other sectors could well imply slower growth than the baseline outlook. Risks from a sovereign debt crisis in Europe, too, contribute to the uncertainty of the forecast.

The expected pace of GDP growth over the course of this year and next implies that the unemployment rate is still above $7\frac{1}{2}$ percent by the end of 2012. Given the projected sizable slack in labor markets over the forecast horizon, the rate of core inflation is projected to remain well below target. Recent inflation data continue to indicate that the possibility of deflation over the forecast horizon is more than a tail event.

Forecast Narratives (continued)

4(c). Please describe any important differences between your current economic forecast and the Tealbook.

Respondent 1:

We think GDP growth over the nearer-term will be somewhat stronger than the Tealbook. This reflects a different reading on current cyclical momentum, and not a fundamental disagreement over the forecast rationale; indeed, our projection for average growth over the next three years is very close to the Tealbook's. We are projecting a somewhat lower unemployment rate, however, in part reflecting some differences in our accounting for factors such as extended UI and labor market mismatch.

Respondent 2:

My forecast calls for a return to above trend GDP growth, but at rates below those in the Tealbook, particularly in 2012 and 2013. The difference, in large part, is due to the impediments to growth posed by ongoing structural adjustments that I mention in part 4(a). Consequently, my unemployment rate forecast is slightly higher than the Tealbook's. My forecast for core inflation is similar to the Tealbook in the near term, though converges more quickly toward the mandate-consistent range by the end of 2013.

Respondent 3:

Similar to Tealbook but slightly more pessimistic about near-term growth prospects. Perhaps putting a little weight on the more pessimistic forecasts of Blue Chip and other outsiders.

Respondent 4:

N/A

Respondent 5:

I see inflation picking up faster than does the Tealbook.

Respondent 6:

My inflation forecast is less influenced by the degree of resource utilization in the economy and so I project a higher pace of inflation over 2011-2013 than does the Tealbook. Given the strength of economic growth in my baseline forecast and the higher inflation path, the policy path is less accommodative over the forecast horizon.

Respondent 7:

My views are largely in line with Tealbook

Respondent 8:

Under an appropriate monetary policy, well-anchored inflation expectations would lead to an inflation path that is higher than the Tealbook's path.

Respondent 9:

Growth in 2011 is expected to be slightly under the Tealbook assumption, owing to a generally more modest rise in consumer spending and business fixed investment. I expect this subdued growth path to continue into 2012. However, I have assumed a lower level of potential output, resulting in an inflation path that is more responsive to growth over the near-term.

Respondent 10:

My forecast is broadly similar to the Tealbook projection.

Respondent 11:

The key difference is the monetary policy path, which leads to some differences in the economic outlook.

In my view, appropriate policy should follow a path considerably different than in Tealbook, to foster the longer-run stability of the economy. My preferred path of policy yields modestly slower GDP growth in 2012. Nonetheless, core inflation is slightly higher in my forecast than in Tealbook, because I expect inflation to move toward long-term inflation expectations faster than it does in Tealbook. This difference in forecasts can be traced to differences in our views of the relative importance of inflation expectations (importantly affected by monetary policy) and economic slack for forecasting inflation.

Respondent 12:

My forecast is broadly similar to the Tealbook projection. However, I continue to be troubled by the uncertainty regarding mortgage documentation and related servicing problems which are creating an erratic pace of sales of foreclosed properties. In addition, home foreclosure rates will likely be higher this year as financial institutions represent that they have fixed their internal servicing problems and restart foreclosures for thousands of properties. In addition to the elevated volume of home foreclosures, elevated inventories of unsold homes, and high office and commercial vacancy rates create a large supply and exert downward pressure on home equity values. In addition, the quality of these homes has deteriorated, resulting in more downward pressure on prices through reduced demand. All of these possibilities could lead to further house price declines, resulting in the discouragement of potential home buyers and depressed housing starts. t.

I also am not certain that the reserving that banks have done in response to foreclosure related investigations and litigation is adequate for future losses. If concerns are renewed about the adequacy of banking sector capital, there could be further damage to the confidence of firms and households, leading to delays of purchases in business capital and consume durables. If severe deficiencies in reserves were to materialize credit availability could again contract dramatically. While perhaps this is a low probability event, it is not one that I believe has been modeled and scoped in the Tealbook forecasts.

Respondent 13:

I am not quite as optimistic about equity prices or trade balance over the next couple of years. I continue to be less confident in the projected path of energy prices

Respondent 14:

We assume lower inflation persistence than does the Tealbook. Therefore, under the assumption of well anchored inflation expectations, we project that inflation returns to within the “mandate consistent” range in 2012-3, whereas it remains below that range in the Tealbook.

Respondent 15:

Compared to the 70% confidence intervals for the Tealbook forecasts, the differences between the point estimates in the Tealbook baseline forecast and my projections are not different in any meaningful statistical sense. However I see higher inflation in the intermediate period before returning to the rate that I believe is consistent with appropriate monetary policy. In contrast the Tealbook forecast sees an “extended period” of very low inflation.

Respondent 16:

Continue to expect materially less benefit from the real economy from continued Fed balance sheet expansion.

Respondent 17:

The Tealbook baseline core inflation forecast for the next several years is not far different from that which I would expect to see under appropriate policy, and the Tealbook forecast for the unemployment rate also is reasonable. However, I believe that the Tealbook continues to underestimate the incentive for businesses to meet new demand by expanding operations overseas rather than domestically—an effect that will hold down actual and potential GDP growth, somewhat, relative to what has been assumed in the baseline forecast.

Respondent 18:

The forecast for real activity is very similar to the Tealbook forecast. Core inflation, however, is projected to be lower than in the Tealbook. We model inflation as depending, among other factors, on near-term inflation expectations. In our outlook, these near-term inflation expectations are drifting down, thus lowering inflation. In the Tealbook, instead, inflation is more dependent on long-run inflation expectations, which the Tealbook expects to remain well anchored.

Forecast Narratives (continued)

4(d). Please describe the key factors causing your forecast to change since the previous quarter's projections.

Respondent 1:

Our forecast for growth in 2011 is 3/4 percentage point higher than our projection in November. This revision reflects the stronger incoming data on real activity we have received over the past several months as well as added fiscal impetus due to the tax package passed in December. Our forecasts for growth in 2012 and 2013 have changed little. Our projection of the unemployment rate has revised down to reflect some unexpected decline in 2010, the stronger growth outlook, and some reassessment of the influence of various supply-side factors on the path for the rate. Our inflation forecasts is little changed.

Respondent 2:

I have marked up my prospects for near-term growth relative to my November forecast, largely because of the unexpected strength in the incoming data. I also edged down my near-term unemployment rate path, due, in part, to the surprise 0.4 percentage point drop in the December unemployment rate and stronger near-term growth prospects. Finally, signs of some recent firming in both underlying inflation trends and inflation expectations led me to nudge up my core inflation projection.

Respondent 3:

Somewhat stronger than expected data on consumer spending and the labor market suggest that the second "stage" of the recovery, led by private final domestic demand, is under way and broadening. Financial conditions have improved fairly significantly, reflecting both increased optimism in markets and recent monetary policy actions.

Respondent 4:

N/A

Respondent 5:

There has been a pick-up in commodity prices and that has led me to revise upward my forecast for core inflation. There have been a host of good news regarding economic activity that has led me to revise upward my forecast for 2011 GDP growth.

Respondent 6:

NA

Respondent 7:

My forecasts are little changed from those in November. Recent data suggesting stronger consumer and investment spending have slightly diminished my assessment of downside risks to the economy. I now see the risks around my forecast for growth as balanced, as opposed to weighted to the downside.

Respondent 8:

The data flow has strengthened since the last projection. For example, retail sales and the ISM indexes for the manufacturing and nonmanufacturing sectors have improved notably. Employment growth in the fourth quarter was consistent with output growth. Energy and other commodity prices have moved higher, boosting near-term overall inflation; in addition, the price for housing services will be less of a drag on core inflation.

Respondent 9:

My forecast for real activity has been revised slightly high in response to incoming data that suggest a modestly stronger spending pace going forward.

Respondent 10:

Since early November, the data on economic activity have been better overall than we had expected and the pace of economic recovery has picked up considerably. We have therefore raised our forecast of real GDP growth in the first half of 2011 by about 3/4 percentage point (annual rate). Consistent with the more optimistic outlook for output, we have lowered our forecast for the unemployment rate somewhat. Headline inflation data in the second half of 2010 came in lower than we had expected; however, headline inflation in the first half of 2011 has been revised up given the recent jump in oil prices. Our forecast for core inflation in 2011 is little changed as the very low recent core inflation news has been offset going forward by slightly less slack and a small pass-through from higher commodity prices.

Respondent 11:

The primary sources contributing to changes in my forecast were the modestly stronger pace of consumer demand in the second half of 2010 combined with the additional stimulus of the payroll tax cut in the Tax Relief Act passed in December. These two factors will provide greater momentum for growth in 2011, but the temporary nature of the payroll tax cut will lead to a slight pullback in growth in 2012. Based on the stronger growth in 2011, there is a modest improvement in the unemployment rate relative to the last projection.

Respondent 12:

My prior forecast noted that reductions in employment, income and wealth had left many households with a need to repair their severely distressed balance sheets. I do not believe that consumer confidence has returned yet to the levels that would be necessary for a sustainable recovery. My prior forecast also noted continued uncertainty regarding the mortgage documentation problems which act as a continuing drag on the resurgence of the housing market. I believe these problems have not yet been resolved. I think they are in fact somewhat enhanced by the fact of an adverse ruling by the Massachusetts Supreme Court regarding mortgage assignments in blank and the possibility of the need to reserve for increased litigation costs.

Respondent 13:

Broad-based firming of economic data and market perceptions of reduced tail risks

Respondent 14:

The fiscal agreement enacted at the end of 2010 provides more stimulus in 2011 than previously expected, offsetting a lower projected path of housing starts. However, in 2012 that stimulus is removed, resulting in a somewhat lower growth rate than previously expected.

The strength in consumer spending at the end of the year led us to reduce the downside risks to our forecast and increased the likelihood of a faster rebound than in our central scenario.

Respondent 15:

My forecasts for real growth and unemployment are essentially unchanged from my previous quarter's projections. The data from recent months suggest stronger growth than in previous consensus forecasts, with the result that those forecasts have been revised upward and are now close to my prior forecast. Since inflation has remained low relative to my previous forecast, I have shifted forward to 2012 from 2011 my forecast of the peak rate of inflation.

Respondent 16:

N/A

Respondent 17:

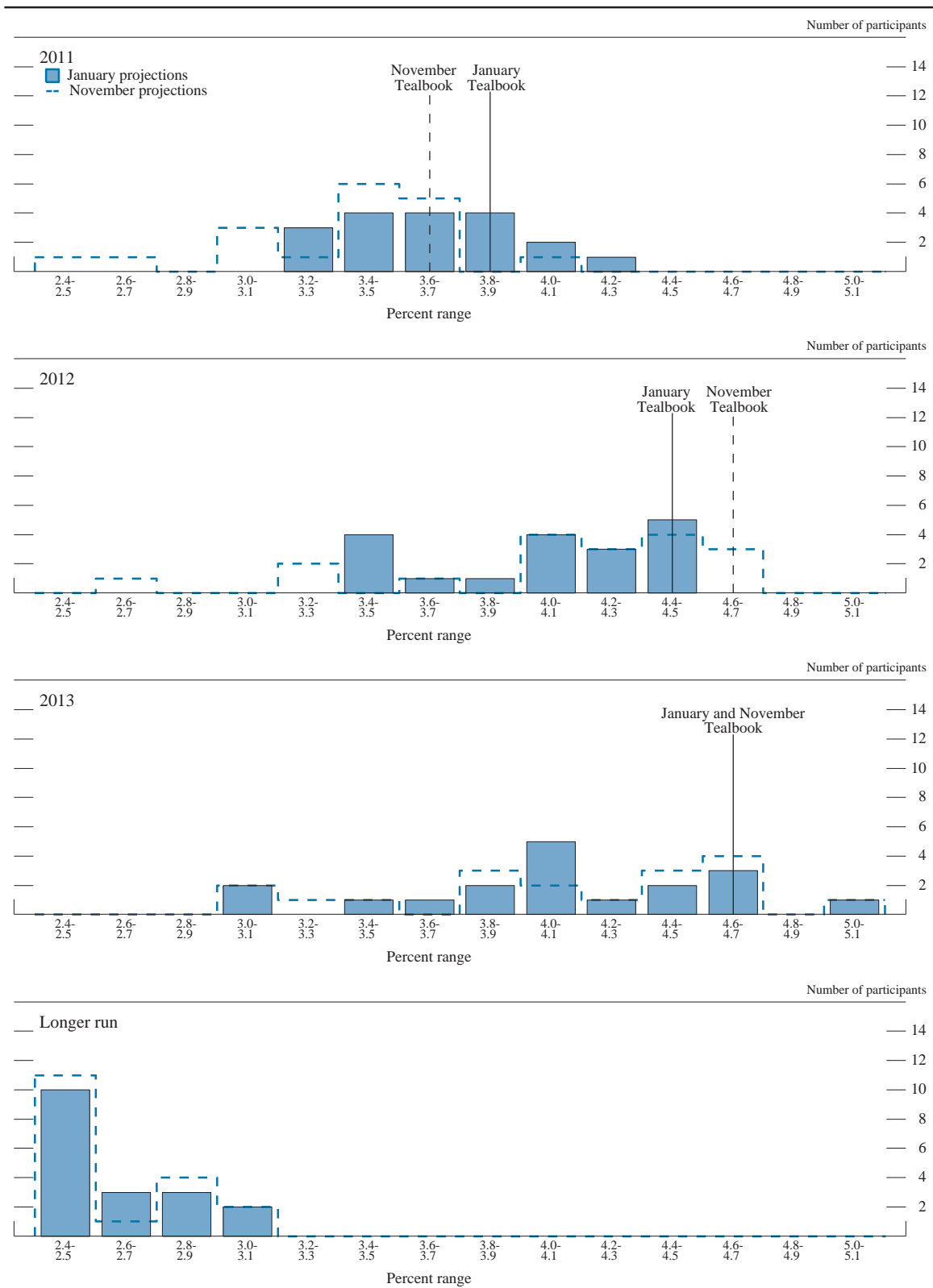
The pick up in economic growth we are experiencing was not unexpected, and I have made only small adjustments to my GDP growth and unemployment-rate forecasts. The recent run up in commodity prices, though also partly anticipated, has caused me to increase my near-term forecast of headline inflation. I remain concerned that stimulus measures will, in practice, be withdrawn too slowly, giving the inflation path

a pronounced upward tilt. Heeding the admonition that our projections be conditioned on what we believe to be appropriate policy, however, I have marked down fairly sharply my 2013 inflation estimate.

Respondent 18:

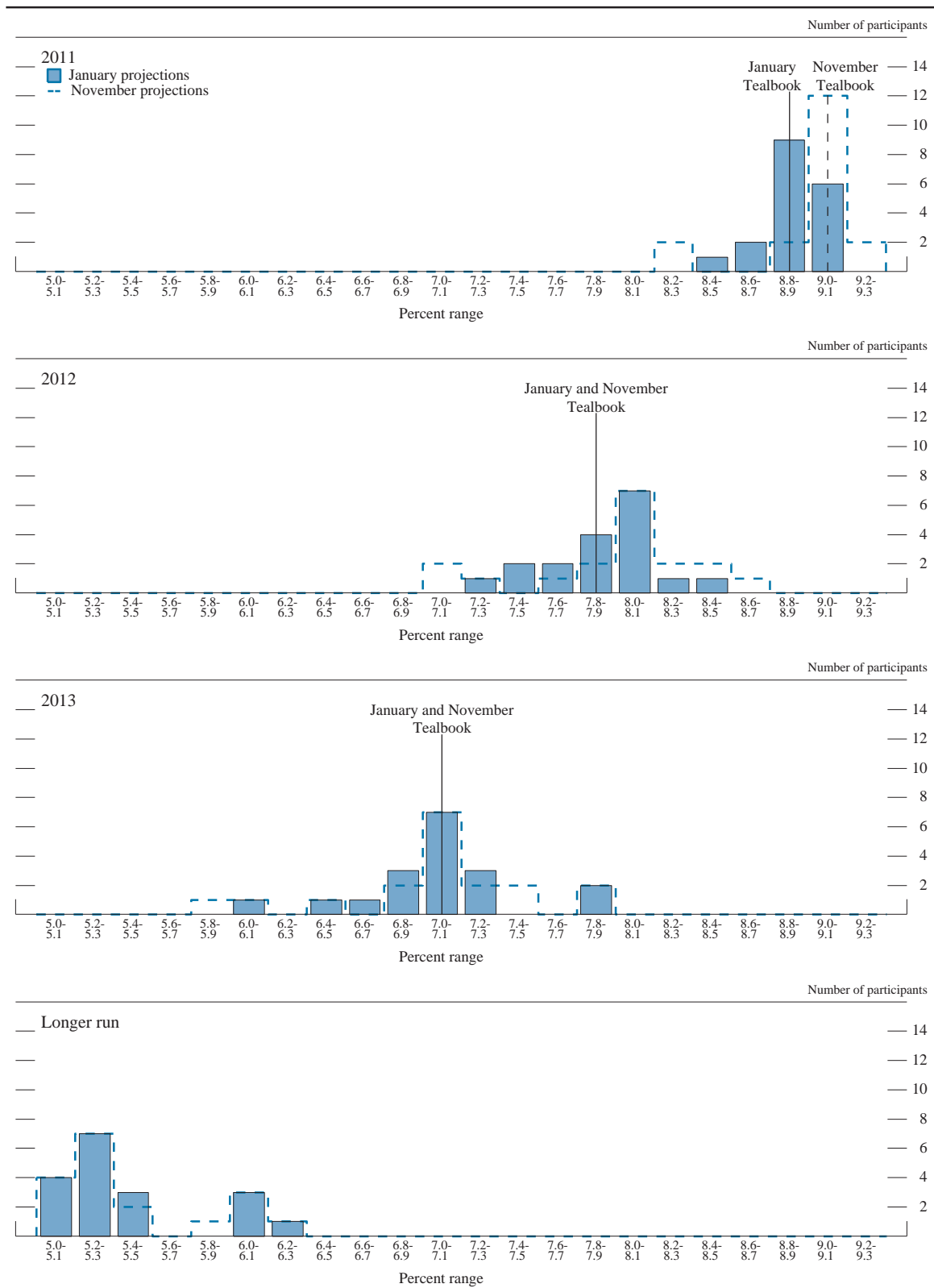
The real outlook and the inflation outlook have not changed materially this year and next. Compared to our previous forecast the economy is showing somewhat more momentum, but this is largely offset by higher long-term interest rates over the forecast horizon.

Figure 2.A. Distribution of participants' projections for the change in real GDP, 2011–13 and over the longer run



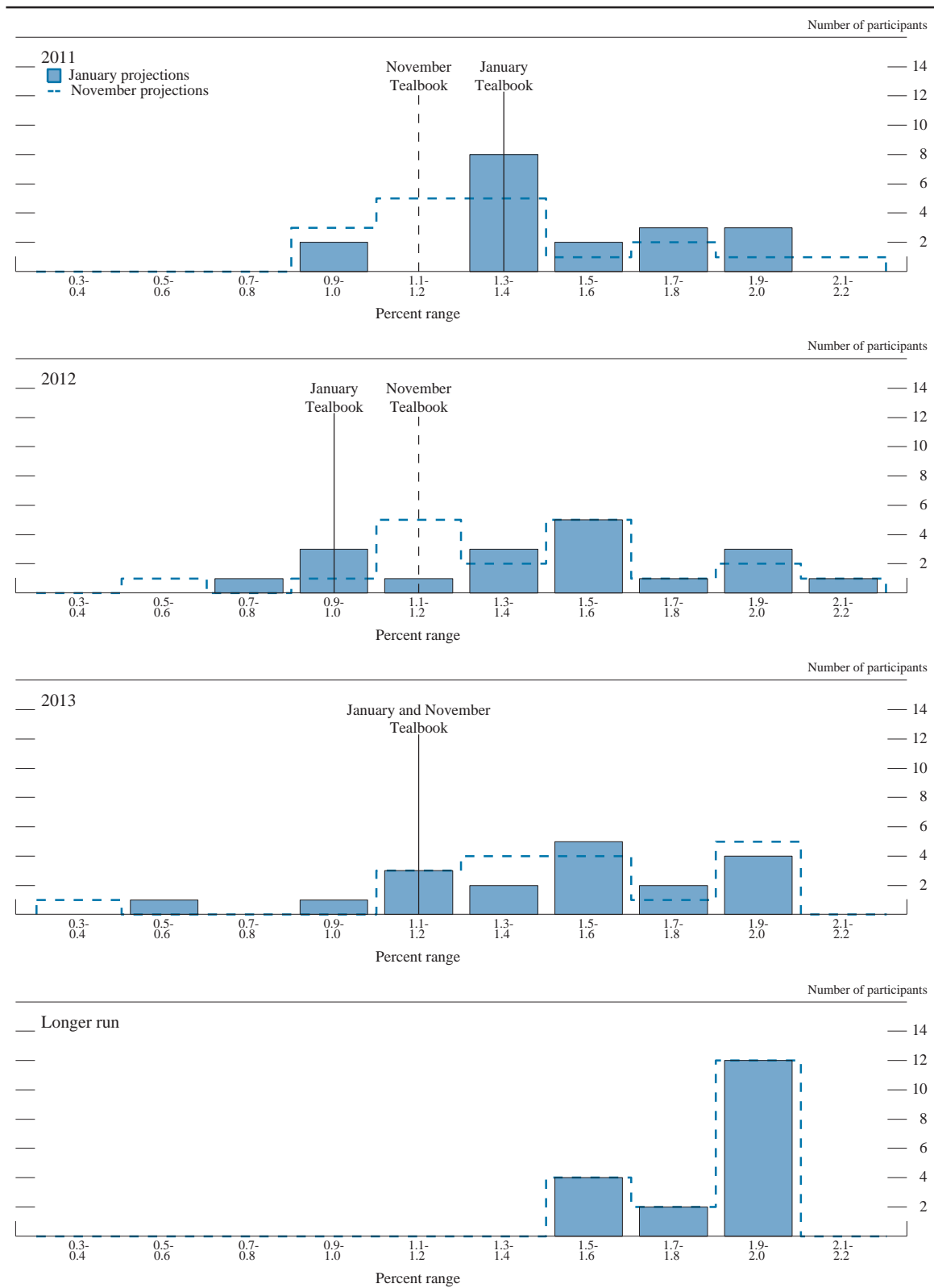
NOTE: Definitions of variables are in the general note to table 1.

Figure 2.B. Distribution of participants' projections for the unemployment rate, 2011–13 and over the longer run



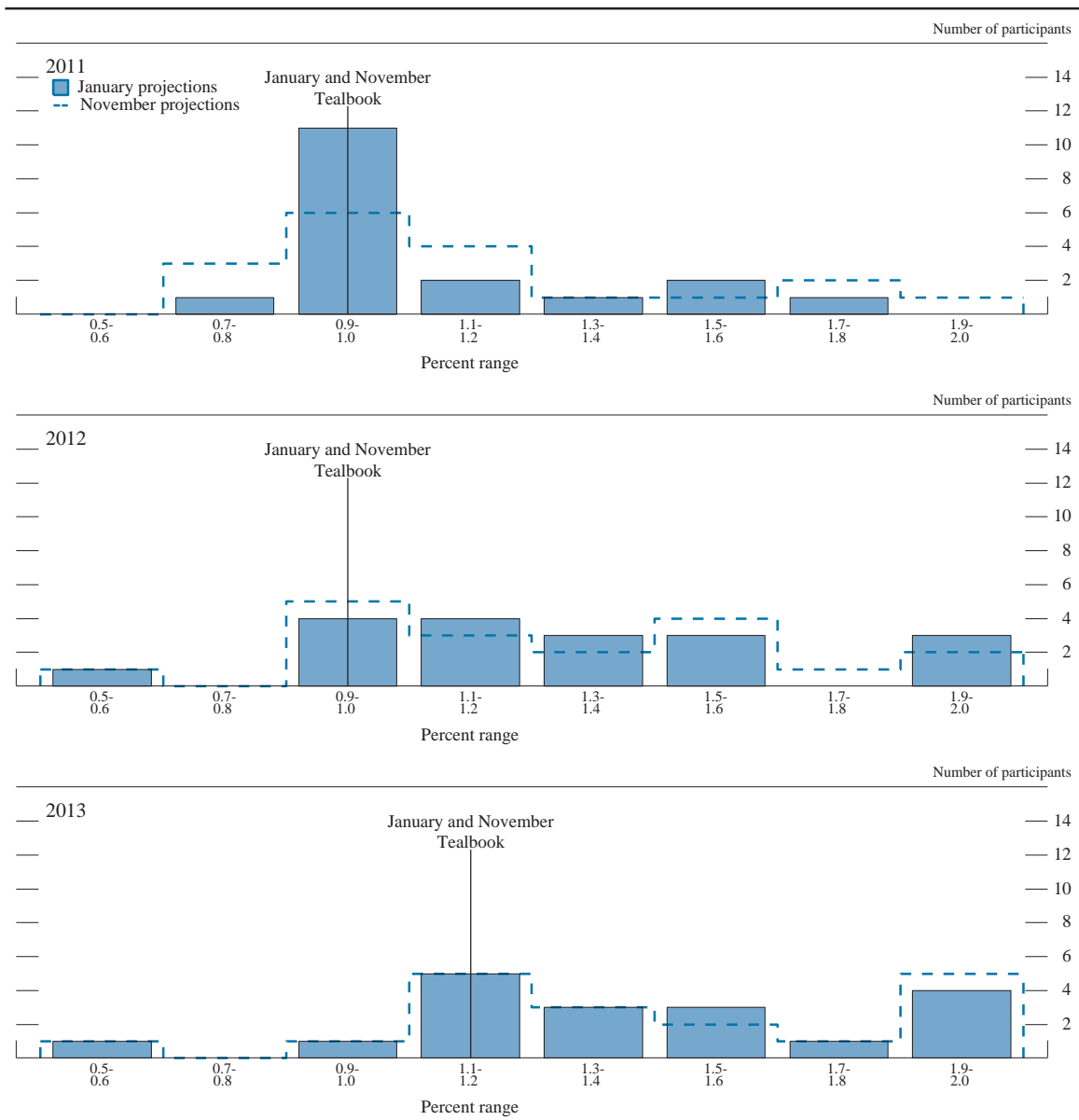
NOTE: Definitions of variables are in the general note to table 1.

Figure 2.C. Distribution of participants' projections for PCE inflation, 2011–13 and over the longer run



NOTE: Definitions of variables are in the general note to table 1.

Figure 2.D. Distribution of participants' projections for core PCE inflation, 2011–13



NOTE: Definitions of variables are in the general note to table 1.