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

Percent

Variable	Central tendency[1]				Range[2]			
	2011	2012	2013	Longer run	2011	2012	2013	Longer run
Change in real GDP	3.1 to 3.3	3.5 to 4.2	3.5 to 4.3	2.5 to 2.8	2.9 to 3.7	2.9 to 4.4	3.0 to 5.0	2.4 to 3.0
January projection	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
Unemployment rate	8.4 to 8.7	7.6 to 7.9	6.8 to 7.2	5.2 to 5.6	8.1 to 8.9	7.1 to 8.4	6.0 to 8.4	5.0 to 6.0
January projection	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
PCE inflation	2.1 to 2.8	1.2 to 2.0	1.4 to 2.0	1.7 to 2.0	2.0 to 3.6	1.0 to 2.8	1.2 to 2.5	1.5 to 2.0
January projection	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
Core PCE inflation[3]	1.3 to 1.6	1.3 to 1.8	1.4 to 2.0		1.1 to 2.0	1.1 to 2.0	1.2 to 2.0	
January projection	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	

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 January projections were made in conjunction with the FOMC meeting on January 25-26, 2011.

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	2.4 to 2.8	2.2 to 3.0
PCE Inflation	3.1 to 3.6	2.8 to 4.1
Core PCE Inflation	1.3 to 1.6	1.2 to 1.7

Participants' Projections

Projection	Change in Real GDP	PCE Inflation	Core PCE Inflation
1	2.3	3.0	1.3
2	2.4	3.3	1.4
3	2.5	3.4	1.4
4	2.5	4.0	1.6
5	2.7	3.2	1.4
6	2.9	3.6	1.4
7	2.5	3.2	1.4
8	2.4	3.3	1.4
9	2.8	3.3	1.7
10	3.0	3.6	1.6
11	2.6	3.4	1.5
12	2.4	3.1	1.2
13	2.2	3.2	1.3
14	2.5	2.8	1.3
15	2.5	3.4	1.7
16	2.6	3.0	1.5
17	2.8	4.1	1.6

* 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 4.6
PCE Inflation	1.1 to 2.0	0.9 to 3.6
Core PCE Inflation	1.2 to 1.8	1.0 to 2.3

Participants' Projections

Projection	Change in Real GDP	PCE Inflation	Core PCE Inflation
1	3.5	1.4	1.5
2	4.0	1.1	1.4
3	3.9	1.4	1.4
4	3.9	2.0	2.0
5	4.3	1.2	1.2
6	3.3	3.6	1.8
7	3.9	1.4	1.2
8	4.0	0.9	1.0
9	3.8	1.9	2.3
10	3.6	2.0	1.4
11	3.4	1.2	1.3
12	4.0	0.9	1.0
13	4.4	1.0	1.3
14	3.5	1.4	1.3
15	4.1	1.6	1.9
16	3.6	1.6	1.7
17	4.6	2.1	1.2

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

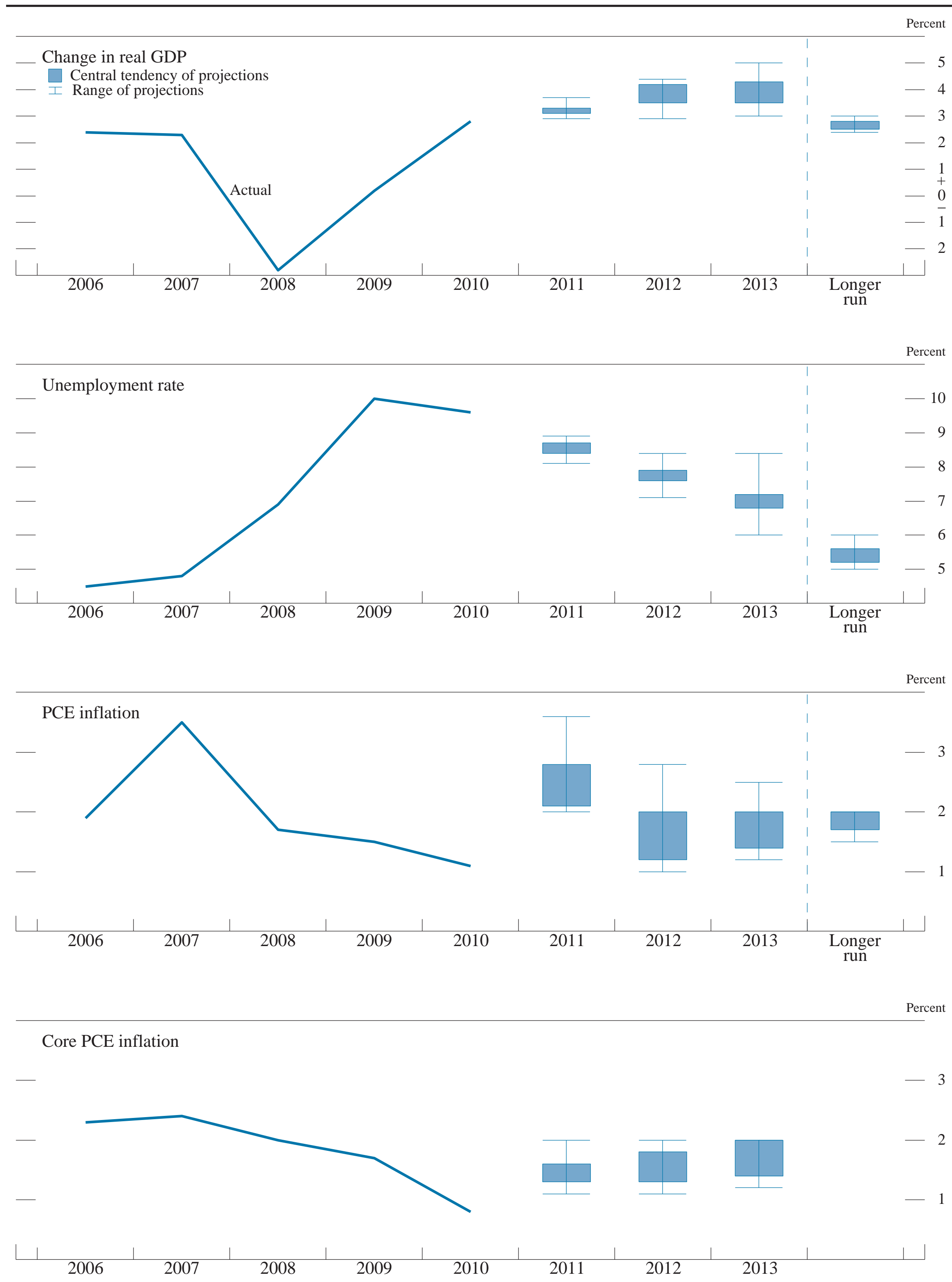
Table 2: April Economic Projections
(in percent)

Projection	Year	Change in Real GDP	Unemployment Rate	PCE Inflation	Core PCE Inflation
1	2011	2.9	8.9	2.2	1.4
2	2011	3.2	8.7	2.2	1.4
3	2011	3.2	8.5	2.4	1.4
4	2011	3.2	8.4	3.0	1.8
5	2011	3.5	8.5	2.2	1.3
6	2011	3.1	8.5	3.6	1.6
7	2011	3.2	8.5	2.3	1.3
8	2011	3.2	8.7	2.1	1.2
9	2011	3.3	8.3	2.6	2.0
10	2011	3.3	8.4	2.8	1.5
11	2011	3.0	8.4	2.3	1.4
12	2011	3.2	8.6	2.0	1.1
13	2011	3.3	8.8	2.1	1.3
14	2011	3.0	8.4	2.1	1.3
15	2011	3.3	8.8	2.5	1.8
16	2011	3.1	8.5	2.3	1.6
17	2011	3.7	8.1	3.1	1.4
1	2012	3.7	7.9	1.5	1.4
2	2012	4.2	7.7	1.2	1.4
3	2012	3.7	7.9	1.5	1.6
4	2012	3.4	7.2	2.2	2.0
5	2012	4.2	7.6	1.3	1.3
6	2012	3.5	7.8	2.8	1.8
7	2012	4.1	7.7	1.2	1.3
8	2012	4.2	7.7	1.2	1.2
9	2012	4.4	7.3	2.0	2.0
10	2012	3.7	7.7	1.7	1.6
11	2012	3.5	7.8	1.5	1.7
12	2012	3.9	7.8	1.0	1.1
13	2012	2.9	8.4	1.3	1.3
14	2012	3.2	7.9	1.6	1.5
15	2012	3.7	8.0	1.5	1.4
16	2012	4.0	7.9	2.0	2.0
17	2012	3.9	7.1	1.6	1.5

Table 2 (continued): April Economic Projections

Projection	Year	Change in Real GDP	Unemployment Rate	PCE Inflation	Core PCE Inflation
1	2013	4.6	7.0	1.2	1.3
2	2013	4.3	7.0	1.5	1.5
3	2013	3.8	7.2	1.7	1.6
4	2013	3.0	6.5	2.0	2.0
5	2013	3.9	7.0	1.5	1.5
6	2013	3.5	7.0	2.5	2.0
7	2013	4.3	6.9	1.4	1.5
8	2013	4.3	7.0	1.4	1.4
9	2013	3.8	6.3	1.5	1.5
10	2013	3.5	7.0	1.7	1.7
11	2013	3.7	6.8	2.0	2.0
12	2013	4.4	7.0	1.2	1.2
13	2013	3.5	8.4	1.3	1.3
14	2013	3.3	7.2	1.8	1.7
15	2013	4.0	7.0	1.5	1.4
16	2013	4.0	7.2	2.0	2.0
17	2013	5.0	6.0	2.0	2.0
1	LR	2.5	5.0	2.0	
2	LR	2.8	5.5	2.0	
3	LR	2.5	5.6	2.0	
4	LR	2.8	5.5	1.7	
5	LR	2.5	5.2	2.0	
6	LR	2.7	5.3	1.5	
7	LR	2.5	5.3	2.0	
8	LR	2.5	5.2	2.0	
9	LR	2.8	6.0	1.5	
10	LR	2.5	5.5	1.8	
11	LR	2.5	5.2	2.0	
12	LR	2.5	5.3	2.0	
13	LR	3.0	5.2	2.0	
14	LR	2.6	5.9	2.0	
15	LR	2.5	6.0	1.5	
16	LR	3.0	5.5	2.0	
17	LR	2.4	5.0	2.0	

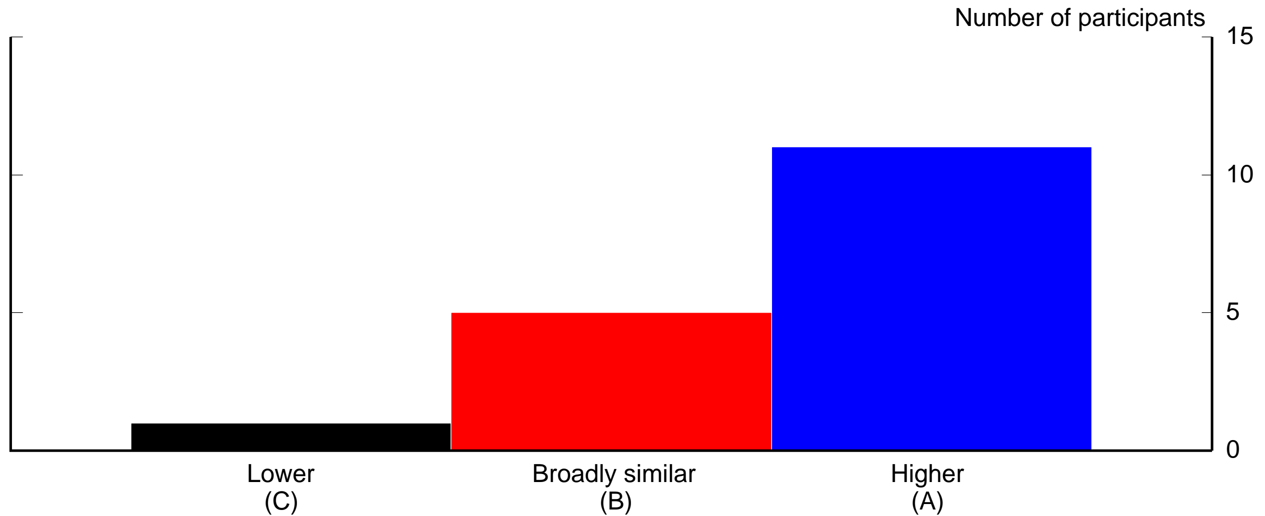
Figure 1. Central tendencies and ranges of economic projections, 2011–13 and over the longer run



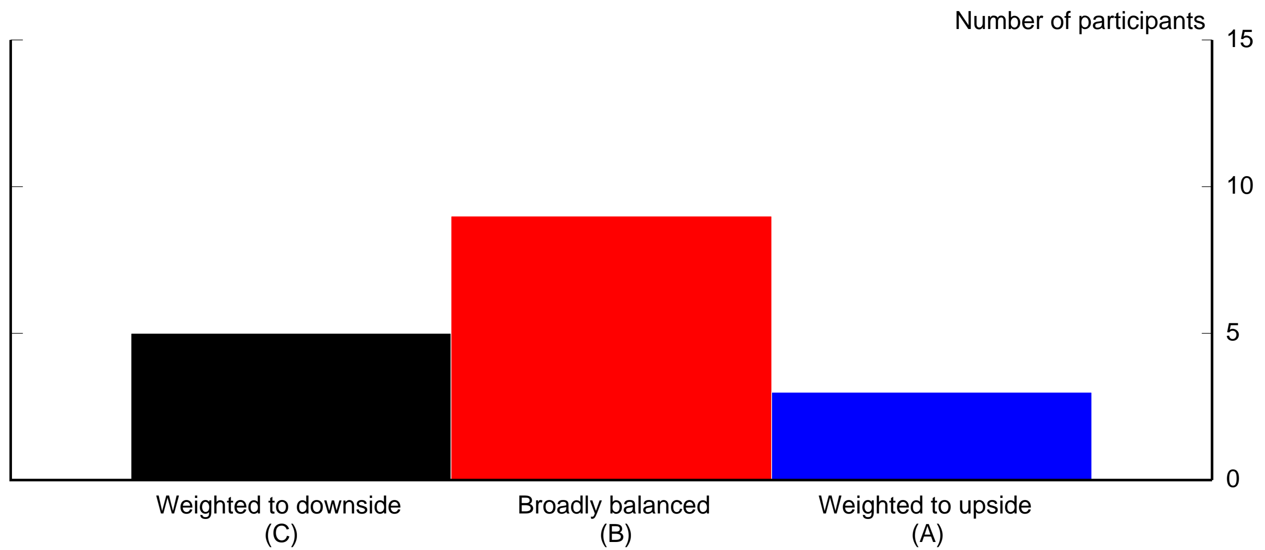
Note: Definitions of variables are in the notes to table 1. The data for the actual values of the variables are annual.

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.

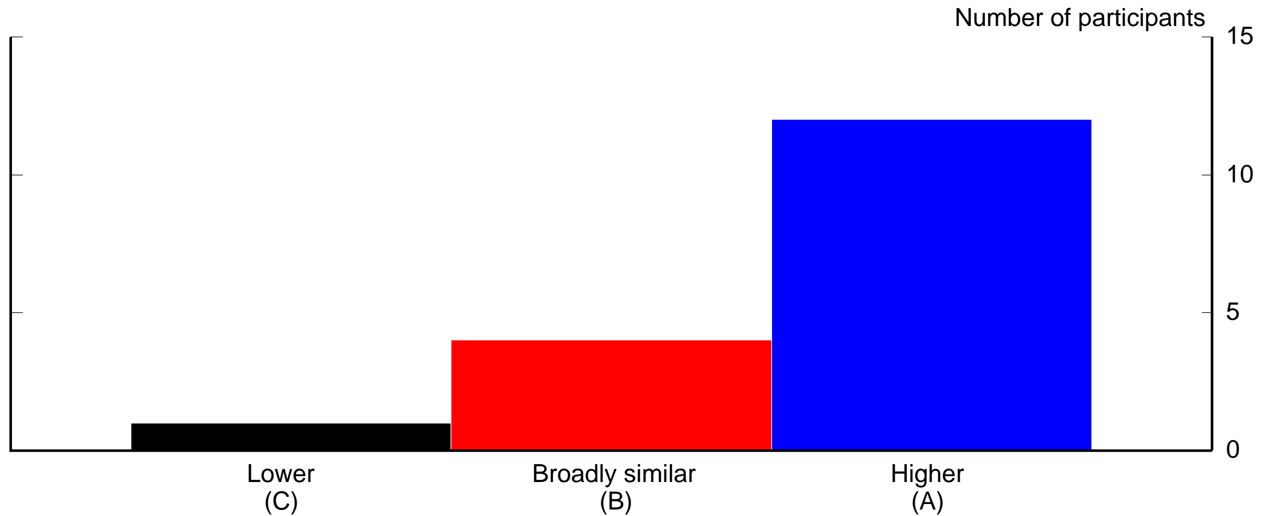


Individual Responses

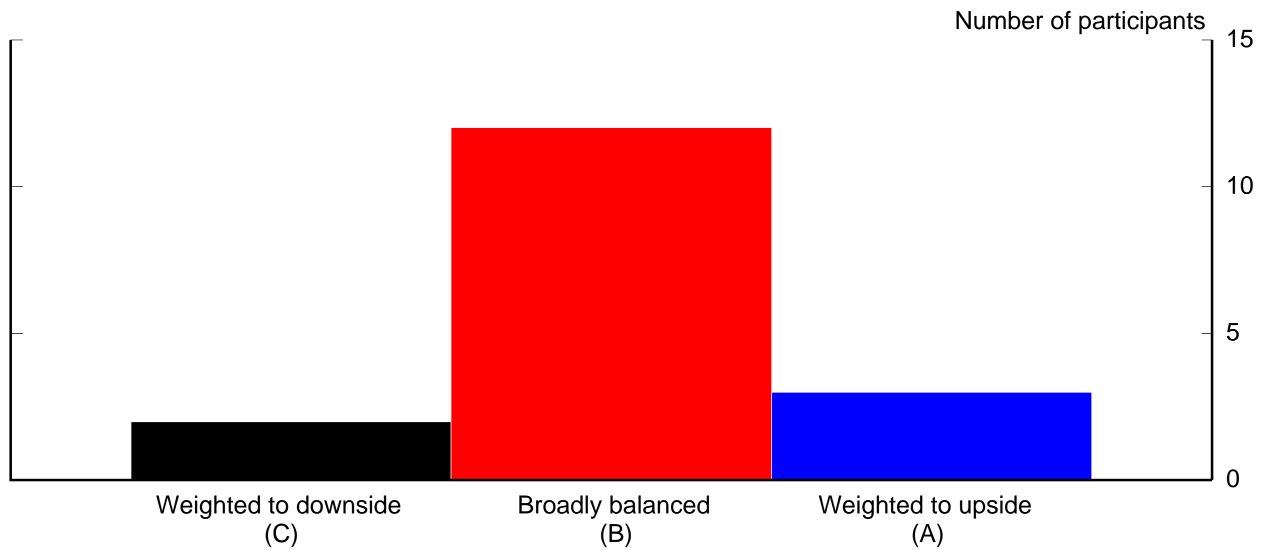
Respondent	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
2(a)	B	A	A	B	B	A	B	A	B	A	A	A	A	A	C	A	A
2(b)	A	C	B	A	B	A	B	B	B	C	C	C	B	B	B	B	C

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.

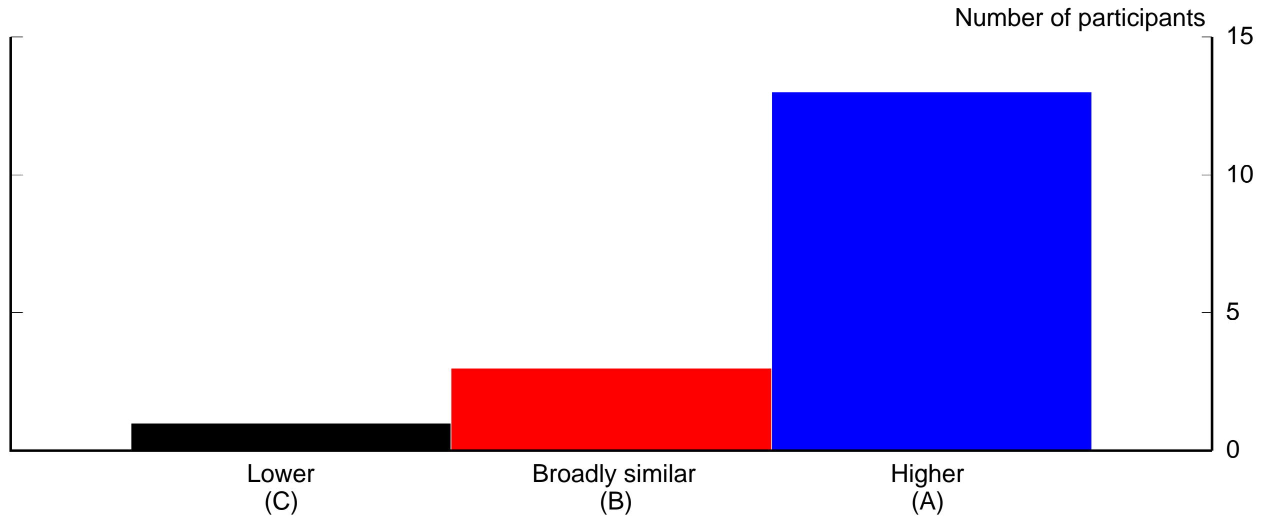


Individual Responses

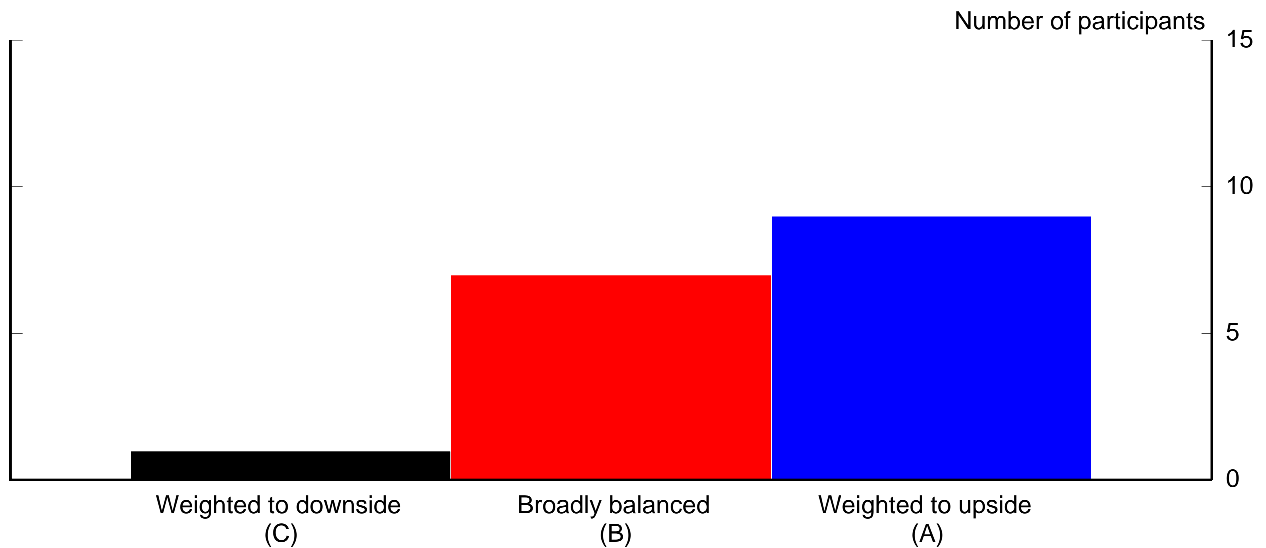
Respondent	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
2(a)	B	A	A	B	A	A	B	A	B	A	A	A	A	A	C	A	A
2(b)	C	B	B	B	B	B	B	B	B	B	A	A	B	B	B	C	A

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.

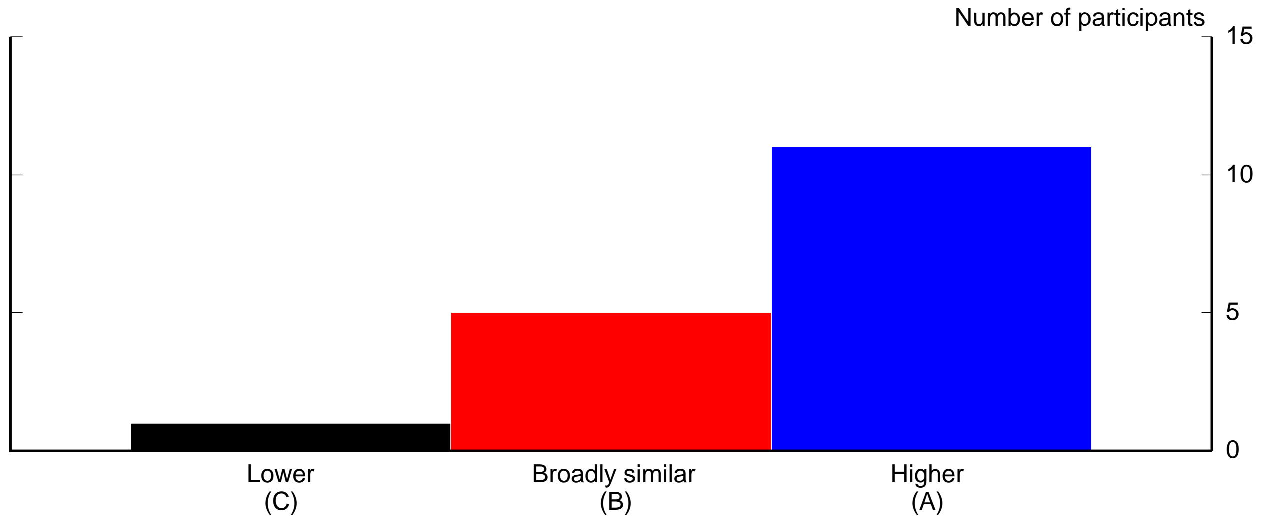


Individual Responses

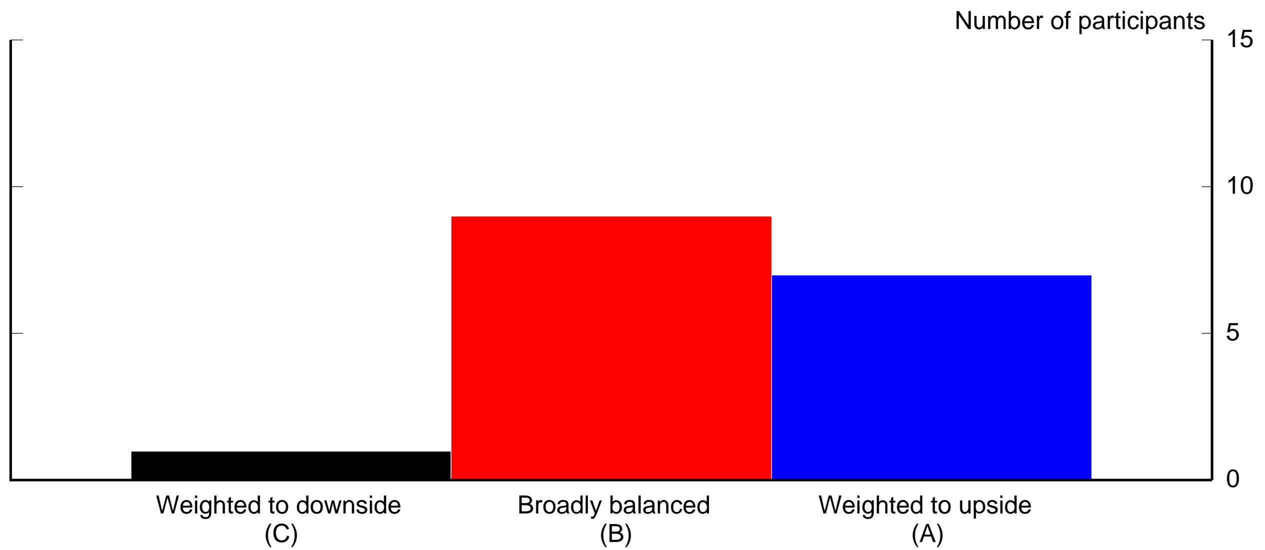
Respondent	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
2(a)	A	A	A	A	B	A	B	A	B	A	A	A	A	A	C	A	A
2(b)	A	A	B	A	B	A	B	B	B	A	A	C	A	A	B	A	B

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
2(a)	B	A	B	A	B	A	B	A	B	A	A	A	A	A	C	A	A
2(b)	B	A	B	A	B	A	B	B	B	A	A	C	A	A	B	B	B

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:
N/A

Respondent 3:
N/A

Respondent 4:
The convergence process may be slightly shorter than 5-6 years.

Respondent 5:
N/A

Respondent 6:
Convergence may well take the full 5-to-6 years. Inflation is likely to overshoot the level I think is consistent with price stability.

Respondent 7:
I expect the convergence process will be similar to that outlined in the long-run projection reported in the Tealbook. In five to six years, unemployment and output gaps close, with PCE price inflation approaching its long-run value of 2 percent soon thereafter.

Respondent 8:
N/A

Respondent 9:
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 10:
In general, I expect the convergence process to take five to six years. However, I am concerned that a delay in the removal of the extraordinary level of monetary policy accommodation could cause long-term inflation expectations to become unanchored and lead to financial imbalances, both of which could eventually destabilize the economy and further prolong the convergence process.

Respondent 11:
N/A

Respondent 12:
Real activity is anticipated to reach maximum employment within a five-year horizon. Inflation, however, is

likely to remain below target.

Respondent 13:
N/A

Respondent 14:
In my baseline projection, the economy converges to the long-run trend by the end of 2016.

Respondent 15:
N/A

Respondent 16:
I remain highly uncertain about the long-term (5 year) outlook for E/P. Will it rise back above 0.6? I do not know.

Respondent 17:
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 trend growth of hours worked as the baby boomers retire. A reasonable estimate for the long-run unemployment rate is 4% to 6%. Assuming appropriate policy and no further significant shocks, we expect 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 and 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.

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:
N/A

Respondent 2:
N/A

Respondent 3:
N/A

Respondent 4:
The incoming data has been somewhat weaker than my January projection. However, I view this recent weakness as temporary. Financial market conditions continue to improve and the economic recovery will continue to gain 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 5:
There is a good deal of uncertainty over both the behavior of individuals exhausting extended unemployment insurance benefits and the speed at which improvements in labor market conditions will draw discouraged workers back into the labor force. Though these work in offsetting directions, they still induce heightened uncertainty to the unemployment rate forecast.

Respondent 6:
N/A

Respondent 7:
This is a close call, but uncertainty appears to be broadly similar to its average over the past 20 years. Importantly, my forecast errors have been relatively small since the recovery began a year and half ago, which is consistent with less, not more, uncertainty.

Respondent 8:
N/A

Respondent 9:
N/A

Respondent 10:
The uncertainty surrounding my projections remains higher than normal. In addition to Tealbook's assessment of the uncertainty, I would add fiscal policy to the list. The unsustainable fiscal policy, and policies that may (or may not) be adopted by Congress or forced by the market, adds considerable uncertainty to the outlook.

Respondent 11:
N/A

Respondent 12:
N/A

Respondent 13:
N/A

Respondent 14:
N/A

Respondent 15:
With the recovery process more firmly in place, uncertainty for projected real GDP and unemployment is below average. Inflation expectations would be more firmly anchored under an appropriate monetary policy, and uncertainty would therefore be lower than the trailing 20-year average.

Respondent 16:
Uncertainty was unusually low in the past 20 years.

Respondent 17:
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.

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:
N/A

Respondent 2:
N/A

Respondent 3:
N/A

Respondent 4:
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 5:
N/A

Respondent 6:
N/A

Respondent 7:
We continue to view the risks to the forecast as broadly balanced. The incoming spending data suggest weaker near-term real activity. But business surveys and labor-market indicators suggest more strength, and financial conditions are more supportive of growth. In terms of inflation, there could be even more pass-through than we expect from food and energy inflation to underlying inflation; but, if commodity prices stabilize or recede, then anemic wage pressures could push unit labor costs down further and may lead to another round of disinflation.

Respondent 8:
N/A

Respondent 9:
N/A

Respondent 10:
High energy and commodity prices, and the prospect of even higher prices to come, adds upside risk to the inflation outlook and downside risk to the near-term economic outlook.

Respondent 11:
N/A

Respondent 12:
N/A

Respondent 13:
N/A

Respondent 14:

N/A

Respondent 15:
N/A

Respondent 16:
In terms of unemployment, I mean to imply that there is a greater risk of its falling faster than I anticipate than slower than I anticipate.

Respondent 17:
Quantitative judgment based on the difference between the projection and the expected value from the FRBNY forecast distribution.

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	NO
9	8

Respondent 1: No
N/A

Respondent 2: No
N/A

Respondent 3: No
Although my expected policy path is broadly similar, with a somewhat weaker recovery offsetting somewhat higher inflation, the possibility remains that higher inflation and inflation expectations could require an earlier exit than suggested by the Tealbook.

Respondent 4: 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 5: Yes
We condition our forecast on market expectations for the funds rate and implied expectations for the 10-year treasury rate. The former assumes a slightly earlier lift-off for the removal of accommodation; the latter have a slightly lower path for the 10-year rate. The differences, however, are small.

Respondent 6: Yes
I am more concerned than the Tealbook that recent and prospective headline inflation will have adverse effects on inflation expectations and impact core inflation. Much will depend on how firmly we communicate our resolve regarding price stability. In any case, my long-term inflation objective is lower than the 2-percent Tealbook rate. Accordingly, I believe it will be necessary to begin removing monetary-policy accommodation earlier than is assumed by Board staff, and to pursue normalization more vigorously.

Respondent 7: No
N/A

Respondent 8: No
N/A

Respondent 9: 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 10: 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 maintain the funds

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

Respondent 11: No
N/A

Respondent 12: Yes
With inflation still well below target in 2012 and a considerable amount of slack, the Federal funds rate's lift off from the zero lower bound occurs somewhat later in the forecast horizon compared to the Tealbook.

Respondent 13: No
N/A

Respondent 14: Yes
My expected date for the first increase of the federal funds rate is one quarter earlier than the Tealbook.

Respondent 15: Yes
I believe that under an appropriate monetary the committee would adopt a numerical inflation objective. In accordance with that objective, the committee would begin to raise its interest rate target considerably sooner than the Tealbook projects.

Respondent 16: Yes
My forecast is that increases in core inflation will be sufficiently rapid that we will need to reduce accommodation more rapidly than the staff anticipates.

Respondent 17: No
N/A

Forecast Narratives

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

Respondent 1:
Economic indicators continue to suggest a reasonably well-grounded recovery, but one that continues to have difficulty picking up sustainable momentum. Commercial and residential real estate market problems continue to prevent realization of the kind of growth rate that might be expected on the other side of the sharp downturn that followed the financial crisis. Job creation prospects are looking more favorable than a few months ago but, again, there is as yet no indication of the kind of rapid growth that would be needed to return the economy to full employment in the next few years.

Major downside risks continue to be largely external – eg, additional oil shocks, spillover from possible Eurozone stress, a rapid deceleration of growth in some emerging markets looking to contain inflation. To the degree one or more of these risks is realized, negative repercussions for the U.S. economy could obviously ensue. On the other hand, were each of these risks to recede significantly and not be replaced by others, there could be boost to business and consumer confidence in the U.S., with ensuring positive effects on economic performance

Respondent 2:
N/A

Respondent 3:
On the positive side, labor markets (and in particular the unemployment rate and the last couple of payroll reports) improved somewhat since January, the resulting income allowing moderate gains in consumption, Business optimism remains good, supporting investment in E and S. Notwithstanding the Japanese disaster, global growth also remains solid; together with the weaker dollar, that growth should spur US exports. Profits and equity values have continued strong. Much of the anticipated slowdown in 11:Q1 appears to be reflecting temporary factors, including anomalous drops in defense spending and exports, so that I discount a good bit of that slowing.

On the other hand, importantly, oil prices are up $25 since the last forecast round, and the effect on consumer confidence and inflation expectations appears to have been fairly significant. Construction (res and nonres) has been disappointing, and UI claims have been stuck around 400K. Overall, the forward momentum of the recovery is not as strong as I had hoped; because of that, the higher oil price, and an increasing fiscal drag at both the federal and state/local levels I have marked down my growth forecast somewhat. I take most of the decline in unemployment since November as "real" but assume that Okun's Law will work fairly well in the future; thus, the somewhat slower projected pace of recovery leads to correspondingly slower declines in unemployment going forward.

Higher oil prices, and to a lesser extent higher food prices, have caused a jump in headline inflation. I expect commodity prices to stabilize so that headline inflation returns close to core next year. However, I project core inflation to be a bit higher also, based on incoming data. (The small surprise in core also led me to revise up my long-run unemployment estimate a bit.) Going forward, higher inflation expectations will allow a small amount of passthrough of commodity price increases into core inflation. A similar effect could come from the weaker dollar and import price inflation. There seems to be little risk of deflation at this point.

Respondent 4:
The recent economic data has been somewhat weaker than what I anticipated in my January forecast. I

expect this recent weakness to be temporary and that the economy is poised for moderately above-trend growth in 2011 and 2012.

As the recovery strengthens, I expect a modestly above-trend pace of 3.2 percent growth in 2011, down slightly from my January 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.

I expect growth in 2012 to run at about a 3.4 percent pace and then fall to a 3 percent pace in 2013, which 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 run at a strong pace in the first half of 2011 and then pull back a bit over the forecast horizon as temporary factors wane and in response to tighter monetary policy than that 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 5:
Our forecast assumes that the slower growth evident in the indicators for the first quarter will prove to be transitory. Continued high oil prices, fragile consumer confidence, and further bad news from housing markets pose downside risks to this assessment. However, improving labor market conditions are an important offsetting positive factor for household sector spending. Replacement demand should further boost business investment in equipment, particularly in the manufacturing sector, where all of our contact reports have been quite positive. And continued easing of credit conditions will continue to support business spending. A variety of econometric models also support the assessment that the first-quarter slowdown was transitory. Accordingly, we see growth picking up in the current quarter and again in the second half of the year. We are projecting growth to average a bit over 4 percent from the second half of 2011 through 2013.

Core inflation has risen from the very low levels recorded in the second half of last year, and food and energy prices have pushed headline inflation up a good deal. We do not, however, see these developments as dictating a major change to the inflation forecast much beyond the near term. Accordingly, we still see both total and core PCE inflation running about 1-1/2 percent in 2013.

A number of factors underlie this judgment. The recent increases in core were largely expected; for example, the Tealbook has discounted the signal in last year's low readings for some time. We also think that the passthrough of higher costs for energy and other commodities will be contained. One reason is the downward influence on inflation from resource slack, which we think currently is quite large. Another is that we are not seeing (or hearing of) a marked pickup in wage growth, which would be evidence that higher inflationary expectations are becoming more firmly embedded in the behavior of households and firms. Our assessment of the inflation outlook is informed by a variety of econometric analyses. On the structural side, our DSGE model attributes much of the pickup in core inflation in early 2011 to transitory shocks that largely dissipate by 2012. This interpretation is supported by models that embed inflation forecasts in no arbitrage models of the term structure of interest rates. And on the statistical front, a battery of Stock-Watson style models continue to forecast very low inflation in 2012 and 2013.

Respondent 6:
Familiar constraints on growth remain in place: an overhang of homes, squeezed public finances, concerns

about future tax hikes and benefit cuts, and the leakage of employment and capital investment across international borders. With recent and continuing consumer price increases, real household purchasing power has taken a significant new hit. Business contacts report an acceleration of production and distribution costs for a wide variety of goods. There is significant and growing risk that the marketplace will misjudge our resolve to maintain price stability.

Respondent 7:
The economic recovery appears to have ongoing momentum, and labor markets are improving gradually. Monetary stimulus and improvements in banking and financial market conditions provide key drivers for economic expansion over the next few years, even as firms and households adjust to higher food and gasoline prices and fiscal policy at all levels turns increasingly contractionary. Still, it will take several years of robust growth to return the economy to full employment. In the near-term, rising energy and commodity prices will boost headline inflation. However, significant slack in labor and goods markets will keep underlying inflation low. Well-anchored inflation expectations should help avoid significant pass-through of food and energy inflation to wages and core inflation; conversely, as the impulse from commodity price increases wanes, well-anchored inflation expectations should keep underlying inflation from falling further.

Respondent 8:
I anticipate that real GDP will grow at a slightly above trend pace in the second half of this year and that output growth will strengthen in 2012 and 2013. With above trend growth, I expect unemployment to decline gradually over the forecast horizon. Household spending is currently expanding at a moderate rate, but it remains constrained by slow growth in employment and wages, continuing declines in house prices, and the negative impact on household purchasing power of the surge in energy and food prices. Over time, I anticipate that a strengthening labor market, accommodative credit conditions, progress by households in balance sheet deleveraging, and the stabilization of commodity prices, will boost consumption growth over time. Construction spending, both residential and nonresidential, remains moribund but I anticipate a pickup in spending, from low levels over time. In contrast, spending on equipment and software has been growing at a healthy pace and should provide continued support to the recovery. With respect to inflation, I anticipate that recent outsized commodity price increases will raise headline inflation for the next several months and I anticipate some pass through into core inflation. However, assuming that commodity prices level off and inflation expectations remain contained, I expect the increase in both headline and core to be transitory. Importantly, I expect that, owing to considerable slack in the labor market, wages will continue to increase at a modest pace and, when coupled with solid productivity gains, unit labor costs will rise only gradually, holding down cost pressures and core inflation. I see unusually large risks to my forecasts for both real activity and inflation at the present time. Commodity prices are an important risk factor. Although futures prices point to a stabilization of commodity prices going forward, their track record is quite poor and commodity prices could either increase or decline substantially relative to present levels. An increase in commodity prices would harm the prospects for output growth and raise, at least temporarily my forecast of inflation. Large further increases also have the potential to raise inflation expectations, thereby touching off a wage price spiral to which monetary policy would have to respond. Fiscal policy both here in the United States and, to a lesser extent, in other advanced economies, also poses notable risks to growth. An agreement by Congress and the President to a significant fiscal consolidation package could diminish growth over the next few years even though such cuts are essential to longer-run growth and financial stability. The prospect of further house price declines also pose risks to consumer spending and the health of the financial sector.

Respondent 9:
In 2011 through 2013 I anticipate that real growth will occur at greater than steady-state rates, reflecting normal cyclical patterns reinforced by 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 higher that of 2010 and increases in food and energy prices to drive headline inflation 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 10:
I believe the transition from a stimulus-supported recovery to a self-sustaining one is proceeding. While economic activity in the first quarter was weaker than I expected, I believe it is temporary and partly reflects the restraining effects of higher energy and commodity prices. The continued gains in labor markets should support growth going forward. As a result, the general contour of my outlook for growth (increasing in coming quarters) remains unchanged. However, growth has been marked down marginally for the rest of 2011 and 2012 due to the lingering effects of higher energy and commodity prices.

High energy and commodity prices, along with a greater pass through of costs, are expected to boost headline and core inflation in the near-term. If energy prices stabilize, then headline inflation should drop back to below 2 percent in 2012 and 2013. As the economy rebounds, a depreciating dollar and long-run inflation expectations that are anchored at more than 2 percent should move core inflation higher over the forecast horizon.

The risks to the economic outlook remain considerable. In the near-term, fiscal policy, problems in the real estate sector, and high energy and commodity prices–along with the prospect of even higher prices–pose downside risk to the economic outlook.

As for inflation, higher energy and commodity prices, along with a greater pass through of costs, pose upside risk to near-term and medium-term headline and core inflation. 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.

Respondent 11:
The recovery is expected to proceed at a moderate pace.

High rates of personal saving and slow jobs growth are expected to restrain the pace of consumer spending relative to a more typical recovery. New business startups are likely to be constrained by lack of access to credit. Uncertainties about the economic environment are expected to restrain business expansion plans in favor of liquidity. Commodity prices are expected to stabilize and firms will likely absorb much of these cost pressures by way of reduced margins and productivity growth.

My growth projection is based on the assumption that oil prices have leveled off. The possibility that oil prices will continue to climb higher represents a significant downward risk to my outlook.

My assessment of the inflation risks are clearly weighted to the upside. In my projection, inflation expectations are acting as a restraining influence on underlying inflation. The risk that inflation expectations could rise is significant.

Respondent 12:
Information received since the time of the January economic projections indicates that the economic recovery is proceeding at a slower pace than previously anticipated. The average rate of growth in GDP over the first half of this year is unlikely to be faster than potential. This setback in the progress towards reducing the activity gap is likely to prove temporary, but the slower underlying pace of growth also affects the medium term outlook, which has been revised down somewhat. Real interest rates continue to be supportive of growth, but other factors are providing a noticeable offset. In particular, high energy prices are reducing consumers'

purchasing power and have the potential to increase uncertainty and delay some spending. Fiscal policy is turning contractionary over the course of the forecast horizon, thus limiting gains in disposable income. The evolution of households' net worth is constrained by continued weakness in the housing market. So far, there is little suggesting a rapid turnaround in residential investment, and gains in nonresidential structures are likely to be held down by high office and commercial vacancy rates. In addition, the outlook for state and local spending remains grim, and the potential for more aggressive budget cuts over the course of the forecast horizon cannot be ruled out.

Overall, the ongoing recovery is undesirably slow relative to the depth of the recession. Growth in GDP this year should be modestly above potential, with a more vigorous pace of growth expected in 2012 and 2013. The potential downside risks to the real outlook remain costlier than the potential upside risks.

The projected pace of growth leaves a considerable amount of slack in the economy. The unemployment rate is still at 7 percent by the end of 2013. Recent revisions to JOLTS data on vacancy rates have reduced the outward shift in the Beveridge curve noticeably, and do not suggest a significant increase in the equilibrium unemployment rate. In this context, slack in the labor market is projected to remain significant even if hiring steps up not just to meet increasing demand, but also to catch up with the hiring that was postponed in the early stages of the recovery.

Given the amount of labor market slack, the rate of core inflation is expected to remain well below target. Recent increases in core inflation likely reflect some pass-through from higher commodity prices. This effect should prove transitory. One reason is that the current stance of monetary policy, because of the zero-lower bound on nominal rates, is tighter than what an optimal reaction function would suggest, thus implying that policy remains more tilted toward inflation-fighting than on average over the past 20 years.

Respondent 13:
The economy is moving to a self-sustaining expansion. Moderating the pace of this expansion are the headwinds of higher gasoline prices, reduced government spending at both the state and national levels, and a housing market characterized by low equity values, poor servicing, supply overhang and deteriorating quality.

These factors weigh on consumer confidence, Consumer sentiment tumbled in early March, primarily driven by higher prices at the pump as well as higher food prices. The sharp reversal of what had been an upward trajectory in consumer sentiment between October and February does not bode well for growth. The rising cost of food and fuel, especially if they continue to rise, together with the effect of stagnant wages, sub-optimal job creation and reduced home equity values, could hinder growth in consumer demand.

I am uncertain as to the extent that upward pressure on underlying higher commodity prices will be relieved if global demand continues to grow unabated without an accompanying steady increase in supply sources. Accordingly, despite what appears to be weaker consumer demand in the U.S., my estimates for inflation are weighted to the upside. Although I do not believe that wage pressures will play a role in creating an price inflation/wage inflation spiral, I am uncertain as to whether sustained increases in commodity prices could themselves contribute to higher levels of inflation.

Labor markets appear far from recovery. While the unemployment rate may be trending downward, downward pressure on wages remains significant. All bargaining agreements are concessionary, meaning that at least for the small portion of the market that is unionized, the net value of compensation packages is decreasing. Federal workers, who comprise the largest employee group, have had wages frozen this year. Labor force participation is at historic lows. Discouraged workers are not re-entering the labor force. Accordingly, the pace of economic growth is not robust enough to absorb all those who want to be working.

Respondent 14:
The recent rise in energy and other industrial material input prices places downward pressure on output growth and upward pressure on consumer price inflation. Although I expect the rise in input prices to be temporary, considerable uncertainty surrounds that assumption. The key questions to be answered are the following: How long will political unrest in the Middle East and North Africa keep oil prices elevated? How much pressure will global demand from the emerging markets exert on energy and non-energy commodity prices? Working in the other direction, recent improvements in employment and industrial output indicate the potential for stronger growth going forward.

Respondent 15:
I believe that the recovery is firmly in place, and will be led by consumer spending, business investment, and exports. 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 households and firms more cautious in their spending plans.

Respondent 16:
My outlook for inflation is shaped by the assumption that the recovery will continue on track. A slowing the pace of economic recovery might lead to disinflationary pressures.

Respondent 17:
The expenditure data for 2011Q1 generally have been weaker than we had anticipated at the time of the January SEP, with notable downgrades in real PCE, residential investment, nonresidential structures, and government expenditures. Adding up these data, the rate of growth of real GDP in 2011Q1 appears to have been below our projection in the January SEP. In contrast, business survey and production indicators have been relatively robust, and payroll growth and other labor market indicators strengthened in the quarter. Taking some solace from these data, we expect that the 2011Q1 weakness in expenditures will be temporary and thus the broad contours of the forecast over the remainder of the projection period are essentially unchanged.

As has been the case for several FOMC cycles, we believe that fiscal and monetary stimulus in combination with the economy's natural healing process have created conditions favorable for growth above its potential rate. Consistent with this position, financial conditions have improved over the last six months, including a substantial increase in equity values and a narrowing of credit spreads. While still tight, lending conditions have begun to ease, as indicated in the latest SLOOS, and there have been increases in nonmortgage consumer debt as well as C&I loans. Based on historical relationships, the personal saving rate appears to be consistent with the current level of household net worth. Moreover, the household financial obligations ratio has declined to levels that prevailed in the mid-1990s.

Beyond financial conditions, continued favorable growth prospects among our major trading partners and a lower exchange value of the dollar are expected to produce sustained strong growth of exports. Improving foreign and domestic demand is likely to induce stronger growth of business investment. While still low, housing market activity may begin to improve as the labor market improves and housing affordability remains high. Indeed, over the past several weeks there has been a notable increase in purchase mortgage applications, albeit from a very depressed level. Inventory-sales ratios throughout the manufacturing and trade sectors are low by standards of recent history. With incomes and spending rising, the 2010Q4 level of state and local government tax receipts was roughly equal to the previous peak level in 2008Q2, indicating that the fiscal position of those governments has begun to heal. Lastly, the passage of the fiscal agreement in late 2010 added additional fiscal stimulus for 2011.

Nevertheless, the economy faces some new headwinds that were not present at the beginning of the year,

in particular a considerably higher level of energy prices. Our assumed level of oil prices for 2011Q4 in this forecast is over $15 per barrel above that in the January SEP. We have shaved another tenth from our projected growth of real GDP in 2011, bringing it to 3.7% (Q4/Q4), with the total downward adjustment in the wake of the run-up of energy prices since December to 0.3 percentage points. With the national average retail gasoline price now just shy of $4 per gallon, up $1 from early December, the energy price increase is one factor behind the risks to the growth outlook being skewed to the downside.

In contrast to the expenditure data, data on inflation for 2011Q1 have tended to come in higher than expected. The increase in energy prices, combined with the fact that the rise in the energy component of the CPI over 2011Q1 was larger than expected, has led to boosting the expected change of the total PCE deflator to over 3% (Q4/Q4) for 2011. The 12-month changes of the total PCE deflator are likely to top out in the 3% to 3 $\frac{1}{4}$% range during 2011Q3.

The projected path of core inflation is also higher in this forecast, with both core goods and core service prices moving up more than expected in 2011Q1. Within the core goods category, price of new vehicles rose at a 2 $\frac{1}{2}$% annual rate in 2011Q1 after falling at a 0.5% rate in 2010Q4. Within the core services category, transportation services prices rose 22% (annual rate) in 2011Q1, likely reflecting an effect of higher energy prices. The core PCE deflator is likely to increase at a 1 $\frac{1}{2}$% annual rate in 2011Q1, and rise at a similar rate in 2011Q2 even if monthly changes begin to slow as we expect. For 2011 as a whole, the core PCE deflator is expected to increase 1.4% (Q4/Q4), up from around 1% in the January SEP.

The path of the unemployment rate for 2011 has been lowered, with it falling to a little above 8% by 2011Q4 compared to about 8 $\frac{1}{2}$% expected in January. The projected growth of employment is little changed, but the path of the labor force participation rate is somewhat lower due to its decline to an average of 64.2% in 2011Q1 from 64.4% in 2010Q4. We continue to believe that the decline of the participation rate has been greater than what would have been the case if the trends of the past decade had continued over the past few years. Therefore, we still anticipate some upward movement of the participation rate as the economy recovers.

The underlying fundamentals of the economy are expected to continue to improve in 2012, with stronger employment growth, a sustained decline of the unemployment rate, a better established recovery of the housing sector, and a modest recovery of business investment of nonresidential structures. In addition, oil prices are expected to be somewhat lower than in 2011, which provides a modest boost to growth and pushes down the rate of increase of the PCE deflator. However, the federal fiscal impulse will turn negative with the return of the payroll tax rate and depreciation schedules to their previous levels and the start of a reduction of outlays from already enacted reductions of budget authority. Overall, we expect growth of real GDP in 2012 of around 4%, with the unemployment rate falling to slightly above 7% by the end of that year and core inflation returning to the mandate-consistent range of 1 $\frac{1}{2}$% to 2%.

Forecast Narratives (continued)

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

Respondent 1:
I am not quite as optimistic about equity prices over the next couple of years. I continue to be less confident that oil prices will flatten out and remain there over the forecast period.

Respondent 2:
N/A

Respondent 3:
Was slightly more pessimistic than the Tealbook in the last round. Have marked down growth prospects somewhat more than in the Tealbook this time because of greater concerns about the direct and indirect effects of commodity inflation and fiscal drag and because we are not yet seeing growing momentum of the recovery, at least not to the extent as in the Tealbook scenario.

Respondent 4:
N/A

Respondent 5:
Our forecast for 2011 is somewhat above the Tealbook because we are assuming a bit stronger pickup in growth from the first-quarter soft patch.

Respondent 6:
I am considerably more concerned about the inflation outlook than is the Tealbook, and less optimistic about real GDP growth. I believe that the Tealbook mistakes the pace at which policy stimulus will need to be withdrawn in order to keep inflation under control, and I have a more stringent definition of price stability.

Respondent 7:
My forecast is broadly similar to the Tealbook projection.

Respondent 8:
My views on growth are in line with Tealbook. My forecast for both wage and price inflation is below that of Tealbook

Respondent 9:
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 low inflation.

Respondent 10:
The key difference is the monetary policy path. In my view, appropriate monetary policy should follow a path considerably different than in Tealbook, to foster the longer-run stability of the economy. As a result, I expect slower growth in 2012 and 2013. In addition, I expect inflation to be higher. The difference in inflation forecasts reflects different views on the relative importance of inflation expectations and economic slack for forecasting inflation.

Respondent 11:

Growth in 2012 is projected to be lower than the Tealbook forecast, in part due to an assumed higher rate of personal saving, slower jobs growth, and a slower-than-typical rate of new business formation. I have also assumed a lower level of potential output, resulting in an inflation path that is more responsive to growth over the near-term.

Respondent 12:
The forecast for real activity is very similar to the Tealbook forecast. Core inflation, however, is projected to stay lower than in the Tealbook.

Respondent 13:
My forecast is similar to the weaker recovery scenario described in the Tealbook. I continue to believe that the current predominant mortgage servicing model is contributing to the uncertain pace of foreclosures; until the significant inventory of housing is cleared efficiently and fairly housing markets will continue to exert downward pressure on growth. In addition, I continue to believe that incoming data signal a more sluggish recovery in which anticipated improvements in credit availability, consumer confidence and the willingness of firms to hire are slower to materialize than in the baseline forecast.

Respondent 14:
My forecast calls for less growth in 2012 and 2013 than in the Tealbook. Beyond the one-year-ahead forecast horizon, my outlook does not build in a period of accelerated growth in order to close a notional output gap. Instead, these years are characterized by comparatively moderate above-trend real GDP growth. My core inflation profile remains similar to the Tealbook in the near-term, but my forecast path returns more quickly to the "mandate consistent" range of 1.7-2.0% which is reach by 2013, in line with current market-based measures of inflation expectations.

Respondent 15:
I believe that there will be a greater pass-through of energy prices into core inflation this year.

Respondent 16:
I see core inflation picking up faster than the Tealbook

Respondent 17:
We assume lower inflation persistence than does the Tealbook. Therefore, under the assumption of well anchored inflation expectations, we project that core inflation returns to within the "mandate consistent" range more quickly than it does in the Tealbook forecast; however, the latest increase in the Tealbook forecast has narrowed these differences.

We project somewhat more pass-through of oil and commodity price increases into overall consumer prices over the near term, with the result that our overall PCE inflation forecast in 2011 is above that in the Tealbook.

With the labor force participation rate expected to remain flat through the year, we expect real economic growth over the rest of this year to be sufficient to lead to a greater decline in the unemployment rate than is projected in the Tealbook.

Forecast Narratives (continued)

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

Respondent 1:
Significant downward revision of first quarter growth estimates and increased chance of somewhat greater fiscal contraction during the forecast period.

Respondent 2:
N/A

Respondent 3:
Gains seen in January projections are partly reversed. Main negatives are commodity prices, especially oil prices, and construction. Fiscal drag may be larger than was anticipated. Somewhat less confidence that momentum is building for the recovery, although labor market reports were reasonably good and better than in late 2010.

Respondent 4:
N/A

Respondent 5:
The incoming data point to less robust GDP growth in the first half of 2011 than we had assumed in January. We have not offset with this with stronger growth later in the year, and accordingly are projecting a lower level of output for 2011:Q4. In contrast, the labor market solidified more than we expected. In particular, the unemployment rate averaged a good deal lower than we had anticipated, and despite our lower GDP projection, we are forecasting a lower unemployment rate for the end of this year. We have also reassessed our assumptions concerning the effects of unemployment insurance exhaustions, and concluded that a larger portion of the decline in the unemployment due to exhaustions has already occurred. Accordingly, future decreases in unemployment due to such effects are likely to be smaller than we previously thought, reducing our forecast for the decline in the unemployment rate in 2012 and 2013.

Core and total inflation also have risen a bit faster than we projected. However, as described above, we do not think these increases will have much influence on inflation beyond the near term.

Respondent 6:
I have substantially upwardly revised my inflation forecasts to reflect widespread, ongoing global cost pressures. Partially, this reflects my skepticism regarding the Phillips Curve applied solely in a domestic context. These global pressures amount to an adverse supply shock from the perspective of the U.S., and I have accordingly revised downward my estimates of future real output growth. As a result of the sharp declines we saw in December and January, my path for the unemployment rate starts a bit lower than before. However, it has also flattened–consistent with the downward revisions I've made to my GDP growth forecast.

Respondent 7:
The data since January have been a major factor driving my forecast revisions to real activity and inflation. Indicators of real economic activity have, on balance, surprised to the downside, while core inflation has surprised to the upside. Commodity prices have also generally risen more than I'd expected in January, and going forward, my projected path for oil prices this year is significantly higher. Elevated commodity prices are a drag on real activity over the forecast horizon and have led me to raise the projected contribution of food and energy prices to headline inflation in the first half of 2011. In addition, there are stiffer headwinds to real activity from fiscal contraction at all levels of government, and the recovery in the housing market now appears further off. Although recent economic activity has been weaker than anticipated in January, the unemployment rate is also markedly lower. The lower starting point for the unemployment rate implies

that despite slower real GDP growth in 2011 and 2012 the expected unemployment rate by the end of next year is little changed from my projection in January.

Respondent 8:
I have marked down my forecast for real GDP growth in 2011 due to weak incoming data. I marked down my unemployment forecast slightly due to a larger than anticipated decline in the unemployment rate. I raised my forecast for headline inflation in 2011 considerably and my forecast of core inflation slightly due recent increases in food and energy prices.

Respondent 9:
My forecasts for near-term real growth have been revised downward reflecting slower growth in the first quarter than I had previously expected. My forecast path for the unemployment rate has been revised downward to reflect the unexpected decline in the unemployment rate over the past several months. I have revised my near-term projections of inflation upward to reflect the unanticipated rise in oil prices on headline inflation, and higher than expected core PCE inflation since the beginning of 2011.

Respondent 10:
The main change in my forecast (lower real GDP growth and higher inflation in 2011 and 2012) reflects the effects of higher energy and commodity prices.

Respondent 11:
My projection for real GDP growth in 2011 has been revised downward marginally in response to weaker-than-expected first quarter numbers. My projection for overall PCE inflation in 2011 has been increased to account for higher gasoline and food prices.

Respondent 12:
The most important factors contributing to the real outlook's downward revision are higher energy prices, continued setbacks in construction, and a tighter stance of fiscal policy.

Respondent 13:
N/A

Respondent 14:
Weaker-than-expected first quarter indicators on output led me to mark down my projection for first-half 2011 real GDP growth. Since the January meeting, the economy has been hit by a number of large shocks which have also lowered my near-term growth projection.

Severe winter weather, with effects confined mainly to the first quarter, disrupted supply chains and likely held back construction spending and retail sales. Supply bottlenecks due to the March 11 Japanese disaster continue to weigh on industries reliant on components imported from Japan (e.g. automotive parts and semiconductors). But these effects are likely to be relatively minor in comparison to the drag on output created by the rise in oil prices associated with the continuing political unrest in the Middle East and North African countries. In sum, these shocks pushed industrial materials prices much higher than I had previously anticipated, leading to my weaker first-half 2011 growth outlook. My forecast beyond 2011, however, is little altered by these events.

Despite weaker near-term growth, my unemployment outlook has improved since the January meeting, as I have taken onboard much of the recent declines in the unemployment rate.

Higher-than-anticipated underlying and overall consumer price inflation so far this year has raised both my core and headline PCE inflation forecasts throughout the forecast horizon, with most of the upward adjustment occurring this year. The sharp rise in input prices also contributes to the rise through the productivity channel. As firms substitute toward more economical but technically less efficient input mixes,

each labor hour becomes less productive, driving unit labor costs higher.

Respondent 15:
The real data flow has softened, on balance, since the last projection. Consumer spending decelerated in the first quarter, and auto sales declined in March. New orders for capital goods have been weaker than expected. On the other hand, employment growth has gained momentum. Energy and other commodity prices have moved sharply higher, boosting inflation in the last few months.

Respondent 16:
There has been a pick-up in commodity prices and that has led me to revise upward my forecast for headline inflation. 2011:Q1 growth has been slow - and so I've revised downward my forecast for 2011 GDP growth.

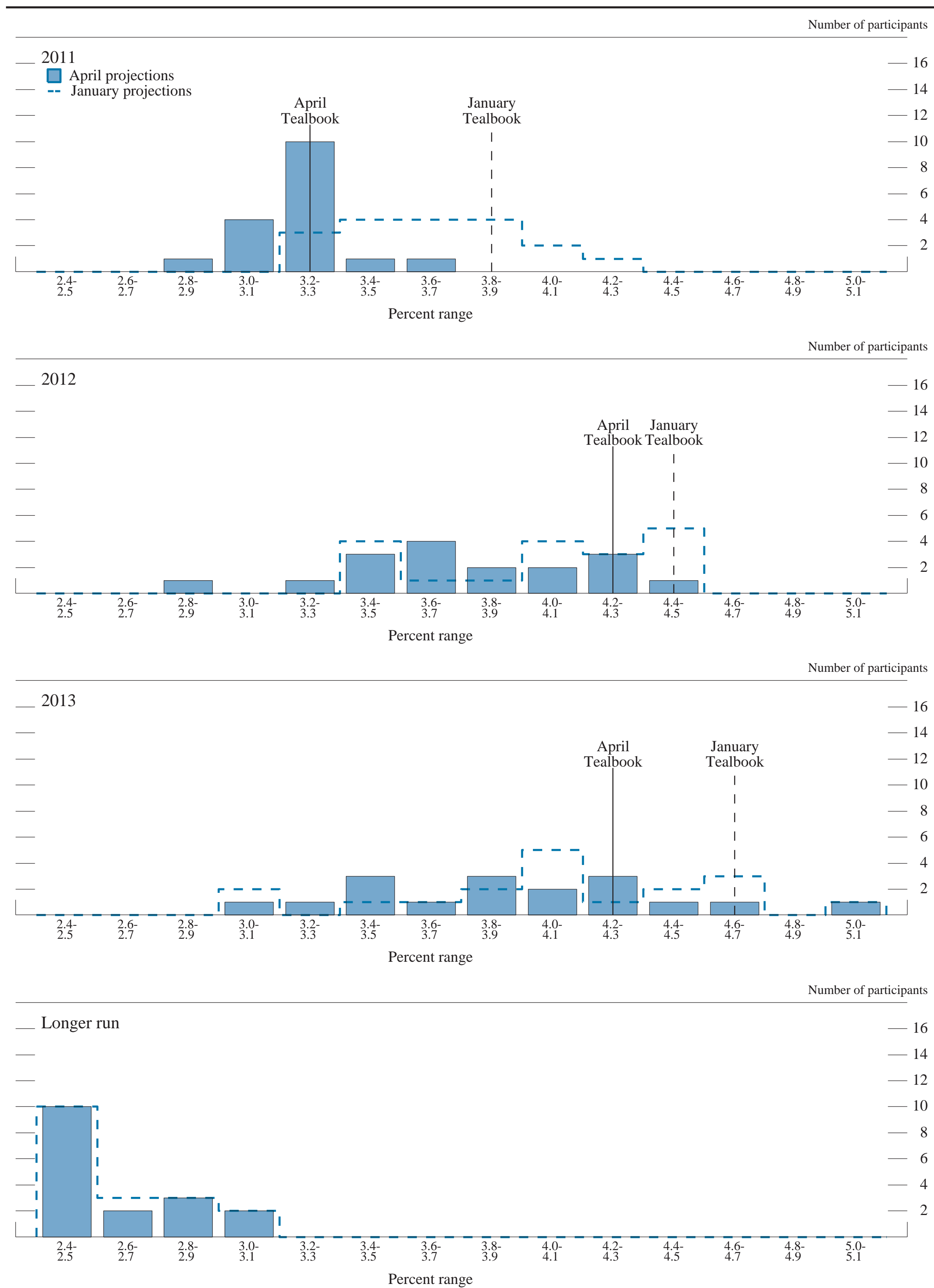
Respondent 17:
The weaker expenditure data for 2011Q1 have led us to lower our central forecast for real GDP growth in that quarter. Beyond that quarter, our higher assumed path for oil prices has led to some modest reductions in real GDP growth in the rest of 2011 and in 2012. With oil prices at current levels, the possibility of further increases that are not incorporated in futures prices is a downside risk for real activity. Although the recently enacted budget agreement did not affect our central forecast much, the possibility of greater-than-expected fiscal consolidation is another downside risk to our real GDP growth forecast. Consequently, we have maintained a downside balance of risks for real GDP growth.

The unemployment rate for 2011Q1 was lower than we expected in January, prompting a lower projected path for the rest of 2011 and 2012. The lower path also reflects a lower assumption for the labor force participation rate, as its level in 2011Q1 was below our assumption in January.

The inflation data so far in 2011Q1 have been higher than we expected in January, and we have raised our near-term projection for core inflation. In part, the increase reflects an initial response to the increases in oil, commodity, and import prices that we do not expect to persist; thus, medium-term inflation projections are little changed. The oil price increase also appears to be passing through into consumer energy prices to a greater extent than previous historical patterns suggest, leading us to raise our near-term overall PCE inflation projection substantially.

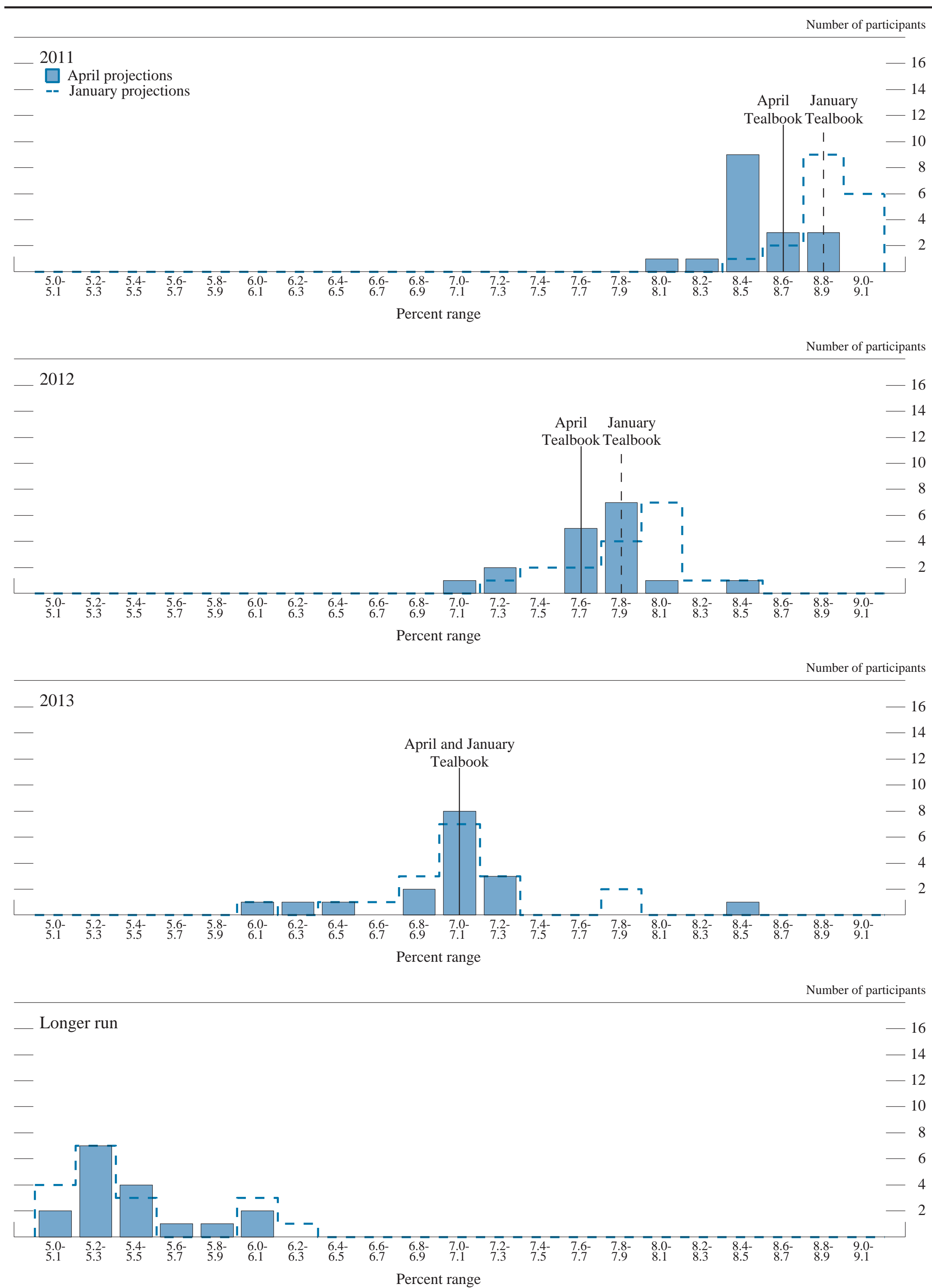
Besides the higher US inflation data, inflation in many foreign economies has been higher than expected, and growth in emerging market economies has been maintained, suggesting that there has been some reduction in global deflationary pressures. The relatively high levels of TIPS-implied inflation compensation and household survey inflation expectations indicate an increased risk that inflation expectations could become unmoored. We thus have shifted our risk assessment for inflation from a downward skew to broadly balanced.

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



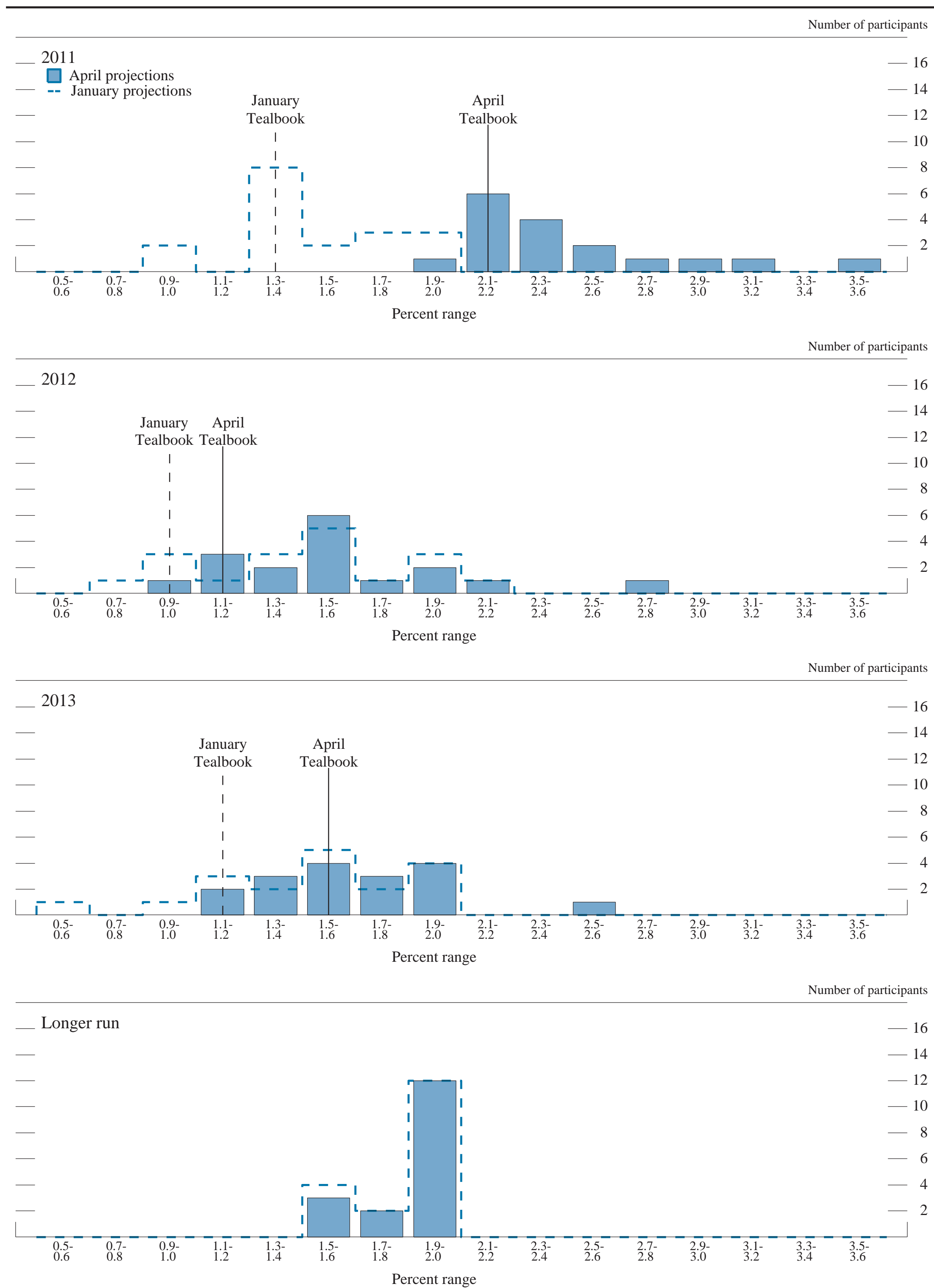
NOTE: Definitions of variables are in the general note to table 1.

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



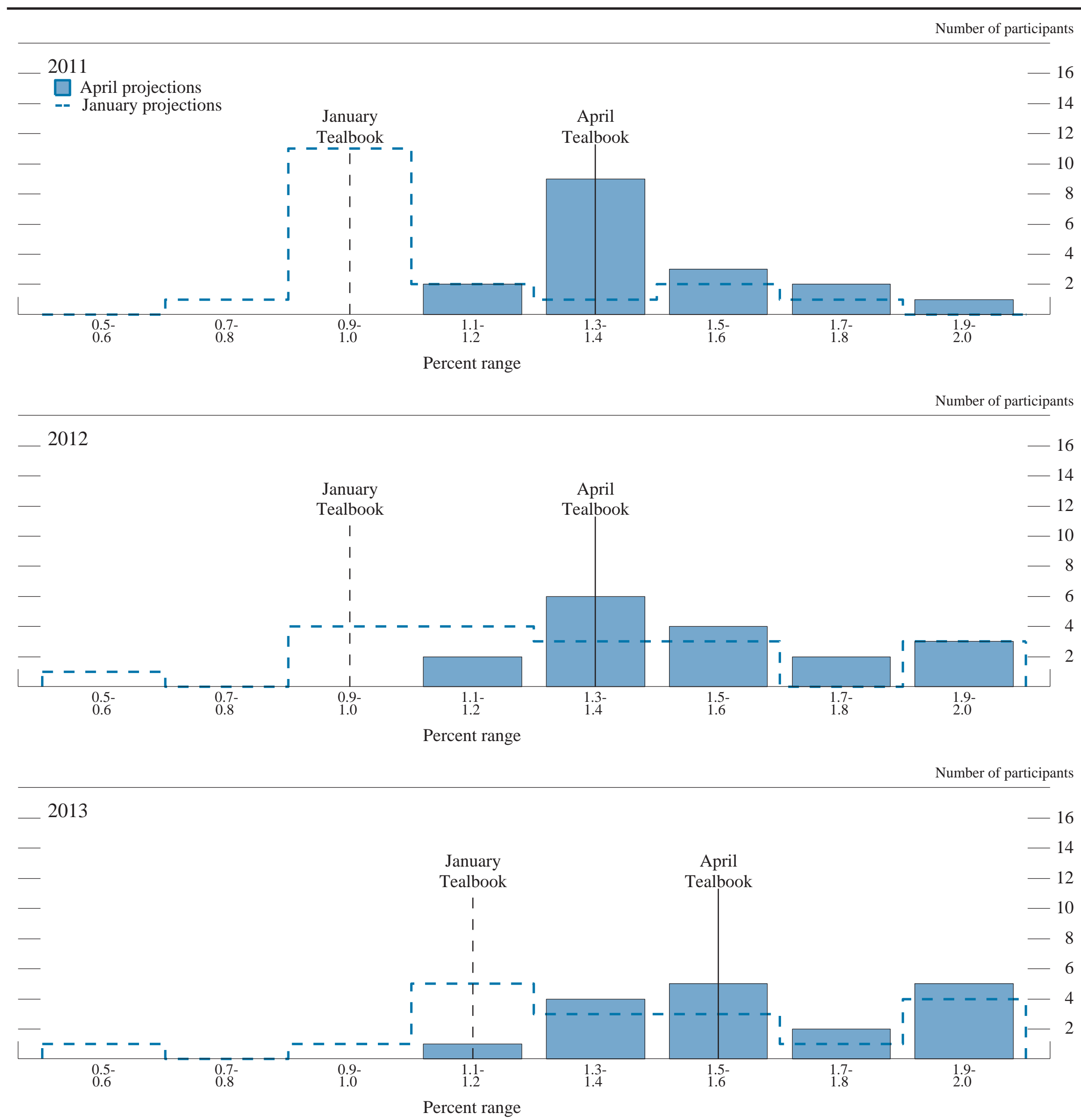
NOTE: Definitions of variables are in the general note to table 1.

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.