

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

Percent

Variable	Central tendency ¹				Range ²			
	2011	2012	2013	Longer run	2011	2012	2013	Longer run
Change in real GDP.	2.7 to 2.9	3.3 to 3.7	3.5 to 4.2	2.5 to 2.8	2.5 to 3.0	2.2 to 4.0	3.0 to 4.5	2.4 to 3.0
April projection.	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
Unemployment rate.	8.6 to 8.9	7.8 to 8.2	7.0 to 7.5	5.2 to 5.6	8.4 to 9.1	7.5 to 8.7	6.5 to 8.3	5.0 to 6.0
April projection.	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
PCE inflation.	2.3 to 2.5	1.5 to 2.0	1.5 to 2.0	1.7 to 2.0	2.1 to 3.5	1.2 to 2.8	1.3 to 2.5	1.5 to 2.0
April projection.	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
Core PCE inflation ³	1.5 to 1.8	1.4 to 2.0	1.4 to 2.0		1.5 to 2.3	1.2 to 2.5	1.3 to 2.5	
April projection.	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	

NOTE: Projections of change in real gross domestic product (GDP) and projections for both measures 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 April projections were made in conjunction with the FOMC meeting on April 26-27, 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	2.0 to 2.1	1.9 to 2.2
PCE Inflation	3.5 to 3.6	3.1 to 4.0
Core PCE Inflation	1.7 to 1.8	1.6 to 1.9

Participants' Projections

Projection	Change in Real GDP	PCE Inflation	Core PCE Inflation
1	1.9	3.1	1.6
2	2.2	4.0	1.9
3	2.0	3.5	1.7
4	2.1	3.6	1.8
5	2.0	3.7	1.8
6	2.0	3.5	1.8
7	2.1	3.5	1.8
8	1.9	3.5	1.8
9	2.0	3.6	1.8
10	2.0	3.7	1.8
11	2.0	3.6	1.8
12	2.0	3.6	1.8
13	2.0	3.6	1.8
14	2.2	3.4	1.8
15	2.1	3.5	1.7
16	1.9	3.6	1.7
17	2.2	3.6	1.8

* 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	3.3 to 3.6	2.9 to 4.0
PCE Inflation	1.0 to 1.7	0.6 to 3.0
Core PCE Inflation	1.3 to 1.8	1.2 to 2.7

Participants' Projections

Projection	Change in Real GDP	PCE Inflation	Core PCE Inflation
1	3.3	1.7	1.6
2	3.6	3.0	2.7
3	3.6	1.5	1.9
4	3.3	1.0	1.6
5	4.0	1.3	1.4
6	3.0	0.9	1.4
7	2.9	1.3	1.6
8	3.5	1.1	1.4
9	3.6	0.8	1.2
10	3.8	1.3	1.2
11	3.6	1.0	1.6
12	3.4	1.0	1.6
13	3.4	1.0	1.6
14	3.4	2.6	1.8
15	3.3	1.3	1.3
16	3.5	0.6	1.3
17	3.8	3.0	2.2

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

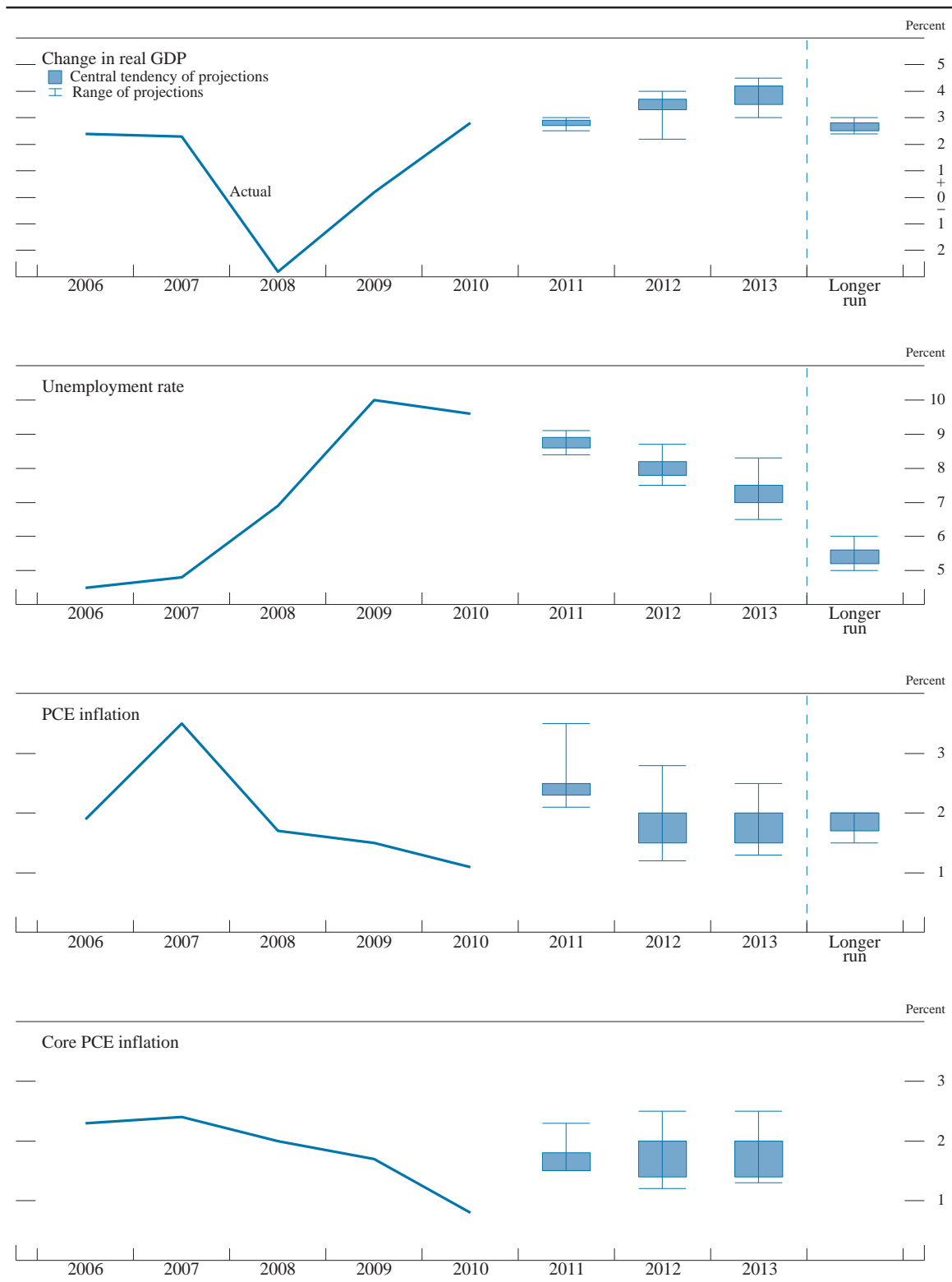
**Table 2: June Economic Projections
(in percent)**

Projection	Year	Change in Real GDP	Unemployment Rate	PCE Inflation	Core PCE Inflation
1	2011	2.6	8.7	2.4	1.6
2	2011	2.9	8.7	3.5	2.3
3	2011	2.8	9.0	2.5	1.8
4	2011	2.7	8.7	2.3	1.7
5	2011	3.0	8.4	2.5	1.6
6	2011	2.5	9.1	2.2	1.6
7	2011	2.5	8.6	2.4	1.7
8	2011	2.7	8.8	2.3	1.6
9	2011	2.8	8.9	2.2	1.5
10	2011	2.9	8.7	2.5	1.5
11	2011	2.8	8.7	2.3	1.7
12	2011	2.7	8.9	2.3	1.7
13	2011	2.7	9.0	2.3	1.7
14	2011	2.8	8.5	3.0	1.8
15	2011	2.7	8.7	2.4	1.5
16	2011	2.7	8.9	2.1	1.5
17	2011	3.0	8.5	3.3	2.0
1	2012	3.0	8.1	1.9	1.8
2	2012	4.0	7.7	2.5	2.0
3	2012	3.7	8.4	1.5	1.4
4	2012	3.9	8.0	2.0	2.0
5	2012	3.7	7.5	1.7	1.5
6	2012	3.3	8.1	1.5	1.4
7	2012	3.5	8.0	1.7	1.6
8	2012	3.3	8.1	1.5	1.5
9	2012	3.5	8.1	1.3	1.3
10	2012	3.8	8.0	1.5	1.4
11	2012	3.4	8.2	1.6	1.6
12	2012	3.5	8.1	1.5	1.5
13	2012	2.2	8.7	1.4	1.4
14	2012	3.4	7.5	2.0	2.0
15	2012	3.5	8.1	1.5	1.7
16	2012	3.6	8.2	1.2	1.2
17	2012	3.5	7.8	2.8	2.5

Table 2 (continued): June Economic Projections

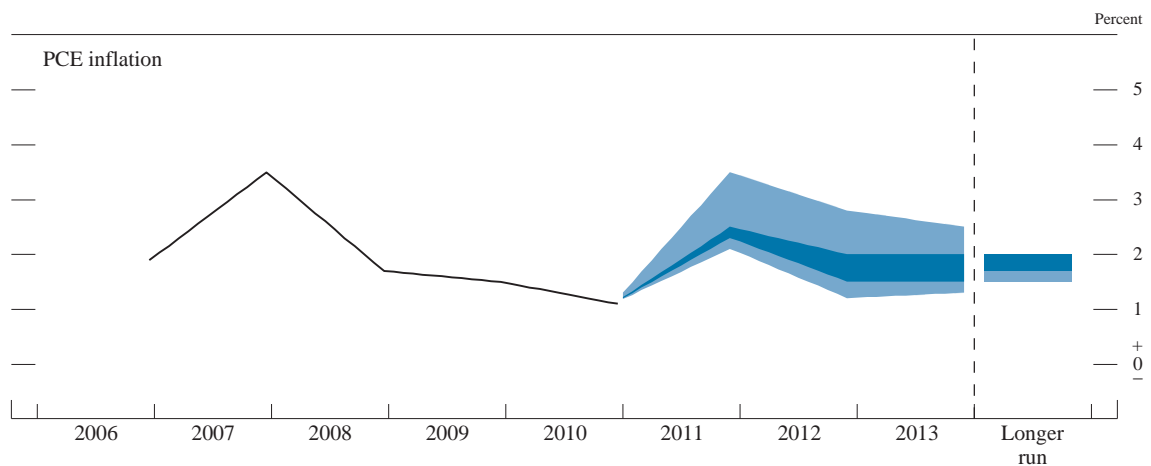
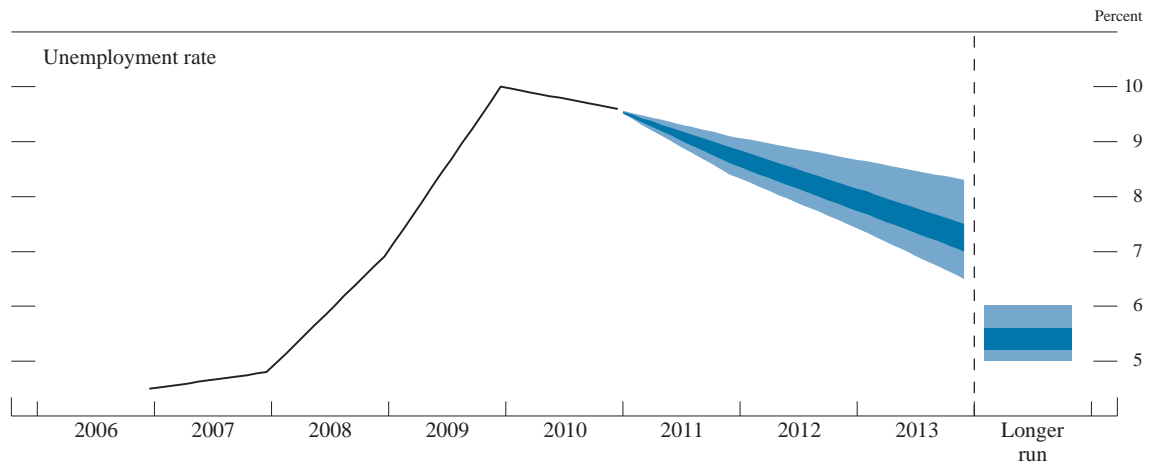
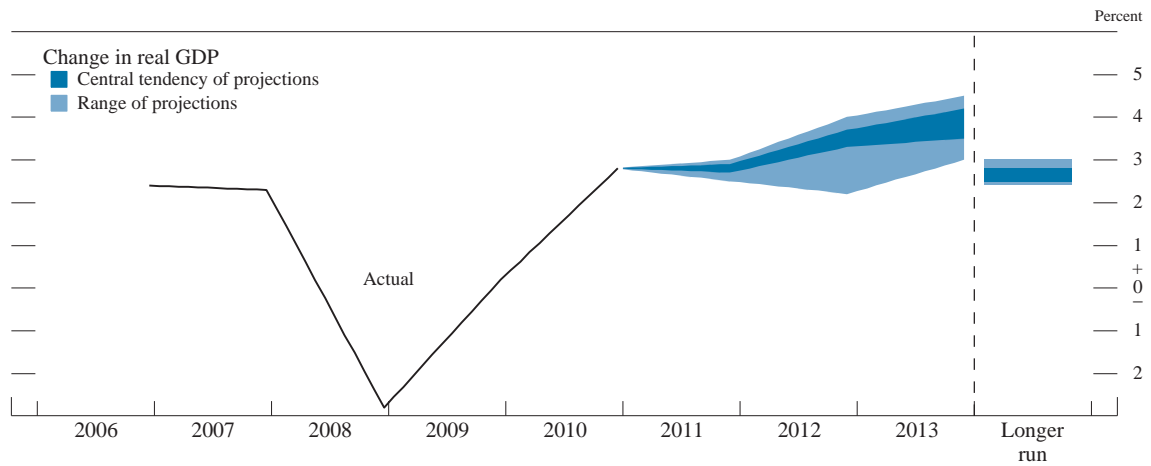
Projection	Year	Change in Real GDP	Unemployment Rate	PCE Inflation	Core PCE Inflation
1	2013	3.2	7.5	2.1	1.9
2	2013	3.8	6.7	2.0	1.8
3	2013	4.0	7.6	1.5	1.4
4	2013	3.7	7.5	2.0	2.0
5	2013	4.5	6.5	2.0	2.0
6	2013	4.4	7.1	2.0	1.5
7	2013	3.5	7.2	1.7	1.7
8	2013	4.0	7.1	1.5	1.5
9	2013	4.0	7.2	1.4	1.4
10	2013	4.2	7.0	1.5	1.5
11	2013	3.5	7.6	1.7	1.6
12	2013	4.2	7.1	1.5	1.5
13	2013	3.2	8.3	1.3	1.3
14	2013	3.0	6.5	2.0	2.0
15	2013	3.7	7.1	2.0	2.0
16	2013	3.8	7.4	1.3	1.3
17	2013	3.5	7.0	2.5	2.5
1	LR	2.6	5.9	2.0	
2	LR	2.8	6.0	1.5	
3	LR	2.5	6.0	1.5	
4	LR	2.8	5.5	2.0	
5	LR	2.4	5.0	2.0	
6	LR	2.5	5.0	2.0	
7	LR	2.5	5.5	1.8	
8	LR	2.5	5.3	2.0	
9	LR	2.5	5.2	2.0	
10	LR	2.5	5.2	2.0	
11	LR	2.5	5.6	2.0	
12	LR	2.8	5.5	2.0	
13	LR	3.0	5.4	1.7	
14	LR	2.8	5.5	1.7	
15	LR	2.5	5.2	2.0	
16	LR	2.5	5.3	2.0	
17	LR	2.7	5.3	1.5	

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.

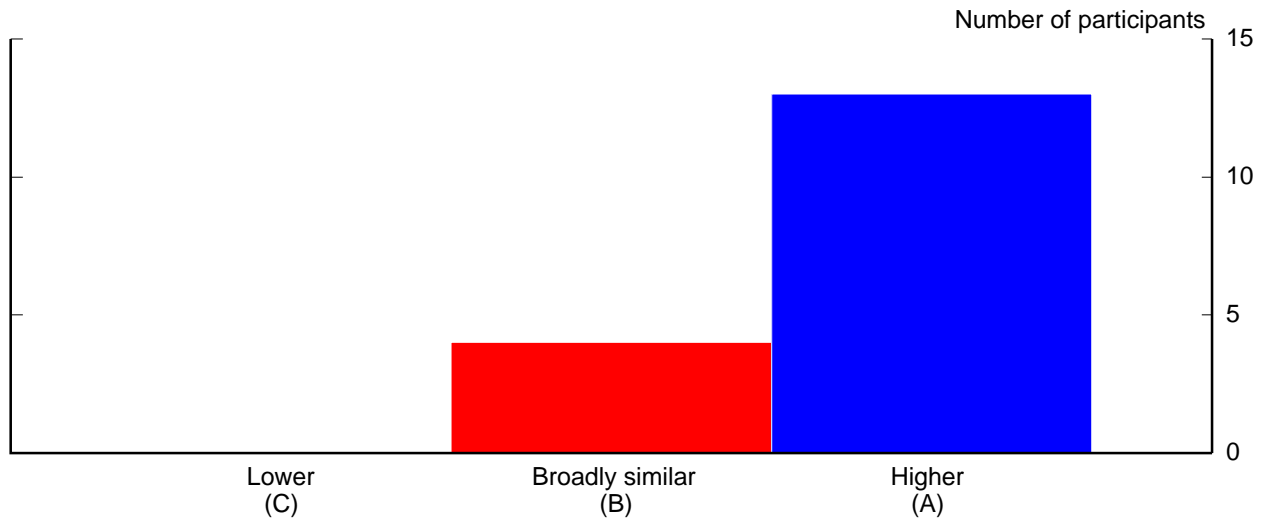
Central tendencies and ranges of economic projections, 2011–13 and over the longer run



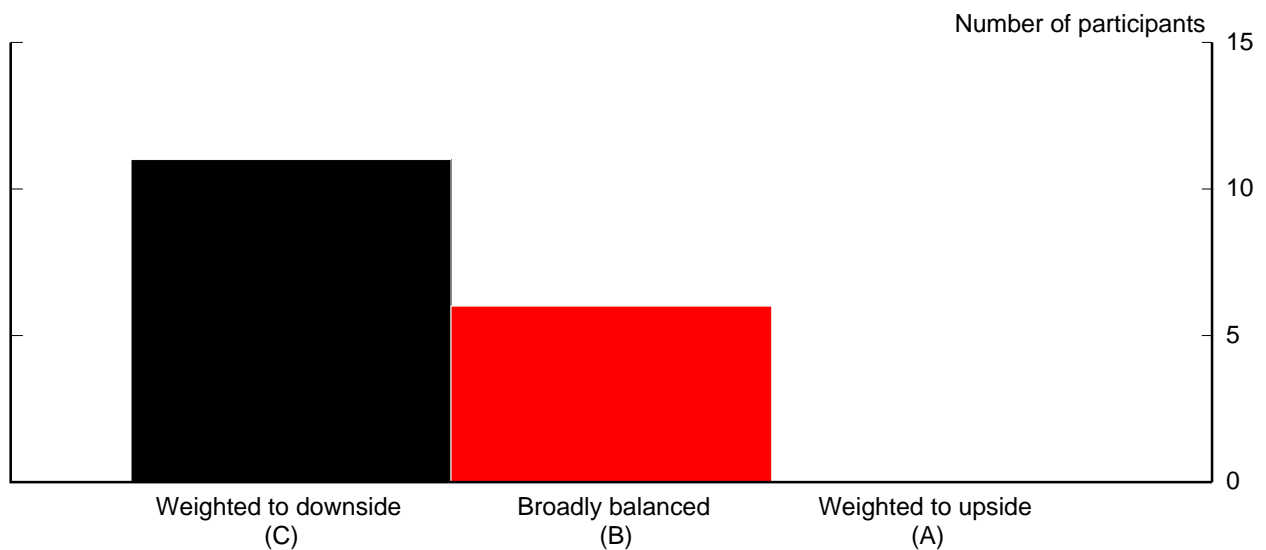
NOTE: Definitions of variables are in the notes to the projections table. The data for the variables are annual.

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.

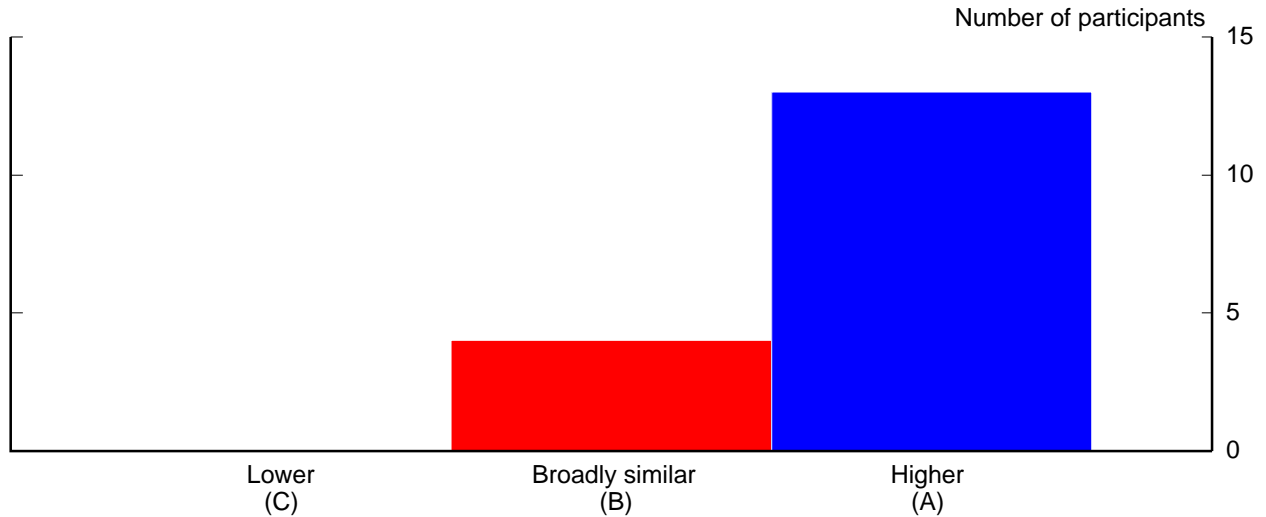


Individual Responses

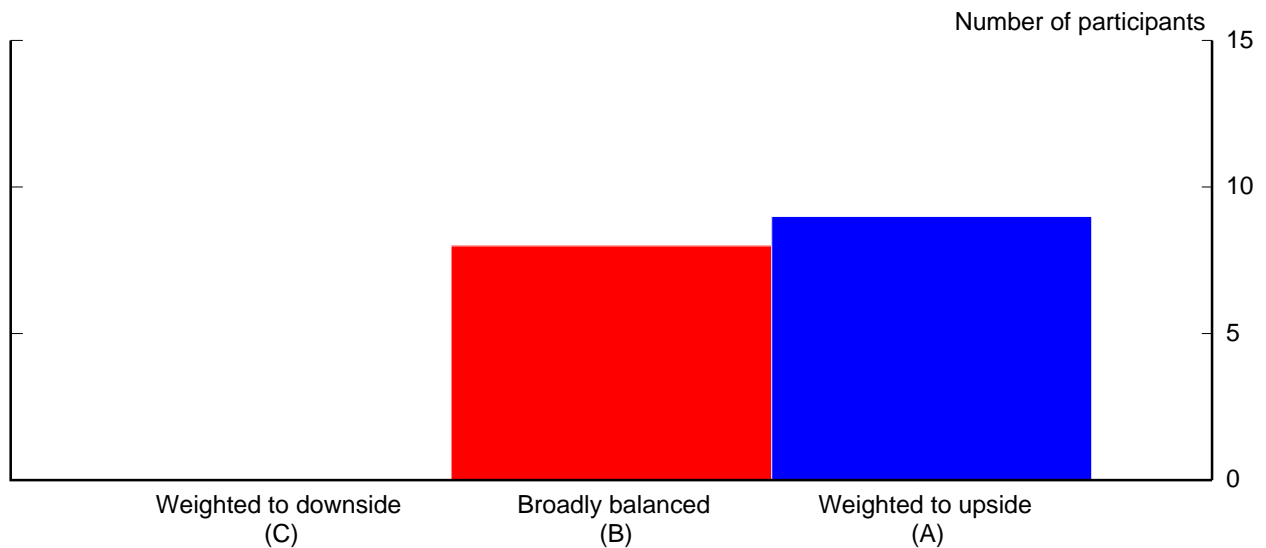
Respondent	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	<u>13</u>	<u>14</u>	<u>15</u>	<u>16</u>	<u>17</u>
2(a)	A	B	A	A	A	B	A	B	A	A	A	A	A	B	A	A	A
2(b)	C	B	C	C	C	B	C	B	C	C	B	C	C	B	C	C	B

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.

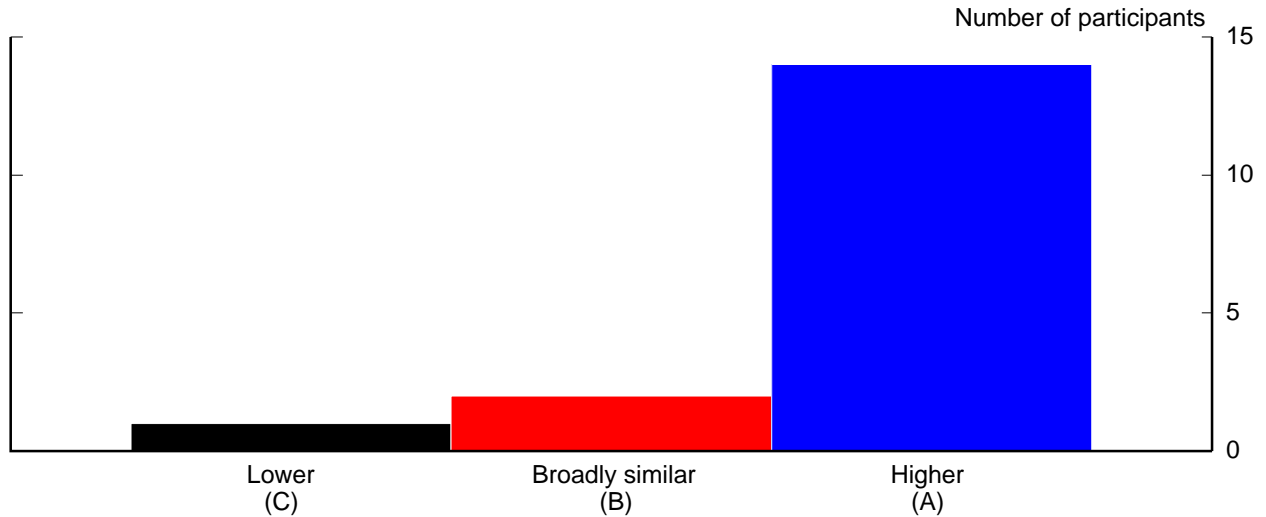


Individual Responses

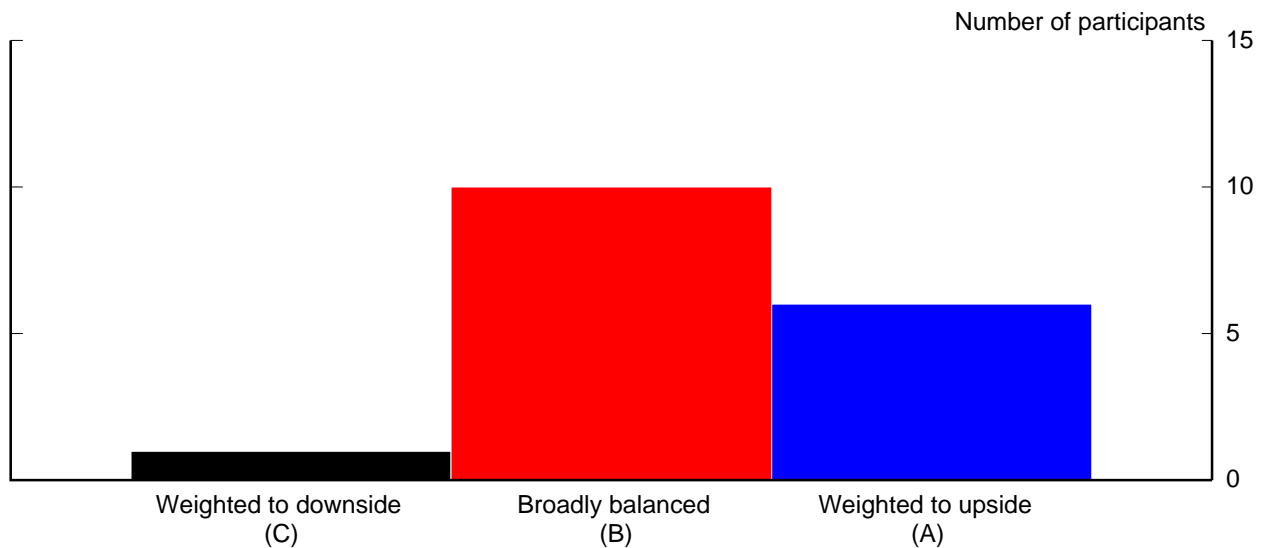
Respondent	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
2(a)	A	B	A	A	A	B	A	B	A	A	A	A	A	B	A	A	A
2(b)	A	B	A	B	A	B	B	B	A	A	B	A	A	B	A	A	B

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.

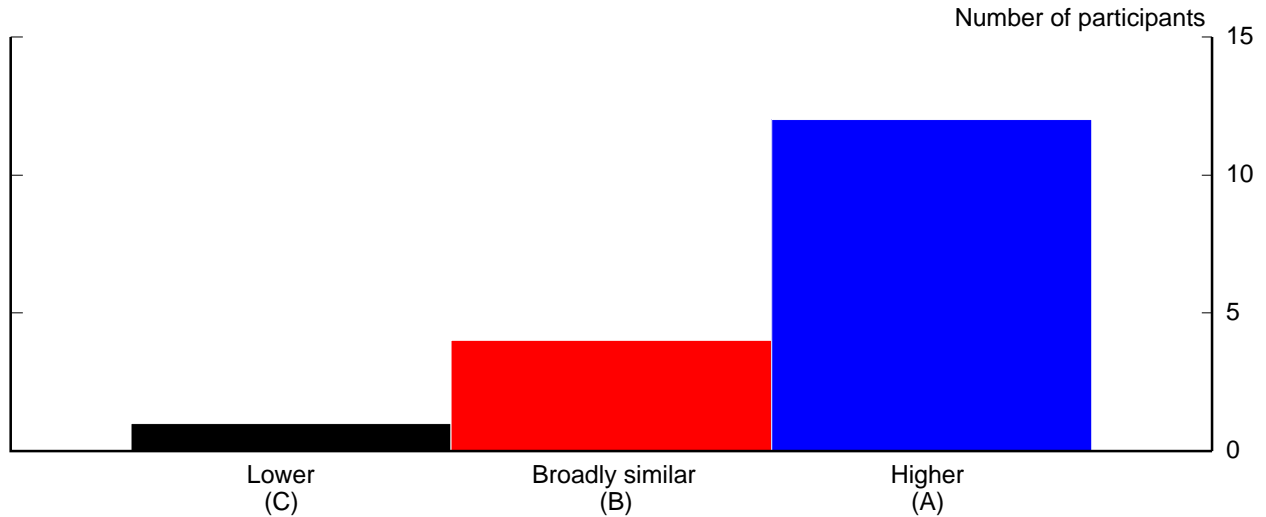


Individual Responses

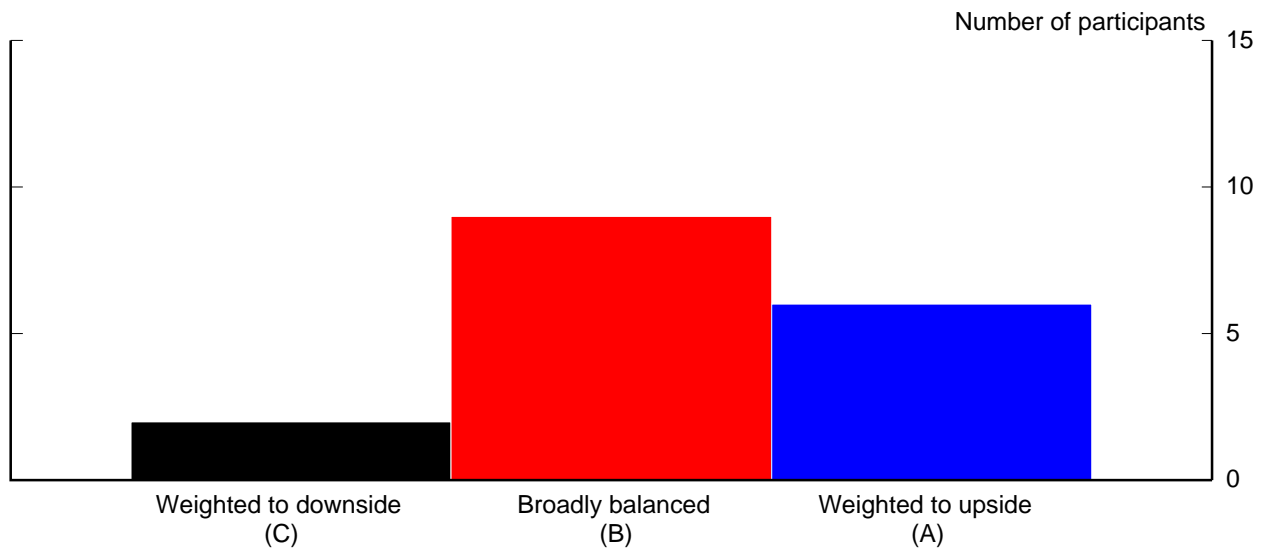
Respondent	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
2(a)	A	B	C	A	A	A	A	B	A	A	A	A	A	A	A	A	A
2(b)	A	B	B	B	B	B	A	B	B	B	B	A	B	A	A	C	A

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

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:

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

Respondent 2:

I anticipate that the convergence process for real GDP growth will be slightly shorter than 5-6 years, perhaps on the order of 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 3:

N/A

Respondent 4:

N/A

Respondent 5:

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.

Respondent 6:

N/A

Respondent 7:

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 8:

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 9:

N/A

Respondent 10:

N/A

Respondent 11:

N/A

Respondent 12:

N/A

Respondent 13:

N/A

Respondent 14:

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

Respondent 15:

N/A

Respondent 16:

Real activity is anticipated to reach maximum employment within a five-year horizon. Inflation, however, is likely to remain below target.

Respondent 17:

Convergence may well take the full five-to-six years. Inflation is likely to overshoot the level I think is consistent with price stability.

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:

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 4:

N/A

Respondent 5:

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 6:

N/A

Respondent 7:

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 8:

This is a close call, but uncertainty appears to be broadly similar to its average over the past 20 years.

Respondent 9:

N/A

Respondent 10:

There is substantial uncertainty over how much of the slowing of growth so far this year was due to transitory factors such higher energy prices and supply disruptions associated with Japanese natural disasters and how much reflects more fundamental headwinds that will persist for some time.

Respondent 11:

The US has not had a comparable recession (following a severe financial crisis) in the postwar period. Financial risks (e.g., Europe) remain. The aftermath of a housing bubble is also hard to predict. Lack of previous experience with this type of recession increases the uncertainty about growth and unemployment. Uncertainty about core inflation is moderated because of high levels of persistence and stability in a low-inflation era. However, volatility in commodity prices and exchange rates lead to higher uncertainty about headline inflation.

Respondent 12:

N/A

Respondent 13:

N/A

Respondent 14:

The incoming data has been somewhat weaker than my April 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 15:

N/A

Respondent 16:

N/A

Respondent 17:

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:

N/A

Respondent 2:

N/A

Respondent 3:

It has become harder to rule out the possibility that the cumulative effect of regulations that significantly raise business costs and reduce hiring and output, and the uncertainty concerning the exact nature of future taxes and regulations will materially reduce growth over the medium term. More specifically, my concern is we may not return to the historic trend, but that the growth rate will remain stuck around the trend rate of growth and activity will track a new lower trend line, regardless of the stance of monetary policy.

Respondent 4:

See below.

Respondent 5:

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

Respondent 6:

N/A

Respondent 7:

While energy and commodity prices have recently declined, there is a risk they will once again resume their upward march as the global economic recovery continues. I am also concerned that the pass-through to core inflation from the recent run-up in commodity prices and from import prices could be larger than expected.

Respondent 8:

We continue to view the risks to the forecast as broadly balanced—albeit around a much lower growth projection and a slightly higher inflation outlook than last time.

Respondent 9:

N/A

Respondent 10:

We have assumed that much of the recent weakness in real activity was due to transitory factors. However, given the recent weakening in labor markets and what appears to be some deterioration in sentiment, we see the risks to the forecast as tilted toward the downside on growth.

Respondent 11:

N/A

Respondent 12:

N/A

Respondent 13:

N/A

Respondent 14:

Historical patterns in the data suggest the growth rebound might be stronger than my baseline forecast. However, recent negative shocks including higher oil prices, bad weather, and the Japan disaster appear more persistent than I anticipated. These downside risks have led me shift my risk weighting for GDP growth to balanced. I view the risks to inflation as weighted to the upside in both the short run and over the longer term. Longer-term inflation risks reflect uncertainty about the timing and efficacy of the Fed's withdrawal of accommodation.

Respondent 15:

N/A

Respondent 16:

N/A

Respondent 17:

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

NO

8

9

Respondent 1: No

N/A

Respondent 2: 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 3: Yes

I believe that in order to achieve an inflation rate of 1 1/2 percent we would want to begin reducing policy accommodation by year-end.

Respondent 4: Yes

I believe that it will be appropriate to reduce monetary accommodation sooner than is estimated by the Tealbook.

Respondent 5: No

N/A

Respondent 6: No

N/A

Respondent 7: Yes

In my view, under the appropriate path, monetary policy would immediately begin the normalization process. I would change the forward guidance at this meeting so we can lift the funds rate off zero and bring it up to 1 percent later this year. I would also cease the reinvestment of principal payments from our agency debt, MBS holdings, and Treasury securities.

Respondent 8: Yes

The path for the funds rate in Tealbook is quite reasonable. However, I think the Federal Reserve should continue to reinvest principal payments from its securities holdings beyond the first quarter of 2012, which is contrary to the assumption in Tealbook.

Respondent 9: No

N/A

Respondent 10: No

We condition our forecast on market expectations for the funds rate which are currently similar to what is assumed in the Tealbook.

Respondent 11: No

Like the Tealbook, my concerns about inflation/inflation expectations have moderated and concerns about growth have increased, making me more comfortable with the Tealbook's later exit. I think the risks remain

toward an earlier exit than assumed by the Tealbook.

Respondent 12: No

N/A

Respondent 13: No

N/A

Respondent 14: 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 and/or shrinking the balance sheet sometime in the second half of 2011.

Respondent 15: No

N/A

Respondent 16: Yes

With a large amount of slack still present at the end of 2012 and inflation below target, the Federal funds rate's lift off from the zero lower bound occurs somewhat later in the forecast horizon relative to the Tealbook's assumption.

Respondent 17: Yes

I am more concerned than the Tealbook that high recent and prospective rates of headline inflation will have corrosive effects on our credibility. Much will depend on how firmly we communicate our resolve regarding price stability and on how well we are able to explain our strategy for achieving it. 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. Separately, I see no reason we cannot begin to shed MBS as market conditions allow. The appropriate composition of our balance sheet and its appropriate size are distinct issues.

Forecast Narratives

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

Respondent 1:

Weakness in the incoming data highlights the still tenuous nature of the recovery, reinforcing my prior expectation of a weaker-than-normal expansion. Consumption spending is likely to lag behind historical norms as households struggle with an exceptionally poor labor market, low net worth, and sluggish real income growth. Considerable uncertainty continues to surround my growth projection. In light of the unexpected near-term weakness, ongoing worries over Eurozone austerity measures, political unrest in the Middle East, and volatile movements in commodities prices, I judge the risks to my growth outlook to be tilted toward the downside.

On a year-over-year basis I expect core PCE inflation to gradually move up to 2% by the end of the forecast horizon. I also expect the growth rate of headline PCE prices to fall below that of core PCE prices in the near-term (as the recent run-up in gasoline prices unwind) before beginning its gradual ascent to roughly 2% by the end of the forecast horizon.

My inflation outlook is conditional on continued stability in inflation expectations and a measured reduction in economic slack. Still, the recent unexpected pickup in underlying inflation measures in the face of abundant slack, commodity price volatility, and extremely accommodative monetary policy elevate the uncertainty surrounding my inflation outlook, with the balance of risks tilted toward the upside.

Respondent 2:

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 than 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 3:

I believe the recovery is firmly in place but is facing significant headwinds. Supply-chain disruptions following the Japanese earthquake have reduced growth in the current quarter but will be reversed in the second half. Higher energy prices have lowered consumer spending in the first half; if energy prices stabilize or decline slightly, consumer spending will gradually improve. Residential investment is likely to contribute little to growth in overall activity this year. Business equipment investment and exports are projected to be robust. 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. A broad range of new regulations has likely dampened growth. Core inflation has risen significantly this year, is unlikely to decline very much under current policy, and could even rise further.

Respondent 4:

My thinking about the behavior of inflation has two conflicting elements to it. First, I believe that the changes over the past four years (to the financial sector, anticipated taxes/regulations, and the nature of jobs at firms) have had a significant and adverse impact on the ability of the economy to exploit its available resources. For that reason, I believe that the output gap is larger (less negative) than the Tealbook estimates

it to be. That force that should lead to upward pressures on underlying inflation. We're seeing those forces play out - and indeed they seem to be stronger than I expected. Second, my outlook for real GDP has softened. In part, that softening is attributable to temporary bad news on the supply side ... but I also see the recovery in consumer demand as being less potent than I had expected it to be. On balance, my forecast for core inflation has emphasized the first effect, but I cannot fully discount the second.

Respondent 5:

We have again lowered our growth forecasts for 2011 and 2012. For 2011, we now expect real GDP to increase 3% (Q4/Q4) versus 3.7% in the April SEP. Much of this reduction for 2011 reflects the impact of events that have already happened. Growth of real GDP in the first half of 2011 will likely be around 2% (annual rate), almost a full percentage point below our projection in April. We view this slowing of growth as primarily a temporary phenomenon resulting from external shocks. While these shocks are now beginning to reverse, they will nevertheless have some lasting effects which we believe have lowered the trajectory of the recovery. Thus, we have lowered the growth forecast for the second half of the year to around 4% from 4 $\frac{1}{2}$ %. For 2012 real GDP is projected to increase 3 $\frac{3}{4}$ %, down from around 4% in April.

The main source of this "soft patch" is a pronounced slowing of the rate of growth of real personal consumption expenditures. This largely stems from a larger than anticipated commodity price shock which has resulted in a pronounced slowing of growth of real disposable income. In addition to the commodity price shock, the level of personal income has been revised down while the level of personal current taxes has been revised up. Real PCE has not slowed to the same extent as disposable income; as a result, the saving rate declined to 4.9% in April, compared to over 6% a year ago. Even though the ratio of household net worth to disposable income increased somewhat in the first quarter, we view this decline of the saving rate as an undesired response to higher prices of goods with very inelastic demand in the short run. As we expect households to forestall any further decline of the personal saving rate over the forecast horizon we have reduced our real PCE growth forecast through the end of 2012.

Despite the marking down of projected real PCE growth, we have seen improvement in some of the underlying fundamentals of consumer spending, which mitigated the reduction in our central forecast. The annualized rate of growth of hours worked over the four months ending in May was 4 $\frac{1}{4}$ %, the strongest in quite some time. Based on the Flow of Funds data, households made further progress in deleveraging in 2011Q1. Total household liabilities declined 2.1% (annual rate), the fastest since 2010Q1, and the ratio of financial assets to liabilities moved higher and is now reasonably close to its longer term trend. According to the Senior Loan Officer survey, banks willingness to make nonmortgage consumer loans increased further in the second quarter and there was another increase in the net percentage of banks indicating that their standards for such loans had eased.

Aside from the damping down of real PCE growth and its effects on imports, the remainder of the forecast for growth of total expenditures is essentially unchanged from April. Growth prospects of our major trading partners remain favorable, suggesting sustained strong growth of exports. Indeed, recent data suggest that growth of real exports in 2011Q2 will be stronger than in the preceding two quarters. Business investment in equipment and software surprised to the upside in 2011Q1, and that strength was broad based. Surveys of business leaders suggest that this form of investment will remain strong over the remainder of 2011, aided by the full expensing tax provision enacted at the end of 2010. Leading indicators of business investment in nonresidential structures, such as the Architecture Billings Index, suggest some improvement in this sector over the forecast horizon. The fiscal condition of state and local governments has improved in recent quarters, with 2011Q1 state and local total tax receipts up 11% from their 2009Q2 low. As a result, the drag from this sector is expected to gradually subside. Even residential investment is likely to improve modestly, as current levels of housing production are far below what is needed to keep up with the demographically driven rate of household formations. We anticipate that this improvement will be mainly in the production of new multi-family housing.

With the downgrading of real GDP growth, the projected path of the unemployment rate is somewhat higher. We now expect the unemployment rate to be around $8\frac{1}{2}\%$ by the end of 2011 and $7\frac{1}{2}\%$ by the end of 2012, up from 8% and 7%, respectively, in the April SEP. The projected growth of employment is lower, with average monthly gains of nonfarm payroll employment of around 220,000 in 2011 and 300,000 in 2012. In addition to slower growth of output, the average workweek has increased somewhat more than we were expecting. In contrast, the labor force participation rate has only stabilized; based on past business cycles we would have expected to see some increase by this point. Analysis indicates that the current participation rate is well below trend, and so we continue to believe there is a case for the participation rate to move up some as the economy continues to recover. However, we have pushed further into the future when the recovery of participation to trend will occur.

The decline in energy commodity prices over the intermeeting period and the May fall of the energy component of the CPI have led us to reduce our forecast for the change in the total PCE deflator for 2011 (Q4/Q4) from a little over 3% in April to about $2\frac{1}{2}\%$. On a monthly basis, year over year changes of the total PCE deflator are now likely to top out in the $2\frac{1}{2}\%$ to $2\frac{3}{4}\%$ range in 2011Q3. Reflecting the higher readings on core inflation so far in the current quarter, we have raised our projections for core PCE inflation in 2011 (Q4/Q4) modestly from a little under $1\frac{1}{2}\%$ in April to a little over $1\frac{1}{2}\%$. We see the bulk of the increase in core inflation in the first half of this year as reflecting transitory factors. Consequently, we have made little change to our core inflation forecast for the second half of this year and for 2012. We continue to expect that core PCE inflation in 2012 (Q4/Q4) will be about $1\frac{1}{2}\%$. Meanwhile, as futures prices suggest energy prices will rise somewhat faster in 2012 than prices for other goods and services, total PCE inflation is expected to be around $1\frac{3}{4}\%$ for that year.

Respondent 6:

Broadly disappointing high-frequency data over the past few months reinforce the case for the proposition that the recovery will be gradual and somewhat halting for some time to come. It seems quite unlikely that residential construction will make a major positive contribution during the forecast period, even as the double-dip in housing prices has again retarded the reacquisition of the levels of pre-crisis household wealth. Combined with diminished expectations that labor markets will experience a prolonged burst of high levels of job creation, housing price declines could thus also exert a continuing drag on personal consumption expenditures. While it does appear that the recovery is still strong enough to be self-sustaining, there is some risk of a stall-speed phenomenon, particularly with the potential for a blow to confidence from one or more of the downside risks noted in the next paragraph.

Major downside risks continue to be largely external, in the sense that they are being generated either abroad or through the domestic political process. Risk of significant negative Eurozone developments has increased. Risk of a greater slowdown in China (and thus, effectively most emerging markets) seems greater to me than consensus would suggest. Finally, it seems increasingly likely that the conditions for Congressional approval of an increase in the debt limit will include non-trivial reductions in short term spending, which if large enough could amplify the already negative effects of government fiscal policy (federal, state and local) on near-term growth.

Respondent 7:

Overall, I expect growth over the next several years to be moderate, reflecting the fact that the economy is going through a difficult rebalancing due to deleveraging by households, businesses, financial institutions, and governments. Turning to the near term outlook, high energy prices and the events in Japan have reduced growth in the first half of this year. However, it appears as though this is a temporary setback. While labor market developments in May were disappointing, continued gains in employment, hours, and wages should support growth going forward. In addition, while energy and commodity prices have declined recently, they still remain high and the lingering effects are likely to restrain growth in the second half of

this year and next year. I expect growth in the next two years to be above trend, about 3 1/2 percent per year.

We are already seeing an increase in overall and core inflation, with price increases increasingly widespread. Recent declines in energy prices should lead to lower inflation in the near term, but greater pass through may lead to further increase in core inflation. With a rebounding economy, a depreciating dollar, and stable inflation expectations, I expect inflation will be a little under 2 percent over the forecast horizon.

The risks to the outlook remain considerable. In the near-term, fiscal policy, continued problems in the construction sector, and high energy and commodity prices all pose downside risks 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 8:

The economic recovery appears to have lost some momentum but fundamentally remains intact. 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. Inflation has been boosted by jumps in energy and commodity prices; however, significant slack in labor and goods markets will keep underlying inflation low. Well-anchored inflation expectations should help avoid significant pass-through of higher inflation to wages.

Respondent 9:

Economic performance during the intermeeting period has been disappointing and broad based weakness is evident in recent data. Two factors, both temporary, are surely contributing to this softness—the supply chain disruptions resulting from the Japanese earthquake and tsunami and increases in energy and food prices, which are weighing on household real income and consumer sentiment. Japanese supply chain disruptions are easing more rapidly than expected, which should cause growth to rebound strongly next quarter. And assuming that energy prices stabilize—a prospect that seems likely based on futures prices—the drag of higher prices on consumption growth should diminish over time. However, the weakness in the economy apparent in recent data may well reflect deeper negative forces holding back the recovery. Moreover, the growing uncertainty about the outlook appears to be causing firms to place investment and hiring decisions on hold—a response that creates the potential for a negative feedback loop to develop. In response, I have downgraded my forecast for growth in 2011 and revised upward my forecast of the unemployment rate in 2011 Q4. In addition to lowering my modal forecast for growth, I now also see the risks as being weighted to the downside. I expect a modest pickup in growth in 2012 due to the stabilization of energy prices and the favorable impact on spending of our highly accommodative monetary policy and improving credit conditions as well as strong growth in the global economy. However, considerable drags will continue to weigh on growth over the next several years, including a continued need for households to deleverage, declining house prices, ongoing weakness in residential and nonresidential construction and the need for state and local governments to curtail spending. In addition there is the prospect of growing fiscal drag from the Federal budget. Due, in large part, to these continuing headwinds in the aftermath of the financial crisis, I anticipate that growth over the next several years will be slow by the standards of postwar business cycle recoveries and unemployment will decline toward its longer-run normal level only slowly. Risks to the forecast are unusually high at present. Key risks include the prospect of financial market turmoil and spillovers resulting from the European debt situation and grid lock relating to the U.S. debt ceiling. With respect to inflation, I see the recent uptick in inflation as a transitory phenomenon reflecting the large increases in energy and food prices. In addition to boosting headline inflation, there has also been limited spillover from energy prices into core

inflation in recent months. Over the next several months, however, I anticipate that both headline and core inflation will subside to levels at, or more likely below, the level of 2% that I consider most consistent over the medium term with the Committee's dual mandate. Importantly, inflation expectations appear to be quite stable and underlying labor cost pressures are minimal due to very sluggish growth in nominal wages and continued productivity growth. The risks around my inflation forecast are large but balanced. I see both up and downside potential for commodity prices—an important inflation risk factor—and some downside potential that could materialize if the recovery falters.

Respondent 10:

Our forecast assumes that much of the slower growth evident in the first half was due to transitory factors such as the increase in energy prices and supply disruptions associated with natural disasters in Japan. In the third quarter output will be boosted significantly by the easing of auto industry supply constraints. Going forward, pent-up demand for consumer durables and replacement demand for business equipment, particularly in the manufacturing sector, should justify higher levels of production. In addition, lower interest rates and some further easing of credit conditions should contribute to a pickup in growth.

However, the recent weakening of the labor market and broad-based slowing in consumption growth suggest that the economy continues to face significant headwinds. Thus we expect growth in the second half of this year and early 2012 to be only a little more than a percentage point above potential. Later in the forecast period we expect a further pickup in growth as a more positive dynamic of strengthening income growth and demand takes hold.

Still high oil prices, fragile business and consumer confidence, further headwinds for housing, and the possibility of more significant fiscal drag pose downside risks to this assessment.

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. Some of the recent increases in core were to be expected as a bounce back from special factors that had lowered core inflation late last year. We also continue to think that the pass-through of higher costs for energy and other commodities will be modest, especially given what appears to be a moderation in those costs. One reason is the disinflationary influence of significant resource slack. Another is that outside of a few hot sectors, we are not seeing (or hearing of) a marked pickup in wage growth. This is consistent with well anchored inflationary expectations on the part of households and firms. Our assessment of the inflation outlook is also 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 11:

Both the data (payrolls, UI claims, GDP, housing statistics, retail sales) and prospective indicators (regional and ISM manufacturing surveys, confidence) indicate that the economy has slowed. Financial markets also are suggesting greater pessimism on growth (and less concern about inflation). No doubt, much of this is temporary. Notably, the easing of supply chain problems, as reflected in auto production schedules, should lead to a pop in Q3. The cooling of oil prices will certainly help consumers while keeping expectations for Fed tightening in check. UI claims are a little better and we should not read too much into one month's payroll numbers.

That said, I noted some loss of momentum even at the April meeting. Like last year, Europe has been a concern, but financial markets are discounting a longer-term US slowdown as well. Consumption, housing, and the labor market remain weaker than hoped. Fiscal factors will largely be negative going forward. Despite recent declines, energy and food prices remain higher than we expected at the beginning of the year. Tightening monetary policy could slow growth in emerging markets. For these reasons I have treated some of the slowing as longer-lasting and marked down my growth forecast over the horizon. I assume that an approximate Okun's Law relationship will link unemployment and growth.

Core inflation has picked up recently but I have not extrapolated that beyond 2011. Effects of the Japan-related supply chain disruptions on auto prices and the passthrough in some areas of commodity prices to the prices of core goods and services should dissipate. Rents and OER still seem likely to move higher, which will raise core; but, on the other hand, the output gap will also be larger, restraining core. Declining oil prices will lead to low headline inflation in the second half of 2011; I assume that modest increases in commodity prices will resume later this year or early next year.

Respondent 12:

N/A

Respondent 13:

The economy has slowed its expansion. Although some of this slowing may be due to a greater-than-anticipated supply chain slow-down from Japan, I believe that a housing market characterized by low equity values, poor servicing, supply overhang and deteriorating quality, and the greater duration of unemployment, are weighing heavily on home equity values and consumer sentiment, slowing the growth of consumption and aggregate demand.

Consumer sentiment remains low. Its tumble in March was primarily driven by higher prices at the pump as well as higher food prices, but some of these effects have subsided and consumer sentiment remains low. The effect of stagnant wages, anemic job creation and reduced home equity values is hindering growth in consumer demand.

Labor markets remain far from recovery. Downward pressure on wages remains significant. Federal workers, who comprise the largest employee group, remain under frozen wages. Labor force participation is at historic lows. The numbers of part-time-of-necessity, marginally attached and discouraged workers are pushing the number of unemployed in the US to upwards of 29.3 million. Until there is more momentum in re-absorbing this number into sustainable jobs, it appears unlikely that growth will quickly accelerate.

Respondent 14:

The recent economic data has been somewhat weaker than what I anticipated in my April forecast. The persistence of negative shocks such as higher oil prices, bad weather, sovereign debt developments, and the supply chain disruptions associated with the Japan disaster has been greater than I anticipated. I expect this recent weakness to be temporary though and that the economy is poised for moderately above-trend growth in the second half of 2011 and 2012.

As the recovery strengthens, I expect a modest pace of 2.8 percent growth in 2011, down slightly from my April forecast and at about my longer run trend rate.

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 15:

Balance sheet adjustments by households, businesses, and financial institutions are likely to play out over the next several years. In this environment, consumer spending is likely to be considerably more modest than more ordinary cyclical dynamics would suggest. Recovery is also likely to be muted by ongoing fiscal uncertainties that are unlikely to be resolved in the near-term.

I am of the view that the worst of the commodity-induced increases in inflation are behind us. I expect that this development, along with stability of inflation expectations and restrained pace of wage growth, will bring some relief to headline and underlying inflation.

The broadly weaker data since April suggests that the down-side risks to the growth outlook have intensified. In addition to the impact of high food and oil prices, the weakening in labor market conditions, combined with falling equity prices, flat home values, and persistently soft consumer sentiment, is placing more pressure on consumer spending. If consumer spending does not pickup over the next few months I am concerned that business investment plans are likely to be cut substantially.

Regarding inflation, I think there is a chance that the influence of commodity prices and other pressures on the core inflation numbers could play out for a longer time than I have assumed and inflationary sentiment could be adversely affected as a result.

Respondent 16:

Information received since the time of the April projections indicates that the economic recovery is proceeding at a slower pace than previously anticipated. Since the beginning of this year, the real outlook has been progressively downgraded: The cumulative downward revision to GDP growth over the period 2011-2012 now amounts to 1.6 percentage points. As a result, the unemployment rate is currently expected to remain above 8 percent by the end of 2012. A meaningful and sustained acceleration of growth above potential continues to be pushed further out into the forecast horizon.

While temporary factors have contributed to this year's first-half setbacks, other more persistent factors are weighing down the underlying pace of the recovery. The large amount of labor market slack is depressing wage growth and disposable personal income is suffering as a result. Retrenchments in state and local spending have been so far larger than anticipated, and residential investment is moribund. While the modal forecast calls for an acceleration of growth from the current lackluster pace, the recovery is likely to remain slow by historical standards. Fiscal policy is turning contractionary, thus limiting gains in disposable income. The evolution of households' net worth is constrained by continued weakness in the housing market, and there is little so far suggesting a rapid turnaround in residential investment. The outlook for state and local spending remains grim, and the potential for more aggressive budget cuts both at the federal and at the state and local level over the course of the forecast horizon cannot be ruled out. Credit availability for some sectors of the economy remains impaired. A key assumption in the forecast is that European problems are contained and do not have a large impact on the US.

Overall, the ongoing recovery is undesirably slow relative to the depth of the recession. GDP growth this year is not expected to be faster than potential. A more vigorous pace of growth is expected only in

2012 and 2013. The potential downside risks to the real outlook remain costlier than the potential upside risks. The labor market is a source of significant concern. The slow pace of the recovery is generating very long duration spells of unemployment, and these long unemployment spells could severely cripple workers' chances of becoming re-employed.

Recent increases in core inflation likely reflect some pass-through from higher commodity prices and supply-chain effects from the Japanese earthquake. These effects should be transitory. The increase in owners' equivalent rent could prove more persistent. However, given the ongoing declines in house prices, it is unclear whether the recent evolution of this price category accurately reflects a fundamental source of inflationary pressures in the flow of housing services. Wage compensation growth remains very subdued, and economic slack should continue to put downward pressure on inflation. In all, core inflation is expected to step down to about 1 $\frac{1}{4}$ percent over the course of 2012-13.

Respondent 17:

We continue to suffer from an overhang of housing and an overhang of debt. The sharp deterioration in the fiscal outlook that has occurred as a result of the recession has increased concerns about future taxes. Consumers are discouraged and fatigued by the slow and uneven pace of the recovery, and have been squeezed by high energy prices. Business contacts complain of the rising cost of a wide variety of imported goods—not just raw commodities. Still, the main focus of firms' expansion plans is overseas. There is significant and growing risk that the marketplace will misjudge our resolve to maintain price stability.

Forecast Narratives (continued)

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

Respondent 1:

Compared to Tealbook, my forecast calls for less growth in 2012 and 2013. But due to a sharper downward revision in the Tealbook, the two forecasts are now much closer than they were in April. My projections for both headline and core PCE inflation remain similar to the Tealbook in the near-term. However, my forecast path has both inflation measures returning to 2.0% by the end of 2013.

Respondent 2:

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 3:

Our projections of overall activity do not differ materially from those contained in the Tealbook. Our projection of inflation is higher, since we put less weight on slack as a determinant of inflation. Combined with my view that we should target a 1 1/2 percent inflation rate, that higher projection would lead us to begin to remove policy accommodation by year-end.

Respondent 4:

I do not see inflation falling from 2011 to 2012.

Respondent 5:

We continue to assume lower inflation persistence than does the Tealbook. Given changes in both our forecast and the Tealbook forecast, this differing assumption has little impact for the 2011 and 2012 forecasts. However, at longer horizons, under the assumption of well anchored inflation expectations, we project that core and overall inflation will move more quickly toward the 2% objective than does the Tealbook forecast.

Based on our assumptions of modest increases in the labor force participation rate and average weekly hours, we expect a somewhat greater decline in the unemployment rate than is projected in the Tealbook.

Respondent 6:

I continue to be less confident that oil prices will remain subdued over the forecast period.

Respondent 7:

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 2013. In addition, I expect inflation to be higher in 2012 and 2013. The difference in inflation forecasts reflects different views on the relative importance of inflation expectations and economic slack for forecasting inflation.

Respondent 8:

My forecast is broadly similar to the Tealbook projection.

Respondent 9:

N/A

Respondent 10:

We have attributed more of the recent weakness to transitory factors and thus have a forecast for output growth that is somewhat above that of the Tealbook.

Respondent 11:

Continue to be somewhat more pessimistic about growth and employment in 2012 and beyond. Although I think it is reasonable to expect growth to pick up at some point, we have seen relatively little evidence of such a pickup so far. Indeed, there seems to have been a net loss of momentum since the beginning of the year. Inflation forecasts are similar.

Respondent 12:

N/A

Respondent 13:

N/A

Respondent 14:

My forecast calls for a tighter monetary policy path than the Tealbook.

Respondent 15:

N/A

Respondent 16:

The forecast for real activity is very similar to the Tealbook forecast. Core inflation is projected to remain somewhat lower than in the Tealbook.

Respondent 17:

Despite upward revisions to its forecasts, the Tealbook remains considerably more optimistic about the inflation outlook than I am. 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.

Forecast Narratives (continued)

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

Respondent 1:

Overall, I view the recent weak data as reflecting mostly, although not entirely, transitory factors. Accordingly, I have revised down my GDP forecast for the first half of 2011 from 2.5 percent in April to 1.9 percent, and nudged down my projections for 2012 and 2013.

Despite low levels of resource utilization, underlying inflation has picked up in recent months. While I attribute some of the May jump up in the core CPI to transitory factors, the median CPI has risen at an annualized rate of 2.0 percent over the past 6 months, compared to just 1.0 percent over the six months prior. Accordingly, I have marked up my forecast for both core and overall PCE inflation relative to my April projection.

Respondent 2:

My forecasts for near-term real growth have been revised downward reflecting slower growth to date this year than I had previously expected. My forecast path for the unemployment rate has been revised up to reflect the recent weaker than expected growth this year. 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 3:

The data flow on overall activity has softened since the last projection. Consumer spending has been weak in 5 of the last 6 months. Supply-chain disruptions following the Japanese earthquake have reduced growth in the current quarter. High energy prices have reduced real incomes and boosted inflation.

Respondent 4:

N/A

Respondent 5:

As stated earlier, the soft data on consumer expenditures, the downward revisions to the income data, the recent weakness in labor market conditions, continued tepid data on consumer confidence, and expectations that energy prices will remain elevated (which will impact discretionary income and consumer confidence) have led us to mark down our real PCE growth forecast through 2012. Primarily because of these factors, our projected real GDP growth path is lower throughout this period.

The unemployment rate has ticked up in the last two months. Combined with the weak May labor market report and the elevated level of initial claims for unemployment insurance, we have raised our projected path for the unemployment rate throughout the forecast horizon.

Because of the recent declines in energy prices and in the CPI energy index, we have lowered our near term total PCE inflation forecast. The recent data on core PCE inflation has been higher than we anticipated, and so we have raised our near-term projection for core inflation. For both total and core inflation, these developments have had little impact on our medium-term inflation central outlook.

In regard to our risk assessment for real economic activity, the recent weakness in the consumer spending data, the softness in labor market conditions, and the general soft tone of the recent data raise the probability of a more prolonged stagnation than is anticipated in our central outlook. In addition, the European sovereign debt crisis appears to have escalated and there remains the possibility of a greater fiscal consolidation (either through an agreement by the political parties or forced through a debt ceiling crisis),

which suggests some more immediate downside risks to the real outlook. Consequently, our risk assessment for real activity is more skewed to the downside than it was in April, reflecting both an increase in downside risks and a reduction in upside risks.

For the inflation risk assessment, the decline in the 5-10 year TIPS-implied inflation compensation over the intermeeting period suggests a modestly smaller probability that inflation expectations are becoming unmoored. This has led to a modest reduction in the longer-term upside inflation risks, although we still characterize the inflation risk assessment as broadly balanced.

Respondent 6:

Significantly less favorable than expected data reports over the last few months.

Respondent 7:

The main change in my forecast is lower growth in 2011, reflecting the slower growth in the first half due to events in Japan and higher energy and commodity prices.

Respondent 8:

The disappointing data since April 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, but parsing out how much of the slowdown in growth is temporary and how much is more lasting is the key issue. As the downside surprises to real activity have accumulated, it now appears that the recovery lost some momentum. Still, the price effects of the projected slower growth have not been enough to offset the recent higher readings on inflation, which suggest some greater pressures to underlying inflation.

Respondent 9:

Most changes in my forecast reflect weak incoming data.

Respondent 10:

The incoming data point to less robust GDP growth in the first half of 2011 than we had assumed in April. We have also reduced our estimate of the strength of demand in the remainder of this year and early 2012 on the basis of what seems to be a less favorable dynamic between labor market recovery and consumer spending.

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 11:

Mostly the incoming data: Growth, employment, consumption, manufacturing surveys have all been weaker than expected, and financial markets are signalling growth concerns. The supply chain disruptions were perhaps a bit worse than expected as of the April projections (though they are clearing up now) but the effects are roughly offset by declines in oil prices. So on net the data point to a further loss of momentum relative to April. While it is hard to pinpoint the underlying cause, the slowdowns in consumption, jobs, housing etc. are interrelated in the obvious ways, e.g., if greater consumer caution implies less spending, that affects employment, which affects housing demand and consumer spending, etc.

Respondent 12:

N/A

Respondent 13:

N/A

Respondent 14:

Recent weaker-than-expected data has led me to revise down my near-term projection.

Respondent 15:

I have revised down my 2011 growth forecast in light of the weaker than expected incoming data through May. I am still inclined to interpret these data, and the numbers for household spending in particular, as a temporary setback produced by higher gasoline prices and supply disruptions related to the Tsunami. My near-term inflation outlook has been revised slightly higher as a result of the stronger recent inflation indicators.

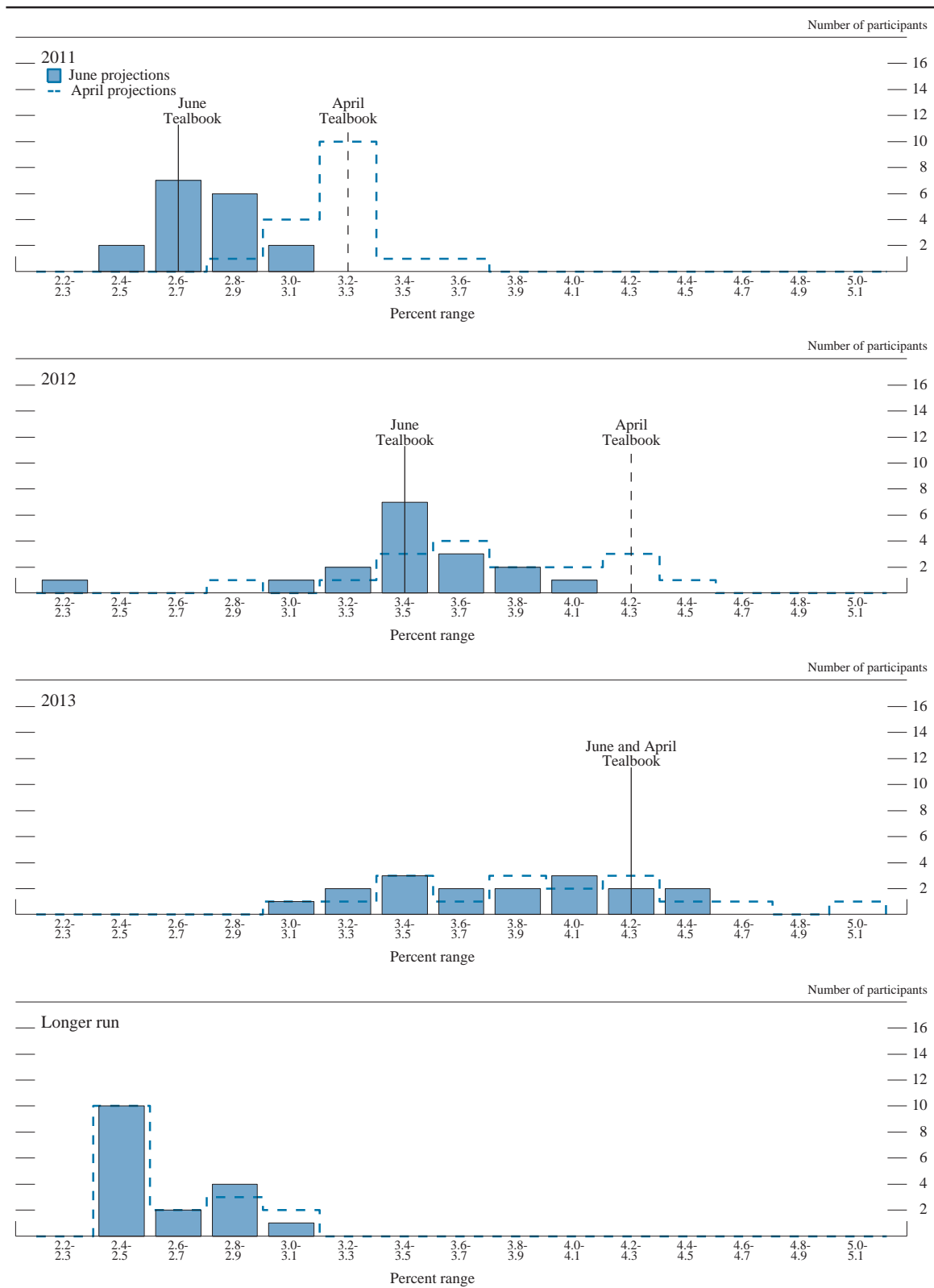
Respondent 16:

Weakness in the private sources of personal income, lower household's net worth, a weaker labor market, and continued setbacks in construction are all factors contributing to the downward revision to the near- and medium-term outlook for the real economy. Temporary adverse shocks are also playing a role. Some of the temporary elevation in core inflation carries over to the medium term because of persistence in the inflation process.

Respondent 17:

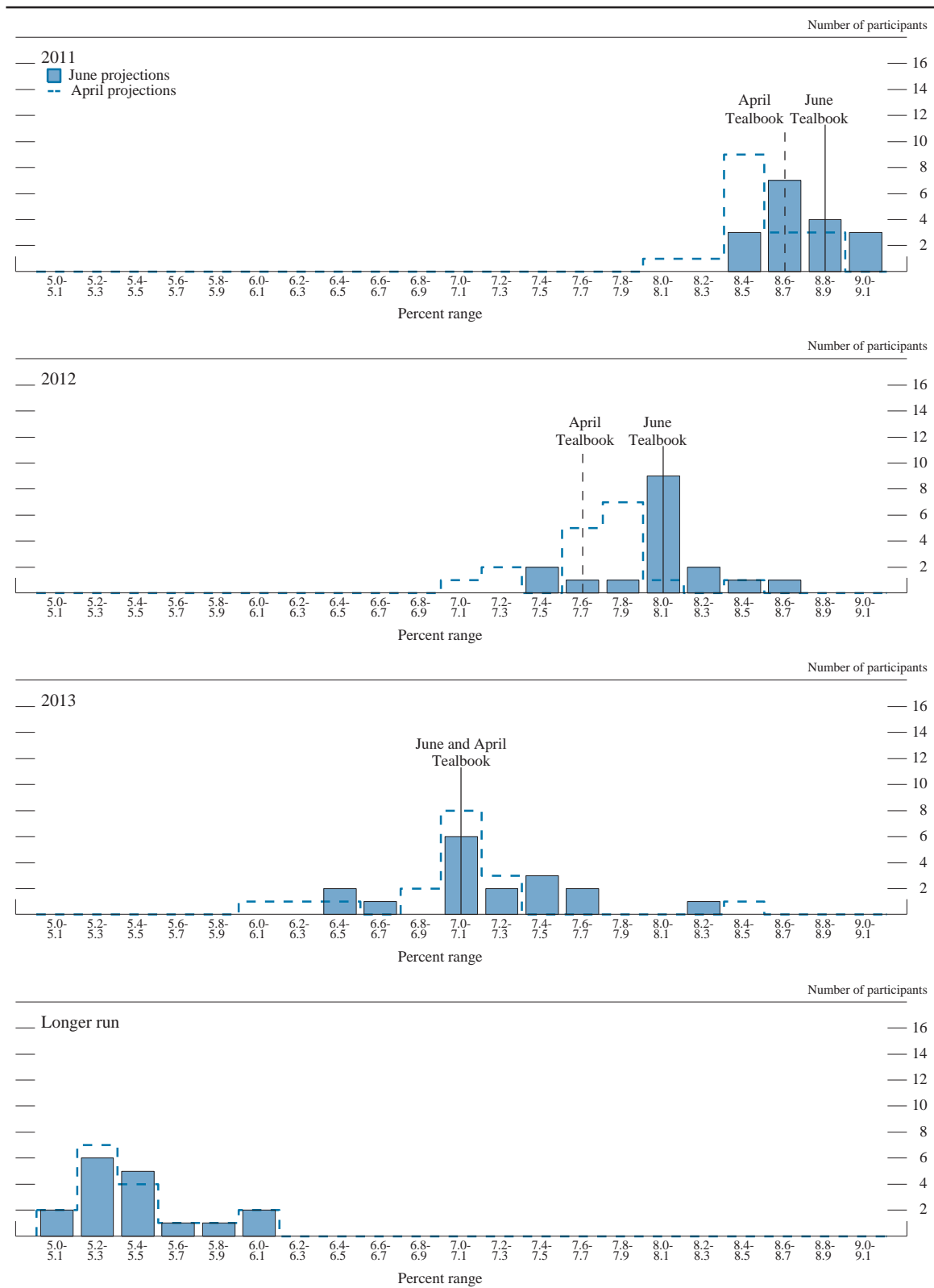
Recent data have caused me to revise downward my estimate of first-half GDP growth. However, I believe that temporary factors—including disruptions associated with the Japanese earthquake and tsunami—are behind much of this weakness, so I have made only a marginal downward adjustment to Q4/Q4 GDP growth and left my forecasted path for the unemployment rate unchanged. I've revised my out-year "core" inflation forecasts upward to show a stronger tendency for headline and core inflation measures to converge. I believe that ex-food-and-energy measures can distort inflation trends over substantial periods, so I report forecasts of trimmed-mean inflation, instead.

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



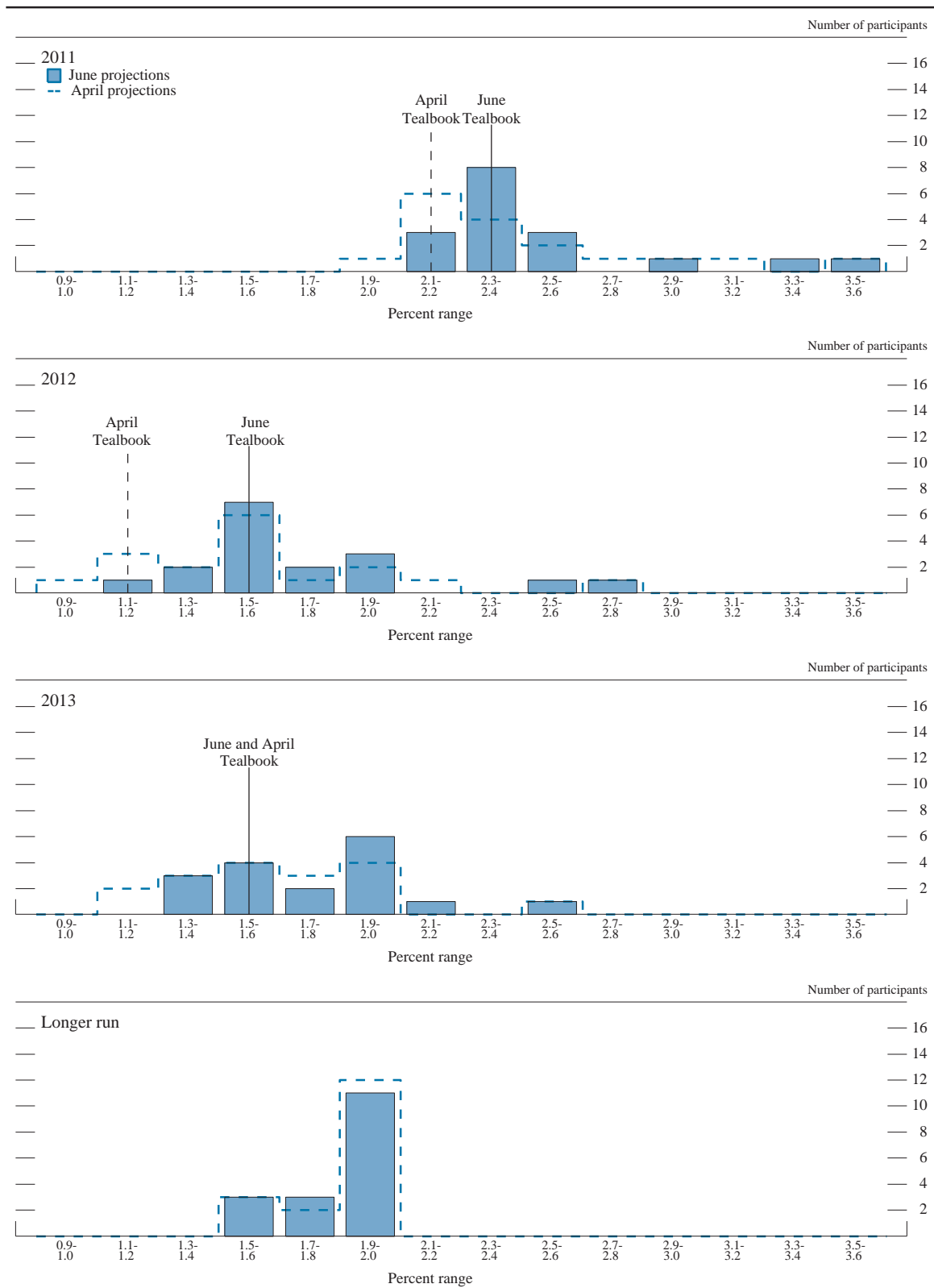
NOTE: Definitions of variables are in the general note to table 1.

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



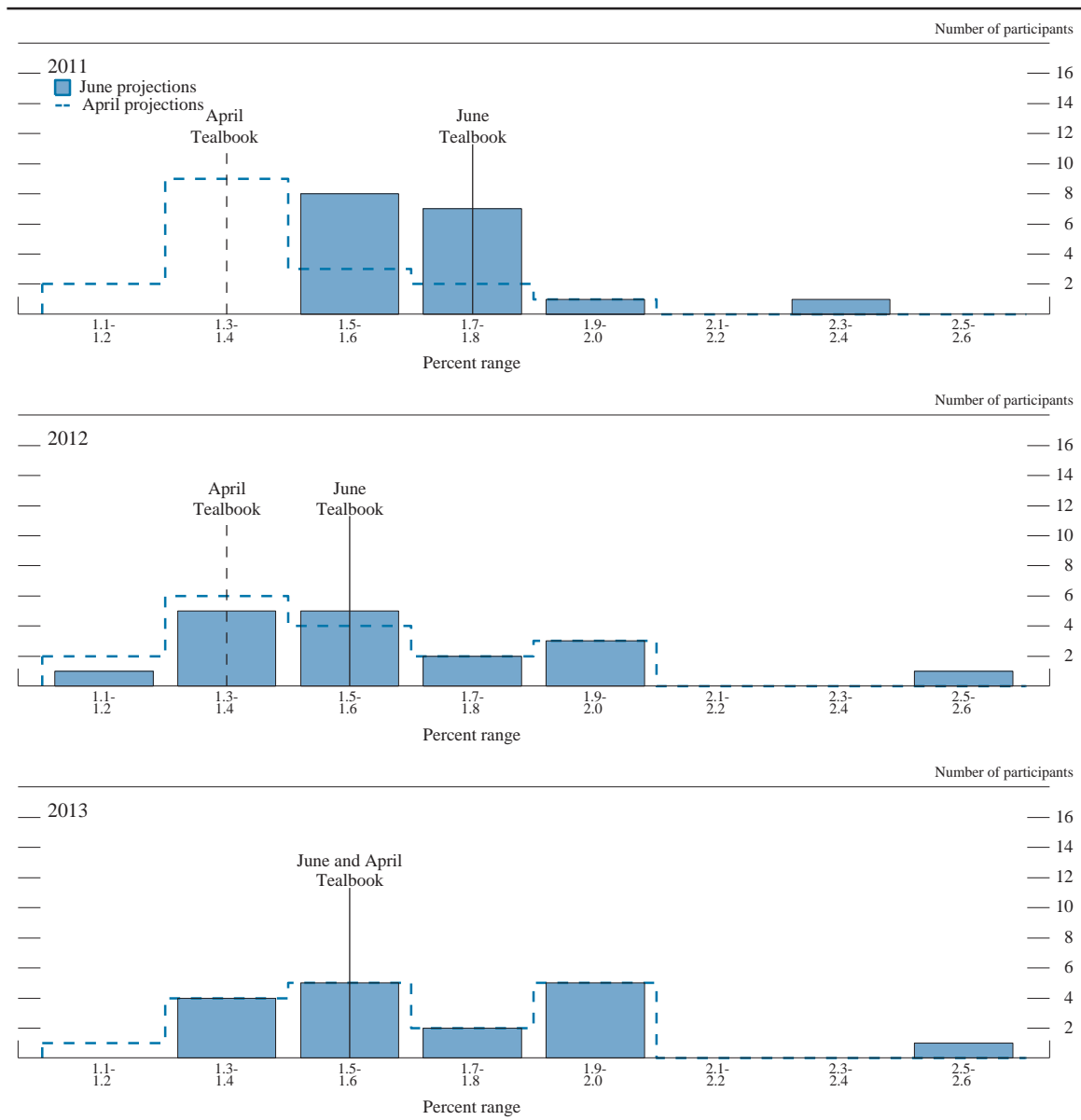
NOTE: Definitions of variables are in the general note to table 1.

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.