Board of Governors of the Federal Reserve System
Division of Monetary Affairs
FOMC Secretariat

Date: January 13, 2012

To: Governors and Reserve Bank Presidents

From: Deborah J. Danker

Subject: Request for January Projections

As part of the upcoming policy round, FOMC meeting participants are requested to submit their quarterly projections. Please note that this is the first round in which your projections of the appropriate path for policy will be part of the regular projections and included in the Summary of Economic Projections. Because the data collection technology has not yet caught up, we unfortunately have to ask you to fill out two separate templates when submitting your forecasts:

- The usual online template for your economic projections, with just one change in the wording: the question about the appropriate path for monetary policy now asks specifically about your view of the appropriate path for the Federal Reserve's <u>balance sheet</u>.
- A downloadable Word template for your federal funds rate projections and comments, which is very similar to the one that was used for the trial run in November.

Both templates will be made available on Tuesday, January 17. Completed templates are due by **5:00 pm EST on Friday, January 20.** We will again be following up with each of your offices to verify contact information in case there is a need to discuss or correct any projections over the weekend of January 21-22. Please submit the completed Word template through the SDS "Create Comment" feature; for record-keeping purposes, we ask that you **not** send in projections via email.

Any subsequent revisions to your projections should be provided as soon as you have them, but no later than **9:00 pm on Tuesday, January 24**. If absolutely necessary, a revision could be submitted up until the end of the coffee break on the second day of the meeting. At that point, however, projections will be finalized. For the convenience of Bank Presidents and Bank staff, connections to the System IT network will be available in the Special Library on January 25, so that any last-minute revisions could be submitted (please be sure to bring your laptop if you intend to use these connections). Alternatively, we will have paper copies of individual projections available, and participants could write in revisions, if necessary.

Also attached to this cover note are the following:

- a timeline of the projections process (Attachment 1)
- a description of the scope of the projections (Attachment 2)
- an updated version of the usual table providing background information on forecast uncertainty (Attachment 3).

Attachment 1

January Projections Timeline

January 13 (Friday)	Request for participants' projections
January 16 (Monday)	Martin Luther King Jr. Day observed
January 17 (Tuesday)	Projections templates made available via Lotus Notes links.
January 20 (Friday)	Initial projections due by **5:00 pm ET**
January 23 (Monday)	Initial summary projections package distributed to FOMC participants
January 24 (Tuesday)	First day of FOMC meeting. Briefings on participants' projections and narratives. Deadline for projection revisions.
January 25 (Wed.)	Second day of FOMC meeting. Absolute deadline for projection revisions. Summary information on projections will be released at the Chairman's press conference.
January 26 (Thursday)	Final summary projections package distributed to FOMC participants
February 2 (Thursday)	First draft of the minutes and Summary of Economic Projections (SEP) distributed to participants
February 7 (Tuesday)	Second draft of the minutes and SEP distributed to participants
February 9 (Thursday)	Final version of the minutes and SEP distributed for notation vote
February 14 (Tuesday)	Voting on minutes and SEP closes at noon ET
February 15 (Wed.)	Minutes and SEP published at 2:00 pm ET

Attachment 2

Scope of the January Projections

Economic Variables:

2012-2014: Please provide your projections of the most likely outcomes for the percent change in **real GDP** (Q4/Q4), the percent change in the chain-weighted price index for **PCE** and for **core PCE** (Q4/Q4), and the level of the **unemployment rate** (Q4 average) for 2012, 2013, and 2014. Please also provide your current estimates for the annualized percent change in real GDP, the total PCE price index, and the core PCE price index in the first half of 2012, i.e. $Q2^{2012}/Q4^{2011}$. Please express all of these projections to the nearest tenth of a percentage point (for example, 2.5 percent).

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

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

Judgments about Uncertainty and Risks:

Please also indicate whether you judge that the uncertainty attached to your projections for each economic variable is higher/lower/broadly similar to levels of uncertainty over the past 20 years, and also whether the risks around your projections for each economic variable are weighted to the upside/downside/broadly balanced. As with your modal projections, these judgments concerning the uncertainty and risks attached to your projections should be based on the assumption that the System pursues an appropriate monetary policy. We have provided an updated table summarizing a range of alternative measures of past forecast uncertainty as background for your judgments (Attachment 3).

Policy Path:

On the Word template, please provide your projections for the average level of the target federal funds rate in the fourth quarter of 2012, 2013, and 2014, and over the longer run. As with the projections for the economic variables, policy projections should reflect your assessment of appropriate monetary policy (that is, a policy that is most likely to achieve paths for economic activity and inflation that best satisfy your interpretation of the dual economic objectives), and the longer-run projection refers to the federal funds rate to which the economy will converge over time in the absence of further shocks.

If you anticipate that, under appropriate monetary policy, the target federal funds rate will not be raised until after 2014, please indicate the year in which the first increase in the target federal funds rate is likely to occur. In addition, please indicate your projections for the rates of real GDP growth, PCE inflation, and core PCE inflation in that year and your projections for the average unemployment rate and the average target federal funds rate in the fourth quarter of that year.

Note that Question 3 on the online template now asks about your view of the appropriate path of the Federal Reserve's **balance sheet**. A similar question on the Word template provides an opportunity for you to provide a narrative about your views on the **federal funds rate**, as well as any other comments on appropriate monetary policy. (By the April round, the questions on the policy path will all be integrated into the online template.)

Narrative:

The value of the projections process would be increased greatly if you could supply a narrative of the key considerations shaping your outlook. As before, no common assumptions are proposed for fiscal policy and other exogenous factors, such as energy prices; however, if your assumptions for these types of variables differ materially from those in the Tealbook baseline forecast, it would be helpful if this was noted in your narrative. Some possible headings to help structure your narrative are suggested below (and are included in the online template for submitting projections).

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

Attachment 3

Table 1: Historical Projection Errors
Root Mean Squared Errors of Winter Projections for 1991 to 2010[1]

Source	Real GDP[2] (percent change, Q4 to Q4)			Unemployment Rate (Q4 average)			Consumer prices[3] (percent change, Q4 to Q4)		
	2012	2013	2014	2012	2013	2014	2012	2013	2014
Monetary Policy Report[4]	1.17	—	—	0.65	—	—	—	—	—
Federal Reserve staff	1.27	1.62	—	0.68	1.41	—	0.96	1.05	—
Congressional Budget Office	1.34	1.75	1.87[5]	0.41[6,7]	1.15[6]	1.70[6]	0.86	0.96	1.03[5]
Administration	1.37	1.71	1.66	0.78	1.54	1.90	0.86	0.93	0.90
Blue Chip	1.20	1.61	—	0.64	1.46	—	0.83	0.97	—
Survey of Professional Forecasters	1.19	1.72[5]	—	0.59	1.16[6]	—	0.87	0.96	—
Average	1.26	1.68	1.76	0.67	1.35	1.80	0.88	0.97	0.97

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