Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, September 2012

Percent

Variable	Central tendency[1]					Range[2]				
	2012	2013	2014	2015	Longer run	2012	2013	2014	2015	Longer run
Change in real GDP	1.7 to 2.0	2.5 to 3.0	3.0 to 3.8	3.0 to 3.8	2.3 to 2.5	1.6 to 2.0	2.3 to 3.5	2.7 to 4.1	2.5 to 4.2	2.2 to 3.0
June projection	1.9 to 2.4	2.2 to 2.8	3.0 to 3.5	n.a.	2.3 to 2.5	1.6 to 2.5	2.2 to 3.5	2.8 to 4.0	n.a.	2.2 to 3.0
Unemployment rate	8.0 to 8.2	7.6 to 7.9	6.7 to 7.3	6.0 to 6.8	5.2 to 6.0	8.0 to 8.3	7.0 to 8.0	6.3 to 7.5	5.7 to 6.9	5.0 to 6.3
June projection	8.0 to 8.2	7.5 to 8.0	7.0 to 7.7	n.a.	5.2 to 6.0	7.8 to 8.4	7.0 to 8.1	6.3 to 7.7	n.a.	4.9 to 6.3
PCE inflation	1.7 to 1.8	1.6 to 2.0	1.6 to 2.0	1.8 to 2.0	2.0	1.5 to 1.9	1.5 to 2.1	1.6 to 2.2	1.8 to 2.3	2.0
June projection	1.2 to 1.7	1.5 to 2.0	1.5 to 2.0	n.a.	2.0	1.2 to 2.0	1.5 to 2.1	1.5 to 2.2	n.a.	2.0
Core PCE inflation[3]	1.7 to 1.9	1.7 to 2.0	1.8 to 2.0	1.9 to 2.0		1.6 to 2.0	1.6 to 2.0	1.6 to 2.2	1.8 to 2.3	
June projection	1.7 to 2.0	1.6 to 2.0	1.6 to 2.0	n.a.		1.7 to 2.0	1.4 to 2.1	1.5 to 2.2	n.a.	

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 June projections were made in conjunction with the meeting of the Federal Open Market Committee on June 19–20, 2012.

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 1.A. Economic projections for the first half of 2012*
(in percent)

Central tendencies and ranges

	Central tendency	Range
Change in real GDP	1.8	1.8
PCE inflation	1.6	1.6
Core PCE inflation	2.0	2.0

Participants' projections

Projection	Change in real GDP	PCE inflation	Core PCE inflation
1	1.8	1.6	2
2	1.8	1.6	2
3	1.8	1.6	2
4	1.8	1.6	2
5	1.8	1.6	2
6	1.8	1.6	2
7	1.8	1.6	2
8	1.8	1.6	2
9	1.8	1.6	2
10	1.8	1.6	2
11	1.8	1.6	2
12	1.8	1.6	2
13	1.8	1.6	2
14	1.8	1.6	2
15	1.8	1.6	2
16	1.8	1.6	2
17	1.8	1.6	2
18	1.8	1.6	2
19	1.8	1.6	2

* Growth and inflation are reported at annualized rates.

Table 1.B. Economic projections for the second half of 2012*
(in percent)

Central tendencies and ranges

	Central tendency	Range
Change in real GDP	1.6 to 2.2	1.4 to 2.2
PCE inflation	1.8 to 2.0	1.4 to 2.2
Core PCE inflation	1.4 to 1.8	1.2 to 2.0

Participants' projections

Projection	Change in real GDP	PCE inflation	Core PCE inflation
1	1.6	1.4	1.6
2	2.0	1.8	1.8
3	1.4	2.0	1.6
4	1.6	2.0	1.6
5	2.2	2.0	2.0
6	1.6	1.8	1.4
7	1.8	2.0	1.6
8	1.6	2.0	1.4
9	2.0	2.0	1.6
10	1.4	2.0	1.6
11	2.2	2.0	2.0
12	2.2	2.2	1.8
13	1.8	1.8	1.6
14	1.8	2.0	1.8
15	2.2	2.2	1.6
16	1.6	1.6	1.2
17	2.0	2.0	1.2
18	1.4	1.8	1.6
19	1.6	1.8	1.4

* Projections for the second half of 2012 implied by participants' September projections for the first half of 2012 and for 2012 as a whole. Growth and inflation are reported at annualized rates.

Table 2. September economic projections, 2012–15 and over the longer run (in percent)

Projection	Year	Change in real GDP	Unemployment rate	PCE inflation	Core PCE inflation	Federal funds rate
1	2012	1.7	8.2	1.5	1.8	0.13
2	2012	1.9	8.2	1.7	1.9	0.13
3	2012	1.6	8.3	1.8	1.8	0.13
4	2012	1.7	8.2	1.8	1.8	0.13
5	2012	2.0	8.0	1.8	2.0	0.13
6	2012	1.7	8.1	1.7	1.7	0.13
7	2012	1.8	8.1	1.8	1.8	0.13
8	2012	1.7	8.2	1.8	1.7	0.13
9	2012	1.9	8.1	1.8	1.8	0.13
10	2012	1.6	8.2	1.8	1.8	0.13
11	2012	2.0	8.0	1.8	2.0	0.50
12	2012	2.0	8.0	1.9	1.9	0.13
13	2012	1.8	8.0	1.7	1.8	0.13
14	2012	1.8	8.3	1.8	1.9	0.13
15	2012	2.0	8.2	1.9	1.8	0.13
16	2012	1.7	8.2	1.6	1.6	0.13
17	2012	1.9	8.2	1.8	1.6	0.13
18	2012	1.6	8.3	1.7	1.8	0.13
19	2012	1.7	8.2	1.7	1.7	0.13
1	2013	2.3	7.9	1.8	1.6	0.13
2	2013	2.7	7.9	1.8	1.7	0.13
3	2013	3.0	7.8	1.6	1.8	0.13
4	2013	2.5	7.8	2.0	2.0	0.50
5	2013	3.5	7.2	2.0	2.0	0.13
6	2013	2.5	7.9	1.7	1.7	0.13
7	2013	2.7	7.8	1.6	1.8	0.13
8	2013	2.8	7.7	1.8	1.8	0.13
9	2013	2.3	8.0	2.0	2.0	0.13
10	2013	2.4	7.9	1.6	1.8	0.13
11	2013	3.0	7.0	2.0	2.0	1.75
12	2013	2.5	7.7	2.0	2.0	0.13
13	2013	2.5	7.6	2.0	2.0	0.75
14	2013	3.0	7.7	2.0	2.0	0.50
15	2013	3.2	7.7	1.9	2.0	0.13
16	2013	3.0	7.7	1.5	1.6	0.13
17	2013	2.5	7.5	2.1	1.8	0.13
18	2013	3.0	7.8	1.7	1.9	0.13
19	2013	3.0	7.7	1.6	1.8	0.13

Table 2. ***(continued)***

Projection	Year	Change in real GDP	Unemployment rate	PCE inflation	Core PCE inflation	Federal funds rate
1	2014	3.3	7.3	1.6	1.6	0.13
2	2014	3.2	7.4	1.7	1.7	0.13
3	2014	3.8	7.1	1.6	1.9	0.13
4	2014	2.7	7.3	2.0	2.0	2.50
5	2014	3.0	6.5	2.0	2.0	1.75
6	2014	3.3	7.3	1.7	1.8	0.13
7	2014	3.2	7.4	2.0	2.0	0.13
8	2014	3.1	7.3	1.9	1.8	0.13
9	2014	3.0	7.5	2.0	2.0	1.50
10	2014	3.6	7.2	1.6	1.8	0.13
11	2014	3.0	6.3	2.0	2.0	3.00
12	2014	3.0	7.1	2.0	2.0	0.13
13	2014	3.0	7.2	2.2	2.2	1.50
14	2014	3.2	7.2	2.0	2.0	1.75
15	2014	4.1	6.7	2.1	2.1	0.13
16	2014	4.0	7.0	1.8	1.7	0.13
17	2014	3.9	6.5	2.2	2.0	0.13
18	2014	3.7	7.2	1.8	2.0	0.13
19	2014	3.6	7.0	1.6	1.9	0.13
1	2015	3.5	6.8	2.2	2.0	0.50
2	2015	3.3	6.8	2.0	1.8	0.75
3	2015	3.8	6.0	1.8	2.0	0.75
4	2015	2.8	6.9	2.0	2.0	4.00
5	2015	2.8	6.0	2.0	2.0	3.75
6	2015	3.5	6.7	1.8	1.9	1.00
7	2015	3.5	6.5	2.0	2.0	1.00
8	2015	3.4	6.7	1.9	1.9	0.13
9	2015	3.5	6.8	2.0	2.0	3.50
10	2015	3.7	6.2	1.8	1.9	1.60
11	2015	2.5	6.0	2.0	2.0	4.50
12	2015	3.0	6.5	2.0	2.0	1.50
13	2015	3.0	6.8	2.2	2.2	2.50
14	2015	3.2	6.8	2.0	2.0	2.50
15	2015	4.2	6.0	2.3	2.3	0.75
16	2015	4.1	6.2	1.9	1.8	1.00
17	2015	3.5	5.7	2.0	2.0	1.00
18	2015	3.8	6.3	1.9	2.1	0.50
19	2015	3.7	6.1	1.8	2.0	1.50

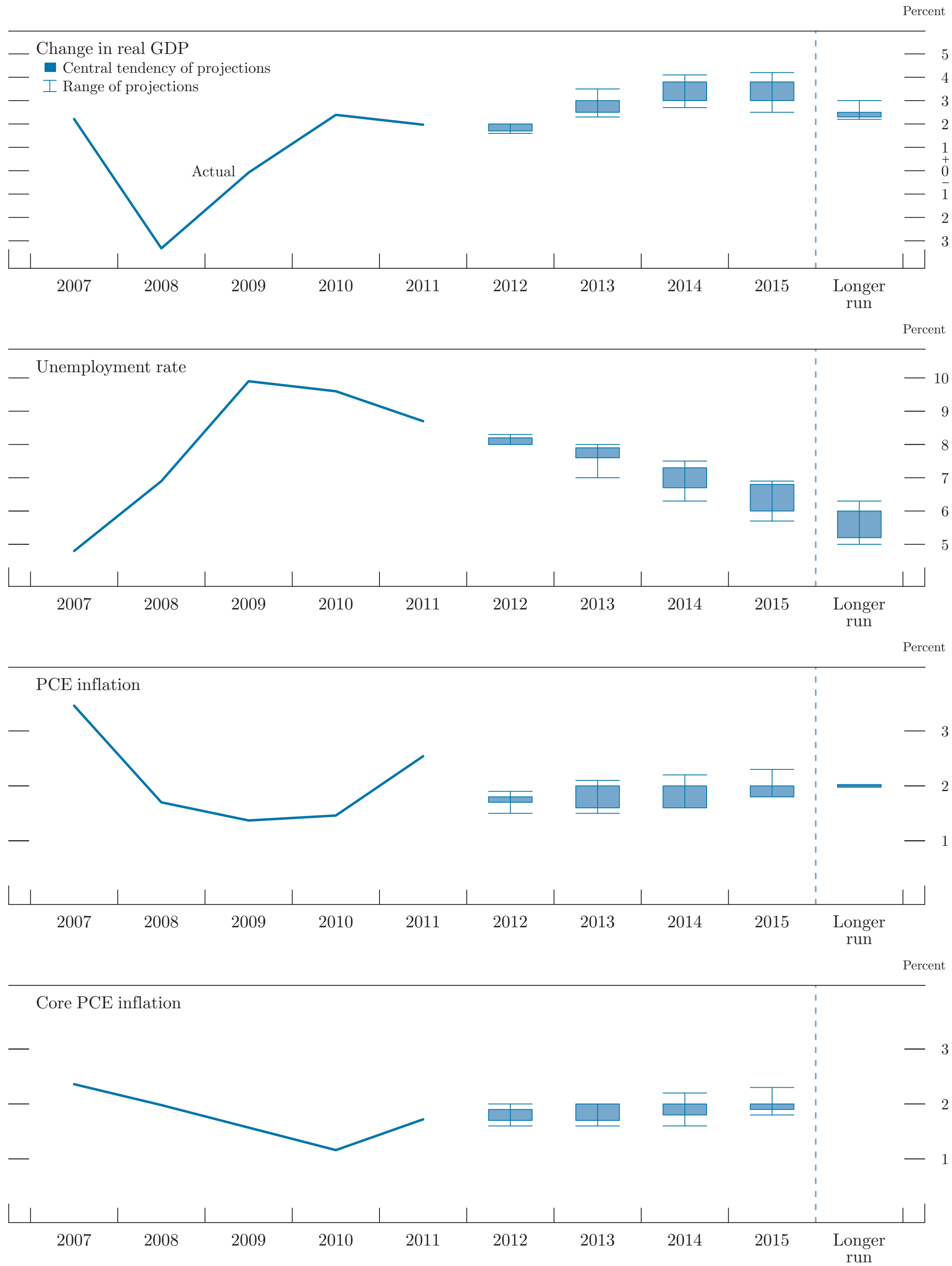
Table 2. *(continued)*

Projection	Year	Change in real GDP	Unemployment rate	PCE inflation	Core PCE inflation	Federal funds rate
1	LR	2.2	5.5	2.0		4.00
2	LR	2.5	6.0	2.0		4.00
3	LR	3.0	5.4	2.0		3.80
4	LR	2.3	5.5	2.0		4.30
5	LR	2.3	6.0	2.0		4.25
6	LR	2.2	5.5	2.0		4.20
7	LR	2.5	5.2	2.0		4.00
8	LR	2.3	5.5	2.0		4.30
9	LR	2.5	6.0	2.0		4.50
10	LR	2.3	6.0	2.0		4.50
11	LR	2.5	6.0	2.0		4.50
12	LR	2.5	5.2	2.0		4.50
13	LR	2.5	6.3	2.0		3.75
14	LR	2.7	5.5	2.0		4.00
15	LR	2.5	5.2	2.0		4.00
16	LR	2.5	5.3	2.0		4.00
17	LR	2.3	5.0	2.0		3.50
18	LR	2.5	5.3	2.0		3.00
19	LR	2.5	5.8	2.0		4.25

Table 2 Appendix. Assessments of participants who, under appropriate monetary policy, judge that the federal funds rate will not be raised until after 2015

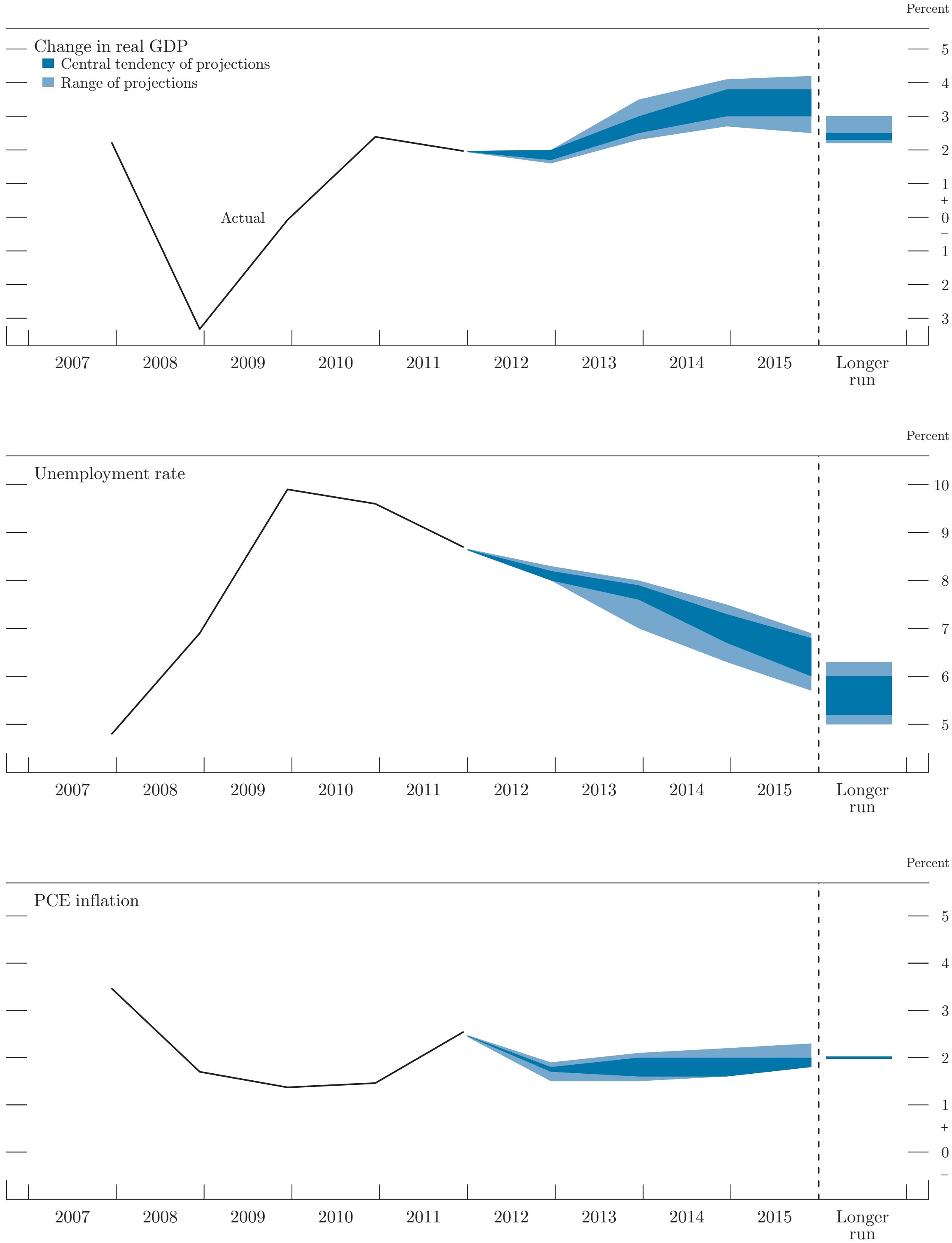
Projection	Year of first increase	Change in real GDP	Unemployment rate	PCE inflation	Core PCE inflation	Federal funds rate
8	2016	3.5	6.4	2	2	0.75

Figure 1.A. Central tendencies and ranges of economic projections, 2012–15 and over the longer run



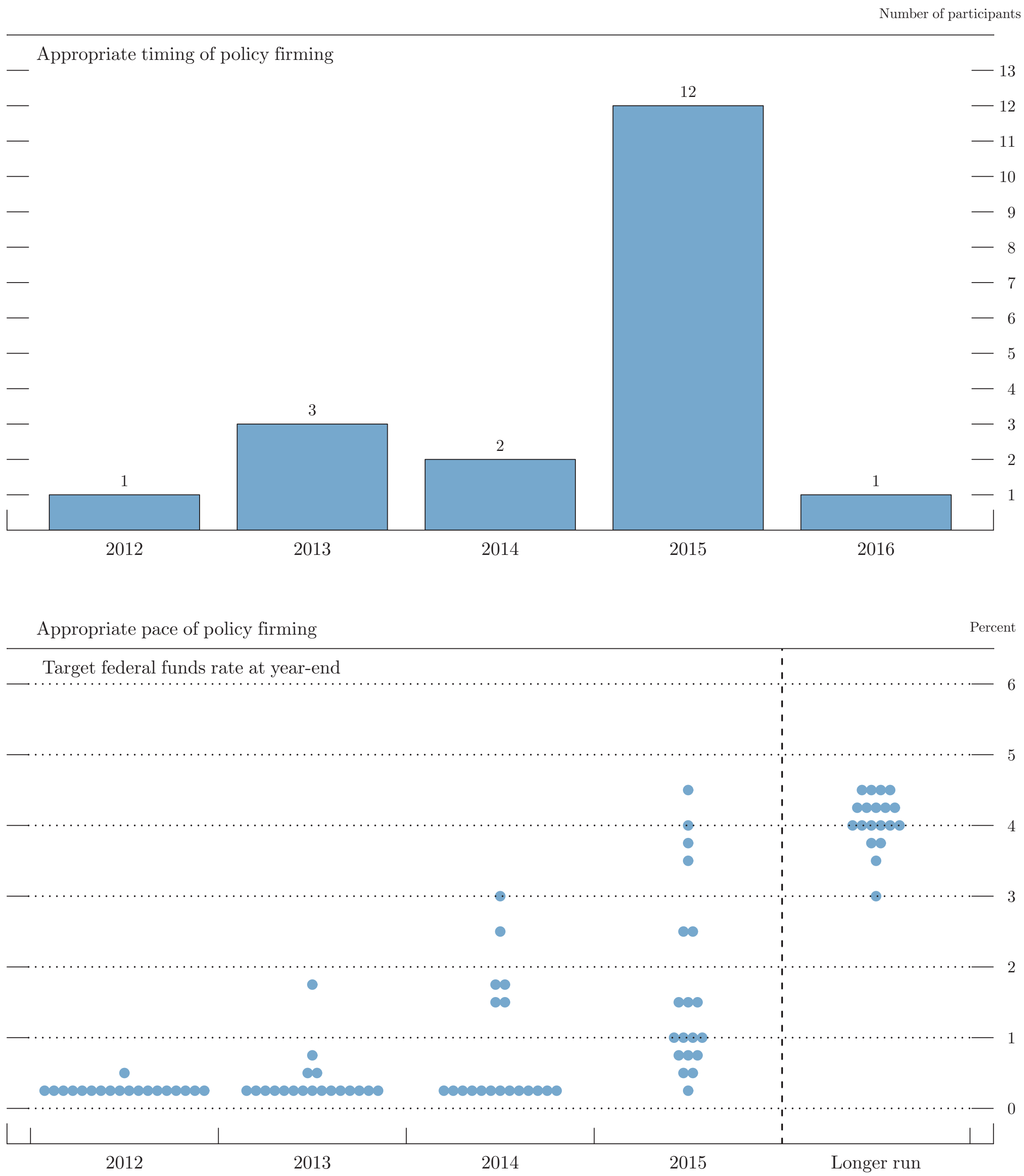
Note: Definitions of variables are in the general note to table 1. The data for the actual values of the variables are annual.

Figure 1.B. Central tendencies and ranges of economic projections, 2012–15 and over the longer run



NOTE: Definitions of variables are in the general note to table 1. The data for the actual values of the variables are annual.

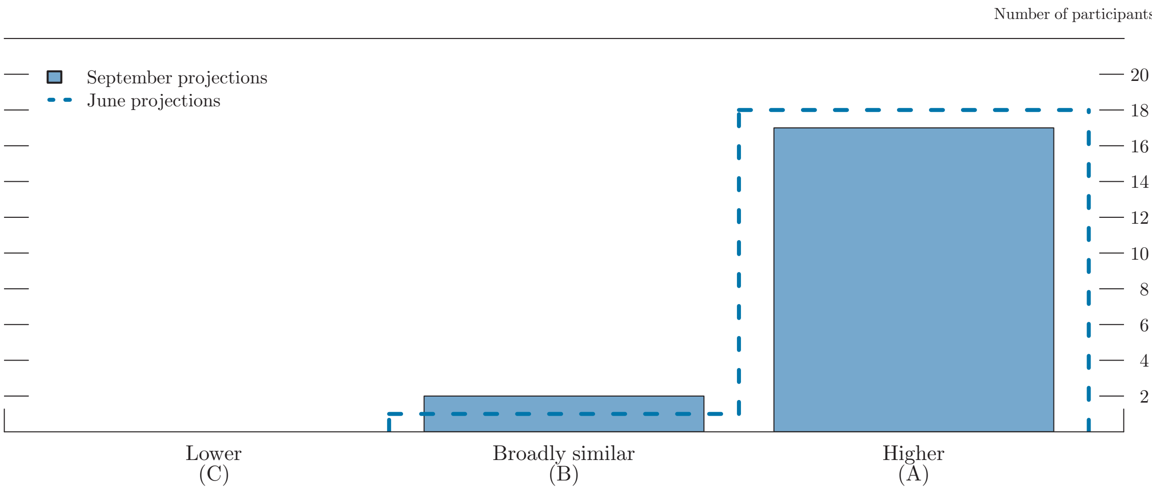
Figure 2. Overview of FOMC participants' assessments of appropriate monetary policy, September 2012



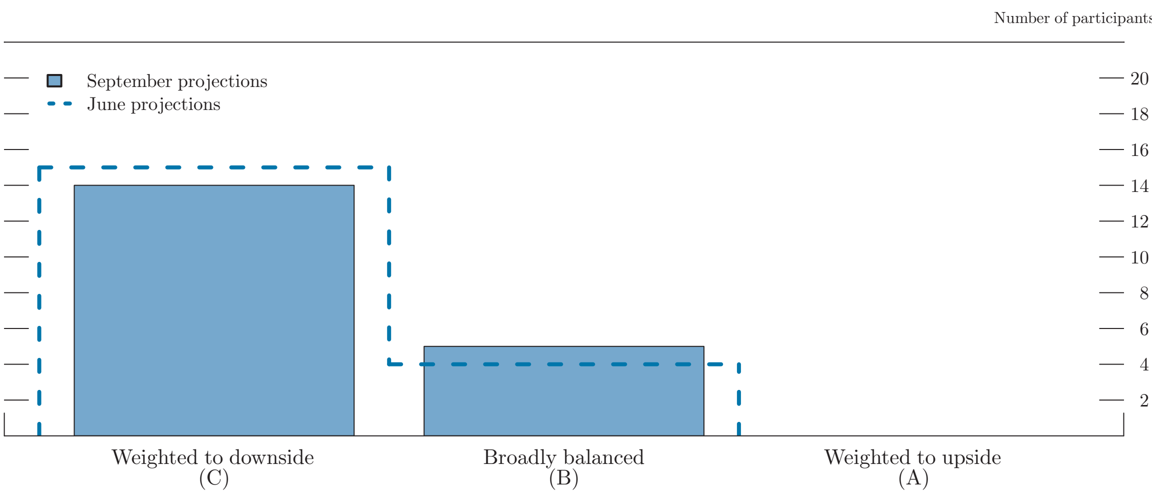
Note: In the upper panel, the height of each bar denotes the number of FOMC participants who judge that, under appropriate monetary policy, the first increase in the target federal funds rate from its current range of 0 to 1/4 percent will occur in the specified calendar year. In June 2012, the numbers of FOMC participants who judged that the first increase in the target federal funds rate would occur in 2012, 2013, 2014, and 2015 were, respectively, 3, 3, 7, and 6. In the lower panel, each shaded circle indicates the value (rounded to the nearest 1/4 percentage point) of an individual participant's judgment of the appropriate level of the target federal funds rate at the end of the specified calendar year or over the longer run.

Figure 4.A. Uncertainty and risks – GDP growth

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



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

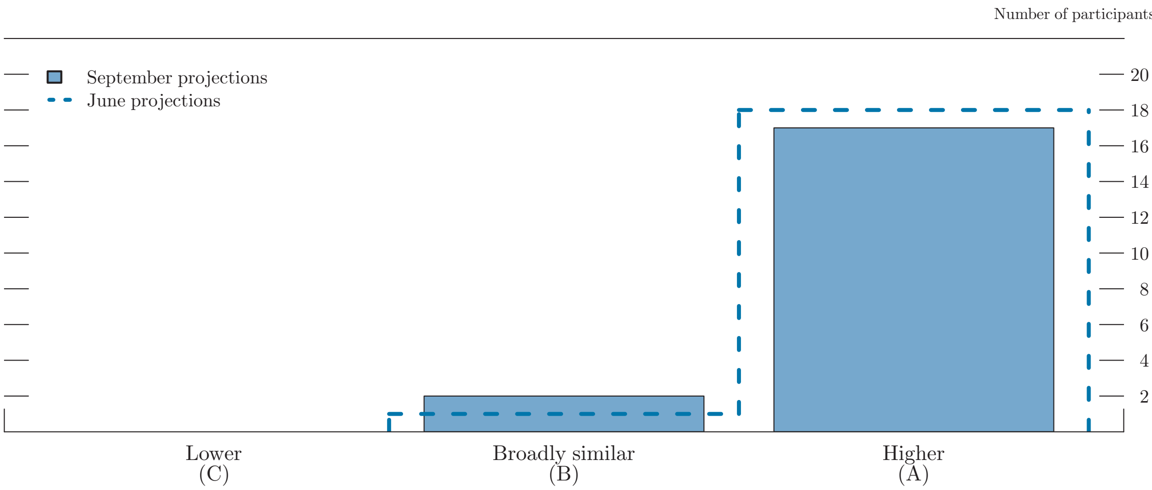


Individual responses

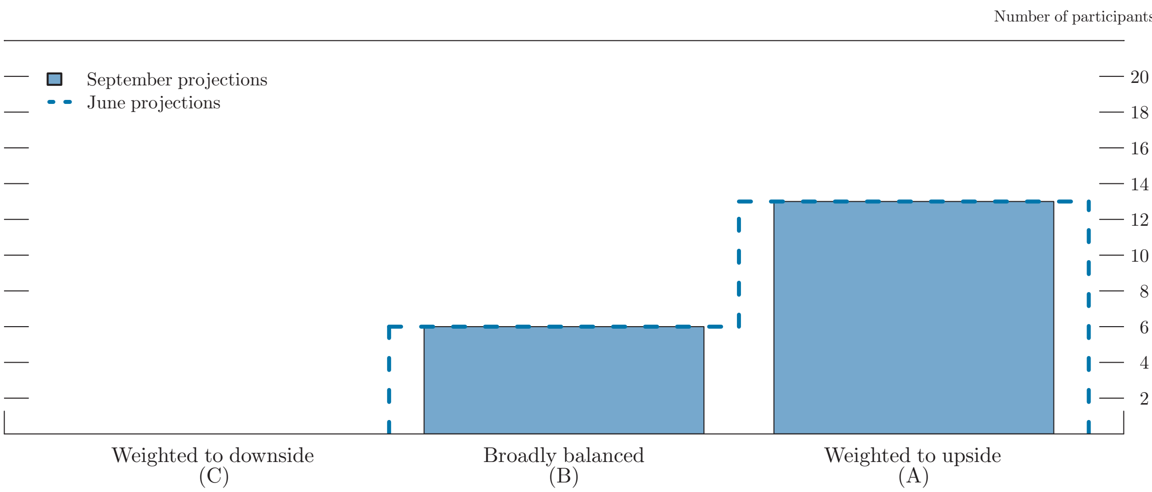
Respondent	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
2(a)	B	A	A	A	B	A	A	A	A	A	A	A	A	A	A	A	A	A	A
2(b)	C	C	C	C	B	C	C	C	C	B	B	C	B	B	C	C	C	C	C

Figure 4.B. Uncertainty and risks – Unemployment rate

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



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

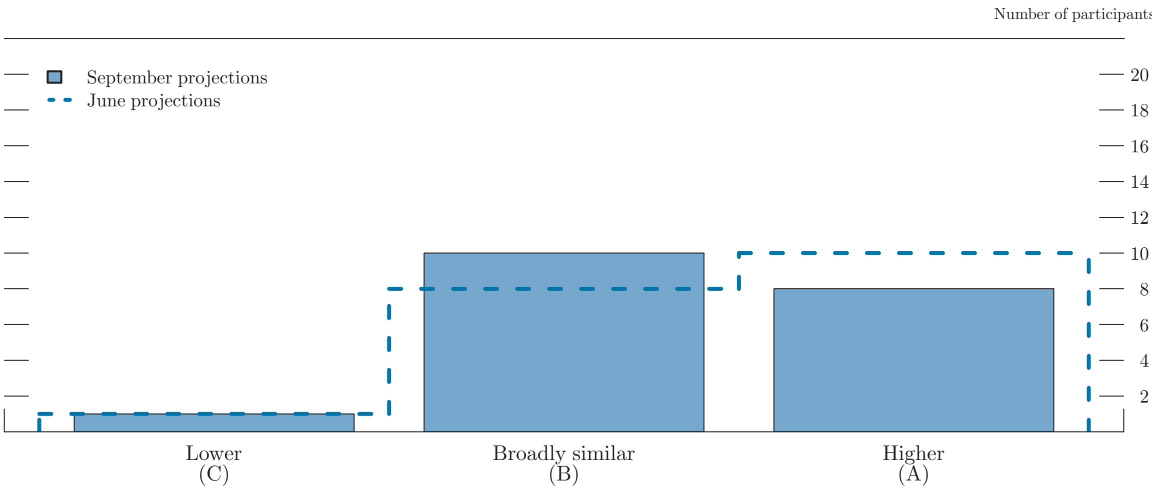


Individual responses

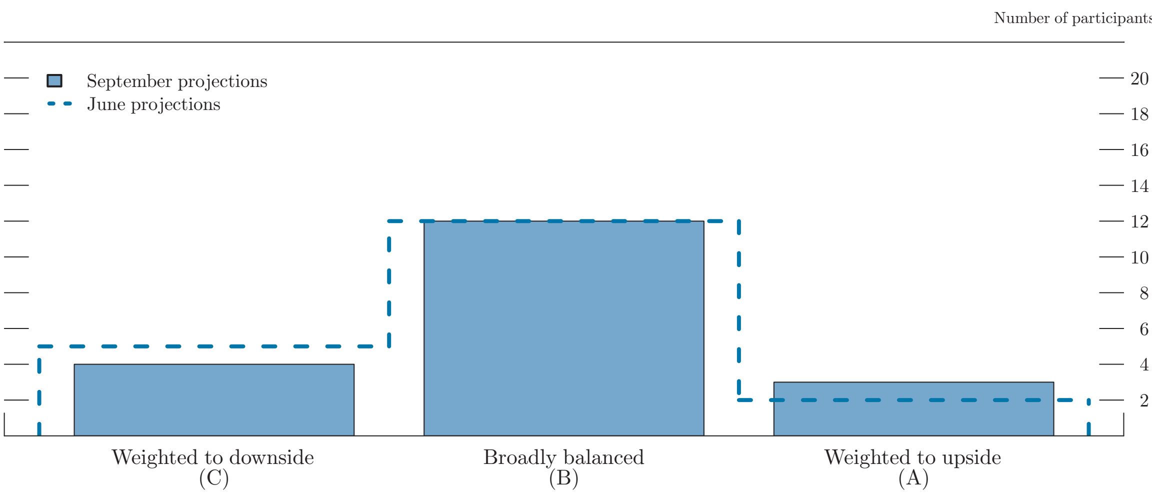
Respondent	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
2(a)	B	A	A	A	B	A	A	A	A	A	A	A	A	A	A	A	A	A	A
2(b)	B	A	A	A	B	A	A	A	A	B	B	A	B	B	A	A	A	A	A

Figure 4.C. Uncertainty and risks – PCE inflation

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



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

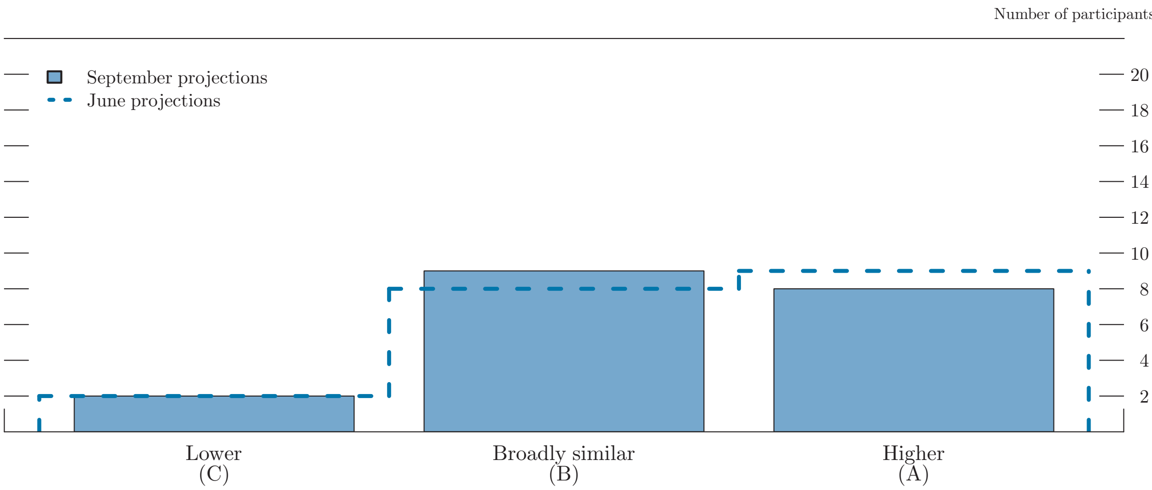


Individual responses

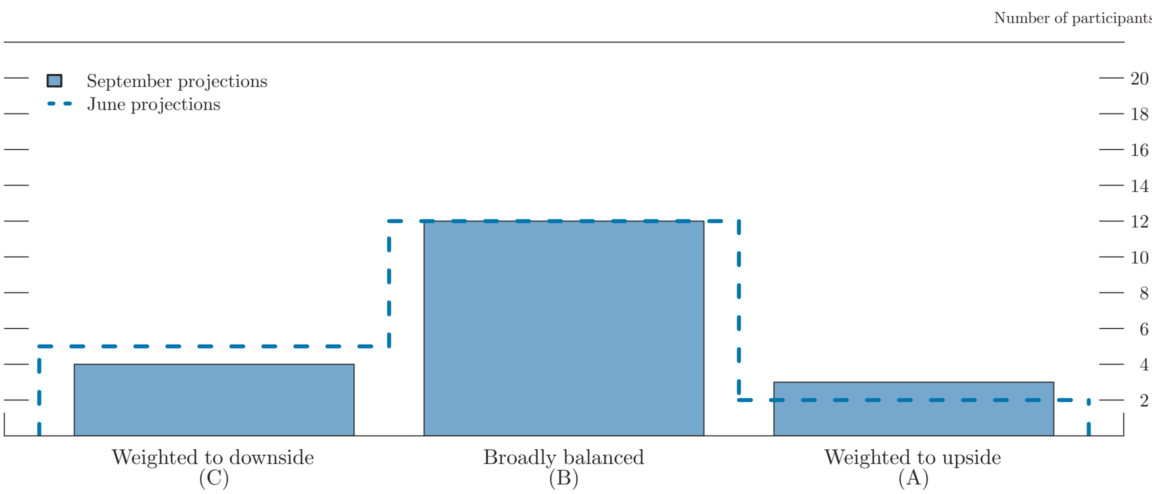
Respondent	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
2(a)	B	A	B	A	B	B	B	A	C	B	A	B	A	B	B	A	A	A	B
2(b)	B	C	B	A	B	B	B	B	A	B	A	B	C	B	C	B	B	C	B

Figure 4.D. Uncertainty and risks – Core PCE inflation

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



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



Individual responses

Respondent	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
2(a)	A	A	B	A	B	C	B	B	C	B	A	B	A	B	B	A	A	A	B
2(b)	B	C	B	A	B	B	B	B	A	B	A	B	C	B	C	B	B	C	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: N/A

Respondent 5: In my view, real GDP growth and the unemployment rate will converge in 3.5 to 4 years, while PCE inflation will converge quicker, likely in 2013.

Respondent 6: N/A

Respondent 7: N/A

Respondent 8: N/A

Respondent 9: N/A

Respondent 10: N/A

Respondent 11: The convergence process may be slightly shorter than 5-6 years

Respondent 12: N/A

Respondent 13: N/A

Respondent 14: While full convergence may take six years, risks are weighted toward faster convergence.

Respondent 15: N/A

Respondent 16: Convergence to the longer-run levels of the unemployment rate and inflation is expected in about 5 years.

Respondent 17: Our current estimate of the economy's potential growth rate is in the 2% to 2 1/2% range, which was not revised following the annual revisions of the GDP and productivity data. By 2017-18 we anticipate potential growth of around 2 1/4%. A reasonable estimate of 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 2017-18; analysis of recent long expansions (1980s and 1990s) suggests the unemployment rate could be somewhat below 5% in 5-6 years time.

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 will remain at 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 close to 2% in 2017-18.

Respondent 18: N/A

Respondent 19: N/A

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: I believe the uncertainty surrounding my forecasts of GDP growth, unemployment, and inflation remains elevated relative to the norms of the last 20 years, primarily reflecting the crisis in Europe and the fiscal problems facing the United States next year.

Respondent 3: N/A

Respondent 4: Several factors contribute to heightened uncertainty, including the European debt crisis, U.S. fiscal policy (near-term and longer-term), slowing world growth, and ongoing changes in the regulatory environment. In addition, the Federal Reserve's unconventional policies are a source of uncertainty because they have no historical precedent.

Respondent 5: N/A

Respondent 6: Uncertainty about my projection for economic activity is elevated relative to its average over the past 20 years. My assessment includes the following factors:

(i) The "new normal" for macroeconomic relationships going forward remains unclear. For example, there is greater uncertainty than usual about the level and growth rate of potential output.

(ii) The evolution of Europe's crises remains impossible to predict and is a wild-card in the forecast. For example, in some scenarios, financial market contagion to the United States could be severe. At the same time, other major economies in the world, such as China, are slowing.

(iii) Domestically, a downside risk is a U.S. political stalemate that leads to abruptly contractionary fiscal policy.

(iv) In the event of adverse shocks, there is limited ability for monetary and fiscal policy to dampen the effects. This limited scope for countercyclical policy implies greater variance in outcomes.

(v) Of course, there are upside risks to the outlook as well. For example, the housing market may be poised to improve faster than expected, which could potentially encourage a virtuous cycle of improving confidence, fundamentals, and financial conditions.

In contrast, underlying inflation is anchored by quite stable inflation expectations. The stability of these expectations has been reinforced by the announcement of a 2 percent numerical objective for inflation. Hence, uncertainty about core inflation is lower than in the past two decades. Uncertainty about headline inflation is broadly similar to the past two decades, reflecting the lower uncertainty about underlying inflation that is offset by greater-than-usual uncertainty about oil prices.

Respondent 7: N/A

Respondent 8: Uncertainty about growth and unemployment reflects uncertainties about Europe, US fiscal policy, developments in EMEs, and our lack of experience with recoveries from financial crises in developed economies. Core inflation remains quite stable, reflecting stable inflation expectations and limited passthrough of commodity prices. However, uncertainty about the degree of slack creates some uncertainty about inflation, as does uncertainty about the effects of unconventional monetary policies. Overall inflation is relatively uncertain because of the volatility of commodity prices, which depend sensitively on changes in global growth and financial conditions.

Respondent 9: It is not clear that real output will grow appreciably and persistently above its longer-term trend in this recovery. Inflation expectations are probably more firmly anchored following the FOMC's consensus statement, and uncertainty is thus lower than in the past.

Respondent 10: N/A

Respondent 11: The possibility that the European debt crisis is not resolved in an orderly fashion continues to be a risk to the forecast. There is uncertainty about domestic fiscal policy as well. 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 12: N/A

Respondent 13: Uncertainty was unusually low in the past twenty years.

Respondent 14: Given the uncertainty about future fiscal policy, "forecasting" how slack and GDP growth will evolve beyond 2012 is almost pure guesswork.

Respondent 15: N/A

Respondent 16: N/A

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. Our assessment of the uncertainty for all of these projections under our appropriate policy path has decreased some since the June SEP. In part, this reflects our view of the appropriate monetary policy path providing insurance against realizations of some of the downside risks.

Respondent 18: N/A

Respondent 19: N/A

Uncertainty and Risks (continued)

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: I believe the risks are weighted primarily to the downside for GDP growth and inflation and to the upside for unemployment. In the medium term, the potential for a severe crisis in Europe and a fiscal meltdown in the United States pose large downside risks to growth and inflation and upside risks to unemployment.

Respondent 3: N/A

Respondent 4: The risks to GDP growth are weighted to the downside, and the risks to unemployment are weighted to the upside. Downside risks to growth (and upside risks to unemployment) in the near term include the European debt crisis, a slowdown in emerging market growth, and the fiscal cliff in the United States. In the medium term, I see the risks to growth and unemployment as balanced with the resolution of uncertainty and headwinds posing upside risks to growth (downside risks to unemployment) offset by downside risks to growth (upside risks to unemployment) from a possible spillover of near term risks into the medium term. The risks to inflation are skewed to the upside due to the highly accommodative stance of monetary policy and short-term and long-term fiscal imbalances.

Respondent 5: N/A

Respondent 6: Risks to growth are skewed to the downside and, consequently, to the upside for unemployment. Key downside risks to the outlook are the European sovereign debt crisis and the looming U.S. fiscal cliff. In addition, negative shocks could have particularly severe effects, because of the continuing vulnerability of the financial system as well as the limited ability of fiscal and monetary policy to respond to offset them. Inflation risks, in contrast, are more typically balanced.

Respondent 7: N/A

Respondent 8: Downside risks to growth and upside risks to unemployment include Europe, other global risks (China), fiscal cliff/debt limit, oil/Iran, slow recovery that is especially vulnerable to downside shocks because the ZLB is binding. These outweigh upside risks including better than expected developments in Europe or US fiscal issues or greater momentum in the economy. Downside risks to output are also downside risks to core inflation to some extent. Commodity prices involve risks slightly to the upside, affecting both total and (to a lesser extent) core prices.

Respondent 9: In the near term there is an appreciable downside risk to growth in Europe that could lead to lower US. exports to Europe and emerging economies. Moreover, the fiscal cliff poses a clear downside risk. In the medium term, impediments to growth may be serious and persistent enough to pull GDP growth below the path given above. Also, a large surprise in energy prices is more likely to be on the high side of the futures market path of a steady decline.

Respondent 10: N/A

Respondent 11: I view the risks to inflation as weighted to the upside over the medium and longer run. Longer-term inflation risks reflect uncertainty about the timing and efficacy of the Fed's withdrawal of accommodation. Over the near term, the risk to output growth is weighted to the downside and the risk to the unemployment rate is weighted to the upside, reflecting uncertainty surrounding the ongoing crisis in Europe and domestic fiscal policy. Over the medium term, as these uncertainties abate, the risks shift to the upside for GDP growth and to the downside for the unemployment rate.

Respondent 12: Substantial risks stemming from possible fiscal cliff effects and still unresolved issues in Europe tilt the balance of risks to my growth outlook to the downside. However, these downside risks are partially balanced by upside growth potential should the uncertainties described above get favorably resolved in the near-term. Stable inflation expectations are providing a sufficient anchor to my inflation outlook so as to make my assessment of inflation risks as being broadly balanced.

Respondent 13: My projection for inflation is conditioned on my view that the output gap is less negative than in the Tealbook. My weighting of risk for inflation reflects the possibility that this view could be wrong.

Respondent 14: N/A

Respondent 15: Our forecast is premised on the Federal Reserve making a credible commitment to keep monetary accommodation in place for longer than what would be prescribed by policy rules that do not account for the prolonged period over which monetary policy has been constrained by the zero lower bound. If we do not successfully communicate this commitment–or, later, fail to carry through on it–then both growth and inflation would be lower than in our forecast. Other risks evident today–financial contagion emanating from European, a larger-scale weakening in other foreign economies, and the fiscal cliff in the U.S.–also skew the forecast distribution towards lower growth and inflation.

Respondent 16: N/A

Respondent 17: Quantitative judgment based on the difference between the central projection and the expected value from the FRBNY forecast distribution. Under our appropriate policy path, the risks to the inflation outlook have moved from a downside skew to roughly balanced. The balance of risks to the real activity outlook remain to the downside, although less so than in June. In part, the shift of the balance of risks for inflation and real activity reflects our view that the appropriate monetary policy in the current environment provides insurance against tail risks.

Respondent 18: I view the risks to the outlook for growth as weighted to the downside and unemployment to the upside. The main risks are from the U.S. fiscal cliff, potential European developments and the possibility that prolonged high unemployment may, via hysteresis, raise structural unemployment and lower potential output.

Respondent 19: N/A

Key Factors Informing Your Judgments regarding the Appropriate Path of the Federal Funds Rate

3(c). Please describe the key factors informing your judgments regarding the appropriate path of the federal funds rate. You may include other comments on appropriate monetary policy here as well.

Respondent 1: N/A

Respondent 2: In light of the recently disappointing news on the pace of recovery and the likelihood of slow progress in reducing unemployment, I have adjusted my view of the timing of liftoff of the target federal funds rate. I now believe it will be appropriate to begin raising the target for the federal funds rate in mid-2015, rather than late 2014. By 2015, the economy will have recovered enough that preserving the stability of long-term inflation expectations and, in turn, inflation will warrant beginning to take steps to gradually reduce monetary stimulus. This view of the appropriate path of policy reflects the importance I place on keeping the underlying inflation rate close to 2 percent, to preserve our credibility and to maintain price stability.

Respondent 3: The economic recovery is so mediocre as to demand an appropriate monetary policy that is accommodative. To achieve such accommodation at the zero lower bound, and given the potential costs of further Treasury LSAPs, I would recommend forward guidance that contains explicit and appropriately considered communication of the rates of unemployment and inflation necessary prior to lift-off. The forward guidance language would also include a statement that accommodation will remain appropriate for a considerable time after the economic recovery strengthens. In addition, appropriate monetary policy also should include action that would have a more direct effect on growth. Such action includes an MBS purchase that begins with the purchase of $30 billion per month of agency MBS while completing the MEP. As these are, at this moment, my views of appropriate monetary policy, they are included here as informing my forecast.

Respondent 4: Key factors informing my judgment regarding the appropriate path of monetary policy are achieving an inflation objective of 2 percent and ensuring a sustainable economic recovery that reduces unemployment. In order to preempt the potential for rising inflationary pressures and the buildup of risks in the financial system that could impede the achievement of these goals, I currently anticipate it will be necessary to begin the process of normalizing monetary policy in late 2013.

Respondent 5: Assuming appropriate policy and my views on the convergence process, my judgment is that the lift-off of the federal funds rate should occur in Q2/2014.

Respondent 6: Large and persistent output and unemployment gaps coupled with inflation that is moderately below our 2 percent objective call for very accommodative monetary policy. Indeed, in the absence of an increase in accommodation, my forecast would show no progress on closing the unemployment gap for several years. I view such an outcome as inconsistent with appropriate monetary policy. As a result, I have pushed out the liftoff date for the fed funds rate until mid-2015. I have also added additional LSAPs in this forecast, which helps speed convergence towards our mandates. My judgment is informed by looking at simple rules that adjust for the zero-lower-bound and for the effects of unconventional policy; and it is informed by my assessment of risks to the economy (which are large and skewed to the downside). In addition, it is informed by my assessment of the costs and benefits of further unconventional actions.

Respondent 7: I would begin raising rates when it is clear that 1) we are making material and sustained progress in reducing unemployment; and 2) we believe with confidence that we can raise rates without risking a quick and unwelcome return to the ZLB.

I am concerned that we have reached the point at which the very modest potential benefits of using further LSAPs as a job creation tool no longer outweigh the longer term costs, which are admittedly uncertain. I would be prepare to support further LSAPs as a defensive tool, in particular if there were a credible deflation threat.

Respondent 8: I assume rates are kept low until unemployment drops below 7% (with inflation close to target). I assume the MEP is completed in December 2012 as scheduled and that further balance sheet actions are taken during the next twelve months.

Respondent 9: I believe a rise in the rate of growth will necessitate in increase in interest rates by early 2014 in order to keep inflation from rising.

Respondent 10: I am assuming that lift-off of the federal funds rate is later than it would be if the rate was not already at the zero lower bound.

Respondent 11: Inflation and inflation expectations will be the main drivers of the removal of accommodation. Economic growth will be slightly above trend toward the end of 2012 and beyond; unemployment will decline slowly. The Committee will find it necessary to adjust policies to prevent inflation from rising above its target.

Respondent 12: I expect the federal funds rate to remain in the 0 to 25 basis point range at least as long as the unemployment rate exceeds 7 percent, providing that inflation is projected to be close to the Committee's 2 percent objective in the medium term and longer-term inflation expectations continue to be anchored.

Respondent 13: N/A

Respondent 14: First off, funds-rate paths don't provide the public with the information that they need, which is a sense of how monetary policy will respond to economic developments in future years. A corollary is that for a given long-run policy reaction function, near-term differences in funds-rate paths are relatively inconsequential. The key to achieving a more robust recovery is changing longer-term expectations of the conduct of policy.

Second, over the years FOMC policy actions have done too little to check imbalances and excesses that were obviously not sustainable but which posed no immediate threat to the dual mandate. Evidently, there are variables besides inflation and the output gap that ought to influence the conduct of monetary policy. Returning to "business as usual" as soon as the recovery is on a firmer footing would be unwise.

Evidently, too, the best way to deal with the (near-)zero bound is to avoid it. Whatever policy-setting approach we take ought to put high priority on reducing the chances of another zero-bound encounter. This may mean moving to some version of flexible price level targeting, provided long-term inflation expectations remain anchored.

In summary, "appropriate policy" cannot be captured by a time-path for the federal funds rate. An important part of "appropriate policy" is communicating a long-run strategy for monetary policy that does a better job of resisting imbalances and excesses than did past strategy, and which is not so dependent for its success on large downward movements in short-term interest rates. The formulation and communication of such a strategy would strengthen the recovery more reliably than either our current form of forward guidance or another LSAP program, allowing us to move away from the zero bound more quickly.

For purposes of this exercise, I assumed a modest amount of funds-rate smoothing and a temporary downward adjustment to the neutral real interest rate (to capture residual damage from the financial crisis). I then considered the implications of policy rules ranging from the 1993 Taylor rule to a level target for nominal gross domestic purchases.

Respondent 15: Our judgments regarding appropriate policy reflect a loss function that equally weights deviations in inflation and unemployment from their long-run goals. In the absence of further monetary accommodation, we would forecast inflation running a bit below our 2 percent goal over the entire forecast period and the unemployment rate still being 7 percent at the end of 2015. This is a small miss on our inflation goal but a massive miss against our employment mandate. (Our assumption for the long-run unemployment rate consistent with our mandate is 5.2 percent.)

We believe that a more accommodative monetary policy could be implemented that would bring the unemployment rate down more quickly towards mandate-consistent levels and result in inflation only running a few tenths above our inflation goal.

Our appropriate policy assumption calls for a commitment to maintain high levels of accommodation until we see a substantial reduction in the unemployment rate. As illustrated by numerous simulations we have seen from the staff, this likely will require the funds rate to remain near its current level until at least mid-2015. To further demonstrate our commitment and its economic conditionality, we assume an open-ended LSAP program will commence in September, along with an announcement that it will continue until we see clear downward momentum in the unemployment rate. As a safeguard, we would communicate that the open-ended purchases could be concluded if the medium term inflation outlook rose noticeably above 2 percent. This view of appropriate policy is similar to the flow-based LSAP cases with unemployment rate triggers analyzed in the August 28, 2012 staff memo, "Flow-Based Balance Sheet Policies: Communication Issues and Macroeconomic Effects."

Conditioned on this policy, we project that the unemployment rate would be a percentage point lower at the end of 2015 than under a no-policy-change scenario. The inflation component of the policy loss would not be materially different from that associated with the undershooting of 2 percent we would forecast if these measures were not implemented.

Respondent 16: In my judgment, appropriate monetary policy entails additional stimulus. Part of this additional stimulus takes the form of changing the guidance for the lift-off date of the federal funds rate to mid-2015.

Respondent 17: The crucial factors behind our assessment of the appropriate path for monetary policy and the FFR are the current state of the economy, our central economic outlook, and our balance of risks around the central outlook. Indicators of economic conditions have been mixed, but generally indicate that the expansion remains tenuous. Indicators of financial conditions have improved following signals from central banks of their willingness to undertake more accommodative policies (including the words and actions of the ECB and some of the communication of the Fed), but conditions are still strained and the improvement is susceptible to sharp reversals if actions do not fully meet expectations. If policy would follow the path implied by the August FOMC statement, we would anticipate a combination of continuing substantial resource underutilization, slow growth, high unemployment, near- or below-objective inflation, and substantial downside risks to the real activity and inflation outlooks. Consequently, we see appropriate monetary policy as calling for further policy accommodation with that stance remaining in place as the economy strengthens until a self-sustaining recovery is fully established. In an environment where the policy rate is constrained by the zero lower bound and the financial system remains impaired, we anticipate that the target FFR will remain near zero until mid 2015. We expect that long-term inflation expectations will remain anchored over this period. The pace of renormalization of the target FFR following the period of near zero policy rates will depend upon our assessment of economic conditions, longer-term inflation expectations, and overall financial conditions.

An important factor informing our assessment of the appropriate path for the target FFR is our estimate of the equilibrium real short-term interest rate. In normal times, we assume that this rate is in the range of 1% - 3%; adding the objective for inflation (2%) then gives our estimated range for nominal equilibrium rate as 3.0 - 5.0%. Given the recent behavior of nominal and real Treasury yields and productivity growth, we currently see this rate over the longer run as more likely to be in the lower half of the indicated range, which results in the point estimate given in the response to question 3(a). Moreover, given the weak state of the economy and our expectations of continued strained financial conditions, our assessment of the current "neutral" FFR is below our estimate of the longer-run FFR and is expected to remain so for some time.

As discussed in our answer to question 3(e), our policy path is predicated on the FOMC suspending the Maturity Extension Program (MEP) and instituting a flow-based, open-ended purchase program of agency MBS and long-term Treasury securities. In our appropriate policy assumption, we also have a reduction in the IOER from 25 bps to 15 bps.

Respondent 18: My assessment of economic conditions accords closely with Tealbook but I have incorporated substantially more policy accommodation than in the Tealbook baseline and thereby project a notably faster recovery with inflation closer to our 2% objective. In particular, I assume an open-ended LSAP consisting of Treasury and MBS purchases at a pace of about $75 billion per month. I would continue these purchases until the unemployment rate has declined significantly and progress labor market progress appears to be sustainable. I estimate the total volume of purchases under this program will amount to around $1 trillion. In addition, I assume that the FOMC holds the federal funds rate at its effective lower bound until the fourth quarter of 2015, when the unemployment rate has declined to around 6.5%. For such a policy to provide meaningful additional support to the recovery, it must be communicated as a conditional commitment to keep policy more accommodative than would be "normal" according, for example, to well-known policy rules such as Taylor (1999). In other words, the FOMC commits to keep the funds rate "lower for longer" than usual. An effective way to communicate such an intention would be by establishing thresholds for maintaining the funds rate near zero–e.g., that the funds rate will be held near zero until unemployment has declined to 6.5% (assuming projected inflation remains under say 2.5% and inflation expectations remain well anchored.) I would also note that I have assumed an equilibrium funds rate that is depressed below its average historical level. The staff now estimates based on its three-factor yield curve model that the expected nominal short rate ten years ahead is now 3.07–well below the staff's assumed 4.25% equilibrium nominal rate.

Respondent 19: I am assuming that the FOMC decides to adopt what is currently Alternative B", that is, it plans to keep the funds rate at its current value until the unemployment rate falls to 6.5%. The outlook for both unemployment and inflation suggests a need for further accommodation. Moreover, I view B" as the most attractive of the alternatives on the table, in terms of my perception of its benefits relative to costs. If the plan is viewed as credible, it has the potential to create a meaningful degree of additional easing, without some of the costs and uncertainties associated with further LSAPs.

Appropriate Monetary Policy – Balance Sheet

3(d)&(e). Does your view of the appropriate path of the Federal Reserve's balance sheet, other than the projected timing for implementing the FOMC's exit strategy, differ materially from that assumed by the staff in the Tealbook? If yes, please specify in what ways (either qualitatively, or if you prefer, quantitatively).

	YES	NO
September survey	11	8
June survey	14	5

Respondent 1: Yes
I assume additional asset purchases through the end of this year and adoption of more informative forward guidance

Respondent 2: No
N/A

Respondent 3: Yes
As noted above, my view of the appropriate path of the Federal Reserve's balance sheet includes MBS purchases and, accordingly, is more stimulative than what is assumed by the staff in the Tealbook.

Respondent 4: No
N/A

Respondent 5: Yes
In addition to the projected timing, (i.e., earlier than the Tealbook), the pace of the subsequent reduction of the SOMA portfolio exceeds the one in the Tealbook.

Respondent 6: Yes
Under appropriate policy, I assume that the Committee implements an open-ended LSAP program along the lines of Alternative A from the July/August meeting. This would involve ending the MEP and initiating additional purchases of both Treasuries and agency mortgage-backed securities. My expectation is that we would continue this policy until the fourth quarter of 2013, for a total balance-sheet expansion of around $1 trillion.

Respondent 7: Yes
I assume that the committee will adopt Alternative B prime

Respondent 8: Yes
I assume some further balance sheet action taken within the next twelve months.

Respondent 9: No
N/A

Respondent 10: Yes
I assume the policy indicated in Alternative B'. In addition, I assume that conditions at the end of the year will meet the threshold for additional asset purchases and that purchases will continue at a $75 billion per month pace throughout 2013.

Respondent 11: No
My forecast does not incorporate any additional LSAPs or MEP.

I anticipate following the Committee's exit strategy principles, but because my funds rate path is steeper than in the Tealbook, I anticipate that we would reduce the size of the balance sheet more quickly than in the Tealbook over the forecast horizon.

Respondent 12: Yes
I assume the Committee will expand its holdings of longer-term securities by about $75 billion per month, including $30 billion in agency mortgage-backed securities, until about the end of 2013. Further, I assume forward guidance on maintaining the fed funds rate at its effective lower bound until early to mid-2015.

Respondent 13: No
I believe that it will be optimal to initiate exit earlier than in the Tealbook baseline.

Respondent 14: No
N/A

Respondent 15: Yes
We assume an open-ended LSAP program purchasing about $75 billion per month of securities, concentrated in MBS to the degree possible without impairing market functioning. The purchases are assumed to continue until the unemployment rate is clearly on a path to 7-1/2 percent, which in our projection occurs late in 2013 so that total purchases would be about $1 trillion.

Respondent 16: Yes
Appropriate monetary policy entails additional LSAP at a pace of $75 billion per month until the unemployment rate reaches 7 1/2 percent. Under the baseline forecast, the open-ended LSAP is expected to total about $1.3 trillion by the time the unemployment rate reaches 7 1/2 percent in 2014:Q1. A reduction in the size of the Federal Reserve's balance sheet starts to occur only at the time of the federal funds rate's lift-off from the zero lower bound, which occurs in mid-2015.

Respondent 17: Yes
As noted above, in part to reinforce a change in forward guidance, we assume that the FOMC suspends the MEP and institutes a flow-based, open-ended purchase program of agency MBS and long-term Treasuries, with the initial pace of purchases set at about $75 billion per months (similar to that discussed in the August 28 background memo on flow-based balance sheet policies). In addition, we assume that the communications associated with the program will signal that purchases will continue at least until the FOMC observes significant improvement in labor market conditions and expects such improvement to persist, provided that the medium-term inflation outlook and longer-term inflation expectations remain consistent with the FOMC's longer-run objective. Based on our outlook, we currently expect that the program will last one year or a little longer, with purchases totaling about $1 trillion, although that total can easily change depending upon the progress toward the FOMC objectives–it is the progress toward objectives that is important in our assumed policy stance rather

than a particular size of the balance sheet. We believe that a collective emphasis of an accommodative stance based on a portfolio of tools would enhance the efficacy of policy in these circumstances.

Secondarily, with the Tealbook assumption of lift-off of the target FFR having moved earlier and our assumption moving later, the differences in the timing of the renormalization of the balance sheet (based on the June 2011 exit strategy principles) also are more substantial.

Respondent 18: No
As noted above, I assume an open-ended LSAP program consisting of $75 billion per month of Treasury and MBS purchases which continues until there has been ongoing labor market improvement which is projected to continue after purchases stop. I project total purchases of around $1 trillion.

Respondent 19: 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: My forecast is still premised on the assumption that uncertainty and stress associated with the Eurozone sovereign debt problems continue at high levels through the remainder of this year, and that much of the Eurozone remains in recessionary or near-recessionary conditions through much of next year, but that a full-blown systemic crisis does not develop. If this darker outcome were to materialize, my expectations for US growth and unemployment would be substantially worse, and my expectations for inflation moderately lower. Conversely, if the ECB and Eurozone governments follow through sufficiently on the near- and medium-term measures they have announced in principle, and there is a resulting relaxation of market tensions, I would expect a smaller drag on both trade flows and confidence levels, and thus modestly stronger numbers for growth and unemployment.

The slow-moving recovery is unlikely to accelerate significantly anytime soon with the uncertainty of the election and the high likelihood of at least some – and possibly considerable – fiscal consolidation next year. Underlying conditions in housing and household balance sheets continue to improve gradually, but tepid pace of job creation make it likely that those improvements will remain gradual. Very hard to say how much the housing inventory overhang could dampen overall housing market gains, but that's at least a possibility. Risks for the next six months still seem weighted towards the downside.

Respondent 2: The soft tone of the recent news on economic activity, including August's disappointing jobs report, has led me to lower my near-term forecast of GDP growth. The pace of recovery this year is clearly being held back by headwinds that include household deleveraging, fiscal restraint, and uncertainty about conditions in Europe.

In response to recent developments, I have adjusted my view of appropriate policy to include additional accommodation. This additional accommodation, along with a gradual turn-around in the housing market and the economy's usual self-correcting mechanisms, will help boost the pace of recovery in 2013 and subsequent years.

In this environment, I expect inflation to remain at or slightly below 2 percent throughout the forecast horizon. This projection reflects recent PCE price trends, stable inflation expectations, and slow growth in wages. With the job market still weak, there is unlikely to be much pressure on inflation coming from wages over the next couple of years.

I believe the uncertainty surrounding my forecasts of GDP growth, unemployment, and inflation remains elevated relative to the norms of the last 20 years. The risks are weighted primarily to the downside for GDP growth and inflation and to the upside for unemployment. In the medium term, the potential for a severe crisis in Europe and a fiscal meltdown in the United States pose large downside risks to growth and inflation and upside risks to unemployment.

Respondent 3: The economy continues to grow, but slowly and in a way that is insufficient to bring about an achievement of mandate consistent levels of employment. These general contours have persisted for quite some time. In addition to an unsatisfactory modal projection, downside risks to the outlook – particularly from the European crisis and issues relating to US fiscal policy – remain quite elevated. Continued uncertainty about these scenarios could restrain household spending and business investment over the rest of this year more significantly than appears to have been the case thus far. With a substantial fraction of unemployed workers having been jobless for long periods, there is a risk that this high level of long-term unemployment will persist long enough to permanently depress labor supply and potential output.

Respondent 4: I continue to expect a moderate economic recovery over the next several years with a gradual improvement in unemployment. Recovering demand, improving labor and housing markets, and accommodative monetary policy will support economic growth over the forecast horizon. However, financial headwinds, high household debt levels, reductions in government spending, and elevated concerns about the European sovereign debt crisis will weigh on growth. The considerable uncertainty surrounding U.S. fiscal policy poses an additional risk to the outlook.

Turning to inflation, I expect that a gradually improving economy and stable inflation expectations will keep core inflation at 2 percent over the forecast horizon. Over the medium term, a highly accommodative monetary policy and large long-run fiscal imbalances pose upside risks to inflation expectations and, hence, inflation. In addition, the current extraordinary level of monetary policy accommodation raises the possibility of distortions in financial markets and the mispricing of risk that could eventually destabilize the economy.

Respondent 5: I continue to think that the convergence process is progressing. Nonetheless, the recent growth and inflation data have caused some changes in my outlook.

Respondent 6: The economy is still recovering from the severe housing collapse and financial crisis. Recoveries from these types of episodes tend to be slow, and are associated with sustained weakness in aggregate demand through a variety of channels. Some headwinds are slowly easing, including those related to banking and credit conditions. Housing prices look to have stabilized, which helps support a recovery in home construction. At the same time, however, other headwinds remain intense. For example, the simmering European crisis continues to weigh on U.S. financial and economic conditions; and U.S. fiscal policy at all levels is turning increasingly contractionary.

In this environment, I expect the economic recovery will proceed at a moderate pace, which will allow us to continue making modest progress on closing output and unemployment gaps over the next few years. This expectation is dependent on a substantial increase in monetary stimulus. In any case, it will take many years of above-trend growth to return the economy to full employment. In terms of inflation, significant slack in labor and goods markets and subdued import prices should keep inflation somewhat below the FOMC's 2 percent inflation target for the next few years.

Respondent 7: Limited current bright spots: housing, auto, continued household deleveraging, some others. Monetary policy has helped avert a far worse outcome, but utility is declining. Businesses and households have great uncertainty about recovery, US fiscal policy and Europe. Fiscal policy a net drag that is highly likely to get worse. There is plenty of slack, and no persuasive case for structural damage to aggregate supply – yet. But insufficient demand to put resources to work.

Despite all of that, the economy retains much underlying flexibility and strength. In the medium term, I believe that the recovery will gain strength, and that we will find that NAIRU hasn't moved much, if at all.

Respondent 8: Pattern of sluggish growth continues. At this stage of the cycle the economy should be growing noticeably above trend; however, the recovery is being held back by a number of unusual factors. These include Europe and its effects on trade and financial markets (most important); fiscal restraint at both the federal and state-local levels (next most important); households' need to rebuild wealth; maybe some uncertainty and confidence effects; and the relative weakness of housing. The drought is a temporary headwind. Other cyclical factors are behaving more normally, e.g., autos and other durables. Unemployment is at about the same level in January reflecting growth a little below trend (and Okun's Law). The end of EEB and weakening labor force participation put mild downward pressure on unemployment. Skills mismatch is probably close to normal but employers' recruiting intensity is low given the lack of demand.

Core inflation is stabilized by well anchored inflation expectations, stagnant wage growth, stronger dollar. Recent increases in commodity prices will raise both headline and core inflation a bit relative to expectation, but not much if at all above 2%.

Respondent 9: Growth has been softer than expected so far this year. Over time, additional firming in the labor market will be reflected in gradually improving personal income growth and consumer spending. Uncertainty over the fiscal cliff could dampen business investment for the remainder of the year. After the immediate issues are resolved, fiscal drag will reduce domestic demand early next year. Residential investment is growing at a moderate pace that is likely to continue. Home prices appear to have bottomed and modest growth is likely. Government consumption and investment will continue to move lower due to budget pressures at all levels.

Respondent 10: The outlook for the second half of 2012 and the first of 2013 hinges on the resolution of the fiscal cliff.

As we get closer to the end of the year, I believe decisions by businesses and households will increasingly be driven by the need to take action before the various tax and spending provisions become effective. These actions could include changes to tax withholding tables, lay-off notices from employers affected by spending cuts, asset sales by taxpayers concerned about capital gains rates or a pull forward of planned purchases that will receive favorable tax treatment in 2012. In addition, many investments and purchases will simply be postponed until there is greater visibility about federal taxes and spending.

It is especially difficult to judge how an extended fight, a temporary fall off the fiscal cliff or a series of short term extensions will affect business and consumer confidence. Finally, there is always the possibility that once fiscal issues are resolved, the resulting clarity (regardless of the specifics of the policies chosen) will unfreeze spending and improve confidence.

Respondent 11: Incoming data on economic activity have been somewhat weaker than I expected in my June forecast leading to a slightly downward revision to my near-term economic outlook. My view is that this weakness it is tied to uncertainties about Europe and domestic fiscal policy and is temporarily leading to restrained business spending. I expect that spending will pick up and the economy will rebound as uncertainty surrounding the crisis in Europe and domestic fiscal policy diminishes toward the end of this year.

I expect 3 percent growth over the medium term, slightly above my longer-term trend. With a moderate pace of growth over the forecast horizon, the labor market recovery remains gradual — I expect the unemployment rate to move down to about 6 percent by the end of 2015, at which time it reaches my estimate of the natural rate of unemployment. I anticipate that headline inflation will be 1.8 percent in 2012 and then edge up to 2 percent over the remainder of the forecast horizon. Inflation stays anchored around my target of 2 percent 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 toward the end of 2012..

Respondent 12: The economy continues to work against the currents of high unemployment and fiscal restraint at all levels of government. Elevated uncertainty about Europe, domestic fiscal concerns, and persistence of weak growth indicators are damping the demand for expansion of net new capital and jobs. Slow jobs growth will restrain consumer spending over the medium term.

Respondent 13: Consider the following counterfactual. Suppose we were able to engineer an increase in aggregate demand sufficiently large that inflation equalled 2% from 2013 onwards. What would happen to the unemployment rate?

I see a couple of plausible answers to this question. Some might say that the unemployment rate would immediately jump to its long-run level. This is a view that says that the high UR and low inflation are both due only to an aggregate demand shortfall. If you have this belief, there is no need to have inflation run above 2% - the goal is simply to get inflation back to 2% (from its current low level) as rapidly as is possible.

My answer is different. I believe that, even if aggregate demand could be raised sufficiently so that inflation equalled 2% from 2013 onwards, the unemployment rate would be above 6.3% (my long-run projection) for some time. In other words, I believe there have been transitory shocks that are pushing upward on both inflation and unemployment, along with the permanent shocks that have driven the long-run unemployment rate up. I'll call these transitory shocks that push upward on both inflation and unemployment "supply" shocks.

How should monetary policy react to these supply shocks? In most models, some of these supply shocks (for example, shocks to firm markups) make unemployment inefficiently high while other shocks (to preferences and technology) make efficient unemployment higher. So, there is no easy answer to this question. My own assessment is that at least some of these shocks represent inefficiencies, while others do not.

When I put all this together, I conclude that:

a. even under appropriate monetary policy, it will take some time for unemployment to fall back down to its long-run level of 6.3%

b. along the path of adjustment, it is appropriate for inflation to be above 2% for at least some time (so as to offset the transitorily inefficiently high unemployment).

I don't think that this assessment is qualitatively different from the staff's. However, my assessment of the magnitude of the various inefficiencies, and the sacrifice ratio (the inflation "price" of unemployment reductions) is quantitatively different.

Respondent 14: Drags on growth from excess household debt continue to ease, and residential investment is now making consistently positive growth contributions. However, cuts in government purchases and extreme tax and regulatory uncertainty are limiting the pace of the expansion and are retarding the impact of a highly accommodative monetary policy. Downside risks stemming from economic and financial problems abroad remain significant. In the U.S., businesses are holding above-normal levels of cash as a hedge against the elevated uncertainty. The effect is to restrain job creation and CAPEX. The pace of the recovery is unlikely to accelerate until next year, after some of the aforementioned non-monetary uncertainties have been resolved. If they remain unresolved, I would expect to lower my growth projections and raise my unemployment estimates, perhaps significantly.

Respondent 15: The key factors shaping our forecast have not changed for some time. Households and some businesses still have a way to go in rebuilding their balance sheets. In addition, uncertainty over the potential fall out to the U.S from the European debt crisis and the potential for a messy resolution to U.S. fiscal cliff are weighing on confidence and depressing spending. Adding in the negative effects from the drought, we see output growing at roughly a 2 percent pace in the second half of the year.

We expect growth to pick up as we move through 2013 and 2014. Supported by further accommodative monetary policy, households and businesses will eventually make enough progress in shoring up their balance sheets to resume spending more briskly; some of this will reflect pent-up demands for capital goods and consumer durables, which will provide an impetus for above-trend growth as the associated stock-adjustment process takes place. Furthermore, under our baseline scenario, Europe will muddle through without a financial meltdown, and the resolution of the U.S. fiscal situation will involve restraint on the order of magnitude assumed in the Tealbook. As the odds on the more damaging European and U.S. fiscal scenarios fade, household and business confidence will be bolstered and the associated restraint on spending will diminish. All told, we see real GDP growth picking up about 3 percent in 2013 and a bit over 4 percent in 2014 and 2015.

Under our view of appropriate policy, sufficient accommodation will be in place–and will be expected to remain in place–to result in inflation drifting up some over the projected period. Still, given we expect resource gaps to remain substantial even into 2015, this projected increase in inflation is quite modest, with the PCE price index rising just 2.3 percent in 2015.

Respondent 16: Incoming data have been mixed but overall consistent with an economy growing modestly, with signs of a slowdown relative to the already tepid pace of growth witnessed in the first half of the year. Improvements in the labor market remain unsatisfactory: Gains in payroll are small, and declines in the unemployment rate have been importantly influenced by declines in the labor force participation rather than by increases in the employment to population ratio. Firms' reluctance to hire is also mirrored by a slowdown in capital expenditures as the economic environment remains uncertain. Recent statements by the European Central Bank have contributed to lessen financial stresses, but risks of a renewed deterioration are still high. On the domestic side, as important fiscal deadlines near a contentious process surrounding the direction of fiscal policy is likely to increase uncertainty further. The large amount of slack in labor markets is contributing to only modest gains in compensation. With little hiring and meager wage growth, consumers do not have the wherewithal to step up expenditures significantly despite some improvement in household net worth.

Given these prevailing conditions, economic activity is expected to grow below potential over the rest of this year. With little underlying momentum and fiscal consolidation likely to restrain the pace of growth significantly next year, additional monetary policy stimulus is needed. The outlook is thus conditioned on (i) additional LSAP at a pace of $75 billion per month until the unemployment rate reaches 7 1/2 percent, (ii) a mid-2015 lift-off of the federal funds rate, and (iii) lowering the interest on excess reserves to 10 basis point. The amount of quantitative easing (together with the forward guidance and the reduction in the interest rate on excess reserves) is expected to provide sufficient stimulus to spur growth in 2013 and beyond so as to lower the unemployment rate to close to 6 percent by the end of 2015. In this context, risks to the projection for real activity continue to be weighted to the downside, but the additional policy actions contribute to lift some of the uncertainty. Too, more stimulus helps to keep inflation closer to the 2 percent target over the forecast horizon.

Respondent 17: Other Conditioning assumptions: We expect the lower degree of inflation persistence evident since the early 1990s to continue. Inflation expectations remain well anchored. We project real foreign GDP growth in 2012 at 2.1% and for 2013 and 2014 at 2.8%. Reflecting intermeeting developments, our assumed path of WTI oil prices, based on recent futures quotes, has moved up to $96.50 for 2012Q4 and $96 for 2013Q4, and then ease to $92 by 2014Q4. We adopt the same federal fiscal assumptions as in the Tealbook, which are unchanged from late July; however, we see a somewhat larger drag on GDP from these actions. We also adopt the Tealbook assumptions regarding equity and home prices.

Outlook: Both in absolute terms and relative to expectations at the beginning of the year, the performance of the US economy over the first half of 2012 was disappointing as real GDP growth averaged a little under 2% (annual rate). As a result, progress in reducing unemployment has stalled. We expect growth to remain around 2% (annual rate) in the second half of the year.

So why is it, three years after the official end of the "Great Recession," that the economy continues to languish? Several factors appear to be restraining the economy at the present time.

- The deleveraging process among US households continues to restrain spending on housing and consumer durables.
- Spending by state and local governments has been contracting for over two and a half years.

- Consumers and businesses are confronted with an unusual degree of uncertainty regarding the strength of the economy in the near future, particularly in regard to the sovereign debt crisis in the euro area and the possibility of substantial additional fiscal drag beginning in 2013.
- Export growth has gradually slowed over the past year as global growth has weakened.

Going forward, our expectation is that these impediment to stronger growth will gradually subside. The improvement in home prices that we have seen this year, and which we expect to continue, will certainly help. In addition, uncertainty about the US fiscal path is likely to diminish after the election. World growth is expected to pick up in 2013 as the Euro area emerges from recession. Combined with our assumptions for monetary policy, we thus expect some firming of growth in 2013 and 2014. However, growth in 2013 is likely to be held back to just around 2 1/2%, with a modest decline of the unemployment rate, due to our fiscal policy assumptions. In fact, recent analysis suggests that growth could be restrained more than generally expected as the impacts of fiscal policy changes are magnified when monetary policy is constrained by the zero lower bound. Thus, risks to projected growth next year are skewed to the downside. As we enter 2014, fiscal drag is expected to diminish greatly, allowing the full force of monetary accommodation and the natural healing of the economy to be realized; therefore we expect growth of around 4%, with the unemployment rate declining more substantially even though the participation rate begins to rise gradually.

Total inflation has slowed significantly over the past several months, with the total PCE deflator up just 1.3% over the 12 months ending in July, down from 2.9% last September. Given the recent rise of energy prices, 12-month changes are expected to begin rising again, reaching around 1 3/4% by the end of the year. While this projection also includes more rapid increases in food prices later this year as the effects of the drought work their way through the distribution network, the magnitude of those price increases is highly uncertain at this time. Our projection for core PCE deflator inflation for the second half of 2012 has been lowered to just 1.3% (annual rate), based on recent data and forward looking indicators such as our Underlying Inflation Gauge. This brings the 2012 Q4/Q4 change of the core PCE deflator to 1.7% versus 1.8% in the last cycle.

In 2013 and 2014, as the economy begins to establish greater forward momentum, we expect both total and core inflation to move higher gradually, with total PCE deflator inflation moving to around 2% in 2013 and 2 1/4% in 2014. The expected decline of the exchange value of the dollar and resulting more rapid increase of nonpetroleum import prices contributes to this increase. Stable inflation expectations will limit the extent of inflation overshooting the FOMC objective, as such an overshoot is consistent with optimal policy in a wide variety of models under situations similar to the current one.

Our risk assessment depends upon our assumption of appropriate policy, which we see as providing insurance against realizations of the downside risks. Under that assumption, we assess less downside risks to real activity and inflation than in the June SEP, with the inflation risks now roughly balanced. However, if we assume that the policy path implied by the August FOMC statement, then there would be considerable downside risks to both real activity and inflation, as the developments since the June SEP by themselves would have implied only marginal changes in our risk assessment.

Respondent 18: Recent data suggest that the U.S. economy has been expanding at a modest, trend-like pace. I expect growth to continue around that rate before gradually picking up under the impetus of exceptionally accommodative monetary policy. Smoothing through the volatility in the various spending data, real PCE has been rising at a rate of about 2% in recent quarters and I consider a sizable pickup unlikely given downbeat reading on consumer sentiment and the increase we have seen in oil prices. Forward looking indicators of business investment have been quite negative. I see the housing sector as beginning to mend, with house prices now rising in many parts of the U.S., but given the low level of activity in this sector, a strengthening will not likely provide much impetus to aggregate demand. Going forward, both slower global growth and increasing fiscal drag will hamper growth. With respect to the labor market, I see economic growth as too slow over the next few years to meaningfully lower the unemployment rate. Even with considerable additional accommodation, I still project an unemployment of 7.7% at the end of next year.

With respect to inflation, I see it as well contained, running at or slightly below 2% over the forecast period.

Respondent 19: I see a gradual acceleration in growth over the next two years, under the assumption that stresses in Europe diminish, and that there is some resolution to the ongoing fiscal uncertainty. As these headwinds moderate, the underlying improvement in the financial condition of firms, banks, and consumers should begin to show through more clearly. Nonfinancial firms in particular have very strong balance sheets, and by locking in long-term debt at record low levels have set themselves up well to invest should demand begin to pick up. Nevertheless, while I expect some upturn in growth, I don't think it will be fast enough on its own to get unemployment back in the range of the natural rate for quite some time.

Forecast Narratives (continued)

4(b). Please describe the key factors causing your forecast to change since the previous SEP.

Respondent 1: Very little change in view of the economy. The modest changes in my outlook mostly due to changes in assumptions about monetary policy.

Respondent 2: As noted above, I have lowered my forecast for GDP growth in 2012 in response to the news of the inter-meeting period that has generally been somewhat weaker than I expected at the time of the June SEP. I have also adjusted my view of appropriate policy to include more accommodation. With this additional monetary stimulus, my forecast for GDP growth in 2013 is about the same as in the June SEP, and my forecast of growth in 2014 is higher than in the June SEP. Reflecting the same broad forces, I have adjusted up my forecast for unemployment in 2013 but made little change to my forecast of unemployment in 2014. With recent inflation rates coming in as expected, I have made only small adjustments to my forecast of inflation.

Respondent 3: As the economy continues to grow at a slow pace, the ability of more modest forms of accommodation to effect the pace becomes attenuated. Accordingly, the persistent slow pace of recovery requires greater accommodation than I hard earlier assumed. The need for continued and varied forms of accommodation effects my forecast.

Respondent 4: Relative to the previous SEP, three factors have led me to change my forecast. First, I see greater inflationary pressures coming from rising energy prices, rising agricultural prices, and growing concerns about the long-term fiscal imbalances. Second, I have downgraded my view on the medium-term potential growth rate of the economy. Data releases in recent quarters suggest that the recovery is progressing at a pace consistent with a slower rate of potential growth for the economy than previously expected. As a result, I have revised down my forecast for real GDP growth in 2013 and 2014. Third, the labor market recovery has been progressing slower than previously expected. Therefore, my forecast now has the unemployment rate improving more gradually than in my previous submission. My longer-run projections remain unchanged.

Respondent 5: The pace of the economy and inflation over the first half of 2012 was modestly weaker than my expectations. Accordingly, the unemployment rate stabilized, and even inched up slightly, rather than continuing to fall as I had anticipated. I expect the economy to steadily build momentum during the second half of the year. Overall, my forecasts of real GDP growth and PCE inflation for 2012 have decreased slightly, while my forecasts of unemployment for 2012 and 2013 have increased slightly.

Respondent 6: Since June, the data have suggested slightly less growth than expected in the second half of 2012. Moreover, the lack of acceleration in activity reinforces that the headwinds to recovery are abating only slowly. As a result, in the absence of further monetary stimulus, my forecast would be somewhat weaker than in June. However, because I do now build in considerable additional stimulus, my overall forecast is a bit stronger than in June.

My inflation forecast has changed relatively little. Higher oil and natural gas prices (and, to a lesser extent, expected food prices) have led me to raise my headline inflation forecast for the second half of 2012. Further out, greater monetary stimulus and resulting faster growth lead to slightly faster progress on bringing inflation towards our 2 percent objective.

Respondent 7: not much has changed

Respondent 8: Not a major change in the outlook. Incoming data have been mixed (payrolls, retail sales, durables orders, construction, home sales), consistent with sluggish but positive growth. The European situation is moderately better so financial conditions are also a bit better.

Respondent 9: Overall economic activity has been softer than expected. The drought is likely to reduce agricultural production by more than had been expected. The recent backup in gasoline prices was not expected.

Respondent 10: My forecast now includes additional balance sheet action and an extension of forward guidance.

Respondent 11: With recent data being somewhat weaker than I anticipated, I've marked down 2012 growth slightly from my June SEP.

Respondent 12: Softer incoming data have caused me to reduce my growth outlook by 0.4 percentage points this year, and by about 1/4 percentage point projection for the balance of the forecast horizon.

Respondent 13: N/A

Respondent 14: I've revised my near-term, headline inflation forecast modestly upward in response to recent oil-price increases, and have revised my near-term real growth forecast downward in response to the unexpectedly severe drought.

Respondent 15: The incoming news on economic activity has been broadly consistent with our June forecast, and our forecast for GDP growth in 2012 is the same as in that projection. Our forecast for total inflation in 2012 is about 1/2 percentage point higher than in June. This revision largely reflects the increase in energy prices and prospective bump-up in food prices; our outlook for core inflation is just a tenth higher than in our previous projection.

We revised up our outlook for growth and inflation in 2013 and 2014 a good deal from June. This reflects more accommodative monetary policy assumptions. In June, we had assumed a $500 billion LSAP. Our current projection is conditioned on an open-ended LSAP program with a commitment to continue it until we see clear downward momentum in the unemployment rate and an expressed willingness to not pull back on accommodation as long as inflation does not rise noticeably above 2 percent. We have accordingly boosted our projection for average GDP growth over 2013 and 2014 by about 3/4 percentage point raised our outlook for inflation over the same period by about 1/4 percentage point.

Respondent 16: Incoming data have been, by and large, consistent with my expectations and have thus reinforced my view that additional monetary policy stimulus is needed. Compared with my previous submission, I now favor a greater amount of policy stimulus. The greater stimulus also reflects the fact that recent data for core inflation have been subdued, suggesting little inflationary pressures going forward.

Respondent 17: Data released over the intermeeting period have been mixed, resulting in essentially no change in our assessment of the likely strength of the economy over the second half of 2012. Recent data on consumer spending has been generally favorable, resulting in some nudging up of the expected rate of growth of real personal consumption expenditures (PCE) for the third quarter, but weak consumer expectations measures and rising gasoline prices mitigate these effects for future real PCE growth. In addition, recent housing market data have been a bit better than expected.

However, other indicators have been decidedly downbeat. New orders for nondefense capital goods excluding aircraft have fallen off quite sharply in recent months and are now below shipments. Similarly, the Architectural Billings Index, which provides leading information on business investment in new structures, has been at a level suggesting declining activity for four consecutive months through July. Combined, this information suggests that business investment spending is more likely to slow further over the second half of the year than it is to strengthen.

On the production side, a variety of indicators point to sluggish activity in the manufacturing sector. The ISM manufacturing composite index has been below 50 for three consecutive months through August. Several factors are contributing to this slowdown of manufacturing activity. After ramping up substantially over the second half of 2011, the rate of vehicle assemblies in the US has begun to level off. Growth of real exports has gradually slowed over the past year, and firms appear to want to slow their rate of inventory accumulation.

The recent labor market data, in particular the August labor market report, have reinforced our view of a sluggish economy. Payroll employment increased an average of 87,000 per month since April, down from 225,000 in the first quarter of the year. The diffusion index has declined in recent months and now is essentially at a breakeven level. There was corresponding weakness in hours worked and average hourly earnings. Labor force participation declined again, reaching its lowest level since 1983, and the employment-population ratio languished near its post-1983 low.

Total inflation, as measured by year-over-year changes of the PCE deflator, has slowed sharply in recent months, with the bulk of this movement due to energy prices. Core inflation, which had been somewhat firmer, has slowed more recently and our forward-looking measures such as our Underlying Inflation Gauge indicate further slowing in the months ahead. We suspect that this pattern is due to the effect of the steep increases in commodity and import prices in 2011 working their way through the system and now subsiding (in fact, nonpetroleum import prices have been declining). This has led us to lower our projection for core PCE deflator inflation over the second half of 2012 to 1.3%.

Respondent 18: My medium term outlook is little changed since June. For example, I project an unemployment rate at 7.2% at the end of 2014 now–identical to my projection in June, although I have assumed a somewhat larger LSAP program this round than in June. For the remainder of the year, I have revised down my estimate of growth slightly, due in part to the drought, and revised up my estimate of the unemployment rate in response to incoming data. My projection of inflation this year is higher as a result of rising oil prices and the drought.

Respondent 19: My forecasts for output and unemployment are a bit more optimistic than in the previous SEP. For example, my estimates for GDP growth in 2013 and 2014 are now 3.0% and 3.6%, respectively, as opposed to 2.6% and 3.4% in the previous round. These changes reflect two factors, in roughly equal measure. First, some slightly better than expected incoming news, particularly with respect to the situation in Europe. And second, the effects of the further stimulus provided by the (assumed) adoption of Alternative B".

Forecast Narratives (continued)

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

Respondent 1: Slightly less optimistic than Tealbook, but no major analytical differences.

Respondent 2: My view of appropriate policy is that liftoff of the federal funds rate will occur later than assumed in the Tealbook. In addition, my forecasts of GDP growth in the second half of this year and next year are modestly more optimistic than the Tealbook's. I believe the recent news on the economy and additional policy action is consistent with economic growth remaining near 2 percent in the second half of this year and picking up next year to more than 2 1/2 percent, while the Tealbook puts growth well below 2 percent in the second half of this year and below 2 1/2 percent next year.

Respondent 3: My current economic forecast differs from that of the Tealbook's baseline forecast because of the imposition of a different set of appropriate monetary policy tools.

Respondent 4: In comparison to the Tealbook forecast, my outlook differs in two primary ways. First, I see greater inflationary pressures being generated in the medium term from a continuation of the current highly accommodative stance of policy. In response to these pressures that threaten the stability of long-term inflation expectations, my view of appropriate policy calls for lift-off of the federal funds rate in late 2013, a year earlier than in the Tealbook policy assumption. Second, under my assumption of appropriate policy, I expect inflation to remain near the 2 percent target, growth to be more moderate, and the unemployment rate to recover more gradually than in the Tealbook forecast.

Respondent 5: I anticipate much faster real GDP growth for 2013 and much slower real GDP growth for 2015 than the Tealbook. For 2013 through 2015, I anticipate a much lower unemployment rate than the Tealbook.

Respondent 6: My growth and inflation projections are broadly similar to the Tealbook; however, I have assumed considerably more monetary stimulus. With comparable monetary policy assumptions, my outlook for economic activity would be weaker than Tealbook for the next few years.

Respondent 7: I assume that we adopt Alternative B prime.

Respondent 8: Like the Tealbook I expect growth to pick up eventually, but I remain a bit more pessimistic about the extent to which activity will accelerate in the out years, in light of more than three years of slow recovery. It is not obvious that the key headwinds (Europe, fiscal) will be resolved soon; on the other hand, we are seeing some improvement in domestic credit conditions, housing, and household balance sheets.

Regarding inflation: It seems that the Phillips curve may be flatter (so less effect of slack) and that passthrough to core from commodity prices (though limited) may be greater than we thought. Also, I have monetary policy being a bit more accommodative than the Tealbook does. So my inflation projections are a little higher.

Respondent 9: The most important difference is that I expect inflation to be close to our 2 percent goal over the forecast period.

Respondent 10: N/A

Respondent 11: My forecast calls for a stronger economy in 2013 and tighter monetary policy than the Tealbook. I anticipate a lower unemployment rate than the Tealbook in 2013 and 2014.

Respondent 12: I project inflation to follow a path closer to our longer-term inflation objective owing to a strong adherence of price growth to longer-term inflation expectations.

Respondent 13: N/A

Respondent 14: I see somewhat faster GDP growth in the second half of 2012 and in 2013 than does the Tealbook, with correspondingly faster reductions in the unemployment rate. My inflation forecasts converge to 2 percent more rapidly than the Tealbook's. These differences imply that there is less need for monetary-policy accommodation.

Respondent 15: Our forecast would be broadly similar to the Tealbook if we had conditioned it on its monetary policy assumptions. However, we think resource gaps currently are somewhat larger than in the Tealbook, and so we would project a bit more of cyclical bounceback in growth over the projection period.

That said, we are conditioning on a much more accommodative monetary policy than the assumption in the Tealbook. Accordingly, we are projecting stronger growth and higher inflation.

Respondent 16: Conditional on the same monetary policy assumptions as in the Tealbook, my forecast and the Tealbook's are very similar.

Respondent 17: As stated in our response to question 3, we assume that the MEP is suspended, replaced by an asset purchase program. Because of the greater size and duration in the balance sheet over the forecast horizon, we assume that term premia rise to normal levels more slowly than in the Tealbook.

Over 2012H2 and 2013, the Tealbook assumes a weaker foreign growth outlook and somewhat higher path for the foreign exchange value of the dollar than in our projection. Consequently, net exports is a neutral factor for GDP growth in the Tealbook forecast while it is a modestly positive contributor in our central projection for that period.

For 2013, although real GDP growth forecasts are similar, the Tealbook expects stronger real PCE growth and weaker investment growth than our forecast. In part, this reflects somewhat different views of the effects of the expected fiscal consolidation that year.

We see some of the headwinds restraining economic growth subsiding more quickly in 2014 than in the Tealbook. Thus we expect the output gap to begin to close more quickly that year, and our 2014 real GDP growth forecast is above that of the Tealbook.

We see a stronger influence of anchored inflation expectations on inflation dynamics than does the Tealbook. Consequently, our inflation forecast and the Tealbook forecast are similar for 2012, but beyond that we see total and core inflation remaining near 2% whereas the Tealbook has inflation declining in 2013 and remaining near the 2013 level in 2014. This difference also reflects the differing monetary policy assumptions in the two forecasts.

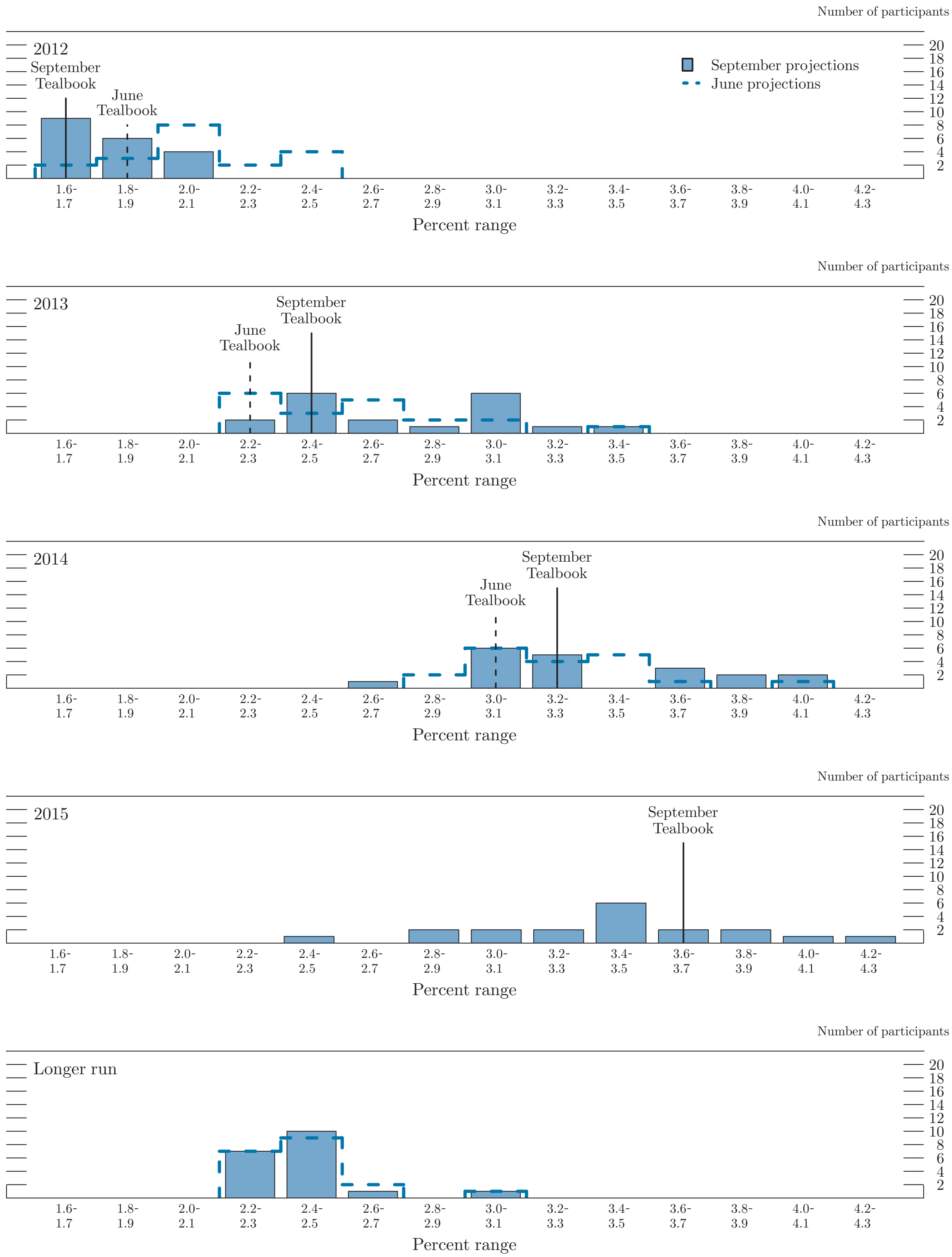
We expect a greater decline in the unemployment rate than is projected in the Tealbook, even though we project a small increase in the labor force participation rate in 2014. The source of this difference is a different interpretation of labor market dynamics as expansions mature; that is, we do not place as much weight on Okun's Law as the Board staff does.

Both the Tealbook and our outlook see a downside balance of risks to real growth. For inflation, we agree that the risks are broadly balanced, but we see uncertainty as still higher than normal whereas the Tealbook sees uncertainty at a near normal level. This assessment reflects our view that the unusual nature of the current expansion leaves uncertainty about both real activity and inflation above normal levels.

Respondent 18: There are no significant differences between my current economic forecast and Tealbook other than those associated with my substantially more accommodative monetary policy assumption.

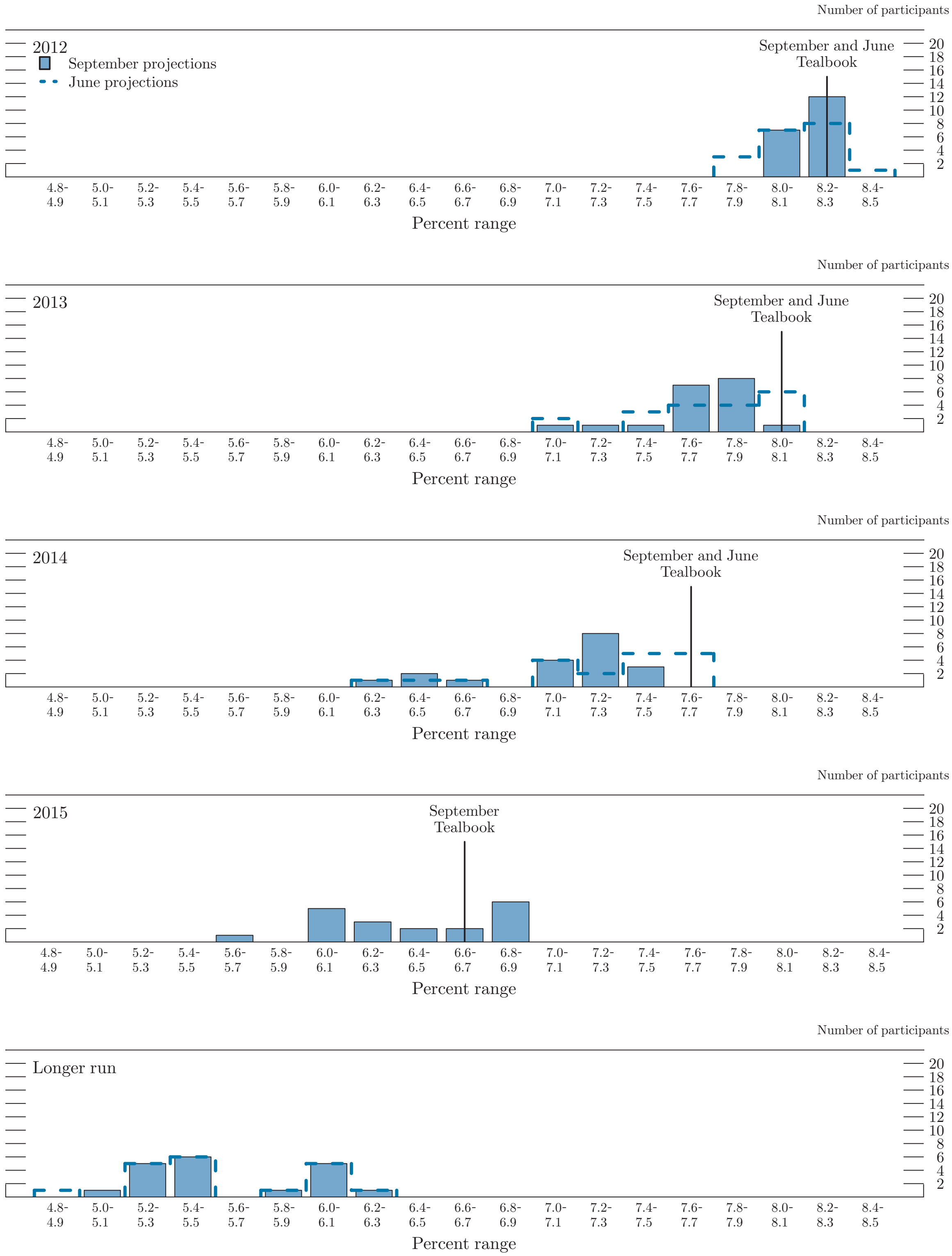
Respondent 19: Conditional on the policy assumption, they are quite close.

Figure 3.A. Distribution of participants' projections for the change in real GDP, 2012–15 and over the longer run



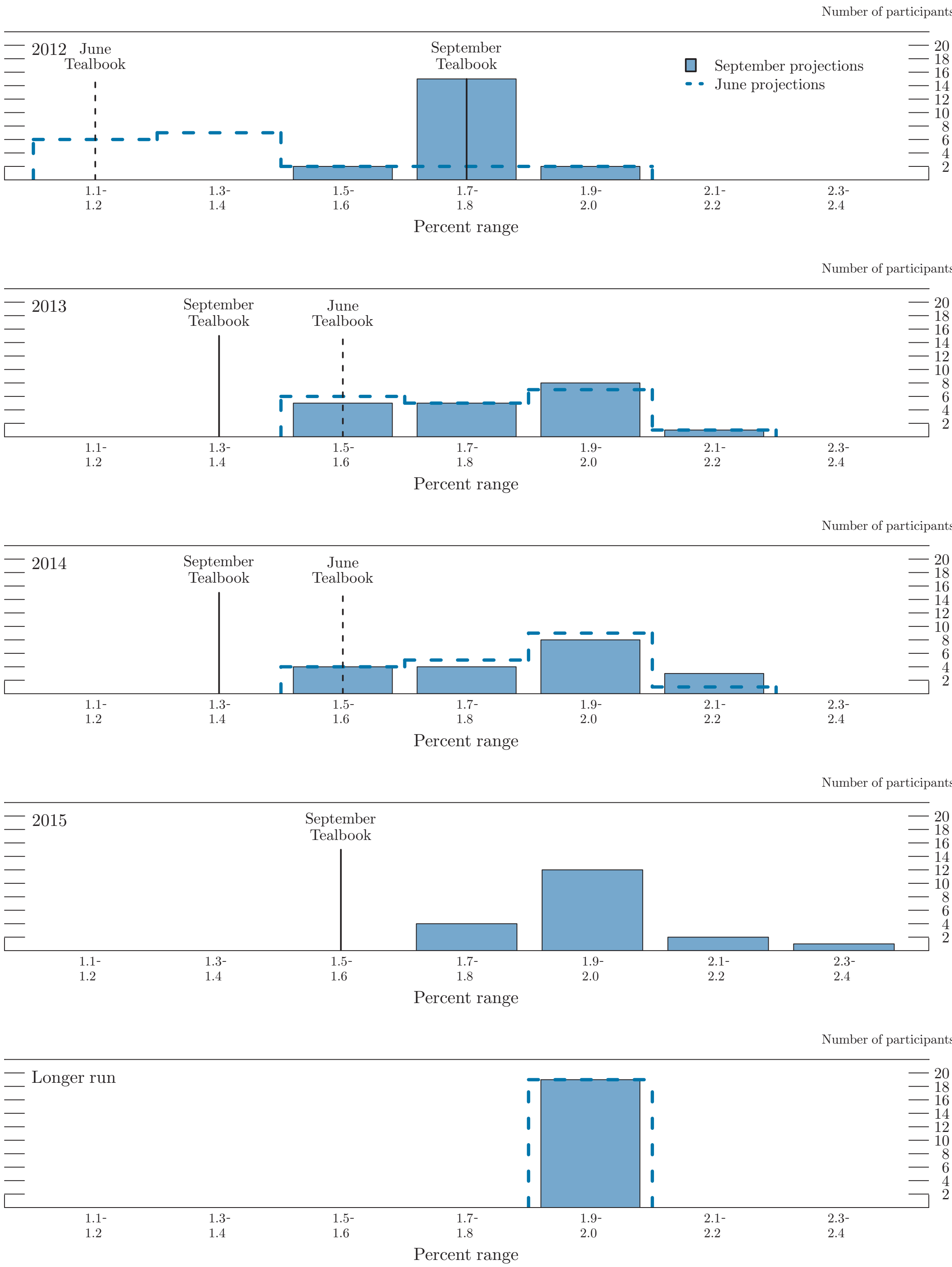
NOTE: Definitions of variables are in the general note to table 1.

Figure 3.B. Distribution of participants' projections for the unemployment rate, 2012–15 and over the longer run



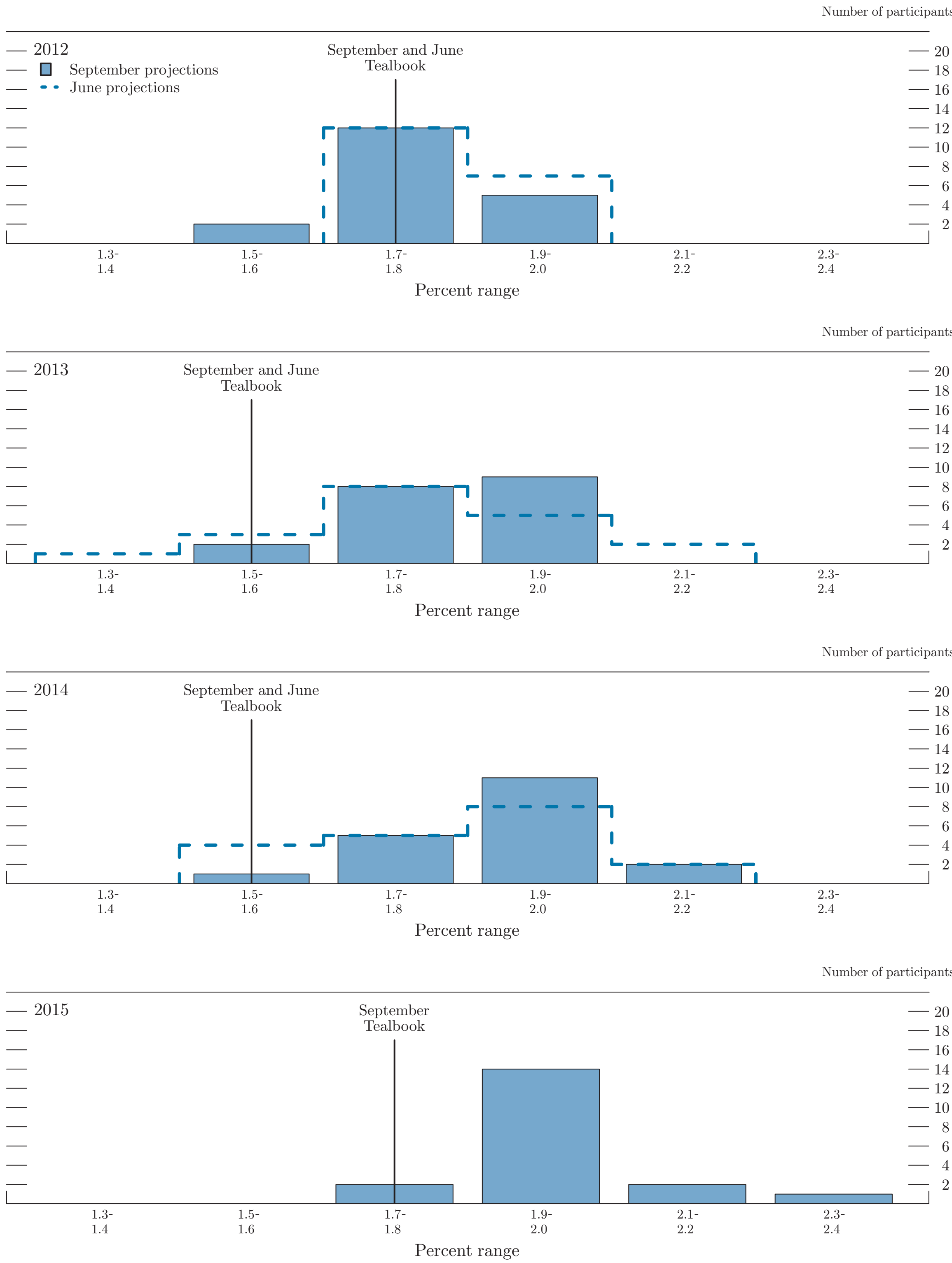
NOTE: Definitions of variables are in the general note to table 1.

Figure 3.C. Distribution of participants' projections for PCE inflation, 2012–15 and over the longer run



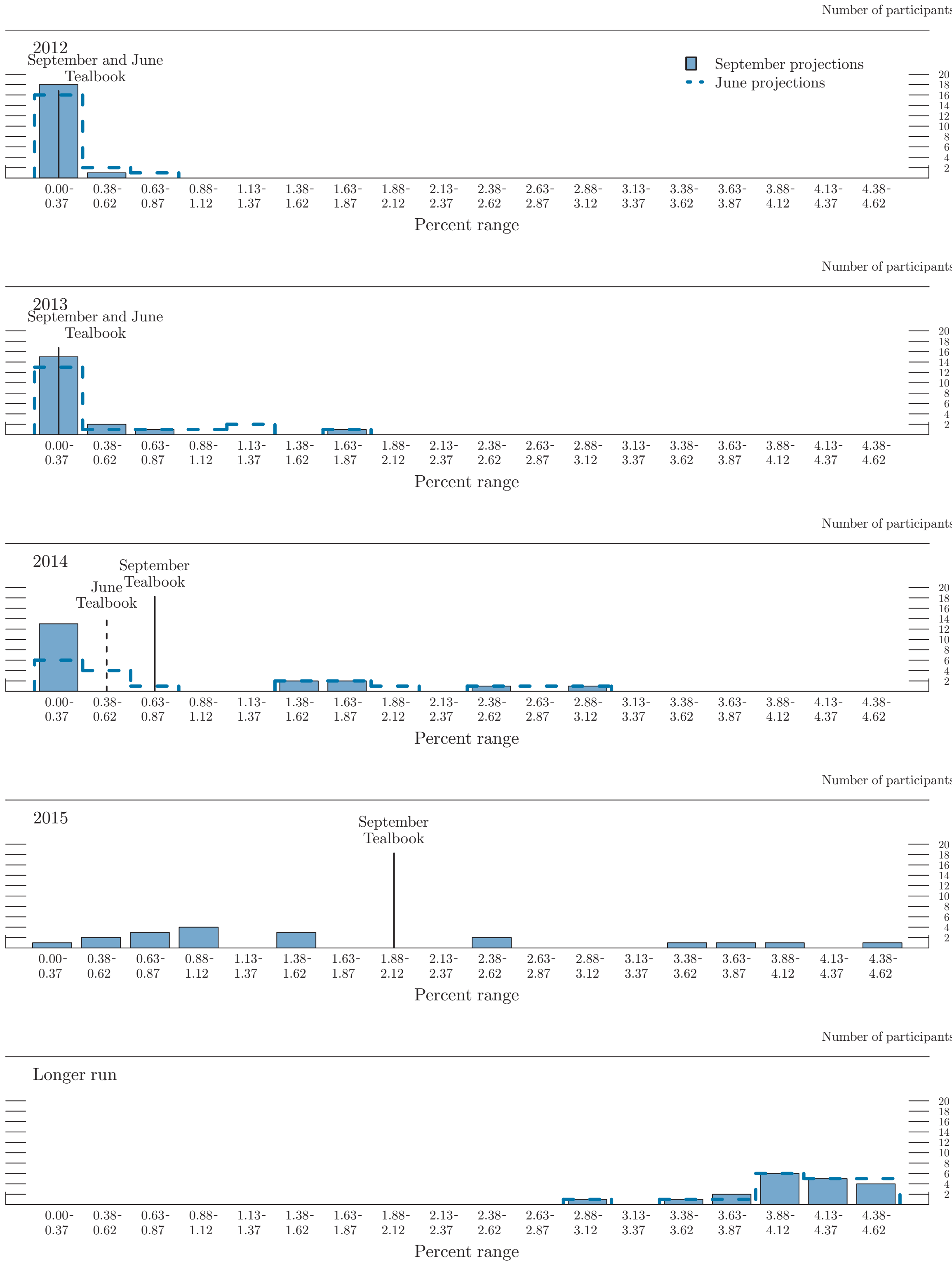
NOTE: Definitions of variables are in the general note to table 1.

Figure 3.D. Distribution of participants' projections for core PCE inflation, 2012–15



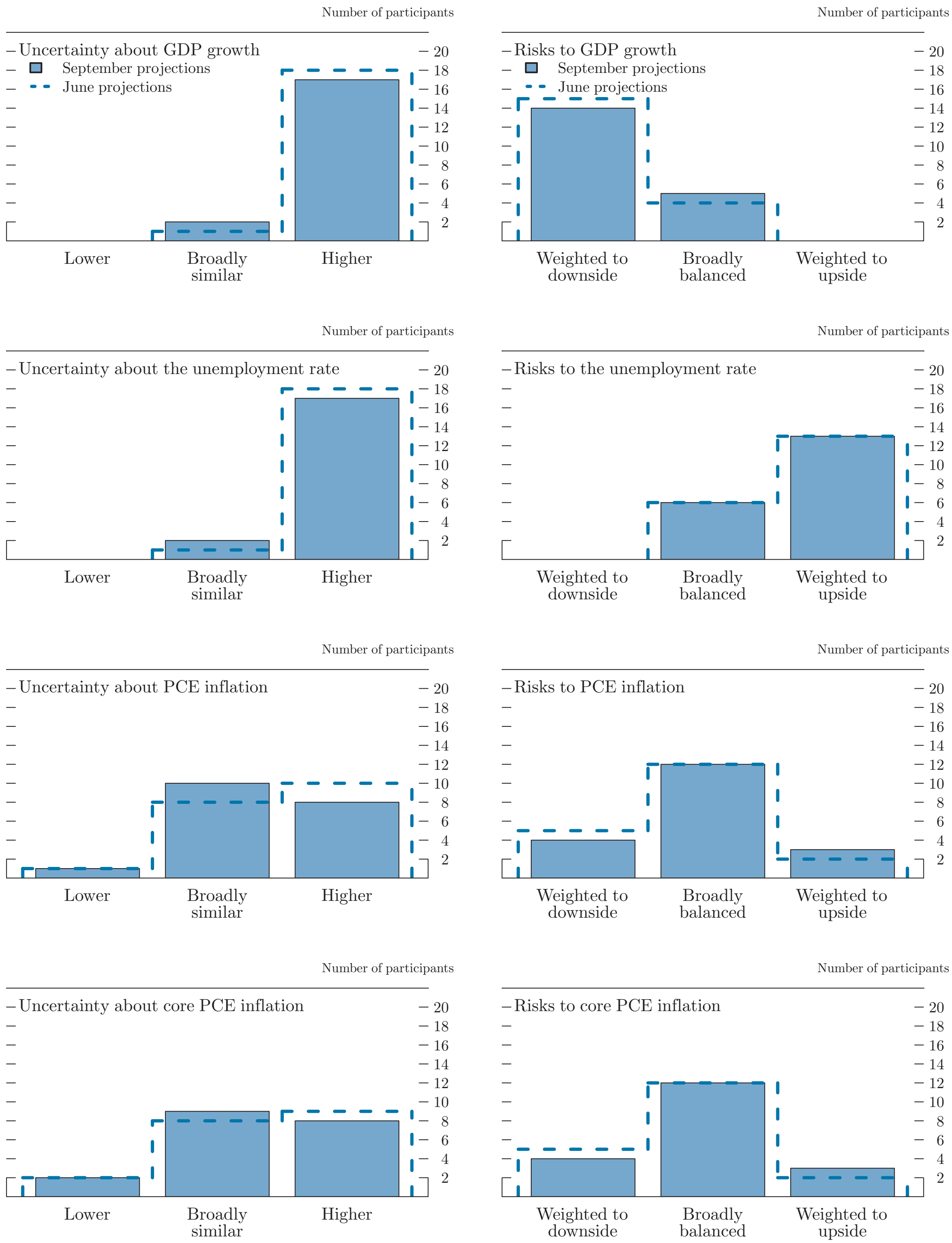
Note: Definitions of variables are in the general note to table 1.

Figure 3.E. Distribution of participants' projections for the target federal funds rate, 2012–15 and over the longer run



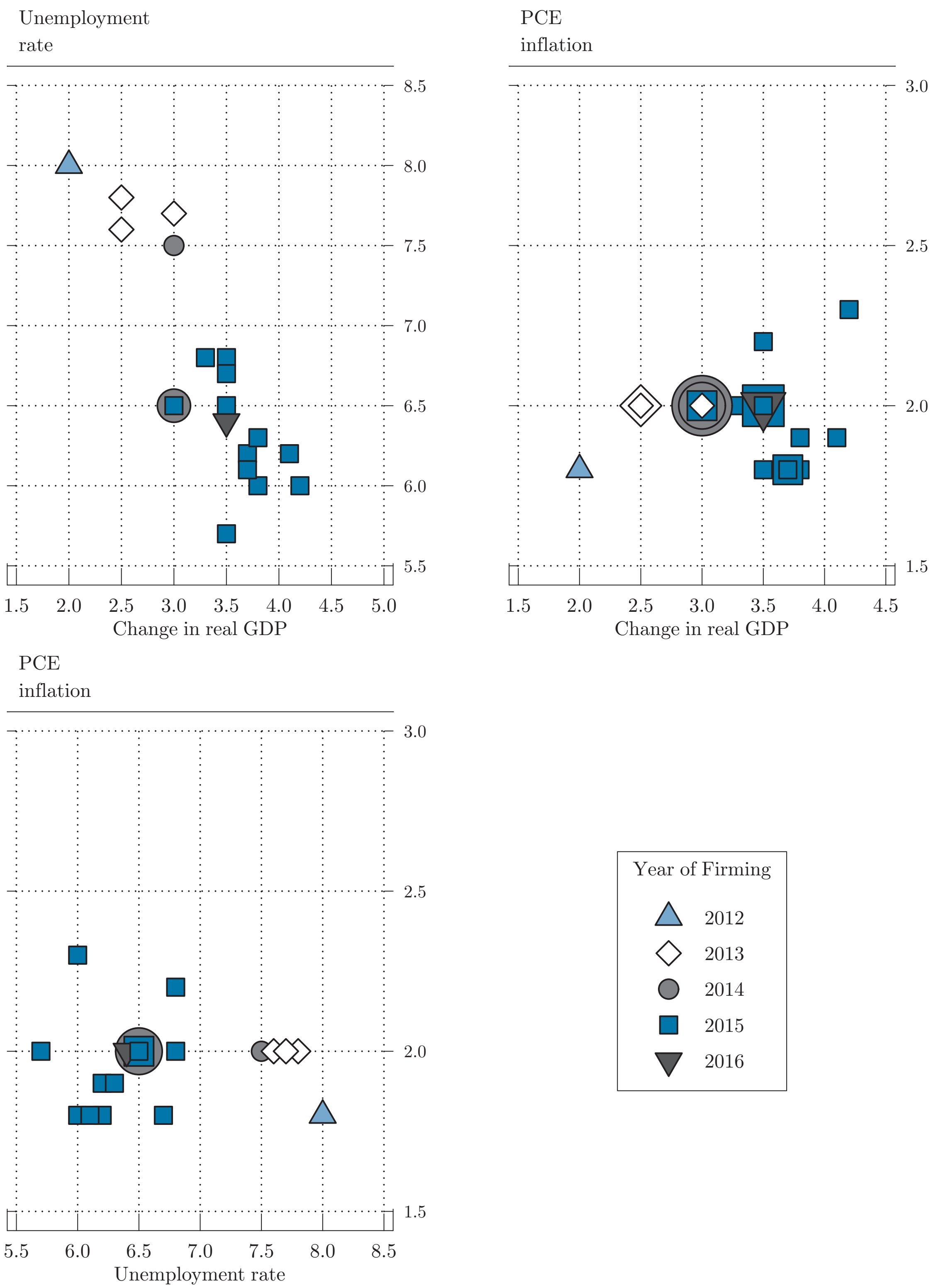
NOTE: The target federal funds rate is measured as the level of the target rate at the end of the calendar year or in the longer run.

Figure 4. Uncertainty and risks in economic projections



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

Figure 5. Scatterplots of projections in the initial year of policy firming (in percent)



Note: When the projections of two or more participants are identical, larger markers, which represent one participant each, are used so that each projection can be seen.