Prefatory Note

The attached document represents the most complete and accurate version available based on original files from the FOMC Secretariat at the Board of Governors of the Federal Reserve System.

Please note that some material may have been redacted from this document if that material was received on a confidential basis. Redacted material is indicated by occasional gaps in the text or by gray boxes around non-text content. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

Content last modified 01/10/2020.

Class II FOMC – Restricted (FR)

Report to the FOMC on Economic Conditions and Monetary Policy

Book A

Economic and Financial Conditions: Current Situation and Outlook

March 12, 2014

Prepared for the Federal Open Market Committee
by the staff of the Board of Governors of the Federal Reserve System

(This page is intentionally blank.)

Domestic Economic Developments and Outlook

The incoming data on spending and production have been to the soft side of our expectations. Real GDP now appears to have risen considerably less in the fourth quarter than seemed to have been the case at the time of the January Tealbook, and the available readings on consumer spending, residential construction, and business investment point to less spending growth this quarter than in our previous projection. In addition, factory output has surprised us to the downside in recent months. We think that unusually severe winter weather can account for part of the unanticipated weakness, but not the bulk of it. We have let most of the downside surprise show through to the level of real GDP, but in the face of real-time indicators that we perceive to be unusually noisy, we have not taken much signal for the growth of demand going forward. Later this year—once weather-related fluctuations are expected to have washed out of the data—our updated forecast has the level of real GDP ½ percent below where we had it in the January Tealbook.

The information from the January and February labor reports was mixed but generally suggests that the labor market has been improving at a pace similar to what we anticipated in the January Tealbook. Although payroll gains were lower, on average, than we had written down in the previous Tealbook, we took only a little signal from these data because inclement weather appears to have held down payroll growth noticeably in February and we expect a rebound in March. Meanwhile, the unemployment rate in both January and February was lower than we had projected.

In light of the combination of yet another downward surprise in the unemployment rate and weaker-than-expected news on GDP growth, we made a further adjustment to our supply-side assumptions, reducing the assumed pace of potential output growth in recent years and carrying forward some of this slower growth into the forecast period. We lowered potential output growth a little further in 2015 and 2016 to reflect our revised (but still tentative) estimate of the labor supply implications of the Affordable Care Act.

Our medium-term forecast for GDP growth is slightly weaker than in the January Tealbook, reflecting a higher path for the foreign exchange value of the dollar and the downward adjustments we made to our estimates of potential output growth. That said, the basic contour of the projection is very similar to our previous forecast: We continue

Revisions to the Staff Projection since the Previous SEP

The FOMC last published its Summary of Economic Projections (SEP) following the December 2013 FOMC meeting. The table below summarizes revisions to the staff economic projection since the December Tealbook.

Real GDP in the second half of last year is now estimated to have been greater than the staff expected in the December Tealbook, while our current forecast for real GDP growth in 2014 through 2016 is a little below our December projection. In the background (that is, not visible among the SEP variables), we have trimmed our assumed rate of growth of potential GDP. The unemployment rate has declined more than we expected in December; it is now on track to average 6.6 percent in the first quarter of this year, versus our forecast of 6.9 percent in the December Tealbook. We continue to project that the unemployment rate will be around 5¼ percent at the end of 2016.

The staff projection for both overall and core PCE inflation is little changed from our December projection. We continue to project that both core and headline inflation will edge gradually higher over the medium term.

The unemployment rate is projected to fall below the Committee's 6.5 percent threshold in the middle of this year, but we assume that the federal funds rate will not lift off from its effective lower bound until the second quarter of 2015, the same as in the December Tealbook. The trajectory of the federal funds rate after liftoff is somewhat steeper than in our December projection.

Staff Economic Projections Compared with the December Tealbook

Variable	2013	2014 H1	2014 H2	2014	2015	2016	Longer run
Real GDP[1]	2.5	2.5	3.4	2.9	3.2	3.0	2.3
December Tealbook	2.2	2.8	3.3	3.1	3.5	3.4	2.3
Unemployment rate[2]	7.0	6.5	6.2	6.2	5.6	5.1	5.2
December Tealbook	7.1	6.8	6.5	6.5	5.9	5.3	5.2
PCE inflation[1]	1.0	1.4	1.6	1.5	1.5	1.7	2.0
December Tealbook	.9	1.4	1.3	1.4	1.4	1.6	2.0
Core PCE inflation[1]	1.2	1.4	1.6	1.5	1.7	1.8	n.a.
December Tealbook	1.1	1.5	1.4	1.4	1.6	1.7	n.a.
Federal funds rate[2]	.09	.13	.13	.13	1.10	2.35	4.00
December Tealbook	.13	.13	.13	.13	.82	1.92	4.00
Memo: Federal funds rate, end of period	.12	.13	.13	.13	1.25	2.50	4.00
December Tealbook	.13	.13	.13	.13	1.00	2.00	4.00

1. Percent change from final quarter of preceding period to final quarter of period indicated.
2. Percent, final quarter of period indicated.
n.a. Not available.

to expect economic activity to expand more quickly over the next few years than in 2013, reflecting the waning of some of the forces—such as restrictive federal fiscal policy changes—that have curtailed economic growth in recent years. Our current forecast has real GDP growth stepping up from 2½ percent in 2013 to about 3 percent per year over the next three years. With growth anticipated to run above potential over the medium term, we project the unemployment rate to decline from about 6½ percent in the current quarter to just a little above 5 percent at the end of 2016, slightly below our assumption for the level of the natural rate at that time.

The data we have received on overall PCE prices since the January Tealbook have been a bit firmer than we had anticipated, reflecting a January spike in heating costs. We expect this energy-price bulge to be transitory, and, indeed, energy prices flatten out and then edge down over the medium term in our projection, causing headline inflation to run a bit below core inflation. Our forecast for core inflation is essentially the same as in January, with core PCE inflation expected to rise from about 1¼ percent in 2013 to 1¾ percent in 2016.

In the Risks and Uncertainty section, we provide our views on the degree of uncertainty attending our projections for real GDP growth, the unemployment rate, and inflation.

KEY BACKGROUND FACTORS

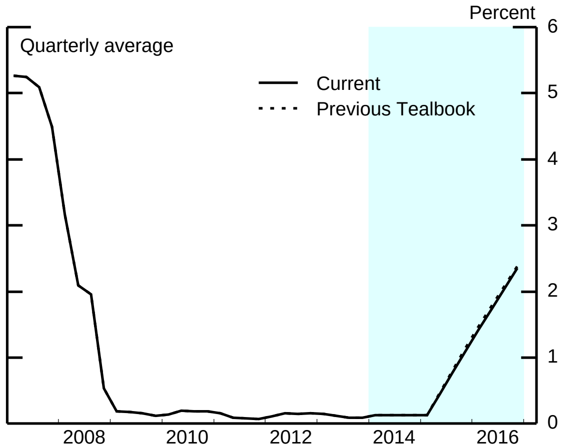
Monetary Policy

Our assumptions for the current LSAP program are essentially unchanged. We assume that asset purchases will continue to slow at a measured pace and will conclude before the end of this year, leaving the cumulative amount of purchases under the program at about $1.5 trillion.

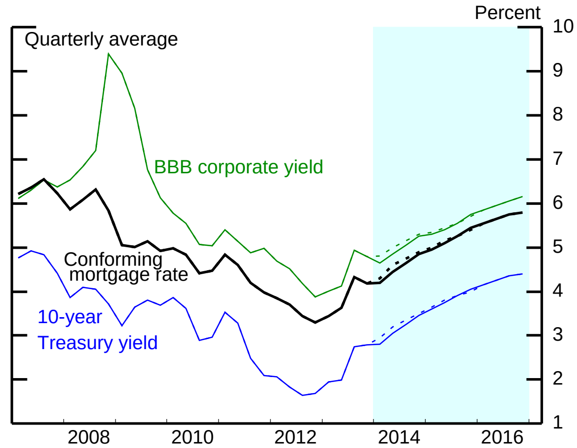
As in the January Tealbook, we assume the federal funds rate will lift off from its zero lower bound in the second quarter of 2015. We construe the two-quarter lag from the assumed end in asset purchases to the liftoff of the federal funds rate to be consistent with the Committee’s view, expressed in its January statement, that “a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends.” Following liftoff, the federal funds rate rises at a pace determined by the prescriptions of an inertial version of the Taylor (1999)

Key Background Factors underlying the Baseline Staff Projection

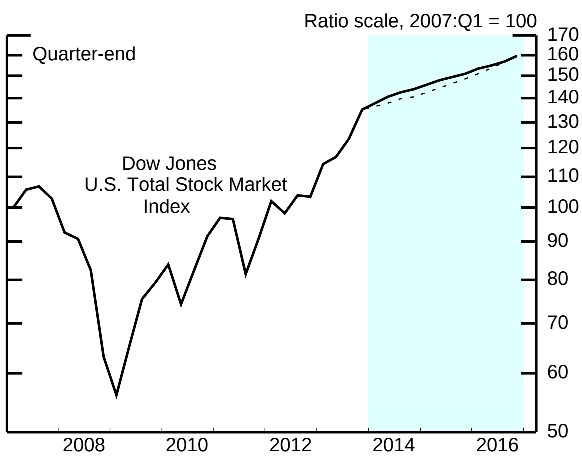
Federal Funds Rate



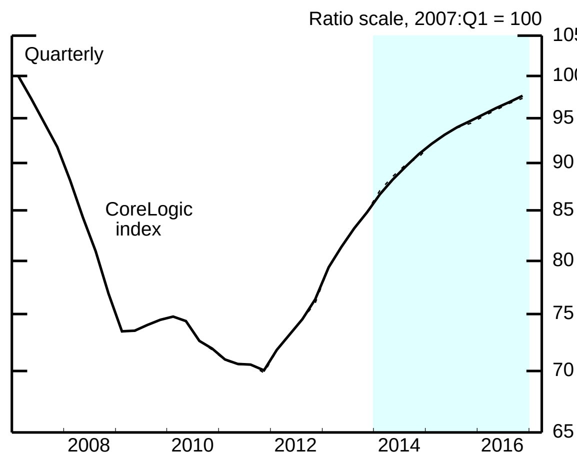
Long-Term Interest Rates



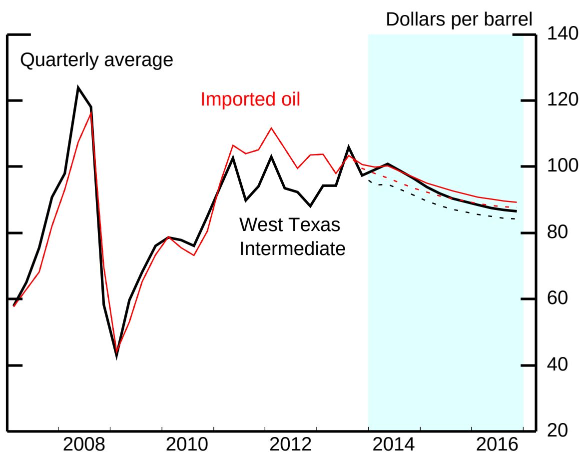
Equity Prices



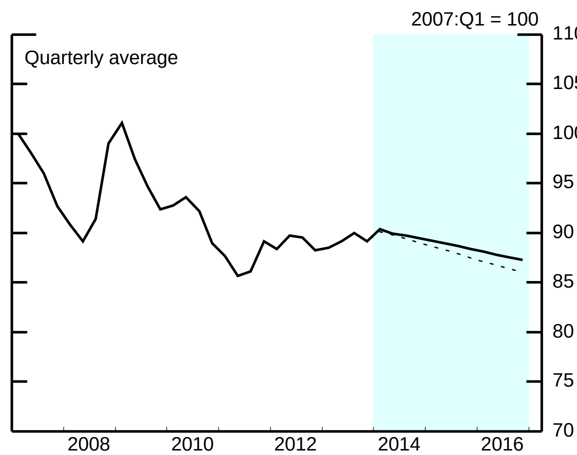
House Prices



Crude Oil Prices



Broad Real Dollar



policy rule. This path, little changed from the one in the January Tealbook, puts the federal funds rate at 2½ percent at the end of 2016.

Other Interest Rates

The projected trajectory of the 10-year Treasury yield is slightly lower through the end of 2014, reflecting a decline in term premiums since January, but it is little revised in 2015 and 2016. Our projection continues to call for a significant rise in Treasury yields, primarily because of the movement of the 10-year valuation window through the period of extremely low short-term interest rates as well as a gradual waning of the effects of the FOMC's balance sheet policies.

Investment-grade corporate bond and mortgage spreads have changed relatively little since the January Tealbook. Consequently, our forecasts for corporate bond yields and mortgage rates in the medium term have been revised essentially in line with our revisions to the path for the Treasury yield.

Equity Prices and Home Prices

On net since the January Tealbook, equity prices have increased more than we had projected. We have carried the higher level of prices forward, raising the trajectory of stock prices this year around 2 percent. However, with our view of fundamentals unrevised over the medium term, we project stock prices by the end of 2016 to be the same as in the January Tealbook.

Our forecast for house prices is little changed since January. With the relationship between prices and rents now more consistent with historical norms, we continue to expect house price appreciation to slow markedly—from 11 percent in 2013 to an average rate of about 5 percent per year over the next three years—as supply gradually expands.

Fiscal Policy

Our assumptions for fiscal policy are the same as in the January Tealbook. The federal debt ceiling was lifted in February as we had anticipated, and, with an agreement in place for overall spending levels in fiscal year 2015, the degree of uncertainty about fiscal policy now seems less elevated than in recent years. Despite the expiration of the EUC program, we continue to expect the drag from fiscal policy to ease this year because of a diminishing effect of the tax increases put in place last year and a smaller decline in real federal purchases. Consolidating across all levels of government, the restraint on real GDP growth from fiscal policy actions (excluding multiplier effects) is projected to diminish from about 1 percentage point in 2013 to ½ percentage point this year, ¼ percentage point in 2015, and roughly zero in 2016.

As in the previous projection, the federal unified budget deficit is anticipated to narrow from 4 percent of GDP in fiscal 2013 to about 2 percent of GDP in fiscal 2016, reflecting ongoing budget consolidation efforts and stronger receipts because of further improvements in the economy. As a result, federal debt held by the public is expected to remain near 70 percent of GDP for the next few years.

Foreign Activity and the Dollar

We estimate that real GDP growth in the foreign economies slowed slightly to an annual rate of 2¾ percent in the fourth quarter of 2013, a pace somewhat lower than we were expecting in the January Tealbook; surprisingly weak growth in Japan and Mexico more than offset upside surprises in a number of other economies. We expect foreign output to grow at roughly the same pace in the first half of this year before growth edges up to a little under 3½ percent in 2016, supported by continued gradual recovery in the euro area and a return to near-trend growth in the emerging market economies (EMEs). Relative to the January Tealbook, our outlook for foreign growth is down ½ percentage point in the first quarter and one-tenth of a percentage point further out, with the revisions concentrated in the EMEs.

The broad nominal index for the dollar has been about unchanged, on net, since the January Tealbook. We expect the broad real dollar to depreciate at a 1¼ percent average annual pace through the forecast period, with all of the depreciation projected to occur against the currencies of emerging Asia. (See the box "The Path of the Dollar: Baseline and Alternatives" for a detailed discussion of this forecast.) Relative to the January Tealbook, we lessened the pace of dollar depreciation in the forecast about ½ percentage point, in part because financial stresses in the euro area have eased to the point where we no longer expect further improvements to reverse safe-haven flows and depreciate the dollar. With less of a downward tilt in our forecast, the level of the broad real dollar is projected to be about 1½ percent higher at the end of the forecast period relative to the previous Tealbook.

Oil and Other Commodity Prices

The spot price of Brent crude oil is up about $1 per barrel since the time of the previous Tealbook, closing at $109 per barrel on March 11. Despite concerns about Chinese growth, which have depressed industrial metals prices, global oil prices have been supported by forecasts of stronger oil demand in the advanced economies, continued disruptions in Libya, and unrest in South Sudan and Venezuela. Meanwhile, the spot price of West Texas Intermediate (WTI) has risen almost $6 per barrel since the January Tealbook as improved transportation infrastructure has enabled producers to move significant amounts of crude oil from Cushing, Oklahoma, the pricing hub for WTI, to the U.S. Gulf Coast. Based on futures markets, we project the price of imported oil to average $99 per barrel in the first half of this year and then to decline gradually over the remainder of the forecast period, falling below $90 per barrel at the end of 2016. Overall, this trajectory is about $2 per barrel higher than in the January Tealbook.

Prices for copper and iron ore moved sharply lower amid continued concerns about Chinese demand prospects. Even so, the broad index of nonfuel commodity prices that we track has risen about 5 percent since the time of the January Tealbook as prices of foods and beverages moved higher. In recent weeks, coffee prices soared nearly 75 percent as a severe drought has cut coffee production in Brazil. Tensions in Ukraine (an important wheat and corn exporter) boosted grain prices, although Ukrainian exports to date have not been curtailed. We continue to expect nonfuel commodity prices to increase only slightly over the forecast period.

Recent Developments and the Near-Term Outlook for Real GDP

The information we have received since the January Tealbook has led us to reduce our estimate of real GDP growth in the fourth quarter of last year to 2¼ percent and our forecast for the current quarter to 1½ percent; both figures are down 1 percentage point or a little more relative to the January Tealbook. Although it is difficult to disentangle how much of this unanticipated weakness stems from unfavorable weather conditions and how much stems from weaker-than-anticipated underlying activity, we currently estimate that unseasonably adverse weather had little effect last quarter and will hold down real GDP growth in the current quarter by only about ¼ percentage point. (The box “Effects of Severe Winter Weather on Economic Activity” presents some of the detailed empirical examination we undertook to arrive at this conclusion.) In the second quarter, real GDP growth is projected to be boosted by a rebound in production and sales

The Path of the Dollar: Baseline and Alternatives

A key element of the staff forecast for U.S. activity and inflation is our projection of the foreign exchange value of the dollar. In this box, we provide the rationale for our baseline dollar projection and discuss plausible alternatives.

Our baseline projection has the broad real dollar depreciating 1¼ percent at an annual rate throughout the forecast period, as shown by the black line in the upper-left figure on the following page. This depreciation is expected to come almost wholly against the currencies of our emerging Asian trading partners, the red line, with the real value of the dollar against the currencies of advanced foreign economies (AFEs), the blue line, projected to appreciate slightly, and the dollar holding roughly flat against the currencies of Latin America (the green line).

The appreciation of the dollar against the AFE currencies reflects our projections of monetary policy in the United States and the other advanced economies. We assume that market expectations for the future paths of policy rates in the United States and elsewhere are already incorporated into the current value of the dollar. However, the staff projects that when the FOMC begins to raise its target for the federal funds rate the increase will be more rapid than the markets now anticipate. Therefore, the dollar should appreciate against the AFE currencies as market views on the path of U.S interest rates eventually adjust to match those of the staff.

Surprises in the path of interest rates are not the dominant force behind our forecast for dollar depreciation against the emerging Asian currencies. Instead, we believe that a number of emerging Asian countries have undervalued currencies and a desire to rebalance their economies toward domestic consumption. Dollar depreciation, then, results from direct policy choices these countries make to continue to move away from export-led growth. Importantly, Chinese authorities have indicated an increased commitment to exchange rate flexibility and to growth led more by private domestic demand. Although in real effective terms, the Chinese currency has appreciated more than 25 percent since 2007 and the current account surplus has fallen sharply (the red line in the upper-right figure), we estimate that the cyclically adjusted current account surplus is still sizable and the Chinese currency is still significantly undervalued, leaving room for more adjustment. By contrast, in Latin America, where countries are running current account deficits, on balance (the green line), currencies do not appear to be undervalued.

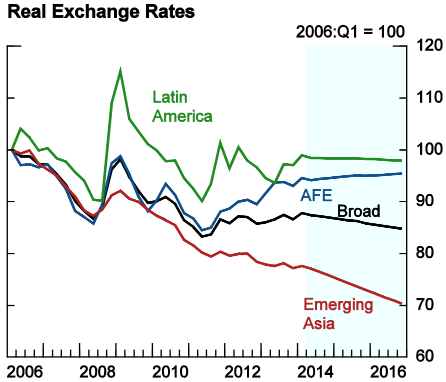
The modest depreciation of the broad real dollar results in a U.S. trade deficit that is little changed as a share of GDP over the forecast period (the black line in the lower-right figure on the following page). This depreciation is reasonable based on the assumptions of our baseline forecast, but it is not difficult to imagine alternative scenarios in which the dollar appreciates over the forecast period.

First, China and other Asian economies may choose to rebalance their economies less quickly than we envisage. For example, should growth in China threaten to fall below the authorities' target, policymakers there might be tempted to guide the renminbi lower for a time. Although the renminbi has depreciated about 1½ percent in nominal terms against the dollar since the last Tealbook, we view this decline as a temporary interruption of the appreciation trend rather than a move back to export-led growth. However, given the importance of China for our overall forecast of dollar depreciation, if we have overestimated the Chinese authorities' commitment to rebalancing, it is likely that the value of the dollar will be higher than in our baseline forecast.

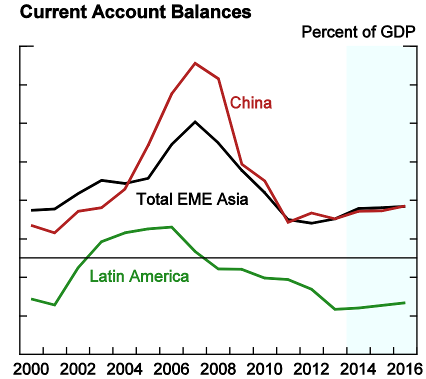
Second, the current value of the dollar may not fully price in the effects of future U.S. policy normalization. In this case, as U.S. yields rise, the dollar could appreciate more against the AFE currencies than we currently anticipate, and could rise against the currencies of emerging market economies (EMEs) as well. The implications of such a scenario are explored in the "Stronger Dollar" alternative simulation in the Risks and Uncertainty section. As shown by the blue line in the lower-left figure, in this scenario, the broad real dollar appreciates somewhat over the forecast period, instead of depreciating as in the baseline. This appreciation weighs on the U.S. trade balance, as shown by the blue line in the lower-right figure, and, as described in the Risks and Uncertainty section, contributes to a modest decline in U.S. output relative to baseline.

Third, in our baseline, we do not expect any major or persistent disruptions to global financial markets, although bouts of volatility could recur, such as the financial tension we observed recently in some vulnerable EMEs. However, stresses in the vulnerable economies could erupt into a full-fledged EME crisis, a scenario presented in previous Tealbooks and also discussed in the Risks and Uncertainty section. In this case, we expect flight-to-safety flows to push up the dollar substantially, as shown by the red line in the lower-left figure, and the trade balance (the red line in the lower-right figure) deteriorates more markedly, contributing to sharper declines in U.S. output relative to baseline (not shown).

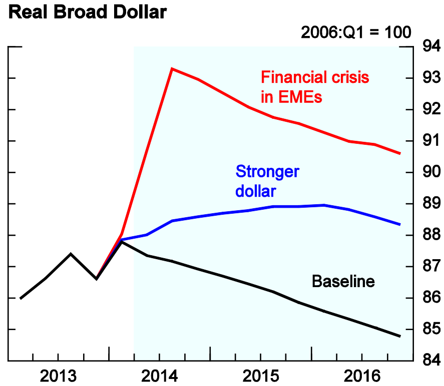
Real Exchange Rates



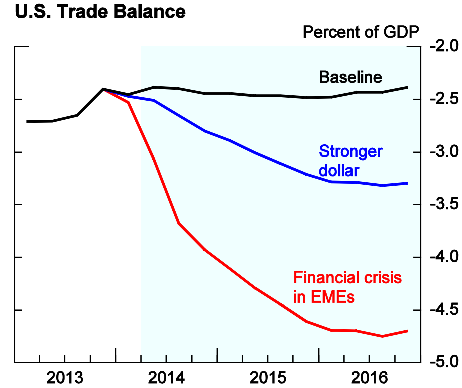
Current Account Balances



Real Broad Dollar



U.S. Trade Balance



Effects of Severe Winter Weather on Economic Activity

According to many reports, economic activity was slowed by the unusually snowy and cold weather this winter. To gauge the significance of these reports for January and February, we statistically analyzed the effect of winter weather on four economic indicators: single-family housing starts, private payroll employment, real PCE-relevant retail sales, and light vehicle sales.[1] Specifically, we looked to see whether unusually cold or snowy weather since the 1996–97 winter season resulted in a deviation of each economic indicator from its concurrent trend (defined as a centered five-month moving average). This analysis informed our assessment in the baseline forecast of the extent of weather effects.

To construct indexes of adverse weather, we developed daily county-level measures of atypically heavy snowfalls and cold temperatures from weather-station data provided by the National Oceanic and Atmospheric Administration. We then derived daily aggregate indexes for extreme weather events by weighting these weather measures with county-level employment for selected industries from the Census Bureau's County Business Patterns series. The industries chosen were tailored to each economic indicator (for example, in our housing starts analysis, county-level construction employment was used to aggregate the county-by-county weather indexes).

We created these highly granular indexes (rather than employing conventional monthly national-level series) based on two considerations. First, what constitutes bad weather is local: Three inches of snow probably has a greater effect on economic activity in Athens, Georgia, than in Athens, Ohio. Thus, we looked at deviations in temperature or snowfall from historical norms for each county. Second, compared with a late-month weather event, the effect of an early-month event is more likely to be reversed before the month ends because weather effects, particularly for snow, are short lived. For example, weekly chain store sales appear to be negatively correlated with contemporaneous snowfall but positively correlated with the previous week's snowfall—purchases are only delayed temporarily. Similarly, the lowest readings this winter for many weekly indicators of industrial production occurred during the coldest weeks.

The table on the next page reports the results using our preferred weather indexes for each indicator. The middle two columns show the number of months in our 1997–2013 sample that were either snowier or colder than normal by at least one standard deviation, along with the number of corresponding months this winter. The next column shows the percentage of the cold or snowy months in our sample that had economic indicators below trend. The final column shows the average deviation from trend for the economic indicators in those months.

Single-family housing starts often appeared to be suppressed by extreme cold or snow: Eighty-two percent of the months in our sample with heavy snows saw single-family housing

[1] Real PCE-relevant retail sales comprise the portion of total retail sales used by the Bureau of Economic Analysis in estimating PCE.

Industrial production was also affected by severe winter weather in January; see the discussion in the Technical Q&A for the G.17 release at www.federalreserve.gov/releases/g17/g17_technical_qa.htm.

starts dip below their recent trend, and the mean reduction from the trend level of starts during those unusually snowy months was 1.3 percent. Heavy snows late in a month were more likely to be associated with a weak reading than those early in a month. Housing starts sagged in every extremely cold month, but the effect of the cold seemed unrelated to when it occurred within the month. A rough estimate from this analysis suggests that single-family housing starts were curbed by an annual rate of 25,000 units in January this year and 17,000 units in February.[2]

Employment tended to be held down only a little when the Bureau of Labor Statistics survey week was unusually snowy or cold.[3] The snowy survey week in February suggests a reduction of around 30,000 jobs in that month—with a large portion of that restraint attributable to lower construction employment—but the reading for January seems likely to have been affected much less.

Real PCE-relevant retail sales appeared to be suppressed by severe winter weather regardless of its timing during the month. (Similarly, very warm or snowless weather usually led to above-trend consumer sales.) Based on weighting county-level weather indexes by retail employment, January and February of this year were both colder and snowier than normal, with the cold being more extreme. This analysis suggests that the levels of these retail sales in January and February were held down about ¼ percent each month.

Light vehicle sales seemed more affected by heavy snowfall than by cold. Using weights based on employment at auto dealers, neither January nor February were especially cold, but snowfall was relatively high; sales appeared to have been depressed by an annual rate of roughly 280,000 units in January and 360,000 units in February.

Historical Behavior of Economic Indicators during Months of Severe Weather

		Number of severe weather months		Behavior of economic indicators during severe weather months, 1997–2013	
		1997–2013	Jan–Feb 2014	Share of months below trend (percent)	Mean deviation from trend (percent)
Single-family housing starts	Snow	11	1 (Jan.)	82	-1.3
	Cold	7	2	100	-2.7
Private payroll employment	Snow	5	1 (Feb.)	60	-.03
	Cold	11	1 (Feb.)	73	-.02
Real PCE-relevant retail sales	Snow	9	2	67	-.1
	Cold	7	2	71	-.3
Light vehicle sales	Snow	9	2	89	-3.3
	Cold	8	0	63	-1.8

Note: A "severe weather month" is defined as a month in which the indicator-specific weather index was more than one standard deviation above normal.
Source: Staff estimates.

[2] The point estimates of the winter effects for all of the indicators are drawn from regressions of the indicators' deviations from trend on the cold and snow indexes in just the severe weather months.

[3] However, the effect of snow or cold during the Bureau of Labor Statistics survey week on the average workweek, and thus on aggregate hours for the month, is appreciably larger.

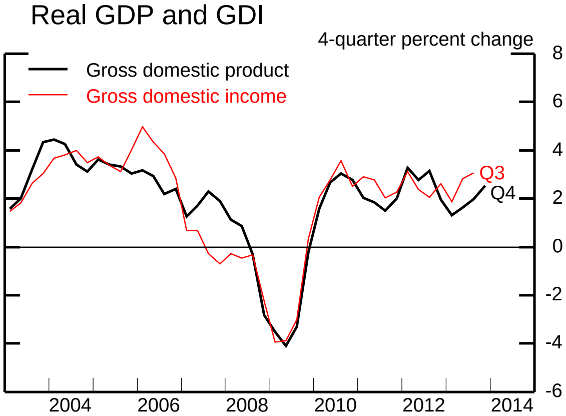
Summary of the Near-Term Outlook
(Percent change at annual rate except as noted)

Measure	2013:Q4 Previous Tealbook	2013:Q4 Current Tealbook	2014:Q1 Previous Tealbook	2014:Q1 Current Tealbook	2014:Q2 Previous Tealbook	2014:Q2 Current Tealbook
Real GDP	**3.5**	**2.2**	**2.4**	**1.5**	**3.1**	**3.5**
Private domestic final purchases	4.1	2.5	3.3	2.5	4.0	4.2
Personal consumption expenditures	4.0	2.6	3.1	2.6	3.4	3.7
Residential investment	-5.3	-8.6	8.8	2.9	8.4	10.4
Nonres. private fixed investment	7.4	5.5	3.0	1.6	6.3	5.7
Government purchases	-6.0	-5.2	.8	.3	-1.2	-.5
Contributions to change in real GDP						
Inventory investment[1]	-.1	.1	-.5	-.4	.0	-.2
Net exports[1]	1.3	1.0	.0	-.2	-.1	.2
Unemployment rate	**7.0**	**7.0**	**6.7**	**6.6**	**6.6**	**6.5**
PCE chain price index	**.7**	**1.0**	**1.1**	**1.4**	**1.5**	**1.3**
Ex. food and energy	1.1	1.3	1.3	1.2	1.6	1.5

1. Percentage points.

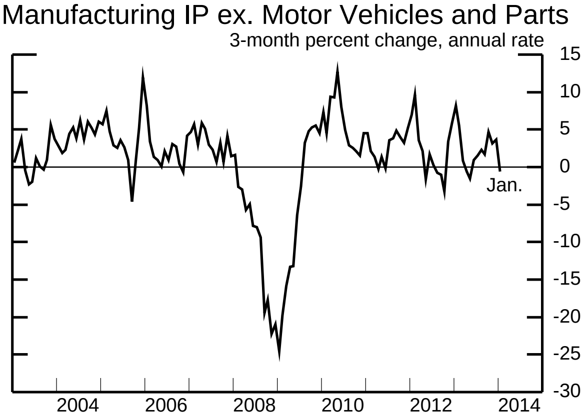
Recent Nonfinancial Developments (1)

Real GDP and GDI



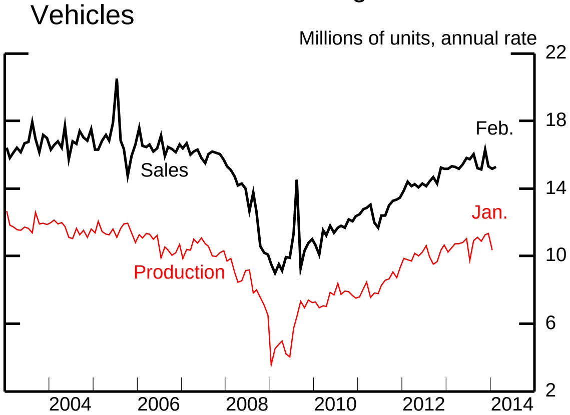
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

Manufacturing IP ex. Motor Vehicles and Parts



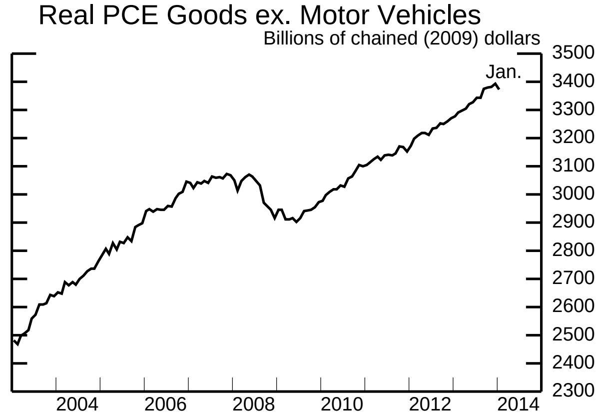
Source: Federal Reserve Board, G.17 Statistical Release, "Industrial Production and Capacity Utilization."

Sales and Production of Light Motor Vehicles



Source: Ward's Communications.

Real PCE Goods ex. Motor Vehicles



Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

from the effects of severe weather. For the first half as a whole, real GDP growth averages 2½ percent, about the average pace last year and down ¼ percentage point from the January projection.

Household Spending

Real PCE is now estimated to have risen at an annual rate of 2½ percent in the fourth quarter of last year, 1½ percentage points less than our projection in the January Tealbook. This updated estimate, which incorporated an unusually large downward revision to retail sales in November and December, puts consumer outlays on a lower trajectory going into this year. In addition, retail sales fell sharply in January, and light motor vehicle sales through February have been weaker than we had expected; that said, the BEA's initial estimates of health-care-services consumption rose more in January with the introduction of the Affordable Care Act than we had expected. On balance, we now project that real PCE will rise at an annual rate of 2½ percent in the current quarter, down ½ percentage point from the previous Tealbook. We think that weather had little effect on real PCE last quarter; however, on the view that adverse weather accounts for a portion of the unexpected softness in outlays this quarter, we project that real PCE growth will move up to 3¾ percent in the second quarter as the weather returns to seasonal norms. As before, we estimate that the projected increase in spending in the first half would be larger if not for the termination of the EUC program.

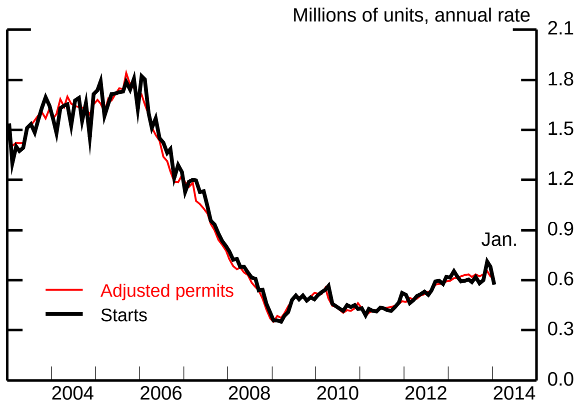
The incoming data on housing activity have also been softer than we were anticipating. Both single-family and multifamily housing starts tumbled in January, with the weather likely playing a role. However, permits, which tend to be less sensitive to weather influences and a better indicator of the underlying trajectory of activity, also moved down in January and have shown essentially no sign of sustained improvement since last spring. Although we expect a weather-related bounceback in housing activity in coming months, we read the recent data as pointing to a flatter underlying trajectory than we had projected last round. As a result, we now forecast real residential investment to increase at an annual rate of about 6½ percent over the first half of this year, a downward revision of 2 percentage points from our previous forecast.

Business Investment

We estimate that real private investment in equipment and intangibles (E&I) increased at a solid pace in the fourth quarter. However, orders and shipments of nondefense capital goods point to a deceleration in business equipment outlays early this

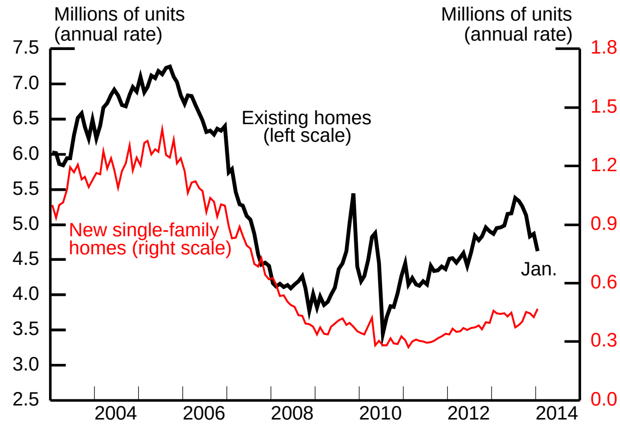
Recent Nonfinancial Developments (2)

Single-Family Housing Starts and Permits



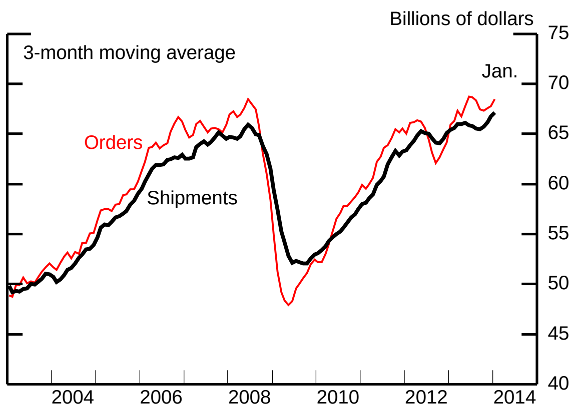
Note: Adjusted permits equal permit issuance plus total starts outside of permit-issuing areas.
Source: U.S. Census Bureau.

Home Sales



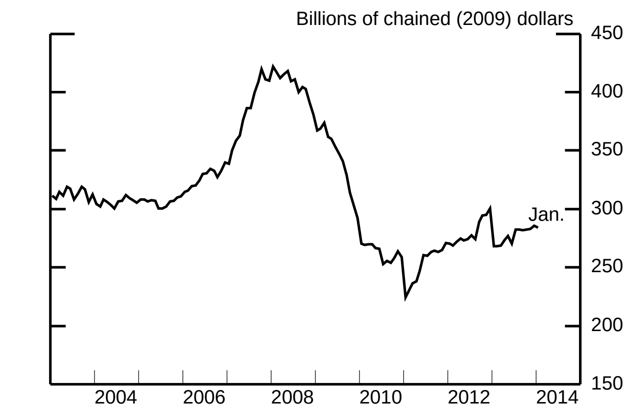
Source: For existing, National Association of Realtors; for new, U.S. Census Bureau.

Nondefense Capital Goods ex. Aircraft



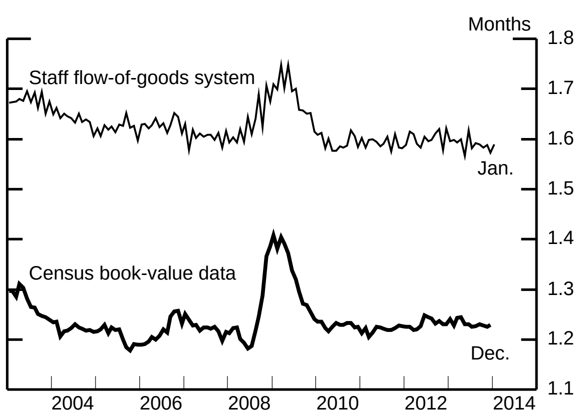
Source: U.S. Census Bureau.

Nonresidential Construction Put in Place



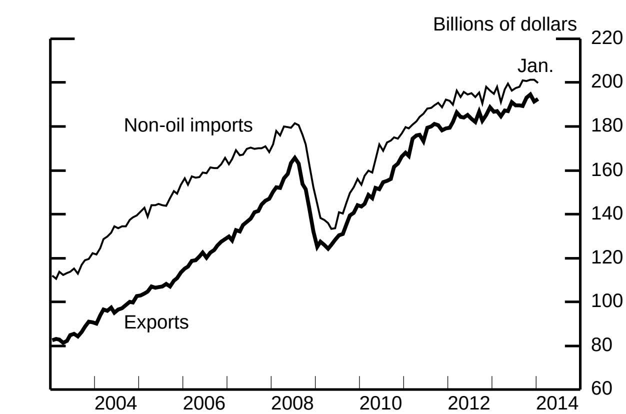
Note: Nominal CPIP deflated by BEA prices through 2013:Q3 and by staff's estimated deflator thereafter.
Source: U.S. Census Bureau.

Inventory Ratios ex. Motor Vehicles



Note: Flow-of-goods system inventories include manufacturing and mining industries except motor vehicles and parts and are relative to consumption. Census data cover manufacturing and trade ex. motor vehicles and parts, and inventories are relative to sales.
Source: U.S. Census Bureau; staff calculations.

Exports and Non-oil Imports



Source: U.S. Dept. of Commerce, Bureau of Economic Analysis; U.S. Census Bureau.

year. Some of the spending slowdown may be due to the expiration of bonus depreciation tax provisions at the end of last year, which we had long since built into our forecast. In addition, some of the weakness in January shipments likely reflected severe weather. We anticipate that the weather-related weakness will be made up in February and March and project that business purchases of capital goods will rebound in the second quarter, consistent with the generally positive readings from surveys of business sentiment and rising earnings expectations. On balance, real outlays for E&I are now projected to increase at an annual rate of 3½ percent in the first half of this year, a little softer than in the previous Tealbook.

Real investment in nonresidential structures excluding drilling and mining edged down in late 2013, as high vacancy rates and tight financing conditions for new construction continued to restrain activity in this sector. Incoming spending data point to another decline in outlays on new buildings early this year. Meanwhile, real investment in drilling and mining structures is projected to post a sizable gain over the first half of this year, supported by high oil prices and new drilling technologies.

We revised up our projection for nonfarm inventory investment in the current quarter, as it seems likely that some producers were left with higher stocks in the wake of widespread downward surprises to final sales. However, these adjustments were relatively small, and, more broadly, inventory-to-sales ratios from book-value data and the staff's flow-of-goods system, as well as gauges of inventory sentiment from regional and national manufacturing surveys, do not point to significant inventory imbalances in most industries. One exception to this pattern is motor vehicles, where days' supply in January and February was well above the automakers' target.

Government

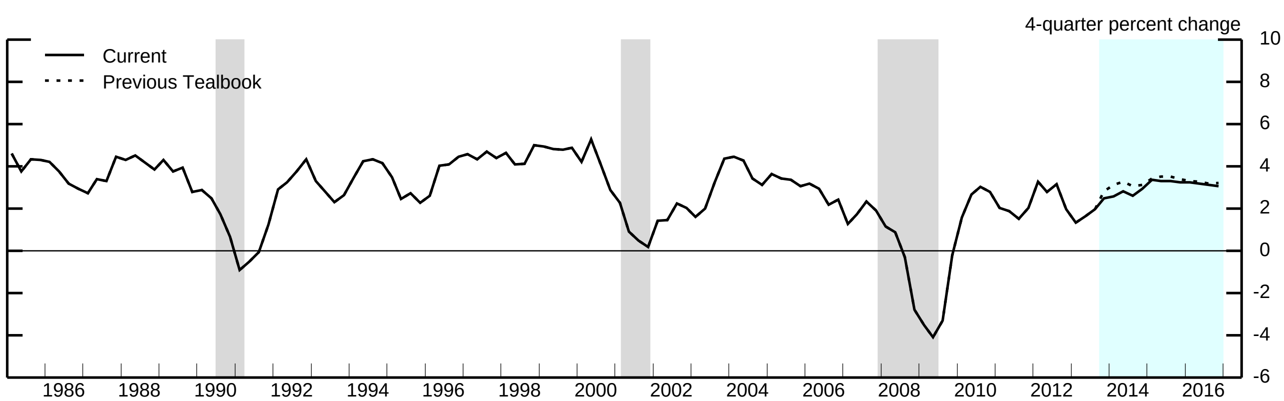
After falling sharply in the fourth quarter, real federal purchases are projected to rise at an annual rate of 1½ percent in the first quarter, reflecting a reversal of the effects of the temporary government shutdown in October. We expect federal purchases to fall 3 percent in the second quarter, as spending resumes its trend rate of decline.

We project that real state and local government purchases will edge up over the first half of this year. Although incoming data point to a further decline in public-sector construction spending this quarter, we attribute some of the weakness to unseasonably adverse weather and expect it to be reversed in the second quarter. Meanwhile, Domestic Econ Devel & Outlook

Projections of Real GDP and Related Components
(Percent change at annual rate from final quarter of preceding period except as noted)

Measure	2013	2014 H1	2014 H2	2014	2015	2016
Real GDP	**2.5**	**2.5**	**3.4**	**2.9**	**3.2**	**3.0**
Previous Tealbook	2.8	2.7	3.5	3.1	3.4	3.2
Final sales	1.7	2.8	3.3	3.0	3.4	3.1
Previous Tealbook	2.1	3.0	3.4	3.2	3.7	3.4
Personal consumption expenditures	2.1	3.2	3.8	3.5	3.7	2.9
Previous Tealbook	2.5	3.3	3.8	3.5	3.9	3.2
Residential investment	6.7	6.6	13.1	9.8	15.1	11.0
Previous Tealbook	7.6	8.6	16.5	12.5	15.6	9.2
Nonresidential structures	-.6	4.6	4.7	4.6	2.4	1.9
Previous Tealbook	-.4	4.3	4.3	4.3	2.5	2.2
Equipment and intangibles	3.4	3.4	5.0	4.2	5.8	5.0
Previous Tealbook	4.0	4.7	5.8	5.2	6.2	5.5
Federal purchases	-6.2	-.8	-2.7	-1.7	-3.6	-1.2
Previous Tealbook	-6.8	-1.1	-3.1	-2.1	-3.7	-.1
State and local purchases	.2	.3	.5	.4	1.1	1.5
Previous Tealbook	.3	.4	.5	.4	1.1	1.5
Exports	4.9	1.7	4.4	3.1	4.9	5.6
Previous Tealbook	5.7	3.8	4.8	4.3	5.4	6.2
Imports	2.8	1.6	5.1	3.3	4.9	4.5
Previous Tealbook	3.0	3.6	5.3	4.4	5.1	4.6
	Contributions to change in real GDP (percentage points)					
Inventory change	.8	-.3	.1	-.1	-.2	.0
Previous Tealbook	.7	-.2	.1	-.1	-.3	-.2
Net exports	.2	.0	-.2	-.1	-.1	.0
Previous Tealbook	.3	-.1	-.2	-.1	-.1	.1

Real GDP



Note: The gray shaded bars indicate a period of business recession as defined by the National Bureau of Economic Research.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

employment by these governments continued to trend up early in the year at the same modest pace seen over the second half of last year.

Foreign Trade

After surging 9½ percent at an annual rate in the final quarter of 2013, real exports of goods and services are expected to be about flat in the current quarter, consistent with the softness of the January trade data. For the second quarter, we project that exports will rise 3¼ percent, a pace more in line with foreign growth. Meanwhile, real imports of goods and services are expected to rise 1½ percent in the first half of the year, held back by a net decline in oil imports and the slow pace of U.S. GDP growth. All told, the external sector is projected to subtract ¼ percentage point from real GDP growth in the current quarter and then to make a positive ¼ percentage point contribution in the second quarter. On average, this contribution is about the same as in the January Tealbook.

The Industrial Sector

After rising at an annual rate of 4½ percent in the fourth quarter, manufacturing output is projected to be little changed this quarter, held down in part by disruptions from the severe winter weather. With most of the new orders indexes from the latest manufacturing surveys at generally favorable levels and some catch-up anticipated for the weather-related losses in output this quarter, we expect the growth of manufacturing output to step up to about 4 percent in the second quarter. Even so, the projected average rate of increase over the first half of this year is 1½ percentage points below our forecast in the January Tealbook.

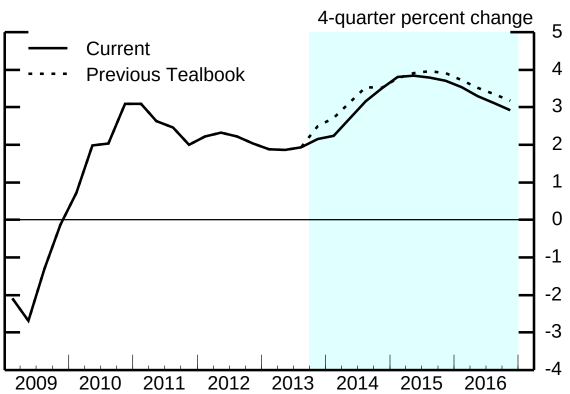
The Medium-Term Outlook for Real GDP

We revised down slightly our forecast for real GDP growth over the medium term in light of the drag from the higher path for the foreign exchange value of the dollar and the downward adjustments we made to our estimates of potential output growth. We now forecast real GDP growth to edge up from 2½ percent in 2013 to 3 percent, on average, over the next three years. These changes leave the output gap unrevised at the end of 2016 and the level of real GDP about ¾ percent lower than in the January Tealbook.

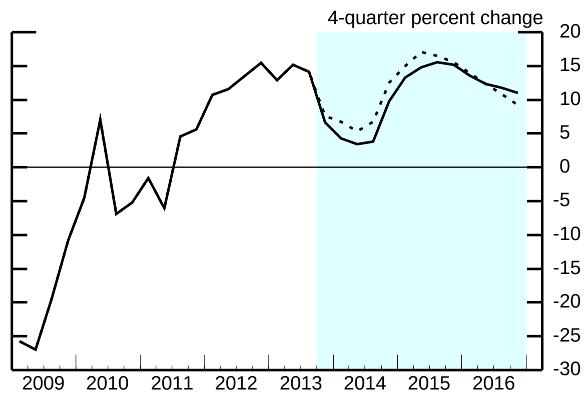
Our projection that real GDP growth will step up over the medium term—even as interest rates rise—reflects our expectation that some of the forces that have been holding back growth in recent years will recede. In particular, the restraint from changes in

Components of Final Demand

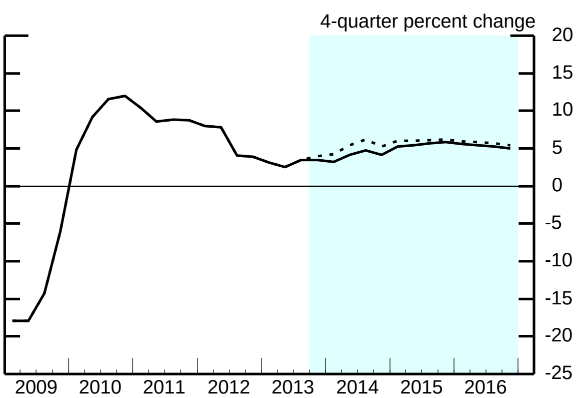
Personal Consumption Expenditures



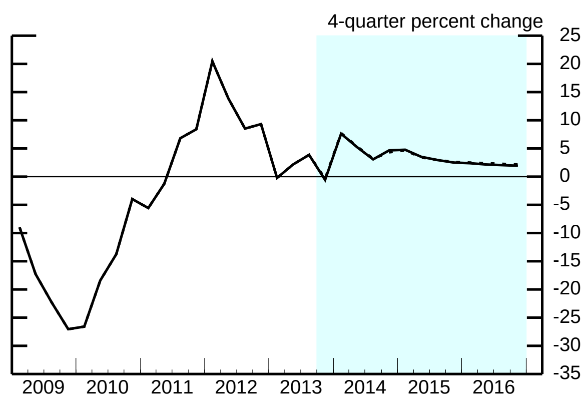
Residential Investment



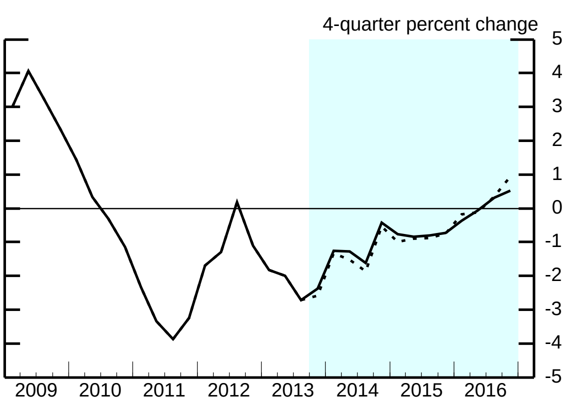
Equipment and Intangibles



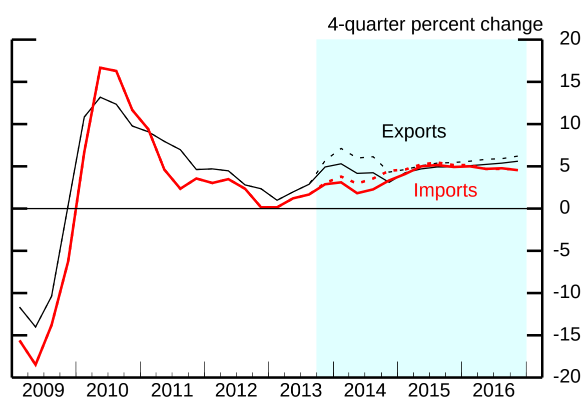
Nonresidential Structures



Government Consumption & Investment



Exports and Imports



Source: U.S. Department of Commerce, Bureau of Economic Analysis.

federal fiscal policy is waning and should continue to do so, and we think that mortgage credit will gradually become more broadly available. These developments are expected to foster a growing sense among households and firms that the downside risks to the recovery have diminished; in turn, the improvement in confidence should provide additional support to consumer spending, business investment, and hiring.

These influences are most apparent in our projection for consumer spending. In particular, we continue to anticipate that the fading effects of last year's tax increases, gains in household wealth produced by rising house and equity prices, and improved consumer confidence will lead real PCE growth to move up to 3½ percent this year and 3¾ percent in 2015 before slowing to about 3 percent in 2016. This forecast is about ¼ percentage point per year lower than in the January Tealbook, largely due to the slower growth in potential output (and hence in permanent income) in this projection.

Rising income and confidence also are expected to lead to a higher pace of household formation and thereby boost residential construction. However, the effect on homebuilding will likely be damped by rising mortgage rates and—at least for some time—the limited availability of buildable lots and other specialized inputs. We expect the growth in residential investment to increase at an annual rate of roughly 15 percent in the second half of 2014 and in 2015 before slowing to 10 percent in 2016.

Real outlays for E&I are expected to rise 5 percent per year, on average, over the next three years. Although faster than the pace of growth posted in 2013, our medium-term projection for E&I growth is modest by historical standards and reflects our expectation that business output will increase at only a moderate pace over this period. Similarly, we continue to expect only subdued growth in spending on nonresidential structures over the medium term.

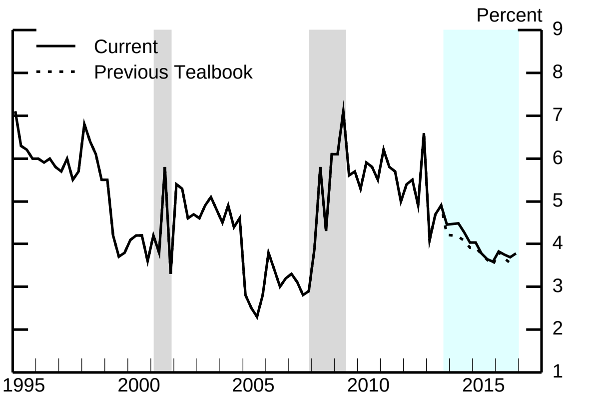
The external sector is expected to deduct slightly from the growth of real GDP this year and next and then to be about neutral for growth in 2016. We expect real exports to pick up over the forecast period, supported by firming foreign growth and dollar depreciation. But we also project real imports to increase at a solid pace, as the boost from U.S. growth more than offsets the drag from both the depreciating dollar and a continued trend decline in oil imports.

Federal government spending is projected to continue to trend down over the forecast period, restrained by ongoing fiscal consolidation and reductions in spending on

Domestic Econ Devel & Outlook

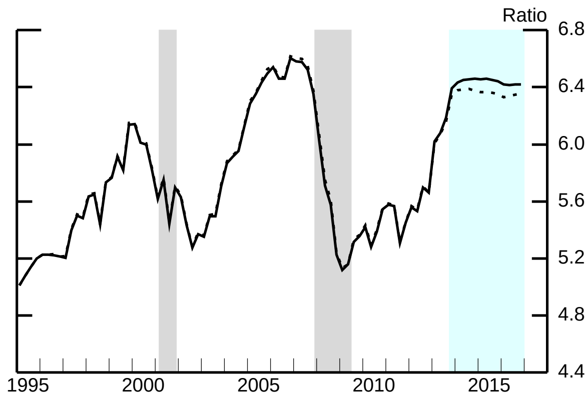
Aspects of the Medium-Term Projection

Personal Saving Rate



Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

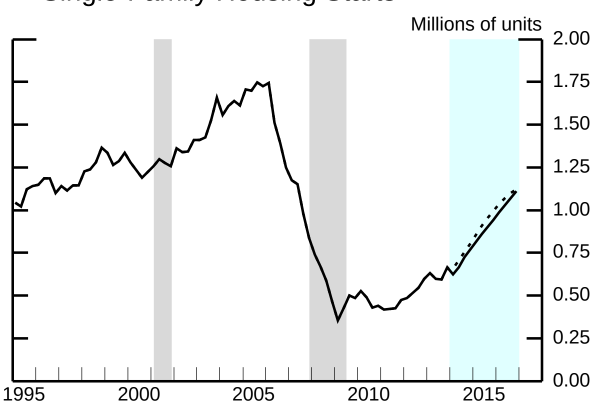
Wealth-to-Income Ratio



Note: Household net worth as a ratio to disposable personal income.

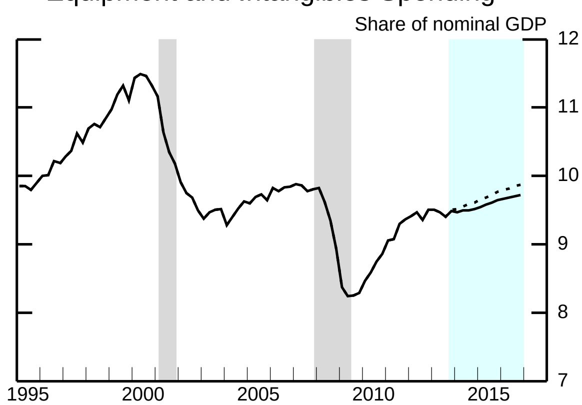
Source: For net worth, Federal Reserve Board, Financial Accounts of the United States; for income, U.S. Dept. of Commerce, Bureau of Economic Analysis.

Single-Family Housing Starts



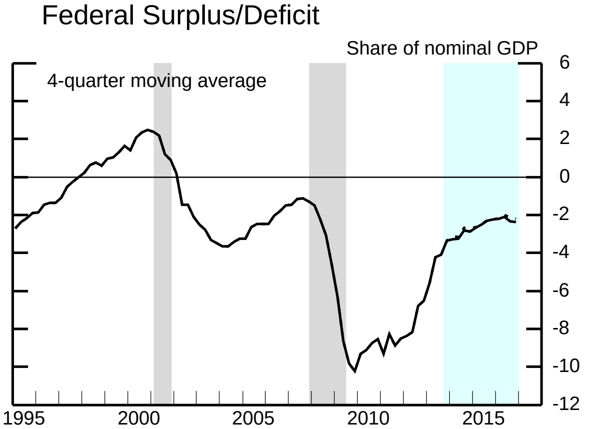
Source: U.S. Census Bureau.

Equipment and Intangibles Spending



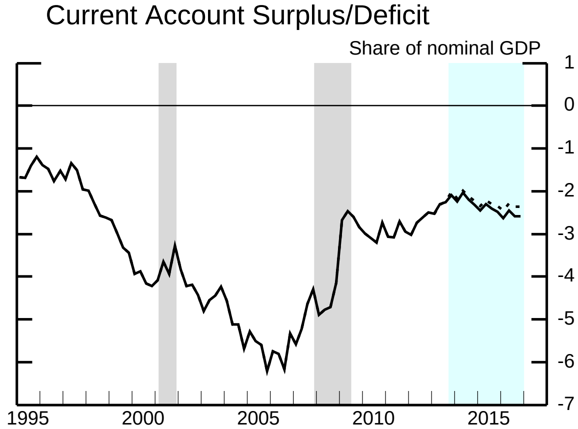
Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

Federal Surplus/Deficit



Source: *Monthly Treasury Statement.*

Current Account Surplus/Deficit



Source: U.S. Dept. of Commerce, Bureau of Economic Analysis.

Note: The gray shaded bars indicate a period of business recession as defined by the National Bureau of Economic Research.

overseas military operations. In contrast, spending by state and local governments is expected to accelerate gradually, reflecting an improving revenue stream.

The Outlook for the Labor Market and Inflation

Recent Developments and Near-Term Outlook for the Labor Market

The latest readings on the labor market, notably the January and February jobs reports, suggest that the labor market has been improving at a pace similar to what we anticipated in the January Tealbook.[1] Total nonfarm payrolls rose at an average pace of 150,000 in January and February, about 20,000 less per month than we had expected. However, we think that adverse weather conditions held down payroll employment in recent months. In addition, we think that weather accounted for much of the recent decline in the workweek, which fell to 34.2 hours in February from an already low level in December and January.

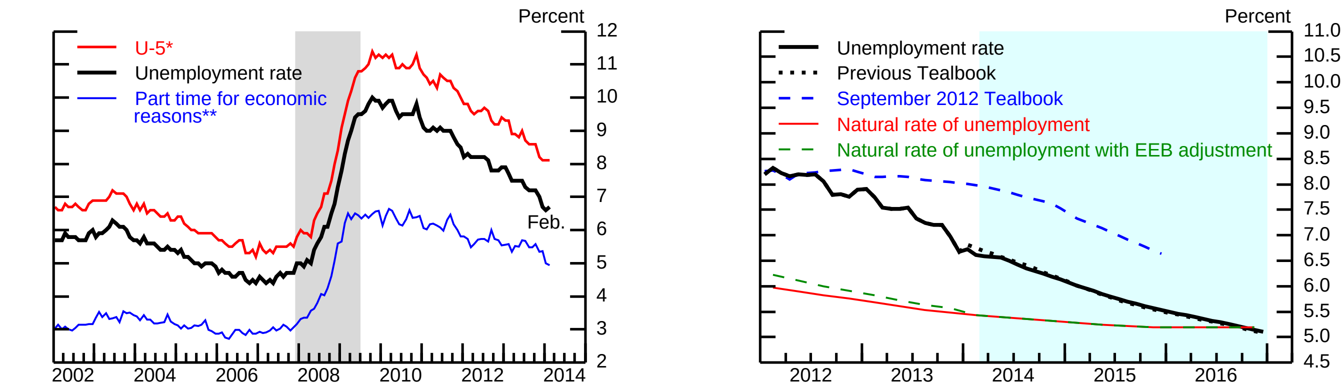
In the household survey, the unemployment rate stood at 6.7 percent in February, ¼ percentage point below its fourth-quarter average and 0.1 percentage point lower than we had projected in the previous Tealbook. The labor force participation rate moved up 0.2 percentage point over the same period, to 63.0 percent, in contrast to our January projection of no change. Other measures of labor utilization were generally upbeat in the past two months as well. We think the key measures from the household survey were probably little affected by weather-related disruptions.

Looking ahead, we expect nonfarm payrolls to increase 230,000 in March, a figure that includes a 50,000 weather-related bounceback. In the second quarter, we expect payroll gains to average 210,000 per month. We have carried forward the lower level of the unemployment rate and now project it to edge down to 6.6 percent in March and 6.5 percent in the second quarter. Similarly, we have adjusted up the path of the labor force participation rate and expect that it will remain at its current level of 63.0 percent in coming months.

[1] The January report incorporated the annual benchmark revisions, which raised the level of payroll employment in December 2013 by about 500,000. Of this amount, about 350,000 was the direct effect of the March 2013 benchmarking, which was more than accounted for by the expansion of the payroll survey's scope to include an additional industry that provides home-based social services for the elderly and disabled. The remainder reflected an upward revision to the estimated pace of payroll gains since last March, some of which may have been due to the expanded scope.

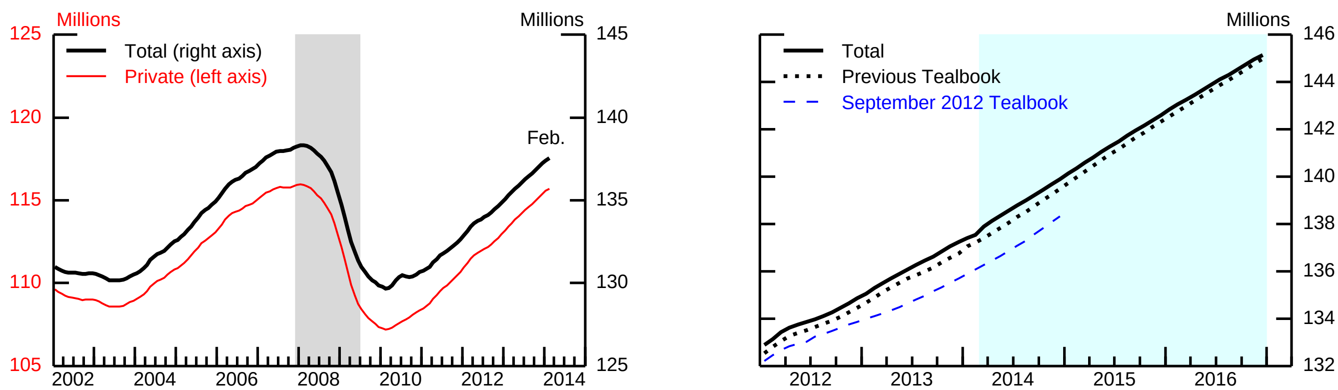
Labor Market Developments and Outlook

Measures of Labor Underutilization



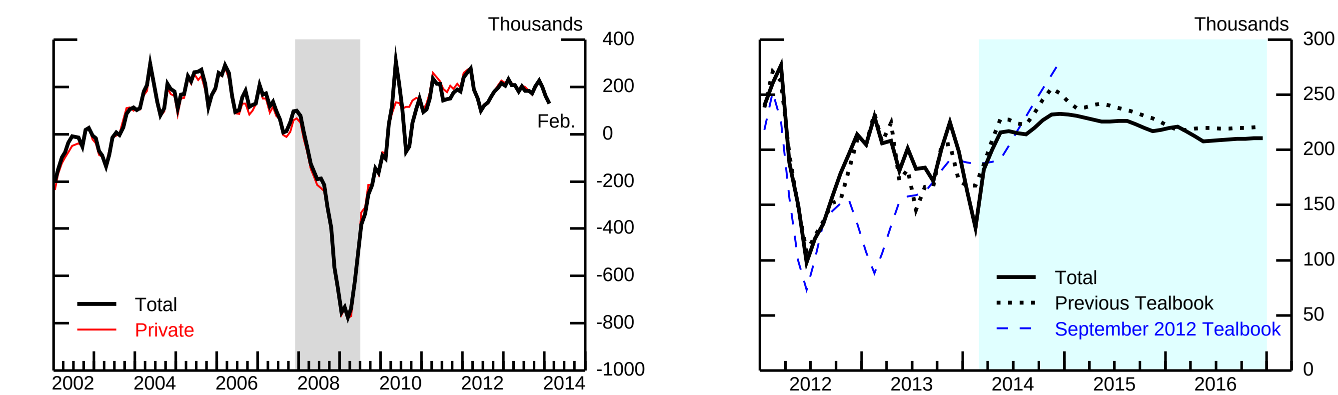
* U-5 measures total unemployed persons plus all marginally attached to the labor force, as a percent of the labor force plus persons marginally attached to the labor force.
** Percent of Current Population Survey employment.
EEB Extended and emergency unemployment benefits.
Source: U.S. Department of Labor, Bureau of Labor Statistics.

Level of Payroll Employment*



* 3-month moving averages in history; average levels in each quarter during the forecast period.
Source: U.S. Department of Labor, Bureau of Labor Statistics.

Change in Payroll Employment*

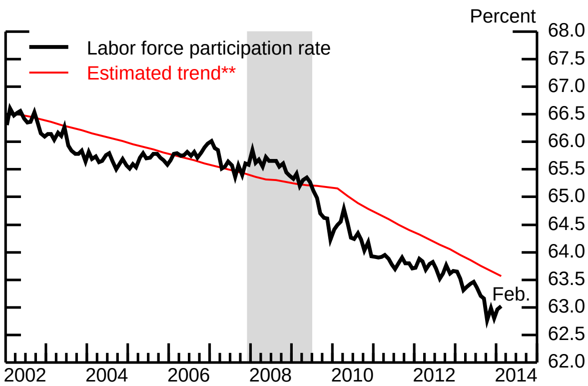


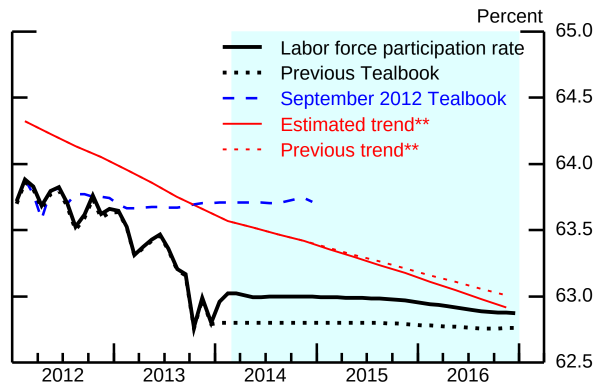
* 3-month moving averages in history; average monthly changes in each quarter during the forecast period.
Source: U.S. Department of Labor, Bureau of Labor Statistics.

Note: In September 2012, judgmental projections were prepared through 2015 for the Summary of Economic Projections variables, including the unemployment rate, while projections for other variables, including the labor force participation rate and payroll employment, were prepared only through 2014. This exhibit therefore reports a 2015 projection from the September 2012 Tealbook only for the unemployment rate.
The gray shaded bars indicate a period of business recession as defined by the National Bureau of Economic Research.

Labor Market Developments and Outlook (2)

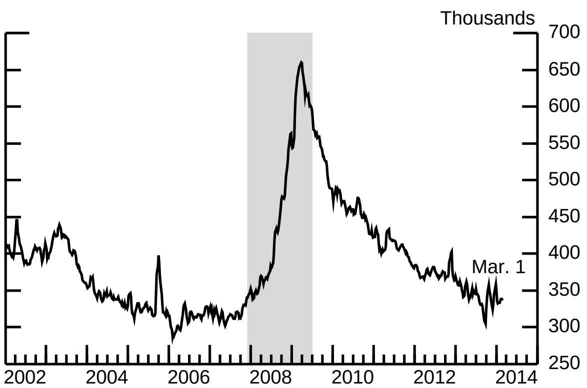
Labor Force Participation Rate*





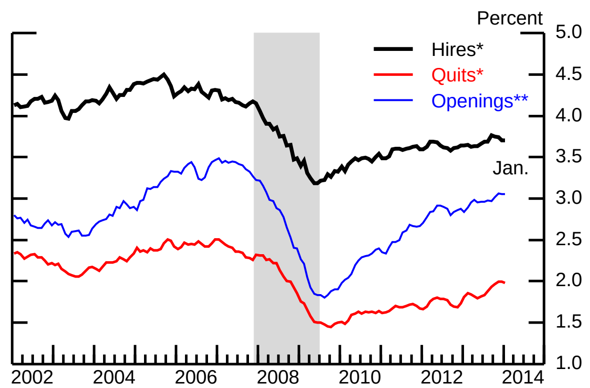
* Published data adjusted by staff to account for changes in population weights.
** Includes staff estimate of the effect of extended and emergency unemployment benefits.
Source: U.S. Department of Labor, Bureau of Labor Statistics; staff assumptions.

Initial Unemployment Insurance Claims*



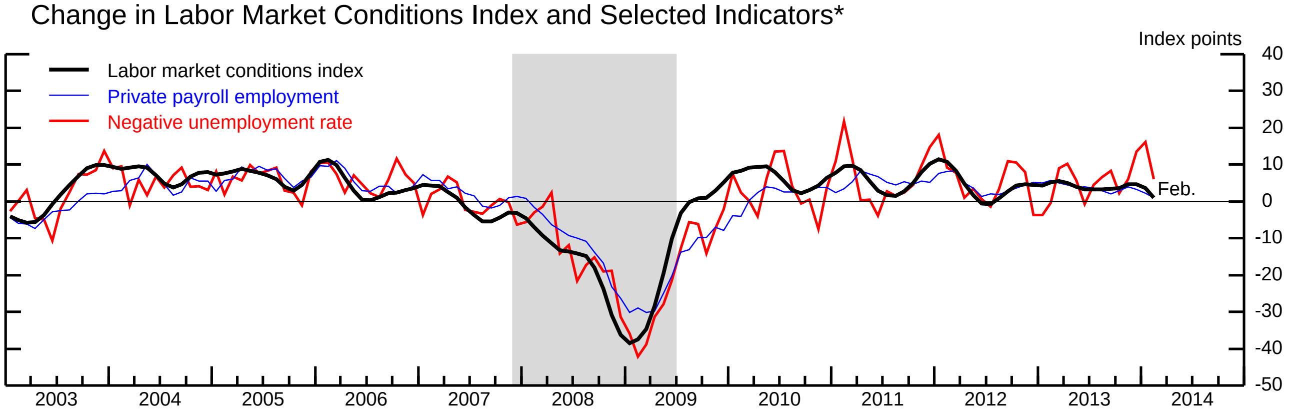
* 4-week moving average.
Source: U.S. Department of Labor, Employment and Training Administration.

Private Hires, Quits, and Job Openings



* Percent of private nonfarm payroll employment, 3-month moving average.
** Percent of private nonfarm payroll employment plus unfilled jobs, 3-month moving average.
Source: Job Openings and Labor Turnover Survey.

Change in Labor Market Conditions Index and Selected Indicators*



* 3-month moving average.
Note: Labor market conditions index estimated by staff; indexes for unemployment rate and private payroll employment are standardized deviations from estimated trend.

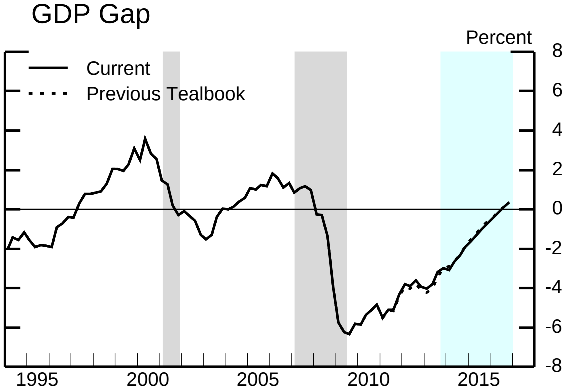
Note: The gray shaded bars indicate a period of business recession as defined by the National Bureau of Economic Research.

Decomposition of Potential GDP
(Percent change, Q4 to Q4, except as noted)

Measure	1974-95	1996-2000	2001-07	2008-10	2011-13	2014	2015	2016
Potential real GDP	3.1	3.4	2.6	1.9	1.5	1.8	2.0	1.9
Previous Tealbook	3.1	3.4	2.6	1.9	1.6	2.0	2.1	2.1
Selected contributions[1]								
Structural NFB labor productivity[2]	1.6	2.7	2.6	1.8	1.2	1.4	1.8	1.8
Previous Tealbook	1.6	2.7	2.6	1.8	1.3	1.6	1.8	1.9
Structural hours	1.5	1.0	.7	.2	.6	.7	.6	.3
Previous Tealbook	1.5	1.0	.7	.2	.6	.7	.6	.5
Labor force participation	.4	.0	-.3	-.4	-.5	-.3	-.4	-.4
Previous Tealbook	.4	.0	-.3	-.4	-.5	-.3	-.3	-.3
Memo:								
GDP gap[3]	-1.9	2.5	1.0	-4.8	-3.0	-1.9	-.7	.4
Previous Tealbook	-1.9	2.5	1.0	-4.8	-3.0	-1.9	-.6	.4

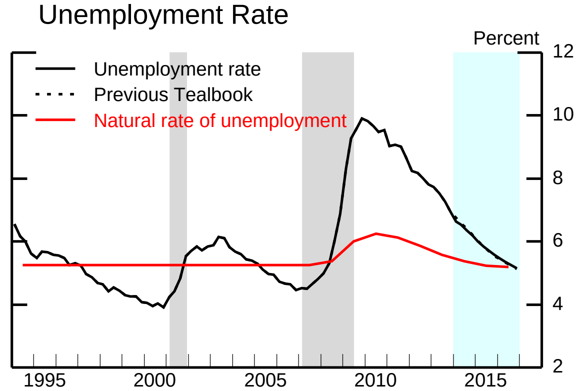
Note: For multiyear periods, the percent change is the annual average from Q4 of the year preceding the first year shown to Q4 of the last year shown.
1. Percentage points.
2. Because of substantial revisions from the Bureau of Economic Analysis to productive investment as part of the latest comprehensive revision, staff estimates of the components of structural productivity are not available for this Tealbook.
3. Percent difference between actual and potential GDP in the final quarter of the period indicated. A negative number indicates that the economy is operating below potential.

GDP Gap



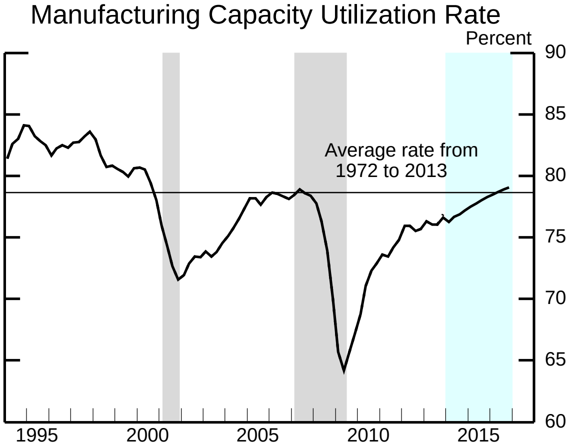
Note: The GDP gap is the percent difference between actual and potential GDP; a negative number indicates that the economy is operating below potential.
Source: U.S. Dept. of Commerce, BEA; staff assumptions.

Unemployment Rate



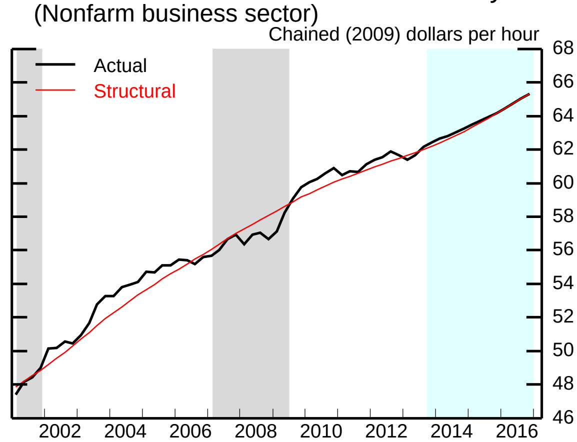
Source: U.S. Department of Labor, Bureau of Labor Statistics; staff assumptions.

Manufacturing Capacity Utilization Rate



Source: Federal Reserve Board, G.17 Statistical Release, "Industrial Production and Capacity Utilization."

Structural and Actual Labor Productivity
(Nonfarm business sector)



Source: U.S. Department of Labor, Bureau of Labor Statistics; U.S. Department of Commerce, Bureau of Economic Analysis; staff assumptions.

Note: The gray shaded bars indicate a period of business recession as defined by the National Bureau of Economic Research.

Potential GDP and the Natural Rate of Unemployment

The downward surprise in the unemployment rate so far this year was accompanied by disappointing news about the growth of real GDP in the fourth quarter of 2013 and the first quarter of this year. To help reconcile these apparently divergent signals for resource utilization, we marked down our assumptions for potential output growth from 2011 to 2013 by 0.1 percentage point per year, which reduced the level of potential output about ¼ percent at the end of 2013, similar to the downward revision to the level of real GDP in that quarter. In addition, we carried forward some of the weaker potential output growth in recent years into the forecast period. Finally, for this Tealbook, we reassessed the labor supply implications of the Affordable Care Act, which led us to lower potential output growth in 2015 and 2016 slightly further.

Based on our revised assumptions, we now expect potential output growth to increase from 1½ percent in 2013 to 1¾ percent in 2014 and about 2 percent in 2015 and 2016, leaving the level of potential output ¾ percent lower at the end of 2016 than in the January Tealbook. We continue to assume that the natural rate of unemployment will edge down from 5½ percent in 2013 to 5¼ percent in 2015 and 2016.

The Medium-Term Outlook for the Labor Market

Total payroll employment is projected to increase 210,000 per month in 2014 and then rise 220,000 per month, on average, in 2015 and 2016. This trajectory is slightly lower than in the January Tealbook, in line with the slower projected rate of output growth over the medium term.

Starting from its slightly lower level of 6.6 percent in the current quarter, the unemployment rate is projected to edge down to 6¼ percent at the end of the year, the same level as in the January Tealbook. Thereafter, the projected path is unrevised, with the unemployment rate falling about ½ percentage point per year to just above 5 percent at the end of 2016. The projected level of the unemployment rate at the end of 2016 is slightly below the staff's estimate of the natural rate of unemployment.

Resource Utilization

We estimate the unemployment rate is about 1¼ percentage points above our estimate of the natural rate in the first quarter, and we put the GDP gap at about

The Outlook for the Labor Market

Measure	2013	2014 H1	2014 H2	2014	2015	2016
Output per hour, nonfarm business[1]	1.2	1.3	1.4	1.4	1.4	1.8
Previous Tealbook	1.7	.8	1.6	1.2	1.6	1.9
Nonfarm private employment[2]	197	197	228	212	224	202
Previous Tealbook	184	203	242	223	235	210
Labor force participation rate[3]	62.8	63.0	63.0	63.0	63.0	62.9
Previous Tealbook	62.8	62.8	62.8	62.8	62.8	62.8
Civilian unemployment rate[3]	7.0	6.5	6.2	6.2	5.6	5.1
Previous Tealbook	7.0	6.6	6.2	6.2	5.5	5.1

1. Percent change from final quarter of preceding period at annual rate.
2. Thousands, average monthly changes.
3. Percent, average for the final quarter in the period.
Source: U.S. Department of Labor, Bureau of Labor Statistics; staff assumptions.

Inflation Projections
(Percent change at annual rate from final quarter of preceding period)

Measure	2013	2014 H1	2014 H2	2014	2015	2016
PCE chain-weighted price index	1.0	1.4	1.6	1.5	1.5	1.7
Previous Tealbook	.9	1.3	1.4	1.4	1.6	1.7
Food and beverages	.8	.9	1.3	1.1	1.3	1.4
Previous Tealbook	.8	.6	.7	.6	1.3	1.4
Energy	-1.5	1.8	1.2	1.5	-.8	-.3
Previous Tealbook	-2.5	-.3	.0	-.2	-.5	-.1
Excluding food and energy	1.2	1.4	1.6	1.5	1.7	1.8
Previous Tealbook	1.1	1.4	1.6	1.5	1.7	1.8
Prices of core goods imports[1]	-1.1	.8	1.4	1.1	1.3	1.4
Previous Tealbook	-1.2	.6	1.5	1.1	1.5	1.6

1. Core goods imports exclude computers, semiconductors, oil, and natural gas.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

3 percent.[2] These gaps are roughly conformable in the first quarter given the staff's preferred Okun's law coefficient of 0.44. Over the medium term, these gaps are projected to diminish gradually, and by the end of 2016, both the unemployment gap and output gap are expected to be completely closed. In the manufacturing sector, capacity utilization is currently nearly 2¾ percentage points below its long-run average but is projected to rise to its long-run average by early 2016.

The Outlook for Prices and Compensation

After rising at an annual rate of 1 percent in the fourth quarter, total PCE prices are projected to increase at a 1½ percent pace in the first quarter, reflecting a weather-induced jump in energy prices. Core PCE inflation was 1¼ percent in the fourth quarter and appears to be running at a similar rate in this quarter, in line with our previous forecast. We project that by midyear, both total and core PCE inflation will be about 1½ percent, the same as in the January Tealbook.

We have marked up our near-term projection for consumer energy price inflation. In January, consumer prices for heating fuel, natural gas, and electricity came in much higher than we predicted in the January Tealbook, likely reflecting the effect of cold weather on heating demand. Indeed, the path of futures prices for natural gas over the next year has moved up sharply since the time of the January Tealbook, as inventories have fallen to their lowest levels in more than a decade. As a result, overall consumer energy prices are now projected to rise at an annual rate of about 4 percent in the current quarter and to hold at that higher level in the second quarter, rather than edging down over the first half as we had anticipated in the previous Tealbook. Given the downward tilt in our medium-term forecasts for crude oil and natural gas prices, we continue to project that PCE energy prices will decline modestly beyond the near term.

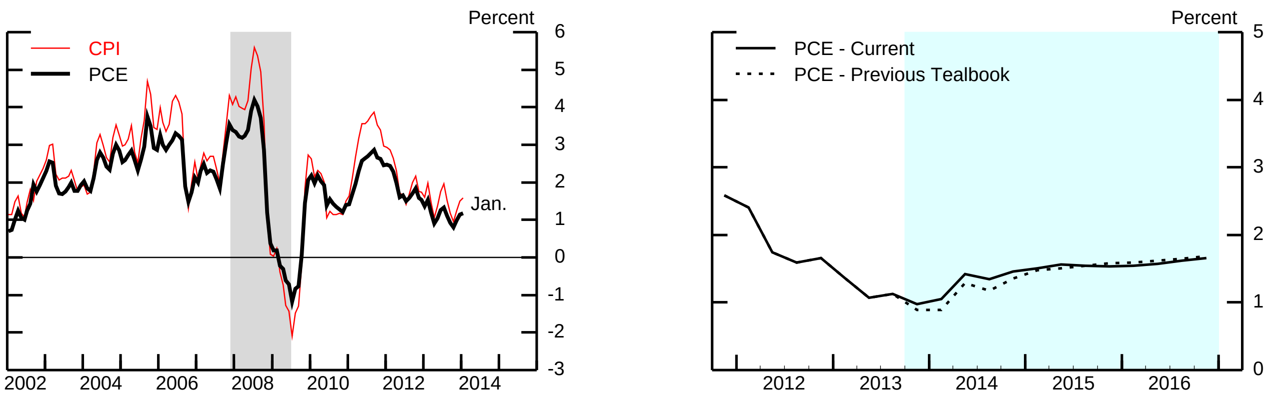
Consumer food prices are projected to increase at a moderate pace over the first half of this year after being about unchanged in the fourth quarter. This projected pickup in food price inflation reflects the pass-through of recent increases in farm commodity prices following their sizable declines last year, as well as the effect of drought conditions in California on prices of fruits and vegetables. We continue to project that

[2] We assume that the natural rate is on a downward trajectory, reflecting some unwinding of the effects of the recession. We put it at 5.4 percent at present and anticipate that it will decline to 5.2 percent in the medium term.

Inflation Developments and Outlook

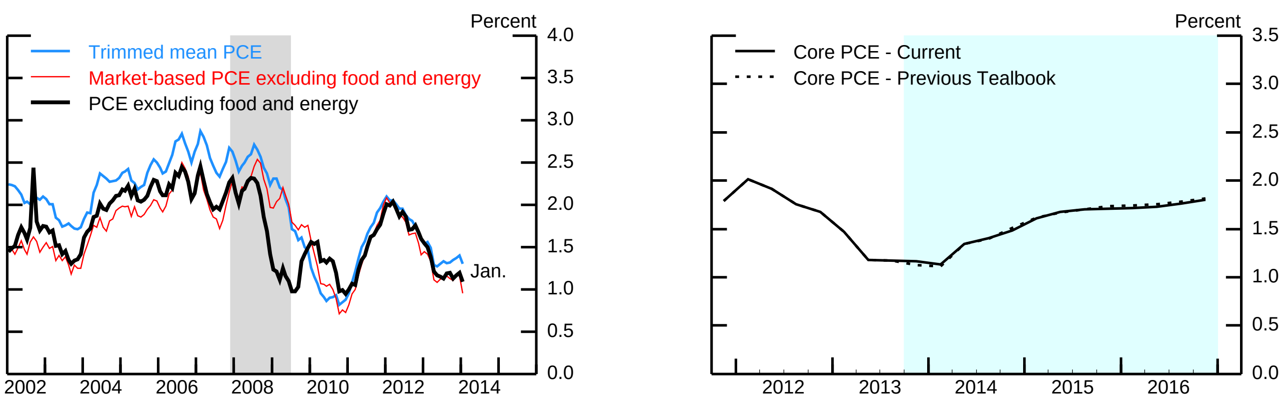
(Percent change from year-earlier period)

Headline Consumer Price Inflation



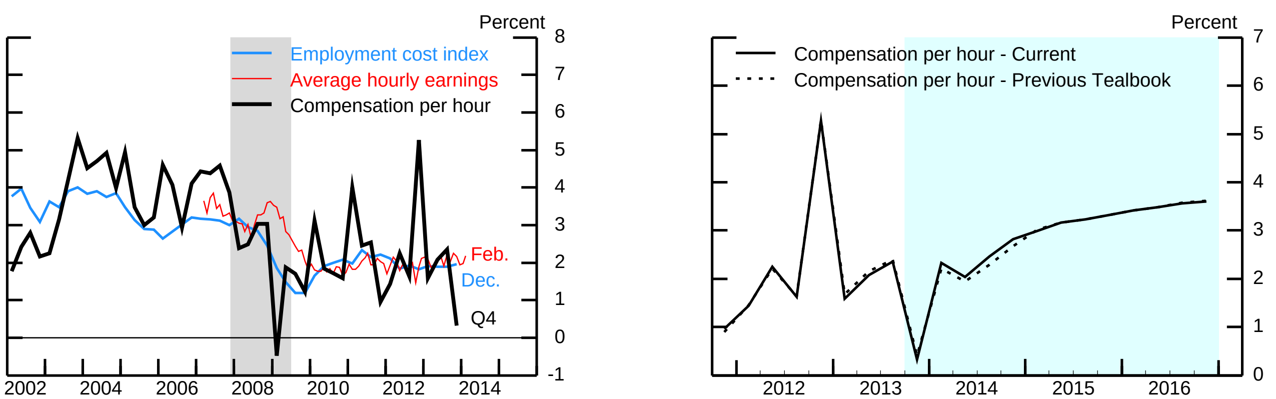
Source: For CPI, U.S. Department of Labor, Bureau of Labor Statistics; for PCE, U.S. Department of Commerce, Bureau of Economic Analysis.

Measures of Underlying PCE Price Inflation



Source: For trimmed mean PCE, Federal Reserve Bank of Dallas; otherwise, U.S. Department of Commerce, Bureau of Economic Analysis.

Labor Cost Growth (Private Industry)



Source: U.S. Department of Labor, Bureau of Labor Statistics.

Note: The gray shaded bars indicate a period of business recession as defined by the National Bureau of Economic Research.

PCE food prices will increase at a pace that is slightly below core inflation over the medium term.

Since the January Tealbook, core PCE inflation was revised up slightly in the fourth quarter to 1¼ percent, with the changes concentrated in the nonmarket component. However, the core inflation reading in January was close to what we were expecting, and we continue to predict that core inflation will be about 1¼ percent in the current quarter, will edge up to 1½ percent in the second quarter, and will remain there over the second half of the year.

Much of the projected pickup in core PCE inflation this year reflects a projected acceleration in import prices. After falling throughout most of last year, prices of imported core goods are expected to increase at an annual rate of ¾ percent in the first half of this year and then to step up to a 1½ percent pace in the second half, as the restraining effect of previous dollar appreciation fades. Core import prices are projected to continue to rise just under 1½ percent per year in 2015 and 2016, a pace that is in line with a modest projected increase in commodity prices and our assumed pace of dollar depreciation. We estimate that import prices will continue to have a slightly restraining effect on U.S. consumer price inflation over the medium term, albeit noticeably less than in the past two years.

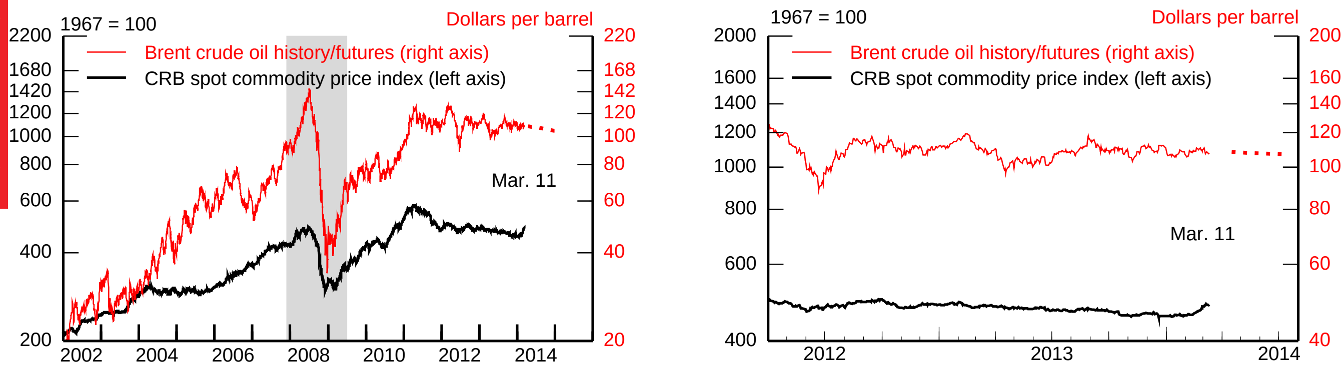
Readings on longer-term inflation expectations have remained stable. The final February reading on median 5-to-10-year-ahead inflation expectations from the Michigan survey stood at 2.9 percent, well within the relatively narrow range seen in recent years. Expectations for PCE price inflation over the next 10 years, as measured by the Survey of Professional Forecasters, were unchanged at 2 percent in the first quarter. TIPS-based measures of longer-term inflation compensation are just slightly lower than at the time of the January Tealbook.

With stable long-run inflation expectations, a projected pickup in import prices, and gradually diminishing margins of slack, we expect core PCE inflation to increase from 1¼ percent in 2013 to 1½ percent this year and 1¾ percent in 2016; this forecast is essentially the same as in the January Tealbook. Given the slight downward trajectory for energy prices, total PCE inflation is projected to be a bit below core inflation over most of the medium term. Thus, through 2016, total PCE inflation is projected to remain below the Committee’s long-run objective of 2 percent.

Inflation Developments and Outlook (2)

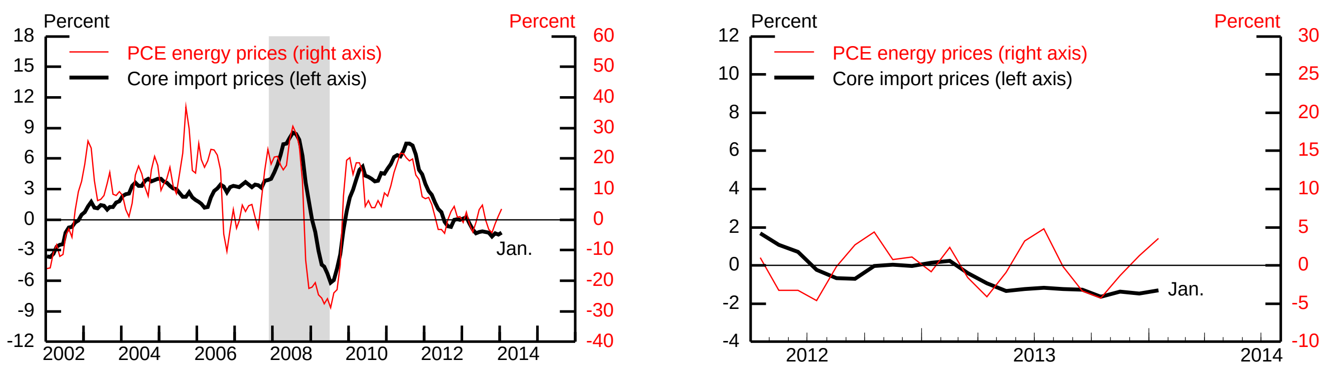
(Percent change from year-earlier period, except as noted)

Commodity and Oil Price Levels



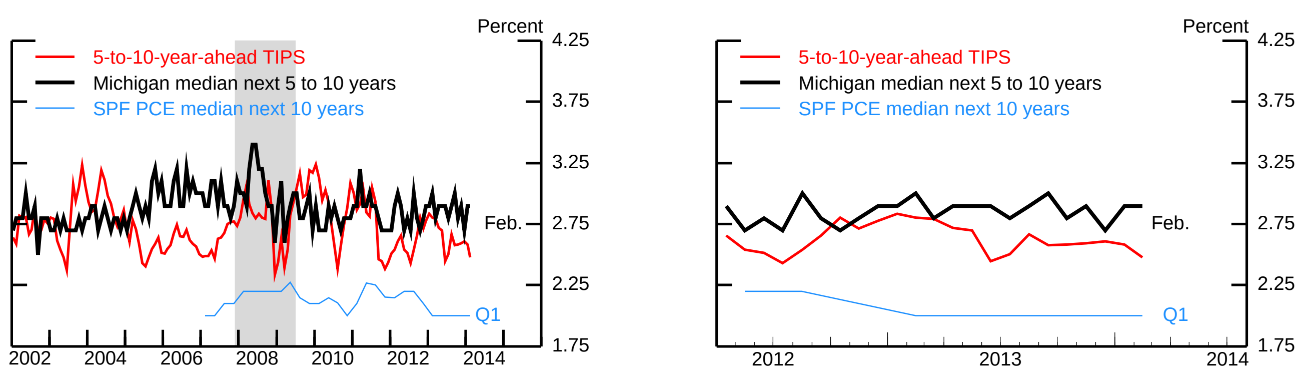
Note: Futures prices (dotted lines) are the latest observations on monthly futures contracts.
Source: For oil prices, U.S. Department of Energy, Energy Information Agency; for commodity prices, Conference Research Board (CRB).

Energy and Import Price Inflation



Source: For core import prices, U.S. Dept. of Labor, Bureau of Labor Statistics; for PCE, U.S. Dept. of Commerce, Bureau of Economic Analysis.

Long-Term Inflation Expectations



Note: Based on a comparison of an estimated TIPS (Treasury inflation-protected securities) yield curve with an estimated nominal off-the-run Treasury yield curve, with an adjustment for the indexation-lag effect.
SPF Survey of Professional Forecasters.
Source: For Michigan, Thomson Reuters/University of Michigan Surveys of Consumers; for SPF, the Federal Reserve Bank of Philadelphia; for TIPS, Federal Reserve Board staff calculations.

Note: The gray shaded bars indicate a period of business recession as defined by the National Bureau of Economic Research.

The incoming data suggest that labor compensation has continued to rise at a modest pace. We now estimate that compensation per hour in the nonfarm business sector will increase at a 2½ percent annual rate in the current quarter—close to its average seen over the previous two years. We expect the gradual tightening of the labor market over the medium term to push hourly compensation growth up to 3½ percent by 2016. The employment cost index has provided a less volatile measure of compensation pressures in recent years. In 2013, it increased 2 percent; over the next few years, as labor markets tighten, we expect this index to accelerate to about a 3¼ percent pace.

The Long-Term Outlook

We have extended the staff's forecast beyond the medium term using the FRB/US model and our assumptions about long-run supply-side conditions, fiscal policy, and other factors. The contour of the long-term outlook depends on the following key assumptions:

- The federal funds rate continues to be set according to the prescriptions of an inertial version of the Taylor (1999) rule.
- The Federal Reserve's holdings of securities continue to put downward pressure on longer-term interest rates, albeit to a diminishing extent. The process of returning the SOMA portfolio to a normal size is expected to be completed by 2021.
- Risk premiums on corporate equities and bonds continue to decrease, on balance, toward their longer-run normal levels, and financial institutions further ease their lending standards.
- The federal budget deficit (measured on a NIPA basis) is 3½ percent of GDP in 2017 and widens thereafter, primarily reflecting fast-rising transfer payments for retirement and health-care programs. The ratio of federal debt to GDP remains at about 70 percent in 2017 but edges up thereafter.
- The real foreign exchange value of the dollar stays constant from 2017 onward. The price of crude oil holds steady in real terms. Foreign real GDP rises at an annual rate of about 3 percent from 2017 to 2020.
- The natural rate of unemployment is 5¼ percent, and potential GDP rises around 2¼ percent per year from 2017 to 2020.

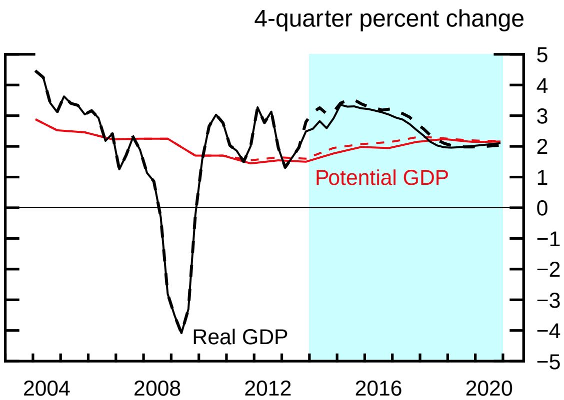
The Long-Term Outlook

(Percent change, Q4 to Q4, except as noted)

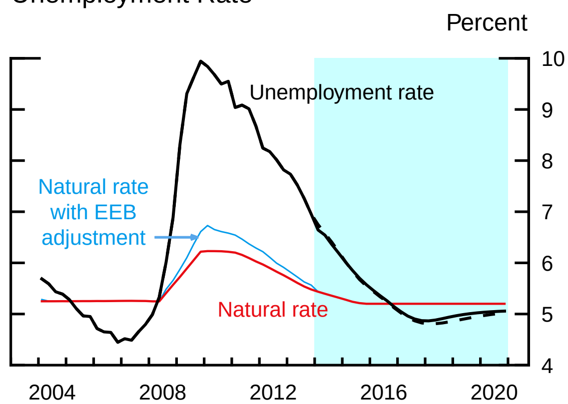
Measure	2014	2015	2016	2017	2018	Longer run
Real GDP	2.9	3.2	3.0	2.5	2.0	2.3
Previous Tealbook	3.1	3.4	3.2	2.7	2.1	2.3
Civilian unemployment rate[1]	6.2	5.6	5.1	4.9	4.9	5.2
Previous Tealbook	6.2	5.5	5.1	4.8	4.8	5.2
PCE prices, total	1.5	1.5	1.7	1.8	2.0	2.0
Previous Tealbook	1.4	1.6	1.7	1.8	2.0	2.0
Core PCE prices	1.5	1.7	1.8	1.9	2.0	2.0
Previous Tealbook	1.5	1.7	1.8	1.9	2.0	2.0
Federal funds rate[1]	.1	1.1	2.4	3.3	3.9	4.0
Previous Tealbook	.1	1.1	2.4	3.4	4.0	4.0
10-year Treasury yield[1]	3.5	4.1	4.4	4.7	4.8	4.8
Previous Tealbook	3.5	4.0	4.4	4.7	4.9	4.8

1. Percent, average for the final quarter of the period.

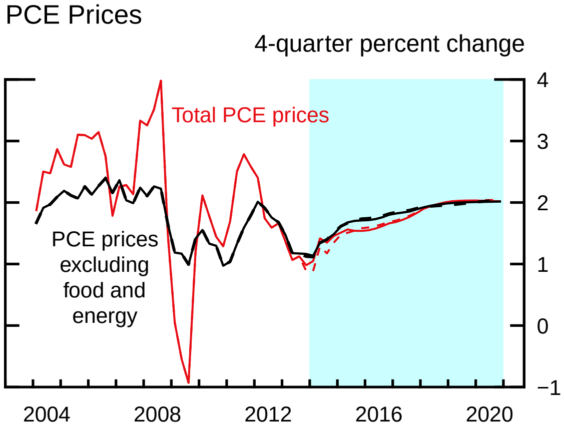
Real GDP



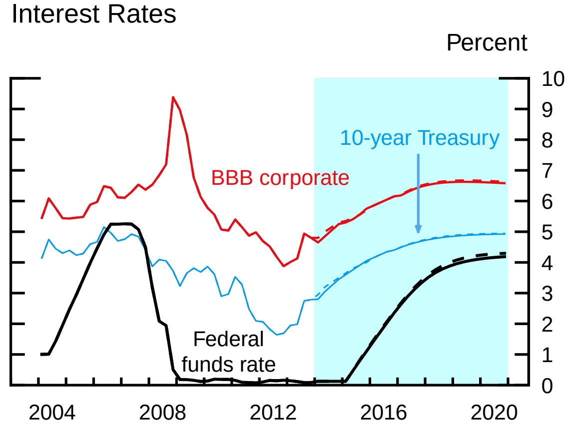
Unemployment Rate



PCE Prices



Interest Rates

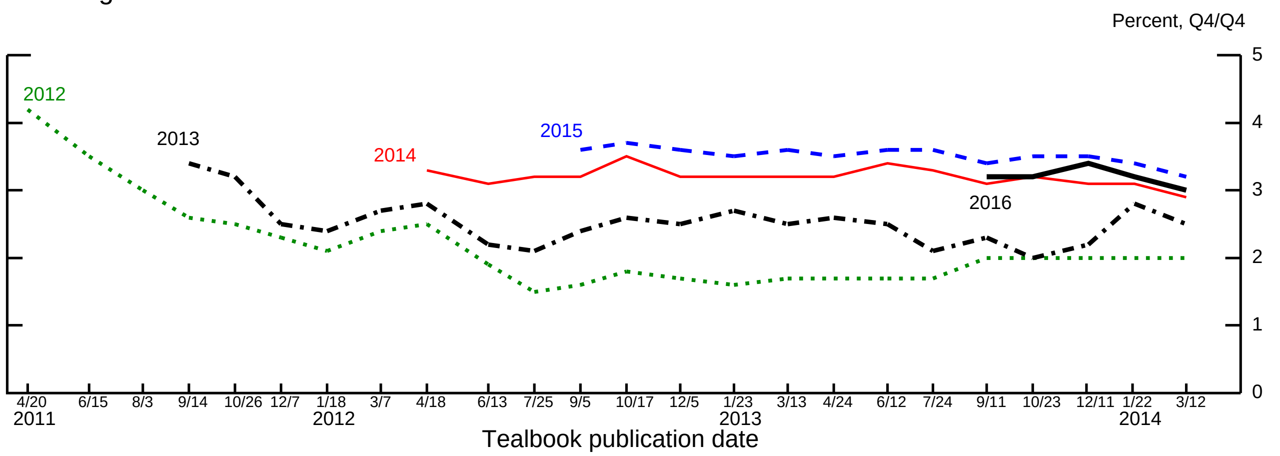


Note: In each panel, shading represents the projection period, and dashed lines are the previous Tealbook.

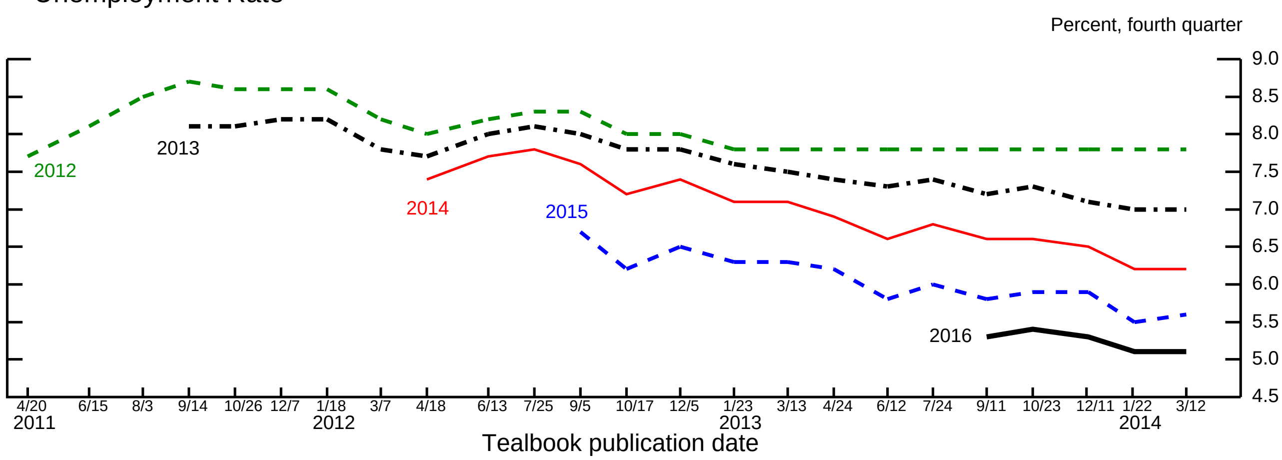
With the federal funds rate and longer-term interest rates continuing to rise, real GDP growth slows to 2½ percent in 2017. The unemployment rate edges down further and is almost ¼ percentage point below its natural rate at the end of 2017. The opening of a modest positive output gap helps return inflation to the Committee's 2 percent objective by 2018. As monetary policy accommodation continues to be gradually withdrawn, gains in real GDP slow to below their potential pace so that the output gap narrows and the unemployment rate moves back toward its natural rate. The nominal federal funds rate rises to just over 4 percent in 2019 and 2020.

Evolution of the Staff Forecast

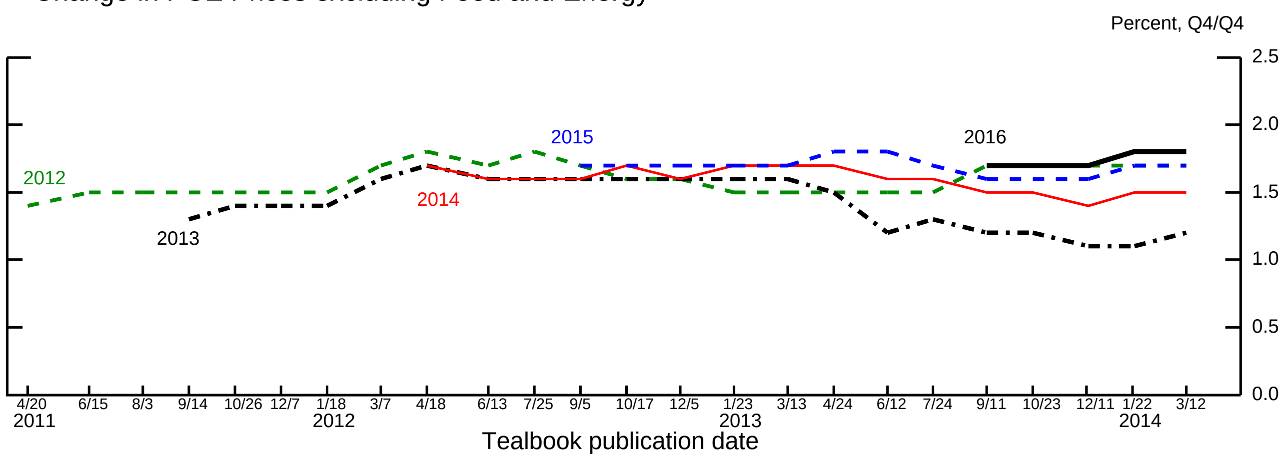
Change in Real GDP



Unemployment Rate



Change in PCE Prices excluding Food and Energy



International Economic Developments and Outlook

Foreign real GDP growth edged down to a 2¾ percent pace in the fourth quarter of 2013. This outcome was somewhat weaker than we projected in January, as growth in Japan and Mexico was much lower than we had anticipated, overwhelming upside surprises in many other economies. We expect foreign growth in the first half of this year to continue at a similar rate and then to move up to almost 3½ percent by 2016. Much of this pickup in growth comes from a strengthening of the recovery in the euro area and a firming of conditions in emerging markets, especially in Latin America, after particularly poor performance last year.

The trajectory of foreign economic growth is somewhat lower than we wrote down in the previous Tealbook, particularly in the current quarter, owing to severe winter weather in Canada and relatively subdued recent indicators in EMEs. The rest of the forecast also has been revised down a bit. This revision is partly in response to the slightly weaker path for U.S. growth, but it owes more importantly to our reassessment of the underlying strength of economic activity in a number of countries. We now see China's economy decelerating a touch faster over the next few years than we previously assumed, which will weigh on other EMEs, particularly in emerging Asia, and we are somewhat more pessimistic about prospects in Latin America as well.

Although we believe that foreign growth will pick up over the forecast, we are attentive to several risks to our outlook. The financial stresses that intensified in many EMEs around the time of the January FOMC meeting have eased, but these could well return, perhaps as monetary policy in the advanced economies normalizes. A possible scenario along these lines is discussed in the "Stronger Dollar" simulation in the Risks and Uncertainty (R&U) section of the Tealbook. In the extreme, such stresses could snowball into a broad-based EME crisis, which is also discussed in R&U. Finally, we are watching recent developments in Ukraine carefully. Although the response of global financial markets to the Ukrainian crisis has been minimal, were this crisis to intensify, it could have deeper effects on global markets and growth.

Foreign inflation is estimated to have fallen slightly in the current quarter, as a welcome rise in inflation in the advanced foreign economies was more than offset by an equally welcome decline in some EMEs. The rise in AFE inflation has been concentrated in the euro area and Canada, where inflation had fallen to very low levels late last year. Although the risk of AFE deflation has receded somewhat, substantial resource slack and below-target inflation will keep monetary policy in the AFEs highly accommodative for some time. Meanwhile, a number of the more vulnerable EMEs continued to tighten monetary policy during the intermeeting period, and financial stress in some of these economies appears to have become less acute in recent weeks.

Advanced Foreign Economies

Real GDP growth in the AFEs remained near a 2 percent pace in the fourth quarter of 2013. Economic activity expanded for the third consecutive quarter in the euro area, and growth was particularly solid in Canada and the United Kingdom. In contrast, the pace of activity in Japan failed to pick up from its modest third-quarter rate. We see AFE growth continuing at about 2 percent in the first quarter, before dipping to 1¾ percent in the second quarter as Japanese output contracts in response to a consumption tax hike. Thereafter, as the Japanese economy resumes growth and the recovery in the euro area continues to firm, AFE growth moves back up, averaging 2¼ percent over the remainder of the forecast period, somewhat above our estimate of potential growth. Relative to the January Tealbook, our outlook for the AFEs is down a touch, largely reflecting the markdowns to U.S. and EME growth.

Recent data suggest that quarterly inflation in the AFEs will pick up to 1¼ percent in the first quarter from 0.7 percent at the end of 2013. With output gaps projected to narrow and inflation expectations relatively well anchored, AFE inflation should rise to 1¾ percent by the end of the forecast period, still a bit below the 2 percent targets in most of these economies. Given our outlook of moderate growth and subdued inflation, we expect monetary policy in the major AFEs to remain highly accommodative through 2016. That said, we do have policy rates moving up in all of the major advanced economies by the end of 2016 as slack is substantially eroded.

Japan

Japanese real GDP rose just 0.7 percent in the fourth quarter, 3 percentage points less than estimated in the previous Tealbook. Much of the surprise reflected a large negative contribution from the external sector, as imports rose sharply, while export growth was muted. In addition, household spending picked up less than we had thought given our expectation that purchases will be pulled forward ahead of April's consumption tax hike. Our sense is that the fourth-quarter weakness will prove transitory, as a surge in industrial production in January, as well as relatively strong car registrations and elevated PMI readings through February, point to a substantial strengthening of activity. Despite the recent weakness of exports, we continue to expect that last year's large yen depreciation will provide a noticeable boost to external demand this year. Accordingly, we project that real GDP will expand 4¼ percent in the first quarter before contracting 3¾ percent in the next as the consumption tax rate jumps from 5 percent to 8 percent. Thereafter, growth should rebound to a 2 percent pace in the second half of the year, partly boosted by fiscal stimulus measures, and average 1¼ percent over the remainder of the forecast period.

Quarterly inflation was 2 percent (annual rate) at the end of 2013 but should fall back to 1 percent in the current quarter, as energy and food prices stabilize after being elevated by the pass-through of previous yen depreciation. Excluding the direct effect of two planned tax hikes, we see inflation remaining near 1 percent in 2014 and then rising to 1¾ percent by late 2016 as additional monetary easing promotes a further narrowing of the output gap and an increase in inflation expectations. Indeed, we continue to assume that the Bank of Japan will extend and expand its asset purchase program next quarter as it aims to raise inflation to 2 percent.

Euro Area

Euro-area GDP expanded 1.1 percent in the fourth quarter, with activity strengthening in both core and peripheral economies. Recent data, including a pickup in retail sales in January, and further gains in the composite PMI and economic sentiment through February, suggest that the pace of expansion is firming. In addition, bank lending standards for mortgages in the fourth quarter eased for the first time since 2007. All told, we revised up slightly our projection for euro-area growth in the near term. We now think that GDP growth will average 1¼ percent in the first half of this year before rising to 2 percent in 2016. This projection reflects a gradual pickup in domestic demand as fiscal consolidation diminishes, financial and credit conditions normalize, and monetary policy remains accommodative. It also assumes that European authorities will make continued progress with fiscal and structural reforms, including the review of the banking system and establishment of a single European supervisor.

Data through February suggest that inflation will rise to a ¾ percent annual rate this quarter from 0.1 percent in the previous quarter, as a further decline in retail energy prices is more than offset by a firming of core prices. The recovery in output and stabilization of energy prices should gradually push inflation to 1½ percent by the end of 2016. Amid signs of improvement in inflation and activity, the European Central Bank (ECB) left its benchmark policy rate at 0.25 percent in March, reiterating its readiness to act if conditions deteriorated. We continue to expect the ECB to raise its main policy rate in the first half of 2016.

United Kingdom

The final release of national accounts data confirmed that the U.K. economy expanded at an annual rate of nearly 3 percent in the fourth quarter of last year, similar to the average pace for the first three quarters and up sharply from a stagnant 2012. Last year's acceleration in growth was accompanied by a surprisingly strong performance of the labor market, with the unemployment rate falling from 7.8 percent in mid-2013 to 7.2 percent in the fourth quarter. In addition, investment picked up noticeably during the course of 2013. Given the momentum in investment, and taking into account robust PMIs in recent months, we believe output growth will remain at a solid 3 percent in 2014 before easing back to 2½ percent in 2015 and 2016.

Consumer prices fell slightly in January, leading us to lower our forecast of current-quarter inflation to 1¼ percent. Thereafter, with the output gap projected to close, inflation should gradually pick up to nearly 2 percent over the remainder of the forecast period. On February 12, the Bank of England updated its guidance on monetary policy following a decline in the unemployment rate to near its previously announced threshold of 7 percent, as discussed in the box "The Bank of England's Next Phase of Forward Guidance." The guidance was consistent with our prior expectation of a rate hike in early 2015, followed by gradual increases thereafter.

Canada

Canadian real GDP rose 2.9 percent in the fourth quarter, ¾ percentage point more than estimated in the January Tealbook, driven by solid gains in consumption and exports. However, data through February show that employment growth slowed sharply and that the manufacturing PMI fell well below its fourth-quarter level. We judge that these readings owe their weakness largely to severe winter weather in Canada and lower growth in the United States, and we have first-quarter growth slowing to 1¾ percent, ¾ percentage point less than in the January Tealbook. Looking ahead, we expect real GDP growth to bounce back to 3 percent in the second quarter, before settling near 2½ percent over the remainder of the forecast period. This outlook is down a touch since the previous Tealbook, reflecting a downbeat annual survey of Canadian investment intentions and the more moderate path for U.S. growth.

In January, core inflation firmed and headline inflation rose to 1.5 percent on a 12-month basis, from 1.3 percent in December. Accounting for recent currency depreciation and higher projected energy prices, we now expect consumer prices to rise at an annual rate of 2 percent in the first half of this year, up from 0.5 percent in the fourth quarter of 2013. Inflation should then moderate to 1½ percent in the second half of 2014 before slowly edging back up to 2 percent by late 2016 as the output gap is eliminated. Against the backdrop of slightly slower growth and still-moderate inflation, we expect the Bank of Canada to keep its policy rate at 1 percent until the third quarter of 2015, one quarter longer than in the previous Tealbook.

Emerging Market Economies

Real GDP growth in the EMEs slowed to an annual rate of 3½ percent in the fourth quarter from 4¼ percent the previous quarter, as a surprising step-down in Mexico's growth and moderating activity in China more than offset a step-up in Brazil and much of emerging Asia. Recent indicators suggest that EME growth will remain at a 3½ percent pace in the current quarter before strengthening to a near-trend pace of 4½ percent by next year. This pickup is concentrated in Latin America. In particular, we expect the Mexican economy, which has a large weight in U.S. trade, to exit its recent soft patch and be boosted by the implementation of structural reforms.

Relative to the January Tealbook, we have marked down our forecast for the EMEs. This downshift is particularly evident in China, where we see a sharper reining-in of credit than previously anticipated, and in Brazil, where elevated inflation in the face of unaddressed structural problems will weigh on activity.

Taking a longer view, we see EME growth settling at a pace that, at 4½ percent, is considerably below that observed in the several years prior to the global financial crisis. The slowdown is greater in emerging Asia, particularly China, where the aging of the population and the lessening of opportunities for technological catch-up as these economies mature should lower potential growth. Our path for economic activity in the EMEs is also predicated on the assumption that monetary policy normalization in the advanced economies does not severely disrupt financial or economic conditions in the EMEs. Under this assumption, the situation improves for vulnerable EMEs and the

The Bank of England's Next Phase of Forward Guidance

Following a much more rapid drop in the unemployment rate than was anticipated when the Bank of England (BOE) introduced its forward guidance last August, the BOE's Monetary Policy Committee (MPC) provided new guidance in February on how it will set monetary policy once the unemployment rate has crossed the policy threshold.

The BOE's August announcement of forward guidance focused on reassuring the public that it would not consider raising its policy rate at least until the unemployment rate fell below a threshold of 7 percent or one of three "knockouts" materialized. The knockouts were stated as: (1) the MPC projects CPI inflation 18 to 24 months ahead to be 0.5 percentage point or more above the 2 percent target, (2) "medium-term inflation expectations no longer remain sufficiently well anchored," and (3) "The Financial Policy Committee judges that the stance of monetary policy poses a significant threat to financial stability. . ." At the time of the August announcement, the MPC projected that the unemployment rate (shown in the upper-left figure on the following page) would remain above the threshold until late 2016. Since then, however, U.K. employment has grown rapidly and the unemployment rate has fallen surprisingly quickly to 7.2 percent by December.

The BOE's new guidance, published in its February Inflation Report, provides little concrete information about the likely timing of liftoff of the policy rate, aside from the assertion that the MPC sees further scope to reduce spare capacity before raising the Bank Rate from its present level of 0.5 percent. Instead, the guidance aims to inform the public about the factors likely to be most influential in determining the pace at which policy accommodation is removed over the next couple of years as well as the factors likely to affect policy in the medium run after inflation and resource gaps have closed.

More specifically, there are four key facets of the new guidance. First, it ties policy rate adjustment not only to keeping inflation near the BOE's 2 percent target but also to "avoiding wasteful spare capacity" in the U.K. economy. At the moment, the MPC judges that spare capacity is equivalent to 1 to 1½ percent of GDP and is concentrated in the labor market. This estimate reflects the gap between the unemployment rate and its estimated medium-term equilibrium rate of 6 to 6½ percent as well as the shortfall of average hours worked relative to employees' desired hours (illustrated in the upper-right figure by the rise in those working part time because they could not find a full-time job).

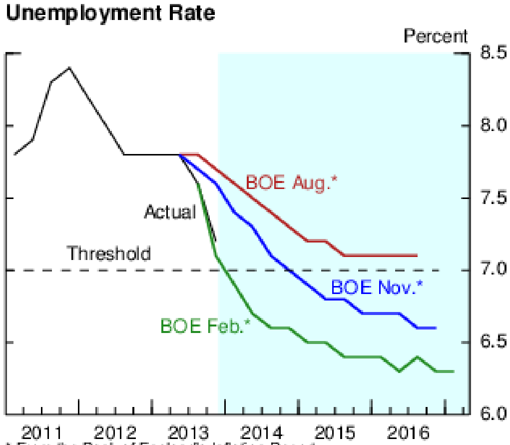
Second, as the new guidance does not contain a threshold once the unemployment rate falls below 7 percent, the inflation and financial stability knockouts will not continue. The inflation knockouts will be replaced by the normal discussion of the inflation forecast, and the financial stability knockout will be replaced by a statement that monetary policy is a last line of defense in mitigating financial stability risks, suggesting a clear division of labor between monetary policy and macroprudential policy.

Third, the MPC projects that the eventual increase in its policy rate will be gradual, based on its assessment that the recovery will continue to be restrained by several headwinds, including restrictive fiscal policy, elevated interest rate spreads, and subdued global demand. Moreover, the MPC thinks that productivity growth, which plunged during the recession and has disappointed during the recovery, will gradually increase. In the MPC's view, faster productivity growth would slow employment growth, allowing output to expand briskly while limiting wage and price pressures (shown in the lower-left figure). (Given the U.K.'s strong job growth in recent months, this part of the MPC's outlook seems especially subject to risks.) Finally, inflation is expected to remain at, or a little below, target in the next three years.

Fourth, the MPC indicated that, even when the economy will be operating at normal levels of capacity with inflation close to target, its policy rate in the medium term likely will be materially lower than its pre-crisis average of 5 percent, reflecting the persistent economic headwinds listed above. The MPC signaled that the lower rate in the medium term is also consistent with the global downward trend in real interest rates that started before the financial crisis. Governor Carney suggested that one possible path of the Bank Rate is that implied by market expectations, which puts the Bank Rate at the end of 2016 at around 2 percent.

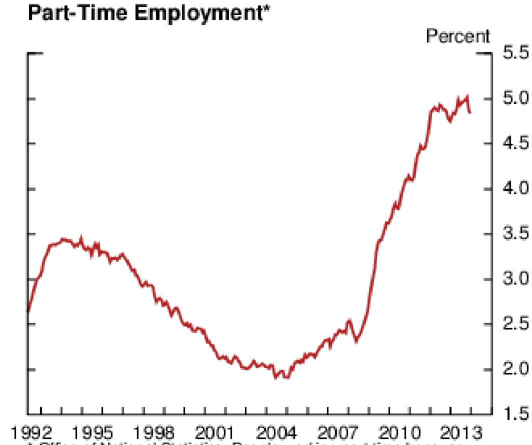
Market reaction to the new guidance was quite muted, with little change to policy expectations (shown in the lower-right figure). In our view, the new guidance is likely to play a constructive role in reassuring markets that liftoff is probably a ways off and that future rate increases likely will be gradual. Moreover, we find it useful that the guidance is linked to the degree of overall spare capacity in the U.K. economy, which the BOE has attempted to measure and forecast. However, the new guidance does not communicate how the MPC would respond to shocks, beyond noting that the Bank Rate would rise more slowly if the recovery falters or more quickly if inflation picks up. Thus, it remains to be seen whether this guidance will prove to be useful in shaping future market expectations as the recovery progresses.

Unemployment Rate



* From the Bank of England's Inflation Report.

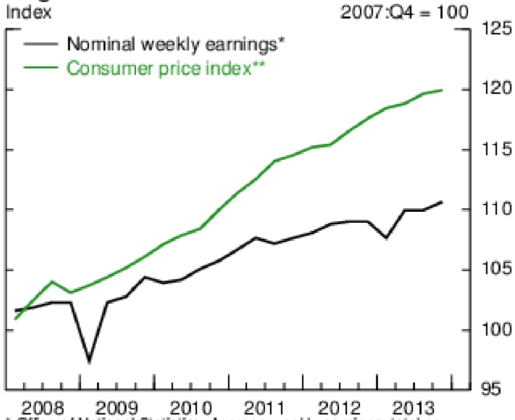
Part-Time Employment*



* Office of National Statistics: People working part time because they could not find a full-time job, as a percentage of total employment.

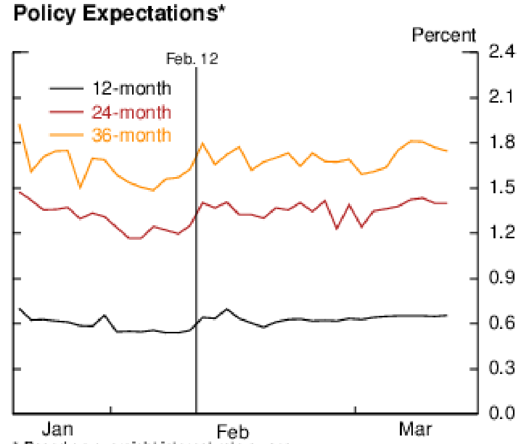
Wages and Consumer Prices

Index 2007:Q4 = 100



* Office of National Statistics: Average weekly earnings, total pay.
** Office of National Statistics.

Policy Expectations*



* Based on overnight interest-rate swaps.

Int'l Econ Devel & Outlook

malaise recently seen in Latin America gradually lifts. However, as discussed earlier, we continue to view a broad EME financial crisis as a notable downside risk to the outlook.

We estimate that quarterly inflation in the EMEs fell to 2¾ percent in the current quarter, primarily reflecting a dip in Asian inflation. We expect EME inflation to rise again as a rebound of inflation in emerging Asia more than offsets a moderation in Latin America. Central banks in Argentina, Brazil, India, South Africa, and Turkey tightened policy during the intermeeting period to contain inflation and support their currencies, while those in Chile, Israel, and Thailand cut rates, citing growth concerns.

China

Chinese economic indicators are difficult to interpret this time of year due to the irregular timing of the Chinese New Year holiday but, on balance, appear consistent with moderation from the robust pace of growth in the second half of last year. Of note, the official PMI moved down in January and February and currently stands at around 50, a level we judge to be consistent with growth of 7 to 8 percent. Although credit growth remains relatively strong, our sense is that rising interest rates, amid a steady rollout of new regulations aimed at reining in the shadow banking sector, will curb investment more than we previously anticipated. As a result, we now expect growth to fall to 7¼ percent this year—½ percentage point below what we wrote down in the January Tealbook—from 7½ percent last year. We expect growth to remain a little above 7 percent in 2015 and 2016. Although we see a risk that the combination of slowing growth and tightening credit could trigger a financial crisis, we do not view this scenario as very likely.

We estimate that consumer price inflation fell to 1 percent at an annual rate in the current quarter, reflecting both a decline in pork prices and a pronounced easing of core inflation. Inflation should rise to 3¼ percent next quarter as some of the decline in pork prices is reversed and core inflation firms, before stabilizing at about 3 percent for the remainder of the forecast period.

As noted in the Financial Developments section, Chinese authorities engineered a notable 1½ percent depreciation of the renminbi against the dollar during the intermeeting period, likely in order to flush out speculative positions betting on continued appreciation of the currency. At this point, we do not believe this move is the start of a sustained depreciation to support growth, as this would undermine the authorities' stated intention to liberalize the exchange rate and rebalance the economy.

Other Emerging Asia

Growth in the other emerging Asian economies picked up to a brisk 5¼ percent annual pace in the fourth quarter, nearly a percentage point stronger than we were expecting. Indonesia, Malaysia, the Philippines, Singapore, and Taiwan all registered very strong growth of 6 percent or more. The region's growth was boosted by a pickup in exports at the end of last year, reflecting in part strong shipments of high-tech products. However, available indicators for the current quarter, including PMIs, industrial production, and exports, suggest that growth slowed from the above-trend pace of the fourth quarter. We expect growth to dip to 3¾ percent this quarter, before rising gradually to 4½ percent by early next year.

We estimate that consumer price inflation fell to an annual rate of 2½ percent in the current quarter from higher-than-usual rates in the previous several quarters. This dip was largely driven by a sharp decline in food price inflation in India. We expect inflation to rise again going forward, stabilizing at about 3½ percent by the end of this year.

Latin America

Mexico's economy stalled unexpectedly in the fourth quarter, with real GDP growing at just ¾ percent, as auto plants closed for retooling and consumer confidence fell. A subsequent bounceback in auto production in the first two months of the year provides comfort that some of the fourth-quarter weakness was transitory. However, the significant downward revision in the outlook for U.S. manufacturing production led us to mark down our forecast for Mexican growth in the first half of this year. We now see growth rising to only 2½ percent in the current quarter, before picking up to 3½ percent by the end of the year as U.S. manufacturing output firms.

We estimate that consumer price inflation in Mexico spiked to 5½ percent in the current quarter, on the back of hikes in VAT rates and administered prices for gasoline and public transport. The effects of these increases should be temporary, and we expect inflation to decline to about 3½ percent by the second half of this year, within the central bank's target band of 2 to 4 percent.

After contracting in the third quarter, Brazil's real GDP grew at a stronger-than-expected 2¾ percent rate in the fourth quarter. However, recent weakness in industrial production, exports, PMI, and consumer confidence caused us to revise down growth in the current quarter by 2 percentage points to a mere ½ percent. We have also grown gloomier about Brazil's economic prospects as fiscal and monetary tightening, as well as slower growth in key trading partners, including China, Argentina, and Venezuela, are expected to weigh on growth. Our downward revision also reflects a reassessment of Brazil's potential growth in light of continued elevated inflation despite weak activity. We now see growth picking up to about 2½ percent by the end of this year and edging up only slightly thereafter. Beyond the current quarter, our outlook is about ¾ percentage point lower throughout the forecast period than in the January Tealbook.

Inflation continues to hover around 6 percent in Brazil, a reflection of tight labor market conditions, pass-through from the depreciation of the real in recent months, and persistently high inflation expectations. Citing concerns over inflationary pressures, Brazil's central bank raised its main policy rate a further 25 basis points in February, bringing the cumulative increase during the current tightening cycle to 350 basis points. We expect inflation to fall gradually as this tightening takes effect, reaching about 5½ percent by the end of this year. Inflation has risen sharply elsewhere in South America, notably in Argentina and Venezuela, whose currencies have depreciated sharply. In February, Argentina, which has long been suspected of underreporting inflation, introduced a long-awaited new consumer price index. The index showed a 3.7 percent increase (not at an annual rate) in January, consistent with private estimates.

Other Emerging Market Economies

Ukraine is on the verge of economic collapse. During the intermeeting period, pro-Russian president Viktor Yanukovich was ousted after months of political protests. Accelerating capital outflows as the political crisis deepened forced Ukrainian authorities to abandon the currency peg and expand capital controls. Russia's subsequent decision to deploy armed soldiers to Crimea led to a sharp escalation in geopolitical tensions with brief but unsettling reverberations throughout global financial markets.

Although markets rebounded, the risk of further turmoil remains significant, especially given the lack of a clear way forward. The United States has responded by imposing sanctions on certain Russian individuals linked with the invasion of Crimea. It remains uncertain how Europe, which depends heavily on Russia for its oil and gas, will respond. Ukraine's transitional government is now in talks with the International Monetary Fund (IMF) and Western governments to secure external financing, although negotiations are expected to be challenging given the unstable political situation and Ukraine's checkered history with IMF adjustment programs. Should the crisis intensify, and especially if geopolitical tensions flare up again, there could be significant effects on world commodity and financial markets and, at an extreme, adverse consequences for the global economic outlook.

The Foreign GDP Outlook

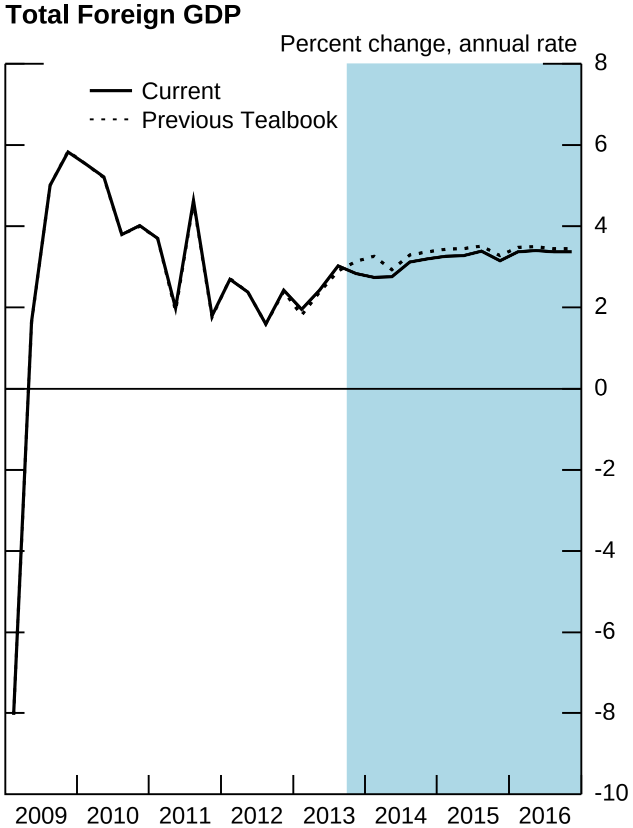
Real GDP*

Percent change, annual rate

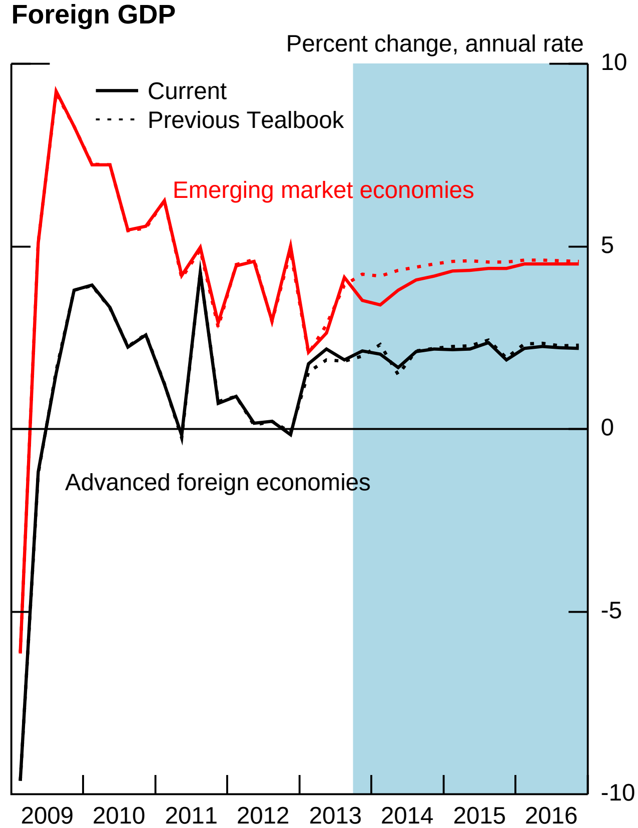
	2013 H1	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 H2	2015	2016
1. Total Foreign	**2.2**	**3.0**	**2.8**	**2.7**	**2.8**	**3.2**	**3.3**	**3.4**
Previous Tealbook	*2.1*	*2.9*	*3.1*	*3.3*	*2.9*	*3.3*	*3.4*	*3.5*
2. Advanced Foreign Economies	**2.0**	**1.9**	**2.1**	**2.1**	**1.7**	**2.2**	**2.2**	**2.2**
Previous Tealbook	*1.7*	*1.9*	*2.0*	*2.3*	*1.5*	*2.2*	*2.2*	*2.3*
3. Canada	2.5	2.7	2.9	1.8	3.0	2.5	2.6	2.6
4. Euro Area	0.2	0.6	1.1	1.3	1.3	1.4	1.7	1.9
5. Japan	4.3	0.9	0.7	4.2	-3.8	2.0	1.0	1.3
6. United Kingdom	2.3	3.4	2.9	3.0	2.9	2.9	2.6	2.5
7. Emerging Market Economies	**2.4**	**4.2**	**3.5**	**3.4**	**3.8**	**4.1**	**4.4**	**4.5**
Previous Tealbook	*2.5*	*3.9*	*4.2*	*4.2*	*4.3*	*4.5*	*4.6*	*4.6*
8. China	6.9	8.8	8.0	7.5	7.3	7.1	7.3	7.4
9. Emerging Asia ex. China	2.9	4.4	5.2	3.7	3.9	4.2	4.5	4.6
10. Mexico	-1.0	3.9	0.7	2.5	2.9	3.4	3.6	3.7
11. Brazil	3.7	-2.1	2.8	0.4	2.2	2.5	2.6	2.7

* GDP aggregates weighted by shares of U.S. merchandise exports.

Total Foreign GDP



Foreign GDP



The Foreign Inflation Outlook

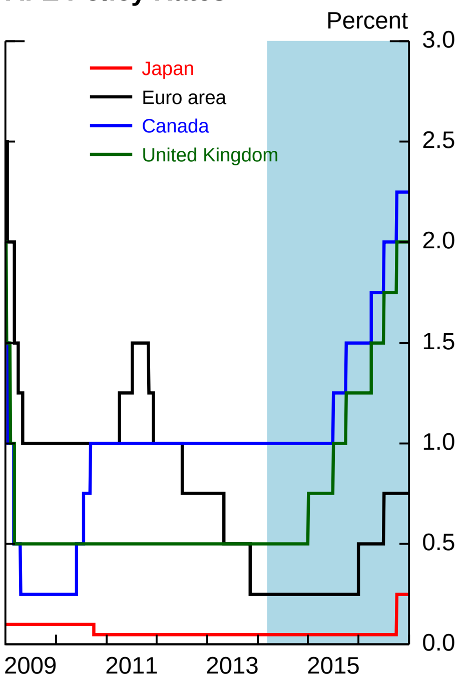
Consumer Prices* Percent change, annual rate

	2013 H1	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 H2	2015	2016
1. Total Foreign	**2.1**	**2.8**	**2.4**	**2.1**	**3.2**	**2.5**	**2.6**	**2.6**
Previous Tealbook	*2.1*	*2.8*	*2.3*	*2.3*	*3.0*	*2.4*	*2.6*	*2.6*
2. Advanced Foreign Economies	**0.7**	**2.1**	**0.7**	**1.2**	**2.9**	**1.3**	**1.7**	**1.7**
Previous Tealbook	*0.7*	*2.0*	*0.5*	*1.0*	*2.7*	*1.3*	*1.7*	*1.7*
3. Canada	0.8	1.9	0.5	2.0	2.0	1.5	1.7	1.9
4. Euro Area	0.7	1.7	0.1	0.7	1.2	1.3	1.3	1.5
5. Japan	0.4	3.0	1.9	1.0	8.8	0.8	2.6	1.7
6. United Kingdom	2.0	2.9	1.3	1.2	1.7	2.0	1.9	1.9
7. Emerging Market Economies	**3.2**	**3.3**	**3.7**	**2.7**	**3.4**	**3.4**	**3.3**	**3.3**
Previous Tealbook	*3.2*	*3.3*	*3.7*	*3.3*	*3.3*	*3.3*	*3.3*	*3.3*
8. China	2.6	3.4	3.0	1.1	3.2	3.0	3.0	3.0
9. Emerging Asia ex. China	2.8	4.0	4.0	2.5	3.0	3.4	3.4	3.4
10. Mexico	4.2	2.0	4.2	5.4	3.3	3.4	3.4	3.4
11. Brazil	6.4	4.6	6.0	5.9	6.0	5.8	5.4	5.3

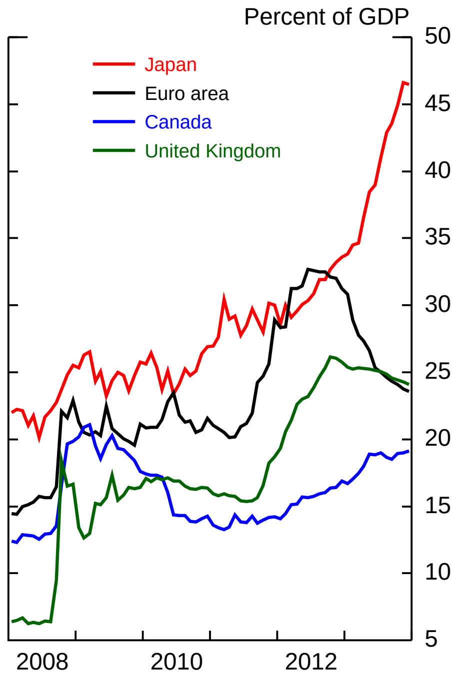
* CPI aggregates weighted by shares of U.S. non-oil imports.

Foreign Monetary Policy

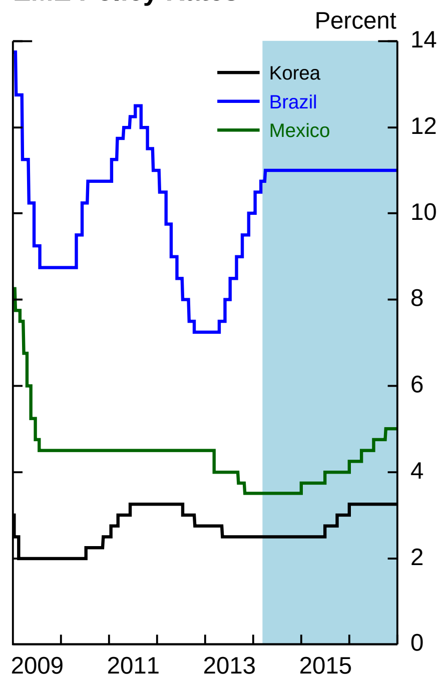
AFE Policy Rates



AFE Central Bank Balance Sheets

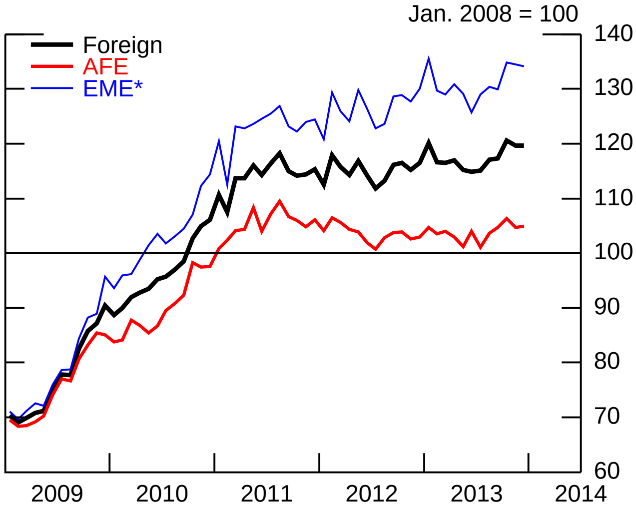


EME Policy Rates



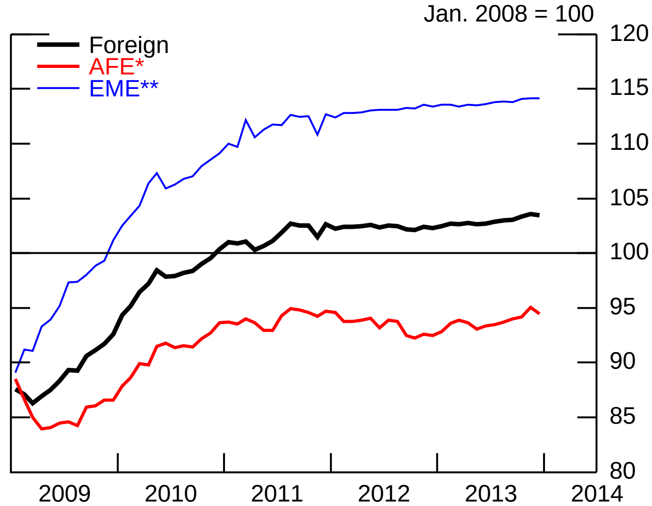
Recent Foreign Indicators

Nominal Exports



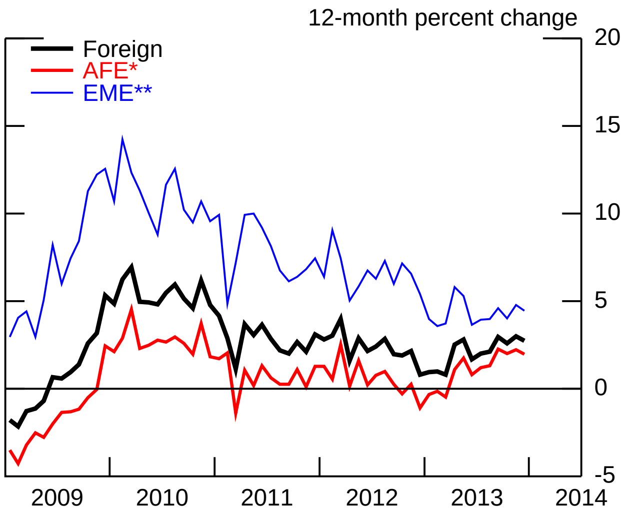
* Excludes Venezuela.

Industrial Production



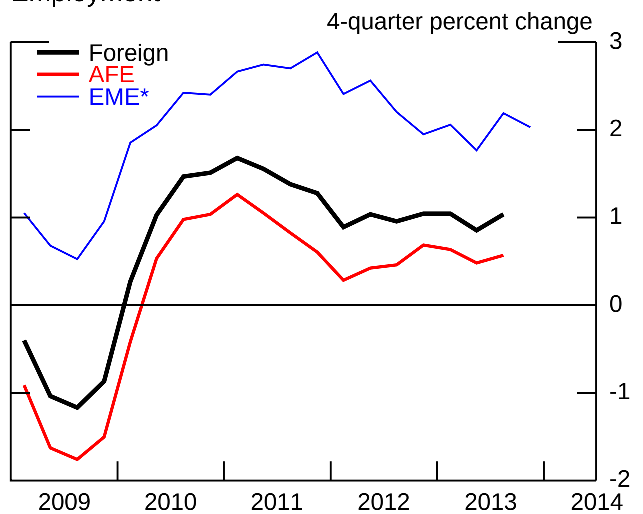
* Excludes Australia and Switzerland.
** Excludes Colombia, Hong Kong, the Philippines, and Venezuela.

Retail Sales



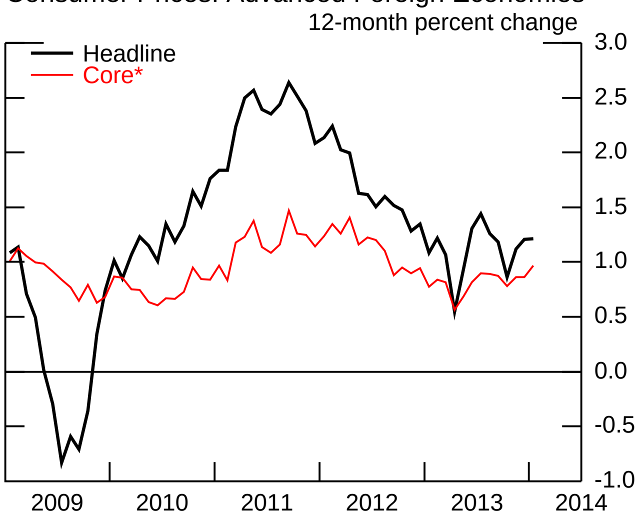
* Excludes Australia and Switzerland.
** Includes Brazil, China, Indonesia, Korea, Singapore, and Taiwan.

Employment

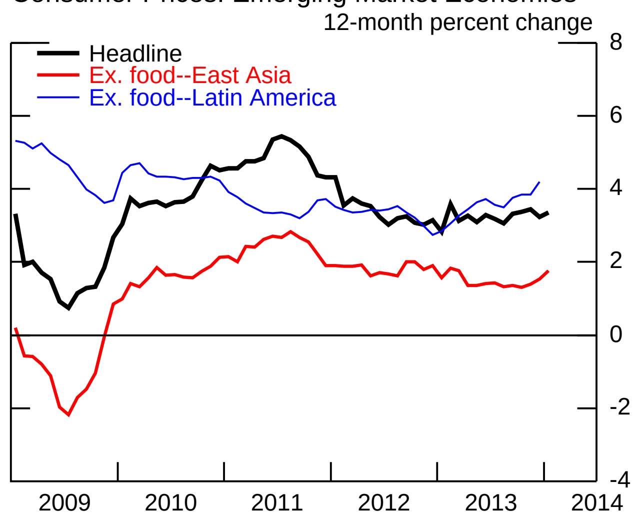


* Excludes Argentina and Mexico.

Consumer Prices: Advanced Foreign Economies



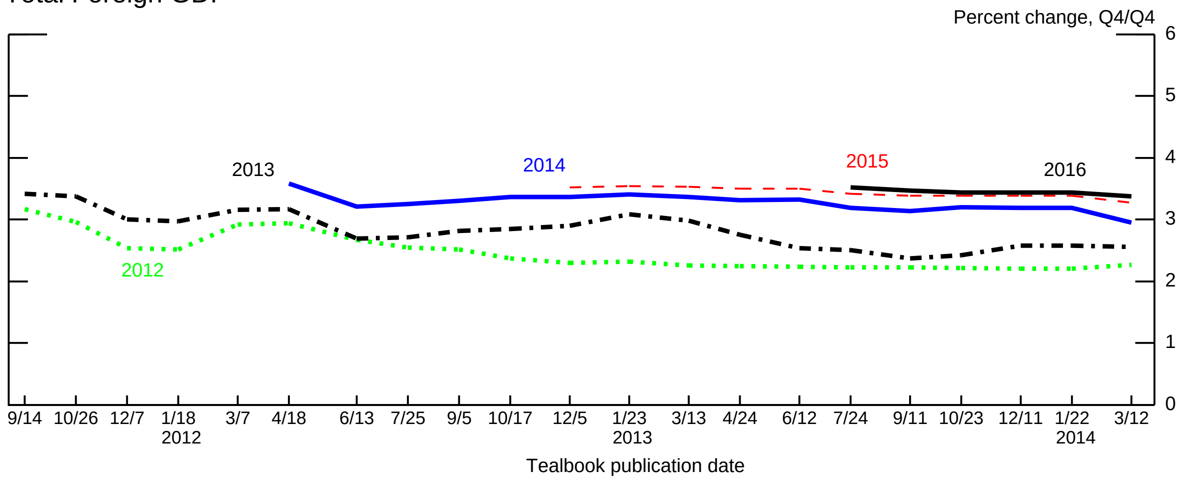
Consumer Prices: Emerging Market Economies



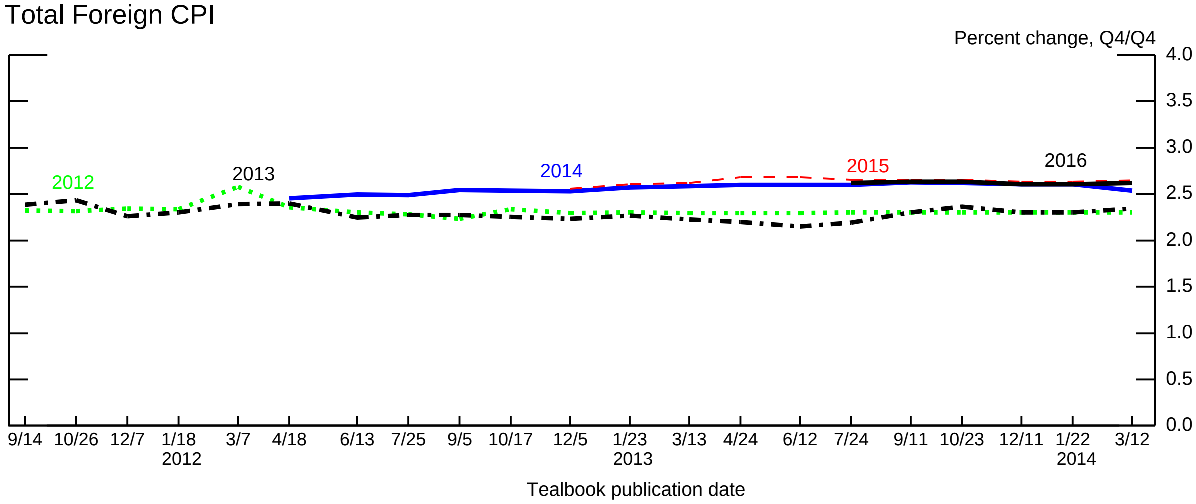
Note: Excludes Australia, Sweden, and Switzerland.
* Excludes all food and energy; staff calculation.
Source: Haver Analytics and CEIC.

Evolution of Staff's International Forecast

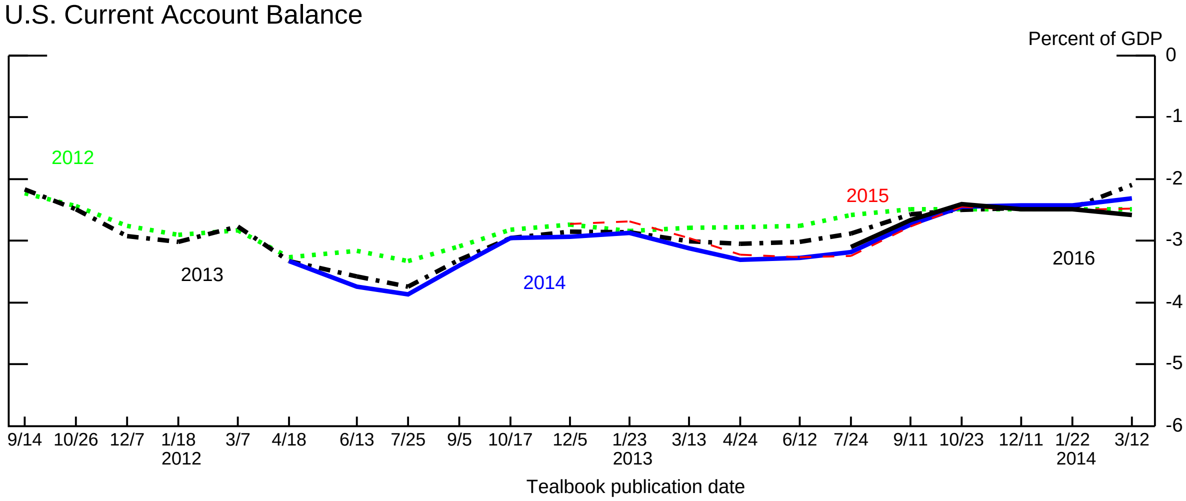
Total Foreign GDP



Total Foreign CPI



U.S. Current Account Balance



Int'l Econ Devel & Outlook

(This page is intentionally blank.)

Financial Developments

Market participants appeared to discount the generally weaker-than-expected U.S. economic data released over the intermeeting period in light of the possible temporary effects of unusually cold weather. In addition, investors appeared to become broadly more willing to take riskier positions, likely due in part to an easing of concerns about financial stresses in the emerging market economies (EMEs) early in the intermeeting period. On balance, the path of the federal funds rate was little changed, as were longer-term Treasury yields; however, equity prices rose, corporate bond spreads narrowed—particularly for speculative-grade issues—and the dollar depreciated slightly.

- FOMC communications over the intermeeting period were about in line with market expectations. The Open Market Desk's March Survey of Primary Dealers suggests that most dealers expect the Committee to change its forward-guidance language at the upcoming meeting, with many anticipating a shift toward qualitative guidance.

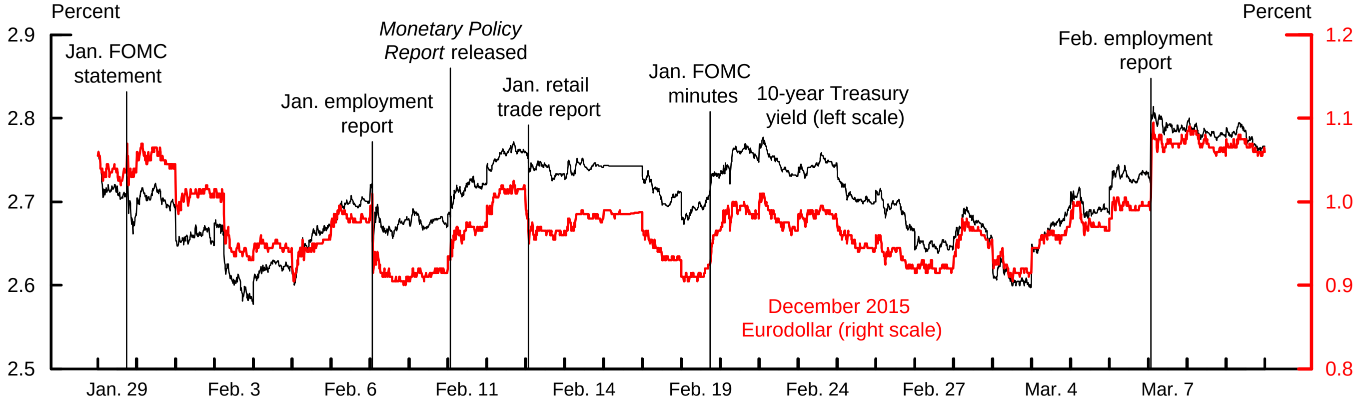
- Credit flows to nonfinancial corporations remained robust. Financing conditions in commercial real estate (CRE) markets continued to improve gradually.

- Credit conditions in residential mortgage markets remained tight, even as further incremental signs of easing emerged. Access to credit cards continued to be tight for borrowers with low credit scores, while auto and student loans stayed widely available.

- Asset price movements in foreign financial markets were broadly similar to those in the United States. Global financial market volatility increased only temporarily with the turmoil in Ukraine. Notably, the Bank of England updated its forward guidance, stating that there remains scope to absorb spare capacity further before raising its policy rate.

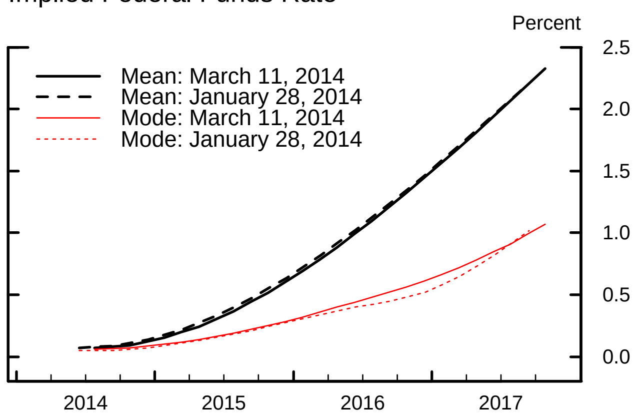
Policy Expectations and Treasury Yields

Selected Interest Rates



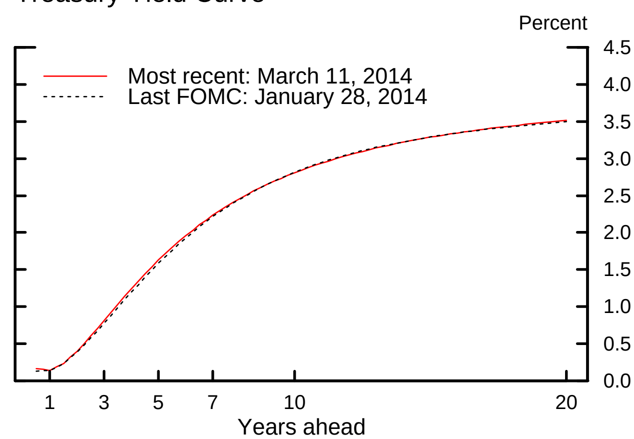
Note: 5-minute intervals. 8:00 a.m. to 4:00 p.m.
Source: Bloomberg.

Implied Federal Funds Rate



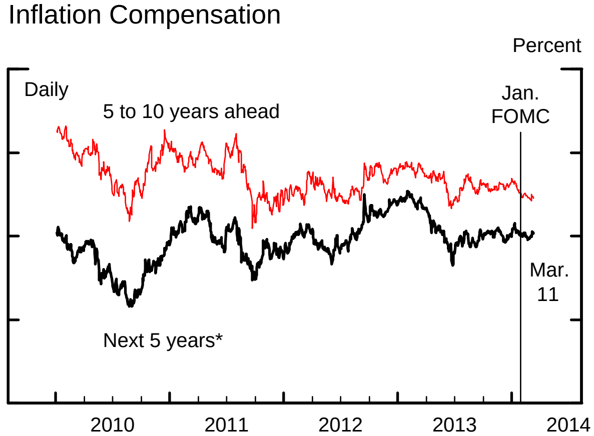
Note: Mean is estimated using overnight index swap quotes. Mode is estimated from the distribution of federal funds rate implied by interest rate caps. Both include a term premium of zero basis points per month.
Source: Bloomberg; CME Group.

Treasury Yield Curve



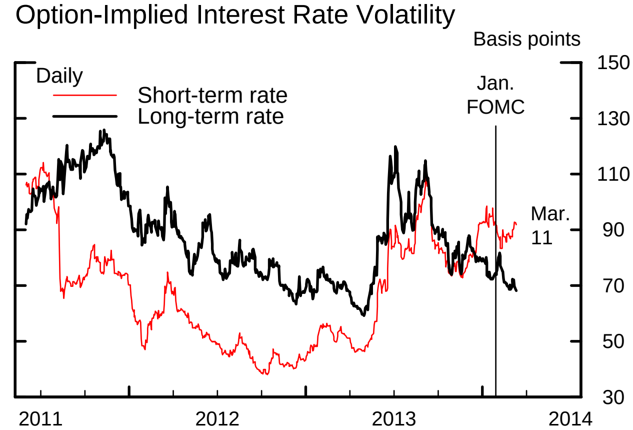
Note: Smoothed yield curve estimated from off-the-run Treasury coupon securities. Yields shown are those on notional par Treasury securities with semiannual coupons.
Source: Federal Reserve Board.

Inflation Compensation



Note: Estimates based on smoothed nominal and inflation-indexed Treasury yield curves.
* Adjusted for lagged indexation of Treasury inflation-protected securities (carry effect).
Source: Barclays PLC; staff estimates.

Option-Implied Interest Rate Volatility



Note: Implied volatility of the long-term rate is based on options on the 10-year swap rate that expire in 3 months, while implied volatility of the short-term rate is based on options on the 1-year swap rate that expire in 2 years.
Source: Staff calculations from Barclays data.

Policy Expectations and Treasury Yields

Market reactions to FOMC communications were muted over the intermeeting period. The January FOMC decision and statement were largely anticipated by market participants. The Monetary Policy Report and Chair Yellen's congressional testimony were viewed as emphasizing continuity in the approach to monetary policy, solidifying expectations that the pace of the FOMC's asset purchases would be reduced by a further $10 billion at each upcoming meeting absent a material change in the economic outlook. Following the release of the January FOMC minutes on February 19, market commentary noted that meeting participants seemed to attribute the soft economic data, at least in part, to adverse winter weather.

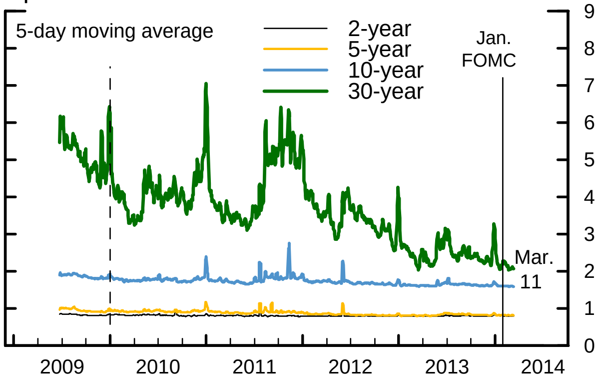
Policy expectations moved little, on net, over the intermeeting period. The path of the federal funds rate implied by financial market quotes was little changed, and the Desk's March Survey of Primary Dealers indicates that dealers' expectations about monetary policy—including the projected path of the federal funds rate and SOMA holdings—have held steady since January.[1] However, most dealers now expect the Committee to modify its forward rate guidance at the March meeting, and dealers appear to see substantial odds that the threshold-based guidance will be de-emphasized or dropped and replaced with qualitative guidance.

Treasury yields were little changed, on net, over the intermeeting period, as waning flight-to-quality demands early in the period appeared to offset generally weaker-than-expected economic data releases. Investors reportedly attributed the softer data, to some extent, to adverse weather conditions. On net, 5-year Treasury yields edged up 4 basis points since the January FOMC meeting, 10-year Treasury yields were unchanged, agency MBS yields ticked up 4 basis points, and option-adjusted spreads on production-coupon MBS were about unchanged. TIPS-based measures of inflation compensation were also little changed.

[1] According to the results from the Desk's pilot survey of market participants, which was conducted for the second time in March with a modestly expanded panel of respondents, expectations of active investors are broadly in line with those of the primary dealers.

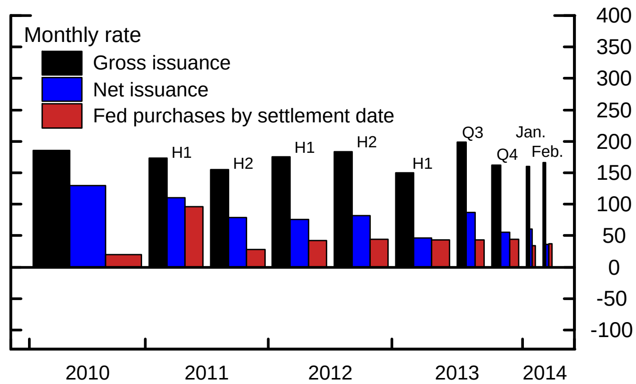
Treasury and Agency Finance and Short-Term Funding Markets

Average Nominal On-the-Run Daily Bid-Asked Spread



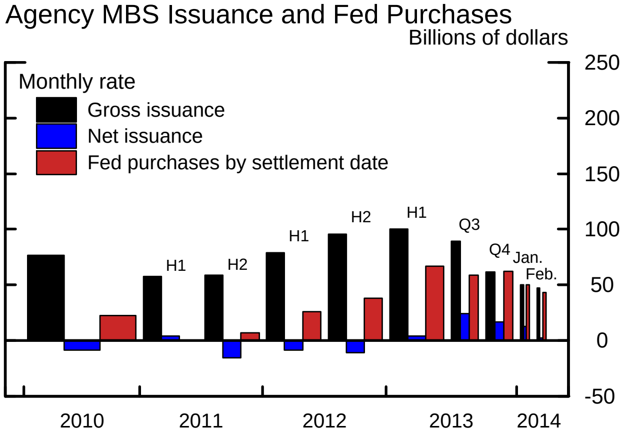
Note: Series contain breaks and are considered more reliable starting on January 1, 2010 (indicated by the dashed vertical line), and going forward.
Source: BrokerTec.

Nominal Treasury Issuance and Fed Purchases



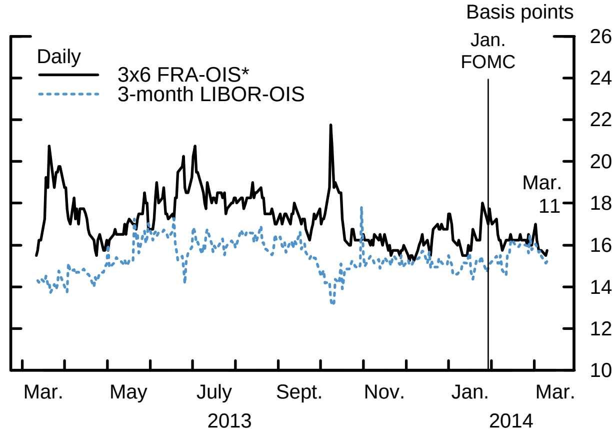
Note: Excludes bills.
Source: U.S. Department of the Treasury; Federal Reserve Bank of New York.

Agency MBS Issuance and Fed Purchases



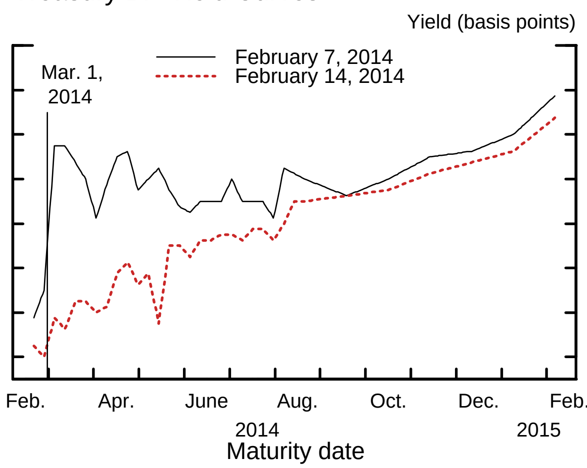
Note: Issuance and purchases of 30-year fixed-rate agency MBS.
Source: Federal Reserve Bank of New York.

Funding Spreads



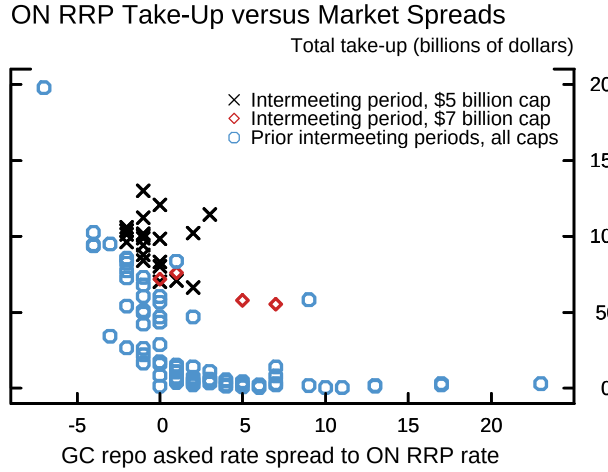
* Spread is calculated from a LIBOR forward rate agreement (FRA) 3 to 6 months in the future and the forward overnight index swap (OIS) rate for the same period.
Source: Bloomberg.

Treasury Bill Yield Curves



Note: Each observation is a Treasury bill quote.
Source: Federal Reserve Bank of New York.

ON RRP Take-Up versus Market Spreads



Note: The general collateral (GC) repurchase agreement (repo) asked rate is collected by the Federal Reserve Bank of New York 15 minutes before the operation. Cap is per-counterparty constraint.
Source: Federal Reserve Bank of New York.

Financial Developments

TREASURY AND AGENCY FINANCE AND MARKET FUNCTIONING

Since the January FOMC meeting, the Treasury Department auctioned $230 billion of nominal fixed-rate coupon securities and $9 billion of TIPS. In addition, the Treasury's first-ever auction of a floating-rate note (FRN) on January 29 was well received, as was the subsequent reopening, with a broad set of investors (including foreign central banks, hedge funds, and corporate cash managers) reportedly participating in the auctions. In total, the Treasury has issued $28 billion of two-year FRNs. The February Quarterly Refunding Statement noted that the Treasury expects to auction additional FRNs quarterly (each with two monthly reopenings).

Federal Reserve purchase operations did not appear to have any material adverse effect on the functioning of Treasury and agency MBS markets.[2] As in the fourth quarter of 2013, the size of SOMA settlements roughly equaled the gross issuance of agency MBS in January and February. Dollar-roll-implied financing rates for production-coupon MBS moved lower, although they remained in recent ranges.

SHORT-TERM FUNDING MARKETS

Conditions in unsecured short-term dollar funding markets remained stable over the intermeeting period.[3] In mid-February, the Congress passed legislation suspending the debt ceiling until March 2015. In response to news of the pending legislation, yields on Treasury bills maturing between late February and mid-March of this year—those that could have been affected by delayed payments if a debt ceiling agreement had not been reached—declined to more typical levels.

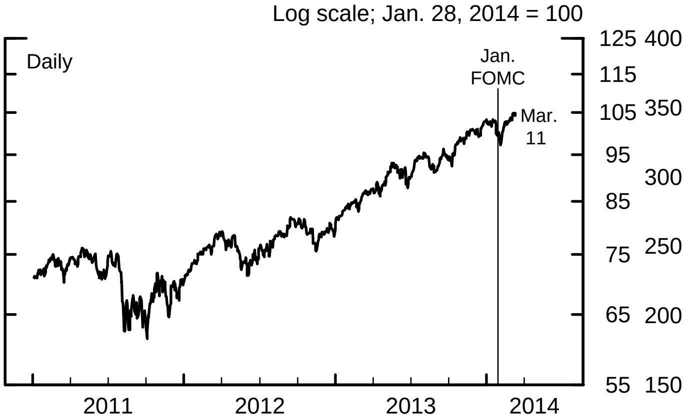
Market participants continued to focus on the Federal Reserve's fixed-rate overnight reverse repurchase agreement (ON RRP) exercise. Four separate changes to the operations were announced over the period: The bid limit was raised from $3 billion to $5 billion, the fixed rate was raised from 3 basis points to 4 basis points, the bid limit was increased again to $7 billion, and the fixed rate was increased again to 5 basis points. The second fixed-rate increase appeared to boost market repurchase rates for a

[2] Over the intermeeting period, the Desk purchased $53 billion of Treasury securities under the flow-based Treasury purchase program and $66 billion of agency MBS under the flow-based MBS program and the reinvestment program. The Desk conducted $2 billion of dollar rolls.

[3] The effective federal funds rate averaged 7 basis points over the intermeeting period, with the intraday standard deviation averaging about 5 basis points.

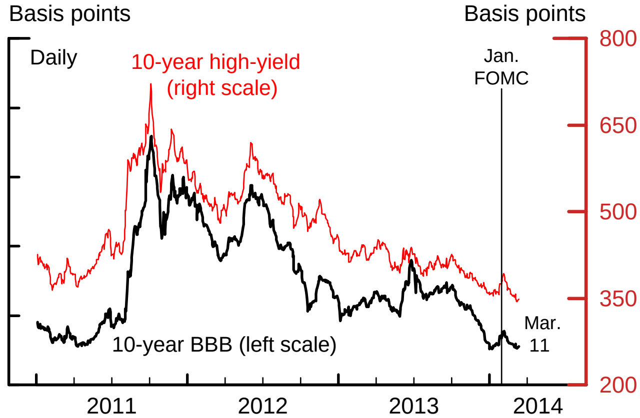
Other Asset Prices and Business Finance

S&P 500 Index



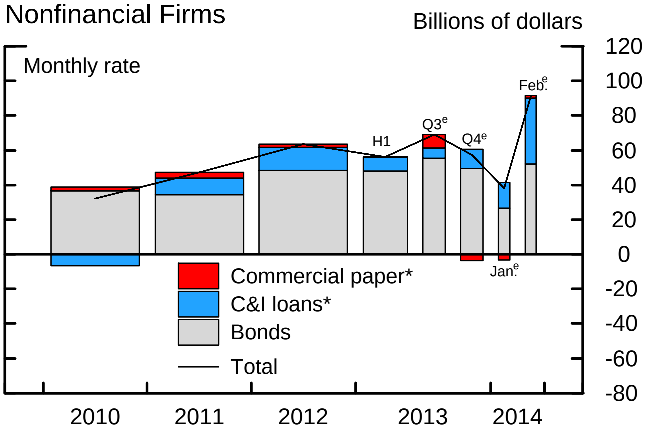
Source: Bloomberg.

Corporate Bond Spreads



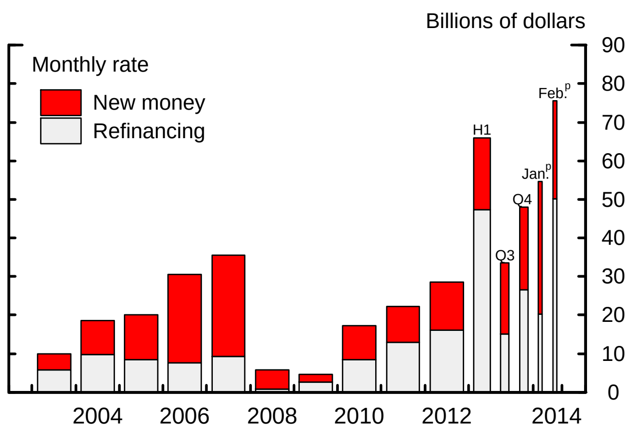
Note: Spreads over 10-year Treasury yield.
Source: Staff estimates of smoothed corporate yield curves based on Merrill Lynch data and smoothed Treasury yield curve.

Selected Components of Net Debt Financing, Nonfinancial Firms



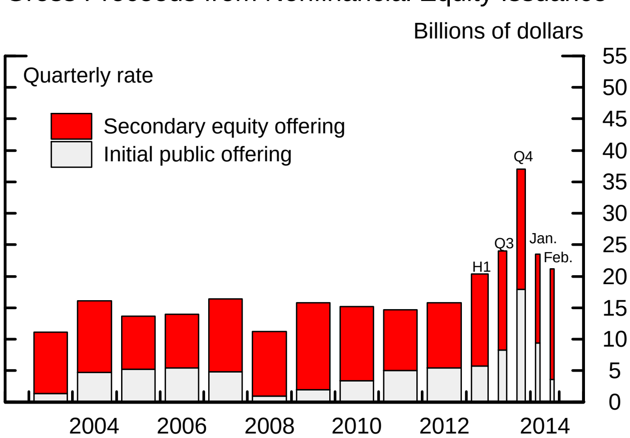
e Staff estimate of net corporate bond issuance and Feb. 2014 change in commercial and industrial (C&I) loans outstanding.
* Period-end basis, seasonally adjusted.
Source: Depository Trust & Clearing Corporation; Thomson Reuters Financial; Federal Reserve Board.

Institutional Leveraged Loan Issuance



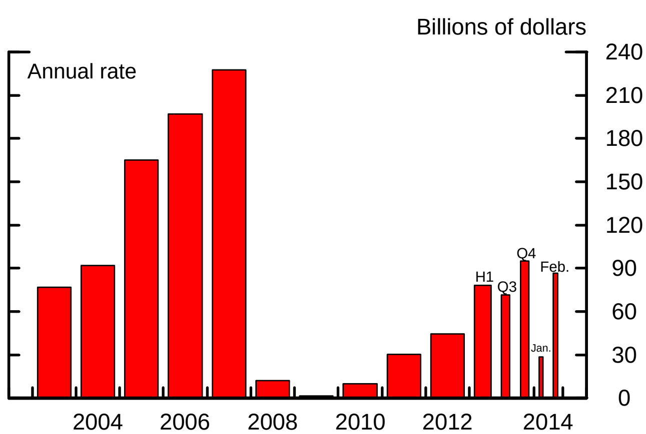
p Preliminary.
Source: Thomson Reuters LPC LoanConnector.

Gross Proceeds from Nonfinancial Equity Issuance



Source: Securities Data Company.

CMBS Issuance



Note: CMBS is commercial mortgage-backed securities.
Source: Commercial Mortgage Alert.

time, both at overnight and term maturities. Early in the period, market repurchase rates were low and even dipped below the fixed rate, prompting high take-up in the operations. Later on, repurchase rates moved higher, apparently in response to a rise in Treasury bill issuance, and operation volumes moderated.

Responses to the March 2014 Senior Credit Officer Opinion Survey on Dealer Financing Terms suggested little change over the past three months both in conditions in securities financing and OTC derivatives markets and in credit terms applicable to most classes of counterparties covered by the survey. However, nearly one-half of the dealers surveyed reported an increase in demand for funding of non-agency RMBS. Also of note was the result that roughly two-fifths of the dealers indicated some decline over the past three months in the use of financial leverage at trading real estate investment trusts.

Equity Valuations and Bond Spreads

Broad stock price indexes ended the intermeeting period up about 4 percent, despite generally weaker-than-expected economic data. Investors attributed the weakness, to some extent, to the temporary effects of unusually harsh winter weather. Share prices also appeared to be boosted by a solid finish to the corporate earnings season, as well as by a broad increase in investors' willingness to take riskier positions, likely reflecting, in part, an easing of concerns about EMEs early in the period.[4] The VIX, an index of option-implied volatility for one-month returns on the S&P 500 index, returned to very low levels after reaching a 52-week high around the time of the January FOMC meeting, when concerns about EMEs peaked. Investment- and speculative-grade corporate bond spreads spiked in early February but narrowed, on net, over the period, with speculative-grade spreads declining to near the bottom of their range over the past decade.

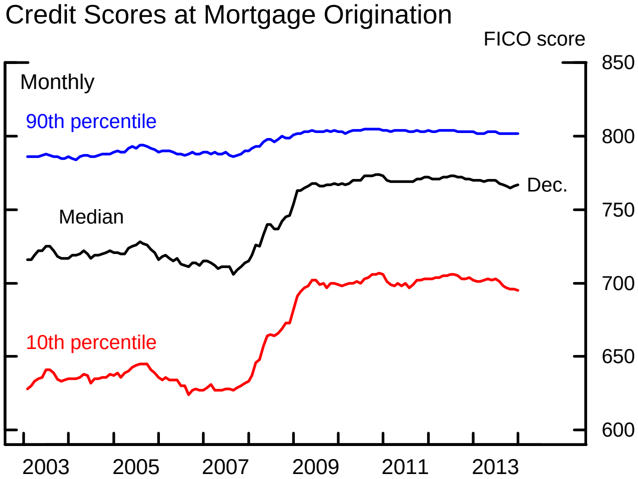
Business and Municipal Finance

The pace of business financing in credit and equity markets continued to be fairly strong, on balance, over the first two months of the year. Following a slowdown in January, nonfinancial corporate bond issuance rebounded in February, with the majority

[4] The stock price gains over the current intermeeting period followed a 3 percent decline in share prices between the January Tealbook publication date and the January FOMC meeting, as concerns about EMEs increased markedly.

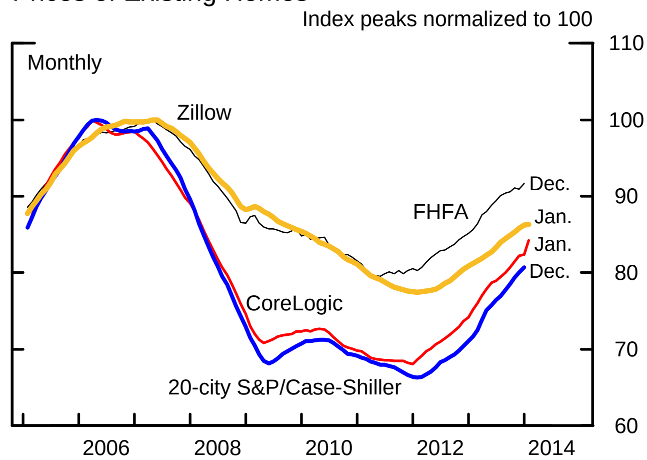
Household Finance

Credit Scores at Mortgage Origination



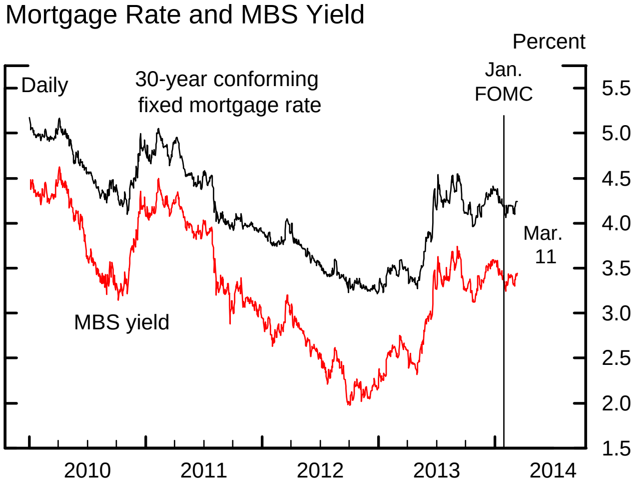
Note: Concerns 30-year GSE-backed purchase mortgages originated in month shown.
Source: LPS Applied Analytics.

Prices of Existing Homes



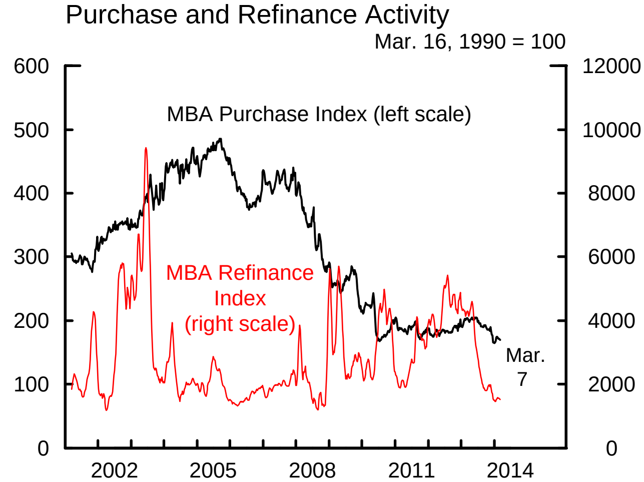
Source: For FHFA, Federal Housing Finance Agency; for CoreLogic, CoreLogic; for S&P/Case-Shiller, Standard & Poor's; for Zillow, Zillow.

Mortgage Rate and MBS Yield



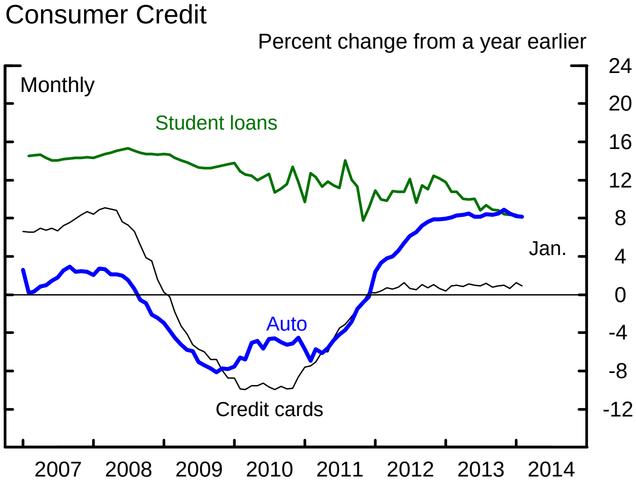
Note: The MBS yield is the Fannie Mae 30-year current-coupon rate.
Source: For MBS yield, Barclays; for mortgage rate, Loansifter.

Purchase and Refinance Activity



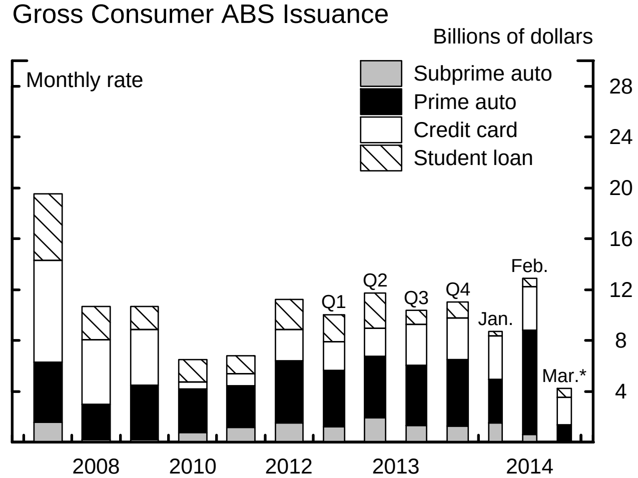
Note: The data are weekly and seasonally adjusted by FRB staff.
Source: Mortgage Bankers Association.

Consumer Credit



Note: The data are not seasonally adjusted.
Source: Federal Reserve Board.

Gross Consumer ABS Issuance



* Month to date as of March 7.
Source: Inside MBS & ABS; Merrill Lynch; Federal Reserve Board.

of proceeds going to investment-grade firms. In addition, the growth of C&I loans on banks' balance sheets remained solid in January and surged in February. Institutional issuance of leveraged loans has continued to be quite brisk this year; strong inflows into the asset class by retail and institutional investors have contributed to a further easing of lending standards and terms, which, in turn, has spurred additional refinancing activity. Secondary-market equity offerings by nonfinancial companies also remained robust, but the volume of IPOs was seasonally sluggish.

While Call Report data suggest that banks still have not appreciably increased their lending to small businesses—even as credit supply to established small businesses has reportedly eased—preliminary analysis of PayNet data suggests that credit flows from nonbank lenders may have increased (see the box "Small Business Financing Conditions").

Demand for credit by nonfinancial corporations was likely boosted by merger and acquisition activity, which increased further in the final quarter of 2013. The pace of new deals was particularly notable for technology and health-care firms. The recent volume of announced and pending deals suggests another step-up in merger activity in coming months.

Financing conditions in CRE markets continued to improve gradually. CRE loans on banks' books increased at a solid pace over the first two months of the year, and, according to the most recent Call Report data, the fourth-quarter increases in banks' CRE loans were widespread across all major categories, including construction and land development loans. After a slow start in January, CMBS issuance was robust in February. Underwriting standards for commercial mortgages have reportedly continued to ease somewhat as competition among lenders has intensified, although banks' lending standards do not appear to be nearly as loose as those prevailing in 2006 and 2007.

Conditions in the municipal bond market remained favorable over the intermeeting period. Municipal bond yield ratios and the MCDX, an index of CDS for a broad portfolio of municipal bonds, changed relatively little. That said, the City of Detroit proposed a bankruptcy plan that offers much lower recovery rates for its bondholders than would be suggested by historical benchmarks. Moreover, Standard & Poor's, Moody's Investors Service, and Fitch Ratings downgraded Puerto Rico's general obligation (GO) bonds from investment grade to speculative grade over the period. However, the prices of Puerto Rico GO bonds held steady through these events,

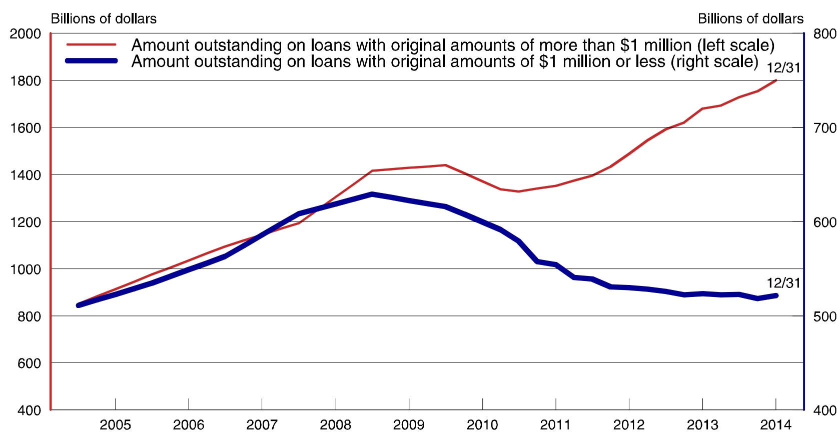
Small Business Financing Conditions

After declining sharply in the wake of the financial crisis, commercial lending by domestic banks began to rebound in late 2010. However, the recovery has not been uniform. According to Call Report data, outstanding large loans to businesses (a rough proxy for loans to large businesses) have grown rapidly since late 2010, while outstanding small loans to businesses (a rough proxy for loans to small businesses) continued to decline into 2013 and have remained essentially flat since then (figure 1).

This stagnation in outstanding small loans is a bit puzzling in light of improving credit supply conditions for small businesses. Beginning in mid-2007, respondents to the Federal Reserve Board's Senior Loan Officer Opinion Survey on Bank Lending Practices reported a sustained period of tightening of standards and terms on loans to small businesses. However, since mid-2010, banks have generally been reporting a net easing of standards and terms to such firms. Similarly, small business borrowers reported substantial difficulty obtaining credit during and immediately following the financial crisis, but they have been reporting gradually improving access to credit since 2011. The most recent data from the National Federation of Independent Business (NFIB) monthly member polls indicate that, among firms applying for credit, the fraction reporting that their credit needs were satisfied has returned to near pre-crisis levels. In addition, in the January 2014 Wells Fargo Small Business Index (WFSBI) survey, the fraction of respondents reporting that credit was very difficult or somewhat difficult to obtain in the past 12 months declined to levels not seen since early 2009, though it remained elevated relative to pre-crisis norms.

At least part of the explanation for the low levels of outstanding small loans seems to be lackluster demand by small businesses for new loans. Only 13 percent of the respondents to the January 2014 WFSBI survey reported that they intended to apply for a new credit product in the next 12 months—a share that is essentially unchanged from the previous seven quarters. Among NFIB members, 53 percent of respondents to the February 2014 member poll explicitly stated that they were not interested in a loan, suggesting that the share of firms with

Figure 1: Amount Outstanding on Loans to Businesses



Note: Beginning March 2010, the data reporting frequency changed from annual to quarterly.
Source: These data are constructed from special tabulations of the June 30, 2002, to December 31, 2013, Call Reports (Consolidated Reports of Condition and Income for U.S. Banks).

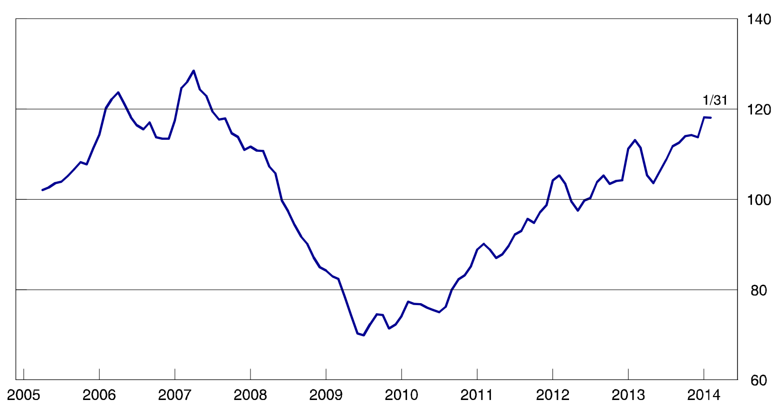
borrowing needs is well below historical averages. Weak loan demand from small businesses likely reflects, at least in part, their reluctance to expand. The share of respondents to the NFIB's member poll who view the next three months as a good time for expansion has fluctuated between 5 and 10 percent since early 2008—a level that is quite low by historical standards.

To gain additional insights into small businesses' access to credit, the Board recently acquired more-detailed quarterly data on small business lending from PayNet, a consortium of commercial banks, credit unions, captive and noncaptive finance companies, and alternative lenders that collects loan-level information on commercial loans and leases from individual lenders to small businesses. PayNet analyzes the data and constructs the Thomson Reuters/PayNet Small Business Lending Index (SBLI), which aims to track originations of new loans to small businesses. The index is based on the monthly dollar-weighted percentage change in loan originations to small businesses. The SBLI suggests that loan originations to small businesses by lenders of all types have been trending upward since mid-2009 (figure 2).

At this point, we cannot determine the extent to which the differences in trends between the Call Report data and the PayNet data reflect the fact that PayNet measures loan originations while Call Reports measure outstanding loan balances, the fact that the two data sources capture the activities of different groups of lenders and credit products, or something else. The Call Report data are limited to the universe of U.S. banks. About 50 percent of loan dollars originated in the PayNet data are attributed to a subset of participating U.S. banks, about 30 percent to a number of captive finance companies, and the remaining 20 percent to some noncaptive finance companies, credit unions, and alternative lenders. The lenders that do not report to PayNet may be having very different experiences in terms of loan originations to small businesses than those that do report.

To the extent that the increased originations may be driven in part by alternative lenders, one should be cautious about interpreting them too positively. Alternative lenders generally make small, short-term loans at high interest rates, typically with annual percentage rates greater than 30 percent.

Figure 2: Thomson Reuters/PayNet Small Business Lending Index

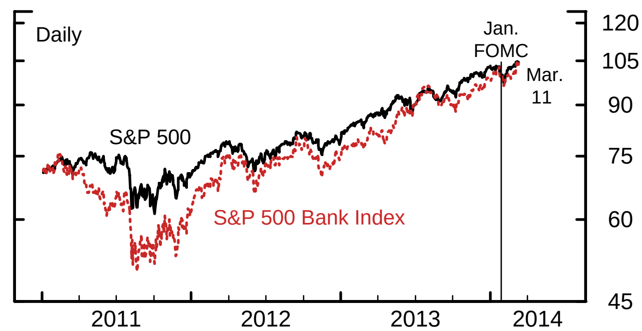


Note: Data are monthly; 3-month moving average is reported; not seasonally adjusted.
Source: PayNet.

Financial Developments

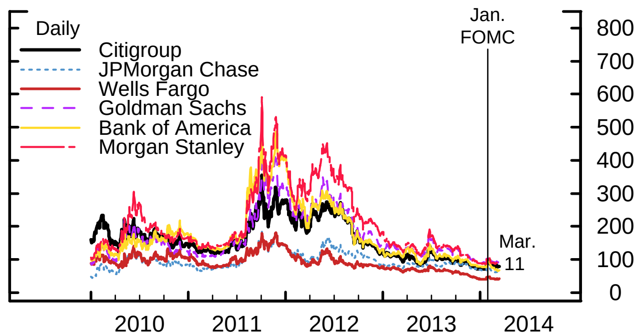
Banking Developments and Money

S&P 500 Stock Price Indexes



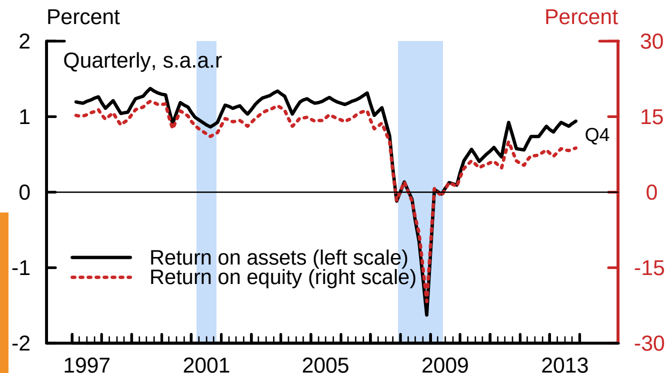
Source: Bloomberg.

CDS Spreads of Large Bank Holding Companies



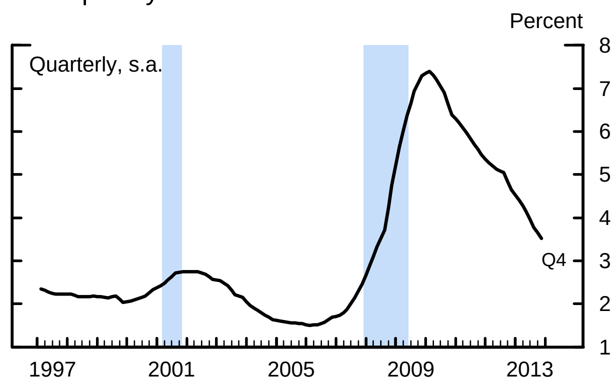
Source: Markit.

Return on Assets and Return on Equity



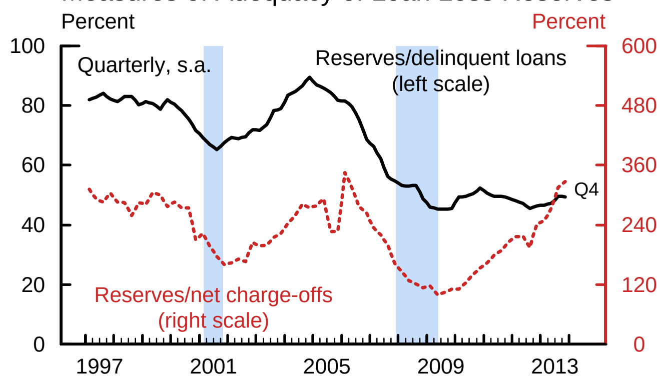
Source: Federal Reserve Board, FR Y-9C, Consolidated Financial Statements for Holding Companies.

Delinquency Rate on All Loans



Note: The delinquency rate is calculated as loans more than 30 days delinquent and nonaccrual loans relative to total loans.
Source: Federal Reserve Board.

Measures of Adequacy of Loan Loss Reserves



Source: Federal Reserve Board.

Growth of M2 and Its Components

Percent, s.a.a.r.	M2	Liquid deposits	Small time deposits	Retail MMFs	Curr.
2013	6.0	8.0	-14.8	1.4	6.6
2013:Q4	6.3	8.5	-12.8	-5.3	5.9
Dec.	5.5	7.1	-5.9	-8.9	6.7
Jan. & Feb. (avg.)	8.4	11.5	-20.9	-3.8	6.2

Note: Retail MMFs are retail money market funds.
Source: Federal Reserve Board.

Note: The shaded bars indicate periods of business recession as defined by the National Bureau of Economic Research.

albeit at substantially depressed levels, as the rating changes were largely anticipated. On March 11, 2014, Puerto Rico successfully brought to market a $3.5 billion GO bond issue, substantially easing near-term liquidity pressures.

Household Finance

Financing conditions in mortgage markets have remained tight, particularly for borrowers with low credit scores. However, a few signs that mortgage markets may have begun to ease emerged over the intermeeting period. In particular, the lower end of the distribution of credit scores for GSE-backed purchase mortgages shifted down slightly in December. In addition, a major residential mortgage lender announced plans to decrease its minimum required credit scores on mortgages eligible to be guaranteed by the FHA. House prices rose notably further in January, and mortgage interest rates and their spreads to Treasury yields were little changed over the intermeeting period. Applications for both purchase mortgages and refinancings stayed at low levels through early March.

Conditions in consumer credit markets have remained mixed. Credit bureau data through the fourth quarter indicate that auto loans continued to be broadly available, including to consumers with subprime credit histories. Meanwhile, credit card limits for borrowers with subprime and prime credit scores—a proxy for supply—remained at very low levels through the fourth quarter. Partly reflecting these supply conditions, credit card balances stayed nearly flat, on net, through January, while auto and student loans continued to grow briskly. Consumer loans on banks' books posted only modest gains in February, likely owing to a weather-related moderation in auto loan growth. Issuance of auto and credit card ABS continued to be robust in January and February, including significant issuance of paper backed by subprime auto loans.

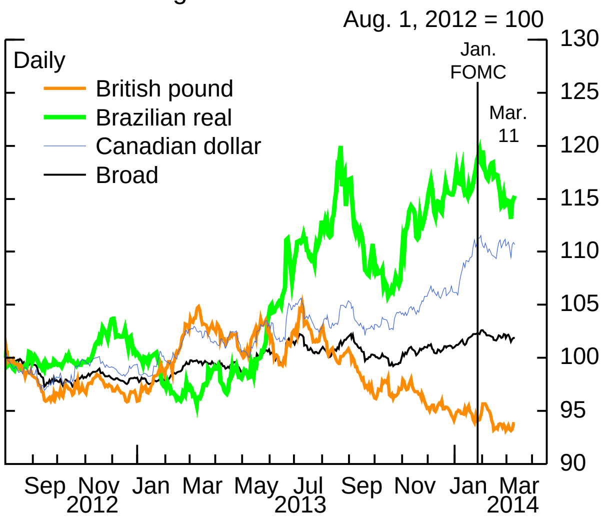
Banking Developments and Money

On net, stock prices for large bank holding companies (BHCs) increased about in line with the broad equity market over the intermeeting period, while CDS spreads for such firms remained low. The profitability of BHCs increased in the fourth quarter of 2013, supported by further declines in loan loss provisions and a reduction in litigation expenses, even as BHCs generally continued to report compressed net interest margins, weak mortgage revenues, and relatively subdued trading income. Loan performance improved further across most loan types, and banks' loan loss reserves relative to net charge-offs increased.

Foreign Developments

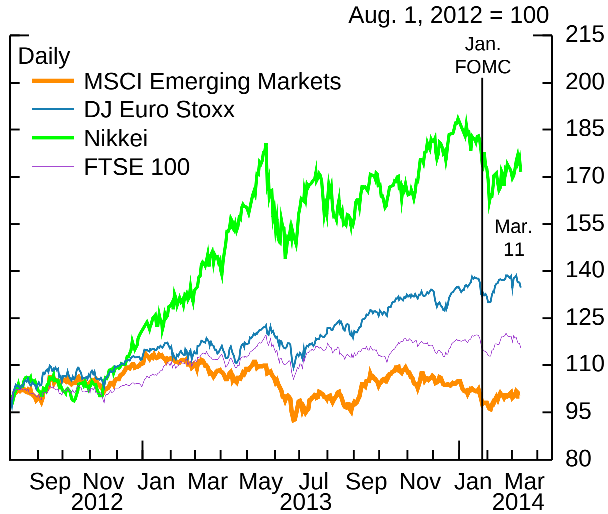
Financial Developments

Dollar Exchange Rate Indexes



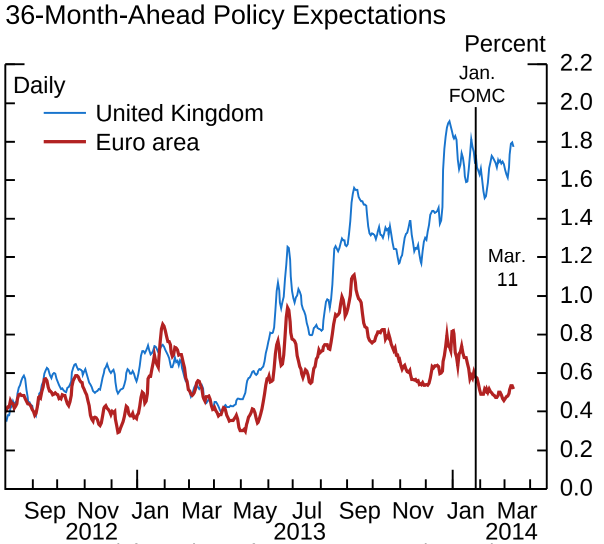
Source: Federal Reserve Board; Bloomberg.

Stock Price Indexes



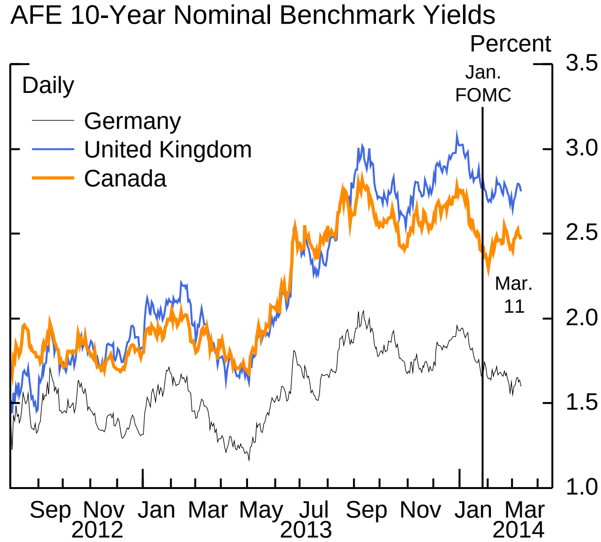
Source: Bloomberg.

36-Month-Ahead Policy Expectations



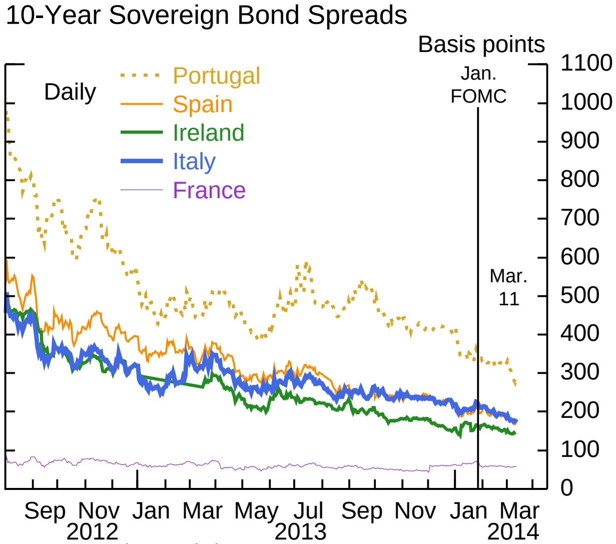
Note: 1-month forward rates from OIS quotes, 3-day moving average.
Source: Bloomberg.

AFE 10-Year Nominal Benchmark Yields



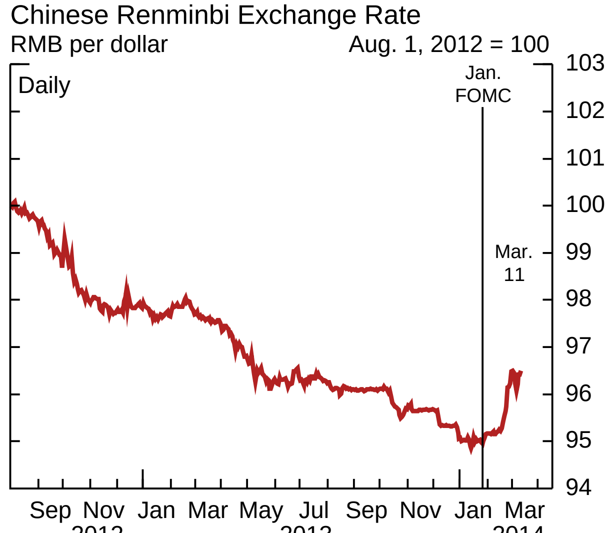
Source: Bloomberg.

10-Year Sovereign Bond Spreads



Note: Spreads are relative to Germany.
Source: Bloomberg.

Chinese Renminbi Exchange Rate



Source: Federal Reserve Board; Bloomberg.

M2 grew briskly, on average, over January and February, owing mainly to gains in liquid deposits. The monetary base expanded at a slower rate, on average, than in 2013, as the rate of increase in reserve balances was constrained by the reduced pace of asset purchases and the larger sizes of operations in the Federal Reserve's ON RRP exercise.[5]

Foreign Developments

Financial market sentiment abroad appeared to improve over the period. In particular, financial stresses in the EMEs, which reached a peak in the days just prior to the January FOMC meeting, appear to have eased, as central banks in some of the most vulnerable economies raised policy rates.

Although global markets fell abruptly on March 3, following the deepening of the political crisis in Ukraine, most markets quickly retraced these losses. Both the Russian ruble and the Ukrainian hryvnia depreciated over the period, and local-currency sovereign bond yields rose about 70 basis points and 140 basis points in Russia and Ukraine, respectively.

The currencies of most EMEs recovered notably with respect to the dollar as stresses eased early in the intermeeting period. Local-currency sovereign bond yields declined in most emerging markets, and EMBI spreads narrowed. In addition, stock markets in many EMEs retraced the losses experienced in late January, and the pace of outflows from EME-dedicated mutual funds slowed.

Over the intermeeting period, consistent with improvement in financial market sentiment, the currencies of most advanced foreign economies (AFEs) appreciated against the dollar as flight-to-safety flows reversed. Headline equity indexes in the AFEs also increased substantially. Long-term sovereign bond yields and market-based measures of policy expectations were little changed, on net, over the period. Peripheral euro-area interest rate spreads continued to narrow.

[5] During the intermeeting period, the Federal Reserve announced that it would conduct a series of four seven-day TDF operations in March; on average over the first two operations, tenders totaled $14.4 billion, with 28 participants. The last operation in this series will employ a floating-rate format, with the rate set equal to the sum of the interest rate paid on excess reserves and a fixed spread of 1 basis point, resulting in an effective rate of 26 basis points.

The Bank of England updated its forward guidance in February, stating that, even with the unemployment rate near its 7 percent threshold, there remains scope to absorb spare capacity further before raising its policy rate. The Bank also stated that future rate increases are likely to be gradual and that the eventual level of rates is likely to be below the 5 percent pre-crisis average (see the box “The Bank of England’s Next Phase of Forward Guidance” in the International Economic Developments and Outlook section). Market-based measures of expected policy rates moved up slightly on the release. The Bank of Japan (BOJ) renewed and expanded its funding-for-lending programs, and market participants continue to expect the BOJ to implement further easing this year. The European Central Bank kept its policy rate unchanged.

The People’s Bank of China pushed the value of the Chinese renminbi down about 1½ percent against the dollar over the period. Market commentary suggested that the depreciation may have been engineered to introduce two-way risk in the currency market and so reduce speculative capital inflows. Separately, a Chinese company failed to make a scheduled interest payment on its outstanding bonds, reportedly the first corporate bond default in the People’s Republic of China since 1997. Observers had long believed that the authorities should allow such a default in order to instill market discipline; in the event, the default did not elicit any substantive market reaction.

Risks and Uncertainty

ASSESSMENT OF RISKS

We continue to view the extent of uncertainty around our projections for real GDP growth and the unemployment rate as roughly in line with the average of the past 20 years (the benchmark used by the FOMC), a period that includes considerable volatility.[1] We see a number of risks attending our forecast for economic activity, including those posed by the possibility that the recent softer tone in spending and production data may signal weaker momentum in aggregate demand than we have projected, that the economy has incurred more supply-side damage since the recession than we have assumed, or that economic and financial stresses in emerging market economies (EMEs) will intensify. Importantly, we see neither monetary policy nor fiscal policy as being well positioned to help the economy withstand adverse shocks. Given these considerations, we continue to believe that the risks to our forecast for real GDP growth are tilted a little to the downside. However, we view the uncertainty around our projection for the unemployment rate as roughly balanced, with the risk of a higher unemployment rate from adverse demand-side developments largely countered by the possibility that the unemployment rate could continue to surprise us to the downside as it has in recent years, despite the further reduction of our estimate of potential GDP growth in the current Tealbook.

Our view of the risks to the economic outlook is informed by the staff's ongoing quantitative surveillance (QS) assessment. Overall, the vulnerabilities of the financial system to adverse shocks appear to remain at moderate levels. This perspective is predicated, in part, on the relatively strong capital positions of large domestic banking firms, the generally low leverage and moderate growth of aggregate credit in the nonfinancial sectors, and the reduced reliance on fragile short-term wholesale funding

[1] We have updated our estimates of the average historical forecast errors that are reported in table 2 of the FOMC's Summary of Economic Projections, using the experience over the 20-year period from 1994 to 2013. The root mean squared errors for the unemployment rate and CPI inflation are nearly unchanged from the previous estimates. Those for real GDP growth increased because we assessed our forecast performance against the latest available estimates of GDP, adjusted for the effect of major methodological revisions, rather than the BEA's third estimates.

Alternative Scenarios

(Percent change, annual rate, from end of preceding period except as noted)

Measure and scenario	2014 H1	2014 H2	2015	2016	2017-18
Real GDP					
Extended Tealbook baseline	2.5	3.4	3.2	3.0	2.3
Weaker household demand	1.5	2.1	2.0	2.4	2.4
Faster recovery	3.5	4.5	4.1	3.4	2.2
Supply-side damage	2.3	3.1	2.7	2.1	1.2
Low inflation	2.6	3.5	3.2	3.0	2.6
Stronger dollar	2.5	3.2	3.0	2.9	2.4
Financial crisis in the EMEs	2.2	2.0	2.7	3.4	2.6
Unemployment rate[1]					
Extended Tealbook baseline	6.5	6.2	5.6	5.1	4.9
Weaker household demand	6.6	6.5	6.3	6.0	5.6
Faster recovery	6.4	5.9	5.0	4.4	4.3
Supply-side damage	6.5	6.1	5.3	4.8	4.6
Low inflation	6.5	6.2	5.6	5.0	4.5
Stronger dollar	6.5	6.2	5.7	5.3	5.1
Financial crisis in the EMEs	6.5	6.4	6.2	5.6	5.2
Total PCE prices					
Extended Tealbook baseline	1.4	1.6	1.5	1.7	1.9
Weaker household demand	1.4	1.6	1.4	1.6	1.8
Faster recovery	1.4	1.6	1.5	1.8	2.0
Supply-side damage	1.4	1.7	1.7	2.0	2.3
Low inflation	1.0	1.0	.7	.7	.9
Stronger dollar	1.2	1.3	1.3	1.6	1.9
Financial crisis in the EMEs	.2	-.1	1.2	1.9	2.2
Core PCE prices					
Extended Tealbook baseline	1.4	1.6	1.7	1.8	1.9
Weaker household demand	1.4	1.6	1.6	1.7	1.8
Faster recovery	1.4	1.6	1.7	1.9	2.0
Supply-side damage	1.4	1.7	1.9	2.1	2.3
Low inflation	1.0	1.0	.9	.8	.9
Stronger dollar	1.4	1.5	1.6	1.7	1.9
Financial crisis in the EMEs	1.2	1.0	1.4	1.8	2.0
Federal funds rate[1]					
Extended Tealbook baseline	.1	.1	1.1	2.4	3.9
Weaker household demand	.1	.1	.1	.1	1.9
Faster recovery	.1	.1	1.9	3.6	5.3
Supply-side damage	.1	.1	1.7	3.4	5.2
Low inflation	.1	.1	.1	.1	.5
Stronger dollar	.1	.1	.8	2.1	3.6
Financial crisis in the EMEs	.1	.1	.1	1.2	3.6

1. Percent, average for the final quarter of the period.

Risks & Uncertainty

across the financial sector in recent years.[2] That said, short-term funding continues to be an important structural vulnerability for the financial system, as do the complexity and interconnectedness of the largest financial institutions. Valuations in major domestic asset markets still appear to be broadly in line with historical norms, although equities in a few segments of the stock market, including social media and biotechnology, appear to have become increasingly overvalued. In addition, investor demand for riskier corporate credit has continued to be very strong, contributing to rapid credit growth and more-aggressive underwriting in the leveraged finance sector and to the lowest levels of risk spreads on speculative-grade corporate bonds since 2007, albeit in the context of strong corporate balance sheets and cash flows.

With regard to inflation, we see significant uncertainty around our projection but do not view the current level of uncertainty as unusually high. Longer-run inflation expectations appear to have remained stable in recent years despite fluctuations in the prices of crude oil, other commodities, and imports more generally, as well as persistent margins of slack in labor and product markets. Furthermore, we still view the risks to our inflation forecast as broadly balanced. On the downside, there is the possibility that the soft readings on inflation seen since the beginning of last year could prove more persistent than we expect, especially if longer-term inflation expectations move down or if low levels of resource utilization and subdued increases in unit labor costs persist longer or have larger effects than we currently project. On the upside, an increase in inflation expectations, potentially related to concerns about the size of the Federal Reserve's balance sheet and the ability to execute a timely exit from the current stance of policy, could cause inflation to rise, as could significant unanticipated increases in oil and other commodity prices caused by overseas developments, a stronger-than-expected economic recovery, or a larger amount of damage to the supply side of the economy than is assumed in the baseline.

ALTERNATIVE SCENARIOS

To illustrate some of the risks to the outlook, we construct a number of alternatives to the baseline projection using simulations of staff models. The first scenario considers the possibility that the recent downside surprises in spending data signal weaker aggregate demand conditions than we have assumed in the baseline. By

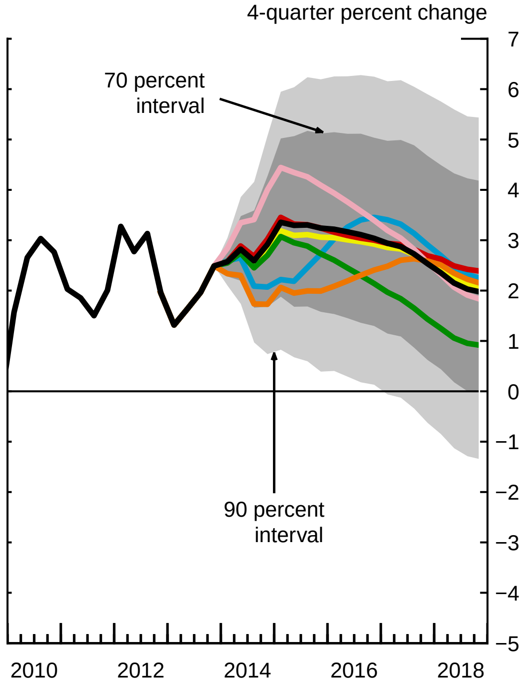
[2] Results from the 2014 Dodd-Frank Act stress tests and the Comprehensive Capital Analysis and Review, which examine the capital positions and planning processes of large banking organizations under stress scenarios, are expected to be released to the public in the days after the FOMC meeting.

Forecast Confidence Intervals and Alternative Scenarios

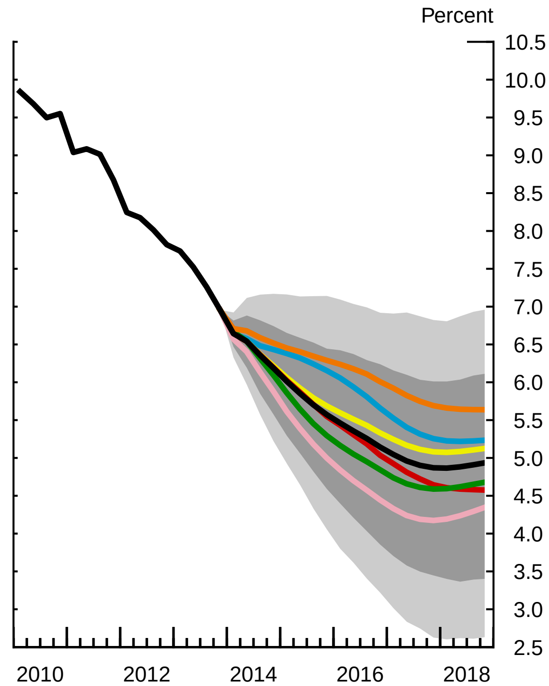
Confidence Intervals Based on FRB/US Stochastic Simulations

- Extended Tealbook baseline
- Weaker household demand
- Faster recovery
- Supply−side damage
- Low inflation
- Stronger dollar
- Financial crisis in the EMEs

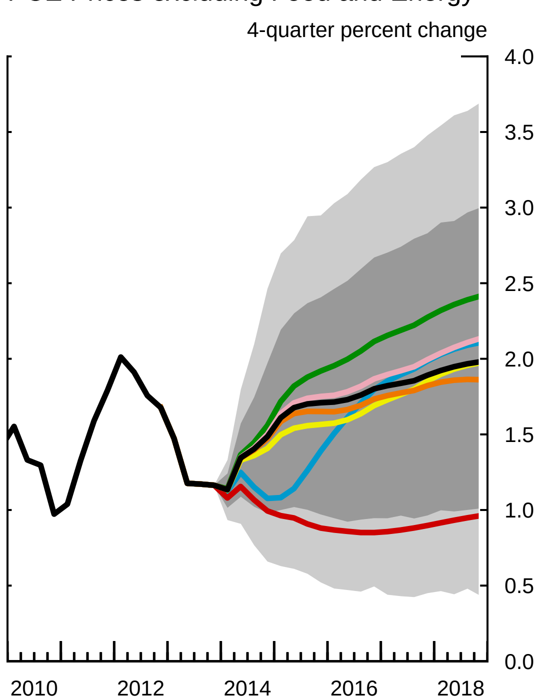
Real GDP



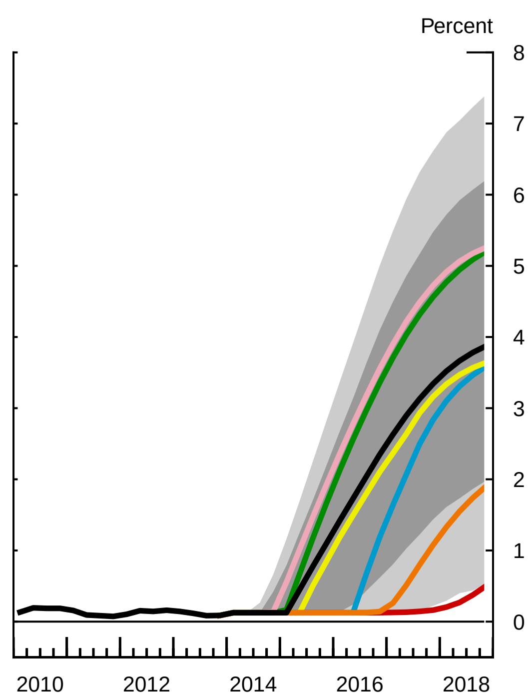
Unemployment Rate



PCE Prices excluding Food and Energy



Federal Funds Rate



Risks & Uncertainty

contrast, the second scenario assumes that inclement weather may have masked greater underlying momentum in household spending than is reflected in the baseline; thus, the economic recovery accelerates at a faster pace than we have projected. In the third scenario, the reduction in potential output growth is eventually realized to be deeper and more persistent than assumed in the baseline. The fourth scenario considers the risk that the softness in consumer price inflation seen over the past year could prove to be more persistent than anticipated. The final two scenarios consider risks to the U.S. economy from foreign economic developments—first, that the dollar could appreciate rather than depreciate as in the baseline, and, second, that a dramatic increase in financial stress in EMEs could have substantial negative spillovers to the U.S. economy.

We generate the first four scenarios using the FRB/US model and the last two using the multicountry SIGMA model. Once the federal funds rate has lifted off from its zero lower bound, its movements are governed—as in the baseline forecast—by an inertial version of the Taylor (1999) rule. The date of liftoff in each scenario takes into account the guidance provided in the Committee's January statement indicating that the liftoff date will depend on when the asset purchase program ends, when the unemployment rate threshold is crossed, and how the Committee's outlook for inflation stands. In all cases, we assume that the size and composition of the SOMA portfolio follow their baseline paths.

Weaker Household Demand

In the baseline projection, the unanticipated slowdown in the pace of consumer spending growth over the past few months is assumed to be transitory, and continued improvements in consumer sentiment, households' financial conditions, and labor market prospects lead to an acceleration in household spending; the projected resumption of the housing market recovery is expected to reinforce this acceleration. By contrast, this scenario assumes that the recent downside surprises in household spending signal greater caution on the part of households in the face of continued uncertainty about the pace of the economic recovery and their employment prospects. These conditions spawn a cycle of restrained household spending and residential investment that, in turn, leads to a slower pace of business investment and hiring. All told, real GDP rises at an average annual rate of 2 percent over the next three years, 1 percentage point lower than in the baseline, and the unemployment rate declines more gradually, falling to only around 6 percent in 2016. With a wider margin of resource slack than in the baseline, inflation rises somewhat more slowly. The federal funds rate lifts off in the first quarter of 2017

Selected Tealbook Projections and 70 Percent Confidence Intervals Derived from Historical Tealbook Forecast Errors and FRB/US Simulations

Measure	2014	2015	2016	2017	2018
Real GDP					
(percent change, Q4 to Q4)					
Projection	2.9	3.2	3.0	2.5	2.0
Confidence interval					
Tealbook forecast errors	1.4–4.4	1.4–5.1	. . .	. . .	. . .
FRB/US stochastic simulations	1.7–4.3	1.6–5.1	1.3–5.0	.6–4.7	.0–4.2
Civilian unemployment rate					
(percent, Q4)					
Projection	6.2	5.6	5.1	4.9	4.9
Confidence interval					
Tealbook forecast errors	5.6–6.8	4.7–6.5	. . .	. . .	. . .
FRB/US stochastic simulations	5.6–6.7	4.6–6.4	3.9–6.2	3.4–6.0	3.4–6.1
PCE prices, total					
(percent change, Q4 to Q4)					
Projection	1.5	1.5	1.7	1.8	2.0
Confidence interval					
Tealbook forecast errors	.5–2.4	.4–2.7	. . .	. . .	. . .
FRB/US stochastic simulations	.7–2.3	.6–2.5	.6–2.7	.7–3.0	.8–3.2
PCE prices excluding food and energy					
(percent change, Q4 to Q4)					
Projection	1.5	1.7	1.8	1.9	2.0
Confidence interval					
Tealbook forecast errors	.9–2.0	.9–2.5	. . .	. . .	. . .
FRB/US stochastic simulations	1.0–2.0	1.0–2.4	.9–2.7	1.0–2.8	1.0–3.0
Federal funds rate					
(percent, Q4)					
Projection	.1	1.1	2.4	3.3	3.9
Confidence interval					
FRB/US stochastic simulations	.1–.4	.1–2.2	.6–4.1	1.4–5.5	2.0–6.2

Note: Shocks underlying FRB/US stochastic simulations are randomly drawn from the 1969–2012 set of model equation residuals.

Intervals derived from Tealbook forecast errors are based on projections made from 1979 to 2012, except for PCE prices excluding food and energy, where the sample is 1981–2012.

. . . Not applicable. The Tealbook forecast horizon has typically extended about 2 years.

Risks & Uncertainty

(seven quarters later than in the baseline) and rises more gradually thereafter, reaching 2 percent by the end of 2018.[3]

Faster Recovery

In the staff's view, the recent softer spending data reflect both the effects of adverse weather and a somewhat more subdued state of underlying demand than we had previously projected. However, some outside analysts have ascribed a considerably larger portion of the recent weakness in spending to the weather. In this scenario, we assume that adverse weather conditions have been masking, to a greater extent than in the baseline, a more robust underlying trajectory in private-sector demand. Continued improvements in labor market conditions and generally positive readings on consumer and business confidence may support this view. Thus, as the weather returns to normal and the labor market continues to improve, the stronger underlying momentum in household spending starts to show through, which in turn leads businesses to be more willing to invest, fostering a faster, more broadly based recovery. Real GDP rises at an average annual rate of 3¾ percent over the next three years, and the unemployment rate falls to 5 percent by the end of 2015. Inflation reaches its 2 percent target level by early 2018. The federal funds rate lifts off one quarter earlier than in the baseline and rises more steeply thereafter, reaching 5¼ percent by the end of 2018.

Supply-Side Damage

Over the past three years, the unemployment rate has fallen nearly 1 percentage point per year despite only moderate increases in real GDP. The staff has therefore marked down its estimate of the pace of potential output growth, and in the current forecast, we have lowered the growth rate of potential GDP from 2011 through 2016 somewhat further. However, some of the models we consult suggest that the damage to aggregate supply during the past several years may have been even greater than is assumed in the current baseline. This scenario assumes a slower pace of structural productivity gains such that potential output has expanded at an annual rate of only 1¼ percent starting in 2011, ¼ percentage point lower than in the baseline. As a result, the level of potential output is currently ¾ percentage point lower. Thereafter, potential

[3] In this scenario and the following two, we assume that the inertial Taylor (1999) rule takes over in the quarter following the observation of an unemployment rate of 6 percent, the same as the unemployment rate in the baseline forecast in the quarter prior to liftoff. The differences in inflation outcomes relative to the baseline through the first few years of these scenarios are not large enough to affect the liftoff date.

Risks & Uncertainty

GDP continues to grow at a 1¼ percent pace through 2018; the level of potential output is 4½ percentage points lower at the end of 2018 than in the baseline.

Real GDP rises at a rate of 2¾ percent this year and next, slower than in the baseline projection by ¼ percentage point and ½ percentage point, respectively. Thereafter, the pace of economic growth gradually slows, and real GDP rises at an annual rate of only 1¼ percent in 2017 and 2018. Nonetheless, the unemployment rate continues to decline rapidly, reaching 5 percent in the middle of 2016. With resource slack substantially narrower and productivity gains smaller, inflation rises to 2 percent in early 2016 and edges up to nearly 2½ percent in 2018. Initially, policymakers continue to perceive supply-side conditions as consistent with the staff's baseline view. As evidence of the weaker supply-side conditions mounts, their perceptions gradually come in line with reality and are assumed to be fully adjusted by 2016. Given the initial misperception of slack and the gradual response of inflation to higher resource utilization, the federal funds rate begins to rise from its effective lower bound in the second quarter of 2015, the same quarter as in the baseline, but it thereafter rises more steeply as policymakers recognize the weaker supply-side conditions.

Low Inflation

In the baseline projection, the downside surprise on core inflation over the past year is assumed to be largely transitory, and over the next few years, inflation gradually moves up toward 2 percent as the recovery continues. This forecast is based on the staff's assumption that long-run inflation expectations are firmly anchored at the Committee's longer-run inflation target of 2 percent. In this scenario, we examine the possibility that the extended experience of below-target inflation has led to a reduction in current long-run inflation expectations to about 1½ percent, and that continued low inflation in the coming years leads to further erosion in these expectations. As a consequence, prices rise only 1 percent this year and inflation remains below 1 percent through 2018. Persistently low inflation in this scenario causes liftoff to occur in mid-2018, three years later than in the baseline. At that time, the unemployment rate has declined to 4½ percent, ¾ percentage point below its natural rate. However, given the decline in long-horizon inflation expectations, inflation projected one to two years ahead is still well below the Committee's target despite this degree of labor market tightness.[4]

Stronger Dollar

As discussed in the box "The Path of the Dollar: Baseline and Alternatives" in the Domestic Economic Developments and Outlook section, we project that the dollar will depreciate gradually over the next few years. However, it is possible that rising interest rates associated with a prospective withdrawal of policy accommodation in the United States and the AFEs may take investors somewhat by surprise, inducing a progressive shift into dollar-denominated assets and contributing to somewhat greater financial stresses in the EMEs.[5] In this scenario, the broad real dollar appreciates about 1 percent by the end of 2016—rather than depreciating 3 percent, as in the baseline—largely because of foreign exchange risk premium shocks. We also assume modest negative shocks to confidence and credit conditions in the EMEs. The stronger exchange value of the dollar and weaker foreign activity reduce U.S. real net exports. All told, U.S. real GDP rises at an annual rate of about 2¾ percent, on average, in 2014 and 2015—¼ percentage point below the baseline. The weaker U.S. activity and lower import price inflation cause core inflation to run about 0.1 percentage point below baseline throughout the forecast horizon and induce a somewhat lower path for the federal funds rate.[6]

Financial Crisis in the Emerging Market Economies

We expect financial market stresses in the EMEs to remain generally manageable. However, with investors focused on both EME vulnerabilities and the prospective effects of policy normalization in advanced economies, the risk of a substantial ratcheting up of financial stress in the EMEs remains significant. Any number of events could trigger such a development, including an intensification of the geopolitical crisis in Ukraine. In this scenario, we consider the effects of a financial crisis that engulfs many EMEs. Sovereign and private borrowing costs in these countries soar, and the confidence of their households and businesses weakens significantly. These events cause EME currencies to

[4] The choice of liftoff date is meant to capture the Committee's intention to maintain the current target for the federal funds rate well past the time that the unemployment rate declines below 6½ percent, "especially if projected inflation continues to run below the Committee's 2 percent longer-run goal."

[5] An alternative possibility for a stronger dollar path that is discussed in the box is that China and other EMEs might allow their currencies to appreciate less quickly than assumed in our baseline.

[6] In this scenario and the next, we assume a broadly similar policy rule to the one used in the first three domestic scenarios. One key difference relative to the FRB/US simulations is that the policy rule in SIGMA uses a measure of slack equal to the difference between actual output and the model's estimate of the level of output that would occur in the absence of slow adjustment of wages and prices.

depreciate roughly 8 percent, on average, against the dollar relative to the baseline, even though EME central banks are assumed to raise policy rates to attenuate capital outflows. These factors lead real GDP in the EMEs to decline 4½ percent relative to the baseline by early 2015.[7]

The stress in the EMEs is assumed to have some financial spillovers to the rest of the world. In the United States, corporate bond spreads rise and equity prices decline relative to the baseline, while flight-to-safety flows push down term premiums on government bond yields. In addition, weaker foreign economic activity and the stronger exchange value of the dollar depress U.S. net exports. As a result, U.S. real GDP growth is around 2 percent in 2014, about 1 percentage point below baseline, and remains subdued for another year. The unemployment rate hovers around 6½ percent through mid-2015. With substantially greater resource slack and lower import prices, core U.S. PCE inflation dips to nearly 1 percent in 2014. Under these conditions, the federal funds rate remains at its effective lower bound five quarters longer than in the baseline.

[7] In the 2013 QS background report on EME vulnerabilities, the staff considered a variant of this scenario in which the EME financial crisis was even deeper and more broadly based. That alternative scenario assumed more adverse financial spillover effects to the United States and the AFEs and, hence, implied larger declines in U.S. and AFE GDP than the scenario examined here.

(This page is intentionally blank.)

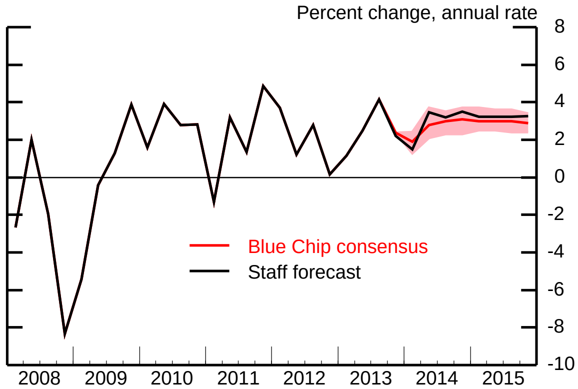
Alternative Projections
(Percent change, Q4 to Q4, except as noted)

Measure and projection	2013 Previous Tealbook	2013 Current Tealbook	2014 Previous Tealbook	2014 Current Tealbook	2015 Previous Tealbook	2015 Current Tealbook
Real GDP						
Staff	2.8	2.5	3.1	2.9	3.4	3.2
FRB/US	2.8	2.5	2.0	1.9	2.5	2.4
EDO	2.8	2.5	3.2	2.6	2.9	2.9
Blue Chip	2.5	2.5	2.8	2.7	3.0	3.0
Unemployment rate[1]						
Staff	7.0	7.0	6.2	6.2	5.5	5.6
FRB/US	7.0	7.0	6.7	6.4	6.4	6.1
EDO	7.0	7.0	6.9	6.9	6.8	6.7
Blue Chip	7.0	7.0	6.6	6.2	6.1	5.8
Total PCE prices						
Staff	.9	1.0	1.4	1.5	1.6	1.5
FRB/US	.9	1.0	1.0	1.3	1.1	1.2
EDO	.9	1.0	1.2	1.4	1.4	1.5
Blue Chip[2]	1.2	1.2	1.9	2.0	2.1	2.1
Core PCE prices						
Staff	1.1	1.2	1.5	1.5	1.7	1.7
FRB/US	1.1	1.2	1.2	1.3	1.2	1.4
EDO	1.1	1.2	1.2	1.3	1.4	1.5
Blue Chip	. . .	. . .	. . .	. . .	. . .	. . .
Federal funds rate[1]						
Staff	.1	.1	.1	.1	1.1	1.1
FRB/US	.1	.1	.1	.1	.1	.1
EDO	.1	.1	1.2	.9	2.0	1.8
Blue Chip[3]	.1	.1	.1	.1	.8	.9

Note: Blue Chip forecast completed on March 10, 2014.
1. Percent, average for Q4.
2. Consumer price index.
3. Treasury bill rate.
... Not applicable. The Blue Chip forecast is not available for core inflation.

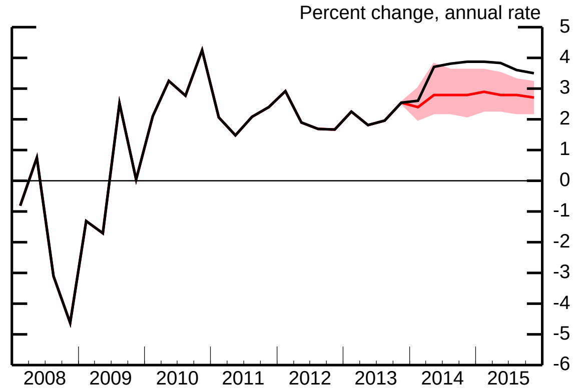
Tealbook Forecast Compared with Blue Chip
(Blue Chip survey released March 10, 2014)

Real GDP

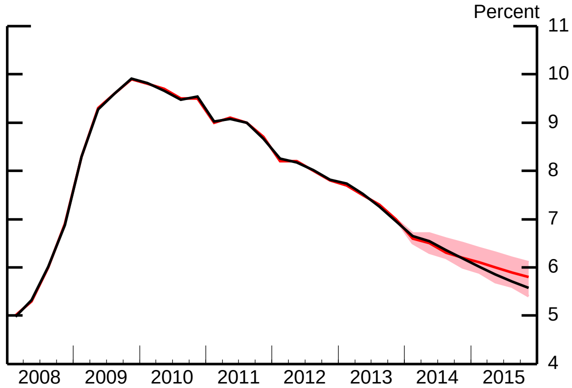


Note: The shaded area represents the area between the Blue Chip top 10 and bottom 10 averages.

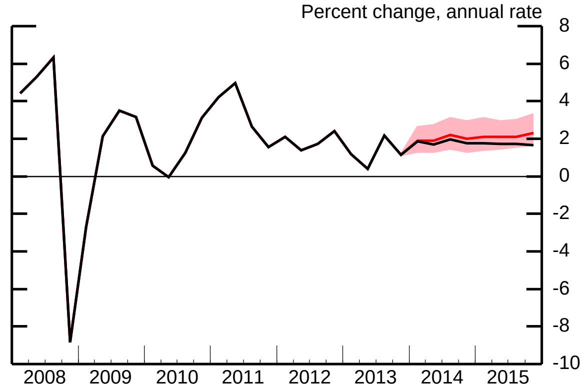
Real PCE



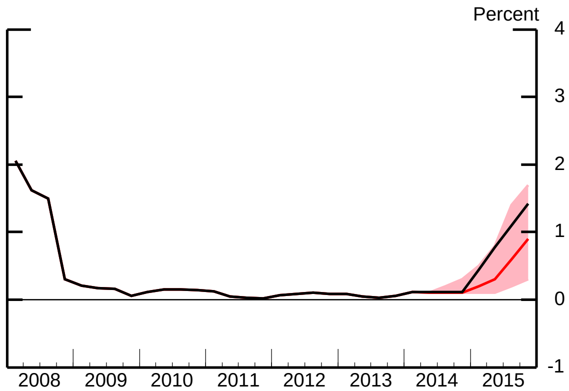
Unemployment Rate



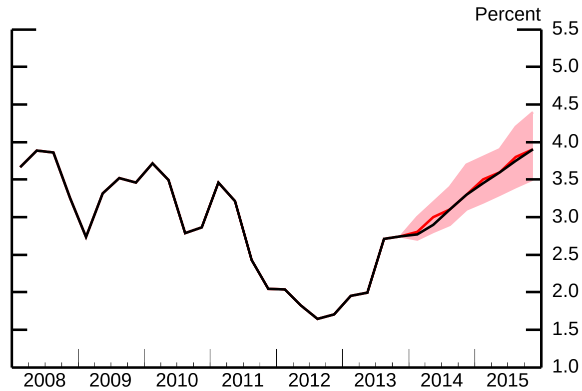
Consumer Price Index



Treasury Bill Rate



10-Year Treasury Yield



Note: The yield is for on-the-run Treasury securities. Over the forecast period, the staff's projected yield is assumed to be 15 basis points below the off-the-run yield.

Assessment of Key Macroeconomic Risks (1)

Probability of Inflation Events
(4 quarters ahead—2015:Q1)

Probability that the 4-quarter change in total PCE prices will be ...	Staff	FRB/US	EDO	BVAR
Greater than 3 percent				
Current Tealbook	.04	.02	.10	.07
Previous Tealbook	.03	.01	.07	.03
Less than 1 percent				
Current Tealbook	.26	.38	.32	.15
Previous Tealbook	.32	.48	.40	.23

Probability of Unemployment Events
(4 quarters ahead—2015:Q1)

Probability that the unemployment rate will ...	Staff	FRB/US	EDO	BVAR
Increase by 1 percentage point				
Current Tealbook	.01	.03	.21	.01
Previous Tealbook	.01	.03	.23	.01
Decrease by 1 percentage point				
Current Tealbook	.31	.16	.14	.36
Previous Tealbook	.38	.15	.13	.35

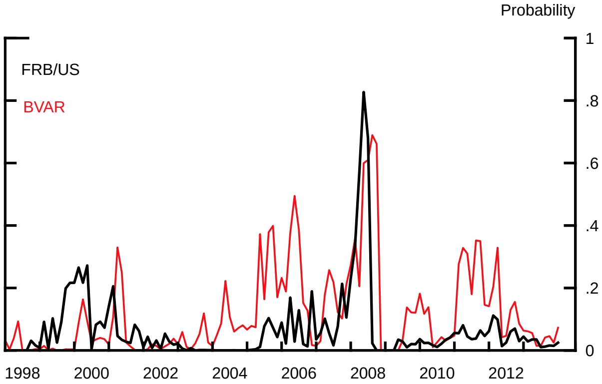
Probability of Near-Term Recession

Probability that real GDP declines in each of 2014:Q2 and 2014:Q3	Staff	FRB/US	EDO	BVAR	Factor Model
Current Tealbook	.02	.05	.03	.04	.11
Previous Tealbook	.01	.06	.05	.01	.06

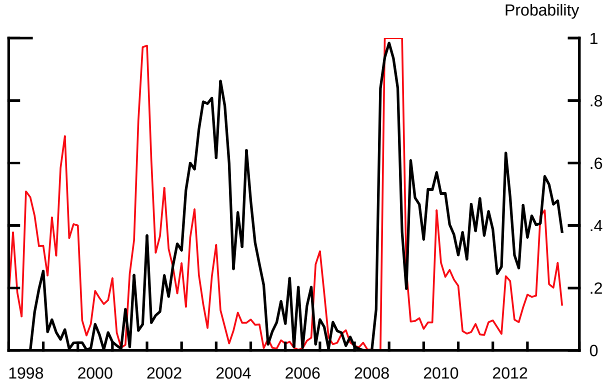
Note: "Staff" represents Tealbook forecast errors applied to the Tealbook baseline; baselines for FRB/US, BVAR, EDO, and the factor model are generated by those models themselves, up to the current-quarter estimate. Data for the current quarter are taken from the staff estimate for the second Tealbook in each quarter; if the second Tealbook for the current quarter has not yet been published, the preceding quarter is taken as the latest historical observation.

Assessment of Key Macroeconomic Risks (2)

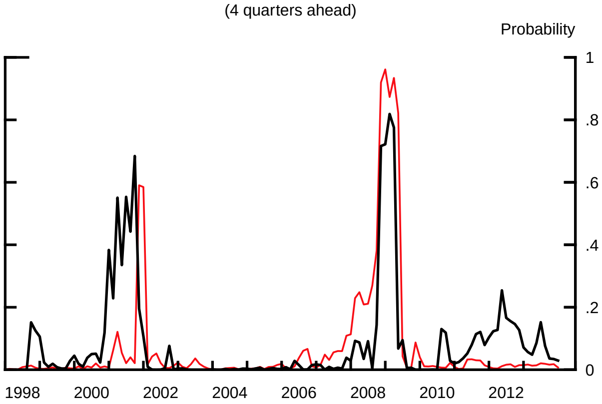
Probability that Total PCE Inflation Is above 3 Percent
(4 quarters ahead)



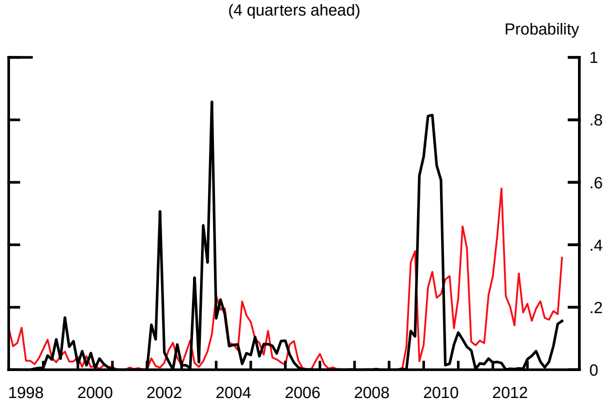
Probability that Total PCE Inflation Is below 1 Percent
(4 quarters ahead)



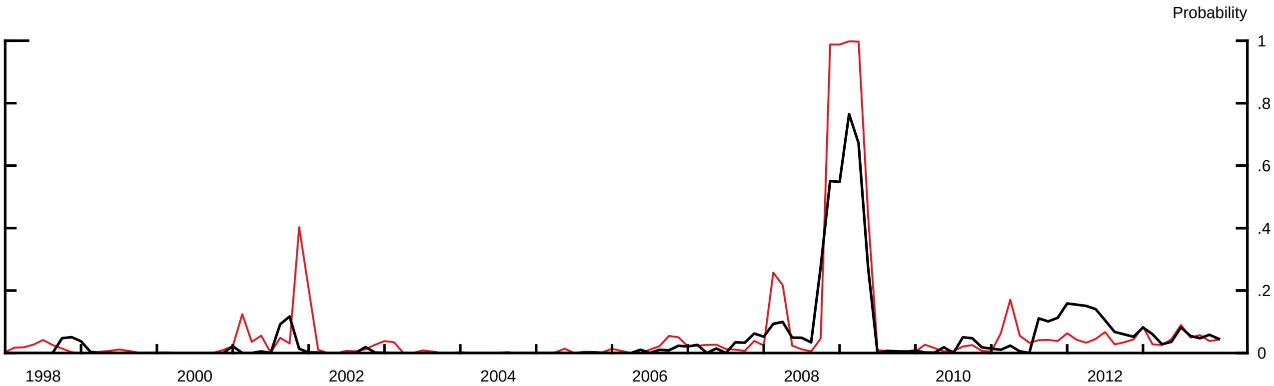
Probability that the Unemployment Rate Increases 1 ppt
(4 quarters ahead)



Probability that the Unemployment Rate Decreases 1 ppt
(4 quarters ahead)



Probability that Real GDP Declines in Each of the Next Two Quarters



Note: See notes on facing page. Recession and inflation probabilities for FRB/US and the BVAR are real-time estimates. See Robert J. Tetlow and Brian Ironside (2007), "Real−Time Model Uncertainty in the United States: The Fed, 1996−2003," *Journal of Money, Credit and Banking*, vol. 39 (October), pp. 1533−61.

Risks & Uncertainty

(This page is intentionally blank.)

Changes in GDP, Prices, and Unemployment
(Percent, annual rate except as noted)

Interval	Nominal GDP		Real GDP		PCE price index		Core PCE price index		Unemployment rate[1]	
	01/23/14	03/12/14	01/23/14	03/12/14	01/23/14	03/12/14	01/23/14	03/12/14	01/23/14	03/12/14
Quarterly										
2013:Q1	2.8	2.8	1.1	1.1	1.1	1.1	1.4	1.4	7.7	7.7
Q2	3.1	3.1	2.5	2.5	-.1	-.1	.6	.6	7.5	7.5
Q3	6.2	6.2	4.1	4.1	1.9	1.9	1.4	1.4	7.3	7.3
Q4	5.0	3.9	3.5	2.2	.7	1.0	1.1	1.3	7.0	7.0
2014:Q1	3.6	3.0	2.4	1.5	1.1	1.4	1.3	1.2	6.7	6.6
Q2	5.0	5.0	3.1	3.5	1.5	1.3	1.6	1.5	6.6	6.5
Q3	5.1	5.0	3.3	3.2	1.5	1.6	1.6	1.6	6.4	6.4
Q4	5.4	5.3	3.7	3.5	1.4	1.5	1.5	1.6	6.2	6.2
2015:Q1	5.5	5.2	3.5	3.2	1.6	1.6	1.7	1.7	6.0	6.0
Q2	5.3	5.1	3.5	3.2	1.6	1.6	1.8	1.8	5.8	5.9
Q3	5.2	5.0	3.4	3.2	1.6	1.6	1.8	1.7	5.7	5.7
Q4	4.9	5.0	3.2	3.3	1.5	1.5	1.7	1.6	5.5	5.6
Two-quarter[2]										
2013:Q2	3.0	3.0	1.8	1.8	.5	.5	1.0	1.0	-.3	-.3
Q4	5.6	5.1	3.8	3.2	1.3	1.5	1.2	1.3	-.5	-.5
2014:Q2	4.3	4.0	2.7	2.5	1.3	1.4	1.4	1.4	-.4	-.5
Q4	5.2	5.1	3.5	3.4	1.4	1.6	1.6	1.6	-.4	-.3
2015:Q2	5.4	5.2	3.5	3.2	1.6	1.6	1.8	1.7	-.4	-.3
Q4	5.1	5.0	3.3	3.2	1.6	1.5	1.7	1.7	-.3	-.3
Four-quarter[3]										
2012:Q4	3.8	3.8	2.0	2.0	1.7	1.7	1.7	1.7	-.9	-.9
2013:Q4	4.3	4.0	2.8	2.5	.9	1.0	1.1	1.2	-.8	-.8
2014:Q4	4.7	4.6	3.1	2.9	1.4	1.5	1.5	1.5	-.8	-.8
2015:Q4	5.2	5.1	3.4	3.2	1.6	1.5	1.7	1.7	-.7	-.6
2016:Q4	5.1	4.9	3.2	3.0	1.7	1.7	1.8	1.8	-.4	-.5
Annual										
2012	4.6	4.6	2.8	2.8	1.8	1.8	1.8	1.8	8.1	8.1
2013	3.5	3.4	1.9	1.9	1.1	1.1	1.2	1.2	7.4	7.4
2014	4.7	4.3	3.1	2.7	1.2	1.3	1.3	1.3	6.5	6.4
2015	5.3	5.1	3.5	3.3	1.5	1.5	1.7	1.7	5.8	5.8
2016	5.1	5.0	3.2	3.1	1.6	1.6	1.8	1.8	5.3	5.3

1. Level, except for two-quarter and four-quarter intervals.
2. Percent change from two quarters earlier; for unemployment rate, change is in percentage points.
3. Percent change from four quarters earlier; for unemployment rate, change is in percentage points.

Greensheets

Changes in Real Gross Domestic Product and Related Items
(Percent, annual rate except as noted)

Item	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2013[1]	2014[1]	2015[1]	2016[1]
Real GDP	2.5	4.1	2.2	1.5	3.5	3.2	3.5	3.2	3.2	3.2	3.3	2.5	2.9	3.2	3.0
Previous Tealbook	2.5	4.1	3.5	2.4	3.1	3.3	3.7	3.5	3.5	3.4	3.2	2.8	3.1	3.4	3.2
Final sales	2.1	2.5	2.1	1.9	3.7	3.2	3.4	3.6	3.5	3.4	3.3	1.7	3.0	3.4	3.1
Previous Tealbook	2.1	2.5	3.6	2.9	3.1	3.3	3.5	4.0	3.6	3.5	3.7	2.1	3.2	3.7	3.4
Priv. dom. final purch.	2.6	2.7	2.5	2.5	4.2	4.2	4.5	4.5	4.5	4.3	4.1	2.4	3.9	4.4	3.5
Previous Tealbook	2.6	2.7	4.1	3.3	4.0	4.3	4.7	4.9	4.7	4.4	4.4	2.7	4.1	4.6	3.7
Personal cons. expend.	1.8	2.0	2.6	2.6	3.7	3.8	3.9	3.9	3.8	3.6	3.5	2.1	3.5	3.7	2.9
Previous Tealbook	1.8	2.0	4.0	3.1	3.4	3.6	3.9	4.1	4.0	3.8	3.7	2.5	3.5	3.9	3.2
Durables	6.2	7.9	2.5	.1	10.3	9.2	9.9	9.3	9.2	9.0	9.0	5.6	7.3	9.1	6.3
Nondurables	1.6	2.9	3.5	.5	4.9	3.1	3.0	3.1	3.1	2.8	2.7	2.7	2.9	2.9	2.4
Services	1.2	.7	2.2	3.8	2.3	3.2	3.2	3.3	3.2	3.0	2.9	1.4	3.1	3.1	2.5
Residential investment	14.2	10.3	-8.6	2.9	10.4	11.7	14.6	16.6	16.3	14.8	12.9	6.7	9.8	15.1	11.0
Previous Tealbook	14.2	10.3	-5.3	8.8	8.4	16.1	16.9	18.7	16.5	14.0	13.1	7.6	12.5	15.6	9.2
Nonres. priv. fixed invest.	4.7	4.8	5.5	1.6	5.7	4.6	5.2	5.0	5.0	5.0	5.1	2.5	4.3	5.0	4.3
Previous Tealbook	4.7	4.8	7.4	3.0	6.3	5.5	5.4	5.6	5.1	5.3	5.4	3.0	5.0	5.3	4.7
Equipment & intangibles	1.3	2.4	7.6	1.6	5.2	4.6	5.3	5.8	5.8	5.8	5.9	3.4	4.2	5.8	5.0
Previous Tealbook	1.3	2.4	9.8	3.4	6.0	5.7	5.9	6.5	5.9	6.1	6.2	4.0	5.2	6.2	5.5
Nonres. structures	17.6	13.4	-1.4	1.9	7.3	4.7	4.6	2.4	2.4	2.4	2.5	-.6	4.6	2.4	1.9
Previous Tealbook	17.6	13.4	-.5	1.4	7.3	4.6	4.0	2.5	2.5	2.6	2.6	-.4	4.3	2.5	2.2
Net exports[2]	-424	-420	-383	-392	-384	-389	-401	-404	-410	-414	-420	-412	-392	-412	-419
Previous Tealbook[2]	-424	-420	-372	-373	-377	-382	-392	-391	-400	-404	-405	-410	-381	-400	-395
Exports	8.0	3.9	9.5	.1	3.3	4.2	4.6	4.8	5.0	5.2	4.8	4.9	3.1	4.9	5.6
Imports	6.9	2.4	1.5	1.6	1.5	4.4	5.8	4.5	5.3	5.0	4.9	2.8	3.3	4.9	4.5
Gov't. cons. & invest.	-.4	.4	-5.2	.3	-.5	-.9	-.6	-1.1	-.8	-.8	-.2	-2.4	-.4	-.7	.5
Previous Tealbook	-.4	.4	-6.0	.8	-1.2	-1.0	-.8	-1.0	-.8	-1.0	-.2	-2.6	-.5	-.8	.9
Federal	-1.6	-1.5	-12.8	1.6	-3.1	-3.1	-2.2	-4.4	-3.8	-3.9	-2.5	-6.2	-1.7	-3.6	-1.2
Defense	-.6	-.5	-14.4	-1.2	-5.1	-5.2	-2.4	-5.2	-4.3	-4.1	-2.5	-6.9	-3.5	-4.0	-1.9
Nondefense	-3.1	-3.1	-10.1	6.2	.2	.3	-2.0	-3.0	-3.0	-3.5	-2.5	-5.0	1.1	-3.0	.0
State & local	.4	1.7	.2	-.6	1.2	.4	.5	1.0	1.1	1.1	1.1	.2	.4	1.1	1.5
Change in priv. inventories[2]	57	116	117	109	106	105	111	100	90	85	83	83	108	90	80
Previous Tealbook[2]	57	116	113	97	100	102	110	93	90	87	68	82	102	84	44
Nonfarm[2]	33	89	97	97	100	100	106	98	88	83	80	60	101	87	77
Farm[2]	19	23	20	12	7	5	5	2	2	2	2	20	7	2	2

1. Change from fourth quarter of previous year to fourth quarter of year indicated.
2. Billions of chained (2009) dollars.

Changes in Real Gross Domestic Product and Related Items
(Change from fourth quarter of previous year to fourth quarter of year indicated, unless otherwise noted)

Item	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Real GDP	1.9	-2.8	-.2	2.8	2.0	2.0	2.5	2.9	3.2	3.0
Previous Tealbook	1.9	-2.8	-.2	2.8	2.0	2.0	2.8	3.1	3.4	3.2
Final sales	2.0	-2.2	-.4	2.0	1.8	2.5	1.7	3.0	3.4	3.1
Previous Tealbook	2.0	-2.2	-.4	2.0	1.8	2.5	2.1	3.2	3.7	3.4
Priv. dom. final purch.	.8	-4.1	-2.3	3.5	3.0	2.9	2.4	3.9	4.4	3.5
Previous Tealbook	.8	-4.1	-2.3	3.5	3.0	2.9	2.7	4.1	4.6	3.7
Personal cons. expend.	1.5	-2.0	-.1	3.1	2.0	2.0	2.1	3.5	3.7	2.9
Previous Tealbook	1.5	-2.0	-.1	3.1	2.0	2.0	2.5	3.5	3.9	3.2
Durables	4.1	-12.9	2.5	9.3	5.7	7.8	5.6	7.3	9.1	6.3
Nondurables	.1	-2.7	.2	3.3	.7	1.6	2.7	2.9	2.9	2.4
Services	1.5	.2	-.6	2.1	1.9	1.3	1.4	3.1	3.1	2.5
Residential investment	-21.3	-24.3	-10.8	-5.2	5.6	15.5	6.7	9.8	15.1	11.0
Previous Tealbook	-21.3	-24.3	-10.8	-5.2	5.6	15.5	7.6	12.5	15.6	9.2
Nonres. priv. fixed invest.	7.1	-8.9	-12.2	8.1	8.6	5.0	2.5	4.3	5.0	4.3
Previous Tealbook	7.1	-8.9	-12.2	8.1	8.6	5.0	3.0	5.0	5.3	4.7
Equipment & intangibles	3.9	-11.8	-6.0	12.0	8.7	3.9	3.4	4.2	5.8	5.0
Previous Tealbook	3.9	-11.8	-6.0	12.0	8.7	3.9	4.0	5.2	6.2	5.5
Nonres. structures	17.1	-1.2	-27.1	-4.0	8.3	9.3	-.6	4.6	2.4	1.9
Previous Tealbook	17.1	-1.2	-27.1	-4.0	8.3	9.3	-.4	4.3	2.5	2.2
Net exports[1]	-704	-547	-392	-463	-446	-431	-412	-392	-412	-419
Previous Tealbook[1]	-704	-547	-392	-463	-446	-431	-410	-381	-400	-395
Exports	9.8	-2.9	.4	9.8	4.6	2.4	4.9	3.1	4.9	5.6
Imports	.7	-5.9	-6.2	11.7	3.5	.1	2.8	3.3	4.9	4.5
Gov't. cons. & invest.	1.8	3.3	2.3	-1.1	-3.3	-1.1	-2.4	-.4	-.7	.5
Previous Tealbook	1.8	3.3	2.3	-1.1	-3.3	-1.1	-2.6	-.5	-.8	.9
Federal	2.7	8.4	3.9	3.2	-3.9	-2.3	-6.2	-1.7	-3.6	-1.2
Defense	2.5	9.4	3.6	2.0	-4.2	-5.0	-6.9	-3.5	-4.0	-1.9
Nondefense	2.9	6.5	4.6	5.5	-3.3	2.6	-5.0	1.1	-3.0	.0
State & local	1.2	.2	1.3	-4.0	-2.8	-.3	.2	.4	1.1	1.5
Change in priv. inventories[1]	36	-34	-148	58	34	58	83	108	90	80
Previous Tealbook[1]	36	-34	-148	58	34	58	82	102	84	44
Nonfarm[1]	37	-35	-146	66	40	69	60	101	87	77
Farm[1]	-1	1	-2	-7	-4	-7	20	7	2	2

1. Billions of chained (2009) dollars.

Greensheets

Contributions to Changes in Real Gross Domestic Product
(Percentage points, annual rate except as noted)

Item	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2013[1]	2014[1]	2015[1]	2016[1]
Real GDP	2.5	4.1	2.2	1.5	3.5	3.2	3.5	3.2	3.2	3.2	3.3	2.5	2.9	3.2	3.0
Previous Tealbook	2.5	4.1	3.5	2.4	3.1	3.3	3.7	3.5	3.5	3.4	3.2	2.8	3.1	3.4	3.2
Final sales	2.1	2.5	2.1	1.9	3.6	3.2	3.4	3.5	3.5	3.4	3.3	1.7	3.0	3.4	3.1
Previous Tealbook	2.1	2.5	3.5	2.9	3.1	3.3	3.5	4.0	3.5	3.5	3.6	2.1	3.2	3.7	3.4
Priv. dom. final purch.	2.2	2.3	2.1	2.1	3.5	3.5	3.7	3.8	3.8	3.6	3.5	2.0	3.2	3.7	3.0
Previous Tealbook	2.2	2.3	3.4	2.8	3.4	3.6	3.9	4.1	3.9	3.7	3.7	2.3	3.4	3.9	3.1
Personal cons. expend.	1.2	1.4	1.7	1.8	2.5	2.6	2.6	2.6	2.6	2.5	2.4	1.5	2.4	2.5	2.0
Previous Tealbook	1.2	1.4	2.7	2.1	2.3	2.4	2.7	2.8	2.7	2.6	2.5	1.7	2.4	2.7	2.2
Durables	.5	.6	.2	.0	.7	.7	.7	.7	.7	.7	.7	.4	.5	.7	.5
Nondurables	.3	.5	.5	.1	.7	.5	.5	.5	.5	.4	.4	.4	.4	.4	.4
Services	.5	.3	1.0	1.7	1.1	1.4	1.5	1.5	1.5	1.4	1.3	.6	1.4	1.4	1.2
Residential investment	.4	.3	-.3	.1	.3	.4	.5	.5	.5	.5	.5	.2	.3	.5	.4
Previous Tealbook	.4	.3	-.2	.3	.3	.5	.5	.6	.6	.5	.5	.2	.4	.5	.4
Nonres. priv. fixed invest.	.6	.6	.7	.2	.7	.6	.6	.6	.6	.6	.6	.3	.5	.6	.5
Previous Tealbook	.6	.6	.9	.4	.8	.7	.7	.7	.6	.7	.7	.4	.6	.7	.6
Equipment & intangibles	.1	.2	.7	.1	.5	.4	.5	.5	.5	.5	.6	.3	.4	.6	.5
Previous Tealbook	.1	.2	.9	.3	.6	.5	.6	.6	.6	.6	.6	.4	.5	.6	.5
Nonres. structures	.4	.4	.0	.1	.2	.1	.1	.1	.1	.1	.1	.0	.1	.1	.1
Previous Tealbook	.4	.4	.0	.0	.2	.1	.1	.1	.1	.1	.1	.0	.1	.1	.1
Net exports	-.1	.1	1.0	-.2	.2	-.1	-.3	-.1	-.2	-.1	-.1	.2	-.1	-.1	.0
Previous Tealbook	-.1	.1	1.3	.0	-.1	-.1	-.2	.0	-.2	-.1	.0	.3	-.1	-.1	.1
Exports	1.0	.5	1.2	.0	.5	.6	.6	.6	.7	.7	.6	.7	.4	.7	.8
Imports	-1.1	-.4	-.3	-.3	-.2	-.7	-.9	-.7	-.8	-.8	-.8	-.5	-.5	-.8	-.7
Gov't. cons. & invest.	-.1	.1	-1.0	.1	-.1	-.2	-.1	-.2	-.1	-.1	.0	-.5	-.1	-.1	.1
Previous Tealbook	-.1	.1	-1.1	.1	-.2	-.2	-.1	-.2	-.1	-.2	.0	-.5	-.1	-.1	.2
Federal	-.1	-.1	-1.0	.1	-.2	-.2	-.2	-.3	-.3	-.3	-.2	-.5	-.1	-.2	-.1
Defense	.0	.0	-.7	-.1	-.2	-.2	-.1	-.2	-.2	-.2	-.1	-.3	-.2	-.2	-.1
Nondefense	-.1	-.1	-.3	.2	.0	.0	-.1	-.1	-.1	-.1	-.1	-.1	.0	-.1	.0
State & local	.1	.2	.0	-.1	.1	.1	.1	.1	.1	.1	.1	.0	.0	.1	.2
Change in priv. inventories	.4	1.7	.1	-.4	-.2	.0	.2	-.3	-.2	-.1	-.1	.8	-.1	-.2	.0
Previous Tealbook	.4	1.7	-.1	-.5	.0	.1	.2	-.5	-.1	-.1	-.5	.7	-.1	-.3	-.2
Nonfarm	.3	1.6	.2	.0	.1	.0	.1	-.2	-.2	-.1	-.1	.5	.1	-.2	.0
Farm	.1	.1	-.1	-.4	-.2	.0	.0	-.1	.0	.0	.0	.2	-.2	.0	.0

1. Change from fourth quarter of previous year to fourth quarter of year indicated.

Changes in Prices and Costs
(Percent, annual rate except as noted)

Item	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2013[1]	2014[1]	2015[1]	2016[1]
GDP chain-wt. price index	.6	2.0	1.7	1.5	1.5	1.8	1.7	1.9	1.8	1.8	1.7	1.4	1.6	1.8	1.8
Previous Tealbook	.6	2.0	1.5	1.2	1.8	1.7	1.6	1.9	1.8	1.7	1.7	1.4	1.6	1.8	1.8
PCE chain-wt. price index	-.1	1.9	1.0	1.4	1.3	1.6	1.5	1.6	1.6	1.6	1.5	1.0	1.5	1.5	1.7
Previous Tealbook	-.1	1.9	.7	1.1	1.5	1.5	1.4	1.6	1.6	1.6	1.5	.9	1.4	1.6	1.7
Energy	-11.9	11.8	-1.0	4.3	-.6	2.2	.3	-.6	-1.0	-.9	-.8	-1.5	1.5	-.8	-.3
Previous Tealbook	-11.9	11.8	-5.0	-2.0	1.4	.3	-.3	-.3	-.5	-.6	-.5	-2.5	-.2	-.5	-.1
Food	.5	1.2	.1	.6	1.2	1.4	1.1	1.1	1.3	1.3	1.4	.8	1.1	1.3	1.4
Previous Tealbook	.5	1.2	.1	.5	.6	.6	.7	1.0	1.3	1.3	1.4	.8	.6	1.3	1.4
Ex. food & energy	.6	1.4	1.3	1.2	1.5	1.6	1.6	1.7	1.8	1.7	1.6	1.2	1.5	1.7	1.8
Previous Tealbook	.6	1.4	1.1	1.3	1.6	1.6	1.5	1.7	1.8	1.8	1.7	1.1	1.5	1.7	1.8
Ex. food & energy, market based	.5	1.4	1.0	1.0	1.5	1.6	1.5	1.8	1.8	1.7	1.6	1.1	1.4	1.7	1.8
Previous Tealbook	.5	1.4	.9	1.3	1.6	1.6	1.5	1.8	1.8	1.8	1.6	1.1	1.5	1.7	1.8
CPI	.4	2.2	1.1	1.9	1.7	2.0	1.8	1.7	1.7	1.7	1.7	1.2	1.8	1.7	1.8
Previous Tealbook	.0	2.6	.9	1.4	1.8	1.7	1.6	1.7	1.8	1.8	1.7	1.2	1.6	1.7	1.8
Ex. food & energy	1.4	1.8	1.6	1.7	2.0	2.0	2.0	2.1	2.1	2.0	1.9	1.7	1.9	2.0	2.0
Previous Tealbook	1.4	1.8	1.6	1.8	2.0	2.0	1.8	2.0	2.1	2.1	2.0	1.7	1.9	2.0	2.0
ECI, hourly compensation[2]	2.4	1.7	2.0	2.4	2.5	2.5	2.6	2.8	2.9	2.9	2.9	2.0	2.5	2.9	3.2
Previous Tealbook[2]	2.4	1.7	2.1	2.2	2.5	2.5	2.6	2.8	2.9	3.0	3.0	2.0	2.5	2.9	3.2
Nonfarm business sector															
Output per hour	1.8	3.5	1.6	1.4	1.2	1.4	1.4	1.4	1.4	1.4	1.4	1.2	1.4	1.4	1.8
Previous Tealbook	1.8	3.7	3.2	.2	1.4	1.5	1.7	1.6	1.6	1.4	1.8	1.7	1.2	1.6	1.9
Compensation per hour	3.8	1.3	1.7	2.5	2.6	3.0	3.1	3.2	3.3	3.3	3.5	.3	2.8	3.3	3.6
Previous Tealbook	3.8	1.6	1.6	1.8	2.7	3.0	3.1	3.2	3.3	3.3	3.5	.4	2.7	3.3	3.6
Unit labor costs	2.0	-2.1	.1	1.0	1.4	1.6	1.7	1.8	1.9	1.9	2.0	-.9	1.4	1.9	1.7
Previous Tealbook	2.0	-2.0	-1.6	1.6	1.3	1.6	1.5	1.6	1.7	1.9	1.7	-1.3	1.5	1.7	1.7
Core goods imports chain-wt. price index[3]	-2.4	-3.2	.6	1.1	.5	1.6	1.2	1.3	1.3	1.3	1.3	-1.1	1.1	1.3	1.4
Previous Tealbook[3]	-2.4	-3.2	.3	.7	.6	1.7	1.4	1.5	1.5	1.5	1.5	-1.2	1.1	1.5	1.6

1. Change from fourth quarter of previous year to fourth quarter of year indicated.
2. Private-industry workers.
3. Core goods imports exclude computers, semiconductors, oil, and natural gas.

Greensheets

Changes in Prices and Costs
(Change from fourth quarter of previous year to fourth quarter of year indicated, unless otherwise noted)

Item	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
GDP chain-wt. price index	2.5	1.9	.4	1.8	1.8	1.8	1.4	1.6	1.8	1.8
Previous Tealbook	2.5	1.9	.4	1.8	1.8	1.8	1.4	1.6	1.8	1.8
PCE chain-wt. price index	3.3	1.5	1.2	1.3	2.6	1.7	1.0	1.5	1.5	1.7
Previous Tealbook	3.3	1.5	1.2	1.3	2.6	1.7	.9	1.4	1.6	1.7
Energy	19.1	-8.2	2.3	6.4	11.7	2.1	-1.5	1.5	-.8	-.3
Previous Tealbook	19.1	-8.2	2.3	6.4	11.7	2.1	-2.5	-.2	-.5	-.1
Food	4.9	6.9	-1.8	1.3	5.1	1.2	.8	1.1	1.3	1.4
Previous Tealbook	4.9	6.9	-1.8	1.3	5.1	1.2	.8	.6	1.3	1.4
Ex. food & energy	2.2	1.6	1.4	1.0	1.8	1.7	1.2	1.5	1.7	1.8
Previous Tealbook	2.2	1.6	1.4	1.0	1.8	1.7	1.1	1.5	1.7	1.8
Ex. food & energy, market based	2.1	2.2	1.8	.7	1.9	1.5	1.1	1.4	1.7	1.8
Previous Tealbook	2.1	2.2	1.8	.7	1.9	1.5	1.1	1.5	1.7	1.8
CPI	4.0	1.6	1.5	1.2	3.3	1.9	1.2	1.8	1.7	1.8
Previous Tealbook	4.0	1.6	1.5	1.2	3.3	1.9	1.2	1.6	1.7	1.8
Ex. food & energy	2.3	2.0	1.8	.6	2.2	1.9	1.7	1.9	2.0	2.0
Previous Tealbook	2.3	2.0	1.7	.6	2.2	1.9	1.7	1.9	2.0	2.0
ECI, hourly compensation[1]	3.0	2.4	1.2	2.1	2.2	1.8	2.0	2.5	2.9	3.2
Previous Tealbook[1]	3.0	2.4	1.2	2.1	2.2	1.8	2.0	2.5	2.9	3.2
Nonfarm business sector										
Output per hour	2.4	-.5	5.5	1.9	.4	.8	1.2	1.4	1.4	1.8
Previous Tealbook	2.4	-.4	5.5	1.9	.4	.9	1.7	1.2	1.6	1.9
Compensation per hour	3.9	3.0	1.2	1.6	1.0	5.3	.3	2.8	3.3	3.6
Previous Tealbook	3.9	3.0	1.2	1.6	.9	5.3	.4	2.7	3.3	3.6
Unit labor costs	1.5	3.5	-4.0	-.3	.5	4.4	-.9	1.4	1.9	1.7
Previous Tealbook	1.5	3.5	-4.0	-.3	.5	4.4	-1.3	1.5	1.7	1.7
Core goods imports chain-wt. price index[2]	3.0	3.9	-1.9	2.3	4.2	.1	-1.1	1.1	1.3	1.4
Previous Tealbook[2]	3.0	3.9	-1.9	2.3	4.2	.1	-1.2	1.1	1.5	1.6

1. Private-industry workers.
2. Core goods imports exclude computers, semiconductors, oil, and natural gas.

Other Macroeconomic Indicators

Item	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2013[1]	2014[1]	2015[1]	2016[1]
Employment and production															
Nonfarm payroll employment[2]	.6	.5	.6	.5	.6	.6	.7	.7	.7	.7	.7	2.4	2.4	2.7	2.6
Unemployment rate[3]	7.5	7.3	7.0	6.6	6.5	6.4	6.2	6.0	5.9	5.7	5.6	7.0	6.2	5.6	5.1
Previous Tealbook[3]	7.5	7.3	7.0	6.7	6.6	6.4	6.2	6.0	5.8	5.7	5.5	7.0	6.2	5.5	5.1
Natural rate of unemployment[3]	5.6	5.5	5.5	5.4	5.4	5.4	5.3	5.3	5.2	5.2	5.2	5.5	5.3	5.2	5.2
Previous Tealbook[3]	5.6	5.5	5.5	5.4	5.4	5.4	5.3	5.3	5.2	5.2	5.2	5.5	5.3	5.2	5.2
GDP gap[4]	-3.8	-3.2	-3.0	-3.1	-2.7	-2.3	-1.9	-1.6	-1.3	-1.0	-.7	-3.0	-1.9	-.7	.4
Previous Tealbook[4]	-4.0	-3.4	-3.0	-2.9	-2.6	-2.3	-1.9	-1.5	-1.2	-.9	-.6	-3.0	-1.9	-.6	.4
Industrial production[5]	1.2	2.5	5.4	2.3	4.7	4.3	3.5	4.4	4.5	3.9	3.2	3.3	3.7	4.0	3.5
Previous Tealbook[5]	1.2	2.4	6.8	4.3	4.4	3.3	3.8	4.9	4.6	3.2	2.8	3.6	4.0	3.9	3.0
Manufacturing industr. prod.[5]	.1	1.6	4.6	-.1	4.1	3.3	3.6	3.9	4.1	3.9	3.9	2.8	2.7	4.0	3.6
Previous Tealbook[5]	.1	1.5	6.2	2.8	4.0	3.9	4.2	4.7	4.4	4.1	3.6	3.1	3.7	4.2	3.3
Capacity utilization rate - mfg.[3]	76.1	76.1	76.6	76.3	76.7	76.9	77.2	77.5	77.8	78.0	78.3	76.6	77.2	78.3	79.1
Previous Tealbook[3]	76.1	76.0	76.9	77.0	77.4	77.7	78.1	78.5	78.9	79.2	79.4	76.9	78.1	79.4	80.0
Housing starts[6]	.9	.9	1.0	1.0	1.0	1.1	1.2	1.3	1.3	1.4	1.4	.9	1.1	1.3	1.5
Light motor vehicle sales[6]	15.5	15.7	15.6	15.4	16.1	16.0	16.0	16.2	16.3	16.4	16.6	15.5	15.9	16.4	16.6
Income and saving															
Nominal GDP[5]	3.1	6.2	3.9	3.0	5.0	5.0	5.3	5.2	5.1	5.0	5.0	4.0	4.6	5.1	4.9
Real disposable pers. income[5]	4.1	3.0	.6	2.4	3.7	2.9	2.9	3.9	2.8	3.1	3.3	-.2	3.0	3.2	3.1
Previous Tealbook[5]	4.1	3.0	.9	2.9	3.3	3.2	3.2	4.1	3.3	3.2	3.2	-.1	3.2	3.5	3.2
Personal saving rate[3]	4.7	4.9	4.5	4.5	4.5	4.3	4.0	4.0	3.8	3.6	3.6	4.5	4.0	3.6	3.8
Previous Tealbook[3]	4.7	4.9	4.2	4.2	4.2	4.1	3.9	3.9	3.8	3.6	3.5	4.2	3.9	3.5	3.5
Corporate profits[7]	13.9	7.7	6.9	-.1	2.5	7.9	8.1	2.0	6.7	5.0	3.8	5.6	4.6	4.4	5.1
Profit share of GNP[3]	12.3	12.4	12.5	12.4	12.3	12.4	12.5	12.4	12.5	12.5	12.5	12.5	12.5	12.5	12.5
Net federal saving[8]	-653	-850	-655	-629	-611	-609	-591	-593	-569	-554	-544	-753	-610	-565	-583
Net state & local saving[8]	-198	-226	-227	-230	-211	-207	-198	-193	-171	-167	-157	-220	-211	-172	-142
Gross national saving rate[3]	17.7	17.8	18.2	18.2	18.4	18.3	18.4	18.3	18.5	18.5	18.6	18.2	18.4	18.6	18.9
Net national saving rate[3]	2.5	2.7	4.3	3.7	4.0	4.0	4.1	4.0	4.2	4.3	4.4	4.3	4.1	4.4	4.8

1. Change from fourth quarter of previous year to fourth quarter of year indicated, unless otherwise indicated.
2. Change, millions.
3. Percent; annual values are for the fourth quarter of the year indicated.
4. Percent difference between actual and potential GDP; a negative number indicates that the economy is operating below potential. Annual values are for the fourth quarter of the year indicated.
5. Percent change, annual rate.
6. Level, millions; annual values are annual averages.
7. Percent change, annual rate, with inventory valuation and capital consumption adjustments.
8. Billions of dollars; annual values are annual averages.

Greensheets

Other Macroeconomic Indicators
(Change from fourth quarter of previous year to fourth quarter of year indicated, unless otherwise noted)

Item	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Employment and production										
Nonfarm payroll employment[1]	1.2	-2.8	-5.6	.8	2.0	2.2	2.4	2.4	2.7	2.6
Unemployment rate[2]	4.8	6.9	9.9	9.5	8.7	7.8	7.0	6.2	5.6	5.1
Previous Tealbook[2]	4.8	6.9	9.9	9.5	8.7	7.8	7.0	6.2	5.5	5.1
Natural rate of unemployment[2]	5.3	5.6	6.2	6.2	6.0	5.8	5.5	5.3	5.2	5.2
Previous Tealbook[2]	5.3	5.6	6.2	6.2	6.0	5.8	5.5	5.3	5.2	5.2
GDP gap[3]	1.0	-4.0	-5.8	-4.8	-4.3	-3.9	-3.0	-1.9	-.7	.4
Previous Tealbook[3]	1.0	-4.0	-5.8	-4.8	-4.4	-4.1	-3.0	-1.9	-.6	.4
Industrial production[4]	2.7	-8.9	-5.5	6.2	3.3	2.8	3.3	3.7	4.0	3.5
Previous Tealbook[4]	2.7	-8.9	-5.5	6.2	3.3	2.8	3.6	4.0	3.9	3.0
Manufacturing industr. prod.[4]	2.9	-11.6	-6.1	6.4	3.3	2.8	2.8	2.7	4.0	3.6
Previous Tealbook[4]	2.9	-11.6	-6.1	6.4	3.3	2.8	3.1	3.7	4.2	3.3
Capacity utilization rate - mfg.[2]	78.4	69.9	67.2	72.9	74.8	75.7	76.6	77.2	78.3	79.1
Previous Tealbook[2]	78.4	69.9	67.2	72.9	74.8	75.7	76.9	78.1	79.4	80.0
Housing starts[5]	1.4	.9	.6	.6	.6	.8	.9	1.1	1.3	1.5
Light motor vehicle sales[5]	16.1	13.1	10.4	11.5	12.7	14.4	15.5	15.9	16.4	16.6
Income and saving										
Nominal GDP[4]	4.4	-1.0	.1	4.6	3.9	3.8	4.0	4.6	5.1	4.9
Real disposable pers. income[4]	1.2	1.1	-.6	2.5	1.4	3.6	-.2	3.0	3.2	3.1
Previous Tealbook[4]	1.2	1.1	-.6	2.5	1.4	3.6	-.1	3.2	3.5	3.2
Personal saving rate[2]	2.9	6.1	5.7	5.5	5.0	6.6	4.5	4.0	3.6	3.8
Previous Tealbook[2]	2.9	6.1	5.7	5.5	5.0	6.6	4.2	3.9	3.5	3.5
Corporate profits[6]	-9.0	-30.8	54.5	17.0	8.4	2.7	5.6	4.6	4.4	5.1
Profit share of GNP[2]	9.9	6.9	10.7	11.9	12.4	12.3	12.5	12.5	12.5	12.5
Net federal saving[7]	-267	-635	-1,250	-1,330	-1,248	-1,110	-753	-610	-565	-583
Net state & local saving[7]	-73	-165	-272	-237	-213	-253	-220	-211	-172	-142
Gross national saving rate[2]	16.3	15.0	14.7	15.2	15.8	16.9	18.2	18.4	18.6	18.9
Net national saving rate[2]	1.0	-1.6	-1.6	-.4	.5	1.7	4.3	4.1	4.4	4.8

1. Change, millions.
2. Percent; values are for the fourth quarter of the year indicated.
3. Percent difference between actual and potential GDP; a negative number indicates that the economy is operating below potential. Values are for the fourth quarter of the year indicated.
4. Percent change.
5. Level, millions; values are annual averages.
6. Percent change, with inventory valuation and capital consumption adjustments.
7. Billions of dollars; values are annual averages.

Staff Projections of Federal Sector Accounts and Related Items
(Billions of dollars except as noted)

Item	Fiscal year 2013[a]	Fiscal year 2014	Fiscal year 2015	Fiscal year 2016	2013 Q1[a]	2013 Q2[a]	2013 Q3[a]	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4
Unified budget					Not seasonally adjusted											
Receipts[1]	2,774	3,047	3,284	3,481	581	891	687	665	630	981	771	740	675	1,039	830	770
Outlays[1]	3,454	3,531	3,702	3,929	888	800	857	838	931	891	870	935	947	924	895	961
Surplus/deficit[1]	-680	-484	-419	-448	-307	91	-170	-174	-301	90	-99	-196	-272	114	-65	-192
Previous Tealbook	*-680*	*-467*	*-416*	*-409*	*-307*	*91*	*-170*	*-174*	*-281*	*83*	*-96*	*-182*	*-277*	*103*	*-60*	*-178*
On-budget	-720	-499	-441	-464	-303	36	-143	-184	-286	38	-68	-219	-254	64	-32	-213
Off-budget	39	15	22	16	-4	55	-28	10	-16	52	-31	24	-19	50	-33	21
Means of financing:																
Borrowing	702	625	539	568	336	-17	69	371	250	-44	49	226	302	-84	95	222
Cash decrease	-3	18	0	0	14	-56	46	-74	33	-21	80	0	0	0	0	0
Other[2]	-19	-159	-120	-120	-43	-18	55	-123	19	-25	-30	-30	-30	-30	-30	-30
Cash operating balance, end of period	88	70	70	70	79	135	88	162	130	150	70	70	70	70	70	70
NIPA federal sector					Seasonally adjusted annual rates											
Receipts	2,938	3,223	3,437	3,638	2,900	3,167	2,976	3,118	3,217	3,258	3,300	3,348	3,417	3,466	3,515	3,563
Expenditures	3,797	3,849	4,013	4,211	3,753	3,820	3,826	3,772	3,845	3,869	3,909	3,940	4,011	4,035	4,069	4,107
Consumption expenditures	981	948	941	940	982	976	972	953	949	947	945	943	945	940	934	932
Defense	620	595	588	587	620	616	615	598	597	594	590	589	590	587	584	584
Nondefense	361	354	353	353	363	360	358	355	352	353	355	354	355	353	350	348
Other spending	2,815	2,901	3,073	3,271	2,771	2,844	2,853	2,820	2,896	2,922	2,964	2,997	3,066	3,095	3,134	3,175
Current account surplus	-859	-626	-577	-573	-853	-653	-850	-654	-629	-611	-609	-591	-593	-569	-554	-544
Gross investment	277	269	259	252	273	277	279	272	271	268	264	263	260	257	255	253
Gross saving less gross investment[3]	-870	-622	-557	-540	-860	-663	-861	-656	-628	-606	-599	-578	-575	-546	-527	-515
Fiscal indicators[4]																
High-employment (HEB) surplus/deficit	-653.5	-448.9	-458.1	-521.0	-629.4	-440.7	-659.9	-471.0	-438.1	-438.0	-448.6	-449.5	-465.1	-457.4	-460.3	-469.0
Change in HEB, percent of potential GDP	-1.9	-1.3	.0	.2	-1.5	-1.1	1.2	-1.1	-.2	.0	.0	.0	.1	-.1	.0	.0
Fiscal impetus (FI), percent of GDP	-1.2	-.6	-.4	-.1	-2.0	-.7	-.7	-1.5	-.5	-.7	-.6	-.4	-.6	-.4	-.3	-.2
Previous Tealbook	*-1.3*	*-.5*	*-.4*	*.0*	*-2.0*	*-.7*	*-.7*	*-1.7*	*-.5*	*-.6*	*-.5*	*-.3*	*-.7*	*-.4*	*-.3*	*-.2*

1. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus and the Postal Service surplus are excluded from the on-budget surplus and shown separately as off-budget, as classified under current law.
2. Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.
3. Gross saving is the current account surplus plus consumption of fixed capital of the general government as well as government enterprises.
4. HEB is gross saving less gross investment (NIPA) of the federal government in current dollars, with cyclically sensitive receipts and outlays adjusted to the staff's measure of potential output and the natural rate of unemployment. The sign on Change in HEB, as a percent of nominal potential GDP, is reversed. FI is the weighted difference of discretionary changes in federal spending and taxes in chained (2009) dollars, scaled by real GDP. The FI estimates are calendar year contributions to Q4/Q4 real GDP growth. Also, for FI and the change in HEB, positive values indicate aggregate demand stimulus. Quarterly figures for change in HEB and FI are not at annual rates.
a Actual.

Foreign Real GDP and Consumer Prices: Selected Countries
(Quarterly percent changes at an annual rate)

					-----------------		Projected	-----------------				
	2013				2014				2015			
Measure and country	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP[1]												
Total foreign	2.0	2.4	3.0	2.8	2.7	2.8	3.1	3.2	3.3	3.3	3.4	3.2
Previous Tealbook	*1.8*	*2.4*	*2.9*	*3.1*	*3.3*	*2.9*	*3.3*	*3.4*	*3.4*	*3.5*	*3.5*	*3.3*
Advanced foreign economies	1.8	2.2	1.9	2.1	2.1	1.7	2.1	2.2	2.2	2.2	2.4	1.9
Canada	2.9	2.2	2.7	2.9	1.8	3.0	2.5	2.6	2.6	2.6	2.6	2.6
Japan	4.5	4.1	.9	.7	4.2	-3.8	2.0	2.1	1.8	1.4	2.6	-1.8
United Kingdom	1.6	3.0	3.4	2.9	3.0	2.9	2.9	2.9	2.7	2.7	2.6	2.4
Euro area	-.9	1.3	.6	1.1	1.3	1.3	1.4	1.4	1.5	1.7	1.7	1.9
Germany	.0	2.9	1.3	1.5	1.8	1.8	1.9	1.9	2.0	2.0	2.2	2.2
Emerging market economies	2.1	2.6	4.2	3.5	3.4	3.8	4.1	4.2	4.3	4.4	4.4	4.4
Asia	3.6	5.1	6.0	6.2	5.1	5.2	5.2	5.3	5.5	5.5	5.5	5.5
Korea	3.4	4.5	4.3	3.7	3.5	3.6	3.9	4.1	4.2	4.4	4.5	4.5
China	6.4	7.3	8.8	8.0	7.5	7.3	7.1	7.1	7.3	7.3	7.3	7.3
Latin America	.7	.3	2.7	1.2	1.9	2.6	3.1	3.2	3.3	3.3	3.4	3.4
Mexico	.8	-2.7	3.9	.7	2.5	2.9	3.3	3.5	3.6	3.6	3.6	3.6
Brazil	.0	7.5	-2.1	2.8	.4	2.2	2.5	2.5	2.6	2.6	2.7	2.7
Consumer prices[2]												
Total foreign	2.3	1.9	2.8	2.4	2.1	3.2	2.4	2.5	2.5	2.5	2.6	3.0
Previous Tealbook	*2.3*	*1.9*	*2.8*	*2.3*	*2.3*	*3.0*	*2.4*	*2.5*	*2.5*	*2.5*	*2.5*	*3.0*
Advanced foreign economies	1.0	.5	2.1	.7	1.2	2.9	1.2	1.4	1.4	1.4	1.5	2.6
Canada	1.6	-.1	1.9	.5	2.0	2.0	1.5	1.6	1.7	1.7	1.8	1.8
Japan	.0	.8	3.0	1.9	1.0	8.8	.8	.9	1.1	1.2	1.3	6.8
United Kingdom	2.4	1.7	2.9	1.3	1.2	1.7	1.8	2.3	1.7	1.7	1.8	2.3
Euro area	.8	.7	1.7	.1	.7	1.2	1.2	1.3	1.3	1.3	1.4	1.4
Germany	1.5	.7	2.6	.7	.9	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Emerging market economies	3.3	3.1	3.3	3.7	2.7	3.4	3.3	3.4	3.3	3.3	3.3	3.3
Asia	3.3	2.1	3.6	3.4	1.6	3.2	3.1	3.2	3.2	3.2	3.2	3.2
Korea	1.0	.4	1.7	1.1	1.2	2.2	2.8	3.1	3.2	3.2	3.2	3.1
China	3.2	2.1	3.4	3.0	1.1	3.2	3.0	3.0	3.0	3.0	3.0	3.0
Latin America	3.5	5.4	2.6	4.5	5.6	3.8	3.9	3.9	3.8	3.8	3.8	3.8
Mexico	3.2	5.3	2.0	4.2	5.4	3.3	3.4	3.4	3.4	3.4	3.4	3.4
Brazil	7.0	5.8	4.6	6.0	5.9	6.0	6.0	5.6	5.4	5.4	5.4	5.4

[1] Foreign GDP aggregates calculated using shares of U.S. exports.
[2] Foreign CPI aggregates calculated using shares of U.S. non-oil imports.

Foreign Real GDP and Consumer Prices: Selected Countries
(Percent change, Q4 to Q4)

Measure and country	2008	2009	2010	2011	2012	2013	Projected 2014	Projected 2015	Projected 2016
Real GDP[1]									
Total foreign	-.7	1.0	4.6	3.0	2.3	2.6	3.0	3.3	3.4
Previous Tealbook	*-.7*	*1.0*	*4.6*	*3.0*	*2.3*	*2.6*	*3.2*	*3.4*	*3.5*
Advanced foreign economies	-1.5	-1.5	3.0	1.5	.3	2.0	2.0	2.2	2.2
Canada	.1	-1.4	3.6	2.4	1.0	2.7	2.5	2.6	2.6
Japan	-4.8	-.6	3.5	.3	-.3	2.5	1.1	1.0	1.3
United Kingdom	-4.3	-2.5	1.8	1.1	.2	2.7	2.9	2.6	2.5
Euro area	-2.1	-2.3	2.3	.7	-1.0	.5	1.3	1.7	1.9
Germany	-1.8	-2.2	4.2	2.2	.3	1.4	1.8	2.1	2.3
Emerging market economies	.4	3.9	6.4	4.6	4.3	3.1	3.9	4.4	4.5
Asia	.9	8.1	7.8	5.0	5.4	5.2	5.2	5.5	5.6
Korea	-3.2	6.3	5.0	3.4	1.4	4.0	3.8	4.4	4.5
China	7.7	11.3	9.7	8.7	7.8	7.6	7.2	7.3	7.4
Latin America	-.4	-.1	4.7	4.0	3.3	1.2	2.7	3.4	3.5
Mexico	-1.3	-1.2	4.4	4.1	3.3	.6	3.0	3.6	3.7
Brazil	.9	5.3	5.3	1.4	1.8	2.0	1.9	2.6	2.7
Consumer prices[2]									
Total foreign	3.3	1.2	3.2	3.4	2.3	2.3	2.5	2.6	2.6
Previous Tealbook	*3.3*	*1.2*	*3.2*	*3.4*	*2.3*	*2.3*	*2.6*	*2.6*	*2.6*
Advanced foreign economies	2.0	.2	1.7	2.2	1.3	1.0	1.7	1.7	1.7
Canada	1.8	.8	2.2	2.7	.9	1.0	1.8	1.7	1.9
Japan	1.1	-2.0	-.3	-.3	-.2	1.4	2.8	2.6	1.7
United Kingdom	3.9	2.2	3.4	4.6	2.6	2.1	1.7	1.9	1.9
Euro area	2.3	.4	2.0	2.9	2.3	.8	1.1	1.3	1.5
Germany	1.7	.3	1.6	2.6	2.0	1.3	1.4	1.6	1.7
Emerging market economies	4.6	2.1	4.3	4.3	3.1	3.3	3.2	3.3	3.3
Asia	3.7	1.3	4.3	4.5	2.6	3.1	2.8	3.2	3.2
Korea	4.5	2.4	3.2	3.9	1.7	1.1	2.3	3.2	3.2
China	2.5	.6	4.7	4.6	2.1	2.9	2.6	3.0	3.0
Latin America	6.6	3.9	4.4	4.0	4.3	4.0	4.3	3.8	3.7
Mexico	6.2	4.0	4.3	3.5	4.1	3.7	3.9	3.4	3.4
Brazil	6.2	4.2	5.6	6.7	5.6	5.8	5.9	5.4	5.3

[1] Foreign GDP aggregates calculated using shares of U.S. exports.
[2] Foreign CPI aggregates calculated using shares of U.S. non-oil imports.

U.S. Current Account

Quarterly Data

	2013				Projected 2014				Projected 2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Billions of dollars, s.a.a.r.							
U.S. current account balance	**-416.9**	**-383.8**	**-382.6**	**-357.6**	**-385.0**	**-354.5**	**-387.9**	**-412.6**	**-441.9**	**-420.9**	**-447.2**	**-465.9**
Previous Tealbook	*-419.6*	*-386.4*	*-379.4*	*-345.2*	*-375.2*	*-346.7*	*-374.5*	*-399.8*	*-425.3*	*-405.9*	*-428.6*	*-442.9*
Current account as percent of GDP	-2.5	-2.3	-2.3	-2.1	-2.2	-2.0	-2.2	-2.3	-2.4	-2.3	-2.4	-2.5
Previous Tealbook	*-2.5*	*-2.3*	*-2.2*	*-2.0*	*-2.2*	*-2.0*	*-2.1*	*-2.2*	*-2.3*	*-2.2*	*-2.3*	*-2.3*
Net goods & services	-487.8	-469.8	-486.2	-455.7	-457.6	-440.8	-458.1	-473.7	-475.7	-460.9	-473.6	-484.6
Investment income, net	211.6	232.7	248.7	233.3	229.2	225.9	213.4	200.8	190.4	179.6	169.6	158.4
Direct, net	276.6	290.6	304.6	304.9	304.9	307.1	305.7	304.4	308.1	311.1	317.3	323.7
Portfolio, net	-65.0	-57.9	-55.9	-71.6	-75.8	-81.2	-92.4	-103.6	-117.8	-131.5	-147.7	-165.3
Other income and transfers, net	-140.6	-146.7	-145.1	-135.2	-156.5	-139.5	-143.1	-139.7	-156.5	-139.5	-143.1	-139.7

Annual Data

	2008	2009	2010	2011	2012	2013	Projected 2014	Projected 2015	Projected 2016
					Billions of dollars				
U.S. current account balance	**-681.3**	**-381.6**	**-449.5**	**-457.7**	**-440.4**	**-385.2**	**-385.0**	**-444.0**	**-495.7**
Previous Tealbook	*-681.3*	*-381.6*	*-449.5*	*-457.7*	*-440.4*	*-382.7*	*-374.0*	*-425.7*	*-459.9*
Current account as percent of GDP	-4.6	-2.6	-3.0	-2.9	-2.7	-2.3	-2.2	-2.4	-2.6
Previous Tealbook	*-4.6*	*-2.6*	*-3.0*	*-2.9*	*-2.7*	*-2.3*	*-2.1*	*-2.3*	*-2.4*
Net goods & services	-702.3	-383.7	-499.4	-556.8	-534.7	-474.9	-457.6	-473.7	-478.2
Investment income, net	157.8	132.3	185.7	240.7	232.3	231.6	217.3	174.5	127.3
Direct, net	284.3	257.7	288.0	310.6	293.5	294.2	305.6	315.1	337.6
Portfolio, net	-126.5	-125.4	-102.3	-69.8	-61.2	-62.6	-88.2	-140.6	-210.3
Other income and transfers, net	-136.9	-130.2	-135.8	-141.6	-138.0	-141.9	-144.7	-144.7	-144.7

Abbreviations

ABS	asset-backed securities
AFE	advanced foreign economy
BHC	bank holding company
BOJ	Bank of Japan
CDS	credit default swaps
C&I	commercial and industrial
CMBS	commercial mortgage-backed securities
CPI	consumer price index
CRE	commercial real estate
Desk	Open Market Desk
ECB	European Central Bank
E&I	equipment and intangibles
EMBI	Emerging Markets Bond Index
EME	emerging market economy
EUC	emergency unemployment compensation
FHA	Federal Housing Administration
FOMC	Federal Open Market Committee; also, the Committee
FRN	floating rate notes
GDP	gross domestic product
GO	general obligation
GSE	government-sponsored enterprise
IMF	International Monetary Fund
LSAP	large-scale asset purchase
M&A	mergers and acquisitions
Michigan survey	Thomson Reuters/University of Michigan Surveys of Consumers
MBS	mortgage-backed securities
NIPA	national income and product accounts

OIS	overnight index swap
ON RRP	overnight reverse repurchase agreement
OTC	over the counter
PBOC	People's Bank of China
PCE	personal consumption expenditures
PMI	purchasing managers index
QS	quantitative surveillance
RMBS	residential mortgage-backed securities
R&U	Risks & Uncertainty
SCOOS	Senior Credit Officer Opinion Survey
SOMA	System Open Market Account
TIPS	Treasury inflation-protected securities
VAT	value-added tax
WTI	West Texas Intermediate