

## BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DIVISION OF RESEARCH AND STATISTICS

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**Date:** July 12, 2017  
**To:** Research Directors  
**From:** David W. Wilcox  
**Subject:** Background notes on  $r^*$  and conditional variation in confidence intervals

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Attached are two notes that provide background about aspects of the Tealbook that is due to be distributed this Friday:

- The first note, prepared by Cristina Fuentes-Albero, reviews some of the evidence that formed the basis for the decision to bring the long-run value of  $r^*$  down to 50 basis points in the upcoming edition of the Tealbook. As will be described in more detail in the Tealbook, the overall downward adjustment this round is 50 basis points, half of which reflects our decision to trim the size and duration of the fiscal stimulus placeholder that we introduced in December 2016, and half of which reflects an additional move to position the staff forecast more in the center of the range of other available estimates. Cristina's note reviews those other estimates.
- The second note, prepared by Eric Engstrom and Manuel Gonzalez-Astudillo, provides methodological background for a new exhibit that we will show regularly in the Tealbook; the exhibit displays estimates of how the width and skewness of confidence intervals around key variables change over time.

If you have any questions about either of these items, please feel free to contact the authors directly.