

## BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DIVISION OF RESEARCH AND STATISTICS

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**Date:** May 7, 2010  
**To:** BOARD OF GOVERNORS  
**From:** Division of Research and Statistics  
**Subject:** Forecast Update

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The labor market report for April was, on balance, stronger than we had expected. Private payroll employment posted a strong and widespread gain of 231,000, and the increases for February and March are now estimated to have been larger than previously estimated. As a result, the level of private employment in April was more than 200,000 higher than the forecast in April Greenbook. In addition, the average workweek rose further. In the household survey, both employment and unemployment were up sharply in April, boosting both the labor force participation rate and the unemployment rate. Other indicators in the report suggest a decline in layoffs, but a further increase in long-duration unemployment. We had not anticipated this surge in the labor force and had expected a decline in the unemployment rate. At this point, we are inclined to raise our current-quarter projection for the unemployment rate to 9.7 percent, 0.2 percentage point higher than in the April Greenbook. However, we now think that private employment gains are likely to be somewhat larger in coming months than we previously thought and have penciled in 200,000 for May and 275,000 for June.

The economic information that we received this week led us to strengthen the second-quarter GDP forecast. The monthly data on consumer outlays for services showed a higher level in March than we had anticipated, and we carried over some of that higher level in the second quarter. More broadly, we raised our GDP forecast in response to the stronger-than-expected report on private employment and hours and to indicators that manufacturing production is still increasing at a robust pace. We now forecast real GDP to increase at an annual rate of 3¾ percent in the current quarter—½ percentage

point above last week's estimate and ¼ percentage point higher than the April Greenbook projection.

We continue to estimate that real GDP rose at an annual rate of 3.4 percent in the first quarter. As we indicated last week, our assumptions for exports and imports in March imply a stronger contribution from net exports than the BEA wrote down, which more than offsets the incoming information on manufacturers' inventories and construction spending, which appear to be weaker than the BEA assumed in its estimate.

The BEA's estimates for PCE prices for the first quarter and for March were close to our expectations. Total PCE prices rose at an annual rate of 1.5 percent in the first quarter while the core was up at annual rate of 0.6 percent. In the current quarter we continue to anticipate that core PCE prices will increase at an annual rate of 0.9 percent. However, because of this week's sharp decline in spot and futures prices of crude oil, we now anticipate a steeper decline in consumer energy prices that we wrote down in the April Greenbook. As a result, we now forecast total PCE prices to be up at an annual rate of just 0.2 percent in the second quarter compared with our Greenbook forecast of 0.7 percent.