

Table 1: Economic Projections of Federal Reserve Governors and Reserve Bank Presidents ¹

	2007	2008	2009	2010
Central Tendencies				
Real GDP Growth	2.4 to 2.5	1.8 to 2.5	2.3 to 2.7	2.5 to 2.6
<i>June projections</i>	<i>2-1/4 to 2-1/2</i>	<i>2-1/2 to 2-3/4</i>		
Unemployment Rate	4.7 to 4.8	4.8 to 4.9	4.8 to 4.9	4.7 to 4.9
<i>June projections</i>	<i>4-1/2 to 4-3/4</i>	<i>about 4-3/4</i>		
PCE Inflation	2.9 to 3.0	1.8 to 2.1	1.7 to 2.0	1.6 to 1.9
Core PCE Inflation	1.8 to 1.9	1.7 to 1.9	1.7 to 1.9	1.6 to 1.9
<i>June projections</i>	<i>2 to 2-1/4</i>	<i>1-3/4 to 2</i>		
Ranges				
Real GDP Growth	2.2 to 2.7	1.6 to 2.6	2.0 to 2.8	2.2 to 2.7
<i>June projections</i>	<i>2 to 2-3/4</i>	<i>2-1/2 to 3</i>		
Unemployment Rate	4.7 to 4.8	4.6 to 5.0	4.6 to 5.0	4.6 to 5.0
<i>June projections</i>	<i>4-1/2 to 4-3/4</i>	<i>4-1/2 to 5</i>		
PCE Inflation	2.7 to 3.2	1.7 to 2.3	1.5 to 2.2	1.5 to 2.0
Core PCE Inflation	1.8 to 2.1	1.7 to 2.0	1.5 to 2.0	1.5 to 2.0
<i>June projections</i>	<i>2 to 2-1/4</i>	<i>1-3/4 to 2</i>		

1. Projections of real GDP growth, PCE inflation and core PCE inflation are fourth-quarter-to-fourth-quarter growth rates, i.e. percentage changes from the fourth quarter of the prior year to the fourth quarter of the indicated year. PCE inflation and core PCE inflation are the percentage rates of change in the price index for personal consumption expenditures and the price index for personal consumption expenditures excluding food and energy, respectively. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of each year. Each participant's projections are based on his or her assessment of appropriate monetary policy. The range for each variable in a given year includes all participants' projections, from lowest to highest, for that variable in the given year; the central tendencies exclude the three highest and three lowest projections for each variable in each year.

Table 1a**Implied Economic Projections for the second half of 2007¹****Central Tendencies and Ranges***

	Central Tendency	Range
Real GDP Growth	2.6 to 2.8 (2.4 to 3.0)	2.2 to 3.2 (2.0 to 3.4)
Unemployment Rate (% , Q4)	4.7 to 4.8 (4.6 to 4.7)	4.7 to 4.8 (4.6 to 4.8)
Total PCE Inflation	1.9 to 2.1	1.5 to 2.5
Core PCE inflation	1.7 to 1.9 (2.1 to 2.5)	1.7 to 2.3 (1.9 to 2.5)

* June economic projections for the second half of 2007 are shown in parentheses. These are computed from the projections for 2007 submitted ahead of the June FOMC meeting assuming that growth and inflation in the first half of 2007 were as predicted in the June Greenbook. Growth and inflation are reported at annualized rates. The unemployment rate is the fourth-quarter forecast.

Participants' Projections

Projection	Real GDP Growth	Unemployment Rate (% , Q4)	Total PCE Inflation	Core PCE Inflation
1	2.6	4.7	2.1	1.7
2	2.8	4.7	2.1	1.9
3	2.6	4.7	1.9	1.7
4	2.4	4.8	1.5	1.9
5	2.8	4.7	1.9	1.9
6	2.6	4.8	2.3	1.9
7	2.6	4.8	2.1	1.9
8	2.8	4.8	1.7	1.7
9	2.6	4.7	1.5	1.7
10	2.6	4.7	2.1	2.3
11	2.6	4.8	2.1	1.7
12	2.2	4.8	1.9	2.3
13	2.6	4.8	2.1	1.9
14	3.2	4.7	2.5	1.9
15	2.6	4.8	2.3	1.9
16	2.6	4.7	2.1	1.7
17	2.4	4.8	1.9	1.7

1. Projections for the second half of 2007 implied by participants' October projections for 2007 and for the first half of 2007. Growth and inflation are reported at annualized rates. The unemployment rate is the fourth-quarter forecast.

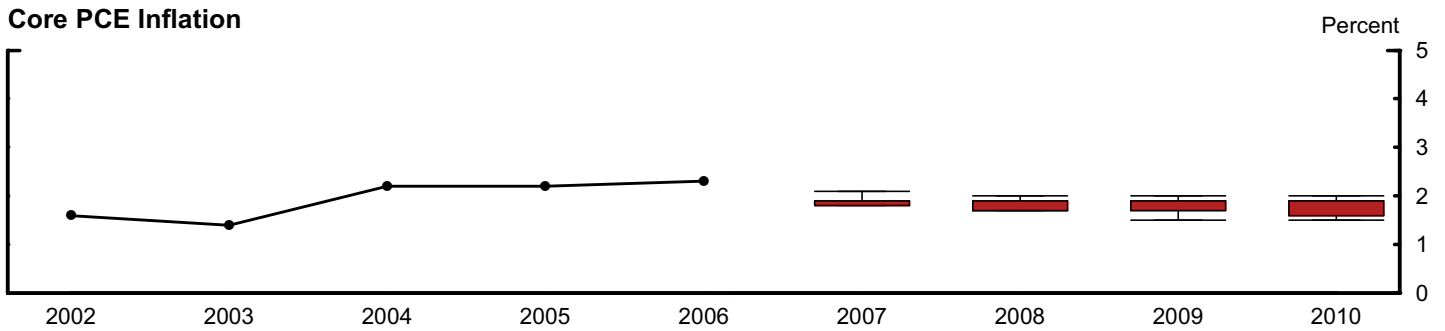
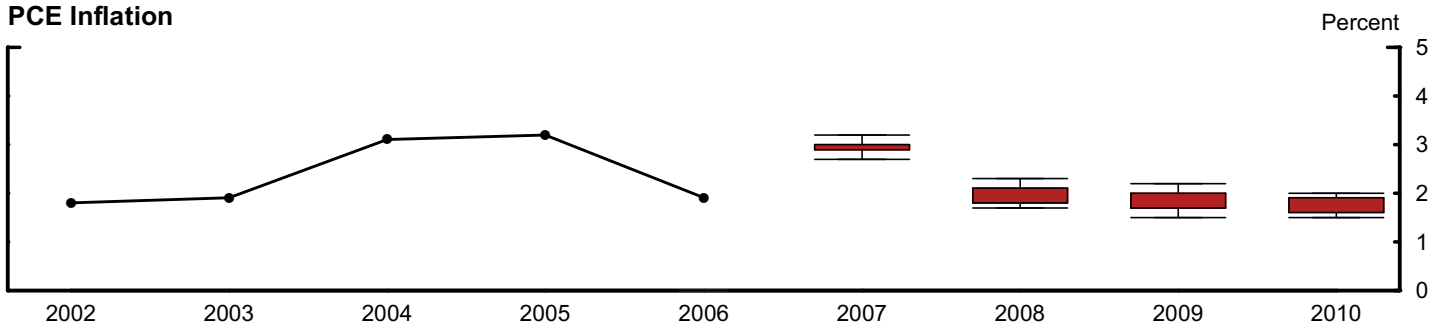
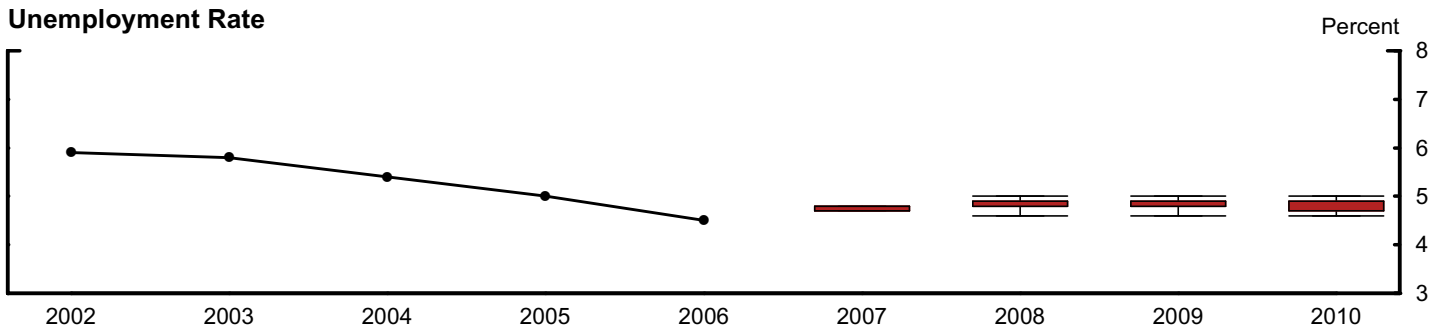
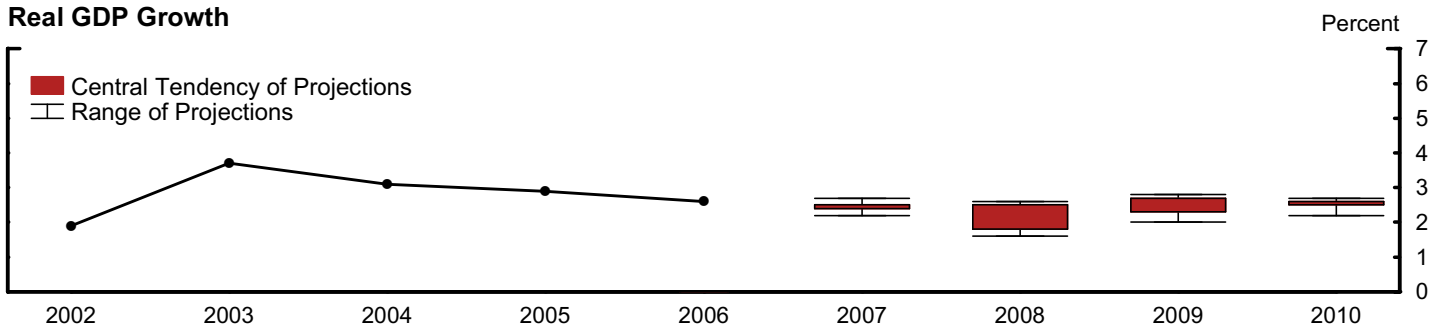
Table 2: October Economic Projections

Respondent	Year		GDP Growth	Unemployment Rate	Total PCE Inflation	Core PCE Inflation
1	2007		2.4	4.7	3.0	1.8
2	2007		2.5	4.7	3.0	1.9
3	2007		2.4	4.7	2.9	1.8
4	2007		2.3	4.8	2.7	1.9
5	2007		2.5	4.7	2.9	1.9
6	2007		2.4	4.8	3.1	1.9
7	2007		2.4	4.8	3.0	1.9
8	2007		2.5	4.8	2.8	1.8
9	2007		2.4	4.7	2.7	1.8
10	2007		2.4	4.7	3.0	2.1
11	2007		2.4	4.8	3.0	1.8
12	2007		2.2	4.8	2.9	2.1
13	2007		2.4	4.8	3.0	1.9
14	2007		2.7	4.7	3.2	1.9
15	2007		2.4	4.8	3.1	1.9
16	2007		2.4	4.7	3.0	1.8
17	2007		2.3	4.8	2.9	1.8
1	2008		1.7	4.8	1.8	1.9
2	2008		2.2	4.9	1.8	1.8
3	2008		2.6	4.6	1.9	1.7
4	2008		2.5	5.0	1.7	1.7
5	2008		1.6	4.9	2.0	1.9
6	2008		2.2	4.8	2.3	1.8
7	2008		2.1	4.9	1.8	1.8
8	2008		2.5	4.8	1.7	1.7
9	2008		2.4	4.9	1.7	1.7
10	2008		2.2	4.8	2.0	2.0
11	2008		1.6	5.0	1.8	1.8
12	2008		2.6	4.9	2.0	1.9
13	2008		2.1	4.9	2.1	2.0
14	2008		2.3	4.8	2.1	2.0
15	2008		2.1	5.0	2.1	1.9
16	2008		1.8	4.8	2.2	1.9
17	2008		2.5	4.9	1.9	1.8

Table 2 (continued): October Economic Projections

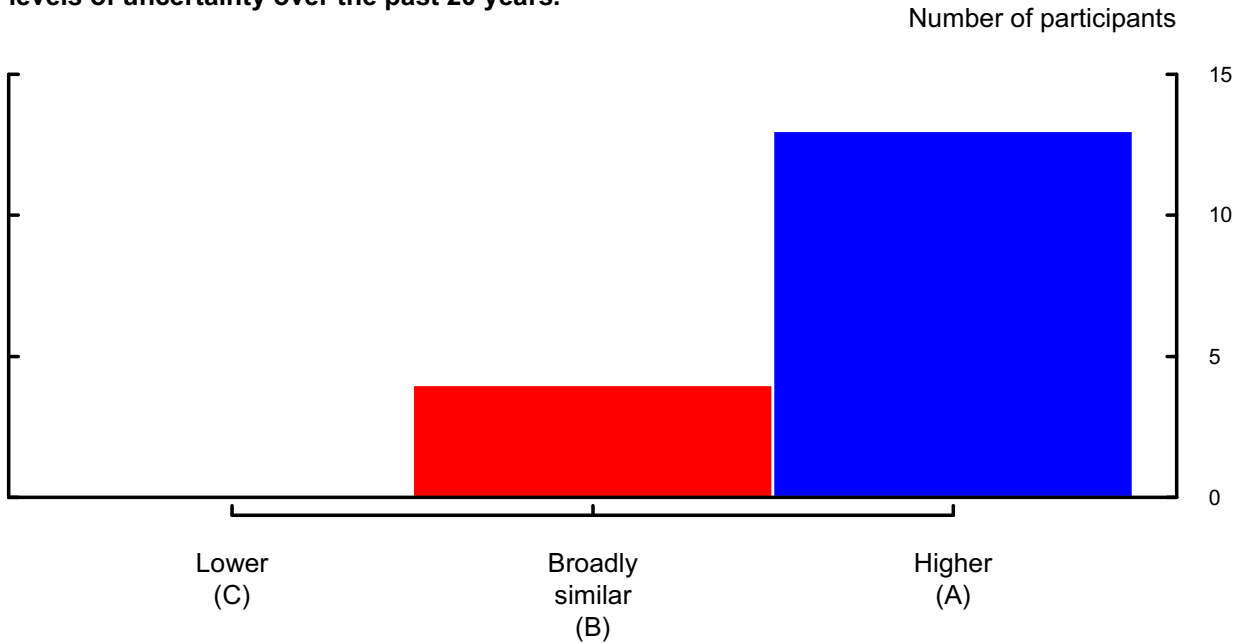
Respondent	Year		GDP Growth	Unemployment Rate	Total PCE Inflation	Core PCE Inflation
1	2009		2.2	4.8	1.9	2.0
2	2009		2.5	4.9	1.8	1.8
3	2009		2.7	4.6	1.7	1.7
4	2009		2.5	5.0	1.5	1.5
5	2009		2.3	4.9	1.9	1.9
6	2009		2.5	4.7	2.2	1.7
7	2009		2.4	4.9	1.7	1.7
8	2009		2.8	4.8	1.7	1.7
9	2009		2.7	5.0	1.5	1.5
10	2009		2.4	4.8	1.8	1.9
11	2009		2.5	4.8	1.8	1.8
12	2009		2.7	5.0	1.7	1.7
13	2009		2.4	4.9	2.0	1.9
14	2009		2.0	4.9	2.1	2.0
15	2009		2.4	4.9	2.0	1.9
16	2009		2.3	4.8	1.8	1.8
17	2009		2.6	4.9	1.8	1.8
1	2010		2.2	4.8	2.0	2.0
2	2010		2.5	4.9	1.8	1.8
3	2010		2.6	4.6	1.6	1.6
4	2010		2.5	5.0	1.5	1.5
5	2010		2.5	4.8	1.9	1.9
6	2010		2.7	4.6	2.0	1.7
7	2010		2.5	4.8	1.7	1.7
8	2010		2.6	4.8	1.7	1.7
9	2010		2.7	5.0	1.5	1.5
10	2010		2.5	4.7	1.9	1.9
11	2010		2.4	4.8	1.7	1.7
12	2010		2.7	5.0	1.5	1.5
13	2010		2.6	4.9	1.9	1.8
14	2010		2.5	4.7	1.9	1.9
15	2010		2.5	4.9	1.9	1.9
16	2010		2.3	4.8	1.8	1.8
17	2010		2.5	4.9	1.8	1.8

Chart 1: Central Tendencies and Ranges of Economic Projections

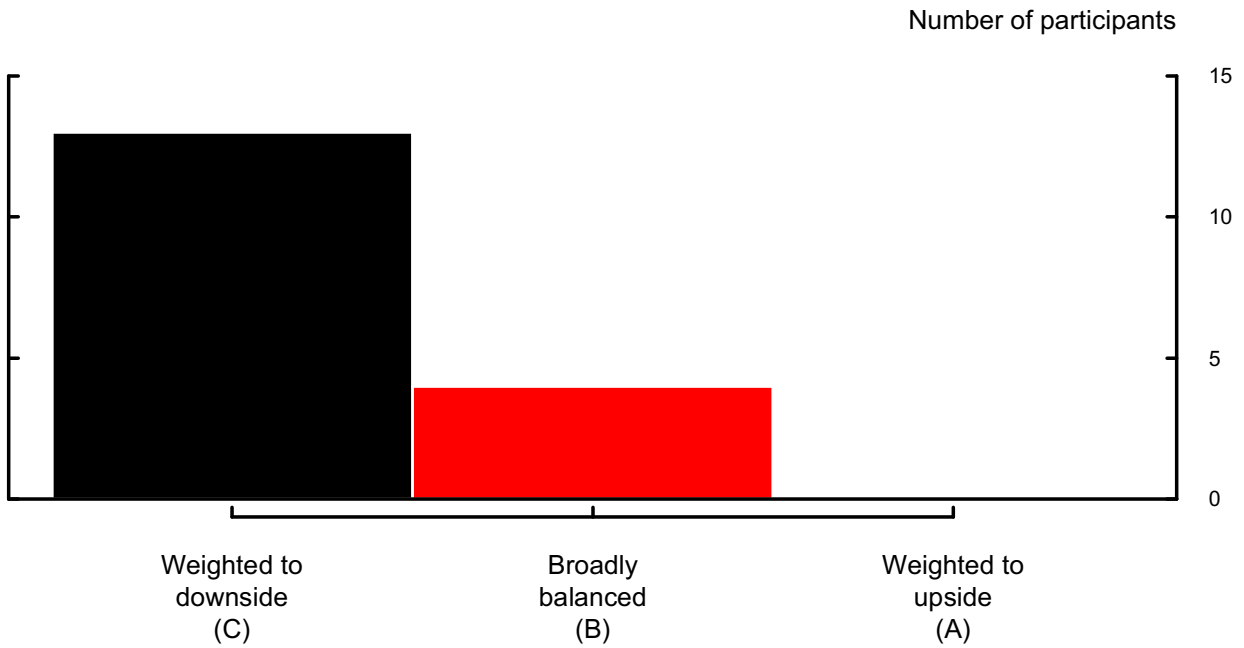


Uncertainty and Risks - GDP Growth

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



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

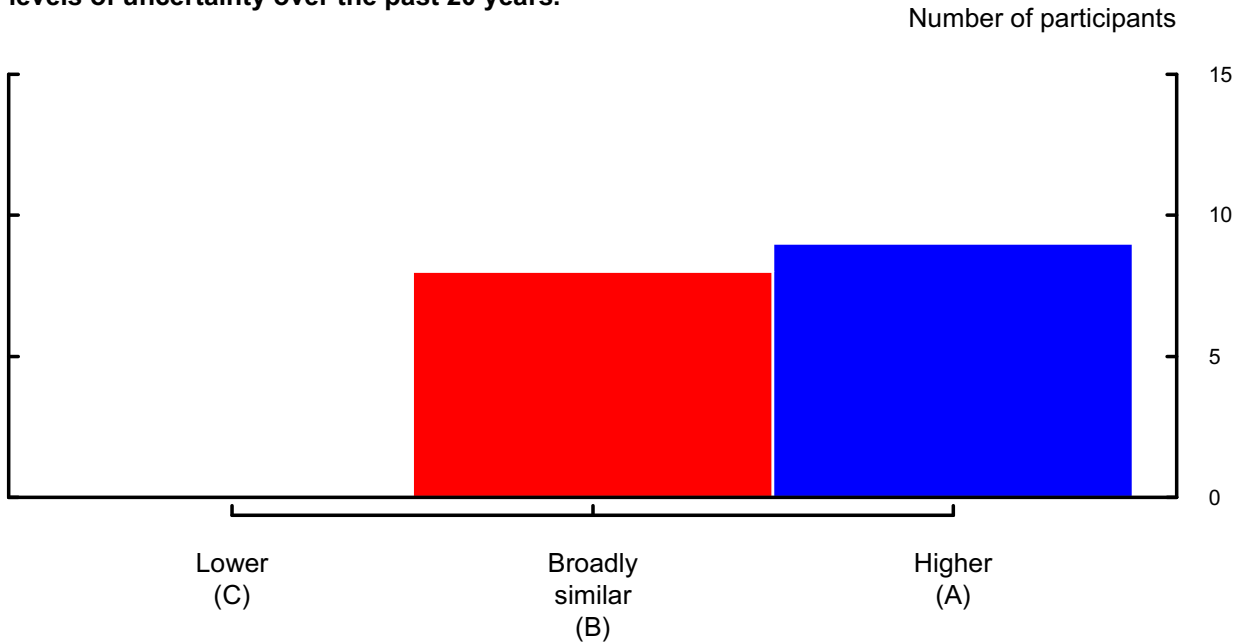


Individual Responses

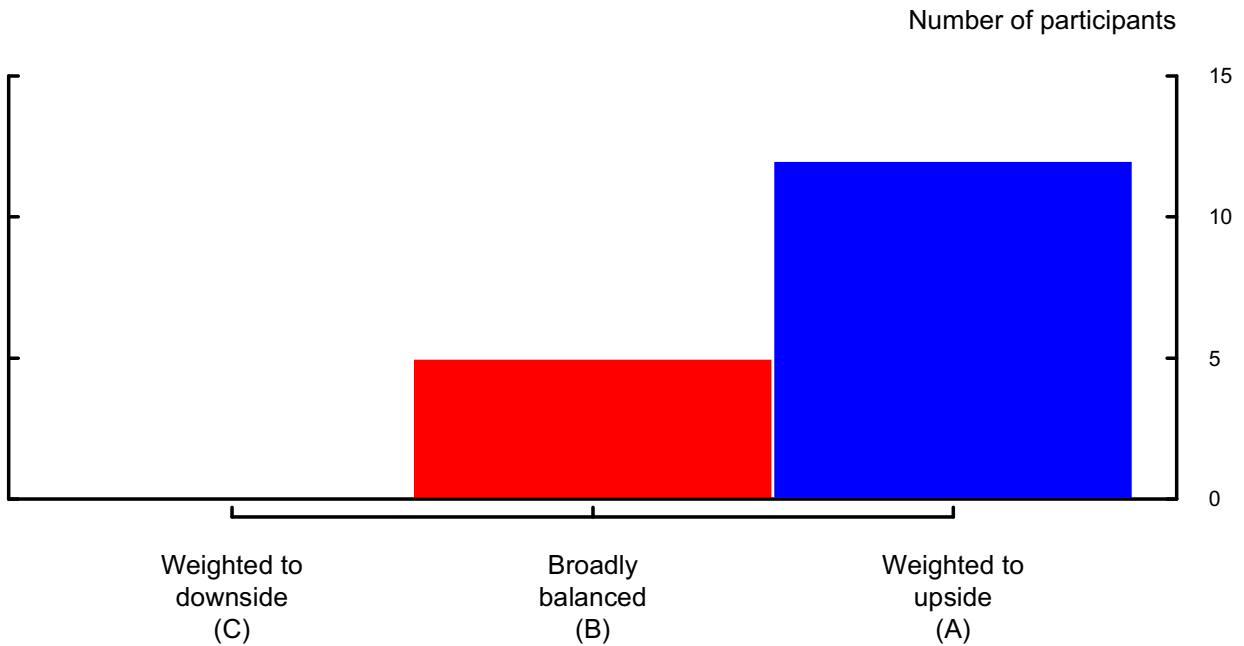
Respondent	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
2(a)	A	A	A	B	A	A	B	A	B	A	A	B	A	A	A	A	A
2(b)	C	B	C	B	C	C	C	C	C	C	C	B	C	B	C	C	C

Uncertainty and Risks - Unemployment Rate

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



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

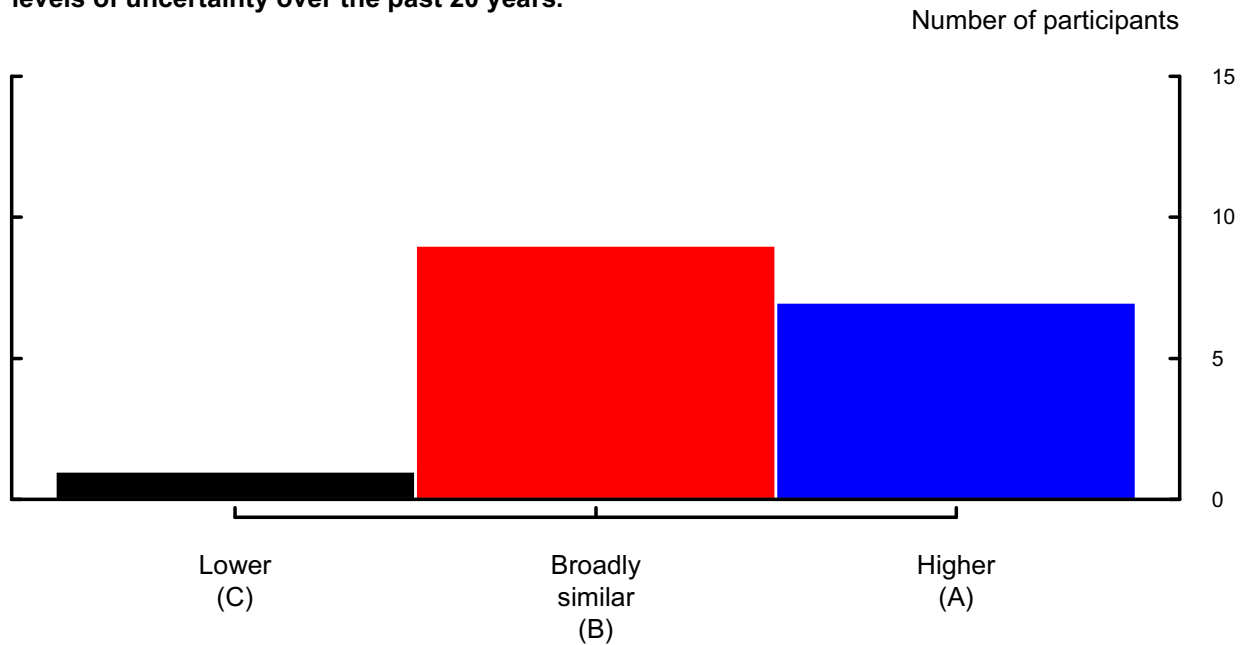


Individual Responses

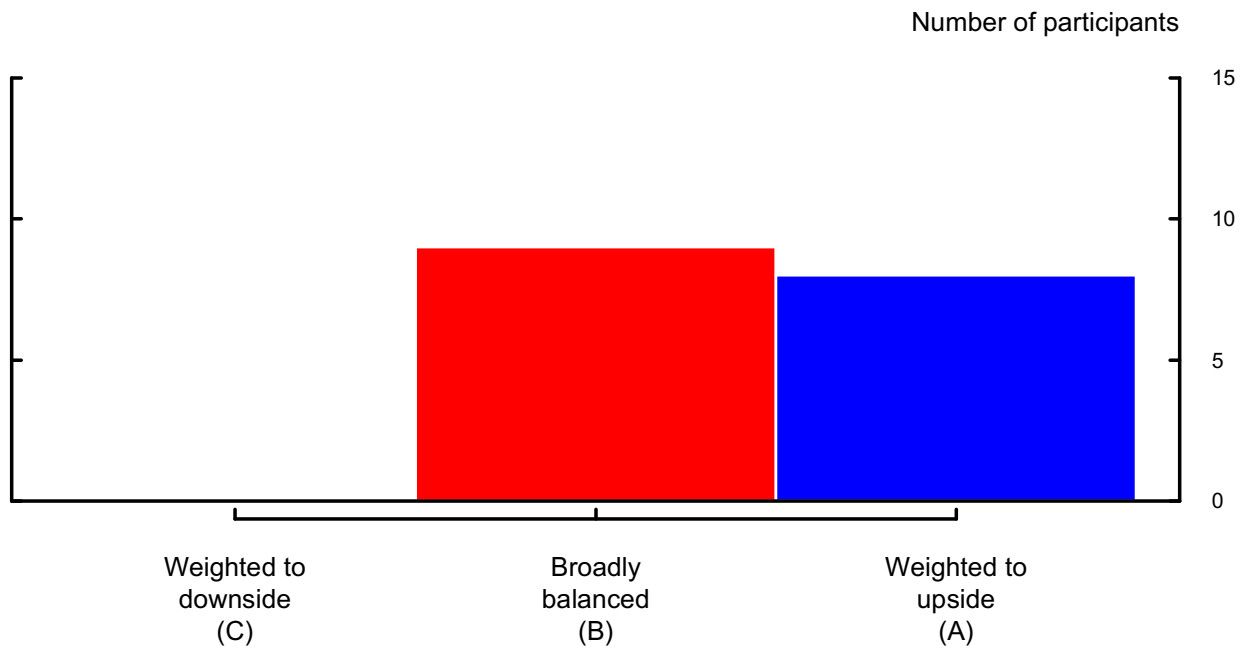
Respondent	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
2(a)	A	B	A	B	B	A	B	A	B	A	A	B	A	B	B	A	A
2(b)	A	B	A	B	B	A	A	A	A	A	A	B	A	B	A	A	A

Uncertainty and Risks - Total PCE Inflation

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



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

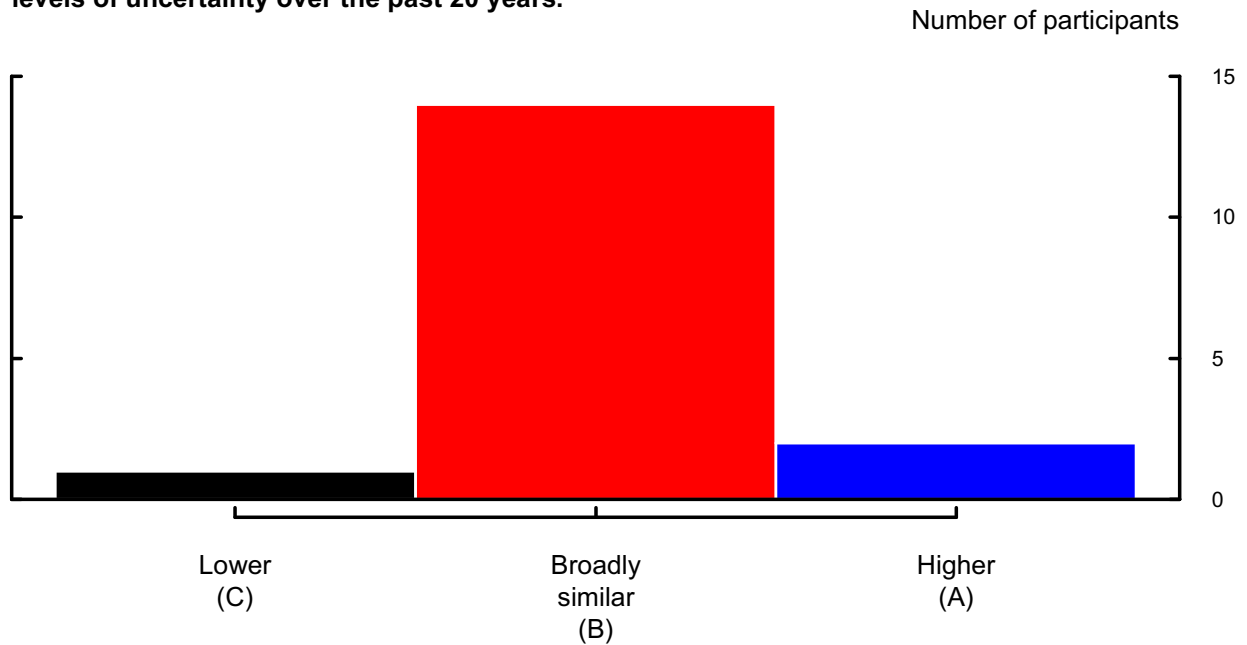


Individual Responses

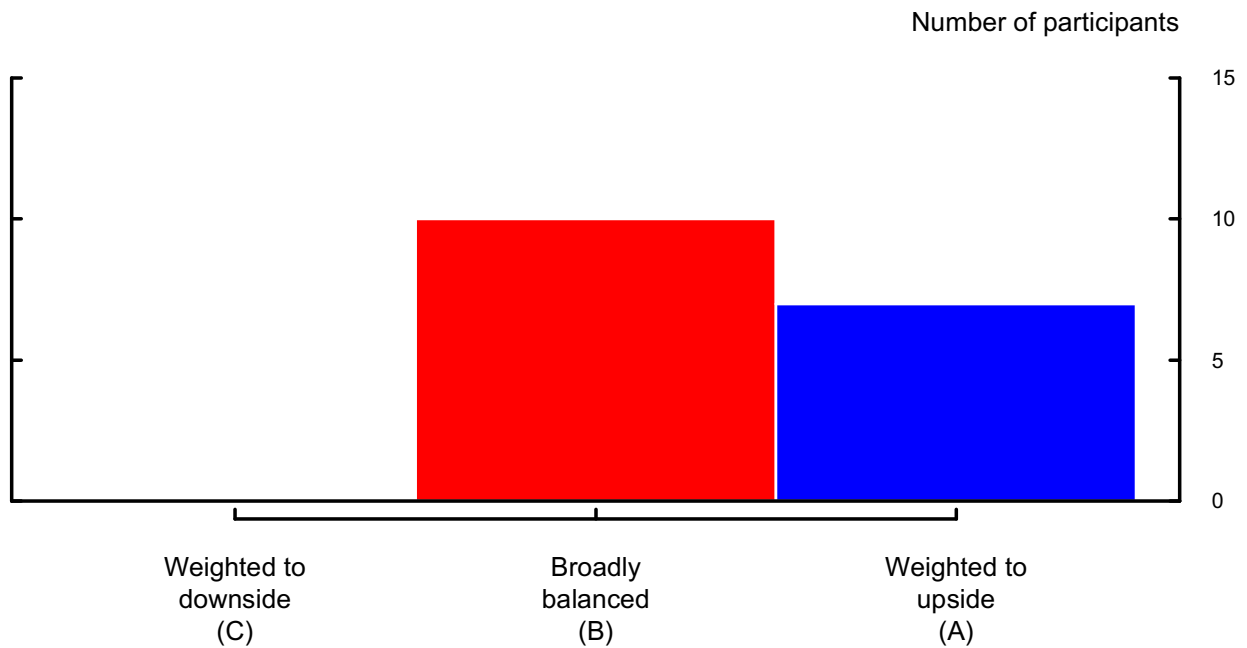
Respondent	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
2(a)	B	B	A	B	B	A	B	B	C	B	A	B	A	A	B	A	A
2(b)	B	B	B	B	B	A	A	B	B	B	A	A	A	B	A	A	A

Uncertainty and Risks - Core PCE Inflation

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



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



Individual Responses

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

Appropriate Monetary Policy

3. Does your view of the appropriate path of interest rates differ materially from the interest rate assumed by the staff in the Greenbook?

YES

NO

13

4

Respondent 1:

4.5% at this meeting and remaining there

Respondent 2:

Over time, I have a more substantial decline in the Federal funds rate (to 4 ¼ percent) than the Greenbook.

Respondent 3:

Differs in short-run with 50bp of nominal cuts leaving the FFR at 4.25% by September 2008 at the latest, similar real rate in 2010 as GB extension drops FFR to 4.50 with higher core inflation.

Respondent 5:

I assume one 25 basis point rate cut within the next six months.

Respondent 6:

The likely path is somewhere between the Greenbook assumption and (constantly changing) market expectations.

Respondent 7:

I assume that the funds rate is 4½ percent in each quarter of 2008 and 4¼ percent in each quarter of 2009 and 2010.

Respondent 8:

Given our slightly lower path for inflation, we would see appropriate policy in late 2008 and 2009 as being consistent with a rate path that is a touch below what was in the Greenbook.

Respondent 9:

We assume that the federal funds rate will remain unchanged at 4 ½ percent.

Respondent 11:

Funds rate declines to 4.50 by yearend and remains there

Respondent 12:

My forecast calls for the funds rate to decline to 4.5 percent in early 2008 and remain there through the remainder of the forecast period.

Respondent 13:

We have taken on the 25 basis point cut to the fed funds rate of October 31st and assume an unchanged funds rate at 4 ½ percent over the balance of the projection.

Respondent 16:

Assumed 25 basis points of easing in Q4 07 and 25 basis points in Q4 08. Reflects lower r* than in Greenbook in light of greater restraint from credit and uncertainty in the near term and slower growth in equity prices over time and also lower inflation expectations as inflation settles in below 2%

Respondent 17:

Over the near-term, I assume the federal funds rate target remains unchanged. However, I assume the federal funds rate target will be reduced to a neutral level by 2009.

Forecast Narratives

4(a). Please describe the key factors shaping your central economic outlook and the uncertainty and risks around that outlook.

Respondent 1:

The disruption to the credit markets has lessened considerably because the macroeconomic risk of a large negative tail event is substantially lower as a result of our getting ahead of the curve with our last policy move. However, problems still exist in the credit markets and the price discovery process to lessen the valuation risk will take a long time to be resolved. This is reflected in my forecast for real GDP, which has some weakness going into 2008, but will then return back to trend in 2009. I see some downside risk (but only slight) because there could be some unforeseen negative developments in the credit markets.

Given the movement of the output gap toward zero, and my view that long-run inflation expectations are anchored around 2% and are a key determinant of inflation, my forecast for core PCE inflation past 2008 is 2.0%. I see the risks on inflation as close to symmetric, and have my inflation forecasts at 1.8% and 1.9% (slightly below 2.0%) in 2007 and 2008 because of the slower GDP growth resulting from the problems in the credit markets and the recent good inflation numbers. I feel that there is a lot of uncertainty on what the NAIRU and potential output is, but this is symmetric. Also I believe there is uncertainty about exactly where inflation expectations are, but again I see this risk as symmetric.

Respondent 2:

Remain convinced that the economy is fundamentally sound and resilient. Against this background, expect growth near trend to be restored by the second half of 2008, despite still unsettled conditions in some financial markets and persistent weakness in the housing sector. Exports, in particular, have the potential to offset at least some of the contraction in housing.

Respondent 3:

Our central projection has the US economy growing slightly below its potential rate until the middle of 2008 as the housing correction continues and then slightly above its potential rate for the rest of 2008. For 2009 onwards we project growth at its potential rate. The downturn in housing production and sales has continued to surprise to the downside. Relative to sales, inventories of unsold new homes remain quite elevated. Absent a significant rebound in sales, housing starts and prices will remain under downward pressure. At the same time, the growth contribution from net exports has surprised to the upside and offset much of the drag from residential investment. In particular, growth of imports has slowed more than previously expected, likely reflecting in part sharp declines in imports of products and materials used in the home building industry.

We project a continued gradual moderation in core inflation with total inflation running marginally above core in 2008 due to higher food and energy prices but then moving in line with the core projection. This path for inflation is based on inflation expectations remaining well-contained, our assessment of the FOMC objective, and growth remaining at or below potential.

There are a number of risks to our central projection. The first is that productivity growth will significantly differ from our conditioning assumption, with our larger concern being further deceleration. The second is a steeper-than-assumed rise of the personal saving rate resulting from negative housing wealth effects. The third is that high global demand will put upward pressure on inflation both through higher import prices and higher resource utilization in the U.S. The fourth is that the recent turmoil in financial markets has produced a sustained tightening of financial conditions that will restrict the credit available to U.S. consumers and producers. In addition, the financial turmoil might amplify the effects of the first two risks on the downside and exacerbate the third if the turmoil reduces the demand for US assets. On net, we see substantial downside risks to real activity. For inflation, we see the risks in the near term as slightly to the downside but in the medium term slightly to the upside. The combination of this risk profile and the ongoing volatility in energy prices produces high uncertainty around our central projection. Our projections are conditioned on the factors and assumptions detailed below.

Monetary Policy:

Target federal funds rate declines to 4.25% by September 2008 at the latest and remains around this level for the rest of the forecast horizon.

Below the path assumed in the Greenbook

Implies a real funds rate path slightly below that in the Greenbook

Potential Growth:

Potential growth of real GDP: 2.7% (2.6% in 2010)

Trend productivity growth: 1.5% (1.8% on non-farm business sector basis)

Trend growth of hours worked: 1.2% (starts to decline in 2009-2010)

Labor force participation rate: around 66.0% (starts to decline in 2009-2010)

Output gap: remains near zero

Factors Governing Inflation Dynamics:

FOMC's objective for core PCE inflation: 1.5%

Persistence of inflation: as estimated using data over the period from 1993 to the present

Long-run inflation expectations: remain contained, at or below current levels

Financial, Commodity Price and Fiscal:

Similar to the Greenbook, except assume slightly higher term premia

Respondent 4*:

Forecast errors over past 20 years include those from two recessions, the stock market crash of 1987, productivity acceleration starting 1995, financial market turmoil of 1998, uncertainties over Y2K and the shock of 9/11. Looking ahead, despite current uncertainties related to financial market turmoil, I do not believe that we have good reason to conclude that the standard error of the forecast should be regarded as higher than that experienced over the past 20 years, which period includes the upsets and events listed. The same comment applies to the skewness of the forecast, question 2(b).

I have very weak priors on the funds rate path – the policy stance needs to adjust as necessary to reach policy objectives, especially the inflation path.

Compared to my outlook in June, the housing outlook is clearly weaker and the recent financial market turmoil reduces my point estimate for durables consumption and business fixed investment.

* Includes responses written in for questions 2 and 3.

Respondent 5:

The key uncertainty is the potential for a “tail risk” of a severe contraction in the housing sector that results in a significant contraction in consumption and investment.

Respondent 6:

-- A large left tail on the outlook for economic growth in 2008

-- Higher food prices; sustained high consumer energy prices

-- Lower dollar

-- Continued tight labor markets in the capital-goods sector and in industries that support infrastructure investment

-- Growth supported by strong net exports

-- Revenues generated overseas help support corporate profits and stock-market prices, partially compensating for the wealth effect from falling home prices

Respondent 7:

Turmoil in financial markets in recent months has battered an already slumping housing sector. However, the adverse spillovers to household and business spending so far have not been large, as the economy outside of housing appears to be holding up reasonably well. This drag from housing is expected to

produce a substantial, but not a recessionary, drop in real GDP growth in the current and next couple of quarters.

The stance of monetary policy still appears to be somewhat restrictive even with the 50 basis point cut in the funds rate in September. With inflation consistent with price stability and unemployment near its full employment rate, it is appropriate to gradually move the funds rate to its neutral level. I assume that the funds rate falls to 4½% in 2008 and 4¼% in 2009 and 2010; given my inflation forecast, the latter is near my best estimate of the neutral rate.

Output growth remains below potential through 2008 but then gradually improves as the housing sector stabilizes and the stance of monetary policy moves to neutral. Given conditions in credit markets, the risks to this forecast are moderately on the downside. During 2008, the unemployment rate inches up to almost 5%. By 2010, the real economy is at steady state with the unemployment rate at my 4¾% estimate of the NAIRU and real GDP growth at my 2½% estimate of potential growth.

In 2008 and 2009, core inflation slowly edges down in response to the appearance of a small amount of labor market slack and a small decline in inflation expectations. By 2010, monetary policy has achieved a desirable level of overall and core PCE price inflation of 1.7%. In view of recent increases in oil and food prices, declines in the dollar, and a slower rate of productivity growth, the risks to this forecast are moderately on the upside.

Respondent 8:

The financial stresses from the fallout over subprime mortgages and expectations of falling home prices are having a significant affect on the housing sector and likely will lead to substantial declines in residential investment over the next few quarters.

Demand in the rest of the economy remains relatively healthy, with substantial momentum coming out of the third quarter. Going forward, tighter credit conditions should have only a modest negative effect outside of housing.

The declines in residential investment will likely hold GDP growth somewhat below potential in the fourth quarter of this year and the first half of next year. Growth should rebound by the second half of next year, running a little above potential.

Overall, the level of output should remain relatively close to potential, with little change in the unemployment rate.

Larger spillover effects of the tighter credit conditions on consumer spending or capital investment are an important risk to the base case scenario described above.

Readings on core inflation continue to be relatively encouraging, making it less likely that the recent decline will be transitory.

In addition, our base case scenario has the economy continuing to operate near potential, suggesting relatively flat inflation rates.

However, there are important risks on both sides to the inflation forecast. On the one hand, if tightened credit conditions have a larger than expected effect on the economy, then additional slack may lead to lower inflation. On the other hand, continued wage pressures along with lower productivity growth could increase labor cost pressures. Combined with increases in energy and other input prices and a falling dollar, these could lead to higher inflation.

Respondent 9:

We believe that further declines in residential investment will keep real GDP growth below trend for several quarters. The extent and duration of the drag from housing is highly uncertain.

Respondent 10:

Continued weakness in the housing sector drives GDP growth somewhat below potential in the final quarter of this year and in the first half of 2008. Outside of housing, the economy is expected to grow moderately, with the recent dollar depreciation and increase in oil prices providing offsetting influences on economic activity. We continue to view the effect of housing on the rest of the economy as limited to standard multiplier effects.

The unemployment rate increases marginally from its current level as a result of growth below potential. As the drag from housing wanes, the economy returns to a pace of growth close to potential in the second half of 2008. Inflation remains subdued over the forecast horizon, with slack in the labor market offset by higher oil prices.

Risks to economic activity continue to be skewed to the downside. While there have been improvements in financial markets outside of non-agency mortgage products, conditions have yet to return to normal. Tighter credit markets, coupled with the continually deteriorating housing market, have the potential to exert more restraint on spending than is currently embedded in our baseline forecast. The risks to the inflation outlook are broadly balanced. Emerging slack in the labor market should wield downward pressure on wages and prices. We view the pass-through from oil and the dollar as limited, but large changes in either could trigger a non-linear response of prices.

Respondent 11:

Tightened terms and reduced availability of non-agency mortgages will lead housing to take another leg down. Large inventories will imply sharp reductions in residential construction. Tighter credit and a weaker outlook will also cause commercial construction to grow much more slowly. Modest declines in house prices, higher oil prices, weaker sentiment, and somewhat lower employment will lead to slower growth in consumption. The economy will grow very slowly through midyear 2008.

Recent core inflation data have been reasonably encouraging. Softening growth on the one hand and possible passthrough from energy prices/food prices/weaker dollar/lower productivity growth and higher unit labor costs on the other leave the risk to core inflation about balanced. Energy prices/food prices imply an upside risk to total inflation.

Respondent 12:

The incoming data have for the most part been consistent with my September projection: tight credit market conditions led to a further deterioration in the housing market, though there remains little evidence of spillover to the rest of the economy. I assume trend growth of 2.7 percent but remain uncertain about how much of the recent productivity growth slowdown is transitory and how much is more persistent. I expect the economy to return to near-trend real GDP growth by late 2008 as the housing correction runs its course and financial market turbulence unwinds. An easing of monetary policy may lead to upward pressure on core inflation in 2008 and 2009. I assume the funds rate at 4.5 percent will be sufficient to restrain expectations and keep inflation on a gradual downward path. I do not, however, rule out the possibility that an increase in the funds rate may be required in 2008 or early 2009 to bring inflationary pressures back in line with my long-run goal of 1.5 percent.

Respondent 13:

The ongoing correction in housing and its resulting impact on consumer and business confidence is expected to dampen spending this quarter, before gradually improving next year. The rise in oil prices is expected to produce a drag on economic activity over the balance of 2007 and into 2008. However, these effects are partially offset by stronger net export growth through 2008. While financial conditions have improved since the September FOMC meeting, the potential for more financial turmoil and a sharper falloff in spending by consumers and businesses pose a clear risk to my near-term outlook. The recent rise in oil prices has caused me to push up my near-term PCE price projection, but long-run inflation expectations are expected to remain anchored around 2%. I see an upside risk to the near-term inflation projection as a result of a continuing dollar depreciation and higher energy costs. These developments also suggest some risk to long-term inflation should inflation expectations deteriorate.

Respondent 14:

- For Q4 2007 and 2008, significant uncertainty remains as to GDP and employment impact of financial market turmoil (particularly role of financial intermediaries) on real economy
- For 2009 and 2010, risks of significant changes in tax and trade policy could negatively impact economy
- Commodities price increases and exchange value of the dollar could have negative impact on inflation and inflation expectations

Respondent 15:

The forecast for the real economy incorporates a more persistent and deeper weakness in the housing sector than previously anticipated, before returning to trend. The reduction in mortgage credit availability associated with the financial distress since August is contributing to weaker housing-related activity. The looming risk is that the housing sector contraction leads to a more pervasive economic weakness, via significant spillover into consumer spending and business investment. An additional risk is that large-scale financial losses from sub-prime and related exotic mortgages will lead to a reduction in the availability of credit more generally.

We anticipate that current energy cost increases will push headline inflation measures higher in the near-term. While we expect this to be only temporary, we also acknowledge the risk that headline inflation will not moderate as anticipated.

Respondent 16:

Severe weakness in the housing market restrains growth in q4 and q1; consumption grows less rapidly than disposable income over the balance of 2007, 2008, and 2009, reflecting a negative housing wealth effect and tighter terms on consumer credit, offset a little by a continuing shift to labor income; investment grows moderately tracking consumption and strong export demand, with little direct effect from credit conditions on business spending.

Uncertainty higher than history for output and employment owing to uncertainty about the course of credit conditions and the response of households and businesses to those conditions; uncertainty higher for total inflation reflecting energy and commodity market uncertainty.

Risks to output tilted down reflecting financial markets etc. ; risks to inflation tilted up if output follows the modal path reflecting the declining dollar and rising energy and commodity prices.

Both greater uncertainty and skewed risks hold though 2008; uncertainty in line with history thereafter and risks balanced.

Respondent 17:

- Monetary policy is unchanged in the near-term. However, with monetary policy currently slightly restrictive, I assume the funds rate will be reduced to a neutral level by 2009.
- Growth in residential investment and commercial real estate has been revised down. Residential investment continues to decline through the first half of 2008 before turning up in the second half of 2008. However, greater weakness in housing and commercial real estate is the main downside risk to economic growth
- Growth in real exports and a decline in real net exports add to growth over the projection horizon.
- Higher energy and commodity prices, greater dollar depreciation (or greater pass-through to import prices), and greater increases in unit labor costs pose upside risks to the expected moderation in core and overall inflation.

Forecast Narratives (continued)

4(b). Please describe the key judgments and assumptions affecting your economic projections in the fourth year.

Respondent 1:

I am comfortable with the greenbook's view of NAIRU around 4.8% and am also comfortable with the greenbook's view on potential GDP growth around 2.2%. A key assumption for my inflation forecast is my view that inflation gravitates to long-run inflation expectations, which are anchored around the 2% level for PCE, unless we make a strong effort to change these expectations. At this point, I am assuming a 2% PCE long-run inflation goal, but would be willing to adjust this if the committee could agree on a single number. It is even clearer now that the problems in the credit markets are unlikely to dissipate quickly.

Respondent 2:

Expect economic growth at trend and monetary policy to contain inflation at my implicit objective.

Respondent 3:

We assume that long-term inflation expectations are just above 2% for the CPI, that potential growth is 2.6% (in 2010 the retirement of baby boomers begins to have a perceptible impact on labor input), and that the output gap stays close to zero. Our extended forecast also includes some implicit judgments about the likely ranges for the NAIRU and the neutral policy rate. Those judgments put the neutral policy rate in the region of 3.75% to 4.75% and the NAIRU between 4.5% to 5%.

Respondent 4:

2010 real growth is a projection that reflects a judgment about potential GDP growth and that the economy will follow approximately along that path. The 2010 inflation rate is a projection that reflects my desired outcome for inflation under an appropriate monetary policy.

Respondent 5:

My assumptions are largely consistent with those expressed in the "Extended Greenbook Forecast" memo of October 25, with two exceptions: I assume (a) a cut in Fed Funds rate of 25 bp within the next six months and (b) productivity growth is a bit stronger and the demographic factors a bit less negative leading to a higher level of potential GDP.

Respondent 6:

- Return to normal housing-market dynamics in the U.S.
- Return to trend growth and inflation
- Diminished credit woes
- Spreading benefits from the globalization of technological innovation
- Further increases in the relative prices of food and energy

Respondent 7:

In 2010, my forecast shows inflation that is consistent with price stability. Real GDP growth, the rate of unemployment, and the real funds rate are all near their long-run sustainable levels.

Respondent 8:

Potential output growth is 2.6%.

The natural rate of unemployment is 4.7%.

Respondent 9:

We believe that trend real GDP growth is 2.7 percent. We assume that the FOMC will target PCE inflation at 1.5 percent.

Respondent 10:

Potential GDP growth is 2.4 percent. The NAIRU is $4\frac{3}{4}$ percent. The Federal Funds rate is brought to $4\frac{1}{4}$ percent by 2009 and kept at that level over the rest of the forecast horizon.

Respondent 11:

The inflation projections for 2010 reflect my view of the levels of inflation that combine a reasonable approximation to price stability (allowing for measurement error) with some buffer against zero-bound problems.

Growth and unemployment estimates projections for 2010 reflect my current estimates of the sustainable levels of those variables, given my expectations for productivity growth among other factors.

Respondent 12:

The economy reaches its steady state in 2010: trend real output growth of 2.7 percent, unemployment at the natural rate of 5 percent, and core inflation running at 1.5 percent. As mentioned in 4(a), monetary policy easing, absent clear policy targets, raises the risk that inflation expectations drift upward. To generate disinflation in core inflation over the forecast horizon, monetary policy may have to tighten in 2008 or early in 2009 before moving back down to 4.5 percent by year-end 2010.

Respondent 13:

I have defined appropriate policy over this horizon as one that is consistent with achieving PCE inflation slightly less than 2 percent and I have adopted assumptions for labor productivity and employment growth that are consistent with potential GDP growth of 2.6 percent.

Respondent 14:

On the path of returning to trend levels

Respondent 15:

GDP returns to trend growth of around 2.5 percent, and the federal funds rate is consistent with this trend growth and PCE inflation at around 2 percent.

Respondent 16:

$Y^*=2.3$; NAIRU=4.8; $r^*=2.5$; inflation just below 2 is consistent with our dual mandate.

Respondent 17:

The economy returns to potential in 2009 and 2010. Demographic changes contribute to a fall in potential growth in 2009 and 2010. Potential growth is estimated to fall from 2.7 percent currently, to 2.6 percent in 2009 and 2.5 percent in 2010.

Core PCE inflation declines to an appropriate level.

The federal funds rate is close to neutral.

Forecast Narratives (continued)

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

Respondent 1:

My forecast is close to that of the greenbook, but I am a little less sanguine about the economy in the near term given the greenbook's policy path. However, since my policy path is a little lower, my forecast is very close to theirs with a little more weakness in the short term.

Respondent 2:

The principal difference is that I remain somewhat more optimistic about potential growth in the economy. Nevertheless, my estimate of trend growth has moved down modestly over time on the basis of further analyses of labor force demographics and productivity.

Respondent 3:

We project higher growth of hours worked mainly because we assume the secular decline in the labor force participation rate will occur later and more slowly than assumed in the Greenbook. We assume lower inflation persistence than does the Greenbook. We assume the FOMC's inflation objective to be 1.5% for the PCE deflator and 2% for the CPI. We interpret current measures of long-term inflation expectations as being slightly above 2% on a CPI basis but do not view that level as significantly different from the inflation objective.

Respondent 4:

My projection for real GDP in 2008 is somewhat stronger than the Greenbook. My projection for inflation in 2009 and 2010 is materially lower than the Greenbook, perhaps reflecting a difference in the policy objective for inflation.

Respondent 5:

I have not marked down the trend rate of GDP by as much as the Greenbook.

Respondent 6:

- The economy's potential growth rate is greater than is assumed by the Greenbook.
- Risks to growth are more asymmetric than is acknowledged by the Greenbook.

Respondent 7:

My forecast for real GDP growth is higher in 2008 and 2009 probably because of my higher estimate of potential real GDP growth and my assumption of a lower level of the funds rate through the end of the forecast horizon.

My forecast shows core PCE price inflation moving down somewhat more than in the Greenbook. In part this is due to the slightly higher unemployment rate in my forecast (both forecasts use the same estimate of the NAIRU.) In part it may also be due to my building in a small decline in inflation expectations as the public learns about the 1¼ percent inflation objective that I assume.

Respondent 8:

We assume a higher rate of potential output growth.

We also expect somewhat less effect of the tightened credit conditions on sectors of the economy not associated with housing.

Respondent 9:

We believe that trend real GDP growth is higher than in the Greenbook, due to higher productivity growth and higher labor force participation.

Respondent 10:

Differences with the Greenbook forecast are relatively minor. The Greenbook has a weaker outlook for residential investment this quarter and in the first half of next year.

Respondent 11:

I am slightly more optimistic about potential output growth, due to a higher projection for multifactor productivity growth.

Respondent 12:

I assume the labor force grows at close to 1 percent per year. Private nonfarm payroll employment growth is on the order of 80 thousand jobs per month over the next four quarters, and then rebounds to about a 130 thousand jobs per month pace beginning at the end of 2008. In 2009, the economy is growing near our estimate of trend real GDP growth, which is about 2.7 percent.

Respondent 13:

I had only minor differences with the Greenbook's projection in the near-term prior to my post-FOMC meeting revision. I saw economic activity a bit softer than the Greenbook for the remainder of 2007 but slightly better growth in 2008. I also anticipated a more gradual decline in oil prices than did the Greenbook over the forecast horizon, resulting in slightly more growth in the headline PCE price measure. There was no significant difference between my view of core PCE price growth and what was forecast in the Greenbook. Over the longer-term, I expected to see somewhat more real GDP growth than the Greenbook, owing to my higher expected growth in potential GDP.

My projection has been modified since the FOMC meeting, incorporating the higher-than-expected QIII GDP estimate. Further, I have marginally marked up my 2008 and 2009 growth projections as a consequence of a lower fed funds rate path.

Respondent 15:

Trend real output growth is about 50 basis points higher than in the Greenbook.

Respondent 17:

With a higher estimate of potential growth, my forecast for real GDP growth is higher than Greenbook's forecast.

Forecast Narratives (continued)

4(d). Please describe the key factors causing your forecast to change since the projections submitted ahead of the June FOMC meeting.

Respondent 1:

The two key factors are a lowering of potential GDP growth because of the NIPA revisions by 0.3 percentage points, in line with the downward revision in potential GDP growth by the greenbook. The second is the credit markets disruption, which lowers GDP growth relative to potential. However, the basic contour relative to potential after 2008 is not very different. My inflation forecasts are very similar, with slightly lower inflation in 2007 and 2008 because of the recent good inflation numbers and the weakness in output growth from the credit disruption. My unemployment path is similar, but is one-tenth lower going further out because the good inflation numbers suggest a slightly lower NAIRU.

Respondent 2:

- Subdued expansion in late 2007 and the first half of 2008 due to more restrictive financial conditions and more pronounced weakness in residential construction than earlier anticipated.
- Somewhat more favorable performance of core inflation due largely to the nature of incoming data.
- As noted above, trend growth reduced in light of more modest projections of labor force and productivity increases.

Respondent 3:

In response to the NIPA revisions, we revised down our estimate of potential GDP growth to 2.7% from 3%. Aside from that pertaining to the housing sector, incoming expenditure data have been consistent with our June FOMC projection of a rebound in GDP growth. While in June we expected some further reduction of housing production in the second half of 2007, the decline in housing starts has turned out to be more severe than expected. Moreover, the ongoing disruptions in the supply of mortgage credit have led us to conclude that a recovery of the housing sector will occur later than previously assumed. Nonetheless, this additional drag on growth has been partly offset by an increase in the expected positive contribution from net exports. The net effect of these changes is to lower our central projection for real GDP growth below its potential rate for 2007Q4 and 2008H1. The larger-than-expected downturn in housing and ongoing financial turmoil has produced large increases in the downside risk to our near-term real activity forecast since June, while the continued downward revisions in productivity estimates raises the downside risk over the longer run.

Incoming data since June have led us to reduce slightly our inflation projection for 2007 and 2008. A range of models of inflation also suggest lower inflation pressures in the near term. In addition, the increase in downside risks to growth effectively balanced the upside risk to our inflation forecast from risks such as a productivity slowdown and higher import/commodity prices. Overall, it now appears that underlying inflation has convincingly moderated to acceptable levels compared to the situation in June.

The largest change in our projections since June has been in our assumption for the appropriate path of policy. We view the financial market turmoil as having lowered the neutral policy rate at least temporarily by around 25bp. Combining this with the change in the inflation projection and the large increase in downside risk to growth implies an appropriate policy path with a lower real federal funds target rate relative to that of June.

Respondent 4:

Information received since June suggests that a small downward revision in the estimate of trend growth is appropriate.

Respondent 5:

- The key is the risk from the financial turmoil having a real impact through primarily housing which then affects consumption and investment.
- The core inflation data has come in consistently a shade lower than I had expected.

Respondent 6:

-- Sub-prime factors have lasted longer than expected.
-- Oil prices shot up again, even further; food prices too.
-- Composition of growth has shifted (weaker residential investment, but stronger net exports; lower home prices, but stronger stock market; greater capacity constraints on suppliers of continued high infrastructure activities).

Respondent 7:

Recent financial developments and their implications for aggregate demand, as well as weaker-than-expected data on housing, have caused me to lower my forecast for real GDP growth and my funds rate path over the next year or so and to raise my assessment of the downside risks to growth. Recent favorable data have caused me to revise down my forecast core PCE inflation over the next several years, although higher oil and food prices, a lower dollar, and a lower growth rate of productivity pose upside risks to my forecast.

Respondent 8:

The financial fallout from deterioration in subprime mortgage performance has led to significantly tighter financial conditions. These are having a large impact on residential investment. Other areas of the economy likely will be affected much less, but there is a risk of greater spillovers.

Downward revisions to several years of output data suggest a lower rate of potential output growth.

The underlying strength of demand during the summer was somewhat greater than we had expected.

Recent data on core inflation have been more encouraging, though energy prices have risen again.

Respondent 9:

The housing market was much weaker than we had expected, even before the turmoil in financial markets. We now expect a significant further decline in housing activity and greater spillovers on manufacturing. In addition, a greater degree of uncertainty concerning the economic outlook is likely to lower the growth of investment spending. On the other hand, net exports are likely to be stronger than we had expected in June, in part due to the greater than expected decline in the foreign exchange value of the dollar.

Inflation has been lower than we expected in June; we have accordingly lowered our near-term forecast.

Respondent 10:

The unemployment rate forecast is somewhat higher than in June, while the inflation projection is essentially the same. GDP is now projected to grow at a slower pace. This reflects a weaker outlook in the near term as a result of a worsened picture for residential investment but also, importantly, a downward revision – of about 3-tenths of one percent – in potential GDP growth that, by itself, translates one-for-one into lower projected activity.

Respondent 11:

Financial market volatility, repricing of risk, tightening credit conditions.
Reduced availability and higher cost of non-conforming mortgages.
More protracted housing downturn.
Higher oil and food prices.
Continued moderation in core inflation readings.

Respondent 12:

Tighter lending conditions and a deeper-than-expected housing slump led me to revise down my estimates for real GDP growth in 2007 and 2008. In addition, I have lowered my estimate of trend real GDP growth based in part on the July benchmark revision to GDP. The combination of a weaker economy and lower trend growth over the forecast horizon led to a downward revision to my estimate of the federal funds rate path necessary to achieve my inflation goal of 1.5 percent.

Respondent 13:

A greater deterioration in U.S. housing markets, financial turmoil, and higher oil prices have caused me to reduce my expectations for spending by consumers and businesses late this year and in 2008. Added net export growth only partially offsets these downward influences and on net I have cut my 2008 real GDP outlook compared to June—to 2.1 percent from 2.8 percent. I have also reduced my estimate of potential GDP growth to 2.6 percent from 2.8 percent.

Respondent 14:

- Financial market turmoil
- Changing expectations of “shock absorber” role of financial intermediaries

Respondent 15:

- The BEA data revisions for real GDP released in July made downward revisions to real output growth over the period 2004 to 2006. This led to a downward revision to our estimate of trend real GDP.
- The housing sector contraction has been notably more severe than previously anticipated.
- The inflation data has been more moderately more favorable than previously forecast, although the prospects for further reductions to inflation seem dim. As a result, the inflation forecast paths are much flatter than in June.
- The forecast policy interest rate path is lower than it was in June; consistent with the lower real output forecast and relatively flat inflation profile.

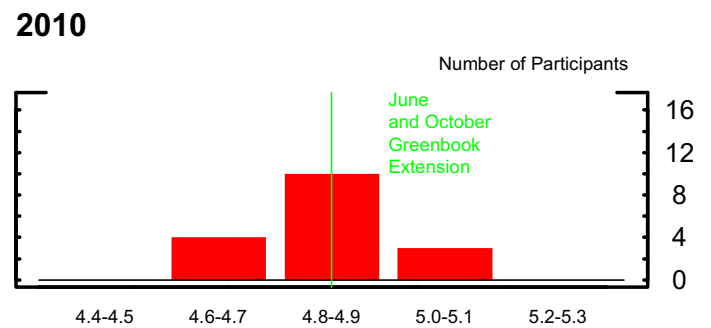
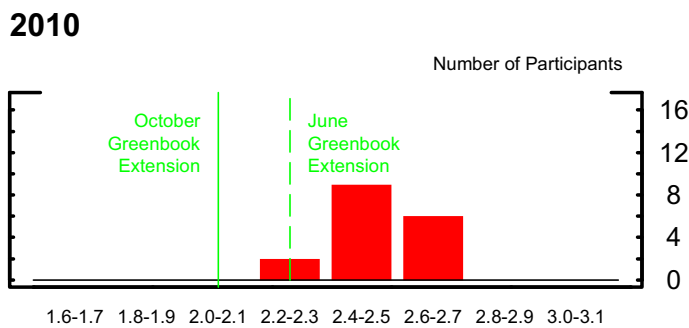
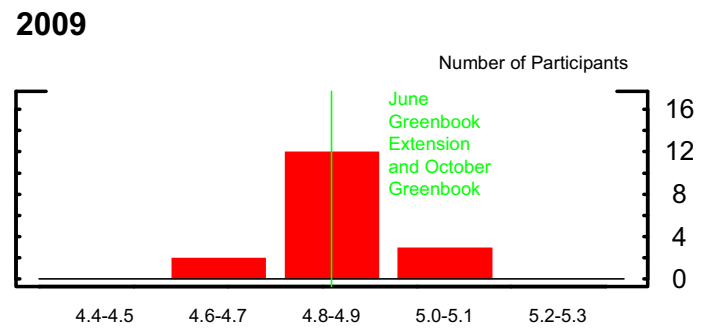
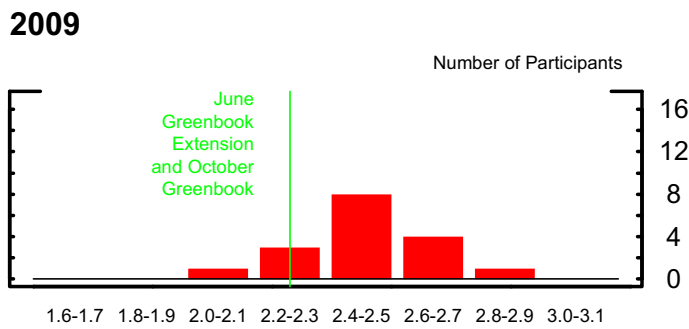
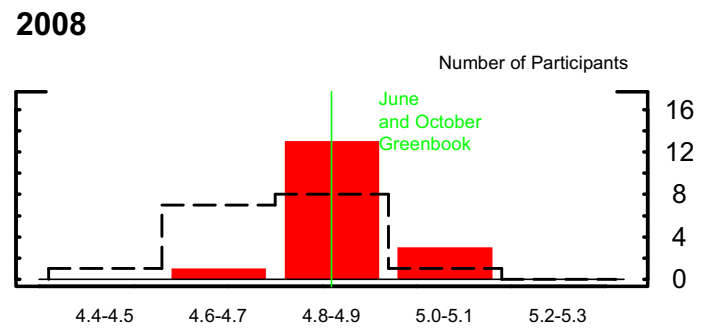
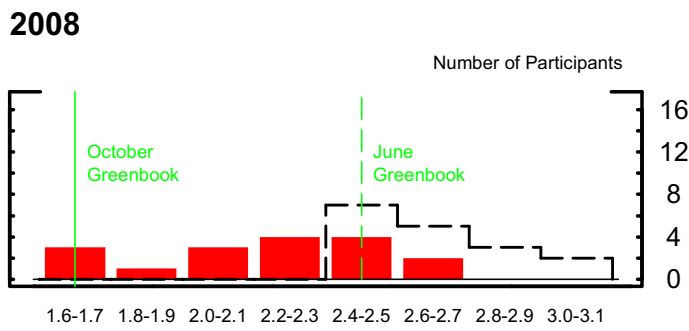
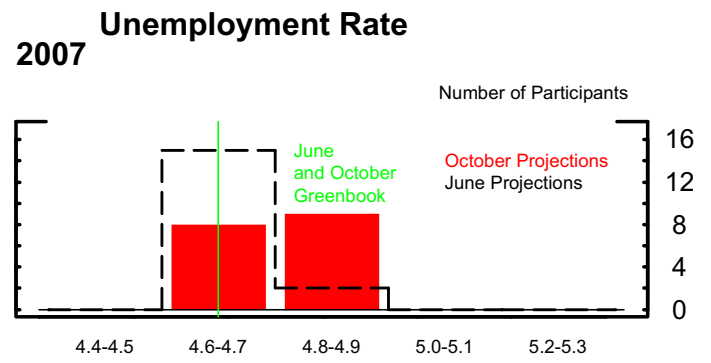
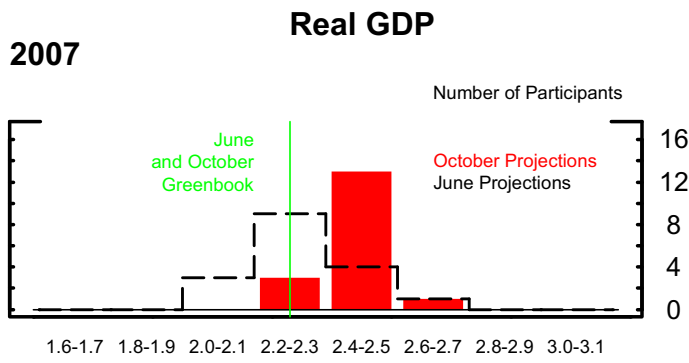
Respondent 16:

Growth in 2007 is higher, reflecting incoming data. A deeper housing contraction and less generous credit constrain growth significantly in 2008 relative to June, but the unemployment rate ends up at the same rate at the end of 2008 as forecasted in June. Total and core inflation are lower in 2007 owing to incoming data; core inflation a little lower in 2008.

Respondent 17:

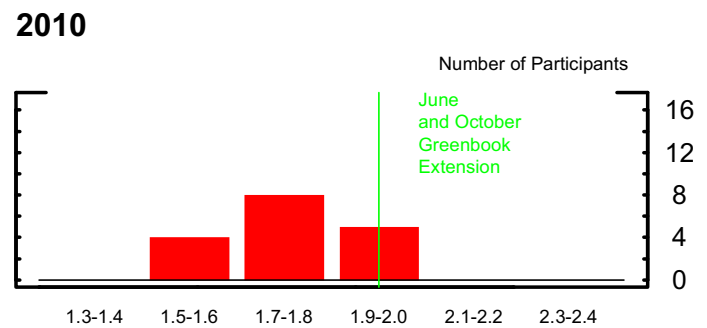
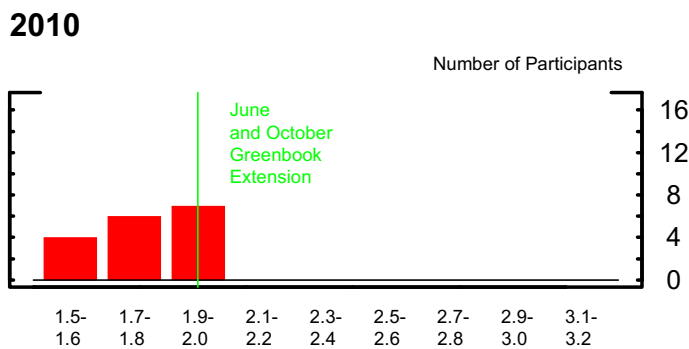
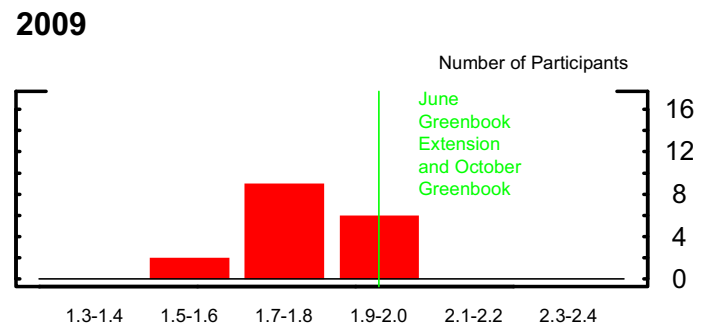
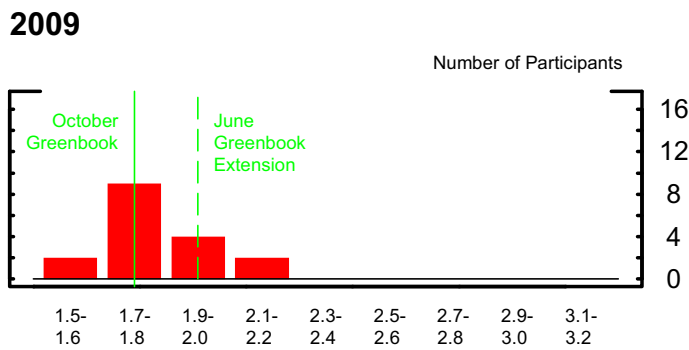
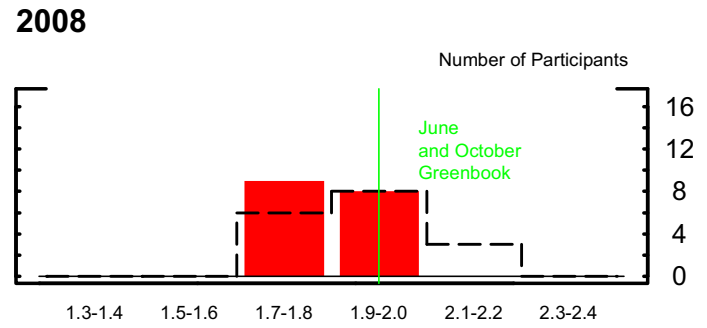
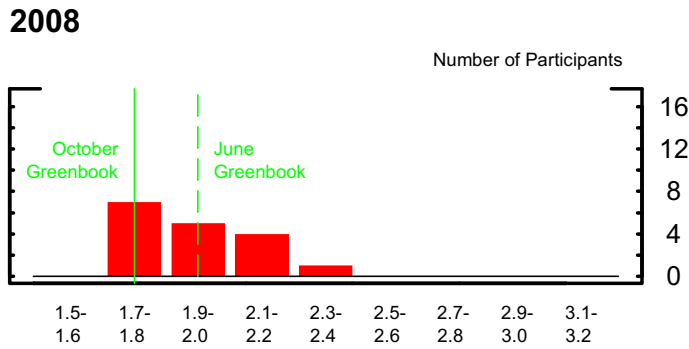
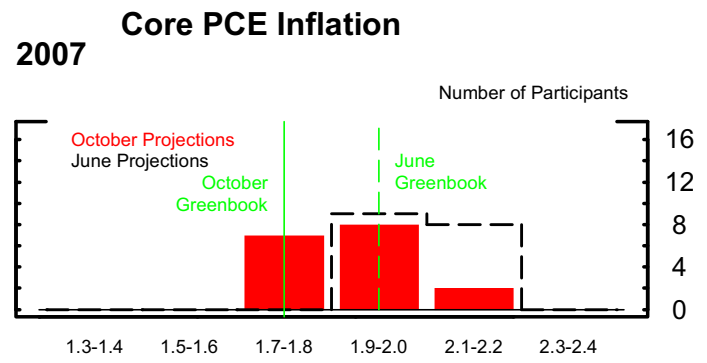
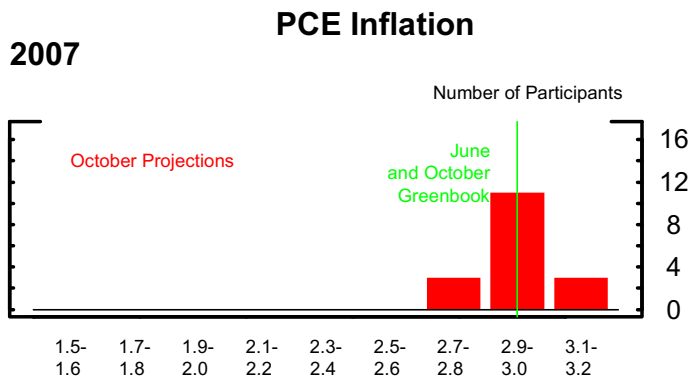
Weaker housing, financial turmoil, and a continued high level of energy prices led to a reduction in my near-term outlook for growth. A lower estimate of potential growth led to a reduction in growth over the longer term.

Chart 2(a): Distribution of Participants' Projections (percent)*



* Those participants' June projections that were provided in quarter points have been rounded to the nearest tenth for the construction of these histograms.

Chart 2(b): Distribution of Participants' Projections (percent)*



* Those participants' June projections that were provided in quarter points have been rounded to the nearest tenth for the construction of these histograms.