BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
DIVISION OF MONETARY AFFAIRS
FOMC SECRETARIAT

Date: April 15, 2011

To: Governors and Reserve Bank Presidents

From: Deborah J. Danker

Subject: Request for April Projections—New Logistics

As part of the upcoming policy cycle, FOMC meeting participants are requested to submit their quarterly economic projections. Attached to this cover note is a timeline of the projections process (Attachment 1), a description of the scope of the projections and narrative (Attachment 2), and an updated version of the usual table providing background information on forecast uncertainty (Attachment 3).

<u>Some new logistics and deadlines</u>

As you know, this will be the first time that a summary table of the economic projections will be released right after the FOMC meeting, in connection with the Chairman's press conference. Since that release date is three weeks earlier than had been the norm, the deadlines for submission and revision of projections will be extremely important.

The initial deadline for submission, **5:00 pm Eastern Time on Friday, April 22,** is the same as usual. But we will now be requesting information about whom to contact in case there is a need to discuss or correct the projections over the weekend of April 23-24. (We are following up with your offices individually to get this information.) Also, any revisions to your projections will need to be received on a stepped-up schedule, and you will no longer have until the day after the meeting to revise your forecasts. Please provide us with any projection revisions as soon as you have them, but in any case by **9:00 pm on Tuesday, April 26**. If necessary, a revision could be submitted up until the end of the coffee break on the second day of the meeting—or, if it turns out that there is no coffee break, until shortly after the meeting has ended. At that point, however, projections will be finalized and no further revisions will be possible.

For the convenience of Bank Presidents and Bank staff, connections to the System IT network will be available in the Special Library on April 26-27, so that any last-minute revisions could be submitted with the standard Lotus Notes application (please be sure to bring your laptop if you intend to use these connections). Alternatively, we will have paper copies of individual projections available, and participants could write in revisions, if necessary.

Attachment 1

April Projections Timeline

April 15 (Friday)	Request for participants' projections
April 18 (Monday)	Projections template made available via Lotus Notes email link
April 22 (Friday)	Initial projections due by **5:00 pm ET**
April 25 (Monday)	Initial summary projections package distributed to FOMC participants
April 26 (Tuesday)	First day of FOMC meeting. Briefing on participants' projections and narratives. Deadline for projection revisions.
April 27 (Wednesday)	Second day of FOMC meeting. Absolute deadline for projection revisions. Summary projections table will be released at the Chairman's press conference.
April 28 (Thursday)	Final summary projections package distributed to FOMC participants
May 5 (Thursday)	First draft of the minutes and Summary of Economic Projections (SEP) distributed to participants
May 10 (Tuesday)	Second draft of the minutes and SEP distributed to participants
May 12 (Thursday)	Final version of the minutes and SEP distributed for notation vote
May 17 (Tuesday)	Voting on minutes and SEP closes at noon ET
May 18 (Wednesday)	Minutes and SEP published at 2:00 pm ET

Attachment 2

Scope of the April Projections

Variables and Periods:

2011-2013: Please provide your projections of the most likely outcomes for the percent change in **real GDP** (Q4/Q4), the percent change in the chain-weighted price index for **PCE** and for **core PCE** (Q4/Q4), and the level of the **unemployment rate** (Q4 average) for 2011, 2012 and 2013. Please also provide your current estimates for the annualized percent change in real GDP, the total PCE price index, and the core PCE price index in the first half of 2011, i.e. $Q2^{2011}/Q4^{2010}$. Please express all of these projections to the nearest tenth of a percentage point (for example, 2.5 percent).

Longer Run: Please provide your best assessment of the rate to which the variables below would converge over the longer run (say, five to six years from now) in the absence of shocks and assuming appropriate monetary policy. If you anticipate that the convergence process will take shorter or longer than about five or six years, please indicate your best estimate of the duration of the convergence process. Please provide your estimates as single numbers (that is, not as ranges), rounded to tenths of a percentage point. You may also include in your submission any explanatory comments that you think would be helpful.

1. Change in real GDP (percent, annual rate)
2. Civilian unemployment rate (percent)
3. Total PCE inflation rate (percent, annual rate)

Judgments about Uncertainty and Risks:

Please also indicate whether you judge that the uncertainty attached to your projections for each variable is higher/lower/broadly similar to levels of uncertainty over the past 20 years, and also whether the risks around your projections for each variable are weighted to the upside/downside/broadly balanced. As with your modal projections, these judgments concerning the uncertainty and risks attached to your projections should be based on the assumption that the System pursues an appropriate monetary policy. We have provided an updated table summarizing a range of alternative measures of past forecast uncertainty as background for your judgments.

Underlying Assumptions:

As before, no common assumptions are proposed for fiscal policy and other exogenous factors, such as energy prices. However, if your assumptions for these types of variables differ materially from those in the Tealbook forecast, it would be helpful if this was noted in your narrative. With respect to monetary policy, projections should be based on the assumption that the System pursues what, in your judgment, would be an appropriate monetary policy, i.e., a policy that is most likely to achieve paths for economic activity and inflation that best satisfy your interpretation of the dual economic objectives. To aid the interpretation of your projections, it would be appreciated if you would indicate whether your monetary policy path deviates materially from the path assumed by the staff in the Tealbook and, if so, in what way. These deviations can be described qualitatively or, if you prefer, quantitatively.

Narrative:

The value of the projections process would be increased greatly if you could supply a narrative of the key considerations shaping your outlook. Some possible headings to help structure your narrative are suggested below (and are included in the online template for submitting projections).

- Please describe the key factors shaping your central economic outlook and the uncertainty and risks around that outlook.
- Please describe any important differences between your current economic forecast and the Tealbook.
- Please describe the key factors causing your forecasts to change since the projections submitted for the **January** FOMC meeting.

Attachment 3

Table 1: Historical Projection Errors
Root Mean Squared Errors of Spring Projections for 1991 to 2010[1]

Source	Real GDP[2] (percent change, Q4 to Q4)			Unemployment Rate (Q4 average)			Consumer prices[3] (percent change, Q4 to Q4)		
	2011	2012	2013	2011	2012	2013	2011	2012	2013
Monetary Policy Report[4]	1.00	—	—	0.46	—	—	—	—	—
Federal Reserve staff	1.02	1.54	—	0.46	1.30	—	0.87	1.08	—
Congressional Budget Office	1.07	1.66	1.88[5]	0.25[6, 7]	1.05[6]	1.64[6]	0.79	0.96	1.04[5]
Administration	1.15	1.71	1.67	0.58	1.42	1.87	0.72	0.90	0.92
Blue Chip	1.02	1.60	—	0.46	1.34	—	0.74	0.96	—
Survey of Professional Forecasters	0.98	1.68[5]	—	0.44	1.05[6]	—	0.75	1.00	—
Average	1.04	1.64	1.77	0.48	1.23	1.75	0.77	0.98	0.98

1. For methodological details and discussion see "Gauging the Uncertainty of the Economic Outlook from Historical Forecasting Errors" by David Reifschneider and Peter Tulip (Finance and Economics Discussion Series 2007-60). The table above is updated to include forecasts and outcomes for 2007 through 2010 (data which became available after the FEDS paper was released) and minor methodological changes.
2. Real GNP before 1992.
3. Based on the total consumer price index. Evidence based on Federal Reserve staff projections suggests that, on average, forecast errors for CPI inflation are slightly larger than those for PCE inflation.
4. Monetary Policy Report projections equal the mid-points of the published central tendency ranges. Results for inflation are not reported because the forecast price measure has changed over time.
5. Percent change, calendar year over calendar year.
6. Annual average.
7. Not included in average