Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, June 2012

Percent

Variable	Central tendency[1]				Range[2]			
	2012	2013	2014	Longer run	2012	2013	2014	Longer run
Change in real GDP	1.9 to 2.4	2.2 to 2.8	3.0 to 3.5	2.3 to 2.5	1.6 to 2.5	2.2 to 3.5	2.8 to 4.0	2.2 to 3.0
April projection	2.4 to 2.9	2.7 to 3.1	3.1 to 3.6	2.3 to 2.6	2.1 to 3.0	2.4 to 3.8	2.9 to 4.3	2.2 to 3.0
Unemployment rate	8.0 to 8.2	7.5 to 8.0	7.0 to 7.7	5.2 to 6.0	7.8 to 8.4	7.0 to 8.1	6.3 to 7.7	4.9 to 6.3
April projection	7.8 to 8.0	7.3 to 7.7	6.7 to 7.4	5.2 to 6.0	7.8 to 8.2	7.0 to 8.1	6.3 to 7.7	4.9 to 6.0
PCE inflation	1.2 to 1.7	1.5 to 2.0	1.5 to 2.0	2.0	1.2 to 2.0	1.5 to 2.1	1.5 to 2.2	2.0
April projection	1.9 to 2.0	1.6 to 2.0	1.7 to 2.0	2.0	1.8 to 2.3	1.5 to 2.1	1.5 to 2.2	2.0
Core PCE inflation[3]	1.7 to 2.0	1.6 to 2.0	1.6 to 2.0		1.7 to 2.0	1.4 to 2.1	1.5 to 2.2	
April projection	1.8 to 2.0	1.7 to 2.0	1.8 to 2.0		1.7 to 2.0	1.6 to 2.1	1.7 to 2.2	

Note: Projections of change in real gross domestic product (GDP) and projections for both measures of inflation are from the fourth quarter of the previous year to the fourth quarter of the year indicated. PCE inflation and core PCE inflation are the percentage rates of change in, respectively, the price index for personal consumption expenditures (PCE) and the price index for PCE excluding food and energy. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated. Each participant's projections are based on his or her assessment of appropriate monetary policy. Longer-run projections represent each participant's assessment of the rate to which each variable would be expected to converge under appropriate monetary policy and in the absence of further shocks to the economy. The April projections were made in conjunction with the meeting of the Federal Open Market Committee on April 24–25, 2012.

1. The central tendency excludes the three highest and three lowest projections for each variable in each year.
2. The range for a variable in a given year includes all participants' projections, from lowest to highest, for that variable in that year.
3. Longer-run projections for core PCE inflation are not collected.

Table 1.A. Economic projections for the first half of 2012*
(in percent)

Central tendencies and ranges

	Central tendency	Range
Change in real GDP	1.8 to 2.1	1.8 to 2.2
PCE inflation	1.5 to 1.6	1.4 to 2.0
Core PCE inflation	1.9 to 2.0	1.9 to 2.0

Participants' projections

Projection	Change in real GDP	PCE inflation	Core PCE inflation
1	2.1	1.5	1.9
2	2.0	1.5	2.0
3	1.9	1.6	2.0
4	1.8	1.5	1.9
5	1.8	1.5	1.9
6	1.8	1.5	1.9
7	1.9	1.5	2.0
8	2.0	1.8	1.9
9	1.8	1.6	1.9
10	2.2	2.0	2.0
11	1.8	1.5	1.9
12	2.0	1.4	1.9
13	1.8	1.5	1.9
14	1.9	1.5	1.9
15	1.9	1.4	1.9
16	1.8	1.5	1.9
17	2.1	1.6	1.9
18	1.8	1.5	1.9
19	2.1	1.6	1.9

* Growth and inflation are reported at annualized rates.

Table 1.B. Economic projections for the second half of 2012*
(in percent)

Central tendencies and ranges

	Central tendency	Range
Change in real GDP	2.0 to 2.7	1.4 to 2.9
PCE inflation	0.9 to 1.8	0.9 to 2.2
Core PCE inflation	1.5 to 2.0	1.5 to 2.1

Participants' projections

Projection	Change in real GDP	PCE inflation	Core PCE inflation
1	1.9	1.3	1.5
2	2.0	1.7	1.6
3	2.3	1.2	1.6
4	2.2	1.1	1.9
5	2.2	0.9	1.5
6	1.6	1.1	1.5
7	2.5	0.9	2.0
8	2.8	2.2	2.1
9	2.2	1.2	1.9
10	2.8	2.0	2.0
11	2.0	0.9	1.7
12	2.0	1.4	1.7
13	2.0	0.9	1.5
14	2.1	1.1	1.7
15	2.9	1.6	1.7
16	1.4	0.9	1.5
17	2.7	1.8	2.1
18	2.0	0.9	1.5
19	2.3	1.8	1.9

* Projections for the second half of 2012 implied by participants' June projections for the first half of 2012 and for 2012 as a whole. Growth and inflation are reported at annualized rates.

Table 2. June economic projections, 2012–14 and over the longer run (in percent)

Projection	Year	Change in real GDP	Unemployment rate	PCE inflation	Core PCE inflation	Federal funds rate
1	2012	2.0	8.2	1.4	1.7	0.13
2	2012	2.0	8.1	1.6	1.8	0.13
3	2012	2.1	8.0	1.4	1.8	0.13
4	2012	2.0	8.1	1.3	1.9	0.13
5	2012	2.0	8.2	1.2	1.7	0.13
6	2012	1.7	8.3	1.3	1.7	0.13
7	2012	2.2	7.9	1.2	2.0	0.75
8	2012	2.4	7.9	2.0	2.0	0.13
9	2012	2.0	8.0	1.4	1.9	0.13
10	2012	2.5	7.8	2.0	2.0	0.50
11	2012	1.9	8.2	1.2	1.8	0.13
12	2012	2.0	8.2	1.4	1.8	0.13
13	2012	1.9	8.2	1.2	1.7	0.13
14	2012	2.0	8.1	1.3	1.8	0.13
15	2012	2.4	8.2	1.5	1.8	0.13
16	2012	1.6	8.4	1.2	1.7	0.13
17	2012	2.4	8.0	1.7	2.0	0.13
18	2012	1.9	8.2	1.2	1.7	0.13
19	2012	2.2	8.0	1.7	1.9	0.50
1	2013	2.3	8.1	1.6	1.7	0.13
2	2013	2.8	7.6	1.8	1.8	1.00
3	2013	2.6	7.5	1.9	1.8	0.13
4	2013	2.7	7.7	2.0	2.1	0.13
5	2013	2.2	8.0	1.5	1.6	0.13
6	2013	2.2	8.0	1.5	1.4	0.13
7	2013	2.5	7.5	2.1	2.1	1.25
8	2013	3.5	7.0	2.0	2.0	0.75
9	2013	2.7	7.8	2.0	2.0	0.50
10	2013	3.0	7.0	2.0	2.0	1.75
11	2013	2.2	8.0	1.5	1.7	0.13
12	2013	2.2	8.0	1.7	1.7	0.13
13	2013	2.5	7.8	1.8	1.8	0.13
14	2013	2.3	7.9	1.7	1.7	0.13
15	2013	2.8	7.6	1.8	1.7	0.13
16	2013	2.5	8.1	1.5	1.5	0.13
17	2013	2.7	7.6	2.0	2.0	0.13
18	2013	2.6	7.8	1.5	1.6	0.13
19	2013	3.0	7.5	2.0	2.0	1.25

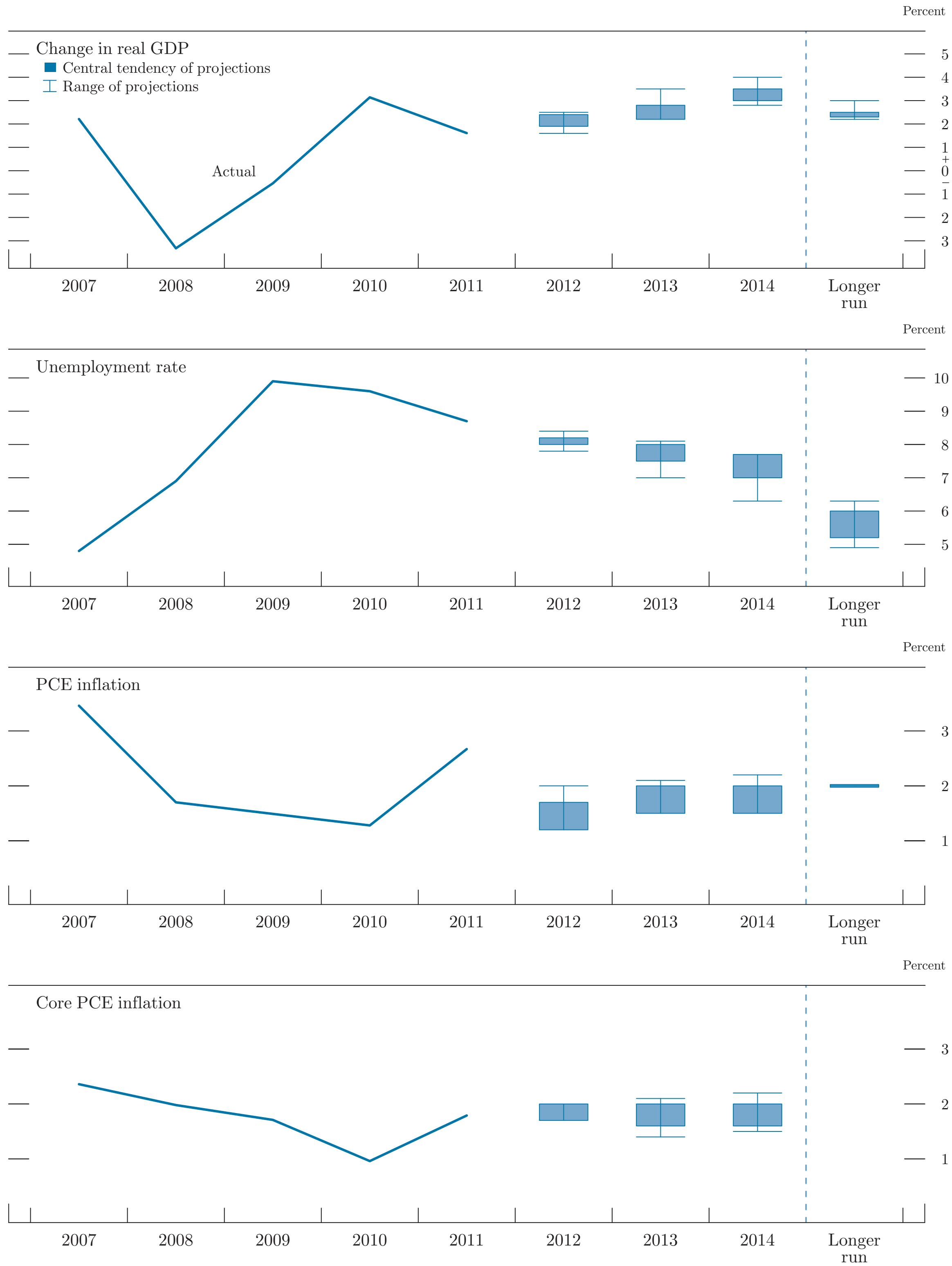
Table 2. *(continued)*

Projection	Year	Change in real GDP	Unemployment rate	PCE inflation	Core PCE inflation	Federal funds rate
1	2014	3.5	7.5	1.8	1.8	0.13
2	2014	3.4	7.0	1.9	1.9	2.50
3	2014	4.0	6.7	2.0	2.0	0.50
4	2014	3.5	7.2	2.0	2.1	0.13
5	2014	3.1	7.7	1.5	1.6	0.13
6	2014	3.3	7.7	1.5	1.5	0.13
7	2014	3.0	7.0	2.2	2.2	1.75
8	2014	3.0	6.5	2.0	2.0	2.75
9	2014	3.4	7.4	2.0	2.0	1.50
10	2014	3.0	6.3	2.0	2.0	3.00
11	2014	3.1	7.7	1.5	1.7	0.50
12	2014	2.8	7.7	1.8	1.8	0.13
13	2014	3.2	7.5	2.0	2.0	0.75
14	2014	3.0	7.4	1.7	1.7	0.50
15	2014	2.8	7.3	1.8	1.7	0.50
16	2014	3.6	7.6	1.7	1.5	0.13
17	2014	3.3	7.0	2.0	2.0	1.75
18	2014	3.4	7.4	1.5	1.6	1.50
19	2014	3.2	7.0	2.0	2.0	2.00
1	LR	2.5	5.2	2.0		4.50
2	LR	2.3	5.5	2.0		4.30
3	LR	2.3	4.9	2.0		3.50
4	LR	2.5	5.3	2.0		3.00
5	LR	3.0	5.4	2.0		3.80
6	LR	2.2	5.5	2.0		4.00
7	LR	2.5	6.3	2.0		4.00
8	LR	2.3	6.0	2.0		4.25
9	LR	2.5	6.0	2.0		4.50
10	LR	2.5	6.0	2.0		4.50
11	LR	2.3	6.0	2.0		4.50
12	LR	2.3	5.5	2.0		4.30
13	LR	2.5	5.2	2.0		4.00
14	LR	2.2	5.5	2.0		4.20
15	LR	2.6	6.0	2.0		4.00
16	LR	2.5	5.2	2.0		4.00
17	LR	2.5	5.2	2.0		4.50
18	LR	2.5	5.8	2.0		4.25
19	LR	2.7	5.5	2.0		4.00

Table 2 Appendix. Assessments of participants who, under appropriate monetary policy, judge that the federal funds rate will not be raised until after 2014

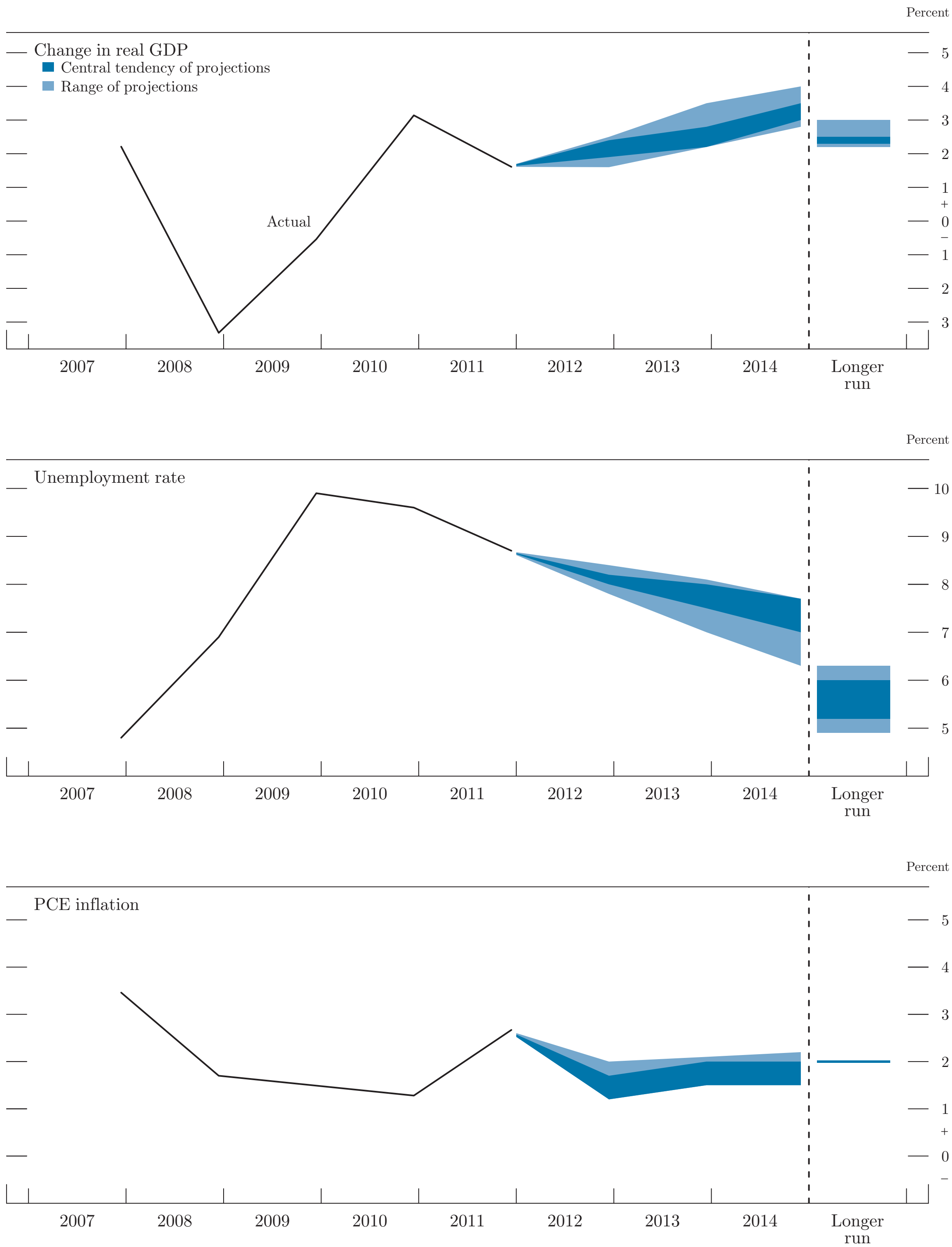
Projection	Year of first increase	Change in real GDP	Unemployment rate	PCE inflation	Core PCE inflation	Federal funds rate
1	2015	4.0	6.8	1.9	1.9	0.75
4	2015	3.8	6.4	2.1	2.2	0.50
5	2015	4.0	7.0	1.7	1.7	1.50
6	2015	3.4	7.2	1.8	1.8	0.50
12	2015	3.2	7.2	2.0	2.0	1.00
16	2015	4.0	6.9	1.9	1.6	1.00

Figure 1.A. Central tendencies and ranges of economic projections, 2012–14 and over the longer run



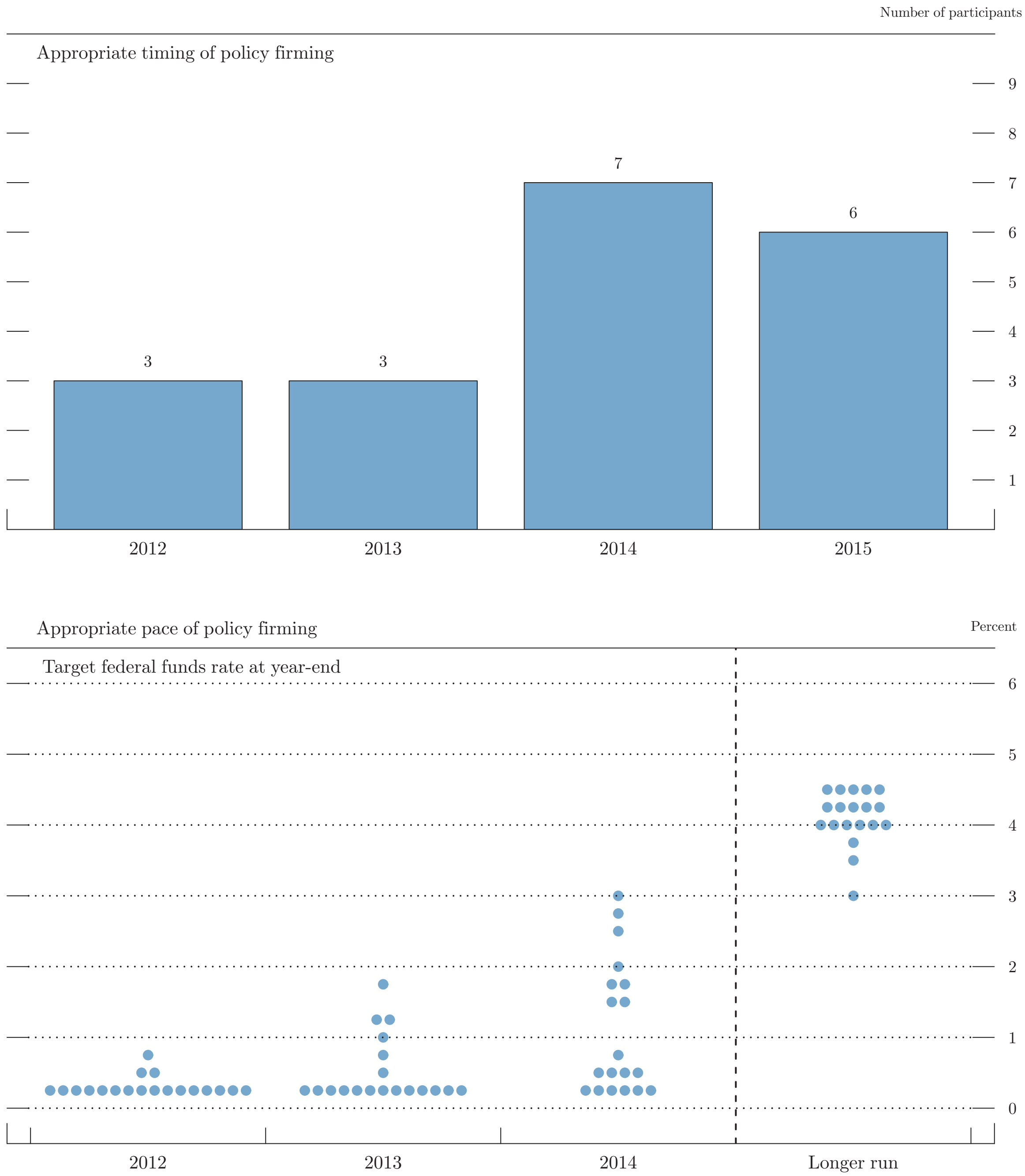
NOTE: Definitions of variables are in the notes to table 1. The data for the actual values of the variables are annual.

Figure 1.B. Central tendencies and ranges of economic projections, 2012–14 and over the longer run



NOTE: Definitions of variables are in the notes to table 1. The data for the actual values of the variables are annual.

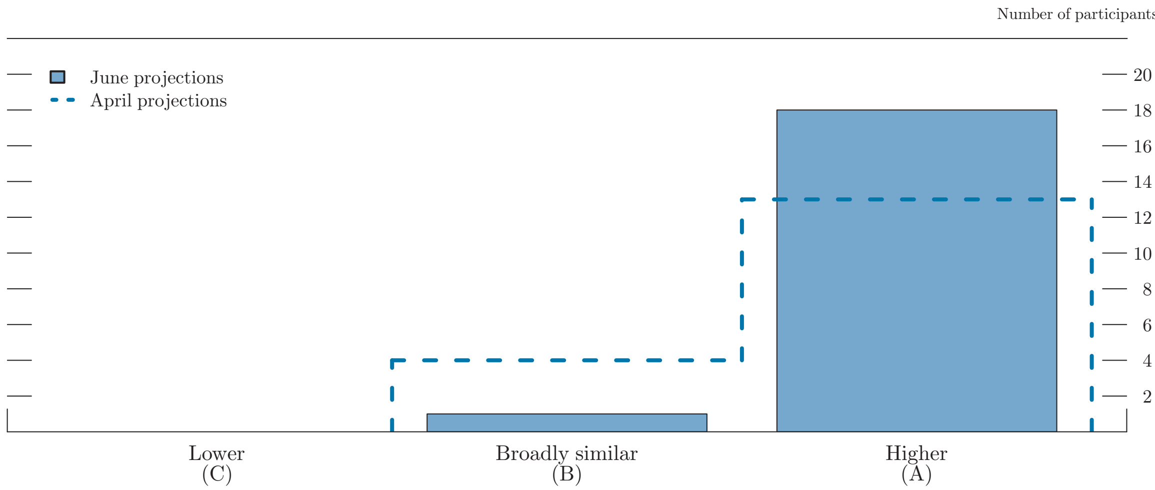
Figure 2. Overview of FOMC participants' assessments of appropriate monetary policy, June 2012



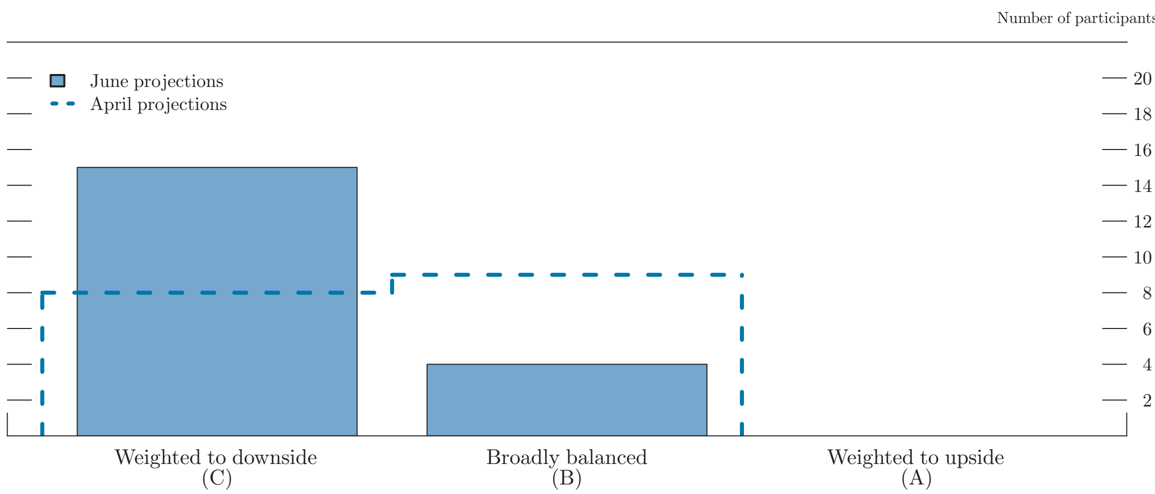
NOTE: In the upper panel, the height of each bar denotes the number of FOMC participants who judge that, under appropriate monetary policy, the first increase in the target federal funds rate from its current range of 0 to 1/4 percent will occur in the specified calendar year. In April 2012, the numbers of FOMC participants who judged that the first increase in the target federal funds rate would occur in 2012, 2013, 2014, and 2015 were, respectively, 3, 3, 7, and 4. In the lower panel, each shaded circle indicates the value (rounded to the nearest 1/4 percentage point) of an individual participant's judgment of the appropriate level of the target federal funds rate at the end of the specified calendar year or over the longer run.

Figure 4.A. 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.

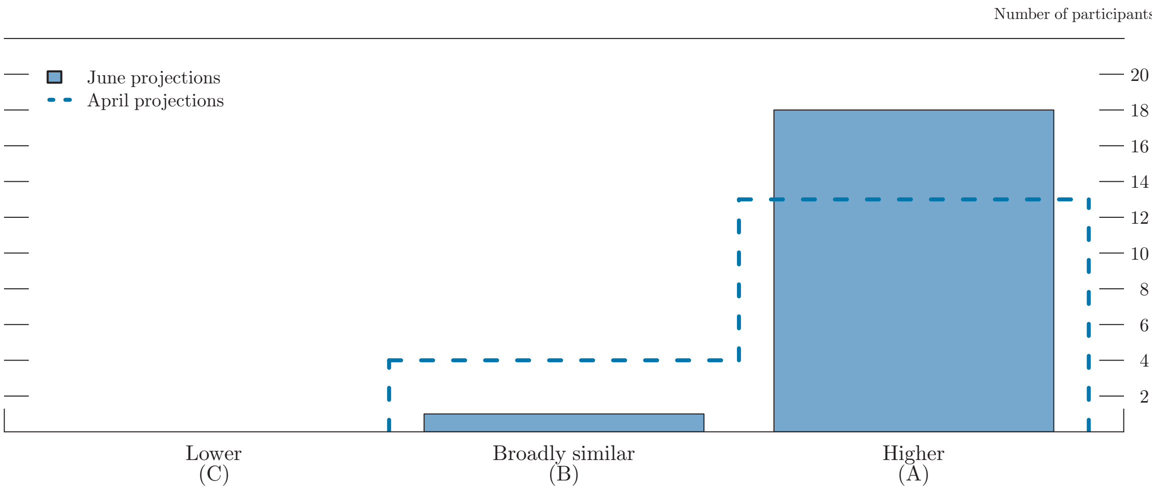


Individual responses

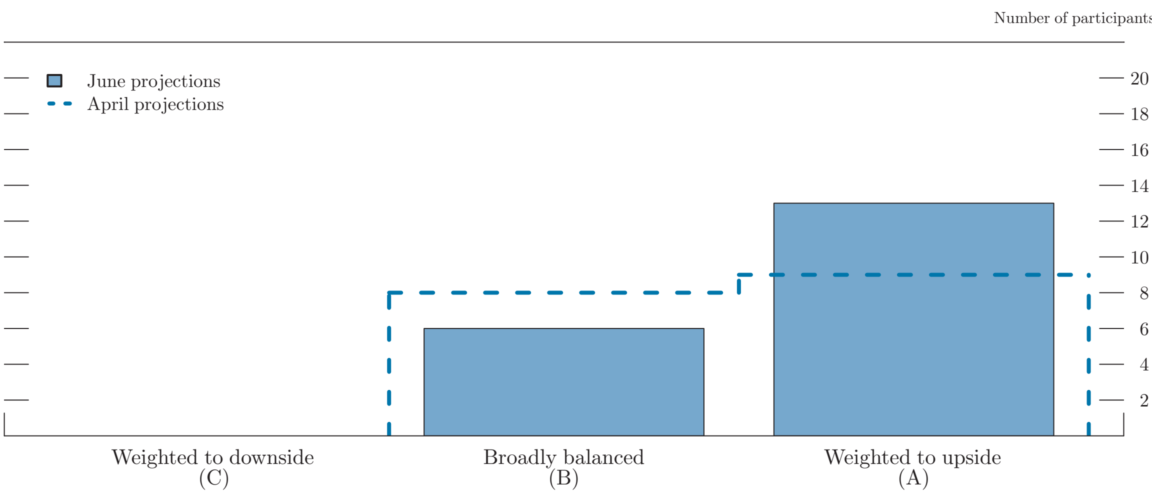
Respondent	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
2(a)	A	A	A	A	A	A	A	B	A	A	A	A	A	A	A	A	A	A	A
2(b)	C	C	C	C	C	C	B	B	C	B	C	C	C	C	C	C	C	C	B

Figure 4.B. 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.

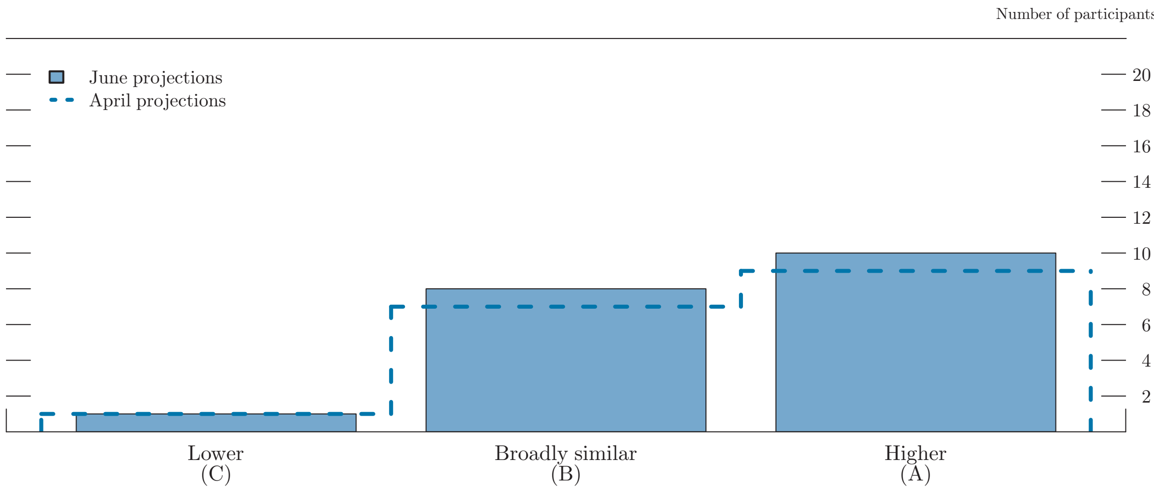


Individual responses

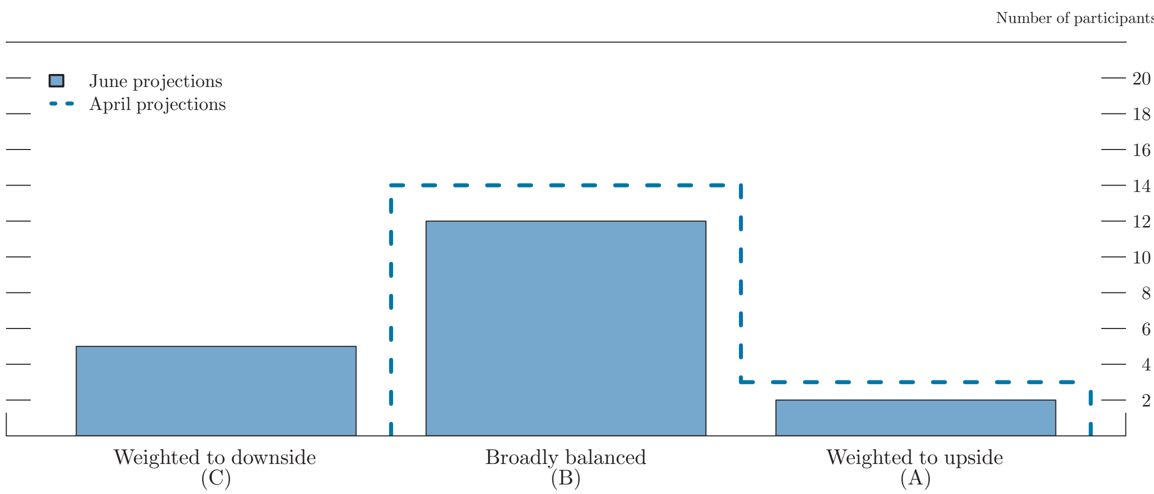
Respondent	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
2(a)	A	A	A	A	A	A	A	B	A	A	A	A	A	A	A	A	A	A	A
2(b)	A	A	A	A	A	B	B	B	A	B	B	A	A	A	A	A	A	A	B

Figure 4.C. Uncertainty and risks – 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.

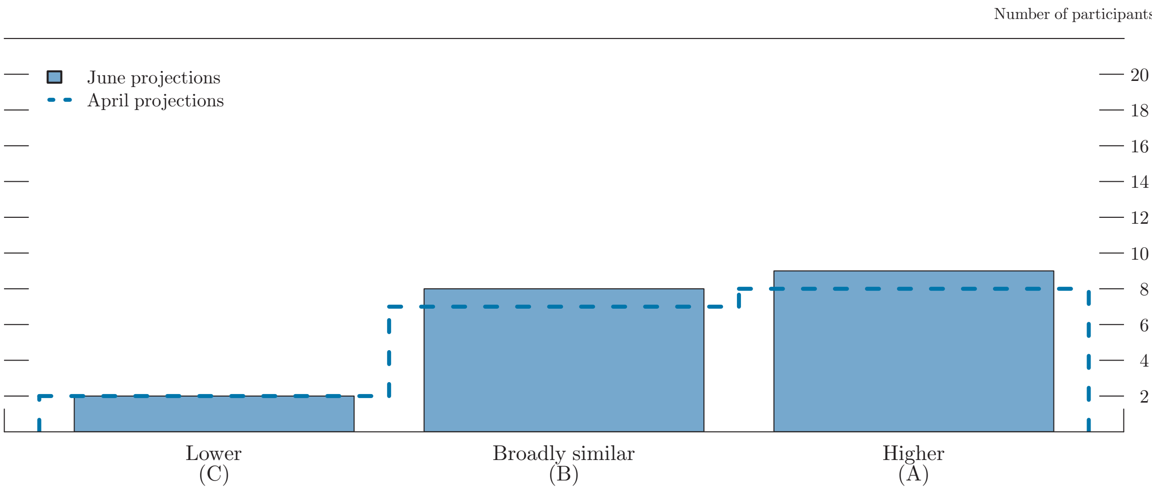


Individual responses

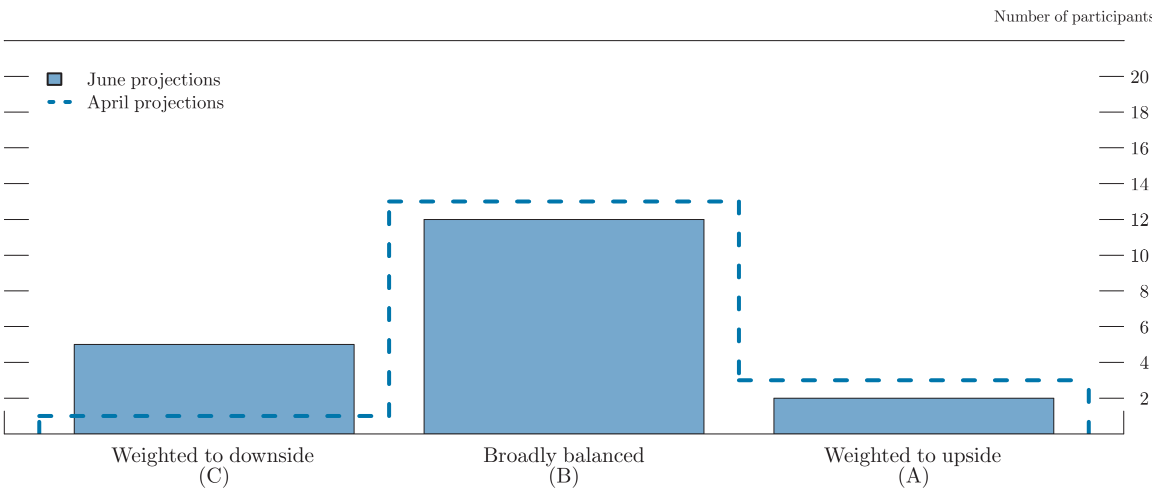
Respondent	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
2(a)	B	A	A	A	B	A	A	B	C	A	B	A	B	B	A	A	A	B	B
2(b)	B	A	C	C	B	B	C	B	B	A	B	B	B	B	C	B	C	B	B

Figure 4.D. 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	18	19
2(a)	B	A	A	A	B	A	A	B	C	A	B	B	B	C	A	A	A	B	B
2(b)	B	A	C	C	B	B	C	B	B	A	B	B	B	B	C	B	C	B	B

Longer-run Projections

1(c). If you anticipate that the convergence process will take SHORTER OR LONGER than about five or six years, please indicate below your best estimate of the duration of the convergence process. You may also include below any other explanatory comments that you think would be helpful.

Respondent 1: The unemployment rate may not converge to its longer-run value until late in the 5-6 year window.

Respondent 2: N/A

Respondent 3: Our current estimate of the economy's potential growth rate is in the 2% to 2 $\frac{1}{2}$% range. By 2017-18 we anticipate potential growth of around 2 $\frac{1}{4}$%. A reasonable estimate of the long-run unemployment rate is 4% to 6%. Assuming appropriate policy and no further significant shocks, we expect the unemployment rate to be in this range and the output gap to be around zero by 2017-18; analysis of recent long expansions (1980s and 1990s) suggests the unemployment rate could be somewhat below 5% in 5-6 years time.

We assume that long-term inflation expectations will continue to be anchored around 2.5% on a CPI basis and that the FOMC's inflation objective will remain at 2% for the PCE deflator and around 2.5% for the CPI. Under these conditions and with the output gap anticipated to be near zero, we expect inflation as measured by the PCE deflator to be close to 2% in 2017-18.

Respondent 4: The headwinds facing the economy have been exceptionally persistent in contrast to the normal cyclical dynamics characteristic of most U.S. recoveries. I expect these headwinds to persist, possibly intensifying if the problems facing the euro area result in sluggish global growth for a prolonged period and advanced countries, including the United States, take actions to place fiscal policy on more sustainable paths. I therefore think that the economy is unlikely to converge to its longer run steady state until close to the end of the decade

Respondent 5: N/A

Respondent 6: N/A

Respondent 7: N/A

Respondent 8: I anticipate that the convergence process will be shorter than 5-6 years. In my view, real GDP growth and the unemployment rate will converge by year-end 2015, while PCE inflation will converge even quicker.

Respondent 9: N/A

Respondent 10: The convergence process may be slightly shorter than 5-6 years

Respondent 11: N/A

Respondent 12: Unemployment should be close to its long-run value in five to six years. Inflation should be close to its long-run value by next year.

Respondent 13: N/A

Respondent 14: N/A

Respondent 15: N/A

Respondent 16: Convergence to the longer-run levels of the unemployment rate and inflation is expected in 5 to 6 years.

Respondent 17: N/A

Respondent 18: N/A

Respondent 19: Full convergence may take six years. However, risks are weighted toward faster convergence.

Uncertainty and Risks

2(a). (Optional) If you have any explanatory comments regarding your judgment of the uncertainty attached to your projections relative to levels of uncertainty over the past 20 years, you may enter them below.

Respondent 1: N/A

Respondent 2: Several factors contribute to heightened uncertainty, including the European debt crisis, U.S. fiscal policy (near-term and medium-term), slowing world growth, and ongoing changes in the regulatory environment. In addition, the Federal Reserve's unconventional policies are a source of uncertainty because they have no historical precedent.

Respondent 3: Quantitative judgment based on the standard deviation of the FRBNY forecast distribution for GDP growth and core PCE inflation relative to the forecast errors over the last 20 years. Our assessment of the uncertainty for all of these projections has increased since the April SEP.

Respondent 4: N/A

Respondent 5: N/A

Respondent 6: N/A

Respondent 7: Volatility was unusually low in the past twenty years.

Respondent 8: N/A

Respondent 9: It is not clear that real output will grow more rapidly than the longer-term trend rate and thereby return to the pre-recession trend line, or whether we are instead now tracking a permanently lower trend line. Thus uncertainty regarding GDP growth and unemployment is elevated relative to the recent past. Inflation expectations are probably more firmly anchored now than they were 10 to 20 years ago, and the FOMC's consensus statement has probably enhanced that anchoring. As a result, uncertainty regarding inflation is correspondingly lower than in the past.

Respondent 10: The possibility that the European debt crisis is not resolved in an orderly fashion continues to be a risk to the forecast. There is uncertainty about domestic fiscal policy as well. It remains the case that the effect of the extraordinary monetary policy in place and uncertainties surrounding the future path of policy, including the timing of the exit from accommodative policy, contribute to uncertainty around my inflation forecast.

Respondent 11: N/A

Respondent 12: Uncertainty about growth and unemployment is high because of our lack of experience with recoveries from financial crises/housing busts; the ongoing structural changes in productivity and the labor market; fiscal policy; and, especially, global factors, including not only European developments but also China/EMEs and oil. Core inflation remains quite stable, reflecting stable inflation expectations and monetary policy communication. Overall inflation is more uncertain than historically because of the high volatility of commodity prices, which in turn is tied to the variability/uncertainty in the global economy as well as financial factors to some extent (e.g., volatile risk preferences).

Respondent 13: N/A

Respondent 14: Uncertainty about my projection for economic activity is elevated relative to its average over the past 20 years. My assessment includes the following factors:

(i) The "new normal" for macroeconomic relationships going forward remains unclear. For example, there is greater uncertainty than usual about the level and growth rate of potential output.

(ii) The crisis in Europe has intensified since April, and the risks of more extreme downside scenarios there have risen. In these scenarios, financial market contagion to the United States could be severe. At the same time, other major economies in the world, such as China, are slowing.

(iii) Domestically, a downside risk is a U.S. political stalemate that leads to abruptly contractionary fiscal policy.

(iv) In the event of adverse shocks, there is limited ability for monetary and fiscal policy to dampen the effects. This limited scope for countercyclical policy implies greater variance in outcomes.

(v) Of course, there are upside risks to the outlook as well. For example, the housing market may be poised to improve faster than expected, which could potentially encourage a virtuous cycle of improving confidence, fundamentals, and financial conditions.

In contrast, underlying inflation is anchored by quite stable inflation expectations. The stability of these expectations has been reinforced by the announcement of a 2 percent numerical objective for inflation. Hence, uncertainty about core inflation is lower than in the past two decades. Uncertainty about headline inflation is broadly similar to the past two decades, reflecting the lower uncertainty about underlying inflation that is offset by greater-than-usual uncertainty about oil prices.

Respondent 15: Compared to conditions at the time of the April meeting, the uncertainty surrounding forecasts of GDP growth and unemployment have risen, primarily reflecting the crisis in Europe and the fiscal problems facing the United States next year.

Respondent 16: N/A

Respondent 17: The possibility of cataclysmic effects in Europe with unpredictable spillover effects makes this period unusually fraught with uncertainty.

Respondent 18: N/A

Respondent 19: N/A

Uncertainty and Risks (continued)

2(b). (Optional) If you have any explanatory comments regarding your judgment of the risk weighting around your projections, you may enter them below.

Respondent 1: Our baseline forecast has been revised down since April to show greater restraint on the U.S. economy emanating from events in Europe and the fiscal situation in the U.S. However, it is still difficult to see the risks from these events as balanced: the potential bad outcomes of the political debates both here and abroad would be associated with recessions, while the more successful resolutions likely would not provide a symmetric boost to growth relative to trend. This is especially true with regard to Europe, where any resolution requires a difficult period of structural readjustments and changes in terms of trade that would severely weigh on the Euro-area economies.

Respondent 2: The risks to GDP growth are weighted to the downside, and the risks to unemployment are weighted to the upside. Downside risks to growth (and upside risks to unemployment) in the near term include the European debt crisis, a slowdown in emerging market growth, and the fiscal cliff in the United States. In the medium term, I see the risks to growth and unemployment as balanced as the resilience of the U.S. economy poses upside risks to growth (downside risks to unemployment) offset by downside risks to growth (upside risks to unemployment) from a possible spillover of near term risks into the medium term. The risks to inflation are skewed to the upside due to the highly accommodative stance of monetary policy and longer term fiscal imbalances.

Respondent 3: Quantitative judgment based on the difference between the central projection and the expected value from the FRBNY forecast distribution. The balance of risks to the inflation outlook are roughly balanced over the near term, but skewed to the downside over the medium term.

Respondent 4: N/A

Respondent 5: N/A

Respondent 6: N/A

Respondent 7: My projection for inflation is conditioned on my view that the output gap is less negative than in the Tealbook. My weighting of risks for inflation reflects the possibility that this view could prove to be wrong.

Respondent 8: N/A

Respondent 9: In the near term, there is an appreciable downside risk to growth in Europe that could lead to lower US exports to Europe and emerging economies. Moreover, the fiscal cliff poses a clear downside risk. In the medium term, impediments to growth may be serious and persistent enough to impede a the rise in GDP growth given above.

Respondent 10: I view the risks to inflation as weighted to the upside over the medium and longer run. Longer-term inflation risks reflect uncertainty about the timing and efficacy of the Fed's withdrawal of accommodation. Over the near term, the risk to output growth is weighted to the downside and the risk to the unemployment rate is weighted to the upside, reflecting uncertainty surrounding the ongoing crisis in Europe and domestic fiscal policy. Over the medium term, as these uncertainties abate, the risks shift to the upside for GDP growth and to the downside for the unemployment rate.

Respondent 11: N/A

Respondent 12: Downside risks to growth and upside risks to unemployment come from Europe and other global risks (China), fiscal cliff/debt limit, oil shocks. These outweigh the upside risks associated with a better than expected resolution of European or US fiscal issues or greater momentum in the economy. Risks to inflation are tied primarily to commodity prices, which are volatile but as likely to be declining (esp in a global growth slowdown) as rising.

Respondent 13: N/A

Respondent 14: Risks to growth are skewed to the downside and, consequently, to the upside for unemployment. Key downside risks to the outlook are the European sovereign debt crisis and the looming U.S. fiscal cliff. In addition, negative shocks could have particularly severe effects, because of the continuing vulnerability of the financial system as well as the limited ability of fiscal and monetary policy to respond to offset them. Inflation risks, in contrast, are more typically balanced.

Respondent 15: N/A

Respondent 16: N/A

Respondent 17: Downside risks stemming from the worsening global outlook continue to have a dominant influence on my assessment of the risks to growth and unemployment. The potential for slack to play a greater role on near and medium-term inflation trends argues in favor of shifting my assessment of the inflation risks from broadly balanced, to weighted to the downside (that is, inflation could fall to an undesirably lower rate.)

Respondent 18: N/A

Respondent 19: N/A

Key Factors Informing Your Judgments regarding the Appropriate Path of the Federal Funds Rate

3(c). Please describe the key factors informing your judgments regarding the appropriate path of the federal funds rate. You may include other comments on appropriate monetary policy here as well.

Respondent 1: My judgments regarding appropriate policy reflect a loss function that equally weights deviations in inflation and unemployment from their longer-run goals. Inflation is projected to run slightly below target. In contrast, our miss on employment is massive–even the most conservative assumption currently would put it at 2 percentage points–and in light of the large downside risks to the projection, the chance for significant improvement is small. Accordingly, my appropriate policy would add more accommodation today.

My preferred way of increasing accommodation would be to condition our future policy moves on explicit economic markers, namely, that we would delay the first increase in the funds rate until the unemployment rate had at least reached 7 percent or the medium term inflation forecast hit 3 percent. After lift-off, rates would initially increase broadly in line with Taylor (1999); these plans would also be communicated today. In addition to these communications, I would begin today a new LSAP program with the purchase of additional MBS, both to lower term premia (with an emphasis on those in mortgage markets) and to underscore our commitment to keep the federal funds rate low for a long time.

Such a policy accepts the risk of inflation running above 2 percent. However, the risk of even a moderate loss against our inflation goal appears quite small. For example, even with the extra accommodation provided by the Tealbook optimal policy, inflation only overshoots our goal by a couple of tenths over the (long-run) projection period–and the sum of these misses shies in comparison to the size and persistence of the differences between the unemployment rate and the NAIRU under any of the Tealbook policy alternatives.

Respondent 2: Key factors informing my judgment regarding the appropriate path of monetary policy are achieving an inflation objective of 2 percent and ensuring a sustainable economic recovery that reduces unemployment. In order to preempt the potential for rising inflationary pressures and the buildup of risks in the financial system that could impede the achievement of these goals, I currently anticipate it will be necessary to begin the process of normalizing monetary policy in 2013. After raising the federal funds rate to 1.0 percent, I would maintain it for a period of time to allow the economy and markets to adjust to a non-crisis rate environment.

Respondent 3: The crucial factors behind our assessment of the appropriate path for monetary policy and the FFR are the current state of the economy, our central economic outlook, and our balance of risks around the central outlook. Indicators of economic and financial conditions generally have worsened somewhat since April, indicating that the expansion is tenuous at this time. Currently, we observe the combination of continuing substantial resource underutilization; a forecast of slow growth, high unemployment, and near- or below-objective inflation; and downside risks to the real activity and inflation outlooks as calling for continued policy accommodation. In an environment where the policy rate is constrained by the zero lower bound and the financial system remains impaired, such accommodation will lead to the target FFR remaining near zero until late 2014. We expect that long-term inflation expectations will remain anchored over this period. The pace of renormalization of the target FFR following the period of near zero policy rates will depend upon our assessment of economic conditions and inflation expectations as well as upon credit spreads and overall financial conditions.

An important factor informing our assessment of the appropriate path for the target FFR is our estimate of the equilibrium real short-term interest rate. In normal times, we assume that the this rate is in the range of 1% - 3%; adding the objective for inflation (2%) then gives our estimated range for nominal equilibrium rate as 3.0 - 5.0%. Given the recent behavior of nominal and real Treasury yields and productivity growth, we currently see this rate over the longer-run as more likely to be in the lower half of the indicated range, which results in the point estimate given in the response to question 3(a). Moreover, given the weak state of the economy and our expectations of continued strained financial conditions, our assessment of the current "neutral" FFR is below our estimate of the longer-run FFR and is expected to remain so for some time.

As discussed in our answer to question 3(e), our policy path is predicated on the FOMC continuing the Maturity Extension Program (MEP) through the end of this year to provide the accommodation that we see as necessary in the current situation. Further deterioration in economic and financial conditions, our modal forecast, and our risk assessment would lead us to assume a purchase program with communication indicating that purchases would continue until a self-sustaining recovery is fully established.

Respondent 4: My assessment of economic conditions is close to Tealbook, but my preferred policy path is more accommodative than the outcome-based rule incorporated into the Tealbook baseline. My modal forecast assumes that the federal funds rate will be maintained in its present range until late 2015, when the unemployment rate has declined to around 6.5%. My preferred path is marginally less stimulative than the optimal control path with commitment but more stimulative than Taylor (1999). Given the persistent nature of the headwinds facing the economy and the atypical cyclical dynamics we have seen since the recovery began, I consider it appropriate to provide more stimulus than is called for under Taylor (1999). I estimate that under my policy path, unemployment will be about 0.7% lower in 2015 than if policy instead followed Taylor 1999 and inflation will hold close to 2% over the forecast instead of running consistently under 2% under Taylor (1999). Although Taylor (1999) provides a useful policy benchmark, I believe it is not appropriate to follow its prescriptions in the current circumstances. Importantly the persistent nature of the aggregate demand shortfall– reflected in the fact that like other forecasters, I have been consistently too optimistic about the pace of recovery over the last few years–suggests that the equilibrium real funds rate is depressed well below its average historical level. Indeed, the staff's three-factor yield curve model currently estimates that the expected nominal short rate ten years ahead stands at 3.07%–well below the staff's 4.25% assumed equilibrium nominal rate. Survey evidence suggests that longer-term inflation expectations remain firmly anchored at 2 percent, and hence that staff estimate of the far-forward nominal short rate implies that the expected real short rate ten years ahead is only 1.0 percent.. Moreover, the one-year forward TIPS rate 10 years ahead is currently only 0.7 percent–far below its historical norm of 2.25 percent. In effect, the highly persistent weakness of aggregate demand calls for a downward adjustment in the intercept of the Taylor (1999) rule. Another reason I consider it appropriate to hold the funds rate lower for longer in response to the constraints that the zero bound have long placed on monetary policy and to the asymmetric nature of the risks facing the economy. Such a strategy is similar to that proposed by Reifschneider and Williams. With respect to risks, if downside shocks materialize, the Committee has limited scope for response due to the zero lower bound whereas the scope to tighten policy is ample in the face of upside shocks. When combined with my assessment that the risks to economic activity are weighted to the downside, I see risk considerations as clearly favoring accommodation beyond that implicit in Taylor (1999).

Respondent 5: My lift-off, which I believe should be no earlier than late 2015, is dependent on improved communication regarding the purpose of an extended period of a low federal funds rate; without such improved communication, I could anticipate the need to extend the time of first lift off to no earlier than early 2016.

Respondent 6: N/A

Respondent 7: My January forecast for 2012 unemployment, 2013 unemployment, and 2014 unemployment is very close to being the same as my June forecast for those variables. My January forecast for 2012 PCE core inflation, 2013 PCE core inflation, and 2014 PCE core inflation is very close to being to the same as my June forecast. This would argue in favor of my June policy forecast being the same as my January forecast. I've raised my fed funds rate targets by (a conservative) 25 basis points to reflect my new higher estimate for the long-run NAIRU.

Respondent 8: Assuming appropriate policy and my views on the convergence process, my judgment is that the federal funds rate should be increased in late (i.e., fourth quarter) 2013.

Respondent 9: I believe that in order to achieve an inflation rate of 2 percent we would want to begin raising the federal funds rate by late 2013.

Respondent 10: Inflation and inflation expectations will be the main drivers of the removal of accommodation. Economic growth will be slightly above trend in the second half of 2012 and beyond; unemployment will decline slowly. The Committee will find it necessary to adjust policies to prevent inflation from rising above its target.

Respondent 11: N/A

Respondent 12: I have pushed out takeoff by two quarters or so reflecting the slower progress on unemployment and inflation remaining near target. I have extended the time near zero slightly to compensate partially for the time at the zero lower bound. I assume that the MEP is continued through end 2012.

Respondent 13: I would begin raising rates as soon as it is clear that we are making material and sustainable progress on the employment side of our mandate, looking at participation, employment to population and other broader measures as well as the headline rate. The precise timing will depend on the rate of improvement as well as the absolute levels.

Respondent 14: Large and persistent output and unemployment gaps coupled with inflation that is moderately below our 2 percent objective call for continuing very accommodative monetary policy through most of 2014.

Respondent 15: While unemployment is likely to remain elevated, I expect that it will be appropriate to begin raising the target for the federal funds rate in late 2014 to prevent inflation from rising above levels consistent with price stability. By 2014, the economy will have recovered enough that preserving the stability of long-term inflation expectations and, in turn, inflation will warrant some tightening of monetary policy. This view of the appropriate path of policy reflects the importance I place on keeping the underlying inflation rate close to 2 percent, to preserve our credibility and to maintain price stability.

Respondent 16: The first increase in the federal funds rate is conditioned on an unemployment rate falling below 7 percent and underlying inflation below 2.5 percent. In the modal outlook, inflation remains well contained and the pace of economic growth picks up sufficiently to lower the unemployment rate below the 7 percent threshold only in 2015. This approach to setting the federal funds rate is consistent with optimal policy calculations based on FRB/US that place equal weights on deviations of inflation from a 2 percent target and the unemployment rate from the natural rate.

Respondent 17: I expect the federal funds rate to remain in the 0 to 25 basis point range at least until such time that the rate of unemployment falls under 7 1/2 percent, accompanying an inflation outlook that is projected to be around 2% over the medium term.

Respondent 18: I begin by noting that under my assumptions for output, unemployment, and inflation, and according to the SEP spreadsheet calculator, an outcome-based rule suggests funds-rate lift-off in 2014, with the funds rate reaching a level of approximately 0.5 at year-end 2014.

From this point of departure, I have adjusted the year-end 2014 value upward by 100 basis points, to 1.50, to reflect two factors. First, the outcome-based rule does not incorporate the further stimulative effects of our asset purchases, so to the extent that these holdings are still in place, once lift-off occurs, it makes sense to adjust the funds rate upward, all else equal. Second, my estimate of the long-run steady-state NAIRU, at 5.8%, is a little on the high side, so as unemployment begins to decline toward that level it follows that one would want to tighten a touch more aggressively.

Respondent 19: My policy projection is guided by the 1993 version of the Taylor Rule, with some smoothing and a temporary downward adjustment to the neutral real rate. As I think it desirable to begin raising short-term interest rates substantially earlier than is assumed in the Tealbook, I also think it desirable to begin shrinking the balance sheet earlier than is assumed in the Tealbook. I remain skeptical of the impact on real economic activity of purchases of Treasury securities and of changes to the maturity distribution of our Treasury portfolio.

Appropriate Monetary Policy – Balance Sheet

3(d)&(e). Does your view of the appropriate path of the Federal Reserve's balance sheet differ materially from that assumed by the staff in the Tealbook? If yes, please specify in what ways (either qualitatively, or if you prefer, quantitatively).

	YES	NO
June survey	14	5
April survey	11	6

Respondent 1: Yes
Under my appropriate policy assumptions, we purchase $500 billion of MBS over the next six months. Furthermore, I anticipate that the lift-off in the funds rate will occur the second half of 2015. Accordingly, actions to normalize the balance sheet would be delayed relative to the Tealbook.

Respondent 2: No
Because my view of appropriate monetary policy includes an earlier lift-off from zero for the federal funds rate, I would also start the normalization process for the balance sheet earlier than in the Tealbook, in line with the exit strategy principles agreed upon by the FOMC in June 2011.

Respondent 3: Yes
With the Tealbook assumption of lift-off of the target FFR having moved to within one quarter of our assumption, the differences in the timing of the renormalization of the balance sheet (based on the June 2011 exit strategy principles) are little different. However, because of the deterioration in our central outlook and greater downside risks, we believe that some additional accommodation should be provided through a further extension of the duration of the Federal Reserve's balance sheet. To provide that accommodation, we assume that the MEP is continued through the end of the year. In addition, if there are indications of a further deterioration in the real outlook or a further increase in the downside risks, we believe that additional accommodation through a purchase program would be warranted. If such a program was instituted, the accompanying communications should indicate that purchases would continue until conditions point to substantial progress in meeting the maximum employment objective.

Respondent 4: Yes
To provide additional support to the recovery I assume that the FOMC continues the Maturity Extension Program through the end of the year. If I do not see evidence in the months ahead that the economy is making satisfactory progress in lowering unemployment toward normal longer-run levels, I assume that further balance sheet actions will be implemented.

Respondent 5: Yes
The Tealbook assumes the termination of the Maturity Extension Program. My forecast assumes an extension of this program as providing further downward pressure on long term interest rates.

Respondent 6: Yes
I assume some additional moderate policy accommodation through extension of the MEP

Respondent 7: Yes
I believe that it be optimal to initiate exit more rapidly than is contemplated by the Tealbook. My optimal path of monetary policy, given my current forecast, involves stopping re-investment in early 2013 and initiating asset sales in mid-2014.

Respondent 8: Yes
According to the Committee's exit strategy and my date of lift-off, I think the FOMC should begin reducing the SOMA portfolio earlier (e.g., early 2014) than in the Tealbook. The pace of the subsequent reduction likely exceeds that assumed in the Tealbook.

Respondent 9: No
I would initiate our balance sheet exit strategy sooner than is assumed in the Tealbook, in sync with my forecast of an earlier lift-off in the funds rate.

Respondent 10: No
My forecast does not incorporate any additional LSAPs or MEP.

I anticipate following the Committee's exit strategy principles, but because my funds rate path is steeper than in the Tealbook, I anticipate that we would reduce the size of the balance sheet more quickly than in the Tealbook over the forecast horizon.

Respondent 11: Yes
I believe that extending the MEP program as described in Alternative B is appropriate.

Respondent 12: Yes
I assume the MEP is extended for the remainder of 2012. Otherwise, as consistent as possible with Tealbook and broad exit principles.

Respondent 13: Yes
I assume that the MEP will be extended as proposed in Alternative B.

Respondent 14: Yes
I assume an extension of the maturity extension program (MEP) through the end of 2012. In addition, I assume that liftoff of the funds rate will occur in the fourth quarter of 2014, which is a quarter later than Tealbook, and my balance sheet assumptions are adjusted accordingly.

Respondent 15: No
N/A

Respondent 16: Yes
The outlook is conditioned on a continuation of the maturity extension program through the end of this year, and on an additional round of securities purchases via a balance sheet expansion amounting to $500 billion. A reduction in the size of the Federal Reserve's balance sheet starts to occur only at the time of the federal funds rate's lift-off from the zero lower bound, which occurs in late 2015.

Respondent 17: Yes
I have assumed a continuation of the current maturity extension program through the end of the year.

Respondent 18: Yes
I am assuming that we will implement an extension of the Maturity Extension Program along the lines sketched in Alternative B of the proposed draft statements.

Respondent 19: No
N/A

Forecast Narratives

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

Respondent 1: Accommodative monetary policy, improved household and business balance sheets, and pent-up demands for capital goods and consumer durables should be boosting activity at rates above trend. However, even with relatively few financial spillovers, the events in Europe and the developing world portend weak demand from abroad. In addition, it is difficult to envision a base case scenario for the U.S. that does not include a step up in fiscal restraint at the turn of this year. Furthermore, as evidenced by the recent slowdown in employment growth and softness in spending indicators, household and business sentiment remains extremely fragile, and bad news continues to induce new waves of caution that then impinge on spending. And for the foreseeable future, we can only expect a flow of such negative news shocks emanating from Europe and the fiscal policy debates in the United States.

Summing these factors, we are projecting that the economy will only grow close to 2 percent over the next year. Since this is essentially in line with the (medium-term) trend rate of growth, the unemployment rate is projected to remain near its current level over that period. As we move into the second half of 2013, we assume that the economy will begin to gain some of its long awaited cyclical momentum, and that activity will gradually accelerate, with growth reaching a 3-1/2 percent rate in 2014.

Our inflation forecast assumes that anchored inflation expectations will largely offset the influence of declining prices for energy and other commodities and the downward pressure on prices from resource gaps. On balance, we are projecting a small downtick in core inflation over the next year. Owing to lower energy prices, overall inflation will run several tenths below core.

Respondent 2: I continue to expect a moderate economic recovery over the next several years with a gradual improvement in unemployment. Recovering demand, improving labor and housing markets, and accommodative monetary policy will support economic growth over the forecast horizon. However, financial headwinds, high household debt levels, and reductions in government spending will weigh on growth. Rising concerns about the European sovereign debt crisis in conjunction with indications of a slowdown in economic activity in Europe contributed to my downgraded outlook for growth. The considerable uncertainty surrounding U.S. fiscal policy poses a large risk to the outlook.

Turning to inflation, I expect that a gradually improving economy and stable inflation expectations will keep core inflation near 2 percent over the forecast horizon. Over the medium term, a highly accommodative monetary policy and large long-run fiscal imbalances pose upside risks to inflation expectations and, hence, inflation. In addition, the current extraordinary level of monetary policy accommodation raises the possibility of distortions in financial markets and the mispricing of risk that could eventually destabilize the economy.

Respondent 3: Data released over the intermeeting period tended to be weaker than expected, leading to a downgrading of our assessment of the underlying strength of the US economy. The labor report for May was particularly disappointing. Also, new orders for nondefense capital goods plunged in March and then fell further in April. Changes in a fairly broad range of financial market indicators and commodity prices over the intermeeting period have been consistent with a loss of momentum.

At this time we project that real GDP will grow at just a 2% annual rate in the second quarter, near the estimate for 2012Q1 and down from our mid-May projection of around 3%. Despite a sharp decline of energy prices that has provided a boost to real disposable income, it appears that real PCE growth in Q2 will be down slightly from the Q1 rate. Real residential investment is expected to expand in Q2 at a rate comparable to the Q1 increase. Growth of business investment spending likely will be only modestly stronger than Q1's relatively dismal gain. Real government spending is continuing to decline in Q2, and the net export growth contribution is expected to be zero.

Regarding inflation, the 12-month change in the overall PCE deflator was 1.8% in April, down from 2.1% in March and the recent high of 2.9% in 2011Q3. Based on the May CPI data, we expect the 12 month change of the total PCE deflator to slow to 1.5% in May, reflecting the drop in energy prices. Further slowing is expected in the months ahead as year-over-year changes in energy prices turn deeply negative: given our energy price assumption, the 12-month change of the total PCE deflator should be down to 1.3% in August and September. It also appears that core inflation has peaked, with the 12 month change of the core PCE deflator down to 1.9% in April from 2.0% in March. The May CPI data suggests a further slowing to 1.8% for May.

In our forecast of December 2011, we anticipated growth to slow in 2012H1 to around 1 $\frac{1}{2}$% to 2% (annual rate). However, the major driver of that forecast was our assumption that the payroll tax cut and emergency unemployment benefits would not be extended for 2012, thereby sharply depressing consumer spending over the first half of the year (in this forecast we continue to assume a fiscal drag in 2012 of $\frac{1}{2}$ percentage point, then rising to a full percentage point in 2013, reflecting assumptions similar to those in the Tealbook). Of course, those two provisions were extended for 2012, and the growth of real PCE and residential investment over 2012H1 appears to be above our December projections. Nonetheless, real GDP growth is likely to still average just 2% over 2012H1.

Two components of final expenditures are primarily responsible for this relatively weak performance. The first is inventory investment. In part this is due to the fact that consumer spending grew faster than we anticipated. Thus, this development should not be viewed as evidence of underlying weakness.

More troubling and less well understood is the tepid growth of business fixed investment (BFI). It now looks like the GDP growth contribution from BFI in 2012H1 will be about half what we expected in December. Moreover, the higher frequency data do not point to a pick-up in H2. As mentioned above, new orders for nondefense capital goods are down and the Architectural Billings index fell back below 50 in April. Thus, we have extended the recent weakness of BFI growth over 2012H2.

For 2012 we now project growth of real GDP of 2.1% (Q4/Q4), down from 2.7% in April. This is a relatively large change over a period of less than two months, although much of the decline is due to the fact that the April forecast was compiled when we anticipated growth in 2012Q1 of around 3% (annual rate) whereas it is now estimated at 1.9%. In addition to the downgrading of projected BFI growth, we have also tempered the growth of real PCE over H2, reflecting the recent weakness of the employment data, the downward revisions of labor compensation for 2011Q4 and 2012Q1, and the decline of equity values. Export growth is now expected to be somewhat slower, reflecting both the appreciation of the dollar and the downgrading of foreign growth. With growth in 2012H2 around our estimate of potential, we anticipate only a modest further reduction of the unemployment rate to 8.0% in 2012Q4. This projection is up from 7.8% in the April SEP even though we assume that the labor force participation rate will be 0.1 percentage point lower than in April (63.7% versus 63.8%). Given the steep decline of energy prices that has occurred in 2012, the total PCE deflator is expected to rise 1 $\frac{1}{4}$% - 1 $\frac{1}{2}$% (Q4/Q4) as opposed to the 2.7% rise that occurred in 2011.

The deterioration of conditioning assumptions over the intermeeting period also resulted in a markdown of projected growth of real GDP in 2013, although by a relatively modest $\frac{1}{4}$ percentage point, to 2.6% (Q4/Q4) from 2.9% in April. This revision reflects an expected continuation of the somewhat slower growth trajectory for BFI and a somewhat lower growth contribution from net exports due to lower foreign growth and a higher path for the dollar. With growth somewhat above potential, the unemployment rate is likely to fall about $\frac{1}{2}$ percentage point to 7.5% by 2013Q4. With inflation expectations well anchored and oil prices rising only very modestly, the four-quarter change of the total PCE deflator rises to 1 $\frac{3}{4}$% - 2% in 2013, just below the FOMC's longer-run objective.

We continue to assume in our central projection that by 2014 the headwinds slowing the economy will diminish and growth will pick up substantially above our estimate of potential growth. With long-run inflation expectations well-anchored, we also project inflation to move towards the FOMC's longer run objective by the end of 2014.

Our risk and uncertainty assessments imply that our modal projection (conditional on an extension of the MEP) is both somewhat optimistic and unlikely to occur. The substantial decline in global longer-term interest rates–outside of countries caught up in the euro area crisis–was a major factor behind this dire assessment. In particular, the risks of a disorderly exit from the euro area and high levels of contagion have increased markedly over the inter-meeting period. Some of the uncertainty might be resolved by the elections in Greece on June 17 but until European policymakers can agree on a robust solution to the imbalances in the euro area downside risks are likely to predominate.

Respondent 4: Incoming data during the intermeeting data has caused me to downgrade my assessment of the underlying momentum of aggregate demand. In response, I now assume that the FOMC will provide additional monetary policy accommodation by holding the funds rate at zero for about 2 quarters longer than I previously judged appropriate and by continuing the MEP rather than allowing it to end, as scheduled, in June. In my forecast, this additional accommodation works to offset the weaker underlying pace of spending so that the unemployment rate at the end of 2014 is only a few tenths higher than I forecast in April and inflation, as in April, remains close to 2 percent. Abnormal seasonal factors complicate the interpretation of data pertaining to spending and the labor market. It appears that unseasonably warm weather pulled forward hiring into the first quarter and may likewise have pulled forward spending. Data on both employment growth and consumer spending in the second quarter have weakened significantly, perhaps partly reflecting payback. That said, a wide range of data suggests that the momentum of aggregate demand has genuinely weakened. With respect to the labor market, employment growth and GDP growth now appear to be in more normal alignment. In other words, the period of "catch up" in hiring appears to have ended. Absent further policy actions, I would envision growth near trend resulting in no meaningful progress in improving labor market conditions over the next few years. In addition, the global outlook has weakened significantly as the situation in Europe appears to be deteriorating. China also appears to be experiencing a significant slowdown. These factors are impinging on U.S. trade performance and are impacting financial conditions. Lower equity prices and a strong dollar will have a negative effect on demand. Lower oil prices and the reduction in Treasury yields reflecting safe haven flows serve as only very partial positive offsets. In addition, I see the risks to growth as asymmetric. The risks to financial stability from European developments have intensified and the upcoming "fiscal cliff" continues to pose a significant downside risk to activity. With respect to inflation, upside risks to inflation have diminished as energy prices have moved down considerably. With stable inflation expectations and very modest growth in compensation, I expect inflation to remain at or slightly below the FOMC's 2% target, but should downside economic risks materialize, I would think that inflation would fall below, possibly well below, our objective.

Respondent 5: My outlook is shaped primarily by the uncertainties of how recent developments, primarily in Europe, comprehensively contribute to a loss of household and business confidence. The developments in Europe are most profound in this respect, but I continue to see downside risk from the anxiety in Europe contributing to the growing pessimism resulting from the modest growth in the US, the failure of the housing market to rebound more quickly, the anxiety surrounding the completion of a refinancing, the presidential election year, and the demoralizing effects of long-term unemployment. Personal income is flat, which points to less support for household spending going forward. Private sector job gains in the past few months are slow and there is a noticeably softer trajectory of industrial production.

Respondent 6: Far and away the most important factor shaping this forecast is the relative magnitude of the negative effects of the Eurozone sovereign and bank problems. My forecast is premised on the assumption that uncertainty and stress continue at high levels through the next two quarters, but that a full-blown systemic crisis does not develop in Europe. If this darker outcome does come to pass, my expectations for growth and unemployment would be substantially worse, and my expectations for inflation moderately lower. Conversely, in the less likely but not impossible event that European officials take sufficiently bold measures that there is a general relaxation of market tensions, I would expect a smaller drag on both trade flows and confidence levels, and thus modestly stronger numbers for growth and unemployment. The U.S. economy itself continues its pattern of a slow-moving recovery, though still slower than in April, While a variety of objective measures might suggest that a considerable part of the damage from the burst asset bubbles and recession have been worked off, and thus a period of higher-than-trend growth could be in the offing, the persistence of the European problems, along with uncertainty associated with the fiscal cliff, seem to have placed a fairly low ceiling on growth possibilities in the next few quarters. The slowing from what was already no more than a tepid pace, against the backdrop of the large external and political risks, makes a recession more than a small possibility

Respondent 7: Growth will continue to be constrained by both demand and supply forces. On the demand side, household spending will continue to be constrained by the significant loss of wealth and net worth, as documented in the recent released summary of the 2010 SCF. On the supply side, there have been significant changes relative to four to five years ago. Firms are finding it harder to find appropriate workers. Entrepreneurs lack resources to initiate startups, which robs the economy of an important source of employment growth. The high level of corporate profits suggests that firms enjoy more market power, which reduces labor demand. Finally, of course, there is considerable uncertainty about future taxes and regulations.

Both demand and supply push up - temporarily - on the unemployment rate. They operate in opposite directions on inflation.

Respondent 8: I continue to think that convergence to steady state is progressing. Nonetheless, the recent growth and inflation data have caused some changes in my outlook.

Respondent 9: Output and payroll growth have been softer than expected so far this year. Over time, additional firming in the labor market will be reflected in gradually improving personal income and consumer spending. Business investment should continue to expand in the second half, although perhaps a pace below that of the last several years. Residential investment is growing at a moderate pace that is likely to continue. Federal defense spending has been unexpectedly soft, but oil prices have fallen more rapidly than expected.

The expectation that the federal budget outlook requires significant adjustment, combined with significant uncertainty about the nature of the adjustments that will be adopted, is likely to dampen growth for the remainder of the year and beyond.

Oil price declines have been unexpectedly steep, and could reflect Gulf political strategies as much as any global growth slowdown. I expect oil prices to flatten out in a month or two. While falling energy prices are likely to deflect core inflation for a time, that's likely to prove temporary, and I expect core inflation to return close 2 percent by the end of the year.

Respondent 10: Incoming data on economic activity have been somewhat weaker than I expected in my April forecast leading to a slightly downward revision to my near-term economic outlook. My view is that this weakness it is tied to uncertainties about Europe and domestic fiscal policy and is temporarily leading to restrained business spending. I expect that spending will pick up and the economy will rebound as uncertainty surrounding the crisis in Europe and domestic fiscal policy diminishes toward the end of this year.

I expect 3 percent growth over the medium term, slightly above my longer-term trend. With a moderate pace of growth over the forecast horizon, the labor market recovery remains gradual — I expect the unemployment rate to move down to about 6.3 percent by the end of the forecast horizon, at which time it remains above my estimate of the natural rate of unemployment. I anticipate that headline inflation will be 2 percent in 2012 and remain at that level in 2013 and 2014. Inflation stays anchored around my target of 2 percent in response to tighter monetary policy than that anticipated in the Tealbook.

In my view, the substantial liquidity that is now in the financial system continues to imply a risk that inflation will rapidly accelerate to unacceptable levels and that inflation expectations may become unanchored. To ward off these developments, the FOMC will need to commence a steady tightening of monetary policy that begins some time toward the end of 2012..

Respondent 11: I used the TealBook baseline forecast.

Respondent 12: The moderate strength earlier in the year appears to have been due in part to temporary factors, including inventory accumulation, the surge in auto sales, moderation in concerns about Europe, and the burst of job creation, as well as the weather. Recent slowing seems to be in part a return to the extended pattern of sluggish growth and hiring, together with worsening global financial and economic conditions, notably related to Europe. In part the pattern of sluggishness reflects the absence of usual cyclical drivers, especially the lack of a robust housing recovery, as well as the weakness in consumption as households deal with the significant loss in wealth and income triggered by the crisis and recession as well as poor job prospects. Fiscal factors, including state and local, are an additional drag. Household and business confidence have improved but remain relatively low, and there is considerable uncertainty about the strength and durability of the recovery, conditions in Europe, and the US fiscal outlook. Other than modest growth, factors that will put a small amount of downward pressure on unemployment include the end of EEB and the secular decline in participation.

Core inflation appears well anchored and the upward pressures on core from commodity prices are subsiding. Commodity prices are hard to forecast but appear likely to be stable to down. Wage inflation and increases in unit labor costs are consistent with low inflation.

Respondent 13: I see significant slack in the economy. A substantial part of the declines in output and employment appear to me to be cyclical, and not yet structural. I also believe that our internal headwinds are gradually subsiding, and that the US. economy has the capacity to grow at a rate that would close the output gap within a reasonable period. Since the financial crisis, however, external shocks and headwinds have undermined the economy's attempts to reach escape velocity.

It seems likely that developments in Europe will restrain growth for the rest of this year, and for that reason I accept the 2012 staff baseline. For 2013 and 2014, I have assumed modestly stronger growth, faster employment growth and higher inflation than the baseline, based on the hope/assumption that Europe will reach some kind of more stable equilibrium, albeit one that will mean years of austerity. If instead the current turmoil in Europe continues for a period of years, or worsens, the U.S. economy could face substantial ongoing drag that would make it difficult to meaningfully raise levels of employment. The same could be said of the other much discussed risks, particularly the fiscal cliff.

Respondent 14: I expect the economic recovery will proceed at a moderate pace with real GDP growth only a touch above potential. Hence, I expect output and unemployment gaps to close very gradually. Some headwinds are slowly easing, including those related to banking and credit conditions. Housing prices look to have stabilized, which helps support a recovery in home construction. At the same time, other headwinds are intensifying. For example, the European crisis continues to weigh on equity prices and risk spreads, the global economy appears weaker, and U.S. fiscal policy at all levels is turning increasingly contractionary. Continuing monetary stimulus should support a moderate expansion over the next few years. Still, it will take many years of above-trend growth to return the economy to full employment. In terms of inflation, a stronger dollar, lower commodity prices, weaker import prices, and significant slack in labor and goods markets should keep inflation somewhat below the FOMC's 2 percent inflation target for the next few years.

Respondent 15: While the recent mixed news on economic activity has led me to modestly lower my medium-term growth forecast, I continue to expect the economy to recover at a moderate rate from the second half of 2012 through 2014. The forces supporting recovery include considerable monetary stimulus and the economy's usual self-correcting forces. The headwinds holding back the recovery include consumer de-leveraging, fiscal restraint, and uncertainty about conditions in Europe.

In this environment, I expect inflation to remain slightly below 2 percent throughout the forecast horizon. This projection reflects recent PCE price trends, stable inflation expectations, and slow growth in wages. With the job market still weak, there is unlikely to be much pressure on inflation coming from wages over the next couple of years.

Compared to conditions at the time of the April meeting, the uncertainty surrounding forecasts of GDP growth and unemployment has risen, primarily reflecting the potential for a severe crisis in Europe and a fiscal meltdown in the United States next year. The surprising dip in the unemployment rate earlier this year, and its uptick in May highlight the considerable uncertainty surrounding the outlook for unemployment. Overall, I believe that the uncertainty surrounding the growth and unemployment forecasts is elevated relative to the norms of the last 20 years.

The risks to economic activity now seem to be primarily to the downside. A severe recession in Europe and the additional financial stress the recession could cause would significantly slow growth and raise unemployment in the United States. A failure of the United States to act in a timely way to avoid falling off a fiscal cliff could also significantly slow the economy.

For inflation, uncertainty remains higher than normal and the risks appear tilted toward the downside. There is the potential for the weakness of the economy to create more disinflation than I currently expect.

Respondent 16: Incoming data point to a slowdown in the pace of growth of economic activity. Elevated uncertainty about the outlook in the Euro area is already affecting the U.S. economy via lower equity valuations and increased risk premia. In such an environment, firms are likely to postpone hiring and large capital spending decisions. Recent readings on payrolls and on shipments and orders of capital goods are consistent with a slowdown in business spending. The large amount of slack in labor markets is also slowing wage growth noticeably. With little hiring and meager wage growth, gains in disposable income have been disappointing and favorable movements in food and energy prices are providing only a partial offset. As a result, near term gains in consumption are expected to be modest, with restraint coming also from the decline in equity valuations. The appreciation of the dollar and indications that worldwide growth is now slower than previously thought also signal less support to activity from net exports. Fiscal policy is contractionary already, and is expected to restrain growth even further next year. As important fiscal deadlines near, a contentious process surrounding the direction of fiscal policy is likely to add to an already uncertain environment.

Given these conditions, economic activity is expected to grow over the rest of this year at a pace that is noticeably below potential. As a result, the unemployment rate is expected to edge up by $\frac{1}{4}$ of one percentage point by the end of the year, to 8.4 percent. In response to the deteriorating economic conditions, additional monetary policy actions are undertaken via a continuation of the maturity extension program throughout the end of this year, and an additional round of securities purchases that expands the balance sheet by $500 billion. The increased monetary policy stimulus eventually places the economy on a better trajectory, with GDP growth expected to accelerate next year. Nevertheless, by the end of 2013 the unemployment rate is still above 8 percent, as uncertainty is expected to dissipate only gradually. Economic activity is projected to pick up more strongly in 2014, when fiscal conditions also become more supportive to growth. With considerable slack in the labor market, inflation remains below the 2 percent target over the course of the forecast horizon.

Risks to the projection for real activity are importantly weighted to the downside. The baseline outlook still assumes that policy steps are taken in Europe to contain the crisis, but recent developments indicate that the probability of additional financial stress from the Euro area remains uncomfortably high. A further worsening of the Euro area crisis than is currently embedded in my modal forecast is a scenario that represents much more than a tail risk at this point. Another important downside risk to economic growth stems from the possibility of more U.S. fiscal tightening than is assumed in my baseline outlook.

Respondent 17: The economy continues to work against relatively strong currents including household deleveraging and cautious spending, flat home prices, and fiscal restraint at all levels of government. Elevated uncertainty about Europe, U.S. fiscal concerns, and persistence of recent weak indicators is damping the demand for expansion of net new capital and jobs. Slow jobs growth will provide restraint to consumer spending over the medium term.

Respondent 18: My thinking is dominated by the enormous uncertainty currently associated with the situation in Europe, as well as with the looming fiscal cliff in the US. These make it difficult to think in terms of simply a modal outlook. However, in attempting to do so, I have made a couple of assumptions. First, in the relatively near term, the expected degree of drag created by this uncertainty seems like it is well captured by the Tealbook baseline model, through e.g. the channels that emphasize the recent appreciation of the dollar and decline of the stock market.

Second, over a somewhat longer horizon, I am projecting slightly faster growth than the Tealbook baseline. One reason is because I think that some of the most recent asset-price movements driving the Tealbook forecast are likely to be partially reversed over time, as they reflect changes in discount rates/risk premia due to a flight-to-quality effect. In the case of FX and net exports for example, this corresponds to the assumption that the medium-horizon effects will be slightly muted relative to the Tealbook case.

Also, to the extent that uncertainty is reducing corporate investment via an option-value waiting-to-invest channel, this implies that as uncertainty is resolved (and assuming the news is on average neither good nor bad) investment should grow faster than it otherwise would, given the backlog of accumulated projects that were deferred. The Tealbook baseline did not appear to build in this effect, since it lowered both near-term and more distant forecasts of corporate investment as compared to the April forecast. Given this observation, I upped my forecast slightly relative to the Tealbook baseline.

Respondent 19: The basic story hasn't changed very much over the past several months. Drags on growth from excess housing and excess household debt continue to ease. However, cuts in government purchases, prospective tax increases, and regulatory uncertainty are limiting the pace of the expansion and are retarding the impact of already accommodative monetary policy. In addition, downside risks stemming from economic and financial problems in Europe have increased. We've seen confirmation of slower growth in the emerging-market economies. In the U.S., business confidence is on the rise, but businesses remain inclined to hold higher levels of cash than normal both offshore and domestically as a hedge against fiscal and regulatory uncertainty. Small and medium sized business feel especially stymied. The effect is to restrain job creation and domestic CAPEX. The pace of the recovery is unlikely to accelerate until next year, when some of the non-monetary uncertainties currently restraining growth will have been resolved.

Forecast Narratives (continued)

4(b). Please describe the key factors causing your forecast to change since the previous SEP.

Respondent 1: The incoming data are adding up to a weaker first half of 2012 than in our previous projection. Importantly, though we thought some of the first-quarter gains would prove ephemeral, the labor market has softened more than we expected. Business spending also has been below our expectation. The sharp decline in Treasury rates, increases in high yield debt spreads, and anecdotal reports from our contacts indicate a notable increase in caution on the part of investors and nonfinancial businesses.

More importantly, we have made some fundamental reassessments about the risks facing the economy, and changed our outlook to move those risks more into balance. First, we took another look at our assumptions regarding the political response to the "fiscal cliff," and built in a greater degree of restraint than in our previous projection–reducing real GDP growth in 2013 by about $\frac{1}{2}$ percentage point from our April submission. Second, we have taken a more pessimistic view about the prospects for Europe. Third, we think the effects of the flow of bad news from these events will have a greater depressing effect on business and household spending than in our previous projection. Finally, we made some modest downward revisions to our estimates of potential output growth.

The sharp decline in oil prices point to lower PCE inflation in 2012 that in our last forecast. In addition to the lower energy prices, we have nicked down our projection of core PCE to reflect the somewhat higher degree of slack in our current projection.

Respondent 2: Relative to the previous SEP, I expect a slower pace of recovery in 2012 and 2013. Recent data releases suggest that the current pace of expansion is slower than previously expected. The heightened level of uncertainty emanating from Europe combined with rising concerns about the fiscal cliff appear to be holding back consumers and businesses as they wait to see how these issues are resolved. With a slower pace of economic expansion, I expect less improvement in the unemployment rate over the forecast horizon, and I have revised down my forecast for inflation (headline and core) by about a tenth of a percentage point.

Respondent 3: A number of real activity indicators released during the intermeeting period indicate that economic conditions were weaker than we anticipated. Consumer spending indicators, while on net having little effect on the current quarter forecast, indicate less momentum in coming quarters. Also, as in the Tealbook, the downward revision of compensation indicates somewhat less consumption momentum. In addition, investment indicators were weak, and we have lowered our business fixed investment forecast for 2012-13. The weak data on government expenditures have led us to lower our projections for those expenditures over the near term. Finally, the recent weak labor market reports and renewed strains in financial conditions also suggest less overall momentum for real growth over the next few quarters.

Because of the sharp declines in oil and gasoline prices as well as the decreases in headline measures recently, we have reduced our projections for headline inflation over the next few quarters, particularly over the near term. With core inflation measures little changed in recent months, there is little revision to our core PCE inflation projection.

The unemployment rate in May was somewhat above our anticipation at the time of the April meeting and the recent labor market indicators point to noticeably less momentum in the labor market than at the time of the April FOMC meeting. We thus have moved up our projected path for the unemployment rate, although we still expect the unemployment rate to fall relatively quickly in 2013-14.

In regard to our risk assessment, we see more downside risks and somewhat less upside risks to real activity and inflation than we did in April. These shifts reflect the escalation of the European crisis, slower growth in a number of other countries, falling commodity prices, and indications of greater strain in financial markets. In particular, we have increased the probability of financial market impairment leading to a global credit crunch and a severe global recession. As a consequence, our risk assessment for inflation at medium term horizons has shifted from roughly balanced to a downside skew. For real activity, the balance of risks has shifted further to the downside.

Respondent 4: Incoming data–particularly data on consumer spending and income, foreign economic growth, and the tightening of financial conditions resulting from lower equity prices and a strong dollar caused me to revise down my estimate of GDP growth and to raise my forecast for unemployment. I have revised down my estimate of inflation due in part to the decline in oil prices and also as a result of somewhat greater slack in the economy.

Respondent 5: I have downgraded my assessment of the pace of real GDP growth since the previous SEP. The most important development has been the significant uncertainty surrounding developments in Europe. As of today, the Greek elections have not been completed, central banks are wrestling with a response if any to developments in Europe, and the UK has announced BOE intervention. These uncertainties, and their effect on business and consumer confidence, will continue at least as long as the deterioration in Europe continues, which I assume will be at least through the end of the year. Given already high uncertainties in the US from factors related to the housing market, fiscal policy, the election year and long-term unemployment, I believe there will be enhanced effects on expectation channels.

Respondent 6: Europe, plus disappointing incoming data across many fronts, though the latter are probably attributable in no small part to the former

Respondent 7: The shift in the Beveridge curve has proven to be persistent. It has led me to shift my estimate of the long-run NAIRU up. Perhaps more importantly, my uncertainty about the long-run NAIRU has risen - I would now say that a long-run NAIRU as high as 7% is entirely possible.

Respondent 8: My forecasts have changed little. Forecasts for 2012 have changed because of recent information indicating slower growth and lower headline inflation.

Respondent 9: The data on consumer spending, income, and employment have been weaker than I expected, and energy prices have fallen sooner and more rapidly than I expected. Uncertainty regarding the resolution of federal fiscal difficulties is having a greater restraining effect on activity than I had thought.

Respondent 10: I've marked down 2012 growth reflecting the somewhat weaker recent data, including employment and income.

Respondent 11: The TealBook forecast for housing now is much closer to my own. Significant downgrade in expectations for the government and external sectors.

Respondent 12: I had anticipated relatively weak economic growth and a reassertion of Okun's Law in the labor market, which appears to have been confirmed, but in addition we have seen 1) a range of weaker data then expected (consumption, employment, IP, household and business surveys) and 2) a significant worsening of financial conditions related to the situation in Europe. These latter two sets of factors have caused me to mark down expected growth and to increase expected unemployment commensurately. I also lowered potential growth a tenth. Inflation forecasts are not much changed.

Respondent 13: Escalating financial stress from Europe; strong evidence of slowing growth here and abroad.

Respondent 14: Since April, the economic data and news about the European sovereign debt crisis have been disappointing. Although U.S. output growth has been continuing at a moderate pace, the economy appears to have lost momentum. My projection for the global economy has deteriorated, with conditions in Europe looking notably worse. There is considerable uncertainty about how the European situation will evolve, with considerable risk that the crisis could intensify. These concerns have weighed on financial markets, where equity prices have slid, risk spreads (especially for high-yield securities) have widened, and the dollar has strengthened. With growth only slightly above trend, I expect even slower progress towards reducing the sizeable unemployment gap than I did in April.

Data on core inflation have been in line with my expectations and I have not materially changed my forecast for core inflation. In contrast, the sharp declines in oil and gasoline prices caused me to lower my forecast for overall inflation in 2012.

Respondent 15: I have adjusted my forecast primarily in response to the news of the inter-meeting period that has been mixed, but generally a little weaker than I expected. I see this news as bearing primarily on the growth rate of the first half of this year but having some implications for growth over the medium term. Coupled with the recent inflation data that have come in somewhat softer than I expected, the modestly weaker pace of recovery is likely to be associated with slower growth of wage costs and a path of inflation that is a little lower than my April projection. Overall, with these revisions, my current forecast is quite similar to my forecast at the time of the January meeting.

Respondent 16: The worsening of the crisis in the Euro area and the associated financial spillovers to the U.S. economy are the main reasons for the downward revision to the real outlook since the April projections. Given the weaker outlook for GDP growth, the outlook for inflation has also been revised down.

Respondent 17: My forecast has incorporated weaker-than-expected second quarter growth numbers and a more significant drop in gasoline prices that has temporarily pulled inflation downward. Global growth appears to be slowing more quickly than I anticipated and I have marked my U.S. growth estimates downward over the balance of 2012 and the first half of 2013 as a result.

Respondent 18: The single most important factor is the apparent deterioration of the situation in Europe. The recent weak labor-market reports have also played a role.

Respondent 19: I've made a modest downward revision to my 2012 GDP growth forecast reflecting recent marginally disappointing data releases, increased evidence of fiscal authorities' inability to act in a way that encourages job-creating activity, and increased concerns about euro-area financial stability and the outlook for real activity overseas. The weaker growth outlook abroad has put some downward pressure on oil and other commodity prices. Accordingly, I have lowered my 2012 headline inflation forecast.

Forecast Narratives (continued)

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

Respondent 1: As noted in question 3, we assume more accommodative monetary policy than the Tealbook. As a result of this, and a touch higher assumption for potential output growth, we are projecting a larger pickup in GDP in 2014 than in the Tealbook. The more accommodative policy also contributes to our slightly higher projection for inflation.

Respondent 2: My forecast is now quite different from Tealbook in 2013 and 2014. I expect stronger growth, lower unemployment, and higher inflation than are contained in the Tealbook forecast.

Respondent 3: As stated in our response to question 3(e), we assume that the MEP is continued through the end of the year. Because of the greater duration in the balance sheet over the forecast horizon, we assume that term premia rise to normal levels more slowly than in the Tealbook.

Over 2012H2 and 2013, the Tealbook assumes a weaker foreign growth outlook and somewhat more dollar appreciation than in our projection. Consequently, net exports is a drag to GDP growth in the Tealbook forecast while it is a modestly positive contributor in our central projection. In addition, the Tealbook sees a somewhat greater reluctance of firms to engage in fixed investment, resulting in a lower path for business fixed investment than in our projection.

We see some of the headwinds restraining economic growth subsiding more quickly in 2014 than in the Tealbook. Thus we expect the output gap to begin to close more quickly that year, and our 2014 real GDP growth forecast is above that of the Tealbook.

We see a stronger influence of anchored inflation expectations on inflation dynamics than does the Tealbook. Consequently, our inflation forecast and the Tealbook forecast are similar for 2012, but beyond that we see total and core inflation remaining near 2% whereas the Tealbook has inflation declining in 2013 and remaining near the 2013 level in 2014.

We expect a somewhat greater decline in the unemployment rate than is projected in the Tealbook. The source of this difference is a different interpretation of labor market dynamics as expansions mature; that is, we do not place as much weight on Okun's Law as the Board staff do.

Although both the Tealbook and our outlook now see a downside balance of risks to real growth, we differ in the assessment of inflation risks and uncertainty. The Tealbook sees the inflation risks as broadly balanced with uncertainty at a near normal level, reflecting the stability of inflation expectations in recent years. In contrast, we see a downside balance of risks to inflation at medium-term horizons and high uncertainty around our projections. This assessment reflects our view that the recent economic and financial developments point to a higher risk of a global credit crunch and/or severe recession that could lead to a substantial decline in inflation.

Respondent 4: Aside from the difference in my monetary policy assumption from Tealbook, there are no meaningful differences in my assessment of current economic trends.

Respondent 5: N/A

Respondent 6: A bit uncharacteristically, I'm rather close to the staff projections. Perhaps my relative pessimism has been infectious.

Respondent 7: I expect unemployment to be lower at the end of 2014 and inflation to be higher.

Respondent 8: For 2012 and 2013 I anticipate relatively faster GDP growth. For 2013 and 2014 I anticipate relatively lower unemployment and relatively higher inflation.

Respondent 9: My forecasts for real GDP and the unemployment are fairly close to the Tealbook's over the near term, but are somewhat than the Tealbook's farther out. My inflation forecast is higher since my energy price forecast is a touch higher in the second half of this year, and also because I put less weight on slack as a determinant of inflation.

Respondent 10: My forecast calls for a stronger economy over the next two years and tighter monetary policy than the Tealbook.

Respondent 11: N/A

Respondent 12: I am a bit more pessimistic on growth and unemployment than the Tealbook, given that we have now seen a pattern of near-trend growth for three years without acceleration. There are few obvious drivers for acceleration. The drags on growth have changed (fiscal has gone from positive to negative; Europe has emerged as a problem even as domestic banking conditions have improved; housing has become a minor positive) but overall the headwinds to recovery are probably no less strong today then they were a couple of years ago. Resolution of Europe could support some pickup in growth, but the timing of such a resolution is difficult to predict and could be some time in the future. All that said, there are not large differences between the broad contours of this forecast and the Tealbook.

Respondent 13: I generally agree with the Tealbook baseline narrative and forecast for 2012. I assume moderately faster growth in 2013 and 2014, which produces faster declines in unemployment. This depends on real progress in Europe as well as the absence of additional shocks. I have also forecast slightly higher inflation for 2013 and 2014, due to higher growth and a belief that expectations are well grounded at around 2..

Respondent 14: My forecast is broadly similar to the Tealbook projection, with the main difference being that I expect inflation to run a few tenths higher than in the TB in 2013 and 2014.

Respondent 15: I do not see the latest employment report signaling a significant downshift in the labor market's already slow trajectory. Further, despite the substantial uncertainty surrounding the situation in Europe and the fiscal discord in the US, I don't see these events weighing as heavily on my baseline forecast. As such, my second half of 2012 and my 2013 growth forecasts are a little over $\frac{1}{2}$ percentage point above the TB projection. These differences leave my unemployment rate projection 0.4 percentage points below TB's by end of 2014.

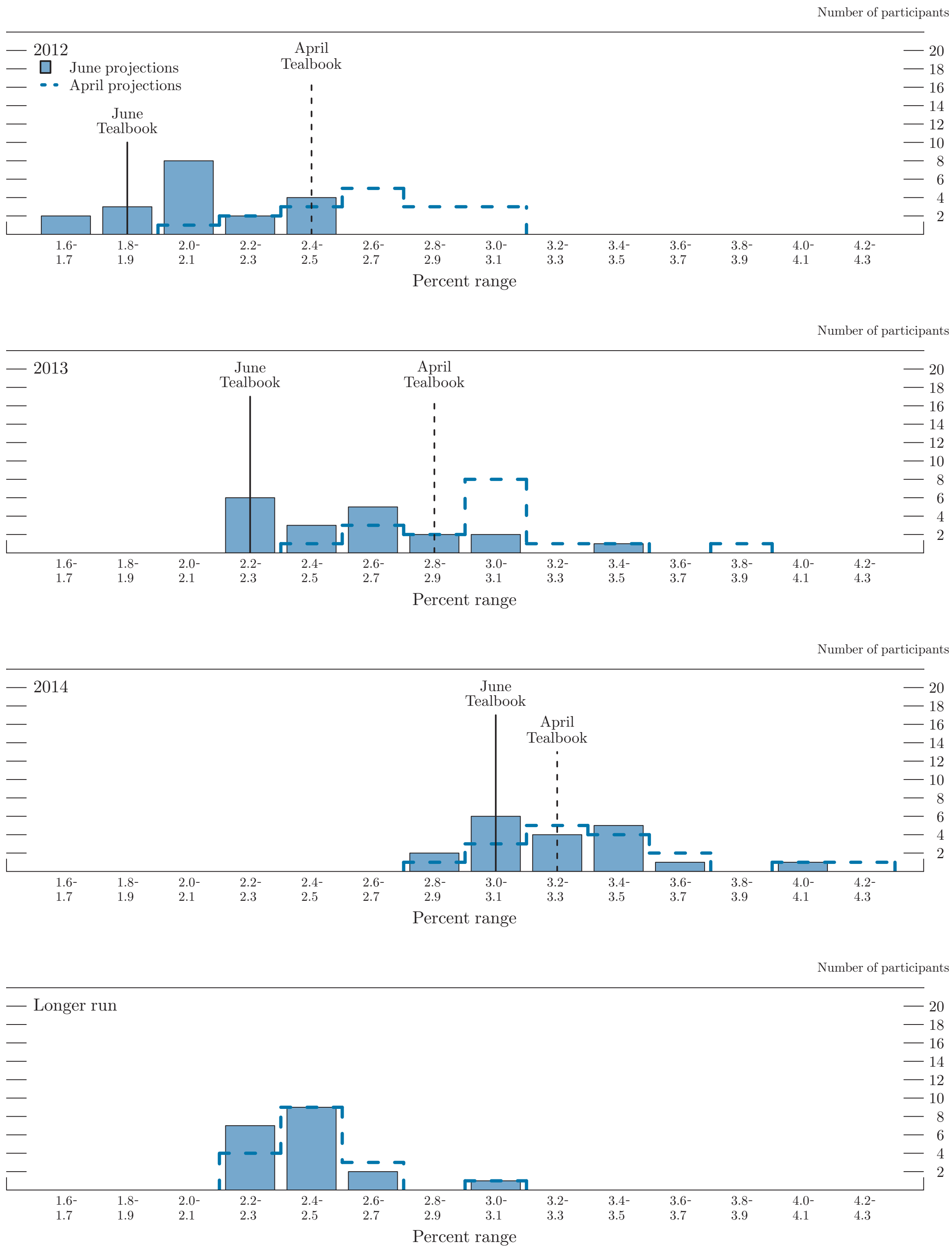
Respondent 16: The near-term outlook is weaker than in the Tealbook. This more pessimistic assessment of underlying economic conditions prompts a more accommodative stance of policy than what is embedded in the Tealbook. Ultimately, the economy benefits from this additional stimulus and growth in the medium term is somewhat faster than in the Tealbook. By the end of 2014, there is little difference in the projected level of the unemployment rate between the two forecasts.

Respondent 17: The broad contours of the Tealbook outlook are similar to my own. However, the magnitude of my forecast markdown is smaller than what has been incorporated into the June Tealbook, and I anticipate a faster, though still gradual, recovery in domestic spending and labor markets. I also project inflation to follow a path closer to our longer-term inflation objective owing to a more moderate drop in oil prices and a strong adherence of price growth to longer-term inflation expectations.

Respondent 18: The differences are modest. My forecasts for GDP growth and unemployment in 2013 and 2014 are slightly more optimistic than in the Tealbook.

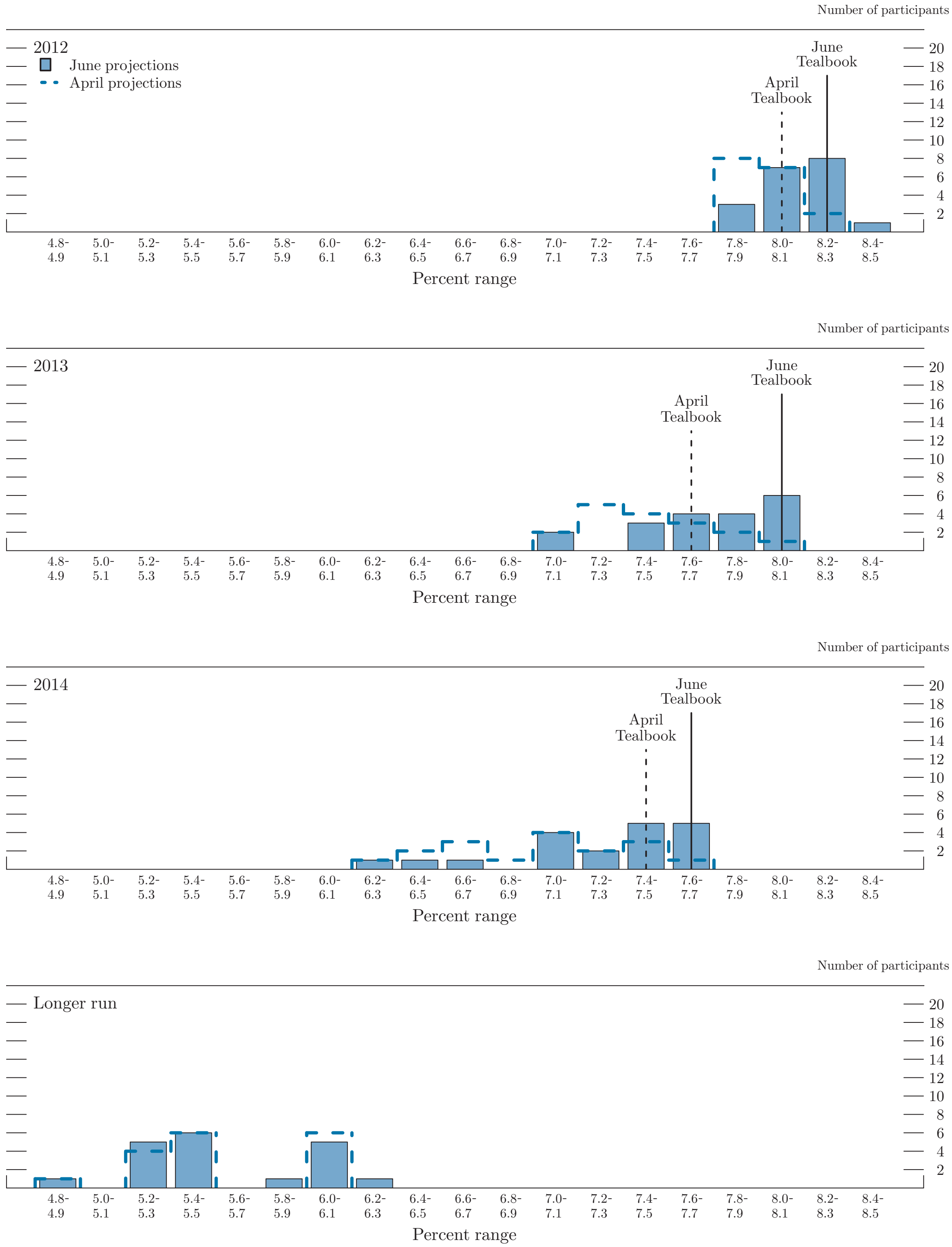
Respondent 19: I see a somewhat faster pace of recovery than is called for in the Tealbook baseline forecast, and a higher inflation path. These differences imply there is less need for accommodative monetary policy.

Figure 3.A. Distribution of participants' projections for the change in real GDP, 2012–14 and over the longer run



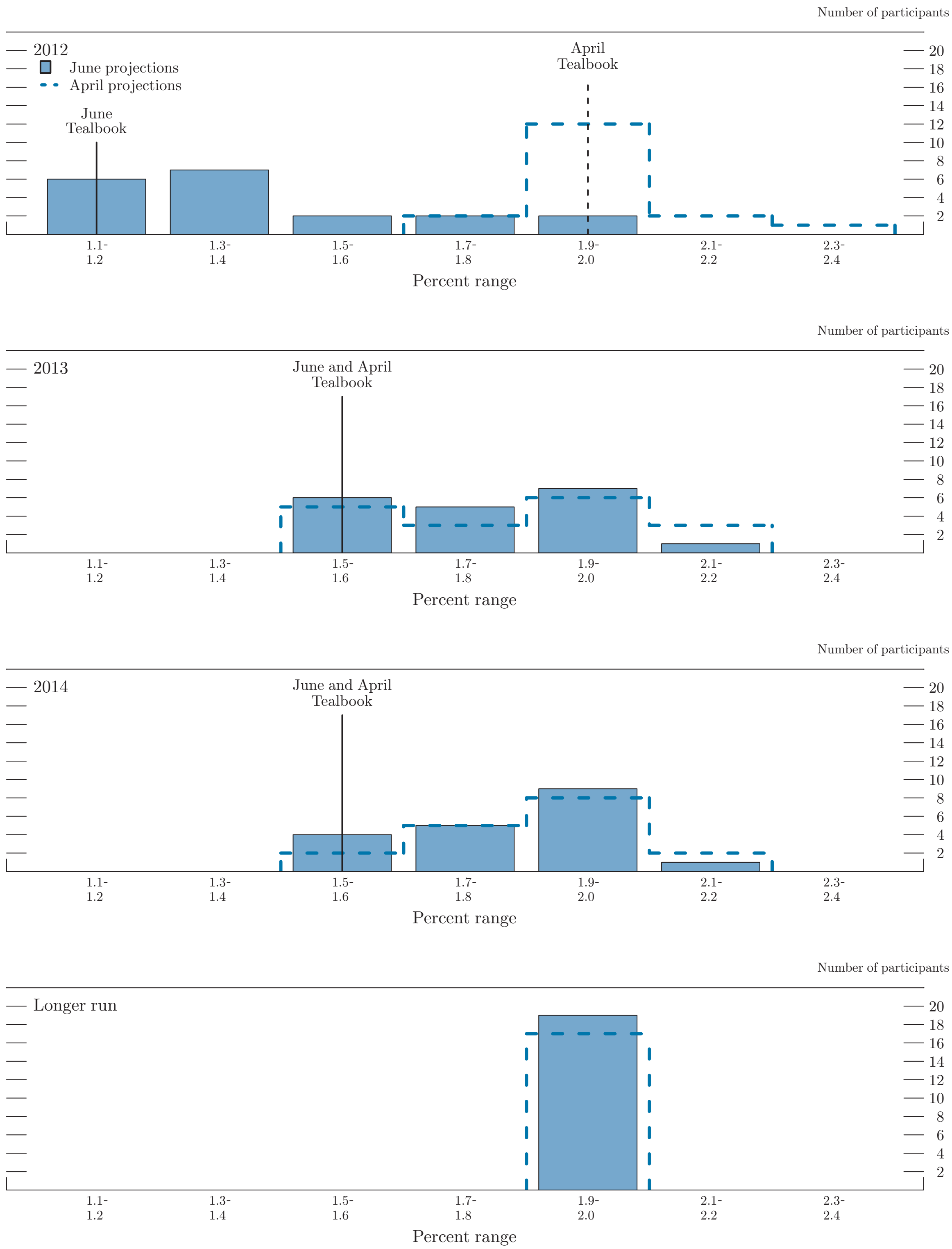
NOTE: Definitions of variables are in the general note to table 1.

Figure 3.B. Distribution of participants' projections for the unemployment rate, 2012–14 and over the longer run



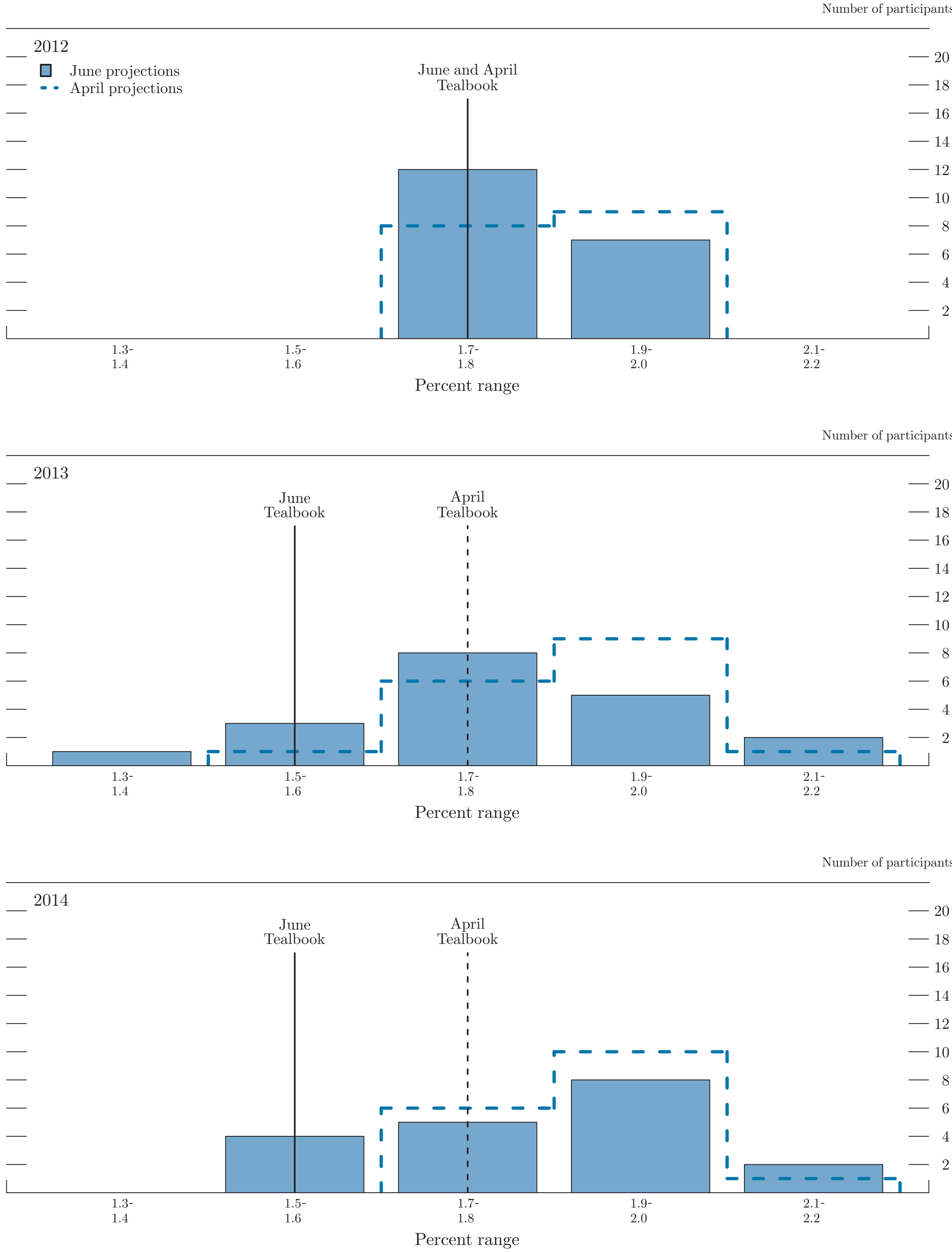
NOTE: Definitions of variables are in the general note to table 1.

Figure 3.C. Distribution of participants' projections for PCE inflation, 2012–14 and over the longer run



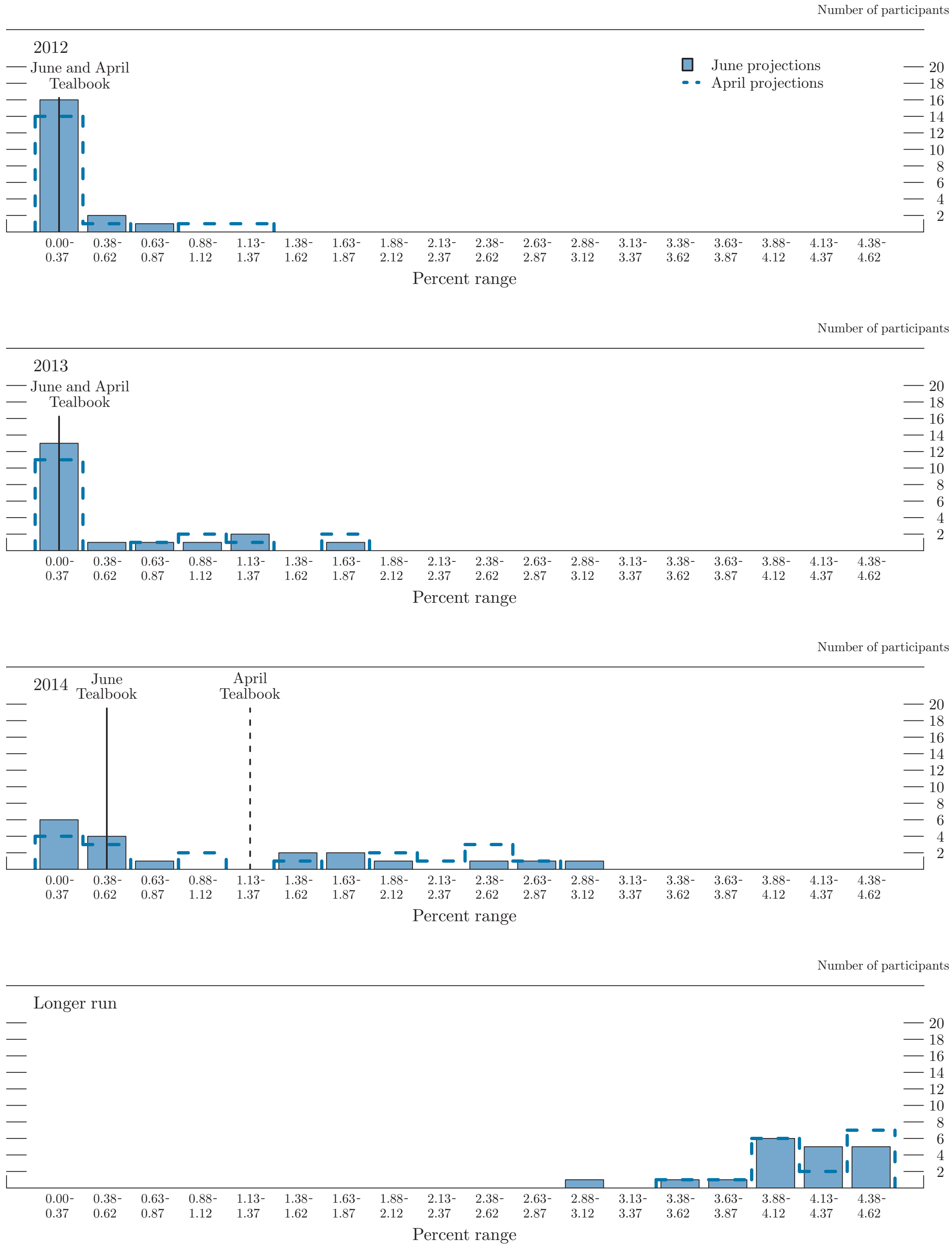
NOTE: Definitions of variables are in the general note to table 1.

Figure 3.D. Distribution of participants' projections for core PCE inflation, 2012–14



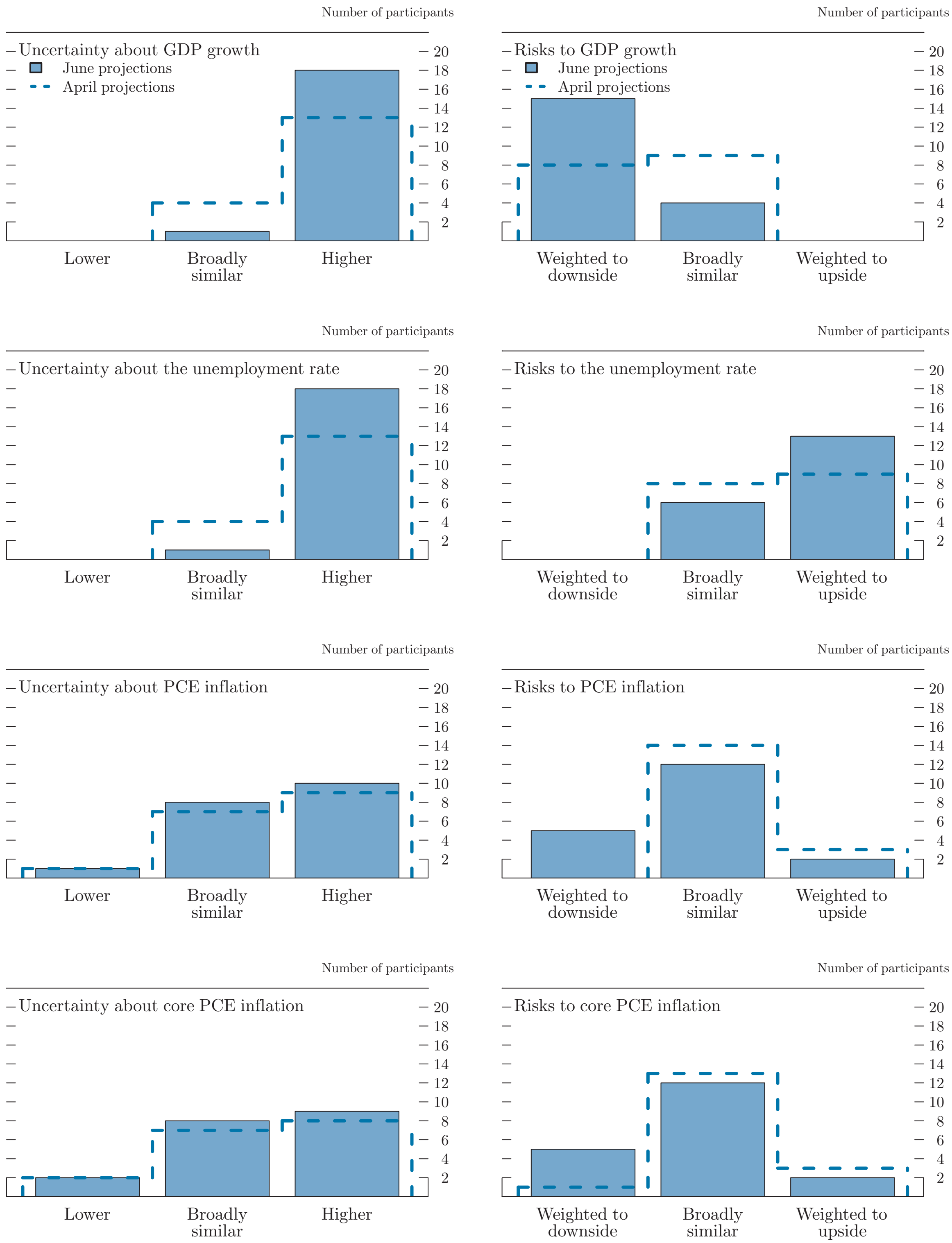
Note: Definitions of variables are in the general note to table 1.

Figure 3.E. Distribution of participants' projections for the target federal funds rate, 2012–14 and over the longer run



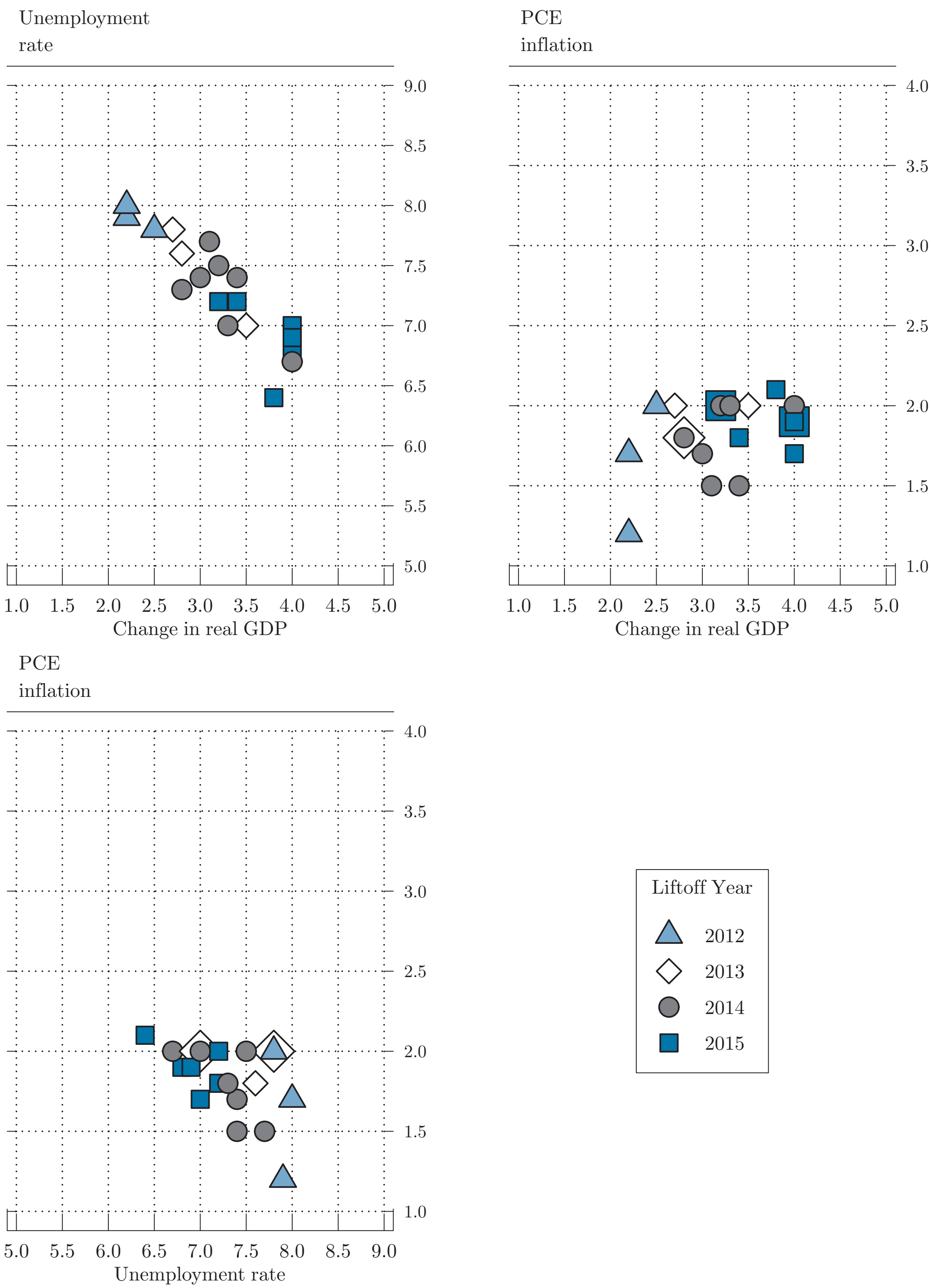
NOTE: The target federal funds rate is measured as the level of the target rate at the end of the calendar year or in the longer run.

Figure 4. Uncertainty and risks in economic projections



NOTE: Definitions of variables are in the general note to table 1.

Figure 5. Scatterplots of projections in the liftoff year (in percent)



Note: When the projections of two or more participants are identical, larger markers, which represent one participant each, are used so that each projection can be seen.