

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DIVISION OF RESEARCH AND STATISTICS

Date: May 30, 2018
To: Federal Open Market Committee
From: David Wilcox
Subject: Improvements to the Staff Judgmental Estimation of the Output Gap

The attached memorandum, prepared by Stephanie Aaronson, Gianni Amisano, Andrew Figura, Charles Fleischman, and Paul Lengermann, members of the Division of Research and Statistics, culminates a process that has been in progress for several years to improve our method for judgmentally estimating the output gap.

At the center of the new process is the recognition that *every* real-world economic indicator is measured with error. In particular, no single real-world variable infallibly reveals where the macroeconomy currently stands relative to its sustainable position. Instead, building on research by Charles Fleischman and John Roberts, the approach we have been moving toward over the past several years aims to generate the sharpest possible inference about the cyclical position of the economy by combining the information contained in multiple different indicators in a statistically efficient manner.

If you have any questions about the approach described in the attached memo, please feel free to contact either me or any of the memo authors.