

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

Date: January 15, 2010
To: Governors and Reserve Bank Presidents
From: Matthew M. Luecke
Subject: Request for January Projections

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

Please note that your projections are due by **5:00 pm Eastern Time on Friday, January 22** (a link to the electronic collection system will be sent to users early next week).

Attachment 1

January Projections Timeline

January 15 (Friday)	Request for participants' projections
January 18 (Monday)	Martin Luther King Day
January 19 (Tuesday)	Projections template made available via Lotus Notes email link
January 22 (Friday)	Initial projections due by 5:00 pm ET
January 25 (Monday)	Initial summary projections package distributed to FOMC participants
January 26 (Tuesday)	First day of FOMC meeting; Briefing on participants' projections and narratives
January 27 (Wednesday)	Second day of FOMC meeting
January 28 (Thursday)	Final projections due by 5:00 pm ET
January 29 (Friday)	Final summary projections package distributed to FOMC participants
February 4 (Thursday)	First draft of the minutes and Summary of Economic Projections (SEP) distributed to participants
February 9 (Tuesday)	Second draft of the minutes and SEP distributed to participants
February 11 (Thursday)	Final version of the minutes and SEP distributed for notation vote
February 15 (Monday)	Presidents' Day
February 16 (Tuesday)	Voting on minutes and SEP closes at noon ET
February 17 (Wednesday)	Minutes and SEP published at 2:00 pm ET

Attachment 2

Scope of the January Projections

Variables and Periods:

2010-2012: Please provide your projections of the most likely outcomes for the percent change in **real GDP** (Q4/Q4), the percent change in the chain-weighted price index for **PCE** and for **core PCE** (Q4/Q4), and the level of the **unemployment rate** (Q4 average) for 2010, 2011, and 2012. Please also provide your current estimates for the annualized percent change in real GDP, the total PCE price index, and the core PCE price index in the first half of 2010, i.e. $Q2^{2010}/Q4^{2009}$. Please express all of these projections to the nearest tenth of a percentage point (for example, 2.5 percent).

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

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

Judgments about Uncertainty and Risks:

Please also indicate whether you judge that the uncertainty attached to your projections for each variable is higher/lower/broadly similar to levels of uncertainty over the past 20 years, and also whether the risks around your projections for each variable are weighted to the upside/downside/broadly balanced. As with your modal projections, these judgments concerning the uncertainty and risks attached to your projections should be based on the assumption that the System pursues an

appropriate monetary policy. We have provided an updated table summarizing a range of alternative measures of past forecast uncertainty as background for your judgments.

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

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

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

Attachment 3

Table 1: Historical Projection Errors
Root Mean Squared Errors of Winter Projections for 1989 to 2008¹

<i>Source</i>	Real GDP ² (percent change, Q4 to Q4)			Unemployment Rate (Q4 average)			Consumer prices ³ (percent change, Q4 to Q4)		
	2010	2011	2012	2010	2011	2012	2010	2011	2012
Monetary Policy Report ⁴	1.18	—	—	0.57	—	—	—	—	—
Federal Reserve staff (Greenbook)	1.27	1.56	—	0.58	0.86	—	1.02	1.08	—
Congressional Budget Office Administration	1.31	1.64	1.44 ⁵	0.32 ⁶	0.77 ⁶	1.01 ⁶	0.74	0.83	0.87 ⁵
Blue Chip	1.46	1.72	1.67	0.66	0.93	1.06	1.00	1.12	1.08
Survey of Professional Forecasters	1.23	1.53	—	0.54	0.95	—	0.92	1.00	—
Average	1.22	1.32 ⁵	—	0.54	0.70	—	0.91	0.98 ⁵	—
Average	1.28	1.55	1.56	0.58	0.84	1.04	0.92	1.00	0.97

1. For methodological details and discussion see “Gauging the Uncertainty of the Economic Outlook from Historical Forecasting Errors” by David Reifschneider and Peter Tulip (Finance and Economics Discussion Series 2007-60). The table above is updated to include forecasts and outcomes for 2007 and 2008 (data which became available subsequent to the FEDS paper) and minor methodological changes.
2. Real GNP before 1992.
3. Based on the total consumer price index. Evidence based on Federal Reserve staff projections suggests that, on average, forecast errors for CPI inflation are slightly larger than those for PCE inflation.
4. Monetary Policy Report projections equal the mid-points of the published central tendency ranges. Results for inflation are not reported because the forecast price measure has changed over time.
5. Percent change, calendar year over calendar year.
6. Annual average. CBO results are included in unemployment rate averages for 2011 and 2012 but not 2010.